



FINANCES AFTER 55: Make the Transition from Earning a Living to Retirement Living

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Chapter 1

WHY PLAN?

Whether you're retiring solo or as part of a couple, planning is the key to a successful retirement, and it's never too late to start your planning. You may be 16 years away from retirement, or only 6 years, or maybe even already 6 months into your post-working life, and yet it's still possible for you to benefit from a plan.

The best candidate for the job of creating your plan is you, as you have your own best interests at heart. And, after all, you have the rest of your life to look after, and no one will take better care of your retirement finances than you will — provided you know what you're doing.

This chapter examines the reasons for creating a retirement plan, including our increasing longevity and our need for financial independence. It also examines our common fears of retirement and old age that can keep us from planning and discusses how to successfully overcome them, and concludes with an examination of the three phases of retirement: active, semi-active, and passive — and how each may be approached successfully.

Statistics

Those facing retirement today and for the next two decades are the baby boomers: people who were born between 1947 and 1966. They represent the biggest slice of the total North American population today, and they are also one of the wealthiest groups in the population base. (However, the baby boom was not an international phenomenon. The only other countries that experienced any kind of a post-war baby boom aside from the United States and Canada were Australia and New Zealand.)

Baby boomers are living longer and healthier lives than the people of past generations. In fact, the life expectancy of retirees has more than doubled in the last 25 years. No doubt life expectancy will continue to grow as more breakthroughs occur in biotechnology and health sciences. New discoveries every day are enabling the baby boomers and their parents not only to lead longer lives, but also to enjoy vastly improved quality of daily living.

American demographics

In 2003, there were almost 35 million people aged 65 years and older (Source: AoA). This number represented 12.3 percent of the total population, or about one in eight Americans.

There were another 25.3 million younger baby boomers between the ages of 55 and 64, or 8.9 percent of the population (about one in eleven Americans).

It is projected that by the year 2030, the number of people of the aging baby-boom generation more than 65 years of age will total an astonishing 71.5 million, representing 20 percent of the US population, or about one in five Americans.

The projected rapid growth of the over-65 population will continue to raise concerns about the overall social and economic condition of the American population. Already, there are grumblings from government sources saying that current levels of spending in social security and health care cannot be

sustained. However, there is hope that the changing demographics will also give rise to technological breakthroughs and new assistive developments that can help ease the burdens of daily living for the seniors in our population. Assistive technologies have come a long way in helping people live more independent lives, thereby easing the burden of governments to care for a growing aging population in institutions. Assistive technology includes devices and services that help people in their activities in daily living (ADL), so that they can stay independent and integrate comfortably into their homes and communities. Some popular examples include electrically adjustable beds, walk-in bathtubs (with grab bars), and voice-command electronic devices. All are designed with the aging boomer and their parents in mind.

According to the US Federal Reserve Board's most recent Survey of Consumer Finances, the average net worth for households headed by people aged 55 to 64 is \$530,000, while that for those in the 65 to 74 age group is \$465,000. These are the highest of all the age groups as tracked by the Federal Reserve Board.

They also owe the least amount of debt in American households. The average debt is \$74,000 for households headed by people aged 55 to 64, while debt for those in the 65 to 74 age group is even less, at \$53,000.

Canadian demographics

As in the United States, Canada also has a large baby-boom population. Baby boomers make up by far the largest percentage of the Canadian population. The average Canadian baby boomer at present is somewhere in his or her 50s. This group is one of the wealthiest in the Canadian population base, and it is also the best educated. If not contemplating early retirement, many Canadian baby boomers are already enjoying it in great numbers.

Retirees make up one of the fastest growing groups in Canada. According to Statistics Canada, by the year 2010,

more than 14 percent of the population will be aged 65 years or more. By 2020, that group will increase to more than 18 percent of the total population, and its growth shows no sign of slowing. By 2030, almost one in four Canadians (or 25 percent) will be 65 or older.

Life expectancy is steadily on the rise. Canadians are gaining two to three years of life with every passing decade. For an average Canadian male currently aged 55 years, life expectancy is 80 years. For an average Canadian female of the same age, life expectancy is 84 years. (Source: Report on the demographic situation in Canada 2002.)

Canadian seniors also appear to be much more financially secure than their predecessors, if wealth (and not just income) is included in the equation. Surprisingly, more than 73 percent of senior households have no debt. In the past 15 years, income for seniors has risen faster than income for those less than age 65. In fact, half of all seniors are living within their means, suggesting that savings continue well into their retirement years. (Source: Statistics Canada.)

Caregiver demographics

According to the Conference Board, there are now seven million Americans who are caring for their aging parents. In a few years, almost 40 percent of all US workers will be more involved with caring for a parent than for a child. In Canada, four-and-a-half million family caregivers provide greater than 80 percent of all home care.

The majority of these caregivers are women. Most of them are spouses and daughters. Often, these women are also caring for their own children — hence the term “sandwich generation,” meaning someone who is sandwiched between the two generations, caring for dependent children and dependent parents. However, not all caregivers are women. Surprisingly, husbands make up nearly half of all caregivers over age 75.

By 2010, 60 percent of adults over age 50 will have a surviving parent, compared to only 16 percent in 1960.

In both the US and Canada, the implications of all of these statistics are enormous. New industries will rise up or evolve to service this growing market, and governments will have to become more innovative in delivering services to this sector of the population. The individual, however, must emphasize early planning for his or her retirement needs, and look at ways to support his or her longer life span and changing lifestyle.

The Fear Factor

Many people fear retirement.

To some, it means aging, and in today's youth-oriented culture, age is not seen as desirable. Others may view retirement as a loss of independence or power. And for those who have already retired, it may symbolize a loss of status and financial security.

As we get older, we may fear that our grown children will be burdened by our increased physical dependence. Along with this fear comes the fear of loss of respect from loved ones.

Fear of developing chronic illnesses is another factor. Again, it will mean becoming more dependent on others and having less control over our own lives and destinies. Fear of falling also comes into play here. It's been proven that many serious injuries are the result of accidental falls. Many elders become incapacitated and never fully recover their former mobility and independence.

Another big fear for many people is running out of money to support themselves. The image of an old person begging for money, living on the street, and eating in soup kitchens can make anyone anxious about growing old and penniless.

All your fears about retirement and aging are real. They are challenging to your mental health and quality of life.

Nonetheless, it's important to remember that confronting your fears is your best defense. Knowing what those fears are and then systematically dealing with them by planning your retirement can give you back your power and peace of mind.

There are actions you can take to diminish each of these fears. For example, remaining physically active and leading a healthy lifestyle can reduce your chances of developing illnesses. Kicking bad habits such as smoking and excessive alcohol consumption can improve your physical well-being, thereby minimizing your fear of developing terminal diseases.

Participating in meaningful activities can help you maintain your perspective on your usefulness and can bolster your self-esteem, especially if you pick activities that revolve around your interests and beliefs.

Unlike your preretirement phase of life, when your identity was likely connected to what you did for a living, you are no longer defined by your employment. This change can be a huge relief for many people who were plagued by status-conscious work associates. Now they can contribute to society in other meaningful ways, and enjoy doing it without worrying about how other people see them.

Staying physically active can improve your overall well-being. Weight-bearing exercise and calcium supplements can improve your bone density. These and other “good for you” habits will not only make you feel better and stronger, but will also minimize your concerns about falling and injuring yourself.

Staying engaged with life can help you maintain a positive perspective about your future. Join in with friends, neighbors, and loved ones for social events, volunteer activities, and family get-togethers. People are social creatures, and connecting with society prevents loneliness and helps you stay emotionally healthy.

Be realistic about your fears of retirement. Facing up to and tackling them logically will set you up for a great retirement.

Statistics show that most retirees are living longer and healthier lives than ever before. For most, there's no regret.

The Current Model of Retirement

Retirement isn't what it used to be. It's not as straightforward as it was for our parents. Not only are retirees leaving the workforce earlier in life, they are also staying in retirement longer due to better health and increased longevity. Today's retirees have a different perspective on their ideal lifestyles. They are active, they pursue dreams, they maintain close social ties with their communities, and they emphasize personal growth in their everyday living.

There's a myth out there that most seniors are living in nursing homes. This couldn't be further from the truth. In fact, only about 4 percent of the population at any one time is living in such facilities. Most seniors live in their own homes, with relatives, or in other arrangements within their communities.

What's more, there is also the emerging trend of younger retirees returning to work. In today's world, retirement doesn't necessarily mean a lifestyle of pure leisure. Many retirees are pursuing the work of their choice (as opposed to working from necessity). More and more retirees view a nice blend of part-time employment along with enjoyable leisure activities as the ideal work/life balance for themselves.

Regardless of their reasons, whether they are working out of choice, boredom, or necessity, older workers are becoming the preferred employees for many businesses. Seniors who postpone retirement or return to work part-time after retiring have become the country's retail- and service-sector darlings.

Due to our aging population, a revolution is happening. A new model of retirement is emerging for the baby-boom generation. Retirement today can be as flexible and different from the past as you want it to be.

Changing Needs, Changing Plan

There's no doubt that the key to ensuring you have choice in retirement is financial security, and to achieve financial security, you must stay on top of your financial plan. The main objective of retirement planning is the preservation of your standard of living and the minimization of your chances of running out of money. You may also have other objectives, such as pursuing a hobby or interest, planning for long-term care in your advanced years, and preserving your capital to leave to your heirs.

If you are single, it's important that you start planning now, no matter what your age. The fact is, you have only yourself to rely on. You must realistically budget for your retirement years. Many single seniors are women who are barely making ends meet. Starting to plan as early as possible is crucial for your well-being in retirement.

If you are part of a couple, your finances may be in better shape. You will likely be receiving two income streams while sharing expenses for one household. However, it is incumbent on both of you to communicate your retirement needs and goals to one another. Documenting these wishes can help you avoid misunderstandings later. And even if you are part of a couple now, consider planning also for the eventuality of being single. Undoubtedly, it will happen to either you or your partner at some time.

Regardless of your marital status, planning is crucial to your financial and lifestyle success. Planning must be ongoing for the rest of your life. Retirees need an evolving and flexible money plan. Your needs, spending, and resources change as you age. Your plan must take into account all aspects of your retirement living. For these reasons, planning needs are best examined by breaking down retirement into three distinct phases — active, semi-active, and passive.

Active retirement

This phase of your retirement has more to do with mindset than physiological age. Certainly, for most retirees, it means those years in their lives when they are physically healthy, financially stable, and believe there are still many things to pursue in life and goals that they want to accomplish.

More often than not, active retirees are individuals or couples who are in their early retirement — from their mid-50s to late 60s. They want to travel and see the world, start a dream business, or get involved with legacy or humanitarian projects such as Habitat for Humanities or Oxfam International.

Semi-active retirement

Still mobile and independent in their communities and remaining relatively healthy, retirees at this phase of their lives are likely to slow down the pace of their activities. They are likely to be in their 70s. They have less energy than they used to have, and in the semi-active retirement years, they want to stay closer to home, family, and friends. They want predictability and stability in their daily living. They are less likely to travel far. They are more likely not to be working or be involved in business. Their health is still relatively good, and their interests have now shifted to more gentle activities such as reading, attending regular religious services, or volunteering at a slower pace and closer to home.

Passive retirement

Passive retirees are at a stage in their lives where they've slowed down considerably and may even be experiencing declining health. They're likely to be in their 80s and beyond. Although some of them are still mobile and living independently, they may now be more dependent on others for certain daily living activities such as cleaning house and cooking meals or bathing and dressing.

These retirees will eventually require more than care and assistance in their activities in daily living; they will also need medical and long-term care and attention.

It is expected that more and more passive retirees are going to live beyond the ripe age of 100.

Each of these three stages may bring you different types and/or different mixes of cash inflows (including income and other sources of cash), and you must consider the different expenses that may come your way as you move from one stage to another.

For example, in your active retirement years, you may be one of those seniors who continues or returns to work part-time, and part of your cash inflow may come from this employment. However, that may not be the case as you progress into your passive retirement years, and you must plan ahead for this change in income. It is the same with expenses. You may have a sizeable travel budget during your active retirement, but may completely eliminate this budget item in your passive retirement years.

You need to determine now what you want to do for the rest of your life and plan now how to fund it. You must also determine how you want to live. Depending on your plan, it may be realistic to budget for additional expenses to invest in a hobby or pursue an interest.

As you move into your semi-active retirement years, you may shift your priority to other activities that are closer to home, such as spending more time with families and friends, volunteering with a favorite charity, or becoming more involved with your church or religious organization. This change in activities requires a corresponding shift in your retirement plan to adjust for the new spending pattern.

As you move toward your passive retirement years, your needs will once again change. Your priority will most likely be to make yourself as comfortable and healthy as possible, and this may include extra costs for in-home assistance, medication, and even long-term care. Even if you continue to live in

your own home during this phase, alterations to your home may be necessary to accommodate your changing needs. You must consider all these expenses in your overall retirement plan.

Financial Opportunities and Choices

It's a little-known fact, but your early retirement years are the best years to make your investment assets grow. Plan to spend less than your assets can earn for you, and allow the excess return to be reinvested and compounded over time. This strategy is truly careful planning, and it's very wise, too. You will need to draw on these additional resources in your passive retirement years to cover extra care and medical costs.

If you plan to spend less than your income in all your earlier years of retirement, you will be pleasantly surprised by the growth over time by the size of your asset base. Chapter 4 discusses in more detail how you can make your savings grow.

With a little luck and careful planning, your investment assets will have enough time to grow so that they can generate sufficient income to supplement your passive retirement years.

If you find you need additional funds in your passive-retirement years, you may need to convert your non-investment assets into income-generators. If you own your home, here are some options you can consider:

- Add a rental suite for extra income
- Downsize your house to a smaller dwelling to free up cash for investments and paying down debts
- Consider a reverse mortgage to supplement your income stream
- Sell your home outright and rent, and invest the cash from the sale

All phases of retirement require shrewd planning, and it's incumbent on you to make it work. Knowing you have adequate resources to retire for the rest of your life is important.

By putting your goals in writing and getting the numbers down on paper in a budget, you can commit to making your retirement years as carefree as possible. Without a plan, you may be making a leap to financial ruin.

You will find that using this guide to help you budget for all stages of your retirement years can bring you peace of mind about your financial future, and reduce your fear of running out of money in your senior years.

If you are contemplating retirement, take some time to assess your situation. Try the following:

- Complete the necessary worksheets (included online at www.self-counsel.com/updates/after55/bonus.htm) to determine your retirement goals and assess your financial situation. Revise your plan where needed to make sure you have adequate resources to cover your retirement.
- List all the advantages you can think of about retiring (e.g., being able to take advantage of last-minute travel specials in off-season periods, or having time to pursue a hobby).
- List all the disadvantages you can think of about retiring (e.g., loss of status or the boredom of having too much time on your hands).
- Compare the two lists. Decide whether the advantages outweigh the disadvantages, or vice versa.
- Discuss retirement with your spouse (if you are part of a couple) to make sure he or she has input into the process and decision.
- Obtain professional help where needed to help you arrive at a logical decision and timeline.

If, after working through all these steps, your gut feeling tells you that you are ready to retire, follow your instinct and do it.

Your retirement years are just beginning. Confront your fears and start living the best years of your life — now!