Canadian Retirement Trends Survey Highlights

2012

AON Hewitt

About this Survey

Every day, Canadian pension plan sponsors must take stock of their programs to ensure financial and strategic needs are being met. Are your retirement programs meeting the challenge? Are they competitive? Are they addressing employee needs? Can they be sustained over the long-term?

Every choice made has an impact on company financial results, employee engagement and satisfaction, workforce management, employee retirement income security, attraction and recruitment success, and even workforce productivity.

In October and November 2012, Aon Hewitt surveyed Canadian employers to assess their views and likely actions over the next year in respect of the design, management, and delivery of capital accumulation or defined contribution (DC), defined benefit (DB), and retiree medical plans for their active, salaried, Canadian-based employees. Responses from 203 employers provide a preview of the changes likely to take place in retirement programs over the coming months. Plan sponsors can use this information to gain context and perspective as they address the challenges posed in today's evolving pension environment.

This document provides an overview of survey results and features key action areas for pension plan sponsors in the coming months.

For more information on the *Canadian Retirement Trends 2012* survey, please contact your nearest Aon Hewitt office or send an email to info@aonhewitt.com.

Survey Highlights

Across All Plans

Saving for retirement is among the most discussed financial topics in Canada today. Demographic changes in the approaching decades will usher in waves of baby boomer retirements and see fewer workers available to support the retirement system. Employer sponsored Capital Accumulation/Defined Contribution and Defined Benefit plans are central to these debates.

Retirement income adequacy and pension sustainability are critical issues for plan sponsors who must operate within restrictive legislative and/or governance walls. Methods must be found to control costs in a market where maintaining competitive employee benefit programs is a key feature in the strategy to attract and retain the best and brightest workforce.

Not surprisingly, this year's survey results indicate plan sponsors are applying focused attention to ongoing participant communication efforts, particularly in regard to retirement income adequacy. Most are only somewhat confident that plan participants understand the details of future retirement benefits. Improved communication could ensure employees are maximizing the opportunities available to them. Employers in turn could achieve a more a positive return on investment and minimize the liability risks associated with inadequate communication efforts and material.

Key Findings: Across All Plans

95% are somewhat or very confident in the competitive position of their plan and see this as a key priority.

59% are likely to assess retirement program design in 2013.

83% will review plan member communication material.

12% are very confident that employees are taking accountability for their retirement future; only 30% see this as a high priority issue.

Governance and cost control efforts also appear to be key areas of concern and potential action in the coming year.

Capital Accumulation Plans (CAPs)

Increased communication appears to be a focus for CAPs this year. Investment advisory services and financial education also figure prominently in plan sponsor planning efforts. While many organizations continue to provide in-person services, with traditional call centres factoring favourably, there is also a strong tendency toward online activities that provide personalized or interactive financial education sessions. Web-based interactive communication is likely to grow as technological advances increase the value of these options for employers and cater to the evolving personal communications preferences of Canadian employees.

Automatic rebalancing as a feature in CAPs seems to be gaining ground. It is likely that efforts, such as automatic rebalancing where plan members may have their investment mix rebalanced periodically to a target investment mix of their choosing, that assist members with investment strategies will go a long way towards increasing the confidence individuals have in CAPs as a key, and possibly primary, building block in their overall retirement strategy. As the prevalence of CAPs in the retirement market grows, it will be critical for sponsors to build confidence in their products and reduce risk through arms-length investment assistance such as automatic rebalancing.

Tax Free Savings Accounts (TFSA) have yet to find their place on the retirement savings map. Very few plan sponsors offer this type of CAP and among those who do not, the vast majority is simply not interested. It is unclear whether Canadian organizations have given full consideration to the potential value of TFSAs as highly beneficial savings strategies for low income earners and/or recent entrants into the workforce.

Key Findings: Capital Accumulation Plans

33% use webcasts/webinars to deliver financial education now; an additional 35% intend to do so in 2013.

84% of CAP providers plan to communicate with plan members to provide general understanding/education about plans.

75% are likely to communicate general investment education messages.

50% intend to measure the competitiveness of their plan in 2013.

54% offer target date/lifecycle funds.

The number of CAP sponsors who have conducted a GAP analysis since the Capital Accumulation Plan Guidelines were introduced in 2004 is very encouraging. Seventy-seven percent of those responding have done such as analysis. This is a clear indication that in the CAP market, where formal legislative regulation is lacking in respect of governance, plan sponsors and industry members have taken it upon themselves to impose structures that both standardize and stabilize the sphere in which they operate. Continued efforts in this area are welcome as they benefit CAP plan sponsors and members alike. Though further action is needed, most plan sponsors appear to be on board and strongly support movement forward in the areas of encouraging safe harbour protections, transforming adherence to CAP Guidelines from a voluntary action to a formal legislative imperative, encouraging increased competition among service providers and finally, encouraging financial transparency.

Defined Benefit Plans (DB)

The number of closed and frozen plans continues to rise in Canada. As Defined Benefit plan sponsors assess the appropriateness of their plan design, it will be increasingly important to address the differing priorities of closed/frozen plans versus those of open plans. A significant number of respondents expect to make design changes over the next twelve months. Survey results show that 50% of DB plans in Canada are either closed or frozen. This should serve as a signal to DB plan sponsors that addressing the end goal of their DB strategy is a near-term "must do" action that will need to be considered sooner rather than later.

Most organizations are not planning to make design changes in 2013. Of those who will make changes, attention is focused on ceasing accruals, either by limiting participation or introducing a hard or soft freeze. The hard freeze option, seen to be popular in the United States, is not as prevalent in Canada. Among respondents to this survey, only 2% have opted for a hard freeze to date.

Not surprisingly, cost remains the number one driver of DB plan change over the next year, with absolute cost being the most common reason for change, followed by cost volatility. Results indicate that respondents are confident they are managing longevity risk, though consulting experience yields little evidence that this is actually the case among Canadian employers.

On a very positive note, a majority of employers are likely to review communication material. This initiative should lead to a better understanding of program operation and benefits, and subsequently increase member satisfaction. Of those who said they are likely to make plan design changes in 2013, most will use traditional broad-based written communications to relay information to members.

Key Findings: Defined Benefit Plans

50% of DB sponsors operate plans that are either closed to new members or frozen.

69% are unlikely to evaluate phased retirement alternatives.

69% of DB plan design changes are motivated by the amount or volatility of costs.

61% are unlikely to analyze aging workforce issues.

Retiree Health and Dental Benefits

Though a majority of respondents are unlikely to make changes to their retiree health programs in 2013, it is important to note that about a quarter are planning to make changes of some sort. Reluctance to alter retiree health benefits may be attributable to the legal complexities that arise when considering such design changes. Almost one third are likely to increase contribution levels for future retirees, and 26% will increase retiree contributions or reduce benefits for future retirees

It is also apparent that many employers continue to make downward changes for future retirees with 20% offering no retiree medical coverage. Though minimal, there is measurable interest in alternative financing methods for retiree medical benefits in the form of movement towards Defined Contribution retiree medical plans and/or exploration of non-traditional financing vehicles such as captive insurance arrangements or Employee Life and Health Trusts.

Key Findings: Retiree Medical Plans

62% offer retiree medical and dental benefits to current retirees.

41% offer retiree medical and dental benefits to future retirees.

Approximately 25% will increase contribution rates required for current and future retirees.

Approximately 25% plan to reduce benefits for future retirees or reduce or eliminate benefit eligibility altogether.

10% are likely to move to a Defined Contribution medical plan.

Conclusions

Retirement program costs are certain to be an ongoing plan sponsor focal point for some time. Communicating the value of pension plans and encouraging participant involvement in their retirement future can be a perpetual challenge. When done successfully, the rewards are tremendously beneficial.

Awareness of Canada's changing demographic structure does not seem to have spurred plan sponsors into addressing long-term sustainability strategies as they struggle with short-term financial pressures and regulatory requirements.

As ever, the pension environment is a challenge. As a critical tool in developing a strong and competitive workforce and the lynchpin in the financial future of their employees, it is imperative that employers target retirement challenges "head on" in order to maintain a sustainable and cost effective private pension structure in Canada.

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