You’ve chosen the finest material, selected a stylish cut, picked your favourite colour and given the tailor your measurements. Your goal is to create the business suit—one that fits you to a T and makes you feel like a million bucks every time you wear it.

The same principles apply to Capital Accumulation Plans (CAPs) these days. More and more, the CAP market is focusing on tailoring its service offerings to meet the unique needs of plan sponsors and plan members, and changing them as these stakeholders’ needs evolve.

Suit Yourself
With the recent slowdown in defined benefit (DB) plan to defined contribution (DC) plan conversions leading to greater competition for existing business, CAP providers face the challenge of enhancing and promoting their service offerings to pull away from the herd. In particular, the industry is responding to a growing demand for “custom-made” retirement solutions. Says Eric Filion, senior director, development and marketing, Savings for Groups and Businesses, with Desjardins: “More and more, the solution will be customized and personalized to the specific needs of participants and sponsors.”

On the supplier side, CAP providers striving to add value are looking more closely at the motivations of plan sponsors and members to drive new product development. “It’s more about being able to project yourself into retirement, to see what you want to accomplish in retirement, to plan your retirement and, after that, transform it into products,” Filion adds. And this goes beyond the simple life of the plan itself. CAP providers also need to think about what happens when group plan members retire. “You want to provide them with retirement solutions while they’re in their retirement, not just a plan to get them there,” comments Zaheed Jiwani, senior investment consultant with Hewitt Associates.

From the plan sponsor side, the competitive CAP landscape means that sponsors and other stakeholders will have a greater say in how CAP offerings are created and delivered in the future. For example, Janet Rabovsky, practice leader, investment consulting, with Watson Wyatt, sees the potential to integrate a wider range of investment options other than bonds and equities into CAPs, such as commodities and real estate. Having more flexibility in CAP investments could be beneficial in helping these plans weather hard times. “You’re getting different types of drivers of return in there, which allows you to hopefully have a more diverse portfolio that will perform in different market environments,” she adds.

With the first wave of baby boomers beginning to reach retirement, plan sponsors are more concerned than ever about optimizing plan performance. “The biggest challenge that plan sponsors and, as a result, recordkeepers and investment managers, have is: How do I maximize the plan benefits, or how do I help members maximize their benefits under my DC plan?” explains Colin Ripsman, industry expert.

To really understand how their plans are performing, plan sponsors are turning their attention to the “smaller picture”: how the plan is performing at the individual member level. And to do this, they’re asking for more comprehensive and granular reporting customized to meet their needs. Ian Genno, principal with Towers Perrin, finds that while previously, it may have been enough to know that the plan was competitive compared to industry benchmarks, a number of plan sponsors now want to look at how member investment decisions translate into performance and whether or not individual

One size no longer fits all—in today’s CAP market, it’s all about tailoring solutions to meet specific plan sponsor and member needs.

By Alyssa Hodder
THE HIGHLIGHTS

• Total administered assets for the CAP market were more than $93 billion as of June 30, 2007—an increase of 13% from last year’s total of just under $83 billion.

• The number of lives in Canadian CAPs in 2007 has remained more or less the same since 2006, at approximately 4.3 million.

• The top five CAP providers—Sun Life, Great-West Life, Standard Life, Manulife, and ScotiaMcLeod—stayed in the same positions as in 2006.

• Of the top 10 CAP providers, Sun Life Financial remains in the No. 1 spot, with assets of more than $29 billion versus $24.9 billion last year.

• Manulife Financial tops the list of fastest-growing CAP providers (by %), with assets of more than $9.7 billion and growth of 33.5% from 2006.

• Breaking down the total number of CAP clients (46,208) by line of business, the vast majority of CAPs are Group RRSPs (33,351), with DC Plans coming in a distant second (9,176).

• But when it comes to size of assets, DC Plans and Group RRSPs are much closer, at $18.7 billion versus $19.5 billion, respectively.

• The vast majority of CAP clients (81%) have assets of less than $1 million.

plan members are meeting their retirement planning objectives. The information that’s unearthed when providers dig a little deeper may be extremely valuable to plan sponsors from an HR planning perspective, he adds. “It allows the employer to make decisions about managing its CAP and communicating the features of its plan much more effectively than traditional investment performance assessments would have done.”

From the plan member perspective, customized tools are the way of the future. The CAP industry is recognizing more and more that inundating plan members with generic information doesn’t get their attention or meet their needs. As Mike Collins, vice-president, marketing, Group Savings and Retirement Solutions, with Manulife, puts it: “Retirement planning is a very personal thing; it isn’t a ‘one-retirement-fits-all’ solution.” Consequently, the new focus is on personalizing the information to get members involved in the retirement planning process, drawing attention to their statements and their plans so the plan sponsor can be assured that they’re on track relative to their retirement goals.

Part of the member engagement approach is a renewed focus on strategic member communications to engage plan members. “Communication must be targeted,” says Rabovsky. “You cannot talk to an entire room of people of differing ages and interests and expect that you’re going to be able to deliver one message.” It’s no longer enough to make general plan information available to plan members; now, providers and plan sponsors are looking at demographics such as age and proximity to retirement to take personalized member communications to the next level.

And when it comes to disseminating these messages, there are many solutions available. With so many Web-savvy plan members out there, it’s not surprising that using the Web as a conduit for information has become more common. Anthony Cardone, senior vice-president, Group Savings and Retirement, with Standard Life, sees technology as a key differentiator for CAP providers. “E-servicing allows everyone quick, simple access to information they need—when they need it and in the format they need.” Genno agrees, pointing out that more plan sponsors are looking at developing customized Web-based tools for retirement planning. “It’s only natural that in a world where people use the Web for all their other information needs, they would also look to the Web for information on their employee benefits and their CAP in particular,” he adds. Many providers are now offering tracking tools to help members see where they are—versus where they need to be—on their path to retirement. And some providers offer dynamic online member statements that may also be linked to retirement planning tools.

But overreliance on technology can be dangerous and tools, Web-based or

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**TOP 10 CAP PROVIDERS**

<table>
<thead>
<tr>
<th>Company</th>
<th>2007 Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Sun Life Financial</td>
<td>$29,878.0</td>
</tr>
<tr>
<td>2 Great-West Life</td>
<td>$20,610.0</td>
</tr>
<tr>
<td>3 The Standard Life Assurance Company of Canada</td>
<td>$11,104.0</td>
</tr>
<tr>
<td>4 Manulife Financial</td>
<td>$9,717.0</td>
</tr>
<tr>
<td>5 ScotiaMcLeod</td>
<td>$3,416.7</td>
</tr>
<tr>
<td>6 Fidelity Investments Canada ULC</td>
<td>$2,646.2</td>
</tr>
<tr>
<td>7 BMO Financial Group - Pensions &amp; Benefits</td>
<td>$2,633.1</td>
</tr>
<tr>
<td>8 ACS and Buck Consultants, an ACS company</td>
<td>$2,272.4</td>
</tr>
<tr>
<td>9 RBC Asset Management</td>
<td>$2,249.0</td>
</tr>
<tr>
<td>10 National Bank Trust Inc.</td>
<td>$2,118.7</td>
</tr>
</tbody>
</table>

**Top 10 Total**

| 2007 Industry Total | $86,645.1 |
| 2006 Industry Total | $93,375.6 |
| $ Difference        | $6,730.5  |
| % Difference         | 13.0%     |

**Note:** Totals were compiled by adding DC, Group RRSP, DPSP and EPSP administered assets.

Source: Companies participating in Benefits Canada’s 2007 CAP Survey

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otherwise, are most effective when complemented with the “human touch.” For this reason, some providers offer access to retirement specialists who will assist members through all phases of their working lives—from enrollment in the plan, through to retirement and creating a lasting income stream. Members need support at all stages of the process, but the years leading up to and including retirement are particularly important. Says Cardone: “Members need assistance in making the transition from accumulation to payout...they need to know what products fit their lifestyle, the implications of the various options and how to balance all of these factors in creating a suitable income stream.”

Regardless of what channels are used, all providers are striving to deliver messages that are contextual, relevant and member-specific to cut through the general industry chatter. Cardone stresses the importance of keeping plan members interested and involved in planning for their retirement. “Helping members understand the implications of inaction, and assisting them in balancing today’s priorities with tomorrow’s responsibilities, is what good retirement planning education is all about. We need to help our members understand the implications of not acting.” And the most effective strategies use multiple channels to reach out to plan members in the hopes of motivating action. “People are realizing that you need a multi-faceted approach—you can’t simply rely on one thing,” says Rabovsky. “It’s not just about the communication, it’s not just about the education, it’s not just about the tools; it’s hitting them on many levels.”

### The Fabric of the CAP Market

One driver for the focus on targeted employee communications and customized education is the enduring influence of the CAP guidelines. After a flurry of compliance activity over the past few years, development in this area has slowed somewhat. However, the key messages behind the guidelines remain a driving influence.

Industry experts agree that education is still a significant priority for plan sponsors and CAP providers, now and in the near future. And it’s not as simple as “if you build it, they will come.” Notes Bill Kyle, senior vice-president with Great-West Life: “More and more employers are understanding the effort they need to
There’s a dawning awareness in the CAP industry that education alone is not the answer: no matter how much a plan sponsor attempts to communicate and educate its membership, there will always be plan members who aren’t willing to take the time and effort to plan effectively for their retirement. Lori Bak, vice-president, client relationships and marketing, Group Retirement Services, with Sun Life Financial, believes that “we’ve evolved beyond just trying to continue to crack the nut of education.” Rabovisky agrees, noting that “people need to be saved from themselves, unfortunately. You can communicate, you can educate as much as you want; there is going to be a group that just won’t get it.” And it’s those unengaged members who represent the biggest liability for plan sponsors. Consequently, plan sponsors are looking to the CAP marketplace to develop products and services to fill the member education gap.

**If the Shoe Fits...**

Hence the growing interest in automatic features for CAPs, such as auto-enrollment and auto-increase of contributions. Specifically, there’s a lot of talk about auto-increase—automatically adjusting a member’s contributions based on expected future pay increases. Auto features are attractive because they simplify the process significantly—not just for plan sponsors, but for CAP providers as well, who can benefit from greater process efficiencies and lower administration costs.

However, there’s still a general reluctance to implement auto features, in part because Canadian legislation makes it difficult. For example, implementing auto-enrollment in an RRSP is a challenge, since a Group RRSP is an individual product sold on a group basis and the member’s signature is therefore required for enrollment.

Plan sponsors also face the challenge of how to support these features. While auto features could potentially lighten the plan sponsor’s load, there are also associated risks, which in turn may translate into costs. For example, if a member isn’t auto-enrolled correctly or contributions aren’t increased when they should have been, plan sponsors could face liability for lost contributions down the road. Comments Jean-Daniel Côté, principal with Morneau Sobeco: “They’re concerned that if they put that in place, they need to have very solid processes and systems so that you don’t forget anybody on the way.” And the discussion on implementing auto features brings plan sponsors back once again to the issue of member engagement: sponsors don’t want to rely solely on auto features, thereby allowing their plan members to become dissociated from the retirement planning process.

However, the argument for auto

**“RETIREMENT PLANNING IS A VERY PERSONAL THING; IT ISN’T A ‘ONE-RETIREMENT-FITS-ALL’ SOLUTION.”**

—MIKE COLLINS

**Source:** Companies participating in Benefits Canada’s 2007 CAP Survey
features to fill the disengaged member gap is persuasive. Says Bak: “No matter what we do, no matter what tools we build and innovation we create, there will always be a faction of plan membership that just doesn’t have the desire to learn about investments and pensions and DC issues.” Given the plan sponsor’s ongoing struggle to deal with this member ambivalence, we can expect the trend toward auto features to become stronger in the future.

A Stitch in Time
When it comes to balancing member education with member inertia, some believe that target-date funds (funds that take into account the member’s projected retirement date) may be the answer. Dave McLellan, vice-president with Fidelity Retirement Services Canada, notes that “plan sponsors in general have become more aware of the fact that there’s a large percentage of plan members that, over the long term, remain invested in default funds”—a significant concern for plan sponsors, from an income-building perspective. As a result, some plan sponsors are considering using target-date funds as the default option to potentially generate better returns for “defaulting” plan members.

Although they’ve only been around here for a few years, products and services relating to target-date funds have experienced a growth spurt in Canada. As Côté notes, these days, “virtually all providers have some form of target-date fund lineup or target-date process.” New trends include combining target-date funds with risk profiles and making a wider range of investment options available within them. And, adds Jiwani, these products will be offered in ways that make them easy for plan members to understand. “You’re starting to see more sophisticated investments, but packaged in an unsophisticated way.”

With more flexibility and greater choice available than ever before, the trend toward target-date solutions in Canada is looking increasingly strong. But while target-date funds have their benefits, they may also have drawbacks. Côté believes that these funds aren’t an ideal solution because they are “still somewhat one-size-fits-all” in terms of risk levels. In addition, target-date funds can potentially act as a disincentive for member engagement, since it’s part of their nature that they don’t require members to look at their investments on a regular basis. “The message that’s conveyed with target-date funds is that you make one decision, once, and then you’re covered for the rest of your life,” he says. “And I think that’s very dangerous from a sponsor standpoint.”

Ironing Out the Creases
Making sure that plan members are investing the appropriate time and effort into their CAPs is becoming increasingly important with the baby boomer generation poised on the brink of retirement. McLellan finds that plan sponsors are increasingly trying to understand the answer to the question, Are members on track to save enough for retirement? And for a large percentage of Canada’s workforce, “how much is enough” is no longer a theoretical question; it’s an increasingly near reality. Says Genno: “Plan sponsors are actually aware now of real-life cases of employees in CAPs reaching retirement age and questioning whether the amount of retirement income is sufficient.”

While the potential impact of the growing number of baby boomer retirements is generating a lot of talk, there hasn’t yet been a lot of action. Collins, among others, sees a growing focus on this issue within the CAP industry, but notes that it’s early days yet. “The bulk of the boomer retirement lies ahead of us yet, and that’s when we’ll see the big changes.”

It’s clear that the retiring baby boomer generation will have an impact on the CAP industry, but perhaps it’s too soon to tell just what that impact will be. Consequently, many CAP providers and plan sponsors are adopting a wait-and-see approach to this issue, at least for the time being.

Dressed for Success
How can plan sponsors ensure that their plans are appropriately attired for the CAP scene in 2008 and beyond? There are a number of emerging trends...
“MORE AND MORE EMPLOYERS ARE UNDERSTANDING THE EFFORT THEY NEED TO PUT INTO COMMUNICATING AND EDUCATING THEIR PLAN MEMBERS.” —BILL KYLE

LINES OF BUSINESS

As of June 30, 2007 ($ millions)

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
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<tr>
<td>Defined Contribution Plan</td>
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</tr>
<tr>
<td>Group RRSP</td>
<td>$44,328.1</td>
</tr>
<tr>
<td>Deferred Profit Sharing Plan</td>
<td>$6,900.7</td>
</tr>
</tbody>
</table>

Source: Companies participating in Benefits Canada's 2007 CAP Survey

THE BUZZ ON GOVERNANCE

There's less activity on the CAP guidelines front than there used to be, but the issue of good governance isn’t going away. What’s changed is that plan sponsors may be taking a more holistic view of CAP planning and governance in the future.

As the market matures, plan sponsors are realizing that CAPs aren’t a magical solution to honouring the pension promise to plan members. “I think they’re all starting to come to grips with the fact that there’s a lot more governance and time and effort and risk involved in DC plans than they initially thought,” comments Janet Rabovsky, practice leader, investment consulting, with Watson Wyatt. “We’re really starting to understand that now, and it scares them.”

Properly managing a CAP can take a great deal of time and resources, and plan sponsors are leaning heavily on their providers to pick up the slack. “Plan sponsors are becoming much more cognizant of the challenges involved in appropriately managing a CAP and, in particular, managing the risks associated with that plan,” says Ian Genno, principal with Towers Perrin. “And this is prompting employers to seek more sophisticated and customized advice.”

The industry is responding by developing integrated solutions that provide a “big picture” of the CAP in the context of HR and strategic planning. “A CAP is not just some silo; it connects to other things,” says Peter Arnold, national practice leader, investment consulting, with ACS/Buck. “And that’s why we’re finding it much more useful to really get an understanding of what sponsors are facing more holistically, and then trying to adapt solutions to it.”

These products make it easier for plan sponsors to manage the various tasks associated with CAPs and understand how the plan fits into the rest of the business structure. “A more integrated approach to solving CAP issues helps focus sponsors on their unique to-do list and, to some extent, lessens the industry noise that may not really be relevant to their retirement program,” Arnold adds.

that sponsors should be aware of to keep their plans in fashion.

One of the strongest new trends is providing financial or investment advice to plan members, most often through third-party providers. This is a definite change from previous years, when plan sponsors were hesitant to take the plunge. Comments Genno: “If you think back several years ago, providing investment advice was something that plan sponsors would be very reluctant to do because of concerns about potential fiduciary responsibilities or potential liability. Now, some third-party providers are willing to accept the responsibility associated with providing investment advice.”

As the CAP world expands and more complex investment options become available to the average investor, we’ll likely see an increase in advice being offered by plan sponsors in the near future. “We’ll continue to see the momentum that we’ve seen over the last two or three years, with plan sponsors trying to make sure that they can assist their plan members the best way possible in acquiring the skills and knowledge that are necessary to successfully save for retirement,” Kyle predicts. And this advice will be customized to meet the plan member’s specific needs, taking into account the member’s financial situation, projected time horizon to retirement and other relevant personal information. “Good advice has to be offered at an individual level—it’s about much more than just what they have in their group plan—and how it’s delivered is key,” Collins emphasizes. “There really aren’t any shortcuts to good advice, and both suppliers and sponsors have to recognize that.”

Plan sponsors will also want to look at plan performance within the context of a broader HR and business strategy. In particular, Jiwani has noticed that “more and more plan sponsors are looking at their benefits plans and their retirement plans as means to retain and attract talent.” Faced with a potential talent drought and labour shortage in the near future, we can expect an even greater focus by plan sponsors on maximizing their plans to ensure that they’re competitive—not just within the CAP industry at large, but from the individual plan member perspective—and that their plan members are satisfied.

With the CAP market growing slowly but steadily, providers, consultants and plan sponsors have more opportunities than ever before to deliver added value to CAPs and their plan members. And going beyond the traditional “dress code” to tailor CAP offerings to specific sponsor and member needs is clearly in style.