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INTRODUCTION

Canadian Institute of Actuaries

The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession. It establishes the Rules of Professional Conduct, guiding principles and monitoring and discipline processes for qualified actuaries.

Actuaries apply their specialized knowledge in mathematics of finance, statistics and risk theory to problems faced by pension plans, government regulators, insurance companies (both life and property/casualty), social programs and individuals. We believe these skills also make actuaries uniquely qualified to greatly contribute in the sphere of enterprise risk management.

Background and Research Purpose

Study after study indicates that Canadians are not saving enough for an independent retirement. The retirement of the Baby Boomer generation will have a significant impact on the economy; an aging population and reduced labour growth make understanding the financial risks of retirement, personal choices, and individual financial responsibility all the more critical.

Traditionally, retirement planning has focused on the years before retirement; however, the nature of retirement is changing and, along with it, how people manage these risks.[1] Recent studies by Statistics Canada show, for example, that many Canadians who 'retire' from their jobs, often with a pension, may return to the labour market at a later point.[2] 'Bridge employment', or paid work undertaken after an individual retires or starts receiving a pension, has been increasing over the years. Rather than a specific point in time, retirement can in fact be seen as an ongoing process for many.

The Canadian Institute of Actuaries sought robust and reliable data to measure how Canadian retirees and pre-retirees understand these risks. As such, the CIA commissioned Ipsos Reid to conduct quantitative research on these issues.

[1] *The Phases of Retirement and Planning for the Unexpected – 2007 Risks and Process of Retirement Survey Report*. Society of Actuaries.
[2] *Bridge Employment*; Hébert, B-P and Luong, M. Statistics Canada; *Perspectives* November 2008.

Methodology

Ipsos Reid conducted an online survey of 2,137 Canadians over the age of 45 years old. The sample was composed of two distinct audiences:

- Pre-retirees (1,064): adults over the age of 45 who are not retired.
- Retirees (1,073): adults over the age of 45 who identify themselves as retired.

The field window extended from February 4th, 2010 to February 10th, 2010. The sample was drawn from the Ipsos Reid Online Household Panel. During data collection, quotas were set to ensure that the sample was as representative as possible of both audiences. While there is no census data on these specific subgroups of the population, Ipsos Reid drew on a combination of its own incidence of these profiles in the population, collected through regular polling of the general public as well as census data to make estimates at exact incidence within Canada.

Slight weights were applied to the data by region, gender, and age to ensure that the results are as accurate as possible. Because the sample for online research is drawn from pre-recruited panels, this methodology does not produce a true random probability sample. For this reason, margins of error cannot be attributed to online research.

However, the following table outlines the associated margins of error for a random probability sample for each audience:

Audience	Sample size	Margin of Error*
Pre-retirees	n=1,064	+/-3.00 percent
Retirees	n=1,073	+/-2.99 percent

*19 times out of 20

Summary and Preliminary Implications

Pre-retirees need to take responsibility for their future and start taking action now

Perception of Risk:

Pre-retirees are concerned about maintaining a standard of living from the present and into retirement. For many, retirement equals a lower standard of living plus concerns over depleting savings and increasing health care costs.

- 41 percent of pre-retirees do not believe that *"Throughout my retirement, I will be able to maintain the same standard of living that I have now."*
- 72 percent of pre-retirees are concerned about "*Maintaining a reasonable standard of living for the rest of their life*."
- 62 percent of pre-retirees are concerned about "*Having enough money to pay for adequate health care."*
- 62 percent of pre-retirees are concerned about *"Depleting all of my savings."*

A majority of people approaching retirement do not think they will be able to live comfortably through retirement, or maintain the same standard of living. Regardless of whether this perception is borne out in retirement, it does indicate a real worry for a significant segment of the population.

Retirees are more confident in their future (63 percent) than pre-retirees (45 percent)

- More retirees than pre-retirees feel confident about their financial future, that they will be able to live comfortably in retirement and maintain their current standard of living.
- Initiatives to encourage an increase in the level of savings or the number of savers need to be targeted to pre-retirees, especially those who are not saving but should be.
- Many are concerned about the future cost of health care and nursing homes, especially those who are not well prepared financially for retirement. This suggests that older Canadians doubt that the current public system will make the delivery of services available to them, and that they will have to rely on private delivery at a cost that is not known.

Older generations expected to leave money to their children, and rely on family members for care. These attitudes are changing, and this is no longer a priority for this generation. This is evidence of a significant societal change.

Managing Risk:

Despite having concerns and a clear understanding of risks, not enough pre-retirees are taking steps to mitigate these risks, and this, despite the recent economic downturn—indicates a significant gap between intent and action.

While Canadians say they are taking retirement planning seriously, a significant number of pre-retirees have yet to take concrete action to protect themselves financially for the future:

- 57 percent plan to eliminate their consumer debt, while 4 percent have no plans.
- 44 percent plan on cutting back on spending, while 19 percent have no plans.
- 46 percent plan to pay off their mortgage completely, while 16 percent have no plans.
- 50 percent plan to save as much money as they can, while 12 percent have no plans.

A large majority of retirees and pre-retirees have no intention of ever purchasing an annuity.

Only 9 percent of retirees plan to work longer (or have already), but 50 percent of pre-retirees plan to do so or are doing so.

While most retirees and pre-retirees feel the value of the Canadian dollar will have an impact on the amount of money needed each year in retirement, more perceive inflation to be an even bigger factor.

Planning and Preparing for Retirement:

Despite the clear risks, too many pre-retirees believe they are financially prepared but have yet to establish their retirement plans, despite the recent economic downturn.

- Three in five pre-retirees believe themselves to be financially prepared.
- 42 percent of pre-retirees are not prepared for retirement.
- 64 percent of pre-retirees say the economic downturn has not affected (not very much or at all) their retirement plans.
- 35 percent of pre-retirees have consulted a financial advisor, and only 18 percent have consulted a bank.

Only half of retirees and pre-retirees are seeking financial advice. This suggests that the need for guidance in retirement planning is not being fully met.

Building on the education theme, there is a need for financial education in general. Too many respondents failed to consult with **anyone** with regards to financial planning.

Retirement planning needs to be focused on the longer term: all three stages of retirement

Stages of Retirement:

Pre-retirees acknowledge there are three distinct stages of retirement and recognize there will be a time when they will be less able to do what they used to. However, most are planning only for Stage I of retirement—where needs and abilities are essentially the same as in pre-retirement.

- 81 percent of pre-retirees recognize there will be a time where they will be *somewhat less* able to do what they used to—Stage II.
  - 29 percent of pre-retirees recognize the need for more money to cope with Stage II.
- 63 percent believe there will be a time when they will be *much less* able to do what they used to—Stage III.
  - 48 percent of pre-retirees recognize Stage III will require more money.
- Despite recognizing the various stages and financial requirements, just over half (53 percent) pre-retirees have focused the majority of their planning only on Stage I.
- Working longer is now considered a viable option.

Pre-retirees need a better handle on their capital requirement needs and retirement strategy

Managing Retirement Income:

Pre-retirees have mixed views on plans to withdraw principal amounts from savings or investments during retirement.

- Two in five (or 43 percent) of pre-retirees simply don't know if this will be required.

While 87 percent of pre-retirees expect to receive income from government, 21 percent believe the amount received from CPP/QPP will go down during their retirement. This would indicate that a number of Canadians do not fully appreciate that the CPP/QPP has been placed on a sound financial footing for many years to come.

- A higher number of retirees compared with pre-retirees, are receiving or plan to receive, income from defined benefit pension plans. This is consistent with the decline in the number of defined benefit plans.
- RRSPs and TFSAs play a larger role in the retirement income plans of pre-retirees than of retirees.

Key Findings

The report is the result of a survey conducted to assess awareness of retirement risks among Canadians; specifically looking at retirees and pre-retirees as separate groups. Retirement risks include:

- outliving one's savings,
- not being able to live comfortably,
- seeing savings eroded by inflation,
- needing funds for additional medical care,
- not being self-sufficient, and so on.

The purpose of this survey was to understand which risks Canadians were aware of, and which ones represented the greatest concern for them.

In many ways, this survey is a story of contrasts. While the majority of retirees and a significant number of pre-retirees feel confident about their financial future, a majority of both groups are concerned about maintaining a reasonable standard of living for the rest of their lives. Often there are gaps between what Canadian retirees and pre-retirees think and feel about retirement issues and what they are doing to follow through. For example, while a majority of Canadians take retirement planning and preparation seriously, only half seek financial advice from financial advisors, banks, newspaper articles, internet sites, family members, books or co-workers.

In general, we saw greater levels of comfort with retirees as opposed to pre-retirees and we believe it is primarily because they are now retired, and know what it is like. Although there was a high level of confidence expressed in their financial futures, the respondents were still concerned about depleting savings or having to fund additional health care expenses. There was a lot of uncertainty surrounding their ability to get into and pay for long-term care facilities if necessary. On the other hand, very little concern was expressed over the ability to leave money to their heirs, or relying on their families to care for them.

Section I: Perceptions of Risks

Both retirees and pre-retirees were asked to rate their agreement with several statements about the risks they might face during their retirement. They were also asked to rate their overall confidence in their financial future.

- Overall, while significant proportions of both audiences are confident in their financial future and concerned over several retirement risks, retirees are more confident in their financial future and less concerned about the financial risks they may face during their retirement than are pre-retirees.
- Significant proportions of both retirees (63 percent) and pre-retirees (45 percent) say they somewhat or strongly agree that they are confident in their financial future.
- While this indicates relatively high levels of confidence (higher among retirees), a third (34 percent) of pre-retirees and a fifth (21 percent) of retirees disagree either somewhat or strongly with this statement.
- Additionally, more retirees than pre-retirees agree somewhat or strongly that they will be able to:
    - live comfortably throughout their retirement (59 percent vs. 43 percent); or
    - maintain the same standard of living that they have now (55 percent vs. 35 percent).
- Similarly, when asked to rate their concern over several financial risks factors they may face during retirement, pre-retirees report higher levels of concern than do retirees across a range of retirement risks.
- Higher proportions of pre-retirees report that they are somewhat or very concerned about:
    - Maintaining a reasonable standard of living for the rest of their lives (72 percent vs. 60 percent);
    - Depleting all of their savings (62 percent vs. 51 percent); and
    - Having enough money to pay for adequate health care (62 percent vs. 55 percent).
- While this holds true for a range of retirement risks, pre-retirees and retirees are divided over concern about their ability to pay for a) a long stay in a nursing home, or b) a long period of nursing care at home, and c) staying in their current home for the rest of their lives.
- Specifically, 54 percent of retirees and 53 percent of pre-retirees are either somewhat or very concerned about having enough money to pay for a long stay in a nursing home or a long period of nursing care at home, leaving roughly half who say they are not too concerned or not at all concerned.

- Despite significant proportions reporting that they are concerned about several key risks they may face during retirement, significantly lower proportions report concern over:
    - Leaving money to their children or other heirs (28 percent among retirees and 32 percent among pre-retirees); and
    - Relying on children or other family members to provide assistance (27 percent among retirees and 30 percent among pre-retirees).
- Looking at an analysis of both attitudinal and demographic subgroups, both confidence in their financial future and concern over retirement risk are driven by economic, health and marital status. Those who:
    - earn higher incomes,
    - have more savings and investments,
    - are homeowners,
    - report a better health status,
    - have a spouse or partner, and
    - report being financially prepared for retirement,

  are significantly more likely to report higher levels of confidence and lower levels of concern.
- Majorities of both retirees and pre-retirees perceive inflation and the value of the Canadian dollar as retirement risks. Comparatively, inflation is seen as a greater risk with 70 percent of retirees and 76 percent of pre-retirees saying that it will affect the amount of money they will need each year in retirement either a great deal or somewhat. While seen as slightly less of a risk, 55 percent of retirees and 59 percent of pre-retirees say that the value of the Canadian dollar will have an impact.

Section II: Managing Risk

When retirees are asked about a range of things they could do to protect themselves against the financial risks they may face during retirement, the findings suggest that most are adopting strategies that focus on eliminating both consumer debt and mortgages. Nearly as many are focused on saving as much money as they can. While many have already taken steps to mitigate these risks, many are still planning on implementing strategies to protecting themselves from financial risk during retirement.

- When pre-retirees were asked about a range of things they could do to protect themselves financially against retirement risks, most are focusing on eliminating debt, investing and saving.
- When comparing the strategies adopted by retirees with those of pre-retirees, it is clear that both groups are focusing primarily on eliminating debt, paying off their mortgages and cutting back on spending. However, there are a few notable differences between the strategies of retirees and pre-retirees:
    - Pre-retirees are slightly more likely to focus on investing in stocks or mutual funds than are retirees (57 percent vs. 49 percent) and much more likely to try to save as much money as they can to protect themselves financially (83 percent vs. 69 percent). Among both groups, equally 54 percent have or plan to move their assets to more conservative investments and pre-retirees are slightly more likely to buy a guaranteed income product or employer plan option.
    - Another key difference in strategy can be seen when it comes to working longer. Half (50 percent) of pre-retirees have already or plan to work longer while only 9 percent of retirees have already done so or plan to do so.

Section III: Planning and Preparing for Retirement

Majorities say they are prepared financially for retirement; retirees are significantly more likely to say they are financially prepared for retirement than are pre-retirees.

- Four in five (81 percent) retirees say they are very (28 percent) or somewhat (53 percent) financially prepared for retirement. This proportion is significantly higher than among pre-retirees. Three in five (57 percent) pre-retirees say they are financially prepared for their retirement. Furthermore, while only 18 percent of retirees say they are not very or not at all prepared, two in five (42 percent) pre-retirees say this.
- When asked if they have consulted a list of information sources for financial advice on planning their retirement over the past 12 months, nearly half of both pre-retirees and retirees have consulted none of the sources presented. Roughly four in 10 among both groups (37 percent among retirees and 35 percent among pre-retirees) have consulted a financial advisor and another two in 10 (20 percent among retirees and 18 percent among pre-retirees) have consulted a bank.
    - Few have consulted newspapers, the internet, family members, books on retirement planning or co-workers despite the finding that significant proportions rate these sources as either very or somewhat credible.
- When asked whether they would be better off, about the same, or worse off financially if their spouse or partner were to pass away first, retirees who are married or in a common-law relationship say they would either be about the same (69 percent) or better off (12 percent). Pre-retirees are less optimistic about how the passing of their spouse would affect their financial situation with only one in four (23 percent) saying they would be better off financially and 56 percent who say they would be about the same.
    - Only one in five (20 percent) retirees say they would be worse off should their spouse or partner pass away before them.
- When asked how their death would affect their spouse or partner's financial situation should they pass away first, similarmajorities agree that their spouse or partner would be about the same financially (62 percent among retirees and 51 percent among pre-retirees).
    - Conversely, retirees are less optimistic than pre-retirees about the positive impact their passing might have on their spouse or partner's financial situation should they pass away first, with only 19 percent of retirees saying they would be better off and a third (32 percent) of pre-retirees saying this.

- Majorities say the economic downturn had little or no impact on retirement plans. While more pre-retirees report that the recession changed their retirement plans a great deal (12 percent) or a fair amount (25 percent) than do retirees (7 percent and 20 percent respectively), majorities among both groups (73 percent of retirees and 63 percent of pre-retirees) report that it changed their retirement plans not very much or not at all.
- In addition to saying that the economic downturn affected their retirement plans not very much or not at all, majorities say that it had little or no impact on their financial situation. Roughly equal proportions of retirees and pre-retirees say that the economic downturn affected their financial situations either not very much (45 percent and 48 percent respectively) or not at all (15 percent and 10 percent respectively).
    - However, roughly two in five say their financial situation was affected either a great deal or a fair amount.
- Among both retirees and pre-retirees, most agree that working just three years longer would make their retirement either a lot more (9 percent and 11 percent respectively) or a little more (45 percent and 50 percent respectively) financially secure.
    - However, two in five (37 percent) retirees say that working three years longer would have had no impact on their financial security; slightly fewer (31 percent) pre-retirees say this.
- When asked what the benefits of retiring three years later would be, among both retirees and pre-retirees, the benefits that would have the most impact on how financially secure they feel or would feel in retirement are a) having more time to contribute to and earn money on investments and b) increasing the amount they will receive from defined benefit plans, traditional pension plans or government plans.
    - Pre-retirees are more likely to say that the benefits of working three years longer would be that they would need to rely on their savings for a shorter period of time or that they would benefit from receiving health insurance coverage from their employer for a longer period of time.

Section IV: The stages of retirement

Respondents were asked a series of questions about their planning strategies for each of the three stages of retirement:

  - Stage I: a time during retirement when retirees' needs and abilities are about the same as before they retired;
  - Stage II: a time during retirement when retirees' needs and abilities are somewhat different; and
  - Stage III: a time during retirement when retirees' needs and abilities are much different.

- While the majority of retirees say they retired because they qualified for a pension (31 percent) or because of health issues (25 percent), the plurality of pre-retirees say they will retire when they have enough money.
  - Furthermore, while 10 percent of retirees retired because their company downsized or they lost their job, only 2 percent of pre-retirees expect to retire for that reason.
- About half of retirees (55 percent) and pre-retirees (50 percent) have focused some or most of their retirement planning on Stage I. Few retirees and pre-retirees have focused none of their planning on this stage (7 percent and 6 percent). One in five (21 percent) pre-retirees has done no planning (compared to 13 percent among retirees).
- The vast majority of both retirees and pre-retirees say they expect to experience Stage II during which they will be somewhat less able to do things they used to do and their needs will be somewhat different as a result (80 percent and 81 percent respectively).
  - When asked how this might affect them financially, roughly half of retirees (54 percent) and half of pre-retirees (50 percent) say that they will need about the same amount of money during this time. About three in 10 (31 percent of retirees and 29 percent of pre-retirees) say they will need more money to cope with the second stage of retirement while slightly fewer (15 percent of retirees and 21 percent of pre-retirees) say they will need less.
- While the majority of both retirees (68 percent) and pre-retirees (63 percent) say that they expect to experience Stage III, these proportions are slightly lower than the proportions of those who expect to experience Stage II of retirement.
  - Among those who say they do expect to experience Stage III, half (49 percent of retirees and 48 percent of pre-retirees) say that they will need more money than before to cover their expenses. Additionally, two in five (43 percent) retirees who expect to experience this stage say they will require about the same amount of money (compared to 39 percent among pre-retirees).
- Thinking about all three stages of retirement, strong majorities of both retirees (74 percent) and pre-retirees (68 percent) have begun efforts to or plan to stay healthy or improve their health in order to prepare for their changing needs in retirement.
  - This finding is not surprising given that nine in 10 respondents plan to maintain or have already maintained healthy lifestyle habits such as proper diet, regular exercise and preventative care in order to protect themselves financially when it comes to health expenses during retirement (93 percent and 91 percent respectively).

- Three in five retirees (62 percent) and pre-retirees (60 percent) say they have or plan to cut back on spending to prepare for their changing needs in retirement. While just half of retirees (49 percent) have paid off or plan to pay off their debts, 65 percent of pre-retirees plan on doing so.
    - Pre-retirees and retirees are roughly equally likely to say they have invested or plan to invest to make assets last or to move to a less expensive home. On the other hand pre-retirees are significantly more likely to say they have or plan to save more money (48 percent compared to 24 percent among retirees). Conversely, retirees are slightly more likely to have made or plan to make home modifications to prepare for their changing needs during retirement.

Section V: Managing retirement income

Overall, pre-retirees' expectations of the sources from which they will receive income or money are very much in line with the reported experience of retirees, with a few exceptions.

- Among retirees, most expect to receive income from their CPP/QPP (96 percent), an RRSP, bank, or investment account (75 percent) or a defined benefit pension plan (60 percent). Conversely, majorities expect to never receive any income from employment in retirement (70 percent), an annuity purchased on their own (69 percent), rental property or real estate, including their primary home (58 percent) or a defined contribution pension plan, or funds rolled over from this type of plan (53 percent).
    - Half of retirees (51 percent) expect the amount they receive from their CPP/QPP to increase and another 37 percent say this amount will stay the same. Only one in 10 (8 percent) expect this amount to go down.
    - While a similar proportion of pre-retirees expect to receive money from this source (93 percent), they are significantly less optimistic about whether the amount they receive from their CPP/QPP will increase during their retirement with only 29 percent who say that it will. Pre-retirees are also more than twice as likely to say that this amount will decrease as are retirees (21 percent compared to 8 percent).
- Yet again, pre-retirees report that they are more than twice as likely as retirees to say that they will work during their retirement with 70 percent of retirees saying they will never receive income from employment during retirement compared to 31 percent among pre-retirees.
- While two in five retirees (39 percent) plan on withdrawing principal from savings or investments during their retirement, nearly as many (34 percent) have no plans to do so. While pre-retirees are slightly more likely to say they plan to (32 percent) than they are to say that they do not plan to (25 percent), two in five (43 percent) don't know whether or not they are planning to (compared to just 27 percent of retirees).
    - The majority of retirees who plan to withdraw principal from savings and investments, plan to review how they are withdrawing their money and make adjustments to withdrawal amounts if necessary at least once a year (72 percent). Equal proportions (8 percent) only review their withdrawals either every two years or every three years or less.

Appendix

Chart 1—Confidence in their financial future

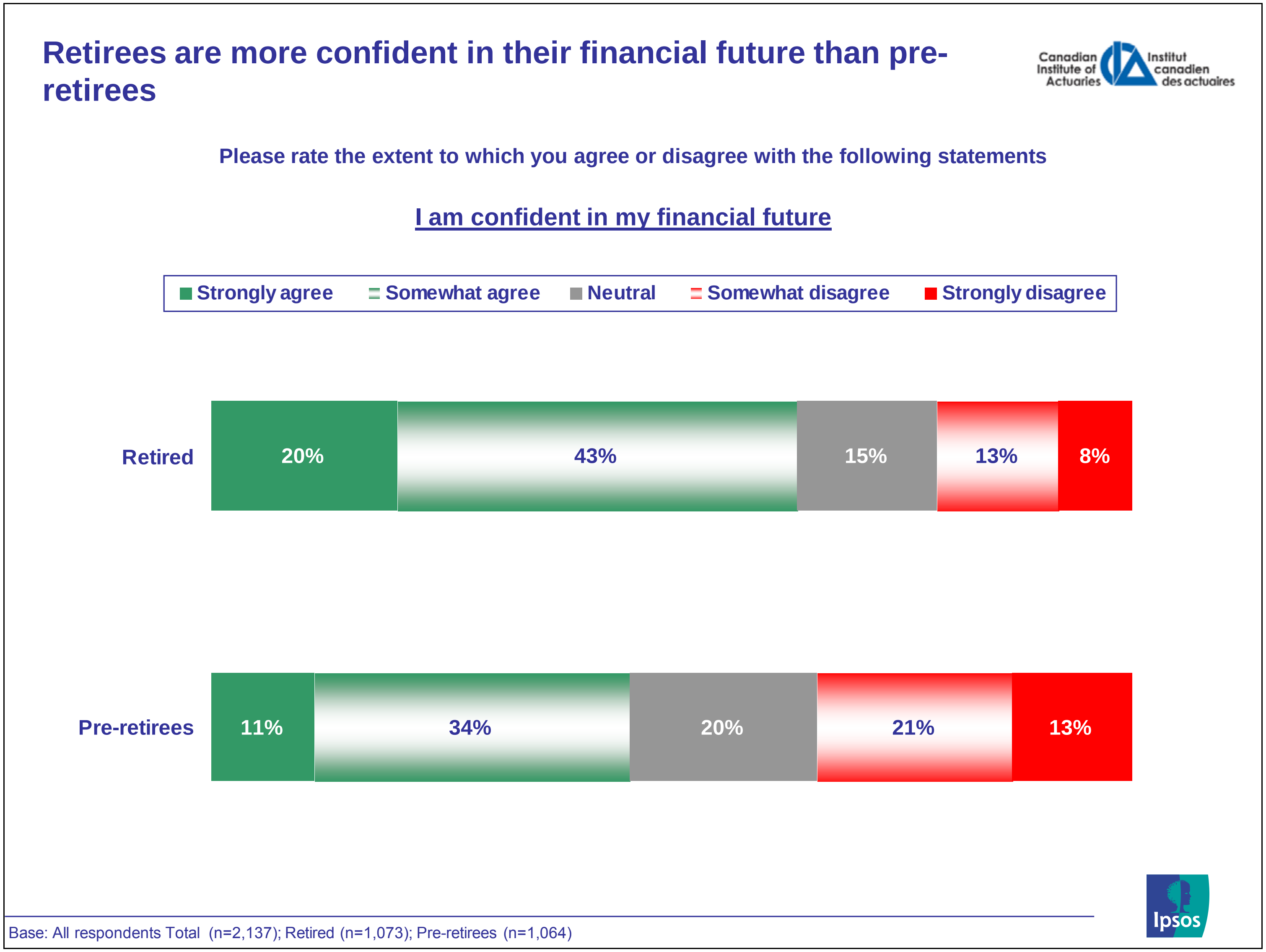

Chart 2—Confidence in maintaining lifestyle in retirement