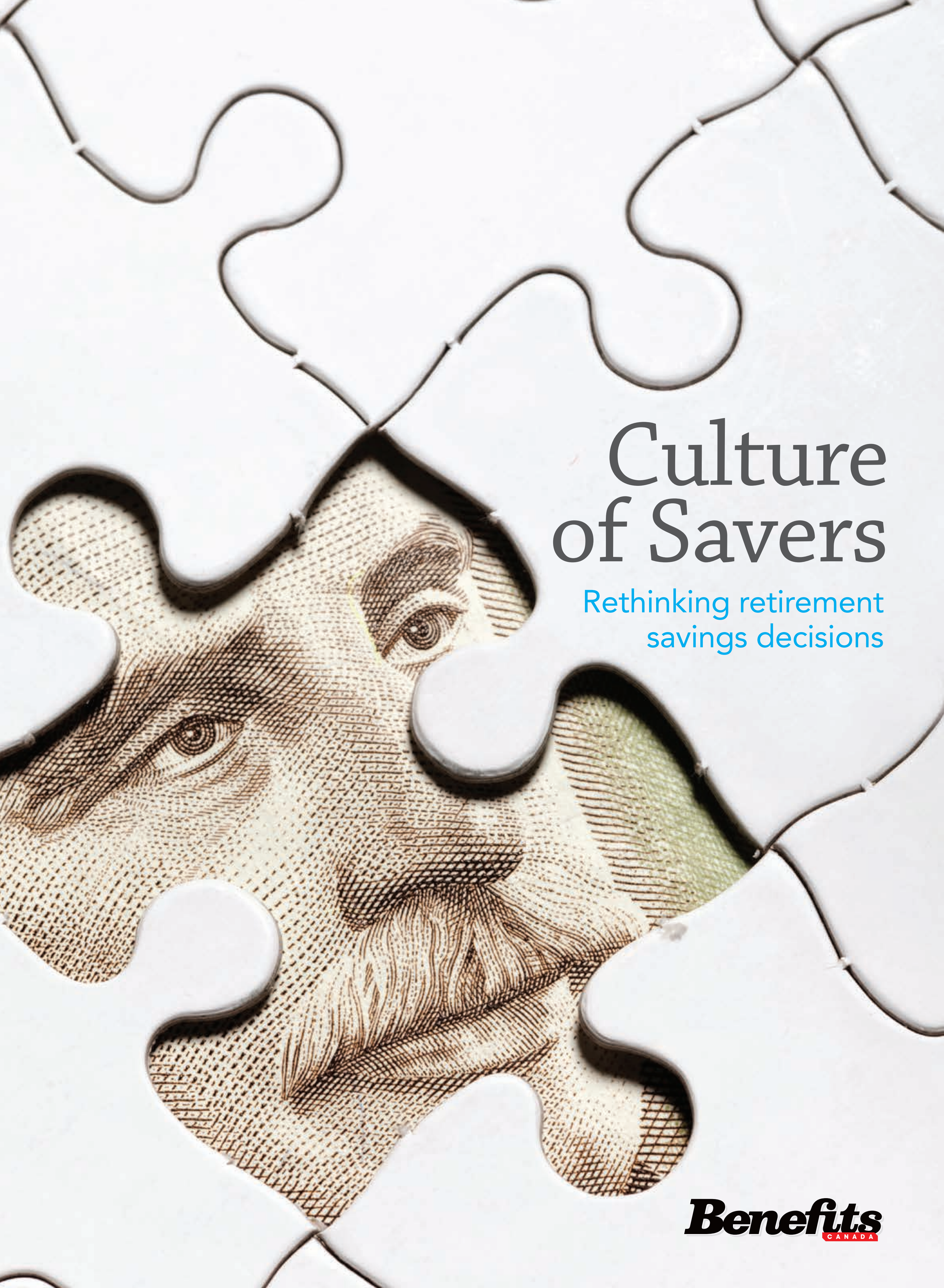

Culture of Savers

Rethinking retirement savings decisions

Benefits CANADA

Welcome to our 8th *CAP Member Survey*

The eighth annual Benefits Canada CAP member research study was conducted by Rogers Connect Market Research Group online in July 2013, with 1,209 Canadians who participate in a DC pension plan or group RRSP provided through their employer. In addition, surveys were conducted with 262 Canadians who are offered a DC pension plan or group RRSP by their employer but do not participate in the plan. The margin of error is ±2.8% for plan participants, 19 times out of 20, and ±6.1% for non-participants, 19 times out of 20. Due to rounding, some single choice questions may not add to exactly 100%.

"Who wakes up in the morning thinking about their employer-sponsored retirement plan?"

One of our Advisory Board members rhetorically asked that question, but it's a good one. Capital accumulation plan (CAP) sponsors are rightly concerned that members have low levels of savings, limited knowledge of their plan's details and unrealistic expectations of when they'll retire and how much income they'll receive. Those of us who work in the industry wonder why employees aren't joining the plans available to them or saving more in their CAPs—why they're leaving money on the table.

The reality may be that they're just not that into it. They've got credit card debt and mortgages, and kids, and education expenses. They may have the best intentions to save for the future, but they've got other, more pressing priorities. Yet we know from experience that saving early and often is crucial to success.

So what can we do about it?

The theme for this year's *CAP Member Survey* was "Culture of Savers: Rethinking retirement savings decisions," and it focused on finding the delicate balance between engaging members and saving them from inertia.

Do CAP members need a reality check? What motivates employee behaviour when it comes to plan enrollment and decision-making? How can CAP sponsors and the industry at large help protect members from making—or not making—decisions that could negatively affect their future retirement security?

This report provides the key results from this year's survey, as well as critical analysis on what employers and the CAP industry at large can do to build and maintain a culture of saving in the workplace. And that may mean taking some choice away from plan members—through strategies such as mandatory plans, auto features and target-date funds as default options—in their own best interests.

Because CAP members may not wake up in the morning thinking about their retirement plans…but we do.

Alyssa Hodder
Editor, *Benefits Canada*

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The 2012 CAP Member Survey, "Improving Adequacy: A Secure Retirement for All," was awarded the 2012 Public Policy Impact Award from the Market Research and Intelligence Association—a testament to the value and importance of this research.

Award Photography by Roberto Caruso, Roundtable Photography by Eric Forget

Advisory Board

From left to right:

June Smyth
Baynes & White

Anna Pagliuca
Standard Life

Anna Del Balso
Standard Life

Mark Dowdell
Pal Benefits

Marc Poupart
Hudson's Bay Company

Ken Millard
Great-West Life

Karrina Dusablon
Desjardins Financial Security

Vartkes Rubenyan
Mercer

Sarah Donahue
MFS Investment Management Canada

Anita Lieberman
Desjardins Financial Security

Shawn Cohen
MFS Investment Management Canada

Jennifer Mayrhofer
Great-West Life

Becky West
Aon Hewitt

1 Saving Habits and Views

What's preventing members from saving more in their CAPs?

Getting employees to save enough for retirement remains an ongoing challenge for sponsors of capital accumulation plans (CAPs). While a number of factors can influence member behaviour, this year's *CAP Member Survey* took a closer look at attitudes to savings and debt.

The vast majority (94%) of plan participants agree that "a penny saved is a penny earned," yet members don't necessarily follow the old adage. Although 74% of members acknowledge that they are foregoing "free money" if they don't contribute to the maximum company match level, only 17% maximized their contributions in 2013.

This year, fewer plan members (49%, versus 61% in 2010) supported the idea of auto-escalation of contributions. Debt could be a factor limiting contribution levels—plan members' reported average household debt (not counting mortgages) stood at $33,847 in 2013.

"Savers and spenders represent two ends of the spectrum," says Anita Lieberman, regional vice-president, Ontario, group retirement saving, with Desjardins Financial Security. "The data in this year's survey show a pretty clear continuum, with savers starting their bank accounts as teenagers, starting to save for retirement early, paying off credit card balances every month and saving for something rather than using credit cards."

When asked how they would allocate a hypothetical $1,000 surprise bonus from their employer, members would put only $36 toward their employer-sponsored retirement plan, with the bulk going toward debt ($328) and other savings ($263). Yet the 28% of people who say they don't pay off their credit card in full each month would allocate $530 toward debt. "It makes me wonder if there is a cash flow problem, that people can't afford to contribute in order to get a match in the company plan," says Lieberman. "Maybe there is an opportunity here for companies to make it easier for employees to put lump sum bonuses on a tax-deferred basis into their group RRSPs."

Sarah Donahue, a relationship manager with MFS Investment Management Canada, wonders whether plan sponsors need to better articulate the difference between *saving* and *investing*. "In the survey, we uncover that participants are willing to allocate 27% of a hypothetical bonus to savings but only 3% to an employer-sponsored retirement plan. While it is encouraging that people are willing to save, savings are generally for short-term needs. If the long-term goal is a comfortable retirement, we need to communicate to plan members the importance of investing more in their CAP."

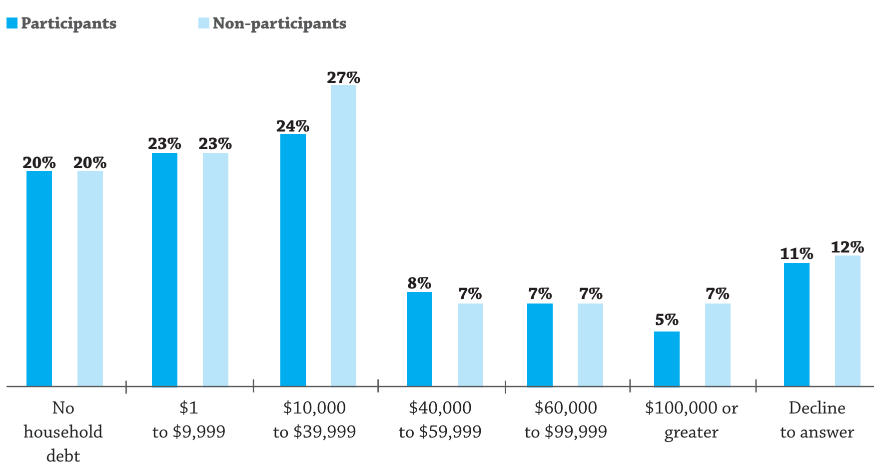
This year's survey also revealed a high level of satisfaction with employee retirement plans (88%, up 11 points from 2012), the performance of investments in these plans (84%, up 19 points) and the content of communications regarding the plans (82%, up eight points).

But what's most surprising for June Smyth, senior consulting actuary

"Savers and spenders represent two ends of the spectrum"

Anita Lieberman
Desjardins Financial Security

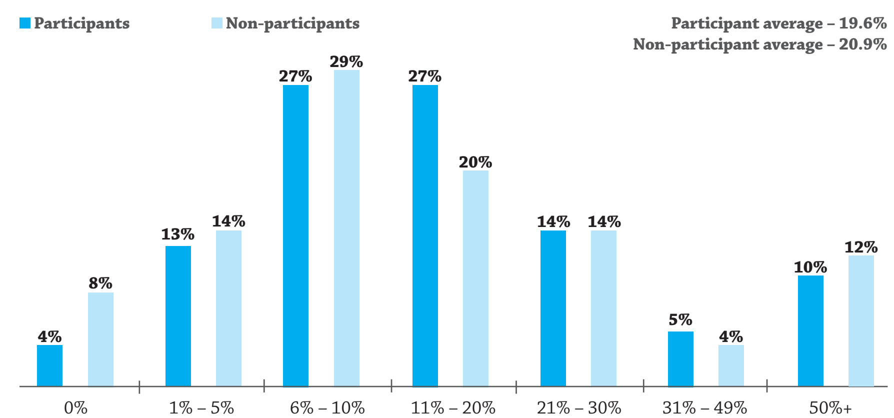
Not including your mortgage, how much money do you personally owe in total (i.e., credit cards, car loans, bank loans, student loans, lines of credit, etc.)?



"If the long-term goal is a comfortable retirement, we need to communicate to plan members the importance of investing more in their CAP"

Sarah Donahue
MFS Investment Management Canada

Thinking about all of the ways you save/invest your money, at the end of a year, what proportion of your yearly income do you estimate that you save/invest for any purpose?



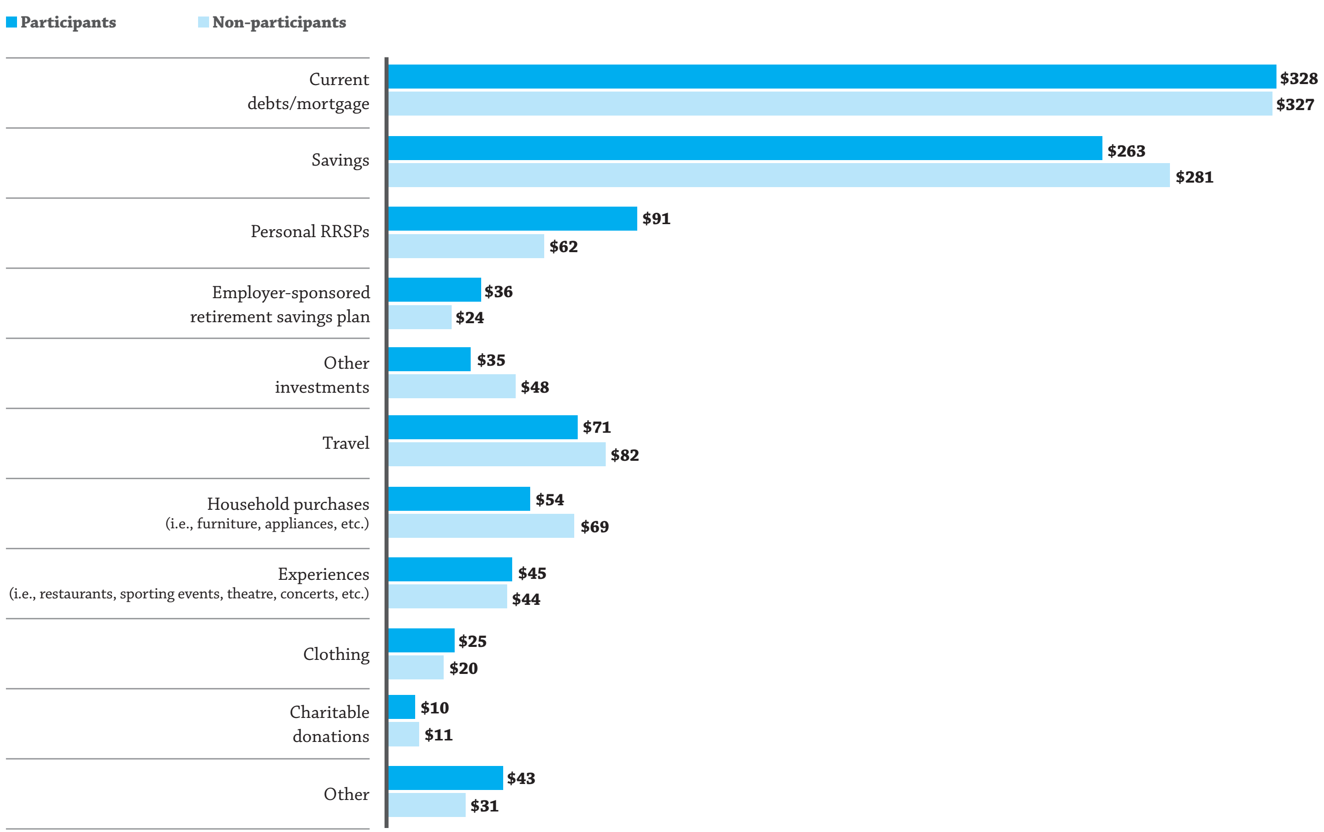
ACTION POINTS

- Make it easy for employees to allocate lump sum bonuses toward retirement savings.
- Help members understand the difference between saving and investing.
- Change the dialogue so that members view investing as a way to "purchase" years of retirement.

with Baynes & White, is that close to two-thirds (61%) of plan participants believe that if they don't make their own investment choices for their employee retirement plan, their employer should take responsibility to ensure that the contributions are invested appropriately. And a startling six in 10 say their employer has a responsibility to ensure that the investment choices they make in their plan are the best choices *for them*.

"Based on these numbers, how many people are still counting on their employers to hold their hand and get them through it?" asks Smyth. "A lot of plan members aren't well educated on investment and savings choices, and they need help to save enough so they don't outlive their retirement savings. Moving forward, I think mandatory plans may help people to save—and, whether they like it or not, they may come around and realize that the sooner you start, the better off you will be when you actually retire." ■

If you received a surprise bonus of $1,000 from your employer, how much of it would you allocate toward each of the following?



2 Retirement Readiness

What can CAP sponsors and providers do to keep members on track to retire as planned?

Based on the results of this year's *CAP Member Survey*, a significant disconnect remains between what plan members *expect* in retirement and what they are likely to *get*. "It's worrisome because retirement readiness is not there," says Anna Pagliuca, associate vice-president, group savings & retirement, with Standard Life. "As service providers and plan sponsors, we really need to provide plan members with greater support and guidance to propel them into what action they need to take to be ready for retirement. They have to start early, set goals and make sure they stay on track."

While it's good news that a higher proportion of members say they feel financially prepared for retirement (46%, versus 40% in 2012), the majority (54%) admit to *not* feeling prepared. Yet participants are expecting to retire at an average age of 63.2 with 53.8% of their current annual income, having saved only $697,236, on average, by retirement.

Even more troubling is that these savings seem to depend on unrealistic expectations of return on investment. Plan members claim they're currently getting a 10.8% return (excluding company match), on average, and are anticipating a whopping 14.3% return year over year.

This year, 72% of plan participants expressed confidence (of which 15% were "very confident") that their employer-sponsored retirement plan will provide the amount of money they expect in order to meet their financial objectives in retirement—a significant jump from 60% the previous year. And they believe their DC plan or group RRSP will provide 31.4% of their total retirement income.

"They need to commit to a contribution rate, commit to a horizon of when they will retire and map out the needed accumulation"

Ken Millard
Great-West Life

"Employees who report to work just because they have not saved enough and are unable to retire will probably be less productive and have an adverse impact on workforce morale"

Vartkes Rubenyan
Mercer

Reported Contribution Levels

More than half (56%) of plan participants think they're on track to meet their retirement targets. But, as in previous years, a dismally low number of plan members (21%) in 2013 say they have a formal, written financial plan that outlines at what age they will retire and the amount they will need to retire by that age.

"When people say they have no formal plan but think they will be all right in retirement, it makes no sense," says Marc Poupart, vice-president, pension & retirement programs, with Hudson's Bay Company. "And if their expected earnings on investments are unrealistic, they won't have enough money to retire. This creates concern. I wonder how we can help them develop a realistic retirement plan and also support them in getting a better deal from the insurance industry during the de-accumulation phase."

Ken Millard, vice-president, national accounts, group retirement services, with Great-West Life, would also like the industry to do more to encourage individuals to create a financial plan.

"They need to commit to a contribution rate, commit to a horizon of when they will retire and map out the needed accumulation. Then, every year, they should review their progress to figure out what the shortfall may be and either top it up or amortize that amount for the remaining lifetime. Providers can help members calculate their retirement income needs through access to our tools, websites and various education models."

And low contribution rates and insufficient retirement income will not only affect plan members, cautions Vartkes Rubenyan, a principal with Mercer. "They will also have financial and workforce management implications for plan sponsors. Any cost/benefit analysis pertaining to an assessment of the level of contribution rates offered by companies should consider both the implications of having sufficient retirement income and low workforce morale and productivity. Employees who report to work just because they have not saved enough and are unable to retire will probably be less productive and have an adverse impact on workforce morale." ■

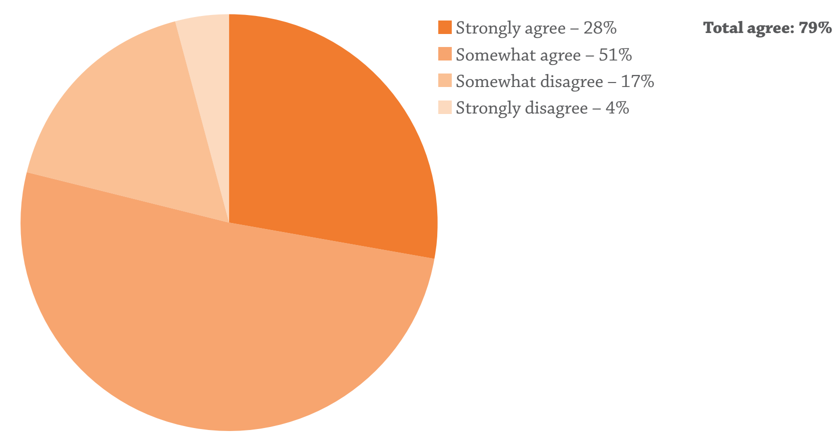
"As service providers and plan sponsors, we really need to provide plan members with greater support and guidance to propel them into what action they need to take to be ready for retirement"

Anna Pagliuca
Standard Life

ACTION POINTS

- Encourage plan members to create a formal, written retirement plan, and offer tools to help them.
- Focus communications on joining the plan, setting goals and making adequate contributions.
- Keep messages simple—and repeat, repeat, repeat.
- Use storytelling to communicate what retirement may look like with and without adequate pension funds.

Not contributing to the maximum company match level may impact my ability to retire at the standard of living I would like to.



3 Education and Support

Are members actually using the information, tools and resources available to them?

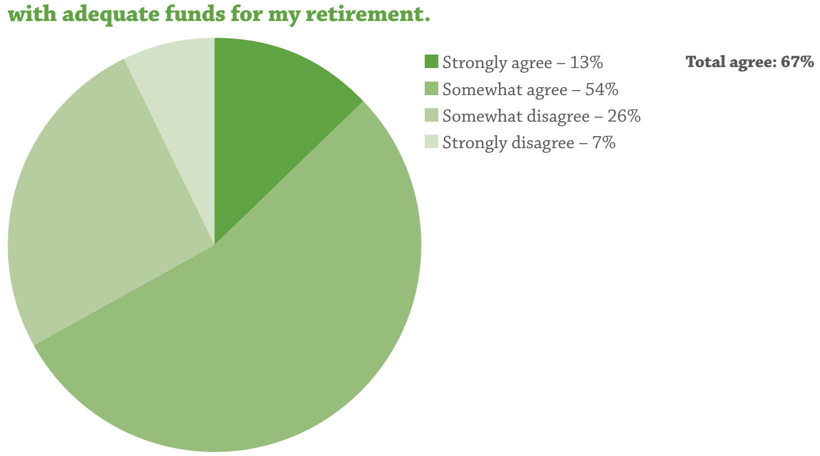
For years, the retirement industry has worried that CAP members don't understand their employee retirement plans as well as they should, despite the wide availability of tools and support. And that troubling trend continues, according to this year's *CAP Member Survey*.

Just over half (51%) of plan participants said they didn't seek out specific information prior to joining their employer-sponsored retirement plan. Among those who did, 20% looked for information about performance, while 16% wanted to know about investments and 13% wanted plan details.

"It concerns me that only half are seeking information—and, when they do, they only seek out return on investments," says Karrina Dusablon, director, education and communication services, with Desjardins Financial Security. "We all know that investments are just one ingredient in our overall strategy, but that needs to be tied in with the overall objective of their retirement plan. When we look at all the time and money invested in various communication tools and see that the usage has gone down again, maybe we need to do a better job at personalizing the right tool with the right audience. After all, it's not about overloading the plan participants with too much information but providing multi touch points so they can connect with us in a way that they are comfortable with."

Those touch points may include social media. A growing proportion of members (31%, versus 25% in 2012) say they'd be likely to access information regarding their CAP if it were available on social media such as LinkedIn, Facebook, YouTube and Twitter.

I trust that the default investment chosen by my employer—that is, the investment vehicle my funds go into if I do not make a choice—will provide me with adequate funds for my retirement.



"Social media is a natural venue for people to share their stories, so it offers a fantastic opportunity to learn about the importance of saving for retirement through real conversations being shared by real people," says Jennifer Mayrhofer, manager, marketing and communications, group retirement services, with Great-West Life. "Whether it's coming from plan administrators, plan sponsors or other plan members, people are going to pick up on authentic stories told through social media about retirement income adequacy. This is a great avenue for us to listen and to share, and to help foster financial literacy online."

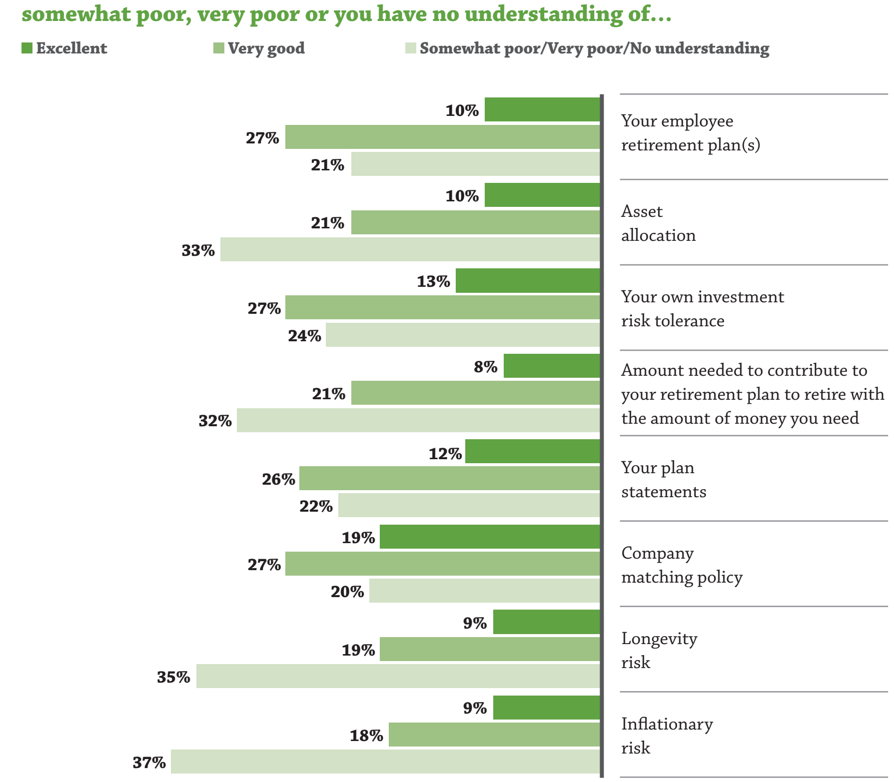
More plan members claim an excellent or very good understanding of their retirement plans (37%), asset allocation (31%), risk tolerance (40%), plan statements (38%) and the amount they need to contribute to their retirement plan in order to retire with what they need (29%). Nearly half (46%) report an excellent or very good understanding of their company matching policy, but only 28% report a high level of understanding of longevity risk and 27% of inflationary risk.

"When you look at the overall formula that determines what comes out at retirement—time, contributions and investment growth—we really need to focus on the time and contributions parts," says Mark Dowdell, senior vice-president with Pal Benefits. "It's alarming to see an increasing trend

"It's not about overloading the plan participants with too much information but providing multi touch points so they can connect with us in a way that they are comfortable with"

Karrina Dusablon
Desjardins Financial Security

Would you say your understanding is excellent, very good, somewhat good, somewhat poor, very poor or you have no understanding of…



ACTION POINTS

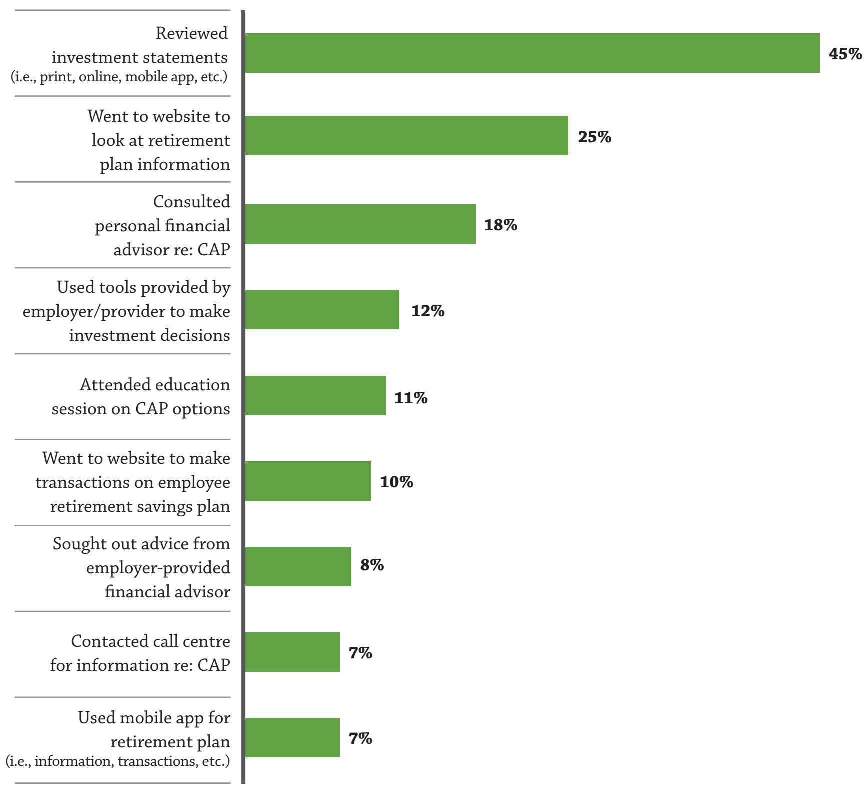
- Use the "rule of seven": communicate each topic seven times in seven different ways.
- Consider social media to encourage employees to share personal stories and encourage discussion about the retirement plan.
- Choose your plan's default option wisely to help protect those members that you just can't engage.

for more people to have a poor or no understanding of how much they need to contribute. A lot of participants do not have a good appreciation of how long they are going to live or how long they may have to live off this money. Plan sponsors need to help members focus on the adequacy of their retirement savings and not just the investment return."

In fact, members may be *expecting* this kind of help and support from CAP sponsors. Two-thirds (67%) say they trust that the default investment chosen by their employer will provide them with adequate funds for their retirement.

"Defined benefit plans may be in decline, but plan members' assumptions that their employers will ensure they achieve retirement income adequacy remains strong," says Mayrhofer. "With this in mind, employers may need to revisit their default investment options to ensure they are appropriate long-term investment options for plan members who do not actively make investment decisions." ■

Have you done any of the following with your employee retirement plan(s) within the past year?



"Plan sponsors need to help members focus on the adequacy of their retirement savings and not just the investment return"

Mark Dowdell
Pal Benefits

4 Motivations and Actions

What motivates CAP members' behaviour, and what might help them make better decisions?

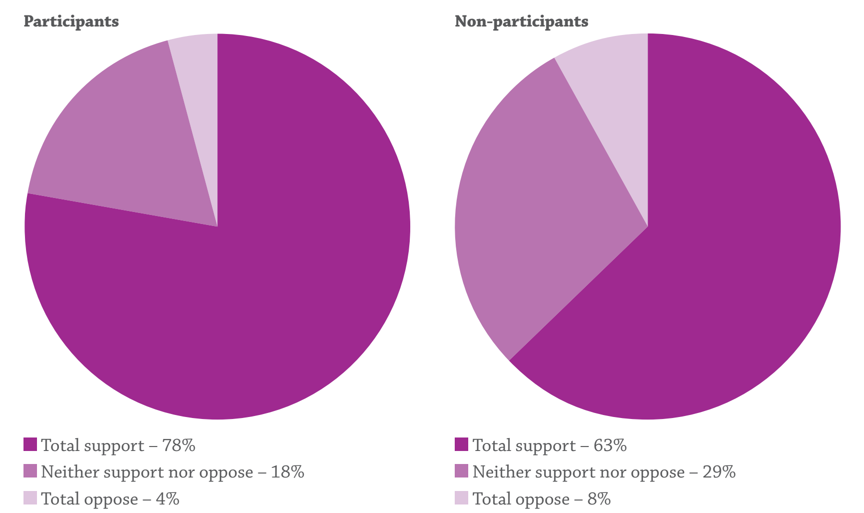
CAP sponsors may well wonder why some employees don't embrace the opportunity to participate in these plans, leaving money on the table. This year's *CAP Member Survey* delved into some of the reasons why employees do or do not join the employer-sponsored retirement plan, and what actions they take as members if they do enrol.

When making the decision to join their retirement plan, members consider a number of factors: age (48%), impact on take-home pay (39%), current savings (32%), government public pensions (23%), fluctuations in financial markets (20%) and levels of personal debt (18%). Nearly half (45%) who joined the plan later were motivated by the company match, while 40% realized it was "time to start saving."

Looking at those who chose not to join their employer-sponsored retirement plan, one finding that really resonates with Becky West, associate partner, defined contribution practice leader, with Aon Hewitt, is the number of respondents who say they don't know why (2%) or are not interested (19%). "It really becomes evident that there still seems to be a lack of understanding of retirement savings and investment strategies," she says, adding that she was struck by the number who don't know what would encourage them to join the plan or who are uncertain if they will ever join.

"From my perspective, we need to take a page from the defined benefit world and make employee participation in all employer-sponsored retirement plans mandatory and remove any investment decisions from

Combined support for automatic enrollment



"We need to take a page from the defined benefit world and make employee participation in all employer-sponsored retirement plans mandatory and remove any investment decisions from the participants"

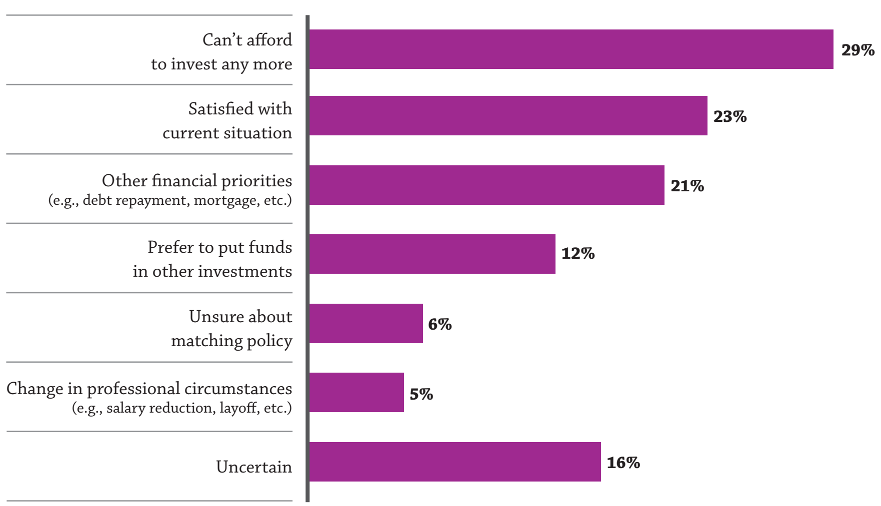
Becky West
Aon Hewitt

the participants," West comments. "CAPs are still in the development phase, and we don't know all the issues we are going to face. To help mitigate these unknown issues, we need to focus more on plan design, on governance structure and on monitoring for the success of meeting the purpose of the CAPs. In a perfect world, I believe we need to take investment choice away from plan members and channel our collective energies into building robust investment solutions that are appropriate for members at all stages of their investment life."

Auto-enrollment with an opt-out option could help to manage member engagement, says Anna Del Balso, associate vice-president, market and business intelligence, with Standard Life. This year's survey found growing support among members for auto-enrollment: 78% in favour, with only 4% opposed. "There is a fine line between keeping members engaged and making sure they make the right decisions," Del Balso explains. "With so much concern about debt repayment, we need to encourage financial planning to help people understand how to balance paying down debt with saving for retirement. We need to make it simple for them to join and simple for them to make their investments, then educate them along the way to ensure they gain the knowledge and confidence they need to make long-term decisions."

Shawn Cohen, a relationship manager with MFS Investment Management Canada, agrees that auto features and, ultimately, making retirement plans mandatory are the way to go. Cohen also stresses the need for a cultural shift toward savings and investments. "One idea is the creation of flexible plan designs that accommodate more immediate needs by allowing a portion of employee contributions to go to a tax-free savings account that allows access while directing the employer and remaining employee contributions to a retirement vehicle. This might motivate younger participants to enrol earlier and develop a habit of contributing toward retirement. The industry has done a good job of trying to educate participants on various decision-making responsibilities, but the environment definitely has to shift. And, yes, that may mean taking some of the do-it-yourself responsibilities back from participants." ■

Why haven't you maximized your company match in your retirement plan(s)?



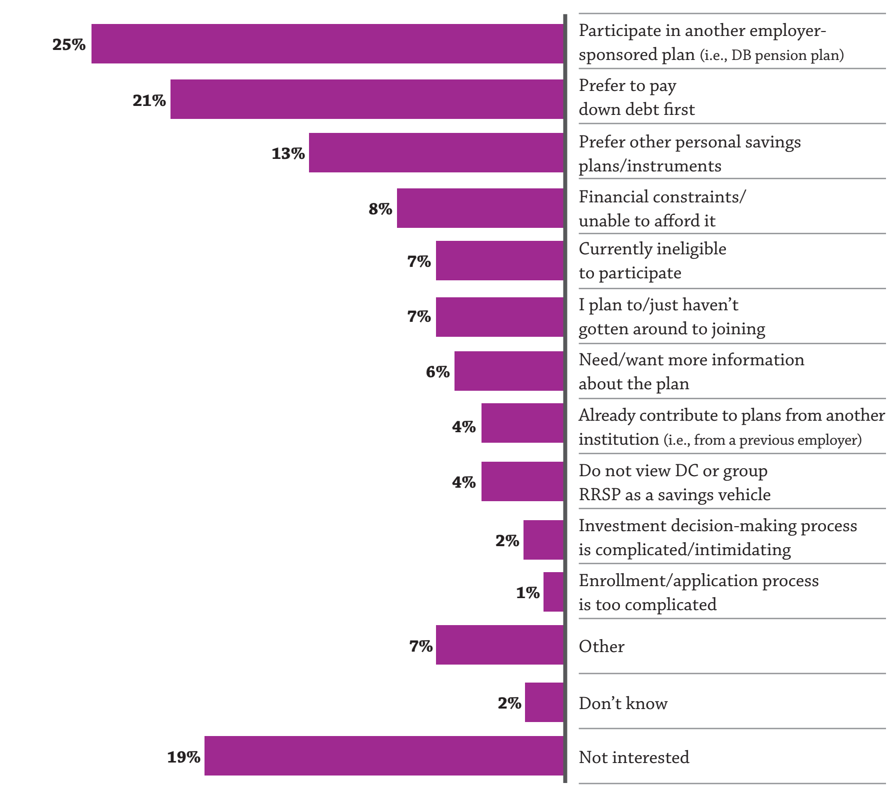
"There is a fine line between keeping members engaged and making sure they make the right decisions"

Anna Del Balso
Standard Life

ACTION POINTS

- Consider auto-enrollment to make it simple to join the plan, and auto-escalation to ensure adequate contributions.
- Simplify investment choices for plan members.
- Allow more flexibility and savings options within the plan.

Why don't you currently participate in the DC plan or group RRSP offered through your employer?



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