# CPP Investment Board
# Tracking Public Confidence III

## 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 fourth public survey investigating confidence in the mandate of the CPP Investment Board — an initial benchmark survey, conducted in March 2002, followed by three tracking surveys, one in September 2002, March 2003 and the most recent in the first three weeks of October 2003.

In addition to monitoring key benchmarks and confidence variables, the most recent tracking survey includes a detailed investigation of infrastructure, building upon some preliminary measures included in the second tracking survey. A number of key concepts relating to the CPP Investment Board's investment strategies were also included, along with some preliminary measures on corporate accountability.

The CPP Investment Board and EKOS Research would like to extend our thanks and appreciation to all of those who have generously donated their time by participating in this research.

## Organization of the Report

The report begins with an update of the Confidence Index. Each of the following chapters are organized thematically beginning with an overview of economic confidence, personal finances and pension plans. This is followed by an update on measures relating to investment markets. The next chapter updates tracking indicators specific to CPP asset investments. A chapter on the CPP Investment Board follows with key benchmarks updated along with some new findings relating to corporate accountability and investment concepts. As with each of the previous reports, the concluding chapter updates key benchmarks on perceptions of the CPP. A technical appendix is also included which discusses the finer details of the Confidence Index.

# Methodology

The methodology used for the survey results presented in this report is virtually identical to the previous tracking surveys in March 2003 and September 2002.

- A telephone survey of the general public from October 3 to 19, 2003.
- 1,406 completed interviews with a national random sample of Canadians 18 and over (excluding Quebec)
- The survey over-sampled in the GTA region to help recruit participants for follow-up **focus groups** that were conducted on October 21 and 22, 2003
- Results are valid within +/- 2.6 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 to ensure that the are representative of the general population of Canada outside of Quebec
- Comparisons are drawn with the benchmark survey of 2,258 Canadians 18 and over (excluding Quebec) conducted in March 2002, the first tracking survey of 1,526 conducted in September 2002 and the second tracking survey in March 2003 involving 1,524 interviews

# 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 measure these changes over time.

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. A detailed discussion of this model can be found in the Technical Appendix.

This chapter updates the composite Index score and changes to the distribution of confidence groups.

## Composite Index Score

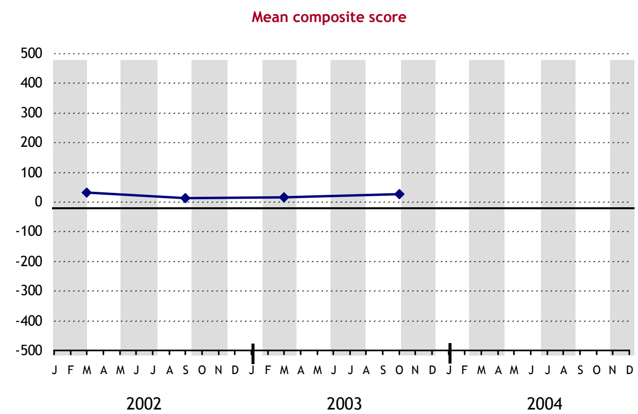
*Confidence has rebounded from the dip it took following the Benchmark survey*

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 four data points, as shown in Figure 1. Overall, confidence has remained positive with scores consistently above the zero point for each of the 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.)

**Figure 1**

**Confidence Index**




Between the benchmark and first tracking survey there was a softening of confidence — the overall Index score dropped from 31 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. This has now rebounded almost completely back to the initial level recorded at the time of the Benchmark to 27 points.

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 rebounded since September 2002.

*There has been an increase in the number of Canadians with strong confidence*

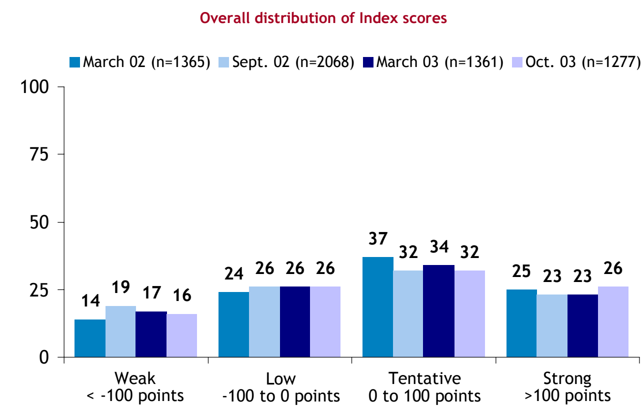
The overall population can be segmented on the basis of the distribution of composite Index scores. Breaking out scores between those under minus 100 points, between minus 100 and zero, between zero and plus 100, and those over plus 100 points, provides a grouping of the population on the basis of confidence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

The rebound in the overall composite score is reflected in an increased number of those in the strong confidence segment. Importantly, the number in the weak segment has continued to decline since the spike following the Enron and Worldcom scandals.

In that period there was a 5 percentage point increase in the weak segment and a 2 percentage point increase in the low segment or an overall shift from the positive side of the ledger of seven points. The balance of positive-to-negative slipped from plus-24 in March 2002 to just plus-10 percentage points in September of that year. The rating currently stands at plus-16 points.

**Figure 2**

**Index Segments**




{Base: ROC; percentages}

These segments show predictable results with the issues explored throughout this report — those with strong confidence have higher risk tolerance, for instance, than those in the weak segment. There are some notable demographic differences between these groups. The demographic differences are summarized in Technical Appendix and function as a good proxy for understanding where certain groups may lie on a particular issue (e.g., the weak confidence group has a high proportion of low income individuals and these same individuals are more likely to have greater risk aversion or lower tolerance for market volatility).

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 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 October 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 1: Index Scores for Individual Variables

(Index score)

| | INDIVIDUAL INDEX SCORES | | | | GAIN/LOSS | | |
|---|---|---|---|---|---|---|---|
| | March 2002 | Sept. 2002 | March 2003 | Oct. 2003 | March 02 to Sept. 02 | Sept. 02 to March 03 | March 03 to Oct. 03 |
| Investing CPP assets with a diversified portfolio | 139 | 130 | 122 | 130 | -9 | -8 | +8 |
| Confidence in the board accountability model | 123 | 120 | 111 | 129 | -3 | -9 | +18 |
| Confidence in CPP Investment Board's mandate | 48 | 45 | 47 | 59 | -3 | +2 | +12 |
| Future health of the economy | 62 | 41 | 43 | 45 | -21 | +2 | +2 |
| Short-term volatility and long-term returns | 39 | 18 | 14 | 13 | -21 | -4 | -1 |
| Confidence in investment professionals | -5 | -32 | -21 | -13 | -27 | +11 | +8 |
| Risk to security of the CPP | -17 | -40 | -39 | -13 | -23 | +1 | +26 |
| Concerns about political influence | -164 | -200 | -170 | -166 | -36 | +30 | +4 |

Looking at the overall changes between March 2003 and October 2003 in the far right column, all but one of the eight Index variables show a positive change since the last sounding. Concerns about threats to the CPP due to investment risk have decreased significantly and the assurance of the board accountability model has provided a significant boost. Although the impact of the economic outlook on the improved index score is not as strong as some other variables, it is clear that a generally more optimistic view of the economy generally underlies the more strongly positive views seen here. As will be seen in the following chapter, Canadians have a rosy economic outlook and this translates into a more positive disposition generally.

## Subgroup Differences

The Index scores for various demographic segments help to elucidate where the changes in confidence are occurring (e.g., investors or non-investors). Table 2 below shows these differences across a number of different subgroups.

Table 2: Index Scores for Individual Variables
(Index score)

| | INDEX SCORES | | | | GAIN/LOSS | | |
|---|---|---|---|---|---|---|---|
| | March 2002 | Sept. 2002 | March 2003 | Oct. 2003 | March 02 to Sept. 02 | Sept. 02 to March 03 | March 03 to Oct. 03 |
| **INCOME** | | | | | | | |
| $100,000 and over | 58 | 42 | 49 | 74 | -16 | +7 | +25 |
| $80,000 to $99,999 | 53 | 26 | 42 | 51 | -17 | +16 | +9 |
| $60,000 to $79,999 | 46 | 20 | 27 | 41 | -26 | +7 | +14 |
| $40,000 to $59,999 | 38 | 11 | 20 | 17 | -27 | +9 | -3 |
| $20,000 to $39,999 | 21 | 15 | -3 | 14 | -6 | -18 | +17 |
| Under $20,000 | 4 | -12 | 1 | 6 | -8 | +13 | +5 |
| **EDUCATION** | | | | | | | |
| University | 55 | 32 | 43 | 53 | -23 | +11 | +10 |
| College | 25 | 2 | 6 | 16 | -23 | +4 | +10 |
| High school or less | 12 | 4 | -6 | 6 | -8 | -10 | +12 |
| **AGE** | | | | | | | |
| 65 and over | 46 | 19 | 7 | 25 | -27 | -12 | +18 |
| 45 to 64 | 35 | 12 | 25 | 26 | -23 | +13 | +1 |
| 25 to 44 | 32 | 12 | 15 | 32 | -20 | +3 | +17 |
| Under 25 | 12 | 18 | 10 | 22 | +6 | -8 | +12 |
| **GENDER** | | | | | | | |
| Males | 45 | 22 | 29 | 42 | -23 | +7 | +13 |
| Females | 16 | 5 | 3 | 13 | -11 | -2 | +10 |
| **INVESTORS** | | | | | | | |
| Investor | 43 | 26 | 31 | 39 | -17 | +5 | +8 |
| Non-investor | -1 | -12 | -20 | 0 | -11 | -8 | +20 |

Every single demographic segment, with the lone exception of middle income earners ($40,000 to $60,000 household income), shows a positive movement in the Index score. This contrasts with the period between the first and second tracking survey where the changes were generally in a positive direction, but a number of segments continued to have a declining Index score — lower income, those without a postsecondary education, seniors, women and non-investors. Each of these groups have had an increased score, and in most instances it fully recovered the loss in the previous survey.

Despite the overall positive drift, most subgroups' Index scores are still lower than they were at the time of the Benchmark. The most notable exception is high income earners.

# 3.0 Economic Confidence, Private Investments and Pensions

This section contains indicators that measure the economic mood of Canadians and their general state of preparation for retirement.

The indicators in this section are:

- Overall Health of the Economy
- Future Health of the Economy
- Incidence of Investment Ownership
- Investment Amounts
- Incidence and Type of Private Pensions
- Confidence in Private Pensions
- Pension Funds and Future Stock Market Investments
- Section Summary

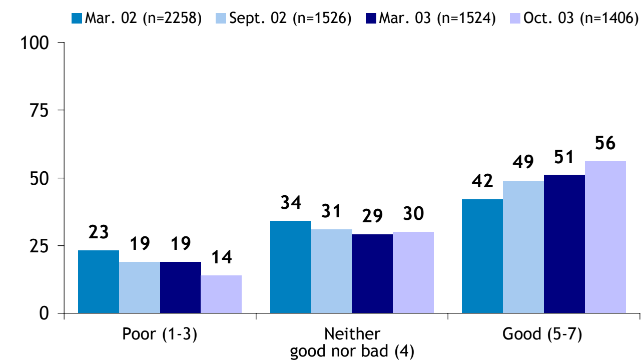
## Overall Health of the Economy

### *Confidence in the health of the Canadian economy is increasingly bullish*

Since the first measurement of the health of the Canadian economy in March 2002, there has been a steady increase in the number of people rating it as good, and a corresponding decline in the number rating it as poor. This increasingly optimistic outlook on the economy sets the general tone for the more positive attitudes towards markets and investments seen throughout this report.

**Figure 3**

**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}

In the latest measurement, 56 per cent of Canadians give the economy a good rating and just 14 per cent rate it as poor for a positive rating of +42 percentage points. This represents a significant positive shift in sentiment since the first measurement in the 2002 Benchmark survey (+19 rating), and also since the measurement made in March of this year (+32 rating).

This steady upward trend is significant given various factors, including market turmoil, during this period. Despite well-publicized corporate scandals south of the border, a sluggish US economy, war and tumultuous markets, confidence in the Canadian economy has not only been steady, but strengthened significantly. There is likely a sense of the grass being greener on *this* side of the fence at play (put into fast relief with the fortunes of the Canadian dollar relative to its American counterpart). Nevertheless, it is worth noting that Canada experienced its own difficulties over the past year — an outbreak of SARS, mad cow disease, forest fires, floods, and continuing restrictions on exports to the US of softwood lumber, beef and wheat.

The regional and demographic pattern of economic assessment remains largely unchanged since that noted earlier this year:

- The most positive demographic groups are still males, individuals under 45 years of age, and those with the highest levels of education
- Regionally, the highest "good" rating is still in Ontario (60 per cent) and the lowest in British Columbia (46 per cent)

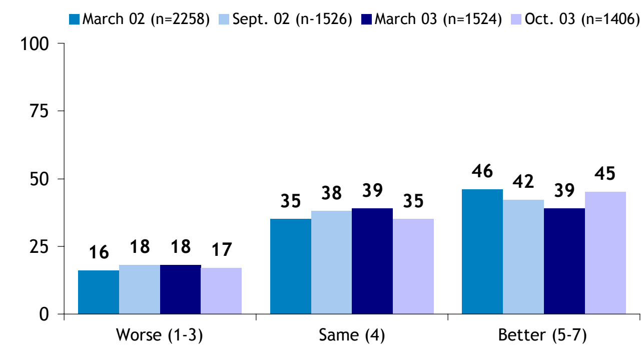
Confidence in the health of the economy is an important measure that tends to cast a rosy glow over many other indicators. When people are feeling good about the general economic outlook, it translates into a generally positive disposition on a variety of more specific topics.

*Declining expectations for the future health of the Canadian economy have turned around*

Looking out over the next five to ten years, many more Canadians expect the health of the Canadian economy to be better than expect it to be worse. However, the past two tracking studies noted a slight decline in the numbers who expect improvement, and a slight increase in those expecting it to be worse (the opposite trend of that seen over this period with respect to the current state of the economy).

**Figure 4**

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: ROC; percentages}

In the latest measurement, this decline has rebounded, and the mood has lightened again (a sense that the worst of it is over). Expectations for the economy's future have recovered to the same level as first recorded at the beginning of last year — 45 per cent expect the general trend in the economy to be better, compared with just 17 per cent who expect it to worsen (a rating of +28 percentage points in both instances).

This optimistic balance is apparent across all demographic groups and regions, though there are some slight variations:

- The most optimistic groups include males (62 per cent saying better), the youngest age cohort (65 per cent), and those with the highest level of education (60 per cent)
- Unlike confidence in the current state of the economy, there are few notable regional differences on economic outlook

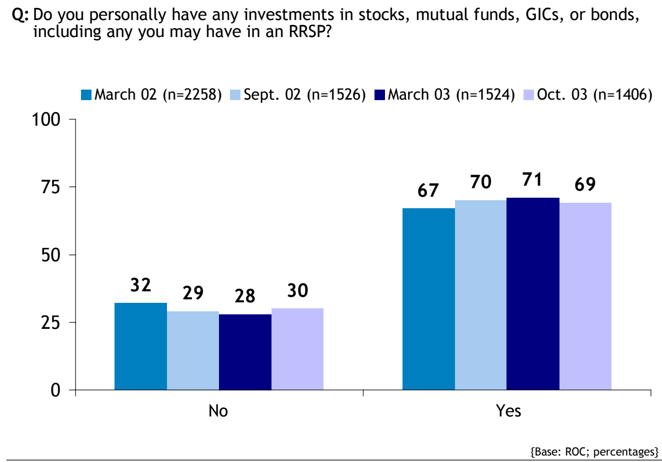
Overall, Canadians assess the current state of the economy as being pretty good, and expect it to get even better.

## Incidence of Investment Ownership

### *More than two-thirds of Canadians report having investments*

In the latest measurement, 69 per cent of Canadians report having investments in stocks, mutual funds, GICs, or bonds (including those they may hold in RRSPs), while 30 per cent do not (Figure 5).

**Figure 5**




There is no appreciable difference in the proportion of people reporting investments over the two-year course of these surveys. In March of this year, 71 per cent said they had investments, a slightly higher level than the current measurement, but this difference is within the survey's margin of accuracy.

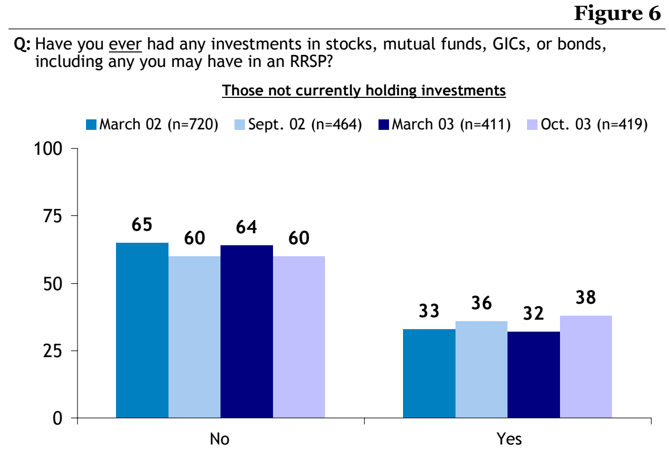
Ownership of investments varies, but often not significantly, across different demographic and regional groupings:

- Groups most likely to have investments are males (73 per cent), pre-retirement boomers (77 per cent) and the university educated (80 per cent). Least likely are those under 25 (42 per cent) and those with high school or less education (54 per cent)
- The regional pattern noted previously is also still in place, with investment ownership being fairly consistent across the country except in the Atlantic Provinces, where only 50 per cent report having any of these investments, and Ontario (72 per cent)

Of those who do not currently have such investments, 38 per cent say they have had them in the past, a slight increase since last spring (Figure 6).

Almost 4 in 10 non-investors previously had investments. Interestingly, aside from the youngest cohort, there are only minor differences across age segments. Overall, roughly ten per cent of Canadians move their savings in and out of these investments throughout their life cycle.

**Figure 6**



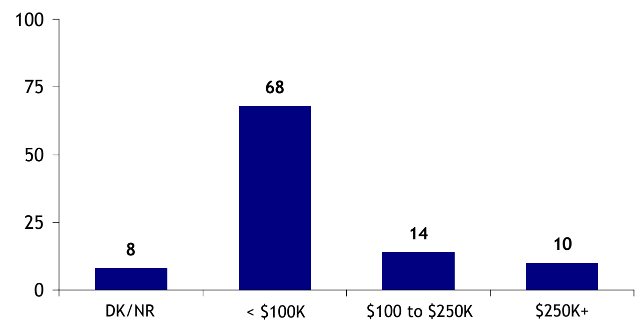
*Individual investments are quite modest in size – not enough to fund a substantial retirement income*

While 69 per cent of Canadians report having investments (opposite page), the great majority have quite modest amounts tucked away. When these investors are asked about the total amount of their savings and investments (excluding any real estate), 68 per cent report that their total portfolio is less than $100,000, and just 10 per cent report a portfolio of more than $250,000.

There has been little change in these results since the Benchmark survey, with only slight increases or decreases, mainly within the margin of accuracy of the survey.

**Figure 7**

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? [If greater than $100,000:] Is this sum greater than or less than $250,000? [If greater than $250,000:] Is this sum greater than or less than $500,000?




{Base: ROC, investors; percentages}

Previously noted demographic patterns remain in place:

- As might be expected, age is the sharpest demographic variable in this indicator, with 37 per cent of those aged 65 and over reporting a portfolio of $100,000 or more, compared with just 7 per cent of those under 25. Over 1 in 5 seniors (21 per cent) report savings in excess of $250,000
- Men are significantly more likely to have larger portfolios than are women, and the size of the portfolio is also related to level of education
- As noted previously, not only is the incidence of ownership of investments lower in the Atlantic provinces than in the rest of the country, but the average size of the portfolios is also lower. Just 15 per cent of people in this region report savings in excess of $100,000

Given the fairly modest level of the average Canadian's savings, reliance on the CPP pension is going to be an important plank in many people's retirement plans, especially if interest rates remain at their current levels for any length of time.

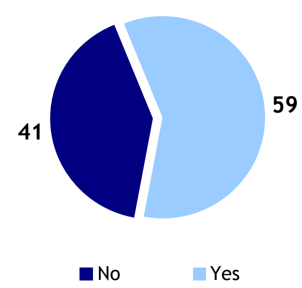
## Incidence and Type of Private Pensions

### *Among those who are employed, about three Canadians in five belong to an employer-based pension plan*

The incidence of enrolment in a private pension plan through an employer remains virtually constant at 59 per cent of those employed, compared with 57 per cent in the two earlier tracking surveys (Figure 8).

**Figure 8**

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



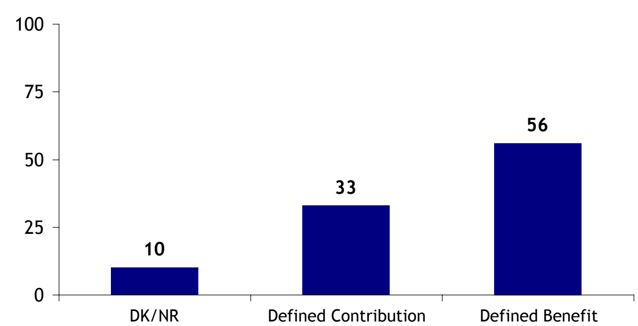

{Base: ROC, employed full-time; percentages, Oct 03, n=591}

- Age continues to be a key variable in pension enrolment, with 69 per cent of the pre-retirement boomers reporting that they are in an employer plan, compared with just 39 per cent of those under 25. This is likely related mainly to age, but it may also be partly related to a reluctance of some employers to bear the cost of pension plans for new employees.
- Education is also a key variable, as two thirds (66 per cent) of university educated individuals report enrolment in a private pension plan
- Those in Alberta are notably less likely to be enrolled in a private pension plan (45 per cent)

Looking at the type of private pension plan, there has also been very little change, despite an employer-originated drift in recent years toward offering defined contribution plans and away from defined benefit plans. The latter are still the most prevalent, with 56 per cent of employed Canadians who are enrolled in a plan saying their plan is of this type. A third are enrolled in a defined contribution plan, and a sizable minority, especially of the post-boomer generations, don't know what type of plan they have.

**Figure 9**

**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: ROC, private pension holders; percentages, Oct. 03, n=338}

- Those in the pre-retirement cohort (62 per cent), university educated individuals (67 per cent) and those from British Columbia (70 per cent) are all more likely to have a defined benefit plan
- In addition to being less likely to have a private pension, Albertans who are enrolled are much more likely to be members of a defined contribution plan (53 per cent)

Given most people's modest rate of savings, and a significant minority who have no pension plan at work, reliance on the CPP will be a fundamental part of many people's retirement plans.

## *Confidence in private pension funds has recovered somewhat*

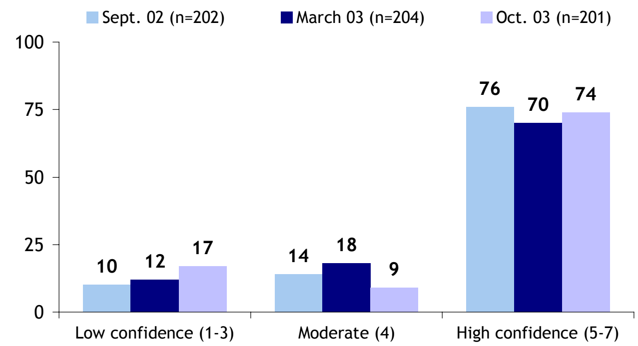
Perhaps reflecting their somewhat more optimistic view of the economy, Canadian pension fund holders also express more confidence in the prospects of their own pension plans being able to pay benefits when they retire.

In the second tracking study in March 2003, confidence in both defined benefit and defined contribution pensions declined. That decline has now reversed and most of the previous drop in confidence has been erased.

In general, people are more likely to be confident in a defined benefit plan (Figure 10). About three-quarters of those covered by such plans have high confidence that the plan will be able to pay their benefits when they retire, with plan members in Ontario leading the way.

**Figure 10**

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




{Base: ROC, defined benefit plan holders; percentages}

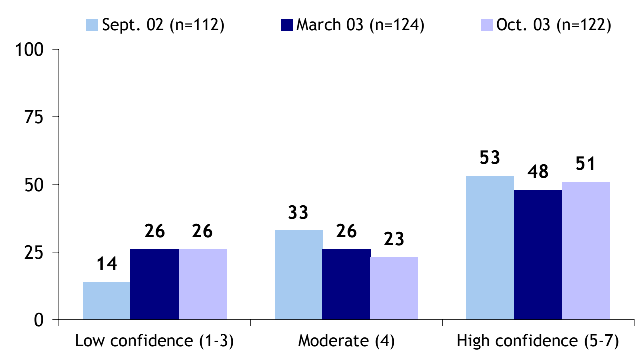
- High confidence is most pronounced in Ontario (79 per cent), and lowest among those without a postsecondary education (50 per cent)

Only about half of those enrolled in a defined contribution plan have the same level of confidence that their plan will be able to pay a reasonable amount of benefit when they retire, and a quarter say they have low confidence in such plans (Figure 11). As with defined benefit plans, this represents a slight rebound in confidence since the spring.

It is important to note that these two indicators are not directly comparable due to the wording differences, although it is clear that defined benefit plans garner more confidence.

**Figure 11**

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




{Base: ROC, defined contribution plan holders; percentages}

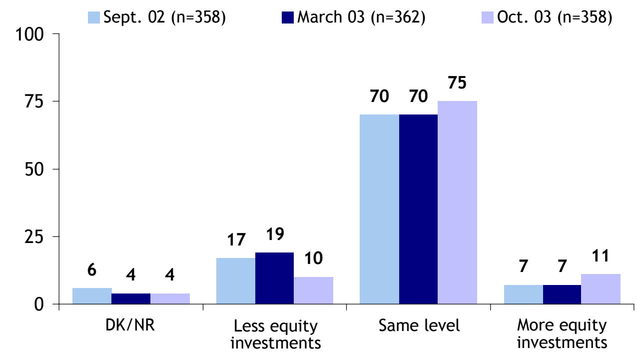
### *Pension plan members are slightly more bullish than they were in the past about plan assets being in the stock market*

The latest tracking study shows a very small, but noticeable, swing toward a preference for pension funds increasing the level of stock market investments.

When pension plan members were asked about their investment preference for their own pension fund, three-quarters state that they want the level of stock market investments in their plan to stay the same, while 11 per cent would like to see more investment in stocks, and 10 per cent would like to see less.

**Figure 12**

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: ROC, private pension plan holders; percentages}

However, in the previous survey in March 2003, only 7 per cent wanted to see more stocks in their plan, while 19 per cent said that they wanted to see less, so there has been some swing in favour of market investment.

There are some notable demographic differences with these findings:

- Female plan members continue to be more cautious about stock investments than men are, with 16 per cent (compared with just 6 per cent of men) saying that they would like fewer stocks in their plan
- The pre-retirement cohort strongly favour the status quo with 83 per cent indicating they would like to see the same level of equity investments
- Interestingly, those from the prairie provinces are more likely to favour increased stock market investments (23 per cent say more)

This more cautious attitude of women toward financial risk is reflected in several indicators and is noted in various places in this report. It suggests that communications designed to build confidence in the CPP Investment Board should not ignore women's approach to risk.

## Section Summary

### Economic Confidence, Private Investments and Pensions

*In general, Canadians assess the current state of the economy as being pretty good, and expect it to get even better in the next five to ten years*

- The generally optimistic public mood tends to add a rosy glow to responses on other issues that are more specific to the CPP Investment Board, such as attitudes toward investments
- More than two-thirds of Canadians have some funds set aside (in addition to any ownership of a residence), though amounts are generally modest and will not cover lengthy periods of retirement, especially if interest rates remain low

*Three in five employed Canadians belong to an employer-based pension plan*

- Enrolment is still tilted toward defined benefit plans, and a lot more pre-retirement boomers are in this type of plan. Younger cohorts are more likely to be in defined contribution plans.
- Members' confidence in an eventual payout from their own pension plans has recovered somewhat in the latest survey, and is highest for those in defined benefit plans
- While three-quarters are satisfied with the current level of stock market investments in their pension plans, the mood has swung marginally toward more investment in stocks, especially among men — women remain more cautious

# 4.0 Investment Markets

Many Canadians find financial issues confusing, but a growing number have confidence in their ability to understand the issues. In aggregate, they can properly place various investment types on a scale of risk and return, although risk, especially when related to retirement, generates some anxiety.

The indicators in this section are:

- Knowledge of Investment Finances
- Comfort with Market Volatility
- Long-term Earnings on Stock Markets
- Investment Professionals and Confidence
- Investment Risks
- Comparing Rates of Return
- Comparing Risk
- Taking Advantage of Weak Markets
- Section Summary

## Knowledge of Investment Finances

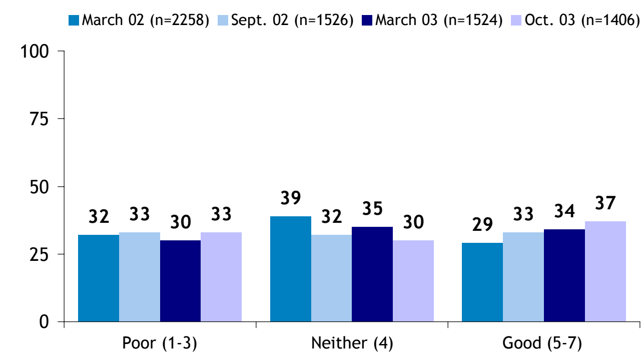
### *Canadians who rate their knowledge of investment finances as "good" now outnumber those who rate themselves as "poor"*

Since the Benchmark survey, there has been a slow but steady increase in the number of people who rate their own knowledge of investment finances as being "good."

In the latest measurement, 37 per cent rate their knowledge as being good, compared with 33 per cent who say their knowledge is poor. This represents a slight positive swing in self-assessment rating in the past two years from -3 percentage points in March 2002 to a +4 rating today.

**Figure 13**

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




{Base: ROC; percentages}

There are still, however, sharp differences between different segments of the population on this measure, as shown in Table 3.

Table 3: Knowledge of Investment Finances

(percentages; non-Quebecers)

| | | AGE | | | | EDUCATION | | |
|---|---|---|---|---|---|---|---|---|
| | Overall (n=1406) | <25 (n=138) | 25-44 (n=532) | 45-64 (n=531) | 65+ (n=196) | HS or less (n=458) | College (n=362) | University (n=575) |
| Good (5-7) | 37 | 21* | 37 | 42* | 45* | 26* | 36 | 49* |
| Poor (1-3) | 33 | 55* | 33 | 26* | 24* | 41* | 34 | 25* |
| RATING | +4 | -34 | +4 | +16 | +21 | -15 | +4 | +24 |

| | INCOME | | | | | | GENDER | |
|---|---|---|---|---|---|---|---|---|
| | <$20K (n=157) | $20-40K (n=231) | $40-60K (n=231) | $60-80K (n=215) | $80-100K (n=132) | $100K+ (n=227) | Male (n=636) | Female (n=770) |
| Good (5-7) | 23* | 27* | 31* | 43 | 51* | 54* | 44* | 31* |
| Poor (1-3) | 52* | 41* | 35 | 28 | 24* | 21* | 25* | 40* |
| RATING | -29 | -14 | -4 | +15 | +27 | +33 | +19 | -9 |

Table 1 clearly highlights the skews between these demographic segments. Most are predictable — those with more education, income and savings tend to give themselves the best rating for their financial knowledge. Seniors are also more confident in their knowledge of investment finances than the young.

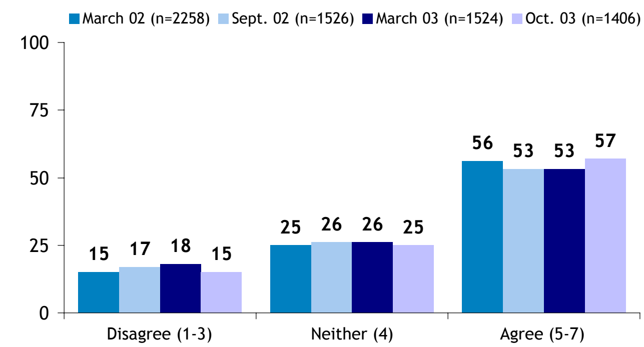
Women do not rate their financial knowledge as highly as men do, and this is undoubtedly one of the factors in their higher degree of risk aversion and caution in investment matters, as noted in a number of indicators in the remainder of the report. This is in part a gender-specific issue, but it is also strongly related to experience with investments — each of those subgroups with the lowest confidence in their knowledge of investment finances are the least likely to have investments.

## *Comfort with market volatility has recovered from its recent dip*

At the time of the last tracking survey, there was some concern that comfort with market volatility was starting to erode. That erosion has now reversed, and comfort is back to where it was when first recorded at the beginning of 2002.

**Figure 14**

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




{Base: ROC; percentages}

Overall, 57 per cent of Canadians believe that although stock markets go up and down all the time, over the long run they produce good results for investors. Only 15 per cent disagree, which represents a small but significant positive swing since the time of the last survey. A 41 percentage point agreement balance from the Benchmark dipped to 35 points last spring. It has now been restored to a 42 point advantage for agreement.

Among the various demographic groups, there are some differences in agreement with the concept of long-term returns.

- Those with higher incomes and education are most likely to agree — 71 per cent of those with a household income over $100,000 and 66 per cent of university educated individuals
- The 25 – 44 year old cohort is also more likely to agree at 64 per cent
- In general, men are more likely to agree with the concept than are women — 61 per cent vs. 53 per cent

Overall, those comfortable with market volatility now outnumber those uncomfortable by about four to one.

### Long-term Earnings on Stock Markets

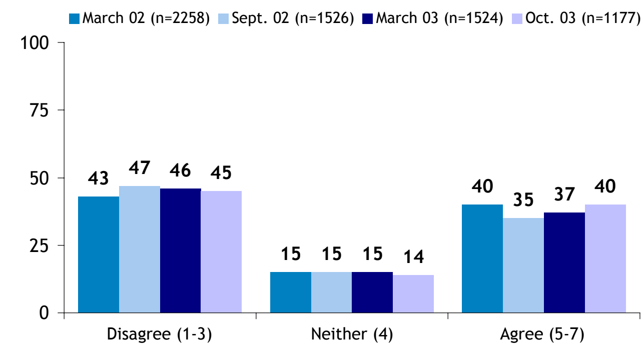
*As a place to invest for long-term returns, the stock market has recovered some of its lost appeal — even more so if described as* ***publicly traded stocks*** *– but there are still many doubters*

If they wanted to get the best returns on their savings and did not need the money for another 20 years, 40 per cent of Canadians agree they would invest it in the stock market. However, 45 per cent still disagree.

- ❖ Those most likely to support the market as the best place for long-term returns are men, the university-educated, investors and those with high levels of income

Figure 15

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: ROC; percentages}

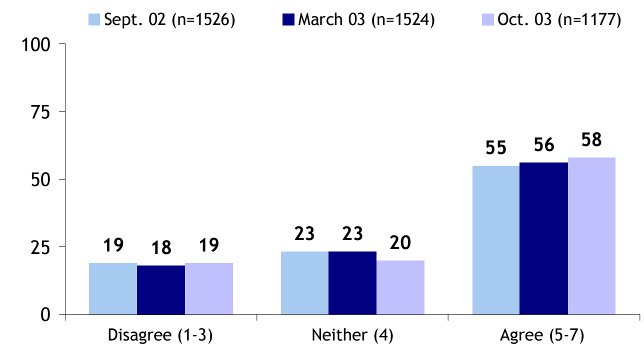
This finding reflects a balance of opinion very close to that first recorded at the beginning of last year. In the interim, opinion had tilted significantly against investment in the market, no doubt reflecting tough times and serious financial scandals.

*A majority agree it is a good idea to invest when stock markets are low to take advantage of long-term recovery – even more so when more neutral terminology is used*

People continue to agree that it is a good idea to take advantage of weak markets for long-term rewards. More than half (58 per cent) agree that someone who invests in stock markets at a time when they are performing poorly stands a good chance of making money because markets will recover over the long term. Just 19 per cent disagree.

**Figure 16**

**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: ROC; percentages}

This pattern of response is virtually unchanged since the question was first asked in September 2002. As might be expected, those with higher incomes and higher education are significantly more likely to agree with the proposition than those at the other end of the scale. Gender is also a factor — 64 per cent of men but just 53 per cent of women agree.

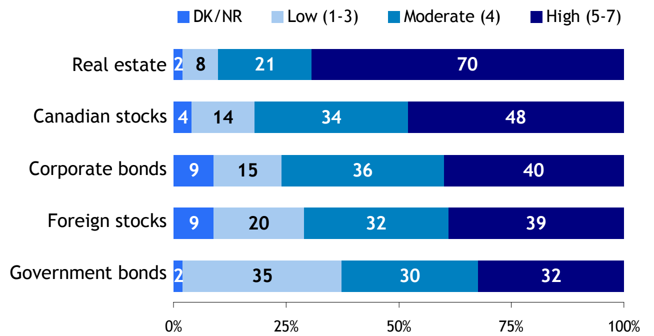
## Comparing Rates of Return

*Real estate is still seen most frequently as the best place for long-term returns, but stocks have recovered some of their attraction*

When thinking generally about the returns they could expect over the long term from different types of investments, more Canadians expect high returns from real estate than from any other investment vehicle (Figure 17). This has been the case since the first survey and the preference has grown stronger. This is not surprising as residential real estate markets have been strong across the country in the wake of record-setting low mortgage rates.

**Figure 17**

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 ...



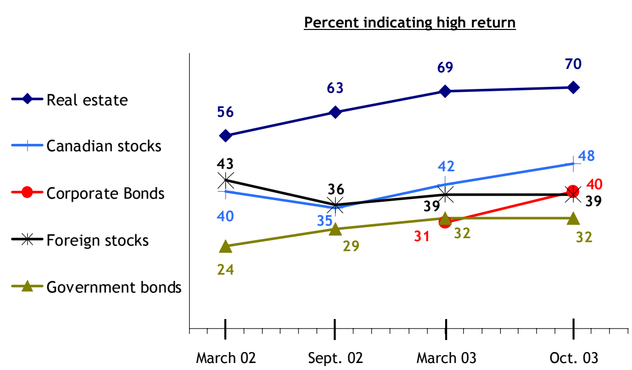

{Base: ROC, half sample; Oct. 03, n=693}

There has, however, been some change in the respective attraction of each type of investment as Figure 18 shows. Note, in particular, the increase since last year in the number of people assessing high returns for Canadian (but not foreign) stocks.

It is also worth noting the overall trend with investment returns. With the sole exception of foreign stocks, there has been a modest to strong increase in the number feeling all investments offer higher returns since early 2002.

**Figure 18**

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 ...




Canadians are increasingly optimistic about investment returns generally, driven by their increasingly confident view of the economy.

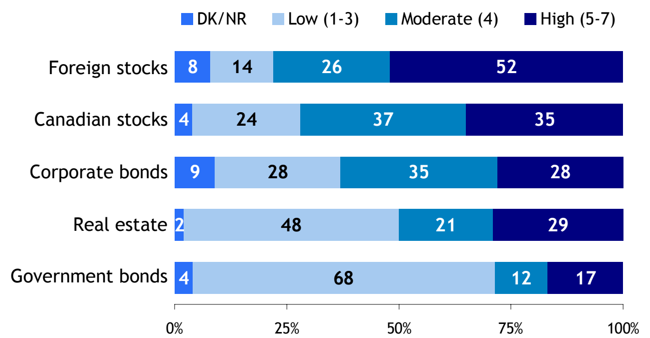
## *The pattern of risk associated with different types of investment remains very stable*

As Canadians envisage a pattern of long term returns that can be expected from different types of investment vehicles, they also maintain a clear pattern of risk associated with those vehicles.

Again in the most recent survey, more people associate high risk with foreign stocks than with any of the other investment vehicles measured. Interestingly, while 52 per cent associate high risk with foreign stocks, only 35 per cent associate the same level of risk with Canadian stocks, and this has not changed greatly over the course of the surveys.

**Figure 19**

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 …

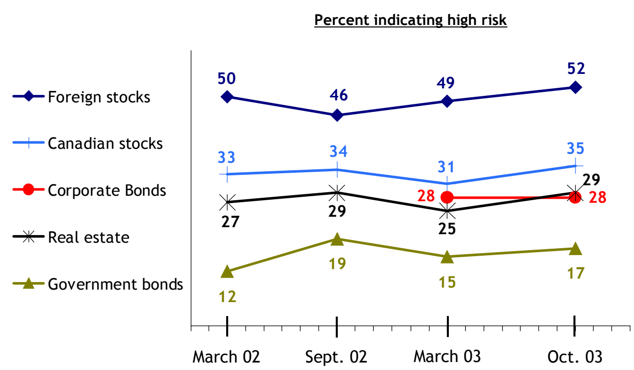



{Base: ROC, half sample; Oct. 03, n=713}

The pattern of risk associated with each of the investment vehicles is remarkably stable across the span of the surveys (Figure 20). Only government bonds have seen a notable increase in perceived risk.

**Figure 20**

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 …



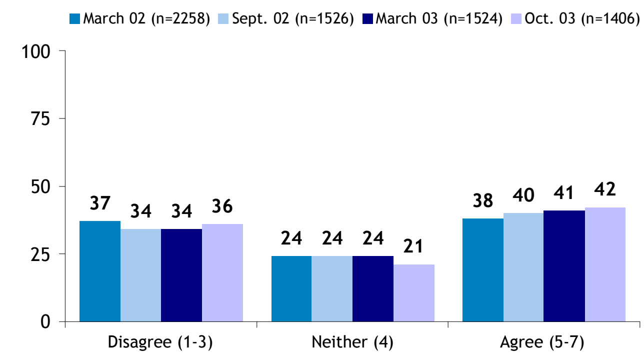
## Investment Risks

### *In general, Canadians' tolerance for investment risk has decreased slightly*

There is still a slight lean toward the idea that it is bad to take investment risks with savings to earn more money. When this question was first asked, there was an almost even balance between those who agreed it is a bad idea when investing savings to take risks to earn more money, and those who disagreed.

**Figure 21**

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




{Base: ROC; percentages}

In the interim surveys, the balance moved against taking risk, and the balance of opinion remains slightly adverse to the idea of investment risk — between early 2002 and 2003, the balance moved from just plus-1 percentage points to plus-7 points. It now sits at plus-6, as more continue to believe that taking investment risks is a bad idea than disagree.

Consistent with other indicators of this type, there are quite sharp differences on this question across various demographic segments.

- Those most likely to be risk-adverse are seniors, women and low income individuals
- Those with higher income and education, as well as those in the 25 to 44 age group, are most likely to disagree with the notion that taking investment risks is a bad idea

On a regional basis, residents in the Atlantic provinces are the most risk-adverse when considering how to invest their savings (51 per cent agree). Other regions are close to the national average, although only 39 per cent of Ontarians agree.

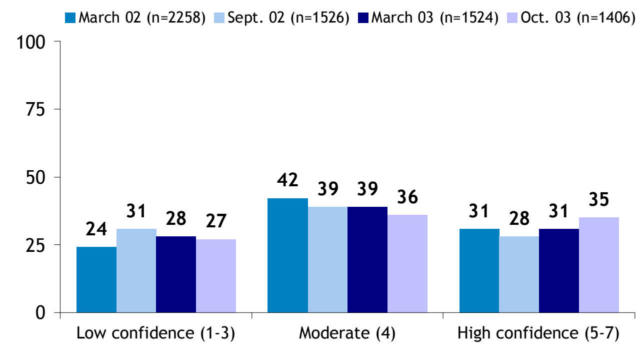
## *Investment professionals have recovered some of their cachet*

A year ago there were increasing doubts about the ability of investment professionals to obtain high returns in the stock market over the long term. More people had low confidence in the professionals' ability than had high confidence.

In the latest reading, 35 per cent of Canadians say they have high confidence in the professionals' ability compared with just 27 per cent who have low confidence. This is a significant swing in the past year, and again undoubtedly reflects Canadians' more positive outlook about the economy.

**Figure 22**

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




{Base: ROC; percentages}

There are no surprising differences in the ratings among various regional and demographic groups, with the usual exception that people with more money and education tend to be more positive in their assessment of the professionals' ability.

Again, men are somewhat more confident on this measure than women are, as are those between ages 25 to 44.

## Section Summary

### Investments Markets

*There has been a slow but steady increase in the number of Canadians who rate their knowledge of investment finances as good*

- Just over a third now rate their knowledge of investment finances as good — an 8 point improvement since the Benchmark survey was conducted
- There are sharp demographic differences in this self-assessment — in particular, those segments that are least likely to hold investments have lower confidence in their knowledge of investment finances

*Confidence in stock market performance has recovered from its recent dip*

- Well over half now look beyond short-term market fluctuations and believe in long-term returns
- More than half also agree that it is a good idea to buy stocks low and hold on for long-term rewards
- But, there are still many doubters that the stock market is the best place for long-term returns, though investment professionals have recovered some of their lost cachet

*Real estate is still seen most frequently as the best place for long-term returns*

- Domestic stocks have improved their reputation for good returns, and the risk associated with them is perceived as lower than with foreign stocks
- Government bonds are still seen as carrying the lowest risk and the lowest returns

*The idea of taking risks with savings to earn more money worries many people, particularly those least confident in their knowledge of investment finances*

# 5.0 Investing CPP Assets

In general, Canadians are not very well informed about the Canada Pension Plan, but they do have opinions about the appropriateness of different investment strategies for it. They also acknowledge that the CPP Investment Board can take a somewhat different approach to the markets than can individual investors.

The indicators included in this section are:

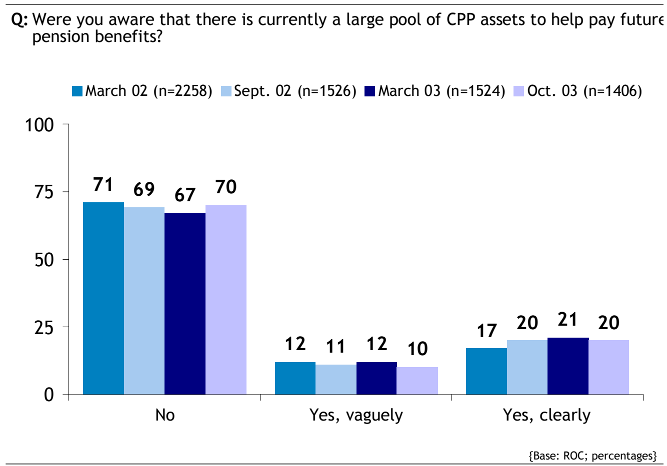
- Awareness of CPP Assets
- Risk vs. Benefits/Increased Premiums
- Investing CPP Assets and Diversified Portfolio
- Concerns about Investing CPP Assets
- Investing CPP Assets and Market Volatility
- Impact of Investing on Confidence
- Public Equities and Long-term Returns
- Public Equities and Sustaining the CPP
- Higher Returns vs. Cautious Investing
- Section Summary

## Awareness of CPP Assets

*There has been no increase in awareness of the large pool of CPP assets available to pay future pensions*

Prior to being asked about their awareness of the large pool of assets available to pay future pensions, respondents were read the following statement: "Currently, the total amount of contributions that Canadians pay into the CPP each year is much larger than 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 to pay pension benefits in the future." Respondents were then asked the question reported in Figure 23.

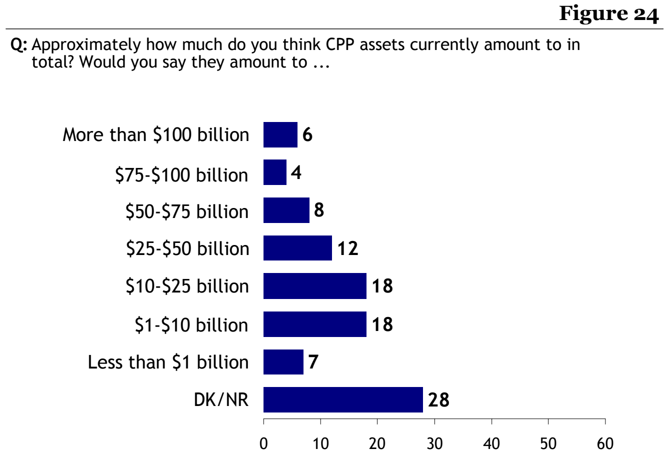
**Figure 23**




The past two surveys suggested that awareness of the pool was gradually spreading, but the current measurement suggests that, in essence, not much has changed. Still seven in ten Canadians report that they were unaware of the existence of the CPP pool until they were told about it. The rest were aware, but only one in five clearly knows of the pool's existence.

At the time of the survey, the pool of CPP assets available to fund future pensions had increased to more than $60 billion. Overall awareness of these assets has not increased in concert, though how important it is that the general public knows the exact size of the pool is another matter.

**Figure 24**




The results on this indicator are almost identical with those recorded in March this year, and are very similar to measurements made earlier on a somewhat different scale. Less that one person in five knows (guesses?) that the pool exceeds $50 million – virtually the same proportion as earlier this year.

More than a quarter are still not even prepared to hazard a guess.

## *Canadians lean toward taking reasonable risks when presented with the risk of either reduced benefits or increased premiums, but many are nervous*

Respondents were read the following statement to provide a basis for asking their opinions on the following series of questions: "CPP assets currently total approximately $62 billion. In 1997, the federal and provincial governments 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."

Respondents were then asked to choose between taking reasonable risks to maximize returns or to make the safest possible investments with CPP assets. One half of the sample was posed this question with the risk of reduced benefits (Figure 25); the other half with the risk of increased premiums (Figure 26).

Overall, the results indicate a fairly strong lean toward taking reasonable risk, and, after a downward blip last year, is almost identical with the finding earlier this year. Two out of five, however, prefer the more conservative course.

The fact that a significant minority of Canadians opt for the safest investment strategy, even if premiums have to rise or benefits be cut, is one measure of the pension's importance to their retirement plans.

**Figure 25**

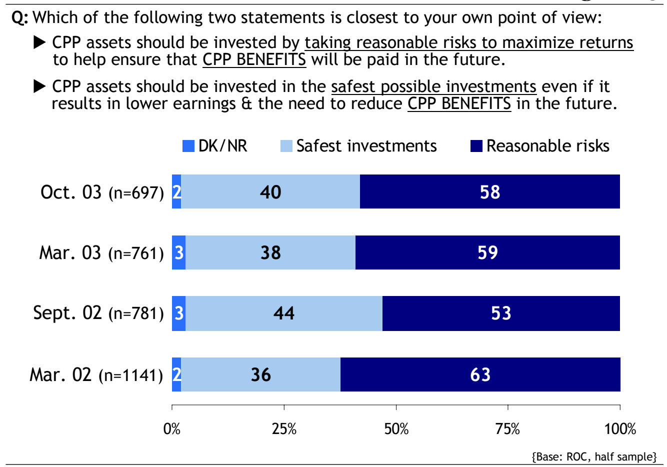
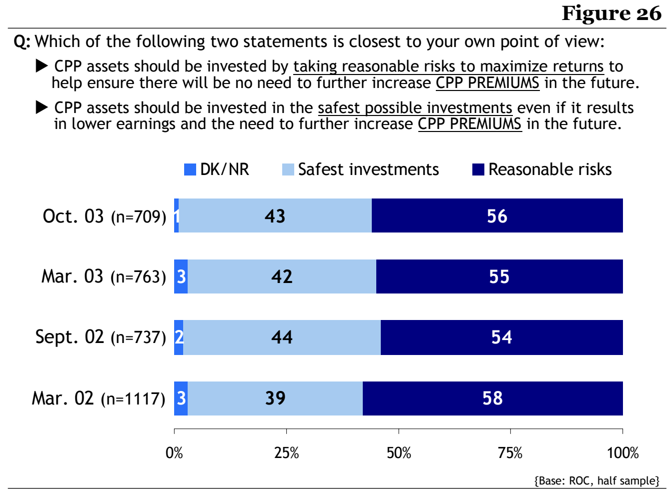



**Figure 26**



## Investing CPP Assets and Diversified Portfolio

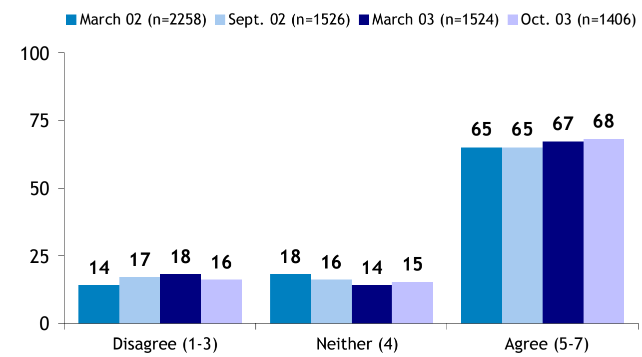
### *Support for some CPP assets to be invested in the stock market remains strong, provided that it is balanced with a mix of government bonds*

About two thirds of Canadians say that they would be okay with investing a portion of CPP assets in the stock market if they knew that the rest of the assets were invested in other kinds of investments like government bonds.

The reading has barely changed over the course of the surveys. What had appeared to be a slight upward movement in disagreement has stopped, reflecting, no doubt, the more positive mood that permeates this tracking study.

**Figure 27**

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.



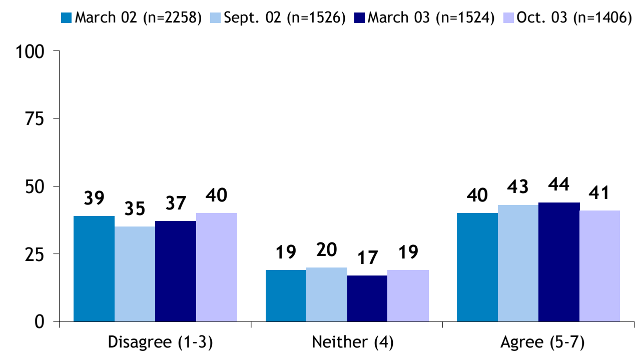

{Base: ROC; percentages}

Support for the concept is strongest among the usual groups who tend to favour market investments — males, the higher—educated and those with more income and investments.

*Fewer Canadians now say it is a bad idea to invest CPP assets in the stock market*

**Figure 28**

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: ROC; percentages}

Opinion has always been divided on the hard-line option that it is a bad idea to invest a portion of CPP assets in the stock market, because the CPP could lose a lot of money and not be able to pay future pension benefits.

In the first two tracking studies there was clearly a drift toward support for this hard line, but that has now reversed and the numbers have returned almost exactly to where they were at the time of the Benchmark survey — an even saw-off of opinion on the issue, with two in five people agreeing, two in five disagreeing and the rest being somewhere in between.

As in earlier surveys, there are differences in opinion between various demographic groups on this issue. Higher income and university-educated individuals, as well as men, those with greater investment savings and individuals between 25 and 44 years of age are all less likely to agree with the concept.

## Investing CPP Assets and Market Volatility

### *Concerns over market volatility and the ability of CPP asset investments to recover over the long-term have not improved*

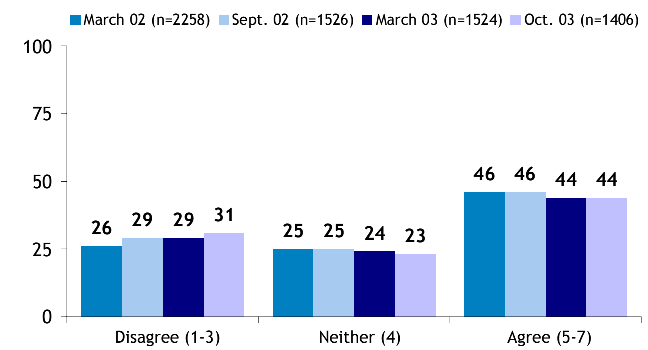
A plurality of Canadians continue to agree that although there may be occasional short-term losses if CPP assets were invested in stock markets, it would not bother them because the gains will more than compensate over the next twenty years.

Over the course of the three surveys, however, the proportion of people who disagree with this proposition has risen from 26 to 31 per cent, not hugely significant but a drift nevertheless.

It is somewhat surprising to see this trend given the rebound in comfort with market volatility discussed earlier in the report.

**Figure 29**

**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.



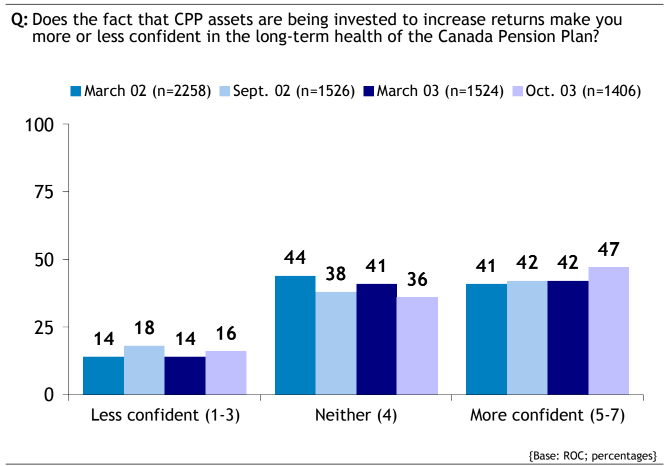

{Base: ROC; percentages}

As in many other measures around this subject there is a clear gender bias. Men agree with the proposition by a margin of two to one (53 per cent agree vs. 27 per cent disagree), whereas women are evenly divided (37 per cent agree versus 35 per cent disagree). There are similar differences between investors and non-investors, high and low income, as well as across educational segments, but they are not so strongly pronounced as with gender.

### *There is an uptick in confidence about CPP assets being invested to increase returns*

This indicator is a key overall measure of confidence in the CPP Investment Board's mandate. 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 health of the Canada Pension Plan.

**Figure 30**




In the latest measurement, 47 per cent say it makes them more confident, a significant jump from earlier surveys.

The number of people who feel more confident about the Plan's long-term health because of this investment activity continue to outnumber those who feel less confident by a margin of three to one. Looked at in terms of the balance of opinion, the most recent sounding shows a plus-31 percentage point rating (an improvement over each of the previous three surveys).

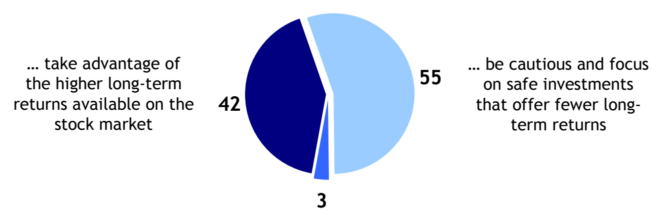
Those most supportive of the idea include people with higher education and incomes, although these differences are less pronounced than seen elsewhere. Moreover, there is no significant gender divide on this indicator.

## Higher returns vs. Cautious Investing

### *The public's overall lean is toward caution when investing CPP assets*

Figure 31

Q: The income made from investing CPP assets will not be needed to pay benefits for at least 18 years. Which of the following two statements is closest to your own point of view? When investing CPP assets, it's best to …




{Base: ROC; Oct 03, n=1406}

At the conclusion of running respondents through the questions reported above in this chapter, they were asked to state their general position towards risk and investing CPP assets on the stock market. Respondents were forced to choose between taking advantage of the higher long-term returns available on the stock market or being cautious and focusing on safe investments that offer lower long-term returns.

As a broad measure of the public's disposition towards risk and return, this indicator shows that Canadians are fairly split on the issue, but lean towards a more cautious approach.

This is effectively the reverse of the findings presented on page 29, where the lean was equally as much towards taking a more risky approach. The key differences between the two measures is that the former presents the countervailing risk of reduced benefits or increased premiums, while this indicator does not, instead it further specifies that higher long-term returns are to be found on "the stock market."

The issue of risk and return can be probed in a variety of ways. What is clear is that Canadians are as likely to be cautious as they are to be bold.

Some segments of the population are, of course, less cautious than others. Several unexpected groups are more likely than others to opt for the more cautious approach — seniors (66 per cent), low income (67 per cent), women (60 per cent), and those without a postsecondary education (60 per cent). What is not expected and somewhat surprising is that investors of all sizes are in line with the overall average (53 per cent opt for caution). The tendency to opt for returns over safety is evident among those with the highest incomes, however.

## Section Summary

### Investing CPP Assets

*The great majority of Canadians still have no idea about the existence of the CPP pension pool, and many are not even ready to guess at its size*

*There is support for the Canada Pension Plan being actively managed to increase returns ...*

- There is a lean toward taking reasonable risks with CPP investments, rather than cutting benefits or increasing contributions
- There is also support for some stock market investment as long as the rest of the assets are diversified into safer vehicles like government bonds
- There is agreement that short-term losses can be made up in the long term
- The fact that some CPP assets are being invested in the stock market contributes to overall confidence in the CPP, and not as many people say stock investment is a bad idea

*...BUT, the concept of risk makes many people (especially women) nervous*

- Support for stock market investment drops sharply the higher the proportion of CPP assets being invested there
- Half the population would still like to see CPP investments spread across the country, even if returns are lower

*The public's instinctive lean is toward caution when investing CPP assets*

# 6.0 CPP Investment Board

Only a small minority of Canadians has heard of the CPP Investment Board. This finding has not increased significantly in the past two years. It is still an institution that is known mainly by stakeholders. This section tracks the levels of awareness and knowledge of the CPP Investment Board, touches on issues about corporate accountability, and looks at how Canadians respond to some key investment concepts.

The indicators in this section are:

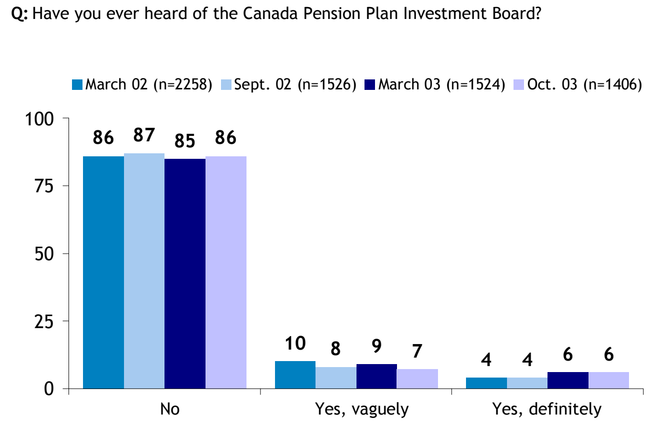
- Prompted Awareness of the CPP Investment Board
- Performance of the CPP Investment Board
- Media Reports on the CPP Investment Board
- Concerns about Political Influence
- Board Accountability
- Section Summary

## Prompted Awareness of the CPP Investment Board

### *There is no change in awareness of the CPP Investment Board*

When prompted and asked if they have ever heard of the Canada Pension Plan Investment Board, the great majority of Canadians admit that they have not, and, despite some coverage of the CPP Investment Board's activities in the business press, this has not changed in the past two years.

**Figure 32**



{Base: ROC; percentages}

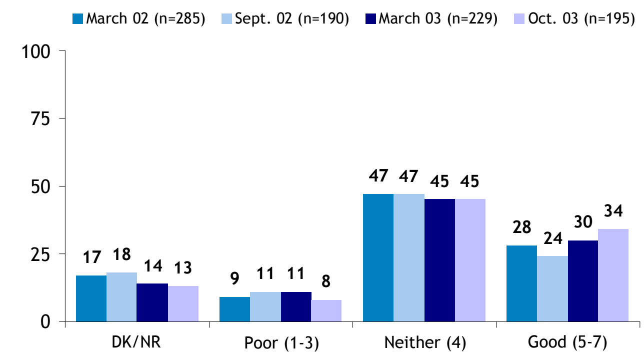
Among the minority (13 per cent) who do say that they have heard of the Board, either vaguely or definitely, there is some evident demographic, but not regional, skew. The highest awareness is, not unexpectedly, among those with investments over $250,000 (22%), seniors (21%), university educated (19%) and those with upper middle income (22%).

A slight gender bias is also evident — 16 per cent of males and just 12 per cent of females are aware of the CPP Investment Board.

## *There is a steady improvement in the CPP Investment Board's performance rating*

**Figure 33**

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




{Base: ROC, aware of CPP Investment Board; percentages}

Fewer than one Canadian in ten is aware of the CPP Investment Board, but among those who are, an increasing number rate the overall performance of the organization as being good. Only a very small minority give it a poor rating.

The Investment Board is not yet a household name, but among the few people who are aware, it appears to be picking up marks for its performance. The balance of opinion has been favourable since it was first tracked (+11 percentage points). This dropped off slightly after the summer of 2002, but has steadily improved since that time and now sits at a plus-21 rating.

## Media Reports on the CPP Investment Board

### *Recall of media reports about the CPP Investment Board remains at a very low level*

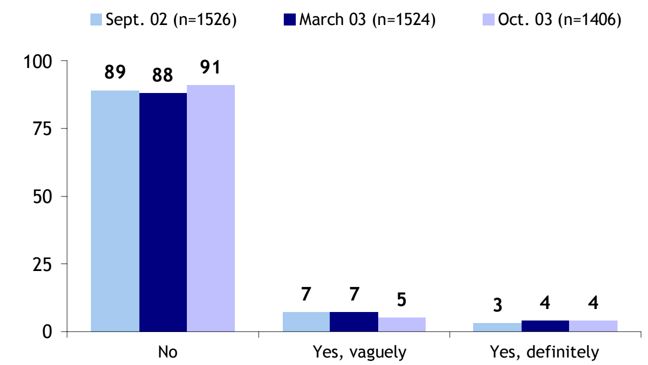
Despite coverage of the CPP Investment Board's activities and results in the media, 91 per cent of Canadians say they cannot recall any reports about the organization (Figure 34). Of the balance, 5 per cent say they vaguely remember something about it, and just 4 per cent say they definitely remember a report.

This very low level of awareness has not changed in the past year.

Those with high levels of investments and seniors are the most likely to recall a report about the CPP Investment Board, but in no case at more than very low levels.

**Figure 34**

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



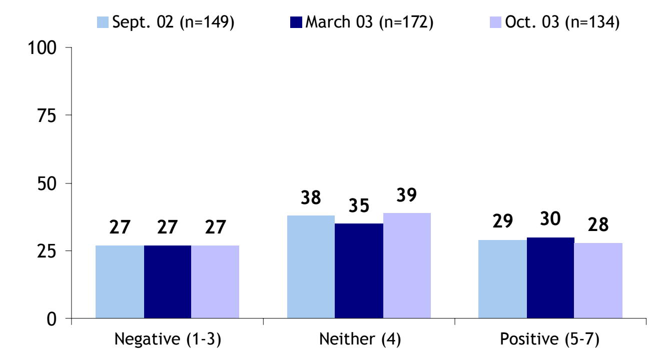

{Base: ROC; percentages}

In the past year, media reports about the CPP Investment Board have had no evident impact in either a positive or negative direction. The small number of people (9 per cent) who say they recall a report in the media about the CPP Investment Board were asked whether the tone of the report was positive or negative (Figure 35).

Given that half these people say their recall of the report was only vague, it is not surprising that more than a third cannot characterize its tone. Of those who do recall the report in more detail, a little more than a quarter say the report was positive and the same number say it was negative.

**Figure 35**

**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: ROC, recall media reports; percentages}

There are too few respondents in each demographic grouping to draw any conclusions about media impact on demographic or regional segments.

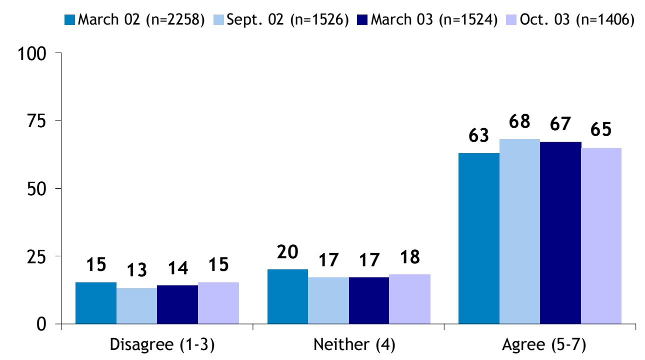
### *Worries about potential political interference remain high but have decreased slightly in the past year*

The threat, real or perceived, of political interference in the CPP Investment Board's activities has always been a sensitive subject. The Benchmark survey found that about two-thirds of Canadians say they are worried that there may be political influence in the way CPP assets are invested.

The latest tracking survey confirms that the issue is still of concern to a substantial majority of Canadians, but the number is not increasing, and in fact, the trend is slightly downward in the past three surveys.

**Figure 36**

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




{Base: ROC; percentages}

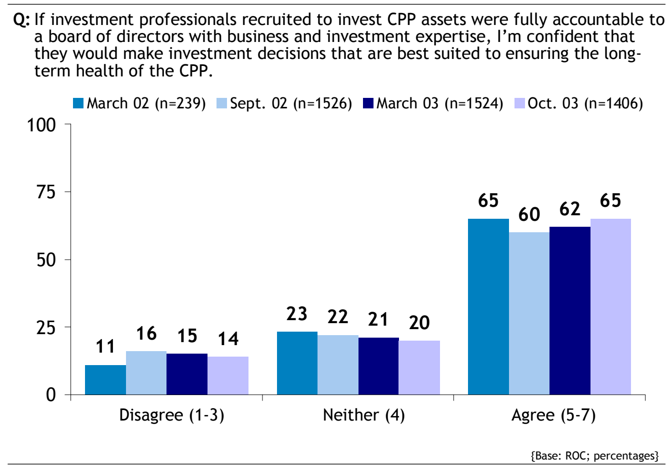
The concern is expressed equally across all demographic and regional groups. Albertans are the most likely to have worries about this issue at 71 per cent, while 74 per cent of people who have investment portfolios in excess of $250,000 also express this concern. In general, however, there are no sharp differences across the various groups, and concern about this issue remains at a consistently high level across all segments.

## Board Accountability

### *The board governance model continues to generate confidence*

As an offset to the concern about potential political interference, the board governance model is an important part of building confidence in the CPP Investment Board's activities. To measure continuing confidence in the model, respondents are asked whether they agree or disagree with the following statement: "If investment professionals recruited to invest CPP assets were fully accountable to a board of directors with business and investment expertise, I'm confident that they would make investment decisions that are best suited to ensuring the long-term health of the CPP."

**Figure 37**




In the first tracking study, right after revelations about serious scandals on Wall Street, agreement with the proposition declined from the level first recorded at the time of the Benchmark. It has now recovered to where it was at that time, although slightly more continue to disagree.

There are no sharp differences in agreement with this proposition across the regions or demographic segments, but large investors are even more likely to agree with it than the public at large, which is a favourable finding. Those from BC and Alberta are, however, more likely to disagree with the statement (18 and 20 per cent, respectively). A similar level of cynicism can be found with those in the youngest age group (20 per cent disagree).

## SECTION SUMMARY

### CPP Investment Board

*The CPP Investment Board is not yet a household name*

- Less than 1 Canadian in 16 is definitely aware of the CPP Investment Board
- Among those who have heard of the Board, its positive performance rating far outweighs its negative rating

*Awareness of media reports about the CPP Investment Board is at a very low level*

- Only 1 in 25 can definitely recall any media reports about the CPP Investment Board
- Among the few who do recall a report, as many say the report was positive as say it was negative

*Widespread confidence in the board accountability model could act as a counterbalance to the deeply held concerns about political interference*

# 7.0 Perceptions of the CPP

This section contains indicators that track Canadians' overall assessment of the performance of the CPP, their expected reliance on it for retirement, and their confidence that it will be there when they need it.

The indicators in the section are:

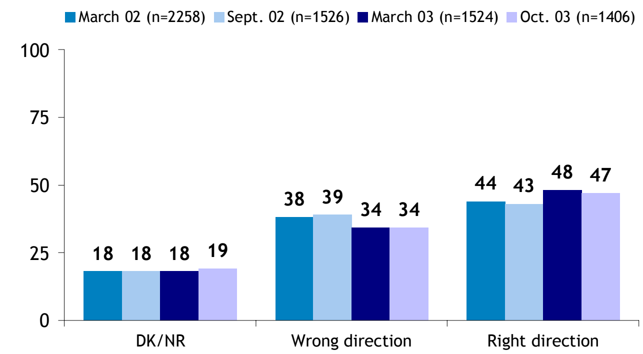
- Overall Direction of the CPP
- Return on Investment
- Expected Reliance on the CPP
- Overall Viability of the CPP
- Section Summary

## Overall Direction of the CPP

### *Almost half of Canadians think the CPP is now going in the right direction, but still a third disagree*

**Figure 41**

**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)

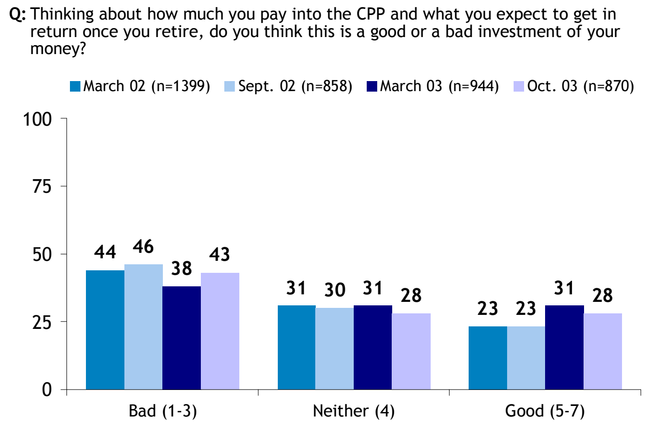
The past year has seen some improvement in perceptions of the CPP — just under half of Canadians say, all things considered, the overall health of the Canada Pension Plan is moving in the right direct. This is a few points higher than a year ago, but still about a third say it is moving in the wrong direction. A significant number continue to hold no opinion on the issue as almost 2 in 10 offer no response or feel they do not know enough about the issue.

There are some quite sharp differences among population segments, particularly on a regional basis:

- Regionally, more people say the CPP is moving in the right than the wrong direction in all parts of the country except Alberta, where 51 per cent say it is going in the wrong direction.
- Another negative group is the 25 to 44 year olds, 47 per cent of whom feel the direction is wrong. Similarly, 51 per cent of those without a postsecondary education feel the same way.
- On the positive side, 72 per cent of seniors and 47 per cent of boomers say the direction is right, as do those with less education and income (and presumably those who will be most dependent on their public pension).

## *A lot of Canadians still don't think the CPP is a very good investment of their money, and the generations are divided on this assessment*

**Figure 42**




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

When asked to think about how much they pay into the CPP and what they expect to get in return once they retire, 43 per cent of Canadians say it is a bad investment of their money, compared with just 28 per cent who say it is a good investment. The rest see it as something in between.

Over the period of the four surveys, results have been trending slightly positive, but there is still a way to go before the CPP is generally considered to be a good deal. This sounding has shown a jump in the number who feel it is a bad investment.

There is a quite sharp age split in this measurement. The boomers are more positive than negative, while the post-boom generation is much more negative — 54 per cent of this generation say it is a bad investment of their money compared with just 20 per cent who say it is good.

Alberta is also persuaded that the CPP is a bad investment. In that province, for some reason, 66 per cent say it is bad, compared with just 18 per cent who say it is good, a statistic that is not even approximated in any other region of the country.

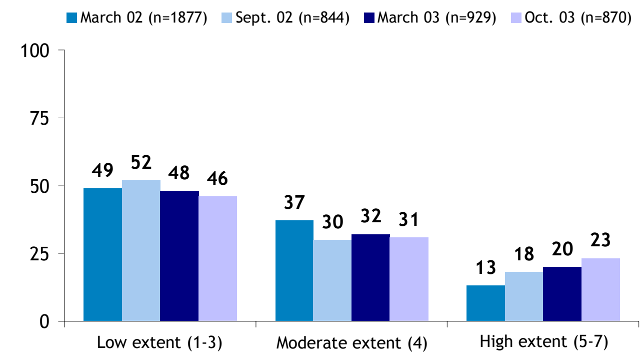
## Expected Reliance on the CPP

*A steadily growing number of Canadians expect to rely heavily on the CPP pension when they retire — but not the generation the CPP Investment Board is programmed to benefit most*

At the time of the Benchmark survey in March 2002, just 13 per cent of Canadians said that they plan to rely to a large extent on the CPP for their retirement income. That number has now increased to 23 per cent, undoubtedly reflecting the harder economic times of the past two years when stock values plummeted, as well, perhaps as a modestly growing realization about the long-term stability of the plan.

**Figure 43**

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




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

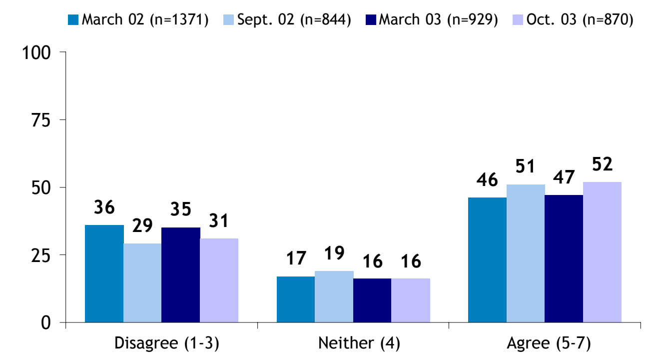
Not surprisingly, the extent of dependence varies greatly among different population segments.

- While significantly more of the boomers (33 per cent) say they plan to rely on the pension to a large extent, significantly more of the post-boomers (55 per cent) say they will only rely on it to a small extent. Clearly, the message about the CPP Investment Board is not getting through to the segment of the population who stand to benefit most from its activities.
- Very few Albertans also expect to rely on the pension to any great extent.
- Those who do expect to rely on the pension for retirement income include those who are lower on the income and education scales. Women also expect to be more dependent on the pension than do men.

## *Still more than half of all CPP contributors think the CPP will be out of money by the time they retire*

**Figure 44**

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




{Base: CPP contributors; percentages}

Despite the best projections of the Chief Actuary, slightly more than half of contributors to the CPP believe that the plan will be out of money by the time they retire. It's no wonder that many say that their contributions are a bad investment!

Again the most sceptical are the post-boom generation. Three out of five — 61 per cent – of this segment believe that the CPP will be out of money by the time they retire. On the other hand, the balance of opinion among the boomers is slightly in favour of the plan, the only demographic segment (apart for large savers), in which this is the case.

- In Alberta, two-thirds (65 per cent) believe the plan will be out of money. Why so many more people should believe this in Alberta than in any other part of the country requires investigation.
- A gender divide is also evident. Among women, twice as many agree that the plan will be out of money as disagree. Opinion among men is more evenly split.

## SECTION SUMMARY

### Perceptions of the CPP

*About a half of Canadians think the CPP is going in the right direction and a third think it is on the wrong track – no change from the last survey*

- More people think that their contribution to the CPP is a bad rather that a good investment, and this is particularly true of the post-boom generation
- Albertans are also much more negative toward the CPP than are other people

*More than half of all contributors think the CPP will be out of money by the time they retire*

- 61 per cent of the post-boom generation and 65 per cent of Albertans believe this to be the case

*Despite their concerns about the CPP's future, a steadily increasing number expect to rely heavily on their pension when they retire*

- Downturns in the stock market may have taken a toll – a third of the boomers now expect to be heavily dependent on their CPP pension
- More than half the 25 – 44 year old cohort (the group that can expect to benefit most from the CPP Investment Board's work) expect to have little reliance on it

# Technical Appendix

This appendix contains a detailed discussion of the technical aspects of the Confidence Index and also presents a demographic profile of the Index segments.

# 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.

## Demographic Profile of Index Segments

Table 4 summarizes the demographic profile of the segments generated by the Confidence Index.

### Table 4: Demographic Characteristics of Index Segments

(Index score)

| | INDEX SEGMENT | | | |
|---|---|---|---|---|
| | Weak (n=213) | Low (n=441) | Moderate (n=414) | Strong (n=338) |
| INCOME | | | | |
| $100,000 and over | 14 | 13 | 16 | 29 |
| $80,000 to $99,999 | 9 | 9 | 14 | 11 |
| $60,000 to $79,999 | 15 | 15 | 21 | 19 |
| $40,000 to $59,999 | 21 | 21 | 17 | 18 |
| $20,000 to $39,999 | 23 | 25 | 19 | 13 |
| Under $20,000 | 19 | 18 | 14 | 10 |
| EDUCATION | | | | |
| University | 29 | 33 | 39 | 52 |
| College | 26 | 29 | 29 | 21 |
| High school or less | 45 | 38 | 32 | 27 |
| AGE | | | | |
| 65 and over | 14 | 21 | 12 | 14 |
| 45 to 64 | 32 | 29 | 29 | 31 |
| 25 to 44 | 38 | 35 | 43 | 40 |
| Under 25 | 14 | 15 | 16 | 15 |
| GENDER | | | | |
| Males | 44 | 42 | 53 | 57 |
| Females | 56 | 58 | 47 | 43 |
| INVESTORS | | | | |
| Investor | 59 | 60 | 73 | 79 |
| Non-investor | 40 | 37 | 26 | 21 |

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

The strong and moderate segments are also more likely to have investments, although 6 in 10 of the weak and low segments also have investments.