The Future of Retirement
It's time to prepare

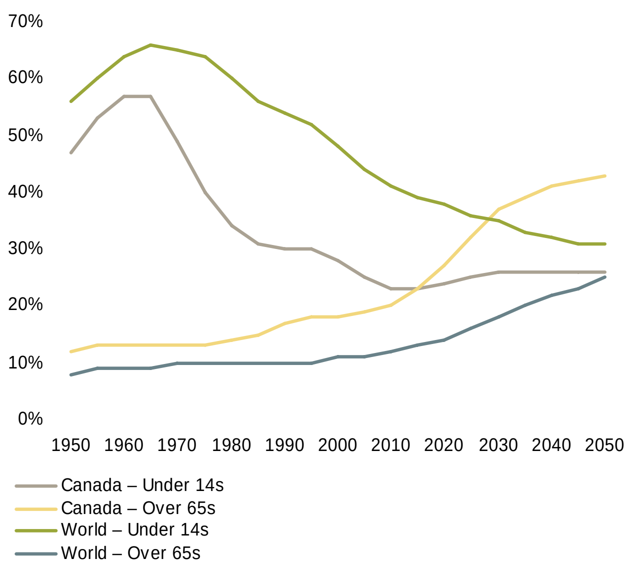
Fact Sheet
Canada

The fifth annual **HSBC Future of Retirement** report builds on the previous year's reports in exploring the current attitudes and behaviour towards retirement. Whilst for many people in Canada retirement is viewed as a new age of opportunity, the issue that needs to be addressed is how families envisage funding and supporting their retirement years. The report explores how people are responding to the new responsibility of being increasingly accountable for their pension provision. The report also identifies the current 'preparedness gap' – the feeling shared by the vast majority of people in Canada that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in Canada

Canada – like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below, in around **2010-15** the number of dependent adults in Canada will surpass the number of dependent children for the first time. This crossover arrives much earlier when compared with emerging economies.

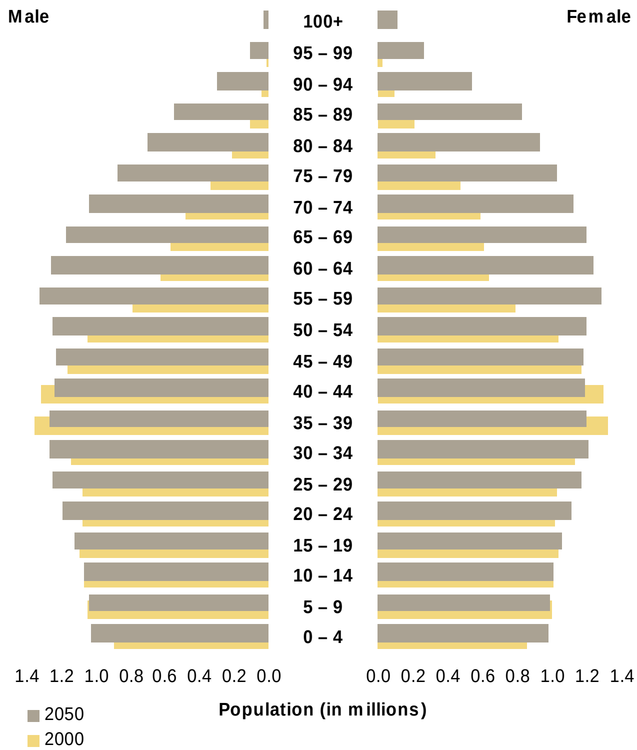
Figure 1 – The ageing Canadian population



Source: UN World Population Prospects: The 2008 Revision, Population Database

In Canada's population pyramid it is clear that in the year 2000 (the yellow section of the chart) the bulging section of the population was aged between **30-40** years, however, as we fast forward to 2050 (the grey section of the chart), this bulge swells to age **50-60** and beyond. This signals a future in which the elderly population will be far greater than today, posing many questions for governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of Canada



Source: U.S. Census Bureau, Population Division

The Pension Pillars

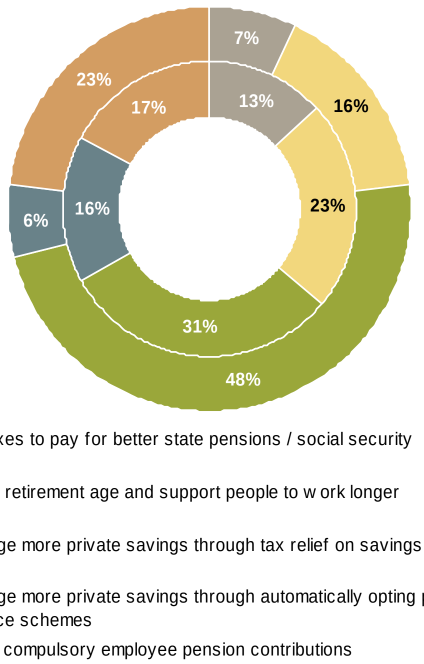
In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In Canada, a reliance on the individual has been long-established (Pillar 3). The findings reveal that Canadian survey respondents have embraced the need to save. However, saving for retirement is still seen as a less persuasive motive to save (at **20%**) compared with **23%** globally.

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
Canada	Universal social security system in place with retirement age set at 65.	DB, DC and hybrid occupational schemes operate through collective bargaining or on a voluntary basis.	Universal social security system in place with retirement age set at 65.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in Canada see the voluntary approach as the most popular way to help people fund their retirement: nearly **half (48%)** of those surveyed favoured encouragement to save through further tax relief on savings – higher than anywhere else in the global survey with the exception of the US where support for tax relief stood at 55%. This preference for tax relief may highlight the fact that many people in Canada have already come to accept that they are responsible for their retirement income and look to the government more as an enabler. The era of greater personal responsibility is already well established.

Figure 3 – What the government should do in supporting and financing an ageing population (Canada's results are the external ring; global results are the internal ring)



The Conditions for Realising Successful Retirement Planning

In spite of the long tradition of personal pensions, Canadians still displayed a major 'preparedness gap', in line with all the countries in the 2009 survey. This may reflect the general shift towards personalised 'money purchase' pension provision, which increases the uncertainty around retirement outcomes. Given this uncertainty – made all the greater as a result of the current economic climate – only **17%** of Canadians currently feel very well prepared for retirement. The findings reveal an alarming **83%** of people do not know what their retirement income will look like.

Figure 4 – Levels of preparation

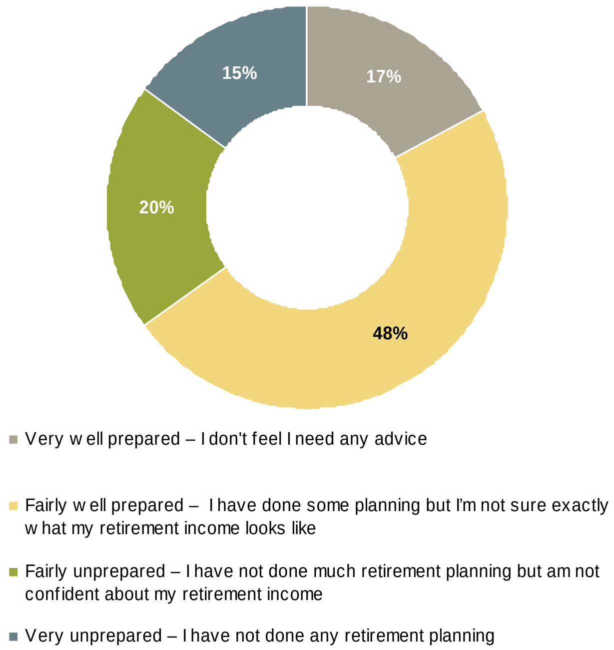


Figure 5 – Understanding of finances

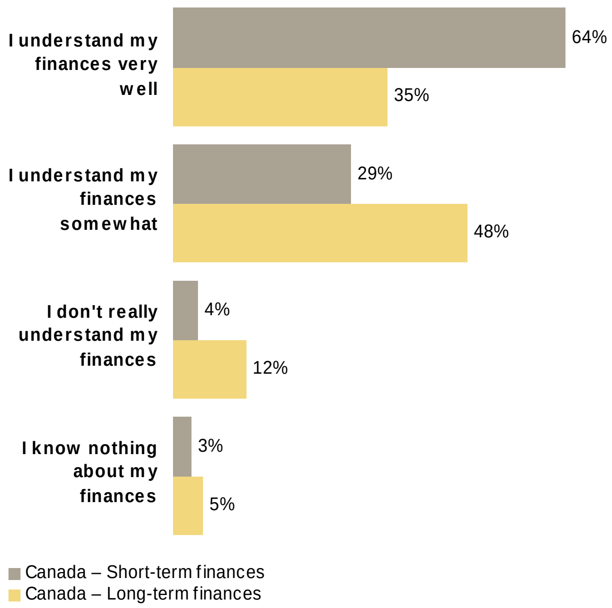
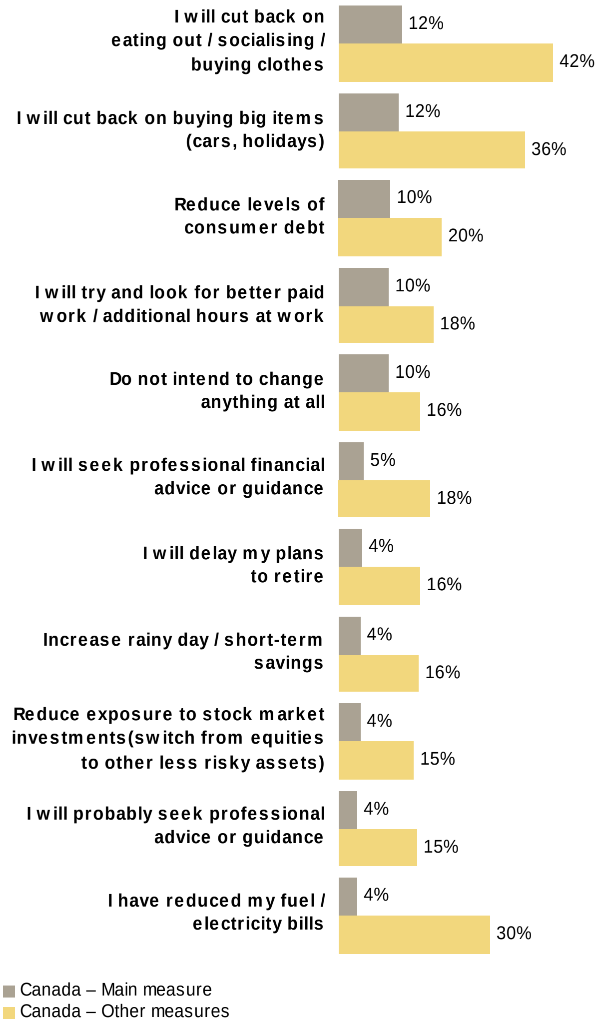


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is also driven in part by people's lack of understanding about their long-term finances. Whilst **64%** of our trendsetters understood their short-term finances very well only **35**% are as confident about their long-term finances.

The Preparedness Gap

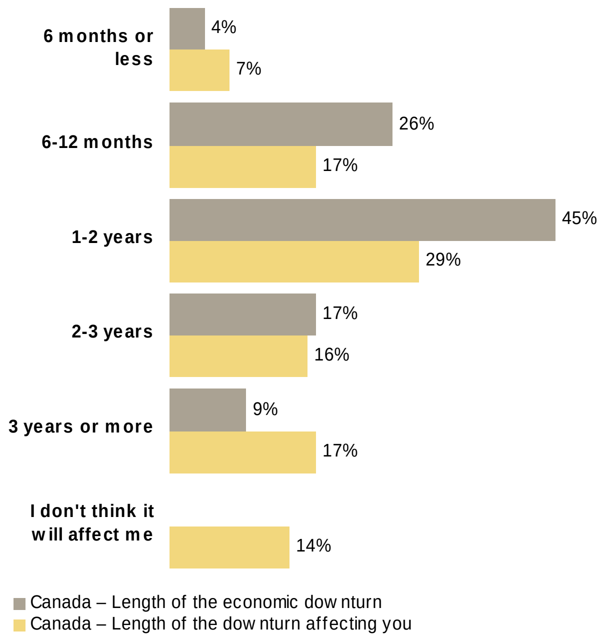
These low levels of understanding of finances in Canada highlight that the 'preparedness gap' is possibly linked to a lack of access to both financial advice and guidance. In spite of enjoying access to online planning tools over many years in what is a highly developed DC pension market, **44%** of the people surveyed had never accessed any general financial education, whilst **33%** of people have never accessed any form of professional financial advice. This is an extremely worrying scenario given the responsibilities on people to plan for their retirement not to mention the vast sums currently invested by Canadians in their pension funds. The need to develop personal finance education programmes is paramount in order to help people quickly develop a better understanding of their finances and plan adequately for their retirement.

The Economic Downturn

Over the last 18 months the economic downturn has had a significant impact on people's finances as well as their attitudes. The International Monetary Fund (IMF) expects Canada to remain in recession throughout 2009, and many of our respondents agreed with this view. However, people in Canada – at odds with other mature economies – are more like emerging markets in being generally more optimistic. Perhaps reflecting a view that Canada will weather the storm better than other major economies, only **26%** of people expect the downturn to last more than 2 years; globally this rises to **32%**. Americans – at 34% - are more likely to expect an extended downturn. Japan, where **over half** expect the downturn to last over two years, is the most pessimistic country in this year's survey.

Despite their relatively optimistic view of the recession, many in Canada felt that the downturn would continue to affect them long after their economy emerges from recession. This could reflect concerns over an anticipated lingering impact on job prospects or returns on their savings or investments. When viewing survival strategies adopted by Canadians, it is clear that people are attempting to create a 'buffer' of savings by reducing expenditure on both large and small purchases, whilst also paying down debt. Debt was seen as a key obstacle to saving by **28%** of survey respondents in Canada (compared to 18% globally). Canadians are also among the most likely to be cutting back on expenditure. The findings also reveal that 1-in-8 people in Canada have either reduced or stopped saving into a pension. A further **23%** say they would like to seek financial advice to help them make sense of the choices facing them. A disproportionate number of Canadians – around 1-in-6 – have also decided to delay the onset of their retirement. As with the US, this possibly reflects the wider exposure to both money purchase pension arrangements, and a higher exposure to equities, which have not performed well during 2008, hitting the value of pension funds. The net result of this has been that many Canadians have switched from equities to cash when allocating their assets.

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, Canada is faced with an ageing society. In response, individuals are increasingly taking more responsibility for funding their retirement. However, despite the successful growth in personal pensions, Canada still faces the challenge of widening access to financial advice and education in order to enable families to better understand their longer term finances and plan accordingly. As well as a reduction in spending, Canadians view seeking financial advice as one of the top survival strategies in the current economic downturn. The results also reveal that Canada has seen significant impacts from the downturn on pension savings rates. Households have seen the value of their pensions hit and are limiting their risk exposure and considering working longer as a result. Equally, there is a greater recognition of the need to reduce debts which have now become a major obstacle to saving for retirement.