

Reprinted by permission from the April/May 2005 issue of:

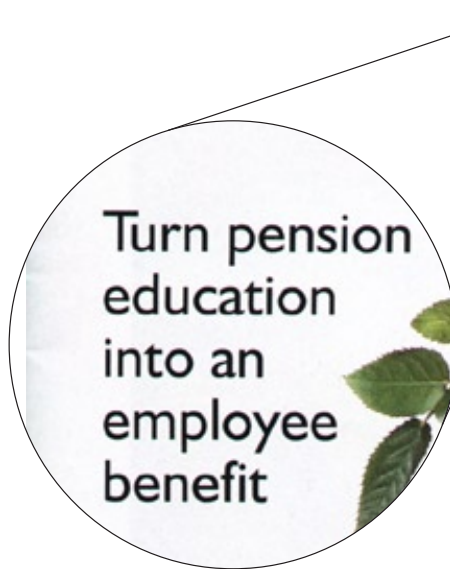
www.hrprofessional.org

HR Professional

THE MAGAZINE FOR CANADIAN HUMAN RESOURCES PROFESSIONALS



BY RON ROBINS, MBA



Moral Investing:

How pension education can be an employee benefit

THE CANADIAN LABOUR Congress released a poll in August 2004 showing that the percentage of those “worried about not having enough money to live after retirement” rose in two years to 73% from 54%. Yet many employees fail to put much thought into planning their pensions. This is where companies have the opportunity to step in: why not offer pension education as an employee benefit?

One possibility in this area, and a unique way to motivate employees, is to apply personal values (social, environmental, etc.) to investments. Since I’m involved in the business, my opinion is obviously biased, but there is plenty of research that shows this is an area of growing interest and importance. For example, a survey released in February 2004 by GlobeScan found that 84% of Canadian shareholders believe that the “financial community should pay more attention to social and environmental performance when valuing companies.” In addition, 80% of

shareholders are interested (23% very interested and 57% somewhat interested) in learning more about the corporate social responsibility (CSR) performance of companies in their investment portfolios.

Even major business publications are lending support to this idea. Report on Business magazine ran a feature story in its March 2004 issue on “socially responsible investing.” It introduced the story on a blank, white, front cover with a line that read, “the most important issue of the century... so far.”

Adding to the importance of getting employees engaged in their pension planning is the shift from defined-benefit to capital-accumulation plans (CAPS—which include defined contribution plans, group RRSPs, RESPs and deferred profit-sharing plans). According to an April 2004 Hewitt Associates survey, the number of defined-benefit plans offered by surveyed companies will drop to 39% from 49% between 2000 and 2006, while defined-contribution plans will increase to 53% from 43% in the same period. CAPS also necessitate greater employee engagement due to their often varied options that employees must choose from.

Hewitt also found wide disagreement between employees' and management's perceived benefits of their company pension. Barely half of employees thought their pension would provide them with retirement security. In contrast, over 80% of employers thought their pension plans provided retirement security to their employees. When the study asked retirees what they would have done differently given the opportunity, the number one answer was "to have started contributing to an RRSP sooner." The Hewitt survey also noted: "One of the most frequent anecdotal comments provided by those [retirees] who completed the survey was the need for more information, guidance and advice about starting early to save for retirement."

Evidence from two other significant studies in 2004 also support the view that employees should have RRSPs, etc., in addition to their employer or union-sponsored plans, as some of

these may not be available for them upon their retirement. In February, the C.D. Howe Institute stated that Canadian workplace pension plans were underfunded by \$180 billion. Then, in June, the Certified General Accountants Association of Canada said that "59% of all defined-benefit pension plans in Canada are now running deficits that will require \$160 billion to cover the total shortfall."

The result of defined-pension plan failures could be ugly. Even with CAPS, there is still the potential for significant problems, legal and otherwise. One way to reduce these potential problems—and employee dissatisfaction—is to actively promote and offer pension investor education programmes.

Deborah Lomow, senior vice-president, corporate pensions, Scotiabank, says, "I think that, generally, there is room for employees and employers to get more engaged in pensions and retirement planning. I believe that this has started, and that the momentum will only build."

But more comprehensive employer-sponsored, employee pension-plan education is needed. Incorporating an educational component that shows employees how to include their personal values—not just material ones—in their investment choices, could be used as a way to engage them in their pension planning. Further, companies offering such educational programs make an important positive statement about their values to their employees and stakeholders.

Ron Robins (ronr@investingforthesoul.com), MBA, is founder of Investing for the Soul, based in Toronto.