## Three Cycles of Retirement Spending

**Phase One—10-to-15 years**

"I want to do it all."

SPENDING MORE: Free time allows you to buy luxury goods, travel, play golf, sail, and participate in other favourite pastimes.

**Phase Two—5-10 years**

"Been there, done that."

SPENDING LESS : Old golf injury acts up, health issues impact travel and you increasingly opt for community-based leisure activities.

**Phase Three—5 or more years**

"Help, I can't get up."

SPENDING MORE: Mobility becomes an issue and rising medical and health care costs push expenses up.

- 1. Will your lifestyle change?

  A common mistake when looking at substantial proceeds from a business sale is to divide your newfound capital—x% to live on, x% for the kids, x% for the grandkids, x% for charity, etc.—before you've calculated your burn rate.

  Wealthy retired people rarely live on any less than their current spending rate. If anything, their cash consumption will rise because they'll have more time to spend their money. Even traditionally stable expenses like housing costs can increase, since downsizing doesn't always mean the new home is cheaper, and a second property often enters the picture.

  So start by assessing your wants and needs.

- 2. How do you want to change your loved ones' lives?

A large windfall makes it natural to contemplate what those funds can mean for your descendants. But you need to focus on the effect of what you'll give, and not the amount. For instance, giving a child $250,000 when she's 30 to start a business or buy a house could have a greater long-term impact on her life than leaving her $1 million when she's 60. Or, you could deploy the capital sooner and bankroll a grandchild's education when he reaches age 18.

- 3. What kind of philanthropic legacy do you want?

Many business owners earmark a large part of the proceeds from a sale for charity. How can your philanthropy make the most difference? Should you leave a bequest? Donate a lump sum now? Distribute it over time? Create a foundation or join a community foundation?

## How Long Will it Last ?

Yes, there are variables that dictate how long a given lump sum of capital will continue to provide comfort for future generations. There's no handicapping volatility, market returns, or Black Swan events, such as 9-11. Recessions happen. Financial crises are an inevitable part of life.

But, you still want a peek into that perfect world*, where returns are respectable, inflation reasonably steady, and your investments (or the proceeds from a business sale) are properly managed, and grow at a predictable rate. Here's a breakdown:

**$** If you have $4 million, you're set. And that's it. You have enough to retire comfortably and leave a little something for the kids. But this is in no-way multi-generational money.

**$ $** If you have $16 million, that's two-generation money. You'll retire well, and your kids won't ever have to darken the door of an office. Of course, if lazy kids aren't your goal, then you have some free cash to be a serial entrepreneur or do a few good works.

**$ $ $** $40 million is three-generation money. A sale to a third-party, or partial sale to one of your children who takes over the business, will provide enough to set up your children and grandchildren for life. At this point, the potential for spoiling the entrepreneurial gene becomes a real concern.

*Assumes three children per generation and a 5% return.

All of these strategies should flow from the answers to more fundamental questions.

Do you want to see the result of your largesse now, or leave a legacy when you're gone?

Do you want to donate as a family, bringing children together in a common cause, and perhaps helping them learn some lessons about altruism?

Do you want to have a say in how the organization spends your bequest and/or be part of the governance of a charitable body?

## 4. When sharing the wealth, how much is too much?

- One Vancouver businessman, who had sold his construction company, wanted to give his children $250,000 each to pay off their mortgages. But he balked when he considered how he was making it easy for them to simply buy more with what they would now be saving.
- Ultimately, he did pay off the mortgages, but with a condition. The children had to continue to make the equivalent of their house payments to him, and he would invest the money on their behalf.
- As a successful businessman, perhaps he just yearned to be in control; but he also wanted to ensure the money he'd worked so hard for was used appropriately.