

TULETT, MATTHEWS
& ASSOCIATES

Pre-Retirement Phase

FINANCIAL PLANNING FOR AGES 50-65



Planning for your prime earning-power years

FINANCIAL SECURITY FOR LIFE SERIES

INTRODUCTION

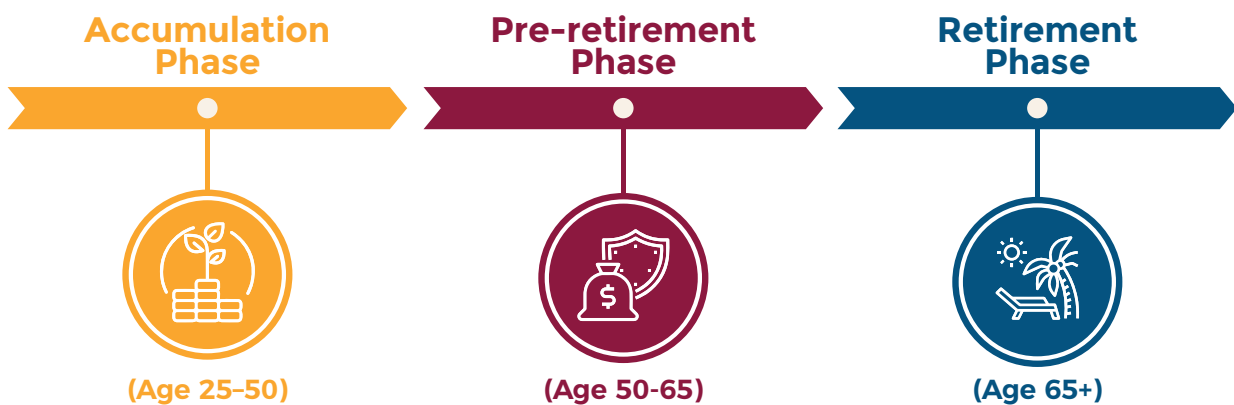
As we described in our book, [The Empowered Investor](#):

“Securing your family’s financial destiny—the core of becoming an empowered investor—involves more than just managing your portfolio and investments, although that is a crucial element. It means taking control of the financial planning process and developing a personal financial plan.”

In other words, if you don’t start with a plan, and then structure your investments accordingly, the money alone may not take you where you’re hoping to go.

That’s where personal financial plan comes in, to help you discover, document, and aim your money toward your heart’s desires. It goes beyond your investments, to take in every aspect of your life. Are you a business owner or an employee? Married or single? With children or without? Eager to retire or wanting to work as long as possible? A world traveler or happiest at home? And so on.

Your planning should also factor in where you stand so far. As the saying goes, a picture speaks a thousand words, so let’s illustrate rather than describe what we mean by that:



You’ll notice we’ve segmented life planning into three phases: accumulation, pre-retirement, and retirement. But these phases and age ranges serve as helpful guidelines, not strict parameters. For example, it’s never too late to focus on accumulating wealth, nor is there a bad age at which to manage your debt load. Just as each of us learns to walk and talk in our own good time, your own planning phases may march to the beat of a different drummer—and that’s just fine.

With that caveat, let’s explore each planning phase at greater length, from your foundational years, to your power plays, to when you start chilling out. In the meantime, if you have questions or comments about how to integrate financial life planning into your own life’s adventures, please reach out to us any time.

PLANNING FOR YOUR PRIME EARNING-POWER YEARS

Pre-retirement Phase



(Age 50-65)

Recommendations

- Increase saving rate to 20% or more of family earnings
- Pay off debt
- Focus on moderate growth
- Protect your family with insurance
- Keep Wills & Powers of Attorney (POA's) updated

Once you've hit your career stride, you can start building on your foundation with some important power plays. And yet, tomorrow sneaks up fast. One day, you're in your 30s or 40s. Suddenly, retirement is tugging at your sleeve, and you're wondering:

Am I on track?

The longer you've been on your financial journey, the harder it can be to know where you're at.

Basketball, Michael Jordan, and Your Financial Power Plays

Have you had the chance to watch [The Last Dance](#) Netflix series, featuring basketball legend Michael Jordan? Besides being entertaining, the series is a helpful analogy for thinking about your own financial power plays.

Throughout his NBA career, Jordan scored many amazing achievements. He also worked through some demoralizing setbacks. Either way, he seemed to be guided by an internal compass that helped him never stop trying, as he played his own unique long game.

*“I can accept failure.
Everyone fails at something.
But I can't accept not trying.”*

~ Michael Jordan

Likewise, your prime earning years call for sustained, deliberate efforts to create an enduring lifestyle once your career eventually winds down.

Putting Your Financial Gears to Work

As we covered above for your foundational years, here are the financial planning “gears” to crank on during your earning-power years.

1. **Investing:** If you've not yet got one, you'll want to have an **Investment Policy Statement** that reflects your goals and risks tolerances. The younger you are, the more you can typically focus

on accumulation, with higher exposures to market risks and expected rewards. As you mature, you may tilt more toward preserving what you've already got.

- 2. Saving for Retirement:** In your power years, you'll probably want to step up your retirement saving to 15–20% of your annual income. Based on [Fidelity's Global Retirement Savings Guidelines](#) (see appendix), if you're 40 and you've not yet accumulated 3 times your current income, it's time to kick your savings rate into even higher gear. By the time you're 50, the goal is to have saved 6 times your current income, and so on.
- 3. Debt management:** You'll also want to prioritize getting rid of mid-career debt, especially high-interest loans. [Canadian stats](#) suggest those in their 40s–50s may be most vulnerable.
- 4. Risk management:** Insurance coverage is essential once you start having kids, with additional protection if you are a business owner or entrepreneur. Once you achieve empty-nest status, you may be able to back off from protecting against career hits, but insurance then may become an estate-planning tool.
- 5. Estate planning:** As your wealth accumulates, you'll also want to have your estate plans in order, and review them every few years to ensure they remain relevant. Having a will with guardians named is especially essential for as long as you have dependents.
- 6. Tax planning:** As your assets grow, so does the need to accrue, invest, and spend them in a tax-wise manner, lest you accidentally leave the government an extra-large "tip".

Overcoming Obstacles

We can't dodge all of life's mishaps, but we can avoid the following, self-inflicted setbacks that can chip away at your ability to save and invest during your power-earning years.

Fear of Missing Out (FOMO): In investing, FOMO tempts you to chase costly trends instead of taking a patient, evidence-based approach. In life, it spurs you to save less and spend more to "keep up with the Joneses".

Lifestyle Creep: As your income increases, it's only natural to increase your spending too. There's certainly nothing wrong with spending more as you earn more, but are you still diligently "paying yourself first" for future wants and needs? Are you keeping tabs on where the rest is going?

"Think what you do when you run in debt: you give another power over your liberty."

~ Benjamin Franklin

Underestimating Time: As touched on above, time has a way of deceiving us into feeling about 10 years younger than we actually are. That's mostly a blessing. But it can backfire if you hit age 65, and you only have the savings of a 55-year-old.

Underestimating Money: Many families don't realize how much it's going to take to replace roughly 75% of their pre-retirement income by the time they stop working. Figure, you can expect

to receive about \$19,000–\$20,000 annually in Canadian benefits: \$12,000–\$13,000 from the CPP, plus \$6,500–6,800 in OAS. The rest needs to come from your own taxable and registered investment accounts.

One Solution Fits All: Planning

Fortunately, there's one best defense against all these obstacles: robust financial planning.

Financial planning is a gift to yourself and your loved ones. It adds more control, better direction, and increased peace of mind. With a clearer view of what lies ahead, you're better positioned to take the actions you can, and achieve the outcomes you desire.

On the flip side, the absence of planning heightens uncertainty. If you're unsure your money will last, you may need to work longer, depend on loved ones for extra support, cut back from the lifestyle you've grown accustomed to, or otherwise make painful, undesirable tradeoffs later in life.

By taking the time to understand your saving and spending requirements during your career, and always putting money aside for the future, you stand the best chance of achieving personal satisfaction and practical success throughout your life.

Key Takeaways:

- Once you hit your prime earning years, you should be able to accelerate your saving and investing efforts. Still, you may wonder whether you're on track along the way.
- Financial priorities include continuing to invest toward retirement, avoiding debt, protecting your loved ones, and keeping an eye on tax strategies.
- During your career years, typical challenges to your financial well-being include Fear of Missing Out (FOMO), lifestyle creep, underestimating time, and underestimating money.

Additional Reading:

- **The Richest Man in Babylon:** George S. Clason
- **Global Retirement Savings Guidelines:** Fidelity
- **The Way to Wealth:** Benjamin Franklin
- **The Little Book of Common Sense Investing:** John Bogle
- **Retirement Planning Guidebook:** Wade Pfau, PhD, CFA, RICP
- **Your Complete Guide to a Successful and Secure Retirement:** Larry Swedroe
- And, as always, our own book: **The Empowered Investor**

Appendix

Global Retirement Savings Guidelines: Fidelity

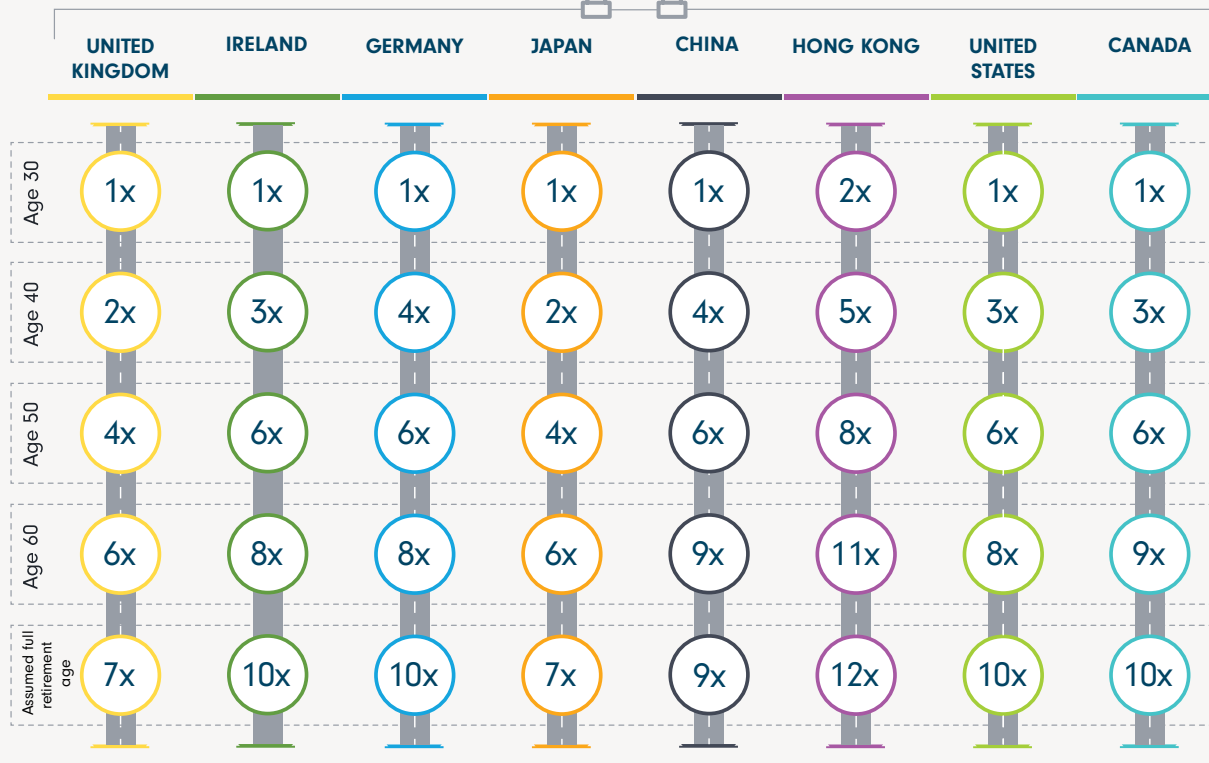
Global retirement savings guidelines

Engaging workers in financial planning

Insights into the purpose and development of Fidelity's integrated and globally-consistent set of retirement savings guidelines.

Fidelity's global savings milestones

Estimating how much you will need to save by the time you retire and along the way. Simply multiply your current income by age to give you a savings target consistent with the savings balance needed to maintain your lifestyle in retirement.



Fidelity's suggested savings milestones (expressed as multiples of current income at different ages) are based on our research, which estimates the savings balances at different ages that are consistent with the accumulation of savings necessary to maintain a pre-retirement lifestyle through retirement. In turn, these savings balances reflect an estimate of the region-specific % of preretirement annual income (assuming no pension income) through a planning age specific to each region that would be necessary to maintain that pre-retirement level of income in retirement.

The region-specific income replacement targets were found to be generally consistent across a range of pre-retirement household incomes – income at the point of retirement.

The savings milestone suggestions may have limited applicability if your pre-retirement income is expected to fall outside that range. Individuals may need to save more or less than the suggest savings rate guideline depending on retirement age, desired retirement lifestyle, assets saved to date, and other factors.

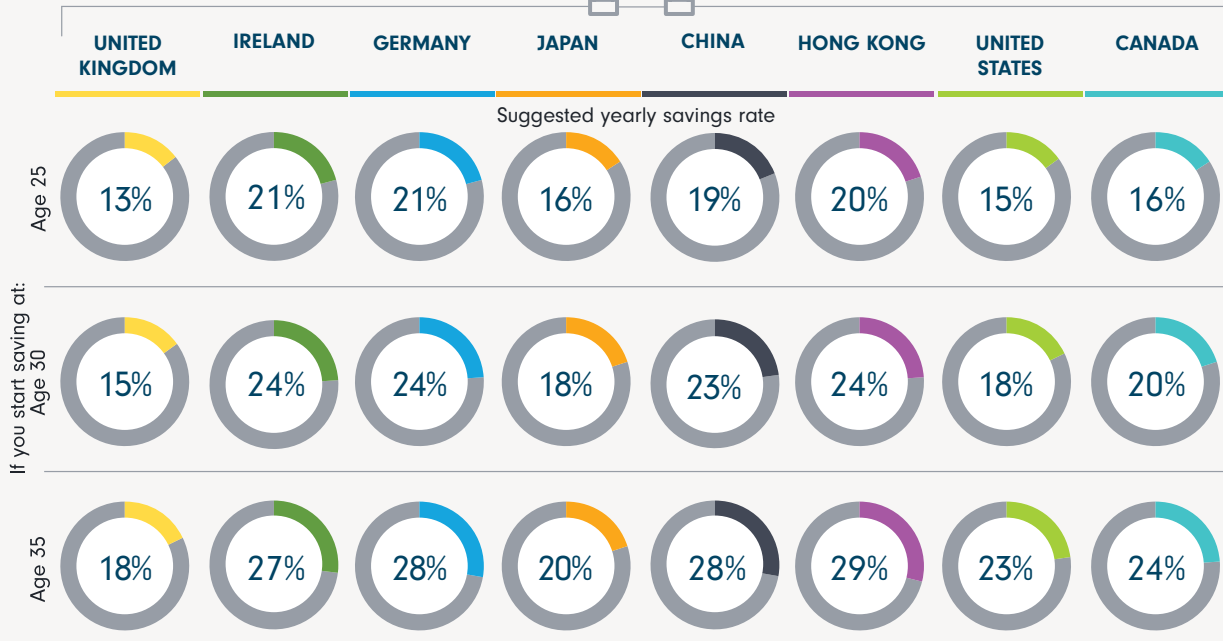
Fidelity developed the savings milestones through multiple market simulations based on historical market data. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions.

Given the region-specific assumptions, including retirement age, planning age (life expectancy), wage growth, and income replacement targets, the Retirement Savings Guidelines were evaluated at the 90th percentile confidence level for the U.S. and China. Guideline values for all other regions were evaluated at the 80th percentile for the accumulation (working and saving) phase and the 90th percentile for the decumulation (retirement) phase. The average lifetime equity allocation of the hypothetical portfolio was assumed to be roughly 50%.

Remember, past performance is no guarantee of future results. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns will also generally be reduced by taxes.

Fidelity Investments and Fidelity International are separate trading names and through their combined networks provide global asset management and benefit administration solutions to customers. "Fidelity" refers to the combined network of brands that encompass Fidelity Investments and Fidelity International.

Fidelity's global retirement savings rate



Fidelity's suggested total pre-tax savings rates (expressed as a % of pre-tax current income) are based on our research, which indicates that most people would need to contribute at these rates from an assumed starting age of 25 through an assumed retirement age specific to each region (see general disclosure for regional details on retirement ages) to potentially support an income level equal to region-specific % of preretirement annual income (assuming no pension income) through a planning age specific to each region. The region-specific income replacement targets were found to be generally consistent across a range of pre-retirement household incomes - income at the point of retirement.

The savings rate suggestions may have limited applicability if your pre-retirement income is expected to fall outside that range. Individuals may need to save more or less than the suggest savings rate guideline depending on retirement age, desired retirement lifestyle, assets saved to date, and other factors.

Fidelity developed the savings rate targets through multiple market simulations based on historical market data. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions. Given the region-specific assumptions, including retirement age, planning age (life expectancy), wage growth, and income replacement targets, the Retirement Savings Guidelines were evaluated at the 90th percentile confidence level for the U.S. and China. Guideline values for all other regions were evaluated at the 80th percentile for the accumulation (working and saving) phase and the 90th percentile for the decumulation (retirement) phase. The average lifetime equity allocation of the hypothetical portfolio was assumed to be roughly 50%.

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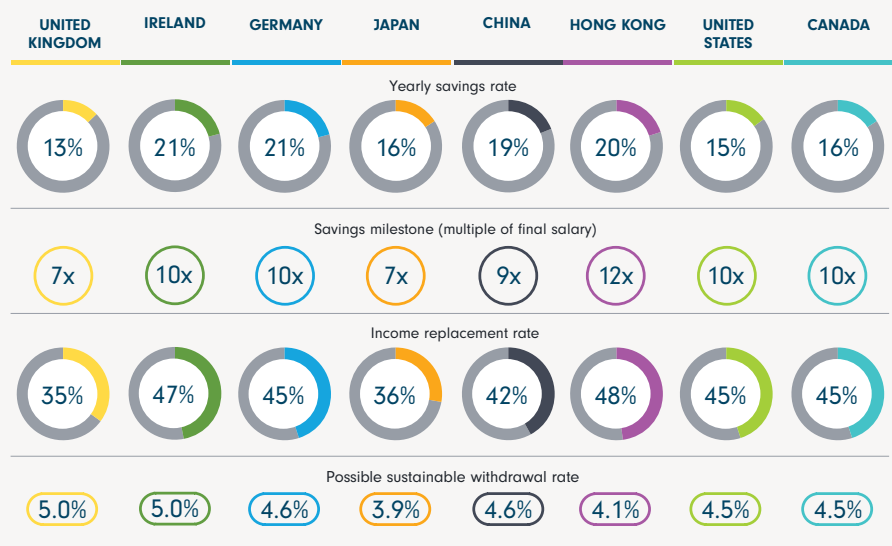
A regional comparison

Retirement Savings Guidelines: A Regional Comparison

As described in the previous section, the Retirement Math Framework provides guidelines for a set of four retirement metrics – required yearly savings rate, income replacement ratio, savings milestones and possible sustainable withdrawal rate.

The values for these guidelines will vary across regions due to differences in a variety of region-specific assumptions including observed saving/spending behaviour, taxation, structure of state/government pension and health insurance schemes, mortality, assumed retirement age, wage growth, inflation, and capital market assumptions. Individually and in combination, these differences in assumptions/inputs result in cross-region differences in guideline values. It is important to note that while the guideline values may be different across regions, the underlying analytical framework that produces those values is globally consistent and produces guidelines that are locally relevant and globally comparable.

Regional results are summarised in the following sections. Additional insights can be gained by reviewing this paper's Appendix materials.



Definitions:
 Yearly savings rate: The suggested annual rate of (pre-tax) savings over a full working lifetime.
 Savings milestones: Age-based savings targets expressed as multiples of current income.
 Income replacement rate: The percentage of pre-retirement income that an individual/household should target to replace annually from their personal savings (including workplace savings) in retirement in order to maintain pre-retirement lifestyle.
 Possible sustainable withdrawal rate: The real (inflation-adjusted), annual withdrawal amount expressed as a percentage of the initial (at retirement) asset balance.

Footnotes:
 Hong Kong savings rate - 20% savings rate is net of an assumed 5% MPF contribution from both employer and employee pay.
 Japan's income replacement rate - 28%, which excludes 8% income replacement from an assumed final lump sum salary payment of 2x annual pre-retirement salary.
 Canada's income replacement rate assumes CPP enhancement, fully realised in base case (Current Age = 25).
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