The Just Word Podcast

Transcript of Episode 24 – Are Baby Boomers Ready To Retire?

Guest: Michael Nicin

Pat Bolland 00:00
Michael, a pleasure to meet you. We are talking about the baby boomers heading into retirement. And I think the overriding feeling is a lot of them fear that they don't have enough money. How real is that fear?

Michael Nicin 00:12
Well, I mean, look, there's an element of it that is subjective, right? how people feel about the retirement shouldn't be discounted, because it helps inform the kind of decisions they make, whether they're working longer how they're saving and investing. So I think that sort of subjective feeling, the lived experience of their retirement readiness is a factor. And let's not dismiss the fact that people have a pretty good handle on how much money they need, how much they have, and you know what their rough timelines are for retirement. So if we're talking about how they feel about it, you know, there's been a number of reports that came out recently one that our institute did, but looking beyond that, about one in four Canadians say that, especially during the pandemic, that their outlook for retirement has actually worsened over the past couple of years. So on that subjective level, people aren't feeling great about one in four Canadians now say that the pandemic has affected their timeline for retirement. So again, it's influencing the sort of decision making they're considering around their own retirement. And in research that we did, published only about a month ago, shows that about 77% of Canadians, right in that category 55 to 69, say that they're more concerned about their financial security now than they were two years ago. About a quarter of those say they don't think they'd have the financial resources for five or 10 years of retirement, absent some sort of intervention. So it's a real factor there. And then when we look at the numbers, you know, people without pension plans, this is a slightly outdated by, I think, in magnitude still a useful metric about $3,000 in median savings for the average Canadian without a retirement plan. Right. So we're not talking about a lot of money. We know from from data from stories...

Pat Bolland 01:50
Say that again $3,000, that' it?

Michael Nicin 01:53
$3,000 dollars is the median savings if you don't have a pension plan, right. And we know from government sources that most people, a lot of people, ended up relying in substance on government programs, whether it's the Canada Pension Plan, OAS or GIS and some combination thereof, which in total, could amount to a maximum of about $20,000, although most people get less than that. So if we combine the the way people are feeling with the reality, I would say that certainly not necessarily dire or something that we have to panic about. But it's it's an issue that has been, you know, on a lot of people's radars for the past decade or so, in connection with the baby boomer generation, which just started turning 75 a year or two ago. And I think there's still a little bit of pressure there. People aren't

feeling confidence, you know, government expanded the Canada Pension Plan a couple of years ago, but there's still some gaps that need to be plugged. And I think people are looking around to see where that extra income can come from, whether it's additional work or, or government intervention, or something that employers might be able to do.

Pat Bolland 02:54
You know, it's interesting, we had Malcolm Hamilton on an earlier podcast, and he outlined what the government provides. And there was lots: Old Age Security and Canada Pension Plan and all that kind of jazz. And he said, people really don't need to worry. So I'm surprised the fear, I'm surprised at the $3,000. But also, I'm surprised that people can't rely on their pensions because this was a whole generation that was brought up on collective bargaining agreements, as opposed to entrepreneurship. Why do you think that is?

Michael Nicin 03:21
Well, I mean, I think to Malcolm's point, because I've heard that and didn't hear that interview. But you know, knowing that line of argumentation, he makes a pretty good point, which is to say that the Canadian income system, retirement income system, it's actually pretty good at preventing poverty, right. So the issue is not are you going to dip into poverty at old age ... I think our system does an adequate job of preventing that, but you know, where it doesn't is where people have to downgrade their lifestyle, what they're accustomed to, will they have to sort of move out of their house? Can they tap the equity? Can they maintain, you know, going on vacations and the kinds of things that you know, in prior generations, we would have taken for granted as the golden years of retirement living. So again, it is a little bit wrapped up in in the way people perceive and what their hopes are for retirement. But there's there's a tangible question there. But when we're looking at the pension landscape, it's materially declined since the 1970s, which I guess now is about 50 years ago, but still relatively recent, in sort of public policy mindset. In the 1970s, about half of Canadians had access to a workplace pension plan. Now we're down to about 1/3. Right. And so if we're looking at the total number of workers in Canada, it's about 20 million, only about 6 - 7 million of those belong to a pension plan. And there's another differential which is worth noting is that most of those pension plans are in the public sector, right? So that's where you get the municipal plans, the government plans, federal employees and so on, and they still have access to, you know, what is typically considered the gold standard and a defined benefit plan. But when we get to the private sector, nine out of 10 workers don't belong to any kind of plan. Right? So we've seen an erosion in certainly more than once. private sector than the public sector. But over the past three decades, well, five decades has been going in the wrong direction. If you think pension plans are a fundamental aspect of retirement planning,

Pat Bolland 05:10
How do Canadians then compare it to other countries around the world? You know, we hear about how Europeans can live forever and still have decent pensions. But how true is that?

Michael Nicin 05:21
Well, I mean, it's hard to compare on an individual level, right? Because, you know, when we're talking about retirement, there's a lot of factors that buttress retirement savings, right. So let's take the US, for example. They have Medicare, Medicaid for older people. But, you know, during your working years,

unlike Canadians, you have to go out of pocket or buy insurance for health care. In Europe, on the other hand, you know, they live much more closely together, services are bundled, we talk a lot about that when we talk about long term care, for example, Denmark and other countries that are really sort of created an ecosystem. Canada is somewhere in the middle, right. And so there's a lot of leverage that can help us make more out of out of out of our money. But there's still a lot of things we have to pay for out of pocket long term care being one of those in Europe, you don't have to pay for long term care out of pocket. It's a part of the universal health care system here in Canada. It is right. So there's different factors. But if we look at the aggregate, Canada's somewhere in the middle of the pack, the universal global pension index releases and an index every year ranking countries on retirement readiness and their systems, the highest grade you can get as an A that's typically occupied this year, certainly by Iceland, Denmark, Netherlands, they talk about things like sustainability, adequacy of individual income, major trends, Canada gets a B grade, you know, again, we provide that base layer that's good for preventing poverty, you're going to be able to sort of live and subsist fairly decently in Canada. But what the what the index indicates is that we have a missing middle, not enough workplace pension plans, right. And so not enough sort of efficient ways for Canadians to save for retirement. And we're also not necessarily doing that great in helping people work longer in order to shorten the gap of retirement or to save more. So on aggregate, we're somewhere in the middle of the pack, we could certainly be better than we are in some areas, but we're better than others and other areas as well.

Pat Bolland 07:13
So Michael, are you in the camp that we should all retire later?

Michael Nicin 07:18
Well, individual circumstances, I think we have to be careful with that. Right? If you're, you know, there's a lot of us who have the privilege and fortunate to work great jobs that we'd love that we wouldn't want to leave. There's still a lot of Canadians, you know, we used to call them blue collar Canadians, let's call them working Canadians who have hard physical labor, they might not be able to work past 65. We're talking about construction workers, personal support workers. So I think we have to be careful before we make rash judgments like that. But I would say that if you can, if you enjoy your job, if it's possible, go for it. Right. It's it's it's also good for you, we know that from some of the health research we do that being engaged in the workplace is good for your mind, and your body keeps you socially engaged, plus, it puts money in your pocket. And then the other factor we have to talk about a little bit about is is ageism, it might be out of your hands, we're seeing that now with the pandemic waiting on some more data, but we're seeing the first people to lose their jobs tend to be the older people. From a company's point of view, they cost more, you know, they're, you know, there's only so much more runway, so they tend to lose their jobs. So when we talk about the workplace environment, we have to be careful to, to not sort of paint with too broad brush, but if you can, I think it's pretty good advice to consider.

Pat Bolland 08:27
Yeah, absolutely. Okay, suppose we've saved enough money. And I'm a baby boomer myself. So suppose we save enough money? How do ... what's the biggest challenge in transitioning your savings that you put away to presumably income that you'll need? This this whole concept of decumulation?

Michael Nicin 08:45
Yeah, no, I, you know, from our point of view, we think that that is probably the problem, right? Pension plans, including the Canada Pension Plan, they do all that for you. And I think that's really the sort of magic of it. And we could talk about that all day about what sort of professional scaled pension plan provides, you know, we tend to think of it as just the money that lands in our accounts more retired, but there's a whole machinery there that takes the guesswork, complexity, and risk out of individual hands. So for most people, when, you know, if you've managed to save $1 to $500,000, for retirement, what to do with it isn't very obvious or easy. And I think the biggest challenge is probably figuring out how to sustain that income for a period of retirement that could last 10, 20 or 30 years, right? That's there's a lot of uncertainty in the markets. We're seeing inflation growth now. It's a lot of challenges, a number of challenges that individuals are starting equipped to handle including a lot of professionals themselves. And so really, from our point of view, that's probably the major issue to focus on, especially with the recent decline in pension plans. But when we look at that collection of individuals, there's a lot of money there, right, like Canadians have actually managed to save a lot of money we're looking at about $1.5 trillion nationwide in individual retirement savings. ..

Pat Bolland 10:04
Not bad.

Michael Nicin 10:05
Yeah, it's it's it's pretty healthy. Right. And I think obviously it will vary on individual accounts. But if you're facing that prospect, it's not easy how to turn, you know, your personal savings into sustainable, predictable, lifelong income and also income that you won't outlive, right? That's really one of the major fears that people report having when they talk about retirement. That's, it's a major, major challenge. No wonder estimating that.

Pat Bolland 10:30
Okay, so now you kind of advocate something called the dynamic pension? I'm not familiar with it. What is it?

Michael Nicin 10:37
Yeah, just a little bit of background, before we get into what it is because I think, you know, the key thing is, it's not something we've come up with, it's an idea that exists. It's currently implemented in Australia, the University of British Columbia has been operating on this model. So what we've done is really sort of work with legislators to clear this space to make it possible to bring DPPs to Canadians more broadly. But before we get there, I think, important to contextualize the space that we're hoping DPP could land in. And that's again, how did a concert convert savings into income, so most Canadians are trapped between two relatively extreme and inadequate options. One is buying a life annuity from an insurance company or to move accumulated savings into a personal account, you know, for example, with a Registered Retirement Income Fund, maybe a LIF - locked in income retirement fund. But you know, annuities, for example, haven't been very popular, they're not popular today, nearly all Canadians rely on the second option in mostly the RIF option to to manage their savings. And so what we really saw is an opportunity then to provide a better way, a more efficient way, in a more attractive way that that responds to industry needs, but also fundamentally answers a question that Canadians

have on DP pools, so to speak. It is essentially an efficient financial accumulation vehicle with what we think is a profound goal to help make sure that you don't run out of money and give you predictable income over the course of your lifetime. I think that the key factor in DP pools is risk sharing, right again, taking it from the individual into a risk sharing model. That's what pension plans do, while protecting the single individual from outliving their savings tends to be prohibitively expensive, you can start doing that when you have a large group of people who've pooled their funds together. So essentially it works like an annuity. But with that pooling function, right. And what that allows is, to spread out the risk, it allows for more predictability of income over time, it'll vary because it has to sort of match with income investment returns, and that sort of thing. But it has some good benefits as well, I think a lot of the fears that people had about annuities and these kinds of product is that if you die prematurely, you lose all of your principal. Not true to define pooling, you would get back your principal. But I think fundamentally, the idea and you know, this is an idea that still requires some buy in and marching along with legislators and others in the industry to get in the ground is that if you could pull together that $1.5 trillion, probably not in a single fund, probably multiple little smaller funds, you get scale, you get risk smoothing. And for the individual. While you might have some fluctuations in income year over year, you're guaranteed not to run out of income for the course of your life. It gives you that predictability. And it takes the management risks, the anxiety and the stress out of your hands. Right, which is a big factor. Going back to our previous comment about the challenges of decumulation. So, you know, we just released a report, I encourage your listeners to look it up on NIA-Ryerson dossier. We really get into it. And I think, you know, we consulted with a lot of experts, but we see a lot of promise there and leveraging pooling, individual savings into something that could become lifetime income for most retirees who don't belong to a pension plan.

Pat Bolland 14:02
Yeah, I'll be honest with you, Michael, you said one word in there, risk, that scares people when they hear this kind of a program, because they think to themselves, listen, I got $100,000 saved up. I know, I can drop it into some kind of a roll off where it's 4% a year that's coming back to me on that $100,000. I can rely on that. No risk. How do you address risk in marketing, I guess you would call it, of DPPs?

Michael Nicin 14:26
Well, I mean, the marketing challenge, you know, thankfully, isn't going to be up to us where the think-tank that comes up with ideas ... We work with the marketers. No, but I mean, it's it's it's a great question, because it's a it's a major challenge, right? The financial landscape in Canada is relatively complex to begin with. I just listed off a number of acronyms, that stand for accounts, you know, even at that level, people sort of struggle to sort of figure out what's optimal for them. So there will be a marketing challenge. But I think the way to think about it if you're a retiree is, you didn't belong to a pension plan while you're working. We can give you the best part of a function... the best functions of a pension plan for retirement. And I think the key there is also to compare it to what exists currently. And the leading one again is RIFs right, but with RIFs annually you are forced by the government to withdraw a certain amount. And as those tables stand today, they're designed to basically empty out your accounts by your mid 90s. Right? That might not seem like a big deal. A lot of people don't expect to live to their 90s. But it might surprise your listeners to know that more and more Canadians are living that long. In fact, centenarians are the largest, the fastest growing, single group of Canadians. So I think the other risk to consider is managing it on your own or out living your your finances by investing

in individual accounts. So we have to, you know, help Canadians contextualize the risk. We're typically not that good as individuals at even understanding risk, let alone managing it.

Pat Bolland 14:32
Good point Yeah, fair. Michael, I know you've got kind of a background in government. And one thing that kind of puzzles me is the Ontario Securities Commision is currently focused on something called 'trusted contact'. And they say that this is a big issue with an aging population, and, you know, relationships in the nature of relationships. And in this kind of a sphere of retirement. What exactly are they concerned about?

Michael Nicin 16:15
Yeah, I mean, I'll stay out of the specifics there. Because I know it's an ongoing process. And there's a lot of differences of opinion on how to approach it. But I think what they have hit upon is a category of concern, whether again, you're a financial institution, retiree or a family member of a retiree. So, you know, the poll that I cited off top about people being worried about not having income for the next 5 to 10 years. Another question that we asked, that we got a pretty surprising result in, is that most people expect that they will be responsible for a family member's income at some point, right? So in that case, we're talking about people in they're, currently in their 40s, and 50s, Baby Boomers still, obviously have parents who are alive. So there's a lot of sort of, you know, cross circulation between family members, and it's a major challenge. It pops up sometimes in the form of elder abuse, right? Caregivers, and adult children of older people who get powers of attorney and then abuse them. That's been a major problem for banks. Sometimes they're put in a bad position to have to sort of police those kinds of family dynamics and positions. But at the same time, we know that as we're living longer, we expect the prevalence of dementia to grow, people will need to rely on family members and trusted individuals to help them manage their finances. And so I think, you know, figuring out what the best approach, that might take some time, and I know the OSC is holding a lot of consultations and has done a lot of work there. But I think they have hit on something, which is we need to help people sort out how to build trust and relationships, how those trusted relationships connect institutions, and how to mitigate some of the risks that come from families essentially dealing with money problems, right. It's, it's a thorny issue at the individual level. You know, hopefully, it'll spare most of us but I think it's worth considering, and we'll see where it lands, but I wouldn't discount it as an issue to think about.

Pat Bolland 18:06
Wow, lots of challenges in the space. Michael, thanks so much for your time.

Michael Nicin 18:10
No, thanks for having me. It's been a pleasure.

Pat Bolland 18:11
Michael Nicin, Executive Director of the National Institute on Aging, part of Ryerson University