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The Retirement Dilemma: Part 1

In the 1960s, retirement planning seemed straightforward. The advice was to move all your investments into fixed-income products as soon as you retired. Why? Because taking risks during retirement was considered dangerous. Back then, this approach made perfect sense.

But here's the thing—this same advice still gets repeated today, sometimes treated as universal truth by some sources. Yet, the world has changed dramatically since the mid-20th century. So, is this old-school wisdom still relevant?

Let's consider a story to illustrate the point. A woman preparing Christmas dinner cuts the end off her roast before putting it in the oven. Her daughter asks, "Why do you cut the end off?" The mother replies, "I'm not sure—that's how Granny always did it. Let's ask her." When they ask Granny, she laughs and says, "I only cut the end off because my pot was too small!" The habit carried on for decades, even though they had access to larger pots.

Retirement advice from the 1960s is a lot like that story. Back then, life expectancy for someone retiring at age 65 was about 13 years on average. There wasn't a Canada Pension Plan, medical care wasn't as advanced, and work was far more physically demanding. In that context, avoiding risky investments made sense. Why bother with the long-term equity investments if your life expectancy was barely more than a decade.

Fast forward to today, and the picture looks completely different. A 65-year-old retired couple now has an expected life span of about 30 years. There's even a 50% chance that one of them will live past 90.

The 85+ demographic is the fastest-growing population group in Canada. With so many retirees living decades longer, does the "play it safe" strategy still hold up?

This brings us to the first big challenge of modern retirement: balancing safety with life expectancy. While it's natural to want financial security, sticking solely to fixed-income investments could create its own risks.

Now, let's dive into the second challenge: inflation. Imagine you retire with \$500,000 and invest it all in fixed-income investments yielding 3% annually. That gives you \$15,000 of income in your first year—enough to cover your living expenses. But what happens in year two?

Car insurance, property taxes, hydro bills, transportation, and food costs—most people assume these will rise over time. They're right. Many government budgets factor in annual increases of at least 2%, and wages for civil servants often rise yearly as well.

Here's the problem: while your "safe" income stays fixed, your cost of living keeps climbing. Over time, this creates a growing gap that can erode your financial security.

So, what can you do? That's the focus of Part 2, where we'll explore strategies to help your investments keep pace with today's realities.

In the meantime, if you're feeling uncertain about your retirement plan, give us a call. We'd love to help you build a strategy that keeps up with today's realities.

Questions about your retirement? We can help you with that.

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