Aging with Confidence: How to Tackle the Fear of Outliving Your Money

Retirement is a new career and one that could very well last a third of your life! What was once a 10-15 year time horizon can now be a 30-40 year adventure that becomes a very pressing financial concern for seniors and retirees. While modern healthcare and technology is allowing for the privilege of healthy longevity, it also presents the financial challenges of ensuring your money lasts as long as you do and you can afford the extended healthcare needs that typically come with age. This concern is heightened by factors such as rising healthcare costs, economic uncertainty, and the desire to leave a legacy for loved ones. While the fear of outliving your money is both valid and common, there are proactive steps you can take to prepare for the future with confidence and peace of mind.

The thought of running out of money during retirement can be daunting, and for many, this worry creates anxiety, impacting emotional well-being and even relationships with family members. However, it's important to know that this fear doesn't have to dictate your life. The anxiety usually stems from the unknown so you can reduce it by simply running a few "scenarios" to see how your finances would hold up for various "what ifs". Even if there are shortfalls in some of your scenarios, at least you know and can look for solutions on how to avoid them. With a clear, realistic plan, you can turn worry into action and take control of your financial future, and spend your retirement enjoying the lifestyle you've worked so hard to achieve rather than squirreling it all away just in case.

The foundation of financial confidence in retirement is a well-thought-out plan with projections that show you exactly what your future looks like under a set of assumptions – or even multiple sets of assumptions.. Start by creating a net worth summary and assessing your income sources, such as the Canada Pension Plan (CPP), Old Age Security (OAS), Registered Retirement Income Funds (RRIFs), annuities, and other investment income or pensions. A financial advisor can help you evaluate whether your current assets will support your desired spending goals throughout the course of your retirement.

Be sure to use realistic goals and assumptions. Even a modest annual inflation rate can erode your purchasing power, so a $50,000 annual budget today may need to increase substantially in 20 years to maintain the same standard of living. Additionally, while Canada's healthcare system covers many services, out-of-pocket costs like prescriptions, home care, and assisted living can add up over time. By accounting for these variables, you can create a financial roadmap that anticipates future challenges and provides clarity.

One of the most effective ways to reduce the risk of outliving your money is to maximize your income streams. Several strategies can help you achieve this:

If longevity is a bigger concern than current income needs and you don't mind running the risk of not collecting them in the event of an early passing, consider maximizing your CPP and OAS benefits by delaying payments past age 65, even up to age 70. This can significantly increase your monthly income and if you can collect this higher income for 13-14 years, you will have come out ahead, especially if you have other financial resources to draw from in the meantime. Additionally, smart investing can play a critical role. While it may be tempting to move all your savings into low-risk options like GICs and bonds, maintaining some exposure to investments that have growth opportunity such as equities can help your portfolio keep pace with or ahead of inflation. A financial advisor can work with you to create a balanced investment portfolio tailored to your risk tolerance and time horizon. For those with longevity concerns, annuities are another option to consider, as they provide a guaranteed income for life, offering peace of mind that you won't outlive your savings – though we would suggest an insured annuity might be a better option for many people, especially those with beneficiaries. Lastly, if you own a home that has appreciated significantly in value, downsizing, or in some rare cases, exploring a reverse mortgage can free up funds to meet retirement expenses.

As we age, healthcare expenses are almost certain to rise. While Canada's healthcare system provides robust support, costs for dental care, prescription medications, and long-term care often fall outside of government coverage. To protect yourself financially, look into purchasing private health insurance to fill these gaps. There are many options, some significantly better than others so you have to shop around. It's also wise to set aside a portion of your savings specifically for healthcare needs. For those concerned about the high cost of long-term care, options like long-term care insurance or setting up a trust to protect assets can provide additional security. Preparing for these expenses now ensures you'll be ready should the need arise.

Retirement planning doesn't happen in isolation. For many Canadians, financial decisions affect not only themselves but also their children and grandchildren. Open communication with your family about your financial goals, plans, and wishes is essential to avoid misunderstandings and ensure your needs are respected. We find it is very helpful to discuss topics like your estate plan, your preferences for future care, and whether family members will play a role in managing your finances or caregiving. These conversations help create a shared understanding and can reduce stress for both you and your loved ones.

Once you know that you are looked after with regard to income for life, leaving a legacy for your family, a charity, or another cause is an important goal for many retirees. While we do not have estate taxes in Canada, we do have very high taxes in general and many people are shocked to learn how much of their wealth will go to the government and not your family without proper planning. This includes something as simple as updating your will, designating beneficiaries for accounts such as RRSPs, RRIFs, TFSAs and insurance policies, and establishing trusts if necessary. Some financial advisors are better than others at retaining wealth in the family for generations so find one that specializes in this type of planning and you'll likely find the best solutions to keep your money in your family's pocket.

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