Is longevity risk significant in Canada?

The short answer: Longevity risk is a relatively minor issue for individuals in Canada as social programs already pool a large part of these risks.

The Facts

Only 5 percent of Canadian households that are on track for retirement are exposed to longevity risk. Seventy-eight percent of working Canadian households are on track for a secure retirement based on current life expectancy.

Lower-income households are well protected, as they rely primarily on annuitized government benefits. High-income households are more exposed, as a smaller portion of their assets is annuitized; however, some households may be wealthy enough to mitigate the financial risk related to longevity.

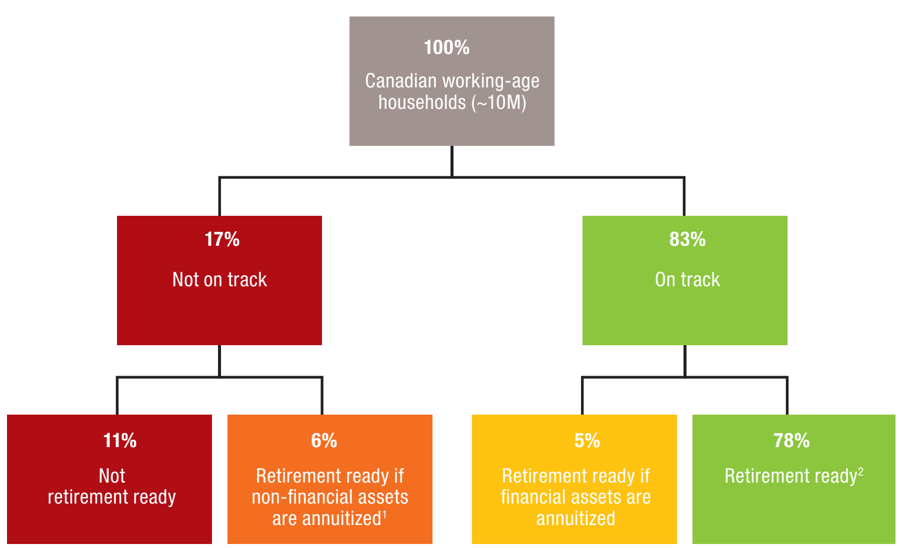
Conversely, of the 17 percent of households that are not on track for retirement, 6 percent could get back on track if they monetized and annuitized up to 50 percent of their home equity.

The Implications

Longevity risk is a relatively minor issue in Canada since social programs provide annuitized income and cover healthcare costs for retirees. Higher-income households that are on track for retirement can use financial products to increase the annuitization of their assets and mitigate their higher longevity risk.

Exhibit

6% of Canadian households could get on track for retirement by annuitizing 50% of their non-financial assets



[1] Assumes 50% monetization of home equity.

[2] Could live until 95th percentile of life expectancy at age 65 without annuitizing savings.

Source: McKinsey Retirement Readiness Survey 2014