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FREDERICK VETTESE

THE

**ESSENTIAL**  
**RETIREMENT**  
**GUIDE**



A Contrarian's Perspective

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WILEY



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# The Essential Retirement Guide



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**A CONTRARIAN'S PERSPECTIVE**

**Frederick Vettese**

**WILEY**

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*To Michelle*





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## Preface

The grasshopper watches the ant working diligently all summer long, making a home and gathering food for the winter. Thinking the ant a fool, the grasshopper spends his summer days playing in the sun and consuming whatever food comes his way. When winter arrives, the ant is cosy and well-stocked in the shelter she has constructed while the ill-prepared grasshopper starves in the cold.

*Aesop's fable of the Ant and the Grasshopper*

A recent study by the Employee Benefit Research Institute (EBRI) reports that 20.6 percent of Americans who died at age 85 or older had no housing assets at the time of death and 12.2 percent had no assets at all. Corresponding percentages for Canada are not available but would probably be comparable.

It seems there are two ways to spin these data. The obvious conclusion is that the 20.6 percent group or the 12.2 percent group were classic Aesopian grasshoppers who failed to prepare adequately for retirement and received their comeuppance at the end of their lives. If this is the spin I thought you should put on it, this would be yet another retirement book exhorting you to save more.

There is another way to interpret the same facts. Given that fewer than 70 percent of Americans or Canadians own their home, it is remarkable that only 20.6 percent had no housing assets when they died. Some would have been too poor to own a home and would have been lifelong renters; there is no shame in that. Others, in King Lear fashion, would have given up their home to their grown-up children years earlier. Finally, some would have sold off their home to finance long-term care in their declining years. And yet nearly 80 percent *had* housing assets at the time of death. Equally amazing is that nearly 88 percent of all persons dying after age 85 had not exhausted their assets yet; many of them would not have expected to live that long.

What I take away from this is that we are not as ill-prepared for retirement as some people would have you believe. The majority will be more or less retirement-ready. Still, there is no question we can do better and do so with less pain and uncertainty during the accumulation process.

If we revisit Aesop's fable, maybe the real moral is more subtle than it appears. Nobody in his right mind would want to suffer the grasshopper's fate, but how appealing was the ant's life, really? She had no time for fun when the days were long and the sun warm—that is to say, during her youth—and while she may have been comfortable in the winter of her life, she was also old and stiff, with a diminished capacity for joy. The grasshopper, on the other hand, had enjoyed his days in the summer sun and yes, he did eventually die in the cold, but at least he had the solace of fond memories to assuage the harshness of approaching winter.

This is not to suggest that you do not need to prepare financially for retirement but it helps to be aware of the mindset you are bringing to the act of preparation. The very fact you are reading this book suggests you are more likely to be an ant than a grasshopper. In fact, both statistical and anecdotal data indicate that the majority of Canadians are ants (Americans apparently less so). As an ant, you are apt to oversave, to be unduly anxious about your retirement prospects, and to accept too readily any news story declaring the country is headed for a full-blown retirement crisis.

In this book, you will find a variety of evidence that, for the most part, should make you feel better about your retirement prospects. You will learn that your retirement income target is less daunting than you might have been led to believe; that government sources of pension are not going to vanish when you need them; and that if you make any reasonable effort at all to save, you will most likely find that finances are going to be the least of your worries in retirement. The trouble is, you will have a difficult time believing the evidence. There are three reasons why.

First, as the ant that you probably are, you are naturally inclined to give credence to pessimistic forecasts while regarding good news with a great deal of skepticism.

Second, the good news I will present—though I should warn it is not all good news—runs contrary to the vast majority of newspaper articles you will read on the subject. It is hard to change perceptions.



This brings to mind an observation by Daniel Kahneman in his book, *Thinking Fast and Slow*,

A reliable way to make people believe in falsehoods is frequent repetition because familiarity is not easily distinguished from truth.

The astute reader will be quick to point out that even if Kahneman's remark is true, frequent repetition alone does not make a statement false. In the context of whether our retirement anxiety is unfounded, that case still needs to be made.

The third reason why you will find it hard to believe in a positive prognosis for retirement is that supporting evidence for the most part is statistical in nature, whereas refutation tends to be anecdotal. Unfortunately, our brains are wired such that anecdotes carry more weight than statistics, even though the latter are no more than a compilation of the former. "When one man dies it is a tragedy; when thousands die, it's statistics."<sup>1</sup>

I have encountered this phenomenon myself many times. A woman once told me she would never wear a seatbelt because she had an uncle who escaped from a car accident virtually unscathed; he wasn't wearing a seatbelt at the time and had the good fortune of being "thrown clear." (I have always wondered how that works.) My pointing out to her that *not* wearing a seatbelt is 50 times more likely to end badly failed to change her mind. Indeed, any statistic seems less compelling than a pithy anecdote to most people, male or female. My hope is that the reader is not most people.

In case the reader is wondering, the author himself is a closet ant. Yes, I ended up saving much more for retirement than I will realistically ever spend. In my defense, it happened because of fortuitous circumstances that I could not have foreseen. One event in particular that occurred in the latter part of my working life markedly improved my financial situation at a point when it was too late to "un-save" in an orderly fashion. By the way, our tendency will always be to err on the side of caution, and not just because we are more like ants than grasshoppers. We do so because we need to protect ourselves if the downside risk is high, but we cannot afford to do nothing merely because we can see some upside potential.

If you are a fellow ant, I hope the information in this book will alleviate your anxiety about your financial future without tipping you

over into outright profligacy. If, by chance, you are one of those rare grasshoppers who got a hold of this book (maybe as a gift or you picked it up in a dentist's office out of boredom), I hope it will mitigate the guilt you may have felt up until now and help you to mend your ways without fundamentally changing who you are.

This book makes no claim to being a beginner's guide, but at the same time it attempts to avoid professional jargon. While some of the ideas explored are fairly sophisticated, I try to describe them in layman's terms.

One distinguishing characteristic of this book is that it is intended to be equally relevant to both Americans and Canadians. This precludes delving into the details on retirement vehicles or tax strategies, and I am happy to acknowledge that there are many other books out there already that do this admirably well. What this book can do is address the perennial retirement questions such as how much you need to save and how fast can you draw down those savings. These big retirement questions transcend borders.

Finally, the reader may be wondering about how the contrarian perspective promised in the title manifests itself within the book. When it comes to some of those perennial questions, my conclusions can differ markedly from many others in the field. Fortunately, corroboration from certain experts I respect has reinforced my own convictions. The challenge is in explaining how I got there without being too ponderous. I leave it to the reader to judge whether I have been successful.

Frederick Vettese

## Note

1. Attributed to Stalin. From the book, *The Time of Stalin, Portrait of Tyranny* by Anton Antonov-Ovseyenko.

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**PART**  
**I**

**THE RETIREMENT INCOME  
TARGET**



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# CHAPTER 1

## The Road to Retirement

**T**ake a good look at Figure 1.1. For those of you who have had to watch a loved one succumb to a critical illness, this chart might not surprise you. For others who assume they will sail through their first decade or two of retirement with no problem more serious than how to pay for the next Caribbean cruise, the chart may be a wake-up call.

In a time when we are constantly being told that we are living so much longer than we used to, it may be hard to believe that the average person has little better than a 50–50 chance of making it from age 50 to age 70 without dying or incurring a critical illness. By critical illness, I mean something really serious, such as a life-threatening cancer, cardiovascular disease, or kidney failure. (The full list is given in Chapter 21.) We might be living longer, but we humans continue to be a fragile species.

So why dwell on the morbid? These statistics are an important part of one's retirement planning. If we can change our focus from how many years we will live to how many years of healthy living we have left, it will better inform our actions while we still have the time and ability to act.

If you are age 50, for example, you might be thinking you have 35 to 40 years to go and possibly more. On the other hand, if you can expect to enjoy only 20 more disability-free years (or less), it might very well affect when you retire, what you do in your 60s and how quickly you draw down your retirement savings. Healthy life expectancy is just one of the issues we will consider in this book. But I am getting ahead of myself.



**Figure 1.1 The Fragility of Life**

Source: Canadian Critical Illness Tables (2008), reconfigured by Morneau Shepell

I will let you in on a little secret. Retirement planning can be as straightforward as following these six steps:

1. Save 10 percent of your pay each year.
2. Invest it in low-cost pooled funds, weighted toward equities.
3. Keep the asset mix the same, through good times and bad.
4. Apart from the mortgage on your home, avoid going into debt.
5. Pay off your mortgage by the time you retire.
6. Buy a life annuity at retirement.

This road map sounds rather simple, and it is. If you are able to follow it to the letter for your entire working lifetime—and experience no long-term unemployment or critical illnesses along the way—you will not go far wrong. In fact, you will fare better than most of your contemporaries. So why do you need this book, or any book on retirement planning, for that matter?

If arriving at your retirement goal was analogous to traveling to a destination, then the above six steps might get you to the right country but possibly not the right state or province. Moreover, the route may not be the cheapest, the shortest, or the most pleasant way to get there. At the risk of beating this metaphor into the ground, you might not be able to recognize the potential hazards along the way without a little more knowledge to guide you.



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