A new, new normal for retirement

Survey finds Canadians less prepared for retirement than previous generations; given all that's gone on, can you blame us?

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Canadians are feeling less confident about retirement. That's a key finding of a new survey… that to many folks could be filed under 'OBVIOUSLY.'

Still, the poll conducted on behalf of Mackenzie Investments — a purveyor of mutual funds among other products designed to help with the objective of leaving work (mostly) for good — is noteworthy.

For one, it surveyed 1,500-plus Canucks in the midst of the pandemic, which should certainly colour a lot of people's take on retirement with a thick shade of smoky grey.

It looked at Canadians saving for retirement for whom it was still several years away. And it examined the views of those close to it.

Last, the poll sought to get a fix on what retirees felt about being retired.

Of note among the numbers is that today's working stiffs figure they need almost $900,000 (yikes!) to retire at an average age of 62.

That's compared with retirees who did it on about $400,000 at age 57, on average.

The Mackenzie Retirement Reality Check 2020, now in its second year, found perhaps most importantly that "people didn't have a lot of knowledge around the logistics of their finances in retirement," says Carol Bezaire, vice-president of tax, estate and strategic philanthropy at Mackenzie Investments.

As an expert, it is hardly surprising to her.

We spend most of our lives working, setting aside money in an RRSP and TFSA. Throw in a workplace pension plan, and the hope is enough cash is in the kitty come the big day that we don't run out of money 30 years into retirement.

Of course there are all kinds of other considerations, like: What investments should we hold once retired; how do we draw on those investments to build an income while minimizing taxes, what will our expenses look like, and how might those costs change over three to four decades?

Bezaire further notes the discrepancy between surveyed retirees and those still working hints at a lot of different factors at play.

For example, fewer workers today have defined benefit plans that pay a fixed, annual income in retirement for life. Most, if lucky, have a company defined contribution plan that's more like an RRSP. You hope it grows to a certain size by the time you retire that you can then draw a decent income from it that, conceivably, lasts until you die.

Another wrinkle is more people are carrying debt later in life than ever before.

By contrast, the poll found that "a lot of existing retirees aren't carrying debt," Bezaire says.

For Winnipeg certified financial planner Daryl Diamond, debt can be a retirement dream killer.

"Debt takes up cash flow, which means some of your income producing assets are creating cash flow that is not dedicated to supporting your lifestyle," says the author of the newly published book *Retirement for the Record: Planning reliable income for your lifetime… to the soundtrack of your life.*

All of these aforementioned challenges are likely getting worse because of what's going on in the world now. The pandemic has — like the Great Recession before it — shifted the sands of retirement planning again. Interest rates are lower, which makes generating income tougher in retirement.

The gold standard for retirement planning has always been "to spend the income generated from the investments, without selling the investments," Diamond says.

But that's difficult with GICs and government bonds offering low returns that don't keep pace with inflation. Increasingly retirees need stocks paying dividends, which come with obvious risks (i.e. bear markets).

Of course investment firms have solutions. For instance, Mackenzie's retirement income portfolios provide monthly income using a mix of bonds and stocks. That sounds a lot like a balanced mutual fund — typically what near retirees lean on. But it also includes downside protection strategies using options — another layer of complexity and risk.

Diamond says his practice uses Mackenzie income funds for his clients.

But no one investment is a panacea, he says.

Perhaps the best tool for success is being knowledgeable. (By the way, November is Financial Literacy Month!)

It's good to do your own homework for sure. Yet seeking advice is important too.

Lo and behold, the survey found most individuals — 70 per cent — are seeking professional advice or plan to do so. Investment adviser Jeff Ryall at Cardinal Capital Management in Winnipeg can understand why.

"Proper planning usually requires multitasking on a few fronts to work toward goals simultaneously," says Ryall, an investment analyst and portfolio manager.

"This can be difficult to do without professional assistance."

Most people — being busy with work and family — "tend to follow the path of least resistance," he adds. They often focus on one goal at a time, like paying down the mortgage.

Consequently, they may lose track of long-term needs, like retirement, in the absence of a strong financial plan.

And when it comes to planning and saving for retirement, the earlier the better, many of the surveyed agreed.

"Half of the people interviewed said if they could do it again, they'd start saving for retirement sooner," Bezaire says.

That can be tricky for young families and recent graduates with tight budgets. But new technologies can help like Moka, formerly Mylo, an automated savings and investing app.

"First, we automated the saving process by rounding up your purchases and investing the spare change," says its CEO Phil Barrar.

The Montreal-based company's latest rendition now offers more, such as automatically negotiating "a better deal for your phone, internet or cable bill," while optimizing "your debt repayment," as well as getting you "cashback when you shop, so you can keep more of your money."

Every little bit counts: extra dollars, and cents, add up significantly over longer spans.

Investment adviser Uri Kraut with CIBC Wood Gundy in Winnipeg says these fintech tools are great for younger savers but probably less helpful for near retirees and the retired who may have complex financial pictures requiring hands-on guidance.

"Retirement planning is essentially about processing the current reality and balancing it with future needs and goals," says the certified financial planner and money manager. It's as much a philosophical discussion as a mathematical calculation.

And in the "wild year" that has been 2020 the aforementioned quest to balance priorities is even more challenging.

To that end, Kraut has seen a lot of people making major purchases lately. Chalk it up to "reflecting on what they want out of life" or "impulse buys" to fend off boredom and anxiety.

"Regardless these may have ongoing costs that reduce free cash flow prior to retirement and may increase cash flow needs in retirement."

Of course, no one knows for sure until they get there. But having a map certainly helps provide more clarity.

Equally important: a plan reduces the anxiety about having enough.

"It’s never a straight line in retirement," Diamond says. "It’s always zigs and zags, so the better the planning is at the outset the easier or more confidently you can address those detours."