CHARTING RETIREMENT

Should older retirees trust their financial judgment?

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A[U.S. study](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1948627) first released in 2012 found that as people age, they have a diminished ability to make sound financial decisions. The study asked Americans aged 60 to 88 a series of multiple-choice questions on insurance and investments. They were also asked how confident they were of their answers. The financial literacy test scores – marked in the chart by the red line – declined markedly with age, with the low point at 88 being worse than random guessing. At the same time, confidence in their knowledge – marked here with the blue line – actually rose. The results show that as people age, there is a decline in their ability to make good financial decisions that is not consistent with their own confidence in managing their money. This suggests the need to automate retirement planning as much as possible, especially after 75. Other possible steps include buying a life annuity and deferring OAS and CPP to 70 to boost the amounts payable from secure sources. Also, be prepared to rely more on a trusted financial adviser.

**Financial literacy declines with age**

Financial literacy test score, per cent, by age



SOURCE: FREDERICK VETTESE; OLD AGE AND THE DECLINE IN FINANCIAL LITERACY, FINKE, HOWE AND HUSTON, 2012

(Source: *Old Age and the Decline in Financial Literacy*, Finke, Howe and Huston, 2012)

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