TD Waterhouse

Planning for Retirement – Longevity Risk

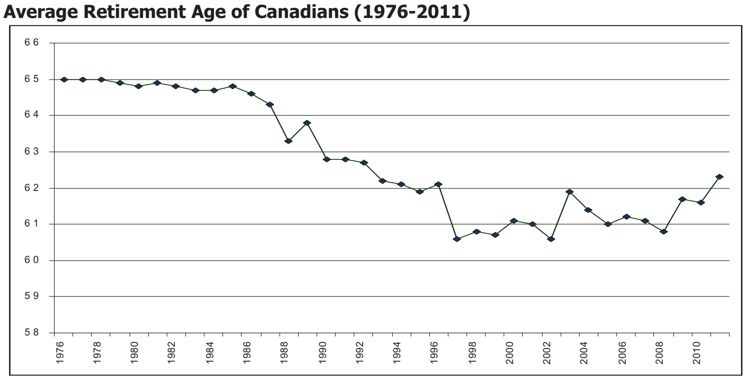
Planning for a longer retirement

Longevity risk refers to the risk that individuals may outlive their retirement savings.

Statistics indicate that Canadians are living longer, healthier lives. For many Canadians this is exciting news. However, many will need to plan accordingly when it comes to retirement as statistics also show that Canadians are retiring earlier which means many are spending more years in retirement.

Recently, governments have been working with businesses and individuals on the future of Canada's retirement income system to account for the evolving demographics in Canada. Canadians now have more control over their retirement savings through the introduction of new savings plans. As a result, the need for advice on matters of wealth planning and appropriate retirement income solutions is on the rise.

Average Retirement Age of Canadians (1976-2011)



Source: Statistics Canada, CANSIM, table 282-0051 (As of January 4, 2012)

Do women have a greater longevity risk?

Yes. Statistics show that women, on average, outlive men by nearly 5 years. Further, women and men aged 65, on average, will live to 86.5 and 83.3 respectively[1]. This means that women on average spend more time in retirement than men. This age difference may present challenges for a woman as retirement income is often related to employment earnings and women on average spend fewer years in the workforce. According to the Retirement-Related Highlights from Statistics Canada's 2009 Canadian Financial Capacity Survey, women are more likely than men to report that their financial standard of living in retirement falls short of their expectations.

[1] Source: Statistics Canada, CANSIM, table 102-0512 (As of September 27, 2011)

Steps to managing longevity risk

- Start saving early. The easiest way to protect against shortfalls in retirement is to develop a wealth plan that is tailored to your specific retirement needs and goals. By saving early and regularly, you can provide your investments more opportunity to grow.
- Understand the tax opportunities that exist. There are many investment products and plans that offer tax efficiencies or tax deferral. It is important to educate yourself about these products and plans. It can often be a wise decision to hold investments which are taxed more favourably in taxable (non-registered) accounts while holding other investments within tax deferred or tax-free accounts such as RSPs or TFSAs.
- Don't disregard fixed income sources. Investments such as GICs, guaranteed minimum withdrawal benefit (GMWB) plans, and annuities should also be considered by individuals entering the retirement phase of their lives. These products can help cover basic fixed expenses without being affected by market fluctuations.
- Consider the use of life insurance. Life insurance can protect a spouse against longevity risk by distributing a benefit at the time of his or her partner's death.
- Understand the options available. There are many types of plans and thousands of investment products available to help achieve your retirement goal. It is important to understand the various types of plans and products available to determine which may work best for you.

Call your TD Waterhouse advisor today to find out more about how we can help with your retirement planning.

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