Collective Retirement Savings Arrangements: A Future for Retirement Savings?

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The end of the pure DB Plan

- Providing the promised benefit is difficult
  - Investment and longevity risk
  - Increase in deferred and retiree populations
- Many plans now closed to new EE's if not closed to all
- Most implement DC type plans for future accruals
- Expectation is few or none will exist within 10 years

The end of the pure DB Plan

- In the UK. There are about 32,000 small schemes (including DC schemes) covering about 200,000 active employees. Most DB plans are closed or closing
- In the US, a similar story, closing of DB plans to new employees, offering lump sum buy outs and purchasing annuities (buy in or buy out) to reduce risk
- Funding requirements in the UK much greater than those in Canada with US less costly than Canada

Aging Population/Demographics

- In Canada, about 90% of Employers have less than 100 employees
- Not likely much difference elsewhere
- Retirement savings plans for employees have a significant cost in terms of fiduciary and administrative duties
- Many who retired or terminated have entitlements remaining to be admininstered

Aging Population/Demographics

- ER's no long want or can manage the risks tied to DB pensions
- While decumulation issues for individuals are known, is this not an issue for group plans as the number of those who have left exceeds those remaining
- In many programs, payments out exceed the contributions coming in
- Consider programs such as the Canada Pension Plan and the US Social Security programs. What occurs when distributions exceed contributions?

Financial Wellness Education/Tools

- While having employees in control of their on-going financial and retirement needs is great, can we truly expect most ER's able to address this
- Providers are building tools to address the need. Often, usually a referral to a financial planner/consultant is nest step
- On the DC side or in other vehicles such as RRSP's, IRA's and such other accounts in other countries, the individual is on her/his own
- Pension scams exist in many jurisdictions, most notably in the UK where a recent scam has netted about 55 million pounds. The question of whether the advisor is working for the individual or themselves is a significant issue
- Fees tied to funds/financial planners on small or individual accounts are significantly higher than or larger plans which has an impact on the longer term ability to finance one's retirement

Governance and Administration

- A growing issue with some difficult issues to address again especially for the small employer
- Is the fund manager/financial planner investing in the best interest of the individuals?
- Has one compared the returns and options available to the members.
- Has one reviewed their communications to ensure that it is not making promises that may not be achieved

Governance and Administration

- In the US, court challenges have grown against the plan sponsor
  - In one case, the challenge is with respect to a DB plan in a surplus position
- In the UK, a history of assets not being "prudently" invested in the interest of the members and scams where individuals lost significant retirement assets, leads to a great deal of pressure on sponsors.
- Finding and tracking ex-employees, retirees, ex-spouses, adds a significant amount of work as the plans mature in all jurisdictions

Fees

- In the US, large 401(k) plans have fees around .47% of assets, for small plans, it is around 1% higher than this
- In Canadian programs, we see fees about twice this level or above
- Individual fees for those without an employer sponsored plan or at termination/retirement when they leave the plan will likely be much higher

Fees

- A 1% fee during the accumulation period reduces retirement savings by 30% (to retirement age only)
- Warren Buffet did a calculation for a 77 year period
  - He invested money in the stock market and left it there, $1 grew to $525.
  - A 1% annual fee was charged each year over the 77 years. $1 now reduced the balance to roughly $268.
- Fees for individual following termination or retirement are high
- ER sponsored programs have a longer time frame than an individuals accumulation period

Collective Retirement Savings Programs

- Legislation generally limited such programs to ER's who were linked, Multi-ER union or association plans (MEPS) or Jointly Sponsored Plans (JSPP)
- It should be noted that these plans were not without problems for reasons similar to single ER plans.
  - An example, in one US program for auto suppliers was impacted by the recession and new technologies, many went out of business, bankrupt or had significant shutdown periods, plan deficits grew as the investments shrunk and there were far fewer ER's and members to support all particpants
  - Some plans and their Trustees made investment choices that were more in the interest of the Trustees than in the interest of the Members
  - In Australia, currently there are issues with a number of the Funds for similar investment related reasons
- There are some Ontario JSPPs that have done very well and are growing the Collectives Model. One grandparented program in Saskatchewan may show how best it can be done

Collective Retirement Savings Programs

- The current push towards these programs may be to address the Retirement Savings Gap for those who do not have an ER sponsored retirement program
- In the UK, the first step was NEST, A mandatory program for all ER's who did not provide a retirements savings program for their EE's.
- In Canada, it was the PRPP, however, each jurisdiction had the option to establish as a mandatory or optional program. All except for Quebec chose optional.
- In the US, about 40 states are considering with Oregon being the first "off the block", others are following
- Following this start, other opportunities have arisen.

Collective Retirement Savings Programs

- In the UK NEST legislation was introduced more than 10 years ago with a phase-in plan which was delayed until 2014
- There is no cost or Fiduciary responsibility for the ER. Their role is limited to dealing with new EE's, re-enrolments (every 3 years) and terminations.
- There are roughly 7.9 Million members and about 5.7 Billion in assets, annual fees are .3% with an initial charge of 1.8% of contributions.
- At retirement, money can be left in the program and several options exist to drawdown your money in retirement or such can be transferred.

Collective Retirement Savings Programs

- In the UK, the legislation is/has pushed the concept of Master Trusts and due to Governance/admin issues that has arisen, there is a new somewhat cumbersome and aggressive compliance requirements.
- On the DC side, there were initially around 80 funds apply for Master Trust status, more than 40 have dropped out of the running, merging their assets with others, about 30 have been approved.
- Within the Master Trust space, there are about 14 Million members at this time.
- Where an ER participates in a Master Trust, most fiduciary responsibilities end, costs to the ER are reduced as are fees charges against the assets.
- There is no cost or Fiduciary responsibility for the ER. Their role is limited to dealing with new EE's, re-enrolments and terminations.
- The Regulator's goal is to eliminate all ER sponsored schemes

Collective Retirement Savings Programs

- In the UK, on the DB side , there are a small number of Master Trusts but final rules and regulations are not fully in place. As of August 1, deferred to next year
- There are about 5000 DB schemes (most closed) with about 4.5Trillion in assets
- Concerns arise tied to the strength of the ER's "covenant" and how each plan moves into the Master Trust and to protect all within the scheme.
- For a Plan Sponsor, moving into such will reduce fiduciary and admin responsibilities, reduce the funding costs and provide better security for EE's and retirees.
- Buying annuities in the UK to get these liabilities off the books is very expensive, being in a Master Trust may allow for higher assumptions and lower long term costs.
- One prospective Master Trust expected to start up with about $10 Million in seed money and expected to grow quickly to about 600 Billion in assets within a year or so

Collective Retirement Savings Programs

- In the US, there has been talk/initiatives to require ER's with no Retirement savings program to enroll employees in a mandatory IRA program or in a state run program.
- In a large program, costs would be reduced to the member, as a collective program, the ER would have little admin and fiduciary responsibilities and the EE's would see lower fees and better for financial education.
- The first program with a successful start up is OregonSaves, others such as in Seattle/Washington did not get out of the starting gate.
- It has over 100,000 members with over 6000 ER's and assets of about $30 million, the phase end period for smaller ER's is as of July 2020
- CalSaves follows the start up in Illinois effective for July 1 with a phase in period for smaller employers who must sign up by 2022
- Recently, Oregon is looking at allowing participants from other states such as those interested from Seattle or other states who might wish to avoid some of the start up issues and become part of a larger program immediately

Collective Retirement Savings Programs

- In the US, there is a growing interest is allowing decumulation options from within the 401(k) and other DC plans. Individuals would remain in familiar program, likely with lower fees and would result in the allowing the 401(k)/DC programs to maintain their size or grow.
- As of August 1, legislation effective September 30, permits employers to connect with associations of employers in a city, county, state, or a multi-state metropolitan area, or in a particular industry nationwide to provide retirement plans for their employees.
- This would be attractive to smaller employers who would benefit from less fiduciary and administrative duties and EE's would benefit from the lower fees charged to a large plan

Collective Retirement Savings Programs

- In Canada, the PRPP was in its background a program similar to OregonSaves, Nest. It would be as a minimum, a program which would require all employers without a retirement savings program to participate in a PRPP.
- Mandatory participation was left up the various jurisdictions across Canada and only Quebec opted to implement the mandatory requirement
- While this was heralded as a great idea whose time has come, much like Seattle, there has been no take up in any jurisdiction even in Quebec even though this would be attractive to smaller employers who would benefit from less fiduciary and administrative duties and EE's would benefit from the lower fees charged to a large plan
- In many cases, ER's did not like the costs or duties required to set up, register and maintain a DC pension plan. Their solution was a Group RRSP, requiring only enrolment and sending money. ER contributions would attract payroll taxes (CPP,EI,WCB and EHT) but if they wished to make contributions they could set up a separate DPSP avoiding the payroll taxes.
- The number of these types of programs more than doubled in the past 5 or so years.

Collective Retirement Savings Programs

- As one cannot find a PRPP in Canada, the Group RRSP/DPSP alternative has grown at little cost to the ER but likely much higher fees to the EE compared to a PRPP solution
- As in the US and elsewhere, there is a growing interest is allowing decumulation options from within DC pension plans. Individuals would remain in familiar program, likely with lower fees and would result in the allowing the DC programs to maintain their size or grow
- An example of such a program exists in Canada.

Collective Retirement Savings Programs

- On the DB side, a variety of Public Sector/quasi public sector plans became Jointly Sponsored Pension Plans (JSPPs) and rules within these programs differ from pure DB plans with the member at greater risk with respect at least to future indexing of their retirement benefits.
- JSPPs are not subject to solvency funding rules as pure DB plans and are not subject to Ontario Guarantee Fund fees/protections reducing funding costs.
- Legislation was enacted that allowed these plans to add non-associated Employers into their programs.
- 3 universities in Ontario are combining their programs moving from pure DB to JSPP status. The benefits being a larger size, spreading risk, joint administration and fiduciary responsibility.
- CAAT has added a number of plans to its JSPP such as the Star.
- To accomplish such a merger, the plan must communicate to all current members, all members with deferred pensions and all pensioners and hold a vote.
- If the vote is successful, the plan being transferred must satisfy the exiting plans requirements and going forward accruals are the same for all. Benefits and pensions in pay remain as defined in the plan up to the date of transfer

Collective Retirement Savings Programs

- If we look at a Transfer of TorStar into CAAT, all benefit accrued or in pay would be fully guaranteed under the CAAT program. The assets transferred to CAAT from TorStar were sufficient to full fund those liabilities and the surplus level in the CAAT plan.
- Going forward, EE and ER contributions and benefit accruals would be the same. While CAAT provides indexing, such indexing provisions would not apply to the pension or benefits accrued prior to their joining CAAT
- Benefits to the Star include a fixed ER contribution reducing volatility likely at or lower than past contributions (which included solvency funding and PBGF fees), DeRisking at a lower cost than buy outs or buy ins, lower governance, fiduciary and admin costs
- Benefit to Star plan members include greater security of their benefits, an improved benefit design with indexing although with higher EE contributions. Higher contributions not an issue with many other than possibly younger members
- Benefit to CAAT, increasing assets and contributions to manage

Collective Retirement Savings Programs

- The 3 plans move from pure DB plans to a JSPP eliminating solvency funding and PBGF fees
- Similar to other JSPPs, a fixed funding cost eliminating volatility. A joint governance and admin model reducing costs overall and at each site
- Plan members will see increased contributions but with a higher benefit and indexing. Again no issue for long service older members but may be an issue for younger EEs
- In the Universities merger, the 3 have agreed to a funding formula which requires the unfunded liabilities from the existing plans to be funded over the next 10 years, EE and ER contributions and benefits will be the same for all going forward.
- OPTrust is bringing in smaller quasi-public sector ER's into its program.

Collective Retirement Savings Programs - a case study

- In a prior job, 29 sites existed in 8 provinces, sites started or acquired over time
- Sites ranged from 18 to 250 EE's (2 unionized)
- There were 8 DB plans, 3 DPSPs, 11 DC plans and a few Group RRSPs. Various Providers,3rd party administrators, etc.
- Total assets about $125M

Collective Retirement Savings Programs – a case study

- Goal was to establish consistent EE rewards, improve governance and admin. to reduce fees and improve member communications and outcomes
- Result was 3 DB plans (2 union sites), 2 DC plan and 1 DPSP, no RRSP's
- Standardized provisions, 2 year vesting across all provinces, , eligibility at hire date, pensionable service credited back to hire date for all
- Overall new plan design was equal or better for all

Collective Retirement Savings Programs – a case study

- Results
  - Employee Communications were vastly improved
  - Employees better understood their programs and options
  - Centralized administration and Governance
- Costs reduced by roughly $500,000/yr.
  - Registration fees and filings with the regulators
  - Reduction in providers/consultants/administrators
  - Significant reduction in communication packages, standardization of payroll and HR/Accounting practices

Collective Retirement Savings Programs

- Prior to 1978, legislation allowed DC plans to have decumulation options, one plan that was grandparented was the CSS Pension plan that started up in 1939 in Saskatchewan.
- Represents more that 330 employers in 8 provinces with 48,000 participants and roughly $4.6 Billion in Assets
- Members on retirement can leave the money there or transfer out if they wish. Options exist to elect a fixed pension benefit within the plan, to decumulate which would vary based on their investment performance in the plan, or any combination of the above.
- Fees under the plan are roughly .57% and this includes access to Financial Consultants who assist in the individuals planning and available choices at no cost. These fees are close to 2% lower than what most charge.
- On retirement planning they break lifestyles into 3 catagories, "Go Go", "Slow Go" and "No Go"
- This seems like the type of plan we all want to be in or allow.

Key Takeaways

- Major changes are coming to the Retirement savings industry (600,000 EE's, $110,000 average salary, 1.7% of GDP)
- If these programs do benefit the participants, why are not more ER's/EE's demanding them
- Do I wait for this to happen or?