Study: The Long-term Effects of Employer-sponsored Pension Plans on Non-workplace Returns on Investments

Released at 8:30 a.m. Eastern time in The Daily, Monday, January 14, 2019

Amid the decline in employer-sponsored pension plan (EPP) coverage in Canada over the past several decades, the onus to accumulate private wealth for retirement is increasingly falling on individuals. This raises questions regarding the savings behaviour of individuals.

Previous studies have investigated how EPP coverage affects the amounts employees invest in non-workplace savings vehicles, such as registered retirement savings plans. However, little is known about the effect of EPP coverage on the financial performance of employees' non-workplace investments. A better understanding of this issue would provide insights into how the decline in EPP coverage may affect the future financial well-being of today's workers.

Belonging to an EPP might increase or decrease the financial performance of employees' non-workplace investments.

Belonging to an EPP may lead workers to enhance their financial literacy by prompting them to start thinking about their financial prosperity earlier in life. Increased financial literacy may improve the financial performance of employees' investments. Belonging to an EPP may also lead workers to invest in riskier financial assets that might yield, on average, higher rates of return.

However, investment portfolio choices, implicit suggestions or advice, and default options that are sometimes associated with EPPs could lead workers to devote less time and attention to their non-workplace investments, thereby potentially reducing the resulting rates of return on these investments.

Prior to this study, it was unknown whether having a pension plan has a large or small impact on one's returns on investments.

To investigate whether belonging to an EPP increases or decreases the rates of return on employees' non-workplace investments, this study assesses the relationship between past EPP coverage and investment performance in tax-free savings accounts (TFSAs) for a representative sample of approximately 345,000 Canadian tax filers from 2009 to 2013. To infer causality, comparisons in TFSA rates of return are drawn across individuals with different availability of EPPs by cohort, sex, and industry of employment.

The study shows that, on balance, EPP coverage has a positive but modest effect on TFSA performance. Estimates suggest that belonging to an EPP at some point in the past leads to a higher average rate of return in TFSAs of approximately 0.50% to 1.25% over the five years since this savings vehicle was introduced. Since the average market value of TFSAs amounted to about $11,600, this implies that belonging to an EPP raises the financial performance of TFSAs by between $60 and $145 over a five-year period.

Therefore, while belonging to an EPP helps boost individuals' non-workplace investment performance by a statistically significant amount, the magnitude of this effect is economically modest.

The research paper "The Long-term Effects of Employer-sponsored Pension Plans on Non-workplace Returns on Investments," which is part of the *Analytical Studies Branch Research Paper Series* (**11F0019M**), is now available.

For more information, contact us (toll-free 1-800-263-1136; 514-283-8300; **STATCAN.infostats-infostats.STATCAN@canada.ca**).

To enquire about the concepts, methods or data quality of this release, contact Derek Messacar at 709-351-1018; (**derek.messacar@canada.ca**), Social Analysis and Modelling Division.