



GETTING RETIREMENT RIGHT

REINVENTING THE WORKPLACE PENSION BENEFIT

The traditional “pension” is seen as vaguely “old fashioned,” dating from an era when most people spent their entire careers with one employer, moved up the ranks, and duly retired on their 65th birthday. But times have changed. To learn more about how employment patterns and the redefinition of retirement benefits affects Canadians, the BMO Retirement Institute conducted a research report on Canadians 25 to 64 who are not yet retired. They found that half of the respondents have already had five or more employers since they started working and 20% expect to have worked for ten or more employers by the time they retire.

WHAT HAPPENED TO THE TRADITIONAL PENSION?

These days, fewer employers are providing a traditional pension. In times of low interest rates, uncertain market returns and increasing longevity, they are reluctant to be their employees’ retirement income guarantors. The risk for employers is simply too high. At the same time, with modern day employees not placing a high priority on a good retirement pension, there appears to be no great pressure for employers to bring one to the negotiating table. Salary and flexible work arrangements are far more important.

DEFINED CONTRIBUTION: A NEW WAY OF THINKING ABOUT RETIREMENT BENEFITS

The Retirement Institute believes it’s important to understand the change in how we value retirement benefits and how they are offered to us.

For employers, the major advantage of employees paying into capital accumulation plans is they no longer need to assume the funding risk in guaranteeing employees an income for life.

Employees benefit from greater control, portability and flexibility of capital with these plans, which appeals to our increasingly mobile workforce. There can be serious drawbacks for employees though: how much retirement income you can count on depends on how much you have saved and how well you have invested. And, human nature — inertia, procrastination, being paralyzed by choices — can work against the employee.

A SMARTER PLAN

It has been proven that more effective capital accumulation plans take some of the onus off the employee. Many workplace plans now include smart features such as automatic enrolment, which registers employees in the plan as soon as they meet eligibility requirements and auto-escalation, which automatically increases the amount of the employee’s contribution over time. Though the employee is typically given the choice to opt out, once enrolled most continue with the plan and find these tools helpful.

Of course for retirement financial planning to be considered a success, the individual should fully engage in the planning process. We live in an era where the “true pension” — a guaranteed lifetime income stream that neither runs out nor loses purchasing power — is becoming the exception rather than the rule. To be successful, individuals must assume responsibility for their own retirement and make smarter choices. ■

The BMO Retirement Institute is a premier Canadian think tank on retirement issues and strategies. To learn more or for the full report visit bmo.com/retirementinstitute

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