

Do Canadians Know Their Retirement System?

RSI Index 2019

Summary

The level of general financial literacy among Canadians is fairly low, although it is comparable to what is observed elsewhere. In the context of an aging population and of a changing retirement landscape – programs, behaviours, labour market, family structures, health... – it is appropriate to measure **the knowledge that Canadians have of their retirement income system**. Indeed, a certain level of knowledge seems essential to plan for retirement, particularly in a system that relies heavily on non-public pillars.

The *RSI Index* combines the responses of **3,000 Canadians aged 35 to 54** to 6 questions of general financial knowledge and 23 program-specific questions on 4 different topics, for a **total of 29 questions**. For the first edition, **the overall index is 36.5%**, reflecting a limited knowledge of our multi-pillar system and of certain key concepts. As one might expect, older, more educated, and higher-earning individuals do slightly better, but their level of knowledge is still low. **The most difficult topics are the ill-known employer plans; and Old-Age Security**, which comprises of various poorly understood programs. On the latter topic, most respondents have a hard time providing more than 2 correct answers out of 8 questions. Limited knowledge of the system could put at a disadvantage those relying on private savings, as much as lower-earning individuals – who might be more likely to depend on public programs. The 2019 *RSI Index* reminds us of the importance of information about the retirement system.

Background

The level of general financial literacy among Canadians is fairly low, although it is comparable to what is observed elsewhere in industrialized countries. On the other hand, the financial knowledge of Quebecers and Canadians changes slowly over time. As well, certain data are beginning to emerge on more narrow topics, such as “tax literacy”. There again, knowledge appears to be rather limited.

At the same time, many have attempted – and still try – to measure the level of retirement preparedness of Canadians. Furthermore, a link has been established in several countries between general financial literacy and preparation for retirement.

Background (cont'd)

However, no one has attempted to measure the level of knowledge of Canadians with respect to their retirement income system, nor the way in which it correlates with certain individual characteristics. But beyond general financial knowledge, such as about the nature and effect of inflation, it appears pointedly difficult, for the non-retired workers-savers, to make enlightened decisions without knowing what makes up the system as well as the functioning of its main parts.

In the context of an aging population and a changing retirement landscape – programs, behaviours, labour market, family structures, health... – it is appropriate to measure the knowledge that Canadians have of their retirement income system. Indeed, a certain level of knowledge seems essential to plan for retirement, particularly in a system that relies heavily on non-public pillars. Even those individuals who are most likely to depend on public programs may find themselves at a disadvantage with limited knowledge.

Background (finished)

In order to fill this gap, and to offer a synthesized overview of what Canadians know about their retirement income system, the team at the Retirement and Savings Institute (RSI) at HEC Montréal undertook the measurement of knowledge of various aspects of the system among Canadians aged 35 to 54 years old.

Indeed, this is the age group that, in theory, should find itself in a period of strong asset accumulation in preparation for retirement. On the one hand, younger individuals often have other concerns and financial priorities. On the other hand, those 55 and older are much more likely to know the retirement system closely – through relatives, or being retired themselves – and to be concerned with related issues.

Methods

The survey used to build the *RSI Index*:

- Interviewed, in late December, 2018, a total of 3,000 Canadians aged 35 to 54 years old in all 10 provinces, proportionally to each province's population weight.
- Used Delvinia's *AskingCanadians / Qu'en pensez-vous?* Web panel, which remunerates its participants in reward points from the program of each respondent's choosing.

The 35-54 age group was targeted because it includes those individuals who should be in an accumulation phase with respect to retirement savings, while excluding younger individuals – for whom retirement is a distant event that is less immediately relevant – and older ones – who are closer to retirement and, as such, are more likely to know the programs because of a direct or indirect contact with them.

Methods (cont'd)

The questionnaire was developed by the team at the Retirement and Savings Institute based on existing work. It included 38 questions in total, among which were:

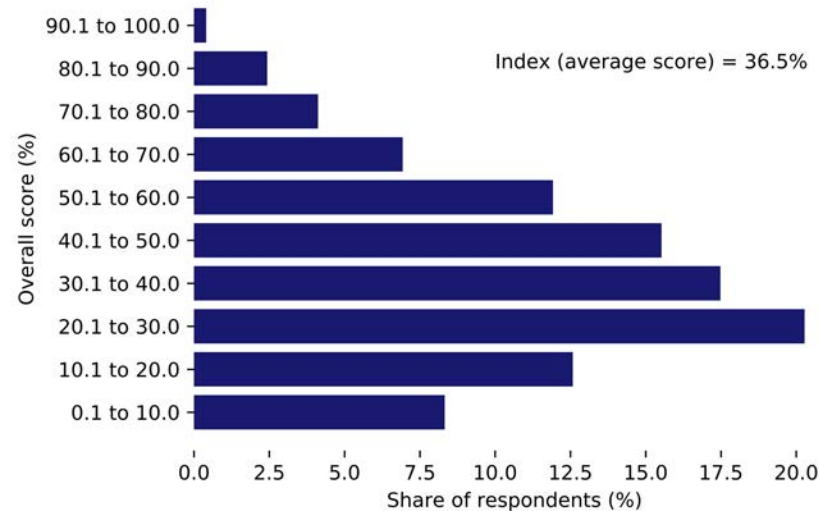
- 9 questions regarding economic and sociodemographic characteristics
- 6 standardized questions related to general financial knowledge, used in several surveys in Canada and elsewhere around the world
- 6 questions about the knowledge tax-sheltered saving
- 3 questions about employer plans
- 6 questions on the knowledge of the Canada Pension Plan or the Quebec Pension Plan, depending on the province of residence
- 8 questions on the knowledge of Old-Age Security (OAS) and the Guaranteed Income Supplement (GIS)

The *RSI Index* is the share (in %) of correct answers to the 29 knowledge questions. In order to make them representative of the target population, respondents were weighted using the 2016 Census.

RSI Index 2019: Results

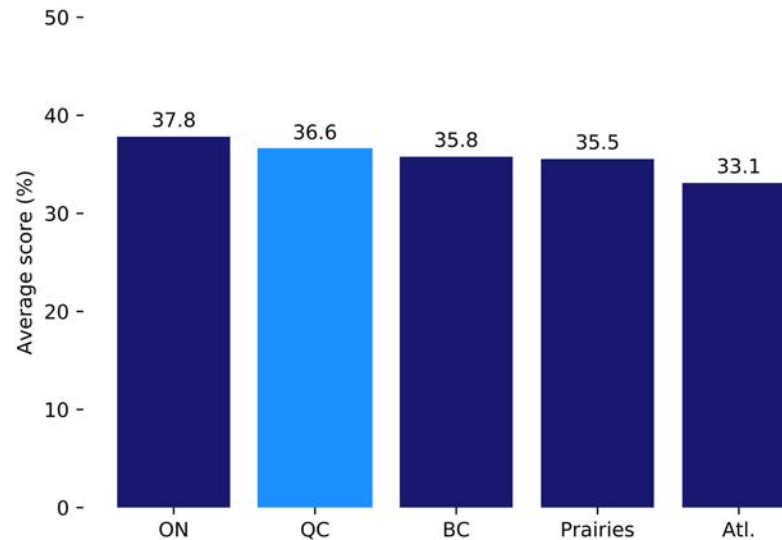
Overall knowledge

Canadians' knowledge of the system is fairly low



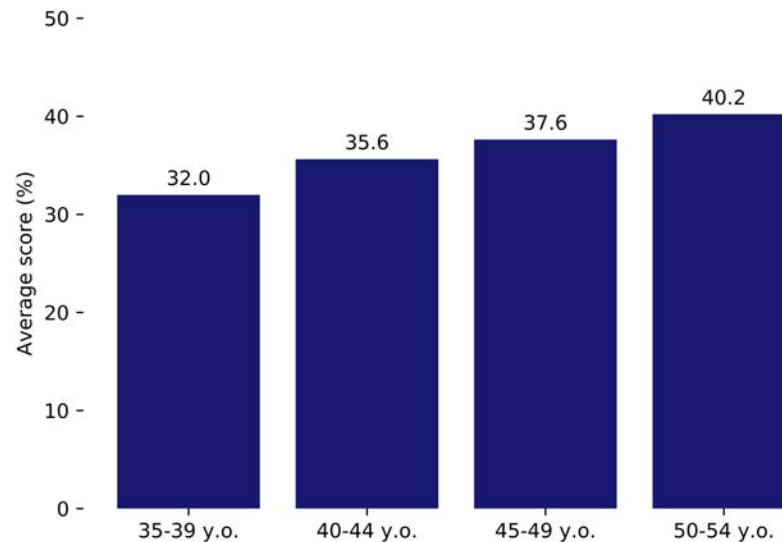
Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

There are regional differences in Canada



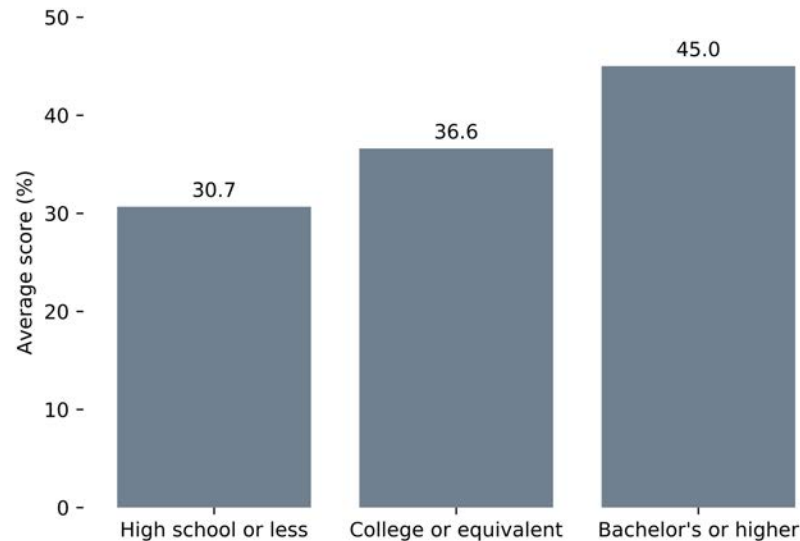
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Do we know more as retirement nears?



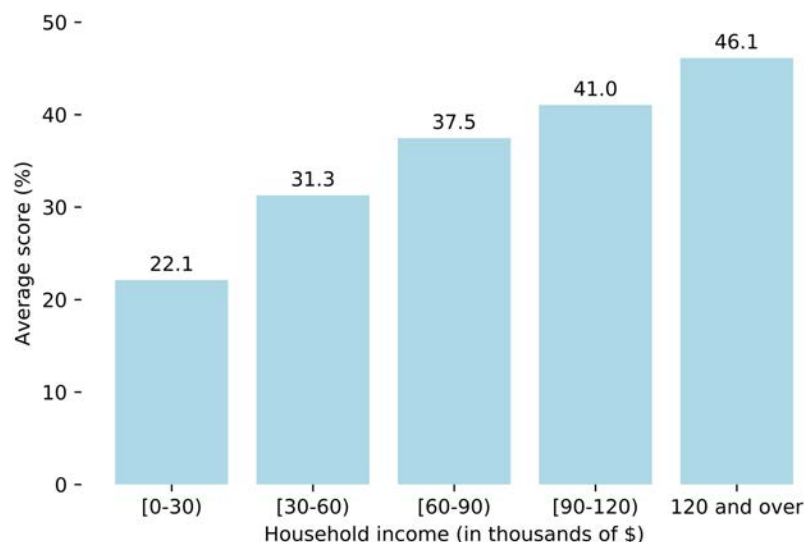
Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Schooling is associated with a higher score



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Higher earnings are associated with a better knowledge of the system



Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Results for the different parts of the index

	Mean	Standard Deviation	First Quartile	Median	Third Quartile
General	0.61	0.26	0.50	0.67	0.83
RRSPs/TFSA's	0.40	0.30	0.17	0.33	0.67
Employer Plans	0.24	0.32	0.00	0.00	0.33
CPP/QPP	0.40	0.27	0.17	0.33	0.67
OAS/GIS	0.29	0.27	0.00	0.25	0.50

Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Limited correlations between scores by section

	General	RRSPs/ TFSA's	Employer Plans	CPP/QPP	OAS/GIS
General	1.00	-	-	-	-
RRSPs/TFSA's	0.54	1.00	-	-	-
Employer Plans	0.40	0.45	1.00	-	-
CPP/QPP	0.42	0.48	0.37	1.00	-
OAS/GIS	0.40	0.47	0.42	0.55	1.00

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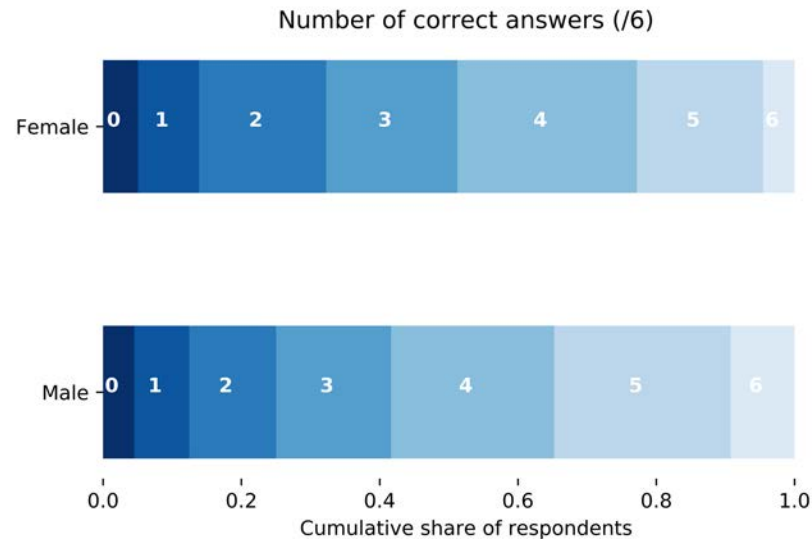
RSI Index 2019: Results

General part: financial literacy

Questions: General financial literacy

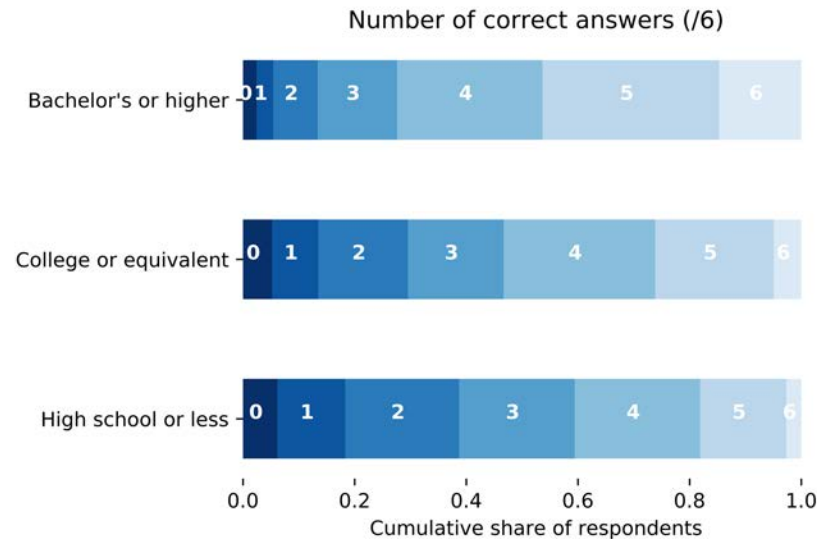
- Compound interest – Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow during these 5 years?
- Purchasing power – Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy... (more, exactly the same, or less than today)
- Bonds – If interest rates rise, what will typically happen to bond prices?
- Debt doubling – Suppose you owe \$1,000 on a loan and the interest rate you are charged is 20% per year compounded annually. If you didn't pay anything off, at this interest rate, how many years would it take for the amount you owe to double?
- Diversification – True or false? Buying a single company's stock usually provides a safer return than a stock mutual fund.
- Mortgage – True or false? A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less.

General part: Men do slightly better



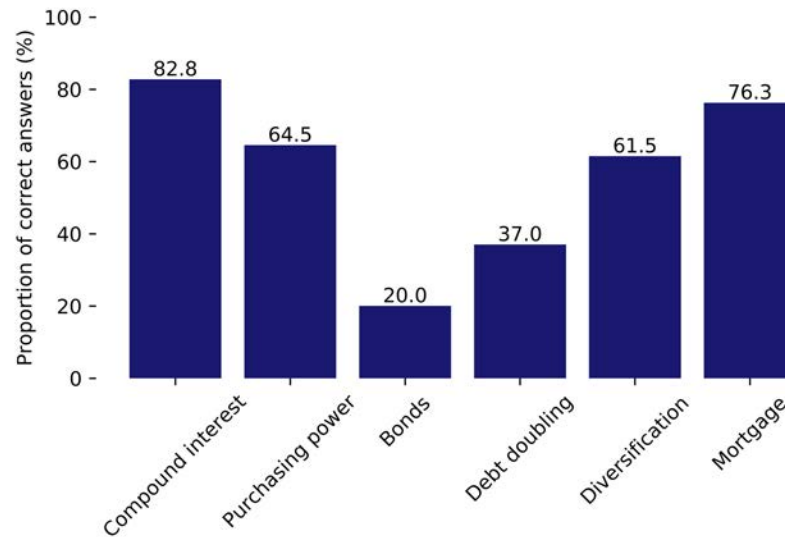
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Individuals with greater schooling do better



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Success rate by question



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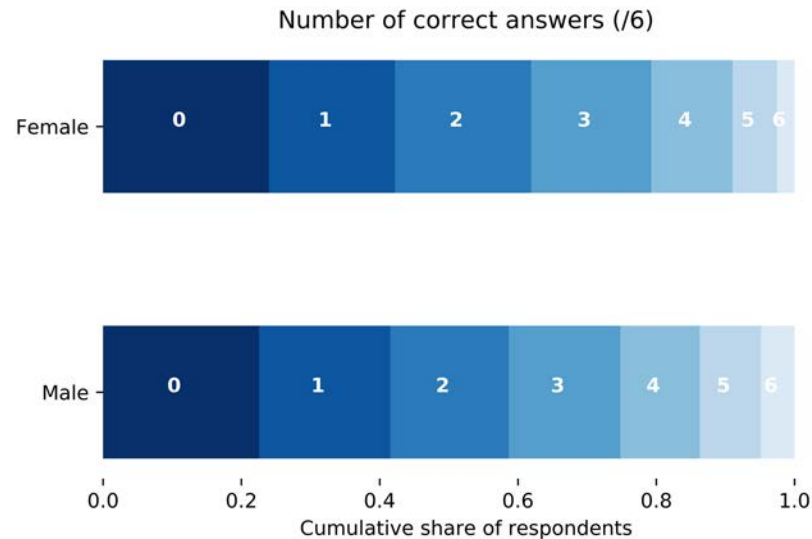
RSI Index 2019: Results

Part on RRSPs and TFSAs

Questions: Knowledge of RRSPs and TFSAs

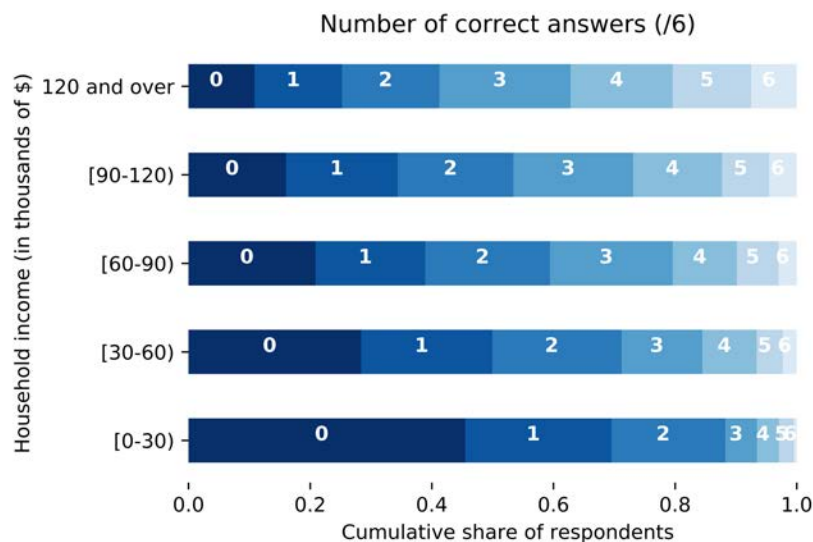
- Contribution – According to you, are the contributions made to an RRSP or to a TFSA deductible from taxable income?
- Withdrawal – According to you, when money is withdrawn from an RRSP or from a TFSA, is it subject to income tax in the year of the withdrawal? Assume the withdrawn amount is not used for the Home Buyers' Plan (HBP) or the Lifelong Learning Plan (LLP).
- Returns – Money invested in an RRSP or in a TFSA can generate returns in the form of interest, dividends or capital gains. According to you, are these returns subject to income tax in the year during which they were generated?
- Penalty – According to you, is there a penalty associated with withdrawing money from an RRSP or from a TFSA before retirement? Assume the withdrawn amount is not used for the Home Buyers' Plan (HBP) or the Lifelong Learning Plan (LLP).
- Future rights – Let's assume you withdraw \$1,000 from an RRSP or from a TFSA. According to you, will this withdrawal be added to your future contribution room?
- Maximum age – In your opinion, is there a maximum age at which the funds must be withdrawn from an RRSP or a TFSA?

RRSPs and TFSAs: Men do slightly better



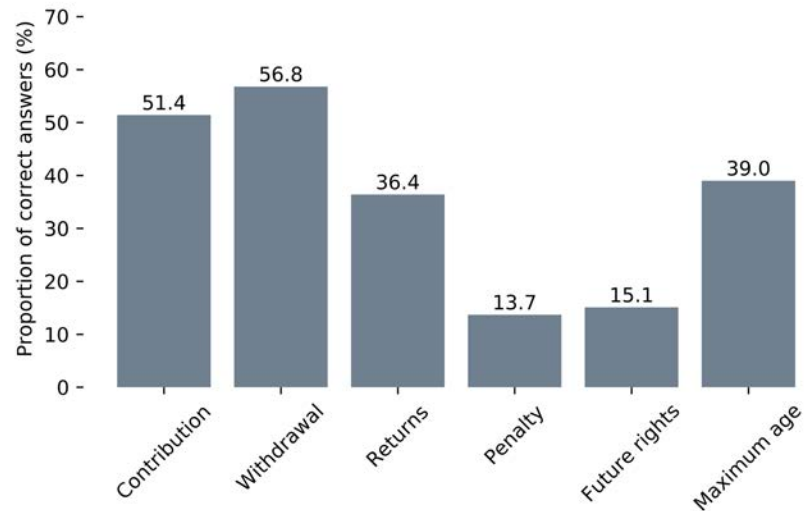
Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Those earning more know RRSPs and TFSAs better



Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Success rate by question



Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

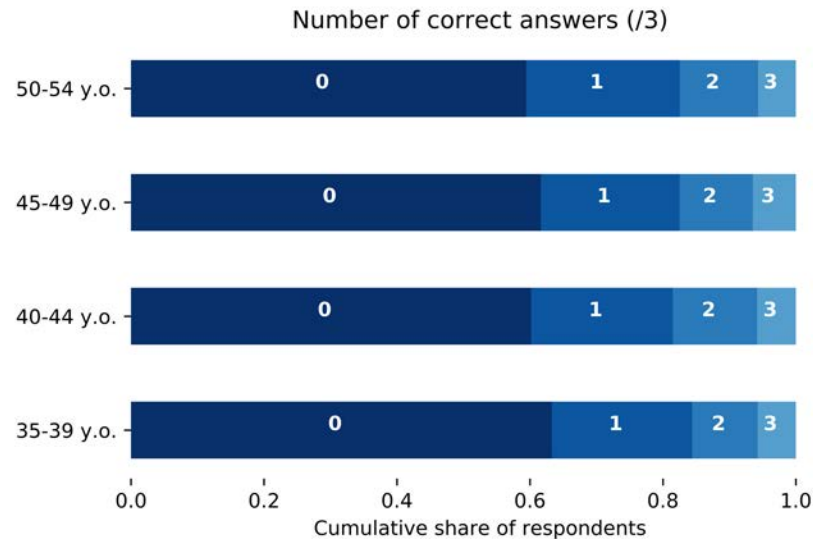
RSI Index 2019: Results

Part on employer plans

Questions: Knowledge of employer plans

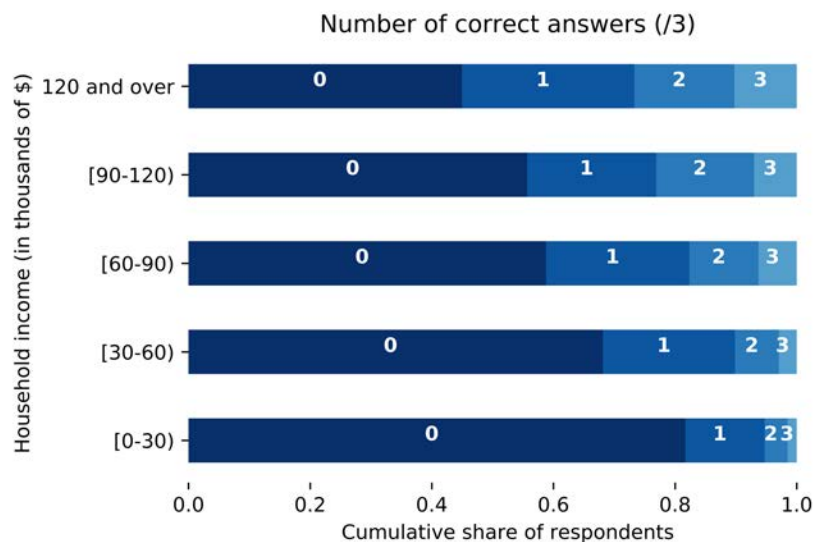
- Type: contribution – In which type of pension plan can a worker generally choose how much to contribute? (defined-benefit, defined-contribution)
- Type: returns – For which type of plan do retirement payments depend on the returns generated on financial markets? (defined-benefit, defined-contribution)
- Type: longevity – Which type of plan offers a protection against the risk of living to age 100 without having sufficient savings to pay for expenses? (defined-benefit, defined-contribution)

Differentiating plan types is difficult at all ages



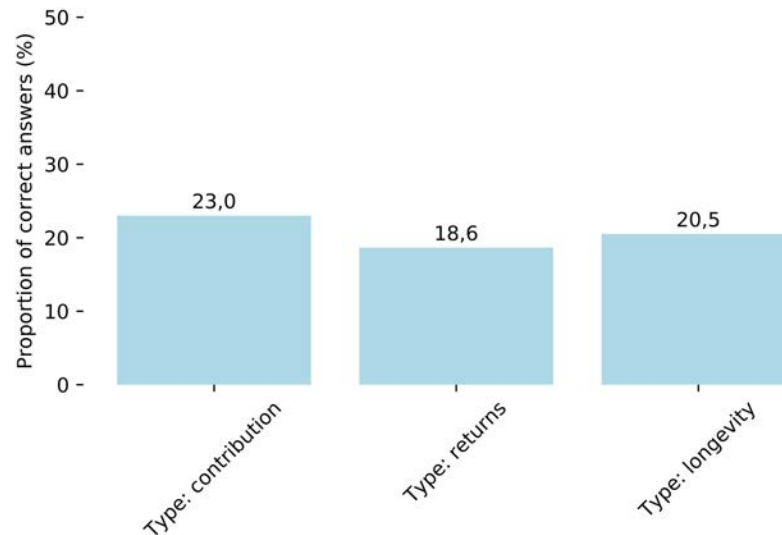
Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Low income individuals do not know employer plans well



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Success rate by question



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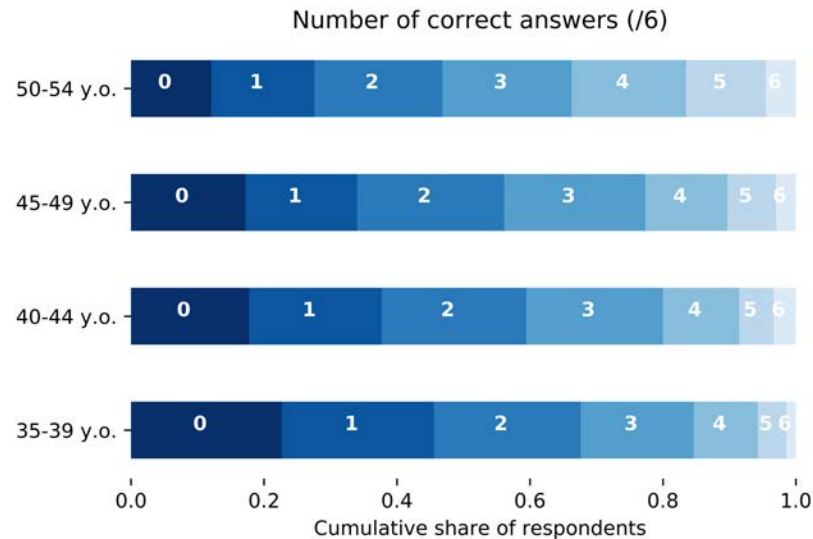
RSI Index 2019: Results

Part on CPP and QPP

Questions: Knowledge of CPP/QPP

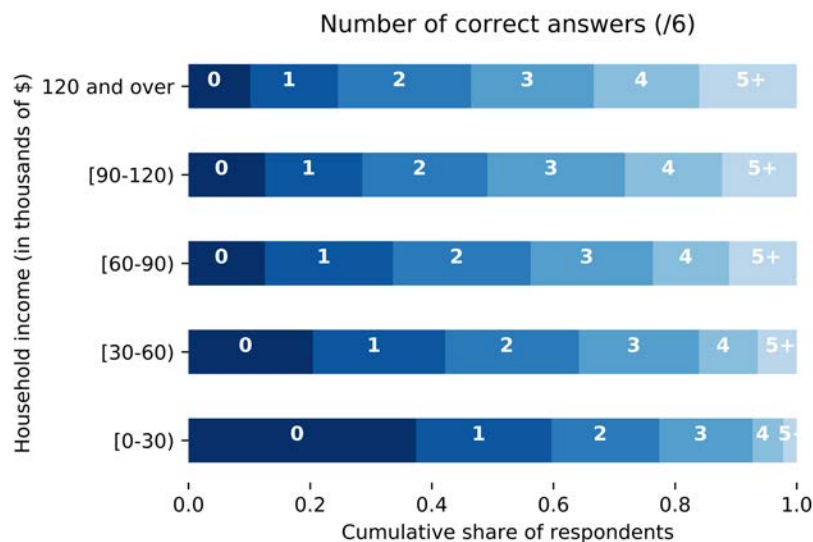
- Benefits – Retirement benefits from the CPP/QPP... (are a fixed amount, depend on income, are based on contributions, etc.)
- Age – CPP/QPP retirement benefits can start being drawn when the would-be recipient reaches... (age 60, 65 or 70, or 35 years of contribution)
- Penalty – If someone begins to draw CPP retirement benefits earlier than some “normal age”, is there a penalty (a reduction in the amount of the monthly benefit received)?
- Delay – If someone begins to draw CPP retirement benefits later than some “normal age”, is there a bonus (an increase in the amount of the monthly benefit received)?
- Taxation – CPP/QPP benefits are... (taxable federally, taxable provincially, non taxable)
- Work allowed – When receiving CPP/QPP retirement benefits, you... (must stop working, must work less, can keep working)?

Knowledge of CPP/QPP increases with age



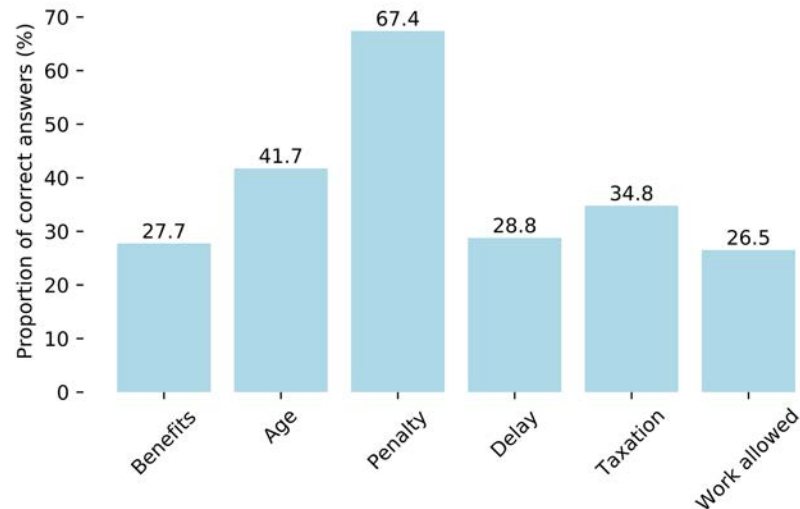
Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Individuals with a lower income know CPP/QPP worse



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Success rate by question



Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

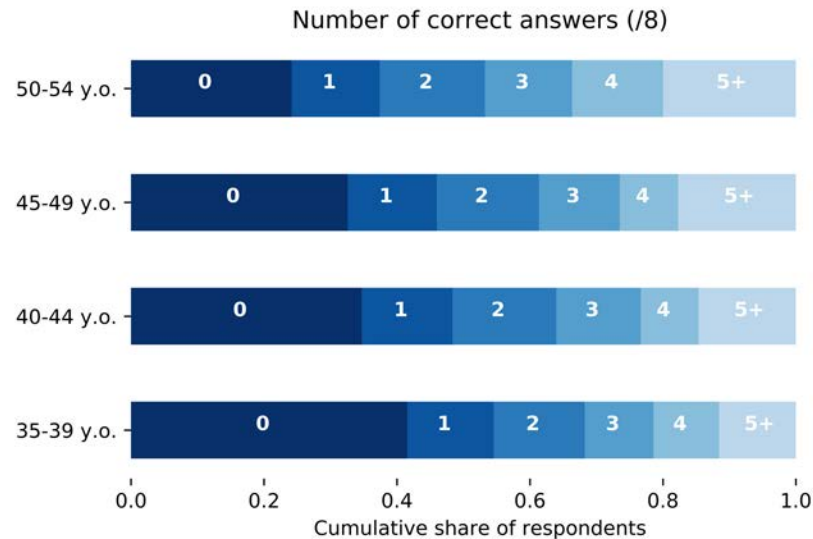
RSI Index 2019: Results

Part on Old-Age Security (OAS and GIS)

Questions: Knowledge of OAS and GIS

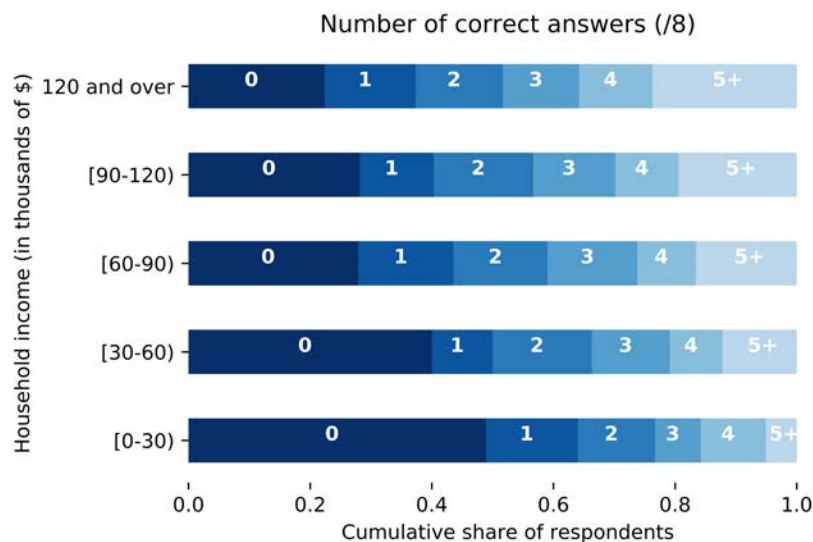
- OAS benefits – OAS benefits... (are a fixed amount, depend on income, are based on contributions, etc.)
- OAS age – OAS benefits can start being drawn when the would-be recipient reaches... (age 60, 65 or 70, or 35 years of contribution)
- OAS clawback – Can OAS benefits be reduced if the beneficiary's non-OAS and non-GIS income exceeds a certain threshold?
- OAS taxation – OAS benefits are... (taxable federally, taxable provincially, non taxable)
- GIS benefits – Guaranteed Income Supplement (GIS) benefits... (are a fixed amount, depend on income, are based on contributions, etc.)
- GIS age – GIS benefits can start being drawn when the would-be recipient reaches... (age 60, 65 or 70, or 35 years of contribution)
- GIS clawback – Can GIS benefits be reduced if the beneficiary's non-OAS and non-GIS income exceeds a certain threshold?
- GIS taxation – GIS benefits are... (taxable federally, taxable provincially, non taxable)

Knowledge of OAS and GIS increases with age



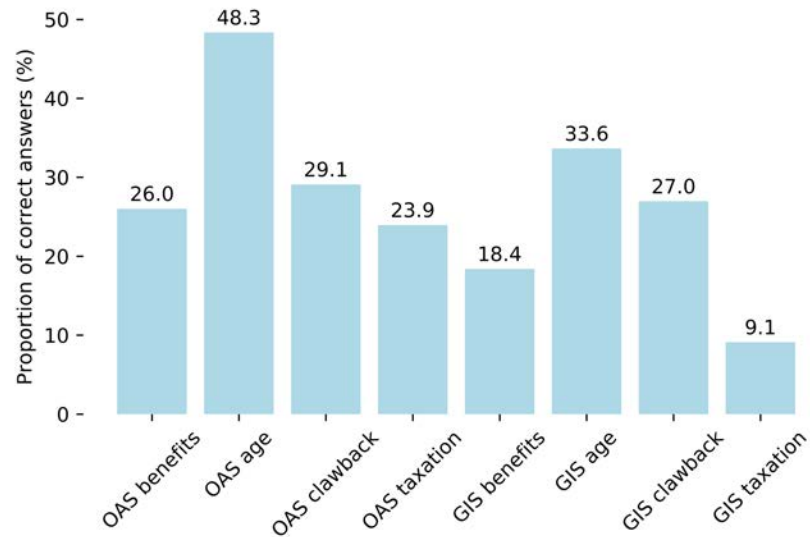
Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Low income individuals do not know OAS and GIS as well



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Success rate by question



Survey carried out in December, 2018, using the "AskingCanadians" web panel. Responses of the 3,000 interviewees, aged 35 to 54 years old, have been weighted using the 2016 Census.

Conclusions

- For its first edition, the *RSI Index* is 36.5%, reflecting a limited knowledge of our multi-pillar system and of certain key concepts. That includes a 61% score on general financial knowledge – barely a “passing grade”.
- As one might expect, older, more educated, and higher-earning individuals do slightly better, but their level of knowledge is still low.
- The most difficult topics are employer plans and Old-Age Security; on the latter topic, most respondents have a hard time providing more than 2 correct answers out of 8 questions.
- Limited knowledge of the system could put at a disadvantage those relying on private savings, as much as lower-earning individuals – who might be more likely to depend on public programs.
- The 2019 *RSI Index* reminds us of the importance of information about the retirement system.
- Future editions of the *RSI Index* will measure the evolution of the knowledge that Canadians have of their retirement income system.

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Project team

- David Boisclair, Executive Director, Retirement and Savings Institute
- Pierre-Carl Michaud, Professor, Department of Applied Economics; Director, Retirement and Savings Institute
- Bernard Morency, Adjunct Professor, Retirement and Savings Institute
- Pierre-Yves Yanni, Research Officer, Retirement and Savings Institute

For further information:

david.Boisclair@hec.ca

514-340-6454

rsi.hec.ca

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