Seniors and Money - Financial Planning for Our Senior-Age Years

Defining Generic Key Terms and Concepts

List the 3 main income groups and the Key Financial Concerns Associated with Each Group:

1. High Net Worth ($1 million plus in assets): managing taxes, maintaining and growing wealth, sharing wealth with heirs, charities, and others
2. Middle Income ($30,000 – 80,000) in annual ***income*** not assets: outliving assets, generating ongoing retirement income, financially supporting family members, maximizing income from multiple sources
3. Lower Income (less than $30,000 annual income): paying for basic necessities of daily living

Increasing longevity has changed our society in what two fundamental ways that affect individuals' abilities to save for retirement:

Increased longevity, combined with inflation, means that middle-class seniors are likely to require retirement nest eggs of $1million or more to maintain financial independence in their current lifestyles during extended years of retirement. Understanding the impact of inflation and implementing savings and investment strategies to counter its effect are crucial to successful retirement planning. Increasing longevity has changed our society in two fundamental ways that affect individual's ability to save for retirement (Cutler, 2002):

1. **Balance:** the amount of time for accumulating wealth to fund retirement is shorter. In financial planning the word balance, in this context, means the ratio of time spent accumulating wealth versus the time that wealth is spent. Today we see shorter accumulation and longer expenditure phases because of increasing longevity, prosperity and early retirements. Individuals are under pressure to create enough financial resources during shorter working years to fund longer and more active retirement years.
2. **Complexity:** The cost of new and expanded family responsibilities and the shift of responsibility to individual employees to make investment decisions. Personal savings behaviours are significantly affected by increased family responsibilities that may span several generations and the shift from defined benefits plans to defined contribution retirement plans puts the onus on the individual. Another factor is that more people are self employed and the full responsibility for

retirement savings beyond the set government pension plans (OAS and CPP) falls to that individual.

Define the 'Decision Decade' and the issues and challenges it presents to retirees.
The most critical period for building personal savings for a successful retirement is what Michael Stein (2002) refers to as the ***Decision Decade*** – the five years immediately before and the five years immediately after retirement.
Five years before retirement*:* Generally individuals in the five year period prior to retirement are more financially comfortable than they have ever been. Salaries are at a peak, college tuitions are generally a thing of the past, often the mortgage is paid, and with children out of the home both spouses may be working. Available funds may increase as much as 5 – 10 times during the five years immediately preceding retirement (Stein, 2000). But instead of using these additional funds to fatten their retirement accounts couples often expand their lifestyles, consuming additional dollars and increasing their expenses, which must be paid for when they retire.
Five years after retirement: In the first five years after retiring, the couple has on their hands to continue expanding their lifestyles. Because these individuals were at the highest earning level of their lives just prior to retiring, they are used to spending. They've arrived. No more need to save. Run and spend. Numerous ads target the 50 plus market, urging people to buy luxury cars, second homes, time shares and vacation properties; to cruise to exotic locales and take luxurious vacations; to trade old furniture for new, higher quality furniture – the list goes on. This level of increased spending can compound the problem of not having enough income for later retirement years.

The Decision Decade could consume tremendous amounts of money and further expand the base of future retirement expenses unless seniors are careful in their spending habits. Clients should be strongly encouraged to be more aggressive in continuing retirement savings and to be more realistic in examining the long-term effect of lifestyle decisions on retirement expenses. Many retirees could well spend as many or more years in retirement as they did in the workforce without having the ability to increase income in line with inflation.

What are the six steps of the Financial Planning Process?
(Financial Planning Standards' Council of Canada, 2007)

1. Establish the client—planner engagement:

Your planner should:

- Explain issues and concepts related to the overall financial planning process that are appropriate to you.
- Explain the services he or she will provide and the process of planning and documentation.

- Clarify your responsibilities as a client.
- Clarify his or her responsibilities as your planner. This should include a discussion about how and by whom he or she will be compensated.
- You and your planner should:
- Discuss the scope of the client/planner engagement.
- Agree on how decisions will be made.

2. Gather client data and determine your goals and expectations:

Your planner should:

- Obtain information about your financial resources and obligations through interviews or questionnaires.
- Gather all the necessary documents before giving you the advice you need.
- You and your planner should:
- Define your personal and financial goals, needs and priorities.
- Investigate your values, preferences, financial outlook and desired results as they relate to your financial goals, needs and priorities.

3. Clarify your present financial status and identify any problem areas and opportunities:

Your planner should:

- Analyze your information to assess your current situation (cash flow, net worth, tax projections, etc.).
- Identify any problem areas or opportunities with respect to your:
- Capital needs
- Risk management needs and coverage
- Investments
- Taxation
- Retirement planning
- Employee benefits
- Estate planning
- Special needs (i.e. adult dependent needs, education needs, etc.)

4. Develop and present the financial plan:

Your planner should:

- Develop and prepare a financial plan tailored to meet your goals and objectives, values, temperament and risk tolerance, while providing projections and recommendations.
- Present the plan to you and establish an appropriate review cycle.
- You and your planner should:
- Work together to ensure that the plan meets your goals and objectives.

5. Implement your financial plan:

Your planner should:

Assist you in implementing the recommendations discussed if you want. This may involve coordinating contacts with other professionals such as investment funds sales representatives, accountants, insurance agents and lawyers.

6. Monitor the financial plan:

You and your planner should:

- Agree on who will monitor and evaluate whether your plan is helping you progress toward your goals.

- If your planner is in charge of the process, your planner should:
    - Contact you to review the progress of the plan periodically and make adjustments to the recommendations required to help you achieve your goals.

- This review should include:
    - A discussion about changes in your personal circumstances and how they might affect your goals.
    - A review and evaluation of the impact of changing tax laws and economic circumstances.
    - A review of your life circumstances and an adjustment of the recommendations if needed as those circumstances change through life events such as birth, illness, marriage, retirement, etc.

What are the four basic methods of handling risk?

Risk Avoidance: Generally, risk avoidance means not taking part in some activities that might be risky. For example, if you don't want to get hurt skiing, don't go skiing. However, it may also mean avoiding travel to certain areas or being careful of timing.

Risk Reduction: Reducing risk relative to wealth preservation can include, for example, installing an alarm system or fencing and gating property.

Risk Retention: Risk retention simply means accepting a given risk and deciding not to do anything about it. For example, a person might understand that their home or apartment might be broken into or damaged but deciding not to get home insurance. If something did happen the person has taken on the risk and will have to cover the costs on his or her own.

Risk Transfer: Insurance is an example of transferring risk. In order to protect the value of your property, you purchase insurance (e.g., homeowners, auto, life). Seniors who want to preserve wealth need to make sure they have appropriate and adequate insurance coverage (life, long-term care, critical illness, travel, etc.).

How can PROFESSIONAL's who are <u>not qualified tax accountants</u> still assist seniors with their tax planning?

All professionals must be careful to give advice only in their areas of competency and refer clients to other professionals where appropriate. However, as a PROFESSIONAL you may be able to help at even the simplest level. For example, some seniors have trouble identifying all the required papers – receipts, tax forms, etc. Perhaps the senior has some level of mental or physical impairment. You can provide a good service by identifying required tax papers and helping the senior to keep track of them. You may also be alert to the special needs of widows and widowers. Just guiding these seniors through the tax maze can be a huge help and comfort.

List the 3 Main Asset Classes:

- **Stocks:** owning shares in publicly traded companies, large-cap, mid-cap or small-cap, value, income and growth, international and combinations of each; common and preferred

- **Bonds**: Short, Intermediate and long term, high yield, convertible, municipal, provincial, Federal, corporate

- **Cash:**

Identify the Common Investment Pitfalls among the Senior Population.

It is not always the frail or uneducated senior who is at most risk from investment scams. Seniors who are active and looking for the goose that lays the golden egg are at highest risk for investment scams. Because many seniors are retired, they cannot easily use future wages to replace monies lost in investments. It is critical that older persons consider investments that are suitable to their needs, especially when their hard-earned savings or lump-sum pension payments are at stake. The most common pitfalls for seniors who invest are:

- Salespeople who misrepresent themselves
- Inadequate disclosure about products
- Misleading fund names
- Lack of clarity in account statements

To help older investors make proper and informed investment decisions financial planners should encourage clients to complete the following steps.

- Define financial objectives
- Check out financial professionals
- Be wary of strangers
- Resist pressure to act
- Understand the nature of the investment
- Investigate any potential investment
- Monitor account statements closely

Notes