



## **Forgotten decisions:**

the disconnect between the plan and reality of Canadians  
regarding health and finances in retirement

Morneau Shepell research report  
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## Introduction

The labour force is rapidly aging and increasing numbers of Canadians are preparing for retirement. At the same time, unprecedented changes are on the horizon for workplaces and the healthcare system. To date, much concern has focused on retirement savings, with few discussions taking full account of the likelihood of unforeseeable changes in circumstances surrounding personal health and healthcare costs. These dialogues also rarely include a realistic consideration of how much one might be able to withdraw from retirement savings annually, given longer expected life spans.

Morneau Shepell sought to understand what employees nearing retirement thought about these issues and what they are doing in preparation. We surveyed a representative sample of the Canadian working population aged 50 and over to solicit their thoughts on their current retirement plans, their present health status, major anticipated events in retirement, and various related subjects. At the same time, we also surveyed a sample of Canadian employers to understand the types of programs in place to support retirees and to gather their views on key retirement issues.

The findings indicate a clear disconnect between the reality of health issues, likely expenses and the financial management plans and safety nets of Canadians in retirement.

# Executive summary and commentary

Employees preparing to retire are expressing both intuitive and counterintuitive expectations. Respondents report being optimistic about their retirement but are concerned about unexpected events in their future. A significant minority of employee respondents may not be saving enough for retirement and do not know where their retirement income will come from. Some respondents plan to work past 70 years of age in order to ensure an appropriate income, while others will volunteer in order to achieve a sense of fulfillment.

The tendency to divorce perception from reality is somewhat worrisome. Respondents report being in good health (96% of respondents) and expect to retire in good health (86%), but many of them report currently suffering from chronic health conditions (61%). Employees report being concerned about health-related financial impacts in retirement (72%), but claim to be prepared to deal with their current (81%) and expected issues (78%).

It's not only the uncertainties surrounding health that bring about conflicting responses. Employees reported saving, on average, 20% of their current income for retirement at present, and believe their retirement savings will need to last them for 21 years. However, respondents plan to withdraw, on average, 15% of their retirement savings annually – approximately three times the rate that is typically recommended.

These plans to withdraw a significant proportion of saving annually, conflicts greatly with the average expected lifespan for those who reach age 65, which, as of 2012, was between 83.5 (for men) and 86.6 (for women) years.

Employee respondents express confusion regarding the nature of their existing type of pension plan. Additionally, a large proportion (23%) of respondents anticipate relying primarily on government pension plans. This reliance on government plans suggests that employees may not be fully aware of the income or benefits provided by such plans. Interestingly, consulting with financial advisors correlates with savings behaviour but does not relate to knowledge regarding expected pension plan payouts in retirement.

In general, while respondents are relatively knowledgeable about general retirement financial issues, and are currently saving, approximately 1 in 4 (24%) state that they will not be financially prepared for retirement. Given this finding, is it important for employers to be aware that employees may not be as prepared for retirement as they would like to think. Most employers (74%) believe that employees are aware of future health costs and financially prepared for future health conditions (67%), yet they estimate that only 49% of their

retiring employees will be financially well prepared to retire. Further, only some employers report providing relevant retirement information and support for retiring employees: 51% of employers report providing or facilitating health benefits for their retired employees and 30% state they definitely provide assistance or information for retiree wealth management. With a healthcare system becoming increasingly overburdened and a social support system with an uncertain future, employers would do well to consider options providing additional support for retiring employees.



1 in 4

surveyed Canadians nearing retirement indicate they won't be financially prepared for retirement.

## Key findings

### A large proportion of employees will not meet recommended levels of retirement income

On average, employees plan to withdraw 15% of their savings annually post retirement.

- Seventeen percent (17%) plan to withdraw more than 20% annually, and another 21% plan to withdraw between 11-20% annually.
- Employee respondents reported saving, on average, 20% of their current income for retirement at present, and believe their retirement savings will need to last them for 21 years.
- Over 1 in 3 employees (35%) report that they are saving only 10% of their income or less for retirement through any means. Interestingly, 67% of those saving 10% or less report household incomes of \$60,000 or more.

### 1 in 4 Canadians nearing retirement indicate they won't be financially prepared for retirement.

- Twenty-four percent (24%) of employee respondents believe that when they choose to retire they will not be financially prepared.
  - On average, employer respondents estimate that over half (51%) of their organization's employees will not be financially well prepared for retirement.
  - 1 in 3 (33%) employers believe that the average retiring employee in their organization would not be financially prepared to deal with a health crisis.
- Twenty-five percent (25%) of employees indicate they are unlikely to achieve the level of retirement income they were planning to have at retirement.
  - Most employers (58%) indicate that a lack of retirement savings is a barrier to post-retirement financial security for the majority of their employees.
- Twenty-three percent (23%) of employees indicate they will rely on government pension programs as their primary source of retirement income.



# 3 in 4

surveyed employees indicate that declining health is one of the top non-financial concerns in retirement.

## Employee assessment of health conflicts with self-reported health conditions and preparedness for health costs in retirement

The majority of employees (61%) indicate they're suffering from one or more chronic health conditions.

- However, 86% believe that they will be in good health when they choose to retire.

In spite of the expectation of good health, 3 in 4 (75%) of employees indicate that declining health is one of the top non-financial concerns in retirement.

- Two-thirds (66%) indicate that health-related costs is one of their top financial concerns in retirement.
- Fifty-nine percent (59%) report not having access to or not knowing if a workplace retiree health benefits plan is available.
  - Among employer respondents, only 44% report offering a retiree health benefits plan to all covered employees.
  - Almost half (42%) of employers who do not have a retiree health benefits plan have considered the risks of not having one.
  - Forty-eight percent (48%) of those who offer such a plan indicate that they are likely to make a change to the plan in the next five years.
  - Sixty-seven percent (67%) of employers overall believe their average retiring employee is financially prepared to deal with any health crisis or condition that may develop in retirement.

Twenty-four percent (24%) of employee respondents indicate that when they choose to retire, they will not be financially prepared.

- Seventeen percent (17%) indicate that supporting dependents when they are retired will be one of the most important financial issues they face.
- Thirteen percent (13%) indicate that taking care of a dependent child(ren) when they are retired will be one of the most important non-financial issues they face.
- Twelve percent (12%) indicate that taking care of elderly parents when they are retired will be one of the most important non-financial issues they face.

# Research methodology

The current report is based on two separate surveys of specific segments of the Canadian population. The first surveyed employed Canadians who were 50 years of age or older at the time they responded to the survey. The second surveyed employers who were senior decision makers within their organization. Data was collected in September 2015. The breakdown is as follows:

## 1,013 working Canadians



## 100 employers in Canada



The results are valid 19 times out of 20, +/- 3.1% for the employee findings  
and +/- 9.8% for the employer findings.

# Complete findings

## Health and health-related costs in retirement are a major concern

Canadians nearing retirement are highly dependent on health care, prescription drugs, and related services.

- Twenty-nine percent (29%) of employee respondents indicate that they currently suffer from one chronic health condition, while an additional 32% indicate they are suffering from two or more chronic health conditions. Thirty-nine percent (39%) indicate they are not suffering from any current chronic health condition.
- The most common chronic health conditions currently noted by Canadians include hypertension (25%), arthritis (24%), high cholesterol (18%), diabetes (12%), and depression, anxiety or other mental health problems (9%).

However, employee respondents report being healthy and anticipate good health at retirement.

- Ninety-seven percent (96%) describe their current health as good, very good, or excellent.
- Eighty-six percent (86%) agree that they will be in good health when they choose to retire.

### Comments:

Respondents' positive assessment of their own health in combination with reports of existing chronic health issues highlights a troubling reality: employees may have difficulty assessing objective current health status. In turn, the discrepancy between subjective assessment of health status and objective measures of health may indicate trouble in forecasting future health needs.

It is possible that the discrepancy is due to one of (or both) two things:

- A general acceptance that having a chronic health condition is normal.
- The relative lack of a personal financial impact from having such a condition. Leveraging the cost relief provided by an employer sponsored health benefit plan may mask the true cost of health conditions.

The reality is that chronic health conditions develop in higher frequencies and/or gain in severity with advancing age. Furthermore, prescription medication costs are projected to rise as increasingly expensive medication is made available to treat common and uncommon health conditions.

Higher medical need, increased medical costs, and the drop off in prescription drug coverage from the typical employer health benefits plan to government plans clearly indicate that retiree health and associated financial impact must be a priority. With these factors, the costs of current and future health conditions are expected to increase in retirement for individuals without adequate post-retirement health coverage.

Almost 3 in 4 employee survey respondents are concerned about not being able to afford health services when retired.

- Seventy-two percent (72%) of employees indicate that they are concerned about their ability to afford healthcare costs in retirement.
- Declining health is the number one non-financial concern, and healthcare costs is only second to shelter in what respondents believe will be their primary expense in their seventies.

**Comments:**

**Uncertainty about the future, including a dramatic change in significant areas of life such as income and leisure time/activities, is accentuated by confusion as to how changes in health will impact retirement.**

Respondents report a troubling combination of lack of health benefit coverage continuity coupled with a lack of knowledge of government-provided healthcare benefits.

- Fifty-nine percent (59%) of employees report not having access to or not knowing if a workplace retiree health benefits plan is available.
- Even though the percentage of employee respondents who report chronic health conditions is high (61%), 1 in 5 (20%) reported not knowing what percent of their current workplace health benefit plan would be covered by government plans after retirement.
  - In fact, 52% of all respondents report either not knowing how much government plans will cover or believe those plans will cover over 50% of their current workplace health benefits plan.

**Comments:**

**Physical and psychological health is deeply intertwined with financial health. In fact, it is a self-perpetuating cycle: lower financial security leads to lifestyle choices that may hinder future health. This picture is exemplified and amplified when considering the subset of respondents who report not being likely to meet their financial retirement goal. Of this group, only 41% report that they intend to stay physically active and take part in activities beneficial for health after retirement (vs. 66% who report being likely to meet their retirement goal).**



1 in 4

surveyed Canadians aged 50+ indicate some likelihood of financial risk in retirement

## Retirement readiness and financial knowledge remain a concern

Approximately 1 in 4 employees aged 50+ indicate some likelihood of financial risk in retirement

Twenty-four percent (24%) of employee respondents indicate that when they choose to retire, they will not be financially prepared.

- Health appears to be a factor in whether or not someone feels that they would be financially prepared.
- Thirty percent (30%) of the respondents who are not currently suffering from a chronic health condition strongly agree that they will be financially prepared when they retire vs. only 16% of those who have multiple chronic health conditions.

On average, employee respondents plan to withdraw 15% of their total savings each year following retirement, which is about three times the rate that is typically recommended.

- Employee respondents reported saving, on average, 20% of their current income for retirement at present, and believe their retirement savings will need to last 21 years (as of 2012 the average life expectancy for men who reach 65 was 83.5, while for women was 86.6).
- Seventeen percent (17%) plan to withdraw more than 20% annually, and another 21% plan to withdraw between 11-20% annually.

### Comment:

The average employee respondent reports saving an appropriate amount of income pre-retirement but plans to withdraw an inappropriate amount of income post-retirement. A wide variety of factors could be contributing to this discrepancy but it is clear that focused information relating to proper deaccumulation is needed.

Many employees are unsure of what type of pension they will receive from their employer, with the greatest confusion regarding defined contribution pension plans.

- Thirty-one percent (31%) of respondents with a defined contribution plan incorrectly believe that the amount they will receive is a fixed amount.
- Twenty-two percent (22%) of respondents who indicated having a pension plan report not knowing whether the plan is defined benefit or defined contribution.
- Use of professional financial planning advice does not appear to leave respondents more knowledgeable about their pension plan type. Of those who report having a workplace pension plan, slightly over 1 in 5 respondents indicates not knowing whether their plan is defined benefit or defined contribution, regardless of whether they received professional advice or not within the past five years.

**Comment:**

Employer-provided pension plans typically come in two forms: defined benefit and defined contribution plans. Defined benefit plans guarantee a fixed amount of income throughout retirement, while defined contribution plans provide income amounts depending on the total amount of money existing within the plan. This total is dependent on contribution amounts and investment performance and can be volatile.

While knowledge of the type of employer-sponsored pension plan does not appear to be associated with the use of professional financial planning advice, those who receive such advice are more likely to report the following:

Received professional financial planning advice		Did not receive professional financial planning advice
71%	knowledge of investment fees	44%
18%	likely to plan on relying on government pension programs	33%
33%	more likely to have increased their contributions to workplace savings or pension plans in the preceding year	24%
79%	more likely to feel financially prepared for retirement	58%

Twenty-three percent (23%) of employee respondents indicate they will rely on government pension programs as their primary source of retirement income.

- The type of employer pension makes a significant difference in the likelihood of this response. Of those 23% of respondents who anticipate relying on government pension programs, 19% report having a defined benefit pension plan and 47% report having a defined contribution pension plan. Thirty-four percent (34%) report not knowing which type of plan their employer offers.

- Moreover, 39% of respondents indicate that their primary source of income in retirement will come from their employer's pension plan, while 34% indicate their primary retirement income will come from their own savings and assets.

Only 17% of employees indicate that they would fully retire from work, when they retire from their current employer. The majority of respondents indicate that they would not work full-time.

- Thirty-seven percent (37%) indicate that they would work part-time for a different employer.
- Nineteen percent (19%) indicate that would work part-time for their current employer.
- Four percent (4%) indicate that they would work full-time somewhere else.
- The average age indicated for retirement from their current employer is 66 years of age.

The personal circumstances of future retirees may contribute to the expectation of continuing to work.

- Seventeen percent (17%) indicate that supporting dependents when they are retired will be one of their most important financial issues they face.
- Thirteen percent (13%) indicate that taking care of a dependent child(ren) when they are retired will be one of the most important non-financial issues they face.
- Twelve percent (12%) indicate that taking care of elderly parents when they are retired will be one of the most important non-financial issues they face.

## **The employer survey results provide insight into another side of the retirement story. Employers overwhelmingly agree that retirement knowledge is important for retirees, but often fail to properly prepare retirees for the change.**

Eighty-one percent (81%) of employer respondents indicate that organizations should play a role in preparing employees to understand impacts on their retirement income.

- Employers estimate, on average, 20% of their workforce will retire within the next five years.
- Employers further estimate that, on average, only 49% of their workforce will be financially well prepared for retirement.
- Ninety-six percent (96%) of employers indicate that it is important for employees to know that health costs will impact retirement income.

Employers have concerns regarding employee preparedness for retirement, but may not offer clear support in key areas, particularly retiree health.

- While all employers provide some form of benefit plan, only 44%, report offering a retiree health benefits plan for all retirees.
- Approximately half of those that offer a retiree health benefits plan offer the same plan as active employees, while the others offer a different plan. An additional 6% offer retiree benefits for only certain employees.
- Forty- seven percent (47%) of those who do not offer a retiree health benefits plan indicate that they encourage employees who are retiring to purchase their own plan.
- However, retiree health benefits plan are on employer's minds: 48% of those who offer such a plan indicate that they are likely to make a change to the plan in the next five years.



74%

of surveyed employers believe their average retiring employee is aware of the health costs that they will need to pay for themselves after retirement.

A large proportion of employers do not provide retirement-related financial information.

Employers who provide retirees with information	Yes – definitely	Yes – they are mentioned	No – not discussed
Retirement financial issues	30%	41%	29%
Health and health management issues	24%	44%	31%
Health-related financial issues	26%	40%	34%
Lifestyle or life transition issues	19%	38%	43%

Employers may underestimate employees' knowledge and needs regarding the financial impact of health

- Sixty-seven percent (67%) of employers believe their average retiring employee is financially prepared to deal with any health crisis or condition that may develop in retirement.
- Seventy-four percent (74%) of employers believe their average retiring employee is aware of the health costs that they will need to pay for themselves after retirement.
- Employees, on the other hand, report being much more pessimistic about health impacts on their financial situation. As previously mentioned, 72% of employees indicate that they are concerned about their ability to afford health costs in retirement.



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# Morneau Shepell research group



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