Moving the needle on Canadian defined contribution plans

While the Covid-19 pandemic has challenged all aspects of our business, personal, and financial lives, DC plans – and their sponsors and participants – showed great resilience. Still, the experience brings a unique opportunity to reimagine and refresh DC plans for the post-pandemic period.

In this paper, we examine how sponsors can move the needle in three important areas: plan purpose; diversity, equity, and inclusion (DEI); and environmental, social, governance (ESG) and climate change considerations.

Reimagining DC Plan Purpose

As we emerge from the pandemic and look to accommodate a more flexible workforce and more flexible work, plan sponsors are presented with an opportune moment to take stock of whether their plans remain "fit for purpose" and best positioned to provide maximum value moving forward. Supporting all cohorts within your organization with the right resources to prepare them for retirement and to enable them to take charge of their financial wellbeing is a key part of potentially improving plan performance – and the employee experience.

Moving the Needle on Plan Purpose

Take stock of participants' financial wellbeing: Even before the pandemic, organizations were shifting their focus towards employee wellbeing, with the realization that an employee's financial position has an impact on their wider wellbeing. Findings from our 2021 survey of Canadian DC plan sponsors indicated that 53% are focusing on improving financial wellbeing and have either already implemented changes or are planning to do so within the next two years.

Revisit plan design: There are various ways to address financial wellbeing through plan design, both at the foundational level of how employee and employer contributions are structured, as well as the types of features that can be incorporated to help enhance employees' financial resilience. Our research shows that 72% of Canadian DC plans include matching contributions, which encourage employees to save for retirement, though room for improvement still exists. Plan sponsors can also consider implementing auto-escalation, a feature found in only 13% of plans, while auto-enrollment is used in 67% of plans. . Integrating debt repayment, varying contribution levels by workforce segment, and allowing retirees to remain in the plan are other ways sponsors can make their plans more outcome-focused through flexible design.

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Consider decumulation options: Providing post-retirement decumulation options is perhaps the most overlooked, yet potentially one of the most significant ways, for a plan sponsor to improve participant outcomes in retirement. Our survey findings show, however, that only 14% of plan sponsors currently offer a decumulation option, though 26% are considering one within the next two years. The majority of sponsors offering decumulation solutions, 66%, do so to support improved retirement readiness and financial wellbeing, underscoring the importance of decumulation as a key part of a robust financial wellbeing strategy.

Ensuring Diversity, Equity, and Inclusion in the DC Plan

Diversity, equity, and inclusion are top-of-mind considerations for organizations of all types and sizes. According to our 2021 DC survey, we found that almost 60% of Canadian plan sponsors were focused on extending their organizations' DEI efforts to their retirement plans. With a view of the plan through a DEI lens, sponsors can broaden participation, ensure fairness of benefits and potential retirement outcomes, and improve oversight through more diverse perspectives.

Moving the Needle on DEI

Target specific cohorts: Different cohorts of participants bring differing abilities to save and accumulate assets to their plans. Sponsors can adapt their periodic reviews of benefits and their design, features, and communication to ensure that all groups are presented with, and taking the best advantage of, the participation and savings opportunities the plan offers, and the achievements of those groups at various career stages. Measuring key metrics such as participation levels and total contributions by cohort can also help to identify areas of concern from a DEI perspective.

Extend DEI to the Committee Composition: DEI at the plan level can also be approached by reassessing committee make-up, to see that diverse groups get a seat at the policy-making table. Diversity of committee members' backgrounds can also be assessed.

Include culture and diversity when assessing asset managers: DEI warrants consideration outside the plan as well, extending to the asset managers engaged. The internal culture and diversity of investment firms have become areas of focus for institutional investors and consultants. For example, Willis Towers Watson employs a 25-factor system for evaluating investment firms on the ethnic and gender diversity of investment teams.

Take an inclusive approach: Sponsors should assess the current financial state of plan participants to ensure the diverse needs of their workforce are being addressed. Where at-risk groups are identified, efforts should be taken to help boost their financial wellbeing and to help these plan members better understand and engage with the benefits being offered to them.

Addressing ESG and Climate Change

Increasingly, DC plan sponsors are exploring how they can better align plan purpose with their corporate ESG and sustainability objectives. This involves examining DC governance structures and fund options and revising them where necessary to support the mission and beliefs of the organization.

Moving the Needle on ESG and Climate Change

Meeting new objectives: Incorporating ESG and climate considerations into the plan's investment strategy can improve plan member appreciation, and engagement with employees for whom these options are important. In addition, aligning retirement plans to corporate climate objectives creates consistency with increasing regulatory disclosure obligations. Our 2021 Canadian DC plan sponsor survey shows that fully two-thirds of survey respondents are currently considering or offering investment options that include ESG factors.

Understanding fiduciary obligations: One third of our DC survey respondents have concerns about whether ESG considerations are compatible with their fiduciary obligations. It is important to keep in mind, however, that properly designed sustainable investment options are meant to improve investment outcomes by seeking better returns and lower risk. And it is reasonable to use ESG factors in this way when built on clearly articulated ESG and climate related investment beliefs and proper due diligence.

Fund options: A range of tools and analytics are available to help identify, select or construct fund options that are positioned to take advantage of ESG and climate opportunities. While a lack of suitable ESG-focused funds on record-keeper platforms has been a concern, record-keepers' fund line-ups are quickly evolving to address this demand. Similarly, potential concerns about the performance of available ESG-focused funds is no longer an issue. And fees for ESG-focused funds are now generally in the same range as fund options in other asset classes.

A DC Plan Reset

Looking ahead to a post-pandemic horizon, DC plan sponsors have a unique opportunity to ensure that their plans are best positioned to provide all employees with maximum value. We believe that organizations can move the needle now by reimagining plan purpose to better assist employees navigate both the asset accumulation and retirement spend-down phases; ensuring equity in plan benefits and outcomes across all employee cohorts; and reassessing how to best operate plans to account for ESG and climate risk while optimizing participant outcomes.

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Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets.

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