Transcript for Sustaining your finances throughout retirement

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Muriel Howden:

So today's Webinar topic is Sustaining Retirement Finances in the Current Reality.

My name is Muriel Howdon.

I am the Executive Assistant and Senior Outreach

for RTOERO.

I will be moderating today's session and providing active offer for any participants who wish to ask questions or have information relayed in French.

Throughout the Webinar feel free to use the Q&A feature to submit your questions for our guest speaker.

[FRENCH]

Before we begin the Webinar today, we would like to pay our respect to the Indigenous lands that connect us across Canada.

I am speaking to you today from the traditional territory of many nations, including the Mississaugas of the Credit, the Anishnabeg, the Chippewa, the Haudenosaunee and the Wendat Peoples, which is now home to many diverse First Nations, Inuit and Metis Peoples.

We acknowledge, recognize and honour the ancestral traditional territories on which we live and work and the contributions to all Indigenous

Peoples, to our communities, and our nation.

Content repeated in French

So, I would like to remind you to submit your questions in English or French using the Q&A box.

Note that the chat will not be monitored, so please ensure your questions are answered through the Q&A feature.

And I would like now to introduce RTOERO Board Chair, Rich Prophet, who will introduce today's Speaker.

Rich.

Rick Prophet:

Thank you, Muriel.

Our presenter today is David Aston.

David is a freelance journalist who writes about retirement, investments, and personal finance as a second career after a first career in the corporate world.

He currently writes a regular column for The Toronto Star and has also written extensively for MoneySense, The Globe and Mail, and Morningstar.ca.

He is author of the Sleep-Easy Retirement Guide published in January, 2020.

David, the floor is yours.

David Aston:

Thank you so much, Rich.

So the topic today is sustaining your retirement finances in the current reality.

The key points that I'm going to cover is, first of all, you need to tailor the kind of advice you're going to hear today for your personal circumstances.

So, for example, if you have a defined benefit pension plan, that's very different than if you don't have a defined benefit pension plan.

So you need to take these differences into consideration.

You should cope with the current investing challenges that we face right now.

You want to have balance in your portfolio.

You want to have the right mix of stocks and fixed income.

You should try to structure your finances to generate steady cash flow.

So the first few points have been covered, I assume, so I wanted to start in again on point number 6.

So you should make sure that you have money available if you have an emergency need or other special need.

And I'm going to talk about that in more detail a little bit later.

You also need to ensure that your money lasts for life.

So you should address the risk of running short of money late in life.

And if you need professional financial advice, you want to make sure that you get value for that advice.

So it's currently a very challenging investing situation right now.

Stocks have been on a good run, so everybody's benefited from that so far, but they're very pricey right now.

So valuations by some measures are as stretched as they've been at any time since the late 1990s, during the tech boom.

Meanwhile, fixed income yields are very low and we're starting to see inflation rearing its head.

So the inflation in August of 4.1% on a year over year basis, that's the highest it's been in more than ten years.

So there's a big question about what's going to happen next.

It could be that the inflation is transitory.

It's part of the reopening of the economy, and interest rates might stay low.

On the other hand, inflation might turn out to be more entrenched and be more difficult to deal with, and interest rates might rise fairly quickly and be more of a threat.

What you want to do is be prepared for different possibilities, and that way you're not too badly off no matter what happens.

So you want to have balance in your portfolio.

So… basically, these days, stocks will provide the bulk of your returns, but stocks are also subject to periodic downturns.

So, fixed income doesn't generate a lot of yield these days.

But you need to rely on that for providing protection for your portfolio when stocks encounter these periodic downturns.

So you need both stocks and bonds.

If you have no DB plan, I would say 50% to 60% stocks with the remainder and fixed income suits many retirees.

However, it's very much an individual matter.

If you have a sizable defined benefit pension and little savings, I think the focus here is less on stocks versus bonds and more on keeping your savings accessible.

So if you encounter an emergency, you have money to deal with that.

And I'll talk about an emergency fund in more detail in a minute.

If you have a sizeable DB pension and ample savings, then you're in a position where you can take a fair bit of risk with your portfolio.

So in that case, you can justify more than 60% stocks, if that is what you would like to do.

If you have the risk tolerance for that.

It's a good idea to structure your finances to generate steady cash flow.

That's quite straightforward if you have a good DB pension.

That is basically what DB pensions do.

But it's a lot more challenging if you rely heavily on your portfolio.

It's helpful to think about generating cash flow in terms of layers.

So the base layer is the safe layer and that's kind of composed of cash flow generated by government pensions and your employer DB pension.

And if you have a good DB pension that may provide all your needs right there.

If you're dependent on your portfolio, you can add a second layer of steady cash flow based on drawing from that portfolio, and then the combination of the two layers will provide for your total spending needs.

Now, if you're heavily dependent on your portfolio, you want to avoid ever being forced to sell stocks at depressed prices to provide money to live on.

And the reason for that is if there's a stock market crash or big downturn in the stock market, you don't want to be in a position where you're forced to sell stocks at depressed prices to put food on the table.

Because if that kind of continues for a few years, it might result in having to sell stocks at depressed prices for so long that your portfolio might be very depleted.

And so when stock prices eventually recover, the fact your portfolio is so depleted might mean that it doesn't benefit very much.

So this is called sequence of returns risk, and it can really devastate a portfolio if you don't protect yourself from it.

Now, you can't predict stock downturns accurately in advance, so you always have to be prepared to deal with them.

If you're heavily dependent on your portfolio, two strategies to draw reliable cash flow are as follows: one is the bucket approach.

And the idea here is that you divide your portfolio into at least two buckets.

There's a safe bucket composed of investment grade short term bonds, for example, and there's also a risky bucket, which is where you put your stock.

So if there's a big downturn in the markets and stock prices are depressed during those times, you take your withdrawals from the relatively safe bucket and you leave your stocks in the risky bucket untouched for the time being.

And when stock prices recover and they're back up to more normal levels, then you can take your withdrawals from either bucket as suits your situation.

Another approach is reliable dividend investing.

The idea here is investing in blue chip dividend paying stocks that pay substantial dividends and also grow the dividends over time.

And the key thing is you want to go for the kind of stocks that can be more or less relied on not to cut the dividends during recessions.

And that way you ensure having a steady flow of cash flow that continueseven in difficult economic times.

Now, interest rates are very low, so you want to try to squeeze a little bit of yield out of fixed income, but you don't want to take too much risk.

So you don't want to chase yield.

And the reason for this is the fixed income side of your portfolio should be the relatively safe side, so you should take most of your risk on the stock side of your portfolio, and that way the fixed income can fulfill its role in providing stability.

Interest rates are very low right now, and it's kind of an open question about how much and how fast they will rise from here.

So bond prices move inversely to interest rates, and long term bonds are particularly vulnerable to rising rates, so you can get a little bit more yield from long term bonds compared to short term bonds.

But they also come with substantially more interest rate risk.

So you want to be very cautious about loading up on longer term bonds.

Now you can get a little bit more yield by going with small institutions that offer better GIC savings rates than the big banks.

But if you do that, it's very important to stay within deposit insurance limits.

You can get a little bit of extra yield with very modest risk by going with corporate investment grade bonds.

So that's worthwhile for many portfolios.

On the other hand, high yield bonds these days are highly questionable and the yield premium the extra yield you get these days for high yield bonds is very low by historical standards, so you don't get much extra yield, but they come with quite a bit of extra risk.

And the thing is, if you get hit by a big downturn in the stock market, high yield bonds, in those periods, high yield bond prices tend to perform similar to stock prices.

So if there's a stock downturn, high yield bond prices tend to get hit hard so they don't provide much stability to your portfolio when you need that stability the most.

It's a good idea to have access to an emergency fund or fund for special needs.

The traditional advice is to have at least three to six months spending, but I think some retirees can benefit from a year or more.

It's a very personal situation, so it's going to vary a lot from person to person.

Typically, you'd hold this money in a high interest savings account, although other accounts can work as well.

The money should not be in stocks, RSPs or regular non cashable GICs.

So, in many cases the money is separate from the investment portfolio.

But if you have cash in your portfolio and short term investment grade bonds in your portfolio and this money in your portfolio is not in an RSB, it's possible that those funds can kind of do double duty, so they're part of your portfolio, and they're also part of your emergency fund.

Now, if you're heavily dependent on your portfolio for money to live on, it's important that you maintain your withdrawal rate at a sustainable level.

Now, this is much less important for people with good DB pensions, so I'll deal with this very briefly.

The consensus sustainable withdrawal rate is 4% of the initial portfolio yearly, plus subsequent inflation adjustments, if you retire at 65.

And you should make additional adjustments for retiring earlier than 65 or later and for various personal factors.

Now, there's other reasons you can run short of money late in life, aside from investing misfortune.

And one of them is the possibility of encountering high care costs late in life.

And this is a potential issue for most middle-class retirees.

The seniors care and accommodation system is a complicated public/private patchwork.

So government provides quite a bit of care support, but they provide quite a bit in some areas and very little in others.

So, for example, in home care, there's limited government support.

It would typically take the form government might pay for two short visits of a care worker to come to your house to help you with bathing, if you need that help for very brief visits.

But government in general, they don't provide extensive support in the home, where it continues for a long period of time.

So if you need that, you have to rely on your own resources.

Also, many seniors who are starting to need a little bit of care, they choose to move from the family home into a retirement home.

And these retirement homes can include independent living.

Or if you need a little bit more care, assisted living.

And these retirement homes are essentially paid for out of your own pocket.

There's essentially no government support, except in special cases.

When it comes to long term care, there's extensive government support.

The costs here are shared.

You pay some of the costs yourself, but there's extensive government subsidies as well, and government ensures that no Canadian is turned away from these facilities for financial reasons.

But there are, shall we say, shortcomings with the nature of care in these facilities, which were demonstrated in the pandemic, so they're not a perfect solution.

Now, what makes sense is you make the most of government support where they provided and where it makes sense.

But at the same time where you need care that government doesn't provide support for, then you want to pay for it out of your own pocket.

So it's a good idea to have some money late in life that allows you to do that.

The reality is only the very rich can afford unlimited amounts of private care, so you have to pick and choose what you are willing to pay for.

Now, the good news is that a modest amount of extra money late in life can go a long way.

And I'll give some examples.

If you need a little bit more help in the home and government is willing to pay for, well, you can pay for some extra visits from a care worker to provide that extra bit of help, and you can do so out of your own pocket.

And as long as it's not too extensive, it's usually affordable for middle-class people.

When it comes to paying for long term care, the way that's done is different in different provinces.

In Ontario, everybody is assured of at least a basic room, but a basic room in Ontario generally means a shared room with a shared bathroom.

And if you want to be assured of a private room with a private bathroom, you have to pay for it.

Pay the extra amount out of your own funds.

And that extra amount is about $10,000 a year.

So a private room with a private bathroom, I think is well worth it if you can afford it.

So it's nice to have the extra $10,000 to be able to do that if you can swing it.

Another situation is you may be in a retirement home and you start to need a little bit more care, and when that happens, more care in a private facility means more costs that you have to pay for.

But you may still be at the point where you can still benefit from the extensive social amenities and recreational amenities that tend to exist in these private facilities.

So if you have a little bit extra money that can help prolong the stay in private assisted living for longer without being forced by financial necessity to move to long term care before it's medically required.

It's a good idea to have a backup planthat can generate extra funds, if it's needed.

Now, this is much less of a concern if you have a good index db pension plan.

One common backup plan is simply to tap the equity in your home.

This makes for a very versatile asset.

There are different ways that you can tap this equity.

For example, you can access some equity by downsizing to a smaller, cheaper home.

Or, if you're in the family home, you want to move to a retirement home, well, you can sell the family home and use the proceeds from the sale to help pay the often substantial cost of the retirement home.

Another situation is if you want to stay in the family home for longer, you can borrow against the home equity with a home equity line of credit or reverse mortgage, and that allows you to cover more care costs for longer in the home.

For renters it's helpful to have extra money in your nest egg.

And also to have a more conservative rate of withdrawal from your nest egg to help ensure that there's money left late in life for other needs.

Long term care insurance can potentially help, but on that I would be very cautious because it's not a very versatile asset.

You can run short of money and need money late in life for reasons that are unrelated to needing care.

So you might be in a situation where you've put all this money into longterm care insurance, but you might be in fabulous health, need money but can't access longterm care insurance.

So not a versatile asset, so I would be very cautious about it.

If you need professional financial advice, it comes in two forms: financial planning and investment advice.

Often you get both covered by the investment fees that you pay. In other situations if you want financial planning advice, it makes sense to go to a fee for service financial planner to do that.

And they can deal with whatever question you have.

There's lots of fabulous fee for service financial planners out there, and the cost is within reach by most middle-class people.

Now, it can be challenging to find good investment advice at reasonable cost.

There's a lot of good options if you have a lot of money.

Often, investment advisors with top qualifications and lots of experience have large minimum account sizes of $500,000 or a $1,000,000 dollars, or even more.

So it may be that, for example, if you're a defined benefit pensioner, your savings essentially has been put into the pension and you may not have a lot of additional savings that's outside the pension.

So sometimes these kind of investment advice options are beyond reach.

They won't take you on as a client.

So the mutual fund advisors are the main investment advice option for people with small size of portfolios.

The thing about it is the quality of advice varies and the fees are relatively high.

Now, there are some really good mutual fund advisors out there.

So, you can get… sometimes you can get really good advice and the fees can be well worth it.

Now, the value for advice is particularly the case if you get both really good financial planning advice and really good investment advice.

Now the thing about it is while that exists, it's kind of hit or miss as to whether you get that or not.

And if it's the case that you're finding that you don't get good value for your investment advice dollar, the thing to realize is you have other good investment advice options.

There are several direct, low fee mutual fund providers out there, and I named three here.

They provide good mutual funds, and they come with good investment advice.

They don't provide financial planning advice, but the investment advice is good quality.

And they charge a lot less in fee than conventional mutual fund providers.

So this can be a good option.

In addition, there's a new emerging option in Robo-advisors.

And now, by the sound of it, it kind of implies that all the investment

is automated, but in fact, you can get access to good quality human advice with Robo-advisors, and you save a lot in fees at the same time.

Now you have to be comfortable with digital processes and basically accessing your account online.

And if you have contact with advisors through the Robo-advisor, it's going to be by email or over the phone, not in person.

But if you're comfortable with that, Robo-advisors are a good option.

Also, do-it-yourself investing can make sense if you have the knowledge, confidence, inclination, and time to do it.

In recent years there's been lots of good developments that really assist with do-it-yourself investing.

You don't have to be a true investing expert to do it.

Some of these new options can make it easy for do-it-yourself investing, so you only need basic knowledge.

For example, some of the options there's now one purchase portfolio ETF that can provide basically all your portfolio needs just with one purchase.

These ETFs provide all the assets that you need to provide a fully diversified portfolio, and they take care of all the rebalancing and all the maintenance along the way.

So you don't have to worry about anything and all that's done with one purchase.

And the fees are very low to boot.

So the only thing you need to do in that case is have a sense of what your asset allocation should be, so you know which one purchase portfolio ETF to pick.

So there's some good options that bring do-it-yourself investing within reach of people just with basic knowledge who are looking for an easy solution.

So that concludes my presentation, and I'll now turn it over to questions.

Muriel Howden:

Thank you.

Thank you,

David, for a great presentation, lots of details, lots of insightful tips.

That was wonderful. I can tell you that we have received a lot of questions, so this is wonderful.

Just a very quick reminder to submit your questions to our guest.

David Aston, in English or French, using the Q&A box only, as the chat box is not monitored.

[FRENCH]

Okay, so let's see the questions that we have received.

David, the first one is from Judy.

And here's the question for you.

Does age affect how to arrange finances?

I am 71 years old, which I think would be different for a 58 year old.

David Aston:

Yes, I would say it does.

I think in general your financial needs are individual in nature, so it very much depends on all your individual circumstances.

So age tends to be a factor.

In general, for some of the questions, like the amount of risk that you take in your portfolio, it tends to make sense as you get older for many retirees to gradually take a little bit less risk.

But that doesn't apply to all retirees.

So it's very individual in nature.

But yes, age is a factor.

Muriel Howden:

Okay, great.

David, the next question came to us in French, so I will read it in French first, of course, if it came and then I will give you the question in English.

So the question is

[FRENCH]

So, the question in English is, "Should a retiree start one CPP, the Canadian pension plan pension as early as possible at age 60 or defer the start until later?"

I am thinking of the situation facing a teacher who turns 60 after retiring in their late 50s with a teacher's defined benefits pension.

So, David?

David Aston:

Yes, so in terms of starting CPP, or it's Quebec equivalent QPP, I would say there isn't a cut and dry answer that applies in all situations.

So it really depends on your situation.

One example of a situation would be is, if you're in poor health and don't think you have long life expectancy, then that is it probably makes sense to start CPP or QPP right at age 60.

And that way you collect as much money as possible, as early as possible.

If you're in good health, that might depend on other sources of money.

If you feel it's very important to have that extra income at age 60, but you have no other sources of income beyond your DB pension, then it might make sense to start CPP at age 60.

Basically, the point is in that circumstance, if you feel that you need the money, it's very important to you and you don't have other reasonable options to get it, then starting CPP at 60 can make sense.

Now, another situation, if you're in good health and have quite a bit of savings, substantial amount of savings outside of your pension plan, then I think that's a situation where you should carefully look at the option of deferring CPP until later.

And the thing to realize is that there's a very attractive deferral factor

for delaying your CPP until later.

So, the deferral factor looks pretty good these days with ultra low interest rates.

So that provides a real incentive to delay until later if you have these other sources of funds.

So the way it would work is if you have this substantial amount of savings in the early years after you turn 60, you could draw on this other savings and use that to provide the extra income needs.

And then later on, you can start CPP and, because of this deferral factor, when you start it later it's this enhanced amount and it's assured to last for life and it's inflation protected and all that.

So, essentially, you get paid really well to wait if you have these other sources of savings that you can draw on in the meantime.

Muriel Howden:

Yeah.

Thank you actually, for all the scenarios, because it's definitely different for everyone.

So this is great, David.

The next question came from Libby.

And I have to say the question after this one is about DB plan, about defined benefits, and I will probably call the Chair of the Board, Rich Prophet for that, and our CEO, Jim Grieve, as I know there's lots of advocacy work on this.

But let's go

to Libby's question first.

So, here's her question.

Stocks versus fixed income.

Is it reasonable to consider pension as the fixed income portion and invest a remainder in 100% stocks?

What do you think?

David Aston:

I think it makes sense to kind of think of that, to an extent, so there are a lot of characteristics about a DB pension that is very much like bonds.

It's not exactly the same, obviously.

Your pension continues for life.

Bonds are an investment you can buy or sell and doesn't necessarily last for life.

But it has some of the same properties.

So I would say that with a really good DB pension, as many teachers have, you can afford to take more risk with your portfolio.

So you can potentially up the proportion of stocks in your portfolio.

Now, I wouldn't say… you probably don't want to go 100% stocks, but you can certainly, relative to somebody with no defined benefit pension, it would make sense to have more stocks and less fixed income.

Muriel Howden:

Great.

Okay, thank you so much.

So, we have a question from Anne.

I will call on the Chair of the Board, Rich Profit, and of course, our CEO, Jim Grieve.

But David, I'm going to start with you nonetheless, on this one.

It's a question from Anne.

Because, for two reasons, first of all, we're constantly talking in acronyms, which gets complicated, but also even beyond the question of Anne is what is a DB plan?

But beyond the defined benefits plan, can you give us more information on really, what is a DB plan?

David Aston:

Speaking in general terms, because there's some variants in DB plans, and I'm not an expert in any particular plan.

But the general concept of the defined benefit plan is that, what you get is based on a set formula, but it provides a defined benefit.

So you accumulate during your working life so many credits.

And when you retire, the credits determine what your benefit is.

And generally it's based on your salary.

And the point being is the amount of this benefit doesn't vary with the performance of stocks and bonds.

It's set based on this pension calculation.

So if stocks do really well, stocks do poorly, doesn't matter.

The pension stays the same.

So that's in contrast to a defined contribution pension plan, which is basically one where the outcome, the amount of the pension, is totally dependent on how the investments within the plan do.

So if stocks do really well, your DC plan thrives.

Stocks do poorly, your DC plan does poorly.

So those are the two general types that you see.

What's very common in the public sector in general, in Canada, and with teachers included, is that most of the plans in the public sector are defined benefit pension plans.

And typically in the public sector, they come with quite a bit of inflation protection.

Sure, it varies a little bit from plan to plan.

However, not every teacher's plan is like this.

Muriel Howden:

Right.

Thank you so much.

Rich.

Rich Prophet:

Yes.

Muriel.

Muriel Howden:

Did you want to add anything?

Yes.

Yes, I would.

I know, I I worked with OTF quite extensively with respect to pensions.

And, with respect to what the person had indicated, we are very fortunate that we have a defined benefit pension.

A defined benefit pension, you know, before you retire, exactly what your salary is going to be.

And that's going to be basically determined by 2% per year, up to X number, there's no limit to the number of years.

And that would be if you taught 35 years in Ontario, that would be

Your average salary over the last five years was $100,000.

Your pension, you know, right at the outset, it's going to be 70% of the $100,000, which will be $70,000.

And we're fortunate enough to have salaries indexed such that we go up by the rate of inflation every year, which is a great bonus.

And as I mentioned, some of the areas, as David mentioned, some companies, et cetera, are moving to target pensions, to define contributions, which are not nearly as effective or as good as defined benefit pension.

For those of us, whether in OMERS or in OTPP, we're fortunate enough to have a fantastic pension plan, which we should also always retain.

Muriel Howden:

Jim, you're muted.

Jim Grieves

I just like to add a couple of points.

I mean, both David and Rich have really covered the territory for defined benefit.

And not everybody on this webinar has a defined benefit.

I know that, because our membership includes people who are not in that fortunate situation.

But it's a much misunderstood concept by those who don't have one.

And, for example, in Ontario, if you happen to have been a teacher and you have a defined benefit contribution, what people don't realize is that that large chunk of money that comes out of every pay you get when you're working for a Board of Education amounts to you contributing and depositing about 10% of the total amount that your pension is going to be later on.

And then another 10% is matched by the board at the same time.

That means there's an 80% gap.

And that is where the Ontario teacher's pension plan, in our case, takes over with its multi billion investments and contributes the other 80%.

So it's really a defined savings plan, and David had talked about that a little bit earlier.

And...

We are very fortunate, but it's not as fat kind of situation as people think.

We actually have spent a great deal of time investing money in our pension from year one, day one of our careers over 35 or 40 or 40 plus years.

And so that money is coming back mostly because it's been well invested by the pension plan, whether it's OMERS or OTPP or [TAC??], you name it.

So just an important sort of reminder.

David, one of the things I might just add to that, just going back to one of the slides you had, one of the questions we're asked all the time when we're doing our retirement planning workshops is, will you give us the name of a financial planner, not an investment planner, but a financial planner?

And my question isn't that specifically.

It is, how do you go about, how do pre-retirees go about finding a financial planner that they can rely on?

Investment is a different thing.

Financial planning is sort of a big one.

David Aston

That's a good question, actually, because it tends to be that there's lots of good planners out there.

They very often are single person practices.

So it's a bit hard to find them.

I've had a lot of dealings with certain planning firms like Spring Financial, for example, and I know they're good planners, but it's hard to sort of see all the options out there, and it's difficult to find.

Sometimes you can get referrals from friends or, for example, Robo-advisors and some of the low fee mutual fund providers that I mentioned that I identified there, including Steadyhand.

They can provide referrals to the only financial planners, as well.

So, it can be difficult asking around, get a referral, sometimes can get it from certain investment advisors.

And that's the way to go.

Also, you can pay attention to people quoted in the media, and you can sometimes get a sense of people who seem to know what they're talking about that way, as well.

Muriel Howden:

That's great.

Thank you so much.

That was an amazing question on DB, on defined benefits, and that was amazing answers.

So, thank you to David, Rich Prophet and Jim Grieve.

So, David, we have actually two questions, but I'm going to merge in one from Barbara and Katherine.

And the questions are about when you refer to ample savings.

So the question of Barbara is, what would an ample savings be for a person with defined benefits?

And Catherine's question was, could you define actually ample savings?

So, what is it and what would it do for someone with defined benefits?

David Aston:

Well, I think it's sort of hard to say a hard and fast answer because it's sort of there isn't a set cut off.

But if you have a really good defined benefit pension and say you have $75,000 in savings, I wouldn't consider that ample the way I was talking about it in my presentation.

If you had $75,000 in savings in that situation, you probably think more about focusing on having money for emergencies and not so much about investing it and worrying about how to draw it down and whatnot.

So on the other hand, if you had a good defined benefit pension plan and you say had $400,000 in savings, I think that would be ample.

Muriel Howden:

Right.

Okay.

That's good.

That gives a bit of an idea.

So the next question, actually, I'm going to call again Jim Grieve, our CEO and then Rich Prophet, our Chair of the Board, only because it's very much an RTO question.

So maybe Rich, I will start with you.

What is RTOERO doing to help members plan for their financial needs in retirement?

Rich Prophet:

Thanks, Muriel.

I would think that the advice that RTOERO gives is in the presentations of retirement planning workshops.

Steven and Anya, Ashveena, when they're doing presentations, they address certain aspects as David addressed earlier about CPP, OAS, how to calculate things to that effect.

But likely, one of the biggest pieces of advice they give is to find out from, if you're a member of OTPP, Ontario Teachers Pension Plan, find out information there.

If you want advice, financial advice, go to a financial advisor, as David had mentioned.

Also, the direct low multiple fund providers, the Robo-advisors.

But that is their expertise, and we direct people in that way.

But, as I said at the outset of people becoming members in the retirement planning workshops where some advice is given.

Jim Grieves:

I would just add to the fact, and that's partially the reason I asked the question about, how do you get a financial advisor.

Nine times out of ten at retirement workshops, retirement planning workshops, which is where we do a good deal of advising, mostly answering the question,

Will I have enough money to retire?

Which is a pretty deep concern on people who are sort of thinking about retirement.

And whether you have defined benefit or target or other or no real pension, that's the key question.

And there are all kinds of books, and I know that David's book would probably deal with that question very deeply as well.

Retirement planning workshops are an area where we do a good bit of advising and dealing.

This is a thought leadership webinar featuring David Aston today.

That's another way we get this information out to post and pre retirees.

We spent a lot of time, as Rich said, advocating on behalf of our members and their defined benefit, because there are only 30% of workers in Canada who actually have a defined benefit pension plan.

And it's much under attack and very much in the eye of politicians who would like to sort of scoop some of those savings in a way.

So we are constantly vigilant about that.

That said, almost every time we get together with our presidents or in an annual general meeting, there are questions about a retiree's ability, particularly RTOERO members, and there are 82,000 of them, how do we cope; how do we deal with issues related to, say, an increase in fees or other compensation matters?

So we're doing that all the time.

I don't think there's ever enough information on either financial planning or investments, or will I have enough money to retire?

It's so individual and I think you need this kind of advice from people like David and anyone else who will give you advice.

When we're asked when we say, get a financial planner, we don't give a name.

We dare not give a name for the various reasons that David's answered.

Often we'll say, well, and it may be not perfect, but start with at least your bank and talk to them.

I know they have a vested interest, an investment interest, but at least they will show that they have a deep concern for your investments and your money.

Muriel Howden:

Thank you.

Thank you, Jim and Rich.

David, let's go to the next question from Maureen, and this one is actually about emergency funds.

So, emergency funds.

Can this be from a low interest rate line of credit, if one has mutual fund and GIC as a backup?

David Aston:

Sorry I missed the first part of that.

Muriel Howden:

She says,

Can this be from a low interest rate line of credit?

David Aston:

Yeah,

I think that's… that's possible to do it that way.

Of course, if you tap a line of credit, it's potentially debt.

But if it's done in a sensible way with a low interest rate and some safety measures about it in terms of your overall finances are good, then that can make sense.

Muriel Howden:

Right.

Thank you.

And in terms of taxes, what are various implications with regard to estate planning?

How do you avoid excess taxes when it comes to estate planning?

David Aston:

Well, that's a big topic.

If the overall issue is...

I don't know where to sort of dive into that question.

It's so broad that I don't know if I can give a summary in kind of 20 words.

So, maybe there's a more specific part of that.

Muriel Howden:

I think it was a global...

I would have to agree with you, but it was a global question about estate planning in general, I guess.

David Aston:

Just on one aspect that's somewhat related.

Maybe it's not so much estate planning, but one issue that a lot of people have… if you have a large RSP and you have large non registered account, which do you draw from first?

And there's a big debate about that.

So that's one of the questions I have that I get out there quite a bit.

And I think the advice on that, if you have a large amount of non registered savings, large RSP, the best approach to drawing from them is to take a balanced approach.

Some financial planners will tell you to do one first and then when that's depleted, do the other.

But the balanced approach, I think, makes the most sense because of the

progressive nature of the tax system and benefit system in Canada.

So you want to have a situation where you smooth out the tax impact over time instead of having spikes in income at particular points in time.

So that's one aspect, it probably doesn't address the waterfront of things that are involved in estate planning.

Muriel Howden:

Very good.

Thank you so much. And the next question is from Dominique.

And David, what do you think of preferred shares as an investment?

David Aston:

I think they can potentially work.

They're sort of a niche sort of category.

They're somewhat in between stocks and fixed income.

Within fixed income, the amount of risk depends a lot on the particular issue.

So you want to avoid being super general about it, it really depends on the particular preferred share investments that you're looking at.

Where they tend to make the most sense is in non registered accounts, because the dividends of preferred shares pay are taxed at a very preferential tax rate in Canada, if they're Canadian preferred shares.

They don't make much sense in RSPs.

So non registered accounts only, they can fulfill a role it's sort of in-between, if you pick them carefully, they can fulfill a role in-between the kind of regular equities and regular fixed income.

Muriel Howden :

Very nice.

Thank you.

And the next question from Margaret is,

What are your thoughts about the tax free savings account?

The TFSA?

David Aston:

Oh, yes, that is something that's obviously very worthwhile.

So people should try to maximize their TFSA savings if they can.

Interesting question, if you have only enough money at contribution time to contribute to one and not the other, which do you do?

That very much depends on your circumstances as to whether it be the priority versus RSPs.

But in general, it's a fabulous way to go, and it's very versatile.

RSPs tend to make the most sense if you're in a really high tax bracket when you're contributing and then you take the money later at a low tax bracket.

But RSPs can kind of trip you up if you do it in other situations.

So, you don't want to be contributing to an RSP if you're not in a very high tax bracket, for example.

But the nice thing about TFSAs is they're very versatile, so they can make sense in a lot of different situations, whether high income or low income, they're good.

Now, of course, the way it works is you don't get a tax rebate at the start when you contribute the money, but later on, when you take the money out, you don't get hit with taxes then either.

So it's very versatile taking the money out, whereas RSPs are not.

Muriel Howden:

Very nice.

And actually you're talking about RSPs, which leads us to the next question from Linda.

So what advice do you have for someone rolling over from an RSP to an RRIF, which is a Registered Retirement Income Fund?

So an advice rolling over from an RRSP to an RRIF.

David Aston:

Well.

You're forced to do that by the government by the time that you... by the age that you turn 71.

And then you're required to start these mandated withdrawals at set rate the following year.

So, to a certain extent, the choice is taken away.

Now, it's not critical that you convert RSPs to RIFs before that.

Once you do convert to RIFs, then you're into this mandated withdrawal scenario.

So there's a lot of factors to take into account before you kind of convert at an age that's earlier than when the government requires you to do so.

Muriel Howden:

Wonderful.

So here's the question from Anne.

First of all, as many people listening, she's very happy about the information you're providing today.

So thank you again, David.

So here's her question and situation.

She's retired, 75 years old with a DB pension.

She's just sold a cottage living on her own in a condo, money to invest.

What is your opinion regarding when to claim capital gains?

Cottage as principal residence and now and deferred capital gains to later, or when condo is sold and let estate pay?

A lovely conundrum to have.

But, she would appreciate an advice right there.

When do you invest?

David Aston:

Yeah, I think this is getting a very this is going to depend very much on the particular.

So, based on the information, I can't give an answer.

And really, I think it might be a situation where you can benefit from professional advice from a tax accountant or a financial planner who can really look at the particulars and do the calculations and look at the different options and come up with the precise numbers on what makes sense.

Muriel Howden:

Yeah, this is a good reminder, David.

Thank you.

It's true.

Each situation needs to be really customized, depending on the situation.

Okay.

Thank you.

So the next question, first of all, I need to say we have so many questions and obviously this is generating so much interest, we're in the last 10, 12 minutes of our presentation, so we'll get to as many questions as we can.

[Content repeated in French]

So the next question is,

What about taking risk in portfolio if you have a DC pension plan?

David Aston:

So, a DC pension plan, so a defined contribution pension plan instead of the defined benefit plan.

So, if you have a DC pension plan, it's very much like an RSP in terms of the way it is.

So.

The results totally depends on the performance of the investments in the plan.

If you're in that situation, it means you probably shouldn't be taking quite the risks that you might take with your investments if you had a DB pension plan, because you don't have that safe layer of assured income that provides for much of your needs, no matter what happens.

The basic picture is if you're dependent on your DC plan later on to provide withdrawals, and obviously and so the amount of money that's going to be available to draw from is dependent on how well the plan goes, you have to be more careful about risk.

You still need a balance, something along the lines of for retirees, something in the 50% to 60% range, as I talked about in the presentation of equities, with the remainder in fixed income will make sense for a lot of retirees in this situation.

However, it's a very individual thing.

It depends very much on the rest of your finances and on your individual risk tolerance.

So it really has to be customized to your situation.

Muriel Howden:

Right.

Thank you.

The next question from Larry is, I have a DB pension, but I also have maxed out on my RRSPs.

So what's your advice David?

Should he take out an annuity or draw down on the RSP when he turns 71?

This is your question here, what to do when you're in this situation?

David Aston:

Well, first of all, you've done very well if you've both got the pension plan, the savings have gone into the pension plan, as has been pointed out, and you've maxed out your RSPs on top of that.

Now, the obvious thing is you want to max out your TFSAs, as well.

So that's the other really good tax deferred option out there.

Now, presuming you've done that, it's a little hard to generalize what your next course of action would be kind of depends on your time of life.

If you're in retirement and you're looking to generate cash flow from it, the one thing I would suggest is you want to kind of try to affect a relatively smooth flow of taxable income, so you don't have spikes in taxable income that get taxed at much higher rates.

Muriel Howden:

Right.

Thank you.

And a big question coming to us, David, so here's the question.

Government will likely be under a lot of fiscal pressure in the years ahead.

How confident can I be that CPP and OAS will continue to pay out 20 years from now without major cutbacks?

And this is our last question.

David Aston:

Okay.

And, first of all, there's no reason to think now, based on the information that we have now, that any of the government pension plans are going to cut back in the future.

And that applies to CPP or QPP in Quebec or OAS.

So no indication of cutbacks on the horizon.

Now, it's always possible that there could be some big change and something could happen that could result in some form of cutback.

If that were to happen at some point in the future, I would say it's very unlikely that these cutbacks would be at the expense of existing pensioners.

And to kind of go into more detail, with CPP or QPP if either of those programs had to cut back, the likely way they would do it would be to increase the contribution levels for people working.

So they've improved the finances by increasing contributions, not changing the actual pensions being paid to existing pensioners.

So that is, in effect, how CPP and QPP handled the big financial crisis they were in the 1990s.

They fixed their finances by essentially increasing contributions, and that's most likely the approach that would be taken in the future.

If it came to that. OAS is a little bit different in that case, but I think the similarity is existing pensioners wouldn't be affected.

The likely way that if something happened that caused a cutback, it would likely be done by pushing back the start date for OAS, and that in fact, you might recall the Harper government at one point was going to push back the start date of OAS from 65 to 67.

So, that wouldn't affected any existing pensioner, and it was done with a long lead time.

So it would only apply to people that were still a long way from retirement.

It wouldn't apply to people that were on the cusp of retirement.

And if that were to happen in the future, I would think the government of the day would take a similar approach.

Now, just to be clear, the Trudeau government rescinded the Harper government plan.

So the OAS starts at 65, and there are no plans in the books anywhere otherwise.

But the upshot of it is that if the pension plans will get in a mess, it's very unlikely it'll be done at the expenses of people who are already retired and receiving their pensions.

Muriel Howden:

Thank you so much, David.

And I will now call Jim Grieve for the final remarks.

Thank you again.

Jim Grieves:

Well, this has been such a treat, David, for us anyway listening to you.

Maybe not for you, because it's a bit of a tap dance.

I'm trying to imagine how complicated it is to write a great book like you've written and have it apply to the vast majority of readers who pick it up because everybody's circumstance is just so different.

And we face that as well as an organization.

We're the largest not for profit association for the education community in all of Canada, providing health insurance and other.

But the most commonly asked question after people are assured that they are going to get they can get health benefits in their retirement from us is, Can I afford to retire?

And this is why you have so many great questions.

We didn't get to a very large number of questions here, but we tried to sort of pick the ones that were fitting in most circumstances.

Honest to Pete, you did a great job.

Thank you so much for responding to as many of the questions as you did.

And some of them are almost unanswerable without sort of detailed portfolio review, et cetera.

So listen, all of you, there were 317 at some point on the line, we will be sending you next in the next couple of weeks, a full recording of this so you can revisit and listen to the responses yet again, which is great.

And we'll send that link to you so that you're aware of not only the questions that were asked, but you can hear the great David, answer them again.

I'm going to invite you as well, because we have another webinar coming up on Wednesday, the 13 of October, again 1:00 Eastern time.

And this is in our Vibrant Voices Advocacy Series, and it's on the environment with Dr. Diana Beresford Kroeger and she's a world recognized author, medical biochemist and botanist.

And it fits with our environmental sustainability initiatives right now, registration is open now.

In the meantime, I do wish you a fabulous day and thank you for joining us.

And again, David, on behalf of all of those of us who tuned in, thank you so much.

You are just terrific.

David Aston:

Thanks, everybody.