PENSIONS IN PERSPECTIVE

October 2016

Supporting adequate pensions and retirement with dignity.

Welcome to the latest edition of Pensions in Perspective, a newsletter that addresses issues of pension design and promotes innovative ideas about how to provide adequate retirement income to Canadian citizens.

Past issues of the newsletter are posted on the HOOPP website and the blog of the Alliance for Retirement Income Adequacy, which can be found at ariapensions.ca. We encourage you to follow ARIA on Twitter – the handle is @ARIApensions.

Enjoy!

Right strategy helps pension plans safely steer through volatile waters

In a volatile investment climate where interest rates are expected to be "lower for longer," having the right investment strategy is key for pension plans.

That was the focus of a recent plenary session at the Association of Canadian Pension Management's recent national convention in Charlottetown, PEI. Expert speakers included economist Derek Burleton of TD Bank, David Long, Senior Vice President and CIO, ALM and Derivatives at Healthcare of Ontario Pension Plan and Jennifer Grabmann, Director of Pension Investments at Emera, which runs the pension plan of Nova Scotia Power.

Burleton set the stage saying that the outlook for growth these days "appears weak." While he feels the US markets "have not yet gained traction," he says the bank worries about debt for China and the other emerging markets, a debt which is "overhanging, like Canada's household debt situation."

Japan and Europe, he says, "are just keeping their heads above water." In Europe in particular the economy "is just not growing and there are deflation worries." Here in Canada, infrastructure spending by government won't "hit the road" until 2017 and oil prices are currently low. He predicts interest rates will stay low for quite a while, and that equity returns will be in the single digit range. In some countries, central bank interest rates have gone negative.

So how are pension funds managing in this less than ideal climate?

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HOOPP
Healthcare of Ontario Pension Plan

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Long says HOOPP, a fully funded defined benefit (DB) pension plan with 300,000 members and about $64 billion in assets and "less in liabilities… we are overfunded," uses a liability driven investing strategy. LDI, he says, starts with the recognition "that we have issued a promise of value" to members. So making sure that the liability to members is funded is the investment target, and assets are aligned to that purpose. There are two investment portfolios – a liability hedge, and a return seeking portfolio.

In order to get higher returns than fixed income and real estate alone can provide, "we take on risk in as low and contained a way as possible," Long says.

Almost all of HOOPP's investments are internally managed, he says.

At Emera, says Grabmann, Nova Scotia Power has a $1.2 billion DB plan and a $43 million defined contribution plan. The DB plan, is fully funded (on both a going concern and solvency basis), and is closed to new members. Approximately "65% of our going concern liability is attributable to retirees." The investment mix used for the DB Plan is 60% Canadian and global equities, and 40% Canadian and global fixed income. "We don't do any alternative investments," she told the audience, "and all our investments are externally managed."

"Since the completion of our last asset liability study in 2012, we have had strong returns. Our focus is now to reduce volatility around our funded status," she said. "We have a pension investment team of three people, and our (goal) is to continue to have sufficient money to fund pension benefits. Our target is to have a going concern funded ratio of between 90 to 105%, in order to stabilize our cash funding over time."

The presentation concluded with a general discussion by the panel about political risks. While Brexit has not had a major effect on markets outside the UK, the US is getting set for a federal election and there is an important constitutional referendum coming up in Italy – these votes will be closely watched, the panelists told the audience.

Long says that "the market is giving us interesting signals" these days. Long noted that leverage today is "practically free," while the price of hedging is "moderate" - which opens up the option of borrowing to invest while limiting potential losses. When the markets are offering things at a good price, he said, it is often worth taking advantage.

Experts debate – is there really a looming retirement income crisis?

A feature presentation at the recent Association of Canadian Pension Management (ACPM) national conference in Charlottetown, PEI was a debate between David Herle and Malcolm Hamilton on whether or not we're on the brink of a retirement income crisis.

Photo: Malcom Hamilton

Herle, owner of The Gandalf Group, CBC commentator and veteran political consultant, led off, citing recent research carried out for the Healthcare of Ontario Pension Plan.

He noted that workplace pension coverage "is declining, and that doesn't factor in the change from defined benefit (DB) plans to defined contribution plans." DC plans "shift the risks of retirement away from employers almost entirely, and onto the employee almost completely."

That has most people "very concerned" that they won't have enough income in retirement, he says. In fact, his polling found that 62% "believe there's a retirement income crisis in Canada."

His polling showed that those with DB plans think they will have enough in retirement, those with DC think they will have about 2/3rds of what they need, and those with no plan at all feel they'll have half of what they need. However, he says, an alarming statistic is that "50% of those without pension plans set aside nothing at all in the last year for retirement."

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And saving is made difficult by the fact that 37% of those surveyed "have more personal debt than savings – and that number grows to 40% for those people aged 55 to 64."

The impacts of inadequate savings, Herle says, is that retirements "will be delayed," with 50% of those surveyed saying "they won't stop working at 65."

Other key findings:

- 81% feel employers don't offer good pension plans
- 77% are concerned that offering a workplace pension plan is not mandatory for employers
- 74% are concerned that it is not mandatory for employees to belong to a pension plan

Photo: David Herle

Herle concluded his remarks by saying that 64% of those surveyed felt that without good pension plans, "our economy will suffer. If retirees don't have adequate income, taxpayers will have to support them."

Malcolm Hamilton, a noted actuary and currently Senior Fellow at the C.D. Howe Institute, argued that public policy "should respond to reality" rather than perception. "Most of David's research is based on opinions," Hamilton says, "but are they correct?"

Hamilton emphasized that there is nothing wrong with Canadians being concerned about the adequacy of their retirement savings, just like there is nothing wrong with them being concerned about their children's safety. "It doesn't mean that they think their savings are inadequate or that their children are in danger. It simply means that these are important things that they take seriously, as they should."

He noted that lower income Canadians will get close to total income replacement in retirement through existing government programs, yet the polling suggests this group feels they will have only half of what they need. "How much do Canadians know about the retirement preparedness of other Canadians," he asked.

He says Canadians are saving at a far higher rate than is generally known -- the idea that they aren't saving is simply a faulty perception, he says.

He also says the polling shows that people want employers to offer them DB or other plans "as long as the government forces employers to pay for them. There are no surveys saying employees want to pay the full cost themselves."

There are currently fewer lower income seniors today than in the past, Hamilton says.

Hamilton says the typical couple only needs to save 4 to 6% of their income annually to have a comfortable retirement. "People are led to believe that they should max out their RRSP," he says. "At some point, we have to stop frightening the people of Canada into maximizing RRSP contributions, or be poor (in retirement)." The fact that there is one trillion dollars of unused RRSP room is because people are using the room they need, he says.

He concluded by saying there are real problems to worry about rather than workplace pension coverage, such as "low for long" interest rates, high investment management fees, and the fact that young couples "are currently forced to choose between having children or housing."

WHAT THEY'RE SAYING AT ACPM

"The passing of Don Ireland, a friend and colleague who left us too soon in March, was a shock to all of us at ACPM."

Bryan Hocking, ACPM CEO

"It is very unlikely employers will step up and sponsor defined benefit (plans), in my view this won't happen. Defined contribution (plans) are a risk transfer to employees. There has been a pension retreat by private sector employers."

Paul Moist, former National President, CUPE

"75% of households with access to workplace DC savings plans are deemed financially 'on track' or well prepared for retirement, whereas only 15-20% of middle-income Canadians retiring without access to any workplace pension plan have saved enough for retirement."

Matt Miles, VP, Strategy, Marketing & Communications, Group Benefits & Retirement Solutions, Manulife

Social media – a more candid way to engage about pensions

Reaching out to pension plan members through social media channels is a great way to gain insight into their behavior and needs – and to build a community.

So says Charley Butler, Vice-President of Member Experience and Innovation at the Ontario Teachers' Pension Plan (OTPP).

She and Karen Gordon, Principal at Gordon Strategy, spoke about how social media can also help educate and inform and develop a "deeper relationship" with plan members. Their presentation took place at the 2016 Association of Canadian Pension Management (ACPM) national conference in Charlottetown, PEI in September.

Darryl Mabini, Senior Director of Growth and Stakeholder Relations for the Healthcare of Ontario Pension Plan served as MC.

Having a strategy in place on "what to answer and what not to answer" was an important first step before actually rolling out the social media presence, Butler says.

"Most of the time and cost was in setting things up," she told her audience. "Now, our social media (work) is a small portion of one person's job." The Teachers plan is active on Facebook (popular with pensioners), YouTube, Twitter (for corporate news) and Pinterest, which they use as a sort of library of all social media offerings.

Response, she says, has been incredible. Facebook clicks are up 66% in 2015, and there have been more than 62,000 YouTube views of a short video series called Reel Retirement, where a teacher shares her thoughts and concerns about her upcoming retirement.

Gordon says there can be worries about social media from senior management. "It makes sense on the front end to educate your senior management… to acclimatize them," she advises.

As well, she says, your social media plan should clearly set out your organization's goals, "who manages what," and what the risks and benefits of social media communication are. Gordon says as well there should be set timelines of when social media communications is open for business – "late night tweets" should be discouraged.

A good social media program, she says, is "a great tool for research" into what your members think. It can also help "mitigate negative publicity" in an informal way. "Social media… offers a way for people to talk more candidly than they would in public."

Both speakers say that in general, social media creates a sort of self-regulating community. If someone does occasionally say something negative or incorrect the community tends to correct that person. The members "actually start to inform each other" about pension plan issues through social media, they said.

Butler says the experience at OTPP has been "99.9% positive."

Photo: Charley Butler & Karen Gordon

WHAT THEY'RE SAYING AT ACPM… cont'd

"The big issue… (is) the closure of many DB plans to recent hires and the establishment of a DC plan as the only option available to these employees. As the pension plan membership ages, the growth rate advantage for DC assets, accelerates."

Gordon Gibbons, SVP, Leith Wheeler Investment Counsel Limited

"The PEPP (DC) plan has a 78.8% average (income) replacement rate (including CPP and OAS). We are headed in the right direction."

John Hallett, Assistant Director, Pension Programs at Public Employees Benefits Agency

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Healthcare of Ontario Pension Plan

Pensions in Perspective
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