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Plan purpose and shared responsibility

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Given the chance to peer into the future, employers from the mid-20th century likely wouldn't recognize the employer benefits programs they pioneered.

After the post WWII boom, governments needed to stabilize prices by restricting wage increases but tended to leave non-inflationary issues alone. This prompted employers to begin providing paid vacations, medical and dental benefits and pensions in lieu of wages to attract and retain talent. This trend continued well into the '90s in many developed nations, causing workers to expect a certain level of benefits, and represented the peak of the paternalistic extreme end of the spectrum of employee benefits where 'the employer takes care of everything'. The unsustainable costs of these programs eventually caused employers to re-think their benefits strategy and lead to the shifting of pension and benefits responsibilities from employers to employees.

By all accounts, we are now in the process of going the other way. Over the past decade or so defined benefit (DB) plans have been shifting to defined contribution (DC) plans, at least in the corporate world. However, in Canada we are still far from the other extreme of the spectrum in terms of thinking of employees as 'individualist free agents' that are required to purchase their own benefits.

As one might expect of Canadians, we are probably more in the middle, with employers looking to partner with employees under the guise of the latest term called 'consumerism'. Consumerism is not about the economic argument for people buying more goods and services, but about employees in their role as consumers of employee benefits and other programs. This shared responsibility is today's employer reality and can be summed up as putting a positive spin on the issues that employers used to be responsible for but are now the employees' responsibility. The new reality includes:

- thinking about incentives as an employee protection versus a perk;
- promoting wellness initiatives as the prevention of illness versus treatment; and
- focusing on active plan members only versus the retired population.

Under today's consumerism, when it comes to a CAP program, employers provide employees with:

1. Infrastructure: the employer sets up, monitors and contributes to a CAP program on behalf of employees. Cost sharing may be applicable and employees may also contribute.

2. Incentives: employees can receive matching contributions subject to employer discretion.

3. Information: employees are typically provided with an internet based medium of communications and tools.

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Despite this infrastructure, potential incentives and information, a large portion of the collective CAP industry realizes that unless plan designs are optimized through higher contributions, auto pilot features such as mandatory plans, auto escalation etc., that many people will not be able to support a decent quality of life in retirement. There are also the arguments that employee engagement and financial literacy levels are too low. If people are unable to retire adequately then there will be social consequences and litigation against plan sponsors may also ensue.

These are valid arguments from a retirement feasibility perspective. The reality is that some CAP sponsors are distancing themselves from the concept of promoting their CAP program as a 'retirement' program. This gets to the heart of the plan purpose, which is a section of the CAP Guidelines that my colleagues and I find ourselves discussing more often with clients. It is also potentially a very bold communications move on the part of a plan sponsor to give plenty of frequent and documented notice to plan members that the CAP program is not intended in any way to represent a retirement program. The notice language reads along the lines of, "the program is exclusively intended to assist plan members to save, subject to inherent risks such as market volatility and these risks are borne exclusively by the plan members".

Regardless of the plan purpose, it needs to be communicated effectively and frequently with plan members. This brings us back to an important point regarding shared responsibility—shared responsibility is not equal responsibility. For example, investment risk is borne exclusively by the members but litigation risk is borne exclusively by the sponsor. In the case of communicating the plan purpose, this is squarely the responsibility of the employer to ensure that the message is delivered, received and understood by plan members.

The change from DB to DC, or just the long time operation of a CAP program, implies a flexible benefit. We know the potential variability of investment outcomes and the potential for inadequate retirement exists. Something is better than nothing and plan sponsors will execute their CAP programs consistent with their recruitment and retention of talent strategies. What needs to happen is clear communication to members about what the plan can and can not do for members and the associated risks. This may also help sponsors engage more with members and likewise, encourage members to get more engaged in their retirement planning, which appears to be more and more their ultimate responsibility.

It is up to the individual employees to manage their own savings; it is up to the employer to manage the expectations of its employees.

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