



# Designing retirement schemes Canadians want: observations from a Modern DB Pension Plan

**CPPLC Pension Forum:** A National Discussion  
on Public Pension Issues

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## Introduction

The Canadian Public Pension Leadership Council (CPPLC) is a non-partisan group of public sector pension plan senior administrators from across Canada who are working together to help inform the debate about retirement income security using evidence-based research. In August 2016, the CPPLC commissioned Clear Picture and Ipsos Reid to conduct an online survey of 1,000 adult Canadians to understand their values and attitudes toward retirement income, the *Pension and Retirement Income Preferences* survey. This survey adds the opinions of those participating in the existing Canadian retirement income system – including those with workplace pension plans and those without – to ongoing discussions about achieving desired retirement income objectives. For information on the methodology and statistical significance of the survey, please refer to Bob Baldwin’s report, “The Pensions Canadians Want: The Results of a National Survey”.<sup>1</sup>

Insight from the survey can help plan sponsors and administrators better communicate the value of their Defined Benefit (DB) pension plans to existing members, potential members and policy makers. As this report will explain, the survey indicates that Canadians place a high value on tangible retirement outcomes and they are willing to pay more to achieve those specific outcomes. In addition, contrary to widely-held opinions, young respondents also follow this trend and find value in preparing adequately for retirement. The results suggest young Canadians may be an important stakeholder group and that DB plans may be a valuable way to attract and retain young talent. Moreover, there may be more desire to contribute to pension and retirement savings among those with low incomes than commonly thought.

Next, the report turns to Canadians’ retirement preparedness. In short, Canadians place high importance on maintaining their standards of living into retirement but they generally spend little time thinking about retirement, tend not to have formal retirement strategies, and generally do not know how much money they need to reach their retirement goals. Given these facts, DB plans would, by design, benefit them.

The final section of the report examines the consequences of employees’ lack of preparedness on employers, both in the amount of stress affecting employee personal health and work and in workforce management considerations. With increased access to efficient and effective Modern DB Pension Plans, both employees and employers can gain access to a retirement scheme that is low risk and has stable costs. Modern DB Pension Plans are generally:

- Independent and jointly governed, with members and employers sharing decisions about contributions, benefits and risks;
- More sustainable and efficient than single-employer plans, offering employers and members higher value at lower risk, cost, and complexity;
- Designed to deliver predictable and secure lifetime retirement income, often with some inflation protection, at an appropriate cost, that is shared equally between members and employers;
- Well-governed, with transparent funding and other policies, and sufficient in scale to attract and retain focussed pension management expertise;
- Multi-employer plans, allowing for seamless portability for members to consolidate and grow their pensions across many employers, with the long-term pension sustainability tied to the long-term health of the pension plan rather than a single employer;
- Include individual protection features such as early retirement options and disability provisions that help members and employers when unexpected changes occur; and
- Not-for-profit trusts, efficient in their operations, directing the vast majority of contributions to benefits rather than fees and overhead.

Overall, the *Pension and Retirement Income Preferences Survey* results confirm that the features typically found in DB Pension Plans meet Canadians’ desired retirement outcomes and would also provide an efficient, lower stress, retirement income solution for many employees and employers.

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<sup>1</sup> Thank you to Bob Baldwin for his analysis of the survey data. Bob Baldwin, “The Pensions Canadians Want: The Results of a National Survey,” (paper presented at the CPPLC Pension Forum, Toronto, ON, April 13, 2017). Please note that due to rounding, some of the charts in this report do not add up to 100%.

## Key Observation #1: Canadians willing to contribute more income for desired retirement outcomes

Many commentators argue that Canadians are unwilling to contribute more of their income toward pension benefits. This argument was prevalent during the recent discussions about how best to enhance the Canada Pension Plan. The survey tested that assumption in three parts:

1. Gauging the value attached to certain retirement outcomes;
2. Asking whether respondents are willing to pay more to achieve these outcomes;
3. Asking them the maximum percentage of income they would be willing to pay in order to maintain their standard of living into retirement.

The desirability of a retirement outcome and the willingness to pay more to attain it is fairly consistent across age groups

Participants ranked the desirability of five retirement outcomes on a ten-point scale. As Table 1 illustrates, on average, Canadians found all of them desirable.<sup>2</sup> They were most likely to desire a guaranteed lifetime income, having retirement income that is predictable, and income that keeps pace with inflation.

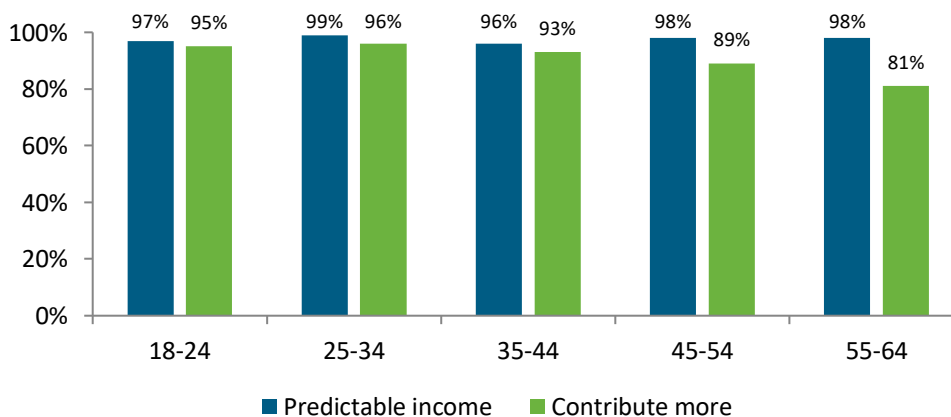
The high value placed on design features was not unexpected. The rate at which Canadians are willing to pay more to achieve these features was predictably strong and provides a clear path forward for employers who desire an affordable and valuable retirement program.

**Table 1. Average ranking of pension plan/retirement plan features, all responses**

Having a retirement income that is guaranteed to last for my entire lifetime	8.4
Having a retirement income that is predictable	8.2
Retirement income that keeps pace with inflation	8.2
Having a pension or retirement savings plan that will provide income if I am forced to retire earlier than planned	7.7
Having an income that does not fluctuate with investment results	7.6

*Based on a ten-point scale, with 1 indicating the feature was not at all desirable and 10 indicating that it was extremely desirable.*

Ninety-seven percent of respondents said a predictable income was desirable (indicated by ranking it 5 to 10). In response to a separate question, 90% said they would be willing to contribute more to ensure they have predictable income at retirement (indicated by a ranking of 5 to 10, with 10 indicating they would be extremely willing to contribute more for the feature). Similarly, 98% of those surveyed said a lifetime income was desirable and 91% said they were willing to pay more to guarantee their retirement income would be secure and paid for the rest of their life. The desirability of a retirement outcome and the willingness to pay more to attain it is fairly consistent across age groups, as Figures 1 and 2 illustrate:



**Figure 1: All respondents who desire predictable income paired with all respondents who said they are willing to contribute more to ensure retirement income is predictable, by age group (excludes 65+)**

<sup>2</sup> Baldwin, 13.

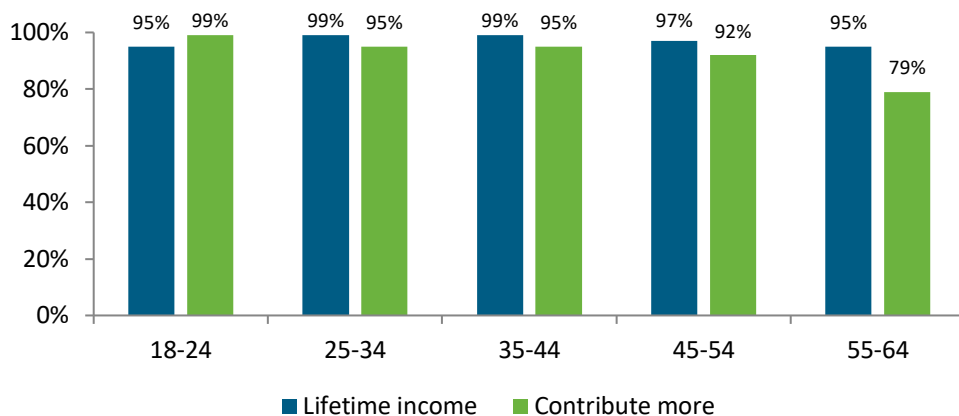


Figure 2: All respondents who desire lifetime income paired with all respondents who said they are willing to contribute more to guarantee retirement is secure and paid for their lifetime, by age group (excludes 65+)

**Canadians are willing to pay more for predictable lifetime income**

Figure 3 depicts just the population that highly desires a guaranteed lifetime income (ranking it 8, 9, or 10) and who also said they were very willing to contribute more for a lifetime income. There is a strong association between these two questions, indicating that those who prize this feature are more willing to pay for it than those in the general survey population.

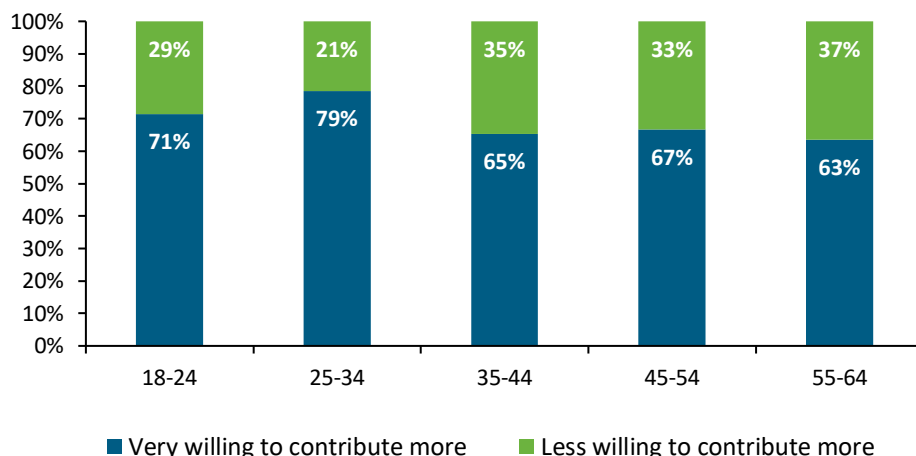
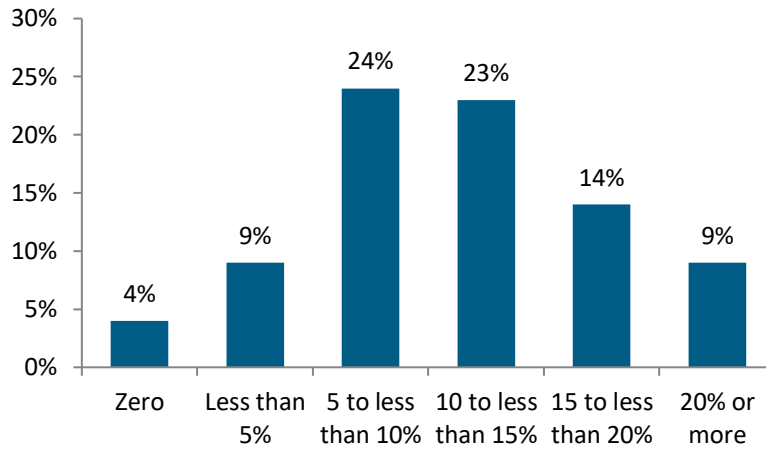


Figure 3: Willingness to contribute more income to achieve a lifetime pension of those who indicated a high desire for lifetime income, by age group

The *Pension and Retirement Income Preferences* results correspond to trends observed in the Willis Towers Watson 2015/2016 *Global Benefit Attitudes Survey*. Willis Towers Watson not only found that “employees desire security and are willing to pay for it,” but that 65% of Canadian employees would be willing to pay a higher amount of their pay each month to ensure they have a guaranteed retirement benefit.<sup>3</sup>

Figures 1 to 3 emphasize there is value in communicating the key design features of DB plans to stakeholders. Communicating tangible retirement outcomes may help Canadians prioritize retirement savings. In advocacy efforts, a focus on members’ retirement outcomes may help sponsors and policy makers understand and value what Modern DB Plans offer.

<sup>3</sup> Willis Towers Watson, “Results from the 2015/2016 Global Benefits Attitudes Survey: Overview of key findings,” January 2016, 8-9, <https://www.slideshare.net/TowersWatson/global-benefits-attitudes-survey-2016-highlights>, (accessed March 17, 2017).



**Figure 4: Maximum percentage of annual income Canadians would be willing to contribute to their pension and retirement saving so they can retire and maintain the same standard of living, total survey population**

The survey left the definition of “contribute more” open-ended for the questions depicted in Figures 1 to 3. The survey also specifically asked participants to quantify the maximum amount they would pay as a percentage of annual income to maintain their standard of living into retirement. Overall, as shown in Figure 4, 46% of survey participants said they are willing to contribute 10% or more of their annual income to pension and retirement savings so they can retire and maintain the same standard of living. Surprisingly, 9% said they were willing to contribute 20% or more of their annual income to achieve this outcome, including younger Canadians.

The average contribution rate for members of Modern DB Plans is about 12%, in line with 46% of respondents’ opinions. Interestingly, only 9% of participants’ opinions line up with the average Defined Contribution (DC) and group RRSP contribution rates (Table 2). This suggests some participants would be willing to contribute more than their current retirement arrangement allows but more research is required for a definitive answer, as few DC plans are designed to maintain members’ standard of living in retirement.

**Table 2. Average DC and Group RRSP contribution rates in Canada, 2015<sup>4</sup>**

Defined Contribution – members	<b>4.3%</b>
Defined Contribution – employers	<b>4.9%</b>
Group RRSPs – members	<b>4.3%</b>
Group RRSPs – employers	<b>4.4%</b>

The survey links retirement outcomes with contribution rates and the results show that respondents are willing to contribute more to get more. Security and stability are desired, as evidenced by the high results for lifetime pension, predictable pension and inflation protection. Despite arguments to the contrary, Canadians may be willing to make higher contributions into pension plans as long as tangible retirement outcomes are valuable and aligned to member needs. Emphasizing the security of specific retirement outcomes (e.g., predictable lifetime incomes that allow members to maintain their standard of living in retirement) rather than focussing on the more general concept of retirement income adequacy may help increase stakeholder understanding and value of Modern DB Plans. Finally, the results suggest participants may not be satisfied with the contribution rates of their DC and group RRSP plans, which is worthy of further investigation.

<sup>4</sup> The Great-West Life Assurance Company, “2015 CAP Benchmark Report: Good plan design empowers members’ futures,” January 28, 2016, 5, [https://s3.amazonaws.com/GrsProduction/GRS+Access/Marketing/CAP\\_BenchmarkReport\\_2015\\_ENG-web%5B2%5D.pdf](https://s3.amazonaws.com/GrsProduction/GRS+Access/Marketing/CAP_BenchmarkReport_2015_ENG-web%5B2%5D.pdf), (accessed March 31, 2017). The 2016 CAP Benchmark did not include average contribution rates but did indicate that sponsors were not planning on changing them.

## Key Observation #2: Young and low-income Canadians willing to contribute more income to retirement savings and pensions than commonly thought

For DB Plan sponsors and administrators, there is a clear opportunity to engage with young plan members to foster DB plan advocates. For employers, there are opportunities to promote DB plans to young employees as an important attraction and retention tool.

There is a common view that young Canadians are unable or unwilling to save for retirement. However, as Figures 1 to 3 above illustrate, respondents aged 18-34 desire, and are willing to pay for, plan design features at rates consistent with other age groups. Figure 3 indicates that the subset of young respondents who desire a lifetime income reports higher willingness to pay additional income for that feature than other age groups. Of this subset, 71% of those aged 18-24 and 79% of those aged 25-34 who said they desire a lifetime income also said they are very willing to pay more for that outcome.

Furthermore, the survey results indicate that young respondents' willingness to contribute more than 10% of their annual income to maintain their standard of living into retirement is consistent with other age groups (Figure 5). Figure 6 displays the younger cohorts' answers to the same question graphed for the total survey population in Figure 4 above. In the 18-24 cohort, a total of 53% are willing to contribute more than 10% of their annual income to maintain their standard of living in retirement. This is 7% higher than the total survey population results. Forty-three percent of the 25-34 year-old cohort said they would pay 10% or more of their annual income for this retirement outcome, 3% less than the total survey population.

The number of respondents in this subset is small, which means the survey results may not be statistically significant, but they do correspond with other research. For example, the Willis Towers Watson 2015/2016 *Global Benefits Attitudes Survey* found that 60% of millennials surveyed across 19 countries would sacrifice pay for guaranteed retirement benefits.<sup>5</sup> Increased levels of precarious employment, decreasing levels of workplace pension coverage, and the focus on the Baby Boom generation's impending retirement may all be contributing factors to younger Canadians' retirement security concerns.<sup>6</sup> For Modern DB Plan sponsors and administrators, there is a clear opportunity to engage with young plan members to foster DB plan advocates. For employers, there are opportunities to promote DB plans to young employees as an important attraction and retention tool.

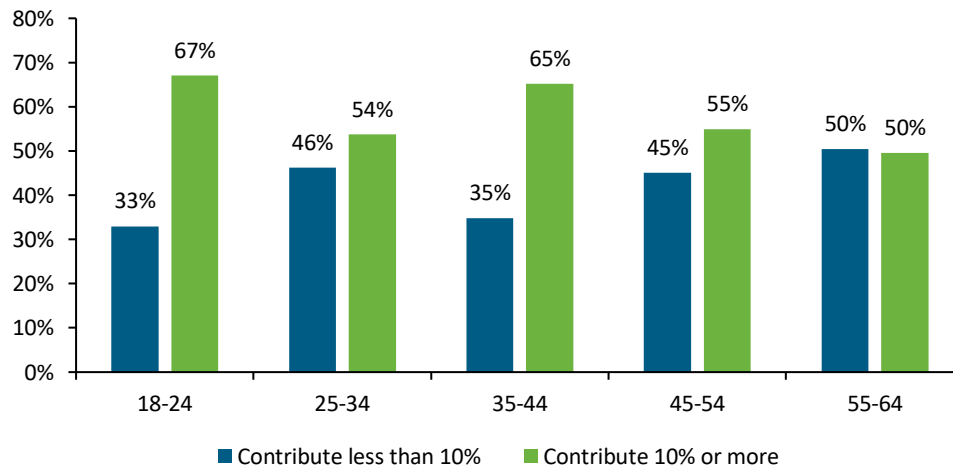


Figure 5: Maximum percentage of annual income Canadians would be willing to contribute to their pension and retirement saving so they can retire and maintain the same standard of living, by age group. (Excludes those who answered "I don't know" and zero percent.)

<sup>5</sup> Willis Towers Watson, "Six in 10 millennials would sacrifice pay for guaranteed retirement benefits," September 28, 2016, <https://www.willistowerswatson.com/en/press/2016/09/six-in-10-millennials-would-sacrifice-pay-for-guaranteed-retirement> (accessed March 17, 2017).  
<sup>6</sup> Anna Sharratt, "Why are some millennials so anxious about saving for retirement?" *The Globe and Mail*, November 24, 2016, <http://www.theglobeandmail.com/globe-investor/personal-finance/genymoney/why-are-some-millennials-paranoid-about-saving-for-retirement/article33013397/> (accessed March 17, 2017).

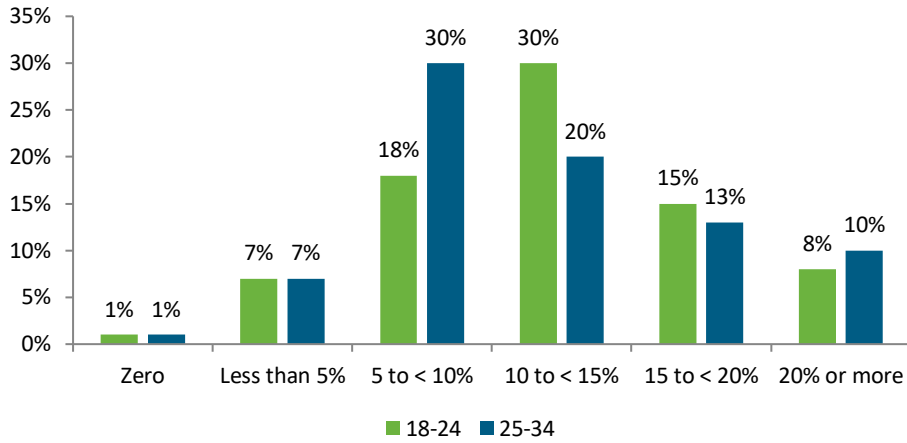


Figure 6: Maximum percentage of annual income those aged 18-34 would be willing to contribute to their pension and retirement savings so they can retire and maintain the same standard of living. (Excludes those who answered “I don’t know.”)

**For plan sponsors and administrators, these results may have implications for enrolment efforts for lower income employees, as there may be higher demand for pension savings among those with lower-incomes than is commonly assumed.**

The willingness to pay for a desired feature is also fairly consistent across income levels. This may also be affected by precarious employment. Less than half of the total survey population (47%) described themselves as being in full-time employment. Nine percent said they are employed “other than full time,” 9% said they are self-employed, 7% said they are unemployed and looking for work, and 27% said they are not in the labour force. Figure 7 illustrates the same question as Figure 3, with the answers analyzed by income level.

Remarkably, 67% of those who highly desire a lifetime pension and who also reported an annual income of \$25,000 or less said they would be willing to pay more to achieve that outcome. Seventy-one percent of the same cohort with annual incomes of \$25,000 to \$49,000 said they would be willing to contribute more to have a lifetime pension.

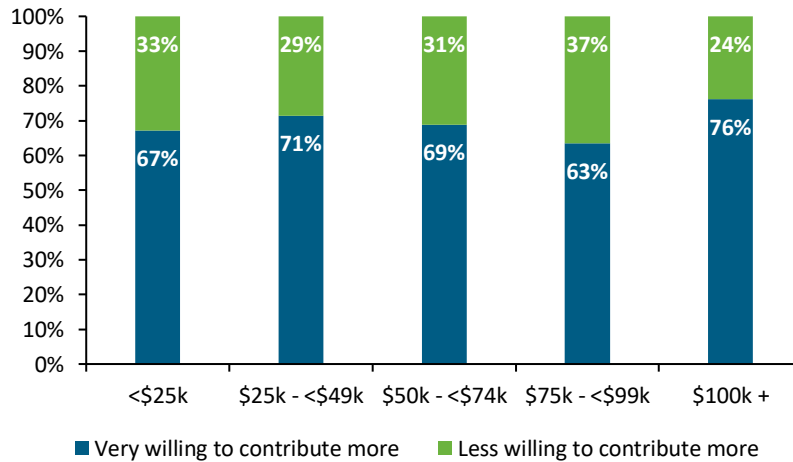
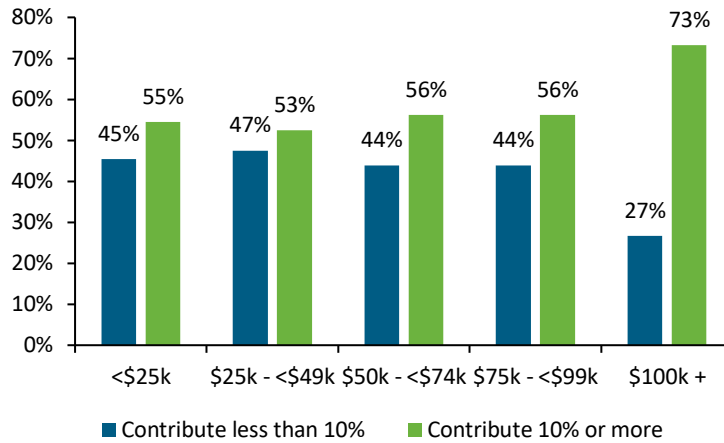


Figure 7: Willingness to contribute more income to achieve a lifetime pension of those who indicated a high desire for lifetime income, by income level

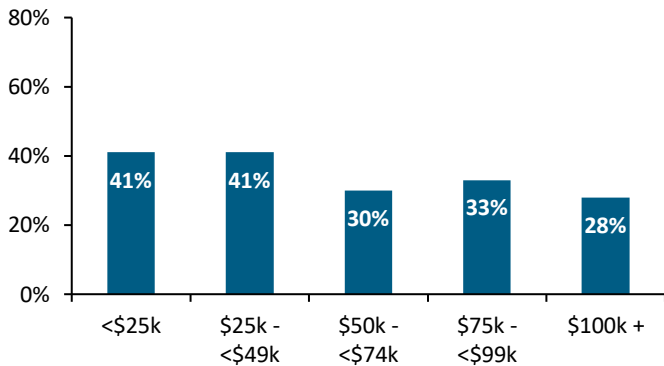
Figure 8 depicts the willingness of respondents to contribute more or less than 10% of their income in order to maintain their standard of living into retirement. Once again, the responses of those with lower incomes are fairly consistent with those with middle-to upper-middle incomes. This fairly flat trend is slightly skewed by high-income Canadians who are the most willing to contribute 10% or more of their income to maintain their standard of living in retirement. A note of caution: the subsets depicted in figures 7 and 8 are small and may not be statistically significant. However, the results are at least anecdotal and point to potential areas of future research.





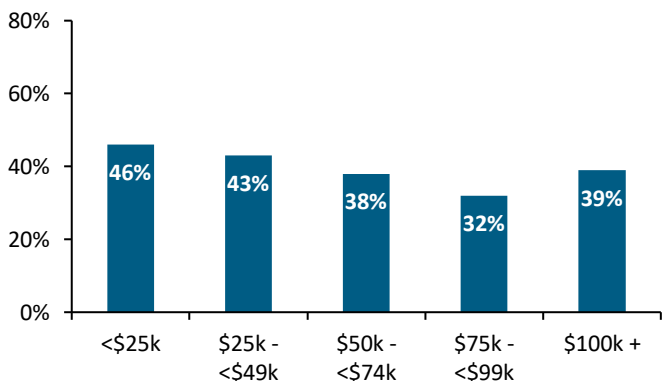
**Figure 8: Maximum percentage of annual income participants would be willing to contribute to their pension and retirement saving so they can retire and maintain the same standard of living, by income level. (Excludes those who answered "I don't know.")**

Industry and academic research on optimal income replacement rates vary, but many argue that lower-income Canadians should not participate in pension plans or registered retirement savings because current government pensions and tax incentives are designed to ensure they have adequate replacement of income in retirement. One reason respondents with lower incomes may be reporting a higher than expected willingness to contribute to retirement savings is the desire not to be dependent on social programs or family members once retired. Figure 9 illustrates those who have a high level of stress due to concerns about being dependent on social programs once retired. Responses are based on a ten-point scale, where one indicates the respondent is not at all stressed by the scenario presented and ten indicates the respondent finds the scenario extremely stressful. The graph charts those who reported high stress about being dependent on social programs, (with a ranking of 8, 9, or 10).



**Figure 9: High stress about investing due to concerns about being dependent on social programs once retired, by income level**

Similarly, Figure 10 depicts those who reported high stress about investing due to concerns about being dependent on family once retired. In both cases, participants in the lower income cohorts expressed higher levels of stress about being dependent on social programs or their family after retirement than those in middle to high-income cohorts.



**Figure 10: High stress about investing due to concerns about being dependent on family once retired, by income level**

This indicates there may be a significant minority of lower-income Canadians who are not comfortable with advice to rely on government programs in retirement. For plan administrators, these results may have implications for enrolment efforts for low-income employees, especially part-time employees, as there may be higher demand for pension savings among those with lower-incomes than is commonly assumed.



## Key Observation #3: Canadians want to maintain their standard of living into retirement but few have formal strategies

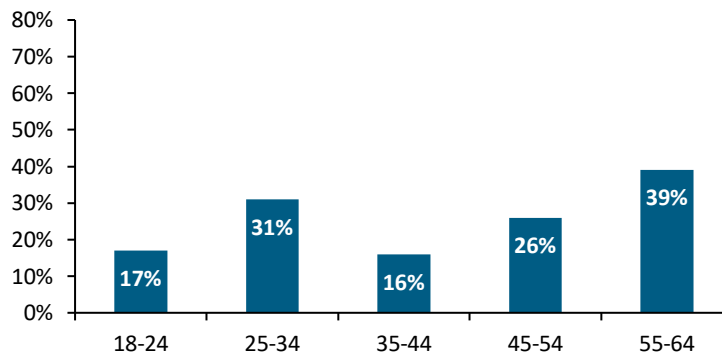
The survey shows a gap between the high value respondents place on maintaining their standard of living into retirement and those with high confidence they will achieve this important objective.

**Table 3. Importance of maintaining standard of living into retirement, total survey population**

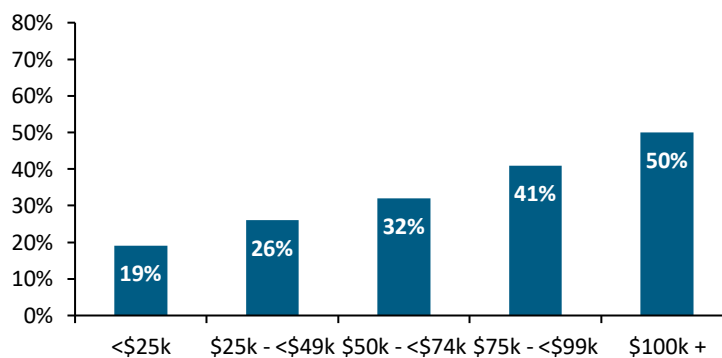
Not at all important	1%
Low importance (2-4)	4%
Medium importance (5-7)	23%
High importance (8-10)	73%

*Based on a ten-point scale, with 1 indicating the feature was not at all important and 10 indicating that it was extremely important.*

Ninety-six percent of all participants said this objective has medium to high importance (Table 3). Yet, only 32% reported they have high confidence they will be able to reach this goal. High confidence is greatest among those aged 55-64 (39%) and those in the high income brackets (41% of those earning \$75,000 to \$99,000 and 50% of those earning \$100,000 or more). In general, the high confidence rate increases as the income of the respondent increases.



**Figure 11: Percentage of respondents who said they have high confidence in maintaining their standard of living into retirement, by income level (Excludes those 65+)**



**Figure 12: Percentage of respondents who said they have high confidence in maintaining their standard of living into retirement, by income level**

This high confidence may be misplaced, as respondents reported they do not spend a lot of time planning for retirement and generally are not well-prepared for retirement. Nearly half (47%) spend less than 5 hours each month thinking about retirement or managing their retirement investments (Figure 13). Twenty-seven percent spend no time at all on these activities each month. Surprisingly, the rates did not change dramatically for those in the 55-64 age cohort (the age group nearing retirement).

**Respondents do not spend a lot of time planning for retirement and generally are not well-prepared for retirement.**

Twenty-six percent of those aged 55-64 reported spending no time thinking about retirement savings or managing retirement investments each month and 52% said they spend less than 5 hours per month on these activities. In other words, 78% of those nearing retirement spend 5 hours or less thinking about retirement savings or managing retirement investments.

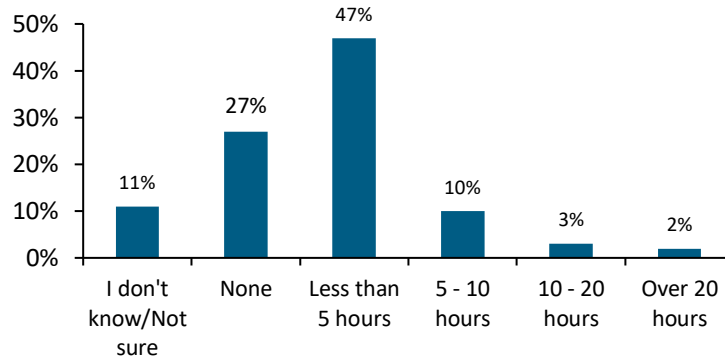


Figure 13: Average hours spent thinking about retirement savings or managing retirement investments each month, total survey population

**DB pension plans would benefit many Canadians because they are designed to provide efficient and secure retirement income with minimal individual effort.**

Nearly half of the survey participants (48%) do not have any plan for retirement. Thirty-six percent reported that they have a retirement plan, but it is not written down and only 16% said they have a written plan for their retirement. Remarkably, 43% of those aged 55-64 said they have no plan. Not only are participants unlikely to spend time thinking about retirement regularly or have a written retirement plan, only 12% said

they have an accurate estimate of how much money they will need to save in order to meet their retirement goals. Nearly half (47%) said they have a rough idea and 40% said they have no idea how much money they will need to save. These results are consistent with reports about Canadians' lack of retirement preparedness.<sup>7</sup> DB pension plans would benefit many Canadians because they are designed to provide efficient and secure retirement income with minimal individual effort.

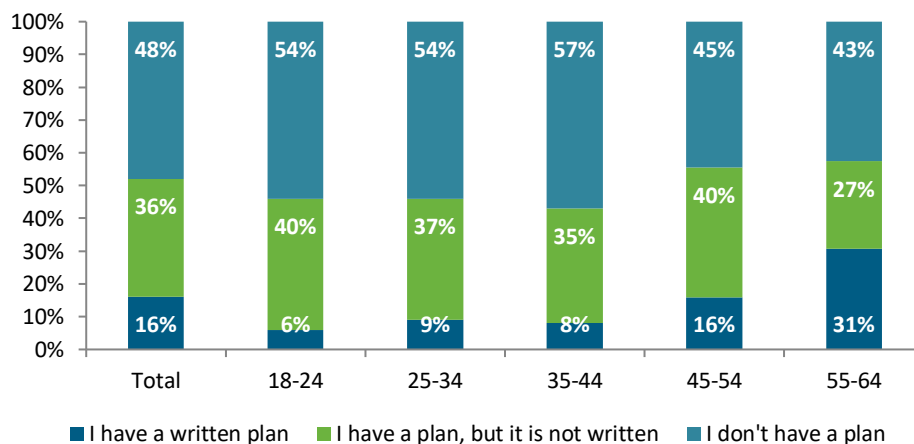


Figure 14: Likelihood of having a written plan, by age group (Excludes those 65+)

<sup>7</sup> See Richard Shillington, "An Analysis of the Economic Circumstances of Canadian Seniors," *Broadbent Institute* (February 2016).

Just over half of the participants report they do not get advice from an independent financial advisor to help them make decisions about their retirement savings. Of the total survey population, 55% do not seek such advice from financial advisors, 35% do consult financial advisors and 10% are not sure. Of those who said they don't use the services of a financial advisor, 22% strongly agreed that they prefer to manage the money themselves, 19% strongly agreed that financial advisors cost too much and 19% strongly agree that their savings aren't enough to make it worthwhile.

**Table 4. Reasons for not using the services of a financial advisor, average score**

I prefer to manage the money myself	6.8
I don't have confidence in financial advisors	5.4
I don't feel like my personal interests are aligned with the advice I would get	5.9
Financial advisors cost too much	6.8
My savings aren't large enough to make it worthwhile	6.5
I have had a bad experience with one or more financial advisors	3.5

*Based on a ten-point scale, with 1 indicating the respondent strongly disagrees and 10 indicating that the respondent strongly agrees*

In considering retirement confidence and preparedness, the survey reveals that respondents are not well-prepared for retirement with high numbers reporting no written plans and vague ideas of how much money they need to meet their goals. While nearly two-thirds say maintaining their standard of living into retirement is highly important, only 32% report high confidence of reaching that goal.

**40% said they have no idea how much money they will need to save.**

Communications about the efficiency of Modern DB Plans in helping their members maintain their standard of living into retirement would likely resonate with many Canadians, particularly younger Canadians and those with lower-to-middle incomes. Further, the survey suggests plan sponsors and administrators should promote the simplicity of belonging to a DB plan and the ease of predicting pension income to plan members. Given the low rates of financial advisory services coupled with recent negative reports about some banks' sales tactics, promoting the fiduciary duty of DB plan trustees to act in the best interest of all members may also be an effective message.<sup>8</sup>

<sup>8</sup> Erica Johnson, "I feel duped": Why bank employees with impressive but misleading titles could cost you big time," *CBC News*, March 29, 2017, <http://www.cbc.ca/news/canada/british-columbia/bank-s-deceptive-titles-put-investments-at-risk-1.4044702> (accessed March 31, 2017). See also The Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives, "Financial Advisory and Financial Planning Regulatory Policy Alternatives: Final Report of the Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives," *Ontario Ministry of Finance*, November 1, 2016, <http://www.fin.gov.on.ca/en/consultations/fpfa/fpfa-final-report.html> (accessed March 16, 2017).

## Key Observation #4: Retirement-planning stress is affecting Canadian workplaces

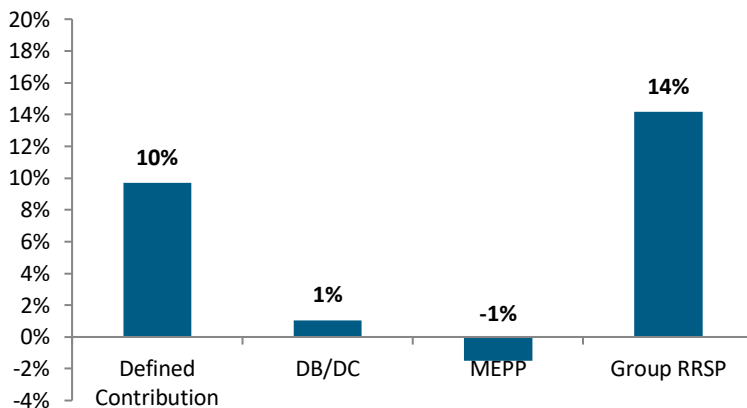
Manulife's *Financial Wellness Index 2016* emphasizes the impact financial wellness has on employee engagement and productivity at work.<sup>9</sup> It found that 49% of the "financially unwell say they feel distracted at work due to money-related issues."<sup>10</sup> Further, employees who are financially unprepared are "16% less likely to say they are productive on the job."<sup>11</sup> The *Pension and Retirement Income Preferences* survey also found that Canadians feel stress due to retirement-planning, which can have negative impact on their personal health and work.

Forty-seven percent said they have high stress about running out of money once retired, a concern that should not worry defined benefit members. High stress was indicated by rating it 8, 9, or 10 on a ten-point scale. When the results were analyzed by the respondent's reported plan type, 73% of those participating in a DB plan reported medium to high levels of stress about running out of money (rating it 5-10). This result was lower than those participating in most other plan types (Figure 15).

**47% have high stress about running out of money once retired**

Of the total survey population, 46% of respondents said they have a workplace pension. Of this subset, 36% participate in a defined benefit plan, 23% participate in a defined contribution plan, 14% participate in a combination of defined benefit and defined contribution plans (Hybrid), 12% participate in a group RRSP, 10% participate in an union-negotiated multi-employer plan, 1% participate in another type of plan and 18% weren't sure

what type of workplace plan they participate in. The following charts of this subset of the survey population cannot be generalized to the Canadian population because some of the categories have a small number of responses. Nonetheless, they provide anecdotal evidence that DB plan members are less stressed than Canadians participating in most other types of workplace pension plans, with the notable exception of union-negotiated multi-employer plans (MEPPs).



**Figure 15: Percent difference in stress about running out of money after retirement, relative to the defined benefit baseline. Baseline: 73% of defined benefit plan members who reported medium to high levels of stress about running out of money in retirement (based on a ten-point scale, with one equivalent to not at all stressful and ten equivalent to extremely stressful). Excludes "Other" and "I don't know/Not sure."**

Figure 15 indicates that those in Group RRSPs are the most stressed about running out of money in retirement (87% have high to medium stress). Eighty-three percent of those in Defined Contribution plans reported high to medium stress about running out of money after retirement. The Association of Canadian Pension Management (ACPM) provides insight into some of the near or distant decisions likely to cause stress in DC and Group RRSP plan members in a recent report:

The decisions facing [Capital Accumulation Plan (CAP)] retirees as they decumulate their retirement savings are even more complex than those they faced during the accumulation of their balances, and many individuals would have relied on default options when they were working and accumulating CAP assets. During decumulation, retirees must manage longevity risk as well as investment risk. They must also reconcile conflicting retirement income needs such as a desire for flexibility, the need for a secure and predictable retirement income, and protection against the risk of exhausting their fund.<sup>12</sup>

<sup>9</sup> Manulife Financial, "How your employees' financial wellness affects your business: Results from Manulife Financial Wellness Index 2016," March 16, 2017, 1, <https://www.manulife.ca/content/dam/consumer-portal/documents/en/other/CS5156.pdf> (accessed March 27, 2017).

<sup>10</sup> Manulife Financial, 1.

<sup>11</sup> Manulife Financial, 2.

<sup>12</sup> Association of Canadian Pension Management, "Decumulation, the Next Critical Frontier: Improvements for Defined Contribution and Capital Accumulation Plans," (March 27, 2017): 5, [http://www.acpm.com/ACPM/media/media/resources/7/media/AGR/Publication/Decumulation-Improvements-for-DC-and-CAP-\(27-Mar-17\).pdf](http://www.acpm.com/ACPM/media/media/resources/7/media/AGR/Publication/Decumulation-Improvements-for-DC-and-CAP-(27-Mar-17).pdf) (accessed March 27, 2017).

Defined benefit plan members do not need to worry about outliving their savings. That 73% report high to medium stress about this issue may indicate that more education is needed so DB plan members feel secure or it may reflect that shorter service is being earned resulting in small pensions.

Sixty percent of the total survey population report stress about retirement-planning having a medium to high impact on their personal health (rating it 5-10 on a ten-point scale). Only 50% of DB plan members said stress about retirement-planning had a medium to high impact on their personal health (Figure 16). Besides MEPP participants, the trend toward higher stress than DB members was relatively constant for participants in other plans. Finally, slightly more than half of the total survey population (51%) reported stress about retirement-planning having a medium to high impact on their work compared to 41% of DB plan members (Figure 17). Group RRSP participants had the highest stress rates, at 69%.

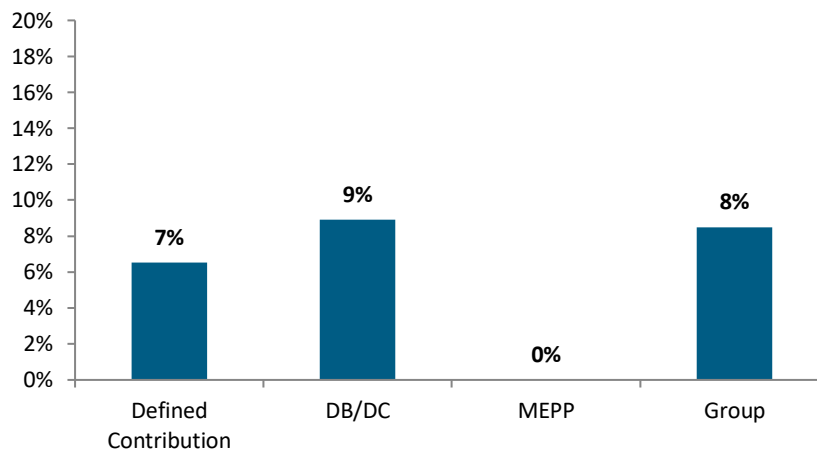


Figure 16: Percent difference in retirement-planning stress affecting personal health, relative to the defined benefit baseline. Baseline: 50% of DB plan members reported stress about retirement planning having a medium to tremendous effect on personal health (based on a ten-point scale, with one equivalent to no effect and ten equivalent to a tremendous effect on personal health). Excludes “Other” and “I don’t know/Not sure.”

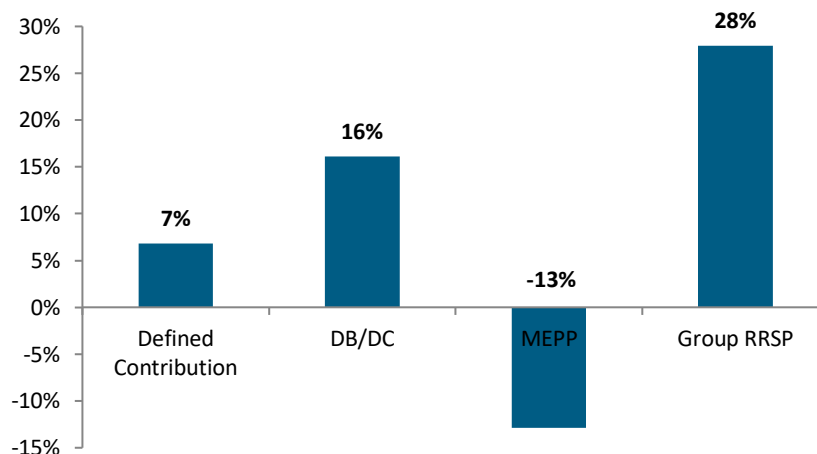


Figure 17: Percent difference in retirement-planning stress affecting work, relative to the defined benefit baseline. Baseline: 41% of DB plan members reported stress about retirement planning having a medium to tremendous impact on work (based on a ten-point scale, with one equivalent to no effect and ten equivalent to a tremendous effect on work). Excludes “Other” and “I don’t know/Not sure.”

Defined benefit plans may help reduce stress in the workplace if members understand their efficient plan design features. The previously mentioned ACPM report also notes that:

Pension record keepers estimate that about 80% to 90% of all Canadian retirement savings held outside of DB pension plans will be turned into retirement income through individual plans. It has been suggested that high costs, poor decisions and conflicted advice will produce CAP retirement incomes about 20% to 30% less than they could be if institutional fees, smart defaults and fiduciary oversight were applied.<sup>13</sup>

<sup>13</sup> Association of Canadian Pension Management, 7.

In other words, introducing efficient DB-like features to DC and group RRSP plans could save members 20% - 30% of their savings.

DB plan members in the subset population report less stress about retirement affecting them than those in other types of retirement plans. These preliminary results require further investigation of the potential benefits of defined benefit plans on workplace engagement and productivity.

As noted previously, 48% of the total survey population reported they have no plan for retirement. This lack of preparedness could be a problem for employers looking to manage their workforce. As Figure 18 illustrates, of the subset with a workplace pension plan, members of a DB plan had the highest results for having a written plan (28%). DC plan members had the highest result for not having a plan (32%).

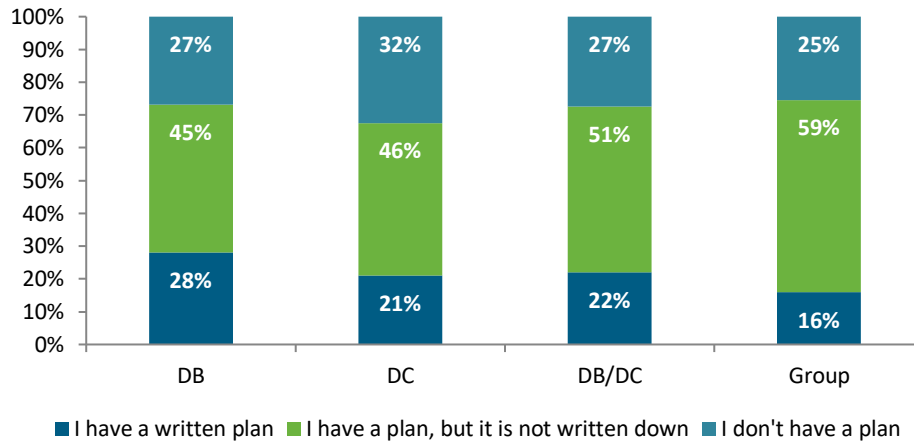


Figure 18: Retirement strategy, by plan type. Excludes “Other” and “I don’t know/Not sure”.

Jann Lee wrote in a January Benefits Canada article, that as “Canada’s population ages and concerns about retirement income adequacy mount, employers will need to not only reassess their pension and benefits programs but also look at how they can manage changing workforce demographics”<sup>14</sup> Lee examined how delayed retirement impacts employers’ workforce management, including reduced opportunities for mid-level talent, and the resulting and costly trend toward phased retirement—in which pension and wages are paid simultaneously as a means of encouraging older workers to retire.

For employees without any workplace pension, the outlook for retirement is grim. Richard Shillington found that “roughly half (47 per cent) of those aged 55-64 have no accrued employer pension benefits. The vast majority of these Canadians retiring without an employer pension plan have totally inadequate savings.”<sup>15</sup> When and how these employees will retire remains to be seen. For employers concerned about employee engagement, productivity and workplace renewal, the solution may be a Modern DB Plan. Modern DB Plans ensure that employees with moderate to long-service have the means to retire, that all employees have the ability to plan for retirement with confidence, and efficient decumulation strategies are built into the plan model.

<sup>14</sup> Jann Lee, “Employers challenged by trend towards delayed retirement,” *Benefits Canada*, January 17, 2017, <http://www.benefitscanada.com/news/how-to-manage-older-employees-who-remain-in-the-workforce-92445> (accessed January 31, 2017).

<sup>15</sup> Shillington, 3.

## Final thoughts

The *Pension and Retirement Income Preferences* survey results confirm that the features typically found in Modern DB Pension Plans meet Canadians' desired retirement outcomes and would also provide an efficient, lower-stress, retirement income solution for many employees and employers.

Canadians are willing to pay more of their earnings into retirement savings and pension plans when clear retirement objectives are articulated, suggesting communications emphasizing security and tangible retirement benefits may help increase stakeholder understanding and value of Modern DB Plans. The results also show that there are opportunities to engage young Canadians on the benefits of Modern DB Plans and that Canadians with low incomes may be an underserved demographic in the pension industry. Finally, emphasizing the security and simplicity that comes with membership in a Modern DB Plan may resonate with the general public, employers and policy makers, given the low rates at which Canadians report participating in formal retirement strategies.

The survey also highlighted areas for future research, such as whether DC and Group RRSP plan participants are satisfied with their contribution levels and whether retirement systems are meeting the objectives, not just the assumed needs, of low-income Canadians. Additional investigation into part-time employees' retirement objectives and how Modern DB Plans affect employee engagement and productivity would further enrich understanding. Finally, the survey revealed a surprising level of reported confidence in respondents' ability to maintain their standard of living into retirement, despite other responses about retirement planning (Table 5) and general industry data.

**Table 5. Confidence in being able to maintain standard of living, total survey population**

Not at all confident	<b>10%</b>
Low confidence (2-4)	<b>14%</b>
Medium confidence (5-7)	<b>45%</b>
High confidence (8-10)	<b>32%</b>

*Based on a ten-point scale, with 1 indicating the respondent was not at all confident about maintaining their standard of living into retirement and 10 indicating that the respondent was extremely confident.*

Additional research to understand whether this confidence is warranted (for example, based on income or plan membership) or whether it is misguided would be beneficial to policymakers. It may provide insight into how Canadians think about retirement (they know they want a particular outcome) as compared to how they act (they do not know what to do to reach that goal).

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