Is postponing retirement in the cards for older Canadians?

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Advisors shouldn't assume wealthier clients aren't affected by the market downturn. Conversations about cutting back may be necessary if they want to keep their retirement plans in place.

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The stock market volatility brought on by COVID-19 has financial advisors fielding questions from older clients about whether they need to go back to work or stay in their jobs longer.

Even some clients who have financial plans set up to sustain a market downturn are worried about how the economic fallout might impact their longer-term returns.

Older workers "may need to spend extra years on the work force, or settle for a lower level of retirement income [because of the stock market] slump," says Joseph Nunes, co-founder and executive chairman at Actuarial Solutions Inc. in Oakville, Ont. He wrote a report, "The Power of Postponed Retirement," for the C.D. Howe Institute that calls on Ottawa to reform certain rules around retirement savings in tax-deferred programs.

For people in retirement now, or close to it, advisors agree the options may include working longer, spending less, or changing their asset allocation to better reflect any changes in their portfolios caused by the market volatility.

"It's important advisors work with clients to come up with a plan that's altered and can achieve their goals," says Jeff Hull, senior financial advisor at Manulife Securities Inc. in Mississauga. "It's about doing the math with clients and involving them in the process. It's a collaboration."

To that end, advisors shouldn't assume wealthier clients aren't affected by the market downturn, he says. They may need to have similar conversations about cutting back if these individuals want to keep their retirement plans in place.

"It doesn't matter the elevation of their wealth, everyone has to live within their means," Mr. Hull says.

What's more, he notes that people are living longer, "which means they want to do more in their later years." That will require having enough assets to support it.

When talking to clients about their retirement outlook and whether it can be maintained, Mr. Hull says advisors need to be direct and fully transparent.

"You have to bring the math into the open so they can understand what's possible and what's impossible," he says, adding that the details be put in writing so there's little chance of miscommunication.

"It could give a false sense of security if someone is beating around the bush. They might misinterpret the nuance of what you're saying or dancing around. ... It's up to the advisor to be forthright, honest and direct and clear," Mr. Hull says.

Scott Plaskett, senior financial planner and chief executive officer at Ironshield Financial Planning in Toronto, says many investors – especially those close to or in retirement – are less focused on the markets and more on their personal portfolio's ability to withstand the drop.

"The question being asked now isn't, 'How bad have I been hit?' That changes daily. What people are actually asking is, 'How does this impact the ability to accomplish the goals I've set?'" Mr. Plaskett says.

As such, they're less concerned about the day they can stop working and more about having the means to work at their own pace or retire, if that's their goal, he says.

"What I think people are striving for is financial freedom. [They want to know] what is my attainable cash flow?" Mr. Plaskett says.

For many investors whose cash flow is tied more closely to current market activity, he says it might mean living on $60,000 a year for the near future, instead of $80,000.

Mr. Plaskett says advisors need to show clients the numbers and let them determine their next move.

"I'm not going to tell them they have to go back to work or stay at work longer," he says. "I'm going to let them reveal that for themselves by showing them the data. It will be something they will interpret the way they need to. It's not for me to say."

Rona Birenbaum, founder and certified financial planner at Caring for Clients, a fee-for-service financial-planning firm in Toronto, encourages advisors to discuss with clients, especially older ones, how the current market volatility might impact their retirement plans.

"People are sometimes afraid to admit that they're scared," she says. "Encourage them to admit that they're scared – and find out what they're scared of – so you can determine together if there's a real risk there."

Many advisors say retired clients should have roughly three to five years of non-equity investments in their portfolios to avoid having to pull money from the market when it's down. If they don't, she says the advisor may need to work with the client to change their asset allocation, most likely when the markets recover.

“Sometimes, the thing that has to change isn’t necessarily the retirement timelines, it’s the portfolio,” she says.

Still, some clients will choose to work longer or go back to work to build up their assets.

“Some people don’t even need to make an adjustment, but will work an extra two years to give them that extra [financial] buffer,” Ms. Birenbaum says.

Other options for retirees who don’t want to return to work include cutting expenses such as vacations, gym memberships or maybe delaying helping kids with the down payment for a home.

“I would only recommend working longer if it’s the only and best option for that client because there are psychological impacts to putting things off and not doing things you wanted,” she says.