ONTARIO RETIREMENT SECURITY RESEARCH

/ NOVEMBER 2015 /

HOOPP
Healthcare of Ontario Pension Plan

EXECUTIVE SUMMARY /

Three tiers—government support, private pensions, and savings—have defined the Canadian retirement system for close to 50 years. Government support provides a basic benefit, but a pension helps a retiree maintain a middle-class standard of living, and retirement savings provide important supplemental income for unforeseen expenses.

As good pensions become increasingly rare in the private sector, there is renewed debate as to what extent governments should play the role of provider in Canada's three-tiered retirement system.

Research carried out by the Gandalf Group for the Healthcare of Ontario Pension Plan shows that Ontarians feel Canada's workplace pension system is not delivering adequate retirement security; they are concerned that this could lead to a retirement income crisis down the road and cause an increase in senior poverty. The Gandalf Group surveyed 1,132 Ontarians in September, 2015.

RESEARCH RESULTS / Respondents' concerns about retirement income adequacy

- If workers aren't able to access good workplace pensions and contribute during their working lives, 84% believe they will become a burden on the taxpayer. As well, 82% say that without good pensions in place, the economy will suffer.
- Of those surveyed, 85% say that with-out good pension plans at work many Canadian seniors will experience poverty. As well, 75% say it is becoming more and more difficult for seniors to stay out of poverty.
- The fact that workers aren't saving enough on their own will contribute to a retirement income crisis, according to 75% of respondents.
- The lack of good and accessible workplace pensions will contribute to a crisis, say 74% of those questioned.
- Because contributions to workplace pension plans are not mandated by the government, 72% say it will contribute to a crisis.
- On average, respondents believe Canadians will need 63% of what they earned while working to have an adequate retirement.
- Those with DB pensions say they expect to receive about 60% replacement income—about 3% less than the amount cited as adequate. But those with DC pensions fear they will be short by 16%, and those with no pension at all are concerned they'll be short by 18%.
- Of those with workplace pensions, 45% say they have saved nothing for their retirement on their own in the past year—and that figure rises to 58% for those without pensions at work.

RESEARCH RESULTS / Respondents' thoughts about improving workplace pensions

- Only 31% of Ontarians surveyed said they agree with the statement that "most Canadian workers have a good workplace pension program."
- Of those surveyed, 77% said all workers should have a pension that guarantees a percentage of their working income in retirement. The same strong majority of 77% prefer a pension that is based on what they earned rather than a pension with payouts that vary based on market fluctuations.
- Only 21% said they would prefer to receive more of their salary rather than having money deducted from their pay for their pension.
- When asked what type of pension the government should be encouraging businesses to offer, 47% called for defined benefit (DB) plans and 32% wanted defined contribution plans (DC).
- Of those surveyed, 77% supported increasing Canada Pension Plan (CPP) costs and benefits.
- When asked whether contribution changes to the CPP should be mandatory, 54% of respondents agreed, 23% felt they should be able to opt out of changes and 17% thought any changes should be voluntary.
- A 70% majority supported the idea of the Ontario Retirement Pension Plan (ORPP) increasing pension benefits.
- When asked, 74% said increased pension contributions are a form of savings and an investment in the employee's future. Only 20% saw pension contributions as a tax.

INTRODUCTION

For close to 50 years, the Canadian retirement system has been defined by three tiers: government support, workplace pensions, and personal savings. Government support, specifically the Canada Pension Plan (CPP) and Old Age Security (OAS), provide a foundation, while a workplace pension helps a retiree maintain a middle-class standard of living. In addition, personal savings provide supplemental income for unforeseen expenses.

As pensions become increasingly rare in the private sector, there is renewed debate as to what role governments should play as the foundation of Canada's three-tiered retirement system.

The Gandalf Group, a leading research group, conducted a study for the Healthcare of Ontario Pension Plan (HOOPP). In September, 2015, the pollster spoke to 1,132 Ontarians and found that a majority of them are concerned that Canadians may not have adequate retirement security.

/ These results echo a comparable 2013 study, also conducted by Gandalf, and reveal a growing concern around senior poverty. /

Furthermore, there is a worry that without access to a good workplace pension, retirees may not have enough to live on. This could lead to a scenario in which shortfalls are downloaded to the taxpayer, driving a retirement income crisis.

The research focused on the respondents' views regarding three major areas: the potential risks for society and taxpayers with inadequate retirement income, existing workplace pensions and the importance of retirement income adequacy.

THE POTENTIAL RISKS FOR SOCIETY AND TAXPAYERS WITH INADEQUATE RETIREMENT INCOME

Respondents were asked what they think will happen if people don't have access to good workplace pensions.

If workers aren't able to access good workplace pensions and contribute during their working lives, 84% agree they will become a burden on the taxpayer.

As well, 82% say that without good pensions in place the economy will suffer.

Of those surveyed, 85% say that without good pension plans at work many Canadian seniors will experience poverty.

The research also found that 75% say it is becoming more and more difficult for seniors to stay out of poverty.

The respondents see all of these factors—the lack of good workplace pension plans, government benefits that don't provide enough support and a shortfall in personal savings—as drivers of a looming retirement income crisis.

The research also found that:

/ The fact that workers aren't saving enough on their own will contribute to a retirement income crisis, according to 75% of respondents. /

- The lack of good workplace pensions for workers to access will contribute to a crisis, say 74% those questioned.
- And, 72% say that because contributions to workplace pension plans are not mandated by the government, it will contribute to a crisis.

EXISTING WORKPLACE PENSIONS / What constitutes a good workplace pension program?

Ontarians clearly prefer retirement programs that offer income certainty.

- Of those surveyed, 77% said all workers should have a pension that guarantees a percentage of their working income in retirement.
- The same strong majority of 77% said they would prefer a pension that is based on what they earned instead of working to a pension with payouts that vary based on market fluctuations.
- Only 31% of respondents agree with the statement that "most Canadian workers have a good workplace pension program."

The idea of a pension that delivers predictable income has strong appeal. Only 21% say they would prefer to receive more of their salary rather than having money deducted from their pay for their pension.

The majority of those surveyed felt the best way to deliver a pension is through the defined benefit (DB) model. A DB pension delivers a monthly pension for life that is based on a percentage of what the plan member earned during his or her career. The benefit payout is clearly defined.

By contrast, a defined contribution (DC) plan defines only the amount of money set aside each payday. The benefits in retirement can't be predicted in advance because the amount depends on how well the contributions are invested and on stock market conditions over the life of the plan.

- When asked what type of pension the government should be encouraging businesses to offer, 47% of respondents called for DB plans, versus 32% who wanted DC plans.

One DB plan that already exists for Canadian workers is the CPP. However, its benefit formula is not based on a worker's full salary. It is capped at the average industrial wage level in Canada, known as the year's maximum pensionable earnings (YMPE). The YMPE for 2015 is $53,600 and the maximum CPP pension for 2015 is a percentage of that—$1,065 per month. The percentage is determined annually by the federal government.

- Respondents were asked if changes to the CPP might be a way to improve workplace pension coverage, specifically by increasing workers' and employers' contributions and benefits by 8% of their salaries (versus 5% today). This change would make CPP payments 60% higher than they are today. Overall, 77% supported this proposal.
- When asked if any contribution changes to the CPP should be mandatory, 54% agreed, 23% felt they should be able to opt out of changes and 17% thought any changes should be voluntary.

Ontario is looking at a plan of its own to supplement the existing CPP—the Ontario Retirement Pension Plan (ORPP).

- Expressing strong or moderate support, 70% of survey participants favour the idea of the ORPP increasing pension benefits.

Some observers have suggested that creating a new pension plan or augmenting an existing one amounts to a new payroll tax on Canadians and their employers. Respondents did not see it that way.

- In fact, 74% say increased pension contributions are a form of savings and an investment in the employee's future. Only 20% see them as a tax.

THE IMPORTANCE OF RETIREMENT INCOME ADEQUACY

When asked to define what adequate income means, respondents said that on average, they believe Canadians will need 63% of what they earned at work to have an adequate retirement.

Generally, those with a DB pension believe they are on track to reach that target. They say they expect to receive about 60% replacement income—about 3% less than the amount cited as adequate. But those with pensions fear they will be short by 16% and those with no pension at all are concerned they'll be short by 18%.

In light of that expected shortfall, are people saving more on their own?

> / Of those with workplace pensions, 45% say they have saved nothing for their retirement on their own in the last year—and that figure rises to 58% for those without pensions at work. /

CONCLUSION

The research shows that respondents believe Canadians need workplace pensions that offer approximately two-thirds of their pre-retirement income in order to live independently in retirement.

The DB model, with its mandatory contributions and a benefit based on a percentage of workplace income, seems ideally suited to deliver what people need.

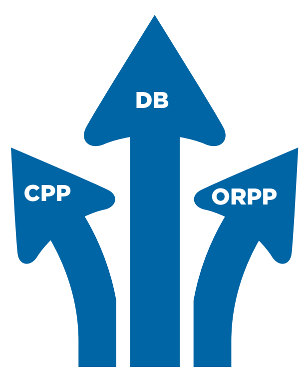
Respondents feel employers should be made to offer better workplace pension plans. Alternatively, existing vehicles like the CPP should be improved or new vehicles like the supplemental ORPP should be added.

A growing body of research by various groups shows that Canadians are becoming more worried about their ability to save enough to fund their own retirement in the absence of good workplace programs.

Saving is difficult. Recent Bank of Canada reports show the average household owes about $1.63 for every dollar it earns, making saving difficult if not impossible.

That debt is starting to carry over into retirement. A poll conducted by the Canadian Association of Retired Persons (CARP) found that 600,000 Canadian seniors are living in poverty today.

The poll conducted by the Gandalf Group on behalf of HOOPP found that same concern—that a retirement income crisis, one in which taxpayers will be asked to provide increased assistance to seniors—could result if retirement savings programs aren't improved now. A Boston Consulting Group study conducted in 2013 bears this out, finding that 40% to 50% of seniors without DB pensions have to access the Guaranteed Income Supplement (GIS), which is fully funded by taxpayers. Only 10% to 15% of seniors with DB pensions need to access GIS.



That same study found that Ontario's 1.3 million DB pensioners spend $25 to $26 billion annually in the province's economy. This income is used for buying goods and services, and paying taxes, which in turn creates employment.

/ The research suggests strongly that taking action now on improving workplace pension coverage will reduce and even help prevent senior poverty tomorrow. /

It will also help create a future in which seniors contribute to economic growth and are less reliant on taxpayer-assisted help.

For additional information or questions regarding the research, please contact:

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The aim of this White Paper is to make these ideas and analyses available to a wider audience and to inform and encourage public debate. The Healthcare of Ontario Pension Plan (HOOPP) commissioned the Gandalf Group to conduct a survey of Ontarians on Canada's approach to pensions. HOOPP, along with certain other entities, also commissioned the 2013 Boston Consulting Group study referenced in this White Paper. In addition, in its preparation of this White Paper, HOOPP relies on the independent research conducted by the Bank of Canada and the Canadian Association of Retired Persons. Any views or opinions HOOPP expresses in this White Paper is based the research conducted by these parties without any independent verification of their methodologies or findings. Any other party using this report for any purpose, or relying on this report in any way, does so at their own risk. HOOPP makes no representations or warranties in relation to the accuracy or completeness of the information presented herein or its suitability for a particular purpose.