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The New Retirement – How It Will Change Our Future

A BOOK REVIEW

by Faisal Siddiqi

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Sherry Cooper is global economic strategist and executive vice president of BMO Financial Group and chief economist, BMO Capital Markets. Earlier this year she published a book that takes a look at how retirement will be different for future generations as compared to past generations, and how each generation views it. There is particular emphasis on how the baby boomer generation will experience retirement, as this is her target audience and she herself is a member of the baby boomer generation.

THIS BOOK PROVIDES:

- Valuable insight into health issues that will be faced by current and future retirees,
- A summary of U.S. and Canadian Social Security,
- An overview of private employer-sponsored pension plans, and
- Good rules of thumb in saving for retirement.

I recommend this as good reading for the lay person, and for new actuaries in retirement practice. Anyone unfamiliar with retirement planning concepts or just what retirement means will learn a lot. This book will help new actuaries communicate with their clients more easily.

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CHAPTER REVIEWS

The book begins with a comparison of the values behind different generations. Those born from 1901-1945 faced world wars, the Great Depression and diseases that affected the population. As a result, they wound up valuing discipline, hard work, teamwork, authority and saving for the future. In contrast, baby boomers who were born between 1946 and 1954 (early boomers) and between 1955 and 1966 (late boomers) faced a very different world. They grew up in times of economic prosperity and, to a large extent, expect to enjoy such prosperity throughout their lives. They are nostalgic, as they fondly remember their childhood, have confidence, are experimental and love to spend on themselves. In general, baby boomers are not good savers of money.

The generations that followed were Generation X (born between 1966 and 1976) and Generation Y (born after 1976). These generations have not had the same economic prosperity as the boomer generation. They have faced recessions, economic restructuring, significant political and environmental changes in their lifetimes. In Cooper's view, these generations are more pragmatic and skeptical.

With the above as background, Cooper goes on to explain that the boomer parent generation enjoyed what is now referred as a traditional retirement. Generally speaking, they worked their entire lives in one company and retired to receive a comfortable retirement. They received a full company-sponsored pension and government Social Security benefits. They also received full health care in retirement from a combination of their employer and the government. As a result, they worked until eligible for full retirement and then retired without looking back or worrying about financial security.

Retirement for boomers will be different in many ways. There will not be a single point of retirement. This generation will phase into retirement and will be working longer prior to full retirement. These changes are due to longer life expectancy, future labor shortages and technological changes that will enable flexible work and leisure styles. Cooper has a very strong grasp of the expected retirement patterns of her generation. As boomers phase into retirement, they will redefine it. Many will pursue second careers, act as consultants to younger generations, continue to participate in charitable causes and continue to stimulate the economy.

Cooper compares Canada and the United States demographically with the rest of the world. She applies her background in economics to discuss:

- How populations are aging,
- How dependency ratios will shift in the future,
- Labor shortages that will occur,
- The dependency of productivity growth on increased immigration and changes in tax policies to boost investment,
- The resulting pension reform to adapt to these new realities.

Following this, Cooper discusses the Social Security programs in Canada and the United States, concerning both pension and health care benefits. These summaries and comments about the financial security of these programs are very good; they clear up many misconceptions about these programs. I especially found her analysis of the precarious state of U.S. Medicare enlightening.

The last few chapters of her book discuss rules of thumb about saving for retirement. She mentions what percentage to save for retirement, how that varies by your starting age on saving for retirement and, if you are saving in a defined contribution plan, what multiple of your pretax salary you need to accumulate. She also discusses the percentage of your retirement nest egg that needs to be withdrawn during retirement to manage longevity risk, and how to invest (broadly speaking) to provide sufficient funds in retirement. In general these are well-known rules of the thumb within the retirement industry; however, she explains them well in her book and provides examples to help illustrate her points.

All in all, this was an enjoyable read and it provided good insight into what retirement will mean for the next few generations.