OCRA Ontario Colleges Retirees' Association

**Ontario Colleges Retirees' Association Report on
the CAAT Pension Plan's "GROWTHplus" Investment Option:**

<u>On Balance an Excellent Opportunity</u>

December 6, 2024

Executive Summary

Preamble:

The purpose of this report is to provide Ontario college employees, including faculty, support staff and management with enough information to make an informed decision as to whether or not they wish to consider participating in CAAT's "GROWTHplus" Investment Account. The GROWTHplus option would allow the CAAT Pension Plan to administer some, or all, of college employees' personal registered investments.

What is the CAAT GROWTHplus option:

A GROWTHplus investment account is an option that members of the CAAT Pension Plan can use to transfer their existing registered account(s) be they a RRSP, RRIF, LIRA or other. GROWTHplus will allow them to earn the same return on their registered accounts as the CAAT Pension Plan generates on its pension fund. The current net rate of return for the CAAT Pension plan is an exceptional 9.5% for 2023 and 9.3% on a ten-year annualized basis. Full details are available at the GROWTHplus member handbook.

OCRA's Opinion:

It is the opinion of the Ontario Colleges Retirees' Association (OCRA) Board that once the proper due diligence has been undertaken by each individual investor that, on balance, the CAAT GROWTHplus Investment option represents a **substantial opportunity** for OCRA members to potentially enhance their long-term investment returns on the registered portion of their retirement funds.

Personal Finance – The Basics:

Before you give serious consideration to CAAT's GROWTHplus plan as an investment option for your registered accounts it would not only be helpful, but is in fact critical, to consider some general issues on personal finance:

- Markets:
  - No one knows where stock and bond markets will be in 6 months. When the pandemic hit in March 2020 everyone thought markets were going to suffer serious setbacks for at least the balance of that year. What happened? Government stepped in, provided extended financial support for both individuals and businesses and everybody kept on buying. As a result, markets rallied and corporate north American companies realized significant profits.
  - Yet in 2022, when the pandemic began to subside, inflation pressures and supply chain issues hit home. As a result, inflation shot up, interest rates were increased significantly and markets suffered increased volatility and most lost ground for that year.
  - By 2023 the investment market had turned again and despite fears of a recession from the high interest rate environment we were living in, the economy kept on chugging along and 2023 turned out to be a robust year for investment returns. So, to reiterate, although markets traditionally go up over the long term, it is very difficult for anyone determine the direction of financial markets on a consistent basis.

- Advisors:
  - If you have only limited knowledge of financial markets and you are unsure of financial market outcomes the best thing to do is get a trusted advisor and be well-diversified across a range of assets (stock, bonds, real estate etc.).
  - What do we mean by a "trusted advisor?" It can be challenging for individual investors to choose an advisor. If you're interested in getting some additional advice/input on how to choose a financial advisor here's a link that might help as you begin your journey MoneySense: Find a Qualified Advisor. (NOTE: OCRA has no relationship with the publisher of the article and this link is provided for information purposes only.)

- Investment Fees:
  - First, let's define what investment fees are: Investment fees are the amount of money that is charged by your financial advisor to pay for the services that are rendered to you, the investor. These fees include:
    - the advice that a broker offers on a range of topics
    - the trading fees that are charged when you actually buy/sell any investments
    - the fees charged by various securities that you buy (such as mutual funds or Exchange Traded Funds, ETF's)

It is important to know that the amount of money you pay to your advisor in fees is absolutely critical to the long-term performance of your investments.

Here are some things to consider when it comes to investment fees.

- If an investment portfolio was made up of 50% fixed income (bonds) and 50% Canadian and foreign equities you might expect a return in the range of 5%.[i]
- Investment fees will vary depending on type of asset that is purchased, but fees typically range from 0.5% to 2.5%.[ii]
- The fee level that is paid to your financial advisor will also vary depending on the size of the portfolio. A common fee structure might look like this:
  - .5% for large portfolios – $1,000,000 plus
  - 1.5% - 2% (or more) for smaller portfolios - $100,000-$250,000
- These fee levels may sound inexpensive to some, but consider this example:

  - An individual investor with a 100,000 investment portfolio achieves a 6% return which provides $6,000 in profit i.e. $100,000 x 6% = $6,000

  - If the advisor charges a 2% fee, and this is the important part, **the fees are charged based on the total assets being managed i.e. the entire $100,000** that was invested i.e. $100,000 x 2% = $2000

  - **$2000 is 33% of the $6000 profit you generated for the year**

  - **Over 20 years the 2% you paid every year would wipe out almost 35% of the total value of your investments**[iii]

- To examine these shocking fee costs in greater detail **go to pages 8, 9 at the end of this report to see the two charts** that have been set up:
  - 1) Table 1-1 shows 20 years of investment growth with no fees
  - 2) Table 1-2 shows 20 years of investment growth with a 2% fee
- In addition to the cost of the fee itself you should also consider the lost growth in your portfolio due to fees. This means that a financial advisor will deduct the fees from your account and when they do that money is no longer available in the future for you to invest.
- The advisor's fee, once it's deducted, is gone forever. It might not seem like a lot of money, but it adds up. You don't just lose the amount of fees you pay—you also lose all the growth that money might have had for years into the future.

Now that we've established a few of the basic elements of personal investing, we can move on and look at the pros and cons of CAAT's admirable track record as a manager of financial assets.

CAAT GROWTHplus Option: Opportunities:[iv]

- CAAT's pension fund track record has been excellent:
  - 20.1 billion in assets under management (AUM)
  - 9.5% rate of return for 2023
  - 9.3% annualized rate of return for past 10 years
  - 124% funded i.e. for every pension dollar owed, CAAT has 1.24 available. NOTE: Should the funding status of the CAAT Pension Plan decrease from current levels this will not impact GROWTHplus balances.
- There will be **no minimum investment required** if you open a GROWTHplus account. You can contribute as much or as little as you wish.
- In the all important category of fees, that we spent so much time on above, CAAT will be charging only what is required to recover their costs to administer your GROWTHplus account which will be a **very attractive .3% i.e. that is 3/10 of 1%**. This fee is very attractive and comparable to the lowest cost investment vehicles available today and is nowhere near the approximate 2% that many financial advisors currently charge their clients.
- All registered funds will be eligible for the GROWTHplus option including RRSP's, RRIF's, LIRA's etc.
- Currently, CAAT plan members can initiate deposits to GROWTHplus before the end of the year they turn 70. For members who are past the year in which they turn 70 CAAT expects to be able to accept deposits by early 2026.
- CAAT is not just the twenty-four Ontario colleges anymore. CAAT now provides investment services for 370 employers, plus 21 unions. CAAT's expansion has increased its asset base and with it their investment opportunities.
- CAAT has an exceptionally large pool of investors: 94,500 members – 24,600 of which are retired.[v]
- CAAT will administer the fund in a manner similar to the type of services provided by the major financial institutions:
  - Members over age 71 can set up monthly/quarterly withdrawals
  - CAAT will deduct the necessary income tax withholding prior to sending your cheque or making a direct deposit to the account of your choice
  - Members will receive annual statements with account balances
  - Members will be able to access the member portal for more frequent updates on year-to-date deposits and withdrawals.
  - CAAT will also provide a member call-in service just as most financial institutions do at present
- A diversified portfolio is considered fundamental to managing risk and the asset mix for the pension fund is well diversified with exposure to a broad range of asset classes (stocks, bonds, private equity etc.).

CAAT GROWTHplus Option: **Challenges**:

- How many eggs will you have in one basket? i.e. if you have both your college retirement pension and your RRSP or RRIF funds etc. invested with CAAT you might also want to consider the degree of risk that exists having so much of your money invested in one place.
- Individual investors who choose to join the CAAT GROWTHplus option will not have any ability to self-direct their investments. Any funds that an investor commits to GROWTHplus will be deployed based on CAAT's current allocation of assets.
- Spousal RRSP's are not eligible for GROWTHplus
- CAAT pension fund had a (2.3%) negative rate of return as recently as 2022.[vi] (See page 2 above for more on 2022 being a difficult year for investors.) However, it should also be noted that even in that challenging environment CAAT outperformed the majority of other pension plans given that the average return for all Canadian defined benefit pension funds was a -7.48% negative rate of return for 2022.[vii]
- 2008 financial crisis loss was significant i.e. 5.4 billion in assets in 2007 to 4.2 billion for 2008 (22%) negative return. Full recovery was not reached until 2011.
- As noted above, CAAT is expanding the pension plan aggressively i.e. eighty one new employers in 2023 alone. CAAT is no longer just for colleges. Many private and for-profit firms are now included.
    - It should also be noted that to our knowledge CAAT has fully maintained its responsibility to perform the proper due diligence on any prospective members that have sought to join the pension plan and there have been no concerns to date regarding the financial viability of any new or existing members.

Next steps:

Do your own research before making any final decisions (or get someone to assist you).

1. Determine how your own investments have performed in recent years.
2. Determine **exactly** what you are paying in fees.
3. List the services available from your current financial advisor and determine which of these services you currently use.
4. Perform an investment risk assessment analysis on yourself.
5. Key questions to ask your financial advisor.
6. Consider reviewing the CAAT Annual Report for 2023.

Glossary:

- Assets Under Management (AUM)
  - Assets under management is the total market value of the investments managed by a person or entity (such as CAAT) on behalf of investors.

- Equities:
  - Equities are stocks issued by a publicly traded company. Equities often provide the primary source of growth in an investment portfolio.
- Bonds:
  - A bond is an investment product where individuals lend money to a government or a company at a certain rate of interest for an amount of time. The government or company repays the individual with interest in addition to the original face value of the bond.

- Commodities:
  - Raw materials or agricultural products i.e. gold or copper are considered raw materials

- Cost recovery fees:
  - Fees are only charged to recover the cost of the administrative handling of the portfolio. This type of fee structure would normally include the actual cost of making the investment decision.

- ETF's
  - An ETF is an "Exchange Traded Fund." Buying an ETF is like buying a basket of securities that are public traded. An ETF seeks to replicate the performance of the basket of securities it represents. XIC is an ETF that broadly represents the Toronto Stock Exchange (TSX).
  - ETFs are bought/sold on a stock exchange just like individual stocks.

Appendix 1:

Table 1-1 below indicates what the value of your investments will be if you had $100,000 invested and you achieved a return of 6% for 20 years if there were **zero fees** being charged. You can see that your $100,000 would have increased to $320,714. This example also assumes that you made no additional contributions to, or withdrawals from, your accounts during the 20 year period.

Table 1-1

Year	Total Investment	Annual Return %	Annual Return $	Fee %	Fee $	Net investment
2000	100000	6%	6000	0	0	106000
2001	106000	6%	6360	0	0	112360
2002	112360	6%	6742	0	0	119102
2003	119102	6%	7146	0	0	126248
2004	126248	6%	7575	0	0	133823
2005	133823	6%	8029	0	0	141852
2006	141852	6%	8511	0	0	150363
2007	150363	6%	9022	0	0	159385
2008	159385	6%	9563	0	0	168948
2009	168948	6%	10137	0	0	179085
2010	179085	6%	10745	0	0	189830
2011	189830	6%	11390	0	0	201220
2012	201220	6%	12073	0	0	213293
2013	213293	6%	12798	0	0	226090
2014	226090	6%	13565	0	0	239656
2015	239656	6%	14379	0	0	254035
2016	254035	6%	15242	0	0	269277
2017	269277	6%	16157	0	0	285434
2018	285434	6%	17126	0	0	302560
2019	302560	6%	18154	0	0	320714

Table 1-2 indicates what the value of your investments will be if you had $100,000 invested and you achieved a return of 6% for 20 years with a **fee of 2%** being charged. You can see that your $100,000 would have increased to only $214,111 vs. $320,714 generated with no fees. This example also assumes that you made no additional contributions or withdrawals from your accounts during the 20 year period.

THE VALUE OF YOUR INVESTMENTS WITH THE 2% FEE IS ALMOST 35% LESS THAN THE VALUE WITH NO FEE!

Table 1-2

Year	Total Investment	Annual Return %	Annual Return $	Fee %	Fee $	Net investment
2000	100000	6%	6000	2%	2120	103880
2001	103880	6%	6233	2%	2202	107911
2002	107911	6%	6475	2%	2288	112097
2003	112097	6%	6726	2%	2376	116447
2004	116447	6%	6987	2%	2469	120965
2005	120965	6%	7258	2%	2564	125658
2006	125658	6%	7540	2%	2664	130534
2007	130534	6%	7832	2%	2767	135599
2008	135599	6%	8136	2%	2875	140860
2009	140860	6%	8452	2%	2986	146325
2010	146325	6%	8780	2%	3102	152003
2011	152003	6%	9120	2%	3222	157900
2012	157900	6%	9474	2%	3347	164027
2013	164027	6%	9842	2%	3477	170391
2014	170391	6%	10223	2%	3612	177002
2015	177002	6%	10620	2%	3752	183870
2016	183870	6%	11032	2%	3898	191004
2017	191004	6%	11460	2%	4049	198415
2018	198415	6%	11905	2%	4206	206114
2019	206114	6%	12367	2%	4370	214111

About the Author

Doug Greenwood is a retired faculty member who taught in the Pilon School of Business at Sheridan College for over twenty years. Doug was the Coordinator of the Marketing diploma program and the post-graduate Marketing Management program for many years. Doug was also active in the Ontario Colleges' Marketing Competition both as a coach and as a team manager/organizer. Doug holds a BA with a dual major in political science and history and a minor in economics from the University of Toronto. Doug received his MBA from the University of Cumbria in the UK in 2013. He has been handling his own investments for over ten years now. Doug is also a Director of the Ontario Colleges Retirees' Association (OCRA).

About the Report

Doug undertook the writing of this report as a result of a 2023 CAAT survey regarding college pensions which included a question inquiring whether CAAT pension members would have any interest in having CAAT manage their registered investments such as their RRSP or RRIF. Doug saw this as a significant opportunity and proceeded to investigate further through his contacts at the Sheridan College Retirees' Association and through Barb Watts, President of OCRA. Barb provided some excellent contacts with the staff at CAAT who made available additional details regarding the GROWTHplus investment option that is now available from CAAT. As a result of Doug's own research and the discussions with CAAT personnel he has produced this report and bears the sole responsibility for its content.

Endnotes:

[i] FP Canada Standards Council, 2024, *Projection Assumption Guidelines, pg., 18m* https://www.fpcanada.ca/docs/professionalsitelibraries/docs/default-source/standards/2024-pag---english.pdf?sfvrsn=17a26b4c_3

[ii] FP Canada Standards Council, *pg., 13,14*

[iii] https://www.schwabmoneywise.com/investment-fees-calculator

[iv] https://www.caatpension.ca/CAAT/Assets/Documents/Annual%20Report/2023/CAAT_Pension_Plan-Annual_Report-2023-EN.pdf

[v] CAAT_Pension_Plan-Annual_Report-2023-EN.pdf pls. 9,10

[vi] https://www.benefitscanada.com/canadian-investment-review/db-investments/canadian-db-pension-plans-see-median-return-of-4-27-in-last-quarter-of-2022-report/

[vii] https://www.benefitscanada.com/canadian-investment-review/db-investments/canadian-db-pension-plans-see-median-return-of-4-27-in-last-quarter-of-2022-report/