RETIREMENT PLANNING: HOW DO YOUR RETIREMENT PLANS MEASURE UP?

With a better understanding of the current retirement landscape – including the lessons learned from what recent retirees did and didn't do upon retiring – those who are near retirement should be able to prepare prudently for their future. This report identifies how Canadians are managing retirement planning, by understanding how they were thinking and feeling before and after the 2008 financial crisis, and then most recently about their retirement plans.

The retirement landscape is rapidly evolving post–financial crisis and how Canadians react and adapt to these changes will impact the waves of retires who are fast approaching their retirement years. Based on the 2011 national census, the cohort of 60 to 64 year olds had the largest increase (29.1%) of all the five-year age groups.[1] This growth suggests that the aging of Canadian population will continue to accelerate in the years ahead, as the baby boom generation – meaning those born between 1946 and 1965 – reaches 65 years of age. The first wave of baby boomers reached this age in 2011, so we are now experiencing Canada's retirement boom.

In 2011, according to Statistics Canada, there were nearly five million people aged 65 and older in Canada – an increase of 609,810 (14.1%) between 2006 and 2011. This was more than double the 5.9% increase for the overall Canadian population.[1] What does this mean? It translates into a population with an increasing proportion of retirees, who will influence government policy, dictate the terms of their retirement, and revolutionize the view of a successful retirement for future generations.

While the early boomers (born between 1946 and 1955) will be trend setters and game changers in the retirement landscape, the late boomers (born between 1956 and 1965) and the gen-Xers (born between 1966 and 1979) should take note of their experiences. Retirement is a subject of considerable interest to the younger generations, as discussed in the January 2014 BMO Wealth Institute report Wealth Generation: The Financial Challenges for Generations X & Y[2], but there are some compelling facts relating to preparation and confidence.

In 2014, one-third of all Canadian adults (33.8%) were not preparing financially for retirement, either on their own or through an employer pension plan, according to data from the Canadian Financial Capability Survey. Almost two-thirds (59.6%) did not know how much money they would need to save to maintain their desired standard of living during retirement. Additionally, nearly one-third of those surveyed (29.5%) were not very confident or not at all confident that their household income at the time of retirement would be enough for them to maintain their desired standard of living.[3]

The four P's of retirement planning

In view of the retirement boom and the significant number of people who do not fully understand their retirement requirements, the emphasis of this report is on those with the most pressing retirement concerns – near retirees. The majority (83%) of those referenced in the 2014 BMO Wealth Institute survey were aged 50 or older.[4]

In Canada's changing retirement landscape, this report provides perspective on four areas of interest: People, Point of View, Process, and Preparation. With each one of these four P's, there are lessons to be learned from those who have already retired or are nearing retirement. Each section is concluded with some insightful advice to inspire others to take action in successfully planning for their retirement.

More information

The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.

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To get a better understanding of the retirement landscape, and to take advantage of the experiences of current retirees, it helps to concentrate on the four P's of retirement planning:

People – a portrait of retired and nearly retired Canadians.
Point of view – what's top of mind when it comes to retirement?
Planning process – a financial plan is a powerful tool.
Preparedness – are you getting ready for retirement?

People – a portrait of retired and nearly retired Canadians

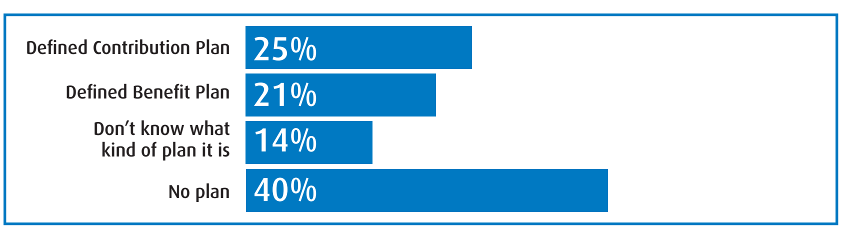
Retirement is one of life's most important financial goals. Everyone knows that planning and saving for retirement is crucial, and while most will know what they want to do in retirement, for some it can loom ahead like a great void. The first step is to think about the retirement lifestyle you envision and then plan for it. If you're going to be single in retirement, take action immediately – the ball is in your court. If you have a spouse or partner, you should discuss your retirement plans together. In the survey, the majority (53%) of spouses/partners said they shared the responsibility for the financial aspects of planning for retirement, and 67% of near retirees and 78% of retirees strongly agreed that they were on the same page as their spouse or partner. Effective retirement planning requires that you both become personally involved in the planning process.

13% of retired couples somewhat agree they were on the same page when it came to their retirement planning, while 23% of current non-retired couples reported likewise.

It's natural to be concerned about your finances in retirement. You may suspect that you won't be able to afford the lifestyle of your dreams or enjoy the freedom that retirement will bring. Funding a comfortable retirement is subject to some uncertainties. Do you have enough savings? Can your retirement portfolio generate a sufficient income in retirement? Will you have to rely on government benefits to fully fund your retirement? These are important questions to ask as retirement approaches. In 2008, 15% of survey respondents said they would be able to fully fund retirement, while 85% said they would need a combination of government benefits and savings. By 2014, those numbers did not change much, with 16% being able to fund retirement alone and 84% needing benefits.

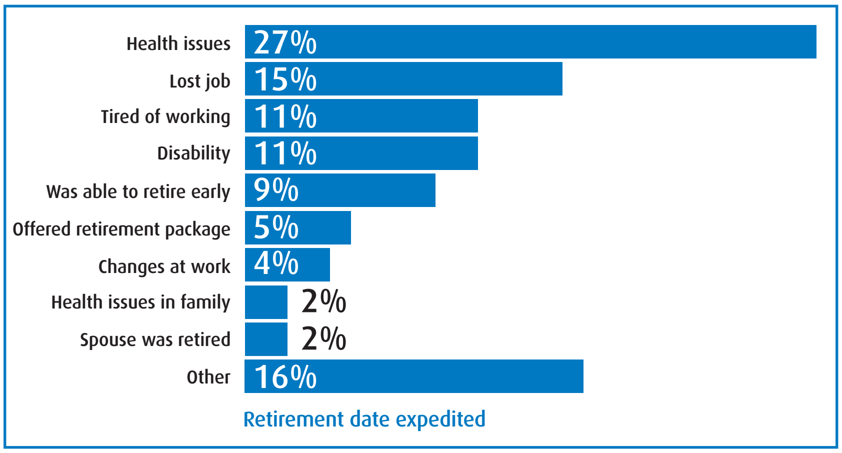
34% take primary responsibility, and 13% said their spouse/partner takes over the retirement planning responsibilities.

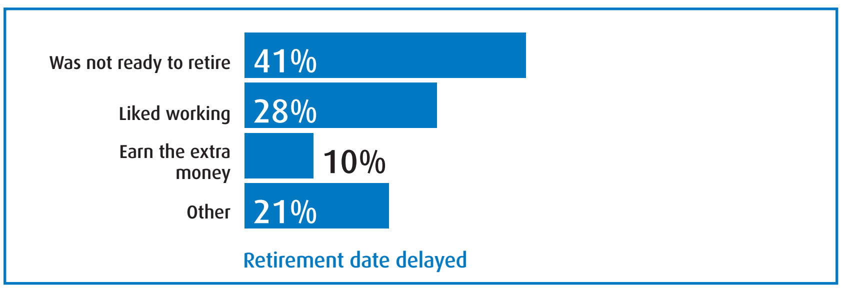
Many Canadians (60% of respondents) are using an employer pension (either defined benefit or defined contribution) to help fund their retirement. Of these, 19% said their pension will cover between 80% and 100% of their retirement income needs and 15% said their pension will cover less than 24%. On average, respondents felt that 54% of their future total monthly retirement income needs would be covered by employer pension plans.



Percentage of Canadians who have an employer pension plan
Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

When planning your retirement, first and foremost, expect the unexpected – and then prepare for it. Retirement came at an unexpected time for 40% of retirees. Breaking that number down, 29% had to expedite their retirement, while 11% had to delay it. Health issues, a lost job or simply getting tired of working were the main drivers of an expedited retirement. For those who had to delay their retirement, the top reasons were that they were not ready, they enjoyed working, or they wanted (or needed) to earn extra money.





Reasons for an unexpected retirement date

Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

These responses highlight the necessity for near retirees to be ready for an unexpected retirement, but a significant number of respondents were not fully prepared. If forced into full retirement tomorrow, 45% said that they did not believe they would be comfortable with the financial means at their disposal. So how do nearly retired Canadians determine whether or not their portfolio will sustain them through an early retirement? They can **stress test** their plan with multiple retirement scenarios. Possibilities to consider include retiring five or ten years earlier than planned, being retired ten years longer than expected, or a spouse/partner becoming ill or disabled.

40% of respondents do not have access to an employer pension plan.

56% of fully- or semi-retired people said they had pushed back their retirement by one to five years.

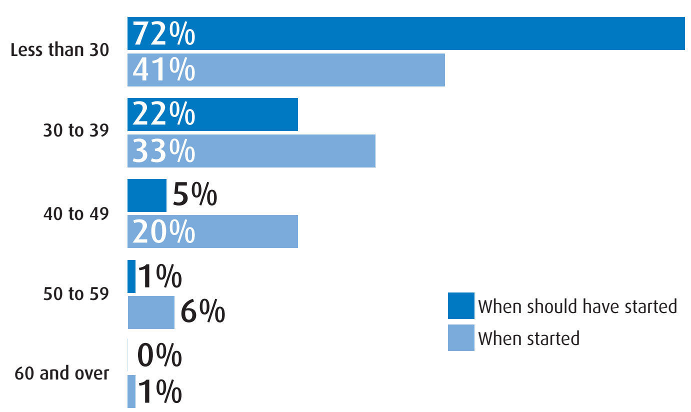
Point of view – what's top of mind when it comes to retirement?

Retirees and near retirees have a unique set of concerns, many of which are the result of switching from earning a living to living on a fixed income. The table below shows the top concerns of people within the retirement window. It's interesting to note that most of these issues can be split into two key areas: health and money.

Concerns of people in and near retirement	
Their health or quality of life declining	36%
Not having enough income to live a comfortable retirement	33%
The health or quality of life of someone else declining	32%
Not having enough income for health care in retirement	31%
Affording nursing or assisted living care	29%
Outliving retirement savings	28%
Not having enough health coverage	26%
Not having enough income to enjoy new or existing hobbies	23%
Financially supporting family members	17%
Leaving a legacy for family and/or charity	16%
Your social life declining in retirement	16%
Not having enough insurance to protect your assets or the value of your estate	16%

Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

With these concerns in mind, hindsight is 20/20 for Canadians when they are planning for retirement. Most believe they should have started saving and planning for retirement before the age of 30, when in reality, only 41% started saving – and even fewer (28%) started planning for retirement – before they turned 30.



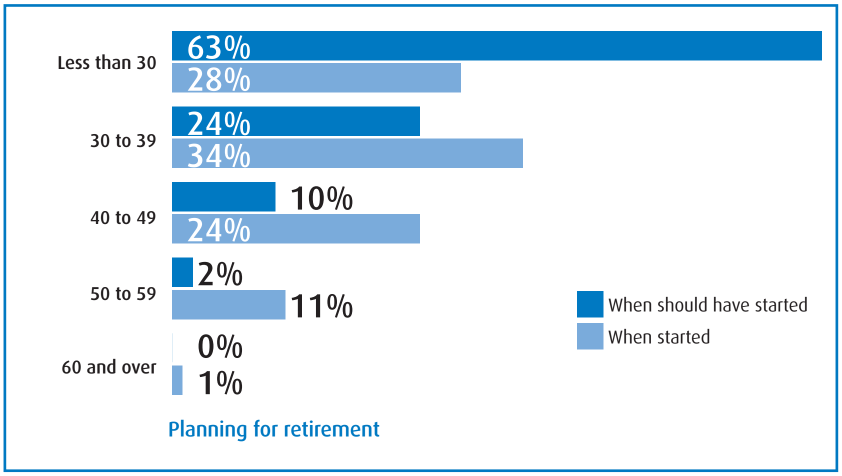
Saving money for retirement

45% disagree with the following statement: If forced into full retirement tomorrow, I would be comfortable with the financial means at my disposal.

52% will not carry any debts into retirement, but 22% will carry a mortgage on their primary residence into retirement.

48% will gradually transition into retirement, 40% will retire fully at a specified date, and 12% plan to never fully retire.

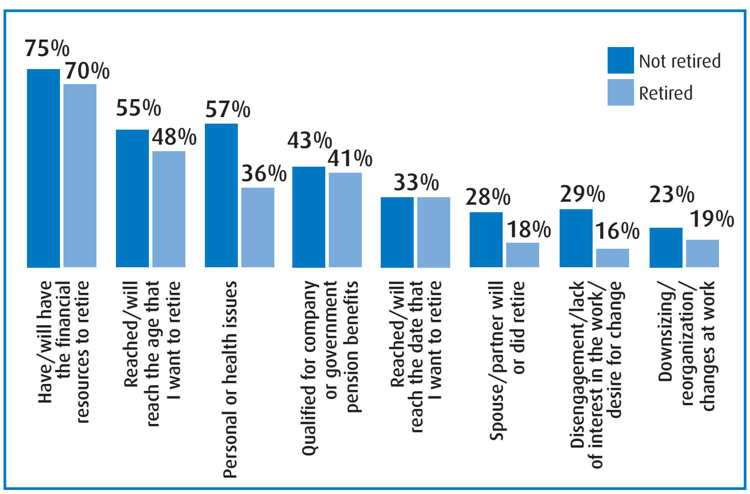
31% will just be able to live within their means in retirement.



Timing of planning and saving for retirement
Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

The coveted goal of retirement planning is to build enough wealth to guarantee security and comfort in retirement. It's never too early to start saving and planning for retirement, and it's concerning that 1 in 5 (20%) only started putting aside money for retirement at ages 40 through 49. The earlier you start saving, the more time there is for your retirement savings to grow.

It helps to change your point of view from a reactive, short-term perspective to a proactive, longer-term approach. With more than 1 in 3 (36%) delaying their planning for retirement until they are at least 40, it's worth noting the top factors retirees believe will determine readiness to retire. Having sufficient financial resources available, reaching the desired retirement age, and experiencing personal or health concerns top the list; one should consider planning, saving, and assessing insurance needs sooner than later to allow enough time to assess the situation and be prepared for retirement.



Factors believed to help determine the point when one is ready to retire
Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

Of those that feel they will have **just enough** to live within their means in retirement:

- 63% are uncomfortable with their financial situation if forced into full retirement tomorrow.
- 42% will carry no debts, and 30% will carry a mortgage on a primary residence in retirement.
- 60% feel somewhat prepared for retirement.

Planning process – a financial plan is a powerful tool

There are many things to consider when creating a financial plan. Knowing what to expect can make creating a plan that much easier. Regardless of what stage you are at in planning for retirement, a realistic financial plan and action steps can help you achieve the lifestyle you want once you leave the workforce. You will need to ensure your retirement plan evolves to reflect any changes in your life, expectations, financial situation, and goals.

There has been a surprising development over the past seven years; namely, a dramatic decline in the number of people who have a written financial plan. While 58% of those surveyed had a plan in 2008, only 38% had a plan in 2014. When asked why they did not have a plan, the replies included that they did not need one; they had not gotten around to it; they believed it was too early to prepare; they had not even thought about it; or that they did not have an advisor.

What's in a financial plan? Financial planning takes into account all aspects of your personal and financial situation. A good financial plan can help you answer important questions: What will your retirement look like? What do you want to do in this next stage of life? And, most importantly, how are you going to pay for the retirement you envision for yourself? As such, each plan looks somewhat different. There are, however, many similarities in the tools used to create those plans. The table below highlights the most common elements included in Canadians' financial plans.

Common components found in Canadians financial plans	
An investment plan	92%
Retirement expenses projection	83%
Retirement income needs analysis	82%
Government pension benefit review	81%
Tax plan	72%
Life insurance needs assessment	71%
Employer pension benefit review	66%
Estate plan	66%
Health insurance needs assessment	59%
Long-term care needs assessment	57%

Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

22% are considering bequeathing an inheritance to heirs or relatives prior to or upon entering retirement.

25% feel they have not prepared financially for unforeseen health issues.

53% have/will not consider personal health insurance.

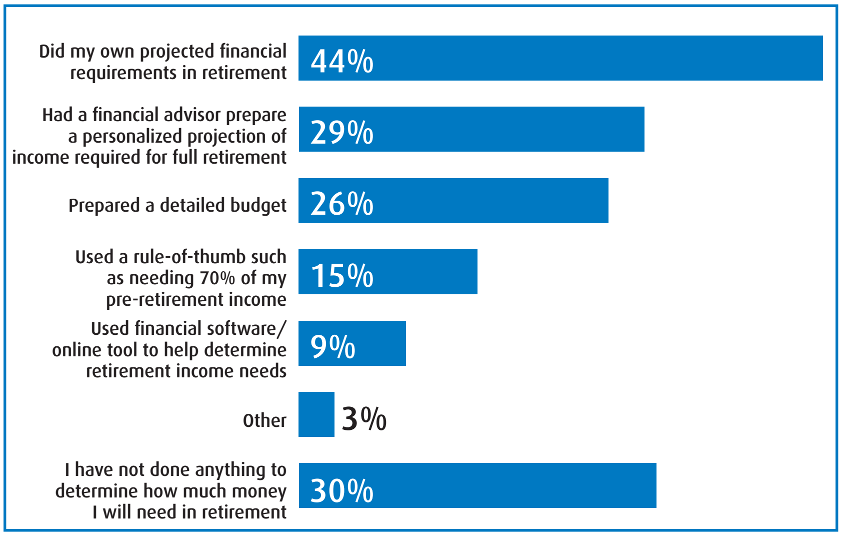
67% have/will not consider disability insurance.

70% have/will not consider critical illness insurance.

72% have/will not consider long-term care insurance.

Of the 62% without a written financial plan, 41% feel they have not adequately planned for retirement.

It's no surprise that an investment plan (92%) tops the list. The remainder of the top 10 strategies used to create a robust financial plan include analysis of income and expenses, tax and estate plans, and pension benefit reviews. Focusing on income and expense issues is how most Canadians determine how much money will be needed upon retirement.



Steps taken to determine retirement income needs
Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

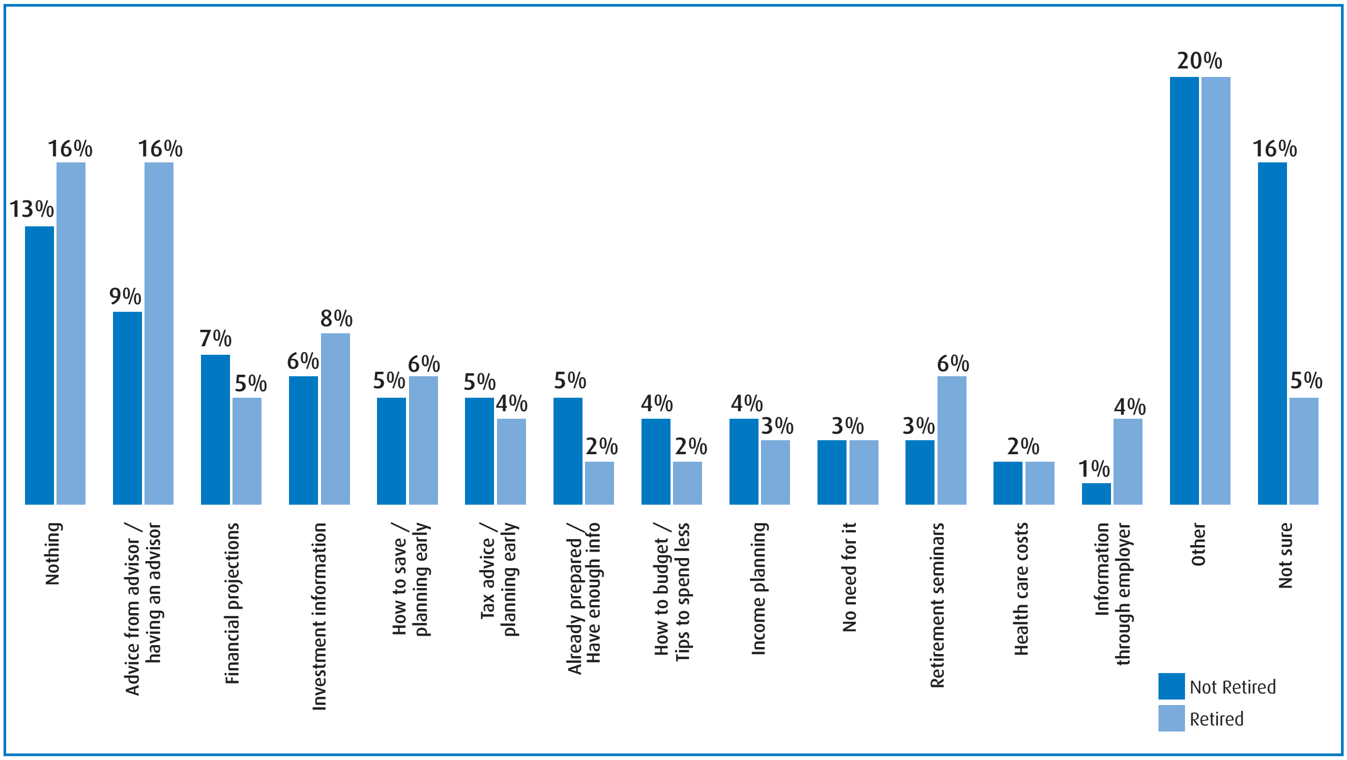
In the BMO survey, nearly three-quarters of Canadians (73%) had projected their financial needs, either by themselves (44%) or with the help of a financial professional (29%). On the other hand, 30% had not done anything to determine their financial requirements. This could mean that a significant number of people approaching retirement are unprepared.

Lessons learned from retirees can help you make a better plan. A significant number (89%) of retirees believed their perceptions about their financial requirements were accurate, reflecting that they had prepared well. However, of the remaining 11%, one-quarter (25%) said their expenses were higher than expected; 11% said their income was less than expected; and 7% were not fully prepared due to early retirement. One-fifth (20%) said it was too early to know whether or not their perceptions were correct.

There are many resources that near retirees can use to create a solid financial plan. The types of information, support, and advice that were most helpful to retirees when they were planning for retirement included working with a financial professional, making financial projections, knowing how to save and starting early, understanding taxes, and knowing how to budget.

Top reasons why Canadians finally began planning for retirement:

- Reaching a certain age.
- Encouraged by parents/ spouse/partner.
- Knowing it had to be done.
- Thinking about the future.
- Employer support/ contribution.



What helped the planning process?
Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

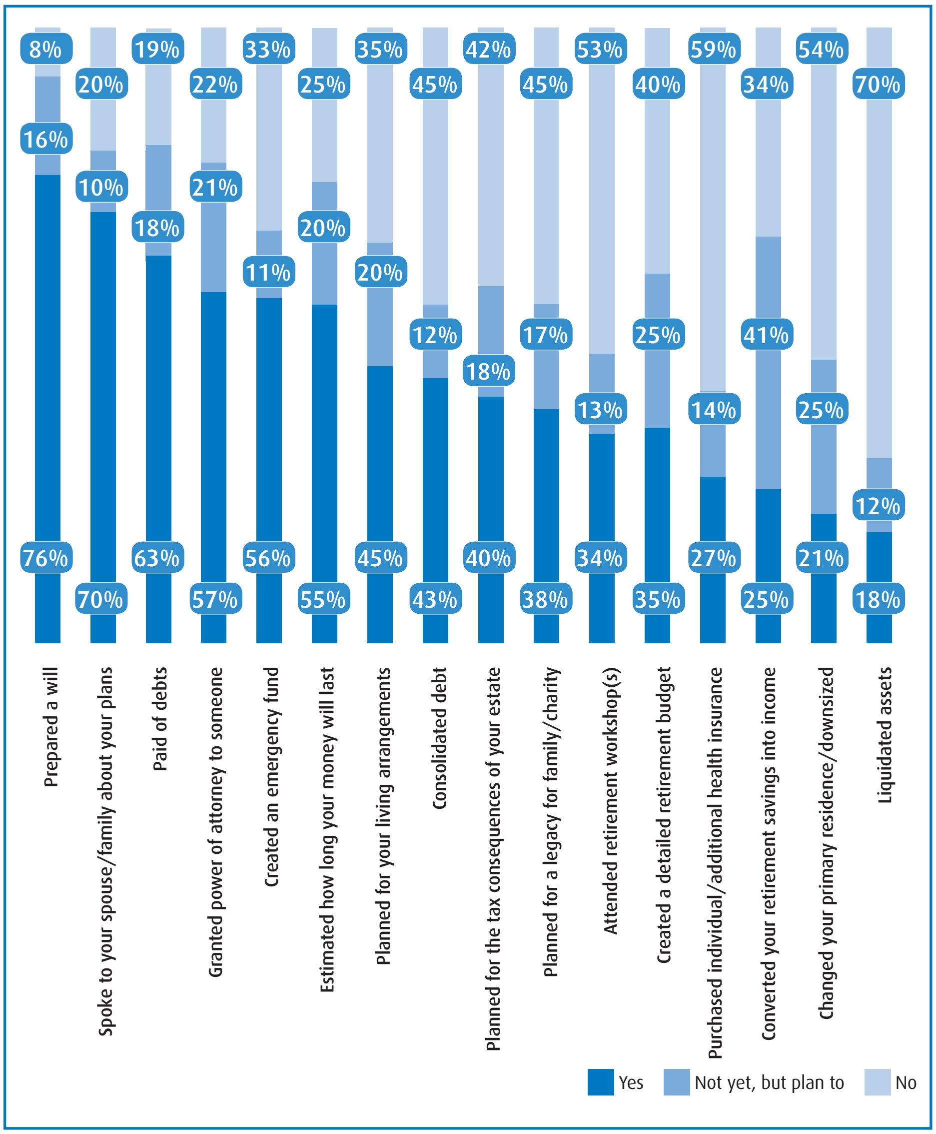
Of those who overall feel **extremely ready** for retirement, here's how they measure up:

- 43% have a written financial plan (compared to 26% of those who are not at all ready).
- 85% feel prepared for unforeseen health issues.
- 20% feel they can fully fund their own retirement.
- 63% will not carry debts into retirement.
- 66% are very comfortable with their financial means if they were forced into full retirement tomorrow.

Preparedness – are you getting ready for retirement?

Almost two-thirds (61%) of Canadians believed they were ready to retire from a non-financial standpoint (mentally, physically, socially, and emotionally), and almost as many (58%) felt they were ready financially. However, the overall sense of not being prepared to retire, considering both financial and non-financial aspects, has increased somewhat since 2008 (from 32% to 41%).

This loss of sense of preparation is most likely due to the lack of planning or preparation amongst more than half of those surveyed in areas such as consolidating debt (57% of respondents); creating a detailed retirement budget (65%); and converted retirement savings into income (75%).



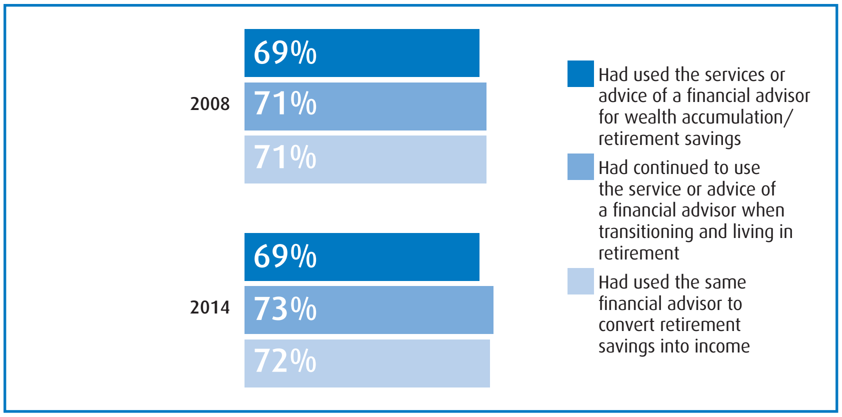
What has been done to prepare financially for retirement?

Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

Top reasons why Canadians found their original perception of the financial requirements for retirement to be wrong:

- Thought savings would've been enough.
- I expected my children to be financially stable … they are not.
- Expenses weren't as high as I thought they would be.
- Different when income taxes are taken into consideration.

A financial advisor played a crucial role in the types of products people purchased when planning for retirement, with 67% either having some influence or making the actual purchasing decision for them.



The majority work with a financial advisor
Source: BMO Wealth Institute survey by PMG Intelligence, November 2014

Almost three-quarters of Canadians feel the role of their current financial advisor will continue into retirement. These numbers have been consistent since 2008. Those who had already retired valued this relationship even more, with most indicating that their advisor has played a prominent role in their transition into retirement.

What's next?

Seek the advice of financial professionals. Professional advice is a great help when calculating financial projections and researching investment information, and is necessary when dealing with complex tax and estate issues. Financial professionals also act as a sounding board for your questions and concerns, which can help you to be comfortable with your decisions (especially during times of heightened market volatility) and keep you on track with your financial plan.

Prepare for an earlier-than-expected retirement. Keep saving until you have a significant pool of assets that will generate the income you need to live a comfortable retirement – even if that retirement comes early. With the life expectancy of Canadians increasing, as was discussed in the July 2014 BMO Wealth Institute report **Living to 100: The four keys to longevity**,[5] your retirement might not only start earlier than expected, it might also last longer than you expect.

26% have given little or no thought to the impact of inflation, interest rates, and taxation on their investments.

33% feel they are extremely ready for the non-financial aspects of retirement, while 28% feel they are extremely ready financially.

30% have not done anything to determine how much money will be needed in retirement.

Create a flexible financial plan. Your financial plan is not set in stone – it is an evolving plan that should be adapted when there are changes in your needs and goals, now and in the future. You should meet with your financial professional at least once a year to review progress toward your retirement goal and whenever there are any significant changes to your personal or financial situation.

We believe proactive retirement planning and professional advice go hand in hand. Consult your BMO financial professional to help prepare for a long and comfortable retirement.

If you're not sure where to start, ask your BMO financial professional about the Take Charge of Your Retirement™ program. The program is designed to get you thinking about different aspects of your retirement as if it were a picture. The four corners of the picture represent the key areas of your retirement: Who (relationships), What (lifestyle), Where (home), and How (health). Just like a picture, where the frame protects and displays your favourite photo, a financial plan acts as a frame for your retirement goals.
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Footnotes

[1] The Canadian Population in 2011: Age and Sex 2011 Census. Statistics Canada, 2011. Accessed December 8, 2014. http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-311-x/98-311-x2011001-eng.pdf

[2] Wealth Generation: The Financial Challenges for Generations X & Y. BMO Wealth Institute, January 2014. http://www.bmo.com/pdf/mf/prospectus/en/BMO_WealthInstitute_QR_Q1_2014_EN_LQ.pdf

[3] Canadian Financial Capability Survey. Statistics Canada, 2014. Accessed December 8, 2014. http://www.statcan.gc.ca/daily-quotidien/141106/dq141106b-eng.pdf

[4] BMO survey conducted by PMG Intelligence between July and September, 2014 with a sample of 835 Canadians. Overall margin of error for a probability sample of this size is +/- 3.39%, %, 19 times out of 20. Unless indicated otherwise, all survey results are from the BMO Wealth Institute "Canadians and the New Retirement" survey conducted by PMG Intelligence.

[5] Living to 100: The four keys to longevity. BMO Wealth Institute, July 2014. http://www.bmo.com/pdf/mf/prospectus/en/14-1390%20BWI_Q3%202014_4%20keys%20CDN%20E07_web.pdf

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