Retirement Consumption, Risk Perception and Planning
Objectives of Canadian Retirees and Pre-Retirees

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Overview

- The Ontario Retirement Survey (ORS) 2016
- Target: Ontario residents age 50 to 80, 500 self-identified retirees and 500 pre-retirees
- Monitored: gender, age and residence
- Web-based survey
- 1001 completed and 10 partially-completed
- Response rate: 7.7%
- Average survey: length 27 minutes
Survey Design

- **Objective:**
  1. obtain a more complete picture of retirement experiences and objectives of Canadians
  2. to compare and contrast them with assumptions made in models of lifetime portfolio selection

- **Key interests:**
  1. the difference between expectations and experience among Canadian retirees
  2. current level of wealth in retirement, or savings pre-retirement
  3. preferences and risk aversion

- **Adaptive survey**
Retirement Status

- Retired (FT): 11%
- Retired (PT): 8%
- Retired (NW): < 1%
- Not Retired (FT): 29%
- Not Retired (PT): 10%
- Not Retired (NW): 41%

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Wealth Status

- Low: 61%
- Medium: 21%
- High: 18%
Wealth by Gender

Female
- Low: 66%
- Medium: 20%
- High: 14%

Male
- Low: 56%
- Medium: 23%
- High: 21%

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Expectation and Experience - an example

- **Pre-retirees:**
  
  “Please indicate the approximate amount you and your spouse/partner *expect* to receive, in the first year of your retirement.”

- **Retirees:**
  
  “Please indicate the approximate amount you and your spouse/partner received from the following sources, in the first year of your retirement”
Retirement Age

1. Pre-retirees expect higher retirement age than retirees’ age of retirement
2. Some pre-retirees expect to “never” retire

Pre-retirees, Expected Retirement Age. (Mean, Median): (67.1093, 65)

Retirees, Actual Retirement Age. (Mean, Median): (58.588, 60)
Retirement Liquid Assets – Married

1. Pre-retirees expect to have higher liquid assets than retirees had at retirement
2. Married individuals: more assets (e.g. more income + shared cost)
Retirement Real Estate – Married

1. Pre-retirees expect higher property level than retirees had at retirement
2. Married retirees tend to have higher property level
Retirement Income I: DB – Married

1. Pre-retirees expected lower DB income than retirees had at retirement
2. DB↓ trend
Retirement Income II: Government Support – Married

1. Pre-retirees expect **much** higher government support than retirees had at retirement ~ 20%
Retirement Income III: Life Annuities – Married

1. Majority did not expect/have annuities

2. Pre-retirees expect higher annuity income than retirees had at retirement
1. Pre-retirees expect higher withdrawals than retirees had at retirement.
Retirement Income V: Other Sources – Married

1. Pre-retirees expect lower income from other sources than retirees had at retirement

Pre-retirees, Married: Expected Retirement Income (other sources). (Mean, Median): (1.5375, 1)

Retirees, Married: Actual Retirement Income (other sources). (Mean, Median): (1.7602, 1)
Savings and Spending Concerns

Top four concerns:

1. Setting money aside to access quickly when unforeseen expenses arise
2. The impact of inflation on my standard of living
3. The possibility of living longer than expected
4. Avoiding ups and downs in my income having a smooth income stream during retirement
Liquid assets and real estate

- 10%: low liquid wealth and no property
- Less cash-wealthy groups do not have much tied up in property
Liquid assets and annuity purchase

- High unwillingness to purchase annuities
Liquid assets and seeking professional financial advice

- Top 3 concerns:
  1. Professional advisors acting in their own best interest rather than mine
  2. Accessing high quality services
  3. The capability of advisors to address my concerns or improve my financial welfare
Risk Aversion Elicitation (Low vs High Stake)

1. Retirees more risk averse
2. Higher relative risk aversion when higher stake is involved
3. $RRA \approx 2.0$ for pre-retirees, $RRA \approx 3.0$ for retirees,
Retirement Planning Objectives

- Hypothetical annuitization decisions under:
  1. Inflation risk
  2. Investment risk

- Beshears et al (2014)
Suppose that you are 65 years old and you are JUST about to retire. Your employer will pay you monthly pension income payments for the rest of your life. The pension will stop when you die. Your employer presents you with the following pension options:

1. **Equity-Linked Pension Option**
   This option pays a monthly pension with payments linked to stock market performance. Every year your pension will be re-evaluated based on the performance of the stock market. This means that your pension income payments are uncertain and will experience some ups and downs.

2. **Steady Pension Option**
   This option pays a constant monthly pension that does not change.
If you choose the **Equity-Linked Pension Option**, 
- Your first monthly income payment will be **$2,516**.
- Your future monthly pension has an equal chance of being any one of the 10 coloured pension paths as shown in the chart below.

If you choose the **Steady Pension Option**, 
- Your first monthly income payment will be **$2,358**.
- Your future monthly pension will stay the same for the rest of your life, as shown by the black line in the chart below.

*Note the difference in the first monthly income payments.*
- Dependence with wealth and risk aversion
- Dependence with government pension, income withdrawals
References
