



# Retirement starts. Then what?

Canadians are living longer, healthier lives. The average life expectancy for men is 76.3 years, for women, 81.7, and life expectancy at birth is continually rising.<sup>†</sup> As a result, your retirement years may almost equal your working ones – 20, 30 or more. With that in mind, this information guide was written to help you make the most of your retirement.

## View your retirement in phases

If you're like most people, you're looking forward to retirement as a time for living your dreams and enjoying newfound freedom. As retirements last longer, the media and health experts are drawing more and more attention to the quality of life after work and the importance of living it to the fullest.

Your retirement can be as active as you want it to be. To help you make the most of these years, experts suggest viewing your retirement in 10-year phases. "The first 10 years of retirement will be different from the second 10 and so on as you grow older," says Rhonda Katz, a Toronto-based family therapist. "Your interests will change over time, dictated by both physical and emotional changes."

## Get ready for your transition from work to home

Retirement is a significant period of adjustment that shouldn't be underestimated. Perhaps the most dramatic transition is from the life-long effort of saving money to having to spend it over a comparatively short period to support retirement. At age 69, you are required by the government to convert your registered retirement savings plan (RRSP) to a registered retirement income fund (RRIF) or an annuity. Then, instead of saving, a portion of your tax-deferred money must be drawn out and taxed annually on a government-defined schedule. "Many people have saved all of their lives for retirement," says Ms. Katz. "Then, they must quickly change this learned behaviour and become spenders, not savers."

Another part of your transition may involve the loss of routine, sense of identity and social contact that comes with a job. This is not unusual in the period immediately following retirement. Of the 25 per cent of retirees surveyed who sought some form of paid work, 31 per cent pursued work to offset the effects of reduced social contact and a change in routine.<sup>††</sup> Ms. Katz suggests one way to ease your transition into retirement: "One month after you retire, consider having a dinner party with your family and best friends to talk informally about your retirement. This will encourage you to celebrate your strengths and successes – and that can be highly motivating."

## Three phases of retirement

### Phase one: Exuberant

Between ages 55 and 70, the average retiree will spend the equivalent of approximately 70 per cent of pre-retirement income. He or she is healthy, wealthy and driven by dreams of a lifetime.

### Phase two: Settled

Between 71 and 80, the amount spent decreases to about 50 per cent of pre-retirement income. Life is starting to slow down and the emphasis shifts to family and close friends. This is a time to take stock of life accomplishments and focus on subsequent generations.

### Phase three: Reflective

From 81 onwards, spending may decrease markedly as people become less active (unless major, unexpected medical expenses such as long-term care emerge). A large portion of the household budget is directed to intermittent nursing care.



<sup>†</sup>Statistics Canada, 1999

<sup>††</sup>Environics Research Group Inc. For AIM Funds Management Inc., January 2000



Bouncing your initial feelings about retirement off others may help you focus on areas you're concerned about.

## Spend more time with your family

Many retirees say, "Now that I don't have a job anymore, I can spend more time with my spouse and kids." Their families are suddenly more important to them, and they savour the opportunity to explore shared interests. Twenty-eight per cent of respondents surveyed said they now spend more time with their families and more than half of married retirees said their relationship with their spouse has improved.

Few activities can bring as much joy as spending time with your grandchildren. Their curiosity is unrelenting, their energy boundless. They can deliver mental and physical rejuvenation.

This is a time to re-establish your connection not only with your life partner but with other family members," says Ms. Katz. "You can make the most of the time you spend with your children and grandchildren by carefully managing their expectations about your availability."

## Enjoy financial wellness through retirement

### 1. Take stock of your financial situation well before you retire and monitor it closely.

It's important to prepare yourself for the transition from saving to spending as your tax-deferred savings and investment vehicles are converted to income

### 2. Calculate your income sources from government pensions, defined benefit and defined contribution pension plans, RRSPs and RRIFs, tax credits and deductions (pension income credit, age credit) or part-time work

### 3. Make sure your estate planning strategy is in order.

You'll benefit from the peace of mind that will result. For a free copy of AIM's insightful booklet, *Estate Planning: 10 Simple Steps*, call 1.800.874.6275

### 4. Plan expenditures carefully.

Most people require 70 per cent of their current income to maintain their lifestyle in retirement – that's in today's dollars. Remember that your costs will increase due to the rising cost of living

### 5. Meet at least quarterly with your advisor, or as your situation changes.

Include him or her among your counsellors. Based on the complexity of your financial and estate planning needs, this group might also encompass a lawyer and an accountant

### 6. Strike the right balance between risk and return in all of your investments.

Do only what makes you comfortable, remembering that your nest egg must grow to keep pace with your living requirements. This involves taking on an element of investment risk

### 7. Consider your tax strategy outside your RRSP

Sufficient financial preparation may allow you to retire earlier, but you may not necessarily

## Ways to transition into a new life

- Consider part-time work
- Find fulfillment in volunteering
- Help someone grow by mentoring
- Consider taking educational courses
- Learn basic computer skills
- Use the Internet to communicate with others
- Start a book club

## Enjoy a healthy retirement

The importance of fitness in your new life can't be underestimated. Nearly 45 per cent of respondents say they became more physically active after retiring.<sup>††</sup> The emerging trend of high fitness levels among 70-79 year-olds and even 80-89 year-olds will continue as subsequent generations devote more time to physical conditioning.



be able to stop working altogether. 25 per cent of the retirees surveyed still engage in a paid work activity and 29 per cent said they work because they need the money.<sup>††</sup> However, proper financial planning will mean you'll be able to work because you want to, not because you have to.

## Prepare yourself mentally and financially

As you approach retirement, here are some key items you should consider:

10 years before retirement

### Mental preparation

- Make a list of all the things you'd like to accomplish, then review it and refine it
- Broaden your circle of friends and develop new hobbies that you can enjoy through retirement
- Assess your diet and exercise habits – consider exercise as part of your daily routine

### Financial preparation

- Concentrate on building your retirement savings
- Confirm details of government and company pension benefits
- List anticipated retirement expenses to help determine how much you'll need
- Assess your current expenses to see if you can divert money into your retirement nest egg
- Review your investment portfolio with your advisor. Remember, you still need to take on some risk to grow your investments because you'll be living a long time
- Assess your insurance policies. Will they reflect your needs as you and your spouse grow older?
- Make sure your will and Powers of Attorney are updated, and begin estate planning to ensure your assets will be transferred to your heirs with minimal tax impact
- Explore your options regarding early retirement. This can be an attractive option for some people who have sufficient savings and can maintain their standard of living

Five years before retirement

### Mental preparation

- Consider how you and your spouse will manage the change in your schedules and income when one of you retires
- Do you plan to live in your present home after you retire? Now is the time to consider upgrades

## A retirement survival guide

Sound retirement planning consists of both mental and financial preparation and should begin as early as 10 years before your last official day of full-time work.



- If you are planning to move or downsize for financial or lifestyle reasons, do your research by spending time in the area, especially if it is outside Canada. Consider the cost of living, availability of medical care and safety factors

## Financial preparation

- Maximize your registered and unregistered investments
- Watch the local housing market closely if you are planning to sell your home to finance your retirement
- Revisit the budget you made 10 years before retirement and compare it to your five year budget. Does it still apply?
- Research retirement income options now. Talk with your advisor about a gradual move from equity into balanced investments to manage risk
- Finalize your estate plan. Consider RESPs for grandchildren

## One year before you retire

### Mental preparation

- Identify specific trips or projects you and your spouse will undertake together, and start setting money aside
- Let your friends and colleagues know of your imminent retirement. Block out activities in your first year of retirement on a monthly basis, so you'll always have something to look forward to as you adjust
- Catalogue your belongings. Knowing the value of your assets can provide peace of mind
- Become more active in a club or group you are enjoying now so you can begin to replace your social network at work with a new network

### Financial preparation

- Speak with your advisor about income-oriented investments in your portfolio
- Determine your retirement budget on a monthly, item-by-item basis including food, home, transportation, leisure and health costs
- Review and update your employment and government pension income sources
- Review and update your will and estate plan to reflect any change in family structure
- If you're nearing age 69, begin to plan the conversion of your RRSP into an annuity or a RRIF



## Manage your investments with an advisor

Advisors are essential to building a portfolio that can help you realize your long-term goals. After you've made a list of your retirement life goals, sit down with your advisor, who will help you set investment goals to make your retirement plans a reality.

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\*As at December 31, 2001

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