Improving Adequacy: A Secure Retirement for All

The Benefits Canada Survey of Capital Accumulation Plan Members
Welcome to our seventh annual Survey of CAP Members

Take one dose of ongoing global economic uncertainty, add to it the low rates of financial knowledge and incorporate the enhanced responsibility placed on capital accumulation plan (CAP) members to be involved with their portfolios, and the need for broader financial literacy becomes crystal clear.

Retirement adequacy concerns persist across generations. For younger employees—for whom retirement planning isn’t on the radar and who have yet to uncover a clear vision of their post-work lives—the idea of having a formal, written financial plan that outlines their projected retirement age, and the amount of money they’ll need to have saved by that age, might seem superfluous.

Then there are those who argue that retirement income adequacy depends, in part, on the degree to which coverage would be improved under an expanded public pension scheme. Unless employees can significantly increase their savings levels from those currently indicated by research, an exit from the workforce at the traditional 65 (or perhaps even 67) is unaffordable, and it is likely out of the question for countless baby boomers. Their only choice may be to stay in the workforce longer than originally planned—which, in turn, presents another set of concerns for employers.

Building a clear understanding of plan members’ perceptions and expectations around retirement planning was a leading objective of our 2012 CAP Member Survey. Another vital piece was our focus on supporting plan members toward a successful retirement—from the communication/education resources and off-the-shelf tools available, to the emotional and psychological aspects of retirement planning.

The theme of this year’s survey, *Improving Adequacy: A Secure Retirement for All*, centred around what effect new Old Age Security (OAS) rules might have on employees’ income adequacy, how plan members might view and plan for retirement, and what forms of help they are getting from their employers.

Our analysis of the survey results not only confirmed a few familiar trends but also uncovered some surprises, to which our expert panel offered insights and approaches for achieving comprehensive retirement programs that meet both employer needs and employee retirement income prospects. The results serve as a constructive tool that tells us what needs to be fixed, but it is up to plan sponsors to take the action needed to increase participation levels—and, ultimately, retirement savings—among employees of all ages.
Advisory Board

Virginia Alderman
Manulife Financial

Michelle Chusan
Hudson’s Bay Company

Susan Cranston
Manulife Financial

Anna Del Balso
Standard Life

Karrina Dusablon
Desjardins Financial Security

Carol Edwards
Great-West Life

Nicole Hunter
Fraser Milner Casgrain LLP

Jillian Kennedy
Mercer

Nancy McIntosh
Great-West Life

Lynda Naud
JTI-Macdonald

Anna Pagliuca
Standard Life

Colin Ripsman
Eckler Ltd.

Dianne Verschuere
Desjardins Financial Security

Photography by Eric Forget
Retirement Planning

CAP members need to be confident and realistic about their retirement savings. What can plan sponsors do to help?

Retirement is often portrayed as a time to relax and enjoy the remaining years of our lives. But the majority of employees don’t seem to view the future in such rosy terms. In fact, this year’s CAP Member Survey shows that 60% of plan participants do not feel financially prepared for retirement.

Despite the concern, most plan members aren’t taking action to address the issue. Those with a formal, written financial plan that outlines at what age they will retire and the amount of money they will need to retire by that age dropped from a high of 46% in 2007 to only 21% in 2012. And, although the average employee contribution to employer-sponsored retirement plans inched up to 5.2% in 2012, it’s still a far cry from the 7.3% reported in 2007.

“Research shows that few members have a financial plan and CAP members’ contributions have declined significantly, although six in 10 (58%) members view their CAP as their primary source of retirement income,” says Nancy McIntosh, assistant vice-president, asset retention and service, at Great-West Life. “Sponsors can help members develop realistic assumptions by promoting the online planning tools available, enabling members to envision retirement, calculate

Please indicate whether you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statements...

Chart 1
My DC pension plan and/or group RRSP through my employer is my primary vehicle to save for my retirement.

<table>
<thead>
<tr>
<th>Year</th>
<th>Strongly Agree</th>
<th>Somewhat Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>21%</td>
<td>33%</td>
</tr>
<tr>
<td>2011</td>
<td>21%</td>
<td>40%</td>
</tr>
<tr>
<td>2012</td>
<td>18%</td>
<td>40%</td>
</tr>
</tbody>
</table>

56% 61% 58%
and select investments that match their risk profile and goals and by providing advice.”

Other findings contradict members’ dim view of their retirement finances: 77% of plan participants are satisfied with their employee retirement plan (compared with 82% in 2011), 65% are satisfied with the performance of their investments in their employee retirement plan (versus 78%), 60% are confident that their CAP will provide the amount of money they expect from them in order to meet their financial objectives for retirement, and 55% believe they are currently on track to meet their targets for the amount of money they need to save for retirement.

“The majority of employees have unrealistic expectations,” notes Lynda Naud, pension and benefits manager with JTI-Macdonald. “On average, we see that people expect to put aside $712,000 and receive $70,000 annually from their plan. Do they realize that this amount will not cover $70,000 in future income? There is a bit of a disconnect, and I feel that it is really important that we offer members assistance with financial planning so that they can build a realistic retirement plan. This may lead them to save more, spend less and maybe work longer.”

“On average, we see that people expect to put aside $712,000 and receive $70,000 annually from their plan”
Lynda Naud, JTI-Macdonald

“We need to find a way to rebuild confidence and develop services to help employees reach realistic milestone goals”
Anna Del Balso, Standard Life
Anna Del Balso, associate vice-president, research and intelligence, with Standard Life, however, thinks that employees are actually more realistic about their retirement expectations since the financial crisis of 2008. Back in 2007, survey respondents with a written financial plan expected to retire at 59.4 years old with $2,832,262 saved. Those numbers changed considerably this year, with the average age of retirement pegged at 62.3 years old and savings at $712,782.

But Del Balso is concerned that members’ confidence and satisfaction declined this year. “We need to find a way to rebuild confidence and develop services to help employees reach realistic milestone goals,” she says. “Plan sponsors can facilitate retirement planning, especially in key segments of the workforce such as women and people approaching retirement who have a greater need for this service. As well, design features such as auto-escalation and auto-enrollment can help ensure that all these people are started on the right path.”

With so many people still unprepared for retirement, plan sponsors and providers need to realize that there is only so far they can go using conventional methods of communication, adds Colin Ripsman, a senior consultant with Eckler Ltd. “You have to try to move that needle by making available capabilities to help people build their own financial plans and find ways to drive people to online tools. But you also have to recognize that there are going to be some people who you aren’t going to be able to reach no matter what you do.”

“...you have to recognize that there are going to be some people who you aren’t going to be able to reach no matter what you do”

Colin Ripsman, Eckler Ltd.

**Chart 3**

What percentage of your salary... 
Do you contribute to your employee retirement plan(s)?
Does your employer contribute to your employee retirement plan(s)?

<table>
<thead>
<tr>
<th>Year</th>
<th>You contribute to your employee retirement plan(s)</th>
<th>Employer contributes to your employee retirement plan(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>7.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td>2008</td>
<td>6.7%</td>
<td>6.0%</td>
</tr>
<tr>
<td>2009</td>
<td>5.6%</td>
<td>5.0%</td>
</tr>
<tr>
<td>2010</td>
<td>4.9%</td>
<td>4.7%</td>
</tr>
<tr>
<td>2011</td>
<td>4.9%</td>
<td>4.4%</td>
</tr>
<tr>
<td>2012</td>
<td>5.2%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>
The notion of retirement triggers a lot of stress for many Canadians. As well as doubts about whether they’ll be ready financially, half (51%) of participants in employer-sponsored retirement plans don’t feel emotionally prepared for leaving the workforce, according to the latest CAP Member Survey. Anticipated challenges range from boredom and health issues, to lifestyle adjustment and managing debt (see Chart 5).

Considering the worries, it’s not surprising that the average expected retirement age rose to 63.2 years in 2012. What is perhaps more surprising is that the recent eligibility changes to OAS and the Guaranteed Income

"With the recent OAS changes, plan sponsors may need to shift from educating members about accumulation to providing more education on de-accumulation”

Jillian Kennedy, Mercer

Chart 4
What percentage of your total retirement income do you expect to come from...?

- The DC plan or group RRSP you have through your employer
- The government, such as the Canada Pension Plan or OAS
- Your personal RRSP(s) [outside of your employer-sponsored retirement plan(s)]
- Your personal savings outside of your employer-sponsored retirement plans or personal RRSPs
- The DB plan you have through your employer [include if you have a DB plan]
- Your personal savings
- Investments in real estate, including from the sale of your primary residence
- Other funds

30.8% 20.7%
3.7% 8.0%
6.7% 10.6%
19.5%
Supplement (GIS) haven’t driven the expected age of retirement even higher. Although three-quarters (76%) of affected plan participants claim awareness of the eligibility age rising to 67 beginning in 2023, only 39% of those between 18 and 53 years old plan to work until they reach that age. Nearly the same number (37%) plan to retire before age 67, regardless of the impact on their retirement income, and 24% say the change does not affect them. When non-participants were asked if the change to OAS/GIS eligibility increases the likelihood that they will join their employer’s DC or group RRSP within the next year, only 28% said it would.

“With the recent OAS changes, plan sponsors may need to shift from educating members about accumulation to providing more education on de-accumulation,” says Jillian Kennedy, senior associate with Mercer. “Communication needs to become more generational, with an emphasis on encouraging younger employees to build capital and save and on helping members who are getting close to retirement with retirement planning.”

Despite concerns about financial and emotional preparedness, the vast majority (93%) optimistically envision living at least somewhat independently in retirement. On average, plan participants expect to have 53.7% of their current annual income during retirement, with 30.8% of their total retirement income to come from their employer-sponsored DC plan or group RRSP, 20.7% from government plans, and 19.5% from personal RRSPs saved outside of the employer plan.

“With half [51%] of respondents identifying that they will only have 50% or more income replacement at retirement and the other half [49%]...
falling below a replacement rate of 50%, there are a significant number of people who may feel that retirement is a stressful event,” says Dianne Verschuere, business development manager, group retirement services, with Desjardins Financial Security. “Based on the survey results, they trust that government programs will be available when they retire, but DC plans are seen as increasingly less reliable because of the volatility of the markets. The average retirement age has increased to 65, but ‘freedom 65’ doesn’t seem so free, and it seems there is little excitement about retirement for a large number of people.”

What happens if employees don’t have enough money to support their expected standard of living? Nearly half (45%) of plan participants say they’d retire and work part-time, with one-third saying they would continue working and postpone retirement until they had enough funds. A brave 12% would retire anyway and live at a lower standard of living.

“The trend for employees to delay retirement or to retire and take a part-time job means added costs for a plan sponsor, because, as people get older, there may be more medical costs and extra years of matching contributions to the pension plan,” says Anna Pagliuca, associate vice-president, customer experience, group savings and retirement, with Standard Life. “But there is also a great opportunity for employers to use these older individuals in their workforce planning and to mine the years of experience and knowledge to help mentor and train younger employees.”

In its recent budget, the federal government announced that it will be changing the eligibility age for OAS and GIS from 65 to 67, beginning in 2023 with full implementation by 2029. What impact will this change have on your retirement plans?

**Chart 6**

Base: ages 18–53

<table>
<thead>
<tr>
<th>Participants</th>
<th>Non-participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>I plan to work until I reach the new eligibility age</td>
<td>39%</td>
</tr>
<tr>
<td>I plan to retire before I reach the new eligibility age regardless of the impact on my retirement income</td>
<td>37%</td>
</tr>
<tr>
<td>This change does not affect me</td>
<td>24%</td>
</tr>
</tbody>
</table>

**ACTION STEPS**

- Encourage employees to create a retirement transition plan 10 years before they plan to retire and review it once a year to stay on track.
- Use projections and concrete examples to help members understand what their replacement income will be in retirement.
- Offer flexible hours for older workers who may want to stay longer in the workforce.
CAP members continue to struggle with plan engagement. How can communication strategies pique their interest?

Retirement plan sponsors may be disheartened to learn—once again—that members haven’t upped their usage of the various communication tools and services available.

Compared to last year, the CAP Member Survey shows a small decline in the number of plan participants who review their retirement investment statements (32% versus 33%), go to websites to review account balances or retirement plan information (32%, no change), consult a personal financial advisor about their employer-sponsored retirement plan (18% versus 20%), use online or hard-copy retirement planning tools to make investment decisions (14% versus 18%), attend educational sessions (13% versus 17%), or go to a website to make transactions on their employee retirement savings plan (12%, n/a).

Karrina Dusablon, director, education, training and communication services, with Desjardins Financial Security, views the frequency with which tools are used as a wake-up call for plan sponsors and providers to find new avenues to emotionally connect with members. “We have to find a way to build a relationship with people to excite them, to entice them and to make them engaged in their retirement plan,” she says.

“Often when we present information, people say ‘So what?’ because they don’t understand how it personally affects them.”

Karrina Dusablon,
Desjardins Financial Security

“Often when we present information, people say ‘So what?’ because they don’t understand how it personally affects them.”

Karrina Dusablon,
Desjardins Financial Security

...personalized messages that speak to people individually, even though we are speaking to the whole.”

Also disturbing this year is that only 30% of members self-report an excellent or very good understanding of their retirement plans (compared with 44% in 2010). When broken down by specific area, few claim a high level of understanding in the following areas: 26% for asset allocation, 39% for their own risk tolerance, 24% for the amount they need to contribute to their retirement plan to retire with the amount of money they need, and 33% for their plan statements. Still, most members are satisfied with the frequency of communications they receive (72%) and with the content of those communications (74%).
Benefits Canada survey of CaP MemBers  
November 2012  11

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

Excellent/Very Good (NET)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>50%</td>
</tr>
<tr>
<td>2007</td>
<td>45%</td>
</tr>
<tr>
<td>2008</td>
<td>40%</td>
</tr>
<tr>
<td>2009</td>
<td>35%</td>
</tr>
<tr>
<td>2010</td>
<td>30%</td>
</tr>
<tr>
<td>2011</td>
<td>25%</td>
</tr>
<tr>
<td>2012</td>
<td>20%</td>
</tr>
</tbody>
</table>

“Without a good understanding of their retirement program, members don’t appreciate the plan sponsor, nor do they take advantage of the plan,” says Michelle Chusan, senior manager of retirement programs with Hudson’s Bay Company. “We know that most members aren’t interested in becoming portfolio managers, so we are now de-emphasizing the investment side to focus on other issues such as understanding their plan, why they should maximize their contributions and take advantage of the lower fees of their group plan versus retail. We’ve also introduced a new investment solution that can automatically rebalance their portfolio every five years, aligned to the member’s age, so it can be a lot easier for them.”

Demographics seem to play a significant role in plan members’ level of understanding, with men, older participants and higher-paid employees more apt to claim excellent or very good understanding of these items associated with their retirement plan.

“Members tend to feel more knowledgeable and engaged as they approach retirement,” says Carol Edwards, Great-West Life.

“Conversations about retirement should be reframed to focus on wealth accumulation, financial fitness or financial independence”

Michelle Chusan, Hudson’s Bay Company
Carol Edwards, manager, business development, Great-West Retirement Services. “However, early engagement is key, given that retirement income adequacy is determined in part by how soon members enrol in their group plan and how much they contribute. Both automatic enrolment and automatic escalation of member contributions can ensure members are better positioned to reach their retirement income needs. Further, conversations about retirement should be reframed to focus on wealth accumulation, financial fitness or financial independence, which may resonate with more members, rather than as a distant future event.”

Virginia Alderman, marketing communications director with Manulife Financial, agrees. “Although the older group has become really focused, we need to offer more investment options that don’t force people to pick and check. And before we talk about returns, we need to help members understand how maxing contributions works, because they may be leaving a lot of money behind.”

“**We need to help members understand how maxing contributions works, because they may be leaving a lot of money behind**”

**Virginia Alderman, Manulife Financial**

---

**Chart 8**

**What types of advice are you looking for regarding transitioning into retirement?**

**Base: all participants**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much you can withdraw annually and still have funds left over</td>
<td>58%</td>
</tr>
<tr>
<td>What type of products to put your retirement funds into (e.g., annuity, RRIF)</td>
<td>51%</td>
</tr>
<tr>
<td>What decisions you need to make at transition</td>
<td>50%</td>
</tr>
<tr>
<td>What type of assets to put retirement funds into (e.g., bonds, equity, cash)</td>
<td>45%</td>
</tr>
<tr>
<td>Retirement lifestyle planning</td>
<td>43%</td>
</tr>
<tr>
<td>Should you be consolidating funds into one institution</td>
<td>28%</td>
</tr>
<tr>
<td>Which financial institution to use</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>
Print materials are still popular with CAP members, but social media is not far behind. Will CAP sponsors be ready?

Despite widespread use of social media and mobile applications for staying in touch with friends, checking weather and picking restaurants, the vast majority of members of employer-sponsored retirement plans don’t yet use this technology to receive information about their DC plan or group RRSP. This year’s CAP Member Survey reveals a lingering preference for printed materials, emails, websites and face-to-face meetings.

Few plan members would most like to receive information via mobile-friendly websites or apps (6%) or through social media outlets (2%). The reasons cited for lack of interest in mobile-friendly websites or apps, by the 95% who did not mention these media, include no need/don’t like (16%), no smartphone or data plan (16%), don’t use phone for financial purposes (11%), issues with security (10%), prefer paper (9%), screen too small/hard to see (6%) and don’t have a mobile phone (6%). Those surveyed also say they don’t have much access to social media (4%) or mobile apps (3%) related to employee retirement planning.

“I view social media and mobile applications as a chicken and egg

Chart 9
If general information regarding your employer-sponsored retirement savings plan or retirement planning was provided through social media such as LinkedIn, Facebook, YouTube, Twitter or other social media sites, how likely would you be to access the information?

<table>
<thead>
<tr>
<th>Very likely</th>
<th>Somewhat likely</th>
<th>Not very likely</th>
<th>Not at all likely</th>
<th>Unsure</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>21%</td>
<td>24%</td>
<td>43%</td>
<td>8%</td>
</tr>
</tbody>
</table>
ACTION STEPS

» When introducing social media and mobile apps, start small by picking one area and doing it well.
» Identify key influencers and feature personal stories on blogs with links to online tools and resources.
» Provide tips on how to secure devices using passwords, data encryption and how to remotely wipe a device if it gets stolen.

“Social media allows us to have two-way dialogue”

Susan Cranston, Manulife Financial

Chart 10
You mentioned that you are not comfortable using your mobile device to access information relating to your employer-sponsored retirement savings plan, your personal investments, other financial accounts, or retirement planning tools or information. Why is that?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not trust the security of my information</td>
<td>32%</td>
</tr>
<tr>
<td>Prefer using other means to view information (i.e., tablet, PC)</td>
<td>12%</td>
</tr>
<tr>
<td>No interest in or need to access information through phone</td>
<td>11%</td>
</tr>
<tr>
<td>Do not like using mobile device</td>
<td>10%</td>
</tr>
<tr>
<td>Information is too difficult to read using mobile device</td>
<td>9%</td>
</tr>
<tr>
<td>Afraid of losing the phone (with financial information)</td>
<td>4%</td>
</tr>
<tr>
<td>Have no access or have limited applications in my phone</td>
<td>3%</td>
</tr>
<tr>
<td>Prefer printed information</td>
<td>2%</td>
</tr>
</tbody>
</table>

Note: Items less than 2% not shown

Most (64%) survey respondents say they own some type of mobile device, whether a smartphone or a tablet, and 13% of that group use their device to access their employer-sponsored retirement savings plan, while 31% use it to access personal investments or other financial accounts and 14% for retirement planning tools or information. Although few participants currently use social media to receive general information regarding their employer-sponsored dilemma for the pension industry,” says Susan Cranston, vice-president, small group benefits, with Manulife Financial. “A lot of plan sponsors haven’t gone down the path yet, so employees aren’t seeing it. And if they aren’t seeing it, they aren’t embracing it, because it doesn’t exist in the world that they know right now. So, of course, they are more comfortable with print. But social media allows us to have two-way dialogue and is as transformational for communicators as the invention of the telegraph, the telephone or email.”
Benefits Canada survey of CaP MeMBers
November 2012  15

25% say they’d be likely to if it were provided by their employer. Younger people, especially those under 34, would be the most likely (34%).

“The survey shows that people are still most comfortable receiving pension information via statements and websites,” says Nicole Hunter, national director, total rewards, with Fraser Milner Casgrain LLP. “Younger people are more interested in social media—we all know that—but, unfortunately, they aren’t interested in retirement planning. But I think that social media and mobile apps are a good idea. People are using it for banking because they now see it as secure, so, eventually, hopefully, they may consider looking at their retirement options that way as well.”

The use of mobile apps is more prominent on the health benefits side, but pension industry experts see a lot of potential for retirement benefits as well, especially for simple transactions and messaging to members. Social media such as blogs and YouTube videos could be integrated into communication plans that help drive members to websites and online tools.

Cranston points out that while members today seem reluctant to use the small screen sizes to view pension information, there may be a greater response with the larger-sized tablets and iPads. “Plan sponsors need to consider whether to skate where the puck is or to skate where the puck is going to be,” she says. “When we think about demographics and how things will evolve in the next five to 10 years, there is going to be a greater appetite for the use of mobile devices with larger screen sizes.”

---

**Chart 11**
What types of financial activities have you performed via mobile-compatible programs or apps?

“Yes” to use for investments or financial accounts

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any</td>
<td>97%</td>
</tr>
<tr>
<td>Checked banking account balances/activity</td>
<td>73%</td>
</tr>
<tr>
<td>Banking transactions</td>
<td>61%</td>
</tr>
<tr>
<td>Checked investment balances</td>
<td>37%</td>
</tr>
<tr>
<td>Researched investments</td>
<td>25%</td>
</tr>
<tr>
<td>Investment transactions</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>
| None                                          | 2%         

---

“People are still most comfortable receiving pension information via statements and websites”

Nicole Hunter, Fraser Milner Casgrain LLP
BENEFITS CANADA extends a special thank you to the sponsors of The Seventh Annual Survey of Capital Accumulation Plan Members.