HOOPP
Healthcare of Ontario
Pension Plan

# DEFINED BENEFIT PENSION PLANS

## What you need to know and why they're worth saving

WHAT'S A

# DB PENSION PLAN?

A defined benefit (DB) pension plan is the best way to prevent poverty among older people.

Some people believe that times are changing and that DB plans are too expensive. They think that DB plans should be replaced by other kinds of retirement savings plans.

The trouble is, these plans are lesser alternatives. Moving away from DB plans could leave many people unable to retire in dignity — and that's bad for all of us.

Members of a DB plan make regular contributions over the length of their career. When they retire, members receive a lifetime monthly income based on how much they earned and how many years they contributed.

They will not outlive their pensions.

# DB PENSIONS:

- **Do not fluctuate based on what happens in the stock markets**
- **Rely on professionals to make investment decisions with the members' best interest in mind**
- **Reduce poverty and help keep people off government assistance in retirement**
- **Inject billions of dollars into the Canadian economy annually**

WHY

# DB PLANS ARE BETTER

As a member of a DB plan, your pension will always be there for you in retirement for as long as you live.

Most alternatives are really just savings plans. You are responsible for the investment decisions. Those decisions — along with the ups and downs of stock markets — ultimately determine how much you get in retirement.

*“In a society like Canada where we value social welfare, we as taxpayers will end up paying for this one way or another.”*

Jim Keohane, President & CEO of HOOPP

# WILL AN ALTERNATIVE PLAN PROVIDE ENOUGH TO RETIRE ON?

There’s certainly no guarantee. In fact, there is a risk you could outlive your money. In many cases, people do.

Fewer than 20% of Canadians between 55-65 with no employer pension benefits have enough savings they need to supplement their government pensions for at least five years.*

*Source: Broadbent Institute

THE MYTH:
**DB PLANS ARE TOO EXPENSIVE**

THE TRUTH:
**DB PLANS ARE THE MOST EFFICIENT MODEL**

Research shows that a DB plan can provide the same level of retirement benefits as an alternative plan at about half the cost.*



*Source: National Institute on Retirement Security

Most of this efficiency is because:

New members are constantly coming into the plan, so it stays young even as you get older. That means the experts who manage the funds can achieve a healthy balance between risk and return.

Investment dollars are pooled and risks are shared across the entire plan. This means greater buying power and less risk for the fund than if you were investing as an individual.

Alternative plans have higher administrative costs. These fees eat into the value of your nest egg and can shrink your income in retirement by as much as 40%.*

**77%**

of Ontarians believe all workers should have a pension plan that guarantees a percentage of their working income in retirement**

*Source: C.D. Howe Institute and Ontario Ministry of Finance
**Source: The Gandalf Group

THAT'S WHY
# MEMBERS OF DB PLANS GET BACK SO MUCH MORE THAN THEY PUT IN

A DB plan, like the Healthcare of Ontario Pension Plan (HOOPP), aims to replace 60% of pre-retirement income.*

Studies show, alternative plans in Canada may only replace about 15% of pre-retirement income.**

Retirees who don't have enough income may need help with the basic cost of housing and medical care.

When alternative plans leave people short of retirement savings, taxpayers have to pick up the pieces.

*Based on 30 years of credited service in the HOOPP Plan
**Source: Towers Watson: 2013 DC Retirement Index

*"It's a tragedy that so few people have DB plans... they have turned out to be obviously the best way [to secure adequate retirement income]. We should all have DB plans at work, but we don't."*

Jonathan Chevreau, financial journalist and author

Only about 10% to 15% of DB pensioners in Canada receive government assistance.*

But 50% of those people with alternative plans turn to the government for financial support.*

If you think alternative retirement savings plans save taxpayers money — think again.

*Source: The Boston Consulting Group

## WE ALL
# BENEFIT FROM DB PLANS

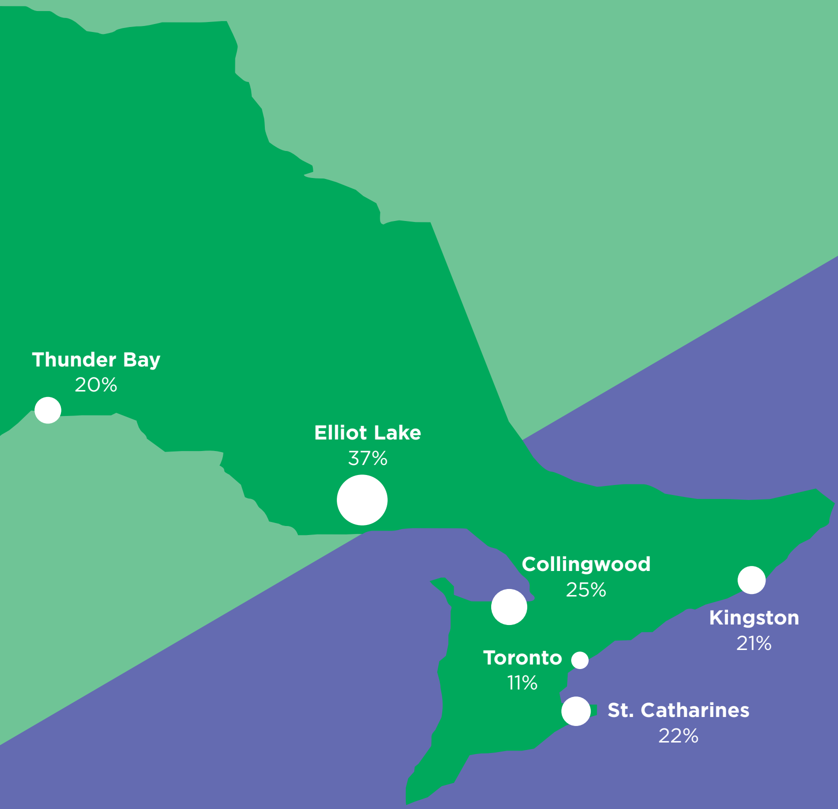
In Ontario, nearly 1.3 million DB pensioners pump an estimated $27 billion back into the economy each year in the form of consumer spending.*

This generates $6 billion in tax revenue for the government.*

Spending by DB pensioners is crucial for many small cities and towns. DB pensioners feel confident about having a steady income in retirement, so they spend their pension benefits at local businesses like stores and restaurants.

*Source: The Boston Consulting Group

# Percentage of community income from pensioners:




Source: The Boston Consulting Group

WHAT WE CAN

# LEARN FROM OTHER COUNTRIES

The United Kingdom, the United States and Australia have made big shifts from DB plans to defined contribution (DC) plans, one of the most common alternatives. It hasn't gone well. Canada can learn from their mistakes.

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## THE UNITED KINGDOM

A recent study compared the pension income of British citizens with DC plans to Dutch citizens with DB plans.

It found that it cost 1.5% more in fees per year to run the DC plan. Over time, those fees add up.*

A British citizen who made the same contributions and earned the same investment returns ended up receiving a pension payment which was 50% lower than his Dutch counterpart.*



*Source: David Pitt Watson

# AUSTRALIA

More than one-third of Australian pensioners are living below the poverty line, making the country among the worst performers in the world for the financial security of older people.*

This is despite the fact that over 90% of Australians are covered through a mandatory retirement savings program known as Superannuation Guarantee. Compulsory Superannuation was introduced in Australia in 1992, as a response to the financial challenges posed by an expanding elderly population.**

Seniors in Australia have poverty rates that are nearly 20 percentage points higher than the total population. This is because many pensioners take their pensions as a lump sum instead of collecting them over a series of income payments.***

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# UNITED STATES

The median household headed by a 60-year-old with a DC account (or 401K) has less than 25% of what they would need to maintain their standard of living in retirement.****

As a result many seniors are:

- **selling their homes**
- **working part-time in retirement**
- **taking bigger risks with investments**

In order to make ends meet, many are looking at working well into their seventies.

*Source: The Sydney Morning Herald.
**Source: Robert L. Brown, Craig McInnis
***Source: Organization for Economic Co-operation and Development
****Source: Data compiled by the U.S. Federal Reserve and analyzed by the Centre for Retirement Research at Boston College, for the Wall Street Journal

THAT'S WHY

# ONTARIO NEEDS TO PRESERVE DB PLANS

In Ontario today, only about 25% of workers have DB plans. Approximately two-thirds of Ontarians have no workplace pension at all.*

On June 20, 2016, the majority of Canada's Finance Ministers agreed in principle to work on a CPP enhancement starting January 1, 2019. Under the proposed enhanced plan, CPP will aim to replace one-third of a person's pre-retirement income (up from the current 25% replacement rate) up to a maximum amount of earnings.

Since CPP contains many DB features, this is positive news for all Canadians who support retirement security.

Having a stable and predictable pension is the best way to ensure a secure retirement for the largest number of Canadians.

*Source: Ontario Ministry of Finance

# DID YOU KNOW?

***AT HOOPP, for each pension dollar paid out, only 11 cents comes from employer contributions. Another 9 cents comes from the employees' contribution and 80 cents comes from investment returns accumulated over the life of the Plan.***

## LET'S NOT REPEAT
# THE MISTAKES OF OTHER COUNTRIES

Thanks to DB plans, Canada is a place where people can retire with dignity. That helps make Canada a better place to live for all of us.

Instead of replacing our DB plans with lesser alternatives, we need to preserve them.

## What can you do to help?

**Share this booklet with family, friends and colleagues.**

**Sign up to be a HOOPP Ambassador at hoopp.com/getinvolved.**

**Spread the word.**

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