Part Five: Security, in your ‘golden’ years

As long as public supports stay more or less as they are, the question isn’t whether you can afford to retire at age 65 or beyond. No elderly Canadian who manages money with any care at all is at risk of death from hunger or lack of necessities when the paycheques stop.

Mind you, if you’re single and you have no property or savings — or even just very modest savings and/or a home with a mortgage — your “golden years” might feel more like lead. You’ll probably be poor.

And if you’re married in the same circumstances — no money squirrelled away and no big property asset you can sell — you won’t fall below what’s generally considered the poverty line, but you may well find your spending choices uncomfortably constrained.

So the question probably isn’t whether you can ever afford to retire. Rather, it’s a matter of if or when you can afford to retire with something approaching the lifestyle you want.

Financial advisers are fond of telling us the amount we need to save for retirement depends on how much we plan to spend. This may be sound advice for those young enough, rich enough and prudent enough to be able to meet a well-thought-out retirement goal.

But for those getting close to retirement without much set aside, who don’t have much or any disposable income to spare, and who have spending habits that are hard to tame — it’s time to flip this advice around.

How much we have to spend will depend on how much we manage to save.

Unlike earlier stages in life when some people find they can, at least for a while, spend beyond their means and allow credit card balances and other debts to pile up, retirees will find it harder to live on money they don’t have. Because creditors know if you don’t have it now, it’s less and less likely that you’ll have it ever.

So for many — those who were too broke or too feckless to accumulate savings in their younger years and/or who’ve been unlucky in recent bear markets — retirement will be a time to reduce expectations and start spending less.

How much less? The bare bones minimums, for those entirely dependent on public pensions and old age entitlements, are quite low.

But for most seniors, the amount available still exceeds StatsCan’s low-income cutoff figures, which do not exactly define a poverty line but are often seen to approximate it.

In 2010 the low-income cutoff — defined by StatsCan as “the income level at which a family may be in straitened circumstances because it has to spend a greater portion of its income on the basics (food, clothing and shelter) than does the average family of similar size” — was set at:

• In rural areas, $12,271 for singles and $14,936 for couples.

• In communities of less than 30,000, $14,044 for singles and $17,094 for couples.

• In metropolitan areas of 30,000-99,999, $15,666 for singles and $19,069 for couples.

• In metropolitan areas of 100,000-500,000, $15, 865 for singles and $19,308 for couples.

• In metropolitan areas of 500,000-plus, $18,759 for singles and $22,831 for couples.

With all citizens 65 or older getting Old Age Security of almost $6,500 a year (it may be clawed back, but only after the recipient's income is well into the middle ranges) and those with no additional income getting the full Guaranteed Income Supplement, this adds up to more than $14,000 a year.

That's enough to clear the low-income cutoff in a rural area, and almost enough in a village, town or very small city, but it falls short everywhere else.

Couples, however, will have double federal pensions once both are over age 65 — well over the cutoff, even in Greater Vancouver.

And a team of retirement specialists from Vancity interviewed for this analysis pointed out that quite a bit of additional support may be available.

That other support includes a seniors' supplement of up to $592 a year, MSP premium assistance of up to $684 a year, GST credit of up to $381, an annual TransLink Pass valued at $558, a B.C. HST credit (presumably to end with the return of the PST) of $230 a year, a carbon tax credit of $115, and the SAFER supplement available to renters of up to $7,560 a year.

If a senior were to get all of these supplements, it would add up to more than $24,000 a year.

And most seniors who've worked at some point should be eligible for at least a modest monthly payment from the Canada Pension Plan.

Once the income of a senior or a senior couple goes beyond the basics, however, some or all of these benefits are no longer available — or are at least scaled back.

For those with company pensions, whether the defined-benefit or defined-contribution versions, or with RRSPs or other retirement income, a number of complex questions can arise.

Among the considerations, no matter the income level, brought up by the Vancity team are:

• Potential eligibility for public benefits.

• The timing of taking money from various income sources, including when its best to start drawing Canada Pension.

• The pace at which funds are withdrawn.

• The tax implications and impact on entitlements of various kinds of investments.

Of course, for many homeowners there's the question of whether you will need to leverage the equity in your home to finance a comfortable retirement and, if so, how best to do it. (See sidebar on this page.)

But this is not an option for all homeowners.

"One of the things we're seeing more and more of," said Heather Rivers, a financial planning manager for Vancity, "is people who haven't followed the traditional retirement route of getting rid of all their debt first. We see retirees who are still carrying mortgages and, even more worrisome, high levels of consumer debt with high interest rates.

"So even if their income is higher, they can still be facing a financial crunch."