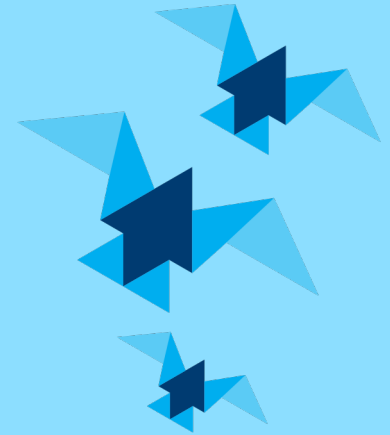# Retirement and Savings Institute

## HEC MONTRĒAL

# The State of Canadians' Knowledge of Their Retirement Income System

RSI INDEX 2023

# RSI Index 2023: Summary of Results

*In the context of an aging population and a transforming retirement landscape, the RSI Index measures **Canadians' knowledge of their retirement income system**.*

The 2023 edition of the RSI Index combines the responses of **3,004 Canadians aged 35 to 54 to 29 questions** on general financial literacy and on retirement programs.

For this 5th edition, the overall index **stands at 36.6%**, showing stable knowledge in recent years.

Like every year, the **best-understood subjects were still CPP/QPP and RRSPs/TFSAs** and, on average, respondents said **they "didn't know" to over a third of the questions**. On general knowledge, **understanding of inflation went up from 61% to 68% in 3 years**, a score that is still surprisingly low.

As well, it is worth noting that **under 1/3 of respondents know that delaying the claiming of CPP/QPP retirement benefits** comes with enhanced benefits.

In addition to raising questions regarding Canadians' understanding of concepts and programs affecting their long-term financial health, the 2023 RSI Index reminds of the importance of providing relevant and timely information on the retirement system, especially in a context of population aging.

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# Background

Many have attempted 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. Over the past decade, the scientific literature has established a link in several countries between general financial literacy and retirement preparation.

The level of general financial literacy among Canadians is fairly low, though comparable to what is observed in other industrialized countries. Similarly, knowledge of more narrow topics such as "tax literacy" appears limited. On the other hand, the financial knowledge of Quebecers and Canadians varies little over time, an aspect confirmed by this annual project. But beyond the general financial knowledge that impacts retirement preparation, for instance regarding inflation, it is difficult for workers-savers to make enlightened decisions without knowing about the main parts of the system and their functioning.

# 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. In order to provide a synthetic overview of what Canadians know about their retirement income system, the RSI team at HEC Montréal now measures annually the knowledge of various aspects of the system among Canadians aged 35 to 54 years old.

Those individuals, in principle, are experiencing years of strong asset accumulation. Younger individuals often have differing 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 first presents the results of the 2023 *RSI Index*, the 5th edition and the third carrying measures taken since the beginning of the COVID-19 crisis in Canada. Some key conclusions are then offered, before a brief reference list.

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# Methods (1)

The original survey used to build the *2023 RSI Index*:

- Interviewed, in late December 2022, a total of 3,004 Canadians aged 35 to 54 years old in all 10 provinces, proportionally to their population weight.

- Used the *AskingCanadians / Qu'en pensez-vous?* web panel, which remunerates its participants in reward points from a program of each respondent's choosing.

The 35-54 age group is targeted each year because in principle, these individuals are in a retirement savings accumulation phase. This year, almost half were returning respondents from one or more previous waves of the survey; however, the scores by frequency or waves of participation showed no discernible pattern as these returning respondents did no better.

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# Methods (2)

The questionnaire was developed by the team at the Retirement and Savings Institute based in part on existing research. It covers <u>29 knowledge questions</u>, including:

- 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 **Old-Age Security (OAS) and the Guaranteed Income Supplement (GIS)**.

These 5 sections are presented in sequence in this document, after an overview of overall results.

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

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# RSI Index 2023: Results

OVERALL KNOWLEDGE

# Knowledge of the retirement income system is stagnating
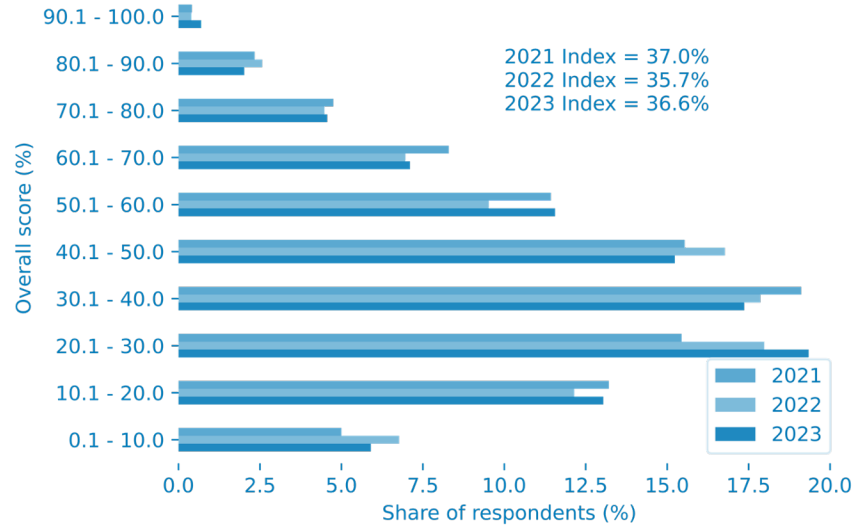


2021 Index = 37.0%
2022 Index = 35.7%
2023 Index = 36.6%

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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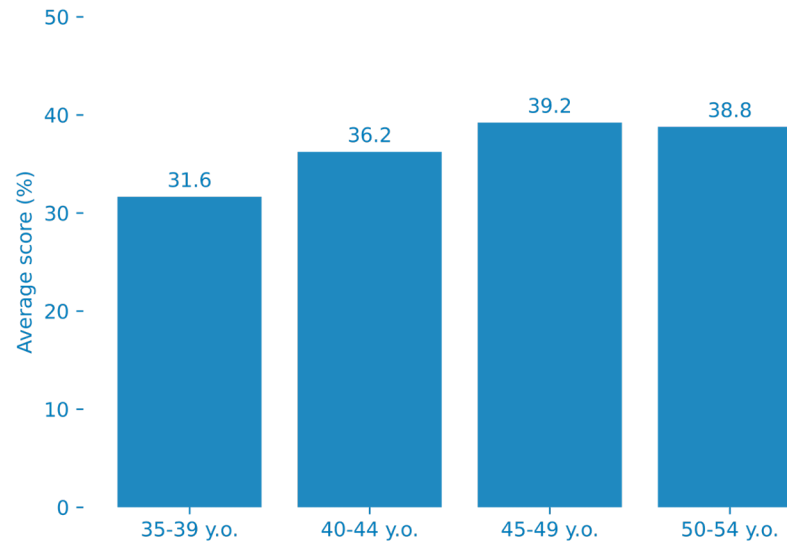HEC MONTRĒAL

# Minimal regional differences
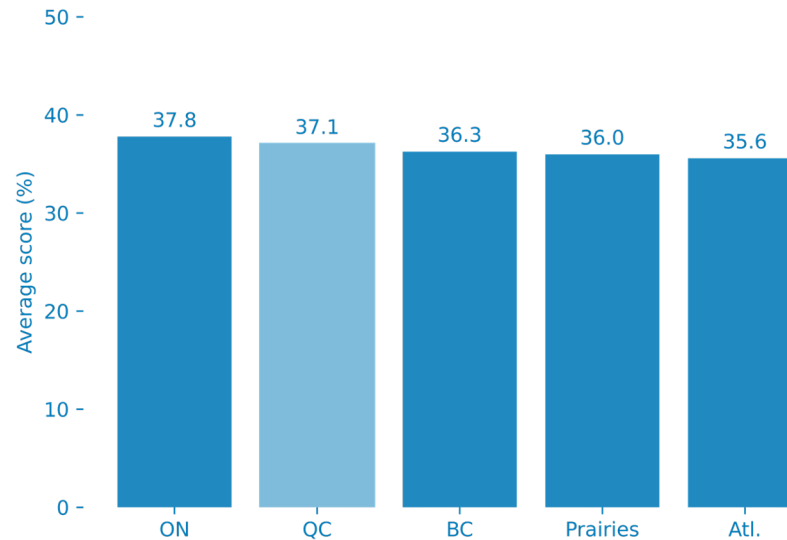


*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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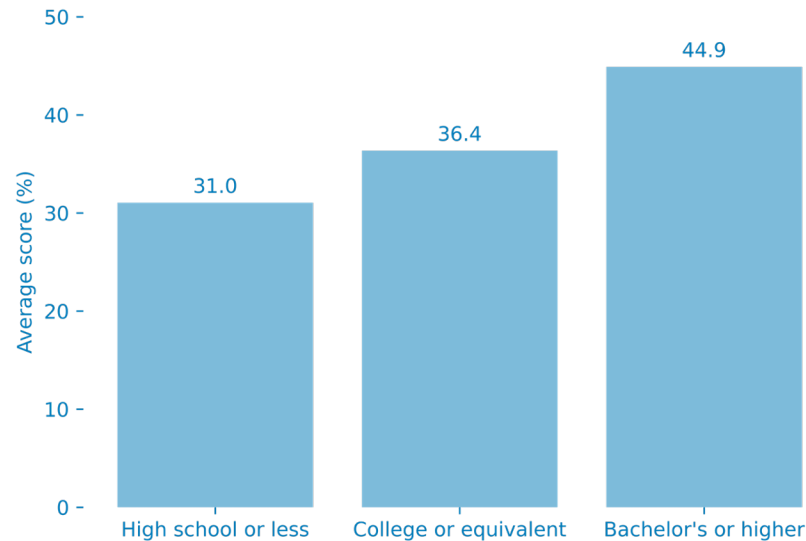HEC MONTRÉAL

# Knowledge improves as retirement nears



Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

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# Higher educational achievement is associated with a higher score



Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

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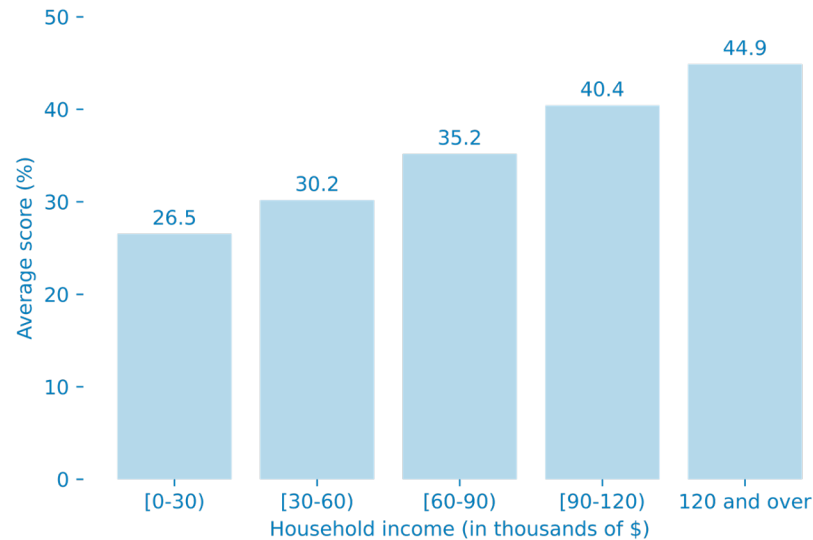# Higher earnings are associated with a better knowledge of the system



*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# Those handling household finances always do better

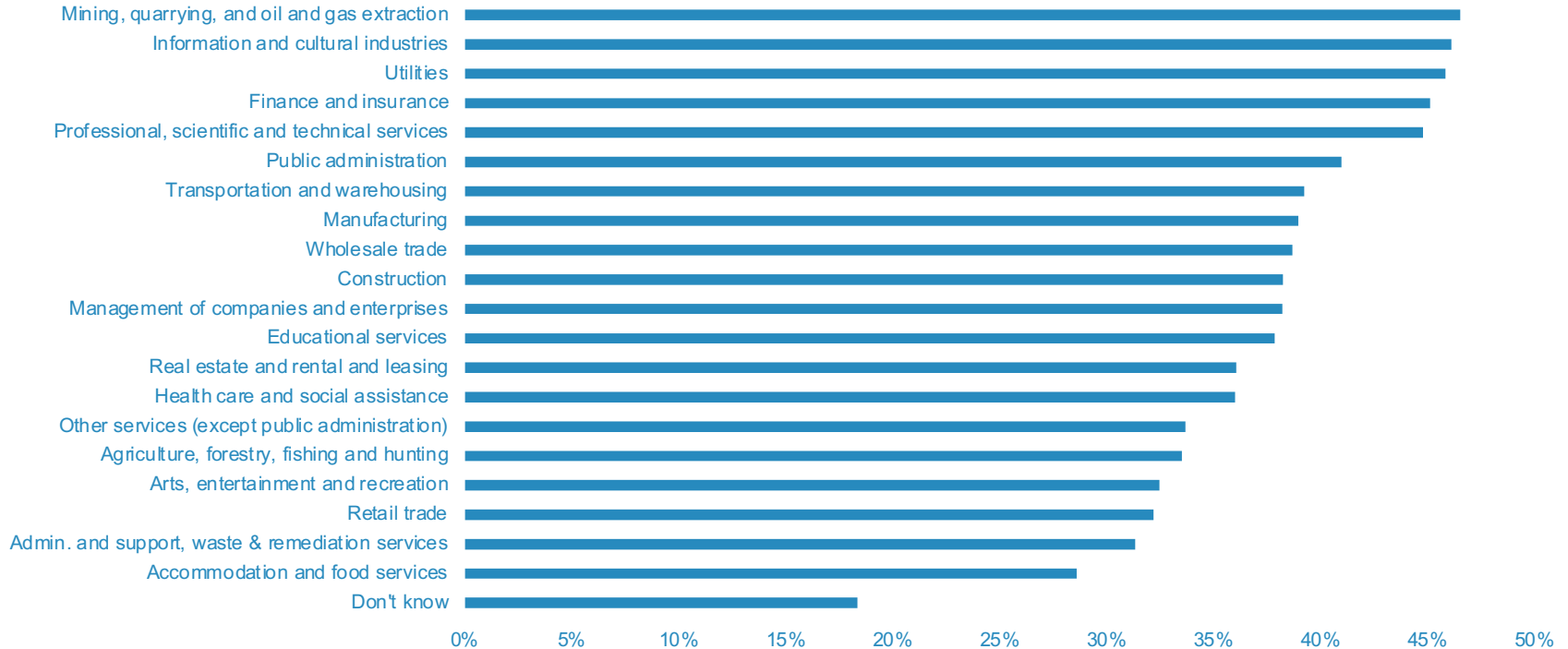| Q: "Who would you say primarily handles your household's financial matters?" | Score (%) |
|---|---|
| I do | 38.2 |
| My partner and I equally do | 38.1 |
| My partner does | 25.7 |
| Someone else does, for example a relative | 23.1 |
| Prefer not to say | 14.7 |

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# Notable differences between industries



| Industry | % |
|---|---|
| Mining, quarrying, and oil and gas extraction | ~46.5% |
| Information and cultural industries | ~46% |
| Utilities | ~46% |
| Finance and insurance | ~45% |
| Professional, scientific and technical services | ~44.5% |
| Public administration | ~41% |
| Transportation and warehousing | ~39.5% |
| Manufacturing | ~39% |
| Wholesale trade | ~38.5% |
| Construction | ~38% |
| Management of companies and enterprises | ~38% |
| Educational services | ~37.5% |
| Real estate and rental and leasing | ~36% |
| Health care and social assistance | ~36% |
| Other services (except public administration) | ~33.5% |
| Agriculture, forestry, fishing and hunting | ~33.5% |
| Arts, entertainment and recreation | ~32.5% |
| Retail trade | ~32% |
| Admin. and support, waste & remediation services | ~31% |
| Accommodation and food services | ~28.5% |
| Don't know | ~18.5% |

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# Many still "don't know"

*Respondents who said only 1 or 2 times that they didn't know scored much higher, on average*

| % of "don't know" | Men | Women | Both |
|---|---|---|---|
| General | 19.5 | 30.0 | 24.9 |
| RRSPs/TFSAs | 22.3 | 30.4 | 26.5 |
| Employer Plans | 48.5 | 61.1 | 55.0 |
| CPP/QPP | 30.8 | 33.9 | 32.4 |
| OAS/GIS | 52.7 | 55.6 | 54.2 |
| TOTAL | 34.6 | 41.2 | 38.0 |

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# Results for the different sections of the Index

| *Score* | Mean | Standard Deviation | 1st Quartile | Median | 3rd Quartile |
|---|---|---|---|---|---|
| General | 63% | 26% | 50% | 67% | 83% |
| RRSPs/TFSAs | 42% | 30% | 17% | 42% | 67% |
| Employer Plans | 25% | 33% | 0% | 0% | 33% |
| CPP/QPP | 42% | 29% | 17% | 33% | 67% |
| OAS/GIS | 30% | 28% | 0% | 25% | 50% |

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# Few links between scores by section

*A coefficient of 1 means perfect correlation, while a coefficient of 0 means an absence of correlation*

| Correlation coefficients | General | RRSPs/ TFSAs | Employer Plans | CPP/ QPP | OAS/ GIS |
|---|---|---|---|---|---|
| General | 1.00 | - | - | - | - |
| RRSPs/TFSAs | 0.53 | 1.00 | - | - | - |
| Employer Plans | 0.38 | 0.40 | 1.00 | - | - |
| CPP/QPP | 0.44 | 0.52 | 0.36 | 1.00 | - |
| OAS/GIS | 0.39 | 0.42 | 0.36 | 0.58 | 1.00 |

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# RSI Index 2023: Results

GENERAL SECTION: FINANCIAL LITERACY

# Questions: General financial literacy

- <u>Compound interest</u> – 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?

- <u>Purchasing power</u> – 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)

- <u>Bonds</u> – If interest rates rise, what will typically happen to bond prices?

- <u>Debt doubling</u> – 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?

- <u>Diversification</u> – True or false? Buying a single company's stock usually provides a safer return than a stock mutual fund.

- <u>Mortgage</u> – 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.

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# More highly educated individuals do better
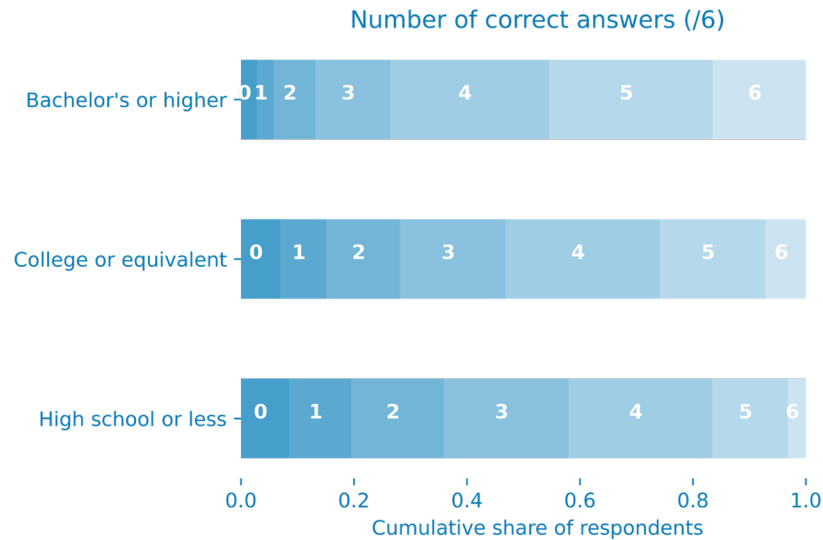
Number of correct answers (/6)



*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*
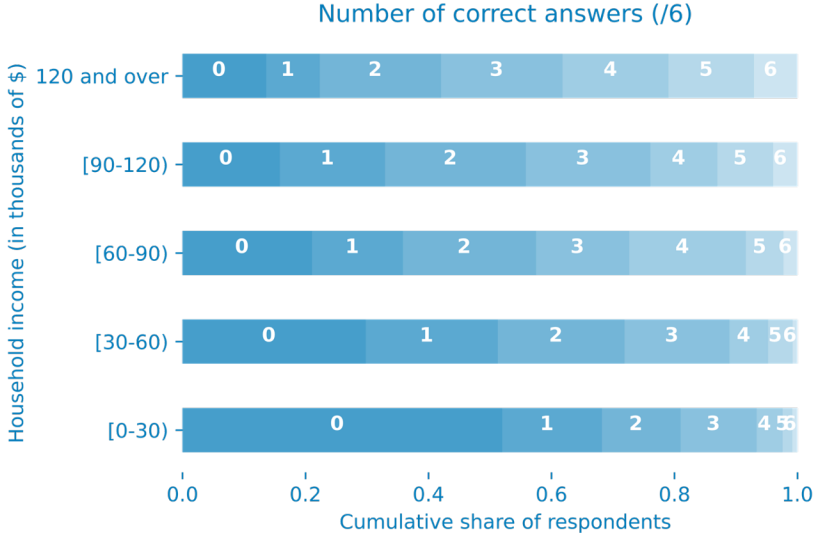
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# General financial knowledge: Success rate by question
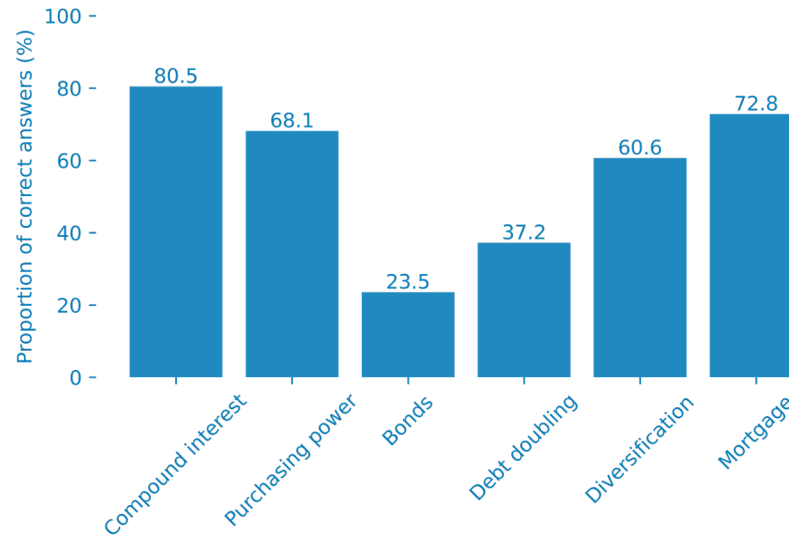


*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# RSI Index 2023: Results

SECTION ON REGISTERED RETIREMENT
SAVINGS PLANS (RRSP) AND TAX-FREE
SAVINGS ACCOUNTS (TFSA)

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# 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?

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# Those earning more know RRSPs and TFSAs better



*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*
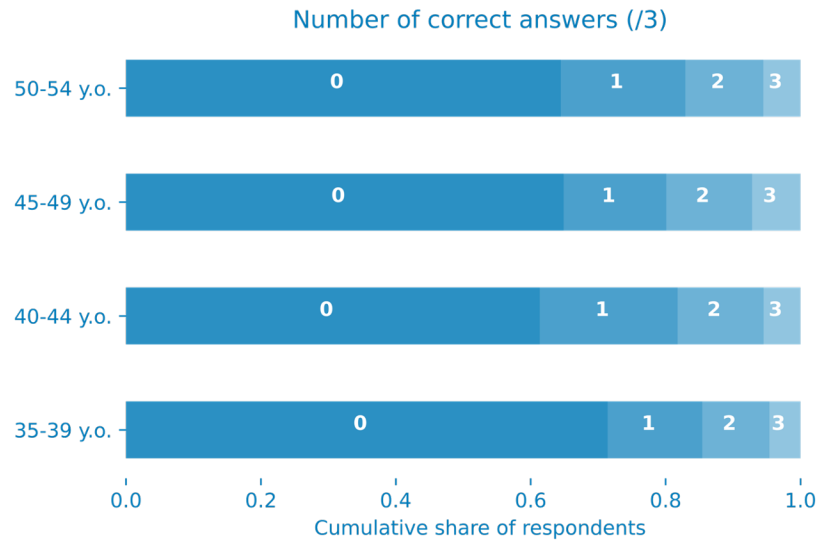
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# RRSP and TFSA: Success rate by question
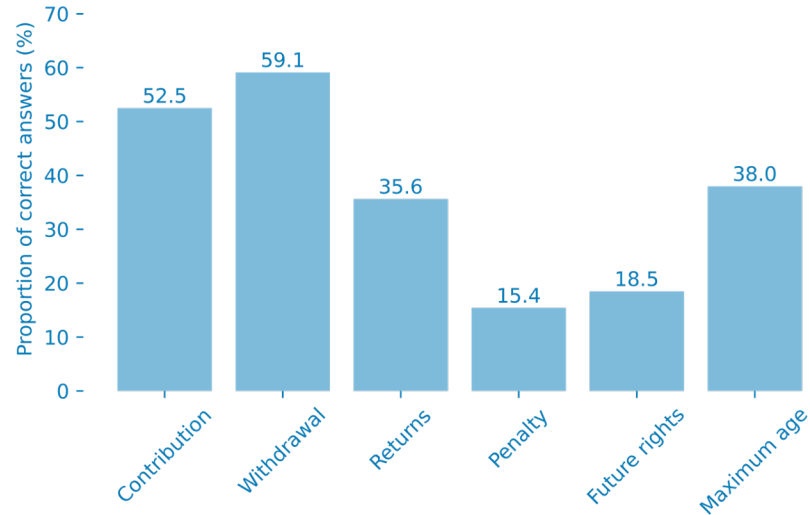


*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

# RSI Index 2023: Results

SECTION ON EMPLOYER PLANS

# Questions: Knowledge of employer plans

- <u>Type: contribution</u> – In which type of pension plan can a worker generally choose how much to contribute? (defined-benefit, defined-contribution)

- <u>Type: returns</u> – For which type of plan do retirement payments depend on the returns generated on financial markets? (defined-benefit, defined-contribution)

- <u>Type: longevity</u> – 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)

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# Differentiating plan types is difficult at all ages



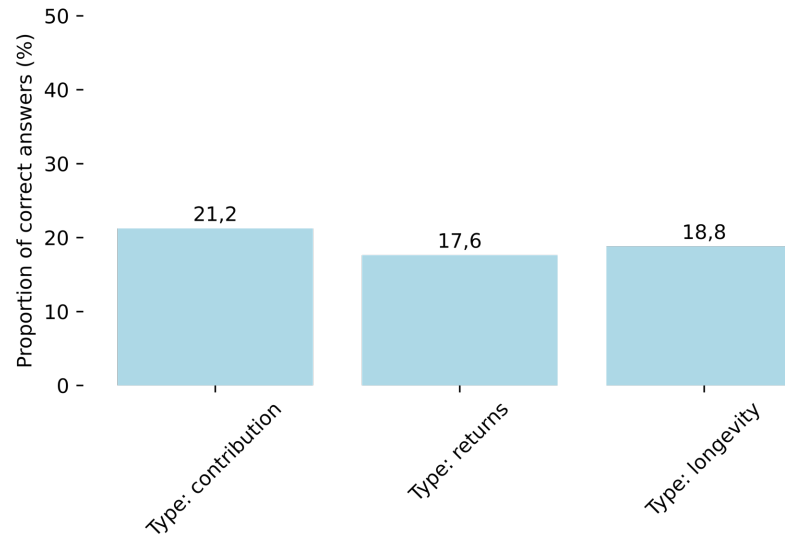Number of correct answers (/3)

Cumulative share of respondents

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# Low income individuals do not know employer plans well
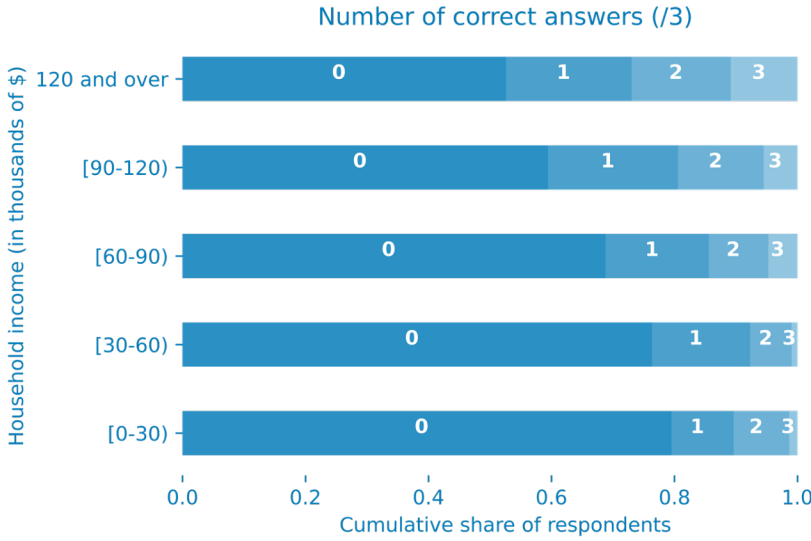


*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

# Employer plans: Success rate by question



*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

# RSI Index 2023: Results

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SECTION ON THE CANADA PENSION PLAN (CPP) AND QUEBEC PENSION PLAN (QPP)

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# Questions: Knowledge of CPP/QPP

- <u>Benefits</u> – Retirement benefits from the CPP/QPP... (are a fixed amount, depend on income, are based on contributions, etc.)

- <u>Age</u> – CPP/QPP retirement benefits can start being drawn when the would-be recipient reaches… (age 60, 65 or 70, or 35 years of contribution)

- <u>Penalty</u> – 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)?

- <u>Delay</u> – 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)?

- <u>Taxation</u> – CPP/QPP benefits are... (taxable federally, taxable provincially, non taxable)

- <u>Work allowed</u> – When receiving CPP/QPP retirement benefits, you... (must stop working, must work less, can keep working)?

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# Older people know CPP/QPP better

*Average score for this section also increases from 29.7% among the 35-39 y.o. to 43.9% among the 50-54 y.o.*
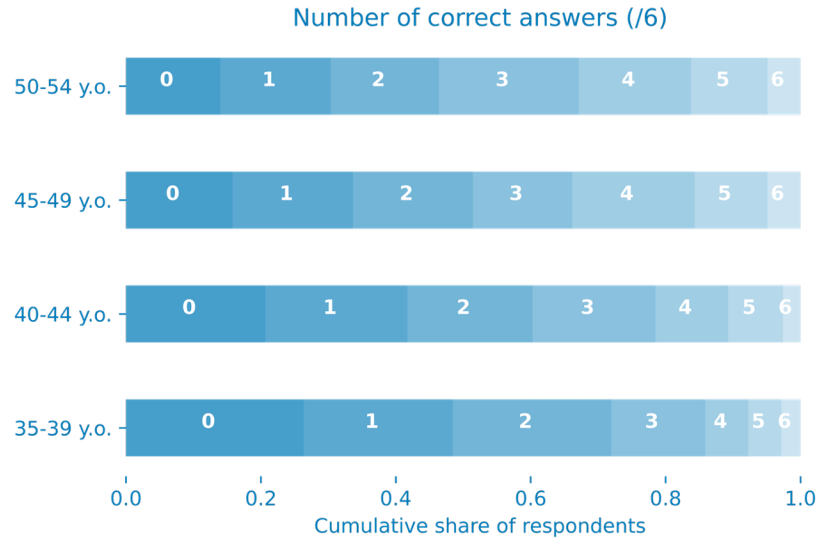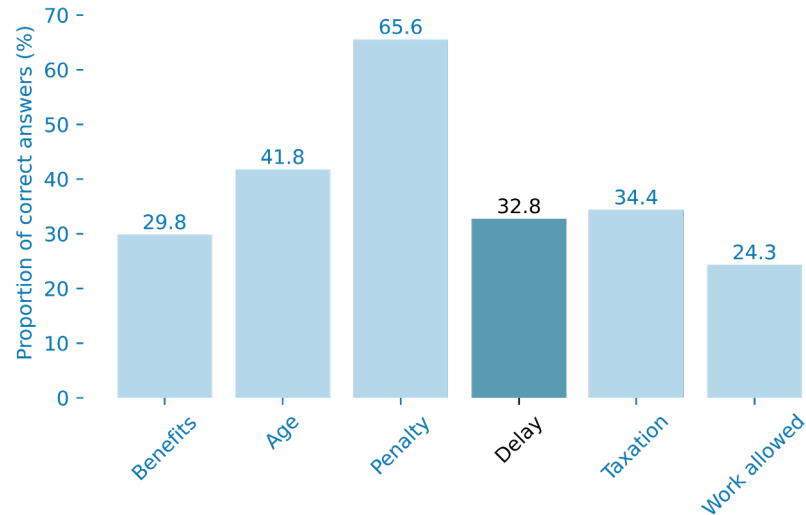


Number of correct answers (/6)

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# The more well-off know CPP/QPP better
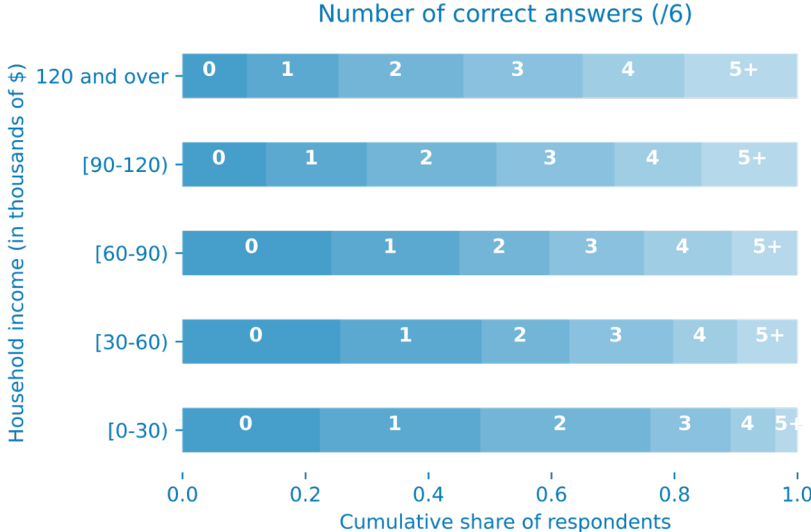


*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# CPP/QPP: Success rate by question



Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.

# RSI Index 2023: Results

SECTION ON OLD-AGE SECURITY (OAS PENSION AND GUARANTEED INCOME SUPPLEMENT, OR GIS)

# Questions: Knowledge of OAS and GIS

- <u>OAS benefits</u> – OAS benefits... (are a fixed amount, depend on income, are based on contributions, etc.)

- <u>OAS age</u> – OAS benefits can start being drawn when the would-be recipient reaches... (age 60, 65 or 70, or 35 years of contribution)

- <u>OAS clawback</u> – Can OAS benefits be reduced if the beneficiary's non-OAS and non-GIS income exceeds a certain threshold?

- <u>OAS taxation</u> – OAS benefits are... (taxable federally, taxable provincially, non taxable)

- <u>GIS benefits</u> – Guaranteed Income Supplement (GIS) benefits... (are a fixed amount, depend on income, are based on contributions, etc.)

- <u>GIS age</u> – GIS benefits can start being drawn when the would-be recipient reaches… (age 60, 65 or 70, or 35 years of contribution)

- <u>GIS clawback</u> – Can GIS benefits be reduced if the beneficiary's non-OAS and non-GIS income exceeds a certain threshold?

- <u>GIS taxation</u> – GIS benefits are... (taxable federally, taxable provincially, non taxable)

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# Older people know OAS and GIS better
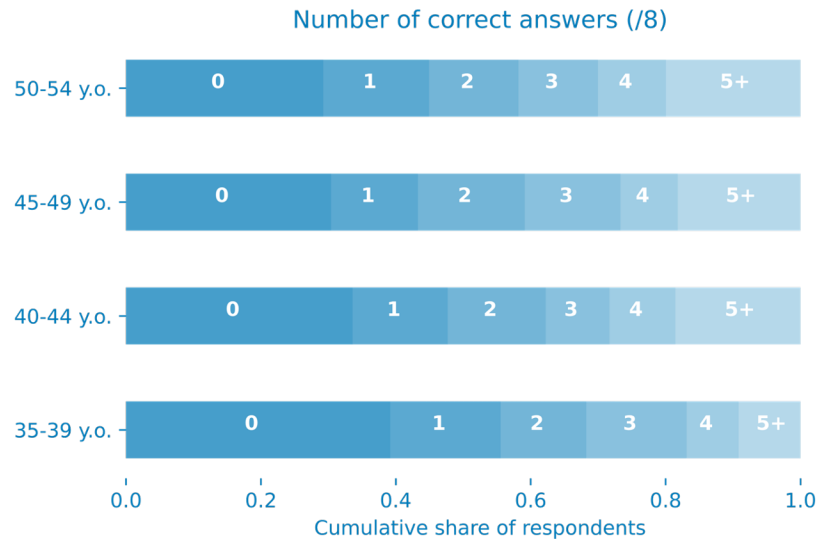


Number of correct answers (/8)

*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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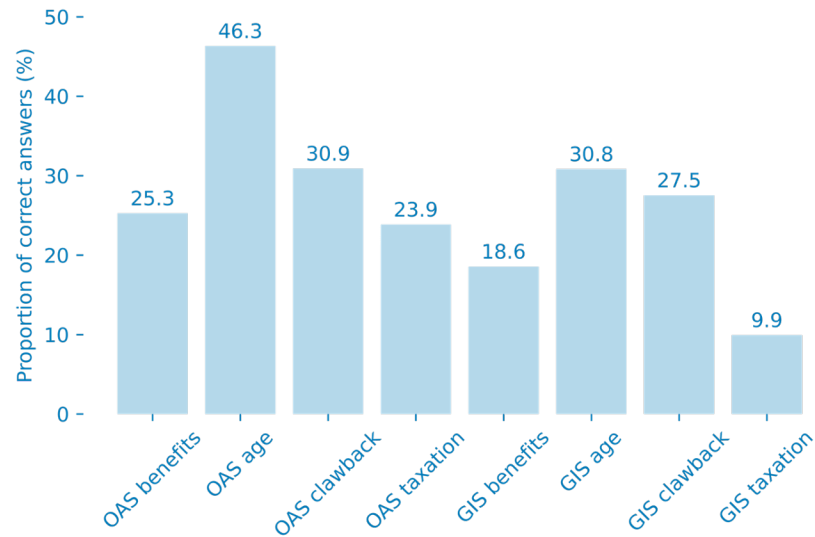# Low income individuals do not know OAS and GIS as well
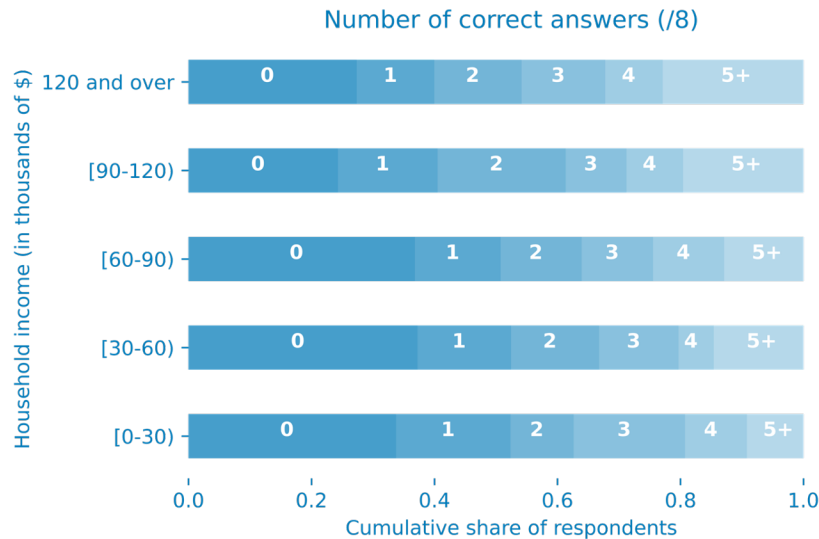


*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

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# OAS and GIS: Success rate by question



*Survey fielded in December, 2022 with the "AskingCanadians" web panel. Responses of the 3,004 Canadians, aged 35 to 54 years old, have been weighted using the 2016 Census.*

# Conclusions (1)

- For its 5th edition, the *RSI Index* documents a persistent lack of knowledge with respect to the Canadian retirement system and to certain key financial concepts. The overall score stands at 36.6%, near its average of the last 2 years.

- Like every year and as one might expect, older, more educated, and higher-earning individuals do better on all aspects, but their level of knowledge is still low, with average scores by sub-group never exceeding 50%.

- Consistently with past editions, respondents who handle their household's financial matters, at least in part, score much better than those who do not.

- The Index includes an acceptable 63% score on general financial knowledge, pulled downward this year again by questions on bonds, diversification and indebtedness. Although the latter may seem worrying in the current context, it is notable that understanding of purchasing power (inflation) has been increasing for 3 years, from 60.8% to 68.1% this year – a level that is still low.

- Scores vary significantly depending on the industry where respondents work or last worked. Similarly to last year, though with some minor shifts in industry rankings (likely due to small sample sizes), average global scores by industry range this year from 29% to 47%.

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# Conclusions (2)

- On average, respondents selected "don't know" for over a third of the 29 questions; about one-third for men, and over two-fifths for women – which is consistent with the scientific literature.

- Respondents who selected the fewest "don't know" globally score much higher. On average, the proportion of "don't know" was much higher on the topics of employer plans and Old Age Security.

- Again this year, respondents who have an employer plan or savings in an RRSP or TFSA obtain a much better score for the section on tax-preferred savings vehicles.

- The best-known topics remain the CPP/QPP and RRSPs/TFSAs, which are likely the most widely used parts of the system for Canadians under 60 years old. Older Canadians do better on each.

- Fewer than one–third (32.8%) of respondents are aware that delaying the start of CPP/QPP retirement benefits comes with a bonus, a strikingly low figure when Quebec recently wished to better inform its population about this aspect.

- The 2023 *RSI Index* reminds of the importance of providing timely information about the retirement system, in particular in the labour market and economic environments of the 2020s.

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