The Value of a Good Pension

NIRS Retirement Policy Conference
February 25-26, 2019
About HOOPP

- Approximately $2.3 Billion paid in benefits
- $77.8 Billion in net assets
- More than 339,000 members
- 122% Funded status
- 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
Five retirement arrangement archetypes

Workplace retirement plans

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

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

Results for one representative individual

| 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) |
|-------------------------|-------------------------|

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Relative value for money

Lifetime contributions required to achieve 70% replacement rate

4x less expensive

Individual approach  
Canada-model plan
A visual representation of the cumulative effects of the value drivers of a Canada-model pension for a representative worker.

Typical individual approach
- $32K
  Save earlier and more consistently
- $275K
  Lower fees and costs
- $116K
  Avoid poor investment discipline
- $66K
  Additional value of governance
- $397K
  Pool longevity and investment risk

Canada-model pension plan
- $0.31M

Cumulative effect: approximately $890K fewer lifetime contributions for the same level of retirement security.
Calculated differences in efficiency between retirement arrangements show significant variance.

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