THE VALUE OF A GOOD PENSION:

THE BUSINESS CASE FOR GOOD WORKPLACE RETIREMENT PLANS

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About the Healthcare of Ontario Pension Plan (HOOPP)

HOOPP (hoopp.com) serves Ontario's hospital and community-based healthcare sector, with more than 610 participating employers. Its membership includes nurses, medical technicians, food services staff, housekeeping staff, and many others who provide valued healthcare services. In total, HOOPP has more than 400,000 active, deferred and retired members.

HOOPP operates as a private independent trust and is governed by a Board of Trustees with a sole fiduciary duty to deliver the pension promise. The Board is jointly governed by the Ontario Hospital Association (OHA) and four unions: the Ontario Nurses' Association (ONA), the Canadian Union of Public Employees (CUPE), the Ontario Public Service Employees' Union (OPSEU) and the Service Employees International Union (SEIU). This governance model provides representation from both management and workers in support of the long-term interests of the Plan. HOOPP is recognized as a Canada-model pension plan.

About Common Wealth

Common Wealth (www.commonwealthretirement.com) is a fast-growing financial technology company that provides portable group retirement plans to small and medium-sized businesses, not-for-profits, professional associations, unions and a range of other plan sponsors and partners. Its retirement technology platform and plan designs have been recognized with awards from Pensions & Investments and Canadian Investment Review. The Common Wealth platform integrates retirement planning, guaranteed lifetime income, behaviourally informed savings techniques, and tax and benefits optimization strategies – providing plan members with a digital retirement plan for life.

To advance its mission to expand access to retirement security and to inform its evidence-based plan designs, Common Wealth has published original, globally recognized retirement research in partnership with organizations such as the World Bank, the Aspen Institute and some of Canada's largest pension organizations. In collaboration with SEIU, the company also helped to pioneer Canada's first retirement plan for modest-income earners.

Acknowledgements

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We would like to acknowledge the valuable input we received from a wide range of Canadian employers, who were generous with their time and insights and provided employer perspectives on workplace retirement plans. We have listed the names of some of the employers we interviewed on the following page, withholding the names of those who asked to remain anonymous.

We would also like to acknowledge the valuable input we received from a wide range of experts in retirement, pensions, public policy and regulatory bodies while preparing this report. These subject-matter experts, listed on the following page, were generous with their time and insights, and provided assistance to advance our shared thinking and research. They helped frame our research questions and stress tested our assumptions.

We are especially grateful to Keith Ambachtsheer (KPA Advisory), René Beaudry (Normandin Beaudry), Sheila Block (Canadian Centre for Policy Alternatives), Jim Keohane (former CEO of HOOPP), Chris Roberts (Canadian Labour Congress), and Daniel Safayeni (Ontario Chamber of Commerce) for reviewing and providing valuable comments on earlier drafts. Any errors or shortcomings are the authors' alone.

CANADIAN EMPLOYERS INTERVIEWED

Company	Interviewee	Industry
Association of Family Health Teams of Ontario	Kavita Mehta Chief Executive Officer	Healthcare
Bell Canada	Eleanor Marshall Vice President, Pension & Benefits and Assistant Treasurer	Telecommunications
Centre for Addiction and Mental Health	Carrie Fletcher Vice President of People and Experience	Healthcare
Comtech Group	Candice Foster Vice President Human Resources & Operations	Engineering consulting
Deloitte Canada	Max Bazile Pension and Benefits Advisory Leader	Financial / Professional services
Dollarama Canada	Jean-Philippe Durivage Lachance Vice President & Treasurer	Retail
George Weston Limited	Wendy Mizuno Group Head, Pension & Benefits	Retail
Goodyear Canada	Thak Bhola Pension Manager	Industrial manufacturing
Ontario Community Support Association	Deborah Simon Chief Executive Officer	Healthcare
Shopify	Beth Tremblay Senior Lead, Global Benefits	Technology
St. Joseph's Health Care London	Stacey Weir Director of Human Resources	Healthcare
The Ottawa Hospital	Renée Légaré Executive Vice-President & Chief Human Resources Officer	Healthcare
Unity Health Toronto	Dean Martin Executive Vice President of Corporate Services & Chief Financial Officer	Healthcare

Information included above was current as of last contact.

SUBJECT-MATTER EXPERTS CONSULTED

University of Waterloo	• Robert Brown, Professor Emeritus of statistics and actuarial science at the University of Waterloo; author of "The Social Implications of Pensions" among other reports for the CPPLC
IAM National Pension Fund	• Ilana Boivie, Research Economist
Financial Consumer Agency of Canada	• Steve Trites, Research Manager
Financial Services Regulatory Authority of Ontario	• Caroline Blouin, Executive Vice President, Pensions • David Bartucci, Director, Policy - Pensions • Andrew Fung, Head, Relationship Management and Prudential Supervision (Pensions)
Good Jobs Institute	• Katie Bach, Managing Director
Healthcare of Ontario Pension Plan (HOOPP)	• Karen Tarbox, Director, Plan and Policy Development
National Institute for Retirement Security	• Dan Doonan, Executive Director
Normandin Beaudry	• René Beaudry, Partner
Ontario Ministry of Finance	• Maureen Johnson, Director (Acting), BPS Pensions Branch (Finance) • Alex Killoch, Director, Pension Policy • Liza Kobrinsky, Manager, Income Security Policy (Acting), Income Security Policy Unit (Finance)
Ontario Securities Commission	• Marian Passmore, Senior Advisor, Investor Experience • Michael Tracey, Manager, Investor Research and Behavioural Insights • Paul Redman, Director, Regulatory Strategy and Research & Chief Economist • Tyler Fleming, Director, Investor Office
University of Massachusetts Boston	• Christian Weller, Professor of Public Policy; Senior Fellow at the Center for American Progress
Baldwin Consulting	• Bob Baldwin, Independent Pension Consultant

Information included above was current as of last contact.

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Executive summary

Private sector employers play an important role in Canada's retirement income ecosystem, providing workplace retirement plans to over a third of the private sector workforce, or more than 4.5 million Canadians. Such privately provided plans began as far back as the 1800s and expanded rapidly through the early 1900s. Coverage rates plateaued between 35%–40% toward the end of the last century and into the early 2000s. The most significant shift since the late 1970s has been the movement away from defined benefit plans in the private sector and toward a more individualized approach to retirement savings.

Three pillars uphold the Canadian retirement system: the government pillar, which provides retirement benefits to all Canadians of a certain age; the workplace pillar, in which a wide range of employers offer varied retirement benefits to current and former qualifying employees; and the individual-savings pillar, whereby workers save for their own retirement. After more than a decade of policy debate and reform to the government pillar of our retirement system – including enhancements to the Canada Pension Plan – attention now turns to the workplace pillar, where about seven million private sector workers continue to lack retirement coverage.

Several trends are encouraging employers to recognize and focus on the potential value of offering workers retirement savings options. One such trend is that the demographic and labour market outlook presents difficulties for employers with respect to recruiting and retaining employees. For businesses of all sizes – particularly small businesses – new or expanded retirement savings offerings could increase their competitiveness in the marketplace for talent.

The COVID-19 crisis has also catalyzed new discussions about the role that work, and employment in a broad sense, should play in ensuring a reasonable level of financial security for Canadians – not just while people are working, but in their retirement years as well.

This report builds on our previous report, *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*, which calculated the value of a typical individual's participation in a Canada-model retirement plan to be nearly $1 million over their lifetime. Shifting the perspective from the plan member to the employer, this report presents a business case for employers to offer good workplace retirement plans. It aims to spark a conversation about how Canadian businesses can offer and enhance workplace retirement plans to create business value, while strengthening retirement security for workers.

The report draws on four key aspects of research and analysis:

- a review of industry and academic literature
- 25 interviews with Canadian employers (collectively representing over 300,000 employees), industry and academic experts, and policymaking and regulatory bodies
- modelling to assess the business value of offering retirement plans
- a survey of over 800 private sector employers

The business case for workplace retirement plans

The business case for good workplace retirement plans rests on four elements:

1 Improved compensation efficiency

"Compensation efficiency" refers to the amount of financial value a certain compensation package produces for an employee under various retirement-benefits scenarios (including the scenario of offering no workplace retirement plan at all). In *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*, we identified five value drivers that determine the value for money in a retirement arrangement: saving, fees and costs, investment discipline, fiduciary governance and risk pooling. In this report, we show that workplace retirement savings plans that are designed with more of these value drivers contribute to greater compensation efficiency.

We modelled the difference in efficiency and considered five archetypal retirement arrangements, ranging from a typical individual approach (with no workplace plan) to a Canada-model pension plan (with all five value drivers). When an employer offers a Canada-model pension plan rather than no pension plan at all, a representative worker could increase their pay available for other uses (i.e., not retirement) by an average of 69%, or about $26,600 per year. Employers offering retirement arrangements other than a Canada-model pension plan enable a typical employee to increase their annual earnings for non-retirement use by 16%, or $6,200 per year (small-employer capital accumulation plan) and 64%, or $24,700 per year (large-scale pooled plan).

A sixth value driver, plan portability, is a major contributor to compensation efficiency. For a typical employee working for large private sector employers throughout their career, plan portability can generate 10 more years of retirement income – a lifetime value of more than $600,000 – for the same level of savings, compared to a common scenario where plans lack portability.

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2 Enhanced talent attraction and retention

Good workplace retirement plans give employers a competitive advantage. They provide a benefit workers value, which supports the recruitment, retention and motivation of employees in a constrained and competitive labour market. Varying according to the type of retirement plan, between 77% and 87% of employers who currently offer the benefit said a workplace retirement plan was “extremely important” or “very important” for recruitment; and between 83% and 88% reported that their plan was “extremely important” or “very important” for employee retention. For both the recruitment and retention of staff, workplace retirement plans tended to rank comparably to pay, and above benefits such as health, disability, life, and dental insurance. Retirement plans that tend to incorporate more of the five value drivers were more likely to be regarded as “extremely important” to both the recruitment and retention of staff.

3 Reduced financial stress

Workplace retirement savings can serve as an effective response to the growing body of research indicating that financially stressed employees can hurt company performance. The Canadian Payroll Association estimated that, as the number one source of stress for Canadians, financial stress is costing Canadian employers $16 billion annually due to lost productivity. Studies have estimated the cost to business of a financially stressed employee to be several thousands of dollars per year.

Employers regard workplace retirement plans as one of the most important ways to reduce employees’ financial stress, with between 81% and 85% of employers considering their plan to be “extremely important” or “very important” to reducing financial stress. Employers who provide a plan that incorporates more of the value drivers are the most likely to see their plan as “extremely important” to reducing their employees’ financial anxiety.

4 Environmental, social and governance (ESG) considerations

The rise of stakeholder capitalism and the growth of ESG investing could usher in a shift in how investors and corporations look at retirement arrangements – rewarding companies that provide long-term financial security for their workforces. The calls for racial and economic justice, amplified during the COVID-19 pandemic, provide further cause to enhance retirement benefits as a powerful way to narrow wealth inequality and advance equity, diversity and inclusion (EDI) agendas.

Overcoming barriers to offering good workplace retirement plans

So why aren't more employers offering high-quality retirement plans? Some significant barriers stand in the way. These barriers are both **structural**, relating to the retirement system and the nature of retirement products (such as the disadvantages small and mid-sized employers face in accessing quality retirement benefits), and **behavioural**, relating to how businesses and workers perceive the value of workplace retirement savings plans (including the tendency of people to discount the value of financial rewards they will receive in the future). All employers, regardless of size or sector, should have the ability to offer a good workplace retirement plan without undue cost, risk or complexity.

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This paper, *The Value of a Good Pension: The business case for good workplace retirement plans*, offers ideas for actions that governments, employers and the retirement industry can take to overcome the barriers to providing good workplace retirement plans, including:

Government – can encourage portable, multi-employer arrangements outside the public sector, allow employers, who choose to do so, to automatically enroll their employees in all types of capital accumulation plans.

Employers – can incorporate more of the five value drivers into their workplace plans, customize plans based on the needs of their workforce (including modest-income, contingent workers), offer plans that are truly portable and invest in financial education to help employees understand the value of retirement savings.

Retirement industry – can create more large-scale, portable plans that incorporate all five value drivers and help retirement plan sponsors and members better understand the connection between savings and retirement outcomes.

Retirement insecurity is a major concern for many Canadians. Recent polling commissioned by HOOPP found that 75% of Canadians were worried about not having enough money in retirement. Employers have a significant opportunity to contribute to solving this problem, with this report demonstrating that there is a compelling business case for them to do so.

SECTION 1

Introduction

Employers have historically been central to providing retirement income security for Canadians. The first private sector workplace retirement plan in Canada – also the first in North America – was introduced by the Grand Trunk Railway in 1874. In the late 19th and early 20th centuries, employer-provided workplace retirement plans emerged in sectors ranging from railroads to public utilities and financial services. While in 1900, there were only seven private sector workplace retirement plans outside the railway sector in Canada, by 1937, there were over seven hundred such plans.[1] In the mid-20th century, workplace retirement plans were commonplace in both large non-unionized companies and unionized workplaces.[2]

Employer-provided retirement plans even pre-dated the introduction of pension regulation and public pensions. In 1908, the federal government introduced the *Canadian Government Annuities Act*, the first legislation to address retirement security for workers.[3] Old Age Security (OAS), Canada's universal retirement pension benefit, was initially introduced in the 1920s, with full federal provision beginning in 1952. The Canada Pension Plan (CPP) and Québec Pension Plan (QPP) were established in 1966, as mandatory earnings-related programs for the employed and self-employed in Canada and Québec intended to replace 25% of pensionable earnings. Recent enhancements to the CPP and QPP mean these broader-based retirement plans are designed to replace one-third of pensionable earnings by 2065. What has emerged over the past 150 years is a Canadian retirement income system built around a mix of workplace retirement plans, government benefits and private savings.

The types of workplace retirement plans provided by employers have shifted significantly over the past several decades. Exhibit 1, on page 8, shows that, since the late 1970s, the share of private sector workers participating in registered pension plans has been steadily falling. In 1977, pensions covered over one-third of private sector workers. By 2017, the coverage rate had fallen to about one-quarter of workers. While defined benefit plans were once the most common type of workplace retirement plan for employees in Canada, the last few decades have seen a significant move away from defined benefit to defined contribution and other types of capital accumulation plans, such as group registered retirement savings plans (RRSPs) and deferred profit-sharing plans.[4] The level of defined benefit coverage has dropped to less than one-third of what it was in the late 1970s.

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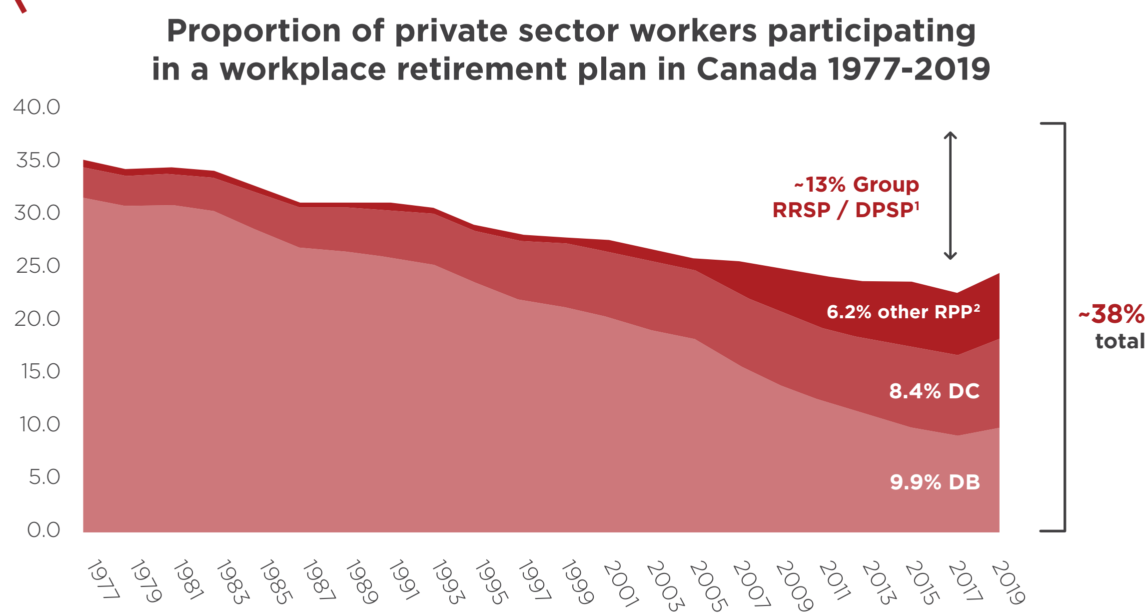
1 Elizabeth J. Shilton. Empty Promises: Why Workplace Pension Law Doesn't Deliver Pensions. McGill-Queen's University Press (2016).
2 H.W. Arthurs. Expert Commission on Pensions. "A Fine Balance – Safe Pensions, Affordable Plan, Fair Rules." (October 31, 2008). https://www.fin.gov.on.ca/en/consultations/pension/report/Pensions_Report_Eng_web.pdf
3 National Union. "A Brief History of Pensions in Canada – Part 2 in a Series" (March 2007). https://nupge.ca/sites/default/files/publications/Pensions%20Documents/History_of_Pensions.pdf
4 Alicia Munnell, Gordon Clark, and Peter Orszag, "Employer-Sponsored Plans: The Shift from Defined Benefit to Defined Contribution" (2006).

Exhibit 1



[1] Based on findings from 2016 Survey of Financial Security that there were 1.6 million Group RRSP and DPSP members in Canada. Trend series unavailable. Coverage estimate assumes that all Group RRSP and DPSP members are outside the public sector.
[2] Includes members of: Hybrid plans (benefit is the better of that provided by defined benefit or defined contribution provisions); Composite or combination plans (pension has both defined benefit and defined contribution characteristics); "DC and DB" (may be for different classes of employees or one benefit type may be for current employees and the other for new employees)

Sources: Statistics Canada, Pension Plans In Canada Survey, Labour Force Survey, Percentage of paid workers covered by a registered pension plan; OSFI Registered Pension Plans (RPP) and Other Types of Savings Plans 2019

While the overall level of coverage has remained steady, at slightly over a third of the private sector workforce, the changes in the types of plans provided has effectively shifted risk from the employer to the employee. Overall, there has been a move toward a more individualized model of retirement savings.

Although news headlines over the years have tended to characterize the shift away from defined benefit pensions as evidence employers are reluctant to pay for benefits for their workers, the reality is more complex. Changes in accounting rules, reforms to pension regulation, the decline in union density and the globalization of trade have all played roles in this shift as well. A changing sectoral mix within the economy has also influenced access to private workplace retirement savings, notably with lower coverage in segments of the growing service sector with lower-wages and more precarious jobs. Coverage in workplace registered pension plans has been over 50% in the finance, insurance and real estate sectors, compared to under 20% in retail, accommodation and food services.[5]

The past several decades have opened up a substantial coverage gap between public and private sectors in workplace retirement plan coverage. This is particularly pronounced with defined benefit pensions,

[5] Healthcare of Ontario Pension Plan (HOOPP), National Institute of Aging and Common Wealth. "The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada" (2018).

covering less than 10% of private sector workers as opposed to about 80% in the public sector.[6] For private sector employers, this coverage gap has the potential to act as a significant competitive disadvantage in attracting and retaining workers.

Factors such as the demographic and labour market outlook are further encouraging employers to refocus on the potential value of offering workers retirement savings options. With the baby boomer generation entering retirement, Canada's labour force is aging and will likely experience unprecedented strain in the next 10 to 20 years. More than a third (38%) of the working-age population is aged 55 years and over, an increase from 26% in 2000.[7] Statistics Canada has projected that by 2026 that figure could reach 40%, with more people exiting the labour force than entering it.[8]

This labour market tightening is creating significant recruitment and retention difficulties for employers. Many expect these challenges to become even more acute in the wake of the COVID-19 pandemic.[9]

The workforce management challenges posed by these demographic and labour market forces, including the long-term effects of the COVID-19 pandemic, are especially pronounced among smaller businesses (1–99 employees), employers of nearly 70% of Canada's private sector employees.[10] Small business surveys in Ontario find that 62% of these employers identify difficulty in hiring new employees as the biggest challenge to their business today.[11] The 2020 *Business Confidence Survey* reinforced that the ability of employers to recruit and retain talent is critical to their competitiveness.[12] For businesses of all sizes – but particularly for small businesses – new or expanded retirement savings offerings could prove important in remaining competitive in the marketplace for talent.

The COVID-19 pandemic appears to be widening the gap between those who have financial security and those who lack it. The pandemic's impacts have been most severe for marginalized Canadians, who have experienced much higher rates of job loss than the broader population as well as increased exposure to the virus.[13]

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[6] Statistics Canada. "Percentage of paid workers covered by a registered pension plan" (2021). https://www150.statcan.gc.ca/n1/daily-quotidien/210629/t002c-eng.htm

[7] Statistics Canada, "Labour force characteristics by age group, monthly, seasonally adjusted," *Labour Force Survey*, Table: 14-10-0287-02 (9 July 2021). https://www150.statcan.gc.ca/n1/daily-quotidien/210709/t001a-eng.htm

[8] Andrew Fields, Sharanjit Uppal and Sébastien LaRochelle-Côté. Statistics Canada. "The impact of aging on labour market participation rates." (Released June 14, 2017). https://www150.statcan.gc.ca/n1/pub/75-006-x/2017001/article/14826-eng.htm

[9] See, e.g., Anne Gaviola, "A workplace resignation boom may be looming. Here's why," Global News (May 16, 2021), https://globalnews.ca/news/7863137/workplace-resignation-boom-why/.

[10] Statistics Canada. "Key Small Business Statistics – January 2019." Figures reflect 2017 data. (In 2017, private sector businesses employed approximately 11.9 million individuals in Canada. 69.7% (8.3 million) of private sector employees worked for small businesses, 19.9% (2.4 million) for medium-sized businesses and 10.4% (1.2 million) for large businesses) https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03090.html#point2-1

[11] Ontario Chamber of Commerce. "Ontario Economic Report 2020." (2020). https://occ.ca/wp-content/uploads/2020-Ontario-Economic-Report.pdf

[12] Ontario Chamber of Commerce. "Ontario Economic Report 2020." (2020). https://occ.ca/wp-content/uploads/2020-Ontario-Economic-Report.pdf

[13] See Canadian Urban Institute. "COVID Signpost: 300 Days." (January 2021). https://canurb.org/publications/covid-signpost-300-days/

Research by the Environics Institute describes a widening of inequality in jobs and incomes with young people, recent immigrants, racialized and Indigenous workers, and those in lower-income and less secure jobs all more adversely affected.[14]

Those with lower incomes were also much more likely to have stopped saving for retirement through the pandemic.[15]

With many of the pandemic's "essential workers" belonging to marginalized communities and concentrated in jobs and sectors with low pay, few benefits and greater precarity than others across the economy, COVID-19 has also focused attention on equity and fairness in work. The pandemic has also had a disproportionate effect on women and women's employment. As it threatens to erode the economic and social advancement of all women, it has led some to call it a "she-cession."[16]

Among household financial impacts of the pandemic, a 2021 survey of Canadians found that nearly two-thirds (63%) have saved nothing for retirement during COVID, amplifying personal and societal concerns about retirement security.[17]

For workers, governments and employers alike, the COVID-19 crisis has catalyzed new discussions about how paid work should ensure a reasonable level of financial security for Canadians, including in retirement.

The business case for good workplace retirement plans

This report presents a business case for good workplace retirement plans. It builds on our previous report, *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*, which assessed the financial value of various retirement savings arrangements for Canadian workers and found that workplace-based retirement plans with certain characteristics offer substantially greater lifetime financial value than a typical individual approach to financing retirement (see page 12 for key findings from the report).

The current report, *The Value of a Good Pension: The business case for good workplace retirement plans*, addresses the value of workplace retirement plans through a new lens. This report explores how offering workplace retirement benefits can help employers more efficiently direct compensation dollars, attract and retain high-quality workforce talent and reduce employee financial stress. It aims to serve as a framework for a conversation about how Canadian businesses can offer and enhance workplace retirement plans to create business value, while strengthening

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14 Environics Institute, Future Skills Centre, Diversity Institute. "Widening inequality: effects of the pandemic on jobs and income survey report." (May 2021), https://www.environicsinstitute.org/projects/project-details/widening-inequality-effects-of-the-pandemic-on-jobs-and-income.

15 Ontario Securities Commission, "Investing and the COVID-19 Pandemic: Survey of Canadian Investors" (April 2021), https://www.osc.ca/sites/default/files/2021-04/inv_research_20210422_investing-and-covid-19_0.pdf.

16 See, for example, Armine Yalnizyan, "Opinion: The 'she-cession' is real and a problem for everyone," Financial Post, October 23, 2020, https://financialpost.com/opinion/opinion-the-she-cession-is-real-and-a-problem-for-everyone.

17 Abacus Data. Commissioned by Healthcare of Ontario Pension Plan. "Executive Summary of Canadian retirement survey" (2021). https://hoopp.com/en/newsroom-details/new-research-from-hoopp-and-abacus-data.

retirement security for workers. Though private sector employers and those who support them are the primary audience for this report, many findings and arguments contained herein apply to not-for-profit and public sector employers as well, since they share many of the private sector's challenges when it comes to the recruiting, retention and management of talent.

The remaining sections of this report explore these topics in detail, including:

Section 2: *The business case for good workplace retirement plans* articulates a business proposal for employers to help them assess the value of workplace retirement plans and introduces a four-element framework.

Section 3: *Business barriers to adopting good workplace retirement plans* identifies hurdles that prevent many private sector employers from offering or enhancing workplace retirement plans.

Section 4: *Opportunities to expand workplace retirement plan coverage and quality* highlights areas to explore for policymakers and regulators, employers and the retirement industry on expanding access to quality workplace retirement plans.

Section 5: *Conclusion* offers closing comments.

This report draws on four elements of research and analysis:

- **A review of industry-based and academic literature,** ranging from analyses of survey findings on how employees and employers perceive workplace retirement benefits to peer-reviewed publications and gray literature on the impact that workplace retirement plans have on human capital management in public and private sectors.
- **Interviews with 25 Canadian thought leaders** representing employers, industry, academics, and policymaking and regulatory bodies. Interviewees included 15 employer representatives ranging from pensions-and-benefits leaders to human resources and finance executives from some of Canada's largest businesses, collectively employing more than 300,000 Canadian workers. All 15 employers interviewed offer some form of workplace retirement benefits, including defined contribution, defined benefit and group RRSPs. Interviewees also included seven industry and academic experts on workplace retirement plans. Lastly, there were interviewees from three policymaking and regulatory bodies, with experts on retirement policy and regulation.
- **Modelling to assess the business value** of offering retirement plans, building on the methodology used to value different retirement arrangements developed as part of the previous report, *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*.
- **The *2021 Canadian Employer Pension Survey***, commissioned by HOOPP and conducted by Maru/Matchbox in May 2021. This survey of over 800 employers explored the role of benefits in recruitment, retention and employee well-being.

Key findings from *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*

In our previous report, *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*,[18] we proposed that the value for money in a retirement arrangement for plan members can be measured by the efficiency with which today's savings generates tomorrow's retirement income. Put another way: to what degree do the characteristics of a retirement plan influence how much a person needs to save, over a lifetime, to meet their retirement goals?

Based on a review of evidence from both academic and industry-based literature, we identified five key value drivers that determine the efficiency of various retirement arrangements.

Five value drivers in retirement arrangements

	Description
Saving	In a purely voluntary system (a do-it-yourself approach), people tend to save less, save later, and save less consistently than under a collective plan with mandatory contributions or automatic enrolment.
Fees and costs	The costs of investment management and administration for good pension plans tend to be significantly lower than the costs of retail investing and advice.
Investment discipline	When investment decisions (e.g., asset allocation, security selection, market timing) are made by professionals, they tend to produce better results than when these decisions are made by individuals who "have a striking ability to do the wrong thing".[19]
Fiduciary governance	When investments are managed on a non-profit basis by in-house profes-sionals with a fiduciary responsibility to members, they tend to perform better than retail funds offered by for-profit organizations.
Risk pooling	Most individual investors must manage their longevity and investment risk on their own, adopting costly strategies (e.g., larger nest egg, smaller draw down, highly conservative post-retirement asset allocation) to avoid outliving their money. By contrast, a good collective retirement plan can create efficiencies by pooling longevity and investment risk.

[18] Common Wealth, Healthcare of Ontario Pension Plan, National Institute on Ageing, "The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada" (2018)
[19] Andrea Frazzini and Owen Lamont, "Dumb Money: Mutual Fund Flows and the Cross-Section of Stock Returns" (2008).

We compared the efficiency of a variety of approaches to retirement, from a typical individual approach taken outside of the workplace, to a large-scale collective savings approach through a Canada-model pension plan, with a variety of workplace retirement plan models in between. The value drivers appeared most commonly in certain workplace-based retirement savings models.

Retirement security for a typical worker is 4x less expensive in a Canada-model pension plan

Results for one representative individual

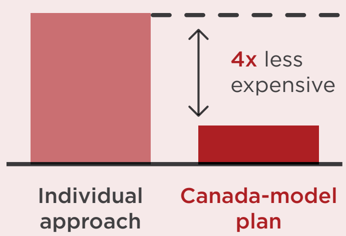
Sophia

Working life	Works from age 25-65 Lives to age 92
Earnings	Earnings start at 40,000 per year 3% annual earnings growth
Target replacement rate	70% of final 5 years' pre-tax earnings (including average CPP and maximum OAS)

	Typical individual approach	Canada-model pension plan
How much will I have to contribute to maintain my standard of living in retirement?	**\$1.20M** Total contributions	**\$0.31M*** Total contributions
What is my retirement "bang for buck"?	**\$1.70** in retirement income per dollar contributed	**\$5.32** in retirement income per dollar contributed

Relative value for money

Lifetime contributions required to achieve 70% replacement rate

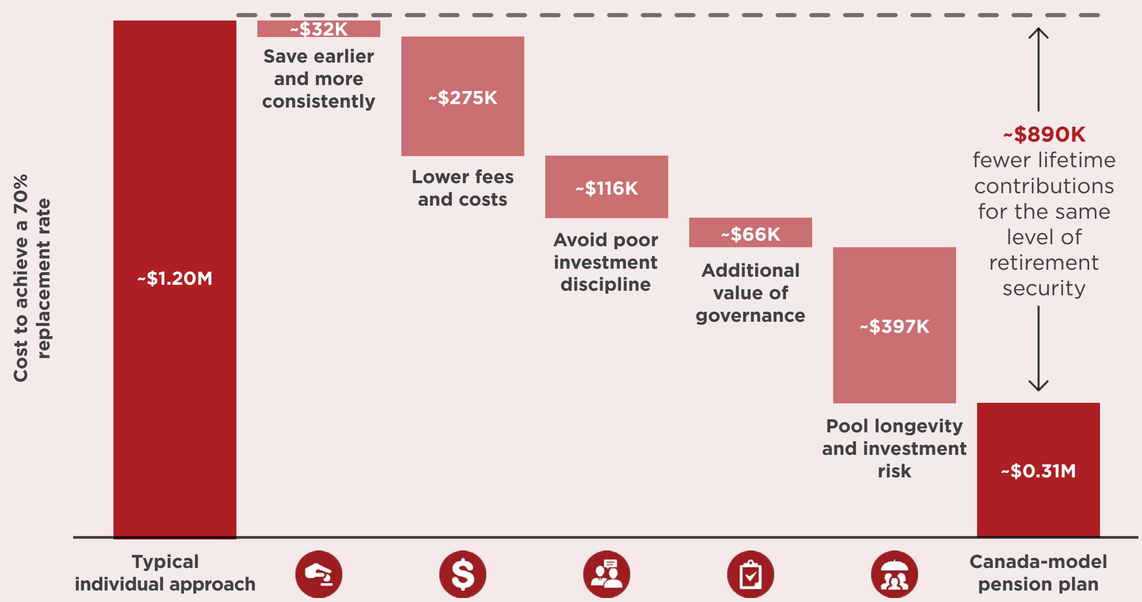


*Total contributions include employer contributions

We found that combining these five value drivers can, over a lifetime, yield significant financial gain. By participating in a retirement plan with all five value drivers, a representative worker could achieve the same level of retirement security for a lifetime cost of nearly four times less than if they took a typical individual approach. The difference amounts to a lifetime savings of roughly \$890,000. The largest savings comes from risk pooling (\$397,000), fees and costs (\$275,000) and investment discipline (\$116,000).

For each dollar contributed, the retirement income from a Canada-model pension plan is \$5.32 versus \$1.70 from a typical individual approach.

A visual representation of the cumulative effects of the value drivers of a Canada-model pension for a representative worker



While not all Canadians will have access to retirement savings plans that reflect all five value drivers, other types of workplace plans can still create considerable efficiency gains and cost savings for workers. For instance, the difference between a typical individual approach and participation in a small-employer capital accumulation plan can mean needing to save an additional $150,000 over a lifetime to achieve the same level of retirement income. The difference between saving as an individual and participating in a large-employer capital accumulation plan grows to an additional $400,000 in lifetime contributions to achieve the same level of retirement income. The efficiency advantage increases with the scale and degree of collectivity of the individual's retirement arrangement. The more of the five value drivers an arrangement incorporates, the higher the efficiency gain and cost savings for the individual retirement plan member. Ultimately, for the typical Canadian worker, belonging to a workplace retirement plan can mean paying significantly less for one of life's biggest expenses or being able to retire several years earlier.

Calculations show significant differences in efficiency between retirement arrangements

More individual ← → ***More collective***

	Typical individual approach	Small-employer capital accumulation plan	Large-employer capital accumulation plan	Large-scale pooled plan	Canada-model pension plan
How much does retirement cost?*	$1.20M	$1.05M	$0.79M	$0.39M	$0.31M
What is my retirement "bang for buck"?**	$1.70	$1.94	$2.58	$4.19	$5.32

*Total contributions required to achieve a 70% replacement rate for a worker earning $40K at the start of her career
**Total retirement income, plus assets remaining at death divided by total lifetime contributions

In preparing this analysis of the business case for good workplace retirement plans, we have revisited the assumptions used in the 2018 report, and where appropriate, updated them based on more recent research and evidence.

Please refer to the Technical Appendix on page 66 for an overview of these updates.

SECTION 2

The business case for good workplace retirement plans

Workplace retirement plans should not be solely viewed as a cost, but as an investment as well. How, though, should employers construct a business case to evaluate such investments? We propose a framework based on four elements:

1. Improved compensation efficiency
2. Enhanced talent attraction and retention
3. Greater employee productivity through reduced financial stress
4. Environmental, social and governance (ESG) considerations

This section will explore each of these elements in turn.

Exhibit 2

Section 2.1: Compensation efficiency

A key finding from *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada* was that the lifetime financial benefits of workplace retirement plans are considerable. A typical worker who does not have access to a workplace retirement plan will need to save significantly more to achieve the same level of retirement income as a typical worker with access to a workplace retirement plan.

All metrics being equal, a good workplace retirement plan is likely to be more efficient than an individual approach to retirement saving for a typical employee. Similarly, a total compensation package that includes a good workplace retirement plan is likely to produce more lifetime financial value for an employee than a comparably sized compensation package that does not include such a plan. This is what we mean by the concept of "compensation efficiency" – relatively greater financial value for the same compensation expenditure by the employer.

The degree to which a workplace retirement plan can improve compensation efficiency depends on its design – specifically, to what degree it integrates the five value drivers previously identified in our first report:

1. **Saving**
2. **Fees and costs**
3. **Investment discipline**
4. **Fiduciary governance**
5. **Risk pooling**

The more value drivers a workplace plan includes, the greater its compensation efficiency will be. All other factors being equal, an employer who offers a retirement plan with fewer of the five value drivers would need to provide employees with a higher base salary or wages in order to provide the same total financial value as an employer who offers a retirement plan with more of the five value drivers.

We applied these drivers and modelled the financial value of various archetypes of workplace retirement plans. We also added and modelled the impact of an important sixth value driver – portability – which was not accounted for in our first report.

Modelling compensation efficiency across retirement plan archetypes

To model how different kinds of retirement plans contribute to compensation efficiency, we consider the five different archetypal workplace retirement arrangements first laid out in our previous report. These archetypical plans vary based on the degree to which they incorporate the five value drivers.

Archetype	Description	Drivers of value *Shading denotes the degree of integration for each driver of value
1. Typical individual approach	***The employer does not offer any workplace retirement plan; it is left up to the employee to save for retirement on their own.*** This archetype is the most common for Canadian workers in the private sector, as the majority do not have a workplace plan and must save on their own. For most Canadians, this means saving for retirement with a large financial institution such as a bank, with typical fees in the range of 2%. This saver will be prone to making common mistakes in saving (e.g., waiting too long to start saving) and investing (e.g., poor asset allocation, poor market timing, performance chasing).	Saving Fees and costs Investment discipline Fiduciary governance Risk pooling
2. Small-employer capital accumulation plan	***This is typically a group RRSP offered by small or mid-sized employers in the private and non-profit sectors.*** This plan is generally a collection of individual RRSP accounts administered as a group, often with the employer matching contributions up to a certain level. Participation in these plans is often optional for employees. A typical plan of this type might have 100 or fewer members and $2M or less in assets.[20] Employees in small-employer capital accumulation plans typically pay higher fees than those in larger arrangements. Each plan member maintains control of their investment decisions. Oversight of the kinds of investment choices offered is likely to be less robust than in a larger plan. In the post-retirement phase, plan members are typically transitioned out of the employer-sponsored group plan and into some form of individual arrangement.	Saving Fees and costs Investment discipline Fiduciary governance Risk pooling

[20] See Investor Economics, "Group Retirement Savings and Pensions Report" (2016).

Archetype	Description	Drivers of value *Shading denotes the degree of integration for each driver of value
3. Large-employer capital accumulation plan	***Large employers in the private and non-profit sectors offering larger group RRSPs or a defined contribution pension plan.*** A typical plan of this type might have 1,000 members and $30M in assets.[21] It is more likely than small-employer capital accumulation plans to have mandatory or automatic contributions with employer-matching contributions to a certain level. Employees are still responsible for making their own investment choices, but the options available to them are more likely to reflect some expert input from the employer's human resources department, investment or pension committee and/or professional consultants. In the post-retirement phase, employees may be able to remain plan members. In most cases, members must manage the drawdown of retirement assets on their own, as they receive a lump sum retirement payout instead of a stream of payments over their retirement years.	Saving Fees and costs Investment discipline Fiduciary governance Risk pooling
4. Large-scale pooled plan	***Larger, more professionally managed plans that incorporate some degree of risk pooling and portability. These plans can be well-designed capital accumulation plans,[22] defined benefit plans or target benefit plans.*** These plans differ in design and regulatory category but are all able to offer greater value to plan members through risk pooling and scale. These plans can be sponsored by a single employer, but most tend to be multi-employer. Due to their size, large-scale pooled plans can access low-cost asset management and economies of scale in administration, which means lower fees for members. Investment choices are highly curated for members and contributions are usually mandatory, with employer-matching contributions to a certain level. These plans make use of investment and longevity risk pooling, providing assistance to plan members in the post-retirement phase.	Saving Fees and costs Investment discipline Fiduciary governance Risk pooling

[21] See Investor Economics, "Group Retirement Savings and Pensions Report" (2016).

[22] While multi-employer capital accumulation plans are common in jurisdictions such as the UK and Australia, they are relatively rare in Canada. Nevertheless, there are examples. An example of a long-standing plan is the Co-operatives Superannuation Society Pension Plan (www.csspen.com), a defined contribution pension plan for co-operatives and credit unions that was established in 1939 and serves over 300 employers. A more recent example is the Common Good Retirement Plan (www.commongoodplan.ca), a group RRSP / TFSA plan for Canada's not-for-profit sector launched in early 2021 that already serves more than 40 employers from 12 provinces and territories.

Archetype	Description	Drivers of value *Shading denotes the degree of integration for each driver of value
5. Canada-model pension plan	***A number of large Canadian public sector pension plans fall into this category, typically as defined benefit plans.*** This kind of plan has mandatory and/or automatic contributions, with all investment decisions managed by experts. Canada-model pension plans tend to have higher exposure to alternative asset classes such as real estate, infrastructure and private equity. A World Bank report defined this type of plan as a public pension plan or public asset manager that is typically defined benefit, has public sector sponsor(s) and has the following characteristics: independent governance, scale, in-house management, diversification, talent (at board and management levels) and a long time horizon.[23]	Saving Fees and costs Investment discipline Fiduciary governance Risk pooling

To assess the impact of these different arrangements on compensation efficiency, we consider a hypothetical Canadian worker named Sophia.

Sophia begins full-time work at age 25, retires at age 65 and dies at age 92. She starts her career earning $40,000 annually, with her income increasing by 3% each year thereafter. For her retirement years, Sophia sets a typical goal of replacing 70% of her average annual earnings over the final five years of her career – including the CPP and OAS benefits she will receive, which we assume she will take at age 65.[24] With average earnings of approximately $120,000 in her last five years of work before she retires, Sophia's target retirement income is approximately $84,000, including her CPP and OAS benefits. Based on this scenario, we calculate how much Sophia would need in retirement savings year-over-year to achieve her target retirement income each year until her death.[25]

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[23] World Bank Group, "The Evolution of the Canadian Pension Model: Practical Lessons for Building World-Class Pension Organizations" (2017), https://documents.worldbank.org/en/publication/documents-reports/documentdetail/780721510639698502/the-evolution-of-the-canadian-pension-model-practical-lessons-for-building-world-class-pension-organizations

[24] We acknowledge that a 70% replacement rate is not appropriate for everyone and that recent research has found wide variation in the replacement ratio necessary to maintain one's living standard in retirement. See, for example, Bonnie-Jeanne MacDonald, Lars Osberg, and Kevin Moore, "How Accurately does 70% Final Earnings Replacement Measure Retirement Income (In)Adequacy? Introducing the Living Standards Replacement Rate (LSRR)." ASTIN Bulletin – The Journal of the International Actuarial Association (2016). We use the 70% target here not to endorse this rule of thumb but because it remains a common benchmark in the industry. Even if we used a different (e.g., lower) replacement rate, the modelling would show similar proportional differences among the archetypes.

[25] See the Technical Appendix on page 66 for a detailed overview of and rationale for Sophia's scenarios and the assumptions used across the five workplace retirement arrangement calculations.

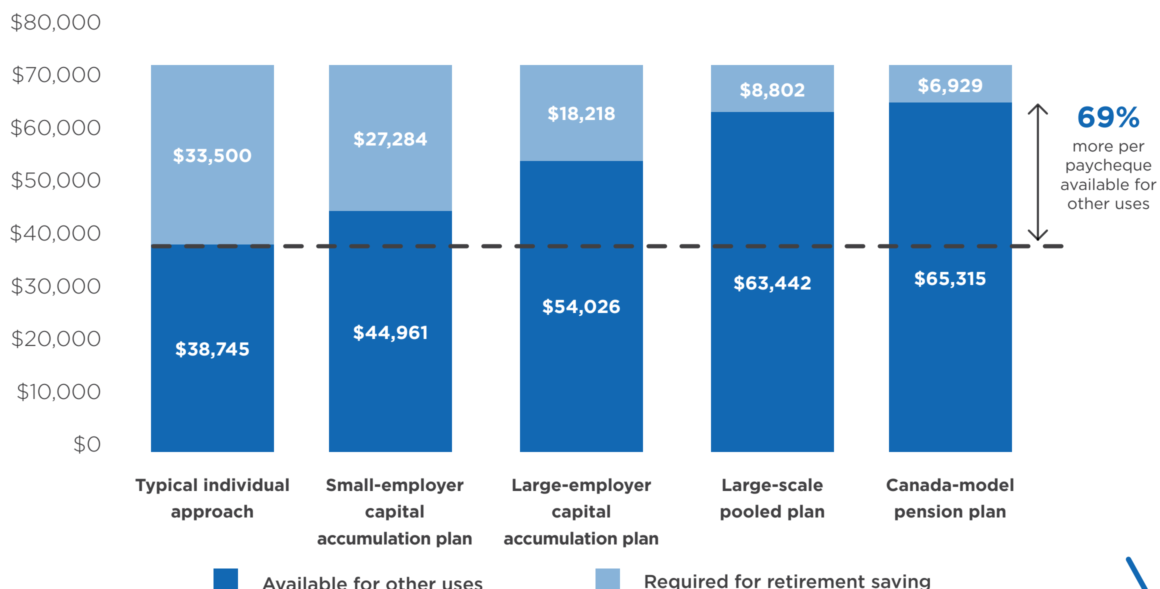
Exhibit 3 presents results from the financial modelling, illustrating the share of Sophia's total compensation she would need to direct towards retirement savings to achieve her target retirement income through different workplace retirement plan archetypes. In a scenario where Sophia's employer does not offer a retirement plan, she would need to direct 69% more of her annual pay – about $26,600 per year – throughout her working life to achieve her target than were she to have participated in a Canada-model pension plan.

From Sophia's perspective, the benefits of the various workplace retirement plan models are all significant:

- 64% (or about $24,700) more pay available for other uses by participating in a large-scale pooled plan
- 39% (or about $15,300) more pay available for other uses by participating a large-employer capital accumulation plan
- 16% (or about $6,200) more pay available for other uses by participating in a small-employer capital accumulation plan

Exhibit 3

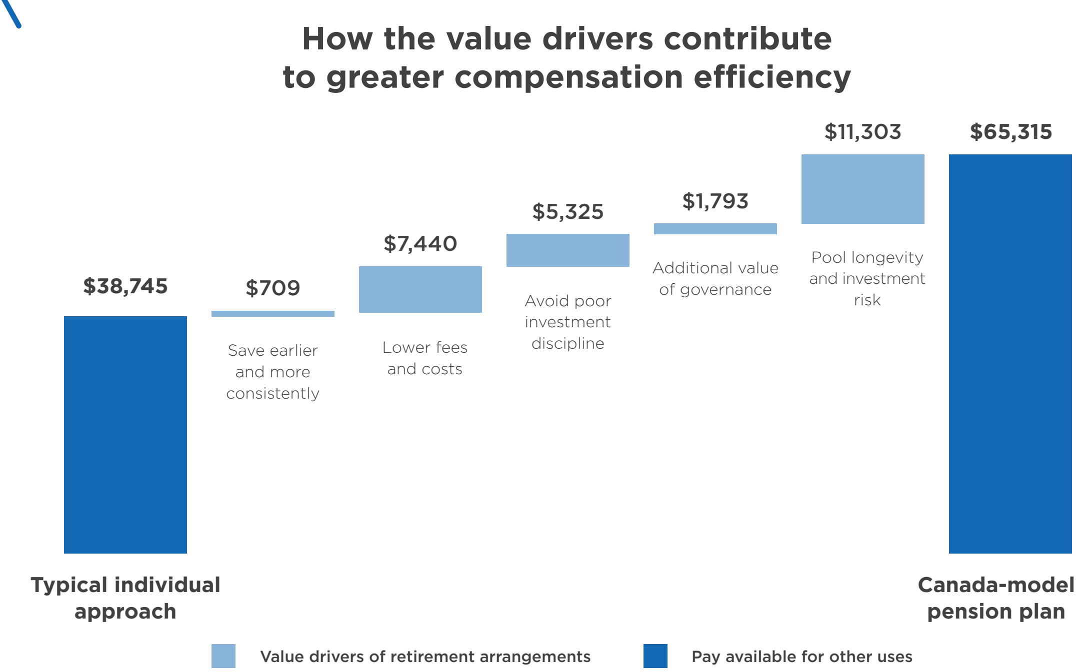
Share of Sophia's annual pay required for retirement saving vs. available for other uses



The modeling demonstrates that, for an employer seeking to maximize lifetime financial value for its employees, there is significantly more compensation efficiency through workplace retirement models on the right end of the spectrum. Workers in high-quality plans can take home thousands of dollars more in pay each year without sacrificing their retirement security.

How can workplace retirement plans offer such significant financial benefits? Exhibit 4 (see page 24), breaks down the contribution of each of the five value drivers to the $26,570 difference in pay available for other uses by Sophia, between the typical individual approach and the Canada-model pension plan.

Exhibit 4



To realize the full value of greater compensation efficiency associated with quality workplace retirement plans, employees need to have an understanding of the value of such plans. Later in the paper, we discuss some of the barriers to this understanding, including the phenomenon of present bias, and some strategies for overcoming them.

The value of plan portability

Plan portability can be defined as the ability for a worker to remain in a plan throughout their career and into retirement. This can mean staying in the same plan or moving one's savings from one high-quality plan to another when transitioning from job to job and into retirement. Effectively providing a "retirement plan for life," portability enables long-term value, allowing the benefits of each of the value drivers to compound over long periods of time and on an increasingly large pot of retirement savings. For example, while there are modest benefits to paying lower fees in the first few years of retirement saving, those benefits grow materially in later years, becoming most significant near the age of retirement, when one's savings reach their peak.

Most private sector retirement plans offer limited portability. Plans are typically sponsored by a single employer and designed only around the period during which the plan member works for that employer. Single-employer defined benefit and target benefit plans may allow former employees to maintain their entitlement in the plan as deferred members, but they are no longer allowed to contribute to the plan. As the majority of private sector retirement plan coverage comes from capital accumulation plans, the retirement assets of former employees and retirees are typically "rolled over" into retail plans for individuals with fees that can be two to three times higher than those negotiated for group retirement plans. Depending on the plan, the absence of portability means workers can lose out on other value drivers as well, such as plan governance, investment discipline and risk pooling.

Interviewees from the retirement industry reported concerns that some employer plan sponsors, and many plan members, are not aware of the effects of fees as well as the overall financial value of transitioning from workplace to individual retirement savings plans. This is especially problematic considering that the majority of investment earnings are achieved post-retirement. According to retirement expert Don Ezra, formerly of Russell Investments, about 60% of retirement income is derived from investment returns achieved during the post-retirement phase.[26]

Some larger employers have taken steps to increase portability. For instance, both Goodyear Canada and Bell Canada (see case studies on page 27 & 29), allow retirees to remain members of the workplace plan, so they continue to benefit from the value drivers of these large-scale corporate plans. But these are exceptions.

Among small and mid-sized businesses, employing nearly 90% of the Canadian workforce, portability is especially rare and there is often reluctance to retain responsibility for former employees in retirement programs.[27]

To estimate the value of portability, we consider two hypothetical scenarios for Sophia in Exhibit 5 (see page 26). In each, she changes jobs every ten years between the ages of 25 and 65, working at four different companies before retirement.[28] At each company, Sophia is offered the same kind of workplace retirement plan, with the features of the large-employer capital accumulation plan archetype.

In Scenario A, every time Sophia leaves a company, and when she retires, her retirement assets in each of her four workplace retirement plans are rolled over into retail plans, where fees double to 2% and plans reflect the other characteristics of a typical individual approach.

In Scenario B, Sophia has access to a portable workplace retirement plan from her first job and continues to benefit from the same large-employer capital accumulation plan features after she leaves her job and also after she retires.

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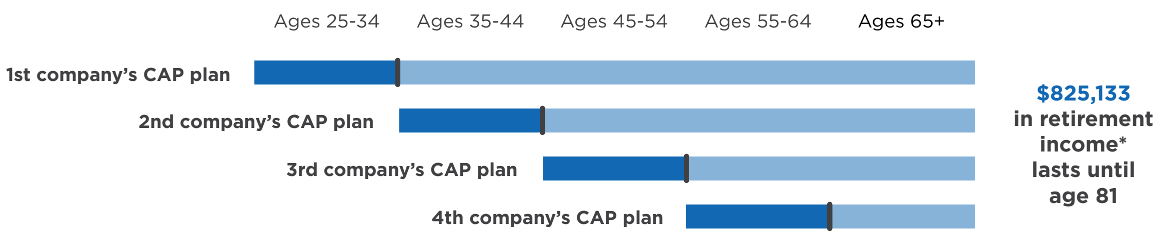
[26] See Russell Investments: The 10/30/60 Rule (January 2015) [citing Don Ezra, "A Model of Pension Fund Growth," Russell Research Commentary (June 1989)].

[27] According to Innovation, Science and Economic Development Canada, 89.7% of private sector employees work for employers with fewer than 500 employees. See https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03090.html.

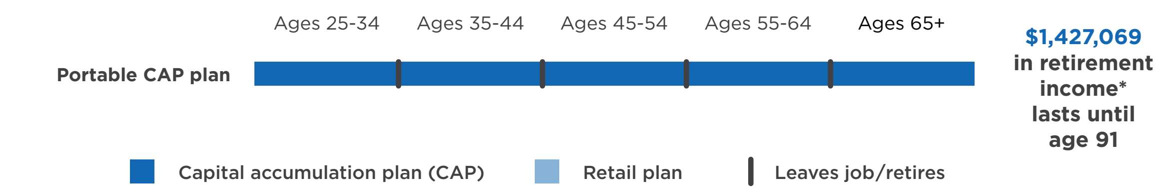
[28] Statistics Canada. "Job tenure by industry, annual." (25 January 2021). https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410005501. As the average tenure of a Canadian employee in 2020 was 8.8 years, we have conservatively used 10 years.

Exhibit 5

Scenario A: Sophia has access to a non-portable large-employer CAP plan at each company



Scenario B: Sophia has access to a portable large-employer CAP plan



*The income she receives in retirement outside of OAS and C/QPP plus any remaining assets at death

In both scenarios, Sophia (together with her employer) contributes 18% of her pay – the maximum allowable contribution to RRSPs and defined contribution pension plans – to her retirement plan. With this annual contribution rate held constant, we find she achieves vastly differing levels of retirement savings depending on plan portability – a difference of 10 years' worth of retirement income at her target savings rate. The same amount of savings yields Sophia retirement income that lasts only until age 81 without portability, compared to age 91 with full portability. The portability of a workplace retirement plan can mean that the same amount of savings leads to a materially different level of retirement security.

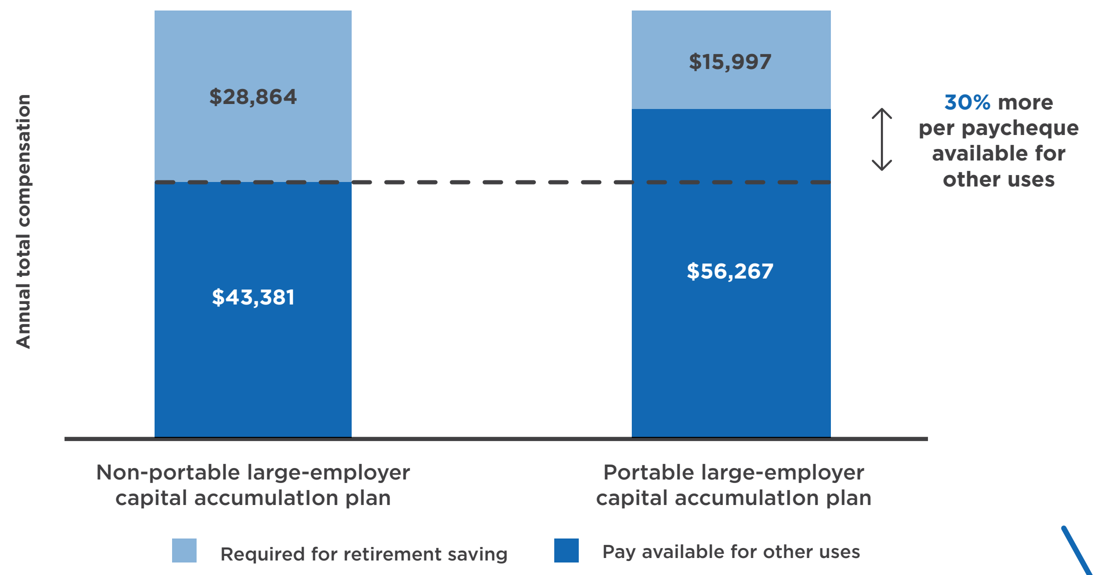
The portability of a workplace retirement plan can mean that the same amount of savings leads to a materially different level of retirement security.

Offering a workplace retirement plan that is not portable provides significantly less compensation efficiency for an employer, even if that plan has good features during the time an employee is with the organization.

Exhibit 6 (see page 27) shows that, to achieve the same level of retirement security, Sophia can increase her pay available for other uses by 30% – or nearly $13,000 per year – when her employer provides a portable large-employer capital accumulation plan compared with a non-portable plan.

Exhibit 6

Portability can increase the compensation efficiency of workplace retirement plans



Case study: Goodyear Canada

Number of employees	1,500
Workplace retirement plan type	Defined benefit, defined contribution, group RRSP
Notable plan features	✔ Strategy to communicate the value of retirement benefits to employees has resulted in high participation numbers ✔ Allows retired employees to continue as plan members

Goodyear Canada, the Canadian arm of the multinational tire manufacturer, has both unionized and non-unionized workforces. Retirement benefits are offered to both groups through different plans. Plan portability features allow participating employees to remain members of Goodyear's plans into retirement, with more favourable fees and negotiated offerings even after they retire.

The company encourages employee participation in the plans through extensive communication efforts to explain the value of the retirement benefits. A multi-faceted strategy provides employees with plain language information across multiple channels, including one-on-one meetings, site visits, brochures and online platforms to provide live updates on benefits accrued to date. Communications are informed by listening and responding to employee feedback, including questions about their retirement benefits and adapted to suit varying age demographics. Younger employees receive messages about the value of employer matching contributions. Older employees receive information about strategies to navigate retirement. These initiatives have been highly effective, with 99% of non-union employees participating in a defined contribution pension plan while receiving full matching employer contributions.

According to Thak Bhola, Goodyear Canada's Pension Manager, offering retirement benefits helps with recruiting new hires, especially in today's competitive labour market and with engaging and retaining its employees.

Section 2.2: Talent attraction and retention

Good workplace retirement plans are a competitive advantage for employers, providing benefits valued by workers and supporting the attraction and retention of talent in a constrained and competitive labour market.

The benefit to recruitment

Among the employers interviewed for this study, a primary reason for offering retirement benefits is to be competitive in the recruitment of workforce talent. Many of our employer interviewees stated that, if they did not offer retirement benefits, they would be significantly less attractive as an employer. Some indicated their retirement plan offerings help differentiate them as an employer.

Bell Canada, one of the country's largest employers, offers retirement benefits both to ensure their compensation package remains attractive and competitive, and as part of a corporate commitment to being a best-in-class employer (see Bell Canada case study). Another large employer interviewee (who chose to remain anonymous) said that its retirement plan was an important way to keep pace with their competition, noting that the company periodically benchmarks its retirement plan against other employers in its industry, sometimes enhancing the plan to stay competitive.

Case study: Bell Canada	
Number of employees	50,704[29]
Workplace retirement plan type	Defined contribution plan for all new employees since 2004, closed defined benefit plan
Notable plan features	✔ Providing additional support to plan members during the post-retirement phase ✔ In-house investment management leveraging the scale of the closed defined benefit plan

Bell Canada has been providing its employees with retirement benefits since the 1920s. For decades, it offered a single-employer defined benefit plan, with the company covering 100% of employee contributions. To limit financial liability and address other issues associated with the single-employer defined benefit model, Bell Canada changed its retirement plan offering from defined benefit to defined contribution in 2004.

[29] BCE 2020 Annual Report, https://www.bce.ca/investors/AR-2020/2020-bce-annual-report.pdf.

Today, Bell Canada offers a defined contribution plan, with 90% of plan members maximizing employer contributions. Recognizing that defined contribution plans can help employees save for retirement but do not, by design, help with decumulation strategies in retirement, Bell Canada has launched variable payouts options during decumulation for retired defined contribution members. The company has also aligned the interests of its leadership with the interests of its employees, as the company's executives belong to the same retirement plan.

According to Eleanor Marshall, Bell Canada's Vice President of Pension & Benefits, there are two primary reasons the company has offered and continues to offer retirement benefits. First, Bell Canada wants to offer competitive compensation packages to help attract, retain and motivate its employees. Second, Bell Canada wants to be a best-in-class employer that helps employees feel confident and comfortable in their retirement.

As outlined in Exhibit 7 (see page 31), the *2021 Canadian Employer Pension Survey* found that employers see workplace retirement plans as helping significantly with recruitment, including:

- 83% of employers offering a defined benefit pension plan said it was "extremely important" or "very important" to recruitment (with 47% saying it was "extremely important")
- 87% of employers offering a defined contribution pension plan said it was "extremely important" or "very important" to recruitment (with 36% saying it was "extremely important")
- 77% of employees offering a group RRSP said it was "extremely important" or "very important" to recruitment (with 29% saying it was "extremely important")[30]

These figures are comparable to the ratings for pay (86%), the work itself (82%), wellness benefits (81%), profit sharing (81%), work-life balance (80%) and health insurance (78%), and higher than those for disability insurance (74%), dental insurance (74%), life insurance (69%) and upward mobility (62%)[31]

From these results, it appears that the more value drivers a plan incorporates, the more likely employers are to regard it as "extremely important" to recruitment. Of all the benefits employers were asked about, defined benefit pension plans were, by a considerable margin, the most likely to be seen as "extremely important" to recruitment.[32]

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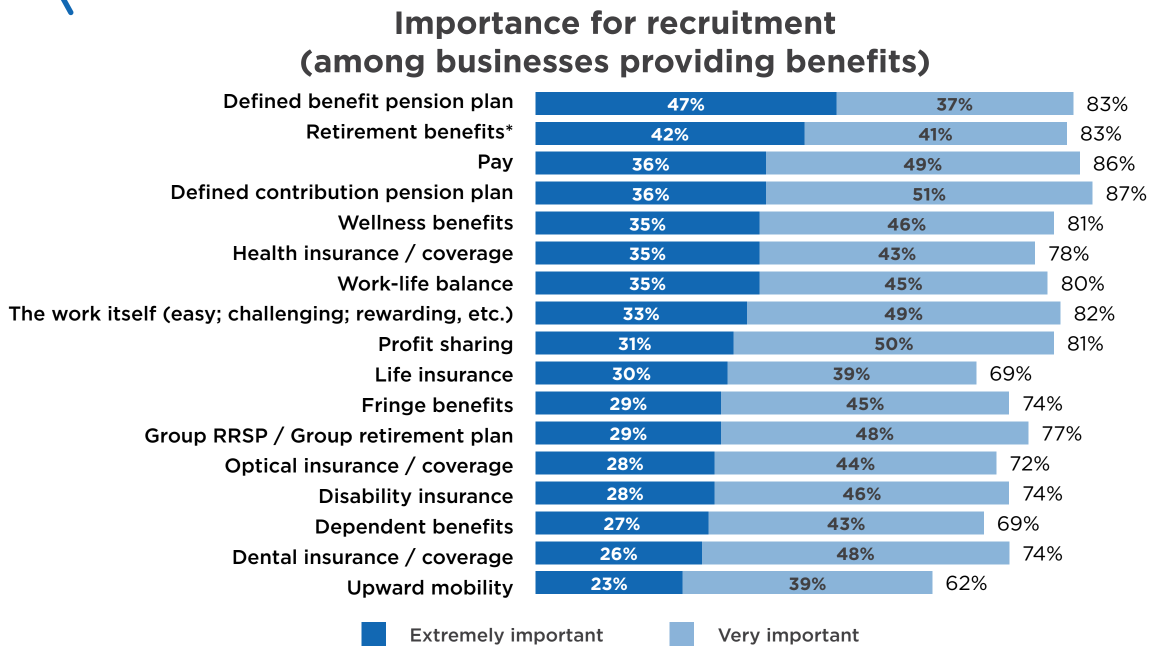
[30] Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), "Canadian Employer Pension Survey" (October 2021). https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf
[31] Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), "Canadian Employer Pension Survey" (October 2021). https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf
[32] Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), "Canadian Employer Pension Survey" (October 2021). https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf

Exhibit 7



* Defined benefit, defined contribution or Group RRSP / Group retirement plan
Numbers in this exhibit may not always add up due to rounding.

Numerous employee surveys also support the view that retirement plans are important to recruitment. A public opinion survey of 2,500 Canadians, commissioned by HOOPP in April 2021, revealed that, when presented with a choice, seven out of ten Canadians would forgo a higher salary for a retirement savings plan and prefer that employers make direct contributions to a retirement plan instead of providing that money as salary.[33]

A 2018 Accenture survey with a representative sample of 2,750 US and Canadian workers and retirees with retirement plans found that 78% regarded the availability of retirement benefits as a critical factor in deciding whether to accept a job.[34]

Seven out of ten Canadians would forgo a higher salary for a retirement savings plan and prefer that employers make direct contributions to a retirement plan instead of providing that money as salary.

An online survey of 1,000 working adult Canadians commissioned by the Canadian Public Pension Leadership Council in 2016 found that 50% of Canadians are willing to contribute more of their annual income to receive features such as a lifetime retirement income. Additionally, 53% of respondents aged 18 to 24 said they would pay 10% or more of their annual income to pension and retirement savings to maintain the same standard of living during retirement.[35]

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[33] Abacus Data. Commissioned by Healthcare of Ontario Pension Plan. "Executive Summary of Canadian retirement survey" (2021), https://hoopp.com/en/newsroom-details/new-research-from-hoopp-and-abacus-data

[34] Accenture. "Pension benefits are critical factor for workers — regardless of age — in deciding whether to accept a job, Accenture survey finds" (April 19, 2018), https://www.accenture.com/ca-en/company-news-release-pension-benefits-critical-factor-worker

[35] Bob Baldwin. "The Pensions Canadians Want: The Results of a National Survey." Canadian Public Pension Leadership Council. (April 13, 2017), http://cpplc.ca/wp-content/uploads/2018/01/2017-034_cpplc-report_the-pensions-canadians-want_20170501.pdf.

The high value Canadians place on workplace retirement plans is shared by workers across many different countries. A 2017 global survey of 31,240 respondents by Willis Towers Watson found employees look to their employers for help in becoming more financially secure, with over 60% indicating that their workplace retirement plan is their primary means of saving for retirement.[36]

Demographic factors including income level and age appear to influence how workers perceive the value of retirement benefits. One employer interviewee reported that, even when eligible for the company's retirement plan and aware of matching employer contributions, many workers (especially those earning low- to moderate-wages) opt not to participate. Though some might want to save, retirement benefits might be less attractive to workers living paycheque to paycheque. Plan participation rates are higher among workers earning higher incomes. For an employer whose workforce has a diverse income level, a retirement plan that enables flexible contributions and access to multiple plan types (including a TFSA for modest earners) can help address the varying needs of the workforce and be more inclusive for all types of potential hires.

Age is another factor, as Canadian workers tend to value retirement benefits more highly as they approach retirement. Numerous employer interviewees noted that younger generations are generally less interested in the topic of retirement savings, identifying different mid- to longer-term financial goals and concerns (prioritizing their immediate financial situation or housing) than older workers. For instance, younger workers may be focused on starting a family and buying a house. They may identify preparing for retirement as an important but secondary financial concern. This poses a perennial challenge to those working to encourage retirement savings, even though younger people that start participating in a workplace retirement plan early in their careers stand the most to gain due to the benefits of compounding interest on savings.

Still, evidence indicates that younger generations do value workplace retirement plans. A 2021 Abacus Data survey found that nearly six in ten respondents aged 18 to 29 would forgo salary for any (or a better) retirement plan. While this is lower than the 86% of those aged 60 and above who stated this preference, it is nevertheless a significant number and runs counter to conventional wisdom that younger people do not care about retirement savings.[37] There is also data from the US showing that Generation Z workers (people born between 1997 and 2012) are beginning to save for retirement earlier than previous generations.[38]

To address the specific needs of their workforce, employers and their plan providers can tailor workplace retirement

[36] Willis Towers Watson. Global Benefits Attitudes Survey. (2017)
[37] Abacus Data. Commissioned by Healthcare of Ontario Pension Plan. "Canadian Retirement Survey" (2021). https://hoopp.com/docs/default-source/newsroom-library/research/2021_canadian_retirement_survey_final.pdf
[38] Transamerica Center for Retirement Studies, "21st Annual Transamerica Retirement Survey" (August 5, 2021), https://transamericacenter.org/retirement-research/21st-annual-retirement-survey#generations.

offerings to ensure plans offer both greater financial value to employees and are perceived by employees as offering that value. For example, Shopify has tailored its retirement offering to be more flexible to meet the needs of its workforce.

Case study: Shopify	
Number of employees	7,000+ globally
Workplace retirement plan type	Group RRSP with a flexible benefits program that allows employees to allocate funds to a group RRSP
Notable plan feature	✔ Offers retirement benefits as part of a flexible benefits program geared towards its workforce

Shopify is one of Canada's fastest growing employers with over 7,000 employees worldwide, and as of the time of this report, expanding rapidly. Since releasing the Shopify platform in 2006, the company has seen enormous growth and in 2020 displaced Royal Bank of Canada as Canada's largest public company by market capitalization.

As a smaller startup, Shopify offered a voluntary RRSP savings program with employee contributions only. In 2018, Shopify introduced an enhanced flex benefits program that allows employees to allocate up to $5,000 at the beginning of each year across four options: group RRSP savings, charitable contributions, a lifestyle spending account and/or a health spending account.

According to Beth Tremblay, Shopify's Senior Lead, Global Benefits, retirement can be a secondary financial concern for Shopify's workforce. She notes that the flex benefits program enables employees to balance their more immediate financial concerns – such as home buying, starting a family, and personal health and wellness – with longer-term financial goals such as retirement.

Yet, the company believes it is important to offer the retirement savings option to promote longer-term savings among its employees. As Shopify has grown and made more mid-career hires, the company has also been seeing more employee interest in retirement benefits.

The benefit to retention

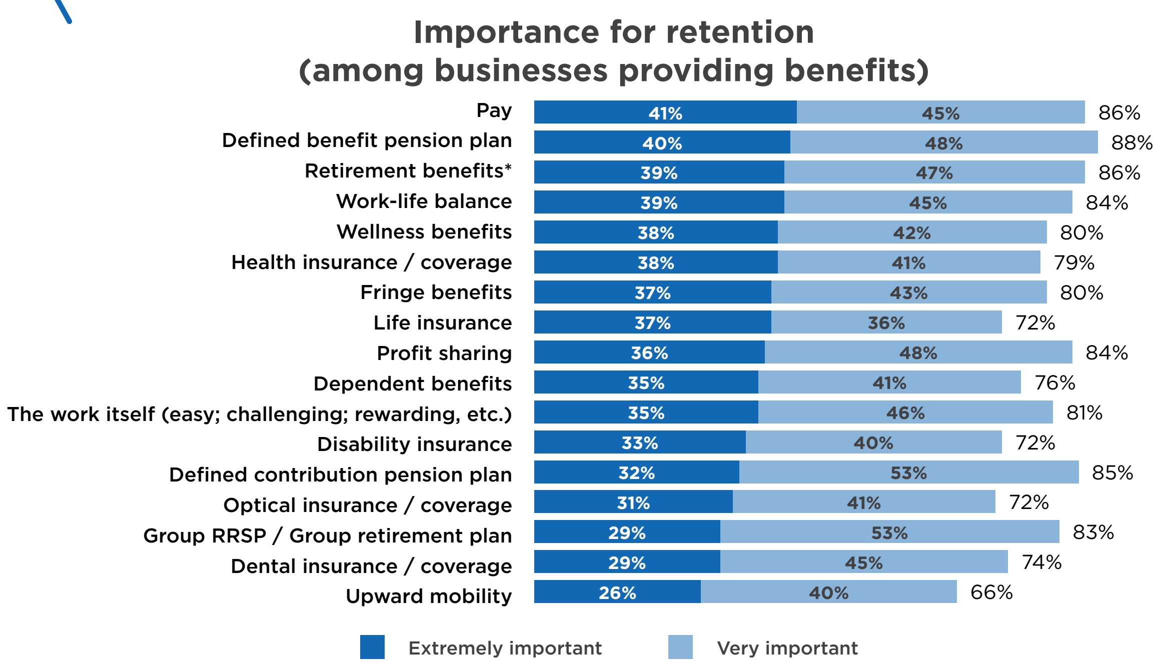
Providing workplace retirement savings benefits can also improve employee retention. A common theme in many of the employer interviews, improved retention rates were frequently cited as a primary objective of the provision of benefits, with many employees citing the value of retirement benefits as a key reason for maintaining job tenure.

These interview perspectives were reinforced by the findings of the *2021 Canadian Employer Pension Survey* (see Exhibit 8). Among employers that provide benefits:

- 88% of employers offering a defined benefit pension plan said it was “extremely important” or “very important” to retention (with 40% saying it was “extremely important”)
- 85% of employers offering a defined contribution pension plan said it was “extremely important” or “very important” to retention (with 32% saying it was “extremely important”)
- 83% of employees offering a group RRSP said it was “extremely important” or “very important” to retention (with 29% saying it was “extremely important”)[39]

These percentages are comparable to what employers reported about the importance of other top-ranked workplace benefits, including pay (86%), work-life balance (84%) and profit sharing (84%). They are higher than what employers reported for health insurance (79%), disability insurance (72%), life insurance (72%), dental insurance (74%) and upward mobility (66%).[40]

Exhibit 8



* Defined benefit, defined contribution or Group RRSP / Group retirement plan
Numbers in this exhibit may not always add up due to rounding.

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[39] Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), “Canadian Employer Pension Survey” (October 2021). https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf.

[40] Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), “Canadian Employer Pension Survey” (October 2021). https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf

As with recruitment, retirement plans that incorporate more of the five value drivers – for example, a typical defined benefit pension plan compared to a typical group RRSP – are more likely to be regarded as "extremely important" to retention (see Exhibit 8 on page 34).

Numerous academic studies have established that workplace retirement plans can reduce turnover. One study found that, compared to not offering a plan, defined benefit plan coverage increases tenure by four years, defined contribution plan coverage increases tenure by 2.7 years and a combination of defined benefit and defined contribution increases tenure by 5.8 years.[41] Evidence of the connection between job tenure and pensions is longstanding, with Richard A. Ippolito's seminal (though 30-year-old) study finding that pensions increased tenure by more than 20% on average.[42]

Defined benefit plan coverage increases tenure by four years, defined contribution plan coverage increases tenure by 2.7 years.

Industry reports also associate workplace retirement savings plans with improved retention rates. The 2018 Accenture survey cited earlier found 73% of respondents reported staying with an employer due to that employer's retirement benefits.[43] A 2014 Manulife study found that 86% of employees who belong to a workplace group retirement plan agreed their workplace retirement benefits increase retention, with 82% of the same employees agreeing those benefits increased their loyalty to their respective employers. Further, 64% of employees valued a group retirement plan as much as extended vacation time, and 36% would choose employer contributions to a group retirement plan as their top desired benefit. Yet only 6% of employers were aware of these employee benefit preferences.[44]

Plan portability and retention

Plan portability has the potential to further improve retention rates. It may seem counterintuitive that the ability to retain workplace benefits after leaving an employer would support retention, but it reflects a labour market where few employees stay at any one company for their entire working careers.

In 2020, the average job tenure of a Canadian employee was 8.8 years.[45] This means a Canadian who works from age 25 to 65 can expect to have five different employers throughout their working life. In some sectors, such as retail, average turnover rates are considerably higher than the national average.

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41 Alicia H. Munnell, Kelly Haverstick, and Geoffrey Sanzenbacher. "Job Tenure and Pension Coverage." (2006), https://crr.bc.edu/working-papers/job-tenure-and-pension-coverage/.
42 Richard A. Ippolito. Encouraging long-term tenure: wage tilt or pensions? (1991).
43 Accenture. "Pension benefits are critical factor for workers — regardless of age — in deciding whether to accept a job, Accenture survey finds" (April 19, 2018), https://www.accenture.com/ca-en/company-news-release-pension-benefits-critical-factor-worker
44 Manulife. "Help your employees bring their best to work. Every day. Understanding the impact of employee health and wealth on your business success." (February 2014), https://www.manulife.ca/content/dam/consumer-portal/documents/en/other/GA4009B.pdf
45 Statistics Canada. "Job tenure by industry, annual." (2020). https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410005501
Job tenure "refers to the number of consecutive months or years a person has worked for the current employer. The employee may have worked in one or more occupations or one location, or experienced periods of temporary layoff and still be considered to have continuous tenure if the employer has not changed. But if a person has worked for the same employer over different periods of time, job tenure measures the most recent period of uninterrupted work."

Several employer interviewees noted they no longer expect their employees to stay with them for their entire working lives. They offer workplace retirement benefits because doing so helps retain quality talent for longer on average than they could otherwise. Some offer retirement benefits that are portable at an industry-wide level because they want to be able to retain talent specific to their profession, which requires specialized expertise and training.

They indicated retention rates have improved, both for the company and on a sectoral level, with one employer remarking, “If we don’t offer retirement benefits, and our competitors in the same sector do, we would not be competitive in attracting and retaining top talent.” This perspective was reflected in the *2021 Canadian Employer Pension Survey*, with 66% of human resources managers agreeing that increasing retirement benefit portability would improve company and sectoral retention rates.[46]

[46] Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), “Canadian Employer Pension Survey” (October 2021). https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf

Section 2.3: Reduced financial stress

Workplace retirement savings can benefit employers not just through worker recruitment and retention, but also through reduced financial stress for employees – which translates to improved productivity. Research from the fields of psychology and economics has repeatedly shown financial stress is detrimental to employee productivity, as it prevents workers from focusing and managing their time at work.

Employees who are worried about finances have less cognitive capacity – "mental bandwidth" – to perform at work and may also spend significant time on personal financial issues while at work. Numerous studies conducted with thousands of employees across different industries, job functions and socioeconomic circumstances illustrate that financial stress "impedes [a worker's] ability to be productive and perform up to their full potential."[47]

Behavioural scientists Sendil Mallainathan and Eldar Shafir explain that there is a causal relationship between financial scarcity and mental function, "The human cognitive system has limited capacity. Preoccupation with pressing budgetary concerns leaves fewer cognitive resources available to guide choice and action."[48]

Katie Bach, Managing Director of the Good Jobs Institute and expert on job creation, access and quality, remarked, during our interview that, "Employers investing in retirement plans are investing in the performance of employees while they're working for their companies. When people are financially insecure, they cannot be fully present at work."

Canadians consistently report feeling anxious about their finances and retirement savings. Research from HOOPP and Abacus Data found that, when asked about a wide range of affordability pressures, Canadians identified the cost of day-to-day living (55% very concerned) and having enough money in retirement (48%) as top concerns.[49] Financial stress is also a widespread phenomenon among employees. A 2019 PricewaterhouseCoopers survey found 67% of workers report financial stress, and that financial matters were the number one reported cause of stress across all generations.[50]

"Employers investing in retirement plans are investing in the performance of employees while they're working for their companies. When people are financially insecure, they cannot be fully present at work."

[47] Carrie Lean. Stanford Social Innovation Review. "The Cost of Financial Precarity." (Spring 2019). https://ssir.org/articles/entry/the_cost_of_financial_precarity
[48] Eldar Shafir and Sendhil Mullainathan. Scarcity: Why Having Too Little Means So Much. (2013).
[49] Abacus Data. Commissioned by Healthcare of Ontario Pension Plan. "Executive Summary of Canadian retirement survey" (2021). https://hoopp.com/en/newsroom-details/new-research-from-hoopp-and-abacus-data.
[50] PricewaterhouseCoopers. "PwC's 8th annual Employee Financial Wellness Survey, PwC US, 2019." (2019). https://www.pwc.com/us/en/private-company-services/publications/assets/pwc-2019-employee-wellness-survey.pdf#page=18

Employees who report feeling financially stressed have higher absenteeism and "presenteeism"[51] (physically present at work but not fully functioning) rates than those who do not report feeling financially stressed. The 2017 Willis Towers Watson's global benefits attitudes survey cited earlier also reveals that significantly higher percentages of employees who experience current and/or future financial concerns report above average or high stress. Survey respondents who were worried about their finances in both the short and long term were twice as likely to be in poor health and reported significantly higher absenteeism and presenteeism rates, as well as lower engagement with work, compared to those reporting no financial concerns.[52]

Financially-stressed employees can also hurt company performance. A 2019 Canadian Payroll Association survey found 43% of Canadian workers say financial stress impacts their workplace performance, and almost 25% of Canadian workers say they spend just under 40 minutes each working day distracted due to personal finances.[53]

A 2017 PricewaterhouseCoopers report found 46% of distracted employees report spending three work hours or more per week on financial issues.[54] A 2016 Manulife study found 40% of Canadians surveyed reported that they are financially unwell, and of that group, 49% said their financial concerns distract them at work.[55]

A 2019 Canadian Payroll Association survey found 43% of Canadian workers say financial stress impacts their workplace performance, and almost 25% of Canadian workers say they spend just under 40 minutes each working day distracted due to personal finances.

The cost of financial stress

Many studies have estimated the cost of lost productivity due to absenteeism and/or presenteeism rates that transpire from financial stress. Estimates of how much employee distraction due to financial stress costs companies in lost productivity range widely. The Canadian Payroll Association estimated that, as the number one source of stress for Canadians, financial stress is costing Canadian employers $16 billion annually due to lost productivity.[56] An analysis by the Financial Consumer Agency of Canada found that 43% of employees say that stress related to personal finances impacts their performance at work, and estimated the cost per employee of this lost productivity at about $2,400 per year.[57]

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51 For a discussion of presenteeism, see, for example, Harvard Business Review. "At work – but out of it." (October 2004).
52 Willis Towers Watson. Global Benefits Attitudes Survey. (2017)
53 The Canadian Payroll Association. "Financial stress in the workplace costs Canadian economy $16 billion annually." (September 4, 2019). https://payroll.ca/PDF/NPW/2019/Media/2019-National-Payroll-Week-News-Release-National-F.aspx
54 PricewaterhouseCoopers, "Special report: Financial stress and the bottom line: Why employee financial wellness matters to your organization" (2017). https://cdn2.hubspot.net/hubfs/172936/pwc-financial-stress-and-bottom-line.pdf
55 Manulife. "Results from the 2016 Financial Wellness Index." (2016). https://www.manulife.ca/content/dam/consumer-portal/documents/en/other/how-financial-stress-can-impact-mental-health-in-your-work-place.pdf.
56 The Canadian Payroll Association. "Financial stress in the workplace costs Canadian economy $16 billion annually." (2019). https://payroll.ca/PDF/NPW/2019/Media/2019-National-Payroll-Week-News-Release-National-F.aspx
57 Financial Consumer Agency of Canada. "Infographic: calculating the cost of employee financial stress on productivity." (2019). https://www.canada.ca/en/financial-consumer-agency/services/financial-wellness-work/resources/infographic-cost.html

An Ipsos Reid poll conducted for Manulife found that employees who are financially unprepared are 16% less likely to say they are productive on the job, so Manulife extrapolated from this that a 16% decrease in productivity could cost an employer about $8,000 per employee.[58]

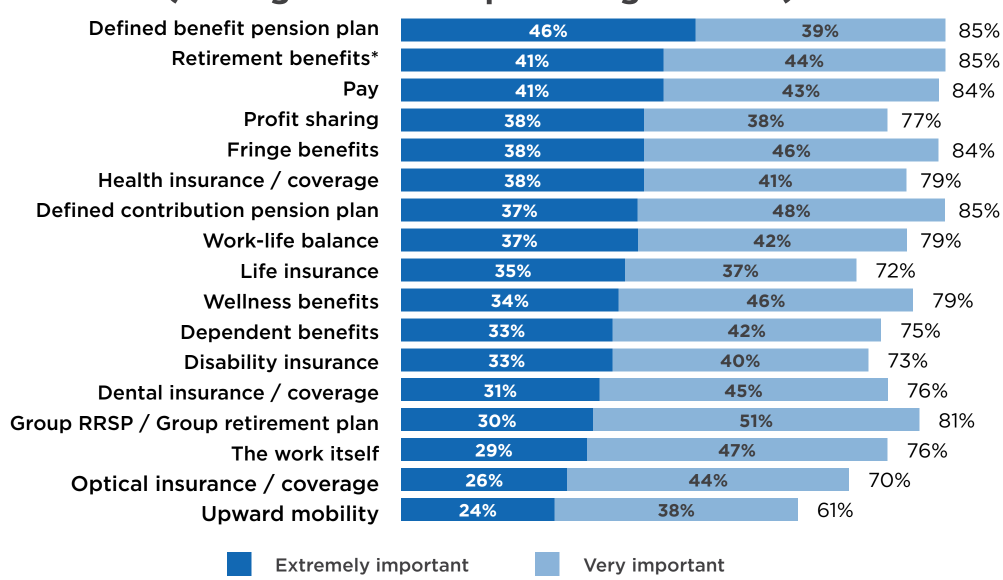
Employers are also recognizing these impacts on their workers. In the 2021 *Canadian Employer Pension Survey*, about three-quarters of human resources development and management staff surveyed agreed it is important to offer benefits that will reduce financial stress for employees, and that employees who are experiencing financial stress are less productive.[59]

Retirement plans can reduce financial stress

The 2021 Canadian Employer Pension Survey found that employers ranked workplace retirement plans among the top ways to reduce financial stress, comparable to pay and fringe benefits, and above wellness benefits, health insurance, disability insurance and life insurance (see Exhibit 9).[60] As with recruitment and retention, retirement plans that tend to incorporate more value drivers were more likely to be regarded as "extremely important" to reducing financial stress, with defined benefit pension plans being the benefit most likely to be regarded as such.

Exhibit 9

Importance for reducing/managing employees' financial stress (among businesses providing benefits)



* Defined benefit, defined contribution or Group RRSP / Group retirement plan
Numbers in this exhibit may not always add up due to rounding.

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58 Manulife. "Help your employees bring their best to work. Every day. Understanding the impact of employee health and wealth on your business success." (February 2014)
https://www.manulife.ca/content/dam/consumer-portal/documents/en/other/GA4009B.pdf

59 Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), "Canadian Employer Pension Survey" (October 2021).
https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf

60 Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), "Canadian Employer Pension Survey" (October 2021).
https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf.

The 2014 Manulife survey cited earlier reported that 60% of employees whose employers have a group retirement plan agree it increases performance.[61] The 2016 Canadian Public Pension Leadership Council's national survey, conducted with more than 1,000 Canadian workers, suggested that having a workplace retirement plan is positively correlated with improving health and performance for workers. Survey respondents were asked to rate their level of stress about managing investments for retirement on a 10-point scale (1 is not at all stressful and 10 is extremely stressful). Among those who do not have access to a workplace retirement plan (50% of survey respondents), 41% indicated 8, 9 or 10, compared to only 27% among those who are participating in workplace retirement plans (46% of survey respondents). Survey respondents were also asked to rate whether the stress from retirement planning has a negative impact on personal health on a 10-point scale (1 is no effect at all and 10 is a tremendous effect). Among survey respondents with no workplace retirement plan, 29% responded 8, 9 or 10, compared to 20% of those participating in workplace retirement plans.

In addition to reducing long-term sources of financial stress, such as concern about retirement readiness, workplace savings programs help reduce shorter-term sources of financial stress. These include the lack of emergency savings and the feeling of financial precarity that comes from living from paycheque to paycheque, as more than half of Canadians do according to a recent survey.[62] The 2019 PricewaterhouseCoopers survey cited earlier found that employees define financial wellness as "being stress free and achieving financial stability."[63] Workplace-based plans can help develop a habit of regular savings, which can translate into broader feelings of financial confidence and security.[64] Research findings from the US indicate about half of minimum wage workers report that they are not enrolled in a savings account, and that identifying viable savings vehicles can be challenging for lower-income workers. For lower- to moderate-income individuals, workplace-based saving tools and vehicles have been effective in showing how to start to save. Findings also indicate that employers could harness workplace retirement plans to promote short-term savings in addition to retirement savings.[65]

The *2021 Canadian Employer Pension Survey* found that employers offering retirement benefits were more likely to report improved productivity during the pandemic (net +38%) compared with employers not offering any retirement benefits (net +7%) (see Exhibit 10 on page 41).

The size of the reported increase was also larger where the employer offered a retirement plan with more value drivers,

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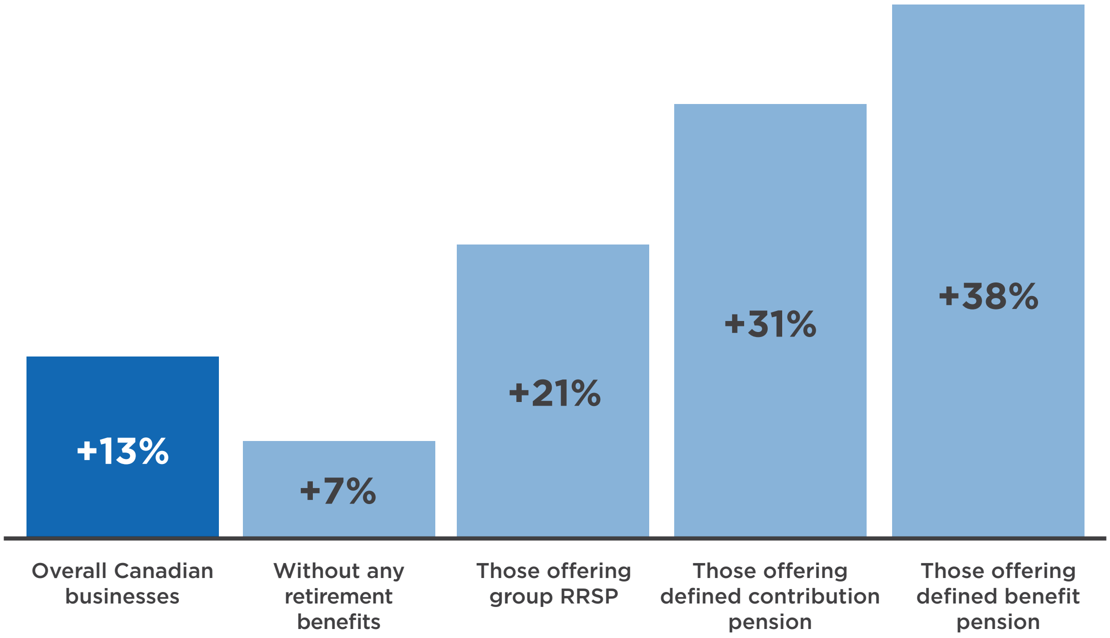
61 Manulife. "Help your employees bring their best to work. Every day. Understanding the impact of employee health and wealth on your business success." (February 2014) https://www.manulife.ca/content/dam/consumer-portal/documents/en/other/GA4009B.pdf
62 BDO Canada Limited. BDO Canada Affordability Index. (2019)
63 PricewaterhouseCoopers. "PwC's 8th annual Employee Financial Wellness Survey, PwC US, 2019." (2019). https://www.pwc.com/us/en/private-company-services/publications/assets/pwc-2019-employee-wellness-survey.pdf#page=18
64 Center for Financial Services Innovation. "Employee Financial Health: How Companies Can Invest in Workplace Wellness" (May 2017) https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/05/26183930/2017-Employee-FinHealth.pdf
65 Commonwealth, "Financial Security in the Workplace – Making it work for financially vulnerable workers." https://buildcommonwealth.org/assets/downloads/Financial_Security_in_the_Workplace.pdf

with employers offering defined benefit plans reporting the highest increase. While it is difficult to know how much of the productivity difference was driven by the retirement benefits themselves, as opposed to other employer attributes that tend to be associated with the presence or absence of retirement benefits (e.g., sector, income level, job precarity), the size of the difference is notable.

Exhibit 10

Employee productivity during pandemic: net positive change



Present bias and communicating the value of workplace retirement benefits

To maximize the long-term business value of offering retirement benefits, it is important for employers to communicate the value that retirement benefits create for employees. The financial value that workplace retirement plans offer employees is realized only over time, as today's retirement savings grow to become tomorrow's nest egg. As actuary Robert Brown stated in our interview, "Retirement benefits are a deferred asset… there will likely need to be a time value of money discount, and age will play a role in determining what that discount is." As a result, the full financial advantage of participation in available retirement benefit programs are not always obvious to workers, even when they report a desire to save for retirement.

Behavioural research has shown that people tend to place significantly more value on money received today than on money received in the future. Many experts have attempted to quantify the effect of this tendency, known as "present bias," on individual choice using personal discount rates (PDRs) – the additional value individuals place on current versus future dollars. Estimates of PDRs in studies on retirement-related choices range from 0% to more than 30%.[66] To use a simple example, if someone had a PDR of 10%, they would value $100 received one year from now the same as roughly $91 received today.

In a recent study on PDRs[67], economists Curtis Simon, John T. Warner and Saul Pleeter estimated PDRs based on a choice given to US military personnel, between an immediate cash payment of $30,000 or a more generous retirement pension. The authors attained a rough estimate of the PDR for military personnel whose saving habits and financial stability characteristics were similar to those of the overall population of the US. The resulting PDR estimate for someone in their 30s and early 40s among the overall population was 8%.

While just an illustrative example, the 8% PDR estimate suggests the present bias to receive compensation today over greater financial value tomorrow could be a substantial dollar figure, presenting an important cognitive hurdle to overcome for workers. For employers offering workplace retirement benefits, the key implications of PDR studies are as follows: older employees will likely value future retirement income more than younger employees; future dollars will be valued more highly by employees who intend to retire earlier; and lower- to moderate-income earners will place more value on a dollar today.

Educational initiatives and clear communication about the additional financial value that workplace retirement benefits and retirement savings offer can be effective in reducing present bias among employees. The Goodyear Canada case study highlights an employer communication strategy to convey the value of retirement benefits to employees.

In Section 4 (page 52), we offer some suggestions to help employers better communicate the value of workplace retirement benefits.

[66] See John T. Warner and Saul Pleeter. "The Personal Discount Rate: Evidence from Military Downsizing Programs," American Economic Review, Vol. 91, No. 1 (March 2001).
[67] Curtis Simon, John T. Warner and Saul Pleeter. "Discounting, cognition, and financial awareness: new evidence from a change in the military retirement system" (September 2014). https://onlinelibrary.wiley.com/doi/full/10.1111/ecin.12146

Section 2.4: ESG considerations

The past few years have seen the acceleration of two interrelated trends: the rise of stakeholder capitalism and increasing integration of environmental, social and governance (ESG) factors into investing. Taken together, these trends have the potential to further strengthen the business case for offering good workplace retirement plans. Investors, courts, regulators and consumers themselves are paying increasing attention to how companies compensate their people and may reward those companies whose compensation strategies create greater financial security for their workers.

The rise of stakeholder capitalism

The principle of "stakeholder capitalism" calls on businesses to broaden their purpose beyond that of maximizing shareholder returns. This alternative to shareholder primacy proposes that corporations should consider the interests of a wider range of stakeholders, including workers, customers and communities, as well as shareholders when making business decisions.[68]

The debate about stakeholder capitalism became more mainstream when the Business Roundtable, a prominent advocacy group representing corporate America, released a *Statement on the Purpose of a Corporation* in August 2019 redefining the purpose of a corporation as promoting the interests of customers, employees, suppliers, communities and shareholders.[69] This statement was signed by 181 CEOs who committed their companies to serving this new purpose.[70] Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co. and Chairman of the Business Roundtable stated, "Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term."[71]

In parallel to this debate about the role of the corporation, the past several years have seen increasing attention paid to ESG issues in investments, with investors increasingly seeing issues such as climate change, inequality and corporate governance as sources of investment risk and opportunity. In 2020, nearly one-quarter of funds flowing into all US stock and bond

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[68] See World Economic Forum, "Stakeholder Capitalism: A Manifesto for a Cohesive and Sustainable World," News Release (14 January 2020). https://www.weforum.org/press/2020/01/stakeholder-capitalism-a-manifesto-for-a-cohesive-and-sustainable-world/. For a critique of stakeholder capitalism, see Lucian A. Bebchuk & Roberto Tallarita, "The Illusory Promise of Stakeholder Governance," Cornell Law Review, Vol. 106, pp. 91-178 (2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3544978.

[69] Business Roundtable. "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans" (August 19, 2019). https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

[70] Business Roundtable. "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans" (August 19, 2019). https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

[71] Business Roundtable. "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans" (August 19, 2019). https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

mutual funds flowed into ESG funds, up from only 1% in 2014.[72] Sustainable funds also attracted about 7% of US exchange-traded fund (ETF) flows in 2020.[73]

Focusing on the "S" within ESG

While ESG investors have historically focused more on the "E" (environmental) and "G" (governance) factors, recently there has been increasing interest in the social "S" within ESG, including how companies treat and compensate their employees. This increased focus on issues of human capital and inequality predated the pandemic, but COVID-19 has arguably accelerated the trend, prompting a societal debate on the treatment of essential workers and on broader issues of equity and social justice.[74]

Financial security for workers, including retirement security, is an important element of the "S" within ESG. Commonwealth, a US-based national nonprofit focused on building financial security, and Putnam Investments, a major asset manager, recently published a report encouraging the ESG community to expand its employer advocacy focus to increasing benefits such as retirement plans, short-term savings and paid leave, while also calling for improved employer measurement of employee financial security initiatives.[75]

The evolution of ESG could also usher in a shift in how investors and corporations look at retirement arrangements. In the past, scrutiny has often focused on issues of cost and risk, with much of the attention directed towards underfunded defined benefit plans that are generally seen as having a negative effect on company valuations.[76] Given the rise of ESG investing and changing corporate governance norms, the coming years may see a different kind of investor scrutiny related to retirement benefits – pressuring for greater coverage and better-quality retirement benefits (without undue financial risk to the company).

ESG-oriented investors, especially those focused on human capital issues, may demand better data and disclosure of the kind of retirement benefits offered to employees and may even start to factor this data into their investment decisions. Given the compelling evidence that quality retirement plans contribute to improved talent management and lower financial stress, investors may be able to use retirement plans and other kinds of compensation best practices to identify companies that are more likely to outperform.

BlackRock highlighted the issue of retirement benefits in CEO Larry Fink's 2019 annual letter entitled "Profit and Purpose." Given BlackRock's influence

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[72] Morningstar, "Sustainable Funds U.S. Landscape Report" (February 10, 2021), https://www.morningstar.com/lp/sustainable-funds-landscape-report.

[73] Morningstar, "Sustainable Funds U.S. Landscape Report" (February 10, 2021), https://www.morningstar.com/lp/sustainable-funds-landscape-report.

[74] On the increasing focus of institutional investors on the topic of income inequality, see Principles for Responsible Investment & The Investment Integration Project, "Why and how investors can respond to income inequality" (2018), https://www.unpri.org/academic-research/why-and-how-investors-can-respond-to-income-inequality/3777.article.

[75] Commonwealth and Putnam Investments. "The Pivotal Role of Investors in Worker Financial Security: Expanding ESG Analysis to Include Financial Well-Being" (2021), https://www.putnam.com/static/pdf/pivotal-role-investors-financial-security-3ec2ff132e2d31e26beca4aafc144d53.pdf.

[76] See, for example, Investopedia, "The Investing Risk of Underfunded Pension Plans" (stating that "[t]he risk of underfunded pensions is real and growing. An underfunded pension and an aging workforce present a very real risk to companies and investors"). www.investopedia.com/articles/analyst/03/050803.asp. See also Llewellyn Consulting, "The influence of DB pensions on the market valuation of the Pension Plan Sponsor" (2014), https://www.pensioncorporation.com/media/100132/llewellyn-study-pension-vs-sponsor-share-price-final.pdf (finding that larger pension deficits are associated with lower stock market valuations).

on the investment landscape, as the world's largest asset manager, the letter is worth quoting at length: "Retirement, in particular, is an area where companies must reestablish their traditional leadership role. For much of the 20th Century, it was an element of the social compact in many countries that employers had a responsibility to help workers navigate retirement... companies must embrace a greater responsibility to help workers navigate retirement, lending, their expertise and capacity for innovation to solve this immense global challenge. In doing so, companies will create not just a more stable and engaged workforce, but also a more economically secure population in the places where they operate." [77]

"Retirement, in particular, is an area where companies must reestablish their traditional leadership role."

Workers are concerned about retirement security and are looking to businesses to provide workplace retirement plans.
A 2021 survey conducted by Abacus Data for HOOPP revealed that two in three Canadians believe there is an emerging retirement income crisis, and about 80% believe that seniors will experience poverty without good workplace pensions.[78] A similar share believe employers have a responsibility to offer retirement savings plans so that employees have adequate retirement income.[79] The *2021 Canadian Employer Pension Survey* found that nearly two-thirds of employers surveyed (60%) agreed it was their responsibility to help employees with retirement, given the state of retirement security in Canada.[80]

The retirement wealth gap

Calls for racial and economic justice that have been amplified during the COVID-19 pandemic provide another set of reasons for companies to enhance and re-examine their retirement benefits. Recent anti-racism protest movements have helped draw attention to the large gaps that exist in both income and wealth between racialized and Indigenous families and their white counterparts.

New research examining Canadian census data has highlighted how racial inequities are reflected in levels of retirement security as well. Senior white Canadians enjoy average incomes that are 25% higher than Indigenous seniors and 32% higher than racialized Canadians. White Canadians also have the highest share of income from private pension sources that are generated entirely (registered pension plans) or in part (RRSPs) through workplace savings arrangements.[81] Because those who lack retirement plan coverage are disproportionately likely to be women, racialized Canadians and Indigenous people, offering a workplace plan with broad coverage and inclusive plan design can be a powerful way to narrow wealth inequality and advance equity, diversity and inclusion (EDI) agendas, especially when coupled with more inclusive hiring and promotion practices.

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77 BlackRock, "Larry Fink's 2019 Letter to CEOs: Profit & Purpose." (2019). https://www.blackrock.com/americas-offshore/2019-larry-fink-ceo-letter
78 Abacus Data. Commissioned by Healthcare of Ontario Pension Plan. "Executive Summary of Canadian retirement survey" (2021). https://hoopp.com/en/newsroom-details/new-research-from-hoopp-and-abacus-data.
79 Abacus Data. Commissioned by Healthcare of Ontario Pension Plan. "Executive Summary of Canadian retirement survey" (2021). https://hoopp.com/en/newsroom-details/new-research-from-hoopp-and-abacus-data.
80 Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), "Canadian Employer Pension Survey" (October 2021). https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf
81 Sheila Block, Grace-Edward Galabuzi, Hayden King, "Colour-coded Retirement: An Intersectional Analysis of Retirement Income and Savings in Canada." Canadian Centre for Policy Alternatives (2021), https://www.policyalternatives.ca/ColourCodedRetirement.

SECTION 3

Business barriers to adopting good workplace retirement plans

The evidence reviewed so far suggests offering a good workplace retirement plan can create significant shared value for businesses and their employees. Why then, aren't more businesses offering good retirement plans, especially if it would appear to be in their economic self-interest to do so? Similarly, why aren't more employees demanding such plans at their workplaces, if they stand to gain tens if not hundreds of thousands of dollars of additional financial security over their lifetimes by accessing such plans?

Two different kinds of barriers are preventing more widespread adoption of good workplace retirement plans by Canadian businesses – systemic and behavioural. These barriers should not be underestimated. In the *2021 Canadian Employer Pension Survey*, more than 50% of employers not currently offering retirement plans said they would not consider providing such plans in the foreseeable future.[82]

[82] Maru/Matchbox. Commissioned by Healthcare of Ontario Pension Plan (HOOPP), "Canadian Employer Pension Survey" (October 2021). https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/2021-canadian-employer-pension-survey-report-presentation-deck.pdf

Section 3.1: Systemic barriers

The first set of barriers relate to the structure of our retirement system and the nature of retirement products in the Canadian private sector:

- **Single-employer model**

Whereas retirement arrangements in the public sector are largely based around a multi-employer model often with joint governance, pooled risk and sponsorship by umbrella organizations such as labour unions and employer associations, arrangements in the private sector tend to be single-employer in nature. While the single-employer model allows employers to customize their plans for their specific workforces, it also increases cost, complexity and risk. These issues, real and perceived, have been amplified in recent decades by macroeconomic factors like a shortening lifespan for companies, and by changes in pension accounting and funding rules. Consequently, private sector employers are less likely to participate in defined benefit or target benefit arrangements, to offer retirement benefits that are portable and to offer plans that continue to help workers in the post-retirement phase. Where they do offer retirement benefits, plans tend to maximize fewer of the value drivers.

- **Small and medium enterprise (SME) disadvantage**

Small and medium-sized businesses, employing nearly 90% of Canada's private sector workforce,[83] do not enjoy a level playing field relative to their larger competitors when it comes to offering retirement benefits. As pension expert Bob Baldwin said during our interview, "What [employers] can provide is based so much on the size of the employer… No matter what a small employer might want to offer, small employers invariably on their own don't have the expertise or scale to offer [lower-cost, more efficient] retirement plans." Members of smaller capital accumulation plans pay much higher fees than those in larger plans. Setting up a registered pension plan, especially a defined benefit or target benefit plan, is considered cost-prohibitive and too risky by SMEs, which means plan members of SME-sponsored plans tend to benefit from fewer protections in how their plan is governed and managed.

[83] Statistics Canada. "Key Small Business Statistics – January 2019." Figures reflect 2017 data. (In 2017, private sector businesses employed approximately 11.9 million individuals in Canada. 69.7% (8.3 million) of private sector employees worked for small businesses, 19.9% (2.4 million) for medium-sized businesses and 10.4% (1.2 million) for large businesses) https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03090.html#point2-1

- **Legislative and regulatory complexity and fragmentation**

Since the pensions minimum standards legislation was first introduced, the rules have become more complex. Court decisions and legislative and regulatory reforms have tended to add requirements and ambiguity, rather than trending towards simpler, clearer rules.[84] Canada's fragmented system of pension legislation and regulation, which splits responsibility between the federal and provincial governments, adds to the complexity for businesses with employees in more than one province and tends to diffuse responsibility for improving the overall system.[85]

[84] For a discussion of the complexity of pension law, and the need for greater clarity, see, for example, Ontario Expert Commission on Pensions, A Fine Balance: Safe Pensions, Affordable Plan, Fair Rules (2008), https://www.fin.gov.on.ca/en/consultations/pension/report/Pensions_Report_Eng_web.pdf.

[85] For a discussion of the absence of an integrated approach to retirement income policy in Canada, see Keith Ambachtsheer & Michael Nicin, "Improving Canada's Retirement Income System: A Discussion Paper on Setting Priorities" (February 2020), https://www.nia-ryerson.ca/s/Improving-Canada-s-Retirement-Income-System-Setting-Priorities_final.pdf.

Section 3.2: Behavioural barriers

Another set of barriers relate to how businesses and workers perceive the value of a workplace retirement plan:

- **Present bias**

As noted earlier, behavioural scientists refer to the phenomenon of "present bias" as the tendency of people to give greater weight to near-term gains than to longer-term gains.[86] This can influence both employees and businesses. In considering plan participation, employees may effectively apply a large discount rate to future dollars derived from a workplace retirement plan, leading them to prefer salary or other forms of benefits they can access today, or preventing them from taking action to enroll in a retirement plan even where they have a stated desire for such a plan.[87] The same thought process may make it less likely for employees to demand or value retirement plans in their place of work. Similarly, for businesses, executives face "short-termism" pressures such as achieving quarterly earnings targets.[88] Further, over the past several decades, the average lifespan for publicly traded companies has shortened significantly.[89] Short-termism may make companies reluctant to focus on longer-term value creation initiatives, such as workplace retirement plans.

[86] See, for example, O'Donoghue, T., & Rabin, M. (1999). Doing it now or later. American Economic Review, 89(1), 103-124.
[87] This latter point can help reconcile the apparent contradiction between the research on PDRs, on the one hand, and the extensive survey data that shows broad interest in retirement savings plans.
[88] McKinsey Global Institute. "Measuring the economic impact of short-termism." (February 2017). https://www.mckinsey.com/-/media/mckinsey/featured%20insights/long%20term%20capitalism/where%20companies%20with%20a%20long%20term%20view%20outperform%20their%20peers/mgi-measuring-the-economic-impact-of-short-termism.ashx. Findings show that companies classified as "long term" outperform their shorter-term peers on a range of key economic and financial metrics.
[89] See McKinsey & Company, "Traditional company, new businesses: The pairing that can ensure an incumbent's survival" (2019), https://www.mckinsey.com/industries/oil-and-gas/our-insights/traditional-company-new-businesses-the-pairing-that-can-ensure-an-incumbents-survival

- **Disconnect between price and value**

In the way retirement products are thought of by both employer sponsors and plan members, there is often a relatively weak relationship between the price of retirement arrangements (i.e., the combined contributions or savings of employers and employees, plus the cost and risk of administration/sponsorship) and the value of such arrangements (for the employee, the adequacy and security of income in retirement; for the business, the benefits in terms of attraction, retention, productivity, etc.). There tends to be a disproportionate focus on contribution rates when assessing the quality of a plan and relatively little attention to the other value drivers. Many plan members do not know the difference between different kinds of arrangements. Few employers – even large, sophisticated ones – have adequate insight into the retirement readiness of their employees. The retirement industry, with prompting from policymakers and regulators, could also do more to educate plan sponsors and members to help them make connections between price and value.

SECTION 4

Opportunities to expand workplace retirement plan coverage and quality

What can be done to encourage employer adoption of high-quality workplace retirement plans? We also propose other areas for policymakers and regulators to explore which could offer significant value. We recognize these suggestions would require further due diligence and consultation.

For employers and the retirement industry, the opportunities outlined build on the business case analysis, interviews and other research to support continued efforts to grow workplace retirement savings access for Canadian workers.

We are guided by the principle that all employers, regardless of size or sector, should have the ability to offer a good workplace retirement plan without undue cost, complexity or risk. By "good workplace retirement plan," we mean a plan that incorporates, in some way, the five value drivers identified in this report, and one that is portable both from job to job and into retirement. The type of plan that will deliver the most value for employers and workers will naturally vary by sector, type of business and workforce characteristics. Therefore, some variation and customization in plans is desirable.

Increasing the workplace retirement savings coverage of Canadians should be a shared policy objective of governments, industry and other stakeholders. The financial health of Canadians in retirement is critical – at a household level, for the economy and for sustainable public finances. Given that 10 million Canadians lack access to a workplace retirement plan, the success or failure of retirement security policy in Canada will hinge on measurable progress in closing the private sector coverage gap. Special attention should be paid to expanding access among historically disadvantaged groups, including women, racialized Canadians, modest-income earners and Indigenous people.

The opportunities outlined later in this paper assume the continuation of a workplace retirement system that is voluntary in nature, with employers choosing whether to offer a workplace retirement plan and what type of plan to offer. We do not discuss broader-based measures for expanding workplace retirement plan coverage, including universal mandatory or automatic enrollment, which have been implemented in jurisdictions such as certain US states, the UK and Australia. While such broad-based measures have shown considerable effectiveness in closing the coverage gap, they are outside the scope of this report. We also do not discuss potential reforms to the government pillar of Canada's retirement system, including the Canada Pension Plan, Québec Pension Plan, Old Age Security and the Guaranteed Income Supplement.

All employers, regardless of size or sector, should have the ability to offer a good workplace retirement plan without undue cost, complexity or risk.

Section 4.1: For policymakers and regulators

Areas to Explore

- **Allow employer-level automatic enrollment**

Pension experts and industry associations have called on governments to allow employers to automatically enroll their employees in all capital accumulation plans, including group RRSPs, group TFSAs and deferred profit-sharing plans.[90] Automatic enrollment changes the default for employees from not joining the plan, to joining the plan at a certain default contribution rate and default investment strategy, but with the option to opt out. Automatic enrollment is widely considered one of the most successful applications of behavioural economics and was one of the accomplishments for which Richard Thaler was awarded the 2017 Nobel Prize in economics.[91]

Group RRSPs, group TFSAs and deferred profit-sharing plans currently require each employee to enroll individually. In many cases, provincial employment laws prevent employers from deducting contributions from an employee's paycheque without their written consent.[92] Some employers are able to facilitate automatic enrollment for new hires through a new employment contract, but cannot do so for existing employees.

Allowing automatic enrollment for all employees would help address the issue of low uptake among employees whose employers offer a plan.[93] Employees would still have the ability to opt out of such plans if they do not wish to participate. And employers who do not wish to use automatic enrollment would not be required to include it as a design feature in their plan.

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[90] Governments have already acknowledged the effectiveness of automatic enrollment through the introduction of the pooled registered pension plan (PRPP), which allows employers to automatically enroll their employees. However, adoption of the PRPP has been extremely low. It would be more effective to allow employers to use automatic enrollment while retaining the type of plan they currently have, whether that be a defined contribution pension plan, a group RRSP, a group TFSA, a PRPP, or some combination. The Association of Canadian Pension Management has advocated for such a broad approach to allowing the use of auto features in capital accumulation plans. See Benefits Canada, "ACPM calling for CAP automatic enrollment, escalation features," July 20, 2020, https://www.benefitscanada.com/news/bencan/acpm-calling-for-cap-automatic-enrolment-escalation-features-in-ontario/.

[91] See, for example, Gemma Tetlow, "Richard Thaler wins Nobel Prize in Economics," Financial Times (October 9, 2017), https://www.ft.com/content/aa08d810-acd8-11e7-aab9-abaa44b1e130.

[92] For more details, see, for example, the Association of Canadian Pension Management's letter to the Ontario government on this topic: https://urldefense.com/v3/__https:/www.acpm.com/ACPM/media/media/resources/7/media/AGR/Govt_Submission/2020/ACPM-to-Ontario-government-re-Auto-features-July16-2020_1.pdf__;!!Pbs7EwM!2mu7fEpq_OzDTZfdAlfMPhAhikfbWPysrMnaCf7_WQFrVyctYpK7Mxbnqlq_NeHv$.

[93] One employer interviewee represented that, despite a generous match from the employer, fewer than half its eligible employees had joined its capital accumulation plan.

Since the US introduced automatic enrollment in 401(k) plans in 2006, roughly half of employer sponsors of 401(k)s have begun using this feature, and participation rates among those offering automatic enrollment are more than 60% higher.[94] If half of Canadian group RRSP, group TFSA, and deferred profit-sharing plan employer sponsors were to adopt automatic enrollment and experience a similar increase in participation this could result in nearly half a million more Canadian saving in workplace-based plans.[95]

In the short-term, employer-level automatic enrollment is something that employers, employees and the retirement industry could all support. Further, this policy intervention already has a long track record of success in other jurisdictions, including 15 years of data from the US, and could be considered for implementation in Canada.

This could result in nearly half a million more Canadians saving in workplace-based plans.

- **Encourage portable, multi-employer plans outside the public sector**

While Canada's public sector has many examples of successful multi-employer portable plans, such plans are relatively rare in the private sector. Governments could use a combination of funding, regulatory relief/enablement and moral suasion to encourage the creation or expansion of portable, multi-employer plans for workers in the private and not-for-profit sectors. Ideally, such plans would fit the archetype of a large-scale pooled plan or a Canada-model plan, as outlined in this and our previous report, and would possess all of the five value drivers. Such arrangements could involve multiple participating employers and be sponsored by a range of organizations, including labour unions, professional or trade associations and platform companies.[96] Small businesses would benefit from such arrangements by gaining access to more efficient plans than they could access on their own, and without having to assume financial or legal responsibility for the oversight and administration of the plan.[97]

[94] According to Vanguard, 46% of its sponsor clients use automatic enrollment, and participation rates for those employers are 92% compared with only 57% for employers without automatic enrollment. John Scott, "Automatic Enrollment for Retirement Savings: An increasingly available option with a large impact" (Pew Charitable Trusts, September 4, 2018), https://www.pewtrusts.org/en/about/news-room/opinion/2018/09/04/automatic-enrollment-for-retirement-savings-an-increasingly-available-option-with-a-large-impact.

[95] The 2016 Survey of Financial Security reports that there were 1.6 million group RRSP and deferred profit-sharing plan members (see https://www.osfi-bsif.gc.ca/Eng/oca-bac/fs-fr/Pages/rpp_rpa_2019.aspx). Assuming the 50% of plan sponsors that adopt automatic enrollment represent half this total, a 60% increase in participation would mean 480,000 more people saving through a workplace-based plan.

[96] For an overview of the concept of portable retirement benefits, including a definition and a review of potential sponsoring organizations, see Aspen Institute Financial Security Program & Common Wealth, "Portable Non-Employer Retirement Benefits: An Approach to Expanding Coverage for a 21st Century Workforce" (February 2019), https://www.aspeninstitute.org/publications/portable-non-employer-retirement-benefits-an-approach-to-expanding-coverage-for-a-21st-century-workforce/.

[97] One of the benefits of multi-employer plans is their potential to provide cost certainty to employers, especially when compared to single-employer defined benefit plans, whose accounting treatment has proven a challenge for many private sector plan sponsors.

- **Increase member protection for rollovers, while encouraging post-employment plan participation**

Encourage greater transparency and disclosure for capital accumulation plan members who leave their employer or move from work into retirement, where savings rollover into an individual retail account that offer few of the financial value drivers. For members who choose to remain with the provider but not within the employer's plan, require providers to clearly disclose any changes to fees or other plan terms. Work with employers to find ways to help keep members in their plan, under the same fees and terms, after they cease to be employees.

- **Increase availability of longevity insurance and other forms of risk pooling within workplace plans**

Encourage the inclusion of risk pooling within capital accumulation plans. Building on the recent introduction of the advanced life deferred annuity (ALDA) and the variable payment life annuity (VPLA), which were brought into force with the 2021 Federal Budget Bill,[98] look for ways to make it less risky for employers to include longevity and investment risk-pooling instruments in capital accumulation plans. These include immediate or deferred life annuities and possible tontines (or tontine-like structures).[99] Encouragement could be provided through the creation of regulatory safe harbours that shield plan sponsors from liability if they offer such instruments as part of their plan, provided they follow certain processes.[100]

- **Introduce tax credit for employers to introduce a retirement plan**

Just as tax incentives encourage individuals to save for retirement, governments could provide a financial incentive for employers who establish a retirement plan for their employees. This could be a way to nudge SMEs to set up such plans. The US SECURE Act, which became law in December 2019, includes a tax credit of up to $5,000 per year for three years for SMEs who set up a new workplace retirement plan.

98 See LifeWorks, "Update: 2021 Federal Budget Bill Adopted," article (15 July 2021), https://lifeworks.com/en/resource/update-2021-federal-budget-bill-adopted.

99 Noted decumulation expert Moshe Milevsky has written extensively on the benefits of both annuities and tontines. See, for example, Moshe Milevsky, In Defense of Annuities: From Accumulation to Decumulation (2021); Moshe Milevsky, "Tontine Thinking," The Actuary (August / September 2017), https://theactuarymagazine.org/tontine-thinking/.

100 The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, which became US law in December 2019, provides such safe harbour for employers, even if the insurance company offering the annuity collapses or commits fraud.

- **Introduce tax credit for low-income and modest-income savers**

A financial incentive could also be put in place to encourage low- and modest-income savers, who typically save less for retirement, are less likely to participate in workplace retirement plans and are more challenged to defer present dollars for future income. These savers receive a much smaller tax deduction for saving in RRSPs and registered pension plans than do higher-income earners because their marginal tax rate is lower. A recent proposal for a Canada Savers Credit, modeled on a US tax incentive for modest-income savers that has existed for over 20 years, would provide a dollar-for-dollar match up to 100% of an eligible saver's TFSA contributions (or an employer's contributions made on behalf of an eligible employee) to a cap of $1,000 annually.[101]

- **Encourage communications to workers based on income, not just account size**

Encourage or require capital accumulation plan sponsors and providers to provide estimates of how savings will translate into retirement income. This type of measure, a version of which is included in the US Congress' most recent retirement policy reform bill, could help plan members better understand the value of a workplace retirement plan, while helping employer sponsors better assess whether their employees are on track for retirement.

[101] Jonathan Weisstub, Alex Mazer, André Cote. "The Canada Saver's Credit: A proposal to build financial security for lower- and modest-income Canadians." Maytree (2019).

Section 4.2: For employers

Areas to Explore

- **Focus on value for money**

As this report has illustrated, the business value of a workplace retirement plan is tightly linked with that plan's ability to generate high value for money relative to the approach an employee would likely employ without a workplace retirement plan.

As part of total compensation strategies, employers can therefore derive greater return on their investment in retirement plan contributions by employing as many as possible of the five value drivers. The six questions that follow offer a starting point for employers looking for ways to increase value for money.

Six strategic questions for employers seeking to increase value for money from their workplace retirement plan

1. How can we encourage better and more automatic **saving behaviour** among plan participants?
2. How can we lower the **fees and costs** associated with our plan, so plan members get to keep more of their hard-earned savings?
3. What can we do to help plan members **avoid common investment mistakes** (e.g., those related to asset allocation, market timing and performance chasing)?
4. How can we improve the **governance** of our plan so that plan members benefit from a robust fiduciary standard of protection that puts members' interests first?
5. How can we help plan members **manage and pool the common risks** associated with retirement planning, including longevity and investment risk?
6. How can we ensure our retirement plan benefits employees and their families, **without placing an undue risk** on the company?

- **Increase portability**

Our research has shown that making a plan portable significantly increases the value of that plan, making it a more efficient form of compensation. As such, employers should look for ways to choose from options including:

1. Join multi-employer or sectoral plans that are portable from job to job
2. Seek out providers that are willing to keep fees low even after the employee departs.
3. Increase the portability of their existing plan by allowing former and retired employees to stay in the plan after they leave, ensuring that these workers continue to benefit from the same low fees, protections and other advantages as employee members of the plan.[102]

- **Incorporate decumulation options into capital accumulation plans**

Our modelling has found that a significant portion of the value of a good workplace retirement plan relates to what occurs during the post-retirement phase. While defined benefit plans encompass both the accumulation and decumulation phases, most capital accumulation plans (as the name suggests) focus on the accumulation phase and give little consideration to what occurs post-retirement. Capital accumulation plan sponsors can increase the value (and compensation efficiency) of their plans by helping their employers in the decumulation phase. Such support can involve access to risk pooling instruments such as life annuities, variable payment life annuities (VPLAs), or tontines (or tontine-like instruments). It can also involve support with critical retirement planning decisions such as registered retirement income fund (RRIF) conversion, the timing of CPP and OAS benefits and what constitutes a sustainable withdrawal rate.

- **Consider a "retirement first" approach to employee benefits**

The *2021 Canadian Employer Pension Survey* found small businesses are more likely to introduce benefits like health and dental before they provide their employees with a retirement plan. The same survey found employers that do provide a retirement plan, tend to rate it more highly than benefits like health and dental when it comes to attraction, retention and financial stress. This suggests there is a case for employers to make a retirement plan one of the first benefits they offer, rather than waiting until they reach a certain size before putting a plan into place. If cost is an issue, they can always start with a modest contribution rate and increase that rate over time. The case for such a "retirement first" approach to employee benefits grows even stronger to the extent smaller employers can access plans with more of the value drivers, and therefore, improved compensation efficiency for their business and employees.[103]

[102] If employers are reluctant to allow retirees to stay in the plan for their full retirement, they could always begin by allowing them to remain until a certain age (e.g., age 70), and remain open to reexamining their plan design in the future. Thank you to René Beaudry for this suggestion.

[103] For more on this, see Alex Mazer, "A 'retirement first' approach to employee benefits," (Common Wealth, June 28, 2021), https://www.commonwealthretirement.com/a-retirement-first-approach-to-employee-benefits.

- **Tailor your plan to your workforce**

One of the advantages of workplace-based retirement programs, compared to universal programs such as CPP, is that they can be tailored to the unique needs of particular workforces. Customization can offer a further opportunity to increase value for money – and therefore compensation efficiency – over and above the five value drivers. Lower- and modest-income workers would likely benefit from a group tax-free savings account, as TFSA withdrawals do not affect Guaranteed Income Supplement entitlements.[104] They could also allow for the integration of an emergency savings program into their retirement account.[105] A younger workforce might appreciate greater choice over how much of their employer's contributions to their benefits package they can allocate to retirement savings.

- **Educate workers on government retirement benefits**

CPP, OAS and GIS benefits will constitute an important part of most Canadians' retirement income, yet many Canadians do not fully understand these programs. For example, many Canadians may be leaving tens or even hundreds of thousands of dollars on the table by taking CPP and OAS too early.[106] Given that employers contribute to CPP through premiums, they have an interest in explaining the value of the program to their employees, and how to get the most out of it. CPP, OAS and (for those who qualify) GIS are all sources of guaranteed income that provide Canadians access to the kind of risk pooling that our modelling has shown as one of the most powerful drivers of value in retirement plans. Employers could work with their retirement plan provider or another third party to provide high-quality education on how CPP, OAS and GIS work, why they are valuable, what to expect from them by way of retirement income and how to get the most out of them. Such education is likely to be especially valuable to employees approaching retirement.

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[104] See John Stapleton, "Toolkit: Retiring on a low income" (2020), https://openpolicyontario.com/retiring-on-a-low-income-3/.

[105] On the potential benefit of emergency savings accounts, see, for example, Catherine S. Harvey, "Unlocking the Potential of Emergency Savings Accounts" (AARP Public Policy Institute, Oct 2019), https://urldefense.com/v3/__https:/www.aarp.org/content/dam/aarp/ppi/2019/10/unlocking-potential-emergency-savings-accounts.doi.10.26419-2Fppi.00084.001.pdf__;!!Pbs7EwM!2mu7fEpq_OzDTZfdAlfMPhAhikfbWPysrMnaCf7_WQFrVyctYpK7MxbnqvgZtjLR$.

[106] See Bonnie-Jeanne MacDonald, "Get the Most from the Canada and Québec Pension Plans by Delaying Benefits" (National Institute on Ageing & FP Canada Research Foundation, December 2020), https://static1.squarespace.com/static/5c2fa7b03917eed9b5a436d8/t/5fd901672b19020cce7e484f/1608057191718/FINAL%2B-%2BNIA_Get%2Bthe%2BMost%2Bfrom%2Bthe%2BCanada%2B%26%2BQuebec%2BPension%2BPlans%2Bby%2BDelaying%2BBenefits.pdf. (squarespace.com) Some, including René Beaudry in our interview with him, have argued that Canadians should be allowed to defer CPP and OAS even further, until age 75, allowing them to guarantee a greater portion of their retirement income in exchange for the delay in accessing the benefit.

- **Invest in behaviourally informed education**

For employers offering workplace retirement plans, efforts to increase employee understanding of the value of that plan should be one way of optimizing the company's investment in it. Beyond basic efforts around plan features, contribution and investment options or general retirement savings awareness, member education efforts should focus on financial benefits of participation. Though there are differing perspectives on the effectiveness of financial education,[107] financial education expert Annamaria Lusardi argues convincingly that well-designed financial education programs can be effective in improving outcomes, especially if they are treated as a supplement to, and not a substitute for, a workplace retirement plan.[108] Employers and plan providers should try different approaches and measure what works. One promising avenue for exploration consists of behavioural techniques to encourage people to think longer term, helping them to overcome the "present bias" discussed earlier. One researcher found, for example, that showing someone a picture of an aged version of themselves, using face-aging technology, caused them to want to contribute more to their retirement plan.[109]

- **Engage the broader business community to advocate for improvements to the retirement system**

The interviews, *2021 Canadian Employer Pension Survey* findings and case studies documented in this report reveal that many Canadian businesses are already playing an active role in offering good, sometimes innovative, workplace retirement plans. Business leaders have an opportunity to engage their peers and industry associations to push for the kinds of changes outlined in this report, in public policies, retirement products and business practices. Building on Canada's international reputation for strong pension management, advocacy should focus on leveraging efficient, high value for money, portable retirement arrangements into a competitive advantage for Canadian businesses and for attracting foreign investment.

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[107] See, for instance, Shlomo Benartzi & Richard Thaler, "Heuristics and Biases in Retirement Savings Behaviour" (2007) (Benartzi and Thaler state that using education to increase participation and contribution rates has generally led to disappointing results); and James J. Choi, David Laibson, Brigitte C. Madrian, Andrew Metrick, "Defined Contribution Pensions: Plan Rules, Participant Decisions, and the Path of Least Resistance," National Bureau of Economic Research (2001) (Choi et al. state that while financial education is important, it does not seem to be a powerful mechanism for encouraging 401(k) retirement savings).

[108] See, for example, Annamaria Lusardi, Pierre-Carl Michaud & Olivia S. Mitchell, "Assessing the Impact of Financial Education Programs: A Quantitative Model," Pension Research Council Working Paper (April 2018), https://pensionresearchcouncil.wharton.upenn.edu/wp-content/uploads/2018/04/WP-2018-4-Lusardi-et-al.pdf.

[109] Hal Hershfield et al, "Increasing Saving Behavior Through Age-Processed Renderings of the Future Self," Journal of Marketing Research (November 2011).

4.3: For the retirement industry

Areas to Explore

- **Help plan sponsors and members understand value for money**

The pension and retirement industry can help sponsors and members develop a deeper understanding of the link between savings and retirement outcomes. The industry often describes retirement arrangements in terms of the plan type or regulatory category (i.e. defined benefit, defined contribution, group RRSP, etc.). Such categories do not tell the full story when it comes to value for money, and it is difficult to expect sponsors and members to understand what drives value if the industry does not do a compelling job of describing it. Providers should explore new approaches to education, marketing as well as sponsor and member engagement that put more focus on member and business value.

- **Offer portable retirement benefits**

Providers need not wait for governments or employer plan sponsors to ask them to create portable retirement benefits. They can play a leadership role by promoting the idea, creating better workplace retirement products that incorporate the drivers of value and organizing smaller sponsors into common groups. Forward-thinking providers who seize this opportunity can help create a valuable new market for a better kind of retirement offering, and their success could help spur more action by governments, sponsors and more reluctant parts of the industry.

- **Contribute to continued research on the business value of retirement savings plans**

While this report has found considerable evidence of the value to business of good retirement plans, further research would advance our shared understanding. Research topics should include:

1. The connection between retirement benefits and employee financial stress
2. The effect of educational or behavioural interventions on employees' perception of value in retirement plan participation
3. Measurement of the retirement outcomes of members across various plan types
4. Links between a country's workplace retirement plan coverage and economic and social wellbeing
5. How trends in retirement savings and human capital management vary across segments of the workforce and sectors of the economy

The industry can support this research agenda through research sponsorships and partnerships, sharing aggregate participant and sponsor data, and convening forums for exchange among stakeholders. Advancing knowledge in this area would be in the industry's interest, as it would help improve the quality of workplace retirement plans and could lead more businesses to offer such plans.

SECTION 5

Conclusion

Retirement insecurity is a major concern for many Canadians. Recent polling commissioned by HOOPP found that 75% of Canadians were worried about not having enough money in retirement. Employers have a significant opportunity to contribute to a solution for this problem, with this report demonstrating that there is a compelling business case for them to do so.

If we can find a way to allow all employers, regardless of size, sector and worker demographics, to provide their workers with high-quality retirement plans, this promises to deliver more efficient and valuable compensation, improve attraction and retention, and enhance worker productivity.

That most Canadian businesses do not provide retirement benefits, despite this strong business case, shows the need to make it much easier for them to do so. Employers should not need to become retirement specialists, take on long-term liability, or assume complex administrative responsibilities to offer a plan that will deliver value to their employees. Governments and the retirement industry must work together to reduce barriers that prevent employers from offering plans today.

Because retirement is a long-term proposition – something that is important but rarely deemed urgent by employers or employees – improving coverage and quality will require some combination of behavioural nudges, incentives, and proactive education and engagement.

This report suggests such improvements are well worth the effort, as they would create significant value for employees, businesses and the Canadian economy.

The gradual decline in workplace retirement coverage, and public debate on the risks and costs of retirement plans, has led to the impression that retirement security issues are a zero-sum game in which the interests of business and workers are diametrically opposed, with employers seeking to reduce cost and risk, and workers seeking to transfer that cost and risk back to the employer.

Our research finds that leading Canadian companies recognize the value of offering retirement security to workers as an investment in human capital that creates long-term business value. The analysis in our previous report, *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*, showed that a good Canada-model plan can provide nearly $1 million of additional lifetime value for a typical worker, compared to a typical individual approach to retirement savings. Combined with the potential positive impact on business, investing in a new approach to retirement security in the private sector holds the promise of creating significant shared value for individuals, employers and governments.

Technical appendix

In this report, we sought to assess what amount of financial value a total compensation package will generate for employers and employees under various retirement benefits scenarios.

We imagine a hypothetical archetypal individual, Sophia, creating a simplified model of her work and retirement path under five scenarios simulating the workplace retirement arrangements her employer might offer:

1. Typical individual approach
2. Small-employer capital accumulation plan
3. Large-employer capital accumulation plan
4. Large-scale pooled plan
5. Canada-model pension plan

Using the same model in each of the five arrangement types, we vary specific evidence-based inputs to determine how much of Sophia's annual compensation would need to be directed towards retirement saving to achieve the same level of retirement security across each workplace retirement scenario.

A.1 Base assumptions for Sophia's life and career path

We define basic characteristics of Sophia's life and career path, holding these constant across all five scenarios.

Age at which she starts full-time work

Sophia begins full-time work at age 25[110] and for simplicity, works on a consistent, uninterrupted basis (e.g., we do not account for interruptions such as parenthood, illnesses, etc. that could result in her receiving more or less income in a given year).

Starting salary and salary growth

For each year from starting work until retirement, we calculate Sophia's yearly employment earnings based on her starting wage and assumed wage growth. In all scenarios Sophia earns $40,000 in her first year of work and her employment income grows at a rate of 3% per year (1% wage increase and 2% inflation each year[111]). Historic trends in wage growth have been closer to 0.5% but we assume a higher rate to account for career progression and promotions Sophia might receive.[112]

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110 Statistics Canada, "Education in Canada at a Glance" (2017) and "Delayed Transitions of Young Adults" (2007) (Starting full-time work at age 25 reflects the increased likelihood of young Canadians to obtain post-secondary education and delay the transition into full-time work).

111 Financial Planning Standard Council. "Projection Assumption Guidelines" (2019). https://www.fpcanada.ca/docs/default-source/standards/2019-projection-assumption-guidelines.pdf (fpcanada.ca) (Indicates that the inflation assumption can be used to project wage increases by adding 1.00% to reflect productivity gains, merit and advancement).

112 Statistics Canada, "Employment Rates and Wages of Core-aged Workers in Canada and the United States, 2000 to 2017" (2017).

Inflation

We assume annual inflation of 2%. This is approximately equal to the current assumed long-term rate employed by the Bank of Canada, a representative sample of portfolio managers and the CPP.[113]

Target retirement income

We use a target of 70% of Sophia's average annual earnings over the final five years of her career, including her CPP and OAS benefits that she would receive based on her work history and income bracket. Sophia's target retirement income grows by inflation (2%) each year in retirement. This measure of retirement adequacy is a longstanding and widespread measure used by financial planners, actuaries, academics and others.

We acknowledge that there is considerable academic debate over the appropriateness of a 70% replacement rate, whether the replacement rate is the best way to measure retirement income adequacy.[114] We used this assumption for the purpose of simplicity and note that the relative compensation efficiency of retirement arrangements are largely independent of which measure of retirement security is used.

Modelling retirement asset accumulation and required retirement savings

We keep Sophia's target retirement income to last until her death at age 92 the same across the five retirement scenarios.

Retirement income is made up of the OAS and CPP benefits Sophia would receive based on her work history and income bracket. Any shortfall in income, between OAS and CPP and her replacement rate target, is assumed to be made up by drawing from her savings.

We also keep Sophia's living (and other non-retirement) expenses the same across the five scenarios.

We then calculate how much Sophia would need to contribute to her retirement plan each year to generate sufficient savings to meet her yearly target retirement income until her death at age 92, depending on her workplace retirement arrangement. We assume that she has no significant outside sources of retirement income beyond her own earnings. The age that Sophia begins saving depends on her retirement arrangement (see Technical appendix, Section A.2).

We further assume that Sophia's retirement savings are invested and that she earns a rate of return on her retirement assets. From these accumulated assets, we subtract the annual costs that she incurs for investment management and other fees. This results in a figure for net retirement assets that Sophia has accumulated at the end of each year. The rate of return and fees are determined by her retirement arrangement (see Technical appendix, Section A.2).

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[113] Financial Planning Standard Council. "Projection Assumption Guidelines" (2019).
https://www.iqpf.org/docs/default-source/outils/iqpf-normes-projection2019-eng.pdf?sfvrsn=2
(the Projection Assumption Guidelines for inflation rate is 2.1% as of 2019).

[114] Bonnie-Jeanne MacDonald, Lars Osberg, and Kevin Moore, "How Accurately does 70% Final Earnings Replacement Measure Retirement Income (In)Adequacy? Introducing the Living Standards Replacement Rate (LSRR)."
ASTIN Bulletin – The Journal of the International Actuarial Association (2016).

Retirement age

We assume that Sophia retires and begins drawing CPP and OAS at the current standard age of 65. The average retirement age for Canadians is currently slightly above 64.[115]

Canada Pension Plan and Old Age Security income

Canada Pension Plan and Quebec Pension Plan earnings are affected by multiple factors, including income before retirement and gaps in employment. For simplicity, we assume that Sophia receives the current average CPP benefit of $8,822.52 per year, adjusted for inflation.[116] We also account for the expansion of CPP that came into effect January 1, 2019, by multiplying this average CPP amount by 33%, reflecting the additional CPP Sophia will be entitled to when the expansion is fully phased-in. Based on her income bracket, we also assume that Sophia receives the maximum OAS benefit of $7,362.36, adjusted for inflation.[117] Sophia is not eligible for the Guaranteed Income Supplement benefits, as her expected income in retirement places her beyond the current maximum cut-off.

Anticipated longevity

We assume that Sophia follows the advice of the FP Canada Standards Council, which recommends individuals prudently plan for their retirement, assuming that they will reach a life expectancy where the probability of survival is no more than 25%. When Sophia begins full-time work at age 25, she has a 25% chance of living to age 97.[118]

Actual longevity

Using the same guidelines, we assume that Sophia dies at age 92. According to the FP Canada Standards Council, Sophia has a 50% chance of living to this age.[119]

Modelling decumulation (drawdown after retirement)

In each year after Sophia retires at age 65, we assume that she draws down an income from her retirement assets that is equal to the amount required to meet her replacement rate target. We subtract this annual "required drawdown" figure from her accumulated retirement savings at the start of the year. In her post-retirement years, we continue to assume she earns an annual rate of return on her accumulated assets.

As Sophia dies before her anticipated age of death, there are savings remaining in the first three retirement arrangements (where there is no longevity risk pooling).

Results: Calculating Sophia's pay available for other uses after retirement savings

The difference between Sophia's annual income and the retirement savings required to ensure she can meet her retirement income targets equals the share of Sophia's earnings that are available for other uses.

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115 Statistics Canada. Table 14-10-0060-01 Retirement age by class of worker, annual. (Date modified: 2020-03-31).
116 Government of Canada website. "CPP retirement pension: How much you could receive" https://www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-benefit/amount.html (Accessed March 31, 2020)
117 Government of Canada website. "Old Age Security payment amounts" https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/payments.html (Accessed March 31, 2020)
118 FP Canada Standards Council. "Projection Assumption Guidelines" (2020). https://fpcanada.ca/docs/default-source/standards/2020-pag---english.pdf.
119 FP Canada Standards Council. "Projection Assumption Guidelines" (2020). https://fpcanada.ca/docs/default-source/standards/2020-pag---english.pdf.

A.2 Modelling the compensation efficiency of workplace retirement arrangements: five scenarios

We model how much of her earnings Sophia must contribute to retirement savings each year across the five retirement arrangement types outlined in Section 1.1 of the report in order to achieve the same level of retirement security. In each scenario, we adjust certain assumptions in the model to reflect empirical evidence related to the five drivers of value in retirement arrangements described in Section 1.1 of the report.

We assume in all scenarios that Sophia earns a 5% gross annual nominal rate of return on her invested assets before fees and costs and other adjustments associated with the five retirement arrangement archetypes. Guidance from FP Canada Standards Council suggests a projected gross return of approximately 4.9% for a 60% equities / 40% fixed income portfolio.[120]

Exhibit 11 summarizes the assumptions that we use in our modelling of the five retirement arrangement archetypes.

Exhibit 11

Summary of scenario assumptions

Value driver	Typical individual approach	Small-employer capital accumulation plan	Large-employer capital accumulation plan	Large-scaled pooled plan	Canada-model pension plan
Saving	**Begins saving at optimal rate at age 30**	**Saves at 50% of the optimal rate from age 25-30**	**Saves at 50% of the optimal rate from age 25-30**	**Begins saving at optimal rate at age 25**	**Begins saving at optimal rate at age 25**
Fees and costs	**2%***	**1.7% in accumulation and 2% in decumulation phase****	**0.7% in accumulation and 1.5% in decumulation phase*****	**$120/yr plus 0.5%†**	**$120/yr plus 0.5%†**
Investment discipline	**-1% rate of return††**	**-0.73% rate of return††**	**-0.36% rate of return††**	-	-
Fiduciary governance	-	-	-	-	**+0.3% rate of return‡**
Risk pooling	**-1.5%** rate of return drag post-65 due to de-risking portfolio; must plan drawdown to live to age 97‡‡	**-1.5%** rate of return drag post-65 due to de-risking portfolio; must plan drawdown to live to age 97‡‡	**-1.5%** rate of return drag post-65 due to de-risking portfolio; must plan drawdown to live to age 97‡‡	**-1.25%** rate of return drag post-65 due to de-risking portfolio (group annuity); earns pension income (no need to plan to outlive savings)	No rate of return drag post-65 due to de-risking portfolio; earns pension income (no need to plan to outlive savings)

Sources: *Average Canada mutual fund fees through advice-based channels (IFIC); **Avg. small/micro group RRSP fees (Great-West Life, 2012); ***Average medium-size group RRSP fees (Great-West Life, 2012); †Average cost of a large pension plan (CEM Benchmarking); †† Estimated underperformance due to performance chasing and market timing errors. See Morningstar "Mind the Gap" (2017), Russell Investments, "Value of an Advisor Survey" (2021) and Olivia Mitchell and Stephen Utkus, "Target Date Funds and Portfolio Choice in 401(k) Plans" University of Pennsylvania Wharton Pension Research Council (2020); ‡"The Value of the Canadian Model" (Keith Ambachtsheer/CEM Benchmarking, 2017); ‡‡Financial Planning Standards Council, "Projection Guidelines" (2016)

[120] FP Canada Standards Council. "Projection Assumption Guidelines" (2020). https://fpcanada.ca/docs/default-source/standards/2020-pag---english.pdf. Calculation assumes equities component of portfolio is split equally between Canadian equities and foreign developed market equities.

Saving

We make a simplifying assumption that the primary variable affected by saving behaviour is the age at which retirement contributions start. Research from Richard Shillington shows that Canadians who do not have access to a retirement plan end up with strikingly low levels of retirement savings.[121]

In the typical individual approach, we assume that Sophia did not begin saving for retirement until age 30, after which she saved consistently. Millennials on average have been reported by some studies to start saving for retirement around age 36.[122]

In the small- and large-employer capital accumulation plan scenarios, we assume that Sophia saves at 50% of her required rate between ages 25 and 30 before reaching her full required saving rate at age 30 and continuing consistently thereafter. This assumption reflects that the availability of a capital accumulation plan at her workplace, even if it is not mandatory, will increase the likelihood of Sophia and/or her employer contributing to her retirement savings early in her career.

In the large-scale pooled plan and Canada-model pension plan scenarios, we assume that Sophia is enrolled on a mandatory basis and therefore begins saving consistently from the time she starts full-time work at age 25.

Fees and costs

In the typical individual approach scenario, we assume that fees and costs amount to 2% of assets each year. The most common investment product used by Canadian workers investing their retirement assets in the retail market is mutual funds.[123] In 2019, data from the industry body representing Canadian mutual fund providers noted that the average total cost of ownership of actively managed mutual funds for clients using advice-based distribution channels in Canada was 2.10% of assets under management.[124] While individual Canadian investors have increasing access to lower-cost investment options (investing in exchange traded funds using a discount brokerage, as an example) these lower-cost approaches still represent a small share of total Canadian assets.[125]

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[121] Richard Shillington, "An Analysis of the Economic Circumstances of Canadian Seniors" (2016), https://www.broadbentinstitute.ca/an_analysis_of_the_economic_circumstances_of_canadian_seniors.

[122] See, for example, TD Ameritrade, "2018 Millennials and Money Survey" (2018)

[123] See Investment Funds Institute of Canada, "Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios: A Global Perspective—2019 Update" (June 2019). https://www.ific.ca/wp-content/uploads/2019/07/Monitoring-Trends-in-Mutual-Fund-Cost-of-Ownership-and-Expense-Ratios-A-Global-Perspective-2019-Update.pdf/22825/

[124] See Investment Funds Institute of Canada, "Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios: A Global Perspective—2019 Update" (June 2019). https://www.ific.ca/wp-content/uploads/2019/07/Monitoring-Trends-in-Mutual-Fund-Cost-of-Ownership-and-Expense-Ratios-A-Global-Perspective-2019-Update.pdf/22825/

[125] For example, the Investment Funds Institute of Canada reported that, as of May 2021, Canadian ETF assets were just 15% the size of mutual fund assets. See Investment Funds Institute of Canada, "IFIC Monthly Investment Fund Statistics – May 2021" accessed at https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=26458&lang=en_CA

In the small-employer capital accumulation plan scenario, we assume a pre-retirement fee of 1.7%. This is at the low end of the pricing that the two largest providers of group RRSPs advertise for their small business group retirement offerings.[126] We further assume that, at retirement, Sophia is required to transition out of the group retirement plan, and as a result, is subject to the same fees as the typical individual approach scenario for the remainder of her post-retirement phase.

For large-employer capital accumulation plans, we assume a fee of 0.7%, reflecting industry data relating to capital accumulation plans with assets of $10 million – $100 million.[127] We further assume that members pay an increased fee of 1.5% of assets in the post-retirement phase, reflecting the fact that only some members of such plans are able to remain in their plan, while others are transitioned to retail arrangements.

For the large-scaled pooled plan and Canada-model pension plan scenarios we employ data from CEM Benchmarking that estimates the cost of membership in a defined benefit plan as $120 per year plus 0.5% of assets.[128]

Investment discipline

In our 2018 research report, *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*, we used Morningstar's "Mind the Gap" research to provide an empirical measure of the effects of poor investor decision-making, isolated from other factors such as fees and costs, across the entire universe of Canadian mutual fund investors.[129] We used the "investment drag" figure measured by Morningstar at 1.09% and discounted it by half, applying a 0.55% reduction in investment returns each year in the typical individual approach.

In revisiting the research and evidence for this report, we concluded that this figure likely underestimates the effect of performance chasing and market timing on typical individual investors. For example, Morningstar's study examined the total universe of Canadian mutual fund assets, including those held in workplace capital accumulation plans where the chance of individual investment mistakes is reduced.

Recent research provides a clearer view of typical individual investment behaviour. In 2021, Russell Investments examined investor behaviour over a 25-year period from 1995 to 2020 and calculated that the average equity investor's inclination to buy high and sell low cost

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[126] See Sun Life, SunAdvantage Employee Savings Plan for Small Business Clients brochure showing fees of 1.70-1.95% for asset allocation funds (accessed August 5, 2021 at https://www.sunlife.ca/content/dam/sunlife/regional/canada/documents/grs/GRP1891_mysavings_Sponsor-Br_RRSP-DPSP-TFSA_0621_EN.pdf) and; Manulife Financial, FutureStep Group Retirement Savings Plan brochure showing fees of 1.8% for asset allocation funds. See also Great-West Life, "The strength of CAPs in Canada's retirement market" (2012).

[127] See Great-West Life, "The strength of CAPs in Canada's retirement market" (2012) estimating large-employer CAP fees at ~1%. We conservatively adjust this estimate to 0.7% based on feedback from employer and expert interviews indicating fee compression for large-employer CAPs in recent years

[128] See Keith Ambachtsheer, "The 'Canada Model' for Pension Fund Management: Past, Present, and Future," The Ambachtsheer Letter (August 1, 2017) (using CEM Benchmarking data to calculate the 10-year average investment costs for a broad universe of pension funds at 48 bps); see Mike Heale and Paul Martiniello, "Managing Costs & Optimizing Outcomes" in Saving the Next Billion from Old Age Poverty (2018) (using CEM Benchmarking data to estimate average global pension administration costs per member at USD 134 for defined benefit plans and USD 101 for defined contribution plans).

[129] Morningstar, "Mind the Gap" (2017).

them 2.0% annually.[130] Research from the US has found a similar 1.0%–2.3% difference in the returns of self-directed investors when compared with investors using low-cost target date funds promoting investment discipline.[131] In our calculations for this report, we therefore conservatively use a 2.0% "investment drag" figure and discount it by half, applying a 1.0% reduction in investment returns each year in the typical individual approach.

Because capital accumulation plans, including those associated with both small and large employers, typically offer a range of investment choices to plan members, we assume that there is still potential for members to suffer from losses due to poor investment decisions. However, we also assume that these effects are mitigated somewhat by the selection of funds and member support often provided by capital accumulation plans. We therefore further reduce the drag due to poor investment choices to -0.73% and -0.36% per year in small-employer and large-employer capital accumulation plans, respectively.

We assume that large-scale pooled and Canada-model pension plans tend to have no drag on investment performance due to poor individual investment decisions and are able to achieve market returns plus incremental outperformance due to fiduciary governance discussed later in the paper. We also assume that curated or "smart defaults" and limited or no investment choices (as in the case of defined benefit plans) result in individuals having minimal opportunity to make the types of investment errors described earlier.

Fiduciary governance

Much of the impact of good governance may be reflected in lower fees and reduced losses from poor investment decision-making. However, research from Keith Ambachtsheer and CEM Benchmarking, shows that Canada-model pension plans generated an average of 0.6% per year in after-cost value relative to a passive reference portfolio, compared with an average of 0.1% for global peer funds.[132] These funds tended to insource more of their investment functions and allocated more to private markets than their peers. To reflect this advantage, we add 0.3% to annual investment performance in the Canada-model pension plan, reflecting just half of the outperformance achieved over the past decade.

Risk pooling: longevity risk

Canadians who are not members of defined benefit or target benefit pension plans do not have easy access to effective pooling of longevity risk. Mitigating this risk can be challenging for individuals, and very few individuals avail themselves of life annuities or other longevity risk pooling instruments. This means that these individuals must independently manage the risk of outliving their savings, leading to saving more than they would otherwise if they had access to a retirement plan or product that mitigates against longevity risk.

In the typical individual approach, small-employer capital accumulation plan and large-employer capital accumulation plan scenarios, we assume that Sophia

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130 Russell Investments Canada "2021 - Value of an Advisor Survey" (2021) pp. 6

131 See Vanguard Research, "Quantifying Vanguard Advisor's Alpha" (2019), https://advisors.vanguard.com/insights/article/IWE_ResPuttingAValueOnValue, "Target Date Funds and Portfolio Choice in 401(k) Plans" University of Pennsylvania Wharton Pension Research Council (2020), https://www.nber.org/papers/w26684

132 Keith Ambachtsheer, "The 'Canada Model' for Pension Fund Management: Past, Present, and Future," The Ambachstsheer Letter (August 1, 2017) (Ambachtsheer benchmarks the performance of eight large Canadian public pension funds against that of 132 other pension funds and other long-horizon investment funds).

makes contributions sufficient to meet her retirement income goals until age 97 (which she has a 25% chance of reaching when she begins saving for retirement at age 25 with a Canada-model pension plan), even though she only expects to live to age 92 (which she has a 50% chance of reaching when she begins saving for retirement at age 25 with a Canada-model pension plan).[133] Empirical research has often found that seniors will consume their savings at an overly conservative rate – even resulting in growing account balances after retirement.[134] Research from the Society of Actuaries has found that a likely explanation is that people are taking precautions to protect against later-life financial risks, with this precautionary saving causing seniors to live an unnecessarily reduced lifestyle.[135]

In the large-scale pooled plan scenario, we assume that Sophia would have access to and be part of a group annuity purchase. As of August 17, 2018, Sophia could purchase an annuity with inflation-indexed annual payments of $4,978 for every $100,000 in premiums. In technical terms, this would be an immediate annuity for a 65-year-old, using the current annuity purchase interest rate for medium duration, 50% male, Canadian pensioners' mortality (CPM) combined mortality table, life only. As of August 17, 2018, the non-indexed annuity purchase rate for a medium duration plan is 3.25% per year. Therefore, we use 1.25% per year to account for the assumed 2% per year inflation growth rate, producing an actuarial factor of 20.09.

In the Canada-model pension plan scenario, Sophia would have automatic access to longevity risk pooling as she will earn a pension income for life and has no need to plan to outlive her savings. The cost of Sophia's retirement income stream would be costed out based on an actuarial valuation for an "ongoing" pension plan (with the appropriate underlying rate of return). As of August 17, 2018, the implicit cost for an annual pension with inflation-indexed annual payments was $5,962 for every $100,000 in contributions available. In technical terms, this would be an immediate pension for a 65-year-old, 50% male, CPM combined mortality table, life only. As of August 17, 2018, the non-indexed actuarial factor with the assumed asset net return of 4.8% per year (less 2% per year for inflation) was 16.77.

Risk pooling: investment risk

Employees saving on their own or saving with non-defined benefit plans are typically advised to reduce their investment risk exposure as they approach retirement. The shift in investment risk is achieved by reducing the exposure to equities and increasing the exposure to fixed income or other types of less risky investments. For all arrangements other than the large-scale pooled plan and the Canada-model pension plans, we assume that Sophia's investment returns would drop by 1.5% from 5% to 3.5%, the current projected rate of return for a 20% equities / 80% fixed income portfolio.[136]

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133 FP Canada Standards Council. "Projection Assumption Guidelines" (2020). https://fpcanada.ca/docs/default-source/standards/2020-pag---english.pdf.

134 See Bonnie-Jeanne MacDonald, "Headed for the Poorhouse: How to Ensure Seniors Don't Run Out of Cash before they Run Out of Time," C.D. Howe Institute (2018), https://www.cdhowe.org/public-policy-research/headed-poorhouse-how-ensure-seniors-don%E2%80%99t-run-out-cash-they-run-out-time.

135 Society of Actuaries, "2015 Risks and Process of Retirement Survey" (2016).

136 FP Canada Standards Council. "Projection Assumption Guidelines" (2020). https://fpcanada.ca/docs/default-source/standards/2020-pag---english.pdf. Projection assumes a 10% allocation to short-term investments and that the equities component of the portfolio is divided equally between Canadian equities and foreign developed-market equities.

The group annuity purchase price assumed in the large-scale pooled plan matches the pricing obtained for our previous report, *The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada*. In the Canada-model pension plan scenario, the underlying rate of return within an ongoing pension plan valuation depends on the investment strategy of the plan. A net nominal rate of 4.8% (2.8% real) was chosen to match the assumed rate throughout the report. For comparison, the 2017 real discount rates used by four major Canada-model public sector Ontario pension plans were HOOPP (3.5%), OMERS (4.0%), OPTrust (3.3%) and the Ontario Teachers' Pension Plan (2.75%).[137]

A.3 Modelling the effect of portability on the compensation efficiency of workplace retirement arrangements

In this report we also sought to demonstrate the effect of portability on the compensation efficiency of different workplace retirement plans. We consider two hypothetical scenarios (see Exhibit 12).

- **Scenario A – Portable capital accumulation plan:** Sophia's plan assets continue to benefit from the same large-employer capital accumulation plan features when she changes jobs / retires.
- **Scenario B – Non-portable capital accumulation plan:** Sophia's plan assets get "rolled over" into a typical individual approach archetype when she changes jobs/retires.

In Scenario A, Sophia changes jobs every ten years, working at four different companies between the ages of 25 and 65. At each company, Sophia is offered the same kind of workplace retirement plan that has features pertaining to the large-employer capital accumulation plan archetype. However, every time Sophia leaves a company, and when she retires, Sophia's retirement assets in each of her four workplace retirement plans are rolled over into retail plans. We apply the typical individual approach scenario to simulate retail plans.

In Scenario B, Sophia still changes jobs every 10 years during her working life, but she has access to a portable workplace retirement plan from her first job and continues to benefit from the same large-employer capital accumulation plan features after she leaves her job and also after she retires.

Across both Scenarios A and B, we hold Sophia's contribution rate – how much she saves for retirement each year – constant at 18% of her annual earnings.

[137] HOOPP, OMERS, OPTrust and Ontario Teachers' Pension Plan annual reports.

Exhibit 12

How much additional compensation value does Sophia get from a portable capital accumulation plan?

Representative employee Sophia - draft model inputs

	Large-employer capital accumulation plan	Typical retail plan
Working life	• Works between ages 25-65 • Changes jobs every 10 years	
Earnings	• Annual earnings start at $40,000 • Earnings increase by 3% each year	
Target level of retirement security	• 70% of final 5 years' pre-tax earnings (including average CPP and maximum OAS) in annual retirement income ages 65-92	
Total contribution rate	• 18% total — Sophia contributes 9.0% and employer matches her contributions • Saves at 50% of optimal rate from age 25 to 30	
Fees and costs	• 0.7%	• 2%
Investment discipline	• -0.36% rate of return	• -1.00% rate of return
Risk pooling	• -1.5% rate of return post-65 due to de-risking portfolio	• -1.5% rate of return post-65 due to de-risking portfolio