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Retirement in Canada: Facts and Figures

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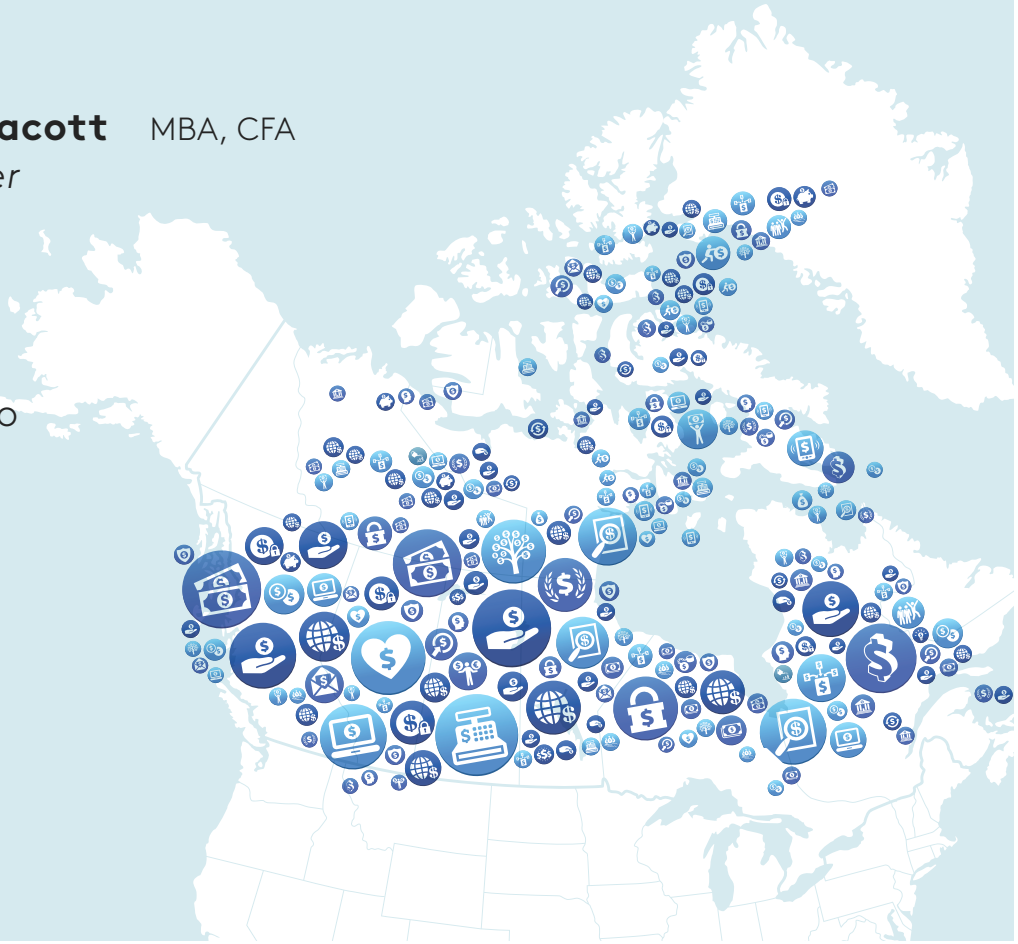

This report was written by Graham Westmacott, PWL Capital Inc. The ideas, opinions, and recommendations contained in this document are those of the author and do not necessarily represent the views of PWL Capital Inc.

Graham Westmacott, *Portfolio Manager*, PWL Capital Inc.,"Retirement in Canada: Facts and Figures"

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1. Introduction

We assemble a snapshot of Canadians in retirement: their pre-tax and post-tax income distribution, how spending changes as they transition into retirement, spending during retirement and their sources of income. “How much is enough?”, is a key question for retirees. The question can be answered by comparing lifestyle expenses pre and post retirement – a common objective is to at least maintain your pre-retirement standard of living. This involves some uncertainty as taxes, savings and some expenses such as mortgages change during the transition to retirement. Having information about how other Canadians are faring is helpful to provide reassurance that you are neither saving too much nor too little in comparison with your friends and neighbours.

2. Growing old, a growth sector

In 2018, Canada had 6.4 million seniors (persons aged 65 or over), out of a population of 37.1 million, representing 17% of the total population. The population of Canada is expected to grow to 55.2 million in 2068. The current growth rate of 1.4% is twice the US growth rate and contrasts with some developed countries (France, Germany, Japan) that have growth rates close to zero or negative. The proportion of the total population aged 65 and over is projected to increase from 17.2% to between 21.4% and 29.5% by 2068.

Another measure of the age distribution of the population is the demographic dependency ratio which is the ratio of the size of the 65-and-over age group to the 15-64 age group, which roughly equates to the ratio of those of working age to those who are retired. Currently, there are 49.9 people of retirement age for every 100 people of working age. By 2068 this will rise to between 62.8 and 72.8[1].

Over the next 50 years, seniors will occupy a larger percentage of the population, even as the entire population grows. Their well being will increasing depend on the economic fortunes of a workforce that is a declining percentage of the total population.

[1] All data in the preceding two paragraphs from Statistics Canada: https://www150.statcan.gc.ca/n1/pub/91-520-x/91-520-x2019001-eng.htm

3. Senior households: the big picture.

A senior household is a family where the highest income earner is 65 years of age or older. This does not mean everyone (or anyone) in the household is necessarily retired, neither does it include all retirees, some of whom may be living with their children, for example. Nevertheless, it is a useful starting point for understanding the finances of a senior in Canada.

Table 1 - Senior Families, 2017

	Pre-tax Income	After-tax income	Market Income	Government Transfers	Income tax
Median Income ($)	65,300	61,200	37,600	28,500	4,100
Percentage of Median pre-tax Income (%)	100	94	58	44	6

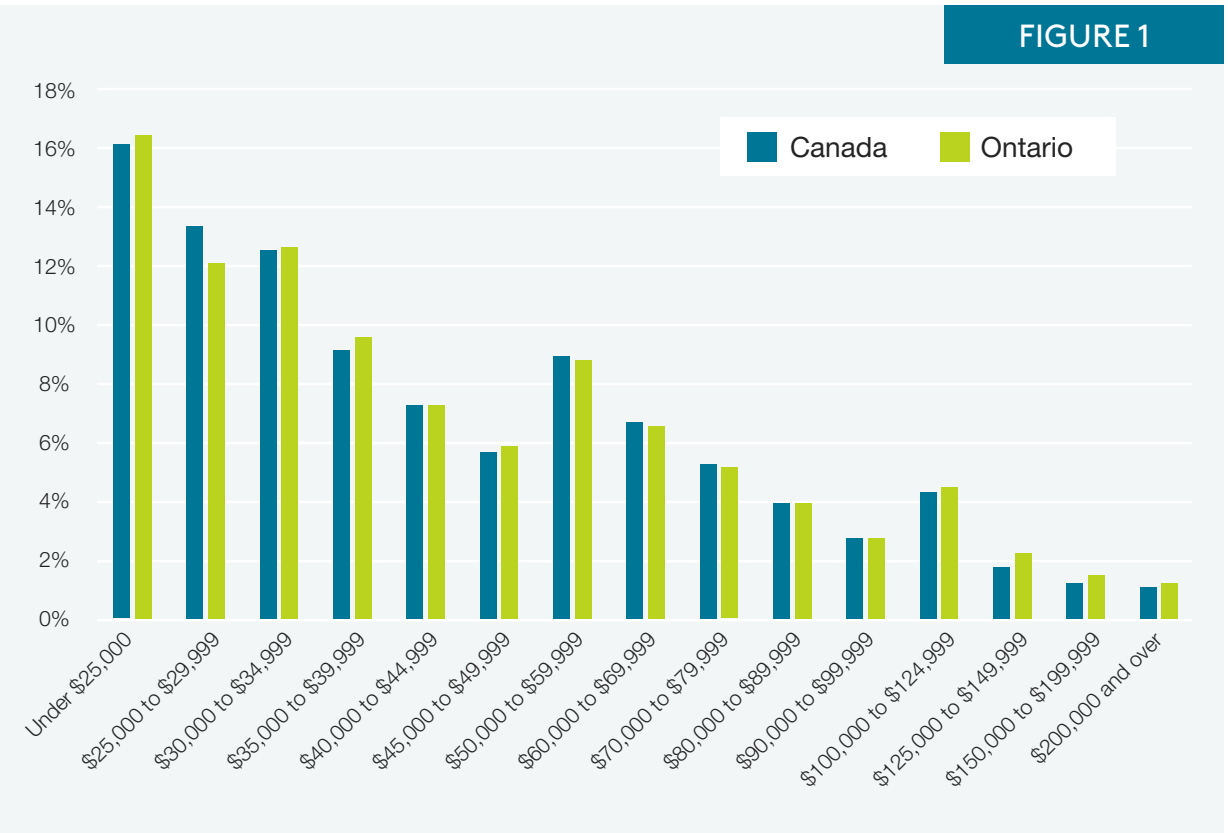
Source: Statistics Canada, https://www150.statcan.gc.ca/n1/en/daily-quotidien/190226/dq190226b-eng.pdf?st=RSV7TJtY

The median income is the midpoint in a ranked list of all income values. It is more useful to talk about the median than the average income, which can be distorted by a few very high earners. Market income is income from investments and government transfers refers to pension benefits such as the Canadian Pension Plan (CPP) and Old Age Security (OAS). Government transfers are an important part of retirement income for the average Canadian, representing 44% of total income. We also observe that income tax is only 6% of the pre-tax income. By comparison a single employed person with similar income would expect to pay 19% of the same pre-tax income. Paying lower taxes in retirement is one reason why the same living standard can be maintained with a lower pre-tax income.

4. Income Distribution

While our focus is on above median earners, whose retirement lifestyle is significantly impacted by personal wealth from investments and company pensions, we start by looking at the income distribution of all seniors.

Single Person: Total Income

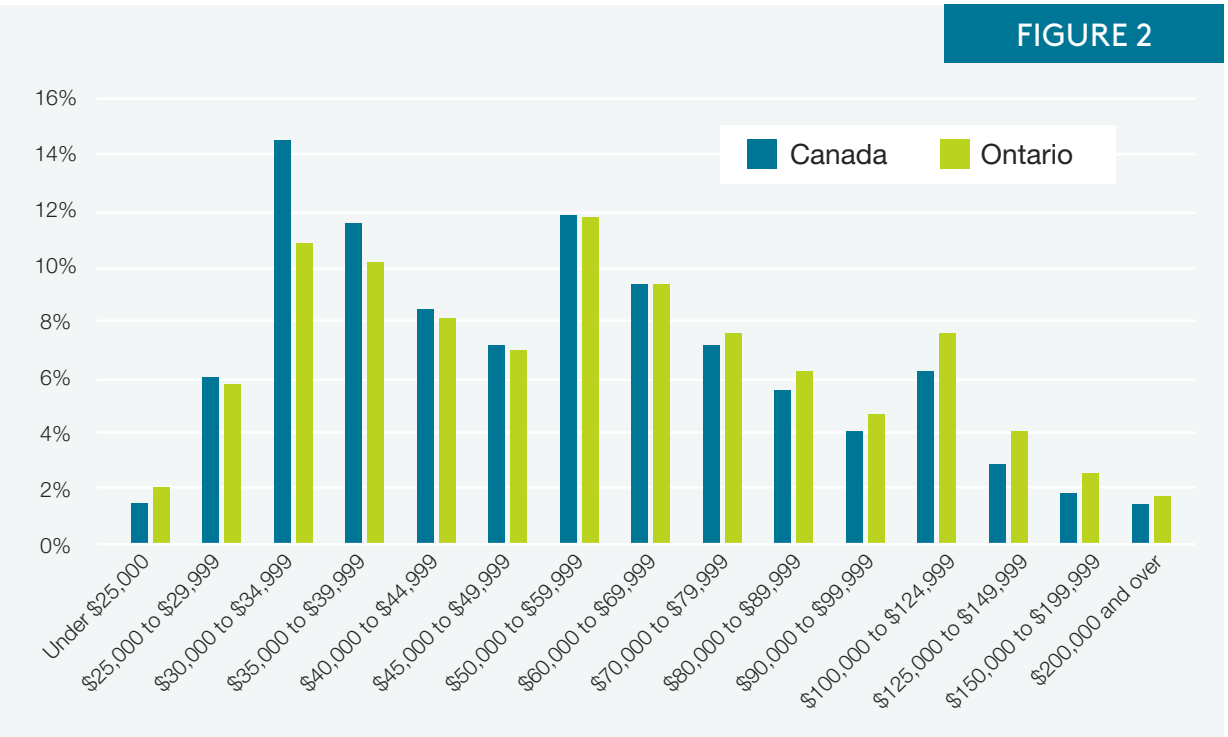


Source: Statistics Canada, 2016 Census of Population, Statistics Canada Catalogue no. 98-400-X2016128

Figure 1 shows the distribution of income for households with a single person at least 65 years of age who is not in employment. We show data for Canada and for Ontario. Ontario tends to have both wealthier and poorer seniors than the whole country, with a significant portion of seniors with a total income less than $25,000. The chart divides the population into income buckets so, for example, 4.1% of senior Ontarians have a pre-tax income in the range $100,000 to $124,999.

For a couple, both at least 65 years of age the income distribution is shown in the Figure 2. Compared with a single person household, the percentage to two-person households with very low household income drops off and more households occupy a central range of $30,000 to $60,000.

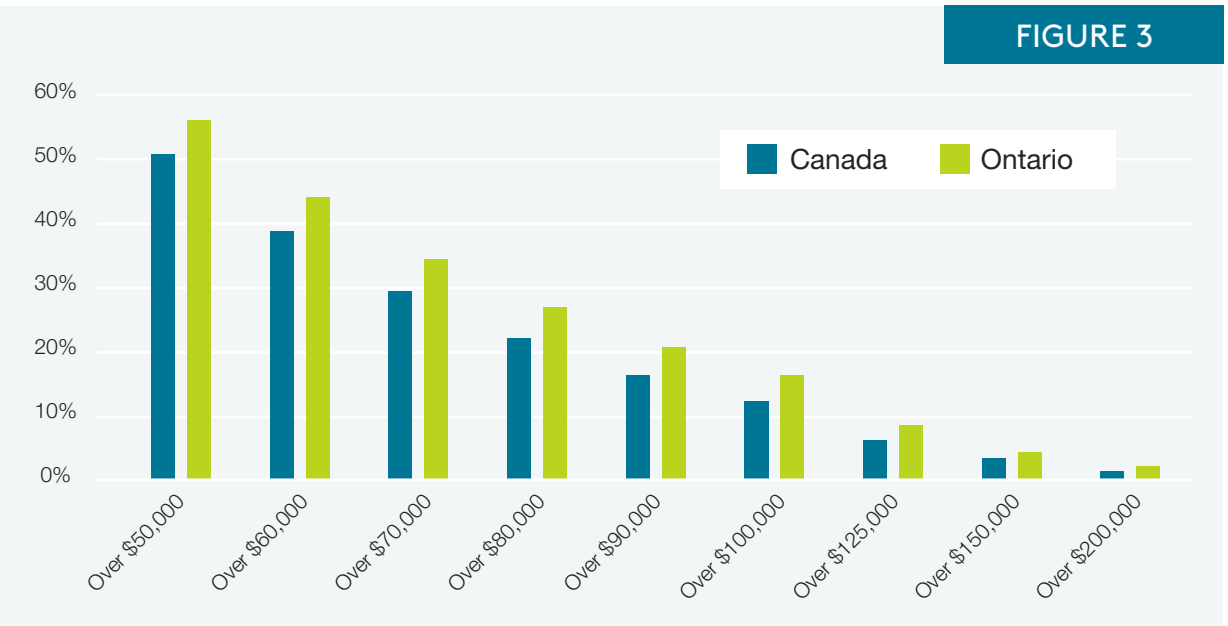
Couple: Total Income



Source: Statistics Canada, 2016 Census of Population, Statistics Canada Catalogue no. 98-400-X2016128

For higher net worth families, the focus is on the income distribution above the median, which is approximately $50,000 for a senior household in Canada. Figure 3 shows the percentage of the population over age 65 that has a total income in excess of the specified lower limit. For example, approximately 16% of senior Ontarians, living as a couple, have a total pre-tax income over $100,000.

Couple: Cumulative Income Distribution

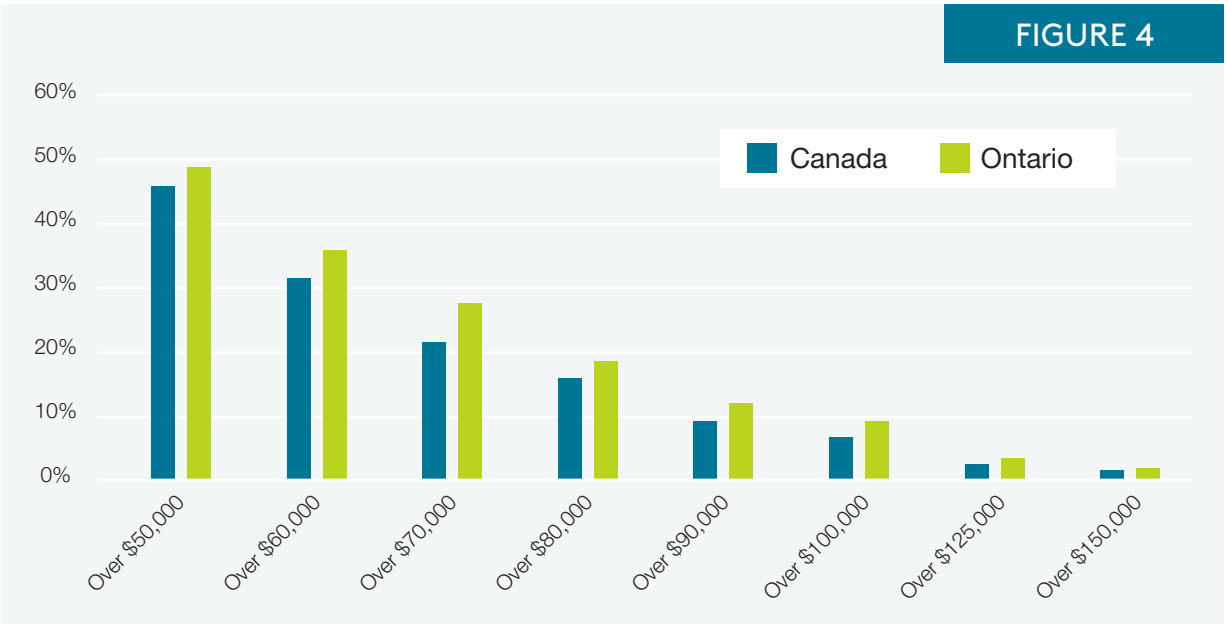


Source: Statistics Canada, 2016 Census of Population, Statistics Canada Catalogue no. 98-400-X2016128

When planning retirement, the primary measure of wealth is after-tax income in retirement. This can't be compared directly with after-tax income before retirement without first deducting mortgage payments, savings and child raising costs that typical do not continue into retirement.

For example, Figure 4 shows the distribution of after-tax income for couples over 65. In Ontario, 13% of this group have an after-tax income of $90,000 or more. For many people anchored to household pre-retirement income these numbers might seem rather modest but should provide encouragement that a comfortable retirement may be within their grasp.

Couple: Cumulative After-tax Income Distribution



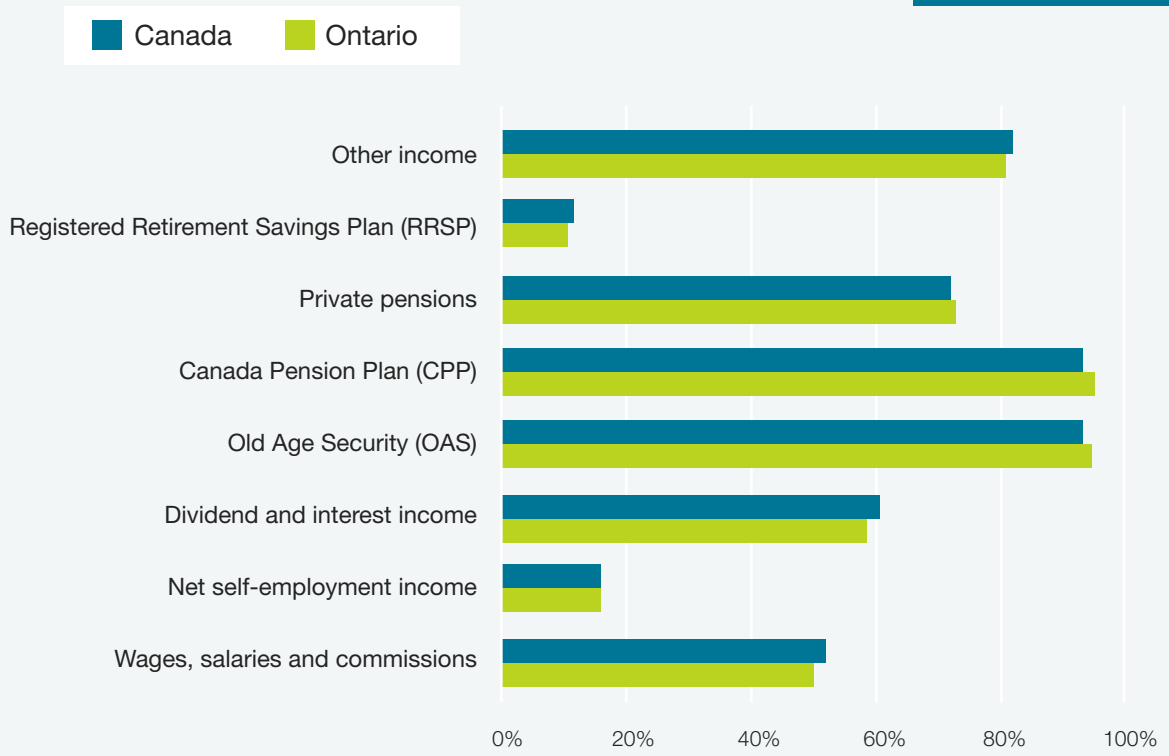
Source: Statistics Canada, 2016 Census of Population, Statistics Canada Catalogue no. 98-400-X2016128

5. Sources of Income

Statistics Canada data also provides insight into the sources of retirement income and how the income is spent. Figure 5 shows the main sources of income for a senior family in Ontario and Figure 6 shows the importance of the different sources of income. For example, 50% of senior families are still receiving some employment income, but this represents only 1% of income. It is worth remembering that this data is for all seniors over 65 so we would expect employment income to be significantly higher for younger members in the age range. Over 90% of seniors are receiving their Canada Pension Plan (CPP) and Old Age Security (OAS).

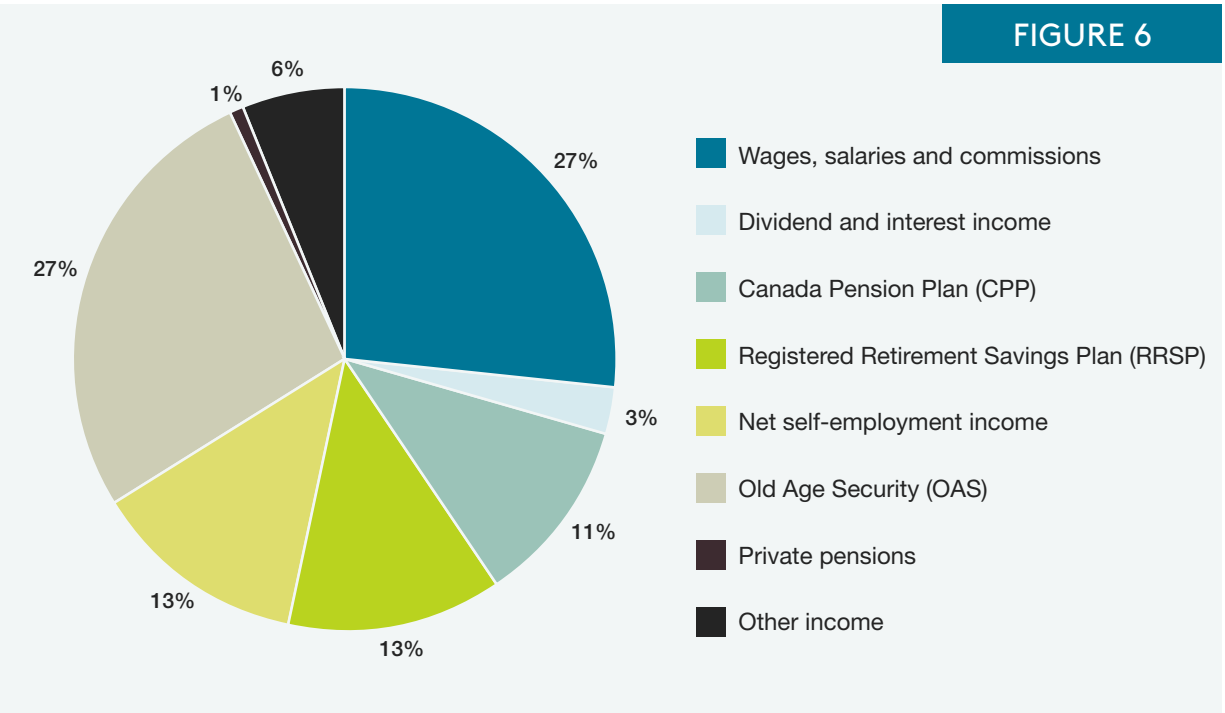
Sources of Income

FIGURE 5



Source: Statistics Canada. Table 11-10-0053-01 Sources of income of senior census families by family type and age of older partner, parent or individual.

Income Distribution Ontario Seniors



Source: Statistics Canada. Table 11-10-0053-01 Sources of income of senior census families by family type and age of older partner, parent or individual.

6. Changing spending habits

We live our lives as if we were in a boat carried by the river of time; as we drift along the scenery changes. Our view, from the Statistics Canada data, has been one of an observer from the river bank taking a snapshot of the boats at different points along the river.

Changing perspective from the river bank to the boat provides insights into how a similar group of people, or cohort, change their habits with time. Complications arise with this type of analysis because the same cohort may consist of different sub-groups. For example, some may be house owners but others rent, some households shrink as young adults move out or one of a senior couple dies. This requires various adjustments to the data to reveal underlying changes in consumption with time.

A 2011 Statistics Canada study[2] and others[3] that addressed these issues concluded:

- Although the nature of consumption changes over time, the overall, inflation-adjusted, consumption per adult declines by only about 5% from their late forties to early seventies.
- The familiar guidance of requiring 70% of pre-retirement income in retirement is not an accurate guide for maintaining retirement living standards. One Canadian study[4] found that 80% of Canadians who pursued an income replacement of 65-75% of final earnings improved their living standard by 20% or more.
- From age 70 and beyond, consumption declines at about 1% annually, increasing to 2% in their 80s.
- With inflation currently in the range 1.6%-2.0% a reasonable approximation is to assume that consumption no longer needs to be indexed to inflation after age 70.

Individual spending preferences will vary and just as some retirees will want to spend more in their more active early years, others will be concerned about making an explicit provision for assisted living costs as they age.

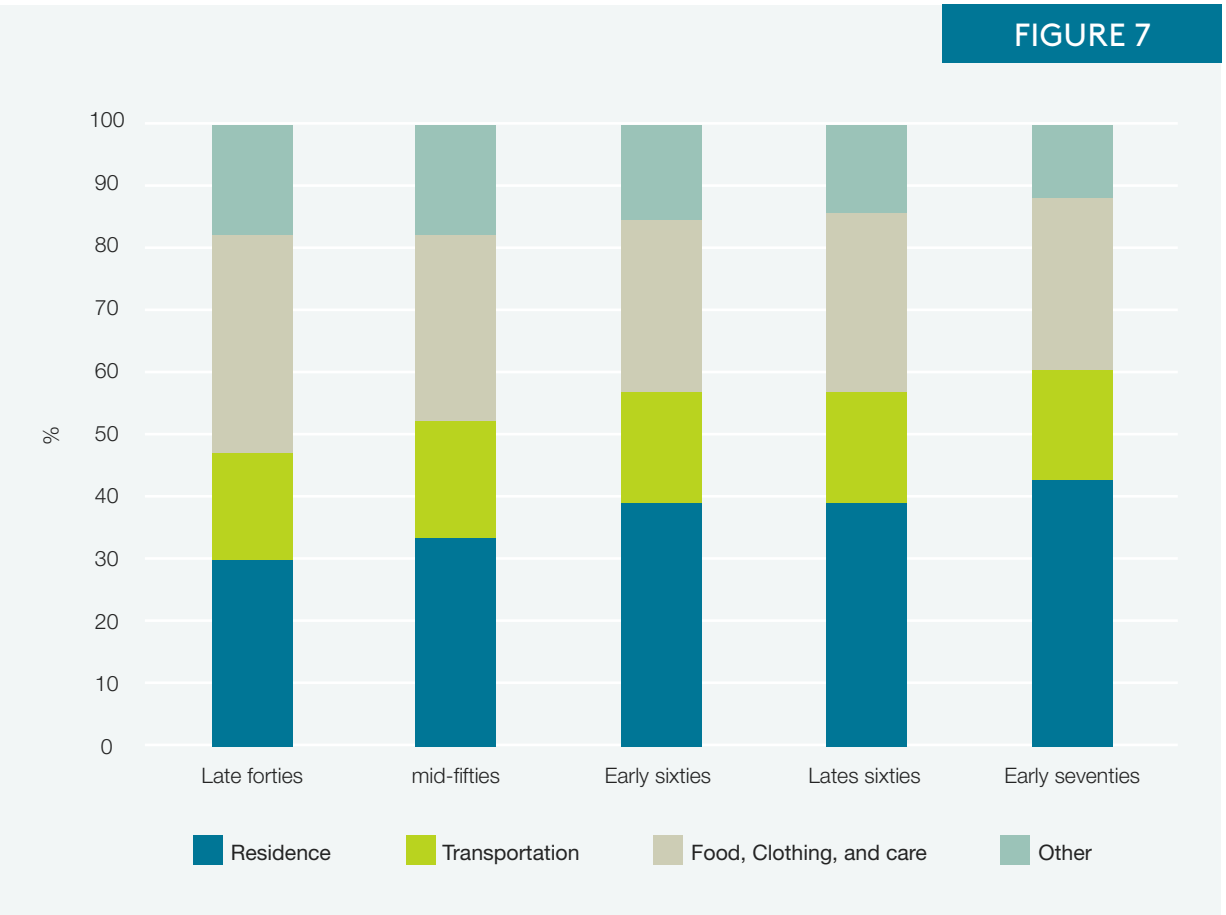
The distribution of consumption with time, from the Statistics Canada study, is shown in Figure 7. The largest consumption category for households in their late 40s was food, clothing and care which shrank from 35% of consumption to 28% by the early seventies. Housing costs rose to be the dominant expense by the early seventies, reflecting that most retirees stay in their homes and the housing cost per adult rises as the average number of people per household declines with age. The “other” category includes recreation, tobacco and alcohol, and reading materials which declines mainly due to falling alcohol consumption.

[2] See https://www150.statcan.gc.ca/n1/pub/11f0027m/2011067/part-partie1-eng.htm

[3] See Retirement Income for Life, Frederick Vettese, 2018

[4] B-J MacDonald, L Osberg and K Moore (2016). ASTIN Bulletin – The Journal of the International Actuarial Association, 46(3): 627-626.

Household Consumption



Source: Consumption Patterns Among Aging Canadians: A Synthetic Cohort Approach, A Lafrance, S LaRochelle-Côté https://www150.statcan.gc.ca/n1/en/pub/11f0027m/11f0027m2011067-eng.pdf?st=wqDBAi5o

7. Retirement Anxiety

Statistics don't reveal how people feel. In particular, whether anxieties prior to retiring about preparedness for retirement turn out to be under or overstated when observed by those in retirement.

A 2017 study[5] looked at retirement preparedness in four countries – the United States, Canada, the United Kingdom and Australia by interviewing pre-retirees and recent retirees. Some of the key findings were:

- 59% of *pre-retirees* believe there is a national retirement crisis but only 10% said they would describe their own retirement situation as crisis
- 54% of *recent retirees* believe there is a national retirement crisis but only 4% would describe their own retirement situation as a crisis
- 53% of pre-retirees described themselves as satisfied with their financial situation
- 65% of recent retirees described themselves as satisfied with their financial situation.

The responses are quoted for the United States, but the findings on these questions were similar across the four countries. One conclusion is that those currently in retirement are less anxious about their finances than those preparing for retirement. This is consistent with the challenges for future retirees from lower expected investment returns, increased longevity and and an increased personal responsibility for their own retirement preparedness.

[5] A. Madamba, S.P. Utkus, (2017) Retirement transitions in four countries. Vanguard Research

8. Conclusion

Our picture of the actual spending of senior Canadians is consistent with maintaining the same lifestyle expenses as they transition into retirement. While total income may fall, actual day-to-day expenses, or consumption, is maintained. Retirees, generally, pay less tax, are not saving and have little or no debt. For households with above average income, targets such as 65-75% of final earnings are unnecessarily high if the goal is to sustain a pre-retirement livings standard.

Retirees, like everyone else, consume to fulfill utilitarian, expressive and emotional benefits. As these priorities shift with time, so do spending priorities, total spending and attitudes to risk. This review may help people set their own goals in the wider context of what others have done in similar circumstances. Anxieties exist, especially about the prospects for future retirees, but these can be mitigated with financial planning that reflects individual priorities and preferences.

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