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Financial Literacy in the Workplace

"More than half of Canadians say they are just $200 away from financial insolvency at the end of each month." This statistic is according to a recent poll of 1,500 Canadians by MNP, as reported by the Huffington Post.

Chances are, some of those Canadians are your colleagues or work for you.

A number of pension plan sponsors and employers with retirement and savings plans are concerned about financial literacy in their workplaces. Why? What is the return on an investment in your workforce's financial well-being?

A very common objective of employers is to increase employee appreciation of their retirement and other benefits programs. Rather than being focused on salary alone, employees who understand and know how to use their benefits are better informed as to the true value of those benefits. This, in turn, increases employee engagement. The view is that employees who are comfortable that they are on track to be well-prepared for their future retirement or other financial milestones are better able to focus on their work.

Employee appreciation of the benefits package is not the only employer objective. Often a big part of the corporate culture is to look after employees' well-being, especially for employers who want to be an "employer of choice". Providing education with a view to increasing the financial literacy of employees is just one more way of caring about that well-being and enhancing the working environment.

For pension plan sponsors, an interesting and more recent objective is the sustainability of the plan. Members who appreciate the benefits offered by the plan (especially the lifetime benefit of a defined benefit plan) are more likely to opt for a pension, as opposed to withdrawing their benefit in a single lump sum. In these days of low interest rates, sponsors of defined benefit plans are becoming increasingly concerned that lump sum withdrawals negatively impact the funded status of their plans.

Not that lump sum withdrawals are hands-down great for members either. Members who withdraw the full value of their pension find themselves on their own to invest their retirement savings and hope that the money earns the rate of return required to ensure an income for the rest of their life – not an easy task for even the most knowledgeable individual.

Every pension plan sponsor has a fiduciary duty to comply with regulatory and industry best practice standards relative to their plan. Member education is certainly a part of this fiduciary duty.

With the abolishment of mandatory retirement, there are many different choices available for the transition from full-time work to full-time retirement. Employers can take a proactive role in educating and preparing employees for their ultimate retirement, thereby facilitating a more orderly turnover of the workforce, while building up employee engagement and appreciation of workplace pension arrangements.

http://www.retirementworks.ca/theworks/blog052017a-Financial-literacy-in-the-workplace.html

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