



Confronting the growing retirement gap:

The financial services industry's role in securing Canadians' futures

Among the many and widespread impacts of the COVID-19 pandemic is the depletion of the retirement nest-eggs of millions of people around the world, including many here in Canada.

How have attitudes and behaviours toward retirement and long-term savings been affected by the COVID-19 pandemic? To find out, Deloitte conducted an extensive international survey in 2021 that, perhaps unsurprisingly, revealed a heightened sense of financial insecurity and significantly altered savings priorities. The results helped to benchmark the impacts of the COVID-19 pandemic on Canadian respondents relative to global respondents.

Among the 1,001 Canadians surveyed, negative effects are hitting certain segments more than others, widening an already-significant retirement gap, and exacerbating a lack of personal savings.

The financial services industry is in a position to tackle many of the issues our survey exposed, including the number-one challenge: the increasing need for guidance, advice, and support regarding financial security. Industry leaders have a significant role to play in narrowing the retirement gap and, with the help of technology, could

get more Canadians on a viable track to retirement and better financial security by addressing the issues identified.

As the first article in a series focusing on the retirement gap in Canada, this article aims to provide context on the difficulties Canadians face in saving for their retirements and

more generally. The follow-up articles in this series will provide in-depth insights into the implications of this research for financial services institutions and perspectives on the technological and product developments that are at the industry's disposal to seize the opportunity and narrow the retirement gap for Canadians.

The challenge in Canada

Almost half of the Canadian respondents don't save specifically for retirement and nearly a quarter have no savings of any kind.

Both of these challenges are more prevalent among Canadian women (respondents who self-identified as female)—who are already an underserved portion of the market, earn approximately 11% less than men (respondents who self-identified as male), and, on average, lost their jobs at a higher rate during the pandemic, to name but a few contributing factors.^{1,2}

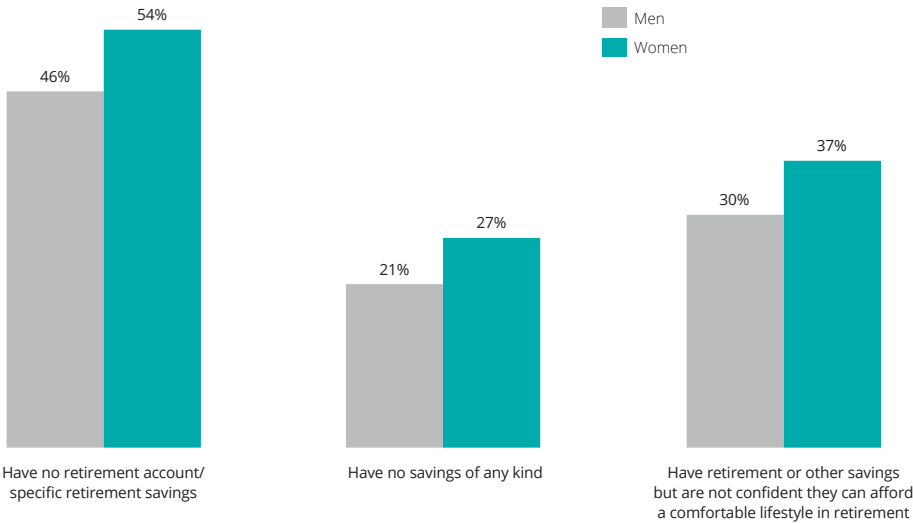
This lack of savings likely underlies the uncertainty and stress Canadians feel when it comes to their future financial security, as further noted in the survey findings.

Even among those who have been saving for retirement, the size of their contributions is decreasing—one in four Canadians are contributing less to their retirement funds than they did a year prior to the survey, with many prioritizing short-term over long-term goals due to increased financial insecurity.

The pandemic has exacerbated the problem of already-low contribution levels to retirement and other savings, with 36% of Canadians having liquidated some portion of their retirement savings or investments to prepare for, or handle, emergency spending.

This retirement gap—being financially unable to maintain a desired/specified lifestyle in retirement or even to retire at all—also worsened during the pandemic, with lower contributions and leakage from income-generating asset classes happening amid rising costs of living.

Figure 1: Status of savings for Canadian men and women



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Why people aren't saving

The Canadians who responded to the survey point to several factors that are contributing to their lack of retirement savings. The two most prevalent are an inability to afford contributions and a lack of knowledge about relevant products and processes.

Feeling financially unable to save for retirement was the primary reason preventing Canadians from having retirement savings accounts, with women being more likely to feel they could not afford to save in general or for their retirement specifically.

Unsurprisingly, of those with no retirement savings, almost half would want to start saving or allocating other savings to retirement if their income increased, with 54% of women and 38% of men noting this.

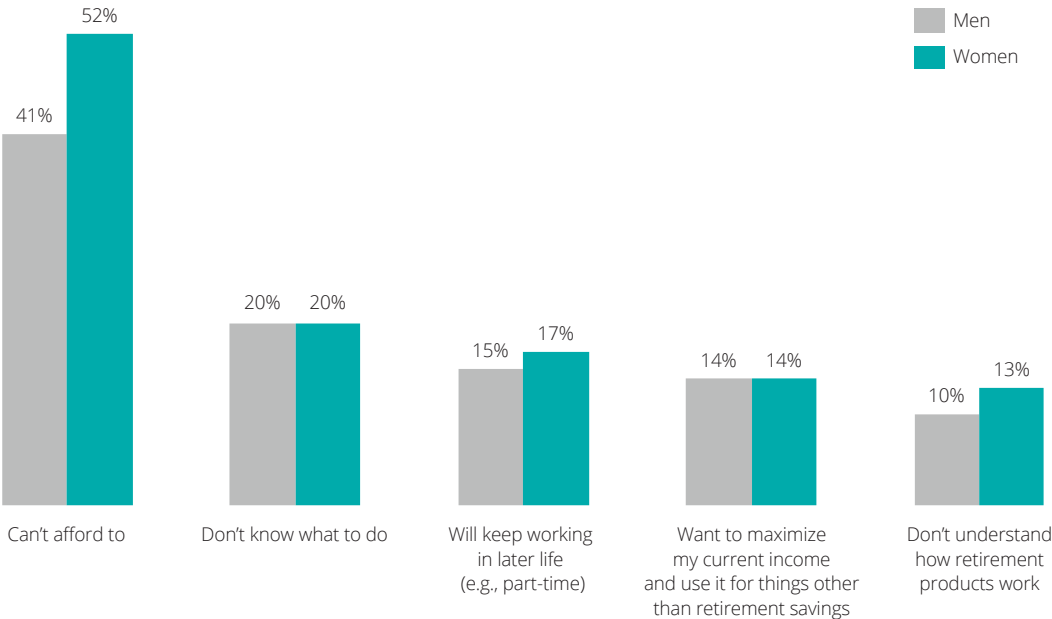
A lack of knowledge on how to approach retirement and savings goals (20% of all respondents) and a lack of understanding of how retirement products work (12% of all respondents) are also preventing people from investing in their retirement.

Almost one in four Canadian respondents (23%) feel they need to become more confident about how to save and invest before doing so and 15% indicated that they would start saving or allocate other savings to retirement once they found a financial advisor to explain what to do.

Limited personal financial knowledge can restrict curiosity and create financial anxiety. Retirement planning is also often regarded as a long-term task that requires high levels of personal financial literacy and comfort.

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Figure 2: Reasons given by Canadian men and women for not having a retirement savings account



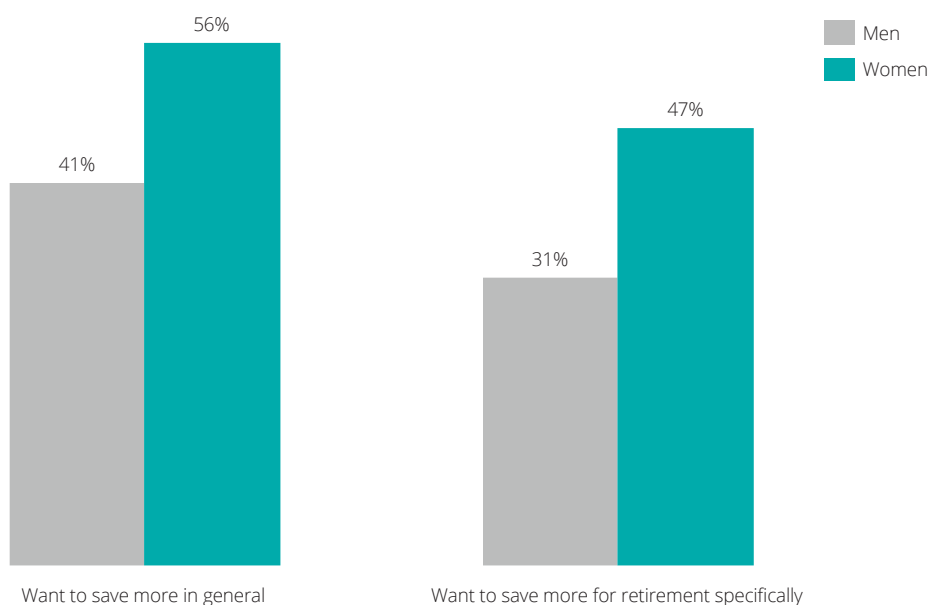
The pandemic's impact on the retirement and savings gap



The pandemic triggered a marked increase in the number of people who feel the need to save more—more than half of the Canadians surveyed (54%) indicated this to be true for them. Of those, 22% want to save much more and with respect to saving for retirement specifically, just under half of the Canadians surveyed (46%) want to save more following the pandemic.

The differences in saving habits are seen not only between those saving in general and those saving for retirement specifically, but also between men and women. Women showed more desire to save, potentially a result of their lower retirement and general savings, or the increased threat of job loss faced by Canadian women in general.

Figure 3: Impact of the pandemic on the desire of Canadian men and women to save more in general and for retirement specifically

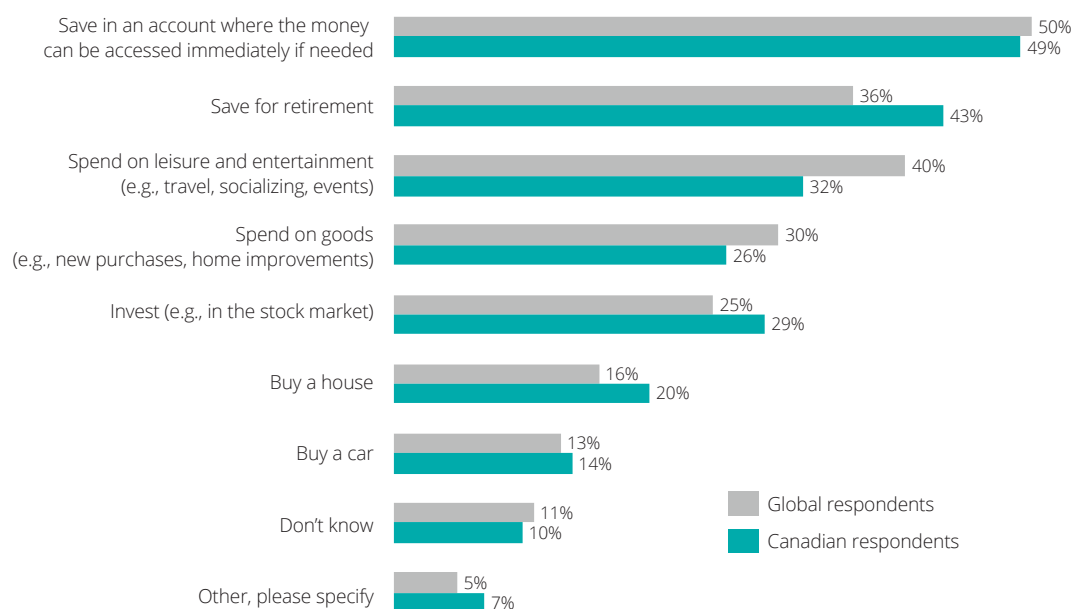


The pandemic's impact can also be seen in the ways Canadians would spend any excess cash once it is over. Over 40% indicated that one of their top three priorities for surplus cash would be to save for retirement or save it in a bank account. Canadians are like their international peers on how they'd use this excess cash other than having a stronger desire to save for retirement.

The gender differences noted above hold true, as men are more likely to use surplus cash to save for retirement (46%) than women (40%) and women are more likely to save it in an immediately accessible account (52%) than men (46%).

The pandemic has also left 26% of Canadians wanting more advice on how best to save for retirement, with women looking for advice more than men (31% and 22% respectively).

Figure 4: Global and Canadian respondents' priorities for surplus cash post-pandemic



Decision paralysis and procrastination

When coupled with an awareness of its importance, an inability to prioritize and work toward both short- and long-term financial goals leads to greater anxiety. Our findings indicate that this is one of the primary challenges for Canadians: feeling unequipped to focus on and achieve their financial goals.

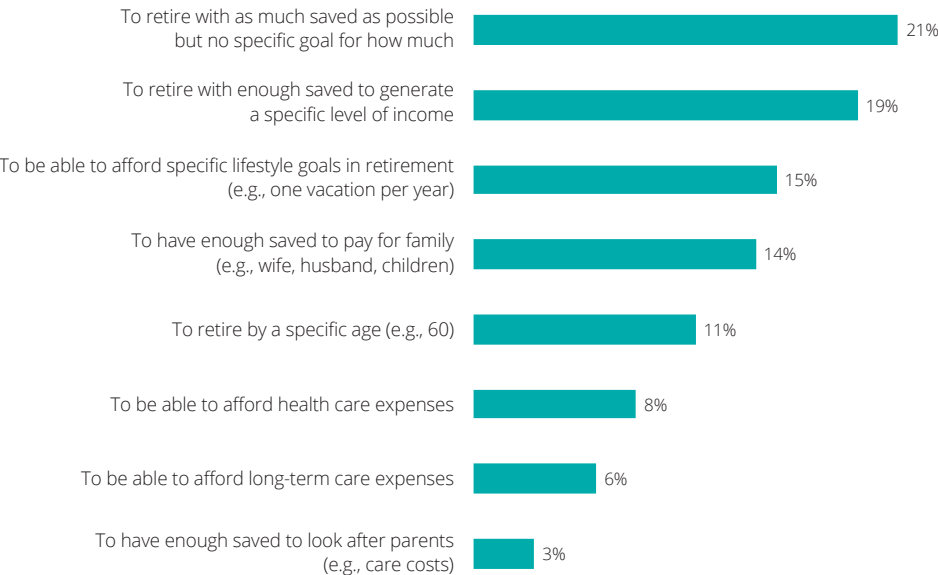
Canadians' primary goal when saving money is funding their retirement, with nearly two-thirds of those who are actively saving doing so primarily for retirement—much higher than the global average of 51%. Men are more likely to be saving for retirement and women are more likely to be saving for

large, unexpected costs. The trend toward saving for large, unexpected costs can also be observed in the international results, with 60% of global respondents indicating it as their primary reason for saving. Additionally, nearly a quarter of Canadians say they are saving in case they have such costs as a result of the COVID-19 pandemic.

Despite Canadians saving primarily for retirement, most do not have a clear understanding of what they need to achieve a comfortable retirement, with just under 20% having a defined amount to aim toward for their savings.



Figure 5: Canadians' retirement goals



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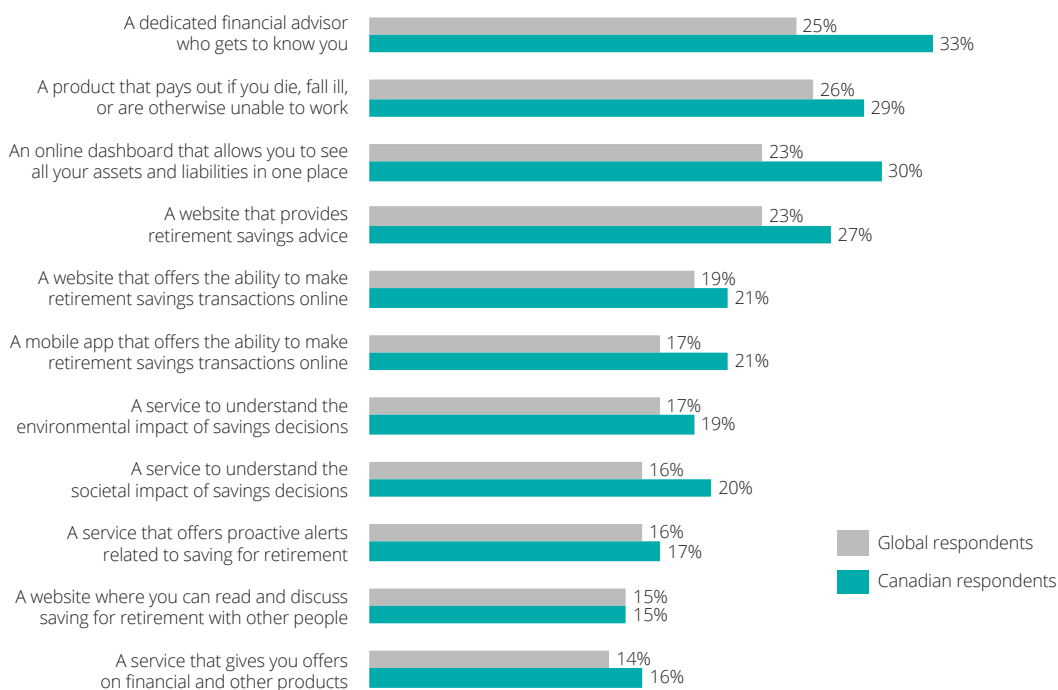
Inadequate knowledge, ineffective choices

The pandemic has compelled Canadian consumers to seek greater financial security and increased their desire for sound advice. When asked to rank the most desirable financial products and services, Canadian and global respondents selected the same top three: products that guarantee their retirement, a dedicated financial advisor who gets to know them, and products that pay out if they become unable to work.

A lack of financial knowledge, support, and advice means that even the Canadian respondents with retirement portfolios are making suboptimal choices within them. And while Canadian respondents expressed interest in products with guaranteed outcomes, they've seldom acquired specific retirement products accretive to their goals.

- Nearly half of the Canadians surveyed (48%) indicated regular use of an investment product not designed for retirement but with a tax incentive
- Approximately 40% of Canadian respondents use a regular savings account that pays interest for their retirement savings
- Canadians are looking for fixed outcome products to provide for their retirement, with 35% wanting set payments once they retire and 29% looking for a fixed payment should they die, fall ill, or become unable to work

Figure 6: Financial products and services that global and Canadian respondents are most likely to use or already use



The opportunity to reduce the Canadian retirement and savings gap

The industry's role in confronting the gap

Financial service institutions in Canada have an opportunity to meet the need for better products and for guidance on how to save and manage funds for short-term goals, including emergency savings, and longer-term goals, such as retirement.

For advice on which kinds of retirement products to purchase, Canadian respondents indicated that they firmly rely on their financial advisors (24%), with their friends and family as a close second (22%).

The financial strength and security of a brand and trust in the provider are the two leading considerations for Canadians when deciding where to purchase a retirement product. Firms that can prove to Canadian consumers that they have these characteristics are in the best position to assist Canadians and help close the retirement gap.

As such, these institutions can address the growing need for advice on savings and retirement in many ways, including:

- Managing the trade-offs clients face between short-term goals and longer-term goals
- Explaining the implications of Canadian consumers' actions and choices
- Building flexibility into product offerings to service the full spectrum of goals, from emergency cash savings to retirement
- Grounding information about retirement and general savings in tangible life situations that are relatable and demonstrate the connection to financial well-being
- Fostering comfort in exploring financial options and reinforcing the value of clients' efforts by acknowledging their curiosity and consideration
- Making financial advice more accessible to clients while starting to build financial relationships with potential clients by offering free "financial health checks" to those in underserved markets
- Improving clients' connection with their "future self" by highlighting progress in a meaningful and practical way that supports the development of helpful financial habits



Use technology to make getting financial advice easier

There's clearly an urgent need to make financial services more accessible to Canadians. A path to addressing this inaccessibility is by bringing the scale provided by a hybrid advice model into service.

This is supported by our Canadian respondents, who want digital channels to play a part in their retirement planning process (27%) and have a keen interest in seeing their assets and liabilities on a digital dashboard (30%). They are also willing to receive their advice online, with 27% indicating they would use a website for retirement savings advice.

To meet the critical needs of Canadians, gain access to new segments of the market that are often underserved by traditional advisor channels, and create a competitive edge, financial organizations can harness digital options to:

- Offer data-driven, intelligent, and intuitive financial planning and dashboards that showcase clients' assets and liabilities
- Encourage client input on future goals and scenario planning to provide more personalized analysis and recommendations
- Provide tools that enable clients to evaluate their individual risk tolerances and investment horizons
- Prompt the selection of investment holdings from a recommended list

- Offer the means to connect with an advisor, either virtually or in person, schedule online meetings quickly and easily, and get real time access to advice through click-to-chat functionality
- Build trust and loyalty through positive, seamless experiences across the multiple channels along the customer journey

Technology can contribute to Canadians' retirement literacy and financial awareness, and may be the only way to scale the most important factor for reducing the growing retirement gap in Canada: professional advice.



Endnotes

1. Statistics Canada, "Average and median gender wage ratio, 1998–2020," accessed June 6, 2022.
2. Statistics Canada, "Gender differences in employment one year into the COVID-19 pandemic: An analysis by industrial sector and firm size," accessed June 6, 2022.

Let's talk

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