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## Freedom 75

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In a remarkably short time, the market meltdown has altered the retirement plans of many Albertans in their latter working years. But things aren't all bleak, especially for those who followed some basic rules of personal finance

by Bruce White

Don Carter may have to delay retirement by another five years, but he's 64, loves his work and has a plan to grow his plumbing-supply marketing business by helping customers use less energy and save money.

For physiotherapist Phylis Heffner, a frugal lifestyle and a smart investment strategy will help her survive the financial setback of having to sell her clinic to a large competitor for peanuts after years of hard work.

## Rule 1 Pay Yourself First

Would you invest all your retirement savings into the stock of a single, small company? Of course not; it's too risky. Then don't count on selling your business to supplement your retirement savings.

Put something away for yourself in a diversified savings plan. Then you can stay working only if you feel like it.

And for Len, a blue-collar employee in the public sector, getting through the next 13 years to age 65 will be a struggle against health issues, an employer eager to downsize and a mountain of personal debt that got out of control during the boom.

This is how the Great Crunch of 2008 is affecting three Albertans in their pre-retirement years. Yet for most Albertans planning to retire in the next 15 years, the situation might not be as bad as they think. That's especially true if they followed some age-old financial adages that transcend any particular investment strategy: minimize debt above all, allocate your assets appropriately and pay yourself first. One more thing: work at what you love because you might be working at it longer than you planned.

Since Don Carter started his Calgary plumbing equipment marketing business in 1979, he has seen good times, bad times and everything in between. "I've seen them all," he says with a hearty laugh. "I've prided myself on surviving, actually."

Carter knows that no business escapes this economic crisis. He also knows how to use it to his advantage. "Everybody has the opportunity to do a little housecleaning and to take a look at where they want to go," says the owner of the Carter Marketing Group Inc., an agency he runs with his wife that represents half a dozen manufacturers in Alberta.

To continue growing, Carter is focusing on his most promising product line, tankless water heaters made by Rinnai Corporation of Japan, the largest gas appliance maker in world. Since they heat water on demand and don't have a reservoir, tankless heaters reduce gas consumption. And Carter believes saving money will be a big selling point in the future. He

already has helped Rinnai build sales in Alberta from a few hundred units a year to several thousand. He says business is up 16% this year in a terrible home-building market. "We really do have the opportunity to grow in a downturn," he says.

All this is taking place at an age when Carter once hoped to retire. He turns 65 next month but now expects to work for another four or five years. Not that he needs to; he has stashed maximum amounts into his Registered Retirement Savings Plan, invested mostly in fixed income, which insulated him from last fall's Great Crunch. And he's hired an adviser to help him keep an eye on his financial affairs.

"If you've done proper planning, a market downturn should not affect your financial plan," says Mike Robinson, principal of Signature Financial Security in Calgary. "If you are near retirement or are the kind of person who cannot tolerate risk, you should not have significant exposure to the stock market."

## Rule 2

### Allocate Your Assets

Equities are for the young, who have the time to rebuild after massacres like last fall's. As you age, shift your portfolio from stocks to bonds and other fixed-income instruments. Some advisers posit a formula whereby your age corresponds to the percentage of your portfolio invested in fixed income. Returns on the low side, you think? So is your risk.

Most of Robinson's clients are, like Carter, business owners who by definition take on risk in their businesses. "For a lot of self-employed people, the pension is the sale of their business. However, that's easier said than done. Even if you have a successful business, there may not be someone willing to step up and buy it and who is able to do it at the time that you want. And will they have the money to do it?"

Carter knows the crunch will make it difficult for a potential buyer to finance the purchase, so he's looking at creative ways to hand over the reins. One option is to bring in a partner to help increase sales and perhaps take over a few years down the road. Another is to sell out to a competitor.

Whatever happens, Carter is likely to come out a winner. He could retire now, knowing that "we're going to be able to look after ourselves." In the meantime, he continues to love his work. "I've had some really good years and some really tough years, and right now I'm in the best position I've ever been in."

On reflection, the boom wasn't kind to Phylis Heffner, 55. As a physiotherapist, she was accustomed to hard, physical work. But in the past few years, the stress of owning a clinic in boom-time Calgary was becoming too difficult to bear. The salaries and rent she paid were soaring, while the standardized Workers' Compensation Board and insurance rates she could charge were not keeping up.

To increase efficiency, Heffner wanted to expand into a new medical building. She spent two years working on a new business plan and an offer to lease. In the end, a large competitor leased the space she sought. She soldiered on but was unable to hold onto physios or assistants at the salaries they demanded. By July 2007 she ended up on her own, working 12 hours a day. "I would come to work at seven in the morning and treat patients until eight o'clock at night, and then I'd do my paperwork and come home at 10 o'clock at night," she says.

Not only that, since 2004 she also had been a partner in a second clinic in another part of Calgary. "The second office was the one that just about did me in," she admits.

Last June, Heffner threw in the towel, selling her clinic to the company occupying the space she sought in the medical building. For her patient list and equipment, and for a decade of building her business, she received less than the replacement cost of the equipment. She never cashed a paycheque, and the annual dividends she took out of her company were very modest. She would have been much better off financially if she had worked in a hospital.

The proceeds of the sale won't last long in retirement. Luckily, her husband has a white-collar position in the federal government and a healthy defined-benefit pension. Although she has never owned stocks, her RRSP has done well – thanks to a windfall from investing heavily in United States treasury bonds when the Canadian dollar was worth more than the greenback. "Had I invested in the stock market, I would be completely dead today," she says. "I was lucky."

The Heffners aren't doing badly compared to most, a fact that Phyllis attributes to following the teachings of women's finance guru Suze Orman. They have never bought a new car, never had a mortgage more than \$75,000, never had credit card debt. She started the business with a home equity line, buying only the essential equipment at first, then purchasing more as used equipment came up for sale.

Heffner describes herself as "a good, honest person who has struggled to make a living" – and now she is appalled that governments are spending hundreds of billions of dollars to bail out banks and, potentially, automakers that didn't live within their means. It's the little guys who depend on them who will hurt the most, she points out.

## Rule 3

### Beware Of Debt

In good times as well as bad. Prioritize debt repayment, especially consumer debt, ahead of investment. Recognize that borrowing to invest increases your risk. And above all live within your means, with wiggle room in case circumstances change.

Before she retires as a physiotherapist, Heffner is focusing on the second clinic, which has neither made nor lost money since it opened in 2004. "I've gone back there to build it up and make it into something," she explains. "And then I'm hoping that my partner is going to buy me out." After that, she wants to move on to teaching physiotherapy assistants. She enjoys working with young people and hopes to pass on some of her passion for helping people recover from their injuries.

Heffner may have been lucky to sell out when she did. Danielle Smith, the Canadian Federation of Independent Business director of provincial affairs for Alberta, sees the credit crunch hitting the province's small businesses especially hard. "The main thing we're worried about is how difficult access to financing has become for small business," she says. Smith has just gotten off the phone with an Albertan who went from owning a thriving business to the verge of bankruptcy in a matter of weeks after his bank pulled financing for a building project in midstream. People approaching retirement must face up to the fact that, just as they can't play high-intensity sports like they used to, they can't afford to take the same financial risks either.

As business people, both Carter and Heffner learned to avoid debt and invested conservatively outside their businesses. But many Albertans, especially working people, were vulnerable to the quadruple-whammy of bad news that started with the end of the U.S. housing bubble in 2007 and was followed by the credit crunch, a stock market crash and the collapse of oil prices. Even people with good jobs and substantial incomes were affected. Some have gone from living large to debt consolidation and counselling in a few short months.

Len is a municipal worker in a union job. Born in the midst of the baby boom in 1956, he has diabetes and other health issues and worries that his job category may be eliminated in an

expected round of cost cutting. (He and his wife, a manager in a retail business, do not want their real names published as they are trying to reorganize their finances.) In August 2006, near the peak of the Calgary real estate market, they bought a new home. In addition to the larger mortgage, they have since piled on about \$65,000 worth of unsecured credit card debt.

"Most of it was just surviving in today's world," Len explains. Vacations, filling the tanks with gas, a series of deaths in the families; it all piled up. "You feel depressed a lot because all the money you are making is just going to pay everything." Len admits feeling some comfort in the knowledge that he isn't alone. "I don't know what the statistics are, but probably one in three people are feeling this right now, especially the baby boomers."

Len's one in three is a good guess. A survey last summer for BMO Financial Group found 20% of Canadians said they were spending beyond their means and 43% feared they wouldn't have enough money to retire comfortably.

## Rule 4

### Stay Disciplined

Stick to your investing principles. In time you'll find changes in the marketplace always have an upside. Over the long term, real return never really changes that much.

It's going to take more than forgoing a caffe latte every day to solve this couple's debt problem. Len's wife, spotting an ad in the newspaper, decided to do something about their situation and called Bonnie Krisher, whose Calgary debt-arbitration agency, K&G Debt and Credit Professionals, is one of the first of its kind in Canada. As an alternative to bankruptcy, consumers with serious debt problems hire Krisher to negotiate with their creditors, often resulting in substantial writedowns of their debt.

"We've seen an increase in the number of people getting into trouble and we believe it's going to get worse in coming years," Krisher says. It usually starts with people's mortgages becoming unmanageable and snowballs from there. People who habitually carry high credit card balances and only pay the minimum are especially vulnerable.

Many people who contact Krisher are baby boomers who, according to conventional wisdom, are in their peak earning years and able to bulk up their savings for the coming golden years. For many, the reality involves cashing in what little they have saved to settle with creditors and starting over almost from scratch. Hopefully, they will end up still living in their homes and retain a small, sheltered nest egg in their RRSPs. But if they haven't been making mortgage payments, their home can be seized by the lender.

In the case of older clients, Krisher resists pressure to hand over savings to pay off unsecured debt. "If their savings are what they have to survive off, then I'm not going to hand it to a creditor who has made a 50% net profit off them for the past 40 years," she says.

Many well-off Albertans have big debts even as they invest in the markets. What should they do? Robinson, of Signature Financial, believes that not enough people choose to liquidate investments to pay down their debt. "Getting rid of non-deductible personal debt, particularly if you're getting closer to retirement, should be a priority," he believes.

No doubt there is a lot of pain out there. But many Albertans in or near retirement may actually be better off than before the crash, at least in their portfolios. That's the surprising message of Sheldon Dyck, president of ATB Investor Services and an admirer of Warren Buffett and Li Ka-shing, investors who are legendary for their ability to find long-term value in the rubbish heap of broken markets.

"If you take a look at the portfolio of a typical retired person, with 30% equities, they're probably down maybe 10% over the last year – certainly nothing compared to the headline numbers that people are reading about and seeing on the TV screen," Dyck says.

Many older investors rely on their investments for income, and post-crash yields are actually much higher than they were 18 months ago.

"The typical balanced portfolio of 18 months ago was paying out yield of about 3.8% of its value," he says. (Yield represents annual interest and dividend income as a percentage of the portfolio's market value.) "Today that same portfolio is paying out 5.8%. So even though the balance of your portfolio has decreased, the income being produced is actually higher."

Another positive development for retirees and those about to make the big leap is the dramatic slowdown of cost-of-living increases. "When you combine the fact that their income is OK, and their cost of living has stopped rising at such a dramatic pace, they may actually be in a better position than in the years when they felt really good."

That's a comforting silver lining. Still, it felt much better two years ago, didn't it?

## How Much Is Enough?

As chief economist for BMO Financial Group, Sherry Cooper is a well-known face on national news and business channels. The smart, chatty American-born economist can be counted on to find a silver lining in every dark cloud and a dark cloud on every blue horizon. That's what economists do. In her recent book, *The New Retirement*, Cooper addresses the question that looms like gathering cumulonimbus on every baby boomer's horizon: how much more money do I need to invest to survive my retirement?

As a good starting point for back-of-envelope analysis, Cooper suggests the following formula: that an average, uncomplicated Canadian will probably require about 20 to 25 times their annual needs that are not met by pensions or other sources. Others argue – and many financial advisers are in this camp – that there is no one-size-fits-all answer to the question of how much is enough. Everyone's expectations, health and insecurity about the future are different.

Trying to find the number can be daunting. If you believe that you are going to need \$72,000 a year to see you through to your last sunset, then Cooper's raw multiple of 25 times that is the staggering sum (for most people) of \$1.8 million. In reality, the number for a typical Alberta couple is much smaller.

Our couple is planning to retire in 2013 at the age of 65. Both have worked most of their lives and qualify for the maximum Canada Pension Plan (CPP) benefit. They will also receive the Old Age Security (OAS) payment available to anyone over 65. (They will earn too much to be eligible for the Guaranteed Income Supplement of up to \$653 a month for low-income Canadians.) One partner has a defined-benefit company pension and they have saved \$250,000 in their RRSPs. They plan to sell their four-bedroom house and move to a townhouse, and estimate they'll have \$150,000 to invest from the downsizing. If they stopped saving today, their monthly income after 2013 could look like this:

CPP 1*	\$885
CPP 2*	\$885
OAS 1*	\$517
OAS 2*	\$517
Company pension	\$1,032
From RRSP (4.5% x \$250,000 divided by 12)	\$938

Non-RRSP proceeds from real estate downsizing \$563  
 (4.5% x \$150,000 divided by 12)

Projected monthly income	\$5,337
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(\*all 2008 maximum amounts)

The couple wants \$6,000 a month (or \$72,000 per year) pre-tax to maintain their lifestyle in retirement, including some travel. So how much do they still need to save? Cooper's formula suggests they will need to increase their savings by 20 to 25 times their projected annual shortfall. Let's split the difference and call it 22.5 times. Thus:

Desired monthly income	\$6,000
Minus: Projected monthly income (above)	\$5,337
Equals: Monthly shortfall	\$663
Total shortfall (x 12 months x 22.5)	\$179,010

This couple can relax a little. The ghastly number of \$1.8 million has been whittled down to \$179,010, and that means their goal for a comfortable retirement is within reach. If they can make do on \$64,000 a year, they've made their number already. Ditto if they can sock away \$2,500 a month during their final four years in the workforce.

One issue that needs to be addressed is inflation – scary if you're planning to live 25 years or more without a job. Again, it might not be as bad as you think. CPP and OAS are adjusted annually for inflation, but the company pension will not increase. As for the nest egg, Cooper in her book explains in detail how limiting annual withdrawals to 4% or 5% (the couple is taking 4.5%) provides inflation protection inside the portfolio as long as the assets are properly allocated and include shares of companies with a history of rising dividends.

Financial projections can be made to say many things. Add \$1,000 a month in desired income, add 1% to the expected inflation rate, or subtract 1% from our expected investment returns, and a survivable retirement suddenly appears to be 20 years away. On the flipside, a one-time event such as an inheritance, the buyout of an employment contract or the sale of a property or business can greatly improve the picture. And by downsizing in simple ways – eliminating debt, owning only one car and a smaller house, working a few weeks a year in retirement – many Albertans still in their 50s are already free to pull the plug whenever they like. Now isn't that a concept! – Bruce White

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