Fidelity Connects

In-depth Analysis: The 2022 Fidelity Retirement Report

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Podcast Intro – Michelle Munro

Hello and welcome to Fidelity Connects – a Fidelity Investments Canada podcast – connecting you to the world of investing and helping you stay ahead.

Inflation, travel restrictions and the global supply and demand crisis are all issues affecting retired Canadians and / or those individuals thinking about retirement.

Today, we take an in-depth look into Fidelity's 2022 Retirement Report with Michelle Munro, Director, Tax and Retirement Research. Manager, Editorial Content and Host Quinn Flaherty asks Michelle to dive into the long-term insights, trends, and information about what Canadians are experiencing.

Overall, Canadian are focused on retirement and saving up for retirement. Although the media pushes the idea that individuals are unsure, anxious, and unprepared; according to the report, Canadians are optimistic, prepared and confident.

The report also highlights 5 key risks: inflation, longevity, asset allocation, withdrawal rate, and health care risks.

Other insights from the report include having a very strong financial plan to battle inflation. Recognizing your cash inflows and outflows and incorporating resilient asset types into your investment portfolio.

Today's podcast was recorded on November 29, 2022

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Quinn Flaherty: Michelle, as part of your role, you travel across the country meeting with financial advisors and their clients to speak on a range of topics, most importantly with the webcast here, retirement.

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Michelle Munro: Yes, retirement research. This is one of our flagship marketing pieces, the Retirement Report, but I also talk about a number of different topics.

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Quinn Flaherty: Michelle, looking to the report, what really makes the Fidelity Retirement Report different than others that may be out there?

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Michelle Munro: We've been doing this report —the survey and report— for 17 years, which might be the longest… maybe one of the longest, surveys and reports in the industry. Why that's really significant is it gives us the ability to ask the same question year after year and really get those longitudinal insights, so we can see trends that are occurring as well as we can ask questions that are specific to what Canadians are going through. There's a long laundry list. You went through them all. What does that mean for Canadians as they're preparing for retirement, as well as those who are in retirement? Just a quick note for our viewers is that the retirement survey is of almost 2,000 Canadians coast to coast and we're looking at pre-retirees who are 45 and older, so those who are really getting focused on their retirements, as well as those who are in retirement and we're able to gather all of their sentiments and comments.

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Quinn Flaherty: It's a really great report for a time and place perspective on how Canadians are thinking about retirement.

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Michelle Munro: Absolutely.

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Quinn Flaherty: My next question —lead-in question, I guess— is how are Canadians feeling about retirement this year? I know a number of topics and hurdles Canadians are facing. What does this year's report … how does it define the sentiment?

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Michelle Munro: Following the media and what have you, I was expecting to hear a lot of comments about feeling unsure, anxious, not prepared. We did get some of those comments but by and large, Canadians are feeling optimistic, prepared, even confident for both those who are in retirement as well as those who are preparing for retirement. That was really an encouraging message that we received.

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Quinn Flaherty: That's despite the fact that you open any newspaper across this country today, you're going to see headlines about inflation. It's certainly something that's top of mind for Canadians. Did we see that in this year's report?

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Michelle Munro: Oh, absolutely. Inflation is a concern and we saw it throughout the report and how people are… they are concerned; they're worried about it. One of the key insights that we found is that when it comes to peoples' finances —how are they spending money— there was a statistically significant increase in those who feel that they're spending more than they did last year. With that, on the second-hand aspect of that as well, because they're spending more they're saving less. What does that mean for those who are preparing for retirement as well as those who are in retirement? What does it mean for their nest egg?

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Quinn Flaherty: At the same time, in our survey to Canadians each and every year, we ask them, what is your savings priority? what you are able to save? What did you see in this report about that?

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Michelle Munro: Absolutely. Number one, savings priority is retirement. That makes sense for pre-retirees because this is something that we're working towards, saving towards, investing towards, for decades. Even those who are in retirement, we could expect retirement to last, again, decades. It's very much... using a golf analogy, it's a long game.

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Quinn Flaherty: Absolutely. Michelle, as I mentioned in my introduction, you travel across the country; meet with financial advisors and their clients on a number of topics, including retirement. When you're talking with them about combating inflation and one's retirement plans, what are some of your key messages to financial advisors out there about combating inflation?

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Michelle Munro: Advisors and speaking with their clients, the first thing that we want to be really understanding is have that really solid financial picture. What are the income inflows? They vary during your working years; salary, the other components of one's income as well as expenses and where are we spending that money, and where do we see an uptick in those expenses. Using that financial picture, it really becomes powerful as we move forward in confidence when we're looking at, well, what about the investments? That's really where we're focused as our industry, on that investment pool.

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Now Fidelity, we have a Fidelity Inflation-Focused Fund which has a component of assets that have been resilient during inflationary periods. So, thinking commodities, gold, real estate, linked bonds as well as floating rate bonds. I'm not a portfolio manager, but that's just a very high overview. I'm also not an economist, but the economists that we listen to, they say again and again that inflation is also transitory. We don't know when the higher inflation rates are going to come back, but, at some point, the message from the economists is clear that it will come back. Bringing it back to our retirement plan —my area of expertise— thinking about retirement and, again, bringing it back to that golf long game. This is a decade's plan and breaking it down into small manageable pieces.

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Quinn Flaherty: This Retirement Report has a long history here at Fidelity. I was looking through the report yesterday. One thing that makes this report different, particularly this year, is the introduction of those five key risks to retirement income. The year when we first launched our Fidelity Retirement Report in 2005 - 2006 was the first time that Fidelity introduced the five key risks to retirement income. For the first time since 2014, there's a series of questions asked about these five key risks. We got some really interesting insights and, Michelle, maybe before we dive into those particular insights. What really are the five key risks to retirement income? I believe inflation is one of them.

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Michelle Munro: Inflation, we've been talking about this for 17 years. It's always been a risk although it is, as we speak with advisors and investors, the number one that they're aware of. The other four risks… well, longevity risk; that's the risk of outliving one's savings. We're living in an ageing society and people are living longer than ever. This is becoming a higher risk item, but it's trending. Also, thinking about asset allocation risk moving into retirement. I think of my grandmother, went to a very conservative portfolio, Canadian savings bonds, double-digits interest rates which we haven't had that in decades. Life expectancy was much shorter. That strategy isn't going to work in today's environment. We know this as an industry, but changing the mindset of investors to come around to that… Also moving into, well, we don't want to have an overly conservative portfolio in retirement because we're going to miss out on the growth that one needs, linking it back to longevity risk. On the flip side, not an overly aggressive portfolio because now we're using this portfolio to fund our retirements. It's a balance and this is really where financial advisors provide their really level of expertise; helping people get it right.

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Moving along on the risk, we have withdrawal rate risk. This is somebody who's in retirement withdrawing a percentage of those retirement savings. The risk here is, well, withdraw too high of a percentage —particularly when there's a downturn in investments— you risk running out of investments for that retirement pool over one's lifetime. Another aspect as well, withdrawing too low of a percentage. Potentially, your clients aren't enjoying their retirements and this is something we've worked towards… saved, invest towards, for decades. We want to have that as well.

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The final, the fifth key risk is looking at healthcare risk. There's two components of healthcare risk. So, the first component of health care risk is having unexpected healthcare costs in retirement. Thinking about health, the first component is "well, we work at Fidelity, get our teeth cleaned, get a massage", it's covered by our extended health care benefits through our employer. Most people are in a very similar boat. When we move into retirement, well, we're paying for that out of pocket.

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Quinn Flaherty: There's a change there.

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Michelle Munro: There's a change, right. Also, the need goes up. There's an inverse relation there. There's that component. The other component is ageing and thinking about end-of-life health care costs. It could be a quite a wide range, subsidized nursing home all the way up to ageing in place, which means staying in your own home. There are some significant costs that were associated with that. Thinking of having a nurse 24 hours a day, seven days a week; you're looking at hundreds of thousands of dollars. Often people go into this and it's just thinking it's going to be a few months and it turns into a few years, which is really significant.

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Quinn Flaherty: Maybe I can jump on that point because you have a particular interest and attention on estate planning and unexpected healthcare costs. I know when we get the survey results each and every year, those are probably the first few pages that you jump to. From this year's survey results, are Canadians really paying enough attention to unexpected health care costs and estate planning concerns?

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Michelle Munro: Great question. Thank you, Quinn. Thinking about just an overall retirement plan, let's think about some of the components. The most common ones are thinking about that financial picture; what is the income, what are the expected expenses, breaking those expenses down into necessity, needs, luxuries. How much do we have in that retirement pool? What are the components? What is our drawdown strategy? Those are the most common ones. Lower down on the list —and it is significantly lower— is looking at a budget for health care costs; looking at a budget for end-of-life health care costs. This is an area where ... I don't want people to come away and be discouraged, but this is an area where we can really strengthen those plans to ensure that we have the retirement that we're looking for, for the entire length of our retirements.

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As well as —you touched upon this— is the estate plan. 50% of Canadians have an up-to-date written will. That means 50% of Canadians, adult Canadians, don't have an up-to-date will. In our survey, when we're looking at those pre-retirees and retirees, the numbers are very similar there. This is an area to be thinking about having an up-to-date will. As I'm talking about this... end of life; this is a difficult conversation. People don't like to think about it. As well it's talking intergenerationally about investments, assets. Doing this right is an opportunity to really form one's legacy. I think it's a really important area to be discussing between spouses, as well as talking about it intergenerationally. This is definitely an area where an advisor can be helping navigate that difficult conversation and making it easier for their clients.

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Quinn Flaherty: Thanks, Michelle. Maybe we can transition a little bit away from the five key risks for a moment and talk a little bit about timing of retirement. We've been asking a series of questions for 17 years now about when Canadians are planning or expect to retire. We see a bit of variance each and every year, but we tend to see some sort of trend. Did the trend hold this year or did things change?

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Michelle Munro: Let's go back to the early '70s. The average age of retirement was about 65. Over the decades to about 1980, 1990, we saw a drop of that average retirement to the low 60s. It hovered there until 2008, 2009. I know as soon as I say that it was the financial crisis. There was an economic downturn and we've seen a steady rise in that average age of retirement. It's now hovering just under age 65-64.7. We don't need to get into those details. We did see there was a slight drop in 2022 over 2021. I couldn't say that that was statistically significant. Where will we see it go? Well, that goes into our survey where we ask pre-retirees, when do you expect to retire? We ask them at age 65, earlier than 65 or later than age 65. The segment that's 65 and older, that is the segment that's consistently growing year after year. Those pre-retirees are thinking "yeah, I'm going to work a few more years before calling it retirement".

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Quinn Flaherty: There's some reasons in the survey why Canadians decide that they're going to delay their retirement. They decide to work, but there are other explanations for that as well.

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Michelle Munro: We ask, "if you're not retiring when you anticipated when do you expect to retire?" The number one answer was concerns over the rising cost of inflation. This year, as well as last year, was the first time that we've seen that. Canadians are aware of what's happening with inflation rates. Traditionally, the number one reason, and now our number two reasons, were concerns over not having saved enough. Those go hand in hand. Going further down on the list are concerns about not sure what they're going to be doing in retirement, so that goes further down. It's not just one singular reason often; it's a multitude of different reasons.

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Quinn Flaherty: Thinking about that and delaying retirement, in 2022 there's been a lot of headlines out there about Canadians actually deciding to retire earlier, which kind of goes against the trend that we've seen in our survey. Now, why do you think that is, especially in 2022, we're seeing these headlines in comparison to the trend that we've been seeing the last couple of years?

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Michelle Munro: If you dig down into some of the averages and looking at, well, who retires earlier than the average, it's typically those who have a defined benefit pension plan. The defined benefit is guaranteed during retirement, also indexed for inflation. Moving along, those who usually hit those averages of retirement or those who are saving with RRSPs and whatnot. Those who delay their retirement are typically those who are self-employed, so a real connection to their employment; there's that aspect. Bringing it back to your question about who do we see retiring earlier? It is a bit of a barbell. Some are retiring later; some are retiring earlier. Let's put those who retire earlier into three different buckets. The first bucket is "I'm tired, I'm fed up, I'm done with this". As a generalization, we see nurses and teachers who are in that who are also defined benefit.

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Quinn Flaherty: We did see in this year's survey job fatigue being one of the top reasons for retiring [indecipherable] 2022.

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Michelle Munro: In the second bucket we have those people who are concerned about healthcare. Now, that could be their own health, unable to continue working the way that they were originally used to; it's also caring for ageing parents, and also caring for younger children. We see that in people who retire as well. I said younger children, but it could be millennial-type children as well, helping to launch them. The third bucket is those who are forced to retire. They're let go, downsized, what have you, and retire. There's not any one reason of those who choose to retire early.

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Quinn Flaherty: It's fair to say that in 2022, all those three reasons for retiring earlier have really come to life in some way, it's a microcosm of all those things.

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Michelle Munro: Yes, it is, indeed.

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Quinn Flaherty: Michelle, why don't we transition to ... we talked a little bit about the five key risks; we've talked about inflation, but let's look to solutions. It's always interesting in the retirement survey to look at those who are feeling optimistic; they are feeling prepared for retirement. Perhaps, what are they doing differently than other Canadians? You really like to focus on the value advice and the role of working with a financial advisor. What insights came out of this year's survey regarding the role of an advisor?

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Michelle Munro: A fair bit to unpack there. The people who are feeling more optimistic, those who are feeling confident, what we see again and again is the people who feel that way are those who have a written financial plan. That written financial plan will help them feel confident, better prepared financially. That seems very intuitive, but if we expand that and we asked in our survey, looking at other aspects it's not just financially prepared; it's also emotionally prepared, physically prepared, and even socially prepared, which is really four key areas of well-being–

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Quinn Flaherty: Not just financial, there are other dimensions too.

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Michelle Munro: –which really derives from having that written financial plan. It's really important to have that written plan and much more likely, those who have a written financial plan work with a financial advisor.

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Quinn Flaherty: Incidences or occasions of having a retirement plan, do the majority of Canadians have one? What do your survey results show?

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Michelle Munro: As a generalization, it's about 30% of Canadians have a written plan. That percentage goes way up when they're working with a financial advisor. Also, I want to stress here that having a written financial plan isn't a one and done process. This is something that should be reviewed annually at a minimum, and really make it a live document. As you were talking, we're living in very dynamic times. There's a lot going on. When you refer back to your written plan, we're using that to help navigate whether we're in retirement and planning for retirement, or even while we're in retirement and trying to manage that nest egg. That's when we really feel those confidence, that optimism [crosstalk] retirement.

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Quinn Flaherty: That we all want.

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Michelle Munro: Of course, we want all that.

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Quinn Flaherty: Michelle, you spoke earlier about the long game and specifically for those, perhaps, pre-retirees who are planning their retirement. 2022, for those on a fixed income, those who are retired are facing different challenges. There's a question here about what do we tell those who are retired who may be on a fixed income? How can they adjust to these risks such as inflation?

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Michelle Munro: We're looking at that fixed income. We're looking at what are the different components of that income. For retirees, the two most common components are Canada Pension Plan and Old Age Security. Both of those are indexed for inflation. There could also be other components of that fixed income. Defined benefit plans often, but not always, indexed for inflation as well. So, of that retirement paycheque, those sources of retirement, what do we have that's indexed for inflation and how can we mitigate and then move forward? Also understanding our expenses. What is rising and how can we also reduce those expenses where we can?

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Quinn Flaherty: It's a very, very long survey each and every year. The report is 20 pages long, so it's pretty concise, what is your favourite aspect of the survey itself and the report? There's lots of different topics; we're changing parts of it each and every year, what really stands out to you? What gets you excited to dive through into the results?

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Michelle Munro: There's two components here that I want to dive into. In our survey we look at both male and female respondents. I'm always very interested in how females are responding. These trends are slower but really getting engaged in investments. Investments tend to be more male-dominated. I like seeing that aspect of it; women in investments feeling control over that, being involved. The second aspect is watching the trends of those who are working in retirement. "Working in retirement, what do you mean, Michelle?" How we distinguish that is retired from primary profession and then transitioning. So, really looking at those who are working in retirement, we are looking at the reasons why. Pre-retirees, a high percentage —I believe it's almost 60%— of pre-retirees expect to work in retirement in some shape or form and then delving into the reasons why. It's to stay social, to stay engaged, to stay busy. Those are all reasons to thrive. That's the primary reason.

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Secondary reason is financial reasons. When we look at those financial reasons, again, they're there to thrive, to have a nicer vacation, more vacations, nicer dinner out, more dinners out; types of those things to really enjoy their time. At retirement, I didn't coin the phrase but I'm going to say it again, a plan to work in retirement for financial reasons is not a strong retirement plan. The reasons that we're getting in our surveys are all really reasons to thrive.

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Quinn Flaherty: Excellent. My last question with the time we have remaining here; looking ahead to 2023, what kind of retirement trends or topics are you going to keep a close eye on?

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Michelle Munro: I find this really fascinating about how that vision of retirement ... a generation ago it was a hard stop of working and moving into retirement, whereas now it's so much more of a transition, so much more of an evolution. I find that really interesting in how that vision of retirement is going to change in ebb and flow.

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Quinn Flaherty: Every single year is an interesting year, and the 2022 Retirement Report is now available and will talk all about the insights and trends shaping retirement here in this country today. Michelle, thanks for joining us here on Fidelity Connects. We look forward to the next year we'll have you on the show to talk about the insights next year.

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Michelle Munro: It's a pleasure to be here. Thank you for having me.

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Quinn Flaherty: Thanks so much for joining us. I'm Quinn Flaherty and we'll see you again on Fidelity Connects very soon.

Ending: [00:26:29]

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Thanks again, see you next time.

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