



# AlternativChronicle

## Book Review: **The Real Retirement**



by George M. Klar.....President, Alternativ Solution Inc.

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**By:**  
**Fred Vettese & Bill Morneau**

Our last issue dealt with the complex subject of whether one could live comfortably in retirement solely on government programs.

In this edition, we continue the retirement theme by reviewing a new book on the subject.

#### **ASI — What we do:**

Alternativ Solution Inc. offers advice on capital market related issues for institutional clients (pensions, endowments, etc.) on an assortment of topics from investment strategy, risk management, asset allocation and manager review. The firm also provides advice to Trustees and Boards.

ASI is focused on the asset side of the ledger to assist in achieving better investment results while seeking to contain risk.

Mr. Klar sits on a Board committee for York University's \$1.5 billion pension plan.

...Cheers, GMK

Who would have thought the feel-good book of the summer would be (i) about retirement in Canada, and (ii) written by two well-known actuaries.

**The Real Retirement** (Wiley, 2013), written by Fred Vettese and Bill Morneau, has an upbeat subtitle "Why You Could Be Better Off Than You Think" and tackles Canadian's deep rooted fears of not having sufficient money to last through retirement. In a nutshell, there's much to like about the book .....especially if the message is correct.

At its core, the book states that Canadians are better off than they think and retirement won't be as bleak as we often believe. This book review provides my thoughts and a few pros and cons.

**Pros:** One of the main strengths of this book is that it investigates the financial health of Canadians using a lifecycle perspective.

With this, the authors examine Canadians' earning and spending habits during different phases of their lives. The goal is to determine the annual after-tax disposable income available for families after discharging obligations.

Then the authors compare the net funds available for spending for pre- and post-retirement couples who have raised a family of two. More-

over, they do this for five different income quintiles of the population. The results are illuminating....and dispel any notion that we need the same disposable income in post-retirement as we do before it.

The book delves nicely into the four pillars that are used to generate retirement income and discusses the effect of living longer. They offer a good review of the costs that disappear once we



are re-retired. The book is solid in delving into the three health Phases of Retirement. It also covers the basics of investing, types of investment vehicles (taxable and tax free) and a discussion about expected nominal and real returns. They also discuss how to manage a portfolio, the impact of fees on returns and shifting funds into RRIFs at age 71.

Based on their data, the authors conclude Canadians need far less money than they think to achieve a decent retirement. The authors acknowledge that the investment industry might not agree with their conclusions.

**Cons:** The book has a few negatives. For example, the authors do some data extrapolating, which is always

tricky. They believe the trend towards retiring after 65 will accelerate. This is debatable. Is delayed retirement a response to the recent global financial crisis? Will it continue or accelerate?

Some additional examples are: the book suggests affluent Canadians will bear more responsibility for healthcare costs. However, no guidance is given on how much savings to earmark for this. One chapter asks the question whether you should buy annuities, but offers no answer (it just says "keep an open mind"). Last, the book claims that selling a family home should cover costs for a move into a retirement facility. Yet the authors say 30% of Canadians don't own a home. What happens to these people?

**Closing Thoughts:** Who will want to read this book? Probably those thinking about retirement....people in their 50s and 60s. That's a shame since the 30s or 40s crowd would learn more (but they're not interested yet).

The authors' stated goal was to give readers enough information to stop worrying. Was this achieved? Yes, at a broad population level. Yet no book can put individual's fears to rest. For wannabe retirees, it means talking to a financial planner. If this book is the catalyst for this, then it has pointed readers in the right direction. □