# Designed for Savings 2021

The benchmark report on capital accumulation plans in Canada

Life's brighter under the sun

Sun Life

# Foreword

Being prepared for the future has always been an exercise in building resiliency. If there was ever a test of the ability to withstand change, these past few years have been it. The COVID-19 pandemic unsettled the lives of all Canadians. The benefits of investing in the future have never been more meaningful for retirement plan sponsors and members.

> ***Designed for Savings*** is Sun Life's deep dive into retirement savings in Canada. Our flagship biennial examination of capital accumulation plans (CAPs) is based on the data of 1.3 million group retirement savings plan participants.

By using the largest pool of CAP data in the country, we can provide unparalleled analysis on retirement savings trends. We're proud that *Designed for Savings* is considered essential reading for plan sponsors, financial advisors, consultants and anyone interested in how Canadian workers are planning for retirement.

Our 2021 report captures plan sponsor and plan member actions during the first year of the COVID-19 pandemic.

And what were our pandemic findings? Most plan members have stayed the course. From March 2020 to April 2021, only 5.4% of plan members moved money between investment options. This volume is lower than pre-pandemic periods, when around 8% of members made transfers. It's an impressive finding. Through sound plan design, education and engagement, most plan members stuck to their investment strategy during an extremely volatile market period.

There were several other trends of note – and you'll find all the details in this report. Here's a quick overview of key findings.

## Plan Design

### Auto-Enrollment

Employers who have adopted auto-enrollment in their voluntary plans are seeing participation rates greater than 90%.

### Larger plan sponsors adopting more TFSAs

There was a sizeable increase in the number of large sponsors (those with over $100 million in assets) offering a combination of DCPP, RRSP and TFSA, from 12% in 2018 to 18% in 2020. The TFSA is becoming a staple in many plan designs, especially in plans offered by large employers.

### RRSP-only plans increasing

Among small to medium-sized plans with $2 million to $5 million in assets, RRSP-only plans increased to 29%, up 5 percentage points since our previous report.

## Investments

### Increase in Target Date fund assets

Target Date fund assets continue to add share and saw their largest increase in 2020, growing from 29% in 2018 to 35% of total assets. Target Date funds represented just 7% of overall plan assets a decade ago. Overall, almost two-thirds of plan members held a Target Date fund in 2020. Since 2011, almost all new plans with Sun Life have added Target Date funds to their lineup – and all but a few are using Target Date funds as their default investment option.

And it's paying off for plan members. Those who invested solely in Target Date funds have outperformed those who built their own portfolios over each annual period since 2014.

### Declining investment in Canadian equities

Plan members continue to increase their investment in equities outside of Canada. Plan assets held in Canadian Equity funds have declined by more than half, from 23% in 2010 to just 11% in 2020. During that same time, assets in Foreign Equity funds - which include US, International and Global Equities- went up from 6% to 16%.

### Shift away from conservative investments

Plan members are investing less in lower-return, conservative asset classes such as Guaranteed Investments and Money Market funds. Investments in these options have declined by 50% over the past decade, from 14% to 7%.

## Retirement

### The trend to later retirement.

The median retirement age is creeping higher, increasing from 62 to 63 years old over the last four years. This suggests that plan members are either choosing to work longer or feel they have insufficient savings to retire.

### Decumulation with Sun Life.

This is the first *Designed for Savings* to highlight the importance of offering participants a spectrum of guidance, advice and tools to address the complexities of decumulation. Of members who are retired, 54% kept their balances with Sun Life.

## Stay informed – stay competitive – stay tuned!

As the competition for talent accelerates post-pandemic, workplace retirement and savings plans are an important differentiator considered by employees as part of a total rewards package. Our research can help. *Designed for Savings* dives into differences by industry, size of employer and age of participants, among others.

As a valuable resource, *Designed for Savings* supports data driven plan design combined with human insights. And we're committed to providing this information on a regular basis; analyzing data in new ways.

We'll continue to build upon this edition with fresh insights into evolving market trends, helping to ensure your plan remains both effective and competitive.

*Designed for Savings* remains the authoritative source for capital accumulation plans in Canada.

We hope the report is helpful and provides you with actionable insights to better support you and your plan members.

Eric Monteiro

Eric Monteiro
Senior Vice-President,
Group Retirement Services

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## Plan abbreviations used in this report

| | |
|---|---|
| **AUA** | Assets Under Administration |
| **CAP** | Capital Accumulation Plan |
| **CPP** | Canada Pension Plan |
| **DBPP** | Defined Benefit Pension Plan |
| **DCPP** | Defined Contribution Pension Plan |
| **DPSP** | Deferred Profit Sharing Plan |
| **EPSP** | Employees Profit Sharing Plan |
| **ESPP** | Employee Share Purchase Plan |
| **GDIA** | Guaranteed Daily Interest Account |
| **GIA** | Guaranteed Interest Account |
| **LIF** | Life Income Fund |
| **LIRA** | Locked-In Retirement Account |
| **NREG** | Non-Registered Savings Plan |
| **OAS** | Old Age Security |
| **PRPP** | Pooled Registered Pension Plan |
| **QPP** | Quebec Pension Plan |
| **RRIF** | Registered Retirement Income Fund |
| **RRSP** | Registered Retirement Savings Plan |
| **TFSA** | Tax-Free Savings Account |
| **VRSP** | Voluntary Retirement Savings Plan |

# 01

## Demographics, eligibility and employer-matching contributions

At the end of 2020, 50% of global pension assets were in Defined Contribution Pension Plans (DCPPs). In Canada, DCPP assets account for just 6% of all pension assets.* As a growing global model, DCPPs are continuing to evolve to meet the rapidly changing needs of employees saving at work.

# 01 | Demographics, eligibility and employer-matching contributions

## Demographics

> At the end of 2019, 50% of global pension assets were in Defined Contribution Pension Plans (DCPPs). In Canada, DCPP assets account for just 6% of all pension assets.*

As a growing global model, DCPPs are continuing to evolve to meet the rapidly changing needs of employees saving at work.

As of June 30, 2020, the top 10 Canadian CAP providers had assets of approximately $225 billion for almost 64,000 group plans representing close to 6.8 million participants across the spectrum of CAP products.** The data included in this report is drawn from Sun Life's proprietary CAP database of approximately 6,300 group savings Clients, as at December 31, 2020. For a complete description of the **methodology** used, please see page 74.

The following is a snapshot of key demographics and asset breakdowns of that database.

**CAP DATABASE SNAPSHOT**

| | |
|---|---|
| Number of Clients 6,294 | Number of plans 9,025 |
| Number of members 1,319,000 | |
| AUA $97,947,000,000 | |

*Willis Towers Watson, Global Pension Assets Study 2020. Analysis by the Thinking Ahead Institute.

**2020 CAP Suppliers Report, Benefits Canada.

# Eligibility and employer-matching contributions

About half of the group savings plans with Sun Life have mandatory participation. In these, new employees must join when they become eligible. The other half leave it up to the employees to choose to join once they become eligible.

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**Key factors in determining eligibility**:

- Turnover rate in the employer's industry
- Competitive pressures in attracting and retaining talent
- Link to probationary or waiting periods for other benefits

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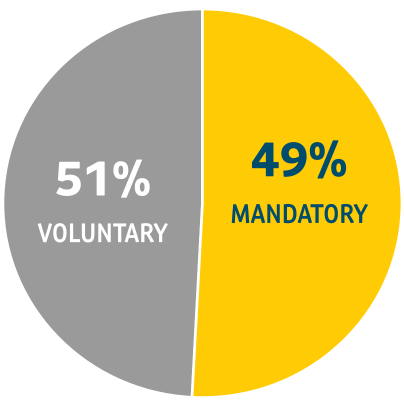
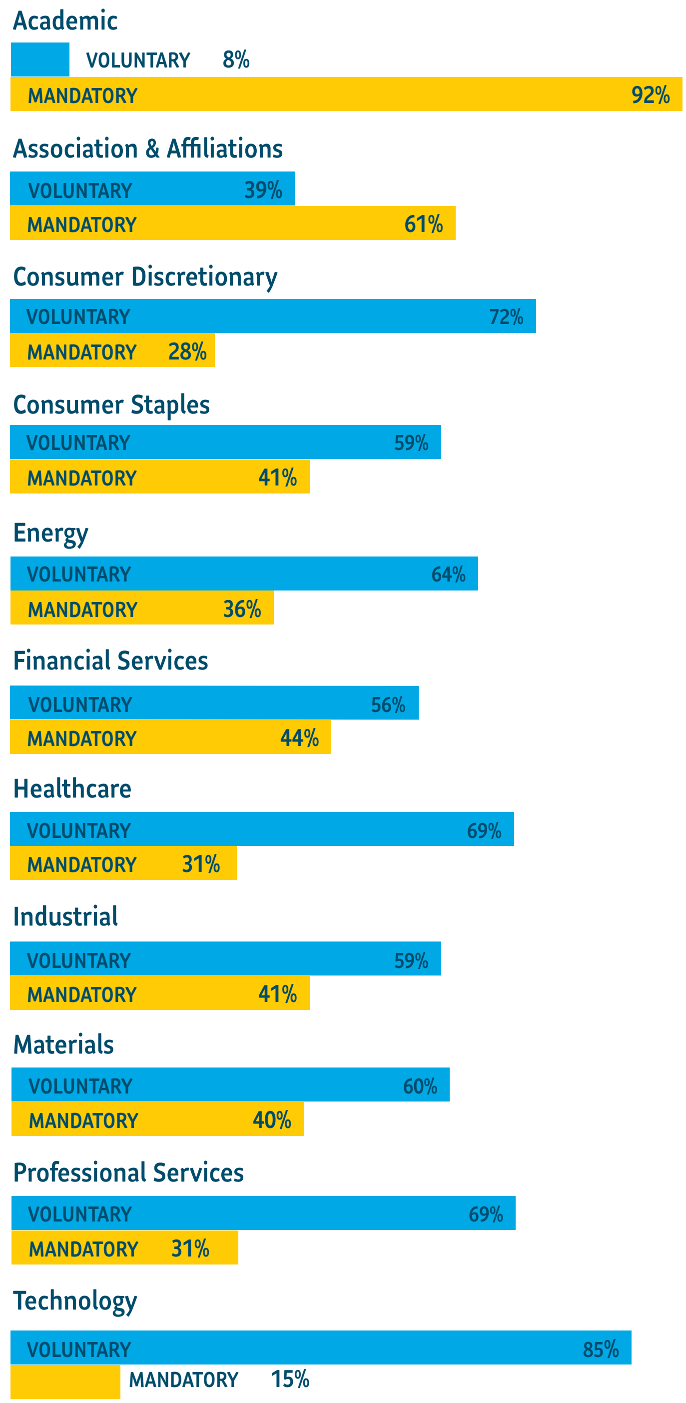
**FIG 1.0: OVERALL PLAN ELIGIBILITY**




We continue to observe that the Associations & Affiliations (heavily influenced by First Nations plans) and the Academic industry sectors have a bias towards requiring employees to participate, while all other industry sectors rely mostly on the employee to take the initiative to join the plan.

Increasingly, we're seeing employers making participation in their voluntary plan a condition of employment. This form of automatic enrollment makes it easy for the employee to participate while providing the flexibility to reduce their savings rate or opt out at anytime, if preferred. See page 18 for a case study of Sun Life's experience with auto enrollment.

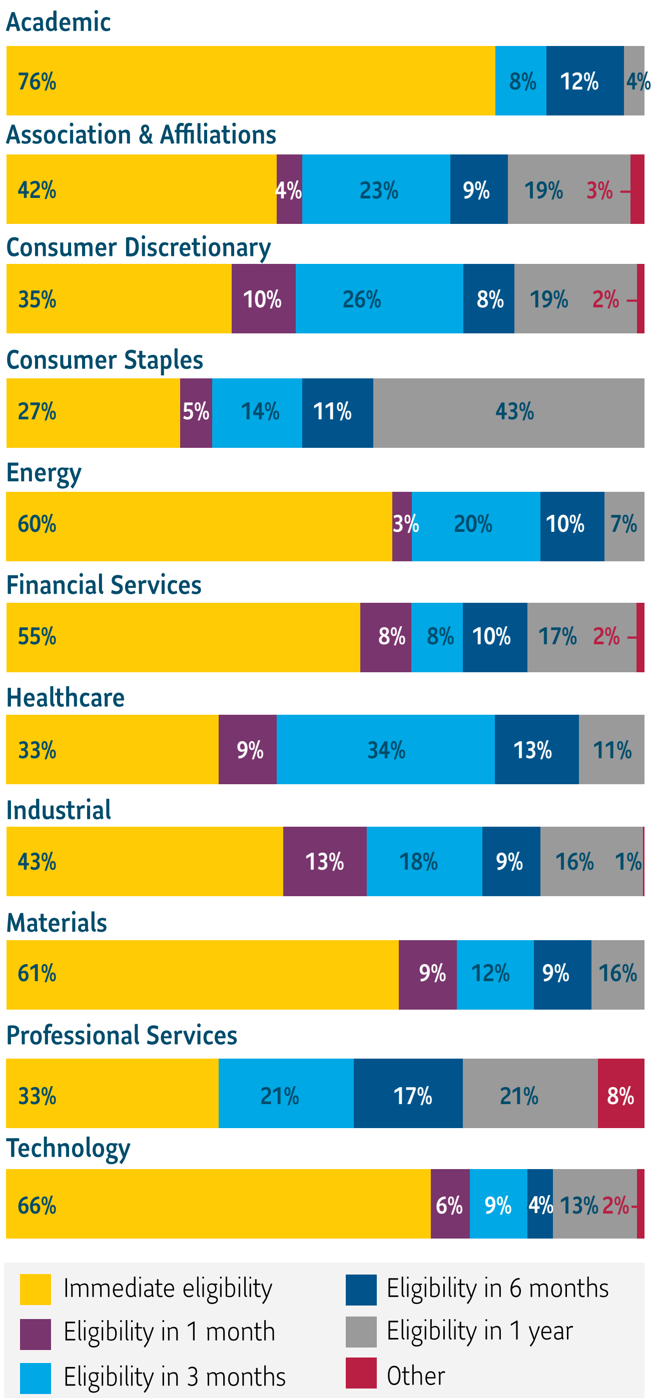
**FIG 1.1: PLAN ELIGIBILITY BY INDUSTRY**




Across all plans, salaried employees are significantly more likely to be immediately eligible for their employer's CAP than employees in other groups, such as part-time or seasonal workers. They're also much more likely to be eligible for an employer match.

During the past ten years, we've observed a trend towards shorter waiting periods, with more employers offering immediate eligibility. This approach encourages employees to begin saving immediately before receiving their first pay. This can be much easier on the employee than having to forgo spending on a specific goal or item at a future date in order to be able to contribute to their workplace plan.

### FIG 1.2: EMPLOYEE ELIGIBILITY BY INDUSTRY




The Academic, Technology, Materials and Energy industry sectors had the highest prevalence of immediate plan eligibility.

Since our last report was published, the Academic, Materials and Professional Services sectors experienced a significant shift in offering immediate participation to their workers.

We've observed that plan members continue to place a high value on employer-matching contributions. Ensuring they're not "leaving money on the table" can be a strong motivator to joining a workplace plan.

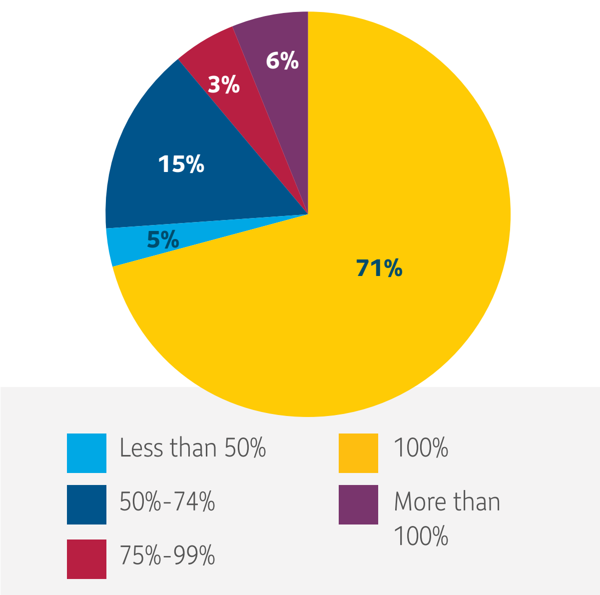
### FIG 1.3 EMPLOYEE CONTRIBUTION REQUIRED FOR MAXIMUM EMPLOYER MATCH BY INDUSTRY

| Employee contribution % required for maximum employer-matching contribution | | | | | | | |
|---|---|---|---|---|---|---|---|
| | <3% | 3-3.9% | 4-4.9% | 5-5.9% | 6-6.9% | 7-7.9% | 8%+ |
| Academic | 0% | 0% | 0% | 50% | 0% | 50% | 0% |
| Associations & Affiliations | 8% | 15% | 15% | 23% | 23% | 0% | 15% |
| Consumer Discretionary | 7% | 31% | 14% | 21% | 18% | 6% | 3% |
| Consumer Staples | 19% | 22% | 17% | 14% | 19% | 1% | 7% |
| Energy | 14% | 11% | 17% | 28% | 19% | 0% | 11% |
| Financials | 13% | 12% | 27% | 20% | 28% | 0% | 0% |
| Healthcare | 10% | 28% | 23% | 15% | 10% | 0% | 13% |
| Industrials | 13% | 22% | 26% | 25% | 13% | 1% | 1% |
| Technology | 11% | 9% | 20% | 25% | 25% | 6% | 5% |
| Materials | 11% | 17% | 18% | 19% | 28% | 4% | 3% |
| Professional Services | 8% | 25% | 17% | 42% | 8% | 0% | 0% |
| Recreation | 0% | 0% | 0% | 100% | 0% | 0% | 0% |
| Utilities | 0% | 33% | 19% | 38% | 10% | 0% | 0% |
| All industries | 11% | 21% | 20% | 22% | 19% | 3% | 4% |

Almost two-thirds (63%) of eligible employees contribute between 3% and 6% of their annual earnings in order to receive the maximum employer-matching contribution. This is a trend we've observed for the past several years.

In terms of overall employer-match contribution rate, 71% provide a dollar-for-dollar match. Just 5% of plans offer an employer-matching contribution of 50% or less. Despite the many pressures on businesses during the pandemic, we observed that very few plans made changes to their match formula.

### 1.4 OVERALL EMPLOYER MATCHING CONTRIBUTION RATE



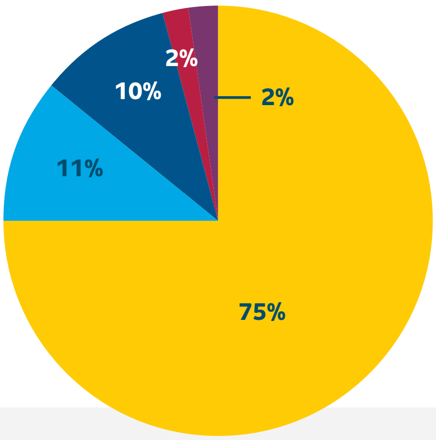

As seen in Figure 1.5, the vast majority of plan sponsors across industries provide a dollar-for-dollar match to a maximum percentage of the employee's earnings (often 5%). The Academic industry was most likely to offer an employer match in excess of 100%. Where a match of over 100% is offered, these tend to be in industries where attracting or retaining talent is a challenge, or where a sponsor may have offered a legacy DB plan.

### 1.5 EMPLOYER MATCHING CONTRIBUTION RATE BY INDUSTRY

| Industry sector | More than 100% | 100% | 75% - 99% | 50% - 74% | Less than 50% |
|---|---|---|---|---|---|
| Academic | 64% | 31% | 5% | 0% | 0% |
| Associations & Affiliations | 0% | 93% | 0% | 5% | 2% |
| Consumer Discretionary | 4% | 75% | 0% | 18% | 4% |
| Consumer Staples | 3% | 74% | 0% | 20% | 3% |
| Energy | 11% | 86% | 0% | 3% | 0% |
| Financial Services | 3% | 70% | 3% | 22% | 3% |
| Healthcare | 36% | 47% | 2% | 14% | 2% |
| Industrial | 8% | 72% | 6% | 15% | 0% |
| Materials | 10% | 72% | 4% | 13% | 1% |
| Professional Services | 0% | 94% | 3% | 3% | 0% |
| Technology | 5% | 58% | 8% | 22% | 8% |

Generally, the majority (86%) of plan sponsors base the percentage of their match on the percentage of earnings contributed by the employee. Among all sponsors, 11% have a flat cap on employer-matching contributions.

### FIG 1.6 DETERMINING EMPLOYER MATCHING CONTRIBUTION




- Fixed match rate based on employee contribution as a percentage of earnings
- Fixed match rate based on employee contribution as a percentage of earnings (with flat dollar cap)
- Employee's length of service
- Points system e.g. combination of age + service
- Years of participation

Of the one in five plans that offer a basic company contribution with no obligation for the employee to contribute, most have transitioned their workplace plan from a DBPP to a DCPP for future service.

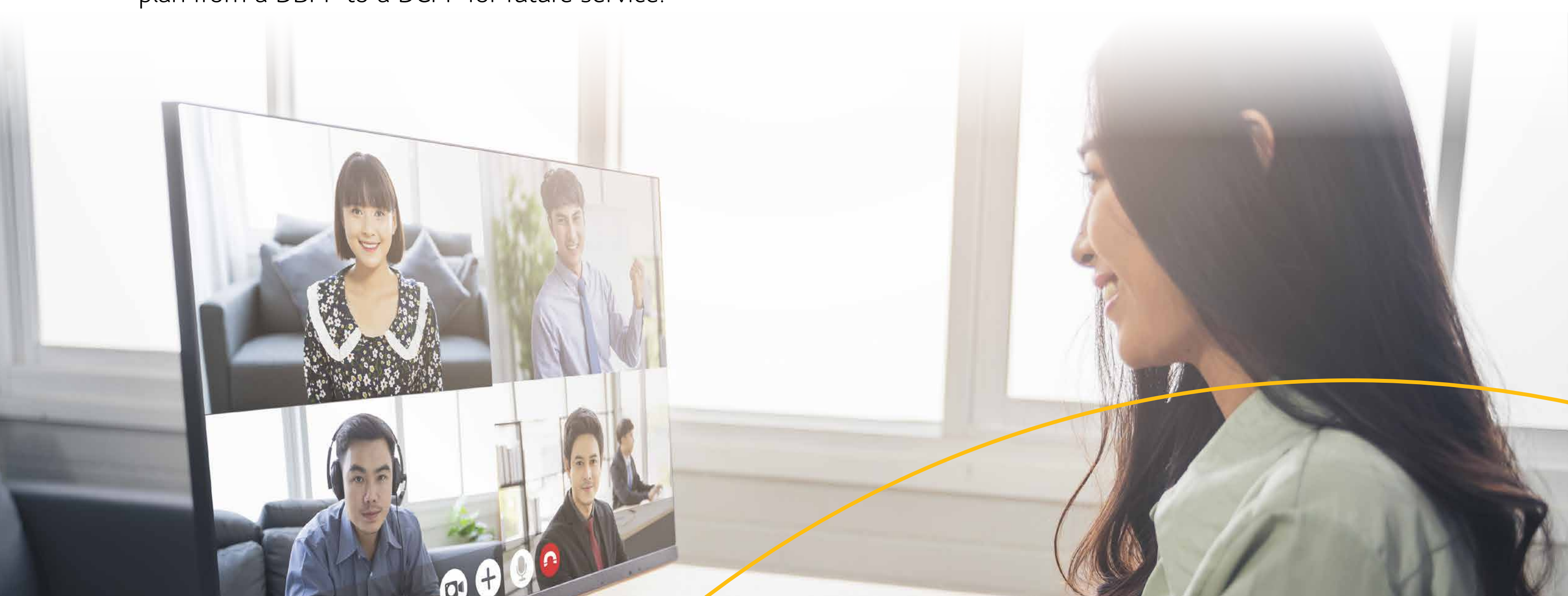
Over three-quarters of such plans offer an employer contribution between 3% and 6%, with 4% being the most common.

In most cases, employees will receive additional employer-matching contributions if they voluntarily contribute.

### FIG 1.7 EMPLOYER AUTOMATIC CONTRIBUTION RATE WHERE NO EMPLOYEE CONTRIBUTION IS REQUIRED

| Automatic employer contribution rate % | Percentage of plans* |
|---|---|
| 1% | 4% |
| 2% | 14% |
| 3% | 20% |
| 4% | 21% |
| 5% | 18% |
| 6% | 17% |
| 7% | 3% |
| 8% | 1% |
| 9% | 1% |
| 10% | 1% |

**The percentage shown is based on the approximately one in five plans that offer an automatic contribution i.e. of the one in five plans that offer this feature, 4% provide an automatic employer contribution of 1%.*



# 02

## Plan types commonly offered

Similar to the findings in our previous reports, employers with more plan members tend to offer multiple products. This provides employees with maximum flexibility to save for various goals.

# 02 | Plan types commonly offered

Similar to the findings in our previous reports, employers with more plan members tend to offer multiple products. This provides employees with maximum flexibility to save for various goals.

Plans with fewer than 100 members continued to have a strong affinity to group RRSP-only plans, as these have fewer regulatory requirements. Many will also add a DPSP for the employer-matching contribution to take advantage of the vesting feature. Most require two full years before the employer money is vested (i.e. available to the employee when they leave the organization). This is particularly advantageous from a financial perspective for an employer who experiences high turnover.

**FIG 2.0: TOP 5 PLAN TYPE COMBINATIONS BASED ON MEMBERSHIP SIZE**

| # of plan members | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 1-99 | RRSP 57% | DCPP 11% | RRSP-DPSP 11% | VRSP 7% | RRSP-TFSA 4% |
| 100-199 | RRSP 22% | DCPP 13% | DCPP-RRSP 11% | RRSP-DPSP 11% | - |
| 200-499 | DCPP-RRSP 14% | RRSP 13% | RRSP-DPSP 9% | DCPP-RRSP-TFSA-NREG 8% | - |
| 500-999 | DCPP-RRSP-TFSA 14% | DCPP-RRSP 12% | DCPP-RRSP-TFSA-NREG 10% | RRSP 7% | RRSP-DPSP 7% |
| 1000+ | DCPP-RRSP 15% | DCPP-RRSP-TFSA 14% | DCPP-RRSP-TFSA-NREG 13% | DCPP 8% | DCPP-RRSP-NREG 5% |

*Note: The DCPP and RRSP statistics are for plans that include these products exclusively.*

Among plans with $2 million to $5 million in assets, we observed an increase in RRSP-only plans to 29%, up 5 percentage points since our previous report. We also observed a sizeable increase in the number of large sponsors (those with over $100 million in assets) offering a combination of DCPP, RRSP and TFSA from 12% in 2018 to 18% in 2020. The TFSA is finally becoming a staple in many plan designs, especially in programs offered by large employers.

The extent to which Canadians have embraced the TFSA since its launch in 2009 has been impressive. As of December 31, 2018, there were almost 21 million TFSAs in Canada, held by close to 15 million unique TFSA holders, with a total market value of almost $300 billion. The average TFSA had a fair market value of just over $20,000.

In 2021, Canadians have the option to add up to $6,000 to their tax-free savings accounts, bringing the cumulative contribution limit to $75,500 for an individual who has not opened an account.

While the overall picture is positive and we're seeing a strong upward trend overall, it's clear that TFSAs are underutilized in group plans. As we emerge from the pandemic, it may become apparent that TFSAs have been used as a source of emergency funds.

Also see Sections 7.6 to 7.9 for additional commentary and observations on TFSAs.

Around three-quarters of smaller employers (those with less than 100 plan members) offer a single product plan – most often a group RRSP or a VRSP in Quebec. Ten percent of employers with over 1,000 plan members offer just one product, which typically is a DCPP. Employers with over 500 plan members tend to offer multiple products to provide maximum flexibility for their employees.

**FIG 2.1: PLAN TYPES COMMONLY HELD BASED ON GROUP PLAN ASSET SIZE**

| Plan types | Less than $2M | $2M - $5M | $5M - $10M | $10M - $25M | $25M - $50M | $50M-$100M | $100M+ |
|---|---|---|---|---|---|---|---|
| RRSP Only | 63% | 29% | 15% | 13% | 4% | 4% | 0% |
| RRSP / DPSP | 11% | 11% | 12% | 8% | 5% | 4% | 2% |
| DCPP Only | 8% | 24% | 19% | 11% | 11% | 6% | 10% |
| DCPP / RRSP | 2% | 11% | 14% | 16% | 13% | 12% | 13% |
| NREG or EPSP | 2% | 9% | 17% | 30% | 38% | 52% | 50% |
| DCPP/RRSP/TFSA | 0% | 3% | 7% | 9% | 12% | 10% | 18% |
| DCPP/TFSA | 0% | 2% | 1% | 1% | 3% | 1% | 0% |
| RRSP/DPSP/TFSA | 1% | 2% | 4% | 4% | 5% | 4% | 2% |
| RRSP/TFSA | 4% | 7% | 8% | 6% | 5% | 5% | 1% |

Across industries, the most prevalent plan type offered is the RRSP. In most industries, the order of prevalence would be: DCPP, DPSP, TFSA and a non-registered solution (which is often used as a spill option for contributions that exceed the annual limit(s)).

Some publicly traded employers make their company stock available as an investment option in their non-pension plan products. See Section 7 for insights on employer stock and how it is used in a workplace savings plan.

**FIG 2.2: NUMBER OF PLAN TYPES OFFERED BASED ON PLAN MEMBERSHIP SIZE**

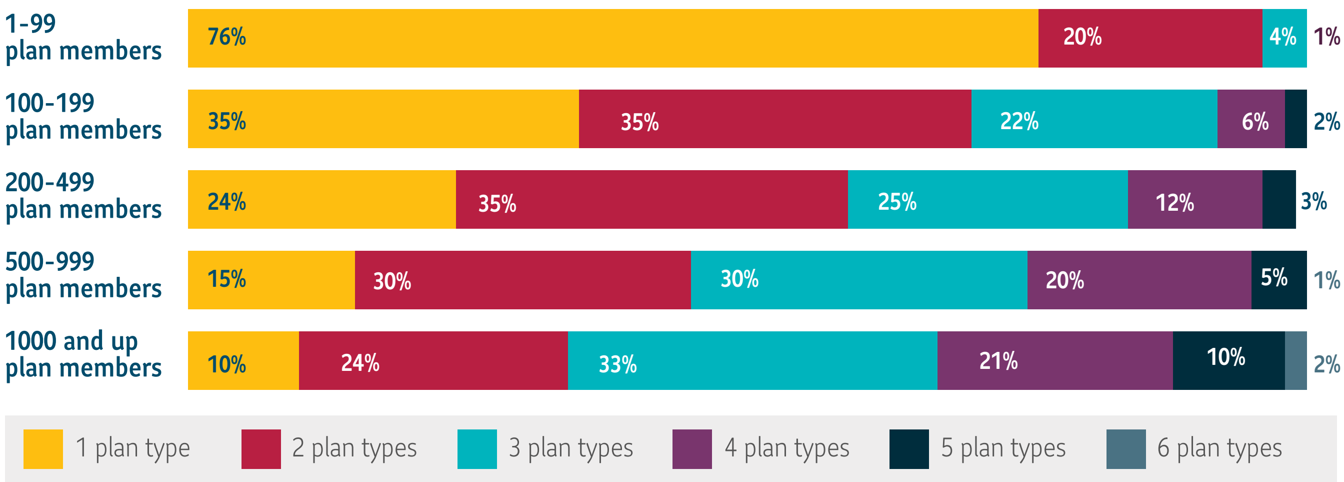
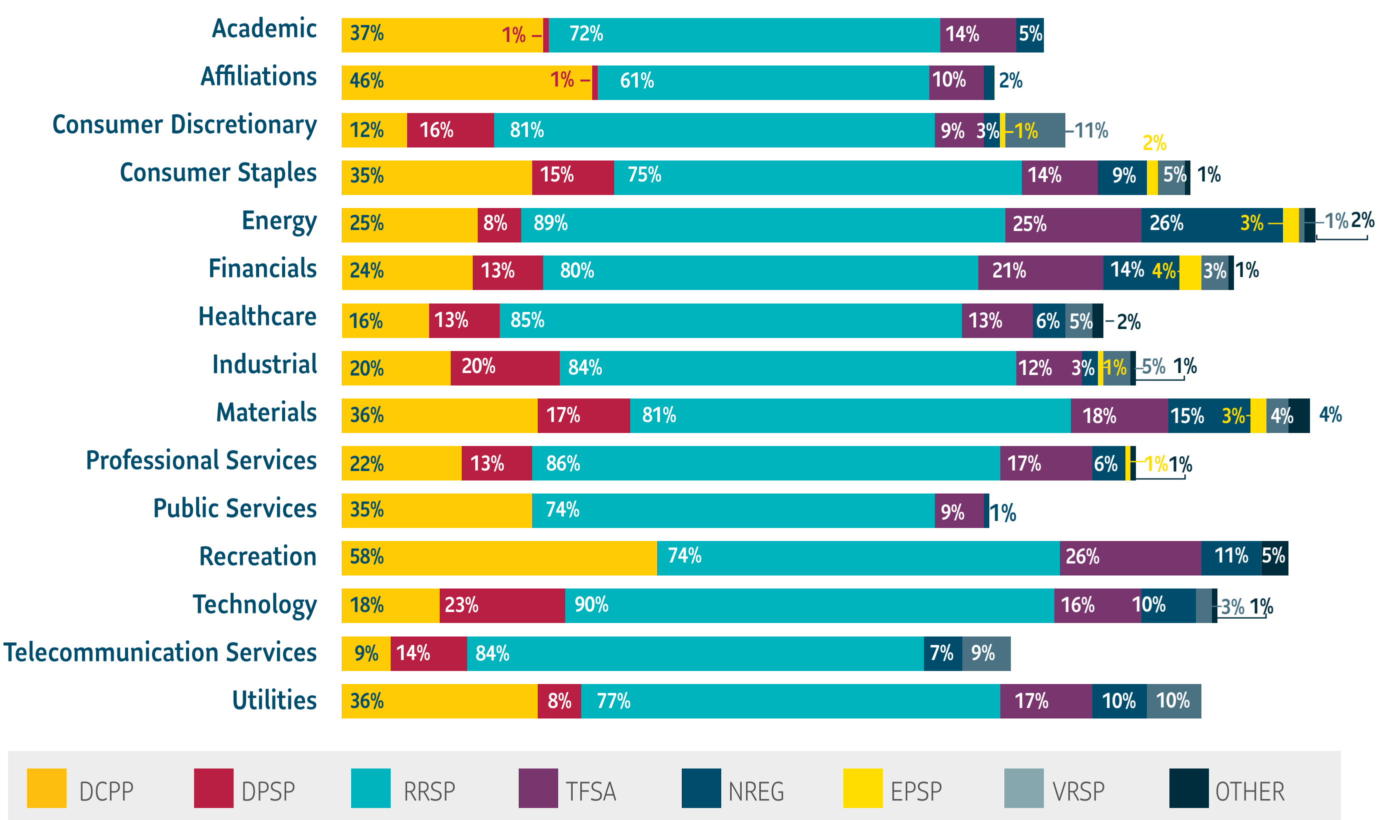



**FIG 2.3: PLAN TYPES OFFERED – BY INDUSTRY**




*The figures in this table represent the percentage of plans in each industry that offer each plan type. For example, in the Utilities industry, 45% of plan sponsors offer a DCPP, 2% offer a DPSP etc. Each row may total more than 100% since many plan sponsors offer more than one plan type in a workplace plan.*

# 03

## Employee participation rates

Participation is mandatory in about half of CAPs – meaning that many employees must take the initiative to make an active choice to join their workplace plan.

# 03 Employee participation rates

Participation is mandatory in about half of CAPs – meaning that many employees must take the initiative to make an active choice to join their workplace plan. The enrollment decision is framed as an active decision: "Decide if you'd like to join the plan."

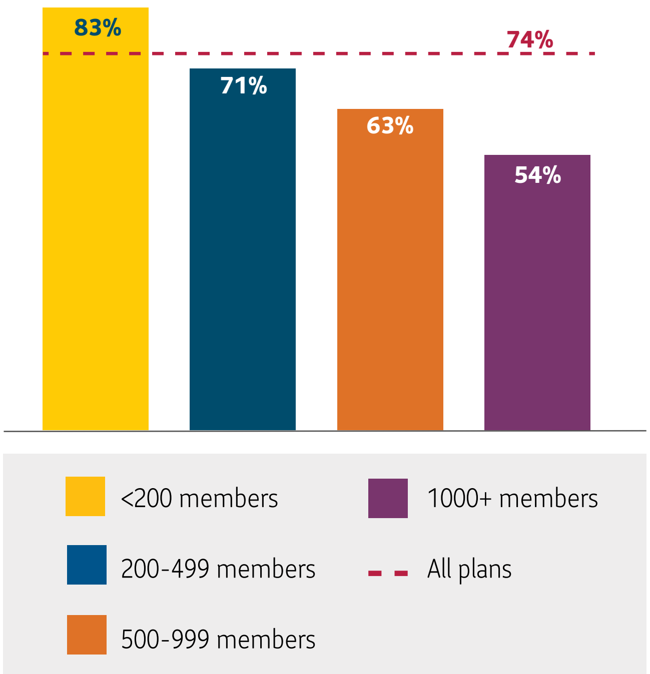
Research in the field of behavioural finance provides several explanations as to why employees fail to take advantage of their workplace plan:

- Some employees find it challenging to make decisions in the present for something that will happen many years in the future.
- Faced with many (and sometimes complex) choices and unsure of what to do, many employees take the "no decision" default choice regarding participation.
- When faced with difficult decisions, many individuals defer the decision to another day, which means they don't get around to joining the plan.

When it comes to an automatic enrollment (with opt-out) environment, the decision to not save is framed negatively: "Quit the plan if you like." With this type of design, "doing nothing" leads to participation in the plan. And the results from countries like the U.S., U.K., Australia, and New Zealand are staggering – in the most positive way.

As seen in the chart on the next page, overall plan participation is around 74%, with higher participation rates among smaller plans.

**FIG 3.0 EMPLOYEE PARTICIPATION**




Several years ago, Alberta and British Columbia passed legislation allowing for automatic enrollment with the ability for the employee to opt-out of their voluntary workplace pension plan. In these provinces, express consent from the employee for DCPP payroll deductions is not needed.

There are also other ways to address this obstacle, such as making plan participation a condition of employment upon hire. Increasingly, employers are opting for this approach to drive better outcomes for their new hires while other jurisdictions consider adopting steps similar to Alberta and British Columbia.

## Employers nudging employees: some success stories

Some Clients with voluntary participation plans are applying auto enrollment. For new hires, plan participation is a condition of employment as part of the job offer. Employers who've adopted this approach are seeing participation rates greater than 90%. The employee can always change their starter savings rate to 0% at anytime to opt out, but inertia is a powerful force, and very few take this step. Here are some examples where this approach has been applied with great success.

**FIG 3.1: EMPLOYEE PARTICIPATION CASE STUDIES**

| | New hire results using traditional opt-in methods | New hire results since implementing 'auto enrollment' as part of job offer letter |
|---|---|---|
| **Large Construction Company** | • Participation rate = 57%<br>• Average employee savings rate = 3% | • Participation rate = 98%<br>• Average employee savings rate = 5% |
| **Large Mining Company** | • Participation rate = 62%<br>• 44% of those participating did not take advantage of the full employer match | • Participation rate = 97%<br>• New hires defaulted to the contribution rate that would attract the full employer match – only 7% of employees chose to reduce this rate |
| **Large Pharmaceutical Company** | • Participation rate = 60% | • Participation rate = 97% |
| **Large Property & Casualty Insurance Company** | • Participation rate = 89% (with a lot of personalized pushing by the HR team) | • Participation rate = 98% |
| **Mid-sized Software Company** | • New plan – nothing in place previously | • All employees auto-enrolled at 4% (60% increased contributions)<br>• 96% participation |

## Consider Sun Life's own example:

### THE CHALLENGE

Like many employers, Sun Life had a subset of employees who were not maximizing their voluntary contributions. Prior to implementing auto enrollment, around 11% were not contributing enough to attract the full employer match. Another 20% of employees were not making voluntary contributions.

### GOAL

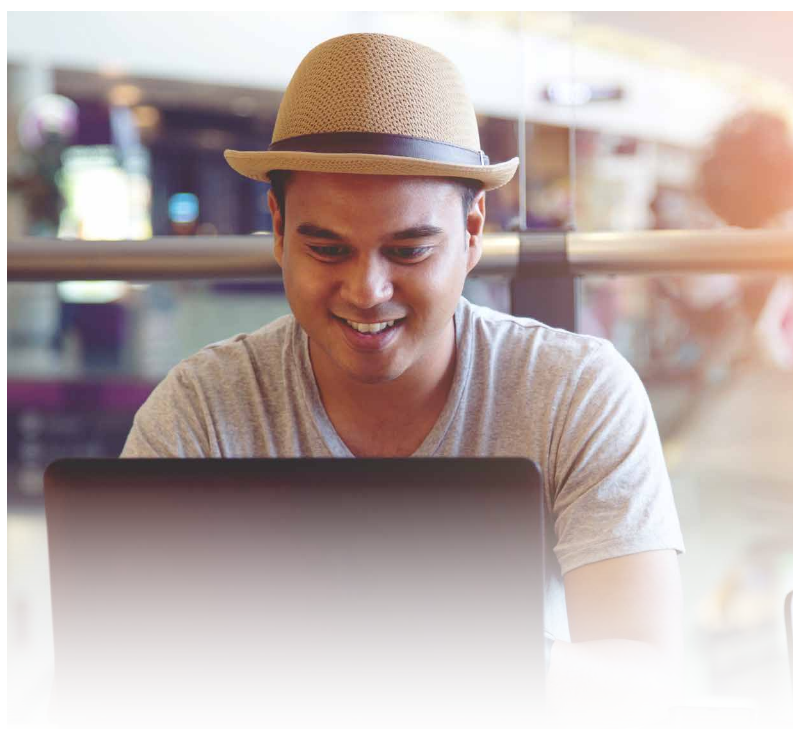
We reviewed the success of auto-enrollment campaigns in other countries where the practice is more common. In the UK, there was an average 9% opt-out rate with the use of auto-enrollment. On average, voluntary contribution participation nearly doubled with the inclusion of auto-enrollment in the US. For this initiative, we set a goal of an opt-out rate of less than 10% among new hires auto-enrolled in Canada.

### SOLUTION DESIGN

Stakeholder engagement and buy-in were key to implementing the program. Senior business leaders, HR partners, legal, recruitment, and IT were all instrumental to the development and rollout of the solution. New hire offer letters were modified to include wording that members would be auto-enrolled at a contribution rate that attracts the full company match. Making this a condition of employment allowed us to overcome current legislative limitations on auto enrollment. Transparency and simple language were key, as was framing the enrollment as a positive, convenient thing. Messaging was aligned with our purpose of supporting employees' financial security, in an effort to ensure that the program and auto enrollment was well-received and valued by employees. Another key requirement was to ensure that members could easily change their contribution rate so employees would maintain financial flexibility.

### RESULTS

The introduction of auto-enrollment is showing a positive result on employees' financial wellness by having new hires save more and earlier, compared to our previous 'opt-in' design. As part of the initiative, new hires were auto-enrolled between May and December 2020. During these first few months following implementation, the enrollment rate rose from 79% to almost 95% among new hires. We observed an opt-out rate of just 4.6%, and just 5.7% of those auto-enrolled at the maximum rate adjusted their contributions to a lower amount. Further initiatives are planned to highlight the importance of additional voluntary contributions.



04

# Investments

Four key trends within investments emerged in 2020: increases in Foreign Equity funds and Target Date funds, and declines in conservative asset categories and plan assets in company stock.

# 04 | Investments

## Four key trends:

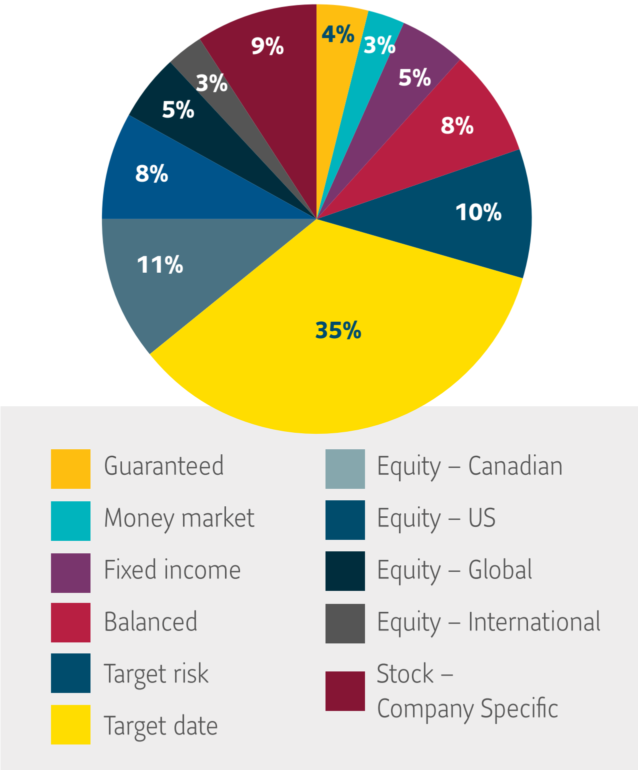
**1** Foreign Equity funds - which include US, International and Global Equities - offer diversification and different return opportunities than domestic funds. Plan members continue to invest increasing amounts in equities outside of Canada. Overall plan assets held in Canadian Equity funds have declined by more than half, from 23% in 2010 to just 11% in 2020.

**2** Target Date fund assets saw their largest increase yet in 2020, growing from 29% in 2018 to 35% of total assets. This is impressive growth, considering that Target Date funds represented just 7% of overall plan assets a decade ago. This growth has been offset by lower usage of other ***Help me do it*** asset classes like Balanced funds, and from ***Let me do it*** asset classes including Guaranteed, Money Market and Canadian Equity funds. Notably, members who invested solely in Target Date funds outperformed members who built their own portfolios over each annual period since 2014. See page 25 for additional commentary.

**3** Plan member assets invested in conservative asset categories which offer relatively low return potential (e.g. Guaranteed, Money Market) have declined by 50% over the past decade, from 14% to 7%. We've observed a clear trend of plan sponsors moving away from Money Market funds as the default option, primarily in favour of Target Date funds. Sustained low interest rates and a relatively stronger outlook for other asset classes from a risk-adjusted performance perspective have contributed to this trend.

**4** The proportion of plan assets held in company stock continues to decline, from 13% in 2010 to 9% in 2020. This can be attributed to regulatory changes, including amendments to the *Pension Benefits Standards Regulations, 1985* impacting DCPPs that offer company stock as an investment option. These changes came into effect in July 2016. Impacted plan members had until July 2021 to move stock assets to another available investment option within their DCPP. As such, we may expect the proportion of company stock to decline further.

**FIG 4.0: INVESTMENT FUND ASSET CLASS BREAKDOWN BY OVERALL PLAN ASSETS (2020 ONLY)**




Holdings in Balanced funds are generally declining across all plan sizes. Smaller plans, especially those with assets under $10M, continue to be more likely to offer a more traditional Balanced fund.

Target Date fund usage has increased among all plan sizes and is as high as 95% among plans with $50-$100M in assets.

Similarly, we observe Global Equity usage continues to increase across all plan sizes.

We also saw significant growth in Real Estate and Alternative fund usage in larger plans. Given that alternative investments typically don't correlate to the stock market, they can be used to help offset market volatility and generate higher returns during periods of low yields.

The decline in Money Market usage across all plan sizes is partially due to Sun Life's introduction of the Guaranteed Daily Interest Account as a Money Market alternative. Most plan sponsors continue to offer a daily-interest type of fund to plan members.

**FIG 4.1: PERCENTAGE OF PLANS USING EACH ASSET CLASS**

| Asset Class | Asset Band | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Less than $2M | | $2M - $5M | | $5M - $10M | | $10M - $25M | | $25M - $50M | | $50M-$100M | | $100M+ | |
| | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 |
| Guaranteed | 39% | 39% | 82% | 82% | 87% | 87% | 86% | 89% | 87% | 85% | 79% | 87% | 70% | 76% |
| Money Market | 37% | 24% | 84% | 76% | 91% | 77% | 93% | 75% | 96% | 72% | 92% | 74% | 99% | 70% |
| Fixed Income | 40% | 34% | 92% | 91% | 96% | 95% | 98% | 99% | 98% | 98% | 96% | 100% | 99% | 98% |
| Balanced | 49% | 39% | 77% | 78% | 74% | 68% | 67% | 64% | 60% | 56% | 62% | 60% | 52% | 48% |
| Target Risk | 34% | 32% | 47% | 49% | 43% | 49% | 28% | 33% | 26% | 26% | 25% | 28% | 21% | 22% |
| Target Date | 62% | 69% | 74% | 80% | 82% | 84% | 85% | 91% | 83% | 92% | 86% | 95% | 85% | 87% |
| Equity – Canadian | 52% | 43% | 96% | 96% | 96% | 97% | 97% | 99% | 97% | 98% | 95% | 100% | 99% | 98% |
| Equity – US | 41% | 36% | 90% | 89% | 91% | 92% | 93% | 94% | 90% | 91% | 89% | 88% | 92% | 91% |
| Equity – Global | 36% | 29% | 80% | 83% | 79% | 81% | 80% | 82% | 83% | 86% | 72% | 79% | 83% | 84% |
| Equity – International | 33% | 27% | 83% | 82% | 85% | 87% | 90% | 91% | 87% | 87% | 87% | 88% | 90% | 89% |
| Stock – Company specific | 0% | 0% | 2% | 1% | 3% | 2% | 5% | 2% | 7% | 5% | 19% | 15% | 29% | 24% |
| Real Estate / Alternative | 1% | 0% | 4% | 5% | 6% | 7% | 6% | 7% | 8% | 11% | 3% | 13% | 6% | 7% |

**FIG 4.2A: ACTIVE VS. PASSIVE INVESTMENT OFFERINGS (CONSULTANT-SUPPORTED PLANS)**

| Asset Class | Percentage of plans offering | | |
|---|---|---|---|
| | Active Only | Active and Passive | Passive Only |
| Guaranteed | 100% | 0% | 0% |
| Money Market | 100% | 0% | 0% |
| Fixed Income | 17% | 52% | 31% |
| Balanced | 84% | 14% | 2% |
| Target Risk | 47% | 6% | 47% |
| Target Date | 32% | 13% | 55% |
| Equity - Canadian | 48% | 49% | 2% |
| Equity - US | 8% | 46% | 46% |
| Equity - Global | 77% | 18% | 6% |
| Equity - International | 37% | 44% | 19% |
| Stock – Company Specific | 100% | 0% | 0% |
| Real Estate / Alternative | 100% | 0% | 0% |

**FIG 4.2B: ACTIVE VS. PASSIVE INVESTMENT OFFERINGS (ADVISOR-SUPPORTED PLANS)**

| Asset Class | Percentage of plans offering | | |
|---|---|---|---|
| | Active Only | Active and Passive | Passive Only |
| Guaranteed | 100% | 0% | 0% |
| Money Market | 100% | 0% | 0% |
| Fixed Income | 33% | 47% | 20% |
| Balanced | 83% | 16% | 1% |
| Target Risk | 92% | 4% | 4% |
| Target Date | 88% | 3% | 9% |
| Equity - Canadian | 67% | 31% | 2% |
| Equity - US | 31% | 53% | 16% |
| Equity - Global | 78% | 15% | 6% |
| Equity - International | 41% | 47% | 13% |
| Stock – Company Specific | 100% | 0% | 0% |
| Real Estate / Alternative | 100% | 0% | 0% |

Most plans offer US, International and Global Equity funds, regardless of plan size.

We saw a decline in plans that offer just US and International (non-North American) Equity funds, as plan sponsors add Global Equity fund options. Global Equity funds offer plan members with broad foreign equity exposure without the need for them to select specific US Equity and International Equity weightings.

**FIG 4.3: FOREIGN EQUITY FUNDS OFFERED BY PLAN ASSET SIZE**

| Asset Class | Asset Band | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Less than $2M | | $2M - $5M | | $5M - $10M | | $10M - $25M | | $25M - $50M | | $50M-$100M | | $100M+ | |
| | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 |
| US Equity only | 5% | 6% | 1% | 1% | 0% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Int'l & Global Equity | 2% | 1% | 0% | 1% | 0% | 1% | 0% | 0% | 0% | 0% | 1% | 1% | 0% | 0% |
| Global, Int'l & US Equity | 21% | 17% | 68% | 69% | 67% | 71% | 71% | 74% | 72% | 76% | 60% | 66% | 74% | 75% |
| Global Equity only | 6% | 5% | 5% | 6% | 5% | 4% | 5% | 5% | 7% | 6% | 8% | 11% | 7% | 7% |
| US & Global Equity | 6% | 6% | 7% | 8% | 7% | 5% | 3% | 3% | 3% | 4% | 3% | 1% | 2% | 2% |
| International Equity only | 1% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| US & International Equity | 8% | 7% | 14% | 12% | 17% | 15% | 19% | 17% | 15% | 12% | 26% | 21% | 16% | 14% |
| No Foreign Equity | 50% | 57% | 4% | 4% | 3% | 3% | 2% | 1% | 2% | 2% | 2% | 0% | 1% | 2% |

Target Date funds continue to experience strong growth – over the past decade, contributions into these funds have grown by over 300%. This is largely due to the growing use of these funds as default options from 34% in 2018 to 49% of total assets in 2020.

The methodology for this section has been enhanced in this year's report to better reflect the asset class categories of client-specific composite funds.

**FIG 4.4: PLAN MEMBER INVESTMENT ALLOCATIONS (FOR CONTRIBUTIONS)**

| Asset Class | 2010 | 2018 | 2020 | % Change Since 2010 |
|---|---|---|---|---|
| Guaranteed | 6% | 3% | 8% | 33% |
| Money Market | 10% | 6% | 3% | -70% |
| Fixed Income | 8% | 5% | 1% | -88% |
| Balanced | 13% | 8% | 5% | -62% |
| Target Risk | 13% | 8% | 11% | -15% |
| Target Date | 12% | 34% | 49% | 308% |
| Equity - Canadian | 18% | 10% | 3% | -83% |
| Equity - US | 3% | 6% | 2% | -33% |
| Equity - Global | 3% | 4% | 2% | -33% |
| Equity - International | 3% | 3% | 1% | -67% |
| Stock | 12% | 11% | 15% | 25% |

A key factor driving the growing use of Target Date funds by plan sponsors and plan members is their simplified approach to investment decision-making. These funds invest in an age-appropriate asset mix and gradually become more conservative as the investor gets closer to needing their money. Although they are generally intended to be used as a single-fund solution in a member's portfolio, we do observe some members with a portfolio of several investments, including Target Date funds. Ensuring that plan members understand how these investments work – and that they are an appropriate choice to help them reach their savings goals – will continue to be important. This can be achieved through the use of tools such as the Investment Risk Profiler to ensure their risk tolerance aligns with their investments.

**FIG 4.5: ASSET MIX DISTRIBUTION FOR MEMBER ACCOUNT BALANCES**

| Asset Class | 2010 | 2018 | 2020 | % Change Since 2010 |
|---|---|---|---|---|
| Guaranteed | 7% | 4% | 4% | -43% |
| Money Market | 7% | 5% | 3% | -57% |
| Fixed Income | 7% | 6% | 5% | -29% |
| Balanced | 17% | 10% | 8% | -53% |
| Target Risk | 12% | 8% | 10% | -17% |
| Target Date | 7% | 29% | 35% | 400% |
| Equity - Canadian | 23% | 13% | 11% | -52% |
| Equity - US | 2% | 7% | 8% | 300% |
| Equity - Global | 2% | 5% | 5% | 150% |
| Equity - International | 2% | 3% | 3% | 50% |
| Stock | 13% | 11% | 9% | -31% |

We observed small increases in the allocation to equities across all age groups, with the exception of the Under 20 age group. This may be due to market movements, rather than active selection.

> Overall, we see a growing number of plan members with equity exposure. This may be due to education efforts, as well as the increased use of Target Date funds.

Equity holdings tend to decline among older plan members. However, the majority of plan members aged 60 or older maintain portfolios with equity levels of 50% or greater. This suggests that while plan members are lowering their equity levels as their time to retirement shortens, older plan members are still maintaining significant equity holdings. Low interest rates, insufficient savings, and a tendency to keep investments unchanged may be contributing to the equity allocations.

**FIG 4.6: PERCENTAGE EQUITY EXPOSURE BY PLAN MEMBER AGE**

| % of Equity Holdings | Age Band | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Under 20 | | 20 to 29 | | 30 to 39 | | 40 to 49 | | 50 to 54 | | 55 to 59 | | 60 to 64 | | 65 + | | Total | |
| | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 |
| No equity | 6% | 5% | 11% | 8% | 12% | 10% | 12% | 11% | 14% | 12% | 15% | 14% | 19% | 19% | 26% | 25% | **14%** | **12%** |
| 1-25% | 2% | 1% | 2% | 2% | 3% | 2% | 3% | 3% | 3% | 3% | 3% | 3% | 4% | 4% | 5% | 4% | **3%** | **3%** |
| 26-50% | 54% | 63% | 14% | 12% | 10% | 9% | 10% | 9% | 10% | 9% | 12% | 11% | 14% | 13% | 16% | 15% | **11%** | **10%** |
| 51-75% | 24% | 16% | 30% | 32% | 30% | 31% | 30% | 30% | 29% | 30% | 30% | 30% | 30% | 30% | 27% | 28% | **30%** | **30%** |
| 76-99% | 6% | 6% | 17% | 18% | 19% | 21% | 21% | 22% | 20% | 22% | 18% | 20% | 15% | 17% | 11% | 12% | **19%** | **20%** |
| 100% | 9% | 9% | 26% | 28% | 25% | 28% | 24% | 26% | 23% | 25% | 21% | 23% | 18% | 19% | 15% | 16% | **23%** | **25%** |

While Target Date fund usage continues to increase across all age bands, younger plan members are more likely to be invested in Target Date funds. This likely stems from greater adoption of Target Date funds by plan members and sponsors over the past decade, including their increasing use as a default option. Older plan members are more likely to have joined the plan before Target Date funds were widely used. Our data suggests that plan members don't actively change investments very often, unless required to by plan sponsors. This may point to an opportunity to more fully engage and educate plan members on available investment options.

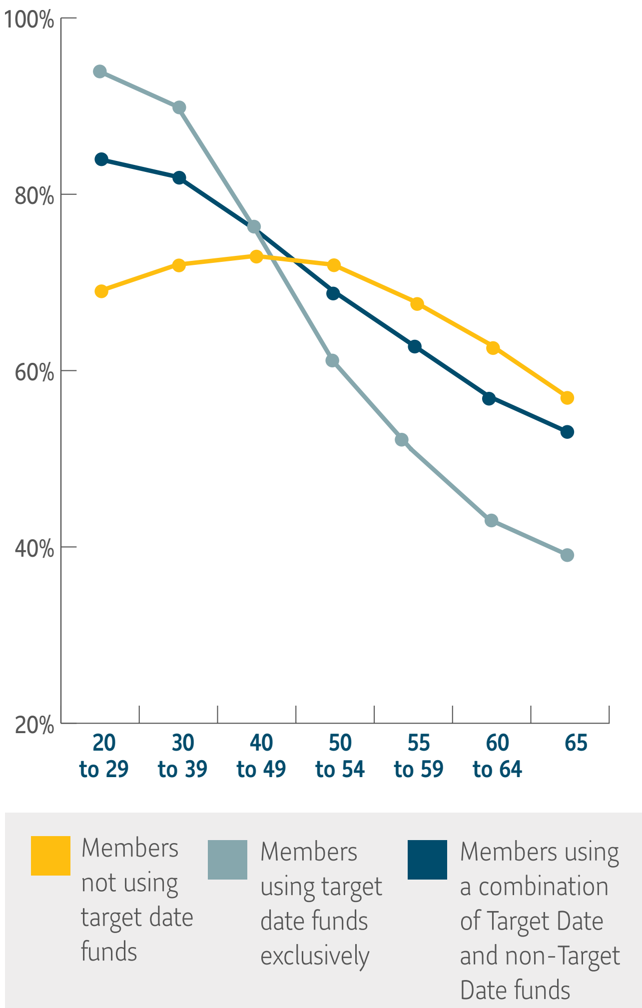
**FIG 4.7: MEMBER USE OF FUNDS – BY CATEGORY BY AGE BANDS**

| Category | Age Band | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Under 20 | | 20 to 29 | | 30 to 39 | | 40 to 49 | | 50 to 54 | | 55 to 59 | | 60 to 64 | | 65 + | |
| | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 |
| Balanced | 1% | 0% | 3% | 2% | 4% | 3% | 3% | 3% | 3% | 2% | 4% | 3% | 4% | 3% | 5% | 4% |
| Combination | 24% | 28% | 29% | 28% | 29% | 29% | 28% | 30% | 28% | 30% | 27% | 29% | 26% | 27% | 24% | 24% |
| Single asset class | 5% | 4% | 22% | 18% | 31% | 24% | 38% | 29% | 42% | 33% | 43% | 34% | 43% | 37% | 48% | 40% |
| Target Date | 66% | 65% | 38% | 44% | 29% | 36% | 24% | 31% | 21% | 28% | 20% | 27% | 21% | 25% | 17% | 23% |
| Target Risk | 5% | 3% | 8% | 8% | 7% | 8% | 6% | 8% | 6% | 7% | 5% | 7% | 6% | 7% | 6% | 9% |

Plan members who don't use Target Date funds tend to have lower equity in their 20s and 30s, and higher equity in their 50s and 60s, relative to the equity levels in Target Date funds. These observations are limited to holdings in CAPs and it's important to note that these members may have additional equity holdings in savings arrangements elsewhere.

For younger members, being underweight in equities may mean limited upside potential, while for older members this might mean increased equity risk as they approach retirement.

**FIG 4.8A: MEMBER AGE AND EQUITY EXPOSURE**




**4.8B: PERFORMANCE OF TARGET DATE FUNDS (NET OF FEES)**

| Investment Strategy | 1 year | 2 year | 3 year | 5 year |
|---|---|---|---|---|
| | Average Return | | | |
| Members using TDFs only | 8.8% | 12.5% | 7.3% | 7.4% |
| Members not using TDFs | 7.2% | 10.1% | 5.4% | 6.7% |
| Excess return TDF members vs those not using TDFs | **1.6%** | **2.4%** | **2.0%** | **0.7%** |

*Annualized periods ending December 31, 2020.*

Plan members using only Target Date funds continue to earn better returns (after fees) than plan members who build their own portfolios. Target Date funds ensure that plan members take on age appropriate allocations to equities that will help them grow their assets over time.

> Our analyses have shown that in each calendar year since 2014, plan members invested only in Target Date funds have generated higher net returns than those who build their own portfolio.

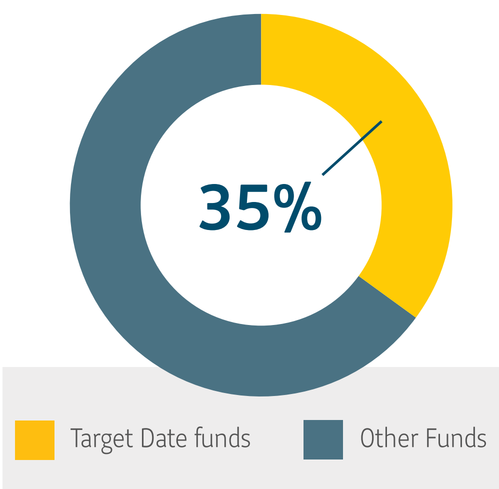
For all periods we examined since 2014, the average outperformance of a member holding Target Date funds over one who does not was approximately 1%, net of fees.* Over the course of a person's career, this can mean a significant difference to their savings and ultimate retirement income.

**Past performance is not a guarantee of future returns.*

Consider this example, showing the difference in savings assuming a 1% difference in returns:

| Contribution period | Total contributions | Savings at the end of the period | |
|---|---|---|---|
| | | 4.5% assumed rate of return | 5.5% assumed rate of return |
| 30 years | $120,000 | $212,050 | $252,513 |
| | | $40,463 difference in savings | |
| We calculated the figures above assuming a $4,000 annual investment and a 1% Fund Management Fee. | | | |

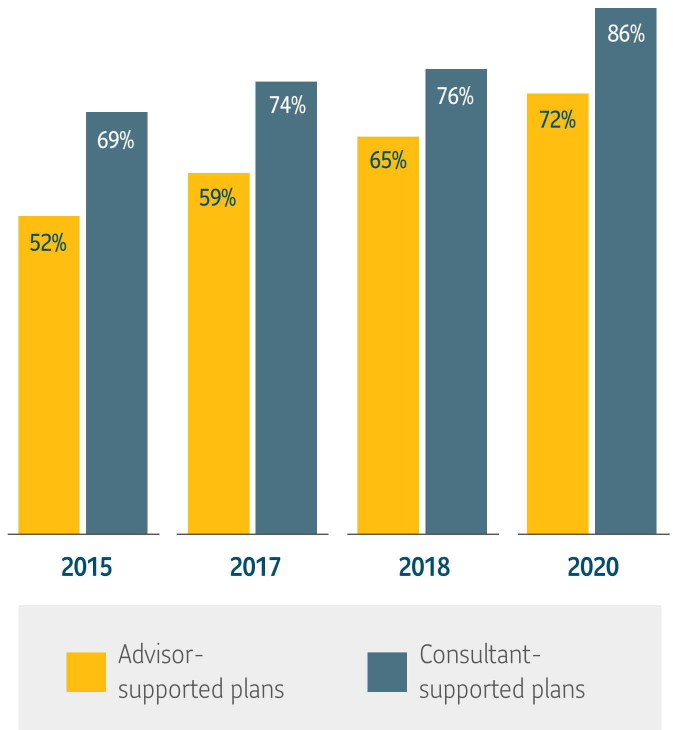
**FIG 4.9 GROWTH OF TARGET DATE FUNDS**




In general, Target Date funds continue to offer diversification within plan member accounts. Currently, assets held in Target Date funds amount to around 35% of total CAP assets. Interest in and usage of these funds continues to grow. Over the past several years, over 80% of all new Sun Life Clients have included Target Date funds in their investment lineup.

Target Date funds are increasingly incorporated into default plan design. Most plan sponsors provide plan members with a window of time to make an active investment decision about which fund(s) to use. Many plan sponsors then transfer assets from the closed balanced and Target Risk funds into a Target Date fund if the plan member does not act on their own.

**FIG 4.10: PERCENTAGE OF PLANS WITH TARGET DATE FUND INVESTMENT OPTION**




> The number of plan members who have access to Target Date funds has increased by 4% since 2018.

Target Date fund usage continues to grow among both consultant- and advisor-supported plans. Plans using a consulting firm tend to have higher Target Date fund usage. Although advisor plans tend to have slightly lower usage, it's clear that there is broad interest in and use of these funds, and that they are widely adopted. Overall, almost two-thirds of all plan members held a Target Date fund in 2020.

**FIG 4.11: PERCENTAGE OF PLAN MEMBERS WITH ACCESS TO TARGET DATE FUNDS**

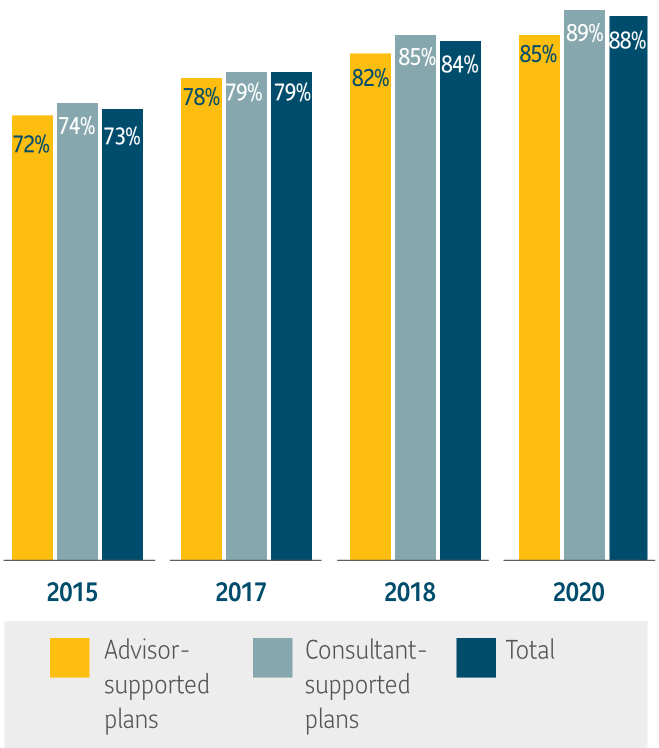
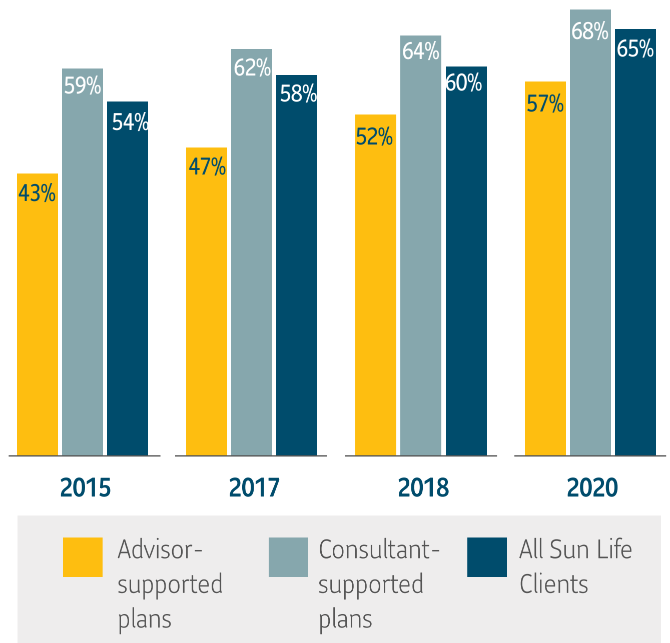



**FIG 4.12: PERCENTAGE OF PLAN MEMBERS WHO HOLD TARGET DATE FUNDS**

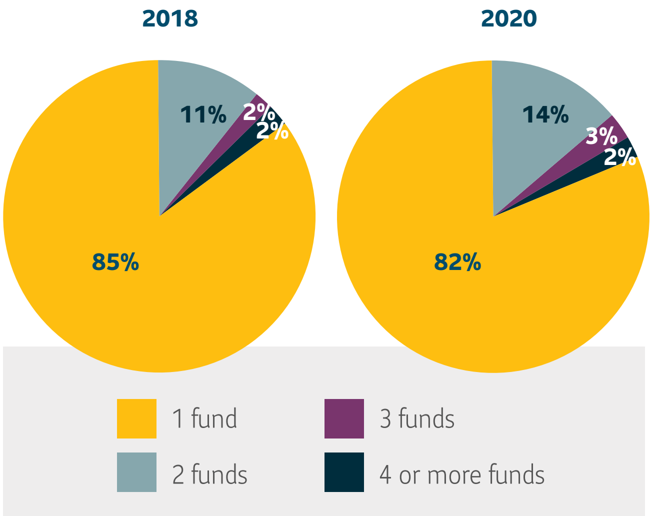



Most plan members appear to be using Target Date funds as intended (often aligned with the member's 65th birthday if used for retirement). Outliers tend to be plan members intentionally choosing Target Date funds with earlier maturities – perhaps to help manage risk or for shorter-term goals unrelated to retirement.

**FIG 4.13: PLAN MEMBER TARGET ALLOCATIONS BY AGE AND FUND MATURITY**

| Fund Maturity Date | Under 30 | | 30 to 39 | | 40 to 49 | | 50 to 59 | | 60 + | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 |
| Retirement Series | 1% | 0% | 2% | 1% | 2% | 1% | 5% | 2% | 6% | 7% | 16% | 13% |
| 2025 | 0% | 0% | 1% | 1% | 1% | 1% | 10% | 7% | 1% | 2% | 12% | 11% |
| 2030 | 0% | 0% | 1% | 1% | 4% | 2% | 9% | 10% | 0% | 0% | 14% | 13% |
| 2035 | 0% | 0% | 1% | 1% | 10% | 8% | 1% | 3% | 0% | 0% | 13% | 13% |
| 2040 | 0% | 0% | 4% | 2% | 9% | 11% | 1% | 1% | 0% | 0% | 14% | 14% |
| 2045 | 2% | 1% | 11% | 10% | 1% | 3% | 0% | 0% | 0% | 0% | 15% | 14% |
| 2050 | 4% | 2% | 6% | 9% | 0% | 1% | 0% | 0% | 0% | 0% | 11% | 12% |
| 2055 | 4% | 5% | 1% | 2% | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 8% |
| 2060 | 0% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 2% |

**FIG 4.14: NUMBER OF TARGET DATE FUNDS HELD BY PLAN MEMBERS**




96% of plan members hold one or two Target Date funds, largely indicating proper use of these funds. A small minority of members hold more than two Target Date funds. These members may benefit from education on how these funds work and are intended to be used.

The increase observed in members holding two Target Date funds, and the decrease in members holding a single Target Date fund can be explained by members in the 2020 Target Date funds having their contributions redirected to Retirement funds. This is not an active selection by plan members, but rather a transfer as the 2020 fund matures and rolls into the Retirement fund available in the Target Date series. We can expect to see a similar pattern following upcoming fund maturity dates.

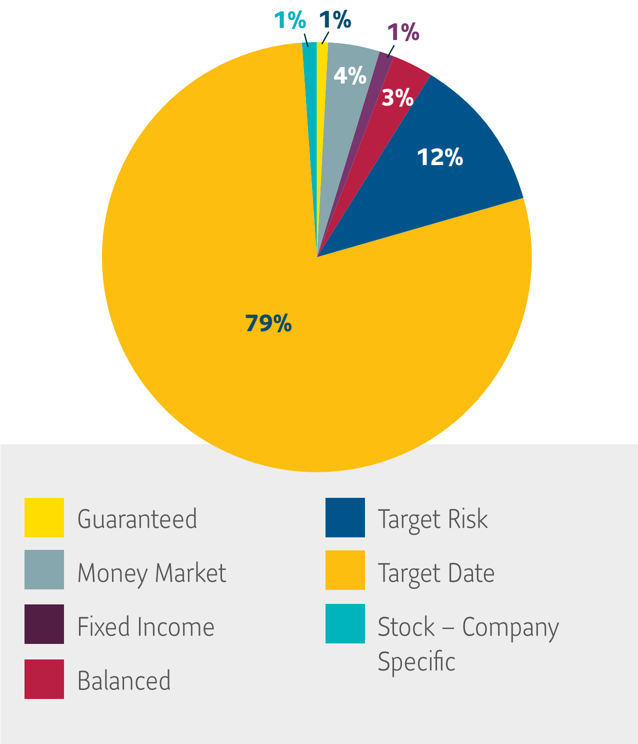
Compared to our previous report, fewer plan sponsors are using Money Market and Guaranteed funds as default funds (2% and 7% in 2018 respectively).

**FIG 4.15: NUMBER OF TARGET DATE FUNDS HELD BY PLAN MEMBERS BY AGE**

| Age | Number of funds | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 | | 2 | | 3 | | 4 | |
| | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 | 2018 | 2020 |
| Under 20 | 99% | 99% | 1% | 1% | 0% | 0% | 0% | 0% |
| 20 to 29 | 87% | 87% | 9% | 9% | 2% | 2% | 2% | 2% |
| 30 to 39 | 85% | 84% | 11% | 11% | 2% | 3% | 2% | 2% |
| 40 to 49 | 84% | 83% | 12% | 12% | 2% | 3% | 2% | 2% |
| 50 to 54 | 84% | 83% | 12% | 12% | 2% | 3% | 2% | 2% |
| 55 to 59 | 85% | 81% | 12% | 14% | 2% | 3% | 1% | 2% |
| 60 to 64 | 87% | 57% | 10% | 37% | 2% | 5% | 1% | 1% |
| 65 + | 89% | 69% | 9% | 28% | 1% | 3% | 1% | 1% |
| Overall | 87% | 80% | 10% | 15% | 2% | 3% | 1% | 2% |

The use of Target Risk funds increased moderately. This can be attributed to some sponsors using these funds as the default investment, to replace Money Market or Guaranteed funds. These plans may not have a Target Date fund series to assign as a default fund.

**FIG 4.16: EMPLOYER DEFAULT OPTION**




*Note: The above reflects the default for plans with at least 200 plan members.*

Target Date funds are becoming the default of choice for many CAP sponsors. Since 2011, almost all new plans with Sun Life have added Target Date funds to their plan's investment lineup – and all but a few are using Target Date funds as the plan's default investment option.

Our latest analysis shows that nearly 80% of plans use Target Date funds, up from 77% in 2018.

Target Date funds are especially prevalent among larger plans, with up to 85% utilizing these investments as a plan investment default.

Around 35% of CAP assets are held in Target Date funds. While this may appear to be relatively low, this figure actually reflects the fact that many plan sponsors have chosen not to move accumulated assets to an age appropriate Target Date fund on behalf of a plan member. These plan sponsors have left the decision with the employee to move their assets when they choose to do so – and the majority take no action. As the industry evolves, we expect the assets in Target Date funds to continue to grow.

The majority of new plans or those making fund changes are choosing to adopt these funds as a default option.

**FIG 4.17: INVESTMENT FUNDS OFFERED VS. USED**

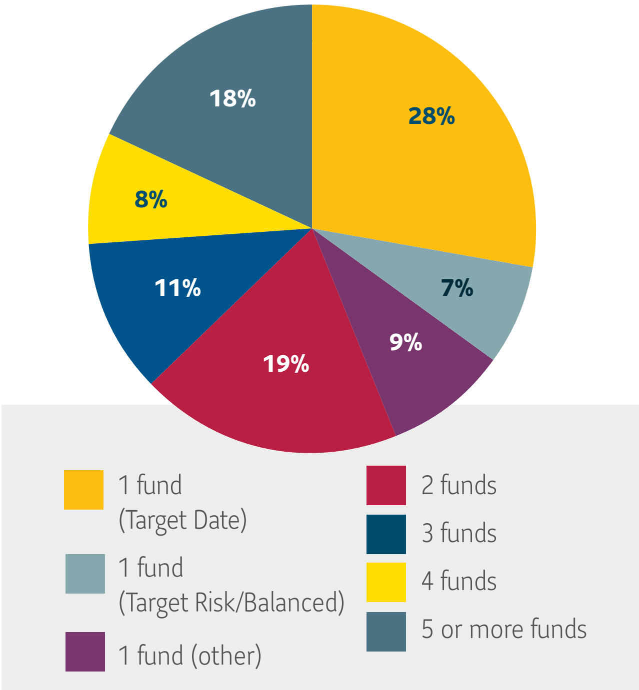
| Plan assets | Average # of funds offered* | Average # of funds held |
|---|---|---|
| Less than $2M | 4.8 | 1.6 |
| $2M-$5M | 13.3 | 2.1 |
| $5M-$10M | 13.7 | 2.1 |
| $10M-$25M | 13.6 | 2.2 |
| $25M-$50M | 13.1 | 2.4 |
| $50M-$100M | 12.6 | 2.4 |
| $100M+ | 12.1 | 2.5 |

**Note: A series of Target Date funds count as one fund in this comparison.*

The average number of funds offered to plan members in a plan sits at between 12-14 funds. This average has held steady for many years. Plan sponsors seek to offer plan members choice, without overwhelming them with too many options.

The number of funds held by plan member continues to decline slightly from an already low number. A primary reason for this is the increased use of Target Date funds where the vast majority of members simply hold one age appropriate Target Date fund.

**FIG 4.18: NUMBER OF FUNDS HELD BY PLAN MEMBERS**




Forty-four percent of plan members hold a single fund. These members are likely to hold a Target Date fund. The percentage of plan members who hold five or more funds is gradually declining.

> 62% of plan members investing in a single fund option invest in a Balanced, Target Risk or Target Date fund.

A sizeable minority (22%) of plan members investing in a single fund option continue to hold very conservative funds, such as Guaranteed or Money Market funds.

**FIG 4.19: ASSET CLASS HELD BY PLAN MEMBERS HOLDING A SINGLE FUND**

| Asset Class | Age Band | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 20 | 20 to 29 | 30 to 39 | 40 to 49 | 50 to 54 | 55 to 59 | 60 to 64 | 65 + |
| Guaranteed | 9% | 9% | 7% | 7% | 8% | 9% | 13% | 14% |
| Money Market | 11% | 12% | 10% | 10% | 10% | 10% | 13% | 16% |
| Fixed Income | 7% | 1% | 1% | 1% | 1% | 2% | 2% | 3% |
| Balanced | 18% | 8% | 9% | 9% | 8% | 8% | 9% | 9% |
| Target Risk | 5% | 22% | 26% | 24% | 23% | 22% | 22% | 19% |
| Target Date | 50% | 36% | 33% | 32% | 32% | 31% | 21% | 21% |
| Equity - Canadian | 0% | 1% | 1% | 1% | 1% | 2% | 2% | 2% |
| Equity - US | 0% | 2% | 2% | 2% | 1% | 1% | 1% | 1% |
| Equity - Global | 0% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| Equity - International | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 1% |
| Stock - Company Specific | 2% | 8% | 10% | 12% | 13% | 13% | 13% | 11% |

**FIG 4.20: ASSET ALLOCATION BY AGE**

| Asset Class | Age Band | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 20 | 20 to 29 | 30 to 39 | 40 to 49 | 50 to 54 | 55 to 59 | 60 to 64 | 65 + |
| Guaranteed | 1% | 2% | 2% | 3% | 4% | 5% | 6% | 9% |
| Money Market | 2% | 2% | 2% | 3% | 3% | 3% | 4% | 5% |
| Fixed Income | 1% | 3% | 4% | 5% | 5% | 5% | 6% | 7% |
| Balanced | 0% | 4% | 5% | 7% | 8% | 9% | 10% | 12% |
| Target Risk | 28% | 10% | 9% | 9% | 9% | 10% | 11% | 13% |
| Target Date | 57% | 54% | 44% | 37% | 33% | 31% | 29% | 25% |
| Equity - Canadian | 0% | 5% | 8% | 11% | 12% | 12% | 11% | 10% |
| Equity - US | 3% | 7% | 8% | 8% | 8% | 7% | 6% | 5% |
| Equity - Global | 0% | 3% | 5% | 5% | 6% | 5% | 5% | 4% |
| Equity - International | 0% | 3% | 3% | 3% | 3% | 3% | 2% | 2% |
| Stock - Company Specific | 7% | 8% | 8% | 9% | 11% | 10% | 9% | 8% |

Older plan members on average hold more assets in Balanced and single asset class funds, and less assets in Target Date funds.

For plans that offer re-enrollment, this can be a great opportunity to encourage members to revisit their investment options.

## Guaranteed interest accounts

Despite record low interest rates, there is still a place for guaranteed investments. These can be an excellent choice for plan members seeking a conservative option to help manage portfolio volatility and interest rate risk, especially as they grow older. Over the past couple of years, we've observed a significant portion of plan sponsors replace the Money Market fund with the Guaranteed Daily Interest Account (GDIA). The GDIA offers several important benefits over the Money Market fund: it will always have guaranteed positive interest; it's a safe, conservative option and there are no fund management fees. In addition, all deposits to guaranteed funds from Sun Life qualify for insurance coverage through Assuris. This insurance protects member savings in the unlikely event that a covered financial institution fails.

A small percentage of plans continue to use the more traditional Guaranteed Interest Account (GIA) solution as the default investment option for their plan – and most of these plans cover unionized employees. If the collective bargaining agreement dictates the default investment option, it may be difficult for an employer to introduce an alternate solution, such as Target Date funds, unless the change is negotiated.

**FIG 4.21: GIAs REMAIN A USEFUL OPTION**

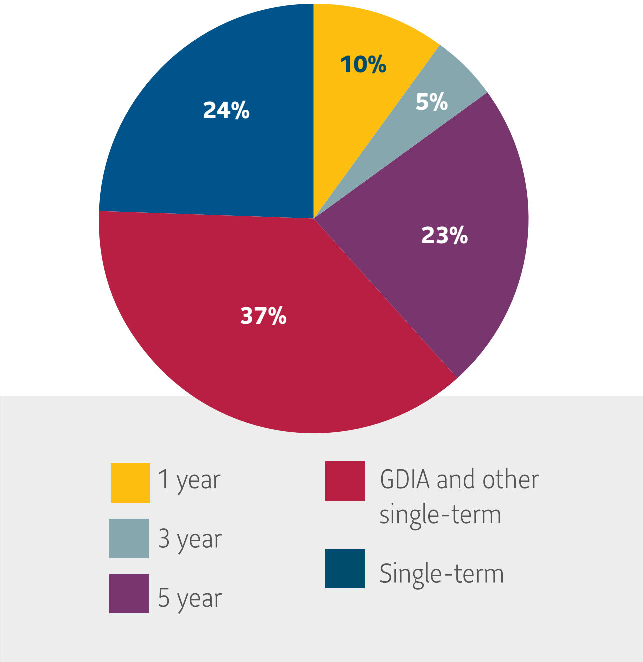



**FIG 4.22: PLAN MEMBER USE OF GIAs INCREASES WITH AGE**

| Age Band | Guaranteed and market based funds | | Guaranteed funds only | |
|---|---|---|---|---|
| | 2018 | 2020 | 2018 | 2020 |
| Under 20 | 100% | 99% | 0% | 1% |
| 20 to 29 | 99% | 99% | 1% | 1% |
| 30 to 39 | 99% | 99% | 1% | 1% |
| 40 to 49 | 98% | 98% | 2% | 2% |
| 50 to 54 | 98% | 98% | 2% | 2% |
| 55 to 59 | 97% | 97% | 3% | 3% |
| 60 to 64 | 96% | 95% | 4% | 5% |
| 65 + | 93% | 92% | 7% | 8% |

Across all age bands, most plan members that invest in GIAs also invest in other types of funds. A small percentage of plan members invest only in GIAs; this percentage is higher among older members approaching retirement. Overall, it appears that these investments are being used appropriately.

# 05

# Contributions

Plan design features such as the level of required contributions, and the degree of company matching can also have a significant impact on a plan member's ultimate retirement income.

# 05 | Contributions

We have observed a shift in the definition of earnings to "base salary" instead of total compensation – which may include commissions, bonuses and other forms of compensation. Using base earnings is an effective way to help manage costs while not drastically changing the plan design of the workplace arrangement. Our analysis shows that 65% of plan sponsors use base earnings, up almost a full 20 percentage points since our last report.

"Money in" is still the greatest determinant of "money out" in retirement.

Plan design features such as the level of required contributions, and the degree of company matching can also have a significant impact on a plan member's ultimate retirement income.

**FIG 5.0: DEFINITION OF EARNINGS**

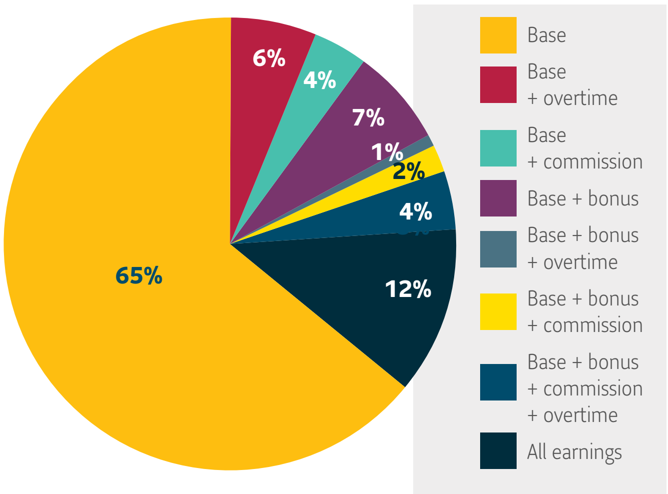
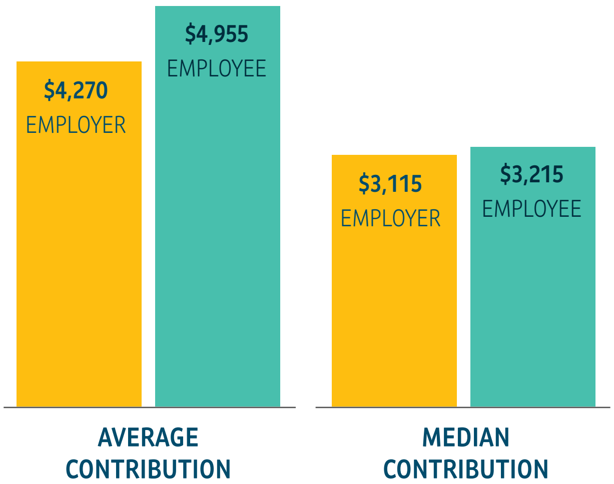



**FIG 5.1: AVERAGE AND MEDIAN YEARLY CONTRIBUTION**



Average employee and employer contribution levels continued their moderate upward trend since we started tracking this data.

It's worth noting that since 2018, both the average and median employee contributions increased by more than 5% each. This is above the typical rate of wage growth, generally pegged at around 1.5% to 2% annually.

### FIG 5.2: CONTRIBUTIONS BY PLAN ASSET SIZE

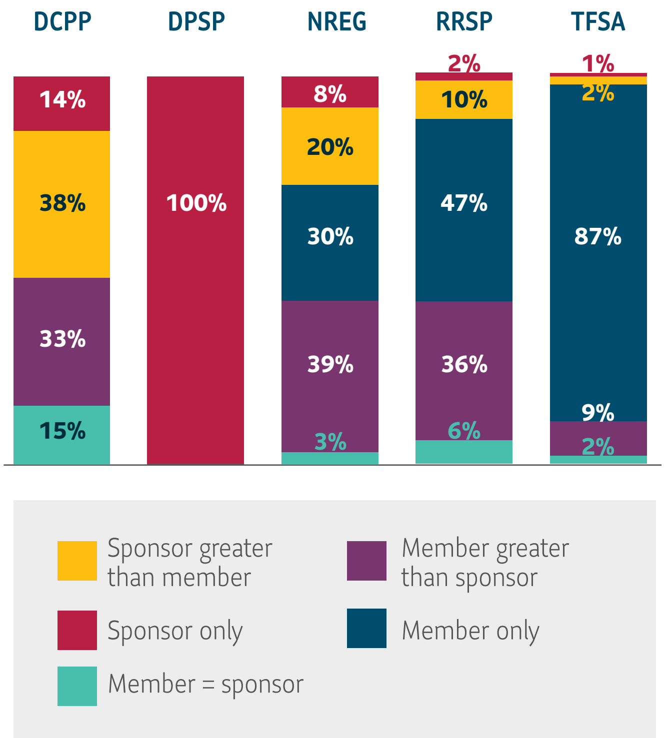
| Plan asset size | Average employee contribution | Median employee contribution | Average employer contribution | Median employer contribution |
|---|---|---|---|---|
| **Less than $2M** | $2,650 | $1,660 | $1,995 | $1,250 |
| **$2M-$5M** | $3,560 | $2,415 | $3,130 | $2,225 |
| **$5M-$10M** | $3,680 | $2,520 | $3,190 | $2,255 |
| **$10M-$25M** | $4,360 | $2,995 | $3,900 | $2,860 |
| **$25M-$50M** | $5,030 | $3,545 | $4,205 | $3,215 |
| **$50M-$100M** | $5,145 | $3,640 | $4,565 | $3,295 |
| **$100M+** | $5,505 | $3,550 | $4,735 | $3,575 |

Employee and employer contributions for plans with between $50M-$100M in assets increased materially since our last report. The median plan member contributions in particular, increased by over 20%. This may stem from various reasons, including plan design changes, greater digital adoption and capabilities, and member education efforts.

### FIG 5.3: CONTRIBUTIONS BY PLAN MEMBERSHIP SIZE

| Plan membership | Average employee contribution | Median employee contribution | Average employer contribution | Median employer contribution |
|---|---|---|---|---|
| **1-99** | $3,620 | $2,360 | $3,135 | $2,025 |
| **100-199** | $4,065 | $2,795 | $3,825 | $2,745 |
| **200-499** | $4,675 | $3,160 | $4,315 | $3,110 |
| **500-999** | $5,030 | $3,555 | $4,590 | $3,220 |
| **1000+** | $5,325 | $3,400 | $4,435 | $3,345 |

**FIG 5.4: CONTRIBUTION BY PLAN TYPE**




Over the past several years, we've observed a modest shift where a plan sponsor with a DCPP including employer contributions only has shifted to arrangements that include a matching formula. Group RRSP plan designs have moved in the opposite direction, with member-only contributions being reduced in favour of more matching arrangements.

> As the baby boomers leave the workforce and the transition to a younger demographic is underway, several employers are revisiting their plan designs, especially if the plan has been in place for many years.

What's in place today may not be appropriate for the workforce of tomorrow. An emerging plan design that is gaining traction is to have a base company contribution directed to a DCPP with an optional employee contribution that will attract an employer match. While the employee has the choice as to which plan type (or product) to use, the employer match is typically directed to the DCPP.

**FIG 5.5: SPONSOR CONTRIBUTION BY PLAN TYPE**

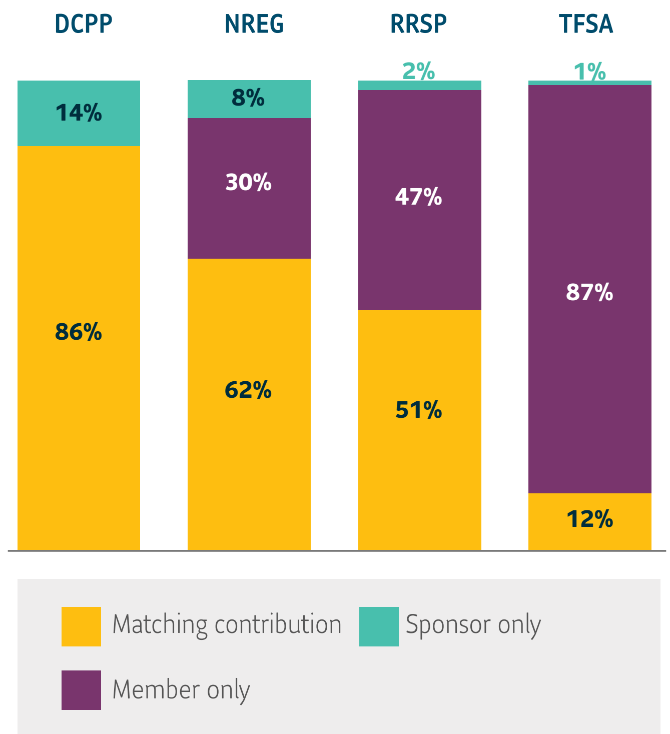
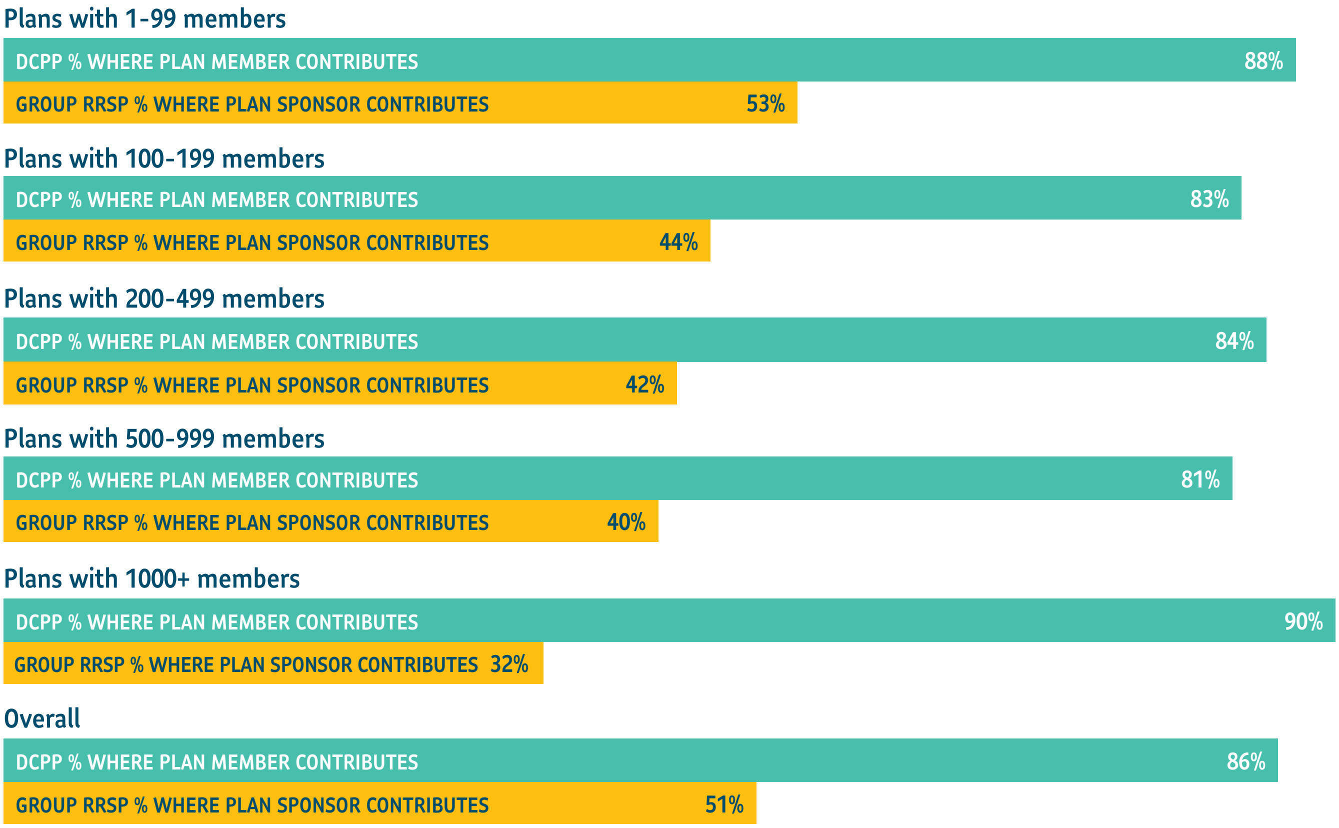


**FIG 5.6: PLAN SPONSOR CONTRIBUTIONS BY PLAN MEMBERSHIP SIZE**



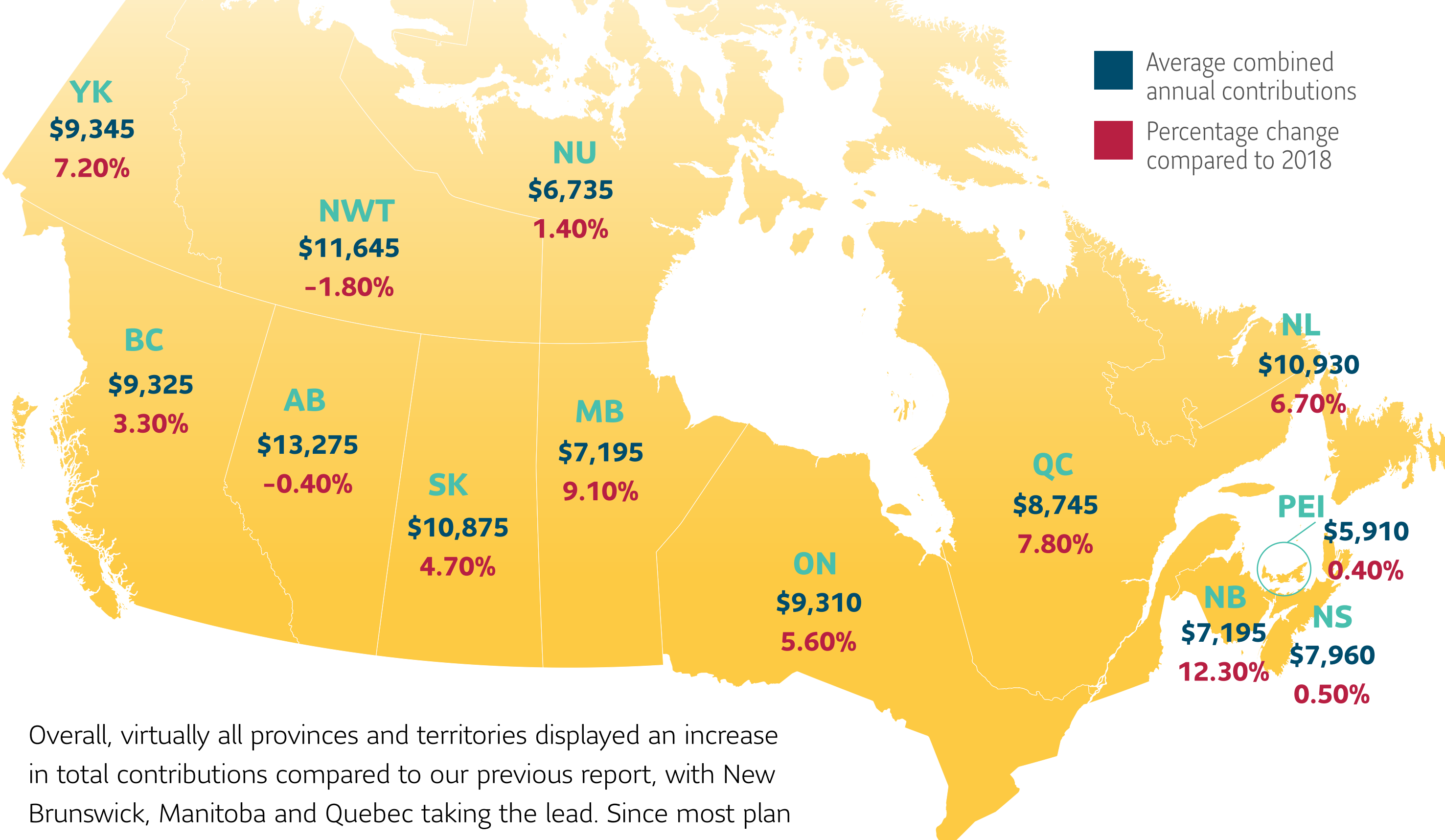

We observed no significant changes in DCPP and RRSP match patterns by plan membership size as compared to our last report in 2019.

#### FIG 5.7: PLAN SPONSOR CONTRIBUTIONS BY INDUSTRY

| | Combined contribution % of plans | | Plan sponsor contribution only % of plans | | No plan sponsor contribution % of plans | |
|---|---|---|---|---|---|---|
| Industry sector | DCPP | RRSP | DCPP | RRSP | DCPP | RRSP |
| Academic | 95% | 40% | 5% | 1% | 1% | 58% |
| Associations & Affiliations | 90% | 65% | 9% | 4% | 1% | 31% |
| Consumer Discretionary | 88% | 50% | 10% | 2% | 1% | 49% |
| Consumer Staples | 85% | 40% | 14% | 2% | 1% | 58% |
| Energy | 63% | 71% | 37% | 3% | 0% | 26% |
| Financials | 86% | 50% | 14% | 3% | 0% | 46% |
| Healthcare | 90% | 47% | 10% | 3% | 0% | 49% |
| Industrials | 87% | 49% | 12% | 2% | 0% | 49% |
| Materials | 84% | 43% | 15% | 1% | 1% | 55% |
| Professional Services | 97% | 50% | 3% | 1% | 0% | 47% |
| Public Services | 100% | 46% | 0% | 1% | 0% | 50% |
| Recreation | 67% | 43% | 33% | 0% | 0% | 43% |
| Technology | 76% | 50% | 24% | 1% | 0% | 50% |
| Telecommunication Services | 75% | 59% | 25% | 0% | 0% | 41% |
| Utilities | 97% | 49% | 3% | 1% | 0% | 47% |
| Other | 94% | 50% | 6% | 0% | 0% | 38% |

In the table above, those with figures illustrated in the *No Plan Sponsor Contribution % of Plans* column, reflect DB Ancillary plans where only employee contributions are made.

## FIG 5.8: COMBINED AVERAGE PLAN SPONSOR AND PLAN MEMBER CONTRIBUTIONS BY PROVINCE/TERRITORY




Overall, virtually all provinces and territories displayed an increase in total contributions compared to our previous report, with New Brunswick, Manitoba and Quebec taking the lead. Since most plan member contributions are based on a percentage of earnings, it's reasonable to expect that parts of the country where wages are highest, plan member contributions will also be higher, resulting in a higher contribution by plan sponsors.

While Alberta retained the top spot in combined contributions, this amount was virtually unchanged since 2018. The Northwest Territories also experienced a slight decline in overall contributions of 1.8% compared to 2018.

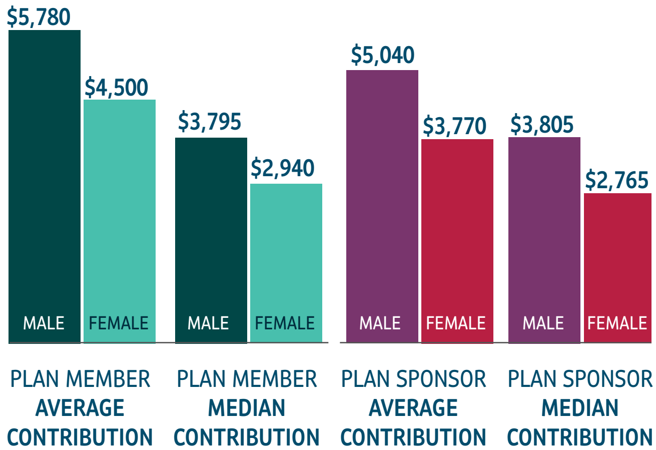
*Source: Statistics Canada, CANSIM, table 281-0027*

## FIG 5.9: ANNUAL CONTRIBUTIONS BY AGE

| Age | Combined payroll contributions – plan sponsor and plan member | | % change in average contributions since 2018 |
|---|---|---|---|
| | Average | Median | |
| Under 20 | $1,285 | $755 | -21.20% |
| 20 to 29 | $6,445 | $5,010 | 0.70% |
| 30 to 39 | $9,335 | $7,120 | 4.00% |
| 40 to 49 | $10,825 | $8,095 | 4.90% |
| 50 to 54 | $10,785 | $7,830 | 5.90% |
| 55 to 59 | $10,200 | $7,235 | 2.90% |
| 60 to 64 | $9,220 | $6,360 | 1.90% |
| 65 + | $8,525 | $5,530 | 3.40% |

We observed that employees aged 30-54 had the biggest increases in average contribution levels since our last report – with increases of between 4% and 6%. This is consistent with what we observe in terms of when members start getting more serious about retirement planning – and is also in line with when they may enter their higher earning years. In contrast, we observed a decrease or lower growth in balances for younger members. This suggests that this group may have other competing financial priorities to focus on, such as debt repayment or housing-related costs.

**FIG 5.10: ANNUAL CONTRIBUTIONS BY SEX AT BIRTH**




Female plan members contributed 6-8% more to their account during the past two years than our 2018 report showed, and saw a corresponding increase in employer matching contributions as well. Males also contributed 6% more than our previous report showed. This is generally higher than salary growth over the past two years.

We are now beginning to see the results of nudging employees about the employer money they are leaving on the table, and the increasing number of plan sponsors who are using a starter savings rate for their new hires (usually set at the amount the employee needs to contribute to receive the full employer match).

**FIG 5.11: MEDIAN EMPLOYEE CONTRIBUTIONS BY PLAN TYPE AND PLAN ASSETS**

| Median | DCPP | RRSP | NREG | EPSP |
|---|---|---|---|---|
| Less than $2M | $1,880 | $1,850 | $2,735 | $5,055 |
| $2M-$5M | $2,365 | $2,700 | $4,045 | $2,985 |
| $5M-$10M | $2,295 | $2,885 | $4,160 | $4,050 |
| $10M-$25M | $2,905 | $3,125 | $4,200 | $5,215 |
| $25M-$50M | $3,070 | $4,050 | $4,755 | $3,890 |
| $50M-$100M | $3,345 | $3,960 | $3,715 | $3,345 |
| $100M+ | $3,105 | $3,340 | $5,190 | $5,025 |

While tax-deferred products such as DCPPs and group RRSPs remain the cornerstone for retirement saving, many employers now include after-tax savings plans (such as the TFSA and non-registered plans and to a much lesser degree, an EPSP) as part of a flexible, multi-pronged compensation package. As we discussed previously, there is room for greater utilization of TFSAs within CAPs.

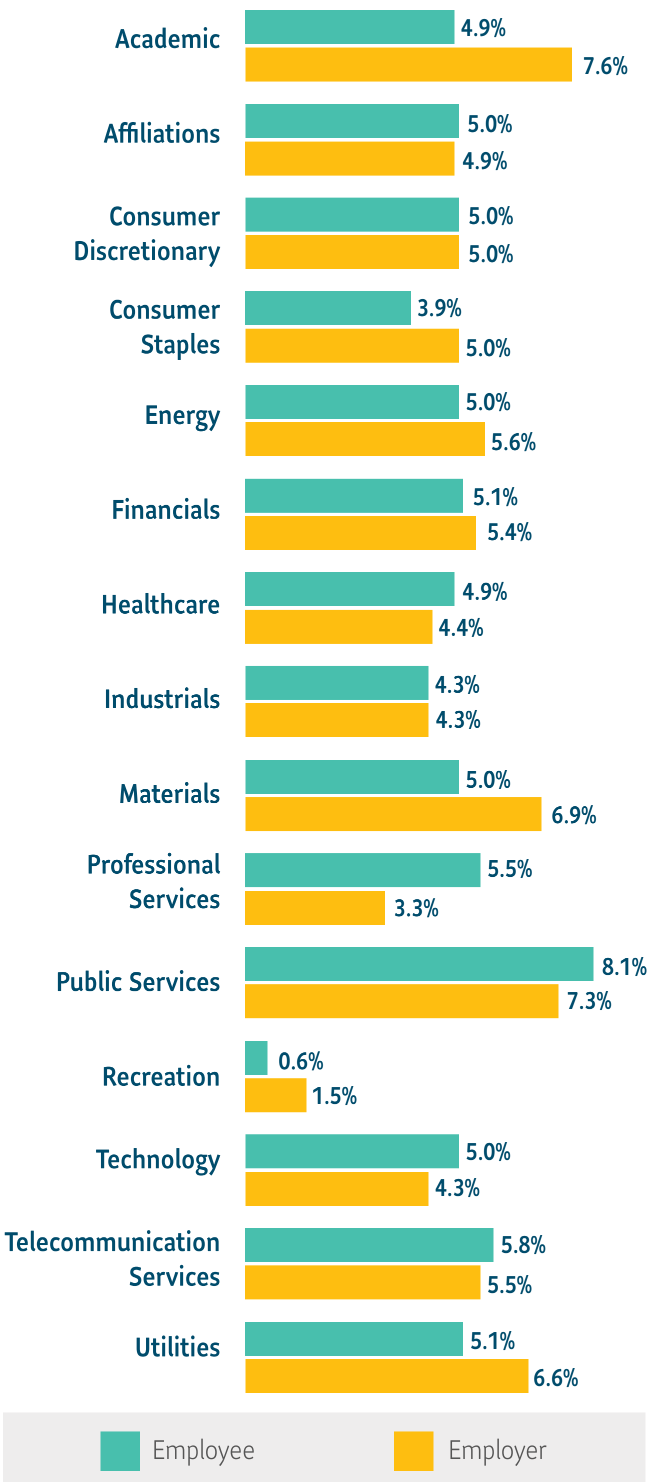
**FIG 5.12: MEDIAN EMPLOYER CONTRIBUTIONS BY PLAN TYPE AND PLAN ASSETS**

| Median | DCPP | RRSP | DPSP | NREG | EPSP |
|---|---|---|---|---|---|
| Less than $2M | $1,935 | $1,555 | $1,275 | $2,930 | $2,200 |
| $2M-$5M | $2,485 | $2,275 | $1,940 | $4,500 | $585 |
| $5M-$10M | $2,515 | $2,520 | $2,160 | $2,405 | $2,100 |
| $10M-$25M | $3,420 | $2,290 | $2,510 | $2,425 | $2,180 |
| $25M-$50M | $3,770 | $2,835 | $2,825 | $2,665 | $1,750 |
| $50M-$100M | $3,590 | $3,430 | $2,720 | $2,945 | $5,190 |
| $100M+ | $4,045 | $1,545 | $2,740 | $3,000 | $1,970 |

Employers of all sizes are willing to make contributions to an after-tax savings plan on behalf of employees – whether it's the employer's contribution for an employee share purchase plan or the company's continued contribution for higher income earners once they reach tax-deferred limits.

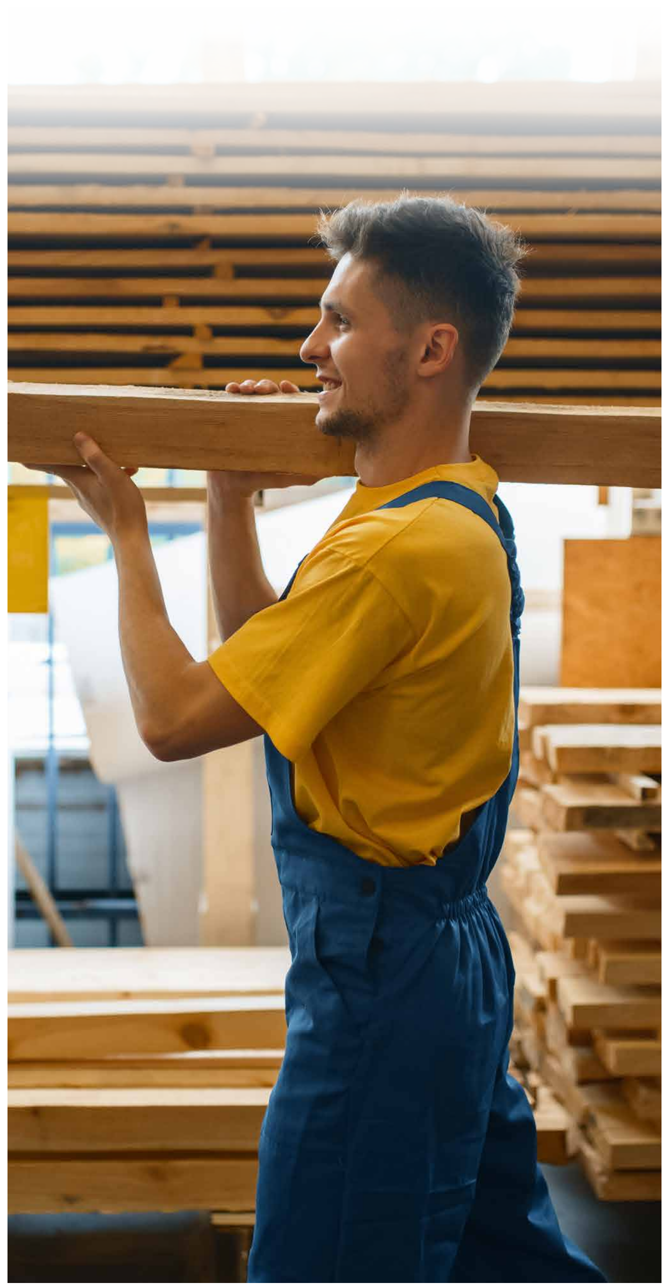
Plan members continue to benefit from employer contributions, whether in a tax-deferred or after-tax savings product.

FIG 5.13: MEDIAN DCPP CONTRIBUTION LEVELS BY INDUSTRY




Over the last several years, we've observed a modest shift where DCPP sponsors have reduced sponsor-only arrangements and moved to matching formulas.

The Academic, Consumer Staples, Materials, Recreation and Utilities sectors all had moderate increases in the median DCPP employer contributions since 2018.



# 06

# Account balances

Factors such as household income, age and gender* all affect member account balances.

# 06 Account balances

Factors such as household income, age and gender* all affect member account balances. Both sponsors and members have a role to play in helping to optimize member outcomes. Sponsors can do their part through an effective plan design.

Other factors, such as tenure in the plan, savings rates, withdrawal patterns, maximizing employer matching, and investment performance are also important considerations. Arguably, members can influence these factors to improve savings outcomes.

In addition, the longer an employee stays with an organization, the more likely they are to earn a higher salary, participate in the plan, and contribute at higher levels. Long service plan members also have higher balances because they have typically been contributing to their workplace plan for a longer period.

Income tends to rise as one becomes more established in their career, and older plan members also tend to save at higher rates.

*Sex at birth assignment in this analysis is as it appears in our recordkeeping system. This may vary from how individuals actually identify on a gender basis.*

Plan members aged 50 and over in particular may have a deferred vested pension from a legacy DB plan to support retirement incomes.

The wide variance between the average account balances and the median account balances suggests there are plan members with considerable time before retirement who could benefit significantly from increased contribution levels.

Employees can transfer retirement account balances to personal locked-in plans when they switch jobs – meaning that the balances in this section likely do not reflect the full amount held from participating in other workplace savings plans.

For some employers, the workplace savings plan is only meant to be a complimentary piece of the member's retirement savings portfolio. It may not even be the core piece, just one of several available to them to save for retirement or other goals.

Plan sponsors and CAP providers have a role to play – in terms of educating and nudging employees and plan members, and providing the savings products, investments and digital capabilities to facilitate strong plan engagement and participation.

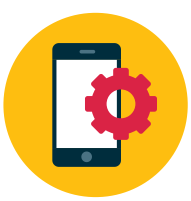
**FIG 6.0: AVERAGE AND MEDIAN ACCOUNT BALANCE BY AGE**

| Age band | Average balance | Average payroll contribution | Median balance | Median payroll contribution |
|---|---|---|---|---|
| Under 20 | $1,680 | $1,285 | $865 | $755 |
| 20 to 29 | $17,850 | $6,445 | $10,840 | $5,010 |
| 30 to 39 | $49,000 | $9,335 | $26,765 | $7,120 |
| 40 to 49 | $91,145 | $10,825 | $49,900 | $8,095 |
| 50 to 54 | $118,100 | $10,785 | $64,015 | $7,830 |
| 55 to 59 | $130,840 | $10,200 | $70,195 | $7,235 |
| 60 to 64 | $130,365 | $9,220 | $66,950 | $6,360 |
| 65 + | $118,500 | $8,525 | $52,495 | $5,530 |

The top 20% of members with the highest average account balances had several characteristics in common, including access to additional products like DPSP, EPSP, NREG, and a TFSA. Looking beyond plan design features, these members were also more actively engaged with their plan, and are more likely to hold a Target Date fund.

Beyond plan design features, members with the biggest long-term growth in their accounts were also more engaged with their plan.

## Four key drivers of higher account balances:



1 **Digitization of tools and services** Active users of our web and mobile platforms had greater engagement with their workplace retirement savings plans, including higher contributions, account balances and a greater propensity to consolidate assets.

2 **The use of pre-built investment solutions** like Target Date funds (and other pre-built funds, collectively part of the *Help me do it* approach).

3 **Welcome initiatives** that provided immediate contact and support when members joined their plan.

4 **Proactive member engagement campaigns** that encourage ongoing interaction with the plan.

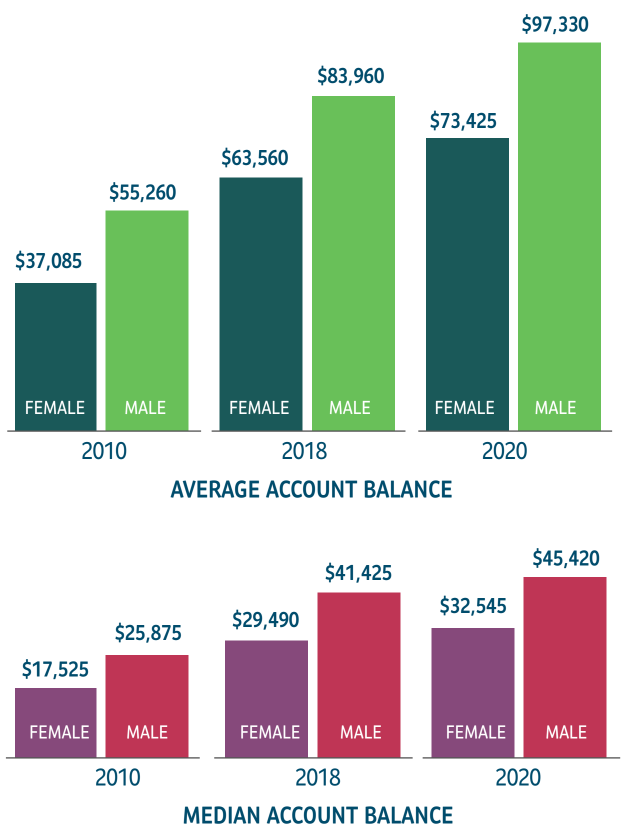
Clearly the CAP industry is doing something right – when comparing the same age cohorts against the data five years ago, we see that most age groups are better off today.

But despite the overall positive message in this data, there's still an opportunity to engage with younger workers to really understand and address the reasons behind why they may not be able to save.

Is it debt-related? Or do they not believe they will be with their employer long term and may question the value of participating? Understanding this challenge may help employers set up their employees for future financial success, as well as play a part in the important objectives of employee engagement and retention. A workplace retirement savings plan should be framed as a valuable benefit within an organization's total rewards or compensation package.

As CAPs continue to evolve in Canada, we expect that employees and employers will become more engaged in the discussion around retirement income. CAPs will need to evolve to reflect the varying financial priorities of a diverse workforce.

**FIG 6.1: AVERAGE AND MEDIAN ACCOUNT BALANCE BY SEX AT BIRTH AND ACCOUNT GROWTH**




Despite an overall increase in account balances, we still observe a gap in account balances for males vs. females, of close to 30%. Although the wage gap has shrunk somewhat from 37% in 2015 to 32% in 2020, there's still a long way to go.

This warrants further analysis to understand what to attribute this difference to. For example, the differences may relate to savings rates, differences in job classifications and salaries, risk profile of investments and investment performance, or work absences due to maternity leave.

As stated in our methodology section on page 74, the sex at birth assignment in this analysis is as it appears in our recordkeeping system. This may vary from how individuals actually identify on a gender basis.

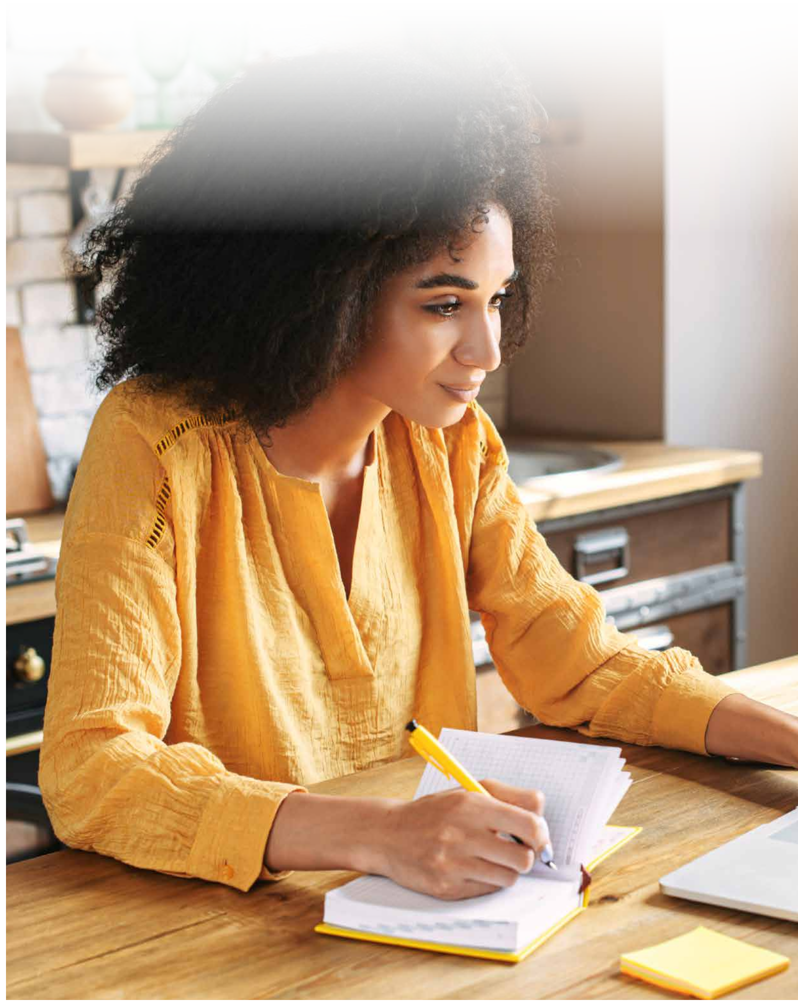


**FIG 6.2: AVERAGE AND MEDIAN ACCOUNT BALANCE BY SEX AT BIRTH AND INDUSTRY**

| | Average account balances | | Median account balances | |
|---|---|---|---|---|
| Industry sector | Female | Male | Female | Male |
| Academic | $139,235 | $213,830 | $73,680 | $131,390 |
| Affiliations | $46,700 | $61,540 | $21,910 | $25,695 |
| Consumer Discretionary | $53,610 | $73,715 | $21,910 | $30,070 |
| Consumer Staples | $50,595 | $8,295 | $21,390 | $31,780 |
| Energy | $120,320 | $142,520 | $72,585 | $88,275 |
| Financials | $80,450 | $100,780 | $36,780 | $43,170 |
| Healthcare | $66,080 | $84,630 | $28,430 | $37,640 |
| Industrials | $63,270 | $86,230 | $28,855 | $38,720 |
| Technology | $87,860 | $107,050 | $44,390 | $56,070 |
| Materials | $82,930 | $107,300 | $41,365 | $59,040 |
| Professional Services | $86,260 | $90,675 | $35,180 | $32,650 |
| Public Services | $58,445 | $76,055 | $22,325 | $29,740 |
| Recreation | $82,310 | $137,530 | $65,725 | $88,345 |
| Telecommunication Services | $69,205 | $84,620 | $26,010 | $42,735 |
| Utilities | $89,650 | $118,835 | $60,560 | $81,135 |

The difference in account balances by sex at birth is likely attributable to the fact that the average wage for women still trails that of men. In 2018, females aged 25 to 54 earned $0.87 for every dollar earned by men on an hourly basis.*

It's notable that balances for the Professional Services industry (such as lawyers, accountants, financial advisers, engineers, and consultants) are virtually on par between males and females.

Many organizations are embracing sustainability in their corporate practices. A key factor in this is diversity, equity and inclusion. As the adoption of sustainable practices becomes more mainstream, we anticipate that we'll start to see this gap close even more.

**Source: The gender wage gap in Canada: 1998 to 2018. Statistics Canada, October 2019.*

**FIG 6.3: ACCOUNT BALANCES AND CONTRIBUTIONS BY INDUSTRY**

| Industry sector | Account balances | | Total contributions | |
|---|---|---|---|---|
| | Average | Median | Average | Median |
| Academic | $171,195 | $92,370 | $13,145 | $11,880 |
| Affiliations | $52,560 | $23,090 | $7,025 | $5,755 |
| Consumer Discretionary | $64,460 | $25,640 | $8,205 | $5,645 |
| Consumer Staples | $60,950 | $26,980 | $8,225 | $6,430 |
| Energy | $136,040 | $83,230 | $22,735 | $20,995 |
| Financials | $88,910 | $39,175 | $12,150 | $9,765 |
| Healthcare | $72,355 | $31,440 | $11,395 | $7,525 |
| Industrials | $79,255 | $35,530 | $9,930 | $7,990 |
| Technology | $101,050 | $52,080 | $12,895 | $10,930 |
| Materials | $101,670 | $54,520 | $13,825 | $11,845 |
| Professional Services | $87,635 | $34,135 | $11,050 | $8,425 |
| Public Services | $68,695 | $25,885 | $9,555 | $7,750 |
| Recreation | $117,745 | $79,240 | $6,190 | $3,125 |
| Telecommunication Services | $76,445 | $32,960 | $13,515 | $12,650 |
| Utilities | $109,000 | $72,350 | $13,350 | $12,235 |

Overall, both employee and employer contributions have continued an upward trend over the last decade, driven partly by higher wages and an aging demographic.

Employee contributions to CAPs have grown 32% while employer contributions are up 35% over the last decade and multi-product plan designs, such as DCPP, RRSP and TFSA can encourage more opportunities for employees to save in the workplace.

There are significant variations in account balances by industry sector, which reflect a complex mixture of business factors (influencing plan sponsor contributions) and workforce demographics (influencing plan member saving rates).

# 07

## Voluntary plans

Around 17% of private sector publicly traded employers offer an Employee Share Purchase Plan (ESPP) with payroll deductions, or include their company stock as an investment option in their workplace savings plan.

# 07 | Voluntary plans

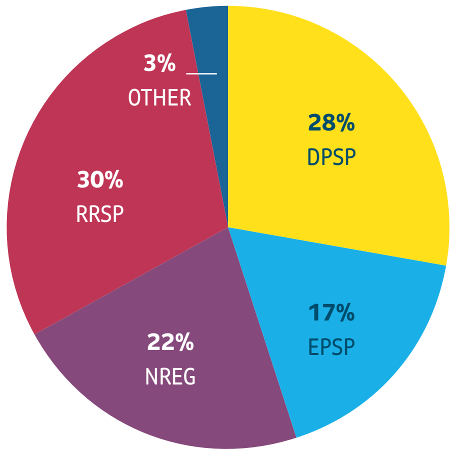
## Employee Share Purchase Plans

Around 17% of private sector publicly traded employers offer an Employee Share Purchase Plan (ESPP) with payroll deductions, or include their company stock as an investment option in their workplace savings plan.

Broadening opportunities to participate in the ownership of a business are designed to better align the interests of employees with the company's shareholders, leading them to think and act more like owners. In addition, employee share ownership – from the first day of employment in many plans – can contribute to business resilience and job retention.

> Employees who are shareholders may feel more commitment and loyalty to their employer, leading to reduced employee turnover. This is especially important as economies start to recover and labour shortages persist.

**FIG 7.0: COMPANY STOCK ASSETS BY PRODUCT**




Employers offering company stock typically do so as an investment option within their group RRSP or RRSP/DPSP program and/or with the opportunity for contributions to continue in an after-tax savings vehicle. In many cases, the company's contribution is capped at a defined dollar amount – generally $3,500 to $5,000 per year.

The proportion of plan assets held in Company stock continues to decline. As discussed in Section 4, this can be attributed to regulatory changes, including amendments to the *Pension Benefits Standards Regulations, 1985* impacting DCPPs that offer company stock as an investment option. These changes came into effect in July 2016, and plan members had until July 2021 to move stock assets to another available investment option within their DCPP. As such, we expect the proportion of company stock to continue to decline as a few remaining plans took action as the deadline approached.

**FIG 7.1: COMPANY STOCK ASSETS BY MEMBER OWNERSHIP**

| Year | % of members who own stock | % of total assets invested in company stock |
|---|---|---|
| 2017 | 21% | 11% |
| 2018 | 19% | 10% |
| 2020 | 20% | 9% |

Since 2013 when the data for our first report was analyzed, employees who own company stock has declined somewhat, from 24% in 2013 to 21% in 2017 to 20% in 2020. Total assets also dropped slightly from 15% in 2013 to 11% in 2017 to 9% in 2020. These figures are both influenced by the value – and volatility – of each company's stock.

**FIG 7.2: ESPPs BY ACCOUNT BALANCE**

| Year | Average member stock balance | Median member stock balance |
|---|---|---|
| 2017 | $42,795 | $13,970 |
| 2018 | $39,300 | $12,375 |
| 2020 | $40,880 | $12,880 |

Since 2013 when the data for our first report was analyzed, employees who own company stock have balances that have remained relatively flat, which speaks to the withdrawal activity that generally occurs with employee share purchase plans. The average balance held in company stock within the workplace plan in 2013 was $39,355, very similar to the average balance in 2020 of $40,880.

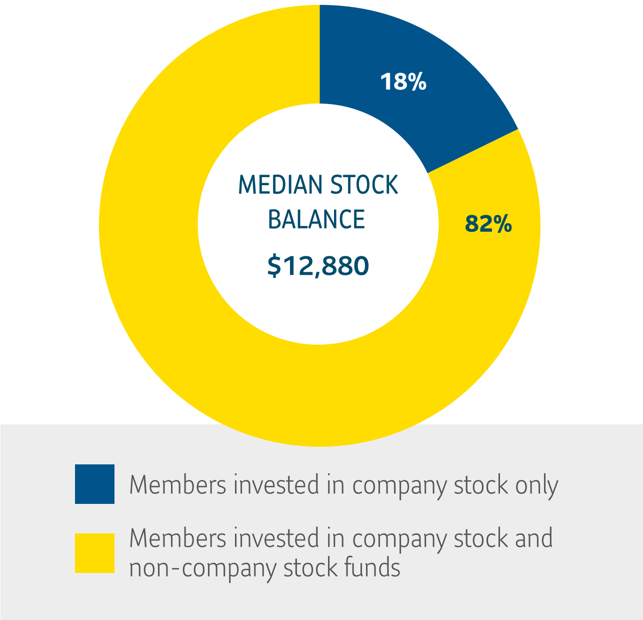
**FIG 7.3: ESPP ACCOUNT BALANCE BY INDUSTRY**

| Industry Sector | Average | Median |
|---|---|---|
| Consumer Discretionary | $35,035 | $8,420 |
| Consumer Staples | $23,540 | $7,520 |
| Energy | $27,475 | $13,555 |
| Financials | $54,080 | $17,970 |
| Healthcare | $22,255 | $9,525 |
| Industrials | $27,375 | $11,145 |
| Materials | $25,360 | $12,545 |
| Oil & Gas | $28,535 | $13,535 |
| Technology | $33,450 | $6,970 |

**FIG 7.4: ESPP PARTICIPATION BY INDUSTRY**

| Industry Sector | Based on # of plan members | Based on total ESPP assets |
|---|---|---|
| Consumer Discretionary | 34% | 30% |
| Consumer Staples | 1% | 0% |
| Financials | 38% | 52% |
| Healthcare | 1% | 1% |
| Industrials | 11% | 7% |
| Materials | 1% | 1% |
| Oil & Gas and Energy | 12% | 9% |
| Technology | 1% | 0% |

**FIG 7.5: ESPP MEMBER INVESTMENT BEHAVIOUR**




## Tax-free savings accounts

Since its introduction in 2009, the TFSA has given Canadians a new way to save.

Of CAP members with a TFSA, just 7% on average are participating, and the majority of these members (55%) have less than $5,000 invested in the product. Compare this to the national average of $20,000 and it's clear that the workplace TFSA represents an opportunity for sponsors seeking to support plan members with a broader set of savings needs.  Generally, plan members are making net new TFSA deposits (see Fig 7.7) and investing in market-based funds to take advantage of the tax-free investment growth.

Interestingly, members who hold TFSAs and other savings products tend to have higher average balances overall – $97,110 versus $74,095. This suggests members who hold TFSAs may have higher engagement and consequently higher savings rates.

Also see Section 2.1 for additional commentary on TFSAs.

**FIG 7.6: TFSA MEMBER ACCOUNT BALANCES**

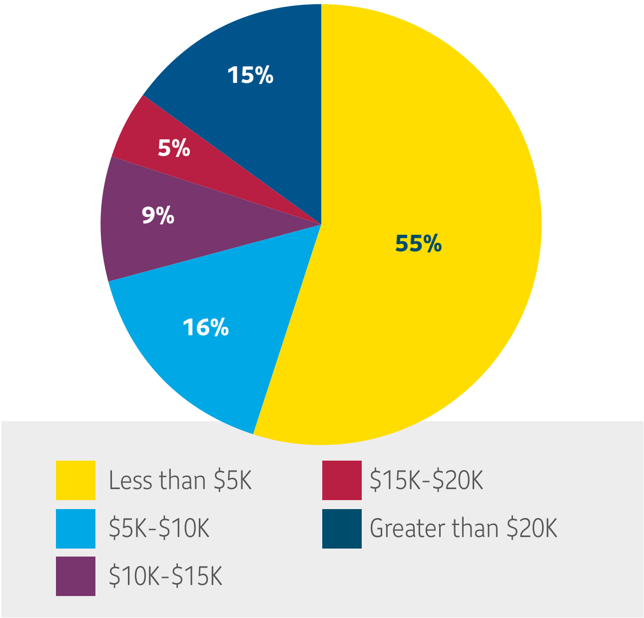
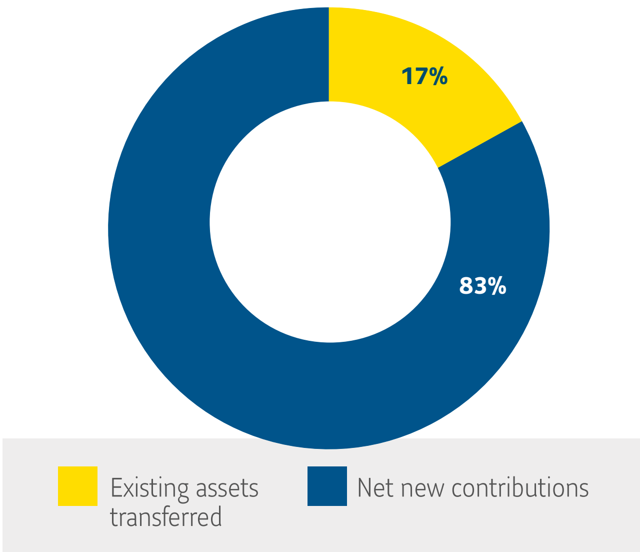


**FIG: 7.7: TFSA MEMBER CONTRIBUTION SOURCES**




While there were initial concerns that plan members might redirect longer-term savings to a TFSA to gain more withdrawal flexibility, this has not been the case. Just 17% of members took advantage of the tax benefits of the TFSA by redirecting existing assets from non-registered products to their TFSA. In contrast, 83% of TFSA contributions are from **net new** money. This means that plan members with access to a TFSA at work are saving even more.

## Withdrawals from TFSAs

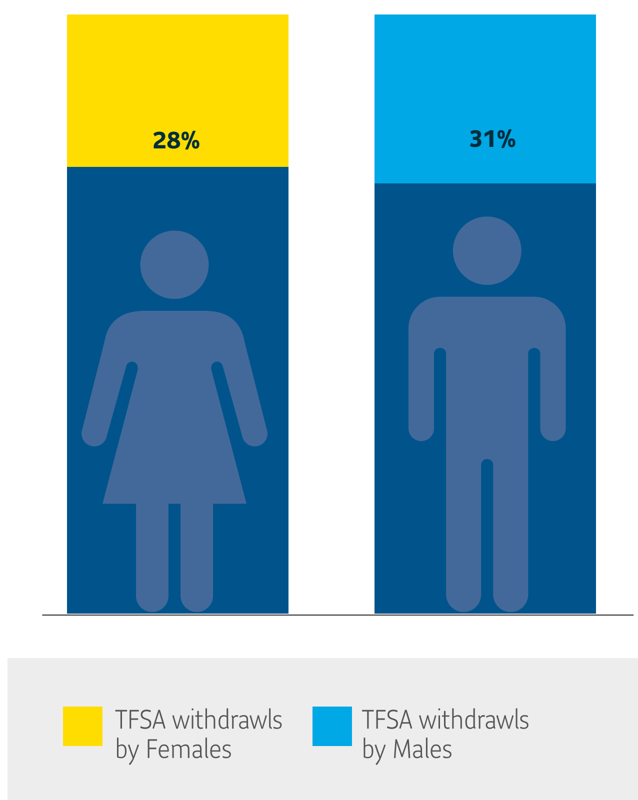
TFSAs that are part of a workplace plan allow withdrawals, given their flexibility as a shorter-term savings vehicle. However, the vast majority of employees saving in a TFSA at work are using it for mid to long-term savings purposes. Although males were still more likely to withdraw from a TFSA, we observed a decline in withdrawals by both men and women and across all age groups, since our last report.

Members between the ages of 30 and 49 had the greatest proportion of TFSA withdrawals – with almost one-third of members with TFSAs in these groups making withdrawals.

**FIG 7.8: TFSA WITHDRAWALS BY AGE**

| Age | % of members who have made a withdrawal |
|---|---|
| Under 20 | 0% |
| 20 to 29 | 26% |
| 30 to 39 | 31% |
| 40 to 49 | 32% |
| 50 to 54 | 29% |
| 55 to 59 | 27% |
| 60 to 64 | 25% |
| 65 and greater | 20% |

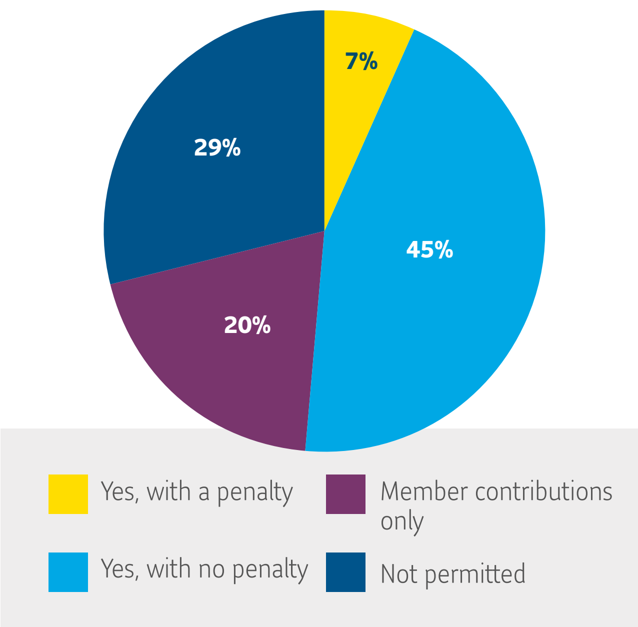
**FIG 7.9: TFSA WITHDRAWALS BY SEX AT BIRTH**



## Withdrawals from Group RRSPs

Of employers offering a group RRSP, almost three-quarters (72%) allow plan members to make withdrawals while employed. Seven percent of plans apply a penalty for withdrawals made during employment. Increasingly, employers are looking to restrict withdrawals of employer contributions made to a Group RRSP and employee contributions eligible for matching. Suspensions from plan participation or employer matching have not proven to be effective deterrents to withdrawal activity. Instead, not allowing withdrawals while employed results in more money staying in the workplace plan.

**FIG 7.10: PERCENTAGE OF PLANS THAT PERMIT WITHDRAWALS**




> A growing number of plan sponsors have expressed concern about the leakage from their Group RRSPs in particular and have either implemented restrictions or are considering implementing restrictions.

A TFSA can be an excellent and far more tax effective supplementary account for withdrawal activity to complement a group RRSP.

**FIG 7.11: RRSP WITHDRAWALS BY AGE**

| Age | % of members who have made withdrawal by age group |
|---|---|
| Under 20 | 2.8% |
| 20 to 29 | 8.9% |
| 30 to 39 | 9.7% |
| 40 to 49 | 9.4% |
| 50 to 54 | 8.5% |
| 55 to 59 | 7.8% |
| 60 to 64 | 7.3% |
| 65 + | 8.4% |

In line with the decline observed in TFSA withdrawals, we have also seen a decline in RRSP withdrawals across all age groups.

This can be explained by a couple of possible factors. First, members may have felt somewhat insecure during the pandemic and resulting market volatility, preferring to hold onto existing savings. Secondly, communication and education efforts, including digital nudges, are becoming more personally relevant and effective. These are positive observations that will contribute to better long-term outcomes for plan members.

# 08

## Decumulation

Five million Canadians are set to turn 65 this decade. At the same time, Canadians are living longer and delaying retirement, while fewer have traditional pensions. These factors have caused a heightened focus on decumulation in recent years.

# 08 | Decumulation

Five million Canadians are set to turn 65 this decade. At the same time, Canadians are living longer and delaying retirement, while fewer have traditional pensions. These factors have caused a heightened focus on decumulation in recent years.

Retirement trends such as deferred retirements and the persistent savings gap between males and females, sustained low interest rates, feelings of financial insecurity stemming from economic downturns and more recently due to COVID-related headwinds, make this a particularly interesting time to consider the decumulation challenges for those retiring soon.

Preparing for retirement is a challenging phase. Many plan members have just started to evaluate their options and are uncertain where to begin. This phase is about a balancing act – between having enough income to live comfortably today, while ensuring the longevity of retirement income; and between using assets for oneself, and leaving a legacy to loved ones.[1]

We heard from many plan sponsors in a recent Decumulation Roundtable, that they have a strong desire to get plan members engaged on the topic of retirement as early as possible. It's critical that plan members understand what they are saving for, and sponsors strongly encourage the use of planning tools to help members understand how much income their savings will generate. The tools can also help them identify whether they need to save more to reach their retirement goals.

> Taking that first step towards setting a retirement goal can also reap the greatest rewards. A recent Sun Life analysis found that members who had set a retirement goal had account balances 25% higher than those who had not set a goal.

[1] Research Strategy Group & Sun Life, *An ethnographic exploration of planning for retirement*. April 2021 (unpublished).

Simply having a retirement goal in mind can be a powerful motivator towards action – in terms of higher contributions, greater investment education and engagement, and consolidation of assets. Our recently relaunched Retirement Planner, together with personalized nudges by Ella, our digital coach, makes the first step towards planning easier than ever. Digital tools have proven to be an effective way to improve retirement outcomes. As the graphic below shows, a recent analysis found that higher digital engagement leads to higher account balances, higher contributions, and a greater propensity to consolidate assets.

While workplace plans are an excellent way to save, some members need additional support understanding their plan, taking advantage of all it has to offer, and making investment decisions. For these members, access to advice can offer invaluable guidance when it comes to saving and investing. According to the latest Sun Life *Retirement Now* Report, 62% of retired Canadians with an advisor are satisfied with how much they've saved for retirement, compared to 38% without access to qualified, credible professional advice.

To help plan sponsors, advisors and consultants understand the decumulation behaviour of Canadians, we're pleased to include this new section, to offer insight on the drawdown patterns and behaviours for members retiring from workplace plans.

# Higher digital engagement


## More digital interactions with Sun Life lead to:

### HIGHER ACCOUNT BALANCES

Digitally engaged members have an average account balance **177%** higher than those that are not digitally engaged.

### HIGHER CONTRIBUTIONS

Contributions among digitally engaged members are **more than double** those of members not digitally engaged.

### GREATER ASSET CONSOLIDATION

Members who access **mysunlife.ca** five or more times per year are **four times more likely** to consolidate assets to take advantage of lower fees.

## These transactions are facilitated by…

### MORE NUDGES

Personalized nudges are powered by artificial intelligence to prompt members to complete various tools or name a beneficiary.

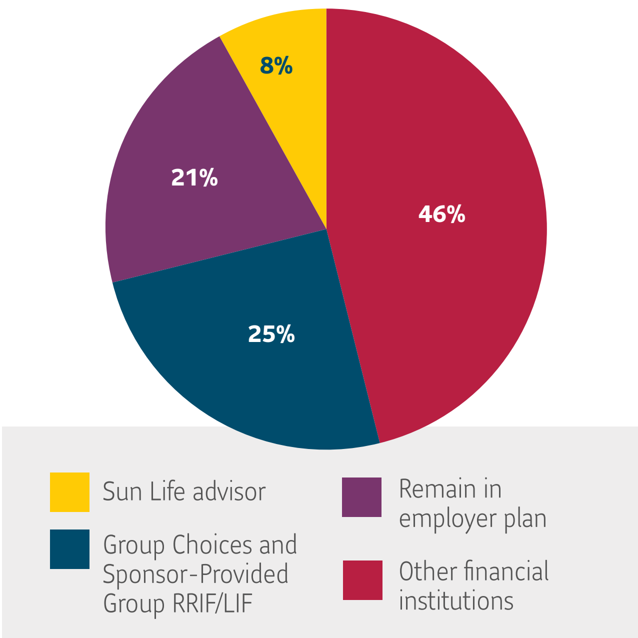
### BETTER TOOLS & SUPPORT

New digital tools better support member decision making when changing investments or updating payroll.

### FASTER TRANSACTION SPEED

Members are able to quickly make changes using the website as the transaction is immediately sent to Sun Life for processing.

#### FIG 8.1 HOW ARE RETIREES DRAWING DOWN THEIR SAVINGS?




Of members who are retired (including those terminated over age 55), over half (54%) kept their balances with Sun Life. Of these, 25% moved out of their workplace plan and into either Sun Life's rollover solution for terminated and retired members, known as Group Choices, or a Sponsor-Provided Group RRIF/LIF. Meanwhile, 21% remained in an employer-sponsored arrangement (where allowable), choosing not to transfer their savings upon leaving their employer. Lastly, 8% moved their balances to a Sun Life advisor to consolidate with other savings.

The remaining 46% moved their balances to other financial institutions. This underscores the strong relationship banks have with Canadians, including the familiarity and long-term relationship Canadians may have with their primary banking institution.

> However, it's worth noting that the difference in fees between a group wholesale arrangement versus those at a bank or mutual fund company for similarly managed retail funds can be significant, and can impact an individual's retirement income, and how long it ultimately lasts.

The following sections provide insights on the retirees who choose to remain in a Sponsor-Provided Group RRIF/LIF type of retirement arrangement or Sun Life's Group Choices rollover plan.

#### FIG 8.2 RETIREMENT AGE


Mandatory retirement at age 65 had been a feature of employment in Canada for decades. Beginning in the 1980s, some provinces enacted legislation to ban this practice, and by the early 2000s, all other provinces followed with abolishing mandatory retirement.

Since then, there has been a steady upward trend in retirement ages in Canada. This trend holds true across public sector, private sector and self-employed Canadians, to an overall average retirement age of 64.5 in 2020, compared to 63.6 in 2017 (Statistics Canada, Retirement age by class of worker).

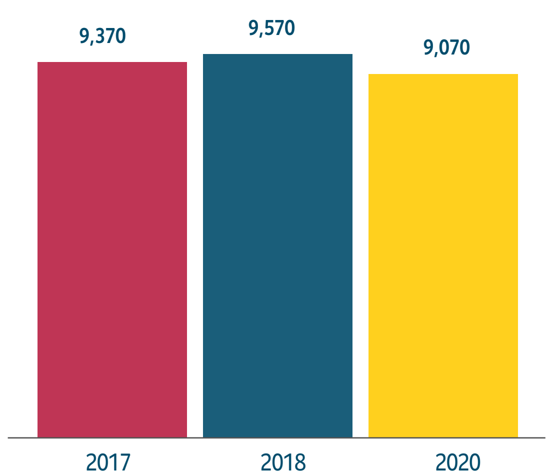
Several convergent factors can explain this trend. The decline of defined benefit pensions, less generous pensions overall, and feelings of financial insecurity stemming from the 2008 financial crisis and more recently due to the pandemic, have all played a role.

> Along with these factors, changing perspectives on the definition of retirement itself are also contributing to the trend of delayed retirement. Many employers are open to – or even encouraging – older workers to stay on the job.

Employees are often open to being rehired as part of a company's contingent workforce. These employees are valued for their skills, experience and intellectual capital, particularly due to shortages of skilled labour and the intensifying war for talent. Of the active (i.e. still employed) plan members in our recordkeeping system, around 6.2% are aged 65 or older.

In line with the national trend, the median retirement age across our universe of plan members has increased from 62 to 63 years old since 2017.

**FIG 8.3 NUMBER OF MEMBERS WHO RETIRED BY YEAR**




Consistent with the upward trend in retirement ages, we have seen a decline in the number of retirees in 2020. While we saw a moderate increase in the number of members retiring in 2018, this trend reversed in 2020. This suggests plan members may have postponed retirement due to volatile markets or economic uncertainty brought on by the pandemic, or perhaps have chosen to defer retirement due to more flexible work arrangements because of the pandemic.

The decline in the number of retirees may also be attributable to some individuals choosing to continue working in some fashion, as discussed in the previous section. It remains to be seen whether this trend will continue, or if it is a function of changes brought on by the pandemic.

**FIG 8.4 ACCOUNT BALANCES**

| Age | Average balance by age group | | |
|---|---|---|---|
| | 2017 | 2018 | 2020 |
| Under 50 | $66,770 | $69,595 | $60,570 |
| 50-54 | $112,235 | $91,655 | $62,170 |
| 55-59 | $142,985 | $115,960 | $101,910 |
| 60-64 | $187,710 | $161,105 | $138,315 |
| 65-69 | $212,570 | $187,940 | $170,740 |
| 70-74 | $276,040 | $231,190 | $213,420 |
| 75-79 | $287,095 | $280,275 | $286,625 |
| 80-84 | $187,410 | $205,320 | $256,370 |
| 85-89 | $81,115 | $79,910 | $107,330 |
| 90-94 | $43,600 | $38,760 | $102,860 |
| 95+ | $36,390 | $30,930 | $30,510 |

In 2020, retirees had significantly lower average account balances across most age cohorts, particularly until age 74, as compared to 2017. This is despite positive equity market gains over this period.

Among retirees, the average account balance increases with each age cohort until the 80-84 age group, after which there is a relatively steep drop in average balances. This may be due to additional expenses related to long-term care or other health-related costs. This age bracket also aligns with the average Canadian life expectancy.

This pattern of withdrawals underscores the importance of helping members adequately plan during the lead up to retirement, as well as creating an effective investment strategy in retirement. See Section 8.16 for additional commentary.

Our data also revealed that the population of members holding income products is ageing. In 2017, the split between retirees aged 65-69 and 70-74 was equal, as seen in the table below. However, in 2020, the 70-74 age group became the largest cohort by assets (34% of total assets), as well as by member count (this group accounted for 32% of retirees). Once again this suggests that members are retiring later and deferring retirement income to older ages than previous generations of retirees. It may also be the case that some retirees are choosing to consolidate assets outside of the plan, at a bank or other financial institution, for example.

**FIG 8.5 PERCENTAGE OF TOTAL MEMBERS BY AGE GROUP**

| Age | 2017 | 2018 | 2020 |
|---|---|---|---|
| Under 50 | 0% | 0% | 0% |
| 50-54 | 2% | 1% | 1% |
| 55-59 | 7% | 6% | 5% |
| 60-64 | 16% | 14% | 12% |
| 65-69 | 27% | 25% | 22% |
| 70-74 | 27% | 29% | 32% |
| 75-79 | 13% | 15% | 18% |
| 80-84 | 5% | 6% | 7% |
| 85-89 | 3% | 2% | 3% |
| 90-94 | 1% | 1% | 1% |

**FIG 8.6A PERCENTAGE OF TOTAL ASSETS BY AGE GROUP**

| Age | 2017 | 2018 | 2020 |
|---|---|---|---|
| Under 50 | 0% | 0% | 0% |
| 50-54 | 1% | 1% | 0% |
| 55-59 | 4% | 4% | 3% |
| 60-64 | 13% | 12% | 9% |
| 65-69 | 26% | 24% | 20% |
| 70-74 | 33% | 33% | 34% |
| 75-79 | 17% | 20% | 25% |
| 80-84 | 4% | 6% | 8% |
| 85-89 | 1% | 1% | 1% |
| 90-94 | 0% | 0% | 0% |
| 95+ | 0% | 0% | 0% |

#### FIG 8.6B PERCENTAGE OF MEMBERS BY AGE GROUP IN A PRODUCT

| | <50 | 50-54 | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85-89 | 90-94 | 95+ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **DCPP** | 0% | 0% | 5% | 11% | 67% | 16% | 0% | 0% | 0% | 0% | 0% |
| **LIF** | 0% | 1% | 7% | 16% | 27% | 28% | 13% | 5% | 2% | 0% | 0% |
| **LIRA** | 3% | 3% | 17% | 32% | 40% | 6% | 0% | 0% | 0% | 0% | 0% |
| **LRIF** | 0% | 0% | 1% | 1% | 3% | 19% | 21% | 38% | 9% | 4% | 3% |
| **NREG** | 0% | 1% | 4% | 10% | 16% | 38% | 24% | 5% | 1% | 0% | 0% |
| **RRIF** | 0% | 0% | 2% | 9% | 21% | 38% | 20% | 7% | 3% | 1% | 0% |
| **RRSP** | 1% | 3% | 14% | 32% | 45% | 6% | 0% | 0% | 0% | 0% | 0% |
| **TFSA** | 0% | 1% | 4% | 14% | 26% | 33% | 16% | 3% | 1% | 0% | 0% |

While RRSPs are used to save for retirement, RRIFs are the corresponding vehicle from which members draw retirement income. RRSP savings must be transferred to a RRIF, used to purchase an annuity, or paid out in a lump sum by the end of the calendar year in which a member turns age 71. Income payments must start no later than the following calendar year. Once an RRSP is converted to a RRIF, contributions are no longer permitted, and there are minimum withdrawal amounts which must be taken each year. Similar rules apply to DCPPs and LIRAs, and this is seen in the table above, where RRSP, DCPP and LIRA participation drops to 0% at age 75-79. The chart below provides a summary of common savings products in Canada, and the corresponding products from which members can draw retirement income.

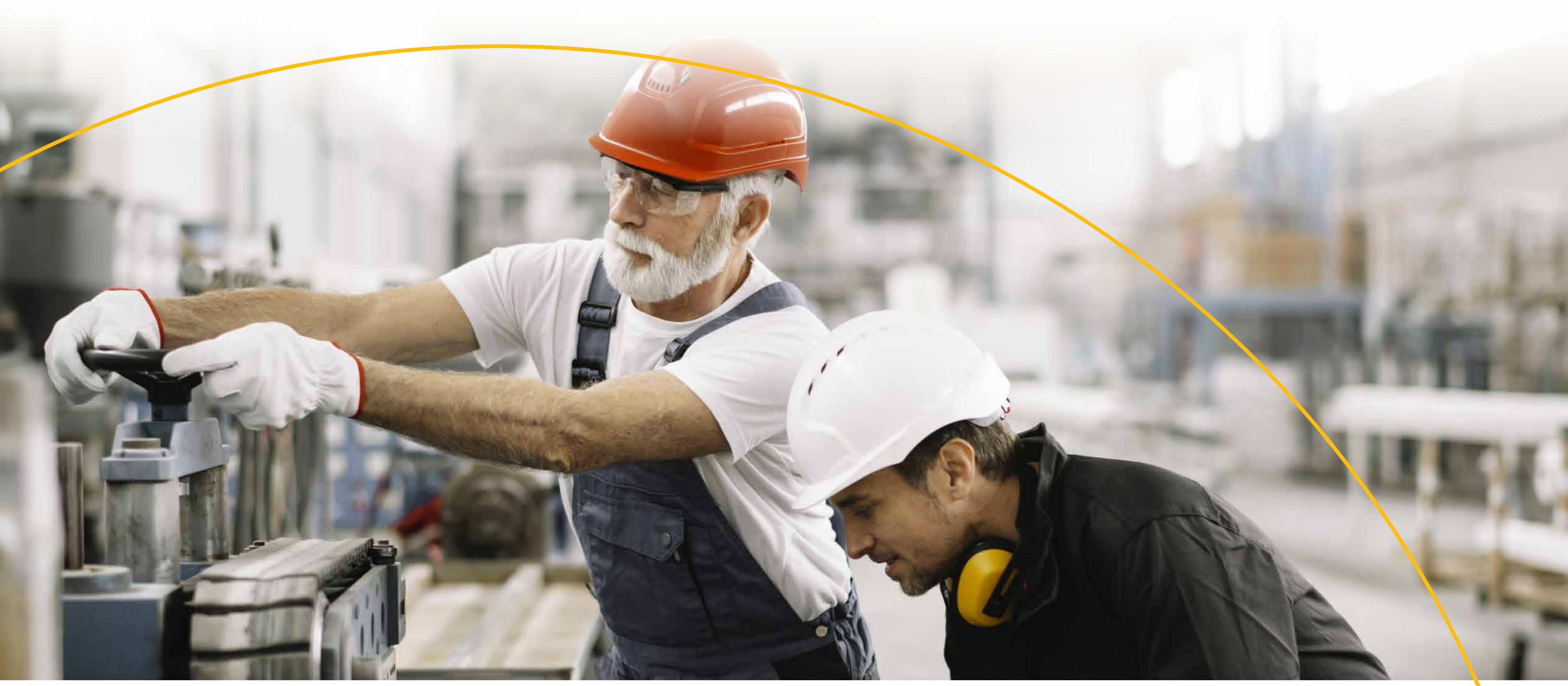


**FIG 8.7 SAVINGS PRODUCTS FROM WHICH MEMBERS CAN DRAW RETIREMENT INCOME**

| SAVINGS PLAN | INCOME PLAN |
|---|---|
| **Defined Contribution Pension Plan**<br>**Locked-in Retirement Account** | **Life Income Fund (LIF)**<br>A LIF is like a continuation of a Defined Contribution Pension Plan (DCPP), LIRA (Locked-In Retirement Account), LIRF (Locked-In Retirement Fund) or any locked-in assets, but instead of contributing, it is designed to provide retirement income payments.<br>• Savings are tax-deferred until withdrawn.<br>• A LIF may hold investments such as mutual funds.<br>• You must withdraw a certain amount each year, based on your age, but you can choose how much, between the minimum and maximum.<br>**Variable Benefits**<br>• Variable benefits are retirement income payments, from a DCPP, where savings are tax-deferred until withdrawn.<br>• The investment options may be the same or similar to a Defined Contribution Pension Plan.<br>• A minimum amount must be withdrawn, based on age, each year beginning at age 72.<br>• Before age 72, payments may be started or stopped at any time. |
| **Registered Retirement Savings Plan** | **Registered Retirement Income Fund (RRIF)**<br>A RRIF is like a continuation of an RRSP, but instead of contributing to savings, it is designed to provide retirement income payments.<br>• Savings are tax-deferred until withdrawn.<br>• Account holders make all investment decisions.<br>• There is a minimum annual withdrawal amount, based on age. There is no withdrawal maximum. |
| **Defined Contribution Pension Plan**<br>**Registered Retirement Savings Plan**<br>**Locked-in Retirement Account**<br>**Tax-Free Savings Account**<br>**Non-Registered Account** | **Annuity**<br>An Annuity is a contract from a life insurance company. In exchange for an up-front lump-sum payment, annuity holders receive a fixed payment for a specified term or for the rest of their life.<br>• For a cost, enhancements may be added, like inflation protection, a guaranteed payment period, and survivor benefits.<br>• The life insurance company makes all investment decisions.<br>• Annuities bought with locked-in savings must follow the pension laws in the holder's province of residence. |
| **Defined Benefit Pension Plan** | **Monthly pension payment**<br>• A Defined Benefit Pension Plan (DBPP) provides a defined monthly payment based on a pre-determined formula set by the plan. |
| **Tax-Free Savings Account**<br>**Non-Registered Account**<br>**Registered Retirement Savings Plan** | **Cash**<br>• Many savings products allow cash withdrawals without converting your savings into income. In some cases, there are tax implications when making a cash withdrawal. |

It's important to note that this analysis only considers retirement income drawn from a former workplace savings arrangement. Retirees also have access to various government benefits, such as the Canada Pension Plan, the Quebec Pension Plan, Old Age Security, and in some cases the Guaranteed Income Supplement.

**FIG 8.8 AVERAGE INCOME PAYMENT FROM LOCKED-IN ACCOUNT BY AGE**

| Age | Average annual income payment* |
|---|---|
| Under 50 | $3,605 |
| 50-54 | $6,190 |
| 55-59 | $6,505 |
| 60-64 | $7,665 |
| 65-69 | $9,100 |
| 70-74 | $10,470 |
| 75-79 | $13,765 |
| 80-84 | $11,255 |
| 85-89 | $9,140 |
| 90-94 | $10,490 |
| 95+ | $1,400 |

** Includes all types of withdrawals.*

Retirees may have varying priorities, and retirement income needs to be tailored to meet these needs. As noted, aside from a workplace pension, many retirees have other sources of retirement income. This is an opportunity for greater education and engagement to ensure that retirees can adequately manage the risk of outliving their retirement portfolios.

Members tend to have higher balances in non locked-in income products than they do in locked-in income products. Following from this, there were generally also higher withdrawals from non locked-in products than from locked-in products. However, the average annual income payment as a percentage of balance is on par between locked and non-locked in products at 7.4%.

Our data suggests that members are drawing more money in their early years, but are lowering their withdrawals in later years as less income is needed.

We also see that after age 75, the portion of a retiree's balance invested in NREG accounts increases, while we see a significant drop in the RRIF and LIF balances. This suggests that members may be drawing more income than they need, possibly due to the age 71 requirements noted above, and are reinvesting the excess in NREG or TFSA accounts.

This withdrawal rate is almost double the 4% withdrawal rule of thumb for retirees. The 4% rule is based on research from the early 1990s that found that retirees with a balanced portfolio could withdraw an inflation-adjusted 4% of their savings each year for 30 years, or possibly longer. Currently minimum RRIF/LIF withdrawal rules are higher than 4% from age 66 onward, but it is notable that on average members are withdrawing at higher rates than the minimum required amounts and this general rule of thumb.

In terms of product count by age, our data shows that across all age groups, 71% of retirees hold just one income product. Twenty eight percent hold two income products in retirement.

**RRIF members by withdrawal amount (minimum vs. greater than minimum)**

Taking a closer look at RRIF withdrawals, Figure 8.9 shows RRIF members by the amount they are withdrawing. Members between the ages of 65 and 74 are most likely to be withdrawing more than the minimum. Interestingly, it is also the 70-74 age group that had the highest incidence of minimum withdrawals.

**FIG 8.9 RRIF WITHDRAWLS BY MEMBER AGE**

| Age | Greater than minimum payment | Minimum payment |
|---|---|---|
| Under 50 | 0% | 0% |
| 50-54 | 0% | 0% |
| 55-59 | 4% | 1% |
| 60-64 | 14% | 2% |
| 65-69 | 33% | 8% |
| 70-74 | 32% | 42% |
| 75-79 | 12% | 29% |
| 80-84 | 4% | 12% |
| 85-89 | 1% | 4% |
| 90-94 | 0% | 2% |
| 95+ | 0% | 0% |

Our data also showed that during early retirement, many retirees with assets in a LIF or LRIF are withdrawing the allowable maximum. This suggests they may be withdrawing at levels that exceed their returns. There was a similar withdrawal pattern for retirees with assets in a RRIF – typically withdrawing higher levels of income in their earlier years above their legislated RRIF minimum payment, and then closer to their legislated RRIF minimum payment as they get older.

## Annuities

Rising life expectancy can mean retirement can last as long as a working career. The method of drawing down savings is an important consideration. However, many retirement income options carry the risk of outliving one's savings.

One way to generate income guaranteed for life is to buy an annuity from an insurance company. In exchange for a payment, an insurer commits to paying a specified monthly amount for life.

Several factors influence the level of income payable from an annuity:

- Long-term interest rates
- Prevailing life expectancy assumptions
- Duration of any guaranteed payment periods

There are several types of annuities, including joint annuities, term certain annuities, indexed annuities, and deferred annuities.

Once purchased, the terms of an annuity cannot be changed. As well, there's no additional liquidity nor any estate benefit on death, except for any remaining guaranteed payments. Despite these limitations, there may be a place for annuities as part of an integrated retirement income strategy.

In 2020, around 5% of retirees bought annuities as part of their retirement income strategy. In addition, approximately 4% of assets held by members aged 71 were annuitized by default, as they didn't provide active direction by the mandatory deadline for drawing income from registered savings.*

**Based on tracking of annuity sales through Sun Life's Client Solutions Centre and age 71 default annuity conversions processed for members in 2020.*

FIG 8.10 GOVERNMENT RETIREMENT INCOME SOURCES

## CANADA PENSION PLAN (CPP) AND/OR QUEBEC PENSION PLAN (QPP)

The Canada Pension Plan is a major source of most Canadians' retirement income, and is therefore, one of the most important aspects of their retirement planning. For those who work (or did work at some point) in Quebec, they may be eligible for the Quebec Pension Plan.

There are several factors that impact potential CPP/QPP payment amount, including:

- Retirement age
- Contributions to the program
- Eligibility for additional provisions

CPP/QPP payments are adjusted annually for inflation and cost of living. In 2020, the maximum monthly CPP/QPP payment was $1,175.83. However, the average payment is much lower – $679.16, if taken at age 65. There is no financial incentive to delaying CPP or QPP payments past the age of 70. Surviving spouses and common law partners may receive survivor benefits from the plan. CPP/QPP payments are considered taxable income.

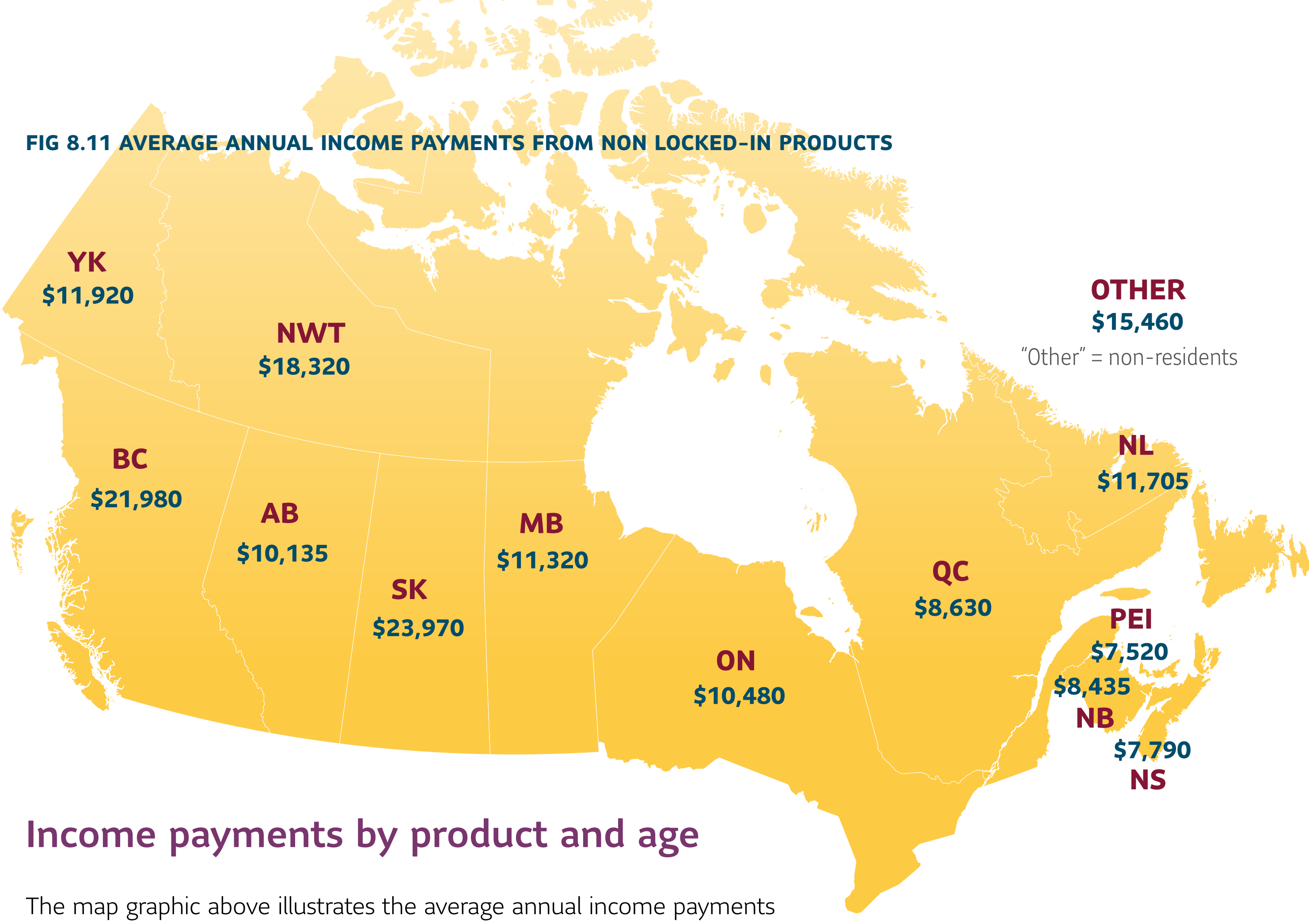
## OLD AGE SECURITY (OAS)

Old Age Security is a pension plan separate from CPP/QPP for long-term Canadian residents and certain former residents. Unlike the CPP, it is a non-contributory plan. OAS pension amounts are adjusted quarterly according to the consumer price index. It is considered taxable income and is subject to a pension recovery tax - or clawback - if individual net annual income is higher than $79,054 for 2020.

## GUARANTEED INCOME SUPPLEMENT (GIS)

The Guaranteed Income Supplement is available to all eligible OAS recipients who have little or no other sources of income. The Guaranteed Income Supplement is not subject to income tax. Recipients of the OAS pension will be automatically enrolled in the GIS, subject to the applicable income tests.

**FIG 8.11 AVERAGE ANNUAL INCOME PAYMENTS FROM NON LOCKED-IN PRODUCTS**




## Income payments by product and age

The map graphic above illustrates the average annual income payments from non locked-In products by province. It's important to note that these amounts represent just one source of retirement income – and many retirees may also be drawing from other personal investments, government programs and potentially income from defined benefit pension plans.

Clearly, members planning for and entering retirement should consider retirement income needs with a lens to ensuring that their income will last. A sustainable withdrawal rate can manage the risk of potentially outliving savings. This can be achieved through a combination of education, self-serve tools and holistic advice in the lead up to retirement, which consider all possible sources of retirement income.

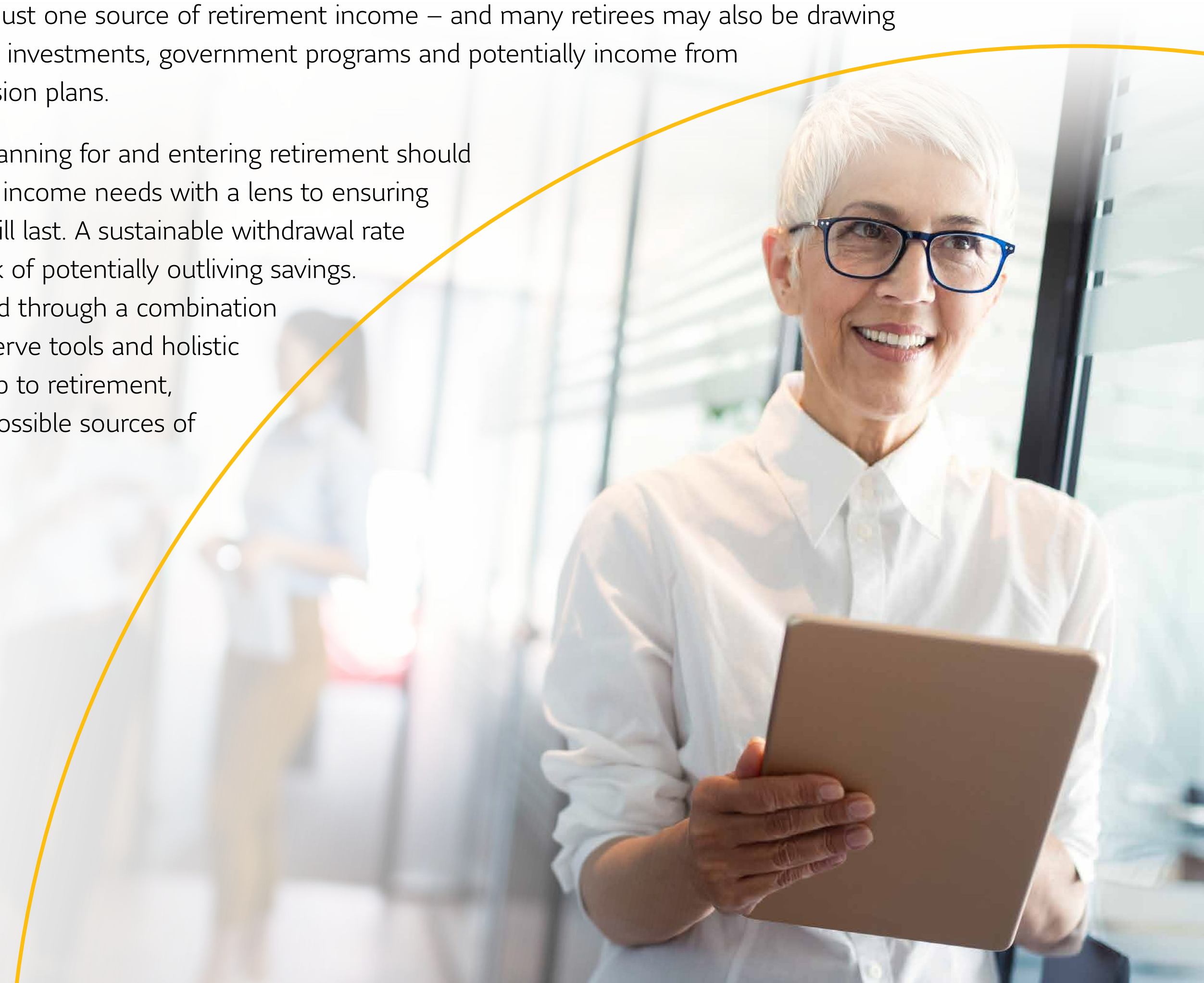
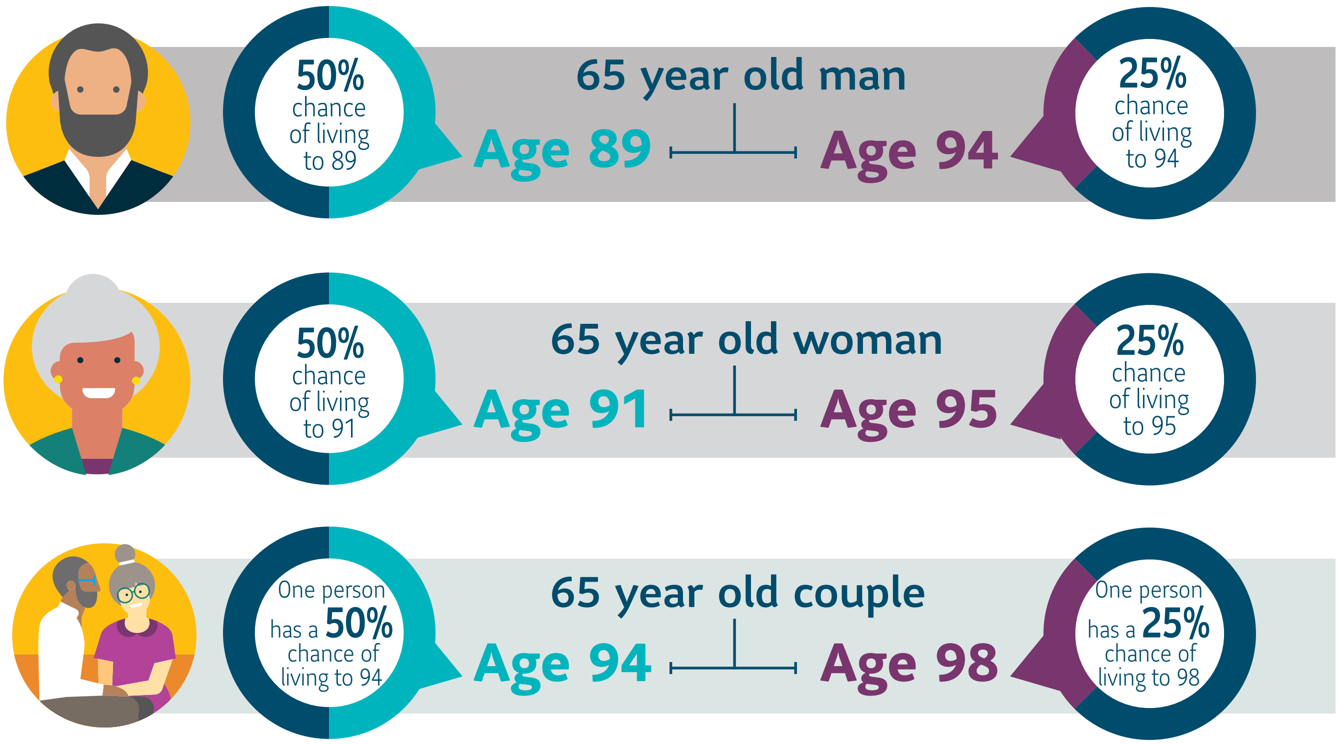


**FIG 8.12 RETIREMENT AND SEX AT BIRTH**




*Source: Financial Planning Standards Council, Projection Assumption Guidelines assuming age 65 reached (based on the 2014 Canadian Pensioners' Mortality Table published by the Canadian Institute of Actuaries).*

> As in the savings phase, our data shows that female members have significantly lower average account balances at retirement than male members at retirement.

This is an extension of the patterns we see during the working years – that women make lower contributions and have lower account balances during the accumulation phase. This is an important observation, given that women have a longer life expectancy than men, and will therefore need to consider longevity protection when building a retirement income and financial plan. This may also point to an opportunity to further examine how best to bridge the savings gap between males and females during the working years, to drive better outcomes in retirement.

**FIG 8.13 AVERAGE BALANCE AT RETIREMENT BY SEX AT BIRTH**

| Sex at birth | 2017 | 2018 | 2020 |
|---|---|---|---|
| Female | $128,780 | $152,030 | $155,630 |
| Male | $199,330 | $216,560 | $215,360 |

**FIG 8.14 INCOME PAYMENT FREQUENCY**

| Payment Frequency | 2020 |
|---|---|
| Unscheduled/Adhoc | 9% |
| Annual | 17% |
| Monthly | 67% |
| Quarterly | 4% |
| Semi-annual | 2% |

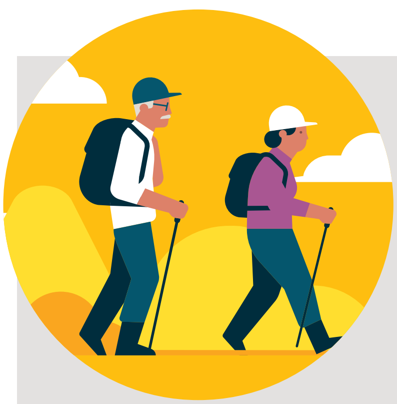
Monthly withdrawals from income products are the most common frequency for retirees to draw income payments, across all product types.

**FIG 8.15 INVESTING IN RETIREMENT**

Although capital preservation becomes a greater focus during retirement, it's important to ensure that a retirement portfolio continues to deliver consistent returns with an appropriate level of risk, over a retirement that may span 30 years or more. This is especially important in the current sustained low interest rate environment, and as a hedge against inflation.

Consider the illustration below. In this analysis, we found that 44% of retirement income is generated by investments during retirement. A similar study by Russell Investments[3] concluded that an even higher percentage of retirement income – 50% – comes from investment growth during retirement. With this in mind, it's important for retirees to maintain some growth investments during retirement, while balancing this with guaranteed investments. This section explores how retirees are investing.

[3] *Russell Investments. The 15/35/50 Retirement Lifestyle Rule, June 2019.*

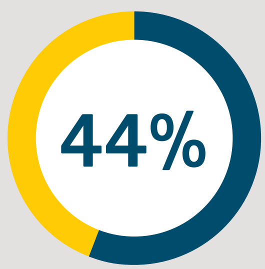


## Helping members live their retirement

### The value of extending the workplace journey into decumulation

**WITH RETURNS SO IMPORTANT TO RETIREMENT INCOME**

Retirement income generated from investment earnings during retirement




$560,000 of $1,260,000 lifetime income

**ACCESS TO LOW FEES REALLY MATTERS**

**60% less in fees**
(0.9% vs 2.2%)

**Adds 5 years**


means
**$240,000 more income**

**25% more living retirement**

*$700,000 initial assests. $50,000 annual income withdrawn annually, 6% real gross return, 0.90% fees vs 2.20% fees.*

In examining the number of investments held, one-third (32%) of retirees hold a single fund, while 41% hold an average of four or more funds within their account.

**FIG 8.16 PERCENTAGE OF RETIREES BY NUMBER OF FUNDS**

| Number of Funds | 2017 | 2018 | 2020 |
|---|---|---|---|
| 1 | 23% | 26% | 32% |
| 2 | 19% | 19% | 19% |
| 3 | 16% | 15% | 13% |
| 4+ | 45% | 44% | 41% |

When we look at how retirees are investing their balances, the most common option is a Balanced or Target Risk fund. Target Date funds are also common until age 70, at which point use of these funds drops off significantly. This can be attributed to the fact that the investment glidepath for most Target Date funds ends 5 years after retirement, and in most Target Date series, does not continue through retirement.

Not surprisingly, guaranteed funds are popular with retirees, becoming even more prevalent at age 85 and beyond. There are no significant differences in the type of investment funds being used by male or female retirees.

**FIG 8.17 PERCENTAGE OF BALANCE BY ASSET CLASS – BY AGE GROUP**

| | Under 50 | 50-54 | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85+ |
|---|---|---|---|---|---|---|---|---|---|
| Guaranteed | 6% | 12% | 11% | 12% | 10% | 9% | 7% | 8% | 18% |
| Money Market | 0% | 0% | 0% | 1% | 1% | 1% | 1% | 2% | 1% |
| Fixed Income | 6% | 4% | 7% | 6% | 8% | 7% | 8% | 11% | 7% |
| Balanced | 7% | 7% | 13% | 11% | 19% | 32% | 44% | 41% | 25% |
| Target Risk | 38% | 30% | 36% | 34% | 31% | 24% | 15% | 13% | 6% |
| Target Date | 26% | 24% | 14% | 15% | 13% | 7% | 3% | 1% | 1% |
| Equity - Canadian | 9% | 8% | 8% | 6% | 6% | 6% | 7% | 8% | 12% |
| Equity - US | 3% | 10% | 7% | 7% | 5% | 4% | 4% | 5% | 18% |
| Equity - Global | 4% | 3% | 3% | 6% | 7% | 7% | 10% | 11% | 7% |
| Equity - International | 1% | 1% | 2% | 2% | 1% | 1% | 1% | 1% | 6% |

**FIG 8.18 BALANCE BY PERCENTAGE OF EQUITIES HELD**

| | 2017 | 2018 | 2020 |
|---|---|---|---|
| NO EQUITY | 20% | 21% | 22% |
| 1-25% | 1% | 1% | 2% |
| 26-50% | 12% | 14% | 3% |
| 51-75% | 46% | 46% | 55% |
| 76-99% | 1% | 1% | 1% |
| 100% | 19% | 17% | 17% |

Our data also showed a moderate increase in equity holdings in 2020 compared to 2017. This may be due to a combination of active selection, and drift caused by relative performance of asset classes over the period. In 2020, 22% of retirees held no equity investments. This has been relatively steady since 2017. At the other extreme, 17% of retirees in 2020 exclusively held equity investments. In some cases, we know that these retirees have lifetime income available through a defined benefit pension plan so may be knowingly taking more risk with their DC savings.

While managing retirement risks such as market volatility, longevity and sequence of returns are important, it is equally important to manage fees, consider the order of withdrawal, and maximize tax efficiency during retirement. Retirees should also consider all investments they may hold, and balance the need for growth with the need to maintain retirement income over the course of one's retirement years.

Approximately 15% of retirees maintain their RRSPs until they are required by law to convert them to an income by the end of the year they turn age 71.

As noted earlier, older retirees also hold a significant portion of their assets in after tax accounts. This suggests that as they move through retirement, their income needs are reduced, and they may have more income than they need at this point. This would contrast with early retirement, when they are more healthy, active and free to enjoy leisure pursuits with their income. A 2019 study by the CD Howe Institute found that TFSAs are most popular with older Canadians: 57% of those over age 65 held a TFSA, compared with just 50% of those aged 25 to 34.

There are many proposals and differing views on how best to support members during their working years, to encourage savings and optimize the retirement outcome for plan members. If a DC pension plan (or other CAP) is expected to play the same role in retirement that DB plans played for former generations of workers, we need to broaden and realign traditional plan measurement metrics to include income-oriented measures. Recordkeepers and regulators must continue to work together to facilitate savings during plan members' working years. This can include education on selecting the appropriate investments; robust retirement planning tools; and access to qualified, credible financial advice. These factors can enable members to tailor a plan to their unique needs and priorities, with the ultimate goal of improving overall retirement outcomes.

09

# Member behaviours during the pandemic

In the spring of 2020, governments around the world locked down entire economies, and the WHO declared a global pandemic. During this time we started closely monitoring certain transactions to understand how the pandemic was impacting member investment behaviours.

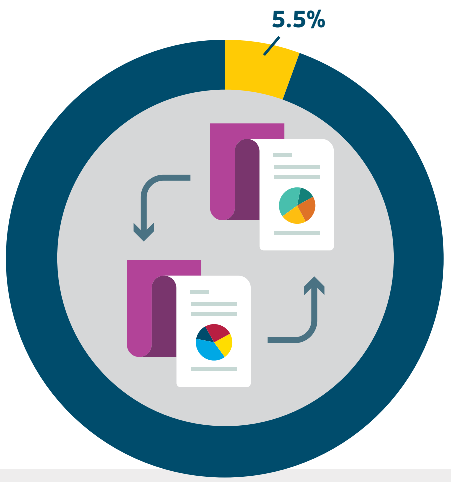
# 09 | Member behaviours during the pandemic

February and March 2020 was a peak time for market volatility, marked by precipitous declines in key global markets. In the spring of 2020, governments around the world locked down entire economies, and the WHO declared a global pandemic. During this time we started closely monitoring certain transactions to understand how the pandemic was impacting member investment behaviours.

The extensive communications and education efforts by recordkeepers and plan sponsors, as well as in the moment, personalized digital "nudges" are bearing fruit.

> We were encouraged to see members generally staying the course, and maintaining a long-term perspective when it comes to saving and investing.

**FIG 9.1 INTERFUND TRANSFERS**

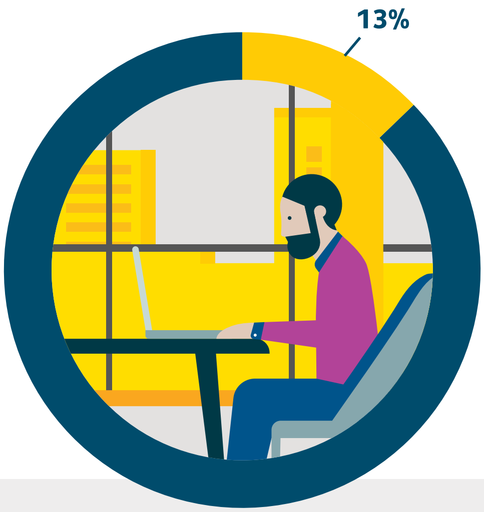



Plan members who made an interfund transfer between 2020 and 2021

From March 2020 to April 2021, about 5.5% of plan members made an interfund transfer – in other words, they moved money between investment options. This volume is actually lower than pre-pandemic periods, when around 8% of members would make interfund transfers. An interesting finding was that members who held Target Date funds were much less likely to make a fund change. Of members who held Target Date funds at the end of 2019, just 2% had made an interfund transfer by the end of 2020.

We looked at the transfers to discern whether members were derisking, particularly during the period of extreme volatility. Interestingly, we found that only around 30% moved money to more conservative investment options. Conversely, nearly 40% added equity exposure over the past year, seeing this period of volatility as a buying opportunity.

### FIG 9.2 CONTRIBUTIONS

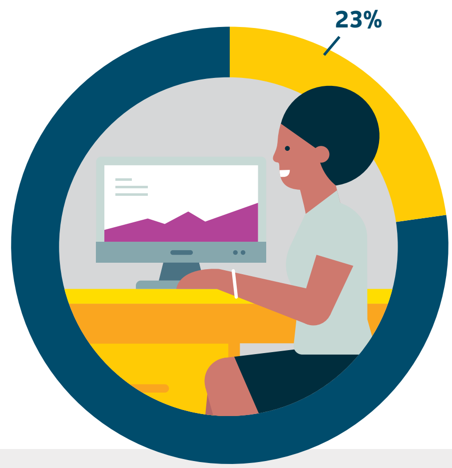



Plan members who made changes to their contribution levels during the pandemic

Over the past year, we also observed changes in contribution activity. Around 13% of members made changes to their contribution level. Around 5% of members increased their contributions during the pandemic, while about 7% reduced their savings rate. Some made offsetting changes to contributions – meaning they reduced contributions in one product, but increased contributions in another. This is a modest level of change, and we have seen a stabilization overall.

Similarly, very few employers overall suspended contributions during the pandemic. Many have since restarted their pre-pandemic employer match.

### FIG 9.3 WITHDRAWALS




Plan members who made withdrawals during the pandemic

Finally we looked at withdrawals, and observed that about 23% of plan members made a voluntary withdrawal during this 12 month period. Although this withdrawal volume is around 13% lower year over year, the average withdrawal amount was around 11% higher than the previous year.

> Most voluntary withdrawals were made by members aged 30 to 49 years old, and most were from NREG and RRSP products. A small subset of RRSP withdrawals were for the Home Buyers' and Lifelong Learning Plans.

An important factor to consider is the role of historically low interest rates – meaning that instead of choosing to withdraw from their investments, members may be opting instead to borrow while it's relatively inexpensive to do so. Government income support programs likely also played a role in the relatively low level of withdrawals observed.

# 10

# Methodology

The data included in this report is drawn from Sun Life's proprietary CAP database.

# 10 | Methodology

The data included in this report is drawn from Sun Life's proprietary CAP database. The following key considerations were included in our analysis:

Active plan members with an account balance greater than $0 at the end of each applicable year.

Active full-year plan members were used to calculate all references to average and median numbers. Partial-year members were excluded.

Unless otherwise noted, data is as of December 31 of each calendar year. Percentages may not total 100% in all tables due to rounding.

Sex at birth assignment in this analysis is as it appears in our recordkeeping system. This may vary from how individuals identify on a gender basis.

## ACADEMIC

**118 PLANS / 41,099 MEMBERS**

School Boards
Universities/Colleges
Other

## ASSOCIATIONS & AFFILIATIONS

**360 PLANS / 27,752 MEMBERS**

Aboriginal Band Association (First Nations)
Not-for-Profit
Religious Association
Other

## CONSUMER – DISCRETIONARY

**1,568 PLANS / 204,918 MEMBERS**

Auto Components Automobiles
Distributors
Hotels, Restaurants & Leisure Media
Specialty Retail
Other

## CONSUMER – STAPLES

**420 PLANS / 84,259 MEMBERS**

Beverages
Food & Staples Retail
Food Products
Household Products
Personal Products
Other

## ENERGY

**285 PLANS / 91,558 MEMBERS**

Energy Equipment & Services
Oil, Gas & Consumable Fuels
Other

## FINANCIAL SERVICES

**410 PLANS / 228,028 MEMBERS**

Banking
Diversified Financial Services
Insurance
Real Estate Management & Development
Other

## HEALTHCARE

**611 PLANS / 79,219 MEMBERS**

Biotechnology
Cannabis & Related Companies
Healthcare Providers & Services
Healthcare Equipment & Supplies
Pharmaceuticals
Other

## INDUSTRIAL

**1,842 PLANS / 252,679 MEMBERS**

Aerospace & Defense
Air Freight & Logistics
Airlines
Building Products
Commercial Services & Supplies
Construction & Engineering
Electrical Equipment
Industrial Conglomerates
Machinery
Marine
Road & Rail
Trading Companies & Distributors
Transportation Infrastructure
Other

## INFORMATION TECHNOLOGY

**449 PLANS / 81,311 MEMBERS**

Communications Equipment
Computers & Peripherals
Electronic Equipment & Instruments
Internet Software & Services
IT services
Software
Other

## MATERIALS

**641 PLANS / 138,941 MEMBERS**

Chemicals
Construction
Materials
Containers & Packaging
Metals & Mining
Paper & Forest Products
Other

## PROFESSIONAL SERVICES

**137 PLANS / 18,001 MEMBERS**

Financial (consulting/accounting)
Legal
Medical
Other

## PUBLIC SERVICES

**113 PLANS / 4,609 MEMBERS**

Federal
Municipalities
Provincial
Other

## RECREATION

**19 PLANS / 8,348 MEMBERS**

Entertainment
Professional Sports
Other

## TELECOMMUNICATION SERVICES

**446 PLANS / 2,166 MEMBERS**

Diversified Telecommunication Services
Wireless Telecommunication Services
Other

## UTILITIES

**85 PLANS / 16,524 MEMBERS**

Electric Utilities
Gas Utilities
Multi-Utilities
Water Utilities
Other

# Notes

# Notes

# Notes

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Sun Life Group Retirement Services has been ranked as the leading provider of Capital Accumulation Plans in Canada for more than 19 years[1] with:

- Over $100 billion in assets under management[1]
- More than 11,200 group retirement policies in force[1]
- Over 2.1 million participants[1]

[1] *Pension Universe Report* (Group Retirement), Fraser Group, July 2021

## For more information, please contact your Sun Life Group Retirement Services representative.

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