# When Should I Start Saving for Retirement?

If retirement is still a long way off, time is on your side. Not only does starting early give you more time to save, it also increases the power of compounding (generating earnings from previous earnings).

So how much difference does a few years really make?

Take the example below, noticing the difference in what you would have saved by age 65 depending on when you began investing. Saving the exact same amount each month, you could be looking at over $300,000 more for retirement if you had started five years earlier (age 30 versus 35).



## Simple ways to start saving

Even if you don't think you'll be able to put much away for retirement, there are some simple ways to start saving.

* **Pay Yourself First** – Savings should be part of your monthly expenses, not just the leftovers. A simple way to do this is to automatically invest a portion (even if it is only a small amount at first) of your paycheque. In many cases, you can set up payroll deductions through your employer into your company retirement plan or a pre-authorized debit (PAD) from your bank account into a retirement account.
* **Your Employer Can Help** – There are few, if any, investment options that can compare with the value of the employer match and its role on your retirement strategy. This offers the potential to have significantly more savings at retirement. Even if the ability to save may be modest, individuals should take advantage of the full employer match, if available. Clients should consider maximizing the employer match first before making contributions to their individual RRSP. – don’t leave “free money” on the table.

## It's never too late

If you are closer to retirement, remember it's never too late to start thinking about your future. Now is the time to get specific about your desired lifestyle, spending and sources of income in retirement.

* **Ensure Your Investments Align with Your Goals** – You may want to invest aggressively to “make up for lost time,” but this could actually increase the risk that you won’t reach your goals. Talk to your financial advisor about how much risk you should be taking, based on when you plan to retire and how much you'll need.
* **Determine Your Flexibility** – You might be surprised where you’re spending your money and may have more flexibility than you think. Taking your lunch, saving your raises and reducing discretionary expenses are some ways to increase savings.

# Investing Myths

Myths and assumptions can be detrimental to your success in all areas of life – including achieving your financial goals. When it comes to investing, it's vital to separate fact from fiction. Here are three common myths you'll want to erase right from the start.

## 1. Saving is investing

If you’re putting money aside in a low, fixed interest rate savings or money market account, this isn’t investing. This can offer a cushion for emergencies and unexpected spending needs, but it’s only one piece of a financial strategy.

Investing is using your money to potentially create more money over a period of time.

Some people may shy away from investing, thinking it's too risky. Although investing does come with risks, not investing can also be a risk to your financial future. If your money doesn't grow, you may face the risk of not achieving your long-term goals – like sending a child to college or retiring from your job.

The following graph illustrates the potential difference between saving and investing. It shows how the same contributions over the same amount of time can grow to a much larger amount when earning a higher return.



This example shows that the difference between a 3% and 7% return could be nearly $600,000.

Investing takes some homework. That’s why many investors seek professional guidance.

## 2. You should buy and sell often

Being patient can be difficult. But trust us on this: Jumping on the bandwagon of the latest investment fad and selling every time the market drops probably won’t get you to your goals.

We believe in quality investments, not fads. We believe a financial strategy should be created for market ups and downs. And when the markets are volatile, Edward Jones can help you put these events into perspective.

## 3. You’re too young or too old

The sooner, the better. Obviously, starting earlier is a good idea. The earlier you start gives you more time to save; it also increases the power of compounding (generating earnings from previous earnings).  A few years really does make a difference.

If you are closer to retirement, remember it's never too late to start thinking about your future. Now is the time to get specific about your desired lifestyle, spending and sources of income in retirement, It's really never too late to start investing. If you're closer to retirement age, you’ll want a financial strategy to help ensure your money lasts. Lastly, when the time comes, all of us should plan for where our money will go when we’re gone.

# A fine balance leads to successful long-term investing

Ian McGugan Jan. 29, 2019 Globe and Mail

The world’s most ordinary investing strategy has just wrapped up an extraordinary decade by thumping the returns produced by the big brains at Yale and Harvard. But can a plain-vanilla 60/40 portfolio keep on delighting investors as markets get stormy and interest rates begin to rise? A 60/40 portfolio gets its name because it is composed of 60 per cent stocks and 40 per cent bonds. It reflects a simple observation: Stocks typically produce big profits over time, but with vicious downturns along the way. In contrast, bonds offer smaller rewards but produce those returns more reliably.

The answer depends on what you want to achieve. If you’re shooting for the maximum possible return, or want to build an impenetrable defence against any possible loss, the 60/40 portfolio isn’t for you.

On the other hand, if you’re a typical investor looking for an intelligent, practical way to balance risk and reward, then this venerable approach demands your attention despite gathering storm clouds.

Mix the two and you should get an attractive blend of characteristics. So it turns out. In the U.S., a 60/40 portfolio would have generated an average annual return of 8.8 per cent between 1926 and 2017, according to Vanguard Group, the big U.S. money manager.

To be sure, an all-stock portfolio would have done a bit better, gaining an average 10.3 per cent a year. However, its added profits would have come at the cost of much deeper downturns.

For instance, the all-stock portfolio would have lost 43.1 per cent during its worst year of 1931, while the 60/40 balanced blend would have declined only 26.6 per cent – painful, yes, but far less miserable than the stocks-only approach.

For most people, the relative stability of the balanced portfolio makes sense. In exchange for a modest reduction in returns, you reduce your risk of truly horrible outcomes. But is a 60/40 strategy the best you can do? In recent years, much of the investing industry has lined up against the concept.

Some critics say a 40 per cent allocation to bonds is wasted money at a time when bonds produce little or no return after inflation. Other skeptics point out that a 60/40 portfolio offers only a partial haven when the stock market tumbles. It may reduce your losses, but it still goes down.

Rising interest rates pose a particular challenge to the 60/40 strategy right now. If borrowing costs bump up as expected over the next decade, the portfolio will be hit from two directions, because both bond prices and stock market valuations tend to move in the opposite direction to rates.

However, it’s not clear that any of the alternatives are much better. The financial industry touts the merits of hedge funds, private-equity deals, long-short portfolios and so on. However, these miracles of financial engineering are often opaque and complex – not to mention expensive. They don’t tend to welcome average investors. Worst of all, they sometimes flop.

For instance, the hedge funds covered by the standard HFRI benchmark have endured a mediocre decade and over the past 20 years have failed to produce any meaningful edge over the S&P 500 Index of large U.S. stocks. Meanwhile, private-equity returns have been less impressive than widely believed, according to a recent study by professors at Brigham Young University and Ohio State University.

In a paper entitled Private Equity Indices Based on Secondary Market Transactions, they found that a large portion of private-equity returns between 2006 and 2017 reflected nothing more than a bull market and large amounts of borrowed money. If you strip away those factors, the excess return generated by private equity funds was not significantly different from zero, the researchers concluded.

Even the smartest money in the world can struggle at times to keep up with a simple 60/40 portfolio. Consider Yale University.

In the 1990s, it pioneered a strategy that has since become the preferred approach for the endowments of many of the continent’s top universities and foundations. The Yale model consists of pouring money into opportunities that aren’t as thoroughly picked over as public stock and bond markets – areas such as timberland, hedge funds and private-equity deals.

In theory, this makes sense. Investors should derive a reward for taking on the additional work and risk that goes along with venturing into the dimmer corners of the financial markets. But in practice the Yale model has been inconsistent. It beat a 60/40 approach during its early years; more recently, it’s looked strictly ho-hum.

In fact, over the past 10 years, the endowments for Yale and all the other Ivy League schools in the United States failed to match the performance of a standard 60/40 portfolio, according to a recent study by Markov Processes International Inc., an investment research and software firm.

The 60/40 strategy would have generated an annualized return of 8.1 per cent from 2008 to 2018, according to Markov. The best an Ivy League endowment could muster over that period was the 8.03-per-cent-a-year performance of Princeton. At the bottom of the heap was Harvard’s endowment, which managed to eke out only a 4.5-per-cent annualized return.

It’s not often that an off-the-shelf investing strategy can beat the best minds of the Ivy League, so this result deserves attention. Maybe a few chuckles too. At the very least, it serves as a powerful reminder that simple strategies often work surprisingly well.

# This mindset may prevent you from having a financially comfortable retirement

Globe and Mail Rob Carrick Jan. 27, 2019

**To retire better, toughen up as an investor.**

With the deadline for contributing to a registered retirement savings plan for the 2018 tax year coming up on March 1, Canadians will be thinking about buying investments in the weeks ahead. The results of a B.C. Securities Commission survey to be released Thursday suggest that most will be too retiring in how they go about it.

Just 30 per cent of the 2,915 people surveyed last month thought the term “investor” described them well. More people thought the term saver described them well, which isn’t a bad thing. But saving for retirement won’t cut it – you have to think like an investor.

Almost everyone is an investor, even if they don’t think so. If you once put $100 in a bank mutual fund, you’re an investor. Investing is not a matter of how much you have; it simply means buying into an asset with the expectation of making a profit.

Investors take ownership of their investments. They know the costs they pay and the risks they face, and they understand how their returns compare against both comparable products and relevant benchmark stock and bond indexes. If they can’t effectively manage on their own, they get help as required.

The connection between wealth and feeling like an investor is clear. In the BCSC survey, just 24 per cent of people with a portfolio under $50,000 thought of themselves as investors, compared with 70 per cent of people with $500,000 or more and 50 per cent of those with a portfolio of $100,000 to $250,000.

More men in the survey than women described themselves as investors. As noted in a recent column, a lot of women feel disregarded by the investment industry.The BCSC survey results suggest that people who consider themselves investors take better care of their finances:

* Almost nine of 10 people who consider themselves an investor said they understood the risks and benefits of their investments, compared with 62 per cent for those who did not identify as an investor.
* Almost 85 per cent of investors said they know what their investment goals are and are on track to meet them, compared with 48 per cent of non-investors.

Rightly, the BCSC worries that people who don’t see themselves as investors don’t take proper care of their investments. To fix this, we have to get everyone who owns investments to adopt the investor mindset.

Investors are active participants, not spectators. They get involved because they know their retirement and other goals will depend on a good investing outcome. Start the process by looking at what you own – mutual funds, exchange-traded funds, stocks, term deposits or whatever – and trying to understand a few key points. You want to know why you own something and how well it’s working for you in terms of blending risk and returns.

Investors are not shy about asking questions. They understand that investing in something means you own a bit of it and thus have a right to know all pertinent details. When they don’t get a clear answer, investors never defer. They keep probing until they either get the assurances they seek, or a reason to make a change.

To retire better, think like an investor.

***Retirement Planning In The Face Of Uncertainty*** [**Robert Pagliarini**](https://www.forbes.com/sites/robertpagliarini/)

Welcome to 2019! The markets are volatile, the government is partially closed, and there are clouds on the horizon. While the outlook might be bleak, traditional retirement planning is not dead – it’s evolving and more personalized than ever. Ensuring that you have a solid and actionable retirement plan in place will help you effectively prepare and navigate your future.
 **Do you know where you stand financially?**If you’re not sure how much money you can take from your portfolio, or if your asset allocation makes sense, or even what your risk tolerance is, this uncertainty will lead to financial stress. What about the house you live in or an upcoming vacation? Can you afford it? If you’re unsure of these answers, you’re lacking a strong grasp of your finances. How can you find certainty and financial confidence? Work with your financial advisor regularly to create a personalized retirement savings plan that makes sense for your unique situation – and yes, everyone’s situation is unique. There’s no one-size-fits-all plan or savings strategy, though your financial advisor will be able to help you navigate the many different options available to you – and yes, there are many. Still not convinced that retirement planning is still relevant? Here are two reasons to help persuade you:

**Better Financial Standing**

If you plan for retirement, chances are you will be better off financially. Why? There are a myriad of different reasons for this, from a potentially better asset allocation, to lower fees, to a portfolio that’s better aligned with your risk tolerance, to even just being able to take better advantage of tax situations. You’ll also know how to properly time when to take Social Security benefits, allowing you to maximize your income. The goals of good retirement planning are to help you end up with more money at the end of the day, but also provide more income during retirement, and a less stressful investment experience especially in times like these.

**Stronger Financial Understanding**

Not only could you have greater wealth, more income, and a better night's sleep, you should also have a stronger grasp of your own financial standing. With a strong retirement plan in place, you’ll know how much you can withdraw from your portfolio every month, how much you need to live comfortably, and how long your savings will last.

Picture your dream retirement vacation. Are you lounging on a beach or enjoying pastries in a fancy café? Now imagine that you’re stressed, the vacation feels too expensive, and you’re arguing with your partner over how you’ll be able to afford it. Does this sound like your ideal retirement?

With a stable and fiscally responsible retirement plan in place, you will know exactly how much you can afford so you can enjoy that dream vacation you’ve worked your whole life to experience. By knowing where you stand financially, you alleviate the crippling anxiety and fear associated with worrying about your wealth (or lack thereof). Not sure where to get started? It’s never too early or late to develop a retirement plan to prepare for your future. Speak with a financial advisor to help develop a plan that makes sense for you.

# What is a TFSA? Only 1 in 5 knows the answer

## Think of it as investment account rather than a place to park your money

What is the **best** way to describe a Tax-Free Savings Account or TFSA? It sounds like such a simple question, but only one in five people taking our online quiz knows the answer.

Our query about TFSAs was of 20 questions we put to readers in an online quiz aimed at beginners in January. More than 2,600 attempted this question, but only 21% got it right. To put that in context the average score on our beginner quiz was 76%. No other question scored lower than 55%. What’s most surprising—at least to us—is that it wasn’t meant to be a trick question.

The result supports what the financial advisors have long said about the TFSA: that a large number of people still don’t fully understand what they are or how to use it.

### What’s in a name?

MoneySense has long argued that TFSA is a lousy name. A better name would be TFIA—a Tax-Free Investment Account—because it’s designed to shelter interest, dividends, and other investment earnings from tax.

The whole way the TFSA was introduced to the market was incorrect, says Scott Plaskett, senior financial planner and CEO of Ironshield Financial Planning. People heard savings in the name and they came to their own conclusions as to the purpose of the accounts. “It’s such a misleading name,” he says. “Most just think it must just be a savings account that you can get through a bank.”

That’s precisely how most people responded to our question. More than half of the respondents thought it was similar to a regular savings account, except that the interest on the deposits are tax free. While there is some truth to that statement, it wasn’t the best answer available. And if you unpack that response you’ll know that a TFSA isn’t really all that similar to a savings account.

### TFSA vs. a regular savings account

For starters, unlike a regular savings account, there are limits governing how much you can put in and take out of a TFSA. The current maximum contribution is $52,000, which grows every year. Go over these limits and you will trigger significant tax penalties.

If you over contribute to your TFSA the excess will be taxed 1% each month those extra funds stay in your TFSA. For instance, if you only have $1,000 of contribution room remaining in your TFSA and you put in $5,000 then you would pay $40 a month in penalties until you corrected your error.

And unlike a regular savings account you also have to be mindful if you’re taking money out of the account. While you can withdraw funds from a TFSA any time you want, you have to wait until January of the following year before you can contribute back into the plan, unless you still have unused contribution room.

The differences don’t end there. Unlike your typical bank savings account, most TFSA accounts don’t pay a cent of interest on deposits. There are exceptions of course, PC Financial and Tangerine both offer them with introductory interest rates of 2.25% and 2.4% respectively. And yes, some of the banks also have “high-interest” TFSAs (if you consider 0.45% high interest).

### Wasted opportunity

But if you think this is the **best** way to use a TFSA then you’ve missed the point. If you’re signing up for a TFSA where your deposits are earning 1% then you’re really only giving your financial institution a low-interest loan, says Plaskett. A TFSA is just a plan that you put something into, it doesn’t guarantee a return, he says. Plaskett says he chuckles at the idea of opening a TFSA that pays 1% interest. “So they are not going to have to pay tax on 1% on a small balance; there’s not much interest income to pay tax on anyway.”

To the best of our knowledge there is no one account that will allow you to earn tax-free interest on your deposits and have the choice to make investment decisions. You can create one, but it won’t be simple.

In order get the benefits of earning tax-free interest on deposits and make investment decisions that can grow tax-free you would need to have two accounts and transfer funds between them. It’s doable, but not very practical.

To transfer funds between the two TFSA account types, TD customers for instance, would have to visit a local branch to fill out the paperwork and then wait up to two business days before the funds show. Not ideal if you decide you want to make a trade.

Despite the continued confusion about what a TFSA really is don’t expect the name to change anytime soon. But for now, we’ll ask again. What’s the best way to describe a TFSA? Next time, call it what it is: an investment account.