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Insurance

Life • Health • Retirement

Workshop 4 Decumulating the Accumulation – Changing CAP Behaviours

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Moderator: Kathryn Bush, Blake, Cassel & Graydon LLP







DECUMULATION: Defined Contribution Plan & Capital Accumulation Plans

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Partner

Blake, Cassels & Graydon LLP





Background

- Capital accumulation market maturing
- Concern over plan member outcomes
- Group decumulation plans not broadly available





Current Situation

- Primarily LIFs, RRIFs, Annuities
- Mostly from retail environment

May Not:	May:
Pool investment & longevity risk	Offer advice
Economies of scale	Broader offering
Simple known menus	





Australia Experience

- Primarily DC marketplace
- Few annuities used
- Introduce income product for retirement members
- Blend of products matched with demographics





U.K. Experience

- 2015: Removed need to annuitize
- Recognized need for default option
- Core Retirement Income Strategy
 - Individual Investment Drawdown Acct
 - Short Term Account
 - Deferred Annuity





U.S. Experience

- Permit Deferred Annuities
 - Subject to dollar limits & age restrictions
- Best Interest Standards for advisors being adopted
- Similar to other marketplaces in product offering





Considerations

- Retirees need guidance/advice
 - Who provides & how?
- How do you reduce employer reluctance?
 - Multi-employer retirement plan designs a solution?
- Safe harbours
 - Stifle innovation?
 - Best practices Guidelines better?
- International Experience
 - Multi-component risk pooled defaults?





Legislation

- Equalizing taxation of DB & DC pension income
- Group self-annuitization
- Encourage province to enact Variable Benefits
- Permit deferred annuities after age 71
- Safe harbours or fiduciary protection





Changing CAP Member Behavior Part I – Client & Advisor Insights

Wayne G. Miller, BMATH, ASA, ACIA **Associate Vice-President, Strategic Business Development Sun Life Financial**







Topics covered

- 1. Holistic view of retirement
- 2. Industry insights
- 3. Value of advice







Goals in retirement and beyond

- 1. Retirement income that allows me to retire on my terms
 - No worries around covering basic needs as long as I live

■7 - Extremely important ■6 ■5 ■4 ■3 ■2 ■1 - Not at all important

To know that your essential expenses in retirement (such as food, clothing, housing) are covered by an income source that is guaranteed for life





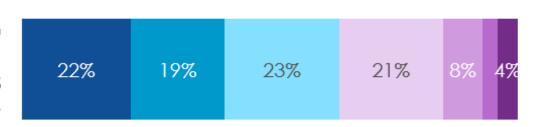


Goals in retirement and beyond

- 1. Retirement income that allows me to retire on my terms
 - No worries around covering basic needs as long as I live
 - Flexible income to cover lifestyle



To know that your discretionary expenses in retirement (such as entertainment, vacations) are covered by an income source that is guaranteed for life









Goals in retirement and beyond

- 1. Retirement income that allows me to retire on my terms
- 2. Fund health and long-term care needs
 - Be in an environment that allows me to retain my dignity
 - Will not be a burden on my family, financially or emotionally



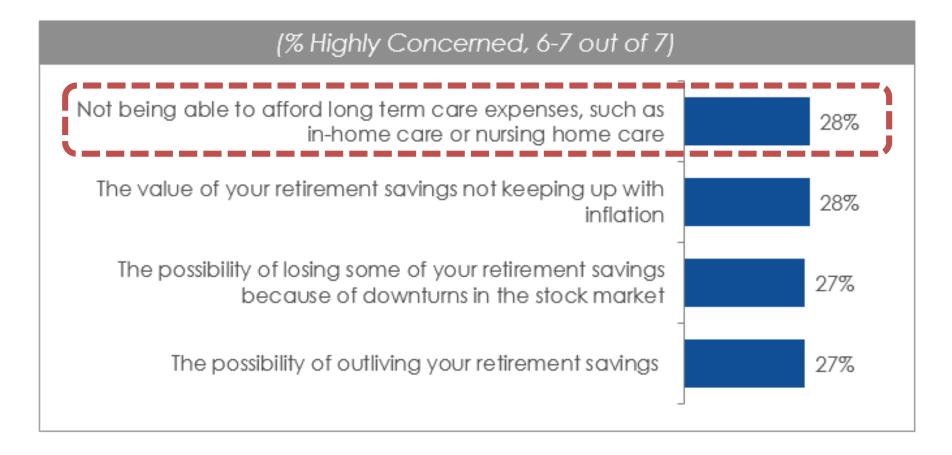




Health tops the list

Financial concerns in retirement

Source: CANNEX







Goals in retirement and beyond

- 1. Retirement income that allows me to retire on my terms
- 2. Fund health and long-term care needs
- 3. Family harmony and equity
 - Leave a legacy to each of my survivors (including charities)
 - Be in peace that my surviving family members will not fight
 - ⇒ Wills, trusts and life insurance







Retirement pot holes

Risks to manage

Longevity risk – Outliving your money

Health risk – Emerging health care needs over time



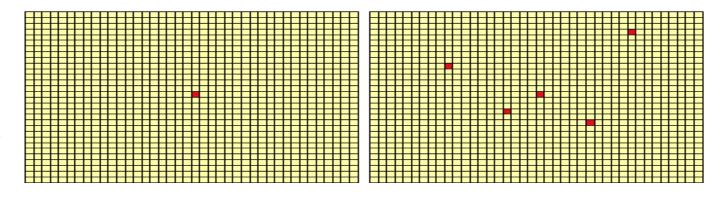




Why 'health' tops the list

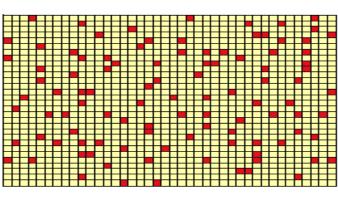
Relative probabilities

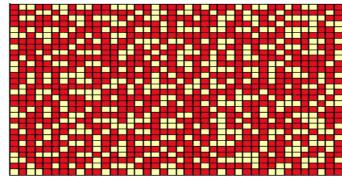
Odds of your home having a fire



Odds of your car being totaled

Odds of being hospitalized





Odds of needing long term care

Source: US Department of Health and Human Services







Retirement pot holes

Risks to manage

Longevity risk – Outliving your money

Health risk – Emerging health care needs over time

Sequence risk – Decumulating following a market decline

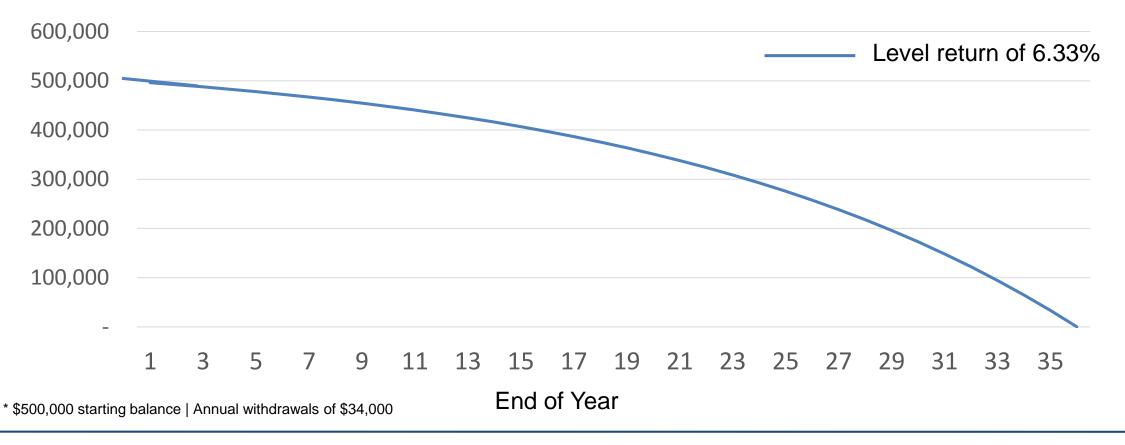






Timing is everything

Retirement savings balance comparison

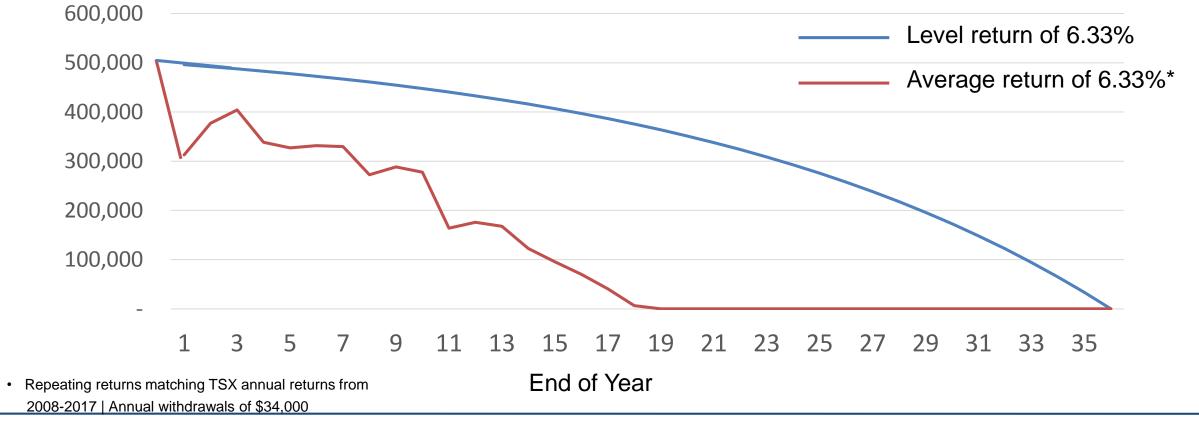






Timing is everything

Retirement savings balance comparison

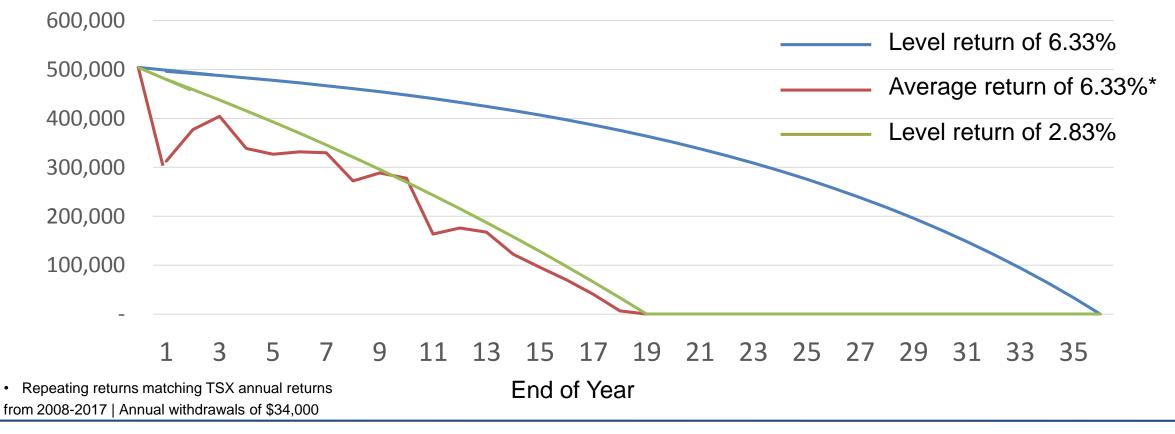






Timing is everything

Retirement savings balance comparison







Retirement pot holes

Risks to manage

Longevity risk – Outliving your money

Health risk – Emerging health care needs over time

Sequence risk – Decumulating following a market decline

Tax risk – Implications of changing rules or not optimizing

Investor bias – Buying high and selling low

Advisor bias – Not leveraging all the tools of the trade





Topics covered

1. Holistic view of retirement

- 2. Industry insights
- 3. Value of advice







Value trending up

2015

25%

Source: CANNEX

Perceived value of guaranteed lifetime income

7 6% **7** 14% **6 6** 11% 35% 60% 80% **5 5** 4 4 Highly Highly Valuable Valuable 21% **3 3** 60% 20% (6-7)(6-7)**2 2 1**

2018



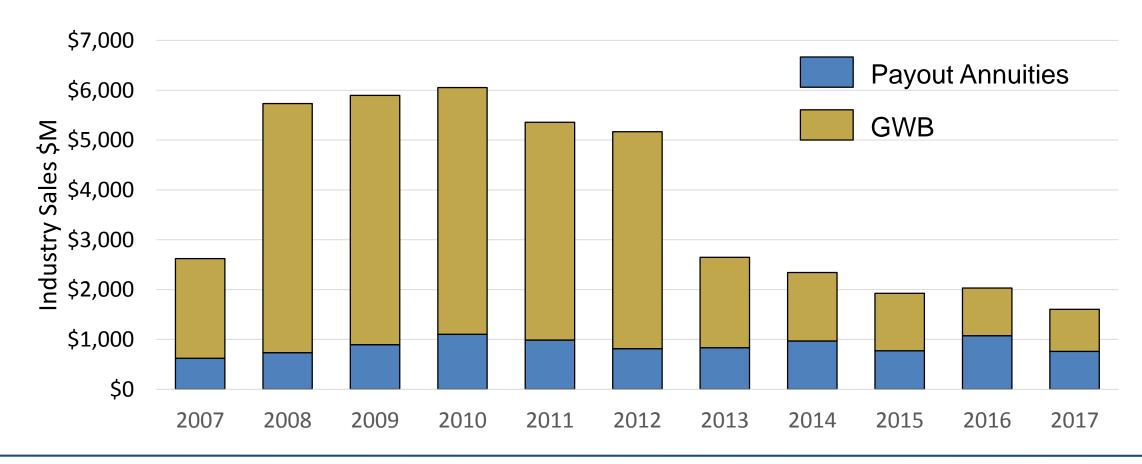




But sales are not responding

Investor Economics (GWB)

Industry sale of guaranteed income products









Pros outweigh the cons

Source: CANNEX

Top 2 positive and top 2 negative beliefs







But many advisors don't talk about annuities Root causes of advisor bias

- 1. Interest rates too low, therefore payouts as well
- 2. Low commission compared to other investments
- 3. Negative impact to assets under administration



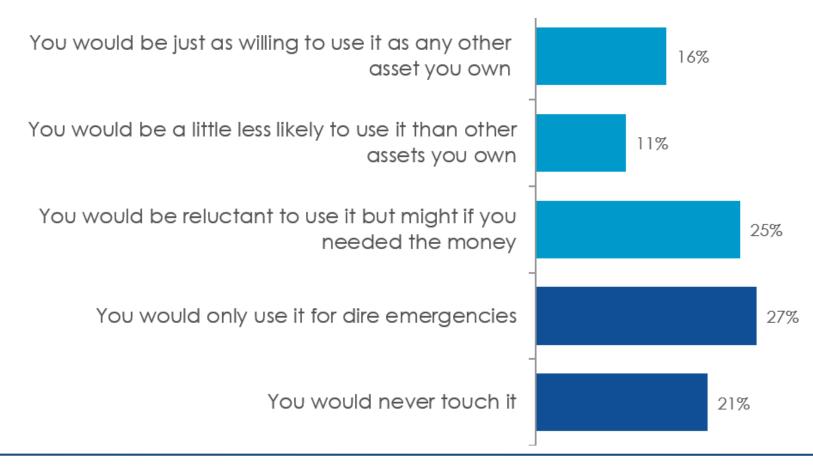




Time to access home equity?

Source: CANNEX

Willingness to use home equity for retirement







Topics covered

- 1. Holistic view of retirement
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- 3. Value of advice







Q & A

A common exchange

Question: How much do I need to retire?

Answer: You need to talk to an advisor!







Advisors actually do add value

Advised household facts

- ✓ Have 2.73 times more assets¹
- ✓ Save at twice the rate²
- ✓ 86% say the advice is critical to reaching financial goals³
- ✓ More likely to have a financial plan⁴

- I. The rules of engagement, Feb 2013, commissioned by IIAC and conducted by Advisor Impact
- 2. Ipos Reid 'Canadian Financial Monitor,' special analysis for IFIC
- 3. Cirano research paper: New evidence in the value of financial advice, Dr. Jon Cockerline, Ph.D
- 4. The Value of Advice, IFIC, 2015.



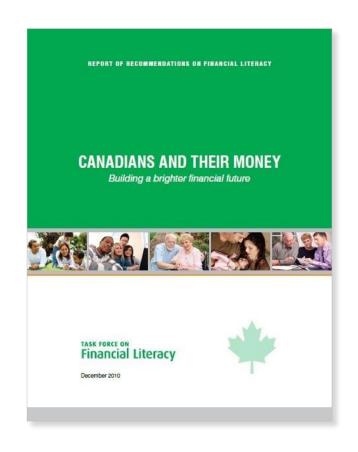


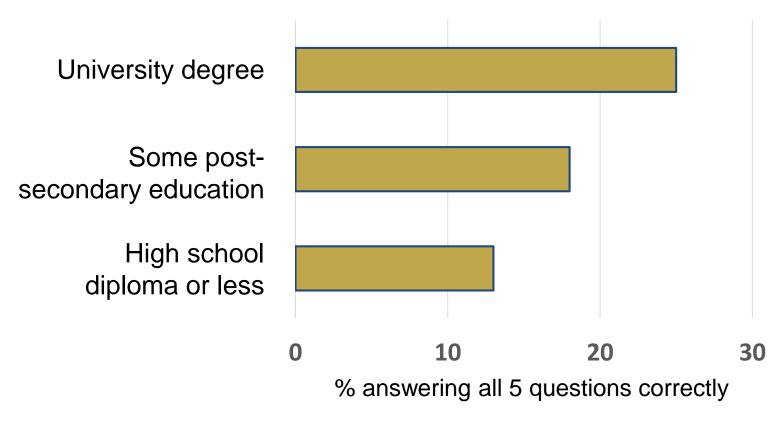


Why advice is important

The state of financial literacy

Source: Statistics Canada







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Blakes-

Why advice is important

Question 1 of 5

If the inflation rate is 5% and the interest rate you get on your savings is 3%, will your savings have at least as much buying power in a year's time?

- ☐ Yes
- \Box No

Source: Statistics Canada

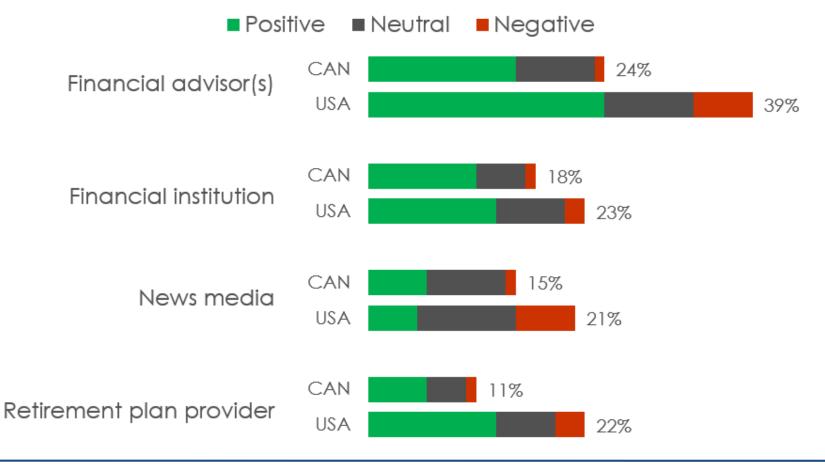






Advisors are providing the most education

Sources of information







Advice is making a difference

Top 3 reasons for purchasing GLI product







The bottom line

Changing CAP member behavior

- 1. Must take a holistic view of retirement
- 2. Need on the rise but literacy is lacking
- 3. Advice is essential but biases must be addressed







Decumulation One size fits no one

Decumulating the Accumulation Changing CAP Behaviours

2018 ACPM National Conference

René Beaudry, FSA, FCIA
Senior partner
Normandin Beaudry





Decumulation - 3 main goals

1. Security

- Retirees take less risk than workers
- Can't realistically work after a certain age

2. Maintain a certain standard of living

Portfolio growth

3. Longevity insurance

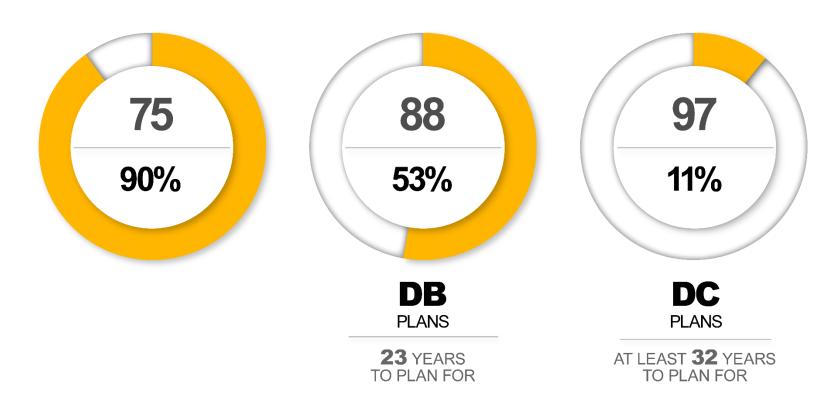
Many retirees can't be sure that they will not outlive their savings





Mutualization of the Longevity Risk in a DB Plan

PROBABILITY OF SURVIVAL OF A 65-YEAR-OLD MAN

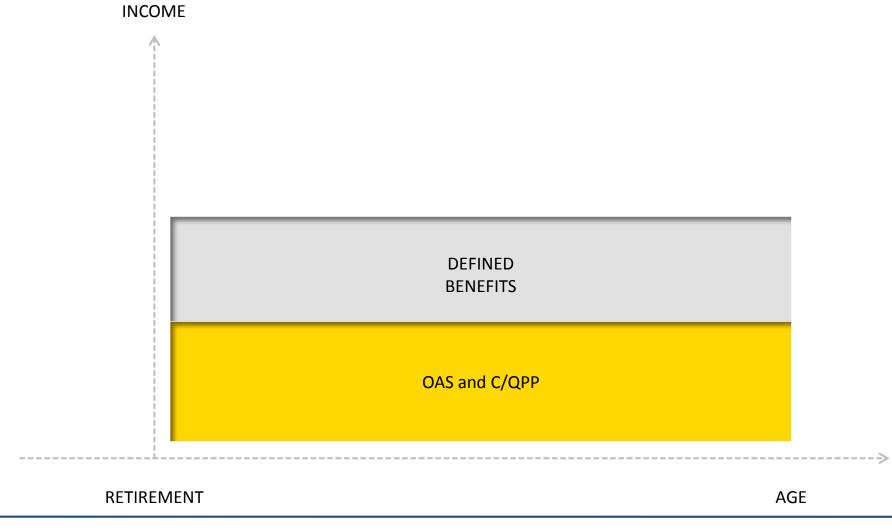








An Old Mindset

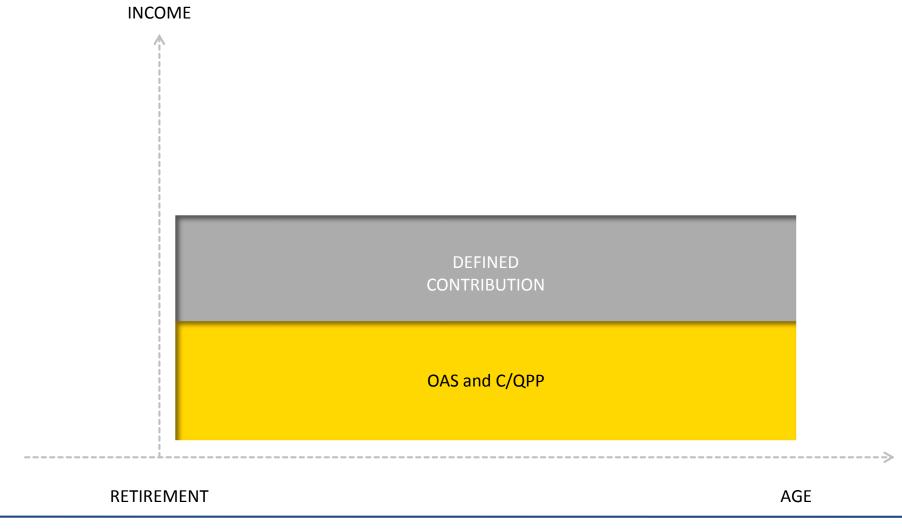








An Old Mindset









Longevity Insurance

Risks and insurance

	High probability	Low probability
High impact	Budget for the expense	Insurance and mutualization
Low impact	Budget for the expense	Accept the risk







Longevity Insurance

- Why don't retirees buy individual life annuities?
 - Risk of dying young and "losing" their savings
 - Risk of regret : no flexibility if needs change
 - Expensive : underestimation of life expectancy and true cost of guarantee
- An immediate life annuity is in fact the sum of two
 - Immediate annuity ending at age 85
 - A deferred annuity starting at age 85 (longevity insurance)
- Deferred annuity starting at age 85
 - Costs less than 15% of what an immediate annuity costs





Longevity Insurance

- Governments are already offering longevity insurance
 - C/QPP : At a cost of 10% / 11% of salary
 - OAS
- C / QPP Expansion
 - 25% at 65
 - In 2065 : $33\frac{1}{3}$ % at 65







The Starting Age of the Pension

- Difference between "Retirement Age" and "Starting Age of the Pension"
- With a starting age at 75:

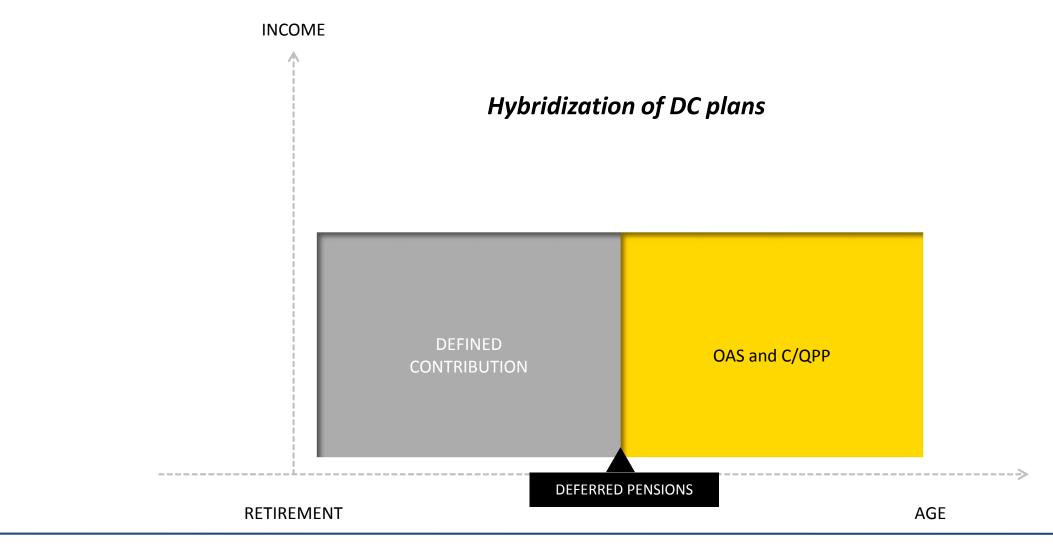
Government pensions would at least double







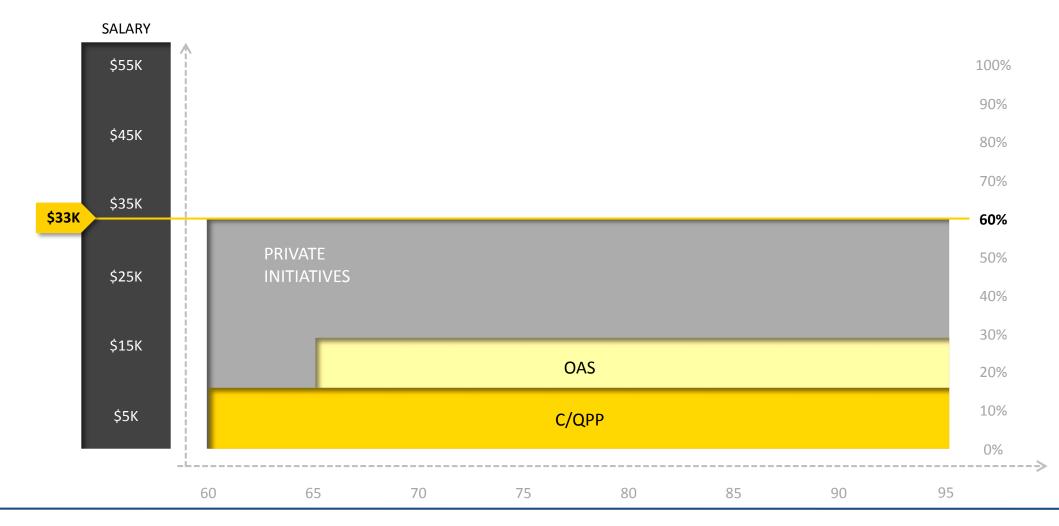
New Opportunities





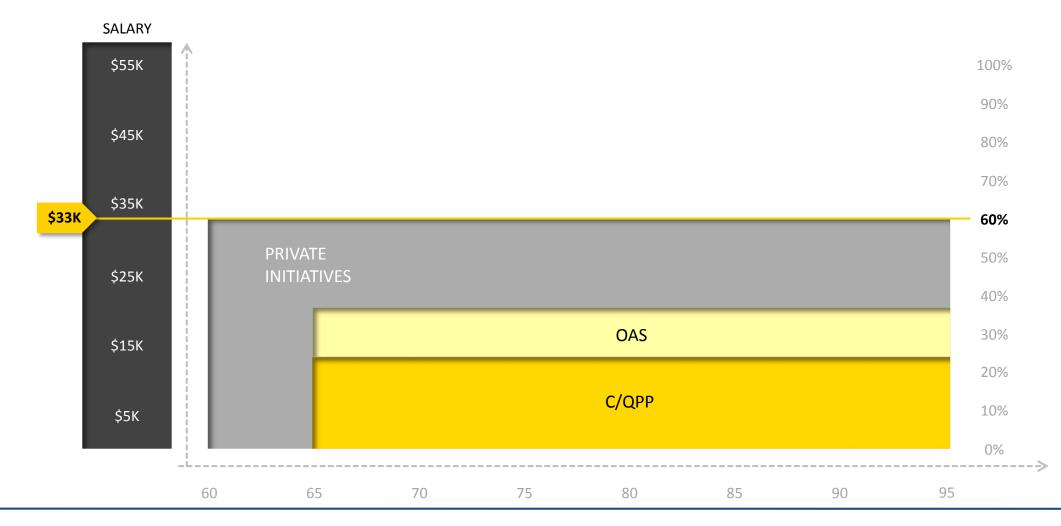






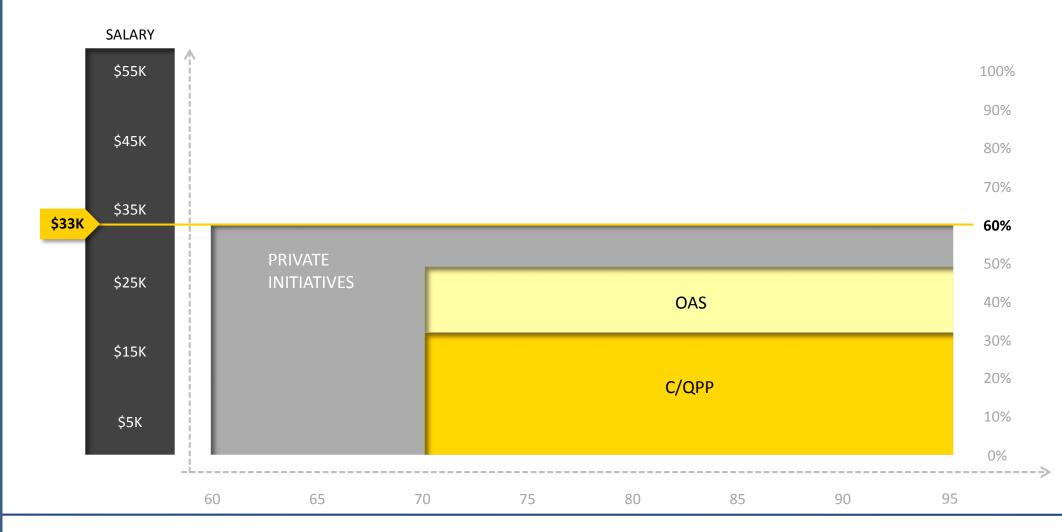








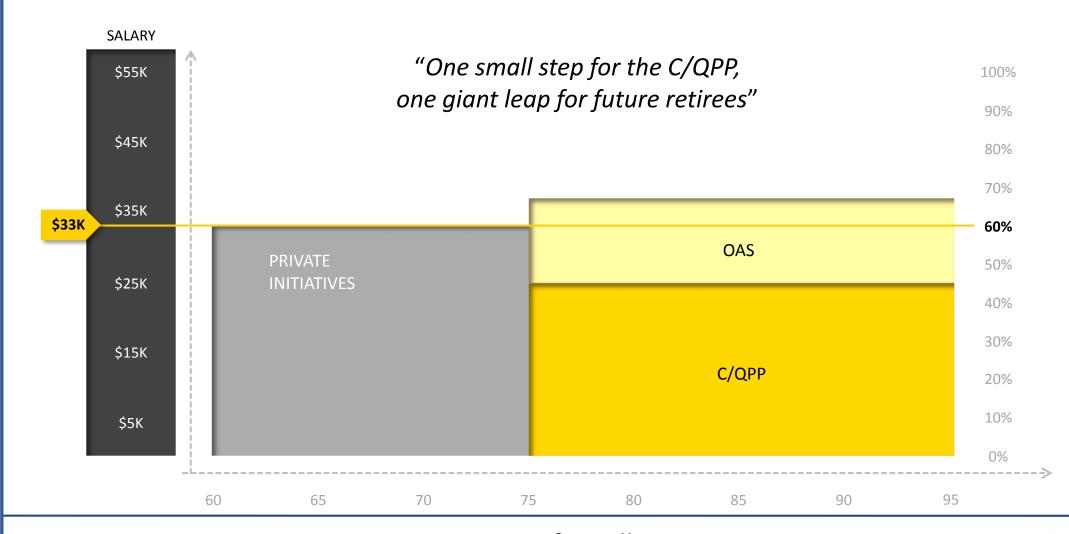


















Decumulation - Why use the CAP structure?

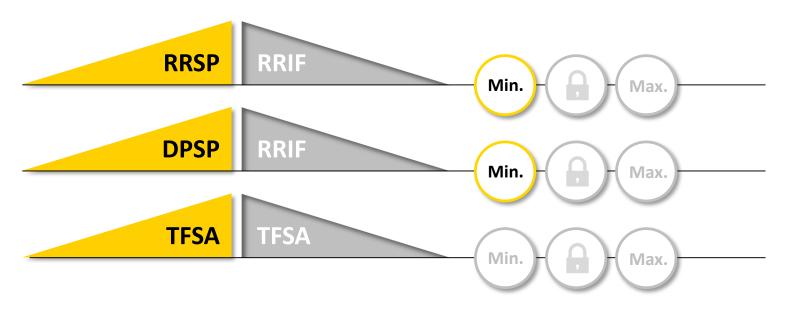
- Retired employees become "retirees" vs. "former employees"
 - Ambassadors
- Lower management fees
 - Less than \$5M: 0.9%
 - Around \$50M: 0.6%
 - Over \$100M: 0.5%
- Better professional investment services
 - Portfolio management selection
 - Asset allocation

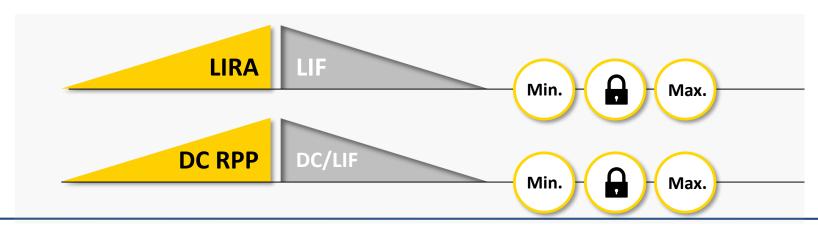




Decumulation - Current options





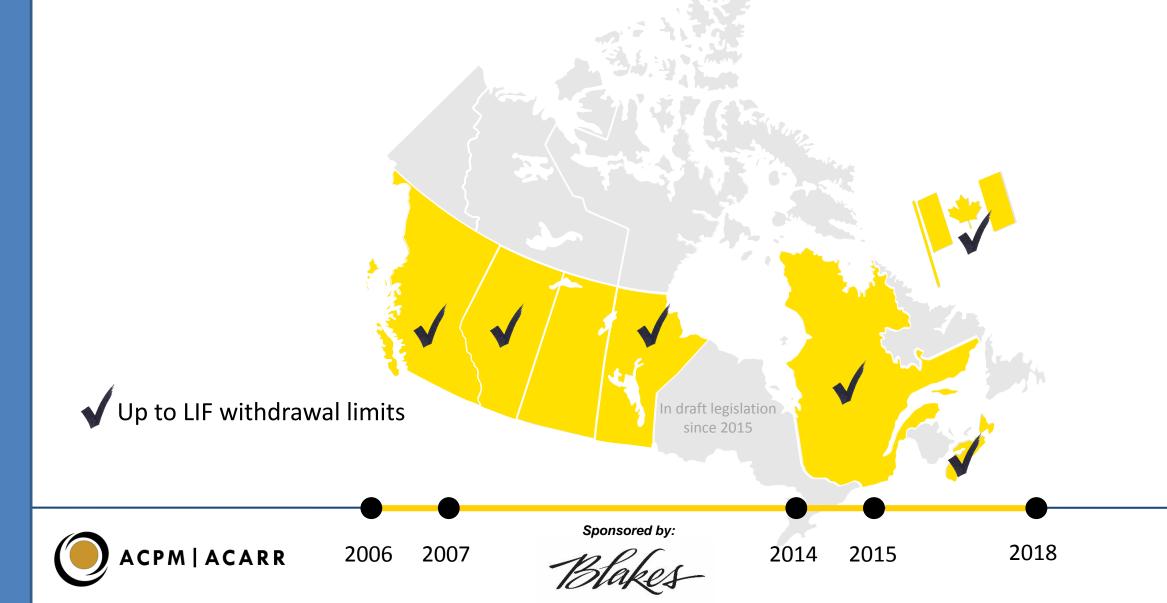




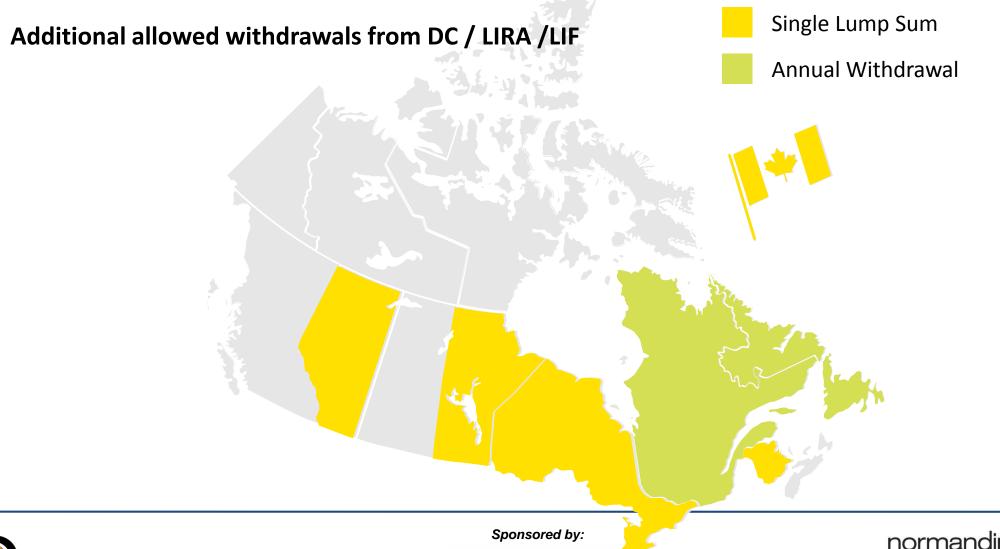




Decumulation - Variable benefits in DC plans



Decumulation of locked-in asset







Decumulation - Fiduciary liabilities issues for CAPs

- Communication with retirees generally becomes more difficult with age
- A person's risk tolerance changes after retirement
- Additional administrative responsabilities arise after retirement
- Additional litigation risk from members exhausting their financial resources too quickly

Risk mitigation idea: Mandatory transfer out at 70? At 75?

Source: Decumulation, The Next Critical Frontier: Improvements for Defined Contribution and Capital Accumulation Plans, ACPM





Just a Little More Flexible

Government pension plans

- Deferred OAS pension at age 70 should be adjusted based on the same rate as
 C/QPP
 - 0.7%/month vs 0.6%/month
- Pensions should be allowed to be deferred at least until age 75
 - At least 0.7%/month between 70 and 75

Decumulation rules for Locked-In amounts

- Annual withdrawal could be allowed until age 70 to reflect actual latest pension age in OAS and C/QPP
- Annual withdrawal could be allowed at least until age 75 if OAS and C/QPP are modified





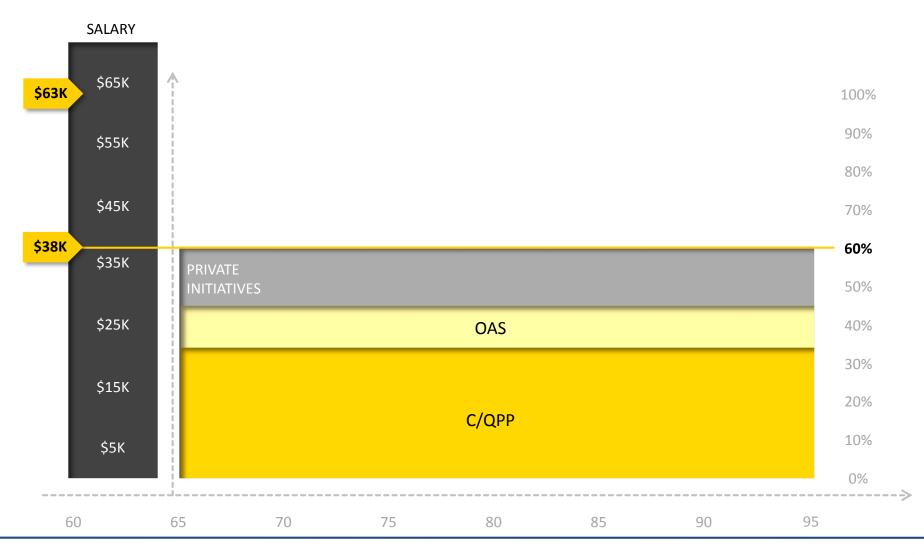
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- EZRA, Don. "Most People Need Longevity Insurance rather than an Immediate Annuity", Financial Analysts Journal. Volume 72, Number 2 (March/April 2016 CFA Institute), pp.23-29





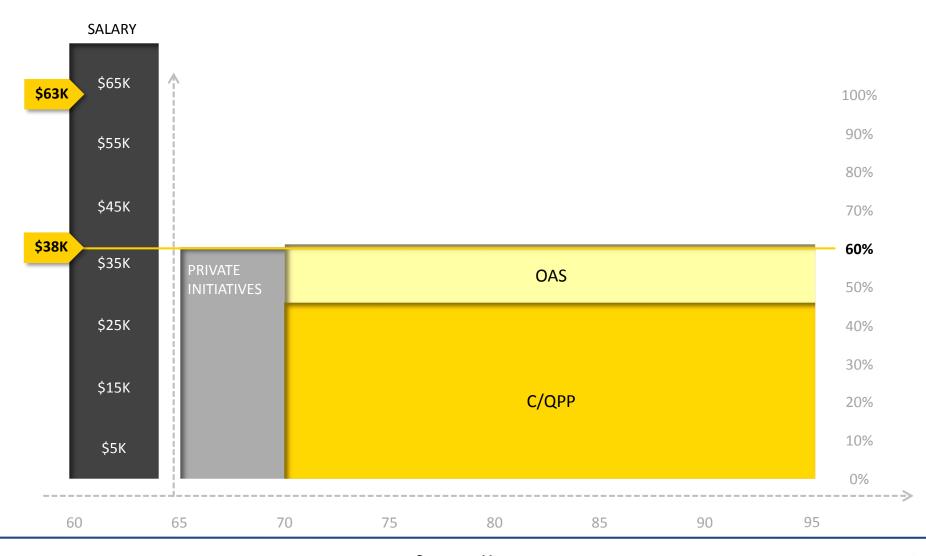








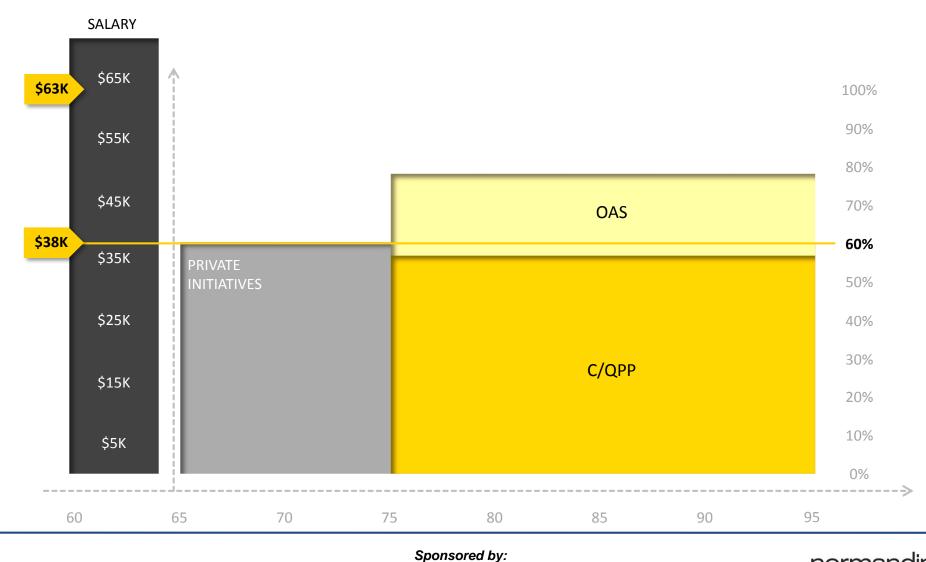














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