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## Economic Crisis Teaches Important Lessons

If any good can come from an economic downturn it is that people are forced to think more seriously about their financial success strategy. Many people affected by the economic damage wrought by the recent COVID-19 pandemic will change their financial habits by cutting back on spending, reducing debt and increasing their savings. But, for many other Canadians, life will likely continue as usual where the pursuit of an optimal life style now overshadow concerns about future financial security.

It's not uncommon for successful people in their 30s and 40s to conduct their financial lives under the impression that they have a vast time horizon for achieving their retirement goals. Many people at this age have a difficult time envisioning retirement much less planning for it in light of a present-day consumption lifestyle. So, it's not unusual to find a couple like James and Linda, ages 44 and 43 respectively, who have thus far lived a charmed life, suddenly faced with some fairly drastic decisions over their financial future.

### Back to the Beginning

James, 44, and Linda, 43, developed a pattern of unfettered consumption early on once they were both securely settled in their well-paying jobs. James, now an executive with a fast growing technology company, and Linda, now with 15 years of tenure with a government agency, have always expected their pension plans and James' company stock to lift them to retirement security.

Even with the arrival of this recent global economic crisis, they are still forging ahead with a life of consumption by taking advantage of low interest rates to refinance a bigger mortgage and two big auto loans. Virtually everything that adorns their well-appointed home is financed.

They have also made minimal contributions to their two children's RESP thinking they will always have more time.

While they have managed to save some money, their non-registered assets of \$156,500 are dwarfed by their total outstanding debt of \$493,200 which includes a mortgage that has been reset for another 25 years. They have \$31,200 in cash savings and the rest in a mutual fund. While they aren't insolvent, they are certainly on a path that can lead there unless some drastic changes are made.

### The Path to Retirement Security

After their Financial Advisor let James and Linda down easy on their hopes for early retirement, it was suggested that they target the normal retirement age of 65. They simply don't have the personal resources to bridge the gap between an early retirement and the time at which they could begin to draw from the government pension and Old Age Security at the full rate, which they will need.

From this point forward, their focus needs to shift to debt payoff. By focusing on paying down their expensive debt, they could free more cash flow that could be applied to paying down other debt.

The combination of current lifestyle changes and accelerated debt payoff should enable James and Linda to sail into retirement with enough income from their government pensions, Old Age Security benefits, Linda's pension and James' RRSP fund to generate nearly 90% of their current income in today's dollars.

*Fictional characters were used in this article for illustrative purposes only.*

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