

Intelligence MEMOS



From: Bob Baldwin
To: Canadians Concerned About Retirement
Date: June 14, 2022
Re: **RETIREMENT LOOKS ROSIER, BUT NOT FOR EVERYONE**

Canadians nearing retirement age have seen a doubling in the median value of both their assets and net worth over the period from 1999 to 2019.

This is a doubling in value that is net of inflation – it is real growth. The main sources of this growth are retirement wealth and the value of principal residences. These two types of wealth make up about 70 percent of all wealth. The growth in wealth is relatively consistent across all income and wealth quintiles.

This substantial increase in wealth should make it easier for the groups approaching retirement to be able to maintain their standard of living in retirement, especially since real median family incomes were up a comparatively modest 1.2 times over that time period.

As I [outline](#) in a new C.D. Howe Institute report, using Statistics Canada's [latest](#) Survey of Financial Security, it is reasonable to believe that retirement incomes will improve for many. However, the straightforward comparison of the growth in wealth and incomes will overstate the degree of improvement we should expect in retirement incomes.

Over the period from 1999 to 2019, two factors have driven up the cost of a dollar of secure retirement income. Interest rates have dropped over that period and life expectancy has increased. Statistics Canada has estimated that the wealth required to generate a dollar of retirement income is about 1.5 to 1.8 times greater in 2019 than in 1999. One can anticipate an increase in interest rates in the years ahead but not likely to their 1990s levels. Life expectancy will continue to increase but at a somewhat slower pace.

In addition to this headwind faced by all people approaching retirement age, retirement wealth is quite unevenly distributed in the population. Participants in workplace pension plans – especially defined benefit pension plans – are generally well positioned to have an adequate retirement income. The same cannot be said for people who do not belong to a workplace pension plan. One quarter of the people aged 45 to 64 have no retirement wealth and those who only have RRSP wealth have accumulations that are too low to provide a substantial retirement income.

Aside from retirement wealth, the increased value of principal residences has been the major source of increased wealth. But the level and growth of increased value has been quite uneven across the country. Also, available data suggests that older Canadians make little use of housing wealth to generate a cash income flow.

The data from the SFS are sufficient to tell us that, in general, people approaching retirement age are in at least as good shape as the currently elderly to enjoy an adequate retirement income. But the data also suggest that there is a significant minority to whom that generalization will not apply.

The SFS data do not suggest a self-evident response to how to respond to the situation of the minority. To get to a conclusion on that issue, further data refinements are required as are the resolution of a number of analytical and design issues. It should be acknowledged too that philosophical outlooks will play a role in shaping responses.

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