CPP Investment Board
Tracking Public Confidence I

Submitted to:
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1.0 Introduction

The Canada Pension Plan CPP Investment Board was established by an act of parliament in consultation with the provinces and territories. The primary objective of the CPP Investment Board is to help ensure the long-term stability of the Canada Pension Plan (CPP). This objective is to be met by investing an increasing portion of the fund's assets under a mandate to maximize returns without taking on undue risk of loss.

The ultimate objective of this study is to assist the CPP Investment Board in understanding public confidence in its ability to contribute to the long-term health of the Canada Pension Plan.

This report is the outcome of a second survey investigating confidence in the CPP Investment Board. The first survey conducted in March 2002 established a series of benchmark measures designed to track confidence over an extended period of time. This is the first such tracking exercise, but it is more extensive than was originally planned.

As a result of the highly publicized corporate scandals over the summer of 2002, as well as the ongoing turbulence in markets since the benchmark survey was conducted, it was decided that the first tracking exercise should more or less replicate the benchmark survey — though with a smaller number of cases than in the benchmark.. In addition to keeping a close eye on any potential changes that may have occurred in the public opinion environment, the survey was also designed to measure the impact of the recent corporate scandals.

The results presented here, therefore, have a dual purpose: to closely monitor any changes in confidence; and, to assess any impact the recent corporate scandals on confidence.

Organization of the Report

The report begins with a detailed analysis and exposition of the Confidence Index. The remainder of the report is organized thematically with a detailed exposition of the issues covered in the survey.

With this thematic exposition and analysis of the issues addressed through the survey, each indicator is given a detailed exposition showing any relevant demographic or otherwise significant subgroup differences. A great deal of attention is paid to tracking issues. Comparative numbers are shown and analysed for any of the indicators used in the original benchmark survey.

Methodology

- Tracking telephone survey of the general public from September 3 to 13, 2002
- 1526 completed interviews with a national random sample of Canadians 18 and over (excluding Quebec)
- Results are valid within +/- 2.5 percentage points, 19 times out of 20 (margin increase when results are subdivided or based on a split sample)
- Results have been weighted along age, gender and regional lines
- Comparisons drawn with benchmark survey of 2,258 Canadians 18 and over (excluding Quebec) conducted in March 2002

2.0 Confidence Index

The primary objective of this ongoing research initiative is to understand changes in the confidence Canadians have in the CPP Investment Board. To this end, a confidence index has been constructed to track these changes. This index is made up of a group of key indicators related to the CPP Investment Board's mandate, operating and investment principles, as well as those measuring confidence in the economy and stock markets. An overall score, developed from a statistical model and based on a complex composite of these indicators, forms the ultimate measure of confidence in the CPP Investment Board at any one time — the Confidence Index.

The Model

The following discussion outlines how the model used for the Confidence Index was developed. Any statistical model used for understanding attitudinal measures involves a blend of subjective decision making in selecting indicators that are topically relevant and objective testing through various forms of statistical analyses. With the proper balance between these two factors, the model will be a practical tool that can be used by decision makers to understand what is important to them.

Confidence Index Indicators

Creating an index that is attuned to the issues at hand requires the careful development and selection of indicators that are sensitive to the factors influencing confidence in what the CPP Investment Board does. In close consultation with senior management, the research team designed a series of indicators that address all the major aspects of the CPP Investment Board's approach and mandate, as well as the principles underlying its broad investment strategies. Once the first two surveys were completed, the data for each indicator were carefully scrutinized (also in consultation with senior management) and the appropriate indicators were selected for the Confidence Index.

Each of the indicators in the Confidence Index are based on a 7-point attitudinal scale that has been weighted and refined in the construction of the Index (see below). There are eight of these indicators in total and each one addresses a key area of importance to confidence in the CPP Investment Board.

Most of these indicators specifically address the investment of CPP assets as well as the model and principles underlying the CPP Investment Board's approach to these investments. These are:

- The CPP Investment Board's Mandate
  - » *Does the fact that CPP assets are being invested to increase returns make you more or less confident in the long-term health of the Canada Pension Plan? Please rate your answer on a scale from 1 to 7 where 1 is a great deal less confident, 7 is a great deal more confident and the midpoint 4 is neither more not less confident.*
- Risk to security of the CPP
  - » *It is a bad idea to invest a portion of CPP assets in the stock market, because the CPP could lose a lot of money and not be able to pay future pension benefits (agree/disagree scale).*
- Long-term returns in the face of short-term volatility
  - » *Although there may be occasional short-term losses if CPP assets were invested in stock markets, it wouldn't bother me because the gains will more than compensate over the next 20 years (agree/disagree scale).*
- Investing with a diversified portfolio
  - » *I would be okay with investing a portion of CPP assets in the stock market if I knew that the rest of the assets were invested in other kinds of investment like government bonds (agree/disagree scale).*
- Board accountability model
  - » *If investment professionals recruited to invest CPP assets were fully accountable to a board of directors with business and investment expertise, I am confident that they would make investment decisions that are best suited to ensuring the long-term health of the CPP (agree/disagree scale).*
- Political Independence
  - » *I am worried that there may be political influence in the way CPP assets are invested (agree/disagree scale).*

The remaining two indicators in the Confidence Index are indirect measures of confidence, but have been shown to have a highly significant impact on confidence in the CPP Investment Board's mandate. These are:

- Confidence in investment professionals
  - » *How confident are you in the ability of investment professionals to obtain high returns on the stock market over the long-term? Please rate your confidence on a scale from 1 to 7 where 1 is not at all confident, 7 is extremely confident, and the midpoint 4 is somewhat confident.*
- Future health of the Canadian Economy
  - » *What do you think will be the general trend in the overall health of the Canadian economy over the next 5 to 10 years, using a 7-point scale where 1 means much worse, 7 means much better and 4 means remain the same?*

While these indicators are all topically relevant to confidence in the CPP Investment Board and its mandate, the question remains as to whether or not they are statistically important.

Statistical Factors

Equally important to the relevance of the indicators used in the model is its statistical rigour. The most important factor from a statistical point of view is whether or not the indicators used in the model have a predictive capacity for determining confidence. To this end, multivariate analyses were conducted using a multiple regression model. The results of these analyses are shown in Appendix A.

Using the indicator measuring broad confidence in the CPP Investment Board's mandate as the dependent variable a series of independent variables (or study questions/indicators) were run through regression tests to determine what drives confidence in the mandate. From these statistical tests, a series of indicators was identified as having some predictive capacity for determining confidence in the mandate. Not all of these indicators are included in those identified above. The statistical veracity of the model had to be balanced with considerations of relevance.

The Confidence Index also requires a certain level of practicality. There is little sense in constructing an index that presents a lot of numbers that most readers cannot understand. Changes from one point in time to another have to be easily comprehended. As a result of these considerations (but also related to statistical rigour), the 7-point scales used for the indicators were weighted and converted into a more intuitive form.

The first step in making the Confidence Index "user-friendly" required making the 7-point scale more intuitive for readers. Since the midpoint on the scale (4) is a neutral response, it was assigned a zero and the points below given negative values, while the points above were assigned positive values. This allows for a more intuitive sense of where confidence lies — anything negative is bad, a score above zero is good.

The next step involved weighting individual scaled responses to make the overall composite sensitive to changes over time. Responses on the high and low end of the scales were given greater value than those around the midpoint. 1 and 7 responses (or –3 and +3 using the midpoint as a zero) were assigned values of –5 and +5, respectively. Similarly, 2 and 6 responses (or –2 and +2 using the midpoint as a zero) were assigned values of –3 and +3. The 3 and 5 responses were kept at –1 and +1.

The weighting was applied to render composite scores more sensitive to changes over time, but also to reflect the lower probability of obtaining responses on the high end (6 and 7 responses) and low (1 and 2) end of the 7–point scale as opposed to the middle responses (3-5). Once the weighting was applied to the model, mean scores for each of the Index variables were calculated and then recalculated into a composite score to reflect the overall level of confidence.

A final tweaking of the values on the Index was used to present the data in an easily comprehensible form. Since the index uses mean scores, a 100 factor was applied to facilitate a less cumbersome presentation and discussion of results. Rather than talking about changes from, say 0.13 to 1.26, we can talk about 13 points and 126 points.

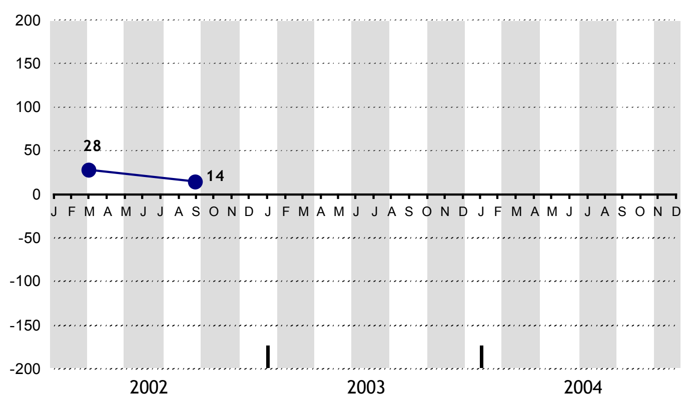
Confidence Index Results

The Confidence Index is a composite mean score measured over time. The overall value for the Index is an average developed from the scores assigned to the weighted scale responses and multiplied by 100. Given the study has only two data points, the Index is still in a fairly embryonic form (Figure 1).

Fig. 1

Confidence Index

Mean Composite Score X 100

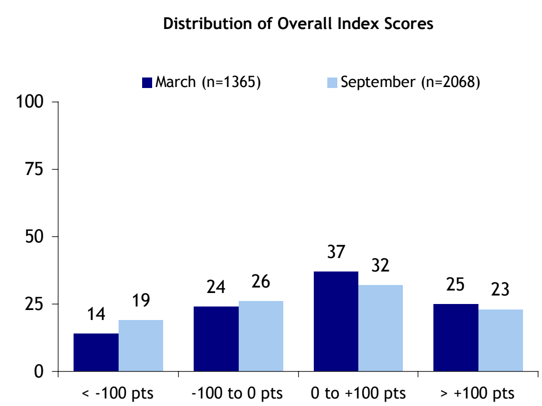


As is shown in the Index, there has been a slight softening of confidence overall from 28 points in March to 14 points in September. It will be easier to get a sense of how significant a change is from one point to another once more points are added to the Index, but this finding is in keeping with the results presented throughout this report. Confidence has weakened slightly, but not to an alarming extent.

The distribution of scores across the overall population shows that there has been a movement from 63 to 55 per cent on the positive side of the Index (Figure 2).

Fig. X

Overall Index Distribution



{Base: non-Quebecers, percentages}

It is important to note that a majority of Canadians continue to lie in the middle of the Index (61 per cent in March and 58 per cent in September are between –100 and +100 points). It is the groups on either end of the distribution that most accurately signal a significant change in confidence. Between these groups, there was an 11 percentage point difference in March favouring a positive level of confidence. This has been reduced to a 4 percentage point difference, but still favouring a positive level of confidence. Overall, then, confidence remains stable, but has softened somewhat.

To understand what is influencing the weakened composite Index score, it is useful to review the findings for the individual Index variables. Table 1 below shows the changes in the Index scores of each of the variables.

Table 1: Index Scores for Individual Variables

(Index score)

	March	September	Gain/Loss
I am worried that there may be political influence in the way CPP assets are invested	-140	-200	-60
It is a bad idea to invest a portion of CPP assets in the stock market, because the CPP could lose a lot of money and not be able to pay future pension benefits	-15	-39	-24
Although there may be occasional short-term losses if CPP assets were invested in stock markets, it wouldn't bother me because the gains will more than compensate over the next 20 years	39	18	-21
What do you think will be the general trend in the overall health of the Canadian economy over the next 5 to 10 years	216	200	-16
Does the fact that CPP assets are being invested to increase returns make you more or less confident in the long-term health of the Canada Pension Plan?	50	45	-5
I would be okay with investing a portion of CPP assets in the stock market if I knew that the rest of the assets were invested in other kinds of investment like government bonds	135	130	-5
How confident are you in the ability of investment professionals to obtain high returns on the stock market over the long-term?	198	196	-2
If investment professionals recruited to invest CPP assets were fully accountable to a board of directors with business and investment expertise, I am confident that they would make investment decisions that are best suited to ensuring the long-term health of the CPP	117	121	+4

As can be seen, some variables have a much greater impact on the overall Index score than others. The most negative impacts come from increased concerns about political influence, a greater level of trepidation about the risks of investing CPP assets in stock markets, short-term market volatility and lower confidence in the future health of the Canadian economy.

It is also worth noting the variables which have a positive influence on the overall index score generally and those which have a negative influence. Clearly, concerns about political influence represent the most negative influence on the Index with scores ranging from –140 to –200 points. The most positive influence comes from perceptions about the future health of the Canadian economy (scores ranging from 216 to 200 points). Confidence in investment professionals is both a positive and stabilizing influence, with scores ranging from 198 to 196 points. The principle of a diversified portfolio as well as the board accountability model are the next two most positive influences on the Index overall.

Subgroup Differences

It is important to recognize the changes in confidence are not uniform across all Canadians. There are some definite differences in changing levels of confidence across different subgroups.

Table 2 shows the Index scores for March and September across different demographic subgroups. As was learned in the original benchmark survey, there are progressively increased levels of confidence with increased income, education and age of the respondents. Males also display significantly higher levels of confidence than females.

Table 2: Index Scores by Demographic Subgroups

(Index score)

	March	September	Gain/Loss
INCOME			
$100,000 and over	56	42	-14
$80,000 to $99,999	52	26	-26
$60,000 to $79,999	44	20	-24
$40,000 to $59,999	36	11	-25
$20,000 to $39,999	19	15	-4
Under $20,000	4	-12	-16
EDUCATION			
University	51	32	-19
College	23	2	-21
High school or less	11	4	-7
AGE			
65 and over	34	19	-15
45 to 64	33	12	-21
25 to 44	30	12	-18
Under 25	11	18	+7
GENDER			
Males	42	22	-20
Females	14	5	-9

Looking at the far right column, it is evident that confidence has softened across the board with the lone exception of the youngest cohort. Yet this softening of confidence does not occur uniformly. Confidence has been weakened most with males, those between 25 and 64, those with post-secondary education, as well as middle income groups.

As was revealed in the benchmark study, there are varying levels of confidence across investors and non-investors, investors of different size, as well as CPP contributors and non-contributors. Table 3 shows these varying levels of confidence whereby investors, larger investors and current CPP contributors all have higher levels of confidence.

Table 3: Index Scores by Investors and Contributors

(Index score)

	March	September	Gain/Loss
INVESTORS			
Investor	40	26	-14
Non-investor	-1	-12	-11
INVESTOR SIZE			
Greater than $100,000	62	40	-22
Less than $100,000	30	18	-12
CPP CONTRIBUTORS			
Current	35	17	-18
Previous	21	11	-10
Non-contributor	9	4	-5

Interestingly, it is precisely with those groups that show the highest levels of confidence overall where confidence has weakened the most. Investors, investors with greater than $100,000 in investments and current CPP contributors have all had the greatest lowering of their Index scores across these subgroups (although this softening is not as strong as it is with some demographic subgroups).

In sum ...

- Confidence in the CPP Investment Board has softened, but not to an alarming extent
- Increased concerns about political influence, a greater level of trepidation about the risks of investing CPP assets in stock markets, and concerns about short-term market volatility are primarily responsible for the overall reduction in confidence
- The number of Canadians with confidence in the CPP Investment Board has slipped from 63 per cent in March to 55 per cent in September
- Those who had the highest confidence in the CPP Investment Board in March were the most likely to have reduced confidence in September
  - This includes higher income groups, those with a university education, males and the baby boomer cohort, as well as investors and current CPP contributors

3.0 Corporate Scandals

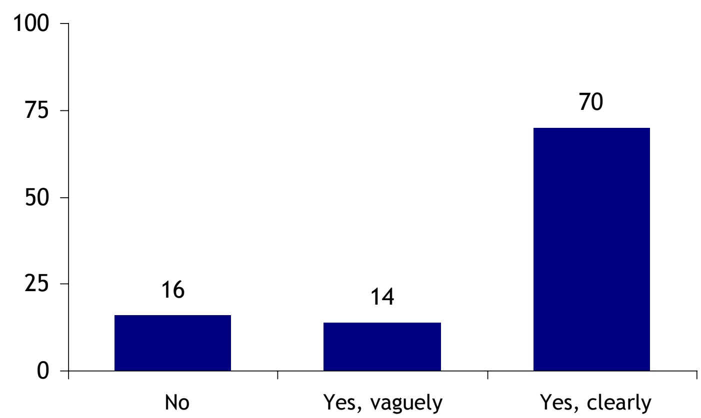
The indicators included in this chapter of the report are:

- *Awareness of Corporate Scandals*
- *Extent of the Problem*
- *Corporate Scandals and Confidence in Stock Markets*
- *Confidence in Recovery from Corporate Scandals*

Fig. 3

Awareness of Corporate Scandals

Q: Over the past several months, there have been a number of corporate scandals involving large corporations such as Enron and WorldCom. Do you recall hearing anything about these scandals?

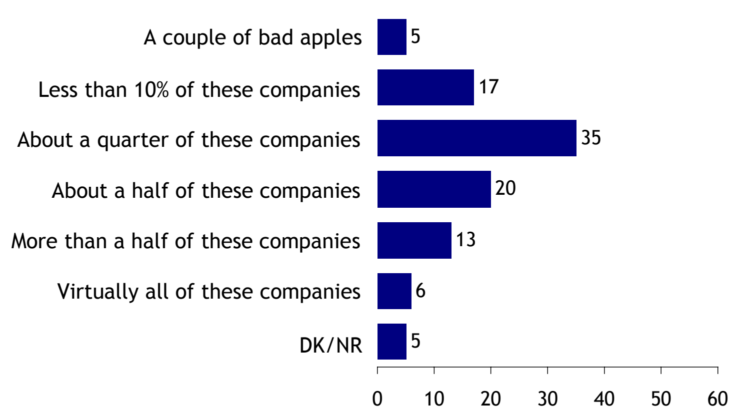


{Base: Non-Quebecers; percentages; n=1526}

Fig. 4

Extent of the Problem

Q: The corporate scandals that have taken place recently involve companies reporting much higher earnings than they have actually earned in order to increase stock prices. Thinking about companies that are traded on stock markets, how widespread do you think this problem is currently?



{Base: non-Quebecers; September 02, n=1526}

Awareness of Corporate Scandals

Most Canadians know about this year's corporate scandal …

One of the contributing factors to the mid-year turmoil in financial markets was the release of news about a string of corporate scandals affecting major corporations, mostly in the United States, but also to a lesser extent in Canada.

Most Canadians say they clearly recall hearing about these scandals (Figure 3), including more than 80 per cent of the baby boomers, the university educated and those with incomes in excess of $60,000.

Extent of the Problem

… and an alarming number believes that these abuses are currently widespread in the corporate world

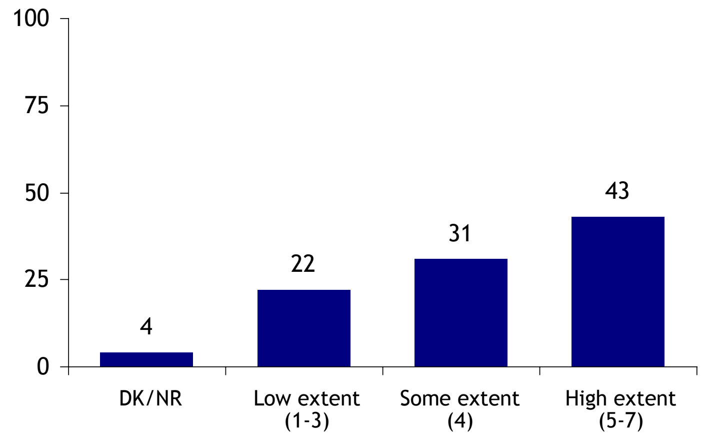
By way of background, respondents were informed that the corporate scandals that have taken place recently involve companies reporting much higher earnings than they have actually earned in order to increase stock prices. They were then asked to think about companies that are traded on the stock market and to assess how widespread they think this problem is currently.

- More than a third of Canadians (39 per cent) believe that a half or more of these companies are currently engaged in these practices, women slightly more than men (Figure 4)
- Another third (35 per cent) say that such practices are currently widespread in a quarter of these companies
- Just 5 per cent put the practice down to a few bad apples

Fig. 5

Corporate Scandals and Confidence in Stock Markets

Q: To what extent have these scandals reduced your confidence in stock markets? Please use a scale from 1 to 7, where 1 means not at all, 7 means to a great extent and 4 means to some extent

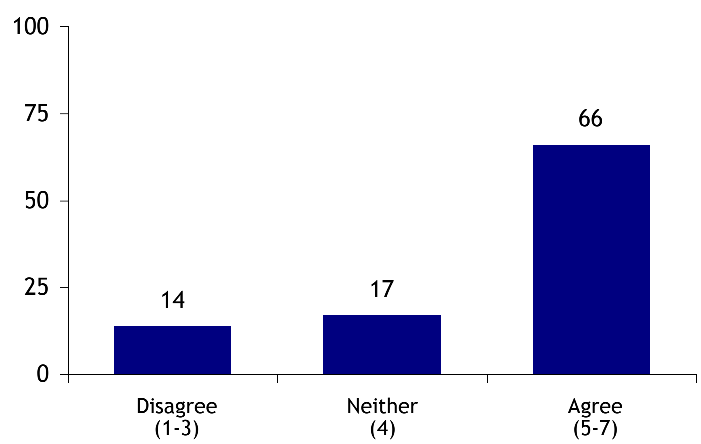


{Base: non-Quebecers; September 02, n=1526}

Fig. 6

Confidence in Recovery from Corporate Scandals

Q: Crises in stock markets come and go. I am confident that the crisis created by the recent corporate scandals will come to pass and stock markets will be fine over the long-run?



{Base: Non-Quebecers; percentages; n=1526}

Three quarters of Canadians say that the scandals have reduced their confidence in stock markets to at least some extent …

The impact of the scandals is considerable. A large minority (43 per cent) say that the scandals have reduced their confidence in stock markets to a high extent, and another 31 per cent say they have had their confidence reduced to some extent (Figure 5).

- The most significant impact is on the 45 to 64 age cohort (containing the main mass of the baby boomers), 53 per cent of whom say that the extent of the scandal's impact on their confidence in markets has been high

It is important to keep these findings in mind when considering the shift of opinion shown throughout the remaining parts of the report. While there has not been a steep decline in confidence on any of the indicators, there is an overall softening of confidence as noted with the Confidence Index. That more than 4 in 10 say the recent corporate scandals have reduced their confidence in stock markets to a high extent appears to overstate the case considering the fairly modest shift in confidence overall. But given the overall trend across indicators towards a more negative stance on confidence (however slight it may be), as well as the widespread perception that the scandals are fairly widespread, this finding should be taken as a definite warning signal.

Confidence in Recovery from Corporate Scandals

… at the same time, two thirds believe that the current crisis will pass and that stock markets will be fine over time

Although most feel the recent corporate scandals has reduced their confidence in stock markets, many Canadians believe that the crisis created by the scandals will pass and that stock markets will be fine over the long run (Figure 6).

- This belief in the system is more evident among men than among women, and among those with higher income and higher education. Interestingly, it is not related to age.

In sum…

- The corporate scandals, involving companies such as Enron and WorldCom, did not pass unnoticed in Canada. The great majority of Canadians are aware of them.
  - » Alarmingly, the feeling that such abuses are still widespread is commonly held across all segments of the population
- The scandals have clearly caused Canadians to question their confidence in stock markets, with more than 4 in 10 indicating that their confidence in markets has been reduced to a high extent.
- For the time being, Canadians still appear to be taking a longer view of these events as two thirds say that the crisis will pass and that markets will be fine over time.
  - » This is crucial. While people may still be prepared to blow off past scandals, continuation of the abuses could start to have a serious impact on perceptions about the integrity of the markets. As will be shown in the following chapters, there has been a general softening of confidence, but Canadians appear to be giving markets the benefit of the doubt. This needs to be watched.

4.0 Health of the Economy and Personal Finances

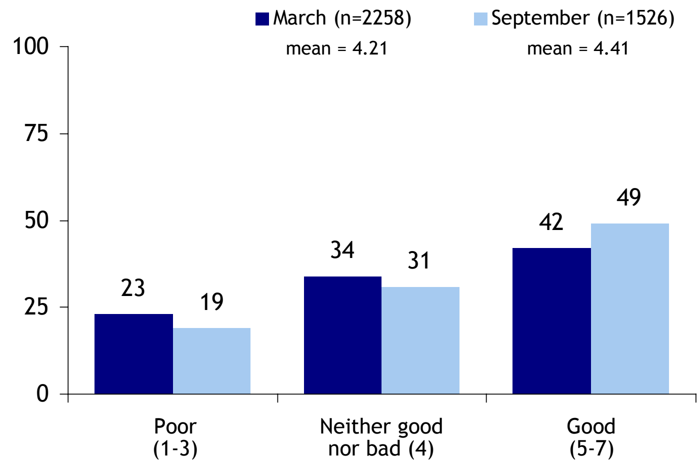
The indicators included in this chapter are:

- Current Health of the Economy
- Future Health of the Economy
- State of Personal Finances
- Future State of Personal Finances

Fig. 7

Current Health of the Economy

Q: How would you rate the current overall health of the Canadian economy? Please use a scale from 1 to 7 where 1 is terrible, 7 is excellent and the midpoint 4 is neither good nor bad.

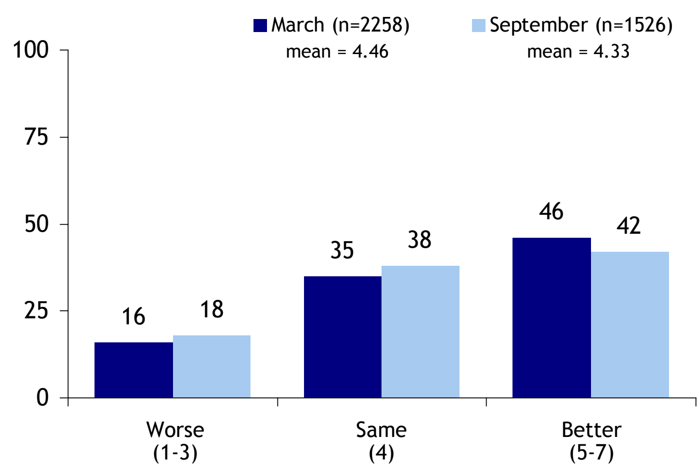


{Base: Non-Quebecers; percentages}

Fig. 8

Future Health of the Economy

Q: What do you think will be the general trend in the overall health of the Canadian economy over the next 5-10 years, using a 7 point scale where 1 means much worse, 7 means much better and 4 means remain the same?



{Base: Non-Quebecers; percentages}

Current Health of the Economy

Canadians' rating of the overall health of the economy has improved since the beginning of the year…..

When asked to rate the current overall health of the Canadian economy on a scale where 1 is terrible, 7 is excellent, and the midpoint 4 is neither good nor bad, Canadians on average are more optimistic in September than they were in March (Figure 7).

- There is a gain of 7 percentage points in people on the positive end of the scale and a reduction of 4 percentage points in those on the negative end

Gains are recorded in all segments of the population — but are more pronounced among men than women, more among older than younger Canadians, more in Western than Eastern Canada, and more among those with higher education and income.

Future Health of the Economy

… in contrast, the positive expectation for the general trend in the economy over the next 5 – 10 years has declined a little

Those who think the general trend in the overall health of the Canadian economy over the next five to ten years will be positive outnumber by more than two to one those who think the trend will be negative. However, the positive weighting has slipped a little (Figure 8).

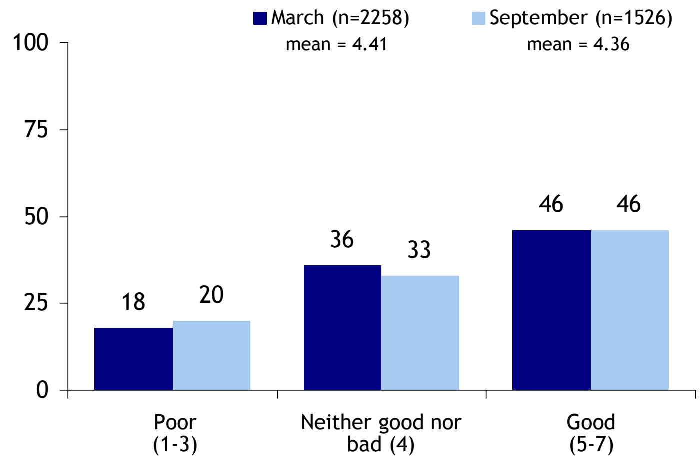
- This is marked by a slight decline of four percentage points in those who expect the economy to do better and a slight increase of two percentage points in those who expect it to do worse than at present.

The decline is of approximately the same magnitude across all demographic and regional segments.

Fig. 9

State of Personal Finances

Q: How would you rate the current state of your own personal finances? Use a scale from 1 to 7 where 1 is terrible, 7 is excellent and the midpoint 4 is neither good nor bad.

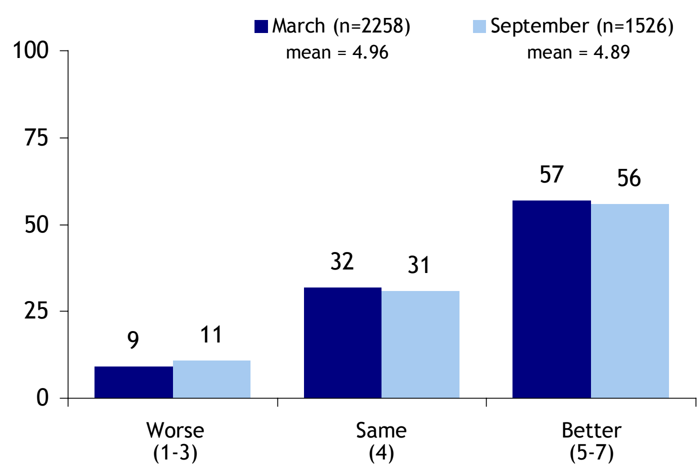


{Base: Non-Quebecers; percentages}

Fig. 10

Future State of Personal Finances

Q: What do you think will be the general trend in your own personal finances over the next 5-10 years, using a 7 point scale where 1 means much worse, 7 means much better and 4 means remain the same?



{Base: Non-Quebecers; percentages}

State of Personal Finances

Almost half of all Canadians still rate the current state of their own personal finances as good ….

Despite the turbulent financial events of mid-year, there has been no change since March in the proportion of Canadians in September who rate the current state of their personal finances as good. And the number of those who rate their personal finances as bad has only inched up by two percentage points (Figure 9).

Although the decline is marginal, it is most noticeable among those with higher incomes. The rating has actually improved slightly among women and among people living in Ontario and the Prairies.

Future State of Personal Finances

… looking ahead to the next five to ten years, the majority of Canadians see the trend in their own personal finances as being positive, and that has barely changed since March

In March, 57 per cent of Canadians reported that they think the general trend in their own personal finances over the next five to ten years will be better, while just 9 per cent expect it to be worse. Those figures have not changed to any significant extent (Figure 10).

The slight decline is evident across most demographic and regional segments, but it is most noticeable among the youngest age group (who are generally the most optimistic about their futures) and among those with mid-level incomes of $40 - $80,000.

In sum…

- While financial markets were hammered during the middle of 2002, and scandals in corporate governance were widely reported, the impact on the broadest measures of Canadians' confidence was minimal:
  - Canadians actually give a higher rating to the overall health of the economy in September than they did in March, though their expectation for the longer-term economy slid a little
  - In the case of their own personal finances, both now and looking ahead to the future, Canadians generally high level of optimism remains steady

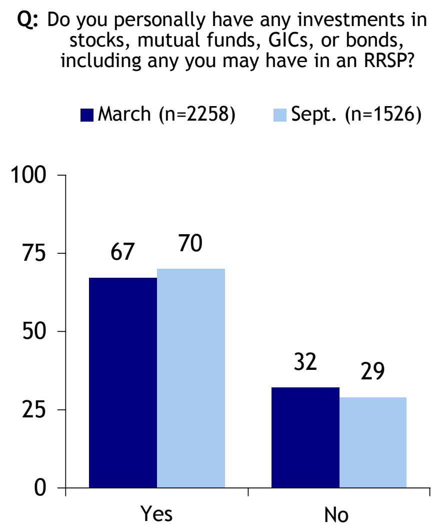
5.0 Pensions and Investments

The indicators included in this chapter of the report are:

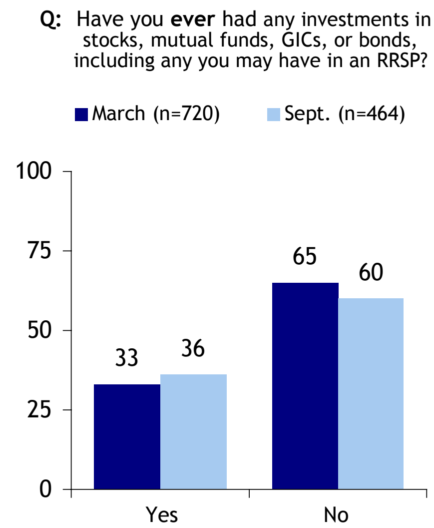
- Incidence of Investment Ownership
- Investment Amounts
- Recent Stock Market Investment Behaviour
- Reasons for Selling
- Incidence and Type of Private Pensions
- Confidence in Private Pensions
- Pension Funds and Stock Market Investments
- Awareness of Pension Funds
- Awareness of Specific Pension Funds

Fig. 11

Incidence of Investment Ownership



{Base: non-Quebecers, percentages}

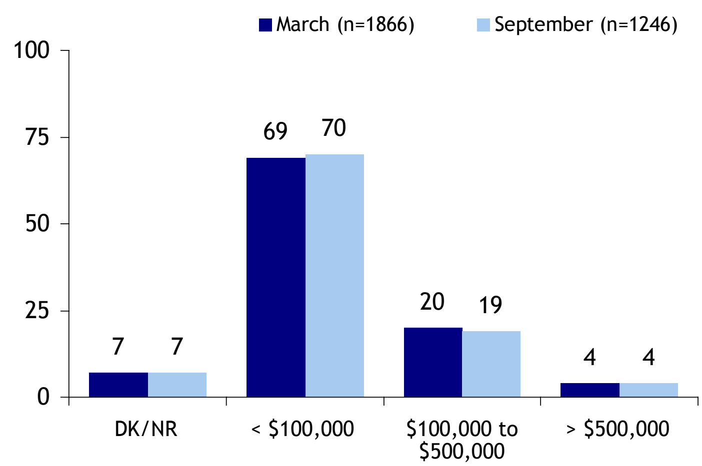


{Base: those without current investments, percentages}

Fig.12

Investment Amounts

Q: Is the total amount of investments you currently have in savings and other investments, excluding any real estate, greater or less than $100,000? [For those who say greater than $100,000:] Is this sum greater than or less than $500,000?



{Base: those with investments, percentages}

There has been no decline in the percentage of Canadians who report holding personal investments

Canadians were asked if they personally have any investments in stocks, mutual funds, GICs, or bonds, including any they may have in their RRSPs. In March, 67 per cent reported having such investments, a figure that increased marginally to 70% in September, indicating that the financial turmoil of mid year is not showing up in any wholesale flight from personal investments (Figure 11).

Among those who say they do not currently have such investments, about a third report having them in the past. As might be expected, those reporting that they never had such investments are heavily skewed toward people with the lowest income and education, and also to the youngest age groups

Investment Amounts

The amounts Canadians report in their savings and other investments shows no change since the March survey

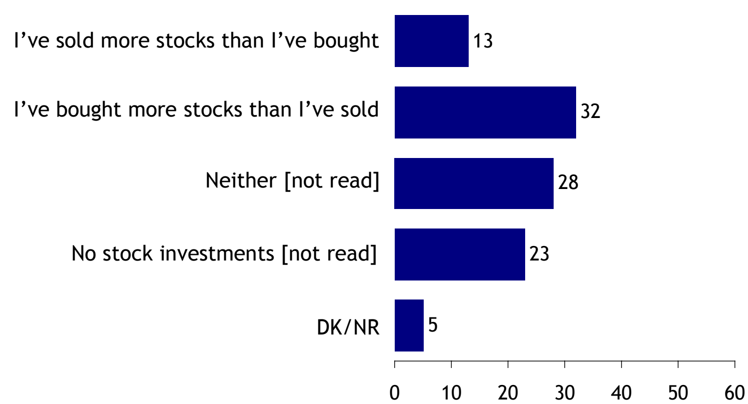
Seven out of ten people say that the value of their investments (excluding real estate) is less than $100,000, another 20% report having investments worth between $100,000 and $500,000 and 4 per cent report new worth greater than half a million dollars (Figure 12).

None of these figures has changed significantly since the March survey

Fig. 13

Recent Stock Market Investment Behaviour

Q: Which of the following would best describe the way you have invested in the stock market over the past year?

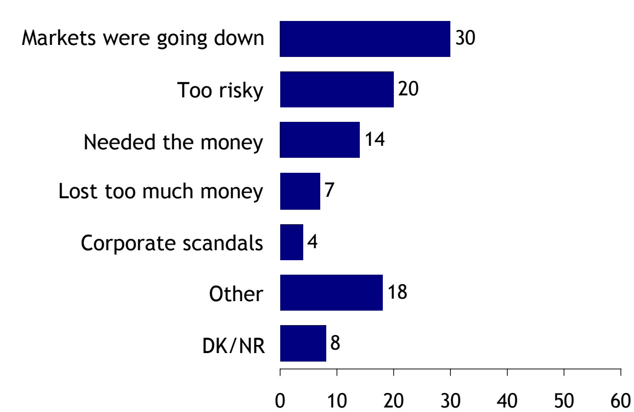


{Base: those with investments; September 02, n=1246}

Fig. 14

Reason for Selling

Q: What is the main reason you have sold more stocks than you have bought over the past year?



{Base: sold more stocks than bought; September 02, n=158}

In the past year, buying stocks outweighs selling

This question was not asked in the March survey, so there is no trend data to report. However, 32 per cent of Canadians say they bought more shares in the past year than they sold. This compares with 13 per cent who say they have sold more than they bought (Figure 13).

As shown in Table 4, this figure is heavily skewed by income, with buyers in the highest income groups outnumbering sellers by five to one:

Table 4: Recent Stock Market Investment Behaviour[1]
(percentages; non-Quebecers)

	INCOME					
	<$20K (n=83)	$20-39K (n=221)	$40-59K (n=227)	$60-79K (n=194)	$80-99K (n=124)	$100K (n=173)
Sold more than bought	7*	12	15	17*	10	10
Bought more than sold	14*	23*	28*	32	49*	52*
Neither	28	30	27	24	29	21*
No stock investments	47*	29*	24	22	9*	15*

Reasons for Selling

The fact that markets were going down is most often cited as a the reason for selling shares

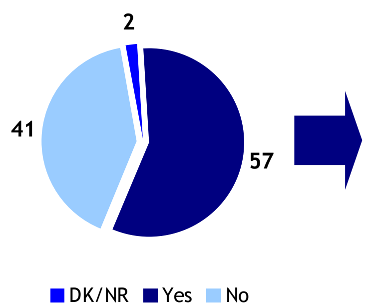
The small minority who reported selling more shares than they bought were asked for the reasons. Market decline is cited by 30 per cent, and another 20 per cent say the market was too risky. Corporate scandals are mentioned by just 4 per cent (Figure 14).

[1] Some care should be exercised in interpreting the data. People who make contributions to a pension plan or to a regular RRSP program would all qualify as continuing to buy stocks — the findings do not apply only to individuals who buy and sell shares on their own account.

Fig. 15

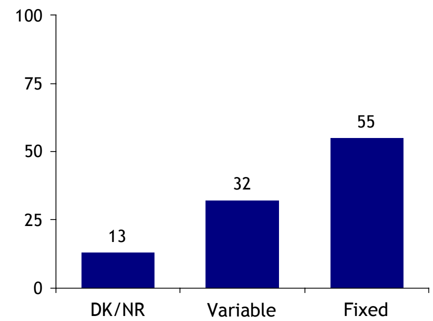
Incidence and Type of Private Pensions

Q: Are you currently a member of a private pension plan through your employer?



{Base: employed full-time, percentages; n=591}

Q: Is this pension the type that guarantees you a fixed amount of benefits when you retire, or one where the amount of benefits you will receive will vary depending on how well the pension fund investments perform?

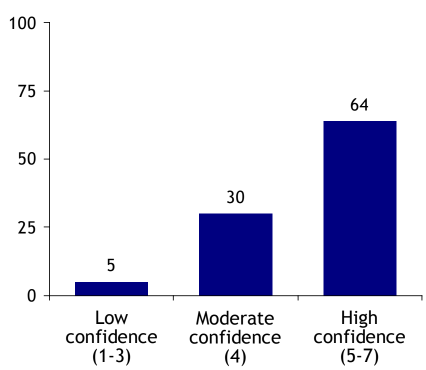


{Base: those with private pensions, percentages; n=358}

Fig. 16

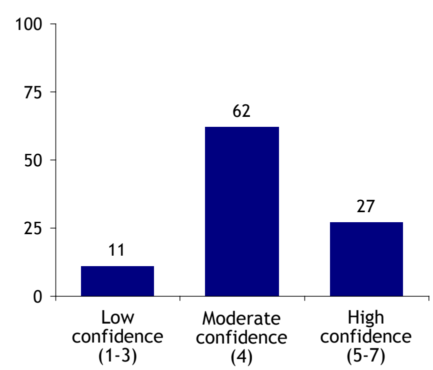
Confidence in Private Pensions

Q: How confident are you that your own pension fund will be able to pay your benefits when you retire?



{Base: Fixed pension, percentages; n=202}

Q: How confident are you that your own pension fund will be able to pay you a reasonable amount of benefits when you retire?



{Base: Variable pension, percentages; n=112}

57 per cent report having a company pension plan, and defined benefit plans still outnumber defined contribution plans

Those who report being employed full-time were asked if they are currently members of a private pension plan through their employer. Just over half, 57 per cent, said that they are, 41 per cent say that they are not (Figure 15).

Incidence of enrolment varies widely by age, income and to a lesser extent by region. Only 17 per cent of people under 25 are enrolled in a plan compared with 74 per cent of the 45—64 age group. Incidence increases from 15 to 69 per cent from lowest to highest income subgroups. Plan registration is also slightly lower in Alberta and slightly higher in the Atlantic Provinces

Just over half of those who are members of a plan (55 per cent) say that it is of the type that guarantees a fixed amount of benefit on retirement (a defined benefit plan). About a third (32 per cent) report being a member of a defined contribution plan. As might be expected, defined contribution plans are skewed toward younger people, and Alberta is the only province where defined contribution plans outnumber defined benefit plans, and that by a very significant margin

There is a marked difference in confidence between those who are in defined benefit plans and those in defined contribution plans

People enrolled in the two types of pension plan were asked how confident they are that their pension plan will be able to pay their benefits when they retire (Figure 16). The difference is quite startling (albeit not overly surprising).

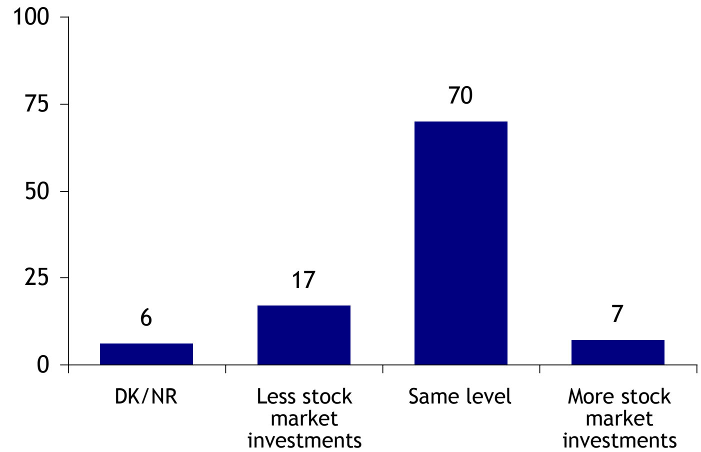
- Two thirds (64 per cent) of those in a defined benefit plan have high confidence that they will receive their benefits, while just a quarter (27 per cent) of those in defined contribution plans feel they will receive a reasonable amount of benefits when they retire

These findings confirm why this has been an active public policy and political issue for some time.

Fig. 17

Pension Funds and Future Stock Market Investments

Q: Almost all pension funds invest at least some of their assets in stock markets. Thinking about your own pension fund, would you prefer to see more stock market Investments, less stock market investments or about the same level of stock market investments?



{Base: pension plan members; percentages}

While the great majority of pension plan members would like their plans to keep about the same level of stock market investments, there is a slight lean toward holding less rather than more assets in stocks

By way of introduction, people who are enrolled in a company pension plan were told that almost all pension funds invest at least some of their assets in stock markets. They were then asked whether they would like to see in their own pension fund, more stock market investments, less stock market investments or about the same level (Figure 17).

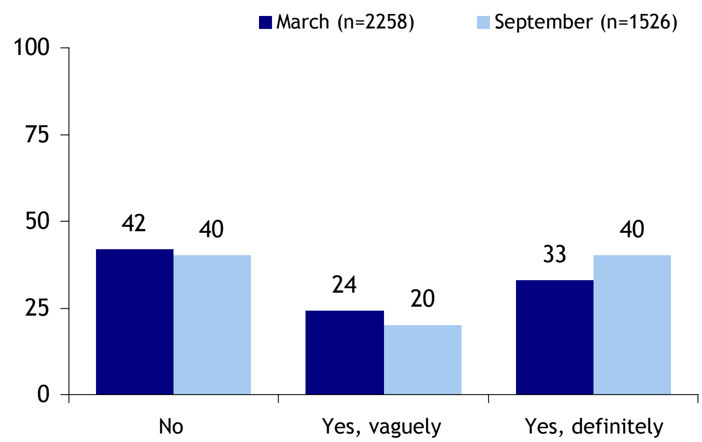
- ❖ Most people are in the middle — 70 per cent say they want their pension plan to retain about the same level of stock market investments
- ❖ However, of those who want to see a change, 17 per cent say they would like to see less stock market investment, compared with only 7 per cent who would like to see more

This question was not asked in the previous survey, but, as a background indicator, it will be interesting to see how sentiment on this issue shifts over time.

Fig. 18

Awareness of Pension Funds

Q: Pension funds are some of the largest investors in Canadian markets. Are you aware of any pension funds operating in Canada?

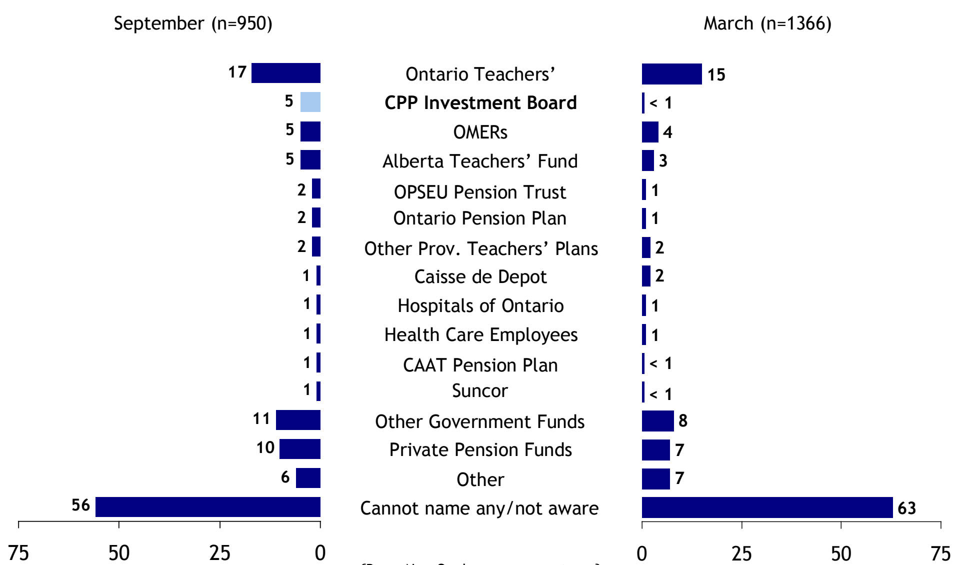


{Base: Non-Quebecers; percentages}

Fig. 19

Awareness of Specific Pension Funds

Q: Can you name any pension funds operating in Canada?



{Base: Non-Quebecers, percentages}

Awareness of Pension Funds

Awareness of pension funds operating in Canada has become more focussed since the beginning of the year

Having been told that pension funds are some of the largest investors in Canadian markets, respondents were asked if they are aware of any pension funds operating in Canada. About three in five are aware, and two in five are not (Figure 18).

- The degree of awareness is somewhat sharper in September than it was in March, with definite awareness having risen from 33 per cent to 40 per cent of respondents. The increase is across all demographic segments, and is particularly noticeable in Ontario and the Atlantic Provinces.

Awareness of Specific Pension Funds

Awareness of specific pension funds has risen almost across the board, but especially for the CPP Investment Board

There has been a curious heightening in awareness of pension funds generally, as seen above, and this has translated into increased awareness of specific pension funds almost across the board (Figure 19). This is particularly true with respect to the CPP Investment Board, which rose from less than one to 5 per cent unprompted awareness overall.

In sum…

- The mid-year financial turmoil does not appear to have yet had a significant impact on Canadians' personal retirement planning.
  - Since the March survey, the same number (or even slightly more) report holding personal investments and the amounts reported in savings and other investments have not changed
  - More people report buying more stocks than they have sold, though this may be part of a programmed savings program. Sellers cite the fact that markets have been going down, or have become too risky, as reasons for selling
- More employed Canadians are in pension plans than are not, but the incidence varies significantly among demographic and regional segments.
- More are still in defined benefit plans than defined contribution plans, but this also varies significantly by age and region.
  - People enrolled in defined contribution plans are much less likely to be confident that their pension benefits are going to be there for them when they retire
- Most pension plan members are on the fence when it comes to increasing or decreasing their plans' level of investment in stocks, but there is a slight lean toward decreasing among those who want a change.
- Awareness of pension funds in general, and the CPP Investment Board in particular, shows some increase since the beginning of the year.

6.0 Investment Markets

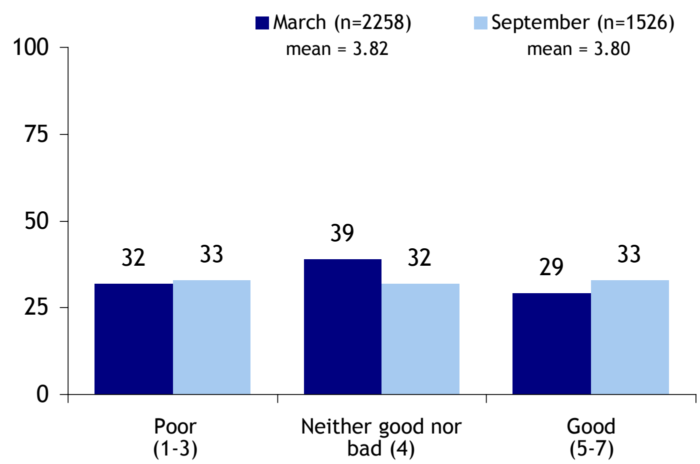
The indicators included in this chapter of the report are:

- *Knowledge of Investment Finances*
- *Comfort with Investment Finances*
- *Comfort with Market Volatility*
- *Long-term Earning on Stock Markets*
- *Stock Market Earnings and Luck*
- *Investment Professionals and Confidence*
- *Investment Risks*
- *New York and London vs. Canadian Markets*
- *Comparing Rates of Return*
- *Comparing Risk*
- *Influences on Market Performance*
- *Taking Investment Risks*
- *Principle Diversification*
- *Taking Advantage of Weak Markets*

Fig. 20

Knowledge of Investment Finances

Q: How would you rate your own knowledge of investment finances?

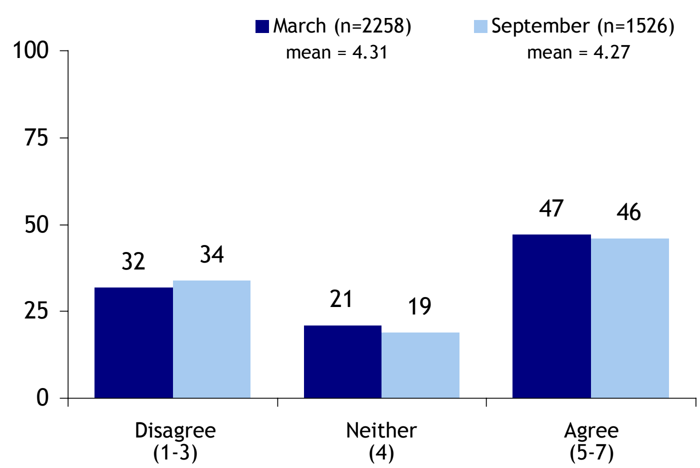


{Base: Non-Quebecers; percentages}

Fig. 21

Comfort with Investment Finances

Q: Personally, I find things about financial investments confusing.



{Base: Non-Quebecers; percentages}

Knowledge of Investment Finances

Canadians' self assessment of their own knowledge of investment finances is steady

When asked to rate their own knowledge of investment finances, about a third rate themselves good, a third rate themselves average and a third rate themselves poor (Figure 20).

- The average score resulting from this self-assessment is just slightly below the mid point on the scale, and that has not changed since the last survey
- As was found in the previous survey, there is a progressive increase in those rating their knowledge as good with higher levels of education and income

Comfort with Investment Finances

About half say that they find things about financial investments confusing

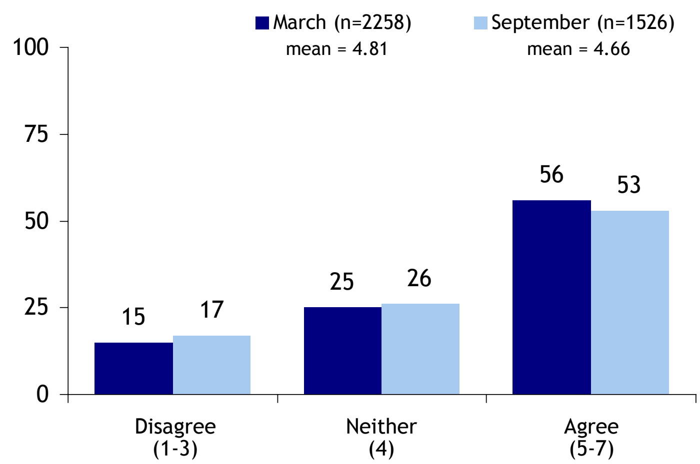
There is virtually no change in the indicator of Canadians' degree of confusion by financial matters, though it has clearly not declined as a result of the barrage of reporting on investment markets in the past six months (Figure 21).

- As with self-rated knowledge, women are still much more likely than men to say that they find financial investments confusing — 52 per cent agree compared with just 39 per cent of men. Education and income are also key factors.

Fig. 22

Comfort with Market Volatility

Q: Stock markets go up and down all the time, but over the long run they produce good returns for investors.

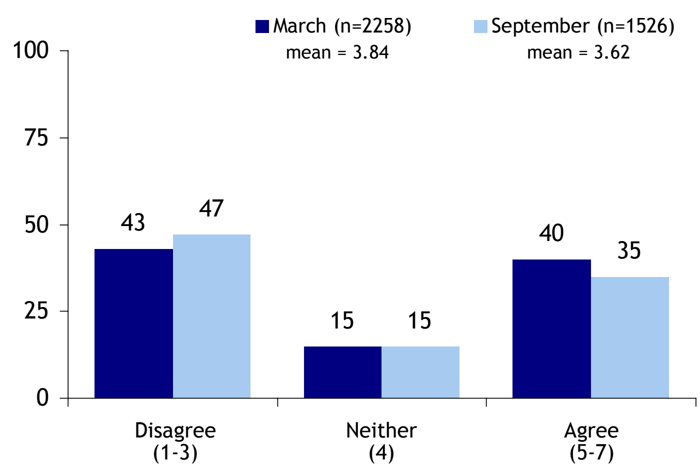


{Base: Non-Quebecers; percentages}

Fig. 23

Long-term Earnings on Stock Markets

Q: If I wanted to get the best return on my savings and didn't need the money for another 20 years, I would invest it in the stock market.



{Base: Non-Quebecers; percentages}

Comfort with Market Volatility

More than half still agree that stock markets go up and down but produce good results over the long term, but there has been a slight decrease

Confidence in the long-term strength of stock markets in the face of short-term volatility remains strong, but has dipped slightly. In March 56 per cent of Canadians agreed that stock markets go up and down all the time, but over the long run produce good returns for investors. A majority still agree in September, but this has dropped slightly to 53 per cent (Figure 22).

This negative movement in perceptions of the long-term security of stock markets is more apparent when approached in terms of individuals' personal investments.

Long-term Earnings on Stock Markets

The balance for long-term investments in the stock market has swung decidedly negative

In March 40 per cent agreed that if they want to get the best return on their savings and didn't need the money for another 20 years, they would invest it in the stock market, while 43 per cent disagreed (Figure 23).

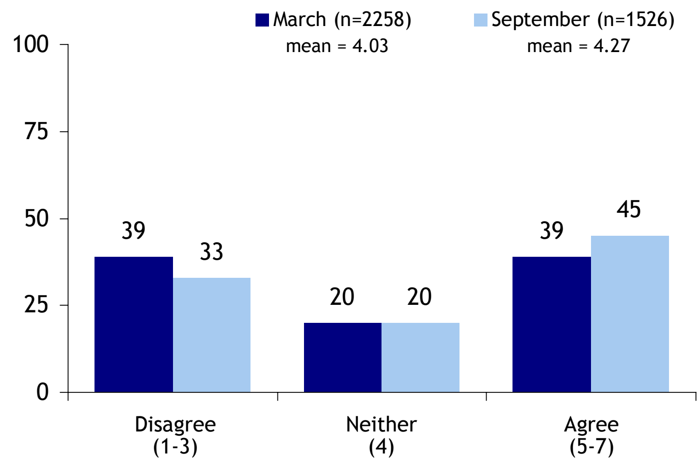
In September, sentiment has swung noticeably negative. Now, just 35 per cent agree with the statement while 47 per cent disagree — a 12 percentage point difference in the balance between negative and positive compared to only 3 percentage points earlier.

- This shift is driven entirely by investors. While the number of non-investors agreeing with this statement has remained constant, it has slipped 7 percentage points for investors (from 46 to 39 per cent agreeing) and more now disagree than agree with the statement (43 disagree versus 39 percent agree)
- The negative movement is apparent in almost all demographic and regional sectors. The balance of opinion was positive in the first survey among the university educated, those with incomes above $60,000 and, most importantly, among the under 25s. Now only those with incomes above $100,000 still on balance agree with the statement

Fig. 24

Stock Market Earnings and Luck

Q: Even with the best professional advice, making good money on the stock market is really just a matter of luck.

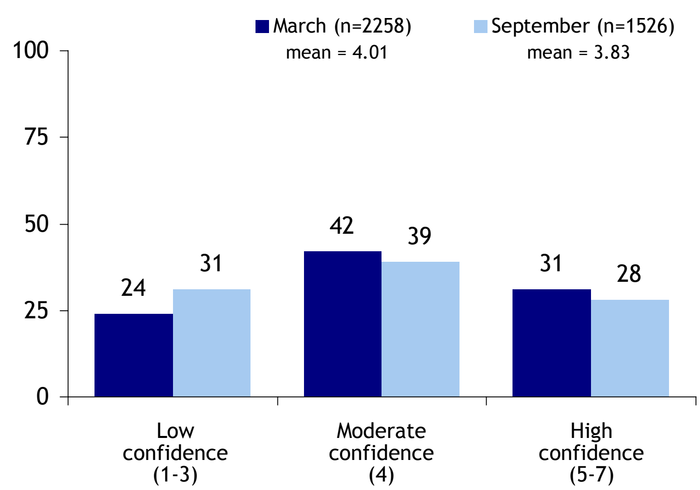


{Base: Non-Quebecers; percentages}

Fig. 25

Investment Professionals and Confidence

Q: How confident are you in the ability of investment professionals to obtain high returns on the stock market over the long-term?



{Base: Non-Quebecers; percentages}

A greater level of uncertainty prevails as more people are now inclined to believe that success on the stock market is a matter of luck rather than expertise, especially for non-investors

In the latest survey, there has been a definite swing toward the idea that luck is what counts with investment performance on stock markets (Figure 24).

- The balance of opinion is now skewed negatively by 12 percentage points — 45 per cent of Canadians agree with the statement and only 33 per cent disagree
- The swing is more pronounced among non-investors than it is for investors. While the number of investors agreeing with the statement has increased slightly from 38 to 41 per cent, there has been an 11 percentage point jump in the number of non-investors agreeing (from 43 to 54 per cent)

This finding reflects both a higher uncertainty about markets as well as a reduced confidence in the expertise of investment professionals. Yet the increased uncertainty about markets is more prevalent among non-investors, while a reduced confidence in investment professionals is driven by investors, as is shown below.

Confidence in Investment Professionals

As a key confidence indicator, respondents were asked how confident they are in the ability of investment professionals to obtain high returns on the stock market over the long term. In March, while a strong minority sat on the fence, the slight lean was towards confidence (Figure 25).

Although slight, the lean has tilted the other way in the latest sounding.

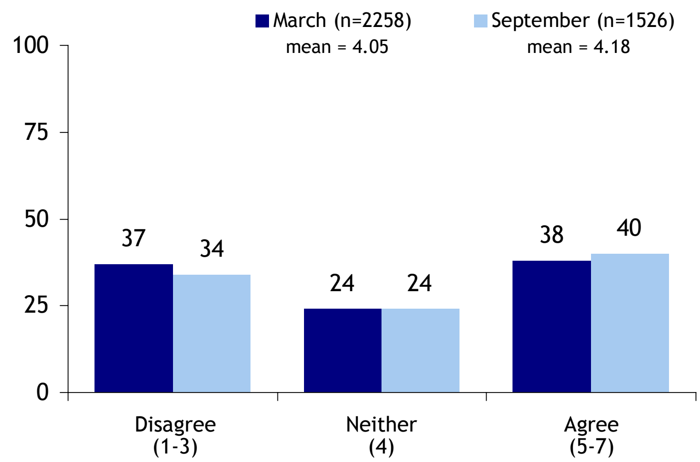
- There is a shift away from those expressing moderate and high confidence to those expressing low confidence, which climbs 7 percentage points from 24 to 31 per cent
- This shift is more pronounced among investors as opposed to non-investors. While the mean score for non-investors remained constant, that for investors dropped from an average of 3.97 to 3.54 on the 7 point scale (a corresponding increase of 5 percentage points from 24 to 29 percent for investors reporting low confidence).

This is a key indicator in the Confidence Index and will be followed closely.

Fig. 26

Investment Risks

Q: When investing your savings, it's a **bad idea** to take risks to earn more money.

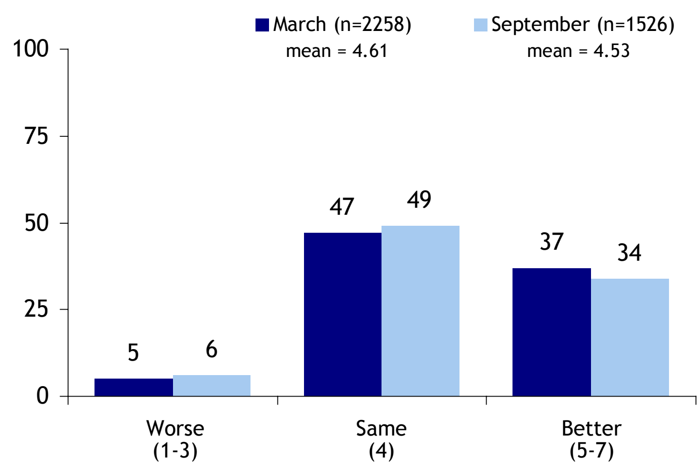


{Base: Non-Quebecers; percentages}

Fig. 27

New York and London vs. Canadian Markets

Q: In general, do you think foreign stock markets like New York and London perform better, worse or about the same as Canadian stock markets?



{Base: Non-Quebecers; percentages}

More people now say that it is a bad idea to take risks when investing savings to earn more money

In the March survey there was a fairly even balance between those who agreed that it is a bad idea to take risk when investing savings to earn more money and those who disagree. In the September survey, those who agree that it is a bad idea have increased to 40 per cent (from 38%) and those who disagree that it is a bad idea have declined to 34 per cent (from 37%). As a consequence the balance of opinion is now slightly negative (Figure 26).

This shift to a more negative stance on the risks of investing savings is also driven by investors as opposed to non-investors.

- ❖ While there has been no movement for non-investors, investors have shifted from an overall positive balance of opinion in March (39 per cent disagreeing versus 36 per cent agreeing) to a negative balance in September (35 versus 39 per cent)
- ❖ Demographically, the decline is across the board, but the baby boom group stands out with a more strongly negative shift than other age segments.

In perceptions, major foreign stock markets like New York and London still retain a performance edge over Canadian markets

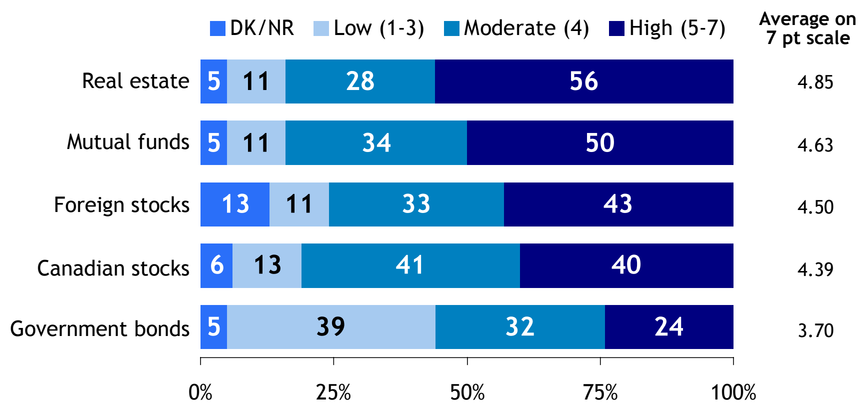
As the following pages show, Canadians differentiate somewhat between foreign and domestic stocks both in terms of returns and in terms of risk. When specifically asked about the performance of major stock markets such as New York and London there is still a perception that they outperform Canadian markets (Figure 27).

- ❖ This was true in the March survey, and there has been little change since then. What little change is shown is driven by investors — 40 per cent said New York and London perform better in March, while only 35 per cent indicate likewise in September

Fig. 28

Comparing Rate of Return (March)

Q: Thinking generally about the returns you could earn over the long-term from different types of investments, what rate of return you would expect from…

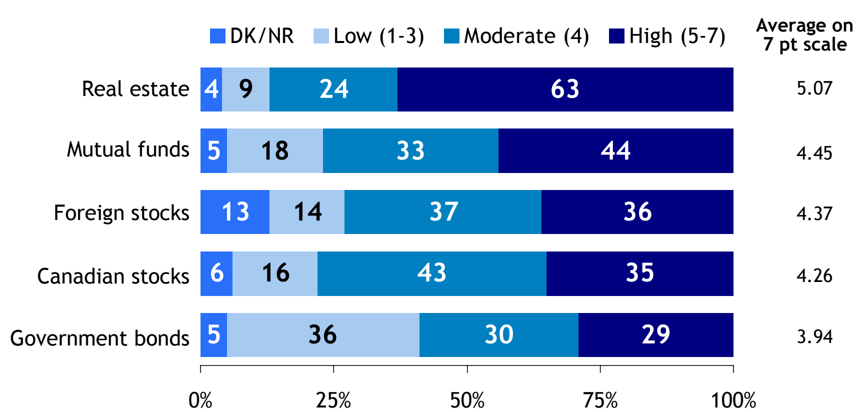


{Base: Non-Quebecers; March 02, n=2258}

Fig. 29

Comparing Rate of Return (September)

Q: Thinking generally about the returns you could earn over the long-term from different types of investments, what rate of return you would expect from…



{Base: Non-Quebecers; September 02, n=745}

In Canadians' perspective, real estate has moved even further out ahead of other types of investment as the best place for high returns

The top chart on the opposite page ranks various type of investment instrument in terms of perceived rate of returns, as reported in the Benchmark survey in March (Figure 28). Real estate heads the list, and government bonds are rated lowest in terms of returns.

In the September survey, the overall ranking remains the same, though the relative position has changed a little (Figure 29). The ranking of returns on both real estate and government bonds have both moved higher, while those on mutual funds, foreign stocks and Canadian stocks have all moved lower.

Table 5 shows the extent of the movement in a simple, easy-to-understand way. The indicator used a seven-point scale, where 7 represents the highest return, 1 represents the lowest, and 4 is a moderate return. Averages have been calculated from all individual scores, and these are compared in the table.

Table 5: Perceived Rate of Return
(means)

	March	September	Gain/Loss
Real estate	4.85	5.07	+.22
Mutual funds	4.63	4.45	-.18
Foreign stocks	4.50	4.37	-.13
Canadian stocks	4.39	4.26	-.13
Government Bonds	3.70	3.94	+.24

The shift of opinion here shows that positive perceptions of rates of return has gravitated to what are seen by Canadians as the least risky investments (as is shown on the following pages). As with shown with other indicators pertaining to investments, the opinion of investors has shifted more strongly than non-investors (Table 6):

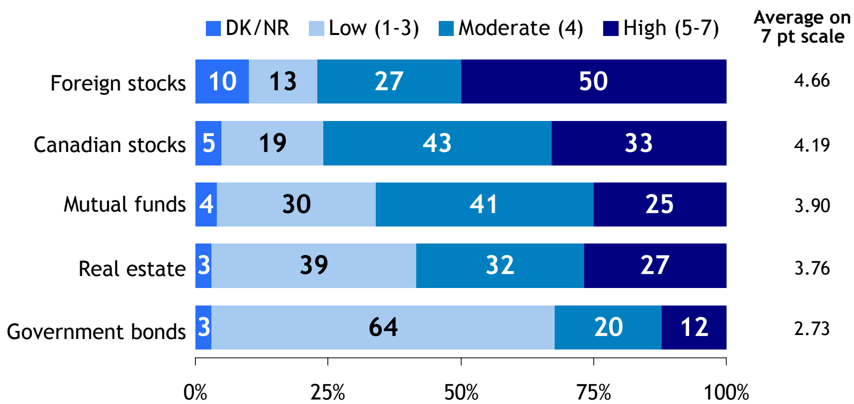
Table 6: Perceived Rate of Return by Investors
(means)

	March		September		Gain/Loss	
	Investors	Non-Investors	Investors	Non-Investors	Investors	Non-Investors
Real estate	4.84	4.88	5.11	5.00	+.27	+.12
Mutual funds	4.65	4.62	4.39	4.57	-.26	-.05
Foreign stocks	4.59	4.25	4.45	4.24	-.14	-.01
Canadian stocks	4.39	4.38	4.26	4.29	-.13	-.11
Government Bonds	3.53	4.17	3.75	4.35	+.22	+.18

Fig. 30

Comparing Risk (March)

Q: In the same way that some types of investments have different rates of return, different types of investments have different levels of risk associated with them. What level of risk would you associate with investing in…

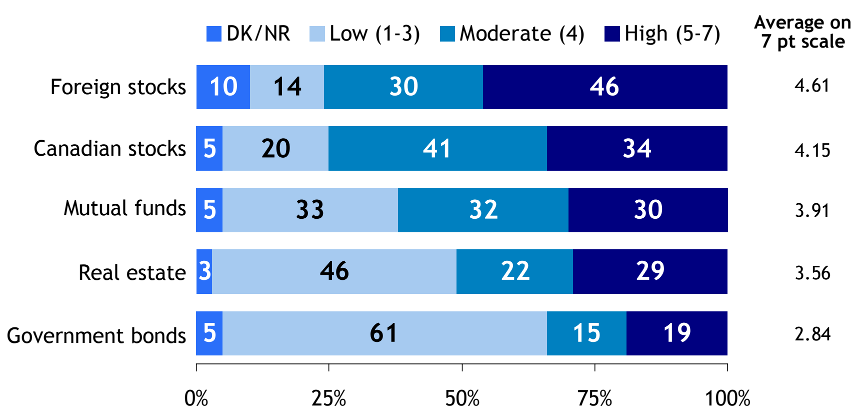


{Base: Non-Quebecers; March 02, n=2258}

Fig. 31

Comparing Risk (September)

Q: In the same way that some types of investments have different rates of return, different types of investments have different levels of risk associated with them. What level of risk would you associate with investing in…



{Base: Non-Quebecers; September 02, n=745}

With the exception of real estate, there has been very little change in the perceived risk of different investments

The top chart on the opposite page shows the perceived hierarchy of risk among various types of investment. As Figure 30 shows, foreign stocks are perceived to be the riskiest type of investment, with 50 per cent rating it on the riskiest points on the 7-point scale. Government bonds are much lower on the scale, with 64 per cent classifying them as on the low end of the risk scale.

The overall ranking remained the same in the September survey, as shown in Figure 31 on the opposite page, and, with the exception of real estate (where perceived risk has dropped), the findings are basically unchanged (Table 7).

Table 7: Perceived Risk

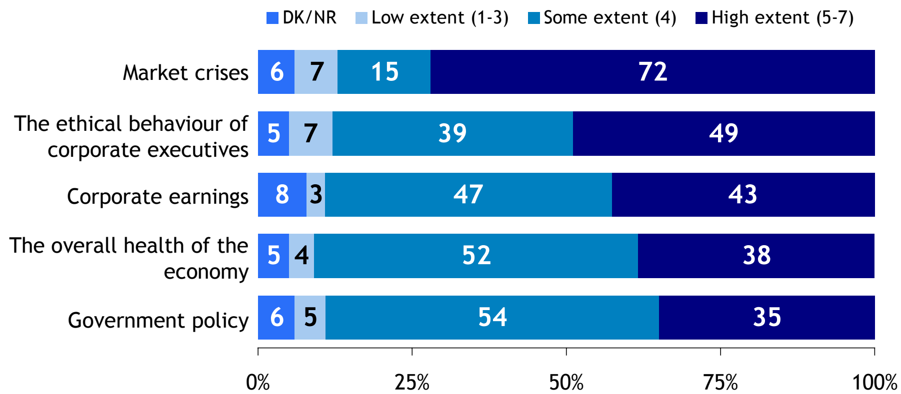
(means)

	March	September	Gain/Loss
Foreign stocks	4.66	4.61	-.05
Canadian stocks	4.19	4.15	-.04
Mutual funds	3.90	3.91	+.01
Real estate	3.76	3.56	-.20
Government Bonds	2.73	2.84	+.11

Fig. 32

Influences on Market Performance (Short-term)

Q: A number of different factors influence the way stock markets perform. To what extent do you feel each of the following influence the **short-term performance of stock markets**? Please use a scale from 1 to 7, where 1 means no extent whatsoever, 7 means to a great extent, and 4 means to some extent.

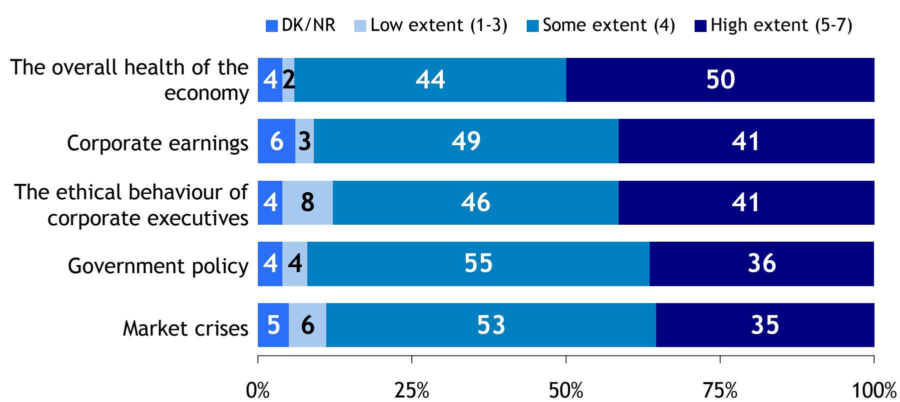


{Base: Non-Quebecers; September 02, n=750}

Fig. 33

Influences on Market Performance (Long-term)

Q: A number of different factors influence the way stock markets perform. To what extent do you feel each of the following influence the **long-term performance of stock markets**? Please use a scale from 1 to 7, where 1 means no extent whatsoever, 7 means to a great extent, and 4 means to some extent.



{Base: Non-Quebecers; September 02, n=776}

Canadians distinguish quite clearly between the major influences on short-term and long-term market performance

A new question in the September survey, respondents were asked to indicate how much influence they believe various factors have on stock market performance. Half rated the factors' influence on short-term performance and the other half rated the influence on long-term performance.

Figure 32 on the opposite page shows the ranking of the extent of influence on short-term performance and Figure 33 shows the ranking of influence on long-term performance. The results are quite remarkable.

To simplify the presentation of the results for comparative purposes, Table 8 shows the average scores assigned by all individual respondents on the 7 – point scale (where 1 no extent at all and 7 is to a great extent):

Table 8: Market Influences (Short-term vs. Long-term)
(means)

Ranked Factors	Short-term	Ranked Factors	Long-term
Market crises	5.58	Economy	5.39
Ethical behaviour	5.25	Corporate earnings	5.16
Corporate earnings	5.27	Government policy	5.00
Economy	5.05	Ethical behaviour	4.98
Government policy	4.95	Market crises	4.90

As the table shows, Canadians distinguish quite clearly between the factors that have a short-term influence and those that have a long-term influence.

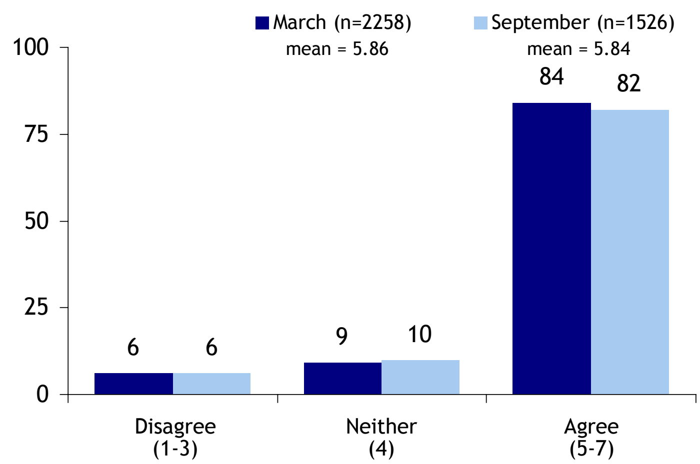
- In the short term, market crises and the ethical behaviour of corporate executives rank highest in the extent of their influence on stock markets
- In the long term, the overall health of the economy and corporate earnings are seen as having major influence

These findings add perspective to the current mood of the country. As already shown, Canadians are aware of the scandals in financial markets, but they also believe that the overall health of the Canadian economy is improving. They appear to be taking the longer view that market crises will pass and that the future financial health of the country will depend more on the economy and corporate earnings.

Fig. 34

The Principle of Diversification

Q: It's a good idea to have a mix of different types of investments, that way you'll be protected against too much risk.

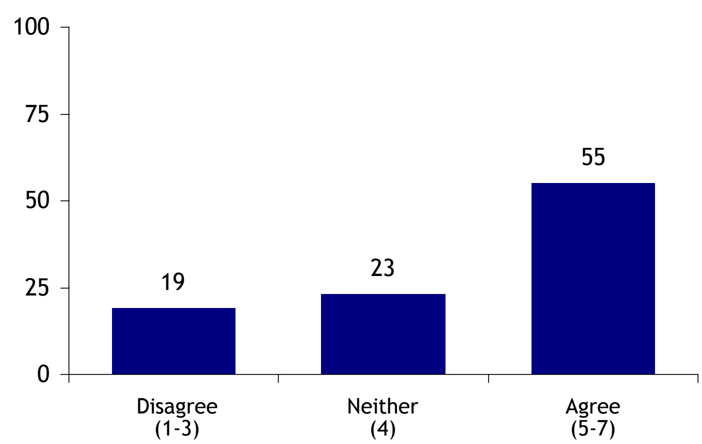


{Base: Non-Quebecers; percentages}

Fig. 35

Taking Advantage of Weak Markets

Q: Someone who invests in stock markets at a time when they are performing poorly stands a good chance of making money because markets will recover over the long-term.



{Base: Non-Quebecers; percentages; September 02, n=1526}

The Principle of Diversification

There is no change in Canadians' view that diversification is a good way to protect against too much risk

Better than four out of five Canadians say that it is a good idea to have a mix of different types of investments so that they'll be protected against too much risk (Figure 34).

There is virtually no change in the latest survey across any demographic sector.

Taking Advantage of Weak Markets

A majority agree that when markets are performing poorly it is a good time to invest

A new question in September put forward the proposition that someone who invests in stock markets at a time when they are performing poorly stands a good chance of making money because markets will recover over the long term (Figure 35).

- Overall, 55 per cent of Canadians agree with the proposition, compared with just 19 per cent who disagree, another indicator that, on average, Canadians are still taking the longer term view of current economic conditions

Investors are much more likely to agree with taking advantage of weak markets — 62 per cent agree versus 41 per cent of non-investors.

As might be expected, there are some differences in the degree of agreement among different demographic segments:

- Men are significantly more likely to agree than are women
- The level of agreement increases with education and income
- Those most likely to disagree with the proposition are people under 25

In sum…

- There has been a slight softening of confidence in markets overall
  - » While generally small, there is a consistently negative swing across most indicators
  - » This is more prevalent among investors than non-investors. In fact, on virtually all indicators where opinion has shifted negatively, investors are the ones driving the change
- Canadians continue to show a modest, but solid, degree of sophistication in financial matters.
  - » Only a third rate their financial knowledge as poor, and the same proportion admit to finding financial matters confusing
- For the most part, they still believe in stock markets in the long run, though the idea that luck may be involved in making good returns is now a little stronger, and trust in the abilities of investment professionals is now a little weaker.
  - » On average, slightly more Canadians now think it is a bad idea to take risks when investing their savings
- Real estate is even more clearly the preferred type of investment to make long-term returns, and stocks and mutual funds have lost a little of their appeal, though not significantly.
- In terms of risk, government bonds are still viewed as low risk, and real estate is also considered to be lower risk than various types of stock investments.
- Canadians also make a very clear distinction between the short-term and long-term factors that influence stock markets. They see the current market crises and unethical executive behaviour as short-term influences on the market, and they believe that the health of the economy and corporate earnings are more significant in the long run.
- Overwhelmingly, they continue to believe that the best way to reduce risk is to have a diversified portfolio, and more of them are inclined to take a plunge when markets are weak than to sit on their investments.

7.0 Investing CPP Assets

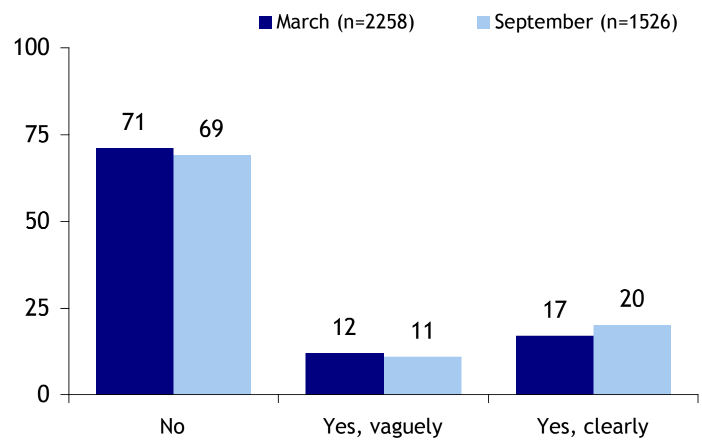
The indicators included in this section of the report are;

- Awareness of CPP Assets
- Amount of Total CPP Assets
- Risks and Investing CPP Assets
- Investing CPP Assets and a Diversified Portfolio
- Investing CPP Assets and Risk Tolerance
- Concerns about Investing CPP Assets
- Investing CPP Assets and Market Volatility
- Impact of Investing on Confidence in CPP
- Regional Investing of CPP Assets

Fig. 36

Awareness of CPP Assets

Q: Were you aware that there is currently a large pool of CPP assets to help pay future pension benefits?

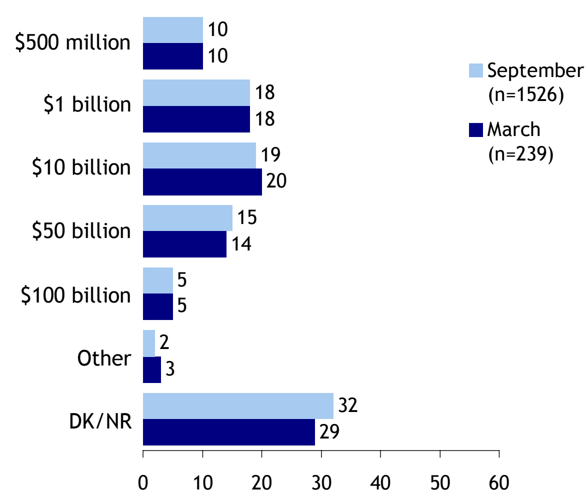


{Base: Non-Quebecers; percentages}

Fig. 37

Amount of Total CPP Assets

Q: Approximately how much do you think CPP assets currently amount to in total? Would you say they amount to ...



{Base: Non-Quebecers, percentages}

Awareness of CPP Assets

Awareness of the large pool of CPP assets to pay future pensions is still confined to a small minority

When asked whether they are aware that there is currently a large pool of CPP assets to help pay future pension benefits, just 17 per cent clearly said they were aware of this fact in the March survey (Figure 36). This has increased to 20 per cent in the September survey, a step in the right direction, but a small one.

- Those who are most aware of the pool are: men, the boomers and retired, those with a university education and those with higher levels of income

Awareness of Amount of CPP Assets

Knowledge of the size of CPP assets is still foggy

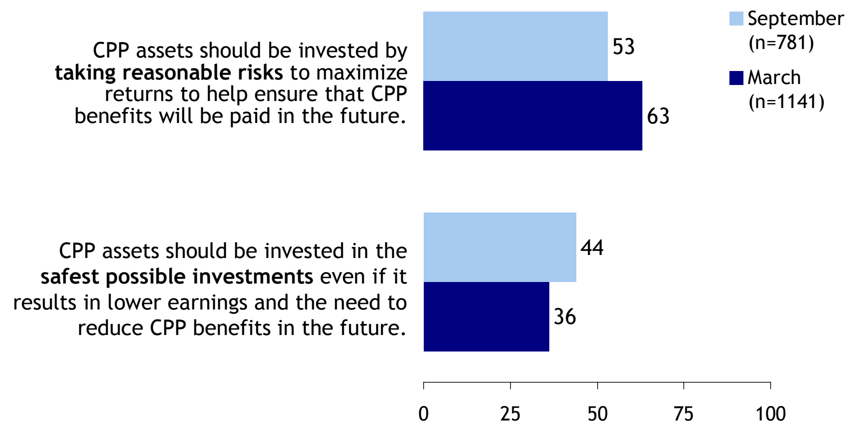
Guesses about the size of the assets in the CPP range from $500 million to $100 billion and many points in between (Figure 37).

There is no improvement in knowledge between the March and September surveys, and there is no reason to believe that there should be.

Fig. 38

Risks and Investing CPP Assets (Ensuring Benefits)

Q: Which of the following two statements is closest to your own point of view?

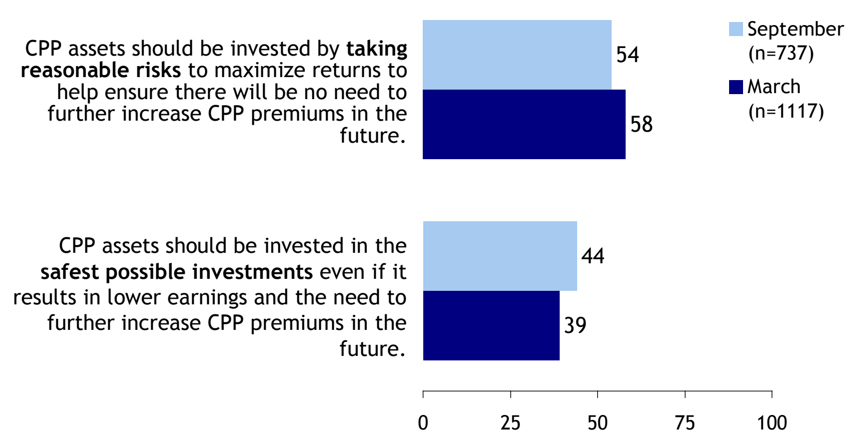


{Base: Non-Quebecers, percentages}

Fig. 39

Risks and Investing CPP Assets (Increasing Premiums)

Q: Which of the following two statements is closest to your own point of view?



{Base: Non-Quebecers, percentages}

There is a shift toward safety in Canadians' view of the best way to invest CPP assets

Half the respondents were asked to choose between risk and safety though reduced benefits, and the other half chose between risk and safety with higher premiums. Figures 38 and 39 on the opposite page show the results of these two forced choice questions for both the March and September surveys.

In March, there was a clear choice in favour of taking on more risk than following the safe course, whether accompanied by reduced benefits or increased premiums, though increased premiums was more popular than reduced pensions.

There is a significant change in the results from the September survey. Canadians are in a more cautious mood towards the investment of CPP assets today. While the balance of opinion still favours taking risks, the number choosing it over safety with the prospect of reduced benefits has moved from 27 percentage points difference in March to just 9 percentage points. The more cautious disposition is less pronounced when presented with the possibility of increased premiums, although the balance of opinion has still been reduced from 19 to 10 percentage points between March and September.

It is interesting to note as well that while the prospect of reduced benefits pushed Canadians towards accepting more investment risks in March than did the threat of increased premiums, the two question versions now produce virtually identical results.

The more cautious stance towards the investment of CPP assets is consistent with the change seen in the previous chapter. Canadians have pulled back a little in their stance towards investment risks — this holds for both personal investments as well as the investment of CPP assets (although the more cautious attitude towards the investment of CPP assets is not driven by investors as it is with attitudes towards personal investments and investment markets generally).

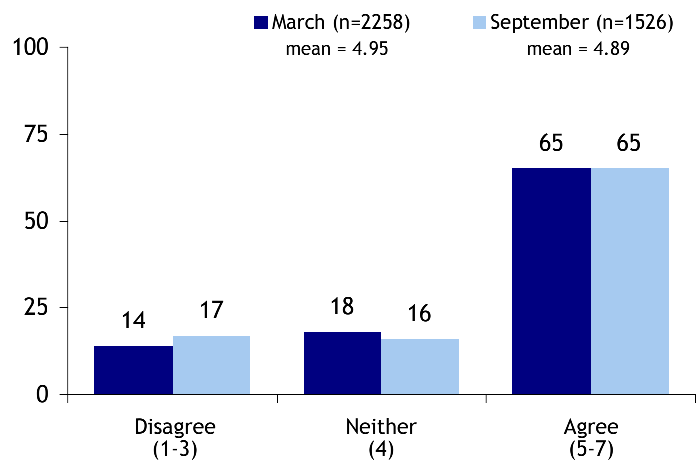
Interestingly, this more tentative stance is driven more by CPP contributors than non-contributors — there has been a 10 percentage point drop in the number of contributors choosing the risk option with the prospect of reduced benefits (from 66 to 56 per cent) and a 5 percentage point decline on the increased premiums version of the question (from 64 to 59 per cent).

Since this indicator is closely related to the mandate of the CPP Investment Board it should be monitored carefully.

Fig. 40

Investing CPP Assets and a Diversified Portfolio

Q: I would be okay with investing a portion of CPP assets in the stock market if I knew that the rest of the assets were invested in other kinds of investments like government bonds.

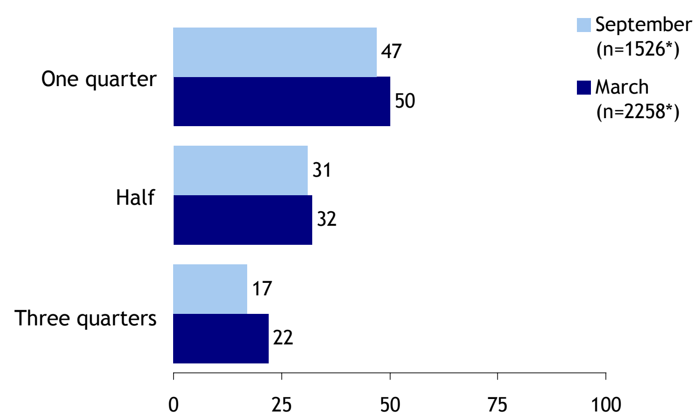


{Base: Non-Quebecers; percentages}

Fig. 41

Investing CPP Assets and Risk Tolerance

Q: I have no problem with up to ... a quarter/a half/three quarters ... of the total CPP assets being invested in the stock market.



{Base: Non-Quebecers, percentage agreeing}

* Samples split to 1/3 for each question option

Investing CPP Assets and a Diversified Portfolio

Most people remain comfortable with investing a portion of CPP assets in stocks if the rest is in instruments like government bonds

Two thirds of Canadians agree that they would be okay with investing a portion of CPP assets in the stock market if they knew that the rest of the assets were invested in other kinds of instruments like government bonds. This has not changed between the March and September surveys (Figure 40).

Investing CPP Assets and Risk Tolerance

Consistent with the general sentiment, the percentage who agree with any level of investment in the stock market has declined slightly since March

One third of respondents were asked to express their comfort with investing up to three fractions of the CPP's total assets, one quarter, one half or three quarters (Figure 41).

In March half the public said they would have no problem with up to a quarter of the total CPP assets being invested in the stock market. In September, only 47 per cent agree with this amount of stock market investment.

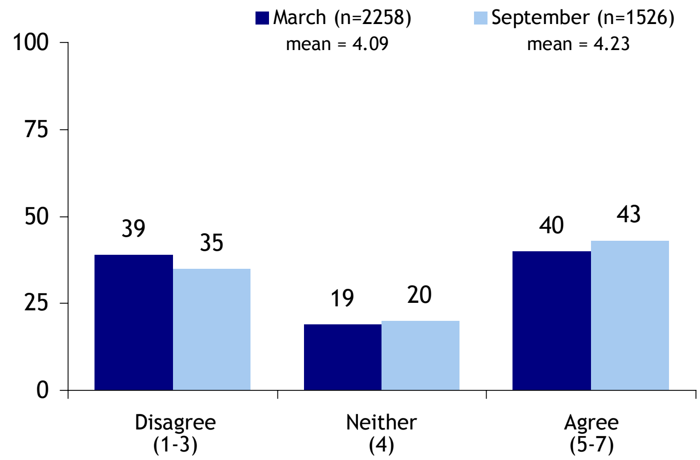
There is a corresponding decrease in the numbers of people who would be comfortable with investments of either a half or three-quarters of assets in the market, and these decreases are across all demographic segments.

Consistent with the findings presented on taking risks with CPP assets investments, the number of contributors who agree with each of the different levels of stock market investment has decreased more than for non-contributors (who remain virtually unchanged on these indicators).

Fig. 42

Concerns about Investing CPP Assets

Q: It is a **bad idea** to invest a portion of CPP assets in the stock market, because the CPP could lose a lot of money and not be able to pay future pension benefits.

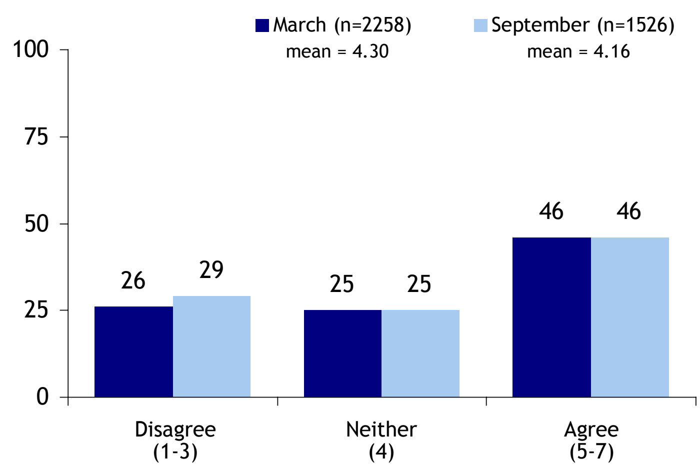


{Base: Non-Quebecers; percentages}

Fig. 43

Investing CPP Assets and Market Volatility

Q: Although there may be occasional short-term losses if CPP assets were invested in stock markets, it wouldn't bother me because the gains will more than compensate over the next 20 years.



{Base: Non-Quebecers; percentages}

Concerns about CPP Investments and Market Volatility

The balance on the idea of investing CPP assets in the stock market has swung slightly more negative

Canadians were asked whether they agree or disagree that it is a bad idea to invest a portion of CPP assets in the stock market, because the CPP could lose a lot of money and not be able to pay future pension benefits (Figure 42).

In the March survey, there was an almost even split between those who agreed with the statement (40 per cent) and those who disagreed (39 per cent). In September, the number of people agreeing with the statement has increased to 43 per cent, while those disagreeing has declined to 35 per cent.

❖ This movement is most noticeable among people who have higher education and higher incomes

Investing CPP Assets and Market Volatility

On balance, there are still a lot of people who believe that long-term gains will offset short-term losses if CPP assets are invested in the markets

Just under half (46 per cent) agree that although there may be occasional short-term losses if CPP assets were invested in stock markets, it wouldn't bother them because the gains will more than compensate over the next 20 years. That figure has not changed between the two surveys (Figure 43).

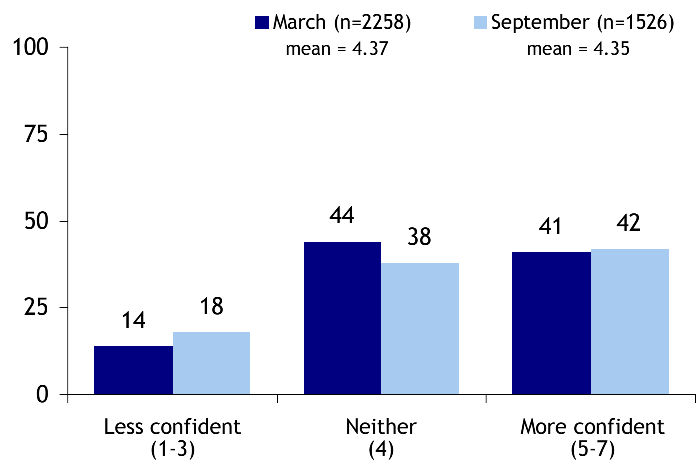
However, the percentage of people who disagree with the statement has increased from 26 per cent to 29 per cent.

❖ This slight increase in disagreement is the result of a shift among contributors of 5 percentage points between March and September (from 26 to 31 per cent disagreeing)

Fig. 44

Impact of Investing on Confidence

Q: Does the fact that CPP assets are being invested to increase returns make you more or less confident in the long-term health of the Canada Pension Plan?

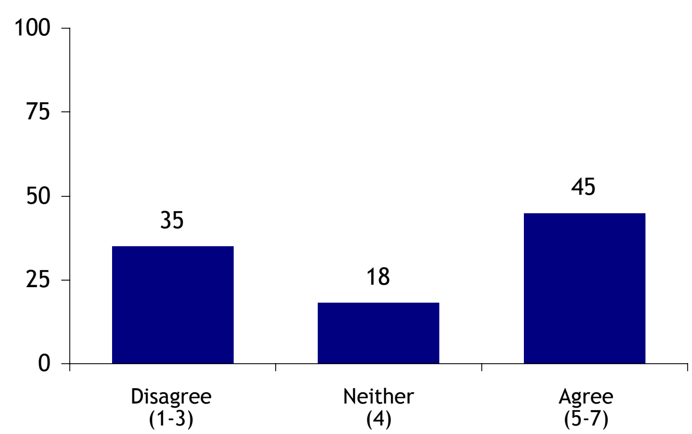


{Base: Non-Quebecers; percentages}

Fig. 45

Regional Investing of CPP Assets

Q: CPP assets should be invested in all regions of the country even if it means a lower return on investment



{Base: Non-Quebecers, percentages; September 02, n=1526}

On average, investment of CPP assets makes people more confident in the long-term health of the CPP, and this has not changed

As a measure of overall confidence in the CPP Investment Board's mandate, Canadians were probed about the impact investing CPP assets to increase return has on their confidence in the Plan. When asked: "Does the fact that CPP assets are being invested to increase returns make you more or less confident in the long-term health of the Canada Pension Plan," 41 per cent said it made them more confident in the March survey compared with just 14 per cent who said it made them less confident (Figure 44).

In the September survey, a there has been a slight move from the neutral position to a negative but the overall finding has not changed to any significant degree.

Regional Investing of CPP Assets

In principle, there is fairly wide agreement with the idea that CPP assets should be invested in all regions of the country

In a question added to the September survey, respondents show a lean toward agreeing with the proposition that CPP assets should be invested in all regions of the country even if it means a lower return on assets. Across the country, 45 per cent agree and 35 per cent disagree (Figure 45).

- ❖ The only demographic group to be more inclined to disagree with the statement are those with incomes above $100,000, with 52 per cent disagreeing and only 35 per cent agreeing
- ❖ The only other demographic groups where the balance is significantly tilted toward disagreement are men and the university educated
- ❖ Investors are more likely than non-investors to disagree with the statement (38 versus 29 per cent)

Among the regions, the strongest tilt toward agreement is in the Atlantic Provinces, where 51 per cent agree and only 29 per cent disagree. At the opposite end, in Alberta 41 per cent disagree (the same number as agree with the proposition).

In sum…

- Detailed knowledge of the financial status of the Canada Pension Plan still escapes most Canadians.
- While there is a preference for the CPP taking reasonable risks to ensure benefits can be paid in the future, there is clearly some shift in thinking toward investing for safety even if it means that future benefits have to be reduced or premiums raised.
  - A substantial majority are still in favour of investing some portion of CPP assets in the stock market as long as the rest is invested in safer investments such as government bonds.
- On a number of indicators, there is a slight erosion of support for equity investing and a slight increase in anxiety, but in general the fact that CPP assets are being invested to increase returns increases confidence in the long-term health of the Plan.
- One area of concern is that the slightly more negative stance towards CPP investment risks is caused by a shift in opinion among contributors
- Spreading CPP investment across the regions is a concept that plays better in regions that benefit from equalization than in those that pay into it, and better with people with lower incomes than with high earners.

8.0 CPP Investment Board

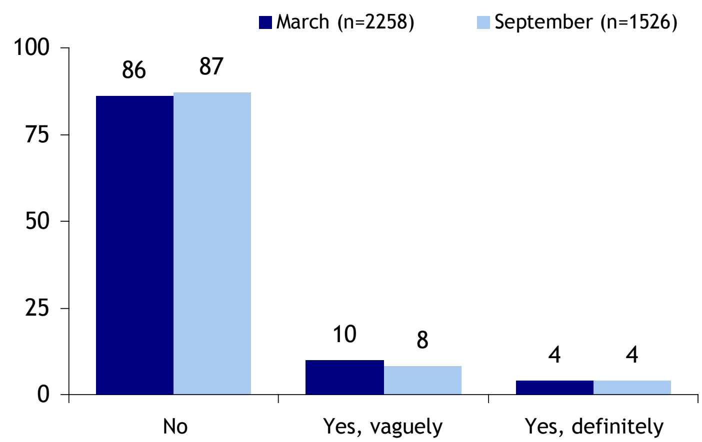
The indicators included in this chapter of the report are:

- ❖ Awareness of CPP Investment Board
- ❖ Performance of CPP Investment Board
- ❖ Awareness of Media Reports on CPP Investment Board
- ❖ Character of Media Reports on CPP Investment Board
- ❖ Support for Using Investment Professionals
- ❖ Concerns about Political Influence
- ❖ Board Accountability

Fig. 46

Awareness of the CPP Investment Board

Q: Have you ever heard of the CPP Investment Board?

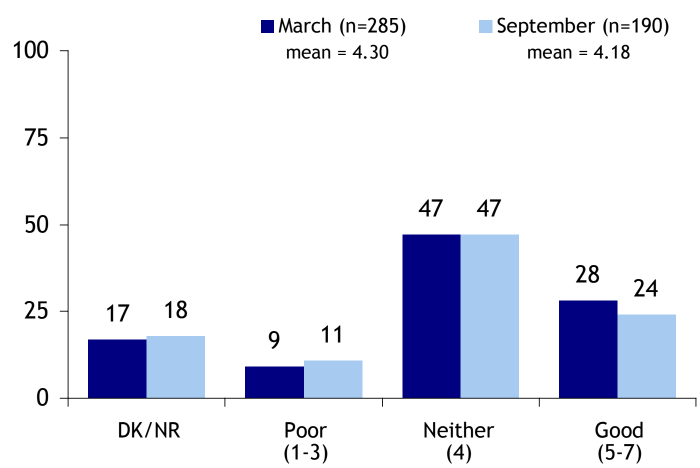


{Base: Non-Quebecers; percentages}

Fig. 47

Performance of the CPP Investment Board

Q: In your opinion, how would you rate the overall performance of the Canada Pension Plan Investment Board's investment activities?



{Base: awareness of CPP Investment Board, percentages}

On prompting, awareness of the CPP Investment Board has not increased since the first survey

The great majority of Canadians say they have not heard of the CPP Investment Board in either the March or September surveys (Figure 46).

- Only 4 per cent say they have definitely hear of it, and another one in ten say they have vaguely heard of it
- Interestingly, awareness is highest among the retired, as well as among the university educated and those in the highest income bracket, though awareness in all groups is still confined to a small minority

Perceptions of the CPP Investment Board's performance is still in positive territory, but registers a small decline since March

Very few people are aware of the CPP Investment Board, but those that say they have heard of it, even vaguely, were asked how, in their opinion, they would rate the overall performance of its investment activities (Figure 47).

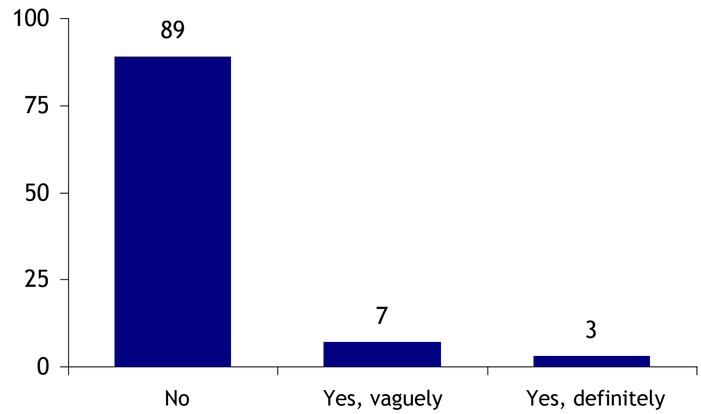
As Figure X shows, the number rating its performance as good declined from 28 per cent to 24 per cent, and those rating it as poor increased from 9 per cent to 11 per cent.

- As a result, the mean score, while still in positive territory, slipped slightly from 4.30 to 4.18. The slide is across the board

Fig. 48

Awareness of Media Reports on CPP Investment Board

Q: Do you recall any media reports about the Canada Pension Plan Investment Board?

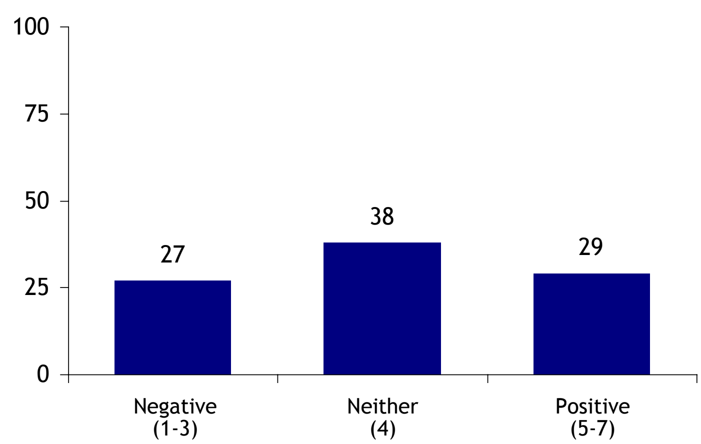


{Base: Non-Quebecers; percentages; n=1526}

Fig. 49

Character of Media Reports on CPP Investment Board

Q: Thinking about the last media report you recall hearing about the Canada Pension Plan Investment Board, in general, would you say this report was positive or negative?



{Base: recall media reports, percentages; n=149}

Media Reports on the CPP Investment Board

Awareness of any media reports about the CPP Investment Board are at very low levels

When asked if they recall any media reports about the CPP Investment Board, only 3 per cent say they definitely recall such reports and another 7 per cent vaguely recall them (Figure 48).

- Males are more likely to recall these reports than are women
- Among other demographic groups, seniors and the university educated report the highest recall
- Among the regions, recall is lowest in British Columbia, a segment that also reports the least awareness of the CPP Investment Board

Character of Media Reports

Characterization of the latest media report about the CPP Investment Board is split between positive and negative

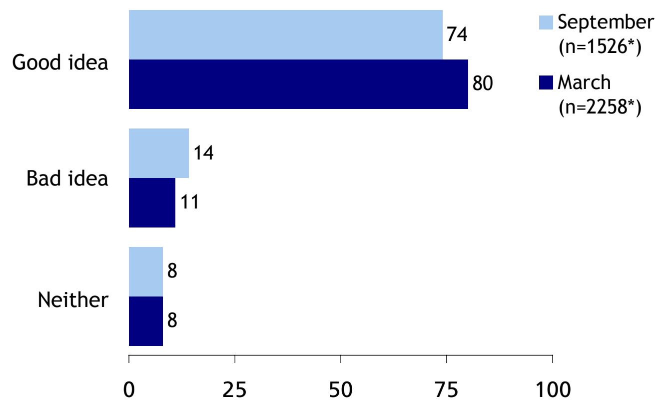
The few people who said they recalled any media reports about the CPP Investment Board were asked to think about the last media report they recalled hearing and to indicate, in general, whether the report was positive or negative (Figure)49.

- Opinion is fairly evenly split, with 29 per cent saying the report was positive and 27 per cent saying it was negative
- Only a small number of people were asked this question, too few to allow analysis by demographic groupings

Fig. 50

Support for Using Investment Professionals

Q: All things considered, do you think the idea of having experienced investment professionals managing the investment of CPP assets is a good idea or a bad idea?

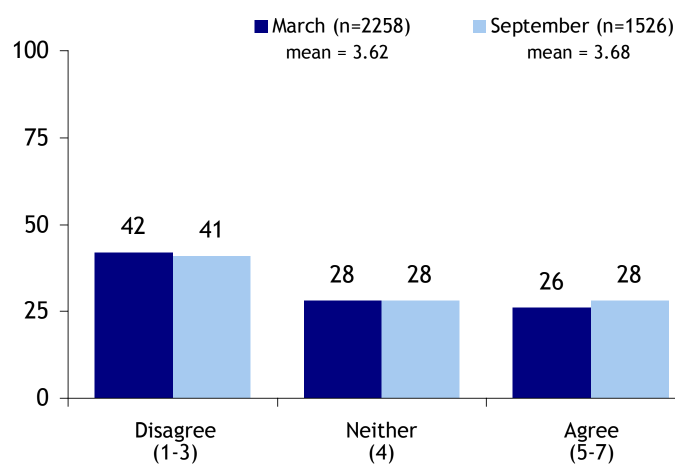


{Base: Non-Quebecers, percentages}

Fig. 51

Doubts about Recruiting Qualified Professionals

Q: I doubt that well qualified investment professionals could be recruited to invest CPP/QPP assets.



{Base: Non-Quebecers; percentages}

Support for Using Investment Professionals

Support for having investment professionals managing CPP assets is still high, but not quite as high as it was

When this question was first asked in March, 80 per cent said that, all things considered, they thought the idea of having experienced investment professionals managing the investment of CPP assets was a good idea. Just 11 per cent characterized it as a bad idea (Figure 50).

Responses in September are still overwhelmingly in support of the idea, but now only 74 per cent say it is a good idea, while 14 per cent say it is bad.

- The decline in support is noted in every demographic segment and in each region

Doubts about Recruiting Qualified Professionals

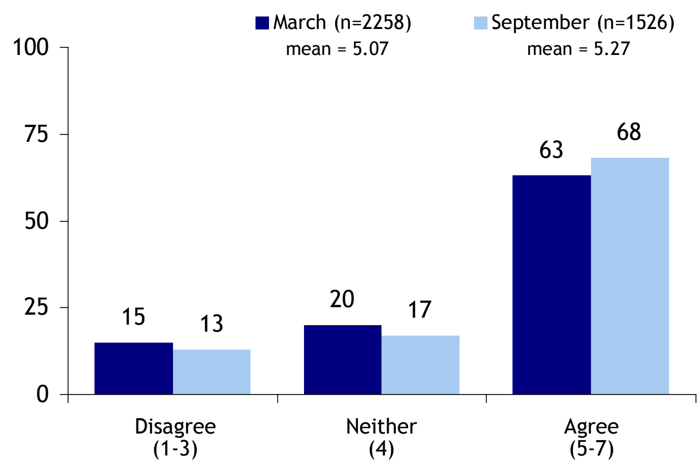
There is still fairly wide confidence that well qualified investment professionals can be recruited to invest CPP assets

This question was asked in the negative form, expressing doubt that well qualified investment professionals could be recruited to invest CPP assets. More people disagreed with this statement than agreed. The results are virtually unchanged in September (Figure 51).

Fig. 52

Concerns about Political Influence

Q: I am worried that there may be political influence in the way CPP assets are invested.

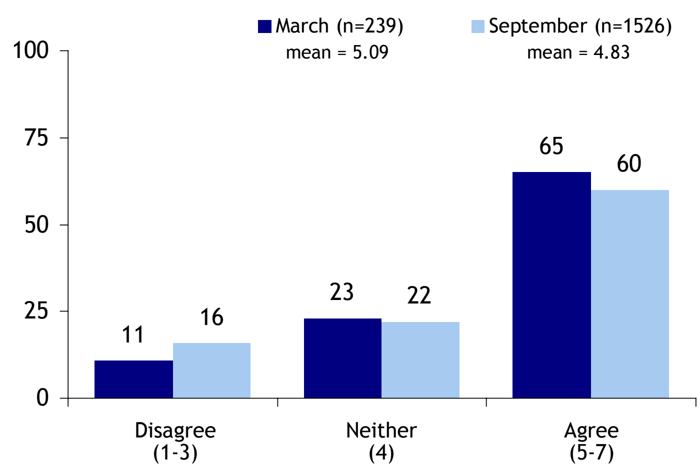


{Base: Non-Quebecers; percentages}

Fig. 53

Board Accountability

Q: If investment professionals recruited to invest CPP assets were fully accountable to a board of directors with business and investment expertise, I'm confident that they would make investment decisions that are best suited to ensuring the long-term health of the CPP.



{Base: Non-Quebecers; percentages}

Concerns about political influence in the way CPP assets are invested have intensified

Respondents were asked whether they were worried that there may be political influence in the way CPP assets are invested, and two thirds say they are. In March 63 per cent agreed that they are worried about political influence, and in the September survey this number increased to 68 per cent (Figure 52).

- This increase is most noticeable among those with an income above $80,000, among those with a college or university education, and regionally is sharpest in BC
- It is also stronger with contributors who have moved from 65 to 70 per cent agreeing between March and September

The board governance model still receives strong support, though at a slightly softer level than in March

Respondents were asked for their level of agreement with the proposition: "If investment professionals recruited to invest CPP assets were fully accountable to a board of directors with business and investment expertise, I'm confident that they would make investment decisions that are best suited to ensuring the long-term health of the CPP (Figure 53)."

In March, 65 per cent agree with the statement, against just 11 per cent who disagreed.

In September, while still strongly supporting the proposition, the balance has shifted slightly. Just 60 per cent agree, while 16 per cent now disagree.

In sum…

- ❖ Few people have a clear knowledge of the CPP Investment Board, and there has been little change over the course of the past six months.
  - » Few recall any media reports about the CPP Investment Board, and those that do, are equally split as to whether those reports were positive, negative or neither.
- ❖ Among those who are aware of the CPP Investment Board, the balance of opinion is still favourable to its performance, but not quite as strongly as it was earlier in the year.
- ❖ There is still strong agreement with the idea of having investment professionals managing CPP assets, though not quite as many are now in favour as they were in March.
  - » The balance of opinion that well qualified professionals can be recruited to do this work is still favourable.
- ❖ The fear of political influence in CPP investments is strong and getting stronger, though people are still confident in the accountability of an independent board.

9.0 Perceptions of the CPP

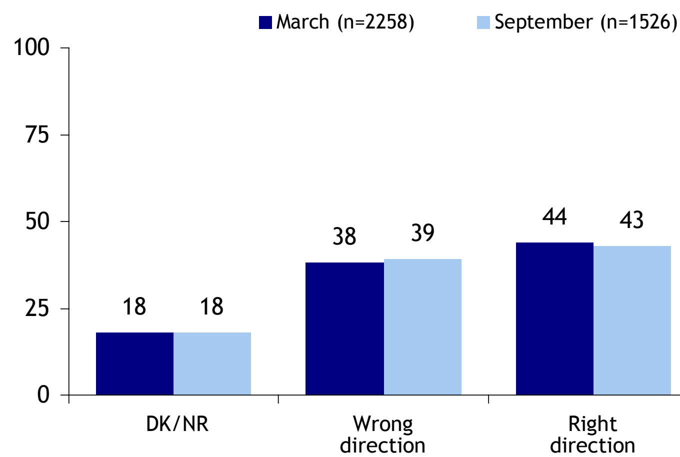
The indicators included in this section of the report are:

- Overall Direction of the CPP
- Perceptions of the CPP as a Tax
- Return of Investment
- Expected Reliance on the CPP
- Overall Viability of the CPP

Fig. 54

Overall Direction of the CPP

Q: All things considered, would you say the overall health of the Canada Pension Plan is moving in the right direction or the wrong direction?

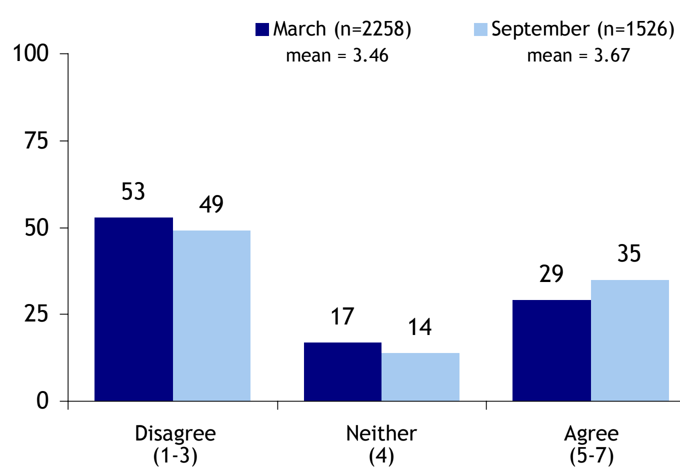


{Base: Non-Quebecers, percentages}

Fig. 55

Perceptions of the CPP as a Tax

Q: I think that CPP contributions are just another method of taxing Canadians.



{Base: Non-Quebecers; percentages}

Overall Direction of the CPP

Opinion is split about the overall direction of the CPP, but has not changed since the first survey

As a summary question, respondents were asked whether, all things considered, they would say the overall direction of the Canada Pension Plan is moving in the right direction or the wrong direction (Figure 54).

While opinion is divided, the lean is in a positive direction, and there is virtually no change between the two points of measurement.

- The pattern of response among different segments is very close in both surveys. While the Atlantic to the Prairies lean strongly toward to positive, the West leans negative. In the September survey, BC joins Alberta as a province where the negatives outweigh the positives – 47 per cent wrong direction and 36 per cent right direction

Perceptions of CPP as a Tax

On balance, Canadians still do not consider CPP contributions to be just another tax, although a more cynical attitude is prevalent

About half of the Canadian public disagrees with the proposition that CPP contributions are just another way of taxing them, though the segment of the population that holds this view has dropped from 53 per cent in March to 49 per cent in September (Figure 55).

At the same time, those agreeing with the proposition has increased from 29 per cent to 35 per cent.

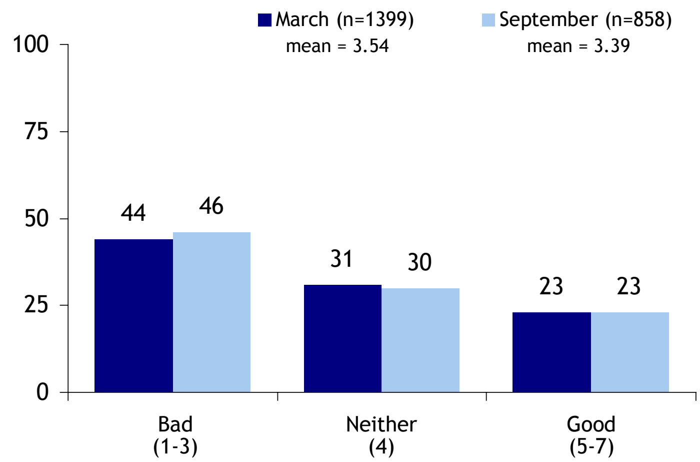
The sharpness of this drop is contributed to by a strong upsurge in agreement in British Columbia, reflecting a negative switch of 74 points.

- Other segments with above average movement include the Atlantic Provinces and those in lower income groups

Fig. 56

Return on Investment

Q: Thinking about how much you have paid into the CPP and what you expect to get in return once you retire, do you think this is a good or bad investment of your money?

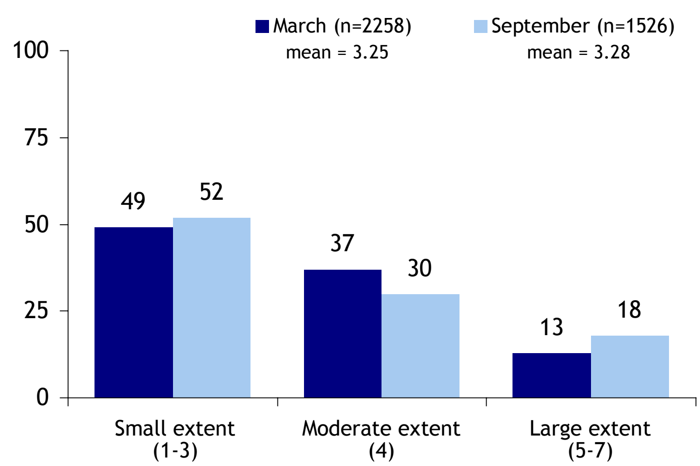


{Base: Non-Quebecers, non-retirees; percentages}

Fig. 57

Expected Reliance on the CPP

Q: To what extent do you plan to rely on the CPP for your retirement income?



{Base: Non-Quebecers, percentages}

Return on Investment

On average, more Canadians still think the money they have paid into the CPP is a bad investment, and the September numbers are slightly worse than in March

Respondents were asked to think about how much they have paid into the CPP and what they expect to get in return once they retire, and to think about whether this is a good or a bad investment of their money (Figure 56).

As reported in March, 44 per cent classified it as a bad investment, compared with 23 per cent who said it is a good investment.

In September, the numbers are almost identical, though there has been a slight drift toward the negative. Now, 46 per cent say it is a bad investment.

Expected Reliance on the CPP

More people now say that they plan to rely a large extent on the CPP for their retirement income

In March just 13 per cent said that they expected to rely to a large extent on the CPP for their retirement income. In September, that figure increases to 18 per cent, though this increase is offset somewhat by an increase in those who say that their reliance on the CPP will be small (Figure 57).

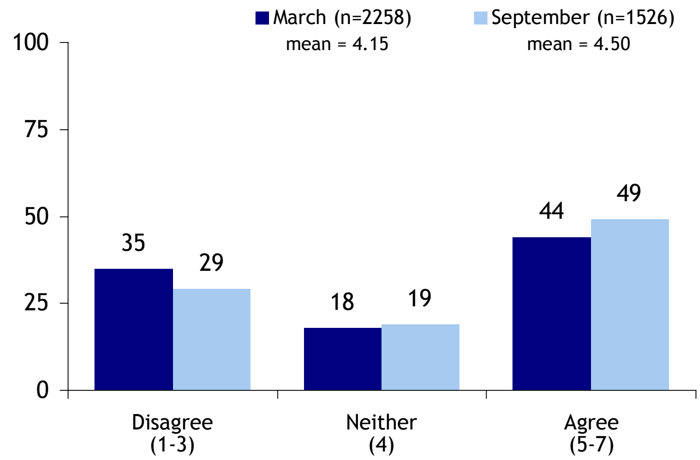
As a result of these shifts, the mean score remains steady, but there are interesting differences in the demographic segments:

- The numbers saying they will rely to a great extent on the CPP has increased among those with the highest incomes, but has declined among the youngest age groups, and also in Western Canada

Fig. 58

Overall Viability of the CPP

Q: The CPP will be out of money by the time I retire.



{Base: Non-Quebecers; percentages}

Nearly half of all Canadians now think that the CPP will be out of money by the time they retire

The balance on this question has swung negatively since March. In the first survey, 44 per cent said that they believed the CPP will be out of money by the time they retire, while 35 per cent disagreed (Figure 58).

In September, the balance has swung quite sharply, with 49 per cent now saying that the CPP will be out of funds, and only 29 per cent disagreeing with this statement.

- As a result, the mean has moved significantly higher into negative territory, and the decline is noted across the board, but particularly in Western Canada

In sum…

- ❖ More people say that the CPP is heading in the right direction than say it is going in the wrong direction, and that has not changed since the first survey.
  - » Some people still consider CPP contributions to be a tax, but that is not the majority opinion.
- ❖ However, the sentiment that money paid into CPP is a poor investment is even stronger than reported in the earlier survey, and a growing number think that the CPP will be out of money by the time they retire.
- ❖ At the same time, slightly more people now expect that they will have to rely heavily on their CPP pension when they retire, especially among those in higher income brackets.

10.0 Key Implications

To be incorporated following review of draft report

Appendix A

Technical Findings on Confidence Index

Appendix B

Questionnaire