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ACTION FIGURES:

CONSULTANTS ARE CLOSING THE GAP BETWEEN THEMSELVES AND PLAN MEMBERS

By *Sara Tatelman*

A consultant's role was historically a passive one, says Martin Leclair, who recently left a role at Toronto-based consulting firm Proteus Performance Management. The consultant's role centred on the various aspects of developing pension and benefits plans for employers, from choosing fund offerings and implementing target-date options and automatic enrolment to decisions about formularies, step therapy and mandatory generic substitution.

"Things are getting more complicated," says Leclair, now an institutional portfolio manager at Phillips Hager & North Investment Funds Ltd. "Returns are lower, interest rates are super low, and now we realize that, most of the time, the contributions are not even high enough to compete against a defined benefit plan," he says, referring to the retirement side of the business. "Now, you have to add this little piece that I would call member engagement or member experience."

Communication with plan members can take many forms, from designing custom newsletters to one-on-one sessions, and it's up to the employer to determine whether to involve a consultant and, if so, by how much.

"Some are happy to just leave it at the recordkeeper level and not involve a consultant, and it's more [to] let members answer their questions through a call centre and that's sufficient," says Dianne Tamburro, vice-president at Accompass Inc. "But others like the independent advice or guidance that a consulting firm [provides] . . . to guide their members and have more of a holistic conversation."

The presence of unions can also change a consultant's role and level of interaction with plan members. The content of education sessions doesn't change, "but [unionization] certainly can be a bigger hill to climb, depending on the nature of the relationship between the union and the employer," says Abbi O'Neill, an account executive at Mosey & Mosey Benefit Plan Consultants. She suggests meeting with union leaders before delivering a presentation so they have a chance to offer feedback.

"It'd be no different than if we were to roll out an education campaign for non-union employees. I normally do it for senior management first — get their buy-in, make sure everything's on side," she says.

"If employers don't trust what you're going out there to say to their employees, it's not going to work."

Breaking it down

Whatever an employer decides, consultancy work shouldn't be reminiscent of the 1980s, when employees sat through hour-long lunchroom presentations each year. In fact, those kinds of sessions may be detrimental, since employees aren't likely to recall the information when they need it, says Jillian Kennedy, leader of defined contribution and financial wellness at Mercer.

"It's really trying to get to employees, based on their level, and engage them in a very different way," she says. "But also we're moving it from the classroom, lunchroom-type format to think of it

OH, SEE? I OWE

Another trend in the consulting space is the use of outsourced chief investment officers for defined contribution pension plans. They select and monitor investment options, help with vendor management and document best practices for governance.

"Plan sponsors need more help," says Jillian Kennedy of Mercer, which offers outsourced services for defined contribution plans. "Sometimes, you sit down with a plan sponsor and it's a learning session on how to even take a look at some of the governance responsibilities. In some of those situations, outsourcing to a consultant and having them manage things on their behalf, from a governance perspective, is very, very attractive."

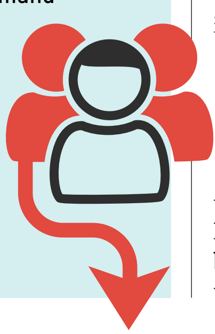
There are, however, downsides to that kind of outsourcing. "If you go the OCIO route in the DC environment, you're at the mercy of whatever that OCIO provider has selected from an investment lineup perspective," says Accompass' Dianne Tamburro. "So there's no level of customization from a plan sponsor perspective to meet the demographic of their employee population. . . . For those that are fine with having slightly less oversight, this might be the right approach."

Plan sponsors that choose to outsource still have a fiduciary responsibility to their employees. According to the Pension Benefits Act, plan sponsors must be prudent when selecting providers and be satisfied they're suitable, says Kathryn Bush, a partner at Blake Cassels & Graydon LLP in Toronto. They also need to supervise the provider, so at least some employees must be comfortable with that.

"You would see typically in the documents that are going to appoint the OCIO . . . an elaborate discussion of the obligation to which that party is subject, and they would normally be asked to agree and acknowledge that their duties and obligations include the standard of care imposed on the administrator of the pension plan," says Bush. She acknowledges that while providers may resist that provision, "that would be what should occur given that the statute is saying two things: that the plan must supervise and that the agent is subject to the standard of care. That would certainly be best practice."

Phillips Hager & North's Martin Leclair notes that delegated services for defined contribution pension plans is a fast-growing market currently served by just a handful of companies. "So any businessman or businesswoman would tell you it's a quasi-monopoly," he says, noting consultants may see merit in trying to take on the big players.

Leclair spoke about the issue while he was still at Proteus Performance Management, which he says doesn't offer outsourced services itself but is benefitting from the increased demand from plan sponsors for guidance to find the right providers. "If there are a few OCIOs out there and more record keepers coming to the market, this is good for us," he says. "This is good for the market. So you will need those fully independent, more traditional DC consultants, for sure. You need them, especially as the market becomes more and more complex. There will be enough room for everybody."



like podcasts — small pieces of information that employees can access at their [own] time at moments where they need to recall the information." The information ranges from breaking down pension-related acronyms to explaining more sophisticated investment ideas such as why interest rates and capital markets are performing differently.

"We're finding the need to break those down to little pieces," says Kennedy.

"It encourages transparency, it encourages regular learning, so they don't [only] show up once a year and they actually access information on a quarterly basis," she adds. Kennedy notes, however, that human resources teams can take the information consultants provide and host their own sessions where employees work through the topics together, rather than endure a lecture from an outsider.

Consultants also have to walk a fine line between offering financial counselling and providing advice. "The demand we're starting to see the most is in digital support," says Kennedy. "How do we get something . . . the end user can use . . . that helps them play with different outcomes, whether that be allocating a contribution rate to a specific plan, helping them with budgeting and savings?" Advice and planning, on the other hand, are still primarily the purview of vendors, she says.

Tamburro agrees, noting her firm helps mitigate potential risk when it comes to the issue of advice versus education by starting each conversation with a risk profile questionnaire. After determining whether plan members are conservative, moderate or aggressive when it comes to investments, it will guide them towards a target-date or target-risk solution. "That way, the plan sponsor knows we're not going to say, 'Oh, get in this high-tech fund today and then get into this oil fund the next day,'" she says. "It's long-term focused and consistent, regardless of the member that calls. We won't go so far as to say, 'Buy this ABC fund,' so that the plan sponsor knows that we're giving diversified options to all members."

While Tamburro can't take action on behalf of plan members, she will explain each step of making the transaction happen through the record keeper's website and she may even sit in on a call with the insurance company to ensure the conversation goes smoothly.

Scaling up?

Some smaller pension brokers and consulting firms are already offering advice, however. "Some of these pension brokers, they have a retail arm so they have fully licensed investment advisors and they've been doing retail work and maybe it's 90 per cent of their business," says Leclair.

"And occasionally, they have this smaller group RRSP, maybe a DC plan, and they do offer it," he adds, noting there's usually a pre-existing relationship between the broker and the business owner.

"So there is a comfort for the employer to provide his . . . 25 employees with that service."

He also points to a pitch at his former consulting firm that hinged on the availability of advice. "We lost it and a broker won it precisely because the employer wanted the consultant in that case to offer advice," he says. "And we said, 'No, we're not going to do that. We won't sit down and tell them what to pick.'"

Leclair isn't sure whether the business model that suits small employers and brokers with a strong retail arm could scale up to work for large companies and consultants. "It's only a handful of employees, there's a relationship with the pension broker, [so] it's fine," he says. "But if it's fine, can you take this and magnify it a little bit and offer the same kind of structure to a company with 1,000 employees and then 10,000 employees? Maybe there's an experience that should be transposed to the larger plans. I don't know."

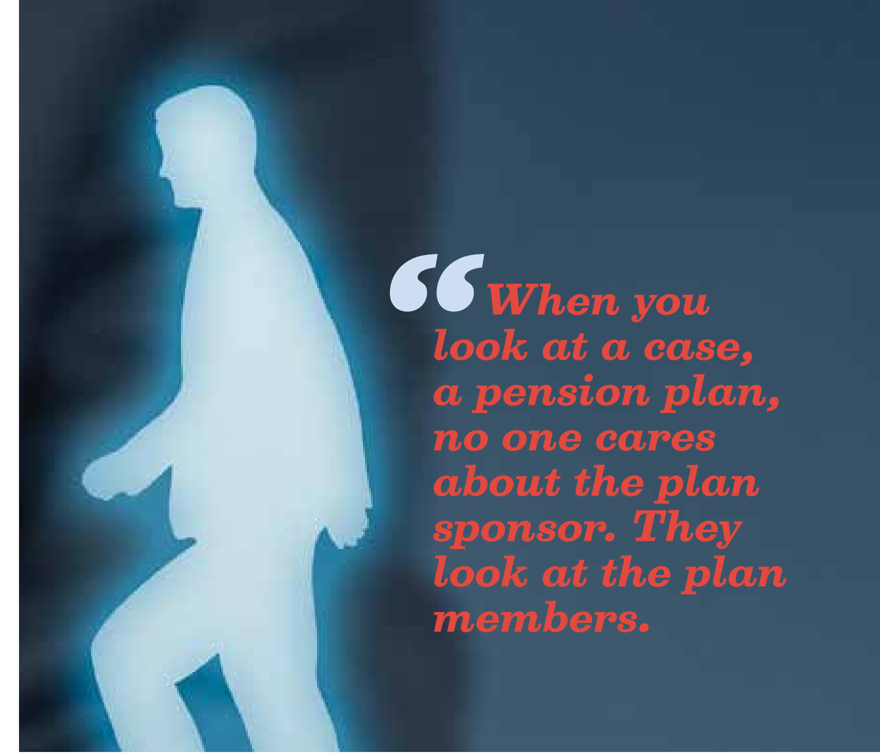
If consultants were to offer more hands-on advice, they'd need to have additional registration and licensing, he adds. "As soon as you deal with retail investors, there's a whole bunch of disclosures that you have to have. You have to do proper [know-your-client checks]. It gets complicated. And I'm not sure there's a lot of appetite for complexity," he says, acknowledging that consultants are looking to diversify their revenue streams.

"The overarching challenge or consideration is that as soon as you talk about plan members . . . you're talking about the main point of focus of every single industry participant because this is where the money is," says Leclair, noting that as defined benefit pensions give way to capital accumulation plans, members gain more control. "So how do you access that person and make money by doing so? When you look at a case, a pension plan, no one cares about the plan sponsor. They look at the plan members."

Reading numbers

A major challenge facing consultants is plan members' level of financial literacy. "People don't even understand how to designate a beneficiary," says Bill Watt, principal at Aptus Benefits Inc. in Vancouver. "We've got a lot of single parents, and they've got a group life insurance policy. It's going to give a quarter of a million dollars out, and they've named their children who are minors and they haven't appointed a trustee."

Watt notes some plan members think they're ready to retire with just $200,000 saved, while others have socked away $2 million but still feel the pressure to work. "And these are the very, very basic things



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that people need help with."

So for one client, Aptus consultant Joanne Woodrow visits the workplace every month. "They have a sign-up sheet for the day and people will sign up for 20-minute, half-an-hour sessions just to say, 'OK, maybe I'm 60 this year [and] I'm going to retire pretty soon. What happens to my pension or my RRSP? What happens to my life insurance?'" says Woodrow. Employees may feel more comfortable approaching her instead of their human resources or payroll manager because they don't want to go over personal information with a colleague, she notes.

That privacy consideration is especially true when it comes to health benefits.

"Whenever I'm in front of the employees, it's always preferable to have a plan sponsor representative there, [such as] HR . . .," says O'Neill. "But that can ring some alarms for some people around privacy, so I always offer up myself as a resource for personal conversation. But we also make sure we convey to them, depending on who their carrier is, how they can reach out and get information."

Of course, some workplaces have many employees who work remotely or at a variety of locations and on different shifts. "I've done my time at 5 a.m. in a fish plant meeting," says Watt, noting consultants have to be flexible.

But in-person meetings don't always work, and that's when technology can come in handy. But whether consultants are interacting with employees in person, over Skype or on Twitter, they need to translate finance and drug terminology into plain English. Woodward notes she has to be careful at times: "We could have complete conversations in acronyms," she says.

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