Communication Rooted In Total Financial Well-Being More Impactful

BY: **JACQUIE FABRO**

At least once a week, I connect with a client who shares a version of this statement – “My employees just don’t get our pension plan.” Despite increasing efforts to educate employees about the value of the plan, how to be a smart investor, and a sea of other topics, plan sponsors are struggling to make a connection. It’s even more challenging to engage younger generations, some of whom are struggling to make ends meet without adding to their student debt or are focused on shorter-term goals like saving for a home.

So, how can we truly inform and educate?

While there’s no silver bullet, I can offer the following recommendation: simply educating employees about ‘how the plan works’ is no longer enough. We need to build financial literacy from the ground up before we can expect employees to make sound pension decisions for their future.

Defined contribution plans have become increasingly popular over the past 20 years and while they have some advantages, they are putting pressure on employees who wonder:

- How much can I afford to contribute?
- Is it enough?
- How will I pay off debt and save?
- How do I keep track of all my savings when I move from job to job?
- What if my investments don’t perform well?
- What should I do with my savings when I’m done working?
- How can I make the money last?

Plan members will always need basic information such as a plan website or booklet. But, to be truly strategic and impactful, plan sponsors need to consider how they will build their members’ financial literacy.

Michelle Loder, vice-president, DC Solutions at Morneau Shepell, says, “there’s an assumption that employees are dealing with all the other puzzle pieces on their own – taxes, debt management, estate planning – and all we need to do is focus on pension education. This thinking is problematic.”

Despite lots of talk about ‘segmenting communication for different cohorts,’ many plan sponsors are still using a one-size-fits-all approach when it comes to education and communication. Some have included targeted scenarios and imagery to connect with different generations. This is a great step forward. Now we need to take it further and build fundamental financial knowledge for different life stages including accumulation and decumulation.

The Accumulation Phase

Early- to mid-career employees are

asked to set their contribution rate, choose investment options, and understand how this will translate into enough income for retirement. As a consultant who lives and breathes pension every day, even I can tell you, this is no simple task.

Before you can ask employees to make these decisions, they need to first understand basic financial concepts – cash flow management, budgeting, tax implications, etc. You can't effectively save for retirement or even pay down debt if you're not able to manage your budget each month. You can't decide the best way to get further ahead if you don't understand the basics of investments, compounding of interest, and taxes.

Those in their early- to mid-career need to:

- Understand their cash flow and how much student debt they can afford to pay off or how much to save for buying a car, house, travel, children, retirement
- Identify their financial goals and how much they need to save to meet them
- Understand the savings vehicles available to help meet these goals (e.g., using a TFSA and RRSP for buying a home or retirement savings)
- Understand taxes and how they impact contributions and savings
- Understanding how to balance their expenses/debt while saving for their financial goals
- Re-evaluating their financial goals and how much they need to save to meet them
- Understanding the savings vehicles available to help meet these goals (e.g., TFSA and RRSP)
- Understanding taxes and how they impact contributions and savings

The Decumulation Phase

DC plan members face an additional challenge when it comes to understanding their plan – how to make their money last once they retire.

Historically, many plan sponsors have cut ties with employees once they retire, leaving individuals to manage their retirement assets on their own. These retirees must discern how to take a lump sum, transfer it to the right financial provider, and make it last for their lifetime. There are obvious challenges with this approach and limited knowledge can lead to serious consequences.

"Without the impartial guidance needed, many individuals will make decisions that are sub-par at best, some that can cripple their ability to comfortably sustain their lifestyle in retirement," says Loder. "From making a poor decision on CPP deferral to not appreciating the risk of increased longevity and not recognizing the impact of fees on retirement assets, the difference between those that get it right and those that do not can be significant.

"Retail fees offered by many group retirement administrators can quickly erode retirement savings and may result in as many as five to seven years of lost retirement income when compared to fees within their employer program.

"There is so much we can do to prepare members for these transitions and most plan sponsors I talk to want that for their members."

To round out a total well-being strategy, plan sponsors should consider how they can build employees' knowledge into retirement. With so much onus on employees to make their nest egg last and the potential downside of not managing this effectively, decumulation education has become an essential part of a communication strategy for DC plan sponsors.

Those who are late in their careers and nearing retirement should:

- Re-evaluate their financial goals/how much they need for retirement and how to figure out if they are on track
- Understand how to estimate what their sources of retirement income will be/look like
- Understand taxes and how they impact retirement income

Once retired, they need to:

- Understand how to keep what they've accumulated and 'go it alone' with just their savings and no salary
- Determine what they need to know about financial products, the impact of fees now that they're no longer under a group arrangement, taxes on retirement income, etc

Re-Thinking Communication

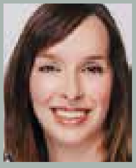
Simply put, it's all about return on investment. It's difficult to get continued buy-in or investment from leadership if you're unable to demonstrate how your education efforts are having an impact.

Much of what's been done in the past has been about compliance:

- ✔ Issue a plan booklet or website
- ✔ Host an annual education seminar
- ✔ Hand out a retirement options package

To have a real impact, we need to move pension education from a series of tactics to a robust strategy, one that moves and evolves with its employees and looks beyond the borders of just pension when it comes to building knowledge.

"People could get a lot more out of their plans if they understood the fundamentals of financial literacy. Plan sponsors are investing a lot in their retirement programs and it can be discouraging when employees are not fully benefiting from them – either because they don't understand the value or how the decisions they make at enrolment, during their accumulation years, and, importantly, at transition to retirement impact that value. The good news is this is fixable. I am so encouraged when I hear plan sponsors who speak about wellness strategies that integrate financial wellness and who view financial literacy as a gateway to better outcomes, not just for retirement, but for their members' total financial well-being," says Loder. **BPM**



Jacquie Fabro
is a principal in the communication and change management solutions team at Morneau Shepell.

jfabro@morneaushepell.com