

RESEARCH FROM SEI INVESTMENTS

May 2004

DC Pension Plan Members: Needs & Knowledge

INTRODUCTION

This report summarizes the key findings of Defined Contribution (DC) Pension Plan Member Research, commissioned by SEI Investments Canada.

According to the December 2003 issue of *Benefits Canada* magazine, total administered assets for the DC plan market in Canada were \$55.3 billion as of June 30, 2003, a 5.7% increase over the prior year. The market represents more than 43,400 DC plan sponsors and 3.6 million plan members, forming a substantial part of the Canadian investment landscape.

This research project is the second phase of a series on DC plans in Canada. The first phase surveyed 120 DC sponsors across Canada in November 2003, with results released in January 2004. The DC Pension Plan Sponsor Study examined the future of pension plans, industry issues, and areas of opportunity for improvement.

OBJECTIVES OF THE RESEARCH

Focusing on the DC plan member, the objectives of the study were to provide insight into:

1. Plan satisfaction
2. Member knowledge of plan features and confidence in investing
3. Retirement decision-making process
4. Interest in receiving financial advice

METHODOLOGY

Web and paper based surveys were completed by 2013 plan members from a total of 17 different Canadian based DC plans. Participating plans had an average membership of 1095 (median membership was 750) and average assets under management of \$86 million (median assets were \$11million). The weighting of responses was limited to no more than 150 members per plan, while the research sample was geographically representative of DC pension plan distribution across Canada.

Surveys were completed from March 1 to April 7, 2004 in the member's preferred language (English or French). Fieldwork was conducted by Q:Quest, a market research firm.

KEY FINDINGS

- Employers are concerned about their employees' future retirement while employees are even more pessimistic about it.
- Only 6% of employees feel that their pension plan will provide them with enough money to retire, versus employers who believe the pension plan will provide enough for 38% of employees.
- Only 28% of employees feel they will be able to retire when they want to, versus employers who believe that 43% of employees will retire at their desired age. The average age at which employees want to retire is 56. The average age at which they expect to retire is 61, five years older than they desire.
- Employees expect their pension plan will provide only 29% of their retirement income, versus employers who believe that employees can expect 52% of their retirement income to come from their pension plan.
- Employees lack investment knowledge. Only 16% of employees understand asset allocation while 62% chase "hot stocks". Taking advantage of education programs offered by the employer has little impact on improving investment knowledge.
- Employees lack confidence in investing. Only 15% of employees consider themselves to be very knowledgeable about retirement planning while 34% said they did not feel knowledgeable at all.
- Employees don't understand their own pension plan. Only 39% of employees correctly knew that their pension plan is compulsory. In reality, 71% of members are in compulsory plans. Participating in education programs has little impact on improving understanding of plan features.
- DC education programs are not working. Over half (52%) of the employees are not taking advantage of education programs. Even when educational support is used, it is ineffective.
- Rather than more education, employees want sound, trustworthy advice on their retirement plan. Fully 79% of employees want advice on their specific company pension plan while 68% want advice on their retirement in general.

THE DC PENSION BENEFIT IS IMPORTANT

According to employees surveyed, the DC pension benefit is important. Approximately 67% agree that having a pension plan makes them feel valued by their employer. In addition, 39% believe the pension plan is so important they would leave the organization if a pension plan were no longer offered.

PLAN SATISFACTION

Despite the feeling of value derived from the pension benefit, employee satisfaction with their plan is somewhat low.

Overall Plan Excellence

54% of employees feel they have an excellent plan. Drivers of plan excellence for members include:

- The belief that the plan is as good or better than other plans of the same type
- The amount of employer contribution
- The performance of the investments (given the current state of the stock market)
- Comfort that pension will provide what they need for retirement
- Education that makes members confident they are making the right decision
- Sponsor's reason for offering the plan is to ensure members are provided for in retirement
- All required investment choices are offered
- Degree to which the pension plan makes the member feel valued by the sponsor
- Ability to access advice required to make decisions about the plan

Employer Contribution

57% of employees feel the contribution amount made by their employer is excellent.

Investment Performance

50% of employees are pleased with the performance of their investment in the company pension plan.

Investment Choice

39% of employees agree the DC plan offers all the investment choices they need.

MEMBER CONCERNS: THE SITUATION IS WORSE THAN SPONSORS THOUGHT

Employees are worried about having enough to retire on and being able to retire when they want to. According to the DC Pension Plan Sponsor Study conducted in November 2003, sponsors revealed similar concerns. However, the situation is even more dire than sponsors originally thought.

RETIREMENT INCOME

Both the employer and employee agree that the DC plan will not provide what the employee needs at retirement. But the employee is significantly less sure their retirement needs will be met.

- Members: 6% are very confident that the plan will meet retirement needs
- Sponsors: believe 38% of members will have enough to retire on

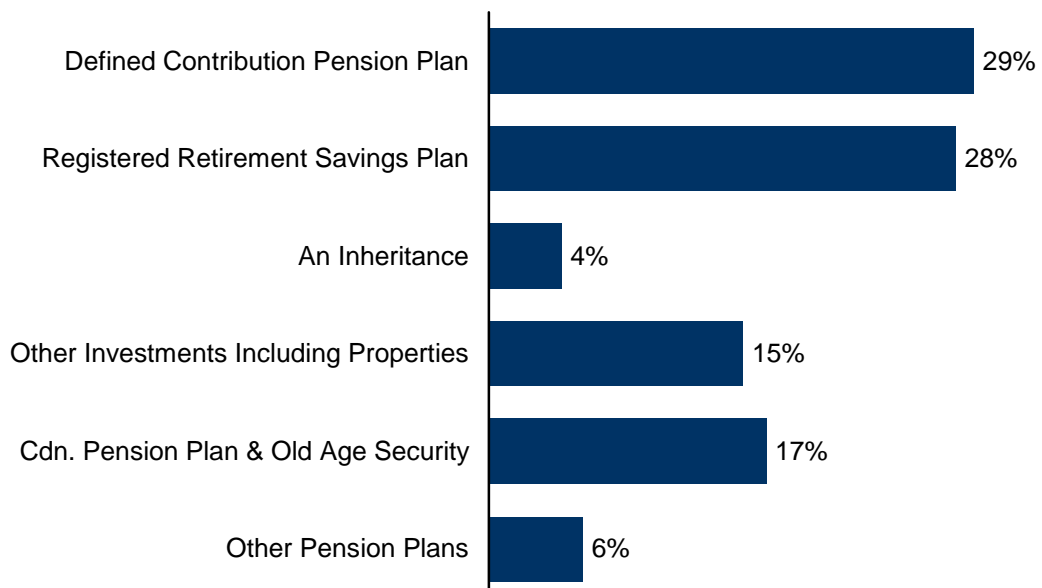
SOURCE OF RETIREMENT INCOME

Members and sponsors disagree on how much the company pension plan will contribute to the members total retirement income. Members are more pessimistic on the ability of their plan savings to contribute a significant amount to their overall retirement income.

- Members: 29%, on average, expect their income at retirement will come from the plan
- Sponsors: expect an average of 52% of the members' income at retirement will come from the plan

Members report the next largest source of retirement income, after their company pension plan, will come from RRSPs. The majority of survey participants (83%) hold an RRSP outside their company pension plan. But despite the fact that members do not expect their retirement needs to be met, over half of RRSP these holders (57%) are not making their maximum allowable contributions.

EXHIBIT 1.
ANTICIPATED AMOUNT OF RETIRMENT INCOME FROM
VARIOUS SOURCES



RETIREMENT AGE

Members and sponsors do not think members will be able to retire when they want to. Members are less confident about this and expect to have to work an additional 5 years.

- Members: 28% think they'll be able to retire when they want to. The average age at which they want to retire is 4.7 years older than when they plan to retire. The average desired retirement age is 56.3 years, while the planned retirement age is 61.0 years.
- Sponsors: believe that 43% of members are likely to retire when they want to. They expect the average age of retirement is 61.5 years.

LACK OF KNOWLEDGE IN PLAN FEATURES & INVESTING

Employees don't understand their own pension plans and know little about investing. Only 42% claim to be knowledgeable about planning for retirement.

Additionally, education programs provided by the employer have little impact on enhancing employee knowledge of the plan features and investing.

MEMBERS DO NOT UNDERSTAND THEIR OWN PENSION PLAN

Members are unclear on basic plan features. The table below shows the percentage of employees that were able to correctly answer questions on plan features and the impact that education programs had on their answer.

	% of employees providing the correct answer		
	Overall group	Those who participate in education programs	Those who do not participate in education programs
Plan is compulsory	58%	63%	55%
Employee is allowed to make his/her own contribution to the plan	45%	54%	41%
Employer matches the employee contribution	69%	77%	63%
Employer contributes to the plan	72%	70%	72%

MEMBERS LACK INVESTMENT KNOWLEDGE

Confusion Over Asset Allocation

Survey participants were asked to allocate pension savings into stocks and bonds across two different scenarios. Regardless of their risk preference, one would expect the allocation between stocks and bonds to be consistent across both scenarios. However, only 16% of employees consistently allocated the same amount to stocks and bonds in each case, with only 27% being even roughly consistent.

Of those employees who take advantage of education programs offered, 17% were consistent in their allocation, while of those employees who do not take advantage of education, 16% were consistent.

Most employees tended to diversify by investment choice rather than asset class, and were influenced by the menu of funds offered.

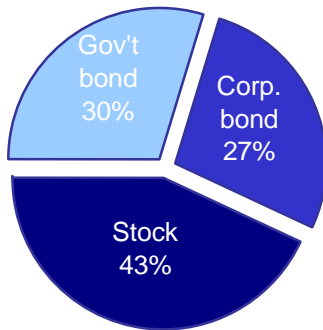
EXHIBIT 2.

Q. Imagine you have \$100K in your pension. All of your old investment choices have been eliminated. Now, you have only 3 fund choices in each of 2 scenarios.

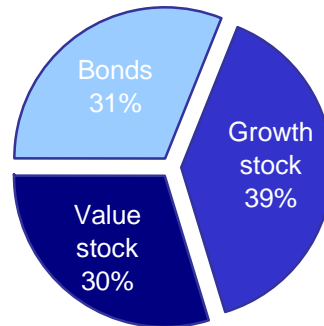
Scenario A – government bond fund, corporate bond fund, stock fund
Scenario B – bond fund, growth stock fund, value stock fund

You have to put all \$100K into each scenario. How much of the \$100K would you put into each fund in each scenario?

Scenario A
Allocation to:
Bond Funds 57%
Stock Funds 43%



Scenario B
Allocation to:
Bond Funds 31%
Stock Funds 69%



Momentum Chasing

In another scenario, employees demonstrated a tendency to chase “hot stocks”. Survey participants were asked to allocate pension savings between 2 stocks. Both stocks were forecast to earn the same return over the next 5 year period, but one had a significantly better historical performance.

One would expect an investor to diversify roughly equal amounts of their pension savings into each stock. However, only 25% of employees understood the concept of diversification, putting half of their funds into each stock. The majority of participants (62%) were momentum chasers allocating more than half their savings into the “hot stock”, while 21% put 100% into the “hot stock”. A small group (12%) followed the contrarian path and chose to put more than half of their savings into the stock with the weaker historical performance.

Interestingly, when answering this question it made virtually no difference whether employees took advantage of education programs offered by the employer. Of those who do, 26% put half of their funds into each stock, 61% were momentum chasers, and 11% were contrarians.

Of those employees who do not take advantage of education programs offered, 27% put half of their funds into each stock, 61% were momentum chasers, and 10% were contrarians. Clearly, education had no impact.

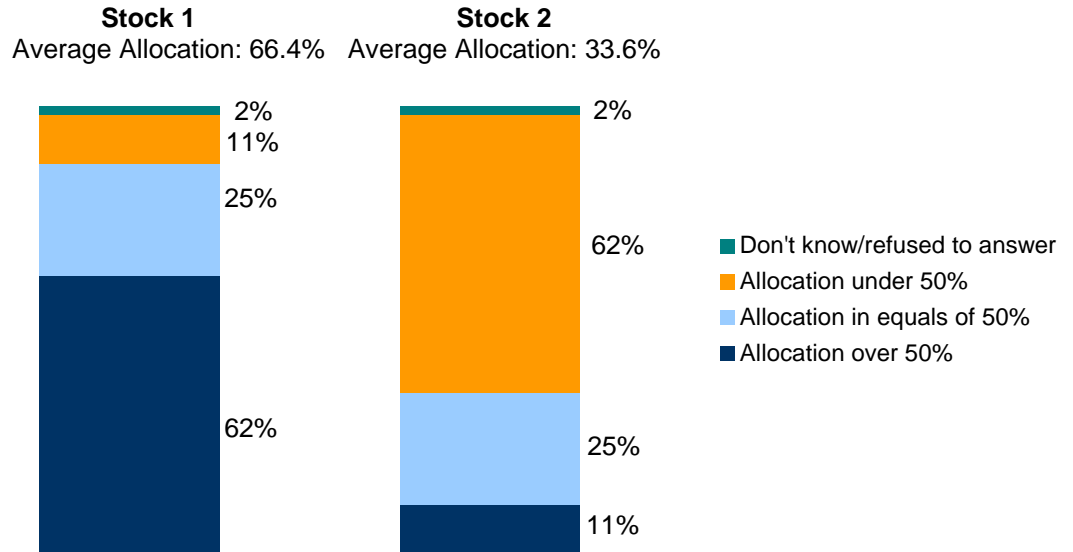
EXHIBIT 3 .

Q. Imagine you have \$100K in your pension. All of your old investment choices have been eliminated. Now, you have 2 stocks to choose from. Each stock is forecast to earn 10% per year over the next 5 years.

Stock 1 – 15% average return over the last 5 years

Stock 2 – 5% average return over the last 5 years

You have to put all \$100K into these stocks. How much of the \$100K would you put into each stock?



MEMBERS LACK INVESTMENT CONFIDENCE

The majority of members are aware they have little investment knowledge with 34% indicating they are not knowledgeable at all. Only 15% of members are confident and consider themselves to be very knowledgeable about retirement planning. However, among the more confident population, there is a tendency to be overconfident as members.

PLAN EDUCATION

Employees are not taking advantage of education programs provided by the employer. While 58% of survey participants indicate they have time to learn, 52% admit they do not use the educational support provided to them by their employer.

Even when education is taken advantage of, it is still ineffective. Those who have received educational support are inconsistent in their investment decision-making and unaware of many features of their DC plan. Only 10% of employees strongly agree that plan education gives them confidence to independently make good decisions.

This is not surprising as DC sponsors revealed in the DC Pension Plan Sponsor Study that only 11% of them felt they performed extremely well in their education efforts. This is despite the fact that 53% of sponsors think that education is the best way to prevent litigation.

Thus plan sponsors have a right to be concerned about the threat of litigation. They know that they are not providing effective education programs and now employees have indicated that education is not working.

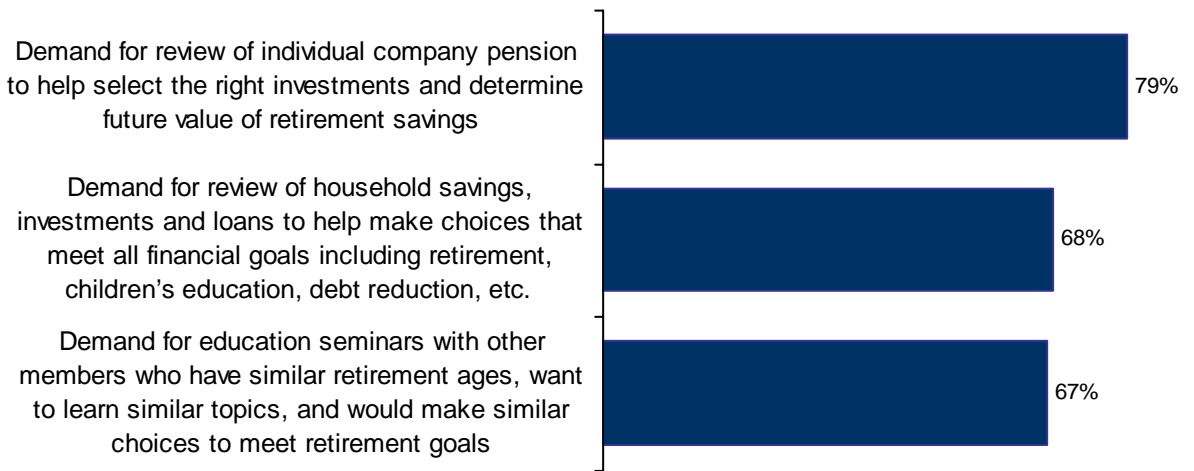
MEMBERS WANT ADVICE

Given the findings, one should expect employees to want help in planning for their future. In fact, 69% of members surveyed indicated that they want to receive advice about their retirement. Fully 79% of members want to receive advice about their specific pension plan.

DEMAND FOR ADVICE

Members want to receive professional advice about retirement planning.

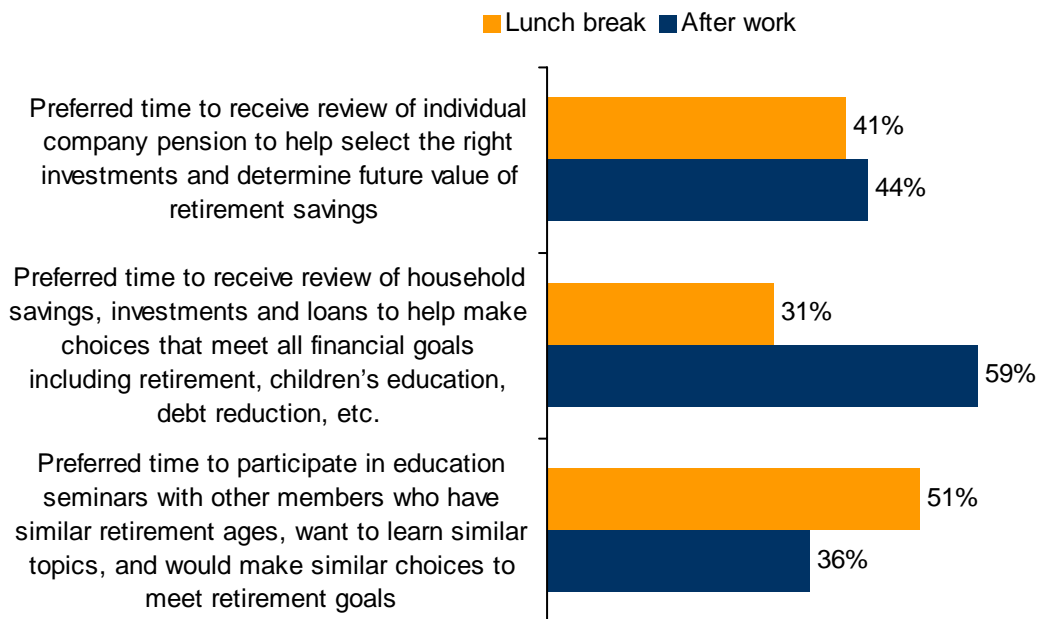
EXHIBIT 4. DEMAND FOR ADVICE



MEMBERS WILL MAKE TIME FOR ADVICE

Given a choice to receive advice before work, during their lunch break, after work, or none of the above, the vast majority chose to receive advice on their own time - during lunch or after work.

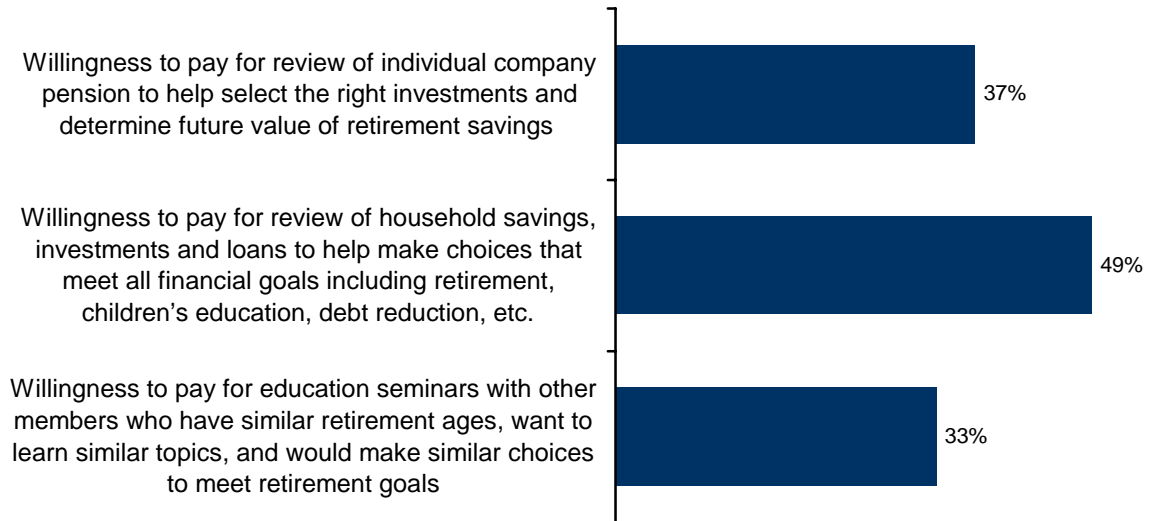
EXHIBIT 5. PREFERRED TIME FOR ADVICE



MEMBERS ARE WILLING TO PAY FOR ADVICE

Members show a willingness to pay for advice

EXHIBIT 6. WILLINGNESS TO PAY FOR ADVICE



OUTSIDE ADVICE IS ALREADY BEING USED

54% of members are already receiving some form of outside investment advice, most often from a financial planner, independent investment advisor, or their banker. 42% of members indicated that they make most investment decisions on their own.

EXHIBIT 7. SOURCES OF CURRENT ADVICE

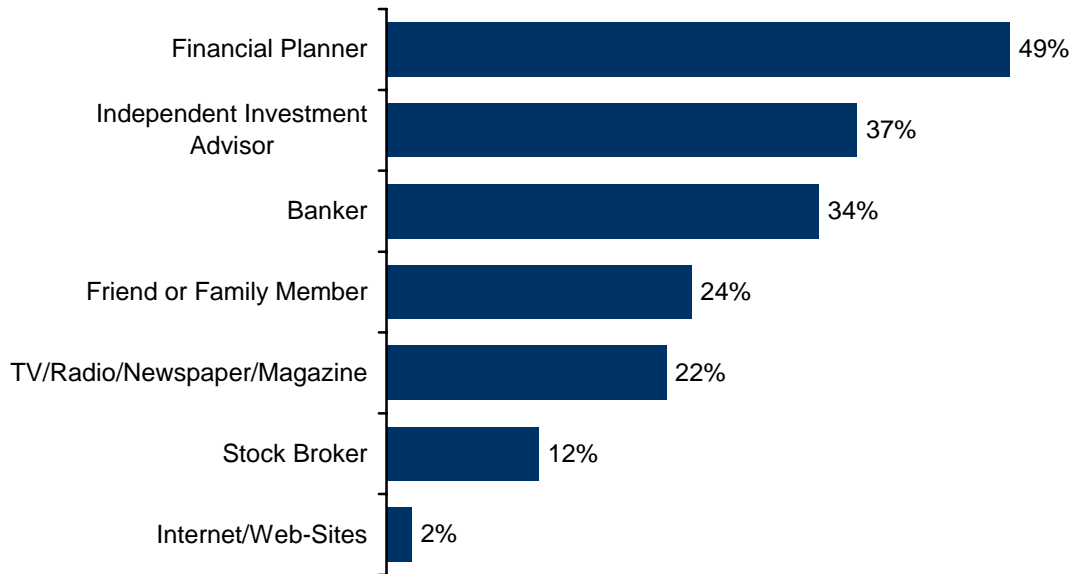
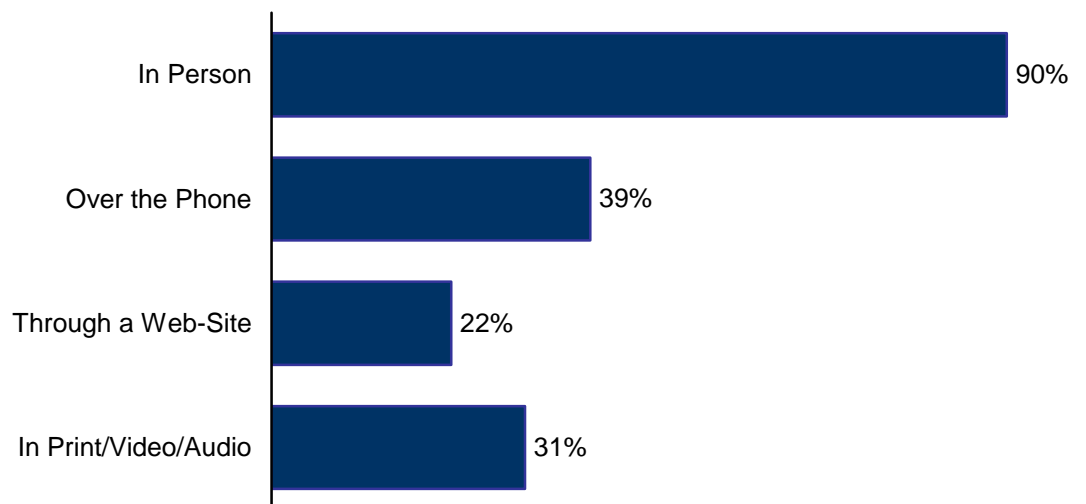


EXHIBIT 8. DELIVERY OF CURRENT ADVICE



ABOUT PLAN MEMBERS

Generally, members joined the pension plan 3 years after they joined the organization. The mean year they joined the organization was 1994 while the mean year they joined the DC plan was 1997.

EXHIBIT 9. GENDER

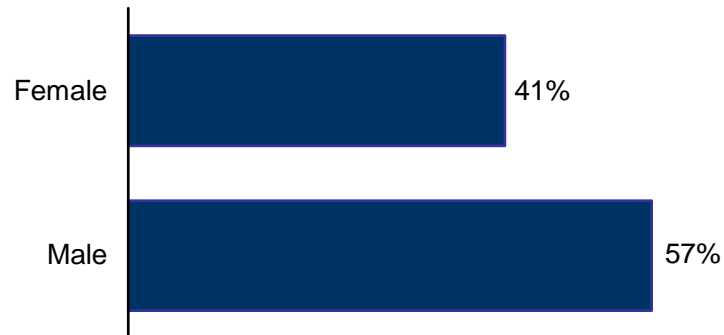


EXHIBIT 10. AGE RANGE
(Average Age = 42 years)

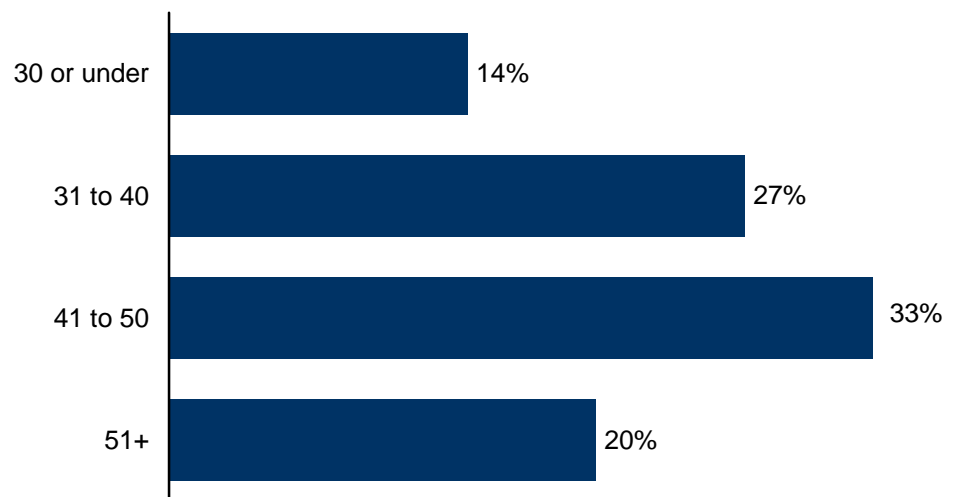


EXHIBIT 11. EDUCATION

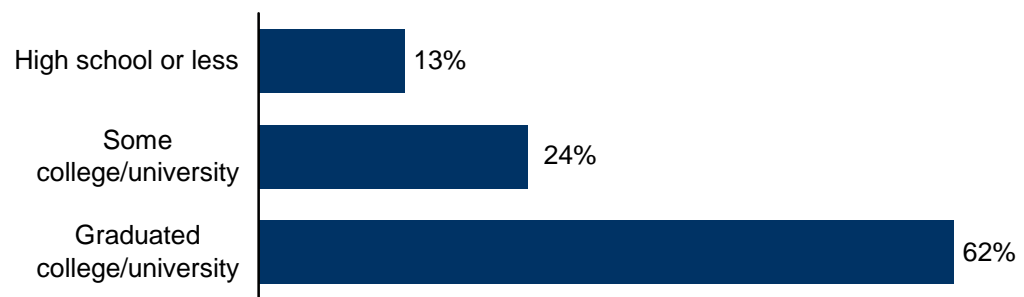


EXHIBIT 12. ANNUAL EMPLOYMENT INCOME
(Average Employment Income = \$64,900)

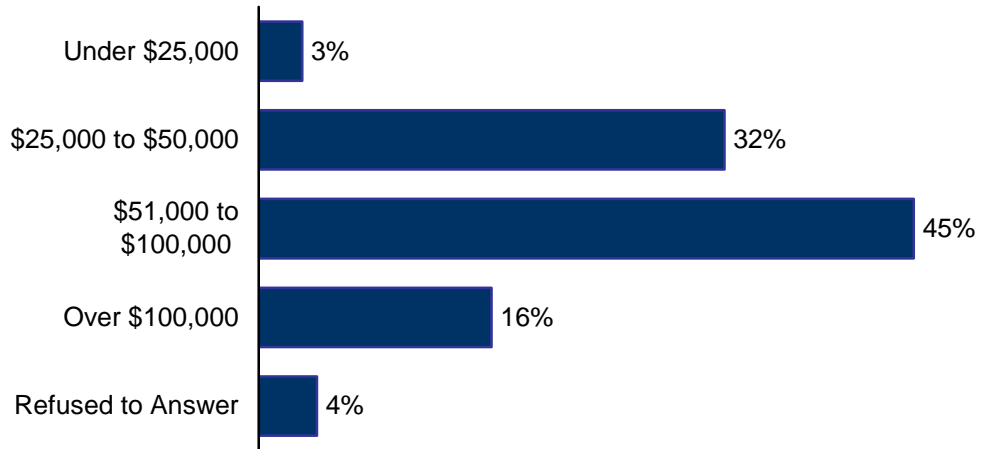


EXHIBIT 13. NET HOUSEHOLD ASSETS
(Average Net Household Income = \$223,000)

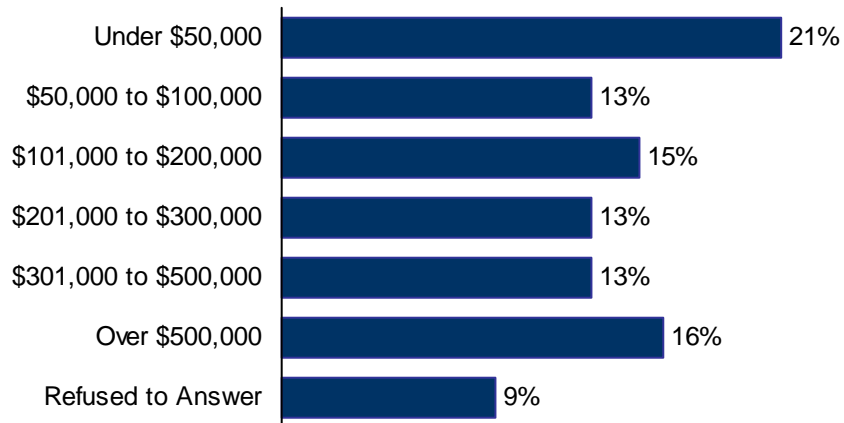
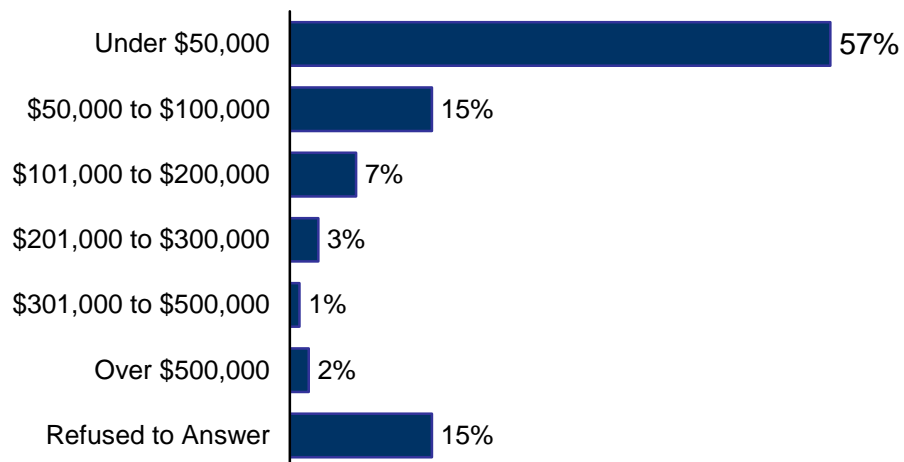


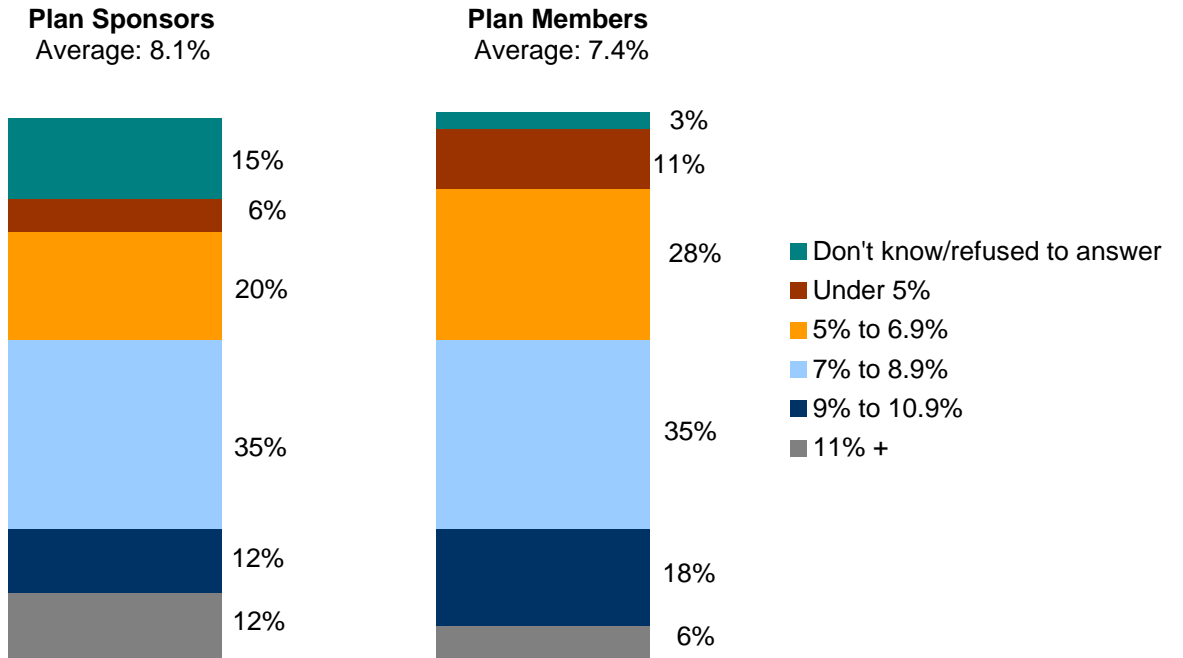
EXHIBIT 14. VALUE OF PENSION PLAN
(Average Value of DC Pension Plan = \$66,000)



MARKET EXPECTATIONS

Over the next 10 years, members estimate the average annual return of the S&P/TSX Composite Index to be 7.4%. This is in contrast to the sponsors estimate of 8.1%.

EXHIBIT 15. ESTIMATE OF AVERAGE ANNUAL RETURN FOR S&P/TSX COMPOSITE INDEX OVER NEXT TEN YEARS



CONCLUSION

Employees regard their DC pension plan as important, providing them with a sense of being valued by their employer. However, their satisfaction level with the company plan is somewhat low. Slightly over half of participants classify their overall plan and employer contribution level as excellent. Exactly half are pleased with the investment returns in the plan given the performance of the stock market, while less than half are satisfied with the investment choices being offered by the employer.

DC members are concerned about their future retirement. They do not believe they will have enough to retire on and fear they won't be able to retire when they want to, predicting they will have to work an additional 5 years past their desired retirement age. Employers share the same concerns. These expectations are worse than what they originally thought according to the DC Pension Plan Sponsor Study conducted in November 2003.

Such concerns about retirement are justified based on the lack of member knowledge in investing and plan features, lack of member confidence in making retirement planning decisions, and ineffective education programs.

Employees do not understand the basic features of their pension plan. For example, employees are unsure whether their plan is compulsory, whether they can make their own contributions, whether the employer contributes to their plan and how much, and lastly, if they can include company stock in the plan. On the investment front, employees display confusion over asset allocation concepts and chase momentum.

The majority of employees admit they have a low level of knowledge when it comes to retirement planning. In fact, 34% admit they are not knowledgeable at all. And only 15% are confident, considering themselves to be very knowledgeable about retirement planning.

This lack of understanding in retirement planning and low level of confidence exhibited by employees can be attributed to ineffective education programs. Research results reveal that most employees are not participating in DC education programs provided by the employer. Approximately half have never even used educational support. Even when education is taken advantage of, it is still ineffective. Evidence of this lies in the fact that only 10% of employees feel that education programs give them the confidence to independently make good retirement decisions.

Sponsors should be particularly concerned here. In the DC Pension Plan Sponsor Study, a mere 11% felt they performed extremely well in their education efforts. Yet, they also expressed concern over potential litigation with 53% indicating that the best way to prevent it is with effective education.

Nonetheless, providing more education is not enough. Employees are asking for sound, trustworthy advice. Fully 79% want advice on their specific company pension plan while 68% want advice on retirement planning in general. Virtually all employees are willing to commit their own time to receive such advice.

Combining advice with effective education is the key to providing a more secure future for employees. Earlier this year our DC Sponsor Survey reported that roughly 25% of plan sponsors already provide third party advice, and an additional 15% plan to add this capability within the next decade.

Based on these findings, SEI intends to offer enhanced DC solutions for Canadian plan sponsors by early 2005. We remain committed to identifying the issues faced by pensions today and provide leading edge solutions.

ABOUT SEI INVESTMENTS

SEI Investments (NASDAQ:SEIC) is a leading global provider of asset management and investment technology solutions. The company's innovative solutions help corporations, financial institutions, financial advisers, and affluent families create and manage wealth. As of the period ended March 31, 2004, SEI administers \$357 billion in mutual fund and pooled assets, manages over \$126 billion in assets, processes almost \$66 trillion of investment transactions annually and operates 22 offices in 11 countries.

In Canada, SEI has acted as a trusted advisor to hundreds of the country's largest institutional investors since 1970. SEI draws on its wealth of experience to build integrated business solutions and multi-style manager-of-manager funds for the Canadian marketplace. With offices in Vancouver, Calgary, Toronto, Montreal and Halifax, SEI Canada has \$4.8 billion in assets under management, as of March 31, 2004. For more information, visit www.seic.ca.

To find out how SEI can help you with your pension plan, please contact the SEI office nearest you.

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