

THE EMERGING RETIREMENT CRISIS

PART ONE | Ontarians Rank Retirement Income
Security as a Top Concern



HOOPP
Healthcare of Ontario
Pension Plan

Letter from Jim Keohane, HOOPP

Dwindling pension coverage in Canada is a threat to the Canadian economy and is likely to create a crisis in the social welfare system. The results of the *2013 HOOPP Retirement Income Survey* show Ontarians are keenly aware of the issues and that, above all, they want to enjoy a financially secure retirement. This message comes across loud and clear in this report, which highlights Ontarians' attitudes and preferences when it comes to pension coverage.

Today, many Canadians are either unable or unwilling to save for retirement. Consider that Canadians have left more than \$600 billion in unused RRSP contribution room on the table and the average Canadian's RRSP totals just \$60,000 at retirement – only enough to provide income for a few years.

In light of these factors, the move away from defined benefit pension plans in the workplace over the past three years is a troubling trend. And while there are many proponents of defined contribution plans in Canada today, that shift is not about cost savings. Rather it is about the transfer of investment risk onto individuals who might not be in a position to adequately bear that risk.

As a defined benefit (DB) pension plan, HOOPP's success is driven by one clear vision: that healthcare workers enjoy a financially secure retirement. HOOPP is proof that the DB model works – and that it works well. Every day we manage over \$40 billion in assets for our 270,000 members and pensioners. We have remained fully funded amidst extreme market uncertainty and we will continue to deliver on the pension promise for years to come.

HOOPP's success serves to underline the fact that Ontarians can have what they say they want and need: a stable place to save their money and access to an adequate income at retirement.

Letter from David Herle, The Gandalf Group

Having enough money for retirement is one of the primary financial concerns for most working Canadians. Those between the ages of 45 and 65 are in a very high state of anxiety about adequate retirement income.

Three quarters of middle-income Canadians will not save the 15% benchmark percentage of income one must save in order to replace 50% of their income. In fact, half of middle-income Canadians will save less than 5%.

This is a trend that is not correcting but accelerating. Most people say they will be cutting back on their savings this year because of their strained household budgets. Half of the people surveyed aged 55 to 64 have more debt than they do savings, not including their mortgage. Debt is being driven by the need to meet monthly expenses. Saving for retirement is an impossibility. They are on the verge of retirement age and they have more debt than they do savings. The scourge of elder poverty is on the verge of a comeback in Canada.

Only a third of current Canadian workers expect to retire by the age of 65 and not by choice. They cannot foresee a way in which they will be able to afford to retire. Retirement itself will be different as well. Most people believe they will likely have to work for pay in some measure while retired, in order to make ends meet. The idea of retirement as we have known it is disappearing.

The significance of this research is to encourage policymakers and corporations to implement strong workplace pensions programs in order to provide Ontarians with sufficient income for retirement. Having a strong pension program brings Ontarians one step closer to altering the accelerated retirement crisis this country is heading towards.

Executive Summary

Retirement income security has become a hot button issue in Ontario according to a new report from the Healthcare of Ontario Pension Plan (HOOPP), *The Emerging Retirement Crisis*, based on findings from the 2013 HOOPP Survey on Pensions research by the Gandalf Group. Today, Ontarians rank retirement income security as a top concern alongside the environment and the state of healthcare. Their worries over where the money will come from when they can no longer work are not surprising given the rest of our findings: as Canadians deal with record levels of debt and dwindling access to secure workplace pension plans, our research finds many are unable to put away extra money for retirement once their basic living expenses are paid for.

Not surprisingly, almost two-thirds (64%) of Ontarians are worried they won't have enough money at retirement and many have concerns that the type of pension plan they do have won't be enough to cover their basic living costs. While the clear majority (82%) of defined benefit (DB) plan members are confident their pension will cover them in retirement, only half (57%) of defined contribution (DC) plan members say they are confident their pension savings will be an adequate source of income.

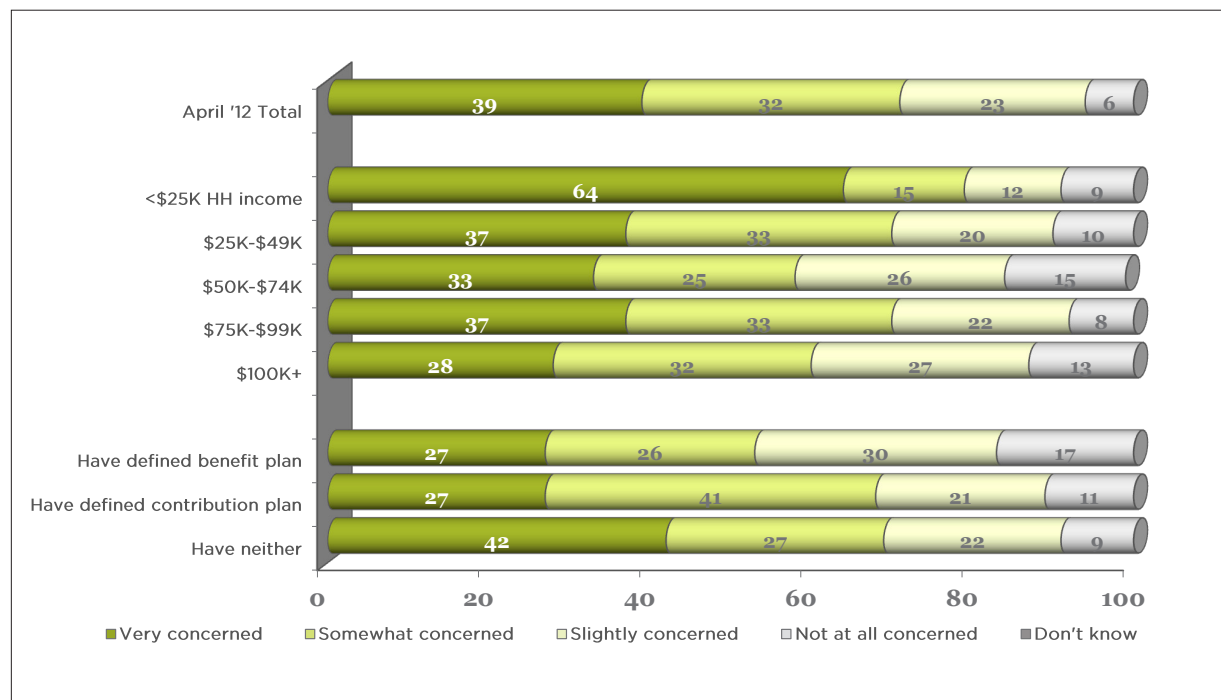
DB plan members are also far less likely to rely on government retirement benefits than are their DC plan counterparts: just over half (57%) of DC plan members say they won't totally rely on Canada Pension Plan (CPP) and Old Age Security (OAS) (roughly the same level [53%] as those with no pension coverage at all).

Key Findings

RETIREMENT INCOME SECURITY A TOP CONCERN FOR ONTARIANS

Having enough money at retirement is one of the top three concerns facing the people of Ontario today, after the state of the healthcare system and the environment. A clear majority (64%) of Ontarians are worried they won't have enough money at retirement. Retirement adequacy also trumps personal debt levels when it comes to things keeping Ontarians up at night, a surprising trend given Canadians now face a record debt-to-income ratio of 164.6%, with the average consumer debt load sitting at a whopping \$27,485 at the end of 2012 (source: TransUnion).

The number of people who say they are very worried about where the money will come from to support them when they retire is on the rise, up to 39% in 2012 from 31% in 2008. Worries about retirement security cut across all ages and income levels, with 70% of those earning between \$75,000 and \$99,000 anxious about their retirement savings. Retirement income concerns also affect 60% of those earning more than \$100,000 a year and 58% of those earning \$50,000 to \$74,000 a year.

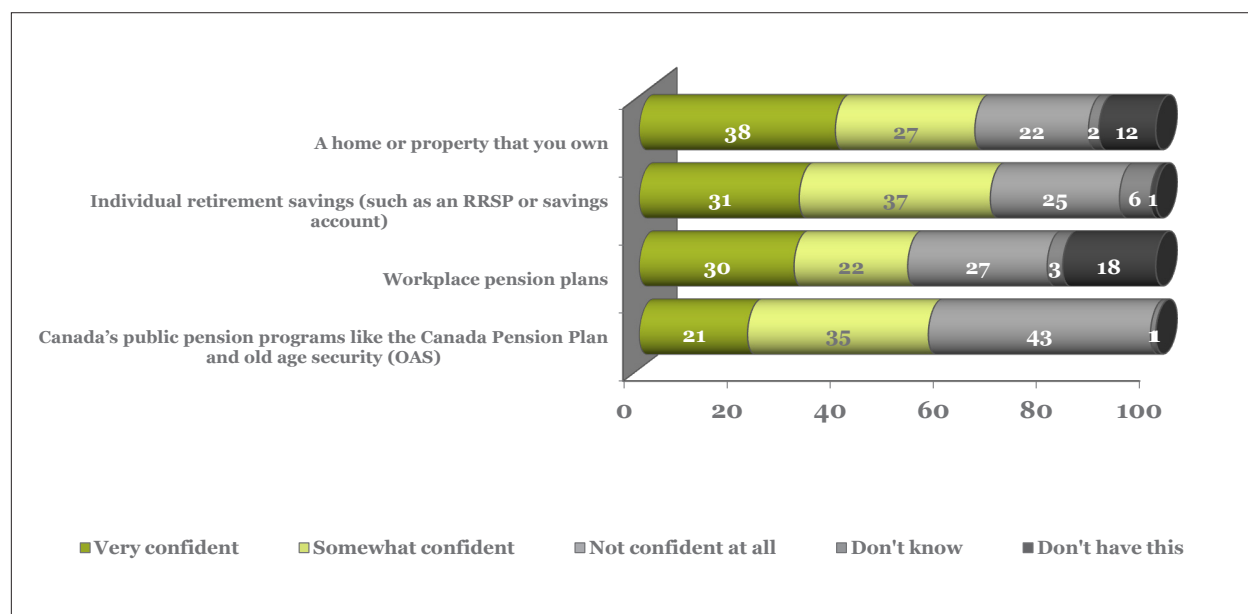


DC PLAN MEMBERS DON'T FEEL SAFE

Concern over having adequate retirement income is associated with the type of workplace pension program an Ontarian has. Those without any workplace pension and those with a defined contribution (DC) plan are equally likely to be worried: two-thirds of Ontarians (69%) without a pension plan and 68% of those with a DC plan say they're personally concerned about not having enough money for retirement. By contrast, only 53% of those with a defined benefit (DB) plan say they're worried.

The difference in levels of concern stems from differences between DB and DC plans: while DB plans provide a predetermined and guaranteed income in retirement, DC plan assets do not provide any guarantee and are tied closely to market volatility which has dogged investors in the wake of the 2008 financial crisis. That fundamental difference could also be why DB plan members are so much more confident their pension plan will be there for them when they retire. When asked how confident they are that their pension will provide an adequate retirement income, the clear majority (82%) of DB members said they were confident. However, only half (57%) of DC members say they are confident their pension savings will be an adequate source of income in retirement. Without a guaranteed benefit at retirement, Ontarians are rightly worried that their pension savings won't be enough.

68% of DC plan members are concerned they don't have enough money for retirement



ONTARIANS RELYING ON REAL ESTATE, PERSONAL SAVINGS

As concerns mount over retirement income adequacy, more Ontarians are relying on real estate and their individual retirement savings than they are on pension plans. When asked how confident they feel about specific sources of retirement income, only 52% are confident their workplace pension plan will be there at retirement – and a further 18% don't have one.

Far more (65%) express confidence their home or property will provide them with adequate retirement income. Nearly two-thirds (68%) are confident their individual retirement savings will cushion them in retirement. And a further 56% plan to rely on public pension programs like the CPP and OAS.

Ontarians think they will need between 51% and 75% of their working income in retirement

Ontarians' confidence about their retirement income is closely tied to whether or not they have a pension plan at work and the type of plan their employer offers. Most (82%) of defined benefit (DB) plan members are confident their pension will provide adequate income in retirement. Only 57% of DC plan members say they are confident their pension savings will be an adequate source of income.

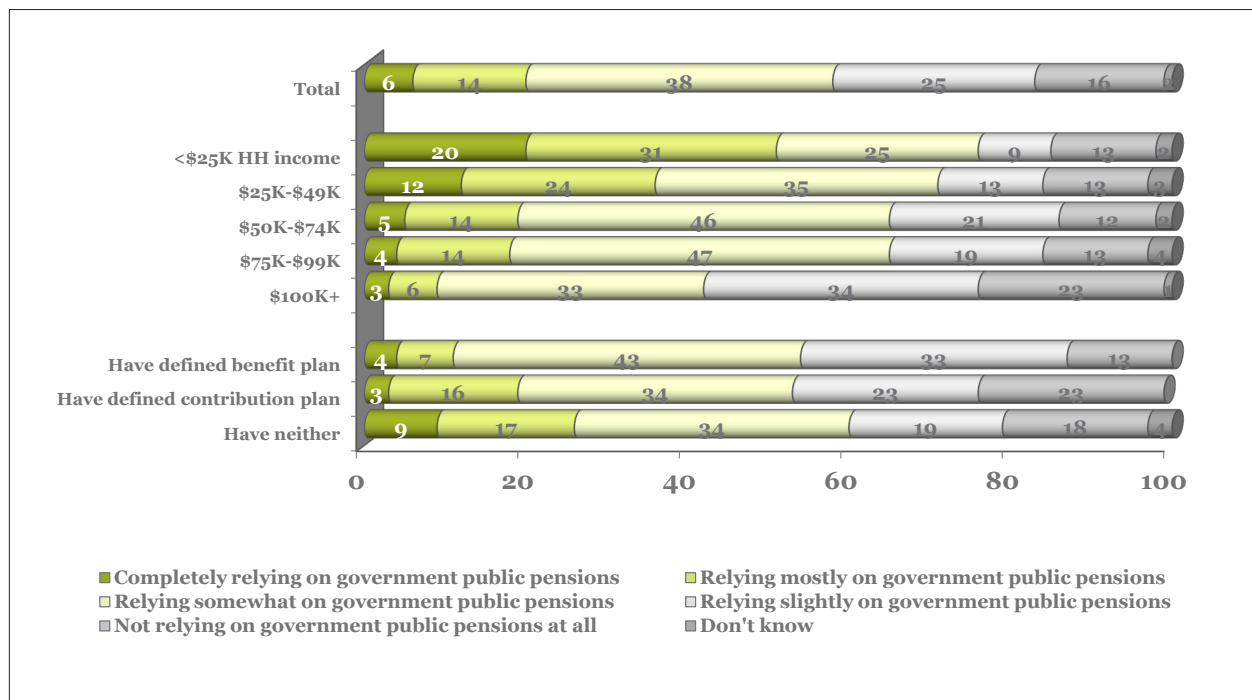
Among those with DB plans, confidence in real estate, individual savings and government pensions, is the highest. However, Ontarians with DC plans and those with no workplace pension are less confident about real estate, individual savings, and government pensions as sources of retirement income. In fact, these groups are not very different in terms of their levels of confidence with those sources of retirement income.

MINDING THE GAP

The majority of Ontarians aren't confident they can save what they need to for retirement and their concerns are clearly well founded. Forty per cent expect to receive less in retirement than they anticipate needing. And a further 46% expect to receive less than half of their working income in retirement, a major shortfall given that the clear majority (81%) anticipate needing at least half of their pre-retirement income in retirement.

Pension coverage matters. DB plan members have the smallest gap between expected need and expected income. While 81% of DB plan members anticipate needing at least half of their pre-retirement income, 79% expect to receive that amount. DC plan members are feeling less secure: although 73% believe they will need at least 50% of their working salary, less than half expect to receive that amount.

So how much do people think they need? More than half of Ontarians say they will need between 51% and 75% of their working salary as retirement income. Another 20% believe they will need at least 75% of their working income. Only one quarter say they will need 50% or less of their working income in retirement.

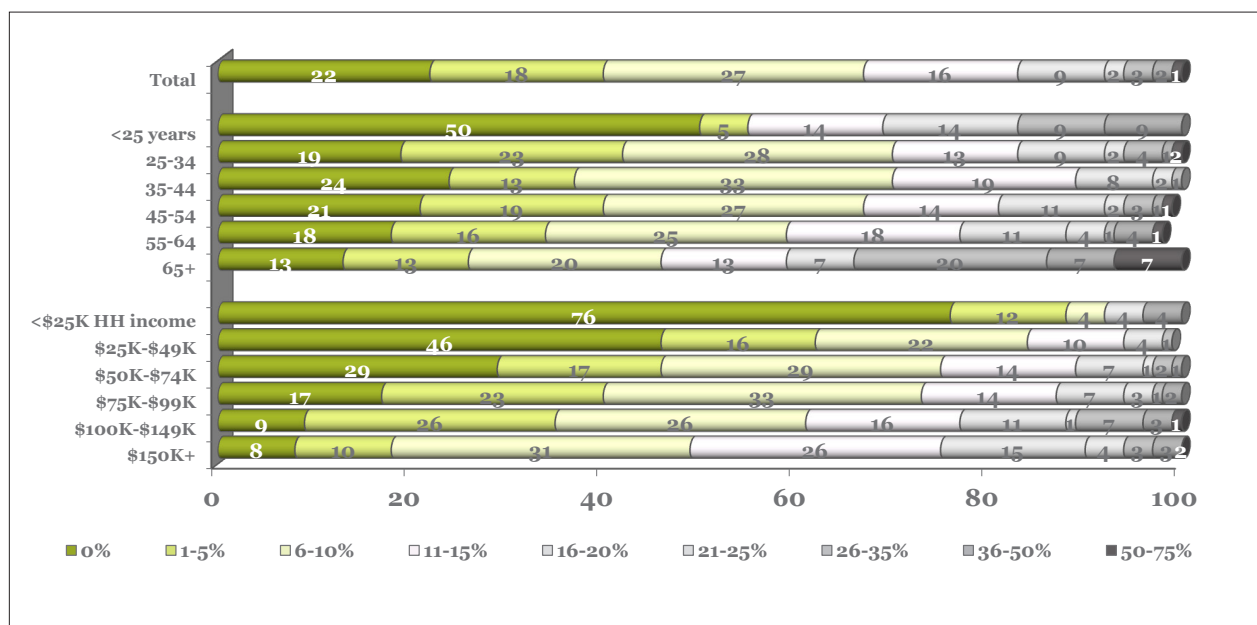


Yet, most Ontarians aren't confident they can save what they need. In fact, while almost three quarters of Ontarians expect to need at least half of their working salary in retirement, almost half (46%) expect to receive less than that. In total, 40% of Ontarians expect to receive less retirement income than they think they will need.

The number of people able to save varies by income and age, with nearly half (46%) of those earning between \$25K and \$49K saying they've saved nothing for retirement in the past year. A third (29%) of those earning \$50K to \$70K haven't saved anything in the past year. And even the highest income earners appear to be putting away less, with nearly half (49%) setting aside 10% or less of their income.

BARRIERS TO SAVING

Given the large gap between what Ontarians say they need in retirement and what they are currently putting aside, why aren't they saving more? The majority (35%) says the biggest barrier to putting aside money is cost of living and monthly expenses, including rent, mortgages and car loans. Nearly 20% say they don't earn enough to save while others cite barriers such as unemployment, the cost of education and tuition, financial problems and lack of knowledge or discipline.



CPP AND OAS

Sustainability of the government's public pension system is another of the top concerns expressed by respondents: 68% say they are concerned that federal and provincial retirement benefits won't provide a financial cushion in retirement.

Most Ontarians are relying on government benefits in retirement

Despite this fact, however, most are still relying on government benefits to support them in retirement. When asked what sources of retirement income they have, the majority (78%) said the Canada Pension Plan. This was followed closely by RRSPs (74%) and other savings (45%). Only 39% say they have a DB pension plan and far fewer say they have a DC plan (17%). Inheritance (18%) and a reverse mortgage on a home (3%) are two other sources cited by respondents. Finally, 6% of Ontarians don't know what they will have as a source of income in retirement.

Clearly, Ontarians are still relying on a government pension, despite fears that benefits like CPP and OAS might not be there for them when they retire. Right now, 20% of Ontarians surveyed are relying on the pillar of government pensions to ensure adequate income at retirement. While it's clear not all Ontarians are relying on CPP and OAS as their sole source of income at retirement, most (63%) are looking to government benefits to supplement their income to some extent, either moderately or slightly.

Not surprisingly, pension coverage makes a big difference in whether people rely on government benefits: 76% of those with a DB will either not rely on or only slightly rely on government retirement benefits. By contrast, only 57% of DC plan members won't rely on or will only slightly rely on CPP and OAS, drawing on government retirement benefits at roughly the same level as those with no pension coverage at all (53%).

Conclusion

As Ontarians express their worries over retirement income security, they are also facing monumental challenges on the home front, with high debt levels and a reduced capacity for saving. Against a backdrop of economic instability here in Canada and around the world and as Canada's population ages, these concerns aren't likely to go away any time soon.

THE EMERGING RETIREMENT CRISIS

PART TWO | Ontarians want action on pension
issues now



HOOPP
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Pension Plan

Key Findings

LOSING FAITH IN THE SYSTEM

As 86% of Ontarians worry about an emerging retirement crisis, two-thirds (64%) do not believe that Canadians have a good workplace pension program. To this point, 80% of Ontarians agree that workers don't save enough money during their working years and another two thirds (66%) agree that the imminent retirement income crisis is because the government doesn't make it mandatory for employers to offer good pension plans. Three quarters (73%) agree that a contributor to the problem is the fact that employers don't offer good pension plans for workers. More than two thirds (68%) believe workers don't contribute enough to workplace pension programs. More than half of Ontarians (58%) believe that a contributor to the problem is the fact that the government doesn't make participation in workplace pension programs mandatory for workers.

The research also shows widespread negativity about Canadian workers' ability to achieve stable retirement income. Over half (56%) don't think most Canadians will have an adequate retirement income from their workplace pension programs and individual savings. And two thirds (64%) don't believe Canadians have a good workplace pension program.

ARE PENSIONS TOO EXPENSIVE?

Ontarians recognize that workplace benefits have changed. The vast majority (87%) believe that companies are not as generous as they used to be in ensuring their workers have a good workplace pension plan. At the same time, their expectations of employers haven't changed. Most Ontarians (86%) believe companies have a responsibility to offer a pension plan that will give workers an adequate retirement income.

*64% don't believe
Canadians have a good
workplace pension program*

Ontarians are also somewhat cynical about the arguments corporate Canada has put forth to justify cuts or downgrades to workers' retirement benefits (i.e. closing defined benefit pension plans or shifting to a group RRSP or DC model). Half (52%) don't think an uncertain economy should be a reason for employers to stop offering retirement saving benefits to their workers and 59% don't believe that an increasingly competitive global economy means companies can't afford to offer good pension or retirement savings programs. Clearly, employers are still seen as a pillar of the retirement system by Ontarians who are growing increasingly resentful that they are stepping away from their responsibility.

GOVERNMENT NEEDS TO STEP UP

Ontarians also believe that adequate pensions are important to the economic health of the province and that the government has a role in fixing the problems. The vast majority of those we surveyed (88%) agree that without good pension programs to ensure adequate retirement income, our economy will suffer. At the same time, however, 82% think the government hasn't done enough to regulate corporate

pension funds to ensure they are sustainable, and a further 85% believe the government should ensure that all workers can access the best type of workplace pension plan. The majority (80%) say the government needs to make sure that workers are contributing to their plan at work and 78% say it should also ensure that companies offer pension plans that provide employees with at least 60% of their working wage in retirement.

Clearly, dwindling pension coverage in the workplace has not gone unnoticed by Ontarians who see economic risks and believe more government action is required to ensure people get access to the best kind of plan at work.

REDUCING THE COST TO TAXPAYERS

As Ontarians demand a government action plan to deal with the looming retirement income crisis, they also have clear views on the role individuals can and should play in securing their retirement income. The majority (89%) of respondents believe workers have a responsibility to contribute to a good workplace pension plan to ensure they don't become a burden on taxpayers when they retire. At the same time, most (85%) believe that if workers aren't able to access good pension plans and contribute to them during their working life, they will become a cost to taxpayers. Another 85% believe that recent stock market performance shows how dangerous it is for workers to rely on their own savings and investments for retirement income.

Two thirds (65%) of Ontarians agreed that it is not fair that some in the province have better pension plans than others. However, only half of Ontarians agreed (54%) that if an individual doesn't have adequate income in retirement, it is their own fault. This adds to the belief that Ontarians should have equal access to a good pension plan.

ONTARIANS PREFER DB

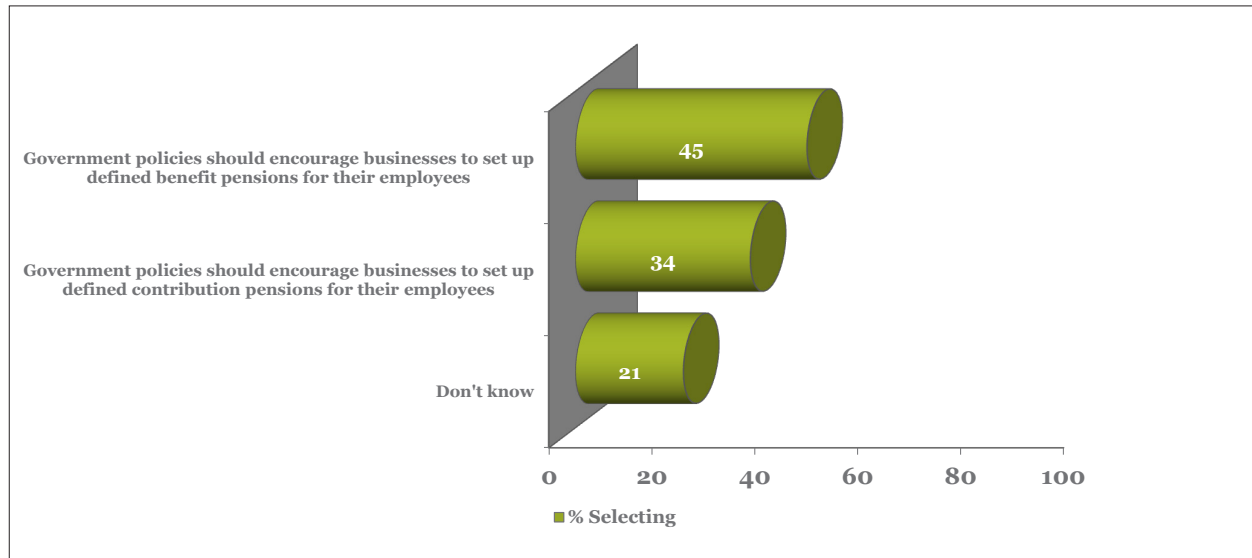
Given the gap between retirement income needs and the reality of what people are able to save, what do Ontarians want to ensure retirement income adequacy? Most (82%) agree that they want a pension plan that pays out an amount

based on what they earned while working rather than a pension plan whose payments are based on fluctuations of the market. And 81% believe all workers should have a pension that guarantees a percentage of their working income in retirement. By contrast, only half (51%) would prefer self-directed options such as a defined contribution (DC) plan, where they can choose investments, even if their choices could provide a better payout on retirement. Stability is key for Ontarians.

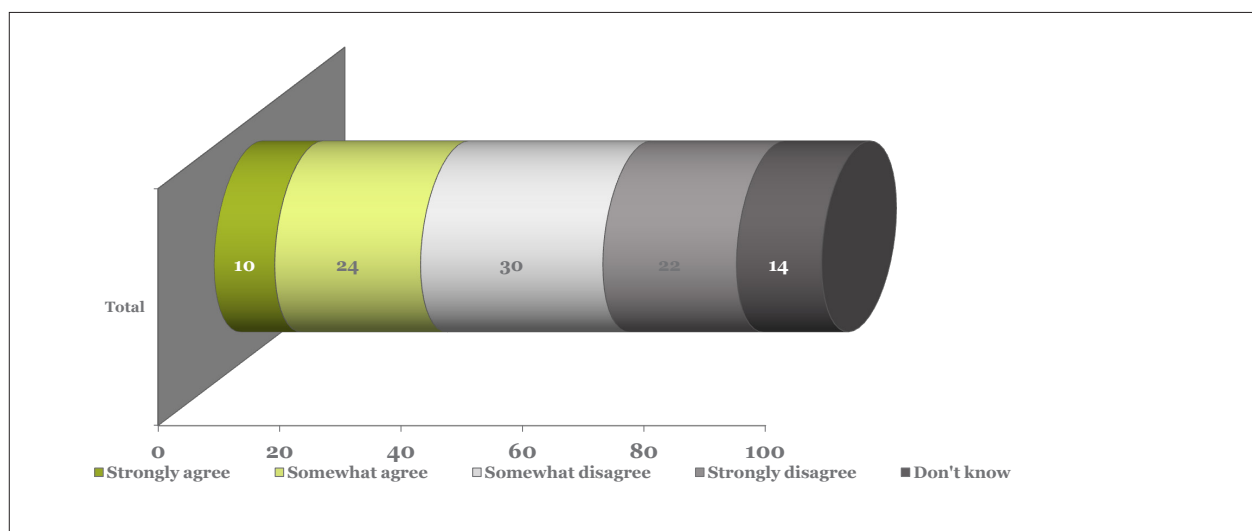
However, they aren't as willing to accept lower wages in exchange for a better pension plan: fewer than half (45%) would prefer to make less in exchange for pension benefits. Most (67%) also disagree with the argument that there should be no guarantees on how much workers receive from pensions in retirement because it all depends on how investments do in the markets. And only 18% would rather take the money as salary than direct contributions to a pension plan

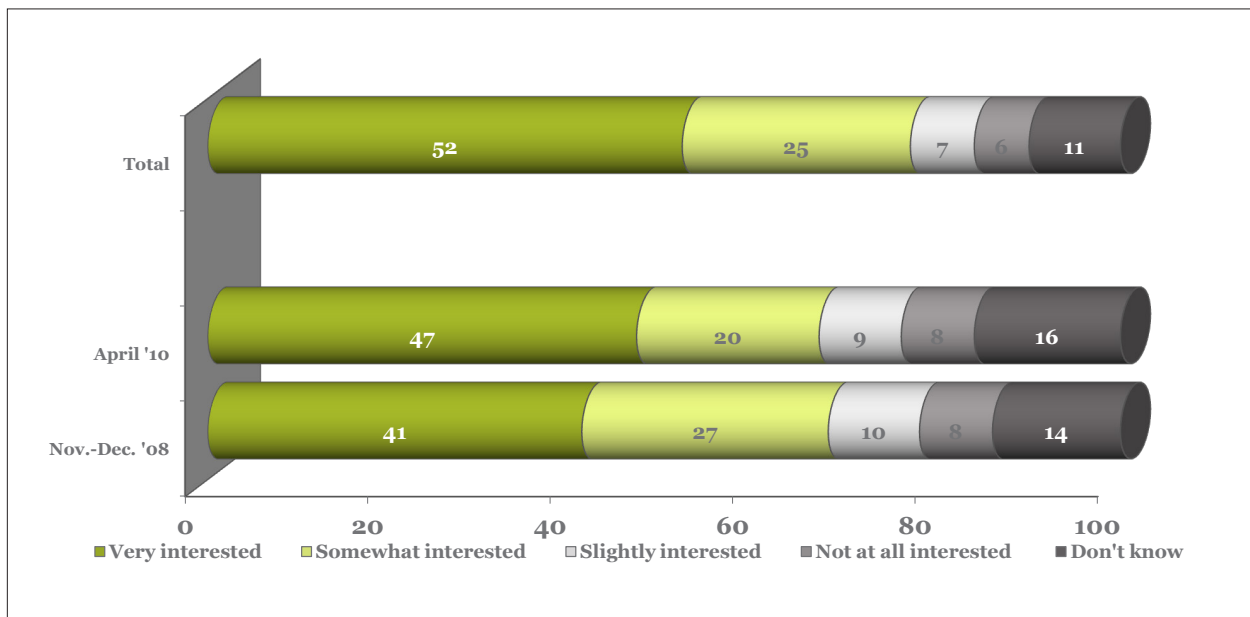
77% are interested in being part of a DB plan

While Ontarians would prefer to pay into a DB plan at work, more and more workplaces are closing their plans to new members. Affordability is one reason cited for the closures as corporate Canada claims the DB model is too costly a benefit to offer. Do Ontarians think this is a valid reason? No – half (52%) say it's not.



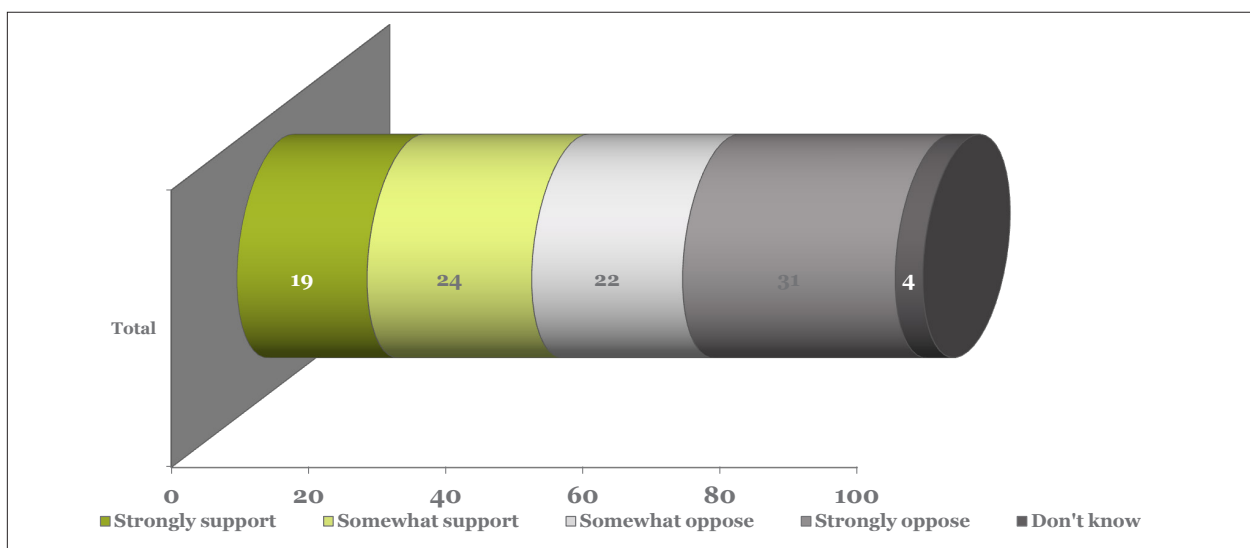
Given their preference for a guaranteed payout, it's not surprising that Ontarians would rather be part of a DB plan than a DC one, where market risk is borne by the member and retirement income is not guaranteed. Three quarters (77%) of Ontarians are very or somewhat interested in being part of a DB plan. Only 52% are very or somewhat interested in choosing a DC plan.





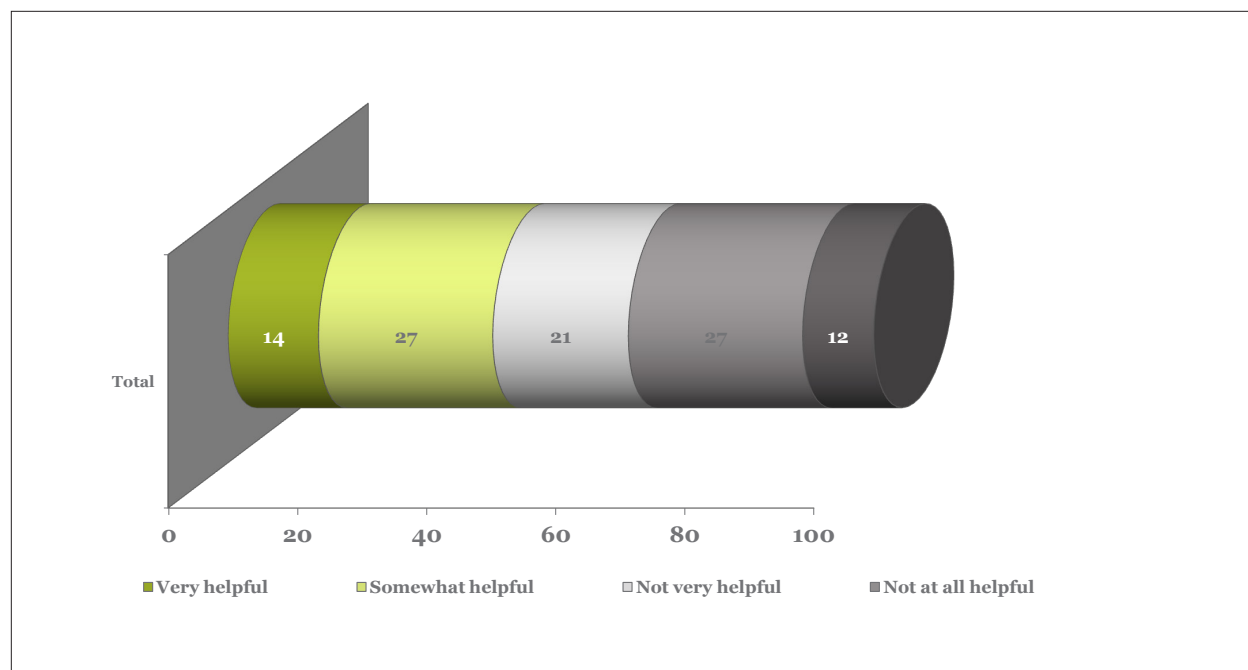
REFORMING CPP AND OAS

Although Ontarians have a clear preference for a DB model with a guaranteed payout at retirement based on earnings, fewer and fewer workers have access to this type of benefit. If a retirement crisis is on the horizon, what can be done to avert it? How can the system be fixed? One solution put forward by the government has been reform of CPP and OAS. However, Ontarians are divided on their support for a change to OAS that increases the age of entitlement to receive this benefit to 67 from 65. Roughly half (43%) support this policy, while a larger number (53%) oppose the change. Among those who oppose the change, 54% believe the age of eligibility should never be pushed back while 13% believe the timing of reform has been too fast.



When it comes to CPP, however, Ontarians appear willing to accept moderate increases to contributions on the part of both workers and employers. The majority (77%) would welcome increases of up to 8% of workers' salaries over the current 5% in exchange for a benefit that is 60% higher than it currently is. By contrast, only 17% oppose the idea of CPP increases.

While Ontarians are widely supportive of increases to CPP, it's only part of the solution – in fact, such increases wouldn't personally help many of our respondents. Half (48%) feel the changes won't be helpful at all to them personally. Despite this fact, most Ontarians would be willing to pay the extra premiums: only 24% would opt out of paying more if given the chance, while 56% would pay the higher premium.



THE PRPP QUESTION

As Ontarians seek out lower risk ways to guarantee adequate retirement income, the federal government has introduced another workplace savings vehicle: pooled retirement pension plans (PRPPs). PRPPs, which were introduced last year by the federal government under Bill C-25, are designed for small- and medium-sized businesses that don't currently offer workers a pension plan. While Ontario has not adopted the PRPP model, the majority of respondents to our survey (80%) strongly support legislation that would allow them to be created. However, while they appear to like the idea of PRPPs, two-thirds (63%) don't think they would be helpful for them personally if they were eventually introduced in Ontario.

Two-thirds don't think PRPPs will be helpful to them personally

THE ROLE OF PUBLIC SECTOR PLANS

There has been much debate over “pension envy” in the media and among policymakers and rightly so: as corporate Canada cuts back on DB pension benefits for its workers, public sector workers remain covered by their DB plans. Not surprisingly, 83% of Ontarians believe public sector workers get a better pension than other workers. But does this mean Ontarians want to see benefits stripped away from public sector workers? Not according to our research.

Although Ontarians are well aware that there are pension haves and have-nots, they do not appear to believe the solution to the retirement crisis lies in taking away pension benefits from all public sector workers. They are clearly divided over their support of public sector pensions – 42% oppose them, while 52% support them. While only 49% disagree with the concept that public sector pension plans are no longer affordable, the majority is overwhelmingly supportive of pensions for specific public sector workers: military personnel (82%), fire and police workers (76%), nurses (75%), hospital personnel (72%) and teachers (64%). By contrast, opposition is high for pensions that support members of Ontario’s legislature (69% oppose) and members of federal parliament (76% oppose). The public sector pension debate isn’t a black and white issue: rather, it’s a nuanced discussion that involves how Ontarians value public sector workers in specific jobs and professions.

There is, however, some lack of clarity around who bears the cost of public sector pension plans. Ontarians believe that taxpayers and governments are the major contributors to public sector pensions, followed by the public sector worker.

There are two major issues at play. The first is the cost of pension plans. The second is that those with inadequate pension coverage will become a burden on the taxpayer and a drag on the Ontario economy.

Conclusion

Ontarians want policymakers to act on retirement security issues and they are demanding clear solutions to ensure that no one is left behind when it comes to having enough to live on when they stop working. The solution doesn’t lie in stripping benefit from some sectors of the population – it lies in providing better solutions across the board through access to stable income at retirement for everyone. Without this, the looming retirement crisis Ontarians see in the future will soon become a reality.