Ep116: Canadian Retirement: Myths, Realities, Success

Keith: My name is Keith Matthews and I'm joined by my co-host, Marcelo Taboada. Marcelo, how are you today?

Marcelo: I'm good, Keith, very excited about today's subject. I think it's going to resonate with a lot of people in various age ranges.

Keith:
Absolutely. We're talking about the landscape of retirement in Canada today and we're going to use a recent report from Fidelity to help us with some of the research around the background. But specifically, we're going to discuss how retirement has evolved in the past two decades.

We have a report talking about perceptions of how things worked in 2005 versus how things work in 2025. We're going to review the key current trends, what we're seeing in the retirement market, and then finally we're going to present what we think is the gold standard for doing a retirement projection. Sort of the things to look at, the assumptions to use and the way to go about it.

Marcelo: Super important.

Keith: So, Marcelo, let's jump right into it and let's start with how has retirement evolved in the past two decades? And we're going to specifically refer to this Fidelity Retire report. It's their 2025 edition and they've actually been doing it for 20 years now.

Marcelo: I think it's a nice benchmark. They're looking back at how things have changed in the last 20 years. So, there's a few things that popped out in the, in the report. One of them is that people agree that retirement is now more complex. There are different perceptions about working longer. There are more complexities, such as helping kids buy a home, helping them financially, you know, with day-to-day expenses, and people are living longer as well. So, it's a combination of things. And I think the vast conclusion in the report, which is nice, is that people do agree that retirement is more complex today. There are more moving pieces.

Keith: More moving pieces. And there is more worry in the pre-retirement market today than what we saw 20 years ago.

Marcelo: Yeah.

Keith: When we look, we're jumping forward to some of the research 20 years ago, pre retirees and retirees were both relatively optimistic. About 80% were optimistic about their retirement. And today, when the pre-retirees are gauged, they seem to gap their lower by about 20% in terms of their ability to feel positive and as confident about their future versus the pre retiree of 20 years ago.

Incidentally, I started working 30 years ago, and my first 10 years, I worked with a lot of pre-retirees. And what I can say is the Pre retiree of 20 years ago was coming from the silent generation. So, if we get into sort of this idea of who's retiring when, that silent generation were the individuals born between 35 and 45. And that generation was always known as a generation that went through World War II, perhaps as infants, post-depression. Depression.

Marcelo: Your parents went through the Great Depression?

Keith: Well, they were born right, you know, just after. But it shaped the way people thought about their finances. They had a tendency to over save and prepare for the future and be careful with their spending. So, part of that is showing up in this research because 2005, 2000 is when that silent generation was a pre retiree. Today, the pre retiree is the. Is the younger baby boomer or the early retiree is that baby boomer right now. And they've got very different perceptions about how things work.

Marcelo: Absolutely.

Keith: So, Marcelo, let's talk about perceptions. One of the big things that came out of this report was what is the perception of a comfortable retirement?

Marcelo: In 2005, they asked the retirees what a comfortable retirement would look like in terms of money per year or income per year, and the number was $53,000. Okay. If you ask people today, it's $93,000. So, they did a nice thing in the study. And like, it's not to get too confusing, but if you take the $53,000, you adjusted for inflation today, so what would be in today's dollars? And it's actually $81,000. So, there's a difference of about $12,000 there. Of what people perceive today is the income they need to have a comfortable retirement versus what it was 20 years ago.

Keith: And adjusted for inflation.

Marcelo: Correct. And I think that the few things that we picked up is, yes, things are more expensive, but people's perceptions also are higher. Their expectations of what's comfortable is also higher.

Keith: 100%.

Marcelo: Yeah.

Keith: We've had a podcast episode where we talked about lifestyle creep. And that referred to the younger person going through life. Every time they would get a promotion, a raise, they would find themselves spending more money. And then all of a sudden, what was considered a luxury is now a necessity. And the same concept, I think can be brought into this pre retiree market where all of a sudden, a comfortable retirement is defined very differently than what a comfortable retirement was 20 years ago. So, I think that's also part of the picture here that's being brought up. And I think it's a very astute observation because it does affect how much money people need to save and to have in order to give them the lifestyle they wish to have.

Marcelo: And again, this survey is going to be, you have a small sample, but I think we see it. This is a problem that a lot of generations have, not only the pre retiree or the people who are retiring now. And I think, you know, hate to say it because we sound like broken records here, but I think social media plays a huge role in like it doesn't matter how old you are.

Keith: Absolutely. If you get hooked into wanting more, then you're right. It's not, it's not age specific.

Marcelo: No. And the cost of traveling is more expensive too. Where people want to go to also matters. And that whole social media makes us want more things whether you're in your 20s or you're in your 40s or 60s. Right?

Keith: Absolutely. I 100% agree, Marcelo. Let's touch base now on what we actually see in the current retirement landscape. We'll give our listeners a few data points as to how many people are retiring, what age they're retiring at, and then go from there.

Marcelo: 20 years ago, the average retirement age was 61. If you look at it today, in 2025, the average retirement age is 65. So, people are retiring longer later.

Keith: Yeah, later.

Marcelo: Absolutely correct. And then the proportion of people who are in there are 65 and higher is actually projected to increase. So, if you look at today, 19% of the population is 65 and older. In Canada, that is projected to be 23% in 2035. So, 10 years from now. So that follows the logic that a lot of people are entering an age category that are going to need to start planning for, you know, when do you stop working and how are you going to make all work? And that's going to be huge.

Keith: Well, when I look at actually, I go back in time historically, I go back to 2005 according to the fidelity report, and it was one in seven Canadians was 65. Yeah. So, it went from one in seven 65 to currently one in five Canadians are 65. To in 10 years from now, it's projected to be one in four will be 65. That is a massive number of Canadians that will be going through this retirement through retirement lifestyle.

Marcelo: Yeah, it is.

Keith: Hence you can see why in the financial services industry this, it's almost like a. You can feel the focus coming in now. We have always been focused in delivering services for individuals in their sort of the go-go years as they're preparing for retire retirement and for pre retirees preparing for retirement. But you can now see the focus coming and it's right here in front of us with regards to the data, the number of people that are going to retire.

Marcelo: Yeah.

Keith: Marcelo let's talk about some of the major trends then. It's a bit repetitive here, but we'll spend a few minutes just highlighting the major trends we're seeing in the retirement market.

Marcelo: As you mentioned now with the people being above 65, I think there's more people entering retirement. Like that's huge. Puts a pressure on the Canadian system as well because there's more services that these people need. People stop working. There have huge implications for not just what we do, but for the country as a whole. There's less Canadians with defined benefits. So that is a big shift.

Keith: Yep.

Marcelo: Gone are the days where your parents retire with a defined benefit pension plan that replaced 80% of their income. Like that's done right. Like now people have to work and save and take care of themselves.

Keith: There are just a few sectors that still have those. Primarily very few, primarily government-based sectors. Most private sectors have abolished and have moved to define contribution plans.

Marcelo: Retirement lifestyle creep is what you were describing before. So, the definition of what's comfortable has changed. Like some luxuries have become necessities. Not that we're judging, but this is just a reality. It happens to my generation too, by the way. So not judging the growing need to delay retirement. So, I think there's more people who are realizing, hey, I haven't saved enough, I need to work longer. I have a big problem with this one because you find, I feel like a lot of people will hide this fact by just saying, I love working, I want to keep working. But I'm not sure that everybody who says that is actually meaning it. I think a lot of it has to do with not having saved enough for retirement or being worried about that.

Keith: Well, yeah, listen, the saving rates are just not high enough. That silent generation, the way they went through life is they would always allocate their first dollars after bare costs to savings. And if there's anything left, they might, you know, spend on discretionary items, we're not seeing that in today's, in any generation today necessarily. So, the saving rates across the board for all age categories is low than where it should be in order to hit those milestones for a comfortable retirement.

Marcelo: The other trend that I think it's more and more present in everything you hear about retirement now is how much people have to help their kids now. You know, housing, vacations, day to day expenses, you name it. I mean we have a whole list of items here. But it's more common to hear now. And I wasn't having these conversations 10 years ago with clients where you're putting in a retirement projection, a down payment or helping a kid with a big expense. I think that's a common conversation now.

Keith: Yes. And that's what this Fidelity report alluded to, which is this new expense in pre retirees' life that are sort of more prevalent today. So, the report speaks of approximately 60 to 65% of pre retirees are or retirees or young retirees are helping financially their adult, non-university or nonstudent kids. That is a big issue. That's something that I don't think pre retirees thought about or retirees thought about. They didn't say, oh, I have to think of all these extra expenses. So, we've got a small list of some of the expenses that popped up in here. Let's just cover off a few. Just for information.

Marcelo: Day to day expenses, helping with rent, your furnace broke, or you need to replace something in your house, your car broke, needs repairing and you don't have the money. Parents come in and help.

Keith: 30% of the people in this survey reported helping their kids, Correct?

Marcelo: Correct.

Keith: Fair enough.

Marcelo: Then there's help them pay for major purchases like a wedding or a car. Those are the biggest ones. I mean those are the most expensive ones, I would say.

Keith: The wedding one has always been. Actually, I thought that number was quite low relative to what it used to be. It used to be back in the day that parents would help with almost pay for their kids wedding. It was a very traditional concept. This was a little bit lower than I would have thought.

Marcelo: This is speculating on my part, but I think this may be a problem with the sample of the people they asked the question because a lot of the gifting in weddings is cultural too. So, depending on who they asked in the survey and what ethnicity and culture you wear, I think that plays a huge role.

Keith: Fair enough. And what are some of the other ones? I guess we see 16% of individuals said they have helped their adult Kids with a down payment of a home.

Marcelo: Specifically for a home.

Keith: That kind of comes in line and makes sense relative to all the other data that we're seeing in the market, which is sort of one in five are helping their kids with a down payment on a home. Again, we have an extraordinarily expensive real estate market in this country, and it is an issue and it's a major issue. And so, you can see why, it's human nature. It's human nature for individuals, for parents to want to help their kids. It's, it's. And that has not gone away and it's not going to go away. But the question is, is we're seeing the expenses higher than in the past. I think that will put pressure on the pre retiree.

Marcelo: The risk there is, it's a bit of a catch 22. Because you have, you could have a retiree who's, you know, has decent income now, has a, you know, very nicely appreciated home and they may have a liquidity problem down the line that they may not have enough money to retire. But now they have this asset that's not liquid. They, they have to help their kids and they're in a very tough spot where like, okay, you have the money in the house, but how do you get out the liquidity? You know, like, do you get a line of credit? Do you get a reverse mortgage? How do you go about in doing that? I think that's a puzzle that a lot of people will have to solve.

Keith: Yes, absolutely. Let's switch gears now into the sort of the second part of today's show. Let's talk about what we feel is the gold standard of retirement planning. Slash projections.

We've created a framework. It's a framework that we use to help work with our current clients, but it's a framework we think worth articulating to the listeners. And I think it's going to be very helpful to understand how you go about thinking about your retirement and building a projection to show you that things will work out or to show you what changes you need to make.

Marcelo: That's huge.

Keith: So, let's go. What are the steps? Step number one.

Marcelo: Step number one is reviewing all your retirement spending across the three stages of retirement.

Keith: What are those three stages?

Marcelo: The three stages are essentially, and people have to think about, this is the go-go years tend to be anywhere between 65 to 75. You're mobile, you have health, hopefully you're hitting your bucket list items. You have to be Able to properly account for your traveling expenses, your home maintenance, gifting, so weddings, helping with the house and you have to properly account your lifestyle expenses. So, here's like we're going to really push people here and just try to be as accurate as possible. So, whether that means tracking your spend before you retire for a few years or really getting into the nitty gritty of where the money's going, I think that's the key. It's key to nail those down because this most likely will be the most expensive section of your retirement.

Keith: Fair enough, we talk about that a lot. Go-go years. Now, what's the next category?

Marcelo: Slow go years is you travel less because you have less mobility. Your kids are older, you're dealing with grandkids, everything tends to be more local. Your kids are well off, you go out for a nice dinner with them, they'll be pick up the bill. So, your lifetime.

Keith: Whoa, whoa. Kids are going to pick up a bill. Marcelo, I like where you're going with this. Yes.

Marcelo: Lifestyle expense and all research show that lifestyle expenses and day to day expenses go down in this stage. So, 75 to 85.

Keith: Even 75 to early 80s. That's right.

Marcelo: Correct. And then the no go years could be very cheap, or they could be very expensive depending on your health and how things play out. Usually, the expensive one will be the healthcare cost. So, I think the pandemic shed a lot of light in this problem. Like a lot of people realize, hey, maybe I want to stay in my home long term. So, you want to adapt your home, you want to bring people in to help. That's going to be very expensive. Assisted living is generally an expensive service and when it comes to expenses, it's not going to be very expensive because you don't go out as much. Traveling is not happening, and most people are coming to you.

Keith: Okay. The three areas during retirement, we've often referred to this as the burn rate. How much capital do you need? Will you burn on an annual basis in order to calculate this? Like you said, a pre retiree really should be thinking about what is going on today. Well, how much am I spending today? Need to understand that and then need to make the modifications and adjustments based on the framework you've just provided. Excellent. That's step number one. Correct.

Marcelo: Step number two is reviewing all your income sources. You know, it could be a chair, a three-legged stool where you have your defined benefit pension, you had your government pensions, and you had your portfolio. Now you have to look at many different things. So, you have to look at whether you have a pension or not, but you have to look at your government pensions and the decisions you make around those.

So old age security, Quebec pension plan, QPP. If you're in the rest of Canada, do you take it at 65? Do you delay till 70? Because those, they come with increases. A lot of people by default take it at 65. But that may be, I mean that's a conversation for another day, but it's more likely than not, not the smartest choice. Then you have your investment income. So, whether you have an investment account, an RRSP, a TFSA, that matters a lot because where the money comes from, tax wise, it has an impact. You have to make sure that the sequence is properly thought of. Then you have all the other potential sources. Are you going to sell your home down the line? Are you going to sell your business down the line?

The last one is you going to get an inheritance down the line and then are you properly accounting for that inheritance? Because you tend to see this a lot. People say, oh, I'm going to get like an X amount.

And then after all is said and done and the estate is distributed is a way lower number because there were complications, illiquidity issues, taxes. So, you need to properly account for those. That is a huge step in the planning, and you have to make sure that it's properly accounted for.

Keith: Step two. Now make sure you take care of an account for all your income and assets.

Marcelo: Correct. Step three is you have to use reasonable assumptions. So, use the proper benchmark. When you're looking at your, what do.

Keith: What do you mean by assumptions?

Marcelo: The rate of retirement that you're, the rate of return you assume in your software is key. How you're projecting taxes and the fees. You cannot go in in a retirement projection and say I'm going to get 10% returns in equities like that is wrong. You have to use proper things that have been thought of with a method. So typically, what you see and what you want to see in a retirement projection is that you have a rate of return that's coming from a financial planning association or from a group that has really gone into the detail of calculating what we expect from stock markets and bonds. Then you have to take into account into the fees that you charge the client.

Keith: What you're saying is essentially use proper expected returns.

Marcelo: Correct.

Keith: The financial planning associations provide those. Don't just use large numbers because what it'll do is make the projection look very rosy.

Marcelo: Correct.

Keith: In addition to using reasonable returns, make sure you just them down by the management fees that are being paid, which is what we do in all of our projections. But it's important that individuals do this no matter where they are, because otherwise an extra 1 or 2% return in a projection over 20 or 30 years is a major difference. So, what you're doing is saying, make sure you use reasonable numbers. Perfect.

Marcelo: Step number four, you got to stress test the portfolio, the plan. You got to make sure what happens in bad scenarios. One of the biggest risks that people will have in a retirement projection is what we call sequences of return. I'll explain to you what that is very simply is if you're a retiree at 65 and you hit five years of bad markets; you need to be able to project that. You're not going to get the same return every year.

Software allows you to stress test the portfolio and see what would happen in various scenarios and then come back and said, you know what, even if we go through a bad period, you're going to be okay. Software allows you to do that, we're not doing that on a spreadsheet or by hand. You need to be able to do that consistently and be very fair with your assumptions. And then you have to be able to, if you identify an issue with the plan saying you need to be saving a lot more than what you're saving now, you need to be able to go and tell the client, look, this is some of the changes that you need to make. You either need to spend less, save more, sell your home at 85 and that sort of thing.

Keith: What's the value of the stress test?

Marcelo: The value of the stress test is that it provides a more real way of looking at things. Because if I tell you, for example, the average temperature in Montreal is 20 degrees, it's not that, it's some days, it's 45 degrees, some days is minus 10, some days is minus 40. So, your average is 20, but it won't feel like 20 every year.

So, when we tell a client, look, the average return in your portfolio based on the risk you're taking and the fees we're charging you is 5%. It's not going to be 5% every year. Some years is going to be minus 5, other years is going to be plus 12. So, the software stress test and randomizes various scenarios at many different stages, you'll be able to project those sequences of return. The flip side is also true, right? Like you could hit very good years when you retire. And that will help you down the line. But you need to be able to do that various times to see what would happen with that portfolio.

Keith: Absolutely. I couldn't agree more. And I think the additional value is essentially it's peace of mind that comes to an end retirement. Because if you're able to show a person that look under these stress points, you are still going to be okay. That is an enormously empowering concept. Great. Fantastic. We're at the last step.

Marcelo: Step number five, it's continuously adjusted. We don't just build this and walk away and revise it in 20 years. We do this every year during our annual reviews with clients and if there's a life change event. For example, you we just met two weeks ago, and you say, look, I just sold my house. We need to come back and redo the plan. We will do this continuously and make sure that there's some adjustments to be made.

Keith: Fair enough. It doesn't end.

Marcelo: It doesn't end.

Keith: Financial planning or projections don't end. And so, no matter for our listeners that no matter who you're using to do projections, whether it's yourself, whether it's an advisory firm, make sure you're doing a continual loop which is constantly checking in, constantly redoing the projection.

Marcelo: Well, I mean, gone are the days where you were able to get away with just having an advisor that does just investments, you got to look at all this stuff.

Keith: Well, you say that, Marcelo, but there's still lot of Canadians that are receiving investment only advice in their advisory relationship. Hence why there's such an opportunity for firms to be in this space and to do it very well.

One of the things that I absolutely love about what we do as a living is that we can help individuals. We can help bring a ton of clarity to individuals affairs. When I look back, what I've done with individuals who've come on board as pre retirees, often they come on board with worry angst. But once you sit down with them and you go through this process, you know, along the way, you say, you know what, you're actually in a really good condition. They worry more than they had to. I think it's incredibly uplifting. We have an opportunity to help people, really guide them along the way. And I think it's very, very rewarding.

This has been a great show. This is a very important topic. As we know, we've talked about just how many Canadians are either on the cusp of retirement or about to retire in the next 10 years. It is a booming in our world business. There's just such a need for great advice and there's a need for awareness. So, with that, let's wrap up. What are your final points?

Marcelo: Well, look, my takeaway is to be diligent about this. Make sure you're using the gold standard when you're looking at your retirement and how you're going to project that. Some people may be devil's advocate and says, look, they may say things like as long as I'm healthy, I'm going to continue working. I would push those people and say even if you continue working, you still need some planning because you may need to help your kids, you may need to scale back at some point. You may want to just work because you love it, but not because you have to. So, I think whether you continue to work or retire completely and put a hard stop, the planning is key and really sticking to the gold standard that we've defined. Because if you don't have one of those five elements, it could lead to a bad outcome, and you don't want that.

Keith: Well put. My final comment would be don't be afraid to look into this. If you're younger than a pre retiree in your mid-40s, early-40s, early-50s, it's never too early to start taking a look at this. Never too, too early to start reviewing this. It's never too early to understand what your burn rate is. It's never too early to figure out what does my financial future look like. Initiate the process. I'm quite sure that you'll be impressed with understanding, more clarity that will provide peace of mind. That's what I would suggest. Embrace the process and go forward.

Marcelo: Perfect.

Keith: So, with that listeners, Marcelo, thank you very much for a very engaging conversation on this very important topic.

And to our listeners, thank you so much for tuning in and we look forward to hearing from you and we look forward to speaking to you next week. Thanks for listening to the Empowered Investor Podcast brought to you by Tulett, Matthews and Associates. If you've enjoyed today's episode, be sure to follow or subscribe and share it with somebody who wants to invest with clarity and confidence. To learn more about how we help investors build lasting financial peace of mind, Visit us at tma-invest.com until next time. Stay informed, stay empowered, and stay on track to your financial goals. Investment and investing strategies should be evaluated based on your own objectives. Listeners of this podcast should use their best judgment and consult a financial expert prior to making any investment decisions. Based on the information found in this podcast.