

Is Canada Ready to Retire?

During the post-war period from 1947 until the mid-1960's, Canadians produced roughly 400,000 babies each year, peaking at 500,000 in 1960. This baby-boomer generation, which represents a disproportionate chunk of the population, has been the leading force behind social, cultural and economic changes in Canada during the last four decades.

Recently, a phenomenon referred to as the “greying of Canada” has risen to the forefront. Mass marketers everywhere are shifting their focus to cater to the aging population as the baby-boomers begin to enter retirement in the year 2010. In fact, statistics indicate that by 2011, one in five people will be over 65 years of age as compared to one in ten in the early 1990s. While Canada currently has one of the youngest populations in the Western World, by 2030 we will have one of the oldest.

This aging factor has led to an increasing awareness of the need for retirement planning and has helped turn the financial services industry into the growth industry of the decade. The aging population will place a huge strain on the Canada Pension Plan/Quebec Pension Plan, and with fewer people in the workforce, the Canadian tax base will be smaller which will further stretch pension programs not to mention the health care system. With this in mind, the focus of financial institutions is increasingly shifting in the direction of retirement savings. With less money to go around, never before has it been more important for Canadians to save and invest wisely. Baby-boomers must take charge of their futures, or pay the consequences later in life. Canada Revenue Agency (CRA) has provided Canadians with an excellent incentive for saving through its Registered Retirement Savings Program. Created in response to the obvious aging of the population, CRA has realized the future strains that will be put on the Canada Pension Plan and Old Age Security. Unfortunately, most people don't begin planning for retirement until just before they are ready to retire. As a result, statistics show that over 60% of Canadians will retire on CPP and Old Age Security alone. It's a frightening thought to imagine the number of impoverished seniors who will be relying on dwindling social assistance programs for support in the 21st century. The solution lies in proper planning.

By now, most baby-boomers have purchased homes and assume that their home will provide a retirement safety net. While a home purchase is perhaps still the most important investment in a lifetime, it is not the solution to financial security at retirement. With the largest segment of the population already in a home ownership situation, research shows that home prices will only appreciate in single digit percentage figures over the next few decades. The booming real estate markets of the past, which resulted from baby-boomer purchases, are long gone and the prospects for huge gains have also dwindled. Again the solution must lie in proper planning through a disciplined approach to retirement savings.

Retirement planning involves estimating the cost of the lifestyle you will likely want to lead upon retirement. Beyond this you must estimate your income needs taking into account inflation, your current assets, and the time remaining until you plan on retiring. Inflation is particularly important when you consider that it will erode half of your spending power in a 15-year period.

Ideally, you should sit down with an investment professional and determine your needs for retirement. In doing so, you should set a goal and begin making regular contributions towards

that goal. Ask a ScotiaMcLeod advisor to take you through our Computerized Retirement Worksheet to determine your investment strategy, based on a number of different factors such as the time remaining until you retire, market conditions, and your current financial picture.

Remember that the demographics don't lie; the population is ageing. The sheer volume of advertising and media coverage of retirement savings opportunities sends a message. This is clear – if you haven't already started planning, the time is now.