caat
PENSION PLAN

Better pensions needed to create a better Canada

CAAT Report Based on CPPLC Data

November 2023

Table of Contents

Introduction

The Canadian Public Pension Leadership Council (CPPLC) is a non-partisan group of public sector senior administrators from across Canada who work together to inform public discussions about retirement income security. In June 2023, the CPPLC released a report that compared its findings from two commissioned surveys – the first conducted in 2016 and the second in 2022. In addition to highlighting recent trends, the comparative report provides insight into how Canadians' perceptions of retirement have changed over the last six years. For information on the methodology of the surveys, please refer to the CPPLC's report, *The Pensions Canadians Want: Perceptions of Retirement (2016-2022)*.[1]

This paper builds on the CPPLC's insights and examines the opportunities that current views on retirement security open for employers across workplaces. By examining the 2022 survey results by respondents' age, and by focusing on respondents' work-related sentiments, this paper translates Canadians' perceptions of retirement into actionable recommendations for businesses (some of which are already being pursued and enacted by key retirement industry participants).

As a member of the CPPLC, the CAAT Pension Plan is committed to improving retirement income security for Canadians where savings vehicles stand to impact Canadians most: in the workplace. This paper draws on CAAT's experience as a jointly sponsored modern pension plan that is open to the private, non-profit, and broader public sectors. Lessons learned from listening to employers, unions, and members across industries and jurisdictions can benefit businesses while driving innovation that advances a greater purpose to improve retirement income security for all Canadians.

Executive Summary

In 2022, when asked about the most desirable features of a workplace pension plan, the majority of Canadians surveyed identified three qualities that are traditionally associated with defined benefit (DB) pension plans:

- Monthly and predictable retirement income,
- retirement income guaranteed to last a lifetime, and
- retirement income that is adjusted for inflation.

A widening pension coverage gap can be observed intergenerationally within the workforce today. As efforts to expand adequate and affordable pensions continue within the retirement industry, emerging research on the perceptions of retirement among working Canadians reveals that the majority want employer-sponsored retirement income security.

---

[1] Canadian Public Pension Leadership Council, 2023.

Already facing barriers to saving adequately for retirement and achieving long-term financial security, respondents expressed that a valuable workplace pension plan would influence their career decisions, and that:

- DB pensions are the preferred type of plan for those aged 35 and older,
- only 1 in 3 respondents are confident in their ability to retire at their desired age, and
- only 1 in 3 respondents are confident that they will be able to maintain their standard of living in retirement.

In the post-pandemic, high-tech world of work in which top performers and young workers with adaptive skills are scarce, employers who dial in on the needs of the majority can gain a competitive edge that is good for business and employees. If pension plans can help employers with workforce management challenges, why are DB plans slow to return to private-sector Canadian workplaces?

Experts point to historic changes in accounting rules, pension regulations, and globalization of trade as some drivers behind the individualized model of retirement savings. Business leaders suggest a need for simplicity in benefits administration that traditional single-employer DB pension plans did not meet. Traditional DB pension plan required specialized knowledge and dedicated management, which drove employer demand for options with outsourced administration like Group RRSPs or defined contribution (DC) plans.

Absent government-mandated participation in employer-sponsored retirement plans, pension plans and other retirement savings vehicles can only exist with the endorsement of employers. A successful workplace retirement plan must provide a strong business case for employers. Amid the historic generational turnover seen today, employer endorsement is earned by solving talent attraction, retention, productivity, and other workforce management challenges.

Modernizing the plan design for today’s business and workplace environment and providing education to employers about this tried-and-tested tool for long-term retention will improve outcomes for all participants ─ employers, members, and industry providers. Some solutions and recommendations cited are already in development at organizations, an important step and endorsement that workplace pensions serve as both a viable business ***and*** human solution.

As the CPPLC report and other research suggests, when employers are well-equipped to adapt to the changing nature of work and business using DB pensions, demand for the plan design will follow.

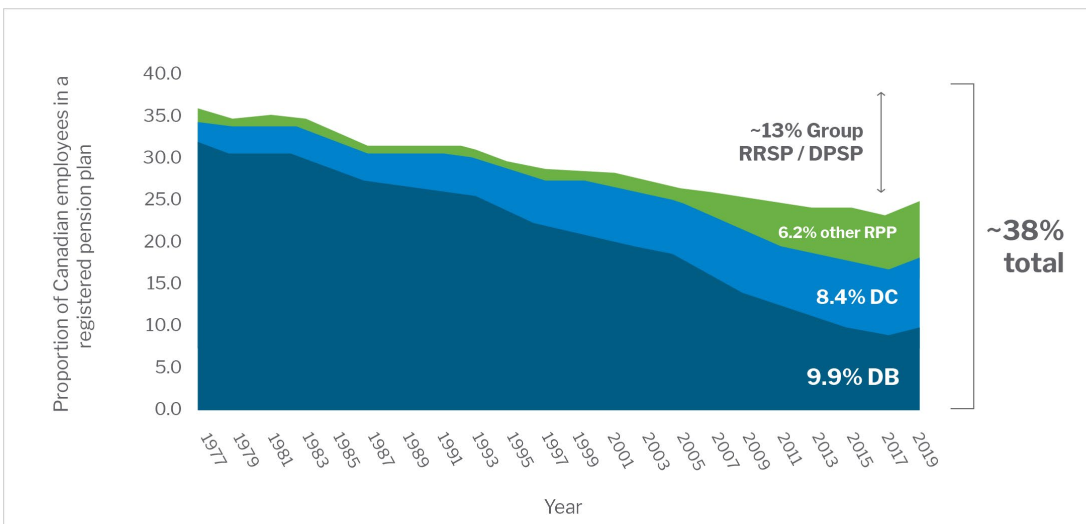
An overview of pension coverage and retirement income adequacy in Canada

Few Canadians have workplace pension plans – even fewer have DB plans

Statistics Canada tracks the proportion of paid workers covered by a workplace registered pension plan (RPP) to determine the country's pension coverage rate at a given point in time.[2] Registered pension plans are established by employers and/or unions and include defined benefit (DB) and defined contribution (DC) pension plans.[3] The 2021 snapshot showed that **only 38% of Canadian workers actively participated in an RPP.**[4]

Since the 1980s, and particularly over the past 20 years, the pension coverage rate has been trending steadily downward, while member-directed investment accounts like Group Registered Retirement Savings Plans (GRRSP) have gained popularity (Figure 1).

Figure 1. The proportion of Canadian employees in a registered pension plan, 1977-2015



Adapted from *The Value of a Good Pension,* Healthcare of Ontario Pension Plan, 2021.

Traditional single-employer DB pension plans fell out of favour with many employers,

---

[2] Statistics Canada, 2023.
[3] Members of Defined Benefit plans contribute to a fund, which then provides lifetime income payments in retirement. Defined Contribution plans allow members to save and invest their own pot of money to fund their retirement. Members must decide how to invest and draw down their savings in retirement.
[4] Statistics Canada, 2023.

especially those in the private sector. Increased funding volatility and an asymmetrical risk to deficits and surpluses reduced the incentives for employers to offer DB plans. Coupled with increased disclosure requirements and oversight over time, the management of traditional single-employer DB plans became risky, burdensome, and costly.

> In 2001, the coverage rate for private sector employees under DB plans was 20.3%.
>
> In 2021, it was 9.3%.[5]

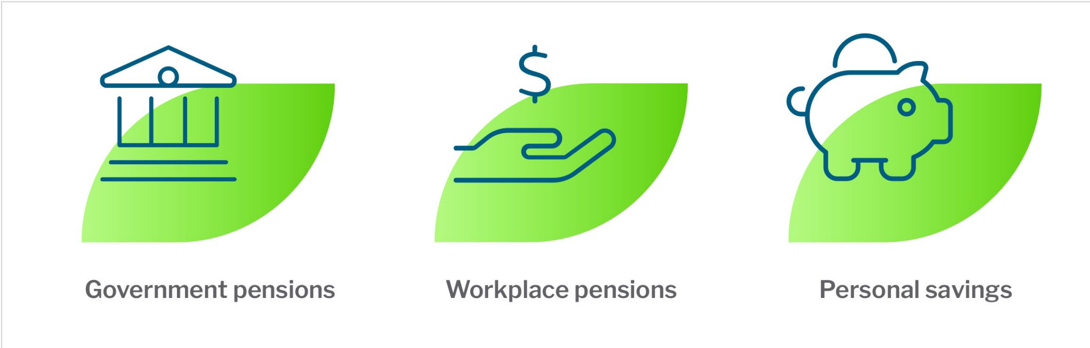
Many employers shifted to fixed-cost and member-directed options, such as DC pensions and GRRSPs, which remove the burden of fund management from the employer. In these designs, participants save and invest their pot of money to build their retirement income. At retirement, employees determine whether and how to transform all or part of their savings into a lifetime income stream to avoid outliving their savings. These designs place more responsibility on members compared to DB plans, in which member contributions are saved and invested by pension management experts. In retirement, the pension plan provides a predictable stream of lifetime income for members and often their surviving spouses.

Lifetime income outside a DB plan typically comes from annuities, which have been a long-standing option for Canadians looking to convert some of their DC or RRSP savings into a lifetime income stream. However, the uptake of this solution is incredibly low. Annuity premiums are relatively high, and the monthly payments usually remain level. As a result, participants' purchasing power can erode over time. In addition, many Canadians fear dying early in retirement and "losing" their annuity account balance. These factors have made traditional annuities unattractive for Canadians and, according to the National Institute on Ageing, left an estimated $1.5 trillion decumulation disconnect in Canada's retirement income system.

Workplace pensions are one of three pillars in Canada's retirement system

The low pension coverage rate constrains the effectiveness of Canada's entire retirement income system, which is based on a traditional three-pillar structure consisting of government benefits, workplace pension plans, and personal savings. The underlying assumption is that Canadians will participate in a workplace pension plan – pensions that build throughout one's working life and provide a reliable source of income in retirement.

[5] Statistics Canada, 2023.



Without affordable and accessible workplace pensions, personal savings and government benefits become more vital sources of income. As observed in the 2022 CPPLC survey and current economic trends, these sources are increasingly becoming strained due to higher costs of living, demographic changes, and other environmental and economic factors.

Retirement income adequacy faces strong headwinds

Expanding pension coverage is required to strengthen Canada's retirement income system, especially as the country's largest demographic cohort continues to shift older. However, improving access to plans without a dual focus on retirement income *adequacy* will still leave seniors at risk of financial insecurity.

Researchers generally focus on two levels of retirement income adequacy:

- income that satisfies a retiree's basic needs (a "safety net")
- income that permits a retiree to maintain their pre-retirement standard of living[6]

There are significant headwinds for Canadians who want to have more than their basic needs being met in retirement.

Government pensions do not provide adequate retirement income

The Canada/Quebec Pension Plan (CPP/QPP), Old Age Security (OAS), and Guaranteed Income Supplement (GIS) programs work together to address safety-net levels of adequacy. Then, retirement income from the two remaining pillars – workplace pension plans and personal savings – add to the total stream to ensure Canadians receive "enough income to comfortably maintain [their] standard of living in retirement."[7]

> The fact is, most Canadians do not receive maximum benefits from CPP.

[6] Congressional Budget Office, 2017.
[7] Statistics Canada, 2022.

> The maximum CPP payment in 2023 is $1,306.57 per month, while the average disbursement per beneficiary is $760.07 per month.

Shortfalls in government pensions reroute personal savings and workplace pensions to fund basic necessities and set Canadians behind in maintaining their desired standard of living.

Future retirees are less likely to have lifetime retirement income from DB pensions

Given the decline in DB coverage and low levels of personal savings, working Canadians today without workplace pensions face immense obstacles to saving for a comfortable retirement. The C.D. Howe Institute reported that in 2022:

> … one quarter of people aged 45 to 64 have no private retirement assets. It is also disappointing to see that median [Registered Retirement Savings Plan and Tax-Free Savings Account] wealth accumulation for people who are not participating in workplace pension plans (WPPs) is low. It also appears that wealth accumulation in defined-contribution WPPs is less fulsome than in defined-benefit plans. These realities suggest that a minority of the future elderly may have trouble maintaining their standard of living in retirement.[8]

While the population composition in Canada is different, recent research in the US underscores the hurdles future retirees will face. The report plainly states that Generation X (those born between 1965 and 1980) face a “dismal retirement outlook,”[9] and that a typical Generation X household has about $40,000 in retirement savings.[10] The researchers attribute this in large part to the fact that Generation X is the “first generation to enter the [labour] market following the shift from defined benefit pension plans to 401(k)-style defined contribution accounts.”[11]

Further differentiating generational retirement outcomes, low levels of inflation and strong markets in the decades prior to the pandemic created a favourable saving environment for current Baby Boomer retirees. Many were able to live comfortably without significantly drawing down on their savings, and many were employed when DB pensions were common to workplaces in both private and public sectors.

This shared experience of retirement insecurity between Generation X of Canada and the US will create inter-jurisdictional impacts for both countries, as workers and future retirees migrate in search of stability to build a better future. Cost of living, housing affordability, inflation, job opportunities, and other socioeconomic factors have historically fueled moves across the border – a trend that is expected to continue in

---

[8] Baldwin, 2022.
[9] Ringland, Saad-Lessler and Bond, 2023.
[10] Ringland, Saad-Lessler and Bond, 2023.
[11] Ringland, Saad-Lessler and Bond, 2023.

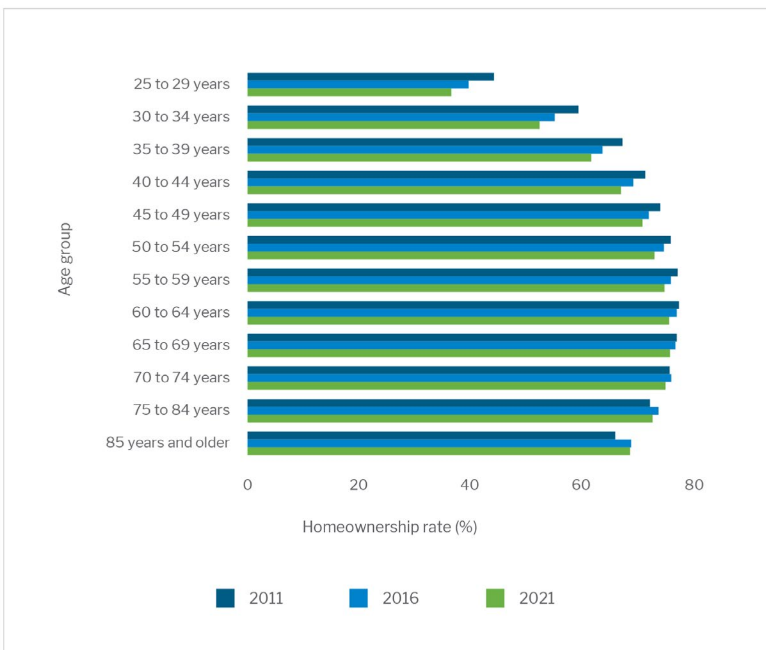
today's more mobile economy.

The post-pandemic economy is financially uncertain for individuals.

For some Canadians saving for retirement, the tumultuous markets experienced during and after the COVID-19 pandemic have hardened barriers to saving adequately and consistently. Higher interest rates, unaffordable housing, and cost of living increases all affect debt management and the ability to save for retirement. Take housing affordability for example, a traditional source of long-term security and capital. While traditional wisdom says to retire with some home equity and without significant debt, this is less attainable for Canadians today carrying debt as renters in a peak housing market.

Canada's homeownership rate has been steadily declining after peaking in 2011 (69.0%).[12] In 2021, the homeownership rate was 66.5%. Statistics Canada found that drops in homeownership were most dramatic among Canadians aged 25 to 34 years old, while the rate rose slightly for those aged 85 and older. Meanwhile, the growth in renter households (+21.5%) more than doubled the growth in homeowner households (+8.4%).[13] Nationally, 20.9% of Canadians spend more than 30% of their income on shelter costs in 2021.[14]

Figure 2. Younger adults are less likely to own their homes



Source(s): *National Household Survey*, 2011 (5187), and *Census of Population*, 2016 and 2021 (3901), Statistics Canada.

---

[12] Statistics Canada, 2022.
[13] Statistics Canada, 2022.
[14] Statistics Canada, 2022.

According to Mercer's 2023 Retirement Readiness Barometer, millennials who rent would need to save eight times their salary over the course of their career to be able to retire at age 68. As the report states, "Homeownership means lower housing costs in retirement – and home equity means flexibility." It is not surprising that the CPPLC survey in 2022 found younger workers have little confidence that they will retire without debt (Figure 3).

Figure 3. CPPLC data on retiring with debt by age group

Age group	18-24	25-34	35-44	45-54	55-64	65+
I will be debt free	26%	28%	31%	33%	40%	45%

2022 CPPLC Survey: "How much debt (e.g., balance outstanding on loans, credit cards, mortgages, or lines of credit) do you expect to have when you retire?"

An opportunity for employers

The widening pension coverage gap can be observed intergenerationally within the workforce today. As efforts to enhance the supply of adequate and affordable pensions continue, emerging research on the perceptions of retirement among working Canadians reveal that **there is a majority who want employer-sponsored retirement income security**. In the post-pandemic, high-tech world of work in which top performers and young workers with adaptive skills are scarce, employers who dial in on the needs of the majority can gain a competitive edge that is good for business and employees.

Insights for Canadian workplaces

Employers need to prepare for the Marathon for Talent

Canada's aging workforce has been described as "a date with demographic destiny," and "a grey tsunami," with more than four million (one in five) working adults near retirement.[15] This outflow from the workforce will "be a dominant force in defining the future path of the economy. […] The most acute effect of people leaving their prime earning years and entering retirement will no doubt be on the availability of workers and any resulting skills mismatch to the needs of employers."[16]

In the race for talent, employers are now running a marathon to staff up and skill up

[15] Zimonjic, 2022.
[16] Orlando, 2023.

critical roles to meet the objectives of today, as well as adapt the business to the demands of the future. TD Economics calculates that the "greying effect" of the retiring workforce is likely to accelerate in the next several years and, while high immigration targets will help offset the retirements, they will not close potential skills gaps.[17] Thus, employers' attraction and retention efforts must be geared to a long-term scope.

The concurrent effects of the "Boomer Brain Drain," caused by retiring company stalwarts, leaders, and knowledge-bearers, and the changing nature of business has escalated the critical function of talent management as the top priority for many organizations, specifically recruiting and retaining skilled workers. The Global Leadership Forecast 2023 surveyed over 15,000 leaders from almost 2,000 organizations, 24 sectors, and 50 countries, and found that the top three concerns among leaders were:

- Attracting and retaining top talent (59%),
- developing the next generation of leaders (50%), and
- maintaining an engaged workforce (45%).[18]

These categories ranked higher than concerns about topical issues like digital transformation, global recession, product innovation, and competitive outperformance. Why? Because turnover is costly. When organizations are already facing talent challenges and skills shortages that are limiting growth, losing workers adds to lost productivity and retraining costs. Most organizations are looking for cost-efficient, distinctive modes of total compensation to provide the financial security that employees need in this uniquely uncertain era, including pensions.

Canadians want retirement income adequacy

Lifetime benefit security is a key component of adequate retirement income. In 2022, the Mercer CFA Institute Global Pension Index, which examines different countries' lifetime income options in its analysis of their systems' adequacy, described the ideal system as one where at least 50% of retirement benefits are paid as lifetime income.[19]

Providing flexible and cost-effective options for Canadians to turn all or some of their accumulated savings into lifetime retirement income helps address adequacy issues. It also provides Canadians with what they desire most from a retirement plan: predictable, inflation-adjusted income that lasts a lifetime. This is evident in the 2022 CPPLC Survey, which asked Canadians to select the most desirable features of a pension plan from a list of twelve features. The top three most desirable features were:

- Monthly and predictable retirement income,
- retirement income guaranteed to last a lifetime, and

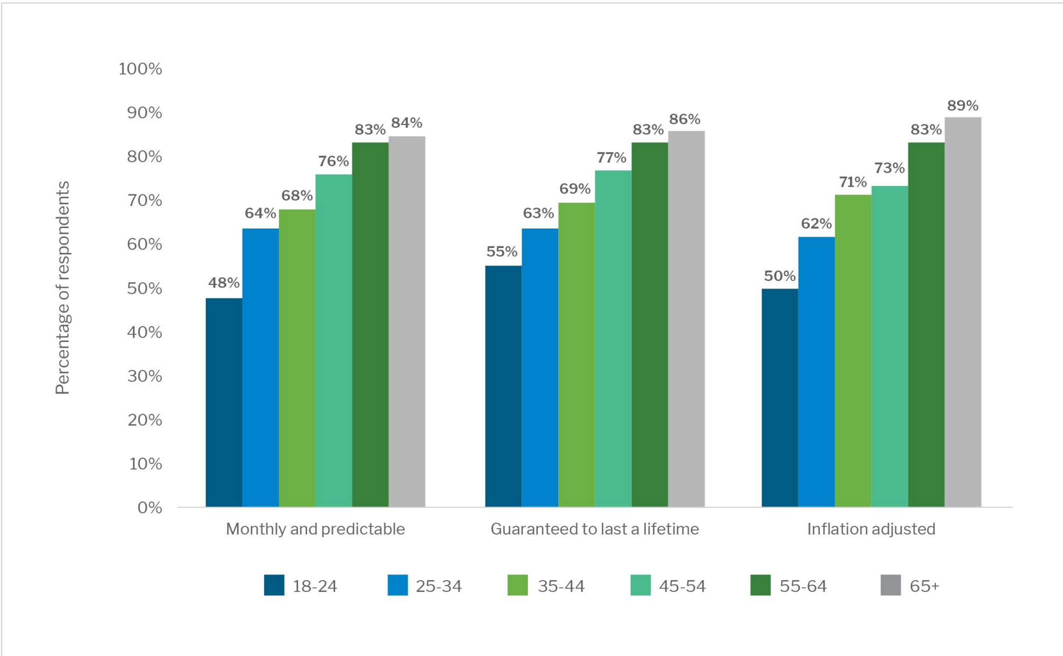
---

[17] Orlando, 2023.
[18] Neal, et al. 2023.
[19] Mercer, CFA Institute, Monash University, 2022.

- retirement income that is adjusted for inflation.

While older Canadians expressed higher levels of desire for these features, about half of those aged 18 to 24 still found them highly desirable.

Figure 4. Most desired features of a pension plan or retirement savings plan, by age



2022 CPPLC Survey: "Please rate the desirability of the following features of a pension plan or retirement savings plan." Shows respondents who rated the desirability as 8 to 10 on a 10-point scale where 1 indicates "not at all desirable" and 10 indicates "extremely desirable."

The desire for these features may be driven by Canadians' fear of outliving their savings in retirement. Nearly half (47%) of all respondents ranked their stress level about "running out of money in retirement" as very high (rating it 8 to 10 on a 10-point scale). Canadians aged 45 to 54 (mainly Generation X) reported the highest stress about running out of money once retired. They also rated "guaranteed to last a lifetime" as the most desirable feature of a retirement savings plan or pension (Figure 5).

Figure 5. CPPLC data on retirement-related stress by age group

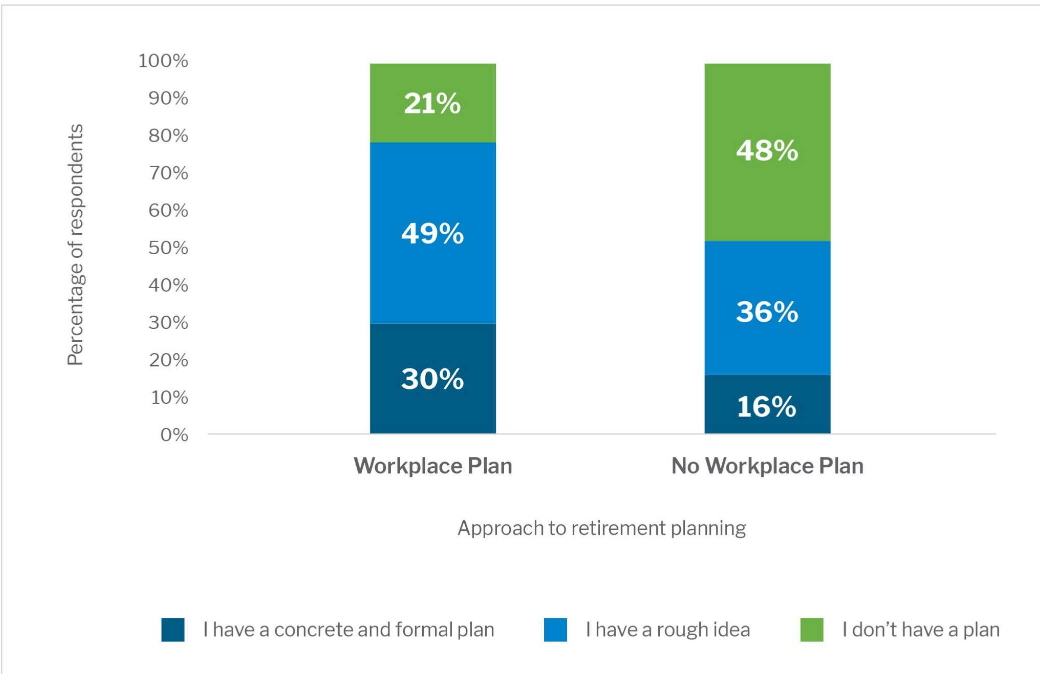
Age group	18-24	25-34	35-44	45-54	55-64	65+
Top 3 Box	40%	49%	44%	53%	48%	47%

2022 CPPLC Survey. "Please use a 10-point scale where 1 is not at all stressful and 10 is extremely stressful to rank your stress about running out of money once retired."

Canadians need support to achieve retirement income adequacy

Findings from the 2022 CPPLC Survey revealed that Canadians without access to workplace pensions are concerned that they will be unprepared for retirement — an argument that has persisted among worker groups throughout the decline of pensions in the private sector. Almost half (48%) of respondents without access to a workplace pension reported that they do not have any formal retirement plans, while over a third (36%) have an idea but no concrete plan (Figure 6).

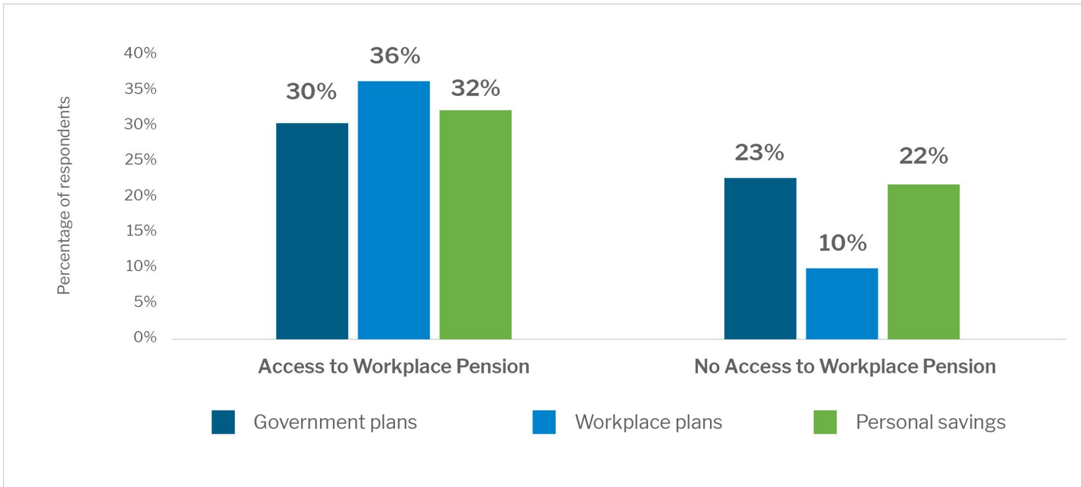
Figure 6. Canadians without a workplace pension plan are less likely to have a retirement plan



2022 CPPLC Survey. "Which of the following best describes your retirement planning strategy."

Other findings from the survey suggest a relationship between access to a workplace pension plan and confidence in financial knowledge. While most respondents reported low levels of knowledge about retirement income sources, those without access to a workplace plan reported noticeably lower levels about the three pillars of retirement income streams than those with access to workplace pension plans. These findings are concerning as those without workplace pension plans are most in need of structured retirement plans and the financial expertise to put those plans into action (Figure 7).

Figure 7. Self-reported knowledge of sources of retirement income is lower among those without access to a workplace pension plan



2022 CPPLC Survey. Proportion of respondents that rated knowledge as 8 to 10 on a scale from 1 to 10, where 10 is extremely knowledgeable and 1 is not knowledgeable at all. The values are the average percentage across the corresponding retirement income sources in each pillar.

A crucial and often overlooked factor of retirement preparedness is having an informed understanding of longevity – that is, a realistic view of how long one can expect to live. Canadians are living longer. Forty-four percent of men age 65 can expect to live to age 90, and 56% of women age 65 can expect the same. Yet misconceptions about longevity may lead Canadians to drastically undersave before retirement or to overspend early in retirement. This gap between expectations and realities can leave later-age seniors underfunded and vulnerable at the most expensive stage of life.

While it is good news that seniors are living longer than previous generations, it also means that employees need to budget for more years in retirement, which can lead them to work longer. For employers, having a class of employees who refuse to retire due to fear of income insufficiency disrupts the controlled attrition that employers rely on to create vacancies for new talent.

For average Canadians without an informed understanding of life expectancy and retirement costs, a pension that provides lifetime retirement income ensures that they will receive a baseline income with which they can budget their spending (and without fear of outliving their savings).

Workplace pension plans help to attract and retain talent

In a 2021 report, the Healthcare of Ontario Pension Plan (HOOPP) noted that demographic and labour market outlooks are “encouraging employers to refocus on the potential value of offering workers retirement savings options.”[20] The 2022 CPPLC

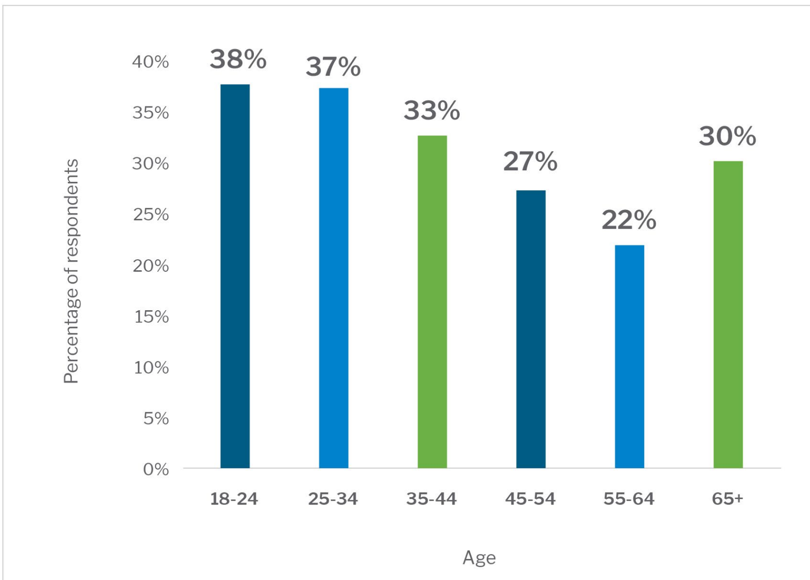
---

[20] Healthcare of Ontario Pension Plan, 2021.

Survey provides additional insight into the attraction and retention benefits of workplace pension plans, including recruitment and engagement advantages, increased sense of wellness, and productivity improvements.

Overall, 29% of respondents said they were very likely to move to another employer for a good pension. Analyzing the responses by age shows that younger, more mobile workers are most likely to switch employers for a good workplace pension (Figure 8).

Figure 8. High likelihood of moving to another employer to get a good pension

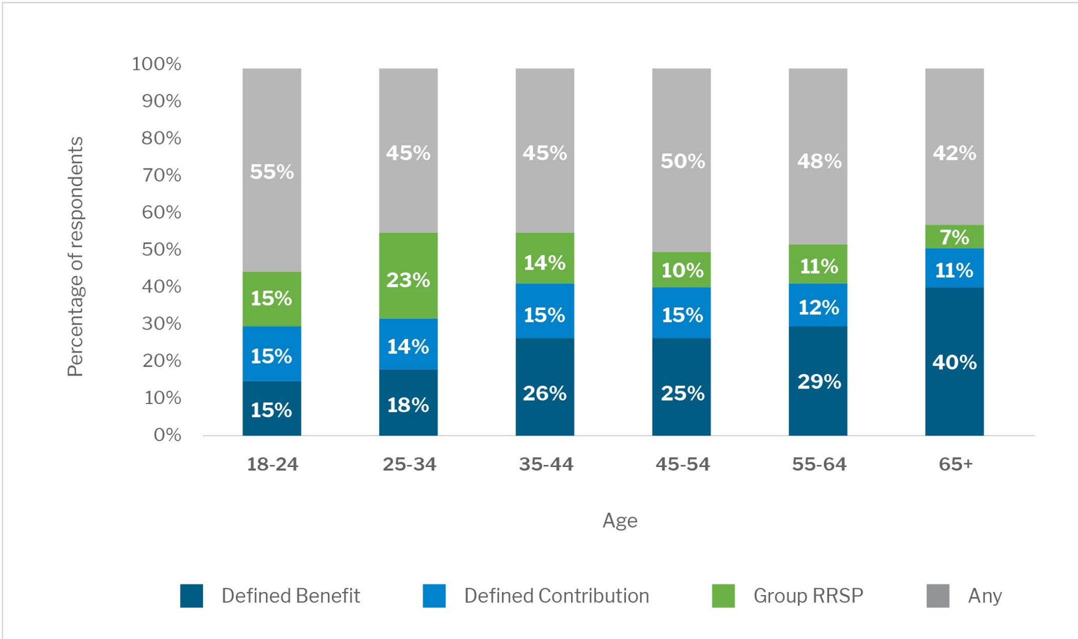


2022 CPPLC Survey: "How likely would you be to move to another employer to get a good workplace pension?" The graph shows respondents who answered 8 to 10 on a scale of 1 to10 scale.

Of those who said they were likely to switch employers for a pension plan, the vast majority said they would switch to receive *any* pension plan, including more than half of the respondents between 18 and 24 years (Figure 9).

Generally, the older the respondent, the more likely they were to prefer switching employers for a DB pension plan. While this experienced demographic is more likely to be familiar with DB plans having started their career when DB pensions were standard, the results could also imply that through experience older workers see the value of predictable, lifetime retirement income.

Figure 9. Canadians willing to switch employers for a workplace plan would switch for any type of workplace pension plan



2022 CPPLC Survey: "What type of workplace plan would you be looking for?"

The 2022 CPPLC Survey also found a powerful desire for employer-matched contributions. Canadians aged twenty-five and older rated this feature as highly desirable, giving it a ranking of 8 to 10 on a 10-point scale (Figure 10). Broader research in the United States and Canada indicates that younger workers believe that employers have a *responsibility* to offer a pension plan, and they would be willing to participate and make contributions. A survey conducted in the US found that 88% of Millennials believe that employers should be mandated to offer retirement plans.[21] In Canada, 80% agreed that reasonable paycheque deductions are an effective way of helping Canadians save for retirement.[22]

Figure 10. CPPLC data on the desirability for employer pension and retirement contribution matching

Age Group	18-24	25-34	35-44	45-54	55-64	65+
Top 3 Box	47%	60%	61%	64%	55%	65%

2022 CPPLC Survey: "Using a scale of 1 to 10 where 1 is not at all desirable and 10 is extremely desirable, please rate the desirability of the following features of a pension plan or retirement plan: Having your employer match your pension and retirement saving contributions."

[21] Natixis Investment Managers, 2023.
[22] Abacus Data Conducted for the Healthcare of Ontario Pension Plan, 2023.

CAAT's surveys of Plan members and employers substantiate the attraction and retention benefits of DB plans. Among active members:

- 90% consider having a workplace pension to be the most influential factor to remain with their employer,
- 87% rated it as the most influential factor to join their employer (rating it somewhat or very important), and
- 86% of active members aged 35 to 44 considered a workplace pension plan as somewhat or very important to their career decision.

Employers have utilized the pull factor of pensions to build talent, with 76% of employers agreeing that CAAT's DB plan has helped their organization improve employee retention and 72% agreeing that it has helped with recruitment efforts. These responses show the enduring efficacy of DB pensions in attracting and retaining employees despite the decades-old drift away from the plan design. As employers continue to seek tools to distinguish their organization in the talent marketplace, pensions are revealing to be a competitive advantage.

Canadians find retirement planning stressful and this affects their productivity and wellbeing

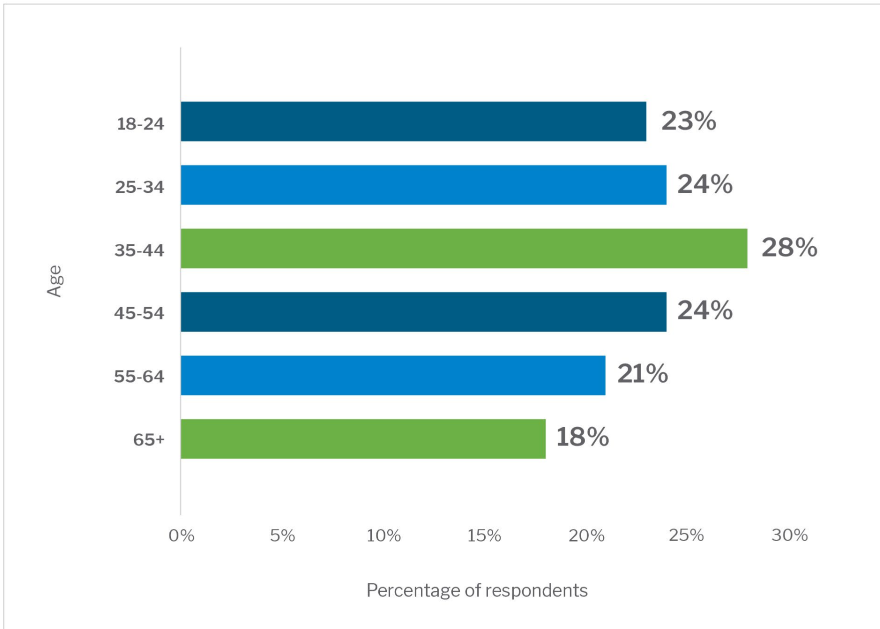
The impact of financial stress in the workplace is costing employers as well as employees. The National Payroll Institute estimates that "workers worrying about their finances on the job … cost employers more than $40 billion in 2022."[23] Almost three out of four Canadians (72%) spend some time each day thinking about their finances at work (up from 68% in 2021).[24] The average Canadian worker who is financially stressed spends about 30 minutes each workday thinking about their finances.[25]

The 2022 CPPLC Survey asked whether retirement planning stress had an impact on Canadians' career decisions and choice of employer (Figure 11). Those aged 35 to 44, which includes Millennials, reported the highest impact at 28% and said that retirement planning stress had a high impact on their career decisions and choice of employer. The reported stress of mid-career workers coincides with a noticeable increase in a willingness to change employers for a DB pension: from 18% for workers aged 25 to 34 to 26% for workers aged 35 to 44 (Figure 11).

---

[23] National Payroll Institute, 2022.
[24] National Payroll Institute, 2022.
[25] National Payroll Institute, 2022.

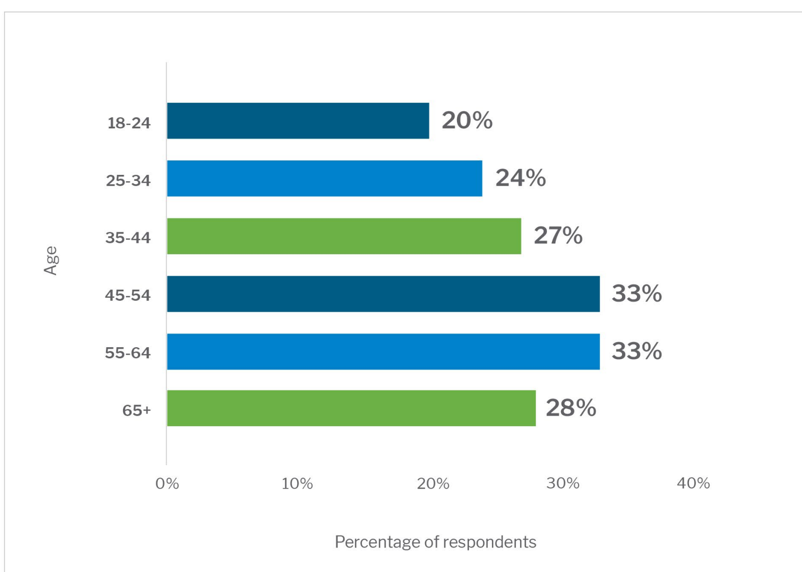
Figure 11. Effect of retirement-planning stress on career decisions and choice of employer by age



2022 CPPLC Survey: Effect of stress on career decisions and choice of employer, by age. Shows respondents who rated their stress as 8 to 10 on a 10-point scale where 1 indicates no effect at all and 10 indicates tremendous effect.

Many survey respondents said that retirement-planning stress affected their work and well-being. Nearly half (47%) said retirement planning stress had at least a moderate effect on their health and more than a quarter (28%) reported that it had a high impact on their health. Respondents aged 45 to 64, the cohort most likely to be senior leaders of their organizations, were most likely to report a high impact on their health.

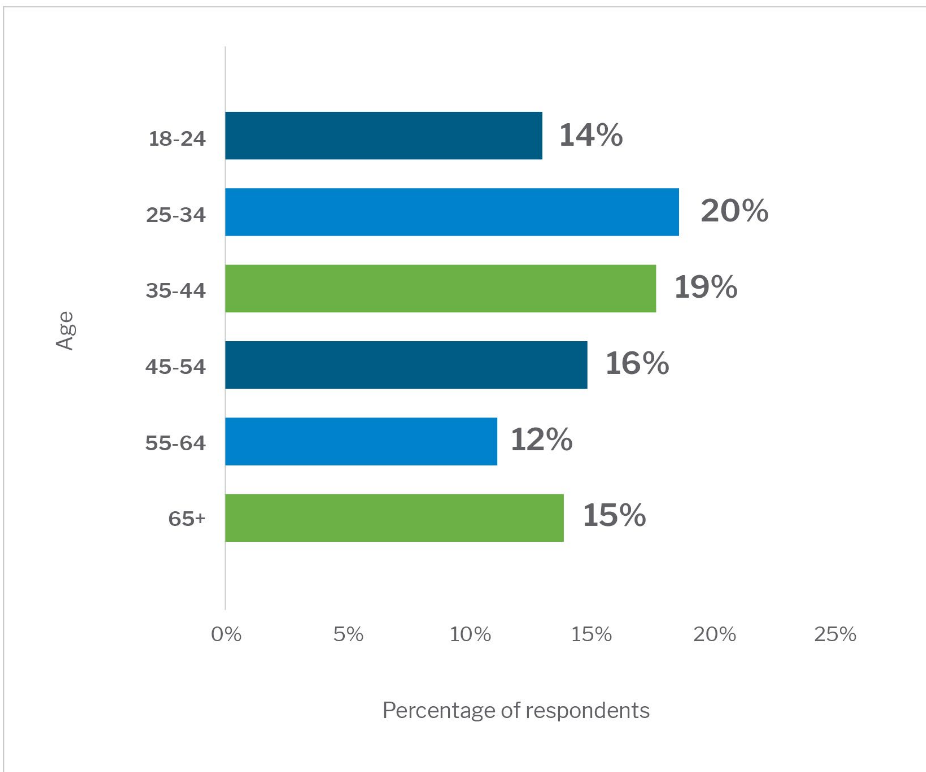
Figure 12. Effect of retirement-planning stress on personal health, by age



2022 CPPLC Survey: Effect of stress on personal health, by age. Shows respondents who rated their stress as 8 to 10 on a 10-point scale where 1 indicates no effect at all and 10 indicates tremendous effect.

The impact of retirement planning stress on respondents' productivity at work was particularly noticeable among those aged 25 to 34. One in five workers in this cohort reported that retirement planning stress had a high impact on their productivity. For employers who primarily staff young workers, such as those in the technology and manufacturing sectors (increasingly due to the skills shortage and retiring production-line Baby Boomers), retirement planning stress can have measurable impacts on production output, quality assurance, and retention (Figure 13).

Figure 13. Effect of retirement-planning stress on productivity at work, by age

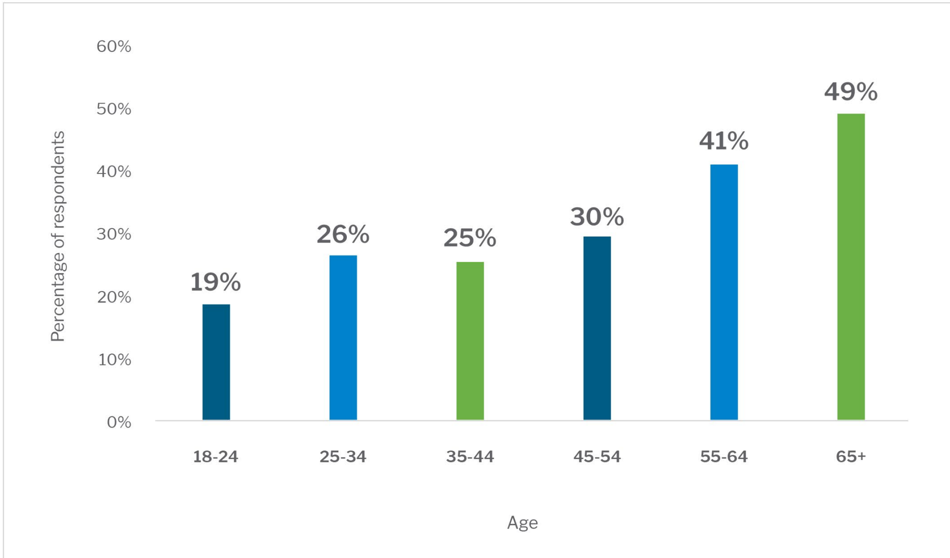


2022 CPPLC Survey: Effect of stress on productivity at work, by age. Shows respondents who rated their stress as 8 to 10 on a 10-point scale where 1 indicates no effect at all and 10 indicates tremendous effect.

Retirement planning stress has implications for workforce management

Given the 2022 CPPLC Survey's findings regarding levels of retirement stress, it is not surprising that few Canadians expressed high levels of confidence in their ability to retire when and how they want. Overall, only 29% of Canadians said they were confident they could retire at their desired age. Younger Canadians expressed the lowest levels of confidence (Figure 14). Surprisingly, less than half of Canadians over 65 (or those closest to retirement) reported feeling confident that they would be able to retire when they wanted.

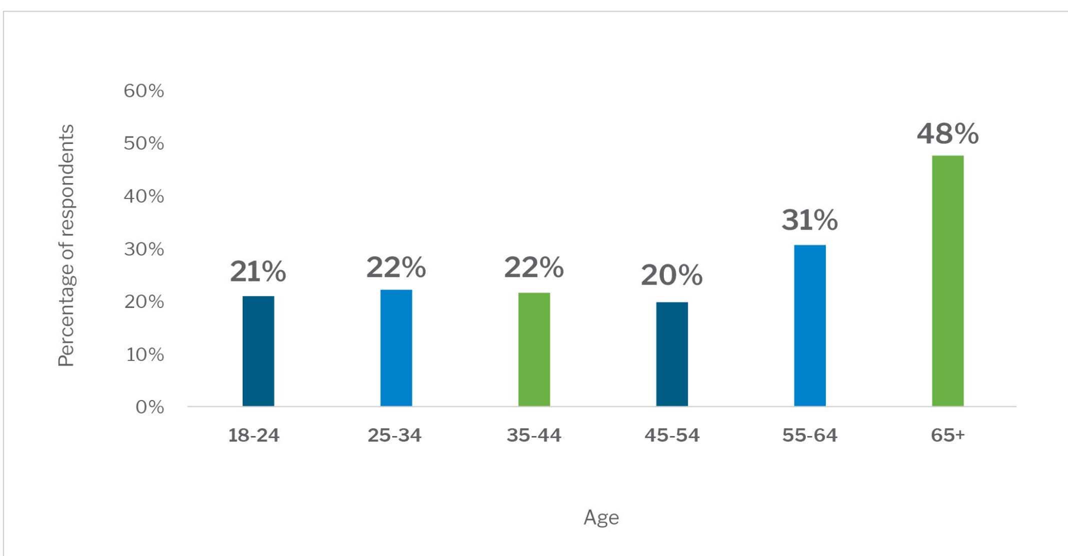
Figure 14. Confidence in the ability to retire at a desired age by age group



2022 CPPLC Survey: “How confident are you that you will be able to retire at your desired retirement age?” Shows respondents who ranked their confidence as 8 to 10 on a 10-point scale where 1 indicates “not at all confident” and 10 indicates “extremely confident.”

Only 29% of Canadians expressed confidence that they will be able to maintain their standard of living in retirement. Approximately one in five respondents aged 18 to 54 expressed high confidence that they will be able to maintain their standard of living in retirement (Figure 15). These findings point to impending challenges for employers to manage long-term workforce outcomes like presenteeism, retention of leaders, and natural attrition.

Figure 15. Confidence in being able to maintain desired standard of living in retirement, by age



2022 CPPLC Survey: “How confident are you at being able to maintain your desired standard of living in retirement?” Shows respondents who ranked their confidence as 8 to 10 on a 10-point scale, where 1 indicates “not at all confident” and 10 indicates “extremely confident.”

Retention of seasoned employees, those most likely to become leaders of an organization, helps build long-term resilience. Retention provides stability and predictability, which enables better planning. It also reduces turnover costs and impacts workplace culture. Tenured personnel provide business and human capital, and often bind a workforce through cultural values, mentorship, and the sharing of key institutional knowledge. Lack of confidence among these age groups leads to consequential flight risks and uncertainty.

Modernizing DB plans solves employers' problems

Traditional *single-employer* DB plans tether pension liabilities to employers' balance sheets. Without the expertise in pension management and actuarial accounting, these liabilities could create large and unwanted impacts on a business, particularly one that is in, or approaching, challenging financial conditions.

In a report for the C.D. Howe Institute, Bob Baldwin notes that "many – if not most – small businesses are not in the position to manage a [workplace pension plan] effectively. They lack the scale to bring down costs and the financial expertise to effectively oversee administrative costs and investments."[26] Yet, most registered pension plans (55.11%) in Canada have fewer than ten members and 82.17% have fewer than 100 members.[27]

Employers need simplicity and flexibility in retirement plans that can accommodate the risk-averse nature of the current business environment. Open plan designs provide employers the benefits of pooling to achieve more security and growth potential while meeting the needs for minimal risk and cost predictability. The outsourcing of consolidated expertise free employers to focus on their core business.

Features like auto-enrolment simplify the onboarding process for employers and synchronize administration with other total compensation programs. Like modifiable health and dental coverage, changes to an employer or employee's pension contribution rates can be adjusted as desired on a scheduled basis.

In a historically tight job market, the long-term stickiness and employee loyalty inherent in DB plans – pensions that provide what they chiefly desire: predictable, secure lifetime retirement income – would help retain experienced workers, lower hiring and/or replacement costs, and attract new talent.

---

[26] Baldwin, 2022.
[27] Statistics Canada, "Registered Pension Plans (RPPs), active members and market value of assets by size of plan," 2023.

Demystifying modern DB plans improves education and coverage

Innovations in the DB pension space have addressed key shortfalls of the traditional single-employer models. Modern DB plans that provide risk pooling, fixed contribution rates, and centralized pension expertise drastically improve plan sustainability and security. Yet more needs to be done to drive awareness of these options to pave the way for expanded coverage, particularly in a retirement marketplace dominated by DC and GRRSP.

While DC and GRRSP savings arrangements offer employers what can be viewed as a risk-free workplace retirement product, retirement income generated from DC and GRRSP savings arrangements depends on the combination of contribution levels and returns on investment decisions that members make. By and large they do not provide the adequate retirement income that employees are searching for from choice employers as they move through their career.

With modern DB plans, employers can eliminate pension liabilities from their balance sheets, commit to contribution matching to appeal to employees and maintain a fixed-cost plan without the burden of pension administration or governance. These features alleviate traditional pension pain points, and contradict what many employers think of when considering DB plans. Simplifying pension communications and education is an important step towards evolving perceptions of DB and its sustainability as a modern retirement solution.

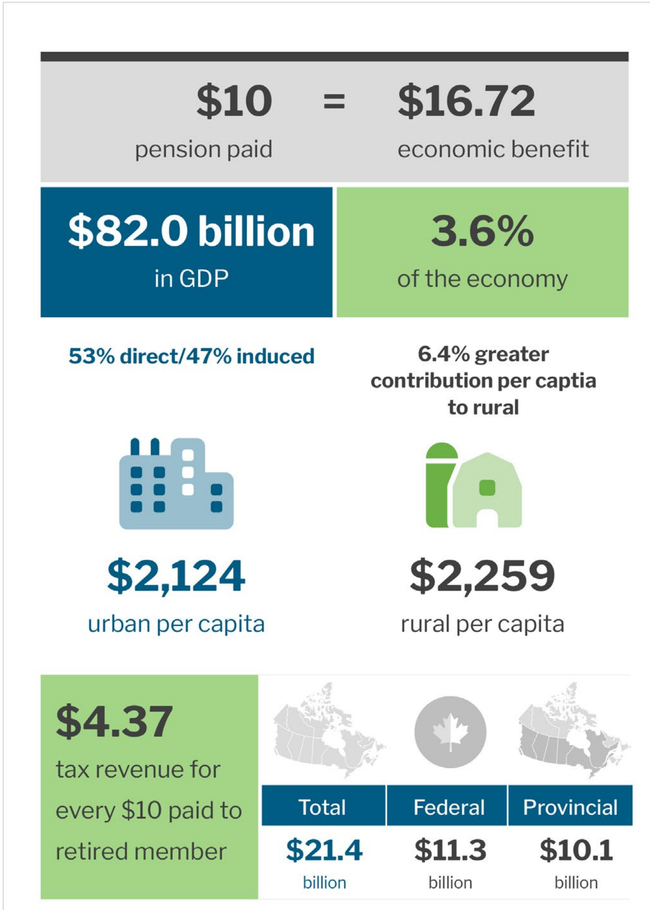
Improving access to adequate retirement income has economic and social benefits

There is a measurable benefit to the economy when retirees have adequate retirement income and can confidently spend in their communities. In a 2021 CPPLC report on the economic benefits of Canadian public pension plans, the Canadian Centre for Economic Analysis (CANCEA) found that every $10 of retirement income spent by public sector pension plan retirees was equal to $16.72 of economic benefit (Figure 16).[28] The top five industries to benefit were:

1. Retail
2. Accommodation and food services
3. Finance, insurance, and real estate
4. Manufacturing
5. Health and social

[28] Canadian Centre for Economic Analysis commissioned by Canadian Public Pension Leadership Council, 2021.

Figure 16. Economic benefits of Canadian public sector pension plans



Adapted from *Economic Benefits of Canadian Public Sector Pension Plans,* Canadian Centre for Economic Analysis (CANCEA), 2021.

The National Institute of Ageing found that "having access to adequate, secure, and stable income can allow for greater consumption potential, for example, of higher quality nutritious food, housing, medications or [long term care] services."[29] When retirees have secure and stable incomes, they "have higher life satisfaction, attributed to increased financial security, lower stress, and better health."[30]

Canadians with adequate retirement income spend at local businesses in urban and rural areas, volunteer to make their communities better places, and have the resources to manage their health through nutritious food and necessary prescriptions. This has positive implications for retirees' health, the national-level utilization of healthcare services, and other taxpayer-funded programs. At the local level, increased volunteerism and charitable giving, and support local employment and businesses,

[29] Brydges, et al., 2023.
[30] Canadian Centre for Economic Analysis commissioned by the Ontario Municipal Employees Retirement System, 2021.

which strengthens the social fabric of communities.[31]

Closing the pension coverage gap with plans that provide lifetime income is not just the right thing to do. It is an economically prudent solution to reduce healthcare spending, increase tax revenues, and create financially independent and healthy community contributors.

Conclusion

Canada's pension coverage gap has differing effects on populations. While this report did not examine differences between gender, ethnicity, and other intersections that exacerbate financial insecurity among groups, it deserves further analysis to ensure adequacy and coverage are equitably distributed. Any step to improving Canadians' retirement income adequacy will benefit a vast number of Canadians and build stronger economies and communities that will benefit pensioners and non-pensioners.

Many current employees do not have experience with DB plans due to the prevalence of self-directed plans like GRRSPs and DC pension plans. Despite employees' lack of experience with DB plans and the education need to support retirement literacy, the 2022 CPPLC Survey shows that if they could define their ideal retirement plan and its essential features, they would choose a predictable, secure lifetime retirement income. In other words, a DB plan.

With more than 20% of working-age Canadians nearing retirement and a forecasted shortage of talent, this demand for better retirement plans poses an opportunity for employers. Personal financial stressors have real impacts on productivity in the workplace and turnover. Thinking holistically about total compensation components that address wellness and security is an essential strategy for performance, growth, and resilience.

Today, modern DB plans allow various organizations to offer plans that are a solution for members and employers rather than the traditional trade-offs seen with single-employer products. They address key reason employers moved to DC and GRRSPs in the past, such as fixed contributions and balance sheet stability, and provide employers with a competitive edge in the marathon for talent.

There are increasingly more options for employers to join modern DB plans, like jointly sponsored pension plans (JSPPs). Canada's JSPPs are recognized across the globe for their independent governance, shared risk funding models, and investment expertise. CAAT Pension Plan and OPTrust, for example, are open to employers outside the public sector.

---

[31] Canadian Centre for Economic Analysis commissioned by the Ontario Municipal Employees Retirement System, 2021.

Innovations in the pension industry are making it more efficient and effective to provide lifetime retirement income than previously. The climate is right for a DB comeback led by modern DB plans if industry participants continue to think differently about how accessible and adequate plans are designed, managed, and administered.

The major hurdle to providing better retirement income adequacy is not in demand; it is in the quality of the supply. Rather than sacrificing adequacy to shift the investment responsibilities and risk to the employee, plan designs should crystallize valuable, predictable benefits as a non-negotiable feature and shift the responsibilities and risks to pension organizations with the expertise to manage retirement funds efficiently and without risk to employers.

Looking to innovations on the horizon, employers with DC or GRRSPs would benefit from learning more about variable payment life annuities (also known as Dynamic Pension Pools).[32] This emerging product is expected to be a more affordable option than traditional annuities for employees looking to turn all or part of their savings into lifetime income. While not yet available in all jurisdictions, employers should have this product on their radar.

As the actual cost of living in retirement outpaces what government programs were meant to provide, workplace pensions are becoming an even more vital income stream. Employees will need guidance on the value, mechanisms, and long-term outcomes of the suite of workplace retirement plans today. Through retirement education, active engagement, and member-centric innovations, there is viable opportunity – and optimism – to improve the retirement income security for Canadians.

[32] See for example, MacDonald, Bonnie-Jeanne et al., “Affordable Lifetime Pension Income for a Better Tomorrow.”

Bibliography

Abacus Data Conducted for the Healthcare of Ontario Pension Plan. 2023. "Healthcare of Ontario Pension Plan." *Detailed Results: Canadian Retirement Survey.* April. Accessed October 12, 2023. https://hoopp.com/docs/default-source/default-document-library/hoopp-2023-canadian-retirement-survey-presentation.pdf.

Baldwin, Bob. 2022. "The Evolving Wealth of Canadians: Who is Better Fixed for Retirement? Who is Not?" *C.D. Howe Institute.* May 10. Accessed July 31, 2023. https://www.cdhowe.org/sites/default/files/2022-05/E-Brief_327.pdf.

Barry, Jonathan. 2023. "What's old is new again: Reopening your defined benefit plan could help solve the retirement challenge." *MFS.* September. Accessed October 12, 2023. https://www.mfs.com/en-global/investment-professional/insights/retirement-solutions/whats-old-is-new-again-reopening-your-defined-benefit-plan.html#:~:text=Despite%20challenging%20market%20returns%20in%202022%2C%20rising%20interest,key%20component%20in%20.

BlackRock. 2017. "Decumulation challenges and potential solutions." *BlackRock.* Accessed August 14, 2023. https://www.blackrock.com/us/individual/products/variable-insurance-funds/decumulation-challenges-and-potential-solutions.

Brydges, Madison, Natalie Iciaszczyk, He Chen, Kristina Kokorelias, and Samir Sinha. 2023. "Healthy outcomes: Understanding the impact of adequate, stable and secure retirement income on the ability of Canadians to age well and in the right place." *National Institute on Ageing.* May. Accessed July 18, 2023. https://static1.squarespace.com/static/5c2fa7b03917eed9b5a436d8/t/646e75e7118a093d01168359/1684960743863/OMERS+Final1.pdf.

Canadian Centre for Economic Analysis. 2022. "2021 Economic Contribution of Public Pension Plans in Alberta."

Canadian Centre for Economic Analysis commissioned by Canadian Public Pension Leadership Council. 2021. *Economic Benefits of Canadian Public Sector Pension Plans.* Canadian Centre for Economic Analysis.

Canadian Centre for Economic Analysis. 2021. "OMERS Pension Plan Social Value Benefits." *OMERS.* December. Accessed August 2, 2023. https://assets.ctfassets.net/iifcbkds7nke/20lXHCO9VCsukLsqrLuGEe/77b49a4d3ad9a171db3984a25cd51032/Social_Value_Benefits-CANCEA-2021.pdf.

Canadian Public Pension Leadership Council. 2023. "The Pensions Canadians Want: Perceptions of Retirement (2016-2022)." *Canadian Public Pension Leadership Council.* June 26. Accessed July 18, 2023. https://cpplc.ca/wp-content/uploads/2023/06/the-pensions-canadians-want-perceptions-of-retirement.pdf.

Congressional Budget Office. 2017. "Measuring the Adequacy of Retirement Income: A Primer." *Congressional Budget Office.* October 20. Accessed July 31, 2023. https://www.cbo.gov/publication/53191#:~:text=Researchers%20have%20defined%20the%20adequacy,living%20they%20experienced%20before%20retirement.

Dobson, Derek W. 2017. "Designing retirement schemes Canadians want: observations from a Modern DB Pension Plan." White Paper, Toronto.

Doonan, Dan. 2023. "National Institute on Retirement Security." *Alaska Teacher Recruitment and Retention Study.* April. Accessed September 28, 2023. https://www.nirsonline.org/wp-content/uploads/2023/04/AK-Report_Final-compressed.pdf.

Gross, Jared, and Mike Buchenholz. 2023. "Pension defrost: Is it time to reopen DB pension plans--or at least stop closing and freezing them?" *J.P. Morgan Asset Management.* January. Accessed October 12, 2023. https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/institutional/insights/portfolio-insights/portfolio-strategy/pension-defrost-is-it-time-to-reopen-db-pension.pdf.

Healthcare of Ontario Pension Plan. 2018. "The Value of a Good Pension: How to improve the efficiency of retirement savings in Canada." *Healthcare of Ontario Pension Plan.* Accessed October 25, 2023. https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/the-value-of-a-good-pension-102018.pdf.

—. 2021. "The Value of a Good Pension: The Business Case for Good Workplace Retirement Plans." *Healthcare of Ontario Pension Plan.* Accessed July 18, 2023. https://hoopp.com/docs/default-source/newsroom-library/research/vgp-the-business-case-for-good-workplace-retirement-plans.pdf.

Hornyak, Joe. 2023. "Is the single-employer DB pension plan dead or merely modernizing for the future?" *Benefits Canada.* July 13. Accessed July 18, 2023. https://www.benefitscanada.com/pensions/defined-benefit-pensions/is-the-single-employer-db-pension-plan-dead-or-merely-modernizing-for-the-future/.

MacDonald, Bonnie-Jeanne, Barbara Sanders, Laura Strachan, and Mitch Frazer. 2022. "National Institute on Ageing." *Affordable Lifetime Pension Income for a Better Tomorrow.* May 6. Accessed October 13, 2023. https://static1.squarespace.com/static/5c2fa7b03917eed9b5a436d8/t/627581951d7a224688e671e0/1651868053425/NIA+DP+Report+in+Brief+-+Final+-+May+6%2C+2022.pdf.

Menardi, Samantha, Robert Fair, and Chris Johnston. 2022. "Analysis of challenges to worker recruitment and retention, fourth quarter of 2022." *Statistics Canada.* December 22. Accessed July 18, 2023. https://www150.statcan.gc.ca/n1/pub/11-621-m/11-621-m2022022-eng.htm.

Mercer, CFA Institute, Monash University. 2022. "Mercer CFA Institute Global Pension Index 2022." *Mercer.* Accessed October 25, 2023. https://www.mercer.com/content/dam/mercer/attachments/private/gpi/gl-2022-global-pension-index-full-report.pdf.

—. 2023. "Mercer CFA Institute Global Pension Index 2023." *Mercer.* Accessed October 25, 2023. https://www.mercer.com/assets/global/en/shared-assets/global/attachments/pdf-2023-mercer-cfa-global-pension-index-full-report-10162023.pdf.

National Payroll Institute. 2022. "Financial Stress-related "Distraction Subtraction" Costing Businesses Billions." *National Payroll Institute.* November 1. Accessed March 23, 2023. https://payroll.ca/CPAWebsite/media/PDF/ResearchPage/Fin-Lit-2022-Release-FINAL_Distraction-Subtraction.pdf?_gl=1*1bz8fj9*_ga*ODkxMDA1MTQuMTY3ODE1ODU0Nw..*_ga_1Y4TS43T0Z*MTY3ODE1ODU0Ny4xLjEuMTY3ODE1ODU3MC4zNy4wLjA.&_ga=2.231245535.1965033035.1678158547-89.

Natixis Investment Managers. 2023. "2023 Natixis Defined Contribution Plan Participant Survey." *Give the people what they want: Participant preferences come into focus for plan sponsors.* May. Accessed October 12, 2023. https://www.im.natixis.com/us/resources/2023-defined-contribution-plan-participant-survey-full-report.

Neal, Stephanie, Jazmine Boatman, Mindy Yeh, Rosey Rhyne, and Bruce Watt. 2023. "DDI World." *Global Leadership Forecast 2023.* Accessed October 13, 2023. https://www.ddiworld.com/global-leadership-forecast-2023#.

OECD. 2017. "Iceland." *Pensions at a Glance 2017: Country Profiles - Iceland.* Accessed August 14, 2023. https://www.oecd.org/els/public-pensions/PAG2017-country-profile-Iceland.pdf#:~:text=The%20law%20requires%20schemes%20to%20target%20a%20replacement,membership.%20There%20is%20no%20ceiling%20to%20pensionable%20earnings.

—. 2019. "Net pension replacement rates." *Pensions at a Glance 2019: OECD and G20 Indicators.* Accessed August 14, 2023. https://www.oecd-ilibrary.org/sites/b630ed29-en/index.html?itemId=/content/component/b630ed29-en.

OECD. 2021. "Net replacement rates by earnings, percentage." In *Pensions at a Glance 2021: OECD and G20 Indicators*, by OECD. Paris: OECD Publishing.

Orlando, James. 2023. "The Greying of Canada's Population." *TD Economics.* January 26. Accessed August 14, 2023. https://economics.td.com/ca-demographics.

Ringland, Celia, Joelle Saad-Lessler, and Tyler Bond. 2023. "The Forgotten Generation: Generation X Approaches Retirement." *National Institute on Retirement Security.* July. Accessed July 31, 2023. https://www.nirsonline.org/reports/genx/.

Root, James, Andrew Schwedel, Mike Haslett, and Nicole Bitler. 2023. "Better with Age: The Rising Importance of Older Workers." *Bain & Company.* July. Accessed August 1, 2023. https://www.bain.com/insights/better-with-age-the-rising-importance-of-older-workers/.

Statistics Canada. 2023. "Majority of people planning to retire would continue working longer if they could reduce their hours and stress." *Statistics Canada.* August 1. Accessed August 15, 2023. https://www150.statcan.gc.ca/n1/daily-quotidien/230801/dq230801a-eng.htm.

—. 2023. "Pension plans in Canada, as of January 1, 2022." *Statistics Canada.* June 23. Accessed July 18, 2023. https://www150.statcan.gc.ca/n1/daily-quotidien/230623/dq230623b-eng.htm.

—. 2023. "Registered Pension Plans (RPPs), active members and market value of assets by size of plan." *Statistics Canada.* June 23. Accessed October 12, 2023. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110009501.

—. 2015. "Statistics Canada." *Pensions: The ups and downs of pension coverage in Canada.* March 24. Accessed October 12, 2023. https://www150.statcan.gc.ca/n1/pub/11-630-x/11-630-x2015003-eng.htm.

—. 2022. "To buy or to rent: The housing market continues to be reshaped by several factors as Canadians search for an affordable place to call home." *Statistics Canada.* September 21. Accessed October 30, 2023. https://www150.statcan.gc.ca/n1/daily-quotidien/220921/dq220921b-eng.htm?indid=32991-2&indgeo=0.

Zimonjic, Peter. 2022. "Canada's working-age population is older than ever, StatsCan says." *CBC News.* April 27. Accessed July 18, 2023. https://www.cbc.ca/news/politics/canada-working-age-poupulation-census-1.6432398.