The Value of a Good Pension

NIRS Retirement Policy Conference

February 25-26, 2019

HOOPP
Healthcare of Ontario Pension Plan

About HOOPP

Approximately **$2.3** Billion paid in benefits

$77.8 Billion in net assets

122% Funded status

More than **339,000** members

Ten-year rate of return is above **9.5%**

545+ employers

as at December 31, 2017

THE VALUE OF A GOOD PENSION

How to improve the efficiency of retirement savings in Canada

HOOPP Healthcare of Ontario Pension Plan

NATIONAL INSTITUTE ON AGEING

COMMON WEALTH

Five retirement arrangement archetypes

Workplace retirement plans

More collective

- Canada-model pension plan
- Large-scale pooled plan
- Large-employer capital accumulation plan
- Small-employer capital accumulation plan
- Typical individual approach

More individual

The five value drivers

Saving

Fees and costs

Investment discipline

Fiduciary governance

Risk pooling

Differences in efficiency

Calculations show significant differences in efficiency between retirement arrangements

More individual ⟷ More collective

	Typical individual approach	Small-employer capital accumulation plan	Large-employer capital accumulation plan	Large-scale pooled plan	Canada-model pension plan
How much does retirement cost?*	$1.20M	$1.05M	$0.79M	$0.39M	$0.31M
What is my retirement "bang for buck"?**	$1.70	$1.94	$2.58	$4.19	$5.32

*Total contributions required to achieve a 70% replacement rate for a worker earning $40K at the start of her career

**Total retirement income, plus assets remaining at death divided by total lifetime contributions

Results for a representative individual

Retirement security for a typical worker is 4x less expensive in a Canada-model pension plan

Results for one representative individual

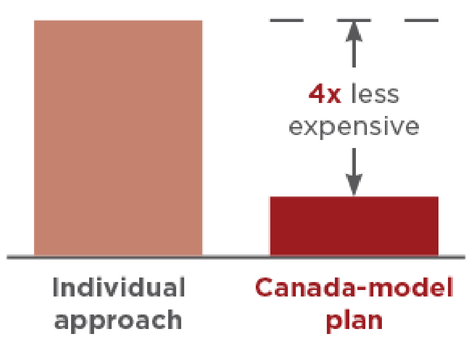
Sophia

Working life	• Works from age 25-65 • Lives to age 92
Earnings	• Earnings start at $40,000 per year • 3% annual earnings growth
Target replacement rate	• 70% of final 5 years' pre-tax earnings (including average CPP and maximum OAS)

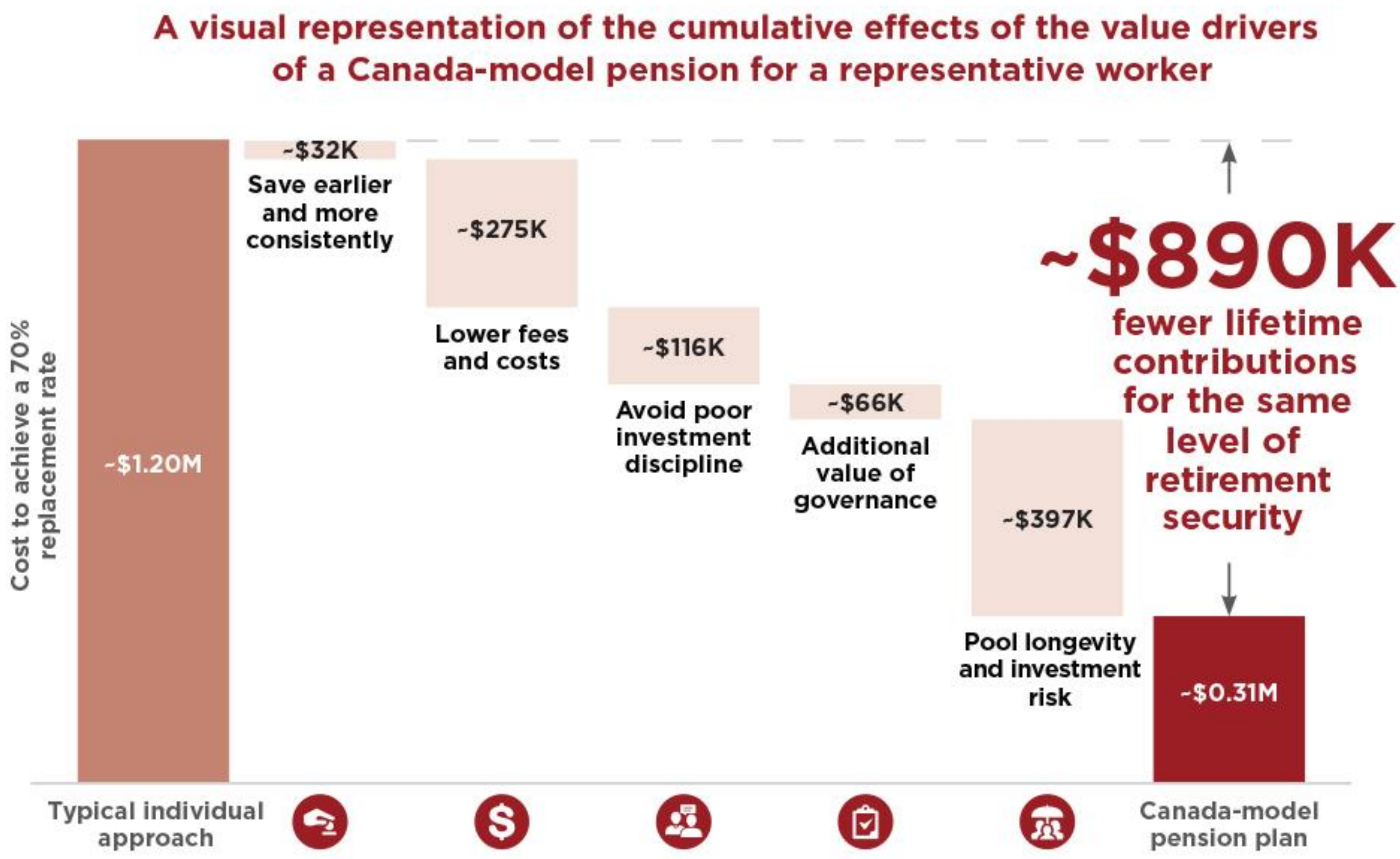
	Typical individual approach	Canada-model pension plan
How much will I have to contribute to maintain my standard of living in retirement?	**$1.20M** Total contributions	**$0.31M*** Total contributions
What is my retirement "bang for buck"?	**$1.70** in retirement income per dollar contributed	**$5.32** in retirement income per dollar contributed

Relative value for money

Lifetime contributions required to achieve 70% replacement rate



Cumulative effects of the value drivers



Differences in efficiency

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Key findings

Going it alone is expensive.

A representative worker taking a typical individual approach would need to save about $890,000 more over their lifetime to generate the same level of retirement income as a worker enrolled in a Canada-model pension.

Efficiency is created through five value drivers.

- Saving
- Fees and costs
- Investment discipline
- Fiduciary governance
- Risk pooling

The Canada-model provides the biggest bang for buck.

For each dollar contributed, the retirement income from a Canada-model pension is $5.32 versus $1.70 from a typical individual approach.

We all benefit when saving for retirement is more efficient.

In the long run, moving towards more individualized saving models ultimately costs Canadians as savers, retirees and taxpayers.

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