The Just Word Podcast

Transcript of Episode 44: Avoiding a Retirement Crisis

Guest: Myron Genyk

Pat Bolland 00:00
Myron, a pleasure to meet you.

Myron Genyk 00:02
Thanks Pat, thanks for having me on the show.

Pat Bolland 00:05
OK, you recently wrote an article, but the five things that one should do to avoid retirement crisis, what are those five?

Myron Genyk 00:14
Sure, well, I'll, I'll talk about maybe four of them. And then I'll throw in a bonus fifth one that I didn't talk about before. So the first one is saving more by spending less. So it's all about building a nest egg. And the less you spend, right now, the more you're able to save, the better you're able to prepare yourself. Number two is what do you do with that mistake. So that's asset allocation is a huge part of it. So asset allocation refers to the mix of stocks and bonds or other things that you have in your portfolio. And asset allocation alone accounts for as much as 90% of portfolio variability of returns. So asset allocation is huge. Number three, Loafie. Investing, being in Loafie investments means keeping more money for yourself. Number four, as you're approaching retirement, the longer you work, that means you're drawing down less now. And an extra year of work could mean three or four extra years of retirement of comfortable retirement. So it's a bit of a lifestyle change. If you've always been thinking about retiring at 65. And you're like, Okay, maybe I'll retire at 66, that one extra year could add three or four extra years on, and then continuing on that. So the fifth thing is, you know, speaking of retirement lifestyle, part of avoiding a retirement crisis means thinking about what you want your retirement to look like thinking about that in advance and preparing for it, and mentally preparing for how much will that cost? What types of things will I do because a retirement crisis isn't maybe not just a crisis financially, but it could also be a change of life crisis, as well. So preparing for that thinking about what types of activities am I going to do? How am I going to fill my day? And how much more do I maybe need to spend to achieve those goals?

Pat Bolland 02:08
Okay, let's unpack that a little, especially the savings part to start with and spending less I mean, that's hard for a lot of people the spending less part but savings. What's too late is 65 actually too late is 60 Too late? Is there a line in the sand?

Myron Genyk 02:26
It's that's hard to say it really depends on how much you have saved at the moment, what you think you might need to draw upon in retirement. 65 might be too late. I you know, I hate to bring that bad news.

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But if you're 65, and you had zero save for retirement, than working an extra five years, if you're able to work until 70. And save, I know, it's tough. But if you're at the point where you have nothing saved, saving $500 A month could be really challenging. But if you commit to saving $500 a month for an extra five years till age 70, then that increases your monthly income, it could increase it by as much as $220 a month until age 90. Okay, so again, working a little bit of extra, so you know, it's not much $500 A month of saving for five years, could add could lead to as 220 per month for an extra 20 years. Now, let's say you're not 65, let's say you're 55, and you have nothing. So the math shows that whatever you save per month, over the next 10 years, until age 65, you can draw down roughly that same amount over the next 20 years. So just unpacking that, if you were to save, save $500 per month for 10 years from age 55 to 65 and then retire, then you can increase your monthly income and how much you drive down by $500 per month for the next 20 plus years. Now what if instead of you know, you're 55, let's say instead of working at 65, you worked till 70. And you're still saving that $500 per month now for an extra five years, you go from being able to increase your monthly income by $500 per month to $850 per month. So, you know a lot of you know statistics show that a lot more people are working in retirement and even just working modestly. You know, you don't have to kill yourself but even part time gig or consulting or anything like that, just what it means is you're drying down less now, you're allowing your nest egg to continue to grow.

Pat Bolland 04:32
Okay, great concepts, but why wouldn't I just rely on my pension plan, for instance, or what the government is giving me an old age security or other benefits?

Myron Genyk 04:44
Sure, OK so in terms of government benefits, the three main ones there CPP. There's OAS, and if you're really hurting, there's the guaranteed income supplement or GIS. If you were to make So if you were to get the maximum amount of CPP OAS and the GIS, you could get over $35,000 per year. That's, that's great. That would be a lot of money. But most people don't qualify it to get all three. So to get the maximum for CPP OAS, and GIS depends on a number of factors, it depends on your age, how many years you worked, it depends on your marital status, how many years you've been a resident of Canada, and so on. So chances are, you're not going to get $35,000 per year in government benefits, you're probably going to get a lot less, maybe half the poverty level for a single person in Ontario right now is about $20,000 per year. So if you're relying solely on government benefits, you're probably skating really close to the edge of what is the border between living below the poverty line or living slightly above it. So I wouldn't recommend anybody just rely on government benefits for their retirement to have a little bit of a nest egg saved up and bolster those government benefits with your own nest egg. Okay.

Pat Bolland 06:10
You also talked about low fees, and there are all kinds of places you can get low fees, but the regulators have been watching fees for a long time, and they want transparency and fees. And yet, I seem to find, it's hard to find where fees are buried in my statements. What are your thoughts on transparency of fees?

Myron Genyk 06:30

Yeah, so there's a great reform that's in the pipeline right now. Hopefully, it comes to pass. What it's going to allow investors, especially investors who have advisors is to see the cost of their total cost of their portfolios. So it's a cost, the cost of the advisor, but it's also the cost of each individual investment. They're proposing that this class be represented as a percentage of your total investments, but also as $1 value as well. It's funny that when you see something as a percentage, you might think, one and a half percent, that's not bad. But on a, you know, a Million Dollar Portfolio, say, that's $15,000 a year and all of a sudden, now you're thinking a little differently about it. So what I would love is to see both percentage fees and dollar amount fees for every aspect, where's all the money coming out? And what is that risk represented both ways, because your right investors are paying way too much in fees right now. And they deserve as much information as possible to help them shop around for the best investment.

Pat Bolland 07:40
Now, you've convinced me I start have to start putting more money away. What should I look at in terms of investments? Because so for instance, this year is a great example, market has been really volatile, I probably don't want to look at the stock market, or I'm reluctant to move into the stock market, should I put it into guaranteed investment certificates? What are your ideas?

Myron Genyk 08:02
So Warren Buffett's got a great quote that encapsulates how I feel about this. And that's be greedy, when others are fearful, be fearful when others are greedy. Usually, you know, if you look at the market is cyclical, its ups and downs, generally UPS over time. And that's both stocks and bonds in the very long run, both stocks and bonds experience real positive returns, that's after inflation returns greater than zero in the long run. So if the markets taken a bit of a bite, and you have cash on the sidelines, now's a better time to be investing in the stock market than a year ago, when everybody was euphoric. And thinking everything was gonna go to the moon

Pat Bolland 08:46
I should be greedy now today.

Myron Genyk 08:51
Yeah, I mean, greedy to an extent, is maybe how I would think it's so like, sensible greed. So you know, again, I wouldn't put it all in a single stock or, you know, on a single commodity. Diversification is important, so greedy to an extent, I would call that long term greedy and look to see where can you get the best long term real returns? But yeah, now's a Now's not a bad time. I mean, markets could get worse from here. Nobody knows for sure. But if you're saving for something like retirement, now's a perfectly now could be a good time to get in the market.

Pat Bolland 09:31
Okay, so you're not recommending GICs? What are your thoughts on interest rates?

Myron Genyk 09:37
Yeah. So, to be perfectly honest, I don't I can't make calls on interest rates. I think that the markets are pretty good at telegraphing what the Bank of Canada or the Federal Reserve is going to do in the short

run. You know, we're taping this today, right before the Feds announcement. Everybody's predicting 75 basis points. That could be the case but what they're what interest rates will be at the end of 20. 23 Nobody really knows. And the markets not really good at predicting these things. If you look at, you know, implied rates or implied inflation, the price of inflation implied by treasury inflation protected bonds or real return bonds, the collective market is usually not great at predicting those things. And so I'm not going to think that I'm smarter than the market. But if you mentioned GICs, GICs, the real returns on those are almost always negative. If you need cash in the short term, if you want cash for if you need an emergency savings account, or you've got, you know, tuition payments coming up in the next few months, things like that. GICs are perfectly reasonable as a short term investment vehicle, but when you're investing for long periods of time, inflation is going to crush the returns that you can earn on that the real returns on GICs are almost always negative.

Pat Bolland 10:53
Wow. It's something that I guess people don't realize because of what inflation is doing overall. Speaking of inflation, I've got you here. So I've got to ask, what are your thoughts on gold and Bitcoin, for instance, within the context of inflation, for sure, but just as investments generally.

Myron Genyk 11:12
So Bitcoin and gold a year or two ago were, you know, Bitcoin for the last 10 years and gold historically have both been touted as being great inflation hedges. And I mean, you can look at to see what's happened in the past six or nine months ever since inflation really started picking up. Both haven't done so well, Bitcoin, and other cryptos have been pummeled, gold is down, maybe 20% or so. So they haven't proven to be good inflation hedges, they're also people saying end of world scenarios, you know, they could be used as a store of value, they could be used for transactions. The world is arguably a less safer place than it was before. Things escalated in Eastern Europe. And despite the escalation of despite the geopolitical escalation of Russia invading Ukraine and things happening between China and Taiwan, both gold and Bitcoin have fallen. So it's I'm not convinced that they're great for as a store of value or for transactions, and very just tangentially as well, I mean, Russia is having a really hard time selling it schooled to raise rubles or to raise currency. So I mean, that's anecdotal. But when you have tons and tons of gold that you need to ship it out by train, and there's a word My God, gold's not really doing much for you

Pat Bolland 12:41
And the rest of the world knows that you need to sell gold to finance your where I get it. Okay, so then, you know, somebody recently asked me what my most expensive item is in life, financially, at least. And I answered mortgages, and I was wrong. I guess studies have shown it's taxes, what are your thoughts on investments and how to reduce your if not avoid taxes.

Myron Genyk 13:10
So it's hard to avoid taxes completely. You can't go through life things, zero taxes, I, you know, I meet all kinds of people who say I want to pay zero in tax, I say, well, great, go live in a forest by yourself somewhere. You want to participate in the economy and society, you have to pay some tax, but there are ways that you can minimize it. So if you're above the age of 18, there's two great ways that you can do so one is RRSPs. And the other is TFSA. Is and just to break those down really quick and RSP

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Registered Retirement Savings Plan. It's a type of account that you can invest in, it's not just for saving cash, or GICs, you can hold stocks, bonds, ETFs, things like that in there. So with an RSP, you contribute, there's a limit, that Limited is a function of how much you earn, and you get a tax refund back. And so you get rewarded for saving now, and then that money grows tax free. And then eventually, when you take it out, that's when you get taxed on it at whatever your marginal tax rate is. If you're working at a larger company, or at the government, chances are you have access to a group RSP. And those are even better than RRSPs. Because your employer will usually match your contribution. So if you're receiving say $500 a paycheck, they might throw in another $500. And now you're saving even more. But TFSA is the Tax Free Savings Account. A lot of people say they should have been called Tax Free investing accounts, but so they can be used for investments. Again, they can hold things like ETFs and unless you're a day trader in here, you will be taxed on here. So this is after tax money so you get taxed on your income and then you put money in here and it can grow and you'll never have to pay tax on the growth or when you withdraw it. And then another thing is our ESP. So if you have kids, and you want to save for their tuition contributions here are with after tax dollars, but those that money grows tax free, and when it is eventually withdrawn, if you're doing it right, it would be taxed at your child's marginal tax rate, not yours. And if you're maxing out your RRSP, your TFSA, and your RRSP, you're well on your way to achieving the financial goals that you've set out for yourself. And, more importantly, minimizing your taxes.

Pat Bolland 15:34
Yeah, minimizing not avoiding minimum, that's a good way to phrase it. Myron, less than ever more capital has a target date funds. Tell me what a target date fund is, and why one would have one.

Myron Genyk 15:51
Yeahn so when you're younger, the types of things that you should be investing in, let's look at their stocks. And let's look at bonds. And like I said earlier, both have experienced both have averaged real positive returns in the long run, right. So these are in the long run, when you're saving for something like retirement, they're great. Stocks and bonds are different in many ways. But the important one for when you're saving for retirement, stocks have a higher expected return in the long run much higher than bonds. The problem with stocks is they have short term volatility, so they could whip up and down in any given year, they could be up a lot, or they could be down a lot bonds have a lower expected return. But But what you're getting for that is they have less volatility in the short run. So if you're younger, and you're trying to build your nest egg, where you want to be is in the stock market, and then when you're older, you want to have a bit more in the in the bond market. And so when you're starting off, you should be you know, close to 100% in equities. And when you're in retirement, maybe something work closer to 5050. And what a target date fund does is when you invest in a target date funds, and if you're safe 40 or 30 years from retirement, that fund will be in a very in a portfolio that is highly concentrated in equities. And then over time over the years and decades, the amount that's invested in equities decreases the amount that's invested in bonds increases. And so what a target date fund does is it manages that asset allocation for you. So you can be as hands off as possible. And if you have no interest in managing asset allocation or thinking about what does that mean, that target date fund does that on your behalf. And so a target date fund is essentially a one stop shop for retirement investing.

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Pat Bolland 17:43
Is it actively managed? Or is it on some kind of a formula?

Myron Genyk 17:49
Yeah, so most target date funds are not actively managed. They're rules based. And so they follow what's called the glide path of the glide path refers to the change in asset allocation over the years. There are additional rules around rebalancing because sometimes things go out of whack if stocks outperform bonds massively in a month or vice versa. And the portfolio managers work to rebalance the portfolio to get it back on to wait usually rules around that there can be rules around currency hedging, so ever more retirement ETFs like most target date funds employ a rules based strategy. Because you know, if you tinker around too much with it, and if you try to make active decisions and picking sectors or picking duration along the yield curve, if you're trading bonds, the more you tinker with it, the more things can go wrong. So what we looked at the historical data, and what is the best way to for us to manage the target date funds so that investors can enjoy a retirement that's comfortable and secure.

Pat Bolland 18:54
Interesting. Myron, thank you so much for your time and ideas.

Myron Genyk 18:59
Yeah, thanks so much. That was great talking to you. Okay.

Pat Bolland 19:02
Myron Genyk is the co-founder, CEO of Evermore capital.

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