The Future of Retirement

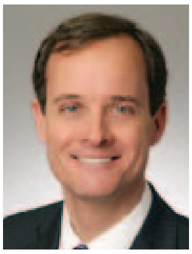
The power of planning

Canada Report

HSBC

The world's local bank

Foreword



Welcome to the Canadian Country Report in the 2011 edition of HSBC's ongoing Future of Retirement study.

Since its inception in 2005, the Future of Retirement has been providing authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world. A world-leading study into global trends, it has helped us to better understand the hurdles and opportunities we face, and to identify and provide appropriate financial solutions to our clients.

Central to the 2011 report is the clear message that there is a significant and long lasting benefit of both having a financial plan and receiving professional financial advice … and yet only 35% of Canadians say they have such a plan and only 54% have sought advice.

With this in mind, we hope you find this year's Canadian results both thought provoking and inspirational. By consistently using the Future of Retirement's ongoing findings to appreciate the challenges and possibilities our Canadian clients encounter, we will be better positioned to help them plan, take action, and achieve a happy retirement.

Tim Pinnington
Head of Wealth Management, HSBC Bank Canada

Introduction

HSBC's The Future of Retirement programme is a world-leading independent study into global retirement trends. It provides authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world. The 2011 report, The power of planning, is the sixth in the series and is based on interviews with more than 17,000 respondents in 17 countries.

This country report, based on the views of 1,033 Canadian respondents, explores how households in Canada are likely to respond to the rapidly changing shape of retirement over the coming decades. All data used in this country report relates to Canada unless otherwise indicated. For further global and regional comparisons, please refer to the global report. HSBC commissioned Cicero Consulting to conduct consumer research in December 2010. All the data contained in this report is taken from the findings of that research, unless otherwise stated.

Key findings

- Over two-thirds (69%) of respondents are very or slightly worried about coping financially in retirement. 63% of this group say they are worried due to a lack of savings
- 64% of 30-39 year old women say financial planning is extremely important for a happy retirement, yet only 26% are actually doing so
- Older Canadians are more likely to associate retirement with financial hardship, with 44% of 50-59 year old men and 46% of women in this age group doing so
- Divorcees are most likely to associate retirement with financial hardship, with 53% of this group doing so
- 25% of respondents do not know what their primary source of retirement income will be; a further 22% are relying on the state pension to provide it
- Only 35% of Canadians are planning for their financial future, with planning significantly more likely amongst men
- Only 23% of those with financial plans associate retirement with financial hardship, compared to 48% of non-planners
- Planners have saved 181% of the Canadian average in retirement assets, whilst non-planners have only 57% of the average
- There is a significant 'advice advantage' for those who have made plans and also taken professional financial advice: they have nearly nine times (864%) as much as those who have taken no planning or advice steps
- Canada has a relatively traditional advice market, with the vast majority using banks and independent financial advisers. However, 26% are consulting official websites
- For individuals who want to take action now to improve their financial well-being later in life, there is a simple 5-step checklist based on the research.

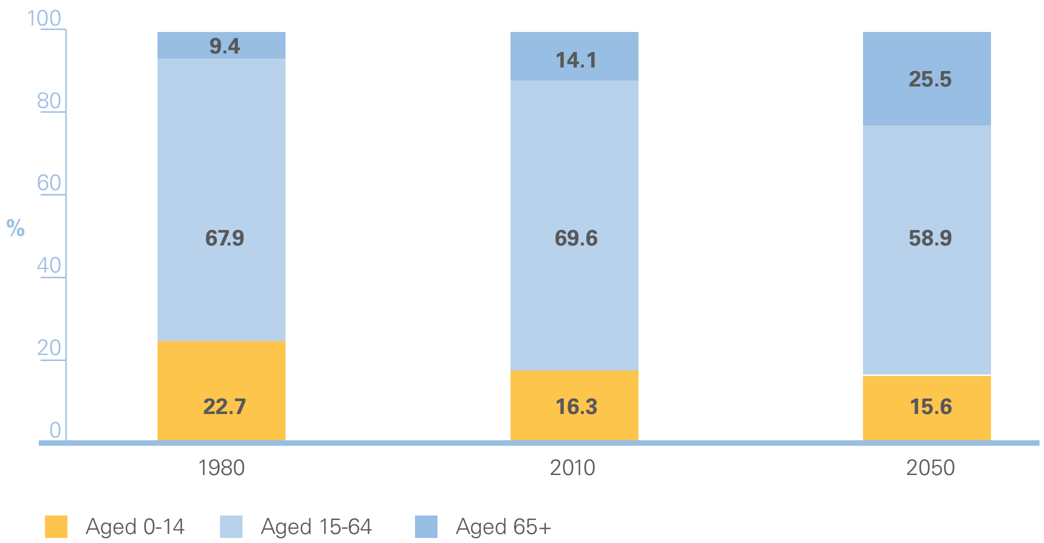
Retirement landscape

The retirement landscape for the baby boomer generation, which is now entering retirement, will be quite different to the one that their parents enjoyed in the past and their grandchildren will experience in the future. The United Nations Population Division reports that in the past 30 years, the demographic change process has been relatively stable in Canada, with the percentage of the population aged 65 and over increasing just slightly from 9% in 1984 to 14% in 2009.

However, this is set to change: by 2050, 25% of the population is projected to be aged 65 and over. Whilst the Canadian Federal Government has been diligent in its preparations for dealing with this ageing population, its provision alone will not be sufficient, especially when it is projected that there will be 50 seniors to every 100 workers by 2056.

Figure 1: **The baby-boomers enter retirement**

Source: United Nations Population Division, World Population Prospects, The 2008 Division



The changing shape of retirement

Despite being faced with the universal challenge of funding an ageing society, Canadians remain upbeat in their perception of retirement.

42% see retirement as a whole new chapter in life, whilst 56% associate retirement with freedom.

When considering what constitutes a happy retirement, 74% said 'not having to worry about money' and 56% see good financial planning as extremely important.

Nevertheless, 39% associate retirement with financial hardship, and this concern is highest amongst 50-59 year olds (45%), women (42%) and divorcees (53%).

Younger women in particular (64% of 30-39 year olds) acknowledge the importance of good financial planning for a happy retirement.

Figure 2: **How people perceive retirement**

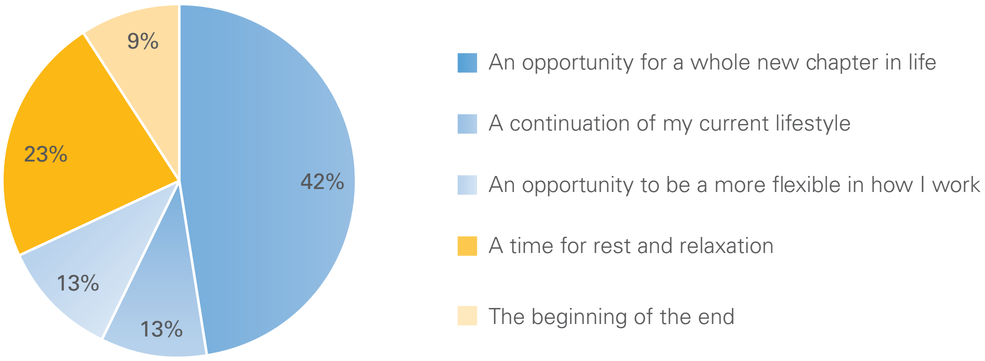
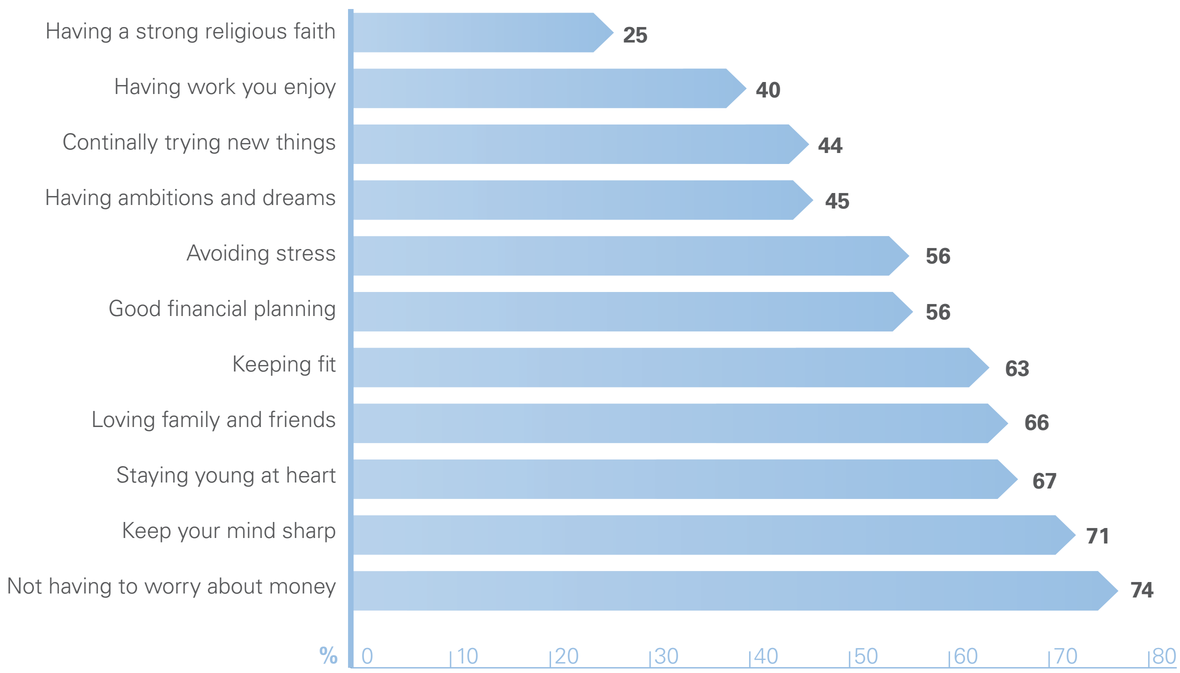


Figure 3: **What is extremely important to a happy retirement**



The fact that 40% of respondents believe that having work you enjoy is extremely important to a happy retirement demonstrates that Canadians are adapting to the new reality of longer working lives.

48% of Canadians expect to be worse off or *much* worse off than their parents in retirement. When asked why they felt this way, respondents cited, more than anything else, the fact that people are living longer and need more savings. Other popular responses also highlighted the uncertainty surrounding state provision and the economy; half of respondents cited less generous state pensions and similar numbers noted higher taxes and job insecurity as factors contributing to less generous retirements than previously.

Despite still feeling generally optimistic about retirement, there seems to be a sense amongst Canadians that the retirement 'golden age' has passed and that whilst a happy, worry-free retirement is still achievable, it requires far more preparation and planning than it did a generation ago.

Figure 4: **Better or worse off than your parents' generation in retirement? (net score)**

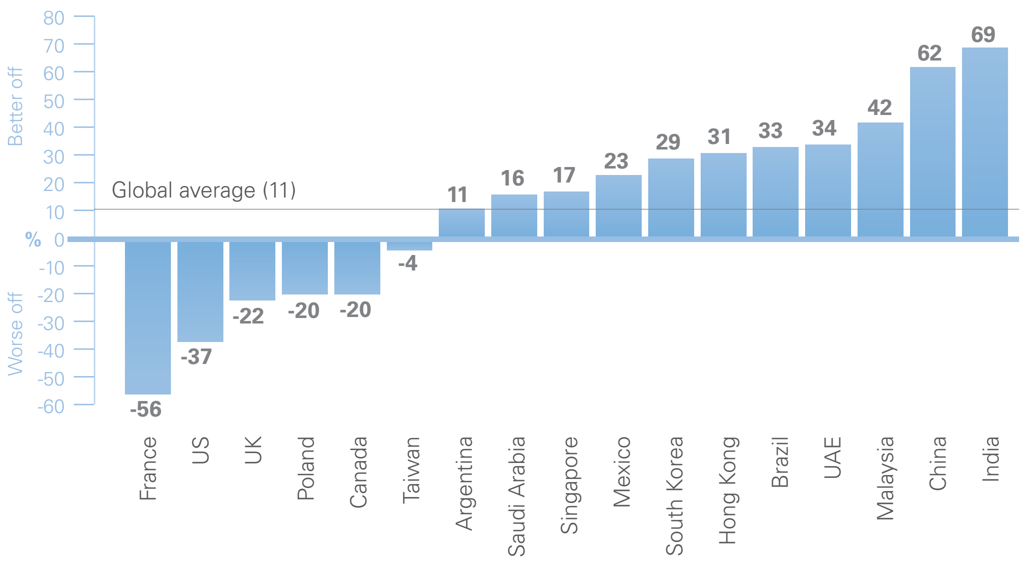
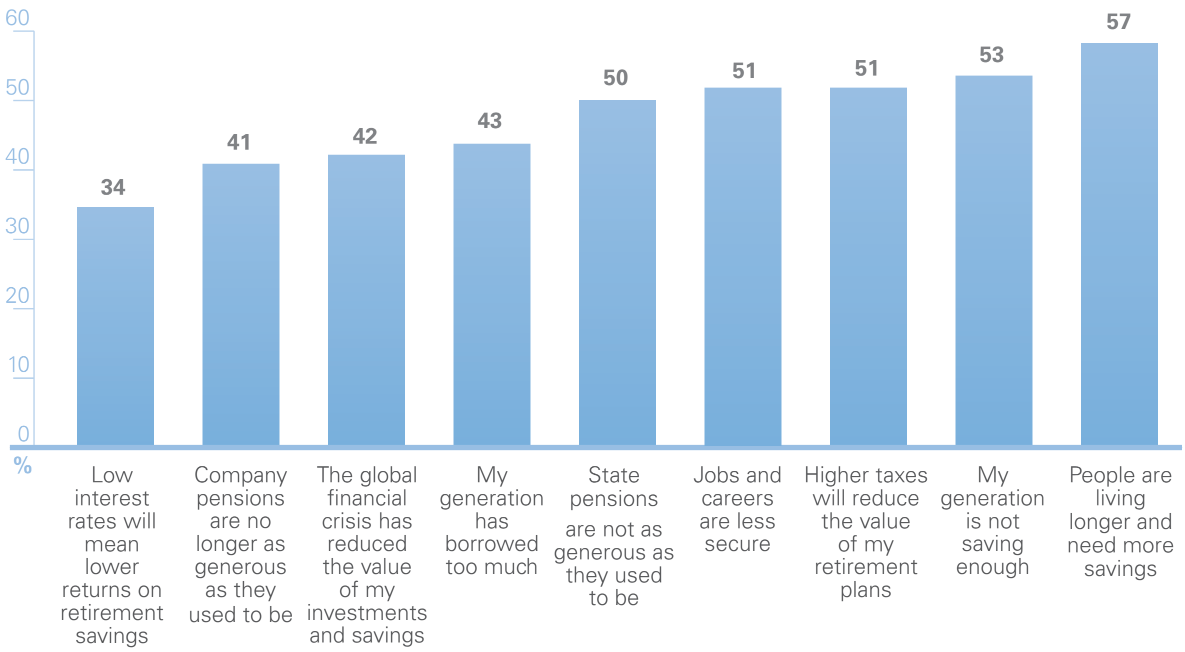
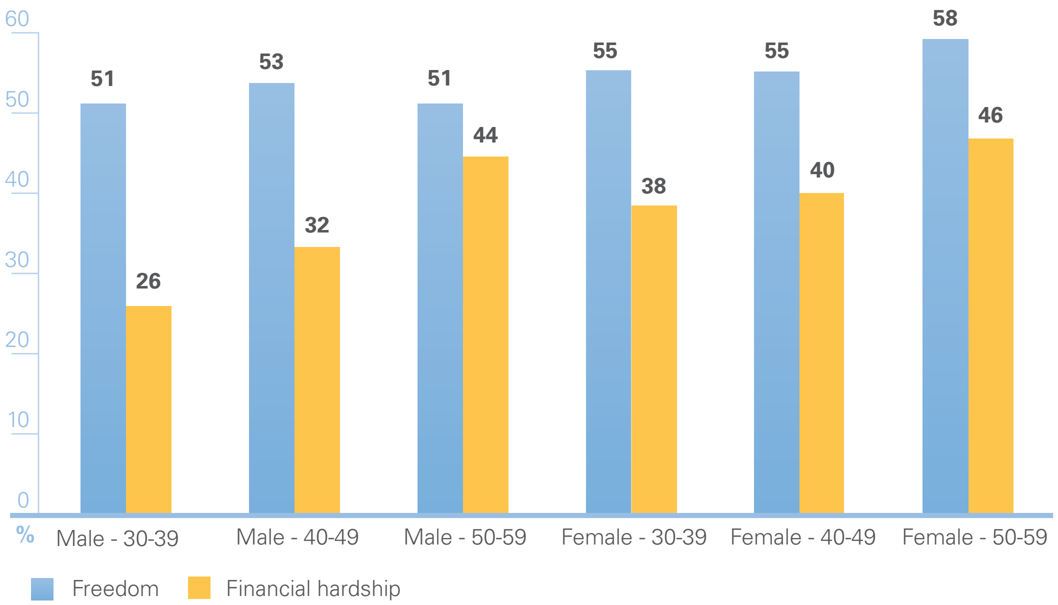


Figure 5: **Why will you be worse off in retirement than your parents' generation?**



The financial crisis has exacerbated the pressures already being felt due to the ageing population, forcing the federal and provincial governments to consider pension reform once again. Our research shows that it is the older parts of the Canadian population, especially females, who are most pessimistic about the impact of these changes on their retirements. 30-39 year old men, on the other hand, are more optimistic, with only 26% associating retirement with financial hardship.

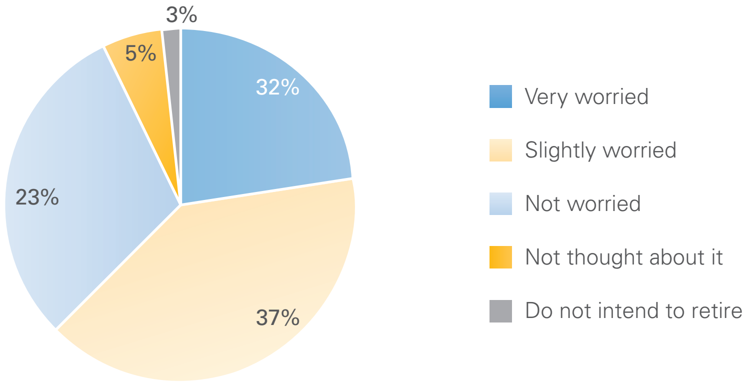
Figure 6: **Women associate retirement with financial hardship more than men**



Shortfalls in retirement preparedness

Our findings reveal a significant 'preparedness gap' amongst respondents. Of those we surveyed, 91% said having enough money to live on in retirement was important, but only 46% said they felt adequately prepared: this leaves a gap of 45%. The preparedness gap in Canada is further evidenced by how worried people are about being able to cope financially in retirement: 69% said they were either slightly or very worried.

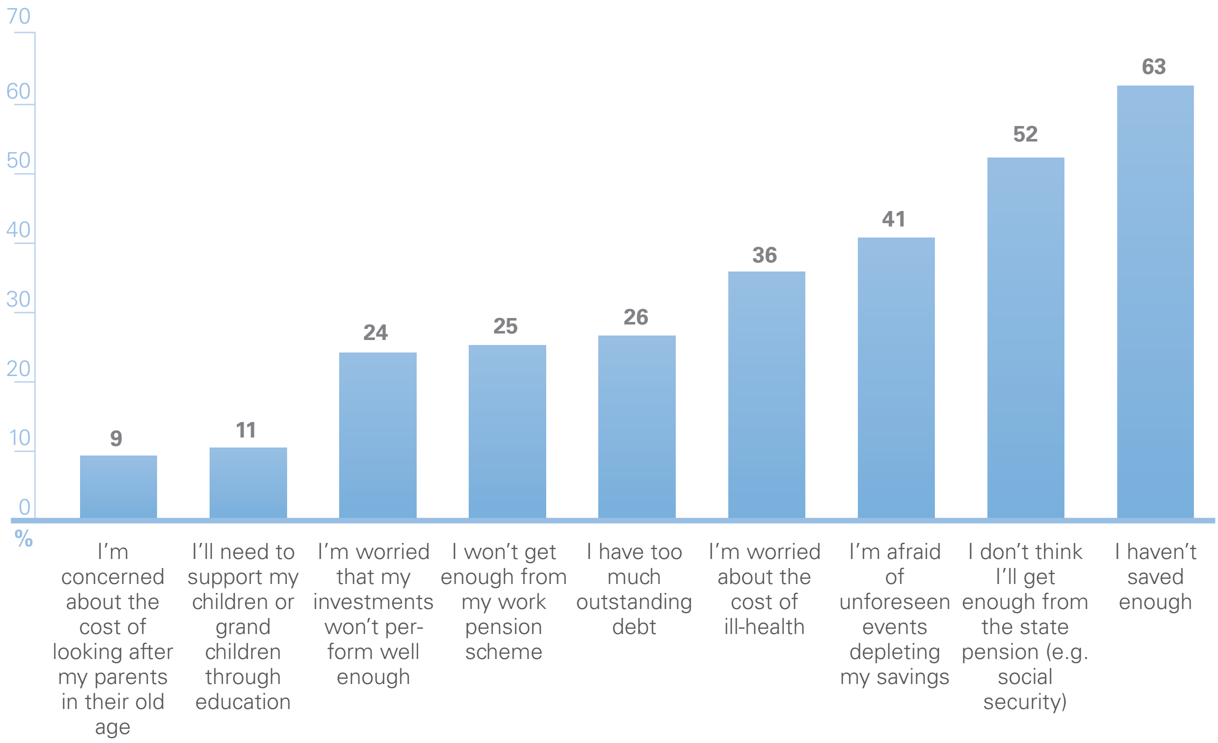
Figure 7: **Levels of concern about coping financially in retirement**



The biggest reason why people are concerned about funding retirement is that they feel they have simply not saved enough money personally, and this concern is greatest amongst women (66%) and 40-49 year old respondents (70%). This level of concern about personal savings suggests some widespread recognition that there is a approaching transfer of responsibility for retirement savings from the state to the individual.

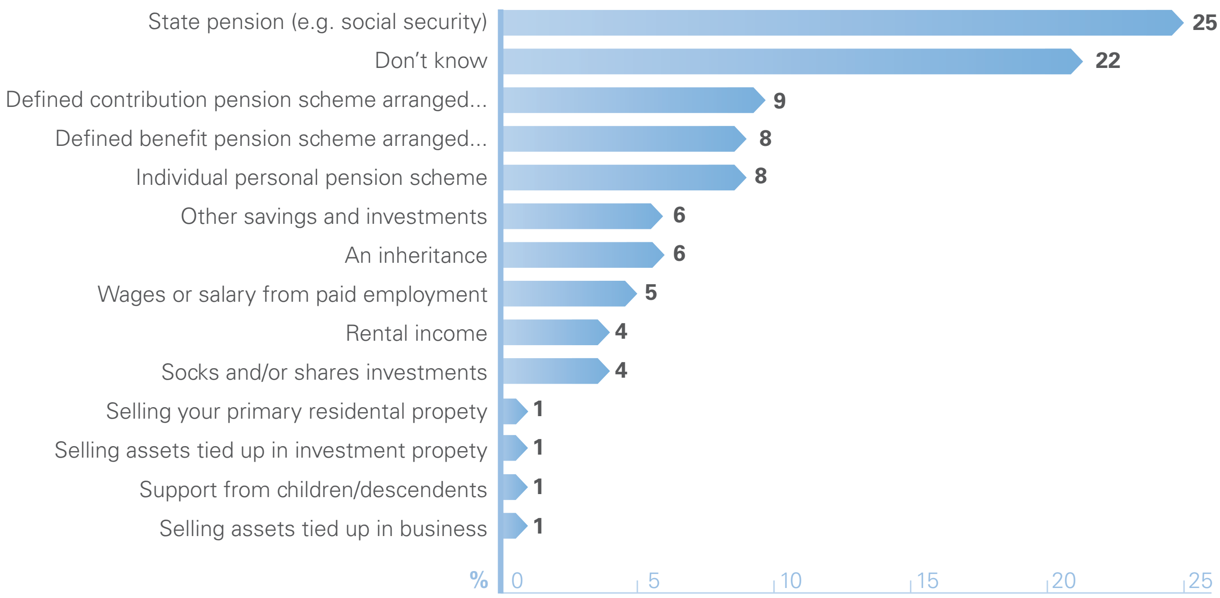
Unforeseen events are also unnerving respondents, yet only just over a quarter of Canadians (27%) feel that their family is very prepared if something should happen to them; a lack of life insurance is a significant issue amongst our respondents - 32% have none at all.

Figure 8: **Why people worry about coping financially in retirement**



A worrying finding was that a quarter of respondents do not know what their main source of income will be in retirement. Moreover, 22% are relying on the state pension to provide the biggest source of their retirement income. These two groups dwarf in size the respondents who selected any other option and only 6% see their personal pension scheme as likely to be the biggest single source of retirement income.

Figure 9: **Over-reliance on declining state and company pensions**



The power of planning

Table 1: The four consumer types

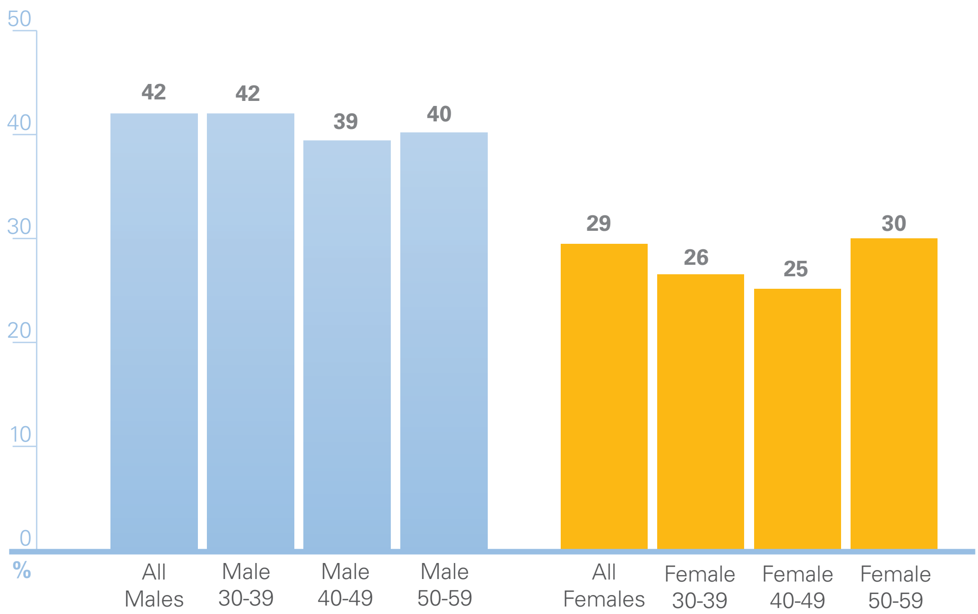
Global (% of global respond-ents)	**Canada** (% of Canadian respond-ents)	**Consumer types**
38%	43%	**Non-planners: disengaged.** These people are doing nothing by way of financial planning or financial advice. There is a complex mix of reasons why they do not make a plan; many believe they lack the necessary household income.
12%	22%	**Non-planners: advice-seekers.** These people do not have a financial plan, though they do at least take professional financial advice from time to time. They are likely to seek advice around one particular need, rather than take holistic advice.
22%	11%	**Planners: active self-guided.** These people have a financial plan in place but do not seek professional expertise to help them make sense of their finances. They are likely to be younger, mid-to-high income and internet savvy.
28%	24%	**Planners: advice-seekers.** These people have a financial plan in place and also seek professional financial advice to help manage their finances. In many respects they are very well prepared for retirement.

As we have seen, a greater onus will be put on individuals to prepare for their own later lives and, unfortunately, Canada falls just short of the global average in terms of financial planning:only 35% have financial plans.

Canadians are also more likely to opt for professional advice, though they are nearly twice as likely as the global average to take financial advice without also making a plan. This finding suggests that many Canadians are not simply ignoring their financial concerns about the future, however their inability to follow through with making a financial plan remains a problem.

The group most likely to embrace financial planning is men, across all age groups. Women are slightly less likely to be planners overall, and the gender gap is greatest between the youngest (30-39) age group, suggesting that a significant divergence in attitudes towards financial planning may be emerging.

Figure 10: **Men more likely to have a financial plan**



The planning premium

Our findings reveal that those with a financial plan for the future enjoy several benefits over those who do not – the 'planning premium' - and that these benefits are both 'hard' and 'soft', including not only greater and more diverse retirement savings, but also a more positive outlook and fewer worries about later life.

Respondents who undertook financial planning were more likely than non-planners to associate retirement with positive ideas such as freedom and less likely to associate it with negative ones such as financial hardship. Although it is difficult to separate cause and effect, these findings hold true even when controlling for age and income. Whilst these benefits may seem obvious, the extent to which they are present in our findings indicates a significant 'soft' benefit of planning for the future today; those with a plan have fewer sources of worry and stress.

Figure 11: **Retirement associations of planners and non-planners**

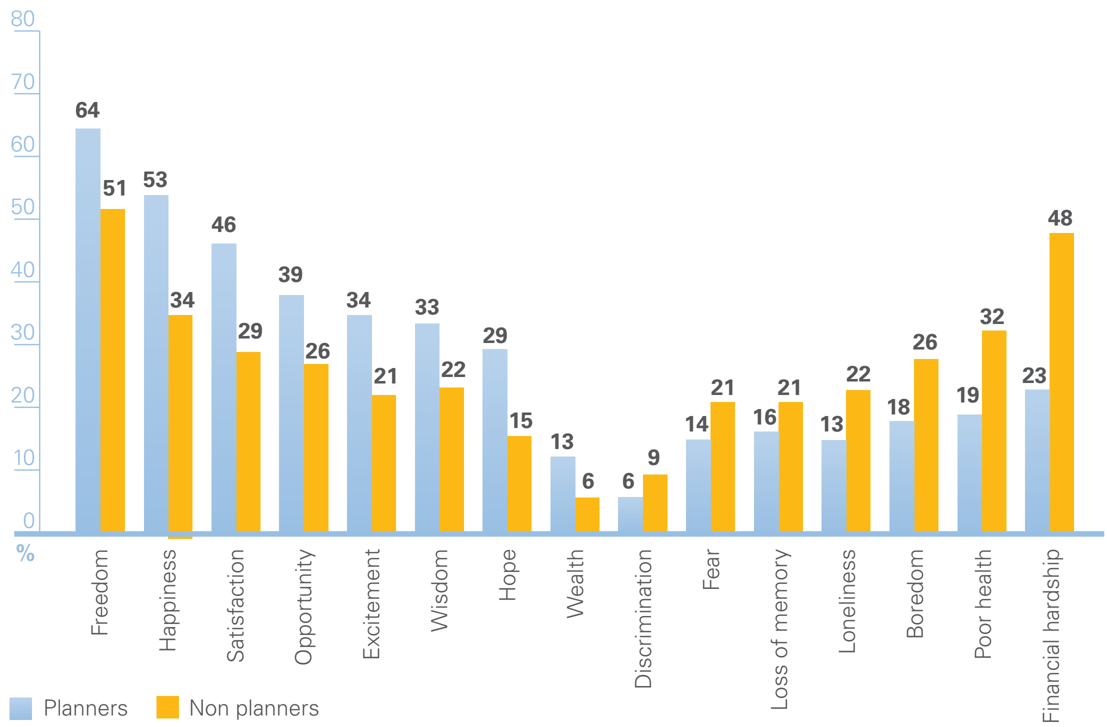


Table 2: Planners have more retirement savings and investments

	Canada average	**Non-planners:** disengaged	**Non-planners:** advice seekers	**Planners:** active self-guided	**Planners:** advice-seekers	**All non-planners**	**All planners**
Total retirement savings and investments (household median), nearest '000 CAN$	88,000	25,000	76,000	100,000	216,000	**50,000**	**159,000**
% of average	100%	28%	86%	113%	245%	**57%**	**181%**

These figures are calculated using median data, which can produce the same results in different categories

When we look at the retirement savings and investment levels of our respondents, we see that those with financial plans for the future have over three times (318%) the assets of non-planners. This shows that there is a strong planning premium in Canada in terms of material financial benefits.

The advice advantage

Alongside the planning premium, we also find that those who have a financial plan in place and seek professional advice are the best off financially. This group has the most retirement assets out of all our identified consumer types. This demonstrates that there is a further benefit for those who combine planning with professional advice – the advice advantage. Advice-seeking planners have over twice (245%) the Canadian average in retirement assets and nearly nine times (864%) the assets of those who have taken no steps at all. This advantage is not merely due to advice-seeking planners being wealthier or older than the Canadian average – when controlling for age and income the advice advantage is still present.

Currently, those who seek advice show a preference for banks and independent financial advisers, with 41% of advice-seekers using the former and 33% the latter. Although these two sources may seem to have the professional market tied up, they face a challenge from less formal sources of advice: 26% of Canadians consult websites when making financial planning decisions (though this is significantly below the global average).

Conclusion

Canadians are on the whole relatively upbeat about retirement, with large numbers associating it with a new chapter in life and a time of freedom from worries – financial and otherwise.

Yet at the same time, there is widespread concern that they will not be able to afford the sort of retirement currently being enjoyed by their parents' generation. An ageing population, a less generous state contribution and low levels of savings are all seen as taking their toll on the future quality of life for Canada's elderly.

These concerns are well-founded, and many Canadians have yet to fully comprehend the shortfalls to come, especially younger men. However, those who have taken steps to plan for the future are reaping the benefits; Canada benefits from one of the strongest 'planning premiums' of any of the countries in our survey. This should serve as a powerful incentive to plan, and the additional advice advantage strongly suggests that supplementing planning with professional advice produces the best results of all.

For individuals and households who want to take action now to improve their financial well-being in later life, we have devised a simple 5-step checklist based on the research:

1. Establish some clear goals, both short and long term
2. Benchmark yourself
3. Establish a comprehensive financial plan
4. Implement the plan
5. Keep your plan under review

Further details on the 5-step process can be found at the end of The Future of Retirement *The power of planning* global report.

Published by HSBC Insurance Holdings Limited, London

Designed and produced by Global Publishing Services

www.hsbc.com/retirement

HSBC Insurance Holdings Limited
8 Canada Square
London E14 5HQ