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Planning for Retirement: Are Canadians Saving Enough?

TORONTO (June 14, 2007) — Only one in three Canadians expecting to retire in 2030 are saving at levels required to meet basic household expenses in their retirement, and many may need to sharply increase their annual savings or continue working past age 65 to avoid financial hardship, according to a study sponsored by the Canadian Institute of Actuaries.

The study, titled “Planning For Retirement: Are Canadians Saving Enough?”, conducted in April 2007 by a research team based at the University of Waterloo’s Department of Statistics and Actuarial Science, developed a total of 72 household profiles to assess whether Canadian “baby boomers” born in the early to mid-1960s are putting aside adequate savings for their retirement. It focused on two different income levels: households earning the Average Industrial Wage (\$40,000 in 2005) and those earning twice that amount.

“The message for most Canadians in their early to mid-40s is they will need to save more if they expect to enjoy an independent retirement,” said the Institute’s president, Normand Gendron. “Governments need to provide Canadians with more education about the role that different savings vehicles can play in generating retirement income, and provide tools and incentives that encourage more households to save.”

According to the study’s findings, those households saving adequately are doing so using some combination of home equity, company-sponsored pension plans, registered retirement savings plans and personal savings to supplement the modest base income they will get from Old Age Security and the Canada/Quebec Pension Plan. Those relying solely on one type of savings vehicle, however, are consistently identified among those falling short, and will either have to increase their savings significantly or continue to work past age 65.

The research study team developed a base-case scenario to measure the gap between government pension income (OAS and C/QPP) in 2030 and the total income needed for necessary living expenses in retirement. Using current information on retirement plan participation and savings, combined with reasonable economic assumptions, the study team developed 72 household profiles. Then, for each profile, they calculated the level of annual savings needed from all sources to close the gap.

The study examined the effect of home ownership in closing the gap, as well as what would happen if a person retired at a later age. In addition, the team developed targets to show what

savings levels would be needed to generate sufficient income to enable households to do more than just cover basic necessities in retirement.

The study's findings clearly point to the value of home equity as a retirement savings tool. It also suggests, given the high percentage of Canadians who may need some portion of their home's equity to provide adequate retirement income, that governments should consider making interest paid on the mortgage on a principal residence tax deductible.

"We found that home equity can make a significant contribution to narrowing the gap, provided your home is paid for when you retire," said Steve Bonnar, one of three actuaries who directed the University of Waterloo project team. "Yet while home equity is important, on its own it is not enough to close the gap."

The study's findings contrast with recent opinion research commissioned by the Institute. A poll conducted by Pollara Inc. in April 2007 found that 55 per cent of Canadians aged 40 or older feel some level of confidence that they will have the financial resources to retire comfortably. Those with retirement savings feel more confident, as do those with a workplace pension plan. Three out of four people surveyed said they plan to retire at or before age 65.

According to Statistics Canada, seven out of ten Canadian households—or about 9.4 million households—had some form of pension assets in 2005.

"Canadians need to know the facts about retirement income, and actuaries can play a vital role in educating the public because of our unique training and qualifications," said Gendron. "Our research study demonstrates the value of actuarial science in decision-making and long-range planning, as well as our profession's commitment to the public interest."

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For more information:

Josée Racette, 613-236-8196 ext.107

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Actuaries employ their specialized knowledge of the mathematics of finance, statistics and risk theory on problems faced by pension plans, government regulators, insurance companies (both Life and Property/Casualty), social programs and individuals.

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