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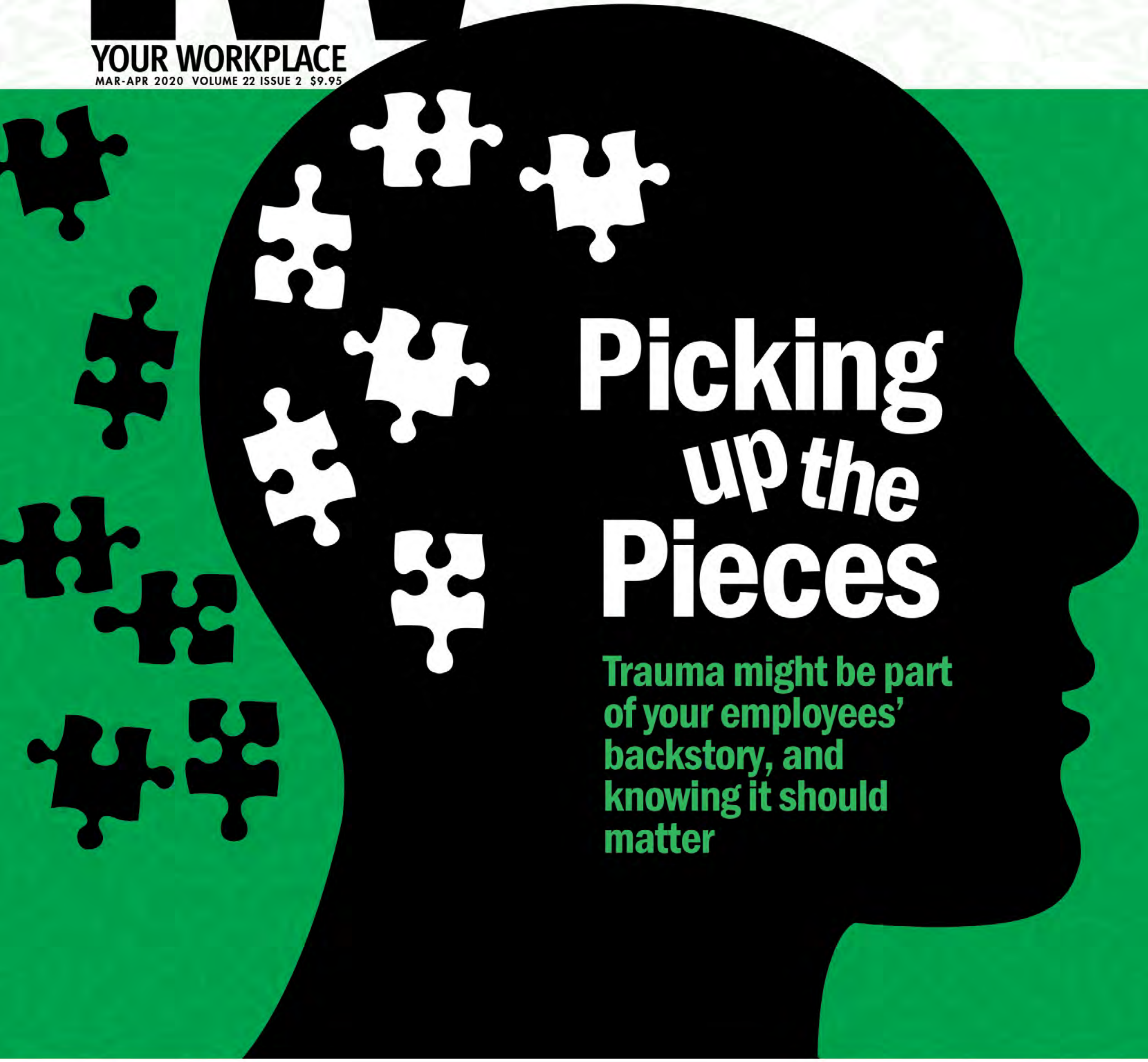
Does Your Company Culture Attract Prospects?

Help! $756,000 is what your employees need to retire.



Picking up the Pieces

Trauma might be part of your employees' backstory, and knowing it should matter

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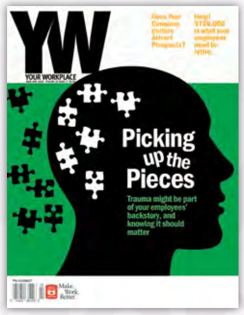

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HEAD OFFICE
23 Queen Street, Kingston, ON, K7K 1A1 Canada

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RETURN UNDELIVERABLE MAIL TO:
23 Queen Street, Kingston, ON, K7K 1A1
subscribe@yourworkplace.ca

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Retirement Readiness

$756,000 is what your employees need to retire. How should employers help?

By Joel Kranc

Brad Duce, Ivana Zanardo, Janice Holman, Derek Dobson

Statistics can tell a lot of stories. When it comes to retirement, CIBC says that Canadians need to save about $756,000. The same report from the bank also says that 53% aren't sure whether they are saving enough, and 37% haven't even thought about retirement. Where does that leave you, the HR professional or company leader charged with creating a retirement plan for your employees? *Your Workplace* editor and deputy publisher Joel Kranc sat down with some of Canada's leading pension experts and managers to discuss the issues that impact your employees and their savings. The following are the thoughts of Brad Duce, Associate Partner, Aon; Ivana Zanardo, Vice-President Operations, Healthcare of Ontario Pension Plan (HOOPP); Janice Holman, Principal, Eckler; and Derek Dobson, CEO of Colleges of Applied Arts and Technologies (CAAT) Pension Plan.

YW: What are the retirement challenges that we face as a country today?

JANICE HOLMAN: One of our biggest barriers is regulation. Provincial and federal rules are different so it's hard to get consistency or a single group to lobby for change because there are so many parties involved.

The other big challenge, which, I think, is reflective not just of Canada but also around the world, is our consumerism lifestyle. We focus on today, and retirement seems far away and is not necessarily perceived as a positive event.

BRAD DUCE: A piece of the foundation that is missing in the country is financial literacy. Overall, we don't really teach Canadians about financial planning or the value of investing or saving. All those skills are either learned on your own, or you have to turn to a professional to receive help in that space.

Maybe it wasn't that important several years ago when there were a lot of defined benefit (DB) plans that took care of individuals in their retirement. Now with people changing jobs, they have to rely on capital accumulation plans, if they even have them, or their own savings a lot more. They don't know the risks they are taking on and they don't know the best ways to manage them.

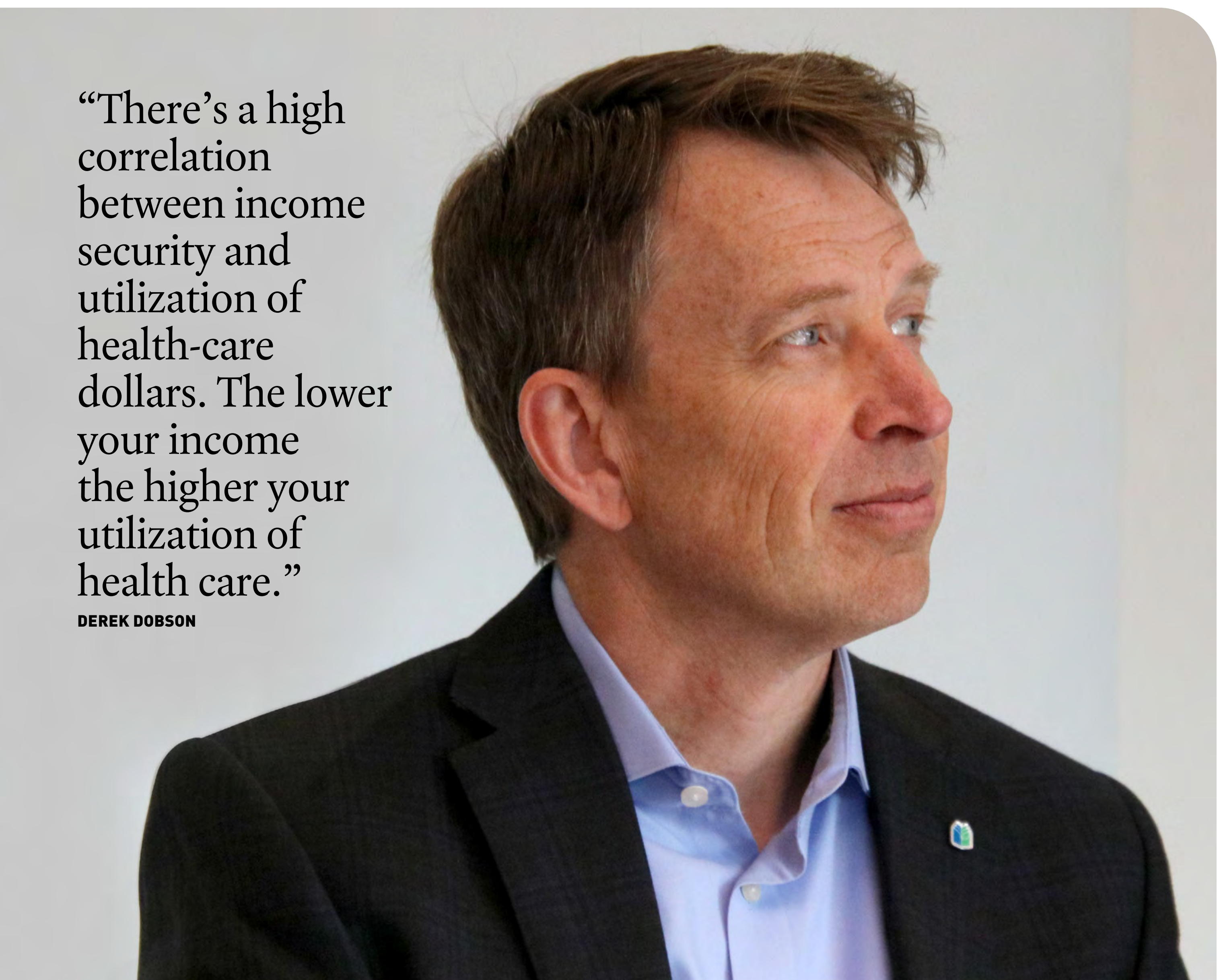
IVANA ZANARDO: A lot of the challenge is the anxiety people feel towards retirement. HOOPP recently did a study that found 75% of Canadians are worried about saving enough for retirement. The move away from DB plans is not helping at all. It's really hard for individuals to save for retirement on their own when they don't have the financial skills. I think there's a role employers play in helping Canadians address these challenges.

DEREK DOBSON: Coverage is way below what it should be in a country like Canada. Sixty percent of Canadians don't have access to workplace pension plans. And those who have access to a good plan are even fewer.

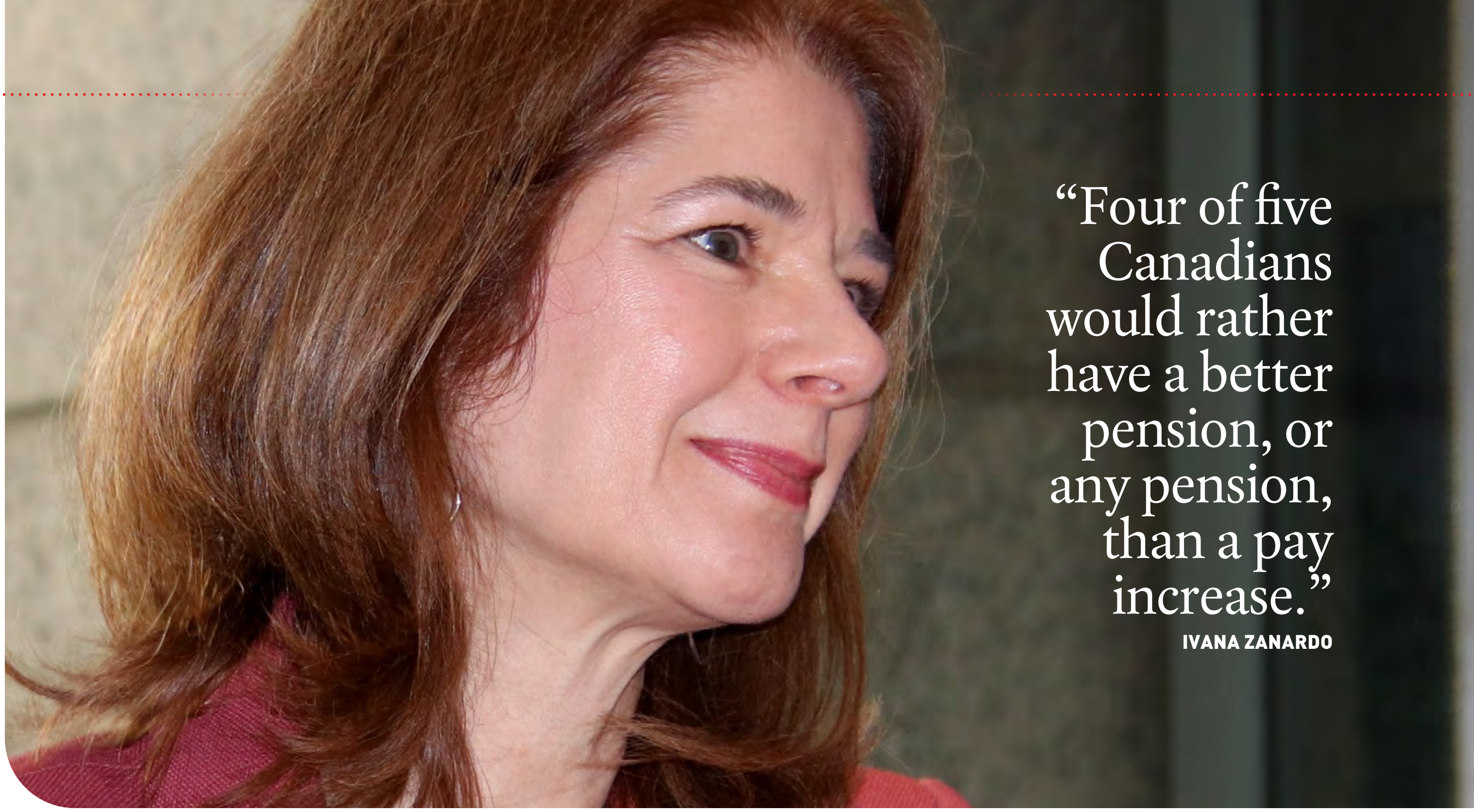
Number two is cost or efficiency. To have an efficient retirement income system in Canada is something we have to work very hard on, because there's no reason why we should have inefficiencies today.

People are stressed about retirement. Financial insecurity, both while you're working and in retirement, is the leading causes of stress, which leads to increased costs to the employer, time off and higher divorce rates.

I worry a lot about the impact on health



"There's a high correlation between income security and utilization of health-care dollars. The lower your income the higher your utilization of health care."
DEREK DOBSON



care. There's a high correlation between income security and utilization of health-care dollars. The lower your income, the higher your utilization of health care.

We have a demographic shift like nothing seen in Canada's history, and, given our health care system, we need to have the retirement income system being as efficient as possible to help Canada succeed.

What role should employers take to assist with these challenges?

IVANA ZANARDO: Employers should really aim to provide some kind of retirement savings plan to their employees. The same HOOPP study I mentioned earlier also found four of five Canadians would rather have a better pension, or any pension, than a pay increase. So, we know there is an appetite for more coverage. I think from a multi-employer plan there's opportunity for us to grow our membership and provide more coverage where we can. As an example, at HOOPP we added 20 new employers last year. So that always helps just in terms of access.

Keeping costs low is also important to employers—keeping the contribution rate so that it's accessible.

Employers and plan sponsors can help by influencing policy makers in a way that more Canadians can get access to more coverage. We have a responsibility. We're the experts. We provide that benefit to individuals and there's a responsibility that comes along with that—not just in influencing policy makers, but in providing education.

BRAD DUCE: The first thing employees want is access to a retirement program. The second thing they want is access to information. They want access to financial planners or financial planning tools, not just purely for retirement but to manage their financial affairs. Organizations can increase their current offerings by providing a little bit more support in overall financial management.

When you look at defined contribution (DC) plans they've pretty much all designed with cost in mind—where everybody gets the same percentage of pay. There's been no focus on the outcomes for the individuals when they retire. That always seems to be either an afterthought or not considered at all. There needs to be more focus on that, especially now that the Canada Pension Plan is being enhanced, as there's going to be more costs for both employees and employers to go along with the enhanced benefit.

There needs to be a rethink in some cases of how plans are designed—to focus not only on a cost perspective but more on employee outcomes. I think there's an opportunity to make plans more efficient and provide better outcomes for the same cost.

JANICE HOLMAN: Any time an employer can help a member, there is always going to be a benefit. Whether a 20-person organization or a 50,000-person organization, as soon as you start using your group buying power and provide some oversight you are helping the individual get a better deal than what they would have received alone.

All employers can play a role. If you ask a member who is participating in a DB plan today if they're going to leave that employer, I [predict] that even if they hated their job they're not leaving that employer because they know what a wonderful benefit that is. So, there is a lot of attraction and retention benefits that come with offering retirement plans. Easing retirement stress as much as you can through offering a retirement plan will benefit the organization's bottom line—whether it's through increased productivity, less reliance on the health benefits or less absenteeism.

DEREK DOBSON: Employers play a critical role because the Canadian pension system was designed as a three-pillar system, with workplace pensions being at the core—at about 50%. In the private sector today, it is probably around 6%. We're in a different environment and need to address the needs of today.

The role of employers is critical because savings or retirement planning happens

more easily at the workplace because that's where you get paid. At-source deductions and mandatory programs in the workplace are the only way to go. Almost all employees are okay with mandatory programs, so employers should not fear this.

For the most part, good employers want to provide retirement plans for employees. You have all these really smart people, CEO, CFO, CHRO, wanting to make the company successful, but they are not pension experts. People don't really want to know about pensions. Employees want to trust their employer that they're acting in their best interests. I think maintaining trust is so important for employers.

What's really missing, especially for HR professionals, is the awareness that employers have huge benefits for offering good pensions. They shouldn't see it as a cost. They should see it as an investment. We survey our own members and we're getting between 70% and 80% of employees saying access to a good pension was one of the main reasons they decided to join their employer. The business case for a good retirement plan is, for employers, much stronger than not having one. The costs are overall lower if they take a holistic approach.

Are there differences between challenges for small, mid-sized or large companies? If so, what are they?

BRAD DUCE: There are different challenges not only among size of companies but with different industries, plans with different workforce demographics and turnover experience. The same types of programs aren't going to necessarily work for everyone, and you need to consider what's best for your employees, in concert with the different competitive pressures out there.

Many organizations are having difficulty with employees that refuse to leave their jobs since the abolishment of mandatory retirement. Individuals are staying in employment almost expecting to get a severance even though they're beyond the normal retirement age. If they have a DC plan, they're gaining value every year that they continue to work so there is no financial incentive for them to retire. You see that becoming a workforce challenge.

In other cases, where companies have business fluctuations, they are able to use the DB plan to encourage people to retire. I've started to see organizations go back to offering enhanced pensions to employees that are no longer as productive as they once were, particularly when they have younger people they want to give opportunities to. So, DB plans really help with succession planning as well.

That's not going to work for every organization. [They] need to assess their employees' base needs and what's going to be suitable for them. It's got to work for the organization in terms of being cost effective, but there are other aspects to consider as well.

IVANA ZANARDO: It depends on the workforce. There are opportunities for plan designs to be set up in a way that are tailored to the workforce or the industry that they're in so that the employers see the benefits of providing that plan to their employees.

And not just from that point of view but also if there's a workforce that has a lot of part-time, and I'll use HOOPP as the

example. We have a very large part-time membership. It's important to ensure that there's opportunity for immediate enrolment or there are mechanisms that they can keep their funds in the plan so that they understand the value of having that plan. So absolutely there is an opportunity to tailor plan design.

Does size of the company matter or is it more the demographic specifics—or is it both?

IVANA ZANARDO: I think it's both. We talked a little bit earlier about some of the challenges that smaller companies would have in terms of understanding the benefit to them. There is a cost to providing a pension to their employees, but it's important for all companies to be educated because of the benefit to the company in terms of attracting and retaining talent to help ensure that their employees have financial security.

JANICE HOLMAN: One of the pros of offering pensions or retirement plans is that smaller employers tend to be a lot more paternalistic. We see plans being much more successful in terms of the retirement outcomes coming from small employers because generally the HR person is a lot more hands-on.

Large employers lose that personal experience with the employee. They have economies of scale, and they can invest in more interesting technology and tools to support that member, but for them they have to figure out how to get that personal connection with the employee because that is what changes behaviour.

There are so many tools, lots of technology, and lots of generic messaging that's happened over the years, and it doesn't change behaviour. It doesn't move the dial. What moves the dial is when your colleague, who you trust, sits down with you and says this is what you need to do.

What are the solutions for that challenge?

JANICE HOLMAN: We talk a lot about targeting employees and trying to break down employee populations into more manageable segments or groups to communicate more effectively about the plan. A lot of times the retirement plan is offered but it's not marketed as a fantastic benefit. The more you can have leadership talking about it, highlighting the experiences of past employees, the more members will be interested.

When you profile retirees, for example, who they are, where they worked, what they're doing in retirement and how this plan is supporting them, it has a really strong impact on active members because they can relate to it.

IVANA ZANARDO: It is important to ensure that communication is delivered in a way that people understand it. The way we communicate to somebody in the HR department, as a member, may be different than how we communicate to somebody whose job it is to work in the emergency room of a hospital.

DEREK DOBSON: What we see now is that responsibility for pensions is outsourced more. It's like, you know what? We've got a recordkeeper; we're going to give the responsibility to communicate to them. Whatever they communicate must work because they do it with everybody else,

> “Canadians need to understand the advantages of annuities, including the fact that they won’t outlive their money and they will probably be happier because they won’t have the stress of watching the markets every day wondering if they’re going to have enough money.”
> **JANICE HOLMAN**

right? It needs to be the employer that takes that responsibility and ensures that the communication will be heard by their employees.

JANICE HOLMAN: Employers are the ones paying for it, yet they’re not getting any of that appreciation from the employee because the employee sees it as the recordkeeper’s plan that they’re participating in.

It’s not a good cost-benefit for the employer to be doing that. They need to still be engaged with their plan and make their employees aware that the employer is offering this plan.

BRAD DUCE: I think the differences are shrinking. The smaller employers are getting greater access to pooling their programs together. Through plans like CAAT or OCIOs (Outsourced Chief Investment Officer), solutions are allowing them to pool with other pension plans and get more economies of scale. Not only that but they gain better access to other investment options that in the past haven’t been available to regular single-employer small- or medium-sized plans.

What is the responsibility of the individual in their retirement planning?

IVANA ZANARDO: First and foremost, they need a plan. Plans will be different based on their desires for retirement. People need a plan, whether it’s to continue working in retirement, as we’re seeing more of, or to make sure they pay off all their debt or provide for their kids.

There is an opportunity for employers to provide some financial wellness, whether it’s part of their overall benefit program, to assist employees in the development of their plan.

JANICE HOLMAN: The first responsibility is to determine how much you need in retirement. Historically we’ve thought of this as an income replacement rate. However, recent studies show that measure is not indicative of someone’s standard of living in retirement, [which is now] very similar to their standard of living pre-retirement. Comparing how much disposable income you have pre-retirement, using the Living Standard Replacement Rate (LSRR), will give you a much more accurate estimate of what you will need in retirement.

The second responsibility of Canadians is to create lifetime income. And yet annuities have not been popular at all. [Only 4%.]

So how do we make annuities more attractive? Canadians need to understand the advantages of annuities, including the fact that they won’t outlive their money and they will probably be happier because they won’t have the stress of watching the markets every day wondering if they’re going to have enough money.

BRAD DUCE: Overall, DC plans are a very inefficient form of pension program because of the fact that people are going to be concerned about running out of money.

A DB plan provides you a pension for life. Some people are going to get less, some people are going to get more, but you’re going to get what you need for every year that you live. A DC plan will not provide that unless you annuitize. And as Janice said, not very many individuals do that. There are opportunities opening up for further drawdown options in Ontario.

I’m pretty sure most people aren’t going to be able to maintain their standard of living. Although that doesn't necessarily mean it has to have a massive negative impact. If you have kids, your costs should decrease; if you have a house, you can downsize or use a reverse mortgage. There are other ways to close that gap.

DEREK DOBSON: One of the best parts of my job is interacting with about 2,000 of our members every year. I try to see if the design is working. What can we do better? What always comes back is there's a virtuous circle in our communications. If it's good for the member, it is good for the employer and good for the plan.

The more our members know about the retirement program, the more they value it; the more they value it, the more the employer is going to get the benefits of offering it, which means more likely they're going to continue to make it a valuable part of their program. The value of communicating well will far exceed the cost.

What are the best ways to design plans? What are the best ways with multi-generational workforces?

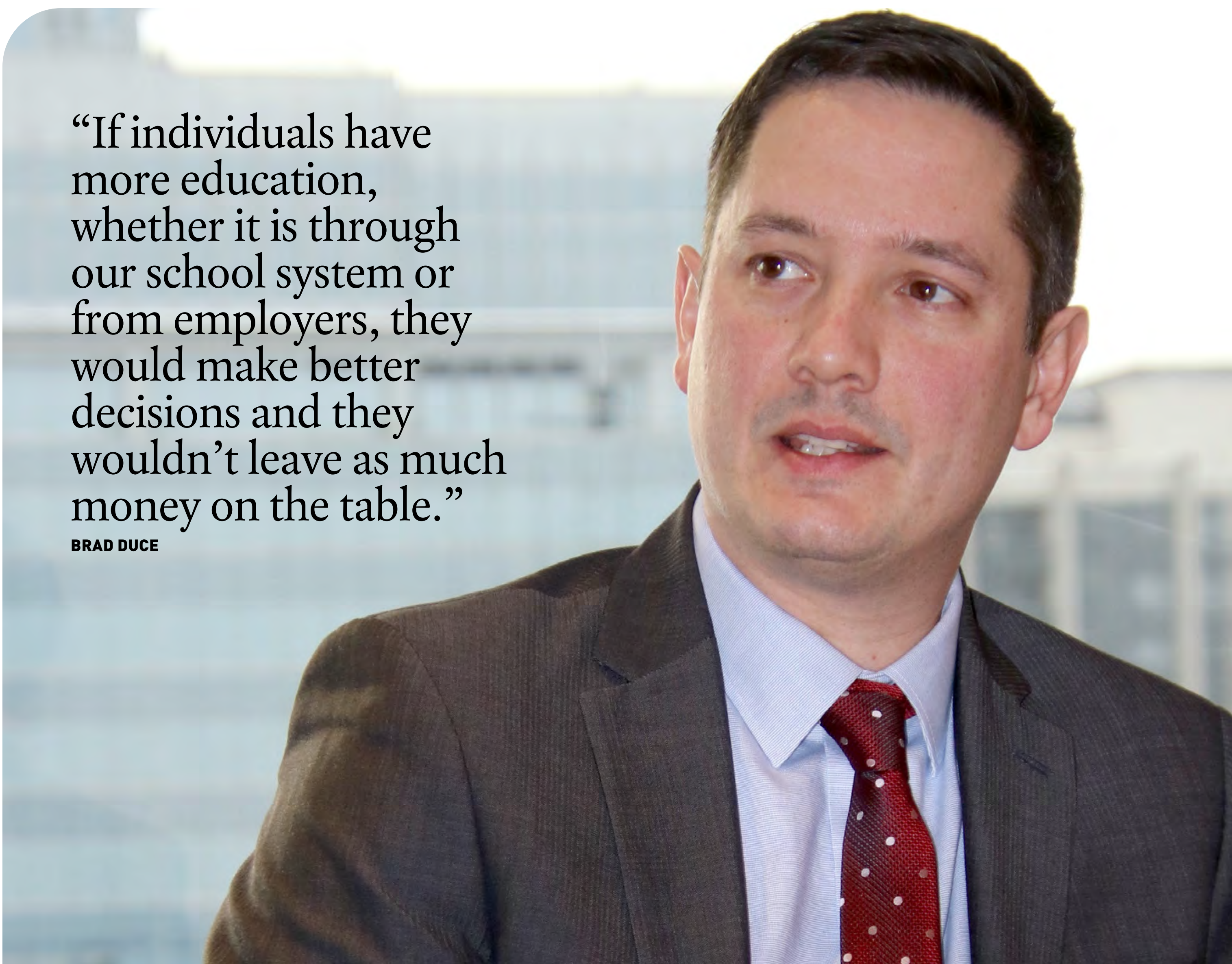
BRAD DUCE: Making the plans mandatory or at least automatically enrolling them so that their contributions are not seen as income—that's a huge impact. Because once [employees receive full income without deduction] it's harder to cut that out of their budget. I think if it automatically goes to the pension plan that's a big advantage.

DC plans have been using matching contributions to entice people. But it's not enough. There is a lot of money being left on the table and it's shocking. That goes back to financial literacy. If individuals have more education, whether it is through our school system or from employers, they would make better decisions and they wouldn't leave as much money on the table.

IVANA ZANARDO: Where there's investment discipline and fiduciary governance, I think, is key for plans. When left to individuals it may not yield the outcome that's desired. Also, mandatory savings should be part of the plan. These are some of the hallmarks of Canada-model DB plans, which have been very successful.

JANICE HOLMAN: My ideal plan design is to have a mandatory enrolment with a base contribution. Everybody at least gets this minimum benefit that will ensure they'll have retirement savings when they get there.

I do feel that there is a place for flexibility. Having a savings plan on top of that allows people to be a little bit more flexible and recognize where they are in



their life stage. Having that flexibility to pay down student debt or save for a house is very helpful, for example.

One thing we haven't talked about at all in terms of plan design is DC plans that allow de-cumulation from the plan or have some annuitized feature built in. That is a massive difference to outcomes. I can't articulate enough the amount of value that is brought forth when a DC plan provides a de-cumulation solution. It leads to increased retirement income of 30%, or six to seven more years of income, just by having that plan sponsor involved in the de-cumulation phase of life.

DEREK DOBSON: Innovation is absolutely required in the retirement income space, and we've seen a lot of DB innovation recently. Even some of the large well-established public sector DB plans have been changing designs to better meet the changing needs of their stakeholders. For example, people are getting hired later in a lot of professions, which typically results in people finding a first full-time job [later thus] building their pension later.

In 2014 our board and sponsors asked us to look at our plan design from the ground up. We hired experts, actuaries, lawyers to look at all the innovations, but we started first by listening to the needs of our stakeholders. Everything around us is changing—longevity at companies—so how do we bring all the best ideas of DC and DB together? The result? Make it simple, make it valuable, and make it predictable for both the employer and employees.

Size also has its advantages. For example, we negotiated the cost of one of our portfolios down to two basis points. Within the retail sector some of your RRSPs embed 300 basis points. That's going to reduce your retirement income by 70% comparatively. Without efficiency and if you don't listen to the stakeholders, innovation goes nowhere.

IVANA ZANARDO: Going it alone is very expensive. You don't have access to the experts, to information, and the efficiency and scale that comes from pooling. So, I think you need to provide opportunity to join a plan that has those benefits.

JANICE HOLMAN: You have to be careful not to generalize by age, because people are at different [stages] in their life. If you're 55, just got divorced and are starting over, you face a lot of the same challenges that a 25-year-old is facing.

IVANA ZANARDO: People are inclined to use their banking app on their phone quite regularly. They're not interacting with their pension plan as often. So, all the more important for communications to be personal and face-to-face, when possible

At HOOPP, we are moving towards having more personal service for our members for those times that they do interact with us, so that we can help them make decisions.

It is up to us to educate them and help them make those important decisions on a very important area of their lives—their retirement.

How much is financial wellness a part of retirement savings?

BRAD DUCE: Employers could do something as simple as provide links to resources and tools, or they could take a more comprehensive approach and provide access to financial planners or facilitate sessions internally for employees. There is definitely a desire from employees for more support.

I think you will see the recordkeepers provide financial wellness in their suite of offers to plan members and to plan sponsors. While recordkeepers do a good job for what they're asked to do, they struggle to tailor their solutions to individual employers, as they provide a great deal of services to a diverse set of employers. I think this is one of the areas that will get asked of them more as time goes on—to provide more financial education as a whole and not just specifically focused on retirement programs.

When people understand their financial circumstances, it reduces a lot of stress, and the impact of that stress is massive on employees. Providing knowledge increases confidence for individuals. Even if they recognize that there is a financial gap, they at least know what that gap is and how to manage it rather than having uncertainty as to what their financial situation is or what they can do about it.

IVANA ZANARDO: I would agree. Retirement planning is a key component of financial planning. I think if employers and plan sponsors can do more on just the retirement planning portion of it, to help reduce that stress and that anxiety, that would be very helpful.

JANICE HOLMAN: For employees to have financial wellness programs provided by a trusted employer and delivered by an unbiased source, whether it's guidance, education, advice, is hugely valuable.

We also can't expect people to be thinking about retirement when they don't know how they're going to put food on the table for their children tonight. We have to meet them where they are and build those foundations. Retirement is a big piece of it, but it can't come until they understand the basics on how to how to manage their debt, for example.

DEREK DOBSON: We would never think to design a total compensation program in little siloes of pay and benefits. It doesn't make sense. We've designed wellness programs to deal with mental health, sleep, eating well and financial wellness.

We need to have financial wellness as part of any wellness program, because without it there's a big hole. I'm glad to see that at least the employers that I get exposed to are investing in wellness. This is a great step forward for Canada, because it is this whole self approach—the mental, the financial, the physical—that has to work together if you're going to have highly engaged employees [with] low absenteeism, a good corporate culture and all the things that employers are striving towards. YW

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