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BY **SUN LIFE FINANCIAL**

BOOST WORKPLACE RETIREMENT SAVINGS THROUGH SIMPLIFIED ENROLMENT

A little help at the start can set your employees in the right retirement savings direction.

Think of the ways we look for guidance in our day-to-day living. We ask waiters what they recommend on the menu, we ask health professionals about treatments, and a whole host of technologies monitor our actions and habits to "suggest" new friend connections, songs, or TV shows.

We can't be experts at everything, and we've come to rely on people and technology to guide many of our decisions in the right direction. Why should saving for retirement be any different?

> "**New research** highlights how small changes to enrolment can lead to big changes in workplace savings plan participation and savings rates."

Joint research with ESDC: a focus on enrolment

When it comes to human behaviour, we tend to let the status quo prevail. Changing something is always more difficult than not changing it, so we often delay change or simply don't make it.

For this reason, when we looked at ways to guide employees and help them save more for retirement through their workplace plan, our focus was on enrolment and getting things right from the start.

We knew that if we could get employees enrolled and saving at an optimal rate, this good behaviour could become the status quo for quite some time. The question we wanted answered was a simple one: are there proven ways to incent this good behaviour related to workplace retirement savings?

To address this challenge, in 2013 Sun Life Financial collaborated with Employment and Social Development Canada (ESDC) on a joint research project. The study spanned five years and concluded in 2018. It was designed to examine the impact of applying behavioural insights to employee choices during enrolment in workplace capital accumulation plans.

As Canada's largest provider of workplace retirement savings plans, Sun Life Financial was well-positioned to provide the process and expertise related to enrolment. And as the Federal Government's second largest department, ESDC was responsible for delivering the government's most important income security programs, including the Canada Pension Plan, Old Age Security and the Guaranteed Income Supplement. For obvious reasons, they had a keen interest and stake in the research and its outcome.

This collaborative approach to conducting social research with a private/public sector partnership grew out of a shared goal to help Canadians save more for their retirement.

A Canadian perspective

While studies in other countries – in particular, the U.S. – have demonstrated the effectiveness of enrolment simplification and decision-nudging to increase saving rates, there are no equivalent Canadian studies.

When the Pension Protection Act in the U.S. was introduced in 2006, it allowed for automatic enrolment with the ability for the employee to opt out. The UK also introduced a similar feature when they launched their National Employment Savings Trust (NEST) program in 2012. Both countries have clear evidence as to the beneficial effects that simplification can have to increase participation and savings rates.

For example, U.S. research shows that both the way in which choices are framed and the provision default choices, when combined with simplification, helps people make decisions beneficial to their financial well-being.[1]

In Canada today, we have different laws and different prevailing customs. Most employers expect employees to make active decisions – from their choice of investment to the amount they should be saving from each pay. While the rapid adoption of target date funds has been instrumental in simplifying the decision-making process for employees, there is more that can be done.

Our joint Canadian study was designed to explore the effectiveness of additional simplification steps.

1 Choi, Laibson and Madrian, 2009 and 2013

About the study

The study evaluated the effectiveness of simplifying the new hire's enrolment in a workplace retirement savings plan. Effectiveness was measured in relation to increasing plan decision-making and participation, and improving contribution levels which ultimately, increase savings for retirement.

Forty-four employers of various sizes from across Canada and spanning different industries participated in the study, along with more than 3,700 employees. It is the largest evidence-based study in this area ever done in Canada.

Employers were randomly assigned to one of three groups:

GROUP 1

A control group whose employees received a standard enrolment form and experienced the standard process for joining the retirement plan.

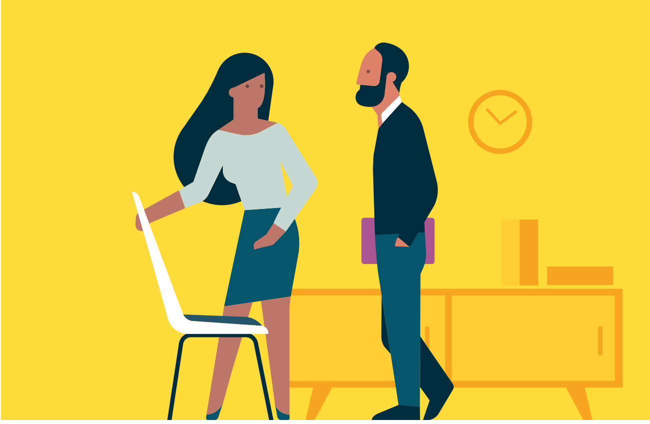
GROUP 2

A group whose employees received a simplified enrolment form, with a standard process aligned to the end of the waiting period when the employee could join the plan.

GROUP 3

A group whose employees received a simplified enrolment form and were encouraged to complete it on their first day, regardless of the waiting period.

Employees in Group 3 (encouraged to complete all forms on day 1) also received a verbal nudge from Human Resources encouraging them to complete all forms on their first day of work and stressing it was easy to make changes later.



How did the simplified enrolment form differ from the regular form?

- **Clear indication of employer match:** The employer's contribution match was clearly described, specifying the savings rate that would attract the full employer contribution (see Figure 1 below).
- **Simplified investment decision.** The employee's contributions would get deposited to the plan's default investment option (in most cases, a target date fund). The form clearly stated that other options were available, and that the employee could change investments at any time.

Employees were also given the opportunity to decline participation, while retaining the right to enroll in the future.

FIGURE 1
EXAMPLE OF A CONTRIBUTION MODULE IN A SIMPLIFIED ENROLMENT FORM

CONTRIBUTIONS UPON ENROLMENT

Employer contributions:

Under your pension plan, ABC Inc. will match any contributions you make at a rate of $1.00 for every $1.00 you contribute up to a maximum of 3% of your annual salary. Contributing at least to this match level allows you to benefit fully from employer contributions.

Your contributions:

I authorize my employer to deduct the following percentage of my pay to be deposited into the pension plan:

Full Employer Match

❍ 5% ❍ 4% ❍ **3%** ❍ 2% ❍ 1%

Research results

The research results were focused on three key areas:

1. **Decision making** – did employees make an active choice?
2. **Enrolment** – did employees enroll in the plan?
3. **Maximizing employer contributions** – did employees contribute enough to maximize the employer matching contribution?

Results of the study showed that using a simplified form – with or without encouragement to complete it on the first day of work – increased both enrolment and savings rates when compared to traditional approaches of active decision-making.

A copy of the full research study – ***Increasing Retirement Savings in Workplace Retirement Savings Plans Through Simplified Enrolment*** – can be found at https://www.canada.ca/en/employment-social-development/corporate/reports/simplified-enrolment.html.

ENROLMENT SIMPLIFICATION WORKS

Our extensive user testing with Canadians of all ages shows that they welcome nudges and recommendations to point them in the right direction – as long as they retain the freedom to make a change at their convenience.

Providing a starting point removes friction from a decision most employees are uncomfortable making and often put off, resulting in many employees leaving employer-matching dollars on the table for many years.

1 **Decision making** – increased engagement	2 **Enrolment rate** – significantly higher than control group	3 **Maximizing employer contributions** – simplified form makes a difference
The simplification and nudging of newly hired employees in Group 3 led to very high engagement with the forms, with 99.5% of employees making a decision. Looking at the benefits over the Group 1 standard enrolment, Group 3 employees were 29 percentage points more likely to take action. For those in Group 2, who only had access to a simplified form, the likelihood was 27 percentage points more than the control group - almost the same.	Enrolment increased significantly with the use of the simplified form. In Group 2, enrolment was 24 percentage points higher than the control group. For Group 3 (urged to complete forms on day 1), enrolment was 25 percentage points higher than the control group.	Employees in Groups 2 and 3 were both more likely to maximize their savings to receive the full employer match when compared to the control group. In Group 2 employees were 30 percentage points more likely than Group 1 to maximize their savings to receive the full employer match. In Group 3, employees were 29 percentage points more likely.

SUN LIFE'S EXPRESS ENROLMENT – TURNING RESEARCH RESULTS INTO ACTION

Sun Life's **Express** enrolment capability has been in place for over a year, combining the best in nudge principles to simplify decision-making.

It's easy-to-use technology that helps newly eligible employees enroll in their workplace retirement savings plan quickly and easily by recommending both a starter savings rate and investment option. Once enrolled, the employee is free to make any changes at their convenience.

Our findings

With employers using **Express** enrolment, we've seen some key enrolment differences between U.S. and Canadian plan sponsors. Canadian plan sponsors are often hesitant to pick a starter savings rate for their new hires, instead often setting the starter savings rate to 0% and expecting employees to make an active decision.

Conversely, U.S. plan sponsors with Canadian employees tend to take a more aggressive stand – often setting the employee starter savings rate to be equal to the amount required to receive the full employer match. U.S. plan sponsors may be more comfortable setting a starter savings rate for their new hires given the prevalence of automatic enrolment in the U.S. and the results they've achieved when applying this feature to their employees south of the border.

Automatic enrolment and the rise of target date funds have reshaped retirement plan outcomes for all generations in the U.S. However, these innovations are having the greatest impact on millennials' retirement savings. In 2013, two-thirds of millennial plan members had been subjected to auto-enrolment compared with 4 in 10 boomers. While millennials' income and job prospects have been reshaped by the Great Recession, those working are, in aggregate, saving more due to auto enrolment.

(Source: Vanguard, The auto savings generation: Steering millennials to better retirement outcomes, October 2015).

> "We can find ample evidence from the literature on behavioural economics that having a well-designed choice architecture helps people find what's right for them. The Sun Life Financial and Government of Canada joint research project provides one more piece of solid evidence that positive outcomes can be achieved by improving the way we present retirement savings options.
>
> Carole Vincent, Ph. D."

Our extensive user testing with Canadians of all ages shows that they welcome nudges and recommendations to point them in the right direction – so long as they retain the freedom to make a change at their convenience. Providing a starting point removes friction from a decision most employees are uncomfortable making and often put off, resulting in many employees leaving employer-matching dollars on the table for many years.

While a number of factors can influence a plan member's success in saving for their future, none is as critical as the rate of contributions. And for younger workers who have ample time on their side, setting them up for success will steer them to better retirement outcomes.

Case studies

The case studies summarized in the chart below describe the experience of five companies using different **Express** enrolment approaches. These companies represent a range of plan sizes.

Companies		Contribution formula	Starter savings rate	Starter investment option	Participation rate	Comment
1.	**Financial services employer (multiple provinces)** **Group RRSP and DPSP**	**Voluntary** Employee can contribute up to 6% of earnings and employer will provide a 100% match.	8%	Target Date Fund	89%	This US based employer placed high importance on employees saving adequately for retirement. They took a similar approach with their Canadian and US employees. High participation was achieved in both countries and no concerns were expressed by employees when the employer transitioned to this approach for their new hires.
2.	**Pharmaceutical employer (Ontario)** **DC Pension Plan**	**Voluntary** Employee can contribute up to 8% of earnings. Employer automatically provides a starting company contribution equal to 4% of base salary.	3%, then increasing by 1% annually on April 1st unless employee informs payroll to stop automatic increase.	Target Date Fund	97%	This employer made Express enrolment a condition of employment for their new hires. A very small percentage of employees opted out and employees expressed no concerns about the approach taken by the employer.

Companies		Contribution formula	Starter savings rate	Starter investment option	Participation rate	Comment
3.	**Energy Sector employer (Alberta)** **Group RRSP and non-registered account**	**Voluntary** Employee can contribute 0-50% of earnings, but there is no employer match.	0%	Target Date Fund	57%	All employees who decided to join needed to make an active savings rate decision. The median saving rate was 5%, with most enrolments taking place within two weeks of the enrolment invitation. Almost 1/3 of employees chose a savings rate of 5%, and one in five chose a savings rate of 10% or more
4.	**Software employer (B.C.)** **Group RRSP**	**Voluntary** Employee can contribute 0-6% of earnings and employer will provide a 50% match.	4%	Target Date Fund	50% after first two weeks of enrolment.	Of the employees who enrolled, 60% chose to increase the starter savings rate to 4.5%. Another one in five employees increased the starter savings rate to 9%. Only four percent of employees reduced it to 0%.
5.	**Entertainment industry employer (Ontario)** **Group RRSP**	**Voluntary** Employee can contribute 0-50% of earnings and employer provides a flat 3% of earnings contribution.	0%	Target Date Fund	77% after first two weeks of enrolment; 86% after one year	The median saving rate for employees who enrolled was 5%. Approximately one in five employees chose a savings rate less than five percent. 57% chose a savings rate of 7% or more.

A LITTLE GUIDANCE GOES A LONG WAY: START YOUR EMPLOYEES OFF ON THE RIGHT FOOT

Our joint research with the Government of Canada – and our own experience with plan sponsors – has shown that employees respond positively to enrolment guidance, and take positive actions as a result.

By providing a starter savings rate and investment option, you can help employees enroll easily in their workplace plan and focus more on the job they've been hired to do. In providing this type of nudge, consider the following three steps that can increase the success of your workplace savings program:

1 Remind employees that they remain in control:

When employees provide consent by hitting the submit button on their digital enrolment experience, it carries the same legal weight as their written signature. But it's important to reassure employees that their auto-choices don't have to be forever – they can change them at any time, even the next day if they wish.

2 Consider Target Date Funds as a starter investment option:

Many employees prefer target date funds because of the diversification and automatic de-risking they provide as the fund reaches maturity. Their comfort with this type of "one and done" investment solution can increase the chances of employees consenting to the suggested starter savings rate and investment option.

3 Complement express enrolment with a re-enrolment campaign:

Consider a re-enrolment campaign periodically to encourage employees to revisit decisions on file to ensure they're still appropriate.

By giving employees the nudge they need and following these steps, you can see how a little guidance goes a long way toward retirement savings success.