Plan sponsors have a prime opportunity to reduce or eliminate the challenges facing plan members when it comes to retirement savings. By addressing five of the top reasons employees say they aren’t saving, organizations can improve participation in and contributions to company-sponsored retirement plans.
Organizations are experiencing an interesting and dynamic time when the Canadian workforce comprises people not only of different age groups but also of widely varying educational backgrounds, experiences and technological familiarity, which puts employees in a unique position to bring exceptional sets of skills to their jobs. In order to attract and retain employees of all stripes, employers are actively seeking to improve the value of their total reward offerings. Participation and engagement in benefits, particularly retirement plans, are more important than ever to this success. Helping employees to understand their company-sponsored retirement program demonstrates employer commitment and support to employee financial well-being and is a great way to improve total rewards strategies.

The following concept may seem simple to many of us in the benefits business: Join the company retirement program to save for your future and to maximize the overall benefit you receive from your employer. However, there remains a puzzling disconnect and lack of participation from employees. Over the course of my career, I’ve heard employees give many reasons for not participating in company-sponsored retirement programs. Let’s look at five of the top reasons and evaluate ways for organizations to help move employees past these barriers.

1. I don’t have extra money to put into retirement savings.
2. I don’t make enough money and just have enough to cover my bills.
3. I have debt that I am trying to pay down first.
4. I don’t understand the program or how to get started.
5. It’s too late, and I’m too old. So why start now?

By evaluating and understanding the obstacles employees face, employers can better position their organizations to educate employees and help to address these challenges, support improved employee financial well-being and drive increased participation in company-sponsored retirement programs.

1. I Don’t Have Extra Money to Put Into Retirement Savings

In a poll conducted by Ipsos Reid on behalf of Investor Education Fund, 48% of Canadians cited not having enough money as the reason for not managing their money or investing. Employees may not realize that a budget can help determine where excess money is being spent (and thus where potential savings can be found), and employers can address this issue by educating members on how to create and maintain a budget. Hosting customized seminars, providing budget templates or encouraging the use of budget apps can help people who feel they may not have the extra money to save and assist those who do not know how to get started.

It is also important to understand that employees may have differing levels of financial literacy; some workers may not be putting money into retirement savings simply because they don’t understand budgeting, taxes, compound interest and other financial concepts. Therefore, messaging should be both informative and easy to understand. By highlighting and reminding employees of the benefits, such as immediate tax savings and deferred income growth, more workers will realize that participating in a group plan will allow them to pay less in taxes and ultimately have more money available to save for retirement. In addition, messaging needs to be consistent. Frequent reminders regarding tax savings through depositing bonuses or pay increases directly into a company program also can help to improve employee financial well-being and drive increased participation into the plan.

Employers that offer a matching contribution program can further increase plan participation by illustrating the immediate benefit and extra money that comes from the company contribution toward retirement funds. Many employees view this benefit as too good to be true or think that there must be a catch to the offer. It is important for employers to outline the added benefit of a retirement program and convey their sincerity in assisting their employees toward a healthy financial future.
2. I Don’t Make Enough Money and Just Have Enough to Cover My Bills

Many people feel that there is nothing left to put toward retirement after paying bills and expenses. For some, the most challenging part of saving for retirement can be making the decision to start the process of contributing to a plan—even in small increments. Employees often feel stressed when it comes to making this decision because they have limited financial resources or are barely covering their bills, so employers can help by encouraging plan members to start with small, manageable contributions. This will enable them to enroll in the plan and subsequently increase contributions as their incomes increase. Sharing tips to maximize income and savings while minimizing spending can highlight areas employees may not have considered. Using infographics, webinars, and other visual and verbal demonstrations can illustrate the minimal impact of starting off small and support how gradual increases will affect long-term savings.

When money is tight, making financial decisions without the input of partners or other trusted family members could also be a roadblock for many employees. Ensure that education support is mobile and/or sent to households to allow your workforce to share the information and make the decisions with those whom they trust.

It is important to note that members are more receptive to making financial decisions when they feel comfortable that their financial situation is moving in the right direction. Retirement planning information is often best received after members are given a raise or a bonus.

Having a strategic communication plan can capture these financial milestones in a timely and more effective manner.

3. I Have Debt That I Am Trying to Pay Down First

Balancing savings while paying down debt is another challenge. Most people believe it is best to pay down debt before saving; however, for many, debt is a constant way of life, and that thinking might exclude them from the ability to save. Educating plan members about different types of debt is a key component of financial well-being. Mortgage debt can take many years to pay off, so factoring in saving for retirement while paying down a mortgage is an important step toward a plan member’s future financial well-being. The growth of a member’s contributions over time will have a significant impact on overall retirement savings. Starting to save early rather than deferring this goal is one of the keys to successful retirement planning.

For many employees, paying down debt and saving for retirement will not be achievable without a plan. Employers can choose to provide access to financial resources including seminars or newsletters through a financial wellness or employee assistance program. Some programs can offer support in areas such as credit counselling, debt and budgeting assistance, and tax or retirement planning. Providing access to a financial planner, or even just information on how to find one, can also help employees make decisions that are right for them and create a path to achieve their financial goals.

When employers provide the necessary tools and resources, plan members will be better equipped to effectively target debt and better informed on the benefits of participating in and contributing to their company-sponsored retirement programs.

4. I Don’t Understand the Program or How to Get Started

Saving for retirement can seem like a daunting process. Plan sponsors can help alleviate the fear of complexity by

Takeaways

- Employers are in a unique position to help workers remove barriers to saving for retirement—a goal that can benefit employers and employees alike.
- Common challenges cited by employees who are struggling with retirement savings include not having enough money, dealing with debt, not understanding retirement programs and feeling like they are too old to begin saving.
- Plan sponsors can help employees move past these barriers by offering customized seminars, budgeting information, infographics, webinars, and other financial education tools and resources.
- Companies that use automatic enrolment, in which employees have to take an extra step in order to opt out of a retirement program, have had well-documented success in boosting program participation rates.
- Messaging for the retirement program should be informative and easy to understand, with targeted information that meets the needs of employees with differing levels of financial literacy and knowledge.
educating employees on their retirement savings programs before they enroll. Consider providing answers to frequently asked questions (FAQs) such as:

- What type of retirement program does my workplace offer?
- Is there a company match?
- How much do I have to contribute to receive the employer match?
- Is there vesting involved?
- Are voluntary contributions allowed, and can I afford to contribute extra?
- What are the investments offered in the plan?
- How do I choose the investment that is right for me?
- How soon can I get started?

Plan sponsors may consider conducting an employee survey to help steer resources that support the different levels of understanding that employees have of the company-sponsored program. Recorded or live sessions, fact sheets, booklets and demonstrations can be targeted to close the knowledge gap and support understanding and engagement. In addition to those initial resources, it is important that employees know where to easily access additional support if required. Company intranet sites can be a great place for people to access this information. Valuable resources such as an employee benefit summary containing key retirement information and contact numbers can also be made readily available to all employees.

Automatic enrolment is quickly becoming a preference for employers. When it comes to making decisions, research has found that individuals’ automatic reaction is to take no action at all. Since opting out requires an employee to take action, the majority of people will remain enrolled in the plan once they are automatically enrolled. According to a behavioural science paper published by Prosper Canada and Deloitte, it is found that when inertia kicks in, “we tend not to make decisions until we are pushed to do so.” By changing the required action from making daunting decisions about enrolment to giving up on future savings by opting out, company-sponsored programs have seen a successful shift toward increased participation.

Ultimately, providing ease for employees is important. Consider an electronic approach to FAQs and enrolment to further simplify the process. Prevent procrastination and complacency by making the process quick, automatic and simple, which will lead to a better chance of immediate action from employees.

5. It’s Too Late, and I’mToo Old. So Why Start Now?

It can be overwhelming when employees realize that they are a few years away from retirement with little to no savings. Employers can help members of their workforce to understand that it is never too late to start contributing. With careful planning, disciplined budgeting and a shift in perspective, employees will be better prepared for the future no matter how near or far their retirement may be.

To help workers increase retirement savings when starting later in life, plan sponsors must educate plan members on ways to maximize their retirement savings in a shorter period of time. To ensure Registered Retirement Savings Plan (RRSP) growth, for example, plan sponsors might communicate the following steps.

1. Contribute the maximum.
2. Contribute regularly through payroll.
3. Consider the pros and cons of investing to earn a higher rate of return.
4. Retire a few years later.
5. Borrow to make your contribution, if necessary.
6. Make use of asset allocation.
7. Use the services of a professional financial advisor.

Conclusion

Plan sponsors have a great opportunity to reduce or eliminate the perceived challenges plan members face when deciding to contribute to their company-sponsored retirement programs. Helping employees understand the benefits of the program not only demonstrates organizational commitment to their financial well-being but also is an effective way to maximize retirement contributions.

Plan sponsors should evaluate whether their methods of employee communication are meaningful and effective. Customizing material that aligns with the company’s corporate culture and philosophy can positively impact employee engagement. Cookie-cutter material and education will not deliver the best results. Education and support should be conducted on an ongoing basis with access to meaningful content that is relevant to each stage in an employee’s financial situation. Employer support and access to educational resources and tools that accurately represent financial challenges people face will enable employees to feel empowered to take action.
toward their own financial well-being. And financially secure employees make for a less stressed, more engaged workforce, which is good for the individuals and the employer as a whole.

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References


Endnotes


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