

2017

DESIGNED FOR
SAVINGS

FINANCIAL
FIRMS
REPORT



YOUR **NEEDS.**
OUR **FOCUS.**

Sun 
Life Financial

INTRODUCTION



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The phrase “knowledge is power” goes back centuries – and yet it’s every bit as relevant today as it was 400 years ago. As an employer offering a workplace retirement and savings plan, knowledge of emerging trends in the workplace retirement market is as critical as ever, with new, innovative products and services emerging and a new generation of employees poised to become the dominant force in the workplace.

Retirement savings programs often play a key role in an organization’s total rewards strategy, but elements of employee compensation and benefits can vary greatly from industry to industry.

With the competition for talent always a high priority, understanding how your retirement savings program compares to industry norms can help you position your program for maximum effectiveness.

In working closely with plan sponsors, we’ve seen how plan design can play a key role in boosting retirement savings, and ultimately retirement outcomes. We’ve also seen firsthand how differences in industries and workplace demographics can require a different approach to engaging employees – to help them enroll in the plan, take advantage of employer matching contributions and stay invested for the long term.

With this reason we are delighted to provide you with a refreshed, expanded series of industry-specific Designed for Savings 2017 reports. This is the most comprehensive, accurate reflection of the state of capital accumulation plans in each of twelve broad Canadian industries today.

We hope you’re able to use this information to gain additional insights into your retirement savings program – and identify opportunities to maximize its value for your employees.

We appreciate the opportunity to be of service, and hope you find the information in this report to be both helpful and of interest.

Sincerely,

A handwritten signature in black ink that reads "Thomas A. Reid". The signature is fluid and cursive, with the first name "Thomas" and last name "Reid" clearly legible.

Thomas G. Reid

Senior Vice-President, Group Retirement Services

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Plan abbreviations used in this report:

CAP	Capital accumulation plan
DBPP	Defined benefit pension plan
DCPP	Defined contribution pension plan
LIRA	Locked-in retirement account
RRSP	Registered retirement savings plan
TFSA	Tax-free savings account



SECTION 1

Demographic data: setting the stage

The data included in this report is drawn from Sun Life Financial's CAP universe of more than 5,000 plans, supplemented, where necessary, by the results of survey information from plan sponsors. In this report, we provide results from our universe that are specific to employers in the Financial sector.

The sector includes industries covering banking, diversified financial services, insurance, distributors of financial products and services and real estate management and development.

These industry results reflect 290 plans with approximately 126,270 plan members. We also highlight areas in which the results for the Financial sector differ noticeably from our overall CAP universe. This can provide an important snapshot of both industry and Canada-wide norms for different aspects of these plans.

HERE IS A SNAPSHOT OF KEY DEMOGRAPHICS AND ASSET BREAKDOWNS FROM OUR UNIVERSE:

CAP universe snapshot

Number of clients : **4,755**

Number of plans : **5,555**

Number of members : **844,515**

Assets under management :

\$56,200,000,000

CAP Financial sector snapshot

Number of clients : **260**

Number of plans : **290**

Number of members : **126,270**

Assets under management :

\$8,700,000,000

FIG. 1.1 PLAN BREAKDOWN

	Plans with <200 members	Plans with 200-499 members	Plans with 500-999 members	Plans with 1000+ members	All plans in the industry	All Sun Life plans
# of Clients	215	15	5	25	260	4,755
# of Plans	220	20	10	40	290	5,555
# of Members	6,865	4,735	5,230	109,440	126,270	844,515
Assets	\$375.7 million	\$433.6 million	\$326.5 million	\$7.6 billion	\$8.7 billion	\$56.2 billion

SECTION 2

Plan design

When it comes to the Financial sector, employers must offer plans that support the unique characteristics of their employee base and the goals of their business. Many employers have a very diverse workforce – including roles focused on administration, product manufacturing, distribution, professionals, head office or customer facing, often with multiple locations,

but all with a very significant focus on supporting and servicing customers. Creating a competitive plan design that meets the needs of an organization's workforce both today and tomorrow, balanced with the company's objectives, can be a challenge for an organization with significant role diversity in its employee population.

FIG. 2.1 PLAN TYPES MOST COMMON WITH FINANCIAL SECTOR BUSINESSES, BY PERCENTAGE OF PLANS

Number of members	Plans with <200 members	Plans with 200-499 members	Plans with 500-999 members	Plans with 1000+ members	All plans in the industry	All Sun Life plans
Group RRSP only	70%	8%	17%	13%	60%	64%
DCPP only	12%	17%	17%	17%	13%	14%

FIG. 2.2 ADDITIONAL PLAN TYPES

Number of members	Plans with <200 members	Plans with 200-499 members	Plans with 500-999 members	Plans with 1000+ members	All plans in the industry	All Sun Life plans
Group RRSP/DPSP	9%	17%	17%	8%	10%	7%
DCPP/Group RRSP	7%	42%	33%	42%	13%	12%
DCPP/Group RRSP/DPSP	1%	17%	17%	21%	4%	3%

* Core plans with a non-registered component are reflected in Fig. 2.1 and 2.2, i.e. a client that has a Group RRSP and a non-registered product would be included.

Plans with less than 200 members have the highest usage of Group RRSP only plans. This often reflects the desire by smaller businesses to reduce plan administrative requirements. It's not surprising that the use of a DCPP increases as the business size gets larger – something we see across all industry sectors. The largest businesses tend to offer more diverse plan options to meet the potentially broader needs of their employees, coupled with their talent attraction and retention strategies.

Across Canada, 12.3 million Canadians have a TFSA with assets totaling \$226.3 billion. The use of a TFSA

within company plans administered by Sun Life grew significantly in 2016 with a 35% increase in plan sponsors providing their employees with access to this vehicle and a 30% increase in the number of members who are using a plan TFSA. TFSA assets under administration grew from \$86 million at the end of 2015 to \$268 million at the end of 2016.

The TFSA provides an after-tax savings vehicle for all members, and may be particularly useful for younger and older members with non-retirement related savings objectives.

SECTION 3

Employee eligibility and participation

Across the Financial sector, employees are typically eligible for their employer’s CAP within their **first year of employment** with almost 60% having a plan employees can join on their first day of employment.

Approximately 40% of the plans have mandatory participation for at least their full-time employees. When it comes to the largest employers, 75% of the plans have mandatory participation for at least their full-time employees. The remainder leave it up to the employees to choose to join once they become eligible. Although the weighting between mandatory and voluntary participation varies based on the size of the employer in this sector, employers of all size segments, ranging from small to large, tend to leave it up to the employee to make an active decision

FIG. 3.1 PLAN PARTICIPATION ELIGIBILITY

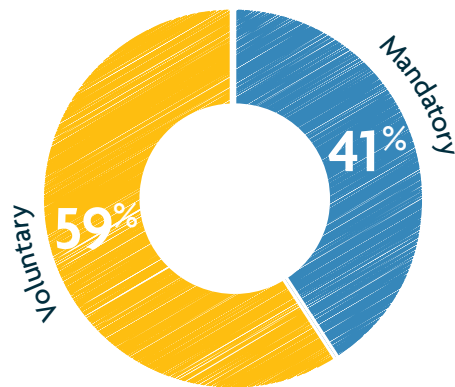
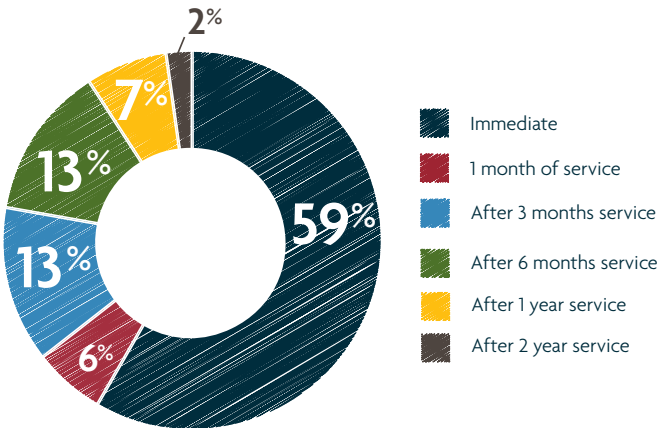


FIG. 3.2 ELIGIBILITY WAITING PERIOD



to participate. Roughly half the plans with Sun Life Financial have mandatory participation and require new employees to join when they become eligible.

Almost 97% of plans in the Financial sector include some amount of employer-matching contribution – either full or partial. Fourteen percent of the plans in the Financial sector also include a basic employer contribution that requires no contribution by the employee. A basic contribution equal to 3% is the most common rate for these plans, followed by 22% providing a 4% basic contribution and 33% providing a basic employer contribution equal to 8% or more. Plan member 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 the benefit.

FIG. 3.3 EMPLOYER-MATCHING CONTRIBUTIONS

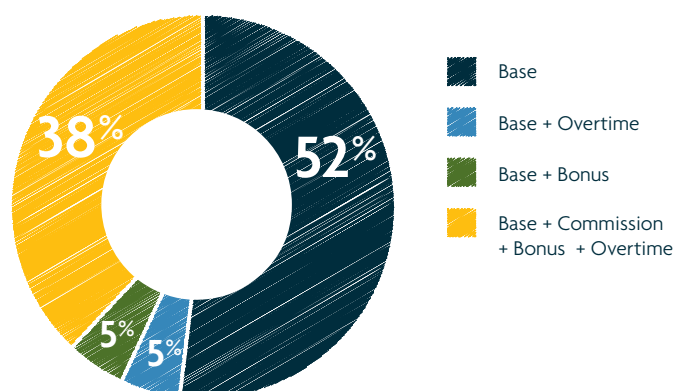
Maximum employer contribution	Percentage of plans
1%	0%
2%	6%
3%	22%
4%	13%
5%	25%
6%	8%
7%	5%
8%	0%
9%	5%
Other	2%
Based on rate above and below YMPE	5%
Scale based on years of service with employer	9%

FIG. 3.4 EMPLOYEE CONTRIBUTIONS

Employee contribution % required to receive maximum employer-matching contribution	Percentage of plans
1%	0%
2%	2%
3%	7%
4%	17%
5%	33%
6%	24%
7%	2%
8%	0%
9%	4%
10%	4%
Other Flat %	2%
Based on rate above and below YMPE	5%

Of the businesses providing an employer-matching contribution, 70% provide a dollar-for-dollar match. Eighteen percent provide an employer contribution with no expectation of an employee contribution. Only 26% of businesses in the Financial sector provide a match of 50% or less.

FIG. 3.5 EARNINGS USED FOR CONTRIBUTION PURPOSES



EMPLOYEE PARTICIPATION

Participation is voluntary in about half of our CAPs – meaning that employees must make an active choice to join the plan. In the Sun Life Financial universe of plans where participation rate information is available, participation when weighted as the average across all of these plans is 57%. The enrolment decision for voluntary plans is framed as a positive election: *“Join the plan if you’d like – take these steps to enrol.”*

Research in the field of behavioural finance provides a number of explanations for 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 that they don’t get around to joining the plan.

When it comes to an automatic enrolment environment (with opt out), which exists in many other countries, the decision to save is framed negatively: *“Quit the plan if you like – take these steps to opt out.”* With this type of design, “doing nothing” leads to participation in the plan, the improved participation results are staggering, and the administration is considerably simpler.

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.

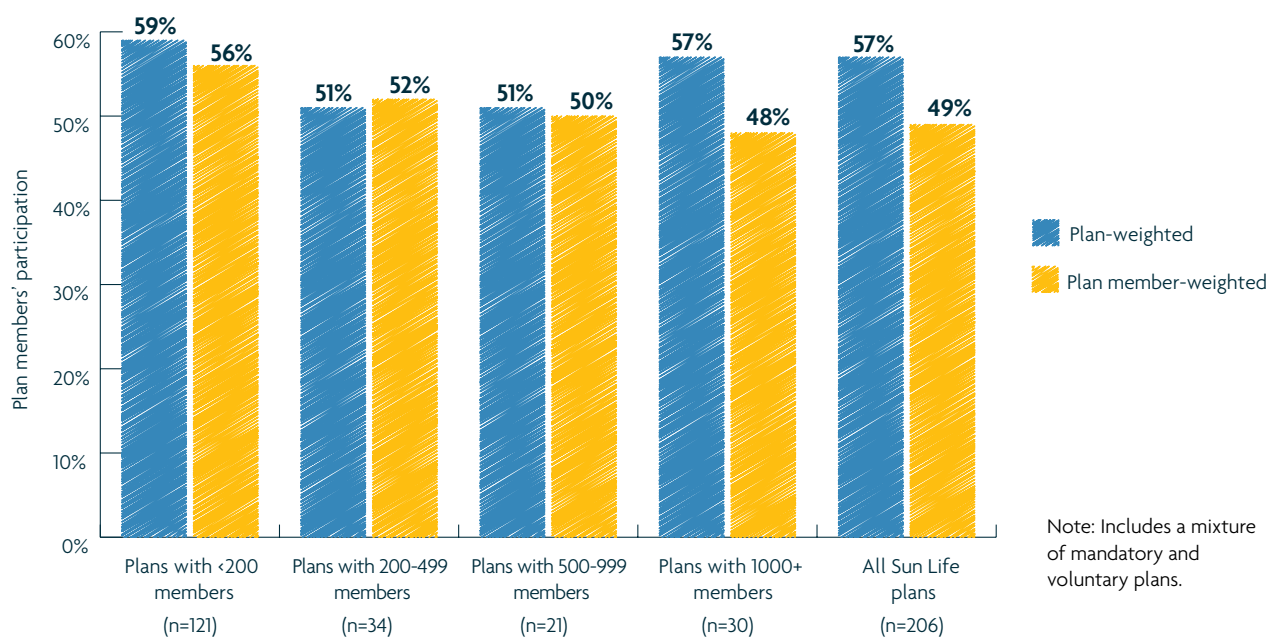
SECTION 3 | Employee eligibility and participation

With automatic enrolment, Fidelity Investments' U.S. operation has experienced an overall average participation rate of 89%¹, with little difference to opt out rates regardless of the default contribution percentage (81% participation at a 1% default contribution rate and 91% participation at a 6% default contribution rate).

¹ Fidelity Points of View Presentation 2012 – “The status of automatic enrollment and annual increase programs in America’s DC plans”

In the figure below, 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.

FIG. 3.6 EMPLOYEE PARTICIPATION RATE



Key ways to encourage greater participation and savings:

- If the eligibility of your plan is voluntary, consider making participation of new hires automatic as a condition of employment (but allowing the employee to opt out if it's appropriate for them).
- If you have a waiting period for your DCP, but also offer a Group RRSP, for example, consider allowing the employee to start saving immediately through payroll deduction in the RRSP.
- Actively promote the value of your plan, especially any employer match that generates employer-paid savings.
- Add additional savings plans (RRSP or TFSA) for flexibility.
- Add a LIRA to allow a plan member to consolidate their external savings and take advantage of institutional funds and fees.
- Talk to your Sun Life representative about how we can help.

SECTION 4

Contribution rates and account balances

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 **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. 4.1 CONTRIBUTION RATE AS A PERCENTAGE OF ANNUAL SALARY

	Plans with <200 members	Plans with 200+ Members	Plans with 500-999 members	Plans with 1000+ members	All plans in the industry	All Sun Life plans
Number of clients	215	15	5	25	260	4,755
Number of plans	220	20	10	40	290	5,555
Employee Total Contribution Rate						
Average*	5%	6%	7%	5%	5%	5%
Median*	4%	5%	7%	4%	4%	4%
Employer Total Contribution Rate						
Average*	5%	7%	5%	5%	5%	6%
Median*	4%	7%	4%	5%	5%	5%
Distribution of Employee Contribution Rates						
0.1% – 3.9%	46%	40%	35%	51%	49%	44%
4.0% – 5.9%	26%	22%	12%	19%	20%	23%
6.0% – 9.9%	16%	21%	21%	19%	18%	21%
10.0% – 14.9%	9%	13%	23%	9%	10%	9%
15.0%+	3%	4%	9%	2%	3%	3%

*Based on salary information on file for full year, active plan members who contributed in 2016.

The top feature most valued by employees in a workplace is the availability of an employer match.

Source: Sun Life Financial Generations Focus Groups of Working Canadians

FIG. 4.2 ANNUAL CONTRIBUTIONS

	Average annual contributions			Median annual contributions		
	Plan Member	Plan Sponsor	Total	Plan Member	Plan Sponsor	Total
Plans with <200 members	\$4,945	\$4,770	\$9,715	\$3,510	\$3,215	\$6,725
Plans with 200-499 members	\$5,670	\$6,430	\$12,100	\$4,205	\$4,760	\$8,965
Plans with 500-999 members	\$6,240	\$5,265	\$11,505	\$4,510	\$3,950	\$8,460
Plans with 1000+ members	\$5,555	\$3,455	\$9,010	\$3,965	\$2,535	\$6,500
All plans in the industry	\$5,555	\$3,665	\$9,220	\$3,970	\$2,655	\$6,625
All Sun Life plans	\$5,590	\$4,615	\$10,205	\$3,705	\$3,320	\$7,025

Note: These figures reflect all regular, repeatable payroll contributions made to all products by plan sponsors and full year, active plan members who contributed in 2016.

One strategy for increasing the overall rate of savings for a plan member, while maintaining the plan sponsor's budget, is to consider a "stretch match."

For example, instead of offering a 100% match on every dollar contributed up to 5% of a plan member's

salary, an employer may instead decide to offer 50 cents on the first 6% of salary and \$1.00 for every \$1.00 on the next 2% of salary. This "stretch match" approach takes human nature into account – employees will be inclined to save at the higher level in order to get the full match. It lets the plan sponsor encourage higher savings rates while avoiding additional plan matching contribution expenses.

Did you know?

Taking into account both employee and employer contributions, the average total contribution rate within workplace plans for the Financial and Insurance firms in the U.S. is 13.3% and the median is 12.9% for plans with less than 500 members. For plans with more than 500 members, the average contribution rate is 11.0% and the median is 10%- both slightly higher than in Canada. In Canada, the Financial sector includes both types of firms.

Source: Vanguard, 2017

AUTOMATIC EMPLOYER CONTRIBUTIONS

When we look at all CAPs with Sun Life Financial, approximately one in four 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.

In the Financial sector, the use of automatic contributions is **less common, with approximately 14% of plan sponsors making automatic contributions.**

ACCOUNT BALANCES

Account balances vary considerably based on plan member demographics. Factors such as household income, age and job tenure influence account balances – and these factors are intertwined.

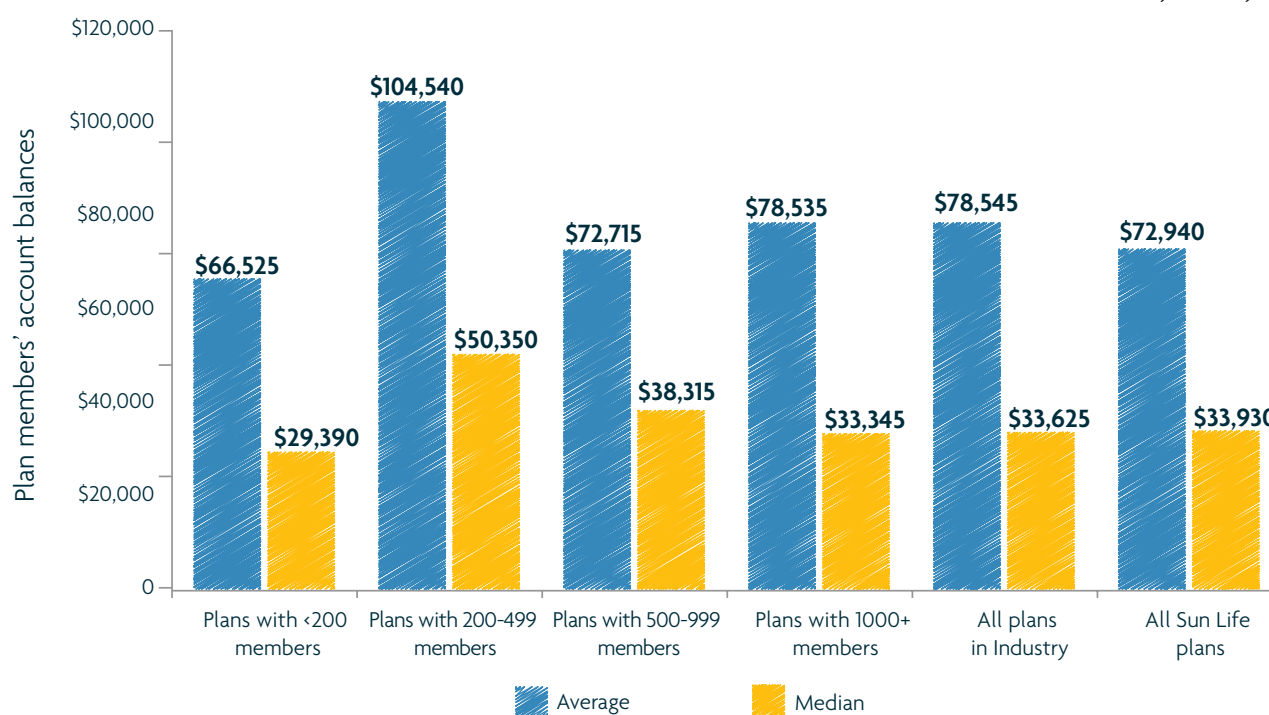
Not only does income tend to rise somewhat with age (making saving more affordable), older plan members also tend to save at higher rates. In addition, the longer an employee stays with an organization, the more likely they are to earn a higher salary, participate in the plan and contribute at higher levels. Long service plan members also have higher balances because they have typically been contributing to their workplace plan for a longer period.

It's important to note that these are still early days for DC plans in Canada. Canada is taking longer than other countries to convert to the DC plan trend. Today, just 5% of all pension assets in Canada are held in DCPs – compared to 18% in the U.K., 60% in the U.S. and 87% in Australia.²

As a result, average account balances are modest and should be thought of as only a partial measure of retirement preparedness for many plan members – reflecting the early stage of DC plan development in this country. It also reflects the fact that:

- With job changes – and the ability to transfer balances to personal RRSPs and locked-in accounts – CAP members may be holding locked-in balances from previous employer pension/savings plans.
- Many workers with access to a DCP today may also have or have had access to a DBPP in the past – either through their current or previous employer(s). The DCP was often seen as a supplement to the DBPP. As a result, many boomers in particular are likely to draw a significant portion of their retirement income from their accumulated benefits in these legacy DBPPs.
- We are seeing double digit growth each year in the number of businesses adding a TFSA to their workplace plan. It's another convenient and easy way for employees to save at work.

FIG. 4.3 ACCOUNT BALANCES



2 Willis Towers Watson Global Pension Assets Study – January 2017

Note: The median balance represents the typical plan member. Half of all plan members have balances above the median and half have balances below. Larger sample size with more start-ups compared to the 2014 publication.

Did you know?

The average account balance for plan members in workplace plans for Financial firms in the U.S. is \$158,386 for plans with less than 500 members and \$133,954 for plans with more than 500 members. On the other hand, the median account balance is \$43,587 for plans with less than 500 members and \$47,025 for plans with 500 or more plan members. Considering the U.S. is a much more mature defined contribution market, Canadian plans in the Financial sector fair well when looking at median account balances.

Source: Vanguard, 2017

RETIREMENT INCOME – THE REAL MEANING OF SAVING FOR RETIREMENT

Successful retirement planning isn't just about hitting a magic number at age 65. Instead, planning should be more focused on helping plan members frame their savings efforts around generating an appropriate level of income throughout retirement and how maximizing their workplace plan can help them get there.

Figure 4.4 shows the impact on retirement income at different saving levels. A small increase in a plan member's saving rate (perhaps coupled with an increased plan sponsor matching contribution) can have a noticeable impact on the potential retirement income.

Encourage higher plan balances – allow transfers in

One of the top questions asked by plan members when calling our Customer Care Centre is whether they can transfer their personal savings into their workplace plan. Many see it as convenience – and want to take greater advantage of their workplace plan's institutional funds and fees.

It's a very common and valuable plan feature that lets plan members consolidate their personal savings from a LIRA, RRSP, or TFSA with their workplace savings – and take advantage of lower fees and investment options they can't find elsewhere. If your plan doesn't permit this feature today, it's very easy to update your plan to enable consolidation.



ASSUMPTIONS

Illustrated Replacement Ratio at age 65, starting at age 25, 2.5% salary growth scale, contributions invested in SLGI Granite Target Date Fund.

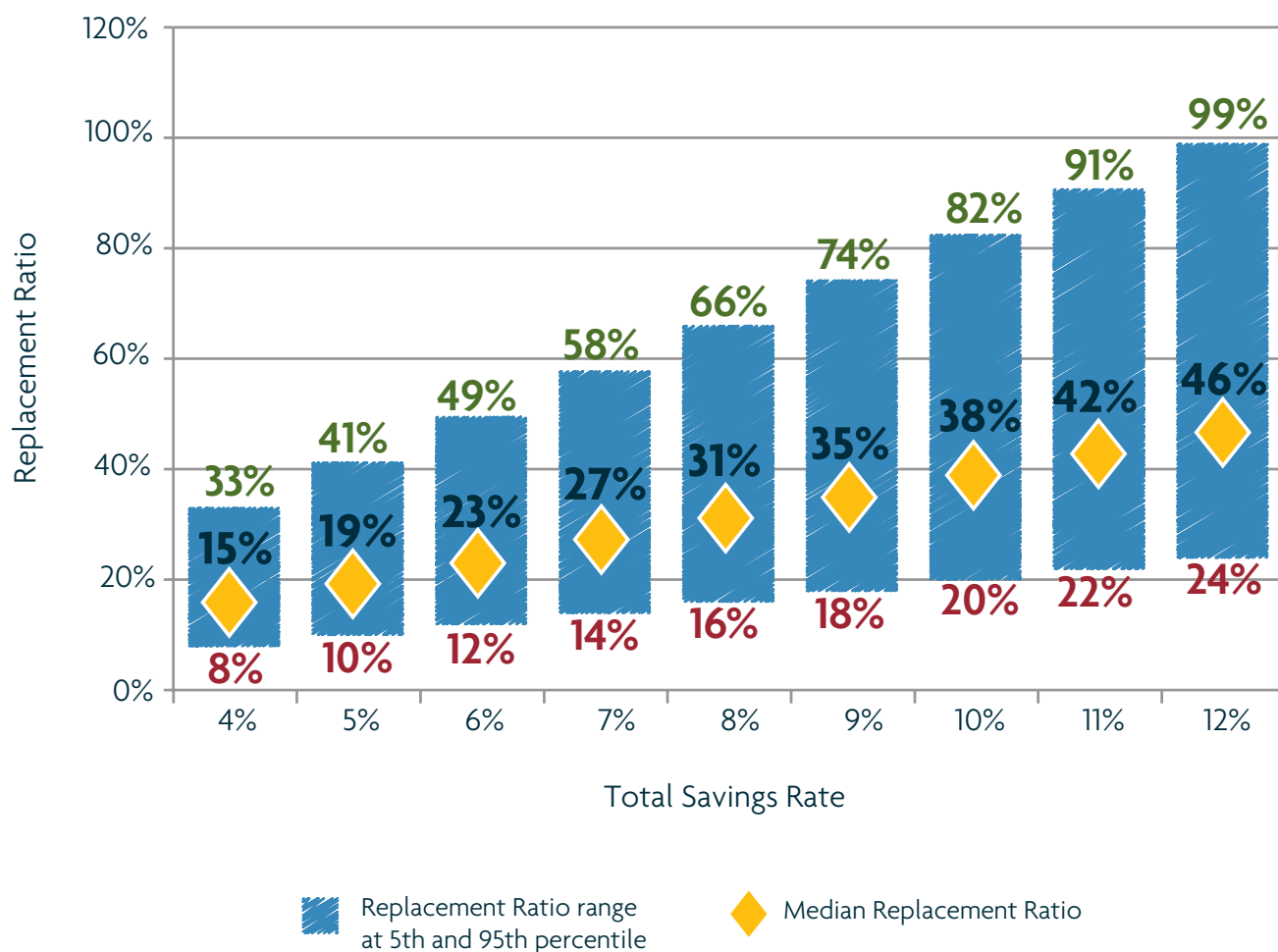
Average annual median net (after fee) return of 5.2%. Savings assumed to convert into single life annuity with a 10-year guarantee at retirement.

Annuity pricing as of April 2017 assumed for retirement date.

Average replacement ratio assuming 50%/50% weighting for males and females.

Based on 10,000 scenarios representing 40 year net returns, the numbers in green represent the income replacement at the 95th percentile, while the numbers in red represent income replacements at the 5th percentile. For example, a person with a total savings rate (employee and employer contributions combined) of 10% could potentially achieve an income replacement rate of 20% if average net returns over 40 years are 1.6%, and 82% if average net returns over 40 years are 8.6%. The average annual median net return of 5.2% would result in a median income replacement rate of 38% as illustrated in the figure below by the gold diamond.

FIG. 4.4 INCOME REPLACEMENT RATIO AT VARIOUS SAVING RATES



SECTION 5

Investments

A. Investment Options

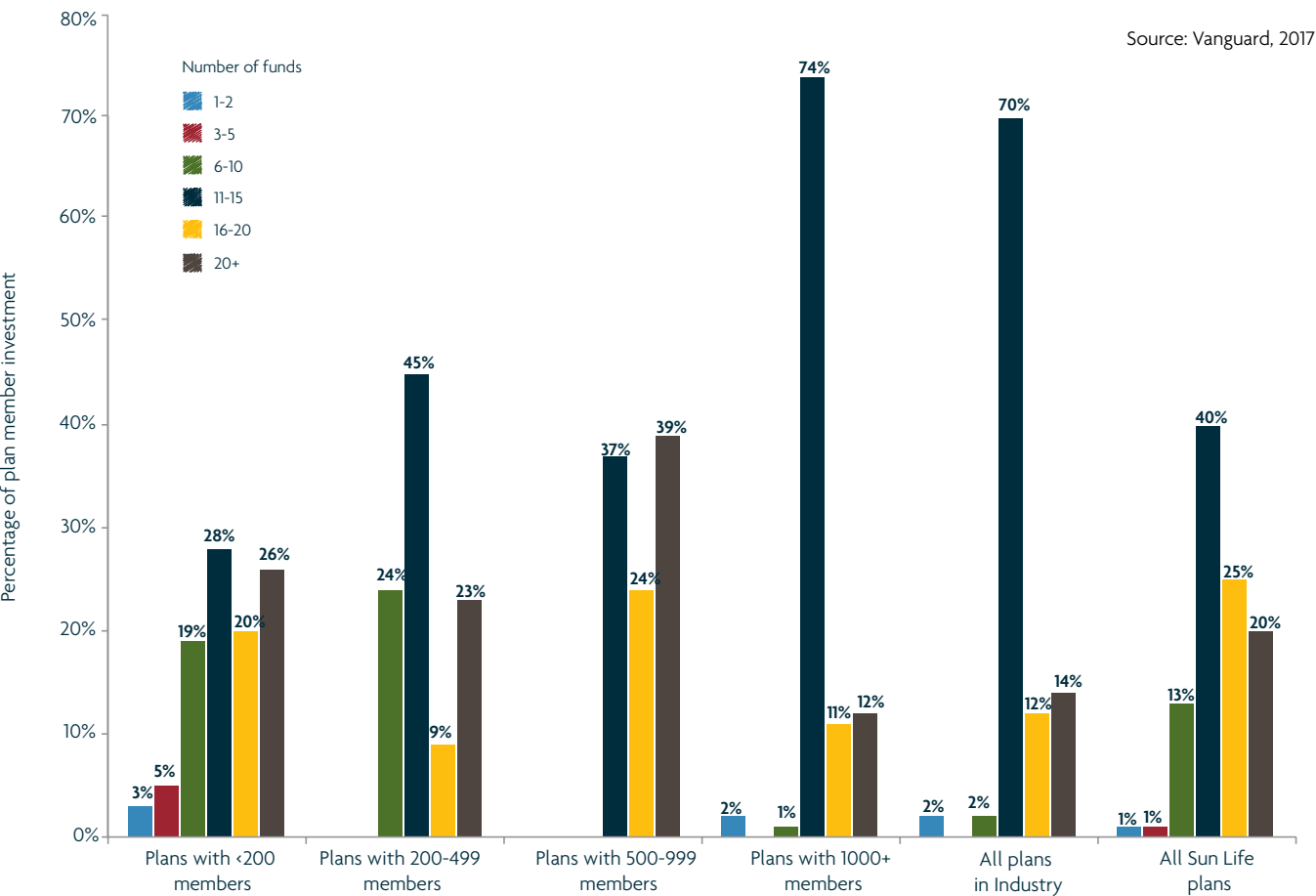
Plan member investment decisions are made from a menu of choices offered by the plan sponsor – an increasing number of fund lineup changes involve a reduction to the number of funds offered – this makes it easier for plan sponsors to manage from a governance perspective and easier for plan members to choose their investments.

In the charts that follow, a series of target-risk or target-date funds are counted as one fund. Similarly, Guaranteed Interest Account options, where varying terms are offered i.e. 1, 3, 5 year, are counted as one option.

Did you know?

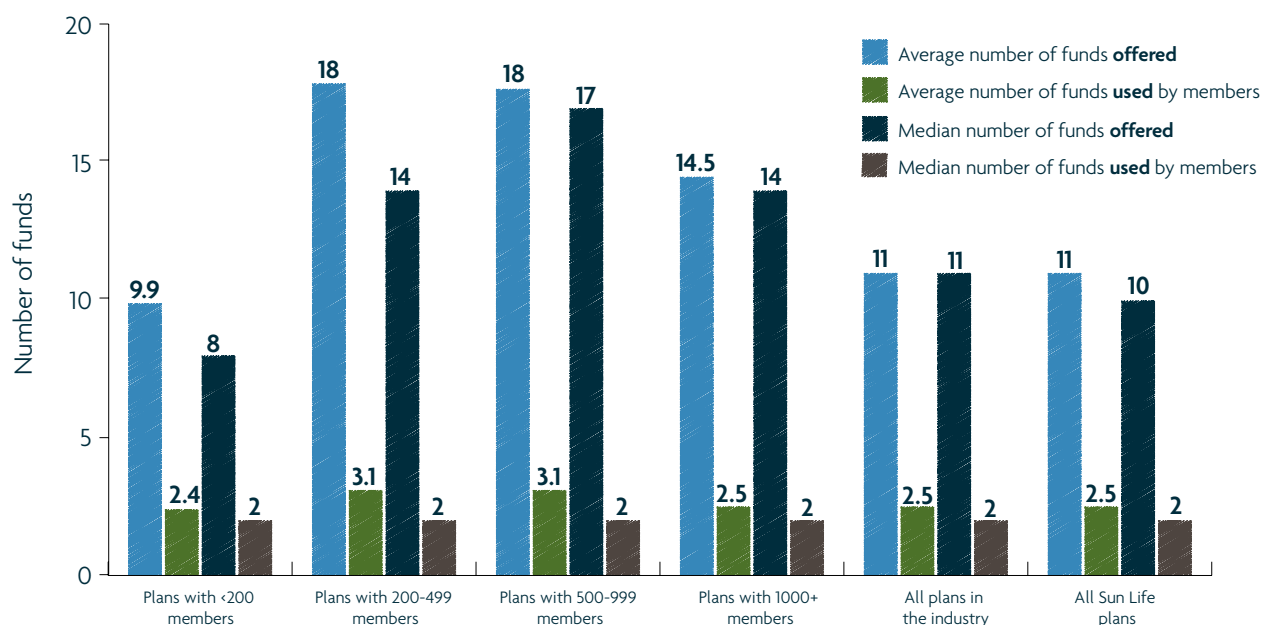
The average number of funds used in workplace plans for the Finance firms in the U.S. is higher than in Canada – 3.4 funds for plans with less than 500 members and 3.1 funds for plans with more than 500 members. Within the U.S. insurance industry, the average number of funds used by plan members is 2.7 and the median number of funds is 1.

FIG. 5.1 NUMBER OF FUNDS OFFERED WITHIN A PLAN



*Note: A suite of target date or target risk funds is counted as “one”. Similarly, multiple guaranteed terms (e.g. 1 year, 3 years, 5 years) are counted as “one”.

FIG. 5.2 NUMBER OF FUNDS OFFERED IN A PLAN AND FUNDS USED BY PLAN MEMBERS



NUMBER OF FUNDS CHOSEN IS SMALL

Regardless of plan size or the number of options offered, most plan members limit their investments to two or three funds. When it comes to the Financial sector, over 85% of all plan members use one, two or three funds. As plan size increases, the number of plan members using one, two, or three funds also increases to greater than 80% for plans with over 1,000 members.

Did you know?

While plan members have access to many tools and services to help them make their investment decisions, those plan members who work with an advisor are twice as satisfied with how much they're saving for retirement. The same is true for Canadians with a written financial plan, which speaks to the value of advice.

Source: Sun Life Financial Unretirement Survey 2015

DEFAULT FUND

Automatic de-risking vehicles such as glide path strategies are becoming the default of choice for many CAP sponsors. Since 2011, over 80% of all new plans with Sun Life Financial have added target date funds to their plan's investment line up – and all but a few are using this vehicle as the plan's default investment option. The Financial sector has not transitioned to target date funds as the default option at the pace that employers in other industries have experienced. One in four plan sponsors, particularly those with less than 200 plan members, still use a Money Market fund as the default investment option when the plan member doesn't make an active decision. This may be an opportunity to take a close look at the default fund to ensure it is still appropriate for the employees participating in the plan.

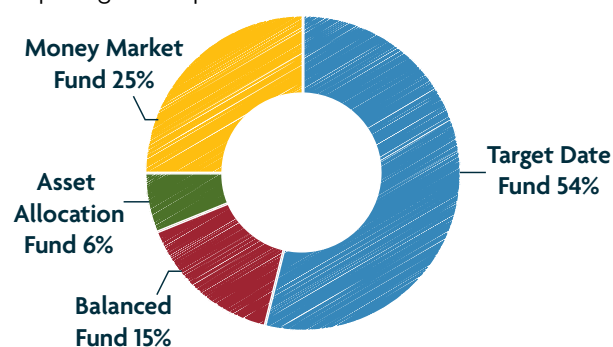


FIG. 5.3 FUNDS BY ASSET CLASS OFFERED IN A PLAN

Funds by asset class (percentage of plans offering)	Plans with < 200 members	Plans with 200-499 members	Plans with 500-999 members	Plans with 1000+ plan members	All plans in the industry	All Sun Life plans
Money Market/Guaranteed						
• Money Market	52%	100%	100%	92%	60%	60%
• Guaranteed	47%	75%	67%	79%	52%	61%
Fixed Income	56%	100%	83%	96%	63%	61%
• Active	43%	42%	50%	58%	71%	77%
• Passive	35%	100%	83%	88%	72%	63%
Balanced	69%	67%	83%	79%	71%	70%
• Active	68%	67%	83%	75%	98%	99%
• Passive	12%	17%	33%	29%	21%	15%
Asset Allocation/Target Risk	37%	25%	50%	29%	35%	39%
• Active	35%	25%	33%	21%	93%	94%
• Passive	2%	8%	17%	8%	10%	10%
Target Date	61%	92%	83%	79%	65%	56%
• Active	53%	17%	17%	25%	73%	79%
• Passive	9%	75%	67%	54%	28%	24%
Equity Funds						
Canadian Equity	70%	100%	83%	96%	74%	74%
• Active	68%	92%	83%	96%	98%	99%
• Passive	28%	58%	83%	63%	47%	33%
US Equity	58%	92%	83%	92%	64%	60%
• Active	44%	50%	33%	33%	68%	78%
• Passive	38%	92%	83%	88%	73%	65%
Global Equity	48%	83%	67%	79%	54%	52%
• Active	44%	83%	67%	75%	93%	96%
• Passive	11%	17%	0%	17%	22%	15%
International Equity	48%	92%	83%	92%	55%	50%
• Active	37%	75%	83%	63%	77%	82%
• Passive	28%	58%	67%	71%	63%	55%
Company Stock	0%	8%	17%	25%	3%	2%
Real Estate/Alternative	2%	0%	0%	4%	2%	1%

Note: The percentage of plans 'offering' a fund is determined provided there is at least \$1.00 in a particular fund.

B. Investment Allocation

With a long-term goal like retirement, a plan member's asset allocation can play a key role in achieving their retirement savings goals. Equity investments in particular are an essential component due to their potential to provide the highest returns of any asset class over the long term.

While the average asset allocation to equities of about 60% may appear appropriate in light of the long-term retirement objectives of most CAP members, the allocation to equities varies considerably among plan members.

At one extreme, across all of our CAP plan sponsors, **12% of plan members had no allocation to equities** at the end of 2016 whereas in the Financial sector the following percentages of members had no allocation to equities:

- **10%** in plans with fewer than 200 members,
- **5%** in plans with 200 - 499 members,
- **12%** in plans with 500 - 999 members,
- **3%** in plans with 1000+ members.

At the other extreme, **8% of plan members** across all of our CAP plan sponsors **had their entire plan account invested in equities**, compared to:

- **2%** of plan members in plans within the Financial sector with fewer than 200 members,
- **4%** of plan members in plans within the Financial sector with 200 - 499 members,
- **2%** of plan members in plans within the Financial sector with 500 - 999 members,
- **25%** of plan members in plans within the Financial sector with 1000+ members.

These results underscore a tendency of at least some CAP members to adopt extreme investment allocations. **About 26% of plan members in 2016 within the Financial sector overall held extreme allocations – either with zero equity holdings or with 100% equity exposure** – with some taking full advantage of investing in their company's stock when available as an investment option in their savings plan. Some plan

FIG. 5.4 DISTRIBUTION OF EQUITY EXPOSURE BY PERCENTAGE

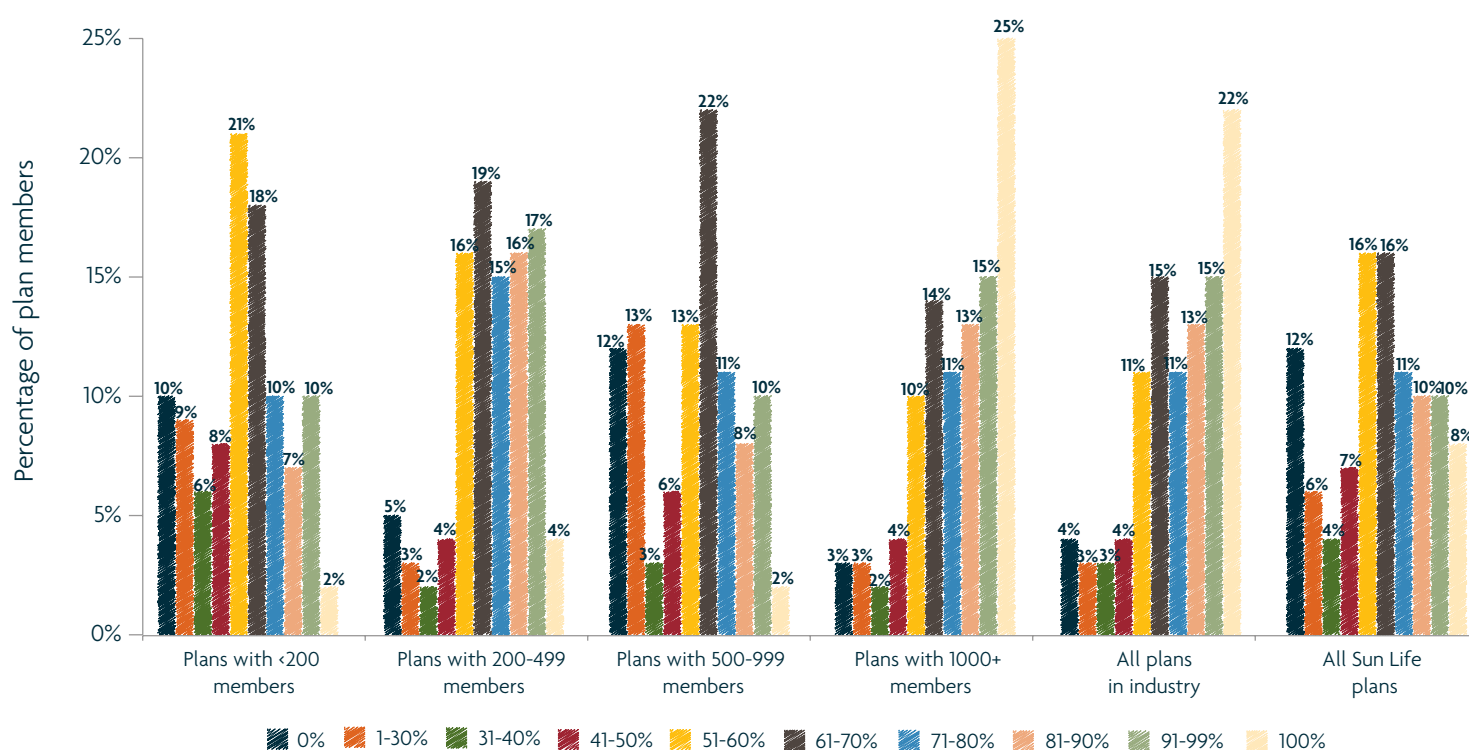


FIG. 5.5 AVERAGE AND MEDIAN EQUITY PERCENTAGE

	Plans with <200 members	Plans with 200-499 members	Plans with 500-999 members	Plans with 1000+ plan members	All plans in the industry	All Sun Life plans
Average equity percentage	56%	70%	55%	77%	75%	60%
Median equity percentage	58%	72%	62%	84%	81%	65%

members may be making clear choices based on their objectives, time horizon, risk tolerance, investments held outside their workplace plan or other personal factors; but others may not. An increasingly popular solution is the use of automatic investment options – such as target date funds – which eliminate such extremes and structure plan member portfolios along more balanced lines.

The plan asset allocation (Fig. 5.6 below) shows the asset allocations within the Financial sector as of December 31, 2016. Plan member contribution allocations (Fig. 5.7) show where ongoing contributions are being allocated.

Access to company stock in plans with less than 200 plan members is rare when compared to plans having 1,000 plan members or more. It is also clear that

FIG. 5.6 ASSET ALLOCATION OF EXISTING PLAN ASSETS

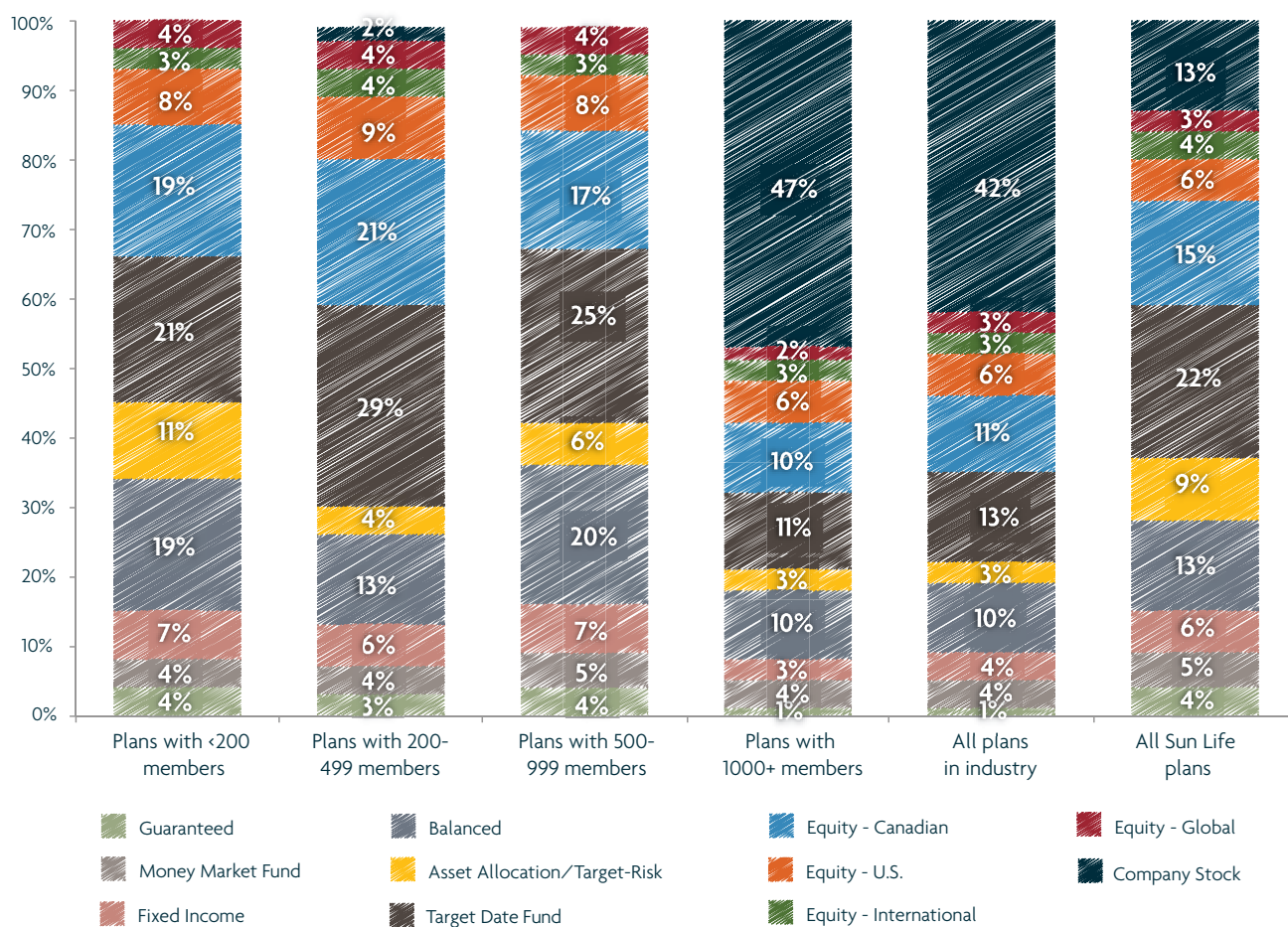
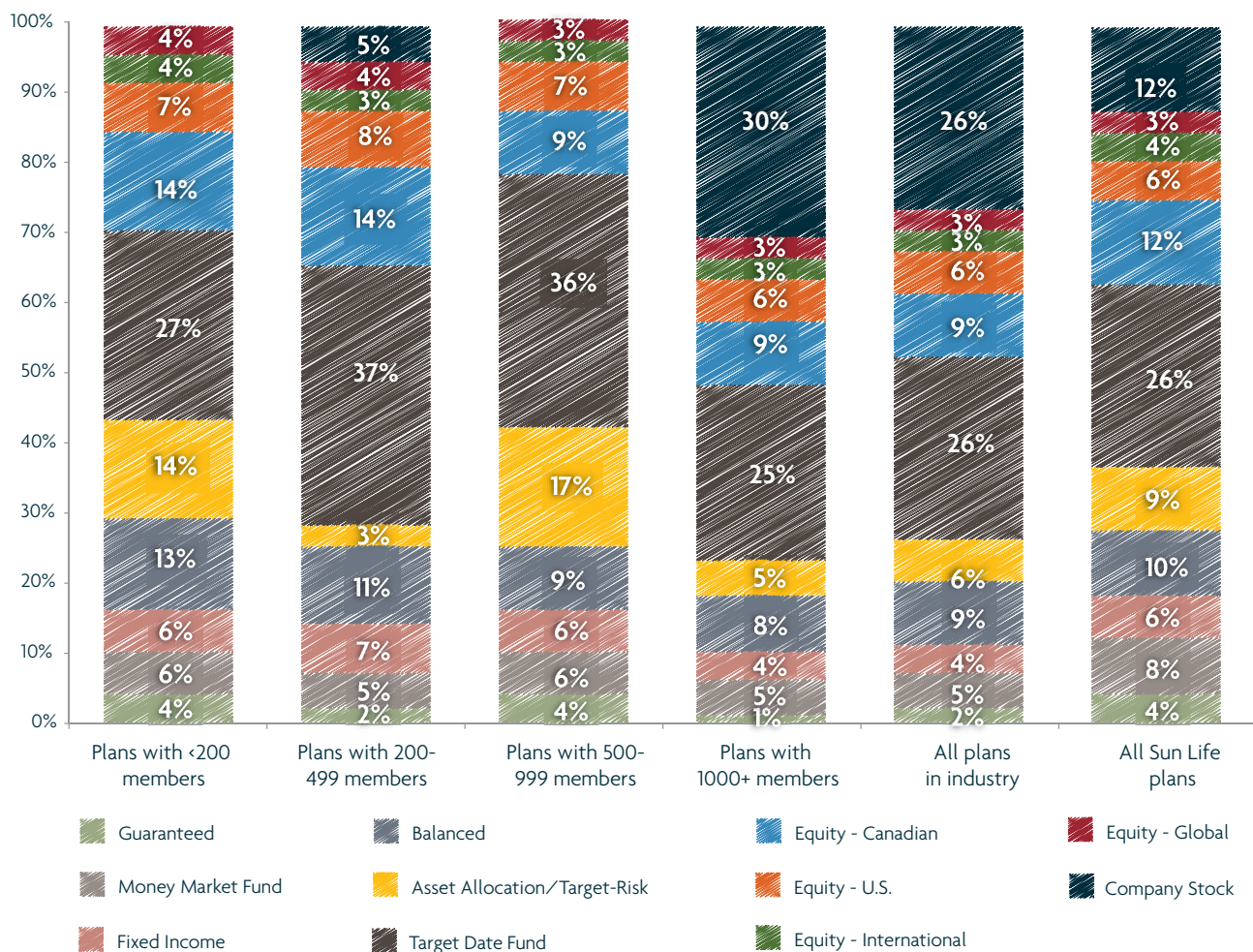


FIG. 5.7 ASSET ALLOCATION OF ONGOING CONTRIBUTIONS



Did you know?

Plan members invested in target date funds are experiencing higher net rates of return than plan members who “go it alone.” See ‘Section C – Single Fund Solutions’ for more details.

target date funds are being used primarily for ongoing contributions. In many cases, a plan member’s existing assets may not have been transferred to a target date fund, meaning the plan member’s investment strategy for their existing assets could be misaligned with their strategy for their ongoing contributions.

USE OF TARGET DATE FUNDS CAN INCREASE EQUITY ALLOCATIONS

When choosing their own portfolio, plan members tend to have less equity exposure than if they use target date funds, which typically have an equity allocation of approximately 90% in a fund’s early years and gradually reduce over time to about 30-40% at maturity (see ‘Section C – Single Fund Solutions’).

C. Single Fund Solutions

In recent years, professionally managed asset allocation funds – whether target date or traditional target risk or lifestyle funds – have contributed to significant improvements in the overall asset allocation within plan member accounts. For many, they have made one of the most daunting plan member decisions – how to invest one's retirement savings – much easier.

This ease is one of the key drivers of the dramatic growth in target date funds, which emerged in the institutional CAP market in Canada in 2007. Although the decision has been made much easier for plan members, plan sponsors still need to monitor these funds, just as they would any other investment option in their plan's line up.

FIG. 5.8 TARGET DATE FUND (TDF) USAGE

Plan use of target date funds (TDFs)	Plans with <200 members	Plans with 200-499 members	Plans with 500-999 members	Plans with 1000+ members	All plans in the industry	All Sun Life plans
Percentage of all plans offering TDFs	61%	92%	83%	79%	65%	56%
Percentage of plan assets invested in TDFs	28%	32%	26%	11%	13%	26%
Plan member use of target date funds (TDFs)	Plans with <200 members	Plans with 200+ members	Plans with 500-999 members	Plans with 1000+ members	All plans in the industry	All Sun Life plans
Percentage of plan members using TDFs when offered	36%	56%	45%	40%	40%	40%
Percentage of total plan member and plan sponsor contributions being directed to TDFs	36%	39%	42%	22%	24%	31%
Percentage of plan members owning:						
One target date fund only	60%	52%	54%	38%	40%	49%
One target date fund plus at least one other fund	28%	28%	30%	54%	51%	39%
Two or more target date funds only	7%	7%	7%	3%	3%	5%
Two or more target date funds plus at least one other fund	5%	14%	8%	5%	6%	7%

This ‘newer’ style of investment product – and its growth as a default investment option – has prompted many plan sponsors to ask questions about the role of this product in retirement plans. This section is designed to address those questions.

For the small percentage of plan members using more than one target date fund, more than two-thirds are using sequential funds at either five or ten year intervals i.e. 2020 and 2025 funds, or 2020 and 2030 funds. The “laddering” of target date funds could be a reasonable approach for a plan member with varied savings or income goals.

Target date funds have now become the default fund of choice for most plan sponsors, and the growth in assets to this professionally managed solution is evident when we look at existing plan members in the below illustration.

When it comes to new plan members who joined their workplace plan in 2016, the professionally managed allocation trend is even more pronounced – something we are seeing regardless of plan size.

PLAN MEMBERS USING PROFESSIONALLY MANAGED PRE-BUILT SOLUTIONS

FIG. 5.9 FULL YEAR MEMBERS (those who joined their workplace plan before January 1, 2016)

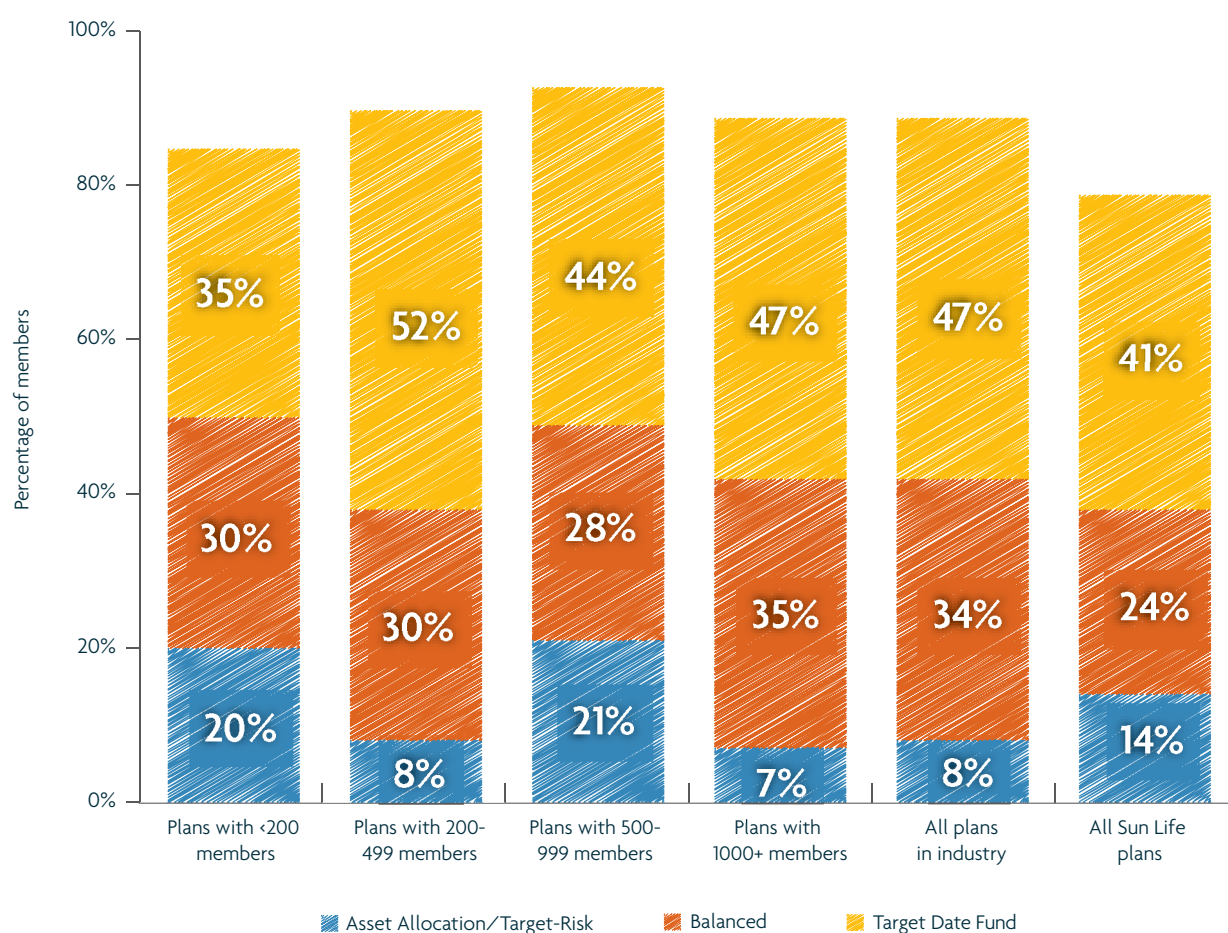
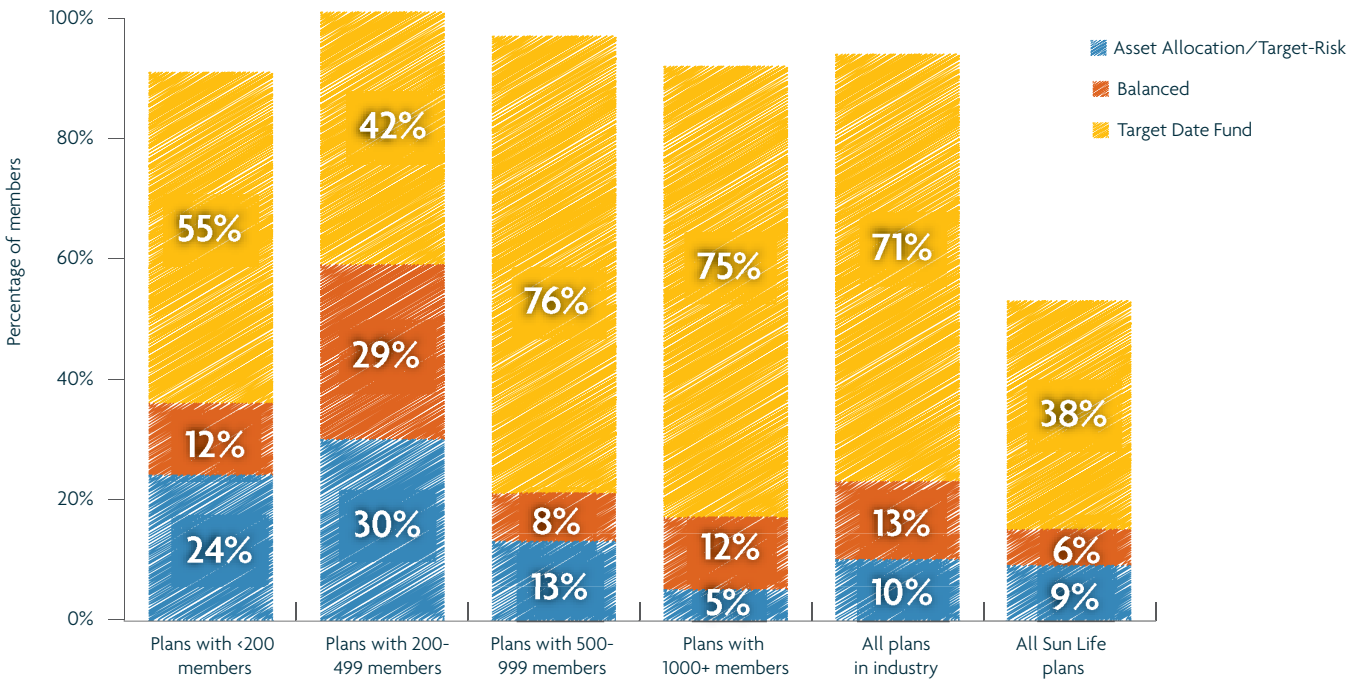


FIG. 5.10 NEW PLAN MEMBERS IN 2016 (those who joined their workplace plan on, or after January 1, 2016)



When we look at the new hires within the Financial sector, most of the single fund solutions are available in smaller plans – those with less than 200 plan members. Among new hires, **70% of these plan members are using target date funds** as their investment choice compared to 43% hired prior to 2014.

DOES INVESTING IN A TARGET DATE FUND MAKE A DIFFERENCE FOR PLAN MEMBERS?

With seven years of data now available, plan members investing exclusively in target date funds have realized higher net personal rates of return compared to plan members who have not used target date funds at all.

FIG. 5.11 PLAN MEMBER PERSONAL RATES OF RETURN

	1 Year		2 Year		3 Year		5 Year	
	Average	Median	Average	Median	Average	Median	Average	Median
Plan members using target date funds only	7.13%	6.15%	7.53%	8.64%	6.50%	6.30%	7.90%	9.10%
Plan members not using target date funds at all	6.42%	4.92%	6.13%	7.52%	6.00%	5.30%	6.80%	8.40%
Excess return	0.71%	1.23%	1.40%	1.12%	0.50%	1.00%	1.10%	0.70%

As of December 31, 2016

SECTION 6

Planning and support

Canadians are increasingly embracing mobile and digital technologies. In 2017, we reached the mark of 30 million Canadians using digital technologies and 18 million using a mobile device. Over the last few years, the commercial landscape has changed with the arrival of Uber, Amazon, Netflix, Spotify and other digital players who have become mainstream for most Canadians. The question no longer is whether people buy online, but what they buy and how often. With e-commerce accessibility threatening the established standards of doing business, the financial services industry is adapting to Canadians' expectations.

In 2017, we saw two major trends developing:

- **Multi-platform usage** i.e. where Canadians regularly use more than one device, has steadily increased. Sixty-two percent of Canadians now access digital media from a desktop computer and mobile device vs. 58% of Canadians in 2016.
- **Almost two-thirds of digital time is now spent on a mobile device.** Over the last year, desktop computer usage declined 20%, while on the other hand, mobile usage increased 29%. In addition, 10% of Millennials are becoming more and more exclusive with mobile.

While most mobile usage is focused on social and leisure applications, others categories like retail and banking are increasingly becoming commonplace.

Historically, adoption of mobile solutions in the financial services industry has been slower than with other industries primarily due to security concerns. With security hurdles behind us, Canadians are embracing their mobile devices for all types of financial transactions ranging from bill payments to transferring money to purchasing select insurance products on-line. Forty percent of Canadians now actively manage their bank account through a mobile

FIG. 6.1 CANADIANS ARE INCREASINGLY EMBRACING MOBILE AND DIGITAL SOLUTIONS

Did you know?

90.9% of Canadians are registered online users (from either a desktop computer, tablet or mobile device)



3 out of 4

Canadians own a smartphone

AGES 18-24 – 13% use mobile solutions exclusively (versus 7% for users of all ages)



AGES 25-54 – 79% use multi-platforms (versus 64% for users of all ages)



AGES 55+ – 26% use desktop only (versus 17% for users aged 18-54)



app, an increase from 30% a year earlier. Trends in the banking industry, for example, show that more users are accessing their account via a mobile device instead of a desktop computer – 65% vs. 50%.

While change can sometimes be viewed as difficult, it also can mark progress. For evidence, just look at the world of CAPs, where plan members have access to a multitude of tools and benefits – from mobile apps to automatic de-risking solutions like target date funds – to help keep their retirement planning on track. Change, in this case, has been good.

We now have five generations of Canadians in the workplace – and a one-size-fits-all approach to engage these employees doesn't work given their very diverse needs. The boomers (early and late) are planning more

seriously for retirement with some beginning to leave the workplace. The other two significant generations include:

- **Gen X (born 1965-1980)** who can be described as cynical, entrepreneurial, realists and guarded. So, communication must prove value, provide transparency and include scenario planning to resonate with this generation.
- **Gen Y (born 1981-1997)** who can be described as confident, smart, optimistic and collaborative. Communication with this generation requires customization, authenticity and multiple resources.
- **Gen Z (born mid 1990s – early 2000)** also known as the iGeneration are the cohort of people born after the millennials. There are no precise dates for when this cohort starts or ends, experts typically use the mid 1990's to early 2000's as starting birth years for Generation Z. They can be best described as digital natives who are educated, industrious, collaborative and eager to build a better planet. When communicating with this generation, aim for 140 characters or less, using #soundbites. Despite the focus on paperless, digital only solutions, they do value frequent contact and in-person experiences.

The pace of change is growing ever more rapid with people increasingly managing their lives through technology and appreciating the convenience of having information at their fingertips.

Retirement planning is no exception to this trend. In 2017, mobile traffic at Sun Life Financial increased by 45% with the number of plan member lumpsum contributions made via the mobile app alone increasing 99% from 2016.

2017 saw a 5% increase in online traffic at Sun Life Financial compared to the prior year, with 24.4 million visits from plan members saving at work and almost half of the visits going beyond simply checking their account balance. Almost a third, (30%) of these web sessions included access to more detailed areas of the Group Retirement Services portion of the secure

site. Approximately 13% of this activity was generated via a tablet or smartphone. With rapid adoption of digital technologies across Canadians of all ages, engagement strategies that include consumer-centered digital applications are quickly becoming much more common.

Interestingly, the three most common areas of the website explored by plan members of all industries continues to be:

Top 3 web pages visited for members of all industries

- **my financial centre** where they can see beyond their overall account balance
- **Balance summary** where they can see information by plan and product
- **Transaction history** where they can see all activity on their account

Regardless of the industry, making an investment change falls into one of the bottom three activities. This serves plan members well during times of market volatility and reflects the growing number of plan members using automatic de-risking solutions such as target date funds.

All plan members saving in the workplace must balance competing priorities and busy schedules, and those in many of the industries we examined are no exception. The diverse workforce of many employers – including roles focused on production, distribution, warehouse, head office or customer facing, often with multiple locations, shifts and often both hourly and salaried employees – sometimes all with the same employer – often means a variety of tactics need to be considered. It's important to be sensitive to the diverse workforce needs and provide approaches that will resonate with the various employee groups.

Sources: Comscore - Canadian MultiPlatform Landscape 2017,
Comscore -The Global Mobile Report,
Comscore - Future 2016 Global Digital Future in Focus Report.

SECTION 7

Taking action

Plan sponsors are working hard to help plan members save and invest wisely for retirement. Our experience working with plan sponsors shows that plan design can play a key role in boosting retirement savings, and ultimately retirement outcomes, by helping employees to enroll in the plan, take full advantage of any employer-matching contributions and stay invested for the long term. Employee engagement plays a critical part in helping them achieve the best possible outcomes.

It is important to find a way to get a plan member's attention and emphasize the benefits of saving more, investing appropriately and making mid-course corrections – all focused on an ultimate goal.

Plan member engagement is one of four critical drivers that contribute to a successful retirement plan, along with **plan design**, **plan management** and **investment solutions**. A plan sponsor has direct control over these last three drivers, but without an effective employee engagement strategy, their impact will likely be reduced.

As our industry begins to shift the focus from accumulation to decumulation (or retirement income), there is recognition that this will take time and is much harder than flipping a switch. Addressing income issues isn't simply about finding the right product. We need to find ways to reframe the conversation – and educate plan members about the real meaning of retirement savings. Successful retirement planning isn't just about hitting a magic number at age 65. Instead, planning should be more focused on helping plan members frame their savings efforts around generating an appropriate level of income throughout retirement,

and how maximizing their workplace plan and access to a financial advisor can help them get there.

Finding ways to effectively engage plan members so they understand the valuable benefits of their workplace retirement savings plan is a common challenge for many plan sponsors. See our suggested checklist on the following page for some actions to consider when working to drive better outcomes for plan members.

FIG. 7.1 FIVE EASY STEPS TO BUILDING PLAN MEMBER ENGAGEMENT



CHECKLIST

Five easy steps to building plan member engagement

Segmentation, technology and multi-channel communications, and guidance and advice – are all ways that can help drive better outcomes for plan members. Here are a few ways that Sun Life is working with plan sponsors and their advisors to increase plan member engagement.

1 Establish plan goals and benchmarks

Clearly defined metrics can help set the objectives for a plan member employee engagement strategy.

- ✓ Define the plan's strategic goals – for instance based on your plan demographics, determine the percentage of income your workforce needs to replace in retirement. Determine the tactical goals that will help you reach those objectives such as: the percentage of plan members taking full advantage of the employer match, participation rate for the plan and contribution amounts. It also may include other goals such as the adoption of new investment options, or the percentage of plan members taking advantage of advisory services.
- ✓ Benchmark the performance of comparable plans for a sense of how your plan compares and where improvements can be made.

2 Understand the demographic segments among plan members

This approach can help target the unique needs of groups such as women and Gen Y.

- ✓ Providing relevant data such as salary and contribution percentage information can help to build effective targeted strategies and help an advisor provide more informed support when working directly with plan members.

- ✓ Identify groups of plan members that are not meeting the plan's goals and benchmarks and the behaviours that are affecting their retirement readiness (e.g., low contribution rates or inappropriate asset allocation).

- ✓ Use stories, tools and seminars that help them understand the consequences of their savings behaviours.

3 You can play an important role in facilitating an advisor or plan provider's access to plan members via different channels

Communicate with plan members based on their technology and channel preferences where possible.

- ✓ Benefit portals, intranet sites, internal benefit newsletters and employee education seminars can help plan members understand and appreciate the value of their workplace plan.
- ✓ Understand the percentage of your workforce with on-the-job and off-the-job internet access to understand the effectiveness of e-mail and e-bulletin communications.

4 Offer access to investment advice as well as guidance

This can give plan members' retirement readiness a significant boost.

- ✓ Understand how in-plan and holistic advice is defined, how it can benefit plan members and the different forms it can take.
- ✓ Consult with your plan's advisor, provider or both to identify best practices related to offering guidance and advice.
- ✓ Work with a provider that offers guidance and advice services and makes them easily available in the manner plan members want to access them.

5 Monitor the effectiveness of the engagement strategy and adjust as needed

Effective employee engagement is an ongoing process.

- ✓ Undertake regular reviews of your plan goals – at least once every two to three years – and determine whether you've met your targets.
- ✓ Evaluate each of the specific tactics in your plan and consider whether they have met your objectives.
- ✓ Adjust your plan goals and tactics – with the help of your provider and advisor – based upon your plan's experience and the success of your current engagement strategies.

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Sun Life Group Retirement Services has been ranked as the leading provider of Capital Accumulation Plans in Canada since 2002¹ with:

- More than \$82 billion in assets under management
- More than 10,500 group retirement policies in force
- Over 1.2 million participants
- Plans ranging in size from one to 60,000 members

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