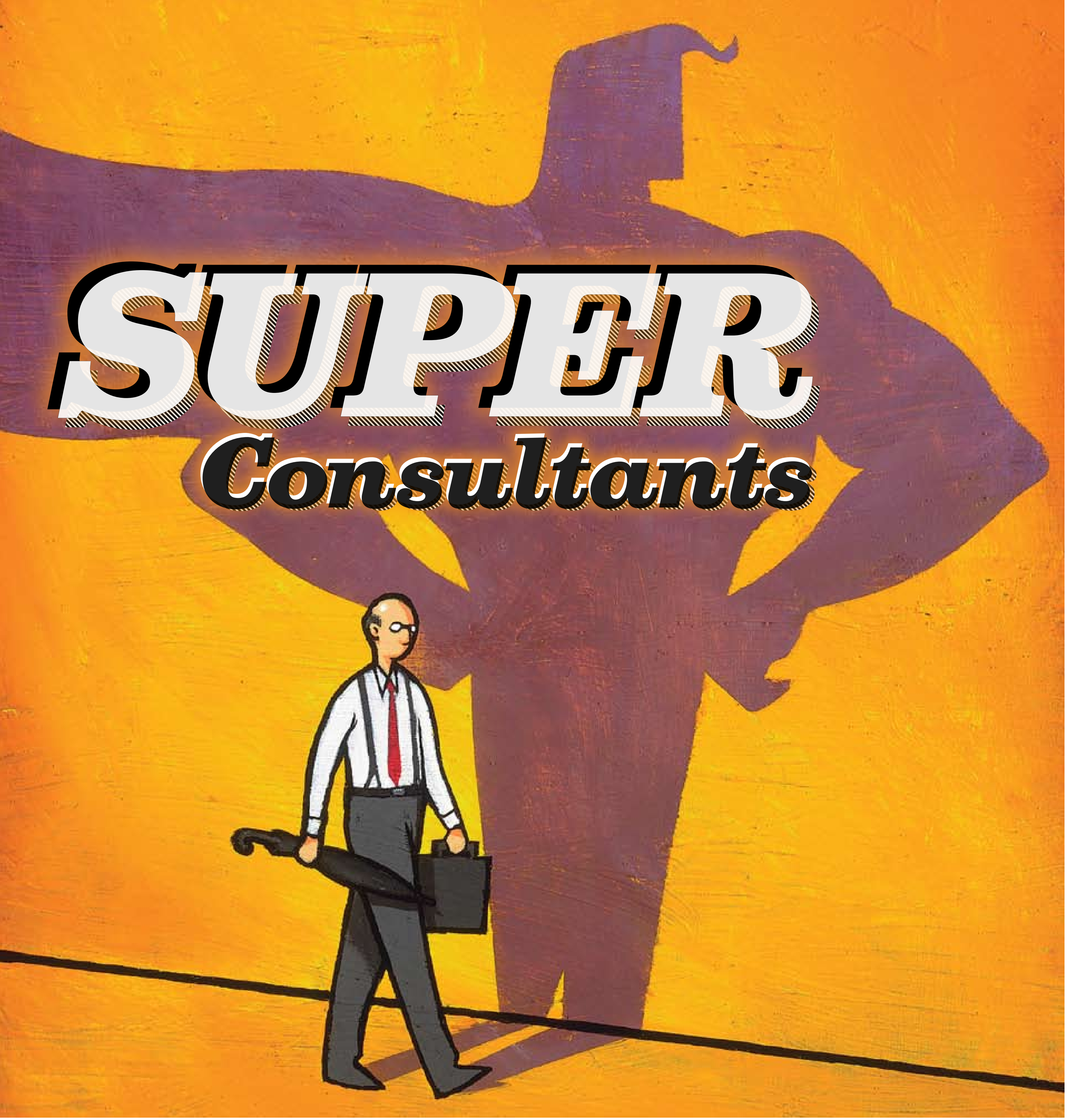

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SUPER Consultants

To resolve client challenges, is it large firms to the rescue or do smaller firms still have powers?

By ***Brooke Smith***

We've seen consolidation across a range of service providers in recent years, including insurers and custodians. Now it's the consultants' turn. Towers Perrin and Watson Wyatt joined forces to form Towers Watson (14,000 employees globally), completing the transaction in January 2010. And in October 2010, Aon Corporation completed its acquisition of Hewitt Associates to create Aon Hewitt (29,000 employees globally).

Leaving fewer players in the pension and benefits marketplace, this consolidation has also given rise to the "super consultant": moving innovative thinking forward faster, more powerful at the global level, with robust resources and research. But just how super is this super consultant? And how are smaller players reacting?

Living Large

While a merger typically has a financial benefit for the newly created firm and its shareholders, merging is not simply about the bottom line. There are also competitive advantages relating to scale, expertise and resources.

"Both Aon and Hewitt were global, but now we're in an even stronger position to support our global clients," says Brendan George, region director, Western Canada, with Aon Hewitt. The legacy firms were doing great work independently, adds Sarah Beech, region director, Central Canada, with Aon Hewitt, but their combined strength has enabled them to bring broader expertise to various areas. She points to changing drug legislation as an example. "We have teams [working] together; we have analytics working together. We've already brought the strategies and solutions to market across the country in the form of breakfast seminars and meetings with our clients."

Joseph Ricciuti, managing director for Canada with Buck Consultants, says another advantage is the ability to tap into more resources to conduct research. "When you're small, it's difficult to allocate time and resources to do meaningful research. The recent mergers, including Buck–Xerox, afford the bigger organizations the ability to continuously innovate and differentiate their products and services."

All of this can bring a competitive edge to the larger merged firms, but where does that leave the smaller players? Todd McLean, a principal with Eckler Ltd. (with a staff of 250), doesn't think the consolidation will have a significant impact on the mid-size, boutique and regional firms. "Industry mergers to date have been largely between firms that are quite sizable and global to begin with, so I'm not entirely certain what new advantages such mergers will bring to clients," he says. "The big firms are getting bigger, but our clients still prefer the highly personalized touch they experience when dealing with a smaller, boutique type of firm."

Michael Worb, president and CEO of Pal Benefits Inc. (20 employees) adds that the recent consolidation has created opportunities for boutiques and regionals. "Because the consolidated firms have gotten so large, it's very difficult for them to get into the mid-size market—where the regional players flourish—and to get into it profitably."

"When you're small, it's difficult to allocate time and resources for research"

Joseph Ricciuti, managing director, Canada, Buck Consultants

Consolidation Challenges

Of course, any merger comes with its own internal issues, including technology. Kevin Aselstine, managing director for Canada with Towers Watson, admits that tech issues don't enable employees to work as efficiently as they would like. George adds, "There are challenges when operating under two systems. The key is to try to reduce or eliminate the impact it has on your day-to-day working life while you're waiting for an integrated system." But Aon Hewitt is making good progress, he says, as its separate financial systems have now moved to a single system.

Another challenge is consolidating locations. Towers Watson combined its Vancouver offices back in October 2010, 10 months after the merger. "It wasn't really until October that we started gelling as a team—when people really started working together," says Laura Samaroo, managing consultant in Towers Watson's Vancouver office.

Working together in a merged firm also means adapting to a new workplace culture and changing the mindset of employees. "How do you work with people you were competing so heavily with historically?" asks George. But he adds that this has proven relatively easy in the Aon Hewitt experience.

From Towers Watson's perspective, Samaroo adds that to effectively manage internal changes, communication is critical. "You just cannot communicate enough, especially on the personal, local and face-to-face levels."

Small-time Opportunities

Most consultants think further consolidation among the larger consulting houses is unlikely, but that does not stop the acquisition of smaller players. Eckler, for example, has been a potential acquisition target, but to date it has declined any offers, preferring instead to remain an independent consultancy. Worb has also seen some of Pal's peer companies in the U.S. consolidate (in January, for instance, Mercer acquired investment consulting firm Hammond Associates)—a trend likely prompted by the challenges that come with being small (e.g., less access to comprehensive data to help clients make decisions). "If you read the financial statements of any of the public companies, their margins are very thin, and they need to get bigger in order to survive." Mid-size and smaller consultants have to work harder to provide the extra touches (e.g., great customer service, strong relationships) that get—and keep—clients, Worb adds.

But being small has its advantages. Worb says Pal, as a privately held and much smaller organization, can manage costs a little more effectively, since it doesn't have the overheads of some of the larger players. There's also the nimbleness factor. "We can listen and respond to our clients a lot quicker," he says. For example, a friend of Worb's working at one of the major firms says a request for proposal (RFP) may go through three or four channels and two or three different reviews. "When we do an RFP, it must also be reviewed by a number of people, but decisions are made fairly quickly," Worb adds.

A People Business

When a firm goes through a major merger, it must not lose sight of the clients it serves or it could risk losing business, says Ricciuti. "It's a slippery slope because the natural tendency is to focus inward on operational efficiencies and cultural harmony. The result can often produce disruptions in client-facing relationships that impact work quality and service delivery."

Consulting is a people business, and Worb adds that talent lost to mergers can be discouraging to clients. "It's leaving some customers wondering how they will be served. Will it be by a junior consultant?" Both Pal Benefits and Eckler have gained some new business. "It's usually [plan sponsors] that are expressing some frustration in being either pulled back to an organization they don't want to deal with or just the distraction of the merger," says McLean.

For Aon Hewitt's part, while there have been layoffs at the corporate level, Beech says the talent loss on the front-line consulting staff has been nominal. "We really have had a complementary business as opposed to an overlapping business." George adds that Aon Hewitt is in a "growth mode," hiring in all of its practices. "We've added a significant number of people since the beginning of the year and probably [will add] about 5% of our workforce in the coming year." Aon Hewitt has also been successful in winning new business since the merger, Beech says. "There are examples I've worked on where we are much better positioned with a breadth of experience to serve new clients, as well as existing ones."

Plan Sponsor's Perspective

What does all of this mean for consultants' clients? Consolidation should not affect plan sponsors at the sponsor level or at the member level, says Sandy Warmington, benefits and HR administration manager with Ricoh Canada Inc. The challenges that come with any merger should not be "visible" to the plan sponsor, she adds, and "there should be no change in the level of service or quality of service that the plan members (employees) are receiving."

Plan sponsors build relationships with their consultants over time, Warmington explains—relationships built on trust and synergy. In a merger situation, she says the only reason a plan sponsor may remain with its consulting firm is the quality of the individual consultant or team. If the consultant is not the right fit—or is not able to provide that level of service—the plan sponsor may very well send out an RFP. "That's how important the role of the consultant is."

George says Aon Hewitt's clients have been positive on the merger for the most part, but he does so with a qualification: "As long as we don't change their teams or the people they deal with or reduce the service level."

Big or small, maintaining close relationships with their clients is paramount for consultants. And the merger experience may have given the super consultants some insights into what their clients are facing. Consolidation has been an interesting experience to go through from the "other side of the fence," Aselstine remarks. "I have had a number of clients very keenly interested in how our merger activities were going. Many, tongue in cheek, have said, 'We're watching you.'"

Brooke Smith is managing editor of *Benefits Canada*. brooke.smith@rci.rogers.com

Merger of the Minds

An inside look at Towers Watson's new global total rewards strategy *By Sheryl Smolkin*

A major challenge for those designing Towers Watson's new Canadian retirement program was that there were more than 400 benefits-savvy associates looking over their shoulders. Towers Perrin and Watson Wyatt announced their merger in June 2009, with a January 2010 closing date. Work started on developing the merged consulting firm's new pension plan in April of last year, and it was rolled out to associates in October. At the same time, other components of the Towers Perrin and Watson Wyatt total rewards programs were harmonized.

"We've had a lot of positive feedback from clients on coming to market quickly and effectively as the merged Towers Watson," says Nancy Forsyth, Towers Watson's HR director for Canada and Latin America. "Because we believe in the strong correlation between engaged associates and client satisfaction, we were really committed to a fast internal pace of rewards integration."

In order to align with the merged company's business and workforce strategies, Forsyth says the new global total rewards strategy (including the benefits plans) is based on four key elements: ensuring that the benefits are competitive; giving employees choice to tailor their plans; sharing responsibility between employees and Towers Watson; and providing a transparent process.

Managing Legacy Plans

Prior to the merger, Towers Perrin gave employees a choice between a non-contributory final average DB plan and a DC plan with a company match. The vast majority of the company's employees elected to participate in the DB plan. Unreduced early retirement was based on the "rule of 85" (age + number of years of service = 85), and retiree non-pension benefits were mainly employee-paid.

Watson Wyatt associates were members of a non-contributory final salary DB plan with an early retirement age of 62. There was also a flexible contribution account and an employee profit sharing plan with company contributions based on profits. In addition, retirees had company-paid health and dental benefits.

Both companies had a supplementary employee retirement plan (SERP) for employees who earned in excess of the Canada Revenue Agency maximum. The Towers Perrin SERP was paid out in lump sums over four years after retirement; the Watson Wyatt SERP was paid out as an annuity in monthly instalments.

Towers Watson Plan Design

In designing the new retirement program, Towers Watson's retirement growth leader, David Burke, says, "We didn't look in the rear-view mirror. Towers Perrin and Watson Wyatt don't exist anymore. We aimed for best practices that will work for Towers Watson." The design team included experts who came from both legacy organizations, led by Burke (formerly of Watson Wyatt) and senior actuary John McIntosh (formerly of Towers Perrin).

The new program had three global objectives: cost neutrality, reduced financial volatility for the company and a benefit that was targeted more toward retirement income than a termination payment. In addition, because of the firm's regional North American business structure, the new program had to be consistent with plan design principles in the U.S.

After broad consultation with senior management and a cross-practice

> ***"We have an educated workforce that understands pensions, and we had to be able to respond to a broad range of very detailed questions"***
>
> **Nancy Forsyth, HR director, Canada and Latin America, Towers Watson**

employee focus group, Towers Watson's senior management approved the following elements in its plan design:

- an integrated career average plan (i.e., based on earnings over the member's career with Towers Watson);
- lump sum transfers available to employees of all ages when terminating employment or retiring from the company;
- a normal retirement age of 62;
- a company match for employee contributions to a savings plan;
- a flexible contribution option so that employees can make tax-sheltered contributions to buy up to a final pay benefit or purchase other ancillary benefits (i.e., indexing, unreduced early retirement); and
- a SERP paid out in a single lump sum at retirement or termination.

Non-pension retiree benefits were eliminated completely for new hires and existing employees who are not eligible to retire by 2016. Current employees who remain eligible for post-retirement medical benefits are covered by provisions similar to the original legacy programs.

Meeting Company Objectives

Despite the trend toward DC, Burke explains why Towers Watson rejected a straight DC plan fairly early in the process. "We believe that, given the profile of our population and in view of our business priorities, a properly managed DB plan is a better retirement vehicle than a DC plan alone. Also, one of our objectives was to place more weight on retirement benefits than on termination benefits, and this would have been more difficult with a DC plan."

The value of a career pay plan versus a final pay plan depends on a number of factors, but Burke says a reasonable working assumption is that a given career pay plan formula equates to roughly 70% of the benefit accrual under an identical final pay plan formula.

From the company perspective, a career pay plan design reduces volatility because eliminating the link to final pay effectively removes all risk aspects relating to pay increases and inflation risk. While lump sum payouts can introduce a potential cost to the organization (since the calculation is based on bond yields and tends to be lower than the expected return in a pension fund), allowing lump sums will increase cost predictability.

Burke concedes that a brand new DC plan would be less volatile than Towers Watson's career pay plan but says that in plan conversions, most plan sponsors move to DC only for new hires. As a result, volatility will not be reduced to any significant degree for 15 to 20 years through design changes alone.

New Plan Rollout

The Towers Watson retirement program came into effect on July 1, 2011, for associates hired in 2011, retroactive to their hiring date. Associates hired before that date will join the new plan as of Jan. 1, 2012, with benefits for all previous service continuing under either of the legacy plans.

While new benefits plan design rollouts are frequently viewed as an HR or finance responsibility, Forsyth says Towers Watson's senior leaders embraced the changes and made presentations in every Canadian office. "Of course, the first question on everyone's mind was, How do the changes impact me? But with an effective rollout strategy that recognized this as both a communication and a change management challenge, people were able to accept the changes and began to understand that the new program reflects what is happening in the market with their own clients."

Because the pension plan redesign was just one part of a merged benefits and compensation strategy, Forsyth says there were no real winners or losers. "We did an analysis of overall total rewards, including cash, health benefits and retirement, and, in aggregate, the impact as a result of the changes was minimal on an individual basis." Nevertheless, she believes that communications were critical in setting expectations for the associates and then delivering on those expectations. "We have an educated workforce that understands pensions, and we had to be able to respond to a broad range of very detailed questions."

Burke acknowledges that people are naturally change-averse and that it took time for some employees to get on board with the new program. And, given the company's benefits-savvy workforce, many of the questions during the launch sessions were quite challenging. However, he says, "I think now if you ask people if the new merged pension plan makes sense in view of our objectives and the marketplace we are in, most would say yes."

A Different Approach

Burke says the final plan design would not have changed, but given more time, Towers Watson would have put more thought into considering the unusual situations and how best to effectively communicate to employees.

Forsyth and Burke agree that a standard integration usually takes much longer, but both say it was crucial to move as quickly as possible, given that removing uncertainty is an important aspect of a merger's success. One reason they could fast-track the process was the internal support from other Towers Watson practice areas, such as communications and investment consulting. Plus, assisting clients with program harmonization in mergers and acquisitions is a core Towers Watson competency.

"I'm satisfied with the way our thinking evolved and that we developed a plan that is appropriate for our business," Burke concludes. "Having gone through this process for our firm has made me, and everyone else involved, a better consultant. We were able to walk in our clients' shoes."

Sheryl Smolkin is a lawyer, writer and editor based in Toronto.
sheryl@sherylsmolkin.com