



Member Education and Communication

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Outline for today



- ✓ What do the CAP Guidelines say with respect to member education?
- ✓ Why is member education so important?
- ✓ What are the key elements of an effective education strategy
- ✓ Obstacles to overcome and tips to creating a successful education strategy



The CAP Guidelines



What the CAP Guidelines say



Three main areas of focus:

- Investment information and decision-making tools
- Introducing the CAP to members
- Ongoing communication to members



What the CAP Guidelines say



Considerations when developing an education strategy

- ✓ The purpose of the plan
- ✓ What types of decisions members must make
- ✓ Cost of the information and decision-making tools
- ✓ Location, diversity and demographics of members
- ✓ Members' access to computers and the Internet



What the CAP Guidelines say



Investment information and decision-making tools:

- Examples of investment information:
 - ✓ Glossaries explaining terms used in the investment industry
 - ✓ Fund information – how they work and types of securities
 - ✓ Risk, return and performance data

- Examples of investment decision-making tools:
 - ✓ Asset allocation models
 - ✓ Retirement planning tools
 - ✓ Calculators; projection tools
 - ✓ Investor profile questionnaires

- Investment advice (optional)



What the CAP Guidelines say



Introducing the CAP to new members

- Content of booklets and enrolment guides:
 - ✓ General information
 - CAP features/plan design: contributions, vesting, withdrawals, eligibility
 - Rights and responsibilities
 - ✓ Investment options & default
 - ✓ Transfer options (in and out)
 - ✓ Fees, expenses and penalties
 - ✓ How to access additional information



What the CAP Guidelines say



Ongoing communication:

- Member statements
 - ✓ Should be provided at least annually
 - ✓ Should contain specific information
 - Summary of investments
 - Investment activity
 - Investment funds
 - Summary of transactions
 - How to get specific information about each investment option

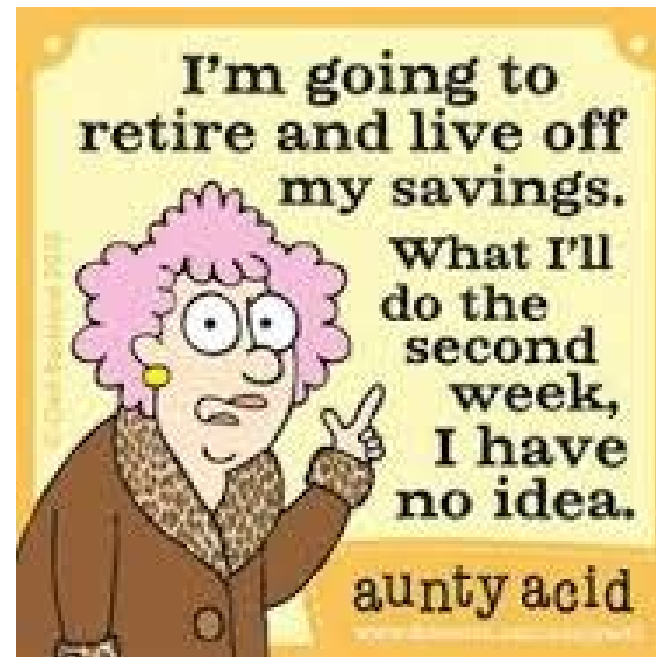


What the CAP Guidelines say

Ongoing communication should also include:

- Access to additional information
 - ✓ Notice of changes to investments and/or fees and the potential implications on the member
 - ✓ what action is required (if any)
 - ✓ reminder to the member to evaluate the impact on their account/plan
- Investment performance reports
 - ✓ Benchmarks, GIA rates, etc.

Why is Member Education so Important?



Because financial behavior needs to change



Task Force on Financial Literacy

***Financial literacy means having the
knowledge, skills, and confidence to
make responsible financial decisions.***

Financial literacy concerns

- ❖ Are Canadians spending beyond their means?
- ❖ Are Canadians saving enough?
- ❖ Will Canadians outlive their savings?
- ❖ Do Canadians know enough to manage their financial affairs?

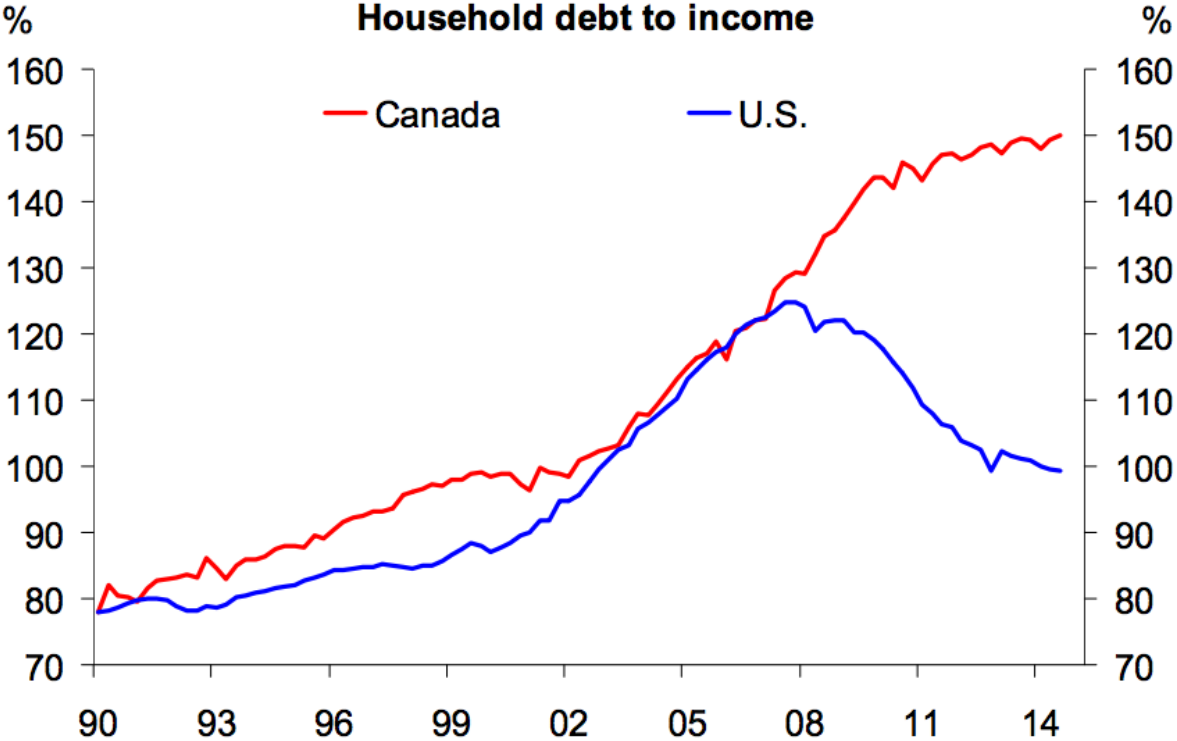


Borrowing and debt

Canadians carry a growing debt load



Canada is in serious trouble

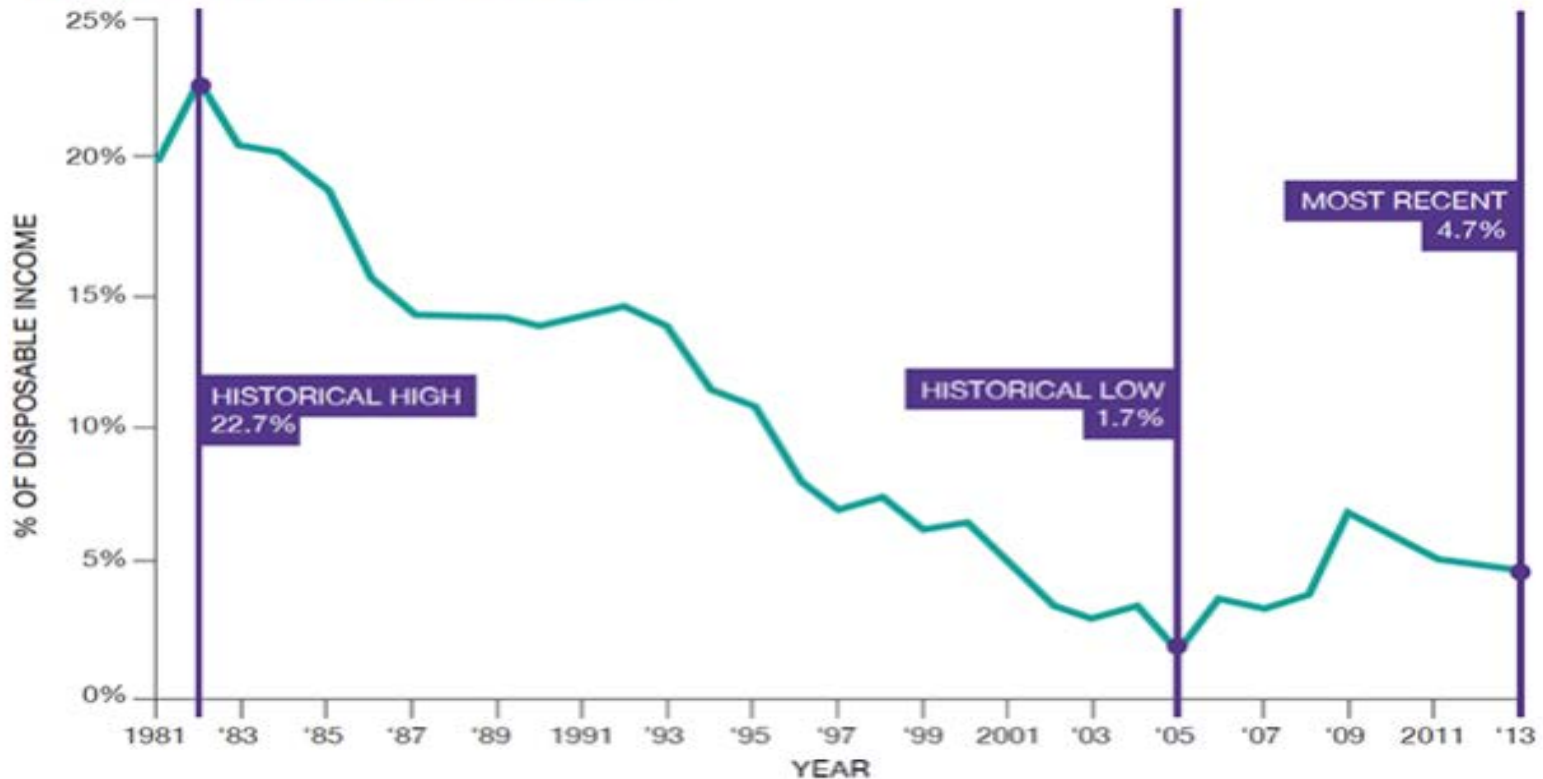


Source: StaCan, FRB, Haver Analytics, DB Global Markets Research

Household savings rate

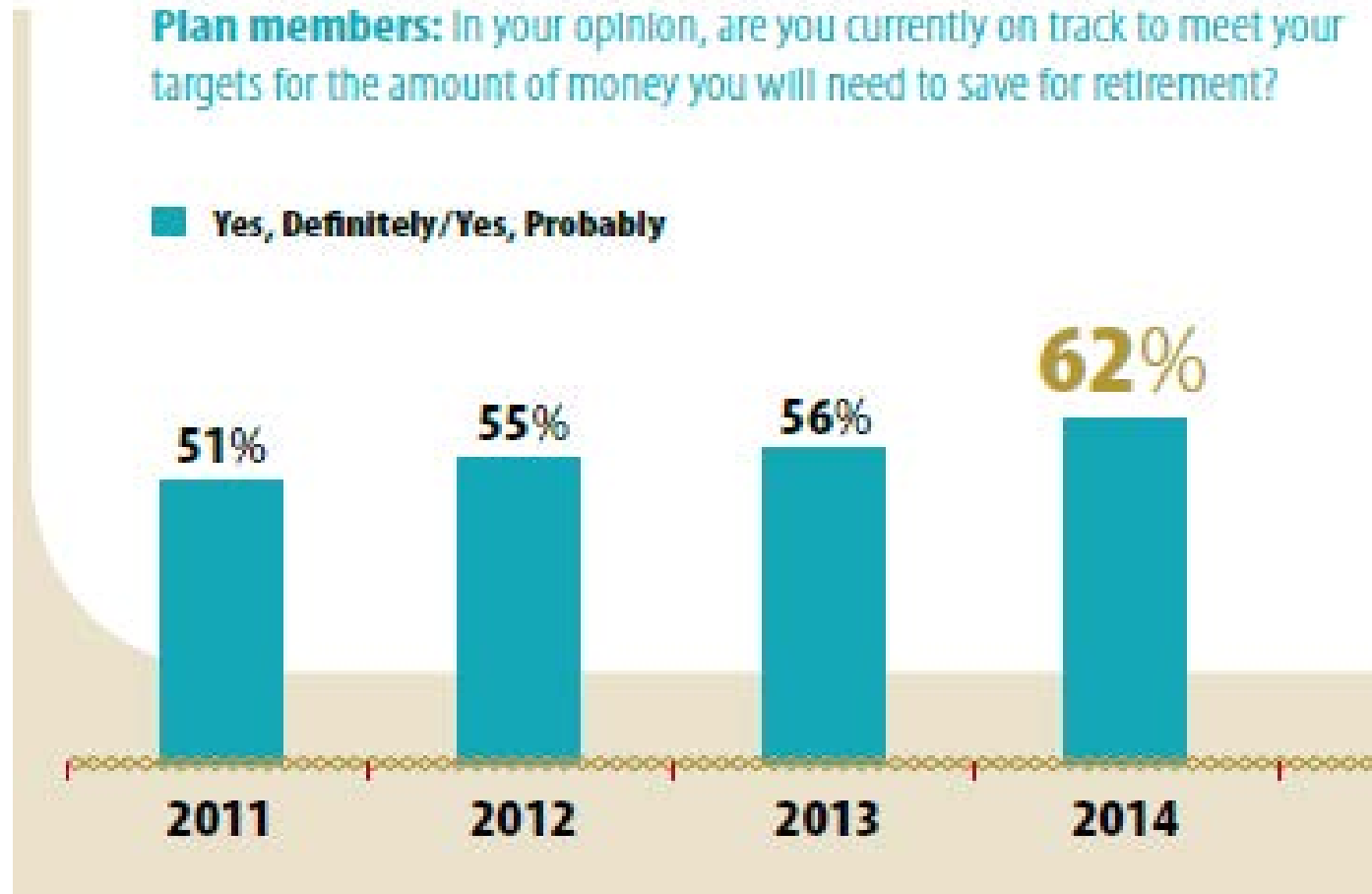


ONTARIO HOUSEHOLD SAVINGS RATE (%) FROM 1981 TO 2013



Source: Ontario Ministry of Finance and Statistics Canada

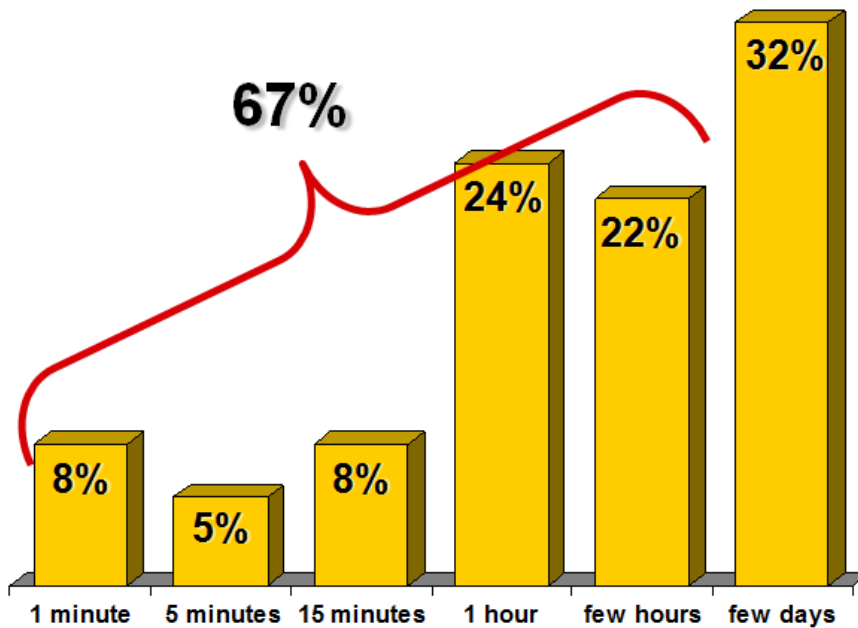
Planning for retirement



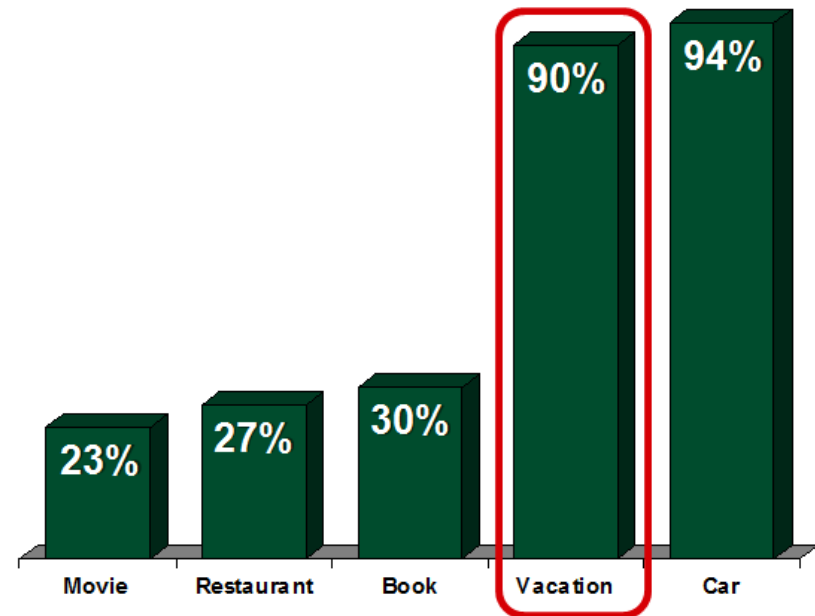
Are we planning?



**Figure 1:
Time Spent on Retirement Planning**



**Figure 2:
Same or Less Time Spent on Retirement Planning than...**



Financial Literacy Task Force



- ❖ Recommendations related to member education:
 - **Employers** incorporate financial literacy training into current workplace training programs.
 - **Financial services providers** put a strong emphasis on delivering educational information and ensuring that it is fully understood by Canadians at “teachable moments”.
 - **Government and stakeholders** provide tools to help Canadians become better informed about the role and benefits of professional financial advice.

Creating an Education Strategy

Why?

What?

How?



Heads in the sand...



- ✓ Members are not engaged = need to plan for retirement
- ✓ Members are uncomfortable and overwhelmed when selecting their investments and determining how much to save/contribute
- ✓ Members require guidance with respect to how their retirement plan works

Why is planning so critical? Consider this...



- Between 1000 to 1500 Canadians will turn age 65 **every day for the next 20 years**
- 47% of Canadians aged 55-64 have not saved for retirement¹
- Half of Canadians aged 50 and older believe they will run out of retirement savings within 10 years of leaving work²

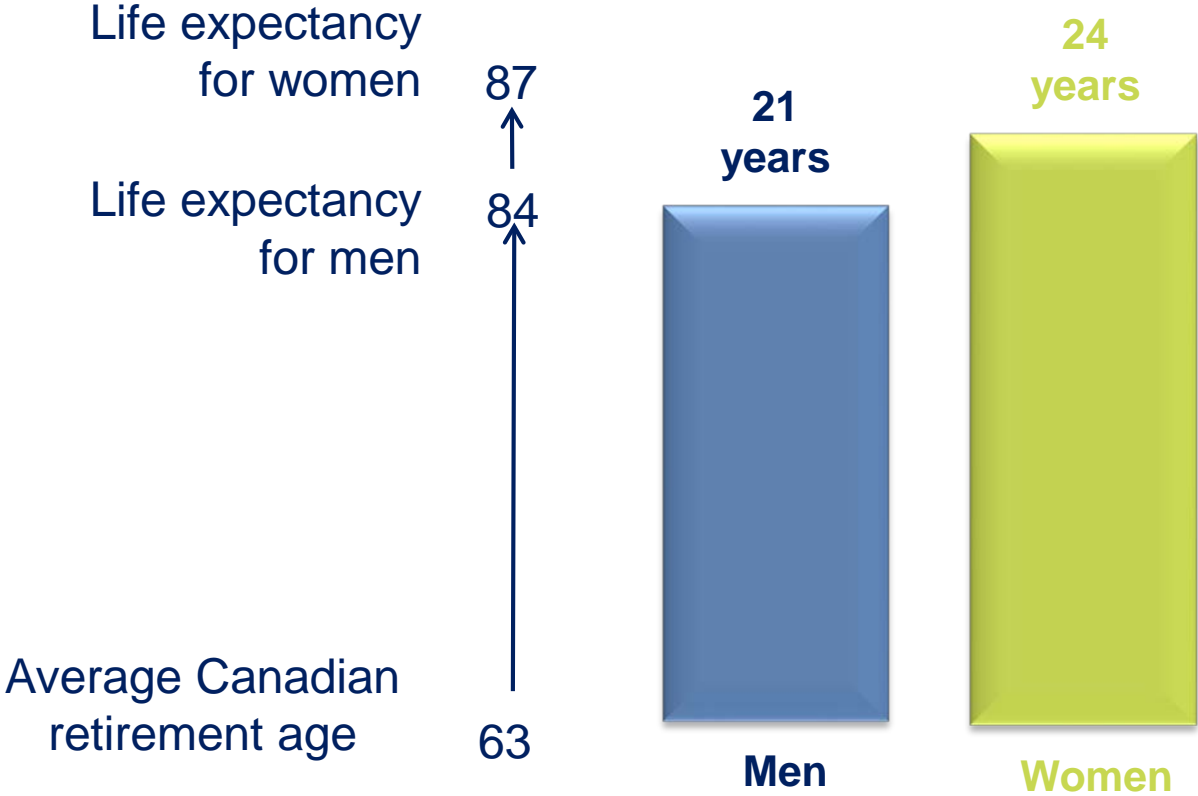
1: "The Future of Retirement: A new reality", HSBC, February 2013

2: Investor Education Fund, Feb 2013

Why plan?



**Average years in retirement –
this could be 25% if your life or more!**





THIS IS WHY

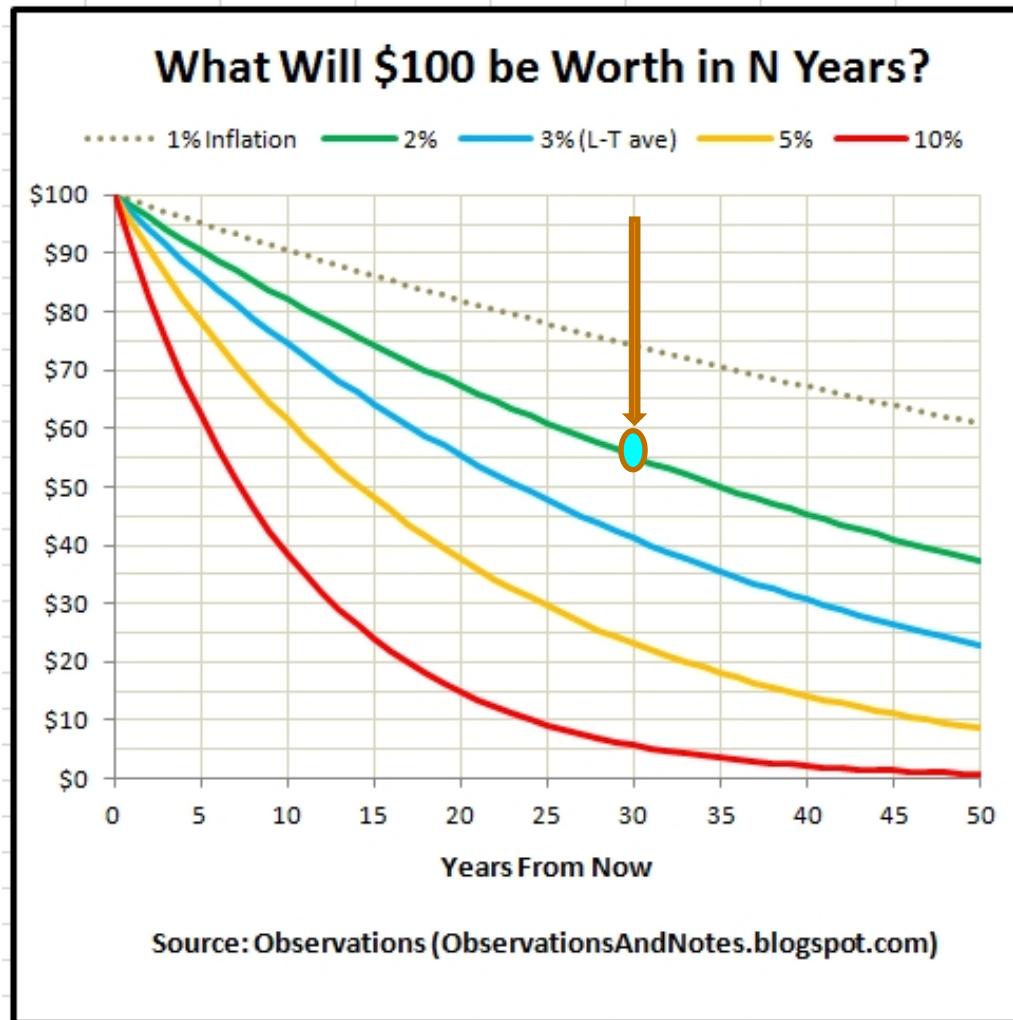
Women live longer than men

And ...



-
- Latest figures from Stats Canada indicate that more Canadians are reaching the **100 year milestone** than ever before
 - Imagine the implications of inflation on a retiree's pension if not indexed

Inflation over 30 years



If \$100 today is only worth \$55 in 30 years (assuming 2% inflation) ...

Then a fixed pension of \$25,000 today is only worth \$13,750 in 30 years

Evolution



Past

Present

Future



Paper Booklets
Face-to-Face Sessions
Call Centres
Statements
Newsletters

Webinars
Web-Based Modules
Videos
Online Tools & Calculators
Posters
Online Enrolment
Enrolment Guides

Social Media
Mobile Sites/Apps
Email reminders
with e-links
Gamification

Developing an education strategy



- ❖ **Review current plan statistics**
 - Participation rate and maximizing company match?
 - % of members in default investment
 - Usage of online tools and transactions completed
- ❖ **Understand your audience!**
 - Age & geographic diversity
 - Literacy and language skills
- ❖ Consider **surveying** employees (before and after)
- ❖ Consider **mandatory attendance** – at least during office/work hours

Executing the strategy



- ❖ Keep messages short and simple
 - Break information into bite-sized chunks
- ❖ Repeat key messages over and over
- ❖ Target messages to the right audience at the right time
- ❖ Use a variety of media to reach all generations and learning styles
- ❖ Try prizes, competitions, games
- ❖ Continually review results and make changes where necessary
 - Education is a process, not an event!

Key member touch points



Touch Point	What Members Need to Know
Enrolment	How does the plan work? Why should I join? How much should I contribute? Which investments should I choose?
Ongoing	How much income will I have in retirement? Am I saving enough? Do I need to change my investments?
Transition ❖ Termination ❖ Retirement	What are my options? How do I choose? Retirement: <ul style="list-style-type: none"> ❖ Lifestyle planning ❖ Choosing the right income product ❖ Investment strategy

Ensure members understand their plan



❖ **How does their plan work?**

- Maximize contributions by the employer
- Using additional/optional programs that may be available
 - ❖ TFSA, voluntary RRSP
 - ❖ savings for HBP or LLP
- What happens when members terminate or retire?
- Is the money locked-in? or not

Just enrol!



-
- ❖ Participation in many plans (about 50%) continues to be voluntary
 - ❖ Giving the “choice” often just causes inaction
 - ❖ Behavioral science shows us that when facing difficult decisions, we defer to another day.
 - ❖ Almost ***one in four workplace plans for salaried employees have less than 50% participation****.

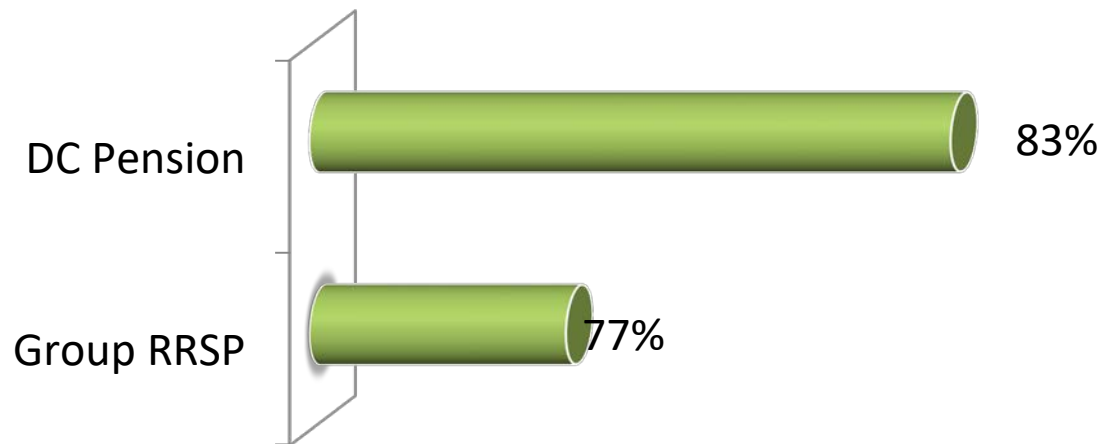
*Sun Life's 2014 ***Designed for Savings*** Report

Once enrolled...



Are people leaving free money on the table?

Percentage of plan members who maximize their contributions

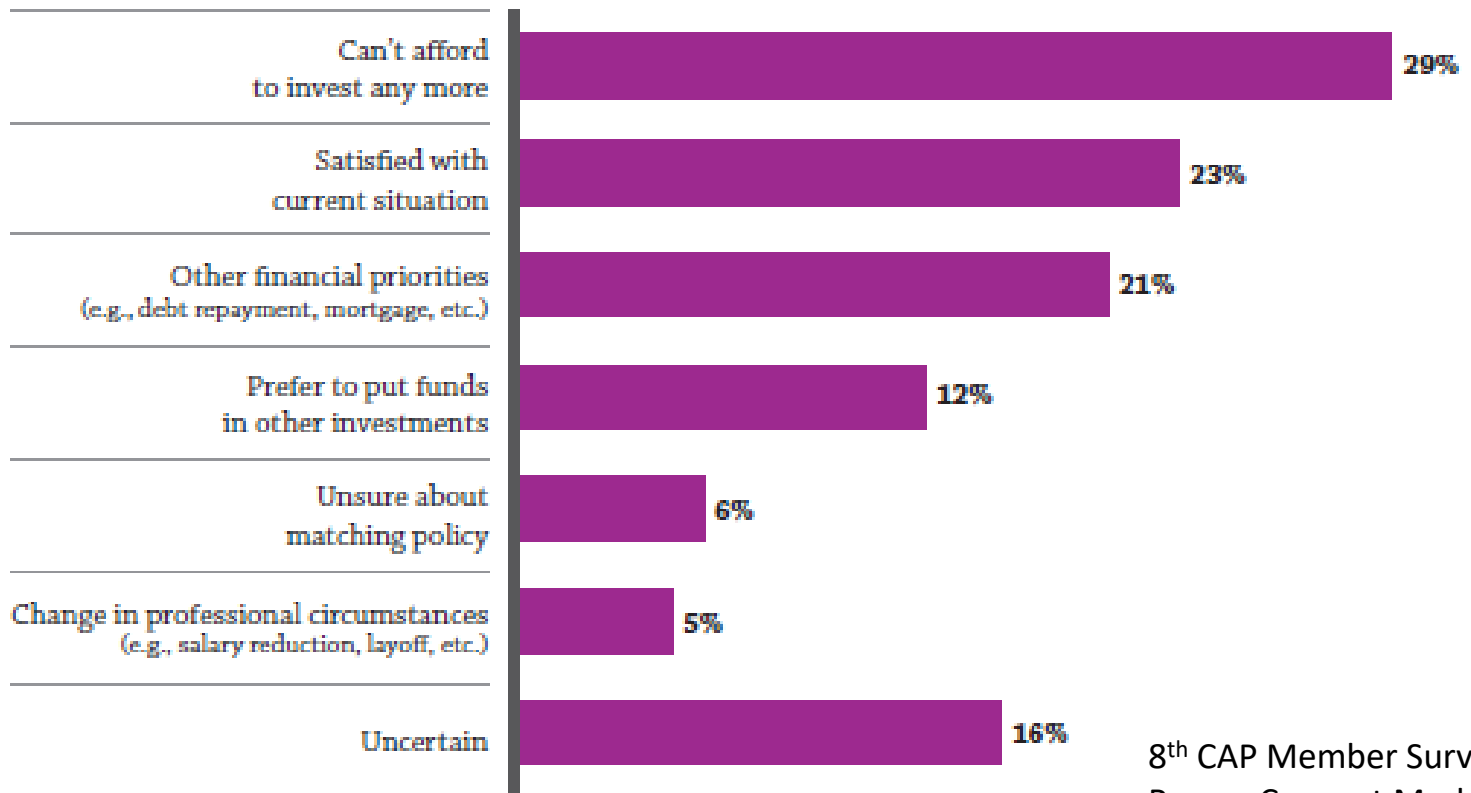


Source: 2011 CAP Benchmark Report

Why?



Why haven't you maximized your company match in your retirement plan(s)?



Investments ...

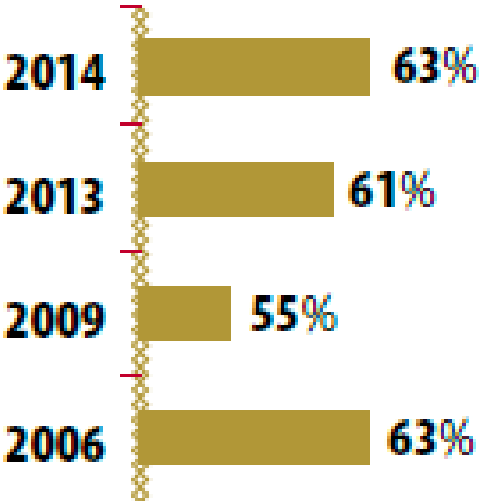


Plan members believe



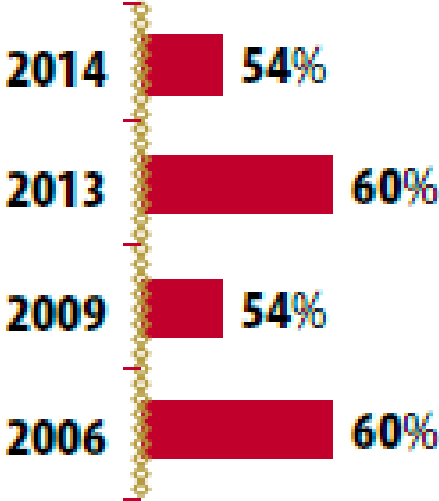
Plan members: If I don't make my own investment choices for my employee retirement plan(s), my employer should take responsibility to ensure that my contributions are invested appropriately.

■ **Total Agree**
(Strongly Agree/Somewhat Agree)



Plan members: My employer has a responsibility to ensure that the investment choices I make in my employee retirement plan(s) are the best choices for me.

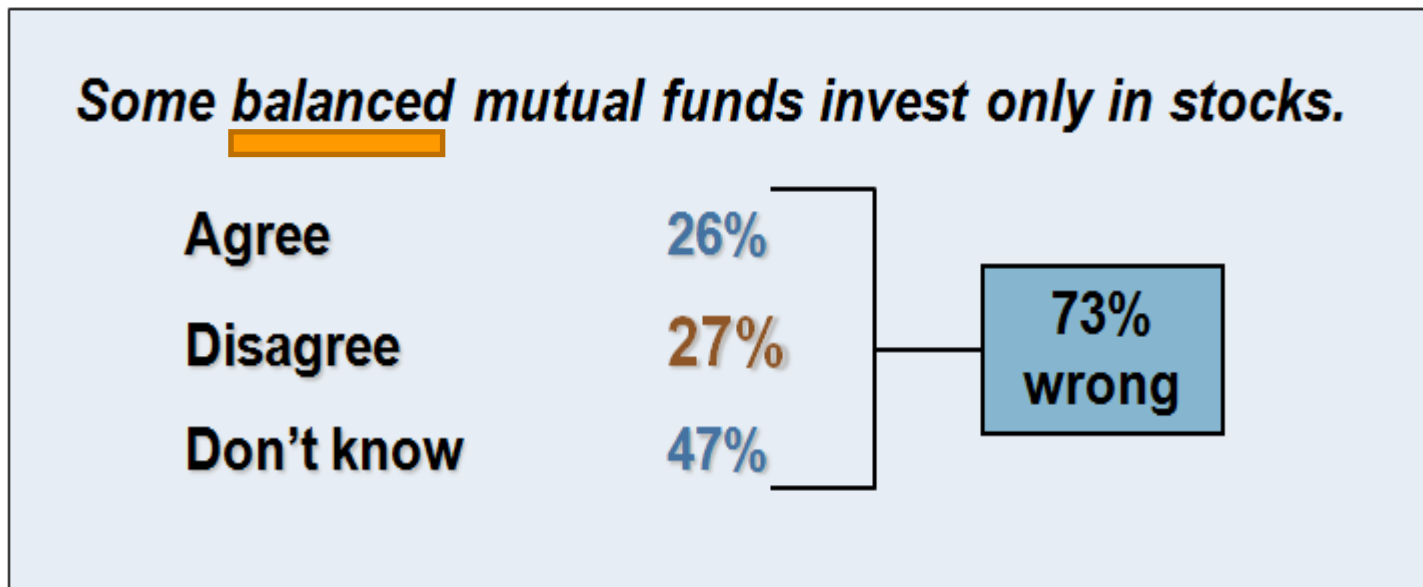
■ **Total Agree**
(Strongly Agree/Somewhat Agree)



Investment knowledge

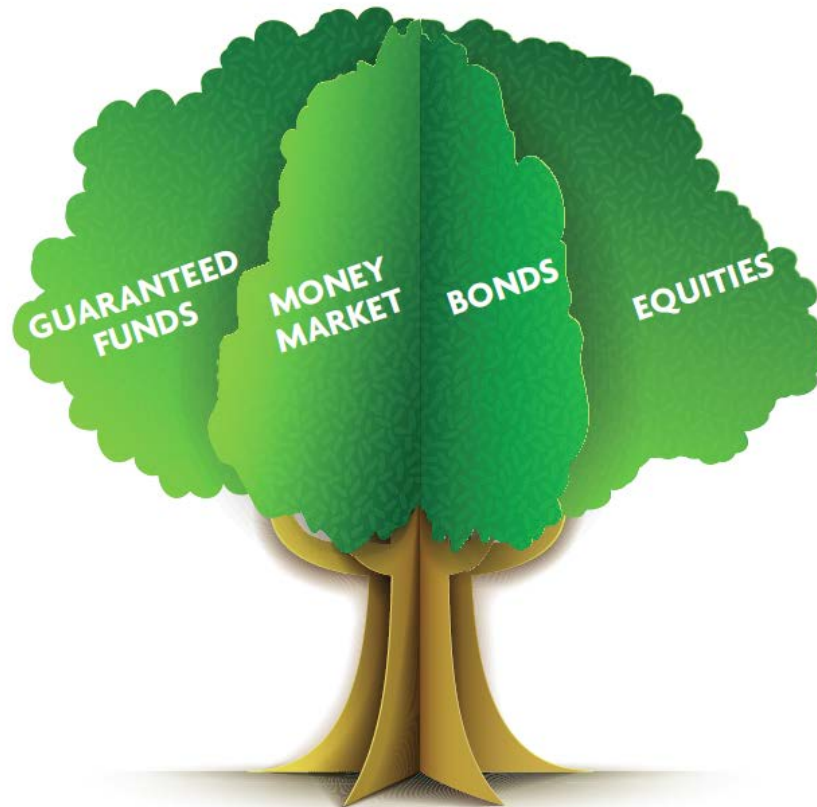


Pop Quiz: Sample question to members



Source: Benartzi and Thaler (forthcoming)

Members need the basics



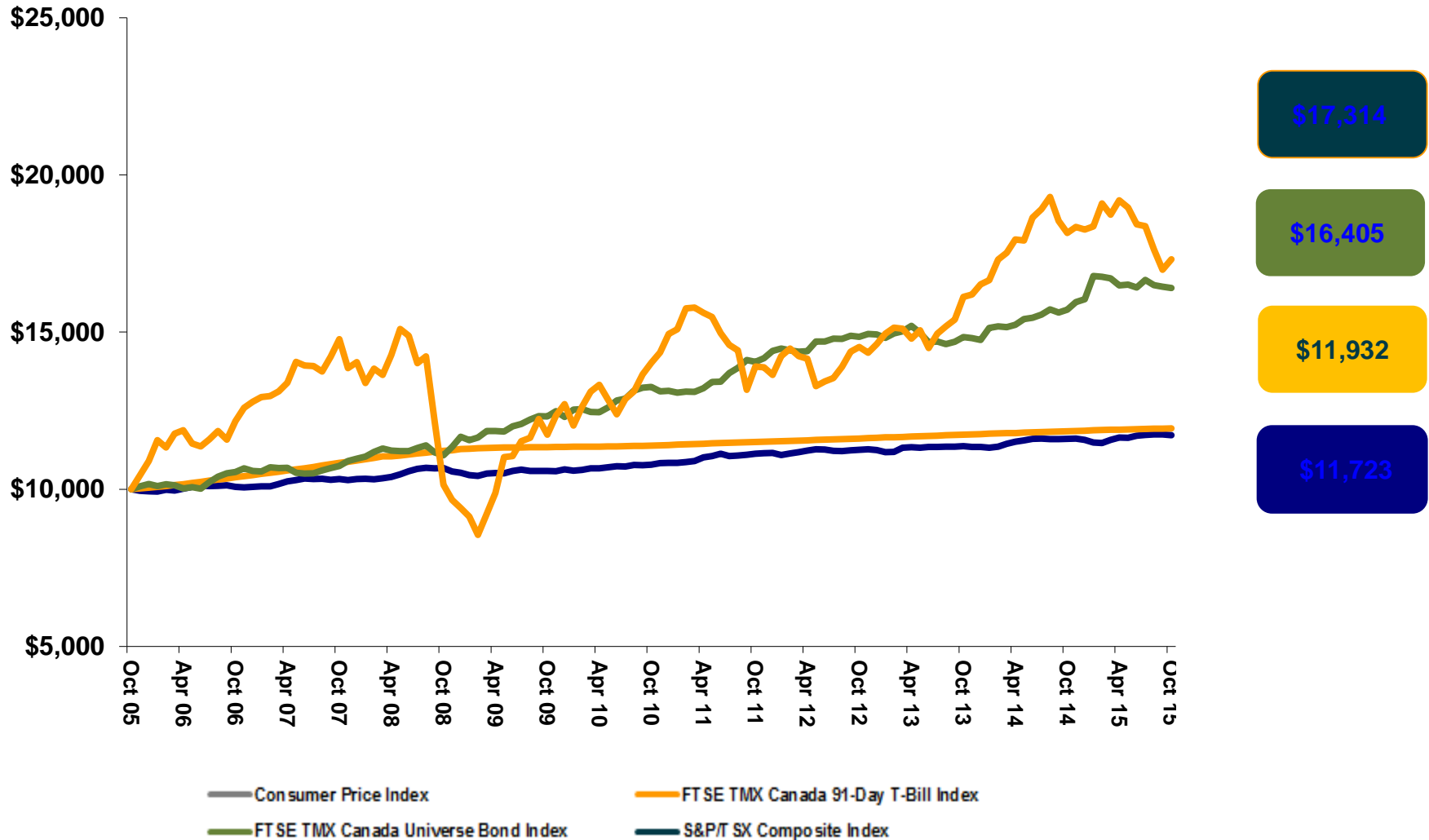
Are there investment fees?

How do the fees work?

Why do fees matter?

Asset Classes

Growth of \$10,000 (2005 – 2015)



Defaults...



The CAP Guidelines recommend that a “default” investment option be established for members who do not actively select an investment option upon enrolment...



Education sessions should clearly outline the plan default and explain why it may not be the most appropriate option for them individually.

Again the member should be made aware of his/her responsibilities under the plan.

Default funds



- ❖ Target Date/Lifecycle funds are becoming the default of choice for many CAP sponsors
- ❖ Since 2011, over 80% of new plans* have added target date funds to their investment line-up and all but a few are using this vehicle as the default

* Sun Life's 2014 Designed For Savings Report

Give them the tools they need



As mentioned in the CAP Guidelines and in the Financial Literacy Task Force recommendations:

- Members should be provided with tools and resources to allow them to make appropriate investment decisions suitable to them and to allow them to continue to manage their accounts
- Tools to assist members to determine how much they should be contributing and how to estimate/project their income at retirement



What about transitioning...

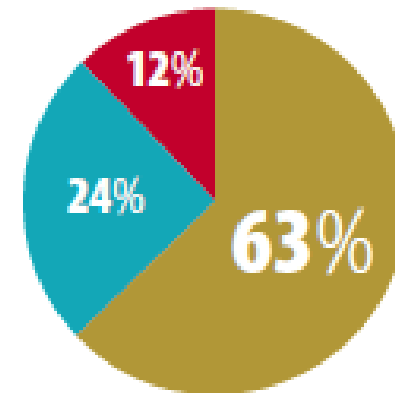


There are a lot of decisions to be made when transitioning both at retirement or even when leaving a workplace plan.

They need assistance.

Plan sponsors: My organization has a responsibility to assist employees with their transition to retirement.*

- Strongly Agree
- Somewhat Agree
- Somewhat Disagree



*No participants selected "Strongly Disagree";
2% declined to answer

Transitioning advice



What types of advice are you looking for regarding transitioning into retirement?

How much can withdraw annually and still have funds left over (58%)

What type of products to put retirement funds into (51%)

What decisions need to make at transition (50%)

What types of assets to put retirement funds into (45%)

Retirement lifestyle planning (43%)

Should you consolidate funds into 1 institution (28%)

Which financial institution to use (19%)

Members approaching retirement



- ❖ Defined Contributions Pension Plans Guideline (No.8) suggests that the plan sponsor will provide the following:
 - Information about payout products
 - Information and tools regarding projected account balance at retirement & income projections

Advice



- ❖ Lack of consistency in the industry
- ❖ Concerns about who pays
- ❖ Sponsors concerned about liability
- ❖ CAP Guidelines say...





Barriers and Tips

***If we are so smart, why do we
make irrational or bad
decisions?***

Long list of barriers to engaging members



- ❖ most are behavioral in nature for **employees**
 - Biases such as loss aversion, unrealistic optimism, short term biases
 - Anxiety affect – focus on immediate and avoid the long term (paralysis)
 - Pack or “herd” mentality
 - “I have no time” = poor attendance
 - “I don’t even know where to start” = poor attendance/disengagement
- ❖ Most common excuse for **employers**
 - Lack of time and resources

Tips to help members succeed



❖ Automatic pilot

- **Auto Enrolment** - Employees are made aware they have been enrolled in their employer's plan and have three choices:
 - ❖ Opt-out of plan
 - ❖ Remain in plan – maintain **defaults** (investment option)
 - ❖ Remain in plan – make changes at any time to investments
- **Auto escalation** - Employees are made aware their contributions will automatically escalate over time

❖ Behavioural finance has shown that auto-enrolment capitalizes on inertia

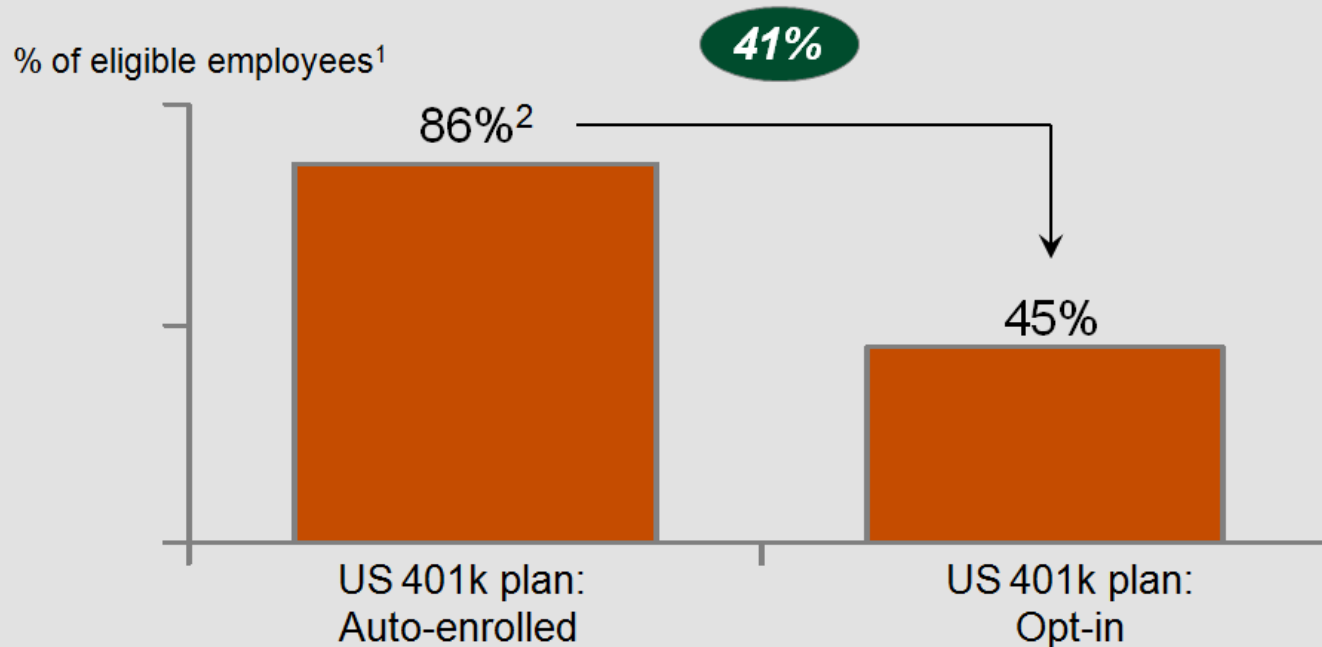
❖ No downside for employee

- 78% of participants in the 2013 CAP member survey strongly support auto enrolment
- Maintain choice
- Offers nudge toward desired behaviour of saving

Auto-Enrolment



When auto-enrolment is built in, it can double coverage of eligible employees



¹ Defined as a percentage of employees of firms that voluntarily offered a 401k plan,

² Calculated as % of employees who opt in or do not opt out of an employer-sponsored plan

Source: Vanguard US 401k pension study, BCG analysis

Member Education The Reality



- ❖ Despite our best efforts, some members will remain unengaged
- ❖ Employers need to take an active role and continue to educate members using all of the tips and tools available; try new ideas
- ❖ Ensure you have an appropriate default strategy in place for those unengaged members
- ❖ Document education materials and attendance
- ❖ Make it **simple and fun.**

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