
How Canadians regard lifetime income: CANNEX

By Editorial Staff Thu, May 17, 2018

Fewer than half of Canadians surveyed were confident in their ability to maintain their standard of living until age 90, while 58% would expect a decline in living standards if they reached 95.

Although Canadians may not feel compelled to bolt their front doors at night as carefully as Americans tend to do—as one of Michael Moore’s independent films glibly suggested—they are apparently just as nervous as their southern neighbors that the proverbial wolf might come lurking at their doors during retirement.

Only 45% of Canadians are highly confident that they can maintain their standard of living in retirement until age 85 and 29% aren’t confident about it, according to the second Canadian Guaranteed Lifetime Income Study sponsored by CANNEX Financial Exchanges, a provider of annuity product data and analytics to brokerages and other distributors.

The study was conducted by Greenwald & Associates with support from Sun Life Financial and The Great-West Life Assurance Co.

The percentage of Canadians surveyed who are not confident in their ability to maintain their standard of living until age 90 was 46%, and 58% would expect a decline in their standard of living if they lived to age 95.

Perceptions of annuities

Perceptions around the positives vs. negatives of guaranteed income products are generally consistent between the U.S. and Canada. Two-thirds of respondents value their protection against longevity, peace of mind, and easier budgeting. The top negatives mentioned were: Low access to money, not getting all your money back, difficult to understand, too many terms and conditions, and cost.

Financial advisors are the most common source of information about annuities (24%), followed by financial institutions (18%) and the news media (15%). These numbers are significantly below the U.S. study’s results, reflecting much lower levels of awareness of guaranteed lifetime income products. Consistent with the U.S., the decision to purchase these products is primarily driven by advisor recommendations.

“Among the three-quarters of respondents working with financial advisors, retirement

income conversations are largely focused around asset withdrawal, investments with dividends, or fixed income strategies,” said Sam Sivarajan, Senior Vice-President, Wealth Solutions, The Great-West Life Assurance Company. “Guaranteed lifetime income products, more often than not, aren’t part of these discussions.”

Of respondents who have discussed retirement income with an advisor, 44% had a conversation about taking a constant percentage of savings as income. Just 27% said income annuities and 16% said segregated funds were brought up as part of the conversation to provide guaranteed income. Among those who hadn’t discussed retirement income strategies with advisors, 40% reported that income annuities and segregated funds would be of interest.

Although 7 out of 10 individuals who owned guaranteed income products reported being satisfied, and 6 out of 10 considered them to be highly important to their financial security, how the products are labeled matters.

When a guaranteed income product was labeled as an income annuity or segregated fund, 41% reported a lower level of interest, the study showed. The annuity label was less of an issue for respondents than the concept of segregated funds - which few understand. In fact, 67% reported being unfamiliar with segregated funds for guaranteed lifetime income, while 41% said they were unfamiliar with income annuities.

The share of respondents who described guaranteed lifetime income as a “highly valuable supplement to government sponsored retirement plans” rose to 80% from 60% in the first Canadian GLI study conducted in 2015. The results are based on interviews conducted in February 2018 with 1,003 pre-retirees and retirees aged 55-75, with more than \$100,000 in investable assets (excludes value of home). The same study has been conducted for the U.S. market annually since 2014.

The study reveals the top retirement concerns of respondents. These include:

- Retirement savings not keeping up with inflation (48%)
- Low interest rates (47%)
- Not earning as much as possible on investments (46%)
- Losing money during downturns in the stock market (46%)
- Not being able to afford long-term care expenses (45%)
- Outliving savings (43%)
- Not having money for an emergency (43%)

Only 23% were concerned about their ability to cover basic expenses in retirement for food, rent or utility bills, while about two-thirds were not. In line with the fact that women outlive men on average, 35% of women reported being highly concerned about outliving their retirement savings compared to 20% of men.

Similar to the results of the U.S. study, respondents with lower asset levels and women expressed greater concern about retirement and stronger interest in guaranteed income products.

The findings show more women than men highly value the predictability of supplemental income in planning for their needs. Three-quarters (76%) of women rated guaranteed lifetime income as being highly important to meeting essential expenses in retirement compared to 64% of men.

The majority of pre-retirees expect a substantial cut in income when they retire, and, unlike their U.S. counterparts, Canadians expect the income they receive to decline through retirement. In the U.S., respondents were more optimistic that asset values would continue to grow in retirement.

More expect their highest expenses will occur early in retirement (42%), compared to those (20%) who anticipate them later in retirement. This is the reverse of expectations of those south of the border. Although meeting long-term care needs is a concern, Canadians are clearly less worried about its financial impact at the end of life than their U.S. counterparts.