Praise for YOUR RETIREMENT INCOME BLUEPRINT

“Daryl’s easy-to-use, step-by-step process is your blueprint for creating a sustainable retirement income stream and enjoying a financially worry-free retirement. When it comes to creating your retirement paycheque, Daryl Diamond is the expert. His book is a must-read for all boomers.”
— Pattie Lovett-Reid, Chief Financial Commentator, CTV News

“Now that I’ve reached my own Findependence Day, I intend to use Daryl’s Blueprint as my personal plan for drawing income from a diversified portfolio and other income sources. As more baby boomers enter semi- and full retirement, the new edition of Diamond’s book is more essential than ever.”
— Jonathan Chevreau, MoneySense Editor at Large and Author of Findependence Day

“The investing rules change when you retire. Everything you need to know is in this book.”
— Rob Carrick, Personal Finance Columnist, The Globe and Mail

“Daryl Diamond has written a realistic, yet optimistic approach to getting the best bang for your buck in retirement. Diamond lays it all out in a guide that’s bursting with information, ideas and examples. This book might be one of the best investments you could make to ensure you’re making the most efficient use of your retirement assets.”
— Howard Green, BNN Anchor and Author of Banking on America

“Diamond has skillfully created an essential handbook for retirement—one that will empower and educate a whole generation of soon-to-be-retirees. His years of experience shaping portfolios and dealing with individuals makes this a very hands-on and personal book that anyone can benefit from, at any age.”
— Amanda Lang, CBC News

“Most authors tell you how to get ready for retirement. Daryl Diamond teaches you how to create a reliable income after retirement. If you need help with a strategy to draw down your assets, you will find this book provides a solid foundation. Should be required reading for financial advisers.”
— Ellen Roseman, Toronto Star Columnist, Author and Continuing Education Instructor
ABOUT THE BOOK

If you are approaching the end of your working life or recently retired, you are probably anxious about retirement finances. How can you afford to retire, let alone enjoy your retirement in years to come? How can you ensure that you won’t outlive your money?

Questions like these are now more urgent and worrisome than ever, thanks to a perfect storm of jarring recent events and uncertain economic conditions. Historically low interest rates and resulting lower returns on investments, significant changes to the Canada Pension Plan in 2012 that affect those 60-65 in particular, and government debt increasing just when demand for medical care will begin skyrocketing—all point to tough times ahead for retirees.

Your Retirement Income Blueprint provides just the plan you need to build a financially secure retirement, offering proven strategies that show you how to:

- Combine government and personal sources of income most efficiently
- Determine which assets to use first and which to defer
- Preserve government benefits and entitlements that are often needlessly wasted or lost
- Create results that are more survivor- and estate-friendly than traditional approaches
- Greatly reduce taxes on retirement income and the aggregate estate

Your Retirement Income Blueprint was written with boomers in mind, because boomers are increasingly aware of the importance of retirement income planning, but they can’t find the knowledge and expertise they need, even among professional financial planners. Covering topics from consolidating your assets to creating sustainable income, this book is the foundation for making the most out of what you have taken a lifetime to save.
YOUR RETIREMENT INCOME BLUEPRINT
YOUR RETIREMENT INCOME BLUEPRINT

A Six-Step Plan to Design and Build a Secure Retirement

DARYL DIAMOND

A CANADIAN GUIDE

MILNER & ASSOCIATES INC

SECOND EDITION
To Karen, Geoff and Kelly
for making it all so amazing
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In 2002, I had the opportunity to publish a work entitled *Buying Time*. When *Buying Time* was first written, the leading edge of the Baby Boom generation was turning 55. Now, more than twelve years later, each passing day sees more Baby Boomers turning 65 and applying for their Old Age Security. And, we are in the midst of a “perfect (retirement) storm.” The transition from the accumulation years to the income years is now a front-and-centre issue for retiring Baby Boomers (and those hoping to retire soon), and rightly so. They’re concerned about our present economic environment and some issues that await us in the future. Common concerns include:

- the wave of Boomers began to turn 65 in 2011
- historically low interest rates
- a stock market disaster in late 2008 and early 2009, which still has many unnerved
- significant changes to the Canada Pension Plan, particularly affecting those between the ages of 60 and 65
- limited private sector participation in defined benefit pension plans
- government debt, which is already high and will continue to increase as the demand for government-provided medical care is going to skyrocket over the next 20–25 years
As a result of these and other factors, those coming up to retirement (as well as many people already in retirement) are desperately looking for solutions. And while I will be making references to the Baby Boom generation, the principles and strategies presented in this book apply to anyone within 10 years of a target retirement date and those who have retired within the past 10 years.

The information contained within this book is the result of over 25 years of putting together retirement income plans for retirees and then working with them, through the years, as their retirement life changes. As an advisor who is one of the pioneers in the retirement income area of financial planning, I have worked through different rates of inflation, changes to the taxation of income and assets, as well as dramatic swings in both the stock market and interest rates. I have lived through them along with my clients, and I have worked through them with my clients. As I like to say, I have retired a few hundred times—vicariously, through the clients I serve. As such, I am able to include in this book the practical application of what we have found to be effective strategies as well as the experience and insights of having worked exclusively in this area of financial planning since 1988. My advisory practice, which is composed of qualified planners and support staff, is dedicated to serving retirees.

There is no question that each retirement scenario is unique and each situation must be weighed on its own merits. The material put forward in this book is predicated on what has been employed successfully with my clients. I am able to share with you nearly a quarter of a century’s experience with and insight into this process.

It is my goal to bring together various concepts and strategies and, in doing so, to show you how to create more enjoyable retirement years through a comprehensive planning process and the efficient use of your assets.

This is not intended to be a “do it yourself” book. By facilitating more comprehensive communication between investors and advisors, it is intended to be a “do it properly” and “do it better” book.
INTRODUCTION

Golf Clubs or Hockey Sticks?
It is common to use a golf game as an analogy when comparing the years when we are accumulating assets and the years when we are drawing income from those assets. To acknowledge that there is a difference between these two times in one’s life, the comparison suggests that those years when we are saving money and building retirement assets are the “front nine.” The “back nine” represents the time when we are withdrawing money from personal assets, pensions and government benefits in order to create the cash flow required to fund retirement. Well, in my experience, that comparison is only partially accurate.

Let’s maintain the premise that the accumulation years are like playing the front nine in a game of golf. You finish those first nine holes, and then you go into the clubhouse for lunch. When you come out of the clubhouse and start taking income, the analogy needs to change. Imagine that instead of stepping on the tenth tee, you are stepping onto a freshly flooded ice rink. The playing field changes because there are such substantial differences between the planning approaches, investment strategies, risk-management issues and sheer dynamics of these two phases in someone’s life. It is not simply a continuation of the same thing.

The point here is that if you are attempting to play the game of hockey using the same equipment and same skill sets that you use to play
golf, you are not going to do a very efficient job. But that is how different things become when it is time to draw retirement income. You need to be aware of this and so does the advisor or institution with whom you align yourself. There are many concepts and well-known rules of thumb for the accumulation years that do not apply in the same way, or apply at all, in the income years. Some of the traditional approaches to saving for retirement are, in fact, detrimental to creating the most efficient income stream when you are actually in retirement. Planning retirement income is a very different art and science than planning the accumulation of assets, and there are few advisors who are proficient in it. That is what is missing for consumers.

That may be why you picked up this book. You know there is something more to this whole “retirement income process,” but you just aren’t sure what that is. You feel something is missing in your current situation, but you don’t know what, and you don’t know where to find it. This has never been more important than it is now, as you seek a greater level of comfort, security and enjoyment in your retirement.

**Why You Need a Blueprint**

How can you have an understanding and a clear view of how this is all going to piece together for you if there is no plan in place and no process for you to work through as you move through the many phases that will make up your retirement years? You can’t, unless you have your own blueprint.

A blueprint is formally defined as a technical drawing that represents an architectural or an engineering design. More generally, and in the context I use it here, the term “blueprint” has come to refer to any detailed plan.

The operative word here is detailed. I have seen so-called plans that consist of two or three pages of cursory projections and fifteen pages of product recommendations. That is not detailed planning. That is pushing products, and it is offered far too often to consumers and may explain why there is so much confusion in the marketplace. The retirement income area of financial planning is not a product-driven market. Products do assist in providing solutions but, done properly, the emphasis is first on planning and process.
Your blueprint is a detailed plan that incorporates processes, proven strategies and a defined course of action. It should not only be efficient in terms of asset use and taxation but it should also be custom designed to assist you in achieving those things you wish to do in retirement. Keep in mind that it needs to be put together by someone who is proficient in this area of planning.

**Putting It Together by Taking It Apart**

When a person retires, he or she goes from one source of income (employment income) to six, seven or more sources of cash flow. When I first meet with people who are looking at retirement, they consistently tell me that they are looking for someone who can take all of these different forms of income and the assets they have and put it all together for them. This book will show you the processes to do this. Ironically, to put it all together, you’ll also have to plan how you are going to take things apart.

What I mean by that is this. Financially speaking, retirees fall into three general groups. One group has very few assets and/or benefits and relies heavily on government benefits or transfers for their retirement income. Another group is fairly affluent, and I refer to them affectionately as “coupon clippers.” These people have enough personal wealth to derive the majority, if not all, of their retirement income from the interest and dividends that are earned by the money they have invested. They will likely use little, if any, of the actual invested capital.

The third group includes about 70 to 75 per cent of Canadian retirees. They have sufficient assets to permit them to retire, but will need to use varying amounts of their invested capital in order to create the cash flow they require over the duration of their retirement. As such, some “intelligent disassembly” is required. And this is one of the key purposes of the blueprint. A properly structured blueprint can help to address all of these considerations effectively:

- Which income streams should be accessed and in what order?
- Which assets should be used first and which ones deferred for later use?
• How can less tax be paid and government entitlements be preserved?
• How will the combination of all of these actions impact net worth going forward?

The purpose of this book is to provide you with a more specific awareness and understanding of retirement income planning and how it applies to you. At the same time, I want to show you examples of the application of these processes, concepts and strategies to illustrate how they may be of benefit to you. The end goal is to help you make the most efficient use of your money and your time when you retire.

And to do that you need to have a blueprint. A key part of developing your personal blueprint starts with the exercise of establishing your own objectives and priorities. This will allow you, and your partner if applicable, to better understand and emotionally relate to what it is you wish your retirement experience to be. By implementing the processes contained within this book, you will have a more orderly and structured retirement. Things will make sense and seem less chaotic. And in having more structure, you will ultimately find that you are afforded more freedom and peace of mind. And, after all, aren’t those two of the most sought-after things in retirement?

An Additional Resource to Help You Keep Current
Tax rates, stock market performance and interest rates all change over time. As this book is being revised for this edition, in March 2014, interest rates are still hovering around a 55-year low. Illustrations in this book reflect the current interest rate environment. I invite you to visit my website, www.boomersblueprint.com, which will update the material from this book and serve as an ongoing resource for you.
PART ONE

CONSIDERATIONS IN CREATING YOUR BLUEPRINT
In 2011, the leading edge of the Baby Boomers were turning 65. As more of the Boomers move into retirement, we will see greater numbers of retirees than ever before, as two generations (Boomers and their parents) will be retired at the same time. The Baby Boomers have made it a lifelong objective to distinguish themselves from their parents in just about everything they have done. Now, for the first time, they find themselves in the same stage of life as their parents: retirement. What will the retirement experience look like for the generation that reshaped the world?

Don’t Stop ‘til You Get Enough
Have you ever been driving to a destination and found yourself wondering if you had enough fuel to complete the trip? It is a very unsettling and stressful feeling and does not make for an enjoyable journey, for either the driver or the passenger(s). This same emotional distress and discomfort underlies a retiree’s fear of running out of money. How enjoyable will retirement be if this is always front and centre as a concern or if every single decision has to be weighed carefully from a financial perspective?

The point here is to ensure that you are making the decision to retire from a position of financial confidence and comfort. There is not much merit in retiring if you have done so on such a restrictive budget that you cannot enjoy the lifestyle. This is why it’s critical to have a formal income
plan, or blueprint, to show what your assets can realistically be expected to provide in terms of sustainable cash flow. After all, it is your cash flow that will fund your lifestyle. Granted, there are many things that change as one moves through retirement. Hence, the need for reviewing, fine-tuning and occasionally redoing the blueprint. But one key to success is not retiring without adequate financial resources. Doing so can be a very unfortunate decision.

In several different ways, the Boomers have brought additional, self-imposed stress and uncertainty to their current or upcoming retirement experience because of their expectations. These must always be balanced by financial realities, but often this is not thought through carefully.

You may be mentally ready to retire but, as long as your state of health is not dictating your decision, you need to know that you are also financially ready and choose your timing accordingly. As is the case when building a house, the design and costs have to be in line with what you can afford. Simply stated, you wouldn’t entertain putting up a house unless you knew the costs and had assessed if and how this would fit within your budget. If the costs were too high, then you might amend the design of your building to bring the cost of the project within budget. If your preference was to stick to the original design, then you might put off the project until such time as you had sufficient funding to do the job. Deciding when to retire is similar. You can comfortably decide to retire if:

- you have sufficient assets and benefits to create the income you need to provide the lifestyle you want, and
- the income can be sustained throughout your retirement.

Those are important requirements. If one of these is out of balance, you have some decisions to make. You could consider retiring into a somewhat more conservative and less expensive lifestyle. This would require less cash flow and could help to extend the life of your income-producing assets such that you can retire now. Another option would be to still focus on your original lifestyle objectives and simply work longer to build up additional retirement assets. It really does come down to a personal assessment because every situation is unique.
Everyone (and every couple) has their own:

- reasons for wanting to retire
- lifestyle objectives
- priorities and preferences
- cash flow needs and time frame
- income-producing assets and benefits to create income
- family issues
- state of health as they enter retirement

I am sure you have heard many general rules of thumb on the level of assets or income people need in retirement. Those opinions vary from “you must have at least a million dollars” to “government benefits will give you most of what you need” and everything in between. Do you need 70 per cent of your pre-retirement income as is often suggested? Well, that depends on the factors that are listed above. You may need more than 70 per cent or you may need less.

This is why you need to have a blueprint. It will allow you to design what you wish to do and understand the financing required to do it. From there it becomes a function of executing the plan and doing so in the most efficient manner possible.

**Mama Told Me Not to Come**

Hey, why didn’t this retirement thing seem so tough for Mom and Dad? Was there something that they should have told us that they didn’t? We Baby Boomers are supposed to be the advanced generation with new ideas and the ones who have everything under control. Yet it seems like retirement was easier and far less stressful for our parents. In reality, not all parents of Boomers had it easier in retirement, but there are differences between the generations.

Most of our parents worked at their job, career or business until they were 65. My father boasted that he was “retiring early,” after 49 years of employment at the same firm, at the age of 64. And therein is a very important point. He worked for the same employer for all of his working years.
And while this is a common trait for the parents of the Boomers, it is seldom
the situation for Boomers themselves. And this trend of many employers
has steadily increased over the last 20 years. Often it is not the choice of the
employee but a function of what is happening with the employer. The end
result, however, is that many Boomers have found themselves leaving what
had been longer-term employment in the critical period 10 to 12 years prior
to their target retirement date. This normally would have been the prime
earning and saving time within a familiar employment context.

Employment change at that juncture in life often results in a reduction
in income and, correspondingly, in the amounts being put toward savings.
New employers may not offer the same type of retirement programs, such
as pensions or deferred profit sharing. These factors all contribute to an
end scenario that is less attractive and less certain than the one our parents
experienced. Most of our parents had only one or two employers through-
out their working years. And while not every employer provided a pension
plan, they were more prevalent than they are today, and a greater number
of the pension plans were the more generous defined benefit programs.

Many Baby Boomers started their families later in life, and children are
living at home longer than they ever have before. So the Boomers may not
have had an empty nest as early as their parents did. Even if the Boomers
did successfully launch their offspring, it is quite possible that one or more
of the children have returned to the nest, perhaps with grandchildren in tow.

For the Boomers, the rate of divorce runs between 40 and 50 per cent.
This is far higher than the experience of their parents. As anyone who has
been through a divorce will tell you, in addition to the huge emotional toll
there is a substantial financial cost. In many cases, this has disrupted the
retirement savings and benefits that had accrued to that point. Remarriage
and blended families also put pressure on financial resources.

Many Boomers find themselves in a situation where they are being
pulled from several sides, with parents who need some help and/or care-
giving, plus adult children, grandchildren or even a marital partner who also
need support. It is a tug-of-war that involves emotions, time and money.

The distinctions between the lives of Boomers and of our parents
do not make us inferior to our parents or mean that we have done a
less-than-adequate job in preparing for retirement. You can’t really draw
accurate or valid comparisons between scenarios when there are so many variables.

My experience working with people through their retirement has shown that it can be, and usually is, a very rewarding time of life. My hope is to see people enjoying it to the fullest through all of its different phases. This can be achieved by finding the most efficient ways to use the assets clients have accumulated in order to create the cash flow to fund their retirement.

**We Can Work It Out: Transitioning**

Another possible course of action for those wanting to retire is what I refer to as “transitioning” into retirement. When you transition into retirement, you no longer work full-time but neither are you fully retired. It is a way to move gradually into a completely retired lifestyle.

There are several benefits to this approach: it provides you with an adjustment period, increases your personal time and enhances your financial position.

**The Adjustment Period**

As great as it is to have full discretion with your time, retirement is a new phase in one’s life that is very different. Transitioning allows you an opportunity to make the adjustment from full-time employment to no employment gradually. While full retirement may not seem like a difficult thing to get used to, it is a major life change.

**Personal Time**

While there are many reasons people look forward to retiring, two of the more common motivators are: they want more discretion with their time or they are simply tired of the work they are doing. Transitioning may help address both of those issues. Obviously, working less creates more personal time. Becoming self-employed, or doing part-time, casual, contract or consulting work allows you to change the work you were doing. And it need not be with the same firm or even in the same occupation.

To that end, an increasingly intriguing aspect of transitioning is incorporating it into a strategy that is referred to as a “sustainable retirement
lifestyle.” Many people still look at retirement, to use a football analogy, with a “cross the goal line” mentality. They are going to work full-time to a certain point and then just stop and retire. That becomes their version of crossing the goal line. But in order to do that, they have to be sure that they have built sufficient assets to replace the employment income they have left behind. Well, they may not have saved enough by the time they had hoped to stop working. Or, as they near that end zone, the stock markets may have dragged down the value of their retirement assets. Either way, they find themselves in a situation where they have to keep working. Sometimes the goalposts and the end zone keep moving further into the future. And they may never get into that end zone if they keep moving the goalposts out for whatever reason.

A sustainable retirement lifestyle incorporates reduced work with expanded leisure and gets rid of that “either/or” thinking. When you look at how the work week comes together for most people, they have five days of work and two days off. One of those two days is going to be dedicated to chores that need to get done, such as buying groceries, mowing the lawn et cetera. That leaves one day that is fully discretionary. When people think of retirement, they think of every day as being fully discretionary. But it doesn’t have to be so black or white. If you cut your work week down to four days, look what happens: you still have to do the same household chores, but you now have two days where you have full discretion. That is twice the time for yourself than you had before. A three-day work week would create three days for you to do what you want to do. It does not have to be all or nothing.

**Your Financial Position**

A dollar of employment income is a dollar that you don’t have to take from your retirement assets. You may not be adding to your savings, but if your reduced employment income fully satisfies your cash flow needs, you have allowed your income-producing assets additional time to grow in value. You may need a blend of employment income and personal assets to make this work. That is still beneficial, because at the end of the day you are still taking less from your assets than you would be without any employment income at all.

Transitioning is particularly valuable when an individual has a desire to leave his or her current employment but, from a financial standpoint,
does not feel comfortable doing so. The decision to work or to retire does not have to be a choice between black and white. There are many shades of grey, which, when you think about it, is very appropriate for the retirement crowd.

**You’re Going to Carry That Weight: Taking Debt into Retirement**

Our parents seemed very willing to make do with what they had and live within their means. There are very few Boomers out there who have not heard at least one story about how frugally and carefully their parents handled money or did without. In fact, this still holds true for how they live and spend in their retirement. This is mirrored in comical scenes from *Seinfeld*, where Jerry’s parents, retired in Florida, rush to have supper at 4:30 in order to catch the less costly “early-bird special.”

But not so the Baby Boom generation. We are masters of spending not only what we earn but even more than we earn. Thank goodness for credit, a tool our parents may have used for buying a house but not for many other purchases. But how would we, as Boomers, ever be able to keep up with our friends and relatives in terms of possessions or experiences if we weren’t able to buy now and pay later? For many Boomers, this was simply the way it was done, and we managed to find new ways to get more credit and more possessions. Credit allowed us to create a lifestyle pattern where we could continually consume more than we could afford. As a result, a lot of Baby Boomers did things when they wanted to rather than when they should have. But retirement, and funding it, is totally different. In order to retire, we have to pay first and enjoy later. This is contrary to how Boomers have done most things throughout their working life. You can’t borrow to fund your retirement. That must be paid for in advance. You can really only consider retiring when you can afford to, not simply when you want to. It is a decision driven more by financial reality than by desire.

A retirement survey conducted in 2010 by RBC uncovered that four in ten retirees had some form of debt when they retired and nearly one in four had a mortgage on their primary residence. The issue here is that servicing a mortgage or a debt is a drain on cash flow that would otherwise be used to fund lifestyle in retirement. Chapter 8 touches on this issue in more
detail. That said, I have also had clients tell me that the decision to take on new debt or a mortgage in retirement is part of their lifestyle objectives. As an example, if the expectation after retirement is to spend more time in their home, they may feel that servicing a loan needed for making renovations or improvements is a very valid lifestyle expenditure.

Ideally, you want to be debt free at the time you actually retire. There is a great deal of comfort, satisfaction and security in having everything “paid for.” This is not to say that you can’t retire or you should not retire if you are servicing debt. But the fact is, you will have to dedicate income toward servicing that debt. And that is cash flow that could be used to enhance your lifestyle in other ways. In addition, a certain dollar amount or percentage of your income-producing assets is also going to be tied up, producing the income required for your payments.

You also need to be aware of how taxes impact your non-deductible debt. Table 1.1 shows what a loan looks like if your income falls within the first two federal tax brackets.

**TABLE 1.1:** The Pre-Tax Cost of a Loan (average provincial & federal tax rate – 2014)

<table>
<thead>
<tr>
<th>Loan Rate</th>
<th>Pre-Tax Rate, Income of &lt;$43,954</th>
<th>Pre-Tax Rate, Income of &gt;$43,953</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.0%</td>
<td>5.40%</td>
<td>6.24%</td>
</tr>
<tr>
<td>5.0%</td>
<td>6.74%</td>
<td>7.80%</td>
</tr>
<tr>
<td>6.0%</td>
<td>8.10%</td>
<td>9.36%</td>
</tr>
</tbody>
</table>

So if you have taxable income that is above the second federal tax bracket, servicing a loan with a 5 per cent interest rate with after-tax money is going to require a fully-taxable source of income equal to 7.80 per cent. That could represent more strain on your retirement assets than you think.

The preceding points comparing the Baby Boom generation to our parents are not at all intended to slight anyone. They simply emphasize that situations are different today. But isn’t that what the Baby Boom generation has wanted all along—to differentiate ourselves from our parents? And in being different we need to look at retirement issues and solutions that are different from our parents’. Your blueprint is not going to be the same as your parents’. It can’t be, unless you are expecting that your retirement is going to be exactly the same as theirs. But I have not run into many Baby
Boomers who feel that way. So you better start getting your own distinctive blueprint pulled together based on what you are hoping to experience in your retirement.

**MAKING YOUR BLUEPRINT WORK FOR YOU**

1. Don’t make the decision to retire without knowing that you have the assets you need to fund the lifestyle you seek. This is one of the prime functions of your blueprint. It can help you determine if it is feasible to do what you want on what you have. Retiring too early with inadequate financial resources may free you from a work situation you are anxious to leave, but often results in a more stressful experience from which you cannot extract yourself.

2. Your retirement is not going to look like Mom and Dad’s retirement. Having realistic expectations is one of the key factors in enjoying a fulfilling experience. Have you (and more importantly, you and your spouse) defined your expectations for what you want out of retirement and have you shared them with each other? You need to think through the design you want for your own retirement and have a blueprint drafted to address that design. Your blueprint will help you to get the most out of your time and your assets going forward.

3. Your retirement lifestyle may involve working, for any one of a number of reasons. This may not necessarily be where you worked up to the point of retirement and may not even be connected to what you did through your working years.

4. Remember that carrying debt into retirement is very different from the approach our parents took, but it is not uncommon for Boomers. You are not going to “burn in hell” for retiring with a loan or mortgage. But you do need to realize that servicing any indebtedness in retirement is going to require a commitment from retirement cash flow and the assets that create that cash flow.