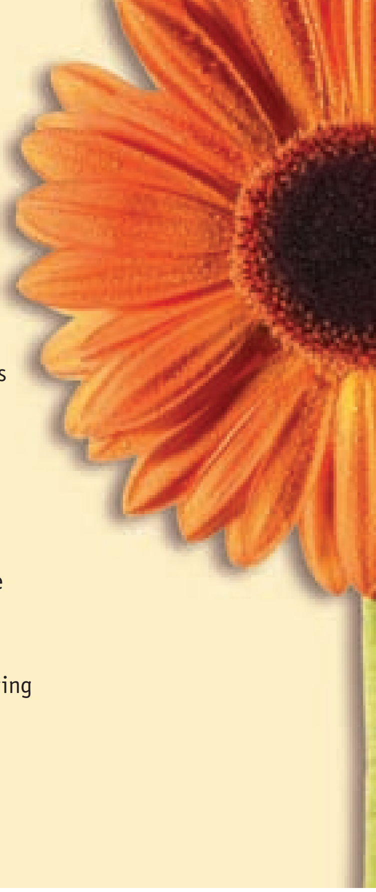
Perfect Garden

The Psychology of Retirement

Desjardins Financial Security™

Money working for people

Contents



The Desjardins Financial Security Research Survey Advisory Board

To help us learn about how Canadians are planning for and how they feel about retirement, we engaged a roundtable of industry professionals to review and discuss the results of our national survey on retirement. The insights of this group of highly experienced and respected professionals has added immeasurably to our understanding of The Psychology of Retirement among employee plan members in this country. The commitment of their time and expertise is greatly appreciated and we're certain that you will find their comments on the survey results and retirement in general a valuable resource in understanding this topic.

Left to right, standing
Robert Brown, Professor of Actuarial Science, Dept. of Statistics & Actuarial Science, University of Waterloo.
Marg French, a national partner with Mercer Human Resource Consulting.
Nurez Jiwani, Director of Regulatory Coordination at the Financial Services Commission of Ontario
Paula Allen, Vice-president, Health Solutions and The Shepell-FGI Research Group for Shepell-FGI.
Jean-Daniel Côté, National Leader of the DC consulting practice and a Principal in the Montreal office at Morneau Sobeco.
Monique Tremblay, Senior vice-president of Savings and Segregated Funds Desjardins Financial Security

(left to right, seated)
Nichola Peterson, Principal, Pension Practice, Morneau Sobeco
Dr. Paul Garfinkel, president and CEO of the Centre for Addiction and Mental Health.
Janet Carr, public health nurse with Ottawa Public Health.

Tending to retirement prosperity: a cultivating tool for employers, plan sponsors and advisors

The fifth edition of the Desjardins Financial Security Survey on Retirement digs deep into the psyche of Canadians regarding their attitudes toward saving for retirement and the roles played by employers and financial advisors.

In the five-year history of this research, a common theme continues to sprout up: Canadians plan to retire at age 60, with their "do-it-yourself" retirement plans, overwhelmingly because their peer group and society cues them to move onto this next life stage.

Yet surprisingly, after years of the financial services industry nudging Canadians to start saving for retirement and nurturing retirement plans, 35 years old is the average age Canadians begin investing, with 35% of survey respondents not tending to their retirement nest egg until they are 40 years and older. And, they plan to ride off into the sunset with less than $50,000 in savings.

This presents an opportunity for employers, plan sponsors and financial advisors to reach out to Canadians. For employers and plan sponsors, our retirement research, and the Desjardins Financial Security Survey on Health, reveal that employees are unaware of what benefits are available through their employer. This presents implications for the do-it-yourself retirement planner.

For advisors, there is a great opportunity to work with Canadians, at different income levels, to help guide them in their plans to retire and to achieve their retirement dreams.

Consider some of the findings:

- Workers recognize the importance of retirement planning to estimate required income and expenses (92%) but implementation lags, with only 64% following through.
- Those who do expect to get help (19% of respondents) believe their family (61%) or government (23%) will bail them out.
- 78% of workers feel they will have enough money for retirement (on average 63% of their current income to maintain their present standard of living) and 74% are psychologically prepared for retirement.
- When it comes to closing the tap on brain drain resulting from a retiring workforce, it is beneficial for employers to provide incentive for employees to stay. Once retired, only one in five retirees surveyed would give any consideration to returning to work.

Through this book, we have endeavoured to identify trends that pertain to Canadians' views on retirement, and to present this information in a format useful for employers, plan sponsors, financial advisors and investors.

We hope you'll take some time to review it.

Richard Fortier
President and
Chief Operating Officer
Desjardins Financial Security

Methodology

SOM conducted the telephone survey on behalf of Desjardins Financial Security between August 3 and 16, 2006. In total, 1,666 interviews were conducted with a representative sample of Canadian adults. The sampling plan provides proportional estimates with a maximum margin of error of plus or minus 2.6% at a 95% confidence level (19 times out of 20). The data was statistically weighted to accurately reflect the composition of Canadians by region, gender and age based on 2001 Census information.

Step into the garden

Imagine for a minute you are standing at the edge of a garden that represents your lifestyle now and in retirement.

Take a good look at the healthy flowers blooming nearby and the promising young trees sprouting buds in the distance. Now focus on the area in between. Maybe there is a cluster of annuals choking out your perennials. Perhaps weeds are multiplying, threatening your prize rosebushes. Somehow, you need to get control of the entire curving garden path that leads from today to tomorrow, and from your working life into your retirement.

Desjardins Financial Security wanted to find out how well Canadians are tending their lifestyle garden, and how confident they feel about their plans for retirement. In August 2006, Desjardins sponsored telephone interviews among a representative sample of 1,666 Canadians 18 years of age or older. In the following pages, you will read the revealing results, which are accurate within a margin of error of +/-2.6%, 19 times out of 20. Desjardins also engaged a roundtable of industry professionals and has included their insights on the steps plan sponsors and financial advisors can take to help their plan members and clients create a thriving garden that fulfills their financial and emotional needs after they decide to leave work.

Welcome — and enjoy the diversity of sights, smells and sounds in a Canadian lifestyle garden!

What's the forecast?
How Canadians view retirement

As anyone who loves gardening knows, a correct weather forecast can make the difference between planting seeds that germinate and grow, compared to losing a promising collection to unseasonable frost. The same goes for retirement planning. Accurately forecasting your needs and acting accordingly can lead to a lush, prosperous retirement — while unrealistic expectations and inadequate preparation may leave you running short of cash when you need it the most.

The survey results show that Canadians want to take their gold watch and retire earlier than the traditional reference age of 65. In fact, the mean ideal age at which they want to start full retirement is 60, and that has not changed significantly in the five years we have been conducting this type of research.

Are there sunny days ahead for these people dreaming of early retirement? Four in 10 say that, based on what they know now, they do not think it will be possible for them to retire at their ideal age. This is consistent with results from the past two years.

Furthermore, the survey results demonstrate that people are not, on the whole, proactive about retirement. One-third stop working simply because they have reached a pensionable age. One in five are facing health problems or disabilities, and significantly fewer (4%) are forced into early retirement by their employer or reach the conclusion that they have worked long enough (4%). Just 9% say they wanted to retire, with a further 2% chiming in that they felt it was time to enjoy life or do something new.

On the other hand, once Canadians do retire, they enjoy the flexibility and control that comes with doing what they want when they want (31%), having more time for themselves (23%) and not having to work or deal with a boss (9%). When asked what they like least, nearly one in four (23%) said "nothing" because they like being retired. Those who do quibble with aspects of retirement complain most frequently of not having enough money (17%), health problems or coming to terms with aging (14%), loneliness (11%) and boredom (9%).

They appear to relish the opportunity to chart their own course, but when it comes right down to it some are not planning effectively financially or creating satisfying structures in their retired lives. Both money and social challenges may be compounded by the fact that Canadians who retire at the relatively low mean ideal age of 60 may be facing retirements lasting several decades as life expectancies lengthen. Another complicating factor is that more than one in four (28%) retirees said their spouse retired the same year they did — and this could, of course, have the potential to make both the financial and psychological transition even more difficult.

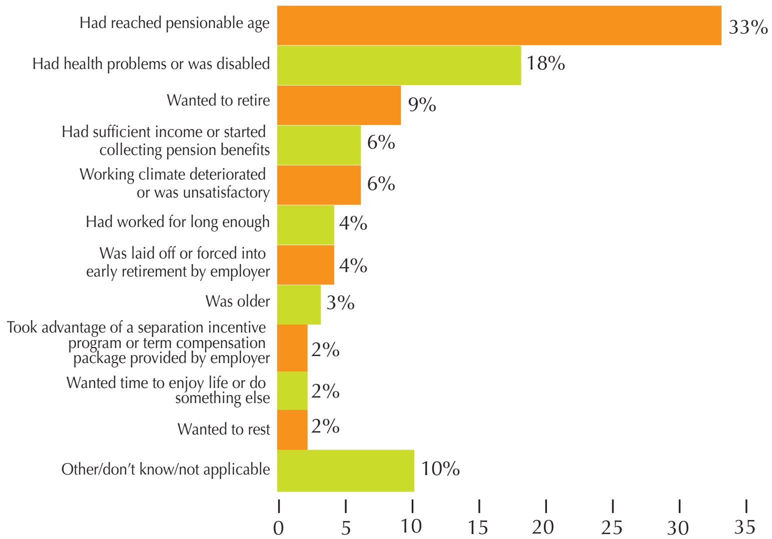
Key findings

- What is your ideal age for full retirement?
  60 years old[1]

- Will you be able to retire at this age?
  60% say yes, 40% say no[2]

1 Mean ideal age for workers and partial retirees age 40 or older.
2 Responses from workers and partial retirees age 40 or older, excluding those who never plan to retire.

What is the primary reason why you retired? [Open-ended]



Respondents retired for less than five years.

"I would like to see employers be a little more sensitive to the needs of their employees who are getting close to retirement. In a lot of industries, the older worker feels threatened by the younger, faster, more technologically savvy employees, and I am not sure that organizations value their older employees to the extent that they could."
— Janet Carr

Advisory council insights

"It doesn't seem like retirement is planned on a long-term basis," says Jean-Daniel Côté, National Leader of the DC consulting practice and a Principal in the Montreal office at Morneau Sobeco. "Psychologically, they haven't planned. They take this as a vacation — but you're going to be on vacation for up to 30 years, so what do you do after two or three months? That's where it really hurts."

Instead of plotting out an individual course of action that works for them, many Canadians seem content to make retirement decisions based on cues from relatives, neighbours and colleagues, suggests Robert Brown, Professor of Actuarial Sciences, University of Waterloo, or because of employer expectations that may make workplaces less tolerant of older workers, and alternative work arrangements, as Marg French, a national partner with Mercer Human Resource Consulting, points out.

"This reflects a traditional view of work and how people age," says Dr. Paul Garfinkel, president and CEO of the Centre for Addiction and Mental Health. "Many people just expect as they get older they're going to work and then suddenly stop and things will come together at that point."

Yet our panelists agreed that planning on several levels is essential to create a retirement that works for each specific person. Financial planning can help people accumulate sufficient funds and set realistic retirement expectations — but planning to have enough money is just part of the solution.

Health planning is necessary, too, to help ensure that people are healthy enough to keep working if they choose to, and to enjoy quality of life and reduce health expenses in retirement. Janet Carr, a public health nurse with Healthy Ottawa @ Work, Ottawa Public Health, suggests a mix of health promotion programs in the workplace to help prevent chronic diseases, such as cancer, heart disease, stroke and diabetes, supported by plan sponsors.

"I'm hearing from financial advisors that they are starting to use healthy living messages as a way to encourage their clients to stay healthy, because many may have to stay in the workforce longer. They may not be able to afford to retire at the age they thought they would be able to," Carr says. "It's interesting how the health message and the financial perspective are coming closer together with respect to the prevention of chronic diseases."

In addition, she says, social support is critical. "If you have a strong network that extends beyond the workplace and you retire, then you're going to do better than people who get all of their support from colleagues at work," she explains.

Career transition planning can also make the adjustment to a retirement lifestyle smoother. "I would like to see more of a transition plan developed by many employers," says Paula Allen, vice-president, Health Solutions and The Shepell-FGI Research Group for Shepell-FGI. "I've seen it used well in a disability management context, but I think it could be used in a retirement context as well."

As Allen points out, in addition to disability management, many employers have structured apprenticeship, co-op and articling programs to integrate younger employees into the workplace — so why not consider similar transition programs at the back end of a career?

Calling all landscapers!

The financial advisor's role in retirement preparation

Experienced advice can unlock the potential of a garden by tailoring plant selection to specific types of soil and sunlight exposure. But where do you turn? Do you ask friends and neighbours? Do you consult a gardening centre? Or do you seek out guidance from a professional landscaper? It likely depends on how important your garden is to you, and how much you plan to invest in it.

When it comes to retirement preparation, few dispute the fact that saving for your golden years is vitally important, and many Canadians invest thousands upon thousands of dollars in their retirement nest eggs. And yet our research shows that most are still not developing strategies with the help of a professional financial advisor.

Just four in 10 respondents are, in fact, working with a financial advisor — including bank or credit union financial advisors, stock brokers or advisors, personal insurance brokers or advisors, mutual fund company investment advisors, financial planners and chartered accountants. Furthermore, in many cases, even these people are not covering topics that are essential for retirement planning in conversations with their financial advisors.

For example, about two-thirds have worked with their financial advisor to estimate their sources of income at retirement (68%), the

Key findings

- **40%** are working with a financial advisor
- **61%** have discussed their retirement lifestyle expectations with their advisor
- **19%** have discussed the potential psychological effects of retirement with their advisor

percentage of current income they will need at retirement to cover basic expenses (61%) and the percentage of current income they will need to maintain their current lifestyle (64%) — but about one-third have not done any of these calculations.

Also revealing is the fact that respondents' stated priorities do not necessarily translate into action. So, 69% of employed workers think it is important to meet with a financial advisor to assess their financial situation, but just 53% have followed through. Similarly, 49% say it is important to meet with a financial advisor to make a smooth emotional transition to retirement, but just 23% have undertaken this step.

When it comes to investment management, 82% say they have experienced regular follow-up on their investments to maximize their financial returns, so that is well in hand for most people. However, fewer than half of respondents have addressed the potential consequences of ill health by discussing critical illness insurance (49%) and long-term care insurance (44%). There are clearly unidentified needs that financial advisors can and should discuss with their clients.

Furthermore, although 61% of respondents have discussed their retirement lifestyle expectations with their financial advisor, just 19% have talked about their mental health at retirement, including topics such as stress management, solitude, the feeling of being useful to society and new challenges, and just 29% have talked about the physical changes of aging.

"Work reflects hours put in, but it's something much more for most people. It helps provide part of your sense of identity, who you are, who your community is, how you connect. Those networks are disrupted at retirement."
—Paul Garfinkel

Advisory council insights

Defined contribution plan members are in need of guidance to complement the information and tools provided by employers. Financial advisors may be in a good position to help employees develop overall financial strategies (taking their group pension plan participation into account) that are effective today and that enable them to maintain their desired standard of living in retirement.

The panelists emphasized that some of the people who may need financial advice the most are not getting it — for example, employees of smaller companies who do not have a group retirement plan. Whether or not someone has a plan, they need a single entry point for a discussion about retirement, and many agreed that a financial advisor has the potential to take a holistic perspective on this issue.

To be most effective, however, Robert Brown emphasizes that advisors need access to all of the details that pertain to the plan sponsor's group benefits. That means asking clients for comprehensive information about their benefits, today and after they retire. Of course, for employees to be able to provide this information to their financial advisor, they need access to clear benefits specifics themselves.

"There's a real need for unbiased information for employees, and some employers are coming around to that way of thinking," observes Nichola Peterson, Principal, Pension Practice, Morneau Sobeco. "It's very important to let employees know what they have through their pension and benefits arrangements but it's also important to help them understand what they don't have, to communicate the idea that employees have a responsibility to take control of their own financial planning for retirement, and to put the tools into employees' hands so they feel more comfortable sitting one-on-one with an advisor."

In addition to learning all they can about their clients' benefits plans, financial advisors can work on gaining an in-depth understanding of the aging process, suggests Janet Carr. "In terms of the awareness and sensitivity of financial planners to their clientele, it is helpful for them to have information about the changes that people go through as they age," she says, adding, "These advisors could be in an excellent position to refer their clients appropriately to community resources."

As for how to start the conversation, Dr. Paul Garfinkel advises, "I don't think you should be asking, 'Do you have schizophrenia?' I think you should say, 'Have you thought about the stresses that retirement is going to bring and how this could affect you?' "

The ultimate responsibility for any employee's financial well-being rests with the employee. However, financial advisors, supported by complete information from a plan sponsor, can play a very important role as their clients move from work to retirement, and from asset accumulation to strategic spending.

Planting the seeds

The roles of employers, trade unions and associations in retirement preparation

Every garden begins with the first seed, and for some Canadians the first seed of their retirement lifestyle garden is planted inside their company pension plan. The challenge for employers is that, facing an aging and shrinking workforce, they are looking for ways to retain experienced employees — but our survey results show that employed workers 40 and older are not willing to stay on without additional incentive.

A majority would consider delaying full retirement temporarily if their employer were unable to find a replacement (62%), but it would take an attractive salary and benefits package to tempt 79% to stay on the job longer. This is a slight decline from results seen in January 2003.

Interestingly, when asked if there is anything currently provided by their employer that would disappear at retirement and that would delay their retirement, a resounding 75% said "no" while just 19% said "yes" (the rest did not know or said it was not applicable). Of the small number who said "yes," 42% cited their group health benefits, 25% cited a good salary, pay or bonus and 16% cited unspecified fringe benefits.

Nearly half of respondents said they believe their employer, trade union or association should be doing more to help them prepare or plan for their retirement. Broken down by age, this point of view reaches a peak of 58% during the key transition period between ages 65 and 69. What do these employees want? Answering an open-ended question, they prioritized social benefits/pension plans (23%), preparation for retirement courses and seminars (17%), financial planning (10%) and meetings with an advisor to help prepare for retirement (10%).

Key findings

- **79%** would consider delaying full retirement if their employer offered them an attractive salary and benefits package to stay on the job
- **51%** provide information and tools that help employees plan for retirement — which means obviously that 49% don't (which is a significant number)
- **47%** believe their employer, trade union or professional association should do more to help employees prepare or plan for their retirement

Advisory council insights

"I'm an optimist," says Marg French. "I look at this and I say it looks like there's a lot of opportunity, particularly given tight labour markets, for us to change the model in terms of the way people work. Not wanting to work anymore may mean not wanting to work 60 hours — and it's an all-or-nothing choice that they're having to take."

But before employers rush off to introduce flexible schedules for older workers — which may establish a precedent for younger workers, too — they should take a step back and assess their workforce's specific priorities, says Paula Allen. "It makes sense for an employer to periodically take the temperature and ask employees close to retirement what would motivate them, so they keep their approach relevant," she says.

That said, if it is generally accepted that it is a good idea for employers to demonstrate flexibility and adapt to the needs of the employees they want to retain, what exactly should they consider doing? Some recommendations from the panelists include providing options such as working from home, ensuring that part-time work really is part-time, offering longer leaves of absence, encouraging project-based work and accommodating people who are caring for elderly parents. Brown says that programs should be targeted to retain the 58- to 64-year-olds in the workforce — rather than pursuing the 65+ population.

French points out that there did not used to be a business case that supported investing in an employee at the end of his or her career. Today, this is changing. She highlights the fact that 42% of employees currently have health and dental benefits that they will

Point

"Employers need to get to the point where they accept that they have some responsibility to help their aging workforce transition towards retirement. Employers need to think about the ways they're prepared to act and how much they're willing to spend on this — including making sure they're bringing in the appropriate experts to talk to employees." —Nichola Peterson forfeit on retirement, but suggests that employers can make a solid financial argument these days to respond to changes in the environment and invest in benefits to keep people in the workforce.

"Up until now, from an employer's perspective, it's been a buyer's market," says French. "Having people retire at a certain age has suited the purpose of employers. But I think that's going to change. There's a lot of work that can be done to help people plan that next portion of their careers, in terms of how they feel valued within an organization, that they have meaningful work, and that there is a transition plan for retirement at some point that's more suitable than a median age of 60." She adds, "Most people don't recognize how long they potentially could live beyond 60."

Allen goes further, suggesting a formalized system to deal with retirement in the workplace: "If there is a clear business case for maintaining talent, which is well understood, then you have the foundation. The strategy may involve a contingent workforce, to ease people out so you are able to have greater flexibility for succession planning — whatever your business continuity plan is — and having it built around retirees. With a business case, I think employers will take the time to look at that pre-retirement period, and perhaps some time after that, and build special strategies," she says.

Allen emphasizes that the first thing to do is to understand what is being done right now, because some employers may have made decisions in the past, for example to opt out of certain benefits options, that would make it easier to cater to the needs of an aging workforce.

"Employers have to reconceptualize what the older employee is about," concludes Dr. Paul Garfinkel, "and consider special roles for the individual who has a tremendous intellectual capital for the firm."

Counterpoint

"I struggle with the idea that it's the employer's responsibility or obligation to pay for these benefits. I think that increasingly employers are going to be asked to cover any number of benefits to meet the needs of an increasingly diverse population. I think it's a win-win opportunity to offer a variety of benefits... but the greater onus has to be on the individual to select what is right for them." —Marg French

Watching savings bloom

How Canadians go about accumulating retirement savings

We all know some things are good for us — say, exercising three times a week and eating five servings of fruits and vegetables every day — but many of us do not follow through. The same appears to be true when it comes to accumulating retirement savings. Many people sit back to watch their savings bloom without recognizing that growing a nest egg — like growing a garden — requires careful planning and regular attention.

So, there is general agreement among Canadian workers that it is a good idea to determine the amount of income they will need to cover their basic expenses and current lifestyle expenses in retirement — with, respectively, 92% and 87% of respondents saying it is important to them. Yet just 64% and 61%, respectively, have actually taken steps to make these calculations.

There is better news when you take a closer look at the age breakdown of these responses. For example, 79% of workers aged 60 to 64 have started calculating the income they need at retirement to cover their basic expenses, and 75% of workers in that same age group have done similar work on their lifestyle expenses. Of course, that is still far short of the number of people who believe both these calculations are important.

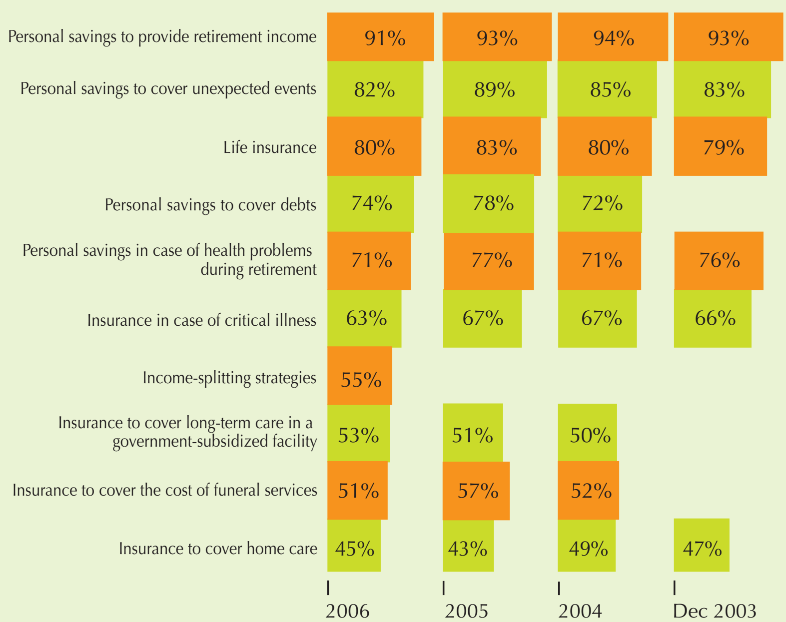
Looking at the non-financial aspects of retirement, our research discovered a similar disconnect between intention and action. For example, although 82% say it is important to plan some activities, social meetings, hobbies or volunteer work to occupy your free time in retirement, just 55% have undertaken these steps. In this case, rising age does not appear to have as direct a relationship to the likelihood that someone has taken action. There is actually a surprising dip in the numbers to 47% between the ages of 65 and 69.

The number of workers who have taken retirement savings to the next level and prepared a plan that spells out how they will accumulate savings for their full retirement has remained fairly steady through five years of our surveys and is at 62% in 2006. Among those who have drafted a retirement savings plan, two-thirds (65%) relied on a professional, such as a bank or credit union financial advisor, financial planner, mutual fund company investment advisor, insurance

Key findings

- **92%** believe it is important to estimate the income they will need at retirement to cover basic expenses, but just 64% have undertaken steps to do this
- **78%** pay special attention to the accumulation of savings for retirement, but just 62% have prepared a retirement savings plan

Employee perceptions of what is included in their financial plan



Workers or partial retirees 40 and older who had prepared a plan.

broker/advisor, chartered accountant or stockbroker/advisor.

On the other hand, 29% created a plan on their own and a further 5% relied on a family member, friend or someone they know. Interestingly, a similar percentage to the do-it-yourselfers — 30% — are worried about their retirement. What is their overwhelming concern? Two-thirds of them (67%) are anxious about having enough money to cover basic expenses. Actually conducting the basic and lifestyle expense calculations that nine out of 10 thought were so important could go a long way towards calming those fears.

There were some surprisingly positive findings coming out of the survey as well. Motivated predominantly by financial professionals, family members and friends, people are starting to save seriously for retirement (outside their pension plan) at an average age of 35. They say they are setting aside an average annual percentage of their gross annual income of 13%.

Advisory council insights

"The results seem to be quite encouraging," says Nurez Jiwani, Director of Regulatory Coordination at the Financial Services Commission of Ontario, "with people starting to save at age 35 and putting aside 10% to 13% of their income towards savings, and 62% saying they have a plan for their retirement. I think the opportunity is to ask how good a plan it is and to provide retirement planning tools so the planning that is being done is good planning."

Jiwani believes that the CAP Guidelines may be helpful in this area by guiding employers to offer investment information and tools to plan members. Appropriate retirement planning tools, he says, may help Canadians make the right decisions and develop the right plans for their retirement.

On the other hand, Jean-Daniel Côté warns that standard tools from financial institutions and group retirement service providers are not as flexible as individualized advice from a financial advisor. "There's an opportunity there for truly professional advisors to step in proactively, to sell people on the added value that they can bring," he says.

Workers believe they will need only 63% of their current gross annual income, on average, to maintain their current standard of living in retirement. That is down from 70% in 2005 and up slightly from 62% in 2004. But is this realistic? And if it is not, who is there to help out? Eight in 10 (81%) say they do not expect to receive support from anyone else if they have to cut back on spending in retirement. Of the 19% who do anticipate support, 23% would count on the government and 61% would depend on family members (some would count on both sources).

Employees may be modeling their expectations on their experience with their own parents. An overwhelming majority — 94% — of respondents said the older generation does not depend on them to cover basic expenses. As Nichola Peterson points out, however, Canadians approaching retirement today should keep in mind that they may have a very different experience than their parents.

"Employers really need to consider helping employees with the transition to retirement, giving them more educational background in terms of what to expect as they move into retirement, and also accommodating them, giving them a flexible work environment so we can get some of those older workers back into the workforce."
— Nichola Peterson

"We're not only going to live longer in retirement, but we're also going to be healthier and more active than previous generations, requiring greater financial resources," Peterson says. "Also, we know that employees of our generation tend to have less coverage in terms of pension and other retirement benefits. We shouldn't be resting on our laurels. So it's great to see that people are planning. We just need to make sure they're basing it on the right information."

One particular area of concern is the lower numbers who are saving for health-related expenses, even among workers who have a retirement savings plan. While 91% say they have personal savings set aside to provide retirement income, just 71% say they are putting cash away in case of health problems during retirement. Fewer still believe they have insurance to cushion them from critical illness (63%), long-term care (53%) and home care (45%) expenses.

Yet, as Côté says, "People are looking for more than the health safety net. More and more they're looking at images on TV of people spending days and days in waiting rooms or in the corridors of hospitals. They want better than that, and they want to be able to afford it."

All in all, despite their apparent expectation of financial independence, Côté emphasizes that "just getting by will not cut it" for new retirees because they have more ambitious travel and lifestyle expectations for retirement than their parents did. For example, in our 2005 survey, exotic travel during retirement was the most popular dream for nearly half of Canadian full-time and part-time workers (48%) over 40 years old. Combine expensive ambitions with the fact that a significant number of people are not preparing contingency plans to cover health-related costs and a shortfall may be looming on the horizon. That shortfall may be evident in the fact that the 2005 survey also found the number one dream Canadians have when they retire is to stay or be healthy. Travel takes a back seat post-retirement, at 24%.

The panelists suggest that both plan sponsors and financial advisors have an opportunity to promote the benefits of a comprehensive retirement savings strategy that includes savings to provide retirement income and cover unexpected events and health problems. Still, the ultimate responsibility for appropriate retirement planning rests with each individual.

Key findings

- **78%** of workers 40 and older are confident their retirement income will be adequate; still, nearly half (48%) are concerned their retirement savings may run out while they are still alive
- **81%** of fully retired people say their retirement income is adequate; still, 31% are concerned their retirement savings may run out while they are still alive

Trimming the hedge

What did you expect?

The garden you envision when you plant your first seeds can be very different from the end result. Organic growth leads to unpredictable results, and we may intervene ourselves to make adjustments as our tastes change. Because we surveyed both workers and fully retired people, we got a snapshot of the hopes and fears of pre-retirees — and whether those hopes and fears panned out in retirement.

Among workers 40 and older, for example:
- 67% say they are financially prepared for retirement
- 74% say they are psychologically prepared for retirement
- 48% believe their standard of living will be significantly lower when they retire than it is now and half say this would make them feel anxious, stressed or depressed

In contrast, among fully retired people:
- 79% say they were financially prepared for retirement
- 83% say they were psychologically prepared for retirement
- 39% say their standard of living is significantly lower than before they retired and about one-quarter feel anxious, stressed or depressed about this

"People don't do what they're supposed to do until there's a really good structure that makes it easy. Even from an employer's point of view, it's still a little bit startling how many employers are well aware that there's a shrinking workforce, there's an aging workforce but have done virtually nothing to address that fact."
— Paula Allen

Advisory council insights

All in all, the retirement picture appears to be rosier than pre-retirees anticipate. People are more prepared than they think they are and fewer of them have to adjust to a lower standard of living. "I think it's rather encouraging that people are taking responsibility in planning for their retirement," says Marg French. "My only fear would be whether they truly understand that longevity in the retirement years requires one to save in the working years."

However, 38% of retirees with a lower standard of living is a large number — and it is not helped by the fact that 86% say they had no financial support to help them adjust to their retirement lifestyle. Meanwhile, 35% of retirees said their standard of living was not just lower than their pre-retirement standard of living but also lower than they expected it to be before they retired.

Is an unrealistic outlook part of the problem? "People need more support to help them match their expectations to what they can actually achieve — not only financially but in terms of all aspects of quality of life, including mental health, physical health, social health and relationships," Paula Allen says. "There seems to be a gap between what people's expectations are and will be, and what skills and resources they have to meet those expectations across all those areas."

Jean-Daniel Côté suggests that group retirement service providers can play a helpful role in establishing more realistic expectations by, for example, providing a hotline or website for DC plan members that offer general information about health and psychological issues related to aging and retirement. They can also help employers ensure that appropriate resources are available to assist people as they cope with the psychological stresses of retirement by offering access to career counselors and professional psychologists.

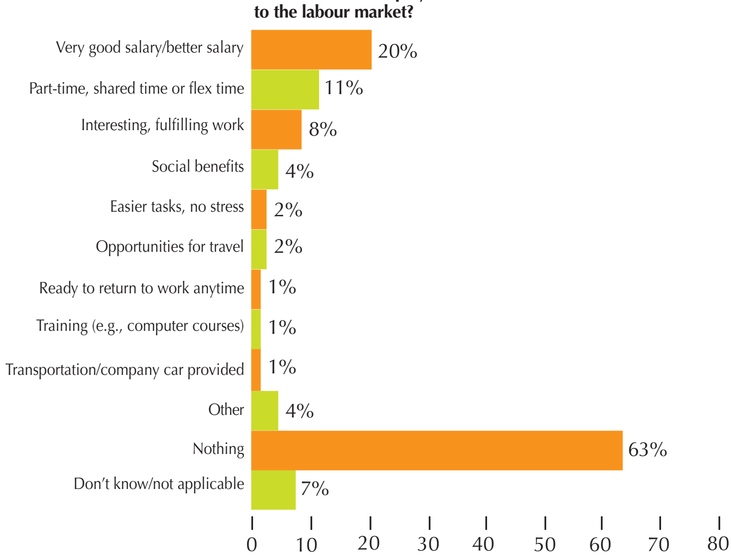
Another strategy Côté believes can be very powerful is a lunch-and-learn retirement planning seminar at the workplace, with the participation of someone who is retired and who can talk about the opportunities and challenges he or she experienced. This kind of approach can counterbalance the fact that many retirees probably feel like they are on their own, which can clearly contribute to feelings of stress.

It can also help to address the issue that people often want a higher standard of living in retirement, with access to additional cash so they can pursue their hobbies and achieve the lifestyle they desire. These loftier goals may explain why 52% of fully retired people say they did not save as much as they should have for their retirement. The solution, say our panelists, is a mix of more grounded expectations and increased savings during the working years. And that solution is the responsibility of employees, first and foremost, with guidance from their financial advisor and information from their plan sponsor.

New landscaping

New retirement patterns emerge

What would an employer have to offer to entice retirees back to the labour market?



Retired respondents only.

Key findings

- **56%** of workers 40 and older plan to retire partially, compared to 39% who plan to stop working completely at retirement
- **91%** of partial retirees say they are financially prepared to retire fully
- **90%** say they are psychologically prepared to retire fully

What if you only wanted to spend some of your time in that carefully tended retirement lifestyle garden you have been nurturing over the years? You would not be alone. Full retirement has become a less popular option than partial retirement among workers over 40, with most (56%) planning a gradual transition after they stop working full-time. The old model — sitting at your desk until the clock struck five on your 65th birthday and then turning your back on the workplace forever — just is not the way most of today's workers see their future.

The reward for those who embrace partial retirement appears to be greater confidence. For example, 97% of partial retirees say their retirement income is adequate, and 92% say their savings for retirement will allow them to maintain their current lifestyle when they retire fully. Remember, among workers aged 40 or more, 78% are confident their retirement income will be adequate and 48% believe their standard of living will be significantly lower when they retire.

Advisory council insights

The number of people who plan to retire partially has declined, while the number who will stop working completely at retirement has gone up. It is unclear whether this is because employers are not providing the flexibility retirees want or simply because employees are not interested in exploiting these options.

Certainly, personal preference seems to be the primary motivator. Just 39% say they do not have the health or the energy to return to work full-time and even fewer (32%) are worried about their savings running out while they are still alive. So it is not about either declining physical abilities or declining bank account balances. The idea that partial retirement is a lifestyle choice is supported by the fact that more than half of respondents (57%) say they could not psychologically go back to work full-time.

What can companies do to encourage workers to stay in the workforce and to entice retirees to come back? In our first survey, in 2003, 84% of workers said they would possibly or definitely postpone retirement if their employer offered an attractive salary and benefits package — but a similar offer would sway just 32% of fully retired people. Making an effort to retain people before they leave the workforce appears to be the way to go.

And Janet Carr suggests that employers may need to look at both higher salaries and accommodation. After all, in this year's survey, 20% of retired people said they would be tempted to come back to work by a very good or better salary, but there are big barriers that employers have to surmount somehow. Namely, more than half of retired people say that they just do not have the health or energy to return to work (58%) or that they could not psychologically return to work (54%).

"Perhaps if employers were able to offer reduced schedules and whatever kinds of accommodations would make it easier for someone whose health is not top-notch, these people might be inclined to think about going back to work," says Carr. After all, nearly one in five people who retired within the past five years left their full-time jobs because of health problems or disabilities. Companies that

"Six months down the road [many fully retired people] would love to be helpful again — and they wouldn't necessarily be coming back strictly for the money. They would be coming back for how they can realize themselves, for gratification, to be involved and help younger workers. That's something organizations should be more and more open to accommodating."
— Jean-Daniel Côté

recognize and adapt for the range of health conditions associated with aging, Paula Allen suggests, can provide an alternative to the "dead stop" of traditional retirement.

Marg French agrees, adding that part-time work or flexible hours can also help to address some of the aspects people say they like least about retirement — from a lack of money to loneliness. Nichola Peterson points out that when asked why they chose a particular ideal age for full retirement, 40% of workers and partial retirees 40 or older said they wanted to have time to enjoy life. She says that if employers offered improved work/life balance, there is a good chance people might delay that ideal age. Jean-Daniel Côté adds that he hears a lot of pre-retirees talking about options most employers have not begun to explore, such as the opportunity to work for eight months of the year instead of regular, part-time weeks.

Benefits plan design may be another key. "I think that employers, when designing benefits programs are very paternalistic about the benefits that are provided, and if the workforce is changing, with greater diversity, older populations, perhaps employers need to look at their benefits programs in terms of providing greater flexibility," says French. "I don't think we necessarily have to throw a lot more money at benefits plans to provide flexibility, but we do have to review our traditional thinking in terms of what we think employees have to have for their own good."

French adds, "I'm not certain that employers have good programs in place for people to retire partially. To extend this offer, we have to make sure that it's a reasonable offer, and that people are valued and contributing going forward. It has to be a meaningful position."

Watering the garden

How the fully retired are managing their savings

Once Canadians have moved fully into retirement and are sitting on plush, cushioned deck chairs admiring their blossoming garden, how do they go about managing their savings? Eight in 10 (81%) are paying special attention to this important determinant of financial well-being. That is nine percentage points more than when we did our January 2003 survey. Less positive is the fact that just over half have prepared a plan on how to use their savings as retirement income — and that number is fairly steady (up only two points) compared to January 2003.

Among retirees who have a plan, 35% prepared it themselves, while 56% sought professional advice from a bank or credit union

Key findings

- **81%** of fully retired people pay special attention to how they manage their savings — up from 72% in the January 2003 survey
- **56%** of fully retired people have prepared a plan on how to use their savings as retirement income — virtually unchanged from 54% in the January 2003 survey

financial advisor, stockbroker/advisor, financial planner, mutual fund company investment advisor or chartered accountant. And, like their younger counterparts, retirees are still reporting relatively little planning to cover potential healthcare costs with insurance — though nearly three-quarters (73%) say they have personal savings set aside in case of health problems during retirement.

Advisory council insights

"Only 56% of retirees have prepared a plan on how to use their savings as retirement income," says Nichola Peterson. "So they've got their lump sum, their retirement nest egg sitting there, and they haven't thought about how they're going to use it. Of those who do have a plan, many have formed this plan for themselves, so these people may also need help."

After all, without a comprehensive plan to manage savings, retirees may run out of money — and, as we saw in *Trimming the Hedge* (page 15), 31% of fully retired people are concerned their retirement savings may run out while they are still alive. What is their fall-back? Six in 10 (61%) retirees expect the government to step in if their retirement savings disappear, and 26% are counting on their families.

An active approach to planning retirement savings and income can be very effective and help to boost confidence. It is important to note, however, as Marg French points out, future generations may face even bigger obstacles to appropriate retirement planning than current and near-retirees.

"This survey was of 40-year-olds who have made it in the real estate market, who have had salaries increase at 10% a year in the 1990s, who have had affordable daycare," French says. "Will the next generation of workers be able to maintain that level of savings given some of the challenges they're going to face, with 3% salary increases, very expensive daycare and buying the houses the baby boomers made out like bandits on. I think that group might be challenged."

So there is still plenty of work for plan sponsors and financial advisors who are interested in ensuring that all Canadians — now and in the future — have the opportunity to cultivate thriving lifestyle gardens today and in retirement.

"It has to be easy for people. It has to be accessible. It has to be a clear path. The more hurdles you put in front of people and the fewer choices clearly available to them, the harder it will be."
— Paula Allen

About Desjardins Financial Security

Desjardins Financial Security is a component of Desjardins Group, the largest integrated cooperative financial group in Canada. Specialized in life and health insurance and retirement savings for individuals and groups, Desjardins Financial Security ensures the financial security of over 5 million Canadians from coast to coast every day. It employs more than 3,500 people and manages more than $17 billion in assets. The company has offices in a number of cities nationwide, including Vancouver, Calgary, Winnipeg, Toronto, Ottawa, Montreal, Quebec City, Levis and Halifax.

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Integrated Investor Profiles and Investment Options

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Fast Track (disability management program)
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Intelliflex (flexible benefits plan)
PerformPlus (group insurance for small and medium-size companies)

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PACE UL platform
Life 20
Golden Edge
Term 10
Term 20
MaxLife Term to Age 100
Guaranteed Whole Life
Mortgage Protector
LifeStart 15

Health Insurance Products for Individuals:
Independent Living
Harmony
Harmony New Generation
Health Care Advance
Enhanced Term 10 with CI Advance
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