

# MoneyMATTERS

## Who can retire comfortably?

### *Popular advice could lead to disappointment*

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*“If I don’t do it somebody else will.”* It’s a familiar excuse. A while back a construction contractor I know beefed about the kick-backs that sometimes get passed under the table. He didn’t want to do it, yet if he didn’t he’d lose work.

A senior VP in the wealth management business faced a similar dilemma. If he didn’t follow certain “questionable” industry practices his mutual fund company would lose market share. If so, he could get squeezed on his year-end bonus ... possibly even lose his job.

Neither couldn’t win. Either they’d be out of business or in bad conscience. Though they wished they could change things for the better, their individual actions were costly and fruitless. I raise this dilemma to illustrate a financial parallel: Planning for our retirement.

## Populations Dwindling

Let me explain. As most know, population growth is slowing rapidly around the world — particularly in the wealthy countries. Nations like Germany and Italy are actually shrinking. Why is this happening? In short, people are having less children. The United Nations Population Division recently predicted that world population will start declining between 2040-2050.

If this is correct — I think it will happen much sooner — it raises a dilemma for many of us who are baby boomers. How can we retire in comfort if there will be less workers to support us in our old age? No problem. The wealth management industry has a sure solution to this potential dilemma — invest in stocks and bonds and they will soar in value over time. Voila! The crisis is gone since the value of pension and retirement funds will have boomed.

This sounds like a logical solution but it won’t work. While it will line pockets of the wealth managers many of us future retirees will go wanting. The “big lie” underneath this idea is obvious. What makes more sense? A society that promotes the investment of its time and resources in healthy-sized families and productive kids or one that venerates DINKs, self-indulgence and financial bubbles?

We may live in an age of finance and fancy consumer investment products, but the prosperity of the aged has rested on the productivity and size of the next generation. In times past, if you had few kids or none at all, there could be no retirement. On the other

hand, if you had a big family, the more likely you'd be coddled and well respected in your old age.

Socialized pensions systems and tax-advantaged savings vehicles like RRSPs and IRAs don't change this fact of human life. Simply put, if there are less workers relative to the number of aged, there will be less income (workers) to go around to support all of the living. It doesn't matter how many trillions have been shoved into pensions and other savings vehicles today. Simplistically, all that counts is how much income there will be when the world is full of retirees.

## **Beyond the Catch-22**

It's like the situation with the contractor. Though most pension systems and individual investment vehicles invested in securities markets will surely come up short when the retirement crisis hits (certain to be case for us baby boomers today) we can't change the system as individuals. If we don't do what everybody else is doing financially, we stand to be worse off in our retirement years.

What to do? Here are some suggestions (Baby boomers, are you listening?)

1. Set aside as much savings as you can.
2. Over time, try to buy claims on real income ... earnings, dividends, and interest. Capital gains are only good to retirees if they can be turned into income at some point.
3. Consider other types of investments besides overvalued stock markets ... bonds, good real estate properties, for example;
4. Downsize your retirement lifestyle expectations.
5. Invest in relationships with your children. Who knows? You may need to live with them some day.

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