Day of Learning for Next-Generation HR Leaders

Retirement Plans Are from Jupiter – Cultivating a strategy for Earthly use

Laura Lynch, Ian Markham, Laura Samaroo
It’s easy to get lost

- Are you getting value for your spend on Retirement Plans?
- How can you elevate your thinking to a more strategic level?
- Five steps to make a world of difference
Five steps:

1. Ask
Figure out why you even have a retirement plan
Figure out why you even have a retirement plan

- Training/development
- Mentoring programs
- Career management programs
- Talent mobility programs
- Discretionary technology
- Flexible work programs
- Work/life programs
- Corporate social responsibility programs
- Well-being programs
Retirement plans do matter, especially to late-career hires

Most important factors that influence employees’ decisions to join an organization:

<table>
<thead>
<tr>
<th>Younger than 40</th>
<th>40’s</th>
<th>Age 50+</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Job security</td>
<td>2. Base pay</td>
<td>2. Retirement benefits</td>
</tr>
<tr>
<td>3. Organization’s reputation as a great place to work</td>
<td>3. Challenging work</td>
<td>3. Base pay</td>
</tr>
<tr>
<td>5. Challenging work</td>
<td>5. Organization’s reputation as a great place to work</td>
<td>5. Vacation/PTO</td>
</tr>
<tr>
<td>7. Career development opportunities</td>
<td>7. Career development opportunities</td>
<td>7. Organization’s reputation as a great place to work</td>
</tr>
</tbody>
</table>

Note: Respondents were asked to select the top five most important factors with 27 options.
More so for DB plan members, but still important for DC

My company’s retirement program was an important reason why I:

(a) DC plan/Group RRSP members:

<table>
<thead>
<tr>
<th>Age 50+</th>
<th>Joined my current employer</th>
<th>Stay with my current employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 40</td>
<td>33%</td>
<td>50%</td>
</tr>
<tr>
<td>40's</td>
<td>28%</td>
<td>41%</td>
</tr>
<tr>
<td>Age 50+</td>
<td>33%</td>
<td>50%</td>
</tr>
</tbody>
</table>

(b) DB plan members:

<table>
<thead>
<tr>
<th>Age 50+</th>
<th>Joined my current employer</th>
<th>Stay with my current employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 40</td>
<td>48%</td>
<td>62%</td>
</tr>
<tr>
<td>40's</td>
<td>46%</td>
<td>71%</td>
</tr>
<tr>
<td>Age 50+</td>
<td>50%</td>
<td>71%</td>
</tr>
</tbody>
</table>

Note: Percentages indicate the proportion of respondents who either “somewhat agree” or “strongly agree” with the statements.
An employee’s productivity life cycle

Five steps:

1. Ask why you even have a retirement plan to begin with

2. Understand
Don’t just assume you know what employees think

There are mismatches between what employers think matters to employees...

…and what actually matters to employees
Since the 2008 financial crisis, employees place greater value on things like job stability and retirement benefits.

46% would give up some of their paid time off for guaranteed retirement benefits.

48% would accept a lower pay increase in exchange for guaranteed retirement benefits.

Source: 2012 Global Workforce Study – Canada.
How can you optimize your investment in the total compensation package?

1) Maintain current level of perceived value at lower investment

2) Maintain current level of investment while increasing perceived value

Current levels of perceived value and reward investment

Decrease in investment from current level  \(\rightarrow\)  Increase in investment from current level

Increase in Perceived Value (Percentage)

-20mm  
-10mm  
0  
10mm  
20mm  
30mm  
40mm

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Conjoint analysis can help you get more bang for your buck

<table>
<thead>
<tr>
<th>Change in Pay and Benefits Cost ($M)</th>
<th>Percentage Point Decreases in Perceived Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>($26.9)</td>
<td>-14.7</td>
</tr>
<tr>
<td>($4.2)</td>
<td>-12.0</td>
</tr>
<tr>
<td>($19.6)</td>
<td>-10.7</td>
</tr>
<tr>
<td>($11.2)</td>
<td>-9.7</td>
</tr>
<tr>
<td>($1.3)</td>
<td>-9.0</td>
</tr>
<tr>
<td>($0)</td>
<td>-1.4</td>
</tr>
<tr>
<td>($78.9)</td>
<td>-1.3</td>
</tr>
</tbody>
</table>

Baseline perceived value = 66.8

Note: Modeled impacts of various pay and benefits changes on perceived value are not additive due to the “portfolio effect”. Modeled impact assumes all other programs stay the same. Declines in perceived value are decrements to current perceived value of 66.8 (among valid conjoint respondents).
Do you understand your employees’ risk tolerance?

### Employee Group 1

- **Risk tolerance**
  - Age Group: <25, 25-29, 30-34, 35-39, 40-44, 45-49, 50-54, 55+
- **Values:**
  - <25: 6.5, 3.5, 8.6, 8.4, 9.1, 4.0, 0.9, 2.1
  - 25-29: 2.3, 7.7, 6.0, 6.3, 6.5, 2.6, 1.6, 2.1
  - 30-34: 2.1, 5.8, 3.3, 3.5, 3.7, 1.6, 1.2, 0.9
  - 35-39: 0.5, 1.6, 0.6, 1.6, 2.3, 0.7, 0.2, 0.2
  - 40-44: 0.5, 0.5, 3.5, 1.2, 6.5, 9.1, 1.6, 0.2
  - 45-49: 0.7, 1.2, 2.3, 4.4, 0.3, 0.9
  - 50-54: 2.1, 2.1, 2.1
  - 55+: 0.2, 0.9

### Employee Group 2

- **Risk tolerance**
  - Age Group: <25, 25-29, 30-34, 35-39, 40-44, 45-49, 50-54, 55+
- **Values:**
  - <25: 6.7, 19.9, 23.8, 12.9, 10.3, 8.5, 4.4
  - 25-29: 0.4, 0.6, 0.6, 0.6, 0.6, 0.6, 0.6
  - 30-34: 0.5, 0.5, 2.3, 2.3, 2.3, 2.3, 2.3
  - 35-39: 0.6, 0.6, 0.6, 0.6, 0.6, 0.6, 0.6
  - 40-44: 0.6, 0.6, 0.6, 0.6, 0.6, 0.6, 0.6
  - 45-49: 0.6, 0.6, 0.6, 0.6, 0.6, 0.6, 0.6
  - 50-54: 0.6, 0.6, 0.6, 0.6, 0.6, 0.6, 0.6
  - 55+: 0.6, 0.6, 0.6, 0.6, 0.6, 0.6, 0.6

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Five steps:

1. Ask why you even have a retirement plan to begin with
2. Understand your employees preferences
3. Consider perspectives
DB plans are suffering from (a) low interest rates (b) volatile markets…
(c) We’re getting older and living longer

Longevity improvements result in 50% increase in expected benefit payment period in last 40 years

These combined factors can strain DB pension plans

Solvency funded position for a typical DB plan:
DC plans and other retirement savings are impacted by those same factors, too!

Example: Two employees retire after identical careers. The first retires at age 60 on Jan 1, 2008. To what age would the second have to defer his retirement to achieve the same pension as the first?

Source: Towers Watson DC Pension Barometer. Member participates in a DC plan from age 40 to age 60, contributes 10% of pay, invests in a 50/50 balanced fund, converts account balance to an immediate or deferred annuity at age 60.
Moving to a DC plan transfers the risk burden

1. Investment risk

- DB plans outperform DC

2. Mortality risk

- DC plans do not spread mortality risk

Those who live longer than “expected” are at risk of running out of retirement income
Plan members “risk” may have HR implications

If you are not able to achieve your retirement goals, what can you do?
Three options:

1. Increase contributions
2. Retire later
3. Live on less income

<table>
<thead>
<tr>
<th>Age</th>
<th>Contributions</th>
<th>Retirement age</th>
<th>Projected income in retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Five steps:

1. Ask why you even have a retirement plan to begin with
2. Understand your employees preferences
3. Consider perspectives from both Finance and HR
4. Challenge
Consider a broad range of design alternatives

Risk Allocation
Governance Capacity
Administration Considerations

Member Risk — Benefit Volatility

Sponsor Risk — Funding Volatility

- DC
- DC with minimum DB
- Combination DB+DC
- Flexible Pension Plan
- Jointly Sponsored Plan
- Flat Benefit
- Career Average Earnings
- Unindexed FAE
- DB (Indexed, FAE)
Plan design objectives guide your analysis

<table>
<thead>
<tr>
<th>Objective</th>
<th>Priority (check one box for each item)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Easy to communicate; Easy for employees to understand</td>
<td>High</td>
</tr>
<tr>
<td>2. Shared responsibility between employer and employee</td>
<td></td>
</tr>
<tr>
<td>3. Assist in retention</td>
<td></td>
</tr>
<tr>
<td>4. Competitive with peer organizations <em>(check one)</em></td>
<td></td>
</tr>
<tr>
<td>- at median</td>
<td></td>
</tr>
<tr>
<td>- below median</td>
<td></td>
</tr>
<tr>
<td>- above median</td>
<td></td>
</tr>
<tr>
<td>5. Assist in recruiting <em>(check one or both)</em></td>
<td></td>
</tr>
<tr>
<td>- early career</td>
<td></td>
</tr>
<tr>
<td>- mid-career</td>
<td></td>
</tr>
<tr>
<td>6. Sustainable cost to organization</td>
<td></td>
</tr>
<tr>
<td>7. Manageable financial volatility to organization</td>
<td></td>
</tr>
</tbody>
</table>
How do the alternatives compare to your objectives?

- **Current Plan**
- **Alternative 1**
- **Alternative 2**

**Axes:**
- Easy to communicate / understand
- Manageable volatility
- Sustainable cost
- Assist in recruiting
- Shared responsibility
- Assist in retention
- Competitive with peers

**Priority Levels:**
- High
- Medium
- Low
Case Study: Designing an HR-focused pension plan

Benefit Strategy: Attraction/Retention
- Introduce 2% DB pension
- Competitive plan

Benefit Strategy: Retention
- Normal retirement age of 70
- Early retirement age 60. If retire earlier, 3% per year reduction from age 65
- If employment terminated prior to age 60, deferred pension at age 70
- No bridge pension

Benefit Strategy: Employer Risk
- DB pension is contributory
- No guaranteed indexing

Benefit Strategy: Employee Choice
- Initially members accrue a DC pension
- Member eligible to elect DB option for future service once 10 years of service and 50 points achieved

Communications Plan
- Extensive employee education sessions and communication plan
- Access to financial planners
- Modeling tool
Five steps:

1. Ask why you even have a retirement plan to begin with
2. Understand your employees preferences
3. Consider perspectives from both Finance and HR
4. Challenge the status quo — is your current design the right fit?
5. Communicate
The black hole: employee interest

- Do employees find the concepts too difficult?
- Or they just don’t care?
- Why do they stick their head in the sand when hearing “retirement planning”?

300 messages/day
Organ Donor Consent Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Explicit consent (opt-in)</th>
<th>Presumed consent (opt-out)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>4.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>27.5%</td>
<td>98.0%</td>
</tr>
<tr>
<td>U.K.</td>
<td>17.2%</td>
<td>99.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>12.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Austria</td>
<td>100.0%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Belgium</td>
<td>100.0%</td>
<td>99.6%</td>
</tr>
<tr>
<td>France</td>
<td>100.0%</td>
<td>85.9%</td>
</tr>
<tr>
<td>Hungary</td>
<td>100.0%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Poland</td>
<td>99.6%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Portugal</td>
<td>99.6%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Sweden</td>
<td>85.9%</td>
<td>99.6%</td>
</tr>
</tbody>
</table>

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**Behavioural economics — example 2**

<table>
<thead>
<tr>
<th>Fee Schedule</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Only:</td>
<td>$59</td>
<td>68%</td>
</tr>
<tr>
<td>Print + Online:</td>
<td>$125</td>
<td>32%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Fee Schedule</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Only:</td>
<td>$59</td>
<td>16%</td>
</tr>
<tr>
<td>Print Only:</td>
<td>$125</td>
<td>0%</td>
</tr>
<tr>
<td>Print + Online</td>
<td>$125</td>
<td>84%</td>
</tr>
</tbody>
</table>
Strategy leads to the “stuff”

- Data analysis
- Best practices and market trends
- Leadership input
- Audience research
- Company business /HR priorities

- Insights
- Implications
- Opportunities

- Philosophy
- Guiding Principles
- Objectives

- Change Management, Communication and Education Strategy
  - Tactics
  - Timing
  - Measurement
The challenge: Engage employees and drive behaviour change

**Goal:** Move employees along a journey and tell an integrated story that’s simple to understand, builds trust and drives action when it’s needed

**Involvement**
I’m heard
My organization listens to my views and considers my needs while doing what’s right for the Company

**Understanding**
I know
I’ve got great rewards... good quality, a wide variety, a fair price and the same or better than other companies

**Motivation**
I feel
I trust that the organization is making decisions with my best interests in mind. I feel confident in my choices

**Action**
I do
It’s easy for me to take full advantage of the Rewards on offer
Different communication vehicles for different messages and different audiences
Examples

www.dontbeawlf.com

www.areyoubarking.co.uk
Five steps:

1. **Ask** why you even have a retirement plan to begin with
2. **Understand** your employees preferences
3. **Consider perspectives** from both Finance and HR
4. **Challenge** the status quo — is your current design the right fit?
5. **Communicate** better!
Retirement plan management framework

BUSINESS OBJECTIVES

GOVERNANCE
Plan Design
Communication and Decision Support
Administration
Plan Financing
Investment

FINANCE

HUMAN RESOURCES

OPERATIONS
Plan Compliance

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Questions

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