Canadians Need to Confront the Financial Realities of Retirement

A sobering portrayal of the real costs of retirement shared recently by an expert source on aging issues reveals far-reaching financial and planning gaps that could tarnish many Canadians' "golden years."

In a webinar delivered recently to the Canadian Exchange Traded Funds Association (CETFA), Michael Nicin, executive director of the National Institute on Ageing (NIA) at Ryerson University, offered a candid overview of the costs of long-term care (LTC) and other retirement-related expenses in Canada.

Long-term care is the largest form of hands-on care *not* covered by the *Canada Health Act*. An aging population with an increasing proportion of centenarians—our fastest-growing demographic—means demand for it can only grow. Between 2019 and 2050, the cost of public care in nursing homes and private homes will triple to $71 billion from $22 billion (in 2019 dollars). Accommodation in a nursing home ranges from $1,800/month to $2,700/month; private options are $6,000–$10,000/month in today's dollars.

LTC and other predictable outlays associated with aging (in place or in care settings) are realities many Canadians defer thinking about, plan for, or discuss with loved ones. "Honest conversations about retirement goals and resources are an essential first step because the current demand for LTC services is already unprecedented and can only grow as the population ages," Nicin observes.

The devastating impact of COVID-19 on seniors living in long-term settings (accounting for 70 per cent of deaths in Canada compared to 49% among 14 OECD countries) has accelerated the urgency to address persistent long-term care issues. The pandemic has put a spotlight on existing and looming funding, human resources and service gaps. It also highlights the critical need for individual Canadians to prepare financially for an increasingly long-lived future, the NIA and CETFA emphasize.

Individuals Need to be Better Financially Prepared for Retirement

CETFA invited the NIA to present to us so we can understand the challenges and engage with financial advisors to help Canadians prepare for retirement costs they'd rather avoid contemplating. Governments were stretched pre-pandemic: though they're investing more in eldercare, Canadians will nevertheless need to do more to be ready on their own for the real costs of retirement.

For the first time in its history, Canada has more people over age 65 than under 16 and its single largest generation—baby boomers—are now turning 75, says Nicin. Normal life expectancy has extended from 60-65 at the turn of the century to the 80s based on actuarial tables, extending retirement by decades, he adds.

Citing OECD statistics from 2015, the NIA reports that Canada only spends 1.2 per cent of its GDP on LTC, below the average of 1.7 per cent for 15 OECD countries. Canada also lags on its spending for home and community care both in relation to nursing care (13 versus 87 per cent) and, in comparison to the OECD average (30 and 65 per cent respectively; an additional five per cent is spent on other senior supports).

There are other dimensions to this evolving but foreseeable situation, one that will create even more pressure on a system which already has a 40,000-person waitlist for a coveted nursing home room and 430,000 with unmet home care needs.

At one time, Canadian seniors could count on a close relative, typically a daughter, to provide unpaid care and support services. But due to changing demographics and families increasingly spread far and wide, between 2019 and 2050, the NIA estimates that there will be about one-third fewer close family members available to provide auxiliary unpaid care. Yet by 2050, more than twice the number of Canadian seniors will rely on unpaid support, which will need to increase by 40 per cent to meet their care requirements.

While subsidized home care may be an option, there's less of a guarantee of availability and caps apply (in Ontario, the average is 2-3 hours per week). Home care costs from $15/hour to $40/hour depending on the services provided. In the wake of COVID-19—when some poorly paid personal support workers (PSWs) did not show up for work—the provinces have expanded training programs to expand the population of PSWs. However, exploding demand for support may fast outstrip supply.

When asked about what they want in retirement, Canadians reveal a strong preference for aging at home for as long as possible: 91 per cent overall and almost 100 per cent of those 65 and above. And the vast majority (85 per cent) are receptive to advice on how to do so safely. However, almost one-third (30 per cent) say they "don't feel prepared personally or financially to age independently at home," the NIA reports. This represents an opportunity for advisers who need to help their clients "internalize the message" about the realities of aging and "unpack the issues within it" as part of their conversations, says Nicin.

Real Conversations About Money, Sound Deaccumulation Plans are Essential

Following the presentation to its members, CETFA interviewed Nicin to gain further insights into financial planning implications associated with aging.

While most Canadians save for retirement and have a vision of the quality of life they'd like to enjoy, they don't prepare for declining health and its financial implications and "there's no free ride for health care as an older person," Nicin observed. "Personalized care is every expensive either at home or in an LTC facility. And so there may be a gap between what I want and what I can afford. Canadians are particularly bad at having conversations about morbidity and mortality and planning for them financially. This is where a financial advisor can help."

The reluctance to plan for late-in-life changes and hanging on to an existing lifestyle can lead to forced financial decisions and potential losses — such as selling a home under duress, said Nicin. Yet some level of decline can be anticipated and modifications can be made to support accessibility within an existing home, to pay for alternative transportation, etc. But these must be planned for financially.

"Traditionally, advisors recommended that their clients save as much as possible for retirement and that was OK, but it wasn't tied to a specific set of outcomes and goals," Nicin noted. Fears about outliving money are real. Most Canadians say they haven't saved enough against what they want to achieve in retirement. Meanwhile, others are sitting on nest eggs, afraid to spend so the money can be left to others, he stated. Advisors need to help their clients "understand what they want out of retirement, engage in best and worst case scenario planning, align their financial reality with their goals and help them with their deaccumulation planning."

COVID-19 has Prompted Positive Behaviours but has Added Complexity

Interestingly, COVID-19 has, for the first time, motivated more Canadians to pursue advance care planning and estate planning, Nicin said, mentioning that, "there's a clear association between planning and mental health because it reduces stress and anxiety." The pandemic has also motivated some older adults to move closer to children for quality of life and to be near a source of unpaid care.

COVID-19 has also complicated financial planning with varying implications based on life stage. Younger individuals face a more unpredictable economic future. Faced with ageism, older individuals who lost their jobs may not be able to re-enter the workforce and have the income they expected to fund their retirement. Public pension plans only cover minimal needs and just one-third of Canadians have access to private plans. It's therefore prudent to work beyond age 65 when possible, for mental, social and financial reasons. Delaying receipt of CPP and other public retirement plan benefits until age 70 delivers an income 150 per cent higher than collecting at age 60, Nicin said.

Given that an increasing number of Canadians are leading longer lives, the key financial management task for advisors is to help their clients with deaccumulation planning. "It's a mathematical and a human challenge. Most people underestimate how long they will live and how they will deal with a deaccumulation strategy, says Nicin. "But it's two sides of the same coin: How to prepare and how to make the money last over retirement. Canadians must have real conversations about retirement and must move past just putting money aside to grab the ring of their own futures."

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