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Young people worried about retirement: Don't get mad, get saving

By Roma Luciw
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Financial experts say the OAS changes are not crushing. "As retirement events go, this is more a tremor than an earthquake."

When William Lem, 24, thinks about the recent bump up in Old Age Security age eligibility, he feels angry, frustrated and discouraged.

"With this cutback, I know I will need to put away that much more - and I still need to pay off all of my debt. It just makes me want to give up."

The main source of his financial frustration is a $20,000 debt load. Half of that is from student loans and the rest of it from what he calls "stupid" consumer debt, including four maxed-out credit cards.

The debt has forced Mr. Lem, who runs a small business as a videographer, to move back into his parents' Bolton, Ont., home. Looking ahead, he knows he won't be in the same boat as his father, who he says has worked at the same company for 25 years and can retire at the age of 58.

"I don't have a pension plan," Mr. Lem says. "And I would love to put $100 a month into an account that I won't touch until I am 60, but that $100 is paying off the interest rates on four credit cards and my student loan."

Young Canadians, a generation saddled with record high student debt and facing an expensive housing market, tight job prospects and stalled earnings, are still absorbing news that they might need to work two years longer than their parents.

The latest Conservative federal budget calls for the eligibility age of OAS and the closely tied Guaranteed Income Supplement to rise from 65 to 67, over a span of six years starting in April, 2023.

What that means is that if you are 54 or younger and decide to retire at 65, you'll be getting $13,000 less. Not everyone qualifies for the OAS benefit: If you earn more than $69,562, you must repay some of it. If you make more than $112,772, the full amount is clawed back.

So what steps can low-to-middle-income earners, like Mr. Lem, take to adjust their financial plans?

Caring for Clients financial planner Rona Birenbaum has stopped incorporating OAS into the retirement projections of anyone under the age of 40 - in part because she believes it could be clawed back further.

"As a conservative approach, we are now taking it out entirely," Ms. Birenbaum says.

The maximum amount Canadians can receive in OAS is $540.12 a month, which works out to more than $6,000 a year. "That can make a big difference in a retired person's life. So taking this out of retirement projections, it is no joke," she says.

The solution to the OAS cutback is simple: Young Canadians need to save more. "It means reviewing your cash flow and finding ways to allocate more of your income toward reducing debt and saving for retirement," she says.

The challenge, Ms. Birenbaum says, is that younger Canadians are "a demographic that loves to live well, that will live longer and will be more responsible than ever for funding their retirement lifestyle," she says. "I don't think it is a panic situation, but it requires some focus on planning."

Today's twenty- and thirtysomethings don't believe the government is going to take care of them in their old age, Ms. Birenbaum says.

"I have had more young people approach me for financial plans than ever in my 20-year career. These are people in their late 20s and early 30s who want to make good decisions now and are not willing to wait until they are 55 and hope for the best."

Malcolm Hamilton, an actuary at Mercer Human Resource Consulting and an expert on Canadian retirement saving, says that for most people, the changes are not crushing. "As retirement events go, this is more a tremor than an earthquake."

What it means, is that anyone under the age of 54 who wants to retire at 65 and replace the missing OAS benefit, will need to save an additional $13,000, he says. For someone who earns $50,000 a year, for instance, that translates into an extra three months on the job.

Low-income earners, those who do not make enough during their working lives to save for retirement and rely on government benefits like OAS, will be most affected.

"People in this category, it means their lives will not become pleasant until 67 instead of at 65," Mr. Hamilton says.

Tina Di Vito, the head of BMO's Retirement Institute, says the best thing young Canadians can do is to get informed, start thinking about where their retirement income will come from and if possible, set aside even small amounts at an early age.

Ashley Winsor, a 32-year-old Labrador native who now calls Fort McMurray, Alta., home, is not expecting the government to prop him up in his golden years. "I feel that I will need to actively save if I want to retire at a decent age," he says.

Mr. Winsor, a shuttle-bus driver, and his wife are almost debt-free and want to get their retirement plan on track before they start a family. "I want to make sure that when we do decide we want to retire, we can live comfortably without having to rely on the government system, because who knows if that will be around when I am in my 60s."

Will the OAS changes impact you? Vote in our poll [http://www.theglobeandmail.com/globe-investor/personal-finance/retirement-rrsps/vote-do-the-oas-changes-affect-you/article2392178].

What young people can do right now to get their retirement on track

Tina Di Vito, the head of BMO's Retirement Institute and the author of *52 Ways to Wreck Your Retirement*, has these six suggestions for young people wondering how to set themselves up for their golden years:

1. Contribute early
Contributing $5,000 every year - growing at 5 per cent a year over a 30-year period - will build to nearly $350,000. Total contributions of $150,000. (The same annual contribution of $5,000 and return of 5 per cent over only 20 years grows to approximately $174,000 with $100,000 of contributions.)

2. Set up automatic payments
The change in OAS means Canadians will receive about $13,000 less. So a 25-year-old will need to save an additional $325 annually. The sensible way to save is through smaller, regular contributions (rather than a lump sum). Set up monthly payments of approximately $30 a month.

3. Educate yourself about your employee pension plan
It is more important than ever to understand and take advantage of employee retirement plans. Many workplace pension plans offer various options, such as employee matching programs, or features like automatic enrolment and auto-escalation of contributions.

4. Balance debt repayments with savings plans
If you have a lot of high-interest debt like student loans or credit cards, it's best to pay those off first. If debt is manageable and low-interest, like on a mortgage, balance your budget between saving for retirement and debt repayment. Paying down your debts should be the priority because once you are debt-free you can allocate the extra funds to retirement savings.

5. Remember tax-savings strategies
OAS is a taxable pension benefit. As an alternative, contribute the maximum amount of $5,000 a year to a Tax Free Savings Account. According to a BMO study, the average TFSA contribution is $3,700. Upping the amount over a 10-year period gets you another $13,000, equal to that $13,000 OAS loss.

6. Keep in mind where you live
To be eligible for OAS, you must be a Canadian resident for a minimum of 40 years after 18 years of age. A few exemptions apply. If you have an opportunity to travel or work abroad, keep in mind how many years you will have been a Canadian resident before retiring if you plan on receiving OAS benefits.

Roma Luciw [http://www.theglobeandmail.com/authors/roma-luciw] is the Globe Investor personal finance [http://www.theglobeandmail.com/globe-investor/personal-finance] web editor. She also writes for the Home Cents [http://www.theglobeandmail.com/globe-investor/personal-finance/home-cents] blog.