Center for Longevity and Retirement

Canada Country Report

Inspiring a World of Habitual Savers

The Aegon Retirement Readiness Survey 2015

Contents

Introduction

The Aegon Retirement Readiness Survey series explores how increasing life expectancy is having a profound impact on how societies all over the world plan for retirement. It also sets out how this changing financial landscape is impacting on people's expectations and aspirations for later life. In Canada, we find that people are positive towards retirement however are concerned about setting aside sufficient funds for a comfortable lifestyle in the future. In particular, younger workers and women are identified as at risk groups for retirement readiness. Through the development of the Aegon Retirement Readiness Index (ARRI), our research is able to quantify what gaps remain to achieving a comfortable retirement for workers across Canada. Undoubtedly obstacles exist that are out of the hands of individuals: interest rates in North America are at historic lows and an ageing population will ultimately impact the generosity of public pensions. However the fundamentals remain. Saving regularly and early on is the surest means to attaining financial security in later life.

Key Findings

- **Canada ranks sixth in 2015 Aegon Retirement Readiness Index**
  With a score of 6.0 out of 10, Canada is assessed as having a medium level of retirement readiness. Globally, Canada ties with UK for 6th place 6th out of the 15 countries included in our 2015 survey.

- **Canadians are positive about retirement**
  Canadians feel that their personal finances are stable and look forward to an active retirement. However the nature of retirement is changing from what previous generations enjoyed. Work will play a much larger role in retirement for current and future retirees.

- **While most in Canada understand the need to save for retirement, many are failing to put this into action**
  There remains a great deal of concern over the financial aspects of planning for retirement. A lack of consistent saving and retirement planning is at the root of this financial anxiety. Two-fifths (39%) of workers have no retirement plans at all.

- **Producing a savings landscape that encourages habitual saving is the responsibility of individuals, employers and government**
  Key to retirement preparedness is consistent saving from a young age. While individuals need to adopt a savings mind-set, employers and the government play a crucial role in encouraging saving.

1. Canada's Changing Retirement Landscape

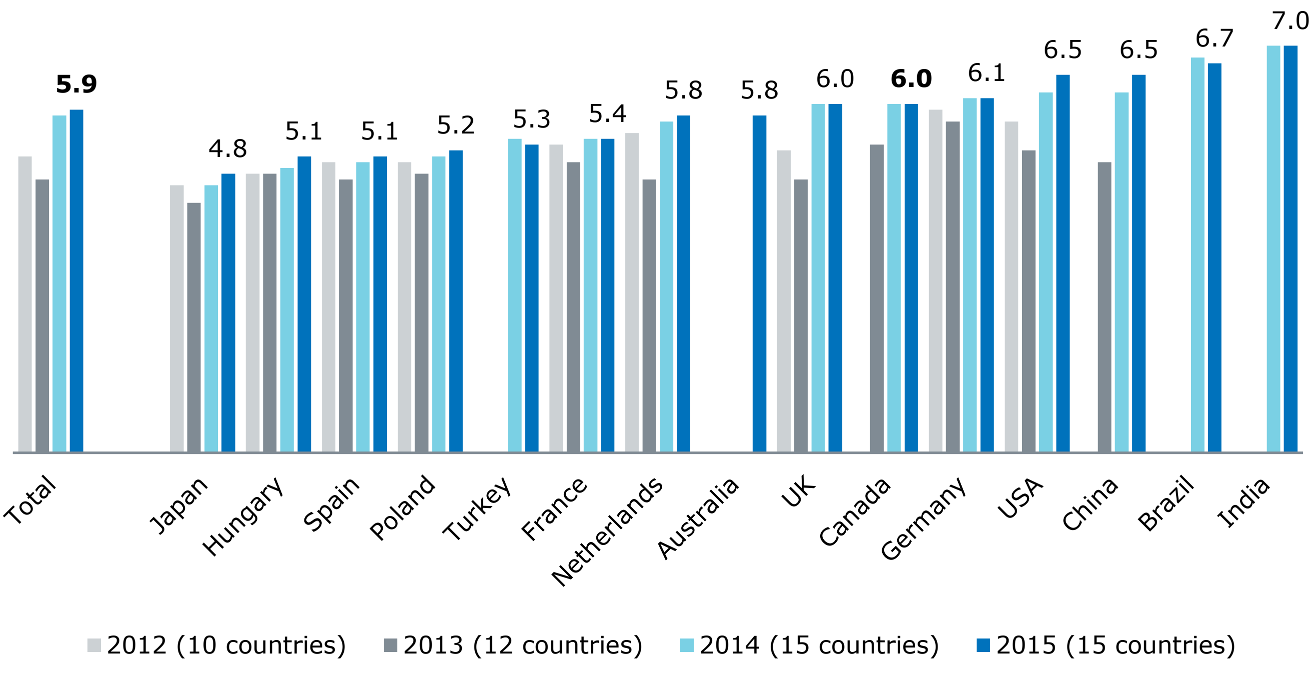
Canadians benefit from many favourable conditions that make saving for a comfortable retirement possible. Average worker earnings are higher than many others in the OECD. A well-developed social security system offers targeted help to those faced with poverty in old age. Further, tax advantages exist to incentivize private saving through registered savings plans, allowing individuals to attain an accustomed lifestyle in the future.

However hurdles remain to ensuring that everyone is able to prepare financially for later life. Savers are being squeezed by low interest rates, a feature common to economies across North America and Europe, and household debt is persistently high. People are also concerned about the future of social security and the adequacy of public retirement benefits. As just one-in-three Canadians participate in personal pension plans, many rely heavily on the Canada Pension Plan (CPP) for income in retirement. However, the limited benefits offered by the CPP means that individuals may see a reduction in lifestyle if other sources of income are not utilized. Perhaps most saliently, a majority (53%) of Canadians believe future generations will be worse off in retirement than current retirees.

The 2015 ARRI reflects these mixed aspects of retirement in Canada. ARRI was created in 2012 to assess the relative levels of retirement preparedness across employees in all countries included in our survey. Respondents are grouped according to whether they achieve a high index score (8 or above out of 10), a medium score (between 6 and 8) or a low score (below 6)[1]. With a score of 6.0, Canada ties with the UK for sixth place out of the 15 countries surveyed.

Chart 1: Canada places sixth in the 2015 Aegon Retirement Readiness Index (ARRI)

I. Index numbered assigned Base: Not Fully Retired (N=14400)



[1] In 2015 we surveyed a total of 16,000 people in 15 countries around the world. This included 14,400 people currently in work and a further 1,600 people who are already living in retirement. The index is calculated using a group of questions measuring both behaviour and attitudes of respondents regarding retirement preparation. For further information please see http://www.aegon.com/index

Women and younger generations are particularly "at risk" of experiencing low levels of retirement preparedness. For women, the need to balance family and career means that they are more likely to be absent from the job market. Where they are working, women are more likely than men to be in part-time work (and enjoy less access to workplace pensions). Over half (53%) of women in Canada scored a "low" index ranking (less than 6.0) compared to 45% of men.

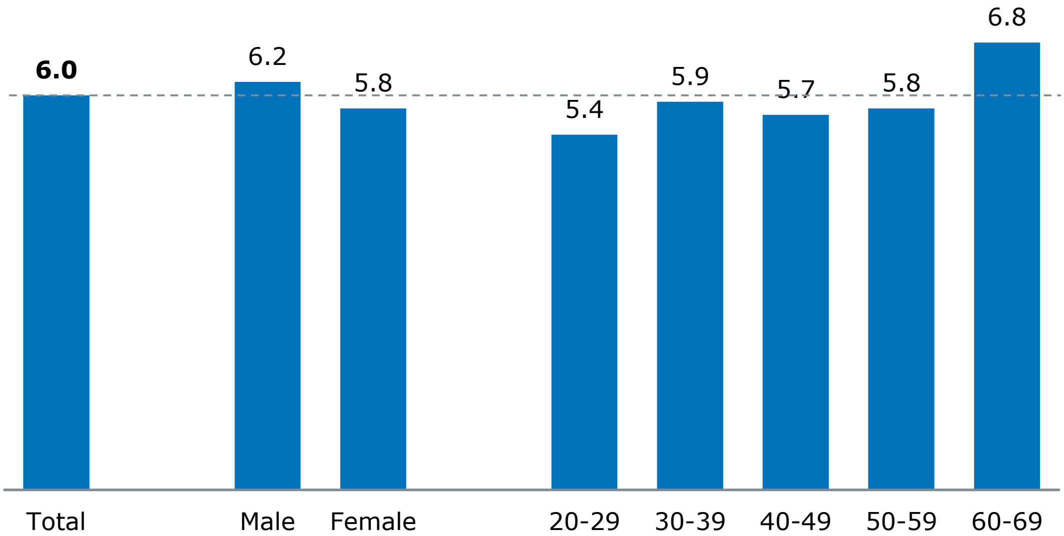
> "...53% of Canadians believe future generations will be worse off in retirement than those currently in retirement."

For younger workers, it is understandable that retirement preparation takes time. But what is concerning is that successful financial habits are typically not adopted until people move into their 30s when other life expenses arise. This is simply too late to secure the kind of retirement people anticipate. With workers expecting to need on average 66% of their working age income in retirement, they risk falling short of this by delaying savings decisions. The ARRI score of young workers remains persistently low around the globe, despite our research showing that effective savings habits are possible even among those on more modest incomes.

This report highlights that while there are strengths of the Canadian retirement system, important steps have yet to be made. There are gaps that remain in the path to retirement readiness for many. Specifically, underdeveloped private saving and high debt levels are hurdles. However important questions remain, are Canadians aware of these trends? Are they changing their savings habits? In the sections that follow we will address these issues.

Chart 2: Women and younger workers score lowest in the ARRI

I. Index numbered assigned Base: Not Fully Retired (N=900)



2. Retirement Expectations and Aspirations

While the impact of the financial crisis continues to recede, Canadians maintain a mixed attitude towards finances in the future. On one hand people recognize that the economy is stable and this is reflected in their outlook towards their own personal finances. However, more Canadians expect the economy to worsen than improve. Interestingly this is not found in personal finances. More people expect their own financial situation to improve than worsen, (30% and 15%, respectively), despite this being opposite for the economy overall.

How do Canadians envision retirement? Retirement aspirations are similar to the lifestyle of previous generations in retirement – including traveling (61%), spending time with friends and family (55%) and pursuing new hobbies (48%). At retirement age just under a quarter (23%) will stop work altogether. A majority will continue working in some capacity into traditional retirement years.

Despite work playing a larger role in retirement, three-quarters (75%) of Canadians maintain a largely positive view of retirement. Indeed there are many benefits to extending one's working life beyond normal retirement age. These benefits include enjoying greater financial, physical and mental well-being as workers are able to keep active longer, continue to earn and keep saving.

While people hold largely positive views about what they expect from retirement, the financial burden of preparing for that retirement is still a major cause for concern. Many doubt that the security they envisage in later life will become a reality. A third (33%) is not confident that they will be able to retire with a lifestyle that they consider comfortable.

Medical expenses are another stumbling block for future finances. While three-fifths (60%) are optimistic that they will maintain good health in retirement, less than half (46%) are optimistic that they will be able to pay for their own and their partners' medical expenses in later life.

Chart 3: The economy and personal finances are expected not to change over the next 12 months

Q. Thinking ahead over the next 12 months, do you expect the economy in Canada to...? And thinking ahead over the next 12 months, do you expect your own financial situation to....? Base: All Respondents (n=1,000)

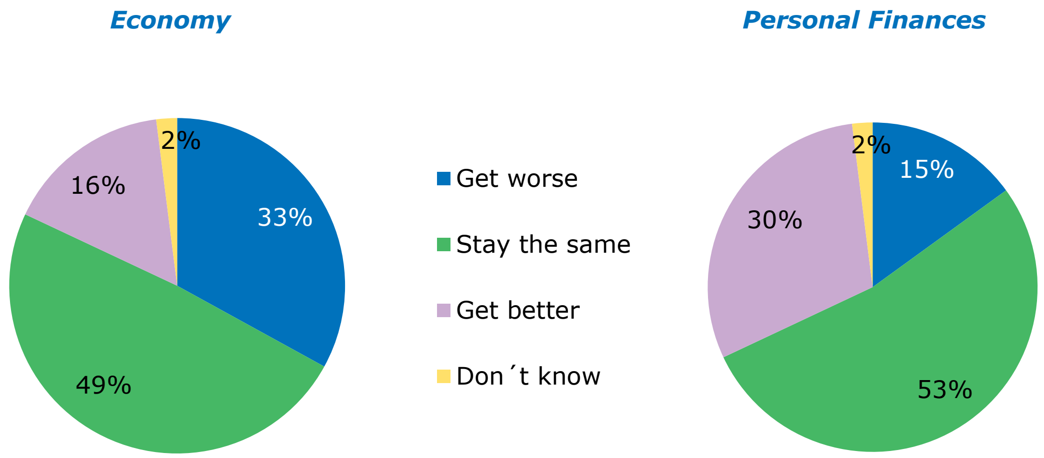


Chart 4: Canadians envision an active retirement

Q. Which, if any, of the following are important retirement aspirations for you? Base: All Respondents (n=1,000)

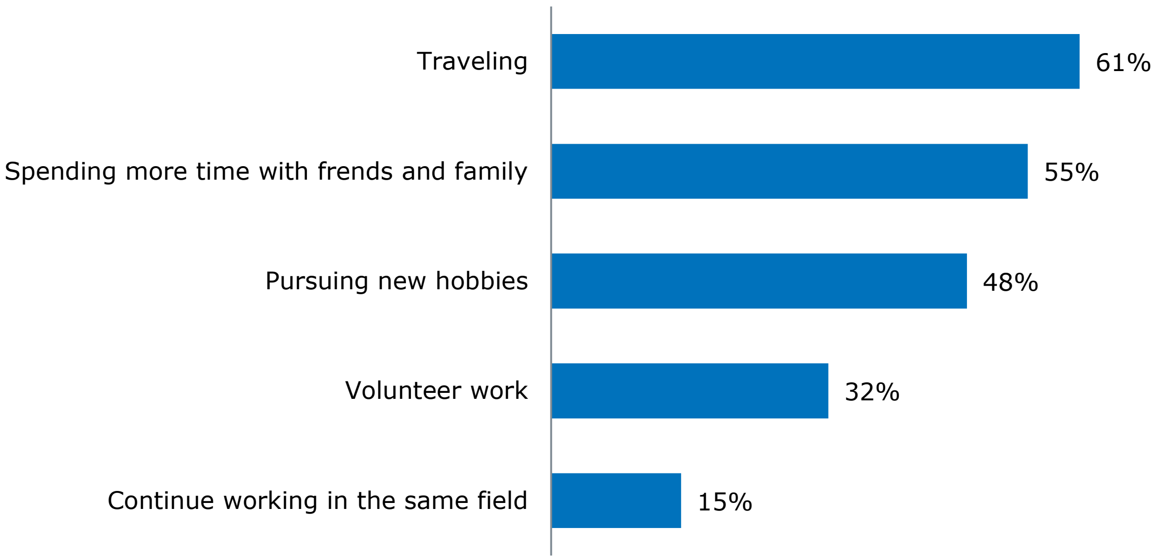


Chart 5: Most Canadians will continue working in retirement

Q. Looking ahead, how do you envisage your transition to retirement? Base: Not Fully/ Semi Retired (n=821)

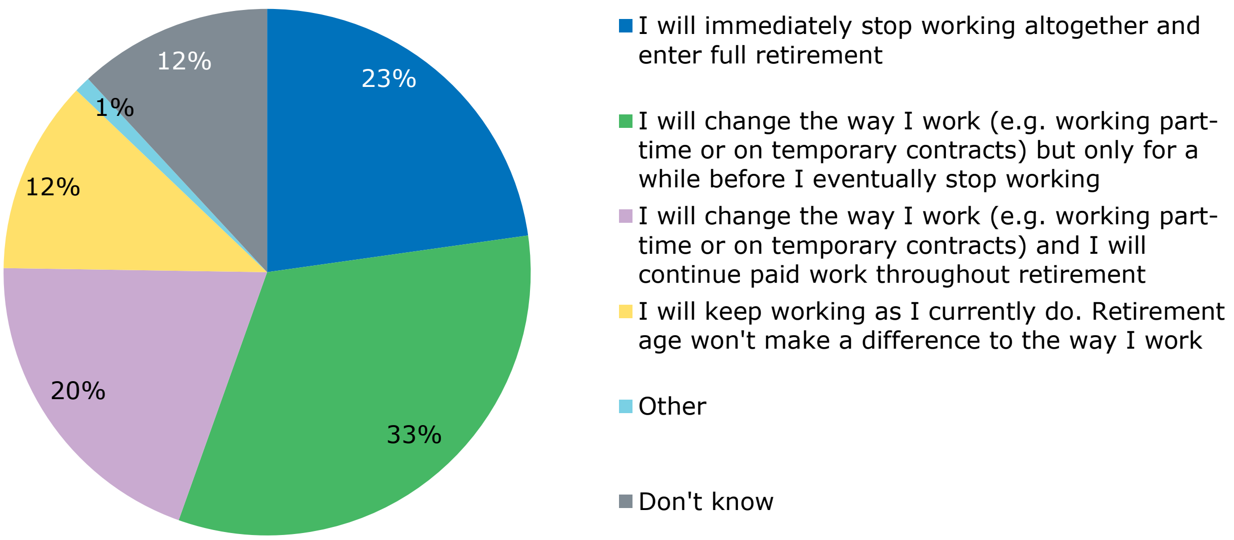


Chart 6: Canadians are positive about retirement

Q. Which, if any, of the following words do you most associate with retirement? Base: All Respondents (n=1,000)

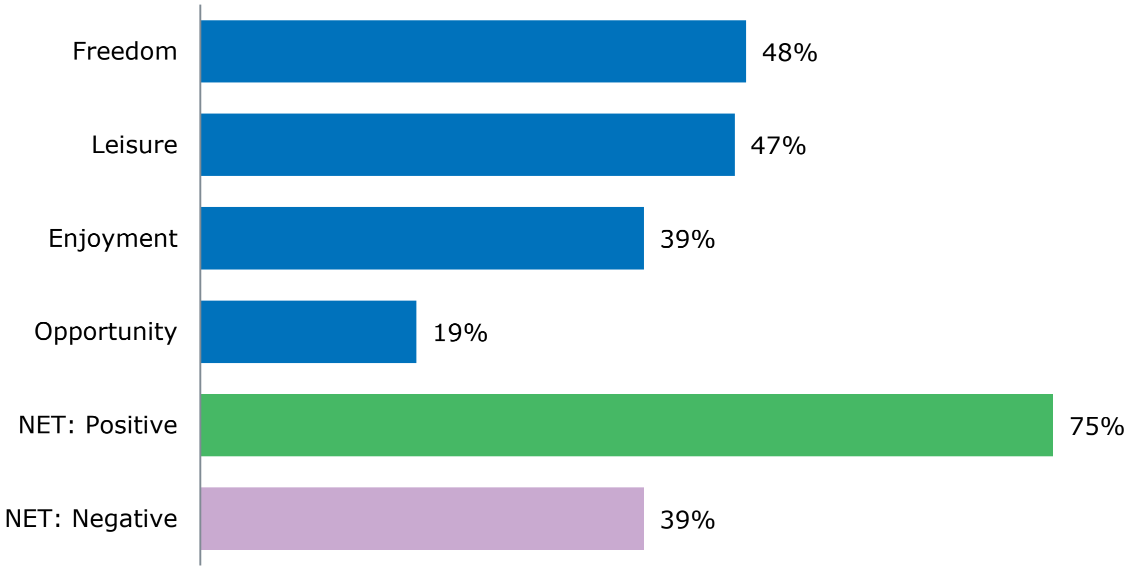


Chart 7: Doubts emerge over attaining a comfortable lifestyle in retirement

Q. Overall, how confident are you that you will be able to fully retire with a lifestyle you consider comfortable? Base: Not Fully Retired (n=900)

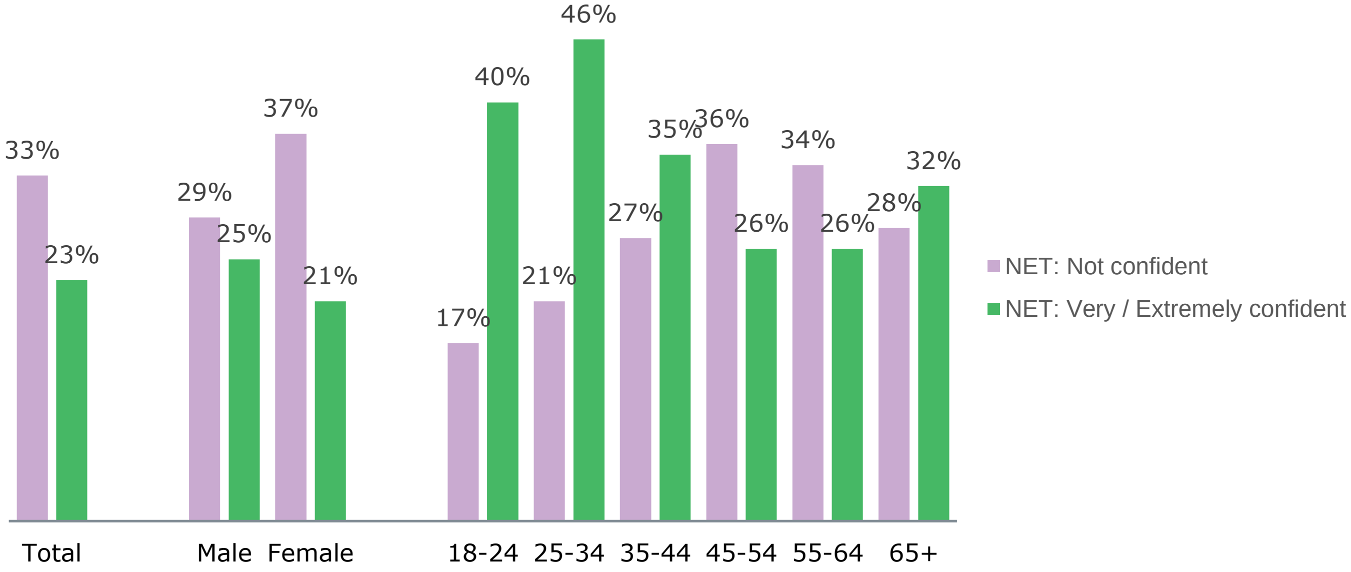
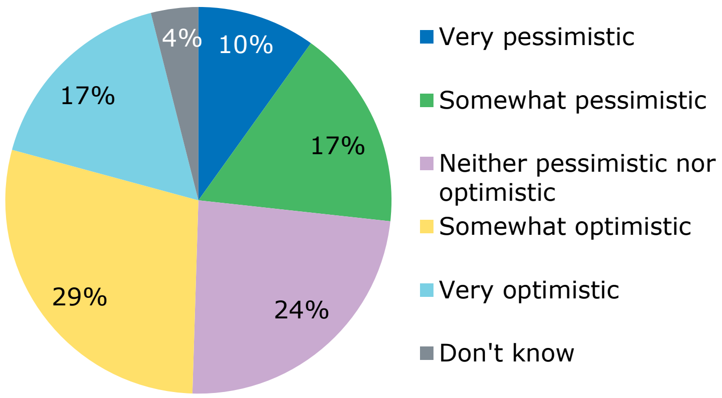


Chart 8: Less than half of Canadians are optimistic of affording health costs in retirement

Q. When thinking about your retirement, how optimistic are you about having enough money to take care of my (and my spouse's/ partner's) medical expenses throughout my/our retirement? Base: All Respondents (n=1,000)



3. Retirement Saving and Planning

There is seemingly a disconnect between employees' levels of financial awareness and their actual savings behaviour. Most Canadian workers (81%) feel personally responsible for ensuring they accumulate sufficient savings for retirement. Further a majority (72%) are aware of the need to plan financially for retirement. However it is clear that this has not translated into effective savings habits being adopted.

Looking into the details of workers' retirement plans, we find that just 16% have a written plan. Under two-fifths (39%) have no retirement plan at all. This is in spite of the fact many feel their plans are well developed. Over two-fifths (44%) of workers claim that their retirement plans are somewhat or very well developed and over a third (36%) feel they are somewhat or very prepared in terms of how much they are putting aside for retirement. When it comes to the reality of retirement planning, the truth is less inspiring than workers' initial sentiment towards their progress.

What's more, when making financial plans for the long-term it is clear that worker's needs are not taking into account the unforeseen. Events such as periods of illness or unemployment have the potential to derail retirement preparation, so it is important that planning involve a backup plan. Just 29% of workers in Canada currently have backup plans in place if they were unable to work prior to retirement. Of these plans, the most common strategy is to dip into their savings. If individuals are to prevent the potential detrimental impacts of these events, adjusting savings habits early on is key.

Chart 9: Workers are aware of the need to save for retirement

Q. How would you rate your level of awareness on the need to plan financially for your retirement? Base: Not Fully Retired (n=900)

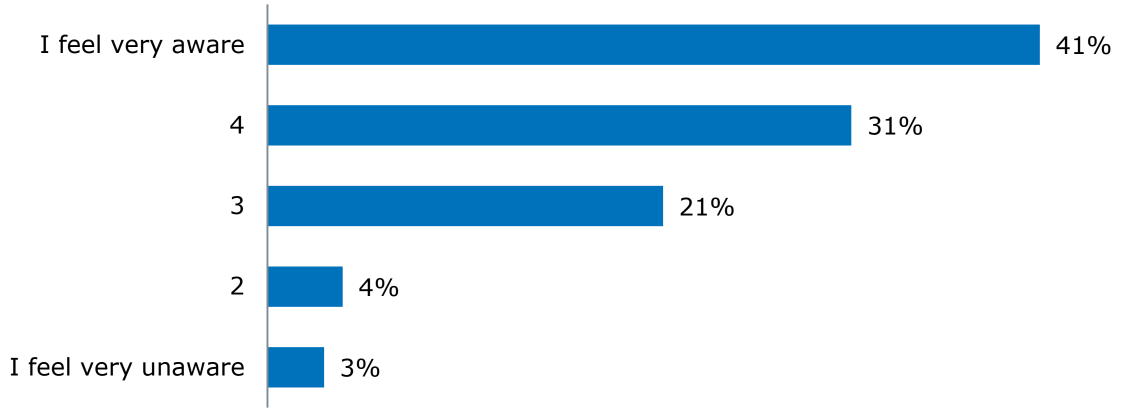


Chart 10: Few Canadians have formalized their retirement planning

Q. Which of the following best describes your retirement planning strategy? Base: Not Fully Retired (n=900)

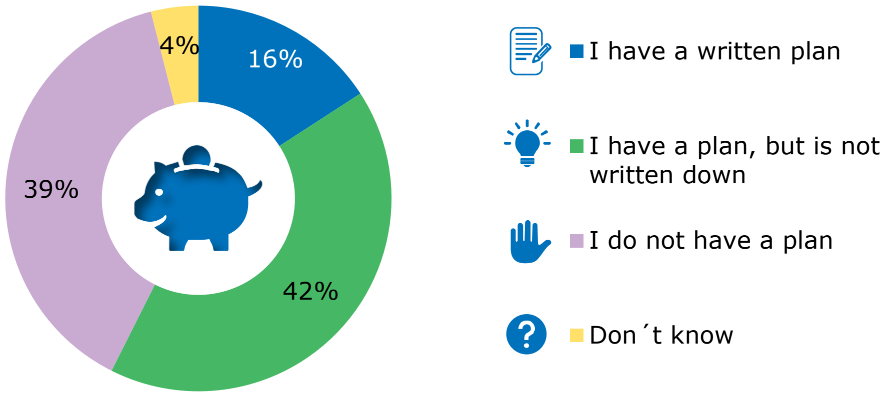


Chart 11: A majority of Canadians have no retirement saving"backup" plan

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? Base: Not Fully Retired (n=900)

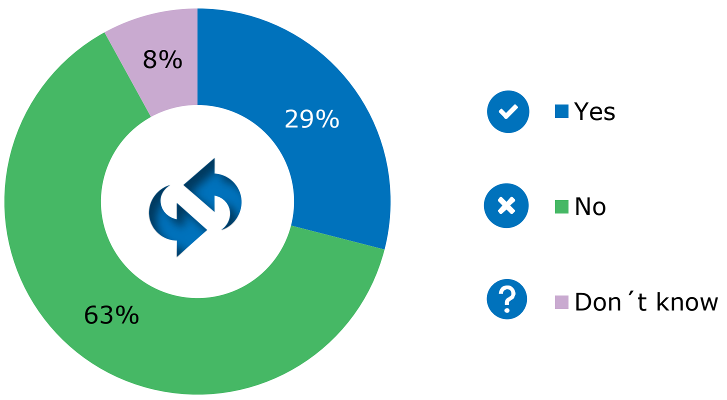
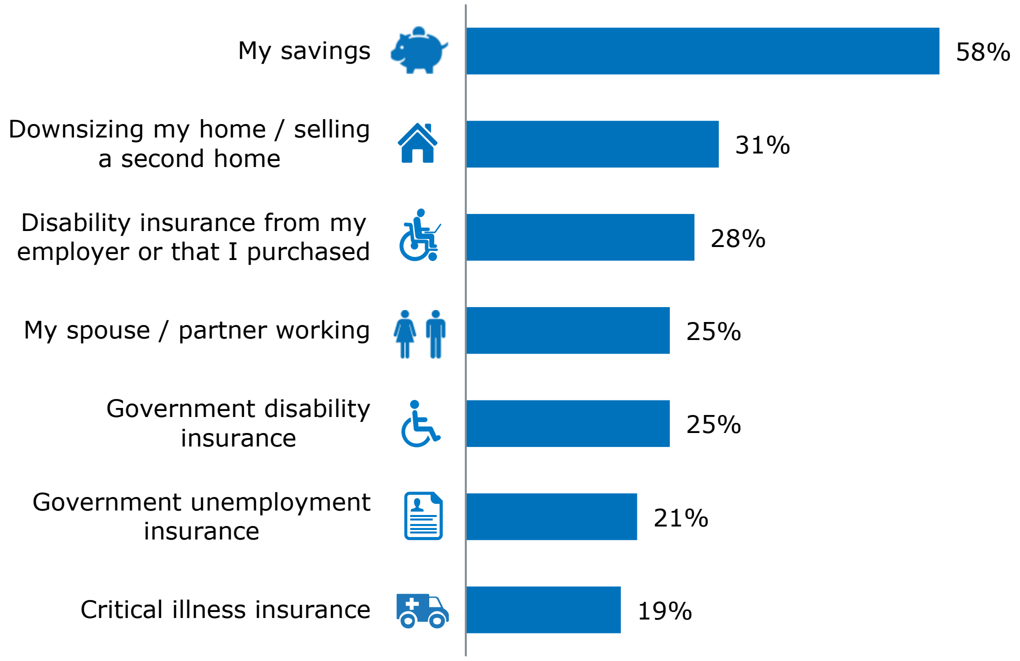


Chart 12: Retirement "backup" plans most often involve dipping into savings

Q. Which, if any, of the following are part of your "backup plan" for an income in the event that you are unable to continue working due to ill health or job loss? Base: Have "Backup Plan" (n=265)



4. The Retirement Savings Habit

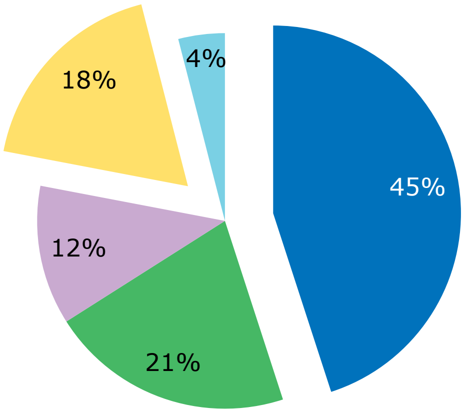
As individuals become increasingly responsible for planning and funding their own retirement, personal savings habits take on an even greater role in overall financial preparedness. Our findings reveal that not only do workers need to take steps to start saving, but also to maintain consistent saving over time.

Our research reveals that there is a group of habitual savers who is scoring the highest in the Canadian Aegon Retirement Readiness Index. This group is more likely to have a formal savings plans and feel confident that they are both setting aside enough for retirement and that they will enjoy a comfortable lifestyle in retirement. When comparing these savers with those who put money aside less frequently, the results are clear: saving consistently even in small quantities, is the best way to improve your readiness.

Chart 13: Aspiring and Habitual Savers are key to improving retirement readiness

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)

	Aspiring Savers	Habitual Savers
Median age	35	47
Male	43%	51%
Female	57%	49%
Full-time work	68%	71%
Part-time work	27%	21%
Personal income (Median)	$32,300	$56,700



- HABITUAL SAVERS - I always make sure that I am saving for retirement
- OCCASSIONAL SAVERS - I only save for retirement occassionally form time to time
- PAST SAVERS - I am not saving for retirement now, although I have in the past
- ASPIRING SAVERS - I am not saving for retirement though I do intend to
- NON-SAVERS - I have never saved for retirement and don't intend to

Chart 14: Retirement outlook and planning – Habitual and Aspiring Savers

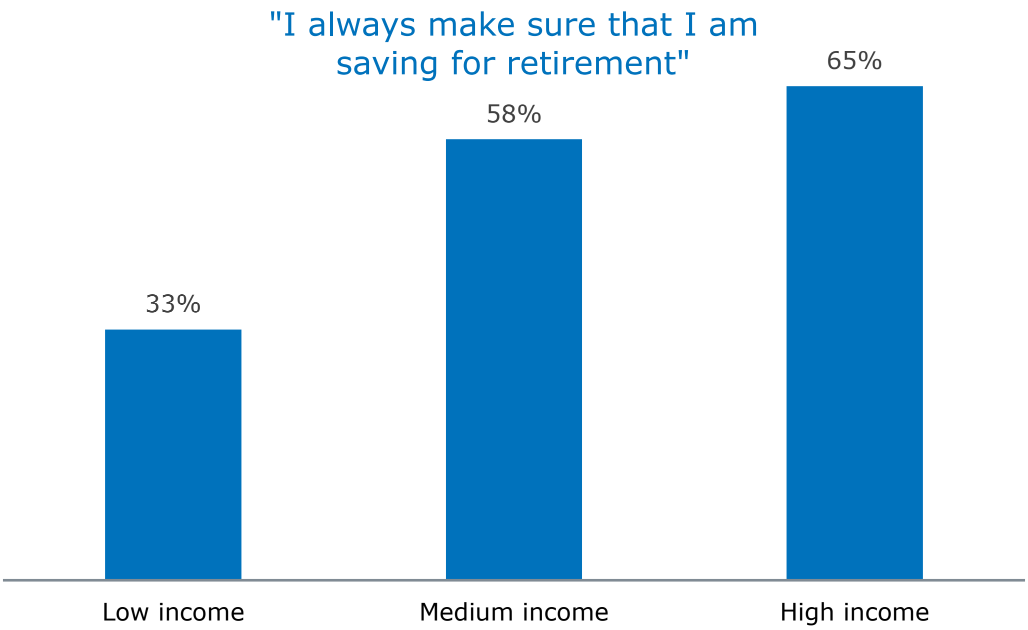
	Aspiring Savers	Habitual Savers
ARRI score	3.7	7.5
Positive associations with retirement	67%	84%
Confident of retiring with a comfortable lifestyle	13%	37%
Optimistic about maintaining good health in retirement	48%	70%
Have written plan for retirement	2%	27%
Have backup plan for retirement	9%	42%

Yet the biggest opportunity lies not in those who have already adopted successful savings habits, but in the Aspiring Savers who with knowledge or guidance are ready to take ownership of their financial future. It is here where automatic enrolment is potentially having the most profound impact. These Aspiring Savers, typically women and younger workers, may be finding saving challenging due to constraints such as lower income or less access to workplace pension schemes. Creating a pensions landscape which helps convert Aspiring Savers in to actual savers (and Occasional Savers into Habitual Savers) should be the goal of all employers, governments and individuals. The starting point is to understand the needs of these diverse groups and remove the barriers to planning and preparing for retirement.

Our research shows that while income can be a barrier to saving for retirement, successful savings habits can still be achieved even with modest earnings. Examining the proportion of Habitual Savers across income bands, we find that just one-third (33%) of earners with low income (defined as up to $49,999) consistently save for retirement. However at middle income ($50,000-$99,999) this increases to nearly three-fifths (58%). What is important is that individuals adopt a savings mind-set – even at higher income bands not all earners are consistently putting aside money for retirement. While a financially comfortable retirement may not require higher level earnings, taking ownership of one's savings is a crucial step.

Chart 15: Personal Income by level of habitual saving

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)



Facilitating employees to adopt successful savings habits requires a shared approach among individuals, employers and the government. Policies such as auto-enrolment have proven successful abroad, and in Canada it is especially pertinent given the lack of participation into occupational plans. Auto-enrolment avoids an import psychological barrier to saving for retirement, by providing the individual the choice to opt-out rather than opt-in to a plan. And this is attractive to many Canadians. Eight out of ten (78%) feel that the government should encourage employers to automatically enrol all their employees into a retirement plan.

This also shows that the workplace remains a vital channel for improving retirement savings habits. This is supported further by other findings. For example, receiving a pay rise is the biggest single trigger point that would encourage people to save for retirement. Half (47%) of workers said that this would prompt them to save. Clearly, employers and employees are likely to know for months in advance when the annual pay review is due: employers can seize on this opportunity to give their employees a gentle reminder or "nudge" towards the benefits of long-term saving. Many services that are currently underutilized such as educational materials (only 19% of employees are currently offered these in their workplace), and in person or face-to-face meetings with advisers (14%) could be effective ways of overcoming inertia.

As modern workers expect to stay in the labour force longer and transition into full retirement more slowly than previous generations, it is important that the workplace adapt to this change. Employers can do this through a range of support offered to their workforce, in particular through policies to improving the vitality and wellbeing, alongside policies to improve access to employment. Examples include subsidies for gym membership or education, as well as work place sponsored activities such as fun runs.

Working longer further has the benefit of solidifying retirement savings and extending active years into later life. Moreover employers benefit from the additional access to expertise gained throughout a full career. But we find that overall employers can do more to improve their offering of transitional phase benefits. For example, just one-quarter (26%) of employees are offered the option of a phased retirement by their employer.

Chart 16: Access to retirement-related workplace benefits

Q. And which of the following does your current employer offer you? Base: Not Fully Retired (n=900)

Access to a workplace pension scheme with employer contributions	46%
Access to a workplace pension scheme without employer contributions	20%
Ability to work past the normal retirement age	58%
Phased retirement or other employer programmes providing for a transition into retirement	26%
Employee share schemes	16%

Recommendations

- Individuals should take ownership of their financial future. Take steps to learn about retirement finances and make a plan to meet these goals. Saving consistently, even in small amounts, is the best way to ensure retirement readiness.

- Employers can improve their workplace education programs by timing their messages to important trigger points, like awarding a pay rise. Timing financial education to a pay raise is also an efficient way to encourage consistent saving.

- The government could facilitate workforce education and wellness programs and create tax incentives to employers who implement them.

- The government could also encourage employees to create a "Plan B" in the event that they are unable to work to their planned retirement age (because of job loss, disability, etc.) by exempting insurance and other financial protection products from tax.

- Employers are encouraged to adopt workplace and benefit policies supporting an age friendly workforce. This would enable people to build skills throughout their career and continue to work past their normal retirement age, either because they want to stay active or want to grow their savings. Employers benefit from retaining and attracting older workers with experience and expertise.

- Reforms should be encouraged to facilitate phased retirement programs. Phased retirement programs enable workers who have reached retirement age to continue working in a reduced capacity (reduced hours, less demanding positions, less pay, or all three). Workers could continue to earn additional retirement benefits proportionately based upon the extra time spent in the labour force.

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