

## RETIREMENT

# Playing it too safe can result in cash shortfall

Experts advise rethinking strategies for investments

By Heather Scoffield  
The Canadian Press

TORONTO — Older Canadians should learn a few new tricks if they want their retirement savings to live as long as they do, a study suggests.

Traditional wisdom says retirees and people on the verge of retirement should shift their savings into fixed-income investments. As they get older, they should invest their money in bonds, treasury bills, guaranteed investment certificates or bond-based mutual funds instead of stocks.

In the past, fixed income investments have been considered conservative, safe and secure. They pay interest in regular instalments, providing a steady income.

But the old wisdom has become an old wives' tale, according to financial planners and three York University professors who are studying retirement strategies.

They say stocks offer a better alternative than fixed-income investments because stocks, in general, will grow faster. And they'll keep growing for as long as you live.

"People should have a lot more equity in their portfolios," said Chris Robinson, an associate professor of finance at York's Schulich School of Business.

"Zero equity is a bad idea for most people."

That's because historical data shows the return on stocks has been much higher over the years than the return on T-bills and fixed-income securities, Robinson said.

With fixed-income securities, "the risk of outliving the money becomes greater."

Inflation erodes the value of fixed-income securities while a mixed bag of stocks will likely grow faster than inflation over time, he explained.

So the very financial instruments that are often considered low-risk could be riskier than you think, he added.

Women, especially, should take a hard look at their retirement strategies since they tend to outlive men.

"Women, in fact, by taking the so-called safe route, put themselves at higher risk oftentimes," Robinson said.

But don't run out and sink all your money in your favorite stock, said Prof. Moshe-Ayre Milevsky who co-wrote the York study with Robinson and Prof. Kwok Ho.

"Underlying everything we're saying is a well diversified portfolio," Milevsky said.

If you don't have enough money to buy a bunch of different stocks, stock-based mutual funds or stock-index funds offer a good alternative.

The value of a stock is not guaranteed and any stock portfolio will rise and fall over time. But history suggests stocks in general grow in the long term.

"If you hold on for the long run, you'll do fine," Milevsky said.

But that depends on who you talk to. "We feel that fixed-income investments should still be a core part, especially if they're a conservative investor," said Robert Nordness, head of retirement savings products for the Royal Bank.

As investors approach retirement

## Facts

The York University professors show their point using this example:

**Who:** A male retiree aged 65.

**Earns:** Modest company pension plan, government Old Age Security.

**Needs:** \$15,000 a year in today's dollars, to continue present comfortable lifestyle.

**Invested:** \$240,000.

**T-bills:** If he invests completely in treasury bills, the likelihood he'll outlive his money is 45 per cent.

**Women:** A woman in same situation faces 65-per-cent probability of shortfall since she'll likely live longer.

age, they should switch more of their savings into fixed-income securities, especially if they have a low tolerance for risk, he said.

"As you age, you want to make sure the funds you have saved are there and not subject to fluctuation."