



Your Power Play: Planning for 35 to Pre-Retirees

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Keith: Welcome to episode eight of the Empowered Investor. My name is Keith Matthews and I'm joined by my co-host Marcelo Taboada for today's episode. Marcelo, we've started this mini-series on financial planning. It's three episodes. Why did we create the mini-series?

Marcelo: Look, I think planning is definitely critical in setting the foundation for anyone wishing to become empowered when it comes to their finances. Also, each stage has its own array of critical issues that must be addressed when you're talking about financial planning. I think we talked about it last episode; the difference between financial planning and investing is super interesting. You're talking about stocks, investments, and the different types of vehicles we use, but this is so critical—the financial planning aspect to make it all come together.

Keith: So what age category did we focus on in the last show?

Marcelo: We focused on 25 to 35.

Keith: Perfect. Okay. We're going to do two more of this mini-series, and in today's episode, we'll discuss why having a financial plan is a must for every Canadian at every age stage. We'll do a deep dive into the different areas of the plan, but we'll do it specific to the age category. And in today's show, we're focusing on the age category 35 all the way up to retiree, and that includes the all-important pre-retiree age category. Marcelo, with that, let's start with a quick definition. What's a financial plan?

Marcelo: A financial plan is a document that contains the following things. It must have a person's current money situation, it must have the long-term monetary and financial goals, and it must have the strategies and the required



actions to get to these goals. It all begins with a thorough evaluation of the person's current financial situation and what the future expectations and their future goals are. This may be created by a professional, or it could be done independently as well.

Keith: Okay, so really what it is, it's looking at the now, seeing where you're at currently financially, going into the future, trying to figure out where you're trying to go, and then working backwards and making sure you have an action plan in place to get you from point A to point B.

Marcelo: Absolutely.

Keith: Okay, very cool. Remember, we talked about the gears, and it's essentially looking at all those things and bringing it together so they can work in unison. When you have the final product, if it works nicely, it's a beautiful thing to watch. Let's get into the why. Why is financial planning such an important part of the journey of somebody to become empowered?

Marcelo: You gotta plan, and most successful organizations, when they're trying to figure out how to go and move forward, whether you're a sports franchise, a nonprofit, or a profit-oriented business, you need to have a plan. Having more control over one's destiny really speaks to the need for planning and understanding where you're going. The financial plan, which talks about holistic components in your life, and in a couple of shows from now, we'll talk about an investment policy statement, but these are the two critical roadmaps that individuals need in order to forge their way into the future. Financial awareness and financial literacy are all part of the empowerment process. It's so much easier to get something done when you feel like you have the proper education, and education leads to empowerment.

Keith: So I think a lot of us in our lives, we've felt that. I'm going through this right now in my house where I have a lot of renovations to do. When I sit down and have a plan for them, it definitely reduces the stress. So I see the parallel here. What are you working on now, Marcelo? What's your house project?

Marcelo: Oh, we're redoing the basement and fixing a lot of the landscaping. It's time-consuming, it's expensive, and we're trying to do a lot of it on our own.



Keith: Nice. Last week, we spoke about the 25 to 35-year-old bracket, and Marcelo was smack in the middle of that. He shared with us all the things that he and his wife Alex are forging forward on.

Marcelo: Now that you brought up the age category, so now we're talking about the 35 to retiree category. We're going to break that in two, but you're living in this period right now. What do you think about this peer group?

Keith: This is a pretty wide span of ages here, 35 to call it 60. I'm 56 right now, so I've lived through two-thirds of this category. I'd like to break it up into two zones: 45 and younger, and 45 plus. The reason I chose 45 is for me, when I turned 45, I had a bit of an aha moment. It just happened that it was 20 years into my career, because you start working maybe at 25 plus or minus, and you sit back and say, "Wow, that passed really quickly." It was like yesterday when I remember being in university. And I said to myself, "Okay, so if that's the case for the past 20 years, what's the next 20 years going to look like?" It's probably going to be just as fast, and take 20 years, add it to 45, and all of a sudden you're in that retirement zone. There's a bit of an awakening at that 45-year zone because you're sitting back saying, "I've just hit the middle mark." And so you get to reflect and you get to sit and say to yourself, "Am I on track?" Those are the years where most people, 45 to 55, you start saying, "Am I on track? Have I done all the right things?"

Marcelo: Some people say sometimes, if you could go back in time and give your old 45 self some advice, what would you say?

Keith: Oh boy, that's a good one. For me, I'd probably say live more in the moment and enjoy what's going on. Because I tended to be the planner and think out the future, which is the opposite of some of the messages we're talking about now.

Marcelo: What are the things to focus on for the 35 to 45 age group?

Keith: These times are extremely busy. I look back—you're focusing on your career, you're focusing on having a family, you're focusing on trying to get ahead. Like you said, you've gone through the home purchase phase, but there's usually the home purchase phase. There's raising kids and saving for retirement or saving for the future. It's a messy time; it's a tough time.

Marcelo: What about 45 to 60?



Keith: 45 to 60 is maximum career push. This is where typically you have the highest earnings of your career. I call it the power play. You're also now getting ready for putting all the energy you can to make sure that things are set up so that when you retire somewhere between 60 and 70, things are in good order. So there's a lot of moving parts in both of these categories.

Marcelo: Yeah, I think the 45 to 60 is essentially Michael Jordan at 27, right? In the smack of his prime where he can do the most damage. And I think what you're saying is that this is the age where you are in your prime years of financial earning power, where everything has to start coming together, right?

Keith: Yeah, but that's the second stage. So it's a big span. These are your high productive work years, 35 to 55, 60. Let's walk through the gears. Let's start off, Marcelo, and go through the gears and we'll see where we go with this.

Marcelo: So just to recap, the six gears of financial planning are retirement plan, debt management, investment plan, risk management, tax planning, and estate planning. So let's go through all of them actually, and let's see what the focus should be for this age group, Keith. So let's start with the retirement plan. What do you think the focus should be here?

Keith: Retirement planning should be a focus for everybody at all ages. It obviously becomes much more critical at 45 to 60, but that said, 35 to 45, you gotta keep your eye on the ball. You gotta be saving that 15 to 20%. We'll talk about that later as to why those numbers, because they are big numbers.

Marcelo: Anything else?

Keith: No, that's critical. We'll come back to it.

Marcelo: Perfect. Debt management. Canadians have to be conscious, have to become more aware of debt. We are carrying high levels of debt. Fifteen, 20 years ago, we always used to look at the Americans down south, our cousins, and say, "Boy, they live way beyond their means." And all those Americans are driving big cars, and look at their debt levels. And we were always a more conservative country. And I think what's happened in the last 15 years, and the statistics show it, is it's reversed. We are now the nation filled with individuals who are more extreme in their living conditions and living more on the edge and more in debt. And the Americans are actually better savers than us now.

Marcelo: Interesting. What about an investment plan?



Keith: It's classic, important in all age categories. Obviously, the younger you are, the more you can focus primarily on growth, much higher levels of equities all the way through. As you age and mature, you can have a little bit more fixed income, but it is critical. The investment plan, regardless of your age, is a fundamental part of the plan.

Marcelo: Yeah, absolutely. What about risk management?

Keith: So risk management, insurance, and to be clear, you and I are not licensed in the insurance category. We always recommend our listeners work with licensed professionals. And so, on the insurance front, the thing I would say, of course, is once you start having kids, you have to make sure you put insurance in place. I got my first insurance policy when my daughter Lauren was born in 1996. My wife and I both went out and got insurance.

Marcelo: Nice.

Keith: And so pretty much all the way through, and you start maybe dropping off insurances when you're 55, 60. Business owners, entrepreneurs, and for some estate planning needs, still need insurance.

Marcelo: We should have a whole episode on insurance. It'll be interesting.

Keith: We'll have some. We'll make sure we get some seasoned professionals on and we'll ask them some questions.

Marcelo: All right. So tax planning.

Keith: The higher the income, the more important. And I think it's a little less important earlier in your stages and a little bit more important as you evolve in age a little bit.

Marcelo: Okay. What about estate planning?

Keith: Critical all the way through. You gotta have your wills and your powers of attorney. In Quebec, it would be the mandate. And that pretty much starts at any age you start acquiring assets. And as soon as you start having kids, you need to make sure you put your wills in place, you put your guardians in your wills, and you make sure that it is critical and very important. You might need to update your will every seven to 10 years.



Marcelo: Yeah, dying without one of those can be a real mess. So yeah, definitely. Okay. Last week, you asked me some of the challenges of my generation, 25 to 35. So what do you think are the challenges in this age group, 35 to retiree? If we break it down in two, but maybe in more general terms.

Keith: Your go-to response, Marcelo, is gonna be my go-to response. I think it made a lot of sense. You talked so well about FOMO—Fear of Missing Out. I don't think that's reserved for a younger generation. I think that's reserved for anybody. And I think what's happening also, this is just a gut feeling, but you talk to anybody 35 and up, and you ask them, "How old do you feel?" I get the sense now that most people are saying they pick a number 10 years lower. So if you're 50, you're sitting back saying, "Gee, I feel like a 40-year-old. I'm energetic. I'm doing all the things that are for." And that's a positive thing. If you're 60, you feel like a 50-year-old. And I think it's pretty relevant because this entire group has grown up in a world where things are changing, it's dynamic, they're able to explore new things, and I think it's very exciting. The flip side is we'll speak about this soon, but we're just simply not saving enough.

Marcelo: What about lifestyle creep? Like, that's a big one. I was looking back in the episode, and that's something that I forgot to mention, but you've brought it up here. Now, what do you think about that?

Keith: You mentioned social media bombarding and the pressures that put, and this means that individuals may get distracted from attaining or reaching their goals or get distracted by making the sacrifices that are required to reach their goals. Lifestyle creep is, I think, very relevant, very specific to those that have growing incomes. So 35 to 45, you will have most likely growing incomes. 45 to 55, again, most likely growing incomes. The higher the income, the more lifestyle opportunities a person has, and the more lifestyle opportunities they take. So what might've been considered a luxury before now becomes a bit of a necessity. It's critical because the lifestyle creep, what it does is it starts eating away at your disposable income, and you can't save to the level that you should technically be able to save to.

Marcelo: I think it goes back to what I mentioned last time, where you gotta have this view of where money's going. And the lifestyle creep, I see it as, okay, you get a 20 percent increase. And then if you don't know where every dollar is going, and again, you can be as detailed as you can. Some people are very extreme in the way they keep track of things, but a macro view is okay, in my opinion. But if you don't know this, it's easy to say, "Okay, I'm just going to



increase my lifestyle another 20 percent." And then, when you're looking at after-tax numbers, you're actually spending more. You may end up getting a nicer car or doing a renovation that you maybe can't afford in the house. And I think this is a common thing, especially among this age group.

Keith: A hundred percent. I think the big focus is, again, the 25 to 35 is one that's typically you're starting your career. You want to make sure all your focus is in the right area. What ends up happening at 35, things do change. As soon as kids come into the picture, your life gets much more complex. When you hit 45, 50, things can get complex as well because not only are you trying to raise kids, but you might have elderly parents that you're trying to also help and take care of. And that's what was often referred to as the sandwich generation. You're getting pressure from both sides. Suffice it to say, there's a lot of moving parts in this category that we're looking at today. I think the number one thing that individuals have to do is they have to go down, they have to tick all the boxes that they're supposed to tick in terms of the priorities of things they need. So if they need insurance, they need to make sure that gets put in place. If they need to make sure the wills are there, they have to do that. The number one issue is they need to understand lifestyle spending. We need to understand what am I spending my money on? And then the next thing is, am I putting enough aside? And we'll talk about that. Am I putting enough aside? People often hear the save 10%. The number's now 15 to 20 percent that is required in order to have enough money to replace your income when you retire. So, Marcelo, you're looking at a chart right now. It's the chart on Canada's annual savings rate from 1984 to 2018. Can you describe what that chart looks like as we've evolved over time? And what are your observations on that? This is the savings rate of Canadians.

Marcelo: Honestly, Keith, when I saw it, I was impressed, and not in a positive way. I think it's bad. It's really bad. Like, when you look at the savings rate. In 1984, it was 15%, and then it went all the way up to 17, 18% around 1985. And then if you look at it now, it's just, it's been going down dramatically in the last 20 years. So if you look at 2018, it's almost two to 3%. That's really low. And honestly, I'm trying to think about reasons why. I think there's a few, but I think I go back to the FOMO and lifestyle creep. I think with social media, the way advertisement is right now, targeted advertisement, that's a big one too. People are way more exposed to consumption, and it's easier to access things now. And it's easier to say, "Okay, I'm just going to spend and not worry about



the future. Who cares? I'm living now. I should be happy." This is big. But again, it's not an exact science. I don't know. It's maybe another thing.

Keith: I'm looking at 2018 here, and the average saving rate is between one and 2%. It's a big shift. When I was in university in the mid-80s and early 90s, everybody put aside 15% of your gross. And that was almost like you put that aside before you did anything else. And I recall things being simpler. There was just this idea that you paid yourself first, and whatever was left after that, you built your lifestyle. And I think it's a bit of the opposite in the last 15 to 20 years. I think not having a recession has, unfortunately, helped or given people a false sense of security because they haven't had to worry about saving. I haven't felt that way. And of course, we're in the middle of the coronavirus right now, and that's going to change. I think there's going to be some changing patterns, spending patterns that are going to come through. But the combination of low saving rates and high debt levels is not ideal. You and I spoke about this at the beginning of the show. We can sometimes sound a bit preachy when we're talking on a financial show about how this has to change and why it has to change. And honestly, I have a good friend who's about to finish writing a book, and we'd like to get him on as a guest, but his whole premise around the book that he's writing is he's going to share ways to improve savings. Too often, folks like us will say to listeners or an audience or a group, "You need to save X." But most people don't know how to do that, and it seems like a daunting number. But it is a number that really we gotta aim for, because if you don't aim for it, you'll wake up at 55 or 60 saying, "Oh my goodness, I wish somebody would have told me this 20 years ago."

Marcelo: I think that's the real tragedy when you look at neglecting this age section when it comes to planning. If you neglect it, it could be really disastrous in later years. Nobody wants to get to retirement and either downgrade their lifestyle or lose their dignity. Like, you look at it now with the COVID situation and people who have to spend their last years of life in a government-run institution, the situation is really dire. It could really make a difference, right?

Keith: First and foremost, I think it's about making sure you can replace that lifestyle. I just don't know if enough people are truly aware of the mathematics of retirement and truly understanding. So when I retire at 65, how am I going to get an income? And most people aren't aware of what the Canada Pension Plan or the Quebec Pension Plan provides along with OAS. And so the savings are simply supposed to supplement Canada Pension in order to lift your



income up to about 70 percent of your pre-retirement spending. And even that, we have a lot of clients that don't drop their lifestyle spending from pre-retirement to retirement. And why? Primarily because they want to do more during their retirement. They want to travel. They want to have fun. Remember that 65-year-old feels like a 55-year-old. They're energetic. They're active. They want to get some fun things done in life.

Marcelo: I couldn't agree more, Keith. We have this really good study in the book. It was done by the Ontario Securities Commission. It's essentially a retirement study on how ready Canadians are for retirement. So I looked at those numbers, and they're very scary, Keith.

Keith: To be clear, yeah, it was done by the OSC, and they surveyed pre-retirees. So people between the age of 50 and 60. What did they find, Marcelo? What are a couple of points that stood out to you?

Marcelo: Like I said, it was really scary when I saw these numbers, but 56 percent do not have a retirement plan. 57 percent are stressed about retirement planning. 42 percent are afraid of running out of money during retirement. And 25 percent feel that they need to take risks to have enough money when they retire.

Keith: One thing I can speak to is this idea of, between the age of I'd say 45 and 55, it's just where people typically wake up and say, "Am I on track?" And that's essentially what this survey is saying. They don't know if they're on track. If you ask a person, "Are you on track?" Most people would say, "I don't really know. I don't know how to gauge whether I'm on track." And they often won't even want to understand necessarily because they're a little worried about what they might find. But there's a lot of Canadians who are serious about wanting to make sure that they can have a good retirement and are prepared to start studying whether they're on track or not.

Marcelo: Let's get to the why people should be saving 20. I think that's a good segue for the why people should be saving 20 percent. What's the math behind this number?

Keith: Yeah. I think if you're going to make a sacrifice, if you're going to do something that might come across as difficult or you're giving something up, you need to understand why am I doing this? Because if you understand why you're doing it, there's a better likelihood that you will reach out and try to get



that goal. And if you don't get that goal, maybe you'll get 50 percent of that goal, but it's better than not it. Understanding why a hundred percent. Let's talk a little bit about it. So the why, when a person works in Canada, they contribute to Canada Pension Plan or in Quebec, it's Quebec Pension Plan. And if they work until they're 65, they will get somewhere in the vicinity of 12 to 13,000 pre-tax per year. Maybe a little bit more, maybe a little bit less. Plus at 65, they get OAS at about 6,500, 6,800. So you add those two, those are the baseline incomes, 19,000 to provide a lifestyle for your retirement. Now, if you ask individuals in Canada, "Is that enough for you to enjoy your retirement?" Most would say it's not enough. So you need to have the next buffer, which allows you to enjoy your lifestyle, to enjoy your retirement. And that next buffer comes from the nest egg that would have been built over the 20 to 40 years of you making those accumulations. The math works out that if you're 25, you need to put approximately 15 to 16 percent of your gross income aside. If you're 30, the number is 20%. And you need to do that for 30 years. And if you do that, you will have enough replacement income to give you the 70, 75 percent of your pre-retirement income that you can now use to enjoy your retirement.

Marcelo: We had some benchmarks last week. So in my age group, the benchmark was at 30 years old, I should have at least one times my salary in retirement account savings. So what about 40 and 50?

Keith: This is an interesting study done by Fidelity, and it picked one, two, three, five age categories. And again, these are guidelines. These are just broad benchmarks. And what it speaks to is at age 40, a milestone that you should be looking to achieve is approximately three times your gross income. If a couple makes a combination of, let's say, 120,000 a year, a couple. So three times 120, you should have \$360,000 saved in retirement accounts at age 40. At age 50, it should be six times your gross income in investment accounts, retirement investment accounts. And at age 60, it should be close to nine times. So if your household income is 100,000 at age 50, you should have 600,000 saved up in RRSPs. And so these are just milestones. This is not a financial projection within all of this context of these general discussions. It's critical that investors and individuals put together an actual projection. Either they do it themselves, or they find a qualified advisor who they can sit down with and actually map out a projection. Where are you today? What actions are you going to do in the next five, 10, 15, 20 years, and then map out what that might look like.



Marcelo: Again, going back to the importance of having a plan, what does a plan bring you in terms of wanting to become empowered and taking care of your finances?

Keith: I think a plan allows you to understand your situation better. So by understanding your situation better, you have a better idea of what lies in the future. And so, add to that the idea of you want certain things in the future. You want your life to look a certain way. You then have a whole series of actions that you can take. This entire process brings you more control. It brings you much more direction. It brings you much more peace of mind. And then finally, it brings you results. So there's many benefits all the way through. And if it's done properly, it can empower the person to have a better quality of life.

Marcelo: And I think if you look at the flip side, if you don't do it, the consequences, they can be bad. Go back to the stress of not knowing whether you're on track. And I think that stress can lead to inaction. And that's why we're seeing a similar number, where the people who don't have a plan and the people who are stressed about not having a plan. Then excessive risk-taking can take place in a person's situation. So you may be hitting stocks that you shouldn't be targeting.

Keith: We see this from potential clients who come from time to time. We look at their portfolio, and we say, "My goodness, what are you doing?" They're trying to play catch-up. And unfortunately, on occasion, it might work, but more often than not, it's a pitfall, and it creates more destruction. And it really backfires.

Marcelo: Then relying on real estate values, that could be another one. If you didn't save through your retirement accounts and you're banking on your house, that may be an issue. Then having to rely on family for financial support. I think nobody wants to be in that situation and put their family through that burden. And then the loss of quality of life when you're retired. Like I said before, everybody wants to either maintain or have a better lifestyle when they retire. You're enjoying the fruits of your labor. You want to be doing things that you didn't have time to do before that may require some more money. So definitely, nobody wants to be losing quality of life.

Keith: Absolutely. A hundred percent. So, Marcelo, in our next show, we're going to look at the planning components for retirees. And so we're coming to



an end right now of this one, which is the 35 to 60-year-old. What are a few takeaways you want to share with the listeners right now?

Marcelo: I think the biggest takeaway I have is, I just finished watching the Last Dance documentary about Michael Jordan and the Bulls. So I think that my age category, 25 to 35, is Michael Jordan at 20. So you can do a lot of damage but not as dangerous. But I think this age category, 35 to retiree, is Michael Jordan in his prime, doing the most damage possible. This is where you can have the most positive effect in your financial plan. You're earning a lot of money. You are advancing in your career. This is your prime years. And that's the takeaway for me.

Keith: Very cool. Wise statements. I like it.

Marcelo: You should watch the documentary, by the way. It's amazing.

Keith: I've watched the first show. It is good. I'm looking forward to seeing the rest. My takeaway would be, on the positive side, I know that we tend to all feel 10 years younger than we really are. And I think that's fantastic. I feel like I'm 45, and I feel good about it. That said, it can sometimes bring a little false sense of security that you've got more time in front of you. So my takeaway would be really understand your lifestyle spending, understand where money is going, and make sure you make a commitment to your future by putting money aside. So that's a wrap-up for today's show. Thank you for tuning into episode eight of the Empowered Investor. Be well, stay healthy, and we look forward to seeing you in two weeks from now. Goodbye, everybody.

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