A Broader Approach to Retirement Planning

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What are you doing to prepare for retirement? Retirement preparedness is commonly thought of from the perspective of the dollar amount an individual has saved in their retirement accounts. However, while saving is an important step, preparing for retirement can also be viewed from a broader perspective and include such non-financial factors as an individual's *attitudes* about retirement (i.e., whether they feel it is important and relevant) and their *behaviours* (i.e., talking to an Investment Advisor and attending retirement seminars). To gain further insight into the connection between *attitudes* and *behaviours* and the role these play in predicting preparedness for retirement, The BMO Retirement Institute conducted a Study[1] in collaboration with an international academic Research team[2] to test whether such factors as age, gender, education, income, number of dependents, and years to retirement had any influence on an individual's retirement preparedness.

Attitudes result in actions

Preparing for retirement is similar to preparing for a vacation. Prior to making final travel arrangements, we may spend a lot of time thinking and getting excited about the prospect of going away; these positive *attitudes* motivate us to actively seek information about potential destinations, make a decision on the departure date, save towards this goal, and, finally, book a flight and hotel. Similarly, retirement planning involves getting excited about the prospect of retiring. This sense of excitement can motivate us to seek information about how to save, how much will be enough and, finally, regularly saving money for retirement. The stronger our level of interest and excitement, the more likely we'll be to take actions that result in being emotionally and financially prepared for retirement.

Time remaining to retirement and education matter most

Not surprisingly, the Research found that the closer we are to our target retirement date, the stronger our *attitudes* and *behaviours* are towards actively preparing for our retirement. However, the Research found that the key indicator is the *time remaining* to retirement, not the *actual age* of the individual. For example, it may be possible for a younger person to actually have less time before their target retirement age than an older person (i.e., 40 year old who desires to retire at the age of 50

and therefore ten years left before they retire compared to a 50 year who aims to retire at the age of 65 and therefore has 15 years left). Nevertheless, as expected, young adults are the least prepared, because in all probability, their retirement date is the furthest away. Ironically, the Study found that young adults under the age of 34 may be overly optimistic, since as many as 41 per cent expect to retire early (i.e., before age 60!).

Common sense dictates that the earlier we start to save for retirement, the greater our chances of future financial security. It is important not to overlook this younger adult segment. The fact that the majority of young adults aged 18 to 34 thinks of retirement planning as an important (82 per cent) and relevant (75 per cent) event is a good start. However, as young adults scored relatively low from an attitude and behaviour perspective, in comparison to baby boomers, this Research suggests that, in order to motivate young adults to engage in retirement planning *behaviours* (i.e., determining how much they will need to save), the primary focus of messaging should be on modifying their *attitudes* and increasing their level of involvement before discussing actual dollar amounts and retirement savings accounts.

Another key factor that positively influences levels of *retirement preparedness* is the level of education an individual has. This is why improving the financial literacy of all Canadians is so important and may explain why the government and financial institutions have taken an active role in this area.

Unique challenges hinder young adult's financial progress

Considering that retirement probably appears to be an eternity away, it is not surprising that young adults are the least prepared for retirement. Other factors that may hinder their progress in establishing themselves financially in general, let alone for retirement, include poor post-economic recession job prospects, rising student debt and lower real wages.

Role-modelling is key

The power of role-modelling positive habits cannot be underestimated. Parents can demonstrate sound financial management and savings habits by making regular contributions into their child's Registered Education Savings Plan (RESP). By involving their children early in the process, perhaps in their early-teens, the RESP can represent an opportune time to teach saving for a goal and the power of tax-deferred compound growth.

Avoid bailout

Teaching young adults general money management and budgeting skills while they are still living at home can go a long way to influencing their *attitudes* and *behaviours* when it comes to retirement planning. As soon as the adult child begins to earn money, parents can have a conversation with them about their financial contribution towards general household expenses and perhaps charge them rent. Parents who may be feeling guilty about this approach can always consider investing the "rent"

money in an account earmarked for their adult child and surprise them with a monetary gift at a future special occasion (i.e., wedding).

Educate & speak their language

Parents can play an integral role in enhancing their adult child's financial literacy by providing them with written material on financial and non-financial considerations, encouraging them to attend educational sessions on retirement planning (seminars and webinars), introducing them to financial professionals, and having conversations about saving in an RRSP or TFSA.

Capturing the interest of young adults will increasingly require using their preferred channels of communication such as social networking websites, smart phones and offering interactive educational tools to increase financial literacy. Considering that, to a young adult, retirement likely seems far away, replacing words such as "retirement planning" with "building wealth" may help make this future goal seem a little more tangible and relevant. Parents and financial professionals can also dispel common misconceptions about RRSPs being "locked-in" until retirement (i.e., assets can also be withdrawn tax-deferred to fund a much shorter-term goal, such as the purchase of a home or continuing education, subject to certain terms and conditions).

Conclusion

Preparing for retirement includes considerations such as being interested and feeling it's an important activity as well as positive *behaviours* such as speaking to an advisor and making contributions to savings plan. Your BMO Nesbitt Burns Investment Advisor can help you to plan for your retirement as well as provide tools and strategies that can help elevate your young adult child's financial literacy and raise their awareness about retirement planning while time is on their side.

[1] Leger Marketing (2011) survey of Canadians aged 18 and over conducted on behalf of The BMO Retirement Institute. The "Study" refers to The BMO Retirement Institute's analysis of individual responses to the questions posed in this survey.

[2] Research team: Ross, D. G., Wills L & Gilbert, M. (May 2012). *Canadian financial preparation for retirement.* Unpublished research paper. "Research" refers to research conducted by this international research team.

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