An extended lease on life can be comforting. It offers the chance to create more cherished moments with loved ones. It ushers in the opportunity to explore life in greater depth; to soak up the beauty and wonder of the world; to craft memories that can be shared with future generations. It can mean the difference between putting a bucket list on paper – and making it happen.

The bad news?
It comes at a cost.

And a cost that too many Canadians aren’t prepared to face. It’s no longer possible to discount the mounting evidence pointing toward this harsh reality: many Canadians just aren’t ready to cover the cost of living in their golden years.

Underestimated predictions of life expectancy, the post-traumatic effects of 2008 and inertia around what government sources of income will realistically cover in retirement – a span of time often as long as a person’s working years – have left many clients disillusioned. Simply put, many Canadians haven’t planned to generate sustainable income that will last as long as they do.

The good news is we’re living longer. For an increasing number of Canadians, this means a golden opportunity to yield greater returns on that invaluable asset called time.

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The good news is we’re living longer. For an increasing number of Canadians, this means a golden opportunity to yield greater returns on that invaluable asset called time.
In today’s fast-paced world, time is often the driver. The good news is – we’re getting more of it. Canadians are living longer than they did even 35 years ago. And life expectancy for those who reach age 65 – many of our boomer clients – has significantly increased.

What does this mean for advisors? It’s not about recreating brand new financial plans. But it is about using updated longevity insights to help start conversations with clients. For many clients, it will mean adjusting their retirement planning horizons so they can prepare to enjoy the good, long life they’ve earned – without the worry of their money running out.

As an industry, we need to stay at the forefront of new research and proprietary studies like those shared in this paper. Together, we need to ensure we’re making the necessary adjustments to help Canadians achieve financial security that lasts as long as their extending lifetimes.

There’s always more runway to help younger clients – but there’s a unique opportunity here to help boomer clients who are facing today’s reality when it comes to living longer. ‘Life expectancy from age 65’ stats are more relevant than ‘life expectancy from birth stats’ when it comes to the vast boomer cohort. Are enough clients making the necessary adjustments or even factoring life expectancy into the equation when it comes to their retirement savings? Advisors are in the unique and powerful position to offer valuable advice to clients; to show them how to use the right retirement planning horizons to help ensure their money lasts as long as they do. It’s about helping clients prosper as they’re living longer.

What’s worse? There could be advisors across Canada who aren’t addressing the issue. Could some be using outdated assumptions when developing planning horizons, debunking even their best intended contingencies?

In this bright paper, we’ll discuss how much longer Canadians are living today relative to previous generations. We’ll explore how this newly reported longevity is impacting retirement planning horizons. Finally, we’ll bring to light Sun Life’s new proprietary research – a collection of both client and advisor data – on life expectancy perceptions as they relate to retirement planning behaviour.

Clients and even some advisors could be underestimating how long Canadians will live. Current retirement income planning behaviour is putting clients at risk of outliving their money. Our unique data and studies are intended to help advisors test their current assumptions and actions on retirement planning to help ensure clients’ golden years aren’t left tarnished. And the triumph of living a full life doesn’t leave clients financially distressed and running on empty.

Mounting evidence says we’re living longer

We’ve all read those feel-good catchphrases stretched across birthday cards today: 30 is the new 20. Forty is the new 30. Or better yet: 70 is the new 50. As a society, we’re redefining what it means to grow older.

Trailblazing cohorts like the baby boomers will likely only continue to buck trends when it comes to ‘old-school’ aging. After all, that anonymous 1988 quote published by Ellen Goodman at the Boston Globe – “I have no intention of growing old gracefully. I intend to fight it every step of the way,” – had legs. It resonated with enough boomers to land itself in multi-million dollar marketing campaigns, television commercials and anti-aging beauty products across North America and beyond.

Graceful or not, it boils down to this: Canadians are outliving previous generations.

Over the past half century, the Organization for Economic Co-operation and Development (OECD) has tracked remarkable gains in life expectancy
among its 34 members of developed countries from around the world. Today, on average, life expectancy at birth* reaches 80 years across OECD countries – a gain of more than 10 years since the organization established in 1960.¹

Among OECD countries, women live almost six years longer than men, averaging 83 years versus 77. In Canada, life expectancy at birth* is 81 years – one year higher than the OECD average, not to mention three years longer than the average American. In fact, the gap between life expectancy in the two countries is widening with each passing decade – it was less than a year in the late 1970s.²

And life expectancy after reaching age 65 is only increasing.

According to Statistics Canada, the average life expectancy for 65-year-old Canadians has significantly increased. Thirty-five years ago, the average 65-year-old male would live until age 79.6. Today they’re living until 83.5. The same is true for females: 35 years ago they’d live to age 84 whereas today it’s age 86.6.³

Recent longevity data from the Canadian Institute of Actuaries (CIA) indicates that 25 per cent of 65-year-old women and 17 per cent of 65-year-old men will live beyond age 95. What’s more, gains in life expectancy are resulting in an increasing number of Canadians reaching the age of 100.

The 2011 Census counted 5,825 people aged 100 years and older, compared with 4,635 in 2006 and 3,795 in 2001. Statistics Canada reports that the five-year growth rate for seniors living to 100 or older reached a whopping 25.7 per cent between 2006 and 2011. And by 2061, thanks to the vast boomer cohort, centenarians are projected to number nearly 80,000 – up from just 3,795 in 2001.

WE’RE LIVING LONGER
A longer life means Canadians might need more retirement income for the long run.

The Canadian Census runs every five years. The most recent Census – published May 10, 2011 – included these highlights:

- The number of seniors (age 65 and over) is nearly 5 million, an increase of just over 14 per cent.
- The number of seniors is at the highest rate ever in Canada.
- The first baby boomers hit age 65 in 2011.
- The median age in Canada in May 2011 was 40.6.
- The fastest-growing age group are 60 to 64 year-olds, at 29 per cent.
- There are a higher proportion of people over 65 living in rural and remote areas than in or near big cities.
- The second fastest-growing group are centenarians, those over 100.
- 5,825 Canadians are more than 100 years old.
- There are 500 women centenarians for every 100 men.
- Saskatchewan has the highest rate of centenarians of all the provinces and territories.

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* The number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.
† Better Life Index, © OECD. www.oecd.org
‡ Ibid.
³ Statistics Canada. Table 102-0122 - Health-adjusted life expectancy, at sex, CANSIM [database]. Last modified: 2012-05-24
Canadians may be growing older, but are they growing wiser? In October 2013, Sun Life Financial conducted a survey with a nation-wide consumer panel of Canadians aged 42 and older to gather representative data on client perceptions around longevity.

According to the average consumer responses, panelists had the following perceptions, which we’ve contrasted with current realities:

**Perception #1**

**On average, panelists, aged 55 to 72, said they expected to live to around 80 years of age, regardless of whether they were male or female.**

**Reality**

At age 65, life expectancy for males is 84 years and 87 years for females; however, many live longer than the averages. Furthermore, at age 65, there is more than a 50 per cent chance of the last survivor of a male-female couple living to age 90. And there’s a one in four chance that one member of that couple will live to 94.4

**Perception #2**

Perceptions about average life expectancy were consistent across varying age groups and income brackets.

**Reality**

According to Statistics Canada, whole Canada’s life expectancy ranks among the top in the world, regional figures reveal important differences within the country. Regions facing the lowest life expectancy also possess some of the highest rates of smoking, obesity, and heavy drinking. These regions have high long-term unemployment rates, lower levels of education, small immigrant populations, relatively large Aboriginal populations, and are situated in rural/remote locations. Higher neighbourhood income is associated with longer life expectancy. Although females have a higher life expectancy than males in all income groups, as income increases, the gap between male and female life expectancy diminishes, from 6.1 years in the lowest income group to 3.7 years in the highest. Additionally, income levels seem to show greater effect for men than women: the gap between the lowest and highest income groups is 4.7 years for men, but 2.3 years for women.

**Perception #3**

Sixty-seven per cent of panelists said they were concerned about outliving their money. And about 64 per cent of those said they were concerned because they don’t have a financial plan that would ensure their money will outlast their life. Their greatest concern was that government support wouldn’t provide the support they’d require.

Reasons given for believing their money will last beyond what they believe their life expectancy are they have:
- a pension or
- saved enough money or
- planned ahead.

**Reality**

Canadians with a plan – or those inclined to plan ahead – are more likely to be confident their money will last. Our most recent January 2014 panel confirmed this: 86 per cent of those panel members who were already retired said they have a retirement plan, 67 per cent said they have a financial advisor and 10 per cent described themselves as being very knowledgeable in investments. Our survey results revealed that it’s these people who are most realistic about how much they can spend annually in retirement so their money will last as long as possible.

N.B. – Within the context of these panel results, the following concerns ranked higher than the concern for outliving their money:
- the deterioration of their physical health (81 per cent)
- the health of a family member (75 per cent)
- not having enough income to live comfortably (68 per cent).

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According to the 2012 LIMRA ‘Ready, Set, Retire’ study, nearly four in 10 pre-retirees didn’t assume they’d live to a particular age when planning for retirement. This lack of estimating the age they’ll live to can impact their ability to experience the kind of retirement lifestyle they want or expect.

Even among pre-retirees working with financial advisors, nearly one in three say they haven’t made a maximum age assumption when planning their retirement. For clients who tend to be worriers, this could mean they’ll underspend and sacrifice the quality of their retirement lifestyle.

On the other hand, some clients might overspend because they haven’t considered how long they really might live. Either way, the research shows Canadians are underestimating their lifespan, which could result in financial distress in their later years.

Our bias intercepts as a result of wanting to experience immediate benefit. Children aren’t the only ones who want to experience instant gratification! Generally speaking, humans find it difficult or unnatural to make decisions today that won’t benefit them until the longer term. Evidence of this shows up in the relatively small proportion of Canadians who have a financial or retirement plan, yet aren’t saving for a potentially long lifespan.

Several consumer behaviour studies suggest that one of our human biases lies with a natural tendency to place more importance on the short rather than the longer term gains.

Sun Life Financial conducted a similar Longevity Survey in November 2013 with a random sample of advisors across Canada. The survey revealed the average age advisors used when creating retirement or financial plans with clients was 88 years, in terms of how long clients’ money needs to last.

Many based this calculation on the assumption that males lived on average to 81 and females lived on average to 85 – adding in a few contingency years for good measure.

The effects of not solving for ‘X’

Shining a light on outdated assumptions

LONGEVITY – PART OF THE PLAN

Nearly 67% of advisors strongly agree that discussing longevity with clients is important in the retirement planning discussion.®

Yet the average age advisors used when creating retirement plans with clients was 88 years, in terms of how long clients’ money needs to last.

Current data demonstrate this simply isn’t the case, as the average Canadian is living much longer. Recent longevity data says one in four 65-year-old women and one in six 65-year-old men will live past age 95. And costs are expected to go up — not go down or stay the same — when you factor in health expenses.

According to Sun Life Longevity Survey, nearly 67 per cent of advisors strongly agreed that discussing longevity with clients is important in the retirement planning discussion. Yet some are underestimating longevity of Canadians today. There’s a very real risk associated with not using sufficient planning horizons.

Equally concerning, could there be some advisors across Canada using planning tools that are pre-filling defaults with outdated figures that plan for shorter lifespans (e.g. 85 years)?

If we don’t start using more deliberate interventions to realistically plan for increased longevity, what will be the long-term effects?

Current planning behaviour – such as selecting 90 as the default planning age – hasn’t kept pace with today’s aging demographic. Are advisors increasing their planning horizons in tandem with new longevity research? How many have extended their planning horizons to reflect the new research that has surfaced in the last two or three decades — or even the last decade?

While it’s impossible to predict with complete certainty how long a person will live, the real question, especially for advisors charged with such an important responsibility, is this: on which side of the spectrum do you want to err?

Do you want clients unhappily underspending or blindly overspending? Erring on side of longer planning horizon increases clients’ ability to have the retirement they want while decreasing their risk of outliving their money — or burdening family members, or solely relying on other forms of government assistance. Many would agree it’s any advisor’s worst nightmare to deliver the news to their client that they’ve run out of money. Or that they’re relying solely on their home equity to fuel their retirement.

The following are verbatim responses collected from a random sampling of advisors across Canada who participated in our November 2013 research and additional recent Sun Life studies. It reflects real concerns — and some outdated assumptions — on the minds of advisors throughout the country when it comes to planning for clients with increasing longevity:

“I’ve got a client, he’s 65. He’s convinced he’s going to be dead at 72 because no one in his family has ever lived to that age. It’s hereditary. So, what’s his sustainable withdrawal rate?”

“Most of my clients, when they get older, aren’t spending as much. Their expenditures are reduced with their activity. We’ll downsize them to take advantage of the capital they have in their house in later years...if they are on the edge with respect to planning... in Vancouver, they are real estate rich but often cash poor.”

“We look at what they are spending now...we take it fast-forward to them being 65...create a budget with them using a cheat-sheet of what will get cheaper and what will get more expensive...we figure out how much after-tax cash flow they need... protect it for inflation through to at least age 90...and it’s always after-tax dollars, because clients can’t think in anything else.”

4 Canadian Institute of Actuaries (CIA), 2014.
Our research shows that many clients—and even some advisors—could be underestimating how long Canadians will live relative to updated results and projections. Are we facing a longevity crisis in Canada and is current retirement income planning behaviour putting clients at risk of outliving their savings?

More troubling is the fact that many Canadians are relying on government sources of income such as the Canadian Pension Plan (CPP) and Old Age Security (OAS) to take care of them financially during their retirement. But CPP was established in 1965 when the average life expectancy in Canada was 68 for males and 74 for females. CPP was initially intended to keep seniors out of poverty—not to maintain the lifestyle they had before retirement. Many Canadians don’t believe that government sources will be enough to cover the expenses for how long they’ll live.

The 2014 Sun Life Canadian Unretirement Index—now in its sixth year—revealed that 97 per cent of respondents say it’s either very important (70 per cent) or somewhat important (27 per cent) to them that some of their retirement income is guaranteed for the rest of their lives—up 22 per cent from 2008.

And past success of Guaranteed Lifetime Withdrawal Benefit and Guaranteed Minimum Withdrawal Benefit products indicate that advisors recognize the value of providing some guarantees in retirement plans too.

When it comes to retirement planning for Canadians who are living longer, it’s important for advisors to consider solutions that allow their clients to set a specific period of time that defines how long the income from a mutual fund portfolio they choose to put into the solution needs to last—like setting a goal post for mutual fund income.

The goal post turns an unknown timeframe into a known one, helping clients know how to pace their spending and their withdrawals from their mutual funds because they now know how long the money needs to last.

It’s important for clients and advisors to look for flexible solutions that include some guarantees. A solution might include exchanging a percentage of a client’s investment portfolio for an upfront purchase of a guaranteed lifetime income product, such as a life annuity, to represent a conservative portion of a retirement income portfolio. Offering some guarantees can help clients feel confident they can spend during early retirement without having to worry about outliving their money.

Because Canadians are leading longer and healthier lives, they need to plan for a retirement lasting 20 or 30 years or even longer.
Above everything else: clients need a plan. But too few have one. Our 2013 Sun Life Canadian Unretirement Index exposed that eight out of 10 Canadians don’t have a written financial plan. And we know that people who have financial plans and get advice are more successful. According to ‘An Econometric Analysis of Value of Advice in Canada’ study conducted by Dr. Claude Montmarquette, professor of economics at University of Montreal, Canadian households that receive advice from a financial advisor have, on an overall basis, 4.2 times as much in financial assets as non-advised households. The study also statistically concluded that advised households are more likely to save than non-advised households. They’ll also have a higher savings rate. What’s more, when asked about the value of advice, households with an advisor were found to feel more confident they will have enough money to retire. With a financial plan, the value of your advice and updated longevity data shared in this bright paper, you can help clients achieve financial security throughout their entire lifetime. No matter how long they live. And we’re here to help.

To learn more about retirement solutions from Sun Life Financial, talk with your Sales Director or visit the Retirement Resource Centre on www.advisor.ca.

About Sun Life Financial

Sun Life Financial (TSX:SLF) is a leading international financial services organization providing a diverse range of insurance and investment products and services to individuals and corporate customers. Money for Life is Sun Life Financial’s customized approach to financial and retirement planning.* We are dedicated to helping Canadians build and preserve their wealth — and achieve lifetime financial security.

Contact your Sun Life Sales Director for more information regarding the content of this Bright Paper.

To learn more about Money for Life – Sun Life Financial’s customized approach to financial and retirement planning* — visit www.moneyforlifeadvisor.ca

Life’s brighter under the sun

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* Only advisors who hold CFP (Certified Financial Planner), CHFC (Chartered Financial Consultant), FPI (Financial Planner in Quebec), or equivalent designations are certified as financial planners.

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