Brought to you by Benefits Canada

CANADIAN LEADERSHIP COUNCIL

PENSION REFORM

VOICES FOR CHANGE

Back row from left: Serge Charbonneau, partner, Morneau Shepell. Larry Ketchabaw, manager, pension and benefits, Unisource. Alison Wood, associate publisher and editor, custom publishing, financial services group, Rogers Communications. Sue Reibel, senior vice-president & general manager, group retirement solutions, Manulife Financial. Hugh Kerr, vice-president and associate general counsel, Sun Life Financial. Katherine Strutt, general manager, Saskatchewan Pension Plan. Alain Malaket, senior director, pension and benefits, Loblaw Companies Ltd.

Front row from left: Jamie Farrell, senior manager, benefit & investment programs, HR, Rogers Communications. Alyssa Hodder, editor, *Benefits Canada*. Judy Erickson, manager of pensions, Teck Resources. Joan Johannson, president, BMO Group Retirement Services Inc. Rico Gambale, plant controller, Republic Canadian Drawn Inc. and Blair Richards, CEO, Halifax Port ILA/HEA Pension Plan.

CANADIANS CAN NO LONGER DISREGARD THEIR CONCERNS ABOUT SAVING for retirement. The federal government has already stepped in with the pooled registered pension plan (PRPP), and Quebec has been quick to unveil the details of its voluntary retirement savings plan (VRSP) to support those not putting away enough for their post-work years.

It's time for plan sponsors and other industry stakeholders to take advantage of the groundswell around improving pension coverage for Canadians. To support the industry call for pension reform and greater retirement income adequacy for plan members, *Benefits Canada* recently hosted a think tank in partnership with BMO Group Retirement Services Inc., Manulife Financial, Morneau Shepell and Sun Life Financial. The participants explored the challenges employers continue to face, what pension reform should include and new approaches to risk management. But they were particularly absorbed by the developing role of the PRPP. ▶

THANK YOU TO OUR SPONSORS

BMO Financial Group
Group Retirement Services

Manulife Financial
For your future™

MORNEAU SHEPELL

Sun Life Financial

While the new vehicle potentially opens the industry to meaningful changes, many at the table say if the regulations are not robust enough, this new option could already be at risk.

THE IMPACT OF PRPPS

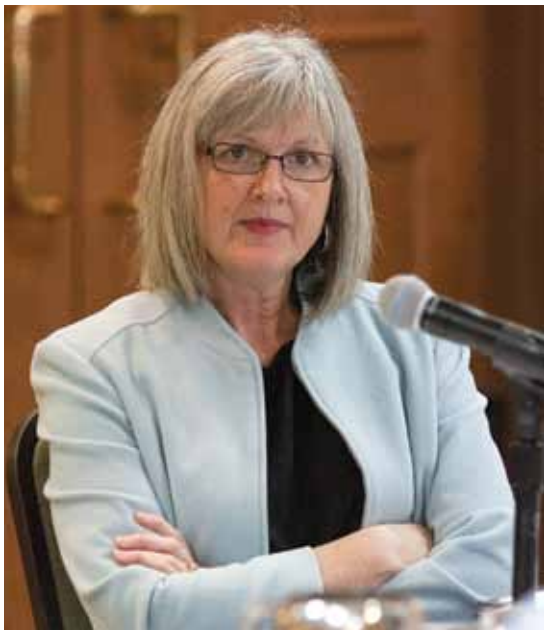
In Bill C25, the Canadian government has proposed the creation of the PRPP to help people prepare more adequately for their post-work years. This new vehicle aims to support small employers who struggle with providing retirement plans because of complicated administration and compliance challenges as well as concerns around costs. While the idea is still in its early stages, plan sponsors of all sizes are keen to see how each province develops its framework and what that will mean for plan sponsors and members.

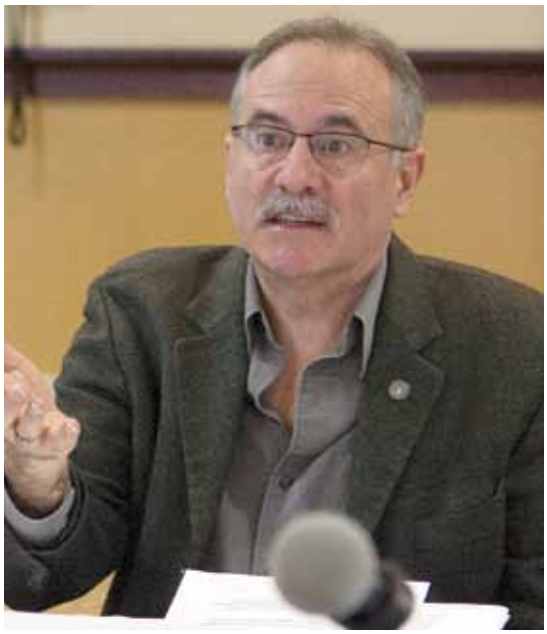
Blair Richards, CEO of the Halifax Port ILA/HEA Pension Plan in Halifax says the industry shouldn't focus on cost as a barrier because many employers do want to have a plan, and it's the administration and compliance issues that keep them from starting one. "I don't think I've encountered many employers that were opposed to giving their employees a pension; they just can't provide it themselves for three or 12 or 25 employees. So let's create these vehicles, like the PRPP, and see if we can't get them funded," he says.

> "The whole idea of auto-enrollment and auto-escalation made it onto the government's radar screen because of PRPPs, and every province agrees that it's a good thing."
>
> – SUE REIBEL, SENIOR VICE-PRESIDENT & GENERAL MANAGER, GROUP RETIREMENT SOLUTIONS, MANULIFE FINANCIAL

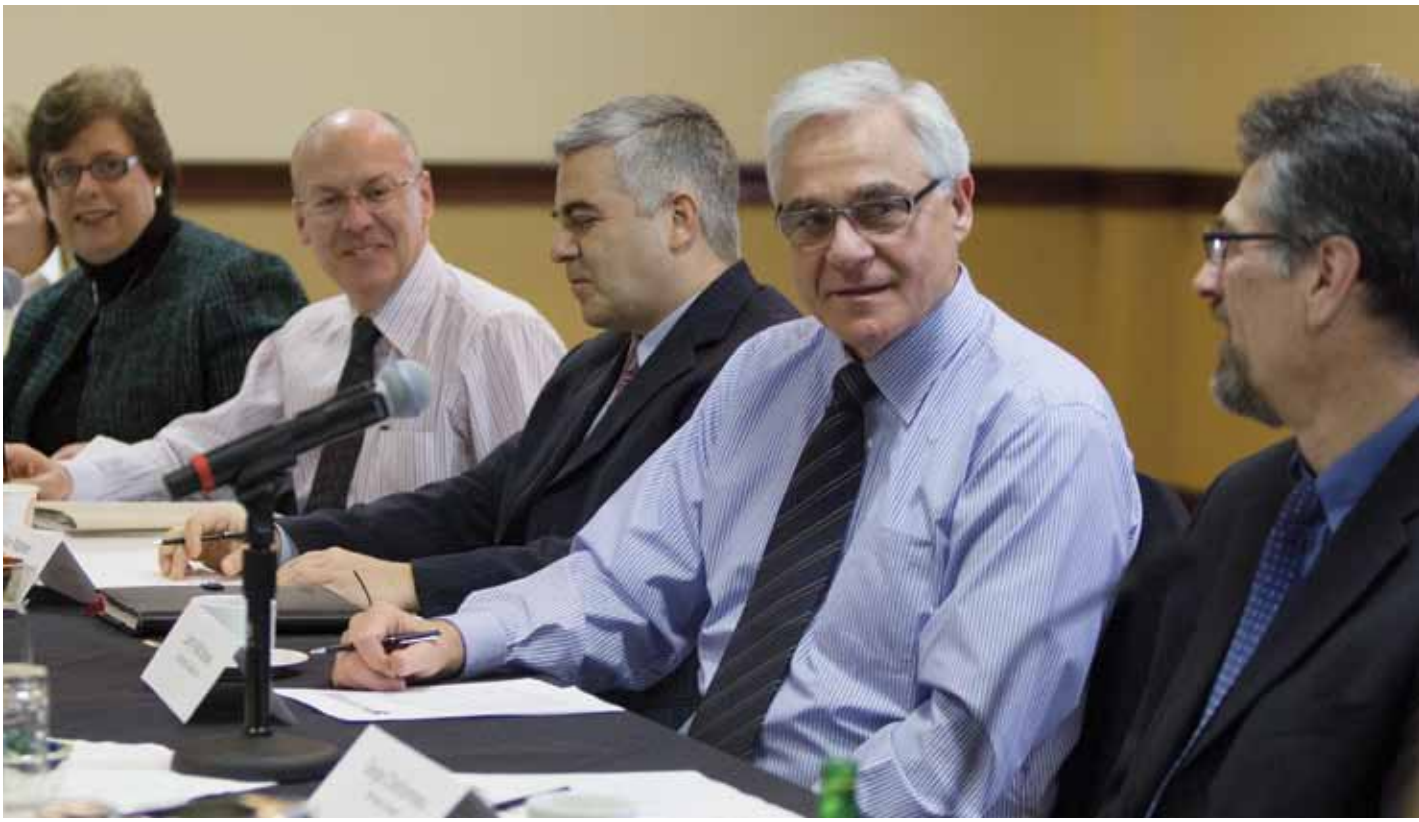
The experts at the table agree that the PRPP has to be mandatory in order for it to be large enough to reduce associated administration costs. But the challenge with that, says Katherine Strutt, general manager of the Saskatchewan Pension Plan in Kindersley, Sask., "is that a lot of small employers don't want to take on the extra payroll obligation because sometimes it's taking money out of their hands to pay their employees." For employers who do not want to commit to mandatory plans, the PRPP could allow them to opt out of contributing, removing most of the financial commitment, says Hugh Kerr, vice-president and associate general counsel with Sun Life Financial in Toronto.

Quebec has made their version of the PRPP—the VRSP—mandatory, while employer contributions are not. It requires companies with five or more employees that do not already offer a group retirement savings plan to choose a VRSP, automatically





From left: Katherine Strutt, general manager, Saskatchewan Pension Plan. Blair Richards, CEO, Halifax Port ILA/HEA Pension Plan.



From left: Joan Johannson, president, BMO Group Retirement Services Inc. Hugh Kerr, vice-president and associate general counsel, Sun Life Financial. Alain Malaket, senior director, pension and benefits, Loblaw Companies Ltd. Larry Ketchabaw, manager, pension and benefits, Unisource. Serge Charbonneau, partner, Morneau Shepell.

enrol all employees that have at least one year of continuous service in it and deduct contributions from payroll. Employee contributions will be auto-escalated by 1% each year between 2015 and 2017.

"Quebec has been a leader in setting up the rules and they came out saying, 'We want it mandatory, subject to some minor exceptions.' No other jurisdiction has said that yet," says Serge Charbonneau, a partner with Morneau Shepell in Montreal. He believes that if other provinces do not make the PRPP mandatory, the vehicle risks being just another voluntary product that few Canadians put to use.

Large plan sponsors at the table are closely watching the development of the PRPP model because it introduces the opportunity for new features, such as auto-enrollment and auto-escalation. "The whole idea of auto-enrollment and auto-escalation made it onto the government's radar screen because of PRPPs, and every province agrees that it's a good thing," says Sue Reibel, senior vice-president & general manager, group retirement solutions, with Manulife Financial in Kitchener, Ont., who wants to see governments allow all employers to use these plan features. "It could impact existing plan sponsors in a very positive way."

Besides these new plan features, Reibel says the legislation leaves plan sponsors wondering about legal ramifications. "A lot of the responsibilities that belong with the employer are moved to the provider under a PRPP. So what does that mean to a larger plan sponsor? Are they going to consider moving their plan to a PRPP or leave it in its current vehicle? That's a question that's out there."

Many of these details of PRPPs are left to each province to determine and Joan Johannson, president, BMO Group Retirement Services Inc. in Toronto, believes that might be a problem. She says it would be most efficient and beneficial to all if the legislation were harmonized and consistent across the country. "Letting each province or jurisdiction decide on critical factors of the offering—especially whether it's mandatory—is a concern for all. This will also be a more effective way to lower costs. We do have some differences regionally across Canada, but if we're really considering this as an alternative

to increasing the CPP and we want it to thrive, I think that this is the way to go." Kerr agrees. "If we want to get the scale for this to work, it has to be one size fits all across Canada," he says.

But whether or not PRPPs end up mandatory and federally regulated, Charbonneau believes this is the last opportunity for the private pension industry to demonstrate that it is able to overcome the challenges it faces. "Five years from now, if we see that PRPPs failed, it's going to be too late for the industry to say, 'It didn't work out because [the government] didn't give us a certain key ingredient.' There won't be another chance."

PLAN SPONSOR CHALLENGES

While the pension industry waits to see the effect of the PRPP, it still has to address the challenges faced by employers offering pension plans to their employees.

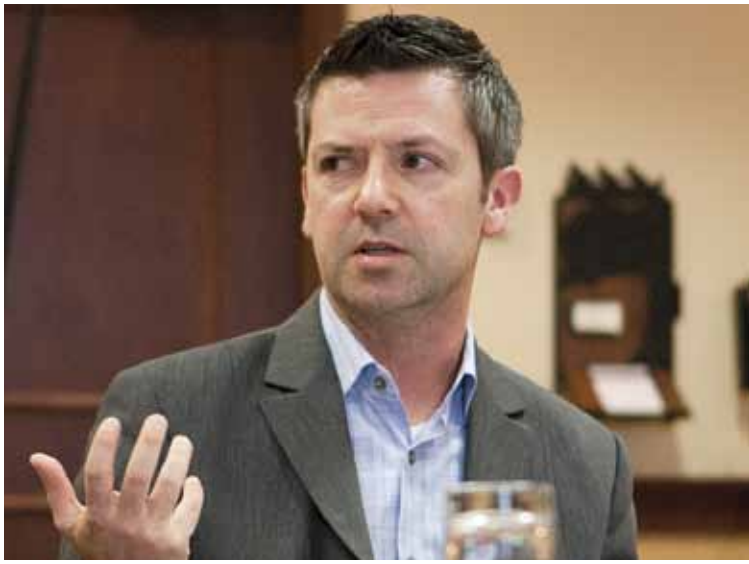
Not surprisingly, given the recent economic challenges, cost remains a major obstacle. "Being able to provide a benefit at a reasonable cost is becoming our biggest barrier," says Rico Gambale, plant controller with Republic Canadian Drawn Inc. in Hamilton, Ont. "The challenge for the company is maintaining the company's profit margins at the same time as providing employees with a good overall pension package." Charbonneau adds that employers have many other priorities to spend money on before investing in a pension plan. "When they figure out where they would like to spend the money, this is usually very close to the bottom of the list."

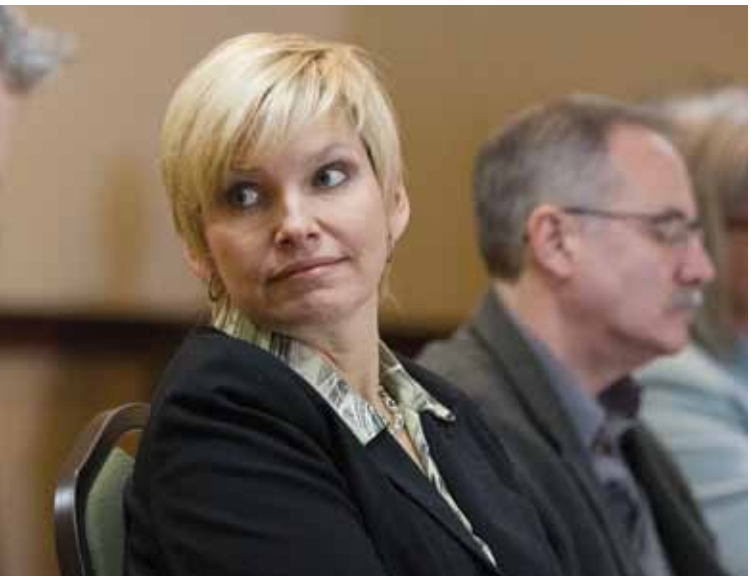
Reibel sees financial literacy and plan member education a major challenge. "It's a barrier to responsibility. A significant burden has to be accepted by individuals and they need to prepare themselves." Unfortunately, the overwhelming majority isn't ready or willing to accept this burden. "With DC plans, members are more responsible [for investing] and, frankly, people are reluctant to take on that responsibility," explains Larry Ketchabaw, manager, pension and benefits with Unisource in Richmond Hill, Ont.

Coupled with a lack of education is poor employee engagement and appreciation, says Alain Malaket, senior director, pension and benefits with Loblaw Companies Ltd. in Toronto. "Plans are costly for employers and can potentially increase a company's liability, which employees do not fully understand or appreciate." These realities can lead plan sponsors to second-guess the value of providing a plan.

Many plan sponsors also struggle with what extent they should be involved in helping members make investment decisions. "There's a fear with providing advice," says Reibel. "I think everyone acknowledges that it's a really important thing to do, but there's a lot of apprehension. There are concerns around what that means for sponsors and what kind of responsibility and liability the

From left: Joan Johannson, president, BMO Group Retirement Services Inc. Jamie Farrell, senior manager, benefit & investment programs, HR, Rogers Communications.





From left: Sue Reibel, senior vice-president & general manager, group retirement solutions, Manulife Financial. Judy Erickson, manager of pensions, Teck Resources.

company is taking on. It's a barrier because the pension environment as it exists today doesn't protect anybody who takes on that responsibility."

The experience in the U.S. may provide some guidance on what changes are needed to make offering advice more palatable for plan sponsors. "The U.S. tends to be a little bit ahead of us in terms of pension legislation, and it influences decision-making in Canada," notes Johannson. "But what we haven't seen here yet are the safe harbour provisions [seen as a step towards good governance] that exist in the U.S. under ERISA." Johannson believes there is an opportunity for the Canadian government to learn from legislative provisions south of the border and develop the means in Canada to allow for individual investment advice without further burdening the plan sponsor. Judy Erickson, manager of pensions with Teck Resources in Vancouver, agrees. "Employers and governments have to get on board with providing some kind of advice to the DC plan members." Johannson adds it "could also allow for better uniformity in offerings by larger firms with operations both in Canada and the U.S."

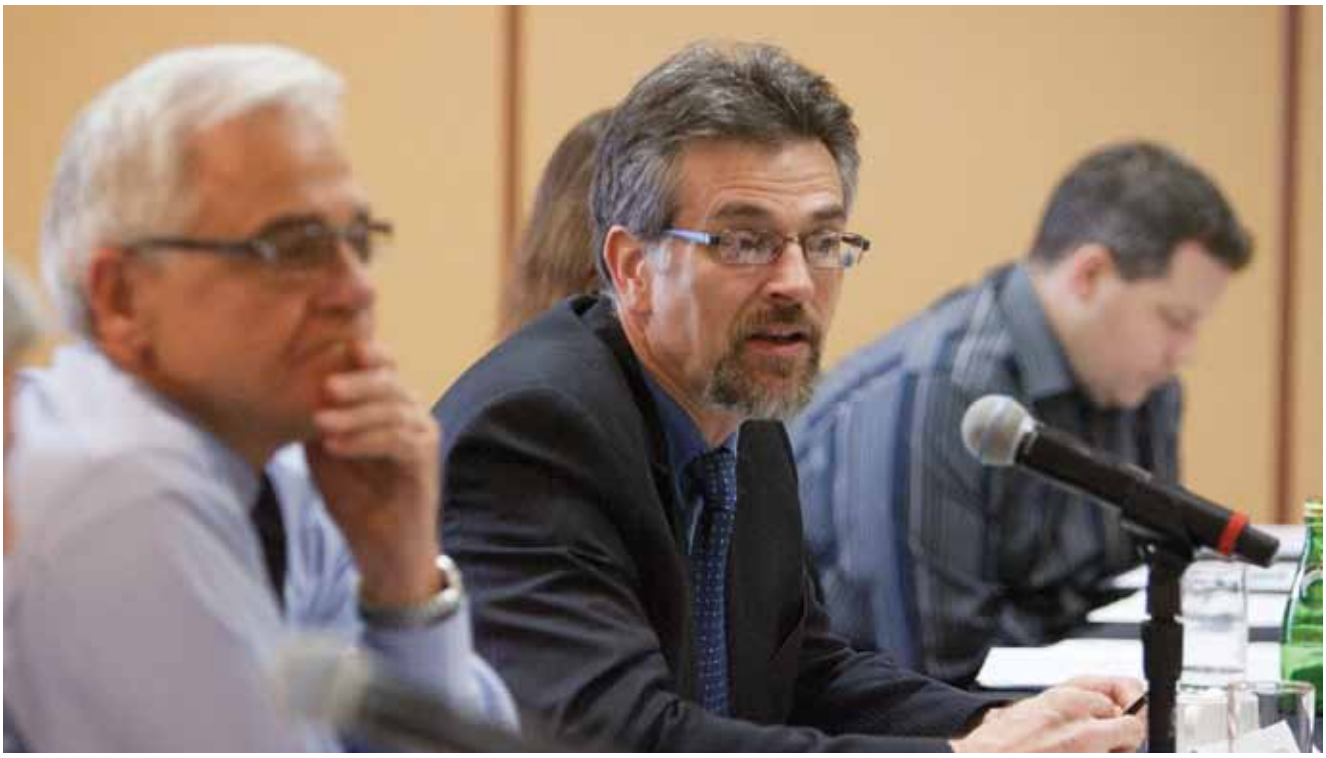
MOVING THE AGENDA FORWARD

As plan management worries continue to keep many in the industry up at night, the round table participants shared the creative ideas they think can reform the Canadian pension system and ease concerns. However, consensus was difficult to find.

Kerr argues that creating more simplicity in the system is the place to start, by implementing "clear and simple rules for both employees and employers in terms of operating these plans." He explains that the current rules, created in response to financial mismanagement of certain plans decades ago, have resulted in complicated regulations that keep sponsors and employees confused and uncertain about how to act. Many of these rules or principles aren't well understood by the industry. "These are huge inhibitors to the creation of new plans because we really don't know how to move forward. Clear, simple rules are what people need," he says.

But Charbonneau wonders if specific rules could, in fact, be an inhibitor to creativity. "You don't want specific and precise rules that say, 'You've got to do a, b, c and d.' If we had clear, simple rules based ▶

> "Five years from now, if we see that PRPPs failed, it's going to be too late for the industry to say, 'It didn't work out because [the government] didn't give us a certain key ingredient.' There won't be another chance."
>
> – SERGE CHARBONNEAU, PARTNER, MORNEAU SHEPELL



From left: Larry Ketchabaw, manager, pension and benefits, Unisource. Serge Charbonneau, partner, Morneau Shepell.

on fundamental principles, none of us would have tried to look for d, e, f and g, because the specific and precise rules do not encompass all situations," he argues. "I think we can find a way to maneuver within [*the CAP*] *Guidelines*—to not go off-track from those fundamental principles and allow some creativity from all of the providers. It's a two-sided coin."

The concept of a lifetime contribution limit instead of a yearly one is a creative idea that is gaining traction in the industry. Richards wonders if this would encourage members to save more—and help them to manage the multiple pension plans collected during their working careers. "Say the government assigns each employee an account that tracks all of the plans he or she is in, the contributions [made] and the maximums throughout the employee's career. There are some complications around this, but we need more collaboration in the system to help people to save," he suggests. "With an account like this, over time, employees will see some decent balances and therefore have some level of dignity in retirement."

But Jamie Farrell, senior manager, benefit & investment programs, HR, with Rogers Communications in Toronto, says a lifetime contribution limit presents a communication challenge. "I think it's a lot easier for employees to digest the concept of a smaller annual limit as opposed to a lifetime limit of, say, $1 million. The idea of saving such a significant amount of money over a long period of time can be overwhelming and is likely a contributor to the current complacency when it comes to retirement planning."

While Charbonneau sees some merit to the lifetime limit as a way for people to make up RRSP losses from a previous year, in practice it will not change anything for most employees. "This idea will only benefit those that are already saving up to the limit and want to put in more," he explains.

In order for reforms to happen more smoothly, experts at the round table say what's needed is a

> "I think it's a lot easier for employees to digest the concept of a smaller annual limit as opposed to a lifetime limit of, say, $1 million."
>
> – JAMIE FARRELL, SENIOR MANAGER, BENEFIT & INVESTMENT PROGRAMS, HR, ROGERS COMMUNICATIONS

unified body to oversee pension regulation. As Johannson asks, "Why shouldn't your employees enjoy exactly the same benefits no matter where they are in the country?" Gambale says it would ensure that there is consistent compliance standardization across the country. "But I also feel that each province should also manage what's best for their region and their area," he adds.

However, Ketchabaw questions the need for provincial differences, pointing to the U.S. federal system as an example of an overarching system that works. Reibel also wonders why different regions would require individual unlocking goals and the purpose this ultimately serves.

But for now, as Charbonneau points out, "we're stuck with choices that were made with the Constitution. We can't re-write it, so we'd better make do with what we have."

EVOLVING RISK MANAGEMENT

In addition to highlighting challenges with adequate retirement savings of Canadians, the 2008 global downturn has raised awareness among plan sponsors of the need to pay closer attention to risk management practices. But it's hard for them to know which de-risking route to take.

"I think plan sponsors are reeling," says Richards. "Unfortunately, the solutions coming forward approach immunization—and, in my opinion, that's a forfeit of potential returns in exchange for the elimination of the liability around that risk. In other words, plan sponsors who can't stomach the volatility are opting to align the liabilities and forfeiting potential gains. We can't do that. We can escape volatility, but then we condemn members to inflation going forward."

So where should plan sponsors start? "I think one of the things that we've seen out of the economic turmoil is a real focus on cost, both the cost of the investments themselves and of providing service support programs," says Johannson. "From an investment perspective, what we've been seeing is a trend toward passive over active management because it's less of a cost burden. The active managers really have to show that they're worth any extra cost, in terms of being able to handle the changes in the marketplace. So it's about the overall value of what you are providing."

PLANNING FOR SUCCESS

ALL OF THE RECENT ATTENTION around pension reform has caused many smaller employers to review their retirement offerings. Ross Kirkconnell, executive director, Guelph Family Health Team and Diabetes Care Guelph in Guelph, Ont., has an employee group of 100. Even with a retirement plan in place, he's keeping his eye on pension changes in case he can offer his employees something better.

The business currently provides a group registered retirement savings plan (RRSP) with an employer match up to 6%. There are a large number of investment options that range from hands-off target date funds to employee-directed investment accounts.

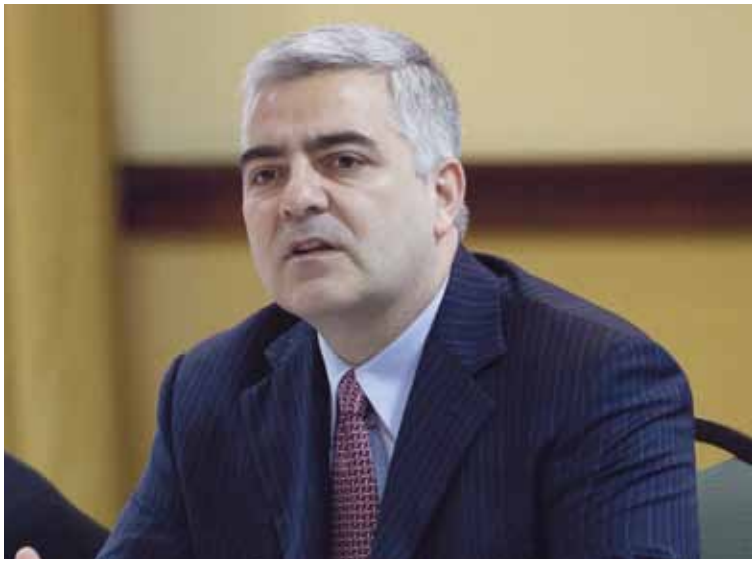
"The participation rate is very high. We have 100% of employees participating and 95% take the full match," he says. About three-quarters of the participants are in target date funds. Kirkconnell says that's because many of his employees have come from a unionized environment that offered a defined-benefit plan so they are looking for a set-it-and-forget-it option.

When he recently asked employees if they wanted education sessions to learn more about retirement there wasn't a lot of interest. Instead, his team focuses on regular communication and access to advice. "We send out quarterly statements and do education sessions twice a year during work hours," he says. Employees are encouraged to talk about personal investment concerns with third-party advisors, which their provider makes available.

Kirkconnell likes the flexibility, portability and ease of administration of the group RRSP, but the PRPP has caught his attention. With so few details available at this stage, he has many questions. "Is this going to be more flexible or more affordable? Will it position employees for greater success in retirement than an RRSP? If so, it will be worth exploring."

Until then, he's making sure his plan stays competitive by keeping the match high and watching what similar employers are doing. "We're all in the same boat trying to figure out what is the most effective way to plan for our futures. If PRPPs turn out to be a good option—depending on cost—we'll jump at it."

"I think one of the things that we've seen out of the economic turmoil is a real focus on cost, both the cost of the investments themselves and of providing service support programs." – JOAN JOHANNSON, PRESIDENT, BMO GROUP RETIREMENT SERVICES INC.



From left: Rico Gambale, plant controller, Republic Canadian Drawn Inc. Alain Malaket, senior director, pension and benefits, Loblaw Companies Ltd.

Johannson adds that there has also been a greater focus on simplifying portfolio offerings. The round table participants agree that having fewer selections for plan members is a growing trend. "The more decision points you put in front of people, the more reason there is for them to say, 'I don't know' and throw up their hands," says Strutt, whose plan offers very few investment choices in order to keep things simple for its members.

When it comes to investment options, the round table participants strongly support the idea of target date funds to help members make appropriate investment decisions. Kerr says he typically sees that when people enter an age-appropriate target date fund, they remain enrolled in it. "We're seeing a lot more uptake of target date funds over the last 18 months. About 90% of new clients are offering [them]." Malaket has had a similar experience. "When we introduced target date funds, we automatically enrolled people to their age-appropriate date. The number of people who exited out was minimal: less than 10%." Getting employees into a target date option may also reduce a sponsor's liability in the future, demonstrating that the sponsor has made an attempt to support adequate retirement savings for them, says Reibel.

Of course, how to handle risk is linked to an employer's goal for the plan. "For many [employers], it's to move away from the liability of offering the plan," says Malaket. "The objective of the plan is to offer the participants an opportunity to save for their retirement." But whenever an employer offers a service—be it an education session about investing or tips on how to choose a target date fund—there still are potential risks, he adds.

Plan sponsors want to de-risk but have limited time and financial resources to tackle this challenge, says Kerr. "So do you put your money towards financial literacy and the education of employees? Or do you put it toward setting things in the plan, so that if members fail, they'll still be okay?"

While many unanswered questions were raised at the round table, the participants agree that is the first step toward re-shaping the Canadian pension system so—as Richards says—plan sponsors can help members retire with dignity.

Visit **BenefitsCanada.com/LCPR-2012** for Q&As with the round table participants.