



Monday, July 14, 2008

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Headline News

Finance professor's book makes retirement planning easier

Making sound investment decisions for retirement requires looking at the whole picture. That means taking into account such elements as human capital and whether there is a traditional defined-benefit pension plan in force, says York finance Professor Moshe Milevsky, winner of the first annual Forerunner Financial Industry Innovator Award.

The award, given by the US-based Jefferson National Life Insurance Company in May, recognizes Milevsky's influential work in helping people save more for retirement by linking risk management, wealth management, longevity risk and retirement income in an easy to understand manner.

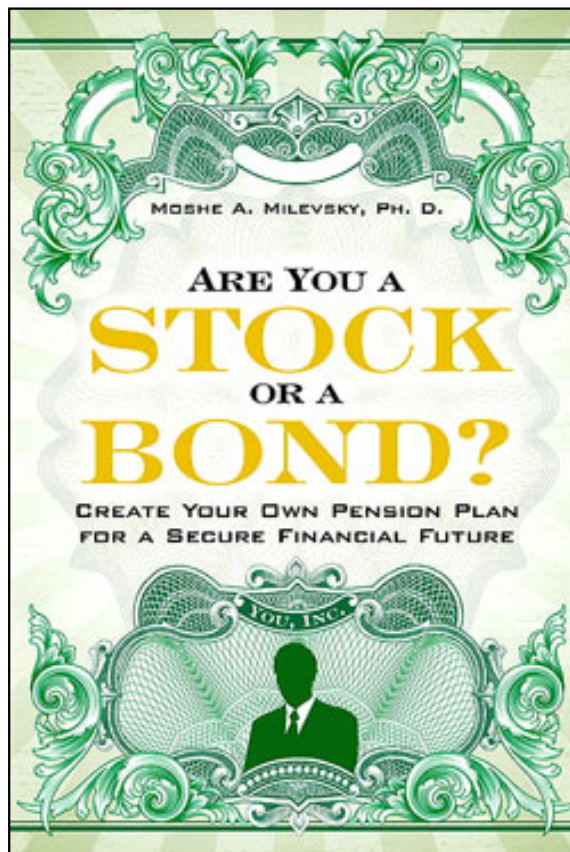
Right: Moshe Milevsky

The problem, says Milevsky, who teaches in York's Schulich School of Business, is that most individuals, banks and investment services only look at one half of the personal balance sheet and miss the other half that lists a person's human capital. That's why Milevsky (MA '92, PhD '96) decided to write his latest book, *Are You a Stock or a Bond? Create Your Own Pension Plan for a Secure Financial Future* (Financial Times Press, 2008). It's a guide to helping people understand what factors – house, city, job, marriage, health – need to be taken into consideration when investing for the future.



"It's about all the other things on your balance sheet," says Milevsky. "It's impossible to invest wisely without taking the whole picture into account. It's like going into the doctor and saying my foot is hurting and when the doctor says, 'Well let's have a look at you', you say, 'No just look at my foot.' Everything is connected."

And that holds true when it comes to investing as well. "What I'm trying to do is to think more globally, more holistically," says Milevsky, founding co-editor of the [*Journal of Pension Economics and Finance*](#) and author of five previous books, including *The Calculus of Retirement Income* (Cambridge University Press, 2006) and the Canadian best-seller *Money Logic: Financial Strategies for the Smart Investor* (Stoddart Press, 1999). He is also the recipient of the Graham and Dodd scroll award given by the [CFA Institute](#) for his research on practical financial planning and a Fields Institute Fellow for his contributions to mathematics.



Going back to the question posed by his book, *Are You a Stock or a Bond?*, what a person is depends on whether they have a defined-benefit pension plan or not. As a professor at York, [Milevsky](#) says he is a bond. That's because he has a defined-benefit pension plan and because his salary and compensation do not depend on the vagaries of the stock market. In addition, as a tenured academic there is a high probability of job security.

So when he invests, he buys stocks, not bonds. "I already have bonds in my human capital. So I don't invest in bonds, I invest in stocks. Together we're balanced." And although the financial advisors, brokers and insurance agents he has lectured and taught over the years were skeptical of the idea, they are gradually coming around to see the logic in the argument. "I'm taken a little more seriously now."

The problem today, says Milevsky, is that most people in the private sector don't have a defined-benefit pension plan, nor do they have much job security, and their bonuses, wages and compensation are tied to the overall performance of the equity markets, which makes them a stock. They don't realize they'll need about 30 times their annual income in liquid assets to carry them through retirement. As a stock, they should be investing in bonds to balance things out. "You need a lot more wealth to generate a

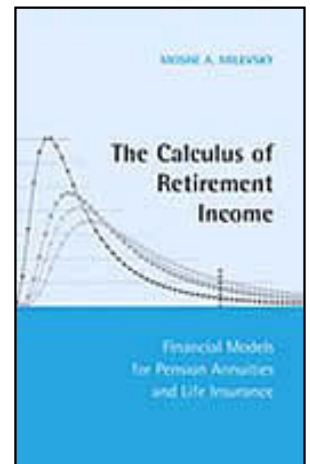
lifetime of retirement income than you think." This is a topic that really resonates with people who don't have a defined-benefit pension plan, says Milevsky.

So what's this idea about human capital? That's a whole other chapter in *Are You a Stock or a Bond?* and deals with how much any one person is worth. The younger you are, the wealthier you are in human capital. That's because the worth of someone, their human capital, is based on their projected earnings over their lifetime – the ability to generate financial capital – and that needs to be considered when making investment decisions.

Are You a Stock or a Bond? also examines insurance needs – how insurance can be a hedge for human capital – as well as the topics of diversification, stock market volatility and annuities as personal pensions. Milevsky talks about debt, too – how some debt can be considered good and how much is too much. "I find the topic of debt resonates with people even more than talk about investments."

The book is based on over a decade of research that Milevsky has conducted with colleagues at York in the departments of math and economics, the Atkinson Faculty of Liberal & Professional Studies and the Schulich School of Business as well as the [Individual Finance and Insurance Decisions \(IFID\) Centre](#), a non-profit centre affiliated with Schulich. "It's really grounded in some serious research with colleagues," says Milevsky, executive director of IFID. "The idea of the book was to take the main research and make it accessible."

Accessibility to sound retirement planning advice is key in today's world with the rapid disappearance of defined-benefit pension plans, job instability and rising healthcare costs and that's exactly where Milevsky is hoping his book will come in.



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By Sandra McLean, YFile writer