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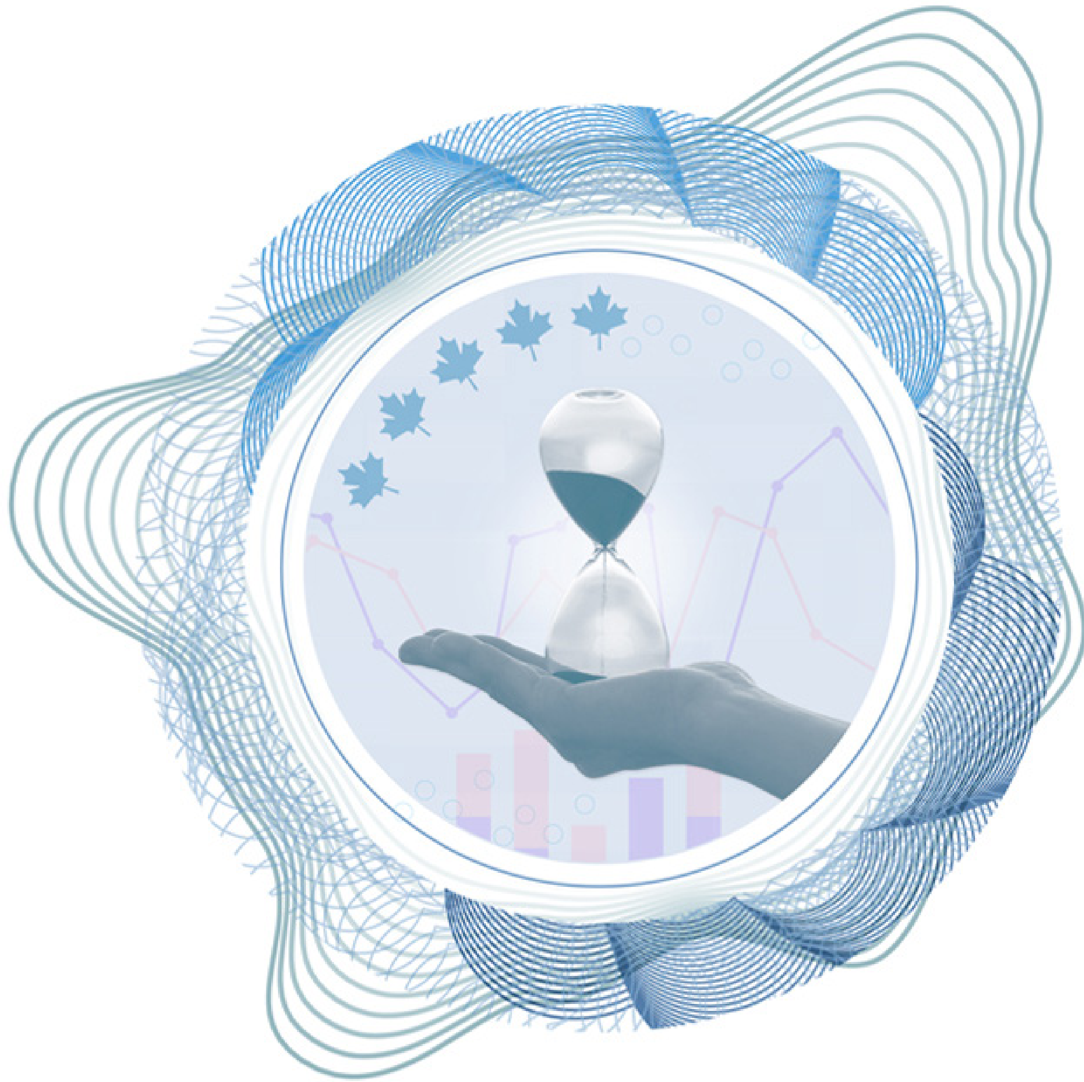


Running out of time

An urgent call to fortify Canada's private retirement pillars

3 Executive summary

10 Introduction

12 Canadians today are shouldering more retirement responsibility

22 The majority of near-retirees are financially unprepared

32 How to address the retirement readiness gap

48 How both households and financial institutions will benefit

53 Conclusion

Executive summary

Retirement readiness has long been recognized as a challenge for Canadians, but those now nearing the end of their working days are facing greater hurdles than ever before. While Canada's public pension system has undergone continual improvements and consistently ranks well globally, declining private sector pension participation and stagnating household savings rates have exposed Canadians to more retirement risks than in previous generations.

This is occurring against a backdrop of factors that are increasing the amount of funds required in retirement. Increasing longevity, higher debt levels among seniors, and rapidly rising care costs, for example, can quickly deplete any nest-egg savings they've set aside. Furthermore, Canada is facing a historic wave of retirement: the bulk of the post-war baby boomers—whose sheer number changed everything about society as their needs evolved (schools, the workforce, daycares, etc.)—is progressing through retirement. Adding to the challenge is how many pre-retiree parents are supporting, or have supported, their adult children financially, delaying reaching their own financial milestones, paying off debt, and saving for retirement.

To prepare for these shifts, Canada has spent a lot of energy and resources shoring up the public dimensions of the retirement income system—Canada Pension Plan (CPP), Old Age Security (OAS), Guaranteed Income Supplement (GIS), etc.—but comparatively little on the private dimensions, such as registered retirement savings plans (RRSPs) and private pension plans. It is now time to address the risks associated with the private pillars of our system, which have been building over time and, if left unaddressed, will erode the ability of many Canadians to enjoy retirement and diminish their confidence in the retirement income system more generally. We also need to take action to alleviate the risks associated with the increased care needs that can affect people in retirement.

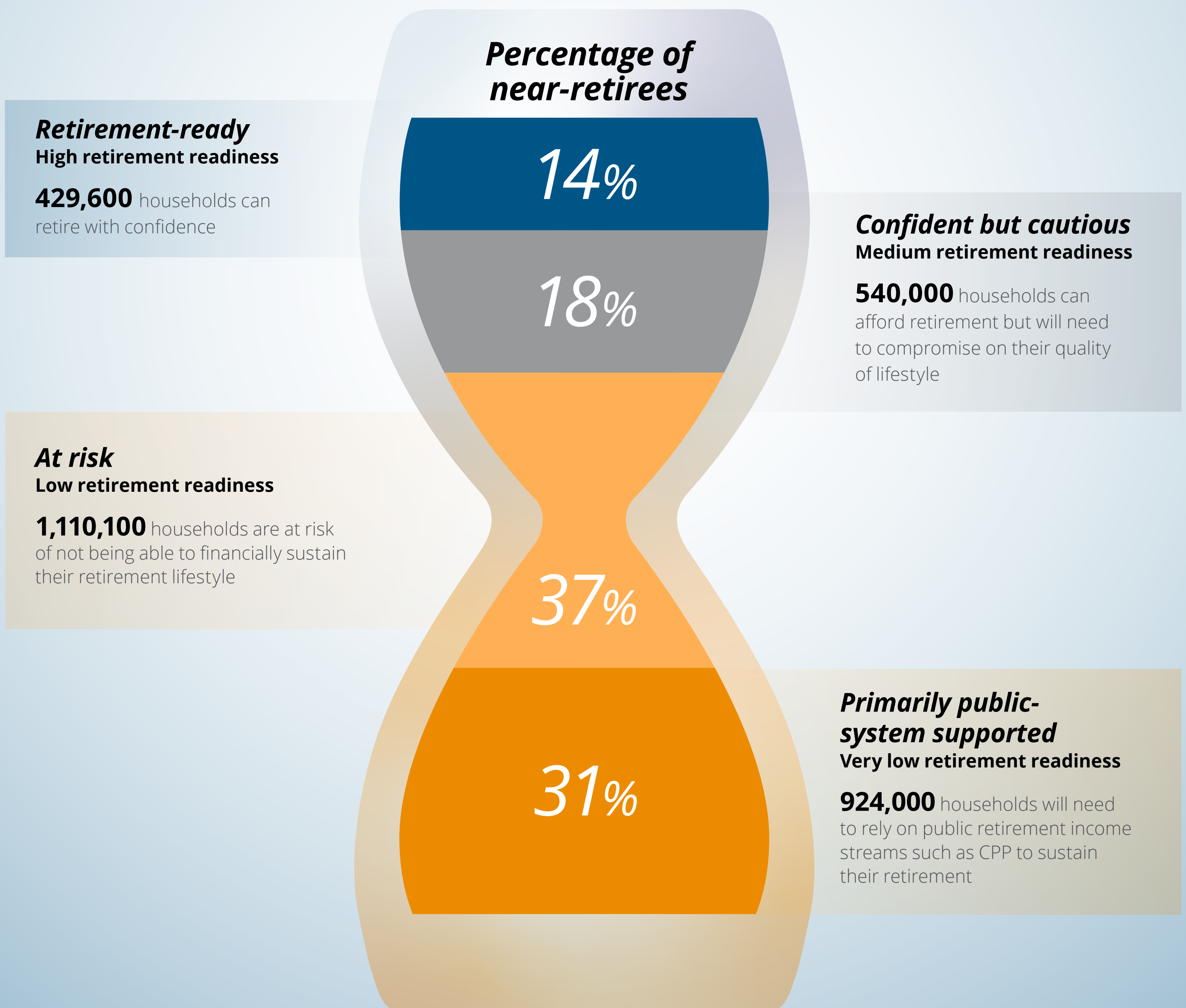
Deloitte conducted in-depth analyses to uncover the magnitude of this situation and how the financial services industry can help to address the fact that so many people aren't financially ready for retirement. The findings from our study involving nearly 4,000 near-retiree (i.e., between 55 and 64 years old) and retiree households are profound. We found that **55% of near-retiree households will have to make lifestyle compromises to avoid outliving their financial savings**—these are the middle-income Canadians who sit between the state-supported group and the well-off households and to whom we, as a country, are not paying sufficient attention. In addition, only 14% of Canadians will be able to absorb the cost of some form of senior care or other unexpected costs without becoming financially vulnerable. Left unaddressed, this readiness gap may not only make retirement a stressful journey but also create financial and emotional burdens for their families while passing on the costs to the next generation.

55%

of near retiree households will have to make lifestyle compromises to avoid outliving their financial savings

Retirement readiness

To develop appropriate solutions, it's important to understand the composition of the three million soon-to-retire households based on their retirement readiness. In assessing the value of their household assets and expected retirement lifestyle, near-retiree populations can be broken down into four segments:



1. ***Retirement-ready***
   429,600 households can retire with confidence (14% of near-retirees)
   They have over $900,000 in financial assets and typically own their primary residence. Almost all of them can absorb unexpected costs, such as long-term care. This segment is well served by financial advisors, with the advisory planning process increasing their level of retirement confidence.

2. ***Confident but cautious***
   540,000 households can afford retirement but will need to compromise on their quality of lifestyle (18% of near-retirees)
   They have between $400,000 and $900,000 in financial assets and many own their primary residence. Improved planning advice, better investment products, and accessible home equity release (HER) products could substantially improve this segment's quality of living during retirement. Furthermore, innovative insurance products that can support large, unexpected costs will help this segment be more financially secure in the later stages.

3. ***At risk***
   1,110,100 households are at risk of not being able to financially sustain their retirement lifestyle (37% of near-retirees)
   They either have some savings but not enough to sustain an average life expectancy or they're asset rich but cash poor, with the majority of their wealth tied up in real estate. Without proper support, this segment will face financial challenges during the later years of their retirement. Adequate financial advice and products could have a material impact by helping them to make their savings last longer and by unlocking liquidity from their real estate. Such products and services are needed to help them achieve financial sustainability.

4. ***Primarily public-system supported***
   The remaining 924,000 households will need to rely on public retirement income streams such as CPP to sustain their retirement (31% of near-retirees)
   As they do not have sufficient financial assets or own their primary residence, their pre-retirement income will be largely replaced by government programs during retirement. This group will be particularly vulnerable to unexpected costs such as care needs, which will require broader private-public collaboration to address.

In the coming years, meaningful policy changes to the public pension system are expected to help Canadians better prepare for retirement: increased CPP and Quebec Pension Plan (QPP) maximum pensionable earnings, increasing CPP income replacement, and permitting deductions for excess CPP contributions. While public retirement income sources will help Canadian households access bare-minimum necessities like food and shelter, we believe that, to enjoy a modest retirement lifestyle, many will still need to prepare to effectively manage their financial and non-financial assets.

It is within this space that the private sector can help people increase the longevity of their assets throughout retirement.

Financial institutions (FIs) and government policies must break prevailing orthodoxies, make use of innovation, and develop more human-centric products and services. In particular, the two middle segments of near-retirees have been traditionally underserved by asset-under-management (AUM)-centric service models, and yet they have enough assets—spread across pensions, personal savings, and real estate—for financial solutions to have a meaningful impact on their quality of living in retirement by unlocking substantial profit pools.

To address the fast-approaching challenge of retirees not having saved enough to retire comfortably to the end of their days, we propose three main categories of solutions:

1 Improve the quality and accessibility of near-retirement advice

The first set of opportunities centres on improving the quality and accessibility of near-retirement advice and products, which financial institutions will find profitable.

- **Establish simplified and accessible retirement readiness checks to help those nearing retirement contextualize their preparedness and address any gaps in their plans.** Retail banks and insurance providers could develop a standardized retirement check-up process to help clients with at least 10 years until retirement to manage their financial well-being and set them up for long-term success.

- **Create data-driven, holistic, near-retirement planning offerings.** By tapping into data and analytics, FIs can help near-retirees aggregate their assets and liabilities and develop tax-efficient, budget-based draw-down plans without having to rely on heavy manual efforts.

- **Implement a cross-sector, data-sharing framework to provide customers with a holistic view of their assets and liabilities.** A coordinated framework for sharing data across banks, wealth managers, life insurers, government programs, and real estate will improve the robustness of near-retirement planning.

- **Develop retirement income products that increase the degree of certainty on cash flows.** Income, not total assets, matters. Financial institutions can help retirees consolidate their various assets into one predictable income flow, mimicking a paycheque-like experience. While annuities are intended to provide a steady stream of income, complex product constructs, fees, and inflexibility have made them a less than optimal choice for retiree households.

- **Adopt tranched risk management strategies to extend the longevity of retirement savings.** Many retirees' assets are allocated to conservative portfolios, despite an increase in life expectancy and high inflation rates. To maximize their clients' capital gains over an extended investment time horizon, wealth managers can optimize retirement portfolios by deploying strategies in three shorter-term tranches with varying risk tolerance (for the early, mid, and late stages of retirement) instead of deploying a portfolio with a single risk allocation.

- **Address the emotional friction surrounding HER products and increase supply in the market.** While real estate equity can provide much-needed cash flow to retirees, only 3% of near-retirees feel comfortable using or even considering reverse mortgage and HER products. Advice-led sales experience and distribution partnerships with mainstream institutions can improve confidence in such products. In addition, regulatory bodies could make these products more mainstream and trusted by introducing more standardized rules around minimum qualifying criteria, maximum draw-downs, and longevity risk management.

- **Convert private sector pension plans to the public sector model.** Private sector pension plans could realize higher rates of return and produce guaranteed lifetime income for retirees if they followed a model similar to that of their public sector counterparts. By having a centralized system that pools and manages all private plans, pension participants would benefit from high savings rates, good economies of scale, and effective transfers of savings into wealth-producing capital.

2 Devise expense management strategies during retirement

The second set of opportunities revolves around helping retirees improve their cash-flow management and deal with rising costs.

- **Foster ecosystem alliances with health care and long-term care organizations to establish innovative financing schemes.** Organizations in the financial and health care sectors can work together to lower costs for their client base while securing demand early on. This senior care ecosystem could apply a buy-now-pay-later approach to help retirees smooth out large costs and prolong their investment returns by avoiding taxation on lump-sum withdrawals.

- **Create conditions to ensure all Canadians have equal access to quality health care through virtual channels.** Expanding virtual care is crucial for containing the costs of Canada's senior care ecosystem. This strategy would ensure a standardized level of quality care nationwide while addressing provincial or territorial shortages in coverage.

- **Leverage health care data and preventive health measures to predict care costs early.** Financial institutions can partner with employers and public and private health care providers to organize physical health check-ups for early diagnoses as part of people's retirement planning. By using health care data to budget for the likely costs and identify possible preventive measures, people can adjust their spending in their early retirement years and reduce the potential for severe health and financial outcomes.

- **Scale individual insurance products to cover unexpected expenditures.** Insurance companies can provide discounted coverage for employees with aging family members who are or might become in need of health care or long-term care support. This would help alleviate the financial burden employees can face while taking care of their senior relatives. Insurers can also extend existing health benefit plans to new retirees as opt-in individual plans to address coverage shortfalls during retirement. That way, employees can avoid going through a new underwriting process, which often ends up being more expensive. Moreover, insurance companies can address the coverage shortfalls of low-income households by introducing specific and affordable products, such as health microinsurance. Such coverage plans would be a reasonably priced way for vulnerable households to access quality health care that would otherwise be out of reach. Insurance providers could unlock substantial recurring revenue pools through mass-market scalability.

- **Shift more long-term care patients to home-care to improve their quality of care and reduce the burden on health workers.** The federal government can address the shortage of health care practitioners by re-evaluating immigration and licensing requirements for overseas-trained doctors and nurses to make it easier for them to seek employment in Canada. With the country facing a shortage of caretakers for senior citizens, some of these practitioners could work with patients seeking home-care in lieu of institutionalized long-term care. The government can also collaborate with private sector firms to develop digital employment platforms to better match senior care demand with gig-economy care workers, thereby increasing the overall accessibility of long-term care.

- **Consider universal insurance.** Canada's aging population may require federal and provincial/territorial governments to increase their spending on health care and long-term care. Government leaders should evaluate the feasibility of universal, mandatory, public insurance plans for long-term care to ensure equal quality of and access to care, regardless of whether a person lives in a big city, small town, or remote village.

- **Develop personal financial-management experiences for seniors to help with expense control.** Expense-monitoring applications with trigger-based notification features can help seniors track their monthly expenses and control their spending. Such features may include expense forecast functions that account for recurring monthly bill payments to give visibility into upcoming cash outflows. These types of functions could help seniors see the impact of their choices on distant years.

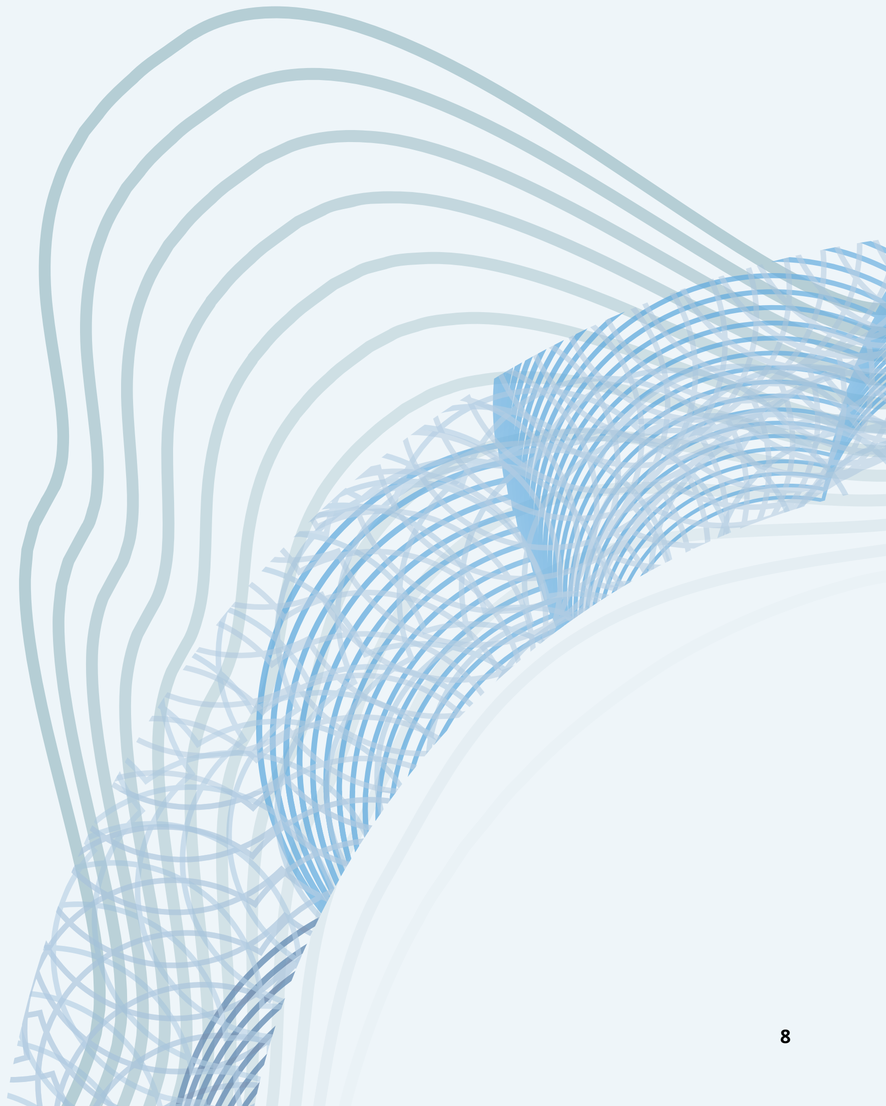
- **Create employment programs that provide extended and meaningful post-retirement work to address income shortfalls.** Some retirees seek a return to the workforce to supplement income shortfalls or to find meaningful experiences. Shifting away from simple labour toward knowledge-based opportunities can lead to better outcomes for both retirees and employers.

3 Help Canadians build healthy savings habits early on

The third set of opportunities focuses on continuing to incentivize Canadians of all ages to build healthy savings habits as early as possible. Otherwise, the retirement challenge will be passed on to future generations.

- **Bring retirement planning closer to the workplace.** Only 24% of private sector workers participate in employer-sponsored pension plans. Employers and plan providers can help employees overcome behavioural inertia by better contextualizing, during pension enrolment, just how much money is needed for a comfortable retirement.
- **Create incentive programs focused on cultivating healthy savings behaviour.** While many savings and investment products reward large balances, few provide incentives for recurring savings. By providing better pricing and other monetary benefits, FIs can support healthy habit-building while also improving the likelihood of customer retention.
- **Consider making pension plan contributions mandatory.** To battle low contribution rates, mandatory participation would allow employees who earn relatively low incomes to avoid missing out on employer-paid contributions. Automatically adding to their pension balance every month would make a material difference to their standard of living in retirement.

These solutions require many parts of the Canadian financial services ecosystem—banks, wealth management firms, insurance providers, regulators—to work together. The health care and public sectors also have pivotal roles to play, by introducing their own solutions and working alongside FIs. Through such efforts, we believe that **more than 38% of Canadians nearing retirement could achieve greater financial security.**



For millions of Canadians nearing the end of their full-time working years, retirement is fraught with anxiety, uncertainty, and stress. All of us have a duty to address this challenge—for the retirees, their families, and future generations. Together, we can make a difference by building on Canada's long history of innovation to create a more vibrant private retirement system.

Introduction

Canada is about to face an unprecedented number of its citizens leaving the workforce to enter retirement.

Over the next 10 years, 14% of Canadians—that's three million households*—are set to retire. However, minimal growth in dedicated savings and a recent, rapid increase in retirement expenses will leave the majority of them financially vulnerable. Left unaddressed, this gap in readiness will make retirement a stressful journey and create financial and emotional burdens for their families and communities.

More than ever, Canadians require radical and innovative solutions beyond simply increasing their savings or soliciting financial advice. Financial institutions have an opportunity to transform the landscape by giving people a better set of tools to prepare for retirement while helping them navigate the rising costs they should expect to face. Other industries, such as health care and the public sector, must also have a hand in developing solutions.

For this report, we investigated the major drivers of the retirement challenge, gauged the magnitude of the problem, conducted primary research with 4,000 retiree and near-retiree households, and identified commercial opportunities for FIs to narrow the readiness gap.

* A household, as defined by Statistics Canada, refers to a person or group of persons who occupy the same dwelling and do not have a usual place of residence elsewhere in Canada or abroad. The dwelling may be either a collective dwelling or a private dwelling.

Canadians today are shouldering more retirement responsibility

Many factors are contributing to the widening readiness gap—a shift in traditional retirement vehicles, rising everyday costs of living, and longer lives are just a few. Let's examine the major drivers of this gap more closely.

Households are not saving enough

In the past, many households could count on the "three-legged stool" to fund their retirement: social security, personal savings, and, perhaps most crucially, employer-led pensions. While the first leg—the CPP plan—consistently ranks highly on a global scale for providing income security to citizens, a shift over the last two decades in the private sector's employer-led pensions model has put downward pressure on Canadians' ability to save enough. This is due to employers having transitioned from offering defined benefit (DB) to defined contribution (DC) plans to their employees. Low employee participation in DC plans and stagnated household savings rates due to rising everyday living costs have exacerbated the savings challenge.

The burden of retirement savings has shifted from employer to employee

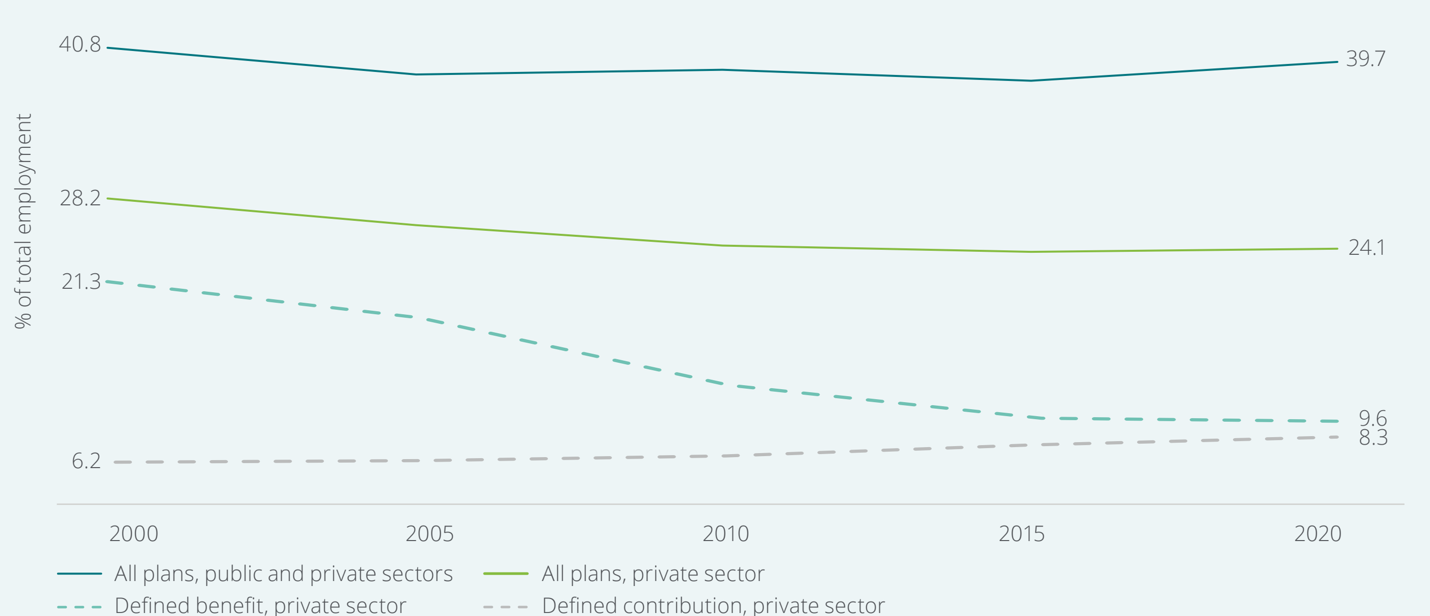
Employers have largely moved from provisioning DB to DC plans for their employees in the last two decades. Since the year 2000, overall pension plan enrolment has remained steady at around 40%. However, the total percentage of employed Canadians registered under defined benefit plans has fallen by 7.7%.[1] This reduction in coverage is particularly prominent in the private sector; in the last two decades, the percentage of private sector employees covered by pensions fell from about 28% to 24%, and DB coverage saw an even more prominent reduction, from about 21% to 9%. A portion of this decrease in DB plan membership came from conversions to DC and other plans (such as hybrid or composite plans, which combine defined benefits and defined contributions). The rate for DC plan participation in large organizations (more than 1,000 members) is only 54%, which means that nearly half of employees miss out on the benefit of employer contributions to their retirement savings.

72%

of near-retiree Canadian households feel they are not saving enough for retirement

The DB to DC shift has presented employers with several benefits from a cost and future liabilities perspective. Under DB schemes, the employer guarantees a defined amount of lifetime income to retired employees and is solely responsible for this promise. DC plans transfer the investment risk to employees—because they are required to choose their desired investment and contribute to their chosen fund, the burden of saving has fallen to them. As a result, DC plans have led to uncertain cash flows for retirees, exacerbating the retirement savings shortage.[2]

Figure 1: Registered pension plan membership as a percentage of Canada's active labour force from 2000 to 2020



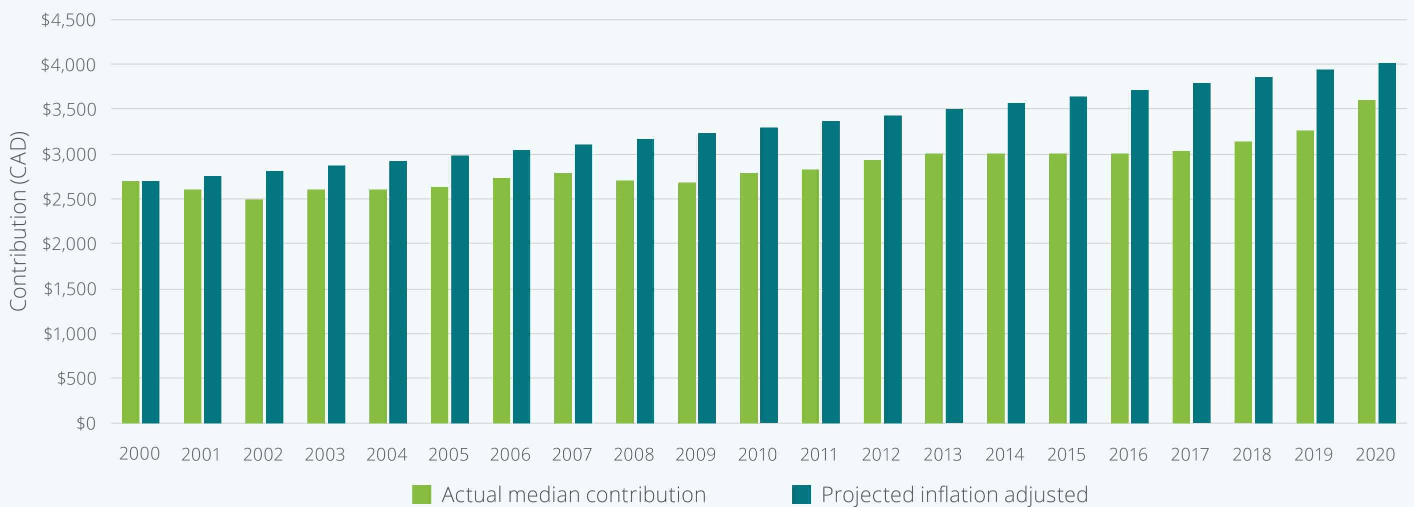
Source: Statistics Canada

Individual savings rates haven't kept pace with the move to DC plans
Individual RRSP contributions have not kept up with inflation. In 2000, 6.3 million Canadians contributed to their RRSPs, with a median contribution value of $2,700. In 2019, 5.9 million people made such contributions, with a median contribution value of $3,260. Adjusted for inflation, this means that Canadians in 2019 only contributed $2,298 in 2000 dollars. Among Canadian households, near-retirees have a particularly difficult time saving due not only to rising living costs, but also to other financial obligations, such as funding their children's needs and supporting their parents.

A full 82% of near-retiree households have attributed rising everyday costs as a reason for feeling anxious about their retirement savings. This concern becomes more pressing for those without a plan in place, because it heavily impacts their ability to save for a secure retirement.

Prioritizing spending today over long-term accumulation indicates a lack of healthy savings behaviour. Compared with the other G7 countries, Canadian households dedicate the largest share of their income to service their debts.[3] People often focus on their short-term needs, believing they still have plenty of time to save for the future. Such short-sightedness has become prevalent among Canadians and has damaged their ability to adequately prepare for retirement. The intangibility of long-term goals, higher living costs, and the need to service rising short-term debt are all major factors in this challenge.

Figure 2: Difference in actual vs. ideal RRSP contributions from 2000 to 2020



Source: Statistics Canada and Deloitte analysis

People struggle to contextualize how much they should save
In the absence of advice, people lack the financial literacy to forecast their savings and feel confident about retirement—**approximately 40% of retirement wealth inequality is due to a lack of financial knowledge.**[4] Financial literacy enables households to better allocate lifetime resources for retirement by fostering healthy savings habits and better decision-making.

Furthermore, the conventional advice financial advisors provide centres on asset allocation and the portfolio construction process. While investment management is crucial for retirement planning, advisors' advice falls short in terms of contextualizing retirement savings and encouraging savings habits through appropriate incentives. Although the Canadian financial industry has seen significant growth in digitally enabled advice offerings, the majority of advice propositions still focus on how much a person needs to save without visualizing how much they need to maintain their desired lifestyle.

Retirement costs are projected to rise rapidly

Retirement advisors often advocate saving, but the other side of the equation—cost—is left out of the discussion. Witnessing a stark increase in costs, retirees are growing concerned over their ability to afford them.

Canadians are living longer than their retirement plans assumed
Due to longer life expectancies, the key assumptions advisors often use to frame retirement planning no longer hold true. Plans must be tailored to accommodate more years of living and the associated complications. For example, health-related expenses and care costs tend to increase the longer one lives. Macroeconomic challenges also need to be considered, including higher rates of inflation and potentially lower investment returns. The risk of an individual outliving their retirement savings is much higher than it was for past generations.

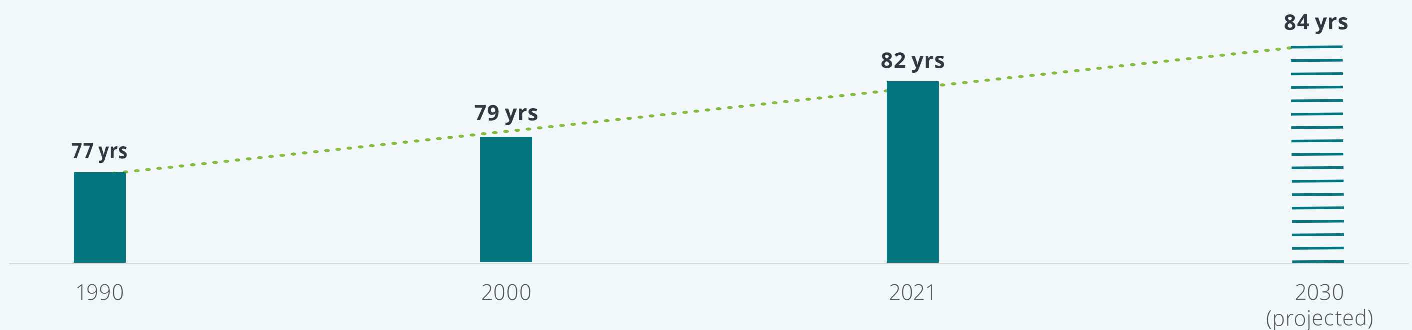
With rising per-unit health care expenses, the cost of elderly care is expected to nearly double by 2031, rising from $30 billion per year in 2021 to $60 billion. Long-term care expenses have been a blind spot in retirement savings planning—only 33% of near-retirees are concerned about them. As a result, there is a high likelihood that the majority will run out of money in long-term care and place pressure on their family members to help. In Canada, family members are expected to increase their caregiving efforts by 40% to keep up with the needs of their elderly loved ones.[5] This will likely be an acute challenge in the decades to come, as families bear both the emotional and financial burdens of caring for elderly family members. Moreover, higher care costs will disproportionately impact lower-income households.

While almost ½ of seniors aged 75 or over live with a disability and require some degree of care, only

26%

of near-retirees identified long-term care affordability as one of their retirement targets

Figure 3: Average life expectancy in Canada from 1990 to 2030



Source: Statistics Canada

Demand for care is outpacing supply and accelerating cost increases

An important demographic milestone was marked in 2021—it was the first year that some of Canada's largest generational cohort, the baby boomers, turned 75. As a larger share of boomers moves into an age bracket that's associated with greater care needs, there will be rapid growth in the demand for home and long-term care. A study commissioned by the Canadian Medical Association and Deloitte predicts that demand for long-term care will increase to roughly 1.8 million patients by 2031, up from nearly 1.2 million in 2021.[6] The health system is already struggling to meet the current need due to a shortage of health care professionals; by 2030, there will be a shortfall of 117,600 nurses nationwide.[7] Furthermore, a third of registered nurses currently providing direct care are aged 50 or older and nearing retirement themselves, placing additional pressure on a system that's already stretched thin.[8] This shortage in resources, along with a growing senior population, will increase per-unit health care costs and add more strain on retirement savings.

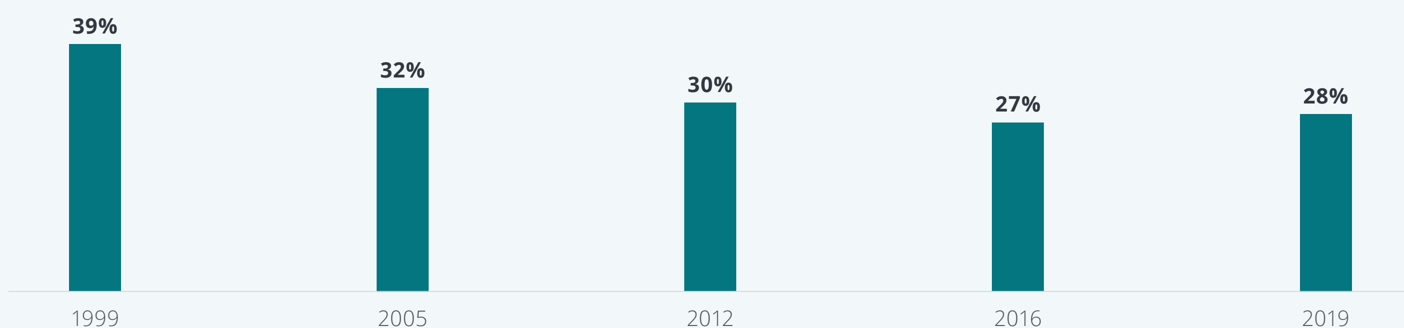
More retirees are carrying debt into retirement, further straining cash flows

Holding more debt into retirement necessitates drawing down retirement funds faster than planned. It's possible that many Canadians will need to make significant lifestyle changes during retirement to make ends meet. Of the 72% of near-retiree households that feel less confident in their ability to retire comfortably, we found that approximately 55% cannot afford to contribute toward retirement due to rising living costs and inflation, so they will have to make lifestyle compromises to avoid outliving their financial savings. From 2000 to 2022, the median value of non-mortgage household debt—including credit card debt, auto loans, and lines of credit—has increased by approximately 17%.[9] This trend has been bolstered by new lending and higher inflation-linked spending, which have dampened the ability of near-retirees to prepare effectively. To add to this, our research shows that approximately 25% of retirees are holding mortgage debt into their golden years.[10] As a result, Canada's household debt in 2023 is now the highest among G7 countries, with 75% of it attributable to mortgages.[11] As of 2019, only 28% of senior households in Canada were debt-free, an 11% reduction from 1999.[12]

We also discovered that 44% of working Canadians are dipping into their retirement savings to pay for non-retirement-related expenses. Of those households, 37% did so because they needed to cover their daily expenses or other household debt. Interestingly, the households that do not have a professional financial plan are more likely to prematurely tap into their retirement savings to pay down debt than those that do. Carrying both non-mortgage and mortgage debt into retirement does not bode well for the financial security of near-retirees, especially those without proper plans or strategies in place.

Rising living costs and debt levels have made it difficult for near-retiree households to adequately save for retirement. Specifically, increases in health care and long-term care costs are presenting greater obstacles than ever before. Within this environment, Canadian households are finding themselves unprepared to tackle this challenge while shouldering more retirement responsibility than previous generations.

Figure 4: Percentage of debt-free Canadian households aged 55 to 64 from 1999 to 2019



Source: Statistics Canada

Near-retirement advice and products are inaccessible or inadequate

While high-quality advice and products are available in the market, they tend to concentrate on those with a substantial amount of investable assets, which creates both a gap and an accessibility barrier for those who need near-retirement planning and advice the most. Current solutions are either too costly, unfit to meet individual needs, or cannot keep up with exogenous changes in the market.

High-quality planning isn't accessible to those in need

Financial planning is essential for all Canadians because retirement planning is complex and onerous. From investment planning and tax considerations to cash-flow management, there are several aspects to consider when creating a comprehensive financial plan.

While high-quality retirement planning exists, including scenario-based decumulation planning and data-driven, draw-down optimization, it's often only available to households with a significant amount of investable assets and too expensive for most Canadians. For example, some financial advisors charge 1% to 2% on assets under management (AUM), an upfront fee of $1,000 to $3,000 per advisory session, or hourly rates of between $200 to $400.[13]

Considering most Canadians are excluded from these services, it should be no surprise that we found that a staggering 58% of near-retiree and retiree households do not have a formal or detailed plan in place. Low-income households were less likely to have one compared with their more affluent counterparts, confirming that high-quality retirement planning is inaccessible to those in need of it. These households were therefore much more likely to seek retirement advice from friends and family to close the financial advice gap.

Only

35%

of near-retiree and retiree households seek advice from a financial advisor about saving for retirement

Individual wealth has shifted to real estate, which is less liquid and more volatile

Over the past two decades, the equity built up in homes has surpassed private pension and non-pension asset growth and comprised roughly 46% of a Canadian's net assets in 2019, compared to 38% in 1999.[14] Furthermore, housing prices in Canada increased by more than 318% from 2000 to 2020.[15] While the value of real assets has grown significantly, home equity has traditionally been illiquid and a challenge to access, leading to a constraint in household cash flows.

Moreover, the value of housing in Canada has been more volatile than people anticipated, resulting in a tendency to overestimate the value of their real estate. This volatility averaged 3.3% from 2007 to 2022.[16]

There also appears to be a prevailing taboo around using real estate to fund retirement. We found that only 17% of near-retiree Canadian households would consider using their real estate to supplement their retirement income. Of those who do not want to use their home equity, 35% do not like the idea of losing their home and 21% want to leave it for the next generation.

To solve this liquidity problem, HER products, such as reverse mortgages, have been made available in the market to help retirees tap into the value of their homes to fund their retirement. One of the primary providers of reverse mortgage products in Canada reported a 262% year-over-year increase in reverse mortgage adoption in the first quarter of 2022, with the value of outstanding balances at $5.4 billion.[17]

While the adoption of reverse mortgages has grown substantially over the past decades, there's a scalability challenge in the Canadian market. The often-high fees make them a less than optimal retirement product. Among the households that do not plan to use these products, 24% of near-retirees and 26% of retirees find the cost a major pain point. With real estate quickly becoming a prominent asset class, however, it will be difficult for near-retirees to balance their post-retirement cash-flow needs with wanting to pass on wealth to their offspring.

Figure 5: Housing price volatility in Canada from 2008 to 2022

Source: Statistics Canada

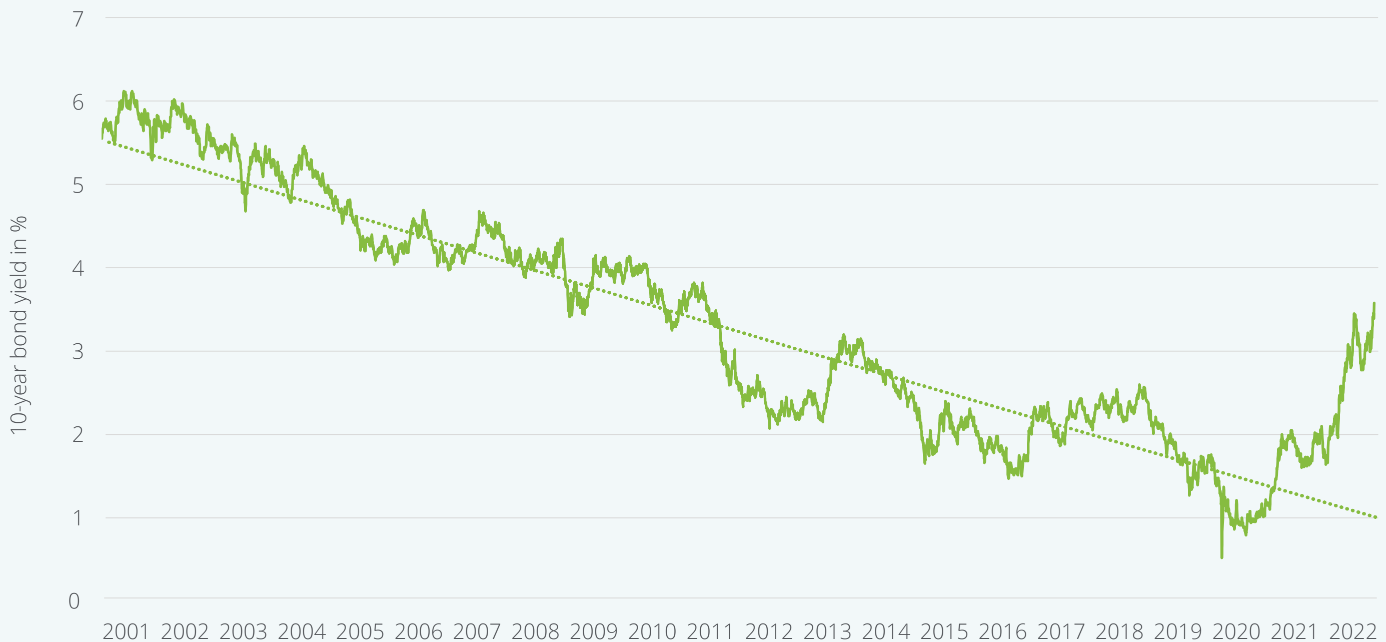
In-retirement strategies haven't evolved
While the investment portfolios of Canadian households should be conservative in retirement, they needn't be so throughout the first 15 to 20 years of retirement. While a conservative asset allocation makes it more likely that investments will not fail due to adverse market conditions, it also means retirees will largely miss out on equity premiums. Wealth managers have traditionally put near-retirees on an extremely conservative path under the assumption that retirement will only last for a brief time. With increasing life expectancy, there's a greater possibility that retirees will outlive their investments and run out of money. We discovered that 80% of retirement plan participants have not invested in the recommended amount of equities to capitalize on equity premiums for fear of losing money in the short term.

However, traditional bonds in Canada have yielded returns of approximately 1.4% in the past decade, lagging the average inflation rate of 2.2% for the same period.[18] Thus, prevailing investment strategies for retirement are dissonant with changing market conditions.

Current retirement products are inadequate for solving cash-flow issues
Another challenge retirees face is that they don't have an easily accessible way to convert assets into predictable cash flows. While annuities seek to solve this by providing a steady stream of income, they remain unpopular. We found that 57% of near-retiree and retiree households are unfamiliar with annuity products.

On top of that, most annuities offered by Canadian life insurance companies do not come with consumer price index protection, which can cause retirees to lose purchasing power over time. There's a perception that these products are an expensive solution due to high administrative and fund expense fees—26% of near-retiree and retiree households cite cost as being a significant hurdle to adopting annuities, with lower-income households being the most sensitive to the cost. Finally, retirees looking to cash out their annuities early could face heavy withdrawal penalties. Low-income households are already under financial duress as they seek to pay off outstanding debt or to deal with the unpredictable emergencies that become more prevalent during retirement.

Figure 6: Government of Canada benchmark 10-year bond yields from 2001 to 2022



Source: Bank of Canada

The growing protection gap for retirees is due to missed opportunities to assess needs while they can still be underwritten
Once employees retire, extended health benefit packages offered through group insurance plans become void; nearly 75% of near-retirees will not carry over the same employer-sponsored health coverage. Retirees must find their own life and health insurance plans because some health care costs, such as prescription drugs and non-essential dental care, aren't covered by government health plans like the Ontario Health Insurance Plan (OHIP).[19]

Most near-retirees do not fully anticipate the out-of-pocket health care and care costs that can arise during retirement and thus forego purchasing comprehensive health care plans. Despite annual out-of-pocket health care expenses for senior Canadians increasing by 27% over the past two decades, coverage shortfalls are still common among retirees.[20] We found that 40% of retirees have not purchased health insurance, of which 44% cite expensive premiums as the primary reason for not doing so. By the time people realize that additional coverage could have helped alleviate the financial and emotional burdens of health complications during retirement, it's often too late as the premiums on health insurance products have already increased substantially. The inaccessibility of quality financial plans, cash-flow constraints from illiquid home equity, macroeconomic uncertainty, and a lack of sufficient health care coverage have dampened the retirement preparedness of households across the country. They also face pressures from rising retirement costs that inhibit their ability to generate retirement savings.

Figure 7: Summary of retirement drivers and their contributing components

Households are not saving enough

- The burden of retirement savings has shifted from employer to employee
- Individual savings rates haven't kept pace with the move to DC plans
- People struggle to contextualize how much they should save

Retirement costs are projected to rise rapidly

- Canadians are living longer than their retirement plans assumed
- Demand for care is outpacing supply and accelerating cost increases
- More retirees are carrying debt into retirement, further straining cash flows

Near-retirement advice and products are inaccessible or inadequate

- High-quality planning isn't accessible to those in need
- Individual wealth has shifted to real estate, which is less liquid and more volatile
- In-retirement strategies haven't evolved
- Current retirement products are inadequate for solving cash-flow issues
- The growing protection gap for retirees is due in part to missed opportunities to assess needs while they can still be underwritten

Retiring from work should be a rewarding moment, a celebratory end to an industrious career, and the start of one's golden years. Yet the shortage and inaccessibility of quality retirement advice and products, rising living costs, and financial unpreparedness are making it a daunting and emotional challenge for many near-retiree households. We found that ***72%*** of near-retirees are not confident in their ability to retire comfortably and more than half are still feeling vulnerable even after leaving the workforce. As outlined in the next section of this report, this challenge translates into more than just financial hardship for the people who are entering retirement, it has a sizable impact on their loved ones as well.

The majority of near-retirees are financially unprepared

If current socioeconomic trends (such as the increase in life expectancy and living costs) continue in the coming decade, nearly 55% of near-retiree households will have to make lifestyle compromises to avoid outliving their savings. Factoring in long-term care and unexpected expenses during retirement will result in nearly 73% of near-retirees needing to make drastic lifestyle changes to sustain themselves in later stages.

Although this number is significant, there are opportunities for the private sector to provide better products and services to help protect Canadian households against their growing share of financial risks.

Methodology of analysis: a consumption-based approach

When assessing household retirement readiness, the income replacement approach has long been the standard method used by researchers and academics. It focuses on estimating the percentage of pre-retirement income that individuals or households will need to replace. This offers several benefits, including simplicity and a straightforward benchmark for retirement savings goals.

However, to enhance our analysis and gain a more comprehensive understanding of retirement readiness, we recognize the value of incorporating a consumption-based approach. By looking at retirement using a consumption-based lens, we are able to estimate the post-retirement expenses people should be prepared for to maintain their desired standard of living. This approach considers individual spending patterns, specific expenditure needs, and desired lifestyle factors. The consumption-based approach also considers inflation, adjusts for changing living costs over time, and provides flexibility in adapting spending patterns and lifestyle choices during different stages of retirement.

The insights provided by the consumption-based approach allow us to discuss quality-of-life implications and unexpected retirement costs in a statistically relevant manner. Combining insights from the income replacement and consumption-based approaches has allowed us to develop a more holistic assessment of retirement readiness for Canadian households and yields a result that is aligned to the income replacement ratio.

If current trends persist, nearly

55%

of near retiree households will have to make lifestyle compromises to avoid outliving their savings

Alternate methodology: An income replacement approach to determine retirement readiness

The income replacement approach, while not directly used in this paper's economic model, is a commonly used method to assess the financial readiness of retirees by comparing their projected retirement income to their pre-retirement income. Specifically, it focuses on determining the percentage of pre-retirement income that retirees will be able to replace with their post-retirement income.

To evaluate retirement readiness using the income replacement approach, three key factors are considered:

1. **Pre-retirement income**
   This is the income an individual earns before retiring, typically measured as their annual salary or wages. The accuracy of the income replacement approach is contingent on the quantity and robustness of its income-related data sets.

2. **Retirement income**
   This includes all potential sources of income during retirement, such as pensions and OAS benefits available to the individual after they stop working.

3. **Target replacement rate**
   The target replacement rate is the percentage of pre-retirement income that a retiree should aim to replace. The replacement rate can vary depending on individual circumstances and desired lifestyle in retirement. According to a 2009 report by the University of Calgary's School of Public Policy, target replacement rates in Canada commonly range from 60% to 100% of pre-retirement income.

Using this approach, individuals can assess whether their projected income will be sufficient to meet their financial needs. If the replacement rate falls below the desired target, they may need to adjust their strategies to ensure a more comfortable retirement.

Estimating the baseline for retirement savings

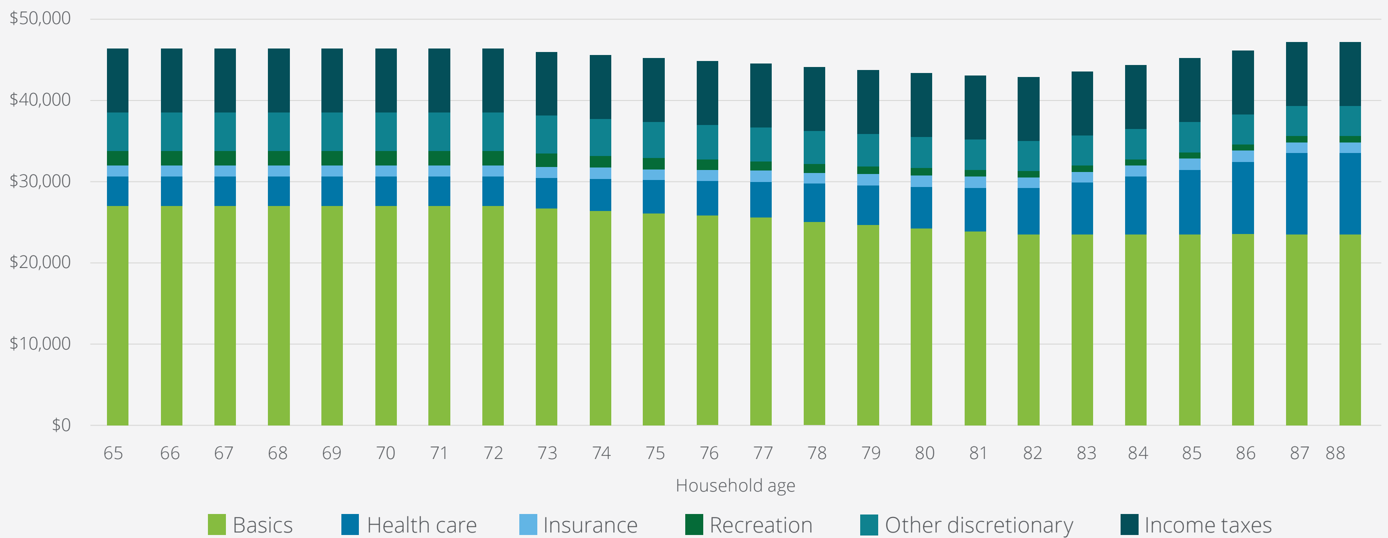
To be able to maintain a modest retirement lifestyle until the average Canadian life expectancy of 82, a near-retiree household today should have saved at least $340,000 (pension savings included). We define this baseline as the amount of savings required to meet everyday basic needs (shelter, clothing, groceries, transportation, etc.), health care, insurance, and other discretionary expenses during retirement. With this modest lifestyle, retirees can still enjoy a quality of life above the bare-minimum necessities.

Figure 8 projects the annual living expenses a retiree household should be prepared for to maintain a modest living standard. As retirees age, their household needs and spending objectives change in tandem with their health and financial circumstances. Thus, household expenses vary across early-, mid-, and late-stage retirement. The sharp rise in household expenses in the later stages is mostly attributable to increased out-of-pocket health care expenses. Our financial model also accounts for a decrease in other expenses—e.g., recreation, transportation, and miscellaneous expenses such as restaurants—as households enter mid- and late-stage retirement.

Expenses fluctuate depending on different needs and priorities in the various phases of retirement. Although most people believe their spending will decline, this is not always the case. As medical needs increase with age, retiree households will require more income every year to pay for them. Although many retiree households will receive benefit payments from the government (OAS, CPP, and GIS), these benefits need to be supplemented with other sources of income to maintain a modest retirement lifestyle.

While government security programs will cover life necessities for retirees in a bare-minimum lifestyle, retiree households will need an additional $340,000 in financial savings—over and above the income from government social security programs—to achieve a modest retirement lifestyle to the age of 82.

Figure 8: Annual projected household expenses (including taxes) for a modest retirement lifestyle (2022 dollars)



Note: Annual expense amounts have not accounted for inflation or the impact of rising living and health care costs.
Source: Deloitte analysis

Canadian social security programs ensure bare minimum life expenses are covered during retirement

The Government of Canada, through its globally recognized social security measures such as CPP/QPP, OAS, and GIS, aims to ensure that bare-minimum living expenses (e.g., food and shelter) are covered and to avoid poverty among senior retirees. In the coming years, meaningful public policy measures are expected to help Canadians meet a minimum quality of life: increasing CPP maximum pensionable earnings, increasing CPP income replacement, and permitting deductions for excess CPP contributions.

We have observed that for households with less than $35,000 in annual income, the income replacement ratio becomes almost 100% funded from government subsidies. While these payouts can help retirees support bare-minimum living expenses, they might not be enough to help retirees have even a modest quality of life. Therefore, retiree households may need more out-of-pocket funds to support a stable and enjoyable retirement while also having enough financial capacity to cover unexpected expenses such as health care costs.

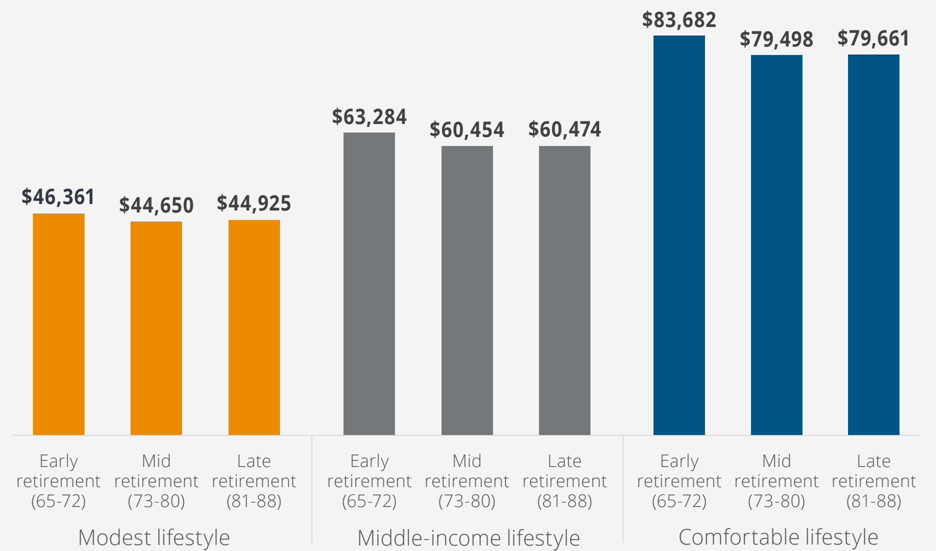
Saving for a desirable retirement

Many retirees envision a good quality of life throughout their retirement years. This means enjoying a lifestyle that goes above and beyond a modest one. Such lifestyles can be broadly categorized as either middle-income or comfortable:

- **Middle-income lifestyle**
  Enjoying all the trappings of middle-class life, spending modestly on basic needs and wants while being careful about overall discretionary spending, such as vacations and dining out. This represents an average picture of a Canadian senior household's lifestyle.
- **Comfortable lifestyle**
  Living comfortably, with sufficient disposable income, spending reasonably on basic items, and above-average spending on discretionary expenses.

As shown in Figure 9, the unique spending needs of these lifestyles evolve during the three distinct phases of retirement and therefore require varying degrees of financial readiness to afford. After running a savings gap analysis, our model projected that a near-retiree household would need to have saved at least $560,000 by 65 to maintain middle-income (average) lifestyle and $900,000 for a comfortable lifestyle until the average Canadian life expectancy of 82.

Figure 9: Comparison of annual household income (pre-tax) required at different stages of retirement across varying lifestyles (2022 dollars)

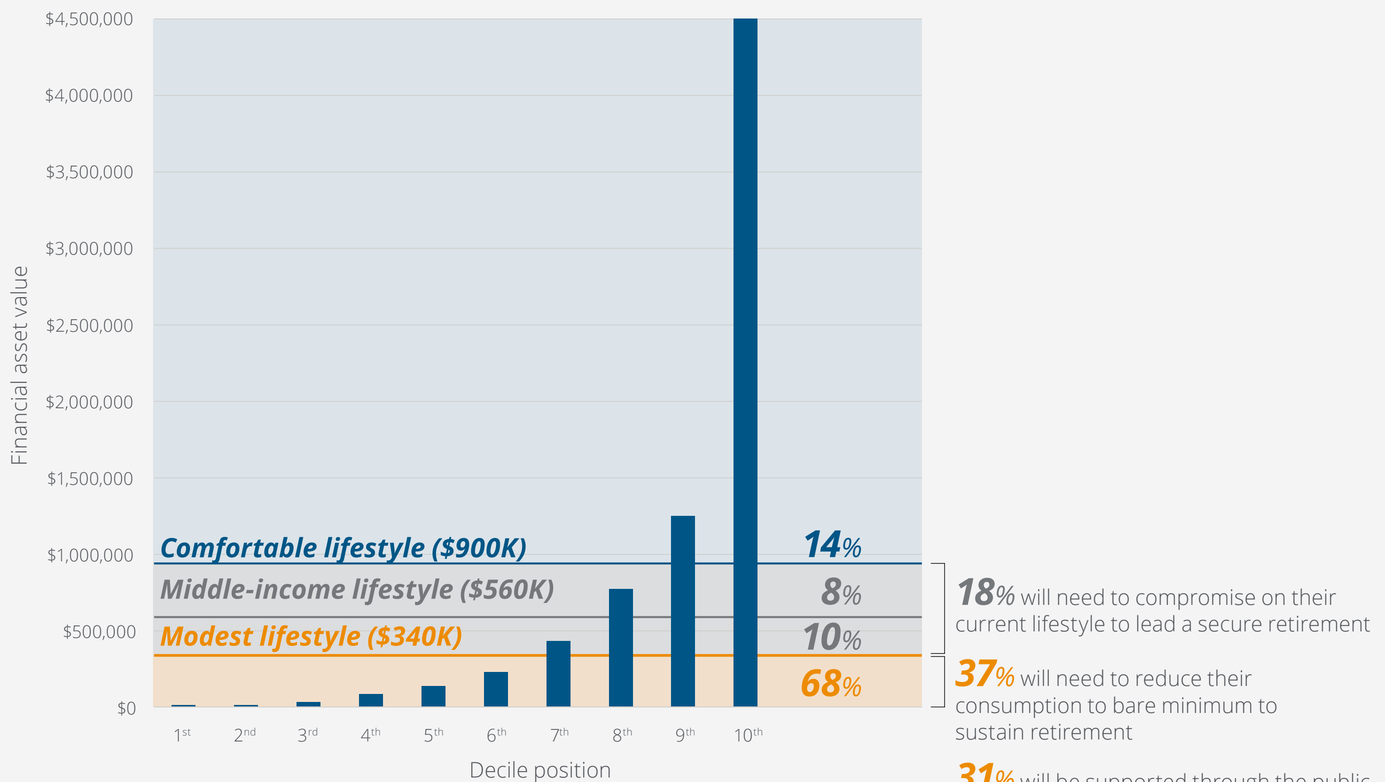


Source: Deloitte analysis

Evaluating retirement readiness

While retirees would ideally like to maintain an above-average lifestyle, our nationwide survey of more than 4,000 Canadian near-retiree households indicates that they have different retirement readiness levels, which will impact their ability to afford their desired lifestyle. Upon analyzing their financials, we discovered that only 14% would be able to sustain a comfortable lifestyle like they enjoy today. Another 18% will need to modify their existing lifestyle and consumption patterns to lead a secure retirement. A total of 37% are at risk of outliving their retirement savings unless they make drastic changes to their lifestyle, down to the bare minimum. The remaining 31% is where our public retirement income system shines—their pre-retirement income will be largely replaced by public income streams.

Figure 10: Distribution of near-retiree household financial assets



Source: Deloitte analysis

Retirement savings blind spots

More than three-quarters of today's near-retiree households will be vulnerable to unexpected changes in retirement, including care-related expenses (e.g., elderly care), large one-time costs (e.g., major house repairs), a significant recession, and even the additional costs associated with living longer than expected. Among these, long-term care costs have been identified as the biggest factor for stress-testing the financial vulnerability of a household.

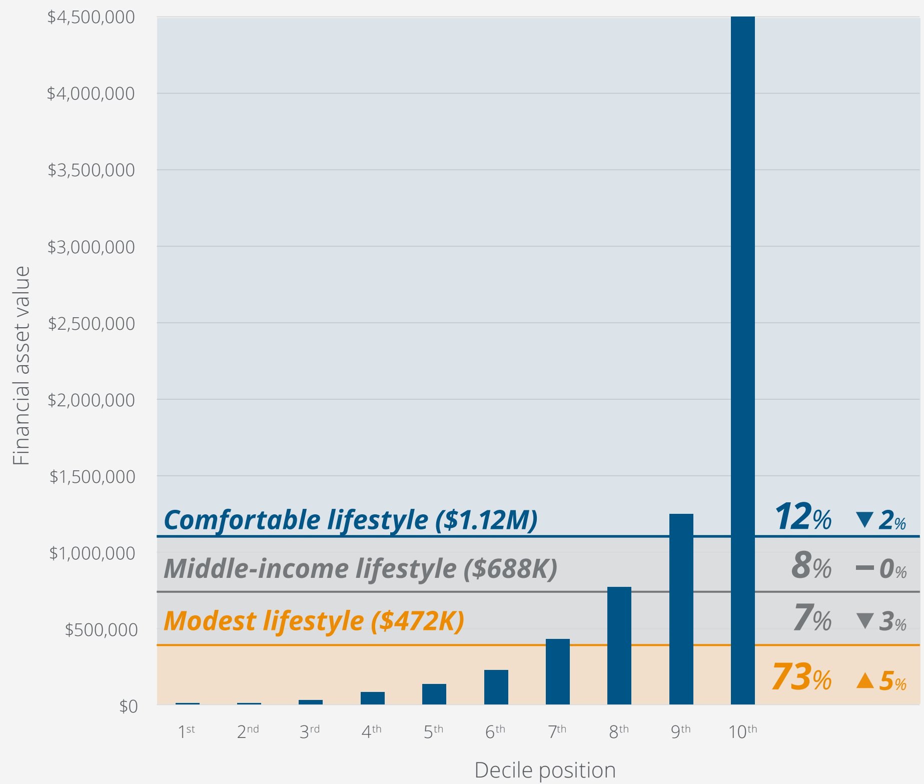
Our research indicates that more than half of seniors aged 75 years or over have a disability, with more than 80% of these seniors having two or more disabilities and requiring long-term assistance or care. Although costs can vary widely by type of care service and location, Canadian households have long ignored such potential requirements during retirement planning. We estimated that the annual out-of-pocket expenses for long-term care homes can range from $22,000 to $32,000, while the costs for retirement homes can range from $33,000 to $55,000 per year. Even professional home-care services can cost approximately $8,000 to $20,000 annually. The sharp rise in the demand and cost for long-term and home-care will lead to an accelerated decumulation of financial assets during retirement.

When we factored in these unexpected expenses (see Figure 11), we found that 73% of near-retiree Canadians will face the risk of financial hardship toward the later stages of their lives and will need to rely on their family members for caregiving. Another 15% will have to make drastic cuts to their desired lifestyle to get through the later stages of their retirement. This problem will be exacerbated as longevity and care costs continue to rise over the next decade, putting financial and emotional strain on senior households and their loved ones. The substantial and invisible costs of elderly care will be passed on from retirees to their dependents, resulting in a nationwide social challenge.

73%

of near retiree households will be at risk of financial hardship in later stages of life if they require long term care

Figure 11: Distribution of near-retiree household financial assets, factoring in unexpected costs

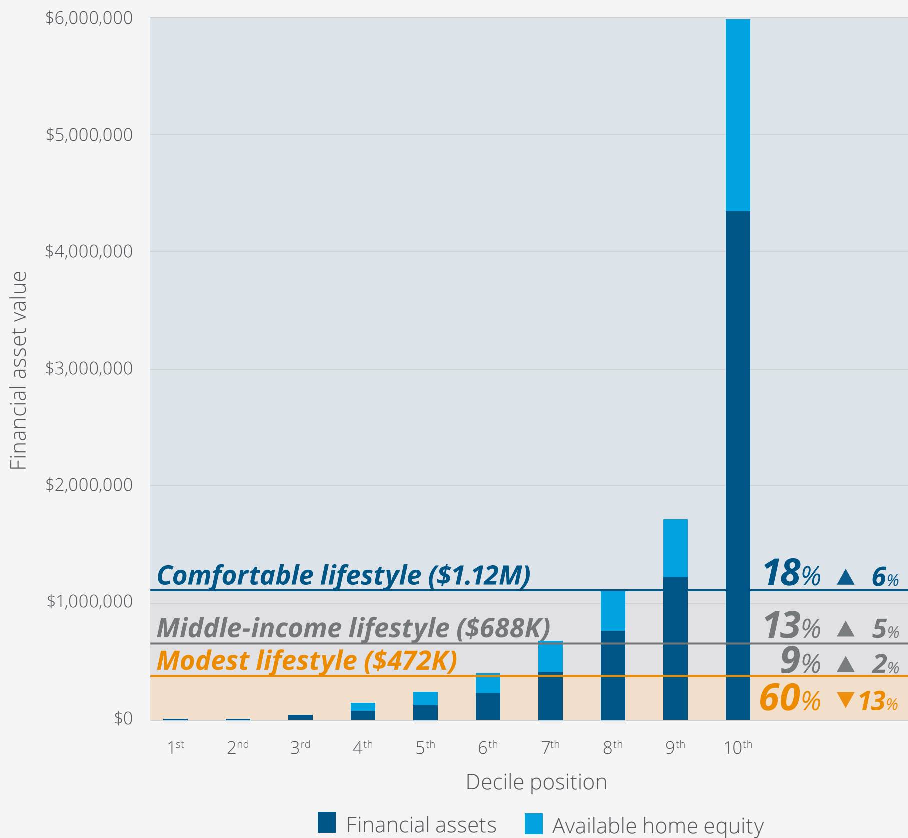


Source: Deloitte analysis

Supplementing retirement income with home equity

As Canadian households run out of financial savings, they might need to tap into their home equity to supplement their existing retirement income. Our study reveals that only 18% of near-retiree households plan on using their homes to pay for retirement. After including access to home equity (factoring 35% of real estate value), more than half of these households will still have to make lifestyle compromises to avoid outliving their savings. Our findings indicate that even with home equity, 60% of households will experience difficulties in making their retirement work (Figure 12).

Figure 12: Distribution of near-retiree household total assets



Source: Deloitte analysis

Four segments of near-retiree households

Canada's three million near-retiree households can be segmented into four distinct groups, each with its own unique characteristics.

1. ***Retirement-ready***
   High retirement readiness (14% or about 429,600 households)
   The typical household in this segment can retire with confidence, holding median financial savings of $1.7 million (inclusive of pension and non-pension assets) with easily manageable debt (median value of $5,000). Their median household income is $135,000. A full 92% of these households own a primary residence with a median value of $750,000 and a quarter of them also own a secondary property. Their retirement focus is to enjoy a more than comfortable retirement while preserving their wealth and leaving a legacy for their family members. However, our study reveals that 7% of them will have difficulty managing unexpected costs (such as long-term care) in the later stages of retirement. This segment has traditionally been well served by financial advisors; ensuring their protection needs are discussed in the planning process will increase their level of retirement confidence even further.

2. ***Confident but cautious***
   Medium retirement readiness (18% or about 540,000 households)
   This segment can be described as households that are vulnerable to market volatilities and unexpected expenses. They will need to compromise on lifestyle to make their retirement work. The typical household in this segment holds a median financial savings value of $550,000 with median debt of $25,000. Their median household income is $110,000. Nine out of 10 of them own a primary residence and 18% also own a secondary property for investment or vacation purposes. Their retirement focus is to improve their quality of life while protecting their savings against unexpected changes. However, our research shows that a typical confident-but-cautious household is highly likely to run out of liquid savings before the age of 82. Therefore, accessible planning advice, better investment products, and more approachable HER products can substantially improve this segment's quality of living in retirement. Innovative insurance products that can cover large, unexpected costs will also help this segment to be financially stable in later years.

3. ***At risk***
   Low retirement readiness (37% or about 1,110,100 households)
   Households in this segment are at risk of being unable to sustain retirement financially. The typical household holds a median financial savings of $110,000, which will run out on an accelerated path in early to mid-retirement due to higher debt (median value of $65,000). Their median household income is $75,000. A full 94% of these households own a primary residence with a median value of $500,000, with most of their wealth tied up in illiquid assets. Hence, these households can be described as asset rich but cash poor. Their retirement focus is to be able to cover unexpected costs and avoid outliving their assets. Without proper support, this segment will inevitably face financial hardships in their later retirement years. Adequate financial advice and products can significantly impact and enable financial sustainability for this segment by making their retirement savings last longer and unlocking liquidity from real estate.

4. ***Primarily public-system supported***
   Very low retirement readiness (31% or about 924,000 households)
   These households will be heavily reliant on public retirement systems such as CPP/QPP, OAS, and GIS, given their median financial assets value of $5,000 along with an equivalent amount of debt. With a median annual income of $35,000, these households will have their income substituted in retirement by government programs. More than 80% of these households do not own homes, which means that the majority will not be able to rely on home equity to fund their retirement.

The first segment has been largely well served by wealth managers while government benefits have adequately supported the bottom segment, with the middle two segments being underserved in the market. With more than 1.7 million households facing this retirement challenge in the coming decade, Canada's financial services ecosystem and public sector will need to play key roles in boosting their readiness and narrowing the gap.

Saving for retirement is a decades-long endeavour with several factors—both expected and unexpected—that can affect confidence and preparedness. As millions of Canadians and their families age, we must consider protection against longevity risk. There are plenty of opportunities for the private sector, especially the financial services industry, to help with this (by boosting people's retirement readiness) and to prepare for the large demographic shifts that are on the horizon.

Figure 13: Overview of each segment and its unique needs

Segment	Unique needs	Characteristics
Retirement-ready **High retirement readiness** **14%** of households **429,600** households	**Plan for rainy days** Maintain a financial cushion against unforeseen expenses (e.g., long-term care and health care)	• Median financial assets of **$1.75 million** with easily manageable debt • Typically own a principal home, with a quarter also owning a secondary property • Usually well served by the current retirement model; only small portion has exposure to unexpected costs • Retirement focus is preserving their wealth and leaving a legacy for their family members • Median annual household income of **$135,000**
Confident but cautious **Medium retirement readiness** **18%** of households **540,000** households	**Better protection to improve quality of life** Offer better products to safeguard their savings with additional support to make better retirement savings withdrawal decisions	• Median financial assets of **$550,000** with manageable debt; vulnerable to unexpected costs and needing to make undesirable tradeoffs in lifestyle • Typically own a principal home, with a few also owning a secondary property • Retirement focus is improving their quality of life while seeking protection against unexpected costs • Median annual household income of **$110,000**
At risk **Low retirement readiness** **37%** of households **1,110,100** households	**Maintain the sustainability of retirement** Unlock substantial income from real assets while diligently controlling retirement costs to avoid outliving their assets	• Median financial assets of **$110,000** with burdensome debt, classified as asset rich but cash poor, with most wealth locked in real estate • Own a principal home, on average • Will rely on CPP/QPP and OAS as major funding sources • Retirement focus is to make retirement work • Median annual household income of **$75,000**
Primarily public-system supported **Very low retirement readiness** **31%** of households **924,000** households	**Broader societal discussion** Elevate financial wellness, provide better senior health care plan coverage, and enable them to generate extra employment income	• Median financial assets of **$5,000**, with unmanageable debt and little to no home equity • Heavily reliant on the public retirement income sources (CPP/QPP, OAS, and GIS) • Retirement focus is generating extra income to meet their basic day-to-day needs • Median annual household income of **$35,000**, which will largely be replaced by public retirement income sources

How to address the retirement readiness gap

As Canada undergoes a historic demographic shift, how financial institutions and the public sector react to the retirement challenge will have a meaningful effect on the lives of retirees.

Perhaps more than any other industry, these two touch upon many facets of retirement, from financial planning to the accessibility of health care resources. Financial institutions and the government have the opportunity to offer solutions that could address the problems faced by so many current near-retirees while also attending to the retirement needs of future generations. By doing so, FIs also gain invaluable commercial opportunities to unlock potential revenue through neglected markets.

Improving near-retirement advice and products

Across the retirement landscape, FIs are working to improve their products and services with enhanced customer experiences and analytical capabilities to help Canadians achieve better retirement outcomes. Those that choose to improve the quality and accessibility of their retirement offerings will need to ensure a seamless, data-driven experience supported by modern digital ecosystems. Here are seven solutions FIs can consider.

1. **Establish simplified and accessible readiness checks**
   Financial institutions, particularly retail banks and insurance providers, have an opportunity to establish a standardized retirement check-up process to help their clients with at least 10 years until retirement to manage their financial well-being and set them up for long-term success.

   When scheduling retirement-advice meetings with their clients, relationship managers and service providers can run through an assessment that would compute a personalized retirement score that's easy for clients to understand and act on. The score would simultaneously allow service providers to recommend suitable resources or solutions that would help improve their clients' retirement readiness. By implementing a highly accessible readiness check, a heightened sense of urgency may be created among near-retirees alongside a pathway to adequate preparation for retirement.

   Seamlessly integrating these check-ups into the existing service ecosystems for insurance and banking customers will be key to optimizing their utility as a retirement tool. By making them a routine part of financial advice meetings, these meetings could serve as a wake-up call to those who are near the inflection point of being too late to prepare adequately for retirement. For younger populations, these checks would be a way of mapping their retirement in real terms to help them overcome behavioural inertia when it comes to long-term planning. This solution is also important because current processes make it difficult to receive a consolidated, holistic view of one's retirement readiness across various sources of assets, liabilities, and expenditures.

2. **Create data-driven, holistic offerings for all**
   Traditional retirement firms—including asset managers, insurers, wealth managers, and banks—can provide advice that goes beyond financial transactions. We found that while 65% of near-retirees and retirees want access to a dedicated advisor, only half of them currently have it because traditional advice is an expensive and elusive service for the general population. Furthermore, Canada's tax environment is complicated due to federal and provincial nuances, making it challenging for individuals to adequately prepare their personal finances.

The complexity of retirement planning requires financial service providers to take a holistic view of clients' assets across different FIs while covering the four quadrants of their financial needs (finance, investments, insurance, and lending products). Through this consolidation and by leveraging data and analytics, FIs can help near-retirees aggregate their assets and liabilities while developing tax-efficient, budget-based draw-down plans without relying on heavy manual efforts. Furthermore, optimizing such plans for CPP/QPP accounts can minimize retirees' tax obligations and prolong their retirement savings. These enhanced advice mechanisms could be delivered through digitally enabled channels, bringing quality financial counselling to more Canadians and tailored advice to the general public. Near-retirees specifically (those with less than 10 years to retirement) would be better able to set realistic budgets in their early years of retirement to better distribute their funds throughout it.[21]

Industry spotlight

In April 2020, DBS Bank in Singapore developed a digital financial planner for customers to kick-start their financial planning journeys. With a built-in recommendation engine (DBS NAV Planner) to help them plan for their financials at all life stages, it aims to help DBS customers ultimately achieve financial wellness. Through various enhancements introduced since its launch, users can:

- Easily consolidate their personal finances, investments, insurance policies, and tax/mortgage/pension information through SGFinDex (Singapore's open banking system) via the bank's mobile banking app (digibank) or internet banking.

- Access personalized investment recommendations through the planner's AI-powered digital investment advisory feature, which aims to help retail customers make better investment decisions.

- Determine if they would be able to meet their pension payout needs, and right-size their home purchase (which would see most Singaporeans tap into their pension savings) so they'd still have a comfortable retirement nest-egg.

The bank has also built in a protection advisory feature that helps clients understand if they have any insurance coverage gaps (including critical illness creditor insurance, health insurance, and life insurance), and can provide relevant recommendations for users to consider.

To date, more than half of Singapore's population (about three million users) make use of the bank's digital financial planner, of which more than one-third are active monthly users. When compared to non/dormant users, active users invest at least four times more and have 50% more AUM.

3. **Establish a cross-sector, data-sharing framework to provide customers with a holistic view of their assets and liabilities**
   Getting an aggregated view of personal financial data involves a tedious process of retrieving information from accounts held with different banks and government agencies. The value proposition of open banking for retirement planning would be strong for FIs and their clientele, especially with the current push for it from the federal government.

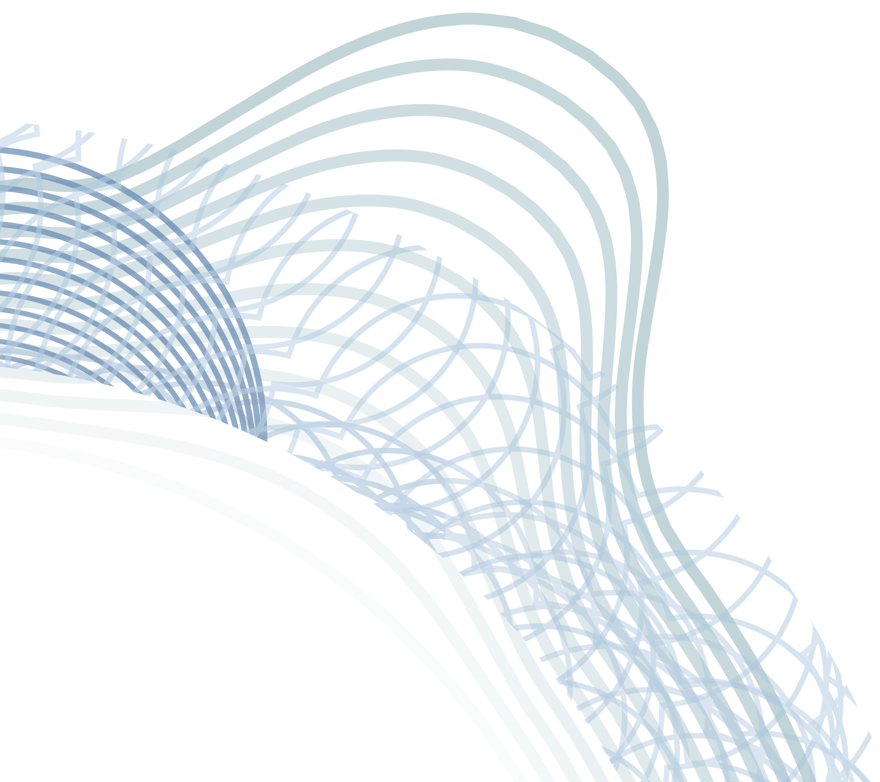
   However, open banking alone may not be sufficient to support holistic retirement planning. A coordinated data-sharing framework across banks, wealth managers, life insurers, government programs, and real estate organizations is needed to improve the robustness of near-retirement planning. For example, by aggregating financial data such as spending, assets and liabilities, pensions, and real estate, near-retirees can get a comprehensive view of their readiness gaps and then work with financial planners to create retirement plans with greater confidence. For retirees planning for decumulation, open banking capabilities can help financial planners devise effective budgeting and draw-down strategies to ensure their clients' funds do not run out as they live out their retirement years. Public reception of such services appears to be positive as well—46% of near-retiree households would use them if made available.

   Seamless auto-portability is critical for enabling open banking. Not only could clients enjoy economies of scale when banking with one institution at a reduced cost, but financial advisors would also be able to develop nuanced insights and personalized recommendations to boost their clients' retirement preparedness. This solution would also help financially marginalized households as costs are lowered and accessibility is improved.

Industry spotlight

The Singapore Financial Data Exchange (SGFinDex) is an example of a cross-sector, data-sharing framework that enables citizens to consolidate their personal finances into singular applications and perform effective financial planning. Its highly scalable national infrastructure uses a centrally managed online consent system that enables Singaporeans to access their financial information held across different government agencies and FIs. For example, citizens can view their personal banking data, pension accounts, and insurance policies through mobile and web applications offered by local FIs.

Since its inception in 2020, SGFinDex has spurred financial planning with over 150,000 unique users, 290,000 links to bank accounts, and 620,000 data retrievals. It illustrates the importance of public-private sector collaborations, consent-based data-driven innovations, and trusted online systems that could be adopted in Canada to drive effective financial planning for its citizens at scale.[22]



4. **Develop products that increase the degree of certainty on retirement cash flows**
   With the migration from DB to DC, it's more crucial than ever to ensure regular monthly income during retirement. Retirees are facing challenges with managing different layers of retirement funding (employer pensions, RRSPs, locked-in retirement accounts, etc.). One in four near-retiree and retiree households are unfamiliar with the tax implications while a further 32% are unfamiliar with withdrawal rules during retirement. Developing products that help Canadians establish a stable cash flow and advising them on tax-optimized withdrawals will be critical in creating more retirement security.

   Digital tools, such as decumulation robo-advisors, can help retirees stay on track by consolidating various income streams into one combined, consistent payment. Providing retirees with a paycheque-like experience, such tools would also evolve to offer a simplified view of cash flows and encourage more optimal decumulation decisions. We found that 46% of near-retiree and retiree households have a strong interest in utilizing decumulation robo-advisors to help with their retirement.

   There is also an opportunity for FIs to help increase the certainty of retirement income by driving innovation within the annuity space. Annuities are a largely underestimated tool for long-term retirement planning. In Canada, we found that 81% of near-retirees and retirees do not own any annuity products, which they attribute to complex product constructs, fees, and inflexibility.

   Innovative asset management techniques by way of advanced technologies such as artificial intelligence and investment algorithms could be deployed to reduce management fees, thereby incentivizing more Canadians to purchase annuity products. Flexible payout arrangements could also be added, allowing annuity holders to adjust payout amounts and schedules according to their needs. Finally, as the complexity of annuity products is a major roadblock to customer adoption, FIs could increase their educational capabilities by provisioning holistic retirement advice (through in-person advisors or knowledge programs) to improve overall awareness of how they work. While most people aren't familiar with annuity products, 40% of near-retiree households would consider buying an annuity if they were more educated about the product.

   Annuity manufacturers can also look into introducing registered index-linked annuities (RILAs) to the Canadian market. These products have greater potential for significant returns than fixed annuities, plus limited downside risk compared with variable annuities. RILAs can also allow Canadians to accumulate growth without paying taxes and fees until withdrawals are made, making them a cheaper option than other forms of annuities that charge fees throughout the accumulation/growth process. We found that tax-deferred income products with limited downside risk, such as RILAs, have strong appeal to the at-risk and confident-but-cautious segments that are among the vulnerable and financially unstable households.

Industry spotlight

Kindur, an American robo-advisory company, has developed a direct-to-consumer draw-down service called SmartDraw that guides users in tax-efficiently drawing down funds from multiple retirement accounts. By leveraging artificial intelligence and advanced data analytics, SmartDraw is able to create personalized withdrawal strategies to help optimize the way clients spend their assets and extend their wealth during retirement.

Through this service, Kindur provides a streamlined, paycheque-like experience where customers can gain up to $61,000 in extra earnings through tax-smart technology and full-service retirement income solutions. The platform charges a nominal professional money management fee of 0.25% to 0.50% per year.[23]

5. **Adopt tranched risk management strategies to extend the longevity of retirement savings**
   Wealth managers can optimize retirement portfolios for extended time horizons by thinking about retirement fund strategies in three short-term tranches (early-, mid-, and late-stage retirement) instead of as one portfolio. As such, three retirement portfolios would be employed to address the unique objectives that coincide with each stage.

   With this kind of tranched investment strategy, each of the three investment portfolios could have a different blend of risk appetites and asset allocations to maximize retirees' capital gains. Specifically, the first tranche could be constructed more conservatively to give retirees peace of mind and increased certainty that capital will be available to fund their early retirement years. Subsequent tranches targeted at the mid and late stages could be riskier to capture greater upside returns from longer time horizons. By adopting this approach in the creation of retirement investments, people with a relatively longer runway before retirement could optimize their investments to maximize their capital gains.

6. **Address the emotional friction surrounding HER products**
   Despite real estate being a viable option to supplement existing retirement cash flows, the intricacies of liquidating real estate assets present unique challenges for near-retirees and retirees.

   While only 18% of near-retiree households consider real estate as a source of retirement income, a staggering 78% will have to make lifestyle compromises to avoid outliving their savings. As such, it's likely that the majority will end up having to tap into their real estate holdings to fund their retirement. Accessing these products, however, can been difficult due to strict qualification rules and the lack of HER solutions in the Canadian market. For instance, only two FIs offer reverse mortgages at scale. Despite institutions looking to legitimize these products and offer them to a wider audience, the Office of the Superintendent of Financial Institutions (OSFI) rates HER products as high risk, necessitating meeting significant capital adequacy requirements by HER product manufacturers.[24] Thus, there's little incentive for FIs to offer HER products despite real estate comprising a growing proportion of Canadians' total assets.

   Regulatory bodies have an opportunity to increase public confidence in HER products by introducing regulations that govern how these products should be run. This might include clearly mandating the minimum qualifying criteria, maximum draw-downs, and rules around longevity risk to give Canadians confidence that HER product options will work in their interest. If they were more available in the market, the at-risk and confident-but-cautious segments could see a boost in their retirement savings by 47% and 149% respectively.

Industry spotlight

In Canada, fintech firm Bloom simplifies the process of accessing home equity through a reverse mortgage. As the only non-bank provider of reverse mortgages in the country, Bloom digitalizes the historically paper-heavy and burdensome process of unlocking equity in peoples' homes. It does this by tapping into all available data sources to cut down on the information the customer is asked for directly, making it easy for them to withdraw funds when needed. Specifically targeting Canadians aged 55 and over, Bloom seeks to help seniors access the more than $1 trillion of wealth built up in their homes for the purpose of maintaining their standard of living throughout their full retirement.[25]

7. **Convert private sector pension plans to the public model**
   Private sector pension plans could realize higher rates of return and establish guaranteed lifetime income for retirees if they followed a model similar to their public sector counterparts. By having a centralized system that pools and manages all private pension plan programs, participants would be able to benefit from high savings rates, good economies of scale, and effective transfers of savings into wealth-producing capital. According to Canada's National Institute on Ageing, adopting a public sector model would allow private pension providers to generate an extra $100 billion a year in pension payouts—twice the $50 billion that was paid out in CPP and QPP in 2022.[26] While the best way to transition to a public sector model requires further discussion, it's undeniable that private sector FIs would play a key role in transitioning roughly 13 million plan members to a higher-quality retirement income model while also benefitting as productive providers in this new pension regime.

Helping Canadians manage rising retirement costs

Financial service providers may find attractive opportunities to build systems that address rising retirement costs, such as health care, senior living, and daily expenses, and help retirees optimize their spending to meet those needs. Government entities also have a role to play in enabling these solutions for the population. Here are eight solutions these stakeholders can consider.

1. **Foster ecosystem alliances to establish innovative financing schemes**
   With health care and long-term care a growing concern within the Canadian retirement landscape, FIs have an opportunity to help retirees access and buy health care services at institutional prices in a manner akin to online marketplaces or voluntary employee benefits. Innovative partnerships can be cultivated between health care providers and FIs to offer discounted pricing for existing clients. These programs would be especially attractive to retirees with low retirement readiness as they can act as a financial cushion for clinical care, specialist visits, treatment, and hospital services.

   Banks can offer preferred or loyal customers unique lending products (e.g., interest-free disability loans) that could lower health and long-term care expenses. These could present themselves in the form of short-term financing options that are embedded into the product ecosystem of existing banking clients. Buy-now-pay-later schemes can be applied to help retirees smooth out large costs, benefit from prolonged investments returns, and avoid taxation on lump-sum withdrawals. Institutions offering these schemes would be able to leverage the synergy of their combined client base to lower costs while securing demand early on.

Industry spotlight

In China, Ping An Insurance built a health maintenance organization (HMO) system by acquiring a controlling stake in a Chinese hospital group. In doing so, Ping An has been able to connect its insurance clients with a closed loop of doctors, hospitals, and medical and health management institutions. Under the program, customers are able to not only buy health insurance policies, but also use Ping An's online telemedicine portals and in-person hospitals at discounted prices.

As a result of building an ecosystem that integrates insurance and health care services, the company was able to generate more revenue from new ecosystem customers than from those who bought insurance alone. These ecosystem customers had an average of 3.2 contracts each and approximately $7,600 in AUM, which is 1.6 times and 2.6 times more, respectively, than the average insurance customer who did not partake in the ecosystem. This acquisition has allowed Ping An to orchestrate an integrated finance and HMO managed care service system that simplifies health care for its clients while passing on the benefits of scale to them.[27]

2. **Explore virtual channels**
Aside from innovative financing schemes in health care spearheaded by private sector enterprises, expanding virtual care will be critical for containing the costs of the senior care ecosystem as Canada's population ages, as well as for ensuring the same level of quality care nationwide.

In many parts of the country, access to affordable, high-speed internet is a challenge, particularly in remote areas underserved by telecommunications companies. Canadians without consistent, affordable internet access may be unable to obtain the virtual care services that would enable them to age in place. As such, the federal government should ensure that it can create inclusive digital infrastructure that meets the needs of seniors and caregivers no matter where they live. It is also imperative for these people to have the digital literacy skills required to access virtual care options. The federal government could step in by creating free programs that provide digital-oriented skills to ensure digital equity among seniors.

Another roadblock to realizing equal access through virtual channels is that qualified physicians may be restricted from offering virtual care because of jurisdictional differences in licensing across Canada. Various levels of government will need to work with the Federation of Medical Regulatory Authorities of Canada to simplify registration and licensing so that physicians and other health care professionals can provide virtual care across provincial and territorial boundaries. Measures could include fast-tracked licences and virtual care licence portability.

3. **Leverage health care data and preventive health measures**
With health care comprising a large percentage of early retirement expenses and an even larger percentage in later stages, expanding efforts in preventive care could help near-retirees save money as opposed to spending it on treatment after becoming ill. Every year, Canada faces $68 billion in direct health care costs and $122 billion in productivity losses due to chronic illnesses.[28] According to the Public Health Agency of Canada, many preventive health solutions are less expensive than treating certain conditions and dealing with the economic burden after they develop.

Financial institutions can partner with employers and public/private health care providers to organize health check-up assessments for early diagnoses. By harnessing health care data and genomics to conduct preventive health care screenings, near-retirees can get a better understanding of what illnesses they might be at risk for and accommodate for the potential future costs. Insurance companies could add more support for preventive health care products by adding new services to existing plans or creating new plans altogether, while reducing premiums for the customers who use such services. Additionally, providing more support for preventive health care, whether from private or public sector institutions, could reduce public health care spending, which is already under strain.

Every year, Canada faces:

$68 billion

in direct health care costs

$122 billion

in productivity losses due to chronic illnesses

Industry spotlight

Vitality, a South-Africa-founded insurance firm, incentivizes its insured clients to perform preventive health-related tasks through a rewards program. For example, if a client receives a vaccine, screens for certain diseases, or gets a regular health check-up, the company contributes to their rewards or reduces their plan premium. Vitality amasses large amounts of data about their customers through wearable technologies and sends customized reminders to exercise or schedule a health check-up if it determines that they are at risk for certain health conditions. Information and resources specifically targeted at senior or retired policyholders are also provided.

Overall, Vitality's incentive-based solution has led to a 40% reduction in hospital admission costs, a 14% reduction in costs per patient, and a 25% reduction in hospital stays among its users.[29]

Scale individual insurance products
Employers should be able to extend their workforce's group benefit plans to cover elderly family members. Discounted coverage and full coverage options could help to address the health care costs of senior relatives and any long-term care costs that arise. This would help to alleviate the financial burden that employees can face when caring for aging family members.

To help address coverage shortfalls during retirement, insurance companies can look to extend existing employee health benefit plans to new retirees as opt-in individual insurance plans. Instead of going through a new underwriting process to purchase new health plans once employees reach retirement, usually at a significantly higher cost, insurers can transform existing group benefit plans into individual plans at discounted prices.

While the onus of paying the premiums would lie with the retirees, they would at least benefit from continuing their existing health coverage at a lower price than if they were to seek a new plan from another insurance provider. Similarly, their elderly family members could benefit from discounted coverage to help cover care-related expenses.

For insurance companies, the benefits of this solution are multifold. They could reduce customer attrition rates by continuing their relationships with existing clients into retirement and use existing client information to determine the premium amounts for new retirees instead of underwriting new policies. Insurers can also cross-sell other insurance products to retirees, such as opt-in coverage bundles for extended family members, to acquire new customers.

Insurance companies also have an opportunity to address the specific coverage shortfalls of low-income Canadian households by introducing highly specific and affordable products such as health microinsurance. These coverage plans can act as an affordable way for the most vulnerable of households to access quality health care that would otherwise be out of reach. Microinsurance family-floater plans can be introduced to provide opt-in coverage for the entire family, in which premiums are distributed and averaged among family members of different ages, thereby improving the affordability of health care for low-income retirees.

Canadian FIs can look to provision such products to meet the coverage gap of low-income households. While microinsurance providers in India have been able to benefit from economies of scale due to the country's large population, institutions in Canada can potentially achieve scale by distributing these products solely as digital offerings. By making delivery as simple and accessible as possible, they could obtain high policyholder volumes at a very low cost. Households also appear to react positively to microinsurance products, with approximately half of them willing to use this type of insurance product if made available. Low-income households were the strongest advocates of microinsurance adoption.

Industry spotlight

In India, health microinsurance products have been successful in providing quality medical care to underprivileged households that lack access to clinics or dispensaries. What makes these products appealing to low-income households is the specificity of the coverage; providers offer specific coverage for the illnesses and ailments that are more prevalent in rural communities at affordable price points. As the coverage sum is often low, clients do not have to undergo pre-entrance check-ups before purchasing a plan and can benefit from lifelong policy renewal. Most microinsurance providers also offer optional coverage for family members at discounted prices, making these products highly affordable at a household level.[30]

4. **Consider universal insurance**
   Canada's aging population will require federal and provincial governments to increase spending on health care and long-term care. The federal government should launch a feasibility study on universal, mandatory, public insurance plans for long-term care, taking lessons from Japan's long-term insurance program. The model should follow best-practice principles such as ensuring equal quality of and access to care, irrespective of where a senior lives. The eligibility requirements should be based on common principles of needs and vulnerability to ensure adequate, equitable support for seniors as they progress through retirement and require increasing levels of care. The funding model of such public insurance plans should be regularly reviewed so reforms can be made accordingly.

5. **Shift more long-term care patients to home-care**
   The government can aim to shift more long-term patients to home-care to reduce health care spending while increasing the supply of health care services in Canada. Long-term care waitlists at out-of-home institutions currently account for an estimated 20.4% of total demand, indicating that the institutionalized system already lacks the capacity to meet demand.[31]

   To address the shortage of health care workers, the government should re-evaluate immigration and licensing schemes for overseas-trained health care practitioners (e.g., doctors and nurses) to make it easier for them to work in Canada. The government can also collaborate with private sector firms to develop digital employment platforms to better match senior care demand with gig-economy nurses and care workers.

On the demand side, the government could incentivize aging citizens and their relatives to choose home-care by providing affordable options and pricing schemes to bring down the related costs. Additional financial incentives such as tax breaks, cash handouts, and other relevant subsidies could be added to further increase demand for home-care services.

On the supply side, more health care workers could be encouraged to take up home-care jobs by subsidizing home-care training. The government could also provide special income tax breaks for health care workers who take on home-care work.

These pushes for home-care could be extremely beneficial for intergenerational families and members of low-income households that care for elderly relatives at home. According to our nationwide survey, over 30% of Canadian households with savings of between $50,000 and $99,000 cite the financial burden of caring for aging relatives as one of their primary financial challenges. By implementing policies to support more home-care initiatives, the government can increase the overall accessibility of long-term care while reducing the associated costs. Projections to 2031 indicate that such efforts would increase the cost of home-care provision by $1.6 billion but bring down the cost of providing long-term institutionalized care by $2.5 billion. The overall cost savings would therefore be $900 million by 2031.[32]

Industry spotlight

In response to an aging population, the Japanese government introduced a long-term care insurance (LTCI) system based on a combination of social insurance, taxation, and co-payments. Today, 28% of the Japanese population is older than 65, and 1.8% of the country's GDP is spent on long-term care. Half of LTCI funding comes from the general taxation of citizens aged over 40; the rest is made up of social insurance premiums and co-payments of up to 30% by all users, based on income thresholds. The system is built to be flexible—it undergoes a comprehensive review every three years to meet the evolving needs of the aging population.[33]

Industry spotlight

In a bid to tackle a shortage of medical practitioners, Hong Kong introduced a legal bill that recognizes the qualifications of non-locally trained doctors. Doctors who trained at one of more than 27 overseas medical schools are exempted from Hong Kong's medical licensing exam and permitted to practice locally. Previously, such doctors were required to take an exam and complete multi-year internships at local hospitals to become registered practitioners.

To incentivize citizens to choose home-care options for seniors, Singapore's Ministry of Social and Family Development provides subsidized caregiver training for family members looking to care for their elderly relatives. Financial incentives are also provided in the form of tax breaks, cash handouts, and government subsidies.[34]

6. **Create personal financial management experiences**
   Financial institutions can improve accessibility by expanding the number of touchpoints that facilitate expense management discussions for retirement planning purposes. For example, they don't need to be relegated to an office within a branch setting—remote advice channels could be activated through video and chat-based features to increase convenience and improve mass market appeal.

   Additionally, expense monitoring applications with trigger-based notifications can help seniors track their monthly expenses and budget their spending accordingly. Such features may include expense forecast functions that account for recurring monthly bill payments to give seniors clear visibility into upcoming cash outflows. However, delivering improved digital experiences requires a modern and robust security infrastructure that safeguards against financial fraud. This is especially prudent as many Canadian seniors are digitally literate. A full 88% of them use the internet every day.[35] Since elderly populations are the most vulnerable to financial crimes and abuse, digital solutions will need to include adequate protection of them and their data.

7. **Develop retirement employment programs**
   One in three near-retirees have expressed an interest in returning to the workforce to find meaningful post-retirement experiences or to supplement income shortfalls. One of the ways private sector employers could leverage the skill sets of retirees would be to hire them as mentors to help younger workers develop practical skills that can only be learned on the job. In turn, young employees can act as "reverse mentors" by sharing the latest approaches, techniques, and theories with older workers.

   Employers could also establish return-to-work programs wherein retired workers are recalled to provide additional assistance during peak hours. For example, companies can assign staff members to maintain regular contact with retirees or develop databases of retirees who are available for work. In doing so, employers can tap into the productivity of an older, yet highly skilled workforce.

   Finally, employers could enact phased retirement in the form of a gradual reduction of hours or days, part-time work, or job sharing. This could help older workers gradually transition into retirement, while allowing the employer to retain skilled workers who, without this flexibility, otherwise may have retired outright. It also delays the employer's immediate cost of recruiting and training new employees. For instance, several British companies now have flexible retirement policies that give employees the option to switch to a part-time position or to retire and then return as a contract worker.[36]

   Government also has a key role to play in helping seniors remain in the workforce. For example, it can work with accreditation institutions to define career pathways that enable fulfilling post-retirement careers. These pathways can be linked with accreditation, including high-quality training and support for on-the-job learning. To better enable these opportunities, the government and private sector firms should develop upskilling programs that provide older citizens with relevant skill sets for today's jobs. Improving seniors' digital skills would help to address the ageist stigmas and stereotypes employers might have.

Industry spotlight

In the United States, FIs are recognizing that senior citizens are a crucial demographic that's currently underserved by digital banking experiences. Capital One is producing easy-to-follow educational videos under their Ready, Set, Bank initiative aimed at improving seniors' financial well-being. Under this program, microlearning videos on topics such as expense management, identity protection, and financial fraud are available to equip older adults with the skills needed to manage their money online. Since May 2020, Ready, Set, Bank workshops have received more than 29,000 views.[37]

Industry spotlight

In Singapore, a government-backed agency called Centre for Seniors collaborated with a local employment marketplace to create an online jobs platform specifically designed for senior jobseekers. Potential employers use the platform to post jobs that are suitable to the skills and needs of retired people. Retirees are empowered to explore work in various private and public sectors to supplement any income shortfalls they might have.[38]

Building healthy savings habits early

There are three solutions that employers, financial services firms, and government entities can deploy to help build healthy savings habits among Canadians leading into retirement. If done effectively, it would mean subsequent generations would be better prepared when they eventually leave the workforce.

1. **Bring retirement planning closer to the workplace**
   Only 24% of eligible private sector paid workers participate in employer-sponsored pension plans. By better contextualizing how much money is needed for a comfortable retirement during pension enrolment, employers and plan providers can help employees fight this behavioural inertia. For example, employers could provide their workers with digitally enabled, personalized retirement advice to establish sound financial knowledge and savings habits. We found that only 5% of near-retirees seek financial advice from their employer, a very low figure given that workplaces play a key role in the distribution of retirement products and programs to employees.

   Canadians with access to professional financial advice enjoy more financial wellness; those with a professional financial plan in place are twice as likely to feel confident in their ability to retire than those without one.[39] However, we discovered that 28% of near-retirees find such services to be too expensive. In the absence of a dedicated financial advisor provided by a primary bank, employment-led advice can help workers prepare for retirement, especially for low-income households that lack dedicated financial advice and are the most price-sensitive.

2. **Create incentive programs focused on cultivating healthy savings behaviour**
   Pricing incentives, such as management fee discounts or removals, can promote healthy savings behaviour among financially challenged households. These discounts or removals can also provide banks and wealth managers with access to the pool of $322 billion in potential AUM that's held by the two most underserved segments. Furthermore, 64% of all Canadian households support having management fee removals, which could improve their access to high-quality tools to help them develop good savings habits. By tapping into primarily public-system-supported and at-risk households, FIs could potentially offset the lower management fees with an increase in AUM. We found that at least 60% of households across all income segments would enroll in such incentive programs if given the opportunity to do so.

Only

5%

of near-retirees seek financial advice from their employer

Industry spotlight

In conjunction with pricing incentives, targeted programs can help drive the adoption of healthy savings behaviour. In Colombia, the Inter-American Development Bank (DB), the mobility app Beat, and local fintech company Coink are working together to promote and provide access to voluntary savings tools for drivers. Under the pilot program, Beat drivers can enroll in an automatic savings plan that redirects a percentage of their weekly earnings into a savings account.

In a similar fashion, Canadian FIs can establish customer-facing incentive programs that focus on retirement preparedness and financial wellness. For example, a percentage of an individual's earnings could be directed into a retirement investment account. When certain savings milestones are reached, the client can redeem a prize or get a lower management fee for their investment portfolio. Such engagement programs can help customers cultivate healthy savings habits while improving their overall retirement readiness.[40]

3. **Consider making pension plan contributions mandatory**
   For large organizations, employee participation in employer-sponsored pension plans sits at only 54%, meaning that almost half of employed Canadians who are eligible for employer contributions toward their retirement are missing out.[41] Sun Life Financial attributes this low rate to employees' having to opt in—when faced with the decision of choosing a plan, many employees will default to any "no decision" option available. Making employee participation and contribution mandatory would significantly increase the number of employees who benefit from such plans and would be especially helpful for low-income households. It would also allow more low-income households to accumulate pension balances that would make a material difference to their standard of living in retirement by forcing them to save. Employers can also help employees save more by playing a more active role in pension participation by funding employee pension funds. In doing so, the responsibility of saving for retirement isn't borne by just the employee, but also the employer.

Industry spotlight

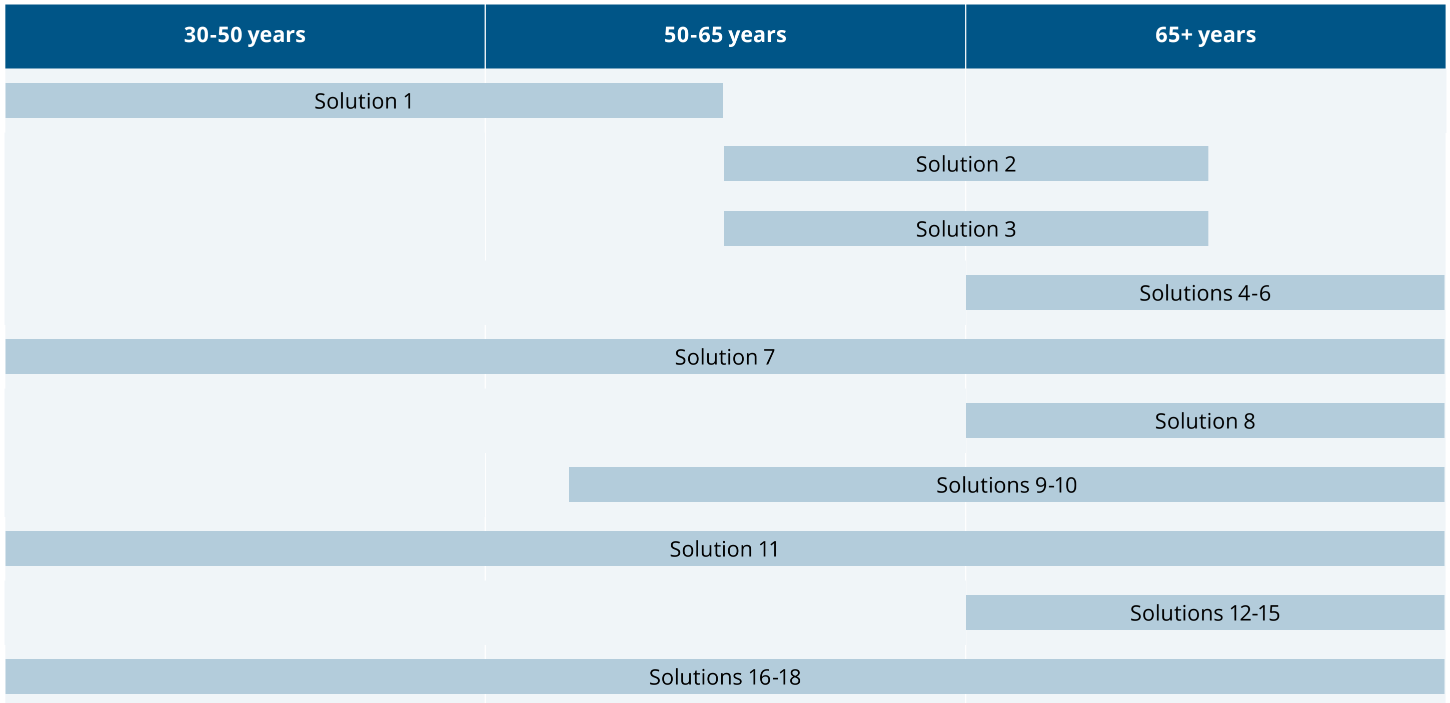
In Australia, mandatory enrolment in the country's pension plan has led to near-universal coverage for its working population. Known as superannuation, the country's private pension system is akin to DC plans in Canada and has become the most important asset for Australian households after the family home, including for low-income households. Under this regime, Australians are free to choose their investment strategies based on their own preferences, and the responsibility of compulsory contributions lies solely with the employer. This means that employers are legally required to pay superannuation contributions to approved superannuation funds. Employee contribution is voluntary, and Australians are not charged for switching their superannuation between different funds or withdrawing early in cases of severe financial hardship.

Compulsory superannuation has helped make Australian households among the wealthiest, on average, in the group of advanced economies, and the country's wealth inequality among the lowest.[42]

Figure 14: Specific interventions with sectors and segments of focus

Solution	Specific intervention	Sectors of focus					Primary target segments			
		Retail banks	Wealth and investment managers	Insurance providers	Health care providers	Govern ments	Retirement-ready	Confident but cautious	At risk	Primarily public-system supported
1	Establish simplified and highly accessible retirement checks to help near-retirees contextualize their retirement and address any gaps in their plans	•	•				•	•	•	•
2	Create data-driven, holistic near-retirement planning offerings for the general population	•	•	•				•	•	
3	Establish a cross-sector, data-sharing framework to provide customers with a holistic view of their assets and liabilities	•	•	•	•	•	•	•	•	•
4	Develop retirement income products that increase the certainty of cash flows		•	•				•	•	
5	Adopt tranched risk management strategies		•	•			•	•	•	•
6	Address emotional friction of HER products	•						•	•	
7	Convert private sector pension plans to the public sector model	•	•	•		•		•	•	•
8	Foster ecosystem alliances with health care, long-term care, and insurance providers	•		•	•			•	•	•
9	Explore virtual channels of health care				•	•		•	•	•
10	Leverage health care data and preventive health measures to predict care costs early			•	•			•	•	•
11	Scale individual insurance products to cover unexpected expenditures			•				•	•	•
12	Shift more long-term care patients to home-care					•	•	•	•	•
13	Consider universal insurance to support the aging population					•	•	•	•	•
14	Develop financial management experiences for seniors to help with expense control	•	•	•				•	•	•
15	Create retirement employment programs to address income shortfalls					•		•	•	•
16	Bring retirement planning closer to the workplace		•	•			•	•	•	•
17	Create incentive programs focused on cultivating healthy savings behaviour	•	•	•			•	•	•	•
18	Consider making pension plan contributions mandatory					•	•	•	•	•

Figure 15: Solutions mapped against household age



Source: Statistics Canada, Deloitte analysis

Figure 16: Solutions mapped against lifestyle segments

Source: Statistics Canada, Deloitte analysis

Financial institutions can spur action, innovation, and new business to transform the retirement experience. There are many areas of opportunity to enhance the quality and accessibility of retirement products, help retirees manage rising costs, and improve overall retirement preparedness. These solutions, when applied to near-retiree and retiree households, can extend savings while unlocking a significant revenue pool for the financial services industry. We'll explore this in more detail in the next section.

How both households and financial institutions will benefit

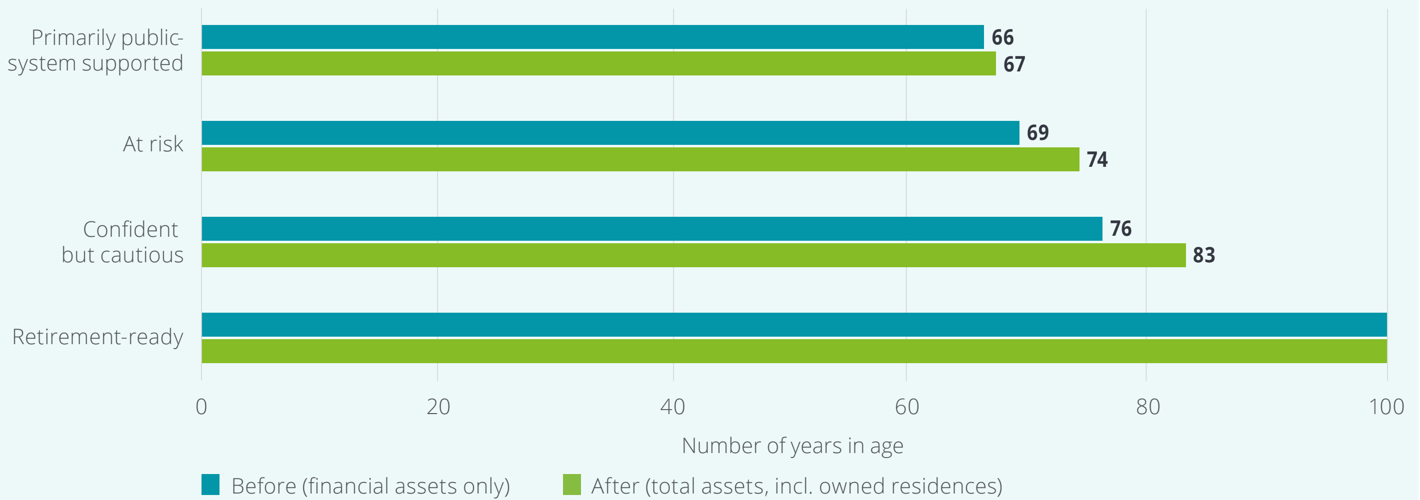
Extending the longevity of household savings

Financial services providers and the public sector can deliver solutions to help near-retiree households prepare for a secure retirement by safeguarding against unexpected events and extending their retirement savings.

Our research shows that almost 38% near-retiree households (in the at-risk and confident-but-cautious segments) can benefit significantly from the interventions discussed in the previous section. They could potentially see the longevity of their retirement savings grow by approximately five to seven years. And the retirement-ready segment would be able to not only preserve their wealth while enjoying a quality lifestyle, but also leave a legacy of assets for the next generation. The confident-but-cautious segment could enjoy the quality of retirement life they desire beyond the age of 82 while holding a sufficient amount of disposable income. We found that at-risk households would benefit the most from these solutions, as they could avoid financial hardships and make their retirement feasible later in life.

Improving access to home equity also provides supplemental cash that could protect the top three segments from unexpected expenses and close their cash-flow gaps during retirement. While the primarily public-system-supported segment would be able to extend their retirement savings by a few years, the majority of them would still need to rely on government retirement programs.

Figure 17: Longevity of retirement savings before and after proposed solutions



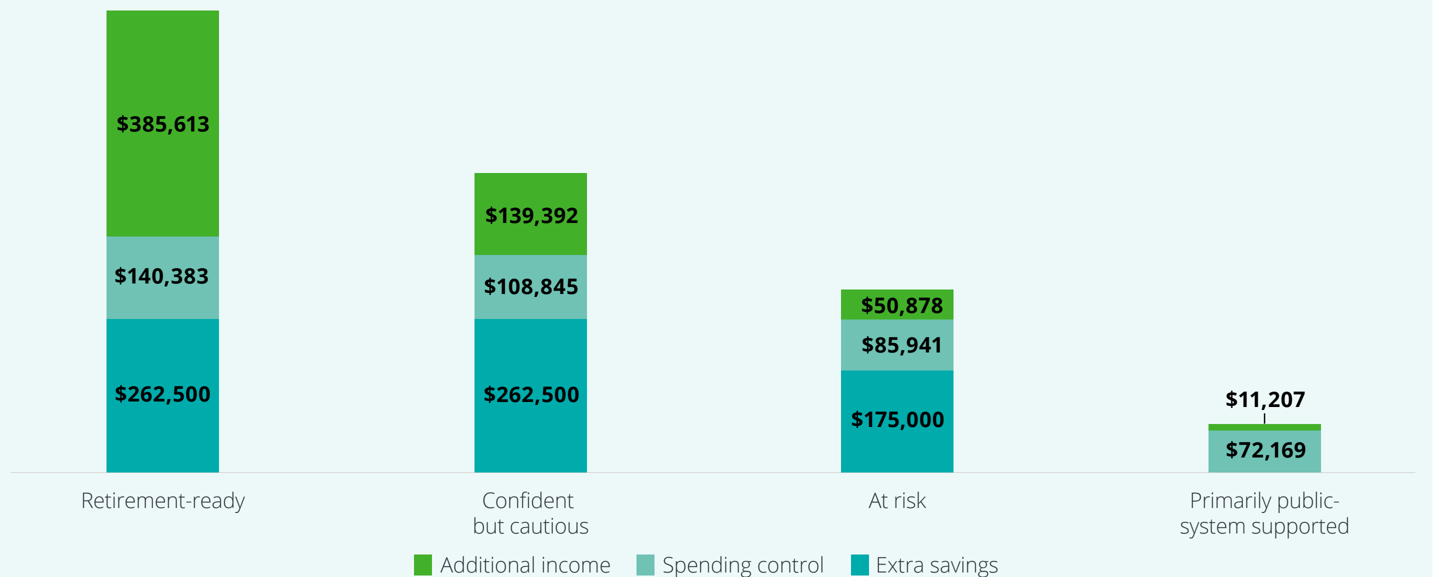
Note: Assuming all segments maintain their respective lifestyles during retirement.
Source: Deloitte analysis

Near-retiree households would benefit from extensions of their retirement savings in the three domains listed below. The total dollar value of these extensions ranges from about $83,000 to $790,000 across the four segments (see Figure 18).

1. Extra savings: money from sources such as tax savings, post-retirement employment, and additional returns on savings
2. Spending control: cost savings from health care discounts, new health care plans, improved expense management, etc.
3. Additional income: unlocked retirement income from access to home equity

Although about a fifth of near-retiree households would still be at risk of outliving their retirement savings, it's worth noting that if Canadians could be encouraged to adopt these solutions early in life, they would be more likely to enjoy high-quality retirement in the future. That requires coordinated effort to promote early planning that contextualizes the concept of the retirement nest egg and breaks down how to adequately save into actionable steps. Households with a longer runway to retirement would also benefit from compounded earnings as a result of investing and preparing early.

Figure 18: Total value of solutions across household segments



Note: Assuming all segments maintain their respective lifestyles during retirement. Financial projections are based on the median values of financial and non-financial assets of near-retiree households in each segment.
Source: Deloitte analysis

Unlocking value for financial institutions

By implementing solutions to address the Canadian retirement challenge, these four types of financial services providers would be contributing to an important social cause in a meaningful way. They also stand to gain significant financial benefits.

Retirement advice providers can unlock about $7.7 to $7.9 billion in revenue

The most vulnerable household segments (primarily public-system-supported, at-risk, and confident-but-cautious) are often underserved by financial services providers; almost 60% of them do not have a dedicated financial advisor or financial planner, and only 25% have a formal retirement plan in place. Product innovation and scaled financial planning present tremendous opportunities for wealth management service providers to meet the needs of the market. To capitalize on this opportunity, two core areas of innovation should be considered: scalable financial planning offerings and asset management strategies.

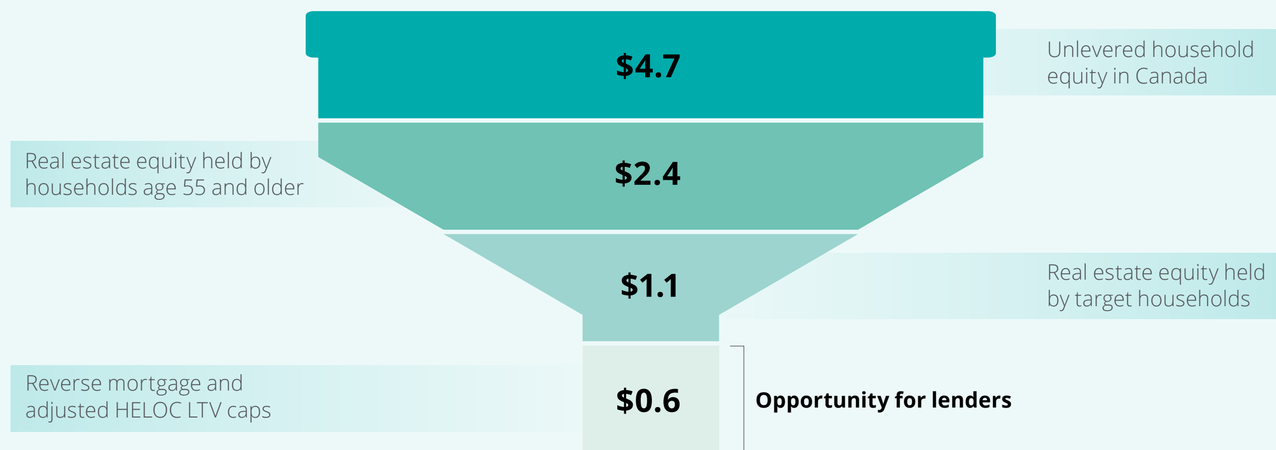
Wealth managers will witness not only an increase in new wealth generated from their existing client books, but also significant uptake in the conversion of retail clients. To be successful, these focus areas should be supported by improving the technological capabilities associated with hybrid advice offerings and asset management techniques.

We found that hybrid advice services have strong appeal to the confident-but-cautious and at-risk segments. Through such services, financial advisors and planners could utilize data-driven financial planning tools to customize retirement plans for these households. In doing so, they would be opening access to optimized taxation and asset allocation strategies. Adopting return-seeking strategies has the greatest potential for wealth management service providers, and they should expect growth of about $610 to $630 billion in their AUM. In total, retirement advice providers can expect to unlock about $7.7 to $7.9 billion in revenue from Canada's senior household market.

Mortgage lenders can generate about $3.4 to $6.7 billion in additional revenue

Canada's total unleveraged household real estate equity now sits at $4.7 trillion. While only 18% of near-retiree households plan on using their home equity to cover their savings gap, our research shows that 40% of Canadians cannot afford even a modest lifestyle during mid-retirement and will have no choice but to rely on their homes for additional income. By improving access and helping seniors overcome the barriers they face with HER products, FIs could capture an approximately $620-billion market opportunity from these households. Mortgage lenders could expect to unlock about $3.4 to $6.7 billion in net interest margin.

Figure 19: Home equity release market unlocked (in $ trillions)



Note: Assuming a 55% loan-to-value (LTV) ratio for reverse mortgage and home equity line of credit (HELOC) loans.
Sources: Statistics Canada, Financial Consumer Agency of Canada, Deloitte analysis

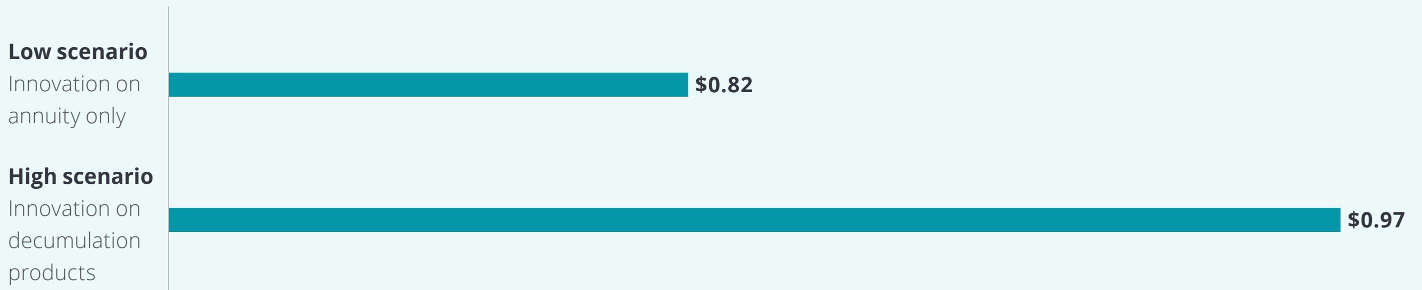
Health insurance providers can expect a revenue increase of about $640 to $960 million

While up to 75% of near-retiree households will not enjoy their employer-sponsored health care coverage once they reach retirement, only 17% have purchased private insurance policies. Furthermore, 50% of households attribute expensive premiums as the main reason for not owning any private health insurance products. In light of this pain point, customized health insurance products would have strong appeal to senior households, especially those that belong to the price-sensitive confident-but-cautious and at-risk segments. Insurance providers could also realize a high return on investment from customer acquisition through strategic partnerships with care service providers, as we found that most Canadian households have a strong affinity for ecosystem partnerships and getting health products at discounted prices. Altogether, insurers could expect to capture between $640 and $960 million in new revenue from households with members who are 65 and older.

Retirement income solution providers can expect about $820 to $970 million more in revenue

Annuity adoption is extremely low in Canada, with only 19% of senior households owning annuity products. The major hurdles for seniors are a lack of awareness and product complexity. There is a need to innovate the current retirement income product shelf to provide more flexibility in payout arrangements and increase the degree of certainty on retirement cash flows. We found that such solutions have strong appeal among the top three segments (retirement-ready, confident but cautious, and at risk). These innovations will come in one of two ways: by upgrading the product construct of an existing annuity or by developing decumulation robo-advisors to consolidate different sources of retirement savings and deliver a more paycheque-like experience. In total, retirement income solution providers can expect to unlock about $820 to $970 million in revenue from Canada's retiree household market.

Figure 20: Unlocked revenue pool for retirement income solution providers (in $ billions)



Source: Deloitte analysis

Conclusion

Most Canadian households need to better prepare throughout their working years for a secure retirement.

While starting to save early and doing so continually are two major areas for improvement, they don't convey the scale of the retirement readiness challenge the largest-ever soon-to-retire population is facing. The inaccessibility of quality retirement products and rising retirement costs are putting more risk on their shoulders than those of previous generations. Differences in household characteristics are exacerbating this challenge. One household may own a home, retire at the right time, and face minimal long-term care costs. Another may be forced to retire earlier than planned, live for another 30 years, and face hundreds of thousands of dollars in care costs.

Canada has spent a lot of energy and resources shoring up the public dimensions of our retirement income system (CPP, OAS, GIS), but comparatively little on the private dimensions (RRSPs and private pension plans). It's time to address the risks associated with the private pillars of our system—risks that have been building over time and, if left unaddressed, will erode the ability of many Canadians to enjoy retirement and their confidence in the retirement income system more generally.

We also need to take action to alleviate the risks associated with the increasing care needs that can affect those in retirement.

Financial institutions can help Canadians do so by pursuing novel approaches across product and service offerings, client experiences, and ecosystem partnerships, while also unlocking meaningful commercial potential. All players in the retirement ecosystem have the duty to help Canadians fill their golden years with confidence rather than anxiety.

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