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Quit the rate race on your own terms

Retirement doesn't have to be either-or: Semi-retirement has some distinct advantages, KEVIN MARRON writes

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Norm Danyluk just wasn't interested in waiting until 65 to do all those things he dreamed of doing in retirement.

So at 57, the General Motors maintenance manager took early retirement and arranged to live his dreams while he was young enough to enjoy them.

"I've seen too many people say, 'I'm going to work till I'm 65 so I can enjoy all these benefits' and then find they can't go out and take trips and what not because their health doesn't support it," he says. "I prefer what I have done."

So now he and his wife spend time at a second home in Florida, cruise the Caribbean and visit with grandchildren. He tinkers with the antique cars and engines he collects and does volunteer work with the Optimists' Club in his hometown St. Catharines, Ont. And he works several months a year as a consultant helping industrial plants deal with technical and maintenance problems.

He's not alone. The postwar generation is rejecting established rules and finding new forms of phased-in or semi-retirement, planning to stay in the work force long after the age of 65.

"Baby boomers are set to redefine retirement, just like they redefined their teenage years," says Debbie Ammeter, vice-president of financial planning at Winnipeg-based Investors Group Inc.

David Richardson, vice-president of communication and sales at RBC Asset Management Inc., says he has noticed that the generation of people now approaching retirement are more likely than their elders to use lines of credit or mortgages to cover extra expenses or fluctuations in their cash flow, even if it means carrying a debt into retirement. "They would be more open to taking on that debt, so they can have that trip of a lifetime now, while they're still healthy enough to really

enjoy it," he says.

Another alternative, he says, is to use assets you've already accumulated "recognizing that you might be sacrificing something down the road for something that you're going to do today."

Financial advisers and their clients generally agree that there is obviously no standard answer to such questions as: Is it worth working hard for a few more years so you can have the retirement lifestyle of your dreams? Or should you start doing the things you've always wanted to do, even if it means postponing retirement?

Even though these are personal choices, there are invariably financial planning considerations involved and several issues that people need to be aware of as they mull over their options, Ms. Ammeter says. These issues include:

How will your pensions be affected if you don't work continuously until age 65?

Will you need to buy extra health and life insurance policies?

How can you get the right mix of security and growth to see you through a long retirement?

How and when can you best withdraw income from savings, pensions and employment income so as to keep your taxes down?

Should you continue contributing to RRSPs as you work part time or start withdrawing from the plan prior to full retirement if working part time puts you in a low tax bracket?

Mr. Richardson says you should also consider possible risks:

Longevity risk: If you are retiring early, you could be looking at 30 years of retirement living and you don't want to last longer than your savings do.

Inflation risk: If you are planning to live your dreams in early retirement, you'll likely have big expenses and you should allow for inflation when you project how much money you will need.

Market risk: If you are retiring early, there will be time for your portfolio to grow, but you should balance the risks with a diversified portfolio.

Mr. Danyluk says he reviewed his financial situation with a financial adviser, before taking early retirement from GM four years ago. A key concern, he says, was that there was no early retirement incentive available to salaried staff and he would lose

almost \$700 a month on his pension if he left before reaching retirement age. On the other side of his balance sheet, however, was the fact that he had made investments that worked out well.

His main reason for taking early retirement was one that many baby boomers could relate to. "The fun was disappearing out of the job," he says. At the same time, he says he was also aware that he still had marketable skills and experience and "was not closing the door on another opportunity."

Mr. Danyluk found part-time work that he enjoys and that boosts his income, so he and his wife have been able to achieve more of their retirement goals more quickly. But, he adds, the extra money is a bonus, because his plan didn't include it and he would have lived comfortably enough without it.

That's an important point, says Marc Lamontagne, a financial planner with Ottawa-based Ryan Lamontagne Inc. Not everyone is able to afford full-time retirement by their mid-50s and it's essential to be realistic, not only about how much you have saved, but also about whether you can count on finding enough post-retirement work to provide you with the income you will need.

Another issue is where to work.

People who hope to work part-time in retirement with their company often run into a major obstacle in their defined-benefit pension plan, Mr. Lamontagne points out. These typically do not have a system that makes it possible for employees to receive a pension while contributing to the plan through part-time work or they may calculate your retirement pension on the basis of your annual income in the years immediately before retirement, in which case you could lose pension benefits as a result of working part-time.

One option is to look for work with a different employer. For example, he says, he has a client who retired from a job with Xerox Corp. and now supplements his income by working as a school bus driver.

Another option, he says, is to find out whether your former employer will hire you as a consultant.

Ms. Ammeter predicts that it may become easier to negotiate such arrangements in coming years, because the demographics of the work force may force employers to become more flexible in order to keep baby boomers in jobs where there is a lack of skilled younger workers to replace them.

Financial advisers note that those who opt for alternatives to the traditional

retirement may need to do some fancy footwork in order to maximize the efficiency of their investments and income streams.

For example, Ms. Ammeter points out that those who work during the early years of their retirement can contribute to their Registered Retirement Savings Plan until age 69, after which point they may be able to make a spousal contribution if they have spouses who are younger than 69.

She also suggests taking a close look at the rules involved in opting to receive the Canada Pension Plan, though with reduced benefits, between the ages of 60 and 64. Federal government regulations state that you can begin receiving the pension at this age, providing you earn less than the current monthly maximum CPP retirement pension payment (\$828.75 in 2005) in the month before your pension begins and in the month it begins. Once you start receiving your CPP pension, however, you can work as much as you want without affecting your pension amount.

Nevertheless, financial advisers warn that it's risky to make a retirement plan that depends on extra income from part-time work, since you can never be sure of being healthy enough to work and must also be prepared for the added costs of dealing with disability or illness while no longer covered by a company benefit plan.

"Life can throw so many curve balls at you," Ms. Ammeter says, "and you have to prepare."

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