



Creating the Optimal DC Journey Plan

Towers Watson Network

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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
 - Communication, Member Decision Support Tools and Engagement
- Table Discussion

2010 Global Workforce Study: Key retirement themes

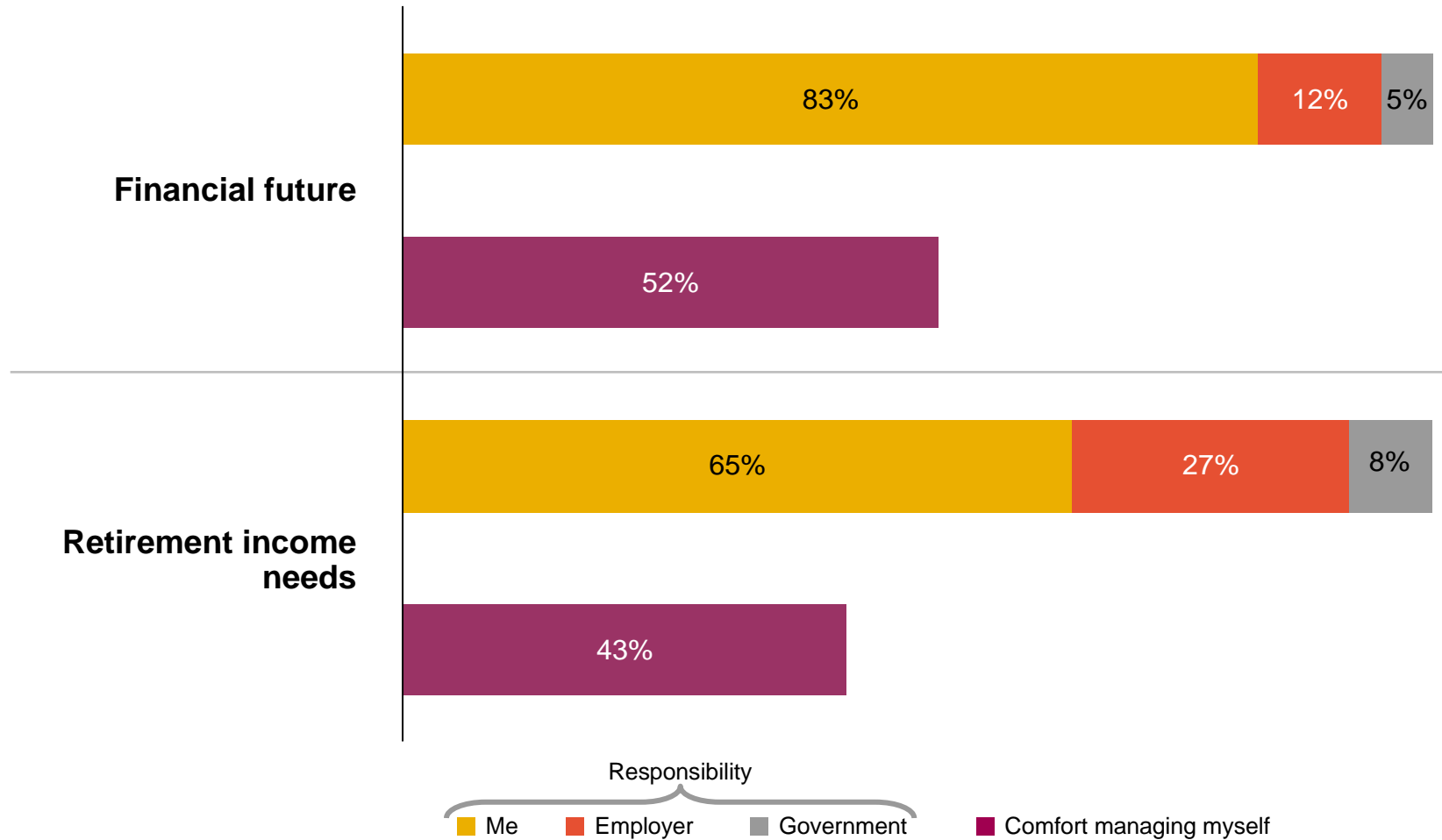
- ***I want job security, stability and good pay/benefits — but I see the safety net eroding.***
 - Traditional employment relationships are becoming more contingent, and employees crave a return to the fundamentals
- ***I know I'm responsible for my own financial well-being, career, performance and 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

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
Competitive retirement benefits	-	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	-

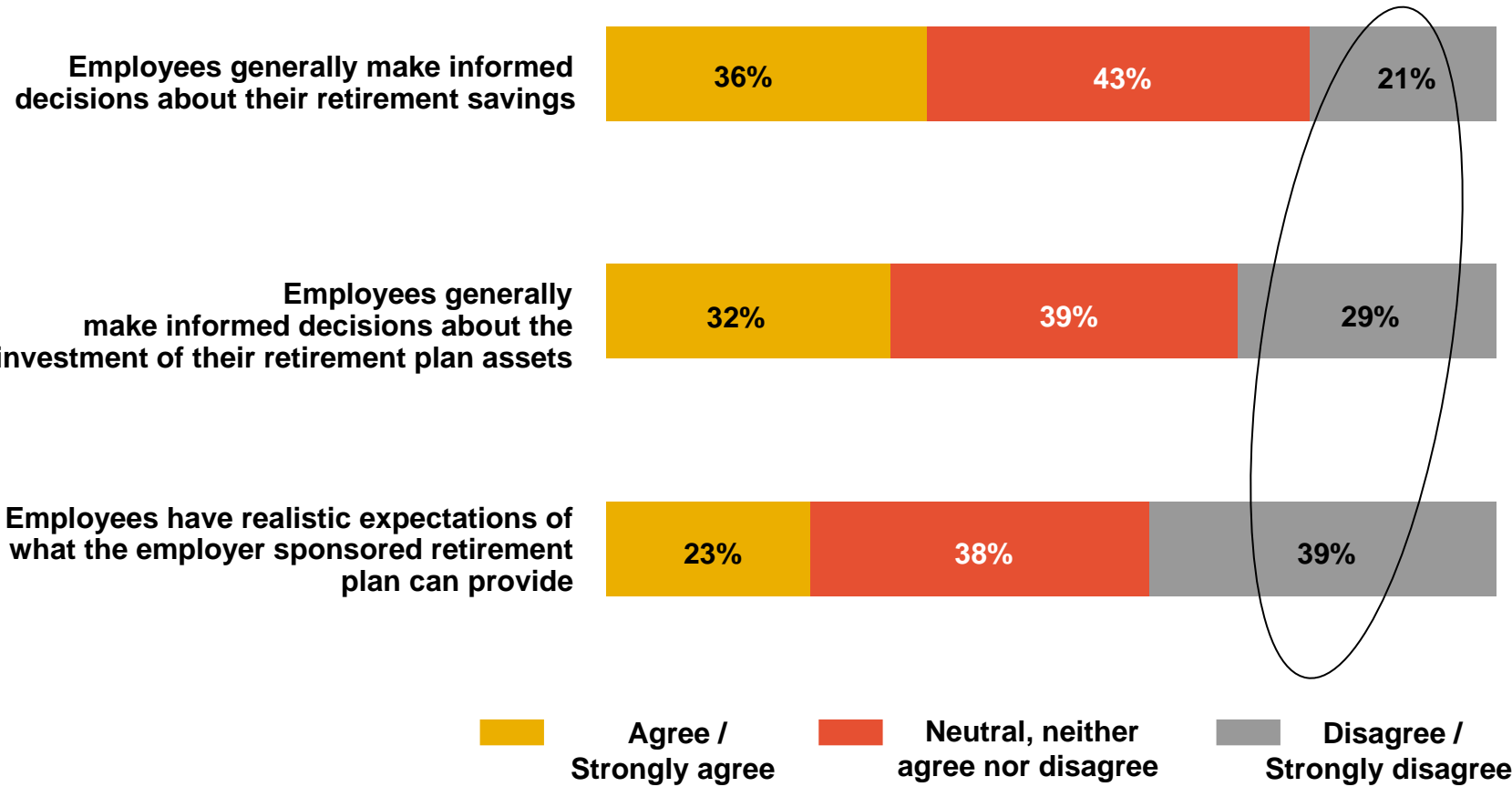
Source: Towers Watson 2008, 2010 Global Workforce Study — Canada

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



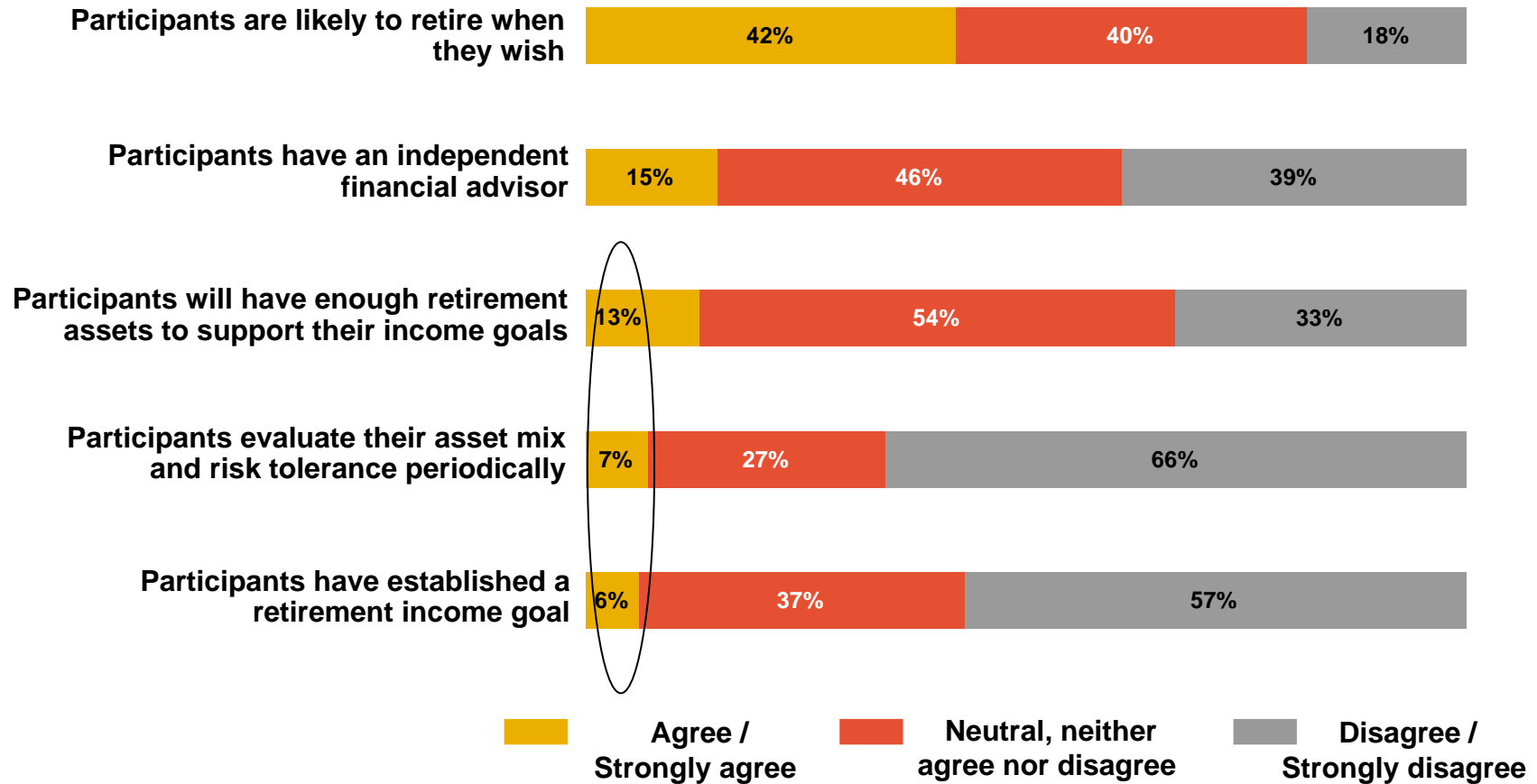
Source: Towers Watson 2010 Global Workforce Study — Canada

Canadian employers share the same sentiments as employees



Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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



Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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

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

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?

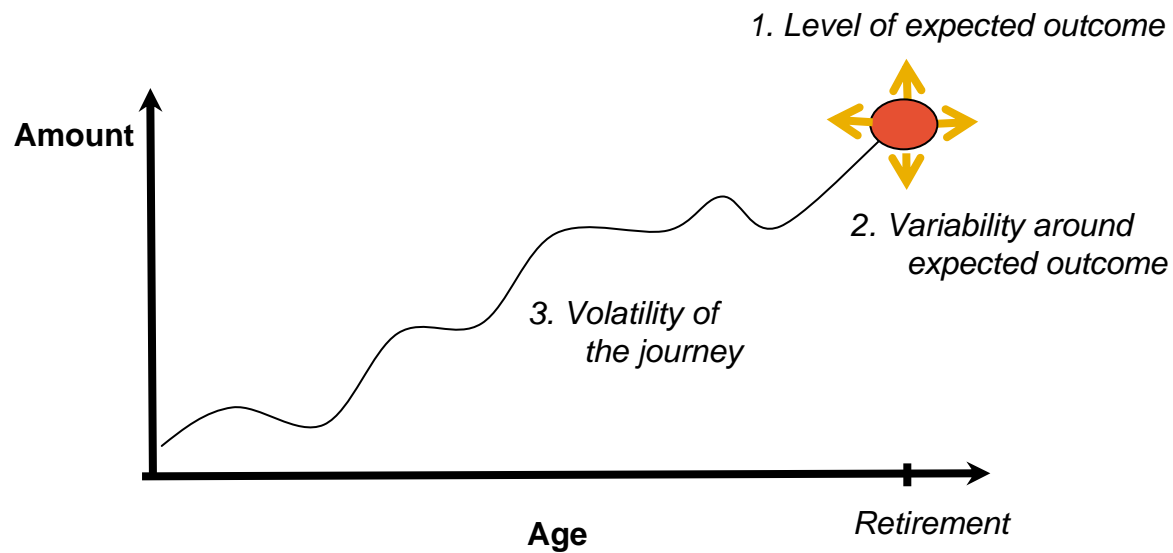


What if 'Florida' is the retirement target ?

The member's objective

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

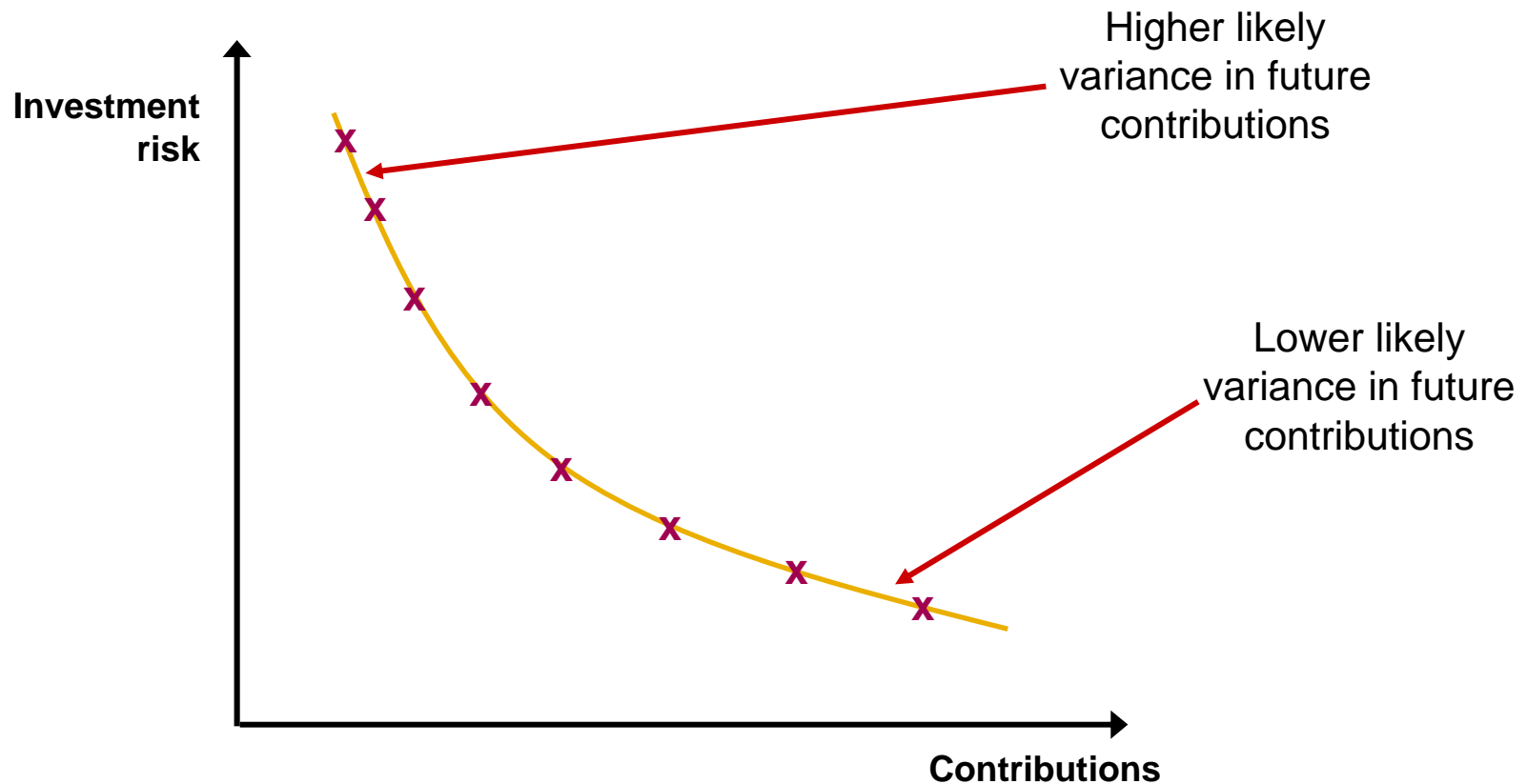
- What retirement outcome can I expect (and hence what size of pot do I need at retirement)?*
- With what certainty will I achieve this end result?*
- Will I be able to sleep at night as I go through this journey?"*



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

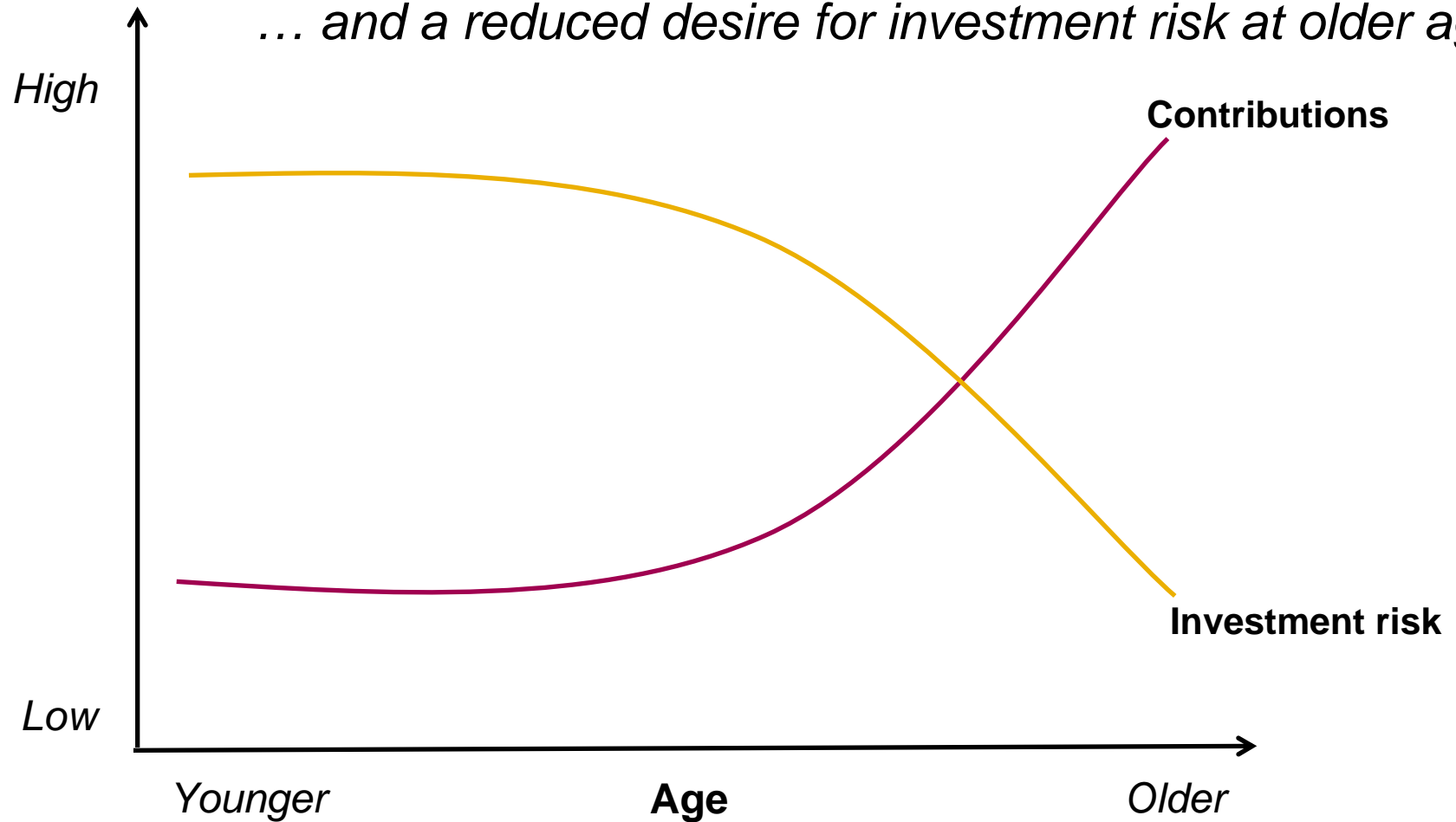


Contribution/risk trade-off

Example member A

Steadily increasing ability to contribute ...

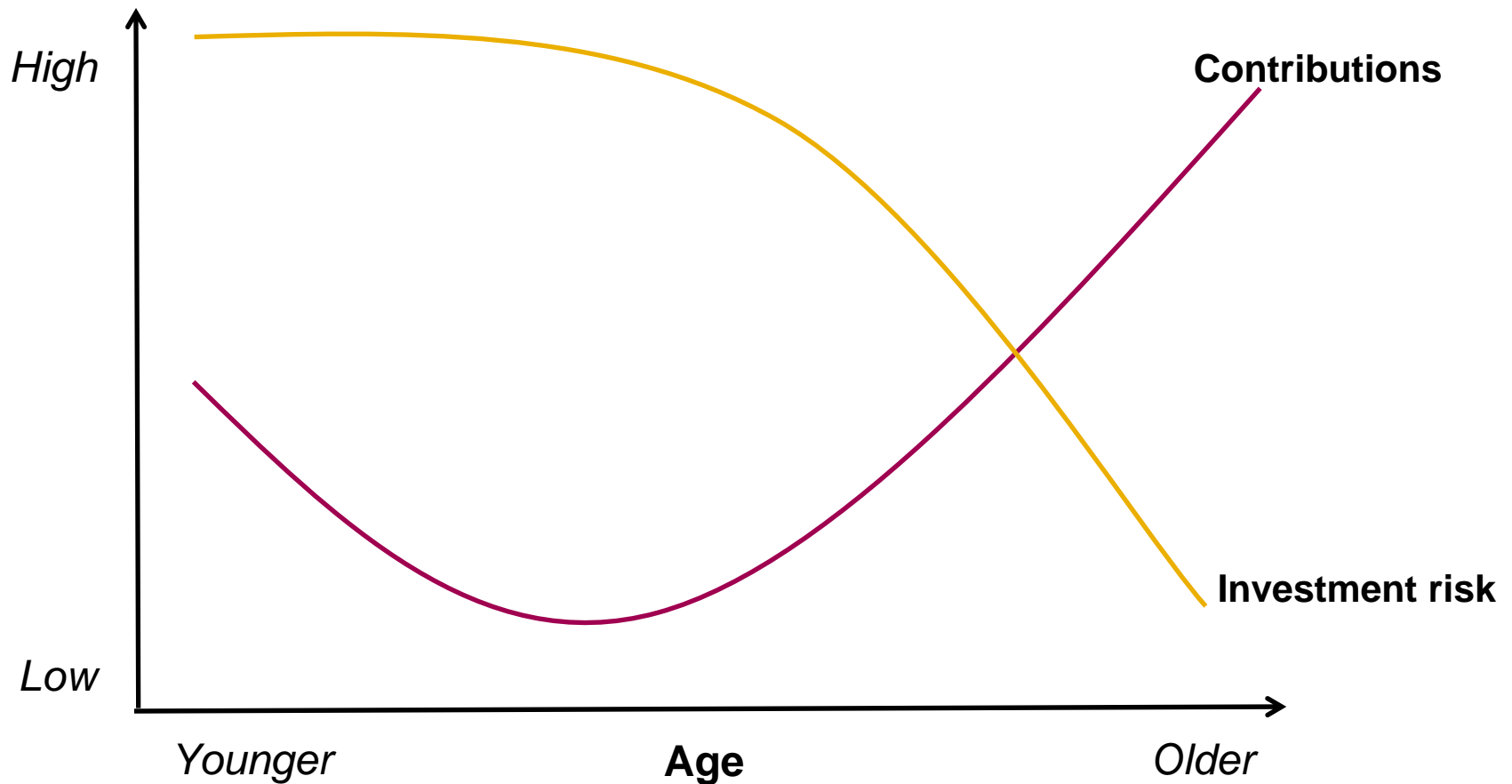
... and a reduced desire for investment risk at older ages



Contribution/risk trade-off

Example member B

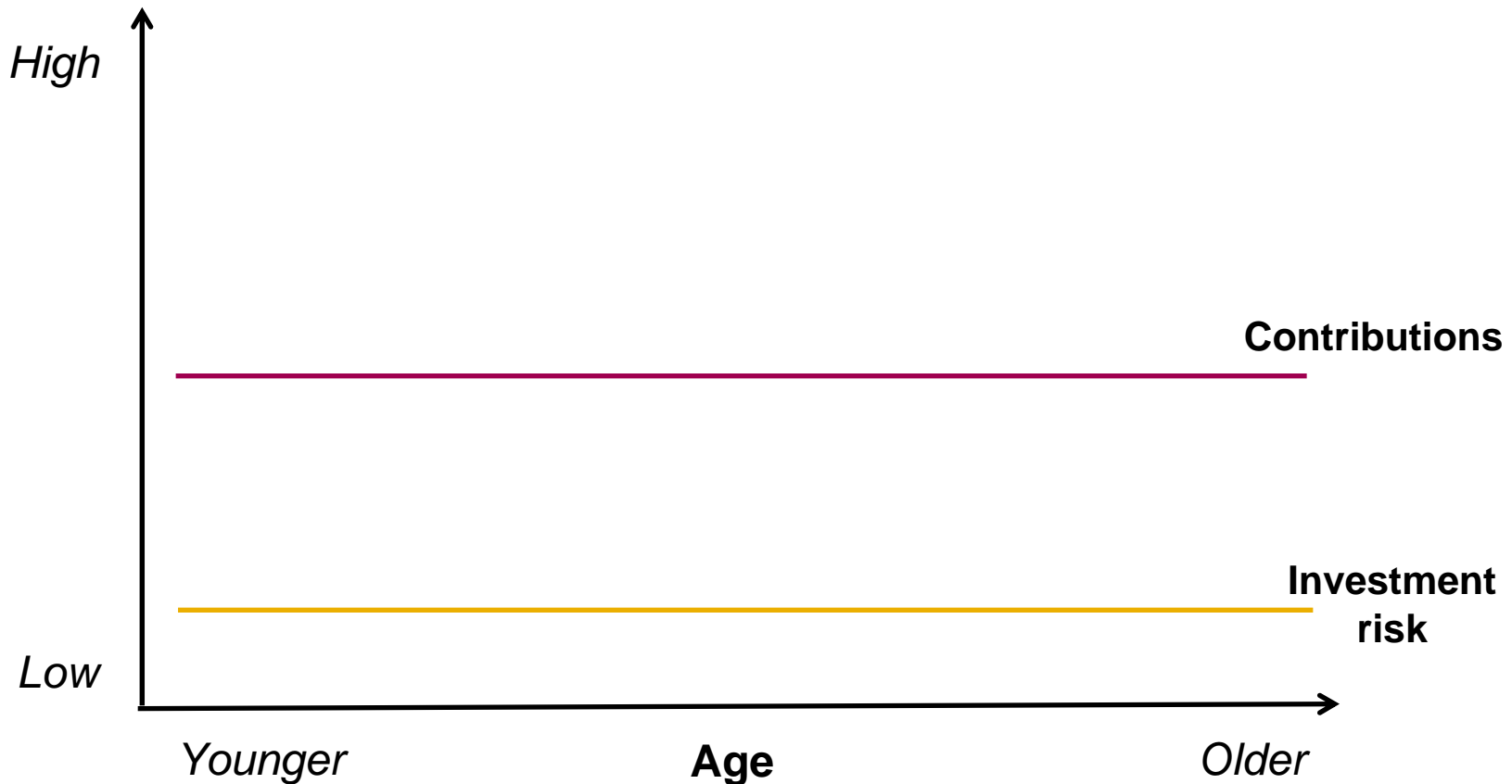
*Higher savings early, recognising future cost of raising a family ...
... and a reduced desire for investment risk at older ages*



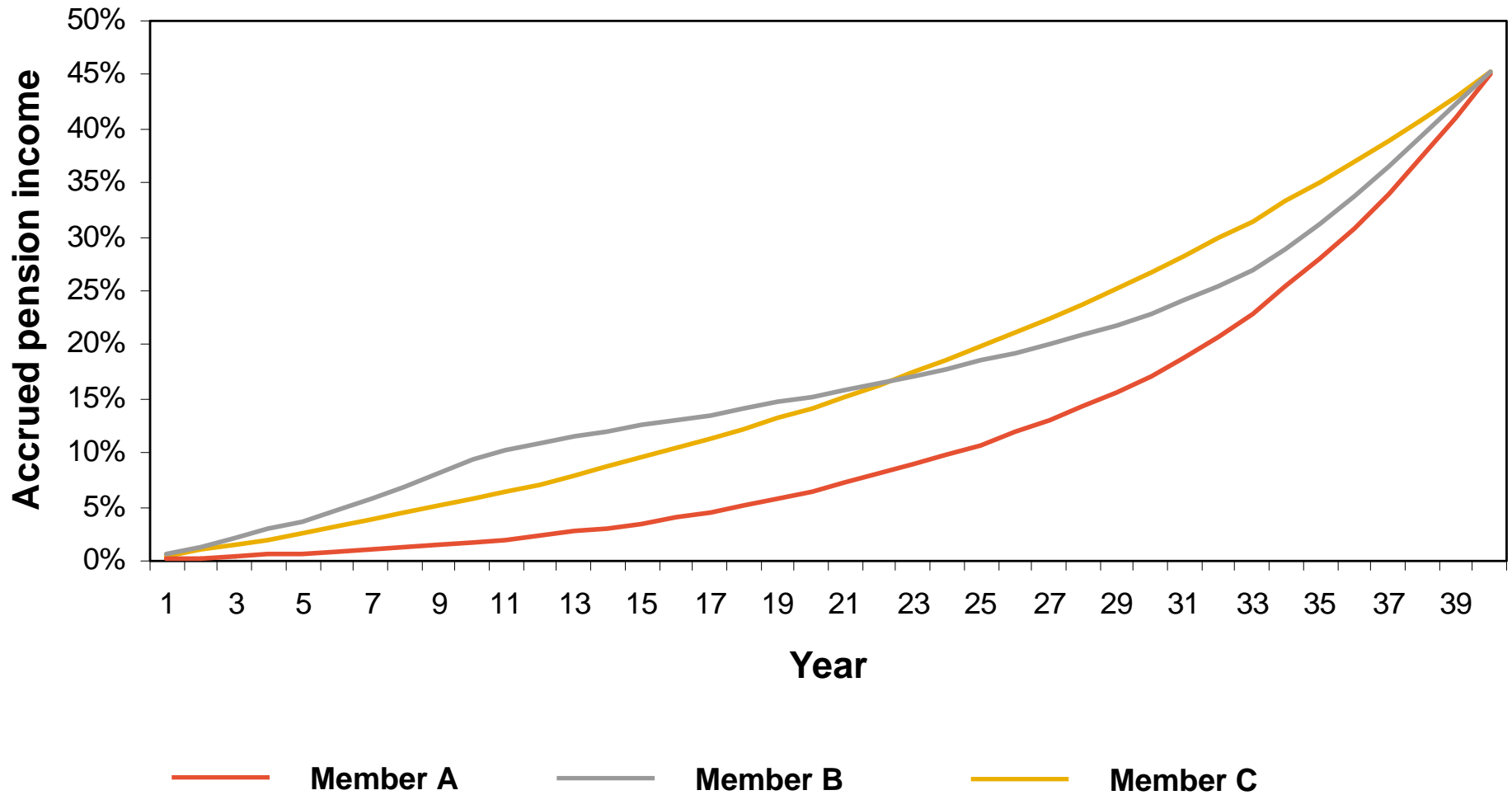
Contribution/risk trade-off

Example member C

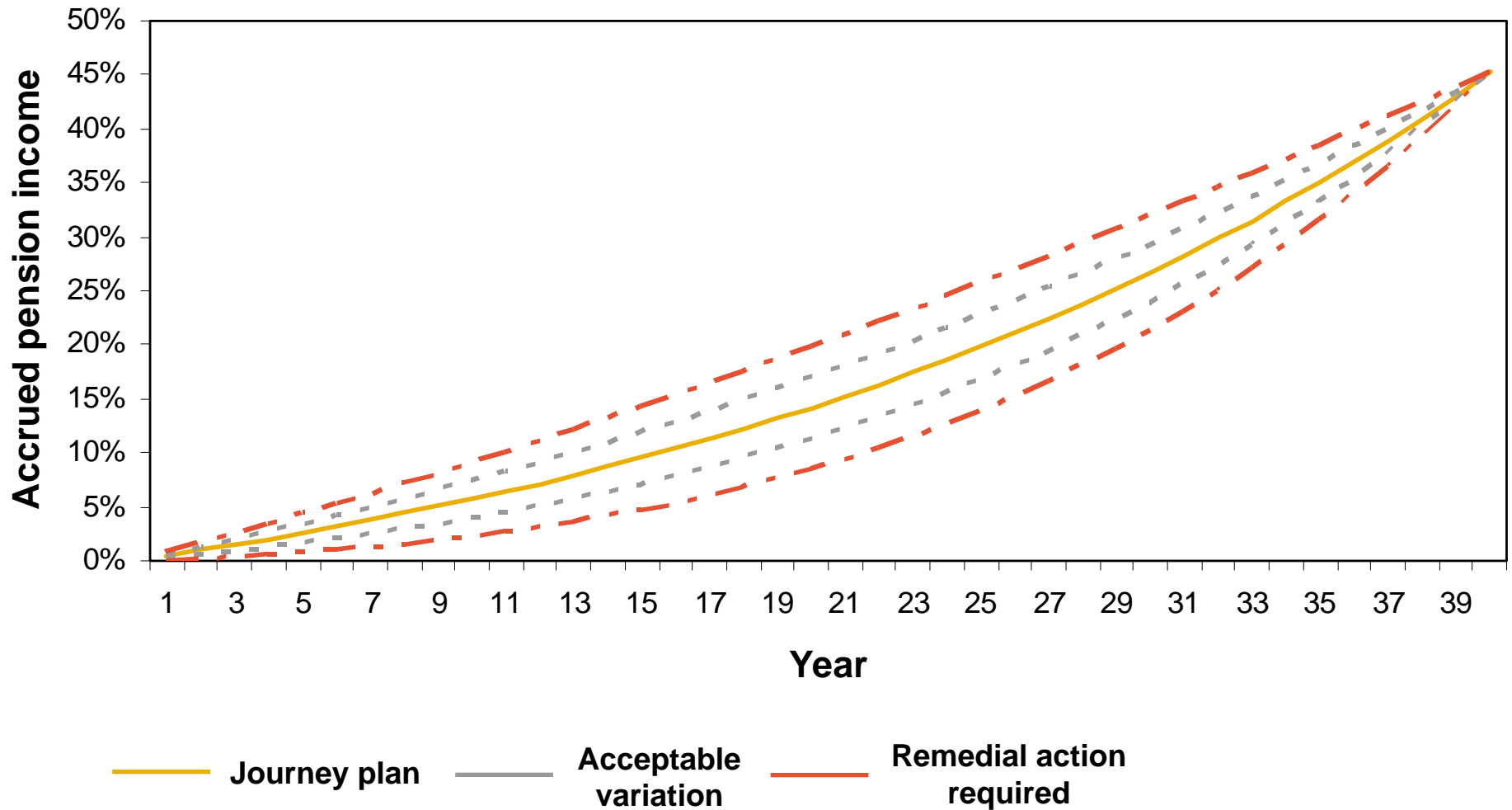
*Constant ability to contribute, not expecting real career progression ...
... little ability to take any investment risk*



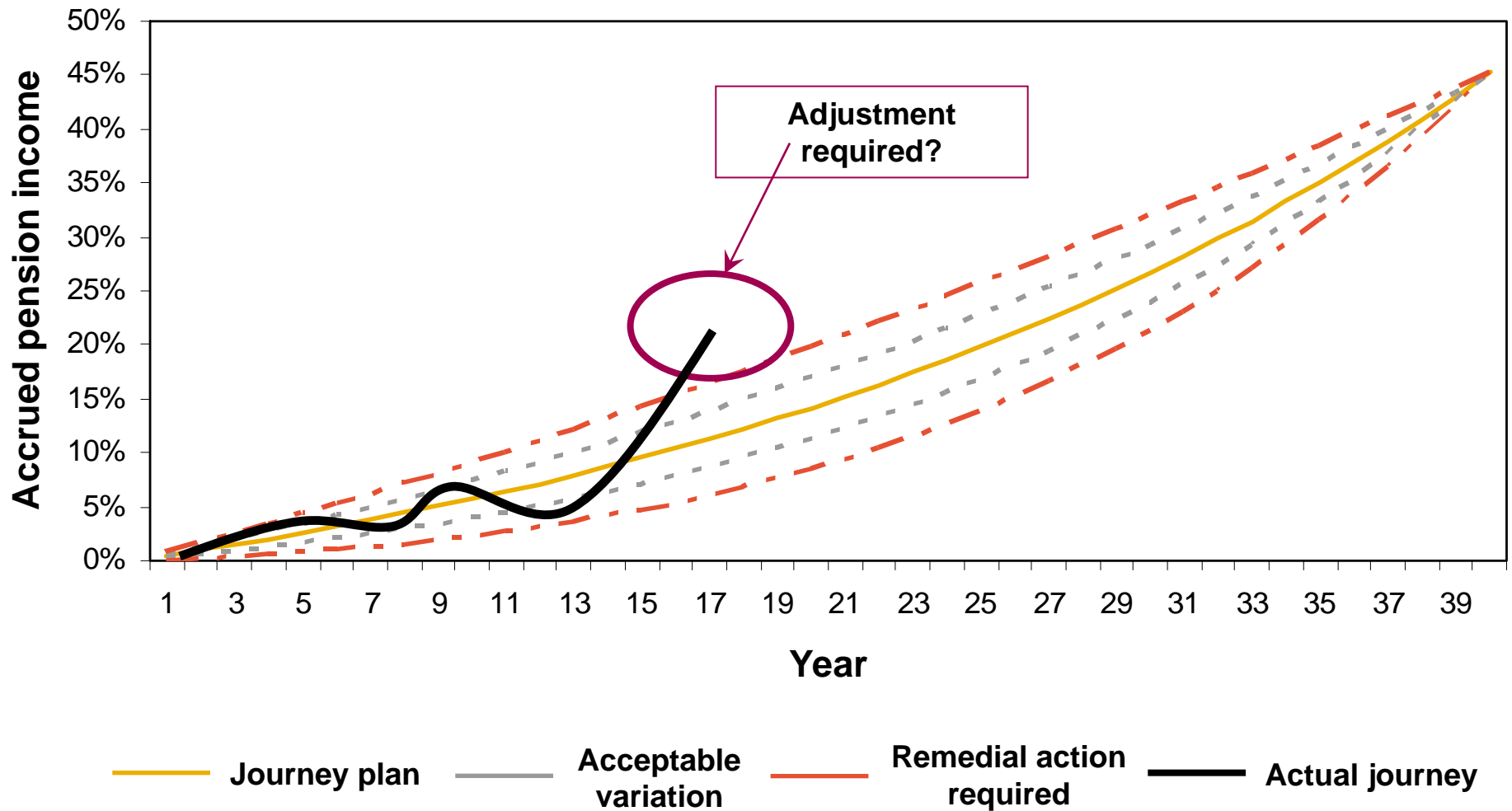
Charting the journey plan



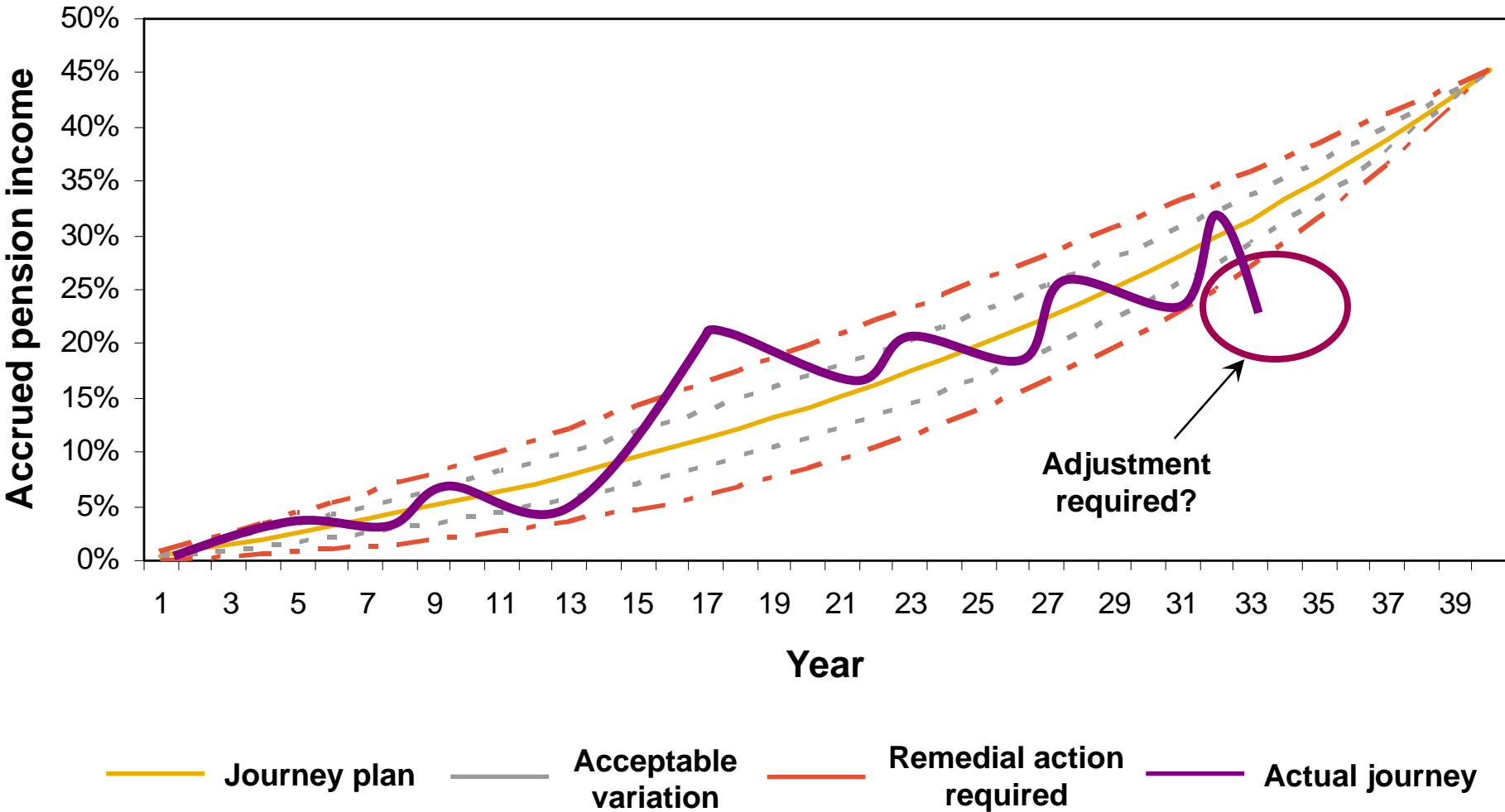
Tolerance around the journey plan: the “sleep at night” factor



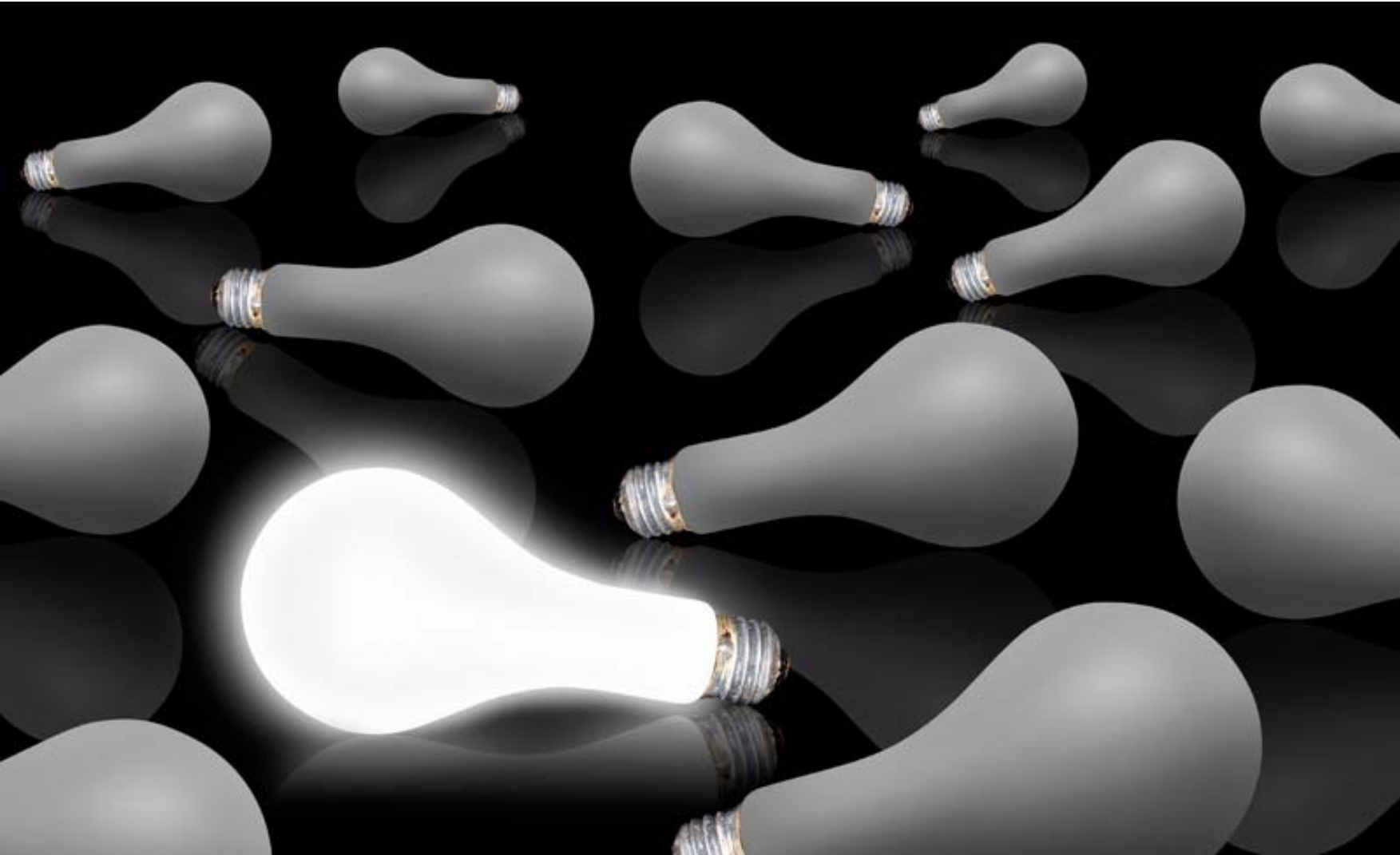
Measuring progress against the journey plan



Measuring progress against the journey plan



Reactions?



Understanding your membership

Value Added Governance

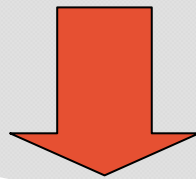
What might governance involve?

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...



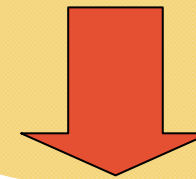
Largely driven by legislation and risk mitigation

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
 - Video interviews
- Regularly review membership data
 - Build into governance reporting

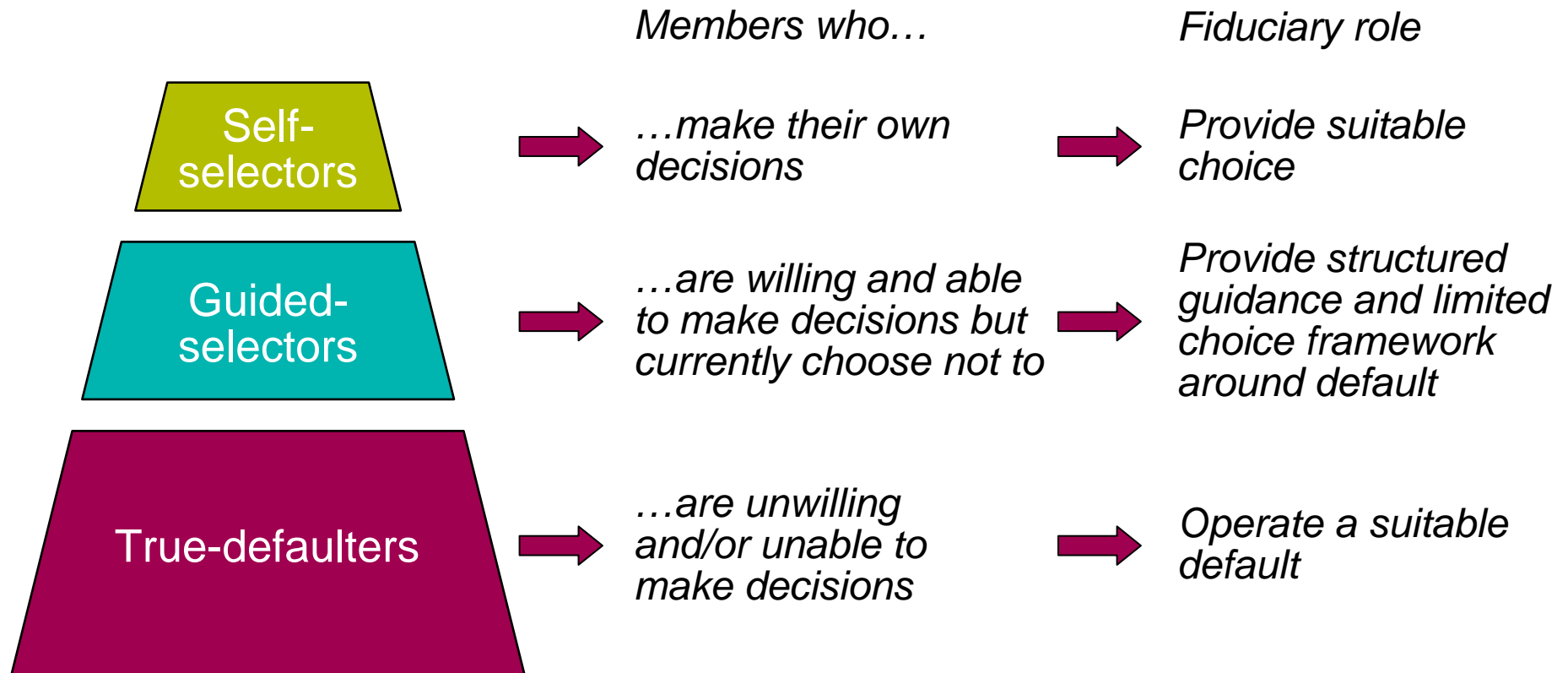
Understanding your membership

- 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

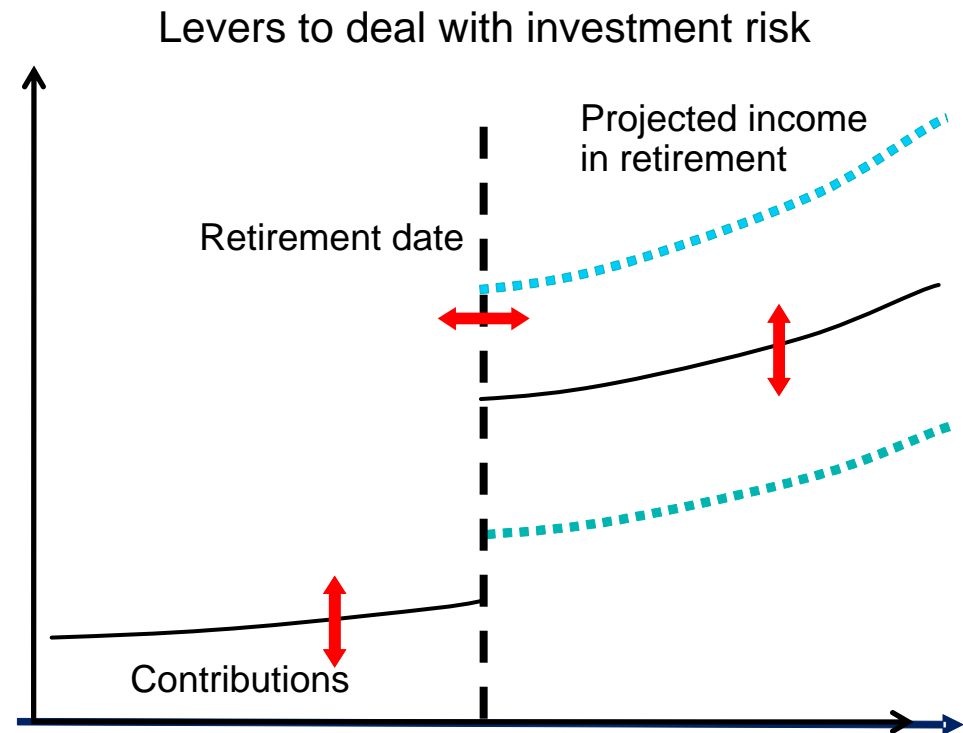
Three types of member



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

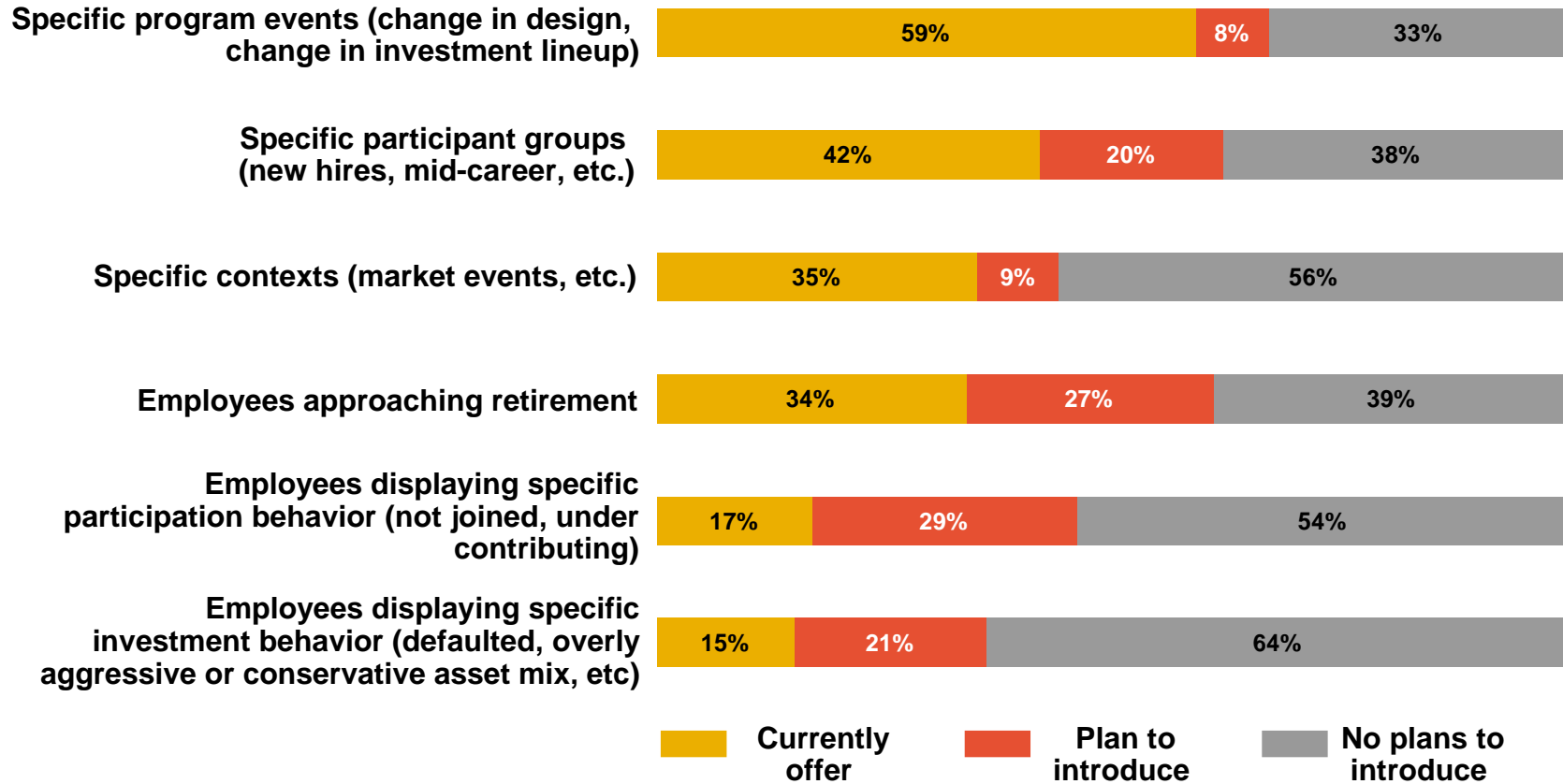
Understanding your membership's tolerance to risk

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

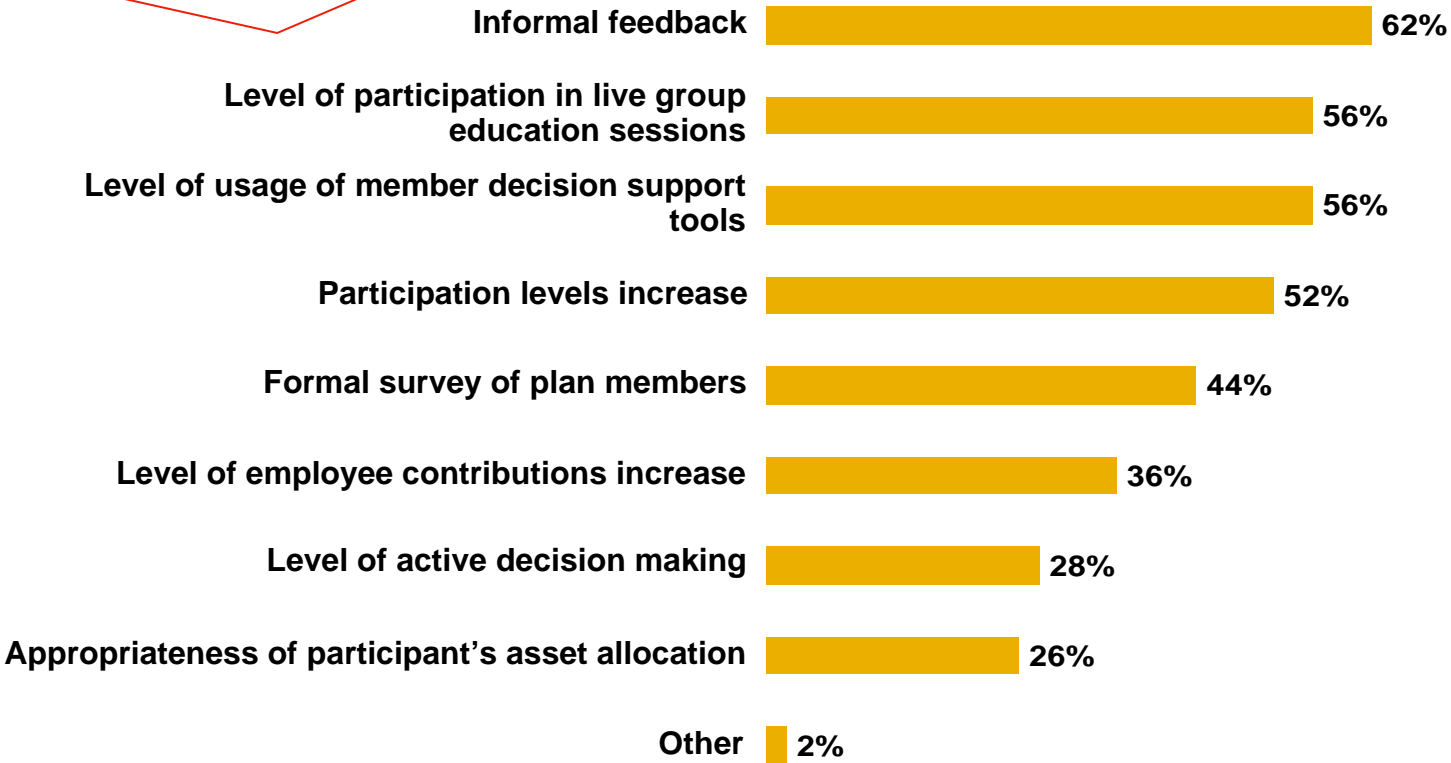
Communications practices — targeted purpose



Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

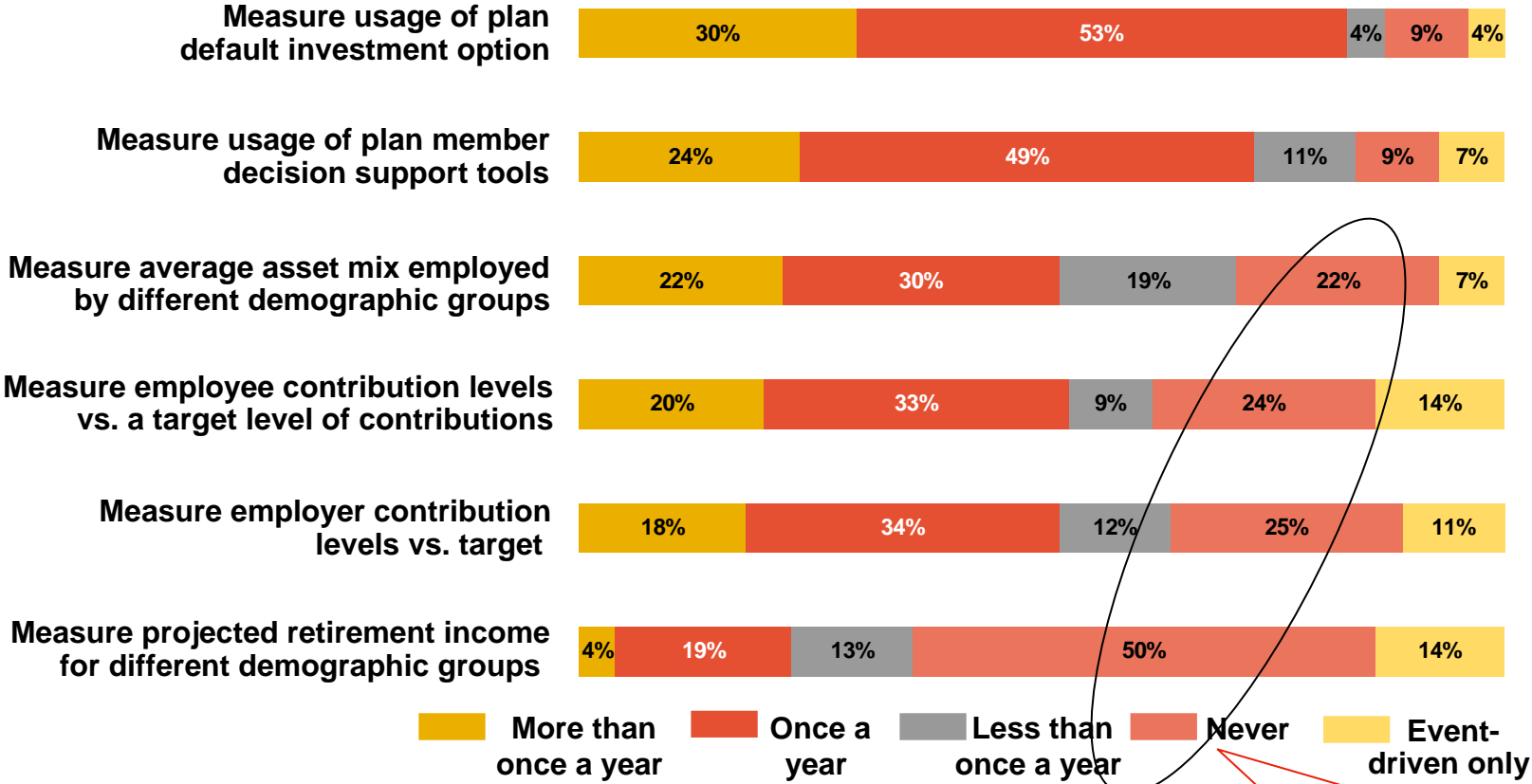
Plan member communication — measuring success

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

CAP governance — monitoring plan effectiveness



Food for thought ... and room for improvement!

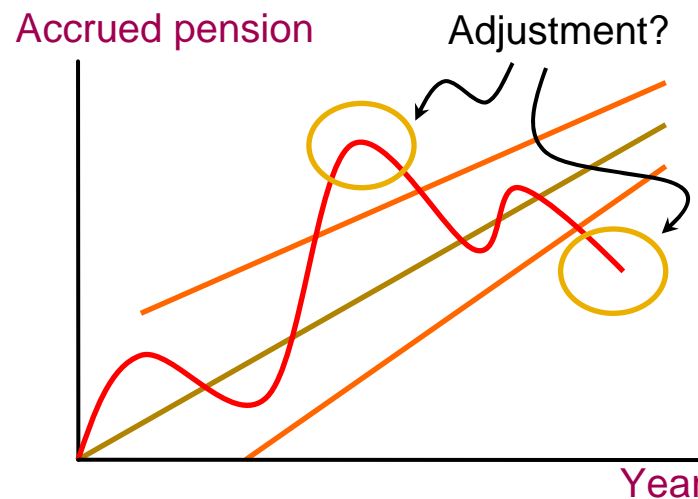
Source: Towers Watson 2010 Canadian Capital Accumulation Plan Sponsor Survey

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'
 - Perhaps using some simple online tools
2. Regularly monitor progress against the journey plan
 - Perhaps presenting it on the annual statement as well as making it available online

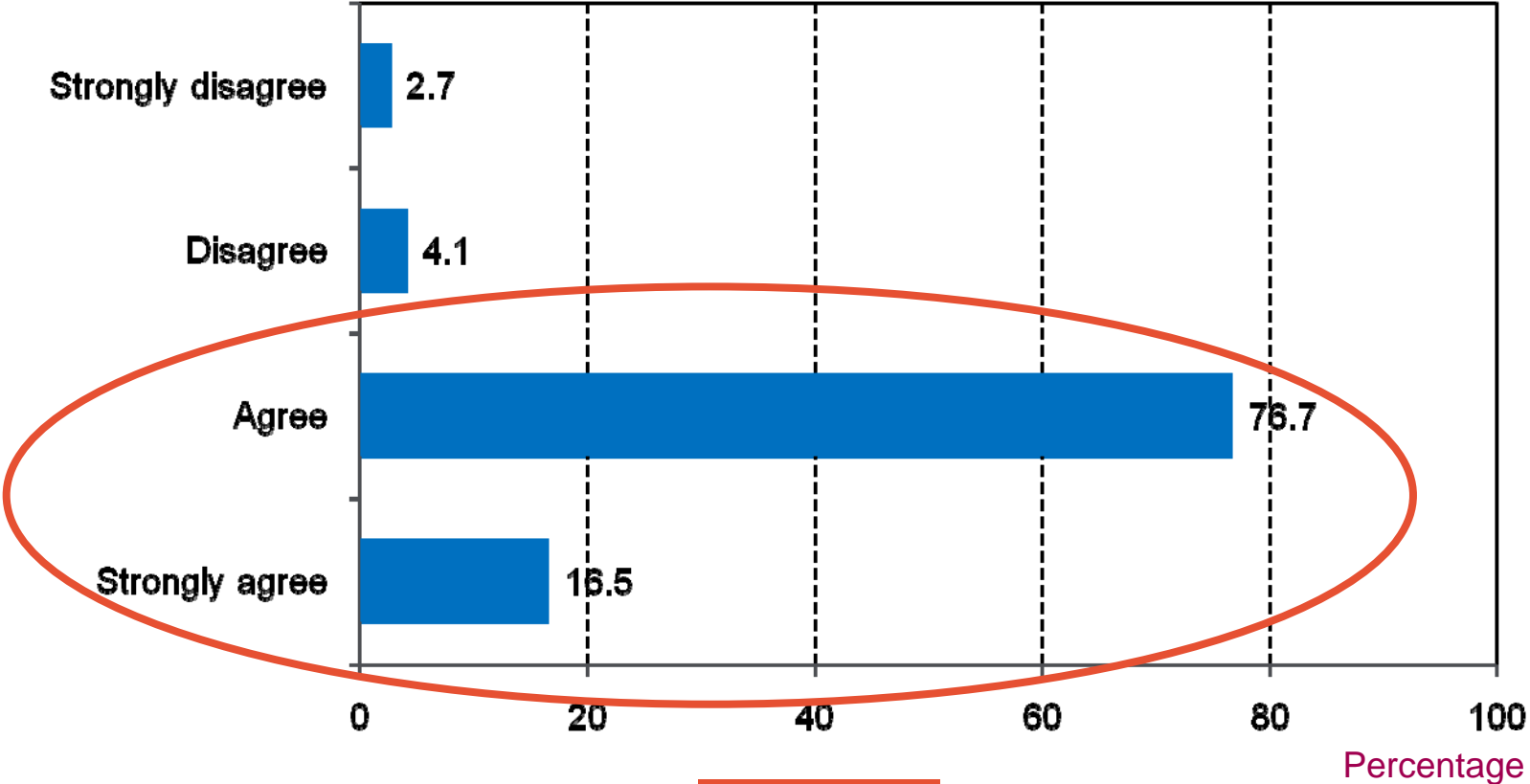


For discussion

- Can good governance add value to members' income in retirement?
- What are the best measures of success for a communication strategy?
Which are you using in your plan?
- Are we communicating the right thing?
- Does one investment structure fit all?
- What is the best default...
 - For enrolment in the plan?
 - For contribution levels?
 - For investment?
- Are generic financial calculators and modelling tools enough? How could we help members better chart their journey?

Can good governance add value?

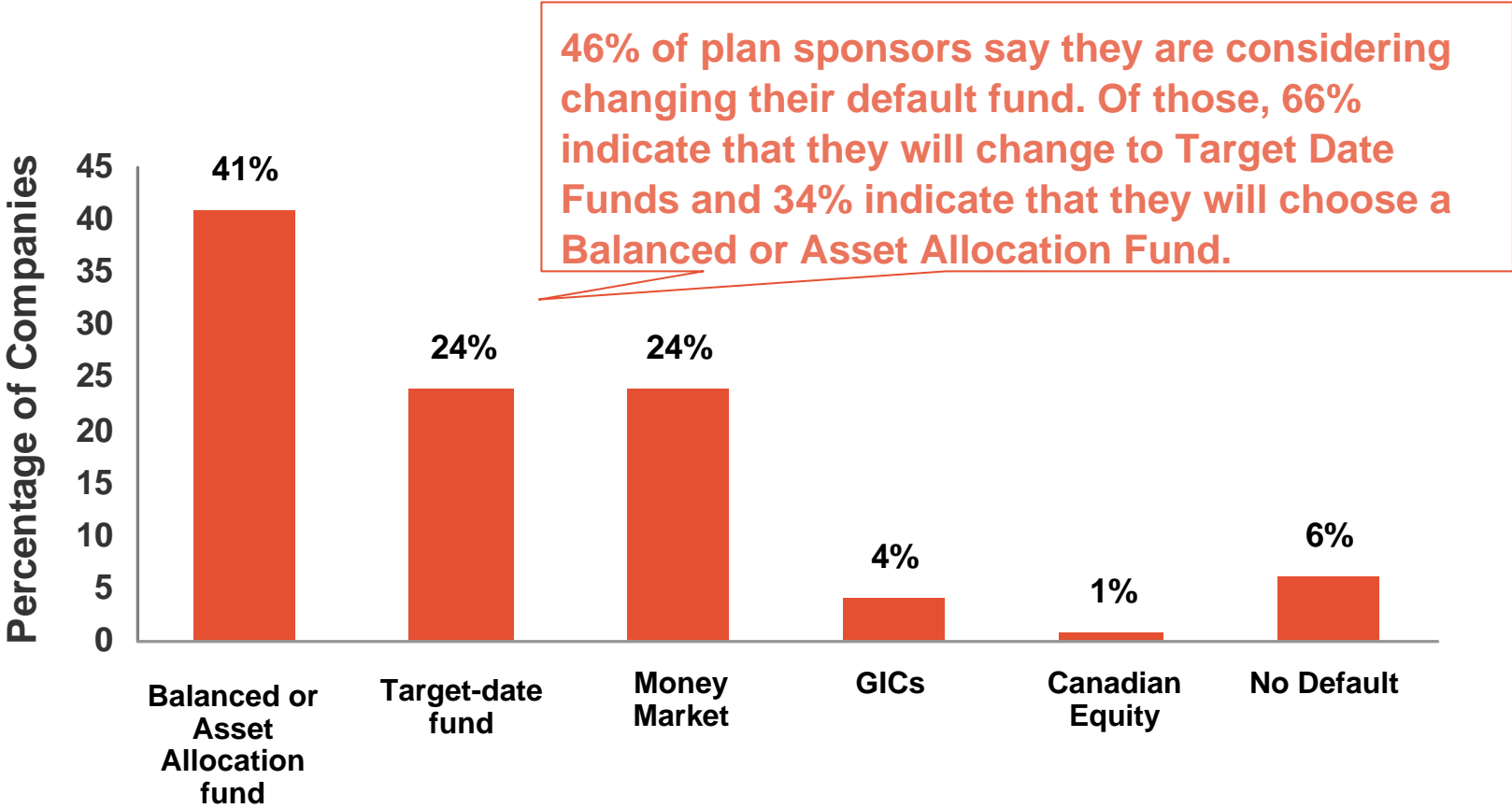
Good DC plan governance can add value to members' income in retirement



Source: Watson Wyatt DC Governance Survey, July 2009

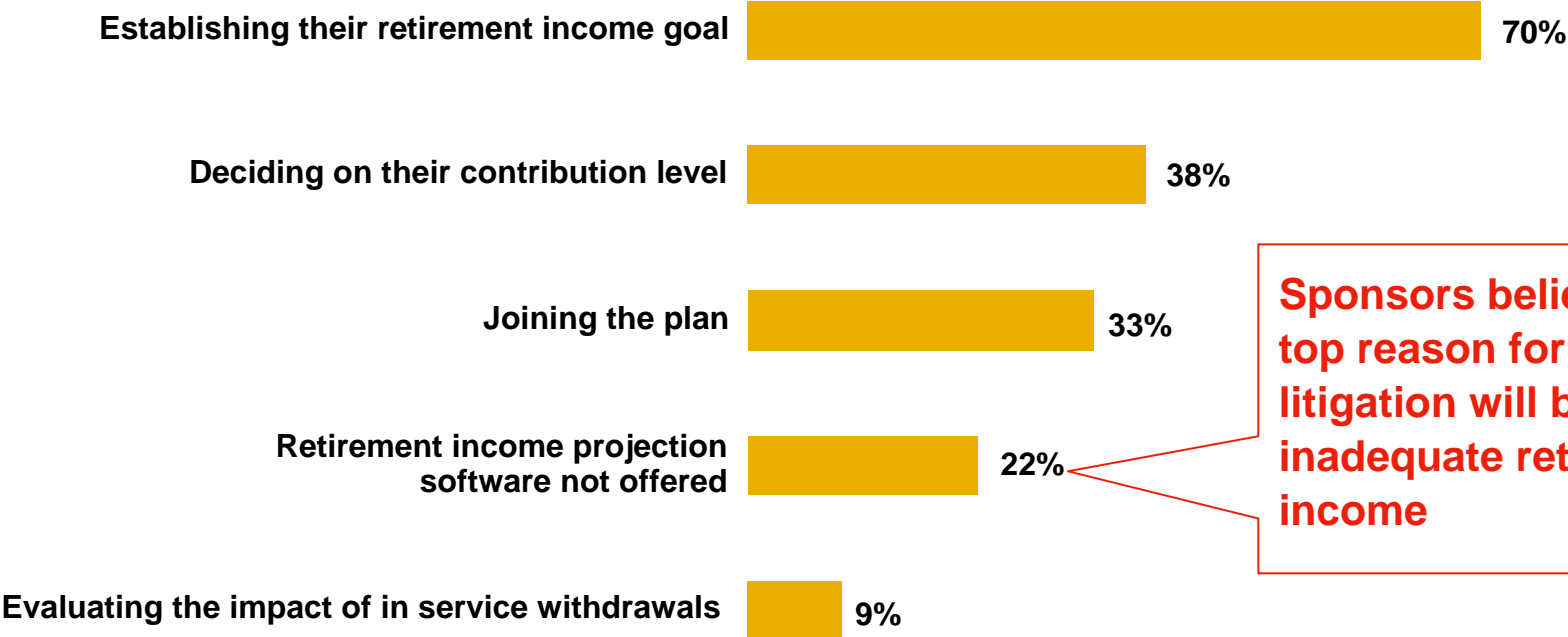
Yes!

Default investment option



Member decision support

Do you offer retirement income projection software to assist members in making decisions with respect to:



Questions?



Michelle Loder
416-960-4481
michelle.loder@towerswatson.com

Nigel Branker
416-960-2651
nigel.branker@towerswatson.com