The Aging Economy

Improving with Age

Living longer means that thoughtful and effective financial decisions should be made about retirement and estate planning goals.

People are living longer than ever before. However, while advances in medicine, health, nutrition and fitness have extended the lifespans of Canadians, the number of years they spend in retirement has not changed much over the last generation because they are also working longer.

Baby boomers (those born between 1946 and 1965)[1] are reaching the age of 65, the traditional starting point of retirement, and are looking for ways to fund their retirement lifestyles and goals. Whether it is for the many years of active living they expect, or to fund ambitious retirement plans, taking action now is important to ensure success.

Living longer does not necessarily mean that Canadians will be unable to afford to retire. However, it does mean that thoughtful and effective financial decisions should be made about retirement and estate planning goals, savings strategies and tax planning in order to have the long and fulfilling retirement that most Canadians want.

Canadians are living longer

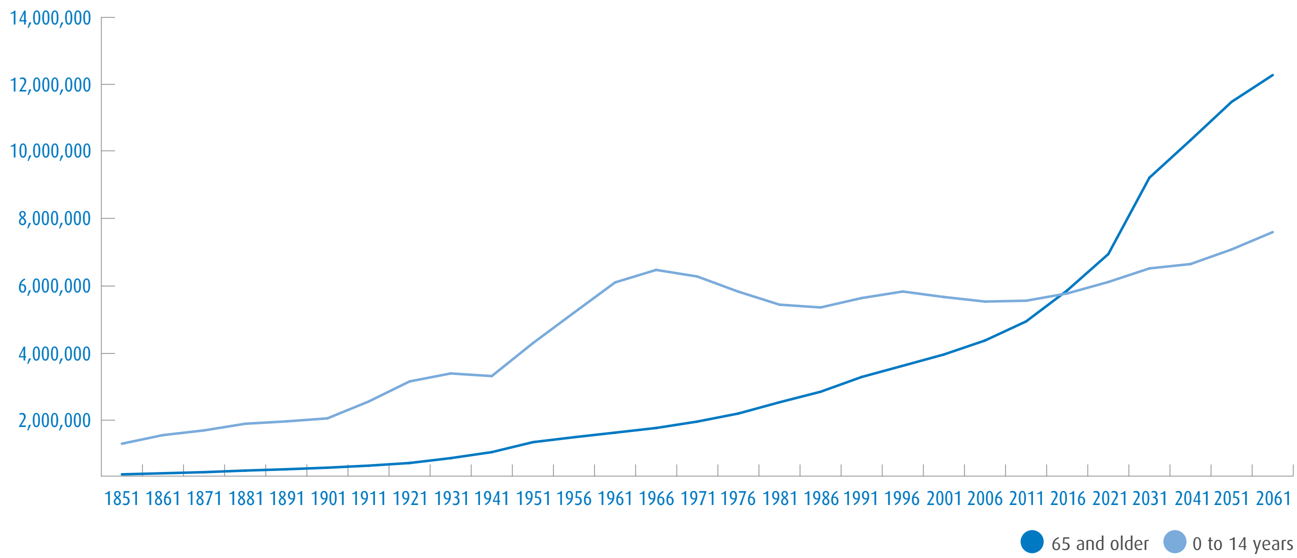
The Canadian population is aging. Life expectancy for Canadians today is 79 years for men and 83 for women,[2] and on average they live about 15 years in retirement. Many live much longer than this, but are keeping their retirement years relatively constant by working longer. The average age of retirement in Canada was about 64 in 2017[3] and retirement age has been slowly increasing for more than a generation.[4]

For most of their retirement years, Canadians enjoy good health and an active lifestyle. On average, it is not until the age of 77 that declining health, limits those activities and increases the need for healthcare services.[5]

The greying of the Canadian population

Data from the 2016 census shows a 20% increase in the numbers of those aged 65 and over, as compared with growth of just 5% in the overall population.[6] In 2016, for the first time in Canadian history, there were more people aged 65 and over than children under 15 in the population.

Numbers of children and seniors in Canada, 1851 to 2061



Source: Statistics Canada, Census of Population, 1851 to 2016. Data for 2021 to 2061 are population projections.

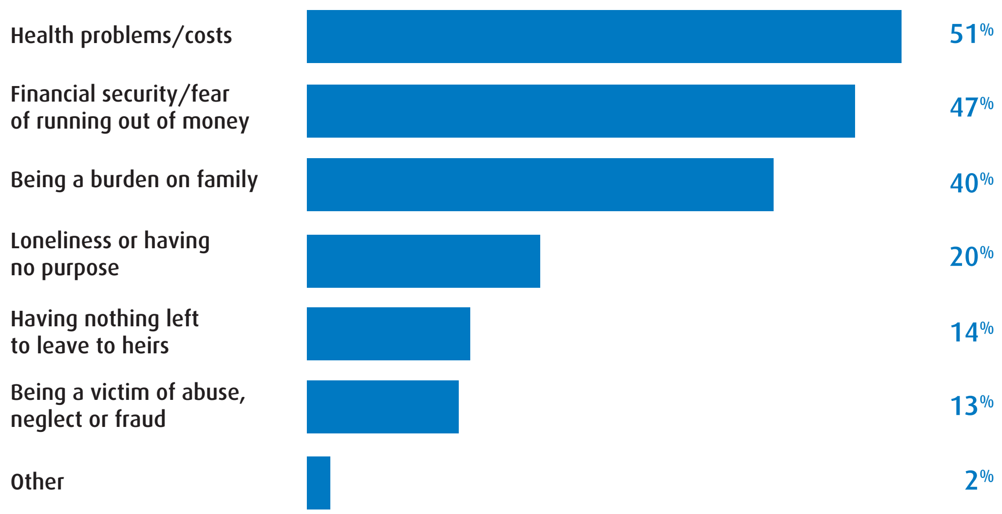
This trend is expected to continue, with the number of seniors increasing at a faster rate than the number of children. Increasing life expectancy and continuing low fertility rates are contributing to the aging of the Canadian population.

As the population greys, about 1 in 5 seniors continue to work in retirement, double the amount that did so only 20 years earlier.[7]

Concerns about living longer

BMO Wealth Management commissioned a survey to learn the views of Canadians aged 55 and older on aging and the concerns that living a longer life bring.[8] The results of the survey can help to make Canadians aware of these issues so they can thoughtfully and proactively address the ones that are important to them.

Top concerns about living a long life[9]



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018.[8]

Overall, the most frequently cited concern was about future healthcare costs and whether health problems will affect quality of life (51%). Fears about running out of money during retirement (47%) and being a burden on family members (40%) also came high on the list. Being lonely later in life was a concern for 20% of respondents, and not having anything left to leave to heirs was mentioned by 14% of those surveyed. A similar number (13% of respondents) worried about becoming a victim of abuse, neglect or fraud.

Living an active lifestyle in retirement is enjoyable, and can promote better health as you age. This is not limited to physical activities, but also includes engaging in rewarding social interactions. For many, volunteering can provide purpose, camaraderie and a way to learn new skills.[10]

Do you have a contingency plan for unexpected healthcare costs?

When healthcare concerns become an issue, having the resources and ability to find the care required can be difficult, especially for loved ones and family members. A discussion about some of the considerations and costs can be found in the BMO Wealth Institute report **Rethinking Disability – Planning for Financial Well-Being.**[11]

Canadians are staying in the workforce longer

Many Canadians address these concerns by staying in the workforce or by earning self-employment income rather than relying on accumulated retirement savings. From a financial planning perspective, earning additional employment income beyond a “normal” retirement age has a very positive impact on helping retirement funds to last longer and achieving retirement and estate planning goals. The most recent census found that Canadians with bachelor’s degrees or higher, and those without employer-sponsored pension plans, were much more likely to continue to work beyond the age of 65.[7]

The gig economy is a growing trend in employment, and one that is popular with boomers. The BMO Wealth Institute report **The gig economy: Achieving financial wellness with confidence**[12] found that many are seeking temporary or freelance work because they are not ready financially or emotionally to retire.

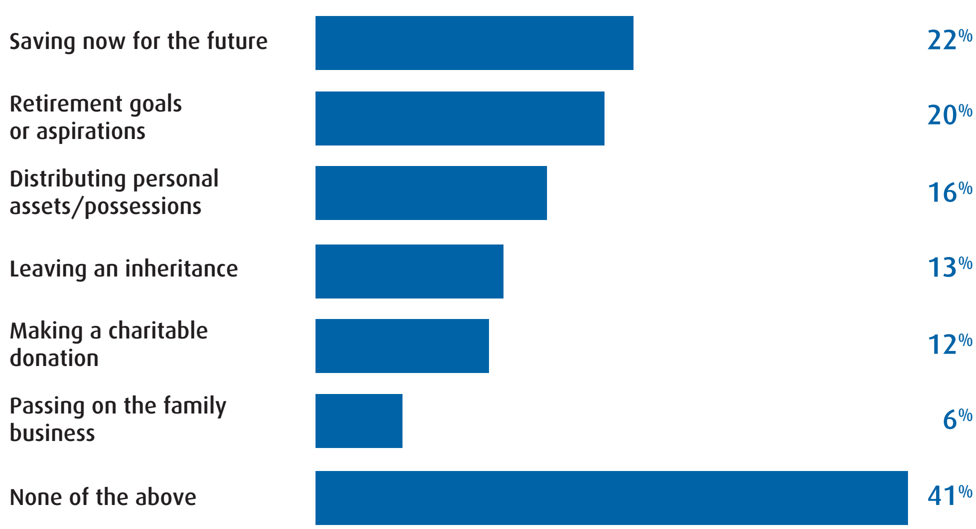
Spouses and partners have different opinions

Are your financial goals aligned with those of your spouse or partner?

One of the most interesting findings of the survey was that there were important differences in opinion between spouses or partners regarding financial goals for the future. When, and how much, to save for the future was the difference most frequently cited (by 22% of respondents), with men more likely to report differences in opinion with their spouses or partners. Other issues included retirement goals (20%), how personal assets and possessions should be distributed to heirs (16%), leaving inheritances to loved ones (13%), making charitable donations (12%), and decisions about passing on a family business (6%).

Less than half of respondents (41%) reported there were no major differences in opinion on financial matters that affected their relationships.

Differences in opinion over financial goals between spouses or partners[9]



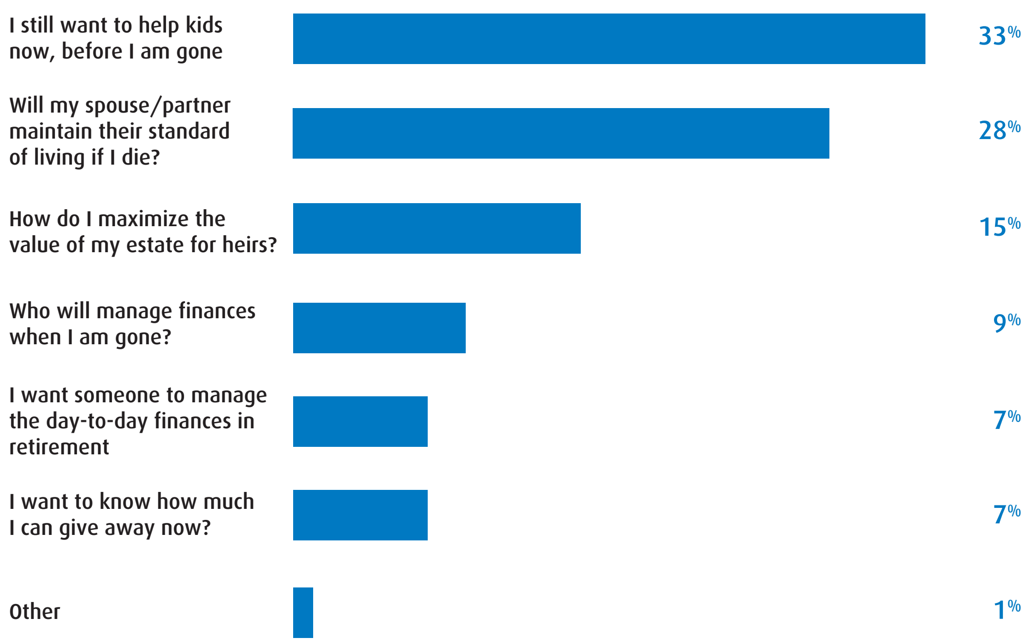
Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018.[8]

Some of these differences may be due to the fact that women tend to live longer than men, and often are younger than their male spouses.[13]

Support for adult children

One question that many couples face during their retirement is the extent to which they provide financial support to their adult children. This concern for family, which has an immediate impact on their financial situation throughout retirement, was highlighted in the family issues reported by survey participants. For one in three Canadians aged 55 and over, the most important family concern was to help their children now, rather than providing assistance later through an inheritance (33%). This was followed by concerns about the standard of living of their surviving spouse (for 28% of respondents) and maximizing the value of their estate that can be passed to heirs (15%). Concerns about managing the personal finances of surviving spouses and families were cited by 9% of those surveyed, and management of day-to-day finances in retirement was cited by 7%.

Personal and family perspectives on living beyond average life expectancy



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018.[8]

Are your retirement goals achievable before offering financial support?

Providing financial support to an adult child or grandchild is a decision that should be considered within a larger context that includes both retirement and estate planning considerations, ideally within a comprehensive wealth plan. Once it is determined that retirement goals can be met, then gifting to an adult child provides a helping hand without having to worry about running out of money. This issue is explored in greater detail in the BMO Wealth Institute report **The Family Bank – a source of comfort for everyone.**[14]

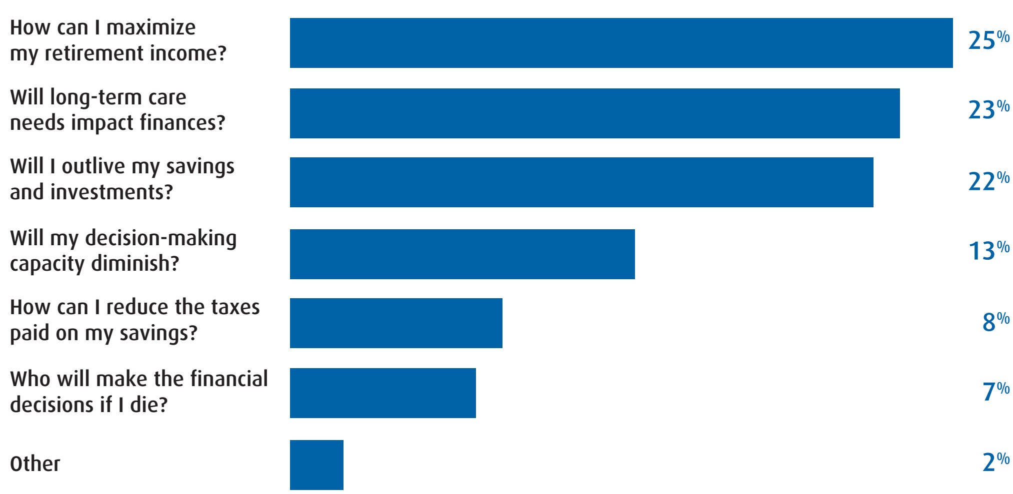
With the increasing number of blended families, this issue has taken on greater relevance for many Canadians. More than 40% of all marriages in Canada are expected to end by the 30th year of the marriage.[15] Second and third marriages complicate the question of providing financial assistance to adult children — whose children should benefit, and from which parent's financial resources? Add the costs of divorce to the picture and often this means less money is available to assist younger family members financially.

Retirement and investment goals

The survey also asked Canadians aged 55 and over to list their most important issues from an investment and retirement perspective. Three answers were cited most frequently — a desire to maximize retirement income was highlighted by 25% of respondents, a concern about how long-term care costs will impact personal finances was mentioned by 23%, and 22% were worried about outliving their savings in retirement. Other concerns less frequently cited, but still very topical, included worries about diminished capacity (13%), reducing taxes on savings (8%) and concerns about who would make financial decisions after they die (7%).

Does your wealth plan address your perspectives on investments and retirement?

Investment and retirement perspectives on living beyond average life expectancy



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018.[8]

Wealth planning is necessary to figure out how to meet these various concerns, because financial resources are not unlimited.

Healthcare costs

Healthcare costs and their impact on the ability to achieve retirement goals is the top concern raised by respondents to the survey, even though many medical costs are covered by provincial healthcare programs. The cost of long-term care, whether provided at home or in a nursing home environment, can have a detrimental financial impact on retirement and estate plans.

Solid financial and retirement plans build in contingencies for the additional costs of long-term care if it is required. A report by BMO Wealth Institute provides estimates of the costs of in-home or residential care in Canada.[16]

The baby boomer generation is in the unenviable position of worrying not only about themselves, but also about the healthcare costs of their parents. With longer lifespans, blended families and remarriages, the sandwich generation[17] has been further stretched and is now less like a traditional sandwich and more like a 12-inch sub.

Reducing taxes

Have you considered these tax planning strategies?

Taxes are an important consideration in both retirement planning and estate planning. Putting strategies in place to reduce taxes today and in the future makes more assets available for funding a fulfilling retirement and passing on to the next generation.

One of the most effective ways to reduce the overall family tax bill is by income splitting. With the support of your tax professional, pension income-splitting rules provide an effective yet simple strategy to lower personal taxes. Couples can take advantage of a spouse's or common-law partner's lower marginal tax rate when one partner's retirement income is much higher than the other's. Another popular strategy involves the use of prescribed rate loans. Involving lower-income parents in such a strategy can be considered as a way to reduce taxes when providing financial support for parents.

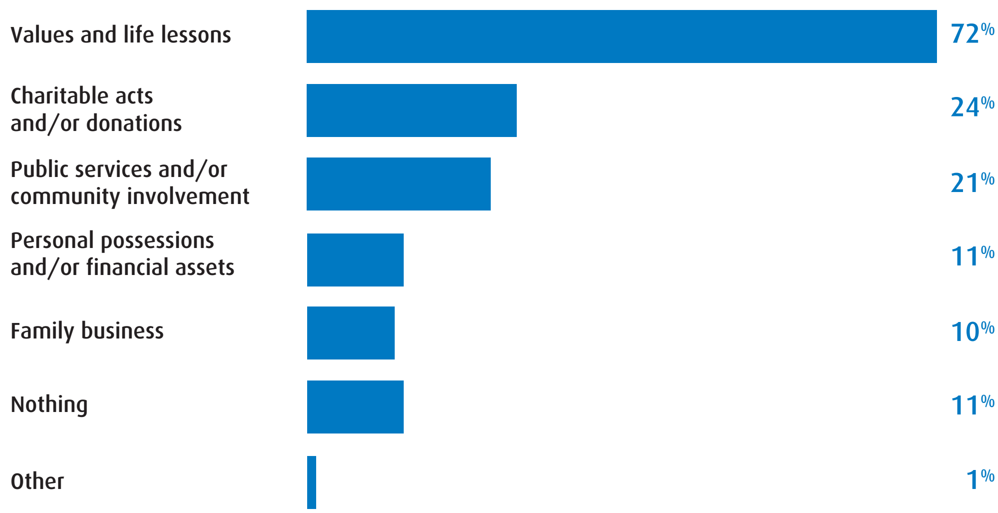
It is important to note that merely holding investments or other assets in joint ownership does not in itself lead to proper and legal income splitting. Each situation is unique and steps are required to comply with income-splitting and tax-saving rules.

Corporations and trusts can be used to reduce taxes, but this strategy is complicated, and became more complex with the changes finalized by the federal government in the 2018 budget. Certain income-splitting strategies remain, but the payment of discretionary dividends to lower-income family members is no longer tax effective in many circumstances. A tax professional should be consulted for advice on these situations.

Philanthropy

In the context of living a long and full life, the survey asked Canadians aged 55 and older how they wanted to be remembered. Almost three-quarters of respondents (72%) highlighted the values and life lessons that they shared with their family and friends. One in four (24%) felt their legacy was in charitable acts and donations, and 21% of respondents cited public service and community involvement. The accumulation of personal wealth was less commonly considered to be important from a legacy point of view. Only 11% cited personal possessions and financial assets, and family businesses were mentioned by just 10% of respondents.

How Canadians want to be remembered[9]



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018.[8]

Have you considered how you want to be remembered?

A high proportion of survey respondents believed that their legacy will be defined more by the values they have lived by and the lessons they have shared with those close to them, than by the material possessions and wealth that they have accumulated. The issue of a personal legacy has been thoughtfully addressed in the BMO Wealth Institute report **What are you leaving behind? Family conflict or a memorable legacy?**[18] This report goes beyond traditional estate planning to talk about ways to avoid family conflict and to ensure a lasting and positive legacy.

Charitable giving has a place for many Canadians that possess the financial resources. There are significant tax benefits to be realized by charitable giving at the top marginal tax rates. Furthermore, strategies such as setting up a charitable foundation or a donor-advised fund can create an immediate tax benefit and build a long-term legacy of supporting causes that are personally important. A major benefit of creating an instrument for long-term giving is that it allows donors to be thoughtful and methodical in their giving, as well as involving their families. It can be regarded as a legacy for the whole family.

A good Will

It is very important to work with an experienced legal professional to prepare Wills and Powers of Attorney that clearly explain your estate planning and distribution goals. Litigation between potential estate beneficiaries is expensive, reducing the amount available for your heirs. It can also hold up the distribution of an estate for years, delaying financial benefits for loved ones and causes you care about.

Legacy planning

Anyone who undertakes the task of estate planning does so with the wish that feelings of goodwill and harmony will be fostered among surviving family members, rather than resentment and division. One particularly difficult decision parents or grandparents must make when planning the transfer of wealth to the next generation is whether the transfer will be equal or equitable.

In estate planning, equality means dividing an inheritance equally without considering individual differences in economic standing. In other words, everyone receives the same amount, regardless of each child's circumstances, personal attributes and earning power. On the other hand, an estate plan that is based in equity is one which takes account of, and is sensitive to, each child's particular life circumstances. So, while succession which is based in equity takes individual differences into account and attempts to compensate for the less fortunate child, succession that is based in equality is – in a manner of speaking – blind to the children's individual differences.

Life insurance can be used to pass on funds based on equality to children and grandchildren. This option can be particularly cost effective if there are significant assets such as family businesses or property holdings that are difficult to distribute to multiple beneficiaries, or have high estate tax liabilities.

Financial education is key

There are many variables that can have an impact on retirement, estate planning and being financially able to meet personal goals. Some of these are personal factors, such as how much you have saved, and how and when you want to provide financial assistance to your adult children and the causes you care about. Other factors, including changes in tax rules and the economy, must be considered dynamically as they affect your retirement plans.

For this reason, learning more about your personal finances and setting personal goals and plans is a valuable investment. It can be hard to find time for this when the day-to-day focus is on employment and earning a living, but retirement is an ideal time to take advantage of available professional resources and become more educated about how to succeed in your financial, retirement and estate goals.

> By working together with your BMO financial professional to become more educated about your financial options and opportunities, it will be possible to better manage your financial future and put a plan in place to meet both your ongoing cash flow needs in retirement and your estate planning goals.

Footnotes

1. Generations in Canada. Statistics Canada, May 2012.
2. Life Expectancy. Statistics Canada, April 2018.
3. Retirement age by class of worker, annual. Statistics Canada, July 2018.
4. Delayed retirement: A new trend? Carriere, Y. and Galarneau, D. Statistics Canada, October 2011.
5. Health at a glance – Ninety years of change in life expectancy. Decady, Y. and Greenberg, L. Statistics Canada, July 2014.
6. Age and sex, and type of dwelling data: Key results from the 2016 Census. Statistics Canada, May 2017.
7. Working seniors in Canada. Statistics Canada, November 2017.
8. BMO Financial Group survey conducted by ValidateIt Technologies Inc. for the BMO Wealth Institute between June 28 and July 5, 2018, with an online sample size of 505 Canadians aged 55 and over. The overall probability results for a sample of this size would be accurate to within +/- 3.00% at the 95% confidence level.
9. Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.
10. Grey Matters: A life fulfilled can continue later in life. Morris, W. National Post, March 2018.
11. Rethinking Disability – Planning for Financial Well-Being. BMO Wealth Institute, April 2014.
12. The gig economy: Achieving financial wellness with confidence. BMO Wealth Institute, July 2018.
13. Emerging trends in living arrangements and conjugal unions for current and future seniors. Milan, A., Wong, I., and Vezina, M. Statistics Canada, February 2014.
14. The Family Bank – a source of comfort for everyone. BMO Wealth Institute, December 2015.
15. Divorce, Separation and Uncoupling in Canada. The Vanier Institute of the Family, July 2018.
16. As you approach the age of wisdom, who will catch you if you fall? BMO Wealth Institute, August 2015.
17. Sandwich Generation. BMO Wealth Institute, April 2014.
18. What are you leaving behind: Family conflict or a memorable legacy? BMO Wealth Institute, July 2013.

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10/18-1528