

# Canadian Retirement in Today's World

Presentation  
for

THE  
**Great-West Life**  
ASSURANCE  COMPANY

January 27, 2015  
Montreal



# Global Outlook... Significant Risks



US economy strong

Canada weakens with oil

Europe still vulnerable

Fiscal Austerity

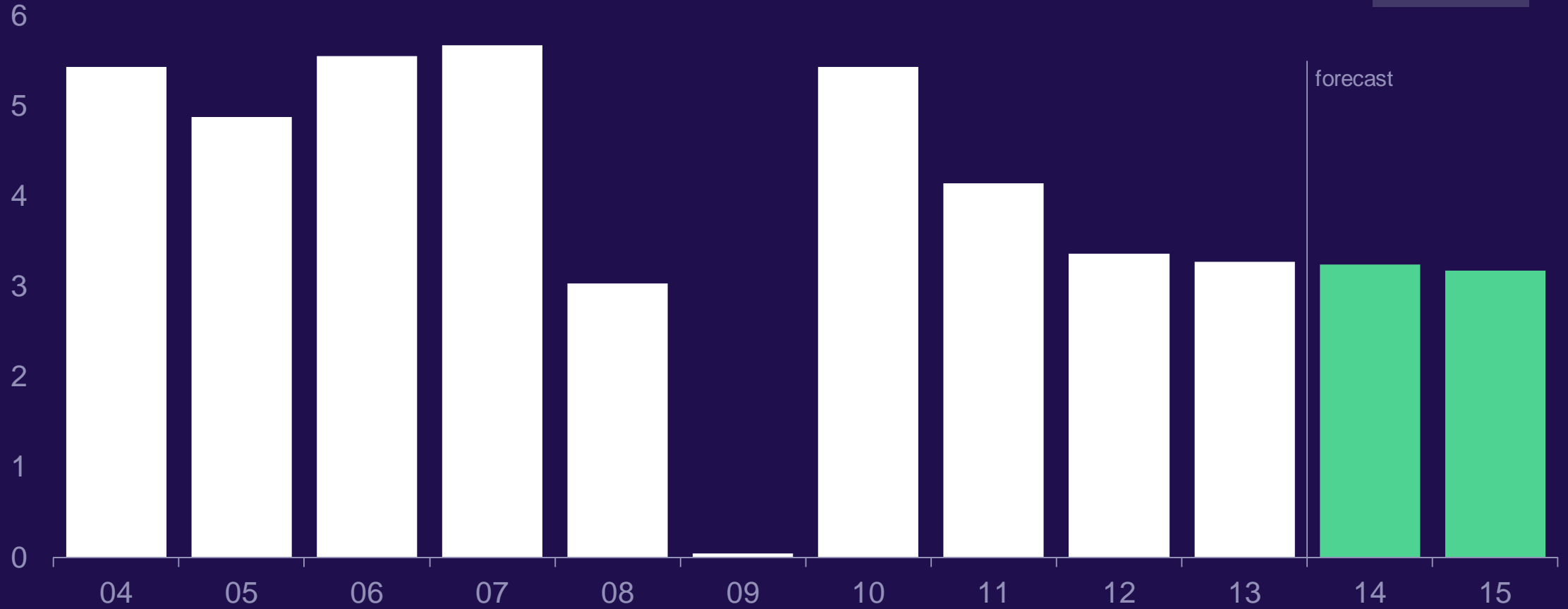
Unemployment high in S. Europe

China hits soft landing

# Global Growth Flat in 2015

Global: Real GDP  
(year/year % change)

	13	14	15
World	3.3	3.2	3.2



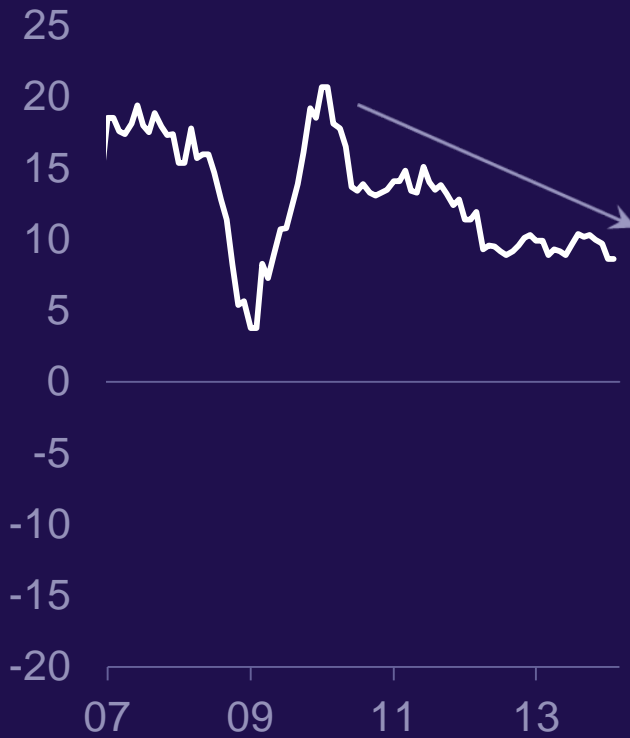
forecast = BMO Capital Markets forecasts

# Emerging Economies' Activity Has Cooled

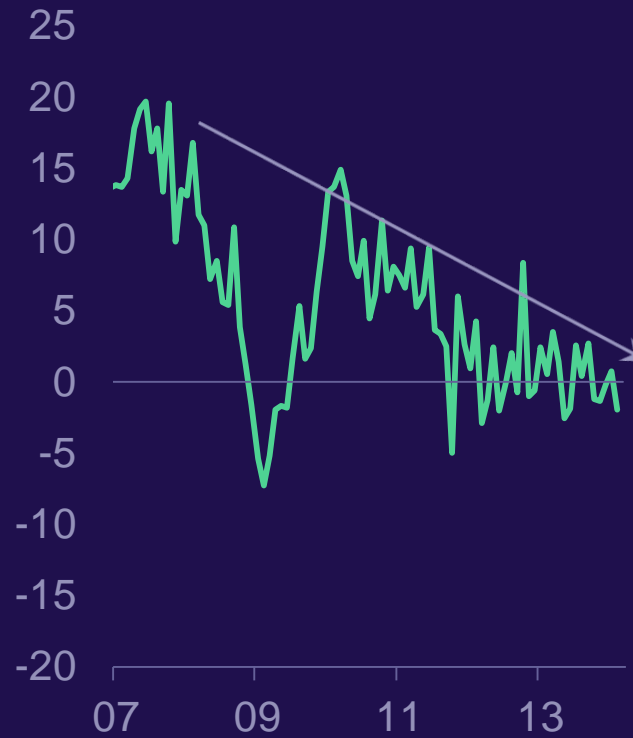
Industrial Production  
(year/year % change)

Real GDP	2012	2013	2014	2015
China	7.7	7.7	7.2	7.3
India	4.8	4.6	4.7	5.3
Brazil	1.0	2.3	1.8	2.2

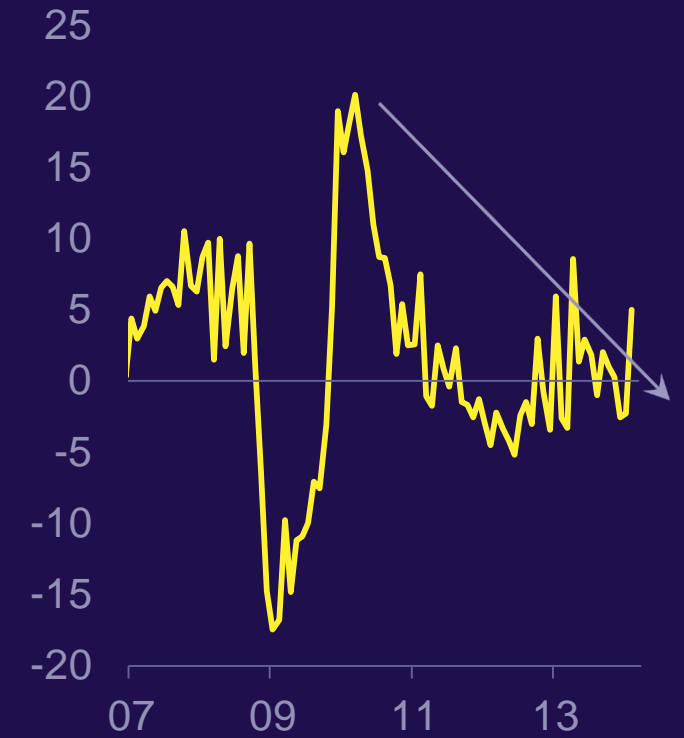
## China



## India



## Brazil



2014-15 = forecast: BMO Capital Markets for China, using Bloomberg forecast for India and Brazil

# US Economy Strengthening



Job creation

Consumer confidence

Auto sales strong

Housing recovery

Export growth

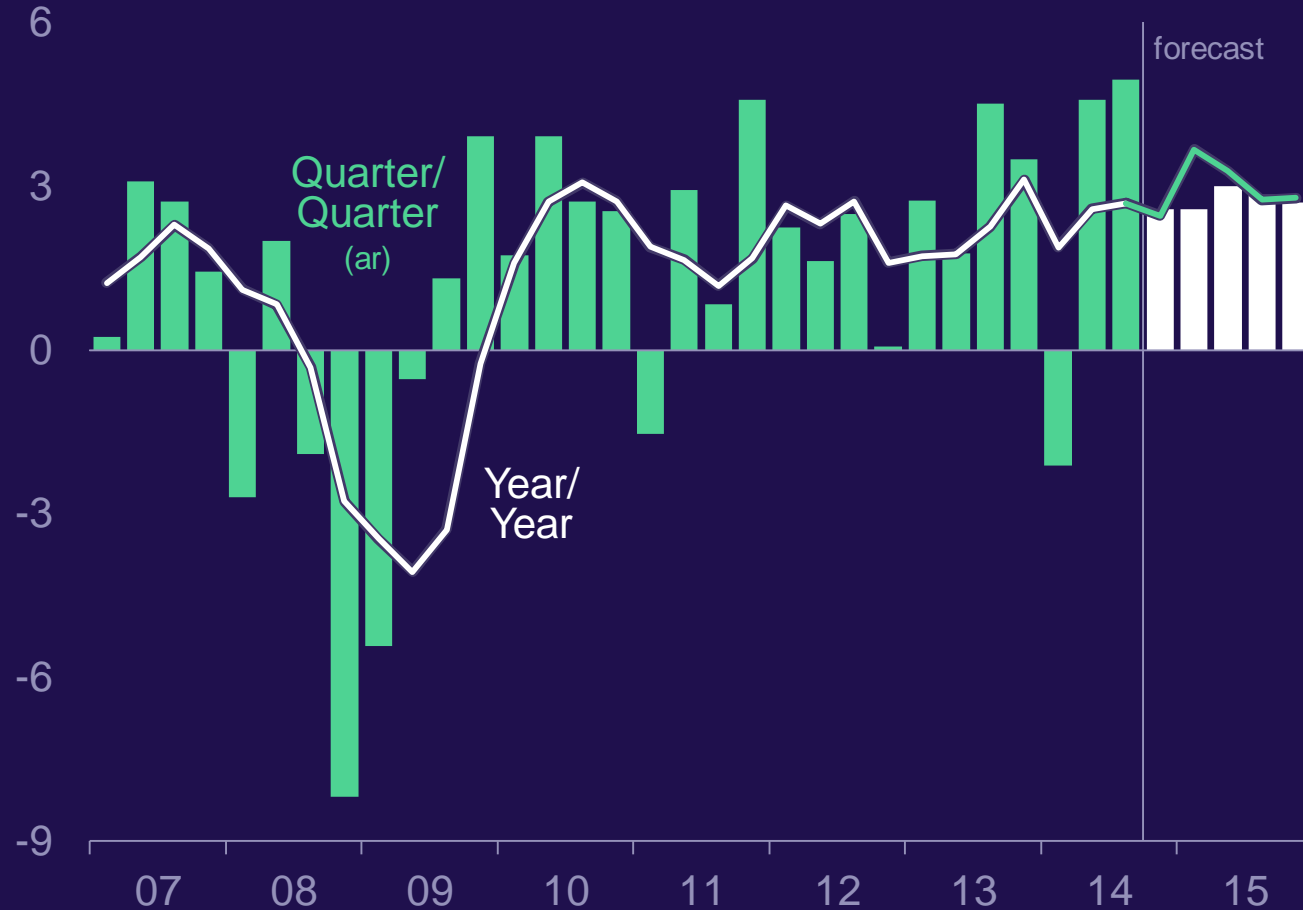
Wealth effects

Boom in shale energy

# US Growth Exceeds 3% Range

United States: Real GDP  
(% change)

12	13	14	15
2.3	2.2	2.4	3.1



Consumers spending  
Job Market Improves  
Businesses Invest

forecast = BMO Capital Markets forecasts

# Jobless Rates Fall in US

Unemployment Rate  
(percent)



Greece	25.8
Spain	23.9
Portugal	13.9
Italy	13.4
Ireland	10.7
France	10.3
Canada	6.6
Australia	6.1
UK	5.9
US	5.6
Germany	5.0
Japan	3.5

## Canada-US Crossover

forecast = BMO Capital Markets forecasts

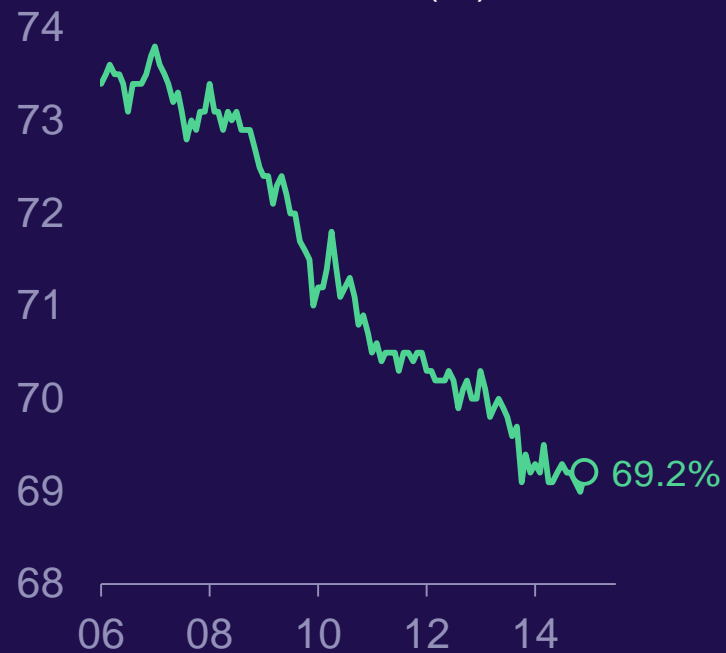


# Long-Term Unemployment For Some United States

### Broader Unemployment Rate<sup>1</sup> (%)



### Labour Force Participation Rate of Men (%)



### Average Duration of Unemployment (weeks)



## Skills Obsolescence A Problem

<sup>1</sup> Comprehensive measure



# Canadian Economy Hit By Oil Plunge



Alberta and Newfoundland—drag on growth

Other provinces benefit

Manufacturing more competitive

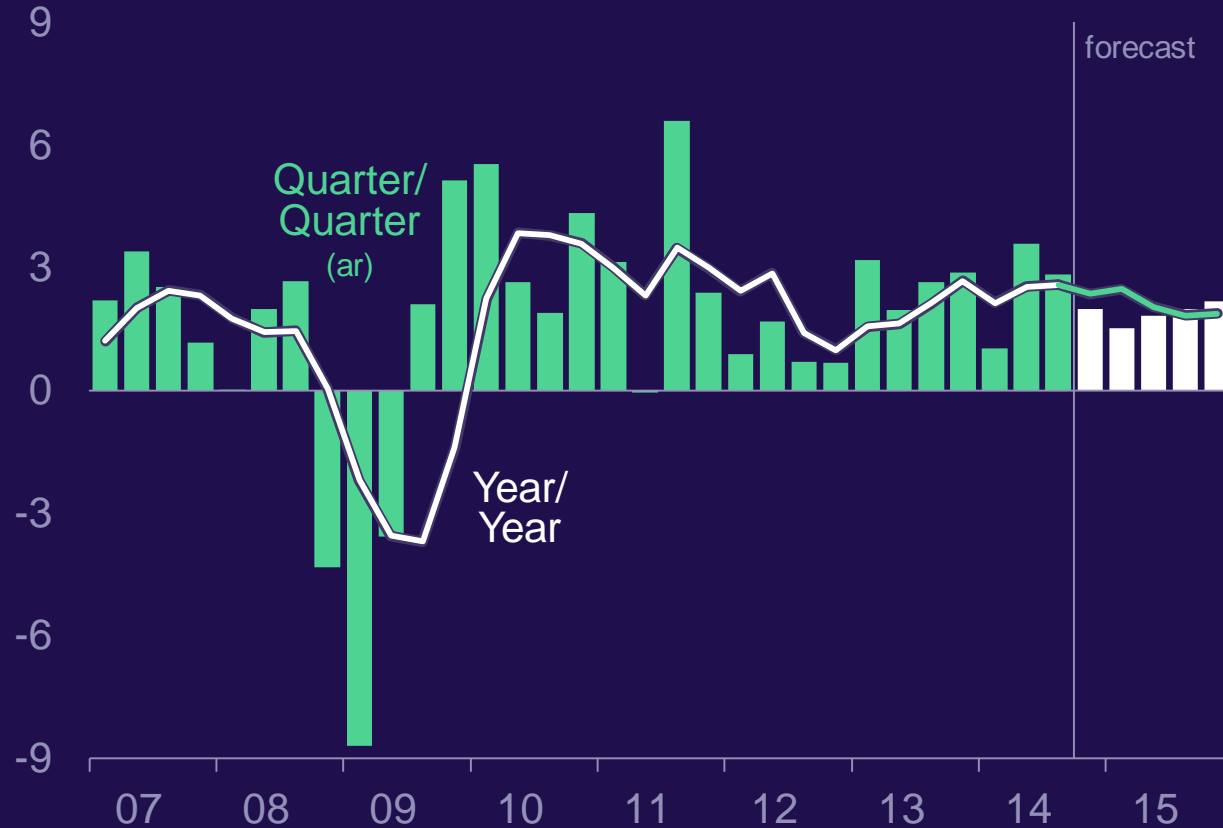
Trade improves with weak loonie

Business investment the weak link

# Canadian Growth Softens

Canada: Real GDP  
(% change)

12	13	14	15
1.9	2.0	2.4	2.1



## Slowing

- Energy Production
- Government spending
- Oil Sector Hit Hard

## Hope for Future

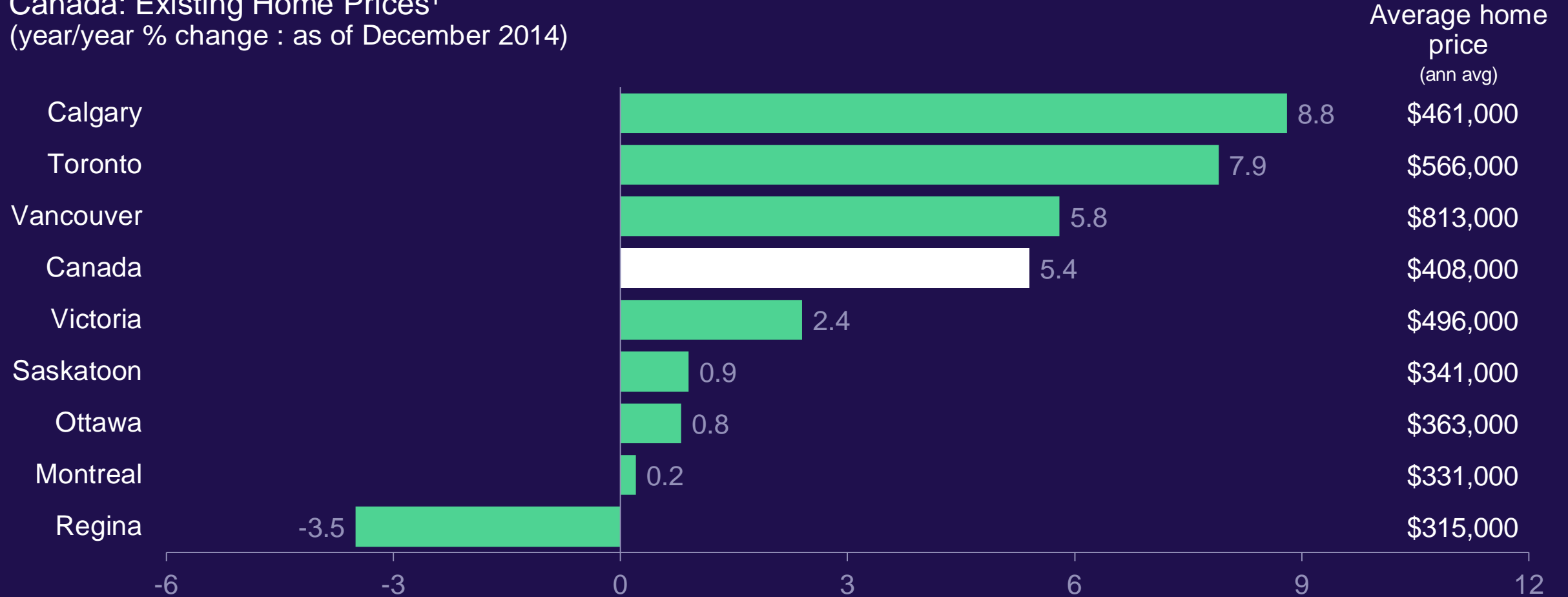
- Exports
- Business Investment

US Pick-Up Helps

forecast = BMO Capital Markets forecasts

# Alberta's Housing Markets Will Be Stymied

Canada: Existing Home Prices<sup>1</sup>  
(year/year % change : as of December 2014)

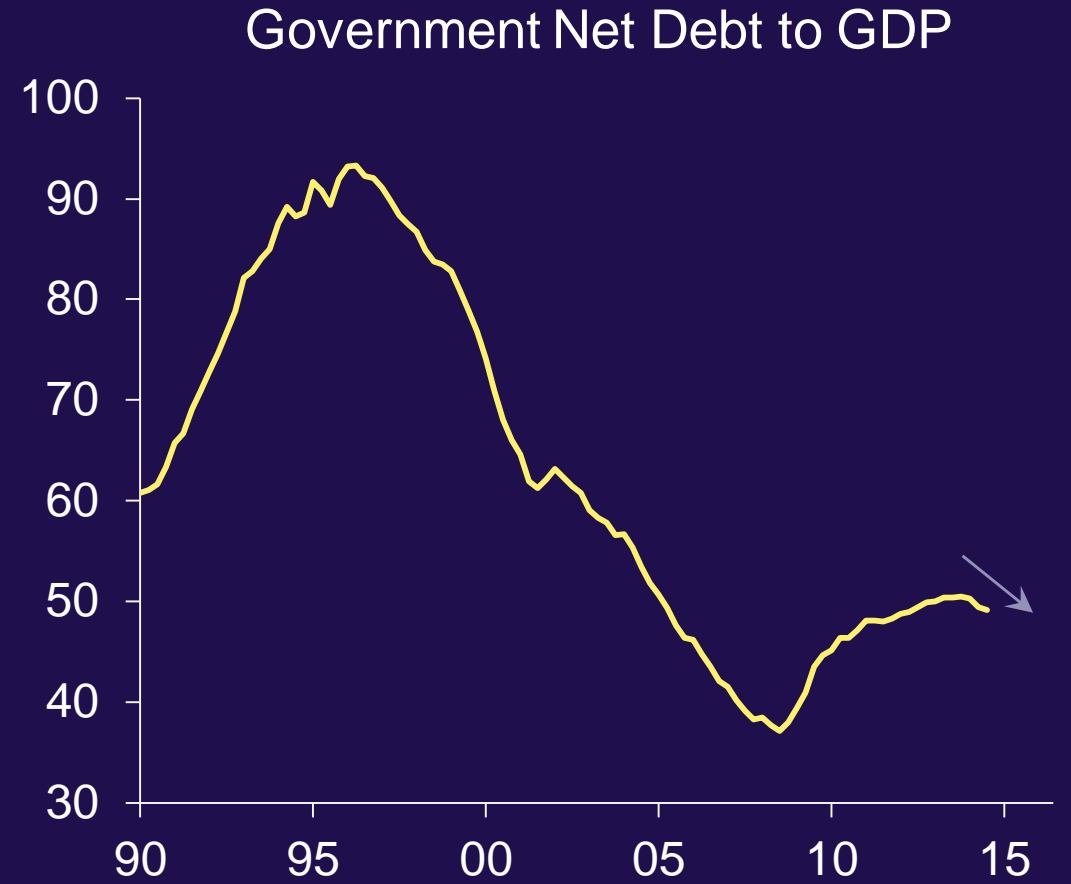
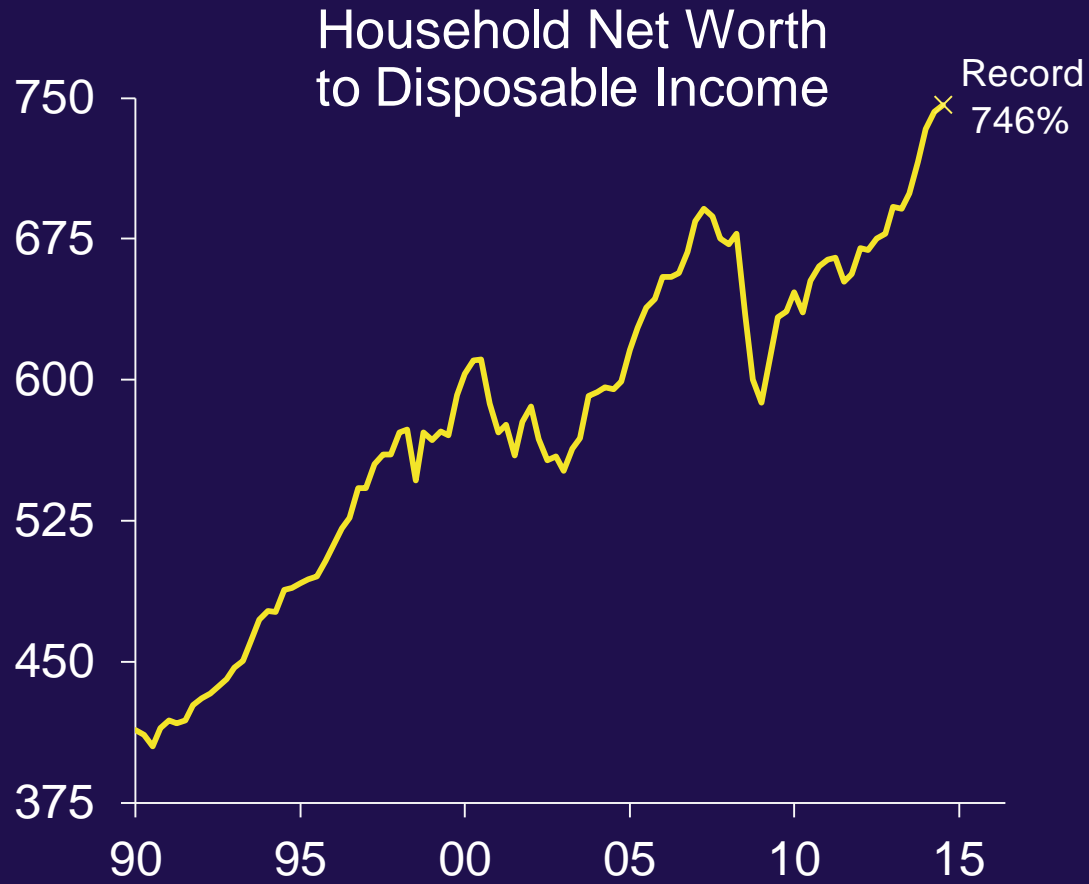


Bad News Starting in Calgary

<sup>1</sup> Housing Price Index, composite benchmark

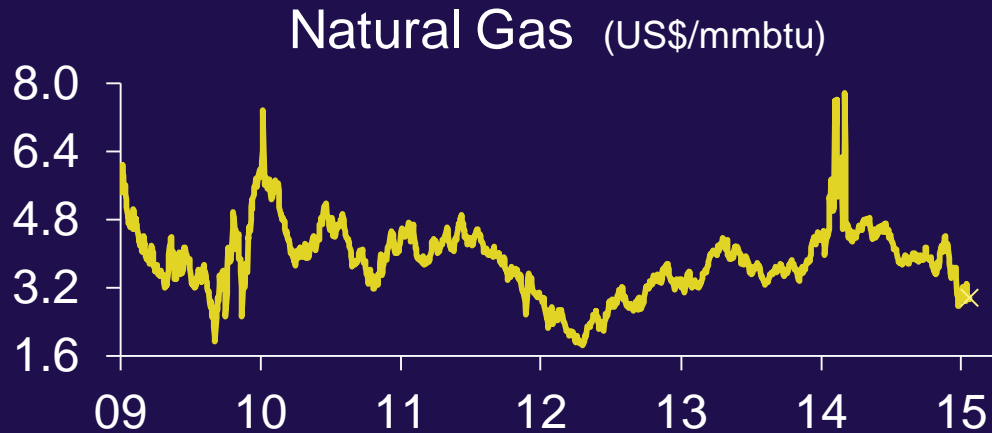
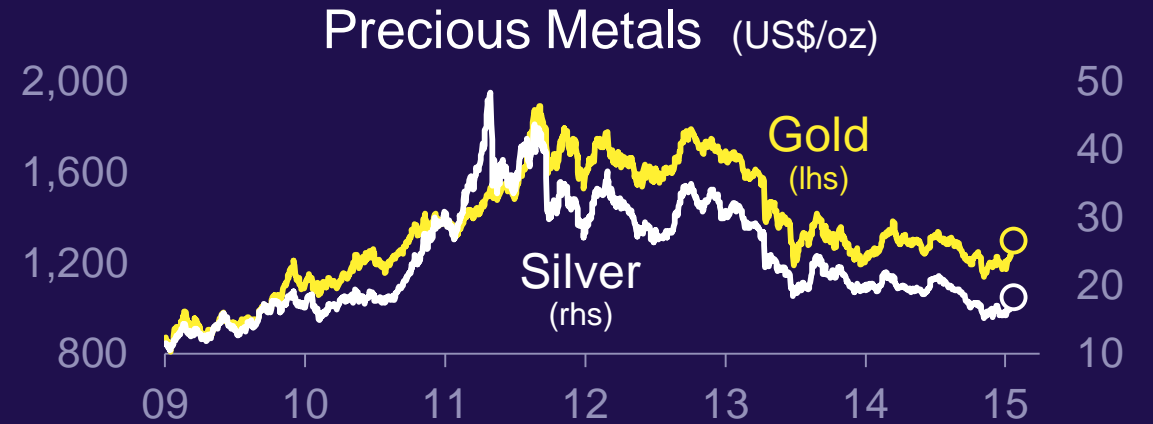
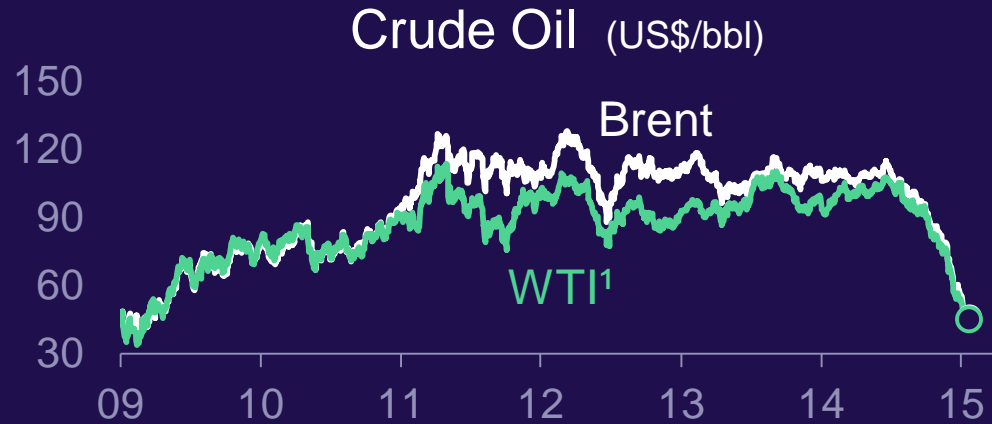
# Balance Sheets Improve

Canada  
(percent)



# Commodity Markets Down As Oil Plunges

(as of January 23, 2015)



<sup>1</sup> West Texas Intermediate

# Loonie Losses Accelerate



Canadian oil sector nosedives  
Other commodity prices down  
Bank of Canada cuts rates

One of Weakest Currencies Among World's Majors

# Oil Price Decline Takes Loonie Down

(as of January 23, 2015)



forecast = BMO Capital Markets forecasts

<sup>1</sup> (US\$/bbl)    <sup>2</sup> (US¢/C\$)



# Financial Markets



Bank of Canada cuts rates, further cuts possible

Bond yields fall sharply

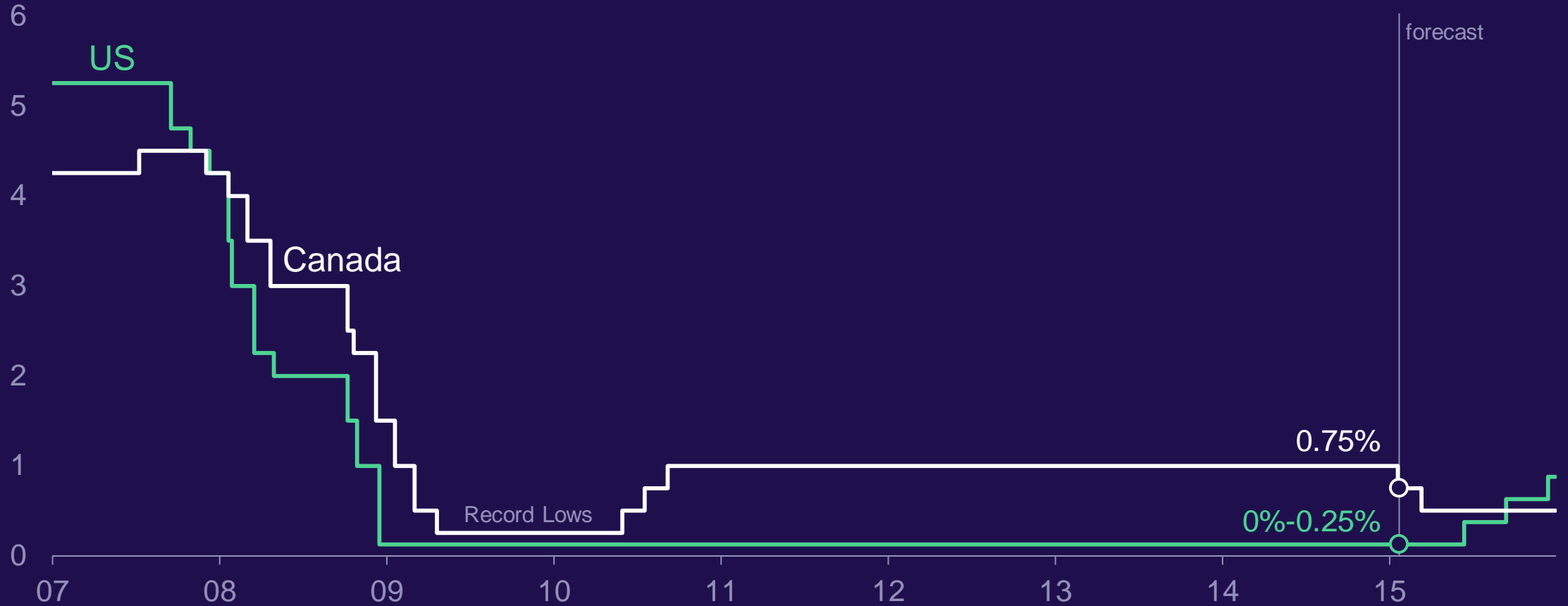
Fed on hold, rate hikes next

Stocks volatile

# BoC Shocks Markets With Rate Cut

Overnight Rate

(% : as of January 23, 2015)



forecast = BMO Capital Markets forecasts

# Long Yields Decline As Oil Falls

10-year Bonds

(% : as of January 23, 2015)



Deflationary forces

Flight to safe haven

# Stocks Volatile As Commodities Slide

Financial Market Returns – Local Currency  
(% change : as of January 23, 2015)

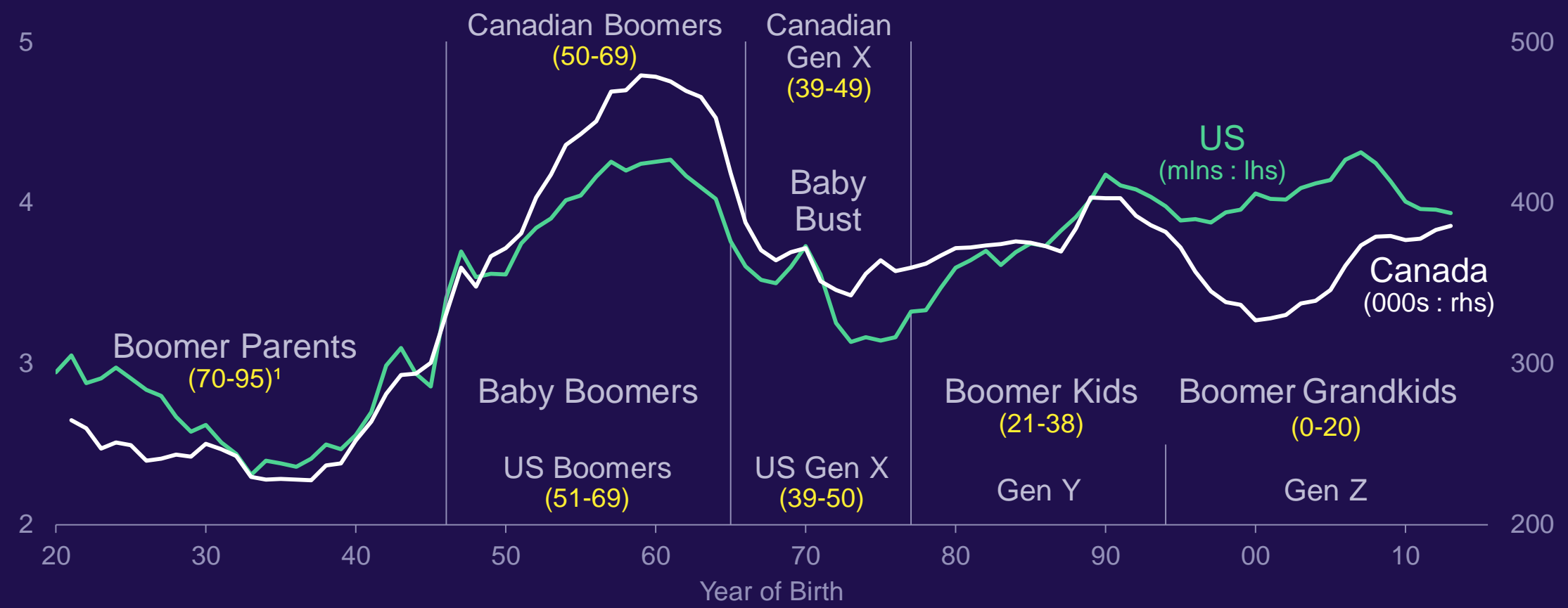


Stocks	Year-to-date		
	2015	2014	2013
TSX	1.3	7	10
Nasdaq	0.6	13	38
S&P 500	0.1	11	30
DJIA	-0.3	8	26
<b>Bonds</b>			
GoCs	2.9	9	-3
US Treasuries	2.3	8	-5
<b>Commodities</b>			
CRB Index	-5.8	-18	-5
Gold	7.4	0	-27
Oil [Brent crude]	-16.9	-49	-1
<b>Dividend Yield (%)</b>			
	Current	End-2014	End-2013
TSX	3.0	2.9	3.2
S&P 500	2.0	1.9	2.3



# Median Age of Boomers Now 58

Births (persons)

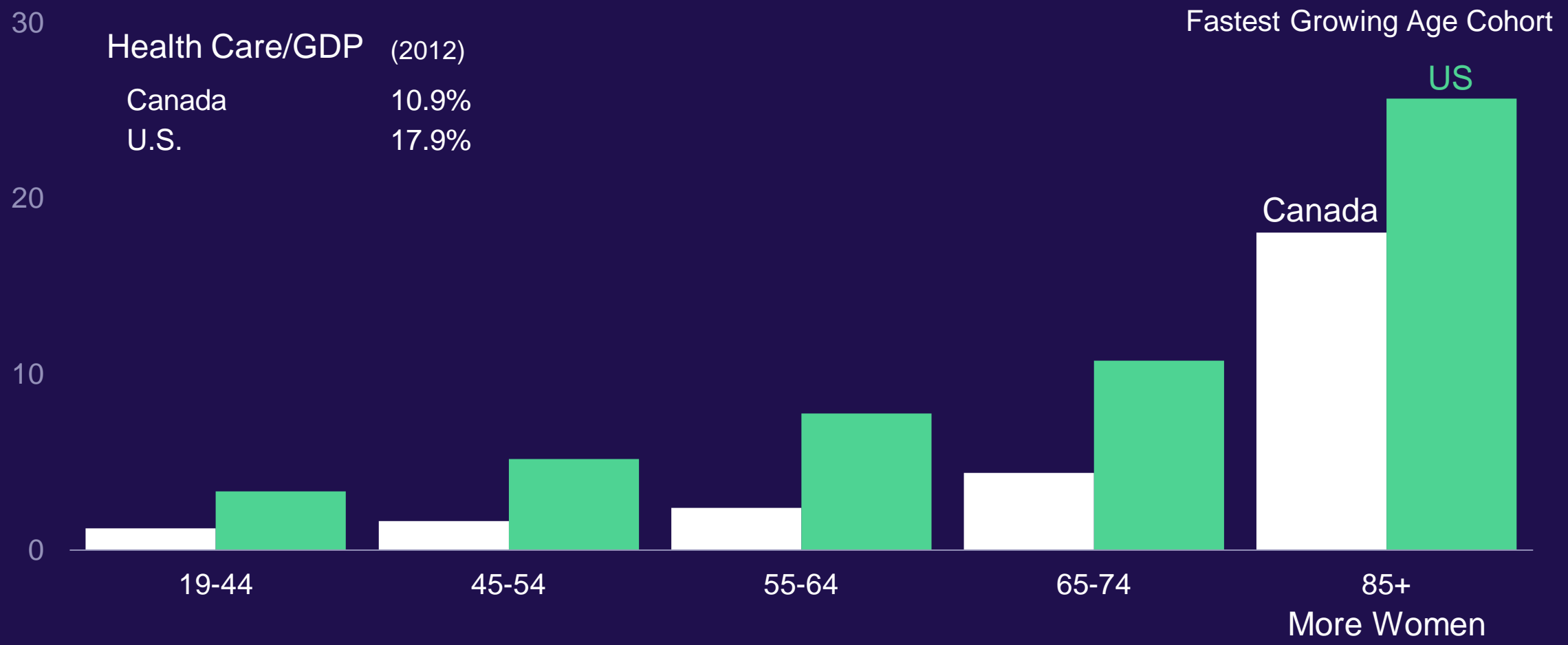


## Demand for Health Care, Pension Obligations

<sup>1</sup> youngest/oldest age in 2015 Sources: [Canada] Historical Statistics of Canada; [US] National Center for Health Statistics

# Health Care Costs Will Explode

Annual Health Care Spending by Age  
(US\$ 000s per capita)



Sources: World Bank, [US] US Department of Health, 2004; [Canada] Health Canada, 2000-01 (1.5 C\$/US\$)



# Longevity



“There are more people alive today over age 85 than have ever lived to that age in the history of humankind.”

Healthful Aging

# Mandatory Government Pensions Not Enough for Affluent 2014

	Canada	US
<b>Maximum Benefits</b> (annual)		
CPP/Social Security	\$12,460 <sup>1</sup>	\$31,704
Old Age Security	+\$6,765	
Guaranteed Income Supplement	+\$9,168	
	<b>Total</b>	
	\$28,393	
<b>Premiums</b> (annual)		
CPP/Social Security (combined)	9.9%	12.4% <sup>2</sup>
Maximum Earnings	\$49,000	\$117,000
Maximum Contribution	\$4,851	\$14,508

<sup>1</sup> This benefit is supplemented by Old Age Security (\$6,765), which starts getting “clawed back” for total incomes over **\$70,954**, and eliminated for incomes over **\$112,772**. For lower income Canadians, there are additional supplementary benefit programs (e.g., Guaranteed Income Supplement), for incomes **below \$17,088**. All of these supplementary programs are paid out of general revenue.

<sup>2</sup> The Medicare Contribution (HI) is an additional **1.45% on all earnings**. Also, as of January 2013, individuals with earned income of more than \$200,000 (\$250,000 for married couples filing jointly) pay an **additional 0.9%** in Medicare taxes.

# Government Pensions Cover Median to Low Income Earners

OECD Net Pension Replacement Rates – 2011 (percent)

Country	Low	Mid	High
	0.5x	1.0x	2.0x
<b>Canada</b>	<b>88.7</b>	<b>57.3</b>	<b>39.7</b>
Italy	78.2	75.3	76.7
France	69.4	60.4	53.1
U.K.	67.5	41.5	30.5
<b>U.S.</b>	<b>63.8</b>	<b>50.0</b>	<b>46.6</b>
Mexico	58.2	32.2	33.3
Germany	55.6	57.9	57.2
Japan	52.7	39.7	34.9

**Median Income** (per household)

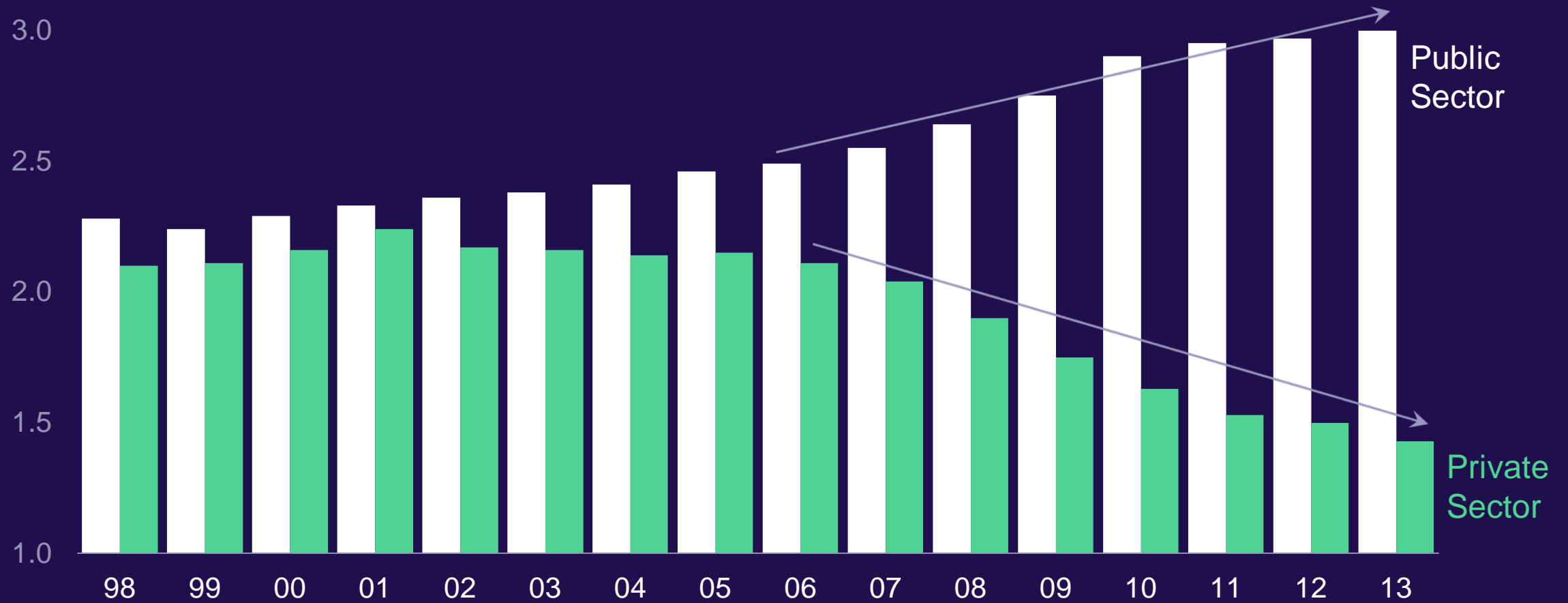
**Canada** **C\$74,540** (2012)

**U.S.** **US\$51,939** (2013)

**Affluent Need to Save**

# Majority of Defined Benefit Plan Members Employed in Public Sector

Canada: Defined Benefit Plan Members  
(millions of members)



# Ideal Nest Egg... How Big?



Need \$20 in saving for \$1 of pre-tax income<sup>1</sup>

Assume 4%-5% real annual withdrawal rate

Example:

For \$50,000 before tax income,  
need at least \$1 million

<sup>1</sup> Desired income over and above government and corporate pensions

# Don't Try To Time Markets



Up moves can be quick and sharp

Invest regularly

Asset allocation

Dividends matter

Keep at Least Half in Stocks

# Productive Aging: The Boomer Act III



Boomers Won't Settle for:

Personal diminishment

Dependency

Social isolation

Stagnation



# Predictors of Late-life Happiness



## Before Age 50:

- No substance abuse
- Stable primary relationship
- Active life
- Continuous education
- Mature coping skills

Things to Do Now to Age Well

# Steady Saving is the Key to Wealth



Spend *less than you earn*

Get Professional Advice

# Boomers Redefine Retirement



Work longer

Widen social radius

Have purpose and fun

Give back

Optimal Brain Development Requires Almost a Lifetime



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