# TOO LITTLE

## THE SPENDING HAS GONE HAYWIRE. HOW CAN YOU RUSTLE UP SOME RETIREMENT CASH FOR YOUR CLIENT?

BY HEIDI STASESON

ETCHED ON David Fairfield'S BRAIN IS THE TIME HE HAD TO TELL A CLIENT THAT HIS LONG-HELD DREAM OF RETIREMENT WAS OUT OF THE QUESTION. THE 56-YEAR-OLD CLIENT THOUGHT HE COULD RETIRE THEN AND THERE. AFTER ALL, HE HAD 25 YEARS' WORTH OF ELECTRICIAN'S CALLUSES TO SHOW FOR IT. AND WHAT ABOUT THE TITHING? SHOULDN'T HE FINALLY GET HIS DUE FOR ALL THAT "DO-GOODING?"

Fairfield broke it to him straight up. Unfortunately, the client's spending blew that whole theory out the window—and now the client was crestfallen.

So was the advisor. "This was one of the hardest tasks I ever went through because I had to look these people in their eyes and tell them point-blank, 'You can't retire now—Period,'" recalls the planner from Cottam, Ont.

But like many advisors with wishful-thinking boomer clients, they began working on a whole new plan.

Seventy-eight per cent of respondents to our 5th *Annual Dollars & Sense Survey* say their clients (who on average are age 49) aren't saving enough for retirement. Half of David Somerville's

Continued on page 23

Continued from page 20

clients, for example, aren't close to being ready, while less than 20% of his 500 clients are actually right on track. "And if they're in their 50s—it's not that good," says the managing partner at DS Capital in St. Catharines, Ont.

Whether rich or poor, clients have some serious mending of their spending to do before they reach retirement refuge, and advisors have to show them specific routes to get there.

But how do you do both of those successfully when client lifestyles are so tied to the opening of their wallets during the accumulation years? Moreover, how do you get clients to save more when reality hasn't registered on their retirement radars?

Three words can do the trick, says Scott Hayman, executive vice-president of Northwood Stephens Private Counsel, a Toronto-based family office: cash-flow planning. "That's really what retirement is about," he says. And when you've got a client whose lifestyle thrives on pampering and perks, levelling with him on the subject of need versus want is a good place to start.

For example, Hayman has a client who, although considerably affluent by most standards ($30 million in investable assets), was at the point of running out of money due to unleashed spending. He lived in a luxurious house and owned other properties, including a ski chalet, totalling $8 million.

But travel was his real passion. HNW researchers Hannah Grove and Russ Prince in Santa Monica found the jetsetters of the world spend an average $98,000 annually on "experiential travel," including exotic guided tours such as safaris and eco-tours.

Hayman notes that in some years his client's globetrotting would have topped that figure by 50% for similar-type excursions. The more you have, the more you spend—and therein lies the problem, he says: You become accustomed to a certain lifestyle. "Then when you start to earn a little bit more money your lifestyle starts to creep," he notes.

Scott Hayman
executive vice-president
head of client service
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Photography by Brian Summers

It's that creep factor which should go into long-term savings. So cash-flow planning is crucial for clients who have a particular lifestyle penchant, yet haven't given much thought to how much money they need and therefore have to stash away for retirement.

Hayman says to look at four factors of cash flow:

1. the amount of income the client earns (employment, property, investment earnings);
2. what he spends on lifestyle;
3. time (how old the client is; how much time he has between now and retirement; likely lifespan; time left working); and
4. client assets (property, for example) that can be converted into income-producing assets as opposed to income-using assets.

The second point has the biggest impact for change with clients and it all boils down to controlling one's expenses. "It's the age-old question of balance of consumption today versus consumption in the future," says Hayman. Advisors have to get clients involved by showing them how to visualize their situations by asking clients how they envision their retirements and how they think they're going to get there. He also gets both clients and their spouses involved in making the plan.

Fact-facing for Hayman's client included acknowledging that aside from property, he had no other portfolio income to live on, and was looking at a worst-case scenario of having to sell off those assets. "As soon as you start taking away capital, the income you produce from it gets smaller, which means you need more capital—which means you have less." And on and on it goes, says Hayman, "like a snowball careening down a mountainside."

## REINING IN THE RICH

When it became evident to his client he was one trip closer to the cleaners, they did some serious paring back of

Continued on page 27

Continued from page 23

spending—starting with the trips, which they shaved down from seven to four a year. Then there was the fact that the client's four kids would each be transitioning from private schools (at 30 grand a pop) to university. That alone would amount to significant savings considering the average annual tuition cost for an undergraduate in Canada is $4,347. In fact, the client's education expenses went from about $120,000 to $55,000.

Hayman also helped his client with tax-structuring, including loaning money to family trusts and taxing income in the kids' hands instead of the parents'. The entire paring-back process took only about eight months and resulted in about $200,000 in savings for his client, who is now back on track.

"When you've got that kind of money you have the ability to plan and use other structures that give you some tax advantages," Hayman notes.

Indeed, no matter the cost cahoots facing a client, there are many simple strategies advisors can employ, which in some cases can provide complete money makeovers. David Somerville believes one of the most obvious wealth-saving tips for clients involves taking CPP at age 60, instead of age 65.

First, it allows the client to shelter approximately $7,000 a year (if they qualify for the maximum benefit) into their RRSP over five years, and with some growth could add up to $38,000-plus to their retirement account, assuming a 5% rate of return.

"This $40,000 piggy bank is much more beneficial than the $250 per month that CPP would pay them by deferring payment to 65. Potentially husband and wife could accumulate an additional $80,000 if they each have the RRSP room," he explains. "The other upside is if one spouse dies, the built-up investment values will roll over to the surviving spouse, and if they both die, then the kids will have $80,000 minus income tax. Whereas if they did not take the pension early, and they died, the kids would get zero from the CPP."

CFA and RBC private banker Kevin Gardiner's secret to simple savings success involves clients using money from CPP and EI payments. Once those payments are maxed for the year, it's used to pay down debt quicker, and when the debt is repaid, set up a pre-authorized savings plan with the normal payment amount. "Clients say, 'Geez, I never thought of that; that's a great idea. Basically I've always just blown that money.'"

Clients revamping their retirement goals really have three options, notes Gardiner: spend less; save more and make more returns on the money they have; or simply work longer. "It's just they have to decide which one is the least painful for them," he says.

The problem, says Somerville, is that advisors aren't adequately telling clients about these vast creative options. "They should be forewarning their client as they approach age 60, otherwise they risk client defection," he notes.

No matter how much money you have in the bank, tied up in property—or simply on paper—savings and wealth are relative, and spending spans all economic levels.

Just ask Hayman: "It doesn't matter whether you make $100,000 a year or $2 million. It's at a different level, but it is the most relevant question that I talk to clients about. You're spending after-tax dollars—it's the one thing that you have the most control over." AE

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