

A NEW INITIATIVE FROM
GLOBAL RISK INSTITUTE IN FINANCIAL SERVICES:
**NATIONAL PENSION HUB FOR PENSION
KNOWLEDGE AND RESEARCH**



At the 2017 Annual Summit, the Global Risk Institute (GRI) announced the creation of a National Pension Hub (NPH) that will serve as Canada's centre for pension thought leadership and research.

With the strategic partnership of GRI, a syndicate of industry experts and academic researchers will collaborate to incubate a sustained pipeline of transformative, outcome-based pension research. Research will focus on bringing understanding and transparency to the retirement savings challenges in Canada - informing better decisions and delivering innovative solutions. Over time, the Hub aims to advance Canada's body of knowledge and research, establishing Canada as a global authority on pension and retirement security research.

In a unique design, the Hub's research mandate will be defined directly by its diverse membership of pension stakeholders, who represent a wide range of interests and perspectives. More than a dozen organizations have joined the NPH to date, including: AIMCo, bcIMC, CDPQ, CPIB, CN Pension Trust Fund, Deloitte, IMCO, KPMG, McKinsey, Mercer, OMERS, OTPP, Public Sector Pension Investment Board (PSP Investments), PwC, GRI and independent pension experts Bob Baldwin, Bernard Morency and Hugh Mackenzie. The NPH is chaired by Barbara Zvan, OTPP's Chief Risk and Strategy Officer.

LEVERAGING CANADA'S INDUSTRY AND ACADEMIC FACULTIES

Canada is home to some of the world's most prominent pension organizations. Collectively, these institutional investors manage trillions of dollars in retirement savings and contribute significantly to national prosperity and retirement security. Pension providers around the world are increasingly looking to Canada as a valuable source of expertise as they begin to grapple with the investment and funding challenges that Canada has been dealing with for years. How these institutions continue to safeguard and invest their funds over time is critical to the local economy, and on the global radar.

Canada is also home to world-class post-secondary institutions that are recognized specifically for the academic quality and impact of their research. The Hub will work with these institutions to strengthen Canada's academic body of work on pension and retirement security issues.

"We plan to build a deep reservoir of pension knowledge and research that will inform pension industry stakeholders, encourage debate on pension policy, and lead to consensus on critical issues."

WHAT THE NPH WILL DO

The NPH will bring Canada's pension leaders together to pool knowledge and resources, collaborate and debate, and develop valuable insights on the most critical issues challenging the country's retirement security.

"We plan to build a deep reservoir of pension knowledge and research that will inform pension industry stakeholders, encourage debate on pension policy, and lead to consensus on critical issues,"

said Richard Nesbitt, CEO of GRI

The Hub will also provide the platform for Canada's practitioners and academics to partner in exploratory research on complex topics, combining applied industry insights with fact-based depth and rigour. Maintaining a steady research effort is of central focus in the Hub's mission to grow the country's body of objective, value-added pension content, with the goal to bolster Canada as a leading contributor in the space.

The Hub's defined objectives target advanced data and better decisions:

1. Provide Innovative Solutions to Retirement Saving Challenges:

Nurturing and growing a vast platform of pension knowledge will benefit government and industry partners and lead to innovative solutions to pension design, governance and investment challenges.

2. Create Sustainable Capacity for Academic Research:

Creating a well-funded and sustainable pipeline of research activity, based in academic rigor, will contribute to building sustainable expertise in the academic community.

3. Serve as an Unbiased Source for Policy Consultation:

Objective and consistent research offers policy makers and industry leaders access to fact-based analysis and commentary, which encourages debate on pension policy and leads to consensus on critical issues.

RESEARCH TOPICS

The NPH will examine a broad spectrum of research topics that span across plan types and pension stakeholders. Preliminary discussions on areas of topical interest have been plentiful, signalling a healthy pipeline of research over time.

Research ideas generated so far include:

- Examination of regulatory changes related to plan design, solvency and reporting
- A deep dive and funding analysis on demographic changes and workforce shifts
- Exploration of critical and emerging portfolio construction and risk management issues such as enhanced private asset modeling, leverage use, risk frameworks for pension plans, and the role of various asset classes in building a resilient portfolio
- An overview of liability valuation and discount rate approaches
- Evaluation of plan design options and associated implications on intergenerational fairness, including exploration of risk-sharing mechanisms
- A deep dive on pension plan governance, with identification of best practices

Research focus will be collectively informed, prioritized and funded by the Hub. GRI will support the research mandate through topical guidance, overall administration and project management.

WHY CANADA NEEDS A NPH

Adequate retirement income and pension security are growing issues in Canada, precipitated by a number of economic, regulatory, political, and social demographic factors. With declining occupational plan coverage, waning household savings and growing funding challenges for plan providers; retirement security is becoming a vital social and political focus.

"Pension and income security seems to be a little bit the province of actuaries. It really should be looked at not as an actuarial science only... we're all going to need a pension at some point,"

said Richard Nesbitt, CEO of GRI

The need for stronger transparency and constructive conversation around critical issues is clear in improving Canada's retirement income landscape.

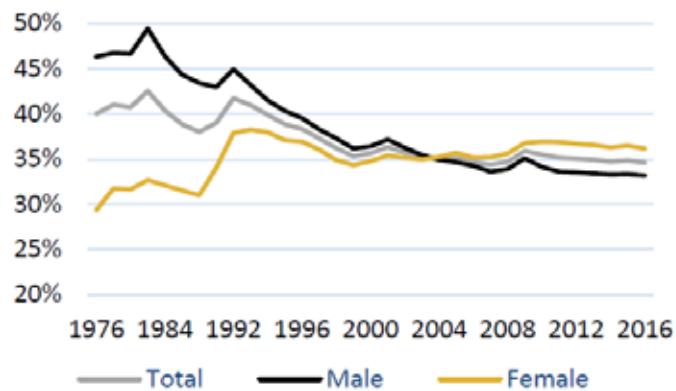
PRIVATE SECTOR PENSION COVERAGE IS DECLINING AND CANADIANS ARE UNDERSAVING

Canada's universal pension programs are designed only to secure a minimum standard of living. From that, it is expected that supplementary workplace plans and personal savings will fund a more sustainable retirement income. Recent research from the Broadbent Institute¹ found that 47% of those aged 55-64 have no accrued employer pension benefits. The median value of retirement assets for these individuals is just over \$3,000. From a retirement planning perspective, OSFI's latest retirement study² found that only 23% of Canadians contribute to a personal RRSP, and that number continues to decline. Of concern, the decreasing share is observed in those aged 25-54. With a rapid

decline in workplace coverage, there is more urgent discussion around how to drive Canadians to save enough for a basic retirement lifestyle.

Those continuing to provide occupational pension coverage are grappling with funding challenges, leading to questions around plan design and investment risk taking. Among private employers, there is growing belief that Defined Benefit (DB) plans are too expensive, risky and complex. This has prompted a wide scale migration away from DB plans, by either winding down or converting to other plan types (Defined Contribution (DC) or Hybrid) that are considered more economical, easier to manage and that transfer longevity and investment risk to the individual. Over the last decade, the number of active members in converted plans has increased significantly, represented almost entirely by the private sector. Of the 77% of Canadian employees without a workplace pension today, over 76% are in the private sector³.

Percentage of Employees with a Registered Pension Plan (RPP) by Gender



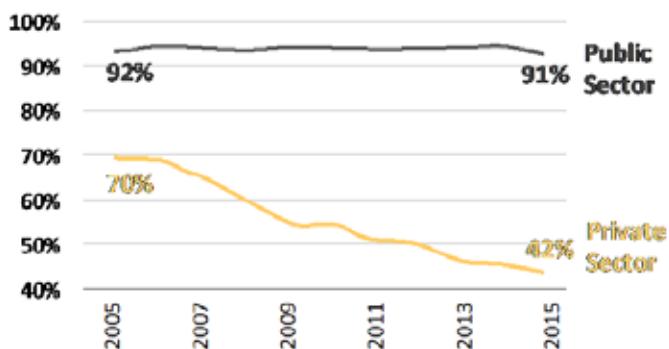
Source: Statistics Canada

¹ Broadbent Institute paper by Richard Shillington of Tristat Resources, "An Analysis of the Economic Circumstances of Canadian Seniors", February 2016

² OSFI, Registered Pension Plans (RPP) and Other Types of Savings Plans – Coverage in Canada, Distribution of Employees by Sector and RPP Coverage

³ OSFI, Registered Pension Plans (RPP) and Other Types of Savings Plans – Coverage in Canada, Distribution of Employees by Sector and RPP Coverage

Proportion of Active Members Covered by a DB Plan



This disproportionate decline in private workplace coverage is widening the already prominent gap between public and private sector pension coverage in Canada. In many cases, plan conversions have led to lower returns, as the average person does not know how much money to put aside and will defer to overly conservative investment choices.

The issue is not isolated to corporate plans. Canada's recent decision to enhance the Canada Pension Plan by creating a fully-funded state retirement program, "CPP2", is a global first. While this will significantly increase the level of retirement income set aside for CPP, the finance ministers have stated that if the cost of the enhancements varies from actuarial calculations, benefits may be adjusted.

INCREASING CHALLENGE TO DELIVER THE PENSION PROMISE

Where is this coming from? For the past several years, Canadian pension funds (particularly DB plans) have faced significant intergenerational and financial challenges. The implications of demographic and economic trends in Canada are creating a heavier burden on future generations. How retirement systems adapt to these realities now and over time is not only the concern of retirement specialists.

As with most Western countries, Canada has an aging population with lengthening life expectancy. In 1977, the median age in Canada was 28. In 2017, it is 40. Since 1977, the ratio of working age to retired population in

Workplace Pension Coverage by Sector

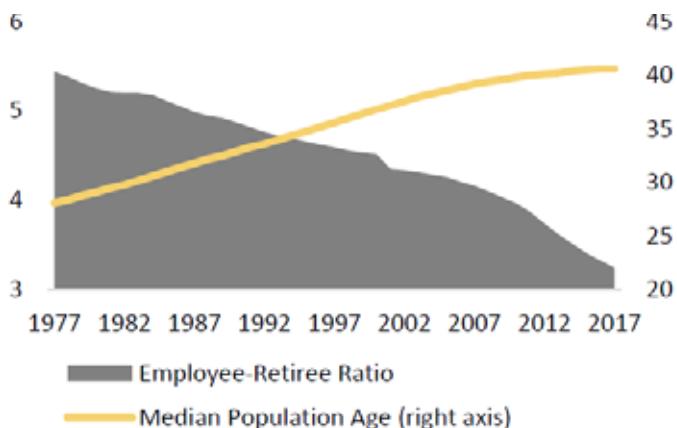
	Covered	Not Covered
Private Sector	24%	76%
Public Sector	87%	13%

Source: OSFI (Table and Chart)

Canada has decreased by 40%. This carries a number of social and economic implications, but from a retirement security perspective it means that there is a growing imbalance between the number of years a pensioner works (and thus contributes) toward their retirement and the number of years they live in retirement.

Compounding this, a decreasing working force has created an imbalance between active members (those contributing) and pensioners (those collecting). This has important sustainability implications for pension plans. It reduces a plan's ability to withstand losses (and thus tolerance for investment risk), as contributors are less equipped to fund deficits arising from major investment losses. From a fiduciary perspective, it challenges a plan's ability to meet the needs of the present without compromising future generations, as contribution increases and/or future benefit reductions are borne solely by active members. This concept

An Aging Population and Decreasing Workforce

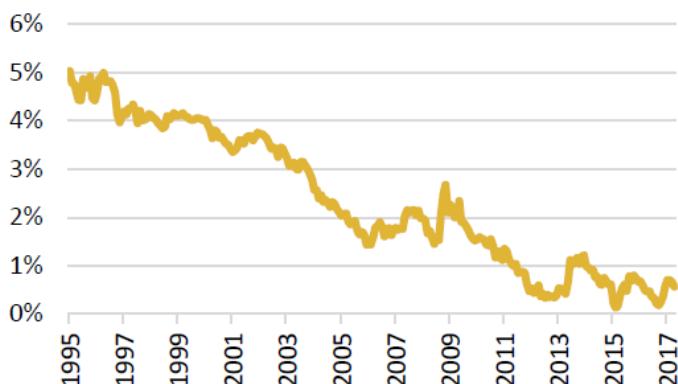


Source: Statistics Canada

of intergenerational equity- that members of each generation will contribute the right amount to pay for the benefits they receive- is an important aspect of plan sustainability.

The net result is more pressure on pension fund managers to generate sufficient investment returns to offset shortages and fund liabilities over the long-term. In an environment of low yields, high market volatility and uncertainty around asset class performance, the quest for investment returns is getting harder. Add to that finite resources, uncertainty around fiscal and monetary policies, geopolitical unknowns and regulatory changes, and the result has been several evolving challenges over the last decade.

Decreasing Interest Rates



Source: Bank of Canada

HOW THE NPH WILL WORK

With GRI as its administrator, the NPH will build its research pipeline throughout 2018. Once established, the Hub will target an average of six projects per year, each with an average two-year lifespan. Project targets and Hub membership will be regularly assessed as the Hub matures and evolves.

With an established Pension Research Advisory Committee (PRAC) drawn from its membership and supporting the Hub, GRI will serve as the conduit between the Hub and Canadian universities to match researchers with identified topics, ensuring output is practical, timely, and meets defined needs and objectives. Additionally, GRI will work with the NPH to introduce additional members and oversee the research process from inception to project completion, providing ongoing feedback on progress and milestone achievements.

GRI is a premier institution and global thought leader in risk management for the financial industry. The institute has developed an extensive relationship network and has a proven model for deriving value from the partnership

between industry and academia in pursuing research across diverse risk management issues. As such, GRI is uniquely well suited to advance the goals of the NPH, and the Hub's research objectives are a strong compliment to GRI's existing risk management expertise.

*If you would like more information on the National Pension Hub please contact **Anca Drexler** at the Global Risk Institute adrexler@globalriskinstitute.org*