



Are You Saving Too Much?

By: Joe the Investor

There has been much talk in financial circles about saving more, building an investment portfolio and retiring early. What about saving too much? What does it mean to save too much? If you are saving money and it is not going towards the goals that you laid out, or living a lifestyle that you do not like and yet are unwilling to part with your money to improve it. Another scenario may be that you are saving money believing that it is for a purpose, but it turns out that it is excessive for the purpose that you had in mind.

How Do I Know If I Am Saving Too Much?

The first step is to ask yourself what are the purposes of the money you are accumulating? Keep in mind that if you are not sure, or the quantity of money needed is not certain, it is not clear yet if you are saving too much. The second step is deciphering how much buffer would you need for uncertainty regarding your money targets. Financial planning involves estimating future events and many of them involve uncertainty. Planning for the worst case scenario is always the prudent option, but this scenario can change over time and may be unknown. If the amount of money you have exceeds the amount needed after the first two steps, this is likely extra money. A third step is: If I overshoot my financial targets, where would extra money go? If you have an easy answer like “to my children”, or “to charity” or “for such and such”, then saving too much is not an issue for you.

The issue becomes apparent in a few examples. Let's say the purpose of the money is for retirement. You believe that you will need \$2 million to fund your retirement because of something you read somewhere. Upon closer examination into what retirement means for you, you realize that you can fund retirement with an annual salary of \$70,000 before taxes. It so happens that you have a defined benefit pension plan that will pay you \$60,000 per year, CPP that would pay \$12,000 and OAS that would pay \$8000 per year before taxes. Adding up these pensions, the retirement budget is covered. Digging further into retirement, what other uses for the money are there? Retirement may mean acquiring a second residence, a boat, or a Harley Davidson motorcycle. After accounting for purchasing and maintaining these items, you still have \$1 million remaining. You can allow money for uncertainty if CPP payments get stopped, higher budget costs due to inflation, large repairs or a financial black swan event. If you are living a miserable life to obtain \$2 million in this scenario which you likely will not need, should this continue?

Another example may be that you have a portfolio of \$1.5 million. Your retirement and expenses are accounted for and you hope to leave \$1 million to your children. The question then becomes: what is the intention for the additional \$500,000 in your portfolio? If giving more money to your children is a given, then the question is answered. If there is something else that you will need with this money and you are not using it, this is another form of saving too much.

A third situation can take place with working too hard and earning money that potentially can be useful but paying the consequences with long hours at work, deteriorating health, or strained relationships

with your spouse and children. You may feel you need to keep the job to earn extra money for some future goals, but the consequences are high in the present. This does not look like a saving too much question, but the effect is similar. You will have more money in the future, but you will lose on something that cannot be replaced: Health, relationships, time or energy.

The key to this question is to keep the balance. Ask yourself what the money is for and then ask how you are progressing towards these goals. After that, ask what your lifestyle is in the present and assess if saving money is worthwhile given the whole picture. It is not always easy to see if you are saving too much, but this question serves as a check point to ensure that accumulating is not done to the extreme when it could be more balanced.