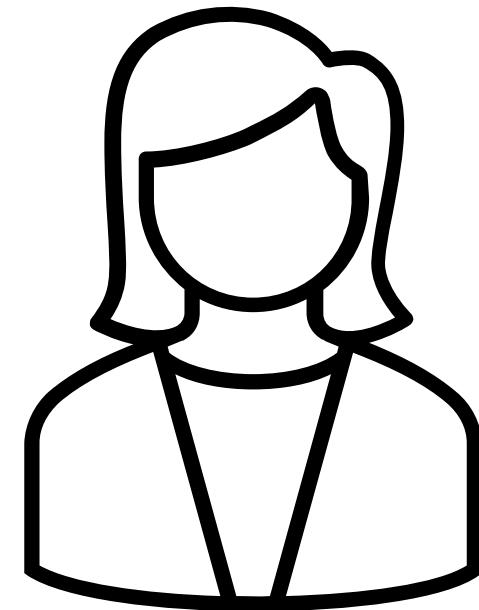


Financial (r)evolution: Decumulating retirement assets through dynamic pension pools

Benefits Canada DC Plan Summit, May 12, 2022

Barbara Sanders



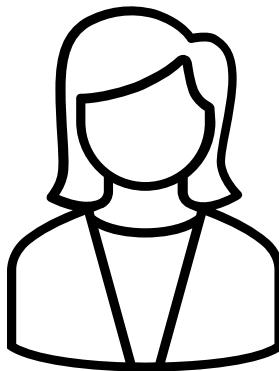




Traditional Life Annuity

Guaranteed
level
payments

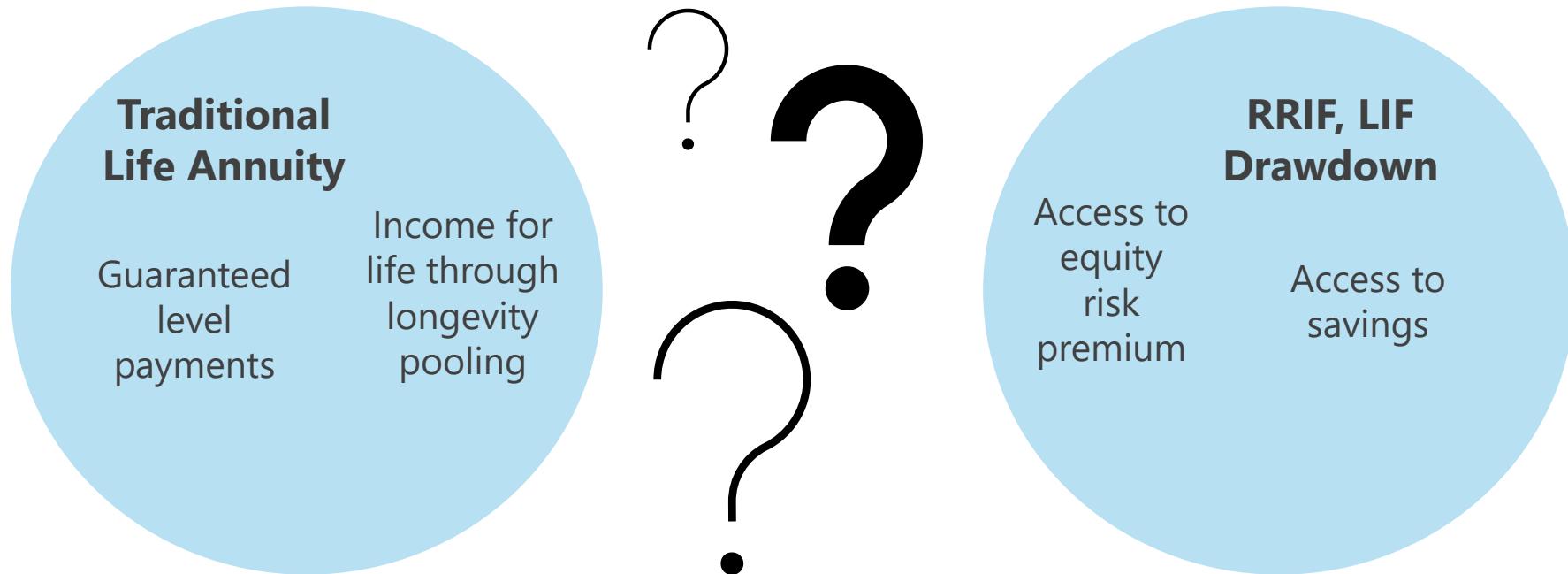
Income for
life through
longevity
pooling

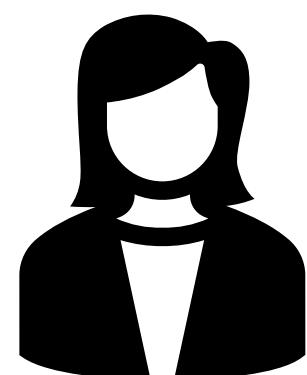
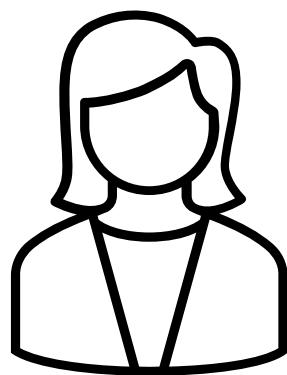


RRIF, LIF Drawdown

Access to
equity
risk
premium

Access to
savings





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RRIF, LIF Drawdown

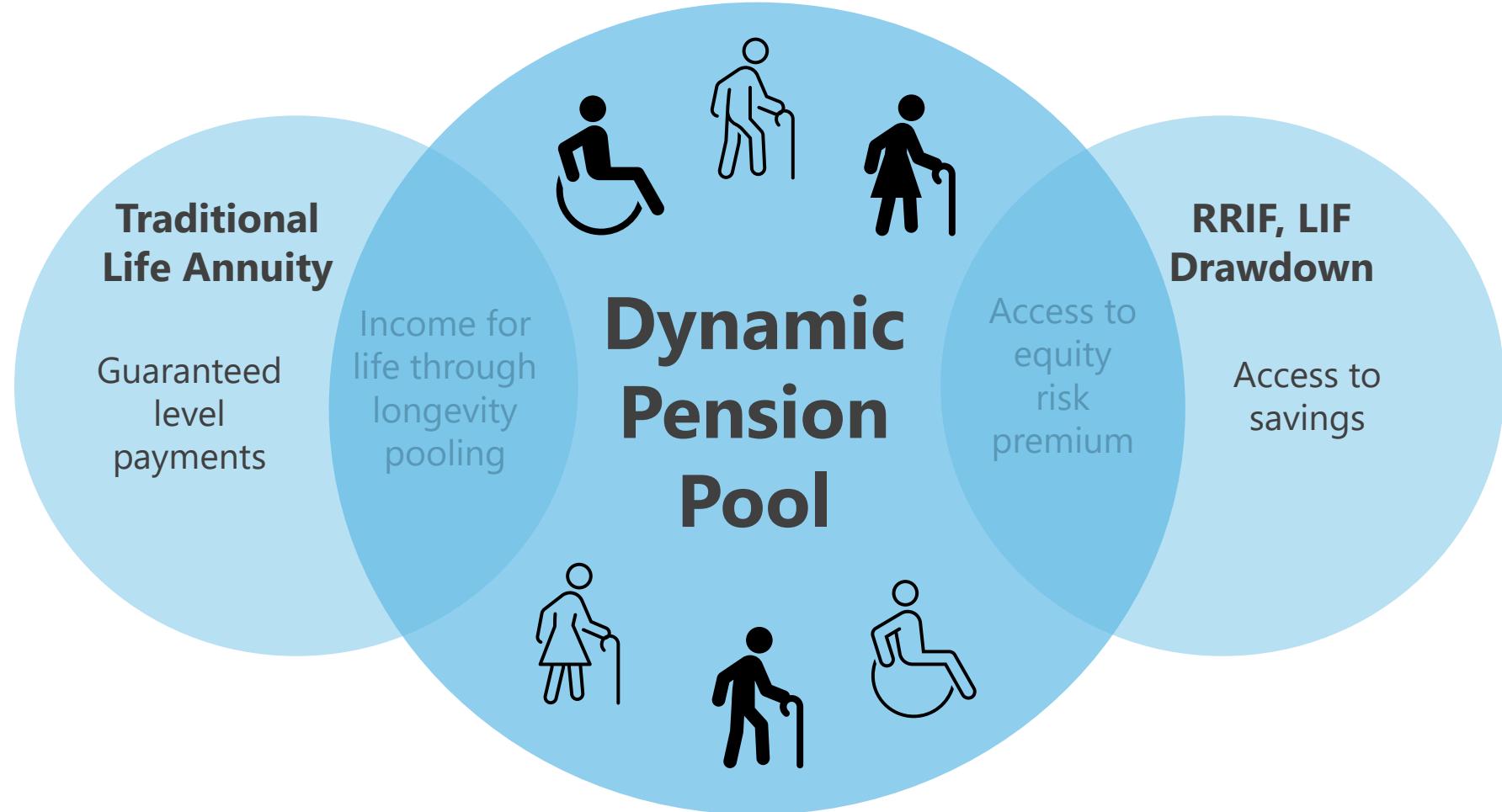
Access to
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Benefits of Dynamic Pension Pools

- Longevity protection
- Access to higher-yielding assets over entire retirement period
- Economies of scale
- No benefit guarantee from plan sponsors (or other provider)

Dynamic Pension Pools

- Allow retirees to convert retirement assets into lifetime income efficiently
- Have a long history of successful operation
- Could have a significant, positive impact on the retirement outcomes of millions of Canadians if supported by legislative changes

Affordable Lifetime Pension Income for a Better Tomorrow

How we can address the \$1.5 trillion
decumulation disconnect in the
Canadian retirement income system
with Dynamic Pension pools

Bonnie-Jeanne MacDonald, PhD, FSA, FCIA
Barbara Sanders, FSA, FCIA
Laura Strachan, FIA, FCIA
and Mitch Frazer, LLB, MBA



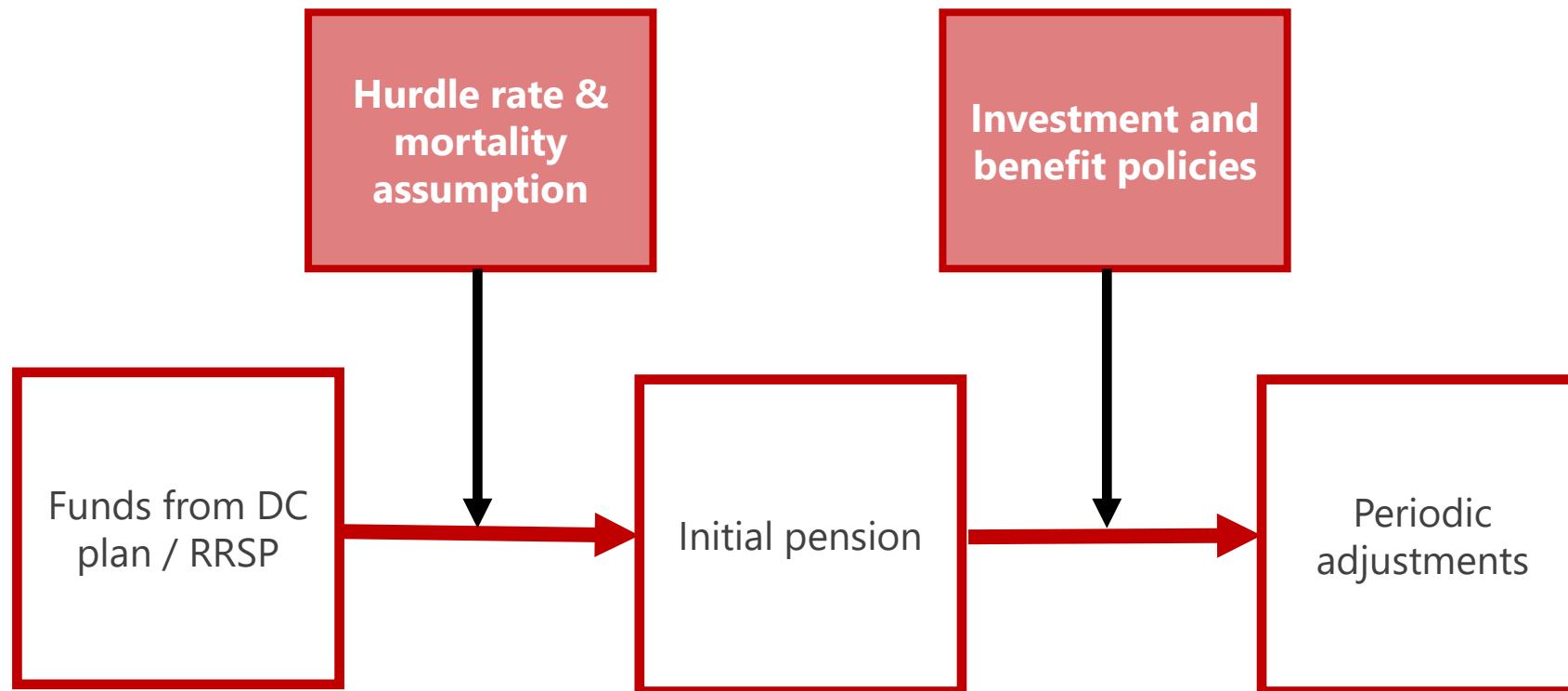
Dynamic Pension Pools

- Also known as Variable Payment Life Annuities (VPLA), group self-annuitization schemes, pooled annuities
- A name change is badly needed

UBC Faculty Pension Plan

- Variable Payment Life Annuity option offered since 1967
- Members can enter pool at any age at or after retirement
- Can transfer other retirement savings into the pool
- Over 400 members currently in the pool
- Two different drawdown patterns available

How Dynamic Pension Pools Work



Inspiration for UBC's VPLA

- TIAA-CREF established in 1952
- Lifetime income to retirees while remaining invested in equities
- Fully participating annuity without guarantees
- Income adjusted periodically to reflect emerging experience and changing future expectations

A 350-Year-Old Idea: Tontines

- Investment pools with a lottery element based on longevity
- Steeply increasing payouts to survivors
- Popular financing tool for government debt in 17th and 18th century
- Other applications of “tontine-principle” throughout Europe and US until early 1900s
- Banned due to fraud and mismanagement (not moral hazard)
- Resurgence of modern versions with more-or-less level expected payout streams

Modern Implementation: QSuper

- Introduced Lifetime Pension offering in 2021
- Open-ended pool
- All cohorts share risk
- Simple annual payout adjustment mechanism
- No investment choice

QSuper's Additions/Tweaks

- Refund of original principal (less benefits paid)
- Cooling-off period
- Government incentive
- No mention of “annuity”

Global View



Financial Revolution

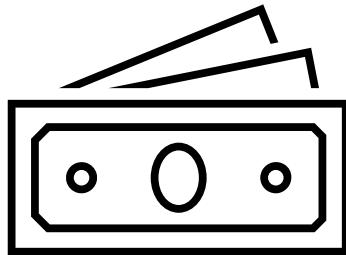
The Problem

C\$1.5 trillion in retirement savings
without adequate means
to convert into income for life

‘Decumulation Disconnect’

Why is Lifetime Income Important?

- Confidence to spend
- Quality of life
- Aging in place
- Home care support



The Vision

Access to lifetime income
for all Canadians
through dynamic pension pools

New Options

- Dynamic Pension Pools (VPLAs) soon to be allowed inside DC plans and inside Pooled Registered Pension Plans
- Need wider pooling through **standalone dynamic pension pools**, offered by suitable entities with appropriate governance structures
- ITA is an obstacle: pension provision tied to employment link
- Employment link needs to be removed for idea to reach full potential

Pension Standards

- Is a standalone dynamic pension pool still a ‘pension plan’?
- Who is the ‘administrator’?
- What role does the regulator play?

Key Takeaways

- Dynamic pension pools allow retirees to convert retirement assets into lifetime income efficiently
- They have a long history of successful operation
- No free lunches: to identify value, consider risk-reward profile, economies of scale and profit incentives
- Standalone dynamic pension pools could have a significant, positive impact on the retirement outcomes of millions of Canadians if supported by legislative changes