Head to head: Should Canadian policy-makers facilitate a workplace emergency savings benefit?

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Benefits Canada

With many employees struggling with finances since the coronavirus pandemic started last March, two experts weigh in on the viability of offering a workplace emergency savings benefit.

Elizabeth Mulholland, chief executive officer of Prosper Canada

Policy-makers should absolutely be considering ways to facilitate a wider range of affordable, quality workplace savings options and to more actively support employees to save for emergencies.

Even before the coronavirus pandemic, too many Canadians (43 per cent) were living paycheque to paycheque and not saving at all, according to a 2019 poll by BDO Canada Ltd. With the rise of non-standard work, fewer and fewer Canadians have access to quality workplace savings plans. And Canadians who save in retail registered retirement savings plan or tax-free savings account investment products, instead of through the workplace, typically pay higher fees that erode earnings and, for Canadians earning under $50,000, eat into their principal, according to an analysis performed by Common Wealth.

I believe, many small businesses and non-profit organizations want to help their employees to build financial stability and security but they lack the means to provide matching contributions required by many existing plans.

Read: Should Canadian employers consider offering emergency savings plans?

How can governments help fix this? Well, they can invest in research and piloting to determine effective ways employers can support employees to build emergency, as well as, longer-term savings. Governments can also make seed funding available for new flexible, portable and affordable workplace savings plans that offer "sidecar" emergency savings options, as well as retirement savings.

Federal tax incentives for saving, primarily via registered pension plans, RRSPs and TFSAs, overwhelmingly benefit middle- and upper-income Canadians. TFSAs protect low- and modest-income Canadians from punitive benefit clawbacks when they retire, but offer no upfront incentive, unlike a RRSP. A proposed Canada Savers' Credit proposal could provide low- and modest-income Canadians with a refundable match of up to $1,000 per year for TFSA contributions — a wise investment by any measure.

Joe Nunes, co-founder and executive chairman of Actuarial Solutions Inc.

Many of those forced out of work by the pandemic have been pushed into the uncertain world of relying on temporary government support, food banks, charities and family. While it's unreasonable to expect most employees to have an emergency fund that could last a year, I'm not sure many could even last two weeks.

Empathy for these individuals makes it easy to look around and suggest that perhaps employers can do more to help avoid this type of tragedy the next time around. However, before we jump ahead, it's important to take two steps back: first, to make sure that we understand the real problem, and second, to decide on the right solution to the problem that we really have.

The first thing that we must admit is that, in my opinion, the problem for far too many Canadians is not a lack of opportunities to build an emergency fund. I believe the overall problem is a lack of financial literacy and the discipline to prepare. As I've written elsewhere, our school systems are largely to blame for the lack of preparation that our kids face as they move out of their parents' homes to start their own independent life.

Read: How employers can support employees' financial literacy, wellness amid DIY-investing craze

With clarity on the real problem, it won't take long for most readers to agree that expecting employers to turn the financially challenged into good savers prepared for unexpected challenges is not likely to be successful. More importantly, many employees with access to voluntary pension, RRSP and TFSA programs sponsored by their employer already fail to fully take advantage of these vehicles. The TFSA is the ideal arrangement to build an emergency fund and even if an employer isn't already offering one, every bank does, and it's a small step to set one up. It's a slightly bigger step for workers to pull money from their monthly spending to save for a rainy day.

We don't need more vehicles to divide our savings into smaller piles and we don't need to burden employers with more bureaucracy in managing their workforces.