Designed for Savings

2019

The benchmark report on capital accumulation plans in Canada

Life's brighter under the sun

Sun Life

Presenting: Sun Life's comprehensive report on capital accumulation plans in Canada

As an industry, we focus extensively on increasing plan member engagement. But engagement is only one of four key drivers that contribute to a successful workplace savings plan.

A plan sponsor has direct control over the other three:

Plan Design – Design decisions range from participation rules and enrolment processes, to contribution rules and rates. All of these decisions contribute to a plan's success.

Plan Management – This includes governance and oversight to make sure a plan complies with guidelines and legislation.

Plan Investments – An investment lineup with choice, high-quality managers, and the option of a pre-built, one-stop investment solution are essential to plan health and member success.

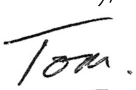
Of course the plan investment lineup should be regularly reviewed, and if needed, updated accordingly. More and more plan sponsors are focusing on the retirement readiness of their workforce. As a result, a robust review of plan design has become paramount. "Money in," or contributions, is still the largest determinant of "money out" – retirement income. It follows, therefore, that sound plan design is a critical ingredient in helping members create adequate retirement income. Key design features include company match, the level of required contributions to maximize that match, plan withdrawal rules, and even the definition of earnings for contribution purposes.

We realize that drawing up a sound, long-term financial plan rarely rises to the top of a plan member's to-do list. That's especially true in early to mid-career. We spend a lot of time figuring out how to make saving at work easier to understand – and to act on. That means answering questions at all stages of an employee's career. We'll guide them through any challenges while working towards their savings and retirement goals. It also means helping people who don't even realize they need help. It's about getting the right information to people at the right time and in the right channel. It means using a plan's design, tools, communication strategies, and data to create personalized relevant experiences. Tailoring situations to people influences and nudges them to take small steps to make better choices for themselves and their futures.

We've seen significant progress over the past five years. More people are saving. More are taking advantage of their full employer match. And more are investing to balance risk and reward for their ages and circumstances.

But there's still work to be done. There's plenty of opportunity to help guide workers toward a successful retirement. We're delighted to be your partner on this important journey. We hope this report will become an indispensable reference tool. We want our observations across our universe of clients and industries to give you valuable insights.

Sincerely,



Tom Reid
Senior Vice-President
Group Retirement Services, Sun Life Canada

Table of contents

Executive summary

It's been five years since we published our first *Designed for Savings* report. Now a staple in the Capital Accumulation Plan (CAP) industry in Canada, it gives a detailed snapshot of what Canadian employers offering workplace savings plans are doing with their programs. Just as important, it shows the actions plan members are taking with their savings opportunity. It's a resource for plan sponsors, and the consultants supporting them, to benchmark a plan against a peer group. Looking back on the past five years, there are a few positive changes worth noting:

SHORTER WAITING PERIODS

More employers are considering eliminating the waiting period to join the plan – at least for employee contributions. It's much easier for a new employee to adjust their spending to their first take-home pay than to give up money to join their workplace plan after three months, for example.

DIVERSIFICATION DURING PERIODS OF VOLATILITY

Inertia is a powerful force, but it can work to an employee's advantage during bouts of market volatility. Despite periods of volatility over the past five years, plan members had a very limited reaction to market movements. They continue to hold well-diversified portfolios, thanks in large part to the automated nature of target date funds.

CONTINUED GROWTH IN TARGET DATE FUNDS

In 2010, target date funds represented about 7% of CAP assets with Sun Life. By the end of 2018, assets held in target date funds have grown to 29% of total CAP assets. More than 80% of all net contributions go to target date funds. This growth is coming largely at the expense of fixed income, balanced, target risk and Canadian equity funds – they've all experienced significant declines during the past five years as a percentage of our overall asset mix.

PLAN SPONSORS TAKING COURAGEOUS ACTIONS

Over the past two years, we've seen a growing number of plan sponsors setting a starter savings rate. And, they're setting a rate for the employee that will attract the full employer matching contribution.

Our extensive testing with Canadians of all ages shows that they welcome nudges and recommendations to point them in the right direction. They just want the freedom to make a change at their convenience.

Providing a starter savings rate removes friction from a decision most employees are uncomfortable making. They often put it off. That means many employees leave employer-matching dollars on the table for many years.

When we simplify enrolment for Canadians, our research shows that we can increase participation rates by a full 24 percentage points, and that employees are 30 percentage points more likely to maximize their savings to receive the full employer match. Plan sponsors who have set a starter savings rate are seeing impressive results – a small step that is clearly driving better outcomes.

Plan abbreviations used in this report

CAP	Capital Accumulation 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
LIRA	Locked-In Retirement Account
NREG	Non-Registered Savings Plan
PRPP	Pooled Registered Pension Plan
RRSP	Registered Retirement Savings Plan
TFSA	Tax-Free Savings Account
VRSP	Voluntary Retirement Savings Plan

01

Demographics, eligibility and employer-matching contributions

Demographics

At the end of 2018, 50%[1] of global pension assets were in Defined Contribution Pension Plans (DCPPs). In Canada, DCPP assets account for roughly 5% of all pension assets – compared with 87% in Australia and 60% in the United States. During the last 20 years, DCPP assets globally have grown at an annual rate of 7.6% while Defined Benefit Pension Plan (DBPP) assets have grown at a slower pace of 3.2% annually. DCPPs have worked better for employers who have had declining appetite for taking pension risk. DC is becoming the dominant global model, and services continue to evolve to meet the rapidly changing needs of employees saving at work.

As of June 30, 2018, the CAP[2] industry included assets of approximately $208 billion for approximately 65,000 group plans representing close to 6.3 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 6,000 group savings clients. For a complete description of the methodology used, please see page 51.

1. *Willis Towers Watson, Global Pension Assets Study 2019*
2. *Benefits Canada, December issue 2018, CAP Supplier Report*

At the end of 2018, **50%** of global pension assets were in Defined Contribution Pension Plans. In Canada, Defined Contribution Pension Plan assets account for roughly **5% of all pension assets**. During the last 20 years, Defined Contribution assets globally have grown at an annual rate of 7.6% while Defined Benefit Pension Plan assets have grown at a slower pace of 3.2% annually.

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

CAP DATABASE SNAPSHOT

Number of clients **6,017**	Number of plans **7,275**
Number of members **1,300,340**	
AUA **$85,703,000,000**	

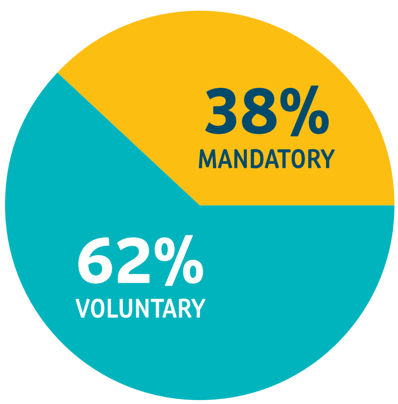
Eligibility and employer-matching contributions

Slightly more than one-third of the group savings plans with Sun Life have mandatory participation and require new employees to join when they become eligible. Almost two-thirds leave it up to the employees to choose once they become eligible.

Key factors in determining eligibility:

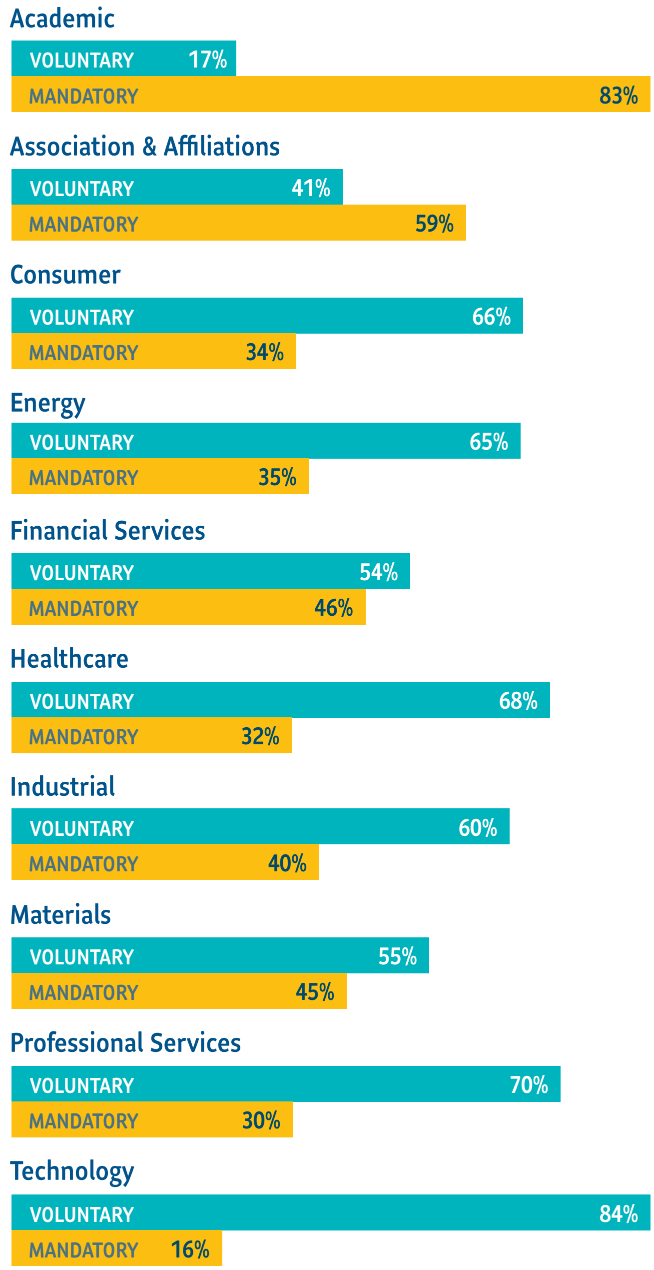
- Turnover rate in the employer's industry
- Competitive pressures in attracting and retaining talent
- Link to other probationary periods

FIG 1.0: OVERALL PLAN ELIGIBILITY



Employers in the majority of industries require employees to take action to join their workplace retirement savings plan. The Associations & Affiliations industry sector (which is heavily influenced by First Nations plans) and the Academic industry have a bias towards requiring employees to participate, while all other industry sectors rely mostly on the employee to take initiative to join the plan.

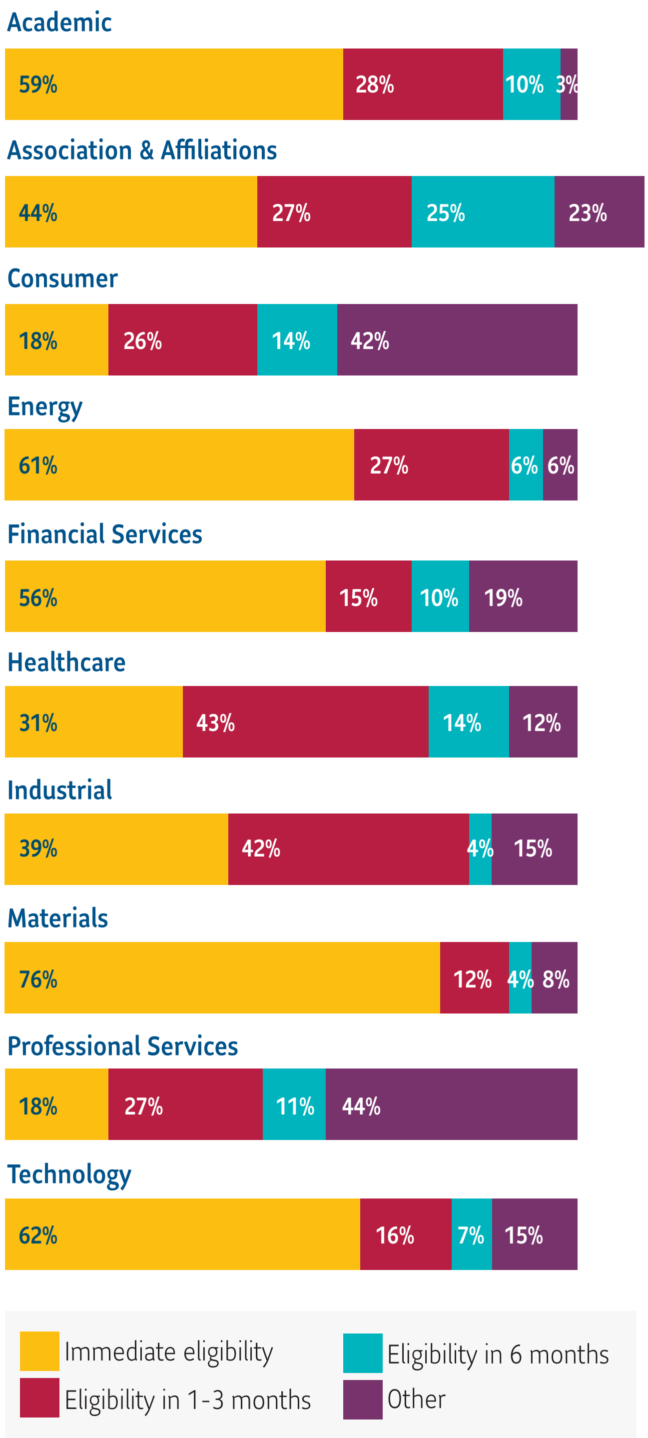
FIG 1.1: PLAN ELIGIBILITY BY INDUSTRY



Across all plans, salaried employees are significantly more likely to be immediately eligible for their employer's CAP than are employees in other groups. They are also significantly more likely to be eligible for an employer match.

During the past ten years, we have seen a trend towards shorter waiting periods, with more plans moving to immediate participation.

FIG 1.2: EMPLOYEE ELIGIBILITY BY INDUSTRY



Participant surveys and related research confirm that plan members believe employer-matching contributions to be the primary advantage of saving at work, and place a high value on this benefit.

Almost 80% of plans for salaried employees include some amount of employer-matching contribution – either full or partial.

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

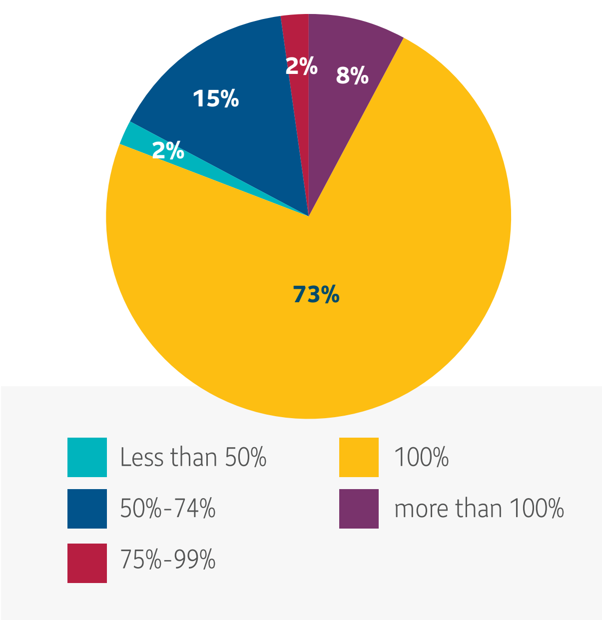
	Employee contribution % required for maximum employer-matching contribution					
	3%	4%	5%	6%	7%	8%+
Academic	0%	7%	28%	16%	28%	21%
Associations & Affiliations	27%	17%	24%	20%	4%	0%
Consumer	30%	17%	24%	17%	2%	10%
Energy	11%	14%	22%	29%	2%	22%
Financial Services	12%	18%	33%	27%	2%	8%
First Nations	0%	0%	64%	7%	15%	14%
Healthcare	28%	11%	33%	18%	5%	5%
Industrial	34%	22%	20%	18%	2%	4%
Materials	20%	20%	35%	23%	2%	0%
Professional Services	34%	16%	38%	7%	2%	3%
Technology	14%	14%	28%	30%	2%	12%

To receive the maximum employer-matching contribution, the majority of eligible employees must contribute between 3% and 6% of their annual earnings – a trend we have observed for the past several years.

The most common contribution rate expected of employees to receive the full employer-matching contribution is 5% of earnings. Many employers who are providing up to a 3% match are also providing a basic employer contribution that does not require the employee to contribute to receive this starting contribution. In most cases, these employers have transitioned from a DBPP to a DCPP.

The majority of employers with a matching contribution program provide **at least a 75% match**.

FIG 1.4: OVERALL EMPLOYER-MATCHING CONTRIBUTION RATE



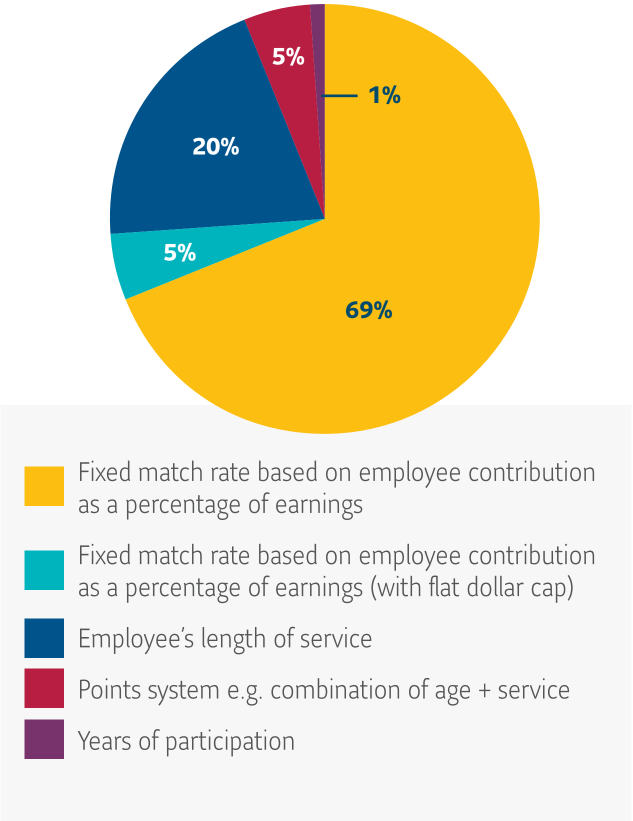
When we look at smaller workplace plans with less than 200 plan members, 95% provide an employer-matching contribution of some amount. Of these employers, 78% provide a dollar-for-dollar match. Seventeen percent provide a match in excess of 100% (some as much as 200%) or provide an employer contribution with no expectation of an employee contribution. Only one in five of these smaller plans provide a match of 50% or less.

The vast majority of plan sponsors provide a dollar-for-dollar match to a maximum percentage of the employee's earnings (often 5%). The industry sectors that typically provide a match greater than 100% are those who may have had a legacy DBPP or where attracting and retaining talent has been a challenge historically.

FIG 1.5: EMPLOYER-MATCHING CONTRIBUTION RATE BY INDUSTRY

Industry sector	More than 100%	100%	75% - 99%	50% - 74%	Less than 50%
Academic	65%	30%	5%	0%	0%
Associations & Affiliations	0%	93%	0%	5%	2%
Consumer	4%	74%	0%	18%	4%
Energy	11%	86%	0%	3%	0%
Financial Services	3%	69%	3%	22%	3%
Healthcare	37%	45%	2%	14%	2%
Industrial	9%	68%	6%	17%	0%
Materials	10%	71%	5%	14%	0%
Professional Services	0%	94%	3%	3%	0%
Technology	5%	57%	8%	22%	8%

FIG 1.6: DETERMINING EMPLOYER-MATCHING CONTRIBUTION



The majority of plan sponsors base the percentage of their match primarily on the percentage of earnings contributed by the employee.

Of the 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.

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

Automatic employer contribution rate %	Percentage of plans*
1%	5%
2%	14%
3%	18%
4%	19%
5%	10%
6%	13%
7%	8%
8%	11%
9%	1%
Other	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, 5% provide an automatic employer contribution of 1%.*

Approximately one in five plan sponsors automatically contributes to a CAP without requiring employees to contribute. In many cases, employees will receive an additional employer contribution if they voluntarily contribute.

The **basic employer contribution** is **most prevalent in the following industry sectors:**

02

Plan types commonly offered

Similar to the findings in our 2016 report, the larger the number of members, the greater the likelihood multiple products will be offered to give employees maximum flexibility in choosing their workplace savings plans.

Over the past year there has been growing interest from plan sponsors to revisit their plan design details – looking beyond the investment line-up – ensuring it meets the needs of a quickly evolving workforce.

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

# of plan members	1	2	3	4	5
1-99	RRSP 59%	DCPP 12%	RRSP-DPSP 8%	VRSP 5%	RRSP-TFSA 4%
100-199	RRSP 21%	DCPP 15%	DCPP-RRSP 15%	RRSP-DPSP 11%	RRSP-TFSA 9%
200-499	RRSP 15%	DCPP 13%	DCPP-RRSP 13%	DCPP-RRSP-TFSA 9%	RRSP-DPSP 8%
500-999	DCPP-RRSP 15%	DCPP-RRSP-TFSA-NREG 11%	DCPP-RRSP-TFSA 9%	DCPP 8%	RRSP-DPSP 8%
1000+	DCPP-RRSP 18%	DCPP 12%	DCPP-RRSP-TFSA-NREG 10%	DCPP-RRSP-TFSA 10%	DCPP-RRSP-NREG 9%

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

Plans with fewer than 100 members continued to have a strong affinity to group RRSP only plans, as these have fewer regulatory and administration requirements, and usually result in lower costs to the employer. The introduction of the VRSP has made its presence felt given that employees in Quebec must be covered by a retirement plan of some sort. This mandatory approach is what has fueled the growth of this product in the small employer market in particular.

With the TFSA celebrating its 10th anniversary in 2019, it's not surprising that this product still ranks as part of the top plan designs across all group plan sizes, ranging from 4% in smaller plans to almost 10% in larger plans. Current trends suggest this growth will continue in the future.

Where vesting of employer contributions is desired, or where a business may have high staff turnover, employers may look to a RRSP/DPSP combination since the DPSP is the only plan type that allows for a vesting period. Employers who take advantage of the vesting feature typically opt for two years of participation.

The percentages shown in the table below for the non-registered or EPSP plan types are based on the availability of these plans with any product combination.

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

Plan types	Asset band						
	Less than $2M	$2M - $5M	$5M - $10M	$10M - $25M	$25M - $50M	$50M- $100M	$100M+
RRSP Only	65%	24%	19%	11%	5%	3%	0%
RRSP / DPSP	8%	12%	8%	9%	3%	8%	1%
DCPP Only	10%	26%	16%	12%	16%	7%	14%
DCPP / RRSP	2%	11%	16%	17%	12%	15%	18%
NREG or EPSP	2%	12%	20%	32%	42%	50%	51%
DCPP / RRSP / TFSA	0%	3%	6%	7%	12%	8%	12%
RRSP / DPSP / TFSA	1%	2%	3%	3%	4%	4%	3%
RRSP / TFSA	4%	6%	10%	4%	3%	3%	1%
VRSP	6%	0%	0%	0%	0%	0%	0%

65% of smaller employers (those with less than 100 plan members) offer a single product plan – a group RRSP. Less than 15% of larger employers offer just one product and, if they do offer just one, it's typically a DCPP. Large employers (i.e. 500+ plan members) tend to offer multiple products to provide maximum flexibility for their employees.

Some publicly traded employers also make their company stock available as an investment option in their non-pension plan products. See page 40 for insights related to employer stock and how it is used in a workplace savings plan.

> As membership or assets in a plan grows, so does the number of products offered, and the use of DCPPs

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

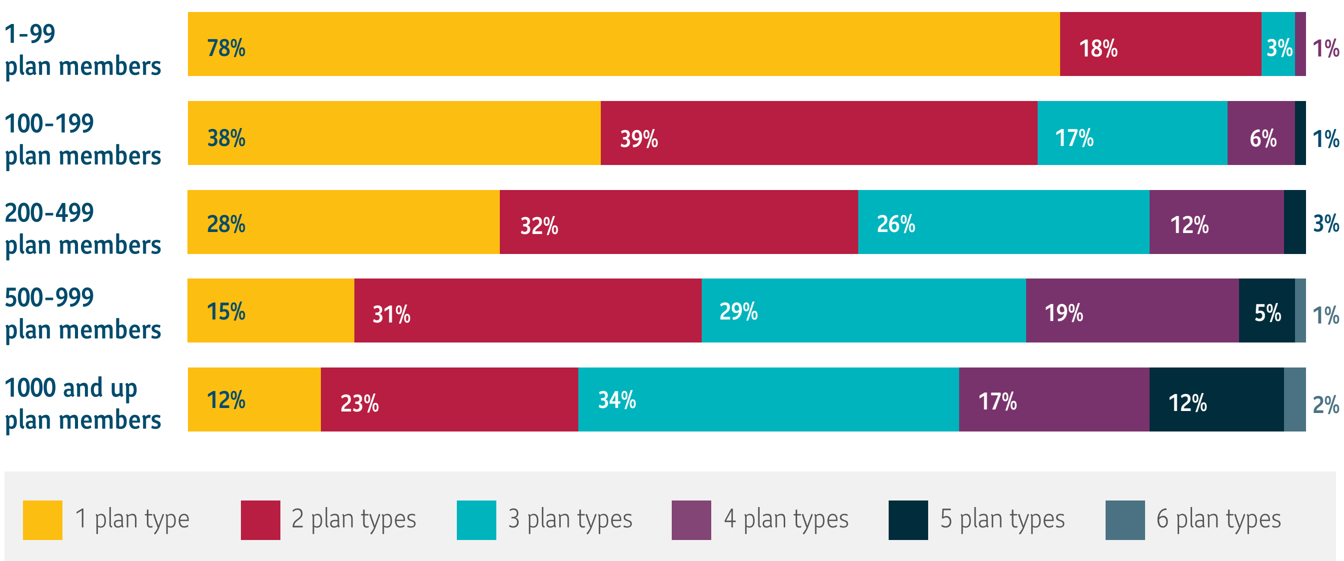
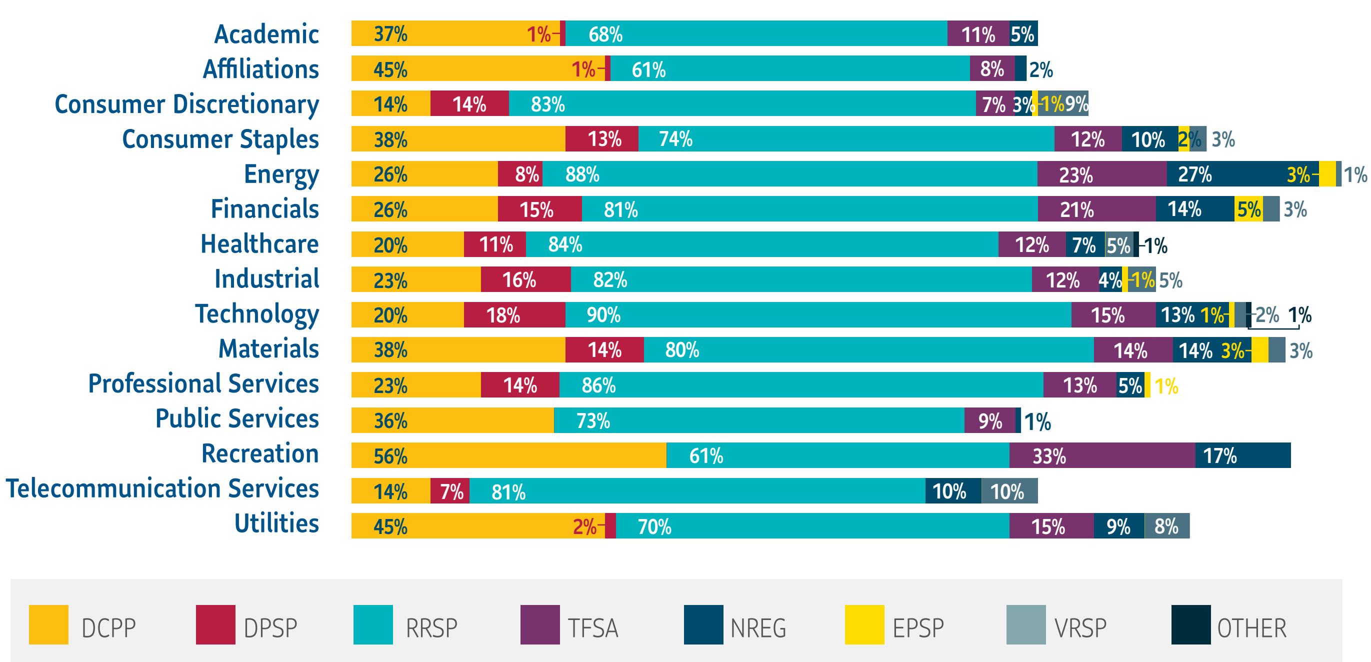


FIG 2.3: PLAN TYPES OFFERED – BY INDUSTRY



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. Note: 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 voluntary in about two-thirds of our CAPs – meaning that employees must take the initiative to make an active choice to join their workplace plan. The enrolment decision is framed as a positive election: "Decide if you'd like to join the plan." Research in the field of behavioural finance provides a number of 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.
- 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 enrolment (with opt-out) environment, which exists in many other countries, 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 are staggering. With automatic enrolment, Fidelity Investments U.S. operation has experienced an overall average participation rate of 89%[1]. Opt-out rates remained at the same level regardless of default contribution levels (81% participation at a 1% default contribution rate and 91% participation at a 6% default contribution rate).

Participation is **voluntary** in about two-thirds of our CAPs – meaning that employees must take the initiative to make an active choice to join their workplace savings plan.

In the past few years, Alberta and British Columbia passed legislation allowing for automatic enrolment with the ability for the employee to opt-out of their workplace pension plan. Expressed consent from the employee for the payroll deduction is not needed for a DCPP in these provinces.

1. *Fidelity, 2012, Points of View Presentation - The Status of automatic enrollment and annual increase programs in America's DC plans*

Mandatory vs. voluntary participation

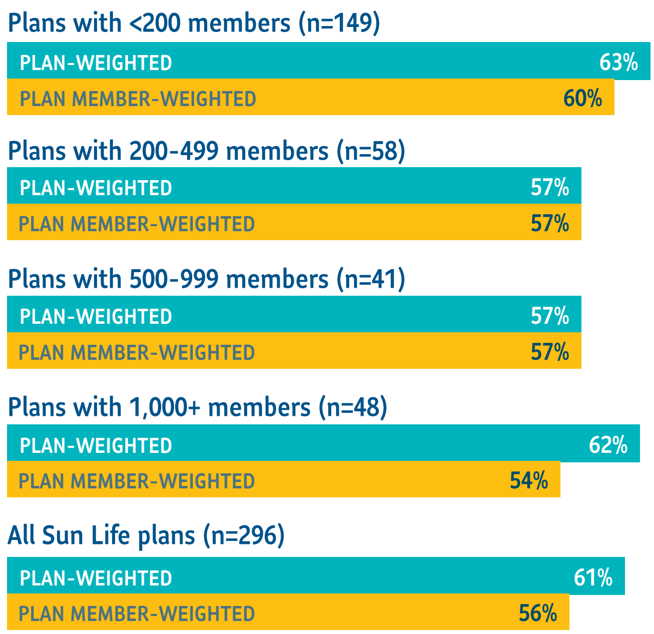
For the main product in a workplace plan, approximately one-third of all employers require employee participation once eligibility requirements have been met.

For many plan sponsors, a comparison of their plan's participation rate compared to others in their industry is the broadest – and most pressing – concern when assessing the health and competitiveness of their plan.

In the figure 3.0, plan-weighted participation is calculated by taking the average of participation rates among all plans. Plan member-weighted participation considers all employees in all plans as if they were in a single plan. Sufficient sample size data is not available at this time to calculate the participation rate for each industry sector. Instead, aggregate results where relevant information is known has been used.

We often see too much emphasis placed on investing, investment fees and access to funds in a retirement plan. While these are important, the single most important factor in retirement readiness success is "saving" in an employer-sponsored plan at a meaningful rate consistently over one's career.

FIG 3.0: EMPLOYEE PARTICIPATION



Key ways to encourage greater participation and savings:

Our extensive testing with Canadians of all ages shows that they welcome nudges and recommendations to point them in the right direction – so long as they retain the freedom to make a change at their convenience. Providing a starter savings rate removes friction from a decision most employees are uncomfortable making and often put off. This results in many employees leaving employer-matching dollars on the table for many years.

Read our Bright Paper "Boost Workplace Retirement Savings Through Simplified Enrolment" available at SunLife.ca/grsmatters which shares the findings from a five year study where Sun Life collaborated with Employment and Social Development Canada (ESDC) to examine the impact of applying behavioural insights to employee choices during enrolment in workplace capital accumulation plans.

04

Investments

Five significant investment themes have continued or developed since our initial **Designed for Savings** report in 2014.

1 Since 2013, the availability of target date funds in workplace plans continues to increase at a rapid rate, with most plan sponsors choosing to use them as the default option. Over the same period, the use of money market as the default fund option has dropped considerably.

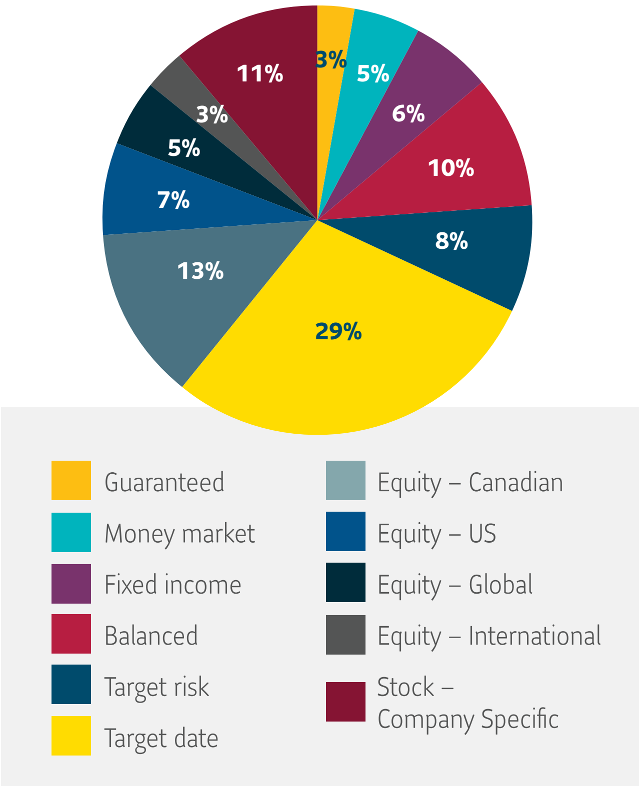
2 Usage of traditional balanced and target risk funds continues to decline. Plan member assets in these funds have dropped from 24% to 18% since 2013. Some plan sponsors have opted to replace these funds with target date funds. There has been a noticeable drop in plan sponsors opting to use balanced and target risk funds in their investment line-ups.

3 Overall, plan members are using *Help Me Do It* funds (target date, target risk, balanced) at an increasing rate, with total plan member assets rising from 40% to 47% since 2013. *Help Me Do It* investors access a well-diversified portfolio in a single fund and may avoid issues of insufficient diversification that can sometimes hurt *Let Me Do It* investors that choose to build their own portfolios.

4 Plan members are increasing the diversification of their portfolios. Plan member assets invested in foreign equity funds have increased from 10% to 15% since 2013. In conjunction with the increased usage of target date funds, which typically have high levels of foreign equity exposure, this indicates that plan members are less reliant on the performance of the Canadian stock market.

5 Advisor-supported plans continue to embrace actively managed funds. Fixed income funds have the lowest usage of active management, yet still 79% of advisor-supported plans offer active fixed income funds. Usage of active funds rises to 99% in Canadian equity. For consultant-supported plans, use of passively managed funds is much higher, with a majority of plans offering passive-only in target date, target risk, and U.S. equity.

FIG 4.0: INVESTMENT FUND ASSET CLASS BREAKDOWN BY OVERALL PLAN ASSETS



How can alternative investment options benefit plan members?

Alternative investments can provide important diversification benefits to plan members. Larger plans have been quicker to offer alternative funds to plan members, perhaps in part due to greater familiarity with them through their Defined Benefit plans or deeper internal resources to research the unique aspects and risks of such investments. As the available options in the alternative space grow and plan members become more familiar with them, we anticipate utilization of alternative asset classes will increase.

As of the end of 2018, the percentage of total assets in these asset classes is still less than 1% overall, but are gaining some modest traction. There is more uptake of alternative asset classes within target date / target risk or custom balanced fund solutions.

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+
Guaranteed	39%	82%	87%	86%	87%	79%	70%
Money market	37%	84%	91%	93%	96%	92%	99%
Fixed income	40%	92%	96%	98%	98%	96%	99%
Balanced	49%	77%	74%	67%	60%	62%	52%
Target risk	34%	47%	43%	28%	26%	25%	21%
Target date	62%	74%	82%	85%	83%	86%	85%
Equity – Canadian	52%	96%	96%	97%	97%	95%	99%
Equity – US	41%	90%	91%	93%	90%	89%	92%
Equity – Global	36%	80%	79%	80%	83%	72%	83%
Equity – International	33%	83%	85%	90%	87%	87%	90%
Stock – Company specific	0%	2%	3%	5%	7%	19%	29%
Real estate / Alternative	1%	4%	6%	6%	8%	3%	6%

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

Asset Class	Percentage of plans offering		
	Active Only	Passive Only	Active and Passive
Fixed income	21%	46%	33%
Balanced	89%	4%	7%
Target risk	43%	53%	4%
Target date	35%	61%	4%
Equity – Canadian	54%	4%	41%
Equity – US	12%	63%	25%
Equity – Global	84%	4%	12%
Equity – International	44%	25%	30%
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	Passive Only	Active and Passive
Fixed income	38 %	21%	41%
Balanced	87%	1%	13%
Target risk	94%	4%	2%
Target date	87%	11%	3%
Equity – Canadian	71%	1%	28%
Equity – US	35%	17%	48%
Equity – Global	82%	5%	12%
Equity – International	44%	16%	40%
Real estate / Alternative	100%	0%	0%

U.S. equity and fixed income continue to have the highest inclusion rate of passive funds by both advisors and consultant-supported plans. Active managers in these asset classes have struggled to add meaningful value on average. Within fixed income however, we do see a gradual move away from passive-only Canadian options into specialty options (i.e. core plus, global, etc.).

There continues to be a significant divergence between advisor and consultant-supported plans in the usage of active management, particularly in the target date and target risk categories. Advisor-supported plans generally utilize more actively managed funds.

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+
US equity only	5%	1%	0%	0%	0%	0%	0%
Int'l & Global equity	2%	1%	0%	0%	0%	1%	0%
Global, Int'l & US equity	21%	68%	67%	71%	72%	60%	74%
Global equity only	6%	5%	5%	5%	7%	8%	7%
US & Global equity	7%	7%	7%	3%	3%	3%	2%
International equity only	1%	0%	0%	0%	0%	0%	0%
US & International equity	8%	14%	17%	19%	15%	26%	16%
No Foreign equity	50%*	4%	3%	2%	3%	2%	1%

** Although the standard fund line-up for the smallest plans includes at least one Foreign equity fund, half of the plans make no use of this asset class. A majority of the deposits reside in the default fund for the product.*

Percentages are based on the number of plans that offer each particular asset class fund. For example, 26% of plans with a total asset balance between $50-$100 million offer both a U.S. equity and International equity fund.

Plan members have been steadily increasing the proportion of equities invested outside of Canada. In 2010, plan members directed $2 into Canadian equity for every $1 into foreign equities. In 2018, they directed only $0.75 into Canadian equity for every $1 into foreign equities, reducing their domestic investment risk.

Where do plan members invest?

Over the past five years, foreign equities (US, International and Global equity) and target date funds have increased as a percentage of plan members' asset mix, while all other asset classes have decreased. Target date funds have increased from 16% to 29%. Canadian equity has decreased the most, from 18% to 13%, which continues a steady decline from 23% in 2010.

FIG 4.4: PLAN MEMBER INVESTMENT ALLOCATIONS (FOR CONTRIBUTIONS)

Asset Class	2013	2015	2017	2018
Guaranteed	6%	3%	3%	3%
Money market	9%	6%	7%	6%
Fixed income	7%	5%	5%	5%
Balanced	10%	21%	8%	8%
Target risk	12%	10%	10%	8%
Target date	21%	23%	31%	35%
Equity – Canadian	13%	11%	11%	10%
Equity – US	3%	4%	5%	6%
Equity – Global	3%	4%	4%	4%
Equity – International	2%	2%	3%	3%
Stock	13%	12%	13%	12%
Real estate / Alternative	0%	0%	0%	0%

**The significant increase in the balanced fund allocation reflects a large plan that transitioned to Sun Life in 2015. Excluding this plan, the 2015 balanced allocation would be 11%.*

Plan member contributions provide insight into what asset categories are likely to grow in the future. They suggest target date and foreign equity categories will continue to rise, while most other asset categories will decline. Contributions to fixed income and capital preservation-focused (guaranteed/money market) have declined more rapidly than contributions to equities, with historically low interest rates perhaps playing a role.

FIG 4.5: ASSET MIX DISTRIBUTION FOR MEMBER ACCOUNT BALANCES

Asset Class	2013	2015	2017	2018
Guaranteed	5%	4%	3%	4%
Money market	6%	5%	4%	5%
Fixed income	7%	6%	6%	6%
Balanced	13%	13%	11%	10%
Target risk	11%	11%	9%	8%
Target date	16%	22%	25%	29%
Equity – Canadian	18%	14%	15%	13%
Equity – US	4%	6%	7%	7%
Equity – Global	3%	4%	5%	5%
Equity – International	3%	3%	3%	3%
Stock	14%	12%	12%	11%
Real estate / Alternative	0%	0%	0%	0%

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. Target date funds are designed to provide a holistic and systematic approach to investing, with risk levels (as generally defined by equity allocations) declining as the plan member nears retirement age. While the adoption of target date funds will likely continue in the coming years, it doesn't mean these funds should be viewed as a "set it and forget it" investment option for plan members. Finding effective methods to ensure that plan members understand how their investments are working – and that they are the appropriate choice to help them reach their savings goals – will continue to be an important element of plan sponsors' governance activities.

FIG 4.6: PERCENTAGE EQUITY EXPOSURE BY PLAN MEMBER AGE

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

Equity exposure for members who choose their own portfolio.

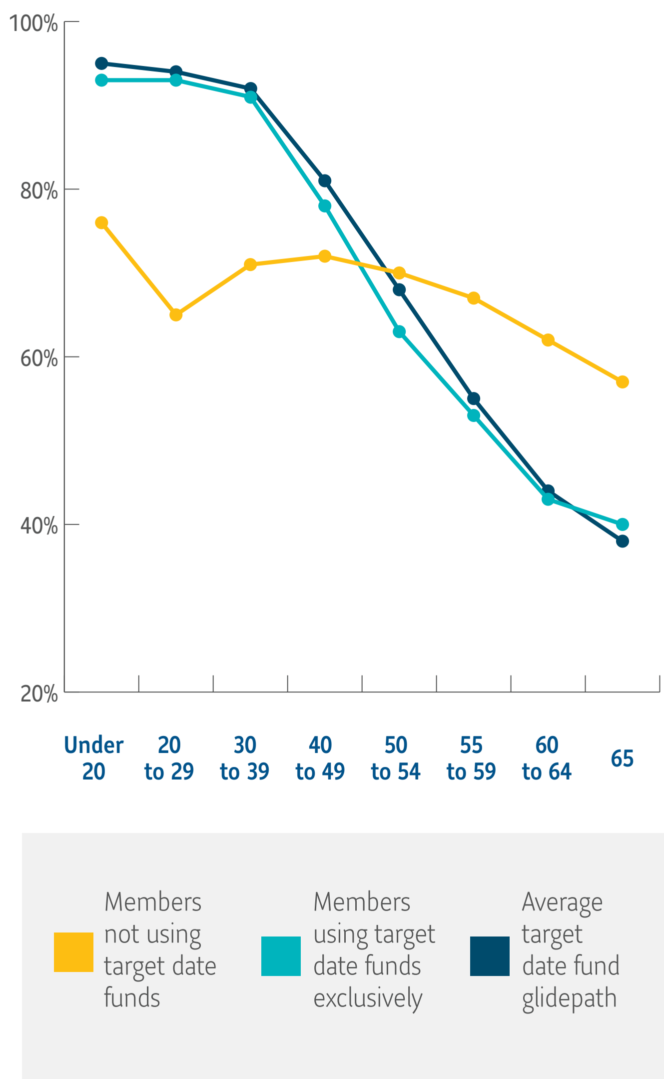
The allocation to equities varies considerably among plan members, across ages. At one extreme, 14% of plan members had no allocation to equities at the end of 2018, while 23% of plan members had their entire plan account invested in equities. These differences seem to reflect different tolerances for risk among plan members, in addition to factors such as differing objectives, wealth and income levels, and time horizons.

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

	Age Band							
	Under 20	20 to 29	30 to 39	40 to 49	50 to 54	55 to 59	60 to 64	65 +
Target risk	5%	8%	7%	6%	6%	5%	6%	6%
Target date	66%	38%	29%	24%	21%	20%	21%	17%
Balanced	1%	3%	3%	3%	3%	4%	4%	5%
Single asset class funds	5%	22%	31%	38%	42%	43%	43%	48%
Combination	24%	29%	29%	28%	28%	27%	26%	24%

Plan members who build their own portfolios have a very similar average level of equity exposure despite significant differences in age and time horizons. Compared to most "to retirement" target date glidepaths, plan members tend to under-invest in equities at younger ages and over-invest in equities at older ages. This relatively unchanging exposure to equities over time suggests that some plan members may lack sufficient investment knowledge and/or engagement.

FIG 4.8A: AGE AND EQUITY EXPOSURE



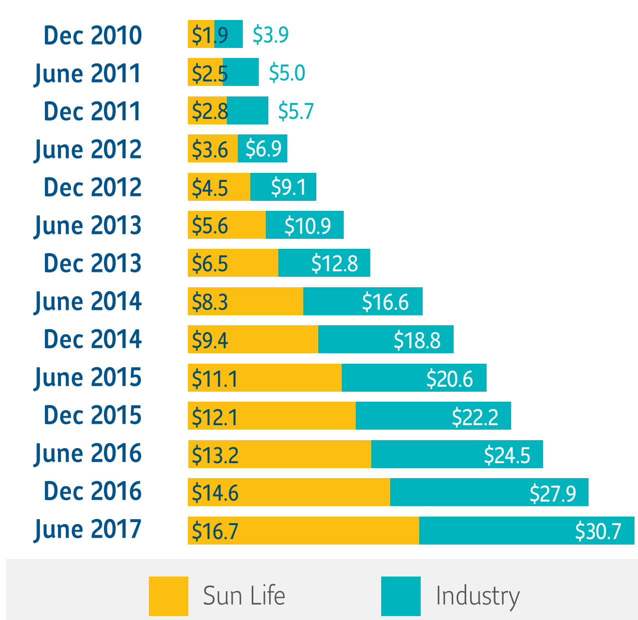
4.8B: PERFORMANCE OF TARGET DATE FUNDS (NET OF FEES)

Investment Strategy	1 year		3 year		5 year	
	Average	Median	Average	Median	Average	Median
Members using TDFs only	-2.2%	-1.9%	4.5%	4.5%	6%	6.2%
Members not using TDFs	-3.4%	-2.9%	4.4%	4.2%	5.1%	5.4%
Excess return TDF members vs those not using TDFs	**1.2%**	**1.0%**	**0.1%**	**0.3%**	**0.9%**	**0.8%**

Includes all target date funds offered on the Sun Life Group Retirement Services investment platform, excluding Milestone Funds.

Analyzing personal rates of return for plan members investing in target date funds only, versus those who do not invest in target date funds, we found that plan members using target date funds only, have consistently outperformed those not using target date funds. We have run this performance analysis over multiple periods ending December 31, 2014 to December 31, 2018 and the results show consistent trends in all time periods analyzed.

FIG 4.9: TARGET DATE FUNDS-GROWTH



Source: Strategic Insight.

Target date funds continue to contribute to better diversification within plan member accounts. Five years ago, target date funds represented about 7% of CAP assets with Sun Life. As of the end of 2015, assets held in target date funds have grown to 22% of total CAP assets. Since 2011, almost all new Sun Life clients have included target date funds in their investment lineup.

Many plan sponsors are choosing to replace balanced and target risk funds with target date funds. Most plan sponsors provide plan members with a window of time (usually 60-90 days) to make an active investment decision about which fund(s) to use. Many plan sponsors then "sweep" assets from the closed balanced and target risk funds into a target date fund if the plan member does not act on their own.

Since 2013, the percentage of plan members with access to target date funds increased from **63%** to **84%**.

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

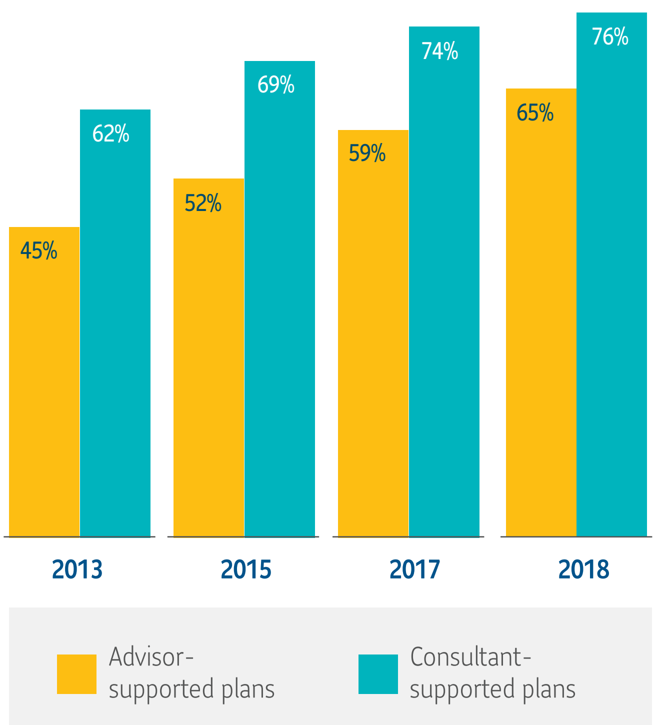


FIG 4.11: PERCENTAGE OF PLAN MEMBERS WITH ACCESS TO TARGET DATE FUNDS

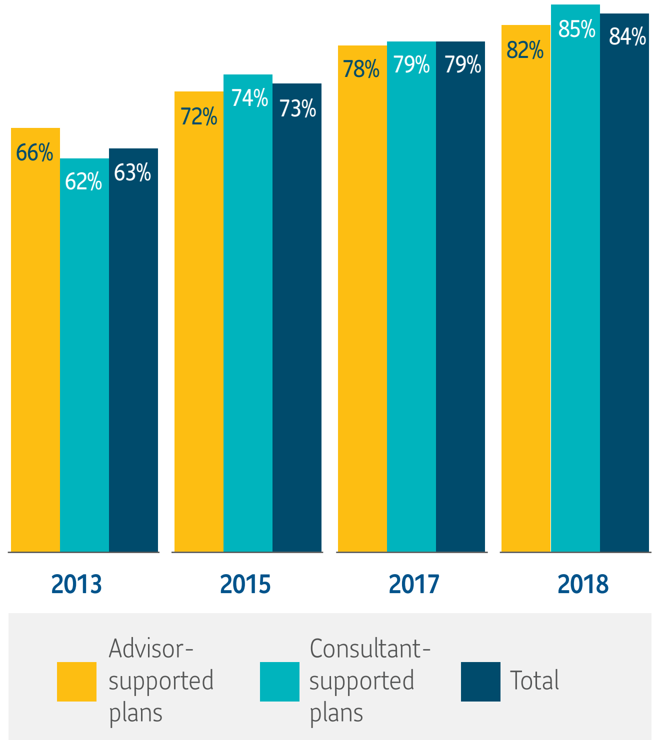
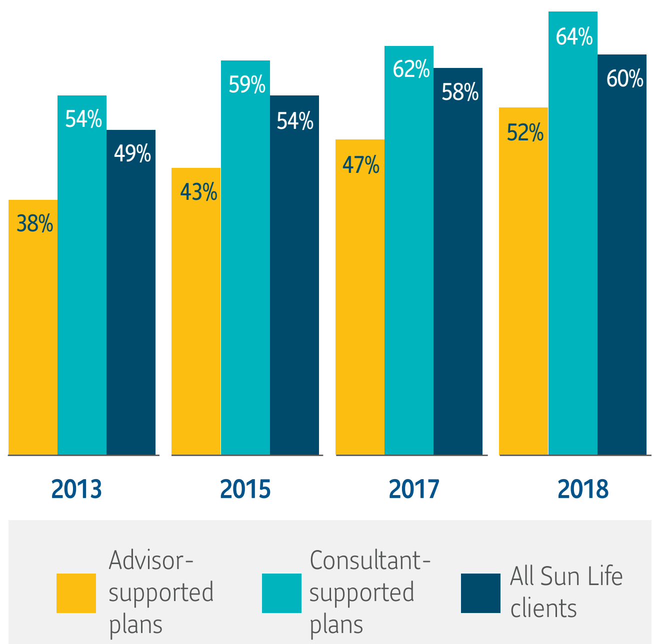


FIG 4.12: PERCENTAGE OF PLAN MEMBERS WHO HOLD TARGET DATE FUNDS



Since 2010, plan members holding target date funds increased from **37%** to **60%**.

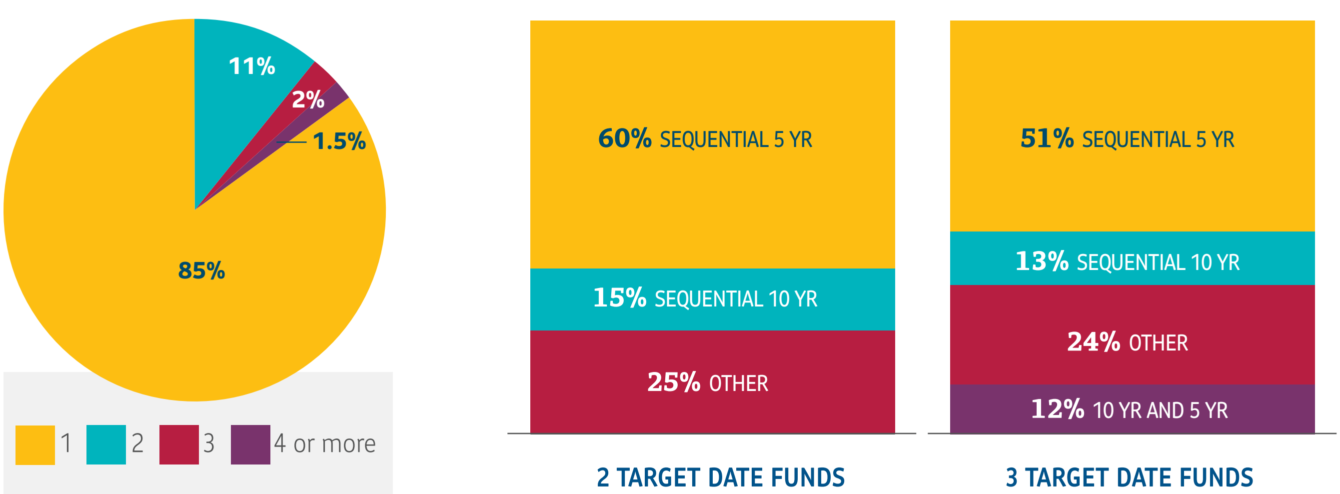
FIG 4.13: PERCENTAGE OF PLAN MEMBERS INVESTING IN THE APPROPRIATE TARGET DATE FUND

	All	Under 30	30 to 39	40 to 49	50 to 59	60 +
Retirement Series	6.2%	0.5%	1.3%	1.4%	1.4%	1.8%
2020	9.6%	0.3%	0.7%	0.9%	3.4%	4.3%
2025	12.4%	0.2%	0.6%	1.2%	9.5%	0.9%
2030	14.2%	0.2%	0.8%	4.3%	8.7%	0.3%
2035	13.5%	0.2%	1.3%	10.5%	1.4%	0.1%
2040	14.2%	0.4%	4.5%	8.6%	0.6%	0.1%
2045	14.8%	1.6%	11.4%	1.4%	0.4%	0.1%
2050	10.6%	3.8%	6.0%	0.5%	0.3%	0.1%
2055	4.5%	3.6%	0.5%	0.2%	0.1%	0.0%
2060	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
All	100.0%	10.9%	27.1%	28.8%	25.7%	7.5%
% OF PLAN MEMBERS OUTSIDE APPROPRIATE TARGET DATE RANGE		3.4%	4.7%	4.2%	2.8%	0.7%

Target date fund maturity dates used by plan members fall within the expected retirement corridor ages (in gold).

For some plan members who stray beyond the gold area, there could be a deliberate attempt to use other target date funds for specific objectives not related to retirement. Using an age 65 retirement, 85% of plan members are invested in an appropriate target date fund.

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



Almost 85% of plan members are only using one target date fund, as intended.

Consistent with our first *Designed for Savings* report in 2014, the vast majority (almost 85%) of plan members are using only one target date fund. Those using multiple maturity dates appear to be using them sequentially which is a reasonable approach.

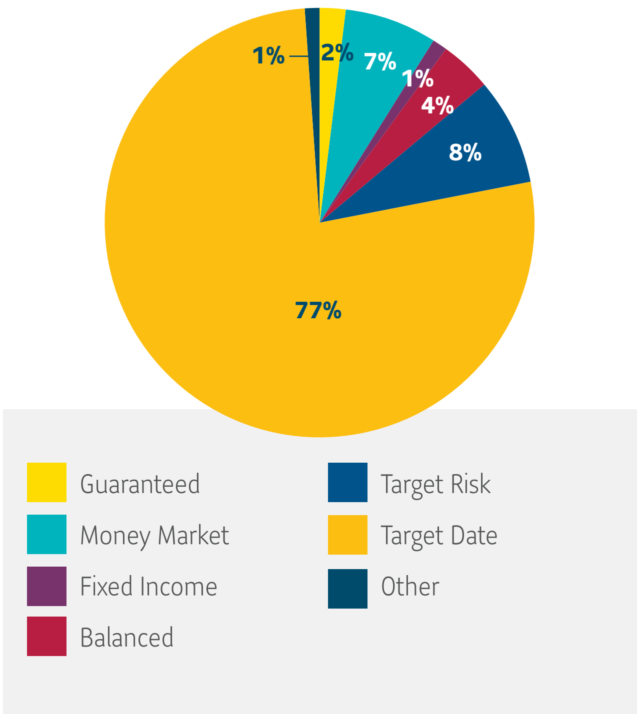
For example: "Sequential 5 year" would be a plan member investing in the 2025 and 2030 fund. "Sequential 10 year" would be a plan member investing in the 2030 and 2040 fund.

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

Age	1 fund	2 funds	3 funds	4 or more funds
Under 20	99%	1%	0%	0%
20 to 29	87%	9%	2%	2%
30 to 39	85%	11%	2%	2%
40 to 49	84%	12%	2%	2%
50 to 54	84%	12%	2%	2%
55 to 59	85%	12%	2%	1%
60 to 64	87%	10%	2%	1%
64+	89%	9%	1%	1%
Overall	87%	10%	2%	1%

Automatic de-risking vehicles such as target date funds are becoming the default of choice for many CAP sponsors. Since 2011, almost 100% of new plans with Sun Life have added target date funds to their plan's investment lineup – and all but a few are using this vehicle as the plan's default investment option.

FIG 4.16: DEFAULT FUNDS



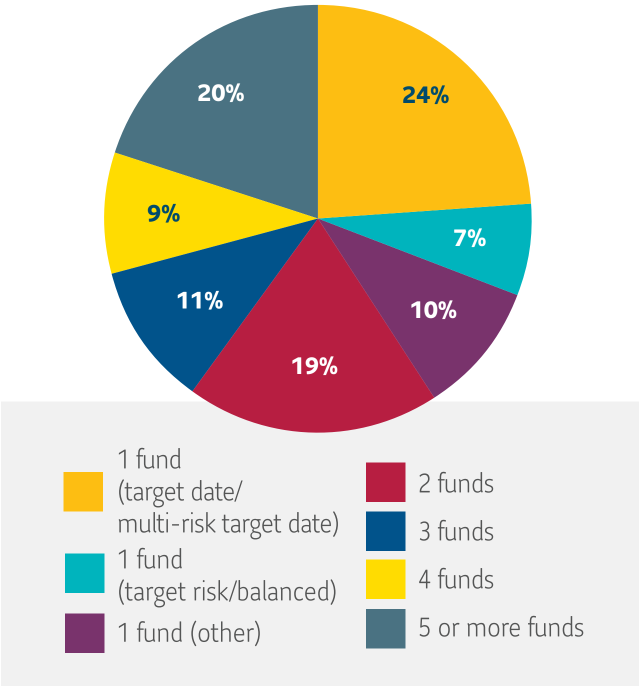
Note: The above reflects the default for plans with at least 200 plan members.

FIG 4.17: INVESTMENT FUNDS OFFERED VS. USED

Plan Assets	Average number of funds offered	Average number of funds held
Less than $2M	5.7	1.8
$2M-$5M	13.6	2.1
$5M-$10M	13.7	2.5
$10M-$25M	13.5	2.5
$25M-$50M	13.3	2.5
$50M-$100M	12.7	2.6
$100M+	12.4	2.7

Regardless of plan size or the number of options offered, most plan members limit their investments to two or three funds.

FIG 4.18: NUMBER OF FUNDS HELD BY PLAN MEMBERS



Most members holding one fund maintain diversification, as two-thirds of them are holding a balanced, target risk or target date fund.

For members who hold a single investment option, the vast majority at younger ages hold a diversified portfolio using a target date, balanced or target risk fund. As plan members age, they become more likely to hold all their assets in a guaranteed or money market fund. While these funds can play an important capital preservation role in a portfolio, 100% exposure may be too conservative as most people still need some additional growth through their retirement years, given longer life expectancy.

FIG 4.19: ASSET CLASS USED BY PLAN MEMBERS HOLDING ONLY A SINGLE INVESTMENT OPTION

Asset Class	Total % of members	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%	0%	11%	8%	8%	9%	9%	11%	14%
Money market	12%	10%	12%	11%	10%	11%	11%	12%	16%
Fixed Income	2%	0%	1%	1%	1%	2%	2%	2%	3%
Balanced	10%	13%	11%	11%	9%	9%	9%	9%	9%
Target risk	19%	8%	20%	23%	22%	21%	20%	19%	15%
Target date / Multi-risk target date	33%	61%	34%	31%	30%	30%	29%	28%	26%
Equity - Canadian	1%	0%	1%	1%	1%	2%	2%	2%	2%
Equity - US	2%	6%	1%	1%	1%	1%	1%	1%	1%
Equity - Global	1%	0%	1%	1%	1%	1%	1%	1%	1%
Equity - International	0%	0%	0%	0%	0%	0%	0%	0%	0%
Stock - Company specific	10%	2%	3%	8%	11%	13%	13%	13%	12%
Real estate / Alternative	2%	0%	3%	3%	4%	1%	3%	2%	0%

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	0%	2%	2%	2%	3%	4%	6%	8%
Money market	4%	4%	4%	4%	4%	5%	6%	7%
Fixed income	1%	4%	5%	5%	5%	6%	7%	7%
Balanced	4%	5%	7%	9%	10%	12%	12%	15%
Target risk	23%	9%	8%	8%	7%	8%	9%	10%
Target date / Multi-risk target date	27%	47%	37%	30%	27%	26%	24%	19%
Equity - Canadian	1%	7%	11%	14%	14%	14%	12%	12%
Equity - US	1%	7%	8%	8%	8%	7%	6%	5%
Equity - Global	0%	4%	5%	5%	5%	5%	5%	5%
Equity - International	0%	3%	4%	4%	3%	3%	3%	2%
Stock - Company specific	40%	8%	9%	10%	12%	12%	10%	9%

Most pension committees spend considerable time and effort reviewing their investment lineup and deciding whether it meets the evolving needs of plan members. We've experienced a number of re-enrolment opportunities where plan members are given the chance to reselect their investment options.

No other single action provides as dramatic an opportunity to transform the asset allocation experience of plan members as a re-enrolment exercise.

Plan members are usually asked to reselect their investment options during a change in the overall investment menu or a change in record keeper, but it doesn't have to be linked specifically to these two events. Based on our experience during these two events, we have consistently seen more diversified portfolios overall including, in many cases, at least a 50% reduction in assets "parked" in a money market fund.

Guaranteed interest accounts

Despite falling interest rates, Guaranteed Interest Accounts (GIAs) have remained a useful investment. They offer investment returns comparable to low risk fixed income (bond) strategies and are an excellent choice for plan members seeking a conservative option to help manage portfolio volatility and interest rate risk, especially as they grow older.

A small percentage of plans continue to use the 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, the employer will be prevented from introducing a solution, such as target date funds, unless the change is negotiated.

A new GIA solution with daily liquidity, the Guaranteed Daily Interest Account (GDIA), may be an option to replace a traditional money market solution, due to its higher net-of-fee yield.

FIG 4.21: GIAs REMAIN A USEFUL OPTION

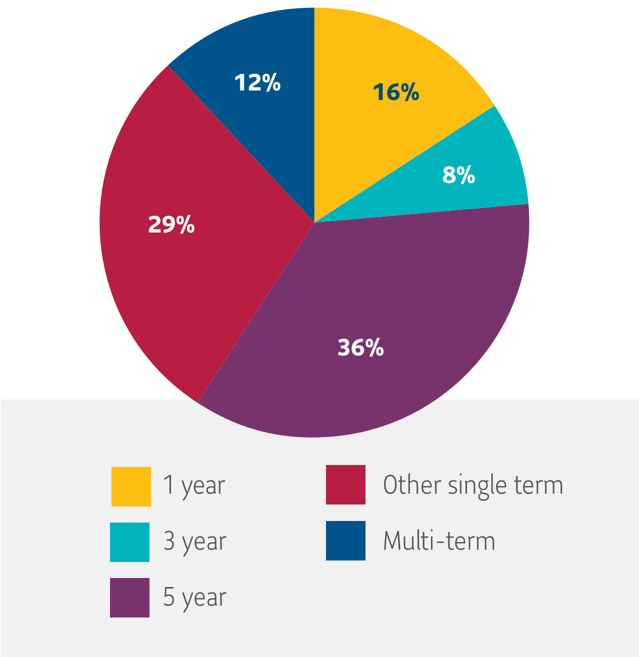


FIG 4.22: PLAN MEMBER USE OF GIAs INCREASE WITH AGE

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

CAP members approaching retirement tend to use the GIA option more in order to de-risk their portfolio. When this option is not available, they tend to select a combination of fixed income and money market funds.

Those 65 and older have, on average, about 7% of their investments allocated to GIAs. This suggests that when the average plan member has access to this option, it is used in a reasonable manner – as a small portion of their portfolio.

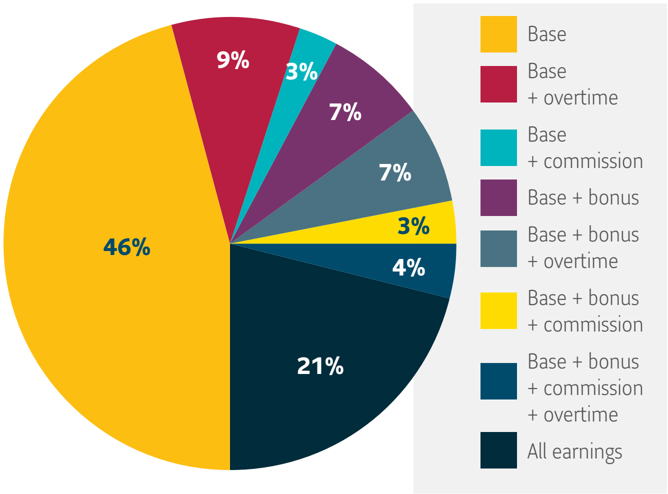
GDIA works the same way as 1 to 5 year term GIAs, but offers more flexibility without incurring a market value adjustment.

05

Contributions

While a number of factors can influence a plan member's success in saving for the future, none is as critical as the rate of contributions. "Money in", is still the greatest determinant of "money out" in retirement. For this reason, plan design features such as the definition of earnings for contribution purposes, the level of required contributions, and the degree of company matching are considerations that can have a significant impact on a plan member's ultimate retirement income.

FIG 5.0: EARNINGS DEFINITIONS FOR CONTRIBUTIONS

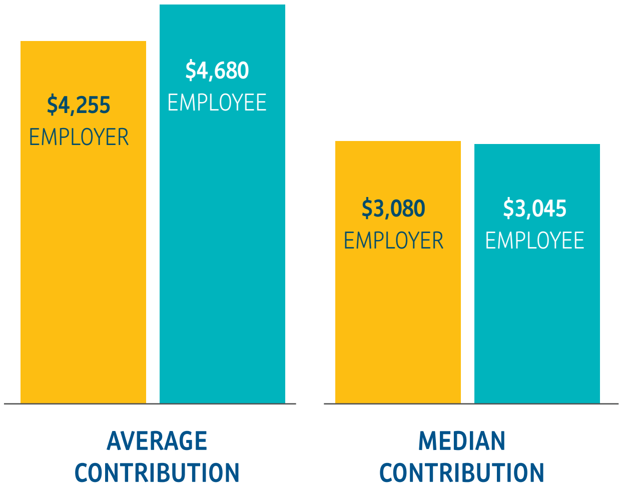


Note: the "all earnings" category can include not only base + bonus + overtime + commission but potentially other forms of compensation that an employer may choose to include i.e. shift premiums, car allowance, special payments. Other options listed in the above legend were specifically identified by plan sponsors as being included in the definition of earnings for their plan.

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

The earnings definitions for savings plan contributions always include base cash compensation but can vary widely to include other employer-paid income sources.

FIG 5.1: AVERAGE AND MEDIAN YEARLY CONTRIBUTION



Average employee contribution levels experienced a modest increase over 2017.

FIG 5.2: CONTRIBUTIONS BY PLAN ASSET SIZE

Plan asset size	Average member contribution	Median member contribution	Average sponsor contribution	Median sponsor contribution
Less than $2M	$2,745	$1,740	$2,030	$1,395
$2M-$5M	$3,510	$2,410	$3,285	$2,340
$5M-$10M	$3,820	$2,675	$3,280	$2,400
$10M-$25M	$4,265	$2,995	$3,725	$2,765
$25M-$50M	$4,660	$3,435	$4,245	$3,330
$50M-$100M	$4,400	$3,020	$3,975	$2,935
$100M+	$5,345	$3,405	$4,980	$3,700

FIG 5.3: CONTRIBUTIONS BY PLAN MEMBERSHIP SIZE

Plan membership	Average member contribution	Median member contribution	Average sponsor contribution	Median sponsor contribution
1-99	$3,535	$2,345	$3,065	$2,065
100-199	$4,025	$2,795	$3,865	$2,780
200-499	$4,150	$2,950	$3,930	$2,915
500-999	$5,020	$3,535	$4,625	$3,280
1000+	$5,015	$3,175	$4,515	$3,345

FIG 5.4: CONTRIBUTION BY PLAN TYPE

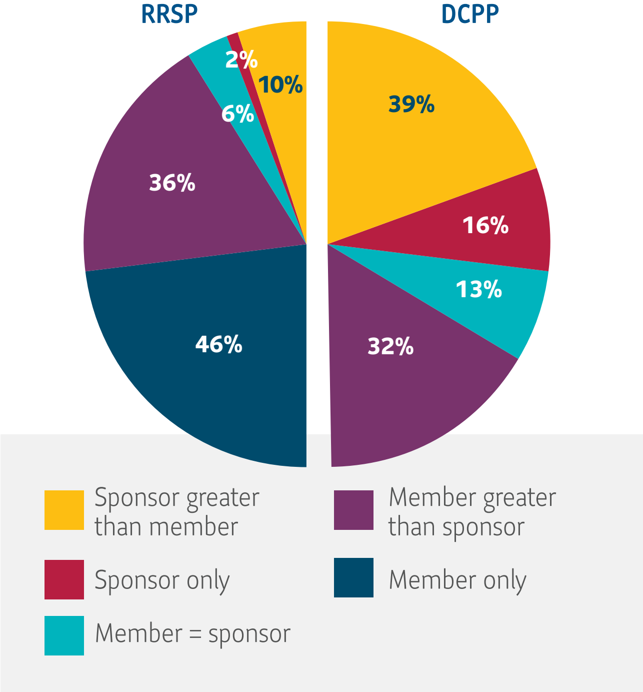
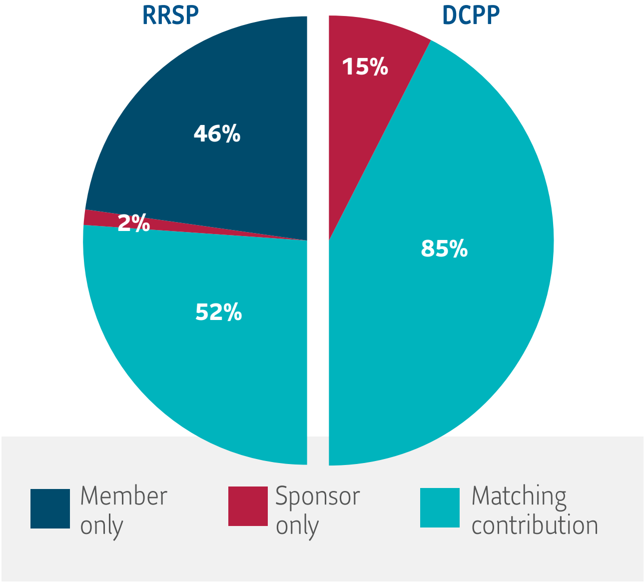


FIG 5.5: PLAN SPONSOR CONTRIBUTION BY PLAN TYPE



In the last 5 years, research has shown a modest shift where DCPP sponsors have reduced sponsor-only arrangements and moved to matching formulas. Group RRSP formulas have moved in the opposite direction, with member-only formulas being reduced in favour of more matching arrangements.

The critical role of plan design

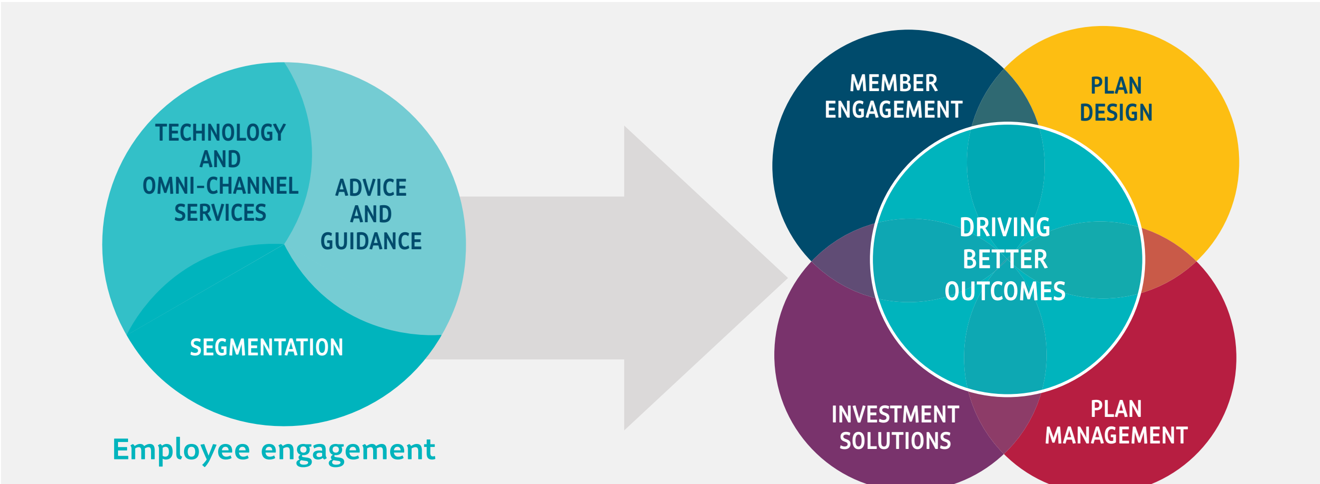
As an industry, we focus extensively on increasing plan member engagement, but engagement is only one of four key drivers that contribute to a successful retirement plan. The plan sponsor has direct control over the other three:

1 PLAN DESIGN:
Design decisions range from participation rules, to the enrolment process, to contribution rules and rates. All of these decisions can contribute to a plan's success.

2 PLAN MANAGEMENT:
This includes governance and oversight to ensure that the plan complies with best practices guidelines and legislation.

3 PLAN INVESTMENTS:
An investment line-up with choice, high quality managers, and the option of choosing a pre-built one-stop solution is essential to plan health and plan member success.

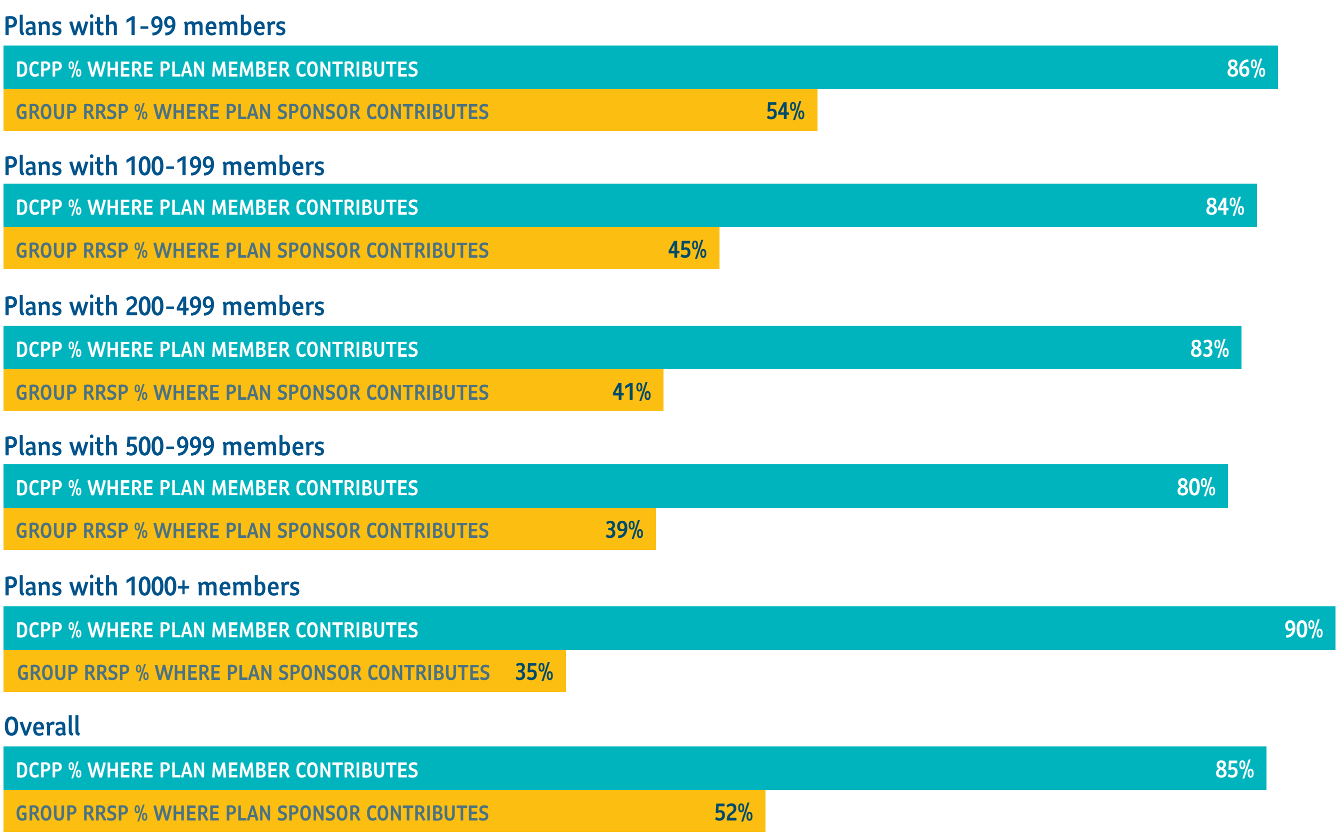
FOUR KEY DRIVERS OF A SUCCESSFUL RETIREMENT PLAN



Source: TIAA

But is the plan design piece of the puzzle reviewed often enough by plan sponsors? Here's a telling statistic. Sun Life administers nearly 7,275 plans, representing more than 1.3 million plan members. For every five plans that undergo an amendment each year, four make a change to the investment lineup while just one makes a design-related change (such as changing the waiting period, adding a new savings option such as a TFSA, or changing the contribution formula). While investment solutions should be reviewed and updated regularly, such changes don't replace the need to review plan design from time to time. Plan design enhancements can be a powerful contributor to savings success, as well as support talent recruitment and retention efforts and increase employee engagement..

FIG 5.6: PLAN SPONSOR CONTRIBUTIONS BY PLAN MEMBERSHIP SIZE



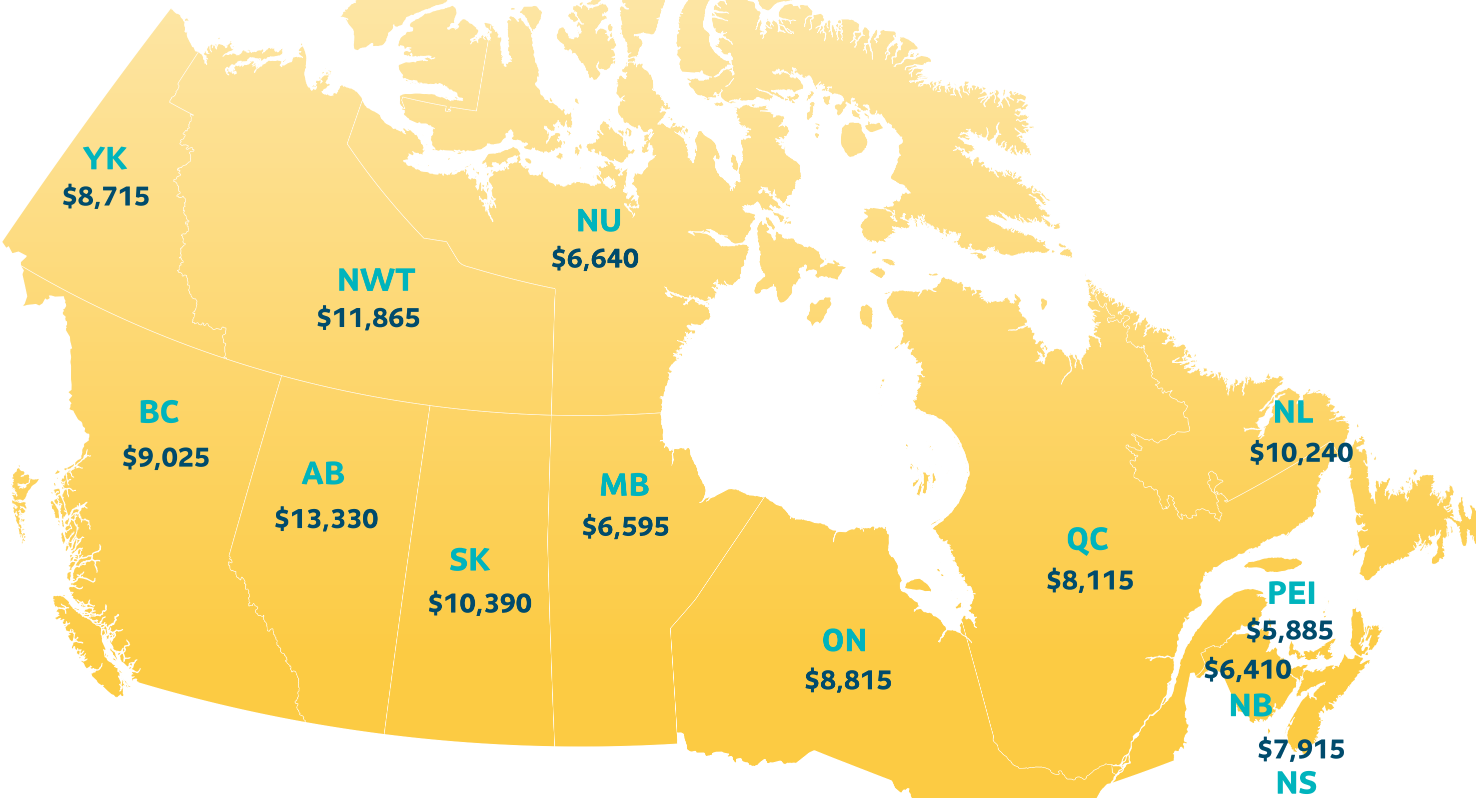
Matching formulas, where the member contributes more than the sponsor, can encourage higher overall contributions.

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%	43%	5%	1%	0%	55%
Affiliations	92%	65%	7%	3%	1%	32%
Consumer Discretionary	87%	49%	12%	2%	1%	49%
Consumer Staples	82%	38%	16%	2%	1%	57%
Energy	64%	70%	36%	3%	0%	25%
Financials	84%	50%	16%	2%	0%	47%
Healthcare	88%	47%	9%	2%	0%	50%
Industrials	88%	51%	11%	2%	1%	47%
Technology	71%	53%	29%	1%	0%	46%
Materials	82%	40%	17%	1%	1%	57%
Professional Services	88%	50%	13%	1%	0%	48%
Public Services	98%	47%	3%	0%	0%	50%
Recreation	56%	60%	44%	0%	0%	40%
Telecommunication Services	83%	63%	0%	0%	0%	37%
Utilities	96%	57%	4%	0%	0%	43%
Other	94%	50%	6%	0%	0%	50%

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



Geographically, these combined average annual contributions are consistent with earnings information tracked by Statistics Canada*. Since most plan member contributions are based on a percentage of earnings, it is reasonable to expect that in parts of the country where wages are highest, plan member contributions will also be higher, triggering a higher contribution by plan sponsors in absolute dollar terms.

Source: Statistics Canada, CANSIM, table 281-0027
**Several plan members in NWT with high contributions increase the average.*

FIG 5.9: ANNUAL CONTRIBUTIONS BY AGE

Combined payroll contributions – plan sponsor and plan member		
Age	**Average**	**Median**
Under 20	$1,630	$1,145
20 to 29	$6,400	$4,855
30 to 39	$8,975	$6,730
40 to 49	$10,315	$7,625
50 to 54	$10,190	$7,345
55 to 59	$9,910	$7,055
60 to 64	$9,050	$6,270
65 +	$8,245	$5,500

FIG 5.10: ANNUAL CONTRIBUTIONS BY GENDER

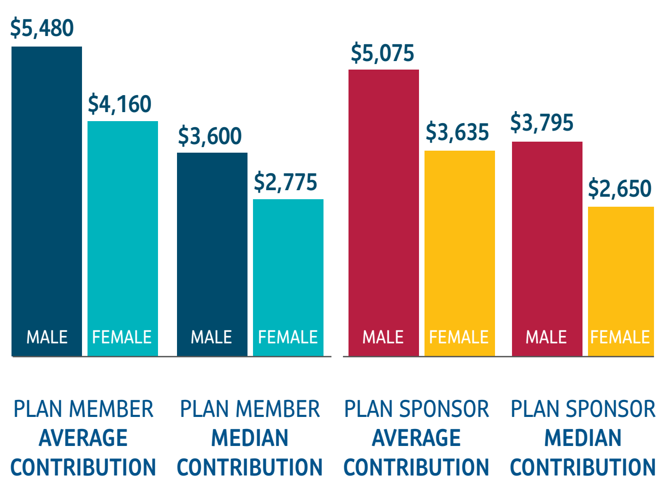


FIG 5.11: MEDIAN EMPLOYEE CONTRIBUTIONS BY PLAN TYPE AND PLAN ASSETS

Median	DCPP	RRSP	NREG	EPSP
Less than $2M	$1,790	$2,000	$3,755	$3,595
$2M-$5M	$2,220	$2,855	$5,300	$4,020
$5M-$10M	$2,320	$2,985	$2,705	$5,140
$10M-$25M	$2,715	$3,370	$3,440	$3,730
$25M-$50M	$3,245	$3,695	$3,985	$2,575
$50M-$100M	$2,995	$3,345	$4,270	$3,035
$100M+	$2,960	$3,345	$4,785	$5,305

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, non-registered plans and EPSPs) as part of a flexible, multi-pronged compensation package.

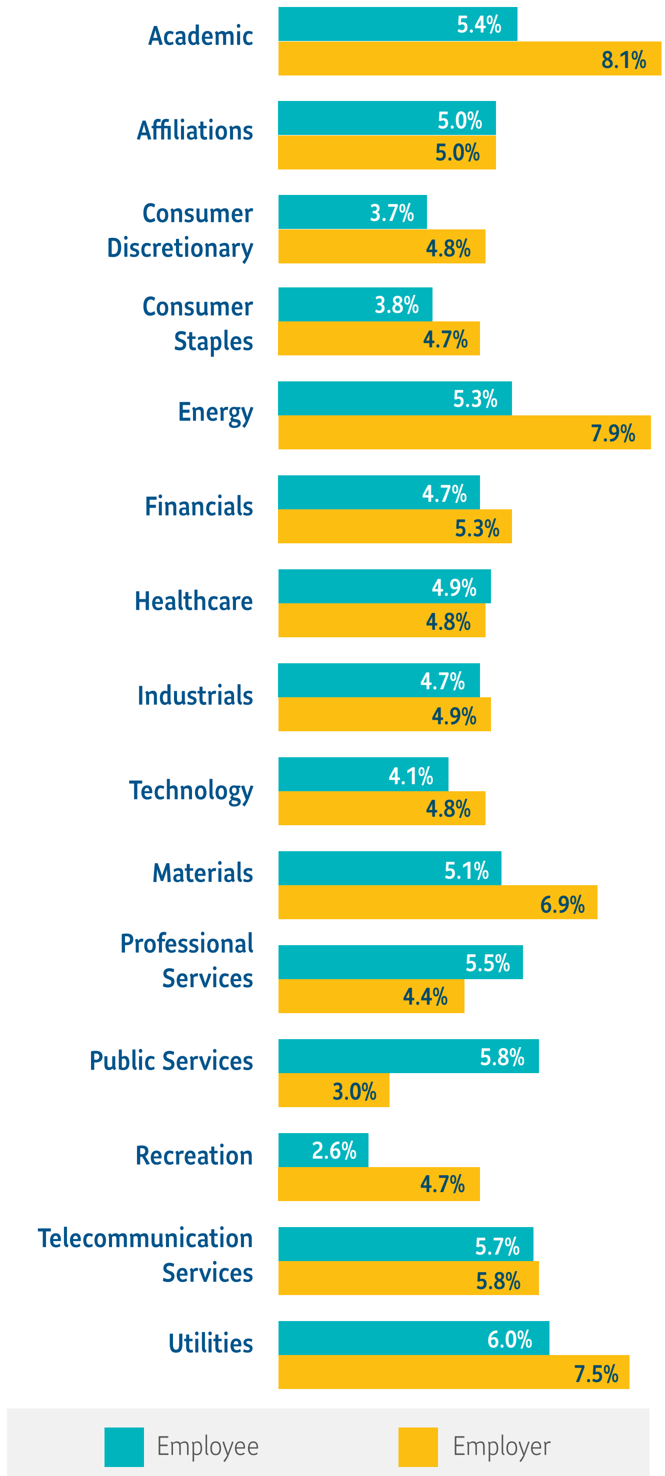
FIG 5.12: MEDIAN EMPLOYER CONTRIBUTIONS BY PLAN TYPE AND PLAN ASSETS

Median	DCPP	RRSP	DPSP	NREG	EPSP
Less than $2M	$1,880	$1,750	$1,420	$2,500	$3,955
$2M-$5M	$2,470	$2,520	$2,255	$4,630	$1,970
$5M-$10M	$2,640	$2,680	$2,350	$1,265	$2,320
$10M-$25M	$3,250	$2,500	$2,490	$1,980	$1,690
$25M-$50M	$3,655	$3,200	$2,815	$2,100	$1,280
$50M-$100M	$3,525	$2,555	$2,120	$2,500	$1,000
$100M+	$4,030	$1,560	$2,755	$3,200	$2,000

Non-registered includes a significant number of employees that are receiving employer contributions beyond the tax-deferred limit

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 the higher income earners once they reach tax-sheltered 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



The benefits of employer contributions are **not limited to tax-deferred savings products**.

06

Account balances

Factors such as household income, age, gender and job tenure influence account balances – and these factors are intertwined.

Account balances vary considerably based on plan member demographics. Factors such as household income, age, gender and job tenure influence account balances – and these factors are intertwined. Not only does income tend to rise somewhat with age (making saving more affordable), older plan members also tend to save at higher rates. 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.

Similarly, plan member retirement income needs and account balance targets will vary depending on lifestyle changes, as they get closer to retirement, as well as evolving retirement goals and aspirations. There is a range of opinion on the percentage of pre-retirement income needed for retirement, but what's critical is that plan members consider and plan for their lifestyle changes and retirement income needs during their mid-career stage, not at the end of their career when adjustments may be too late.

As CAPs continue to evolve in Canada, we expect that plan members and plan sponsors will become more engaged in the discussion around retirement income – and planning for how account balances will meet their needs.

Average and median account balance

While account balances appear low in the following illustrations, plan members aged 50+ in particular may have a deferred vested pension from a legacy DB plan to support retirement incomes. Employees may also have balances from previous employer plans invested in a personal retail account. 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 in workplace savings plans.

FIG 6.0: AVERAGE AND MEDIAN ACCOUNT BALANCE BY AGE

Age band	Average balance	Average payroll contribution	Median balance	Median payroll contribution
Under 20	$2,215	$1,630	$645	$1,145
20 to 29	$16,230	$6,400	$9,170	$4,855
30 to 39	$43,050	$8,975	$24,310	$6,730
40 to 49	$77,540	$10,315	$44,610	$7,625
50 to 54	$99,585	$10,190	$54,825	$7,345
55 to 59	$111,050	$9,910	$60,560	$7,055
60 to 64	$111,575	$9,050	$58,450	$6,270
65 +	$102,485	$8,245	$45,360	$5,500

The difference in account balances by gender is likely attributable to the fact that the average wage for women trails that of men (it's about 70% of male full-time wages[1]), and women take greater time out of the workforce when having and raising a family.

[1] *Statistics Canada, CANSIM, table 202-0102*

> Interestingly, despite women saving on average approximately 25% less than males, their account balances over the past five years have grown at a rate of 7% more than the account balances for men.

FIG 6.1: AVERAGE AND MEDIAN ACCOUNT BALANCE BY GENDER AND ACCOUNT GROWTH

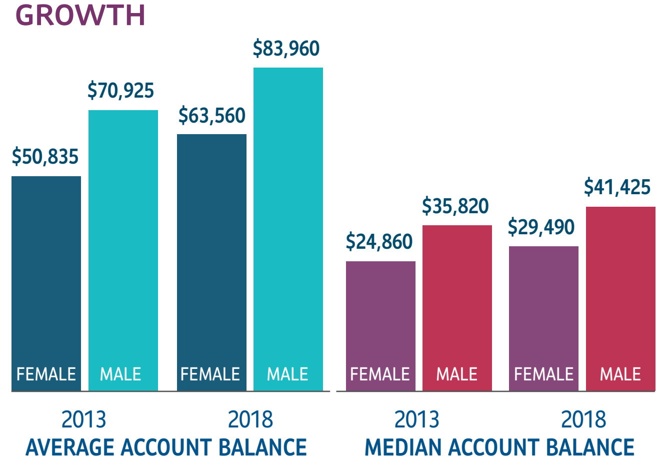


FIG 6.2: AVERAGE AND MEDIAN ACCOUNT BALANCE BY GENDER AND INDUSTRY

Industry sector	Average account balances		Median account balances	
	Female	Male	Female	Male
Academic	$118,330	$178,140	$65,125	$116,100
Affiliations	$39,890	$49,400	$19,720	$20,575
Consumer Discretionary	$49,300	$67,820	$21,475	$30,770
Consumer Staples	$41,465	$57,160	$18,120	$25,540
Energy	$102,070	$120,125	$61,370	$73,250
Financials	$68,695	$87,475	$31,245	$37,980
Healthcare	$57,280	$74,135	$25,785	$32,260
Industrials	$52,830	$72,055	$25,590	$34,595
Technology	$73,235	$87,715	$39,800	$48,800
Materials	$71,090	$93,000	$38,910	$54,170
Professional Services	$73,450	$81,515	$32,415	$29,470
Public Services	$48,090	$68,180	$19,050	$27,390
Recreation	$74,545	$117,855	$66,165	$77,225
Telecommunication Services	$55,870	$67,255	$20,745	$34,956
Utilities	$73,860	$97,105	$52,330	$69,115

FIG 6.3: ACCOUNT BALANCES AND CONTRIBUTIONS BY INDUSTRY

Industry sector	Account balances		Total contributions	
	Average	Median	Average	Median
Academic	$145,205	$83,555	$12,630	$11,465
Affiliations	$43,640	$20,010	$6,270	$5,090
Consumer Discretionary	$59,400	$25,795	$8,120	$6,240
Consumer Staples	$50,770	$21,925	$7,760	$6,240
Energy	$114,590	$69,180	$21,980	$19,930
Financials	$76,185	$33,675	$10,940	$8,555
Healthcare	$63,075	$27,765	$9,905	$6,715
Industrials	$65,950	$31,480	$9,480	$7,385
Technology	$83,170	$45,465	$12,230	$10,140
Materials	$87,940	$50,395	$13,020	$10,910
Professional Services	$76,075	$31,510	$10,635	$8,135
Public Services	$59,825	$22,725	$9,150	$7,645
Recreation	$100,845	$70,275	$6,440	$4,825
Telecommunication Services	$62,185	$28,205	$12,205	$11,455
Utilities	$89,380	$62,480	$11,610	$10,915

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).

How's retirement looking?

Working Canadians

22%
have withdrawn money from their retirement savings

On average they're carrying
$18,615
in non-mortgage debt

71%
carry credit card debt month to month

Expect to retire at
63
on average

Among those who expect to be working at 66:
51% will do so because they want to
49% will do so because they need to

Retired Canadians

25%
don't pay off their non-mortgage debt each month

On average they're carrying
$10,436
in non-mortgage debt

65%
carry credit card debt month to month

Retired at
59
on average

Among those still working at 66:
71% did so because they want to
29% did so because they need to

Source: The Sun Life Financial Barometer, 2019

How plan sponsors can help employees achieve better outcomes

5 easy steps

1 **Immediate eligibility.** Consider enrolling employees even before they receive that first pay.

2 **Consider providing an employer match.** Employer match is the feature most valued by employees saving in the workplace.

3 **Consider a starter savings rate** as a nudge to attract the full employer match (if applicable)

4 **Revisit your default investment options** if it's not a target date fund. Our research shows that target date fund investors outperform those who go it alone (see figure 4.8B).

5 **Provide access to advice.** Although plan members have access to many tools and services to help them make their investment decision, those who work with an advisor are twice as satisfied with how much they're saving for retirement.

Source: Sun Life Canadian Unretirement Index, 2019

07

Voluntary plan-type highlights

Employee share purchase plans

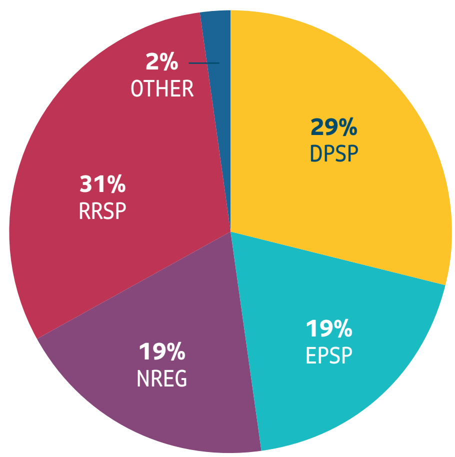
Approximately one in five private sector publicly traded employers offers an Employee Share Purchase Plan (ESPP) with payroll deductions, or includes their company stock as an investment option in their company savings plan.

These stock ownership initiatives 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, employees who are shareholders may feel more commitment and loyalty to their employer, leading to reduced employee turnover.

20% of private sector publicly traded employers offer an ESPP or include company stock as an investment option in their group savings plan.

The convenience of payroll deduction – resulting in dollar cost averaging of the company's stock – and institutional pricing due to bulk purchases makes it an attractive product for a publicly traded company to offer as a complement to a retirement savings plan.

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 - $5,000. Offering company stock as an investment option is relatively uncommon, and effective July 1, 2016, additional investments in company stock are no longer permitted in DCPPs. DCPPs holding company stock will be given until July 1, 2021 to divest company stock from their holdings.[1]

[1] *Pension Benefits Standards Regulations, 1985*

In the last five years, plan members who own company stock has decreased approximately five percent, from 24% in 2013 to 19% in 2018. Total assets dropped proportionately from 15% to 10%. This is completely dependent on the value (and volatility) of each company's stock.

FIG 7.1: COMPANY STOCK ASSETS BY MEMBER OWNERSHIP*

Year	% of members who own stock	% of total assets invested in company stock
2013	24%	15%
2015	22%	13%
2017	21%	11%
2018	19%	10%

FIG 7.2: ESPPs BY ACCOUNT BALANCE*

Year	Average member stock balance	Median member stock balance
2013	$39,355	$13,335
2015	$41,120	$12,400
2017	$42,790	$13,970
2018	$39,300	$12,375

**Includes all plans where company stock is available.*

FIG 7.3: ESPP ACCOUNT BALANCE BY INDUSTRY

Industry Sector	Average	Median
Oil & Gas*	$31,225	$11,940
Materials	$23,990	$6,795
Technology	$16,970	$7,360
Industrials	$20,520	$6,860
Healthcare	$24,680	$9,055
Financials	$51,665	$17,540
Energy	$30,250	$21,130
Consumer Staples	$20,610	$6,640
Consumer Discretionary	$34,405	$8,860

FIG 7.4: ESPP PARTICIPATION BY INDUSTRY

Industry Sector	Based on # of plan members	Based on total ESPP assets
Oil & Gas	16%	13%
Materials	2%	1%
Technology	2%	1%
Industrials	9%	5%
Healthcare	1%	1%
Financials	41%	55%
Energy	16%	13%
Consumer Staples	1%	1%
Consumer Discretionary	27%	23%

**In these charts, oil and gas has been separated from the energy industry.*

FIG 7.5: ESPP MEMBER INVESTMENT BEHAVIOUR – 2018 ONLY

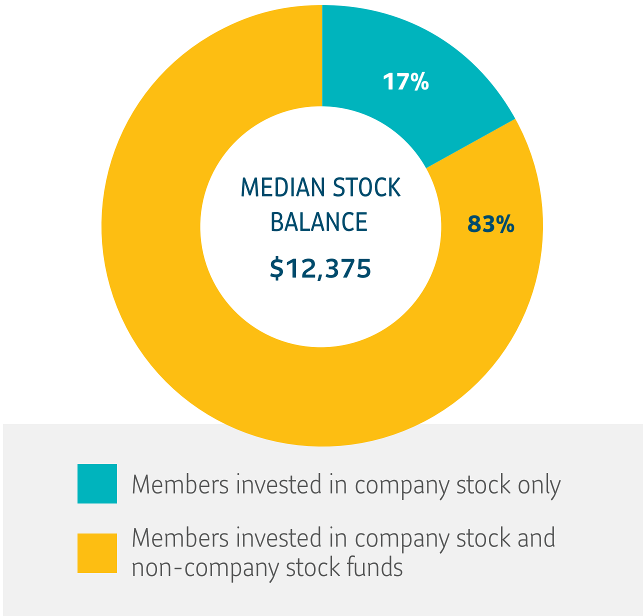
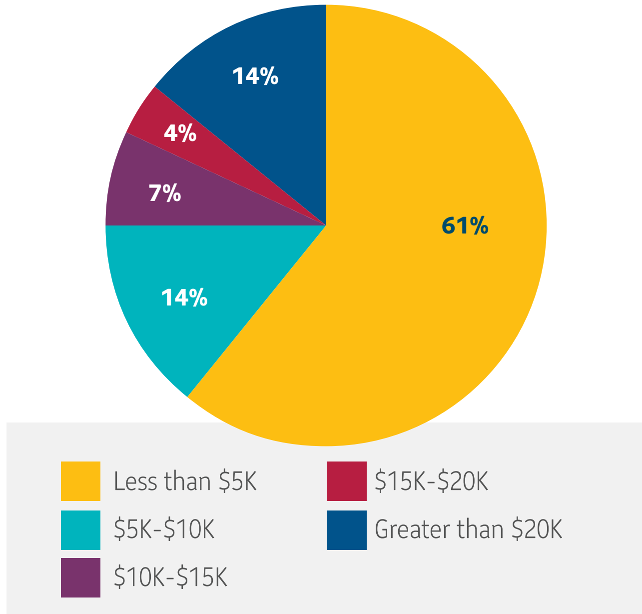


FIG 7.6: TFSA MEMBER ACCOUNT BALANCES



Tax-free savings accounts

2019 celebrates the 10th anniversary of the Tax-Free Savings Account (TFSA). The TFSA has given Canadians a new way to save since its introduction in 2009. While there were initial concerns that plan members might redirect longer-term saving to a TFSA to gain more withdrawal flexibility that has not been the case. We have seen no evidence of this behaviour over the past 10 years. Generally, plan members are making net new TFSA deposits and investing in market-based funds to take advantage of the tax-free investment growth.

TFSA snapshot

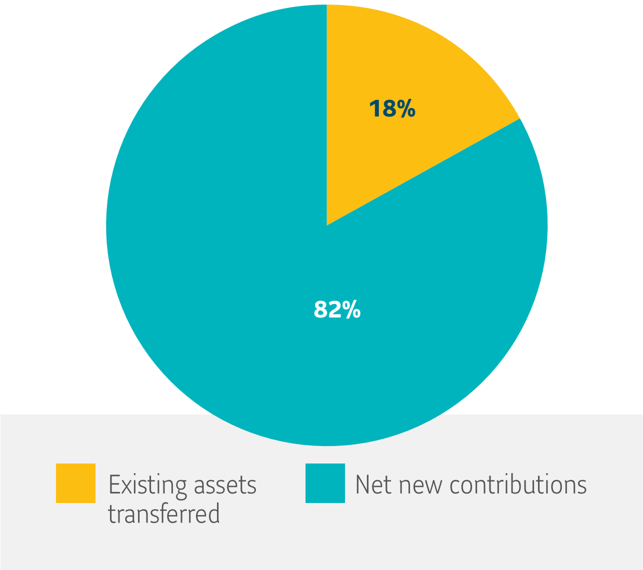
2019 is the TFSA's
10th anniversary

13.5 million
Canadians have a TFSA

$274.2 billion
in TFSA assets (less than $1 billion of which is in Group TFSAs)

Source: Strategic Insight and Statistics Canada

FIG: 7.7: TFSA MEMBER CONTRIBUTION SOURCES



One in five employees are redirecting existing assets from non-registered products to their TFSA, making more tax-efficient use of their savings. Most deposits, however, involve net new contributions, meaning that plan members with access to a TFSA at work are saving even more.

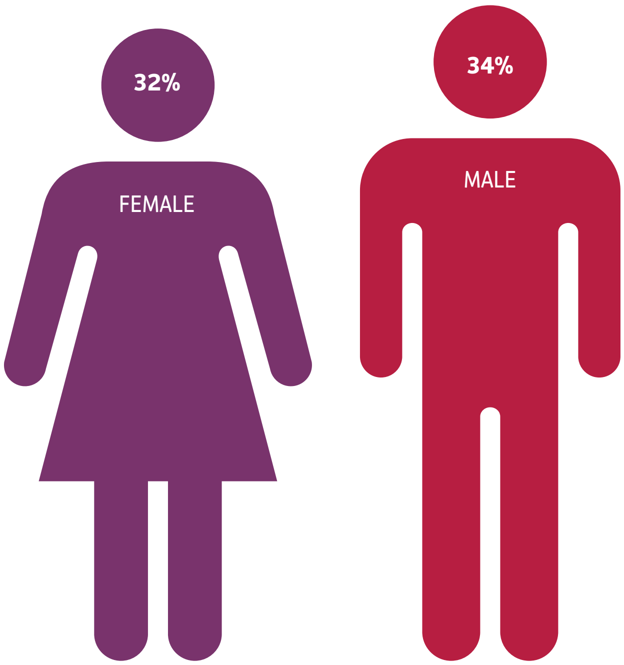
Withdrawals from TFSAs

TFSAs that are part of a workplace plan allow withdrawals, given their attractiveness as a shorter-term savings vehicle. However, the vast majority of employees saving in a TFSA at work are using it for mid-long term savings purposes.

FIG 7.8: TFSA WITHDRAWALS BY AGE

Age	% of members who have made withdrawal by age group
Under 20	20%
20 to 29	32%
30 to 39	36%
40 to 49	36%
50 to 54	32%
55 to 59	29%
60 to 64	28%
65 and greater	21%

FIG 7.9: TFSA WITHDRAWALS BY GENDER

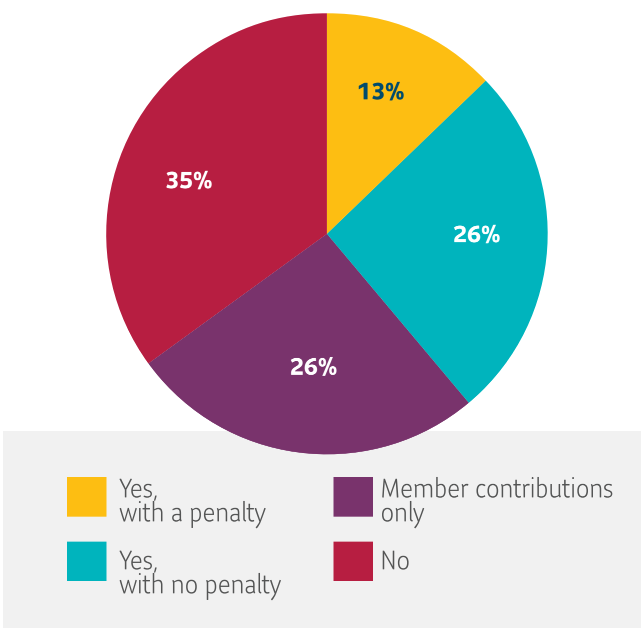


Withdrawals from Group RRSPs

Of employers offering a group RRSP, approximately two-thirds allow plan members to make withdrawals while employed. Thirteen 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 are ineffective at preventing withdrawal activity, whereas restricting withdrawal activity while employed is resulting in more money staying in the workplace plan.

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.

FIG 7.10: PERCENTAGE OF PLANS THAT PERMIT WITHDRAWALS



When a DPSP is available, employer contributions typically vest after two years of participation and the contributions must stay in the plan as long as the employee works for the employer.

There is **no difference** in the amount or frequency of RRSP withdrawals across gender.

FIG 7.11: RRSP WITHDRAWALS BY AGE

Age	% of members who have made withdrawal by age group
20 to 29	8.7%
30 to 39	9.9%
40 to 49	10.2%
50 to 54	9.3%
55 to 59	8.9%
60 to 64	8.2%
65 and greater	9.3%

Note: These percentages exclude withdrawals due to the Home Buyers' and Lifelong Learning Plans, terminations, retirements and deaths.

More than 75% of total RRSP withdrawals are made by those under the age of 50, reflecting the increased pressures faced by these members to use assets for other expenditures in most cases. On the other hand, older members are less inclined to withdraw assets as they near retirement.

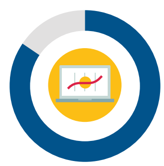
If members are making cash withdrawals from their Group RRSP, adding a TFSA to a plan might prove an interesting option. It is better suited as an emergency fund and is very effective for short, mid and long-term savings.

08

Fostering engagement in a digital world

Digitize it. Mobilize it. Personalize it. Canadians have embraced all things digital.

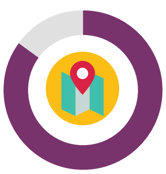
74% of us are online between three and four hours a day. We're buying more online than ever before – food, travel, household goods and clothing.[1]



More than three-quarters (**76%**) of Canadians are using digital channels (that's online + mobile) to conduct most of their banking transactions.[3]

Thanks to smartphones and tablets, we're no longer deskbound as we surf, shop and connect with others. **57%** of us are surfing the web using mobile devices in 2019, up from just 24% in 2015.[1]

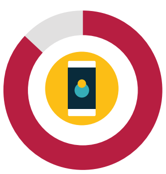
56% of Canadians reported using mobile banking in the last year. That's up considerably from 2016 and 2014 results, at 44% and 31% respectively.[3]



85% of our time on mobile devices is spent on apps.[2]

We use mobile devices for **32%** of our transactions. That's expected to increase to 41% in five years.[3]

While **87%** of us made an online purchase in 2018, over half of those purchases were made through a mobile device.[1]

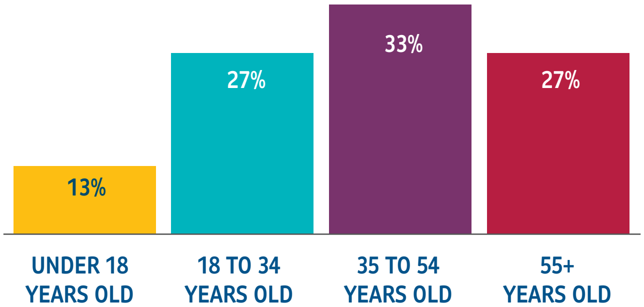


91% of Canadians say that banking has become more convenient because of new technologies.[3]

[1] Source: CIRA, n.d.
[2] Source: comScore MMX Multi-Platform / Mobile Metrix, Dec 2017
[3] Source: Canadian Banking Association, 2019

AND IT ISN'T JUST FOR MILLENNIALS

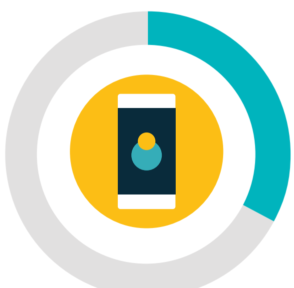
Digital banking is across all generations, but highest with those aged 35 through 54. While 33% of this age group banks digitally, they make up only 26% of the Canadian population.



Use is multi-platform (desktop and mobile) across all age groups but the rapidly evolving trend is moving to mobile only. In 2017, we used mobile devices 32% more than desktop computers. Compare that to the previous year, when we used mobile devices 17% less than our desktops.

Source: comScore Inc.

33%
of Canadians aged 35 through 53 bank digitally



32%
of Canadians use mobile more than desktop

Our online experience is now a mobile experience. Canadians have among the highest adoption rates in the world for online and mobile banking.

The mobile revolution continues in our industry, with mobile technologies used the most to access financial services.

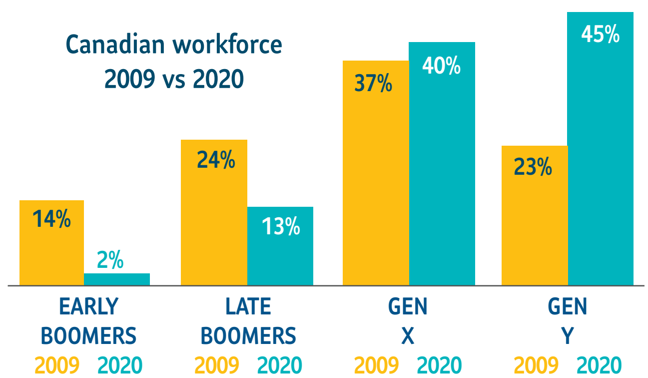
At Sun Life, within a year, we've seen an increase of **67%** in mobile visits, for a total of more than 1.6 million annual visits to the **my Sun Life mobile app**.

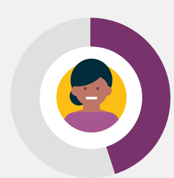
CHANGING CONSUMER EXPECTATIONS MEANS CHANGING WORKPLACE EXPECTATIONS

For the first time, we have five generations in the workforce: Early Boomers, Late Boomers, Generation X, Generation Y and Generation Z.

- The Early Boomer on your team used dial-up internet for the first time after age 45.
- The new Gen Y manager never had to do a school project without Google.
- Your Gen Z intern saw their first iPhone when they were 10.

That means expectations and preferences vary widely.

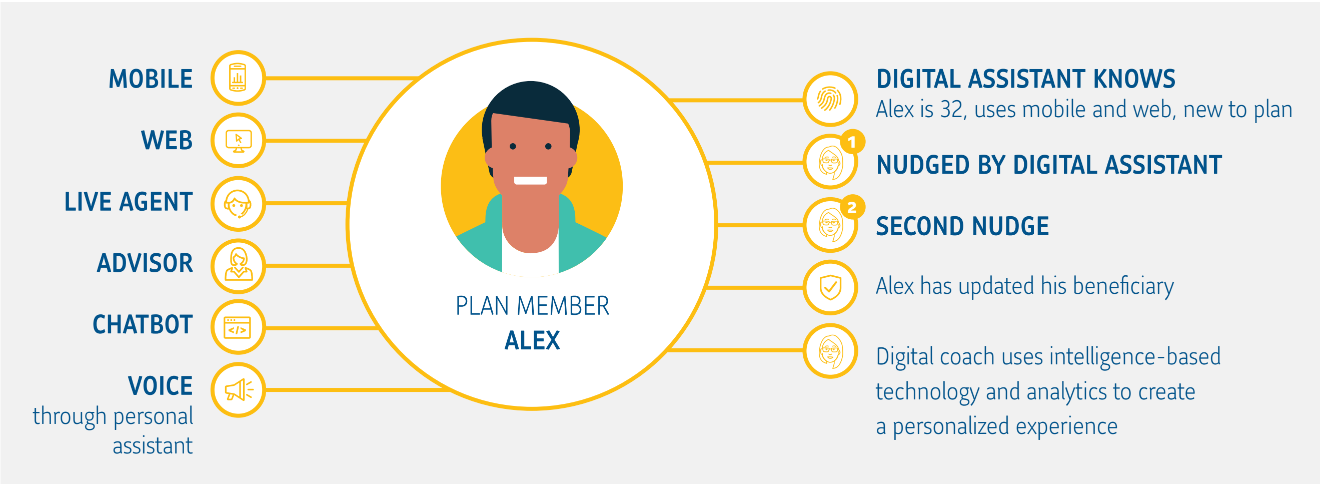




By 2020, Generation Y will make up **45%** of the workforce, where just 10 years ago, Generation X and Boomers dominated those same workplaces.

Generation Y, in particular, is driving new expectations. Ones that align to enriched convenience and insight.

These employees expect omni-channel support. No matter what channel or combination of channels they use to connect with providers, a seamless consumer experience is what they're looking for.



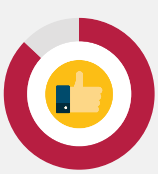
They want to access information on the go, through their mobile device and have the option to use interactive tools, like digital assistants, chatbots and voice activation. They want advisors and customer care centres available when they need more support or more complex services.

THIS DEMAND FOR DIGITAL IS A WIN-WIN FOR WORKPLACE PLANS.

Employees want digital channel options to manage their plans. They want to self-serve, especially for the simple things.

And digital's flexible interactions improve engagement and smart decision-making.

Sun Life digital experiences show that outcomes are better with digital solutions. They can improve savings rates.



In 2018, when a starter savings rate was presented to new hires during enrolment, **88% accepted the recommendation or increased the rate**.

DIGITAL ENROLMENT CREATES A LONG-TERM RELATIONSHIP

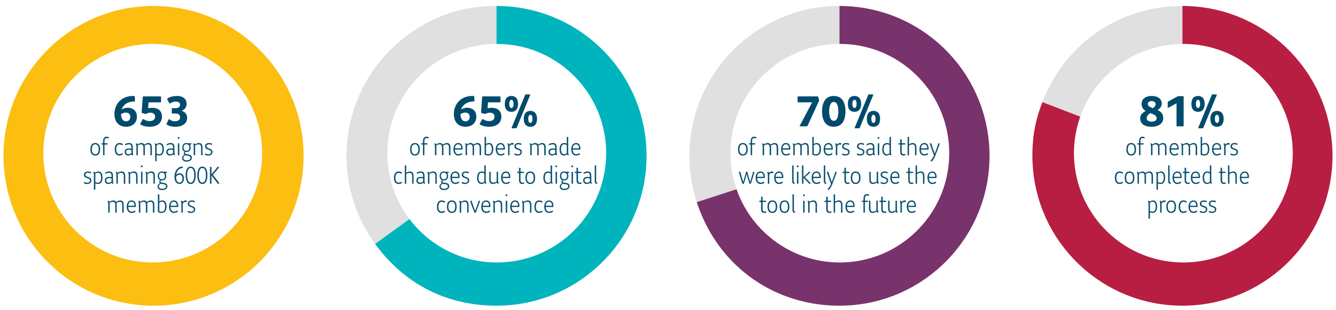
When we compare enrolment rates on paper versus digital enrolment across plans, the difference is astounding. 2 in 10 register when offered a paper-only enrolment process. Compare that to a digital-only enrolment process – all 10 out of 10 employees register.

2 of 10
employees register when offered paper enrolment. **1 in 10** returns at least once.

10 of 10
employees register when offered digital enrolment. **8 in 10** return at least once.

The impact is long-lasting too. Of members enrolling through a paper-only option, only 10% of these employees return to manage their account. 80% of those who enrolled in a plan that offers digital-only enrolment return to check their account at least once.

ONLINE RE-ENROLMENT SHOWS SIMILARLY EFFECTIVE RESULTS



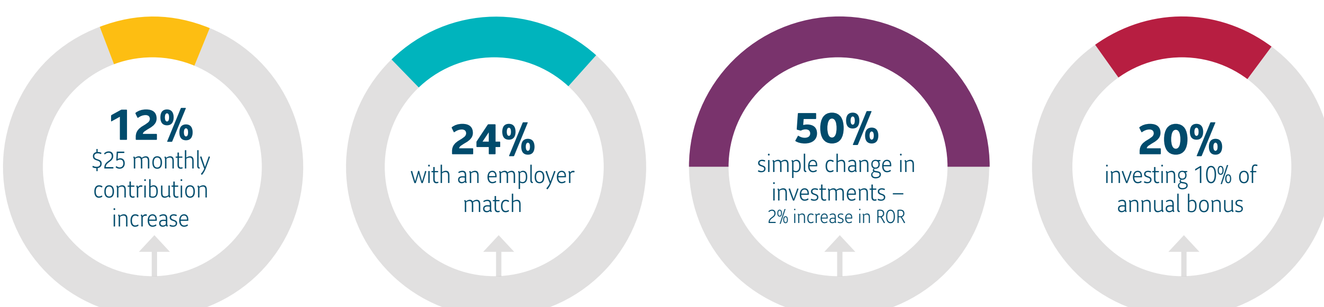
In 2018, we ran 653 campaigns spanning almost 600,000 members across well over 400 plan sponsors. 65% of members reported making changes that they wouldn't have made without digital re-enrolment. The drop-out rate is extremely low, with 81% of members who start the process going on to complete it.

70% of members who re-enrolled said they are very likely or extremely likely to use the tool in the future.

The numbers show that little nudges can have a huge impact on retirement outcomes.

Let's take an employee earning $50,000 a year. They are participating in a 5% matched plan. Over a 35-year career horizon, through helpful nudges:

- A simple increase of $25 a month in their savings would create an extra 12% of income when they retire.
- If we take the employer match into consideration, that would double to 24%.
- If that same member could achieve a 2% higher rate of return through a more optimal investment solution or lower fees than what they may be paying for their retail investments, they could see a 50% bump in retirement income.
- And if they saved a modest 10% of their annual bonus each year, that could give them a 20% bump.



JUST START

USE YOUR MATCH

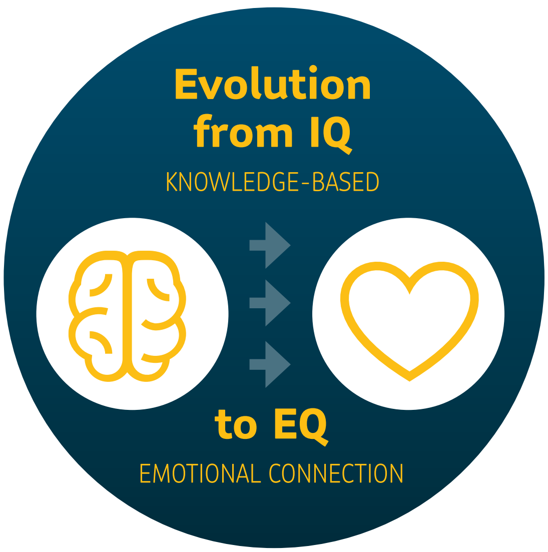
INVEST & INVEST SMART

SAVE EXTRA – WHEN YOU CAN

Small steps like these can make a real difference and lead to better outcomes. Canadians need help making smart financial decisions, and digital engagement offers the opportunity for nudges and real-time feedback.

A TRUE OMNI-CHANNEL EXPERIENCE INCLUDES SUPPORT FROM ARTIFICIAL INTELLIGENCE BACKED BY DATA AND ANALYTICS TO NUDGE ACTIONS.

Ella, Sun Life's own digital coach, is an example of how artificial intelligence is used effectively – moving from a knowledge-based interaction to creating an emotional connection.

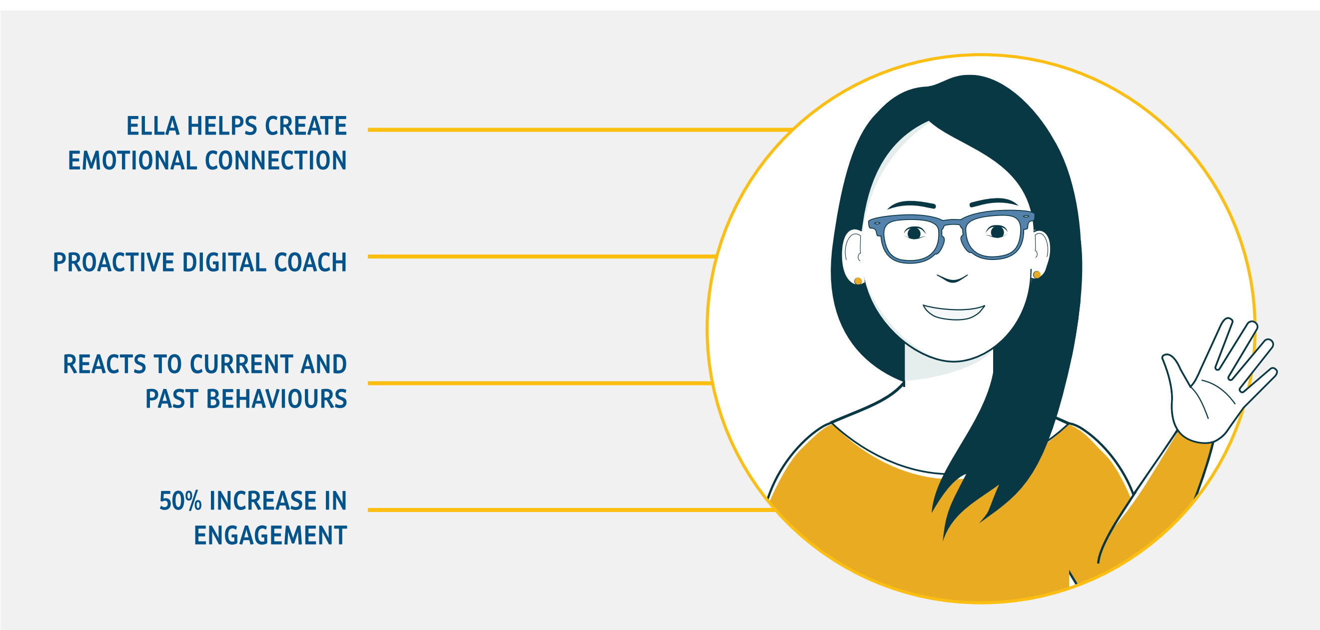


Ella communicates digitally in ways that are relevant to specific member situations – more than we ever could have achieved using traditional communication methods from the past. This leads to action-based decisions.

She's a proactive coach, suggesting smart actions to take, as well as a responsive assistant, reacting to past behaviours.

By delivering this relevant, personalized experience, we're seeing a 50% increase in engagement (transacting, clicking to learn more, and other positive actions). She makes a difference and gets results.

Today, Ella is delivering 180 different personalized messages to members, and the list is growing every day.



DATA – the land of opportunity, for plan sponsors and plan members

Leveraging data for a more personalized member experience drives better financial and healthier outcomes.

Data increases member engagement by making it easier for them to achieve their goals. Artificial intelligence, personalized communications, automation and relevant nudges are all ways data can help members take action towards saving for their future.

More is possible with data. It's the first step to empowering plan members to make the most of their workplace savings plan through increased personally relevant experiences. It's what Canadians have come to expect in all aspects of their lives – and it gets results.

09

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.

Total number of plans on page 5 reflects the **removal of Investment Only and Notional** type plans.

Unless otherwise noted, **data is as of December 31** of each calendar year.

ACADEMIC

119 PLANS / 21,044 MEMBERS

School Boards
Universities/Colleges
Other

ENERGY

266 PLANS / 65,031 MEMBERS

Energy Equipment & Services
Oil, Gas & Consumable Fuels
Other

ASSOCIATIONS & AFFILIATIONS

350 PLANS / 19,402 MEMBERS

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

FINANCIAL SERVICES

334 PLANS / 115,183 MEMBERS

Banking
Diversified Financial Services Insurance
Real Estate Management & Development
Other

CONSUMER – DISCRETIONARY

1243 PLANS / 109,102 MEMBERS

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

HEALTHCARE

524 PLANS / 50,451 MEMBERS

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

CONSUMER – STAPLES

371 PLANS / 57,666 MEMBERS

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

INDUSTRIAL

1493 PLANS /147,988 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

TECHNOLOGY

341 PLANS / 53,898 MEMBERS

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

MATERIALS

559 PLANS / 82,405 MEMBERS

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

PROFESSIONAL SERVICES

132 PLANS / 10,985 MEMBERS

Financial (consulting/accounting)
Legal
Medical
Other

PUBLIC SERVICES

119 PLANS / 3,590 MEMBERS

Federal
Municipalities
Provincial
Other

RECREATION

18 PLANS / 6,474 MEMBERS

Entertainment
Professional Sports
Other

TELECOMMUNICATION SERVICES

42 PLANS / 1782 MEMBERS

Diversified Telecommunication Services
Wireless Telecommunication Services
Other

UTILITIES

53 PLANS / 9669 MEMBERS

Electric Utilities
Gas Utilities
Multi-Utilities
Water Utilities
Other

OTHER

107 PLANS / 2,566 MEMBERS

Notes

Notes

Sun Life is a leading international financial services organization providing a diverse range of protection and wealth accumulation products and services to individuals and corporate customers. Sun Life and its partners have operations in key markets worldwide, including Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia and Bermuda. As of December 31, 2018, the Sun Life group of companies had total assets under management of over $951 billion. Sun Life Financial Inc. trades on the Toronto (TSX), New York (NYSE) and Philippine (PSE) stock exchanges under ticker symbol SLF.

Sun Life Group Retirement Services has been ranked as the leading provider of Capital Accumulation Plans in Canada for more than 17 years[1] with:

- Nearly $80 billion in assets under management[1]
- More than 11,200 group retirement policies in force[1]
- Over 1.9 million participants[1]
- Plans ranging in size from one to over 60,000 members[1]

[1] *Pension Universe Report* (Group Retirement), Fraser Group, July 2019

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

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