"I ENJOYED MY WORK. I FELT HEALTHY AND CHALLENGED AND ENJOYED THE INTERACTION WITH STAFF AND PEERS."

You've worked hard your whole life, and finally, it's about to pay off. You're planning to retire in just a few years' time.

You daydream about spending more time with your spouse and your grandkids, snowbirding in Florida, cruising the Mediterranean...maybe even buying that sports car you've always wanted. After all, you've earned it, right?

But what if your retirement doesn't work out as planned?

What if you're laid off from your job? What if you or your spouse develops a serious health issue? Or what if you just don't have enough money saved to retire when and how you want to?

Benefits Canada wanted to understand the experience of Canadian retirees today. Did they get the retirement they hoped and planned for? How did their expectations stack up against reality? Were they prepared for the psychosocial and economic changes? If they could do it all over again, would they do anything differently?

We also wondered about pre-retirees. Are they really ready to retire? Are they concerned about outliving their assets? Is anyone helping them make the transition from working to retirement? Are they getting the support they need?

So, in October 2014, we undertook **a research study of more than 1,800 Canadians who are either retired or five years away from retirement** to understand the Canadian retirement landscape today and where the pension industry needs to focus its efforts going forward. We also got some honest feedback from retirees and pre-retirees about their worries and hopes for the future.

We hope you enjoy reading the results as much as we did.

Alyssa Hodder
Editor, *Benefits Canada*

MIND THE GAP

Today's retirees are in a good place, but pre-retirees aren't getting the help they need

By ***Sonya Felix***

For the most part, Canadian retirees are satisfied with how their retirement is working out, says *Benefits Canada*'s 2014 *Retiree/Pre-retiree Research*.

Most have a good standard of living and are happy with their decision to retire when they did. And the vast majority say retirement has turned out pretty much as they expected.

It's great news that retirement is a good experience for so many, but the situation for pre-retirees isn't as rosy. They worry more about financial security in retirement, expect less income from their employer-sponsored plans, anticipate hefty healthcare costs and aren't getting a lot of support around the retirement transition.

METHODOLOGY

The 2014 *Retiree/Pre-retiree Research* was done online in October 2014 with 1,808 Canadians who are either retired or within five years of retirement:

» **currently retired: 1,114** » **within five years of retirement: 694**

KEY DEMOGRAPHICS (averages)	RETIREES	PRE-RETIREES
Age	66	59
Household income	$47,300	$61,700
Percentage married or common law	73%	73%
Number of years in workplace plan prior to retirement	27	24

The overall margin of error was +/-2.3%, 19 times out of 20; +/-2.9% for retirees, 19 times out of 20; and +/-3.7% for pre-retirees, 19 times out of 20.

"RETIREMENT IS A QUIETER WAY OF LIFE WE ENJOY, BUT WE HAVE TO WATCH SPENDING AND NOTICE RISING COSTS IN FOOD, CLOTHING, GAS, HEALTHCARE EXPENSES, WHICH HAVE BECOME MUCH HIGHER AND FASTER THAN EXPECTED."

"Plan members must make meaningful contributions to their employer-sponsored plans over their working years, choose proper investment vehicles and not make withdrawals"

– KEN MILLARD, GREAT-WEST LIFE

"DON'T UNDERESTIMATE HOW MUCH YOU WILL NEED TO RETIRE COMFORTABLY, BUT TRY TO STRIKE A BALANCE BETWEEN WORRYING ABOUT HOW MUCH MONEY TO SAVE AND JUST ENJOYING LIFE NOW."

Financially Insecure

Even with the end of mandatory retirement, uncertain economic times and longer life expectancies, few survey respondents actually retired at age 65 or later (or plan to wait that long to retire).

Current retirees stopped working at age 59, on average. And pre-retirees (i.e., those who expect to retire within the next five years) are still expecting to retire early, at age 62, on average.

Many factors go into deciding when to retire: happiness at work, health status and family situation, to name a few. But financial security is a top consideration. More than half (52%) of those currently retired say they retired when they did because they felt financially secure enough to do so, while only 41% of pre-retirees believe financial security will be the main reason they ultimately retire.

With the shift from DB to DC arrangements comes heightened concern about retirement income adequacy. While it's easier for employees to predict their pension income under a DB plan, capital accumulation plans become more difficult to understand at retirement, says Nicola Peterson, a partner with Morneau Shepell, where she leads the retirement planning seminars practice. "Employees typically don't know how big their retirement nest egg needs to be or how much they can draw out each year to have the money last throughout their lifetime. As a result, employees feel less certain about the ability to afford to retire."

This uncertainty also creates uncertainty for employers in terms of workforce planning, adds Idan Shlesinger, a senior partner in Morneau Shepell's retirement consulting practice.

"The ability to influence retirement patterns through normal retirement ages, early retirement subsidies and windows has been downgraded with the move to DC plans," he says. "Combined with the end of mandatory retirement, this trend has put employers in a more difficult position of not knowing when their employees are likely to retire, and with few tools to influence this decision."

But delayed retirement can offer benefits for employers, too, insists Linda Byron, an actuary and senior partner with Aon Hewitt. "If someone is happy in their job, and they are physically and mentally able to do their job, it can be a win-win for both employee and employer. The employee feels valued and has financial income, while the employer can retain talent and pass on all that knowledge as part of succession planning. But you want to have employees and managers in a strong trusting relationship to talk about plans for staying longer so you can plan for succession."

Are They Saving Enough?

While almost half (49%) of all survey respondents sometimes worry about whether they will have enough money for retirement, 46% of today's retirees claim to enjoy the same standard of living they had before retiring, and 37% say they expected to have to make some adjustments. But pre-retirees aren't as optimistic. Only a quarter (25%) expect to retire with the same standard of living they have now, and 37% expect to be more cautious and financially conscious with their expenditures.

Helping pre-retirees better understand how much money they will have in retirement and how that may affect their standard of living can boost confidence, says Peterson. "The good news is that once employees take the time to budget for retirement, they will likely find the typical 70% replacement ratio target is too high—and they may be closer to reaching their retirement goals and replacing their current standard of living than they think."

Where is the money coming from? On average, retirees say they're getting 41.4% of their retirement income from a DB plan. But pre-retirees expect most of their income to come from personal RRSPs (32.7%), with employer-sponsored plans way down on the list (16.9% for DB and 6.2% for DC, for example).

"Pre-retirees don't expect the same standard of living as current retirees who are receiving nearly half of their income from DB plans," says Byron. "It could be that pre-retirees tend to overestimate what they'll need to maintain their standard of living, perhaps because they don't take into consideration government pensions and reduced expenses in retirement. It is generally expected that people with a DC plan won't feel as secure because the responsibility is with them to save early on and increase their contributions as they age, and they maintain all the investment risk."

But Ken Millard, vice-president of national accounts, group retirement distribution, with Great-West Life, suggests the retirement income adequacy of DC members may not be as big an issue as they think.

"We know what it takes for a DC plan to be successful, and it starts with plan members joining early," he explains. "In addition, plan members must make meaningful contributions to their employer-sponsored plans over their working years, choose proper investment vehicles and not make withdrawals. When plan members follow these best practices, they are well positioned to achieve retirement income adequacy."

Personal savings may not provide as much bang for the buck as investing in an employer-sponsored plan. Members could do better by maximizing contributions to their DC plans and taking advantage of lower fees, says Jonathan Jacob, senior vice-president of portfolio risk solutions with Greystone Management Investments. "Although it's incredibly difficult to educate employees about the importance of matching contributions and the benefits of lower fees, it can make an enormous difference over a 30-year career."

Peterson agrees, noting investment management fees in a group plan are typically 1% to 2% lower than what individuals achieve on a retail basis. "Over a full career, the impact of fees really adds up. As an example, someone saving $2,000 per year for 35 years and achieving an average investment return of 6% would accumulate a fund of $190,000 if we assume investment management fees of 1% (a net return of 5%). If we increase investment management fees to 2% (a net return of 4%), the fund would only be $153,000—a 20% difference."

Janice Holman, a principal and leader with the DC consulting group at Eckler Ltd., adds she doesn't think it's fair for employers to assume their employees are saving significant amounts outside of their workplace savings plans—especially lower-paid employees and middle-income earners, who, in a lot of cases, just can't afford to. "There are huge advantages

ADD SOME PEPP TO YOUR RETIREMENT PLANNING

HOW CAN YOU TAKE THE FEAR OUT OF THE RETIREMENT PLANNING PROCESS?

Saskatchewan's Public Employees Pension Plan (PEPP) provides retirement workshops that are valued by plan members, says John Hallett, PEPP's assistant director of pension programs. Facilitated by retirement information consultants–who are certified financial planners–the service includes group sessions and one-on-one consultations to help people understand income vehicles, retirement planning and investment options.

FIG. 1: AT WHAT AGE DID YOU RETIRE/ AT WHAT AGE DO YOU PLAN TO RETIRE?

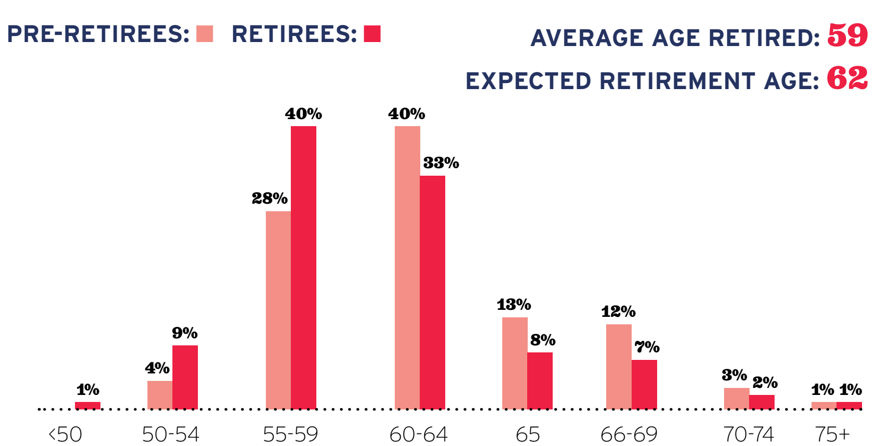
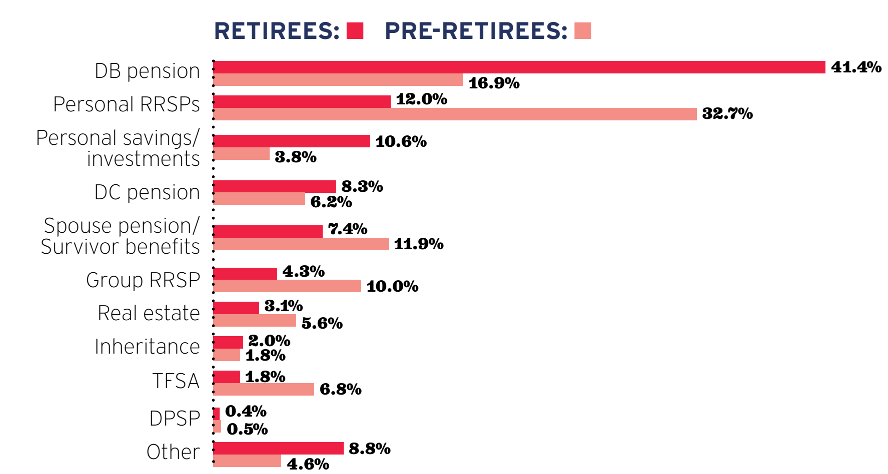


FIG. 2: HOW MUCH OF YOUR RETIREMENT INCOME DO YOU RECEIVE/EXPECT TO RECEIVE FROM THE FOLLOWING SOURCES?



"I WANTED TO SPEND MORE TIME WITH MY HUSBAND AND DO THINGS WHILE WE WERE STILL ABLE TO DO THEM."

to saving in a workplace plan, and *CAPSA Guideline No. 8* will hopefully help to increase the level of people who are taking full advantage of any employer matching that is available," she adds.

Please Help

As employees get close to retirement, they need help making decisions. Yet more than half (52%) of pre-retirees say no one from their work has tried to contact them regarding the retirement transition.

Understanding how to withdraw retirement savings—decumulation—is a huge issue for employees and employers alike. "Members go from accumulating retirement savings with their employer as part of their group plan and then, when it comes to retirement, can be confronted with making decisions not on how much to save, but on how much to pay themselves in their retirement years," says Millard. "It becomes much more personal and complex."

Decumulation options include purchasing an annuity to turn members' savings into a regular income stream; continuing to manage their savings through a registered retirement income fund, life income fund or locked-in retirement income fund; or withdrawing their savings as a cash lump sum, subject to applicable taxes. "Depending on where their money is sitting, they can use any combination of these three strategies to meet their retirement needs," Millard adds.

Pre-retirees face important decisions about how to structure their finances so all sources of income work together and their money won't run out, he says. "Because every retiree's situation is unique, it's critical to have someone to guide them through this process. That's why we strongly recommend working with a financial advisor."

In fact, more than half (57%) of all survey respondents say they used a financial advisor when structuring their financial plan to save for retirement. Of this group, 46% said they employed an advisor themselves. Only 8% say their company offered access to one, and just 3% say their employer paid for access. However, 93% say having an advisor helped them.

So why aren't more employers offering access to professional advisors? There's a fine line between information and advice, says Peterson. "In most cases, employers want to provide unbiased information without the appearance of endorsing a particular product, service or financial advisor. For one-on-one advice, the majority of employers consider it to be the employee's responsibility to find an advisor they are comfortable with."

Mitigating Retirement Risks

Even the most conscientious savers may have trouble maintaining their standard of living over a long retirement.

Demographic trends show today's 65-year-olds can expect to live another 21 years (for men) or 24 years (for women), according to a report released last year by the Office of the Superintendent of Financial Institutions. But few pre-retirees understand the risk this poses: only 5% say they're concerned about outliving their savings.

This small number certainly reflects a lack of awareness, notes Peterson. "We all have an idea of how long we think we will live, based on our health and family history. Unfortunately, many people do a great job of planning for living a shorter lifetime, but they don't consider the possibility of living a longer lifetime. We need to see some changes in the minimum withdrawal requirements for registered savings products—the requirement to start drawing on retirement savings at age 71 is too early for some people."

The longevity issue also raises a question: is it reasonable to assume people can save over the same number of years to fund a much longer retirement? Jacob suggests working longer is one strategy for dealing with longevity risk, since one more

WHAT RETIREES SAY... ADVICE FOR THE NEXT GENERATION

"WORK FOR A COMPANY WITH A GOOD PENSION PLAN, GET A GOOD FINANCIAL ADVISOR, PAY YOURSELF FIRST AND SET FINANCIAL GOALS."

"BE PREPARED FOR THE UNEXPECTED. NEVER GET INTO DEBT OVER YOUR HEAD. LIVE WELL WITHIN YOUR MEANS."

"DON'T NEGLECT YOUR HEALTH."

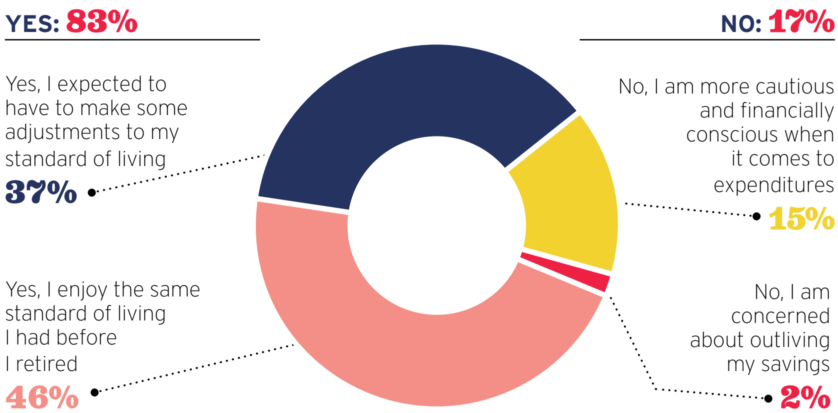
"DON'T WORRY ABOUT HAVING NOTHING TO DO... YOU'LL FIND THAT YOU'LL WONDER HOW YOU USED TO FIND TIME TO GO TO WORK!"

"PLAN YOUR RETIREMENT EARLY. REALIZE THAT PEOPLE ARE LIVING MUCH LONGER, AND BE PREPARED TO BE RETIRED AS LONG AS YOU WORKED."

"DEVELOP LIFELONG HOBBIES."

"DON'T BE AFRAID. YOU MAY END UP HAPPIER THAN YOU'VE EVER BEEN."

FIG. 3: NOW THAT YOU ARE RETIRED, IS RETIREMENT WHAT YOU THOUGHT IT WOULD BE LIKE?



"DON'T WAIT TOO LONG TO RETIRE—LIFE IS SHORT. MAINTAIN FRIENDSHIPS WITH THE WORK COLLEAGUES YOU WANT TO STAY IN TOUCH WITH. EMBRACE SOCIAL MEDIA TO STAY IN TOUCH WITH THOSE FRIENDS."

"ANOTHER YEAR OR TWO OF WORKING MAY HAVE MADE ME A LITTLE MORE FINANCIALLY SECURE IN RETIREMENT."

year of working—and one less year of taking a pension—can have a huge impact.

Life annuities also offer a solution. Although some people balk at putting all of their retirement funds in one basket, "it doesn't have to be that way," Jacob explains. "You can withdraw a certain percentage of your savings and buy an annuity that starts at age 80 as a way to hedge against longevity risk."

Another threat to retirement income is escalating healthcare costs. While the majority (74%) of survey respondents say their retirement planning includes provision for healthcare expenses, a big discrepancy exists between retirees and pre-retirees in how much they spend, or expect to spend, on healthcare (6.4% versus 18.4%, respectively).

"Pre-retirees are seeing a lot of cost-shifting to the private sector," says Byron. "And many don't have retiree benefits, as companies are cutting back by eliminating coverage and delisting services. But the idea that retirees could spend 18% of their income on healthcare every year seems excessively high. Costs tend to rise with age and can get very expensive toward the end of life. More employers want to help and are working with insurance companies to provide access to group plans, even if the employer isn't paying."

It's Not Just About Money

Saving enough to cover living expenses and healthcare needs while also allowing lifestyle choices such as golf and travel is a primary concern, but other factors also play a role.

The survey respondents who retired or plan to retire after age 65 made this decision because they find their work personally and professionally rewarding (57% of retirees and 55% of pre-retirees); they enjoy the social aspects of working (38% of retirees versus 44% of pre-retirees); and their health allows/allowed them to (38% of retirees versus 58% of pre-retirees). Pre-retirees, however, don't feel prepared for losing touch with co-workers (33%), having a lot of free time (28%) and changing their everyday habits (26%).

These kinds of issues encourage a phased approach to retirement, says John Hallett, assistant director of pension programs for Saskatchewan's Public Employees Pension Plan. He's noticed many people who retire take on other jobs that may not pay as much but involve something they're passionate about. "If we encourage plan members to start their retirement planning early, many of them are surprised that they can retire when they want," he says. "Others choose to remain working—even though they could afford to retire—for a variety of reasons, but primarily to remain active and contributing."

Educating employees on how much they'll need to maintain their standard of living and how to create that income level can make a huge difference in whether employees will be happy in retirement—and, therefore, happy with their employer, says Holman. "For sponsors, it should be the No. 1 piece of information they provide employees. Because only by identifying their unique personal goal and telling them how to achieve it will employees be adequately prepared to retire on time." BC

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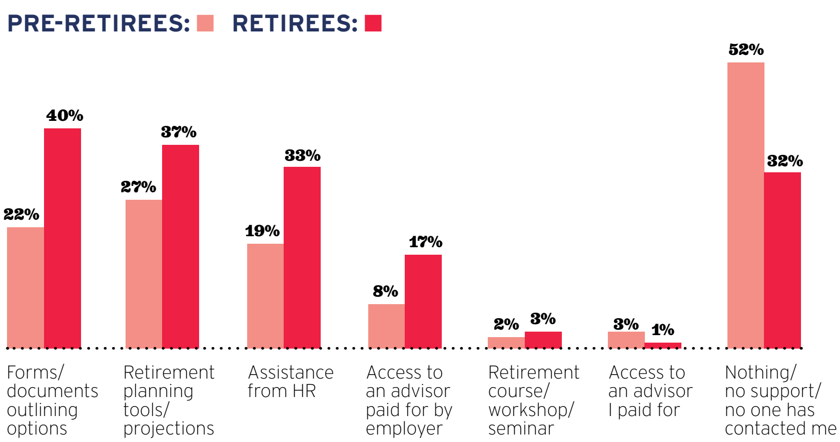
FIG. 4: HAS ANYONE AT YOUR WORK CONTACTED YOU REGARDING YOUR FUTURE TRANSITION INTO RETIREMENT?/ WHAT SUPPORT DID YOU RECEIVE FROM YOUR EMPLOYER DURING YOUR TRANSITION INTO RETIREMENT?



BENEFITS CANADA EXTENDS A SPECIAL THANK YOU TO GREAT-WEST LIFE FOR SPONSORING THIS RESEARCH.