MoneySense

Rich at any age: In your 40s

Your head is finally above water! It's time to make some growth moves

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People like to complain about aging but one of the upsides—particularly in your 40s—is being able to build wealth. For many, the 40s is a great decade—your paycheques are climbing while debt's heading in the opposite direction. Finally, you can breathe. Heck, you can even afford an occasional night on the town without dreading the credit card bill. Just don't start easing up on all the progress you've been making. Sure, you've already put aside a nice chunk of change for the kids' college fund and the mortgage is finally creeping down—so let that financial momentum inspire you to achieve even more. Remember, at the end of your 40s retirement won't seem that far away.

Master your debt

"By this decade you're hopefully getting toward the end of your mortgage," says Dan Hallett, director of asset management for HighView Financial Group. "More of the payments are now going to the principal, and you're less sensitive to those payments." So if you're on track with a reasonable plan, don't feel pressured to divert cash flow away from money you've been setting aside for your nest egg. "That way, you have a balance between finishing your mortgage and saving for retirement," says Calgary-based money coach Tom Feigs.

But if you can take a few years off the mortgage by increasing payments and still put away something for your golden years, by all means go for it. Only those contending with big mortgages need to make crushing that debt their No. 1 priority. Your 50s should be focused on saving for retirement and you don't want anything competing with that.

Resist upsizing

On track with your mortgage? Well, now's not the time to get house lust and buy a bigger home. "You may feel like you deserve it, but ask yourself, 'Is that reasonable?' It's a trap if you're not looking further into the future," says Hallett. Keeping up with bigger house payments could cause you to lose focus on all your other goals—and you may never catch up. Bottom line: match your home to your needs, and not your status.

Also keep in mind that it's around your 40s that couples start divorcing and have to divide their assets. Or you may be dealing with aging parents who require help. "Unfortunately things don't always roll along merrily," says Cynthia Kett, a principal at Stewart & Kett Financial Advisors in Toronto. "That can create a lot of financial pressure."

Revisit your financial plan

As you get through your 40s, a clearer retirement picture starts to form. So now's the time to get a better feel for what you want to be doing in your post-working years, and how much that's going to cost. In order to do that, you'll need to update your financial plan and make readjustments if necessary. "A good plan will help you stay accountable and reinforce positive behaviour," says Karin Mizgala, co-founder and CEO of Money Coaches Canada. "You don't want to come up short." Also pay close attention to fees, regardless of what type of investments you're using—high management fees can drain your portfolio.

If your sole focus until now has been tackling debt and paying for the kids, don't worry if you haven't started saving for retirement yet. "It's never too late," says Hallett. With a 20-year time horizon and freed up cash flow, you're still in great shape to meet any financial goals—provided you're organized and aren't frittering away your disposable income. Don't forget to account for future government benefits like CPP and Old Age Security, either. "When you look at how much capital you need to build up to produce $1 of retirement income for the rest of your life, many people are really thankful to get $17,000 in government pensions that are fully indexed," says Hallett.

RRSP vs. TFSA

Deciding whether to prioritize saving for retirement in an RRSP or TFSA typically boils down to a question of income—what you're earning now, and how much income you'll be claiming in your post-working years. For anyone earning in excess of $50,000 a year, the RRSP is usually the better choice.

While both RRSPs and TFSAs allow your investments to grow tax-free, the RRSP's tax refund makes it more attractive for high income earners. You can contribute up to 18% of your previous year's income—to a maximum of $24,930 for the 2015 tax year—and deduct that amount from your current income. You'll eventually have to pay taxes on RRSP withdrawals in retirement, but because most people will earn less income in their post-working years, you'll be taxed at a lower rate. TFSAs, on the other hand, earn no up-front tax refund, meaning the government won't get a dime of your money when funds are withdrawn in retirement. For people earning less than $50,000 (and certainly less than $35,000) the TFSA is more desirable because it won't cause any clawback of government benefits.

If you want a career change to be successful, you have to start preparing for it at least six months in advance of giving your final notice. "Income is always impacted," says Rona Birenbaum, a certified financial planner in Toronto. "That requires a plan."

Start by beefing up your savings and cutting back on discretionary expenses to get ready for the day when you will be living your dream in a career you love. That means writing up a budget. "Concentrate on the basics," says Birenbaum. "Make sure you can pay your mortgage and cover all of your basic living expenses. That's key."

If you don't have all these financial pieces in place, stay with your current job for the time being, cautions financial planner Tatiana Terekhova. It pays to not act impulsively, something Terekhova knows from personal experience. When she changed careers 10 years ago, she set aside $40,000 to make sure the new company she created had enough time to grow.

Also pay a visit to your human resource department and make sure you understand the benefits your employer provides you—medical, dental, disability and others. If you are going into business for yourself, they will have to be replaced and you will want to ensure you budget for this. Finally, make sure your partner is on the same page by arranging for both of you to meet your financial advisor to review the plan. “If you’ve missed anything, the advisor will catch it,” says Birenbaum. “It’s an extra level of financial protection.”

Lessons I Learned In My 40s

Justin Renwick, Toronto (Photograph by Darren Calabrese)

Justin Renwick's 40s have taught him a lot of valuable financial lessons, but none greater than the importance of investing in his most valuable asset: his lifetime earning potential.

"For so many years I was a drummer and an actor, and I made ends meet by working in the service industry. But then I met my fiancée Roxanne and my priorities changed," says Renwick, who lives in Toronto. "I didn't like what I was doing anymore. I wanted to have more money to invest with and save."

So three years ago, he met with a career counsellor and the experience really impacted him. “They get to know you and push you in different directions. My counsellor had me write down the things that are important to me. It lets you self-evaluate objectively.” Eventually, his counsellor recommended he look at the trades, a field with lots of opportunities.

This led Renwick to focus on training to become an electrician. “I hadn’t thought about that at all—it’s the opposite of what I’ve always done, which is the arts,” he says. “It turns out I like learning about the way circuits work and things like that. I like working with my hands.” Most of all, though, Renwick likes working in a job with good earning potential that he can count on as he and his fiancée finalize their wedding plans for this September.

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