PENSIONS IN PERSPECTIVE

APRIL 2017

Supporting adequate pensions and retirement with dignity.

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

The newsletter is published several times a year, and past issues 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. Or you can find ARIA @hooppdb.

Enjoy!

Fully funded HOOPP tops $70.4 billion after returns of 10.35%

The Healthcare of Ontario Pension Plan (HOOPP) was 122% funded at the end of 2016, with a record $70.4 billion in net assets, following strong 10.35% returns last year.

In a media release, HOOPP said net assets improved by $6.5 billion over year end 2015. "As a result of the Plan's stable funding position, contribution rates made by HOOPP members and their employers have remained at the same level since 2004 and the Board of Trustees has committed to maintaining these rates until 2018," the release states.

Investment income in 2016 more than doubled, improving to $6.6 billion from $3.1 billion a year earlier, the release notes. "The Fund's 10.35% investment return exceeded its portfolio benchmark by 4.23% or $2.7 billion. The Fund's 10-year annualized return stands at 9.08% and its 20-year annualized return is 9.12%," HOOPP reports.

"We are very pleased with our performance this year, particularly given a challenging first quarter and overall, a volatile market," states HOOPP President & CEO Jim Keohane in the release. "But rather than comparing our annual results against those of peer plans or stock market benchmarks, we consider the true measure of our success to be our funded status as this demonstrates our ability to meet our current and future pension obligations," he states.

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HOOPP
Healthcare of Ontario Pension Plan

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Keohane states that the important value of a DB plan "is certainty for our members, knowing they won't outlive their retirement income. This is why our strategy puts funding first, an approach which balances the need to generate returns with the need to effectively manage risk."

HOOPP credits its liability driven investing (LDI) approach for serving members well "by providing stability through challenging markets. It is a holistic, long-term investment approach which considers the Plan's assets in relation to pension obligations, in order to balance risk with returns," the release states.

Here are some investing highlights from 2016:

- HOOPP's liability driven investing approach utilizes two investment portfolios: a liability hedge portfolio that seeks to mitigate certain risks associated with our pension obligations, and a return seeking portfolio designed to earn incremental returns to help to keep contribution rates stable and affordable.
- In 2016, the liability hedge portfolio provided approximately 38% of HOOPP's investment income.
- Nominal bonds and real return bonds generated returns of 3.9% and 6.8% respectively.
- The real estate portfolio was a significant contributor during the year, with a 12.2% currency hedged return.
- Within the return seeking portfolio, which provided 62% of the Fund's income, public equities were the largest contributor to investment income, returning 12.9%, while private equity investments returned 15.0% on a currency hedged basis.
- Other return seeking strategies, particularly absolute return strategies, made significant contributions to the income of the Fund. HOOPP's asset allocation was also a big contributor, providing a 1% total return.

Created in 1960, HOOPP is a multi-employer contributory defined benefit plan for Ontario's hospital and community-based healthcare sector with over 510 participating employers. HOOPP's membership includes nurses, medical technicians, food services staff and housekeeping staff, and many other people who work hard to provide valued Ontario healthcare services. In total, HOOPP has more than 321,000 active, deferred, and retired members.

Full details on the 2016 results, including video clips, can be found at hoopp.com.

FACTS AND FIGURES

- The market value of Canadian employer-sponsored pension plans totaled $1.7 trillion as of the end of September 2016, a 3.9% increase over the previous year. Source: Statistics Canada
- Canadians put an average of $4,592 into their Tax Free Savings Accounts in 2016, which is $939 less than they did in 2015. Source: BMO
- 49% of Canadians under the age of retirement are concerned about outliving their savings, and 39% of retirees find that their expenses have increased after 11 or more years of retirement. Source: Franklin Templeton
- 38% of Canadians say they have dipped into their RRSP savings early, and nearly a fifth of them don't plan to replenish what they've taken out. Source: BMO
- Longer lifespans will affect how we save for retirement. Canadian girls born in 17 years can expect to live to age 87, boys to age 84. Source: The Lancet
- The average age of retirement in Canada is 63.5 years. Source: Statistics Canada

Time to factor health costs in considerations of pension adequacy

By Kristina Hidas

Some 323,000 Canadians have inadequate retirement income once the costs of long-term health care are factored in, a figure that could grow to about 815,500 by 2038, according to a new study.

The study, which looked at the impact of out-of-pocket health-care expenses on Canadian retirement security, was conducted in three major phases by the Healthcare of Ontario Pension Plan and the University of Toronto's Institute for Health Policy, Management and Evaluation.

The first was a review of the most relevant academic literature on retirement security and health spending in Canada; the second was an analysis of household consumer spending data to assess health spending trends; and the third was a recreation of LifePaths, a statistical model created by Statistics Canada to assess Canadians' retirement readiness, with health spending factored in.

The study also found:

- Out-of-pocket health-care costs tend to rise with age, especially among high consumers of health-care services.
- To date, studies and analyses of Canadians' retirement readiness have neglected the increasingly important area of out-of-pocket health-care costs, including home-based and long-term care.
- Canadians' retirement readiness and future retirement security among certain groups, particularly women and people aged 85 and older, is impacted by out of-pocket health-care costs including home-based and long-term care.

These findings play out against the backdrop of another issue — the fact that caregiving is a serious financial burden for an increasing number of adult Ontarians. Living longer means more Ontarians will live to 85, at which point the probability of becoming severely disabled increases significantly. Some 25% of women and 15% of men aged 85 are severely disabled, which means significantly higher health-care spending and an increased need for caregiving from family members and home-care professionals.

According to a recent survey, Ontarians are facing barriers to saving for retirement beyond their wages and workplace benefits. Twenty-two per cent of Ontarians are caregivers for a family member, most often their parents, and one-third of caregivers in the province are unable to afford the professional home-care assistance they need. This means roughly 750,000 Ontarians need home care for caregiving purposes (not personal use) but can't afford it.

The findings have important implications for policy-makers and stakeholders in both the retirement and health-care systems. Building on the recent Canada Pension Plan enhancement, stakeholders and policy-makers should examine additional ways of strengthening retirement security for all Canadians, including focusing on women and devising more efficient strategies for financing out-of-pocket costs associated with home-based and long-term care.

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POSITIVE REACTION TO HOOPP RESULTS

News of HOOPP's strong performance drew positive reaction on social media in the hours following the release of the results.

- "HOOPP pensions are 122% funded," tweeted **Gareth Jones of the Ontario Public Service Employees' Union**.
- "Are you a HOOPP member? We want to share some exciting news from their 2016 Annual Report," tweeted **Service Employees International Union (SEIU) Healthcare**, with a link to hoopp.com.
- "500-plus employers across Ontario offer HOOPP," tweeted the **Ontario Nurses' Assocation (ONA)**. ONA Local 8 tweeted that HOOPP's was fully funded with record assets.
- "Despite market volatility, HOOPP's return rises 10.35% for 2016," tweeted **Benefits Canada**.
- **Ray Bawania** tweeted that HOOPP's funded status jumped following investment returns of more than 10%, linking to coverage in **Canadian Investment Review**.
- "Breaking news – HOOPP's assets top $70 billion," tweeted **Private Equity Hub Canada**.

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As part of its advocacy efforts, HOOPP periodically conducts research on topics relevant to retirement security, plan members and its community of stakeholders. The purpose of this research is to inform public and stakeholder debate, as well as to contribute to evidence-based public policy and regulation on issues relevant to HOOPP members.

Author Kristina Hidas is senior manager of strategic research at the Healthcare of Ontario Pension Plan. This article originally appeared in Benefits Canada.

IN THE NEWS

Canada Post union wants DB for all members

The Union of Postal Communications Employees (UPCE) wants defined benefit (DB) pensions for all of its members, reports Benefits Canada.

"We believe that defined contribution does very little for the plan itself but has significant impact on our members' retirement security," François Paradis, UPCE's National President, tells the magazine. The union, reports Benefits Canada, represents engineers, HR staff, call centre reps and a variety of other Canada Post employees.

Employees who were hired after May 2014 don't get to enroll in the DB plan, but instead can take part in a defined contribution plan, the magazine reports. They are allowed to contribute up to 4% of their salary, with the employer adding 75 to 125% of what employees contribute depending on their age and seniority, the article notes. Paradis says it would be best to have everyone in the same DB plan, the article notes.

Strong returns, improved funding for OMERS

The Ontario Municipal Employees' Retirement System (OMERS) reported an investment return of 10.3% in 2016, with funding improving to 93.4%, reports the Pension Pulse blog.

OMERS saw its net assets grow to $85.2 billion, an increase of $8.1 billion over 2015, the blog notes.

"Our strong investment returns in 2016 reflect the value of our well-diversified portfolio of high-quality assets, which we are continuously building," Michael Latimer, chief executive of OMERS, states in the Pension Pulse blog post. "All of our asset classes produced solid returns."

Caisse de Depot posts 7.6% gain

Quebec's Caisse de Depot et Placement reported 7.6% returns in 2016, led by gains in Canadian stocks and real estate, reports Bloomberg.

Caisse CEO Michael Sabia told Bloomberg that the pension fund plans to move away from bond holdings and will "devote more resources to corporate credit and real estate debt."

Bloomberg reports that net investment income of $18.4 billion increased the Caisse's net assets to $270.7 billion at year end 2016, up from $248 billion at the end of 2015.

Link to articles referenced:

Benefits Canada: http://www.benefitscanada.com/news/canada-post-union-pushes-for-db-plans-for-all-members-94578

Pension Pulse: http://pensionpulse.blogspot.ca/2017/02/omers-gains-103-in-2016.html?m=1

Bloomberg: https://www.bloomberg.com/news/articles/2017-02-24/caisse-says-party-is-over-for-bonds-plans-shift-to-credit

WHAT THE POLITICIANS ARE SAYING

"We've already seen taxes go up through cancelled sports, arts, and dance credits, a hike on local businesses, a cut to Tax Free Savings Accounts, a Canada Pension Plan tax hike, and the Carbon Tax."

Rona Ambrose, Interim Leader of the Opposition (Conservative), writing in the Toronto Sun

"I would like to thank Canada's finance ministers for their hard work in reaching an historic agreement to make the CPP even better. Their commitment to improving the lives of Canadians in retirement is an example of what we can accomplish together — and of federalism at its best."

Federal Finance Minister Bill Morneau, quoted in Benefits Canada

"Lorna is in her early fifties. She has a decent job, but her husband is on a disability pension and they find themselves having to choose between whether they can put some money away for retirement or whether they're going to pay that hydro bill."

Cindy Forster, MPP for Welland (NDP), in the Legislature

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Pensions in Perspective

Pensions in Perspective is produced by the Public Affairs team at the Healthcare of Ontario Pension Plan.
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