NORMANDIN BEAUDRY WHITE PAPER

Do savings plans help drive human and financial performance in organizations?

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Savings plans are rapidly changing. Concern about savings and retirement is widespread, and is shared by workers, employers and governments. A growing number of Quebec and Canadian employers are offering their employees savings plans and examining how to optimize their investment to drive human and financial performance within their organizations.

In 2015, Normandin Beaudry began an in-depth reflection by bringing together more than fifteen human resources (HR) decision-makers and visionaries during its Savings Plans Roundtables. We witnessed the excitement surrounding the subject and, more importantly, the resolve to act.

This white paper presents the key findings from these discussions, including the impact of savings plans on organizational performance. We also present innovative ideas for optimizing these plans and envisioning the savings plan of the future.

We would like to thank all of our partners and everyone who contributed, directly or indirectly, to the reflection and discussion that resulted in the preparation of this white paper. We would especially like to thank the HR vice-presidents who took part in our Savings Plans Roundtables in 2015[1]. These men and women with very busy schedules gave generously of their time and shared their ideas and vision with enthusiasm. Thank you!

ROLE OF SAVINGS PLANS IN ORGANIZATIONAL PERFORMANCE

Before looking at how to optimize savings plans, it was necessary to assess the usefulness of these plans. Two dominant empirical beliefs, supported by literature and research, emerged from our discussions.

1. Offering a savings plan is necessary

According to our client's practical experience and to literature on the subject, it seems clear that organizations that would choose not to offer savings plans to their employees would be put at a competitive disadvantage.

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[1] Human resources vice-presidents of large Canadian and international organizations operating in various industries and offering savings plans of all sizes.

According to the **rémun** database administered by Normandin Beaudry, 95% of member organizations offer their employees a savings plan. All HR strategists agree that the lack of a savings plan is an issue when it comes to attracting talent. It also contributes to unduly prolonging the careers of some employees, against their will, because they do not have the financial means to retire. This contributes to the "ghost retiree" phenomenon.

A number of studies and surveys on the subject confirm this belief. For example, 81% of participants in a survey on the importance of individual and group retirement savings for Quebec workers[2] consider the fact that the employer offers a savings plan to be a big or major advantage. Also, 37% of employees surveyed say that they would not accept a similar job in an organization that does not offer a savings plan. Other studies show that, among the total rewards components that enable employers to attract and retain talent, the relative importance of the savings plan has been increasing significantly over the past several years.

2. Optimizing the savings plan is beneficial

For increasing employee engagement and productivity

Not only should organizations offer a savings plan, but a thoughtfully designed savings plan is an undeniable lever for increasing employee engagement and productivity, thereby driving organizational performance. The HR vice-presidents that we met with are categorical: healthy employees, which includes financial health, care more about their work and about achieving organizational objectives. This is especially true for the new generation entering the labour market. The vice-presidents emphasized the importance of tailoring the savings offer to individuals' changing needs.

This view is supported by literature on the subject. According to the Manulife/Ipsos Reid Health and Wealth Wellness Study 2014, there is a close link between access to a savings plan offered by an employer and being financially prepared for retirement. In fact, 80% of respondents who have access to an employer savings plan feel that they are financially prepared, whereas only 52% of respondents who do not have access to an employer savings plan feel that they are financially prepared. The results also reveal that employees who are financially prepared are 20% more engaged and more productive then their unprepared colleagues.

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[2] Survey conducted in 2009 by the firm SOM.

According to a survey conducted by Ipsos Reid in 2015 on behalf of Sun Life Financial, over 80% of Canadian employees believe that employers are responsible for supporting their employees' physical and psychological health. The employees surveyed say that their health problems have a negative impact on their productivity at work. This is especially true for the new generation of workers known as "Generation Y." According to the annual U.S. study conducted by MetLife on trends in benefits, 58% of employers have found a correlation between financial stress and absenteeism.

Moreover, according to the Financial Wellness at Work study conducted in August 2014, seven out of ten Americans indicate that financial stress is their biggest stress, and one out of five employees admits to having missed work in the last year because of financial issues.

Offering employees tools for better managing financial stress would thus be a competitive advantage. A thoughtfully designed savings plan is a key feature of this strategy.

For contributing to the employer's distinctive total rewards positioning

Financial performance is higher among organizations that set themselves apart from their competitors. Employers can set themselves apart in a number of ways, such as implementing an innovative savings plan, having an HR offering that is more comprehensive or competitive than that of the competition, adopting a more effective total rewards strategy and being socially responsible.

An innovative plan valued by the market undoubtedly contributes to the total rewards strategy's effectiveness. And with a more effective strategy, an organization increases the return on its investment and improves its positioning in relation to its competitors.

The organizations that took part in the Savings Plans Roundtables also demonstrated a certain sensitivity in relation to the employer's social responsibility. The trend toward social responsibility is growing among organizations. Some organizations place tremendous importance on contributing to economic development and even believe that creating collective wealth will have positive financial impacts for the organization.

OPTIMIZING SAVINGS PLANS

1. Understanding and controlling risks

A poorly designed savings plan has risks. One good reason for optimizing savings plans is to control these risks and avoid unpleasant surprises.

Risks	Description	Potential consequences
Level of savings	The accumulated retirement savings is insufficient and jeopardizes the retiree's financial health	Financial stress Ghost retirees Blame placed on the employer
Equity	The plan is negatively perceived because of the unequal treatment of different employee categories	Mistrust Lack of appreciation for a key total rewards component
Investments	Members' investment choices are inadequate	Financial stress following a loss in value Ghost retirees
Payout	Bad decisions are made by members when they withdraw money accumulated in the plan	Dissatisfied former employees damaging the organization's reputation, particularly with current employees
Longevity	Members outlive their savings	Financial catastrophe for some Blame placed on the former employer
Communication	The plan is not well understood or appreciated and not used to its full potential	Plan that does not meet the initial objectives
Legal	Legislative changes challenge the relevance of existing plans	Confusion and concern Organizations need to invest time and money to rectify the situation

A plan that does not generate an attractive and sufficient level of savings, for whatever reason (insufficient contribution rate, inertia of members, no or late enrolment, poor understanding of the choices to be made, bad decisions, money used for other purposes or inability to effectively manage the payout phase), will cause employees financial stress throughout their careers and lead to demotivation. Productivity would decrease and additional HR issues would arise.

2. Trends in recent years

Several measures have been introduced in recent years to improve the performance of savings plans.

In terms of design, the integration of robust default options, in relation to both the choice of contribution level and investment options, is an excellent example. The arrival of automation (enrolment, rebalancing and increase in members' contribution rate over time) has also contributed to these improvement efforts.

In terms of investments, the widespread introduction of lifecycle funds or target date funds and the simplification of choices (fewer but better options) also aim to improve the performance of savings plans. The implementation of effective governance structures allows employers to maintain an acceptable fee level, to adjust the investment structure according to market developments, to monitor the performance of investment options and to make changes to these options as necessary. Finally, the availability and analysis of data on employee and member profiles have enabled employers to define target audiences with different needs and to develop targeted and relevant communications.

3. How to further optimize savings plans?

During their reflection and discussion on the impact of savings plans on organizational performance, the participating HR vice-presidents expressed concerns about the short-term vision for and the lack of employee interest in savings. For a total rewards component to be distinctive, it must be appreciated by employees and considered attractive.

The ***Savings Highway***, a concept developed by Normandin Beaudry, is presented in the next section.

THE SAVINGS HIGHWAY

This innovative concept combines our best savings-related ideas and, in our view, is the best way to manage a savings plan, taking into account the inherent risks. Innovation continues to be an excellent means of standing out from the competition, even when it comes to savings plans.

1. Create an emotional footprint with the *Savings Highway*

Positioning the savings plan as an attractive and distinctive total rewards component requires the creation of what one participant aptly called the "emotional footprint." There is new-found interest in the savings plan from the moment it sparks something within employees and becomes associated with the achievement of stimulating and motivating goals. It is difficult to boost enthusiasm for a savings plan whose benefits, when perceived, seem faraway, too abstract or non-threatening. This has led us to the flagship concept for the optimal savings plan, the plan created on the ***Savings Highway***.

This concept results from a desire to create a useful, concrete and flexible savings plan. Our reflections have led us to want to create a clearly defined and communicated image, a journey. To do this, we believe that the savings plan must focus on savings in the broad sense, instead of being limited to retirement savings. Savings must therefore be dissociated from retirement, and more choices must be offered.

Employees' ability to save varies and their need to draw on financial reserves differ depending on their stage of life. The ***Savings Highway*** allows for flexible cash inflows and outflows based on the needs and priorities of each individual.

By broadening its focus, the plan becomes very useful and concrete for members, supporting them in achieving their life goals (purchase of a home, marriage, birth of a child, sabbatical year, change of jobs, return to studies, children's education... and eventually retirement). When communicated clearly and effectively, the plan is perceived by employees as a tool that will allow them to achieve their dreams. The emotional footprint associated with completing short- or medium-term projects is much stronger than that associated with longer term projects like retirement. The ***Savings Highway*** also makes human resources management easier because ghost retirees exist precisely because of the lack of interesting exit routes.

The existing savings plan must be transformed to take the ***Savings Highway*** route through the integration of tools and vehicles available to make the plan more flexible. In addition to the traditional retirement savings plan (Group RRSP, deferred profit-sharing plan (DPSP), defined contribution plan), we can promote the Home Buyers' Plan that uses funds saved in a Group RRSP. We will also add a group tax-free savings account (TFSA) component as a vehicle that allows for cash outflow flexibility during the individual's career. Other tools will be added to the available arsenal over time and will be integrated into the savings plan.

Employees who are motivated to save to achieve concrete, shorter term goals that matter to them will get into the habit of saving. This habit will enable them to prepare for longer term or uncertain goals, such as retirement or possible career changes. This optimal savings plan will thus become a distinctive total rewards component.

2. Encourage employees to save more: SMarT approach

Once we have drawn employees' attention to their savings plan, we need to encourage them to contribute as much as possible. This is not always easy when we are accustomed to a certain standard of living. To achieve this goal, organizations can adopt the *Save More Tomorrow™ (SMarT)* approach developed by the American researchers Richard H. Thaler and Shlomo Benartzi from the University of Chicago. Under this approach, employees agree to allocate a portion of their future salary increases to an additional contribution to their savings plan, until they achieve the pre-established maximum allowable contribution. This additional contribution is automatically deducted from employees' pay, and they can withdraw from the program at any time. The *SMarT* approach does not work in all situations, including environments in which salaries are low and leave little room for savings and instances when salary increases are low. This approach has, however, proven to be effective overall and, according to the statistics collected by the authors of the study, has allowed for the level of contribution to savings plans to increase substantially.

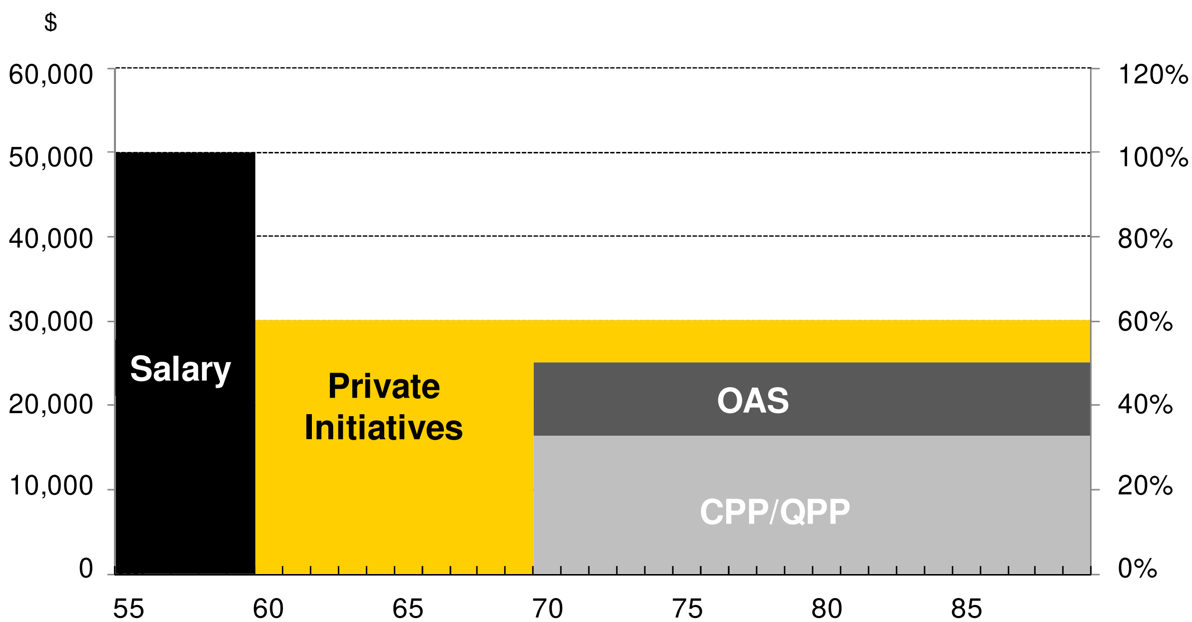
3. Optimize the payout phase

Experts have been focusing on the challenge associated with the payout of funds for several years now. What should be done with the sometimes considerable amounts accumulated in the savings plan at retirement? The greatest challenge is that of longevity. How do we avoid outliving our savings?

The participating HR vice-presidents expressed mixed interest in this issue. Some of them stand by the sadly famous expression "Goodbye and good luck!" when it comes to retirement from a savings plan. For these organizations, once employees leave, they are no longer their responsibility.

In contrast, other participants believe that the employer is responsible for clearly communicating the payout options to employees. They mentioned retirees' active role in maintaining and communicating the organization's good reputation, which is due in part to the fact that these retirees feel supported when they retire. It may be beneficial to encourage communication between older and younger employees. One of the vice-presidents said that optimizing payout is not a big investment and it pays off for the organization.

A key element of the payout phase is the optimal coordination between retirement income from private initiatives and retirement income from government plans. For a long time, many retirees have assumed that they should start receiving government pensions as soon as possible (i.e., at age 60 for the Canada/Quebec Pension Plan and at age 65 for the Old Age Security (OAS). It is not generally known that government pensions (CPP/QPP and OAS) can be deferred until age 70. Deferring the payment of these government pensions until age 70 increases the amount received by 42% for the CPP/QPP and by 36% for the OAS pension. For an employee with an annual income of $50,000 at retirement, government pensions deferred until age 70 correspond to an income replacement level of 50%, payable until death. It thus becomes easier to manage the uncertainty associated with longevity for the portion of the income that comes from the savings plan, as illustrated in the graph below.



To address the longevity risk inherent in the payout from savings plans, it may be sufficient to encourage members to postpone receiving their government pension until age 70, taking into account special situations, such as reduced life expectancy, where this may not be appropriate.

4. Communicate better and communicate differently

Participants from our Savings Plans Roundtables unanimously agree that communication remains a key factor for the success of savings plans and must be constantly improved.

First, organizations must support employees and lead them to make informed decisions, through education, access to financial advisors and financial literacy promotion. Despite an admission of failure of educational efforts in recent years, the HR vice-presidents believe that employers are responsible for informing employees about and explaining the thought processes underlying the choices offered under the plan.

This willingness to persevere in the communication effort is closely linked to the dilemma between control and flexibility. The participants expressed their belief that an optimal savings plan offers its members choices. The question was raised in relation to the design of a plan managed entirely by the employer, founded on best practices and not offering members any choices. No choices means no risk of making a bad choice. A consensus emerged and the participants agreed that it is not possible to engage plan members unless they are able to make choices.

Second, we must focus on innovation and creativity in the communication process to attract attention and renew interest. The numerous possibilities associated with new technologies should be exploited, targeting young technophiles as well as more experienced and sometimes reluctant employees, through interactive games, educational capsules available on the Internet, smartphone applications and other future innovations.