DC plans coming of age

JEFF CHAN

By *Sonya Felix*

Defined contribution pension plans in Canada are maturing quickly and becoming more sophisticated. Contributions and plan assets continue to grow, investment options are evolving and many employers are now operating in multi-generational workforces with a wave of employees who are nearing retirement.

How plan sponsors can respond to the evolving landscape was a key focus of *Benefits Canada*'s Defined Contribution Plan Summit in Vancouver in February. With case studies, panel discussions and interactive workshops, the conference explored the shifting environment and possible solutions to the challenges plan sponsors are facing.

CANADIAN CASE STUDY

ATB focuses on flexibility in pension redesign


DEBBIE COUCH

The pension and benefits industry often talks about flexibility and customization of plans, but how many companies are actually changing their offerings to introduce those elements?

ATB Financial is one company that's taking action on the issue following its pension redesign in recent years.

"The most relevant strategic driver for reviewing and redesigning our pension plan was to help our team members build personal equity," Debbie Couch, leader of total rewards at ATB Financial, said during the Defined Contribution Plan Summit. "Our challenge is to provide something that can be delivered as a consistent program and allow members to customize according to their needs and personal circumstances."

Prior to the redesign, ATB had five pension plans for 5,000 members, including a mix of defined contribution and defined benefit plans, as well as a public service pension not controlled by the company. "The result was a high level of complexity with high costs and a plan structure [that was] not equitable," said Couch. "In most cases, our team members did not value the benefits."

After an in-depth review, ATB decided on a flexible pension plan. "It made the most sense, as it is both affordable and allowed our team members to derive maximum value over their life stages," said Couch.

Core contributions go into the defined contribution plan. But employees then have the option of a flexible component with the ability to direct contributions to mortgage repayment, registered retirement savings plans or education savings. The plan allows them to accumulate up to 18 per cent of their pensionable earnings, with two-thirds of that contributed by the employer. "It is all based on their own current life situation and provides a more holistic view to financial wellness at different stages," said Couch.

At enrolment time, more than 90 per cent of eligible employees actively joined the new plan, with 88 per cent opting for the full matching contributions.

"We're completely satisfied with how the new flexible pension plan supports our corporate goal and strategies," said Couch. "One lesson learned is not to underestimate the role your pension or benefits plans play in attracting talent to your organization."

INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: Nadia Darwish, vice-president of development, marketing and investment strategy; and Karrina Dusablon, national vice-president of business development, client relationship and member experience, at Desjardins Insurance

Topic: Is talking retirement readiness enough to draw employees' attention to their DC plan?
The consensus among participants was that when focusing on retirement readiness, there's a need for a broader discussion about promoting financial wellness, said Dusablon. "We need to make financial literacy a key component of our educational system early on, if we are to have an impact on member outcomes."

Key takeaways:

- Each individual is at a different point in the engagement spectrum. Communications should involve multiple touch points and focus on specific needs to encourage success.
- Although concerns about litigation and risk remain, there's an increasing focus on whether financial wellness should be an extension to the program and whether a third-party provider should offer it.
- Plan sponsors want to be able to choose from a range of services and solutions so they can determine what's appropriate for their organization's culture and their members' specific needs.


JEFF CHAN

DC INVESTMENT SPOTLIGHT

Optimizing the member's journey to retirement

SHAWN COHEN

While many defined contribution pension plan members have similar objectives around retirement readiness, each person's journey to reach the goal will be different. During his presentation at *Benefits Canada*'s Defined Contribution Plan Summit, Shawn Cohen, director of relationship management at MFS Investment Management Canada Ltd., discussed how to incorporate the journey into the investment experience offered to members.

Generational differences are just one of the reasons why plan sponsors should consider the type of investment profiles that best represent the cohorts in their plans and what type of investment experience may be suitable. "Millennials may have faced one or two significant market downturns in the bursting tech bubble and the global financial crisis," said Cohen. "This has made them far more cautious investors when compared to the boomers and gen-Xers."

Cohen described three different investment profiles — defensive, benchmark-aware and total return — to consider when designing and evaluating a plan's investment platform. A defensive profile may be appropriate for millennials, given their cautious nature and fear of significant losses in down markets. An investment platform with a defensive profile would include investment managers who, due to their management style, tend to protect in down markets. Such a platform could also offer low-volatility investment options.

While generational differences are one consideration, others may exist. Cohen said those employers with an engaged and investment-savvy population may consider a total-return profile focused on delivering strong market returns, while recognizing significant underperformance can occur in negative market environments. Highly concentrated investment mandates may be appropriate for such a profile.

Plan sponsors may also look to the characteristics of the investment committee to determine which profile is best. An investment committee that makes decisions about the investment platform based on quarterly performance may be a good fit for a benchmark-aware profile that provides investment options that deliver a similar experience to the relative benchmarks while still having the ability to add value above them.

"Demographics, behavioural finance and investment committee considerations can help to identify the most suitable profiles for your plan," said Cohen. "If you understand the profiles, you will be in a much better position to deliver the optimal investment experience." BC

JEFF CHAN

INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: David Devine, regional vice-president, western region, group retirement services, wealth management; and Christine van Staden, vice-president of national accounts at Great-West Life

Topic: How well are you positioned for the coming of age?
Most plan sponsors agreed that defined contribution plans traditionally focus on those nearing retirement, said van Staden. "But everyone agreed there is a need to take a step back, rebalance the pendulum and look at what we are going to do to support the younger generation."

Key takeaways:

- Everyone is experiencing the challenge of trying to get employees engaged in saving for retirement. Employees can't be forced to take action, but it's important to ensure a proper default option is in place. And while it may be painful, continuing diligence around communications is necessary to meet fiduciary responsibilities.
- Plan sponsors are trying to reach younger employees through new communication strategies, such as mobile technology and welcome calls from plan providers when new people join the organization.
- It's important to leverage data to understand what's happening in employees' lives. Targeting people with text messages, emails or online communications that encourage them to take action can be helpful.

DC INVESTMENT SPOTLIGHT

Dynamic strategies to ensure no one left behind

To leave no one behind, defined contribution pension plans must adapt and innovate. That's the message delivered by Daniel Morris, portfolio solutions manager with Schroder Investment Management Ltd., during his session at *Benefits Canada*'s 2017 Defined Contribution Plan Summit.

A combination of contributions and return on investments determine the end result of plan savings, and it's a given that some members achieve better outcomes than others, said Morris. "A balanced portfolio from the last 30 years looks pretty good, and a lot of people are above the threshold level for retirement savings. But if we look at future returns, outcomes are likely to be significantly worse than historically, and less people will be above the threshold," he said.

"We need to think about those left behind and aim to achieve a minimum income level," he added.

One way plans have adapted is through target-date funds with a glide path using age as a factor. Morris, however, suggested going further. "Think about the market environment we are in. In the past 10 years, returns have flipped around, with high-risk equities not giving the return expected while low-risk bonds have. So how can we allocate and genuinely be dynamic and adaptive to the environment we are in?"

DANIEL MORRIS

JEFF CHAN

Being more dynamic throughout the life cycle can break down some of the barriers around age and current asset allocations. "This gives you a certain dynamic range in the early stage and another dynamic range later and another dynamic range finally," said Morris. "You have different assets in each of those ranges at times and you want to be more defensive closer to retirement. But having more flexibility means you can move away from that age-dependent life cycle in target funds set up."

When it comes to innovation, although everyone wants to get higher returns, nobody wants the risk that goes with them, said Morris. "Risk management reduces return expectation, but if we can bring investment capabilities together and combine investments in a complementary way, we can get more people over the threshold level." BC

INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: Sharon Seifried, national vice-president for corporate accounts, group retirement solutions; and Fraser Wiswell, assistant vice-president for group retirement solutions, at Manulife Financial

Topic: Holistic retirement planning

With the decline of retiree benefits, rising drug costs and government funding constraints, plan members may not appreciate what their health-care costs will be in retirement, said Wiswell. "Plan members without benefits coverage in retirement will need to include ongoing health-care costs in their retirement income planning."

Key takeaways:

- Help employees understand what their health coverage will be in retirement. Those with retiree health benefits are likely aware of the plan, but those without them may have no idea that private coverage will stop upon retirement. In some cases, people may suffer hardship and even delay retirement to keep their health benefits.
- Tools and calculators as part of full financial wellness plans can create awareness of potential health costs and help members prepare by showing the income replacement ratio needed to pay for them.
- There are various ways to cover health costs in retirement, including buying insurance products, self-insurance or savings. There's no simple way, however, to determine what percentage of income someone needs to cover health-care costs.

DC INVESTMENT SPOTLIGHT

The impact of low-volatility equities on DC behavioural biases


TIM CHOE

Behavioural economic biases, particularly among younger and older defined contribution pension plan members, may influence their investment choices and put retirement outcomes at risk, participants at *Benefits Canada*'s Defined Contribution Plan Summit heard. But during his presentation at the February event in Vancouver, Tim Choe, quantitative analyst at Fidelity Investments, suggested low-volatility equities as a solution to behavioural bias.

Although plan sponsors typically have a default option with a target date, Choe noted "some people, despite all the nudges and guidance and ways we try to design the plan to put them in that particular option, still refuse and want to do their own thing."

Millennials are more likely to be risk averse after witnessing significant volatility in the market over the past decade. Instead of equities, Choe said millennials may prefer more conservative approaches that include cash and lower allocations to stocks. Older members, on the other hand, may move away from traditional target-date to non-default options once they have more assets. Rather than protecting their accumulated assets by focusing on bonds, they can become too confident and may decide to manage their funds themselves or put more of their assets into equities.

One option is to offer low-volatility equities for those who avoid the default option. "Low-vol equities have unique characteristics. They have low volatility but are projected to have similar returns to the market," said Choe.

By providing a mechanism for risk-averse millennials and older members who want to invest on their own, low-volatility equities can provide more protection during market declines and better returns than traditional low-risk investments such as cash or bonds, Choe noted. "So low-vol investing could solve some behavioural economic bias issues and promote more successful outcomes." BC

JEFF CHAN

PLAN SPONSOR PANEL: UNIQUE APPROACHES TO ENCOURAGING SUCCESSFUL RETIREMENT

At *Benefits Canada*'s 2017 Defined Contribution Plan Summit, Janice Holman, principal at Eckler Ltd., moderated a presentation highlighting unique approaches three different plan sponsors have taken to help their plan members retire successfully:

Niagara Casinos, a government-owned but privately operated organization with more than 4,000 employees and more than 400 job classifications, implemented an award-winning communications strategy for its plan. "We have many different types of workers and we try to engage everyone on what's happening by using a variety of channels," said Colleen Falco, director of human resources services.

Those channels include social media (Instagram, Twitter and Facebook), the intranet site, digital signage, special events, direct mail, one-on-one meetings and posters. Every two years, Niagara Casinos holds a big event to create buzz around pensions. Money Week, for example, offered a range of support services, including on-site access to an advisor, government pension representatives and a financial literacy seminar for women.

Magellan Aerospace Corp. has about 1,600 employees in Canada. An early adopter of target-date funds, Magellan recently reviewed its programs in Canada with an eye to improving outcomes, said Jo-Ann Ball, vice-president of human resources. "With an evolving economic environment, we wanted to change the conversation from building wealth to building retirement income."

A target-date fund that starts with a high allocation to equities and transitions to mainly fixed income at age 65 isn't going to provide the income retirees need, she said. "We looked at different target-date options and glide-path constructions to go from just asset optimization to an outcome-based approach."

The Co-operators Group Ltd., a financial services company with 4,500 employees, started its plan in 1979, undertook a major restructuring in 1990 and now offers a customized option to members. "Co-operators has generous contribution rates, so many members have significant pension assets," said Mike Dodd, director of pensions, treasury and shareholder services. "But when they retired, they tended to move their money to a local financial institution where they paid higher fees."

To help retirees preserve their income for longer, the Co-operators decided to offer members a group retirement product through a sister company. "We keep the assets within the Co-operators Group of companies, and our members benefit from a retirement income product with a lower fee," said Dodd. "Reducing fees can have a positive impact on retirees by increasing their income by three to five years." BC


FROM LEFT: JANICE HOLMAN, COLLEEN FALCO, JO-ANN BALL AND MIKE DODD


JOHN FARRINGTON

AUSTRALIAN CASE STUDY

Fund shares details on new option to help members deal with lump sums

As it is in Canada, member engagement is a buzzword for the defined contribution pension plan industry in Australia.

But engagement doesn't go far enough, said John Farrington, executive officer for corporate relationships at the Equip superannuation fund in Australia, during his presentation at *Benefits Canada*'s 2017 Defined Contribution Plan Summit. "I think engagement is rubbish. I want people to be married to me and stay forever," he said.

Farrington went on to describe the ways Australia's pension industry is tackling the issue. First is the growing use of data analytics. "Previously, we had only very blunt tools to know the gender, age and occupation of members," said Farrington. "Now, we use a data warehouse to consolidate data from member record-keeping systems, call centre interactions, website usage, attendance at education seminars, financial planning appointments and survey responses, to get a much clearer picture. By building a psychographic profile, we can target communication that is so much more personalized and relevant."

The provision of advice is another opportunity. Farrington noted big pension plans have responded by hiring their own teams of planners, providing advice on single issues, increasing workplace educational sessions, boosting the number of pre-retirement seminars and offering online educational videos, calculators and robo advice.

Many members don't know what to do with lump-sum payouts because they don't get professional advice, said Farrington. "We needed a new, smarter option and we came up with a new product for people who don't know what to do with a lump sum."

His organization's new product puts 21 per cent into a cash option, 39.5 per cent into a conservative option and the other 39.5 per cent into a growth option. It pays seven per cent from the cash bucket every year. At the end of the year, earnings from the growth and conservative buckets — if they're positive — top up the cash bucket and the cycle repeats.

"We realize it's not a silver bullet, but it's pretty simple. Members understand and trust it," he said, adding it's another way to help members have income in retirement. BC

INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: Jeremy Evanson, partner, administrative solutions practice; and Michelle Loder, partner, defined contribution solutions, at Morneau Shepell Ltd.

Topic: CPP expansion and the coming shift for CAPs

Once the new Canada Pension Plan benefits take hold, the income replacement ratio will increase to 33 per cent from 25 per cent, said Loder. "Given this, and in light of the increased premiums that will also be required from both employers and employees to the CPP, DC plan sponsors should reconsider the design of their programs and the positioning of them in relation to the government programs to best assist their members in making the best-informed decisions about the levels of contributions they make and investment strategies needed to meet their retirement income goals."

Key takeaways:

- With the CPP changes rolling out in phases until 2025, the defined contribution industry has time to think about what the implications will be for different segments of the workforce.
- Communications to plan members should focus on setting a goal for retirement income and helping employees understand what they can expect from government benefits and how those programs may affect the contribution levels and investments they choose.
- The pension industry needs to discuss what retirement plans are aiming to deliver and the considerations for positioning them in relation to government programs.


JEFF CHAN

DC INVESTMENT SPOTLIGHT

Tracking the DC model's ongoing transition

Across the globe, the defined contribution retirement model is in transition on a number of fronts. Jean Young, senior research analyst at the Vanguard Group Inc.'s Centre for Investor Research, spoke at *Benefits Canada*'s 2017 Defined Contribution Plan Summit about several big issues plan sponsors face as they help prepare their employees for retirement.

In recognition that many plan members don't have the skills or desire to choose their own investments and manage their money, target-date funds will likely dominate 401(k) plans in the United States within a few years, said Young. Although target-date funds show some promise for better outcomes, debate continues about the structure of the products.

Another major issue is the need to broaden the framing of retirement saving to income adequacy from accumulation. "The three-legged stool is no longer the case," said Young. "Today, it is very complicated, because each household comes to the table with a different mix of assets — everything from home equity and personal savings to DB pensions, health savings accounts and education savings. And there isn't a simple solution for how to translate these assets into retirement income."

Globally, defined contribution plans are increasingly becoming the norm, with an emerging consensus in several areas. In regards to contributions policy, for example, there's a growing awareness that mandatory or automatic features are necessary to encourage higher savings rates. But that puts even more emphasis on setting defaults properly. Another issue is the need to "port over the institutional pricing of DB plans into DC plans so individuals can retain more," Young added.


JEAN YOUNG

JEFF CHAN

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INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: Mazen Shakeel, vice-president of market development for group retirement services; and Sharon Vanderwerff, regional vice-president, western region, group retirement services, at Sun Life Financial

Topic: Focus on retirement income health, not retirement wealth
A growing number of people aren't retiring until their late 60s or early 70s, in many cases because they don't have the retirement income they need, said Shakeel. "If insufficient income is the issue, then delayed retirements may be the canary in the coal mine for DC plans. Sponsors need to understand and help members understand early whether they are on track to achieve a meaningful standard of living."

Key takeaways:

- Regular retirement income projections can help members understand outcomes while there's still time to do something about it.
- While matching contributions can help members save, focusing on the match may be misleading if members think that's all they need to do to achieve a level of retirement income plan sponsors think is appropriate for them. Members need to recognize the match alone isn't nearly enough to generate sufficient retirement income.
- It's important for plan sponsors to measure what they can using the information they have, focus on actions that have an impact and identify the types of interventions that will lead to better outcomes.