



Canada Fact Sheet

# The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2013



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# Introduction

## Key Findings

- **Retirement associations are positive:** people are more likely to associate going into retirement with positive characteristics such as leisure (49%) and freedom (48%) more than negative words such as poverty (10%) and insecurity (13%).
- **A negative economic outlook:** 57% believe that future generations will have worse retirements than those currently retired. Just 21% expect the economy to improve in the next 12 months, though a large proportion (41%) expect to get personally better off.
- **In reality, early retirement is not the aspiration many see it to be:** 58% of retirees surveyed retired sooner than planned, and of these 36% say they did so due to ill-health, 24% due to unemployment.
- **Transition away from the cliff-edge retirement:** Respondents in Canada are gradually moving away from seeing retirement as a time when work stops completely: 22% expect to give up all working immediately on retirement while 59% of current retirees stopped working completely.
- **Canada ranks third in the AEGON Retirement Readiness Index (ARRI):** In its first participating, Canada was in the top quarter of the ARRI table overall, coming ahead of the USA, which ranked second in 2012. Despite this nearly a third (32%) did not know if they were on course to achieve their desired retirement income.

## The Survey

The findings used in this report are based on the Canadian responses of a twelve country study, in which 12,000 people were interviewed. Respondents were interviewed using an online panel survey and fieldwork was conducted in January and February 2013. The questionnaire dealt with a wide range of issues covering attitudes towards retirement preparedness, the role of the state and the employer in providing pensions, and the impact of the financial crisis on attitudes to issues such as investment risk and retirement planning.

In Canada, 900 employees and 100 fully retired people were interviewed to provide a contrast between the responses of current workers and those already in retirement. All findings in this report are based on results from Canada unless otherwise stated. The survey did not include the unemployed, long-term incapacitated, homemakers, or the self-employed as each of these groups faces specific challenges in planning for retirement which requires specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working population.

# 1. Retirement landscape

Canada is the fifth largest pension market in the world, and, although it has been weathering the global economic crisis well, its pension system has been affected by the same forces as in other developed countries – rising life expectancy, falling discount rates and more volatile returns on assets. As the pressures increase, fewer companies are willing or able to bear the risks of defined benefit pensions. Canada is going down the same Defined Benefit to Defined Contribution road as the US and UK have already taken, albeit not as quickly. Only 42 per cent of publicly traded companies with DB plans still have them open to all employees, while 39 per cent had closed their plans to new hires and 17 per cent had closed them to all employees, according to Towers Watson.

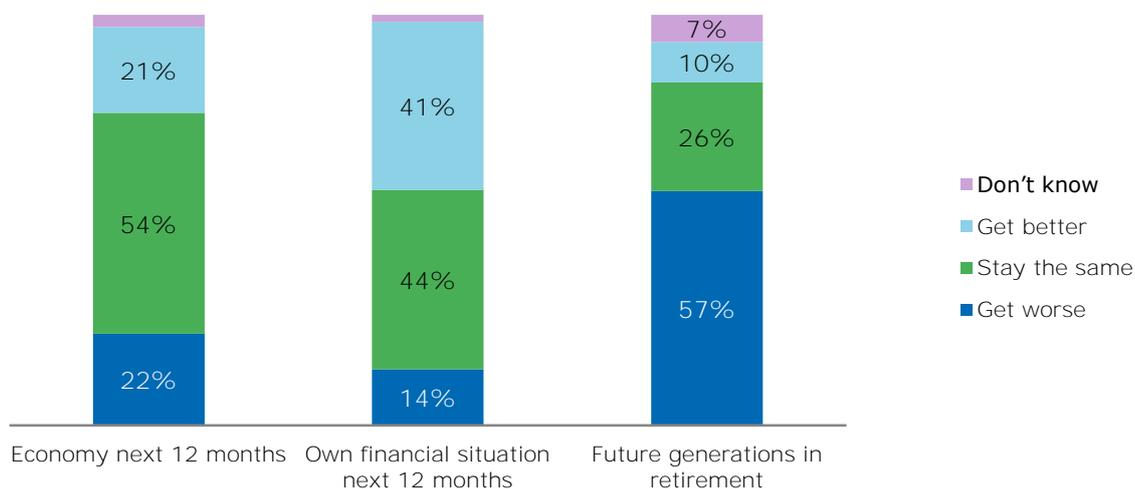
Pension reform is dominating the shape of retirement in Canada, which faces unique obstacles. In most countries, pensions are the responsibility of central

government. In Canada, responsibility lies with the ten provinces. Although private pension plans are voluntary, usually they must be registered under federal or provincial jurisdiction. So employers offering pension plans in more than one jurisdiction could face up to 10 different sets of rules. Federal reform has taken a two-pronged approach. The first prong of reform was aimed at strengthening systems already in place. The second arm of federal reform is the establishment of a new pension vehicle, the Pooled Registered Pension Plan (PRPP). PRPPs are collective Defined Contribution pension plans, designed for self-employed workers or employees not covered by a pension plan. Given the nature of Canadian businesses (Industry Canada estimates that small businesses in 2011 accounted for 98 per cent of all Canadian businesses), PRPPs would appear to be the most viable solution. However, whether such plans will be adopted remains to be seen.

# 2. Aspirations and expectations for a changing retirement

**Chart 1: Respondents are more optimistic about the present than the future, but a fifth think the economy will soon get worse.**

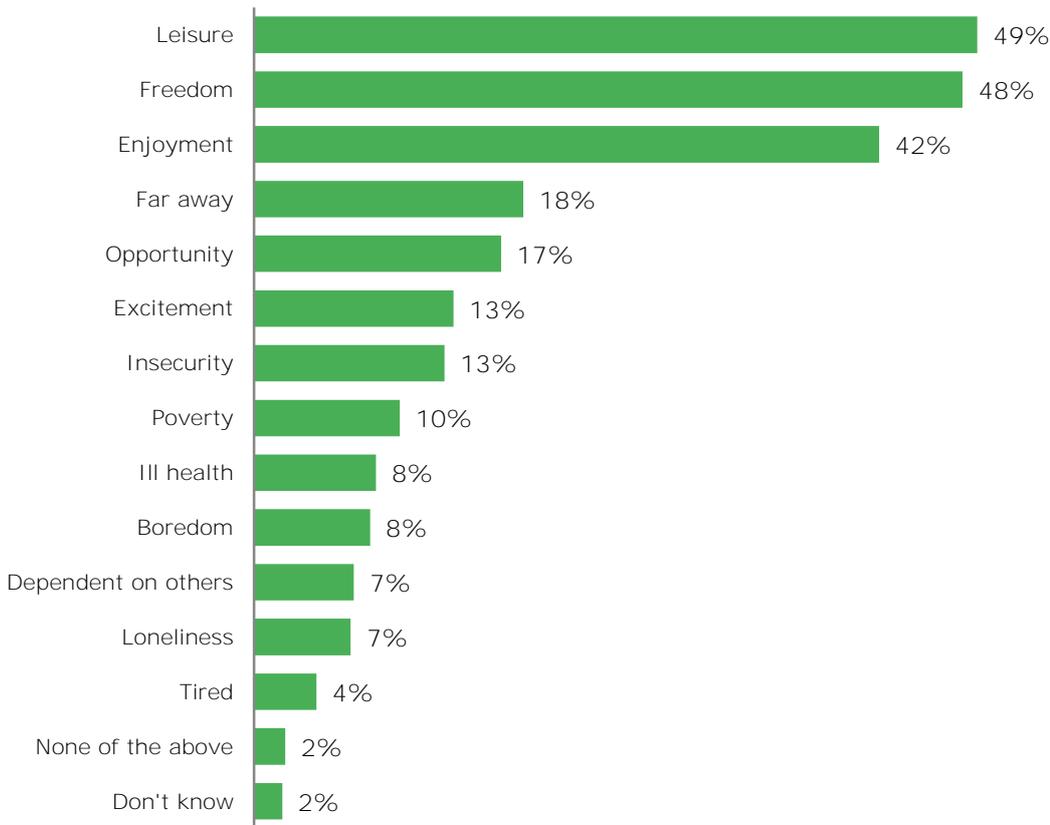
- Q. Thinking ahead over the next 12 months, do you expect the economy in [COUNTRY] to...?
- Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?
- Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?



A majority of respondents in Canada believe that retirement is getting worse: 57% this year say future generations will be worse off in retirement than current retirees. This pessimism may be linked to a sense of stagnation or decline around the present: 76% of people think the Canadian economy is going to get worse or stay the same in the next year although four out of 10 people think that they will personally become better off in the next 12 months.

### Chart 2: Despite the negative outlook, retirement retains positive associations

Q. Which, if any, of the following words do you most associate with retirement? Please tick up to three words.



The main associations consumers have with retirement are very positive: 'leisure', 'freedom' and 'enjoyment' being the most mentioned. However, for some, retirement is also associated with 'insecurity', 'poverty' and 'ill-health'.

### Canada is ranked third in the AEGON Retirement Readiness Index (ARRI) for 2013

This is the second year that the ARRI has been conducted. The Index is based on answers to a series of questions:

- Three cover **attitudes**: whether employees accept personal responsibility for retirement income, whether they're aware of the need to plan for retirement, and whether they understand financial matters

- Three cover actual **behaviors**: the extent to which employees have retirement plans in place, whether they are adequately saving for retirement, and whether they are on course to achieve their required retirement income.

Responses are then correlated based on their importance in determining a respondent's saving profile, and each respondent is scored out of ten.

### Chart 3: AEGON Retirement Readiness Index (ARRI) by country

Readiness Index created by weighting the responses to six questions related to retirement readiness according to statistical importance

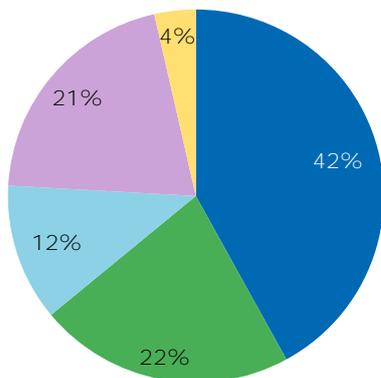


This is the first year that Canada has been added to the AEGON Retirement Readiness Index. Canada was in the top quarter of the ARRI table overall, coming ahead of the USA, which ranked second in 2012. Noteworthy Canadian findings from the questions comprising the ARRI include:

- One third (32%) of respondents do not know if they are on course to achieve the income they will need in retirement, including 22% of those approaching retirement age (55-64 year olds) and 36% of women.
- 66% of respondents are aware of the need to plan for retirement, yet only 12% have 'well developed' plans and 23% of women have no plan at all.
- 64% of Canadian people are saving for their retirement, while only 36% are not currently saving towards their retirement.

### Chart 4: Two fifths (42%) of Canadian employees are regularly saving for retirement

Q. Which of the following best explains your approach to saving for retirement? This can include money you contribute to any long-term investment including pensions, stocks and shares, investment-linked insurances, property, etc. Please select the option below that is closest to your view.



- I always make sure that I am saving for retirement
- I only save for retirement occasionally from time to time
- I am not saving for retirement now, although I have in the past
- I am not saving for retirement though I do intend to
- I have never saved for retirement and don't intend to

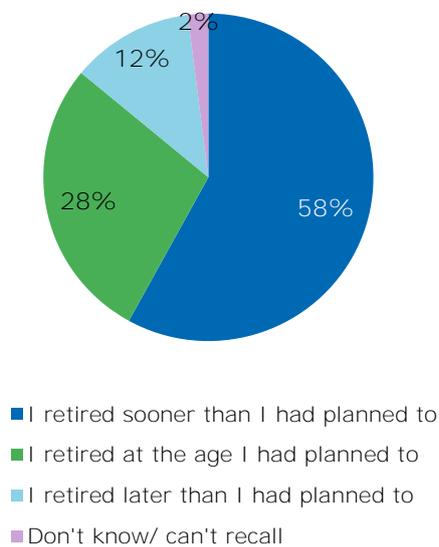
### 3. Dealing with the readiness shortfall

#### 58% of respondents retired sooner than they had planned to, for mostly negative reasons

Whilst retiring sooner than planned is associated with negative reasons such as unemployment and ill-health, the global findings show that retiring later is associated with positive factors such as people enjoying their careers and wanting to keep their brains active.

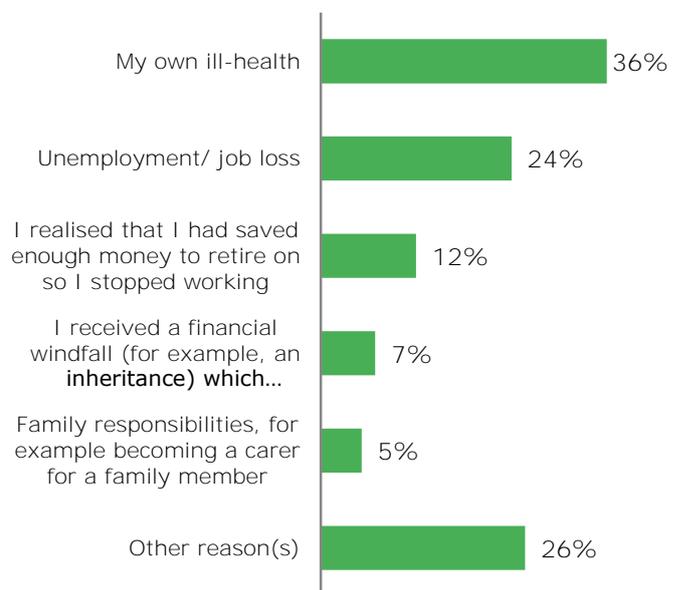
**Chart 5: Retiring sooner or later than planned**

Q. Would you say that you fully retired from all paid employment sooner or later in life than you had planned, or at the age you had planned to?



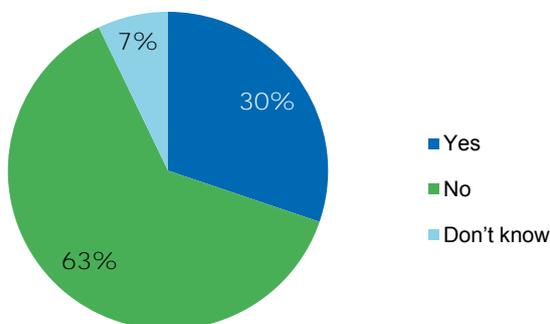
**Chart 6: Reasons for early retirement**

Q. Which, if any, of the following were important reasons in your retirement from all paid employment sooner than you had planned? Please tick all that apply..



**Chart 7: Despite over half of retirees retiring sooner than expected, over three fifths of employees have no backup plan for retirement**

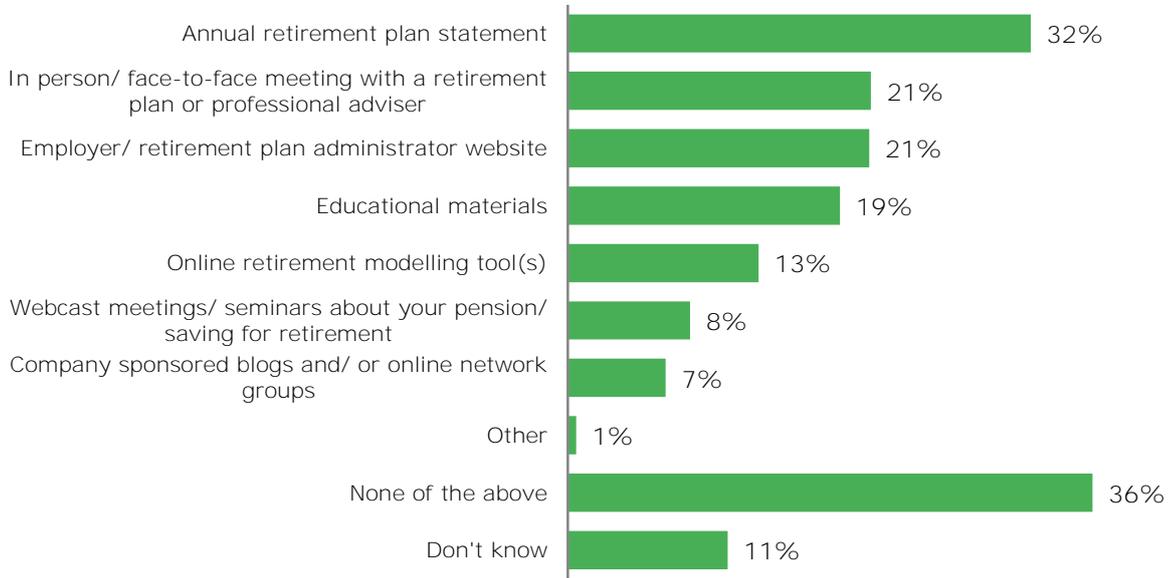
Q. In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income?



This finding is concerning since it suggests a lack of financial knowledge among respondents about what will be required to ensure a comfortable retirement: no backup plan means being dangerously exposed to poverty in old age if you find you can no longer work.

**Chart 8: Nearly half of employees do not know about or do not receive retirement planning services**

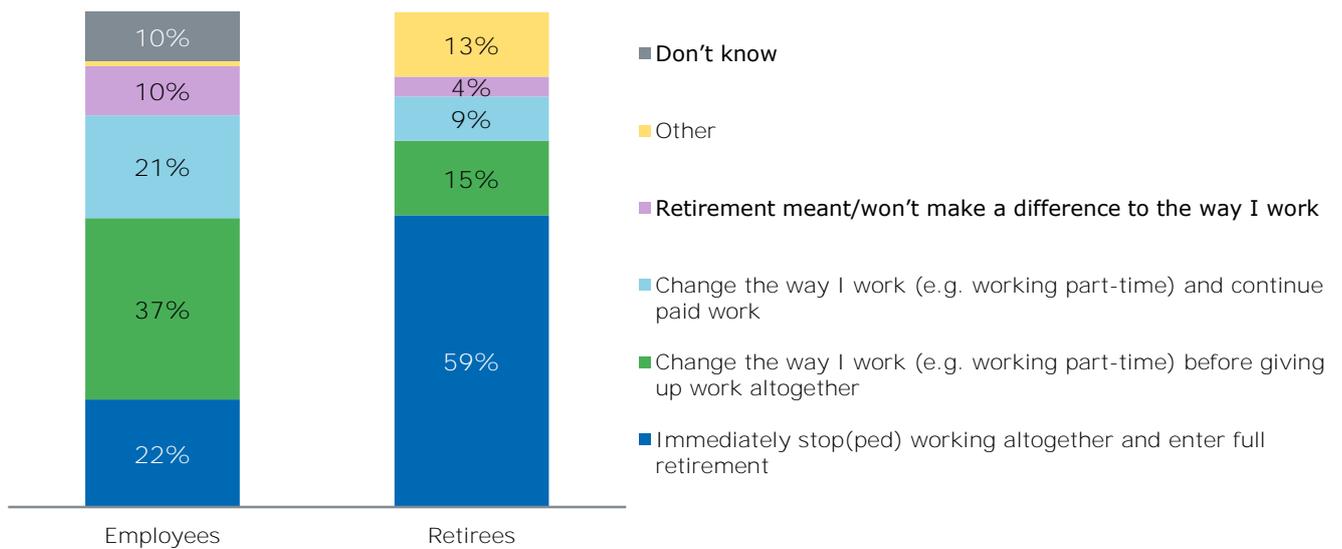
Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer to help you prepare for retirement?)



Although statements relating to retirement plans should be the norm for anyone with an occupational pension, only 32% of employees in Canada state report that they receive them from their employers.

**Chart 9: The survey shows that only a fifth of employees expect to have a 'cliff-edge' retirement rather than phased retirement**

Q. Looking ahead, how do you envisage your transition to retirement?  
 Q. Looking back, how did your transition to retirement take place? Please select the response closest to your view.



In this year's survey there is see a stark contrast in Canada between current retirees, the majority (59%) of whom stopped working completely immediately on retirement, although for current employees, only 22% plan to do the same. This 'phased' retirement idea is especially popular among younger respondents: 38% of 20-29 year olds expect to change the way they work before eventually retiring.

**Chart 10: Despite enthusiasm from respondents, provision of 'Phasing into' retirement services is not the norm**

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement?

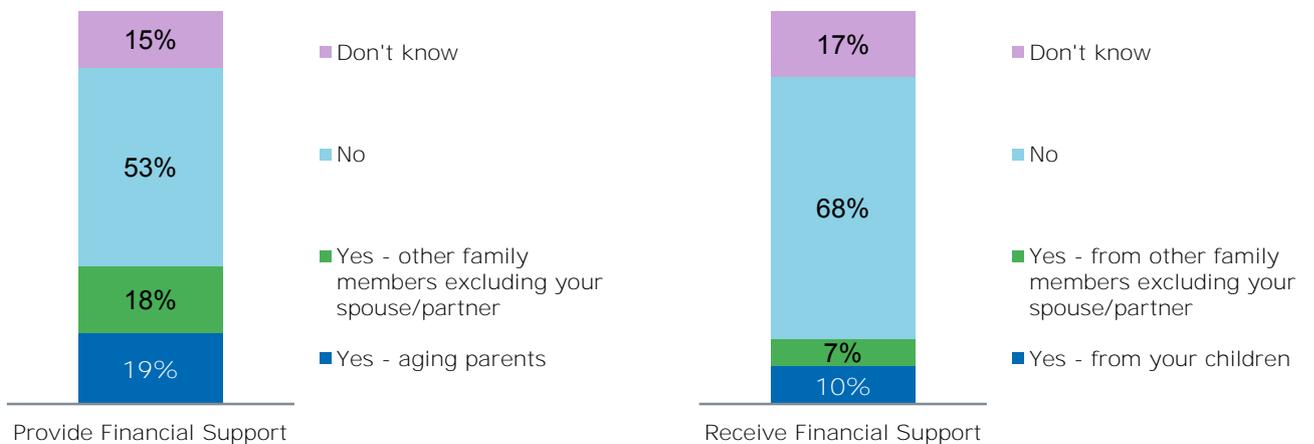


The survey questioned employees and retirees about the services their employers provided to help phase into retirement. Along with the fact that a large proportion of employees feel they are not provided with any such services or do not know of them, the study finds:

- The most common aids to retirement planning that employees feel they are provided with by employers is the option to move from full time to part time work (25%) and the flexible retirement plans which allow you to work beyond the retirement age (23%).
- Where retirement help is provided by employers, employees found these services helpful.

**Chart 11 & 12: A majority people expect neither to give nor receive financial support in retirement**

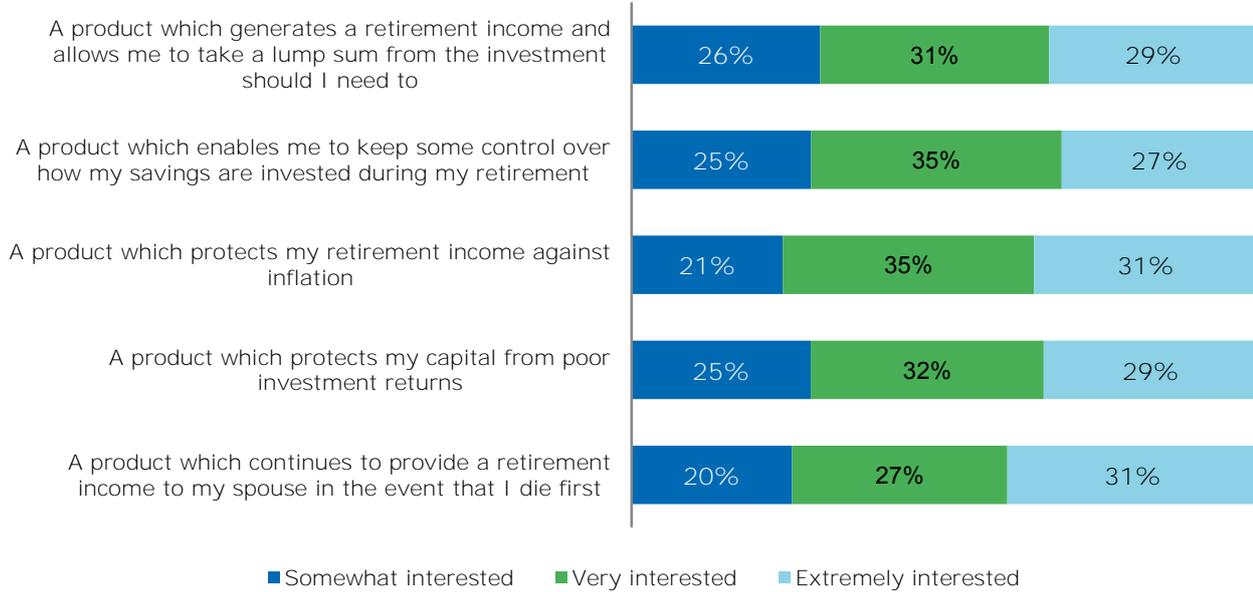
Q. Do you expect that you will need to provide financial support for your family (other than your spouse/ partner) while you are retired? Please tick all that apply.  
 Q. Do you expect that you will need to receive financial support from your family while you are retired? Please tick all that apply.  
 (Percentages may add to over 100 due to more than one response option possible)



The findings show retirement is seen in Canada as an independent life stage, with a majority expecting to neither provide nor receive financial support in retirement from family. However it is notable that younger respondents (20-29) are more likely to expect to be supporting both parents (29%) and children (16%) in retirement.

### Chart 13: Risk management is a top financial priority

Q. On a scale of 1 to 5 how interested are you in the following options



Popular financial products in the survey are those which protect against risks such as inflation, poor returns and that provide retirement income to a spouse in the event of death. Other results also support this finding:

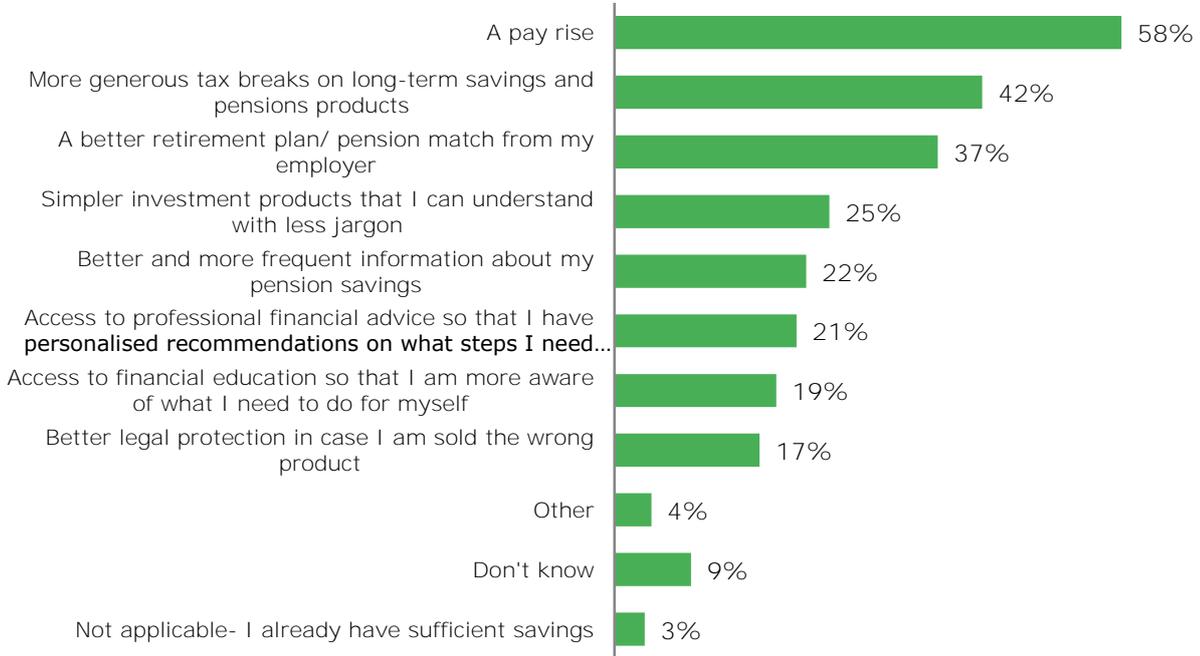
- 61% believe the financial crisis means they want to take fewer risks with their retirement savings.
- Of those using professional advice, an important service this provides for 41% of people is making recommendations regarding long-term risk.
- 80% agree that it is important to have many sources of retirement income in order to spread risk.

## 4. Sustainable solutions

How can retirement systems be made more sustainable in the future? The study asked what can be done to make savings and pensions products more attractive, as well as how to better balance the role of the individual, the state and the employer.

### Chart 14: People would be motivated to save for retirement by higher pay and tax breaks

Q. Which, if any, of the following would encourage you to save for retirement?

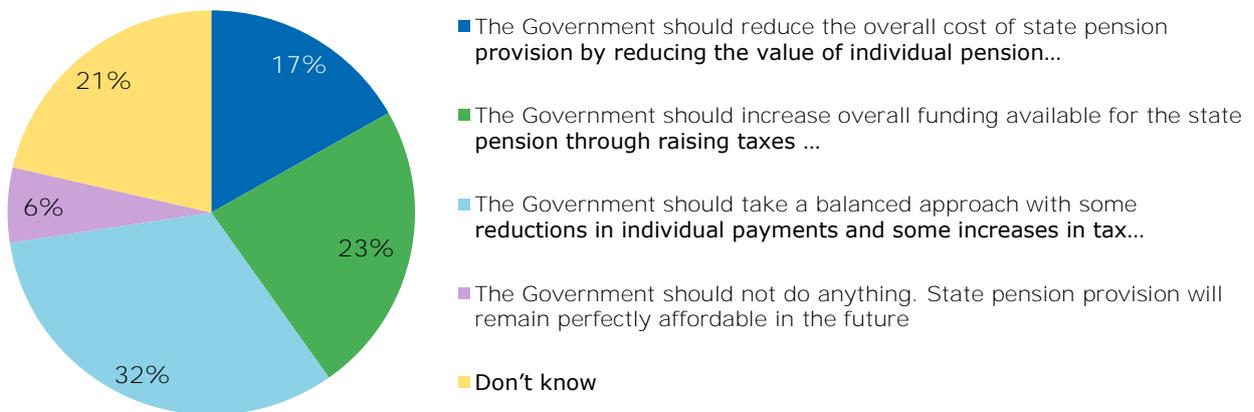


Alongside this finding on the importance of higher pay, the survey also found:

- A lack of money to invest is putting off 51% of people from saving.
- The uncertain economy is a disincentive to save for only 11%.

### Chart 15: A large proportion of respondents would accept at least some tax increases to pay for the state pension system

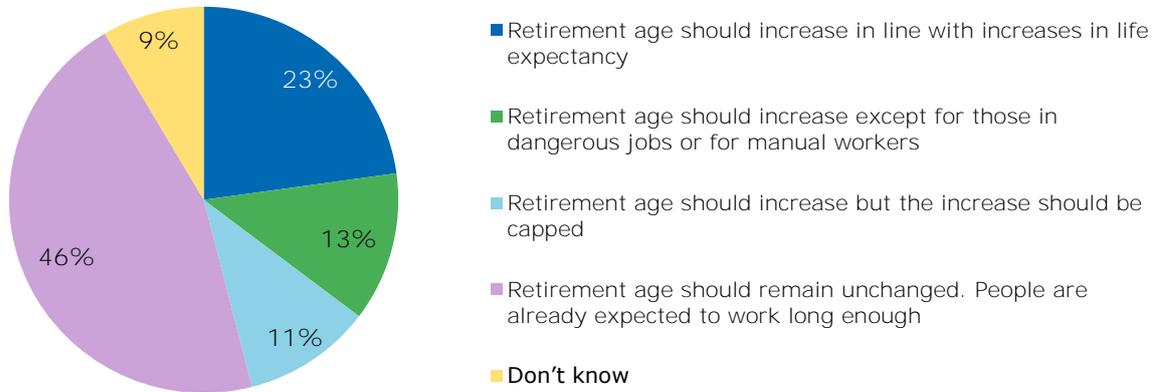
Q. With the cost of government pensions becoming a greater concern as people live longer which, if any, of the following do you think the Government should undertake?



Difficult decisions are inevitable when it comes to reforming pension systems. Few – only 6% in Canada – believe that the government should not take any action because the state pension will remain affordable. The largest group, 32%, believes that a balanced combination of benefit reduction and tax rises are necessary to make the system sustainable.

**Chart 16: Almost half of people (46%) think that the retirement age should remain unchanged**

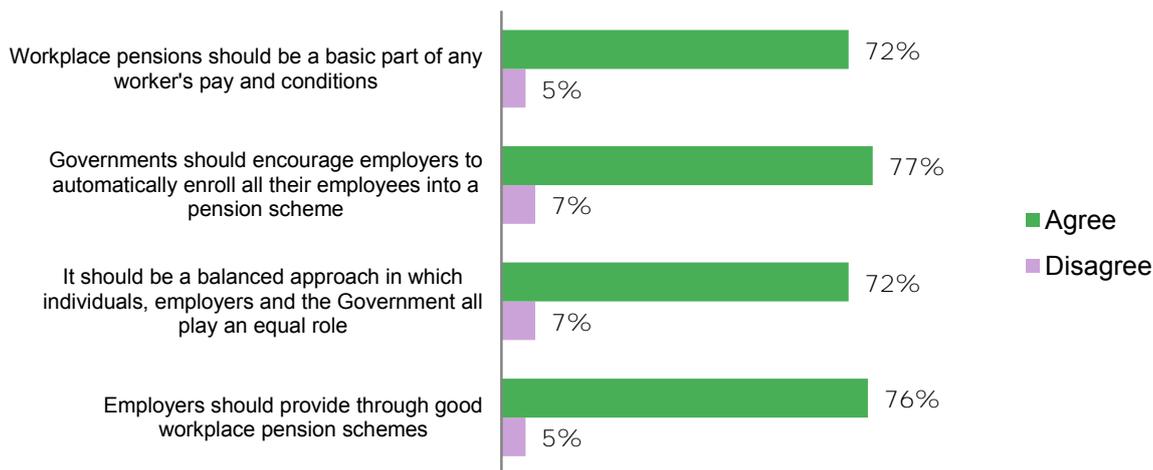
Q. To what extent do you believe that people should expect to work longer into old age as a way to offset the costs of people living longer?



There is division over the issue of increasing retirement ages: 23% of people believe in letting retirement age increase with life expectancy with no caveats, and 46% want no rises at all. This suggests that although employees like the idea of carrying on working into old age, many do not necessarily wish to be obligated to do so.

**Chart 17: Strong support is registered for the importance of employers providing workplace pension and auto-enrolment**

Q. To what extent do you agree or disagree with the following statements about taking responsibility for funding people's retirement? Please indicate on a scale from 1 to 5, where 1 means you strongly disagree and 5 means you strongly agree. (BASE: ALL) / . Please indicate on a scale from 1 to 5 how strongly you agree or disagree with the following statements about your work, where 1 means you strongly disagree and 5 means you strongly agree. (BASE: NOT FULLY RETIRED)



The findings show that workplace pensions still have the support of the vast majority of respondents, as does the idea of auto-enrolling people into such a scheme. Elsewhere:

- Private pension are the most important source of retirement income for 21% of respondents. Defined benefit schemes are also the most important source of income for 19% of respondents.
- 38% of respondents agree that there was nothing wrong with relying on the state to provide a retirement income, 33% felt this way about relying on a spouse to provide an income.
- 37% are worried that the financial crisis means their employer is likely to cut back on workplace benefits.

## 5. Call to action

Lack of retirement readiness is an emerging global crisis for governments, employers, and individuals

- Although retirement systems vary by country, the shift in responsibility for a secure retirement to the individual is consistent among the **countries surveyed. Similarly, individuals' lack** of adequate preparation for retirement was found across the globe. Governments have a **significant role in increasing individuals' awareness** of this shift in responsibility and of the amount and nature of the government benefits on which the individual can rely in retirement.

In addition, governments and employers can facilitate the offering of tools and information to educate employees of all ages of the need to save, how to save effectively for major life events and also how to transition those savings into a secure retirement.

Most expect future generations to be worse-off in retirement than current retirees

- Increased longevity has resulted in the likelihood of multiple generations of family members in retirement whose financial security is compromised by cuts in government benefits **and the economic downturn. The 'squeezed' generation** that is trying to save for retirement is increasingly called upon to support parents and grandparents in retirement while also supporting adult children who may still depend on parental support. Governments, employers and individuals must acknowledge and facilitate efforts to address inter-generational burdens on **the 'squeezed generation.'** Governments must encourage the use of private sector products and services to address these burdens, and employers can provide or make available retirement planning tools and education to help individuals anticipate and plan to cover inter-generational burdens.

Delaying retirement offers an obvious solution, but obstacles remain

- Governments and employers can help employees by enabling longer working careers, and providing options for phased retirement and explaining what these are. Employees should also have a backup plan if forced into retirement sooner than expected. Governments and employers can increase awareness of the need for a backup plan and facilitate the offering of products such as disability and life insurance

which are designed to provide a continued source of income to families in the event of a **family member's death or disability prior to the** planned retirement and accumulation of sufficient savings.

Widespread retirement illiteracy worsens readiness

- Individuals are increasingly aware that they will need to bear some personal responsibility for their retirement; however, the amount and complexity of information can be overwhelming. Programs designed to address this inertia can help ensure that employees are automatically **covered by their employer's retirement plan.**

Governments have a responsibility to clearly communicate the expected government benefits. They must guide individuals to the tools and information to help individuals start saving throughout their careers to supplement the government benefits. Employers can serve as a one-stop source of information, tools and supplemental products to help their employees develop their own retirement plan and transition into retirement. Governments can facilitate and **encourage the employer's role in providing or** making available retirement planning tools and information to its employees through reduced regulatory burdens, safeguards from liability and tax incentives.

Wary about retirement-related risks, individuals seek solutions

- Providing retirement solutions and advice that help individuals de-risk their retirement can help avoid losses or erosion due to inflation. Financial products and plans may also help individuals in developing and financing a backup plan in the event they leave the workforce prior to their expected retirement date. However, in order to grow savings into something adequate for retirement some controlled risk may be necessary.



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