



Bridging the Gaps:
Getting Members to a Successful Retirement
And Beyond

2014 CAP MEMBER SURVEY

Benefits
CANADA



Welcome to the 2014 CAP Member Survey

DECUMULATION: it's the elephant in the room for capital accumulation plans (CAPs) in Canada. We know it's hard to get plan members to save enough money, to spend time thinking about and planning for retirement and to understand what they need to do to be successful. But what happens when employees reach their planned retirement age but don't have enough money to retire? Whose responsibility is it to ensure they get to—and through—retirement?

That's the theme of our 2014 CAP Member Survey—*Bridging the Gaps: Getting Members to a Successful Retirement and Beyond*. CAP members may think they're on track to retire, but are they *really*? Are key messages and information being received and understood by CAP members, or are they completely out to lunch? What roles should plan members and sponsors be playing when it comes to retirement planning and transition? And what can plan sponsors—and the DC industry at large—do to overcome all of these gaps?

We've been conducting this survey for many years now. But this year, for the first time, we also conducted a survey of CAP sponsors so that we

could compare and contrast the results.

The research shows that plan members are looking to their employers for guidance and direction when it comes to saving and investing for the future. In fact, they'd happily off-load much of the decision-making responsibility. But is that a role that employers really want to take on? Just how far are they willing to go? And what are the risks—legal, reputational and other—if they *don't* take an active role in helping employees to plan for their retirement?

Our advisory board explored the differences in the perspectives of plan sponsors and members when it comes to saving and planning for retirement. You'll find a summary of the results, as well as expert analysis, in the following pages.

Decumulation in a DC context is a challenge that's not going to go away. And, clearly, there's work to be done. But at least, in identifying the gaps, we're taking the first step toward overcoming them.

Alyssa Hodder



The 9th annual *Benefits Canada CAP Member Survey* was conducted by Rogers Insights Custom Research Group online in July 2014, with 1,203 Canadians who participate in a DC pension plan or group RRSP provided through their employer. In addition, surveys were conducted with 251 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 $\pm 2.8\%$ for plan participants, 19 times out of 20, and $\pm 6.2\%$ for non-participants, 19 times out of 20. In addition, an online study was conducted with 59 senior representatives of Canadian organizations that offer their employees a DC pension plan or group RRSP. Due to rounding, some questions may not add to exactly 100%.



Advisory Board

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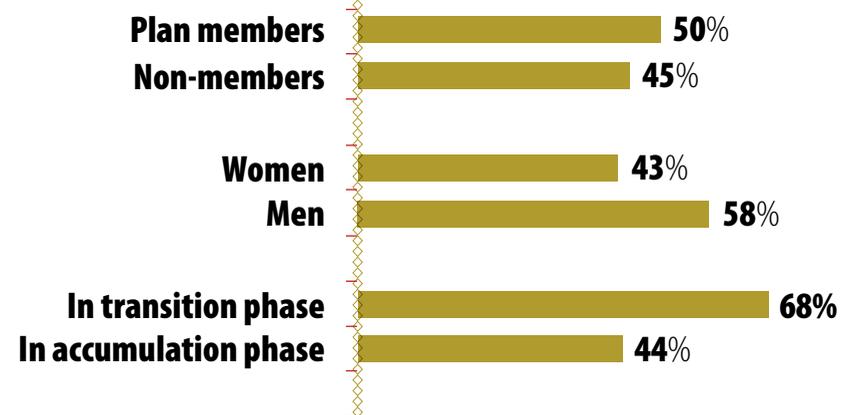
Colin Ripsman

Eckler Ltd.

Employers that provide capital accumulation plans (CAPs) to help employees save for retirement may want to double check on their plan members' *perceptions* of retirement readiness. This year's *CAP Member Survey*—which, for the first time, included questions for plan sponsors—found a significant gap between sponsors' and members' beliefs and expectations.

A growing number of plan members (50% compared with 46% in 2013 and 40% in 2012) feel they are financially prepared for retirement, and 70% of plan sponsors believe that their average employee is in a good position for retirement, based on his or her stage in life. Considering the responses to

Please indicate whether you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statement:
I feel financially prepared for retirement



other questions in the survey, both members and sponsors may be overly optimistic about members' current retirement readiness.

The gap between what plan sponsors and employees think, in terms of financial preparedness for retirement, is one of the key areas that need to be addressed, says Anna Del Balso, associate vice-president of market and business intelligence for Standard Life. "It is very important that sponsors define the objective of the plan and make the employees aware of what the employer is willing to provide as a pension plan. As well, sponsors need to better understand where their own employees are in terms of financial preparedness and what their needs are so they can adapt communication plans to address those specific needs."

On one level, plan members' expectations are becoming more realistic: they plan to retire later (at 63.3 years of age, on average), they expect to actually have 58.4% of their current annual income in retirement, and they expect to have saved \$709,201 by retirement.

"It's a challenge for many members to understand how much is enough to save for retirement, and I'm glad to see a connection between what they are saving and what they will need in retirement," says Colin Ripsman, a principal at Eckler Ltd.

Michelle Chusan,
Hudson's Bay Company



"We need to show that investing in the plan has advantages such as low fees that ultimately produce higher balances and greater retirement income. We also need to explain company matches and encourage them to take advantage of that."

"With about \$700,000, they could expect an annuity of between \$40,000 and \$50,000, and, together with government benefits—especially with a second income—I think that is a reasonable level."

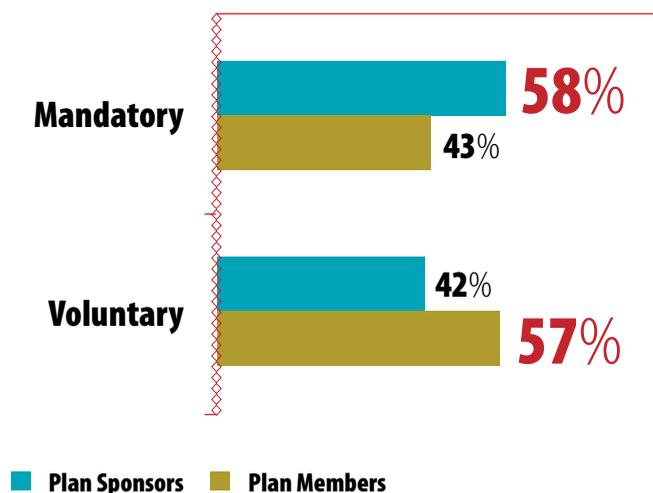
This year's survey also shows a significant increase in the number of CAP members (71% versus 60% in 2012) who are confident that their employer-sponsored retirement plan will provide the amount of money they expect in order to meet their financial objectives for retirement. Although few (30%) say they have a formal, documented financial plan

that outlines at what age they will retire and the amount of money they need to retire by that age, 62% believe they are currently on track to meet their targets. Members expect a 12.9% return on their investments year over year (down from 14.3% in 2013) and an average rate of return of 17.8% over the long term until retirement. They also say they are currently achieving a 13.7% rate of return on their investments—a jump from 10.8% in 2013 and 6.3% in 2012.

The apparent gap between the confidence people have that they will

Plan members: Is participation in your employer-sponsored retirement savings plan...?

Plan sponsors: Is participation in your DC plan or group RRSP...?





Anna Del Balso,
Standard Life

“Sponsors need to better understand where their own employees are in terms of financial preparedness and what their needs are so they can adapt communication plans to address those specific needs”

have enough money in their plans to retire, the percentage of income expected at retirement and what members are *actually* accumulating in their plans could lead to potential problems for sponsors down the road when members’ expectations don’t meet the results at retirement age, says Ripsman. “I see a potentially huge workforce issue where people can’t afford to retire but want

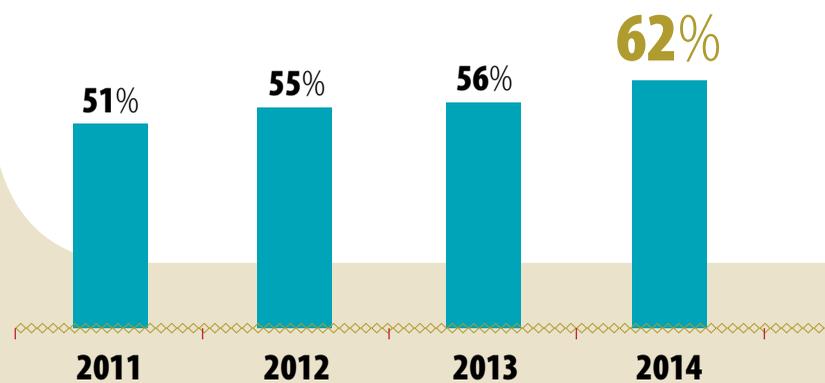
to be gone a long time ago. It’s important for plan sponsors to manage expectations—and, more importantly, to change behaviours and remove some of the mismatches in terms of expectations of results.”

Members’ lack of confidence shows that simply offering a CAP isn’t enough to prepare employees for retirement, says Michelle Chusan, director, retirement programs &

communication, with Hudson’s Bay Company. “We need to show that investing in the plan has advantages such as low fees that ultimately produce higher balances and greater retirement income. We also need to explain company matches and encourage them to take advantage of that. By making it relevant and easy for them to understand, we can increase their confidence.” ■

Plan members: In your opinion, are you currently on track to meet your targets for the amount of money you will need to save for retirement?

■ Yes, Definitely/Yes, Probably



Action steps

- Define the objective of the CAP and help employees understand what they can reasonably expect at retirement.
- Find out what employees think about their retirement readiness, and target relevant, timely and repetitive communications to address their needs.
- Help employees envision what their retirement may look like, taking into consideration the amount saved, when they plan to retire, and the risks of longevity and inflation.
- Use clear, concise and small messages to target specific audiences within the employee group.

PLAN RISKS AND

THE

EMPLOYER’S ROLE

CAP sponsors may be encouraged to see that member satisfaction levels remain high, both with their plans (88%) and with the performance of the plans’ investments (87%). But some of the other findings of the 2014 *CAP Member Survey* should raise eyebrows about the potential risks related to sponsors’ and members’ different views on each other’s responsibilities.

On the positive side, the majority of plan members (69%) and non-members (54%) would support auto-enrollment in their employer-sponsored retirement plan. And a growing number of members (64% compared with 49% in 2013)

support the implementation of auto-escalation of contributions (increasing contributions over a specific timetable unless a waiver form is signed).

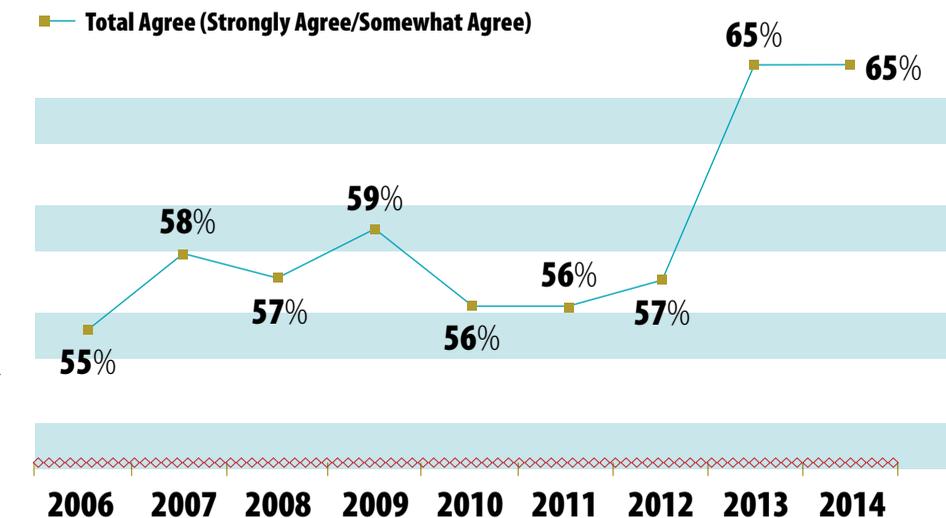
“We know in the U.S., these types of auto features positively impact retirement readiness,” says Rod Smith, director, client services, central region, group retirement services, with Great-West Life. “Encouraging legislative change in Canada to promote these features would have a tremendous impact on retirement income adequacy—and, based on the results of the *CAP Member Survey*, it looks like Canadian workers are ready to support this approach.”

Rod Smith,
Great-West Life



“We know in the U.S., these types of auto features positively impact retirement readiness”

Plan members: I would be reluctant to leave my employer because of the retirement plan and other benefits offered as part of my compensation package



Plan sponsors: What is the main reason your organization offers a DC pension plan/group RRSP? [Top 3 ranked]

■ Ranked 1, 2 or 3



Less encouraging, however, is the 63% of plan members who believe that if they *don't* make their own investment choices, employers have the responsibility to ensure their contributions are invested properly. More than half (54%) say their employer is responsible for ensuring that the investment choices they make are the "best choices for them," and 66% trust that the employer's default investment will provide them with adequate funds for their retirement. Meanwhile, only 46% of sponsors agree that the default option should provide an adequate long-term return for the member, while 27% say the default option should be a conservative choice that will not lose money.

A significant percentage (42%) of members also believe that, ultimately, their employer has a responsibility to ensure that they will retire with enough funds to live at an acceptable standard of living. "As a plan sponsor,



Larry Ketchabaw,
Unisource Canada

"As a plan sponsor, I cringe to see that so many members believe we have a responsibility to ensure they will retire with enough funds"

I cringe to see that so many members believe we have a responsibility to ensure they will retire with enough funds," says Larry Ketchabaw, manager of benefits for Unisource Canada. "There are three components of retirement [the employer-sponsored plan, government plans and personal savings], and it seems we are probably not doing a good enough job to make people understand that we are only one part of it and that they have a bigger responsibility."

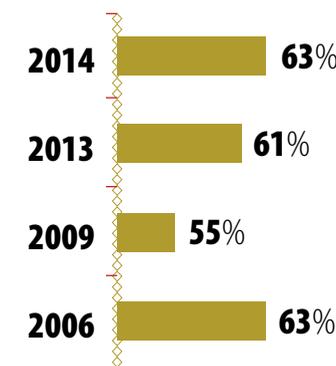
Most CAP sponsors acknowledge their responsibility to explain to plan members the consequences of making bad investment choices (71%), to explain to new members the consequences of *not* making an investment choice (79%) and to provide employees with tools and resources to help them make sound decisions regarding their employee retirement plan (95%). But only 64%

Action steps

- Reduce risk by being actively involved in helping employees attain an adequate savings level.
- Explain to members how they can benefit from lower fees by investing in their company's CAP.
- Review default options and consider implementing target-date funds.
- Educate employees about the "three-legged stool" approach to retirement savings.

Plan members: If I don't make my own investment choices for my employee retirement plan(s), my employer should take responsibility to ensure that my contributions are invested appropriately.

■ Total Agree (Strongly Agree/Somewhat Agree)

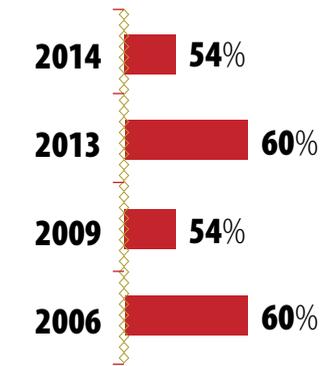


of sponsors agree they need to ensure that plan members are using a vehicle that will provide adequate returns for an adequate retirement.

The potential gap between expectations and reality presents a significant risk to plan sponsors, says Janice Holman, who leads the DC consulting group at Eckler Ltd. "The biggest risk with a CAP is when someone gets to retirement, is disappointed and considers their course of action to make up the gap. Yet 27% of sponsors are still in the capital preservation camp, which is scary because we know that capital preservation investments are not going to lead to adequate savings and that

Plan members: My employer has a responsibility to ensure that the investment choices I make in my employee retirement plan(s) are the best choices for me.

■ Total Agree (Strongly Agree/Somewhat Agree)



66% of members believe the default fund will provide them with adequate funds for their retirement. Sponsors face three risks: a business risk when people can't retire at their chosen time, a legal risk if enough employees come together to form a class action and a reputational risk to the organization."

Strong support for an automated solution from both members and sponsors is fantastic, Holman says, adding "that's what's going to get us there." But she is concerned that only 79% of plan sponsors feel the need to communicate the consequences of *not* making investment choices, since that's a *CAP Guidelines* requirement.

Janice Holman,
Eckler Ltd.



"The biggest risk with a CAP is when someone gets to retirement, is disappointed and considers their course of action to make up the gap"

Holman also expresses worry that only 61% of plan sponsors are concerned about the liability of providing financial advice to members. "I would be very careful about what I was doing in terms of a plan sponsor providing direct advice," she warns. "If you look at the court cases that we've had in Canada, they mostly stem from communications and misunderstandings." ■

The 2014 *CAP Member Survey* highlights—once again—that employee engagement remains a challenge for plan sponsors. And, with plan sponsors included in the survey this year, the results reveal a significant gap between how employees and sponsors view various aspects of their retirement savings plans.

Asked about their biggest obstacles for getting employees to enrol in their DC plan or group RRSP, sponsors' top response was "general lack of interest in retirement planning" (54%), followed by "lack of understanding of plan benefits" (37%), "employee cost constraints" (34%) and "low awareness of the plan" (9%). By contrast, only 12% of employees who don't participate in

their company CAP say they weren't interested. The bigger excuse was affordability: 20% prefer to pay down debts first and 19% cite financial constraints—up from 8% in 2013.

Anna Pagliuca, associate vice-president, customer relationship and member education, with Standard Life, suggests that sponsors address the survey's results on members' lack of interest and lack of understanding through mandatory enrollment and frequent communications to help members understand the importance of retirement planning, improve their knowledge and promote engagement. "The survey indicates that, for employees concerned about paying down debt, sponsors should look into helping them understand how to split their focus between debt and planning for the future," she says.

Although nearly all (97%) plan sponsors agree that employees are

responsible for taking an active role in their CAP to ensure they can retire successfully, the survey results describe only 36% of plan members as "active" participants. Within the past year, a small minority of members maximized the company match (19%), increased their contribution amount (19%), changed their investment options, rebalanced their investment mix (16%) or used information provided by their employer to make investment decisions (10%).

About one-third (38%) of plan members self-report having an excellent or very good understanding of their employee retirement plan, while 40% claim a somewhat good understanding. A minority of members claim an excellent or very good understanding of specific aspects such as asset allocation (31%), risk tolerance (40%), the amount needed to contribute to

Anna Pagliuca,
Standard Life

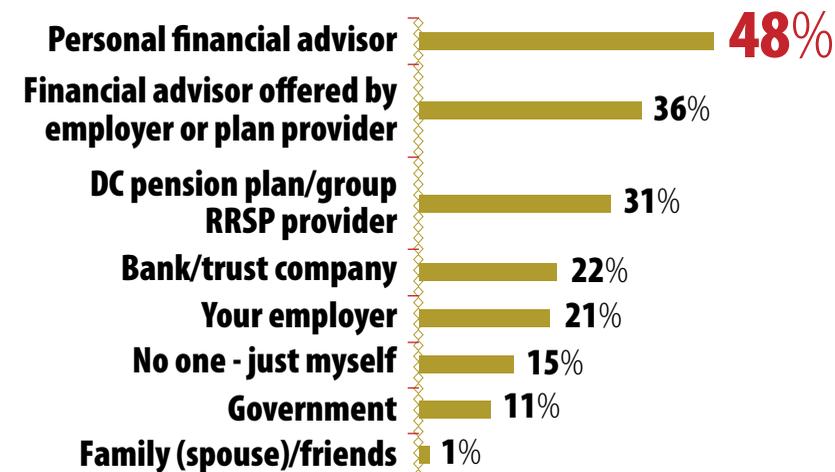
"The survey indicates that, for employees concerned about paying down debt, sponsors should look into helping them understand how to split their focus between debt and planning for the future"

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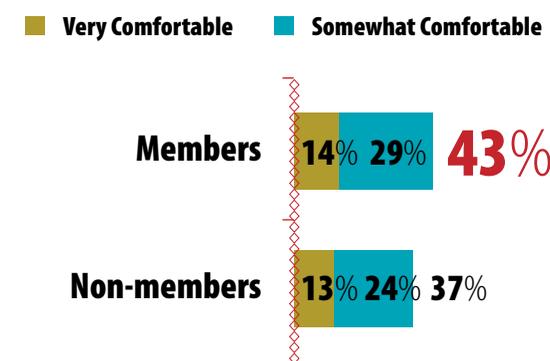


"Are we putting too much emphasis on trying to make our members know everything? I don't think making them investment specialists and/or retirement specialists is the way to go."

Plan members: Who do you feel should assist you in making decisions on what you will do with your DC pension plan/group RRSP retirement savings funds when you retire?



All respondents: If available, and you wanted to enrol, how comfortable would you be enrolling in your DC pension plan/group RRSP via a mobile device, such as a smartphone or tablet?

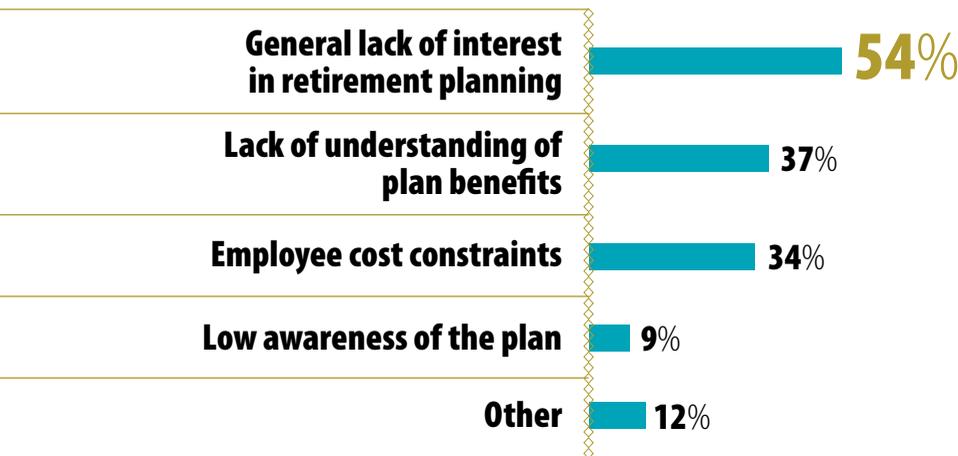


their retirement plan to retire with the amount of money needed (30%) and their plan statements (37%). Meanwhile, plan sponsors express even *less* confidence in members' understanding of key elements of saving for retirement.

"I wonder if members really need to understand the intricacies and complexities of asset allocation of investments and inflationary risks, when the majority of members select a lifecycle path," says Karrina Dusablon, national director of education and training with Desjardins Insurance. "Are we putting too much emphasis on trying to make our members know everything? I don't think making them investment specialists and/or retirement specialists is the way to go. More than half (54%) of members say they aren't knowledgeable. We need to focus more on basic concepts that can be easily understood and build on that. The key is getting them enticed and getting them to take action before we can go further."

While 83% of plan sponsors are satisfied with the tools and support that service providers offer to assess the retirement readiness of employees, fewer (77%) members plan report

Plan sponsors: In your experience, what are the biggest challenges in getting employees to enrol in your CAP?



that their employers provide a range of services and tools around their employee retirement savings plan. And not many take advantage of what's offered. Only 35% reviewed all retirement statements—a big drop from 72% in 2008. About one-third (32%) went to a website to review their account balance or transactions, 23% went to a website to look at retirement plan information, 19% consulted their personal financial advisor regarding their employer-sponsored retirement plan, 15% used online or hard-copy retirement planning calculators or tools to make investment decisions, and 14% attended education sessions on their retirement investment options.

“We need to dig deeper with our individual members and our employee groups to understand why

there is inertia among certain groups,” says Colleen Falco, director of HR services for Niagara Casinos. “The pension plan is a beautiful platform to use for engaging employees in all the other things that you might be trying to achieve as a company. You need to not only remind your employees



Colleen Falco,
Niagara Casinos

“We need to dig deeper with our individual members and our employee groups to understand why there is inertia among certain groups”

about a very basic component of their compensation package but, more importantly, help them through a number of engagement strategies—whether it's online tools, engaging them with iPads, giving them education opportunities or building their financial literacy.”

Action steps

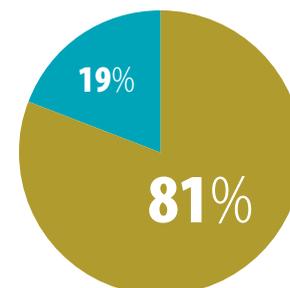
- Use sponsor-branded communication materials to encourage employees to link the pension plan with their employer.
- Personalize communication—by gender, generation or milestone—so members can better understand “What’s in it for me?”
- Include information about retirement planning on the company’s wellness website.
- Offer incentives such as competitions with rewards for completing a retirement planner.

Plan sponsors may think they have enough worry just getting employees to save for retirement, but, based on results of this year’s *CAP Member Survey*, it’s likely that many plan members will also need help turning their retirement savings into retirement income.

“We talk a lot about how much money we are going to need but not how we’ll spend it,” says Anita Lieberman, regional vice-president, group retirement savings, with Desjardins Insurance. “But decumulation is a really important topic—and, with so many people set to retire, it’s a big bubble that is going to burst. We have to start

Plan members: If available, how comfortable would you be with receiving an electronic copy of your annual DC pension plan/group RRSP statement instead of a mailed printed copy?

■ Comfortable ■ Not Comfortable



marrying the accumulation of wealth with members’ goals and expectations for their lives because retirement is the endgame after all the years of saving.”

Over the years, members’ characterization of their expected retirement hasn’t changed much. The majority (77%) believe that if they are careful, they will be able to live independently, pay their bills (46%) and perhaps even travel a bit or do other things they don’t do now (31%). To finance their anticipated standard of living, members say they’ll need to save an average of \$764,484. But they also acknowledge factors that could prevent them from achieving their expected standard of living: personal finance (30%), economic factors (24%), health-related concerns (22%) and job-related issues (11%).

While members agree that their total retirement income will come from several sources, including personal RRSPs (17.3%), personal savings (10.2%) and government pension plans (20.6%), they expect the biggest proportion (27.9%) to come from their employer-sponsored retirement savings plan. Most plan members, however, lack understanding of the payout options for their DC plan or group RRSP when they retire. Only 27% say their

Vartkes Rubenyan,
Mercer



“At a point in time, employees should take charge of their retirement planning”

understanding is excellent or very good, while 27% say very/somewhat poor, and 7% admit to having *no* understanding. As well, 38% of members say they don’t know what happens to their savings in a CAP when they retire.

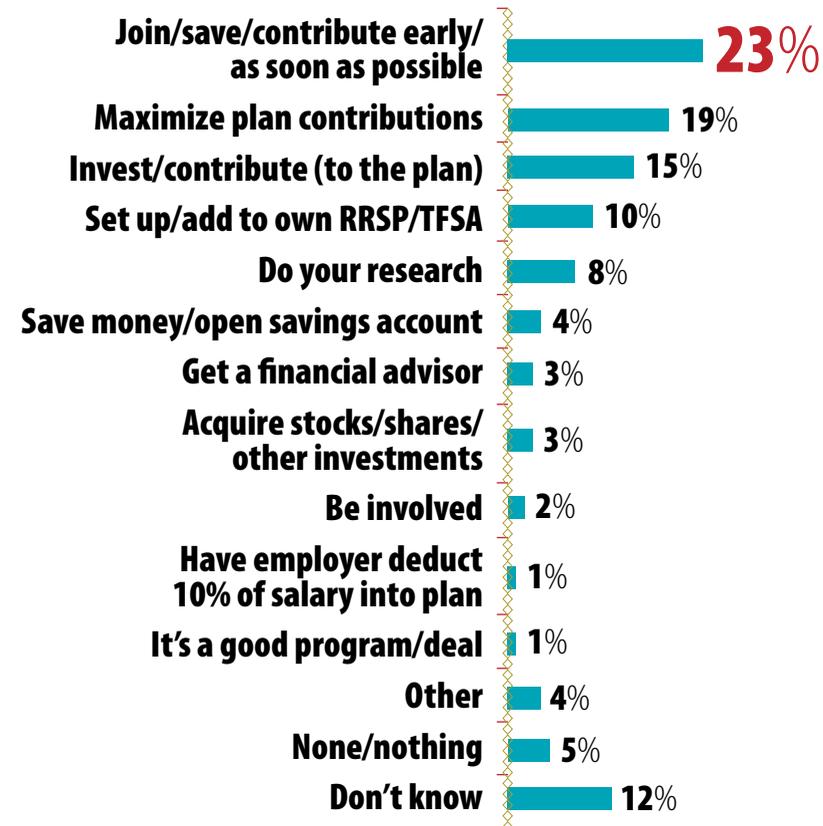
Although 80% of plan sponsors believe that members within five years of anticipated retirement are prepared, 75% express concern about



Anita Lieberman,
Desjardins Insurance

“Decumulation is a really important topic—and, with so many people set to retire, it’s a big bubble that is going to burst”

Plan members: What advice would you give to someone who has just started with your company regarding preparing for retirement and your employer-sponsored plan?



members’ lack of understanding of options at the payout stage. Most sponsors (68%) agree there is a need for a wider range of decumulation products for plan members when they retire, and 61% would like more support from plan providers in assisting with employees’ transition to retirement.

The fact that many members are unsure about how to turn their retirement savings into retirement income is also a concern for Ken Millard, vice-president, national accounts, group retirement services, with Great-West Life. “Members go from accumulating retirement savings with their employer as part of a group plan, only to be faced with decisions at retirement they may be unprepared to make,” he says, adding that many are unaware of the need to reduce investment risk as they near retirement, or the tax implications or impact of inflation on a fixed income following retirement. “Deciding on income options in retirement is no simple task. We strongly recommend

Action steps

- Encourage plan members to start thinking early about what they will do in retirement—planning for retirement five years before is not soon enough.
- Provide tools and calculators that show members how to translate savings into monthly retirement income.
- Suggest members consult with a financial advisor about decumulation options.

that members consult a professional for financial advice before making these decisions.”

Nearly all (87%) of the plan sponsors surveyed believe their organization has a responsibility to assist employees with their transition to retirement, and 92% say it’s important to the organization that their employees retire with adequate retirement income. But many are apprehensive about providing information and education on their own, notes Millard. “Providing

members with access to a specialized advice service can help sponsors overcome liability concerns.”

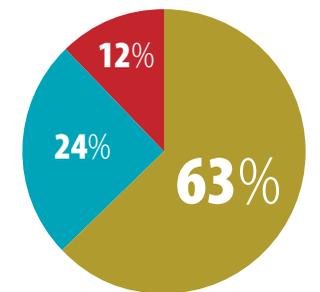
Only 64% of sponsors agree that the financial security of employees who retire from their organization is a reflection of the company, and Vartkes Rubenyan, a principal with Mercer Investments, can understand why employers say their responsibility has to stop somewhere. “At a point in time, employees should take charge of their retirement planning.”

But, he adds, based on many of the survey results, employees need help to understand retirement planning and payout options at retirement. “If it is truly important for the organization that employees have an adequate retirement income, then they need to take action by providing retirement planning support that starts several years before the retirement date and goes

beyond the standard printed and online material. This could include workshops, access to individual financial advice, electronic retirement modelling tools and so on.”

Plan sponsors: My organization has a responsibility to assist employees with their transition to retirement.*

■ Strongly Agree
■ Somewhat Agree
■ Somewhat Disagree



*No participants selected “Strongly Disagree”; 2% declined to answer



Ken Millard,
Great-West Life

“Members go from accumulating retirement savings with their employer as part of a group plan, only to be faced with decisions at retirement they may be unprepared to make”

**Benefits Canada extends a
special thank you to the sponsors
of the 2014 *CAP Member Survey***



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