Strategies to help your aging clients plan and hit their retirement income targets

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Questioning clients on their goals and aspirations has always been at the heart of holistic financial planning. But it's how you phrase those questions that can allow you to offer better choices for your senior or retired clients, suggests one advisor.

"We don't ask the question that most people ask, which is: if I want $60,000 cash flow a year, can I have it? I don't think that's the right question. The right answer is to let me tell you what you are on track for and then you are going to have an opinion on that," says **Scott Plaskett**, senior financial planner and CEO at Toronto-based **IRONSHIELD Financial Planning**.

For example, when it comes to cash flow, clients have an idea of what they could have, not necessarily what they want, says Plaskett. He may start with establishing that $60,000 a year would be the ideal cash flow – but then the clients may indicate they were hoping more for $100,000 a year. Or, some clients slough off the $60,000 a year saying they would prefer $40,000. In each case, the conversation will be different.

Part 2 is finding the "required" rate of return to meet that goal – not necessarily the actual rate, which can be quite different, he notes. "If the required is more than the plan can accomplish that's a no-go plan. If they need to get a 10% annualized rate of return for their plan to work out in this environment, then we have to go back in."

Tax-effective income

For retirees who will take some risks and don't mind the fluctuations of the market, some advisors, like **Tina Tehranchian**, use T-class mutual funds to generate predictable, tax-effective income for her high net-worth clients. The fund only distributes capital gains and dividend income with any interest accruing on bonds in the portfolio going to pay mainly for the expenses of the fund, says Tehranchian, branch manager and senior financial planner with **Assante Capital Management**.

Initially all the withdrawals are considered return of capital and will be tax free, which will help reduce the clawback of Old Age Security payments. "Any strategy that helps defer tax is ultimately a good strategy."

Seniors who are more risk averse or need guaranteed income might want to think about using life annuities as part of their retirement income, she says. With new mortality tables that came into effect in January, annuity payouts will be lower in 2017 than they have been in the past and taxes have gone up as well, says Tehranchian.

Life annuities

Life annuities come with the highest payout, but if your client dies any money remaining in the annuity goes back into the insurance company's pool. Some annuities have guarantees, like the up-to-age-90 surety on the life annuity. The guarantee will reduce income during the client's lifetime, but the remainder of the capital will go to beneficiaries if the annuitant dies before 90. Dying after 90 means the insurance company keeps it, she says. To avoid that and make sure that capital gets replaced, her suggestion is for clients to buy a joint last-to-die life insurance policy to replace that capital.

Whole life is also considered more on the conservative side, garnering greater returns of 4%-5% than the almost negligible returns of a guaranteed investment certificate, notes Plaskett. And while providing those returns, there is no loss of principal or growth. The appreciating part of the client's wealth can be used for other purposes, such as a trip or paying bills. "And that's really the magic behind capturing more returns for retirement income planning," he says. "And if you can do it well enough in advance, you've got more return coming to you but you're doing it with a lot less risk."

Target-date funds

Target-date funds come with all sorts of marketing wrappers that are put around investment products. But at the end of the day, advisors will want to have a mix of balanced investments that provide a good income mix of guaranteed income and variable investments to provide clients with adequate liquidity, says Tehranchian.

Long-term care costs are a big concern among older clientele, so Tehranchian constructs a scenario analysis on the financial plan to make sure that if one, or both spouses end up needing long-term care, there will be enough liquidity and income in their portfolio to support the costs.

Plaskett, who classifies his clients as wealthy, says he likes to mesh financial planning strategies that were created both before and after 1957, the year that RRSPs were created.

Traditional planning

He defines "typical" financial planning as investing in RRSPs and TFSAs and converting RRSPs into RRIFs. "Traditional" planning took place before 1957 and the kinds of approaches that were used prior to government-

initiated savings plans.

“Nobody goes back and looks at that [traditional] methodology,” he says. “And that methodology was actually quite sound but we’ve forgotten about it. People were saving and building wealth – but what were they doing? That’s what we’ve explored.”

“At the end of the day, it makes for a more robust, more stable platform because you’ve built it on a foundational asset that never goes down in value.”