When you offer twentysomethings the choice to take cash now or to invest it for an undefined benefit payable at an uncertain point after 40 years, what do they do? You don’t have to be a behavioural finance expert to recognize that humans tend to prefer instant gratification. Service provider experience has shown that the choice of taking cash is irresistible, and younger employees given the option by employers will choose the former.

For employers that are trying to help their employees prepare for retirement, the challenge has always been finding ways to craft a program that is efficient, affordable, sustainable, reliable and attractive to participants. The rise of capital accumulation plans grew from a desire to offer more choices to plan members. Employees have been enticed to “do the right thing” by extensive communication around long lists of institutional and brand name funding options. Information and persuasion can help, but nothing happens if you don’t overcome the first hurdle: getting employees to join the program.

Standard Life’s recent research in the U.K. illustrates the problem: while 89% of sponsors offered a group savings plan to all employees, the enrollment results were highly variable. One-quarter enrolled 80% or more of their employees, but one-third enrolled 40% of their employees or fewer.

Behavioural finance illuminates other aspects of the cognitive process that make the enrollment stage even more of a challenge. First, concepts such as tax-free compounding and the present value of a future stream of money are hard to understand. Second, people tend to be overly optimistic, assuming that future conditions will be more favourable than today’s. They believe they will earn more and saving will be easier down the road.

Employers are increasingly turning to auto features as a way to get young employees more engaged in their retirement saving. The logic of automating your plan is simple. But you might ask, “If we can’t redesign human nature, how can we redesign the plan?” The real question is whether or not an automated plan design can work for you.

Step one in the automation process is simple: auto-enrollment. Employees are signed up for the plan as soon as they become eligible. The next step requires the plan sponsor to decide on contribution rates and default investment options. However, the decisions that plan sponsors must make are not automatic.
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that do not entertain individualized choices. Other organizations have been pursuing a move toward personal empowerment, where more and more choices—and responsibility—are shifted to the employee. Some of the differences may stem from competitive considerations; some may reflect the nature of the workforce. How homogeneous or diverse is your workforce? Is your group composed of highly specialized long-service employees (such as tenured university professors), or is it a more casual, mobile group with higher turnover (e.g., retail sales)?

One way to discern what is appropriate for your situation is to examine employee perceptions. Will they see the implementation of auto features as one less thing for them to worry about or will they consider them an intrusion into their freedom of choice? In short, will employees see the implementation as good news or bad news—or will they care at all?

What is the impact on your budget for compensation and benefits? Imagine you have only 40% of your eligible employees currently enrolled and receiving the benefit of employer contributions. The introduction of auto-enrollment for all employees could more than double your contributions. If such a budget increase is prohibitive, you may wish to consider where else in your total rewards budget you might be able to adjust spending. An integrated communication plan might be necessary to position the changes to your total rewards budget.

Do you plan to address financial literacy? The recent Federal Task Force on Financial Literacy highlighted the poor state of financial literacy in Canada. Of course, it also had recommendations for business, including suggesting financial literacy training for employees and encouraging organizations to adopt tools such as auto-enrollment and auto-escalation for workplace retirement plans. In addition, annual reporting of actions taken to improve financial literacy is recommended for larger organizations.

Embracing auto-enrollment can eliminate worries about complex enrollment logistics, communications and travel expenses, especially where employees are dispersed in small numbers in multiple locations. This can free up time and resources to devote to more advanced education and planning.

A holistic approach to the financial wellness of employees can focus on engaging them and empowering them, giving them the tools to make smarter financial decisions in all aspects of their lives. The more financially literate they become, the better they can understand and appreciate all that you do to ensure their well-being.

What is the impact on your payroll system? Contribution changes stemming from new hires and pay changes will need to be synchronized with your service provider.
Likewise, changes in contribution rates triggered by the auto-escalation calendar will need to be integrated. Will employees receive advance notice? Will you provide an opt-out facility to reverse auto-escalation?

**What will your default investment option be?**
With auto-enrollment, the initial investment decision is yours to make—and unless members take action on their own initiative, it will remain yours. By making the essential investment decisions on behalf of members, the employer ensures that each member can have an appropriately diversified portfolio. There are no guarantees, but the hope is that a thoughtfully chosen default option might improve the chances for a decent outcome down the road.

Automating the investment process means finding a way to embed basic investment guidance into the structure: combining the fund options and the communications into a single, seamless package that’s easy to understand and achieves the desired results.

Ultimately, how you structure your plan is all about results for the participants—and the financial results will be determined by just three factors. Whatever the design being proposed, it is vital to evaluate how well the approach optimizes the amount of cash set aside, the net rate of return and the accumulation period.

In the U.S. experience, where most plan sponsors enrol new members at a rate close to the minimum 3% contribution rate specified in the law, the danger is that unless (or until) auto-escalation raises these rates, the level of savings is clearly inadequate to provide for a decent payout at retirement. Of course, each member is free to intervene and change his or her contribution rate. However, the larger worry is that members may be lulled into thinking, *HR is looking after everything, so I don't have to do anything myself.* So rather than helping to engage employees in taking charge of their financial destiny, have auto features guided them into total passivity?

In addition to the metrics of participation rates and contribution rates, you might also want to take a look at another measure of success: the rate of in-service withdrawals. We often think of a group RRSP as a simplified pension plan; however, assets are not locked in as pension assets are. If you use the group RRSP as a substitute for a registered pension plan, leakage arising from in-service withdrawals—even for specified purposes such as the Home Buyers’ Plan and Lifelong Learning Plan—can undermine all of your efforts to help your employees build a robust nest egg for retirement.

In crafting the right solution for your program, you can learn from the experiences of pension practitioners around the world and avoid some of the hidden pitfalls they have exposed. In the end, it’s hard to imagine a recipe for retirement savings success that does not include employees engaged in their own financial destiny. And that’s still not automatic.

Louise Pellerin-Lacasse is vice-president, product development and management, with Standard Life Canada.

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