Back to Roseman: Living the good life in retirement

Roseman: Living the good life in retirement

April 18, 2010

Ellen Roseman

When Janet and Bob retired at age 55, they were earning a joint income of $400,000. Both were senior executives in the corporate world.

Now in their late 60s, they live more frugally. No longer do they own a cottage up north, buy new cars, eat in restaurants or rent condos in Florida with friends.

They live on a budget of $60,000 to $70,000 a year, which doesn't include debt, to make their savings last.

It's hard when friends offer to pay for entertainment expenses that aren't in their budget. They invite people to their home instead.

With more time in retirement, they've learned to cook, garden and sell their belongings on Craigslist.

"This year, we took our canoe and some jewelry and turned them into cash," she says. "We've socked away $4,000 to use for a new roof on our house."

Janet and Bob (who don't want to use their last names) have no children and no plans to leave an estate. They hope to die broke.

While economizing wasn't easy at first, they say it's no big deal now. They always saved and never spent what they earned at work.

The couple meets with their financial planners, Rona Birenbaum and Cliff Boland of Caring for Clients, twice a year to see if they're still on track.

"Having a plan has been a comforting experience, especially through the down years of the stock market," Janet says.

Gerry Sweeney, 68, retired from real estate sales in 2003. He and his partner spend about $19,000 a year on fixed living costs (including a Star subscription).

"We do give a fair amount in gifts to children and grandchildren and spend on travel, but these are not necessities," he says.

So, how much are Canadians spending in retirement? And has their spending changed?

Statistics Canada published a report in 2005, which looked at the spending patterns of older people. Its main findings:

Households age 75+ spent 73 cents of each income dollar on personal consumption.
Food, shelter and transportation made up the lion's share (61 to 68 cents) of each consumption dollar.
These households paid more for government and private health insurance plans than they would have 20 years earlier.
They had higher out-of-pocket expenses for health costs not covered by insurance, such as prescription drugs, other medical equipment, dental services and eye care.
Health care is one of the key risks to retirement income, says Peter Drake, head of the retirement and economic research team at Fidelity Investments Canada.

Other key risks are: how long you live; how much the cost of living goes up; how your assets are invested; and how much money you withdraw each year.

As a retiree, you will have fewer work-related expenses, pay less in personal income tax and contribute less to public benefit programs.

But you may have ambitious plans for your retirement. Are you prepared to face a substantial drop in your lifestyle, especially in the early years? And are you considering the possibility of major health care costs in later years?

One way to stretch your savings and not dip into them prematurely is to keep working.

That's what Drake did. Now 66, he tried retirement and failed, heading back to work after finding a life of leisure too boring.

"I think that trend will increase as retirements get longer. Some people will come to the same conclusion I did," he says.

Next Sunday, we'll look at the pros and cons of staying on the job.

Ellen Roseman writes about personal finance and consumer issues. You can reach her at eroseman@thestar.ca, 416-945-8687 or ellenroseman.com.