FINANCIAL POST

Saturday, July 9th, 2011

For rich even 70% might not be enough

Michael Nairne, Serious Money

A well-known financial planning rule of thumb asserts that individuals need about 70% of their employment income to retire comfortably. Affluent investors can toss that guideline into the wastebasket. Given that wealthy retiring couples tend to have distinctive goals, retirement costs among the affluent can vary markedly. In fact, one U.S. study of affluent retirees found that nearly 20% of the respondents spent more in retirement than when they were working.

For some, it is travel costs that soar. One of my partners recently met a couple who had taken more than a dozen cruises over the past year. Some affluent parents use exotic holidays to entice their adult children and spouses to attend family events. It's hard to say no to mom and dad when they are footing the bill for a week of skiing in Vail or a summer tour of Italy.

Another major drain on a retirement budget is the cost of a vacation property. Many formerly busy business owners, professionals and executives find that, once retired, they have both the time and inclination to escape Canada's punishing winters. The strong loonie and rock-bottom house prices, particularly in popular havens such as Florida and Arizona, have attracted droves of Canadians over the past few years.

Not every couple pines for a southern abode, though. Skiers gravitate to condos in their favourite resorts, while other couples may prefer a rural property that can serve as a year-round weekend retreat as well as a gathering place for the family on holidays. For others, it is a bigger lakefront property. The costs of maintaining, travelling to and from as well as entertaining at these second residences are easy to underestimate.

Helping out children can be another budget buster on retirement. With today's lofty house prices, many affluent Boomers are finding that just as they about to retire, they want to help their kids get a toehold in

the real estate market. Older affluent retirees are often funding their grandchildren's RESPs or helping out when an adult child has a career or marital setback.
Charitable giving often increases after retirement as the focus moves from career to community. But this can go far beyond giving to good causes. Charity actually does begin at home. Time and time again, we meet affluent couples who are helping out less-fortunate family members, often siblings or older relatives who are struggling to make ends meet.

Of course, many couples do have lower expenses on retirement. But even here wealth has an impact. Studies of consumption by retirees have found that the more affluent the retiree, the lower the typical decline in spending once retirement hits. In other words, the more people can afford it, the less inclined they are to cut back.

With such varying retirement lifestyles, individual planning is critical.

A U.S. study comparing similarly affluent pre-retirees and retirees found that, in general, the retired households had a smaller reduction in expenditures than was anticipated by the pre-retirees. The pre-retirees thought their costs would drop by 11% on retirement while the actual average decrease of the retirees was only 5%.

Comedy writer Gene Perret quipped: "It's nice to get out of the rat race, but you have to learn to get along with less cheese." For the affluent, one of the keys to a successful retirement is knowing exactly how much cheese you need.

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