The retirement crisis

Meeting longevity risk head on

The risk of outliving one's assets, also known as longevity risk, is an important concern for investors about to enter retirement. Running out of money prematurely is the difference between thriving and just surviving in your golden years.

According to a 2019 report, the Canadian retirement gap – the number of years that seniors might outlive their money – is now 10 years for men and 13 for women. In this piece, we'll examine the three key threats posed by longevity risk.

Growing anxiety for seniors

That new reality has understandably resulted in a lot of anxiety for both retirees and those on the cusp of retiring. According to a 2018 survey, more than 60% of Canadians are concerned they'll outlive their retirement savings, and 45% don't feel confident they'll be able to afford the post-work lifestyle they want.

The Canadian retirement savings gap

How many years a senior might outlive their money:

10 years for men

13 years for women

Source: *Financial Post*, Retirees worldwide may run out of money 10 years before they die, report shows, June 2019

Top concerns for retirees:

60% Concerned they will outlive their assets

45% Not confident they'll be able to afford the post-work lifestyle

41% Not having enough money for necessities

39% Rising health care costs

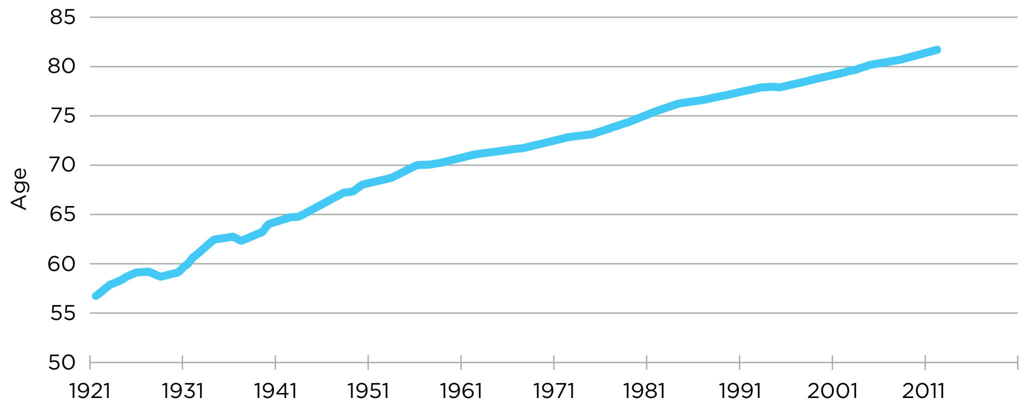
Source: Benefits Canada, "Canadians worry about outliving retirement savings: surveys" 2018

Understanding longevity risk: 3 key threats

Longer life expectancies

The good news is that Canadians are living longer. However, living longer means that retirees need to accumulate more to fund their desired retirement lifestyle. With retirement periods now stretching more than two decades, the risk of running out of money has become a real concern for many Canadians.

Change in life expectancy at birth – Canada since 1921



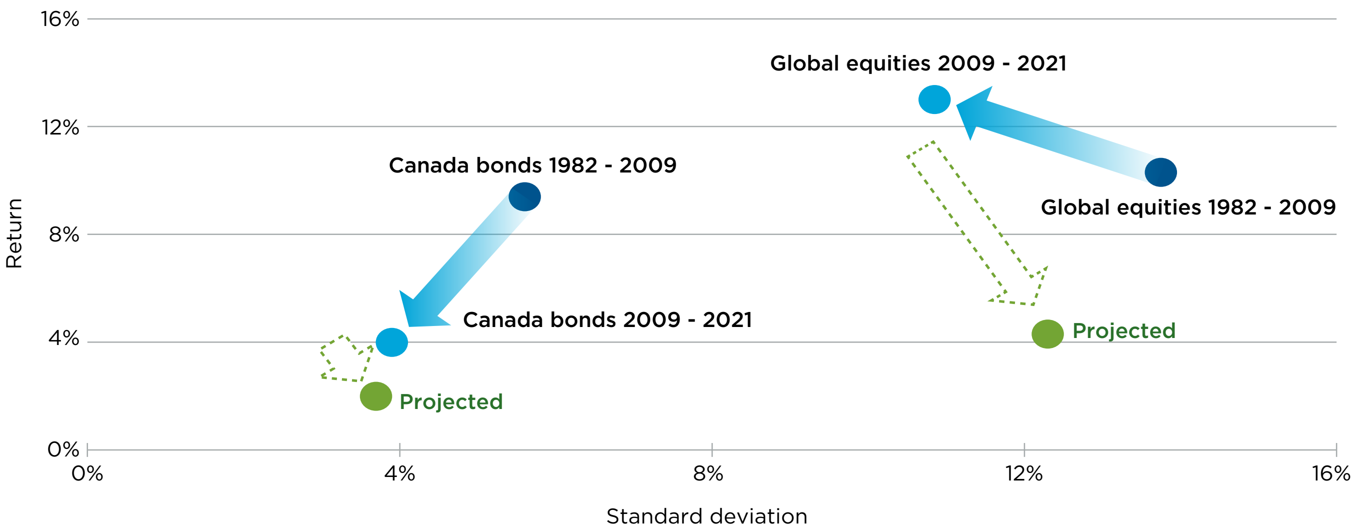
Humans are now living almost **25 more years**

Source: Statistics Canada

Retirement investing: a more risky proposition

When it comes to saving for retirement, the investment landscape has changed drastically since the Great Recession of 2008. In today's low-yield environment, retirees have struggled to generate consistent income from their fixed-income investments, forcing them to take on substantially more risk for the same return versus two decades ago. Historically, retirement strategies have allocated a far greater percentage of assets to traditional fixed-income securities. However, with low interest rates for the foreseeable future, this approach may be impractical going forward.

Markets are different... lower yields & lower returns?
Return vs. volatility – Equities and bonds



Source: 1832 Asset Management, AIMco 2021 Long Term Projections
Equities = MSCI World (CAD)
Bonds = FTSE TMX Canada Bond Universe

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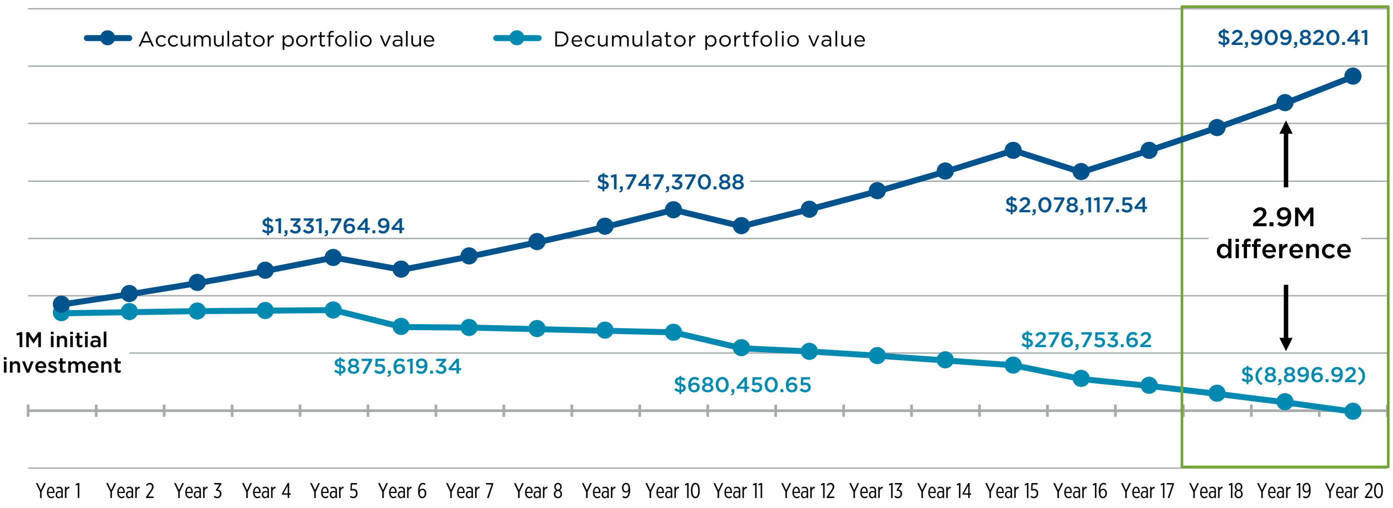
Sequence of returns risk

When it comes to a successful retirement, timing is everything. Unfortunately, market declines in the early years of one's retirement, coupled with ongoing withdrawals, could significantly reduce the longevity of a portfolio. Oftentimes, the difference between one's money running out or lasting a lifetime is determined by market performance in early retirement – a matter largely beyond retirees' control.



Assumptions: Scenario assumes an initial 50k cash flow withdrawn annually at the end of year, a 7% return for both accumulation and decumulation, the first correction occurs in the first year and every 5 years after at the same time, 3% annual inflation is assumed for the cash flow only

It's time to think differently about retirement income. Dynamic Funds can help.

Contact your Financial Advisor to learn more.

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