Life at Age 50: An Ugly Financial Reality is the New Mid-Life Crisis

Big Spending and Lack of Focus on Financial Goals Catch up with Us Around Middle Age

Here's the picture:
A couple sit up in bed on a Sunday morning and look at each other – they are both age 50.

> *"Honey, Mike down the street told me last week he is retiring this year. Retiring? Where are we with that? Are we on track with our savings?"*
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> *"What about the kids? Sara and Tim both head to university in the next two years and what will that cost? They could be in a post-secondary school for a decade. That could cost hundreds of thousands of dollars – where is that RESP-thing at? This is going to hit us before retirement".*
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> *"And we still have a mortgage. Neither of our parents had mortgages at age 50. Are we behind?"*

Canadian, white collar professionals without pensions, have I just described you?

I call it the convergence of life's "big three" financial goals at age 50 – retirement savings, children's education and mortgage payments. This is also often the first time many Canadian professional families reflect on their goals and their progress towards these goals. Sadly, it is often too late by now – if you have not had a plan in place for at least fifteen years, it will be hard to catch up and something will have to give.

The Challenge You Now Face

Up until now you were making life work rather easily. Pay cheques cover food and fun each year. You are making contributions to your RRSP and Tax-Free Accounts. You deposit into your child's RESP. You continue to pay down your mortgage. So, what isn't working that leads to the scramble and stress between age 50 and 65?

You are missing a plan.
And commitment to it.

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Saving arbitrary amounts that the newspaper or an advisor spews each year is meaningless to you personally. You need targets for debt elimination, children's savings and retirement that match your personal income, net worth, expectations and goals. A dentist earning $300,000/year should not follow RRSP savings levels appropriate for a plumber yet that is what many professional Canadians do. It is not sufficient for professionals to blindly head towards age 50 with no plan, no targets, no benchmarking of progress – nothing. Instead people give money to stock brokers, insurance agents and mutual fund salesmen that spin market talk, charge big fees and hide rates of return leaving the professional family in the dark about whether they are actually getting ahead – never mind getting ahead at the pace suited to their needs.

It's About Your Goals – Fake Financial Advisors Don't Understand This

Everything about your financial plan starts and finishes with your financial goals. Fake financial advisors never ask you about your goals. Real financial planners write your goals down, attach estimated costs and timelines to achieve the goals and then report back to you on your progress towards these goals. If you fall off the plan, they should coach you on what is required to get back on the plan. If you have never had this conversation with your financial person, then fire them - they are untrained sales people that offer you nothing.

Street Talk About your Big Three Financial Goals in Life

Mortgage – the amount of mortgage you take on to buy a home should be based on an upper limit of how much of your annual cash flow you can afford to allocate to a mortgage expense while still having a lifestyle and aiming to be mortgage free – by age 50. You also need to examine the cost of debt at higher interest rates to ensure you have the financial capability to adapt to higher payments and not have to compromise other elements of your lifestyle. In other words, limit your total debt to what you can easily pay off in two decades. Forget about vacation properties and home upgrades – you likely cannot afford to take on more debt in your 40s when I am telling you to be debt free by 50.

Buying a home and paying it off is the easiest of the big three life financial goals because banks and your pay cheque control the process. And the bank will ensure you pay off the mortgage eventually if you follow their amortization schedules.

The problem is that people's attitudes and eyes are bigger than their wallets and many professionals have bitten off more than they can swallow. More Canadians should likely be looking to re-locate to smaller cities or other provinces where the cost of housing fits their pay cheque or forget about owning a home at all if their current mortgage is too large for their cash flow. Sadly, if interest rates rise a few more percent in Canada it will be too late for the young professionals to avoid bankruptcy if they are unable to pay their mortgage. Examine today what you can afford tomorrow if your mortgage payments double.

Perhaps we have finally caught up to London and New York in some cities in Canada. Rent for life. No one can spend twenty years or more allocating more than 40% of their paycheque to mortgage cost – too many other things will suffer (new vehicles, vacations, retirement savings) and eventually your marriage may too.

Kids - clearly it is your decision how many children you may have and raise to financial independence. But it is my job to cost it out and put a price tag on a family. Post-secondary education in Canada can easily cost $125,000 for four years at an out of town university in 2019. If you have three kids that's $375,000 to pay for the first degree. Are you paying for grad school too? And then there are weddings (say you pay $25,000 per child) and home deposits (where you end up kicking in $100,000 per child). So, all in between age 18 and age 30 you may need to invest $750,000 into the financial lives of your three children. To be blunt, good luck accumulating that much money in eighteen years – the RESP system in Canada is too small to cover even two thirds of the school cost. You need to have a plan starting at birth to put money away in a RESP, in trust accounts and your tax-free accounts to be in a position to provide for your children in the manner described above. You need to contribute savings regularly and track progress towards these goals. And you need to define the goal in the first place. Almost no professionals we sit down with do this now – instead they hit age 50 and the first kid goes to university and much of the three kids' RESP goes to pay for the first one or two. But then the money runs out, you have one kid left, the first kid is also now looking at grad school and you have to use your retirement savings to pay for your kid's schooling. Nor have you put a dollar away for their marriages or home deposits, so you plough this cost onto your line of credit – and you are almost age 60 at this point. This is not how it was supposed to be, and you are now headed towards financial trouble.

Retirement – we have all grown up watching our parents and grandparents retire around the age of 60 and so we expect it will be the same for us. Dream on. It will be hard for a high-income professional family to retire in traditional terms when they are not saving a lot of money each year towards retirement yet expect to maintain the same high level of spending on travel, cars, lifestyle and real estate in retirement. We are not our parent's children: we like nice things and a little thing called retirement is not going to change that.

Many white-collar professionals are saving the standard RRSP and TFSA account limits identified by the Canadian government. This makes no sense. You should save what you need to replicate your lifestyle desires in retirement. You need a plan and you need to have an expert planner give you savings targets each year and tell you how the plan will unfold. Our lifestyle desires today are far from grandma and grandpa living off $30,000/year in retirement, often wearing the same clothes for twenty years, driving one car for twelve years and vacations all inside Canada - you need to plan well in advance to ensure you have the retirement cash flow you want.

How much do you need? If you have been spending more than $100,000 a year in your 50's on core costs and lifestyle then you need at least two million dollars of liquid savings (not your home!) at the start of retirement. Even at this level you will end up spending a good chunk of the capital as well as all of the income by the time you die at age 100. Want a cushion? Then strive for three million in savings. Do you make a much bigger income (say $300,000 to $500,000 like a typical doctor, veterinarian, lawyer or dentist)? Then you better strive for three to five million at the start of retirement in order to keep spending at the same level as you have been accustomed to.

How Do You Achieve Your Goals?

Clearly you need a guiding hand and a well thought out plan with annual targets and reporting on your progress created by a neutral professional. You don't need money managers and product sales people that don't know how to plan.

And you need a commitment to work towards the plan. After all it will require you agreeing to pay off the mortgage, save for children and save for retirement to make this happen. It means more balance between future goals and high-living today – a balance that you likely are not doing very well on your own today.

So aside from buying stocks and bonds please engage an expert planner to create a written financial plan that ties together the cost of your goals, your resources, your liabilities and your assets. Have a planner prepare multiple forecasts using sensitivity analysis on key variables to give you a sense of what you need to do – every Canadian would benefit from such a plan. Then once the plan is set up and executed, pay these professionals to once a year come back and report to you on progress, make amendments to the plan and give you a dashboard to enable you to start to know where you are going. This is likely the biggest thing missing today: **you don't know where you are going**.

If I am age 50 today is it too late?

It is never too late to step back and create a proper financial plan that integrates your cash flows, assets, liabilities and goals. At age 50 you still have potentially as much as twenty years of your highest income earnings years left to consider. As well, with your mortgage, kids' university school costs and your retirement now all right in front of you the cost of each one is clearer than ever before. At age 50 we can do more precise planning than any age before – the tradeoff is that your financial costs may be far greater now (more savings, faster debt elimination) because we are nearing the finish line on all three goals.

The important thing is to get started now – not next year. At this point every month matters.

And if your spouse is not committed then get a plan started by yourself. We will need to get your spouse on board but that is better left to the professional financial planner to talk to them than you – you are too emotionally tied to each other. One of the greatest value points of a professional planner is the neutrality and objectivity they bring to your lives together.

How Do We Work Through the Convergence at Age 50 of our Three Major Life Goals?

Ah, you want the answer before you build the plan? Sorry it doesn't work that way. Everyone is different and we need to work through your goals and numbers. But I will tell you a few key facts after twenty-five years of working with 50-60 year olds and their finances:

- It helps if you can come to the table with a clear picture of how long you will financially support children.
- Your home is not your retirement ace in the hole – plan as if you will die in that home at age 100 and have your retirement cash flows provided from savings and pensions. Trust me on this one – downsizing is a lie.
- No one knows how much they spend each year so there is no way they know what they will spend in retirement. But experts that do a lot of this planning work can provide reasonable estimates that will get the planning started and then you fine tune along the way.
- Anyone that believes / hopes / counts on the stock market for their retirement dreams to come true needs their head examined. We won't even work with people like this. All the stock market will bring you is stress in retirement – don't count on it for your essential spending ever.
- Realistically, it may not be possible to pay off your mortgage soon, help your kids the way you want and retire with adequate retirement savings all at the same time. But we will help you to

- cost these goals out, prioritize, set time lines and give you an honest perspective on what will happen so you can plan your life and career accordingly.
- Staying in the workforce longer should not be your go-to answer to make this all work. A health issue, car accident, divorce or termination can change anyone's plans suddenly. You need to get to certain levels of reaching your goals before age 60 regardless of how long you work in order to have a safety net.

What Do I Do Next?

I have spent twenty-five years and counting in the trenches with white collar professionals and their goals and finances. I know your finances better than you do.

If you do nothing in the short term your life will continue to be fine. As long as you have a good pay cheque the mortgage will continue to get paid, the kids' tuitions will get paid and your vacations and fancy cars will continue to happen. Often people in their 50s use a line of credit to pay for their kids' tuitions and then slowly pay it off. But this will be at the expense of the extra retirement savings that are required, and which you are not doing.

In Canada, we have become a cash flow generation – big incomes that pay for nannies, Audis, yard maintenance teams, private schools and vacations.

All of this can work out fine until you face the one goal that can feel more like a cliff: retirement. That's the one goal you ignored, delayed or simply didn't save enough for. Now at age 50, 55 or even age 60 you are facing retirement at a time when you still have debt, are still supporting your kids and often have inadequate savings to retire – I will define inadequate as less than $1.5 million dollars in total savings. So here we are. What do you do?

Well the one thing you cannot do is carry on down this path. You need an expert to build you a retirement plan that considers what is realistic. You need an expert to talk frankly to you and your spouse about what retirement will look like and how long you should remain in your career. When you are feeling burnt out in your career and wishing to slow down, you need an expert to tell you if you can afford to make a change for lower pay or retire entirely. You need an expert to tell you when to cut off the kids from your money or whether you will need pay for your elderly mother's health care. You need an expert to give you a frank opinion on whether you need to sell the home to create money for retirement and when moving down the street or across the province is more suitable. You need an expert to show you how much money you will have to spend every year after tax in retirement and how this can change based on your savings levels, spending levels, inflation, investment returns and goals. Simply put, you need help – help from a qualified professional who is an expert in math, taxes and personal finance. This is not an investment advisor or insurance agent. This is not a robo advisor or discount brokerage. You need a professional financial planner.

Get started. You've delayed long enough, and you are running out of time.

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