

PERSONAL FINANCE

YOUR RETIREMENT

Five retirement planning gaffes to avoid

Admitting you have a problem is the first step

BY SAM SOLOMON

Planning for retirement can be a full-time job — but good planning means you won't have to keep your other full-time job into your retirement years. "When it comes to retirement planning," laughs Fred Bowie, CEO of Canada Retirement Information Centre, "it's the lack of planning that's the biggest problem."

No big surprise — retirement planning isn't easy. In fact, it can be downright scary. Once you start looking at all the arcane tax laws and frighteningly large spreadsheets, feelings of abject terror can set in. But don't despair. Here's how you can recognize the five biggest retirement planning mistakes, to learn what pitfalls you may encounter in your journey and how to leap over them gracefully.

1. YOU DON'T KNOW HOW MUCH MONEY YOU WILL NEED

It's an oldie but a goodie: "If you don't know where you are going, you will never get there," says Ted Rechtshaffen, the president and CEO of TriDelta Financial Partners. The key to creating a successful retirement financial plan, then, is to predict as accurately as possible what your income and expenses will be over the rest of your working life and through your retirement.

The trouble is that figuring all that out is easier said than done. "People often ask me if there's a magic number for retirement savings. There isn't," Mr Rechtshaffen says. It all depends on your savings, your pensions or other retirement income, and your lifestyle and spending habits. The rule of thumb, he explains, is that your expenses in retirement will be about 70% of your expenses while you are working and that amount will drop by 1% each year.

But Mr Rechtsheffen warns that the rule of thumb may not make sense for some people, like physicians. "Lots of people put off major trips and other major expenses until they're retired," he says, "and some people, depending on health and age, spend more in the first few years of retirement than they did while they were working."

2. YOUR MONEY ISN'T WORKING AS HARD FOR YOU AS IT COULD BE

Now that you've figured out what you'll need to live comfortably during retirement, you have to figure out how to make sure you will have that money available for you when you need it.

The most important advice is: don't neglect your RRSP. You shouldn't leave your RRSP money tied up in GICs and bonds, especially if you are under 45; consider some stocks or stock market indices. The US markets go up seven out of 10 years, on average, so investing elsewhere is a wager that the market will fall. The odds of winning that wager? Worse than the odds of walking out of a casino with more chips in your pocket than you had when you walked in, says Mr Rechtshaffen.

3. YOU COULD INCORPORATE YOUR BUSINESS, BUT YOU STILL HAVEN'T

This one is simple: there are just two criteria you need to consider in deciding

NRM Personal Finance Survey Results 2006

IN THE PAST 12 MONTHS MOST MDS REPORT THEIR NET WORTH HAS GROWN

Increased	67%
Decreased	5%
Stayed about the same	28%

MY MOST PRESSING PERSONAL FINANCE PROBLEM IS:

Saving for retirement and your investments to fund it are your most pressing money challenges

Saving money for retirement	24%
Money investments	17%
House mortgage	15%
Children's education	12%
Living expenses	11%
Line of credit	10%
Student debt	5%
Office + staff expenses	4%
Taxes	2%

whether or not to incorporate. One, are you turning a net profit of more than \$5,000 per year? And two, are you eligible for incorporation in your province? If the answer to both those questions is yes, then don't hesitate — incorporate.

4. YOU'RE MICROMANAGING YOURSELF INTO MADNESS

"As a group, doctors are much busier than most people," says Mr Rechtshaffen. "They really don't have a great deal of time to do things other than work and spend time with their families."

One of the biggest barriers to effectively managing your own retirement planning is keeping up with the vast quantity of new and changing information about taxes, says Mr Bowie. For instance, the Conservatives decided in the fall to allow seniors to split pension income between them in order to take advantage of more favourable tax brackets, and it's still thought to be possible that a provision for income-splitting for families could be included in the March 20 federal budget. "You now must be aware of tax opportunities as well as investment opportunities," says Mr Bowie.

5. YOU'RE NOT ANTICIPATING POSSIBLE HEALTH PROBLEMS

There are two different types of special health insurance worth considering for your retirement: longterm care insurance, and critical illness insurance. The two are not mutually exclusive, but Mr Rechtshaffen says critical illness may be more valuable than longterm care insurance for many people. Even for those who do end up in longterm care facilities, their costs may be offset by a pay-out from critical illness insurance, which should cover you for whatever caused the move to a long-term care facility. Because it's often a better investment from a cost-benefit perspective, says Mr Bowie, critical illness insurance is particularly important for small business owners, like many physicians.

