Retirement and Savings Institute
HEC MONTRÉAL

Do Canadians Know Their Retirement System?

RSI Index 2020

Summary

The level of general financial literacy among Canadians is fairly low – comparable to what is observed elsewhere. In the context of an aging population and of a changing retirement landscape, the RSI Index measures **the knowledge that Canadians have of their retirement income system**.

The 2020 edition of the *RSI Index* combines the responses of **3,006 Canadians aged 35 to 54** to **29 knowledge questions**, on general financial knowledge and on programs (4 topics). For the 2nd edition, **the overall index shows a slight increase at 38.2%,** still reflecting a limited knowledge of the system; more educated individuals improved their score. **The best-known topics are again RRSPs and the CPP/QPP**, which may be more present in the lives of the non retired. **The most difficult topics are** the ill-known **employer plans**; **and Old-Age Security** programs, on which 3/4 of respondents have a hard time providing more than 4 correct answers out of 8 questions. Limited knowledge of the system could be a disadvantage for many; and although the survey was fielded prior to the COVID-19 pandemic, its results raise **questions about the capacity of Canadians to take financial decisions with heavy consequences**. The 2020 *RSI Index also* reminds of **the importance of information** on the retirement system.

Background

Many have attempted – and still try – to measure the level of retirement preparedness of Canadians, be it within government, financial institutions, large consulting firms, or at the Retirement and Savings Institute (RSI) itself. In the scientific literature, a link has been established and found in several countries between general financial literacy and preparation for retirement.

But the level of general financial literacy among Canadians is fairly low, although comparable to what is observed elsewhere in industrialized countries. On the other hand, the financial knowledge of Quebecers and Canadians changes slowly over time, an aspect that is confirmed by this project which is carried out annually. Similarly, on more narrow topics such as “tax literacy,” knowledge appears to be rather limited.

Background (cont'd)

Until 2019, no one had attempted to specifically measure the level of knowledge of Canadians with respect to their retirement income system, nor the way in which it varies among the population. But beyond general financial knowledge that impacts retirement preparation, instance regarding inflation, it is difficult for workers-savers to make enlightened decisions without knowing the main parts of the system and their functioning. And limited knowledge could put at a disadvantage those Canadians that rely heavily on non-public pillars, as well as those individuals who are most likely to depend on public programs about which they know nothing or very little.

In order to provide decision makers with a synthetic overview of what Canadians know about their retirement income system, the team at RSI at HEC Montréal undertook last year the measurement of the knowledge of various aspects of the system among Canadians aged 35 to 54 years old – those who, in principle, are experiencing years of strong asset accumulation in preparation for retirement.

Background (finished)

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.

This document presents the results of the 2nd edition of the *RSI Index*, for 2020. It must be noted that the survey underpinning the index has been fielded prior to the COVID-19 crisis context prevailing at the time of dissemination. The results nonetheless remain very useful and relevant during this unprecedented period; they also raise questions about the capacity of many Canadians to make decisions likely to impact their long-term financial well-being during the COVID-19 crisis.

Methods

The original survey used to build the *RSI Index*:

- Interviewed, in late December 2019, a total of 3,006 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 a program of each respondent's choosing.

Like every year, the 35-54 age group was targeted because, in principle, they are in an accumulation phase with respect to retirement savings. This group excludes younger individuals, for whom retirement is a distant event and who have competing priorities; and older ones, closer to retirement and, as such, more likely to know the programs. This year, 13% of respondents were returning participants from the 1st edition of the survey; statistically speaking, their responses did not differ significantly from those of other respondents.

Methods (cont'd)

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

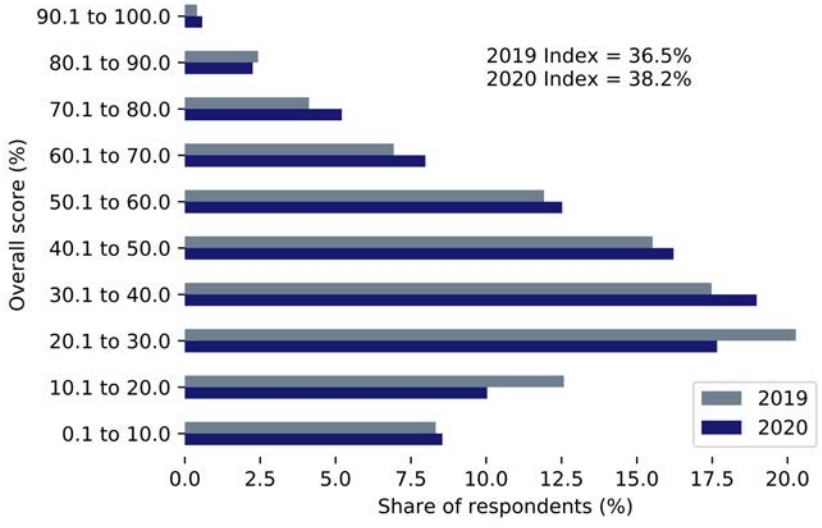
- 9 questions regarding economic and sociodemographic characteristics
- 6 standardized questions related to general financial knowledge, used in several surveys in Canada and elsewhere around the world
- 6 questions about the knowledge of tax-sheltered saving (RRSP and TFSA)
- 3 questions about employer plans
- 6 questions on the knowledge of the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP), 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, the most recent available.

RSI Index 2020: Results

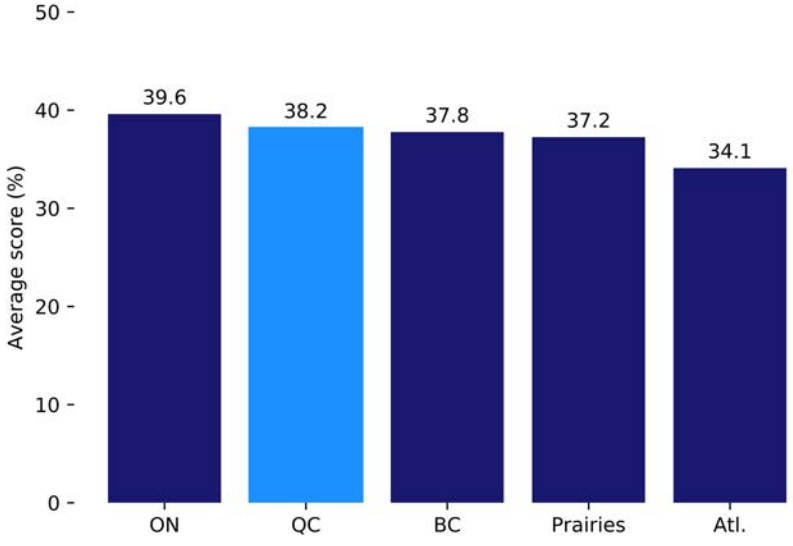
Overall knowledge

Knowledge of the system: slight improvement



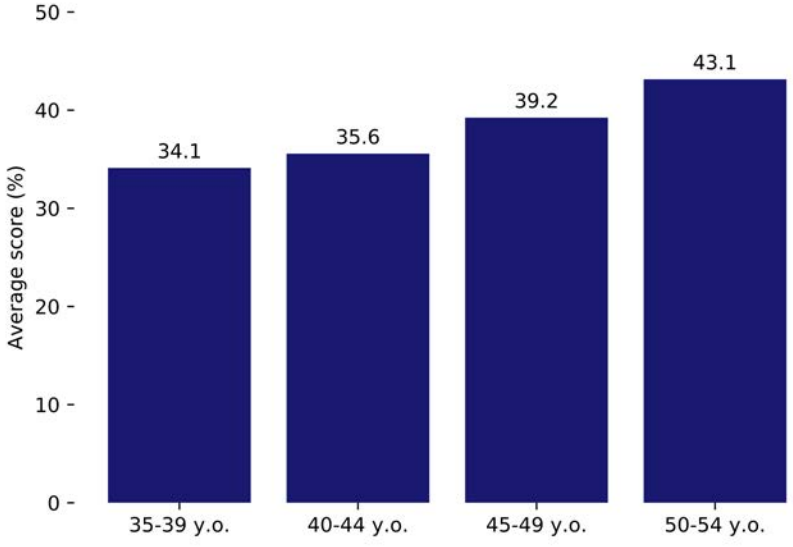
Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

There are regional differences in Canada



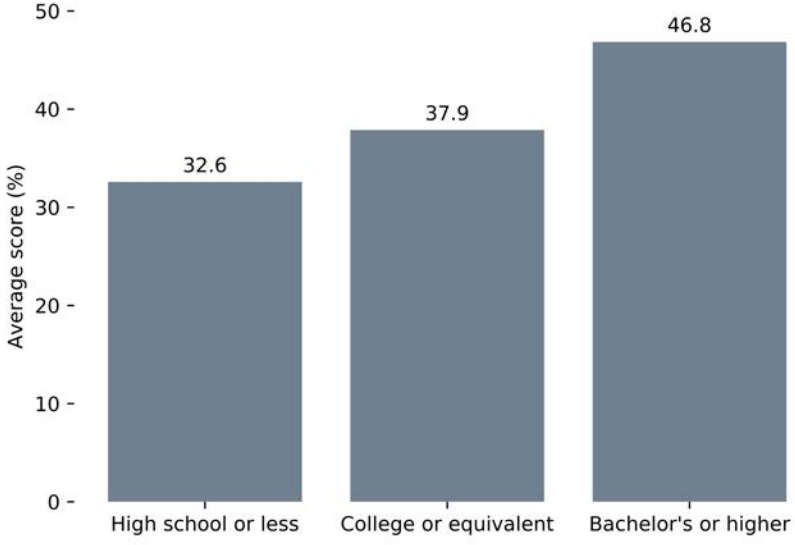
Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Knowledge improves as retirement nears



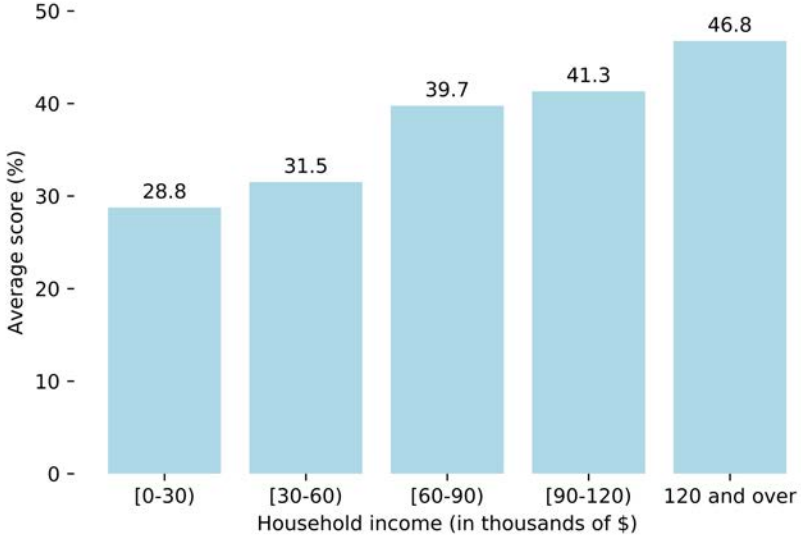
Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Schooling is associated with a higher score



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Higher earnings are associated with a better knowledge of the system



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Results for the different sections of the index

*Coloured and **bolded** cells are those that changed significantly the previous edition of RSI Index.*

	Mean	Standard Deviation	First Quartile	Median	Third Quartile
General	0.63	0.26	0.50	0.67	0.83
RRSPs/TFSAs	0.42	0.29	0.17	0.33	0.67
Employer Plans	0.27	0.33	0.00	0.00	**0.67**
CPP/QPP	0.43	0.28	0.17	**0.50**	0.67
OAS/GIS	0.31	0.28	0.00	0.25	0.50

Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Limited correlations between scores by section

	General	RRSPs/ TFSAs	Employer Plans	CPP/QPP	OAS/GIS
General	1.00	-	-	-	-
RRSPs/TFSAs	0.55	1.00	-	-	-
Employer Plans	0.40	0.44	1.00	-	-
CPP/QPP	0.48	0.50	0.34	1.00	-
OAS/GIS	0.42	0.44	0.41	0.56	1.00

Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

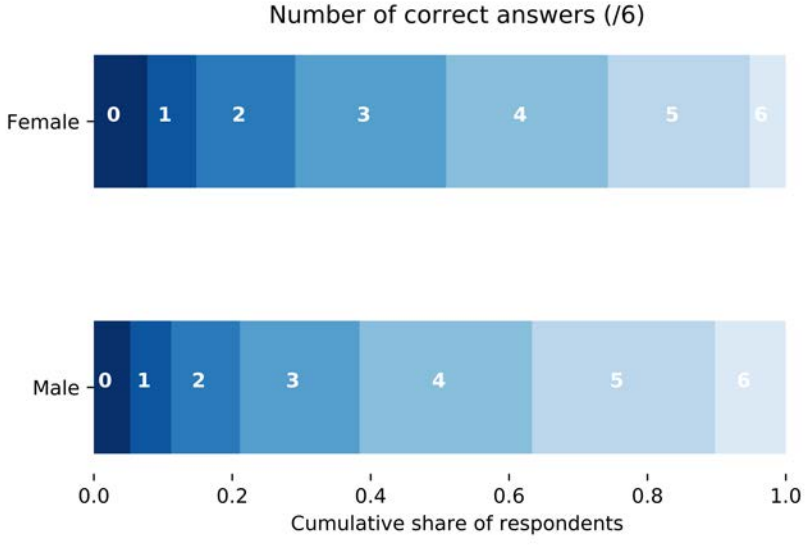
RSI Index 2020: Results

General section: financial literacy

Questions: General financial literacy

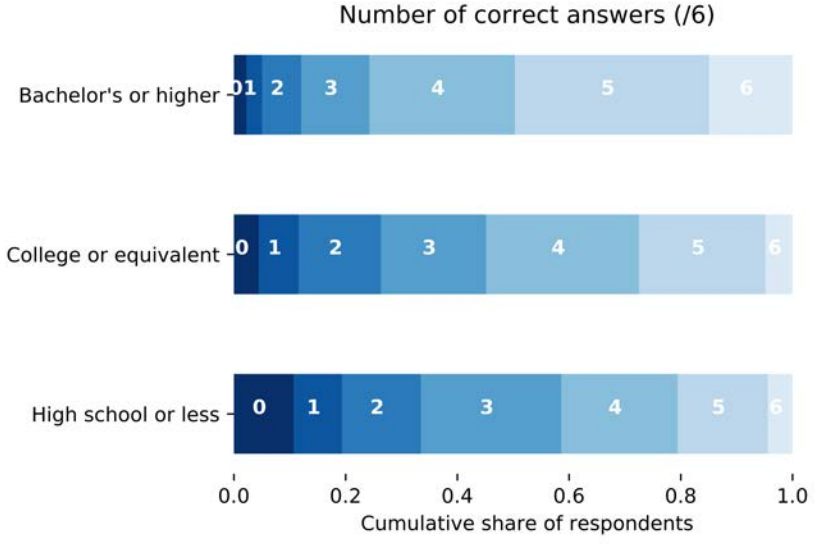
- Compound interest – Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow during these 5 years?
- Purchasing power – Imagine that the interest rate on your savings account was 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.

Men do better than women



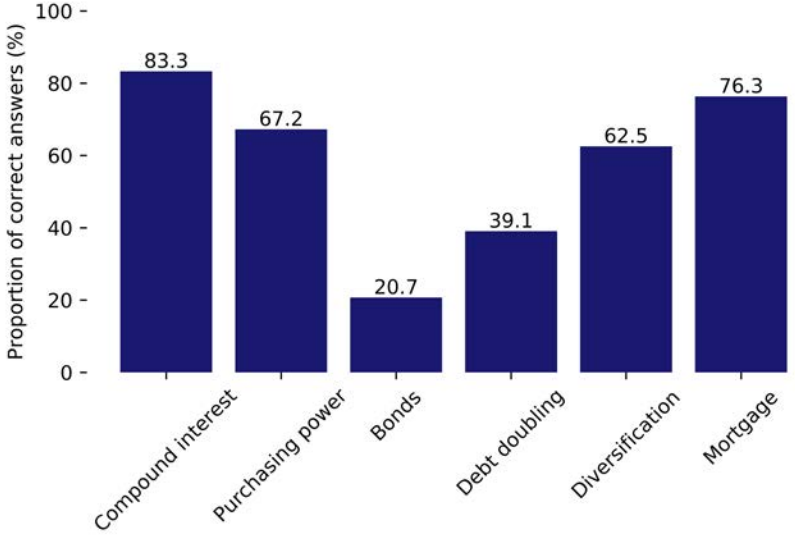
Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Individuals with greater schooling do better



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

General financial knowledge: Success rate by question



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

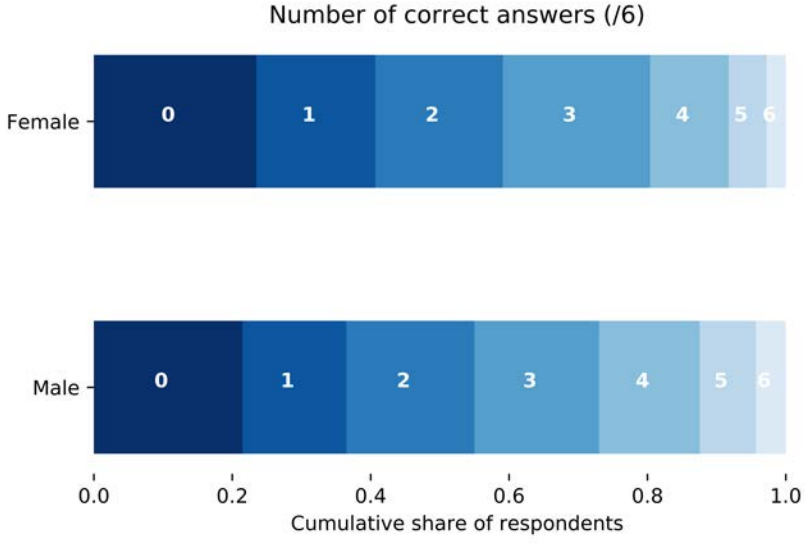
RSI Index 2020: Results

Section on RRSPs and TFSAs

Questions: Knowledge of RRSPs and TFSAs

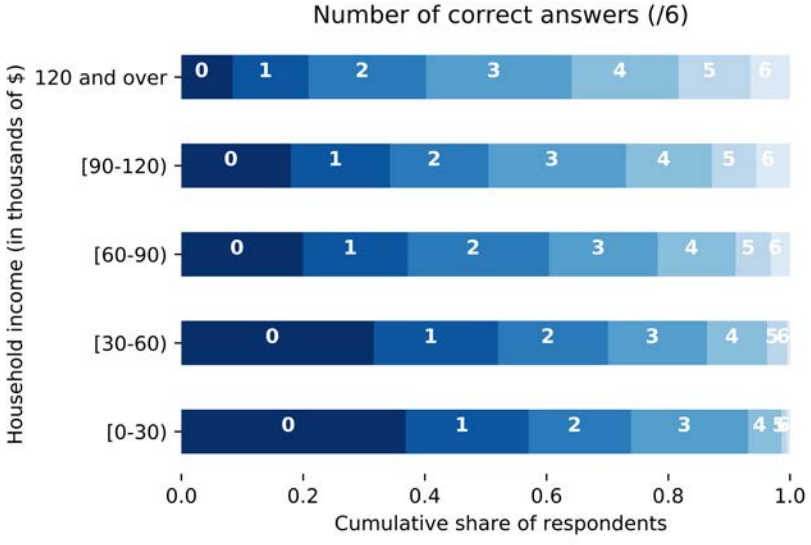
- Contribution – According to you, are the contributions made to an RRSP or to a TFSA deductible from taxable income?
- Withdrawal – According to you, when money is withdrawn from an RRSP or from a TFSA, is it subject to income tax in the year of the withdrawal? Assume the withdrawn amount is not used 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?

Men do slightly better than women



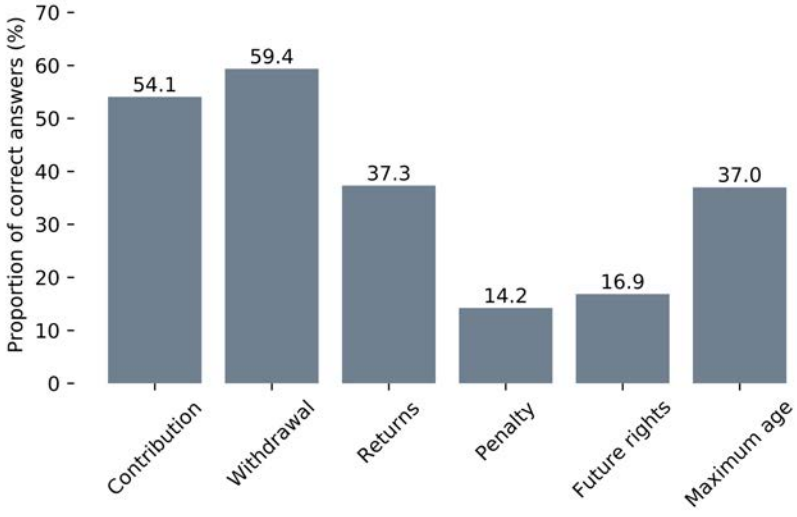
Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Those earning more know RRSPs and TFSAs better



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

RRSP and TFSA: Success rate by question



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

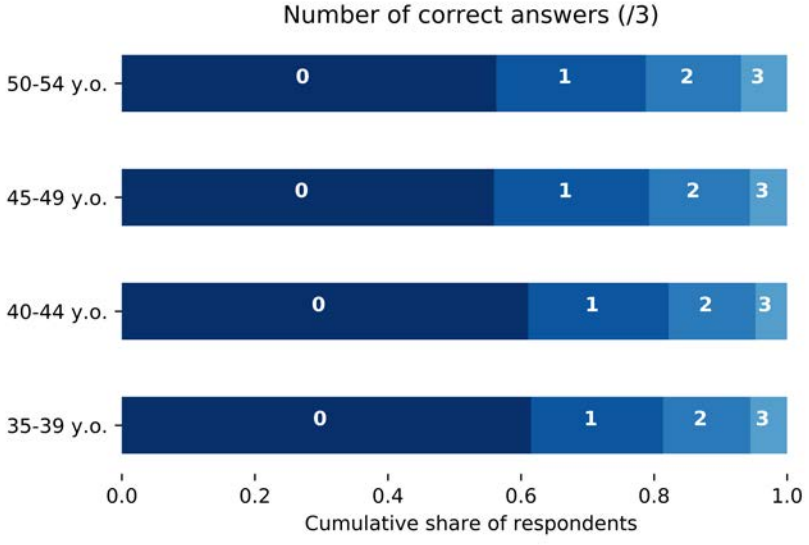
RSI Index 2020: Results

Section on employer plans

Questions: Knowledge of employer plans

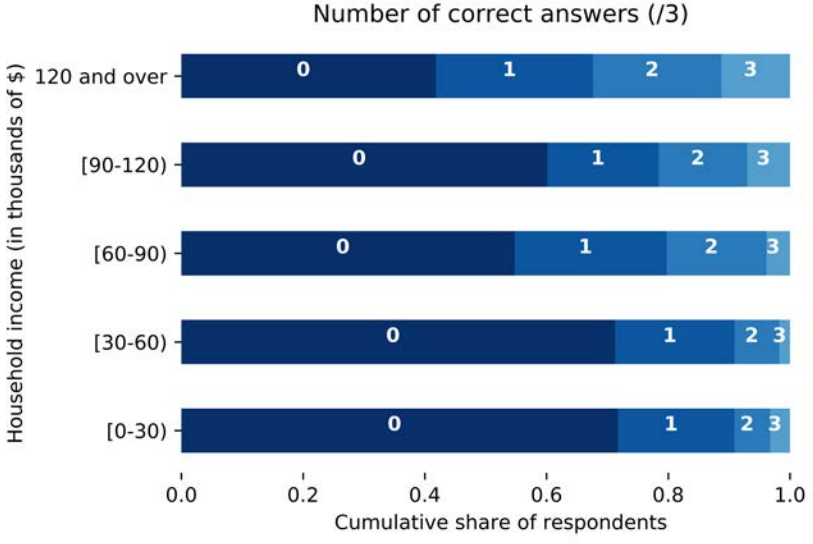
- Type: contribution – In which type of pension plan can a worker generally choose how much to contribute? (defined-benefit, defined-contribution)
- Type: returns – For which type of plan do retirement payments depend on the returns generated on financial markets? (defined-benefit, defined-contribution)
- 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



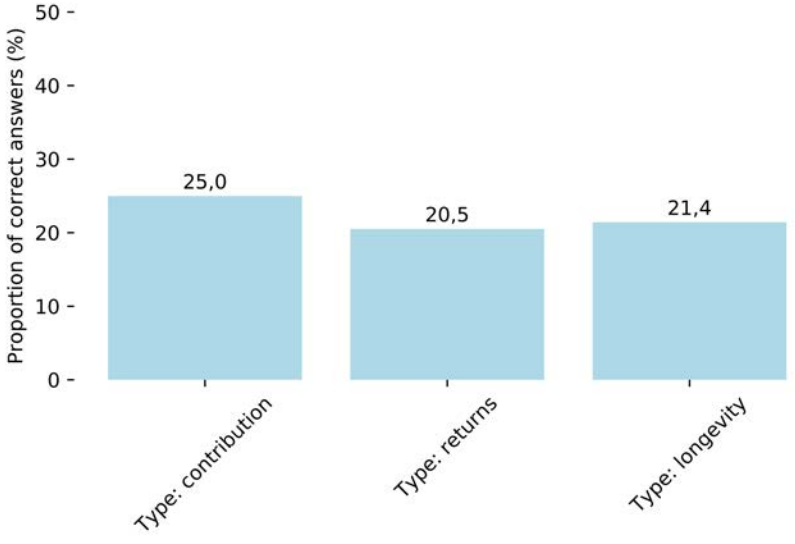
Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Low income individuals do not know employer plans well



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Employer plans: Success rate by question



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

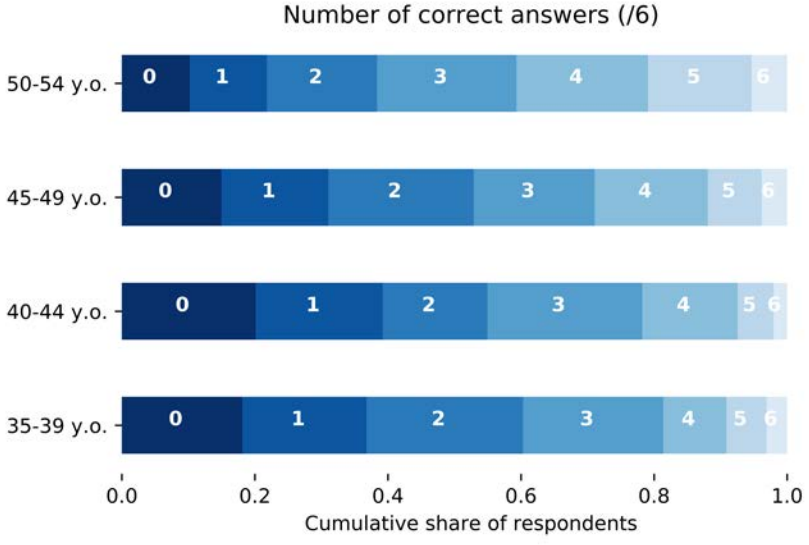
RSI Index 2020: Results

Section on CPP and QPP

Questions: Knowledge of CPP/QPP

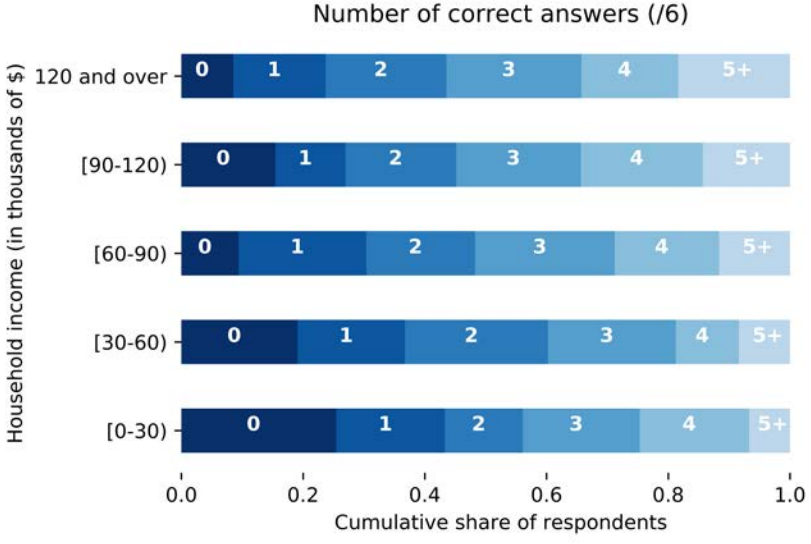
- Benefits – Retirement benefits from the CPP/QPP... (are a fixed amount, depend on income, are based on contributions, etc.)
- Age – CPP/QPP retirement benefits can start being drawn when the would-be recipient reaches… (age 60, 65 or 70, or 35 years of contribution)
- Penalty – If someone begins to 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 fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

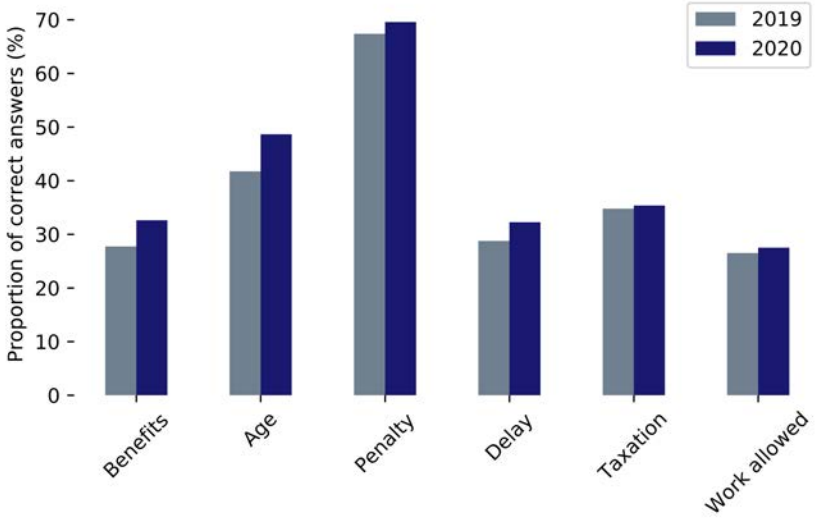
Individuals with a lower income know CPP/QPP worse



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

CPP/QPP: Success rate by question

Slight improvements in knowledge are noticeable for 2020, compared with the 2019 edition.



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

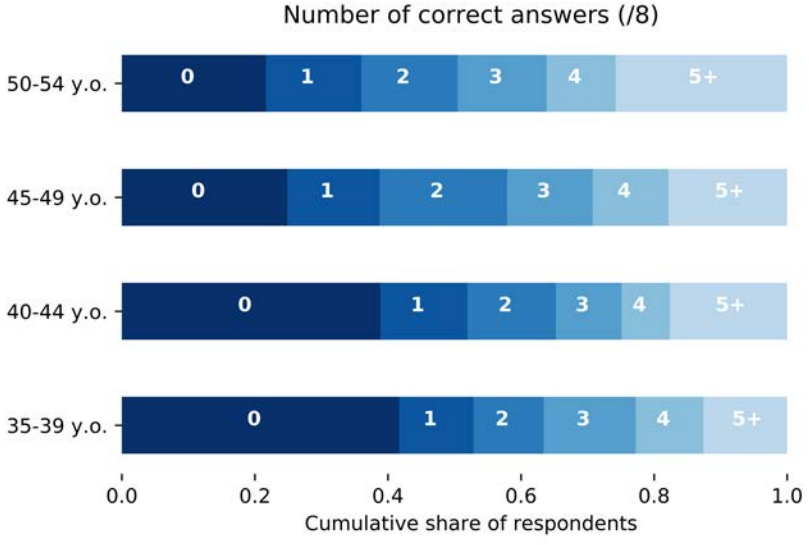
RSI Index 2020: Results

Section on Old-Age Security (OAS and GIS)

Questions: Knowledge of OAS and GIS

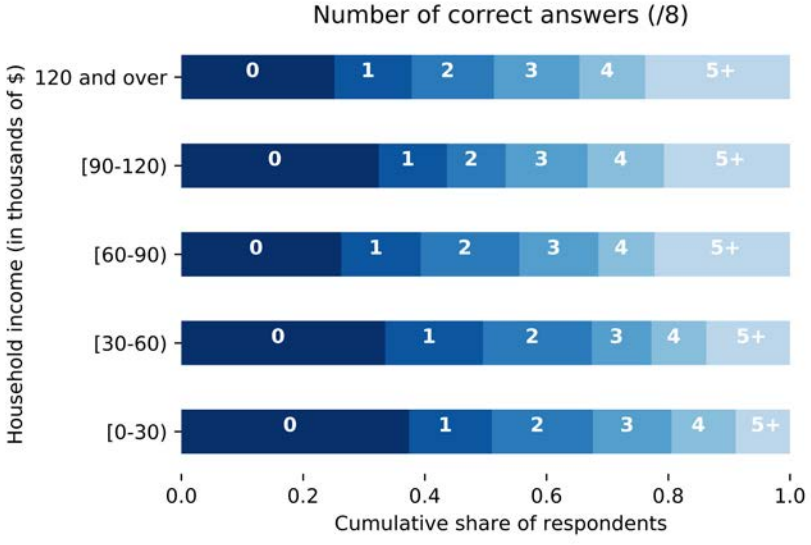
- OAS benefits – OAS benefits... (are a fixed amount, depend on income, are based on contributions, etc.)
- OAS age – OAS benefits can start being drawn when the would-be recipient reaches... (age 60, 65 or 70, or 35 years of contribution)
- OAS clawback – Can OAS benefits be reduced if the beneficiary's 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



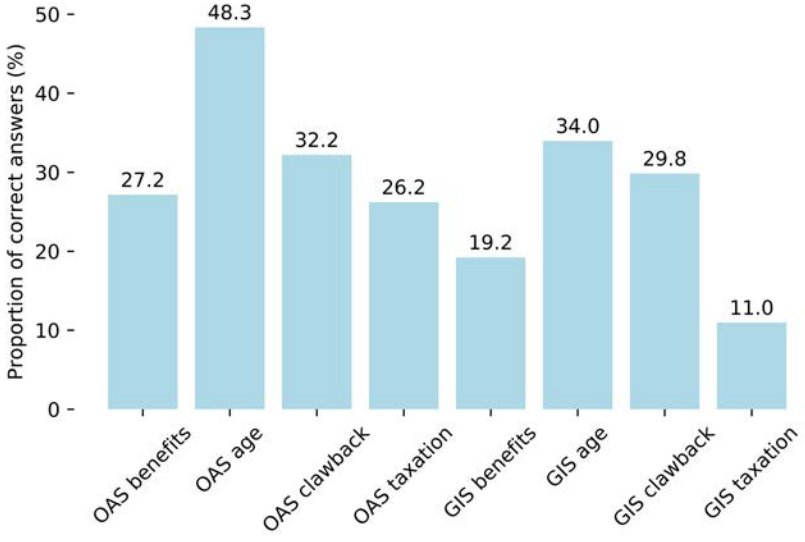
Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Low income individuals do not know OAS and GIS as well



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

OAS and GIS: Success rate by question



Survey fielded in December, 2019 with the "AskingCanadians" web panel. Responses of the 3,006 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

Conclusions (1)

- For its 2nd edition, the *RSI Index* still reflects a limited knowledge of the Canadian retirement system and of certain key concepts, despite a slight increase at 38.2% concentrated among the 35-39 and 50-54 year-olds.
- As one might expect, older, more educated, and higher-earning individuals do slightly better, but their level of knowledge is still low.
- For 2020, the more educated respondents improved their global score.
- The (low) significant improvement observed relates to CPP/QPP eligibility age, particularly among the 35-39 year-olds as well as those closer to retirement (50-54 years old).
- The index includes acceptable 63% score on general financial knowledge, pulled downward by questions on bonds and indebtedness. Such results could affect important individual decisions in the context of the COVID-19 crisis.

Conclusions (2)

- The best-known topics are the CPP/QPP and RRSPs, which probably make up the most visible parts of the system for non retired Canadians.
- The most difficult topics remain employer plans and Old-Age Security; on the latter, over ¾ of respondents provide fewer than 4 correct answers out of 8 questions. Although half of respondents know the age of eligibility for Old-Age Security, its other aspects remain ill-known.
- Limited knowledge of the system could put some at a disadvantage, including those relying on private savings – but also for individuals who might erroneously believe that the public system will be enough to meet their needs in retirement.
- The 2020 *RSI Index* reminds of the importance of providing information about the retirement system.

References (1)

Autorité des marchés financiers (2018). *Indice Autorité 2018 – Rapport d'analyse*. Survey report prepared in September, 2018 and available at

https://lautorite.qc.ca/grand-public/publications/publications-organisationnelles/indice-autorite/

Canadian Securities Administrators (2017). *CSA Investor Education Study 2017*. Survey report prepared in November, 2017 and available at

https://www.autorites-valeurs-mobilieres.ca/outils_de_linvestisseur.aspx?ID=1011&LangType=1036

FINRA Investor Education Foundation (2015). *2015 National Financial Capability Study – State-by-State Survey Instrument*, survey questionnaire available at

https://www.usfinancialcapability.org/

Statistics Canada (2009, 2014). 2008 and 2014 Canadian Financial Capability Survey. Microdata.

http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getInstanceList&Id=150740

References (2)

Boisclair, D., A. Lusardi and P.-C. Michaud (2017). "Financial Literacy and Retirement Planning in Canada", *Journal of Pension Economics and Finance*, 16(3), 277-296. doi.org/10.1017/S1474747215000311

Pham, A., A. Genest-Grégoire, L. Godbout et J.-H. Guay (2020). « Littératie fiscale : exploration du concept et bulletin de la population québécoise », Cahier de recherche 2020/08 de la Chaire en fiscalité et finances publiques. Université de Sherbrooke, mai.
https://cffp.recherche.usherbrooke.ca/wp-content/uploads/2020/05/cr_2020-08_litteratie-fiscale_etude_pancanadienne.pdf

Lusardi, A. and O.S. Mitchell (2011). Financial literacy and planning: implications for retirement well-being. In Lusardi, A. and O.S. Mitchell (eds), *Financial Literacy. Implications for Retirement Security and the Financial Marketplace*. Oxford: Oxford University Press, pp.17-39.

McKinsey & Company (2015). *Building on Canada's Strong Retirement Readiness*. Research report, February.

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

© Retirement and Savings Institute, HEC Montréal, 2020