

THE DECUMULATION CHALLENGE IN TODAY'S REALITY:

Helping plan members achieve *money for life*



The current landscape

Five million Canadians are set to turn 65 this decade. At the same time, Canadians are living longer and delaying retirement, while fewer have traditional pensions. These factors have caused the industry and plan sponsors to heighten their focus on decumulation over the past several years.

While the COVID-19 pandemic hasn't changed plan sponsors' fiduciary duty, it is creating conditions that will test this responsibility. Plan sponsors are juggling changing priorities while seeking to maintain organizational health. They're also seeking help on how best to support employees, as they journey to retirement and beyond.

The pandemic has caused new headwinds and an even greater focus on decumulation challenges. As of December 2020, Canada's unemployment rate stood at 8.6%. This was up from 5.6% prior to the pandemic.

It reached a record high of 13.7% in May, in the wake of the first shutdown. A portion of these jobs belonged to Canadians over the age of 50, resulting in a group of "forced" early retirees. A second group comprises those deferring retirement due to feelings of financial insecurity brought on by the pandemic.

Overall, Capital Accumulation Plans (CAPs) have been successful in encouraging plan members to save for retirement. However, the system falls short in helping members as they shift to the drawdown phase. This is despite spirited efforts by plan providers, plan sponsors, regulators and investment firms to create a holistic framework. This includes advice, tools, products, investment strategies and evolving digital solutions. The industry has yet to reach a consensus on the ideal decumulation framework – assuming one exists at all.

Helping plan members as they shift to drawing income

For plan members, creating an adequate income stream can be complex. It first requires deciding what kind of retirement lifestyle they want. It also needs to consider the planned or unplanned lifestyle changes

54%
of 18-34 year olds don't have an advisor, but are interested in working with one.¹

that can occur over the course of retirement, which can span 30 years or longer. Early on, retirees may focus spending on checking off "bucket list" items such as travelling. In the later years, more of their spending may be on health needs and assisted care.

The desired retirement lifestyle will determine how much income retirees will need. They also need to understand government programs, and the optimal time to draw from these. From personal savings, retirees need to determine how much – and in what order – to withdraw from registered and non-registered savings, which investments to deplete first, and how to do it all in the most tax-efficient way.

An effective decumulation strategy also works to mitigate retirement risks, such as inflation, market risk, and longevity risk.

Finally, retirees must consider other expenses

they may encounter, especially healthcare costs, and the related liquidity reserves needed. All of this complexity underscores the importance of getting good advice, enabling retirees to make informed decisions when it comes to retirement income.

For many retirees, combining retirement income products may be more effective than a single retirement income source. Each can help meet different needs.

Current markets and sustained low interest rates can mean a gap between the returns a portfolio can generate and desired retirement income. Today's reality is much different than years ago, when retirees could rely on high-single digit GIC returns. Most retirees will have to draw down capital to meet spending needs.

What's clear is that traditional ideas of retirement are changing. Once viewed as "retiring from a job," retirement today is a much more nuanced concept. "Retiring to a new chapter" is a more fitting description, and a retirement plan needs to evolve as that new chapter unfolds.

Here are five key areas plan providers and plan sponsors can work on together, and examples of solutions offered by Sun Life. These help promote secure, sustainable drawdown for plan members, and ensure they are supported both **to** and **through** retirement.

¹Labour Force Survey, Statistics Canada, December 2020. <https://www150.statcan.gc.ca/n1/daily/quotidien/210108/dq210108a-eng.htm>

1. OFFERING MEMBERS A SPECTRUM OF GUIDANCE, ADVICE AND TOOLS

Retirement planning needs can range from simple to sophisticated, and online to in-person. Many employers offer pre-retirement guidance through their HR team. Closer to retirement, members may be seeking income projections, which retirement consultants can help with. Whereas, for advice on estate planning, insurance and tax issues, a financial advisor may be best suited to support. The spectrum of advice can cater to the differing needs of pre-retirees.

Recent Sun Life research confirmed that Group Retirement Services (GRS) plan members are seeking tailored support to help them with retirement income planning. Getting to know members and their personal needs and priorities early is key. Equally important are regular check-ins to track progress and course correct as needed.

The same study found that virtual and in-person education sessions are effective at demonstrating knowledge, expertise and integrity. Over the past year, GRS plan sponsors sought turnkey education as they dealt with various pandemic-induced challenges. We observed a doubling in education session attendees. We also saw a 43% increase in the average number of attendees per session.

Members planning with our guided *Money for Life* approach reported a **94% increase in their level of retirement confidence.**

Members are also seeking advice as income needs change over the course of one's retirement. For example, ensuring they will not erode principal too quickly, and tax strategies that will help them optimize income during retirement. Members also cited inheritance, property advice, life insurance and adequate healthcare coverage in retirement as important.

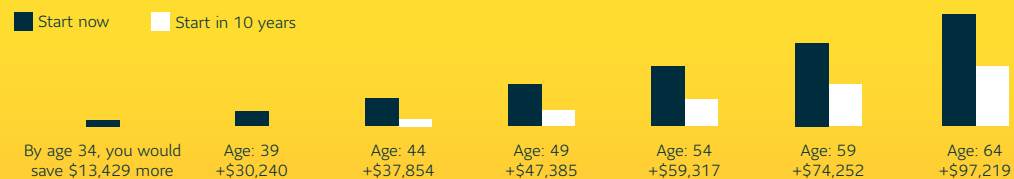
Although older members are seeking help around 10 years from retirement, advice resonates across generations. **Interestingly, our study found that it is millennials who are driving interest in working with an advisor. Fifty-four percent of 18-34 year olds don't have an advisor, but are interested in working with one.** This is a positive finding: the benefit of starting to plan and save early cannot be overstated. While the example on the right assumes a retirement age of 65, the positive impact

of starting early holds, regardless of retirement age. In addition to offering education and advice, having access to self-serve tools can help members plan. At Sun Life, this includes allowing members to set a savings goal and track their progress towards it via our Retirement Planner. We also offer various financial planning calculators. Further innovations will continue to evolve to address changing needs.



Nothing grows your money like time.

Starting early is the biggest piece of advice retirees have for you, and we agree. Take a look at how a 29-year-old saving \$200 a month starting **now** instead of in **10 years** can get more money for retirement (\$97,219 more to be exact):



This information came from the *Save today for more tomorrow* calculator on mysunlife.ca.

2. TIMELY, RELEVANT ENGAGEMENT AND COMMUNICATIONS

The top retirement income goal across all age groups is ensuring they don't run out of money. With this in mind, simple and on-message communications can help members stay focused.

Multi-channel engagement and frequency of contact can increase the success of communications. This can include digital, phone and in-person contact – with increasing frequency as members approach retirement.

Ella, Sun Life's digital coach, is powered by innovative artificial intelligence to offer timely, relevant and personal nudges. **At the peak of market volatility, we developed communications and "nudges" to educate and encourage plan members to maintain a long-term view. The strategy proved effective: 97% of GRS plan members did not change their investments. Similarly, 94% did not change their contribution levels, and 91% did not make withdrawals.** All of these results ultimately benefit members over the long-term, including in retirement. Members approaching retirement benefit from our standard – yet highly effective – communications and engagement efforts. We can also work with plan sponsors to analyze specific plan challenges, and craft targeted campaigns to improve retirement outcomes.

Case Study:

HELPING EMPLOYEES OF A LARGE PLAN SPONSOR REALIZE ON-TIME RETIREMENT

BACKGROUND

A large plan sponsor had long struggled with late retirements and high withdrawals. The average retirement age was 68. The sponsor's desire was to have employees retire at 65.

ANALYSIS

We developed a predictive analytics model to consider different scenarios: What if we altered the plan design? What if withdrawals were lower? What if all employees maximized the current plan? Can the plan design as is achieve the sponsor's goal? The analysis spanned over 20+ locations, with varying employee characteristics and demographics. We also analyzed household income and external savings. This gave us a broader perspective of member savings than a workplace-only view.

SOLUTION

We took steps to remedy the withdrawal issue. Modeling the impact of a withdrawal on retirement income became a mandatory step for employees looking to withdraw money. This ensured that members were making educated decisions. Addressing the withdrawal problem improved retirement age by around a year. However, our analysis also found the plan had a contribution problem. Almost a quarter of employees were not saving at all, or weren't taking advantage of the generous employer match.

RESULTS

On average, the analysis showed that members did have adequate savings to retire on time. This in combination with addressing the withdrawal issue led us to roll out targeted education campaigns. We met the sponsor's goal of helping members retire on time, while also helping with workforce management and people costs.



3. ENSURING YOUR PLAN DESIGN SETS MEMBERS UP FOR FUTURE SUCCESS

Virtually all aspects of plan design influence retirement outcomes. The products and investments offered, match formula all help in getting members off to a good start.

In recent years, on-time retirement is gaining importance. This is especially true given the current economy and feelings of financial insecurity among some members. Others may choose to stay on the job to retain health benefits. This may point to the benefit of offering employee wellness programs. Implementing strategies to help employees be healthier can mean they are more likely to retire on time.

For plan sponsors, enabling employees to retire “on time” is an important factor in workforce management. While many employers are aware that delayed retirements increase workforce costs, most have not have fully quantified the extent of this.

The average annual differential in costs between new hires vs. those approaching retirement can vary depending on the industry. Quantifying the cost of delayed retirements must include both the gap in salary between

older and younger employees, as well as higher benefit coverage and increased usage among older employees. Workforce management issues can also arise as younger workers aren't able to move up in the organization as swiftly as they'd like. For a mid-size employer with an ageing workforce, consider the scenario where employees defer retirement by two years, and it's easy to see how costs can add up.

We also offer GRS plan sponsors a custom Retirement Readiness Report. This report can help evaluate a plan's design to resolve specific plan challenges. The solutions implemented can help plan members achieve on-time retirement and improve organizational health.

70%
of plan sponsors
wanted Sun Life to
take a role in helping
members understand
decumulation
products.

4. OFFERING A RANGE OF PRODUCTS, AND EDUCATION INTO HOW EACH FITS INTO AN EFFECTIVE DECUMULATION STRATEGY

Despite many retirement income products already on the shelf, the CAP industry is continuing to evolve decumulation solutions. Two new solutions pending final regulatory approval include the Advanced Life Deferred Annuity (ALDA) and Variable Payment Life Annuity (VPLA). Through continued advocacy efforts, additional retirement income solutions may be available in the future.

While legislation permits Variable Benefits in most jurisdictions across the country, they are not yet a mainstream decumulation vehicle. This is due to differences in legislation and demand. **Sun Life currently offers a Variable Benefit solution in Quebec. This solution offers a few distinct features and benefits as compared to traditional RRIF/ LIFs. Generally, it is suitable for earlier retirement ages. In most jurisdictions, it can be used by retirees in industries where “phased” retirement is more prevalent.** For example, either returning to work after a break, or working part-time after retirement, since a minimum annual payment is not required.

We have worked with several plan sponsors to create their own RRIF/LIF arrangements.

Many of them seek to continue plan sponsorship and maintain relationships with retirees. **Recognizing that not all sponsors want or have the ability to administer such an arrangement, we also offer a RRIF/LIF program through our rollover Group Choices plan. Through this program, retirees continue to benefit from competitive fees. This can have a significant impact on the sustainability of investments through retirement. This is our most popular option among retirees, and one that 8 out of 10 of plan sponsors endorse.**

While a mix of guaranteed and growth vehicles in decumulation is important, asset allocation continues to play an important role. In the savings phase, target date funds are a popular investment. Over 80% of all net contributions go into target date funds. A natural extension may be target date funds that go beyond the “retirement fund,” and into managed accounts as members enter the drawdown phase. So in addition to income product evolution, there is also room for investment product evolution beyond the current accumulation options.

5. AMPLIFYING OUR VOICE THROUGH ADVOCACY

Sun Life is an active participant in advocacy efforts on behalf of plan sponsors, plan members and Canadians. Based on our experience, policymakers want to understand the views of plan sponsors of all sizes and across industries to get a wide set of perspectives. At the federal and provincial levels, policymakers reach out to us for retirement industry input. They respond and often act on public policy concerns we raise on behalf of our plan sponsors.

Smaller plan sponsors in particular may feel they have little influence over advocacy. We encourage all sponsors to join the dialogue and share

challenges and ideas. This can be through our many client engagement avenues, or through your Group Retirement Services representative. Let us be your voice at the table.

Together with industry partners and stakeholders, we advocated for the ALDA and VPLA. We provided policymakers with a practical perspective on how these solutions could work for retirees. Both will be welcome additions to the decumulation toolbox and as noted, are currently awaiting formal Federal regulations to be released. The provinces will then need to follow suit.

Since not all plan sponsors are interested in having an “in plan” retirement income solution, we’re exploring the concept of a multi-employer retirement vehicle that would allow for the pooling of retirement assets. Despite a patchwork of disparate provincial regulations, we would like to see this pursued in a harmonized way across Canada.

Another future possibility on the long list of ideas for Federal policymakers to consider is the expansion of the TFSA regime to permit life annuities. This relatively young product has gained significant traction since its launch in 2009. Over 15 million Canadians are saving through TFSAs, and this can become a significant vehicle for retirees to generate tax-free retirement income.

²Designed for Savings, Sun Life, 2019.

LOOKING AHEAD

It’s clear that the current environment poses unique challenges when it comes to building an effective decumulation strategy. Even so, fewer Sun Life GRS plan members (56%) reported feeling concerned, compared to Sun Life retail clients overall (65%). Notably, Sun Life GRS plan members also reported feeling more grateful (49% vs. 38%) and optimistic (40% vs. 33%) than others. This points to the value that employees assign to having a workplace plan, and the relative peace of mind that can come with this.

Sun Life is committed to continuing to move the industry forward, leading the decumulation conversation among our industry peers, regulators and the government. We’re also pleased to be the voice of plan sponsors, bringing their concerns and priorities to the table.

We’re continuing to innovate in many areas. For example, we’re supporting a large client with an integrated solution for their hybrid DB / DC plan. We developed bespoke, holistic solutions and a tailored retirement planning experience. A new retirement planning tool provides this client’s plan members with a year by year view of income from each retirement product. It also allows them to model different withdrawal levels from each product. Work is underway to make these new innovations

available more broadly. We are also developing leading-edge digital enhancements to tools, the GRS plan member web and mobile app experience. We’re excited to share details on these and other innovations over the coming months.

The solutions discussed in this paper are just some examples of the myriad ways plan providers and plan sponsors can work together and rise to the challenges of the day. At Sun Life, we aim to help sponsors meet fiduciary obligations, and help make workplace plans more resilient and future-ready. In doing so, we help Canadians saving at work understand, fully participate in and value their arrangements, leading to better retirement outcomes. Sun Life is committed to supporting plan sponsors and members both to and through retirement. We do this through innovative products and solutions, advice and advocacy, and communications and engagement. Our ultimate goal is to help Canadians build a worry-free, sustainable retirement, founded on lifetime financial security.

Contact your Group Retirement Services representative to discuss how Sun Life can support your plan and members with decumulation.



Sources:

Sun Life Group Retirement Services Plan Member Client Experience Monitor, December 2020.

Sun Life Group Retirement Services Plan Sponsor Client Experience Monitor, December 2020.

Sun Life Decumulation Qualitative Research Study, December 2020.

Sun Life COVID-19 and Mental Health Omni Study, May 2020.

Client Partnership Council Surveys, 2020.

Sun Life transactional data and internal analysis.