Leave a legacy or pursue bucket lists? Comprehensive retirement planning balances needs and wants

Retirement planning is challenging enough when figuring out how much money is required to cover day-to-day expenses over decades. Other goals emerge, like taking on "dream" ventures or activities, and passing something on to loved ones or causes.

When plan members start thinking about retirement, they'll likely have to strike a balance between bucket lists and leaving a legacy, says Joel Oretan, regional director of estate and financial planning services for Ontario and Atlantic at Sun Life.

"There are many variables at play. Ideally, people should build a road map to these goals as soon as they become plan members, so they understand where they want to go and how best to get there."

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While it's not necessary for plan sponsors to build retirement plans for plan members, they can nudge those members to contemplate their range of needs and wants, Oretan says.

Plan sponsors should also recognize that retirement goals vary with each member, says Antoine Falciglia, Sun Life's regional director of estate and financial planning services for Quebec. Workplace retirement pension plans play a big role. "A good analogy is building a home," he says. Before construction starts, you need a blueprint. For plan members, their financial plan is their blueprint. Many younger plan members have more immediate challenges, which include paying down mortgages or saving for children's post-secondary educations. They tend to put longer-range questions – what they really want to do later in life and what they want to leave to loved ones or a charity – on the back burner, says David Field, a certified financial planner with Papyrus Planning in Mississauga.

"It's natural for people early on to put little thought toward these details," says Field, co-author of ***The Boomers Retire: A Guide for Financial Advisors and Their Clients***.

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That's where the right planning can flesh out broader goals and identify sources of income to pay for them. Plan sponsors and providers can help educate members around determining basic needs and how far guaranteed income from Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP) and Old Age Security (OAS) will go to cover those costs.

"Then you take into account workplace plans and any other investable assets they have to match income needs not covered by guaranteed income," Falciglia says.

Sponsors can remind plan members that with defined contribution (DC) pensions or group RRSPs they must deal with several risks such as market risk, inflation and longevity, Oretan adds.

Educate plan members about building a foundation

When nearing retirement, plan members will have important and challenging decisions to make regarding converting their savings plans such as RRSPs and DC pensions to income. Educational resources and advice from plan providers help to simplify the road ahead.

For example, some plan members may find it attractive to allocate capital from their pension plans to a guaranteed annuity to pay basic expenses. At their core, annuities provide a stable payment for life in exchange for giving up a lump sum of capital.

This steady stream may be comforting enough for some plan members. Others may prefer variable annuity products, which offer additional guarantees. Those can include a benefit to a surviving spouse, and a potential for higher payments in the future if equity markets perform better than expected.

These guarantees come with a cost, "but if members are going to lose sleep over markets, a guaranteed solution is probably worth a look," Falciglia says.

Annuities are just one potential puzzle piece. Plan members often have many ways to go about funding their future: locked-in retirement accounts (LIRAs) from previous employers, personal RRSPs and tax-free savings accounts (TFSAs). Additionally, many have spouses with their own assets that need to be accounted for in a plan.

With Antoine Falciglia's home analogy in mind, plan sponsors can help their members grasp how to account for their core needs as a foundation, then plan how to use additional assets to address bucket list and legacy wants.

TFSAs can be the ideal vehicle for either as they involve no tax bills on withdrawals or upon death, Field says. That differentiates them from a life income fund (LIF), which most pension plans will eventually convert to in retirement, and other registered accounts such as RRSPs.

`Non-registered savings are another choice, though they can also involve tax considerations, Field adds.

Another part of planning can involve life insurance, which offers a tax-free benefit to the estate, and it can cover legacy needs while freeing other assets for lifestyle, Field says.

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But legacy is about more than assets. Any viable estate plan involves three fundamental components: a will, and a separate power of attorney for personal care and property.

"Members can build a significant amount of wealth in their plans, however without a will or Powers of Attorney, they risk losing control of these assets in the event of death or incapacity," Oretan says.

An estate plan must account for tax efficiency and fairness in disposition of assets, he adds.

"Individuals can split the estate 50-50 between two kids, for example, with one receiving registered accounts like the workplace LIF worth $1-million, and the other the house worth $1-million," he says. "However, this would result in the child receiving the registered money paying about 50 per cent in taxes while the one receiving the house would have no tax bill."

It's also worth considering that legacy planning may not always involve leaving wealth behind. Members may want to give away money during their lifetimes, to witness their generosity at work.

As circumstances and goals change, it's essential to revisit plans. For instance, plan members can be promoted to better paying positions enabling them to save more, they can face family health challenges that eat up income, or they can receive inheritances themselves.

If an inheritance does enter the picture, plan sponsors should emphasize to members the need to "Take a deep breath, pause, then rework their financial plan with a qualified professional so they don't go outside their means with additional spending," Oretan says.

That advice can apply to all facets of retirement planning, which is why plan sponsors should encourage plan members to consider their needs and wants as soon as possible, Falciglia says. "Bucket list or legacy, it's really important to educate members that the earlier they start planning, the more achievable their goals will be."

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