

RETIREMENT

How much will your clients need?

New research indicates 60% of pre-retirement income is plenty

■ BY CLARE O'HARA

CLIENTS WHO ARE BREAKING into a cold sweat about not having enough money in retirement should be relieved to hear that retirement may not be as expensive as they think.

Advertising campaigns from financial services companies and advice from some financial experts have created unrealistically high expectations in many clients' minds about the pile of dollars they need to save for retirement.

But according to a recent survey sponsored by Toronto-based **Russell Investments Canada Ltd.**, current retirees report that they are using only 60% of their pre-retirement income. Pre-retirees, meanwhile, expect they will need 80% of their current income to retire comfortably.

In a similar vein, the survey, conducted by Harris/Decima, showed that only 25% of pre-retirees expect to be in excellent financial health upon retirement, while 55% of current retirees report that they are in excellent condition.

One reason for these discrepancies is that many people haven't taken the time to work through the retirement numbers, says Irshaad Ahmad, president and managing director of Russell Investments Canada: "Sitting down with a financial advisor who can discuss full retirement options would allow someone to figure all this out."

Russell surveyed 2,200 retired

and working Canadians 42 years of age or older with household incomes of \$50,000 or more.

"From the time people hit the workforce and are conscious of investing, everything they see says 'Save, save, save — because you will need all this money for retirement'" says Ahmad. "And people have started to believe it. I agree that you do need money at retirement, just not as much as you might think you need."

Working with their advisors, clients need to examine sources of income including personal savings, private pensions and government programs such as the Canadian pension plan and old-age security. "You wouldn't decide to build your house without an architect or contractor so should you really leave your financial future to your own devices when you have your own full-time job," says Ahmad. "This can be trivial information and professional planning can help for a positive outcome."

Ahmad notes that pre-retirees have to spread income across many more expenses than most retirees, including mortgage payments, travel to and from work, business clothing and the costs of raising families. All these costs are usually eliminated by the time an individual reaches retirement age.

The average retirement age in Canada is 62. At that point, the retiree will hopefully be mortgage-

Concerns affecting retirement financial health			
Percentage of those surveyed:	Highly concerned	Somewhat concerned	Not very concerned
Having sufficient income to lead desired lifestyle	33	41	26
Leading an active and healthy lifestyle	32	44	24
Having a reliable source of income	32	41	27
Financial impact of medical issues or health-care needs	28	45	27
Having sufficient income to cover essentials	27	36	37
Having a realistic fin. plan that changes with your needs	18	53	29
Riding out changes in Canada's long-term econ. perform.	18	52	30
Having reliable, trustworthy professional advice	21	42	37
Financial impact of the death of your spouse or partner	17	32	51
Children or aging parents needing financial help from you	8	34	58
To leave assets/inheritance to beneficiaries	7	28	65

SOURCE: RUSSELL INVESTMENTS CANADA INVESTMENT EXECUTIVE CHART

free, with dependent children finished their post-secondary education. This will allow the retiree to get by on less income, says Ahmad. And with dependent costs being cut significantly, retirees can start to spend money elsewhere, such as on leisure travel and activities.

Russell's findings about more modest post-retirement income needs are buttressed somewhat by the results of another survey sponsored by Paris-based **AXA Group**, the 2007-2008 *AXA Retirement Scope*, an international poll that plumbs the attitudes of retirees and pre-retirees in 26 different countries.

Although *AXA Retirement Scope* found that Canada is one of the

countries in which large number of retirees face reduced income at retirement, 66% of retirees' have a quality of life that remains the same after retirement as before and 36% of them have even seen improvements.

Canadians well-prepared

AXA also found that Canadians were among the most aware of the need for retirement preparation. It found that 74% of those still in the workforce say they have already started to prepare for retirement, compared to 54% for the international average.

"The new reality seems to be that today, people start preparing for retirement at the age of 30,"

says Robert Landry, executive vice president, life insurance and financial services with Montreal-based **AXA Assurances Inc.**, "very often prompted by the advice of professionals or enticed by tax benefits."

As did the Russell survey, the AXA poll discovered the gulf in attitudes of working and retired people on the issue of retirement income. Both surveys found that pre-retirees tend to have a greater concern about outliving their retirement savings, compared to most retirees who are confident that their income will last their lifetime.

According to *AXA Retirement Scope*, people aged 35-44 are a lot less optimistic when it comes to their finances at retirement — 51% of them fear that their incomes will not be sufficient in retirement, compared to 23% for those 45 and over.

According to the Russell study, 40% of Canadian pre-retirees feel anxious about their retirement finances. But this number falls to 27% for people at retirement and, within the first three to five years of retirement, it falls again to 10%.

Along with that fear about their savings, many participants still in the workforce feel that they may have to work part-time after retiring to sustain their lifestyles, partly because they are less likely than current retirees to receive retirement income from a defined-benefit pension plan. Sixty-eight

per cent of pre-retirees today say they will work part-time after retirement, compared to 27% of who actually do, according to the Russell survey.

different allocation

Pre-retirees also look at supplementing income through home equity, the sale of a business or an inheritance, compared to current retirees. The Russell findings indicate that these income alternatives could be a reflection of today's higher real estate values, more broad-based entrepreneurship and larger inter-generational

wealth transfers.

Advisors looking to help clients anxious to determine how much they'll need in retirement might want to check out a new Web-based tool from Waterloo, Ont.-based **Manlife Investments Inc.** (See story, below.)

The tool, which focuses on the concept of product allocation, was developed by Dr. Moshe Milevsky, finance professor at the Schulich School of Business at York University and an advisor to Manulife and Toronto-based QWeMA Group, a financial software company.

The new Retirement Solutions Centre Web site (www.retirement-solutionscentre.ca) is a retirement income analysis tool that determines how much of a client's overall financial wealth should be allocated to general insurance and debt products.

"This is different from the more narrow asset-allocation models, which are concerned only with the diversification of stocks, bonds and cash," says Milevsky. "A product allocation model dictates how much of your nest-egg income should come from a pension, or how much life insurance

you should have, or how much debt and leverage is prudent. Traditional asset allocation models simply can't do this."

Milevsky says the Manulife allocation method will help pre-retirees generate a sustainable retirement income that will leave them feeling comfortable in retirement. And he urges them to start looking for alternatives to the traditional asset allocation.

"As clients get closer to retirement, and especially in today's extremely volatile environment, individuals are coming to the realization that asset allocation

(i.e. pure diversification only) is not enough to generate a sustainable retirement income," says Milevsky. "Product allocation models will help clients determine which insurance products are appropriate." **IE**

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