DECODING THE RETIREMENT MINDSET

The Benefits Canada Survey of Capital Accumulation Plan Members

Benefits Canada

Welcome to our 2nd Annual Survey of CAP Members

As employers increasingly turn to Capital Accumulation Plans (CAPs) to provide retirement security for their employees, they have a greater need for information to help them engage plan members in the process of saving for retirement. Plan sponsors need to understand what drives and motivates plan members so they can provide them with all of the information, education and investment choices needed to help ensure a comfortable retirement income.

With that in mind, in 2006, *Benefits Canada* undertook the first comprehensive survey of Canadian CAP members. The Rogers Business and Professional Publishing Research Team surveyed 1,500 members across the country about their expectations for retirement, their perceptions of their plan, their investment knowledge and their role in saving for retirement. The objective was straightforward—to put a face on the more than four million working Canadians who belong to a CAP.

The purpose of the survey for 2007 is the same: to build credible, relevant and actionable data on the provision of group retirement savings plans in Canada. For this year's survey, however, we have built on last year's results and focused on the findings that raised both questions and eyebrows. For instance, we took a closer look at plan member engagement—what forms of communication or plan design features can best capture the attention of otherwise disinterested members. We also shone a light on members' use of and desire for financial planning and advice, an issue that came to the forefront last year.

Once the results were in, we brought together a mix of industry stakeholders—plan sponsors, record-keepers, consultants and others—to ask them how plan sponsors should act on the results.

The highlights of that discussion, and the survey results themselves, are featured in the following pages.

Don Bisch
Editor, *Benefits Canada*

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Jeff Aarssen, Great-West Life
Virginia Alderman, Manulife Financial
Michael Campbell, Great-West Life
Shawn Cohen, Hewitt Associates
Anna Del Balso, Standard Life
Mark Dowdell, Pal Benefits Inc.
Marie Foggetti, Sun Life Financial
Ian Genno, Towers Perrin
Adrienne Guest, Delta Hotels
Janice Holman, Eckler Partners
Hugh Kerr, Sun Life Financial
Gord Lewis, Proteus
Teresa Morgan, Standard Life
Janet Rabovsky, Watson Wyatt
Sharon Seifried, Manulife Financial
Oma Sharma, Mercer
Mike Still, AON Consulting
Bruce Winch, AIM Trimark & INVESCO

1 Retirement Planning and Expectations

In the 1997 hit film *Austin Powers: International Man of Mystery*, the villainous Dr. Evil returns after 30 years of being cryogenically frozen and demands "one million dollars" in ransom to secure the planet's safety. He is politely reminded by his henchmen that $1 million doesn't go as far as it did in the 1960s.

Fortunately, Canadian plan members are aiming higher than Dr. Evil. Respondents to *Benefits Canada*'s 2007 *Survey of Capital Accumulation Plan (CAP) Members* estimate they will need an average of $1.3 million to retire. With that sum of money, they hope to generate an average income replacement ratio of 77% of their current salary.

On the surface, both figures appear to be in line with other research conducted in this area. For example, an AARP research report called "How Will Boomers Fare at Retirement?" projected that the second wave of U.S. baby boomers (born between 1956 and 1965) would have nest eggs averaging US$839,000 and a median replacement ratio of 80%.

"How unrealistic are members' expectations and how crashing is their reality going to be?"
– **Virginia Alderman,** Director of Marketing Communications, Group Savings and Retirement Solutions, Manulife Financial

Are members too optimistic?

However, Jeff Aarssen, vice-president of distribution at Great-West Life, thinks that getting to $1.3 million—or even $839,000—will be a stretch for many Canadians. "Average [CAP] fund balances in Canada are about $25,000," he points out.

Sharon Seifried, assistant vice-president marketing, Group Savings and Retirement Solutions at Manulife Financial, suggests that plan sponsors need to better clarify member expectations. "We have to put an income estimate in front of members. They need to understand how much they'll have if they retire tomorrow," says Seifried. "Sponsors and providers must keep outcomes visible to members—whether they're asking for that information or not. Putting the estimate in terms members can relate to is key."

Many agree that more targeted communication is necessary to give members a clear sense of just how much income their plan is designed to replace in retirement. As Oma Sharma, DC consulting leader for Mercer Canada, observes, "People are having trouble translating the accumulation [in their plan] into a benefit stream."

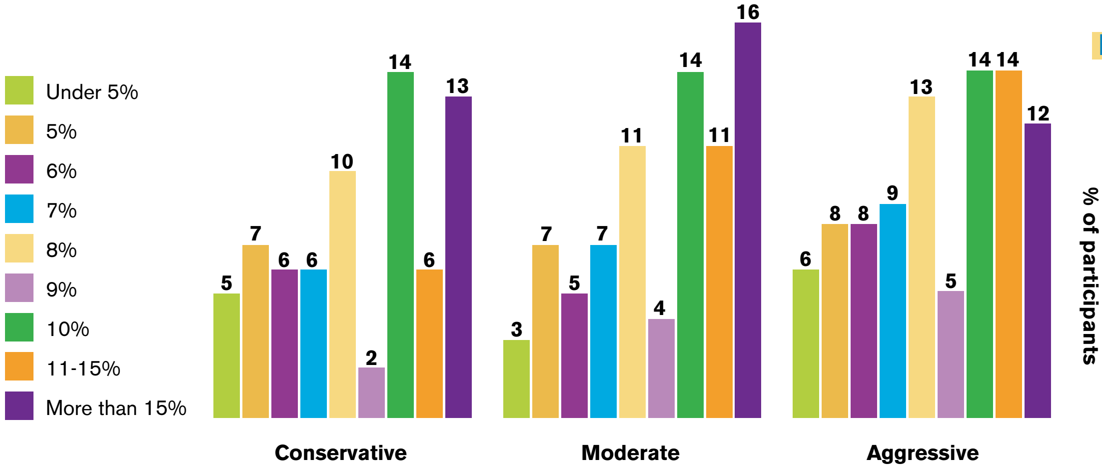
Fortunately, having a written financial plan appears to help members develop more realistic expectations. Forty-three per cent of respondents stated that they have a formal financial plan that outlines the age at which they will retire and the amount of money they will need to retire. On average, their financial plans indicate a retirement age of 59.4 years and required retirement savings of more than $2.8 million. That's more than twice the $1.3 million average indicated by all respondents, including those without a formal financial plan.

That said, 78% of respondents with a formal financial plan believe it's somewhat or very likely

LOW ESTIMATES
How much do you estimate you will need to have saved in total to retire with the amount of income you need?

GREAT EXPECTATIONS

What percentage rate of return are you expecting on your investments year over year?
(CAP participants)



they will retire before the retirement age set out in their plan. In addition, they are counting on an average annual rate of return of 21% on their investments. The median response is a more modest 8.4%. Plan members appear to be basing their return expectations on the impressive performance of Canadian equity markets in recent years, rather than on more realistic long-term expectations. When the survey was conducted, members had not yet received statements that would reflect the considerable market volatility that occurred during the summer and fall of 2007.

"How unrealistic are members' expectations and how crashing is their reality going to be?" asks Virginia Alderman, director of marketing communications, Group Savings and Retirement Solutions, at Manulife Financial. She says that many people describe their investment styles as conservative or moderate, which makes the 21% returns they expect an even more remote possibility. "There's a very big gap that we need to close," she says.

Is financial advice the answer?

The traditional method plan sponsors use to encourage realistic member expectations is a mix of information and education. Many of the advisory board members for the *2007 Survey of CAP Members* believe it's time to add financial advice to the plan sponsor's toolbox. There are simply too many potential risks for plan sponsors who don't provide financial advice to their members.

In addition, many CAP participants are looking for a professional opinion on their retirement savings, with 74% somewhat or strongly agreeing that their employer should provide access to a financial advisor to help them make the best investment choices in their retirement plan. That figure is up 9% from the 2006 survey.

"We've all got to take this more seriously and consider our positions on advice, as providers, as sponsors and as intermediaries out there in the marketplace," says Marie Fogetti, director, Education Services, Group Retirement Services at Sun Life Financial. "It's becoming a bigger issue and we've got to strike a balance around the risk of biting the advice bullet or not."

However, while most respondents (58%) have engaged a financial advisor, just 45% would be somewhat or very interested in having a financial advisor provide them with a formal financial plan that integrates their employee retirement plan with their other investment, insurance and estate planning needs.

The question is, will members take advice if it's offered? "We recently switched administrators and offered free access to a financial advisor to 3,500 people within the company," says Adrienne Guest, director, people and wellness for Delta Hotels. "We gave them access and 10 people took advantage. That's our frustration."

However, some value is attributed to this type of financial advice. Only 45% of respondents said they would be willing to pay a financial advisor for this type of plan. And the average amount those plan members would be willing to pay is just $378.

Towers Perrin principal Ian Genno sees that dollar figure as a useful benchmark: "This indicates what the average perceived value is in the employees' eyes if the employer were to provide that as a service," he says. "When working with plan sponsors, I always look at the balance between actual cost versus perceived value, and make sure that there's a win-win both from the employees' perspective and the plan sponsor's perspective."

"We've all got to take this more seriously and consider our positions on advice, as providers, as sponsors and as intermediaries … we've got to strike a balance around the risk of biting the advice bullet or not."
– **Marie Fogetti,** Director, Education Services, Group Retirement Services, Sun Life Financial

METHODOLOGY

For *Benefit Canada*'s 2007 *Survey of Capital Accumulation Plan (CAP) Members*, Ipsos-Reid telephone interviewed 1,516 Canadian employees with access to defined contribution (DC) pension plans and group registered retirement savings plans (GRRSPs). Of those, 1,122 actually participate in the DC and GRRSPs offered to them. The telephone survey was conducted between July 25 and August 29, 2007 and has a margin of error of plus or minus 2.5%, 19 times out of 20.

ACTION STEPS

- Communicate the plan's purpose—including the portion of an employee's income that plan benefits are intended to replace in retirement
- Provide clear information about the lump sum members will need to accumulate to draw the retirement income they need
- Engage employees in their own retirement planning through targeted communication that makes it personal and explains how to maximize benefits
- Weigh the pros and cons of offering financial advice, in addition to information and education

"Members don't feel they need to invest a lot of time on their plan in order for it to work for them."
– **Gord Lewis,**
Vice-President, Proteus Performance Management Inc.

Are members engaged?

Members are increasingly confident that they understand the amount they need to contribute to their plan to retire with the amount of money they require. Nearly half (46%) say they have a very good or excellent understanding, up from one-third (33%) in 2006. But what are they basing this high degree of confidence on?

According to the survey results, plan members certainly aren't investing much time or energy thinking about retirement planning. Six in 10 (61%) of all respondents spent 10 hours or less planning for their own retirement over the past year. The average was nine hours. More than half (58%) somewhat or strongly agree that in the past they have not given enough attention or time to their employee retirement plan.

"This is not a lack of awareness on the members' part," says Alderman. "This is a lack of interest."

Gord Lewis, vice-president at Proteus Performance Management Inc., echoes that thought. "I know of one provider that has spent millions on educational resources for plan members. They have been very disappointed with the number of hits they are receiving," he says. "Why haven't these tools been thoroughly embraced, used and maximized? Because in general, plan members don't care enough to make the effort."

Managing a company retirement benefit, he suggests, is comparable to dozens of other mundane life chores that get pushed to the bottom of members' "to do" lists—along with buying life insurance, updating a will and changing the oil in their car.

"Clearly members don't feel they need to invest a lot of time on their plan in order for it to work for them," Lewis says.

Who is responsible?

And that brings up the issue of responsibility. Who is responsible for the success of a retirement plan? Is it the member, the plan sponsor, the provider or a combination of all three? And if members are to play a key role, how can employers motivate them to take control of their financial future?

Teresa Morgan, national director, member services and marketing communication, Group Savings and Retirement at Standard Life, suggests that a simple solution may be to incorporate a few questions about the retirement plan in each employee's performance review. Janice Holman, principal at Eckler Ltd., argues that plan sponsors have to find a way to make it "personal" so employees get a clear picture of what they, as individuals, need to do to save for a secure retirement.

Morgan says it's also important for younger members to understand the value of making contributions now. "When you talk to a 20-year-old, don't talk about financial freedom in the future; you need to talk about the fact that they can have a tax deduction and what that can mean."

Another option—which addresses member apathy—may be to incorporate more automatic features into the plan, from auto-enrolment to auto-escalation and all-in-one asset allocation portfolios.

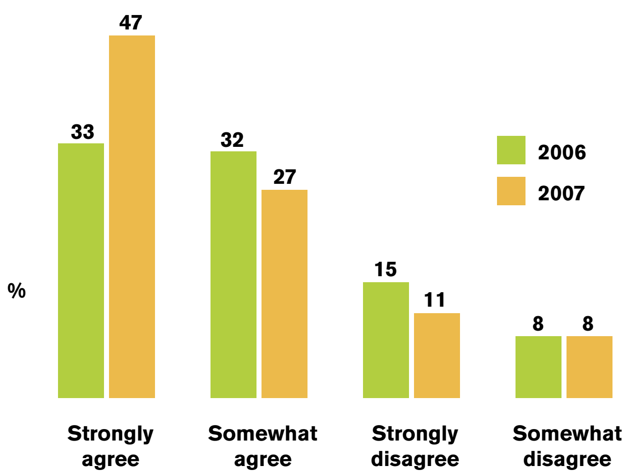
"We've got to pull back and get back to basics," says Foggetti. "We're not going to make investment specialists of these participants." What can be done, she proposes, is to create more focused education sessions and communication pieces that concentrate on the key elements of the plan that employees need to know in order to maximize their benefits.

Mark Dowdell, vice-president at Pal Benefits, suggests that employers re-examine the purpose of their plan: "Instead of focusing on benchmarking and where you are relative to a peer group, [look at] what is an adequate benefit? Should it be 5% and 5% [employee and employer contribution], 6% and 6%, or whatever it might be, to give the plan member an adequate benefit down the road?"

Whatever the solution to plan member disengagement, Aarssen says the results signal an opening for all parties involved with the delivery of CAPs to take action. "People don't know what they don't know. They don't know how much trouble they're in. But it's not doom and gloom. There's a lot of opportunity for all of us to get involved here."

MEMBERS EXPECT FINANCIAL ADVICE

I expect my employer to provide access to a financial advisor so that I can make the best investment choices in my employee retirement plan (CAP participants)



Perceptions and Understanding of Employee Retirement Plans

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"There is a great difference between knowing and understanding," said the prolific American inventor Charles Kettering. "You can know a lot about something and not really understand it."

But in the case of Canadian CAP members, knowledge acquired through employer and provider education initiatives does seem to be translating into a moderate level of perceived understanding of employee retirement plans. Of the 1,122 Canadian plan members surveyed in 2007, 46% say their understanding of their plans is excellent or very good. That's up from 37% who said the same in 2006.

"There seems to have been a lot of positive progress when it comes to members' understanding of their pension plans," says Anna Del Balso, director, strategy and research, Group Savings and Retirement at Standard Life. "Sponsors, in conjunction with their advisors and their providers, have done a pretty good job of informing members and making them aware. It's a question of what they do with that information that we need to work on."

And that's the central disconnect in members' perceptions and understanding of their retirement plan. They report higher levels of satisfaction with and increasing understanding of the plan, but many are not making the most of the savings and investment opportunities available to them.

How satisfied are they?

Eighty-eight per cent of participants say they are somewhat or very satisfied with their employee retirement plan in general.

Specifically, 85% are somewhat or very satisfied with the quality of the information they receive from their employer or plan provider, 82% with the amount they can contribute, 82% with the amount their employer contributes and 79% with the available investment choices. Nearly nine in 10 (89%) are somewhat or very satisfied with the investment performance within their plan.

When satisfied participants were asked what criteria they took into consideration to form an impression about their plan, the largest numbers said it was the return on their investment (19%) and the information they received (14%). While plan sponsors have limited control over investment performance, their efforts to inform and educate plan members appear to be working—and, in the long run, that may have more of an impact.

"Performance is important but it's also volatile, and that will not keep the members happy in the long run because it's an up and down rollercoaster ride," remarks Del Balso. "But the quality of information has a staying power, whether that information is provided on a one-on-one basis through advice, or whether it's provided through tailored, targeted communication."

How confident are they in their plan?

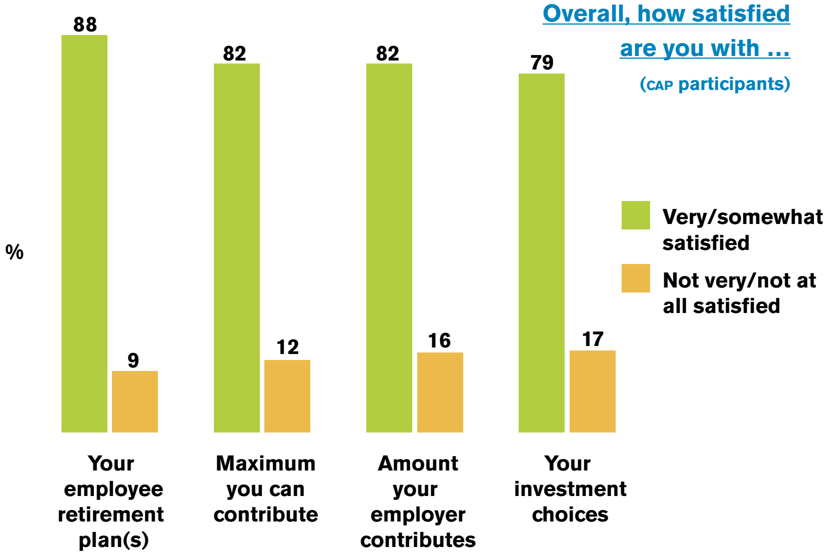
Most members (71%) are confident that their plan will provide the amount of money they need to meet their financial retirement objectives for the plan.

"They're generally overconfident that their plan will help them meet their objectives," says Michael Campbell, vice-president of marketing at Great-West Life. "It's probably due to their misplaced rate of

"There is a disconnect between what members' expectations are and what they're actually doing."
– Janice Holman, Principal, Eckler Ltd.

SATISFACTION IS HIGH

Overall, how satisfied are you with …
(CAP participants)



"With all the work that we do in this industry, together and as sponsors, three-quarters of all respondents don't believe we're moving the ball forward at all."
– **Michael Campbell,** Vice-President, Marketing, Great-West Life Group Retirement Services

return expectations of 21%, with 47% of them saying that they're moderate investors."

There is a hesitation there, though. Just one in four (26%) say they are "very confident." This may be partly because although they are generally content with the information their employer or plan provider is giving them, there are big gaps in their knowledge of their retirement plan.

For example, one in four participants don't know how much they contribute to their plan (23%) or how much their employer contributes (27%). Those who say they do know these two critical numbers report average member contributions of 7.3% and average employer contributions of 6.2%. Twenty-nine per cent say they are contributing 9% or more, and nearly one-fifth (18%) say their employer is contributing 9% or more.

Janet Rabovsky, practice leader, investment consulting, central Canada at Watson Wyatt Worldwide, expresses her skepticism about these reported contribution levels succinctly: "I'd like to see those plans!" she exclaims.

Members don't appear to be taking an active role in their plans either. "There is a disconnect between what members' expectations are and what they're actually doing," says Janice Holman, principal at Eckler Ltd. "When you look at members, their confidence in the plan and what they value in the plan, there seems to be a lot of trust placed in the plan sponsor … They just feel that the plan is going to take care of them, but they're not testing that."

In fact, 39% of those who are confident that their plan will deliver the results they want attribute this to confidence in the plan itself—compared to just 21% who say it's because they have taken personal steps to ensure that the plan works well for them.

"If one had to focus on an area that we need to inform members more about, it would be on what contribution amounts are available—the details of their plan," says Del Balso. "First focus on plan design and then ensure that it is properly communicated to the members—what are the benefits that are available to them?—so that you don't have a situation where they're not taking advantage of matching contributions."

Are plans good retention tools?

Three-quarters of respondents (77%) somewhat or strongly agree that they think of their employer more positively because of their retirement plan and other benefits—that's up slightly from 75% in 2006.

"Plan sponsors should take comfort in knowing that plan members perceive their employer more positively because of their retirement plan," says Shawn Cohen, a senior investment consultant at Hewitt Associates. "Plan sponsors are doing a good job of communicating the value of the retirement plan in the context of overall compensation. Obviously, this is important given recruitment and retention goals."

Half (55%) of respondents somewhat or strongly agree that they would be reluctant to leave their employer because of their retirement plan and other benefits, and that number is unchanged from 2006. Furthermore, 85% of respondents say that portability is somewhat or very important to them, up from 79% last year.

"With tight labour markets, especially in certain regions or certain industries, it's important that plan sponsors make their plans as attractive as possible if they want to help retain and attract employees," says Del Balso.

She suggests that plan sponsors focus on financial benefits first. If rates of return and company contributions are the highest priorities for members, then she says the key is to concentrate on providing investment choices that can deliver attractive returns and ensuring that employer contributions are in line with the objectives of the plan.

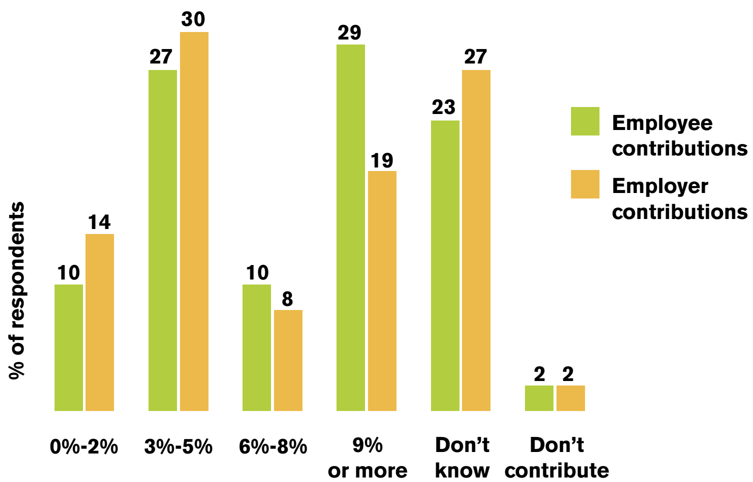
One other angle plan sponsors may want to explore relates to the finding that 69% of respondents say that asset consolidation—or the ability to bring outside assets into their plan—is somewhat or very important to them. Facilitating this could allow the employee retirement plan to become the central plan in a member's financial life and make it a more valuable retention tool.

Should investment choices be re-examined?

Plan sponsors are walking a fine line when they decide how many investment choices to offer their members. Eight in 10 respondents (80%) say that the number of investments they have to choose from is somewhat or very important to them (up from 73% in 2006). That said, 85% state that simplicity is somewhat or very important, too.

GUESSING AT CONTRIBUTIONS

What percentage of your salary do you / does your employer contribute to your employee retirement plan(s)? (CAP participants)



Cohen suggests that the key is to strike a balance between choice and simplicity, and between automatic options and flexibility. After all, remarks Mike Still, senior consultant at Aon, there are two types of employees—the smaller component who understand their plan and are involved and engaged, and the majority who need more assistance with retirement planning.

Cohen goes further: "Simplicity should not just be about the investment options offered and investment information provided, but also in terms of the plan design, how it works and ultimately how it assists you in getting to your overall retirement objectives."

Campbell points out there are only three factors that determine whether members succeed in a capital accumulation plan: the amount of time they contribute, the amount of money they put into the plan and the rate of return they achieve. He suggests that the employer has an opportunity to control the first two elements through good plan design, including automatic enrollment and automatic escalation of contribution amounts. Asset allocation funds that offer automatic rebalancing can help with the third factor.

Taking some of the decision-making out of members' hands can free up plan sponsors' resources to focus on other aspects of the plan in their communications to members. "Now," Campbell suggests, "we can spend more time teaching them about expectations, what the plan is really going to deliver and what the future holds, and then target communications to key groups that need help."

Rabovsky adds, "I like many of the autos—auto-enrollment, auto-escalation—and I like the provision of some sort of asset allocation option, whether it be static or dynamic portfolios, because I still think the majority find it confusing. Simplicity is something that they enunciated that they want, and I think still for the majority of plan members, they want someone to take the decision away from them. They want a DC plan with DB options."

What employer efforts do members notice?

If a tree falls in a forest and no one hears it, does it make a sound? That's a question plan sponsors may be forced to ponder based on employees' responses to a series of questions related to their perceptions of improvements in their plan.

In the past 12 months, 45% of respondents say that their employer has done nothing to increase the value they place on their retirement plan, and 32% say they don't know what their employer has done in this regard.

"With all the work that we do in this industry, together and as sponsors, three-quarters of all respondents don't believe we're moving the ball forward at all," Campbell observes. However, he doesn't think plan sponsors should lose heart. "When you take a look at how this industry is maturing and how far we've come, this is a marathon, not a sprint, and we're making good progress," he says.

Employer efforts that did register for respondents include providing more information, communication and regular meetings (10%), boosting employer contributions (5%), making good investments or increasing returns (3%) and providing more investment options (2%). Still, the low numbers in each category don't immediately suggest an area where plan sponsors can focus their energies for maximum effect.

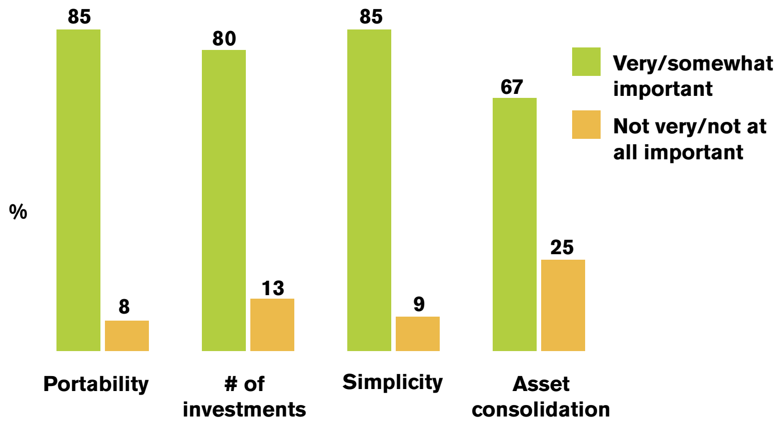
Campbell suggests that plan sponsors work to "bridge the gap between what the members are expecting (which is always more), and what you're willing to deliver, through communication."

Cohen adds that employers have an excellent opportunity to provide long-lasting benefits to members. "Focus [education] on what the plan design is all about so that you're not only serving them when they're with their current employer," he recommends. "If they don't stay, and we're seeing portability being a big issue, then you're preparing them for the future in whatever employment situation they're in."

That's something, he suggests, that may make even the least engaged employees sit up, take notice and appreciate their plan.

SETTING PRIORITIES

How important are the following features of your employee retirement plan? (CAP participants)



"If one had to focus on an area that we need to inform members more about, it would be on what contribution amounts are available—the details of their plan."
– **Anna Del Balso,** Director, Strategy and Research, Group Savings and Retirement, Standard Life

ACTION STEPS

- Make sure employees understand the details of their plan–including how much they can contribute and how to maximize matching contributions
- Attract and retain employees by offering investment options that can provide attractive returns and contributions that are in line with the plan's objectives
- Provide automatic features to assist members who aren't interested in taking responsibility for their retirement savings
- Strike a balance between choice and simplicity, and between auto-pilot options and flexibility
- Look at allowing plan members to bring outside assets into the plan

3 Investment Knowledge and Behaviour

"While there has been some progress, I don't think we can wait another 20 years to get plan members to the next level."
– **Sharon Seifried,** Assistant Vice-President, Marketing, Group Savings and Retirement Solutions, Manulife Financial

Looking at the results of this year's *Survey of Capital Accumulation Plan Members*, it appears that Canadian employees now have a better grasp of the principles behind their investment decisions. When it comes to investment risk tolerance, 46% say they have an excellent or very good understanding of their own investment risk tolerance. That's up from 39% who said the same last year. Almost half (47%) of respondents describe their risk tolerance as moderate. Thirty-two per cent describe themselves as conservative investors, while 16% consider themselves aggressive investors. Thirty-six per cent, meanwhile, say their understanding of asset allocation is excellent or very good, up from 30% last year.

But while this year's numbers show some improvement over last year's, not everyone is enthusiastic about plan members' investment knowledge and behaviour.

"One of the biggest things I've noticed from doing member presentations over the years is that I think we have a real lack of understanding as to how unsophisticated most of these members are," says Mike Still, senior consultant with Aon Consulting Inc. in Toronto. "They really don't understand a lot about investing."

Still's comments are reinforced by the 29% of all respondents who say they have a very poor or somewhat poor understanding, or no understanding at all, of asset allocation. Nineteen per cent say the same of their own investment risk tolerance, while 15% say they have little or no understanding of the amount they need to contribute to their plan to retire with the amount of money they'll need.

"We're still talking about the same things today as we were when I started in the group savings business," says Sharon Seifried, assistant vice-president, marketing, Group Savings and Retirement Solutions, with Manulife Financial. "While there has been some progress, I don't think we can wait another 20 years to get plan members to the next level."

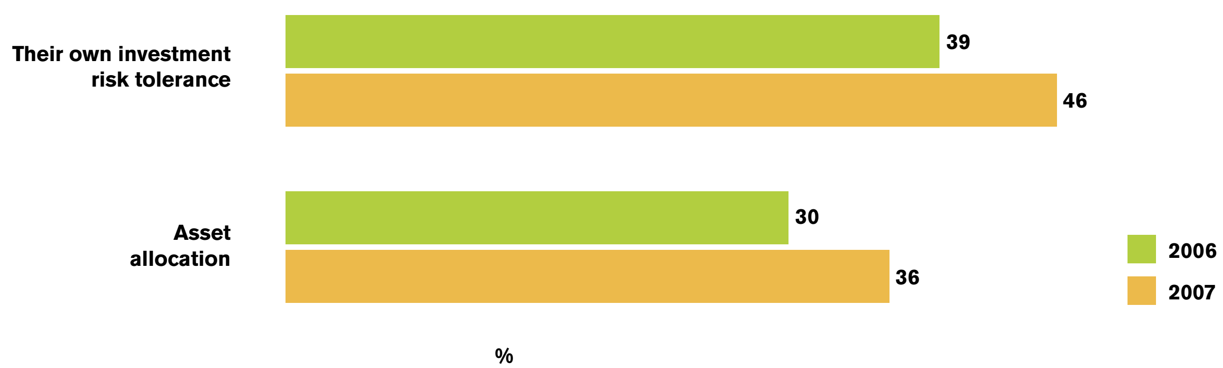
Understanding aside, satisfaction with investment performance runs high among those surveyed, with 89% of participants saying they are very or somewhat satisfied with the performance of the investments in their employee retirement plan. Only 9% say they are not very or not at all satisfied with the performance of the investments in their plan.

Nevertheless, the majority (65%) of those who participate in their plan say the total dollar value of their employee retirement plan is more important to them than the performance of their plan relative to an industry index.

"I hope plan sponsors are appreciating this fact because most plan sponsors are placing, from my perspective, too much emphasis on the relative

GOOD GAINS

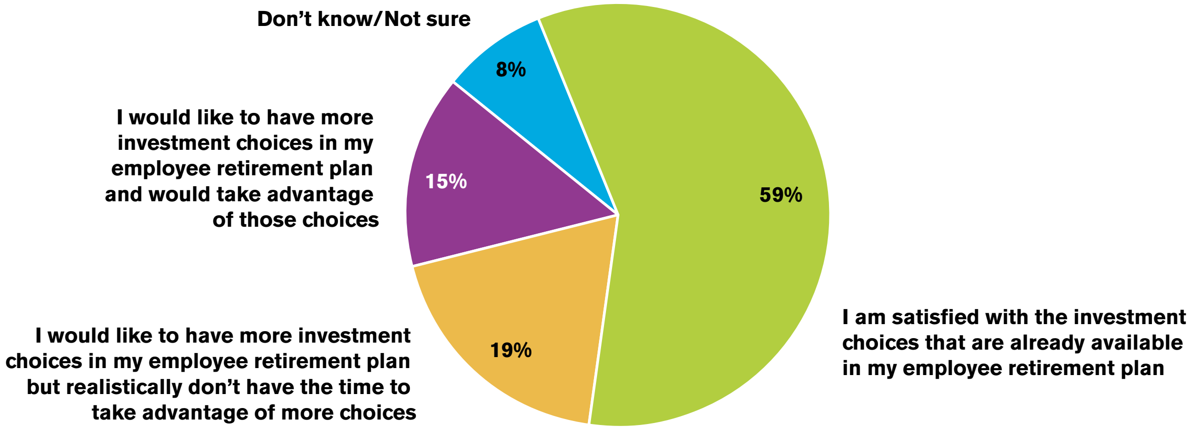
Plan members who say they have an excellent or very good understanding of . . . (CAP participants)



INVESTMENT SATISFACTION

Participants/members were asked to pick which statement best summarizes their approach to investment choices.

(CAP participants)



performance of their investment funds to an industry benchmark," says Bruce Winch, vice-president and national lead, institutional investments with AIM Trimark in Toronto. "This has resulted in numerous managers being closet indexers and their focus has been on the relative performance versus the bench-mark, not on helping DC members reach their goal, which is achieving that terminal value that will allow them to fund their retirement."

Do members have enough investment choices?

The 2007 survey also asked CAP members about the level of choice in their plans.

More than half (59%) of all respondents say they are satisfied with the investment choices that are available in their employee retirement plan. Fifteen per cent say they would like to have more investment choices and would take advantage of those choices.

The majority (80%) of respondents say the number of investments they have to choose from is very or somewhat important. Eighty-five per cent say simplicity (defined as being able to understand and easily choose their own investments) is very or somewhat important.

Among those who say their employee retirement plan allows them to choose their own investments, 74% say they do so, while 26% say they do not. Among those who realize they are able to choose their own investments, 24% say they have access to between one and five options, while 27% say they are able to choose from 21 or more investment options. And for those who actually choose their own investments, 20% say they hold between three and four funds. The average number of funds held is 5.4.

Many panelists agree that less is more when it comes to the number of investment funds to offer in a plan. "Employees are overwhelmed at the number of decisions they have to make, and making too many investments available or adding more investments is not going to make their decisions any easier," says Seifried.

Ian Genno, a principal with Towers Perrin, agrees. "The broad conclusion that is emerging from our data is that you don't want to overwhelm people with choice," he says. "By overwhelming them with too many choices, people actually perceive that there's less value in the offerings available to them."

Certainly, the more investment fund choices available, the greater the communication and education challenges.

"The No. 1 reason members are successful or not successful is how much money they're putting into the plan," says Janice Holman, principal with Eckler Ltd. in Toronto. "And if you're spending all of your resources monitoring 20 investment options and trying to educate the member on 20 investment options, wouldn't that money be better spent making more contributions on their behalf?"

One way of dealing with the number of investment options is to go the "pre-built route" and the "select-your-own route," says Hugh Kerr, assistant vice-president and senior counsel with Sun Life Financial. "For those who really are not keen on picking any investment options, they can go the first route. For those who want that choice, they can build their own."

What asset classes do members hold?

Among those who are making investment choices in their plan portfolios, 60% say Canadian equities are their biggest holding. Twelve per cent say bonds/

"Most plan sponsors are placing, from my perspective, too much emphasis on the relative performance of their investment funds to an industry benchmark."
– **Bruce Winch,** Vice-President and National Lead, Institutional Investments, AIM Trimark

ACTION STEPS

- Look for new ways to support plan members in making investment decisions. Examples include auto-enrolment in the plan and one-on-one advice.
- Consider life cycle funds, asset allocation funds, and end-date retirement funds that are diversified globally and that are based on risk tolerance and time horizon.
- Less is more. Don't overwhelm your plan members with too many funds. More choice isn't necessarily better.
- Re-examine your plan's default fund. Money market funds and GICs may be the industry norm but aren't likely to provide members who suffer from choice paralysis with enough money to fund their retirement.
- Consider having plan members re-enrol in the plan periodically to ensure they're still invested according to their risk profile and time horizon.
- Plan members want to leave their money with the same investment provider when they retire so make it easy for them by ensuring that whatever administrator you're using offers that service.
- Continue to educate your plan members on the importance of building a diversified, optimal portfolio, one that chooses the best balance between risk and return.

"For the do-it-yourself investor, you need to have enough choice for them to build a well-balanced portfolio."
– **Mark Dowdell,**
Vice-President,
Pal Benefits

fixed income is their biggest holding, while 12% say foreign equities are their biggest holding.

"I think it's positive that 12% say foreign equity is their largest holding," says Holman. "They're on the cusp, the leading edge, if foreign equities are their largest holding. I'm surprised, actually, that that number isn't lower."

Twenty-seven per cent of respondents believe real estate provides the greatest investment opportunities today, while another 27% believe the greatest investment opportunities today lie in Canadian equities. Only 15% say foreign equities represent the greatest investment opportunities.

When it comes to asset classes that represent the greatest investment risk, 30% of respondents say foreign equities are the riskiest investments, while 19% say hedge funds pose the greatest investment risk. Other asset classes mentioned as having the greatest investment risk include: real estate (cited by 11%), cash (cited by 8%), bonds/fixed income (cited by 7%) and Canadian equities (cited by 5%).

"Of concern is that 30% of surveyed members felt that foreign equities pose the greatest asset risk," notes Winch. "This is despite the fact that foreign equities provide Canadians with strong diversification, less concentration risk, access to global businesses, and they're 30% cheaper than they were four or five years ago because of the appreciated Canadian dollar."

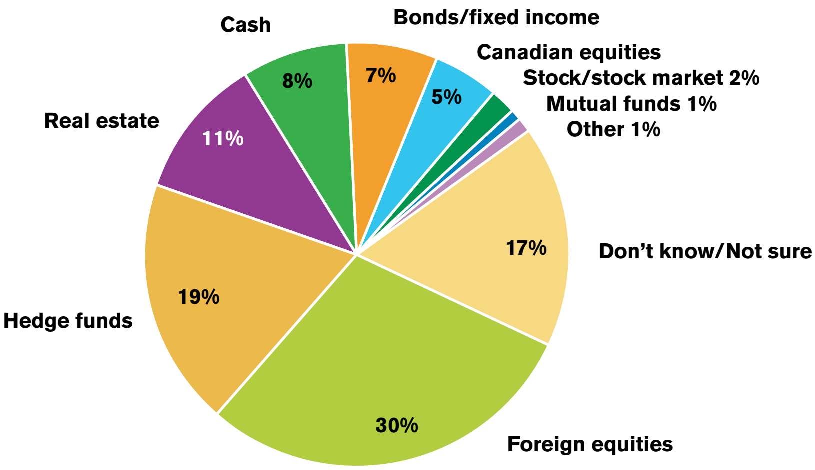
Given that 29% of plan participants either have no understanding of asset allocation or characterize their understanding of it as somewhat or very poor, the emergence of asset allocation funds, life cycle funds, end-date retirement funds, and pre-determined asset mixes appears to be a logical choice for plan sponsors.

Adrienne Guest, director, people and wellness for Delta Hotels, notes that pre-determined investment mixes have been popular with plan members at Delta Hotels. English is a second language for some employees and anything that makes it easier for them to enrol in the plan is a bonus. "In my industry, it can be difficult to get people to even enrol in the pension plan," she says. "We've got about 85% of our employees in those mixes as they just need to select the box that is age and risk appropriate for them."

But Janet Rabovsky, practice leader, investment consulting, with Watson Wyatt Worldwide, maintains that target date retirement funds are not the simple solution they appear to be. "I think they're a great thing, but we still don't like the fact that they're so heavily reliant on the equity risk premium," she says. "We're starting to see choices coming to Canada now that embody other types of asset classes that do provide greater diversification, but it is a great concern of ours that you're really reliant on the equity risk premium for nine out of 10 portfolio choices that are out there. And I challenge the industry to bring in more diverse options."

THE GAME OF RISK

Members were asked which asset classes pose the greatest investment risk.
(CAP participants)



Plan Member Education and Engagement

4

Education and communication are key to helping ensure that plan members make appropriate decisions about their capital accumulation plan (CAP). And most plan sponsors have made efforts to provide some sort of education or communication for their members.

Sixty-nine per cent of plan participants say their employer provides printed manuals on the retirement plan and investment opportunities. Sixty per cent say their employer provides printed newsletters. Sixty per cent also say their employer provides access to a toll-free call centre. Other sources of employer-provided information believed to be provided include: employer web site (54%), online retirement planning tools and calculators (54%), retirement plan information on an investment company web site (51%), a company-provided financial advisor that they can contact free of charge for advice (49%), education sessions during work hours (42%), e-mail newsletters (41%), education sessions after work hours that significant others can also attend (35%), and a financial advisor who charges for advice (18%).

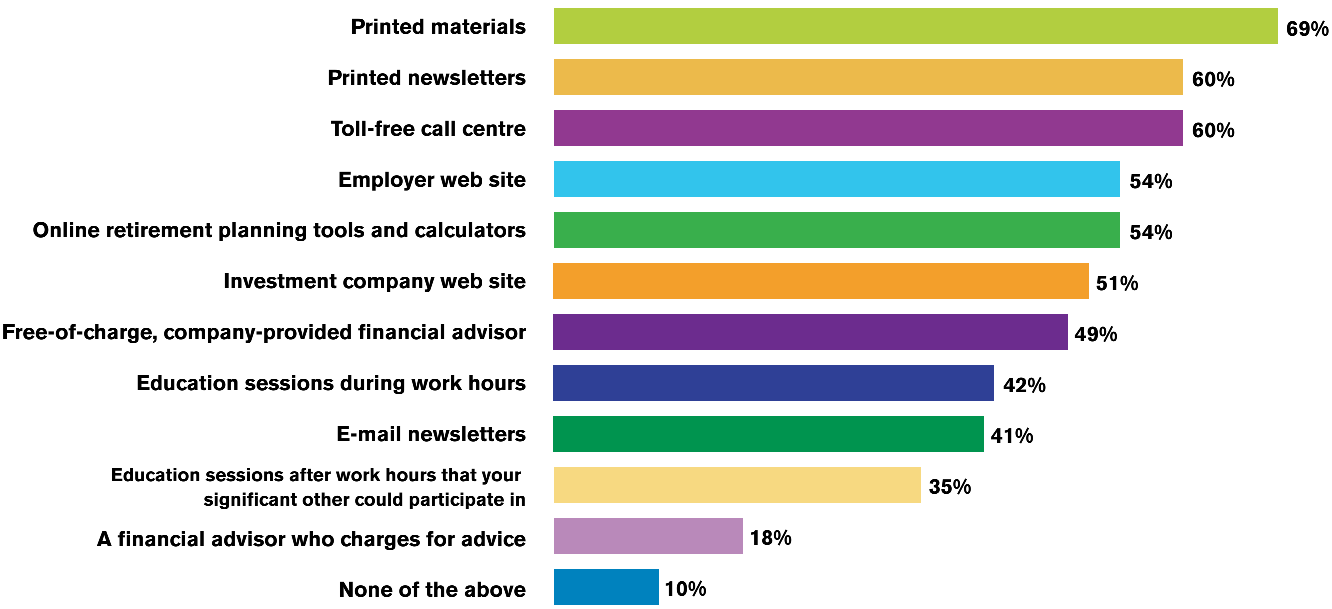
Offering communication and education materials is one thing. Getting plan members to act on the information is quite another. When it comes to inspiring action, web tools, free financial advice and education sessions seem to have the greatest impact. Forty-two per cent of those who say their employer provides these services within their plan say they've taken action or done something with their employee retirement plan in the past 12 months as a result of web site retirement planning tools and calculators. Forty-one per cent say they've taken action with their plan as a result of a company-provided financial advisor free of charge. The same percentage say education sessions during work hours have caused them to take action.

Just under half (49%) of participants say they would be very or somewhat likely to use e-mail newsletters to make their employee retirement plan investment choices. Fifty-seven per cent say they would be very or somewhat likely to use printed newsletters to make their investment choices, while 59% say they would be very or somewhat likely to use printed manuals.

"We need to recognize that we can't take away one medium in favour of another."
– **Teresa Morgan,** National Director, Member Services and Marketing Communication, Group Savings and Retirement, Standard Life

INFORMATION OVERLOAD

Participants who said their employer provides the following sources of information regarding their employee retirement plan. (CAP participants)



"The industry is moving towards auto-enrolment, but I thought the survey showed members are actually a little bit skeptical about that."
– **Hugh Kerr,**
Assistant Vice-President and Senior Counsel with Sun Life Financial

"Just because the information is available doesn't mean people are going to use it."
– **Oma Sharma,**
Principal, Mercer

"Our experience is that people do all their investigation and research through the web but when it comes time to make an inter-fund transfer or an investment decision, they want to talk to somebody," says Teresa Morgan, national director, member services and marketing communication, Group Savings and Retirement with Standard Life. "And that is something we need to recognize, that we can't take away one medium in favour of another."

When it comes to web site retirement planning tools and calculators, it appears that the younger you are, the more likely you are to use these tools to make investment decisions. Seventy per cent of plan members whose employers do not offer this information source say they would be very or somewhat likely to use online retirement planning tools and calculators to help them make investment decisions if they were offered. This percentage drops to 52% among 35- to 54-year-olds, and to only 27% among 55- to 65-year-olds.

Are plan members engaged?

The survey also gauged the level and types of activity that plan members are undertaking in their plans. Sixty-three per cent of those who participate in their plan have reviewed all of their retirement investment statements within the past year and one-third (34%) have increased the amount they contribute to the plan. Thirty per cent, meanwhile, have used information provided by the employer to make investment decisions and 27% have used online tools provided by the employer to make investment decisions.

Twenty-nine per cent of all plan participants say they have changed investment options or rebalanced their investment mix in the past 12 months, while 24% say they have sought advice from an employer-provided financial advisor for their investment choices. Nine per cent have made a withdrawal from their employee retirement plan in the past 12 months, while 8% have decreased the amount they contribute.

"The results clearly show that just because the information is available doesn't mean people are going to use it," says Oma Sharma, principal with Mercer in Toronto. "No one medium is going to work for your entire population."

Are members satisfied?

Among plan participants who are very or somewhat satisfied with their employee retirement plan, 21% cite "strong communication" as a reason for their satisfaction. The majority (90%) are very or somewhat confident that if they have questions about the plan, they can access information when they want it.

Eighty-eight per cent of plan participants are very or somewhat confident that when they have questions about their employee retirement plan, they can access the information in a way that is most useful to them.

"A large proportion of members feel they have information that is accessible to them in a useful format but when you drill down, not very many of them are actually going in to get it," says Sharma.

Among those who are very or somewhat confident about accessing the information in a way that is most useful to them, 75% cite factors such as the availability of a web site, the ability to call the pension plan office, and the accessibility of staff and other employees as reasons for their confidence.

"I think plan sponsors have to be much more aware of the demographics of their members," says Mike Still, senior consultant with Aon Consulting Inc. "They really need to start to understand what sort of sophistication these members have and then based on what that information reveals, they really have to start fine-tuning their education."

ACT AND REACT

In the past 12 months, have you done any of the following with your retirement plan? (CAP participants)

WITHIN THE PAST YEAR, HAVE YOU . . .	YES
Reviewed all retirement investment statements	63%
Increased the amount you contribute	34%
Used information provided by your employer to make investment decisions	30%
Changed investment options or rebalanced your investment mix	29%
Used employer-provided online tools to make investment decisions	27%
Attended educational sessions	26%
Used employer-provided hard copy tools to make investment decisions	25%
Made a withdrawal	9%
Decreased the amount you contribute	8%

AGE OF REASON

Would you prefer that your contribution to your company pension plan increase automatically as your salary increases? (CAP participants)

AGE	YES
18-34	56%
35-54	60%
55-64	65%
65+	54%

Among plan participants who are not very or not at all confident that when they have questions they can access the information they need in a way that is most useful to them, the top reasons cited are difficulties in accessing that information (e.g. the information is unclear, unreliable or difficult to understand) or they are not sure which source is the right one to contact.

At workplaces where employers do not offer educational sessions during work hours, 57% of plan participants say they would be very or somewhat likely to use those sessions as a source of information to make investment decisions about their plan.

Is there support for auto-enrolment?

Given the challenges associated with educating and engaging plan members about investment decisions, many plan sponsors are considering auto features, such as auto-enrol or target-date funds in their plan. And plan members seem receptive. Twenty-four per cent of respondents cited a preference for mandatory enrolment in the retirement plan, while 36% would prefer an automatic enrolment, whereby employers automatically place all employees into the plan, and employees can opt out if they so choose. Only one-third (33%) cited a preference for optional participation.

"There's pretty strong support among employees for mandatory or auto-enrolment type strategies," notes Sharma. "Clearly that's going to be a challenge in the context of group RRSPs where you have to have a completed enrolment form before contributions can be remitted for that employee. That hurdle aside, I think it's very positive that employees are receptive to the idea of mandatory enrolment and auto-enrolment."

Jeff Aarssen, vice-president of distribution with Great-West Life, agrees. "I was very surprised the numbers were that high in terms of mandatory enrolment," he says. "That's very encouraging because I think it reveals that most people recognize their own fallibility."

But not everyone interprets those results as favourable towards auto-enrolment. "The industry is moving towards auto-enrolment, but I thought the survey showed members are actually a little bit skeptical about that," says Hugh Kerr, assistant vice-president and senior counsel with Sun Life Financial in Toronto. "They're okay with auto-enrolment, as long as they can opt out."

When it comes to other auto features, 59% of those who participate in their employee retirement plan would prefer that their contributions be increased automatically as their salary increases. Thirty-three per cent say they would prefer that their contribution to the company pension plan remain the same until they submit a request for it to be changed. Eight per cent say they don't know or are unsure which choice they'd prefer.

Support for automatically increasing one's contributions as salary rises appears to go up slightly with age. Fifty-six per cent of 18- to 34-year-olds support auto-escalation of contributions, while 60% of those aged 35 to 54 do. Sixty-five per cent of 55- to 64-year-olds, meanwhile, say they would prefer their contributions to be increased automatically as their salary increases.

"I was also very surprised by the number of people who wanted to take a contribution escalation as their income rises," says Aarssen. "These are all good signs coming from plan membership that should give us a strong sense of direction as to where we need to go as an industry." BC

"I was very surprised the numbers were that high in terms of mandatory enrolment. That's very encouraging because I think it reveals that most people recognize their own fallibility."
– **Jeff Aarssen,** Vice-President, Distribution, Great-West Life Group Retirement Services

ACTION STEPS

- Focus your attention on the unengaged plan members. Use a variety of communication methods and appropriate language to target this audience.
- Use a multimedia approach. No one medium is going to work for your entire employee population. Some will respond well to print materials; others will respond to web-based communications.
- Know the demographics of your employee population and target your messages accordingly. When addressing a 25-year-old, for example, don't talk about financial freedom in the future. Instead, focus on the tax deductions gained from contributing to an RRSP.
- Consider holding plan member surveys or focus groups to help determine what specific communication challenges your employees are facing.

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SURVEY OF CAPITAL ACCUMULATION PLAN MEMBERS.