



Guiding Light

In a challenging social and economic environment, plan sponsors are looking to pension and benefits consultants for enlightenment.

BY ALYSSA HODDER

It's a demanding market for pension and benefits consultants. On the pension side, there's only so much business to go around—particularly since the rate of conversion from defined benefit (DB) to defined contribution (DC) plans seems to be slowing. From a benefits perspective, insurers and other providers are extending their range of services, encroaching on what used to be the benefits consultant's exclusive territory. Add to that a dragging economic climate of low returns and sluggish markets, which has forced many companies to cut costs—in which case, consultants may be first on the chopping block.

In these conditions, how do consulting firms stay competitive? It's all about finding the right fit.

Jack of All Trades or Master of One?

The pension and benefits consulting industry is much more competitive than it used to be, consultants say—particularly when it comes to retirement and actuarial services, since this market is more mature. “There's not a lot of new business, as far as new DB plans that are being created today,” notes H. Clare Pitcher, principal and consulting actuary, with Buck Consultants. “So the new business that you're getting, you're often taking away from somebody else.”

And while a little competition can be healthy, too much can have negative consequences for consultants and clients alike. David Frank, a consultant with Bell Financial Inc. (an independent consulting firm), says that some suppliers attempt to undercut the existing competition by aggressively lowballing first-year fees in the hope that sheer inertia will cause a client to stay for the long term. “I think some people are now making very aggressive promises to get in the door,” he says, adding that “competition is not nearly as polite as it used to be.”

Not only is the competition more ruthless, it's coming from more sources than ever before. While the main consulting players have remained more or less the same over the past 10 years, other providers are now entering the same service areas. For instance, the insurance industry has established a solid presence in the area of plan member communications—traditionally, part of the benefits consultant's role. Similarly, some employee assistance program providers are moving into the more wide-ranging area of health and wellness. “What we're finding now is [that] some of those vendors are themselves now competitors,” says Joseph Ricciuti, director, client solutions, with Watson Wyatt Worldwide. “The traditional suppliers are changing their product offering.” This creates an extra challenge for consultants: new players competing for existing business within the same market.

But the desire to branch out into new areas isn't one-sided. Consulting

firms are also seeking out new markets through strategic alliances with players offering complementary services. Take, for example, Towers Perrin's acquisition of International Survey Research (now TP-ISR) to gain access to enhanced customized employee surveys and research tools and analytical capabilities. Or Morneau Sobeco's acquisition of Shepell-fgi to offer an expanded range of workplace health and productivity solutions.

The activity these days isn't pure consolidation—consultants agree that most of the major acquisitions among consulting firms have already taken place. Instead, the industry itself is changing shape as new partnerships form and the lines blur between traditional pension and benefits consulting and broader workplace issues.

Is Bigger Better?

One significant driver of the trend toward expansion is the push to go global. Consulting firms—particularly larger firms with parent companies outside of Canada—are feeling the pressure to offer clients an international perspective and integrated worldwide service delivery. “There's a lot of globalization going on right now,” says Anthony Cardone, senior vice-president, group savings and retirement, with Standard Life. “The consulting firms...they're leveraging their core competencies across the world and using best-demonstrated practices within respective markets.”

Depending on the clients you're targeting, being a larger player with global expertise may be a competitive advantage. “Having global strengths is getting to be a bigger and bigger issue,” says David Burke, retirement practice director, Canada, with Watson Wyatt Worldwide. “It used to be that the local consultant sharing his or her personal experiences would be enough to satisfy the needs of most organizations. That's just not true anymore. You're not going to be able to provide the kind of top-notch advice that you need to provide to meet the needs of most sophisticated organizations unless you have access to a strong global network.” Some say this is particularly true for large Canadian multinational companies, which tend to gravitate toward consulting firms of similar size and strengths. “Size obviously



Top of Mind

We asked more than 100 consulting firms to identify the top five pension, benefits and HR issues that their clients face as well as some of their own challenges. Here's what they had to say.

Pensions

- More than half of respondents identified employee education and communication as one of their clients' top five challenges.
- Other issues include cost containment/affordability of benefits, *CAP Guidelines* compliance and regulatory/legislative compliance.

Benefits

- 77% of respondents said cost containment/affordability of benefits is one of their clients' top five challenges.
- 44% identified plan design and flexibility and 35% cited employee education and communication as key concerns.

HR in General

- 50% of respondents said attraction and retention of employees is one of their clients' top five challenges.
- Total compensation/total rewards, employee education and communication and regulatory/legislative compliance also ranked among their clients' main HR issues.

Consultants cited cost containment/affordability of benefits, employee education and communication, talent management, staff attraction and retention, generational or workforce diversity issues and regulatory/legislative governance among their main challenges.



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Sarah Beech, *managing principal, consulting, Hewitt Associates*

is a factor, especially when you're talking about global presence and you're dealing with multinational organizations," says Cardone. "Certainly, the bigger carriers have a greater probability of growth by leveraging those relationships they have around the world."

Clients with a more diverse workforce may also prioritize global capabilities. The University of Toronto, for example, hires faculty from all over the world with different cultural backgrounds and workplace experiences, says Angela Hildyard, vice-president, HR and equity. She believes that a global consultant is better positioned to help the university manage that diversity, offering a better sense of the wide range of available alternatives that could potentially be reworked to meet their specific needs. "We've certainly relied on our consultants a lot to help us look at different options," she says. "We look for consultants who have an outstanding knowledge of the whole range of issues, that have a great reputation and that work globally."

Larger firms often have greater resources at their disposal, such as global research teams and sophisticated technology, which smaller firms may not have. With access to scalable technology, many consultants see plan administration outsourcing as another target market for the consulting industry in the future. "There's still plenty of growth when it comes to administrative outsourcing," says Fred Vettese, chief actuary with Morneau Sobeco. "Administrative solutions through technology is really that backbone on which we can provide all the other consulting services that clients need in order to support their plans." Jo-Anne Billinger, senior vice-president with Buck Consultants, believes that due to the cost and resources necessary to establish technology platforms for plan administration, technology will become a key differentiator. "The price of admission and ongoing support to have good technology solutions has and will continue to eliminate players," says Billinger, adding that "you need not only global knowledge; you need global delivery resources." These capabilities

are particularly important for companies looking to pair HR consulting services with outsourced administration of their group benefits and retirement plans. They're also a priority for large firms that want to centralize reward programs on a global or multinational basis, adds Kevin Aselstine, managing principal with Towers Perrin.

But do you have to be a global player to compete? Not necessarily.

The markets are different for smaller and larger firms, consultants say—they typically aren't targeting the same types of clients. "There still is room for smaller or more local firms," says Aselstine. "There's a part of the market that may even have a preference for that." Just as larger companies may gravitate toward global players, smaller companies may lean on local consultants for help with their pension and benefits issues. "It is very rare that I get knocked out of competition by a large provider and, conversely, they're just not interested in my business either," adds Frank. "So it works out well."

From a competitive standpoint, consultants say size isn't the only consideration, nor is it usually the deciding factor. "Experience, knowledge and talent are really the key factors from a decision-making perspective, versus just sheer number," says Sarah Beech, managing principal, consulting, with Hewitt Associates. It's much more important for consulting firms to recognize their strengths and where they fit into the market overall. Surviving in a competitive industry is really a matter of finding your niche.

All Consulting Firms, Great and Small

In spite of increased competition and cost-control concerns, consultants say the market for their services is alive and well. "The good thing about being a consultant is that there is a huge need," says Irene Lis, president of Aligned People Strategies Inc. (an independent HR consulting firm). "What's also great is that because there's a huge need, there's room for all sorts of players." Clients will



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always need help with their HR issues, and these issues present opportunities for different types of providers.

Not only is there a place for smaller firms, being a David among Goliaths has some advantages. For instance, larger firms may be challenged by administrative complexity and internal red tape—hassles that smaller firms can more easily avoid. “As a smaller player, you can be more nimble, you can be more flexible...you can turn things around a lot more quickly, [and] you can make decisions a lot more quickly,” says Lis. She adds that consultants in smaller firms often have the additional advantage of having worked “in the trenches”—for example, having experience with the corporate as well as the operational side of a client’s business. Working in various industry sectors and gaining different perspectives gives them a more well-rounded understanding of clients’ issues, says Lis. “It’s good to be able to change your hat and say, ‘I’ve been there; I know what you’re talking about. I believe that’s where many of the smaller consulting firms have an edge—because most of the consultants will have had the hands-on experience that makes them credible to clients.’”

The ability to work more closely with plan sponsors and plan members is another potential advantage. Some employers believe that a smaller firm offers a more personal and customized experience. Lori Bradley, manager, HR and payroll, with Extreme Fitness, says she prefers to work with a smaller consulting firm. “I think you get better service—more attention to detail and customer needs,” she remarks. “We have a plan that’s a little bit different, [and] our needs are a little bit different than someone else’s. I need to have somebody who can devise a plan that works for us, instead of trying to fit us into a box that may not meet all our needs.” Likewise, Frank feels the personal approach has worked well with his clients. “The advantage of us being small is that we are very customer-focused; we are very specialized in working right at the employee level,” he says. “People appreciate a very

high-touch, hands-on approach.”

And, at a time when employers are sensitive to costs, there’s always the issue of fees. Lis notes that smaller organizations, given the scale of their benefits programs, may not be able to afford the fees charged by large global consulting firms with greater overhead costs—particularly if the organization seeking help is new to the marketplace or implementing employee benefits for the first time.

It seems that players large and small are comfortable with their positioning in the marketplace. “Overall, I think we’re very happy to be in the place that we’re in,” says Frank. “We’re not looking to make significant changes. We’d certainly like to grow our business, like everybody else. But we’re not going to fundamentally change what we do to try to increase our bottom line.”

Consultant Challenges

Maintaining this positioning, though, isn’t easy. For consulting firms, talent management—attracting, developing and retaining the right staff—remains a key concern. Since a firm’s intellectual capital is its bread and butter, “talent in this field is a scarce and prized possession,” says Beech. And that talent must be nurtured and leveraged appropriately. For example, says Ashim Khemani, chief executive officer of Aon Consulting, firms shouldn’t expect their technical experts to perform well as salespeople or as client relationship managers. “You don’t expect a marathon runner to succeed in a 100-metre race,” he adds.

The “soft skills” of consulting are also becoming more important. The pension and benefits consultant of the future, consultants say, will have both in-depth knowledge of his or her particular area of specialization and strong business acumen. “We have to make sure that all these people stay up to date on the deep subject matter expertise that they need to actually practise in the areas that they practise, but also [have] broader business skills and focus,” says Aselstine. Since clients are beginning to think about pension and benefits plans within

the context of larger HR and business issues, consultants will need to take the same approach. “In order to really seek to understand and help a client with their business needs, we need people who have some broader skill sets—who are able to listen and bring in broader solutions than just the traditional line of business solutions,” Beech agrees.

But in developing these broader solutions, consultants face some legislative and regulatory barriers. Consultants say the current pension environment in Canada is not conducive to customization or innovation. “There are areas that have become overly bureaucratic and overly rules-driven,” says Pitcher. In addition to specific issues, such as compliance with the new accounting standards, retirement consultants and actuaries constantly struggle with the lack of harmonization in pension legislation across the various provinces. “If you really want to make an impact on quantum innovation in DB plans, the legislative climate has to change,” Khemani adds. “It is complex, and it is restrictive, in some respects.”

Finding new solutions also means staying on top of the constant flow of news and information. Most consultants keep a close eye on developments in the U.S. as an indicator of trends that may ultimately extend to Canada. “From the perspective of our industry, that’s really a constant challenge for us—to be very aware and keep our eye on what’s going on not only south of the border, but also globally,” says Lynn MacAdam, national vice-president, national account sales, group retirement services, with Sun Life Financial. With a greater volume of information circulating more quickly online, consultants say it’s hard to keep up. But not doing so could put the firm at a disadvantage. “If you don’t have an interesting point of view or something that’s new or emerging best practice to talk to clients [about], I think your market share can slip quite quickly,” says Aselstine.

More importantly, consultants must be proactive in addressing these new developments and trends with their clients. “The environment in which

business operates today is so complex that managers have to be proactive in identifying problems before they produce visible symptoms,” says Dan Napier, a benefits consultant with Focus Insurance (an independent benefits consulting firm). “Our role is to identify potential problems, discuss and present alternative opportunities, bring them into focus and then assist in executing the options selected by our client.” In a business based on intellectual capital, it’s crucial that consultants remain—and are perceived as—experts in their fields. “At the end of the day, we don’t sell widgets; we sell brainpower,” says Burke. “We sell brainpower combined with the ability to leverage that brainpower across the world.”

Client Concerns

But whatever challenges consulting firms may face, the ultimate focus should be on their clients’ problems. After all, helping employers with their business issues is the consultants’ shared goal.

Not surprisingly, cost control tops the list of employer concerns. In an environment of poor market performance and continued government off-loading of healthcare costs to the private sector, organizations are feeling the pressure to tighten their belts. “The challenge that we face, certainly, is, how do you provide a greater range of benefits or appropriate pensions for your workforce in ways that provide the flexibility but that do not dramatically increase costs?” says Hildyard. She adds that plan sponsors face the ongoing challenge of balancing member expectations for benefits with reasonable cost expectations for the employer—a balance that’s becoming increasingly difficult to find. And there’s no relief in sight: many of these cost pressures are expected to continue. “The economic environment we’re heading into is a tough one,” says Beech, “and the extended spend on pension and benefits and compensation is very large.”

Plan sponsors, therefore, want long-term strategies to help them manage costs and limit risk. In particular, they’re looking for ways to more reliably predict pension and benefits expenses, especially when it comes to DB pension plans and funding levels.

Having weathered the “perfect storm” of low interest rates and depressed markets earlier this decade, they’re not keen to go through that experience again. “We had the perfect storm in the early 2000s...prior to that time, that was perhaps an unrealistic scenario. Now, that’s viewed as certainly a very plausible scenario,” says Pitcher. “The unrealistic became the reality.”

The emphasis on cost control also puts pressure on the consulting industry to keep fees down. “We are in an industry where, when the economy is going down, we can help out; we can add value,” says Jacques Théorêt, worldwide partner and leader with Mercer Canada. “But at the same time, there is pressure on reducing expenses. So it’s a bit of a confrontation of the two.” And for what they do spend on pension and benefits consulting, clients expect accountability, a demonstrable return on investment and added value for every dollar spent. Gone are the days of inflated invoices—consulting firms will need to take a hard look at their own organizations to see how they can work more effectively at a lower cost. “It’s about helping clients [with] controlling the cost of their programs, but it’s also about us, as an industry, working on our efficiency,” says Théorêt.

Dealing with the upcoming demographic shift and predicted labour shortage is another major concern for employers. “I think one of the biggest challenges that we’re certainly seeing on the part of our clients is the aging population and the cohort of baby boomers who are very rapidly going to be retiring from firms,” says MacAdam. “Employers are grappling with resource constraints, and they have high-performing talent that they don’t want to see exiting their organization.” Developing and implementing suitable strategies for attraction and retention is critical. And pension and benefits plans will play an important role in these strategies in the future. “It’s always the same thing—it’s [how to] attract and retain the best talent,” says Jean Guay, senior vice-president, group life and health, with Standard Life. “So they need to make sure that their benefits are up to date and are competitive with the market.”

Engaging employees to ensure that

they understand and appreciate the value of their benefits is one important aspect. Bradley says that getting information out to Extreme Fitness employees—and getting them to see the importance of contributions and what they can do for them—is her greatest challenge. “Our industry has a lot of young people who aren’t really keen on paying attention when you talk about anything like pension or benefits,” she remarks. Lis says the solution to the engagement problem is getting the HR basics right, particularly employee communications. As a starting point, she recommends doing research such as employee surveys or focus groups to better understand employees’ wants and needs—but only if employers are prepared to act on the feedback they receive. “Are you doing enough to communicate to plan members? Are the plan members interested in that communication? Are they responding appropriately to it? That continuum of challenge doesn’t go away,” affirms Khemani.

Employers are also beginning to turn their attention to what happens when employees do retire: the decumulation or payout stage. DC plan sponsors, in particular, are increasingly concerned about benefits adequacy and retirement income security for their plan members. They struggle with the ongoing challenge of helping employees save for retirement without shouldering the entire financial and risk burden themselves. According to the results of a recent Watson Wyatt Worldwide survey of employers on pension risk, says Burke, “the number one threat to the sustainability of DC plans [is] insufficient savings to retire.” However, the industry is responding with solutions such as auto features and target date funds, and it’s likely that we’ll see more such developments in the future. “As people move from the wealth accumulation phase into the disbursement phase, you will see an increased emphasis on more products and services for them,” says MacAdam. “And that trend’s going to continue.”

A New Consulting Model

What do all of these issues mean for the pension and benefits consulting industry in the future?

Given the ongoing emphasis on cost control, consultants say we'll see stronger links between the finance and HR functions of a client's business in the future, and consultants will help facilitate this. "I think that's where we, as consultants, can play a very integral role—in helping to relate those interests," says Pitcher. "Because, at the end of the day, they're going to be different, but the end objective is very much aligned."

To this end, it will become more important for consultants to provide comprehensive research and tools. Consultants say their clients are increasingly asking for ways to help them model the effects of changes to benefits and plan designs, manage continually escalating costs, benchmark their plans against the competition and measure their return on investment in pensions and benefits. "Given those overriding people and business issues that our clients are faced with, we're being asked more than ever before for research—for guidance based on fact-based research and data, understanding trends [and the] prevalence of what other organizations are doing," Beech affirms.

If finance becomes more involved in benefits-related dialogue and decision-making, a retail or consumer-based approach to benefits is another possible trend. In the future, some say, employers will act as facilitators for pensions and benefits but not necessarily payers. Their goal will be to share the costs—and the risks—of pension and benefits plans with the employees who use them. "On the benefits side, I think that we'll continue to see the trend that's shifting the cost to employees, but at the same time, giving them much more flexibility in the choice of their benefits," Guay agrees.

And there's a logical tie-in between viewing the employee as a consumer and attempting to influence employee behaviour in a positive way. Following the recent trend toward health and wellness in the U.S., consultants believe that we'll see greater emphasis on prevention through wellness in Canada, too. "Rewarding for positive behaviours—we're going to see more of that, but with a focus that is broader than that, so that rewarding for healthy behaviours is going to have good cost implications and good health implications," Billinger adds.

Since the workforce is becoming increasingly diverse, strategies to better address multi-generational and multicult-



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tural needs will come to the forefront. Aselstine says that organizations will need to customize their benefits more in the future. "While one-size-fits-all is simpler from an administrative standpoint, it's not the answer when you look at optimizing results," he says. "So we are seeing a lot of organizations struggling with what is the balance between the administrative efficiency of one-size-fits-all versus the need to compete in the war for talent and have customization that recognizes the unique and valid needs of employees across some very different business segments."

And, given the anticipated labour shortage, the employee—not the employer—will be in the driver's seat. "The other thing that's become critically important, that wasn't part of traditional consulting, is understanding the employee perspective," says Aselstine. He adds that it's very important to anticipate and plan for employees' reactions when considering changes to benefits or to the plan design.

Some of the changes that consultants and their clients would like to see will only be possible through legislative reform. Pension consultants and actuaries won't say exactly what they're expecting from the Ontario Expert Commission on Pensions and other related initiatives. But they're hoping for increased flexibility from a plan design perspective and better harmonization of pension legislation across the country.

Pitcher, for one, is hopeful that the various commissions' results will open up room for alternative vehicles—for example, flexible pension plans, hybrid plans and the new tax-free savings account. "What we're looking for, from the legislators, is having an environment that will allow this creativity to flourish." More flexible legislation would give plan sponsors more options for designing and delivering pension benefits. "That's what most of us in the business want," says Burke. "We just want plan sponsors to be able to have a reasonable choice of vehicles that best meet their needs and not be driven one way or another because of inappropriate

regulation or legislation."

Steve Gendron, principal with Eckler Ltd., is also optimistic that we'll see some tangible results. "I think everybody's on the same page; it's just a matter of getting some consensus. I think it's going to be an interesting time over the next three to five years, as to how we all go about achieving that common objective."

The business model for pension and benefits consulting will also evolve into a more open and collaborative approach, consultants say. Since clients are looking for help with a wider spectrum of business issues and HR challenges—which may involve diverse areas such as communication, administration, compensation and total rewards—a range of resources will be needed. This means we'll see more collaboration between different providers in the future, even if they're direct competitors. "We may, as firms, compete with one another for a client's business, but at the end of the day, we all have a common interest," says Pitcher. Consulting firms will need to work more closely with other consultants, insurers and service providers because their clients will demand it. "It's for the best interests of our common clients," says Guay. "So we won't have the choice—we'll have to work in collaboration."

The benefits for the plan sponsor are clear. But if the consulting business is truly all about the client, then all parties should support this shared model. "If we're all there for the same reason—which is to provide the best solution we possibly can for an organization," says Billinger, "then the solution is going to be superb."

Create a co-operative environment in which competitors work together to solve a client's broad-ranging business issues? Now that's a bright idea. **BC**

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