Wealthy Retirees Hit Harder

Clients who earn big lose most after they retire, according to StatsCan

BY BRYAN BORZYKOWSKI

Your wealthy clients might have more money now, but expect their income to decline significantly – at least compared to that of low-income earners – during their retirement years.

A new Statistics Canada report says that, on average, 75-year-old Canadians had "family disposable incomes" that were 80% of what they earned when they were 55.

High earners, which Statistics Canada defines as workers in the top 20% of income distribution at age 55, replaced 70% of their income in their 70s, while lower earners saw almost no change between their pre-retirement income and the money they have at age 75.

"Essentially, for low-income people, a lot of their income is replaced by the government pension plan," says Cynthia Kett, a CFP with Stewart & Kett Financial who has a lot of boomer clients. "At the higher income level, the client group we tend to serve, that makes up a very small portion of total retirement income, so it wouldn't make much of a dent."

According to the survey, which followed retirees from 1983, when they were 55, to 2004, when they were 76, families who still made about $90,000 a year after taxes at age 75 got 40% of their income from private pensions or RRSPs. Investments and capital gains made up about 28%, while 18% came from public pensions or Old Age Security.

> Wealthier people have a hard time making up their enormous, pre-retirement salaries.

Families who ranked among the poorest 20% of Canadian workers at 55 experienced "little change in their incomes as they aged," says the report. They were able to maintain almost 100% of their disposable income because their previous earnings were replaced by the Canada Pension Plan, Old Age Security and the Guaranteed Income Supplement.

With these income replacement vehicles, the low-income families that were surveyed had about $30,000 a year to spend on their retirement needs.

Kett speculates that the main reason that the income of high earners drops significantly in retirement is that wealthier people have a hard time making up their pre-retirement salaries.

"It's very difficult for many of them to even come close," she says. "The income of the highest-income earner might fall from anywhere between 50% to 80%. The lifestyles of the highest-income earners are most vulnerable if they don't properly prepare for it. Yes, they'll still live an above-average lifestyle, but if they don't want to have any change in pre-retirement lifestyle, then that takes some planning."

Another aspect of the study surrounded "income instability." The report says that among workers with average wages, family disposable income "fell after the age of 60, declined until 68 and then stabilized."

Lower earners felt this income instability most between ages 55 and 65 but saw their cash flow even out by the time they hit retirement. Higher earners were affected by income fluctuation far longer, until about age 75, when things finally calmed down.

"When people first retire, sometimes they do other things that might generate earned income for a little while," says Kett, explaining why wealthy people's incomes are unstable during their initial retirement years. "By the time they get to 75, they say enough is enough and they don't do work for pay. I think this highlights the need to plan for retirement, especially for those in high income brackets."

She says many high-income earners don't have access to pension plans because they're either self-employed or professionals who don't participate in a plan, so their retirement income depends a great deal on investments.

Therefore, planning is key. Statistics Canada says "the degree for financial well-being experienced by seniors will likely become an important issue. The extent to which an individual's income at, say, the age of 55 is replaced throughout the retirement years is an important aspect of maintaining a pre-retirement lifestyle."

"The thing I get most out of this is that at all ages, it's important to be doing the planning," says Kett. "And if that's what we learn out of this report, then that's great." AER