The Just Word Podcast

Transcript of Episode 8 – Impressive Performance by Justwealth

Pat Bolland
Now, David, you've written an excellent book, I've got it here in my hands, and it's a softcover, it's the Sleep Easy Retirement Guide - Answers to the 12 Biggest Financial Questions That Keep You Up at Night - But what's interesting to me, David, is that your business card is on it, and it's attached with a paperclip, I really didn't notice the paperclip when I open it out of the bag, but it's a paperclip in the shape of a pig. I went, What is that all about? Okay, is there a reason?

David Aston
That's the paperclip that I had when I, around when I sent it to you, I think it was a gag gift from my, from my sister to, to my wife. So well, no special reason.

Pat Bolland
It's funny, because we're talking about finances. And I remember a couple of decades ago, and we're kind-of of the same vintage, a couple of decades ago, there was a book called The Pig in the Python that I think David Cork wrote. And he was talking about, you know, retirement plans in Canada and and talking about that whole baby boomer generation going through, and how to profit from it and all kinds of things. And I wondered if it was a reference to that. Not the case then, it's just a total coincidence.

David Aston
Total coincidence, maybe we can we can attach symbolism. Think of it as a reference to a piggy bank or something like that, figuring out how to take money out of the piggy bank.

Pat Bolland
Hey, our symbol for the Just Word podcast is a is a piggy bank. Listen, this I would call almost like a reference book. And there's charts in it, and so on and so forth. for retirement, who, or what, inspired you?

David Aston
Well, I started working as a personal finance journalist in 2007, after a main career in the corporate world. And my passion for writing about personal finance, grew out of learning about how to manage my own investments, and prepare for my own retirement. So, the 12 financial questions covered in the book are our burning questions that I've had to address for myself. So, I'm hoping the book will pass on to others the key things I've learned,

Pat Bolland
Yes, almost like a self-discovery. It was fascinating. Because as you wrote it, you always put in first hand references ... your mother, going through the retirement process, those kinds of things. And that's why I wondered who inspired it maybe. But it's all just self-discovery.

David Aston
Well, and it's, it's learning from others, including my parents, and how they manage things, and also drawing from experts and people that I've interviewed, who shared their financial experiences about managing money over the years. So, it draws on a lot of sources.

Pat Bolland
Okay, so then when I think of retirement, my retirement, I asked myself, Do I have enough? Or am I going to have enough? And I guess the answer has many moving parts, you know, you're connected Lifeline and health, your physical activity and social activity, potential accommodations, your housing, the role in my family, and my parents, and so on. What to you is the most important consideration on whether you have enough?

David Aston
Well, you kind of, it's not a single thing, I think the overall goal is to find the best version of a fulfilling retirement lifestyle that's right for you and also fits within your financial means. And you're right, there's a lot of moving parts to fitting the retirement finances together. And the book takes you through each of those moving parts one by one. The lifestyle side of the equation is important too. In general, you want to create a lifestyle that is physically active, mentally stimulating, and socially engaged with family and friends. So creating a retirement lifestyle and making sure it works financially kind of go hand in hand. I think the good news is that when you put it all together a comfortable and fulfilling middle class retirement should be within reach for most Canadians.

Pat Bolland
Hmm. You do a very detailed work on the government support that there. But is it your sense that most people are taking responsibility for their own retirements right now?

David Aston
Yes, I think Well, I think it's there's a spectrum of how people are doing it. Given the fact that fewer and fewer people have really good employer pensions. I think that leaves the burden, if you will, of having resources for your retirement, it leaves it more on an individual's shoulders. So I think that forces people to make, to do more of the planning for themselves and take responsibility for putting everything together than they might have been in the past.

Pat Bolland
You know, we live in a very low interest rate environment, and that's done a lot of things, including increase of housing prices, for instance. I suspect, and even now, with the prices where they are many people are still going to have a mortgage when they retire. And the next generation is going to be burdened even more, should they have a mortgage? Or should they pay it off? Or what's your strategy in terms of dealing with current housing prices?

David Aston
Well, I think, obviously, carrying mortgage debt debt into retirement creates a financial burden that you should try to avoid. And so clearly, it's a good idea to plan to pay off your mortgage by the time you retire. Now, of course, reality sometimes turns out differently than what we expect or plan for, or would

like. So, let's consider two kinds of situations. For people who are ready to retire now and you still have a mortgage, you may face a difficult choice. So, whether you can manage mortgage payments, or not, in retirement will really depend on your situation. And in some situations, for example, retirees, if you have a great employer pension plan, you can sometimes manage to carry the mortgage into retirement without too much of a strain. Now, ideally, it should be a small mortgage, and hopefully, you can pay it off quickly. But it's possible in certain circumstances. In other cases, the best solution may be to keep working. So it all depends. For these people who are kind of facing that situation right now. Now, for younger people, who are many years from retirement, it's kind of a different situation, with housing prices so high, they're forced to take on a huge mortgage just to get into the housing market. And I can certainly understand it's, it's natural to wonder, at that point, how you can possibly both save enough for retirement, and pay off the mortgage by the time you retire. My advice to younger people in that situation is is you shouldn't worry too much about retirement at this point. A lot can happen between now. And then the priority really should be just to get through the financial crunch in the next few years, while doing reasonably prudent things and keeping your financial head above water. So you know, it's things like avoiding build up a credit card debt and things like that. So at that point, you still have plenty of time on your side to get your retirement finances in order later.

Pat Bolland
You know, when you think of retirement, there are a lot of acronyms out there that can be very confusing, quite frankly. And you know, you think of Registered Retirement Savings Plan, that's a huge name, and then turn it into RRSP. And then there's OAS and CPP and TFSA. And so, first things first, in getting ready for retirement, suppose I'm a young person, maybe married maybe not, getting ready for retirement, where should I put my nest egg? Should I contribute it to a tax-free savings account? RSP, or I don't know, Registered Education Savings Plan. There's all kinds of places you can put your money. Where should you?

David Aston
Yeah, that's an interesting quandary. The government creates lots of great tax deferred options, and then it can sometimes cause a dilemma and in trying to figure out which one is best. So just start with RESP's, that's kind of a specialized way to contribute to education funds for your children. So that was kind of a specialized thing. If you have children and you expect them to go to university or community college. That's a good way to to get government support in building savings for that specialized purpose. So good for that specific situation. Now the main tax advantage ways to contribute are TFSAs and RRSPs. And it's important to understand how they work. Now RRSPs gets you a tax rebate when you contribute. But you then pay tax when you take the money out. TFSAs are kind of the mirror image, no tax rebate when you contribute, but also no tax impact when you withdraw. So as a result of that, RSP contributions generally work best when you're in a high tax bracket and saving long term for retirement. That way you get a big tax rebate now, and you don't get dinged for taxes for a long time until retirement. And at that point, you'll probably be in a lower tax bracket anyway. So TFSAs are more of an all-purpose savings vehicle. They work well for saving for retirement, but they also work really well saving for shorter term goals. You never get hit for taxes when you take the money out. And that makes them a lot more flexible.

Pat Bolland

Okay, David, we're gonna take a quick break for advisors ... Advisor's Break. When we come back I want to talk about how you should invest in where you should invest and then when you start your retirement when your drawdown things, so stay put David, we'll be right back.

David Aston

OK, sounds good...

Pat Bolland

Welcome back, before we went to the break, David, we're talking about Tax Free Savings Accounts and RRSPs. And where to put your money when you're saving for retirement. When you're coming into the retirement age? What does the timing actually look like for when you draw down on those RRSPs? Or withdraw from the Tax Free Savings Account? Or, more importantly, what should you do with CPP ... Canada Pension Plan, and OAS ... Old Age Security.

David Aston

So overall, the goal is to create a smooth a sustainable cash flow that will last as long as you live. And that's a complicated subject. And there isn't one right way to do that. Now, one of the key decisions is often when to start government pensions. So with CPP, you can start at any time from age 60 to age 70. With OAS, it's any time from age 65 to 70. So now the government adjusts your pension amount depending on the age you started, your payout is less if you started earlier, because the payments are spread out over more years. On the other hand, your payout is more if you defer it to later. Because it is spread out over fewer remaining years. So the adjustment factors were set by the government many years ago to be reasonably fair financially either way. So you usually won't go too far wrong with whatever start date that you choose after you retire. But there are a number of factors that I go through in the book that can kind of nudge your decision one way or the other. For example, if you're in poor health, it probably makes sense to start government pensions as soon as you can after retirement. On the other hand, if you have exceptionally long life expectancy, then deferral tends to make more sense. Now, one other thing is the adjustment factors were set many years ago when interest rates were higher. So that means the bonus you get for deferral looks relatively attractive now with interest rates so low. So that means that in the current environment that might tend to nudge your decision more towards starting these pensions later.

Pat Bolland

I guess the other aspect of this is that the government indicated not so long ago, four or five years ago that they wanted to increase CPP payments, so that people that might retire now and take their CPP would get less than those people say 40-50 years from now... isn't that the case?

David Aston

Yes, that is, there's a gradual step up in the eventual government pension that you'll get from CPP specifically, when you retire. Now, what you get in retirement depends on the contributions. And the contributions are going to kind of, at the higher rate, is going to build very gradually over a long period of time. So the impact on eventual pensions is going to be very gradual. So won't make much of a difference in the next few years, but for people who are in the early stages of working now, they'll build significantly large CPP over their lifetime.

Pat Bolland

You know, would that I live in other 40 years? I'd love your thoughts. I'd love your thoughts, David on reverse mortgages. And we see a lot of ads on television these days, is Kurt actually selling a good product?

David Aston

I think reverse mortgages are a good product for seniors in the right circumstances. They're a good way to tap the equity in your home to provide cash to live on if you need the money. And if you want to stay in your home. One of the good things about reverse mortgages is they come with a guarantee that you will never be forced to move. The fact interest rates are at very low levels now tends to make them even more attractive than a few years ago.

Pat Bolland

Okay, and the other one that you bring up a new book is Home Equity Line of Credit, the HELOC. And you compare that, for instance, you make the comment that HELOCs have lower interest rates than a reverse mortgage, correct?

David Aston

Yes, they do.

Pat Bolland

Okay, so do you prefer HELOCS?

David Aston

Well, it kind of depends on the situation. The, as you point out, the HELOC tends to have lower interest rates than the reverse mortgage. But on the other hand, HELOCs usually don't come with the with the guarantee that you can rely on the payments and still be able to have 100% assurance that you'll be able to stay in your home. So there's there's some possibility with many HELOCs that the that the bank may decide to to to cut off the payouts at some point when you don't expect it. And there's even a small possibility that they may require you to repay the loan prematurely. And the other thing is that if you apply for a HELOC after you retire, it's probably very difficult to get one. So in some situations that allow you to pay less interest and they can make sense. The reverse mortgage you pay a little bit more, but it's more, comes with more assurance, that you'll that you'll never be forced to move from your house.

Pat Bolland

You know, the nice thing about your book and the 12 questions is laid out as 12 chapters as well. And at the end of each chapter, there's a chapter summary, if you will. But the important part is there's actual advice. So for instance, in the case of a HELOC, one of those projections you make towards the end of the chapter is get your HELOC before you retire as opposed to a reverse mortgage. Interesting advice.

David Aston

Yes, it's, banks tend to look at your income when they're assessing you for a HELOC, because they're not specifically designed, for the most part, they're not specifically designed for seniors in retirement. So they want to see somebody with a job and with income. So if you apply while you have a job and have income, more likely to be approved, if you wait till later, when you're retired and you don't have an income to pay back the HELOC, then the banks are likely to look at it more skeptically, and you're less likely to be approved.

Pat Bolland

And towards the end of the book. There's a whole chapter dedicated to care, of different times I'll point out, are you worried that universal health care is at risk? Or are you merely preparing folks for additional costs and risks?

David Aston

The provision of seniors care outside of hospitals is is a complex patchwork of public and private services. And what I have in mind here is is long term care facilities, but also retirement homes and in home care. And so navigating the system is complicated. Someone with average middle class means Generally has been able in the past to get an acceptable level of care overall by making good use of the government services that are provided by government. Plus prudently paying for some services themselves. Now that the pandemic has kind of placed a lot of stress on seniors care services in general, and long term care facilities, in particular have been really devastated by patient deaths during the pandemic. So I think there's a sense that improving the long term care system to provide better care if another pandemic should happen in the future. That's going to require more government resources. And with so many competing priorities, it isn't clear whether governments will be able to do much in the next few years. And I think the implications for people planning the retirements about how about managing these care issues? It isn't 100% clear yet. But I think it's a good idea, generally to expect to rely more on your own resources in the future to meet your care needs. than maybe it was true in the past.

Pat Bolland

You know, earlier in this podcast, we had Malcolm Hamilton and he seemed very comfortable with CPP and Old Age Security being around for a while, being stable for a longer period of time. And yet in your book, you referenced them as merely building blocks. And that maybe you have to put a little bit more meat on the bone. What is ... am I interpreting that correctly?

David Aston

Yes, I think that Malcolm is correct. I think in his assessment of CPP, and OAS. Those are, the government pensions, are something I think that people can rely on in planning their retirement, but they're not intended to, to cover all your needs. So they're a good building block, they're a good starting point. You can rely on them for what they do provide. But to get a fulfilling middle class retirement, you'll also need some more of your own resources. So it's a combination of government pensions, plus having additional savings beyond that, that provides the basis for having enough for retirement.

Pat Bolland

David, thank you so much for your time today.

David Aston

Thanks so much for having me.

Pat Bolland

David Aston is the author of the Sleep Easy Retirement Guide - Answers to the 12 Biggest Financial Questions That Keep You Up At Night.