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TD Wealth

Can I afford that? Your spending years in retirement

We spend all our lives growing our nest eggs. Why does it feel so scary to start spending them? Welcome to your decumulation years.

Nicole Ewing has an anecdote that exactly captures the paralysis some retirees feel when it comes to spending money.

“There was this one couple who had $10 million in investments but were driving an old car,” she says. “They had a very low cost of living, a simple lifestyle, yet they were terrified to spend anything. Anytime they wanted to take a trip or a vacation, they would wonder whether they should spend the money.”

As Director of Tax and Estate Planning at TD Wealth, Ewing has seen time and time again that one of the hardest parts of retirement is what’s called decumulation: withdrawing assets from your savings accounts to enjoy the fruits of your labour. Unfortunately, without a financial strategy, many people worry about meeting future costs during retirement. This can cause them to oversave and even deny themselves the enjoyable lifestyle they are entitled to and were saving for in the first place.

The key, Ewing says, is to develop a decumulation plan with a financial advisor or planner that helps prepare your finances for future costs — no matter what tomorrow holds — but also enables you to have the retirement lifestyle you want.

“Decumulation is really about knowing your options and how you can meet your goals in the most fun way possible,” says Ewing. “It’s a bit of a buzzword but people need to think about this stage of their investment journey.”

Ewing has some suggestions about how to get started.

Adopt a treat-yourself outlook

For nervous savers, decumulation involves having a fundamentally different outlook about spending on yourself: If you can't change your attitude, being anxious about every penny won't help you enjoy your lifestyle.

Decumulation can be complicated, Ewing says, but this phase of life should be a time of carefully managed indulgence. That means deliberately spending on the things that will bring you joy.

"I would encourage people to think of their spending in context of their whole retirement and recognize that if you spend extra in one year, you can pull back in another," she says. "If you're taking a trip, instead of sitting back in economy, you may want to think about what buying a first-class ticket looks like holistically — not just over one year. It may initially look like you've overspent, but you're talking about a one-time cost that you may never incur again," she says.

She says getting to this treat-yourself attitude may only happen when you have a financial program that gives you both confidence and motivation to spend.

Come up with a plan

Decumulation, much like retirement itself, can look different for everyone. The process requires a flexible, forward-thinking financial plan that not only anticipates future costs but also considers a wide range of scenarios should your circumstances change. Reviewing the plan regularly in order to challenge the assumptions you've made can be helpful: You may be convinced you'll never, ever, start your own business ... but what happens if a fantastic opportunity presents itself tomorrow?

It may also be difficult for people to understand that they can spend, Ewing says, and to estimate how much they actually have in the kitty to indulge themselves. Advisors often use a computer simulation that forecasts financial variables so people can visualize how much money they have and how long it will likely last. "The conversation isn't necessarily, 'Will you have enough?'" Ewing says, "It can be about showing people how much they would have to spend every year to run out of money."

She notes that financial literacy can play a big role in understanding how much you can spend without upending your retirement plan. For instance, if you're uncertain about the wisdom behind risking your retirement funds on the stock market, a financial planner can explain the benefits and disadvantages.

"Decumulation decisions really are an individual conversation," she says. "It depends on what retirement looks like to you and what you're trying to achieve for yourself, your family and the next generation."

A plan will also look at income splitting with your spouse and timing your Canada Pension Plan and Old Age Security withdrawals carefully. As well, judging how long your retirement will last, based on your retirement age and how long you might live, may help focus the timing of your withdrawals and spending.

Next steps would be to continue your conversation with your advisor. They can discuss your future objectives, match future spending with your lifestyle goals and tackle knotty issues like tax obligations and the role your home plays in your decumulation plan.

Prepare for the tax bite

Without careful planning, tax time can come as a shock for retirees who may find they owe money for the first time in their lives. But Ewing emphasizes that the order in which you draw down your assets or pull from different income sources (registered and non-registered funds, corporate pensions and government pensions, as examples) can determine the sorts of tax consequences that you might be subjected to. Getting it right can mitigate tax and also "allow your funds to continue to compound and grow larger."

If you access too much of your money too quickly, you won't just pay more in taxes, it may result in a substantial clawback of OAS. Again, much of this comes down to financial literacy, Ewing says, as some people aren't aware they're required to withdraw funds from their Registered Retirement Income Fund (RRIF) — and pay tax on it — every year. "This is the other side of that savings coin," she says. "You got the deduction and the deferral, now the income needs to come into your hands." But planning ahead of time and working with a planner could help minimize the tax impact.

Make a strategy for future accommodations

Selling your family home or downsizing is a big decision, one that has emotional and lifestyle considerations. Many people think that the proceeds from the eventual sale of their home should be part of a decumulation plan. But Ewing cautions that it's not always a good idea to rely on real estate as a source of retirement funds because you may need the money to pay for unexpected expenses or healthcare costs. It's the last big asset you might have, she says, so you'll want to use it wisely. On the other hand, you may wish to move locales, to be closer to family or because you can't keep up with the maintenance of a large home. Health problems can also force your hand.

"Either way, you're going to need to pay for a place to live," says Ewing. An advisor can help demonstrate how keeping or selling your home could help your decumulation plans and how it might suit your family needs.

Watching your assets decline during your retirement may make people nervous. But Ewing says there can be little need to worry if you are prepared for future costs and you are enjoying spending your wealth on the things you've always wanted to — that is, if you're decumulating like a pro. Intentional spending, with a proper plan and with the assistance of a financial advisor, can move you toward your goals of enjoying retirement and managing bills whatever the future holds.

- Dave Yasvinski

How to manage a successful family business (and keep everyone happy)

Successful owners of a family business may want to consider concentrating on these four areas to keep the family firm expanding and family get-togethers harmonious.

If you've been following the headlines or streaming shows on intergenerational corporate empires, you'll know that running a family business can be a fraught and sometimes challenging experience. The media makes the most out of extreme familial infighting, and the many entrepreneurs who co-own companies with siblings, parents or cousins may relate to some of the storylines.

Running a business with loved ones can be rewarding, but there's no denying it: Satisfying the needs of the business and the family can be a complex task that requires an acute awareness of how family dynamics can enhance or damage a business.

"Every family is different, every family has different values," says Pierre Létourneau, a Business Succession Advisor at TD Wealth, who has worked with numerous family businesses. "What helps in terms of the planning process is identifying those values for the different players."

Whether you're running a family health practice or a multigenerational contracting firm with expansive operations, you might wonder how to keep all the interchangeable family and business gears working smoothly: How can you best manage a family company, which involves all the usual business-owning tasks, such as hiring, assessing risks and business expansion, as well as family challenges, such as rivalries, succession, appropriate compensation and more? Létourneau has a few ideas.

Be transparent

When you've built a business from the ground up, there is a tendency to keep some details to yourself. It may not be intentional — you're moving so quickly that you may not have time to articulate every idea you might have. But just as communication is critical for couples who enjoy long and happy marriages, it's also key in family-run businesses.

"One of the major issues that I see within family businesses is poor information sharing between family members," says Létourneau. "If you don't have strong communication in your family business, certain expectations aren't going to be met."

Several areas tend to need clarity and communication, Létourneau explains. For instance, everyone must understand the company's vision and mission if they're all going to work toward the same goals. It can also be important for family members to understand their roles within the business.

In some cases, a family member who is involved in the business may think that family ties override company rules. This can get complicated if family members step outside the policies and procedures other employees adhere to. Deeper conversations can also be necessary, especially around business succession planning.

From the outset, owners should consider asking some important questions, advises Létourneau, and keeping the answers in a clear and straightforward document so that everyone within the family can be on the same page. Some of those questions may include:

- Which values are important for your business?
- Is it critical for the business legacy to outlive the original owner? Why or why not?
- How involved will other family members become in running the business? Is their participation important for the owner?
- What is the exact corporate structure and what kind of succession plan is in place?

The earlier this kind of plan can be confirmed, the less confusion — and potential acrimony — may crop up later on, says Létourneau.

Make employee relations a critical concern

Of course, business owners often have another family to consider: their long-serving staff. Things can go awry and trust in the business could falter if there's any hint of nepotism involved in a hire or business decision. At the same time, if staff sense family tension, you could sow confusion around the health of the business, which could impact company morale.

To help with this challenge, it can be wise to ensure family members aren't hired outright without the usual vetting process, Létourneau advises. You might also want to have family members gain experience elsewhere before they move up the company ranks.

"I remember having a client who ran a family business and his children first went out to develop their skills via another career," Létourneau says. "Those children came back with valuable experience after deciding to join the business."

Dealing with routine employee issues can also take on added complications when staff are family. "The owner may want to avoid coming down too hard on a family member but they also can't be easy on that employee or everyone will notice that behaviour," Létourneau says. "Owners really have to walk a fine line."

With performance reviews, consider bringing in someone impartial from outside the company to evaluate both staff and family so that no one can be accused of any personal biases, he suggests.

Don't wait to plan for the future

If anything can derail a family business, it's not having a succession plan. Leave children guessing about who might take over the business and you could have a stream-worthy drama on your hands, where everyone starts jockeying for position and ruining relationships in the process. At the same time, employees who feel uncertain about where the business is headed could jump ship rather than wait to see what happens.

Start this process early, so that no one is blindsided by any decision that affects their future with the business, Létourneau notes. Proactive owners will hold family meetings to talk about who might take over. Nothing should be assumed — there are many cases where family members who are in the business today don't want to lead the company in the future. There are also situations where every sibling wants control.

An advisor can offer professional guidance with many of these scenarios. Moreover, Létourneau is part of a team of specialists at TD Wealth that provide support to advisors and clients in complex situations. "Emotions run high in family businesses, so having a facilitator who can help work with owners on succession plans could be useful," Létourneau says. "These can be difficult conversations to have but they have to happen. Delaying or avoiding them altogether could result in more problems down the road."

Think about the financial implications of a business transition, too. There are several strategies, including setting up family trusts, that could help mitigate the tax burden that can come with a business transfer. You may also want to take advantage of the Lifetime Capital Gains Exemption (LCGE), which could mitigate taxes on all or part of the profit you've earned from selling a business. In 2024, the exemption hovers just above $1 million per individual. (The 2024 Federal Budget proposed that the LCGE will rise to $1.25 million and indexation of the LCGE would resume in 2026.)

Thanks to advanced planning and the Lifetime Capital Gains Exemption, Létourneau says, he knows of one family of 13 who managed to save taxes on roughly $13 million of capital gains after the sale of their business. "That was very helpful for them, of course, with the sale of the business being around $50 million," he says. "A large portion was still taxable but there was also a sizeable chunk they could shelter from taxation."

Find the right time and place to talk shop

Family business owners know this scenario all too well: A happy holiday dinner can quickly turn into a mundane meeting as soon as someone brings up business. "It's important for family businesses to have boundaries for what they talk about outside the business," Létourneau says. "And it cuts both ways. There should be boundaries about family matters brought up while at the business, too."

There are exceptions to every rule, though. "During a family moment, a critical business issue may come up that can't wait, and that's fine to address it there, if there is a forum to do that," he says. These discussions require tact and a gut instinct, he adds.

Ultimately, family businesses can be fulfilling, inspiring and enriching for everyone involved, as long as you're mindful of the issues that can delay success. As Létourneau says, it's best to deal with issues quickly and efficiently before they become problems. Seeing a financial advisor and talking about your business can be a great first step.

- David Silverburg

Should you stay or should you go? 4 key issues to consider before downsizing

At a certain stage of life, big questions loom about your home. Some are easy to answer, like do you need to paint the kitchen (probably), or should you remove the family portrait (absolutely not). Other decisions may be bittersweet, like whether it's finally time to downsize and sell the family home.

When the economy is tight and house prices are high, cashing out can seem like a smart option, especially if you have empty bedrooms and are looking to shore up your finances. But these days, a smaller percentage of Canadians are downsizing and the data suggests people are keeping their homes for longer periods of time. According to the Canada Mortgage and Housing Corporation (CMHC), the percentage of seniors selling their homes has been declining since the mid-1990s: The number of owners aged 75 or older opting to sell declined by 13% between 1991 and 2021. The decrease was most pronounced in Ontario, which fell by almost 17% over that same period.[1]

Moreover, the vast majority of older Canadians (88%) say they want to remain in their current home and pay for homecare as needed, according to Canada's National Institute on Ageing.[2] But as Varun Bhagwat, a Senior Financial Planner with TD Wealth in Mississauga, Ontario, explains, deliberations around downsizing are still a part of many retirement planning conversations. The decision whether to stay or go can be complex. Everything from finances, location, family and even degrees of comfort have to be considered.

We spoke to Bhagwat about some of the reasons you might consider selling and the ramifications you may want to ponder. If you're contemplating a move in retirement, you might want to read on.

'I'm selling because I could use the cash'

One of the most common reasons for selling a large home and buying a smaller one is to access money, Bhagwat says. Some homeowners may wish to use the money to travel, try new hobbies and interests or help fund retirement. Others may be looking for ways to support their children's education or help them buy a house of their own. But many homeowners overestimate how much money they can make on a downsizing move. This can be especially true in areas like southern Ontario and British Columbia's Lower Mainland where prices are historically high, no matter how small the property.

Depending on where you are starting from, some less populous locations still have affordable prices, however. Even if it's a long-distance move for you, you may find less expensive housing in markets like Edmonton, Winnipeg and Saint John, New Brunswick that may leave you with more cash in hand, post-sale.

The upshot: If you want to pull the most money out of a home sale, you may need to buy a much smaller property or move farther away than you think — possibly outside of your own province. And that could complicate your plan.

'I'm staying because my kids could use the help'

These days, many adult children are returning home because of the high price of housing. As well, many homeowners are now part of what is known as the sandwich generation, because they are responsible for their own children's care, as well as that of their ageing parents.

"Sometimes life comes full circle," says Bhagwat, who also plans to have his parents move in with him when they eventually need support.

If you find yourself in this situation, putting off downsizing for longer could be ideal if you are considering overall family needs. You may even consider a renovation to make more space if various generations are inhabiting the homestead.

The upshot: Family needs change as everyone ages. Make sure you talk to your whole family — kids, parents, anyone you're responsible for — about what you expect in the future and what they expect. A Financial Planner can help you navigate these conversations and think through big decisions. Bhagwat underlines the need to prioritize your own long-term wealth and well-being: You'll need to plan for your own lifestyle needs even if that means prioritizing yourself sometimes.

'I'm downsizing because I want to help my family'

The housing market being what it is, you may be thinking about helping your children finance their new homes, and you might consider selling your own home to do it. This could take the form of an early inheritance for your children: Bhagwat notes that everyone involved should carefully consider the different methods of transferring over large sums of money for the purpose of home-buying. This might include looking at a Deed of Gift or loan which could then be directed to an adult child's First Home Savings Account (FHSA).

An unpredictable factor that may upset careful planning can be the arrival of grandchildren, which may override other priorities. You may be offering financial help to new parents but also your time: With the high cost of childcare, some new parents may hope that grandparents can become babysitters, a trend Bhagwat has noticed with many of his clients. If you desire to be near a grandchild regardless of the cost, you may have less control on where you move to and that may crush ambitions of gaining a large profit from a downsize move. Splitting your time between locales to see family members can also be an option and come with different housing costs.

The upshot: Bhagwat says you need to build flexibility into any plan. If you have your mind set on an idyllic retirement of travel and sunsets, a planner could help you make decisions today that leave room for other goals.

'I want to start taking it easy'

Maintaining your home can take a toll on your body, and if you're no longer working — or working less — you may want to spend your well-deserved free time on leisure activities rather than house cleaning, lawn care and shovelling snow. If that's the case, a move might make sense.

If you treasure independence, a smaller home or condo might be the best option. But if you'd rather have more help — meals cooked for you, for instance, and laundry taken care of — you could pay for various maintenance services or even settle in a retirement community. While he knows some people feel wary of institutional residences, particularly since the COVID-19 pandemic, Bhagwat cautions clients against assuming they can age in place forever.

It's crucial to develop an affordable long-term plan that takes into consideration all the obstacles you'll face as you grow older, he says. If you don't, you may find yourself forced into a move: He recalls one client who experienced a health crisis in his 90s and had to sell his home suddenly. "He had to take the first offer that came in," Bhagwat says. "He didn't have time to wait for the best one."

The upshot: Don't be a victim of short-term thinking. Make a long-term plan — ideally with a Financial Planner — that factors in costs, lifestyle and the possibility of changing priorities as you age.

'I want to move to the country'

Ah, the joys of country living. No rush hour traffic to battle, no struggle to get restaurant reservations. But have you wondered whether that quaint village you're moving to offers 24/7 emergency health care? Bhagwat cites the experience of clients who traded their downtown Toronto lifestyle for a quiet, bucolic existence, only to discover one stressful night that there were no doctors on call. "You're not always thinking about things like health care when you think about downsizing," he says. "But it can be important, too."

Others find the social and entertainment options of rural life challenging — like colleagues of Bhagwat's who moved to a small town during the COVID-19 pandemic and have since moved back to Toronto. "You need to make sure the lifestyle is right for you," he says. Still, for those who do enjoy country environments, a move away from the city can mark the start of a new, more relaxing phase of life — and less keeping up with the Joneses.

The upshot: Consider trying out life in the smaller community you're eyeing, before you buy a property there. Renting for a month or two could help you make a more informed decision.

Bhagwat says there are numerous and often conflicting reasons for making or delaying a downsizing move. But he says it can be important to remain in control of what you want and where you go. Family, finances and changing circumstances can push you in one direction or another, but he says making the decision you want (once you've gathered all the information needed) can be supremely beneficial to your self-confidence and happiness as you transition to the next stage of your life.

"Talking to a Financial Planner to get all the key information you need can help you make an informed decision," says Bhagwat.

- Carol Toller

[1] Canadian Housing Insight, "What do we know about elderly people's behaviour on the Canadian real estate market?," p. 6, Canada Mortgage and Housing Corporation, November 2023, accessed Mar. 26, 2024, assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/market-reports/housing-market-insight/2023/housing-market-insight-canada-m11-en.pdf

[2] Enabling the future provision of long-term care in Canada, National Institute on Ageing, p. 113, September 2019, accessed March 2024, static1.squarespace.com/static/5c2fa7b03917eed9b5a436d8/t/5d9de15a38dca21e46009548/1570627931078/Enabling+the+Future+Provision+of+Long-Term+Care+in+Canada.pdf

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