# CPP Investment Board
# Tracking Public Confidence II

## FINAL REPORT

Submitted to:
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# 1.0 Introduction

The Canada Pension Plan 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 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 an 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 third public survey investigating confidence in the mandate of the CPP Investment Board — an initial benchmark survey, conducted in March 2002, followed by two tracking surveys, one in September 2002 and the most recent in the first two weeks of March 2003.

In addition to monitoring key benchmarks and confidence variables, the most recent tracking survey updates measures relating to the corporate scandals of 2002, takes a preliminary look at attitudes towards different investment classes (most notably infrastructure), and investigates the impact of the threat of war on Iraq had on public confidence (the survey was conducted prior to the outbreak of war).

## Organization of the Report

The report begins with an update of the Confidence Index. Each of the following chapters are organized thematically with a heavy emphasis placed on tracking benchmarks and measures of confidence.

It is important to take note of how changes are measured from one data point to another and the convention used in this report to denote statistically significant changes over time.

- Comparative numbers are shown in the charts and tables for each of the tracked indicators.
- The different data points for each indicator are shown in two ways
  - as is normally the case with survey data, the frequencies for different response categories are presented (e.g., 57 per cent agree, 33 per cent disagree, and so on)
  - mean scores have been inserted in the charts for each of the scaled tracking questions.

The mean scores are based on 7-point scales (1.00 is the lowest possible score, 4.00 is the midpoint, and 7.00 is the highest possible mean score). Mean scores are the most reliable way to judge changes from one data point to another and are used to ascertain the statistical significance between findings. Frequencies of response categories often do not provide a reliable way to measure differences over time. For example, differences that may be almost imperceptible in aggregate frequencies can be statistically significant between means.

Statistically significant changes from one data point to another are denoted by symbols next to the mean scores The following convention has been adopted for showing statistical significance:

§ — denotes a statistically significant change between September 2002 and March 2003

‡ — denotes a statistically significant change between March 2002 and March 2003

These symbols can be found beside the mean scores for the March 2003 data. (Mean scores are inserted in the relevant charts directly below the date and sample size for each data point.)

The statistical significance of differences in frequencies between subgroups is denoted by an asterisk (*) beside the corresponding number in data tables. This indicates that the difference between a subgroup finding and the overall frequency is statistically significant.

# Methodology

The methodology used for the March 2003 survey is identical to the previous tracking survey in September 2002.

- A telephone survey of the general public from March 3 to 14, 2003.
- 1,524 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 (margins increase when results are subdivided)
- Results have been weighted by age, gender and region according to the most recent Census data
- Comparisons are drawn with the benchmark survey of 2,258 Canadians 18 and over (excluding Quebec) conducted in March 2002 and the first tracking survey of 1,526 conducted in September 2002

# 2.0 Confidence Index

The primary objective of this ongoing research initiative is to understand changes in the confidence Canadians have in the principles, approach and mandate of the CPP Investment Board. The Confidence Index has been constructed to track these changes. The Index is made up of a group of key indicators related to the CPP Investment Board's mandate, its 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. A 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 provide a reliable understanding of pertinent attitudinal factors.

### 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 the CPP Investment Board's mandate. 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 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's mandate.

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:

Confidence in 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 nor 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).*

Short-term volatility and long-term returns

» *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 CPP assets 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).*

Confidence in the 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).*

Concerns about political influence

» *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 topicality of the indicators used in the Index's 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 understanding confidence in the CPP Investment Board's mandate. To this end, multivariate analyses were conducted using a multiple regression model.

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 were identified as having predictive capacity for determining confidence in the mandate. Not all of these indicators are included in the Index. 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 Index variables 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. Rather than a scale from 1 to 7, it becomes a scale from –3 to +3 with a midpoint at 0. 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 were assigned values of –5 and +5, respectively. Similarly, 2 and 6 responses were assigned values of –3 and +3. The 3 and 5 responses were not weighted and kept at –1 and +1 (the 4 at 0). The weighting was applied to render composite scores more sensitive to changes over time, but it also reflects the lower probability of obtaining responses on the high (6 and 7 responses) and low end (1 and 2) of the 7–point scale as compared with 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 for each case to reflect the overall level of confidence.

A final tweaking of the values on the Index has been 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.

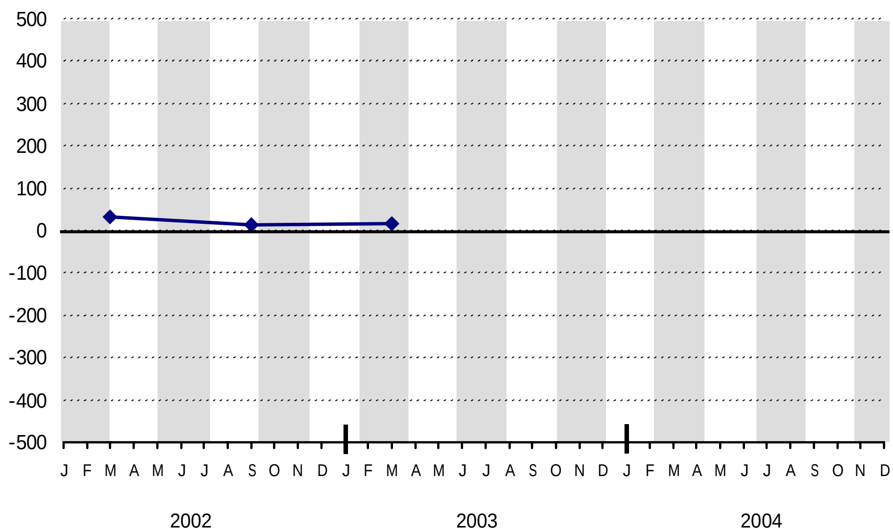
# Index Results

## Composite Index Score

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. The maximum Index score is +500, the minimum –500 (although the actual results will land within a much narrower range).

The study now has three data points, as shown in the figure below. Overall, confidence has remained positive with scores consistently above the zero point for each of the three surveys. (A score above the zero point represents a positive level of confidence; conversely, any score below zero would reflect an overall negative level of confidence.)

**Confidence Index**




**Mean Composite Score X 100**

**Figure 2.1**

Between the benchmark and first tracking survey there was a softening of confidence — the overall Index score dropped from 31[1] in March 2002 to 14 in September 2002. Since September, confidence has stabilized to give a score of 16 points for the most recent survey.

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 had weakened slightly in September, but has since stabilized or even firmed up.

[1] In the previous report, 28 points was reported for March 2002. Data for the benchmark survey was subsequently recalibrated to have consistent weights between the three surveys using 2001 Census data (which only became available after the benchmark data was originally analysed). Although the number has changed slightly, the overall meaning of the findings remains the same.

## Scores of Individual Index Variables

To understand what influences the composite Index score, it is useful to review the findings for the individual Index variables. There are two things to be mindful of when reviewing these findings:

» the overall positive or negative influence of different variables;

» and, the magnitude of changes between the data points.

In Table 2.1 below, the scores for individual variables are shown for each data point. They are ranked in ascending order of positive influence on the composite Index score (based on March 2003 results). Those having the most positive influence on confidence are at the top and those having the most negative influence on the bottom. Those with a negative score have a generally negative influence on confidence and *visa versa*. The three columns on the right show the change for each variable between the three surveys.

Table 2.1: Index Scores for Individual Variables

(Index score)

| | INDIVIDUAL INDEX SCORES | | | GAIN/LOSS | | |
|---|---|---|---|---|---|---|
| | March 2002 | Sept. 2002 | March 2003 | March 02 to Sept. 02 | Sept. 02 to March 03 | March 02 to March 03 |
| Investing CPP assets with a diversified portfolio | 135 | 130 | 120 | -5 | -10 | -15 |
| Confidence in the board accountability model | 117 | 121 | 109 | +4 | -12 | -8 |
| Confidence in CPP Investment Board's mandate | 50 | 45 | 46 | -5 | +1 | -4 |
| Future health of the economy | 56 | 41 | 41 | -15 | 0 | -15 |
| Short-term volatility and long-term returns | 39 | 18 | 14 | -21 | -4 | -25 |
| Confidence in investment professionals | -2 | -32 | -21 | -30 | +11 | -19 |
| Risk to security of the CPP | -15 | -39 | -38 | -24 | +1 | -23 |
| Concerns about political influence | -140 | -200 | -167 | -60 | +33 | -27 |

Looking at the overall changes between March 2002 and 2003 in the far right column, each of the eight Index variables show a negative change over the past year, some larger than others.

Turning to the changes between September 2002 and March 2003, however, shows a number of variables with a positive change — most notably concerns over political influence have come down and confidence in the ability of investment professionals has increased. It is attitudes on these two fronts that is most directly responsible for the stabilization and slight firming up of the composite Index score seen with the most recent survey. Most other variables have been stable over this period with scores ranging from –4 to +1, although two indicators — investing CPP assets with a diversified portfolio and confidence in the board accountability model — dropped off somewhat.

## Subgroup Differences

Looking at individual Index variables is one way to understand changes in the composite Index score. These results show that attitudes in some area may improve or worsen more than in other areas. Another important way by which to understand changes in the composite Index score is to examine differences in the Index score by different subgroups. Changes in confidence are not evenly distributed across the population. Table 2.2 below shows these differences across a number of different subgroups.

Table 2.2: Index Scores for Individual Variables

(Index score)

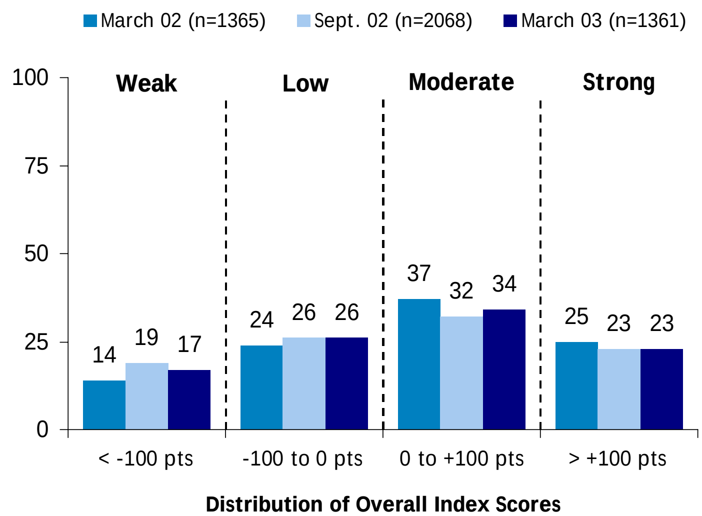
| | INDIVIDUAL INDEX SCORES | | | GAIN/LOSS | | |
|---|---|---|---|---|---|---|
| | March 2002 | Sept. 2002 | March 2003 | March 02 to Sept. 02 | Sept. 02 to March 03 | March 02 to March 03 |
| INCOME | | | | | | |
| $100,000 and over | 58 | 42 | 49 | -16 | +7 | -9 |
| $80,000 to $99,999 | 53 | 26 | 42 | -17 | +16 | -1 |
| $60,000 to $79,999 | 46 | 20 | 27 | -26 | +7 | -19 |
| $40,000 to $59,999 | 38 | 11 | 20 | -27 | +9 | -16 |
| $20,000 to $39,999 | 21 | 15 | -3 | -6 | -18 | -24 |
| Under $20,000 | 4 | -12 | 1 | -8 | +13 | +5 |
| EDUCATION | | | | | | |
| University | 55 | 32 | 43 | -23 | +11 | -12 |
| College | 25 | 2 | 6 | -23 | +4 | -19 |
| High school or less | 12 | 4 | -6 | -8 | -10 | -18 |
| AGE | | | | | | |
| 65 and over | 46 | 19 | 7 | -27 | -12 | -39 |
| 45 to 64 | 35 | 12 | 25 | -23 | +13 | -10 |
| 25 to 44 | 32 | 12 | 15 | -20 | +3 | -17 |
| Under 25 | 12 | 18 | 10 | +6 | -8 | -2 |
| GENDER | | | | | | |
| Males | 45 | 22 | 29 | -23 | +7 | -16 |
| Females | 16 | 5 | 3 | -11 | -2 | -13 |
| INVESTORS | | | | | | |
| Investor | 43 | 26 | 31 | -17 | +5 | +12 |
| Non-investor | -1 | -12 | -20 | -11 | -8 | -19 |
| INVESTOR SIZE | | | | | | |
| Greater than $100,000 | 66 | 40 | 45 | -26 | +5 | -21 |
| Less than $100,000 | 33 | 18 | 22 | -15 | +4 | -11 |

It is important to note that most subgroups saw a positive change in confidence between the first and second tracking survey. Interestingly, however, a number of subgroups — lower income, those without a postsecondary education, seniors, women and non-investors — each had a continuing decline in confidence. One explanation for this is that these groups have less tolerance for a sustained downturn and see the failure of markets to rebound over the past six months as cause for increased concern. The other subgroups are more likely to have familiarity with equity markets and likely see the market as stabilizing, resulting in a firming up of their confidence.

## Index Segments

The overall population can be segmented on the basis of the distribution of composite Index scores. Breaking out scores between those under minus 100 points, between minus 100 and zero, between zero and plus 100, and those over plus 100 points, reveals a segmentation of the population on the basis of confidence in the CPP Investment Board's mandate — weak, low, moderate and strong, respectively.

### Index Segments




{Base: non-Quebecers, percentages}

**Figure 2.2**

The first thing to note is that the size of the segments has remained stable between September and the most recent survey. There has been a slight decrease in the number in the weak confidence segment and a correspondingly slight increase in the number in the moderate confidence segment.

This contrasts with the relatively large increase in size of the weak and low segments that occurred between March 2002 and September 2002. In that period there was a 5 percentage point increase in the weak segment and a 2 percentage point increase in the low segment.

The distribution of numbers across the segments reflects the overall shift in confidence found in the composite Index score.

These segments are used at different points in the analysis to show key attitudinal differences between them. There are some notable demographic differences between these groups, but their key characteristics are more attitudinal than demographic. The demographic differences are summarized in Table 2.3 below.

Table 2.3: Demographic Characteristics of Index Segments

(Index score)

| | INDEX SEGMENT | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| **INCOME** | | | | |
| $100,000 and over | 14 | 12 | 17 | 26 |
| $80,000 to $99,999 | 10 | 10 | 14 | 13 |
| $60,000 to $79,999 | 15 | 15 | 15 | 17 |
| $40,000 to $59,999 | 22 | 18 | 21 | 21 |
| $20,000 to $39,999 | 23 | 27 | 20 | 13 |
| Under $20,000 | 13 | 17 | 11 | 9 |
| **EDUCATION** | | | | |
| University | 30 | 31 | 41 | 50 |
| College | 29 | 24 | 30 | 23 |
| High school or less | 40 | 44 | 29 | 26 |
| **AGE** | | | | |
| 65 and over | 14 | 21 | 13 | 11 |
| 45 to 64 | 34 | 24 | 28 | 37 |
| 25 to 44 | 39 | 35 | 42 | 40 |
| Under 25 | 12 | 18 | 17 | 10 |
| **GENDER** | | | | |
| Males | 46 | 41 | 55 | 55 |
| Females | 54 | 59 | 45 | 45 |
| **INVESTORS** | | | | |
| Investor | 64 | 64 | 75 | 84 |
| Non-investor | 36 | 36 | 25 | 16 |
| **INVESTOR SIZE** | | | | |
| Greater than $100,000 | 26 | 17 | 23 | 30 |
| Less than $100,000 | 74 | 83 | 77 | 70 |

As can be seen, demographic differences between the confidence segments are not overly pronounced. The most notable difference occurs along education with the strong confidence segment being much more likely to have university education and the weak and moderate segments much more likely to have no postsecondary education.

The strong and moderate segments are also more likely to have investments, although almost two-thirds of the weak and low segments also have investments.

# 3.0 Health of the Economy and Personal Finances

How people feel about the economy and their own finances tends to set the mood for how they view other economic issues.  This chapter looks are some core indicators of economic optimism to provide a frame to the public's overall mood on economic and financial matters.

The indicators included in this chapter are:

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

## *Health of the Economy and Personal Finances*

## *— Key Findings*

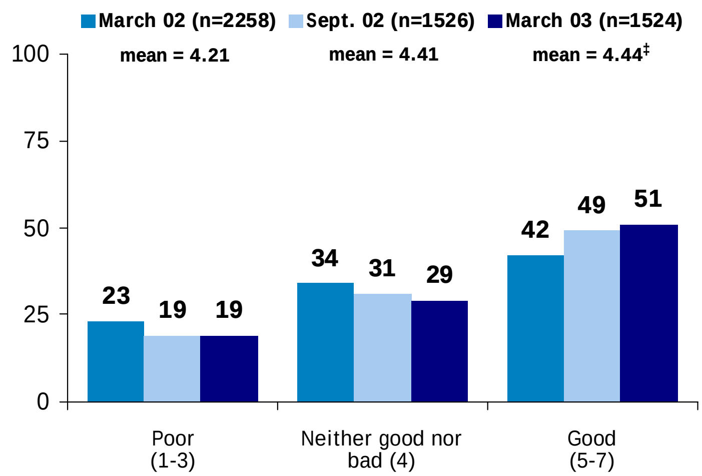
Economic and personal financial optimism sets a framework within which the public evaluates other economic matters. While the current climate of general and personal economic opinion is positive, there are some potential clouds on the horizon as the future appears less bright than previously believed.

- ❖ More than in either of the previous two surveys, is the belief that the economy is currently healthy.
- ❖ There is less certainty that this good health will hold up over the next five to ten years and concerns are growing on this front.
- ❖ About half rate their personal financial situation as good versus 2 in 10 who feel that it is bad.
- ❖ The majority feel that their finances will be the same or better in the future, not many expect them to be worse.
- ❖ Not surprisingly, each of the core demographic variables — age, income, education, and gender — as well as region, are important factors in economic and financial optimism.

Despite knocks against stock market ethics, and the threat of war, the mood remained buoyant. This provides a useful context in which to evaluate changes in attitudes towards markets, investments, and particularly the investment of CPP assets.

### *The overall rating of the current health of the economy is still good and is improving*

**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}

**Figure 3.1**

At the first tracking point in September 2002, the Canadian economy looked to be on a roll. At that time, The public gave a significantly higher rating to the health of the economy than they did in the previous March — 49 per cent rated it as good, up from 42 per cent in March.

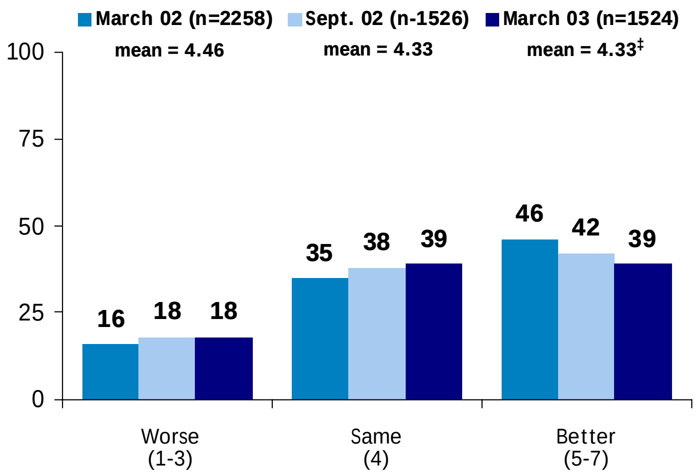
At the second tracking point in March 2003, the higher rating is maintained with 51 per cent rating the overall health of the economy as being good, compared with just 19 per cent who rate it as poor, the same number as in September.

As in previous surveys, there are some fairly predictable regional and demographic differences in the rating.

- Those from Ontario, males, the youngest cohort (under 25 years), higher income groups and university educated individuals are all more likely to rate the economy as good.
- Conversely, British Columbians, women, pre-retirement boomers (45 to 64 years) and lower income families are all less likely to provide a good rating.

## ***Taking a longer view, expectations about the overall health of the Canadian economy are not quite as rosy as they were a year ago***

**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}

**Figure 3.2**

At the time of the benchmark study, just under half thought that the general trend in the health of the economy over the next five to ten years would be improving — almost three times as many as thought the trend would be down.

Since then the mood has darkened a little. Now just twice as many people think it will be better as expect it to be worse. On balance, this is still a strong level of economic optimism, but not quite as strong as a year ago.

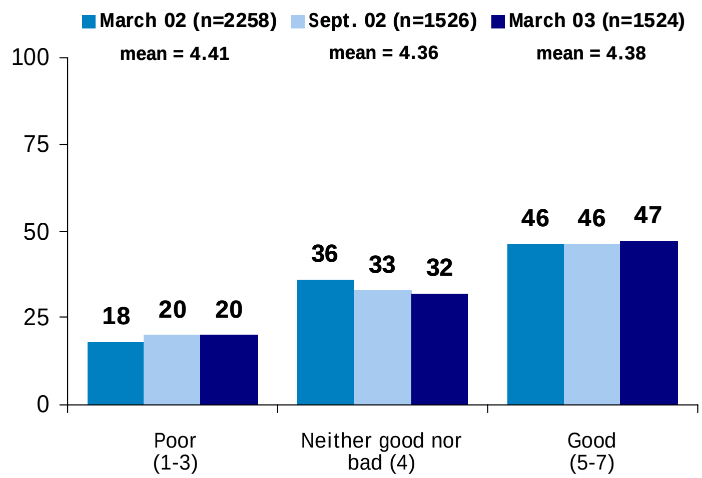
❖ The pattern of response is similar to that recorded for the rating of the current overall health of the economy, with the same regional and demographic groups being above and below average in their ratings.

One notable difference is the significantly lower expectation about the future health of the economy in the Prairie Provinces. In contrast, residents in BC give the current economy its lowest rating, but they are no worse than the rest of the country in their longer view.

## State of Personal Finances

### *More than twice as many say their own personal finances are good as say they are bad – and this has not changed in the past year*

**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}

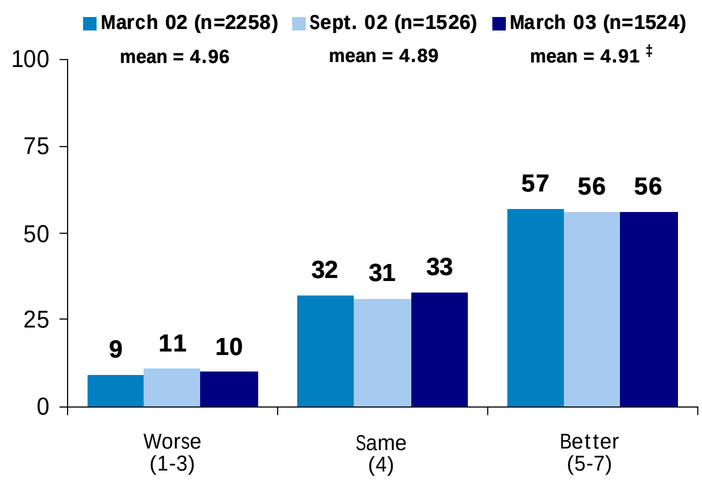
**Figure 3.3**

Nearly half rate their own personal finances as being somewhere to the right side of the scale, compared with just 20 per cent who say their finances fall on the wrong side.

- There are no significant changes between any of the three tracking points on this question. This is an exceptionally steady finding that reinforces the conclusion that economic circumstances in Canada have been very stable in the past year.
- As might be expected, the demographic variable that has the greatest influence on the rating is income. Rating of the state of personal finances increases steadily from the lowest income group to the highest — 80 per cent of those with income over $150,000 rate their personal finances as good, compared with just 27 per cent of those with incomes below $20,000 who say the same.
- Ratings are also significantly higher in Ontario than in any other region surveyed.

***The great majority expect their personal finances to be the same or better over the next five to ten years***

**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}

**Figure 3.4**

When asked to rate the general trend they expect in their own personal finances over the next five to ten years, over half expect it to be better, and a third expect it to remain the same. Only 1 in 10 expects the trend in their personal finances to be worse over that time frame.

- There has been a slight firming up in expectations since September, as revealed in the mean scores.
- Regionally, Ontarians have the highest expectations, and British Columbians the lowest.
- As might be expected, expectations are closely related to age, with the youngest age groups rating their future finances the highest, and retired people rating them lowest.

# 4.0 Pensions and Financial Investments

A majority have investments and many are members of private pension plans. This chapter looks at the dimensions of personal finances and pension arrangements (as well as confidence in private pension plans) to provide some context to the findings presented later in the report.

The indicators included in this chapter are:

- Incidence of Investment Ownership
- Investment Amounts
- Incidence and Type of Private Pensions
- Confidence in Private Pensions
- Pension Funds and Future Stock Market Investments

## *Pensions and Financial Investments*

## *— Key Findings*

Levels of investment in private or personal pension plans have remained steady over the past year despite market volatility. However, confidence is beginning to erode in the ability of these plans to give expected returns. While that has not lead to a decline in the confidence in equity investments, this could be a potential issue for the CPP Investment Board in the future if this trend continues.

- There is a slight but increasing trend in the number who currently hold investments, the vast majority of whom hold smaller (under $100,000) investment portfolios.
- Investing is closely related to higher confidence scores in the Confidence Index.
- Just over half have private pension plans through their employers, most of which are defined benefit plans.
- Age is a key factor in the type of pension plan held, with those under 45 far more likely to have defined contribution plans, and those over 45 more likely to have defined benefit plans.
- Confidence in the ability of these private plans to pay benefits is declining.
- Despite market volatility over the past year, and lower confidence in pension plans, investors are not rejecting equity investments for their plans, largely preferring levels of stock market investment to stay the same.

In the past, members of pension plans had no reason to be deeply involved in investment decisions as employers guaranteed the benefit. Younger employees are now more directly involved in pension management through their defined contribution plans, and their interest in and knowledge of pension management can be expected to improve.

## Incidence of Investment Ownership

***The number of investors is up slightly from last year***

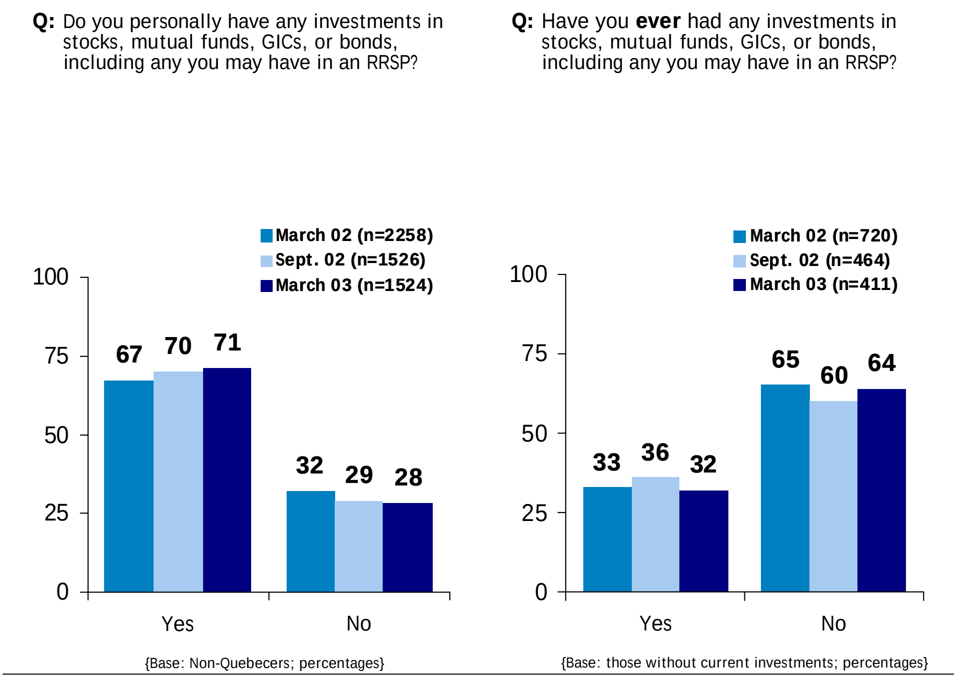


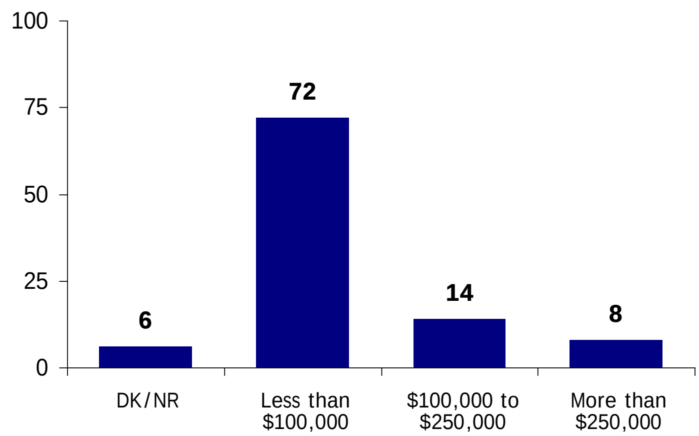

**Figure 4.1**

The study probed about investments in stocks, mutual funds, GICs, or bonds, including any they may have in their RRSP. With over 7 in 10 reporting such investments in the most recent survey, there has been a slight increase in the incidence of investors since this time last year.

- ❖ As with the findings on economic optimism shown in the previous chapter, investors are more likely to be older, university educated, and higher income.
- ❖ Importantly, investors demonstrate a much higher level of confidence than do non-investors. As shown in the second chapter, those with investments have a much higher average score on the Confidence Index than do non-investors (+31 vs. –20).

## *Most Canadian investors have a moderate level of investments*

**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 $2500,000? [For those who say greater than $250,000:] Is this sum greater than or less than $500,000?




{Base: those with investments; percentages, March 03, n=1256}

**Figure 4.2**

Almost three quarters (72 per cent) of investors report less than $100,000 in investments, while less than 10 per cent report over $250,000.

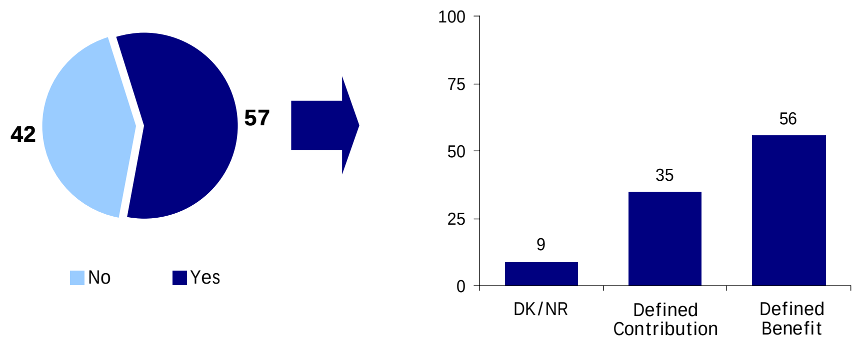
- There has been a slight increase in those reporting investments of less than $100,000 from the benchmark survey in March 2002 (69 per cent).
- As with the likelihood of holding investments, larger investors are more likely to be older, of higher income, male, and university educated.
- Confidence is also tied to the level of investments, as those with greater investments score significantly higher on the Confidence Index.

## Incidence and Types of Private Pensions

***A small majority report having a company pension plan, more than half of which are defined benefit***

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

**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: employed full-time; percentages, March 03, n=614}

{Base: those with private pensions; percentages, March 03, n=362}

**Figure 4.3**

Those employed full-time were asked if they are currently members of a private pension plan through their employer. Just over half report having an employment based pension plan (identical to the September finding).

The type of pension plan has also remained virtually the same from the previous survey with 56 per cent indicating that they are part of a defined benefit plan and 35 per cent indicating they are part of a defined contribution plan (in September the numbers were 55 and 32 per cent, respectively).

Age is a key factor in the incidence of pension plans.

- ❖ Excluding seniors, there is an increasing incidence of pension plans with age — from a low of 34 per cent in the youngest cohort, to 53 per cent in the 25 to 44 age group, and 71 per cent in the boomer cohort.
- ❖ The type of plan also varies by age — two thirds (67 per cent) of the pre-retirement boomer cohort have a defined benefit plan compared with less than one half (47 per cent) of those in the 25 to 44 segment. Conversely, 25 to 44 year olds are much more likely to have defined contribution plans compared with those in the 45 to 64 group (43 versus 26 per cent, respectively)

### *Confidence in private pensions has declined since September*

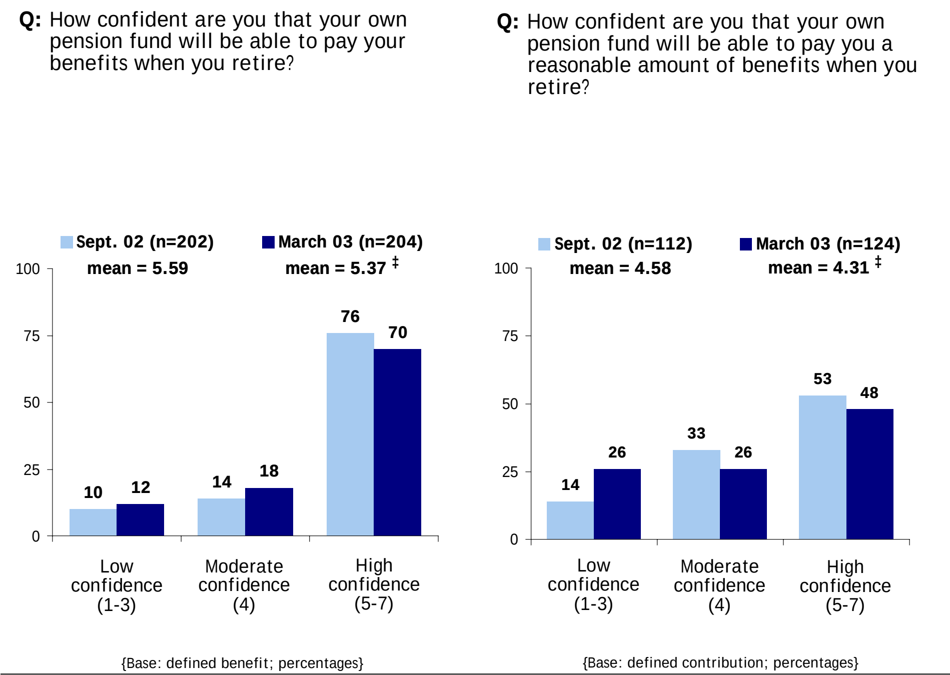



**Figure 4.4**

Those with defined benefits were asked how confident they are that their pension funds will be able to pay their benefits when they retire. Those with defined contributions were asked how confident they are that their pension fund will be able to pay a reasonable amount of benefits when they retire. In both instances, the level of confidence in private pension plans had decreased since September.

❖ The lowered confidence is more pronounced with defined contribution plans

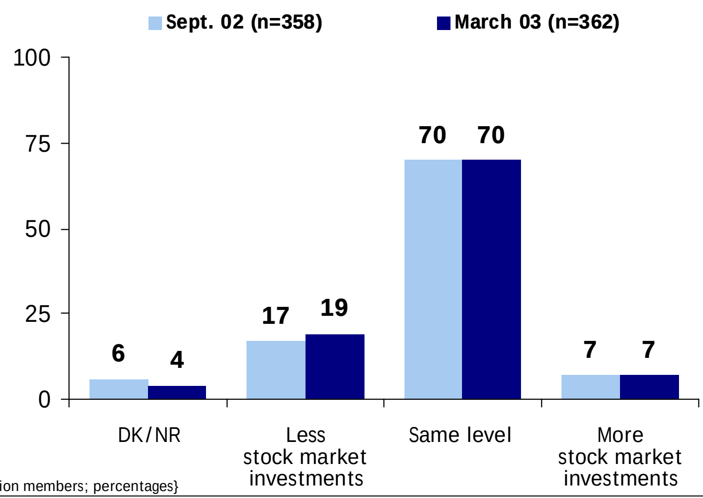
» For defined benefit plans, there has been a 6 percentage point drop in the number indicating high confidence compared to only 5 percentage points for those with defined contribution plans

» However, the key difference is in the large increase in the number of those with defined contribution plans indicating low confidence — a 12 percentage point increase compared to just 2 percentage points for those with defined benefit plans

Interestingly, there is at most a weak correlation between confidence in private pension plans and scores on the Confidence Index. Low confidence in a private pension plan does not necessarily translate into low confidence in the mandate and activities of the CPP Investment Board.

## *Despite lower confidence in pension funds, contributors are not reacting against equity 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: private pension members; percentages}

**Figure 4.5**

Pension fund holders were asked if they would prefer increased, reduced or similar levels of stock market investments for their pension funds. These findings remain virtually unchanged since September with a lean towards less equity investments but the vast majority opt for the same level.

It is important to consider these findings in light of the overall reduction of confidence in private pension plans. Although confidence is reduced (likely due to the downturn in equity markets seen over the past year and a half), private pension holders are not reacting against markets. If they were doing so, one could expect to see a significant increase in the number indicating a preference for less stock market investments.

# 5.0 War and Corporate Scandals

War has now been added to corporate scandals as a factor affecting confidence in stock markets. This chapter reviews the impact of both.

Indicators included in this chapter are:

- War and Performance of Stock Markets
- War and Confidence in Stock Markets
- Awareness of Corporate Scandals
- Extent of Problem
- Corporate Scandals and Confidence in Stock Markets
- Confidence in Recovery from Corporate Scandals

## *War and Corporate Scandals*

### *— Key Findings*

While economic optimism and investment characteristics set the long term context as outlined in Chapters 3 and 4, political and current market issues have a short term impact on perceptions of investments. This chapter investigated the specific impacts of the potential war with Iraq[2], and the continuing impact of corporate scandals on confidence.

- More than three quarters agree that the threatened war with Iraq was really hurting the performance of stock markets. This data was collected before the attack on Iraq began.
- Similarly, almost three quarters indicated that the threat of war with Iraq had reduced their confidence in stock market performance to some extent.
- Awareness of corporate scandals remains high despite the passing of time, and concerns resulting from these scandals, while diminishing, remain strong.
- Fewer now believe that the markets will recover from these scandals, although more than 6 in 10 still believe they will.
- There is a strong correlation between Confidence Index scores and these current market and political events. The correlation tends to be intuitive except around the impact of the looming war on Iraq, in which case the higher Index scores related to a strong belief that this crisis was having a negative impact on markets.

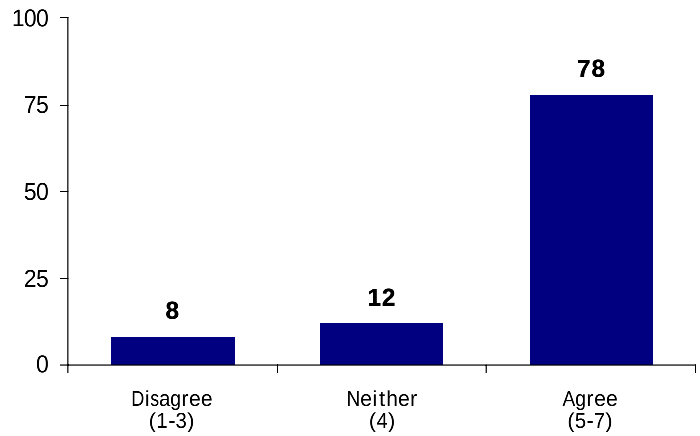
Clearly, as the war in Iraq drags on there is the potential for a continued erosion of confidence in markets. This, in combination with the lingering impact of past corporate scandals, creates a potentially volatile investment climate and one which the CPP Investment Board will have to closely monitor, not as it relates to its own long term investment strategies, but as it relates to public support for its program.

[2] At the time of data collection.

## War and Performance of Stock Markets

### *More than three quarters agree that the threat of war with Iraq was really hurting the performance of stock markets*

**Q:** The ongoing threat of war with Iraq is really hurting the performance of stock markets.




{Base: Non-Quebecers; percentages, March 03, n=1524}

**Figure 5.1**

Data collection for the March survey was completed before the war with Iraq began. Exercising some foresight, the study wanted to get a sense of whether or not the threat of war would have any impact on confidence. Indeed, more than three quarters overall (78 per cent) agreed that the threat of war was "really hurting the performance of stock markets."

There are few differences across demographic subgroups on this finding.

- Investors are more likely to agree than non-investors (81 versus 71 per cent, respectively).
- Along age lines, those in the youngest cohort are the least likely to agree (70 per cent), while boomers are most likely (81 per cent).

Interestingly, those with stronger levels of confidence are more likely to agree with the idea that the threat of war was hurting market performance.

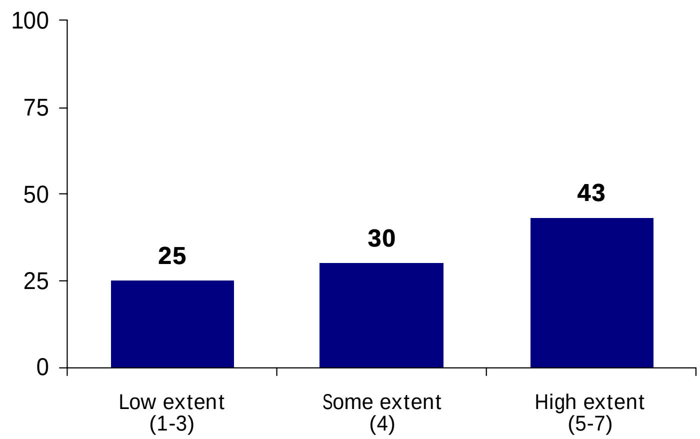
Table 5.1: Threat of War and Index Segments

(percentages; Non-Quebecers)

| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Disagree | 15* | 8 | 7* | 7 |
| Neither | 13 | 13 | 12 | 11 |
| Agree | 70* | 75* | 81* | 83* |

## *Almost three quarters say that the threat of war with Iraq had reduced their confidence in stock markets to at least some extent*

**Q:** To what extent has the threat of war with Iraq reduced your confidence in stock markets?




{Base: Non-Quebecers; March 03, n=1524}

**Figure 5.2**

The study also probed perceptions that the threat of war was having on reducing confidence in stock markets. Almost three quarters indicated that the threat of war had reduced their confidence to at least some extent, with over 4 in 10 indicating to a high extent.

These finding are remarkably consistent across demographic segments.

- The only notable exceptions are that men are more likely to indicate a low impact compared to women (32 versus 19 per cent, respectively), and university educated individuals (31 per cent).

While those with stronger Index scores were more likely to feel the threat of war was having a negative impact on markets, they are less likely than those with lower Index scores to have it reduce their confidence in markets.

Table 5.2: Threat of War on Market Confidence and Index Segments

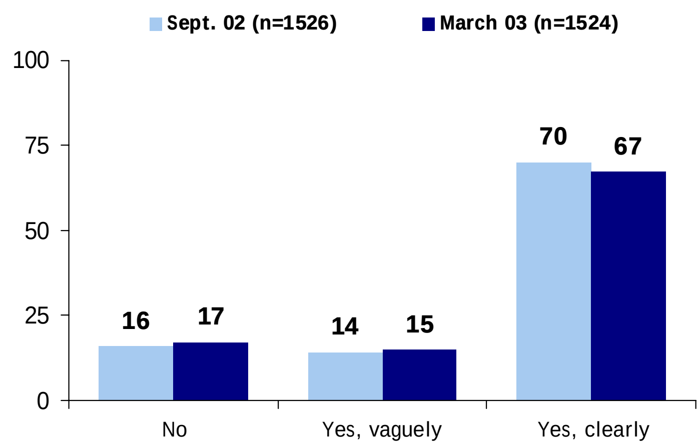
(percentages; Non-Quebecers)

| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Low extent (1-3) | 24 | 20* | 26 | 36* |
| Some extent (4) | 29 | 30 | 29 | 32 |
| High extent (5-7) | 43 | 45 | 45 | 32* |

This also points to a key feature of the stronger confidence in the mandate and activities of the CPP Investment Board — a higher tolerance for market turbulence.

## *Awareness of corporate scandals remains high*

**Q:** Over the past year, 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}

**Figure 5.3**

More than 8 in 10 say that they recall hearing about the corporate scandals of 2002, with fully two-thirds reporting that they clearly recall. Only 17 per cent indicate that they have not heard of the corporate scandals. Awareness remains high since September.

- There are modest regional differences with BC showing the highest awareness and those in the prairie provinces the lowest.
- Demographically, awareness follows the same trends seen with investments — higher levels of awareness can be found among those with higher incomes, greater educational attainment, men, investors, and boomers.

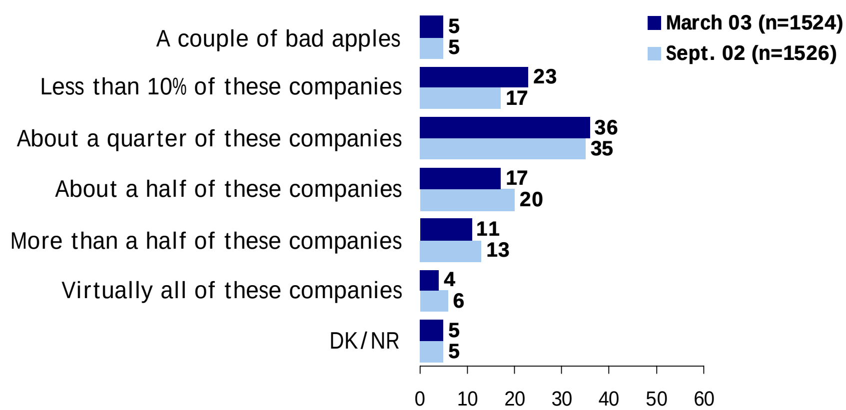
Following the close association between confidence and knowledge of investment markets, awareness of the corporate scandals is much higher with the strong confidence segment.

Table 5.3: Awareness of Scandals and Index Segments
(percentages; Non-Quebecers)

| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Yes, clearly | 64 | 59* | 69 | 81* |
| Yes, vaguely | 14 | 19* | 16 | 10* |
| No | 22* | 22* | 15 | 8* |

## *Fewer feel the problem is as widespread as in September, although many still have strong concerns*

**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? Would you say ...




{Base: Non-Quebecers; percentages}

**Figure 5.4**

As in September, the study gauged perceptions of the extent of the problem underlying the corporate scandals. Almost one third (32 per cent) feel that one half or more of publicly traded companies inflate their stated earnings — down from 39 per cent in September. Despite this drop, there remains a widely held view that the problem is fairly widespread (68 per cent feel in involves at least a quarter of companies).

Those who score more highly on the Confidence Index are much more likely to see this as an isolated problem. Conversely, those with the weakest Index scores are far more likely than any other segments to see the problem as widespread (fully one half indicate that the problem involves one half or more of companies).

### Table 5.4: Awareness of Scandals and Index Segments

(percentages; Non-Quebecers)

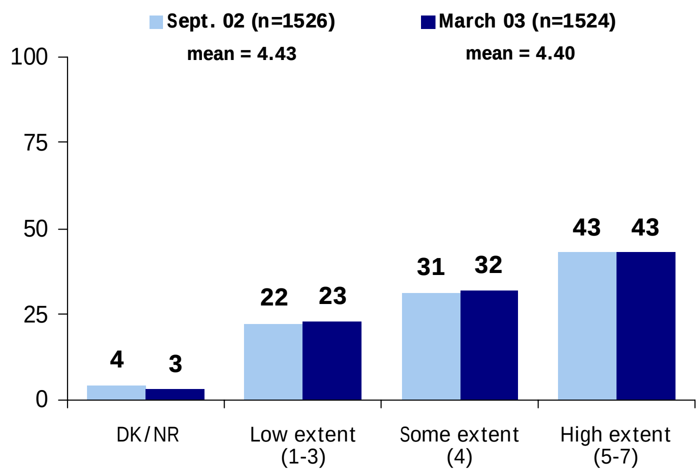
| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Couple of bad apples | 4 | 3* | 6 | 9* |
| Less than 10% | 9* | 16* | 25 | 39* |
| A quarter | 32 | 37 | 39* | 32* |
| Half | 24* | 19 | 15 | 12* |
| More than half | 18* | 13* | 8* | 5* |
| Virtually all companies | 8* | 3 | 3 | 2* |

These findings reveal a certain level of cynicism among those with weak confidence levels and significantly higher levels of trust among those in the strong confidence group.

## Corporate Scandals and Confidence in Stock Markets

***There has been virtually no change in the extent to which people feel corporate scandals have reduced their confidence in 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; percentages}

**Figure 5.5**

When asked about the extent to which the corporate scandals have reduced their confidence in stock markets, three quarters indicate that it has done so to at least some extent. These numbers remain virtually unchanged since September.

Interestingly, this finding is almost identical to those seen earlier in this chapter with respect to the impact of the threat of war on confidence. Similarly, responses to this question are more or less consistent across demographic subgroups. The few notable exceptions include:

- University educated individuals and the boomer cohort are slightly more likely to indicate a larger negative impact on confidence

Again, there is a large difference between weak and strong Index segments. Those in the weak confidence segment are almost twice as likely as those in the strong segment to say that corporate scandals have reduced their confidence in markets to a high extent.

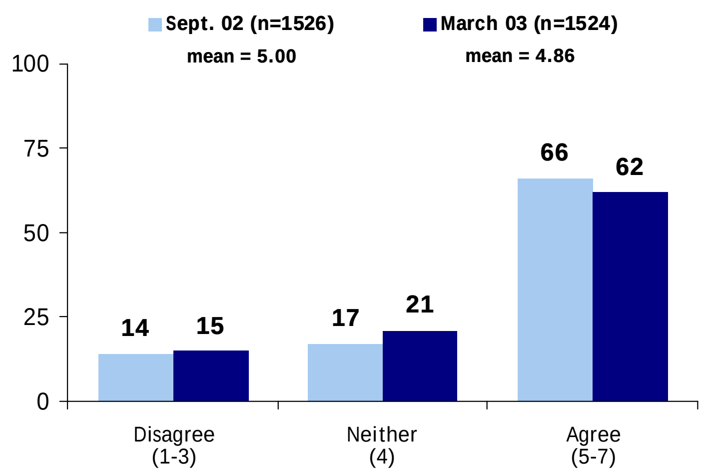
Table 5.6: Scandals, Confidence in Markets and Index Segments

(percentages; Non-Quebecers)

| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Low extent (1-3) | 15* | 17* | 25 | 35* |
| Some extent (4) | 22* | 35* | 33 | 33 |
| High extent (5-7) | 61* | 42 | 41 | 31* |
| DK/NR | | | | |

## *Agreement that markets will recover from the crisis has declined slightly*

**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}

**Figure 5.6**

Reflecting the fact that markets have not recovered from the recent downturn, fewer than in September agree with the idea that stock markets will be fine over the long run. Unless markets begin a recovery in the near future, this number will be likely to drop further and have a negative effect on overall confidence.

- Age is an important factor, as the youngest and oldest age groups are significantly less likely to agree (53 and 55 per cent, respectively)
- Those with a university education, higher income and investments are much more likely to agree that markets will recover

Not surprisingly, there is a strong correlation between confidence in the ability of markets to recover from the scandals and Index scores.

Table 5.7: Confidence in Recovery and Index Segments

(percentages; Non-Quebecers)

| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Disagree (1-3) | 34* | 21* | 7* | 3* |
| Neither (4) | 29* | 25* | 20 | 9* |
| Agree (5-7) | 33* | 51* | 72* | 88* |

Given the importance of market confidence in Index scores generally, it is not surprising to find that confidence in market recovery increases significantly with Index segments.

# 6.0 Investment Markets

There is a wide range of views on stock market investing. Some see the market as akin to a casino, others are quite comfortable with managing the risks. This chapter presents a number of indicators dealing with a wide array of factors relating to investment markets. These provide a crucial ground upon which to understand attitudes towards the CPP Investment Board — confidence in its mandate and activities are critically effected by attitudes towards investment markets.

Indicators included in this chapter are:

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

## *Investment Markets*

## *— Key Findings*

This chapter investigates the context of the CPP Investment Board's activities in investment markets. There is ambiguity around the role that markets should play in CPP investments, although in general the lean is positive. This positive attitude is however tempered by a great deal of caution — even some skittishness — around risk, and the belief that markets, in the end, are an investment gamble.

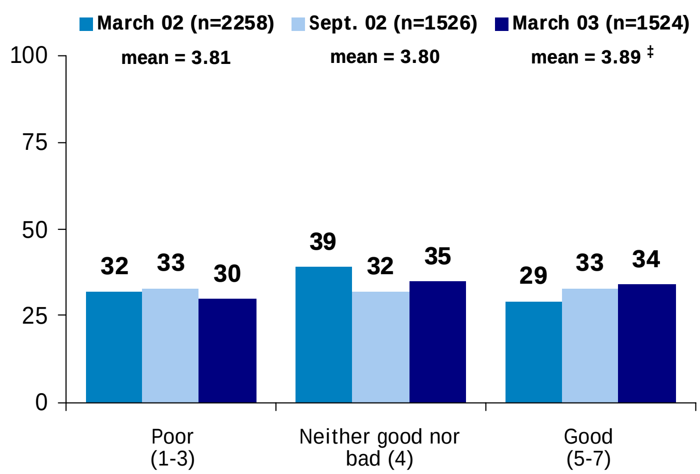
- ❖ There has been a slight positive increase in self-rated investment knowledge, although almost half continue to feel that "things about investments" are confusing.
- ❖ While slightly more than half continue to believe the long-term trend of the stock market will be up, there has been a slight softening of this view.
- ❖ When asked about investing one's own savings, the balance of opinion towards the potential for markets to achieve long term gains remains negative, although there has been a bounce back from the downward trend noted last September.
- ❖ The belief that stock market success is a matter of luck remains high.
- ❖ The confidence in investment professionals to obtain high returns has also bounced back since September.
- ❖ Attitudes towards risk have shown a steady but slight worsening trend through the course of the three surveys.
- ❖ Attitudes towards foreign markets continue to worsen.
- ❖ There is a strong belief that real estate provides the highest *return* on investment, followed by Canadian stocks.
- ❖ Stocks, foreign and Canadian, continue to be seen as the highest *risk*, real estate and government bonds as the lowest.
- ❖ There continues to be an overwhelming belief that diversification is the best way to protect against risk.
- ❖ More than half continue to believe that those who take advantage of weak markets stand a good chance to make money.
- ❖ There are strong correlations between most of the indicators in this chapter and the Confidence Index.

In sum, most recognize the benefits that are to be gained through reasonable risk, diversification and the markets, but are cautious when applying that risk to their own situation. Navigating these temperamental waters is and will continue to be one of the CPP Investment Board's challenges.

## Knowledge of Investment Finances

***There is a slight increase in how the public rate their knowledge of investment finances***

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




{Base: Non-Quebecers; percentages}

**Figure 6.1**

In the past year, there has been a slight positive increase (5 percentage points) in the self-rating of investment knowledge

- ❖ While the trend is upward, it is important to note that people are almost as likely to rate their knowledge as poor.
- ❖ Reflecting the demographic profile of investors outlined above, men, individuals who are older, university educated, and higher income are more likely to rate their knowledge of investments as good.

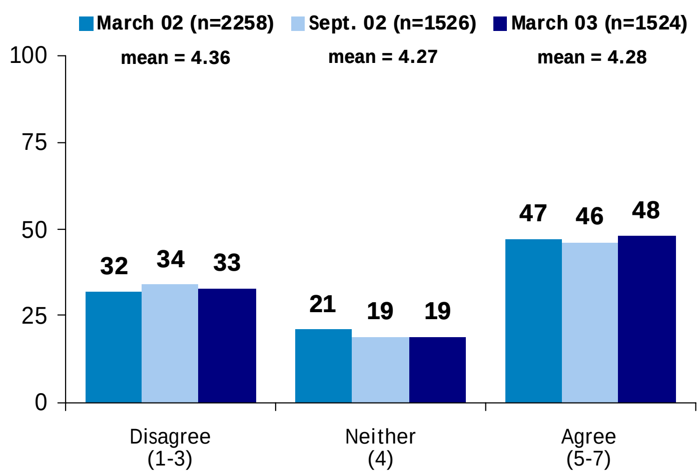
There are notable differences across Index segments with respect to knowledge of investment finances. The strong Index segment is far more likely to rate their knowledge as good. Also worth noting is the low Index segment. This group shows a distinct lack of confidence with respect to understanding financial investments, even more so than the weak segment. Confidence in the mandate and activities of the CPP Investment Board improves with knowledge of investment finances.

Table 6.1: Knowledge of Investment Finances and Index Segments
(percentages; Non-Quebecers)

| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Poor | 31 | 41* | 30 | 14* |
| Neither | 41* | 35 | 34 | 32 |
| Good | 28* | 24* | 36 | 54* |

## *Almost half continue to feel that things about financial investing are confusing*

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




{Base: Non-Quebecers; percentages}

**Figure 6.2**

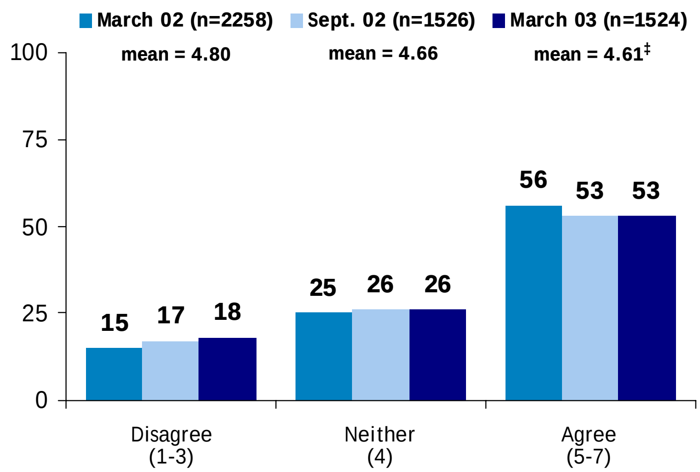
Despite the slight increase in self-rated investment knowledge, the number who find "things about financial investments confusing" remains steady at just under one half.

- While investors are far more likely to disagree with this statement (37 per cent) than non-investors (22 per cent), a plurality of investors (44 per cent) feel confused by financial investments.
- The greater the level of investments, the less likely the investor is to agree. While 49 per cent of those with investments under $100,000 indicate confusion, this number drops to just 29 per cent for investors with more than $250,000 in investments.
- Income is also an important factor, as there is a progressively increasing level of disagreement with the statement with higher incomes.

## Comfort with Market Volatility

***While more than half continue to be comforted by the long-term promise of markets, there is a slight increase in the number troubled by market volatility since last year***

**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}

**Figure 6.3**

Confidence in long-term returns on stock market investments remains relatively strong, with over half agreeing that they produce good returns in the long run. However, the slight dip in this confidence first discovered in September 2002 has continued.

❖ This trend can most clearly be seen in the slight but steady increase in the disagrees for this question.

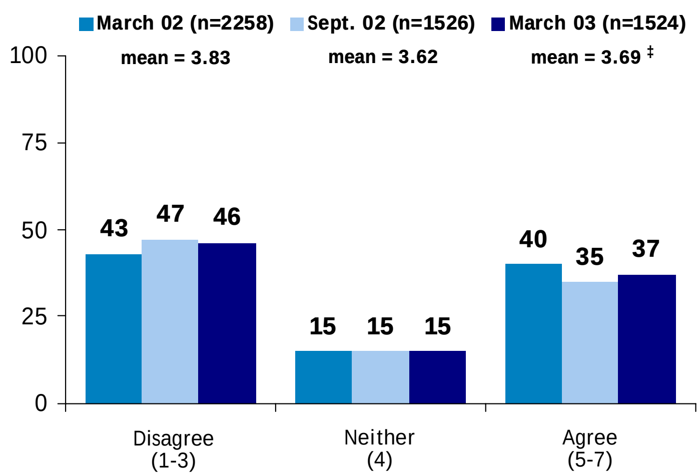
Although not an Index variable, there is a strong correlation between the level of comfort with market volatility and the Index segments — the higher the confidence, the greater the tolerance for market volatility.

Table 6.2: Comfort with Market Volatility and Index Segments
(percentages; Non-Quebecers)

| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Disagree | 35* | 22* | 13* | 7* |
| Neither | 30* | 31* | 28 | 12* |
| Agree | 29* | 41* | 58* | 80* |

## *Attitudes towards long-term market earnings has firmed up since September, but remain down since last March*

**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}

**Figure 6.4**

Overall, the balance of opinion towards long-term earnings on stock markets remains negative with more disagreeing with the statement than agreeing.

As with most indicators relating to equity investments, there is a strong correlation between views on the long-term earnings of markets and index scores. The strong confidence segment is more than four times as likely as the weak group to agree that the best return on long-term investments are to be found on the stock market.

### Table 6.3: Long Term Market Earnings and Index Segments

(percentages; Non-Quebecers)

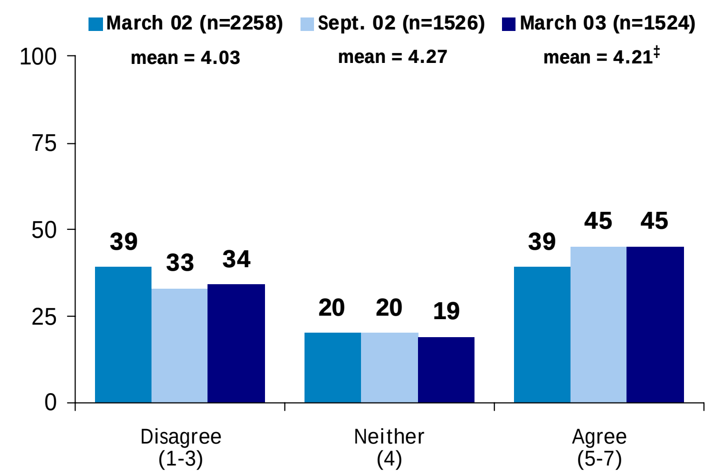
| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Disagree | 74* | 54* | 37* | 26* |
| Neither | 12 | 17 | 17 | 13 |
| Agree | 14* | 27* | 45* | 59* |

Confidence in the long-term strength of equity markets is closely tied to confidence in the mandate and activities of the CPP Investment Board.

## Stock Market Earnings and Luck

***The belief that stock market success is a matter of luck remains high, but has improved slightly since September***

**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}

**Figure 6.5**

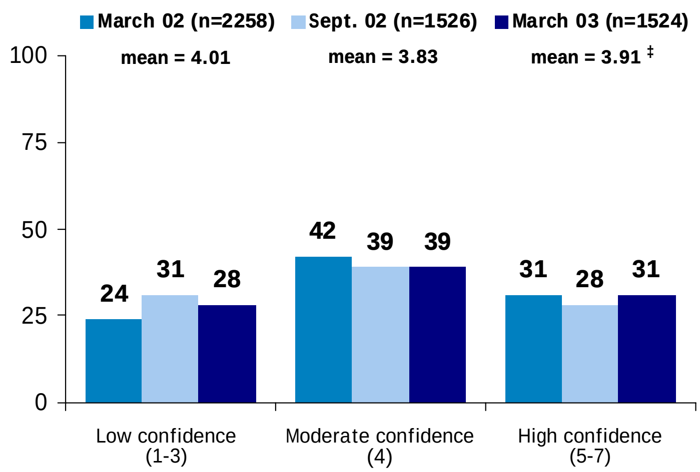
Almost half (45 per cent) continue to hold the belief that success on the stock market is a matter of luck.

- Unchanged since September is the negative shift on this indicator. While there was an even split between agree and disagree in March 2002, the balance of opinion is now 11 percentage points in the negative with 45 per cent agreeing and only 34 per cent disagreeing.
- This negative balance of opinion holds across most demographic subgroups, with the exception of those with incomes of $100,000 or greater, upwards of $250,000 in investment assets, and university educated individuals — all of which have more disagreeing with the notion than agreeing.

There is a correlation between these attitudes and Index scores, but it is not as pronounced as with other equity-related indicators.

## *Confidence in the ability of investment professionals remains down, although 7 in 10 are at least moderately confident*

**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}

**Figure 6.6**

Confidence in the ability of investment professionals has firmed up somewhat since September. The drop in confidence revealed in September remains down from March 2002 but has rebounded slightly.

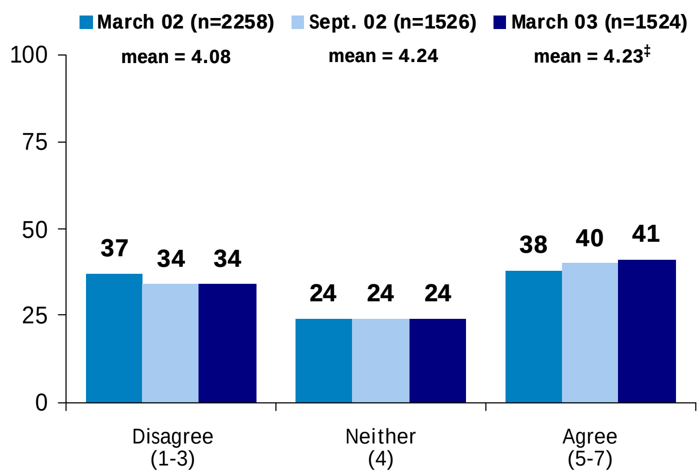
❖ Confidence varies across some demographic subgroups — investors and university educated individuals display higher levels of confidence than others.

As a Confidence Index variable, there is a predictably strong correlation between confidence in investment professionals and Index segments.

## Investment Risks

### *More agree than disagree that taking investment risks is a bad idea*

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




{Base: Non-Quebecers; percentages}

**Figure 6.7**

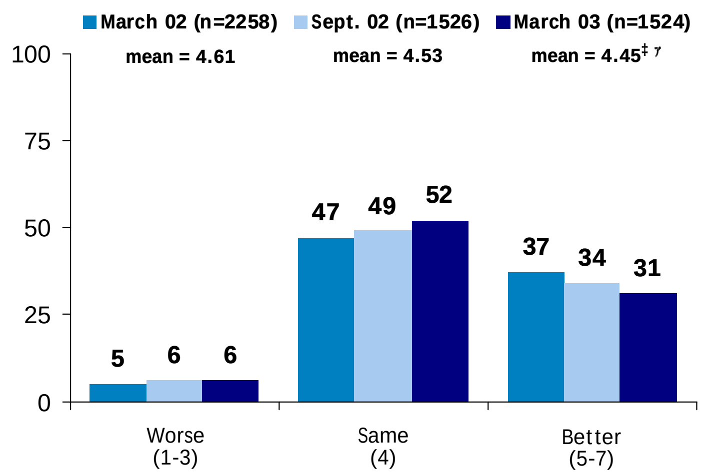
A slightly negative trend continues to emerge with respect to investment risks. While not noticeably worse since September, attitudes remain more negative than at the same time last year.

- Investors continue to be slightly negative towards risk, with 39 per cent agreeing versus 37 per cent disagreeing (in September 39 per cent agreed as opposed to 35 who disagreed).
- Only the age group from 25 to 44 has an evenly split opinion (40 per cent agree, 40 per cent disagree) on the question of risk. The rest hold negative views to varying degrees.

As a Confidence Index variable, there is a predictably strong correlation between concerns about investment risks and Index segments.

## *Attitudes towards foreign markets continue to worsen*

**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}

**Figure 6.8**

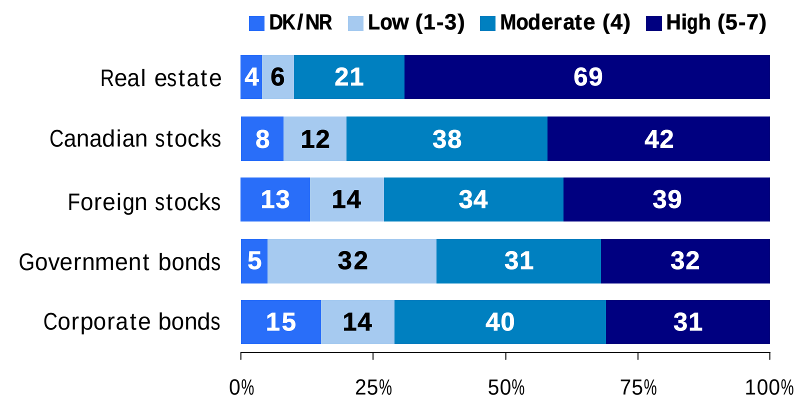
Attitudes towards major foreign markets continue to sour. There has been a noticeable drop in the number who feel that foreign markets like New York and London perform better than Canadian stock markets. The drop seen in September has continued and is now six percentage points lower than the same time last year.

- There are few differences across demographic subgroups on this issue, although there is a progressively worsening attitude towards foreign markets with age, and men are more likely than women to feel that foreign markets perform better.

## Comparing Rate of Return

***There is an increased belief that real estate is the best place for high returns on investment, and estimations of high returns on Canadian stocks have also increased***

**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 03, n=765}

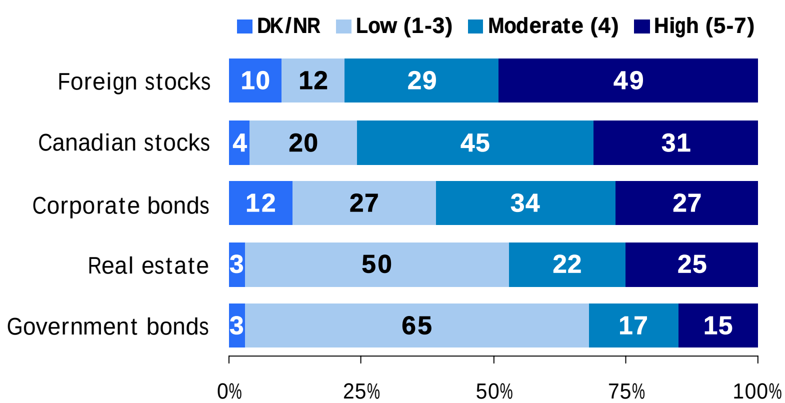
**Figure 6.9**

Increasing numbers continue to believe that real estate provides investors with the highest rate of return.

- In March 2002 56 per cent indicated this view, in September 2002, this increased to 63 per cent, and in March 2003 this number had risen to 69 per cent — an increase of 13 percentage points over a calendar year.
- The mean scores on this question bare out this trend with statistically significant changes in perceptions of real estate (4.85 in March 2002, to 5.07 in September, to 5.19 in March 2003)
- A significant bounce back for Canadian stocks from a low of 4.25 in September to 4.44 in March 2003, surpassing the March 2002 scores which were 4.42.
- While expected rates of return for foreign stocks have not reached the March 2002 levels of 43 per cent, expectations rose 3 percentage points to 39 per cent from September 2002, where 36 per cent expected high returns.
- Canadian expectations of high returns also continued to increase for government bonds from 24 per cent in March 2002, to 29 per cent in September 2002, to 32 per cent in March 2003.
- While this is the first survey to measure expectations for corporate bonds, expectations of high return are significant here as well with 31 per cent expecting high returns, and 40 per cent expecting moderate returns.

## *Foreign stocks are again seen as the highest risk, and real estate is increasingly seen as low risk*

**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 03, n=759}

**Figure 6.10**

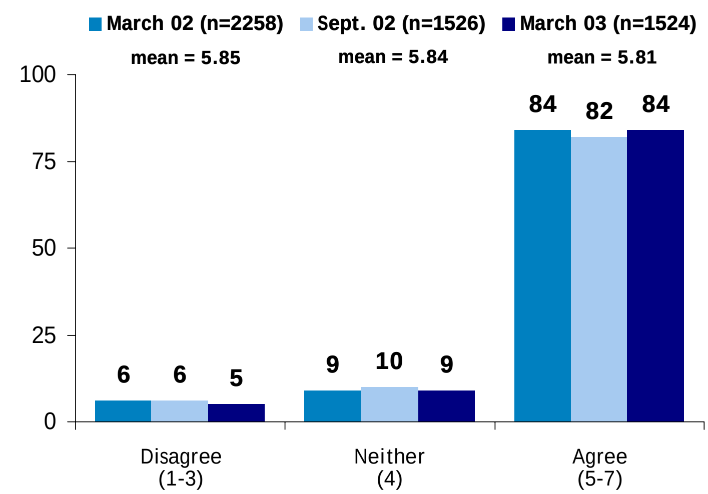
The March 2003 survey indicates that foreign stocks continue to be perceived as the greatest investment risk (49 per cent high risk), while government bonds are seen as the smallest risk (61 per cent low risk).

- The mean scores for this indicator indicate that, over the calendar year, there has been a statistically significant increase in the perception of risks of foreign stocks (4.63 in March 2002 to 4.72 in March 2003) and a significant positive shift in the perception of risk in real estate (3.79 in March 2002 to 3.48 in March 2003).
- Corporate bonds, a new indicator for this study, are perceived as being of medium risk with 27 per cent indicating high risk, 27 per cent indicating low risk and 34 percent indicating moderate risk.  There was also a high number of non-response for this question, likely a result of the public's relative lack of knowledge of this type of investment.

## The Principle of Diversification

### *There has been virtually no change in the overwhelming agreement with the notion 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}

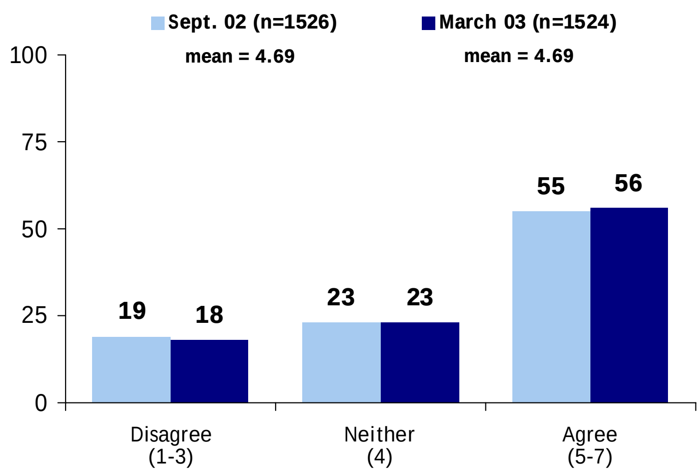
**Figure 6.11**

In almost identical results to the previous two surveys, an overwhelming number continue to feel that diversification is a good idea.

❖ This view is held almost universally across demographic subgroups.

## ***Agreement with the idea of taking advantage of weak markets for long-term gain is unchanged from September***

**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}

**Figure 6.12**

Slightly more than half continue to agree that someone investing "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."

❖ The difference between investors and non-investors is very strong on this question, with 63 per cent of investors agreeing, as opposed to only 38 per cent of non-investors.

There is also a dramatic shift in opinion on this issue across Index segments. While those in the weak segment are evenly split on the issue, the balance of opinion in the strong confidence segment is strongly in favour of the idea of taking advantage of weak markets.

Table 6.4: Taking Advantage of Weak Markets and Index Segments
(percentages; Non-Quebecers)

| | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|
| | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Disagree | 34* | 22* | 10* | 9* |
| Neither | 28* | 27* | 23 | 13* |
| Agree | 34* | 44* | 66* | 77* |
| DK/NR | 4 | 7* | 1* | 1* |

# 7.0 Infrastructure

The previous two surveys have probed attitudes toward various investment vehicles in terms of both risk and return. The most recent survey explores attitudes towards an expanded selection of investment vehicles. For the first time, the study introduces the prospect of pension fund investment in infrastructure and takes a preliminary reading of how it relates to CPP asset investments.

Indicators included in this chapter are:

- Need for Partnership Investments in Infrastructure
- Acceptability of Pension Fund Infrastructure Investments
- Acceptability of Private Infrastructure Investments
- Appropriateness of CPP Asset Investments

## *Infrastructure*

### *— Key Findings*

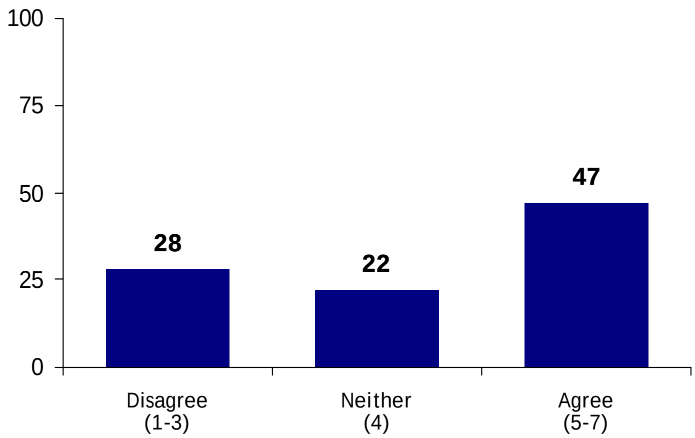
Given the strong belief in diversification, this chapter probes for the first time other possible avenues for CPP asset investment. While the details of the implementation of pension funding of public infrastructure projects have not been probed, it is clear that there is a conceptual acceptance by a significant number of this type of investment.

- ❖ Almost half believe that governments need to find investment partners for infrastructure projects, although there are regional differences.
- ❖ More than half agree with *private companies* investing in public infrastructure projects such as schools, hospitals and roads and bridges.
- ❖ More support than oppose pension plan investment in public infrastructure projects, although support for roads and bridges is modest.
- ❖ Government bonds, water, schools and hospitals top the list of appropriate investments for CPP assets. In this context, stocks in public companies rate much lower.
- ❖ There are strong differences in opinion on the appropriateness of CPP asset investments according to levels of confidence in the mandate and activities of the CPP Investment Board as measured by the Confidence Index.

In general the mood is positive towards this type of investment. Note, however, that this research left for a future occasion any probing of attitudes toward privatization or methods of repayment of investors. With this initial reading we hypothesize that infrastructure investment is generally viewed as a good thing — closer to government bonds than to stock market investments.

***Just under half agree that governments need to develop partnerships to fund large-scale infrastructure projects***

**Q:** Governments can no longer afford to fund large-scale infrastructure projects all by themselves and need to develop partnerships with investors.




{Base: Non-Quebecers; percentages, March 03, n=1524}

**Figure 7.1**

A new series of questions was introduced into the March 2003 survey to start assessing the public's reaction to potential new areas of investment activity for the CPP Investment Board.

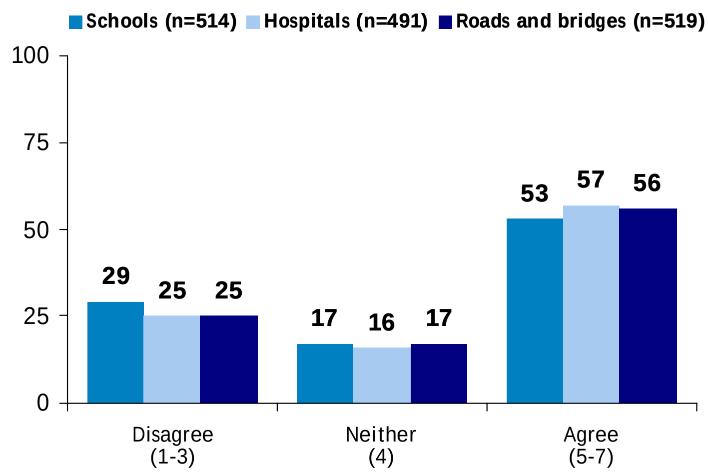
As a general concept, just under half agrees with the proposition that governments can no longer afford to fund large-scale infrastructure projects all by themselves and need to develop partnerships with investors. Slightly more than a quarter disagrees with the idea, and the balance is neutral.

- There are some quite strong regional differences in the response to this indicator. Those most likely to agree that governments need partners are in the Prairies (Manitoba and Saskatchewan) where 55% agree, and those least likely to agree are in Ontario.
- Younger people are also much more likely to agree than are older people. There are no strongly significant differences in the pattern of responses among people with different levels of income or education.

## Acceptability of Private Infrastructure Investments

### *More than half agree with private companies investing in public infrastructure projects such as schools, hospitals, roads and bridges*

**Q:** I'm okay with private companies investing in public infrastructure projects such as … schools/hospitals/roads and bridges.




{Base: Non-Quebecers; percentages, March 03}

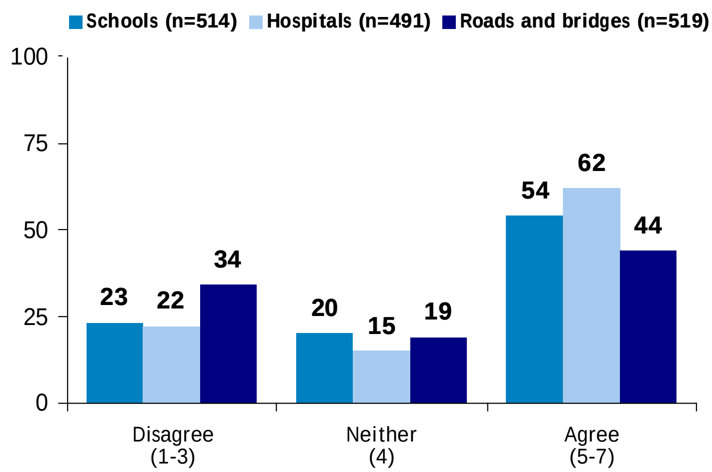
**Figure 7.2**

Respondents were asked if they are "okay" with private companies investing in each of three types of public infrastructure projects — schools, hospitals, roads and bridges. In the case of all three types of project, more than half the public says that it is okay with the concept of private companies investing in such projects.

- Supporters of private company investment in all three types of project outnumber opponents across all regional and demographic groups — there is no single group where opponents outnumber supporters.
- Attitudes towards the concept are most clearly related to age. Younger groups are more likely to support the concept, and opposition generally increases with age — though in virtually no instance does opposition outweigh support (though seniors are almost evenly split with respect to hospitals).
- Men are more likely than women to support investments in hospitals (63 versus 52 per cent, respectively).

## *In general, more people support than oppose pension funds investing in public infrastructure*

**Q:** I'm okay with pension funds investing in public infrastructure projects such as … schools/hospitals/roads and bridges.*




{Base: Non-Quebecers; percentages, March 03}

**Figure 7.3**

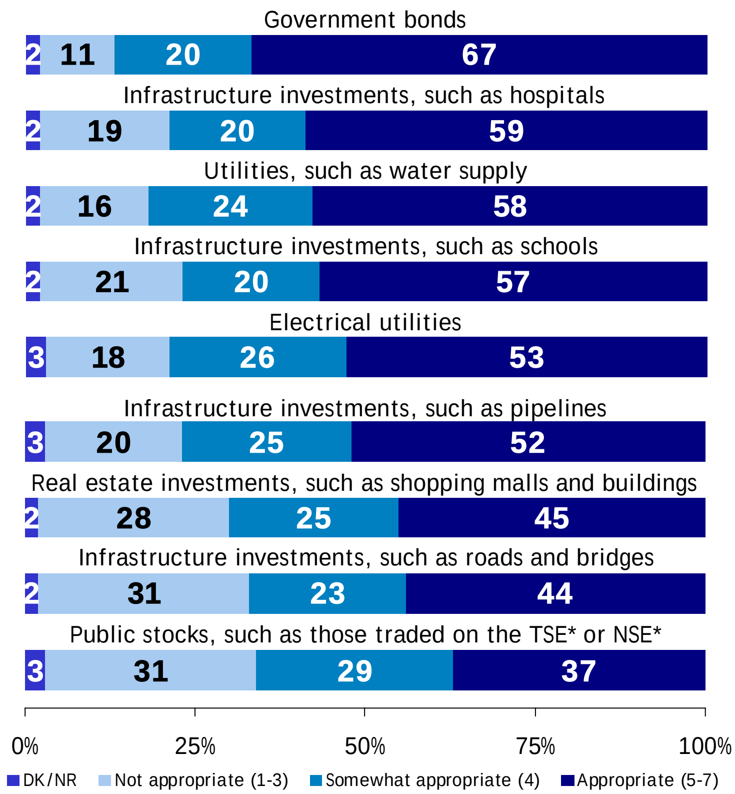
In comparison with public support for private companies investing in infrastructure projects, the results for pension fund investment in these projects is a little more mixed.

- Support for hospitals is greater than with private companies, an almost identical number favour investments in schools, while significantly fewer agree with pension funds investing in roads and bridges.
- Similar patterns of difference along age lines to those found for private companies can be found for pension fund investments, but they are generally less pronounced (this is particularly true with respect to investments in hospitals).

Regionally, there are signs of slightly more opposition to particular types of project, though more residents of all regions are in favour than opposed to all three types of investment. Opposition is slightly higher to pension fund investment in schools in British Columbia and in hospitals in Alberta — perhaps reflecting local history with such investments — but even there, more people support than oppose such investment.

## Appropriateness of CPP Asset Investments

**Q:** How appropriate is it to invest CPP assets into ...




{Base: non-Quebecers; March 03, n=1524}

* Abbreviated from question wording

**Figure 7.4**

### *In the hierarchy of appropriateness for investment of CPP assets, government bonds top the list, but infrastructure investments are also highly ranked*

Consistent with findings in all three studies, the public is most likely to cite investment in government bonds as an appropriate place for CPP assets to be invested. The public consistently sees investment in government bonds as being a safe investment.

For the first time in this survey, we also took a reading on investments into various types of infrastructure.

- Hospitals, water supply, schools, electricity and pipelines all score well, with at least a majority feeling each are appropriate CPP asset investments.
- The number feeling certain types of investments are inappropriate grows to over a quarter for roads and bridges, income real estate and public equities.

Some notable demographic differences emerge with these indicators:

- Generally speaking, high income ($100,000 or greater) individuals and investors are more likely to feel that different types of investments are appropriate.
- Differences can also be found with age.
  - The boomer cohort is more likely to find real estate and government bonds to be appropriate types of investments
  - The youngest age group is much more likely than others to find investments in hospitals, schools, water supply, and roads and bridges to be appropriate investment vehicles for CPP assets.

## Appropriateness of CPP Asset Investments

### *There are strong differences across Index segments on the level of appropriateness assigned to different types of investments*

Strong differences can be found across Index segments for different types of investments, though these are stronger in some instances than in others. Differences are most strongly pronounced with investments in government bonds, electrical utilities, pipelines, real estate, and public equities.

These differences are summarized in the table below:

Table 7.1: Appropriateness of CPP Asset Investments and Index Segments
(percentage indicating "appropriate" (5-7); non-Quebecers)

| | | CONFIDENCE INDEX GROUPS | | | |
|---|---|---|---|---|---|
| | Overall | Weak (n=243) | Low (n=501) | Moderate (n=457) | Strong (n=323) |
| Government bonds | 67 | 53* | 58* | 75* | 83* |
| Hospitals | 59 | 58 | 58 | 65* | 58 |
| Water supply | 58 | 49* | 57 | 64* | 59 |
| Schools | 57 | 46* | 56 | 60 | 59 |
| Electrical utilities | 53 | 42* | 40* | 59* | 75* |
| Pipelines | 52 | 44* | 42* | 57 | 69* |
| Real estate investments | 45 | 28* | 37* | 50* | 63* |
| Roads and bridges | 44 | 32* | 42 | 47 | 54* |
| Public stocks | 37 | 12* | 21* | 46* | 68* |

It is worth noting that among the weak and low segments, even government bond investments are considered to be inappropriate for almost half of the segments. Even for significant numbers within these segments then, no type of investments are appropriate.

# 8.0 Investing CPP Assets

The public is generally not very well informed about the Canada Pension Plan or the assets available to it. The concept of investing some pension funds in stocks to earn higher returns remains acceptable, but there is evident nervousness about risk.

Indicators included in this chapter are:

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

## *Investing CPP Assets*

## *— Key Findings*

The dichotomy between the public's desire for returns on investments and its general caution with taking risk are clearly demonstrated in this chapter. While they agree that taking reasonable risk for higher return is theoretically a good idea, when confronted with the possible losses that such a strategy might entail they become more cautious.

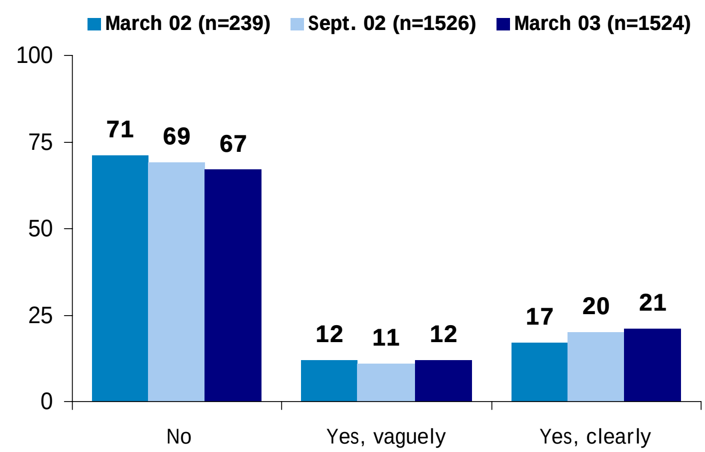
- There is increasing awareness that there is a large pool of CPP assets available to pay future benefits, although there is little concrete understanding of how big this pool is.
- On balance, there is a swing back towards taking reasonable risk with CPP assets to improve the pool and returns of the CPP, as opposed to making the safest possible investment.
- Most are comfortable with a portion of CPP assets being invested in the stock market as long as the rest is in safer investments like government bonds.
- However, there has been a slight decline in the comfort with any level of stock market investment. Most who are comfortable with stock market investment want the level of investment to be no more than a quarter of all available funds.
- While a majority are comfortable with a portion of the CPP being invested in the stock market, when the worst case scenario of losing money and the potential of not being able to pay benefits as a consequence is raised, the balance of opinion is against investment in the stock market.
- A significant minority continues to believe in the long term ability of stock markets to produce long term gains, outweighing those who believe the opposite.
- Knowing that CPP assets are being invested to produce gains increases confidence in the long term health of the CPP.
- There is a lean towards CPP investments being invested in all parts of the country even if that means a lower return on investments.

This chapter outlines the fault lines of the population's investment beliefs quite clearly. Caution mitigates risk acceptance, but potential gains mitigate caution. A close eye must be kept on how the public perceives various strategies used by the CPP Investment Board to satisfy these often contradictory attitudes.

## Awareness of CPP Assets

### *Awareness that there is a large pool of CPP assets to help pay future pension benefits is increasing gradually*

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




{Base: Non-Quebecers; percentages}

**Figure 8.1**

Prior to being asked about their awareness of the pool of assets to help pay future pensions, respondents were read a statement:

- *Currently, the total amount of contributions that Canadians pay into the CPP each year is much larger that the amount of pension benefits paid out each year. This is expected to be true until at least 2021. This means that there is a growing pool of assets available to the CPP to help pay pension benefits in the future.*

Respondents were then asked whether they were aware of this pool of funds.

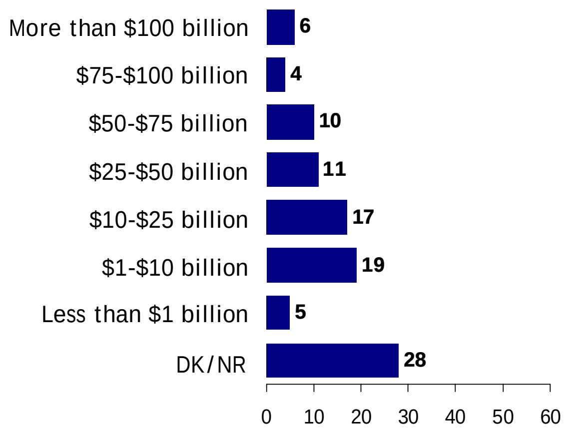
Since the start of the tracking studies, awareness of the pool has been gradually increasing, from 17 per cent awareness in March 2002 to 21 per cent in March 2003. At the same time, the number saying they are unaware of such a pool has edged down from 71 per cent to 67 per cent.

- Awareness continues to be heavily skewed toward certain segments of the population — men, boomers, seniors, those with a higher level of education and those with higher levels of income.

Increased awareness of the fund is likely related to a growing coverage of the subject in the media, the demographic segments being most aware of the pool being those who are traditionally more tuned into the media, especially people with more education and income.

### *Most can only guess at the size of 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, March 03, n=1524}

**Figure 8.2**

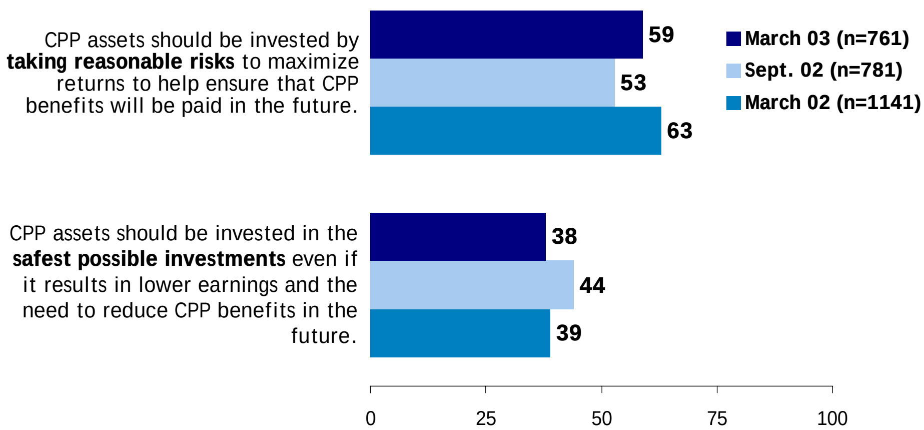
Having been informed that there is a pool of CPP assets available to help pay for future pensions, we probed perceptions of the extent of these assets.

More than a quarter were not even prepared to offer a guess. The rest make estimates ranging from less than a billion dollars to more than a hundred billion.

The recording categories for this question were changed from the last survey to provide a more useful gradation for recording responses, so results are not directly comparable to earlier studies. However, even approximate comparisons suggest that there has been no improvement in knowledge of this issue since the earlier measurements.

## Risks and Investing CPP Assets

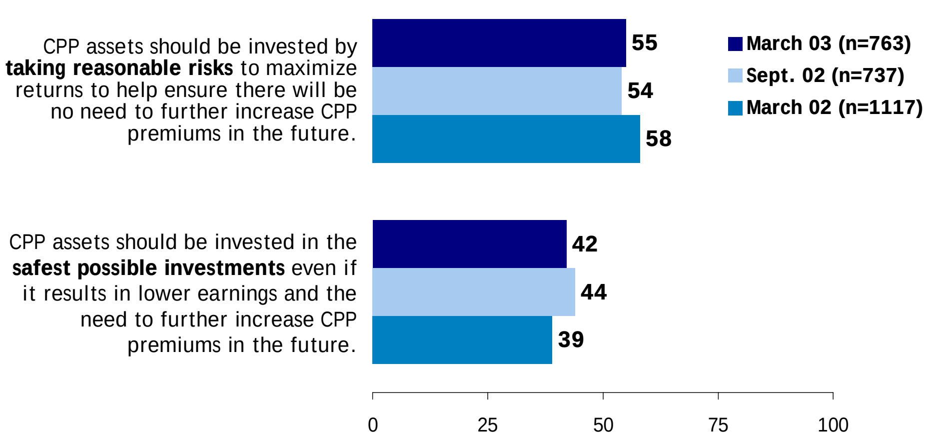
**Q:** Which of the following two statements is closest to your own point of view?




{Base: Non-Quebecers; percentages}

**Figure 8.3**

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




{Base: Non-Quebecers; percentages}

**Figure 8.4**

## *In a choice between CPP assets being invested to take reasonable risk vs. the safest possible investment, the balance has swung back toward taking reasonable risk*

After stating how much they thought was in the pool of funds, respondents were read the following clarification as a basis for asking the subsequent series of questions:

- *CPP assets currently total approximately $55 billion. In 1997, the federal and provincial government decided to invest CPP assets in the same way as other pension funds do. This was done to increase the earnings on these assets with the goal of improving the long-term health of the CPP.*

Following this statement, half the respondents are asked to choose between two possible approaches for the investment of CPP assets — take reasonable risks to maximize returns or make the safest possible investments. The other half are asked to choose between taking reasonable risk or making the safest possible investments even if future premiums have to rise. The results for these two variations of the indicator are shown on the opposite page.

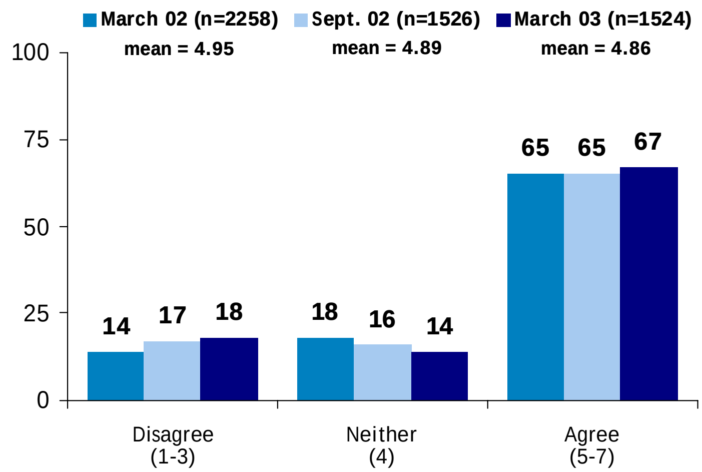
Overall, a slim majority want CPP investments to take reasonable risks to maximize returns. This is consistent in all three surveys, though the plurality varied from survey to survey.

- The findings in March 2003 reverse a trend noted in September 2002 that saw movement toward the more conservative option. In both scenarios, there was a significant shift away from the risk option toward the safety option. The trend has now reversed, and opinion is moving back toward favouring the “reasonable risk” option — which is in fact the CPP Investment Board’s mandate. That being said, it has not fully returned to the levels seen in March 2002.

Among the various segments of the population, the lean in favour of taking reasonable risk continues to be strongest among those who are themselves investors, and the most noticeable lean toward safety is among the elderly and those with low income.

***Most people are still comfortable with a portion of CPP assets being invested in the stock market as long as the rest is in other kinds of investments like government bonds***

**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}

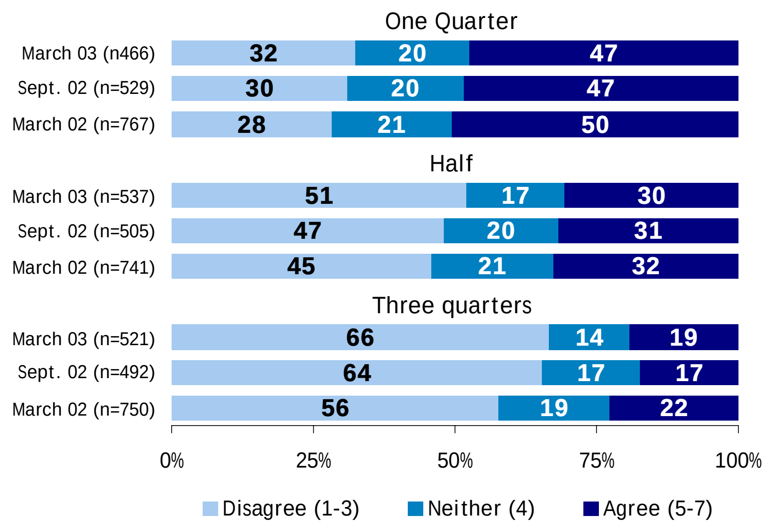
**Figure 8.5**

There is virtually no change in the proportion of people — two thirds — who say they are okay with investing a portion of CPP assets in the stock market if they know that the rest of the assets are invested in other kinds of investments like government bonds.

Although the chart shows a slight increase in the number of people who disagree with the proposition, there is no significant change in the findings on this indicator between any of the three surveys.

## *Concerns about investing CPP assets in the stock market continue to rise*

**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}

**Figure 8.6**

One third of respondents were asked to express their willingness to see each of three different levels of CPP assets invested in the stock market — one quarter, one third and one half (i.e., each group only gave their opinion on one level, not all three).

About a half say they have no problem with a quarter of the assets being invested in the market. This drops to 3 in 10 when the amount of assets increase to one half the assets invested; and 19 per cent when it is three quarters — in both of these instances a majority disagree with investing these levels of CPP assets into public equities.

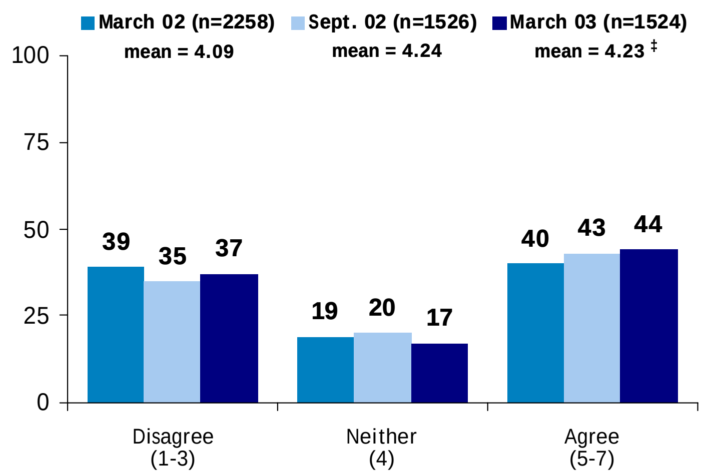
These results are close to those recorded in September, but viewed from an annual perspective, there has been a slight erosion in support for investments at all three levels over the course of the year.

There are no consistently strong variations between demographic groups on these indicators. Investors are more likely than non-investors to agree with a quarter or a half of CPP assets being invested in the market, although they also balk at three-quarters.

## Concerns about Investing CPP Assets

### *The balance of opinion against investing CPP assets in the stock market has not changed*

**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}

**Figure 8.7**

Respondents were asked for the degree of their agreement with the proposition: "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 to be able to pay future pension benefits."

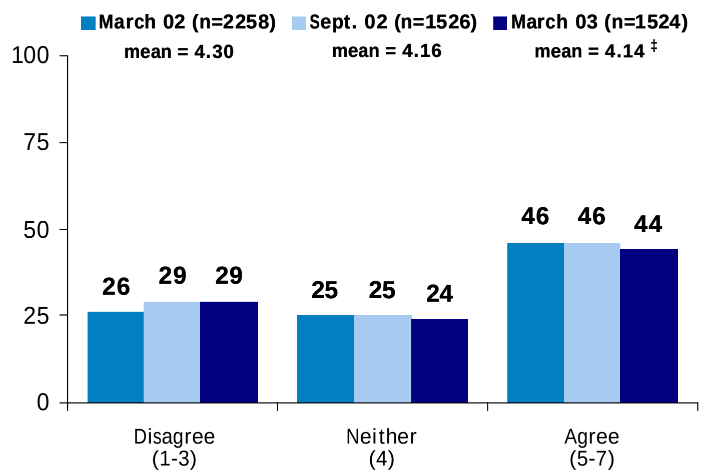
From the first measurement of this indicator in March 2002 to September of that year, there was a slight, but significant decline in support for stock investment. In March 2002 almost the same number disagreed as agreed with the statement. By September, the balance of opinion had swung slightly more negative, with 35 per cent disagreeing, while 43 per cent agreed, i.e. that stock investments are bad.

❖ In the latest survey, opinion has stabilized and there is no significant change in the numbers since September. In particular, the decline in sentiment has not continued.

As in previous measurements, people who have higher incomes, higher education and who are themselves investors are much more likely to disagree with the proposition that stocks are bad than to agree. There is also a gender bias, with men more likely to disagree and women more likely to agree with the proposition.

## *Though confidence in long-term market rewards is not quite as high as a year ago, it has not declined in the past six months*

**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}

**Figure 8.8**

A large minority — 44 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. In comparison, just 29 per cent disagree with this proposition.

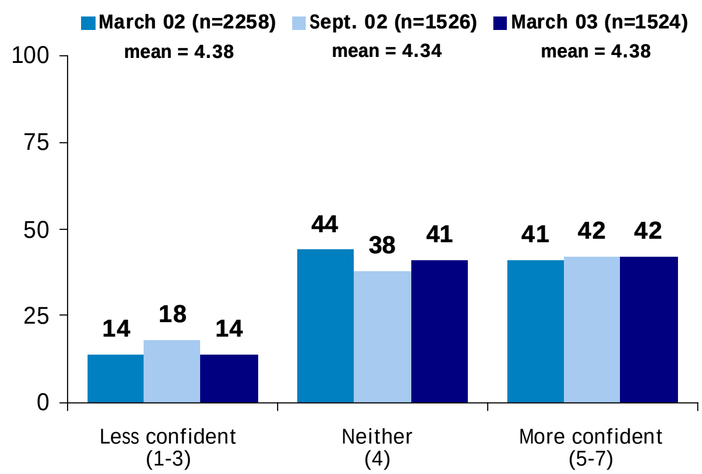
❖ In the September survey, we recorded a slight, but significant, decline in the overall results of this indicator as the number of people who disagreed with it increased. There has been no significant change in the past six months, and the number has stabilized.

❖ Those with higher income, higher education, and larger investments lean strongly toward agreeing with the proposition, and again there is a gender bias, with men being more likely than women to agree.

## Impact of Investing on Confidence

***Knowing that CPP assets are invested to increase returns increases confidence in the long-term health of the CPP***

**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}

**Figure 8.9**

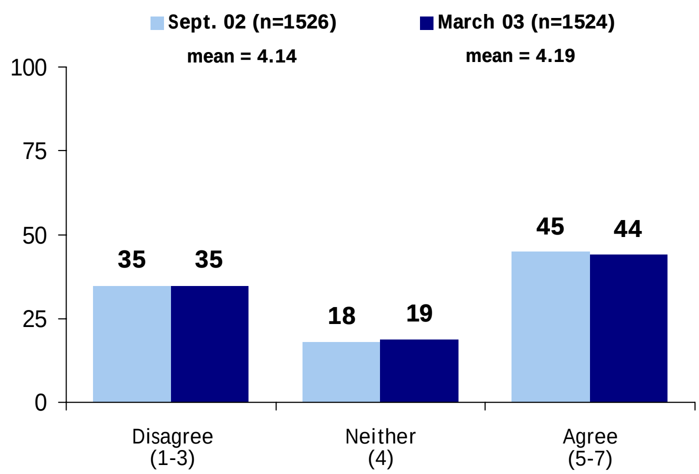
When respondents are asked whether the fact that CPP assets are being invested to increase returns makes them more or less confident in the long-term future of the CPP, 42 per cent say it makes them more confident, while just 14 per cent say it makes them less so, a favourable margin of three to one.

❖ There is no significant shift in opinion on this subject over the course of the surveys.

The stability of opinion on this indicator is critical, as it is the key overall measure of confidence in the CPP Investment Board's mandate.

## *The lean in favour of investing CPP assets in all regions of the country is constant*

**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}

**Figure 8.10**

An indicator on the concept of CPP assets being invested in all regions of the country, even if it means a lower return on investment, was introduced in the September tracking survey.

At that time, 45 per cent were in favour, compared with 35 per cent who were opposed. The measurement in the March 2003 tracking is virtually identical.

- Attitudes on this issue are surprisingly consistent across different regions, although the Atlantic Provinces significantly more in favour, at 52 per cent agreeing. Support is weakest in the Prairies at just 35 per cent agreement.
- Among demographic segments, disagreement is sharply higher among investors and those with the highest levels of income.

# 9.0 CPP Investment Board

Awareness of the CPP Investment Board is still restricted to a small minority, but there are generally supportive attitudes toward the concepts behind its creation.

Indicators included in this chapter 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
- Comfort with Using Investment Professionals
- Doubts about Recruiting Qualified Professionals
- Concerns about Political Influence
- Board Accountability

## *CPP Investment Board*

## *— Key Findings*

The indicators in this chapter track public awareness of the CPP Investment Board and attitudes toward its actions, mandate and structure. While awareness is still modest (though quite significant among wealthier segments), there is a generally positive attitude towards the CPP Investment Board and its structure.

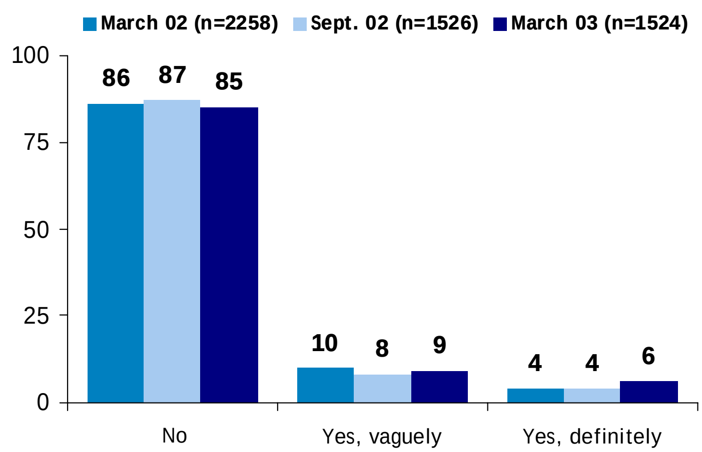
- Awareness of the CPP Investment Board has not changed significantly over the past year, and there is very little awareness of any media coverage of the board, except among higher income segments.
- Those aware of the CPP Investment Board lean towards a positive review of its performance, although assessment of recent media coverage is mixed.
- A strong majority continues to believe that having experienced investment professionals managing CPP assets is a good idea.
- There is consistent and strong concern about potential political interference in the management of CPP assets.
- There is fairly strong confidence in the CPP Investment Board governance structure.

The CPP Investment Board is still comparatively new, and is still being given the benefit of any doubt.

## Awareness of CPP Investment Board

***Awareness of the CPP Investment Board has not changed significantly in the past year***

**Q:** Have you ever heard of the Canada Pension Plan Investment Board?




{Base: Non-Quebecers; percentages}

**Figure 9.1**

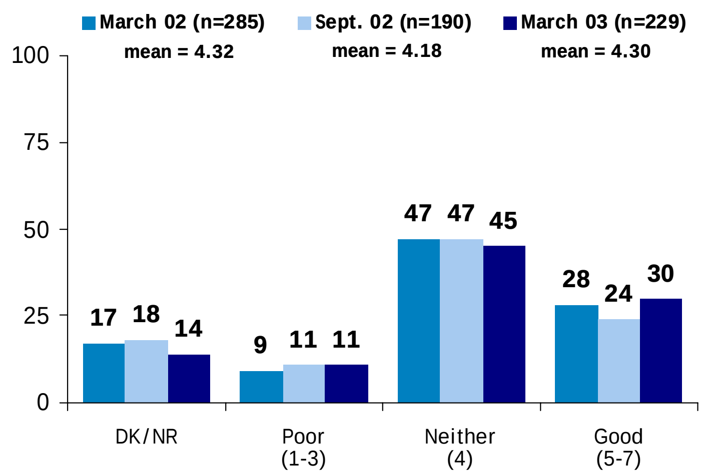
Despite some mainline reports in the business media during the year, awareness of the CPP Investment Board is still confined to a small minority of the Canadian population. In March 2002, 14 per cent said that they were aware of it, and that has risen to 15 per cent in March 2003, with 6 per cent saying they have definitely heard of it.

As might be expected, awareness differs significantly between different segments of the population.

- ❖ Those who are most likely to be aware of the CPP Investment Board are people with higher incomes (25 per cent of those with household income over $125,000) and those with the highest level of personal investments (27 per cent of those with investments upwards of $250,000).
- ❖ Awareness differs by age with those in the pre-retirement boomer cohort showing the highest awareness at 20 per cent. Men are also more likely than women to have heard of the CPP Investment Board (18 versus 12 per cent, respectively).

## *Among people who are aware of the CPP Investment Board, the overall rating of its performance is positive*

**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}

**Figure 9.2**

Only 15 per cent of respondents are even vaguely aware of the CPP Investment Board. However, 30 per cent of those people rate its performance as good compared with just 11 per cent who rate it as being poor.

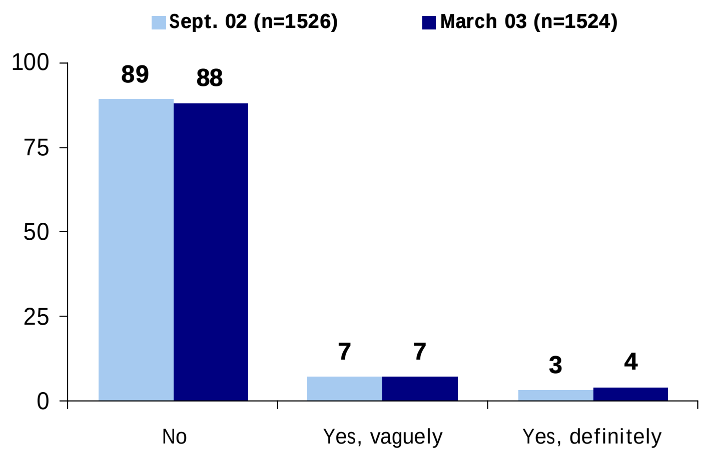
In the September measurement, we noted a small decline in the rating of the CPP Investment Board's performance. Since that time, the rating has appears  to have firmed up to where it was last year.

It should be noted, however, that with these small sample sizes, variations of this nature have no statistical significance. The data should be thought of as merely directional.

## Awareness of Media Reports on CPP Investment Board

***Awareness of media reports about the CPP Investment Board is still at very low levels***

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




{Base: Non-Quebecers; percentages}

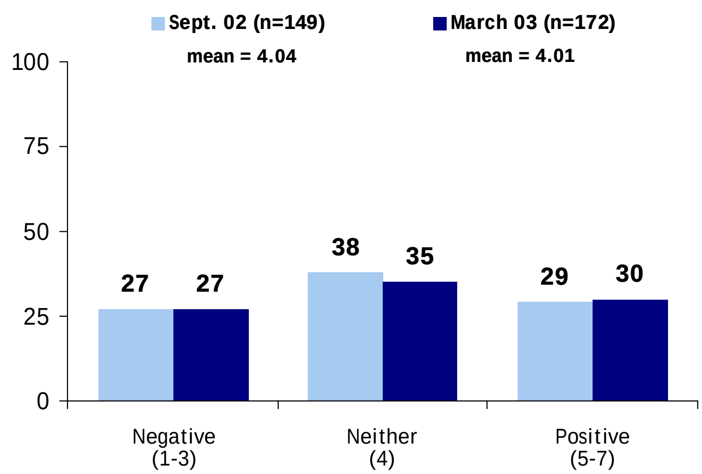
**Figure 9.3**

When asked if they recall any media reports about the CPP Investment Board, 4 per cent say they definitely recall such reports and another 7 per cent, say they are vaguely aware of them. This represents no change since September, when the question was first asked.

❖ Those most likely to recall a media report about the CPP Investment Board are the highest income groups and those with the largest personal investments. Men are also more likely to recall such reports than are women.

## *Assessment of recent media coverage of the CPP Investment Board is split between positive and negative*

**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}

**Figure 9.4**

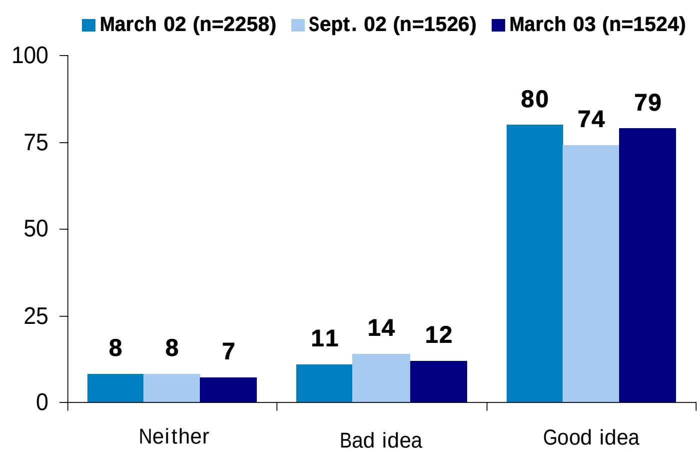
People who had heard of the CPP Investment Board, and who recalled a media report about it, were asked whether the last report they remembered was positive or negative. As in September, characterization of media reports splits fairly evenly between positive and negative, with no apparent trend.

- Numbers of respondents are small, but there is a quite clear positive spike among Ontario residents, 40 per cent of whom report that the last media report about the CPP Investment Board was positive.
- Cautioning again about small sample numbers, there is a significant difference in perceptions about media reports between investors and non-investors — investors are more likely to say reports are positive (35 versus 18 per cent, respectively).

## Comfort with Using Investment Professionals

***There is still strong majority support for having experienced investment professionals managing the investment of CPP assets***

**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}

**Figure 9.5**

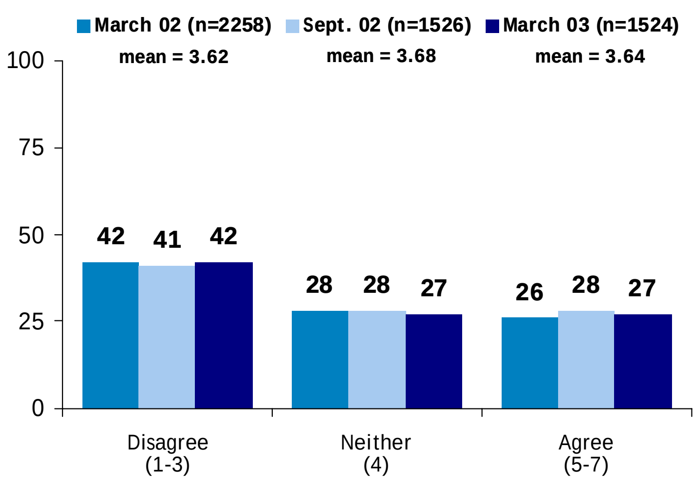
In the September survey, support for having investment professional manage CPP assets was still high, but not quite as high as it had been in March 2002. In the latest survey, support for the concept has almost recovered to the level of where it was in the benchmark survey.

There are only slight differences across demographic subgroups.

- Investors, university educated individuals, men and those with higher incomes show stronger support for the use of investment professionals.
- No fewer than 7 in 10 of any particular demographic subgroup say that using investment professionals is a good idea.

***There is no change in the level of confidence that well-qualified investment professionals can be recruited to invest CPP assets***

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




{Base: Non-Quebecers; percentages}

**Figure 9.6**

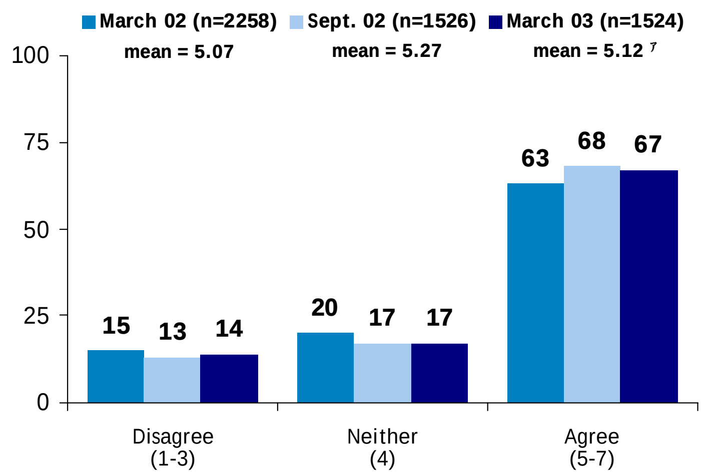
There has been no significant change between any of the surveys in public reaction to the proposition: "I doubt that well-qualified investment professionals could be recruited to invest CPP assets."

- About a quarter agree with the statement, while more than two in five disagree, and those proportions have not changed.
- Demographic segments that tend to follow investment issues more closely —university educated individuals, those with higher incomes, investors, the boomer generation and men — are all more likely to disagree with the proposition, indicating that they believe that well qualified professionals can indeed be recruited.

## Concerns about Political Influence

***Worries about political influence on the way CPP assets are invested remain high, but has dropped slightly since September***

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




{Base: Non-Quebecers; percentages}

**Figure 9.7**

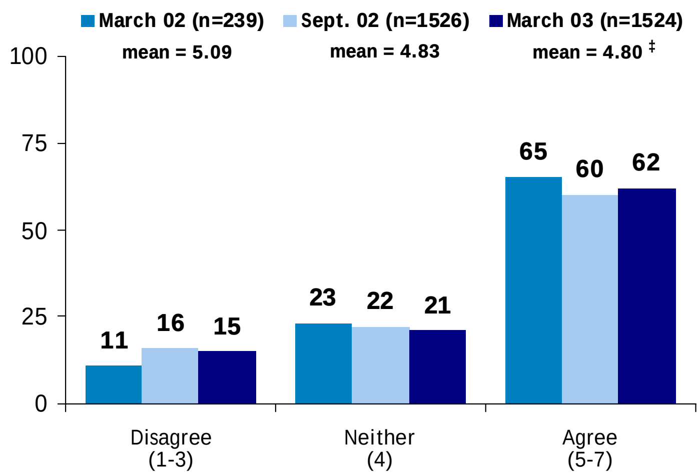
Fully two thirds say they are worried that there may be political influence in the way CPP assets are invested. This was a crucial issue in the original research into attitudes of various stakeholder groups and continues to be an important factor in public confidence.

❖ From the March 2002 survey to the September survey, the number of worriers increased significantly, from 63 per cent to 68 per cent. In the latest survey, results show the level has dropped back somewhat (this is more apparent in the mean scores than the frequencies).

Fortunately, there is no evidence that those demographic segments that have the most knowledge about the CPP Investment Board are any more likely to be concerned about this issue. In fact, those with the highest level of income and with the largest investments tend to be more likely than average to disagree with the statement.

## *Confidence in the board governance model remains strong*

**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}

**Figure 9.8**

Early research indicated that the board governance model is very important in providing confidence in the CPP Investment Board's activities. 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."

- Two-thirds (65 per cent) agreed with this proposition when it was first asked in March 2002, while only 11 per cent disagreed.
- In September, overall agreement declined in the aftermath of the corporate scandals on Wall Street and elsewhere.

In the latest survey, attitudes have stabilized, but remain slightly worse than at the same time last year. Almost two-thirds (62 per cent) still have confidence in the board governance model, and this is especially true of investors and those with high incomes.

# 10.0 Perceptions of the CPP

Despite a widespread lack of knowledge about the Canada Pension Plan, a growing number say they are going to be more dependent on it for their retirement. Attitudes towards the Plan are changing.

Indicators included in this chapter are:

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

## *Perceptions of the CPP*

## *— Key Findings*

The market volatility of the past year has in all likelihood led to an increasingly positive view of the CPP as an investment vehicle as more people realize they may be more dependent on it than they had once thought.

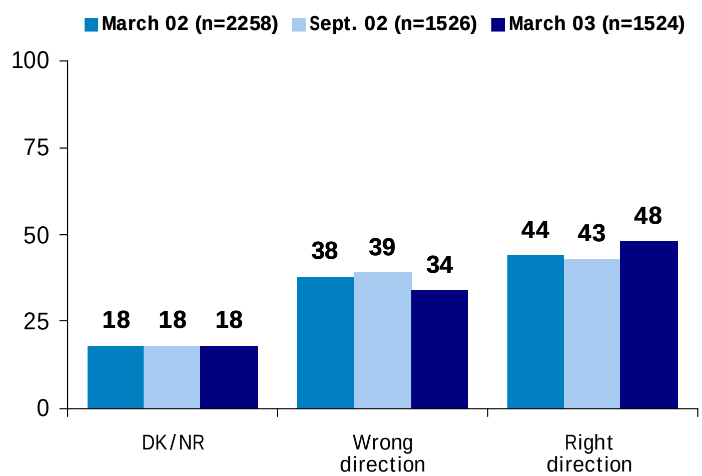
- There has been a significant positive shift in belief that the CPP is moving in the right direction.
- There has also been a significant drop in the belief that the CPP is just another form of taxation.
- Increasingly, the CPP is being viewed as a good investment.
- The number who expect to rely on the CPP has grown over the past year.
- Although still negative, the overall confidence that the CPP will have sufficient assets to pay benefits upon retirement has begun to move in a positive direction again after a low in September.

As the public becomes more positive towards and reliant on the CPP for retirement income, their demands on the Plan may increase.

## Overall Direction of the CPP

***There has been a slight swing in opinion on the 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}

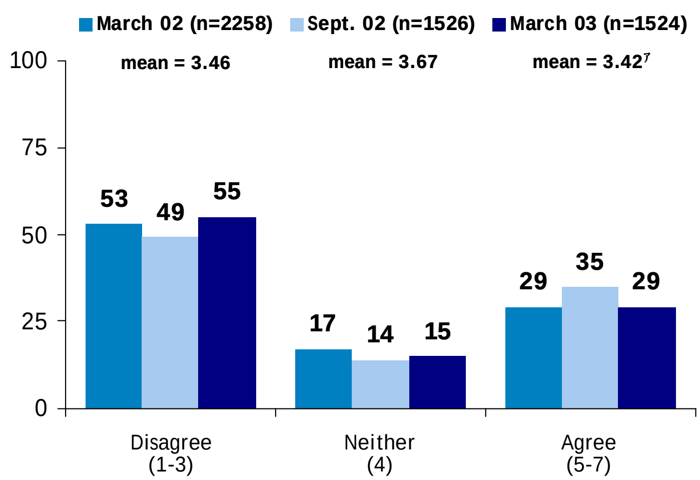
**Figure 10.1**

There has been an overall 5 percentage point positive swing from September to March 2003 in the number feeling that the CPP is moving in the right direction.

- Atlantic Canadians (54 per cent), Ontarians (50 per cent) and those in the Prairies (51 per cent) have a more positive view, whereas those in Alberta (39 per cent) and BC (42 per cent) hold a more cynical view of the CPP.
- Seniors are far more likely to agree (67 per cent) than disagree (15 per cent) that the CPP is moving in the right direction. Conversely, those 25 to 44 are the least likely to believe the CPP is heading in the right direction (37 per cent).
- Those with investments between $100,000 and $250,000 are much more likely to agree that the CPP is moving in the right direction (58 per cent); those with investments under $100,000 are less likely to agree (45 per cent).

### *There has been a significant drop since September in the number who think of the CPP as a tax*

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




{Base: Non-Quebecers; percentages}

**Figure 10.2**

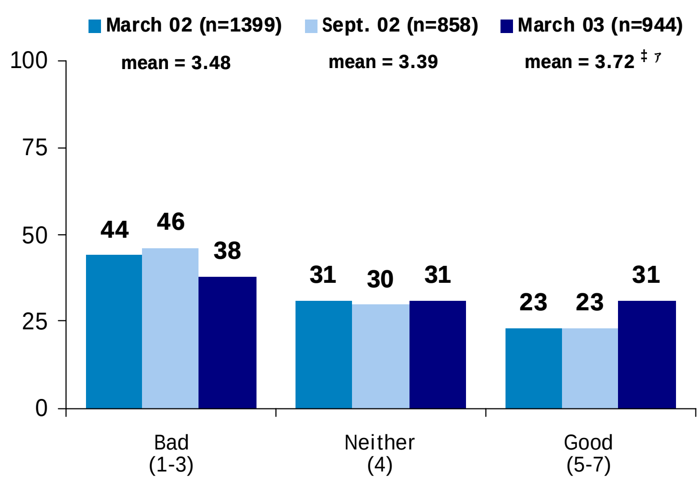
More than half (55 per cent) do not view the CPP as just another tax, an opinion which has returned to benchmark survey levels after worsening somewhat in September.

- There is an increasing level of disagreement with this proposition with age, from a low of 40 per cent in the youngest cohort to 66 per cent among seniors.
- While British Columbians are more negative than most on the direction of the CPP, as a region they the least likely to view the CPP as a tax (61 per cent disagree with the statement). Albertans are the most likely to view it as a tax (41 per cent).

## Return on Investment

***There has been a significant increase in the view that the CPP is a good investment***

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




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

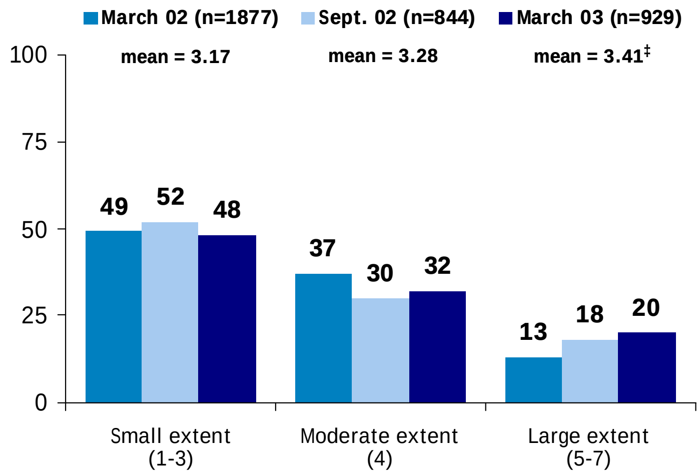
**Figure 10.3**

One of the more significant discoveries of this report is the 8 per cent increase in the view that the CPP is a good investment and the corresponding drop of 8 per cent of those who believe that the CPP is a bad investment.

- This increase is driven largely by boomers. For those between 45 and 64 years of age, the number saying the CPP is a good investment has jumped from 28 per cent in September to 39 per cent in the most recent survey.
- Investors and those in the highest income category are the least likely to say the CPP is a good investment

## *The number expecting to rely on the CPP continues to rise*

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




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

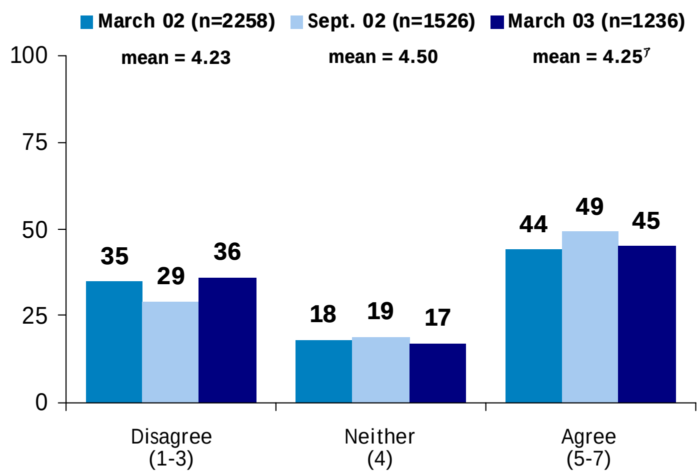
**Figure 10.4**

There is a steady and growing trend in the number saying that they plan to rely on the CPP once they retire. Those saying they plan to rely on the CPP to a large extent has risen form just 13 per cent in March 2002 to 20 per cent this March.

- As with bettering attitudes towards investment return on the CPP, this increasing expectation for relying on the CPP is being driven largely by the 45 to 64 age group. While only 16 per cent of pre-retirement boomers indicated relying on the CPP to a large extent back in March of last year, this number has now jumped to 29 per cent.
- Interestingly, those with the weakest confidence in the mandate and activities of the CPP Investment Board are more likely than any of the other Index segments to expect to rely on the CPP.

### *After a drop in September, overall confidence in the CPP has returned to the level found in March 2002*

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




{Base: Non-Quebecers; percentages}

**Figure 10.5**

Concerns about the viability of the CPP rose significantly between March and September 2002. Since September, however, the number feeling it will run out of money by the time they retire has dropped back to benchmark levels.

- While this return to benchmark levels is a shift in the positive direction, the balance of opinion remains negative with 9 per cent more agreeing that it will run out of money than disagreeing.
- Albertans (59 per cent) are most likely to agree with the statement, while Atlantic Canadians and Ontarians are the least likely to do so (40 per cent).
- Excluding seniors, 45 to 64 year olds are the most likely age group to disagree with the idea that the CPP will run out of money (48 per cent).