



September 2010

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## Today's discussion

- Highlights from our most recent surveys concerning retirement issues in Canada:
  - Global Workforce Study
  - Canadian 2010 CAP Survey
- Thoughts on DC Journey Planning and implications for:
  - Governance
  - Investment
  - Communication, Member Decision Support Tools and Engagement

## 2010 Global Workforce Study: Key retirement themes

- ***I want job security, stability and good pay/benefits — but I see the safety net eroding.***
  - Traditional employment relationships are becoming more contingent, and employees crave a return to the fundamentals
- ***I know I'm responsible for my own financial well-being, career, performance and health — but I'm not sure I can handle it.***
  - Employees know that it's increasingly "on them" to take care of themselves
  - They are not confident they have the knowledge and resources to handle the responsibility

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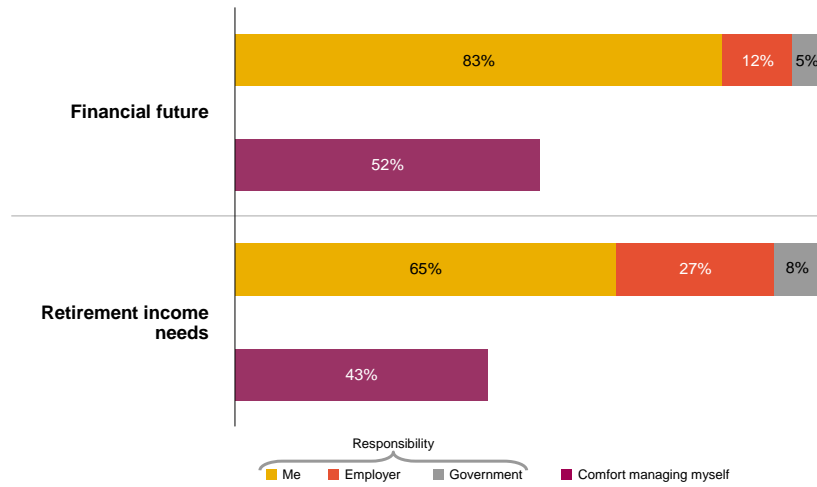
## Attraction drivers remain focused on the basics — but there is now more interest in the long-haul, including retirement security

Attraction Drivers	2008	2010
Competitive base pay	1	1
Vacation/paid time off	2	2
Competitive health care benefits	3	3
Career advancement opportunities	5	4
<b>Competitive retirement benefits</b>	-	5
Convenient work location	7	6
Flexible schedule	6	7
Challenging work	4	8
Learning and development opportunities	8	9
Organization's reputation as a good employer	9	10
Reasonable workload	10	-

Source: Towers Watson 2008, 2010 Global Workforce Study — Canada

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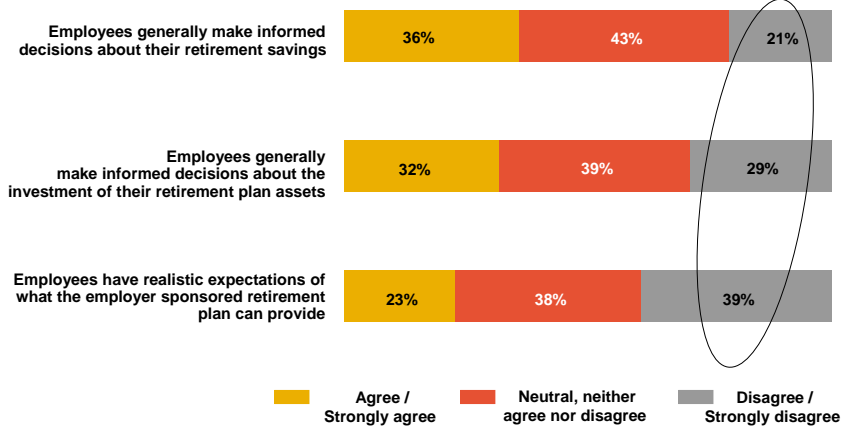
## While employees know they're responsible for their financial security, they doubt their ability to manage alone



Source: Towers Watson 2010 Global Workforce Study — Canada

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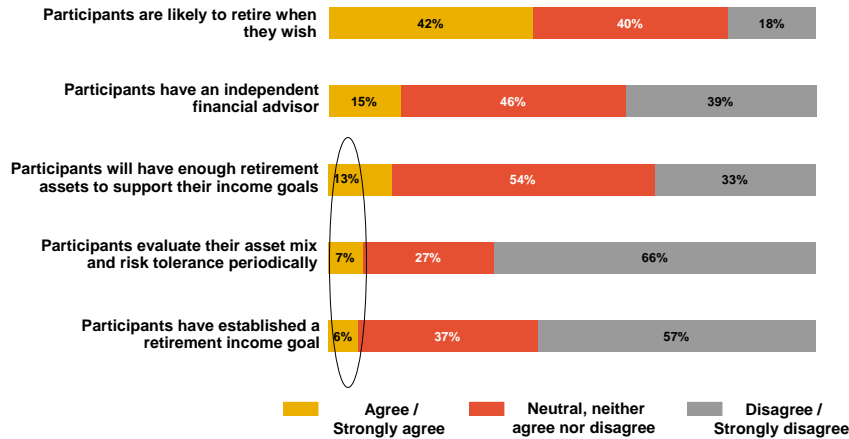
## Canadian employers share the same sentiments as employees



Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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## Few plan sponsors have confidence in their employees' readiness for retirement in the future



Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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## Sponsors' biggest concern for the future

*Inadequate retirement income from DC for large segments of their population*

Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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## Journey well, arrive better

Understanding Journey Planning from a DC perspective

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## A more engaging approach to savings is needed

### Traditional Approach

- Members focus on the “here and now”
- Saving what they can, when they can
- Hoping it will deliver a good outcome
- Little thought given to what they need
  - ... or their ability to take investment risk
  - ... or how their circumstances will change over time
- Decisions made at joining are rarely changed; monitoring of progress to a retirement goal not obvious

*A low engagement environment*

### A More Focused Approach

- Members set their objectives (using some 'simple' tools)
  - ... and how they are going to achieve them
- Recognising what they want to achieve
  - ... their ability to take investment risk
  - ... and how their circumstances are likely to change over time
- Regular progress against target is monitored, not just as retirement age approaches

*A higher engagement environment*

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# Florida = ? km

- How long will it take to drive to Florida?
- What time do I want to be there?
- How important is it that I arrive on time?
- When is the latest I must be there by?
- If I am running late, can I afford to get caught speeding?
- Does my passenger get car sick?

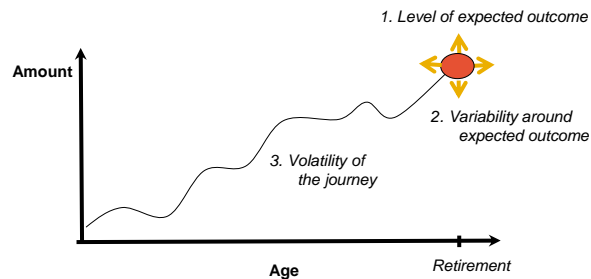


*What if 'Florida' is the retirement target ?*

## The member's objective

*"Given the level of contributions I am making ...*

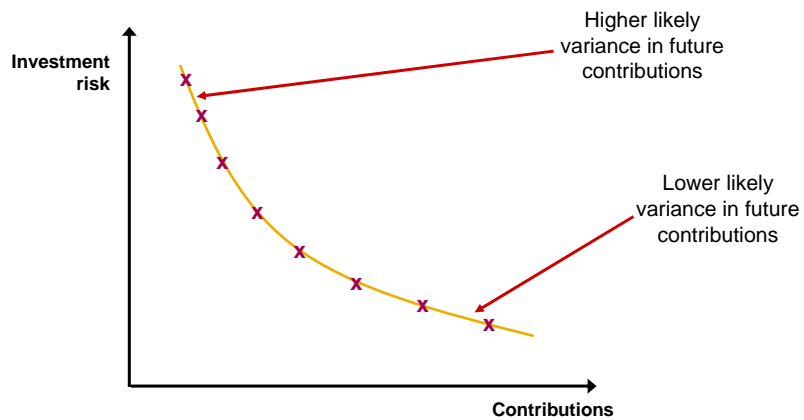
- *What retirement outcome can I expect (and hence what size of pot do I need at retirement)?*
- *With what certainty will I achieve this end result?*
- *Will I be able to sleep at night as I go through this journey?"*



*Members need to set their objectives and create a journey plan*

## Balancing contributions and risk

- There are many potential journey plans to achieve the same target outcome — involving a trade-off between contribution rates and asset allocation



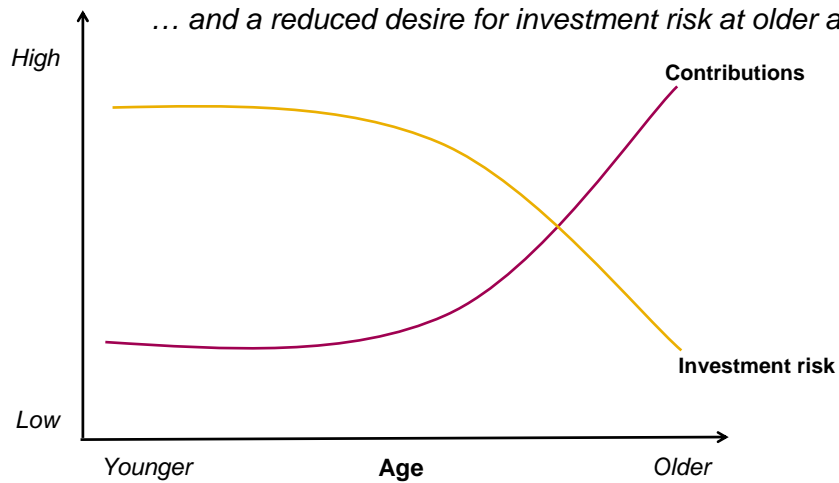
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## Contribution/risk trade-off

*Example member A*

*Steadily increasing ability to contribute ...*

*... and a reduced desire for investment risk at older ages*

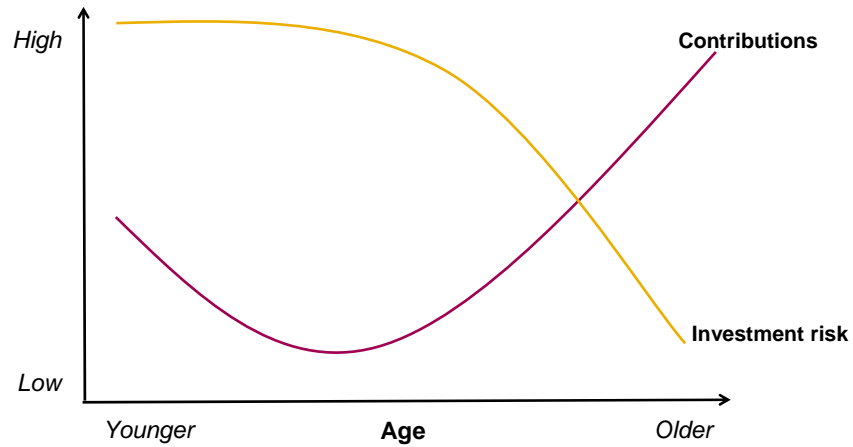


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## Contribution/risk trade-off

### Example member B

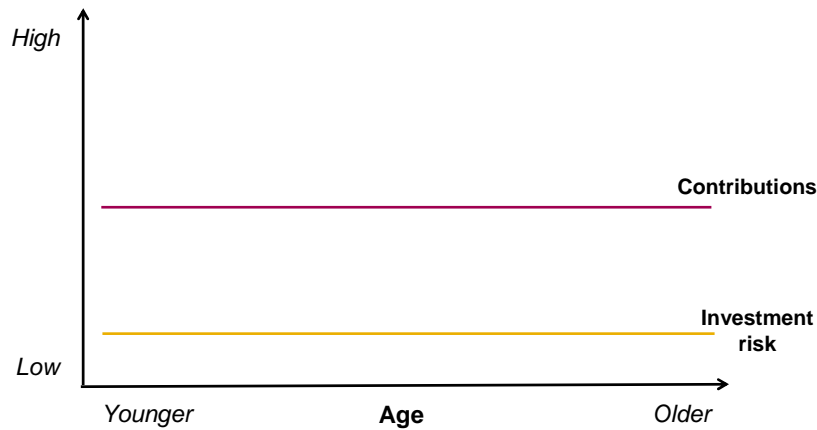
*Higher savings early, recognising future cost of raising a family ...  
... and a reduced desire for investment risk at older ages*



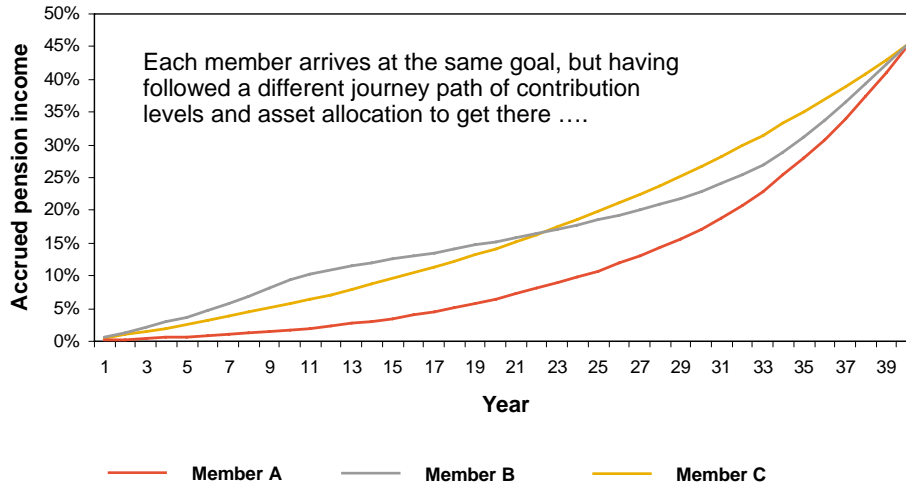
## Contribution/risk trade-off

### Example member C

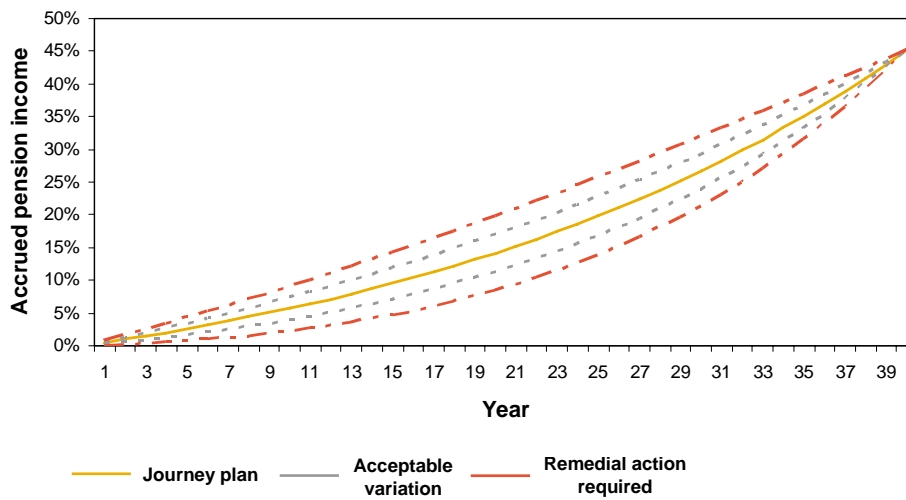
*Constant ability to contribute, not expecting real career progression ...  
... little ability to take any investment risk*



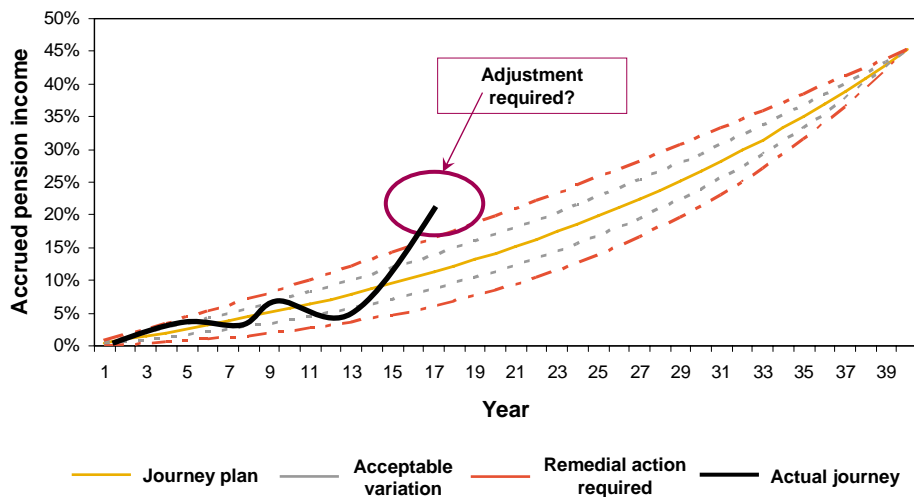
## Charting the journey plan



## Tolerance around the journey plan: the “sleep at night” factor

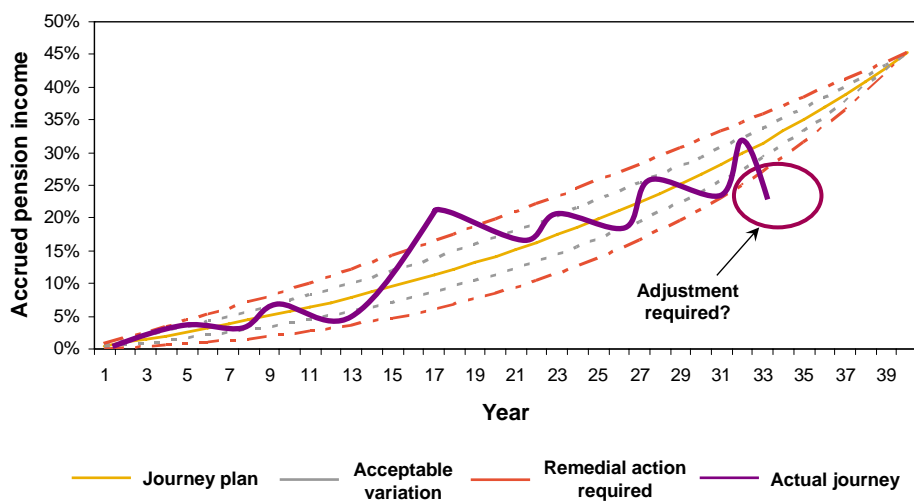


## Measuring progress against the journey plan



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## Measuring progress against the journey plan



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## Understanding your membership

Value Added Governance

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## What might governance involve?

### Operational governance

*Ensuring the plan 'works'*

For example

- Contributions are paid on time
- Service levels are met
- Benefit statements are sent out on time
- Investment managers deliver expected performance
- etc...



*Largely driven by legislation and  
risk mitigation*

### Value-added governance

*Helping members get the most  
from their plan*

For example

- Engaging members in the plan
- Helping members understand
- Seeking to improve investment efficiency in the default fund
- Outperforming investment returns
- etc...



*Where governance can  
improve the deal*

## Know your employees

- Analyze your data
  - Demographic characteristics
  - Behavioural characteristics
- Research behaviours, motivations, attitudes toward risk and needs
  - Online polls
  - Telephone surveys
  - Interviews
- Regularly review membership data
  - Build into governance reporting

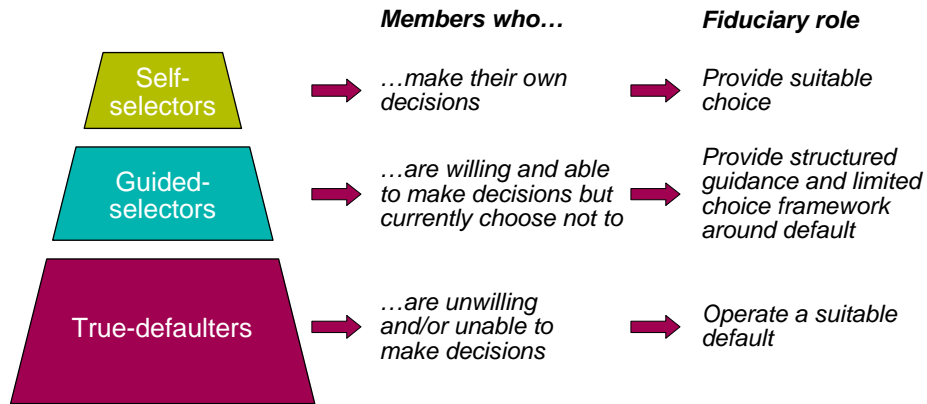
## Understanding your membership

- What do members look like?
  - For example age, earnings, likely target pension needs?
- What do members want in terms of investment risk?
- How much choice do members want...  
...and are they likely to use it?
- How much guidance do they need?

*A greater understanding of the member  
will lead to better DC*

*An investment and engagement strategy should start here*

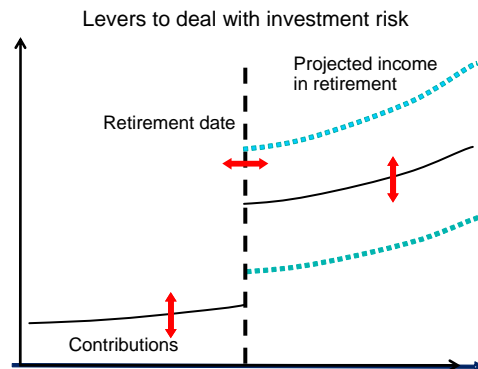
## Three types of member



*Need to explicitly address the differing needs of these three types of member*

## Defining and managing risk

- Members care about...
  - Level of outcome
  - Variability of outcome
  - Volatility of journey
- 'Risk' = probability of not achieving objectives



*Ability to take risk is driven by member's flexibility around savings, retirement age and income*

## Understanding your membership's tolerance to risk

Tolerance to risk = **Attitude** to risk + **Ability** to take risk



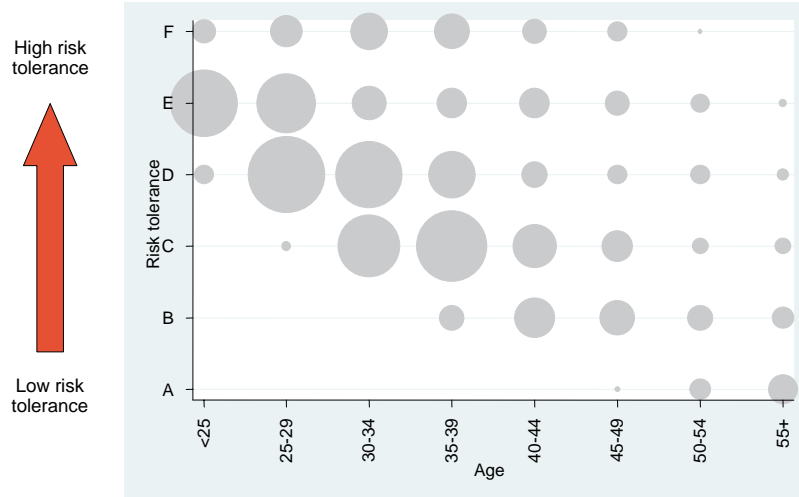
*A plan's core data can be used to model the membership's risk tolerance and choice distribution*

## What needs to be thought about differently?

# RETURN RISK

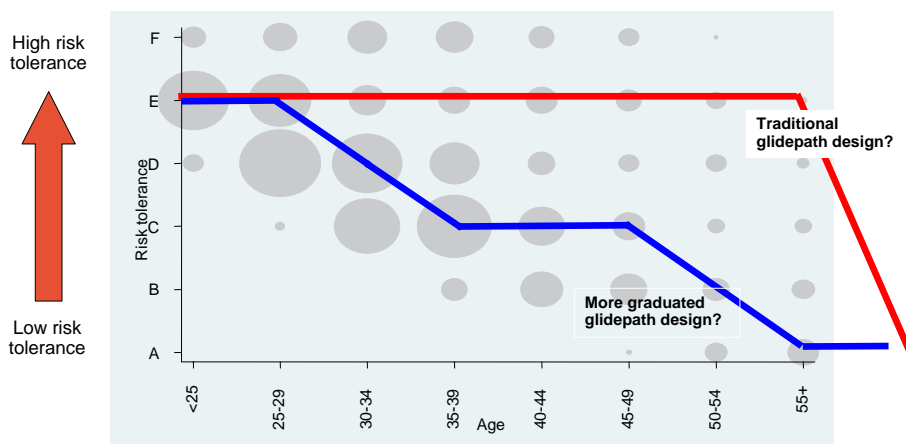
- Pro-actively manage the DC default strategy
- Think about and understand the needs/objectives of the membership
- Get a better understanding of 'risk' in a DC context
- Set clear strategic objectives for the default
- Add 'fiduciary value'!

## Overall risk tolerance by age group



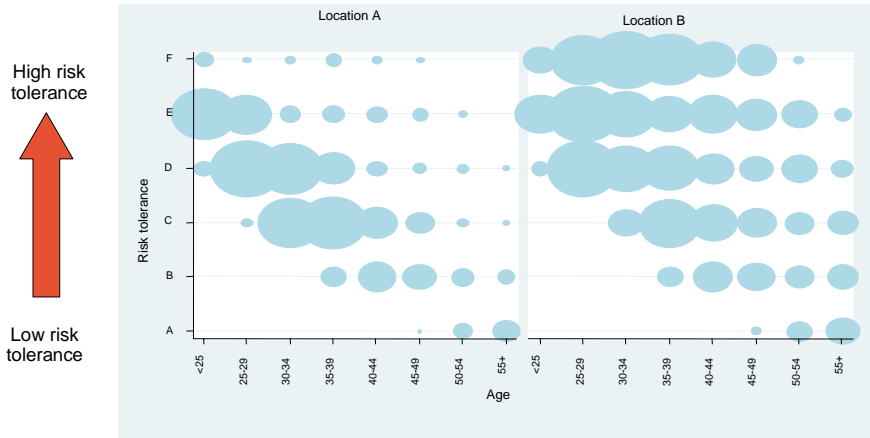
Factors include net wealth, human capital, age, dependants

## Designing a more member-focused strategy



Current default lifecycle is inappropriate for the needs of the members

## Designing a more member-focused strategy



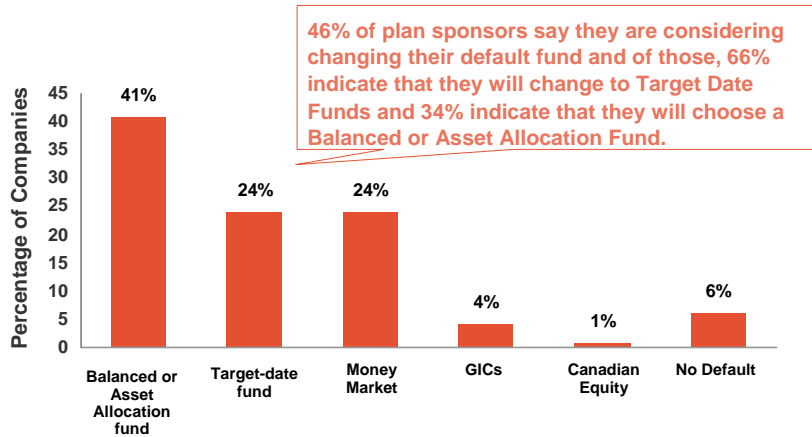
**Different region, different tolerance to risk**

## Prioritising the governance budget

<b>Default</b>	Managed to a set of clear risk/return objectives	<i>Primary focus</i>
<b>Guided choice</b>	A limited degree of choice with supporting guidance based on member circumstance and lifestyle	<i>Secondary focus</i>
<b>Self-select choice</b>	Range of options which are still realistically manageable within governance budget	<i>Tertiary focus</i>

**Priority should be given to managing the default effectively**

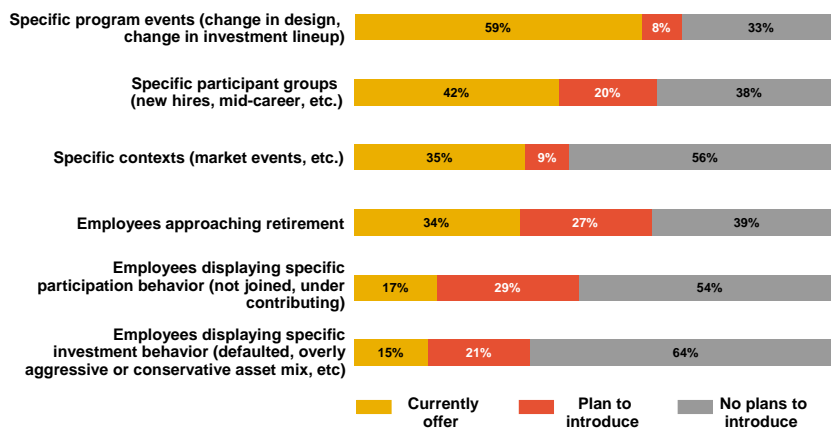
## Default investment option



Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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## Communications practices — targeted purpose

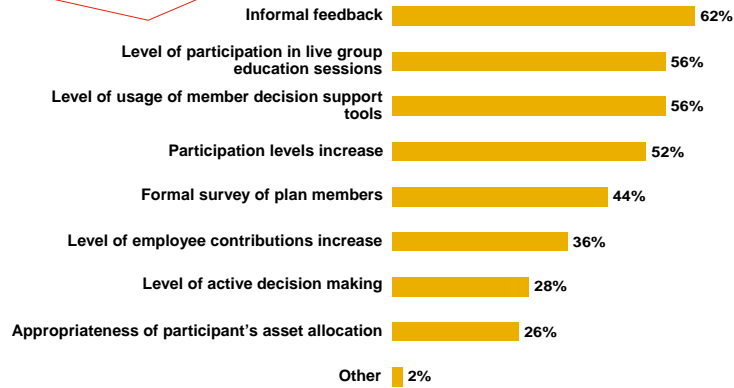


Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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## Plan member communication — measuring success

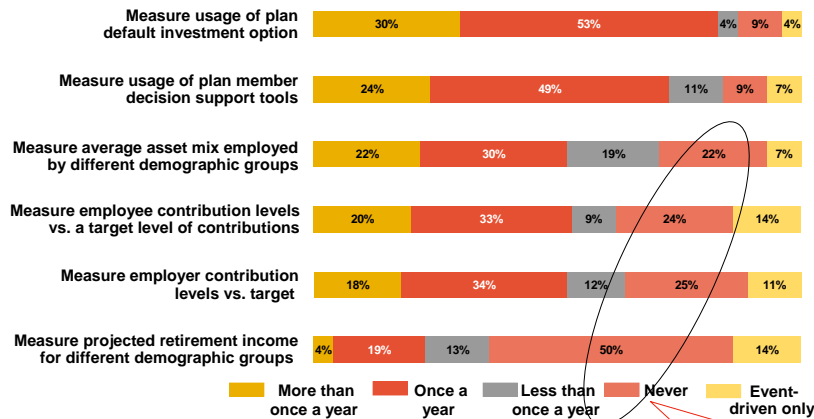
54% of respondents indicated they do NOT measure the success of their communication practices. Those who do measure the following:



Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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## CAP governance — monitoring plan effectiveness



Food for thought ... and room for improvement!

Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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## Conclusions

- Understanding of the membership should drive investment and engagement
- There needs to be more of an “outcome” focus, rather than the “here and now”
- Ability to take risk is driven by a member’s flexibility regarding savings, retirement age and income
- DC can be viewed as similar to “one-person DB”
- Members and fiduciaries should adopt a “journey plan” approach

## A DC Journey Planning approach helps members to...

1. Set objectives and create a ‘journey plan’
  - For example, by using some simple online tools
2. Regularly monitor progress against the journey plan
  - For example, by presenting it on the annual statement as well as making it available online

