Are we saving too much for retirement?

By Dawn Marchand

Frederick Vettese is an actuary and partner at Morneau Shepell. He is the co-author of *The Real Retirement and author of Retirement Income for Life*. As an actuary, he has looked at the most common shockers that we prepare for in retirement. His conclusion is that some Canadians are over-saving for retirement because they fear events that will probably never happen. And he's got some math to prove it.

If the unexpected is truly unexpected, who knows what to expect? Well, the Society of Actuaries is a good group to ask. In 2015, they set out to identify the type of rainy day situations that retired Americans actually encounter and how they cope with them. We can assume that Canadians might expect similar situations. "When I looked at the list," says Vettese, "the shocks seemed to fall into two major categories: "supply shocks" and "demand shocks".

Most "demand shocks" occur very infrequently and tend to be manageable when they do. Many of the medical and dental expenses may be covered by Provincial or personal health insurance plans. So, it's possible that many Canadians may be saving more than they have to and giving up some of their opportunity to enjoy life more in their earlier retirement years.

So what does Vettese suggest? He says, "It appears that the vast majority of retirees muddle through reasonably well, in spite of the odd retirement shock. I would therefore suggest we don't try to overthink the matter of rainy day spending by devising too elaborate a strategy." His suggestion is to hold back a smallish percentage of your retirement income each year and use it to build a reserve for rainy day situations. How much you set aside is up to you and will likely vary by the type of retiree you become.

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