K J HARRISON
INVESTORS

WEALTH, HEALTH & KIDS

Six Habits of Highly Successful Retirees: A Guide to Preparing for a Sound Financial Future

There are a plethora of retirement guides available for public consumption. Many of them tread well-worn ground: How much do I need to retire? When will I be able to retire? Will I be able to financially support myself in old age? And so on. These are, of course, important questions for most if not all Canadians, and they should be asked and answered. Yet, in our view, the process of retirement planning should involve a greater depth of thought and breadth of preparation than simply asking "When?" and "How much?"

Hence this guide, which is KJ Harrison's first attempt to distill our thinking about how best to prepare for a sound financial future in later life. Our goal is not to simply add to the mountain of retirement planning advice already out there, but in part to address some of the deficits in the current accepted wisdom. For one thing, much of the extant material is not particularly relevant for ultra-high-net-worth individuals – those with, say, several millions of dollars in investable assets. For them, the question of "Will I have enough capital/income to retire?" is hardly pressing (although the tail risk of significant capital losses must be mitigated).

More generally, any discussion of retirement planning today must take into account the reality that retirement itself is undergoing a fundamental transformation. People are living longer and remaining healthier for longer than they used to, meaning that a sound plan for retirement must now span several decades rather than one or two. The potential for higher long-term interest rates and secularly higher inflation must also be considered. And finally, the way people experience retirement – or want to experience retirement – is changing. For many, retirement no longer demarcates a hard line between working and not working. Many high-net-worth individuals will wish to continue to be active in their professions or businesses – and earn an income – well after they turn 65. Or an entrepreneur may exit the company they founded and parlay that monetization event into a second career as an angel investor.

For those reasons, among others, we hope this guide will help dispel some of the clichés about retirement planning and counter any notion that there exists a "one-size-fits-all" or "set it and forget it" solution. Rather, we conceptualize a retirement plan as a process rather than a piece of paper, one that must account for individual and family goals and circumstances, as well as for the very real possibility that those goals and circumstances will change. In our view, effectively planning for later life requires the adoption of a series of best practices that touch upon goal setting, financial awareness and tax strategies, as well as preparation at every stage of the retirement journey – before, during and, yes, *after* retirement through comprehensive estate planning.

What follows is a discussion of those best practices, which we have coined "the six habits of financially successful retirees." (We could just as easily have called them "the six habits of people who successfully plan their retirements," but that seemed too convoluted.) Our primary goal is to address the needs of high-net-worth individuals and families, who

comprise our clientele, although we are confident that many of these best practices are applicable to others, too.

This very short and digestible guide is intended to be used as a sort of checklist, with which readers can identify issues they need to consider and gauge their own level of preparedness. In many cases, there are no absolutely right or wrong answers, and some individuals or families will be further along in retirement preparation than others. But any effective planning process begins with knowing where you are and where you want to go.

It is hoped that the habits we discuss here will provide a good foundation from which readers can begin the retirement journey, ideally with the guidance of a qualified financial advisor.

HABIT 1: THEY KNOW WHAT FINANCIAL SUCCESS MEANS TO THEM.

What does it mean to be financially successful? Different people will have different answers. For some, financial success means having the freedom to pursue their passions, such as travel or hobbies, while for others it may mean the ability to give back substantially to the community or to leave a wealth legacy to their children.

Related to this definition is the idea of goals, and they should be both financial and non-financial. That is, give serious consideration to how you wish to spend your retirement, with whom and where. As much as possible, successful retirees are realistic about these goals and take into account the arc of later age. Active pastimes such as travel tend to occupy retired people earlier in their retirement, and lifestyle expenses are likely to be higher during that period. Our activity levels tend to decline as we age, but our expenses do not necessarily follow suit. Very late in life, we can assume that medical and care expenditures will rise, so if one of your goals is to live out your final days in a particular style or area, that needs to be taken into account, too.

Only when you have defined your financial and lifestyle goals can you (and your family) agree upon and implement strategies to achieve those goals.

Checklist: Goal Setting

- I have given proper thought to my personal definition of financial success.
- I am clear on my desired future.
- I have identified and am implementing the strategies to get there.
- I have clear financial priorities that will guide the journey.
- I have clear financial and non-financial goals.

HABIT 2: THEY MAINTAIN A HEALTHY PERSONAL BALANCE SHEET.

Once you retire, your wealth will very probably become your primary source of income. It needs, therefore, to have grown to a size that is sufficient for your goals and protected against downside risk. And it must be continually assessed in light of what you owe.

To do that successfully requires regular balance sheet maintenance. (A balance sheet records assets and liabilities. The difference between them is net worth.) The first and most important maintenance job is to assess risks to your net worth. Those may include income risk, perhaps if you rely heavily on one source of revenue; inflation, which eats away the purchasing power of assets over time; interest rate risk, which can escalate debt servicing costs, as well as economic risk (a global crisis in the financial system, for instance) and liquidity risk (where you may not be able to monetize assets when you need cash). Such risks need to be assessed

regularly and, once identified, deliberate actions should be taken to mitigate them.

Central to this effort is access to timely, accurate and reliable financial information from which you can make informed decisions. Much depends, too, on leveraging the capabilities of one's financial advisor. People who wish to wisely plan for their financial futures meet with their advisors proactively to discuss their plans, their wealth and strategies for mitigating risk.

Checklist: Balance Sheet

- My balance sheet is strong and where I would like it to be at this point in my life.
- I continually discuss risks and take deliberate action to mitigate them.
- My financial advisor proactively meets with me to discusses plans and hold me accountable.
- I have timely accurate relevant and reliable financial reporting to help me make decisions.

HABIT 3: THEY TAKE STEPS TO MINIMIZE TAXATION.

Taxes and potential changes to tax legislation pose a continual threat to one's wealth. Therefore, a clear and effective tax minimization strategy needs to be discussed and implemented.

For example, one common strategy for business owners is an estate freeze, which allocates the current value of the company to the owner in the form of preferred shares and the future growth of the company to family members (usually children) in the form of common shares. Such a strategy effectively transfers capital gains in the company to other family members, dispersing tax liability. As well, high-net-worth individuals may consider the establishment of a family trust, which may also provide tax benefits over the long term. They might also explore the tax-deferral potential of prescribed rate loans, intercorporate dividends and other strategies; a qualified tax advisor can provide crucial guidance in this regard.

It's important to remember that tax laws and the application of tax laws change frequently. Accordingly, people who are planning for retirement smartly will ensure that relevant tax minimization strategies are a regular discussion point with their advisory team.

Checklist: Tax Minimization

- I am confident that our corporate structure minimizes taxation now and in the future.
- I am confident we are maximizing the use of tax deferral strategies.
- I have a clear and operational personal financial plan aligned with my tax strategies.
- I have a clear tax minimization strategy that is continually being proactively reviewed.

HABIT 4: BEFORE THEY RETIRE, THEY ARE FINANCIALLY AWARE, HAVE CLEAR TIMELINES AND BENEFIT FROM GOOD ADVICE.

We have discussed above that there is more to effective retirement planning than deciding when you can or want to retire. However, that question is still important.

High-net-worth individuals typically have the resources to retire any time they wish. Unfortunately, this freedom to choose when they want to retire can easily become freedom from choosing; such is often the unfortunate case when entrepreneurs are reluctant to cede ownership and control of the businesses they have worked so hard on for so many years. Yet there is risk in putting off the inevitable. For one thing, the steps required to structure a financially advantageous retirement (for example, setting up a family trust or tax-efficient corporate structure) may take a significant amount of time. For

that reason alone, identifying an "end date" for your working life can be highly beneficial, because it establishes a clear goal and a functional timeline. In short, it is wise to choose a retirement date and begin working towards it as early as possible.

Much of the success of the pre-retirement phase, meanwhile, involves having the information and guidance to make smart decisions. Successful retirees establish productive relationships with a qualified wealth advisory team long before they retire. They understand the difference between an investment advisor and a financial advisor, and they are satisfied that their advisors are working in their best interests and are producing results.

The clients themselves also bear responsibility for ensuring that financial goals are met. They have a clear understanding of current expenditures, for example, and they realize the impact of their spending on their overall financial health and retirement plans. They should also be prepared to shift their mindset with regard to accumulating wealth.

It is probably true that everyone wants more money than they currently have, and this perhaps natural impulse can lead anyone – high-net-worth individuals included – to "chase returns" in their investments and downplay the heightened risk that entails. When preparing for retirement, this may be a recipe for disaster. A risky investment turning sour at the wrong time can delay or even derail the best-laid retirement plans.

Preparing for retirement wisely requires a more prudent approach; especially for high-net-worth individuals, wealth preservation should be a top priority. The mindset of successful retirees is clearly focused on securing their financial future rather than chasing the highest returns.

Checklist: Pre-Retirement Planning

- I could retire any time I choose.
- I have chosen a retirement date.
- I understand my current lifestyle expenditures and the impact on achieving my financial success.
- I understand the difference between an investment advisor and a financial advisor.
- I currently have an investment advisor or a financial advisor.
- I think my investment/financial advisor is doing an amazing job.
- I think about securing the future rather than chasing the highest returns.

HABIT 5: THEY HAVE A CLEAR FINANCIAL ROADMAP FOR POST-RETIREMENT LIFE.

There is much discussion in retirement planning literature about "the number" – that is, the amount of capital an individual will need to retire according to their goals and expectations. Once upon a time not so long ago, that calculation was rather simple. A retiree living substantially off their investments could plan for an annual withdrawal rate of 4% and 2% inflation, suggesting that a 6% annualized rate of return would be sufficient to preserve capital. Today, however, inflation expectations and market rates of return appear to be far less certain, which means that those planning retirement smartly will pay particular attention to retirement capital requirements, as well as to their expenses and sources of income.

That task is made even more complex by the reality of increasing longevity. Only a few years ago, a retiree at age 65 could look forward to a decade or two (if they were lucky) of the so-called golden years. Today, given recent demographic trends, it is entirely possible that retirements of 25 years or more will become normal. That means people planning for retirement

must amass enough capital – and preserve it from harm – for a much longer haul. And especially among higher income earners, individuals are living not only longer but healthier for longer, which may well impact retirement expense patterns.

Developing a meaningful estimate of how much capital you will need for retirement therefore requires a detailed and nuanced approach. Sources of expected income should be clearly identified. Beyond returns on investments and any drawing-down of capital, government pensions such as CPP and OAS need to be taken into account. So, too, should any income derived from a continuing ownership position in a corporate enterprise, for instance in the form of dividends. Of course, if one plans to continue working in some way – some of our clients become consultants or serve on boards of directors when they leave their full-time occupations – then compensation from those sources should be tallied, as well.

Successful retirees will have a clear idea of their discretionary and non-discretionary expenses in retirement. Images of discretionary expenditures fill retirement planning brochures – sailing off into the sunset, golfing, travelling the world, and so on – but less luxurious things, like paying for a grandchild's tuition or helping a child purchase a home or business, might also fall into this bucket. When planning your retirement "dreams," remember that you are far more likely to pursue activities and hobbies in the early years, so plan the arc of discretionary spending accordingly. Among non-discretionary expenses one would include food, shelter, clothing, and so on, but also healthcare expenditures, which tend to increase as one ages; spending tends to spike sharply near the end of life, when medical needs rise.

We now turn to assets and how they are managed. The important question: Is your asset mix designed for sustainable income? Traditionally, a retirement investment portfolio takes on less risk and is designed to prioritize income over capital gains, in contrast to a typical growth portfolio that might be more appropriate during a person's peak earning and saving years. Still, the reality of longer retirements may also mean that a retirement portfolio should place some emphasis on growth, suggesting a more aggressive risk/return profile.

Successful retirees (and their advisors) also give detailed consideration to their portfolio's asset mix and the prioritization of risk/return. For example, it often makes sense for some portion of retirement assets to be allocated to "risk-free" cash or cash equivalents, which will be readily available in case of emergency. Another portion of the portfolio may be allocated to cover non-discretionary expenses such as housing and medical care through lower-risk assets that might nevertheless generate some capital return, but with a bias towards safety. A third allocation might go into higher-risk assets, such as equities, to fund any non-discretionary expenses such as travel and entertainment; a higher risk profile is appropriate here, since one can always (probably) live without a golf course membership. Finally, smart retirees often place the portion of their wealth that is intended for their legacy in high-growth, higher-risk assets; after all, if they have planned properly, they will never actually need that money, and maximizing the potential impact of their legacy (for their families or a preferred philanthropic organization, for instance) often makes sense.

Checklist: Post-Retirement Planning

- I know how much capital I need to retire.
- I am comfortable that I can acquire the capital I need.
- I am comfortable my capital

will last through my life expectancy.

- I will have income in my retirement other than income from my investments and capital.

HABIT 6: THEY HAVE ESTATE PLANS, AND THEY KEEP THOSE PLANS UP TO DATE AND RELEVANT.

There are very few individuals who wish to contemplate a world without them in it. Perhaps that is one reason that most Canadians do not have a will. Yet ignoring the inevitability of our departure from this mortal coil is most certainly not bliss. Especially for high-net-worth individuals, who may be quite likely to leave behind substantial wealth after they have passed, the lack of sound estate planning can exact a severe emotional and financial toll on their loved ones. Successful retirees recognize this, and they make sure that estate planning goes hand in hand with retirement planning.

Clearly, the top priority is a will. Depending on your circumstances, developing a will that reflects your wishes for the disbursement of wealth after death is a relatively straightforward exercise, and there is usually little excuse to avoid creating one. That said, even if you do have a will, it needs to be reviewed and potentially revised regularly. Money, relationships and intentions regarding beneficiaries may change, and a will needs to reflect those changes.

Since your will was written, have you acquired new assets? Has your marital status changed? Are your designated beneficiaries still the right ones? Do you have new grandchildren to whom you would like to bestow some of your wealth? Or have you decided that all or part of your legacy should be given in support of a social cause you have come to feel strongly about? These would be valid considerations, and your will should be updated to reflect them.

An estate plan should also include provisions for the possibility that you might someday be incapable of making decisions regarding your wealth or well-being. Therefore, it should assign powers of attorney for property and for care. The individual assigned power of attorney for property would make decisions regarding your assets if you were unable to do so; the other, assigned power of attorney for care, would assume authority for decisions regarding your health. It is also important to ensure that your choice of executor – the person who will be responsible for your estate – is still appropriate and that they are fully capable of managing your affairs and communicating effectively with all stakeholders, including family members.

Taxes (as inevitable as death, or so they say) are also a vital consideration in estate planning. We have discussed possible tax minimization strategies above, and some of them (such as trusts) may reduce the tax burden on your beneficiaries upon your death. A qualified estate lawyer can provide valuable advice in this regard.

Finally, successful retirees know that plans are subject to change, and so they revisit their estate planning on a regular basis. (We recommend at least annually.) As part of this process, it is vital not only to record your wishes via the appropriate documentation, but also to communicate those wishes to the stakeholders (for example, family members) who will be affected by your decisions. Those to whom you wish to assign power of attorney or executorship should be informed. If there may be perceived inequities in your estate plan – for instance, one child is assigned power of attorney while another has not, or assets are not divided equally among your beneficiaries – then it is often advisable to engage in a conversation with stakeholders about the reasons

behind your decision and how they will be impacted; doing so can help prevent conflict for your family and loved ones after you are gone.

Checklist: Estate Planning

- I have a current will and powers of attorney for property and for care.
- I have reviewed my estate plan with professional guidance within the last three years.
- I am confident that my will and estate plans fully reflect both my wishes and values.
- I am confident that those people who need to be aware of my intentions are up to date.
- I am confident that my choice of executor will do a great job of managing my affairs as well as managing and communicating with the various stakeholders.
- I am confident that my wishes will be exercised in the most tax efficient way.
- I "must" leave my children a financial legacy.
- I would "like" to leave my children a financial legacy.

A perceptive reader will have noted a recurring theme in the above discussion: successful retirees benefit from good advice. Especially for those with substantial wealth, the issues involved in retirement planning can be both numerous and complex, and they are often interrelated. (For example, one's goals for retirement typically must account for one's legacy intentions.) Few if any individuals have the resources or expertise to navigate all these issues by themselves. That makes the input of a responsive, qualified and experienced advisory team all the more important to success.

At KJ Harrison, our approach to retirement planning is goals-based, holistic and rooted in best practices. This guide provides some insight into that approach, but it is not intended to be a substitute for a close and productive working relationship with a wealth advisor and other experts in the legal, tax and accounting fields. Our hope is that we have highlighted the important issues high-net-worth individuals should consider and the right questions to ask when working with their advisors.

To continue the conversation about successfully preparing for retirement, please contact us.

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