

Managing retirement risks

According to the last census by Statistics Canada, there were 3.7 million Canadians aged 55 to 64 in 2006, up 28 per cent from 2001. That number will continue to grow: in less than a decade, one in five people in the Canadian workforce will be in that age group, on the cusp of retirement. Are we prepared? A comfortable retirement requires more than just sufficient savings, because the risks that retirees face to their financial security are legion.

"You can outlive your assets, poor health can increase your cost of living, inflation could erode the purchasing power of assets in retirement, equity market volatility could negatively impact your retirement savings or a death in the family could decrease your income or increase your cost of living," enumerates Brian Taylor, vice president, Individual Wealth, Sun Life Financial Canada.

These risks are exacerbated by our growing longevity. "For

every 20 couples who retire at the age of 65, one spouse of half of those couples will live to age 90; one spouse of five of those couples will live to age 94," says Mr. Taylor. "This means that every prudent couple has to plan for one of them being alive until age 94."

Not surprisingly, with a longer time horizon and volatile markets, many Canadians are turning to guaranteed products such as payout annuities, which guarantee income; and guaranteed withdrawal benefits, in conjunction with segregated fund products, which also guarantee a lifetime income, he says.

Products such as long-term care insurance provide solutions for couples or individuals who fear that failing health will decimate their savings, and retirees are embracing the benefits of personal health insurance that covers drug costs and other health-related costs not covered by public health plans. Mutual funds may reduce inflation risks over time.

Working with a financial advisor to mitigate the financial risks of retirement not only helps ensure a secure future, but also provides peace of mind today.

"Our Sun Life Unretirement Index shows that, for Canadians, the confidence in their preparedness for retirement increases dramatically when they use a financial advisor to implement their plans," says Mr. Taylor. "Financial management in retirement has unique characteristics, and having a financial advisor who can quantify those risks for each individual's unique situation is key to managing them."

For many Canadians, retirement planning starts with a workplace-based savings program, such as group RRSPs or defined contribution pension plans. Through these plans, as well as profit-sharing plans and group TFSAs, says Thomas Reid, senior vice-president, Group Retirement Services, Sun Life Financial Canada, "We help more than one million Canadians save for

essential info

from the Canadian Life and Health Insurance Association

A recent Environics poll found that 89 per cent of Canadians want workplace-based retirement savings plans made available to all workers, and that 56 per cent not currently participating in such plans would be interested in joining one. Canada's life and health insurance industry, which administers more than 70 per cent of pension plans for Canada's small and medium-sized businesses, is advocating for reforms that will improve access to workplace-based pension plans by small businesses and the self-employed. At the heart of these reforms is providing access through Defined Contribution Multi-Employer Pension Plans. These plans would be sponsored and administered by a regulated financial institution, removing the lion's share of administrative costs and compliance burdens from the employer. Because there need not be a business relationship among plan members, participants would therefore gain the advantage of economies of scale now enjoyed by only the largest of companies.

retirement, working with employers to create a tailored education for employees. We've invested heavily in our website, so when employees sign in to look at their accounts, there are lots of tools available."

For employers, providing attractive retirement savings options for employees is a way of attracting the best and brightest senior employees. "With vesting rules (which mean that employees can't claim the employer contributions until a predetermined amount of time has passed), it also helps to retain top talent," says Mr. Reid.

When those savings plans are transitioned into income plans at retirement, annuities and guaranteed minimum withdrawal benefits can effectively transform group RRSPs and defined contribution plans into something comparable to defined benefit pensions, he says. "With Sun Life's 'My Money for Life' offering, even if the markets decline, retirees still receive five per cent of their savings each year and continue to benefit from improvement in the markets."

Employer plans also guard against ineffective investor behaviour, says Mr. Reid. "We know that investors who try to time the market do poorly; payroll deduction doesn't allow them to do that. They're effectively dollar-cost-averaging over the long course of the career, which is a powerful tool."

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online? Visit clhia.ca for more information from Canada's Life and Health Insurance Association. For more retirement planning info, visit myretirementcafe.ca.

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