Royds Report
October 2025

Topics in this Newsletter

Retirement Outlook

Fidelity interviewed 2000 Canadians approaching retirement or in retirement to find out their views. This is a summary of what they found out: "Compared with two decades ago, the idea of retirement in 2025 is more complex, financial and otherwise. Whether it's greater support for the next generation, exploring flexible work arrangements or just saving more to cover higher living costs, most Canadians agree that retiring today is different." Retirement doesn't necessarily mean stopping work altogether. And **many retirees, particularly those not born in Canada, feel they are going to have to support their children in retirement**. **This is part of the reason why the income retirees desire today has grown way faster than inflation. The other reason is that the idea of what a comfortable retirement has changed. It includes more travel and more luxurious living**. In 2005, the desired family income was $52,800/yr. By 2025, the amount had grown to $93,300. The amount of savings Canadians felt they would need grew from $447,000 in 2005 to $1,020,000 in 2025. Part of the reason Canadians feel they need more capital is because they are aware of longevity risk. People are living longer, so they need capital to last longer. Also, with interest rates lower today, Canadians expect that they'll need more capital to generate the same amount of income. The average amount of pension income paid to households over 65 is $36,500. This means **the average household, according to this study, needs to have employment pension and withdrawals of income and/or capital from their savings totalling $56,800/yr**. Retirees have a less positive outlook about retirement than they used to have in 2015, and women have a less positive view than men.
The **average age of retirement between 2005 and 2025 has increased from 61.4 to 65.3, with 16% of the pre-retirees interviewed not expecting to retire at all**. Source: 2025 Fidelity Retirement Report Helping Canadians Think About Retirement, 20th Edition.

Determinants of When You Can Retire – And Teach Your Kids This!

One of the most interesting newspaper articles we've read in years was written by the Authors of "Quit Like a Millionaire" who retired in their 30s. It outlines the determinants of **when a person can retire**, and they have **nothing to do with age or how much money you earn**. We totally agree with the article. So here are the main points from the article in plain language.

A key determinant is a number the authors call “the savings gap” which is the percentage of your after-tax, take-home pay that you save towards retirement each month. The higher the percentage, a) the lower the percent you are living on (so presumably the less money is needed to maintain your usual standard of living in retirement,) and b);the quicker your savings build up to provide retirement income later.

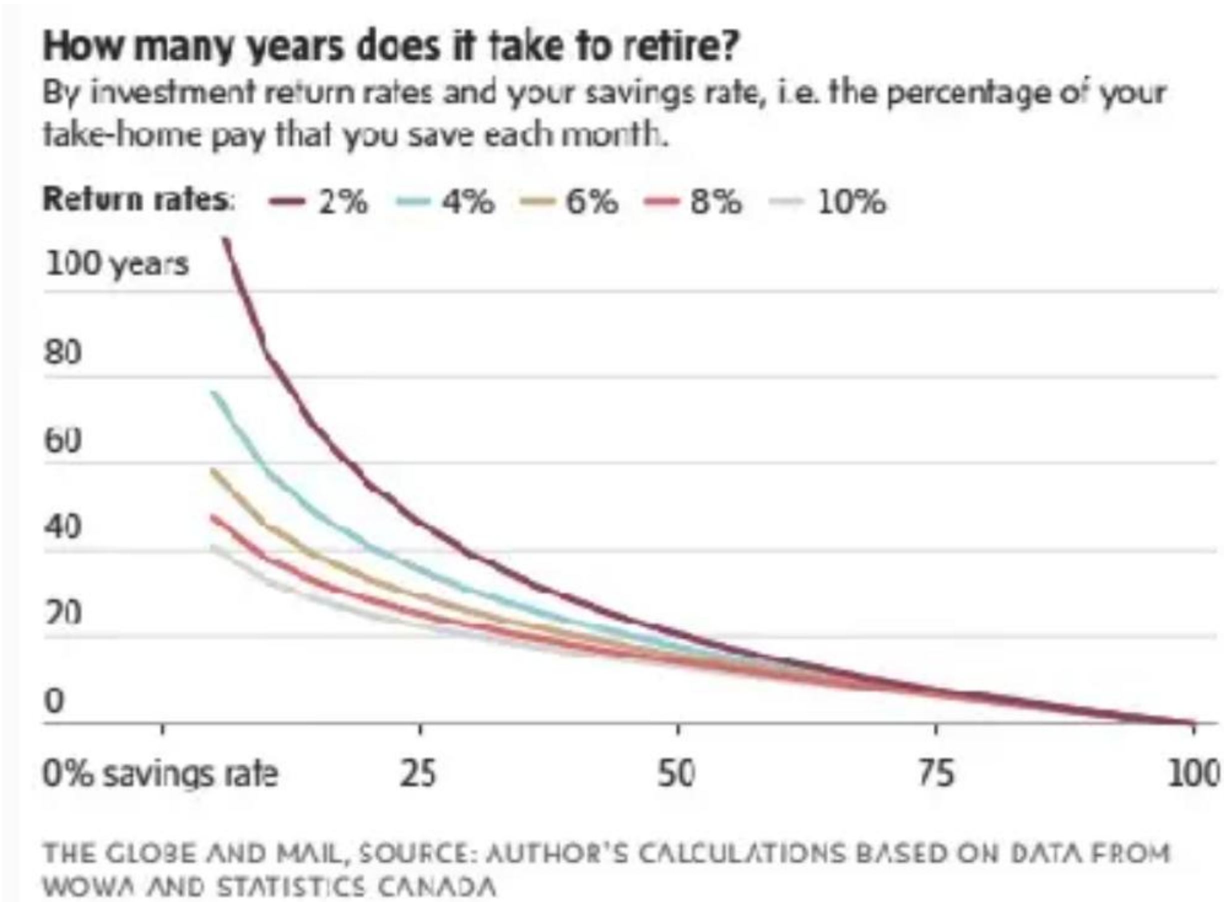
The second key factor is how much you earn on your savings. Obviously, your earnings on your investments affect how fast your savings grow, but also, it could provide some insight into what your earnings rate might be in retirement, and therefore how much you could afford to live on. After all, if you had a 2% annual earnings rate through 30 years of your work life, it’s unlikely that you might take more risk or accept more volatility in retirement, when your savings are irreplaceable, and start earning double or triple or more than that much.

As a side note, it is interesting how the authors describe rates of return. They expect a reasonable rate of return for a conservative investment portfolio to 6%, and 10% to be more characteristic of an “aggressive stock-based portfolio”.

The authors point out that being 50 puts you no closer to being able to retire than being 30, if you’ve been spending all you earn and not saving. Similarly, a person earning $300,000/yr can be in financial trouble, because they spend as much as or more than they earn, and a person earning $50,000 can be well on their way to financial security, because they have lots of savings and spend well less than they make. Age and income level are not determinants of retirement readiness.

“According to Statistics Canada, the median income for a couple with kids is $134,600, which translates to about $110,000 after taxes, and according to Wowa.ca, the monthly cost of living for a family of three in Toronto is $5,305 a month, or $63,660 a year. This should translate to an average household savings gap of around 42%. Yet in reality, the average Canadian household savings rate in 2025 is just 5.7 per cent. … most people’s savings gap doesn’t get better even as they make more money ,” What can we learn from this? One, we can actively decide to keep our spending the same, if we get a raise, and we can save the extra money to get ready for retirement faster. Two, we can look at our spending needs and set up an automatic savings plan for the difference between your after-tax earnings and your spending needs. That way, your savings gap will automatically go into investments unless you go out of your way to stop it. The savings are more likely to happen that way.

The authors published a chart in their book, also in the G&M article, to show when someone can retire. There is nothing on the chart about age or income. This isn’t a very clear copy of the chart from the newspaper, but it will give you an idea. (The book is available for borrowing from the library online loan system called Libby.)



You find your savings rate along the bottom and look straight up to the coloured line which reflects your rate of return. Then you read across to the left to see how many years you would have to work, given that savings rate and that rate of return, till you could retire. So, if you save 25% and make 4%, you could retire in just under 40 years. If you make 10% returns on your investments, and save that same 25%, you could retire in just over 20 years.

Would you have changed your habits from the very start of your working life, if you had known what a difference regular savings or greater savings could have made to your later life, or if you'd known not to be satisfied with only GIC or savings account rates of return? Do you need to change your habits now? Are you going to get where you want to get to, if you don't change? If you have children, a copy of the book, "Quit Like a Millionaire", might make a perfect graduation present for anyone you want to get started off on the right foot. The book could be a bit of motivation to save or a roadmap for getting to the point of having a choice whether to work or not. So many times, we've had clients say to us, "why didn't our parents teach us about finances when we were young". This book could keep your kids from saying that when they're 50. Source: Shen, Kristy & Leung, Bryce (2025, Jul 18). When you can retire is determined by this number, and it's not your age, The Globe and Mail.

A Different Way to Think About Market Timing

Did you ever buy something you were later disappointed with, but then feel you had to use it anyway (finish eating the dry cake or reading the boring book etc.), because you'd already paid for it? That's an example of how people treat sunk costs. If you don't fully use whatever you already spent your money on, then you might have to admit to yourself that you made a mistake in buying it. Something similar often happens **when investing or buying real estate. You buy something with the expectation of making money on it. When it falls in value, you don't want to sell it, until it has at least recovered to the price your paid for it. Again, it's trying to avoid admitting that you made a bad investment, made a mistake. This isn't very logical, even if it is very human. We should be looking ahead to see where will be make the most money. Do we want to wait 5 years for what we bought to bounce back 10% to the price we paid of it, or do we want to invest in something that has the potential to make us 40% over the next 5 years?** To quote Ben Carlson, the author of "awealthofcommonsense" blogger, "The money has already been spent – it's a sunk cost – it's gone. Don't cry over [it]…The same is true of investment errors. Everyone makes mistakes. The trick is to avoid compounding those mistakes", like the reader who emailed him that he'd gone to cash before Trump's announcements made the market crash. He'd bragged to all his friends about how he could see the trouble coming and he got out in time. He felt things would get worse, so he didn't buy back into the market. The market then had a big recovery, while he sat in near-cash. He asked Carlson what to do now. Carlson advised that "**market timing is a sunk cost. Move on and figure out how you want to invest going forward. The problem with sitting on a slug of cash in your portfolio is that it can become addicting. When markets are going up you tell yourself you need to wait for another correction to put it to work. [While you wait, you could miss out on huge further gains in the market.] When markets are going down, a cash position becomes your security blanket, and you just keep waiting for stocks to go lower and lower to the point where you don't ever re-invest it.** Market history would say to just buy back in and move on with your life. Human nature often makes it difficult to rip the bandaid off, so most investors are more comfortable averaging back in [wading back into the market with small amounts of money at a time]." "Change your perspective. Think of it like you just inherited a lump sum of cash. What would you do right now, if you were given a big lump sum to put to work?" Source: Carlson, Ben (2025, May 16). The Sunk Costs of Market Timing, A Wealth of Common Sense.

One client recently pointed out that **we preach not to sell in down markets. We do say that, because no one knows when the market will recover (as it always has) and you don't want to miss the recovery**. But, when we say don't sell, **we mean don't panic and sell to get out of the market. It may be prudent to sell to change from one investment to another, if the other is higher quality, is more of a bargain or just generally has more upside potential**.

<u>Interest Rates – Real versus Nominal</u>

The **buying power on money in a high interest savings account only increases if the interest earned exceeds inflation**. Nominal interest rates are the ones you see quoted for GICs (Guaranteed Income Certificates), on bonds or on savings accounts. **Real interest rates are how much your buying power increases by net of inflation and is calculated by reducing nominal interest rates by the rate of inflation**.

Since 2008, when governments lowered interest rates to try to stimulate the economy out of the financial crisis, **real interest rates have been nearly zero or have even been negative, meaning that money people had in GICs or bank accounts was not increasing and was sometimes even losing buying power**, because inflation was rising faster than the money was earning interest. " **Today's real yield is notably above its 5-year average, making it one of the most attractive inflation-adjusted returns seen in the post-2008 era**." So, it's not a losing proposition at the moment to have money just earn interest. However, it's **no time to stampede into bonds and fixed income investments**. **Historically, investments in equities, have provided far better returns over the long-run**. If you make 1% real return on a GIC, you could double your buying power in about 70 years. **If you make 5-7% compound real returns on equity investments, you could double your buying power in about 10-14 years.** That growth rate makes it a lot easier to build enough savings to retire on or to make enough money on your investments to live on without depleting your capital. Source: Canoe's chart of the week: the attractiveness of real rates, (2025, Jul 25).

Underutilized Disability Tax Credit

Did you know that if you have a Disability Tax Credit Certificate (DTCC), you can have a Registered Disability Savings Plan (RDSP), into which the government may contribute free money for you, and you may be eligible for the new Canada Disability Benefit that started in July 2025? Over 96% of applications for the DTCC are approved, but only ¼ of the people who might qualify for one even apply. To apply, you need to complete a T2201 form and get a medical practitioner to fill out Part B with information to show your eligibility. We hear the form is not simple and many people use lawyers to help them with it. Still, a DTCC could be worth the trouble. If you or a family member are eligible, be sure to look into it. Source: Got, Jonathan (2025, Mar 6). Disability tax credit is underapplied for and underused: CRA report, Investment Executive.

Education Expenses Now or Far in the Future

At this time of year, we get a lot of calls to withdraw money from Registered Education Savings Plans (RESPs) to help parents and students pay for tuition and other upcoming expenses for post-secondary education. This is a good time for parents of current or future students to think about to make school more affordable. It pays off to take advantage of all the free money and tax savings you can get for post secondary education funding.

RESPs are a great way for any parent or grandparent to save for future retirement costs. The best thing about them is that the government will contribute 20% of whatever you do, up to $500/yr up to a total of $7200, with a few restrictions about how old the child is when the contributions are made. The growth on the capital is tax deferred until withdrawal and even then, it is taxable to the child, who likely has little if any taxable income. You can start the contributions weeks after a child is born, as soon as their SIN is available. Call us to learn all the details about RESPs.

Other funding ideas students and their parents should think about are scholarships and award monies. "Don't assume these awards are only for top academic students; many are for community service, athletics, and for students with specific backgrounds. Sometimes employers offer scholarships to the children of employees, and most schools offer awards. You can also search online at sites such as: scholarshipscanada .ca, scholartree.ca, grantme.ca and Canada.ca (search "education scholarships")." The application process should be started at least a year in advance.

Don't forget about using education costs for tax reductions. Students get tuition credits and can transfer up to $5000/yr to a parent, spouse or grandparent, if the student can't use all the deduction to avoid paying tax themselves. Any interest paid on a federal or student loan is also a tax deduction. And for students who get student loans from the government, some of the loan may be forgiven.

Don't forget about co-op placements, where your child can earn money between semesters that could fund a great deal of university costs. Also don't forget about other paths to careers. In some cases, one can attend community college (with lower tuitions) and then apply for university credits for college courses, thus shortening university attendance time. Or, there are many great careers possible with college education. Skilled trades can be good and well-paid options.

Lastly, it's important to teach your children about handling money, about budgeting. Will you child limit their spending on entertainment when they start school, so as to be sure they have enough to pay for food, second term books, etc.? Learning to budget is not a one hour chat. Learning how to use an allowance and summer job wages wisely through high school years is a good start. Modelling good behaviour for your kids and sharing with them family finance decisions can be very educational. Source: Cestnick, Tim (2025, Aug 21). The top mistakes parents and students make paying for postsecondary education, The Globe and Mail.

Looking at Facts, not Mantras

There is an old saying about selling investments in May and going away (that is, staying out of the market) until the fall. You might not want to follow that advice. "While lower than the November-April 6-month period, the S&P 500's total returns from May-October are still positive on average (+6.6% annualized) with stocks higher 72% of the time. Not exactly something you would want to "go away" from." In 2025, May was up 6.3%, which was the best S&P 500 return for a May since 1990. Not to mention, that selling every May would trigger capital gains and advance when tax would be owed. Let's stick with "buy and hold". Bilello, Charlie (2025, Jun 5). The Week in Charts, Bilello Blog.

It's the time of year when we spend some time thinking about what we are grateful for. We are grateful for you, our clients, and all the referrals you have made to us of your family and friends. So, Thank You Very Much, and Happy Thanksgiving.

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