BUY ONE, GET TWO

BASF's DC plan allows employees to triple their contributions to 15%

By Helen Burnett-Nichols

Saving enough for retirement is a major challenge for many employees, so when a company's plan design allows its staff to accumulate 15 per cent of their earnings and they only have to contribute five per cent themselves, it's no surprise that nearly everyone is eager to jump on board.

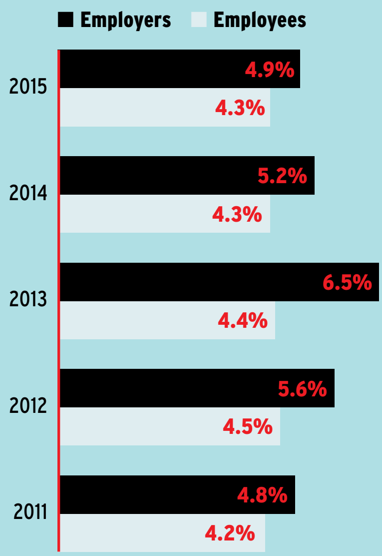
BASF Canada Inc.'s defined contribution pension plan does just that. The company provides an automatic contribution, along with a matching component according to what employees put in, reflecting the philosophy that planning and saving for retirement is a joint responsibility, says Terri Howard, director of human resources at BASF Canada. "Our company strategy at BASF is we create chemistry for a sustainable future, so our employees work to embed that strategy in everything that they do in working with our customers across Canada," she says. "And it's all about thinking about the long term and looking at sustainable options. So that trends as well into what our company does for our employees and looking at the long term and sustainable financial future for them."

How does the plan work?

On the date of hire, the company starts automatically contributing five per

CONTRIBUTION TRENDS

How much do Canadian employers and employees contribute to DC plans as a percentage of salary?



Source: 2015 Canadian Institutional Investment Network/Great-West Life CAP benchmark report

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cent of an employee’s earnings into the defined contribution plan.

The company will then fully match any optional contributions between one and five per cent that an employee makes.

The approach has proven popular, with all but a dozen of the roughly 525 eligible employees taking advantage of the company’s offer to match contributions.

“Basically, you see that the company contribution can go up to 10 per cent, which we believe is fairly leading edge for the industry,” says Raja Ramanathan, human resources business partner at BASF Canada.

“If you throw in the employee’s own contribution, that’s another five per cent, so . . . a person could well set aside 15 per cent each month for their retirement.”

Ramanathan says making the five per cent company contribution automatic was a deliberate move. “Even if an employee, for some reason — could be budgetary or their own personal needs — didn’t want to contribute, they still have a very substantial contribution, which helps them for their retirement.”

As Janice Holman, principal and defined contribution practice leader at Eckler Ltd., explains, the approach allows employers to ensure their workers have a minimum amount of retirement savings, with employees then able to manage their contributions according to their needs.

“I think these plan designs are some of the best designs, because they ensure that there’s at least a minimum benefit for all employees and then they provide quite a bit of flexibility,” she says.

Getting to 15 per cent

Holman says a total contribution of 15 per cent is a good number to target when it comes to an appropriate amount for those with average to higher incomes to save. While the average is somewhere around 10 per cent, more and more employers are realizing that lower contribution levels may be insufficient, she notes.

“People are realizing that how DC plans were structured, coming from their roots of being a supplemental add-on to a [defined benefit plan], the contribution amounts are not sufficient the way that they’re structured today.”

In BASF’s case, Ramanathan says the company saw planning and providing for retirement as an important part of its compensation strategy.

“We said, ‘We want to be ahead of the curve,’ and came up with this strategy of putting in an automatic five per cent and an additional five per cent which is matching. So this, we believe, keeps us amongst the innovative and dynamic organizations in our industry group,” he says.

Jillian Kennedy, leader of defined contribution and financial wellness at Mercer, says that while defined contribution plans currently represent about five per cent of total retirement assets in the Canadian market, the number is growing quickly. Driven partly by regulatory changes and demographics, that figure is on track to grow to 30 per cent by 2030, she notes.

"Plan sponsors are taking a step back to re-evaluate the design and we anticipate, going into the future, that there will be a recalibration and potentially a higher contribution to kind of make up for the fact that our market and our source of retirement savings is changing," says Kennedy.

The discussion, she adds, is also changing on the employee side, with a bigger focus on the incentive for workers to contribute and giving them added flexibility around their contributions.

"The best way to do that is for them to have some skin in the game as well. And so, encouraging them to participate more might mean you have to put in so much to get so much from the employer. But it also might mean: Here's the ability for you to contribute on a voluntary basis, and we're going to offer some really interesting ways for you to do that," says Kennedy.

In terms of attracting and retaining new employees, Howard says BASF Canada's plan design has helped to position the company as a top employer. "By helping the employees build a foundation for the future, for financial security, that's certainly a retention measure," she says.

Communication at the core

Although Holman says the combination of a base contribution and a matching component is a winning design, she notes success ultimately comes down to communication with employees.

"With that base contribution, they might just say, 'Oh, I have a pension plan, I'm OK,' and not understand the level of benefit that's going to be provided," she says.

As a result, she suggests that at the time of enrolment and every few years thereafter, employers need to provide tools or assistance to help employees understand how much they should be contributing.

Indeed, Ramanathan says an ongoing issue BASF Canada faces is educating employees on their investment options.

One way the company works to boost employee knowledge is by partnering with its benefits carrier to offer presentations every 18 months to two years. During the presentations, licensed financial planners talk to employees about how to use their funds for investment purposes.

But while the presentations generate a lot of employee interest in the plan in the following months, Ramanathan says there's also work to do to sustain the activity.

As a result, BASF Canada intends to focus its future efforts on education, communication and ensuring employees are making the best use of the plan.

While the company already offers employees a tool to estimate their pension outcomes, Ramanathan says a new retirement planning website is also in the works.

The tool, set to roll out later this year, will aim to help employees plan for all aspects of retirement, from the financial aspects to finding volunteer opportunities.

"This new website or tool is highly interactive, so this will help us target that challenge of communication by engaging them further," says Howard.

Helen Burnett-Nichols is a freelance writer based in Hamilton, Ont.