

PENSIONS

Financial planning should be a core benefit

BY PETER MERRICK

Some time ago at a financial education workshop, a 62-year-old executive vice-president shared his story. He was placing his retirement on hold because the value of his corporate-sponsored retirement plans — in which most of his retirement savings were invested — had drastically

dropped as a result of a meltdown in stock market

In recent years, stories of older Canadian workers having to delay their retirement due to financial woes have become more common.

It has been one year since the Canadian Association of Pension Supervisory Authorities (CAPSA) mandated that all capital accumulation plans (CAPs) comply

with guidelines developed by the Joint Forum of Financial Market Regulators. One of these guidelines is employers are responsible for providing access to investment decision-making tools and for cautioning employees that they ought to obtain independent investment advice. CAPs include all group RRSPs, defined contribution pension plans, deferred profit sharing

plans, employee profit sharing plans and all other types of employee non-registered savings plans in which employees make investment decisions.

There is real potential risk for employers as employees learn their legal rights — a company's fiduciary obligations being perhaps the most worrisome for employers. Several years ago, many Bell Canada retirees received a large cash settlement after they alleged the company had not communicated to employees the inherent risk of the group RRSP the company had set up and was promoting to its employees. Even though Bell Canada was not making contributions on behalf of employees, it still chose to settle the dispute rather than fight it out in court.

As Randy Bauslaugh of Blake, Cassels & Graydon LLP in Toronto, a specialist in pension, benefits and executive compensation, puts it: "Ultimately, if employees do not get what they expect from their company's retirement plans, there may be lawsuits relating to the product itself (CAPs)."

In essence, employers offering CAPs have reason to be very concerned.

Class-action lawsuits have been seeing more success in the last few years than they have in the past, and it appears Canadian courts are now prepared to certify class-action suits for breach of employment-related obligations. Also, it has gotten easier and cheaper to launch class-action lawsuits. Websites have popped up all over the Internet offering free services to the public, motivated to help the Davids of this world receive protection and justice from corporate Goliaths.

If a lawsuit is brought against either a public or private corporation, there would have to be disclosure in the company's financial statement in accordance with the generally accepted accounting principles, which impacts the bottom line.

The new frontier

After more than a decade in which millions of people's lives have been disrupted from outsourcing, downsizing and re-engineering, employees are beginning to realize that companies can no longer offer them job security. They can no longer rely on big government or big business to provide them with an education, a job or benefits for life. Employees need to take responsibility for their careers and finances.

It is important that employees don't perceive their company pension plan, benefit plan or group RRSP to be their retirement plan, as it once used to be. Now employers are finding a need to help employees distinguish between the company's retirement plan and their employees' financial plans, and to help employees build contingency

plans in case they lose their jobs through downsizing, get sick, die too soon or live too long.

There is confusion over the distinctions between the meanings of "information," "education" and "employee personal financial knowledge" by both employers and employees. Both the Joint Forum and CAPSA have tried to clarify these differences. A company that just provides information about its pension, RRSP and other benefit plans has most likely not met its fiduciary responsibilities or moral duties. Just providing benefit information only adds to their employees' confusion or information overload. Education is not enough without employees having the knowledge and wherewithal to take total responsibility and be empowered to integrate their company's benefit plan with what they are doing outside their company.

The solution: rethink corporate benefit plans

The Joint Forum of Financial Market Regulators and CAPSA have raised the fiduciary responsibility bar on all employer-sponsored savings plans. One solution in mitigating potential future liability or risk for all employer-sponsored CAPs would be for companies to offer employees the services of an independent financial planner, who can provide counsel independent of the motivation to sell any product. Thus, their employees would then individually create and maintain a comprehensive financial plan customized for them alone.

Canadian employers need to rethink corporate benefit plans. The individual financial plan should be the modern company's core employee benefit. The financial plan makes the distinction between the financial planning process and the old world's focus on financial products. A financial planning benefit solution is the one tool that will help employers to surpass regulatory benchmarks in a cost-effective way.

A financial plan helps employees understand how their employee benefit program forms a part of their financial foundation. At the same time, they have to understand that their employee benefit programs are not the total foundation for them to get the life they want, and they have to plan for their future and retirement.

Peter Merrick teaches employee benefits and financial planning in Toronto. He is also author of The Essential Individual Pension Plan Handbook. Merrick Wealth Management Inc. is a financial planning and benefit consulting firm in Toronto. He can be contacted at peter@merrickwealth.com, (416) 854-1776 or visit www.merrickwealth.com for more information.

ODD SIZE

Shepell
fgi

4 colour