

# Teach Me

CAP members clearly need help with their investment decisions. What role should plan sponsors play in educating them?

*By Anita Lieberman*

In December 2010, the Task Force on Financial Literacy produced its report, *Canadians and Their Money: Building a brighter financial future*. Not surprisingly, some of the recommendations and findings strike very close to home for those actively involved in the capital accumulation plan (CAP) industry.

The Task Force defines financial literacy as “having the knowledge, skills and confidence to make responsible financial decisions.” According to the *CAP Guidelines*, “CAP members are responsible for making investment decisions within the plans and for using the information and decision-making tools made available to assist them in making those decisions.”

Plan sponsors and service providers have been working diligently to increase the financial literacy of CAP members, to ensure that members have the means to make investment decisions relating to their plan. As the industry knows from employee seminars, surveys and personal experience, plan members grudgingly accept this mantle of responsibility to varying degrees, depending on their age, life stage and earning power. Yet they are worried about retirement. For instance, according to *Benefits*

*Canada's 2010 CAP Member Survey*, 64% of members surveyed are concerned that they may run out of funds during their retirement, and 66% are worried that they may not have saved enough for retirement. As Deborah McMillan, senior consulting actuary with Baynes & White, noted, “We provide one-on-one sessions with pre-retirees, and many of them are unpleasantly surprised when they see their estimated retirement income projections.”

#### Highly Recommended

The work of the Task Force in raising awareness and putting forth next steps is a needed initiative. Its 30 recommendations speak to the entire spectrum of financial services, but three of them are particularly important to the DC industry.

**Recommendation 6:** The Task Force recommends that employers incorporate financial literacy training into their current workplace training programs and communications. To that end, the Government of Canada, as well as provincial and territorial governments, should make workplace financial literacy programs eligible for tax assistance. Government should demonstrate leadership as employers by developing workplace financial literacy

ILLUSTRATION: GETTY IMAGES

## PLAN MEMBER SUPPORT AT A GLANCE

Type of Service	Why Provide It?	Delivery Method
Plan Information	Good governance in compliance with <i>CAP Guidelines</i>	<ul style="list-style-type: none"> <li>• Seminars</li> <li>• Online</li> </ul>
Financial Education	Good governance in compliance with <i>CAP Guidelines</i>	<ul style="list-style-type: none"> <li>• Seminars</li> <li>• Online</li> </ul>
Financial Guidance	Members need more specific information as it relates to their own investor profile or situation (e.g., based on risk tolerance)	<ul style="list-style-type: none"> <li>• Call centre</li> <li>• One-on-one</li> <li>• Online</li> </ul>
Financial Advice	Members need specific personal direction (i.e., investment selection, product choice, full financial plan)	<ul style="list-style-type: none"> <li>• Call centre (typically plan-only advice)</li> <li>• One-on-one financial plan (typically a full financial plan)</li> </ul>

Source: BMO Group Retirement Services Inc.

programs for employees throughout their careers.

As part of their adherence to the *CAP Guidelines*, employers sponsoring a CAP must provide investment education and decision-making tools to plan members through various media. Some plan sponsors admittedly do the bare minimum, citing time and money as barriers to a more in-depth approach. Others provide much more than that through additional information sessions or webinars, with content that addresses a variety of financial planning topics.

It will be interesting to see how this recommendation evolves in tandem with the education and communication strategies that employers and service providers already have in place. If anything, the tax assistance that employers would receive for incorporating financial literacy training into the workplace might just be the incentive they need. Service providers may then get greater access to employees to deliver the “importance of saving for retirement” message as part of an overall literacy initiative.

**Recommendation 7:** The Task Force recommends that financial services providers put a strong emphasis on delivering educational information and ensuring that it is fully understood by Canadians at “teachable moments” so that Canadians can make responsible financial decisions.

This recommendation specifically addresses information. It speaks to the concept of targeted messaging, as well as the importance of recognizing life events as key opportunities to increase an individual’s financial literacy level. In fact, the report includes “decision points such as joining a pension plan or workplace retirement savings scheme” as teachable moment examples.

While these are optimal moments for individuals to start down the path to financial literacy, many people do not take full advantage of them, if at all. Looking once again at data from the *CAP Member Survey*, 83% of participants did not capitalize on the employer match; 19% of participants did not maximize the company match due to lack of money; 6% were not interested, had no need or were satisfied with the current situation; and 4% had other financial priorities.

Ivy Tsang, a financial education consultant with Baynes &

White, spends a good deal of time in front of groups of employees, and she echoes this sentiment. “We need to capture people’s attention, and the only way to do that is to make the material we present to them—in person, online or in print—meaningful and relevant to them. Our content is moving away from generic and basic investment information and moving toward very specific age-related or event-related topics,” she explains.

“When I look around the room, I see a lot of employees in the under-40 demographic who have a great opportunity—via their sponsor’s plan—to start early to save and earn tax-free, but I am not hearing from most of them in the meeting,” says Marek Ostrowski, manager, product development and communication, with BMO Group Retirement Services Inc.

He says most of the older employees, those in the pre-retirement zone, are the most engaged. “The prospect of retirement is looming for them, so it is now very relevant to them. They are ready to listen, they are getting the message, and they are participating in the conversation.” This is information that could be a game changer for some people who will have their own “aha” moment when presented with facts and figures about inflation or long-term care expenses and the impact on retirees. But the industry’s concern is, will it be soon enough to provide them with adequate retirement income?

**Recommendation 8:** The Task Force recommends that the Government of Canada, in partnership with stakeholders, provide tools to help Canadians become better informed about the role and benefits of professional financial advice, as well as how to choose a practitioner.

Historically, what plan sponsors have provided—information,

financial education and financial guidance—has not been completely aligned with what some plan members have wanted—“Just tell me what to do with my money” (see Plan Member Support at a Glance, page 60). There has been a shift in the appetite to facilitate access to advice through plan sponsors, as well as an acknowledgement that our current workforce may benefit from some professional financial planning assistance. However, this does not preclude the need for a solid governance program.

“A plan sponsor should have a complete governance program—advice is a small piece of the whole picture,” says McMillan. “As part of the governance program, a plan sponsor should create an education and communication policy that clearly articulates roles and responsibilities for all parties, along with timelines and the target audience. As part of this, a plan sponsor may choose to provide information about various advice alternatives and even provide a list of questions for members to ask when searching for an advisor. But it should be made very clear to the plan member that the member—not the plan sponsor—chooses to seek third-party advice and selects the advisor of their choice voluntarily.”

Section 1.3.3 of the *CAP Guidelines* clearly states that CAP members are responsible for making investment decisions within the plan and should consider obtaining investment advice. Providers and plan sponsors can reinforce this message in their communications and educational materials. “Our member educational materials have a section on ‘Your rights and responsibilities,’ and we do advise the plan member to obtain independent investment advice from an appropriately qualified individual and determine how much saving, outside of the group plan, will be required to meet their goals,” Ostrowski confirms.

He suggests that there are methods to provide plan members with access to advice without increasing the obligation and liability of the plan sponsor. Service providers can work with plan sponsors to integrate financial planning into the retirement program but need to be mindful that it is a service that should be offered only to plan members at the request of the plan sponsor. The plan sponsor provides an introductory service for those plan members who make the request and need direction on where to go for advice, but it is up to the plan member to elect to move forward with an advisor of his or her choice.

As part of educational seminars, plan members should be made aware of the financial planning process, what they might expect and what will be expected of them—including the fact that they need to be comfortable with whatever planner they select, as they will be sharing private information. “The relationship between a financial planner and a client is very important. It is built on trust, it is a long-term relationship, and consistency is key,” Tsang explains.

The Task Force’s work has reinforced some key factors that CAP sponsors and service providers must consider in their governance and educational programs. While providing a forum for discussion and idea generation, the Task Force has also made the term “financial literacy” more mainstream. This alone can increase awareness of the need for a better understanding of one’s own financial road map and—one would hope—increased interest and engagement among plan members. 

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