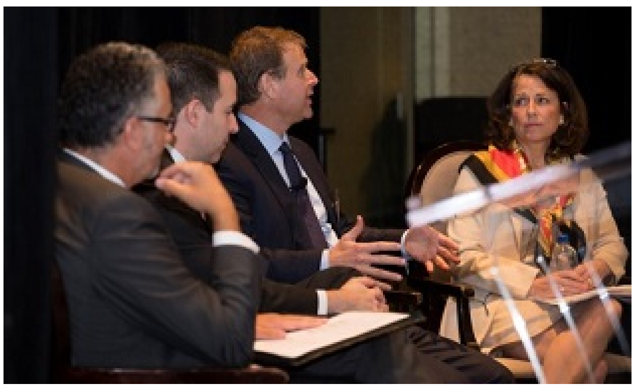
Employers encouraged to focus on the entry, exit points of DC plans

Michael McKiernan | October 25, 2017



Plan sponsors should focus on the entry and exit points of their defined contribution pension plans as the world grapples with an era of lower returns, according to a group of industry leaders.

Speaking during a panel discussion on the industry's future prospects and trends during *Benefits Canada*'s Defined Contribution Investment Forum in Toronto earlier this month, Clark Steffy, director of institutional business development and client relationships at Sun Life Global Investments Canada Inc., said the current labour force has very different expectations for life after working than his parents' generation did.

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"People are thinking about world travel in retirement, they are thinking about starting businesses," said Steffy. "And they are thinking about bequests for their kids and grandchildren."

However, those expectations are hard to square with an economic outlook that suggests investment returns will be lower than the historical average. For instance, John Croke, head of multi-asset product management at the Vanguard Group Inc., said while the markets have consistently delivered around nine per cent annual growth since the 1920s, few forecasters will go above six per cent in the coming years.

"So you're looking at almost a third off the compounding that you used to be able to take for granted," said Croke, speaking on a panel moderated by Joe Nunes of Actuarial Solutions Inc. during the Oct. 6 event. "I think the consequences are less around investment designs and more around savings behaviour. You can't invest your way out of a savings deficit."

Ruthann Pritchard, an institutional portfolio manager at Fidelity Investments, told the audience she'd like to see employers taking advantage of plan design tools to encourage their members to enrol and start saving as early as possible.

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"We would love to see employers default members into the plan at a higher contribution rate and then use auto solutions, such as automatic increase, to encourage even higher savings rates up to the maximum that Revenue Canada will allow," said Pritchard. "I don't think there is anyone who can save too much for retirement."

At the other end of the scale, Steffy said safe-harbour rules and the development of mechanisms to allow members to draw down their assets directly from sponsored plans, rather than transferring them to individual funds, should be a priority for the industry.

"Right now, most employers are saying, 'Please get out of my plan,' so it's very hard to build robust solutions when we're sending all those people to retail plans," he said.

"Decumulation is a global objective," Pritchard added.

"Any firm that can solve for decumulation globally will have done all of us a good service. As a plan sponsor and fiduciary, if you can be provided with a safe harbour and get to the point where you can keep your members in the plan to take advantage of the cost benefits, that's by far the best thing you can do for them, other than get them in the plan and saving in the first place."

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