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WEALTH

Strengthening retirement security for low- and moderate-income workers

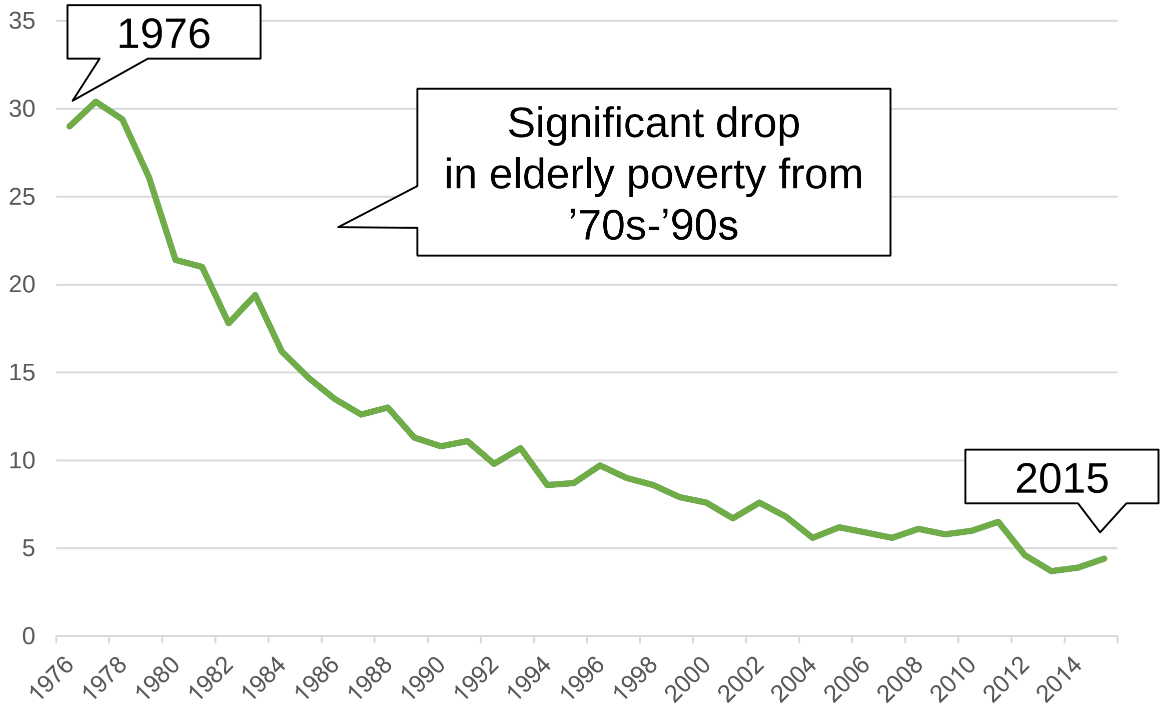
Presentation to Policy Research Symposium

March 9, 2018

Good news: Canada has made significant long-term progress in reducing seniors' poverty

Has declined dramatically since the 1970s

Share of elderly below low income cutoff, 1976 - 2015



Key Drivers:

- Old Age Security (OAS)

+

- Guaranteed Income Supplement (GIS)

+

- Canada Pension Plan

~$22K in retirement income for single worker earning $50K

Source: Statistics Canada – percentage of persons 65+ falling below the Low Income Cutoff (LICO) measure after tax

Bad news: Retirement security is still a challenge for modest-earning Canadians

Modest earners without pensions reach retirement with very little savings

$0

Median retirement assets of families age 55-64 earning <$25K / year, without a workplace retirement plan

$250

Median retirement assets of families age 55-64 earning $25-50k / year, without a workplace retirement plan

INSTITUT BROADBENT INSTITUTE

Source: Broadbent Institute study by statistician Richard Shillington, 2016

Bad News: high fund fees erode workers' savings

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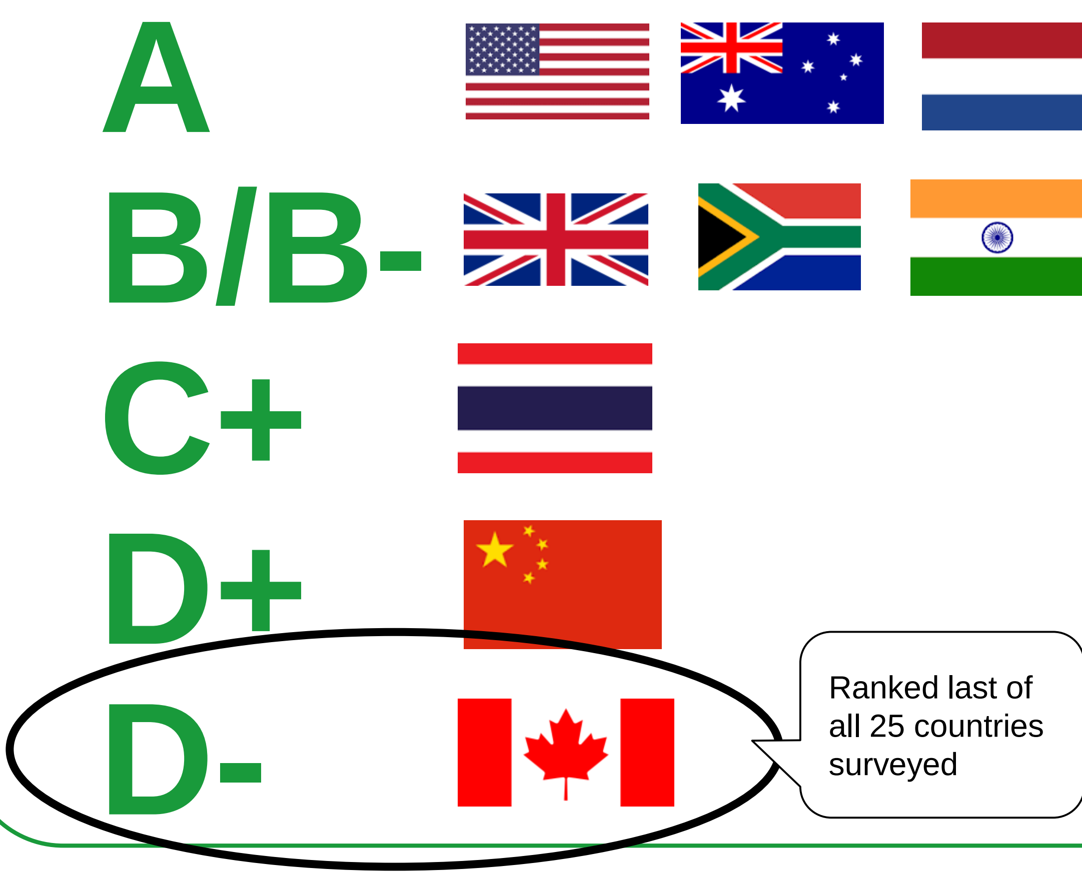
Canada has the highest mutual fund fees in the world

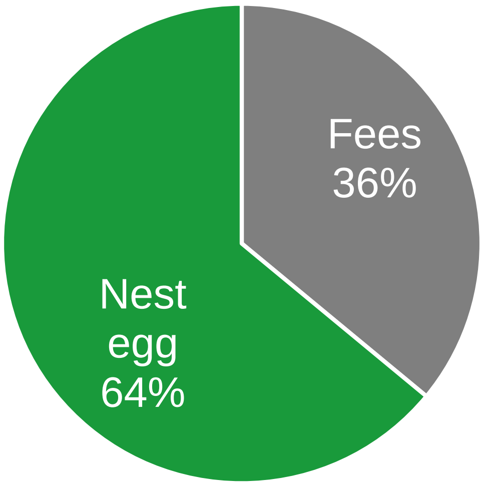
Results of a recent global survey on mutual fund fees[1]

MORNINGSTAR®



These fees can erode a third or more of a worker's savings

Impact of fees on a typical modest-earning worker[2]



1 Morningstar, Global Fund Investor Experience Study (2015)

2 Assumptions: 5% annual contributions. Start saving at age 25. RRSP has fees of 2.2% (average Canadian mutual fund fee). Starting salary of $30,000 with 2% wage inflation. Withdraw 4% per year from nest egg from age 65-90. Gross returns of 5.3% age 25-65 and 4% post age 65

Bad News: The GIS "clawback" has a punitive effect on lower-income savers

Results in a loss of 50 cents or more of government benefits for every dollar withdrawn

32% of Canadian seniors rely on GIS

No single regulatory category solves the problem

Most are highly regressive for modest earners

	RRSP	PRPP	Pension Plan	TFSA	my65+ THE SEIU RETIREMENT FUND
Governance / fiduciary advantage	✗	✓	✓	✗	✓
Low costs	✗	✗	✓	✗	✓
GIS benefit optimization	✗	✗	✗	✓	✓

Contrary to conventional wisdom, modest earners can save and want to save

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Conventional Wisdom

Modest earners can't and don't want to save for retirement

Countervailing evidence

53%

of those earning $25-50k / year willing to contribute 10% of pay to maintain living standard in retirement

cpplc
CANADIAN PUBLIC PENSION LEADERSHIP COUNCIL

Report by Bob Baldwin based on Ipsos Reid survey, commissioned by the Canadian Public Pension Leadership Council (2017)

45% ➡ 65%

participation rate among U.S. Vanguard customers earning <$30k over past decade

Vanguard

"How America Saves 2017" report

My65+ case study

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Amy and Frank are two typical SEIU Healthcare members with a lot in common. They both:

- Start their careers at age 25 with salaries of $30,000, receiving 2% wage increases each year
- Save 5% of their salary each year for retirement (starting at $1,500 at age 25)
- Retire at age 65, withdrawing 4% of their nest eggs each year until age 90

Amy

Frank

my65+ THE SEIU RETIREMENT FUND

	Amy: Saves with My65+	Frank: Saves with a typical RRSP
Nest egg at age 65	$253,000	$173,000
Additional retirement income at age 66 (4% of nest egg)	$10,100	$6,900
Lost GIS benefits	$0	($3,450)
Net additional retirement income per year (age 66)	$10,100	$3,450

Loses 50 cents of benefits for every dollar withdrawn from his RRSP

Assumptions: 5% combined employee/employer contributions. Start saving at age 25. RRSP has fee of 2.2% (average Canadian mutual fund fee). Starting salary of $30,000 with 2% wage inflation. Withdraw 4% per year from nest egg from age 65-90. Gross returns of 5.3% age 25-65 and 4% post age 65. Calculation of lost government benefits assumes GIS clawback rate of 50% and does not factor in that clawbacks can in some cases be higher, or that income from RRSPs can affect eligibility for other government supports (e.g., housing, prescription drugs). Numbers may not add due to rounding.

Other features of My65+

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Portable

Stays with the member from job to job and into retirement.

Members can contribute through their bank account or through their employer (where the employer participates).

Members-first

My65+ has a fiduciary duty to put members' interests first.

The plan will be overseen by a non-profit board composed of a mix of union representatives and experts.

Open to all SEIU Healthcare members and their families.

Simple

No complex investment decisions.

Members' contributions will be invested in low-cost, diversified "target date" funds from Vanguard.

Simple, self-serve, online administration.

Policy idea: a long-term savings match for lower- and moderate-income Canadians

Preliminary thoughts – for discussion

- **Current landscape:** Canadian incentives for long-term savings are regressive – or "upside down"
  - RRSP deduction value is highest for those in top tax brackets
  - No incentive to contribute to TFSA – best vehicle for modest earners
  - RRSPs result in GIS clawback
  - CPP enhancement does little for modest earners
  - Most retirement savings tax incentives to go middle- and upper-income earners who would save anyway

- Potential elements of a **savings match for lower- and moderate income Canadians**:
  - Match up to $1,000-2,000 of contributions to long-term savings plan (e.g., TFSA, RRSP, workplace plan)
  - Income-tested
  - Refundable (workers eligible even if pay no tax)
  - Could be delivered through tax system or retirement plan administrator
  - Easy / automatic to claim
  - Well-promoted through government, employers, the financial services industry, and retirement plan administrators

U.S. example: Saver's Credit

- Introduced in 2001
- Credit of up to $1,000
- Phases out at $31k (singles), $62k (married)
- Applies to contributions to IRA, 401(k), or other qualified plan
- Non-refundable
- Ideas for improving the credit from its current low take-up[1]:
  - Expand access to payroll deduction retirement plans
  - Restructure the credit as savings a match
  - Make the credit refundable
  - Simplify tax filing
  - Reduce steep reduction in credit rate

See, e.g., David C. John & Jennifer Erin Brown, "Improving the Saver's Credit for Low- and Moderate-Income Workers," AARP Public Policy Institute (Sept 2017).