

Douglas V. Nelson

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Master Your  
**RETIREMENT**



How to fulfill your dreams with peace of mind.

## What Others Are Saying About *Master Your Retirement*

“Reading *Master Your Retirement* enabled us to understand many of the strategies necessary to plan our retirement, particularly from a taxation perspective. Because we were nearing retirement, it was very relevant to our situation and opened our eyes to the many areas of investment savings to be had by applying the principles in the book to preserve our wealth. Truly timely advice for any age wanting stability with growth. - D. & P. RUDD. LETHBRIDGE, ALBERTA

“If you read one book on retirement, read this one. In this easy to read book, Doug Nelson demystifies all of the key factors that must be addressed in order to *Master Your Retirement*. Highlighting sometimes obvious, but often misunderstood hidden obstacles, such as the Great Killers of Wealth, and identifying our changing needs as we progress through the different phases of retirement, Doug ties it all together by offering a retirement roadmap that ensures you can sleep at night knowing that you are in control of the best stage of your life.”

- J. CAMERON STOTT. WINNIPEG, MANITOBA

“*Master your Retirement* is a book for all ages! In fact, the sooner earners of financial resources read this book the better. The financial benefits of doing so can be substantial, in fact, life changing. The book is clearly written, contains a wealth of information and gives concise financial guidance for many stages of life, both pre and post retirement. It is a book that all parents should gift to their adult children - I did!” - J. PETERS. WINNIPEG, MANITOBA.

“A great book that every Canadian thinking of retiring in the next few years, or newly retired should read. It covers all the required subjects, but ties them back to easy to understand case studies. This updated version emphasizes the importance of a financial plan, but also the importance of regular updates when things don't go as planned such as the Great recession of 2008-2009.

An easy read that you will thoroughly enjoy. “

- M. LAMONTAGNE. PARTNER. RYAN LAMONTAGNE INC. OTTAWA, ONTARIO.

“*Master Your Retirement* helped me to focus on all financial aspects, what to look for, and the importance of paying attention to the “5 killers of wealth” in order to assure a successful and comfortable retirement. At the end it is important what we keep in our pockets.” - A. KONCZ. TORONTO, ONTARIO.

“I have read several excellent books on retirement. I think *Master Your Retirement* by Doug Nelson encompasses everything the others don't. Doug's book is clear and concise and written so that anyone can understand investing and retirement.” - B. ELZINGA. CALGARY, ALBERTA

“Doug's straight talk and common sense approach to building wealth and understanding the importance of balance in life is refreshing in an industry that chases overnight success - most often the financial advisor's success. In my opinion, few financial advisors take into account the big picture of what is really important in life and instead over promise and under deliver. Doug's book provides the tools for a real life approach to success, inside and outside of your bank account.” - A. DE GAGNE. WINNIPEG, MANITOBA.

“For those who are not fortunate enough to look forward to a gilt-edged retirement pension, *Master Your Retirement* is a must read. Very well written and easy to understand, the detailed information on CPP, OAS and GIS, which almost all Canadians will to some degree benefit from, offers excellent insight into what is available and how to use to your best advantage. With the massive wave of Boomers currently entering their retirement, this book will be extremely useful.”  
- B. ARBUCKLE. TORONTO, ONTARIO.

# Master Your Retirement

How to fulfill your dreams with peace of mind

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MASTER YOUR RETIREMENT - Third Edition  
How to fulfill your dreams with peace of mind

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Printed and bound in Canada

### **Library and Archives Canada Cataloguing in Publication**

Nelson, Doug, 1967-

Master your retirement : how to fulfill your dreams with peace of mind / Doug Nelson.

Includes index.

ISBN No. 978-1-92749-518-6

1. Retirement income – Canada – Planning. 2. Finance, Personal – Canada. I. Title.

HG179.N45 2008 332.024'0140971 C2008-908024-6

Published by:

Knowledge Bureau, Inc.

187 St. Mary's Road, Winnipeg, Manitoba Canada R2H 1J2

204-953-4769

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Page Design and layout: Karen Armstrong Graphic Design



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# Foreword

## Why You Need to Read This Book Today

This is a book for people of all ages. It is written for people who don't just want to "do" retirement, but instead, this book is for you if you want to truly "*Master Your Retirement*".

I want you to have it all, whatever this means to you, in your retirement! And so I have written this third edition of *Master Your Retirement* so you can understand, plan and control your wealth with stealth!

I have broken this journey down into several sections:

- **What the Masters Do:** In this first chapter, which is new to the third edition, I will begin by sharing with you traits and strategies already being used by those who are mastering their retirement today.
- **Understanding the Killers of Income and Wealth.** Next, we will reflect on those things that stand in your way of being financially successful. Don't be a victim of the unexpected. We will show you how to identify and stop the erosion of both your retirement income and capital, so you can easily maneuver through the rough waters that will inevitably occur.
- **The Retirement Rules:** What rules do you need to know to ensure you meet your objectives? What rules do you need to know to find the right balance between income, taxes, fees, and portfolio risks? What do you do first, second and third? How do you weigh the pros and cons of various options? How do you select the best combination of investment tools? You see, unless there are some clear "rules" to follow, you will be like a cruise ship sailing across the ocean with no captain and no rudder (and we have all seen recent examples



of what can go wrong when this occurs). This, in my view, is one the key reasons why people tend to get into unexpected troubles in retirement. They are either not aware of these important rules, or they fail to follow them over time.

- **The Phases of Retirement:** In this section I will outline for you the five most common phases in retirement and how you can best prepare for each. You will learn how a plan for each can help you maximize even the least enjoyable parts of the journey by knowing what to expect and how to deal with the unexpected. This is all about being forward looking and being prepared. But this is also all about breaking down your retirement years into several smaller stages. Whenever you can break down a larger problem or activity into smaller steps, you always get closer to mastery.
- **The Retirement Mastery Process.** In this section I will encourage you to think in terms of three important processes: i) the month by month mastery process, ii) the income layering process and iii) the portfolio risk management process. You will see how to defeat the sneaky and dangerous Killers of Wealth in each. You will also see why “investment product planning” comes last, after the strategic planning to avoid those killers of your wealth. The portfolio should be designed to deliver the right income at the right time with the least amount of risk and the least amount of tax. The plan for income must always come first. This chapter also talks about reflecting on your current life plan throughout each year. It is always important to have something to look forward to, so living a purposeful life is also key to your success, happiness and peace of mind.

In each chapter of the book, I will provide several practical strategies for you to consider. The ideas and strategies in this book come from over 45 years of real life experience in our family practice. We know what works with families who have experienced retirement. We have found that the best approach, frankly, is to keep it simple.

But before you begin, I wish to add one final point. Like all things in life, the greatest results are achieved with effort. I am not going to promise you that “mastery” will come by putting your retirement plans on auto-pilot or by investing your hard saved money into pre-packaged, financially engineered products that are meant to protect you from all that ails this world.

No, instead I’m going to say that today the world is as it is. It ebbs and it flows, from good times to bad and back again. The current and future markets will always be volatile and uncertain. The economy will always grow and then contract, sometimes lasting for 15 to 20 years at a time. Without question, retirement is

a challenge, but this is no different than everything else you have experienced in your life up to now.

If you are looking for the next great investment idea or the next great product solution, this book is not for you. In my experience, there are no quick fix solutions or easy, one-size-fits-all strategies for retirement success. (Sorry to be the bearer of bad news.)

Instead, this book focuses on principles, benchmarks and strategies to:

- Reduce taxation.
- Reduce investment management fees.
- Address head on what we call the “5 Great Killers of Wealth”.
- Provide benchmarks for making decisions.
- Break down your retirement years into meaningful stages.
- Identify and manage the risks to your retirement plans today.
- Help you prepare a buffer to all of your decisions.
- Help you create a reliable, consistent and low risk income stream.
- Help you gain the most from your government benefit plans.
- Help you get the most out of your retirement years, bringing you the confidence and peace of mind that you so richly deserve.

While it is nice to think about retirement as a constant period of sunny skies, sandy beaches and unlimited resources, this is far from reality for the vast majority of people. In fact, the struggles you have faced all of your life will often continue into retirement:

- You will worry about your kids and grandkids and will want to support them in any way you can. It is hard for most of us to stop being a parent.
- You will worry about your health and the health of those around you.
- You will worry about your finances and the security of your income.
- You will be hit with unexpected (yet predictable) expenses to maintain your home, your cottage, your vehicles and your travel health insurance.
- As of result, you will have a strong sense of urgency to live for today regardless of the impact this may have in the years ahead. If you string together many back to back years of living for today, you will find over time that you are continuously setting the bar of happiness higher and higher, yet never to be totally fulfilled and potentially closer to financial hardship.
- You will be confident and on top of the world in one moment, and likely frustrated and challenged the next. This will occur time and time again due to constant changes in your finances, your health and your relationships.

How do I know this? I know this because as a financial advisor, and the second generation owner of our family business, we have seen the lives of our clients ebb and flow over the past 45+ years, and I can assure you that this ebb and flow does not stop once you declare yourself retired. There is nothing magical that happens when you enter retirement that suddenly makes you immune to the trials and tribulations of everyday life. The sooner you acknowledge this, the closer you are to mastering your retirement.

What if I told you that you could have:

- Significantly more income in the future, so you could do all the things you most want to do,
- The peace of mind of knowing you can reduce the risk of running out of money in your retirement,
- The confidence of knowing that your portfolio can withstand typical market volatility,

...would you be interested in learning more? I hope so, because these three goals are achievable.

What if you knew you could have hundreds of thousands of dollars more to spend throughout your retirement – without taking on more risk or winning a lottery – would you be interested in reading further? Most people would!

This book is all about achieving real results for you and your family:

- Receiving a consistent and reliable income in retirement (so that you can plan your affairs with confidence).
- Paying the least amount of taxes and fees on your investments (to increase the real value of your income, so you can preserve more of your savings).
- Having a low risk investment portfolio (for peace of mind and reliability of cash flow).

Very simply put, the road to Mastery includes three key points:

***Pay Attention to the Details***

***Pay Attention to the Killers of Wealth***

***Follow Time Tested Financial Rules and Principles***

From my point of view, these three areas are rarely discussed in other retirement planning books or seminars. This is why this book is so important to you today. When you focus on Mastery, you always achieve more. So, don't just "do" retirement, together let's "*Master Your Retirement!*"

Douglas V. Nelson

# Introduction

## Understanding Today's Retirement Reality

Something is only as good as what you can compare it to. Let's look at some of the most recent retirement statistics, from Canada and around the world.

In the most recent Canadian Census we see:

- The average age in Canada in 2014 is age 58. There are more 58 year olds than any other age group today.
- The baby boom demographic represents 30% of the population in Canada. This group represents those between age 46 and 66 in 2014 (those born between 1946 and 1966). In 2011 the first of the baby boomers reached age 65.
- As the baby boom demographic ages, the growth of the elderly population will begin to accelerate considerably. This will have far reaching changes on our economy. Those age 55 and over will outnumber children within 10 years. This changes the taxpaying base, (fewer taxpayers in the absence of population growth), while at the same time increasing certain social costs, like health care. On the flip side, education and child care costs may change, too.
- One in seven Canadians, or more than four million, are now elderly; two thirds of the very elderly are women. For a variety of reasons, women traditionally have fewer savings than men.
- The average life expectancy of Canadians, which increased appreciably over the past century, is now 82.5 years for women and 77.7 years for men. Retirement for most means a longer period for which income must be planned.

- The proportion of very elderly – aged 80 and over – increased by 25 per cent between 2001 and 2006, second only to the rate of growth of those aged 55 to 64, and surpassed the one-million mark. Age-related disabilities increase for many in the over-80 years, requiring more expensive services, like home care or nursing home care.

According to Statistics Canada you might be surprised to know that of 7.4 million people aged 55 and over, 4.7 million (63.7%) had already retired once. Of this group, 784,000 (17%) returned to work after they “tried out” retirement and found they wanted something different. Approximately 48% returned to some form of work for financial reasons, while others returned to work due to the availability of new, interesting and inspiring job offers. Since the financial crisis, most people have delayed their retirement in order to make up for the ground lost in their portfolios. Unfortunately, this was not possible for those who became sick or were caring for the sick.

This is a serious economic problem for pre-retirees. Of those who did retire,

- 23.7% retired initially due to personal and family responsibilities, often related to family care giving.
- 22.8% retired initially due to personal health concerns.
- Only 19.6% of the group retired because they now qualified for a full pension.

So in as much as you may think you are in control of your future, the reality is that only 20% of those who retired in the last several years did so because they could. Over 45% of Canadians who did retire, did so *for reasons beyond their control*.

All of this information points to the fact that no two retirements are alike and that virtually every retirement is unique (based on the jobs, incomes, pensions, ages, preferences, abilities, health, priorities and interests). To add to this complexity is the fact that both spouses in today’s modern age have typically had an income and typically have some form of retirement assets.

These facts have two very significant implications:

- During the working years your family may have access to two to three different sources of income. Yet, in retirement *you could have 15 to 20 different sources of income, each taxed differently and each with different degrees of flexibility*.
- Since both spouses have contributed to family income and family savings, in most situations you are planning for “two retirements” and not just one. This can be good news, from a tax point of view, if it leads to family income splitting but this can also be emotionally challenging when couples strive to determine “what is best”.

Consider these real life complexities:

- Each spouse may retire at the same time.
- Each spouse may retire at different times.
- One may retire many years before the other due to a significant difference in age.
- One may wish to travel and volunteer time in the community while the other may wish to stay at home and putter in the yard.
- One may wish to do whatever possible to retire from a stressful current work environment, while the other may have significant retirement goals and plans and can't wait to begin to act on these plans.
- One may be forced to retire gradually, or all at once, due to health issues. The other spouse may wish to retire sooner than planned due to the health care needs of another family member.
- One may retire for a short period of time, only to go back to work again on a part time basis. The other may retire for a short period of time, only to start a small business a few years into retirement.
- One spouse may wish to spend more time with grandchildren, while the other may wish to spend more time with long lost friends.
- One may wish to remain active in a variety of sporting and other social activities while the other may wish to stay close to home and enjoy the tranquility of the garden.

In Canada and around the world we are also seeing many interesting trends:

- The number of “gold plated” pension plans are on the decline. This means that everyone will need to be a better saver and investor. In Alberta alone, it is estimated that only 15% of the population have defined benefit pension plans (i.e. teachers, nurses and other government employees).
- Health care costs for a typical retired couple in the US tops \$215,000 (US Bureau of Statistics). While we may not see these expenses directly in Canada, we can still all appreciate that these costs still exist and that someone has to pay for them. These costs will need to be paid, either through taxation or through medical user fees.
- In 2011, over 5 million Canadians contributed to their RRSP (source: Statistics Canada). This is good, but with the average contribution being only \$2800; this is nowhere near enough to meet one's retirement goals. Even at a rate of return of 5% per year, over 20 years this contribution level will result in only \$92,000 in total savings. At age 65 this would provide only \$4000 to \$5000 of income per year. This is a good start, but is clearly not enough.

- Recent surveys suggest that as much as 70% of retired people expect to be working in some capacity during their retirement years. Of these people, 29% will work part time for their own enjoyment and may be for no pay whatsoever, 22% will work for additional income, 11% will be running their own business, 6% will work full time doing something completely different and 2% of those surveyed suggested that they had no intention of stopping work at all (Source: Staying Ahead of the Curve, a 2007 National Survey of 1500 workers age 45 to 74). This is the same trend that I see today with my clients.
- Perhaps this trend is suggesting that working beyond age 60 and 65 is becoming a much more accepted norm today and in the future. As people are living longer, many wish to remain active in work for their own enjoyment, fulfillment and feeling of self worth. In a recent UK study, this additional work actually led to greater longevity as well. It is estimated that more than a million people in Britain are now working past the age of 65. The Institute for Economic Affairs (IEA) found that giving up regular work appears to trigger a drastic long-term decline in both physical and mental health. The number of people working past retirement age is growing at a rate of 10% per year. As a result, the number of people accepting early retirement is also on the decline. (Source: Telegraph, UK).
- When we talk about health in an aging population, we also see that Japan has the oldest average age of any country. What is their secret? Would you believe regular exercise? Japan is known as having the greatest “healthy life expectancy”. This refers to the number of years that a person can expect to live in good health. In Japan, these figures are estimated to be to age 73, on average, versus age 68 for the US (source: Journal of the American Medical Association). The US ranked 26th out of 34 advanced-economy countries in the study. “Exercise for aging is truly the fountain of youth,” said Paula Papanek, program director of the exercise science degree program at Marquette University in Milwaukee. Simply put, those who are more fit in their retirement years live a higher quality of life and spend considerably less on health care related costs, both direct and indirect costs.

With all of this being said, it would appear that an overall “retirement plan” can be hard to nail down. Yet, without a plan, you are like a cruise ship that has no way to steer. You may end up simply adrift for years and years, only to end up like a capsized vessel somewhere off the coast of Italy, which may result in financial turmoil or broken relationships.

But at the same time we are seeing other countries around the world embrace

a different view of retirement; a view that includes working in some capacity beyond age 65 and into one's 70's. A view that includes a greater attention to one's health, diet and exercise, not only in retirement but in the years leading up to retirement. One of the keys to a healthy life expectancy is simply to embrace a more healthier you. This is very different than the historical view of a retired person being old, slow and fragile. This is also very different than the traditional notion that "retirement" is a cold turkey event: one day you are working 50 hour weeks and the next you are basking in the sun, only to live happily ever after. It's a nice thought, but a reality that is less and less common.

Yes, for many people, retirement can be the new adventure they have pictured, but it doesn't necessarily come without some well thought out plans that include one's health, exercise and some form of work. These are all things, as we are beginning to see, that contribute to a great, masterful retirement.

With this being said, we then recognize that there are several components to an ideal retirement plan.

- **The Lifestyle Plan:** These are the things you wish to do during your retirement years. This will include your plan for exercise and health, your plan for work and your plan for play. Most retirement plans will also include a series of stages, where each stage may represent 3 to 5 year periods of time. One stage may include more travel whereas another stage may include more time with the grandkids. One stage may include more work for income while another stage may include a greater degree of volunteer activities. All of these components will be considered in your lifestyle plan. The clearer you are on those things that are important to you in your Lifestyle Plan, the more energized and passionate you will be in your life.
- **The After-Tax Income Plan:** This is a breakdown of the after-tax income you will "need" to cover your basic living expenses as well as the additional after-tax income you will "want" so as to meet your lifestyle objectives. This is a technical component of your overall retirement plan that needs to be consistent with your Lifestyle Plan. The first goal is to have a clear understanding of the income you will need each month, after-tax. The second goal is to ensure that you are spending your money in a manner that is consistent with your Lifestyle Plan. Finally, the third goal is to ensure there is no wasted money. You've worked hard to get where you are today, why waste what you've worked so hard to accumulate?
- **The Income Tax and Portfolio Plan:** This is the way in which you will draw the income you need, when you need it, so that you pay the least amount of tax and have the lowest risk portfolio. If you work part time for one or more



stages in retirement, this will influence which source of income you draw from first, second and third. This is the critical component that builds the bridge between your Lifestyle Plan and the After-Tax Income Plan.

Since your retirement years will consist of a series of multi-year stages, all three of these plans need to be reviewed every 18 to 24 months. This is how you will gain the most amount of life in each of the years ahead.

Alternatively, your overall retirement plan should never be only about the money and your rate of return. Nor should your retirement plan ignore the money, the portfolio and taxation. That's the first thing you learn when you do retirement planning. You may find that surprising, but it's true.

Sometimes a retirement plan can be hard to nail down because you end up focusing on only one of these areas while ignoring the others. Some people will spend considerable time focusing only on the income tax and the portfolio and forget that they need to plan to live a full and vibrant life. Some people will spend time focusing on the full and vibrant life but be disappointed when the money is not there to fund such a life. Others may ignore both the "after-tax income plan" and the "income tax and portfolio plan" by simply turning on all sources of income at the same time and basing their lifestyle on only what they receive. In this instance, the couple may be paying way too much tax or taking way too much portfolio risk. It will be the taxation and portfolio risk that may ultimately cause them great financial harm in the end.

***Retirement means different things to different people, none of which are wrong or inappropriate, they are just different.***

To incorporate all aspects of change, you need a strategic retirement plan, your roadmap to navigate your course or a required change of course.

*So what is today's retirement reality?*

- Your retirement years will consist of a series of stages and transitions. Each stage will last 3 to 5 years in length.
- During one or more of these stages, global trends indicate that you will likely work in some capacity. In some instances this will be for additional lifestyle income while in other situations it may be for additional stimulation and socialization.
- A healthy diet and regular exercise is critical to a healthy, active and dynamic retirement. This adds life to your years while at the same time potentially reducing the risk of additional health care costs.
- Couples need to plan for two retirements, not just one. This approach will help to honor the interests and needs of each spouse over time.

- You will likely have access to 10 or more sources of income throughout your retirement years. The key is determining how best to draw from each source so as to minimize the impact of taxation over time, while also producing a secure income with a lower risk portfolio.
- Finally, today's retirement reality is that retirement is no longer a cold turkey event. For most people, retirement is simply a series of transitions over a longer period of time, as people gradually transition away from full time employment. As a result, the key to Mastery is to be clear about those things of which you are most passionate and to live a joyful life.

## IN SUMMARY

### **Master Your Retirement – Introduction**

By following a retirement plan and reviewing it every one to three years you will truly *Master Your Retirement*. You will:

- Adapt to changing circumstances easily,
- Reap the benefits of tax efficiency,
- Live the life you most desire to have,
- Sleep comfortably at night knowing your portfolio has the right risk profile and your basic income needs will always be met,
- Pro-actively plan your future,
- Leave nothing to chance,
- Avoid family conflicts and miscommunication,
- Maximize your lasting legacy for generations to come.

You need to be forward-looking, to anticipate changes before they occur.

### **Things You Need to Know**

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- The economy and the stock markets will always be uncertain. Never coast. Never put your retirement plan on “auto-pilot”.
- The best way to *Master Your Retirement* is to “focus on the details”: learn from the Masters (Chapter 1), defeat the Killers of Wealth (chapter 2) and follow the rules (Chapter 3).
- Government programs are always changing. It is important to stay on top of these changes.
- As our Canadian population ages, more and more pressure will be placed on the health care system during a period when government income from income tax will likely decline. This means that the only constant will be change over your 20+ years of retirement.
- There are three components of a retirement plan: The Lifestyle Plan, The After-Tax Income Plan and the Income Tax and Portfolio Plan.

### **Questions You Need to Ask**

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- What are your greatest fears about retirement?
- What would you consider to be the greatest risks of retirement?
- What do you look forward to most about your retirement?
- What does the ideal retirement look like to you?

- To overcome the fears and risks, and to achieve your ideal outcome, how much effort are you prepared to undertake to truly *Master Your Retirement*?

### Things You Need to Do

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- Be open with your spouse. Talk about the things that you are fearful of and be confident in addressing these issues openly. The worst thing you could do is avoid addressing the difficult issues.
- Be open to learning new things. This will include learning new things about taxes and investments, which may be areas that you are not comfortable with today, but are critical to your long term success.
- Be open to change. Retirement is a long period of time and you and your spouse will evolve during this time.
- Be open to the downside of aging. Aging is for the birds. It is not necessarily a pleasant ordeal to say the least, but it is a reality. To be in denial is to miss opportunities to be with family and friends. To face it head on will result in happier times.
- To minimize the impact of aging and to gain the most from your retirement years, a healthy lifestyle is a critical component of your retirement plan.
- It is becoming the norm to work in some way in the first few years of your retirement.
- Be forward-looking. The single greatest thing you could do to avoid the poor house, is to be forward-looking. This is the process of anticipating future scenarios so that no matter what happens, you are ready.

### Decisions You Need to Make

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- Will my spouse and I retire at the same time?
- Will we retire at once or will we retire gradually?
- Will we commit to the 12 month plan outlined in Chapter 12?
- Will we commit to trying new things in retirement?
- Will we commit to Mastery?

## Mastery Principle

To *Master Your Retirement* is to visualize your retirement three years at a time so that you ensure that you have made plans for all aspects of your life: career, physical activity, health, your spouse, your family and your other relationships.

To have a plan that you are excited about is one of the great contributors to longevity, health and happiness. This is just one of the key differences between people who just “do” retirement, and those who “master” retirement.