Golden Horizon Strategies: Navigating Towards a Financially Secure Retirement

A retirement preparation overview
by
Charles Seguin
Licensed Financial Security Advisor
chuck@chuckseguin.solutions

Examine the strength of your financial home's foundation, take our survey; click or scan the QR code.

Table of Contents

Please note: the above information does not constitute a step-by-step retirement strategy; it is meant to highlight important principles and get you thinking about your retirement preparedness.

1.0 Introduction

In today's economic landscape, marked by fluctuating markets and uncertainties, the importance of retirement planning cannot be overstated. Canadians face a complex financial environment, with challenges such as uncertain inflation, shifting job markets, and the evolving nature of retirement itself impacting their future security. Against this backdrop, proactive and informed retirement planning emerges as a critical endeavour for individuals aiming to secure a stable and comfortable retirement. This guide delves into the various aspects of retirement planning amidst the current economic conditions, offering insights and strategies to empower Canadians toward better retirement preparedness.

2.0 Canadian Retirement Savings Trends

Exploring Canadian retirement savings trends reveals a nuanced landscape of financial readiness among different age groups. This analysis, informed by Statistics Canada and Canadian Financial Capability Surveys, highlights varied saving behaviours and the importance of strategic planning for retirement. By comparing current practices with historical data, we gain insights into the effectiveness of disciplined, long-term savings. This section emphasizes the critical role informed decisions play in securing a financially stable retirement, underscoring the evolving nature of retirement preparation in Canada.

2.1 Data Overview:

Recent trends in retirement savings among Canadians reveal a diverse picture. While a significant portion of the population is actively saving for retirement, the percentage varies widely across different age groups. Younger Canadians, particularly those under 30, show lower rates of retirement savings, partly due to competing financial priorities like education loans and housing costs. On the other hand, Canadians in their 40's and 50's are more likely to prioritize retirement savings, often allocating a higher proportion of their income towards these savings. Data from Statistics Canada and Canadian Financial Capability Surveys indicate that on average, Canadians allocate about 4% to 6% of their annual income to retirement savings, a figure that underscores the need for increased awareness and planning. Please examine Appendix 1: *Canadian Financial Capability Surveys* for more details.

2.2 Historical Comparisons

Examining the savings behaviour of Canadians who began saving in the 1980s and 1990s offers valuable insights. These cohorts have generally achieved greater financial stability in retirement, benefiting from the compound interest on long-term investments and historical periods of higher interest rates. Academic studies and financial archives highlight that consistent savings and investment in diversified portfolios have yielded positive outcomes for these individuals, emphasizing the value of early and disciplined savings habits. Statistics illustrate the power of time in the market rather than timing the market. The stories of people who invested in the right stock at the right time to buy low and sell high to 500% gains will always exist. Those, however, are few and far between: are you willing to gamble your hard-earned savings over a lifetime to a "stock tip"? Those who saved during the 80's and 90's who are now enjoying retirement income did so during market downturns, as illustrated in Appendix 2: *Market Crashes: 1980 - 2000*.

3.0 The Importance of Succession Planning

Succession planning is pivotal in ensuring the seamless transition of assets and responsibilities to future generations, safeguarding financial security and family harmony. This section explores effective strategies, including wills and trusts, to mitigate potential disputes and financial burdens, while also addressing the concerning trend of reliance on crowdfunding for emergency expenses.

3.1 Understanding Succession Planning

This is a crucial aspect of financial planning involving preparing to transfer assets and responsibilities to the next generation. It ensures that family assets are protected and that financial security is maintained for future generations. Effective succession planning includes wills, trusts, and discussions about the distribution of assets, which can safeguard against potential conflicts and financial strain on the family. When someone is actively developing their succession plan; it's important to examine the fees and taxes that may be levied against the assets being passed on. Examine Appendix 5: *Life Insurance: Preserving Legacy And Succession Planning*.

3.2 GoFundMe as a Financial Safety Net

The increasing reliance on crowdfunding platforms like GoFundMe for covering unexpected expenses highlights a critical gap in many Canadians' financial planning. Whether for medical bills, funeral costs, or other unforeseen expenses, these campaigns often reflect the absence of adequate savings, insurance, or emergency funds. Statistics on the prevalence of such campaigns would shed light on this issue, suggesting a need for comprehensive financial planning that includes emergency savings and insurance coverage. Financial literacy awareness would suggest that Canadians who claim they cannot afford life insurance or critical illness survival coverage to protect their families from financial loss would have a better understanding and preparedness if they were shown options and availability of solutions.

4.0 Government Pensions and Support

In an era where financial security in retirement is more challenging than ever, understanding government pensions and support mechanisms is crucial. The cornerstone of retirement planning in Canada involves navigating the complexities of government-provided benefits, specifically the Old Age Security (OAS) and Canada Pension Plan (CPP), along with the essential Guaranteed Income Supplement (GIS) for those in need. These programs are designed to provide a safety net for Canadians in their golden years, but the reality is that they often serve as the primary income source for many retirees. With the landscape of retirement shifting and the cost of living on the rise, grasping the intricacies of these benefits is not just beneficial—it's a necessity for ensuring a financially stable and secure retirement.

4.1 OAS and CPP Payments

The Old Age Security (OAS) and Canada Pension Plan (CPP) form the backbone of Canada's retirement income system, providing monthly payments to eligible retirees. The amount received from these programs depends on various factors, including years of contribution, earnings history, and the age at which benefits begin. Service Canada data shows that the average monthly payment for CPP is approximately CAD $700, while OAS payments average around CAD $600. These figures highlight the importance of understanding government pensions in retirement planning.

4.2 GIS Necessity

The Guaranteed Income Supplement (GIS) targets low-income seniors, providing additional financial support to those in need. A significant number of Canadian retirees rely on GIS to meet their basic living expenses, underscoring the challenges faced by those with insufficient retirement savings. This reliance on GIS for basic needs further emphasizes the importance of supplementary savings and investments for a secure retirement.

5.0 Retirement Tips for the Current Economy

As a financial security advisor, I cannot stress enough the importance of diligent budgeting and the invaluable role of a trustworthy financial advisor. The recent Stats Can Report illuminates a concerning reality: one in four Canadians are unable to manage an unexpected expense of $500, and over a third have struggled to meet financial needs over the past year. This paints a stark picture of the financial vulnerability many face, exacerbated by the highest inflation rates since 1982. Such statistics underscore the critical need for financial literacy and discipline. Good budgeting isn't merely about tracking expenses; it's a fundamental step towards building a resilient financial future, especially when it comes to retirement wealth. Working with a financial advisor who genuinely prioritizes your interests can transform this challenging landscape. Through personalized strategies and financial education, advisors empower individuals to navigate inflationary pressures and save for the future, turning financial uncertainty into stability and growth. This partnership is essential for overcoming this deficit and achieving financial independence, a goal more crucial now than ever.

Here are tips to help you develop a strategy for your future.

5.1 Start Early: Leveraging Compounding Interest

Starting early on retirement savings takes advantage of compounding interest, where earnings on your investments generate their own earnings over time. Example: If a 25-year-old starts saving $200 a month with an average annual return of 6%, by age 65, they would accumulate approximately $349,000. In contrast, starting at 35 would yield around $183,000, showing the significant impact of starting early. Here's a savings calculator so you can plug in your own values to show you what's possible.

5.2 Maximize Tax-Advantaged Accounts

Utilizing accounts like RRSPs and TFSAs can reduce taxable income and allow earnings to grow tax-free or tax-deferred. Example: Contributing $6,000 annually to a TFSA starting at age 30, with an average return of 5%, would result in over $472,000 tax-free by age 65. Similarly, RRSP contributions reduce taxable income, potentially lowering your tax bracket now and deferring taxes until retirement, when your income may be lower. Here's a RRSP deductions to income tax rebate calculator to help estimate your return.

5.3 Diversify Investments

Diversification reduces risk by spreading investments across various asset classes and geographies. Example: An investor splits their portfolio between Canadian equities, international equities, and bonds. In a year when Canadian equities decline, international equities and bonds might perform well, stabilizing the portfolio's overall performance. Please examine Appendix 3: *Mutual Funds or Stocks*, to

Please note: the above information does not constitute a step-by-step retirement strategy; it is meant to highlight important principles and get you thinking about your retirement preparedness.

examine the difference between buying stocks and buying mutual funds, followed by [Appendix 4: *Segregated Funds*] to understand a means to protect those assets from death and market downturns.

5.4 Understand Your Pensions

Knowledge of government pensions (OAS, CPP) and private pensions (defined benefit and defined contribution pensions) ensures you're not leaving money on the table. Example: If someone starts taking CPP at 60, their CPP may be reduced by up to 36% compared to starting at 65. However, if the pensioner is healthy and lives long, they would tend to receive more CPP over their lifetime. Understanding these nuances can significantly impact retirement income.

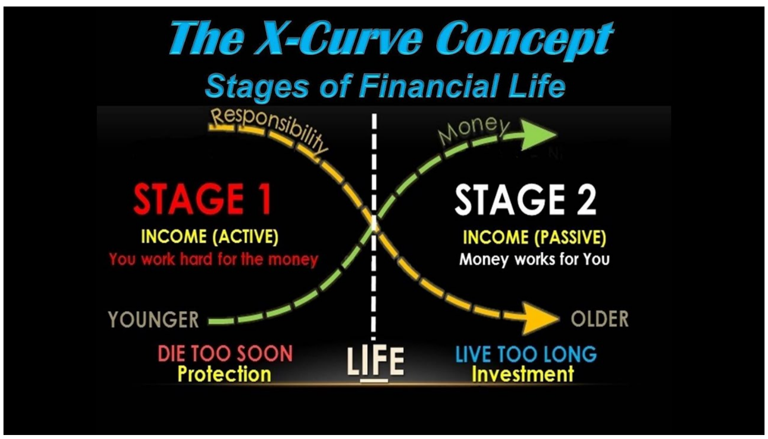
5.5 Plan for Healthcare Costs

Anticipating healthcare expenses and exploring insurance options can prevent these costs from eroding savings. Example: A retiree setting aside a health savings account or purchasing long-term care insurance can mitigate unexpected healthcare expenses, which can average thousands annually. As well, some life insurance policies may have a clause where the insured may request a partial claim, while living, if they were diagnosed with a terminal disease.

5.6 Succession Planning

Estate planning, including wills and trusts, ensures your assets are distributed according to your wishes and can minimize taxes and legal hurdles for heirs. Example: A clear will and final testament can prevent family disputes and ensure assets are passed on efficiently, while a living trust might avoid probate fees and taxes. Also ensure you have an up to date power of attorney (one, or more people with the authority to manage your money and property on your behalf if you are incapacitated) and a health directive (allows the authorized individual to make healthcare decisions when the person becomes incapable).

5.7 Reduce Debt Before Retirement



Retiring debt-free increases financial security. Example: Prioritizing mortgage repayment and high-interest debts can free up more income in retirement. If you retire with a mortgage payment of $2,000 monthly, eliminating this debt could significantly reduce your income needs. The X-curve depicts the financial security of an individual as they begin their financial journey at a young age towards retirement. The concept is that when one begins this journey; they are less financially secure due to higher financial responsibilities and less income/wealth. The goal is to increase one's wealth (through higher cash flow and owning assets leading to higher net-worth) while decreasing one's debts and financial responsibility. If retirement years are well though out, it would mean that the retiree would have little to no debt with a higher net worth and overall wealth.

5.8 Adjust Your Savings Rate

As income increases or as you approach retirement, saving more can compensate for earlier years when you saved less. Example: Increasing retirement contributions by 1% of your income each year can significantly boost your retirement savings, leveraging raises and bonuses for future security. In fact, relating to point 2: Maximize Tax-Advantaged Accounts, the best (maybe the only way...) to win at the RRSP game is to leverage that tax return by re-investing it in your TFSA if you have the contribution room. Otherwise, a non-registered account will come in handy with it's tax advantage of paying on 50% of the capital gains at your marginal tax rate when you draw from it.

5.9 Seek Professional Advice

A financial advisor can offer personalized strategies that consider your financial situation, goals, and risk tolerance. Example: Tailored investment advice and retirement planning can navigate complexities like tax optimization and investment selection, aligning with your long-term objectives. As one's life changes, so does their risk tolerance; ensuring their portfolio reflects this change over the years is key to managing risk and heading into retirement with maximized wealth. Here's another idea to examine where an advisor could provide guidance: the use of annuities to cover off regular living expenses. An individual can purchase a payout annuity (with possible beneficiary considerations in the event of one's passing) providing monthly income to cover all living expenses for life. You could then ensure you have income to cover regular living expenses with the payout annuity and use remaining wealth to provide the lifestyle you desired.

5.10 Stay Informed

Staying abreast of pension legislation and economic trends enables proactive adjustments to your retirement plan. Example: Changes in tax laws or pension regulations may affect your retirement strategy, necessitating adjustments to savings rates or investment choices. Another is understanding the conversion of an RRSP into a retirement income fund (RIF) on the year of the retiree's 71's birthday. Depending on the sources of income during retirement years, a retiree may be forced into a higher tax bracket due to forced RIF withdrawals, thus having less cash flow. There is a percentage of increasing RIF withdrawals until a retiree reaches age 95 which may affect one's income tax.

Age	Minimum %	Age	Minimum %	Age	Minimum %
60	3.33%	72	5.40%	84	8.08%
61	3.45%	73	5.53%	85	8.51%
62	3.57%	74	5.67%	86	8.99%
63	3.70%	75	5.82%	87	9.55%
64	3.85%	76	5.98%	88	10.21%
65	4.00%	77	6.17%	89	10.99%
66	4.17%	78	6.36%	90	11.92%
67	4.35%	79	6.58%	91	13.06%
68	4.55%	80	6.82%	92	14.49%
69	4.76%	81	7.08%	93	16.34%
70	5.00%	82	7.38%	94	18.79%
71	5.28%	83	7.71%	95+	20.00%

6 Conclusion

The current economic environment presents both challenges and opportunities for retirement planning. By understanding and implementing the strategies discussed, Canadians can enhance their preparedness for retirement. It's crucial to approach retirement planning with a proactive mindset, leveraging available resources and seeking professional advice to navigate the complexities of the financial landscape. Taking control of your financial future is the first step toward achieving a secure and fulfilling retirement.

Appendices

Appendix 1: Canadian Financial Capability Surveys

https://www.canada.ca/en/financial-consumer-agency/programs/research/canadian-financial-capability-survey-2019.html

This report highlights results from the 2019 Canadian Financial Capability Survey (CFCS). The CFCS is designed to shed light on Canadians' knowledge, abilities and behaviours as they relate to making financial decisions (Keown, 2011; FCAC, 2015). A key objective is to assess how Canadians are doing on indicators of financial well-being and inform ongoing efforts aimed at strengthening their financial literacy. This includes learning what Canadians know about the financial services available to them and understanding their approaches to financial planning (day-to-day money management, budgeting and longer-term money management), their plans for the future, and how they perceive their financial situations. The CFCS is a cross-sectional survey that has been conducted on a 5-year cycle, with previous versions fielded in 2014 and 2009.

Appendix 2: Market Downturns: 1980 - 2000

Black Monday	19 Oct 1987	Infamous stock market crash that represented the greatest one-day percentage decline in U.S. stock market history, culminating in a bear market after a more than 20% plunge in the S&P 500 and Dow Jones Industrial Average. Among the primary causes of the chaos were program trading and illiquidity, both of which fuelled the vicious decline for the day as stocks continued lower even as volume grew lighter. Today, circuit breakers are in place to prevent a repeat of Black Monday. After a 7% drop, trading would be suspended for 15 minutes, with the same 15 minute suspension kicking in after a 13% drop. However, in the event of a 20% drop, trading would be shut down for the remainder of the day.
Friday the 13th mini-crash	13 Oct 1989	Failed leveraged buyout of United Airlines causes crash
Early 1990s recession	Jul 1990	Iraq invaded Kuwait in August 1990, causing oil prices to increase. The Dow Jones Industrial Average dropped 18% in three months, from 2,911.63 on July 3 to 2,381.99 on October 16, 1990. This recession lasted approximately 8 months.

Please note: the above information does not constitute a step-by-step retirement strategy; it is meant to highlight important principles and get you thinking about your retirement preparedness.

1997 Asian financial crisis	2 Jul 1997	Investors deserted emerging Asian shares, including an overheated Hong Kong stock market. Crashes occur in Thailand, Indonesia, South Korea, Philippines, and elsewhere, reaching a climax in the October 27, 1997 mini-crash.
October 27, 1997, mini-crash	27 Oct 1997	Global stock market crash that was caused by an economic crisis in Asia.
Dot-com bubble	10 Mar 2000	Collapse of a technology bubble.

Appendix 3: Mutual Funds or Stocks

Investing in the stock market offers a plethora of choices, each with its own set of benefits and considerations. Two popular options are mutual funds and individual stocks, which cater to different investor needs and goals. Understanding the distinctions between them is crucial for making informed investment decisions. You also have the option of protecting your investments using the guarantees of segregated funds. Let's begin by explaining the concepts of stocks, then mutual funds, then the next level a mutual wrapped in life insurance: called a segregated fund.

Appendix 3.1 Mutual Funds: A Pool of Diversified Investments

Mutual funds are investment vehicles that pool money from multiple investors to purchase a diversified portfolio of stocks, bonds, or other securities. This pooling mechanism allows investors to buy fractional shares of a wide array of investments, making it easier to diversify even with a smaller amount of capital. For instance, instead of purchasing whole shares of high-priced stocks, an investor can own a portion of those stocks along with many others by investing in a mutual fund. This diversification helps spread out risk, as the impact of any single security's poor performance is mitigated by the overall portfolio's breadth.

Managed mutual funds, in particular, offer the added advantage of professional management. Fund managers make decisions about how to allocate assets within the fund, selecting securities that align with the fund's investment strategy. This expertise can be especially valuable for investors who prefer a hands-off approach or lack the time and resources to research and manage a broad portfolio of individual stocks.

Appendix 3.1 Individual Stocks: Direct Ownership with Specific Risks and Rewards

Investing in individual stocks, on the other hand, involves purchasing whole shares of a single company. This approach offers investors direct control over their investment choices, allowing them to tailor their portfolio to specific companies they believe will perform well. While the potential for high returns is significant if those companies succeed, the risk is also greater. An investor's portfolio is more vulnerable to volatility and losses if a significant portion is concentrated in a few stocks that perform poorly.

Appendix 3.3 The Benefit of Managed Mutual Funds

One of the key benefits of managed mutual funds is automatic diversification. By owning a mutual fund, investors indirectly own a piece of each investment within the fund's portfolio. This diversification can protect against the volatility associated with individual stocks. For example, if a particular sector or company within the fund's portfolio under-performs, the negative impact can be offset by better performance in other areas. This built-in diversification makes mutual funds an attractive option for those looking to mitigate risk while participating in the stock market's growth opportunities.

Appendix 4: Segregated Funds

These protect your investments throughout your life and assist in efficiently transferring assets when you pass away. It's a type of insurance contract only sold by Canadian insurance companies. They offer certain guarantees and advantages not available in traditional mutual funds, like capital appreciation with life insurance benefits (...such as tax-free and creditor protected fund transfers to the beneficiary) if the owner dies before the contract matures. The insurance company builds and manages portfolios containing various stocks, bonds or other securities pooling resources of people investing in it. To offer choice and risk-to-return ratios, individual portfolios are designed to contain investments in specific geographies or market segments like energy, banking, technology, etc.

Typically seg-funds offer a guaranteed payout of 75% to 100% of the capital deposited - an advantage over traditional mutual funds where the investor has the risk of losing their investment. If you and your advisor developed a retirement strategy using seg-funds and the markets take a major downturn at the time of retiring, your investment is protected.

Choosing between mutual/segregated funds and individual stocks depends on an investor's risk tolerance, investment goals, and interest in actively managing their portfolio. Mutual funds offer a convenient and diversified way to invest in the stock market, especially for those seeking a more hands-off approach or starting with limited capital. Individual stocks, while offering the potential for significant returns, require more diligence and a higher tolerance for risk. Ultimately, a balanced approach that includes both mutual/segregated funds and individual stocks may provide a diversified portfolio that aligns with an investor's long-term financial objectives.

Appendix 5: Life Insurance: Preserving Legacy And Succession Planning

In the realm of financial planning, life insurance plays a pivotal role in succession planning, particularly in covering the cost of taxes and final expenses. This strategic use of life insurance ensures that an individual's passing does not financially burden their heirs or disrupt the orderly transfer of assets. Here's how life insurance can be effectively integrated into succession planning.

Appendix 5.1 Estate Liquidity and Tax Liabilities

Upon death, an individual's estate may be subject to various taxes, including estate taxes, inheritance taxes, and income taxes on deemed disposition of assets, depending on the jurisdiction. These tax liabilities can be substantial, potentially requiring the sale of estate assets to meet the obligations. Life insurance provides a solution by offering immediate liquidity upon the policyholder's death. The death benefit from a life insurance policy can be used to cover these tax liabilities, ensuring that valuable or sentimental assets do not need to be liquidated to pay taxes. Often, the cost of life insurance ends up lower than the liability; thus making it a great succession planning tool.

Appendix 5.2 Covering Final Expenses

Final expenses, such as funeral costs, legal fees, and any outstanding debts, can add up quickly, creating an immediate financial burden for the deceased's family. Life insurance proceeds can be used to cover these expenses, relieving the family from financial stress during a difficult time. The prompt payout of life insurance benefits is particularly useful in providing for these immediate needs, allowing the family to focus on mourning and the estate's administrative matters without financial distractions.

Appendix 5.3 Facilitating Business Succession

In the context of business succession, life insurance is an invaluable tool for ensuring the continuity of operations. For business owners, a life insurance policy can fund a buy-sell agreement, where the death benefit is used to buy out the deceased owner's share of the business. This arrangement provides the surviving owners with the necessary funds to compensate the deceased's estate fairly, without having to liquidate business assets. It ensures that the business can continue running smoothly while respecting the deceased owner's legacy and their family's financial interests.

Appendix 5.4 Equalizing Inheritance

Life insurance can also be used to equalize inheritance among heirs, particularly when the estate comprises illiquid assets like a family business, real estate, or heirlooms that are difficult to divide. By designating certain heirs as beneficiaries of the life insurance policy, the estate planner can ensure that all heirs receive an equitable share of the estate's value. This strategy can prevent disputes among heirs and protect the integrity of assets that the deceased wished to keep intact or within the family.

Appendix 5.5 Key Person Insurance for Businesses

Beyond personal succession planning, life insurance is critical in business settings for protecting against the loss of a key person. The death benefit can provide the business with financial stability, compensating for the loss of revenue associated with the key person's passing and covering the cost of finding and training a replacement.

Appendix 5.6 Final Thoughts On Life Insurance

The strategic use of life insurance in succession planning offers a multifaceted solution to several potential challenges, including providing liquidity for tax liabilities and final expenses, facilitating business succession, and equalizing inheritance among heirs. Its versatility makes it an essential component of comprehensive financial planning, ensuring that an individual's passing does not unduly burden their heirs financially and that their wishes for their estate's distribution are honored. Life insurance, therefore, not only offers peace of mind but also secures a legacy, making it a cornerstone of effective succession planning.

How to reach me

Click or scan to access valuable information

Instagram

CHUCKSEGUIN1

Facebook

LinkedIn