Freedom 55 Financial
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your financial security

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Why some people choose to save and others don't

A recent report from the Ontario Chamber of Commerce noted Canada's household savings rate has dropped steadily from 15 to 20 per cent of disposable income in the 1980s to as little as four per cent[1] today.

So what makes some people save while others choose to spend?

Research has demonstrated it's at least partially (about 25 per cent) ingrained in our DNA[2]. The aversion to risk and the perception of time have both been shown to have some genetic basis.

In addition, the social preferences instilled in children by their parents affect their views on saving for the future[3]. Perhaps past economic experiences have affected the willingness to save now.

The savers of the 1980s – those who were saving 15 to 20 per cent of their disposable income – were young adults in the 1950s. The '50s were a time of prosperity and for many Canadians, life was transformed by the economy which was booming. They watched their parents save when they could, not just for the future, but in advance for large purchases. The invention of the credit card in the '50s changed how North Americans lived. Shopping malls became part of the landscape and the current consumer society was born. Attitudes about saving started to change.

Thanks to the influence of their parents, these young adults continued to save well into the 1980s and early '90s. Along the way, they became the parents of the people who should be saving now.

The consumer society invented in the '50s may have influenced current lower saving rates. Today's savers watched parents buy more on credit, rather than saving for large purchases, and experienced the booming economy of the last half of the twentieth century. As consumption grew, savings shrank.

Having the patience to save for the long term, and the discipline to live with a "don't spend what you don't have" mindset, sticks with some people forever. The big challenge for many parents is figuring out how to pass these principles to their children — not an easy task in an era of immediate gratification.

Researchers are discussing the impact of the parent-child dynamic on the decision to save for the future. Maybe you should be talking about it too. Your financial security advisor can help.

[1] Source: An Employer Perspective on Fixing Ontario's Pension Problem, © 2014 Ontario Chamber of Commerce

[2] Source: Genetic Variation in Financial Decision-making, by D. Cesarini, M. Johannesson, P. Lichtenstein, O Sandewall and B. Wallace, © 2010

[3] Source: The origins of Savings Behavior, by H. Cronqvist and S. Siegel, © 2010

The retirement planning conundrum – how much is enough?

Preparing for retirement is work. That's one of life's great ironies.

It's also one of the most important investments you'll ever make. Like all worthwhile exercises, a smart retirement requires careful planning and good habits.

No two people are the same; that's why it's so difficult to answer the question, "How much do I need to save for retirement?" Before answering this question, you'll want to consider:

1. At what age do I want to retire?
2. At what age should I start saving for retirement?
3. How much should I put away on a monthly/yearly basis?

Preparing for a long life

Medical advances that are helping Canadians live longer and healthier lives directly impact retirement planning and your savings goals. Canadian men and women are living up to five years longer than they were 30 years ago.[1] Although individual situations can vary greatly, gone are the days when age 65 was considered a 'retirement norm.'

For many people, retirement can last upwards of 25 years. If you don't save accordingly for a longer life, you run a very real risk of outliving your retirement savings. As an alternative to complete retirement, many of today's pre-retirees are opting for a gradual transition to retirement by electing to continue with part-time work. It could be your chance to open up a wealth of exciting new opportunities.

As another consideration, make sure you understand the rules surrounding company pension plans. Most plans have rules, such as when you can start withdrawing money, how much or how little you can withdraw, and how often. These rules could also potentially impact how long your retirement savings will last.

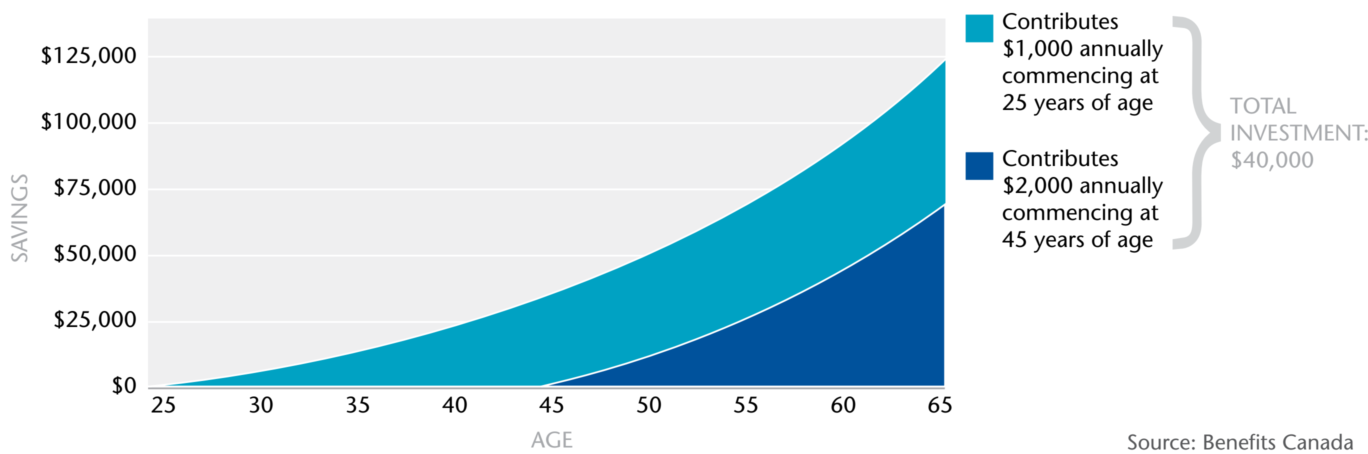
Starting early

When it comes to saving for retirement, starting early is your best bet. For some, especially those in their early 20s and 30s, putting money aside – even a small amount from each paycheque – for something so seemingly distant may be a hard pill to swallow. At this stage of life, most people have competing financial priorities, such as education expenses, mortgage payments, and the cost of raising a family. It may seem difficult, if not impossible, to fit retirement savings into your plan.

But it's worth noting that being young can give you a huge advantage. When you start early, you have the power of compound interest working in your favour, so you can wind up with far more money than someone who starts later in life.

Be mindful of letting your expenses become an excuse not to save – a small monthly contribution can make a big difference over the long term. No matter your current age, remember that the best time to start saving is today.

Investing early versus delaying[2]



Source: Benefits Canada

Nailing it down

Without a crystal ball vision of the future, it's not surprising that coming up with the exact retirement savings amount may seem impossible. That's where your financial security advisor can help. Given your stage of life and aspirations for the future, your financial security advisor can help you understand how to get ready for retirement. Of course, the first step is to determine how much and how frequently you will need to contribute to your savings.

Once you have a number to aim for, make saving simple by 'paying yourself first' through automatic monthly contributions. It ensures you're putting your money to work right away and can help you resist the temptation to spend money elsewhere or to put saving on the backburner.

Consider all the savings vehicles available to you: registered retirement savings plans (RRSPs); tax-free savings accounts (TFSAs); and non-registered accounts. And remember that both RRSPs and TFSAs provide tax-advantaged growth that can maximize your savings over time.

You have put careful thought and planning into your career, so the same effort needs to be made for your retirement – as far away as it may seem. Set some time aside now to start mapping out your personal milestones and help ensure your road to retirement is a smooth one.

[1] World Bank – Life expectancy at birth, total (years)

[2] Assumption 5% annual growth rate

Baby boomers' financial needs shifting

The financial concerns of retirees were recently captured in a poll[1] by LIMRA, a worldwide research, consulting, and professional development organization.

The top concerns included:

- Healthcare: 85 per cent expressed concern about covering healthcare costs
- Emergencies: 81 per cent expressed concern whether or not they would have enough money to pay for the unexpected
- Increased housing costs: 45 per cent expressed concern about their ability to pay for housing

Making money last

As the baby boomer generation ages, financial priorities are beginning to shift from saving for retirement to spending in retirement. There's an increasing need for Canadians to ensure they continue to receive income throughout their retirement years.

This generation has worked hard to save for retirement throughout their career, but due to a changing pension landscape and market fluctuations, some are unsure how to move forward. They're looking for solid retirement income planning and advice to guide them through the shift into retirement.

Since the market downturn in 2008, many Canadians nearing retirement lack confidence in the markets and their investments. Despite this skepticism, they are looking for something they can believe in – solutions that put them back in the driver's seat.

A recent study found that 97 per cent of retirees want to remain financially independent[1].

The benefit of working with a financial security advisor

Retiring Canadians are looking for financial guidance from someone they know and trust. Your financial security advisor can provide simple explanations and transparency about the benefits – and tradeoffs – of the solutions they recommend. Contact your financial security advisor for help to make educated decisions and feel in control when making financial security planning decisions.

[1] Source: LIMRA

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature, and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.

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