Decumulation is a clear and significant concern for the sponsors of capital accumulation plans, the results of Benefits Canada’s 2017 CAP Member Survey show.

The annual survey found 61 per cent of plan sponsors would be likely to allow their members to leave their assets within their plans after they retire if regulations allowed. Of that number, 36 per cent said they’d be very likely to do so.

Read: 2016 CAP Member Survey: Deconstructing how different employees view their retirement

“In Canada, we don’t have any, or very few plans, that have in-plan solutions on decumulation,” said Karen Burnett, a senior consultant at Willis Towers Watson, during a roundtable held to discuss the survey results this fall.

But as participants in the roundtable cautioned, the benefits of allowing members to keep their assets in the plan aren’t necessarily that straightforward. “Now, record keepers bank on that money rolling over into their own decumulation options,” said Burnett. “And so the pricing for the accumulation phase has been built on the insurance companies and the record keepers getting that money after.”

Members of the advisory board

Karen Burnett, Willis Towers Watson
Cara Bourdeau, Western University
Martha Callum, Coca-Cola Canada
Jillian Kennedy, Mercer
Mara Notarfonzo, CAA Club Group
On Oct. 17, Benefits Canada convened a roundtable of experts and plan sponsors to discuss the results of the annual CAP Member Survey. The advisory board members included:

Joe Nunes, Actuarial Solutions Inc.
Matthew Streeter, Franklin Templeton Investments Corp.
Jill Taylor Smith, Eckler Ltd.
Matthew Williams, Franklin Templeton Investments

In its case, Western

University had for years provided a retirement income fund for plan members once they stopped working, said Cara Bourdeau, senior human resources consultant at the London, Ont.-based post-secondary institution. “We were seeing them leave the plan and their savings really fall apart in the retail market.”

However, after seeing improvements in the marketplace, the university closed the fund and opened a new program that Bourdeau described as “essentially a preferred-provider arrangement, where members are still benefiting from a familiar investment structure: low fees but also the access to the advice piece.”

Read: Financial Literacy Month: Western moves beyond pensions in week of workshops

Despite plan sponsors’ openness towards allowing members to keep their assets in the plan after retiring, they remain leery of the decumulation issue. As the survey found, 69 per cent of plan sponsors feel employees are on their own once they retire or leave the organization. That number, however, was down from 80 per cent in 2016. In 2015, 75 per cent of plan sponsors felt that way.

Martha Callum, senior director of total rewards at Coca-Cola Canada, echoed some of the concern about decumulation when she noted the need for a business reason to keep members in the plan after retirement. “I think we’ve got a lot to worry about with active employees,” she said.

“We need some mechanism to help, either through the record keeper or some third party to help manage that retiring population.”

Contradictory sentiments

Plan members, meanwhile, are expressing high levels of satisfaction with their plans. The survey found 88 per cent of members felt satisfied with the retirement plans offered by their employer. That number was down from 89 per cent in 2016 but it was up from 77 per cent five years ago. Plan members expressed similarly high levels (85 per cent) of satisfaction
with the performance of the investments in their plan, with 76 per cent saying they’re confident it will provide the amount of money they expect in order to meet their financial objectives for retirement.

Whether that’s actually the case, of course, is up for debate. “I think people generally get a good idea of how much money they need for retirement a couple years after they retire,” said Joe Nunes, president of Actuarial Solutions Inc. “Any time before that, it’s speculation.”

Read: How plan sponsors can set members up for retirement success

Younger people must make an actuarial calculation to determine how much money they’ll need in retirement before they have the wherewithal to do so, said Nunes. And even if they’re on track, they may not know it, which can cause people to worry, he added.

The tools for plan members to make those calculations exist, but few people are using them, according to Nunes.

“I built a calculator. I’ve used them over the years. They’re hard. They’re hard for actuaries to use and understand.”

Using an inaccurate set of assumptions can also skew the calculations of how much members need to save. Matthew Williams, head of institutional and client service for Canada at Franklin Templeton Investments Corp., suggested those in the latter stages of their careers may not be taking the cost of dealing with aging parents into account. With adult children facing the possibility of having to pay for care or health costs eating away at the inheritance they may be counting on, it’s a factor that could alter the numbers, he noted.

In fact, among those surveyed, members expect, on average, 5.2 per cent of their retirement income will come from inheritances. “With . . . real estate and inheritance is that also kind of dreaming, ‘Oh, my parents own a house. It’s worth more than $1 million and they paid it off years ago. That’s all going to come to me,’” said Williams. “They’re thinking about things that aren’t really in their control.”

Read: Nearly half of Canadians don’t expect an inheritance: survey

Jillian Kennedy, head of defined contribution and financial wellness at Mercer, noted the optimistic thinking she often sees. “We constantly, consistently, see this concept of thinking that things will be very rosy once they get there.”

While the survey showed a 50/50 split on whether plan members feel financially prepared for retirement, the average amount of savings respondents expect to have when they retire indicates a higher level of confidence. In 2017, members, on average, expect to have accumulated about $804,000. That’s up significantly from $740,000 last year.

In explaining the numbers, Kennedy raised the analogy of setting a weight loss goal for a school reunion. People think it will be easy, but then procrastination gets in the way. “It’s the same behavioural concept that we’re starting to see when people go to retire. They have this rosy idea that everything will be fine but, as they get closer and closer and closer, they begin to panic,” she said.

Matthew Streeter, vice-president of defined contribution and retirement at Franklin Templeton, noted that while it’s great to see plan members expecting to accumulate such high balances, other issues also come into play. “It is fantastic to see the expected retirement saving increase up to the $804,000,” he said of the survey findings, cautioning that with average life expectancy after age 65 reaching about 20 years, how that money translates into funding daily life in retirement is another question.
Read: Four ideas to mitigate challenges of Canada’s retirement savings gap

So how are members actually faring? With a mature defined contribution plan, Western provides a rare glimpse into how members fare in their savings. “We started in 1970 for our academics and in 1974 for our staff,” said Bourdeau.

Those making around the average wage, who made few adjustments to their accounts over the years, saw “healthy balances relative to that $800,000,” she said, citing the survey’s findings of the projected average account at retirement. “If I look at someone who at retirement is maybe making $50,000, I’m seeing balances in the $500,000 to $700,000 range.”

| PLAN MEMBERS: OVERALL, HOW SATISFIED ARE YOU WITH YOUR EMPLOYER-SPONSORED RETIREMENT PLAN? |
|-------------------------------------------------|----------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| SATISFIED | 84% | 88% | 88% | 81% | 83% | 82% | 77% | 88% | 88% | 66% | 80% | 88% |
| VERY SATISFIED | 3% | 34% | 38% | 25% | 30% | 23% | 21% | 29% | 24% | 25% | 25% | 23% |
| SOMEWHAT SATISFIED | 53% | 54% | 50% | 56% | 53% | 59% | 56% | 59% | 64% | 61% | 63% | 65% |
| NOT SATISFIED | 10% | 9% | 12% | 23% | 16% | 18% | 23% | 13% | 13% | 14% | 11% | 12% |

The CPP impact

A significant factor in retirement outcomes, of course, is the role of the Canada Pension Plan. When it comes to the impact of coming changes to the CPP, the majority (89 per cent) of plan sponsors said they’re not likely to reduce their contribution rate to their capital accumulation plan as a result. Nevertheless, 43 per cent of plan sponsors do agree that higher CPP payouts will result in Canadians saving less in workplace plans.

The survey does show the projected impact of the CPP has lessened. In 2016, 75 per cent of plan sponsors said they’d be unlikely to reduce contribution rates, while 53 per cent felt Canadians would save less as a result of an enhanced CPP.

Read: CPP reforms a ‘convenient time’ to consider more complex DC design

While plan sponsors aren’t expecting to reduce contributions, Nunes wondered where the money for increased CPP premiums is going to come from. “Either you have to slow down on base pay increases or you’ve got to take it from the shareholders,” he said.

“I’ve rarely met a shareholder group that says, ‘Hey, we want less,’” he added.

Williams suggested employers haven’t fully grasped the coming impact, since the cost hasn’t hit their payrolls yet. And Mara Notarfonzo, director of human resources operations and total rewards at CAA Club Group, noted coming minimum wage increases in some provinces could exacerbate the situation. “Where is all that money coming from?” she asked.

Plan sponsors can, however, take the CPP changes as an opportunity to restructure their plans, said Kennedy. “A lot of plan sponsors that are now redoing their design . . . [are] accounting for the CPP enhancement as part of the design formula.”
Financial literacy lessons

While 71 per cent of plan members said their understanding of asset allocation is somewhat good to excellent, many of the roundtable participants wondered how true that really is. “I don’t think they even understand target-date funds. They see 10 of them, they go in 10,” said Burnett.

“There are still plan members out there who think diversification is investing in each retirement date fund equally,” said Jill Taylor Smith, a consultant at Eckler Ltd. “Which is kind of scary. It means that some people just don’t get the simple concept of, ‘When are you going to retire?’”

Read: Deepening public-private divide, global diversification among key pension trends

At the same time, members had very high expectations for investment returns. Those surveyed indicated they expected, on average, to get a 16.6 per cent annual return, with a median of eight per cent. Members believed themselves to currently be getting, on average, a 13.2 per cent annual return, with a median of six per cent.

While Streeter suggested six per cent is probably not too far off the mark, Smith said eight per cent, especially net of fees, is unreasonable to expect in the long term. Added Burnett: “If you asked the employees whether return was gross or net, they wouldn’t know.”

Simply getting potential members to take advantage of their workplace retirement options was a frustration felt by many participants at the survey roundtable. One strategy for new employees could be to express the consequences of not joining the plan more bluntly, said Williams. If members see a choice that strongly emphasizes the benefits they’re giving up by neglecting to join, uptake might be higher, he said.

Indeed, Kennedy said the legal jargon in communications can set employees up to fail to grasp the consequences of opting out. “It’s just this long amount of legal language that says, ‘If you don’t want your pay deducted, just sign here.’ So, a lot of people say, ‘No, I don’t want my pay deducted,’” she said.

Read: Alberta pension plan wins communications award for approachable, original website

All told, communication materials need to be more straightforward, said Bourdeau. “Even in a university environment, the average person doesn’t know what a percentage is. They honestly don’t know what that means in dollar terms.” While employees may not see a two per cent fee in the retail market as excessive, “when they look at [it] in dollars, they’re horrified,” she added.

And there’s a significant gap when it comes to the type of advice made available to employees, particularly around developing financial plans, said Kennedy. Much of the assistance employees receive, she said, is “point-in-time advice on ‘invest this way,’ or ‘think about doing it this way,’ and no one is actually sitting down with employees and trying to build

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**Table: Where do plan members, on average, expect their retirement income to come from?**

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<td>Defined Contribution Plan or Group RRSP</td>
<td>30.8%</td>
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<td>23.9%</td>
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<tr>
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<td>6.5%</td>
<td>7.2%</td>
<td>9.2%</td>
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<td>-</td>
<td>3.1%</td>
<td>3.8%</td>
<td>3.5%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Other Funds</td>
<td>3.7%</td>
<td>4.2%</td>
<td>2.8%</td>
<td>3.5%</td>
<td>2.6%</td>
<td>3.3%</td>
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out an actual financial plan. And if you try to do that on your own, it’s very expensive and it really lives in the retail space, which means you’re being pushed towards mutual funds.”

Nunes agreed that the typical 15- to 20-minute meetings with advisors are inadequate, while Bourdeau emphasized the need for more customized advice, particularly when it comes to those nearing retirement. “Where I’d like to see it eventually go is to find a way to provide that mass, personalized, customized advice,” said Bourdeau.

Read: 2017 CAP Suppliers Report: Employers tailoring CAPs for a more holistic financial picture

While the traditional focus has been on advice for the accumulation phase, once people are ready to retire, a new set of factors becomes top of mind and plays into the guidance people need, she said, citing issues such as health, life expectancy, tax situations, real estate and a spouse’s pension.

“I think, as people head into decumulation, the need for a more personalized option is really essential.”

Time to be brave

Given the growing concerns about retirement outcomes, it’s time for plan sponsors to be more pro-active, said Nunes. “I think employers need to be courageous.”

Making things very obvious for plan members would help, he added, suggesting plan sponsors need to be willing to say: “People need to be saving 15 per cent, and we’re willing to give five per cent. We need to tell people that they need to save 10 per cent, because otherwise we’re just creating a problem down the road. And not that you can go tomorrow morning to people who are contributing nothing and take 10 per cent from them but you can start to phase these things in bit by bit.”

Martha Porado is an associate editor at Benefits Canada.

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