Pre-Retirement Planning: Are You Ready?

Volatile markets give all investors pause for thought, but for those approaching retirement, they underscore the importance of implementing a solid pre-retirement plan.

Estimate Your Retirement Cost of Living

Now is the time to make a realistic assessment of your anticipated retirement living expenses, both essential and discretionary. Even though assets such as your home and cottage contribute to your net worth, they won't normally contribute to cash flow and so should be left out of any calculations except as a source of expenses. A comprehensive estimate would also include anticipated lifestyle expenses and annual budgeting for travel, club memberships, and so on.

Identify Your Retirement Income Stream

It is important to not only understand where your income will come from, but to also identify whether your income sources are exhaustible or lifelong. You may have income streams from your non-registered trading and savings accounts, TFSA, registered retirement plans (RRSPs and employer-sponsored pension plans) as well as existing insurance policies and annuities. Don't forget your entitlement from the Canada/Quebec Pension Plan and other government supplements (OAS/GIS). With the possible exception of insurance benefits, most other income will be taxable, so a net income figure after taxes should be calculated.

The estimates of your monthly and annual cash flow needs as well as your anticipated after-tax income from all sources will give you an idea of how prepared you are to finance your retirement. If your estimates show more money going out than money coming in, then the next step is to start closing that gap.

Curb Your Liabilities

There is good debt (mortgages) and bad debt (credit cards), but it's all a drain on your finances in retirement. Inflation and cost of living expenses will fluctuate, but if you eliminate a debt source, you've taken care of a retirement financing problem for good.

Eliminating credit card debt should be a priority. It's the highest cost debt any consumer has. Work towards paying off the balance every month.

While it can be argued that mortgage debt is low-cost debt, it still comes with a price tag. It is probably your biggest re-occurring monthly expense. Accelerate paying down the mortgage. Use windfalls such as a tax refund, inheritance, or bonuses to pay down a big portion or start making weekly or bi-monthly payments. Whatever you can do to reduce that cost will reduce your cost of retirement, so it makes a lot of sense to retire your mortgage before you retire.

Strengthen Your Savings

Once your liabilities are under control, get into the habit of building your financial base by automatically diverting a portion of your income each month into a savings or investment program – such as your Registered Retirement Plan (RRSP) and/or your Tax-Free Savings Account. You may also want to consider some of the new types of insurance products and/or annuities that offer a guaranteed income stream through the retirement years with the potential for capital appreciation.

Cover Your Insurance Bases

Review your coverage, considering possible life events and potential health care eventualities that may eat into your ability to save or cause a drain on retirement income. Preparing for the possibility of catastrophic illness or home care and nursing costs should be part of your retirement planning process.

Take Control of Your Investments

The stock market ultimately determines whether your investment portfolio can successfully finance your retirement years, but make no mistake—you do have control in terms of the structured diversity and asset allocation that define your portfolio.

Volatile markets are a cause for concern. Yet it's important to keep your emotions in check and avoid the paralysis that may prevent you from making the appropriate adjustments to your portfolio to take advantage of the eventual market recovery.

The Help of an Experienced Professional

Haphazard planning rarely works. Everyone needs a retirement plan that evolves with changes in their personal lives. Talk with your Raymond James financial advisor to review your total pre-retirement savings and investment program. It's never too early or too late to start planning for retirement.

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