Rethink Retirement

2008 SURVEY OF CANADIANS' PREPAREDNESS FOR LIFE AFTER WORK

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Money working for people

Contents

About the **Rethink Retirement** Survey

Desjardins wants to find out what Canadians are thinking about saving and retirement planning, and how it can better assist them by promoting awareness and developing products and services that are well-suited to their needs. This seventh annual survey explores how prepared people are for their retirement. This year, SOM conducted a telephone survey on our behalf between June 26 and August 12, 2008. In total, 2,217 interviews were conducted with a representative sample of Canadian adults. The sampling plan provides proportional estimates with a maximum margin of error of plus or minus 2.4% at a 95% confidence level (19 times out of 20). The data was statistically weighted to accurately reflect the composition of Canadians by region, gender, age and language (mother tongue) based on 2006 Census information.

In the 2008 edition of the Rethink Retirement survey:

62% are confident they are saving enough for retirement

73% rate their financial security as good or better

81% say they know exactly where their retirement income will come from

85% have easy access to a financial advisor

Admittedly, there are significant variations among age groups, income levels and even geographic regions, but the overall picture certainly looks hopeful. Canadians seem both aware of the challenges of preparing for their retirement and actively engaged in the process of creating their own plan for future financial security.

Ready or not?

Canadians are optimistic – but are they realistic?

In recent years, financial advisors and employers have been wringing their hands over a series of looming disasters:

Young people don't care about retirement!
The baby boomers can't afford to leave work!
Retired people will outlive their money!

But is it as bad as all that?

Sure, employees have more responsibility for their own retirement these days. According to the Association of Canadian Pension Management, just 25% of people who work for private employers have the safety cushion of any type of registered pension plan (RPP) at all.[1] And, where RPPs are available, defined contribution plans are far more popular than defined benefit plans.

That said, every day Canadians buy insurance and invest in innovative savings products. Then they punch their last time sheet well before age 65 and book extravagant trips around the world – brimming with confidence about their prospects for the future. On the surface, they say they're doing just fine, thank you very much.

[1] The Association of Canadian Pension Management, *Delivering the Potential of DC Retirement Savings Plans,* May 2008.

So, what's the problem?

As Canadians move contentedly through the supermarket of financial options, they may be taking a detour into Aisle Denial. While they are going about their business, filling their shopping carts with any financial advisor's wish list of insurance protection and investment potential, there's a significant drag on their wheels.

Here's what's holding them back. Statistics Canada says that for each dollar of disposable income Canadians earned in 2005, they owed $1.16. Per-capita debt is more than five times what it was 25 years ago, reaching $28,390 in 2005. Meanwhile, personal savings rates dwindled from a high of 20.2% back in 1982 to a measly 1.2% in 2005.[1]

And yet, Canadians are, on the whole, happy with their progress towards retirement goals. If they're getting this wrong, "wishful accounting" may be partly to blame. So might a mix of despair and boredom. After all, **more than one in three (37%)** respondents to our survey have basically given up, believing they will never be able to accumulate enough savings to retire no matter what they do. And **one in four (24%)** admit they have little or no interest in planning for retirement.

For financial advisors and employers, this raises interesting questions. Specifically, how can Canadians be better motivated to address their retirement needs? And what's the best conversation opener, given that **59%** report they hate being told they aren't saving enough for retirement?

The up-to-date 2008 Rethink Retirement data in the rest of this booklet is the first step towards answering those questions – as well as the most important one: how can we, as a nation, ensure that generations of Canadians moving towards retirement are as well prepared as possible for the impending financial costs?

[1] Statistics Canada, *Perspectives on Labour and Income: Personal Debt,* January 2007.

VITAL STATISTICS

NATIONAL SURVEY RESULTS AT A GLANCE

- **Ideal retirement age: 60 (average)**
- **Believe it's possible to retire at ideal age: 63%**
- **Know how much income they need in retirement: 60%**
- **Saving enough for retirement: 62%**
- **Plan to retire partially: 62%**

MEASURES OF FINANCIAL HEALTH

- Have a steady source of income: **81%**
- Have an emergency fund: **70%**
- Have money saved for retirement: **67%**
- Have a written financial plan: **33%**
- Have life, disability or salary insurance: **65%**

MEASURES OF PHYSICAL AND MENTAL HEALTH

- Have good, very good or excellent physical health: **87%**
- Have a healthy lifestyle: **88%**
- Know how they will occupy time in retirement: **83%**
- Plan to make new friends after retirement: **72%**
- Worry that a health condition might interfere with enjoyment of retirement: **54%**

WOMEN WHO MENTIONED THAT THEY WOULD LIKE TO STOP WORKING COMPLETELY, ALL AT ONCE, ARE OVERWHELMINGLY MORE INTERESTED IN PARTIAL RETIREMENT WITH BENEFITS, WITH **79%** SAYING THEY'D DEFINITELY OR POSSIBLY CONSIDER IT, COMPARED TO **71%** OF MEN.

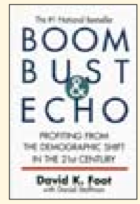
Belt-tightening strategies

IF THEY ABSOLUTELY HAD TO SAVE FOR RETIREMENT:

- **83%** would postpone a major purchase to avoid using credit
- **77%** would take less expensive vacations
- **69%** would brown-bag their lunch
- **68%** would leave the car at home to save on gas
- **62%** would cut their spending on sports or cultural activities
- **58%** would get rid of their household's second car

There's one area they'd resist changing: only a minority **(35%)** would reduce their spending on activities for their children. And, pre-belt-tightening, what was their biggest splurge in the past 12 months? A new car **(15%)** and travel **(14%)** topped the list, well ahead of renovations **(8%)**, furniture **(6%)** and audio/video equipment **(6%)**.

What's in a name?



David Foot's groundbreaking book, *Boom Bust & Echo,* discussed the dramatic differences in attitudes and aspirations among the echoes (children of the baby boomers, also known as Generation Y, aged 18 to 29), busters (the smaller demographic group in between the echoes and the boomers, also known as Generation X, aged 30 to 39) and boomers (the huge group born in the years following World War II, aged 40 to 59). Foot also recognizes significant distinctions between World War II babies (aged 60 to 69) and Depression babies (age 70 to 79). The Rethink Retirement survey looked at each of these groups and discovered:

- Depression babies say the ideal retirement age is 70, compared to age 59 for the late boomers (aged 40 to 49).
- Depression babies are also the most likely to "totally agree" that government pensions will provide sufficient income for them to live well in retirement (15%).
- Boomers are the most likely segment to be actively looking for good investments for their retirement (72% of people aged 40 to 49 and 71% of people aged 50 to 59).
- Echoes and Depression babies share a common distaste for credit cards and lines of credit – just 36% of each group would use either to make a large purchase.

SWEET DREAMS ARE MADE OF THIS

Workers – 16 or more years before retirement

TOP 5

FINANCIAL PRIORITIES:

1. Paying back debts, including mortgage **(42%)**
2. Staying within budget **(24%)**
3. Saving to carry out projects **(9%)**
4. Providing financial help to children/grandchildren **(9%)**
5. Saving for retirement **(8%)**

REQUIREMENTS FOR A SUCCESSFUL RETIREMENT:

1. Have enough money to live comfortably **(26%)**
2. Be in good health **(20%)**
3. Be happy **(9%)**
4. Have a flexible schedule **(8%)**
5. Have enough money for basic needs **(6%)**

With 16 or more years to go before retirement, there's plenty of time to dream. But dreams don't come free. This group is burdened with high debt loads – **18%** have more than $25,000 in personal debt, excluding their mortgage, and a further **28%** owe between $10,000 and $25,000.

They may also have less secure income streams since **16%** of this group is self-employed – compared to **12%** of people with six to 15 years before retirement, and **12%** of people with five years or less before retirement.

Yet many in this group are not seeking financial advice. Why? Nearly half **(45%)** don't believe they have sufficient savings to do business with a financial advisor, and more than one in four **(28%)** don't know where to turn for retirement planning help.

"Say what? I think it's a very important **risk management** tool for employers to be looking at educating employees at all ages about retirement planning."

Barbara Jaworski, CEO of the Workplace Institute.

PICKING UP THE PACE

Workers – 6 to 15 years before retirement

Time is starting to run short for this group. Yet more than one in three **(38%)** still don't know how much income they will need at retirement and a shocking **43%** would rather not know how much they need to save because they don't think they'll be able to set aside enough anyway. There's an element of internal conflict here, too, with **35%** feeling guilty that they aren't saving enough for their retirement.

Gazing into a crystal ball, five years into the future, this group says they will get down to the hard work of saving for retirement – yes, really, they promise! – with **33%** describing this as their most important financial priority at that time.

Interestingly, these workers are the most worried about being alone in retirement **(33%)**, and the most committed to making new friends after they stop working **(74%)**.

"Say what? Busters may not be huge income earners now, but within 10 years they may have quite substantial portfolios. Financial institutions that only want to deal with high net worth clients are missing out on the next high net worth people because they're not willing to work with them when they've only got $25,000 to invest."

Dr. David K. Foot, Professor of Economics, University of Toronto and Author, *Boom, Bust & Echo:* How to Profit from the Coming Demographic Shift.

TOP 5

FINANCIAL PRIORITIES:

1 Paying back debts, including mortgage **(32%)**
2 Staying within budget **(18%)**
3 Saving for retirement **(16%)**
4 Providing financial help to children/grandchildren **(14%)**
5 Saving to carry out projects **(11%)**

REQUIREMENTS FOR A SUCCESSFUL RETIREMENT:

1 Have enough money to live comfortably **(24%)**
2 Be in good health **(18%)**
3 Be happy **(12%)**
4 Participate in recreational/leisure activities **(8%)**
5 Have enough money for basic needs **(7%)**

THE FINAL COUNTDOWN

Workers – 5 years or less before retirement

As workers step up to the precipice, they develop a more positive outlook about the end of work. Nearly all workers **(94%)** with five years or less before retirement believe the moment they retire will be a happy event, and the same number say they have a good idea of how they'll occupy their time in retirement. In addition, this group is the most confident about knowing where their retirement income will come from **(92%)**.

That said, **30%** don't think they'll be able to retire at their ideal age. The main reason? For two-thirds of them **(66%)**, it's quite simply that they won't have enough money.

Nearly one in three **(31%)** hope to delay their departure from the workforce for as long as possible.

Perhaps an interest in delaying full retirement explains why this group is the most aware of Bill C-28, which allows employers who offer pension plans to enable employees to begin drawing pension income while they continue to work – without losing seniority, job security or health and dental benefits, and without losing the right to accumulate retirement benefits. Nearly half **(45%)** of this group have heard about this change, compared to one-third **(34%)** of all respondents.

Say what?

When I do my keynote speaking, I ask people at what age they plan to retire. The vast majority of people, about **80%**, expect to continue working past age 65. Now, whether they work for their current employer, whether they work for a competitor or whether they open their own business … that will really depend on the individual and what the organization has done to try and entice them to stay.

Barbara Jaworski, CEO of the Workplace Institute.

TOP 5

FINANCIAL PRIORITIES:

1. Paying back debts, including mortgage **(25%)**
2. Saving for retirement **(25%)**
3. Staying within budget **(19%)**
4. Providing financial help to children/grandchildren **(13%)**
5. Getting the best possible return on investments **(11%)**

REQUIREMENTS FOR A SUCCESSFUL RETIREMENT:

1. Have enough money to live comfortably **(27%)**
2. Be in good health **(24%)**
3. Be happy **(9%)**
4. Participate in recreational/leisure activities **(7%)**
5. Enjoy life/have projects/accomplish goals **(6%)**

OUT AND ABOUT

The year of retirement

At a critical turning point in their lives, pivoting between accumulating assets and drawing an income from pensions and investments, this group is the most likely to seek advice from a financial advisor to improve their financial security **(25%)** – well ahead of the next most likely group, the already retired, at **16%**.

That said, their income levels are dropping dramatically. While **49%** of people with five years or less before retirement reported household income over $100,000, just **20%** could say the same within a year of retirement. By two or more years after retirement, most households **(70%)** are managing on less than $50,000 annually.

This is a time of tight budgets (see their top financial priority) and a degree of uncertainty about what the future will bring.

TOP5

FINANCIAL PRIORITIES:

1 Staying within budget **(43%)**
2 Getting the best possible return on investments **(16%)**
3 Paying back debts, including mortgage **(15%)**
4 Providing financial help to children/grandchildren **(9%)**
5 Saving to carry out projects **(6%)**

REQUIREMENTS FOR A SUCCESSFUL RETIREMENT:

1 Have enough money to live comfortably **(26%)**
2 Participate in recreational/leisure activities **(13%)**
3 Have enough money for basic needs **(13%)**
4 Have a flexible schedule **(11%)**
5 Be in good health **(11%)**

"Say what? Women have a lot of other issues, both financial and other, that men don't tend to face or don't want to address. This includes potential caregiving responsibilities for their parents, spouse and/or children ... I hear the phrase 'I'm afraid of being a bag lady' a lot."

Janet Freedman, CFP, RFP, President of Finance Matters Ltd.

SAVING THE BEST FOR LAST

Two years or more after retirement

This group is past the transition period and has settled into retirement. The good news is that by now most people aren't carrying much debt. In fact, **73%** have $1,000 or less in personal debt, excluding their mortgage. They're also the least comfortable with credit cards and lines of credit – just **36%** would use either to make a large purchase.

The bad news is that they don't have much in the way of assets either. Just **30%** have more than $100,000 in personal savings and investments, beyond their principal residence, and **24%** confess they have $1,000 or less.

As life expectancies lengthen, low savings reserves may mean that some retirees will need to access other resources, including the equity in their homes, to make ends meet. And that, in turn, may mean less of an inheritance for their children – many of whom may be counting on bequests to finance their own retirement.

Say what?

"I have a client who just turned 100, and she has told me many times that when she and her husband started out they didn't have two nickels to rub together. Now she has more income than she knows what to do with, but if she wants a new sofa and the one she likes is $1,500 or $2,000, for her to spend that sort of money on a new sofa is unthinkable. She's comfortable, but she doesn't do a lot of the things that the next generations take for granted."

Janet Freedman, CFP, RFP, President of Finance Matters Ltd.

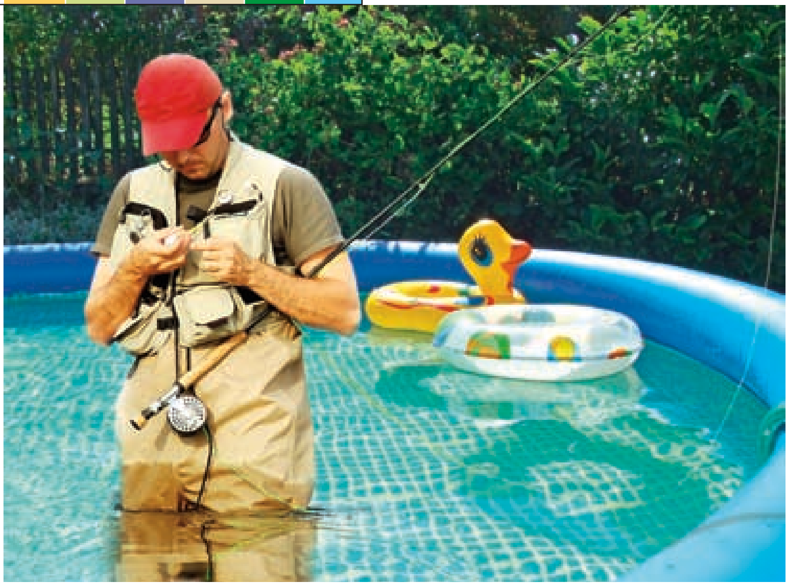
TOP 5

FINANCIAL PRIORITIES:

1. Staying within budget **(44%)**
2. Getting the best possible return on investments **(14%)**
3. Providing financial help to children/grandchildren **(13%)**
4. Paying back debts, including mortgage **(12%)**
5. Saving for retirement **(6%)**

REQUIREMENTS FOR A SUCCESSFUL RETIREMENT:

1. Have enough money to live comfortably **(33%)**
2. Be in good health **(15%)**
3. Have enough money for basic needs **(11%)**
4. Participate in recreational/leisure activities **(8%)**
5. Be happy **(5%)**



WHAT'S NEXT?

Rethinking retirement may have to begin with the word "retirement" itself. Back in 2005, **87%** of Canadians age 45 or older told Ipsos Reid that retirement needs a serious redefinition. When asked how they would describe the new retirement, they chose forcefully positive words such as "freedom," "fun" and "confidence." They banished negative words like "anxiety," "loneliness" and "uncertainty" to the bottom of the list.[1]

What this means for employers and financial advisors is that the retirement conversation needs to be reframed. Canadians are not planning for their "declining years." They're not content to slip peacefully towards death. They're active and engaged, with busy plans for their life after work. They want positive strategies that connect the dots for them and achieve concrete results.

The challenge is that unstable financial markets and the underlying anxiety they create might stop them from turning their dreams into reality. Nearly half of Canadians **(49%)** are worried they might use up all their savings during retirement and run out of cash while they're still alive.

What all people approaching, entering and living in retirement need is the confidence that comes from defining income and expenses, and understanding the solutions that are available to make up any shortfall. The key to success is that each strategy must be carefully designed to suit an individual's unique needs while addressing the issues that he may not be able to or even willing to anticipate.

Today's and tomorrow's retirees won't settle for anything less.

[1] Ipsos Reid, News Release, December 7, 2005.

What's trendy?

- **"Rehirement":** Eight in ten Canadians would continue to work even if they had enough money to retire, though slightly over half would switch to part-time.[1] Gradual retirement or finding a new position in retirement – let's call it "rehirement" – is a trend on the upswing that will help young retirees not only generate additional income but also get used to their new lifestyle.
- **Caregiving:** One in six Canadians and one in three baby boomers provide unpaid caregiving to seniors.[2] This may be an unanticipated and growing retirement cost as longevity increases, and will probably continue to affect women more than men.
- **Blindspot Planning:** Nearly half of baby boomers spend more time on diet, exercise and home renovation planning than they do on retirement planning.[3] So the question remains for employers and financial advisors: how can Canadians be motivated to take charge of their financial future?

[1] Ipsos Reid, News Release, January 29, 2008.
[2] Statistics Canada, 2006 Census.
[3] BMO Financial Group, News Release, January 16, 2007.

"Say what? Most people who can afford to retire early, retire early. But the world of work is about to change dramatically. People may want to work until they're 70 – but not full-time."

Dr. David K. Foot, Professor of Economics, University of Toronto and Author, *Boom, Bust & Echo: How to Profit from the Coming Demographic Shift.*

TELL US ABOUT YOUR NEEDS

Alone or with the help of Desjardins experts, your financial advisor or planner* can help you:

- choose the investment strategies best suited to your investment profile;
- preserve or grow your net worth through effective debt management;
- invest on your own or with the advice of an expert;
- plan a major purchase or fund the education of your children and grandchildren;
- provide you with turnkey investment solutions, drawing on the expertise of seasoned portfolio managers, if necessary.

No matter what your needs are, Desjardins can offer you value added solutions to help you plan your future and evaluate the different aspects of your financial situation:

- Retirement
- Financial assets
- Taxation
- Succession
- Life, health and property insurance

Our goal: to provide you with comprehensive service and the best possible advice through at all stages of your financial life, to allow you to attain your financial goals.

* The financial planners act on behalf of Desjardins Financial Services Firm Inc.

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POSITION SEULEMENT

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