Getting Started on Retirement Planning: What's stopping you?

Canadians are not planning adequately for their retirement, and it is not necessarily because they do not realize the importance of planning.

There is no lack of knowledge ...

According to a BMO Retirement Institute Report[1], Canadians over the age of 35 identified the three most important actions that need to be taken to ensure a financially secure retirement:

- Start to save as early as possible
- Establish a regular savings program and
- Make full use of tax-advantaged investment vehicles such as the RRSP and TFSA.

Almost nine in ten respondents who are not yet retired acknowledged that it would make a big difference over time if they were only to start setting aside a modest amount every month for retirement savings.

But knowing something and acting on that knowledge are two different things.

The difficulty in translating knowledge into action can in part be attributed to behavioural tendencies. People have a tendency to place less value on a reward in the future (i.e. a comfortable retirement lifestyle) than a benefit today (i.e. current consumption). They resent a "loss" today (i.e. reduced consumption) more than they value a "gain" in the future (i.e. adequate retirement savings).

Other priorities intrude.

Competing priorities also represents a major obstacle to retirement planning and saving.

An overwhelming majority of survey respondents agreed that retirement planning is useful, and almost nine in ten believed that such planning should begin before age 35. Yet respondents in the 35 to 44 age group were found to be the furthest behind on retirement planning and saving, as they focus their energy on debt reduction[2].

Likewise, people with children under 18 in the household (a group that closely overlaps with the 35 to 44 age group) also acknowledged that retirement savings is not a high priority and expressed the most dissatisfaction with the level of retirement savings they have accumulated. This is not surprising; after all, these individuals are faced with numerous competing financial priorities – they are buying houses, paying mortgages and raising children. As people wait longer to start a family, there is a corresponding risk that they may push back the time when they get serious about savings for retirement too.

Take action now.

In the light of these findings, what lesson can be learned by people of different age groups?

Young adults (under 35 years old)

Retirement may seem far away, but instead of waiting until age 35, you should consider starting your retirement planning now.

Given your long planning horizon, if you establish a healthy spending habit and savings discipline, you will benefit greatly from the power of compounding even if you start by saving only a small amount of money regularly.

If at age 25 you begin saving $100 every week in a tax-sheltered investment vehicle (such as an RRSP), assuming a rate of return of 5 per cent, by age 65 your investment will grow to $663,724. By comparison, if you do not start saving until you are 45 years old, even if you save double the amount (i.e. $200 per week), your investment will grow to only $357,131 by age 65, even though the total savings amount is the same ($208,000).

In fact, if the 25-year-old in the previous example stops making contributions at age 45, his/her investment will still grow to $473,787 by age 65, even though the total savings amount is only $104,000!

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Those in the 35 – 44 age group (especially parents with young children)

Faced with competing financial priorities, you will need to make a conscious decision to save. The following strategies could help you combat the natural tendencies to procrastinate and focus exclusively on current needs:

- Enrol in employer pension plans and other employer sponsored savings programs (such as employee share ownership plans) and save via automatic payroll deductions.
- Make full use of tax-advantaged investment vehicles such as the RRSP and TFSA. Contributing to an RRSP not only means tax-sheltered compounding, but also a healthy tax refund which you can use to pay down your debt or add to your investments.
- Enrol in automatic savings programs to "pay yourself first".

Those who are over 45 years of age

Most people in this age group are in their prime earnings years, so it is important to make full use of tax-advantaged investment vehicles such as the RRSP and the TFSA.

If you have been relegating retirement planning and saving to the back seat, you need to catch up. Develop a retirement plan and get professional help if necessary. Having a quantifiable financial goal and a corresponding savings strategy will go a long way towards the achievement of that goal.

You should also consider using other tax efficient planning vehicles, such as universal life insurance to supplement traditional retirement savings plans.

Be a positive influence on the next generation.

For those of you who are parents, your commitment to financial responsibility will not be lost on your children. Nearly 70% of the survey respondents reported that their own saving habits had been influenced by their parents; and an overwhelming majority agreed that it is important to teach children at any early age to budget and save.

What better way to teach than to lead by example?

Take charge of your own retirement.

It is important to understand that the decisions that you make today will affect your lifestyle for a period that can potentially last longer than your entire working career, and it is never too late to start planning for your retirement.

Now more than ever before, you are encouraged to speak to a member of the BMO® Insurance Business Development team who can help you create a plan to reach your clients' retirement goals with ideas such as BMO Insurance's Insured Retirement Plan.

This article has been brought to you by: BMO Insurance in conjunction with the BMO Retirement Institute. The BMO Retirement Institute was established in 2008 to provide thought-provoking insight and financial strategies for those individuals planning for, or currently in, their retirement years.

[1, 2] Behavioural Finance and Retirement Planning Survey, BMO Retirement Institute, June 2010.

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