Is a midlife career change a retirement killer?

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At the age of 46, just as her grown children were about to go to university, Donna Neff decided to give up her technology writing business and go to law school.Justin Tang/The Globe and Mail

The road to retirement should have been a smooth ride for Donna Neff. The house she co-owned with her husband was mortgage-free, they had some money in the bank, and Ms. Neff earned a lucrative income as a technology writer and consultant in Ottawa's high-tech sector, with clients that included the federal government and some blue-chip companies.

But at the age of 46, just as her grown children were about to go to university, Ms. Neff decided to give up her business and go to law school. She was 50 years old by the time she was called to the bar, and it took her about five years to build her law practice to a point where it started to generate a modest income.

"I earned more as a tech writer and consultant than I've ever earned as a lawyer," says Ms. Neff, who specializes in estate and trust law. "When I began law school, we had to remortgage our house because now we were down to one income and had three people in school.

"We've never been able to pay down the mortgage since then."

As Ms. Neff discovered, a midlife career change can have a tremendous effect on retirement planning. She's likely in good company; while there are no available statistics tracking late-stage career changes among Canadians, a 2014 study by the San Francisco organization Encore.org found that more than 4.5 million Americans had switched careers in midlife either to pursue more meaningful work or earn a better paycheque.

Lisa Taylor, president of Challenge Factory Inc., a career management firm in Toronto, sees this trend first-hand in her business. About 80 per cent of the clients who come through her door seeking help with a career change are older than 50, she says.

"It's realistic for people in their 50s to expect they will be vibrant and still contributing for another 20 years," says Ms. Taylor. "So a career change at this stage in life is definitely viable."

But it requires a lot of thought and planning, says Adrian Mastracci, president of KCM Wealth Management Inc., a Vancouver firm that provides fee-only financial advisory and portfolio management services.

"You need to ask yourself three questions: Why are you doing this, how will it help you and your family, and what are your chances for success?" he says.

Having a financial strategy is key, says Mr. Mastracci. He suggests mapping out a retirement projection to see what finances are going to look like under the new scenario. A career change may eventually translate into higher income, but in the short term it could mean less money coming in.

"It may take a while to get your new situation up and running, so have the discipline to hunker down now," he says. "Figure out how you can cut your expenses and see how you can continue to contribute to your retirement savings."

Paul Shelestowsky, a senior wealth adviser with Meridian Credit Union in Niagara-on-the-Lake, Ont., says it's important to create a budget that accounts for cash flow needs.

"And confirm that your new career income can handle those cash flow needs," he says. "If you don't have your inflows and outflows figured out, you're really rolling the dice."

Some people embarking on a new career may have an overly optimistic view of their financial prospects. While this view may well be justified, Mr. Shelestowsky recommends setting down a worst-case scenario plan that projects the impact on cash flow and asset base should the new career fall short of income expectations.

As Ms. Neff experienced, even financially successful career changes can take time to bring in the dough. This is why it's a good idea to build a financial cushion equivalent to at least three months' living expenses, says Mr. Shelestowsky.

"Not everyone making a career change will see their last cheque from the old job on Friday and then get a cheque from the new career the following week," he says. "You may need to pull out some savings. If you're going from making $80,000 to zero for the rest of the year, you may have to look at alternative sources of income and be prepared for what that's going to do to your long-term numbers."

For those going back to school, Mr. Shelestowsky suggests putting aside enough to cover at least one year's expenses. Those with a mortgage may also want to think about converting to a line of credit to ensure easier access to cash.

"With rates being as cheap as they are, it's not a bad idea – as long as there's a plan in place," he says. "That's where you'll want to get some guidance from a financial adviser, because you don't want to start drawing on the equity of your house without a plan in place."

Ms. Neff and her husband didn't seek professional financial advice before they remortgaged their home to support her career move. But in the late 1990s, when her law practice started to stabilize, they engaged a financial adviser.

"We started living more carefully and really focusing on putting money aside," says Ms. Neff.

She turned 70 last year and recently sold her practice, although she continues to work for the lawyer who bought her business. She owns the real estate space where the law firm operates and plans to sell that, hopefully at a price that will allow her and her husband to pay off their mortgage.

"I'm retiring next year," she says. "Our financial adviser says that, financially, we're okay now, but it took us a long time to get here."

Had she known in 1991, when she decided to go to law school, that her career change would have such an impact on her retirement plan, would she still have made the move?

"Absolutely," says Ms. Neff. "I wish I could have built a nest egg first, but it all happened so quickly, and I have no regrets."