



You Need A Plan!

Whoever said winter month's drag? Well, I beg to differ. It seems like only yesterday I was writing here that we had only a couple of weeks to Christmas. Two months later and it's two weeks to purchase or add to RRSP's with a tax benefit for the 2006 tax year. So if you're one of the millions of Canadians who are planning to make a contribution, now's your chance.

Getting in there, and making that contribution is important and the tax benefit sure is great. But our RRSP's are about so much more than just a way to pay less tax. Therefore, when you make this year's contribution, why not immediately take the time to look long and hard at your overall retirement strategy and the financial commitments you'll need both now and then to make it a reality.

This process will resemble stargazing; or a little like looking into a crystal ball. While the questions are somewhat simple – “What kind of lifestyle am I aiming for in retirement”, and “How will I finance it”, the options are quite complex indeed, and influence by external factors has the potential to impact hugely in both positive and negative ways.

Most of your expenses won't change, at least you think they won't. You'll still require shelter, transportation, food, clothing, etc. But their nature well may change based on your plan. You may own your current abode outright, and it may meet your needs quite nicely now. But what if your plan for retirement includes; no more cutting grass, shoveling snow or painting second story windows from a rickety ladder. This means you'll sell the family home and possibly buy a condo in a senior or adult community. Well, what if the proceeds of your house sale won't cover the purchase of the condo? You see – you need a plan!

What about the cost of working now? Can you actually name the amounts and how much of the total – if any – will actually end up in your pocket when you stop working. You need a plan!

Do you have an employment pension? If so, how much is it likely to provide you each year? Will you qualify for public or government benefits like Canada Pension or Old Age Security? If you pre-decease your partner, how will your passing impact him or her and their monthly income? And speaking of partners, what will that person's income be; when will it kick in and from what source? Yes, you need a plan!

What will you "do in retirement? Will you pursue more education, volunteer more, become more active in church life, political life or community affairs? Whatever you're choice or choices they all come with a cost and will have to be financed. They require – you guessed it – a plan!

And of course there are, or will be in most cases, grandchildren. Now here's where you'll definitely spend big bucks; particularly if you have to travel to see them. The good news though is you don't actually plan your grandchildren!

Some of us have the benefit of severance pay; others do not. So determine if severance applies as a benefit at your place of employment. How will receiving it impact you from a tax point of view?

Look at your debt load, both now and what it might be at and during retirement. The more you owe right now, the more limited you are to save for retirement. If you'll still be committing monthly payments to debt after you've retired, then clearly you need more net income monthly to help keep you going.

This might be an ideal time to re-connect with your investment advisor or financial planner, particularly if it's been a few years since you sat down together. It's a good idea to look at your whole portfolio and to re-examine priorities and strategies. You'll probably learn that you're a little less willing to risk your nest egg if your retirement is close, or at least is on the horizon. But if you're still twenty or more years from the golden handshake, you just might be a little gutsy and be willing to take some risk. Remember too, that some of your choices will yield diamonds while others will bring only stones. The outcome is a result of your decisions and are not your advisors fault.

But back to actual RRSP's. Many people opt to borrow to purchase these; that's fine. But to call it an ideal decision, make sure you use all the resulting tax refund as either a payment on the RRSP loan itself or as a contribution to your RRSP for 2007. Doing anything else makes no financial sense whatsoever.

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