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BABY BOOMERS AND RETIREMENT

TABLE OF CONTENTS

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INTRODUCTION

This white paper aims to explore the trends regarding the baby boomer generation and its attitude to consumerism, behaviour, and approach to personal finance. We will examine the values that Canadian baby boomers have and how their values have attributed to the reality of retirement planning.

Behaviours are formed around values that baby boomers may hold, and in turn, these behaviours will influence the many transitions in their lives. As retirement inches closer, baby boomers may find themselves having to change their attitudes and behaviours regarding consumerism and their own finances.

This white paper will provide some recommended solutions and strategies to ensure retirement planning and other priorities that have emerged to correlate with the baby boomers' new life adjustments and financial situations.

The data in this document comes from CIBC, Statistics Canada, Manulife, and the Ministry of Finance.

Based on our analysis of financial behaviour and trends, we will assess strategies to help this generation take control of their personal finances so that the transition into retirement is a smooth one.

BACKGROUND

Baby Boomers

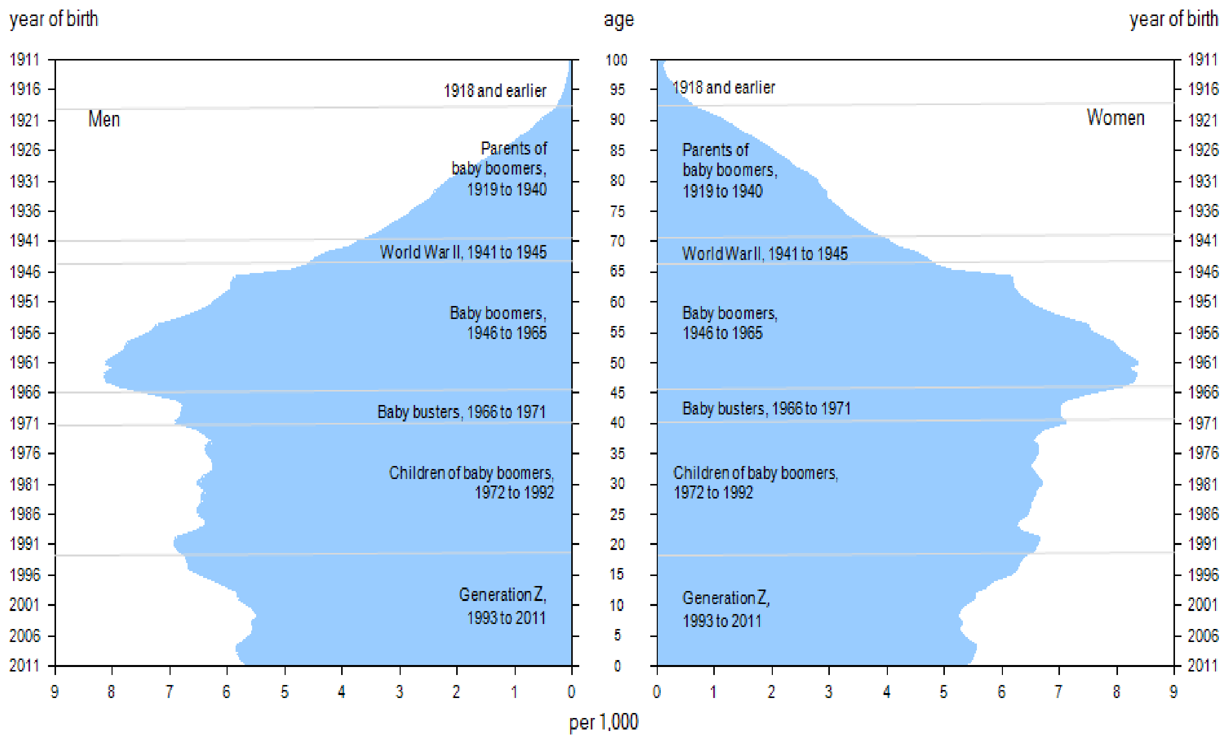
After World War II, Canada experienced a sudden rise in the number of births. Between 1945 and 1946, there was a 15 percent increase in the number of births, marking the beginning of the baby boom period. For the next 20 years, Canada saw more than 8.2 million babies born, yielding an average of approximately 412,000 births a year.

During the baby boom period, the average number of children per woman was 3.7, compared to only 1.7 in recent years. According to the 2011 Census, close to three Canadians out of 10 were baby boomers; that generation was between 46 and 65 years old in 2011 (Figure 1).

By 2031, all baby boomers will have reached 65, increasing the number of seniors in Canada to 23 percent of the population, compared to only 15 percent in 2011.

FIGURE 1

Portrait of generations in Canada over 100 years (1911 – 2011)



Source: *Statistics Canada, Census of Population, 2011.*

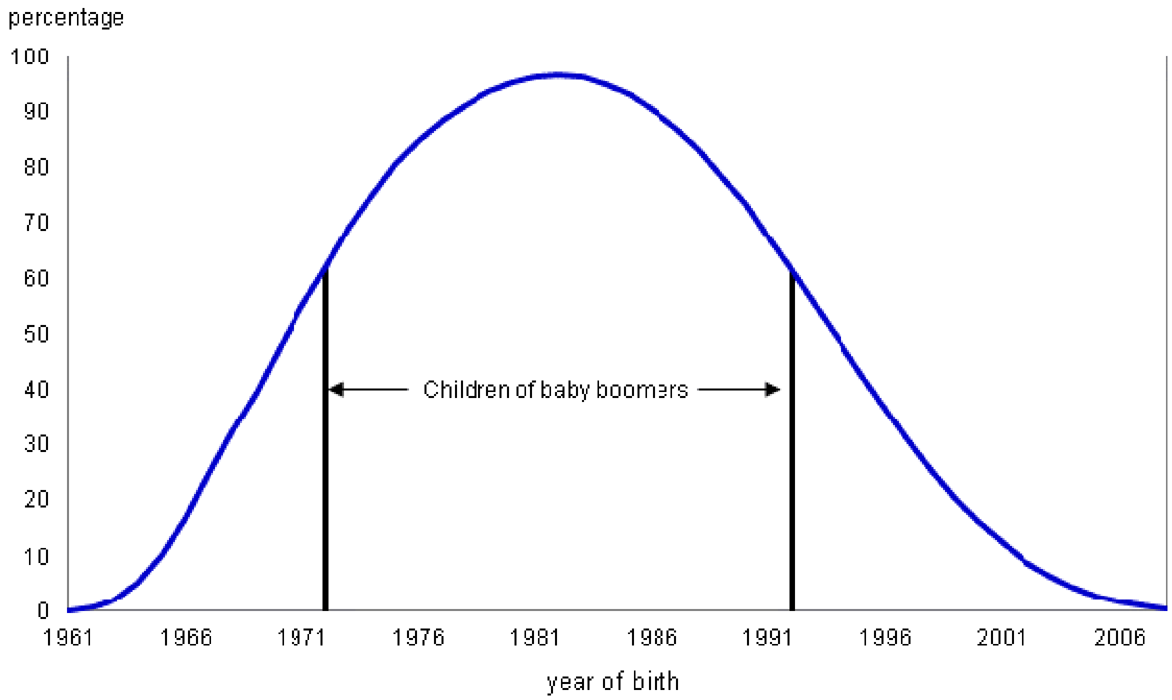
Children of Baby Boomers

Between 1972 and 1992, at least 60 percent of births were to baby boom mothers. The 2011 Census data reports that 27 percent of the total population belongs to the children of the baby boomers, often called Generation Y or "echo of the baby boom."

Data shows that this generation is smaller than the baby boomer generation, as baby boomers generally had fewer children than their parents (Figure 2). Fertility decreased from 3.1 children per woman during the boom to 1.6 in the mid-1980s.

FIGURE 2

Proportion (in percentage) of children with baby boomer mothers, by birth year of children, Canada, 1961 to 2008



Source: *Statistics Canada, Health Statistics Division, Vital Statistics.*

Baby boomers are a unique demographic. They grew up in a time of rapid economic growth including a surge of women into the workforce. It was also the first generation to experience mass advertising, resulting in a culture of consumerism. The baby boomers, unlike their parents, were in a better position to acquire luxury goods and were more likely to make impulse purchases. This demographic also experienced new pension funds and social programs, which decreased their focus on saving money. While the parents of baby boomers saved due to harsh economic times, this particular generation saved less over the course of their careers.

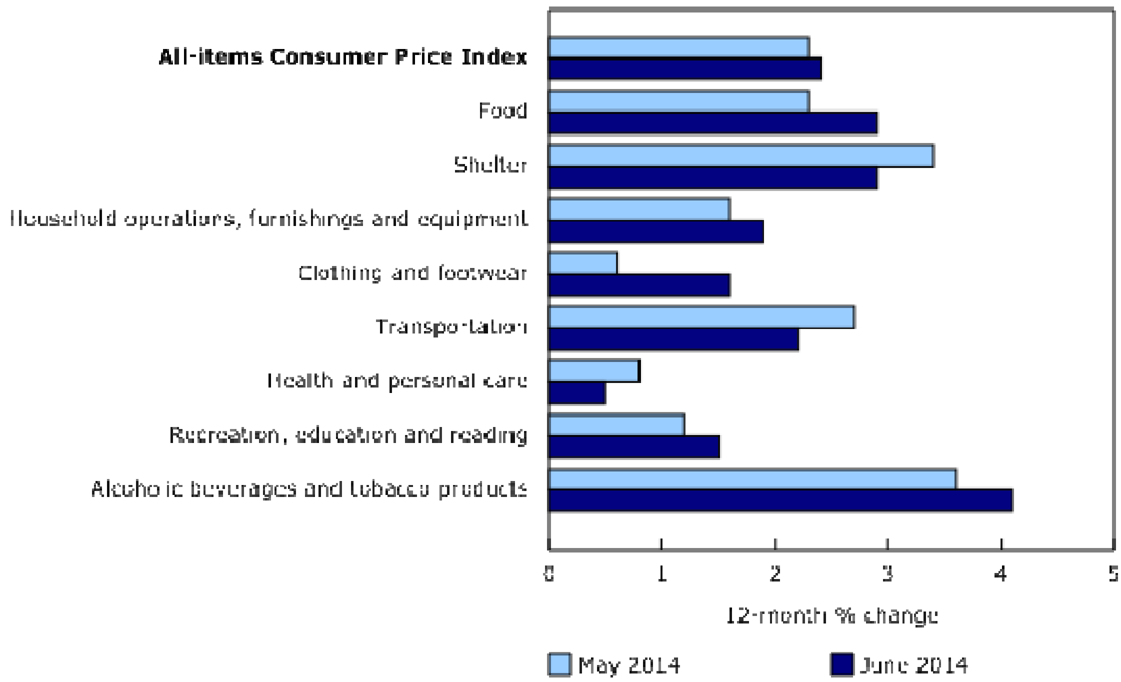
Today, baby boomers make up almost 30 percent of the Canadian population, and seniors make up the fastest growing age group. Their environment has changed tremendously over the years as there are new economic realities and retirement inching closer.

BABY BOOMERS AND CONSUMERISM

Since baby boomers enjoyed a stronger economy, they developed different consumer behaviour than their parents' generation. Statistics Canada reports that there has been a substantial increase in consumer behaviour among baby boomers. For example, the increasing number of senior couples who report spending on recreation and leisure escalated from 68 percent in 1982 to 93 percent in 2002.

Of course, baby boomers—and everyone else—has to also keep up with the increase in consumer price index on certain necessities like food and clothing (Figure 3). The reality is that while baby boomers enjoyed a strong economy and built their wealth, they also developed healthy consumer appetites—and most have not met their retirement savings goals.

FIGURE 3
Consumer Price Index, June 2014



Source: Statistics Canada

BABY BOOMERS AND CONSUMPTION

As the consumer price index (Figure 3) shows an increase on some things, Canadians are also becoming more financially cautious than they were in the past. This means that their spending habits have also changed. In a study of 1,000 Canadians conducted by The Future Laboratory, Canadians overall have been more conservative with their spending. “Consumers are moving from the excessive, impulsive spending of the pre-recession era to more careful, considered spending, in which value for money and quality take precedence over branding,” the report said.

However, the baby boomers seem to show different consumer behaviour. Toronto retail consultant, Anthony Stokan, a partner at Anthony Russell and Associates who also helped with the survey, said that the baby boomer generation is driving a lot of the new consumption trends. While 57 percent of Canadians between the ages of 18 and 34 are choosing to downsize and shop for things they “need” rather than “want,” 87 percent of Canadians in the baby boomer generation are making luxury purchases.

FINANCIAL PLANNING TRENDS

This section of the white paper will analyze the trends to baby boomers’ retirement planning and their use of personal finances. Data comes from Statistics Canada, the Ontario Ministry of Finance, and a CIBC poll.

As Ontario’s population is rapidly aging, we will undoubtedly experience changing patterns in personal consumption, which could influence government taxation revenues. Typically, a retired person received more income from pensions and investments than from employment earnings. These sources of income depend on tax rates, with pensions and investments generating less tax revenue for the government.

As boomers age, their consumption priorities will also change, with a higher demand on health care services. The approach to retirement age also means a slower labour force, which imposes challenges on Canada’s retirement income system. In response, the Ontario government is reforming its pension system with its Pension Benefits Amendment Act of 2009, in an effort to strengthen the current pension system.

A CIBC poll of Canadians aged 50 to 59 shows that while retirement is looming ahead, many boomers have come up short on their savings goals, with 45 percent having saved less than $100,000. Statistics Canada indicated that the average senior couple spent $54,100 in 2009. A retired couple would need to have saved about $1.35 million to generate the sum of $54,100.

While effective retirement planning requires a re-evaluation of goals and priorities, a CIBC poll reveals that most of Canada’s boomers between the ages of 50 and 59 don’t intend to give up their current lifestyle, despite falling short of their retirement savings goals. The poll also reveals that some Canadians in their 50s are planning to carry debt into retirement.

KEY SOLUTIONS

"One of the keys to planning for retirement is having a clear view of how much monthly income you can generate once you leave work, and whether that income will support your expenses," says Christina Kramer, Executive Vice-President, Retail Distribution and Channel Strategy, CIBC. "These poll findings would suggest that some Canadians approaching retirement would benefit from a conversation with an advisor about whether their retirement income and monthly cash flow will live up to their plans."

The benefits of working with an investment advisor are plentiful. You will enjoy a customized portfolio that takes into account your financial situation, goals and objectives, and priorities so your retirement planning generates a solid return. There are many key solutions in place that can allow you to reap the benefits of better retirement planning. This white paper will present three key solutions, and introduce other product series.

SOLUTION 1: INCOME SPLITTING

The reality of the Canadian tax system is that higher income earners pay a higher rate of tax than lower income earners. For married or common-law couples, (we'll use the term "spouses"), shifting income from a higher income spouse to a lower income spouse can be an effective way of lowering your family's overall tax bill.

This shifting of taxable income is called income splitting, and while there are many restrictions on this during your employment years, in retirement, couples who receive pension income can elect to shift up to 50 percent of this income from one to the other to minimize the tax they pay.

What income can be split?

The income splitting rules are designed to benefit retirees, so they apply only to income that's eligible for the pension tax credit. If you are age 65 or older, this includes income from:

- Pension plans,
- RRIFs,
- Life Income Funds (LIFs),
- Locked in Retirement Income Funds (LRIFs), and
- Annuities purchased from your RRSP or deferred profit sharing plan assets.

If you are under age 65, the income splitting rules apply only to income from pension plans, and some forms of annuity income, such as income from a registered plan received as the result of the death of a spouse.

SOLUTION 2: SPOUSAL RRSP

Contributing to a spousal or common-law partner RRSP is much like contributing to a regular RRSP, except the contributions are invested and controlled by your spouse or common-law partner. There are two key advantages to making spousal or common-law partner RRSP contributions:

1. Lower taxes in retirement. Retirement income splitting can be achieved by transferring assets to a spouse or common-law partner by making contributions to a spousal or common-law partner RRSP over a number of years before retirement. A spousal or common-law partner RRSP is registered in your spouse's or common-law partner's name, and any amounts withdrawn RRSP investments in retirement are taxed as income of your spouse or common-law partner — and at their presumably lower rate.

2. Immediate tax-deductibility. Spousal or common-law partner RRSP contributions generate an immediate tax deduction to you, just like a regular RRSP contribution. So you not only benefit from the potential for lower taxes in retirement, but you gain immediate tax savings in the year of contribution. Unlike pension splitting rules, these can be difficult to repeal.

SOLUTION 3: REVERSE MORTGAGE

Generally, you can borrow up to 50 percent of your home's current appraised value at competitive rates. The amount of the loan is based on your age, home location, type of home you own and your home's appraised value. Homeowners need to be age 55 or older. In the case of spouses, both must be 55 or older. However, generally speaking, the younger the owner(s), the lower the amount of mortgage available. There are no income, credit, or medical qualification requirements.

The loan advance can be received as a tax-free lump sum or in smaller increments over time, including the option of regular payments. Since these funds are not added to your income, government benefits, such as Old Age Security (OAS) and Guaranteed Income Supplement (GIC), are not impacted. The loan advance can be used to cover household expenses or for other things, like updating your home, paying off debt or helping out your family. It can also be invested in a portfolio designed to provide income and/or growth or can be used to purchase an annuity (an investment that provides guaranteed monthly payments).

Downsizing and buying the smaller house with the standard mortgage generally results in lower interest rates and higher retirement cash flow.

OTHER SOLUTIONS AND PRODUCTS

Pooling together resources from leading experts, CIBC Wood Gundy is in an optimal position to introduce product series for retirement planning.

Manulife RetirementPlus

Manulife RetirementPlus is a product that offers a wide range of investment funds to suit your investment style, with up to 100 percent equity. As well as growth potential, *RetirementPlus* also provides flexibility and control, with an added value of guaranteed income for life.

Manulife Pension Builder

Manulife Pension Builder is a low risk investment that allows you to convert some of your retirement savings into a lifetime source of income. You have the flexibility to choose when to begin taking income, as early as age 50 in order to secure a guaranteed income for life. *Pension Builder* also has the added benefit of uninterrupted income for life for your surviving spouse.

To learn more about *Manulife RetirementPlus* and *Manulife Pension Builder*, visit www.manulife.ca.

CI Investments' Guaranteed Retirement Cash Flow Series (G5|20 Series)

The G5|20 Series distribute an annual cash flow amounting to 5 percent of the Guaranteed Asset Value of the investment for 20 years, while keeping exposure to equities for growth potential. This series combines underlying funds with a risk management overlay to provide guaranteed cash flow for retirement.

The Sun*Wise* Essential Series

This series offers three classes: Income Class, Investment Class, and Estate Class. The Income Class is for investors primarily looking to receive a guaranteed, tax-efficient annual income beginning at age 65, of at least 5 percent of their deposits for life, regardless of market performance. The Investment Class is for investors primarily during the wealth accumulation stage prior to age 50, who are looking for growth of their investments with protection. The Estate Class provides principal guarantees to protect your investments. While the Investment and Estate classes provide 75 percent of a maturity benefit up to age 100, the Estate Class also has the added benefit of 100 percent death benefit. Both classes offer several funds and up to 70 percent equity for the Estate Class and up to 100 percent equity for the Investment Class.

To learn more about the G5|20 Series visit www.ci.com and to learn more about the Sun*Wise* Essential Series, visit www.sunwiseessentialseries.com.

CONCLUSION

Baby Boomers have seen firsthand the incredible market changes throughout the last two decades. They have enjoyed economic success. Today, boomers are torn between their consumer behaviour and the need to shift their priorities and look for more tax efficient solutions when planning for retirement. This white paper shows that while health care expenses and changing markets are around the corner, most boomers (87 percent) are still making luxury purchases and putting off solid retirement planning. The time has come to regain control and continue to enjoy prosperity and leisure. With a sound portfolio customized by a seasoned investment advisor, boomers can look to benefit from world-class wealth management services.

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Roy Ruppert is an Investment Advisor with CIBC Wood Gundy in Mississauga. He and his clients may own securities mentioned in this column. The views of Roy Ruppert do not necessarily reflect those of CIBC World Markets Inc. Roy Ruppert and Carmine Preziuso are Investment Advisors with CIBC Wood Gundy.