

## **Moving Beyond Traditional Measures of Retirement Income Adequacy**

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Replacement rates are the traditional measures used to evaluate the 'replacement adequacy' of retirement income. A gross income replacement rate of 70-80% is often considered an appropriate target or 'rule of thumb' that will allow individuals to avoid a reduction in their standard of living at retirement. With its attractive simplicity, the concept of a replacement rate is intuitively appealing. Numerous conceptual and methodological issues lie beneath its simple exterior, however. This paper will examine these underlying issues for the benefit of retirement security stakeholders, particularly public policy makers, pension plan sponsors, advisors, financial product providers, and individuals planning for retirement.

The paper will argue that traditional gross replacement rate measures and targets are highly unsuitable for their traditional role as a tool for retirement planning or evaluating the retirement preparedness of a population. Further, the paper will evaluate the performance of traditional gross replacement rate targets, for a population composed of diverse individuals with realistic life courses, using Statistics Canada's Life Paths microsimulation model. This paper will review past literature, examine the conceptual and measurement issues encountered when building replacement rates, perform original analysis, and provide guidance on building replacement rate measures.