

# DC Plan Memb

## FROM APATHY TO OPPOR

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## TUNITY



Retirement plans help employees secure their financial future, yet many underutilize these benefits. The author highlights how organizations that provide financial education and advice support employees' financial wellness and gain a competitive advantage in attracting and retaining talent.

Imagine a workplace where every employee feels confident about their financial future, thanks to an engaging and accessible retirement plan. Now, consider an organization that offers employees a retirement plan capable of making the difference between a comfortable and stressful retirement, yet most employees fail to notice. Engaging employees and encouraging participation in workplace defined contribution (DC) retirement plans remains an ongoing challenge for many plan sponsors. Despite service providers introducing innovative tools and services over the years, gaps still need to be addressed. Participation rates across the industry remain well below 100%, and many enrolled employees need to prepare to make the critical decisions these plans require.

There is a growing acceptance in the industry that employers need to play a more active role in educating their employees to bridge this gap. As employers consider adopting a member education strategy—an approach recommended by the recent update to the Canadian Association of Pension Supervisory Authorities (CAPSA) CAP Guideline No. 3—there are several steps they can take to boost engagement and support their employees' financial well-being.

Workplace DC retirement plans, such as Group Registered Retirement Savings Plans and DC pension plans, allow employees to make tax-deductible contributions through payroll and typically receive matching contributions from their employer. Employees remain responsible for several key decisions, such as whether to join, how to invest and choosing the best income option at retirement.

## Common Goals

Individuals involved in these plans—such as plan sponsors, recordkeepers and consultants—share several common goals. We aim to ensure that eligible employees:

- **Enroll in their plan** and take full advantage of employer matching contributions
- **Invest appropriately**, considering their risk tolerance and time horizon
- **Prepare effectively** for the decisions they will face at retirement.

Over the years, the industry has introduced many tools and services to accomplish these goals. Early efforts often relied on printed enrolment guides and in-person education sessions, which were how many of today's more experienced DC plan members were first introduced to workplace plans.

Increasing engagement among eligible employees became the next step in advancing these goals. This included adding or enhancing online decision-making tools, recorded webinars and call centre support to empower employees to take charge of their retirement planning. For those who remained disengaged, the industry adopted measures, such as auto-enrolment and smarter investment options (e.g., target-date funds), to try to achieve better outcomes.

Fast forward to today: Modern DC plan members are encouraged to engage with interactive websites and mobile apps, complete online financial wellness assessments and even consult AI personal assistants.

## Work in Progress

Despite these advancements, the data suggests we still have significant work to do to meet our above-stated goals.

According to Sun Life's *Designed for Savings 2023* report, among qualified employees, just 73% have enrolled in their retirement plan. This means that more than a quarter of those eligible for these plans are not taking full advantage of their benefits.<sup>1</sup>

Investment decisions present another challenge, and data from the same Sun Life study suggests room for improvement. For example, target-date funds are designed for a plan member to pick the fund aligned with the year they expect to retire (e.g., the 2050 fund for those retiring around 2050). In turn, the fund is managed to hold a diversified mix of investments optimized for that particular retirement date. How-

## Takeaways

- Many employees remain disengaged from workplace defined contribution (DC) retirement plans, leaving them underprepared for critical financial decisions.
- Employers must actively educate employees about retirement plans to bridge gaps in understanding and participation. CAPSA's updated CAP Guideline No. 3 emphasizes the importance of ongoing education strategies to improve member outcomes.
- Employers are encouraged to adopt structured frameworks, such as ADDIE (Analysis, Design, Development, Implementation, Evaluation), to design effective learning programs tailored to employees' needs.
- Employers can stand out by offering access to financial advice through their workplace retirement plans, benefiting employees' financial wellness and organizational recruitment efforts.

ever, Sun Life reports that 12% of members hold multiple target-date funds, and 4% hold three or more.<sup>2</sup> This echoes anecdotal experiences from meetings with plan members who, despite the robust availability of online tools, often spread their investments equally across every available fund option. Such outcomes are, to use industry terminology, decidedly suboptimal.

At retirement, plan members face crucial decisions about what to do with their accumulated account balances. Unfortunately, just 26% of recent Benefits Canada survey respondents reported an excellent or very good understanding of converting their funds into an income stream.<sup>3</sup> Given that this will be a sizable portion of many plan members' life savings, there is a significant risk that this will result in adverse retirement outcomes for those who are unprepared.

## The Importance of Education and Communication

Many DC plan members need to be made aware of the full range of benefits their plans offer, as they often leave valuable resources untapped. Increasing awareness and understanding of these features can empower members to make more informed decisions, maximizing their savings potential and improving their overall financial well-being.

Until recently, industry best practices focused on providing tools and information, leaving plan members responsible for their learning. However, this changed in 2024 with the revisions to CAP Guideline No. 3.

Under the updated guideline, plan sponsors are to go beyond offering tools; they should now provide ongoing plan member education and adopt a member education strategy designed to improve member decisions and outcomes. This strategy's effectiveness should be reviewed periodically to ensure it meets its objectives.<sup>4</sup>

### Designing Your Member Education Strategy

Some plan sponsors already provide ongoing education into their existing practices. For these organizations, meeting the new requirement may involve documenting their established process.

Employers with learning and design team members may find involving them in this process helpful. These professionals have experience designing effective employee learning strategies, which can be adapted to group retirement plans.

The ADDIE framework, widely used for designing learning strategies, is suitable for organizations of any size. It

comprises five steps: Analysis, Design, Development, Implementation and Evaluation, enabling plan sponsors to create structured and effective member education programs.

### What Are Employees Seeking to Learn?

How do plan sponsors determine the learning needs of their plan-eligible employees? A common approach is to conduct employee surveys to gauge areas for growth in financial wellness. Many recordkeepers and consultants have developed templates for plan sponsors to assist with this process.

Additionally, tracking the types of questions employees frequently ask can provide valuable insights. From my experience working with plan members, these questions can be divided into the following two categories.

#### 1. Plan-Specific

These are directly related to the retirement plan that employees are eligible for, such as:

- “Based on the matching formula, how much will my take-home pay decrease if I join?”
- “I didn’t understand the investment options. Can you explain them?”
- “I’m registered online, but how do I confirm if I’m enrolled?”

#### 2. Holistic Financial Advice

These involve general financial topics, such as:

- How new Canadians can calculate their RRSP contribution room
- Guidance on budgeting and debt repayment
- Developing a comprehensive retirement income plan.

Understanding these learning needs allows plan sponsors to tailor their education strategies to address plan-specific and broader financial literacy concerns effectively.

## Evaluating the Effectiveness

Consistent with the ADDIE framework and the updated guideline, evaluating the effectiveness of a strategy is as important as developing one.

For plan-specific education, there are several ways to measure success. The most obvious is any progress toward reaching 100% participation within a program. Many recordkeepers produce aggregate reports that provide valuable insights into plan member behaviours, which can be re-

viewed before and after implementing initiatives. Examples include data on:

- Target-date fund usage
- Website usage
- Call centre activity
- The number of employees registered for pre-retirement workshops.

If holistic financial advice is offered, measuring its success can involve reviewing aggregated usage reports from the advice service provider and collecting feedback from employees who use this service.

### Holistic Financial Advice and the Accessibility Gap

Under the updated guideline, providing employees with access to financial advice remains optional for plan sponsors. By contrast, plan members are now fully responsible for obtaining advice from a qualified professional.

But if financial advice isn't offered through their workplace plan, where can employees turn?

Employees with substantial assets will have an easier time accessing high-quality financial advisors, who are often eager to work with wealthier clients (Source: Banerjee/Globe and Mail).<sup>5</sup> This leaves an accessibility gap, where many employees will get shut out from getting qualified help, due to either the prohibitive cost involved or the lack of providers willing to work with them. A recent survey found that 58% of near-retiree and retiree households do not have a formal or detailed plan in place, and low-income households were less likely to have one. Without a knowledgeable advisor, these households were much more likely to rely on friends and family for retirement advice instead.<sup>6</sup>

#### High-Quality Financial Advice: An Opportunity to Stand Out

Plan sponsors have a unique opportunity to support their employees' financial well-being by providing access to high-quality financial advice.

1. **Alignment With Plan Goals:** Offering financial advice can align with the purpose of a plan, especially if it includes promoting financial wellness.
2. **Cost Efficiency:** Employees are already clients of the plan's service providers—Including this service might involve minimal additional costs.

## BIO

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3. **Recruitment and Retention:** Financial advice can serve as an effective recruitment and retention tool, offering employees a benefit many struggle to find independently.

### Improved Member Outcomes Through Education

Plan member education has become an essential component in helping DC plan members as they work toward their retirement savings goals. Recent CAP Guideline No. 3 updates offer plan sponsors a catalyst to introduce or enhance employee learning initiatives. Learning models, such as ADDIE, can guide the development and implementation of these educational programs.

Additionally, incorporating access to high-quality financial advice into a DC plan can be a valuable benefit—a perk many employees may not have access to anywhere else.

Through fostering a culture of financial wellness and education, paired with financial advice for those seeking it, organizations can support employees in meeting individuals where they are in their retirement planning journey. 🌟

## Endnotes

1. *Designed for Savings 2023* by Sun Life.
2. *Ibid.*
3. "2023 CAP Member Survey: How CAPs are evolving to address changing financial priorities." *Benefits Canada*.
4. CAPSA/ACOR Guideline No. 3: Guideline for Capital Accumulation Plans. September 2024.
5. "Many financial advisers only work with wealthy clients. So where are the masses going for help?" *The Globe and Mail*.
6. *Running out of time: An urgent call to fortify Canada's private retirement pillars*. Deloitte.