RETIREMENT PLANNING

Retirees are likely not as poor as they think

The picture of masses of uninformed Canadians who are not ready to face the expenses of retirement is not entirely accurate.
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For Canadians who are retiring this year, the question will come up: Are you richer than you think?

It's a fair question, both for those looking at macro-economic trends and ordinary people looking at their own personal finances. According to Canada's Urban Futures Institute, about 425,000 Canadians will retire each year by 2020, and some 9.8 million Canadian baby boomers are already approaching retirement.

Boomers face a barrage of stories suggesting that their demographic group is ill-prepared. A survey by Royal Bank of Canada in early 2017 found that nearly half of Canadians 55 or older believed they were not on track with their savings for retirement.

In the survey of 2,033 adult Canadians, conducted by Ipsos Reid, 46 per cent of respondents said their top concern was whether they will have enough money.

On the other hand, the markets, which are theoretically a huge repository for boomers' retirement savings, have done well in recent years, despite a recent correction. Even the lacklustre Canada S&P/TSX Index, burdened by low energy prices, reached a record last year before settling down a bit in recent weeks.

U.S. markets have been even more robust, leading President Donald Trump to boast – precorrection – that Americans should focus on their 401(k) retirement accounts (similar to registered retirement savings accounts in Canada). The difficulty with optimism over the markets, however, is that it's irrelevant for about half of Americans, who have no investment in retirement accounts.

The situation appears to be similar in Canada, where a 2015 survey by BlackRock found that only 47 per cent contribute to RRSPs and 42 per cent to tax-free savings accounts.

The BlackRock survey also found that only 40 per cent said they have some idea of how much money they need to retire. A third said they had no idea at all.

The picture of masses of uninformed Canadians who are not ready to face the expenses of retirement is not entirely accurate either, according to research by actuary Malcolm Hamilton, senior fellow at the C.D. Howe Institute.

"Canadians are reasonably well prepared for retirement," he said in a 2015 commentary, Do Canadians Save Too Little?, published by the institute.

Mr. Hamilton analyzed the savings patterns of Canadians and looked at various sources of income available to retirees – the 35 per cent of us (in 2015) who participated in company pension plans, as well as Canada/Quebec Pension Plan funds, Old Age Security and savings from RRSPs, tax-free accounts and other sources such as family.

"Most save more than the 5 per cent household saving rate [seen as necessary for a comfortable retirement]. Most can retire comfortably on less than the traditional 70 per cent replacement target [the percentage of one's former working income most people can expect to live on reasonably comfortably after retiring]," he said.

In fact, Mr. Hamilton added, "the greatest challenges come early in their adult lives when the burdens of acquiring a home and supporting young children strain the family budget. After that, things get easier."

He also noted that the way Canadians handle retirement does not indicate that things are as bad as some prognosticators make out.

"Most [Canadians] retire voluntarily before the age of 65. In retirement they spend less than they could – choosing not to access their largest asset, the equity in their homes," he said.

"They do not annuitize their savings even though this would allow them to spend more with confidence. They do not maximize their RRSP/RRIF withdrawals. They do not like to encroach on capital. They continue to save, to donate to charity and to financially support children who need help."

"It is not doom and gloom for many who are newly retired," says Sandra Foster, financial author and president of Toronto-based Headspring Consulting Inc. This is partly because many take the time and trouble to plan.

"Preparing for retirement has helped many Canadians find their financial footing in retirement and even enjoy their new lifestyle. A financial plan prepared during their working years helped many of today's retirees with a savings target and a retirement date," Ms. Foster says. Her advice is to pay attention to planning, particularly in the years when retirement appears to be coming soon.

"The newly retired face a period of adjustment and changes – discovering new routines and perhaps redefining their identity," she says.

"A retirement income plan prepared on the cusp can help those who have been saving diligently adjust to withdrawing money from their nest egg. It can also help them keep more of what they have accumulated by indicating how to withdraw money in a tax effective manner. And a review every three years can help confirm if it's on track."