



Canada Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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Introduction

Key Findings

- **Retirement associations are generally positive:** Canadians are more likely to associate retirement with positive terms such as 'freedom' (50%) and 'leisure' (48%) than negative terms such as 'insecurity' (16%) and 'poverty' (11%).
- **Improvement is needed in retirement planning:** While 61% of workers have a plan for retirement, only 15% have a written plan. More than a third (36%) do not have any plan at all.
- **Employers can play an important retirement support role:** Where employers offer retirement planning services they are found to be very helpful. However almost two-fifths (39%) claim that their employer provides no form of retirement support or planning services while a further 15% are unsure.
- **A flexible transition to retirement will be the new norm:** Only one quarter (24%) of non-retirees envisage their transition to retirement to occur immediately by stopping work altogether. The majority (56%) anticipate that they will continue working in some way, whether part-time or on temporary contracts, after reaching the retirement age. One-in-ten (10%) claim that reaching retirement age will have no impact on their working habits.
- **Canada ranks sixth in retirement readiness:** Canada scores six out of ten on the Aegon Retirement Readiness Index and is placed sixth out of 15 in our global rankings. A 'medium' score, this indicates that the average Canadian is moderately prepared for retirement.

Recommendations

- **Employers should incorporate older workers into their corporate plans:** The majority (56%) of employees expect to continue working (in some form) beyond the retirement age before fully leaving work, unfortunately only one-fifth (21%) claim to be offered flexible retirement plans that allow them to work past the usual retirement age. The other four-fifths of employers need to start including older workers into their long-term corporate planning.
- **Make a back-up plan for retirement:** Only one-third (31%) of respondents not in full retirement claim to have a back-up plan in the event that they are unable to work prior to reaching retirement age. With global economic uncertainty affecting more and more people, all Canadians should create a Plan B in case they end up unemployed for part of their working lives.
- **Government should support workplace plans:** Many Canadian workers who do not have access to workplace retirement plans are not saving enough for retirement. We urge the federal government and the provinces to provide options to these employees and their employers to make retirement saving easier and more affordable.
- **Financial literacy should have a place in secondary education:** saving for retirement should be quite straightforward - create a plan, save a bit from every pay cheque, invest the money, compare actual results versus the plan every year, make adjustments where necessary, and then retire. Unfortunately, overall financial literacy prevents many Canadians from sufficiently saving for retirement because they never learned day-to-day budgeting skills. With a view to the long-term, we recommend governments address financial literacy in secondary school curricula alongside the 'three Rs'. More informed high school graduates will make better financial decisions during their working careers.

The Survey

The findings used in this report are based on the Canadian responses of a 15-country online survey in which we surveyed 16,000 adults aged 18 and over in January and February 2014. The global report as well as country-by-country reports, research and communication materials can be found at www.aegon.com/en/home/research. The range of issues covered in the research includes attitudes to retirement preparedness which serve as the basis of the annual Aegon Retirement Readiness Index, as well as perceptions of the role of the government and employers in providing retirement benefits.

The objective of this survey is to provide a broad perspective on retirement planning based on the mainstream working and retired populations. In Canada, we surveyed 900 employees and 100 fully retired people to provide a contrast between the responses of current workers and those already full retired. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work, as each of these groups faces specific challenges in planning for retirement that require specific public policy interventions. All findings in this report are based on the Canadian survey results, unless otherwise stated.

Within this survey, the Aegon Retirement Readiness Index (ARRI) incorporates three broadly attitudinal and three broadly behavioural questions covering personal responsibility, financial awareness, financial capability and understanding, retirement planning, financial preparedness, and income replacement. We also asked a dependent variable question about approaches to saving for which we identified five broad saver types: habitual, occasional, past, aspiring, and non-savers.

In order to create the index, we correlated responses to the six attitudinal and behavioural questions with the dependent variable to obtain a measure of influence (known as an 'R' value). We multiplied the mean score of each of the six questions by its 'R' value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score.

We rate employees' financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score ranges between 6 and 7.99, and a high score is 8 or higher.

1. Retirement landscape in Canada

Aegon strongly believes that Canadians should start planning for retirement early in their careers. That's why we devised the Aegon Retirement Readiness Index (ARRI) which assesses employees' attitudes and behaviours in relation to planning for retirement.

With an index score of six out of ten, Canada placed sixth in our global rankings. This "medium" score reflects the fact that while Canadians benefit from many strengths of their retirement system, there are still improvements to be made. High levels of debt and low levels of private long-term savings are of particular concern.

In 2013, the ratio of household debt to income hit a record setting 164.2 per cent. Only one-in-three Canadians participate in personal pension plans^{1,2} and with low coverage of workplace retirement plans in the private sector, many employees are left to rely on the Canada Pension Plan (CPP) which is ill-equipped for this purpose.

Across other countries included in this survey there has been a wave of pension reform following the aftermath of the financial crisis. Yet political change has taken place at a much slower pace in Canada. Age requirements for Old Age Security (OAS) will increase gradually over the next decade and a half, and a new voluntary savings plan has been introduced. Fundamental reforms of the CPP have been met with political grid-lock, meaning the pension debate will now be waged by the provinces.

As this report illustrates, the status quo of retirement planning in Canada requires a decisive response by government. The retirement landscape will soon change, yet the outcome of the provinces' plans is still to be seen. This report sets out the views of employees and retirees as to how the current economic climate affects their level of retirement preparedness.

2. Retirement aspirations and expectations

Expectations for the economy remain tepid in spite of positive economic performance. After exiting the recession in 2010, with the economy expanding at a rate of 3.2% that year³, annual GDP growth is expected to average about 2.5% in 2014 and in 2015.⁴ However, more Canadians expect the economy to worsen (26%) than improve (18%) over the next 12 months, and the majority anticipate that it will not change (52%).

Findings are more positive for respondents' views regarding their own finances. One-third (34%) expect that their financial situation will improve, while just 14% expect it to worsen. Nevertheless, half (50%) believe that there will be no change in their financial situation.

¹ This report uses the Organisation for Economic Co-operation and Development (OECD) definition of Personal Pension Plans, which encompasses individual RRSPs and group RRSPs. Available at <http://www.oecd.org/finance/private-pensions/2066988.pdf>

² OECD (2013), "Coverage of private pensions", in *Pensions at a Glance 2013: OECD and G20 Indicators*, OECD Publishing. http://dx.doi.org/10.1787/pension_glance-2013-35-en

³ World Bank. GDP growth (annual %). World Development Indicators. <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

⁴ Bank of Canada (2014). Monetary Policy Report. April 2014. <http://www.bankofcanada.ca/2014/04/mpr-2014-04-16/>

Chart 1: Expectations of respondents' own financial situations are more positive than for the economy

Q. Thinking ahead over the next 12 months, do you expect the economy in Canada to...? (Base: All, n=1000)
 Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...? (Base: All, n=1000)

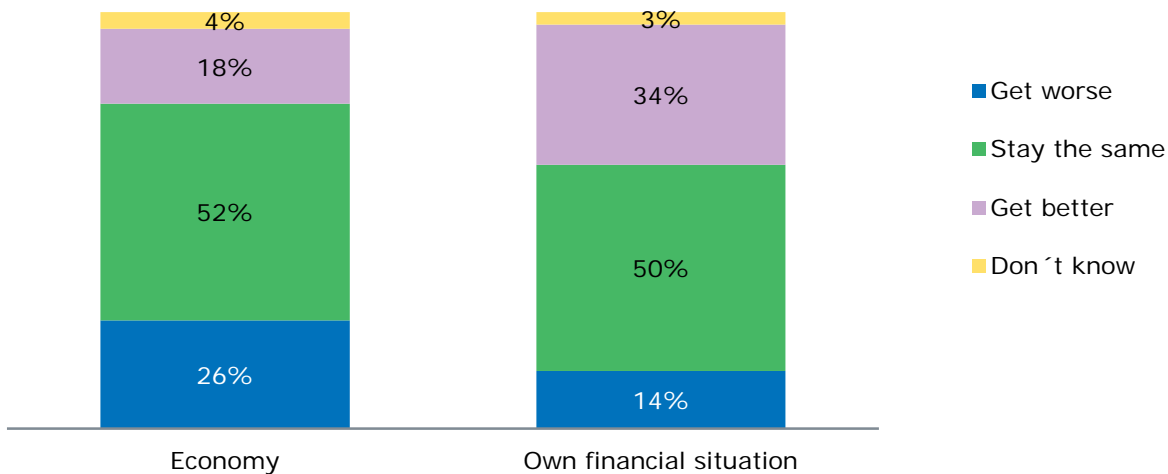
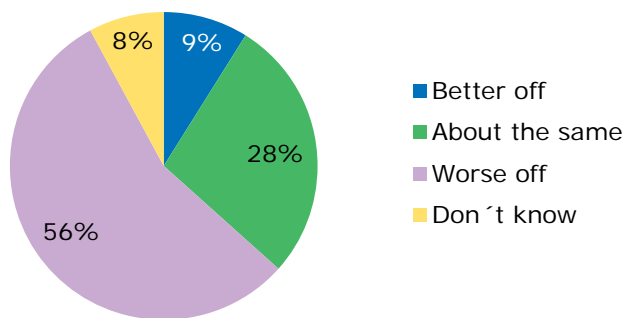


Chart 2: Future generations of retirees are expected to be worse off⁵

Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement? (Base: All, n=1000)



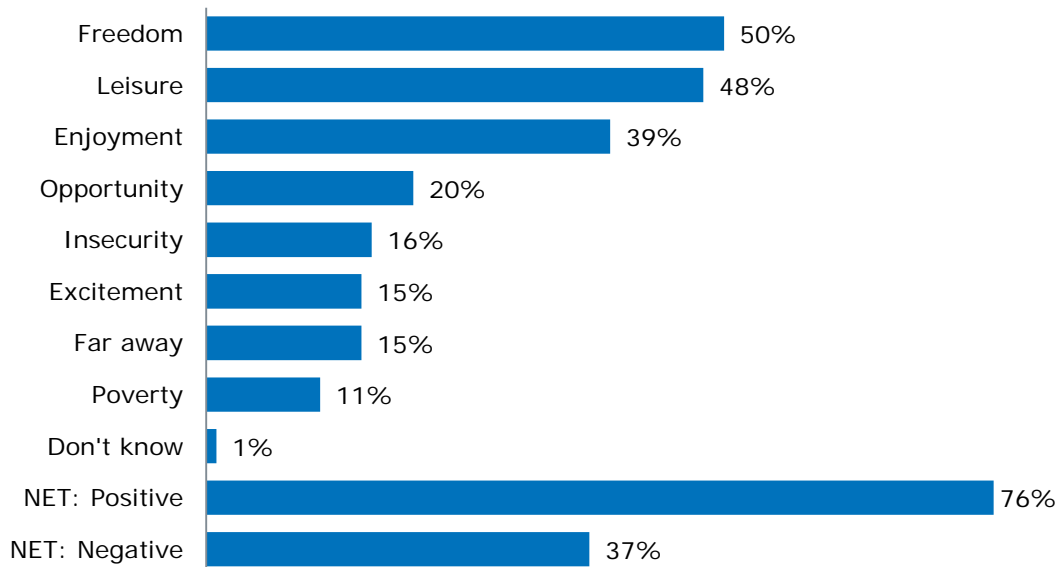
There is a common concern about the retirement prospects of future generations. Almost three-fifths (56%) of workers believe that future generations will be worse off in retirement than current retirees. Yet for their own retirement, Canadians have a more positive outlook. When asked to select words they associate with retirement, half choose “freedom” (50%) and “leisure” (48%) while slightly fewer chose “enjoyment” (39%).

Retirement aspirations reflect these generally positive associations. Almost two-thirds (63%) of Canadians aspire to travel in retirement, three-fifths (60%) hope to spend more time with friends and family, and half (49%) expect to pursue new hobbies. Not all associations are positive, however: 16% associate retirement with insecurity and one-in-nine (11%) with poverty. One-third (34%) of workers are not confident that they will retire with a lifestyle they consider comfortable, and a similar number of retirees (32%) do not feel financially comfortable.

⁵ Note that due to rounding, not all totals will equal 100%

Chart 3: Retirement is associated with leisure, freedom and enjoyment

Q. Which, if any, of the following words do you most associate with retirement? (Base: All, n=1000)



3. Planning for retirement

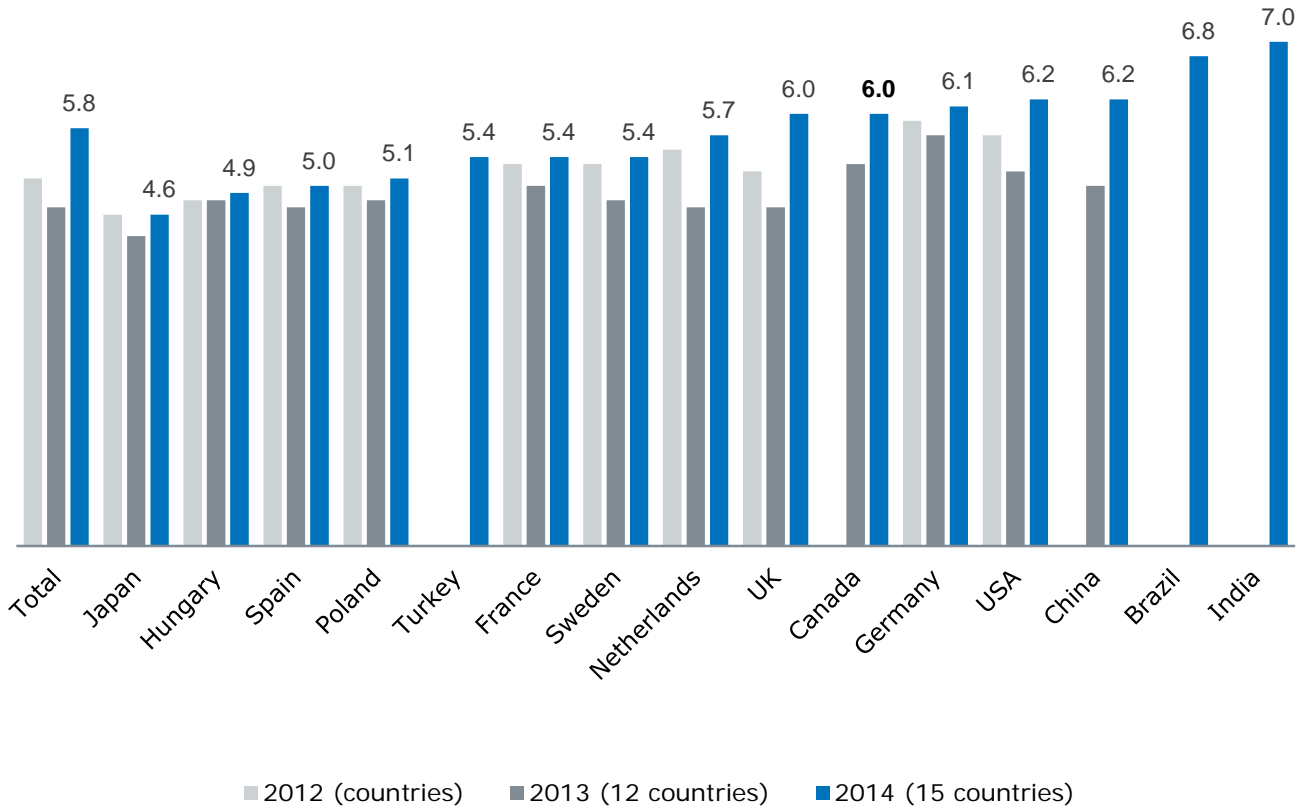
To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI).

While the ARRI improved in 2014 compared with 2013, the figure remains low. Canada's Index score of 6 out of 10 ranks sixth among the 15 countries surveyed this year. Brazil and India were introduced in 2014 and now lead the global rankings. While there is a general dynamism among respondents in these countries, it should be noted that a certain selection bias is also at play. Given that the survey takes place online and only includes those who are employed, persons in rural areas or with low income

would be less represented. In this sense, results should be understood as being typical of persons in these countries who are employed and have access to the internet.

Canada saw a 0.77 point increase over last year's index score. We attribute this change to gains in awareness and planning. This year, three-quarters (75%) of workers said they feel somewhat or very aware of the need to plan financially for retirement, compared to two-thirds (66%) in 2013. Likewise, the proportion of employees who feel their plans are somewhat or very well developed has increased from 33% to 44%.

Chart 4: Canada ranks sixth in retirement readiness in 2014



While Canadians' retirement readiness improved this year, there still remains room for further progress. For example, one-third (34%) of workers do not know if they are on course to achieve the income that they expect to need in retirement, and the proportion who feel on course to fully achieve this amount fell from 28% to 26% between 2013 and 2014.

We also find that there are areas where Canadians can improve savings habits that are external to the ARRI. Three-fifths (61%) of workers have a plan for retirement, yet only 15% have a written plan. Over one-third (36%) do not have any plan for retirement. When asked whether they have a back-up plan in place in the event that they are unable to work prior to reaching their planned retirement age, only 31% of workers said they do. Three-fifths (60%) would be left unprepared in these circumstances.

Chart 5: Over one-third of workers do not have a retirement plan

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

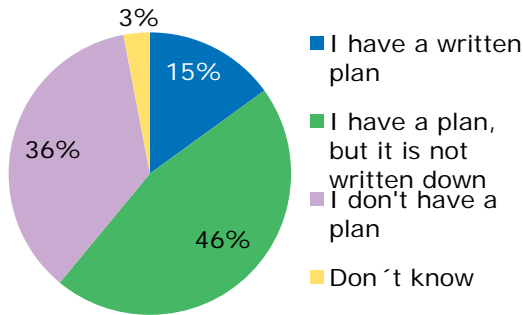
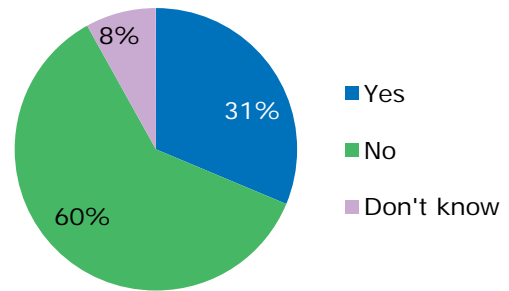


Chart 6: The majority of workers do not have a retirement back-up plan in the event that they are unable to continue working before their planned retirement age

Q: In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'back-up plan' to provide you with an income? (Base: Not fully retired, n=900)



4. Making it easy to save

Two-thirds of Canadian workers (67%) said that a lack of money is an obstacle to saving for retirement. Likewise half (53%) said that a pay rise would encourage them to save more for retirement. Other incentives would include more tax breaks on long term savings (43%), a more certain economic environment (31%), and a better retirement plan match from employers (29%).

Chart 7: A lack of money is an obstacle to saving

Q. Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)

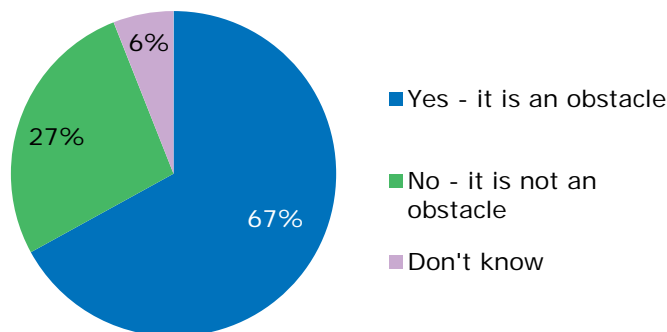


Chart 8: A pay rise, tax breaks and more certain economic environment would encourage retirement saving

Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)

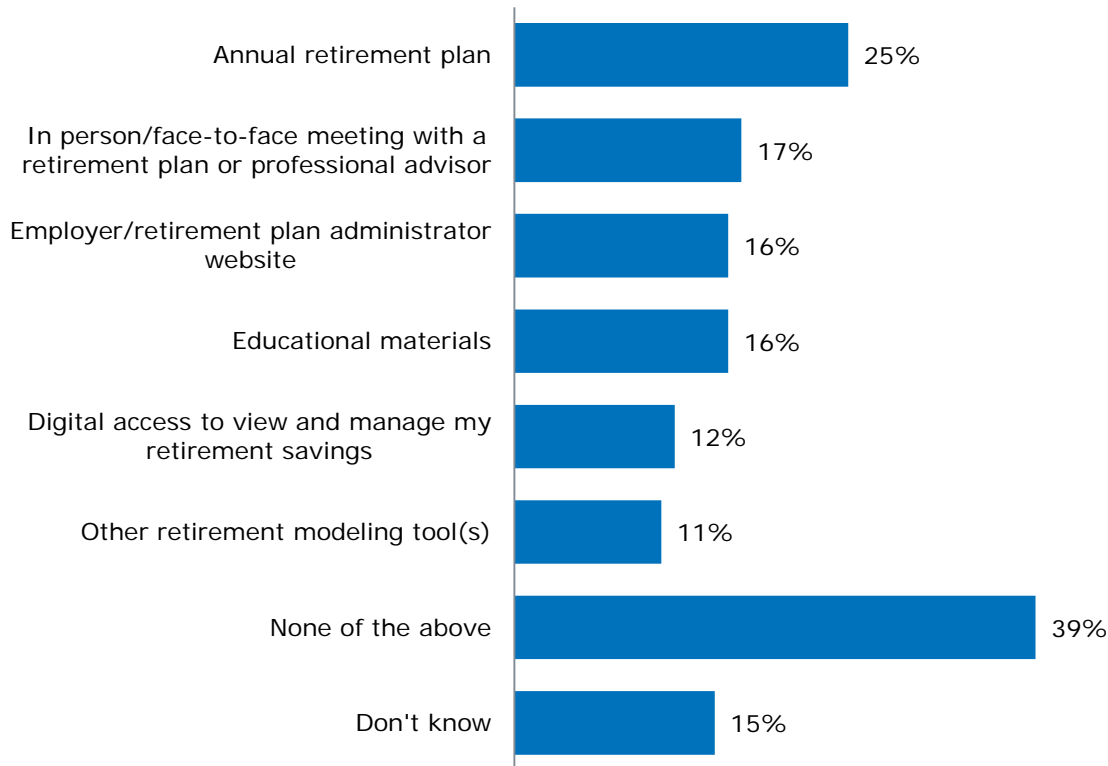


Giving people incentives to save for retirement will require direct action by both governments and employers. Yet most employees in Canada feel that their employers could be doing more. When asked whether their employers offer specific retirement planning services, two-fifths (39%) said they are not offered any such services and a further 15% do not know of any. Just one-quarter (25%) receive an annual retirement plan statement.

However, where employers do offer retirement planning services, employees find these services to be very helpful. Three-quarters (74%) of employees find face-to-face meetings with professional advisers very helpful or extremely helpful. This service is offered by just 17% of employers. Another two-thirds of employees (66%) find online access to their retirement savings similarly helpful.

Chart 9: Almost two-fifths of employees said their current employers do not offer any retirement preparation services

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer ...? (Base: Not fully retired, n=900)



There is broad concern among experts in Canada that workers are simply not saving enough for retirement. In particular, middle-income earners are expected to be most at risk of a significant drop in living standards during retirement. The public pension system provides low income earners with a considerable safety net of additional income in old age. Yet the middle class has not developed the savings base that higher earners have been able to achieve.⁶ Rather, they rely on the Canada Pension Plan (CPP) for much of their income in later life. Designed to replace only a quarter of income up to a maximum amount, the CPP alone is inadequate to maintain a career level lifestyle in retirement.

Recent estimates find that about half of middle-income workers aged 44 to 69 are likely to experience a drop in living standards of at least 25% in retirement⁷. The issue is much less stark for public sector workers, where enrolment in workplace pensions is more common. As of 2013, 87% of public servants are covered by a pension plan while only a third of private sector workers have access to a company retirement plan.⁸ This private sector savings gap is also not filled by active involvement in personal pensions. Only one-third of all working age people in Canada are covered by personal pensions.⁹

⁶ CARP (2013) CARP's Vision for Pension Reform <http://www.carp.ca/wp-content/uploads/2013/12/Pension-Paper-Dec-2013.pdf>

⁷ Wolfson, Michael C. (2011). Projecting the Adequacy of Canadians' Retirement Incomes. IRPP. <http://www.irpp.org/assets/Uploads/Wolfson-No17.pdf>

⁸ Benefits Canada (2013). Public-private pension gap creates two classes of retirees. <http://www.benefitscanada.com/pensions/db/public-private-pension-gap-creates-two-classes-of-retirees-43910>

⁹ OECD (2013)

Multiple employer sponsored tax assisted savings vehicles, known as Registered Pension Plans (RPPs), are available to Canadians. The Registered Retirement Savings Plan (RRSP) is a personal plan that allows for tax deductible contributions and tax exempt earnings until the funds are withdrawn. The latest federal initiative is the Pooled Registered Pension Plan (PRPP) which is a defined contribution (DC) plan between employers and employees. Once an employer has created a PRPP, employees are automatically enrolled with the ability to opt-out. No employer contribution is required. In 2012 there were just over six million participants in RPPs, the large majority of which had Defined Benefit (DB) plans.¹⁰ While the PRPP was intended to be a means of expanding private coverage across Canada, there has been little response from the market to its introduction.

In April 2014, the Canadian government introduced a proposal for a Target Benefit Plan (TBP) which would be a hybrid between a DB and a DC plan. TBPs would be available to companies in federally regulated industries such as banking and transportation. And in May 2014, the Ontario government proposed a mandatory pension plan for people who do not have access to a workplace pension plan.

A contributor to the lack of coverage may be that financial illiteracy prevents individuals from preparing sufficiently for retirement. Our study finds that almost two-thirds (64%) of workers said they feel somewhat or very able to understand financial matters when it comes to retirement planning. Yet other surveys have shown that Canadians face psychological and skills-based obstacles to saving. Conversations with financial literacy stakeholders in six Canadian cities showed that people have difficulty with long-term planning and have a lack of awareness regarding financial matters.¹¹ Similarly one quarter of workers (24%) in our survey said that simpler investment products would encourage them to save more for retirement.

5. A flexible transition to retirement

Most working Canadians do not expect to enter into full retirement immediately. Continuing to work in some capacity, whether part-time or on temporary contracts, is the likely path for almost three-fifths (56%) of people not already in full or semi-retirement. Only a quarter (24%) expect to make a transition immediately into full retirement. Despite this trend towards phased retirement, many employers do not yet provide comprehensive retirement options suitable for easing down work in later life. Only a quarter (27%) of workers said that their employer would allow them to move from full-time to part-time working and just one fifth (21%) of employers would allow workers to continue beyond the usual retirement age.

¹⁰ Statistics Canada (2013). *Registered pension plans (RPPs) and members, by type of plan and sector (Total public and private sectors)*. <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil120a-eng.htm>

¹¹ Canadian Centre for Financial Literacy. *Conversations with Community*. <http://theccfl.ca/getmedia/37b72531-e1c9-4e4d-9458-6c4798a94c53/CwC-Report-English.aspx>

Chart 10: Less than one-third of those not yet fully or semi-retired expect to retire immediately

Q. Looking ahead, how do you envisage your transition to retirement? (Base: Not fully/semi-retired, n=850)

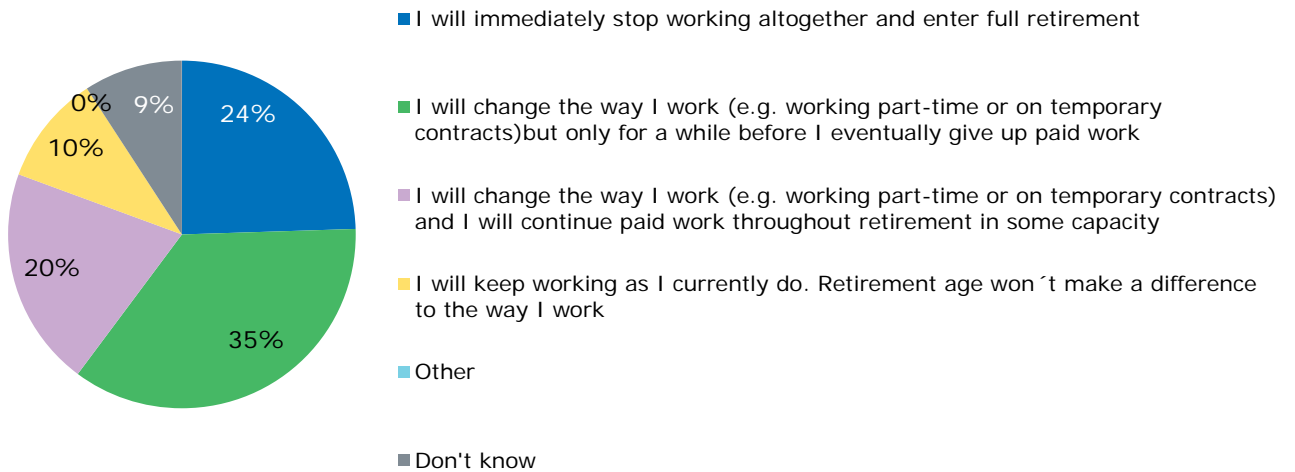
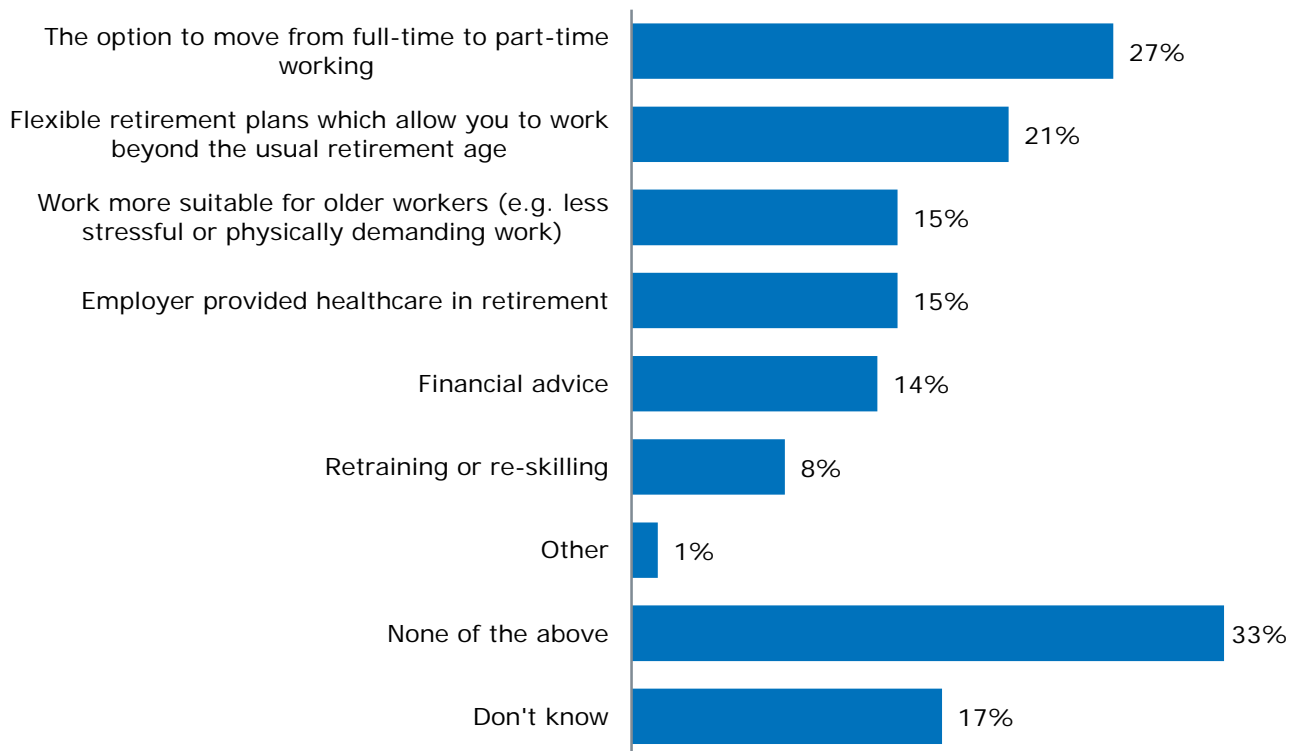


Chart 11: Only a quarter of employers offer workers the option to move from full to part time working

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement? (Base: Not fully retired, n=900)

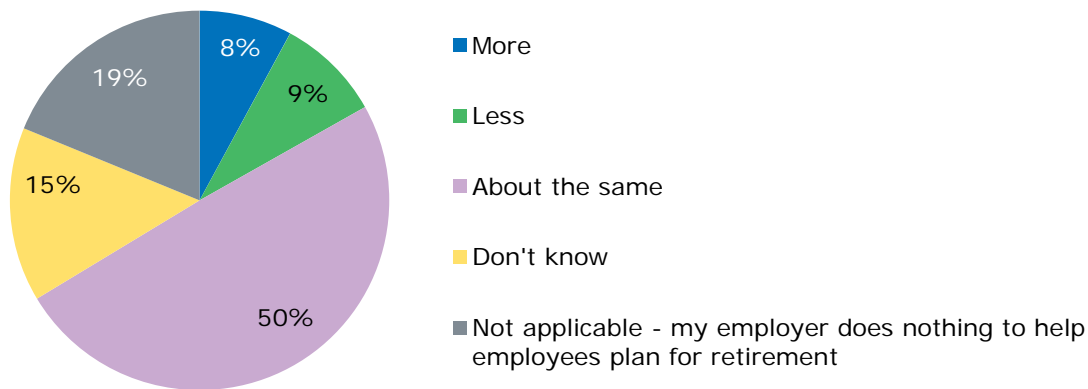


For many people, working into their sixties and maintaining the same occupation will not be an option. For example, those whose careers require physical labour may need to change positions or industries to accommodate working in later life. In order to ensure a successful transfer, retraining and re-skilling is an important step. However, we again see a provision gap in supporting these services. When workers were asked whether their employers offer retraining or re-skilling services, only 8% said they have this option.

It is not surprising that workers feel more could be done to help them plan for retirement. Only one third (34%) of employees feel that their employers provide them with enough information and support to help with retirement planning. Unfortunately, this support does not appear to be increasing. Half (50%) of the workers surveyed said their employers do “about the same” as they did three years ago, and only 8% have seen their employer doing more.

Chart 12: Retirement services offered by employers have not increased over the past three years

Q. Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: not fully retired, n=900)



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