THE BENEFITS ALLIANCE GROUP
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AdvisorsForum

GROUP RETIREMENT SAVINGS ROUNDTABLE

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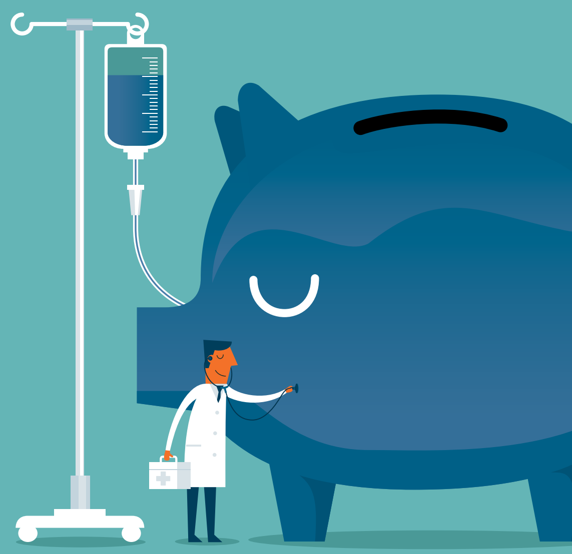
"Employers are not only helping employees save for their future, they're helping employees be better at their jobs today."

Robert Houle
Capcorp Financial

UPFRONT

The dollars and sense of supporting employees' financial health



Few would argue that stress can be the enemy of productivity in the workplace—yet we may underestimate the impact of financial stress.

"There is something to be said about the impact of financial wellness on productivity, which ultimately affects profitability. We're seeing more data to suggest this," says Robert Houle, Vice-President of Capcorp Financial in Ottawa, Ontario. "This puts the value of group retirement plans in a new light. Employers are not only helping employees save for their future, they're helping employees be better at their jobs today."

"I have so many clients who say, 'I pay them well enough, I don't need to give them a retirement plan.' But if we can make this connection between personal finances and productivity, it could help us get past this common roadblock," adds Glenn Kehrer, President at Group Benefits Consulting of Canada in Winnipeg, Manitoba.

Having said that, the advisors at The Benefits Alliance Group roundtable discussion emphasize that retirement savings is just one piece of the puzzle. "Putting in a retirement plan doesn't solve the problem of financial wellness. The more I meet with employees, the more I see that they're struggling to figure out how to pay their mortgage, their car, schooling, and so on. And too many of them are not making the right tough decisions. They're buying an Audi when they should be driving a GM," notes Lio Spagnuolo, Managing Partner and COO at Penmore Benefits Inc. in Concord, Ontario.

For their part, providers are responding with expanded offerings to help individual employees. “We’re seeing carriers moving from tools that calculate whether you’ll have enough money for retirement, to tools that focus on managing finances today. These are steps in the right direction to engage employees,” says Rahim Peera, Senior Vice-President, Group Retirement Services, Penmore Benefits Inc.

First, however, employers need to buy into the value of supporting employees’ financial health, in the same way they support physical health through group benefit plans. If a group retirement savings (GRS) plan is too much of a first step, employers can start by partnering with their advisors, who can conduct employee meetings on financial planning and offer to meet one-on-one with employees. Ideally, the first set of one-on-one sessions, for initial financial assessments, would occur during work hours.

Employers stand to bring the greatest value, however, when they can offer a complete package of support; that is, one that includes a GRS plan. Today’s defined contribution (DC) plans are more cost-effective than the defined benefit (DB) pension plans of yesteryear, and employers need to understand they have options when it comes to matching contributions in order to encourage uptake.

“We need to ensure that the plan is designed to encourage or require mandatory participation, that the contribution formula encourages meaningful plan member contribution levels, and that the investment options include those that will provide automatic rebalancing and de-risking over time,” summarizes Wayne Farrow, Partner at Farrow Pension & Benefits in St. Catharines, Ontario.

A GRS plan can also share equal status with group benefits as a perk of employment. “There aren’t a whole lot of options anymore to increase the benefit plan, so I’m starting to see a shift among some employers, who are looking at retirement savings as a better way to give back to employees,” says Laurie Sobie, Principal at Bell Financial in Toronto, Ontario.

“There is more shifting of risk in group insurance and as that happens advisors can suggest group retirement as a way for employers to complement their expenditure on group benefits,” agrees Houle. “We’re now looking at defined contribution group insurance plans, to be married with defined contribution retirement plans.”

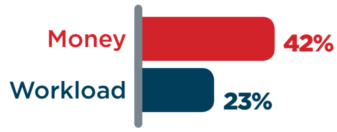
Similarly, a GRS plan can be positioned as part of overall compensation; for employers, it is a tax-efficient way to get greater bang for their compensation dollars.

Another way to engage employers is to discuss the coming changes to the Canada Pension Plan (CPP). “It gets you engaged in a conversation that spells out that the CPP will replace only about 30% of pre-retirement income on average. That’s an important message to pass on to employees, and really helps show the value of employer GRS plans,” states Houle.

Last but not least, employers cannot underestimate the growing importance of a workplace GRS plan to the “average,” middle-income consumer, who doesn’t meet the asset-minimum required by investment firms. “We’ve recently seen one of Canada’s largest investment firms shift focus to the high net-worth market. This is going to continue, which leaves many, many Canadians with fewer options. Group retirement plans are a big opportunity in that mid-market, for the average employee who’s struggling to save money and desperately needs advice,” explains Kathleen O’Keefe, Senior Benefit Consultant at Owens MacFadyen Group (OMG) in Toronto, Ontario.

IMPACT OF FINANCIAL HEALTH

STRESS SOURCE



Money is the leading source of stress (42%) for Canadian workers, ahead of workload (23%). Two-thirds (69%) would choose a new job with a group savings plan rather than stay at a current job without one, according to research by Nest Wealth Asset Management.[1]

TIME OFF

One quarter of employees (26%) took time off work or left work early due to stress in the past year, increasing to 36% among those in poor financial health. These employees took time off or left early due to stress an average of 14 times—jumping to 35 times among the financially unhealthy, reports the 2018 *Sanofi Canada Healthcare Survey*.[2]

26% took time off work due to stress in the past year

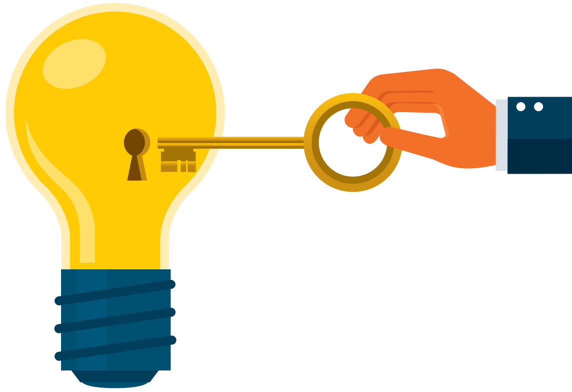
FINANCIAL WELLNESS

The *Manulife Financial Wellness Study* reports that 40% of Canadians describe themselves as financially unwell. Of those, 49% say they feel distracted at work due to money-related issues, and are less likely than financially well employees to say they are productive.[3]

40% Financially unwell

TIPS FOR ENGAGEMENT

Flipping the right switch



Employee engagement will always be a challenge when it comes to financial health and retirement savings, in large part due to human nature. "A lot of people spend more time planning their weekend or their vacation than their retirement, and retirement is a very long vacation," observes Houle.

As is the case with other areas where engagement can be low, despite their intrinsic importance—think health care—the 80/20 rule will see a relatively small portion of the population that needs no convincing, while the large majority take little to no action. Education, interest, competence and confidence are among the factors that lead to engagement in this latter group.

It all starts, however, with a "light-bulb moment." This moment of sudden insight can be different for everyone, which is why leading advisors seek to be increasingly hands-on with plan members. "In speaking directly with members, we've found that there tends to be the one thing that triggers a strong desire for action. For example, plan members tend to underestimate the longevity risk. They plan on 20 years of retirement but the latest data say you'll be living well into your 80s. Or they overestimate the value of government retirement plans—when you highlight how little those will be valued come retirement, the lightbulb goes off there as well," says Peera.

Simplification is also key. "This industry is complicated, so we need to do what we can so that plan sponsors can easily understand why they have to have a retirement savings plan, and so that plan members can easily do the right thing," says Farrow.

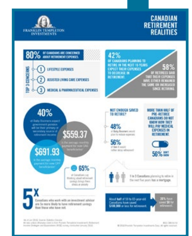
When it comes to contributions, for example, use math that easily translates. "At employee meetings, I say that you need $200,000 to give yourself $1,000 per month in retirement income. Employees can easily grasp that, and we go from there," says Barry Laberge, Financial Advisor at Selectpath Benefits & Financial Inc. in London, Ontario. Another way to simplify the math on savings, suggests Houle, is to point out that saving $25 for 30 years will generate about $250 a month in retirement income.

Advisors can also encourage plan sponsors' buy-in by setting (and achieving) targets for engagement. For example, in exchange for on-site meetings during work hours, advisors can report on completion rates for financial wellness assessment tools, which are available from carriers. If the baseline completion rate is 20%, then the target for year two can be 25%. Advisors can also set targets to improve members' contribution levels.

Finally, advisors should not be shy to toot their own horn. Research shows that people who work with advisors save significantly more than those who save on their own. "Professionally managed accounts will far outperform the index on unmanaged accounts, because the average person will chase unpredictable returns," notes O'Keefe. Adds Farrow: "Most plan members have no interest in becoming investment experts, any more than plan sponsors do."

THE RETIREMENT PICTURE FOR CANADIANS

Here are highlights from Franklin Templeton Investments' *2018 Retirement Income Strategies and Expectations (RISE) Survey*.[4] Advisors can also download an infographic to share with clients.



53% of pre-retirees worry about outliving their assets or having to make major sacrifices to their retirement strategy.

22% of retirees have increased their sources of income due to insufficient income for retirement.

53% of pre-retirees said they would postpone retirement if unable to retire due to insufficient income, and **33%** of retirees did actually postpone retirement for that reason.

39% of pre-retirees expect their expenses to decrease in retirement, while **58%** of retirees report their expenses have stayed the same or increased.

About half of 50- to 65-year-old Canadians have saved $100,000 or less for retirement.

Among Canadians planning to retire in the next five years, **one in three** has a mortgage.

Professional advice makes a difference: **28%** of pre-retirees aged 45-54 had retirement savings of more than $500,000, compared to just **9%** among those not working with a professional advisor.

VALUE CONNECTIONS

What makes you indispensable?

As calls for transparency grow in the financial sector, it's increasingly important for advisors to define the value they bring to clients. Not to mention that it's good for business. "The better you are able to articulate a clear value proposition to your client, and then follow through with results, the more successful you'll be in the long run," says Peera.

Internal value audits are essential to ensure the value proposition resonates—and evolves—with clients. "When we rebranded our business, we did focus group meetings with some of our clients. They were extremely insightful. And we have a value discussion at the end of all our meetings, where we ask clients if we're meeting expectations, and if there are other things we should be doing," says Jim Kilgour, President of Advanced Benefits Consulting in Waterloo, Ontario. "Until you understand how your clients view you, it doesn't matter what you think you're doing. You need to shape your value proposition around their perceptions."

Communicating value is more than a recitation of services, however. Advisors need to be able to communicate (and demonstrate) why they are indispensable to clients—and ideally "brand" that with a slogan and marketing activities to boost awareness and retention. "We went through this process when we redid our website," recalls Kyle O'Brien, Principal at Benefits Associate Limited in Toronto, Ontario. "It was good to take the time to really think about everything we do and articulate what we are trying to accomplish for clients."

"A key takeaway here is to ask yourself, 'How many of my clients could identify, right away, my value proposition? Why am I necessary to them?' If you don't think they can easily do that, then you probably need to better identify and communicate your value proposition," says Sobie.

Proof of value comes next. At Penmore Benefits, for example, the value proposition revolves around employee engagement. "We are in the process of documenting every one-on-one we do, every call we take on the retirement side, as part of our CRM. Carriers do this, and we realized that we can do it as well. That's part of our value proposition that we're going to build into our CAP review," says Spagnuolo.

TECHNOLOGY IS OUR FRIEND

Roundtable participants unanimously agreed that advisors should embrace technologies in order to be more efficient, which in turn frees time to provide the expertise and advice that can't come from computers or mobile apps. This is especially true for the large, middle-income market, where internal efficiencies translate into cost-effective services.

"Technology makes our lives easier to do financial plans for employees, but you still need that human touch to persuade someone to put in the extra $25, or to enrol in the first place," summarizes Spagnuolo.

Having said that, there is something to be said for technology's potential to encourage engagement due to the fact that people have easier access to their personal information. Carriers have begun to enable log-ins with a simple fingerprint, for example, and from there members can get real-time information on their personal retirement savings and use of benefits. For younger employees especially, "these technologies will be like breathing for them. Advisors need to understand how this will change our conversations with the next generation of investors," notes O'Keefe.

"Artificial intelligence will be the next wave in retirement plans. It's already happening on the benefits side," adds Peera. "Artificial intelligence can assess risk profiles and flag if something doesn't match. To some degree this will replace what we as advisors do, but overall technology will be a net positive because it helps us to be more thorough. It also helps us better serve those clients who don't want the one-on-one consulting."

ABCS OF OCIO

Something to consider for DB plans

Advisors who have clients with DB pension plans may want to recommend a new service offering available through insurance companies in partnership with asset managers—an outsourced chief investment officer (OCIO), also referred to as "delegated investment solutions" or "discretionary management." Currently, just one insurer in Canada offers the service.

The OCIO essentially takes over portfolio management for clients. It's meant for smaller plans, with assets of about $25 million, although mid-sized plans have also begun to delegate portfolio management responsibilities. Benefits consulting firms launched the offering several years ago, to help offset the declining revenue base for the DB business, and insurance companies have since entered the space in order to be competitive. The good news is that advisors who find themselves competing with a consultant for a case with a DB plan can now match the consultant's delegated investment service.

Roundtable participants agreed that an OCIO is an opportunity for advisors to add value, since employers with less than $100 million in pensions tend to be underserved. As well, insurers' OCIO offerings are priced considerably lower than those of consulting firms.

The OCIO offering is also an example of the blurring of roles between consultants and insurers, while also demonstrating the growing recognition of the value of dedicated asset management.

As a first step, advisors can ask the insurer and asset managers to help outline the characteristics for identifying appropriate DB prospects, and from there how to make the case with clients for moving to an insurer's OCIO platform, suggest roundtable participants. That discussion should include reviewing and updating portfolio objectives, which is where advisors can showcase their expertise and possibly generate savings. Employers with legacy plans may not have looked at their investment policies and procedures in a long time, and this is an opportunity to make sure they are well positioned for the future.

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The Benefits Alliance Group thanks the following individuals who participated in the roundtable discussion for this report:

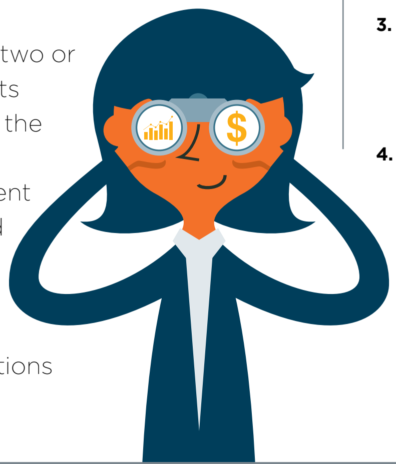
From left, seated: **Gil McGowan**, The Benefits Alliance Group, **Kathleen O'Keefe**, Owens MacFadyen Group, **Lio Spagnuolo**, Penmore Benefits. *Standing:* **Barry Laberge**, Selectpath Benefits & Financial, **Christopher Goldie**, Franklin Templeton Investments, **Wayne Farrow**, Farrow Pension & Benefits, **Matt Streeter**, Franklin Templeton Investments, **Ted Quinn**, Manulife, **Kurt Dreger**, Manulife, **Rahim Peera**, Penmore Benefits, **Robert Houle**, Capcorp Financial, **Kyle O'Brien**, Benefits Associate, **Laurie Sobie**, Bell Financial, **Glenn Kehrer**, Group Benefits Consulting of Canada, **Jim Kilgour**, Advanced Benefits Consulting

Market outlook: Canada and globally

After almost a decade, the bull market in Canada and many other countries is finally slowing, reports Templeton Financial Investments. While the business cycle remains intact, and economic growth is positive, investors need to consider a few short-term issues.

The Bank of Canada increased interest rates twice in 2018, and two or three more rate hikes are anticipated in 2019. That said, economists still predict some growth, consistent with what typically occurs in the later stage of an economic cycle.

U.S. economic growth continues and in North America, the recent United States-Mexico-Canada Agreement (USMCA) has removed some recent uncertainty for Canadian investors. However, global trade tensions persist, with no immediate signs of a resolution to the critical U.S.-China trade dispute. Europe remains an area for caution as well, as Brexit and populism continue to pose questions for the European community.



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The Benefits Alliance Group, Canada's largest group of independent benefits advisors, is pleased to produce *Advisors Forum* as part of its commitment to serve as a strong national advisory voice, providing tools for members to advocate on behalf of clients. To help achieve this objective, The Benefits Alliance Group has partnered with Franklin Templeton Investments and Manulife to learn more about emerging trends in group retirement savings (GRS) plans, and how advisors can bring more value to clients as a result.

A sincere thank you to the members of The Benefits Alliance Group who contributed their insights and calls to action as participants in the *GRS Advisors Forum* session in October 2018.

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The Benefits Alliance Group is comprised of 32 independent member firms with more than 175 advisors. Collectively they administer more than 7,500 group benefit plans with $1.4 billion in group insurance premiums, and 1,500 group retirement plans with $3.5 billion in retirement plan assets.

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