

The Magic Number!

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The conversation with clients about retirement income planning is much different from those conversations that occur over the years while they are building retirement assets using vehicles such as pensions, [RRSPs](#) [1], [LIRAs](#) [2], [TFSA](#)s [3] and so on. Often, their focus is on being “conservative” because their understanding from public sources suggest that this is the appropriate approach to [managing their money during retirement](#) [4].

This “motherhood” approach to retirement investment planning suggests that once someone turns, 65 for example, that they need to increase their use of fixed income or bond funds at the expense of the growth opportunities inherent in the use of equity funds. But this ignores the risk of outliving your money as Canadians are increasingly living beyond age 90.

A recent IMCA International Conference held in Toronto during September looked at the whole issue of investment planning and management during the retirement years – **Focus On Investing for Decumulation***.

A desire to be “conservative” and protect one's capital from market corrections and other risks is a natural and understandable tendency amongst retirees. So they tend to look at lowering the risk in their portfolios while also reducing the actual and potential returns over time as a trade off they are willing to live with.

However, when you ask them what income they need, you often find that they need a higher rate of return than they expect in order to achieve their lifestyle goals as well as to offset the longevity risk of outliving their capital.

The other challenge is that if your portfolio return is below the minimum amount needed to be withdrawn from registered assets, such as RIFs, then your capital starts to decline from Day One. Assuredly, the rate of decline increases over time as the income needs often do not change but the percentage of assets to be redeemed as a percentage of the remaining capital increases, raising the risk of completely depleting your savings in a few years.

As speaker Moshe Mievsky noted, there are currently 7500 Canadians over the age of 100 and 80% of them are female. There are also 280,000 Canadians over the age of 90 with 75% of them being female. A retired couple, both age 65, today have a 50% chance that one of them will live past the age of 90. Therefore, outliving your money is a very real risk and a major factor in your retirement income planning.

The conclusion was that avoiding risk in your investment management strategy creates the very risk of outliving your money that you are trying to avoid in the first place!

So what is the correct financial planning rate of return assumption to use when discussing retirement planning with clients? Many pointed to 4% as the magic number for planning one's retirement over 30 years (yes your retirement may last as long as your working career). Others in the Conference suggested 3% as a more conservative number to use, arguing that investment returns may be lower over the next decade or more than what we have seen.

To generate a pension of \$25,000 at 4% you will need capital of \$625,500. If you use 3% as your long-term planning assumption then that capital figure jumps to \$833,334. So the planning assumption you use will make a big difference to your retirement income planning as well as to the risk of outliving your capital.

While there was no real agreement on what the “magic number” is, there was agreement on a number of strategies you can use to match your income needs, portfolio and longevity risk to your specific situation.

Call us today for a [review of your current or expected retirement income planning](#) [5] strategy!

*Investments & Wealth Institute, [Focus on Investing for Decumulation](#) [6]. Retrieved on November 16, 2017.

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