

## THE PITFALLS OF PENSION PLAN SPONSORSHIP

### Difficult and Important Decisions

**“Members of a retirement plan should be provided with information and tools that focus on retirement planning”  
– Section 3.1, Guidelines for Capital Accumulation Plans**

Employers who sponsor a group RRSP or other types of retirement savings arrangement are expected to comply with the Guidelines for Capital Accumulations Plans approved by the Canadian Association of Pension Supervisory Authorities (CAPSA). An important part of these guidelines is the plan sponsor’s requirement to provide education to their members, investment information and decision-making tools.

It’s no surprise that regulators pushed to have these guidelines: a large proportion of pension plan members are ill-equipped to make the many important decisions that will have a determining impact on their retirement security. Here are a few decisions that members are confronted with:

- How much to contribute
- How much to save
- How to allocate investments among the different funds offered
- How to change their asset allocation over time
- How to use the money at retirement
- What to do when changing jobs

### Negative Outlook

**Only 28% of employees feel they will be able to retire when they want**

All too often, plan members are overwhelmed by all of this and simply decide not to deal with it. This may lead to negative outcome for many: lowered standards of living and a lifetime of work.

Plan sponsors have low expectations of their members’ ability to retire when they want to, and of members’ knowledge and involvement in their retirement planning. Consider the following statistics revealed by the landmark studies published by the firm SEI Investments Canada in 2004 (1) from which this report draws extensively:

- Only 26% of members are actively involved in decision-making for their retirement planning
- Plan sponsors believe that only 43% of members are likely to retire when they wish

- Only 38% of members will have enough money on which to retire
- Only 28% of employees feel they will be able to retire when they want

### Knowledge Gap

**Less than one-quarter of members are very knowledgeable about retirement planning**

The SEI studies also confirm an important knowledge gap in pension plan members:

- Less than one-quarter (23%) of members are very knowledgeable about retirement planning.
- Members don’t understand investing: 82% don’t understand asset allocation, 62% are momentum chasers
- Members don’t understand their plan: 55% don’t know if they can make their own contribution to the plan, 28% don’t know if their employer is contributing to the plan

Another bleak finding is that less than one in six employees (15%) consider themselves to be “very knowledgeable” about retirement planning and about one-third (34%) indicated that they did not feel knowledgeable at all.

### Unrealistic Expectations

**Of the 44% being somewhat or very confident, over 60% have less than \$50,000 in savings**

A survey by the Transamerica Center for Retirement Studies (2) found that only a minority of workers have attempted to calculate their savings needs, and an even smaller number have significant retirement assets. Yet, they are at the same time unrealistic about how long they can continue to work, their future financial needs and longevity.

- “[T]hose who report having attempted to calculate their savings needs for retirement remains at 42%”
- “More than half of workers saving for retirement report total savings and investments of less than \$50,000”

While many express confidence with respect to their retirement prospects, the study finds that such confidence level may not be realistic:

- Of the 44% being somewhat or very confident, over 60% have less than \$50,000 in savings and almost 40% have not done a retirement needs calculation.

Societal and demographic changes do not help: active working years are shortened because workers want to retire early, and longevity is increased with healthier lifestyles. This means workers must save much more than at their current rate. Often they start too late and save too little: some studies indicate that savings in the range of

15% to 18% per year are required to maintain the standard of living throughout retirement.

This is compounded by a prevalence from employees to contribute less than the maximum amount, and an expectation for them to be responsible for managing their own money, educating themselves on how much to save and invest wisely to achieve a comfortable retirement. The last straw is a failure to recognize the inherent instability of employer-sponsored defined contribution arrangements, where a market decline can wipe out significant future annual income for the retiree.

## Consequences

### Unlike our parents who could count on a lifetime pension, we may very well be facing a lifetime of work

The stark consequences now being observed is that many baby boomers are retiring with no source of guaranteed lifetime income, little personal savings, reduced options with respect to working past retirement and helpless vulnerability to a market decline or crash.

If there is a financial setback, many will have no choice but to work longer. Unlike our parents who could count on a lifetime pension, we may very well be facing a lifetime of work. This is compounded by the fact that retirement is not always a voluntary event. About four out of ten retire before they choose, a premature retirement often due to job loss or poor health. And when this happens, it usually happens at time when we are not prepared for it.

## The Source of this Malaise

### Could it be the reason that we don't plan is because we don't have anything meaningful to plan for?

If the above description shows an alarming state of affairs, but it merely depicts symptoms without identifying underlying causes.

We identify four causes:

- Lack of knowledge about managing our money and investing,
- Disorganized finances: we have no budget and don't know how much we have
- Lack of responsibility: society encourages consumption, emphasis on the here and now and we are steeped in debt
- Lack of clear goals for our life and future: uncertainty about what truly matters.

Could it be the reason that we don't plan is because we don't have anything meaningful to plan for?

It is also all too common to observe that most people:

- Do not save well on their own
- Use the money too early

- Most make poor long-term investment decisions
- Opt for low-risk, low-return investments, which may not provide for enough money at retirement

## Fiduciary Responsibility?

### With an obvious fiduciary responsibility and no clear guidelines, the benefits of providing investment advice certainly do not outweigh the costs

One of the SEI studies mentioned above concludes that "[m]any Canadians fear finding themselves with insufficient income at retirement. DC plan sponsors fear they will be blamed and have to face litigation. Sponsors believe one of the most effective methods to prevent such a scenario is by offering effective education programs that help employees plan for retirement and make the right investment decisions. Presently, most sponsors are failing in this effort."

The conclusion is that modest efforts with current programs and a lack of member involvement have created a fear of litigation among many pension plan sponsors. This is already happening south of the border in the form of class action suits. It is also why the CAP Guidelines were created: to set a standard for good governance.

53% of plan sponsors believe that educating their plan members is the most important and effective way to protect against litigation, yet only 11% of sponsors thought they were performing extremely well in this area.

Plan sponsors believe that educating members is the first priority in protecting their organizations against potential litigation. Other priorities include offering appropriate retirement planning tools. It is then a matter of deciding how to proceed to achieve the best compliance effort in the most cost-effective way.

## Aligning Individual and Organizational Goals

### Help your employees get to their goals and they will help you get to yours

By following the CAP Guidelines requirement of providing information and decision-making tools, a pension plan sponsor can achieve much more than compliance and protection against litigation. If a company helps employees have a clear vision of their future by setting their individual goals and working toward achieving them, they will understand that these are intimately tied to achieving their goals as employees. Thus, a company can align these individual goals with the goals of the organization – productivity improvement, profitability and shareholder value.

Despite a gap between the cost of retirement programs and the perceived value to employees, most consider their pension plan to be an essential component of remuneration. According to one of the SEI surveys cited above, 39% of employees would leave if it were no longer offered. So employees need and want a pension plan. They also want education and it makes sense to provide it. It can be delivered as a high impact low-cost benefit by using

web-based services complemented with ongoing communications, seminars for a rich and engaging user experience. Regular usage statistics reports to human resources or the pension committee document CAP Guidelines compliance.

The key is not to make the education about the pension plan but about the members. By adopting the larger context of retirement planning, employees gain an increased knowledge and understanding of how their pension plan fits within a bigger picture that also includes Government pensions and personal savings.

- A better understanding of basic investment principles reinforced regularly can lead to better investment decisions and better returns.
- Increased appreciation and understanding leads to greater satisfaction and lower stress. This translates into greater productivity and loyalty, and lower turnover.

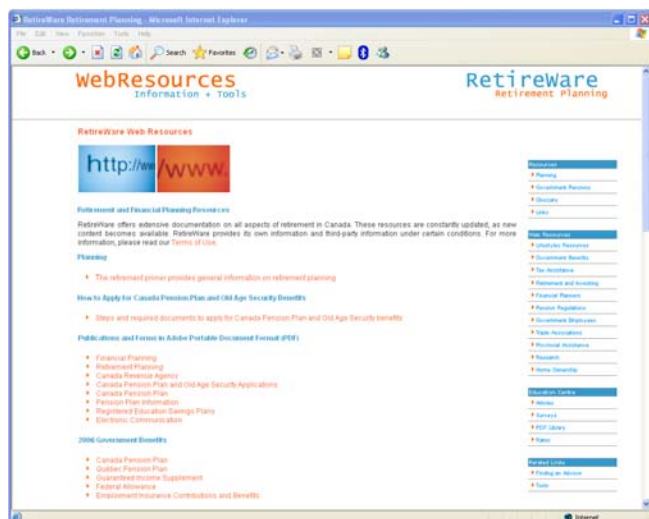
By instigating the process of getting employees to formulate their vision of the future and create a personal financial plan, effective financial education leads to increased plan participation, higher contributions and a better allocation of investments.

## About the RetireWare Education Program

**A cost-effective web-based retirement education program with live seminars**

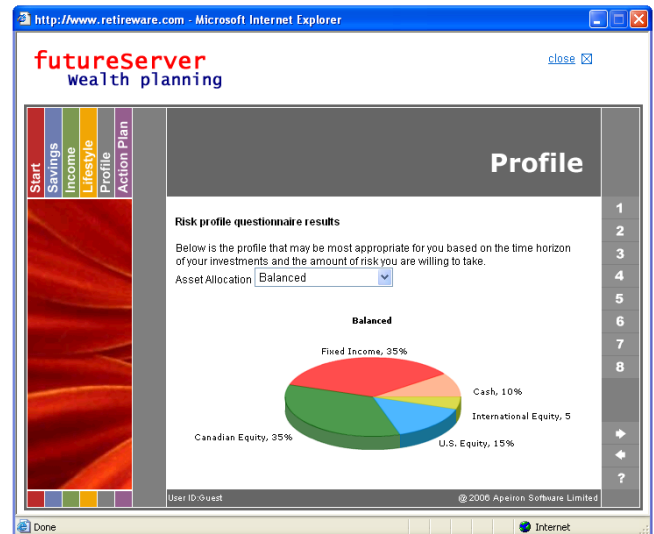
Retirement is now paramount to the largest segment of the population: the baby boomers. For those who are not yet retired, the question that must be answered is: "what nest egg do I need?" For those at the point of the retirement, the question is "I have the nest egg, what lifestyle can I afford?"

The RetireWare Education Program is a cost-effective web-based retirement education program with optional live seminars. With this program comes engaging financial and retirement planning tools and resources and Web-based and desktop retirement planning software.



The program is designed to meet the Guidelines for Capital Accumulation Plans (CAP) approved by the Canadian Association of Pension Supervisory Authorities.

Completely independent and unbiased, and delivered as a high impact low cost benefit, it complements web-based services with ongoing email communications, seminars for a rich and engaging user experience. Regular usage statistics reports to human resources or the pension committee document CAP Guidelines compliance.



Employees access their resources via a hosted branded site for maximum impact by displaying the company name, logo and custom messaging. As an added incentive, contests provide an added incentive to promote usage and create enthusiasm. The site can also be used as a mechanism to administer surveys about employee attitudes toward their pension plan, or financial and retirement planning.

The outcome of this program is for employees to get a clear vision of their future by creating a personal financial plan, and take control of future by implementing and monitoring their plan.

More specifically, the resources, tools and retirement planning software allow employees to better understand their complete financial picture, including how much to save, how to allocate investments among the different funds offered, how to use the money at retirement, investment and risk-reduction strategies and the importance of diversification across different types of investments.

## Program Content

### A hosted solution with no infrastructure costs and rapid implementation

Here is what you get with the RetireWare Education Program:

- Hosted solution for no infrastructure costs, rapid implementation and maximum cost-effectiveness
- Easy set-up and ongoing access: one common access code for all employees to the resources, no log in password management and maintenance required
- 24/7 Website availability, privacy and security, ability to restrict access during work hours
- Glossary, retirement planning primer, information on how to apply for Government pensions
- Comprehensive online retirement planner with data saving capability
- Sophisticated desktop software with easy-to-use Wizards, report, help and PDF manual
- Paper-based worksheets and information, or CD ROM for those with no Internet or computer access
- Emails at launch and every quarter to keep the program in front of users
- Monthly webinars
- Contests designed to increase usage and enthusiasm
- Unlimited email support with use of resources and preparation of action plan
- Flexible media mix to reach everyone and cater to all levels
- Fully bilingual

## Seminars

As a complement to this program, we offer optional live seminars during or outside work hours. Our popular lunch-and-learn seminars provide information on the sponsor's pension arrangement, Government benefits, planning for retirement, using the software and navigating the resources on the Website.

Seminars are ideal venues to communicate complex information, such as each stakeholder's roles and responsibilities under the three legged-stool model for the Canadian pension system: employer-sponsored plan, Government pensions and personal savings. Seminars topics can be adapted or segmented to target specific life stages: early, middle and close to retirement.

By learning about your issues, history and efforts, we are also able to assess your specific needs and target areas of weakness with respect to your pension arrangements, for a tailored program that meets your needs and budget.

## Customization

We can provide more customization to your branded site by adding custom pages dealing with your specific issues and document downloads.

We can also customize our retirement planning software by creating an add-in that reflects the exact provisions of your

pension plan, making it possible to integrate the plan with maximum ease and accuracy with other assets, savings and future income.

## Contact Us

Test-drive our RetireWare Education Program for free and judge for yourself.

## About Apeiron Software

Apeiron Software Limited creates the best resources and technology to help individuals make informed financial and retirement planning decisions for the future.

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## Cited References

1: 2004 surveys published by the firm SEI Investments:

DC Pension Plan Sponsors  
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DC Pension Plan Members: Needs & Knowledge

2: "Will More of Us Be Working Forever?" - The 2006 Retirement Confidence Survey

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