2020 CAP MEMBER SURVEY: CHALLENGES AHEAD

How capital accumulation plan sponsors can help their members strive for retirement readiness and financial well-being in the coronavirus era — and beyond

BY JENNIFER PATERSON

As if preparing for retirement wasn't already a steep challenge, along comes the coronavirus pandemic and its impact on the global economy, throwing up even more obstacles for capital accumulation plan members to maneuver.

This year's annual CAP Member Survey, supported by Actuarial Solutions Inc. and Morneau Shepell Ltd., fielded its questions between March 30 and April 1, reaching respondents just as they were starting to come to grips with the effects of the crisis.

As in previous years, *Benefits Canada* asked CAP members about their retirement readiness, but the 2020 survey also asked about their investment strategies and overall financial well-being during these unprecedented times. In a webinar on April 28, *Benefits Canada* hosted a panel of experts to dig into the results and discuss their implications.

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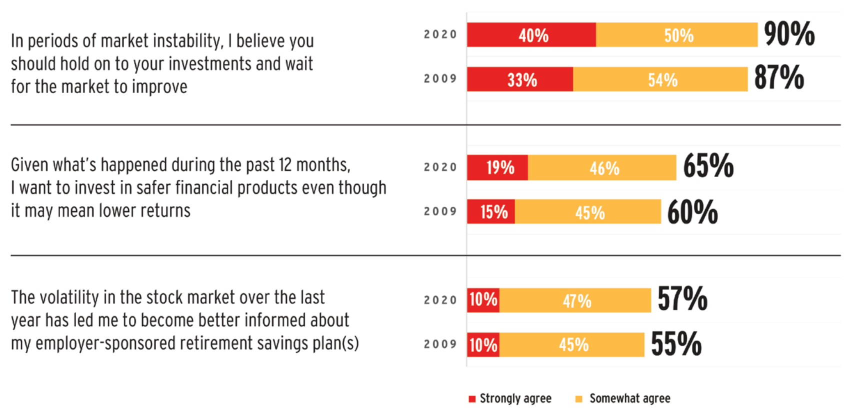
Investment considerations

The vast majority (90 per cent) of surveyed CAP members believe they should hold on to their investments in periods of market instability and wait for the market to improve. A similar percentage (87 per cent) said the same in the 2009 survey after the last global financial crisis.

Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statement?



Despite seeing website and call centre activity volumes rise in March and April, Michelle Loder, partner in defined contribution solutions at Morneau Shepell, said there remains little movement in investment decisions. "What I'm not sure of, however, is whether this should be interpreted as a positive indication — that members are following the often-quoted advice to 'stay the course' — or whether it's more indicative of investment paralysis that can plague us all when the potential impacts of either action or inaction aren't very well understood."

Despite the high percentage of CAP members who said they plan to hold onto their investments, the survey also found 65 per cent want to invest in safer financial products, even though it may mean lower returns. This compares to 60 per cent of respondents who said the same in 2009.

"I think it's a natural reaction to want to go to safety when you see these periods of great uncertainty and volatility," said Joe Nunes, executive chairman at Actuarial Solutions. "It's interesting that the 90 per cent seem to recognize that this isn't the right time to sell their equities, yet they want something safer. So I'm not sure if the people answering the questions really understand this is probably the wrong time to move to safer investments for the same reason. . . .

"What we're seeing more and more is greater percentages of CAP assets filtering through target-date and target-risk funds, and I think that's a good thing for people who aren't experts in investments, because it naturally buffers the emotional reaction of changing at the exact wrong time, and those funds tend to stay the course and rebalance properly."

In somewhat of a silver lining, more than half (57 per cent) of CAP members said the volatility in the stock market over the last year has led them to become better informed about their employer-sponsored retirement savings plan, while 55 per cent of survey respondents said the same in 2009.

During the current crisis, the University of British Columbia is providing DC plan members with timely communications to ensure they understand how the plan and its investments are performing, said Orla Cousineau, the university's director of pensions.

"We basically make the point [that] there's a board, the board is responsible for monitoring the plan investments and, in fact, through the very volatile times, they're closely monitoring the performance and we're in constant contact with our underlying manager. We also told the members we're not making any changes because we believe it's prudent to stay disciplined and focus on the long term. And that seems to be resonating with members — we don't see them making many changes at this time."

Prioritizing retirement

Regardless of the economic climate, Canadians are continuing to juggle their financial priorities. The 2020 survey found more than half (54 per cent) of CAP members are prioritizing paying day-to-day expenses, followed by paying their mortgage or rent (47 per cent), paying off personal debt (38 per cent), enhancing their personal savings (34 per cent) and saving for retirement (28 per cent).

To ensure employees can prioritize retirement savings, UBC has taken a very paternalistic approach, said Cousineau. The faculty plan is compulsory and new hires are automatically enrolled with a five per cent employee contribution and a 10 per cent employer contribution. "We've taken away the choice from members and they don't miss it, because that deduction comes off their first paycheque, so they've never seen the money in their pockets."

Effective April 1, 2020, the university's salaried pension, which is a target-benefit plan, also became compulsory for eligible members. "We expected pushback given the financial stress people are under . . . [but] we had surprisingly little pushback, even at times like this, in terms of making people join the plan, so that was surprising for us."

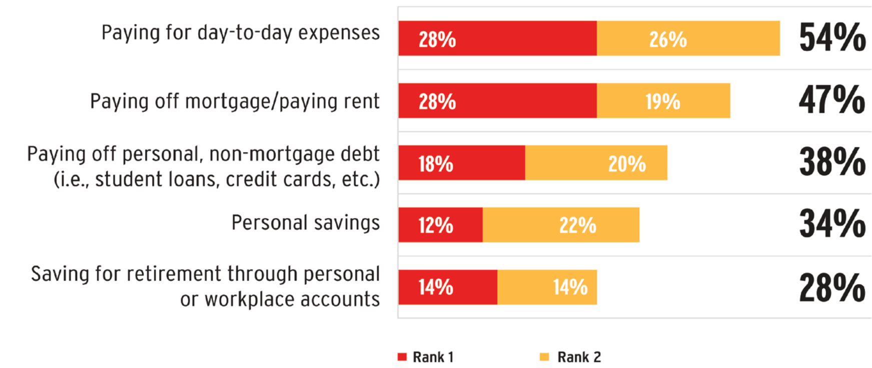
Returning to the survey, where CAP members felt they were having trouble managing their debt and had debt counselling available for free through their employee assistance plan, just 66 per cent of respondents said they'd be likely to access these services.

"EAPs are an important component of a total well-being strategy," said Loder, noting financial well-being is just one element of that. "But the strongest EAPs are equipped to not just help deal with the stress of finances, which is a critically important component as well with COVID-19, but they also provide actual financial consultation. And often that's not understood, but could be of important value to members who are asking for advice in how to navigate these types of events."

Taking everything into consideration, including income, investments and debt, 41 per cent of survey respondents described their current personal financial situation as excellent or very good, compared to 40 per cent who said it's adequate and 19 per cent who said it's somewhat or very poor. In addition, 60 per cent said they're unable to save as much as they'd like for retirement due to other financial debts, such as credit cards or student loans.

"I think the big thing we need to start to get across to workers, savers, Canadians . . . is that having too much credit card debt is the opposite side of insufficient retirement savings," said Nunes. "It comes from too much spending. We have to get better at educating people that they need to keep the spending in check to get the savings in order."

Considering your current household financial situation, rank the following in terms of priority.



The survey also found 36 per cent of respondents said they've felt ill over the last 12 months due to the stress of their personal financial situation. "Unfortunately, I do feel that we'll see this percentage rise as the impact of the pandemic becomes more about actual hardship than the fear of it," said Loder. "However, I'm also hopeful and encouraged that governments, employers and the retirement industry in general are all taking the steps necessary to ensure that much-needed support is available and is being actively promoted."

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Great expectations

When it comes to retirement expectations, the survey found about half (48 per cent) of CAP members believe, if they're careful with their funds, they should be able to live independently in retirement and pay their bills.

"The results don't surprise me," said Nunes. "As a general rule, 20 per cent of workers are going to save carefully and be ready for retirement, whatever they want

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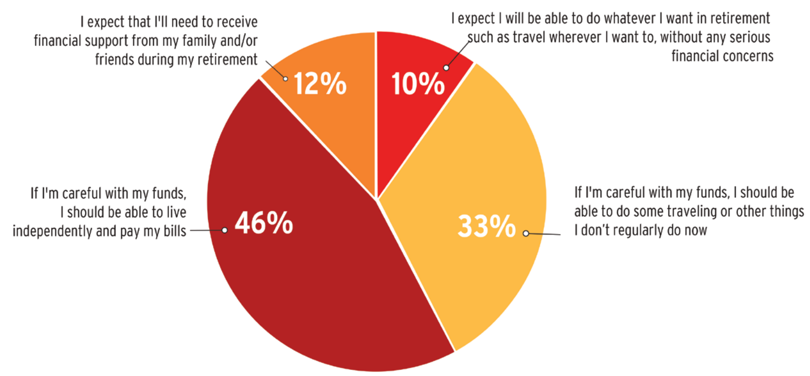
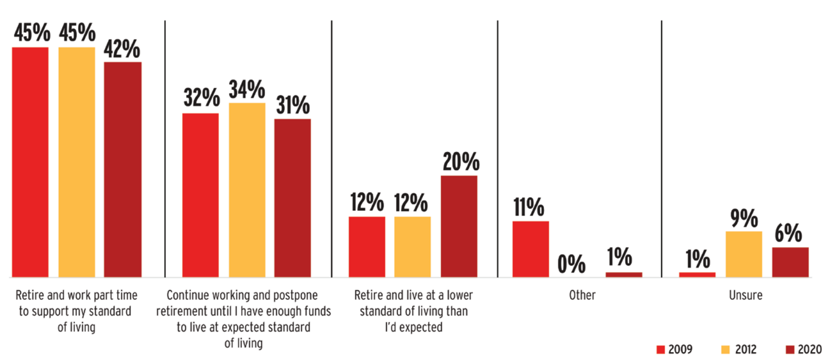
Which of the following best describes the standard of living you expect to have during your retirement?



that to look like for them. And at the other end, 20 per cent — no matter what we do and how hard we try — just aren't going to save. It's the middle 60 per cent where we have an opportunity, through education and planning and higher contribution rates, to help them shift buckets toward greater comfort and less concern."

The survey also found 65 per cent of respondents are confident their workplace savings plan will provide them with the amount of money they expect from it in order to meet their financial objectives in retirement. While this is down from 76 per cent in 2017 and 73 per cent in 2015,

If you were set to retire and couldn't live at your expected standard of living, which of the following would you be most likely to do?



it's slightly higher than the 62 per cent of respondents who said the same in 2009 during the last financial crisis.

On one hand, this is encouraging, said Loder. "For many — especially those members who are participating in well-governed DC plans with reasonable levels of contributions, offering best-in-class investments, [that] have very competitive fees, for those even that offer the benefits of accessing those investments and fees through retirement with decumulation features — they may well be quite right.

"But I do pause when I consider whether those respondents have articulated clearly enough what their financial objectives in retirement actually are, and what proportion of that goal can be reasonably satisfied from their workplace savings arrangements alongside a government [plan] and other personal resources. I'm actually not sure that they're thinking that they're ready for retirement is all that much out of line with reality, but I'm also not certain that they've arrived at that conclusion through careful analysis of their goals and the trajectory that they're following in achieving them, or whether they've taken the shortcut of what I'll call aspirational optimism."

This year's survey respondents were also asked to consider what actions they'd take if they weren't able to live at their expected standard of living in retirement. Some 42 per cent of respondents said they'd retire and work part time, while 31 per cent said they'd continue working and postpone retirement until they have enough funds to live at their expected standard of living.

UBC has a unique workforce, in this respect, noted Cousineau, since faculty members have tenure. But since mandatory retirement was eliminated in B.C., the university's experience is that most people do continue to work longer, though it's down to choice rather than whether they're able to afford to retire.

"We see most of our folks retiring sometime after age 65 and before age 71, although we do have people who start drawing an income who are still working on campus. But with the recent volatility and uncertainty in terms of the world we live in right now, we are noticing — with the members we're dealing with — a number of them are hitting the pause button if they can, because there's that natural desire to want to replenish their accounts before they actually retire."

Setting aside UBC's workforce and its generous DC plan design, the important message for a lot of other plan sponsors is that the majority of respondents see the solution as working longer, said Nunes. "It's a little bit of a warning sign to plan sponsors that if you don't have a generous, well-designed plan that gets everyone to the finish line effectively, you may find that they want to stick around.

"In particular, what I'm interested to see is whether employers — in the last half of 2020 and 2021 — are going to see fewer and fewer people stepping forward to say they're ready to retire. We may have a bit of a quiet period in retirements."

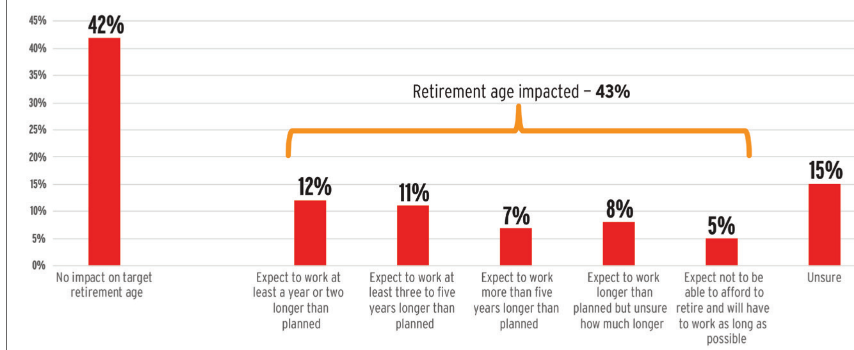
Moving targets

According to the survey, the average age that CAP members expect to retire is 64.3. And, when asked how many years they anticipate their retirement savings will need to last, the average was 23.5. However, 43 per cent of survey respondents said the recent downturn in financial markets has changed their target retirement age.

"The good news is that plan members are becoming better actuaries and better at predicting life expectancy," said Nunes. "Sometimes people calculate their life expectancy as 75 and it's a warning sign that their money is definitely going to run out. It's hard to say on some of the other stats if they're being realistic or not, in that we don't know how much savings they have. But I think it looks positive."

Delaying retirement is certainly one lever people can pull to get their retirement plans on track, noted Loder, but it's still only one option. Other levers include changing savings rates, investment strategies and actual spending needs; considering the impacts of different strategies to minimize taxes in retirement or maximize Canada Pension Plan and old-age security deferrals; considering a post-retirement career to supplement income; or tapping into home equity or reconsidering plans on

Has the recent downturn in the financial markets changed your target retirement age?



the deployment of inheritances.

"What's key here is that people need to have a solid understanding of what their goals actually are, and they need to understand how playing with those levers or variables can impact their ability to achieve them and the different tradeoffs between them," she said. "And only with that understanding, employees can make some really informed decisions and rely less on what I hope isn't guesswork as they're thinking about their plans."

Fortunately, 59 per cent of this year's respondents believe they're currently on track to meet their target for the amount of money they'll need to save for retirement. This is up significantly from the survey findings in 2011 (51 per cent) but down from respondents' confidence in 2017 (68 per cent).

Among those who said they're not on track or don't know, 27 per cent indicated they were on track prior to recent market declines. This compares to 45 per cent who said the same after the last financial crisis.

It's important to remind members that there's no short-term fix to a market crash, said Nunes. "There's an opportunity here to raise awareness among plan members that they can save at greater rates, they can take lesser risks, but there's no easy formula to rebound if they've taken a hit on their account. Frankly, in the planning phase, where I hear people who were going to retire next year and now they have to work three or four more years because of the crash, that sounds like they were taking a lot of investment risk as they were getting close to retirement. And that, again, talks to a lack of understanding of the risk you

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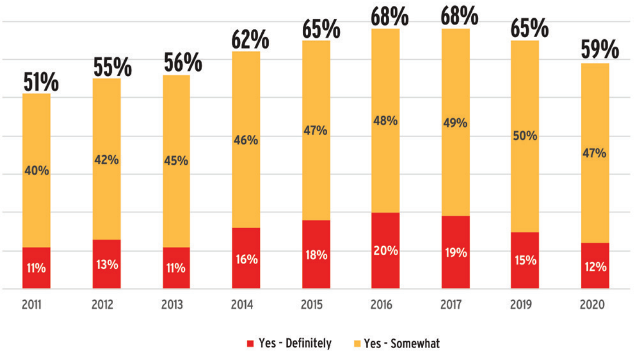
In your opinion, are you currently on track to meet your target for the amount of money you will need to save?



can afford to take when you're getting very close to retirement."

For UBC, more than 80 per cent of DC members are in a balanced fund and stay there. "We have very few people that actually dial up risk in that last 10-year period before retirement," said Cousineau. "We're in fairly good shape that way. We find the key is helping members understand what their savings will provide them with. . . . So we've got a retirement estimator tool and we have staff who will sit down with the member and walk them through that. We find that's the easiest way and the most effective way of increasing somebody's confidence around whether they're ready to retire or not as they approach their hoped retirement date."

In addition, Loder encouraged plan sponsors to think broadly about how they can enhance their DC plans today with members bearing so much risk, including market risk, inflation risk, interest rate risk and longevity risk. "There are a number of avenues that sponsors can explore, from moving into more broad financial wellness programs to offering up decumulation features within their programs, that can alleviate some of these risks."

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