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YOUR WORKPLACE
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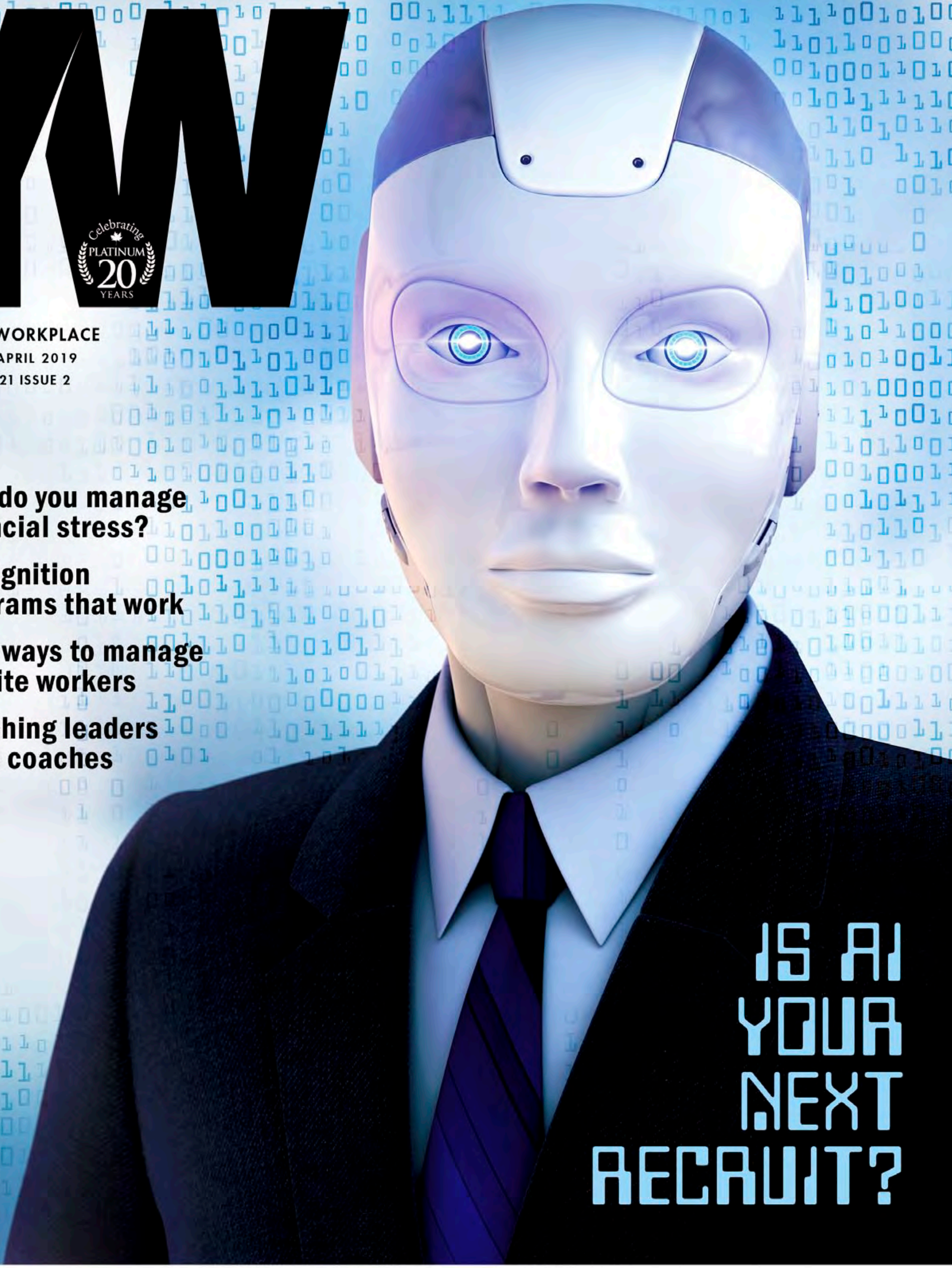

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A Good Pension Can Be an Effective Wellness Program

Modern Defined Benefit (MDB) innovations address employee stress, attraction and retention issues, as well as CFO concerns for controlling risk

» BY DEREK W. DOBSON

Your employee's personal financial anxiety is not only harmful to them but will likely hurt your bottom line. In a global survey, Willis Towers Watson found that employees with financial worries report worse health, higher stress, more absences and lower engagement levels than did employees without financial concerns.

There are plenty of surveys confirming that Canadians are stressed about retirement. In September 2018, the Canadian Payroll Association reported that 46% of Canadians said financial stress is affecting their workplace performance, and 72% said they have only saved a quarter or less of what they feel they will need to retire.

The Canadian Public Pension Leadership Council (CPPLC) found that over half of all Canadians said that retirement-planning stress has a medium-to-high impact on their work. A 2017 CPPLC survey found that 97% of Canadians, across all ages and income levels, want predictable, lifetime retirement income, and 84% are willing to contribute 5% or more to achieve it. In addition, employees who have to manage their retirement investments are more likely to have stress that affects their work. For instance, 69% of respondents with a group RRSP said retirement-planning stress interfered with their work.

An innovation that helps

Innovations in the pension sector are helping employers provide secure lifetime retirement income to their employees. The expanded accessibility of Modern Defined Benefit (MDB) pension plans means that more workplaces can meet the needs of their employees, HR departments and CFOs with a sustainable pension plan at a fixed cost and without the accounting risk or administrative costs of offering a pension plan.

Most MDB plans are large multi-employer plans. They are more efficient at providing lifetime retirement income than individual defined contribution plans or group RRSPs because they use their size to cost-effectively pool longevity and investment risks. They invest in broader and higher-returning asset categories and, through their purchasing power, have lower investment fees. MDBs are also independently administered with low operating expenses. This means a higher proportion of contributions go toward funding valuable pension benefits rather than overhead costs.

MDB plans improve financial wellness by delivering secure lifetime retirement income and by sparing members from the stress of making investment decisions, deciding how to time their retirement to market cycles and deciding how to withdraw their savings in retirement to make it last a lifetime. With fewer decisions on issues that many feel uncomfortable with, employees are less stressed and more productive.

MDB plans also help with workforce management. Employees with defined benefit pensions are more confident about retiring when the time comes compared to those who participate in other types of retirement plans. This helps minimize costly severance payments or “presenteeism” by employees who are unable to retire with confidence that their retirement income will last or simply because their savings will not support a reasonable standard of living.

The CPPLC study also found that defined benefit plan members were the most likely to have a written retirement plan, even though they are the least in need of one. As a valuable component of compensation, an MDB pension plan plays another role in workforce management by improving employee retention, thus helping to reduce recruitment and training costs.

With the participation of many employers in an MDB plan, pension security continues even if an employer ceases operations. Pension security is a key focus for many employees, especially in light of some high-profile bankruptcies.

It is clear that MDB plans are well-aligned to the objectives of the HR professional, but how do they align to the objectives of a chief financial officer? In short, perfectly. MDB is structured so there is no pension liability recorded on an employer’s books. Employers simply match employee contributions. There is no balance sheet risk and contribution rates are fixed, providing the predictability that CFOs yearn for.

A recent study by the Healthcare of Ontario Pension Plan, the National Institute on Ageing, and Common Wealth entitled "The Value of a Good Pension" found that for each dollar contributed, the retirement income from an MDB-type plan, which they refer to as Canada-model pension plan, generates $5.32 versus $1.70 from a typical individual retirement savings approach.

Robert L. Brown, professor emeritus of the University of Waterloo (Actuarial Science) and director of the Institute of Insurance and Pension Research, has written that defined benefit (DB) plans are “the most efficient and effective means of delivering retirement income.” He notes that a 2011 Texas study found that 92% of its DB members would do worse in a defined contribution plan, with two-thirds receiving substantially less. In Canada, MDB plans perform better (largely due to independent governance and stricter regulations), while mutual fund fees for individuals are even higher — suggesting that MDB plans offer an even better advantage for Canadians.

MDB plans improve financial wellness by delivering secure lifetime retirement income.

MDB innovations have come at a critical time for workplaces in Canada. Addressing employee stress, attraction and retention issues, as well as CFO concerns for controlling risk, can substantially improve outcomes for employees and employers. YW

EXPERT

Derek W. Dobson is the CEO and plan manager of the 46,000-member, $10.8 billion CAAT Pension Plan. The CAAT Plan recently created a second plan design called DBplus, which is available to all Canadian workplaces.