Benefits CANADA

What benefits and pension topics are top of mind for consultants?

Alethea Spiridon | August 16, 2019

Compared to the preceding years, 2019 appears to be the year of steady when it comes to progress on hot topics that resonated in the industry in 2017 and 2018. While no single topic has disappeared from the slate, neither have any new ones risen to become topics of urgency among consultants.

"Last year, we were dealing with all sorts of issues related to marijuana [and] mental health," says George Wang, consulting actuary at Westcoast Actuaries Inc. in British Columbia. "And when I work with my clients, when I talk to my colleagues and even my competitors through our networking events, there's really not a common theme or trigger point this year that everybody is focused on."

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However, something is definitely cooking in the consulting world, with further change and evolution pretty much guaranteed. It's hard to say which changes are imminent, but hedging bets about what's simmering under the surface is much easier.

Using technology and data effectively

One of the big topics is how technology will play into benefits and pension plans, says Lio Spagnuolo, chairman of the board for the Benefits Alliance Group. As new technologies are introduced, this influx of options has the potential to change how people buy and access their benefits.

“Navigating through the noise and seeing what technologies are going to be beneficial in the benefits and pension market versus all the noise is going to be very important for consultants to weed through,” he says. “We’ve got to look at what’s important for the client, and what would add value for the client in that situation.”

Jill Wagman, managing principal at Eckler Ltd., notes employees will continue to want more apps, so it really comes down to how easy and understandable each offering is. “There are some new entrants in the [digital] benefits space where it’s the ease of use and self-driven choices, the simplified technology.”

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For the most part, millennials are driving this change in how programs are delivered, says Wagman, “because they want the ease of access, and they want it remote on their phone.”

TECH-SAVVY

A 2018 survey by Buck found employers are relying on technology to shape and analyze their future wellness offerings. It found:

59% intend to introduce a comprehensive portal to their benefits program;
53% plan to apply decision support tools;
50% of employers intend to apply predictive analytics; and
44% plan to apply incentive tools and tracking.

Ilana Hechter, partner and lead of talent strategy and transformation at Mercer Canada, says the availability of these new technologies — such as pharmacogenetic testing or diabetic constant monitoring tools — also offers an opportunity for employers to discuss their benefits plan with members. “And really, that might be a way to engage employees as well.”

Indeed, technology and data are becoming far more important in, and to, consultants’ work. Hechter sees human resources playing a huge part in moving the use of technology forward, as well as organizations using analytics as a business case for change.

“We have, at our fingertips, data that’s telling us why people leave . . . and the profile of an individual who would come in and be successful in this environment,” she says, noting this data can be useful for employers looking to track how trends in retention can help their organization retain top talent.

“These are things that help us prioritize where we should invest our efforts when it comes to people. And I think we need to equip ourselves and use what we have more effectively. For HR to have a seat at the table, we need to demonstrate that we deserve to be there.”

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One of the ways to be there, according to Hechter, is to use analytics predictively, so an organization can prioritize investments in the right areas. “Only 12 per cent [of employers] are using predictive analytics in people decisions,” she says, referring to the findings of **Mercer’s latest talent trends survey**. “This is a missed opportunity. We’re armed with data. We have this stuff at our fingertips and we need to use it more effectively.”

Also, the survey found about half (53 per cent) of Canadian HR leaders are planning to invest more in the digital or automation space this year. And even though a lot of what’s being done isn’t brand new, the difference is the medium through which change will happen, notes Hechter.

Engagement through communication

While Spagnuolo also expects more technology around employee engagement in the coming years, he says it’s an ever-growing topic for consultants since it’s on the minds of employers that are often struggling to engage and retain their employees.

In considering employee shortages, Rejean Tremblay, chief commercial officer at Aon Canada, says health is one of the first things he’s discussing with plan sponsors. “Years ago, we were talking about employee benefits programs, [then] we moved toward talking about health more. Now that we’ve dealt with premium fees, flexible plans and all that is past, or behind us, what they are talking to me about more and more is how can they use health as an HR tool in order to help them face the employment shortage that they have to deal with.”

The County of Wellington engages its employees through regular communications about their benefits and retirements plans. Susan Farrelly, the organization’s director of HR, says its consulting firm visits employees onsite, offering presentations about the evolving world of benefits.

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“Part of that presentation has been about what’s happening in the drug benefits world to the high cost of drugs and the new types of drugs coming onto the market,” she says. “It’s been very helpful. Our employees are educated consumers of the benefits plan, and we want them to know what benefits the County’s providing, what’s in their packages, information about benefits as a whole and drug management and benefits management.”

By keeping employees informed, it’s also been easier for the County to make changes to the plan when necessary, adds Farrelly. “They’re trusting we’re providing good information, timely information. So we do that through different information sessions [and] PowerPoint presentations.”

Alongside this hands-on communication, the County also provides access to an intranet site, a quarterly HR newsletter and annual memos to further engage employees through constant, relevant communications. “We actually show the benefit premiums on pay statements, so even if they’re 100 per cent employer-paid, we still think it’s important employees see the cost of benefits,” says Farrelly. “That raises awareness too.”

What’s next for pension plans?

When it comes to awareness around pensions and investments, Kevin MacKenzie, an investment consultant at Westcoast Actuaries Inc., says the last market cycle has led many plans to stronger performances and improved financial statuses, so employers with defined benefit arrangements are weighing their options. "Employers have been considering, 'Well, is this the point where I reduce my risk in the market, and either go for annuity buyouts if I can, or do I match my liabilities with my assets and go for a duration matching strategy or cash flow matching strategy?'"

Read: DC plan member actions affected by volatility

On the capital accumulation plan side, the focus is on educating members on the benefits of a well-diversified asset mix, he says, "especially if they're choosing their own portfolio and not going with the default target-date option, just because of the higher expected volatility in the markets these days."

It's also about adequacy since defined contribution plans are much newer than DB plans, says Wagman. "I think plan sponsors are now looking at them much more strategically and holistically and they're looking at adequacy. They're looking at whether employees are equipped to make choices."

DC TAKING CENTRE STAGE

Defined contribution plans now account for more than **50%** of total assets across the world's seven largest pension markets, surpassing defined benefit plan assets for the first time, according to a 2019 report by Willis Towers Watson's Thinking Ahead Institute. It found:

- Over the past decade, total DC plan assets have grown at a faster pace, by **8.9%** in 2018, compared to a growth of **4.6%** for DB plan assets.
- With **86%** of its total in DC plans, Australia has the highest proportion of DC to DB assets.
- Canada (**95%**), Japan (**95%**), the Netherlands (**94%**) and the U.K. (**82%**) continue to be dominated by DB pension assets.

And now that there's more customization in investment funds, she adds, that's "really important because most employees end up opting for a target-date fund when they're available in the DC plan."

A move towards more sophistication within DC plans, both in the accumulation and decumulation phase, is another trend, both on the investment and the education side, says Wagman.

In the past, consultants may have been more driven by trends, services and the support that was offered to plan sponsors based on the performance of their manager, says Jillian Kennedy, leader of Canadian DC and financial wellness at Mercer Canada. "What we're finding is that clients are actually looking for so much more. They're looking for solutions, looking for proactive support and that's really being driven by what's happening within the landscape of the growth of the DC market."

Consultants are now spending more time sitting down with employers, showing them how they look relative to others and beginning to be more predictive on future strategy, says Kennedy. “Our clients are really overwhelmed. And although we do have clients that have very large committees, and a lot of resources and budget to actually work on this with us and they want to sit down and diligently go through them, I would say that doesn’t necessarily represent the majority of our marketplace.”

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This leads to the trend of delegating to a third party, such as an outsourced chief investment officer, which Kennedy expects to continue to rise in prevalence in the coming years.

THE DISAPPEARING OF GUIDELINE G19

While the Canadian Life and Health Insurance Association’s proposed guideline on compensation disclosure in the benefits and retirement industry was a hot topic in 2018, the entire matter is now moot as the association **withdrew its plans in May 2019**.

However, just one consultant interviewed for this year’s report referred to the guideline. The Benefits Alliance Group’s Lio Spagnulo said it was an obvious concern for consultants and brokers. “Not the fact that commission disclosure is bad, I think it’s good, it’s just depending on how this commission disclosure comes out. And right now, the way that CLHIA is presenting it is not appropriate . . . and I don’t think it’s fair.”

The age of consolidation

Another industry trend is the move towards independent providers of consulting advice, says Janet Rabovsky, a partner at Ellement. “But it doesn’t always play out. So the talk is there, some people are doing it and others — either because it’s easier, because they get the brand name and they can’t be faulted for picking it — or especially in the case of many multinational corporations, they have relationships across many lines of business that could be actuarial, investments, health care, compensation, etc. And it’s easier because you get a consistency of approach and delivery.”

Over the past five or 10 years, the industry has certainly seen a lot of consolidation among the larger consulting firms. “So the bigger firms just keep getting bigger,” says Wagman. “And now, on the flip side, we’re seeing the smaller brokerages and the smaller consulting heads are getting picked up by the [Hub Internationals] of the world, so there’s the consolidation at both ends of the spectrum in terms of the marketplace.”

Joe Nunes, executive chairman at Actuarial Solutions Inc., says the shift he sees in the landscape is several large organizations acquiring boutique consulting practices and building them into national and international forces. “That’s the biggest thing I see from the consulting brokerage side. I think that’s going to end up giving not just small employers but mid-size employers a real viable alternative to the global powerhouses — in Canada anyway.”

Read: Hub International acquires assets of Toronto-based benefits firm

As these brokerages and consultancies consolidate, Nunes expects they’ll expand their breadth of capability to a level where mid-size employers may find a home with a better level of service and cost structure, as well as all of the skill sets they need.

Rabovsky also believes the industry is changing. She says consultants are being asked to do more, and all of this change is affecting how consultants operate. “Some of that is financially motivated, the need to have better margins, scale, etc. And some of it is being forced by plan sponsors who are actively taking on more roles themselves.”

A few years ago, consultants were worried about the commoditization of some of their services, says Wagman, noting the concern was it would devalue the work and, as a result, the need for consultants. “But what it’s done is it’s changed our role from a commodity provider to a strategic advisor. And that’s great for us, because that’s the really fun stuff and adds the most value, and you feel like you really are partnering with your clients.”

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