

# The retirement challenge

## Meeting longevity risk head on

The risk of outliving one's assets, also known as longevity risk, is an important concern for investors about to enter retirement. Running out of money prematurely is the difference between thriving and just surviving in your golden years.

According to a 2019 report, the Canadian retirement gap - the number of years that seniors might outlive their money - is now 10 years for men and 13 for women. In this piece, we'll examine the three key threats posed by longevity risk.

### Growing anxiety for seniors

That new reality has understandably resulted in a lot of anxiety for both retirees and those on the cusp of retiring. According to a 2018 survey, more than 60% of Canadians are concerned they'll outlive their retirement savings, and 45% don't feel confident they'll be able to afford the post-work lifestyle they want.

#### The Canadian retirement savings gap

How many years a senior might outlive their money:

10 years for men

13 years for women

Source: *Financial Post*, Retirees worldwide may run out of money 10 years before they die, report shows, June 2019

### Top concerns for retirees:



60%

Concerned they will outlive their assets



45%

Not confident they'll be able to afford the post-work lifestyle



41%

Not having enough money for necessities



39%

Rising health care costs

Source: Benefits Canada, "Canadians worry about outliving retirement savings: surveys" 2018

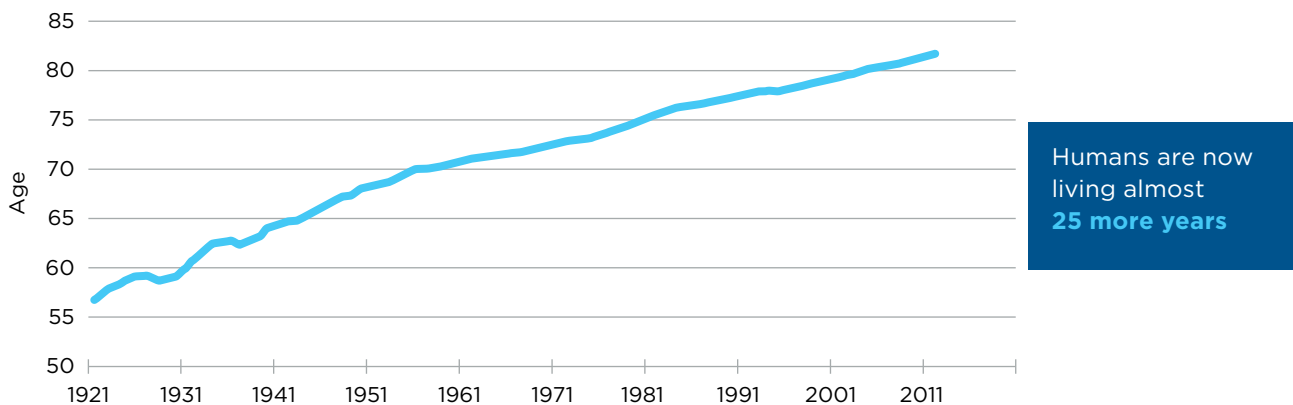
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### Understanding longevity risk: Three key threats

#### Longer life expectancies

The good news is that Canadians are living longer. However, living longer means that retirees need to accumulate more to fund their desired retirement lifestyle. With retirement periods now stretching more than two decades, the risk of running out of money has become a real concern for many Canadians.

#### Change in life expectancy at birth - Canada since 1921



Source: Statistics Canada

#### Retirement investing: a more risky proposition

When it comes to saving for retirement, the investment landscape has changed drastically since the Great Recession of 2008. In today's volatile markets, retirees have struggled to generate consistent income from their fixed-income investments, forcing them to take on substantially more risk for the same return versus two decades ago. While fixed-income yields have recently begun to climb, those gains have largely been offset by the negative impact of inflation, which has eroded Canadians' purchasing power.

#### Evolution of the risk-return tradeoff over the past two decades

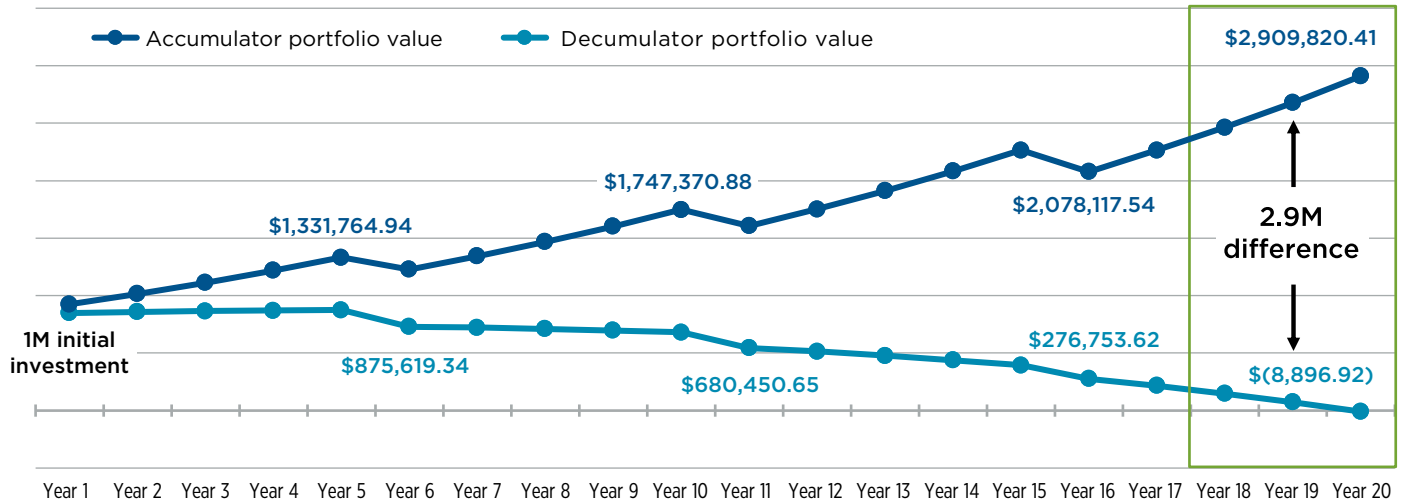


Source: Callan Capital Markets standard deviation and assumes 2 standard deviations away from mean and a normal distribution.

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## Sequence of returns risk

When it comes to a successful retirement, timing is everything. Unfortunately, market declines in the early years of one's retirement, coupled with ongoing withdrawals, could significantly reduce the longevity of a portfolio. Oftentimes, the difference between one's money running out or lasting a lifetime is determined by market performance in early retirement – a matter largely beyond retirees' control.



Assumptions: Scenario assumes an initial 50k cash flow withdrawn annually at the end of year, a 7% return for both accumulation and decumulation, the first correction occurs in the first year and every 5 years after at the same time, 3% annual inflation is assumed for the cash flow only.

For illustrative purposes only.

Source: 1832 Asset Management L.P.

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