

Decumulation World Tour: Learnings From Different Retirement Markets



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Why Decumulation is like Bohemian Rhapsody

What is decumulation?

- Retirement income is hard enough . . .
- Did we really have to use a word with **five** syllables?!
 - In the company of appendicitis, subterranean, synchrocyclotron
- Around the world, we see:

**decumulation = lifetime income =
retirement income = spendings phase**

(take your pick!)



“What have I done to Deserve This”



Canadians have been encouraged to save more due to the global decline in traditional workplace defined benefit (DB) pension plans



This push has been met with success: these individual retirement savings accounts now hold more than \$1.5 trillion nationwide.



The challenge now becomes turning accumulated lifetime savings into lifetime income

Source: MacDonald, B.-J., Sanders, B., Strachan, L., Frazer, M. (2021). Affordable Lifetime Pension Income for a Better Tomorrow. How we can address the \$1.5 trillion decumulation disconnect in the Canadian retirement income system with Dynamic Pension pools. Toronto, ON: National Institute on Ageing, Ryerson University and Global Risk Institute.

What makes decumulation so hard?

Maintain my quality of life.

Not needing my family to support me in retirement.

Not running out of money before I die.

My retirement savings keep up with or outpace inflation.

Being able to retire early.

Being able to cover my monthly expenses.

Trust an advisor to manage my retirement savings.

Having savings outside of retirement savings account.

Being able to get my money back.

Low fees.

Consistent monthly payments in retirement.

Growing my retirement savings.

Social Security will still be available in my retirement.

Preserving my retirement savings.

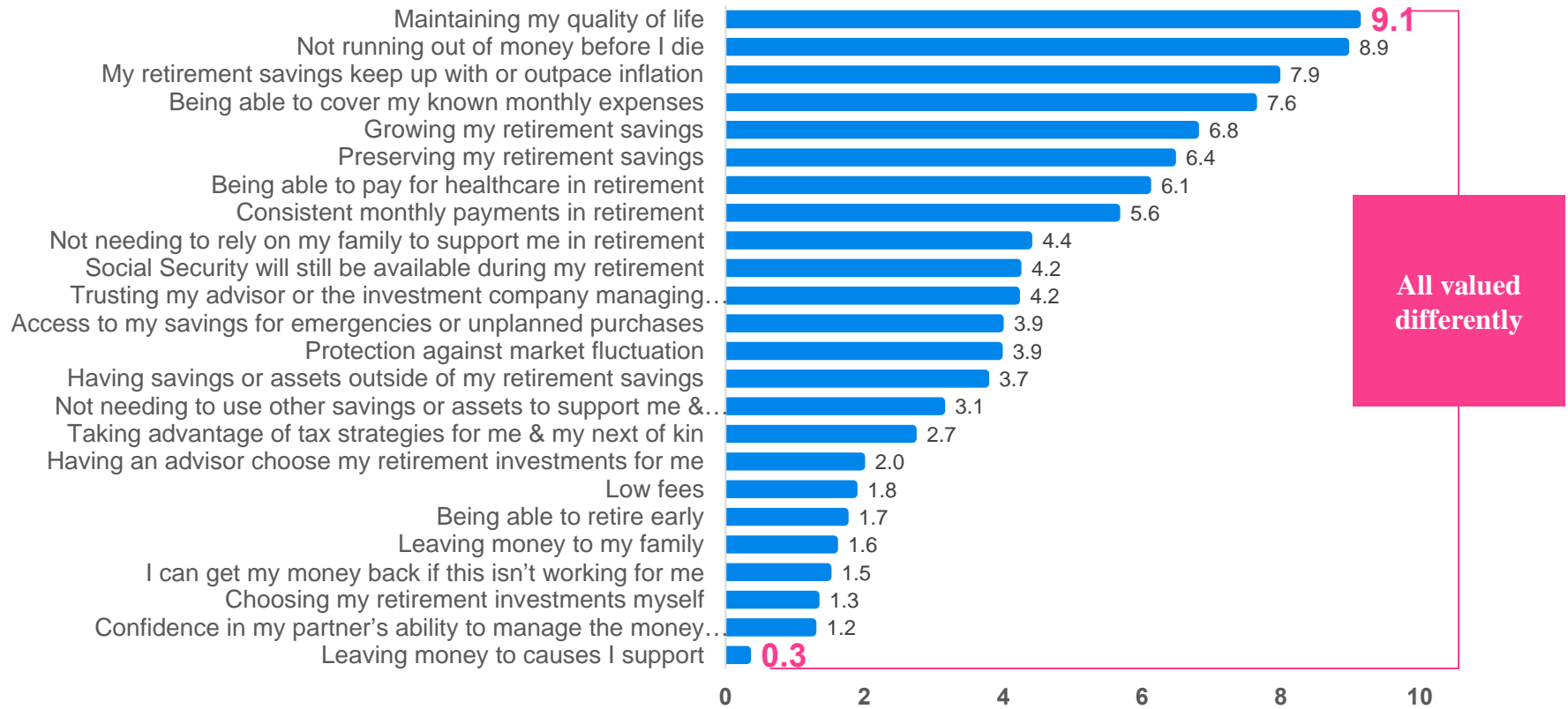
Being able to pay for healthcare.

Access to my savings for emergencies.

Leaving money to my family.

Protection against market fluctuation.

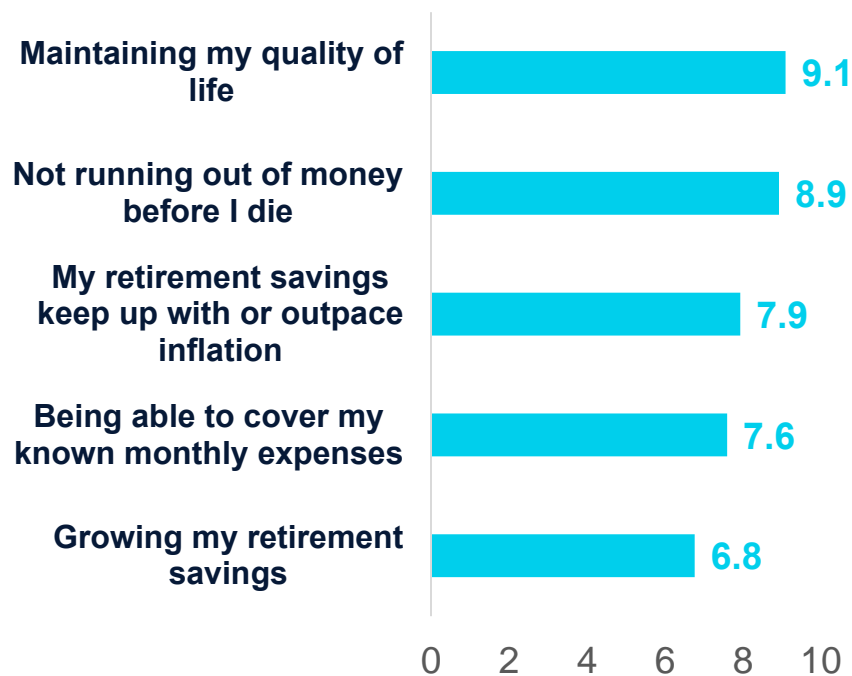
We are solving for many wants in decumulation



Source: T. Rowe Price, 2024 Exploring Individuals' Retirement Income Needs and Preferences. Q: Now let's think about your retirement savings, how you want to generate income from your retirement investments, and how you prioritize certain aspects of preparing for and living in retirement.

Sorting out “must have” versus “nice to have”

What’s **important** (top 5)¹



What’s not **important** (bottom 5)¹



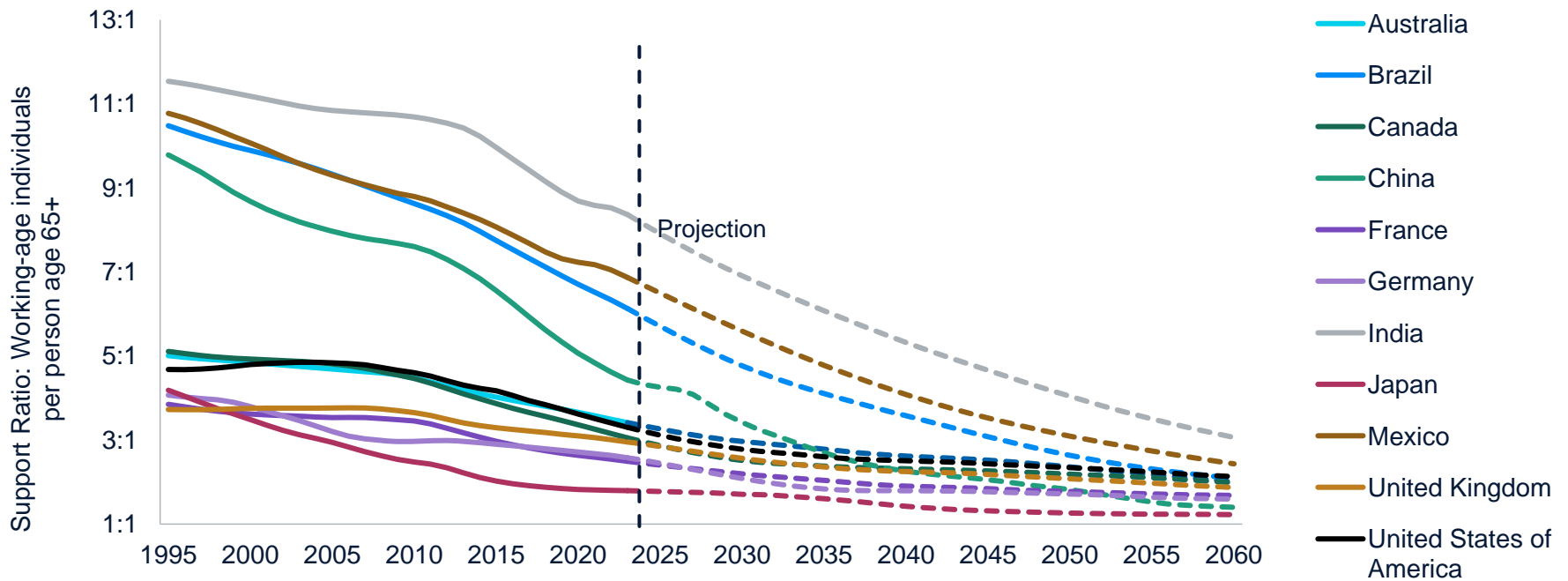
Source: ¹T. Rowe Price, 2024 Exploring Individuals’ Retirement Income Needs and Preferences. Q: Now let’s think about your retirement savings, how you want to generate income from your retirement investments, and how you prioritize certain aspects of preparing for and living in retirement.

“We Are the World” Aging Demographics



“Forever young” – not true!

Support Ratio



- The decline in the working-age population has direct implications for retirement systems.

Actual outcomes may differ materially from estimates. Estimates are subject to change.

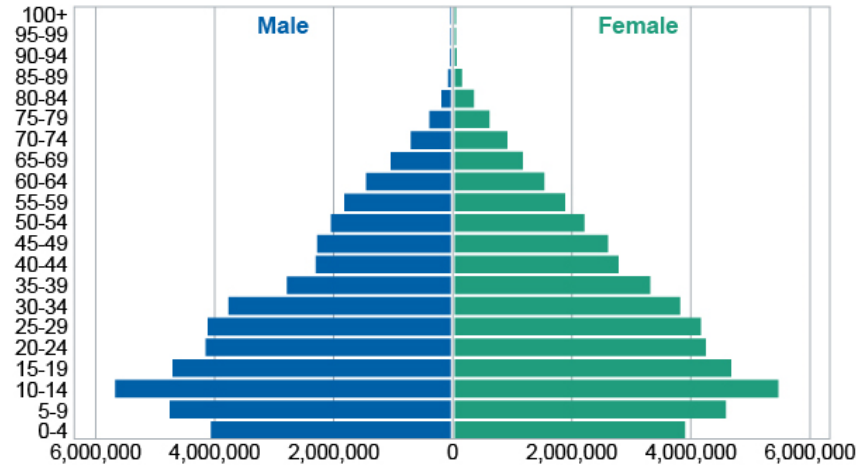
Source: Modified from United Nations, Department of Economic and Social Affairs, Population Division (2022). World Population Prospects 2022. Custom data acquired via website: esa.un.org/unpd/wpp/.

Support Ratio: working age population (age 25-64) per person age 65+.

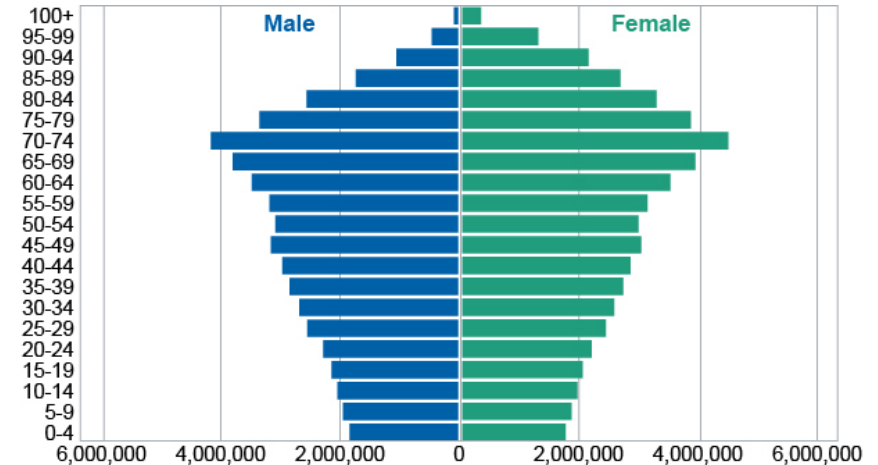
“Love and marriage” – not so much on the marriage

Japan’s demographic—population is shrinking

1960



2045



- Japan is aging fast. More than 1 in 10 people in Japan are aged 80 or older.¹

Actual outcomes may differ materially from estimates. Estimates are subject to change.

Source: Statistics Dashboard, <https://dashboard.e-stat.go.jp/en/pyramidGraph?screenCode=00570®ionCode=00000&pyramidAreaType=2>, Government of Japan. Data for 2045 is a projection.

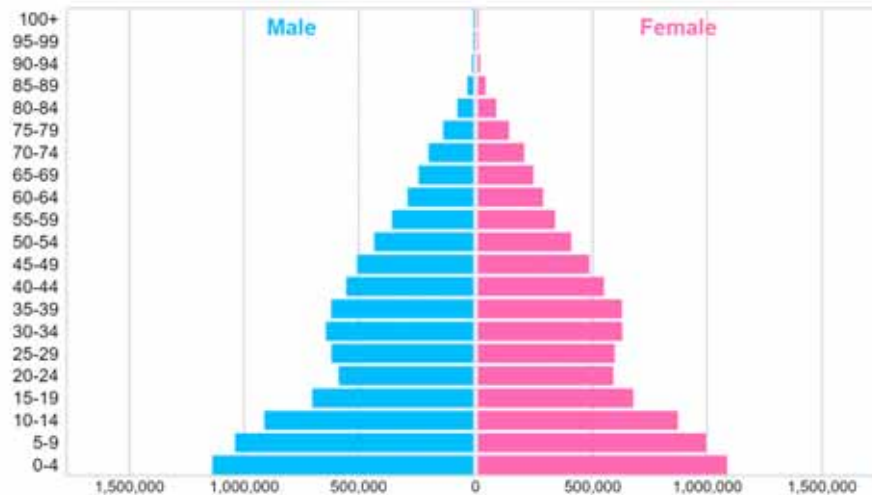
Paper, European Parliamentary Research Service, December 2020, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659419/EPRS_BRI\(2020\)659419_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659419/EPRS_BRI(2020)659419_EN.pdf).

¹ World Economic Forum, September 2023, <https://www.weforum.org/agenda/2023/09/elderly-oldest-population-world-japan/>.

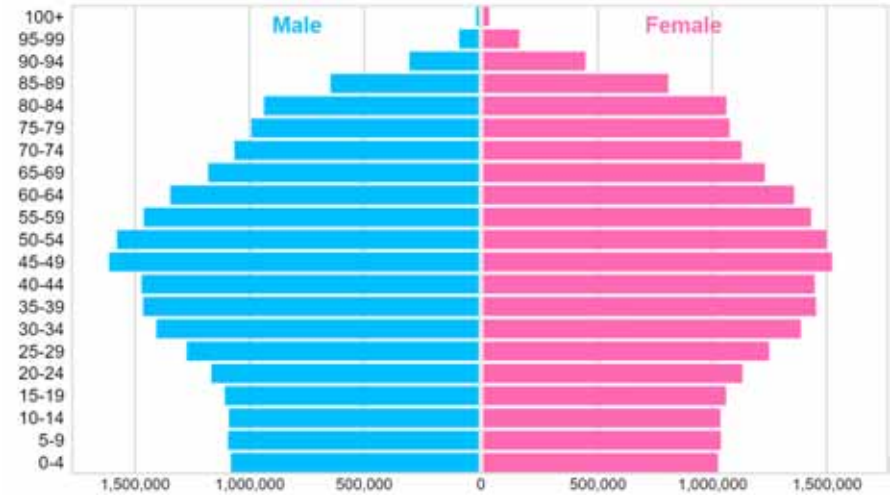
“Come together”

Canada’s demographic—population is growing

1960



2045



- 2023 was the highest growth rate since 1957. Fastest growth in the 30-34 age group due to immigration.¹

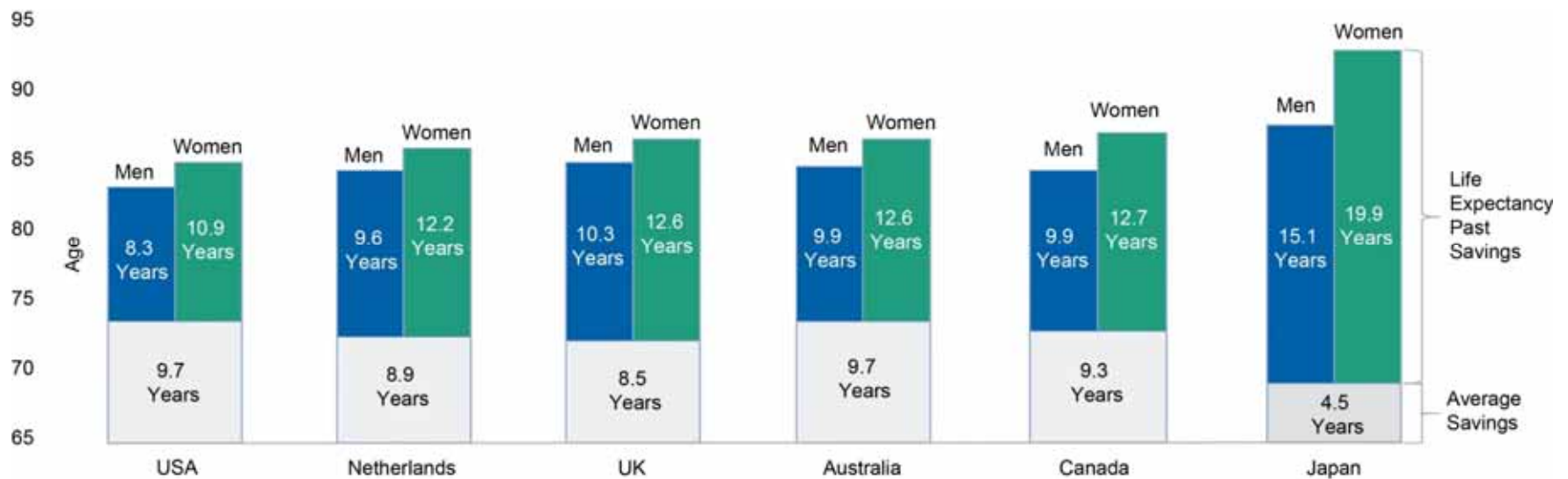
Actual outcomes may differ materially from estimates. Estimates are subject to change.

Source: Statistics Dashboard, <https://dashboard.e-stat.go.jp/en/pyramidGraph?screenCode=00570®ionCode=00000&pyramidAreaType=2>, Data for 2045 is a projection.

¹ Annual Demographic Estimates: Canada, Provinces and Territories 2023. Statistics Canada. <https://www150.statcan.gc.ca/n1/en/pub/91-215-x/91-215-x2023002-eng.pdf?st=XLdGaSsV>

“Under pressure”

Retirement Savings Deficit



- As many live longer, savings have not kept pace.

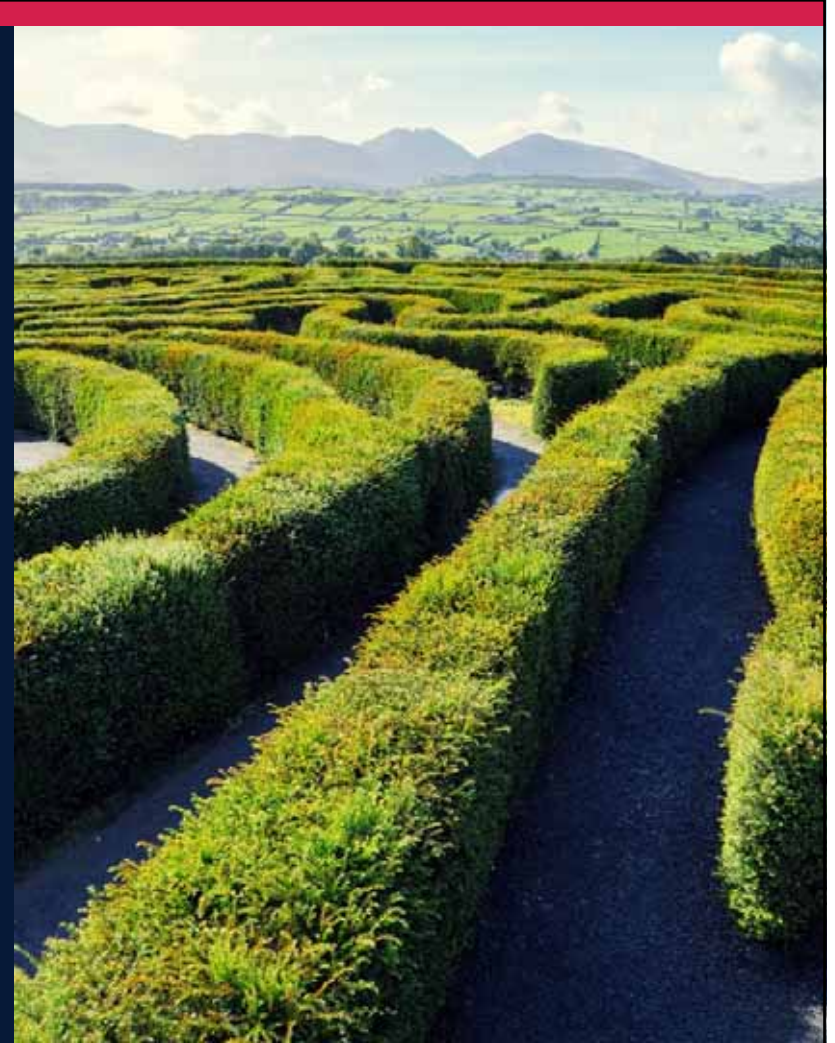
Actual outcomes may differ materially from estimates. Estimates are subject to change.

Source: World Economic Forum Analysis, White Paper, Investing in (and for) our Future, June 2019. <https://www.weforum.org/publications/investing-in-and-for-our-future/>.

Retirement Savings Deficit: Years saved vs life expectancy. Average savings per country at retirement, calculating how long that would last based on a reduced income of 70% of final pay.

“The long and winding road”

Different countries are taking different paths



“Around the World” – Four case studies

Let's walk through the different approaches of...

Japan

**United
States**

Canada

Australia

Japan: "Here comes the sun"

Structural Shift from DB to DC

More and more sponsors are tilting toward DC as pension plans

Increase in Contribution limit

Government has been expanding DC contribution limit allowed by sponsors

Target date fund as default option

Default option scheme in Japan is still in progress for improvement

of participants in corporate-type DC increased from 4.4mil in 2013 to 8.1mil in 2023

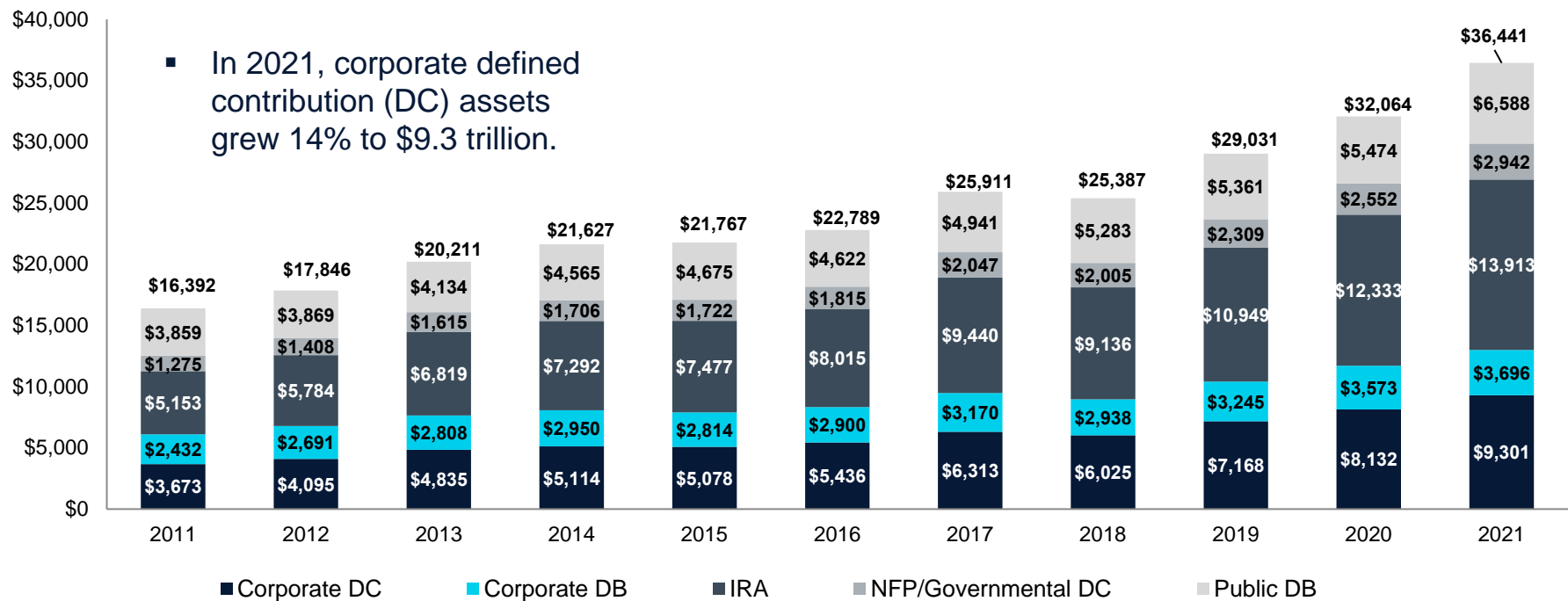
Raising the limit will be considered in conjunction with the Financial Verification of Public Pension Plan in 2025 (effective from 2027 at the earliest)

"Progress Report" by FSA emphasizes the need to make having default option mandatory with guidance on "appropriateness" of choice (diversification, beneficiary's age, cost etc.) Currently unclear but can be a "game changer", bringing TDF to mainstream

Source: Ministry of Health, Labour and Welfare. <https://www.mhlw.go.jp/content/000520816.pdf>

US: "The Times They Are A-Changin'"

Historical Retirement Market Assets by Segment, 2011–2021 (\$ billions)



IRA – Individual Retirement Account
 NFP or Not- For-Profit – an organization that does not earn profit for its owners. All money earned through pursuing business activities or through donations goes right back into running the organization

Sources: Cerulli US-Retirement Markets 2022. Exhibit 1.02 - Historical Retirement Market Assets by Segment, 2011-2021 (\$ billions)

US: "Should I Stay or Should I Go?"

Three main categories of retirement income solutions



**Target date
solutions with
retirement income
component**



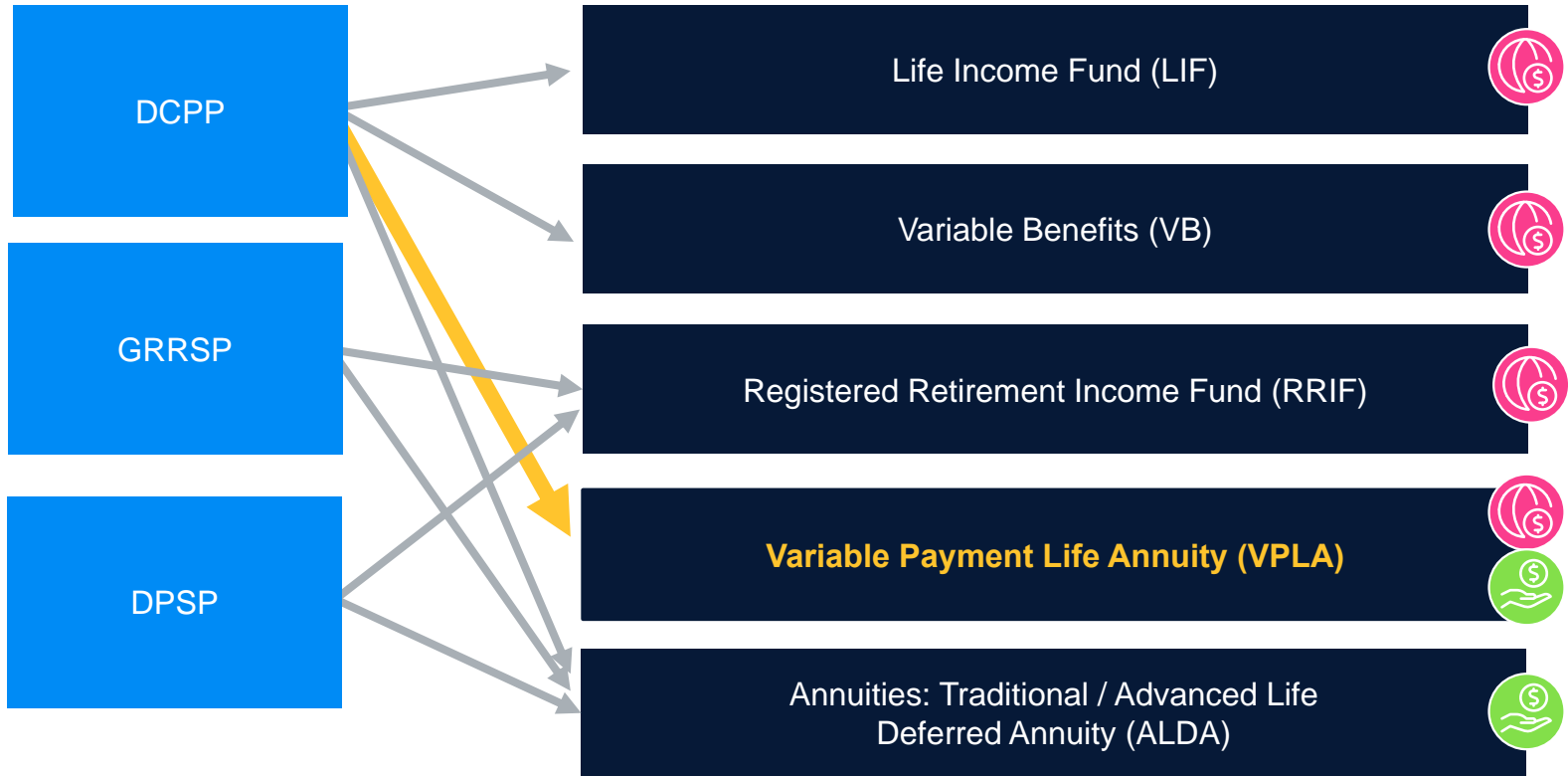
**Standalone
guaranteed
solutions**



**Personalized
solutions**

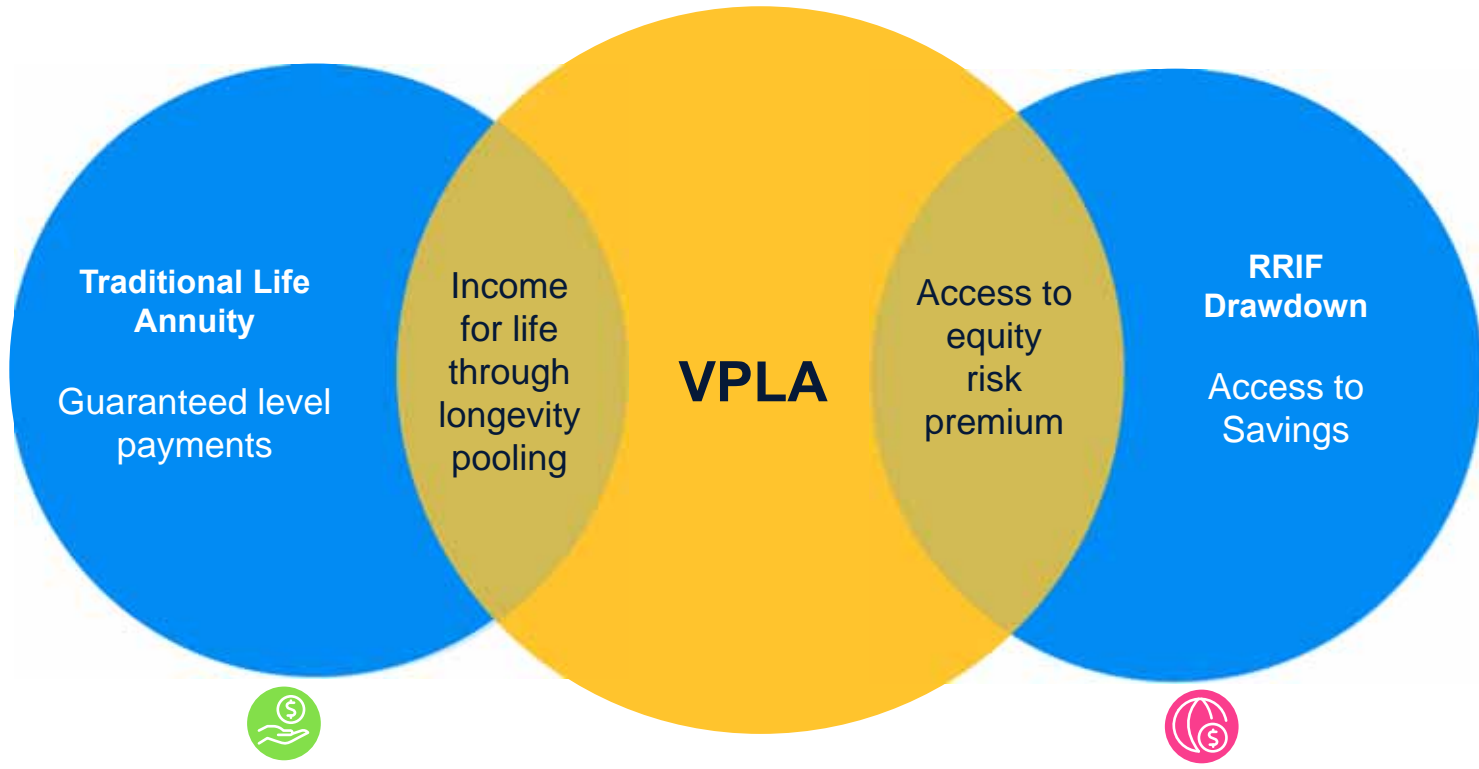
Canada: “Lost Together”

The decumulation landscape



DCPP: Defined Contribution Pension Plan
GRRSP: Group Registered Retirement Savings Plan
DPSP: Deferred Profit Sharing Plan

Canada: “(You’re a) Strange Animal”



Source: MacDonald, B.-J., Sanders, B., Strachan, L., Frazer, M. (2021). Affordable Lifetime Pension Income for a Better Tomorrow. How we can address the \$1.5 trillion decumulation disconnect in the Canadian retirement income system with Dynamic Pension pools. Toronto, ON: National Institute on Ageing, Ryerson University and Global Risk Institute.

“Down Under” – Australia: By government fiat

The problem:

Purpose of the superannuation system is to provide income to the Australian community in retirement...

...but the Retirement Income Review revealed many Australians die with the bulk of the wealth they had at retirement intact.¹

The solution (?)

Retirement Income Covenant:
Requires all APRA regulated super funds to have a documented strategy to identify the retirement income needs of fund members, and to develop a plan to service those needs. (July 2022 initial deadline)

Source: ¹<https://www.apra.gov.au/information-report-implementation-of-retirement-income-covenant-findings-from-joint-apra-and-asic>

“Mystify” – Lifetime Pension

Australian Retirement Trust (ART) is one of the largest super funds, with 2.3 million members

What a Lifetime Pension offers



Income for life

Fortnightly payments for the rest of your life



Optional spouse protection

Payments continue if you pass away



Higher income

Market linked with an annual adjustment¹



6-month cooling-off period

Providing time to decide if its right for you



Potential age pension benefits

Assets assessed different for means testing



Money-back protection

Receive at least your money back as income or death benefit

¹ Income can go up or down depending on pool performance

² Subject to a legislated maximum in limited circumstances.

<https://www.australianretirementtrust.com.au/>

- Key Takeaways

“End of the Road”



A shifting balance | Key takeaways – “Don’t Stop Me Now”



Irreversible global mega trend: the population is ageing, at a faster pace now than before.



Retirement savings gap: anticipated to grow, unless we take action.



We see increasing responsibility to prepare for retirement and opportunity to invest in, and for, our future.

**Your Feedback Is Important.
Please Scan This QR Code.**



Session Evaluation

That's a (w)rap!



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