CANADIAN MEDICAL ADVISORY NETWORK

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WealthHealth

A Monthly Financial Service Specifically for Physicians

How much is enough? It's up to you.

Retirement. First retirement. Making work optional. Life 2.0. Reinvention. Taking a break. Moving on. Whatever you choose to call the time that comes after the long, formal "working" part of your life, it probably doesn't mean doing nothing and just relaxing at home anymore. For boomers it means new possibilities and maybe big plans to do different work or pursue a personal passion. Figuring out how much is enough to do what YOU want to do can be tough. Knowing your numbers and planning can help you feel more confident and ready.

OUR BIGGEST WORRIES

- Am I on track to live the lifestyle I want? Will I be ok?
- Can I leave work on my own timeline?
- How do I compare with others with similar backgrounds?
- How will market volatility affect my retirement plans?

"These are all common questions our physician clients have and, they have other concerns too. Ones that don't directly relate to retirement income planning, but to other issues that may come as they age – losing their health, out-of-control healthcare expenses, quality of care at the end of their lives, do they have their estates in order, do their children have good financial habits?" reports Kelly Taylor, CFP, financial advisor with The Tower Group in Calgary. "Many people are already dealing with these issues with their parents so they're having the same worries for themselves."

THE PRINCIPLES OF PLANNING

Kelly shares key planning principles and the areas to focus on with clients to determine the numbers of knowing how much is enough.

- It's never too early, but it helps to distinguish between retirement saving and retirement planning. If you're more than 10 years away, the focus is on knowing the differential between income and lifestyle and how to best allocate your savings. An annual retirement forecast helps keep you on track. Within 10 years of your retirement date, it's time to really get serious and be planning in specific detail.

- Empowerment comes from knowing your numbers. The foundation of that is your lifestyle level. You should define it and keep it level until you choose to increase it. It should be what you define as minimally acceptable, NOT based off what you make and working downward.
- Different stages of life bring changes to financial capacity. Two young children and daycare may impact potential savings vs. when the kids are on their own and school is paid for. You will have more disposable money at different points and how to use that can be planned for.
- Track and get sharp are your actual expenses of today's lifestyle. Be clear on your needs and your wants. Differentiate between your basic monthly burn rate and the irregular amounts you spend throughout the year. An advisor can help you define your lifestyle level, focus on a five-year cashflow and help ensure you're saving what you have available to save. That information is then moved forward into what your first year of retirement would look like if you're going to spend the same amount.
- Revisit your plan annually and make iterative progress each year. When the time comes to leave work, you can make the transition more confidently.

"We're using the idea of *making work optional* more than the word retirement. We also like to use *lifestyle expenses* vs. *budgets*. It's a more positive way for our clients to think about their numbers," Kelly says. "We spend a lot of time talking to people about how they want to use their time after work becomes optional and if they will continue to earn some income or start a new career or adventure. What this time looks like for each person and family can be quite different."

CRUNCHING THE NUMBERS

Kelly and his colleagues start with helping clients figure out how much they need for today's lifestyle and use that information as the base of the plan. They compare case studies and use various rules of thumb for respected parameters such as sustainable withdrawal rate. They also use creative calculations to test the sustainability of a client's plan; for example, figuring out how many months of retirement spending are currently saved. The team uses software to model different income strategies, scenarios and events. Effective tax management as to how a client's assets are going to be converted to income is a big factor too. They try to balance income between spouses and include government programs too.

"There's no one magic number or ratio or percentage that's right or useful for everyone anymore. It's very personal and really comes back to your specific wants and needs and funding your own special lifestyle," Kelly believes.

TIPS FOR MOVING INTO THE INCOME PLANNING MINDSET

- Be comfortable and confident by knowing what's in your control – what you earn, your spending, meeting your savings targets, managing investment diversity, using debt well, your lifestyle level and your cash flow.
- Address the emotional side of things. Some people struggle with the idea of starting to make withdrawals from their savings.
- Distinguish the difference between needs and wants. And be on the same page with your spouse.
- Understand the tax implications of accessing your various investments or assets so you know how each works and you're not surprised at tax time.
- Differentiate between active and more passive retirement phases. You may plan to spend more in your 60s than moving into your 70s.
- Ensure your plan is integrated and comprehensive. You may need to coordinate advice from several professionals within your plan. Revisit it regularly and adjust as needed.

IN FUTURE ISSUES

Finding Solutions for Passive Investment Tax Rules

Recent federal tax changes for corporations (including professional corporations) impact medical practitioners and the amount of tax your professional corporation will pay. In a future issue, we'll look at ideas and solutions to help limit the effect of these new and complicated tax rules.

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