

2019 ACPM NATIONAL CONFERENCE



SHIFTING CURRENTS

Navigating Retirement Diversity

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VANCOUVER, BC
Fairmont Hotel Vancouver
SEPTEMBER 10–12, 2019

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Opening Plenary

The Three-Legged Stool: Is It Still Standing?

Speakers:

Dr. Robert L. Brown (RET.) *Professor Emeritus, University of Waterloo*
Frédéric Létourneau, *National Bank*
Frank Wiginton, *Eckler*

Moderator:

Andrea Perry, *Northern Trust*

ACPM Opening Plenary Session

The 3-legged Stool: Is it Still Standing?

Dr. Robert L. Brown

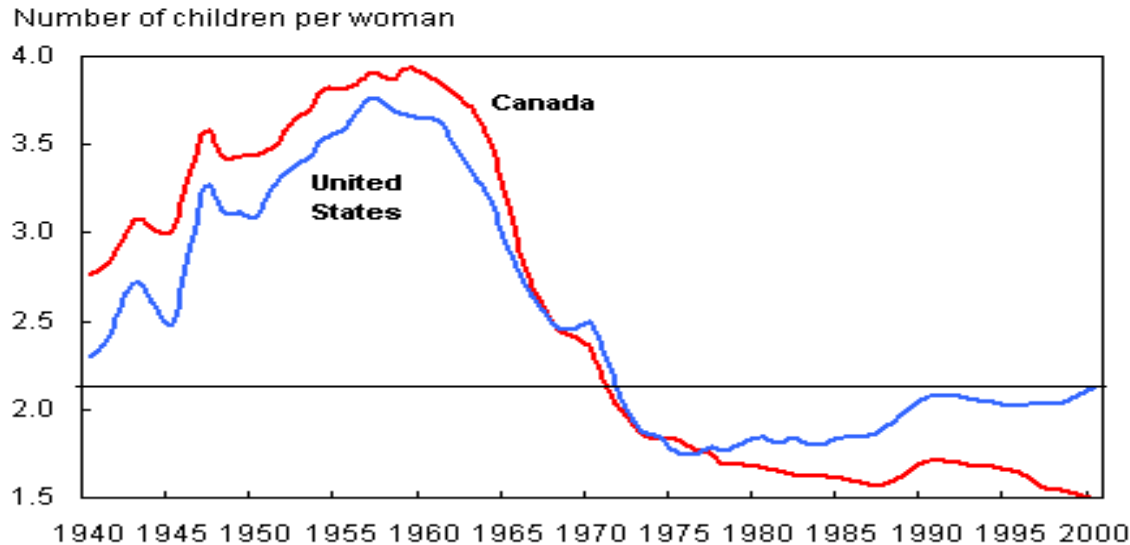
Professor Emeritus

Statistics and Actuarial Science

Canadian Demographic Context

- Lower Fertility
- High levels of Migration
- Longer Life Expectancy
- The Baby Boom
- Rising Dependency Ratios

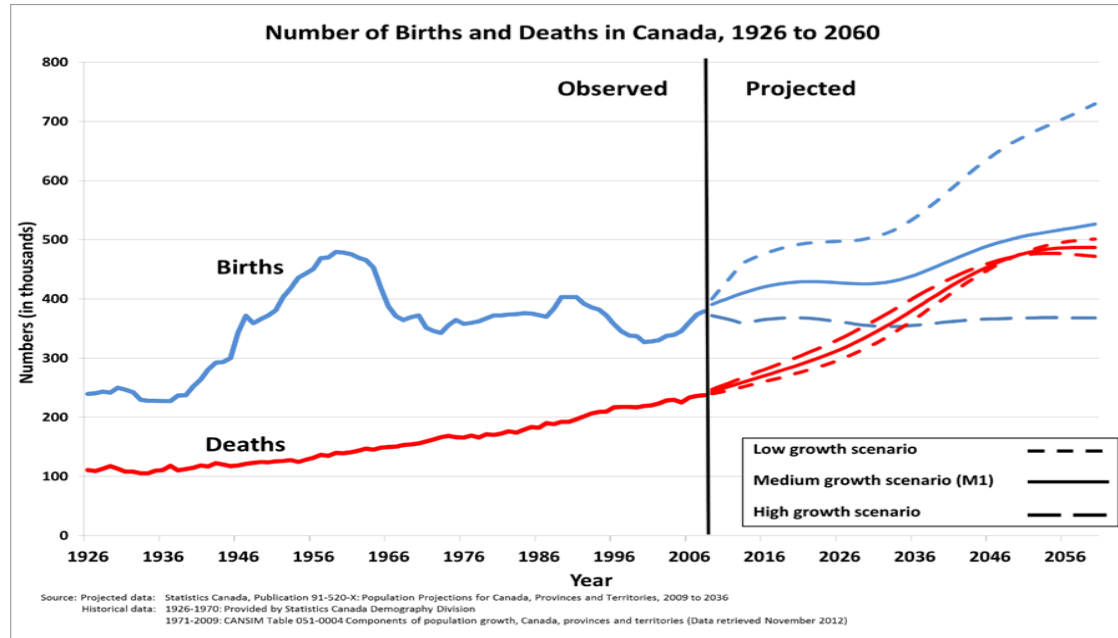
Total Fertility Rates: Canada and the United States



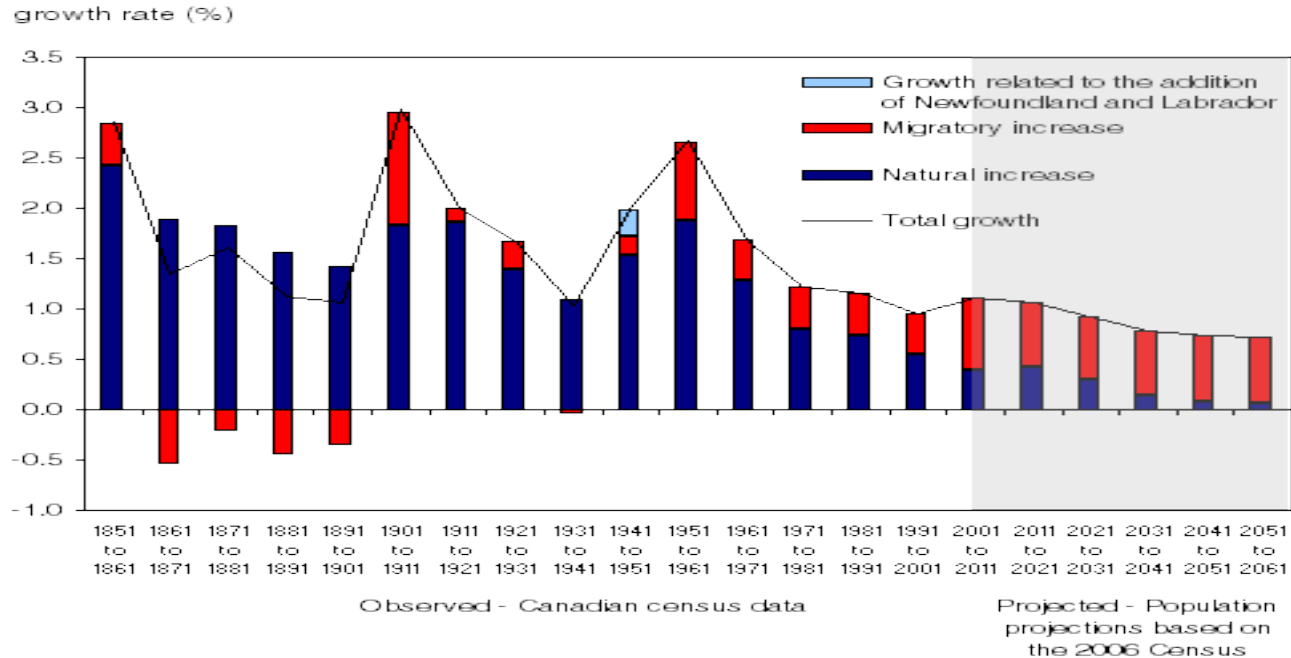
Note: The solid black horizontal line denotes the natural replacement population level of 2.1 children per woman.

Source: Statistics Canada

Number of Births and Deaths in Canada 1926 to 2056



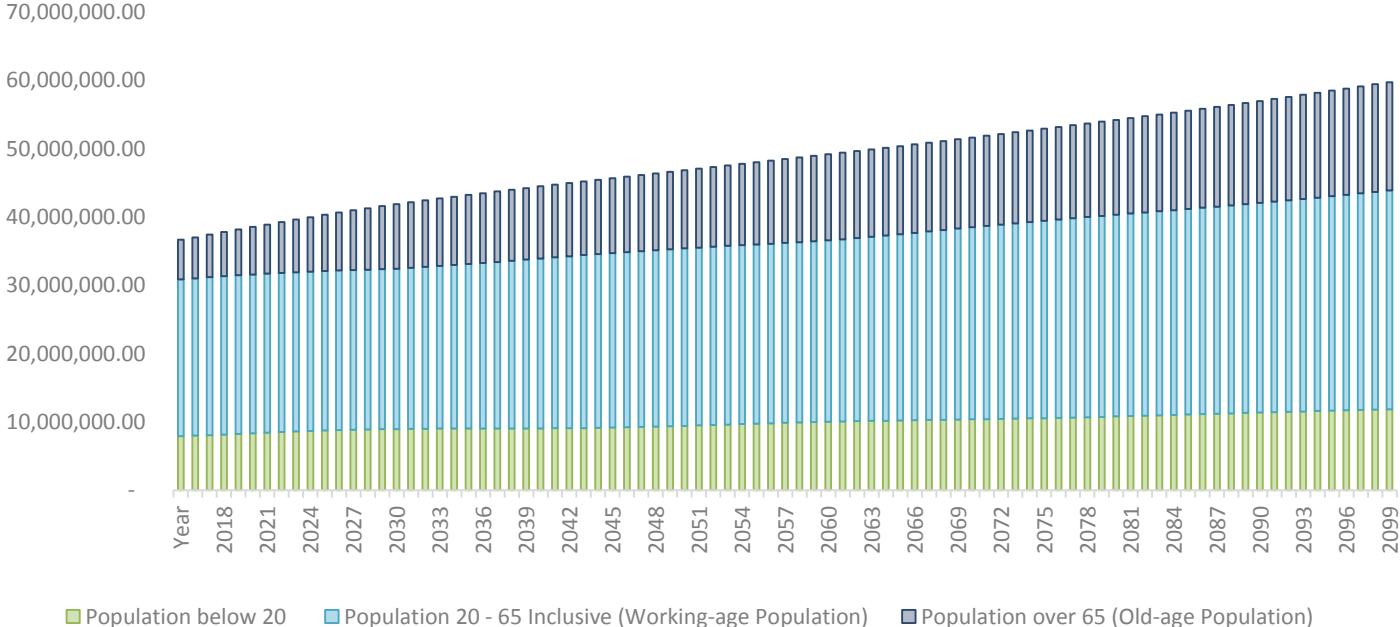
Annual average growth rate, natural increase and migratory increase in Canada 1851 to 2061

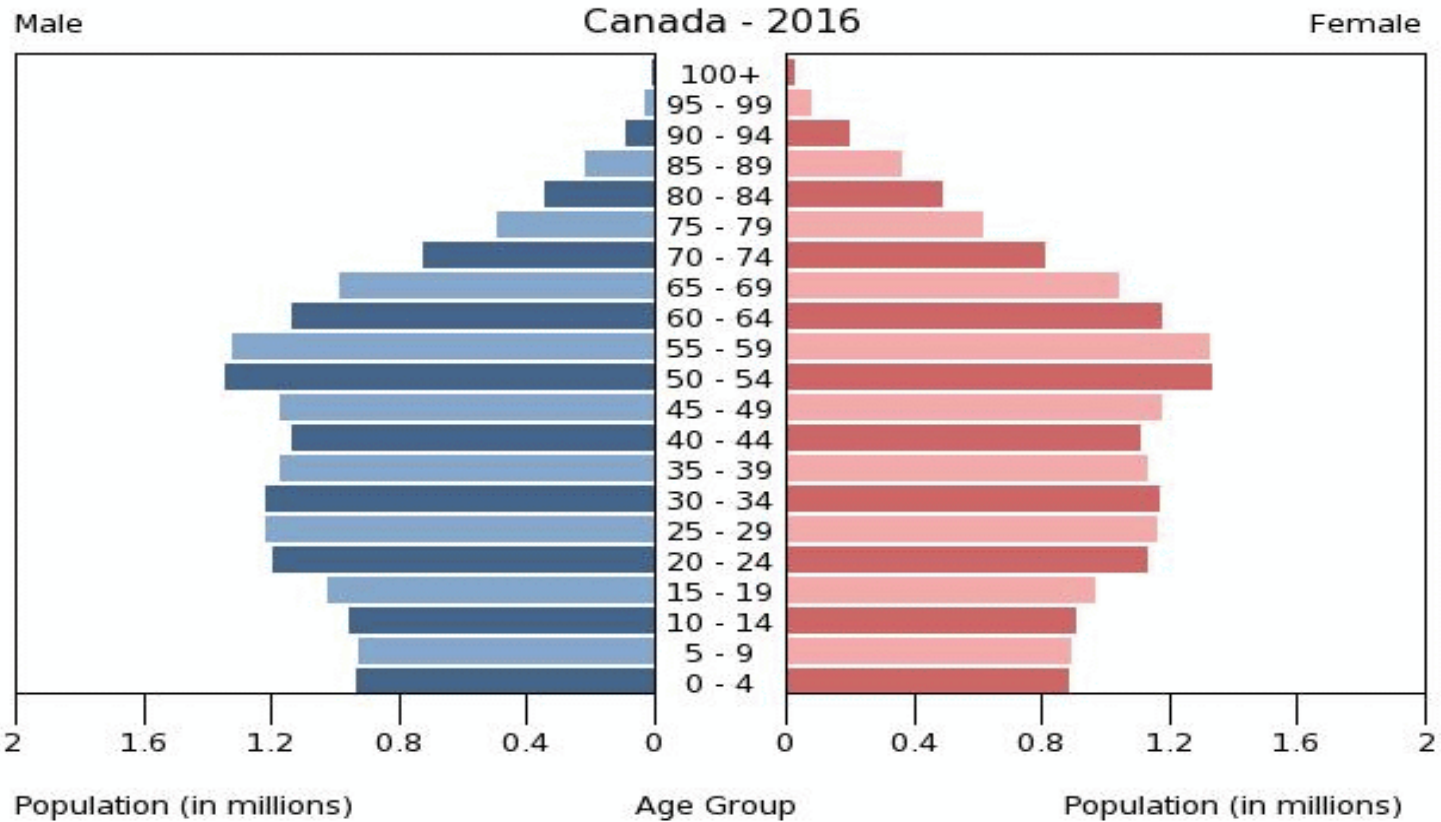


Life Expectancy at age 65

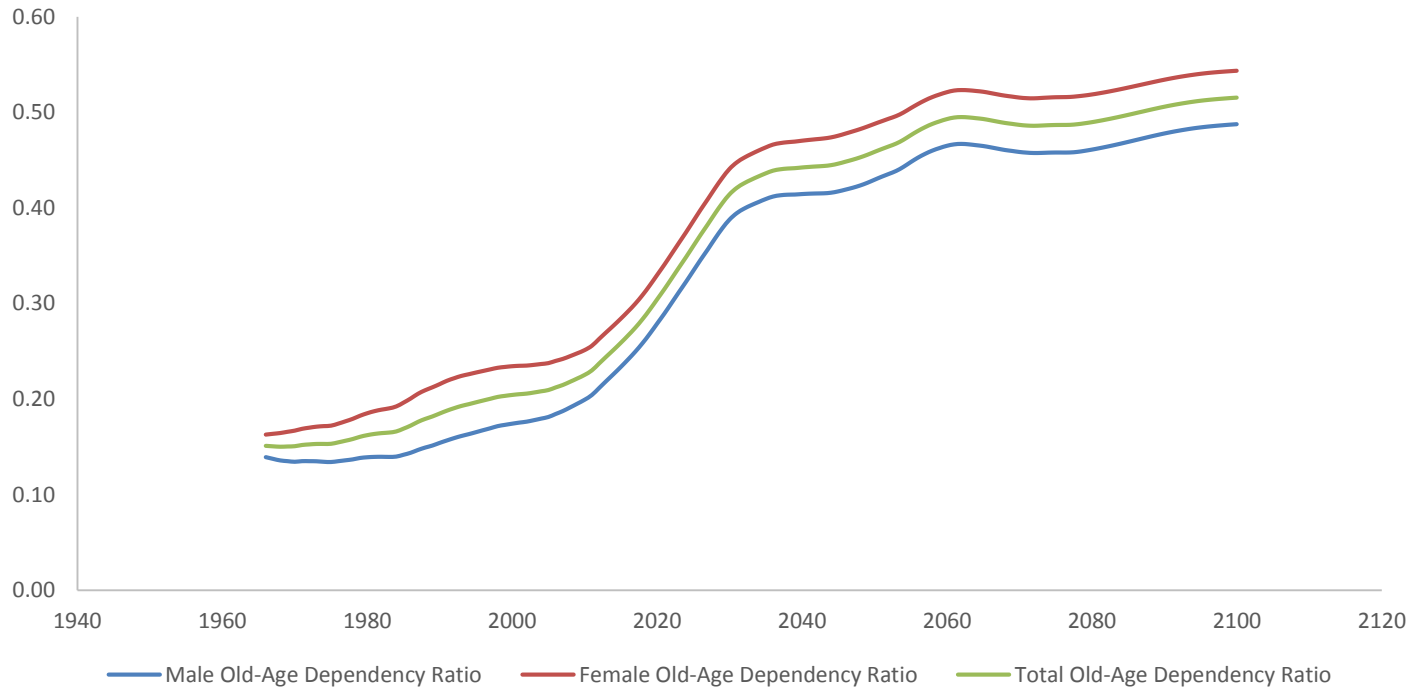
Year	Male	Female
1966	13.6	16.9
2016	19.9	22.5

Projected population by age group (2016-2100)





Old-Age Dependency Ratios 1966-2100



Aged Dependency Ratios

Year	ADR	Inverse ADR
1956	0.146	6.9
1976	0.141	7.1
1996	0.200	5.0
2016	0.263	3.8
2036	0.451	2.2

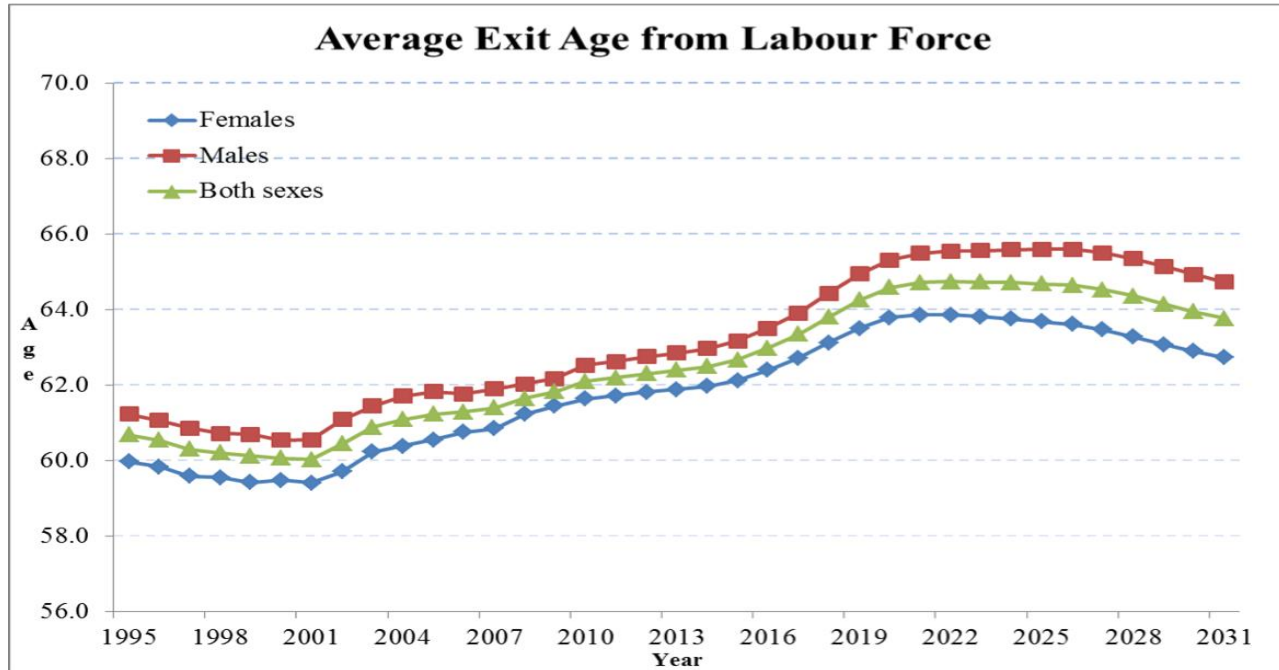
Aged Dependency Ratios, And Growth, 2010 to 2050

Country	ADR 2010 (%)	ADR 2050 (%)	Increase
Italy	31.0	61.7	113.3
Canada	20.3	42.3	108.4
France	25.9	43.4	99.0
Japan	35.5	69.6	96.1
U.S.	19.5	35.4	81.5
UK	25.1	39.9	59.0
Sweden	28.0	42.3	51.1

Aging Population = Lower Standard of Living

- Higher Old-Age Dependency Ratio
- Higher Taxes Needed to Maintain Public Programs
- Lower Productivity of Older Workers

Projected Average Exit Age from the Labour Force (25th CPP Report)



Old Age Security (OAS)

- Maximum benefit is \$601.45 monthly or \$7217.40 per year
- Deferral of OAS beyond 65:
 Get + 0.6% for every month or 36% if Defer to age 70
- 15% clawback starts at income > \$77,580
- If income > \$125,696, No OAS benefit is paid

Guaranteed Income Supplement (GIS)

- Max monthly GIS = \$898.32 or \$10,780 per annum (single)
- But there is a 50% clawback for every dollar of non OAS income Over \$3500 (to be raised—March budget)
- If non-OAS income $>$ \$18,240, then no GIS
- This has a huge impact on Individual Savings and RRSPs

COST of OAS/GIS

Year	\$ Cost	Cost as % of GDP
2016	\$ 49 B	2.4 %
2030	\$ 104 B	3.2 %
2060	\$ 247 B	2.7 %

Is this a sustainable system?

OAS/GIS

- OAS is taxable income (goes out; comes back)
- Both OAS and GIS have clawbacks
- Benefits increase with CPI; taxes increase with GDP growth;
- OAS replacement ratio falls

Social Security Replacement Ratios Gross (Before Tax)--2016

Country	Replacement Ratio (%)
United Kingdom	22.1
Australia	32.2
Japan	34.6
United States	38.3
New Zealand	40.0
Canada	41.0
Sweden	55.8

Is Canada too generous?

C/QPP

- CPP sustainable at 9.9%
- QPP sustainable at 10.8%
- CPP Early/Late Adjustment Factors Widened to Reflect Life Expectancy
- CPP Removed the Work Cessation Test

Will this encourage later retirement?

CPP Actuarial Adjustment Factors

- 0.6 per month for retirement prior to 65 (But not before age 60)
- If you Retire at age 60, get 64% of a Full Benefit
- 0.7% per month for Retirement after age 65 (up to age 70)
- If you Retire at age 70, you get 142% of a Full Benefit

The New Expanded CPP/QPP

- Base benefit moves from 25% to 33.33%
- This will cost 2% of earnings (1% + 1%)
- Max limit on Contributable Earnings (Old YMPE) to rise 14% in 2024
- This will cost 8% (4% + 4%) on Earnings above the YMPE (\$57,400)
- After 40 years, max benefits will be up 50% from \$13,110 to nearly \$20,000 in 2064

Clearly the government leg is getting bigger. Was this expansion necessary?

Can you retire on Social Security only?

CPP 2

It is Fully Funded

- This minimizes intergenerational transfers
- Everyone pays for their own benefits
- Implies enhanced benefit security

BUT

- Full benefits do not accrue until 2064
- Investment Income will create more volatility

CPP 2

It will be very big (over \$1 T in assets)

- Can attach to alternative investments like infrastructure, private equity
- It can carry the longevity risk and pay out lifetime benefits

BUT

- Where can you invest \$1 T prudently?

It is a Target Benefit/Target Contribution Plan

- This will enhance stability and sustainability
- It is consistent with the base CPP

BUT

- What happens when benefits have to be decreased or contributions increased?
- Will Canadians understand? Will politicians have the courage to act? If not, ABM.

Impact of New C/QPP on OAS/GIS

- GIS recipient rate falls from a projected 27.2% to 25.3%
- This is a loss of 243,000 beneficiaries
- GIS benefit payments drop from a projected \$49 B to \$46 B (6.2%)
- Number of OAS Recipients affected by the Recovery Tax will increase by 76,000 or 7.1% in 2060 (from 1,069,000 to 1,145,000)
- Amount of Recovery Tax will rise from \$9.5 B to \$10.3 B or 7.8%

The Three Legged Stool: Is it Still Standing?

The Employer View

Frederic Letourneau
VP Total Compensation
National Bank of Canada

Current state of the Canadian retirement system

- Canadian system is good ✓
 - Striking the right balance between social and competitive aspects

The employer leg – an employer's perspective

Employers WANT:

1. to deliver value through economies of scale and pooling
 - But... Retirement is not core business
2. employees to work longer (employee shortage, retain experience and client relationship)
 - But... Small window of retirement age
3. flexibility to accommodate the evolution of the workforce (temporary, consultants, part timers, gig workers, etc) in order to create a homogenous experience for all types of employees
 - But... the rules are restrictive
4. Employees to appreciate that value through simplicity....

The Employer leg – an employer's perspective

Employers FACE :

- Limited number of solutions on the DB-DC spectrum
- Risk asymmetry
- Complexity of multiple legislative jurisdictions
- Lack of employee appreciation (DB plans)

...and this reality hits harder with smaller size employers

Mea Culpa!

- DB plans continue to disappear
 - P&L impact- Accounting
 - Cash impact - Solvency
 - Administration burden
 - Misunderstood by employees

What should we focus on?

1. Work on the dying patient
 - Bring symmetry back by working on solvency and accounting rules
 - Bring One pension law for Canada
2. Add new babies
 - Allow for all types of solutions on the DB-DC spectrum – long awaited target benefit plans
3. Modify pension and fiscal laws to accommodate
 - all work/retirement ages
 - all types of workforce
 - pooling of risks (longevity, interest, market)

What should we focus on?

What could we do differently to increase the pace of change?

The Three Legged Stool: Is it Still Standing?

Frank Wiginton

CFP, RRC, FMA, CIM, FCSI, FP Canada™ Fellow

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416-696-3058

The 3-Legged Stool: Is it still standing? The individual's role



Frank Wiginton

Overview

Canadians struggle with their finances

Recognizing the limitations of the individual

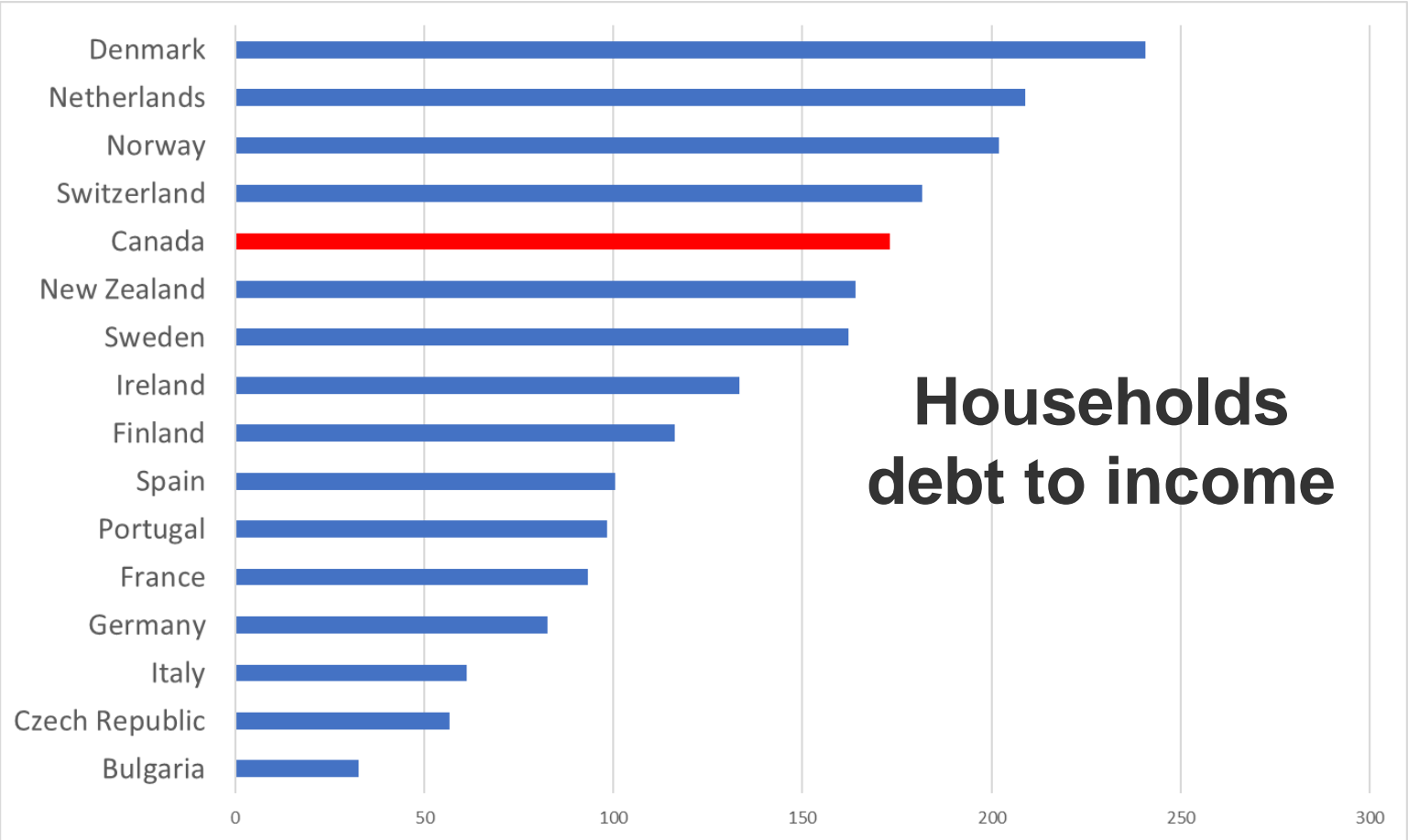
Impact of individual's limitation

Who's responsibility is it?



Households debt to income

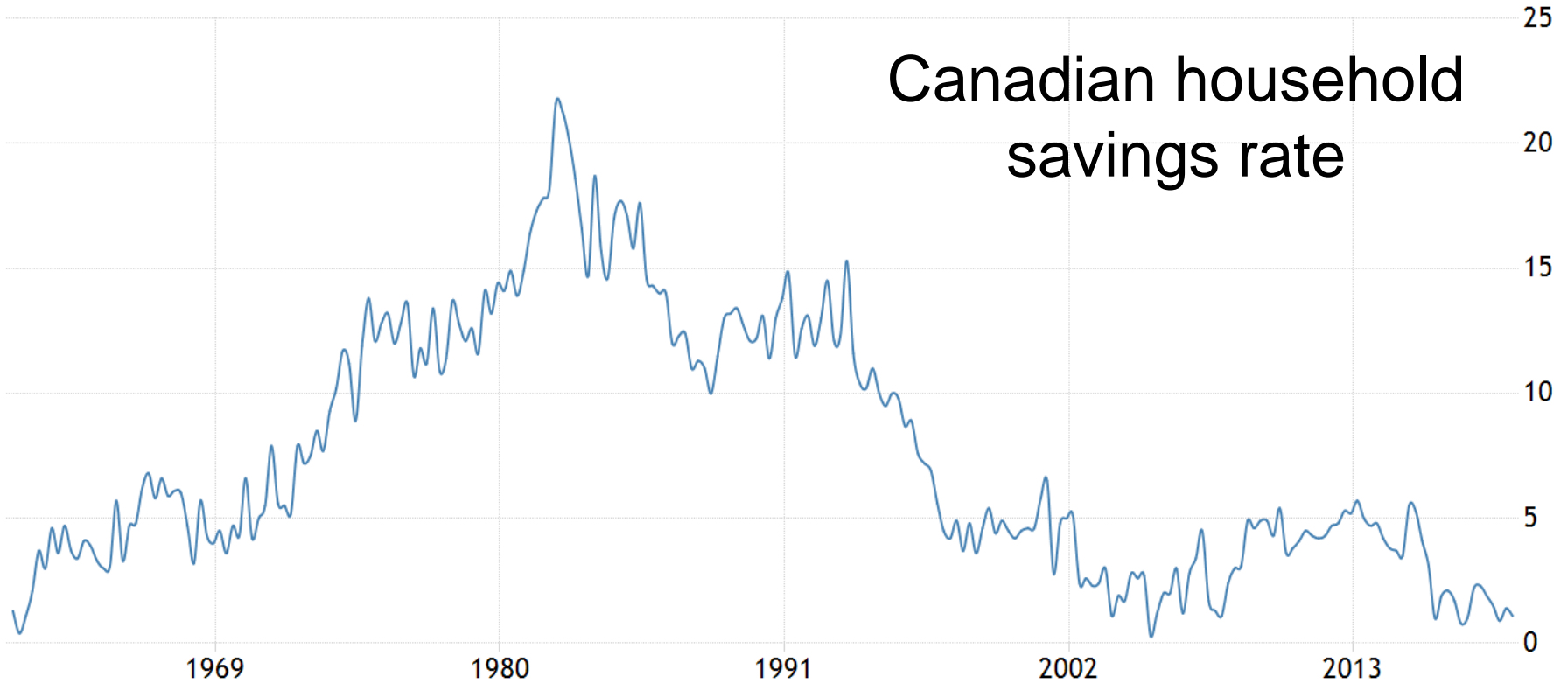




Households debt to income

Tradingeconomics.com

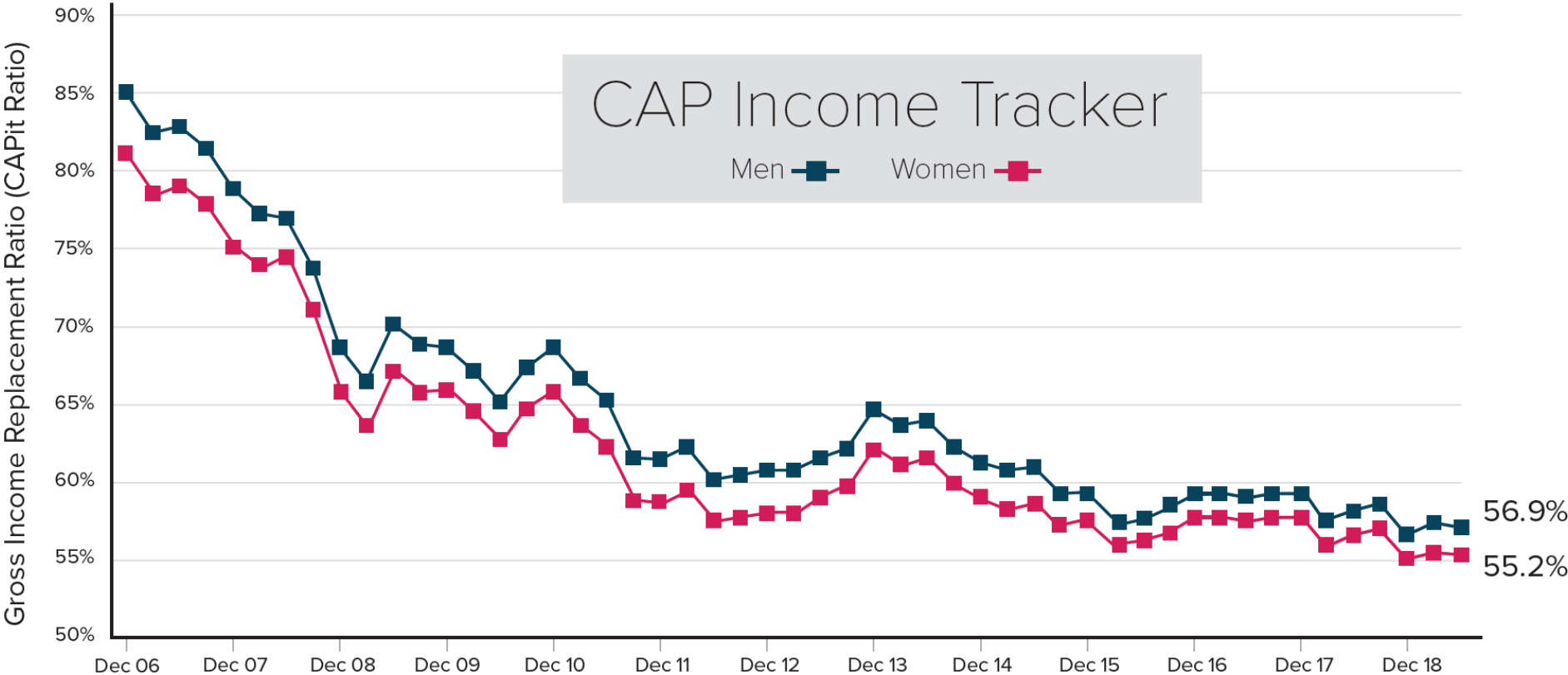
Canadian household savings rate



SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | STATISTICS CANADA

CAP Income Tracker

Men ■ Women ■



Eckler Ltd. Capital Accumulation Plan Income Tracker August 2019



Recognizing the limitations of the individual

Psychology

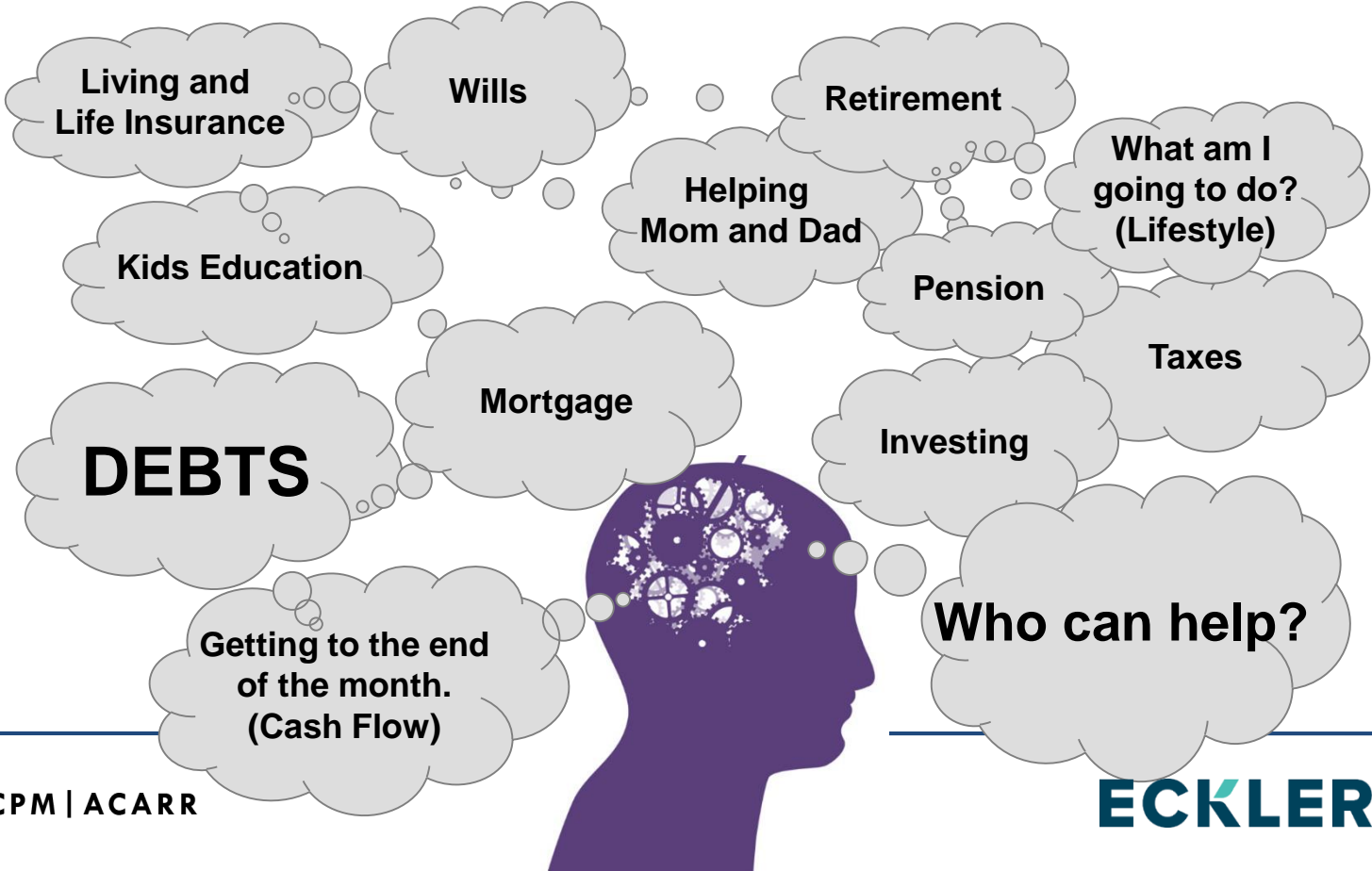
- Procrastination
- Competing priorities
- Fear / Belief in pensions



Procrastination



Competing Priorities



Fear of pension integrity

MONEY

March 2, 2018 8:00 am

Updated: March 2, 2018 10:12 am

Reality check: Is CPP going to be around when you retire?



By Erica Alini

National Online Journalist, Money/Consumer Global News

› thestar.com ‹

Business

Will 16,000 Sears Canada retirees see their pensions?

Ma
clear

Practices and harmful tactics are not welcome in our state!

Generational differences

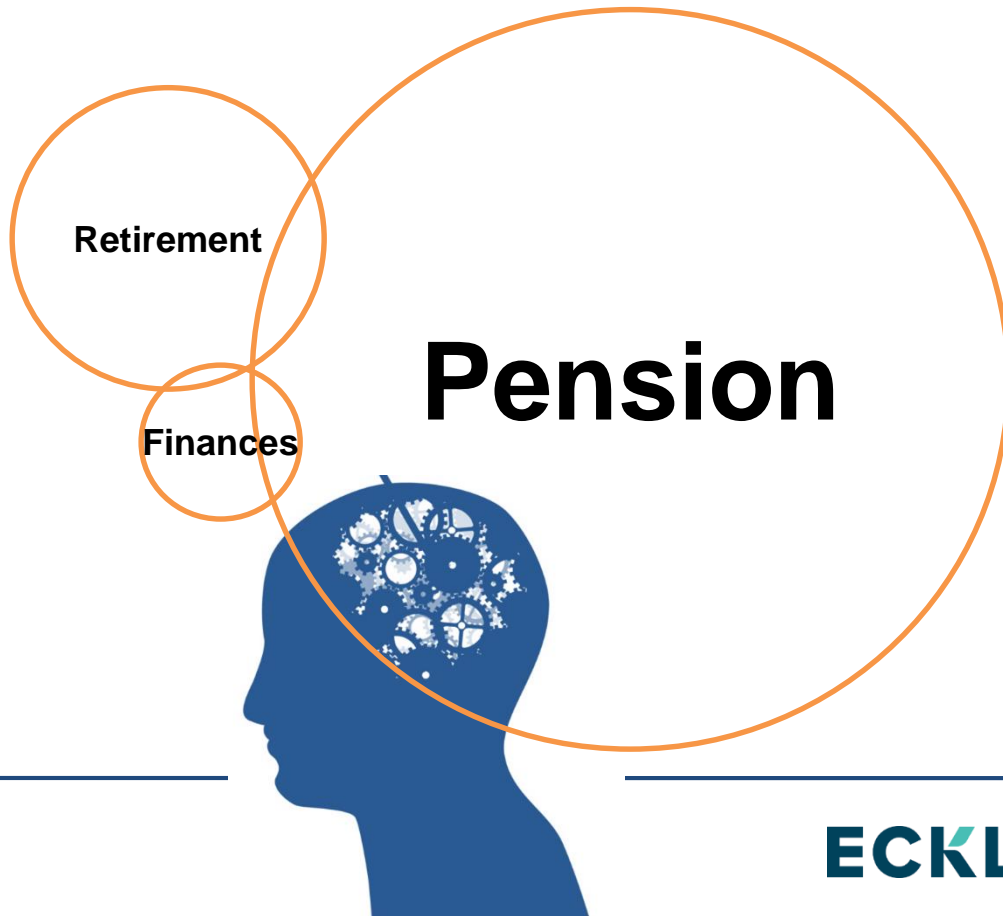


Misunderstanding / Misinformation

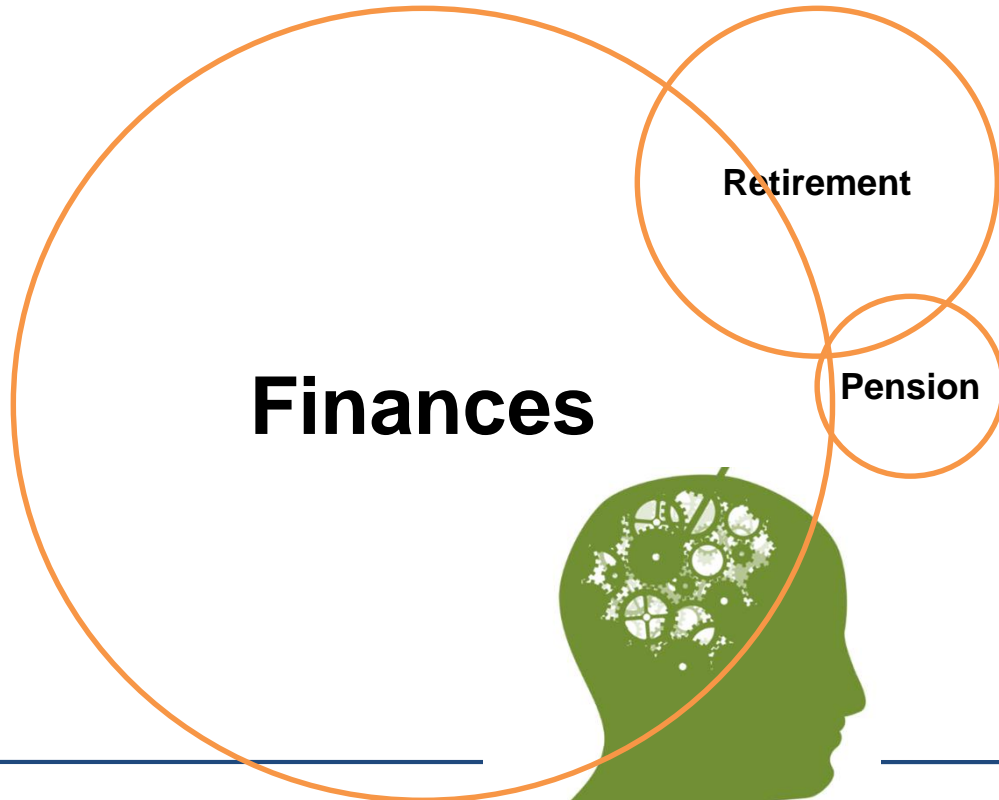
- Media, Government, NGOs
- Product sellers
- Individuals colleagues
- Company communication



Company communication – company's perspective



Employees' perspective



Ability to understand

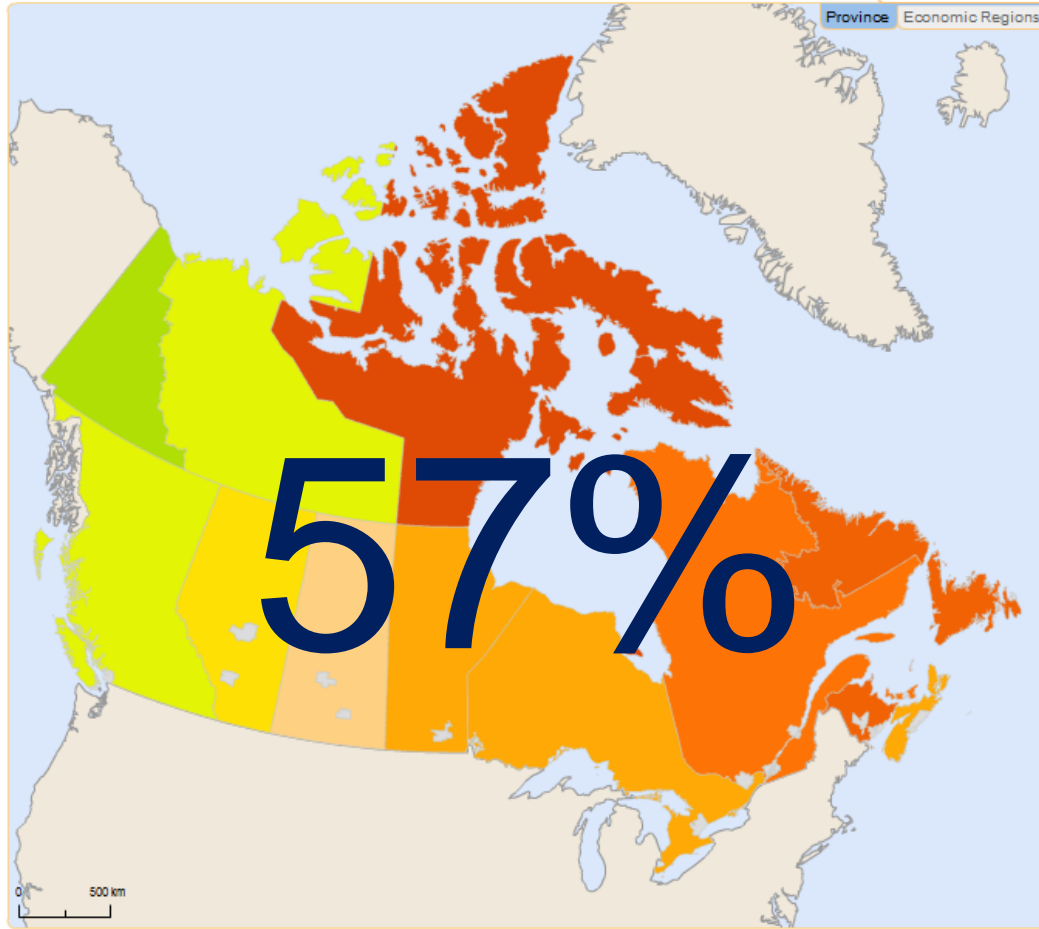
- Numeracy
- Document Skill Level
- Immigration



Numeracy



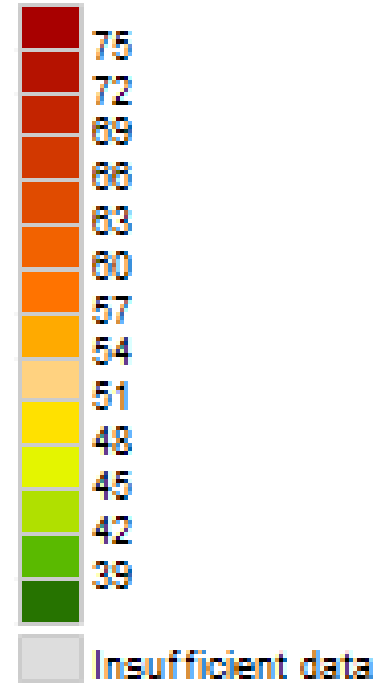
LEVEL 2 - A capacity to deal only with simple, clear material involving uncomplicated tasks.

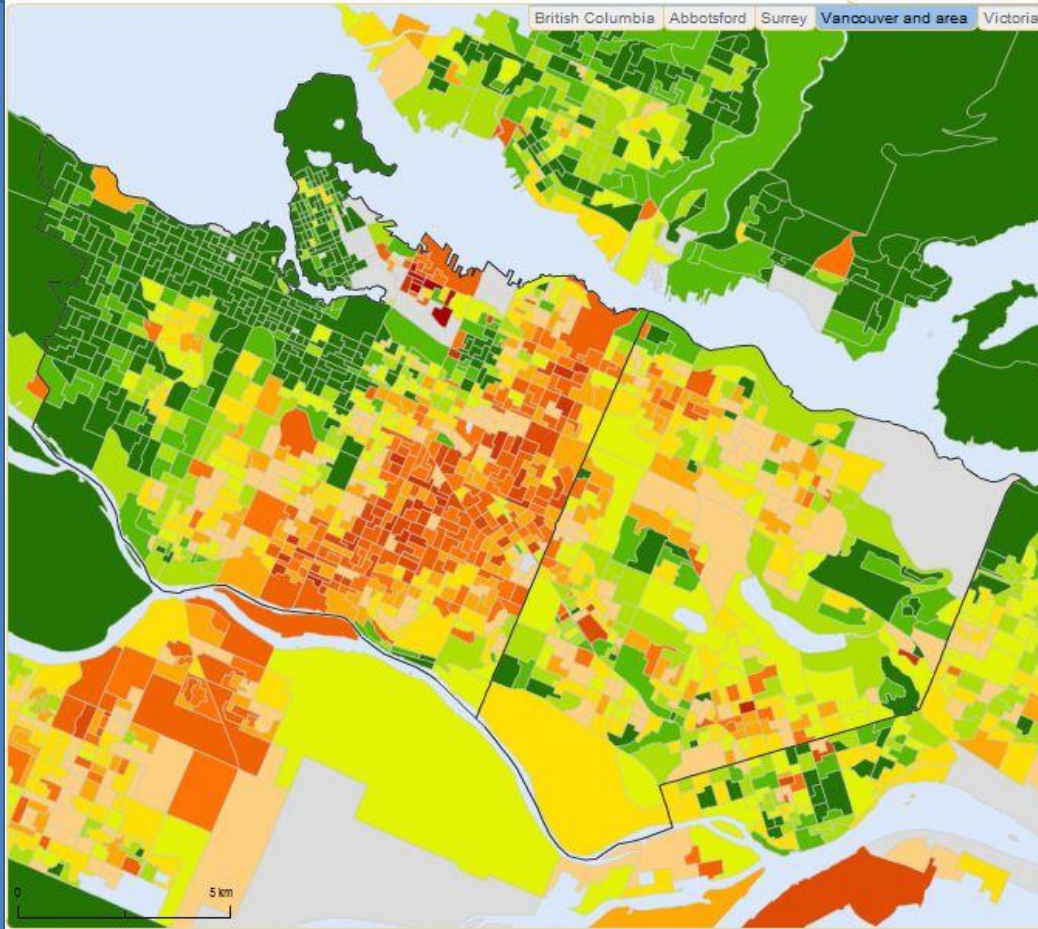


Numeracy in Canada

Proportion at Level 2 and below

Proportion at Level 2 and below (%)

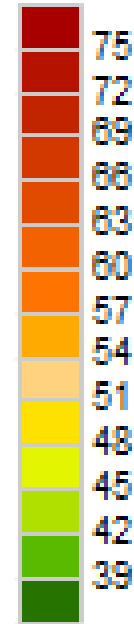




Numeracy in Canada

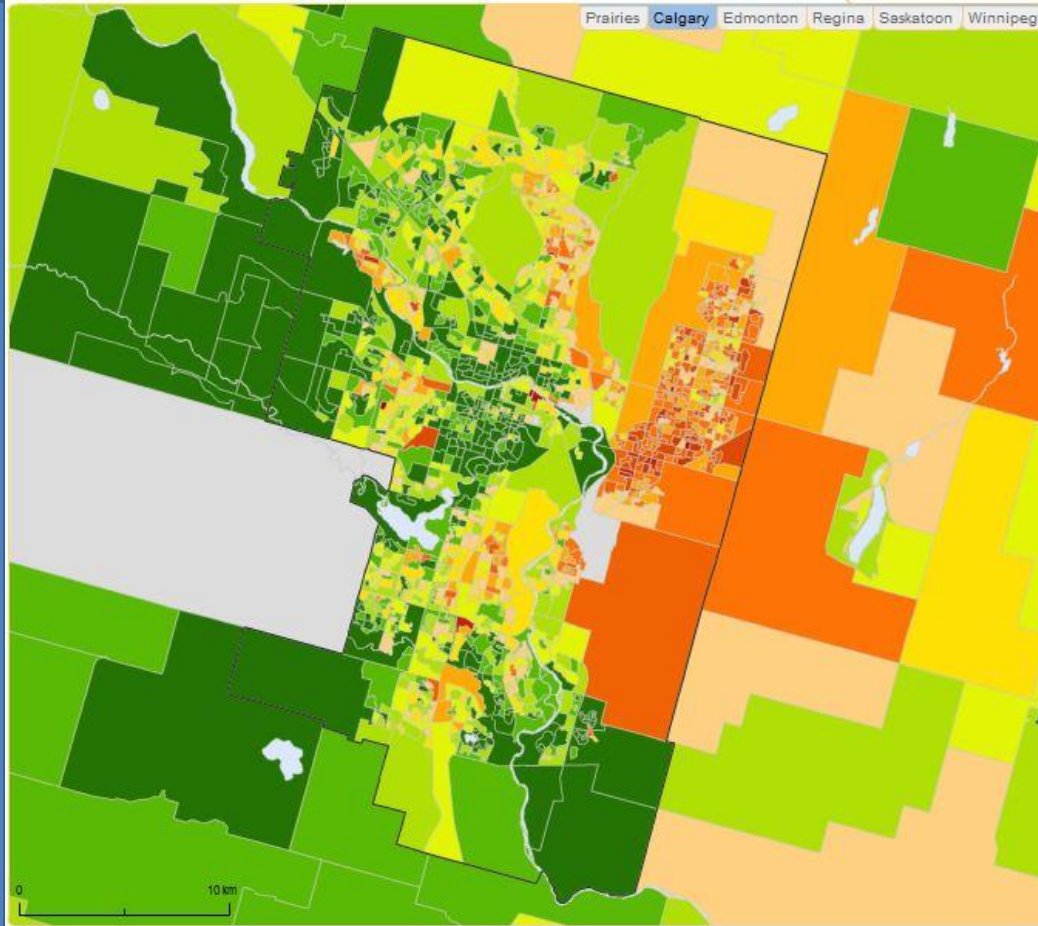
Proportion at Level 2 and below

Proportion at Level 2 and below (%)



Insufficient data

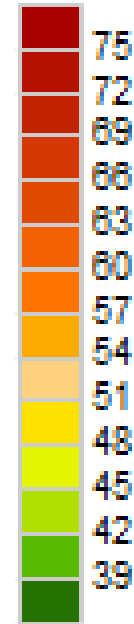
Vancouver



Numeracy in Canada

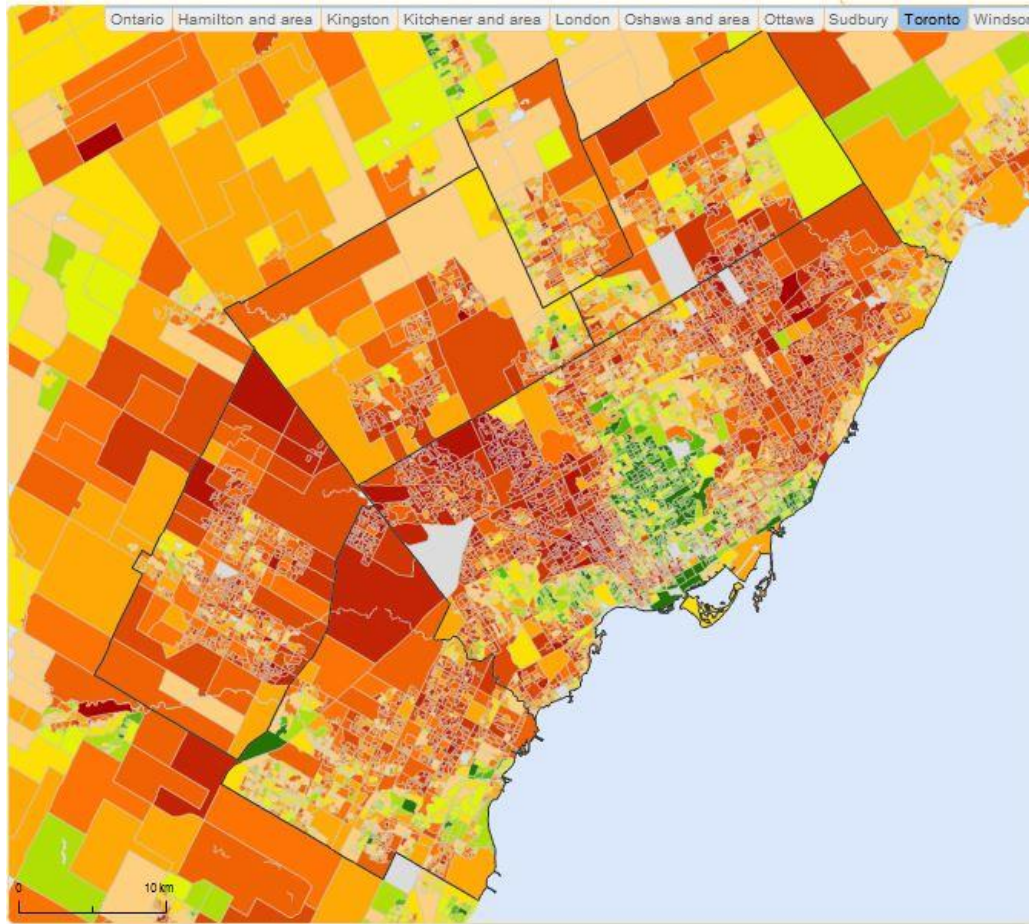
Proportion at Level 2 and below

Proportion at Level 2 and below (%)



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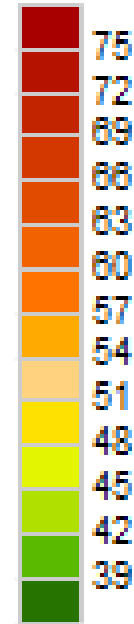
Calgary



Numeracy in Canada

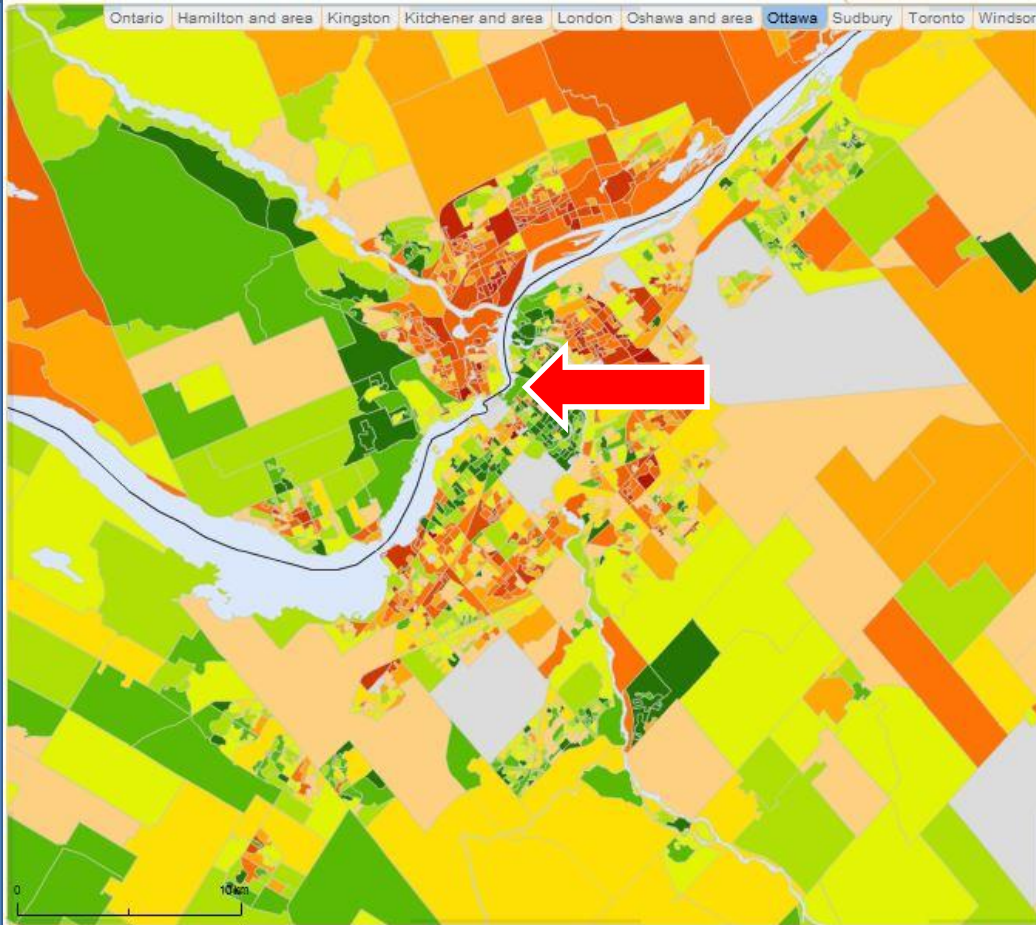
Proportion at Level 2 and below

Proportion at Level 2 and below (%)



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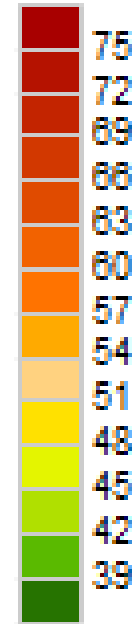
Toronto



Numeracy in Canada

Proportion at Level 2 and below

Proportion at Level 2 and below (%)



Insufficient data

Ottawa

Immigration



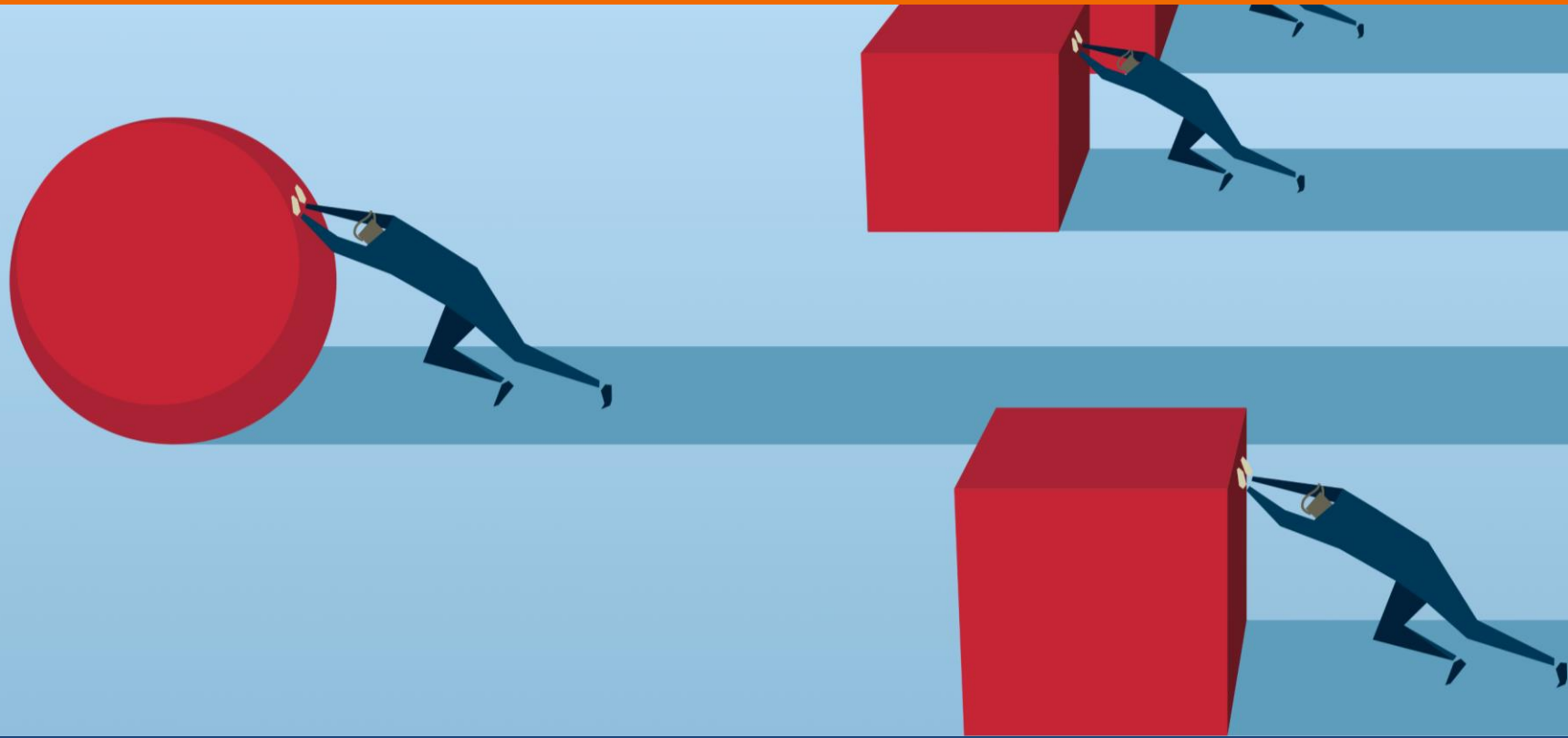
The impact
these
limitations
have



Financial Stress



Workplace effectiveness



Reduced participation in CAP programs





Who's
responsibility
is it?



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