



Minimizing the Financial Impact of Early Unexpected Retirement

There are many reasons why you may end up retiring earlier than expected. Job loss, taking care of a loved one, disability: Everything doesn't always go according to plan. Don't worry: Taking early retirement doesn't have to mean failing to achieve your goals. Here are some things to consider when drawing up your Plan B.

What's your financial situation?

To draw up a Plan B tailored to your needs, you first need to take stock of your finances. Don't wait too long! You're going to have to make some decisions about your pension plan and government benefits. You should complete a balance sheet so you can make informed decisions. Since there are deadlines that have to be met and complex concepts involved, it's a good idea to ask for help.

What are your assets?

To complete or review your financial balance sheet, calculate the total value of your assets. This list could include:

- ▶ Savings in your bank accounts
- ▶ Registered and non-registered investments (RRSPs, TFSAs, LIRAs, RESPs, non-registered accounts)
- ▶ Personal property (gold, art, money, etc.)
- ▶ Real estate (house, lot, condo, cottage)
- ▶ Pension plans

At this step, add up the value of your assets. If you have had to take early retirement, you may also have received severance pay. A financial planner could help you figure out the tax and financial impact. They may refer you to a legal professional, who can help you assess the amount you received and the applicable conditions.

How should you calculate the value of your pension plan?

If you have a defined benefit pension plan and you want to draw a pension from it, you should add its estimated value to the balance sheet. If you transfer your plan to a locked-in investment vehicle (LIRA or LRSP) or if you have a defined contribution plan, you'll have to add the corresponding amounts to your balance sheet. A financial planner can help you choose between drawing a pension or transferring the value of your pension plan based on your balance sheet, your profile, the tax impact and other factors.

Are you entitled to insurance benefits?

If you retired early because of an illness or disability, you may be entitled to insurance benefits. If you're not sure, ask your insurer.

What are your liabilities?

After calculating your assets, you need to take stock of your debts, or liabilities.

Here are a few examples of debts you may have incurred, as a borrower or a guarantor:

- ▶ Credit card balance
- ▶ Line of credit
- ▶ Car loan
- ▶ Mortgage loan
- ▶ Store-financed purchases (furniture, etc.)
- ▶ Student loan

Your financial planner may also include potential taxes in your liabilities, as you may have to pay tax on some of your assets in the future. You should also account for the fact that some debts are tax-deductible.

Contact your creditors for up-to-date information on your debts (expiry dates, rates, amounts outstanding).

How should you manage your debts?

In addition to the amount of debt payable, it's important to consider the interest rate applicable to each debt. As a general rule, you should pay off debts with the highest interest rate first. Student loans also offer tax advantages compared to other loans.

Your situation may call for taking special measures to ensure you can pay off your debts. You might want to consider debt consolidation. Ask for advice to establish the best strategy for you. You don't have to make these decisions on your own!

Reviewing your financial plan

Now that your financial balance sheet has been updated, you should think about your financial plan. This document will enable you to set goals and determine how you're going to achieve them.

If you're retiring early, your original plan will have to be revised. Your retirement will be longer than expected, meaning you will need to come up with a new strategy based on your assets that reflects your current needs. You may want to reduce your estimated spending. You may also want to explore new ways to generate income.

You can always re-evaluate your objectives while you adjust your budget. When creating a financial plan, there are a few questions you should ask yourself. These questions can be answered in any order.

1. How can you optimize your income?

When creating a financial plan, you should determine your income after retirement. Once you've taken stock of your finances, you'll be aware of all your assets and liabilities. Next, you should get advice from a qualified professional to help you determine the order and pace of your withdrawals from investment vehicles, such as RRSPs. If you retire early, your longer retirement and lower income may justify decreasing your withdrawal rate.

Depending on your situation and investments (registered and non-registered), the amounts you withdraw and the withdrawal order can affect your income taxes payable.

Should you keep your pension or transfer it?

You will have to decide whether to leave your funds in your pension plan and draw a pension or transfer them to a LIRA or LRSP.

2- How can you make the most of government benefits?

The amount of retirement benefits you receive from the government may change depending on the age when you apply. In most cases, it's better to wait a few years before receiving benefits. It all depends on your situation. For example, if you qualify for the Guaranteed Income Supplement, you shouldn't delay your Old Age Security pension.

Depending on your age and situation, you may be eligible for income tax credits in retirement. Take the time to discuss it with your financial advisor.

3- Do you need to reassess your goals?

Before you were forced to retire early, you had probably made plans for the rest of your life. Once you've got all your cards in hand (financial balance sheet, budget, etc.), you should review your goals. What do you want your retirement to look like? What can you afford? Here are a few questions you should consider:

- ▶ What do you consider a comfortable retirement?
- ▶ Where do you want to live? (In Florida? In Canada?)
- ▶ What do you plan to do?
- ▶ Do you have projects in mind? (Travel? RV? Renovations?)
- ▶ Do you want to leave money to your heirs? (Or transfer assets before death?)
- ▶ Do you need a car?

4- How do you draw up a budget?

Drawing up a budget will help you understand where your money goes. You'll then be able to adjust your expenses to make sure you have enough money to maintain your lifestyle. Here's a summary of the steps to follow:

- ▶ Determine your after-tax income
- ▶ Enter all of your expenses
- ▶ Consider setting up an emergency fund to prepare for the unexpected
- ▶ Analyze the situation and draw conclusions
- ▶ Keep a close eye on your budget and adjust it as needed

5- Should you adjust your budget?

When you draw up a financial balance sheet, a budget and a financial plan, you may realize that your income and assets won't meet your needs.

If so, you may need to cut your expenses. We've got many tips to help you save money.

Another option, depending on your health and inclinations, is finding a part-time job. But remember to consider the tax impact. More income means higher taxes and could reduce your government benefits. Ask your advisor about marginal effective tax rates.

6- Are you well protected?

Do you have insurance coverage tailored to your situation? Creating or revising your financial plan is also a great opportunity to check that you and your loved ones are well protected.

In certain cases, you may have insurance coverage through your former employer. Be sure to ask yourself if the coverage offered is sufficient.

If you don't have insurance, take the time to choose and take out an appropriate policy. You can get coverage for all sorts of assets, events and needs, including:

- ▶ Life insurance
- ▶ Health care (drugs, medical expenses, etc.)
- ▶ Dental care
- ▶ Home insurance
- ▶ Car insurance
- ▶ Travel

Retiring earlier than you planned means you'll need to consider many things. But you don't need to give up your plans and goals! You can count on our team of experts to help you with your retirement planning—from insurance, pensions and investments to drawing up your balance sheet and financial plan. We're here to answer your questions.

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