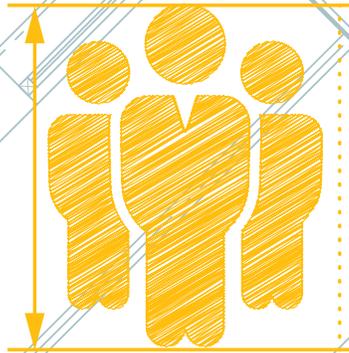


2017

DESIGNED FOR  
SAVINGS

SMALL BUSINESS  
FIRMS  
REPORT



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

Sun   
Life Financial

# INTRODUCTION



## INDUSTRY REPORTS IN THIS SERIES

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(Incl. First Nations)

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Healthcare Services Firms

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› **Small Business Firms**

Technology Firms

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 G. Reid". The signature is written in a cursive, professional style.

**Thomas G. Reid**

*Senior Vice-President, Group Retirement Services*

# TABLE of contents

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<b>SECTION 1</b> – Demographic data: setting the stage.....	4
<b>SECTION 2</b> – Plan design .....	5
<b>SECTION 3</b> – Employee eligibility and participation.....	6
<b>SECTION 4</b> – Contribution rates and account balances.....	9
<b>SECTION 5</b> – Investments.....	14
<b>A. INVESTMENT OPTIONS</b> .....	14
<b>B. INVESTMENT ALLOCATION</b> .....	17
<b>C. SINGLE FUND SOLUTIONS</b> .....	20
<b>SECTION 6</b> – Planning and support .....	23
<b>SECTION 7</b> – Taking action.....	25
<b>CHECKLIST</b> – Five easy steps to building plan member engagement .....	26



# SECTION 1

## Demographic data: setting the stage

The data included in this report is drawn from Sun Life Financial's proprietary capital accumulation plan (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 Small Business sector.

*In this report, we provide results from our universe that are specific to employers with less than 200 plan members.*

These industry results reflect 4,310 plans with approximately 120,930 plan members. We also highlight areas in which the results for the Small Business 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.

### Plan abbreviations used in this report:

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

### 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 small business industry snapshot*

Number of clients : **4,155**

Number of plans : **4,310**

Number of members : **120,390**

Assets under management :

**\$5,500,000,000**

Throughout this report, we will identify data characteristics that pertain to the key factors of managing a CAP within a smaller business:

- Human Resources (HR) support and need for simplified administration
- Impact on business costs
- Retention of key employees
- Preparing for growth

# SECTION 2

## Plan design

When it comes to the small business sector, many employers are more likely to offer simplified plan designs, but in their quest to attract and retain talent, many offer competitive retirement savings plan features as part of their overall compensation package.

It's important that the plan design and features align with the growth goals of the business and the age of the employee base.

**FIG. 2.1 PLAN TYPES MOST COMMON WITH SMALL BUSINESSES, BY PERCENTAGE OF PLANS**

	Plans with <50 members	Plans with 50-199 members	Plans 200+ members	All plans in the industry	All Sun Life plans
Group RRSP Core	78%	42%	18%	71%	64%
DCPP Core	13%	20%	12%	14%	14%

**FIG. 2.2 ADDITIONAL PLAN TYPES**

	Plans with <50 members	Plans with 50-199 members	Plans 200+ members	All plans in the industry	All Sun Life plans
Group RRSP/DPSP	4%	14%	14%	6%	7%
DCPP/Group RRSP	4%	21%	42%	7%	12%
DCPP/Group RRSP/DPSP	0%	4%	14%	1%	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.

**83%** of small businesses cite **administrative simplicity** as a critical factor when deciding to offer a retirement plan for their employees. This is particularly important when HR resources are limited.

Source: Voice of small business plan sponsors, Sun Life Financial survey

**62%** of small businesses surveyed indicated that a key reason for having a pension plan is to **support the retirement preparation of employees**. This is particularly important when a business is growing.

Source: Voice of small business plan sponsors, Sun Life Financial survey

**51%** of all plans with less than 50 members have **contributions being made by both** the plan sponsor and plan members to a Group RRSP. Plan types such as

a TFSA provide employees with added value beyond a simple Group RRSP by offering an after tax savings vehicle for younger and older employees who may be saving for non-retirement-related opportunities.

A plan type such as a DPSP can be used to help align employee interest with business goals for businesses with high growth aspirations. **61% of small businesses cite it as a way to support the retention of key employees.**

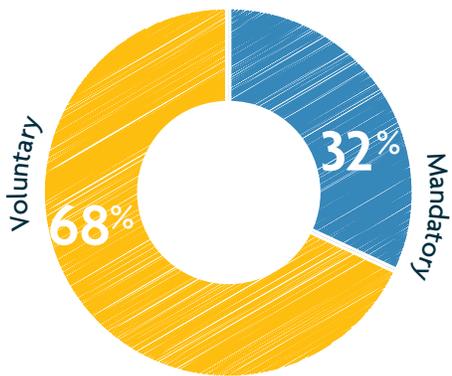
Source: Voice of small business plan sponsors, Sun Life Financial survey

# SECTION 3

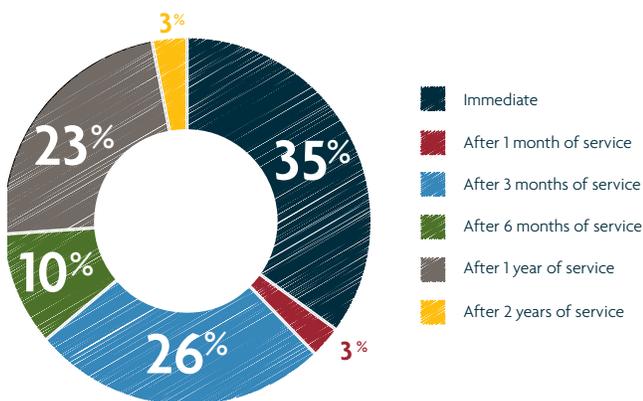
## Employee eligibility and participation

Across the small business sector, employees are typically eligible for their employer’s CAP within their first three months of employment. **Just over 30%** of the plans have mandatory participation for at least their full-time employees. The remainder leave it up to the employees to choose once they become eligible.

**FIG. 3.1 PLAN PARTICIPATION ELIGIBILITY**



**FIG. 3.2 ELIGIBILITY WAITING PERIOD**



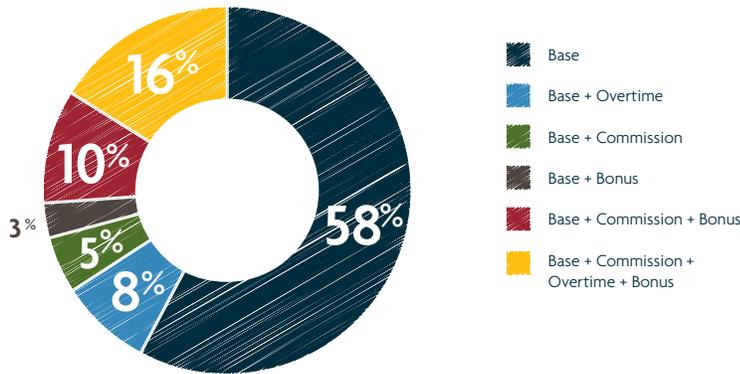
Almost 95% of plans in the small business sector include some amount of employer-matching contribution – either full or partial. Plan member surveys and related research confirm that plan members believe employer-matching contributions to be the primary advantage of saving at work and place a high value on this benefit.

**FIG. 3.3 EMPLOYER-MATCHING CONTRIBUTIONS**

Maximum employer contribution	Percentage of plans
1%	0%
2%	8%
3%	25%
4%	14%
5%	31%
6%	14%
7%	4%
8%	2%
9%	0%
10%	1%
Based on rate above and below YMPE	1%
Scale based on total points (age + service)	2%
Scale based on years of service with employer	13%
Flat dollar cap	3%

Of the businesses providing an employer-matching contribution, 78% provide a dollar-for-dollar match. Seventeen percent provide a match in excess of 100% or an employer contribution with no expectation of an employee contribution. Only 19% of small businesses provide a match of 50% or less.

**FIG. 3.4 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 small business sector, two-thirds of plans include voluntary participation and the weighted participation rate for employees as illustrated in figure 3.5 is 56%. 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.

With automatic enrolment, Fidelity Investments’ U.S. operation has experienced an overall average participation rate of 89%<sup>1</sup>, 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).

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.

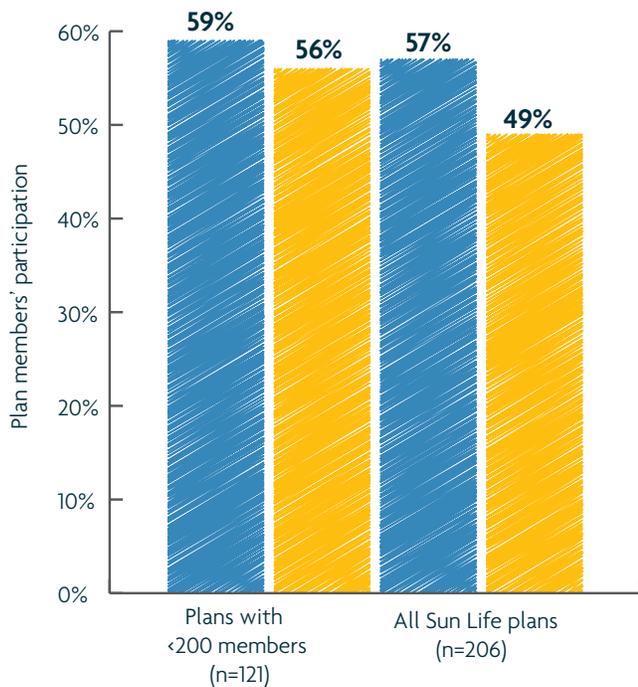
<sup>1</sup> Fidelity Points of View Presentation 2012 – “The status of automatic enrollment and annual increase programs in America’s DC plans”

*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 this benefit.*

### SECTION 3 | Employee eligibility and participation

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.

**FIG. 3.5 EMPLOYEE PARTICIPATION RATE**



Note: includes a mixture of mandatory and voluntary plans.

### *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 DCPP, 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.

These actions will reinforce two of the most compelling factors for small businesses offering retirement plans:

**1. Administrative simplicity**



**2. Retirement value for employees**



# 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 <50 members	Plans with 50-199 members	Plans 200+ members	All plans in the industry	All Sun Life plans
<b>Number of clients</b>	<b>3,365</b>	<b>790</b>	<b>600</b>	<b>4,155</b>	<b>4,755</b>
<b>Number of plans</b>	<b>3,435</b>	<b>875</b>	<b>1,245</b>	<b>4,310</b>	<b>5,555</b>
<b>Employee Total Contribution Rate</b>					
Average*	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>
Median*	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>
<b>Employer Total Contribution Rate</b>					
Average*	<b>4%</b>	<b>5%</b>	<b>6%</b>	<b>5%</b>	<b>6%</b>
Median*	<b>3%</b>	<b>4%</b>	<b>5%</b>	<b>4%</b>	<b>5%</b>
<b>Distribution of Employee Contribution Rates</b>					
0.1% – 3.9%	<b>55%</b>	<b>44%</b>	<b>42%</b>	<b>48%</b>	<b>44%</b>
4.0% – 5.9%	<b>18%</b>	<b>24%</b>	<b>23%</b>	<b>22%</b>	<b>23%</b>
6.0% – 9.9%	<b>18%</b>	<b>21%</b>	<b>22%</b>	<b>19%</b>	<b>21%</b>
10.0% – 14.9%	<b>7%</b>	<b>9%</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>
15.0%+	<b>2%</b>	<b>2%</b>	<b>3%</b>	<b>2%</b>	<b>3%</b>

\*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 < 50 members	\$3,395	\$3,020	\$6,415	\$2,295	\$2,090	\$4,385
Plans with 50-199 members	\$3,940	\$3,610	\$7,550	\$2,755	\$2,585	\$5,340
Plans 200+ members	\$5,880	\$4,780	\$10,660	\$3,915	\$3,475	\$7,390
All plans in the industry	\$3,745	\$3,415	\$7,160	\$2,600	\$2,410	\$5,010
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, a plan sponsor 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.

**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 small business industry, the use of automatic contributions is **less common, with approximately 30% 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.<sup>2</sup>

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:

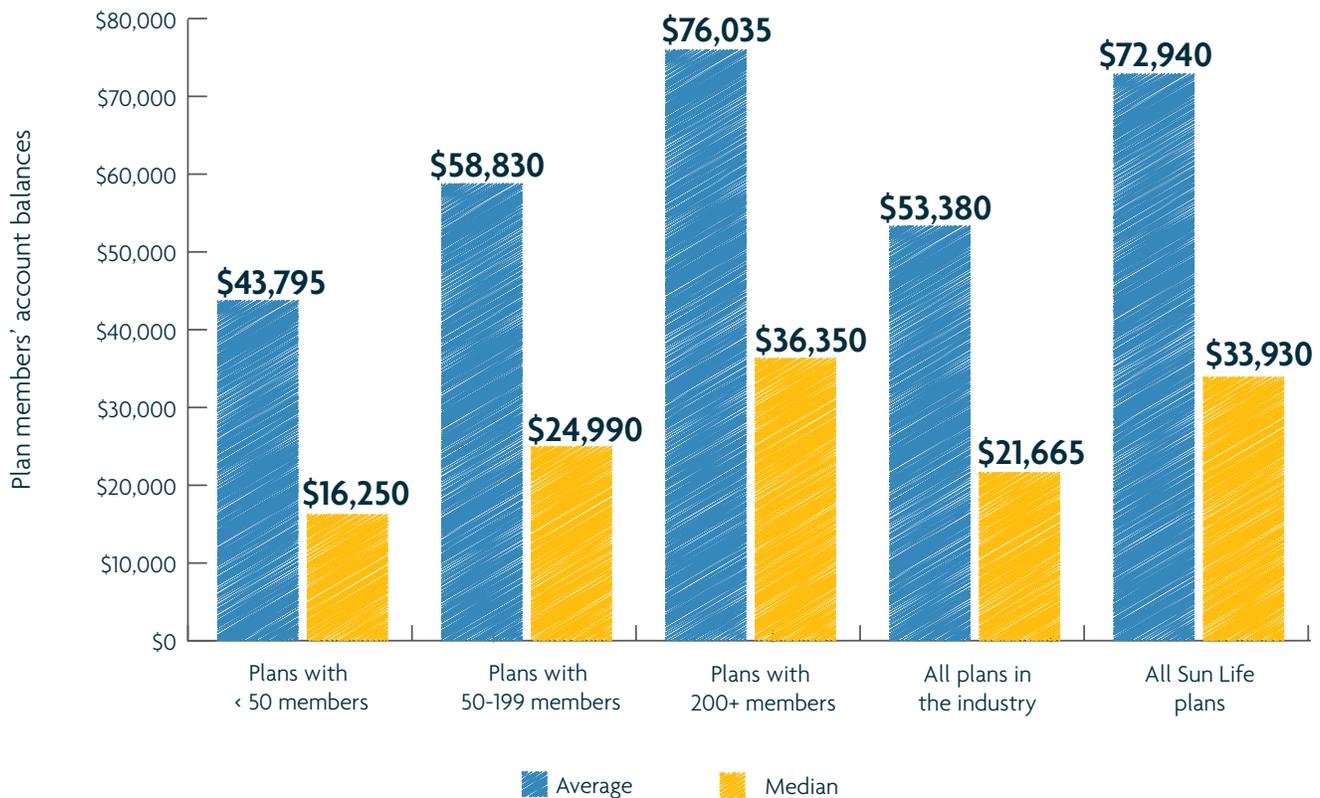
- With job changes – and the ability to transfer balances to personal RRSPs and locked-in accounts – CAP members may be holding locked-in balances from previous employer pension/savings plans.

- 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.

2 Willis Towers Watson Global Pension Assets Study – January 2017

FIG. 4.3 ACCOUNT BALANCES



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.

## 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**

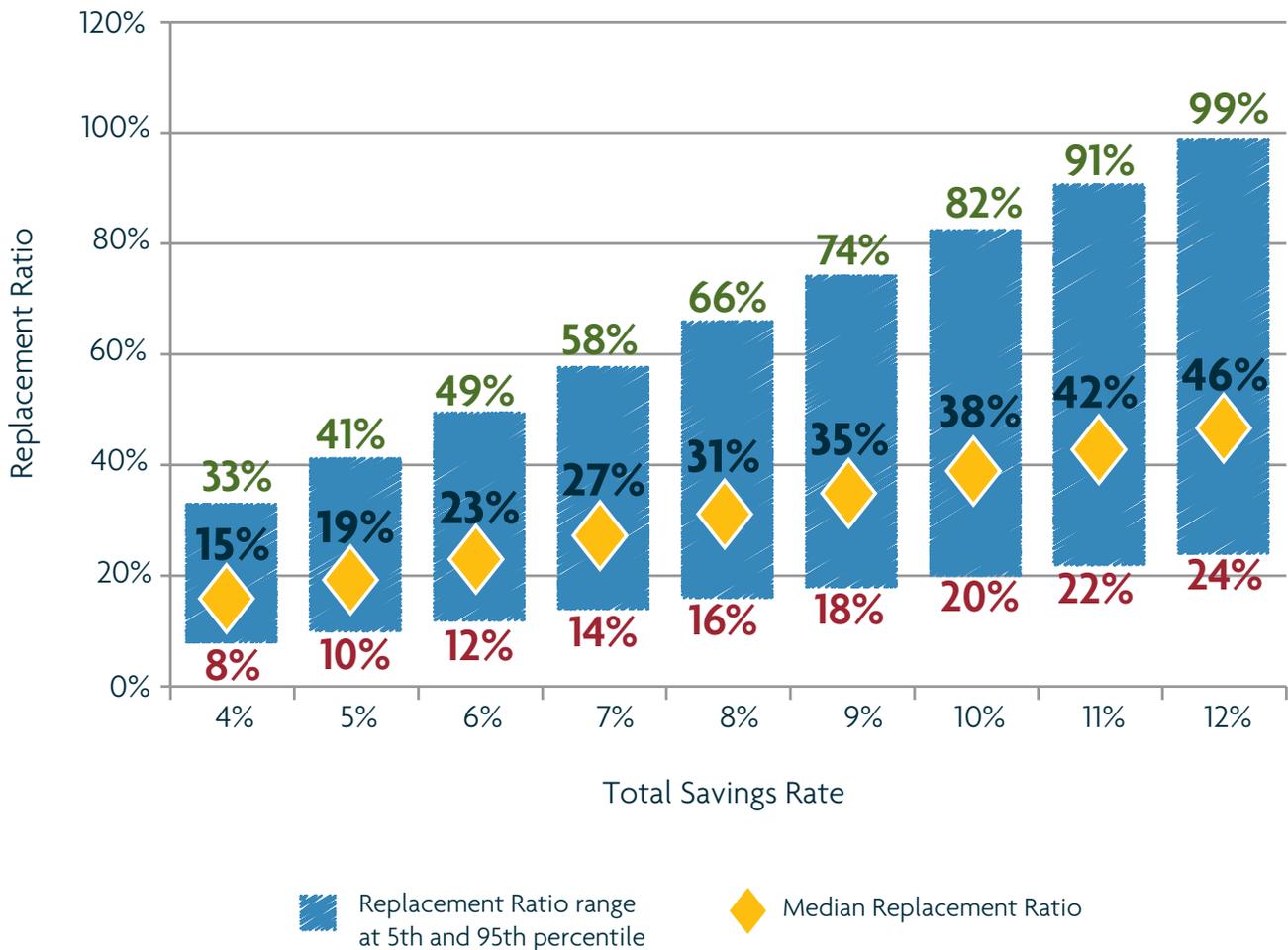
Illustrated Replacement Ratio at age 65, starting at age 25, 2.5% salary growth scale, contributions invested in SLGI Granite Target Date Fund.

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

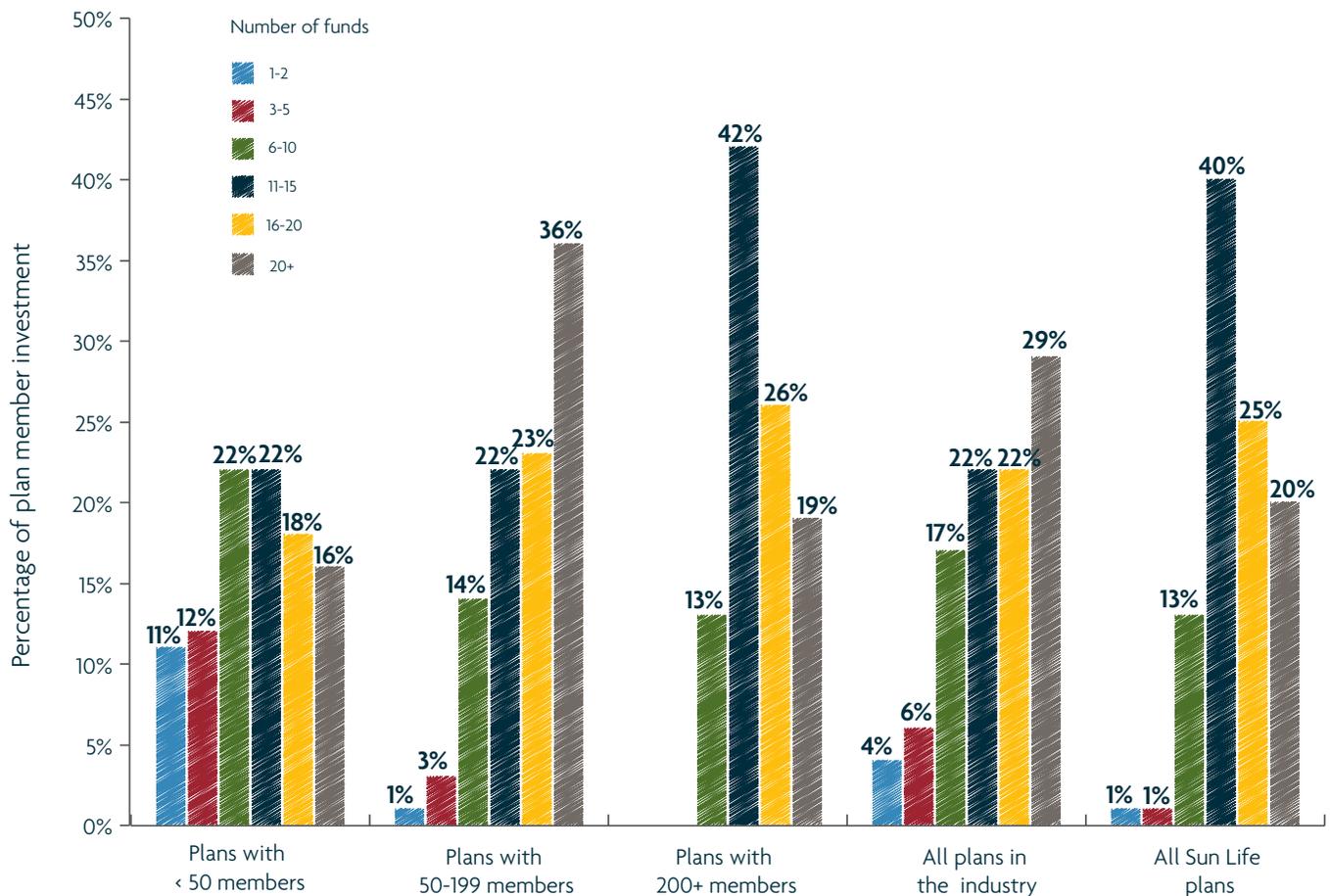
## Investments

### 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.

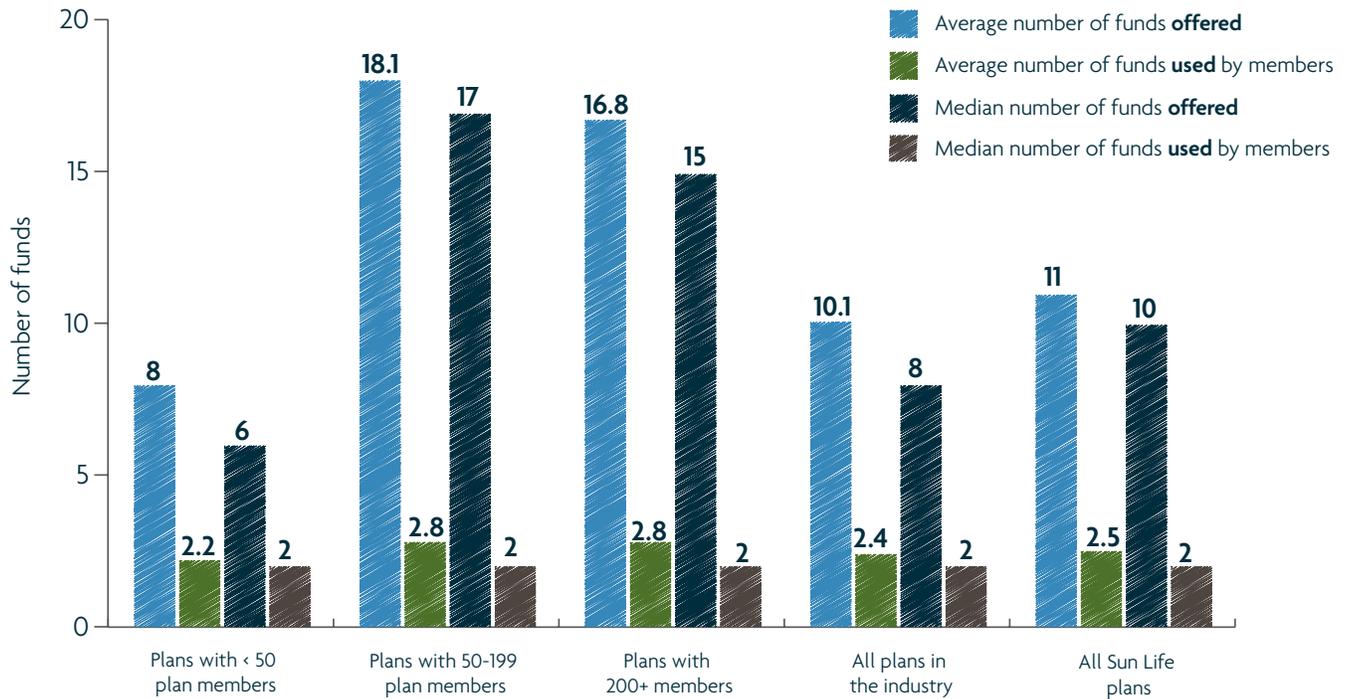
In the chart below, a series of target-risk or target-date funds are counted as one fund. Similarly, Guaranteed Interest Account options, where varying terms are offered i.e. 1, 3, 5 year, are counted as one option.

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 FUNDS OFFERED IN A PLAN AND FUNDS USED BY PLAN MEMBERS



### NUMBER OF FUNDS CHOSEN IS SMALL

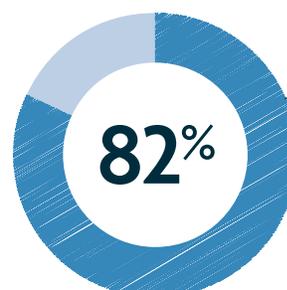
Regardless of plan size or the number of options offered, most plan members limit their investments to two or three funds. When it comes to the small business industry, approximately two-thirds of all plan members use one, two or three funds. For plan sponsors with 200 or more plan members, the number of plan members using one, two or three funds increases to three-quarters.

*82% of small business employers with a retirement plan believe advisor services to be an important aspect of a successful plan.*

Source: Voice of small business plan sponsors, Sun Life Financial survey

## 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.*



Employers believe advisor services are important aspects to building a successful retirement plan

**SECTION 5 | Investments**

**FIG. 5.3 FUNDS BY ASSET CLASS OFFERED IN A PLAN**

Funds by asset class (percentage of plans offering)	Plans with <50 members	Plans with 50- 199 members	Plans with 200+ members	All plans in the industry	All Sun Life plans
<b>Money Market/Guaranteed</b>					
• Money Market	<b>46%</b>	<b>0%</b>	<b>0%</b>	<b>54%</b>	<b>60%</b>
• Guaranteed	<b>51%</b>	<b>0%</b>	<b>0%</b>	<b>57%</b>	<b>61%</b>
<b>Fixed Income</b>	<b>47%</b>	<b>93%</b>	<b>98%</b>	<b>55%</b>	<b>61%</b>
• Active	38%	74%	64%	81%	77%
• Passive	24%	69%	79%	58%	63%
<b>Balanced</b>	<b>67%</b>	<b>83%</b>	<b>71%</b>	<b>70%</b>	<b>70%</b>
• Active	66%	82%	69%	99%	99%
• Passive	9%	17%	13%	15%	15%
<b>Asset Allocation/Target Risk</b>	<b>37%</b>	<b>54%</b>	<b>32%</b>	<b>41%</b>	<b>39%</b>
• Active	36%	49%	24%	96%	94%
• Passive	2%	8%	10%	7%	10%
<b>Target Date</b>	<b>47%</b>	<b>74%</b>	<b>81%</b>	<b>52%</b>	<b>56%</b>
• Active	42%	54%	39%	86%	79%
• Passive	5%	23%	45%	16%	24%
<b>Equity Funds</b>					
<b>Canadian Equity</b>	<b>64%</b>	<b>96%</b>	<b>98%</b>	<b>70%</b>	<b>74%</b>
• Active	63%	94%	97%	99%	99%
• Passive	15%	43%	52%	29%	33%
<b>US Equity</b>	<b>46%</b>	<b>90%</b>	<b>91%</b>	<b>54%</b>	<b>60%</b>
• Active	39%	74%	53%	83%	78%
• Passive	24%	71%	79%	59%	65%
<b>Global Equity</b>	<b>41%</b>	<b>79%</b>	<b>79%</b>	<b>48%</b>	<b>52%</b>
• Active	39%	77%	77%	96%	96%
• Passive	4%	16%	17%	14%	15%
<b>International Equity</b>	<b>36%</b>	<b>83%</b>	<b>88%</b>	<b>44%</b>	<b>50%</b>
• Active	27%	74%	75%	81%	82%
• Passive	19%	48%	52%	54%	55%
<b>Company Stock</b>	<b>0%</b>	<b>1%</b>	<b>12%</b>	<b>0%</b>	<b>2%</b>
<b>Real Estate/Alternative</b>	<b>0%</b>	<b>2%</b>	<b>3%</b>	<b>1%</b>	<b>1%</b>

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 small business sector,

**16% of plan members in plans with fewer than 50 members** and **13% of plan members in plans with 50-199 members** had no allocation to equities.

Coincidentally, 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 **1% for plan members in plans with fewer than 50 members** and **2% for plan members in plans with 50-199 members**.

About one in five plan members in 2016 within the small business sector overall **held extreme allocations – either with zero equity holdings or with 100% equity exposure**. Some plan 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.

**FIG. 5.4 DISTRIBUTION OF EQUITY EXPOSURE BY PERCENTAGE**

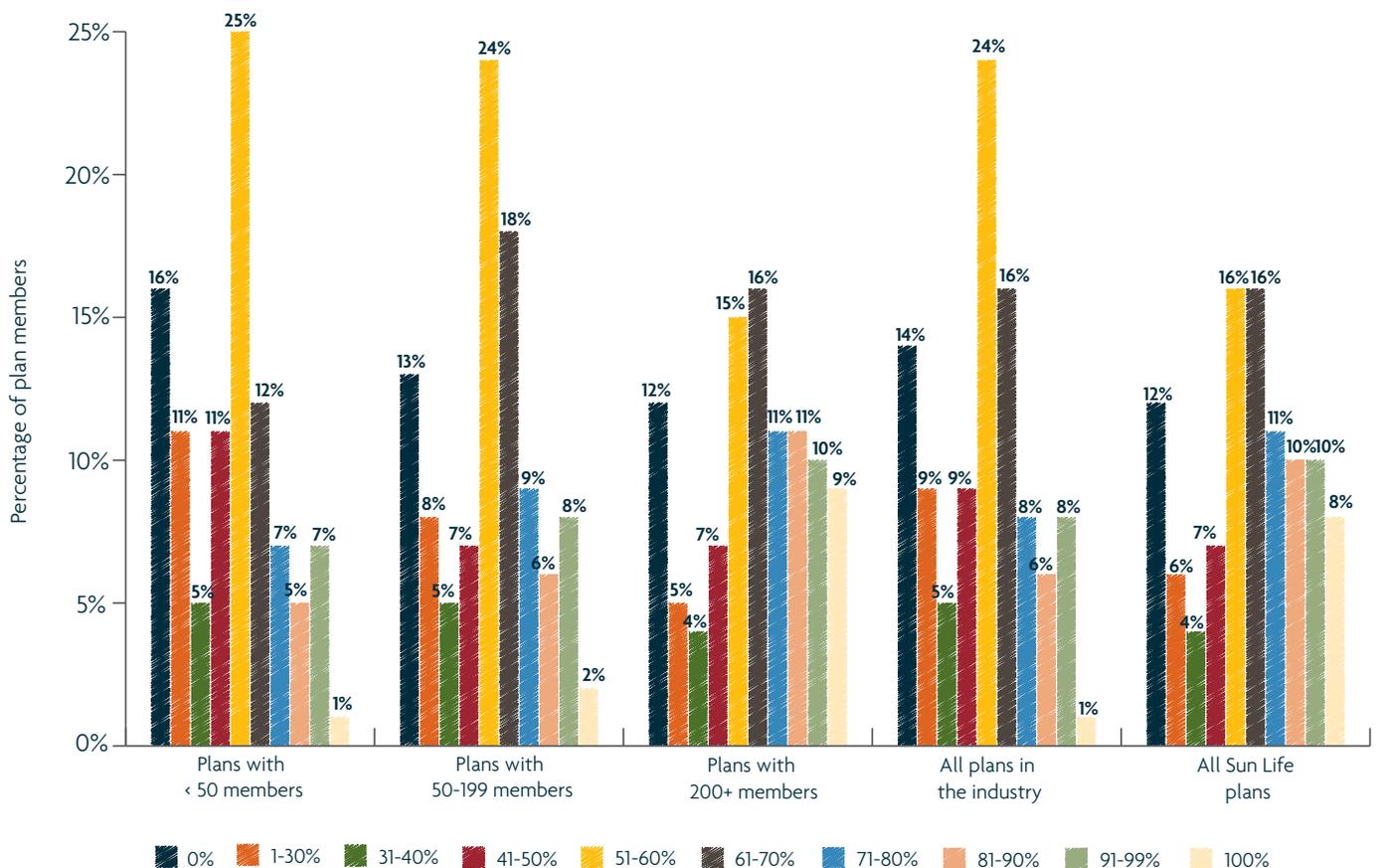


FIG. 5.5 AVERAGE AND MEDIAN EQUITY PERCENTAGE

	Plans with <50 members	Plans with 50-199 members	Plans 200+ members	All plans in the industry	All Sun Life plans
Average equity percentage	48%	54%	62%	52%	60%
Median equity percentage	54%	58%	65%	55%	65%

The plan asset allocation (Fig. 5.6) shows the asset allocations within the Small business sectors 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 50 plan members is rare when compared to plans having

between 50 and 199 plan members or more. It is also clear that target date funds are being used primarily for ongoing contributions. In many cases, a plan member's existing assets have not 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.

FIG. 5.6 ASSET ALLOCATION OF EXISTING PLAN ASSETS

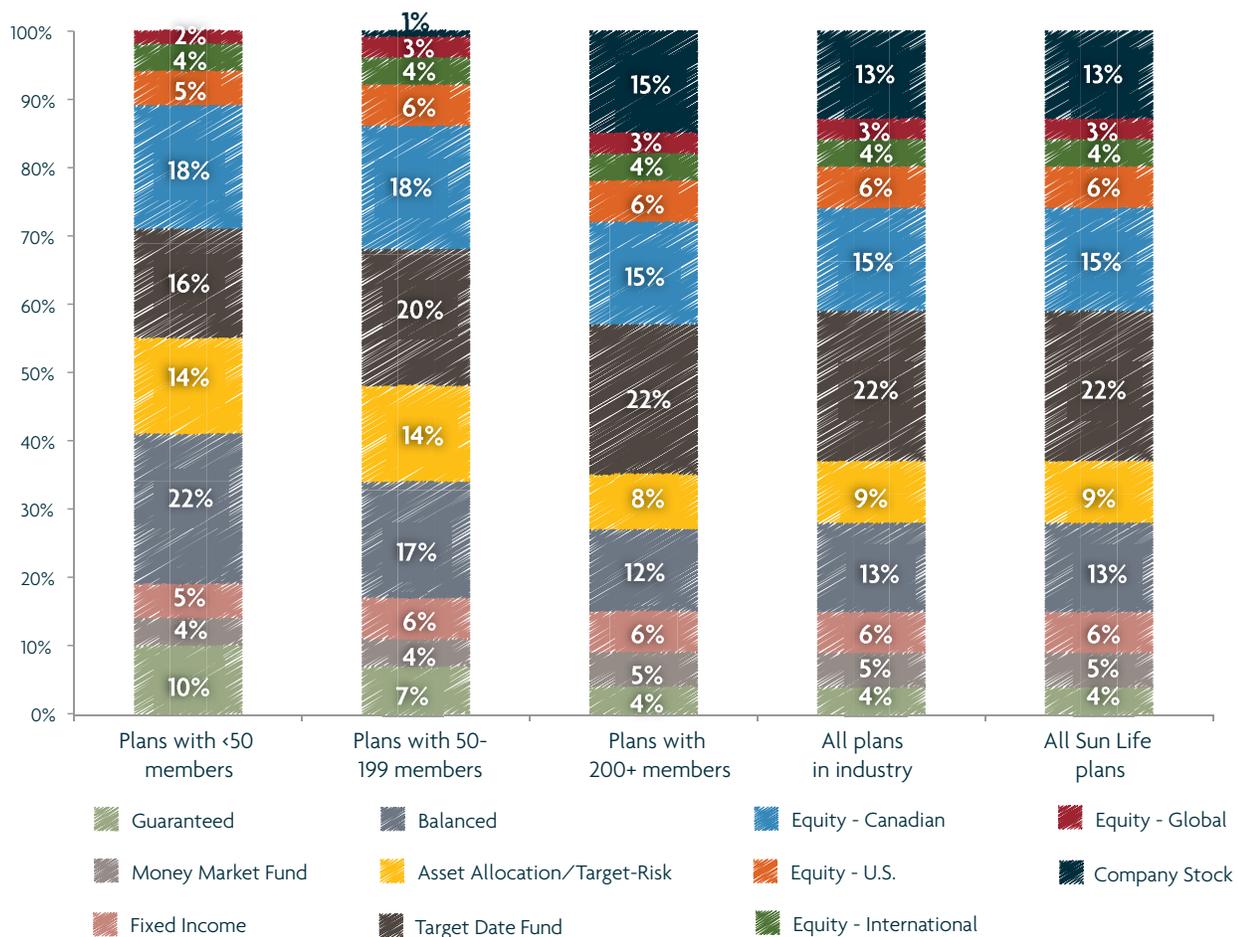
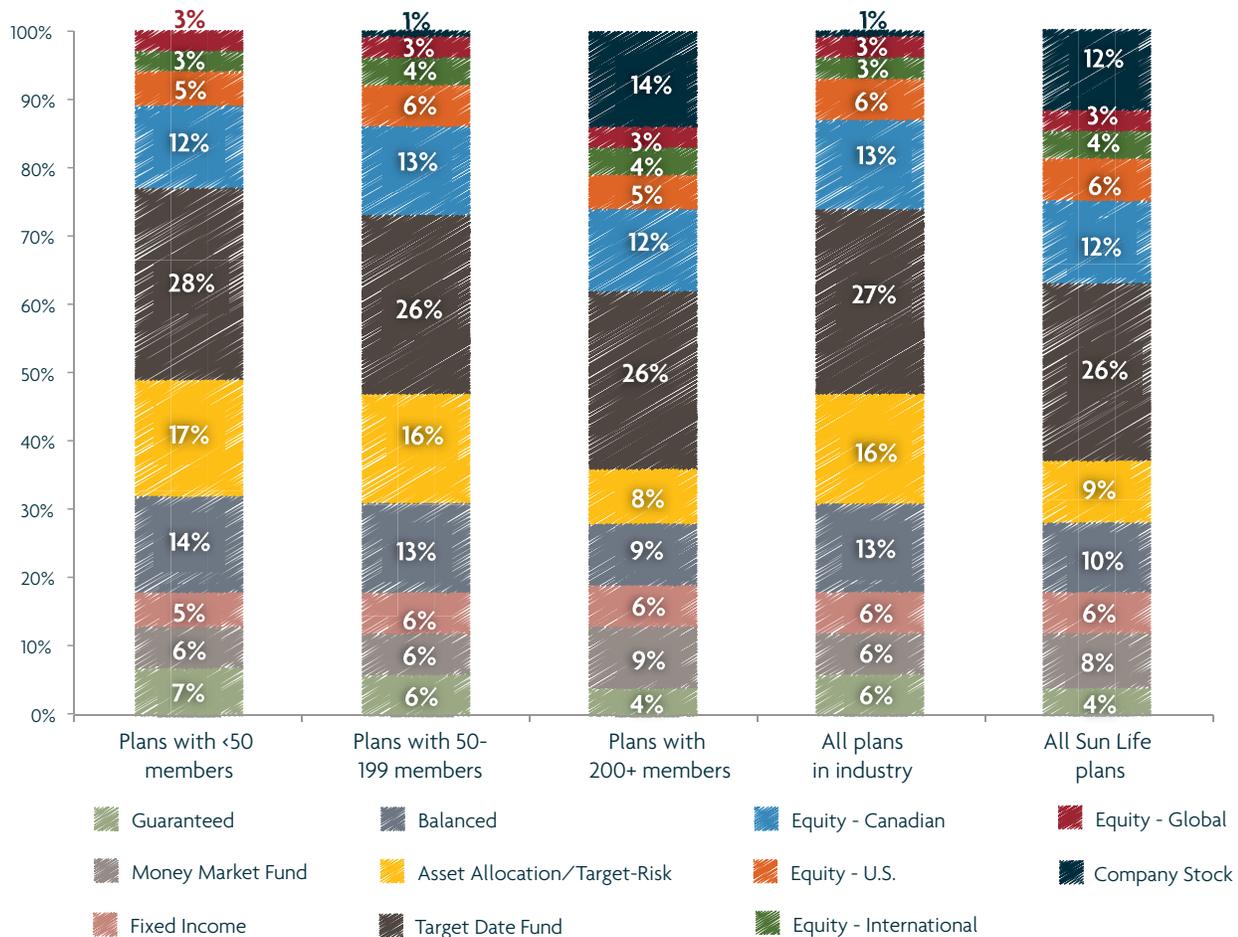


FIG. 5.7 ASSET ALLOCATION OF ONGOING CONTRIBUTIONS



## 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.*

### 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 ‘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 <50 members	Plans with 50-199 members	Plans 200+ members	All plans in the industry	All Sun Life plans
Percentage of all plans offering TDFs	<b>47%</b>	<b>74%</b>	<b>81%</b>	<b>52%</b>	<b>56%</b>
Percentage of plan assets invested in TDFs	<b>27%</b>	<b>27%</b>	<b>26%</b>	<b>26%</b>	<b>26%</b>

Plan member use of target date funds (TDFs)	Plans with <50 members	Plans with 50-199 members	Plans 200+ members	All plans in the industry	All Sun Life plans
Percentage of plan members using TDFs when offered	<b>33%</b>	<b>36%</b>	<b>41%</b>	<b>35%</b>	<b>40%</b>
Percentage of total plan member and plan sponsor contributions being directed to TDFs	<b>39%</b>	<b>35%</b>	<b>30%</b>	<b>36%</b>	<b>31%</b>

Percentage of plan members owning:					
One target date fund only	<b>76%</b>	<b>62%</b>	<b>47%</b>	<b>67%</b>	<b>49%</b>
One target date fund plus at least one other fund	<b>17%</b>	<b>26%</b>	<b>41%</b>	<b>23%</b>	<b>39%</b>
Two or more target date funds only	<b>4%</b>	<b>8%</b>	<b>4%</b>	<b>6%</b>	<b>5%</b>
Two or more target date funds plus at least one other fund	<b>3%</b>	<b>5%</b>	<b>8%</b>	<b>4%</b>	<b>7%</b>

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 table below.

When it comes to new plan members who joined their workplace plan in 2016, the professionally managed allocation trend as shown on the next page 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)

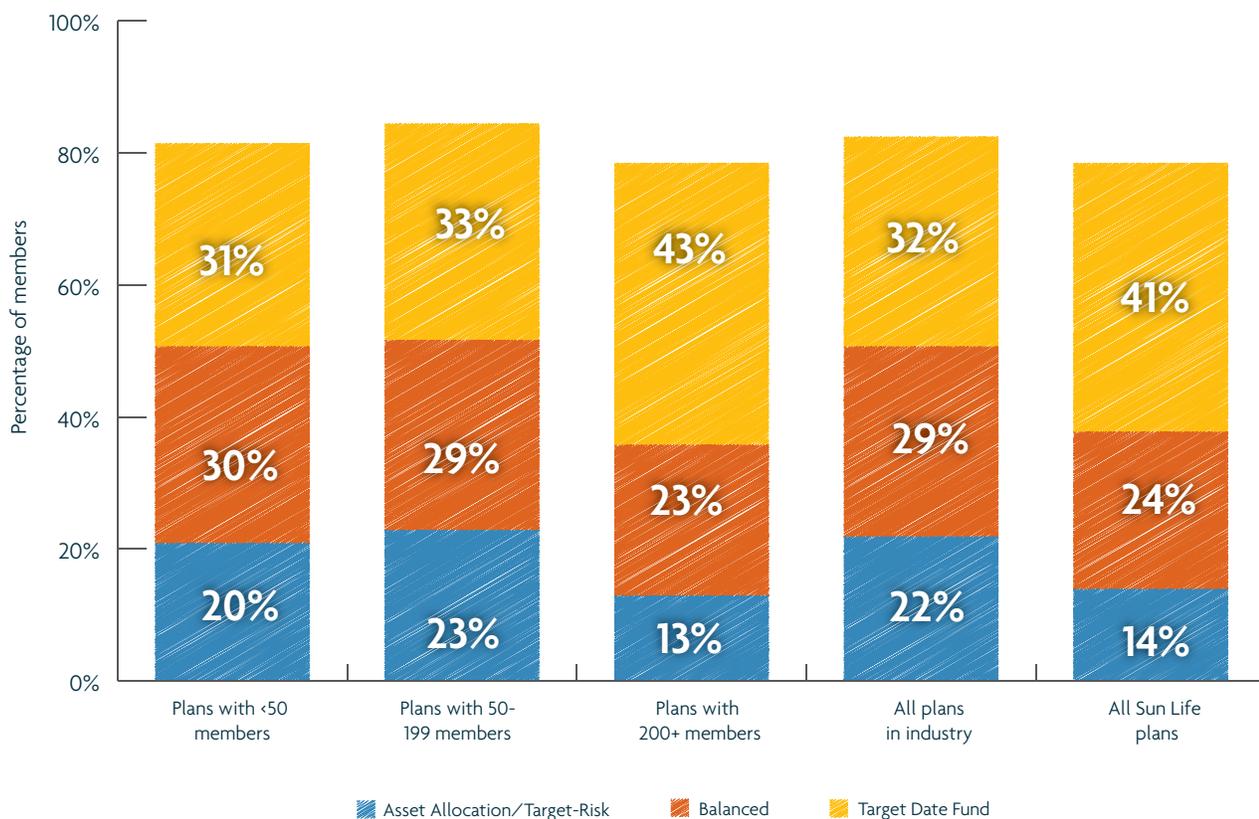
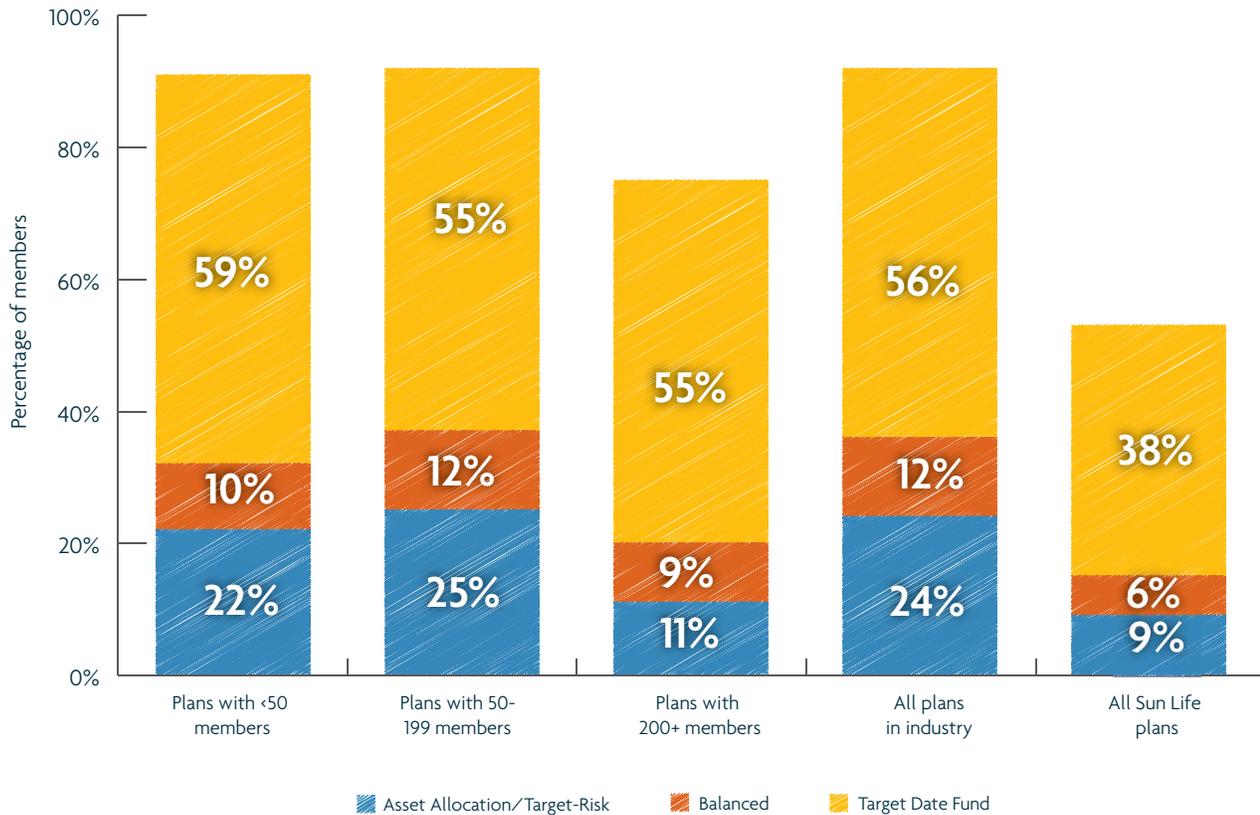


FIG. 5.10 NEW PLAN MEMBERS IN 2016 (those who joined their workplace plan on, or after January 1, 2016)



**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

## SECTION 6 | Planning and support

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

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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 Financial Inc. trades on the Toronto (TSX), New York (NYSE) and Philippine (PSE) stock exchanges under the ticker symbol SLF.

Sun Life Group Retirement Services has been ranked as the leading provider of Capital Accumulation Plans in Canada since 2002<sup>1</sup> 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

## For more information, please speak with your Sun Life Financial Group Retirement Services representative.

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