



FINANCIAL LIFE STAGES

OF OLDER CANADIANS



BRONDESBURY GROUP

Written By:
Dr. Edwin L. Weinstein, PhD, C.Psych.
SPRING 2015

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

- This research identifies the top financial concerns of older Canadians and places them in the broader context of retirement concerns. It also looks at the main financial risks of Age 50+ Canadians at each life stage and how they are managed. This is the third in a series of financial research initiatives on older Canadians.
- This report is based on some 1532 completed online survey interviews with Canadians aged 50 and over. This is a national sample with quotas set for each region to ensure satisfactory accuracy, as well as aiming for a roughly equal balance of male and female respondents. The survey was about 15 minutes in length and respondents were free to respond in either French or English. About one-quarter chose to respond in French.
- The sample is weighted to correspond to the actual number of men and women in households in each region by age of respondent. The accuracy level of results is within +/-2.5% some 19 out of 20 times for the entire sample.
- Based on StatCan data, our sample has a slightly higher income than the general population. This is largely due to a relatively high incidence of company pension plans and registered savings plans.

Overall Findings

- There are two findings that have major implications for both planning and managing retirement.
 - Unexpected financial crises that disrupt savings and planned retirement spending are far more common than we anticipated, especially in the pre-retirement years.
 - The financial ramifications of personal health become increasingly important as Canadians age.

Planning

- Most people operate with an informal financial plan and have an approximate idea of what they need for the future. When the future is close (e.g. the expenses of the next few months), their rough idea of needs becomes more accurate.
- While most people have regular habits for saving (pre-retirement) or drawing income (retirement), almost half demonstrate some flexibility in managing their money. For example, they may cover regular expenses with a pension plan, but they will draw on other savings or assets when circumstances warrant. They do more than just cut spending when they have significant unexpected expenses.
- Some 6 out of 10 experienced major life events that challenged their prior financial plans. When so many people have had disruptive experiences, it is clear that dealing with the unexpected needs to be a bigger part of financial planning. Flexibility needs to be part of the planning discussion.

- Across the age spectrum, the three most common events that disrupt plans are: Giving financial support to an adult family member/relative that is having difficulties; Paying significant healthcare expenses for self or a family member; and losing money in the stock market and not making it back.
- Unexpected early retirement is the most common event to challenge plans for those under age 75. Among retired persons under age 75, more than one-third reported that they were forced to retire earlier than they wanted. For two-thirds of this group, it was health reasons that forced their early retirement.
- There are a variety of ways that people cope with major financial events, but for the most part people cut household spending, cash in some of their savings, and/or borrow money. Borrowing is most common among those still working, as is stopping saving for retirement.
- Two-thirds of people age 75 and over report having major medical problems. Median out-of-pocket healthcare costs are \$2000 annually for those 75 and over, but 1 out of 8 households spends over \$5000 per year. Healthcare expenses are a major focus of concern for people age 75+.
- Other – Mainly concerned with family matters, and to a small extent, concerns like fraud and getting advice.
- Day-to-day cost of living is a top concern for most retired people, as well as those contemplating retirement. For those who are retired, healthcare costs present a significant risk to expenses, while investment earnings present a similar risk to income. For those who aren't retired, the major risk to expenses is how long they will live. And for those who can't afford retirement, the major risk to income is their success at staying employed until they believe they can afford to retire.
- When we look at what people expect in the future, we find that money and health concerns are the most pervasive. Based on reports of past experience, the concerns they have derive from their own experience and likely those of others they know.
- One-quarter of those already retired (all ages) worry that they did not prepare adequately for retirement. This compares to 4 out of 10 with plans to retire. This is not a reflection of the money they have, so much as their experience in learning to live with the money they have without undue stress.
- This research confirms earlier CSA findings and places the incidence of fraud in the 5-6% range. What we have added to this discussion is that the majority of these frauds were likely not large enough to materially affect the financial welfare of those affected. Nearly half of our respondents (46%) believe they have been asked to buy a fraudulent investment by some means (online, phone, in-person) versus just over one-quarter of respondents (27%) in the 2012 CSA Study.

Concerns for the Future

- There are three main types of concerns:
 - Money/health – Having enough to live on and direct threats like inflation and healthcare costs;
 - Investment – Concern with investment earnings and capital preservation; and

Advice To Future Retirees

- Respondents were asked about the financial lessons they wanted to pass on and were free to write anything they wanted to say. Overall, the advice was simple and sensible.
 - Start saving early and save regularly;
 - Live within your means – Avoid debt;
 - Invest where it counts most – TFSAs & RRSPs;
 - Get advice -- make a plan;
 - Learn about financial matters; and
 - Be cautious about your buying.
- Three types of advice were deemed useful (4-5 rating) by two-thirds of respondents:
 - Figure out how much income we will need in the future;
 - Plan to be sure we don't outlive our money; and
 - Learn how to prepare for future health challenges.
- Most people have received advice in recent years, typically on 2-3 of the issues we identified. This is a little less than half of the advisory issues they deemed useful. Across all respondents, the biggest gaps between useful advice and advice received are Preparing for health challenges and Planning to deal with surprise expenses.
- Most people also plan to get advice over the next two years, typically about two issues. Demand is particularly strong for health-related issues, as well as planning to ensure people don't outlive their money.

- Only 14% have difficulty getting advice. Two-thirds of this group is wary because they can't tell if the advisor is giving them good advice. Half say that advisors don't want to deal with people unless those people have a lot of money.
- There is a small group of people (6-8%) that is unable to get advice. When asked why they find it difficult to get advice, they reply that: they don't have a regular advisor; they don't know how to get help; they don't understand complicated explanations; and they have very little money.

Life Stage Profiles

- **Pre-Retired** has the highest household net worth. Most are saving for the future. Despite best efforts at planning, two-thirds experienced at least one major life event over the preceding ten years that disrupted their saving for retirement. The most common experience is forced early retirement resulting in a loss of income and benefits, more often the result of health issues than employer duress.
- In their planning, the most difficult thing to figure is how many years they will live after retirement and what that means for their income and savings needs. Most get advice about planning for retirement, but one-third also plans to get advice about adapting to physical and health limitations. This group seeks information online more than older groups and is more influenced by online sources. They are seeking a broader range of advice than older groups.

- **Retired (under age 75)** reach their lifetime peak for financial assets in the years immediately following retirement. Capital preservation becomes critical. They are more analytical about their investments than others, but heavily influenced by independent print sources like newspaper financial columns.
- For the most part people learn to adjust to their retirement income and develop a lifestyle in accord with their income and interests. Finances are not a major source of stress. Nonetheless, more than half have experienced a major event that interfered with their finances. Health and family issues were major sources of unexpected expense, but so too were home repairs. Some people were caught off guard by healthcare costs when they lost employee benefits at retirement. Living costs are a top concern for most retired people, with healthcare costs being the biggest risk for expenses and investment earnings presenting a similar risk to income.
- **Age 75+** is focused on healthcare with two-thirds having major health problems and half saying they have health or activity limitations. Starting around age 75, there is a rapid decline in financial assets and net worth over a 5-year period.
- Most people at this oldest life stage find that expenses are about what they planned for, but half have experienced a major life event that interfered with their steady income flow. Healthcare costs and needing to support family members with financial problems are the two main challenges. Two-thirds consider it useful to get advice on adapting lifestyle to physical and health limitations, but this advice is in short supply.
- This group is less literate and numerate than earlier life stages, but they take the time to ensure they are knowledgeable about financial matters. While financial advisors have more influence on investor decisions in this age group than any other, these investors are typically less trusting about the advice they get and its motivation.

Summary and Conclusions

There are several implications that emerge from our findings.

1. Older Canadians should not be treated as a single group for policy purposes, but rather as 3-4 distinct groups.
2. Planning to deal with the unexpected needs to be a bigger part of financial planning, both before and after retirement.
3. There needs to be more planning for health management and its financial implications. Financial advice needs to address health-related issues, both in terms of saving for retirement and in terms of managing spending during retirement.
4. There is an opportunity to develop online tools to help people plan for the unexpected. Most obvious needs are tools to predict the impact of inflation and future healthcare costs. People also need to understand how long they are likely to live and to plan for that.
5. Fraud is a significant problem that merits attention, affecting approximately 60 out of every 1,000 older Canadians.