Changing careers later in life requires careful financial planning

ANNA SHARRATT
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Legacy careers are a way to earn income and remain productive in retirement.
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Jason Abbott has seen many of his clients make career changes later in life, choosing to shift gears between the ages of 50 and 75. Most launching these "legacy careers" opt for consulting roles, teaching or businesses like interior design. For many, it's a way of extending their ability to earn income and remain productive rather than slowing down.

However, one of Mr. Abbott's longstanding clients recently made a more dramatic shift. "He sold his house in Toronto, bought a chunk of land and has taken up farming," says Mr. Abbott, a financial planner and president of WEALTHdesigns.ca Inc. in Toronto. After three years, the client is now turning a profit.

"You never know what interests people have and what situation might come along," he says.

For many Canadians who are financially self-sufficient, making the transition to a legacy career is primarily a way of exploring a new field, says Teresa Black Hughes, financial advisor, associate portfolio manager and director at RGF Integrated Wealth Management Ltd. in Vancouver.

"For many people that I've seen it was a choice – not a 'have to' situation," she says.

For some, it can also be a way of increasing their income if retirement funds are inadequate and a comfortable retirement isn't in the offing.

Chris Merrick, a fee-only, advice-only financial planner with Merrick Financial Inc. in Toronto, says many clients see legacy careers as a way to move out of a full-time role while retaining control of their hours, where they work and how much work they take on.

"It's an excellent idea as it helps you move into retirement and can reduce stress," he says.

But the decision to change careers can lead to significant upheaval: lifestyle adjustments, fluctuations in income and tax implications. As a result, advisors need to let their clients know exactly how a legacy career might affect their lives and their finances.

Here are a few of the top considerations for clients.

Is there an income/funding plan?

Clients need to consider how a shift in income will affect them. A dramatic career change – as in the farming scenario noted earlier – may require a significant reserve to get started, possibly through the sale of a cottage or house, Mr. Abbott says.

With less dramatic moves – in which the client is launching a business similar to what they did before – there can be new expenses: start-up costs such as marketing materials, a new website, accounting software, supplies and staff.

Ms. Black Hughes also says that clients need to think about the costs of maintaining professional licences, which can be very expensive, as well as courses or training. And they should factor in the costs of ensuring their data are protected through cybersecurity software.

How will RRSPs be accessed – and when?

For those with lower incomes – especially just after launching their new careers – a drawdown of registered retirement accounts may be needed to keep afloat, Mr. Abbott says.

But affluent clients who will likely earn the same or more can delay the withdrawal of assets from registered accounts to prevent a big tax bill, Mr. Merrick says: “The real benefit of legacy careers is that they defer the drawdown of those assets for five or 10 years.”

Will this require a lifestyle adjustment?

“Your expenses have to drop in lockstep to the income drop,” Mr. Merrick says.

That could mean relocating to a smaller, less expensive community, giving up a second car or forgoing vacations. And that can have a big impact on a spouse who foresaw a leisurely retirement filled with travel.

“Consult with a partner or spouse about what your retirement might look like,” Ms. Black Hughes tells clients. “Do they have the same vision?”

Will health benefits be lost?

If a client is leaving a full-time employer and moving into self-employment, they may be able to carry on their health benefits through an arrangement with the insurance company. But in many cases, Ms. Black Hughes says, they will lose their benefits and will need to purchase them independently.

She says clients should consider the costs of any medications they're currently taking and pre-existing conditions they have: "It can be very expensive to purchase coverage."

A career transition after the age of 50 can be a rewarding bookend to a successful career, Mr. Abbott says. But the financial consequences and retirement plans need to be considered carefully.

"Do your due diligence," he says. "Know what you like and go in with your eyes open."

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