Stock market crash may force some investors to postpone retirements, say experts

The Canadian Press April 2, 2020

TORONTO — The biggest market downturn in more than a decade has rattled nerves and may ultimately force some investors to postpone their approaching retirements, say experts.

"I do see that this is going to be impactful for the average Canadian out there because you know, not everybody, unfortunately, plans," says Chris Gandhu, vice-president high net worth planning for TD Wealth Advisory Services.

A well-developed plan designed years before the expected date of retirement can help to control these "black swan events."

Even those that should be good on paper, including Gandhu's mother, may feel anxious about their plans.

"I think she's in a decently good spot. But of course, she's rethinking everything and wondering whether she needs to work a bit longer," he said from Calgary.

The TSX/S&P Composite Index is down 25 per cent from its record high after losing as much as 38 per cent of its value in a little over a month as markets were rattled by the economic impact of the novel coronavirus.

The swift market plunge has prompted workers to re-examine their plans to see if their post-retirement goals have changed.

For example, those with dreams of travelling in the first couple years of retirement may no longer feel comfortable doing so because of the global pandemic.

"I don't know if many people are going to be looking to take a cruise in the next year or two," said Ed Lee, vice president of Morneau Shepell's retirement practice.

Even the most conservative investment strategy has netted a significant retirement cushion over the 12-year bull run but also fostered a sense of complacency.

Adjusting expenses until a recovery occurs may be an alternative to delaying retirement, says Manmeet Bhatia, head of private wealth Franklin Templeton Canada.

"You might want to extend your working years a little longer, but you also may want to look at your spending habits," he said.

He said investors can't count on a quick recovery. That's especially true for sectors such as the hospitality industry that could face significant layoffs.

Bhatia said the best way to control large swings in the equity market is through a balanced portfolio that consists of equities, fixed income, a multitude of sectors and geographies.

"The reality is there's going to be major corrections that can occur at inopportune times — you know exactly like what we're facing now," he said.

The situation is likely to be more stressful for those with defined contribution pension plans, rather than defined benefit plans that guarantee a retirement payout regardless how markets perform.

"The current market problems are much more impactful to people that are much closer to retirement, because those are the people that may be need the market to return to normal in three or six or nine months, but it might take two years for the market to fully rebound, to where it once was," said Joseph Nunes, co-founder and executive chairman of Actuarial Solutions Inc. and author of a paper entitled “The Power of Postponed Retirement.”

Nunes suggests that the Canadian government should extend the age to invest in tax-sheltered securities to 75 from 71.

In the meantime, Finance Minister Bill Morneau has addressed the impact of the virus on older investors by reducing the minimum withdrawal from registered retirement income funds by 25 per cent in 2020.

"It was an acknowledgment that forcing people to get money out of their retirement savings at age 71, 72, etc, especially when the markets have taken a hit is not necessarily in everyone's best interest for the long haul," Nunes said in an interview.

Baby boomers aren't always the most financially secure despite their long employment records.

They account for one out of eight consumer insolvency filings in Canada and have seen the largest increase in filings in the past five years, said Pierre Fortin, CEO of insolvency firm Jean Fortin & Associates.

And now they will be among the most financially affected by job losses due to COVID-19 because as the most susceptible to contracting the virus, they may be forced to remain at home and would be the first to be laid off.

While this cohort would have had an easy time in the near full-employment pre-COVID labour market, they will face stiff competition from many younger people looking for jobs if their employers cease operations.