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2018 GROUP BENEFITS PROVIDERS REPORT:

Navigating the digital deluge p20



PLUS!>>>>

One employer's experience with pharmacogenetic testing p8

Options for ensuring intergenerational equity p11

Japan a hotbed of ESG activity p30

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Contents

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THE REGULARS

- 5** Editorial
An interesting tax mechanism to boost DC outcomes
BY GLENN KAUTH
- 6** By the Numbers
The changing landscape for sick leave in Canada
COMPILED BY RYAN MURPHY
- 8** Employer Strategy
A look GE Canada's experience with pharmacogenetic testing
BY RYAN MURPHY
- 19** Absence Management
How employers can better address migraines
BY RYAN MURPHY
- 30** Lessons From Abroad
Japan a hotbed of ESG activity
BY MARTHA PORADO
- 46** Can You Believe It?
Oddities from the world of employment and human resources
COMPILED BY RYAN MURPHY

THE FEATURES

- 11** ■ CLOSING THE GENERATION GAP
When it comes to the issue of intergenerational equity within a particular pension plan, what tools are available to plan sponsors?
By Jennifer Paterson
- 20** ■ 2018 GROUP BENEFITS PROVIDERS REPORT: NAVIGATING THE DIGITAL DELUGE
As new players come on the scene, Canada's largest insurers have been busy introducing a slew of technology-focused options for delivering their services and facilitating access to digital health-care providers
By Kanupriya Vashisht
- 32** ■ THE QUEST FOR CURRENCY
How pension funds can manage exchange rates at a time of uncertainty around everything from trade deals to monetary policies
By Martha Porado



CONFERENCE COVERAGE

- 36** ■ DC PLAN SUMMIT: ACTION STEPS TO BETTER OUTCOMES
Comprehensive coverage of the 2018 event in Montreal
By Peter Diekmeyer

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■ PENSIONS ■ BENEFITS ■ INVESTMENTS ■ HR



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An interesting tax mechanism to boost DC outcomes

At *Benefits Canada's* Defined Contribution Plan Summit in Montreal in February, member engagement and communication were a clear focus of many of the presentations.

Case studies presented at the conference provided a number of solutions. Larry Schmidt, director of human resources at U.S.-based Searles Valley Minerals Inc., noted his company used automatic enrolment and escalation tools, as well as re-enrolment into a more appropriate target-date fund, to improve member outcomes. The result was a significant increase in both assets and participation rates. Particularly noteworthy is the fact that about 80 per cent of employees are now on track to meet the targeted replacement ratio of 75 per cent or more of their income in retirement.

At Britain's Nationwide Building Society, key elements of its efforts to improve outcomes include education (through funny videos about the plan, as well as mandatory learning modules for staff) and changes to the plan design that significantly boosted contributions on the company side. The changes allow employees to save up to 23 per cent of their earnings in the plan, with the company putting in 16 per cent as its contribution if members contribute the maximum on their side. It's clearly a very generous program.

Both are great examples of proactive plan changes. But what about options that don't come with a significant price tag, as is the case with the Nationwide Building Society plan? On the tax side, Britain offers another interesting example. There, some employees have the tax deduction they get from their retirement contributions go directly into their pension plan. So rather than the tax relief partially offsetting the impact of what they contribute to their plan on their take-home pay, the pension provider adds it to their account to give them an even bigger contribution. It then seeks to claim the tax deduction back from the government.

The system, called relief at source, offers the chance for someone to put in, say, 80 pounds, to get a total contribution of 100 pounds (based on the simplified example of tax relief at 25 per cent; Britain's basic tax rate is, in fact, 20 per cent). In Canada, people see the tax benefits of their contributions directly on their paycheques, whereas the British option of relief at source provides for increasing how much is going into their pension savings instead. Britain also provides for what it calls a

net-pay arrangement, in which employers deduct pension contributions before taking off tax. In that case, employees see the tax relief on their paycheques instead of in their pension accounts.


Is the relief-at-source approach feasible in Canada? Certainly, there would be administrative complexities, and it's clear the many Canadians who are well aware of the tax benefits of pension savings would prefer to have the amounts go directly into

their own pockets, rather than in their retirement accounts. It's also worth noting that the relief-at-source approach applies the tax deduction to an individual's pension pot at Britain's basic rate. Those in a higher tax bracket would thus have to claim the remaining tax deduction later on, which partially blunts the benefit of the additional pension contribution and, arguably, conveys an advantage to the government. Still, the approach is worth exploring as an option for the pension system given the potential benefits of boosting contributions overall.

Interestingly, Britain is in the midst of enacting further changes to its system of automatic enrolment by boosting minimum workplace pension contributions to five per cent as of April 6, 2018. Under the changes, employers contribute at least two per cent, with employees

putting in the balance to bring the total to five per cent. The total contribution will increase yet again to eight per cent in 2019. "That's one way for the government to try to encourage people to save," says James Mason, a London, England-based senior retirement consultant at Aon. Mason notes that while the increased contributions can be a challenge for some people, particularly for lower-income workers, there's a fairly widespread recognition of the need to boost pension savings.

While the approach has merit, Canada is already in the midst of boosting the retirement system by beginning to phase in contribution increases, along with corresponding benefit improvements, to the Canada Pension Plan in 2019. As such, it's not the right time to mimic what Britain is doing on automatic enrolment under workplace pension schemes.

The tax issue, however, is another matter. From a cost perspective, it would likely be quite doable. And given the focus on improved member outcomes, it's an option that's worthy of consideration in Canada. 



By **Glenn Kauth**
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Join *Benefits Canada* in Calgary on May 29 for the 2018 Calgary Benefits Summit. Contact Sara Ametrano at sara.ametrano@tc.tc for more details.

TOP 40 MONEY MANAGERS

Stay tuned to the **May issue** for *Benefits Canada's* biannual list of the top 40 money managers.

The changing landscape for sick leave in Canada

Governments across Canada have been busy updating their minimum standards for employee leaves in recent months, including their rules for short-term illnesses and emergencies

Compiled by *Ryan Murphy*

Sick and emergency leave rules by jurisdiction

Yukon: **1 day** of unpaid sick leave for each month employed, up to **12 days** per year

British Columbia: **5 days** unpaid to attend to the care, health or education of a child in the employee's care or to the care or health of any other member of a worker's immediate family

Northwest Territories: **5 days** of unpaid sick leave

Alberta: **5 days** unpaid for personal sickness or short-term care of an immediate family member; up to **16 weeks** unpaid for long-term personal sickness or injury

Saskatchewan: **12 days unpaid** if an illness or injury isn't serious; **12 weeks** for serious matters

Nunavut: **0**

Manitoba: **3 days** unpaid for illness or family responsibilities; **17 weeks** for serious injury or illness

Ontario: **10 days** per year, **2** of them paid, for sickness or due to illness or urgent matters related to a family member

Quebec: **26 weeks** unpaid per year related to sickness, being the victim of an accident or dealing with an organ or tissue donation; **10 days** to fulfil obligations related to the health, care or education of a child or spouse's child or the health of a spouse, parent, sibling or grandparent

New Brunswick: **5 days** unpaid for sickness; **3 days** for family responsibility leave

Prince Edward Island: **3 days** of unpaid sick leave after six months of continuous service, plus **1 paid day** after five years with the same employer

Nova Scotia: **3 days** of unpaid sick leave; employees can use the leave to care for an ill parent, child or family member or to attend medical, dental or other similar appointments

Newfoundland and Labrador: **7 days** of unpaid leave related to sickness or family responsibilities

Federally regulated employees: **17 weeks** of unpaid sick leave after three consecutive months of employment

Source: Employment standards information for each jurisdiction

How many sick days to Canadians actually take?



Days lost per full-time worker due to illness or disability in 2017:

Newfoundland and Labrador:
8.7

Prince Edward Island:
7.6

Nova Scotia:
8.7

New Brunswick:
9.1

Quebec:
10.2

Ontario:
6.9

Manitoba:
8.3

Saskatchewan:
8.4

Alberta:
6.1

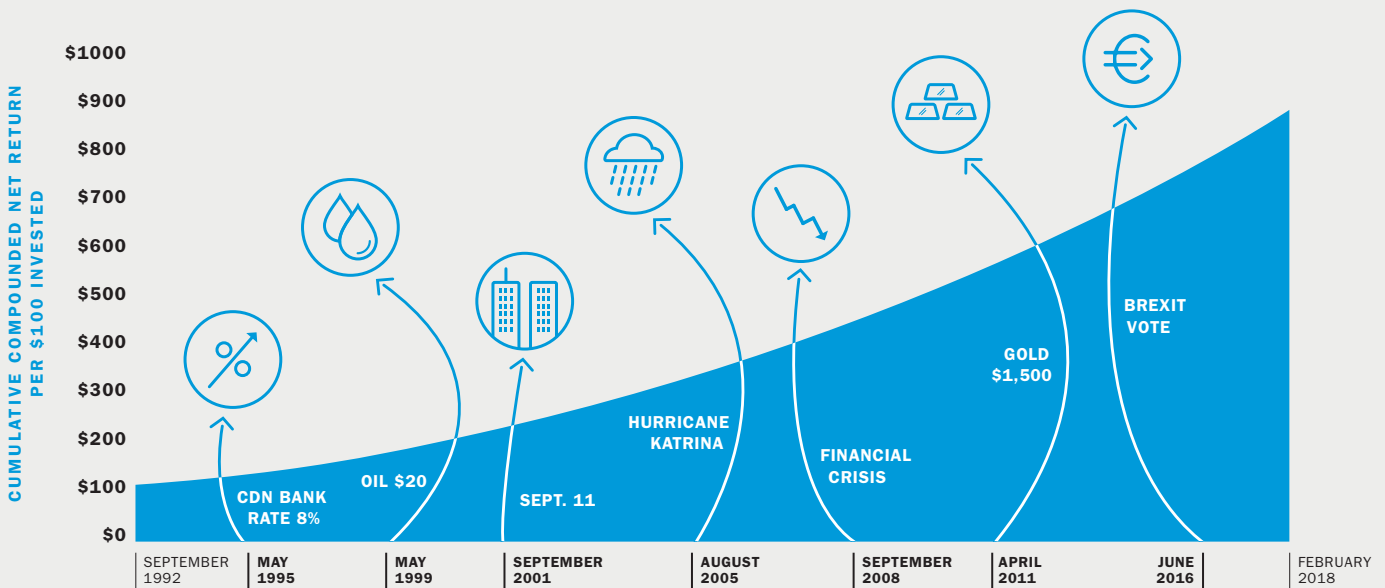
British Columbia:
8.4

Canadian average:
8.0

Source: Statistics Canada

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By *Ryan Murphy*

ON THE CUTTING EDGE OF PERSONALIZED

GE Canada rolls out pharmacogenetic testing for all employees after pilot project CARE

At General Electric Co. Canada, part of Dr. Sol Sax's job as consultant and medical director is to support and refine the company's disability management process.

That process includes everything from how the company helps to prevent workers from going on disability to monitoring them while they're away and supporting their return to work.

As part of its efforts in the area, the company undertook a six-month pilot project to try out pharmacogenetic testing through Toronto-based company GeneYouIn Inc. and its Pillcheck service.

Pharmacogenetic testing looks at patients' genetic makeup to assess how it affects their response to different medications, including how they metabolize them. Based on the results, programs like Pillcheck identify whether a medication is likely safe and effective for a user. They also provide recommendations on optimal dosages.

The testing, which involves a DNA cheek swab done at home and sent to a lab, includes a secure tracking system to protect privacy.

"The lab gives us the actual genetic fingerprint, meaning the specific variations in your genetics in those specific enzymes that we analyze. That's the technical summary," says Veronika Litinski, chief executive officer of GeneYouIn.

Through the service, patients input

their medication history and concerns into a web-based portal. A specially trained pharmacist reviews the information and provides a letter for the patient's physician outlining the findings and recommendations, including issues metabolizing a drug and increased side-effects.

GE Canada's pilot program included 10 employees. "They were people on disability, short-term disability, and we were monitoring the number of days off work that they were experiencing. . . . Once they got the test, we looked at whether it changed their medication at all. Did a medication change result from the pharmacogenetic testing? And the answer was yes in six out of the 10," says Sax.

"We also looked at whether or not it appeared to shorten their duration of disability. The answer there was equivocal," he adds.

Available to all

The company has decided to open the service up to all employees this year. It's making coverage of the tests, which cost about \$500, available through employees' health-care spending accounts. "We felt that overall there was a benefit to the testing," says Sax. "And so we thought

that if we open up to people with their health spending account, there's no cost to the company and it provides another valuable tool in the health armamentarium for our employees that they otherwise wouldn't . . . have access to."

Sax expects uptake to be slow at first, because it's a new and somewhat expensive technology. "It's still fairly costly, so are you going to use \$500 of your health spending account for something that you don't really know about [and] maybe your family doctor may or may not know about it? So I think a lot of it will depend on whether people's own personal physicians are aware of pharmacogenetic testing and the benefits and the pitfalls and what their belief is about the value of the technology."

Sax believes, however, that while the business case for investing in pharmacogenetic testing remains a work in progress, employee satisfaction is a definite upside.

"We were hoping that our days of disability would show a decrease from the normal, but it was a small sample size, there was wide variability and there's so many other factors that it was a very crude study," says Sax.

"But certainly in terms of employee satisfaction, when we polled our employees and said, 'What's your feedback on the testing? Do you think it's a worthwhile thing to do?' it was a resounding yes. So I think from that perspective, for sure it was successful," he adds, noting many companies will be particularly eager to know whether the testing will



help employees return to work earlier.

“A well-designed study to explore that hypothesis is, to my knowledge, not out there yet. But I’m sure it’ll come.”

Growing in popularity

Pharmacogenetic testing is a hot topic, according to Dr. Tyler Amell, a partner at Morneau Shepell Ltd.

The interest is mainly coming from mid- to large-sized companies, he says.

“And sometimes, I’m actually getting questions on individual patients and individual employees, rather than an actual setting up programming to support employees.”

The testing is a worthwhile consideration for plan sponsors, both in terms of time and money, according to Amell.

“There’s ample evidence to show that personalized medicine is very much at the forefront with our approaches to treating people [in] this day and age, particularly for mental-health conditions. But it’s not limited to that, obviously. There’s definite return on investment from using this. . . . By using this approach, you’re essentially leapfrogging to the drug that is most likely going to produce the desired clinical effect in the patient or the worker.”

Other issues for plan sponsors

Among the benefits of pharmacogenetics testing is reduced spending on drugs that don’t work, according to Litinski.

She cites the example of a commonly prescribed blood pressure medication.

“You get this prescription, you take the pill . . . but then [for] 30 per cent of people, it doesn’t work. So you take medication thinking it’s protecting you from another stroke or heart attack but, in fact, you’re not protected. So that’s an example of benefits, where the cost is there — whether you do pharmacogenetics or not — but the benefit is not if you don’t optimize the genetics.”

The most common drugs that come up in the testing are medications for depression and anxiety, as well as painkillers and statins, says Litinski. “All the medications that are on our . . . list, the reason these medications are on the list is because they have a high risk of drug-gene interaction,” she says.

“So if a medication is included on that list, it means that it will be problematic from a genetic perspective. And this information comes from consensus clinical guidelines; it’s not our invention. So there’s a body called the Clinical Pharmacogenetics Implementation Consortium. And they rank all drugs based on those genetic stats.”

The testing isn’t without its critics, however, specifically when it comes to antidepressants. Dr. Steven Dubovsky, professor and chair of the department of psychiatry at the State University of New York’s University at Buffalo, says there’s no reason why measuring genes for enzymes will predict what happens to a drug and whether or not a patient will respond to it.

“One reason for this is that most

RESEARCH UNDERWAY AT CAMH

Among the research underway into pharmacogenetic testing is a study at the Centre for Addiction and Mental Health in Toronto. Launched in 2011 with \$19.5 million in funding, the Impact study has so far enrolled almost 10,000 patients for testing.

In August, Sun Life Financial announced it would be participating in the Impact study. Through the insurer’s partnership with CAMH, Sun Life clients on an approved mental health-related disability claim, who are also taking medication as part of their treatment plan, will have the opportunity to join the study and participate in pharmacogenetic testing.

psychiatric drugs are metabolized by multiple enzymes. And if one is low or high in activity, other enzymes will change their activity to compensate for that,” says Dubovsky.

“It’s something that sounds fancy. It makes psychiatrists sound like real scientists because you’re doing gene tests, but if you look at medicine in general, there are only a few areas where genetic testing is really useful at this point in time in routine treatment planning, and that’s primarily in the area of cancer treatment,” he adds.

Sax, however, feels there’s definitely merit in the testing. “I think it’s a technology that’s here to stay,” he says.

Ryan Murphy is an associate editor at Benefits Canada: ryan.murphy@tc.tc.

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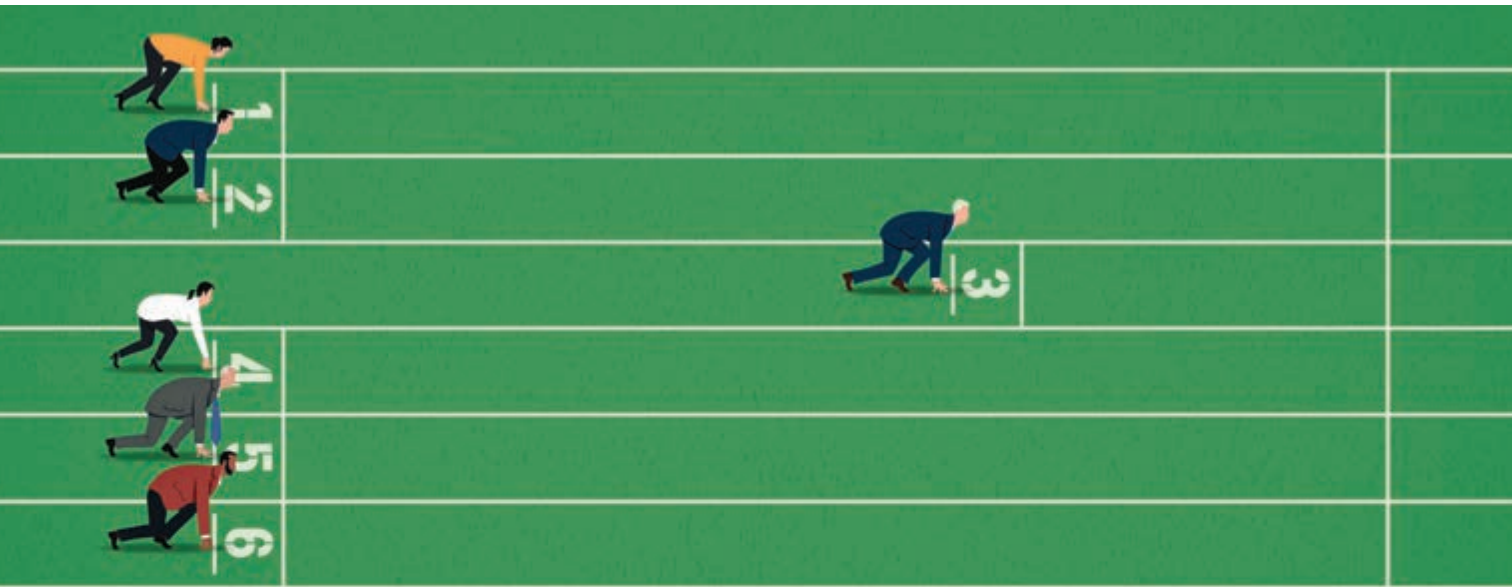


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Closing the GENERATION GAP

Pension equity has been a hot topic recently, particularly as Quebec tackles disparity clauses that see certain workers participating in different types of plans than their colleagues. But when it comes to the narrower issue of intergenerational equity within a particular plan, what are the tools available to plan sponsors?

By Jennifer Paterson

When it comes to the difficult issue of equity in pension plans, Quebec has been at the forefront recently with its plan to table a bill to eliminate so-called disparity clauses.

The province's plan, which has significant union support, has drawn the attention of Quebec's pension industry, particularly since it would affect organizations that have set up two-tiered pension schemes by, for example, closing their defined benefit plans to new entrants and offering them defined contribution arrangements instead. The plan followed recommendations by

a government-formed working group, which presented two options for eliminating such disparities: offer the same type of plan to all workers or an equivalent arrangement for everyone.

There are many of ways, of course, of looking at equity issues in pension plans. A frequent concern that comes up is intergenerational equity, an issue Julien Ranger, a partner at Osler Hoskin & Harcourt LLP in Montreal, notes is separate from the current Quebec discussions since a new employee could be any age. But when it comes to questions of intergenerational equity within a particular plan, plan sponsors do have a number of tools at their disposal to address the issue.



Adjusting inflation protection

Inflation protection is no longer an issue for British Columbia's college, public service and teachers' pension plans, according to executive officer Dominique Roelants, who notes they've managed inflation through a separate account since the 1980s.

"It was sort of a negotiated cost mechanism, so there was no guarantee. And what the boards inherited was what I would call cliff indexing, by which we pay out full indexing until we can't do it anymore, and then we pay out whatever we can."

So if inflation ran at six per cent for 20 years and drained the account, it would create intergenerational inequity between those who retired before and after, says Roelants. Recognizing the problem, the board changed its indexing policy, he notes. "And then we do as best we can from the funding available to provide inflation protection."

Every three years, the plans' actuary determines whether or not they can pay the same level of inflation protection in perpetuity. "Right now, the college pension plan won't pay any more than 2.07 per cent inflation because, if it paid more than that, it would run out of money," says Roelants, noting that would disadvantage younger members.

In the case of the Ontario Teachers' Pension Plan, if it were to experience significant investment

losses or a funding shortfall, it would bring itself into balance by either increasing contribution rates or reducing inflation protection, according to its 2016 annual report.

But as more teachers retire, there are fewer active members to fund major losses and it's unlikely that increases to contribution rates alone would be sufficient, according to the report. And with any increases falling solely onto active members, the plan has added conditional inflation protection to its plan design for benefits earned after 2009 in order to spread the risks more broadly. Under the provision, inflationary increases for those benefits depend on the plan's funded status, with the amount determined by its joint sponsors.

The potential unbalance between retirees and active members is the primary reason the plan provides conditional inflation protection, says Barbara Zvan, chief risk and strategy officer at the Ontario Teachers' Pension Plan and board chair of the International Centre for Pension Management.

"That active group can't keep shouldering the burden. And now, we can split it between both generations — the generation that's retired and the generation that's working. That improves intergenerational equity."

Zvan calls inflation protection the most popular way to manage intergenerational equity. "With any other benefit, you can't change accrued benefits, and so you can only change go-forward benefits. And it's not so easy to turn it on and off. With inflation, you can turn on and off. From a dollar point of view, it has substantial value."

Changing contribution levels

Setting the right contribution rates for both the employer and employees is another way to ensure intergenerational equity, says Zvan. When Ontario Teachers' plan members contributed eight per cent of their salary, the implied rate of return from their first contribution to their last pension cheque, as projected using demographic assumptions, was more than five per cent after inflation each year.

"Over the long term, we considered this a high target," says Zvan. "When the members contributed about 11 per cent of their salary into the plan, the implied rate of return falls to about four per cent return, after inflation, each and every year. We considered a four per cent real return . . . as a more reasonable target over the long term, thus balancing intergenerational risk."

But in some cases, a plan that's raising contribution rates for active members could be inadvertently asking them to pay for the benefits of a generation that has already retired. For example, one of the

INTERGENERATIONAL EQUITY AND THE CPP ENHANCEMENT

In designing the upcoming changes to the Canada Pension Plan, governments were mindful to ensure that only people who will actually benefit from them will pay for them, says Osler Hoskin & Harcourt LLP's Julien Ranger. Premiums for both employers and employees will gradually increase to 5.95 per cent from the current 4.95 per cent, beginning on Jan. 1, 2019, with benefits rising in accordance with how long a person contributes at the higher rate.

"Each year of increased contributions will result in partial enhanced benefits," says Ranger. "Full enhanced CPP benefits will be available after about 40 years of making increased contributions, and partial benefits will be provided based on the years of contributions."

As an example, contributors who are 50 years old today won't be able to make additional contributions over a 40-year period, so they'll never get the full enhanced benefits. On the other hand, an employee who's 25 years old today will make the additional contributions during the required 40 years.

"It follows that younger workers will generally receive greater enhanced CPP benefits, as they will pay increased contributions over a longer period," says Ranger. "This requirement was included to preserve intergenerational equity. It helps to ensure that each generation pays only for its own CPP benefits."

“I think you can get most of the advantages of a pooled-resources, pooled-asset defined benefit plan out of a target-benefit plan. Whereas if you go to individual accounts, they’re just awful.”

amendments to Quebec’s municipal pension plans in 2014 required active members to contribute 50 per cent of the plan cost by Jan. 1, 2017. Considering what that means for intergenerational equity, Ranger notes a working police officer in Montreal is now getting a less generous deal than someone who retired five years ago. “You can play with benefits like that, but you have to be mindful or you’re going to create some sense of unfairness,” he says.

When a plan sponsor is considering a change to contribution rates, it’s important to ensure the governance committee represents everybody’s best interests. However, with representation from the employer, employees and retirees, there’s bound to be a clash of opinions, says Robert Brown, a professor emeritus of statistical and actuarial science at the University of Waterloo.

“The retirees are obviously going to do everything they can to make sure the plan is absolutely fully funded. And those who are active in making the contributions will try to do the exact opposite, to find the lowest possible contribution rate that will allow them to get through the next valuation. I would rather have a model like Ontario Teachers’ where you have a board of trustees made up of experts. . . . Then, you don’t get into those same intergenerational, philosophical problems.”

Removing early retirement subsidies

Early retirement subsidies, which reward long-serving members while penalizing younger ones, also affect intergenerational equity, says Roelants.

In the 1970s, as school boards across the country hired a lot of young teachers, many provided so-called rules of 85 or 90 — providing for retirement eligibility when age plus years of service equal the number in question — which meant those who started working in their early 20s could retire in their mid-50s with an unreduced pension, notes Roelants. But that scenario is out of date as people entering the profession today often work as supply teachers for several years before landing a full-time job.

“So their ability to take advantage of some of these plan design features doesn’t exist,” says Roelants. “I mean, the average entry in the teachers’ plan is about 32 years old. You’re not going to get any advantage from a rule of 90 out of that. So a lot of those rules that used to exist, and still do in a lot of plans, are not really suited to the current work experience of the new members.

“Plan sponsors have to bite the bullet and make the decision to change the plan design to make it fair for all generations. So the teachers’ and the college plan in B.C. have both done that, and hopefully more will follow suit.”

Indeed, the B.C. college plan now provides a flat rate reduced by three per cent per year if a member retires before age 65, says Roelants. Previously, members could receive an unreduced pension at age 60. The plan also included a bridging provision that would top them up to the full two per cent benefit when they turned 65.

By way of example, Roelants refers to a 30-year-old person and someone aged 35 who join the plan on the same day and both work for 30 years. “The one who retires at 60 would get five years of the full two per cent pension and then from 65 on would get the same pension that the other person got from 65. Contributing exactly the same to the plan, but one person gets five years more in value from it and five years more in value before even the normal retirement age.”

Two-tier pension plans

For employers considering a move to a two-tier pension plan and aiming to ensure intergenerational equity, a target-benefit arrangement is a better alternative than a defined contribution one, says Brown.

“I think you can get most of the advantages of a pooled-resources, pooled-asset defined benefit plan out of a target-benefit plan. Whereas if you go to individual accounts, they’re just awful. We have to find a way to keep expenses down in the accumulation period, and then we have to have a grouped approach to the longevity risk in the payout period.”

While many older employees are in defined contribution plans, it’s the younger members who will spend the majority of their careers in them, says Zvan. And while she sees target-benefit plans as a good option, she believes it’s a bit late in the game. “If you’re a private employer in a DC setup, are you really going to go down that route? I think, conceptually, it’s a great idea. [It’s] not very much different or a stretch from what we have at Teachers’ as a group.”

And when it comes to equity issues within defined contribution plans, Roelants notes they, too, have their complexities. While touted as being simpler in general, the outcomes in defined contribution plans will often turn on timing, which adds a wrinkle to the question of whether intergenerational equity issues arise. “On the whole, the answer should typically over the long run be no,” says Roelants when asked whether the generational issue is at play.

“But the weird thing is, for the last 25 years, the answer has sort of been yes. We had peak interest

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rates back in the early 1980s, and so people who were retiring out of DC plans in the 1980s and probably also in the 1990s probably did pretty well. Somebody paying exactly the same amount of money in who tried to retire in 2010 did pretty miserably.”

Roelants refers to numbers he has seen that showed income replacement levels ranging between 17 and 50 per cent at different times for members contributing the same amount and retiring after 25 years. “All that was just dependent on market timing,” he says.

“And so why I said typically the answer would be no for intergenerational equity is market timing. If you bought a whole bunch of stocks in early January and you sold them the second week of February, you lost a truckload of money. You shift that all over three weeks, you made a bunch of money. Ups and downs in the market, that’s just how it goes; that’s not intergenerational equity issues.”


Ultimately, intergenerational equity is a loaded gun, says Serge Charbonneau, a partner in Morneau Shepell Ltd.’s pension consulting practice. He notes that even if two employees are both in a defined benefit plan, it may not treat them the same way. “If you’re

50 years old, the promise of \$1 of pension at retirement is not worth the same as a 25-year-old, because one of them is very close to receiving it and the other is going to receive that same dollar but way down the road.”

It sounds good in principle to say a plan will treat all members the same, but it may look different in reality, he adds. “Is treating everybody the same giving them each \$1 of pension at retirement or is it giving each person \$1 into their DC account? At face value, those two statements sound as equitable as each other, but they’re not.”

Zvan expresses a similar sentiment, noting that while intergenerational equity sounds like a straightforward concept all pension plan sponsors should strive for, it’s difficult to measure in practice.

“You can always get a sense of whether you’re moving in the right direction, but there’s no expectation of, ‘Here’s the metric that we look at . . .,’” she says.

“It also depends on how people want to run a plan.” 

Jennifer Paterson is the managing editor of Benefits Canada: jennifer.paterson@tc.tc.

GETTY IMAGES / MARK AIERS

Congratulations



to Benefits Canada's Martha Porado, winner of the CFA Society Toronto's 2018 Spirit of the Future of Finance award.



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Actuarial Solutions Inc. is pleased to announce that effective April 1, 2018, Jason Vary has been appointed President.



Jason joined Actuarial Solutions Inc. in 2006 and over the years he has been responsible for the actuarial department, the consulting department and for the past two years has served as Vice President.

Jason graduated from the University of Waterloo with an Honours Bachelor of Mathematics in Actuarial Science. Jason is a Fellow of the Society of Actuaries and the Canadian Institute of Actuaries.

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AN ACTIVE APPROACH IS IMPORTANT TO UNDERSTAND HOW TO ALLOCATE CAPITAL OVER TIME, TO BRIDGE THE WHITE SPACE BETWEEN SECTORS, TO FOCUS ON WHAT'S NOT OBVIOUS, AND TO DRIVE STRONG CLIENT OUTCOMES.



STEPHANIE G. BRAMING, CFA

Partner, Global Head of Investment Management at William Blair



Stephanie Braming is the global head of investment management at William Blair and serves on the firm's executive committee. Since joining William Blair in 2004, she has worked in portfolio construction, portfolio design and as a portfolio manager, and been involved in a mandate to enhance the firm's systematic research tools. Benefits Canada asked her about her current role, disruptive trends and emerging opportunities – and why active management is as vital as ever when, as she says, "I've read articles that say the number of ETFs [exchange-traded funds] and passive strategies now outnumber the number of stocks in the world."

You are responsible for setting the strategic direction for investment management at William Blair – what are some of the factors you consider?

Our purpose – to drive strong client outcomes – guides our strategic direction. Strong client outcomes include capital creation and preservation, as well as engaging clients, understanding their

goals and hurdles, and ensuring that what we're delivering helps them achieve those goals. So, to drive strong client outcomes, we start with our culture, make sure that's correct, and then we can move forward with our strategic direction.

Our strategic direction is geared towards broadening and deepening our investment excellence and launching new strategies to add potential alpha generation sources. That means doubling down on our investment-led culture, fostering intellectual curiosity and innovation, and encouraging our teams to question beliefs about the universes we evaluate, how the market is changing, and the tools we use. We believe this should enable us to generate strong results for our clients and improve the peripheral vision of our investment teams and how they think about managing the portfolios.

What's the rationale behind integrating environmental, social and governance (ESG) factors into your investment decision-making?

We began considering ESG factors around 2010 and became signatories

of the United Nations Principles for Responsible Investment (UN PRI) in 2011 when it wasn't as well-known in North America. The reason is that the kinds of companies we want to invest in are high-quality firms that are generating strong returns on invested capital and that have good relationships with all their stakeholders, including shareholders, suppliers, customers and employees. We think that if a company is a good global citizen it's going to have strong results over time, assuming the strategy and financial metrics are there.

Why is an active approach to investment management important in today's environment?

As the number of ETFs and passive funds has increased exponentially over time, an active approach is important to understand how to allocate capital over time, to bridge the white space between sectors, to focus on what's not obvious, and to drive strong client outcomes. In addition, the performance of passive strategies versus active strategies has been cyclical, and passive

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STEPHANIE G. BRAMING, CFA

Partner, Global Head of Investment Management at William Blair

strategies generally have outperformed active strategies over recent time periods. We believe that will change – and we've seen it change this year and, to some extent, last year.

What disruptive trends are you monitoring, and how do you respond to industry disruption?

As we focus on the white space between sectors and asset classes, blending our vertical expertise with a broad viewpoint, we are evaluating the self-renewal of companies, industries and sectors as a result of changing consumption patterns, supply and demand factors, governmental regulations and technological innovation.

For some time, this has included a comprehensive review of electric vehicles [EVs], examining the impact on automakers, suppliers, the aftermarket, technology, semiconductors, and demand

for various chemicals or other materials. Through this analysis, we can get a more holistic view of winners and losers and find strong investment insights to implement in our portfolios.

Another disruptive trend we're focusing on is blockchain – and not just how it's being used from an asset management perspective in terms of clearing and contracts and other ways to improve efficiency and lower costs. We're also looking at the implications from an investment perspective, so we've put together a cross-disciplinary team at William Blair that includes operations, strategy, finance and the investment team to take a holistic approach.

Where do you see emerging opportunities that could benefit institutional investors?

The China A-share market is one of the broadest and deepest markets in the world. Until recently this market was open only to local Chinese investors, but we can now access it efficiently through the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect. It's interesting for its breadth and depth and because of the changing dynamics of the Chinese economy as it moves from manufacturer/exporter to innovator. Also, these companies are now being included in indices that investors benchmark against – for example, the FTSE and MSCI indices – and we expect weightings will grow over time. It's an untapped area for foreign investors and relatively inefficient at this point.

William Blair



WHAT'S YOUR IDEAL SATURDAY MORNING?

A run to clear my head and give me focus, drinking coffee, reading and spending time at extracurricular activities with my husband and daughters.



WHAT BOOK IS CURRENTLY ON YOUR NIGHTSTAND?

I'm re-reading Self-Renewal by John Gardner. The premise is that for countries, companies, economies and organizations, the key to growth and expansion is renewing themselves, and it's extremely difficult to do because what makes you successful can become your prison. It reminds me to ensure there's always innovation and disruption going on within my internal process and within our organization.



WHERE IN THE WORLD WOULD YOU MOST LIKE TO TRAVEL?

Thailand, because of its unique geographic mix of urban areas, jungle and beach.



WHAT ARE THE MOST VALUABLE LESSONS YOUR MENTORS HAVE TAUGHT YOU?

One is to empower people and believe in them more than they believe in themselves, because that's how you will get the best of them and drive results. Another is to read as much as you possibly can and be curious.

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By *Ryan Murphy*

Soothing the pain

How can employers better address conditions, such as migraines, that are among the factors contributing to illness and absenteeism?



With rates of illness and disability on the rise, absenteeism is a significant and growing concern for Canadian employers.

Statistics Canada figures for 2017 show rates of absenteeism have been on an upswing in recent years, with the number of days lost per full-time worker due to illness or disability reaching eight days last year. That was up from 7.4 days in 2013.

But what are some of the major causes of absences? Not surprisingly, mental-health issues and chronic diseases remain significant factors. “I think, of course, over the last few years, mental illness in terms of short-term disability, has been a huge driver of claims,” says Judith Plotkin, vice-president of growth and strategy at ReedGroup.

“But certainly, chronic diseases like [musculo-skeletal disorders] . . . cancer, cardiovascular disease, arthritis, diabetes, that cluster is really important as well,” she adds. “In the short-term disability, it is mostly adjustment disorders, so those would be situational depressions where people are having a difficult time, usually triggered by a significant life event.”

Migraines a significant contributor

What about the impact of less-discussed health issues, such as migraines? Dr. Christine Lay, director of the Centre for Headache at Women’s College Hospital in Toronto, notes the significant impact of migraines in term of absenteeism, presenteeism and health-care costs. “A migraineur who’s not treated well can lose up to 44 days a year, either in absenteeism or presenteeism. [It’s] significantly disabling.”

Recommendations from the Migraine Trust, a Britain-based organization, suggest government-led support and incentives for employers to provide flexible working programs to help staff suffering from fluctuating and episodic migraines. For her part, Lay suggests offering educational sessions at the corporate level. Her educational program, which deals with lifestyle management factors and other ways of mitigating migraines, has shown a reduction of 50 per cent in emergency room visits, as well as decreases in medication use, absenteeism and presenteeism.

“So yes, while workplaces should be aware of migraine, be more accommodating — perhaps adjust lighting because you know fluorescent lighting triggers a headache or provide a migraine employee with a quieter space rather than a big open cubicle — I happen to think one of the greatest changes we can make is simply around education,” she says.

“Teaching employers and employees what it is and how to manage it [helps], because we know when migraine patients manage more effectively . . . absenteeism and disability drop way down.”

Lay notes about 12 per cent of the population suffers from migraines. She adds, however, that the statistic only reflects diagnosed cases.

In her view, employers have a long way to go in recognizing and understanding migraines. “If you have anybody at your company that’s got a hearing problem or low iron, [I] guarantee you there’s migraine because it’s the third-most prevalent [condition] worldwide,” says Lay, referring to two of the other most common health issues. “So they really have to make adjustments, whether people can work from home or [in a] different physical environment, different shift hours, that kind of thing.”

Road to recovery

In addressing the more talked-about issue of mental health, Angelo Carofano, vice-president of finance and administration at Workplace Medical Corp., has found the answer often lies within the workplace.

“The worst thing you can do with people with mental-health conditions is think that they’re going to recover within their four walls at home,” he says.

Conor Quinn, vice-president of group benefits at the Co-operators Life Insurance Co., agrees, noting the workplace should be a pathway to good mental health. “And so that [discussion] about reducing absenteeism, the duration of absenteeism, incidence of absenteeism, what we’re really trying to do is identify strategies in aggregate to help make that vision a reality.”

Ryan Murphy is an associate editor at Benefits Canada: ryan.murphy@tc.tc.

THE WORKPLACE EXPERIENCE OF BRITISH MIGRAINE SUFFERERS

85%

said migraines had a substantial and adverse effect on normal activities

45%

reported migraines affected their employment often, most of the time or always

55%

had been absent more than seven days in the previous 12 months

40%

felt unsupported by their employer

46%

believed their organization’s absence management policy treated them unfairly

21%

had left their job

Source: Survey on migraines in employment, the Migraine Trust, 2012.



Navigating the digital deluge

As new players come on the scene, Canada's largest insurance providers have been busy introducing a slew of technology-focused options for delivering their services and facilitating access to digital health-care providers

By Kanupriya Vashisht

From Babylonian traders who redistributed their wares across multiple vessels to limit losses at sea, to blockchain developers who distribute data across multiple servers to mitigate risk, insurance has come a long way.

But the journey has been a reluctant one. Industry incumbents traditionally set the rules and controlled the lion's share of the market. Now, new players have entered the arena and are unsettling the status quo. In a spirited contest between incumbents and newer entrants focused on technological disruptions in the insurance business, agility and innovation are seeking to challenge longevity and scale.

Established brands, however, are realizing they need to embrace change or concede market share. Many of them are already partnering with innovative technology startups to offer services that resonate better with their digitally focused clients. In doing so, they're also reimagining their value proposition and taking on a more significant role of avoiding and preventing risk, rather than just mitigating it.

Lisa Callaghan, vice-president of strategy, marketing and communications for Manulife Financial Corp.'s institutional markets, says being able to interact with plan members how, when and where they want seems to be the overarching theme. Technology, she notes, has become the big enabler. "Technology is the language of the future. We will see it influence all elements of the health-care cycle, whether it be access to care, diagnostics, treatment, wellness monitoring or management. Business models will continue to evolve based on what technology can bring."

The requirements of consumers who consider themselves to be digital natives are markedly different from their predecessor generations. "Our benchmark is not just our competitors but also our clients' last retail experience on Amazon and Google," notes Brad Fedorchuk, senior vice-president of group customer experience and marketing at Great-West Life Assurance Co. "We need to take convenience and personalization to a new level."

The convenience factor

The old inside-out approach of trying out what looks to be a good idea doesn't work anymore, says Fedorchuk. "We have started to think like our customers and engage the marketplace much earlier in our design thinking. Our focus is on how we can make it simpler and more convenient, integrate and aggregate, remove redundancies and leverage big data to anticipate client needs better."

Last year, Sun Life Financial did just that when it refreshed its free mobile app. The app now takes self-service to the next level by allowing plan members to quickly check coverage, review plan balances, find and review health-care providers, submit claims, make retirement contributions and manage workplace savings and investments.

"The convenience factor is a huge draw," says Kevin Dougherty, executive vice-president of innovation and partnerships at Sun Life.

"What people did in a day or a week, they do in 12 seconds now."

He notes that in 2017, Sun Life recorded 43 million sessions (10 million through mobile platforms and 33 million on its website). The number of people submitting claims on a mobile device increased by 60 per cent over the previous year.

"There was a whole industry built around employee booklets," says Dougherty. "But much less than 10 per cent of our claims are on paper today. Technology is helping us customize information in ways that are so much richer than what you could find in any employee booklet."

Kevin Lemay, director of pension and benefits at Intact Financial Corp., notes the importance of a simplified experience when plan members sign onto a platform. "Being a technology company, we invest a lot of time and money to make sure our platforms are user-friendly. We expect the same from our providers," he says.

Having an app makes a big difference for Intact employees, Lemay adds. "Now, they just click a picture and instantly submit a claim."

Access to eligible providers and their ratings is also a very helpful feature, according to Lemay. "It has taken the apprehension and frustration out of the experience."

A company with 11,000 employees, Intact recorded 61,000 visits and 14,000 claims through its provider's app in 2017.

Last September, Sun Life also launched Ella, an interactive digital coach that aims to help employees make the most of their benefits plans. Dougherty calls Ella the Siri of the insurance industry. "Ella is capable of reaching out to plan members in a very personalized way. For example, Ella could tell you that you haven't been participating in a pension plan and missed out on over \$4,000 of employer match last year. Click here, and Ella can fix that. Or, there's \$300 in your [health spending account], which will expire in 20 days. Make sure you use it for a pair of glasses or massage. Or, your son is turning 21 and will be coming off the benefits program. You might want to consider private health insurance for him."

For its part, Manulife has adopted Amazon.com Inc.'s digital personal assistant, Alexa. Callaghan notes the benefits of allowing plan members to receive answers to common questions about their plan usage without having to pick up a phone, talk to a person or visit a website.

Great-West Life, too, hopes to offer more convenience and immediacy with a new virtual health-care pilot project it launched in partnership with Dialogue last December. "Employees can connect virtually with a team of medical professionals anywhere, any time," says Fedorchuk. "Via secure video consultation, these professionals can diagnose several conditions, provide medical advice, make referrals to specialists or write a prescription. It can save plan members hours of waiting in a doctor's office, especially for non-urgent care."

In Dialogue's experience, it's possible to resolve the reasons for 70 per cent of doctor's visits through online consultations. "So if your child develops an ear infection



CANADIAN HEALTHCARE

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TOP 20 | GROUP INSURANCE PROVIDERS

		INSURED PREMIUMS AND NON-INSURED DEPOSITS (MILLIONS) AS OF DEC. 31, 2017		
Company		2017	2016	Variance
1	Sun Life Financial	\$9,868.6	\$9,241.6	6.8%
2	Great-West Life Assurance Co.	\$8,797.1	\$8,409.5	4.6%
3	Manulife Financial Corp.*	\$8,376.8	\$8,679.0	-3.5%
4	Desjardins Insurance	\$2,731.6	\$2,561.9	6.6%
5	Green Shield Canada ¹	\$2,170.2	\$1,766.5	22.9%
6	SSQ Insurance* ²	\$2,033.1	\$1,933.6	5.1%
7	Medavie Blue Cross	\$1,467.7	\$1,342.7	9.3%
8	Pacific Blue Cross*	\$1,179.3	\$1,261.7	-6.5%
9	iA Financial Group ³	\$1,135.6	\$1,084.8	4.7%
10	Alberta Blue Cross	\$1,129.9	\$1,063.6	6.2%
11	La Capitale assureur de l'administration publique inc. ⁴	\$634.6	\$593.3	7.0%
12	Equitable Life Insurance Co. of Canada	\$419.4	\$380.5	10.2%
13	Empire Life Insurance Co.*	\$409.9	\$413.4	-0.8%
14	Manitoba Blue Cross	\$339.5	\$338.7	0.2%
15	The Co-operators Life Insurance Co.	\$313.9	\$299.5	4.8%
16	RBC Insurance*	\$312.5	\$278.6	12.2%
17	Saskatchewan Blue Cross	\$124.3	\$116.1	7.1%
18	Assumption Life	\$72.8	\$72.8	0.0%
19	UL Mutual Co.	\$69.0	\$61.5	12.2%
20	GMS Insurance Inc.	\$25.3	\$23.0	10.0%
Top 20 Industry total		\$41,611.1	\$39,922.3	4.2%
		\$41,635.2	\$39,945.2	4.2%

Notes: Figures in this report are based on responses provided by the survey participants. *Benefits Canada* assumes no responsibility for the accuracy of the data provided. All totals are subject to +/- variance due to rounding. **1.** The significant increase is due to the onboarding of several large groups in 2017. **2.** Formerly known as SSQ Financial Group. **3.** Formerly known as Industrial Alliance Insurance & Financial Services Inc. **4.** Formerly known as La Capitale assurances et gestion du patrimoine. * Restated figures for 2016

Source: *Benefits Canada/Canadian Institutional Investment Network's 2018 survey of group insurance providers*

and you know that, why wait an hour in a clinic with a restless kid when you can have that resolved virtually in 15 minutes and have a prescription online?" says Fedorchuk.

On the pension side, Great-West Life has also piloted an online platform called Wayfinder, which allows plan members to view their workplace retirement plans, alongside their individual savings, in order to get a big-picture view of their financial progress. Fedorchuk says about 40 per cent of the people who weren't maximizing their employer match are now taking advantage of it. "It's a great example of how aggregating information and representing it easily, visually and in a personalized way works." The company is planning to launch the Wayfinder platform this year.

Closing the treatment gap

Back on the health side, Green Shield Canada launched a free digital mindfulness program in December 2017.

Through its six modules, the program allows people to get evidence-based mental-health support at their convenience.

David Willows, Green Shield Canada's chief innovation and marketing officer, says the program wasn't the result of a eureka moment. "It was a slow build. We looked at our data and saw mental health was a problem to reckon with in Canada. And we severely lack adequate resources on the ground to treat people. We don't want to bypass the traditional system. But if it isn't stepping up, here's a creative and convenient way to close that gap."

While Willows sees promise in the various technologies, he says staying atop the gadgets race is only a short-term solution. "I'm not sure how game-changing a new app to book a massage appointment really is. Our more earnest effort is to address the gaping holes in our health-care system, like the gaps in mental-health treatment or the lack of accountability for health outcomes."

Green Shield Canada, he says, is taking affirmative



New health

innovations

now available to
more Canadians

Sun Life looks to the future of Canadian healthcare

Leading the industry in digital transformation, a 150-year-old insurance company has released a string of bold innovations to help Canadians live healthier lives.

“By developing new mobile, voice and virtual solutions, we’re providing busy Canadians with the modern tools they need to better manage their health and wellbeing,” said Dave Jones, Senior Vice-President, Group Benefits, Sun Life Financial Canada.

Sun Life’s latest innovation is Voice Activation. Much like having your own personal health assistant, users can ask Google Home to help them find a nearby healthcare provider.

Today, millions of Canadians are counting on their employers to provide them with access to innovative health solutions. Leading the way in digital evolution, Sun Life is working with business leaders and decision makers to help shape the future of healthcare in Canada.

Meet the my Sun Life Mobile app

With 4.6 stars on the App Store, it has a higher lifetime rating than digital innovators such as Facebook and Uber.*

- Submit claims for instant processing and check claim status from anywhere, anytime.
- Find and rate healthcare providers. Makes it quick and easy to access care (optometrist, dentist, massage therapist, etc.)
- Drug look-up tool to find out what prescription drug costs are covered, and discover alternative medications to help save money.

*based on App Store ratings as of March 19, 2018

Virtual Care improves access to healthcare

Furthering its commitment to digital innovation, Sun Life recently became the first Canadian insurer to offer coast-to-coast access to virtual healthcare services.

Whether they're bedbound fighting a nasty virus or running a busy schedule, it's difficult for many working Canadians to find the time to go to the doctor or pharmacy. However, with Sun Life Virtual Care, your employees will be able to get quick and reliable care while saving precious time.

From the comfort of home, individuals can now connect with a range of medical professionals including doctors, registered nurses, and mental health professionals. Through live video, telephone or text, a virtual visit can provide Canadians with immediate care and peace of mind.

The benefits of Virtual CBT

To provide Canadians with faster, easier access to mental health therapy, Sun Life has teamed with the University of Regina on a pilot project to test the benefits of Virtual Cognitive Behavioral Therapy (CBT).

If your employees live in a rural area of the country, they likely have to wait months or travel for hours to see a mental health professional—a difficult proposition considering the nature of these illnesses make it hard for people to leave their house.

In addition to removing obstacles to care, Virtual CBT is proven to be just as effective as in-person therapy. It is why Sun Life is making the product available to all plan members and believes this innovation can help thousands of Canadians get back to feeling like themselves, and get back to the jobs they love.

Mental health and the workplace

- Mental health is the leading cause of employer long-term disability programs.
- 500,000+ Canadians miss work each week due to a mental health problem. - *Centre for Addiction and Mental Health*
- Mental health problems account for more than \$6 billion in lost productivity costs due to absenteeism and presenteeism. - *Mental Health Commission of Canada*

Pharmacogenetics 101

A new, groundbreaking treatment may soon take the guesswork out of how mental health medications are prescribed in Canada.

Sun Life has partnered with the Centre for Addiction and Mental Health (CAMH) to test the effectiveness of pharmacogenetics, the study of how genes affect drug metabolism and an individual's response to certain medications.

Participants in the IMPACT study have their saliva analyzed in a lab environment to find out what medications will work best for them. Early results show people with depression experienced a 27 per cent reduction in the severity of symptoms after eight weeks of gene-guided treatment.

"Pharmacogenetics provides a more personalized approach to mental health treatment," said Jean-Michel Lavoie, Assistant Vice President, Product Development, Group Benefits, Sun Life Financial Canada. "We believe we can help people get back to feeling like themselves, and get back to the jobs they love."

This futuristic approach will revolutionize how mental health medications are prescribed.



Together, we can shape the future of healthcare in Canada. Contact your Sun Life Group Benefits representative.

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TOP 10 | GROUP LIFE PROVIDERS

Company	INSURED PREMIUMS AS OF DEC. 31, 2017		
	2017	2016	Variance
1 Manulife Financial Corp.*	\$829.5	\$776.0	6.9%
2 Great-West Life Assurance Co.	\$819.6	\$803.7	2.0%
3 Sun Life Financial	\$654.2	\$645.3	1.4%
4 Desjardins Insurance	\$244.5	\$236.7	3.3%
5 SSQ Insurance* ¹	\$154.6	\$154.5	0.1%
6 iA Financial Group ²	\$108.8	\$105.5	3.1%
7 Medavie Blue Cross	\$75.3	\$68.0	10.7%
8 La Capitale assureur de l'administration publique inc. ³	\$53.0	\$50.7	4.5%
9 RBC Insurance*	\$49.5	\$48.0	3.1%
10 The Co-operators Life Insurance Co.	\$34.8	\$36.0	-3.3%
Top 10 total	\$3,023.8	\$2,924.4	3.4%
Industry total	\$3,169.2	\$3,063.2	3.5%

Notes: Figures in this report are based on responses provided by the survey participants. *Benefits Canada* assumes no responsibility for the accuracy of the data provided. All totals are subject to +/- variance due to rounding. 1. Formerly known as SSQ Financial Group. 2. Formerly known as Industrial Alliance Insurance & Financial Services Inc. 3. Formerly known as La Capitale assurances et gestion du patrimoine. *Restated figures for 2016

TOP 10 | GROUP HEALTH PROVIDERS

Company	INSURED PREMIUMS AS OF DEC. 31, 2017		
	2017	2016	Variance
1 Great-West Life Assurance Co.	\$4,824.4	\$4,528.1	6.5%
2 Sun Life Financial	\$4,232.2	\$3,734.2	13.3%
3 Manulife Financial Corp.*	\$4,012.9	\$4,555.1	-11.9%
4 Desjardins Insurance	\$2,252.5	\$2,086.3	8.0%
5 SSQ Insurance* ¹	\$1,726.4	\$1,646.6	4.8%
6 iA Financial Group ²	\$911.1	\$883.7	3.1%
7 Medavie Blue Cross	\$633.8	\$589.8	7.5%
8 La Capitale assurances et gestion du patrimoine ³	\$564.5	\$525.3	7.5%
9 Green Shield Canada	\$524.9	\$452.7	15.9%
10 Empire Life Insurance Co.*	\$325.5	\$333.1	-2.3%
Top 10 total	\$20,008.2	\$19,334.9	3.5%
Industry total	\$21,542.9	\$20,750.1	3.8%

Notes: Figures in this report are based on responses provided by the survey participants. *Benefits Canada* assumes no responsibility for the accuracy of the data provided. All totals are subject to +/- variance due to rounding. 1. Formerly known as SSQ Financial Group. 2. Formerly known as Industrial Alliance Insurance & Financial Services Inc. 3. Formerly known as La Capitale assurances et gestion du patrimoine. *Restated figures for 2016

Source: *Benefits Canada/Canadian Institutional Investment Network's 2018 survey of group insurance providers*

steps in that direction. “Take our value-based pharmacy platform, for example, where Canadian pharmacists — if they have GSC plan members — now get a monthly score-card telling them how they did on certain health outcome metrics. To me, that’s more disruptive and innovative than asking Alexa what my health-care spending account balance is. We need to think bigger and more strategically.”

With that bigger picture in mind, Manulife has rolled

out five new pilot projects that focus on three key aspects of the health-care cycle: access to care, diagnostics and treatment. Four of the projects have an explicit focus on mental health and include virtual cognitive behavioural therapy and pharmacogenetic testing. The fifth focuses on the treatment ecosystem and pushes for a holistic, multidisciplinary approach to assessing and treating musculoskeletal disorders. It also includes the support of a care co-ordinator.

vation

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TOP 10 | ASO PROVIDERS (ASO GROUP LIFE + ASO GROUP HEALTH)

NON-INSURED DEPOSITS (MILLIONS) AS OF DEC. 31, 2017

Company	2017	2016	Variance
1 Sun Life Financial	\$4,982.2	\$4,862.1	2.5%
2 Manulife Financial Corp.	\$3,534.4	\$3,347.9	5.6%
3 Great-West Life Assurance Co.	\$3,153.1	\$3,077.7	2.4%
4 Green Shield Canada ¹	\$1,645.3	\$1,313.8	25.2%
5 Alberta Blue Cross	\$946.5	\$904.2	4.7%
6 Pacific Blue Cross*	\$882.8	\$976.9	-9.6%
7 Medavie Blue Cross	\$758.6	\$684.9	10.8%
8 Desjardins Insurance	\$234.6	\$238.9	-1.8%
9 Manitoba Blue Cross	\$232.1	\$231.5	0.3%
10 SSQ Insurance ²	\$152.1	\$132.5	14.8%
Top 10 total	\$16,521.7	\$15,770.4	4.8%
Industry total	\$16,923.1	\$16,131.8	4.9%

Notes: Figures in this report are based on responses provided by the survey participants. *Benefits Canada* assumes no responsibility for the accuracy of the data provided. All totals are subject to +/- variance due to rounding. 1. The significant increase is due to the onboarding of several large groups in 2017. 2. Formerly known as SSQ Financial Group. *Restated figures for 2016

Source: *Benefits Canada*/Canadian Institutional Investment Network's 2018 survey of group insurance providers

To address Canada's growing mental-health crisis, Sun Life is also piloting a virtual cognitive behavioural therapy program in partnership with the University of Regina.

Backroom buzz

While front-end user experience is driving much of the innovation in the insurance industry, convenience and ease of use aren't the only applications of technology. Tim Clarke, president of TC Health Consulting Inc., says underwriting, fraud prevention and backroom operations are equally on the cusp of exciting change.

"From an underwriting perspective, change is already underway in car insurance. Through telematics, a device in your car measures acceleration and you get a discount for being a safe driver. The same concept can apply to your health insurance, disability insurance, life insurance," he says.

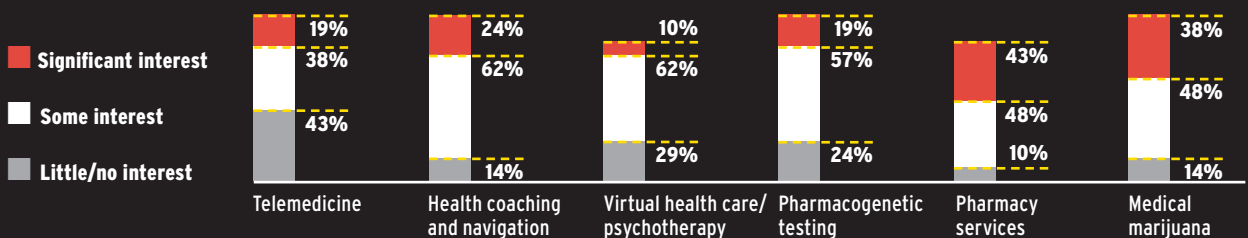
There are exciting ways technology can also help streamline backroom operations, including claims processing, predictive analytics and fraud detection, or make

them smarter by identifying trends and detecting patterns. Clarke offers the example of renewals of long-term disability policies. "You review not only LTD data but also analyze the [short-term disability] experience. Now, if you had a strong program analyzing STD and medical claims, you'd be better able to identify the risk of new LTD claims. That could substantially improve your renewal accuracy."

Even with gadgets like Alexa, Google Home or Apple Inc.'s Home Pod, it's not just the plan members who benefit, according to Chris Gory, president and employee benefits advisor at Toronto-based Insurance Portfolio Financial Services Inc. "They're also great for small-business owners who don't have a dedicated HR person and can help ease the burden for the small group plan administrator by answering basic questions people can find in their booklet but don't bother to," says Gory, who also has high hopes for blockchain technology and how it will affect data exchange, claims adjudication and information sharing.

Dougherty agrees investments in big data and artificial

HOW MUCH INTEREST IS THERE FROM PLAN SPONSORS IN COVERAGE/SERVICES IN THE FOLLOWING AREAS?



Notes: Numbers may not add up to 100 per cent due to rounding.

Source: *Benefits Canada*/Canadian Institutional Investment Network's 2018 survey of group insurance providers

intelligence could have some very positive outcomes for plan sponsors and carriers. “Big data can allow you to see things and detect patterns you wouldn’t otherwise spot if you were looking at just one claim. For example, you might get four claims from a chiropractor on one day for a specific plan sponsor. That might not look unusual. But if you look across your database and see you got 100 treatments by that chiropractor on one day, red flags go off.”

Decisions, decisions

The onslaught of change in the insurance industry also comes with a dizzying barrage of choices. There are thousands of startups clamouring to push their next big idea. However, it’s not just impossible but it can also be counterproductive to hop onto every bandwagon. Carriers and sponsors need to carefully determine what makes sense for their business and how to incorporate it into existing plans. “For example, if you’re in construction and your demographic’s average age is 55, you won’t have much uptake for a Fitbit,” says Gory.

Clarke offers some advice: “Don’t be bamboozled by new offerings. Step back and see if they fit into your program, make sense for your demographic.”

He adds: “There’s much interest in virtual and mobile therapies of all sorts — telemedicine, apps to support mental health, fitness, weight loss or diet. However, our plans aren’t necessarily built to cover a paid visit with a telemedicine doctor or an annual subscription to a mental-health app. But if done right, they needn’t necessarily raise the cost. If you can pay \$200 a year to install an app that complements [cognitive behavioural therapy], you could put that under paramedical benefits for psychologists. If effective, \$200 on the app might eliminate \$500 on visits.”

With such rapid change in products and processes, plan designs need a facelift as well. “Sponsors need to redefine coverage to let people access care the way they want to,” says Clarke. “You could look at these apps as an entire class of paramedical benefits and not limit coverage to specific vendors. Accept any app that meets specific criteria or select a category and allow any vendor that caters to it.”

As technology evolves at lightning pace, it can be a real challenge for plan sponsors to pick a partner that will stay through the length of their plan cycle. That’s a guarantee that would be a challenge for most startups to offer. “But current annual plans don’t lend themselves to that kind of agility. Sponsors like to build in two to three years of consistency to evaluate how a feature works,” says Clarke.

“Employers need to get a bit more experimental and be ready to adapt quicker than two- to three-year cycles [and] maybe even consider adding a program midyear,” he adds. “Startups, too, need to recognize they’re catering to a world that likes stability. Their business model cannot change three times during a plan year, once a plan sponsor starts communicating the program to their employees. Both sides need to learn to work with each other.”

Employers, according to Clarke, also need to evaluate existing plans with the same rigour they apply to new ideas. “If you decide virtual care offers better [return on investment] than massage therapy, you need to actively consider it, rather than be rigid about changing anything you’ve been offering so far.”

Kanupriya Vashisht is a Milton, Ont.-based freelance writer.



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Japan a hotbed of ESG activity

Rising focus includes looking at environmental, social and governance issues in a different way

By **Martha Porado**

While North American investors have traditionally perceived environmental, social and governance factors as a way of injecting personal philosophy into business practices, Japan's business community has recently — and suddenly — begun to implement the concept and its uses in a different way.

“What's really evolved is a different set of ESG criteria,” says Linda-Eling Lee, managing director and global head of environmental, social and governance research at MSCI Inc.

Japan, she notes, looks at how those factors “are going to impact the long-term risks and the return profile of your investments, regardless of what your personal beliefs might be as an investor.”

That baggage-free perception is part of what has led both Japanese institutional investors and corporations to accept environmental, social and governance factors as just another useful tool in a short period of time, according to Lee.

Indeed, a focus of Prime Minister Shinzo Abe's economic policy has been boosting the attention paid to the quality of corporate governance in Japan in order to make its companies more competitive and attractive to foreign investors, she says.

Pension funds have also been getting in on the action. A major event in setting the tone was the move by Japan's Government Pension Investment Fund to follow the government's stewardship code. Updated in 2017 from its nascent 2014 version, the code defines the principles responsible institutional investors should follow. It suggests they should have a transparent stewardship strategy that includes how they handle conflicts of interest, as well as how they monitor and engage with the companies they invest in. It also covers disclosure of voting activities and how investors use them as a stewardship tool.

In Japan's top-down culture, such a commitment by a government pension plan will make companies take notice, says James Hawrylak, the Tokyo-based

director of institutional relations for Sustainalytics, a governance research firm. “It's very powerful for a government ministry to do something like that, and it will add further momentum.”

Areas of focus

So what do the issues look like in practice? A diffuse concept, the environmental, social and governance issue can take many forms. But when it comes to social issues, the government has identified boosting the role of women in the corporate workforce as a key tool for growth, says Michael Jantzi, chief executive officer of Sustainalytics.

“You see a very big drop-off as women enter the workforce but then don't proceed beyond, say, middle management,” says Lee.

“It's a glaring lag in Japan,” she adds.

In its efforts to address those and other issues, the Government Pension Investment Fund announced in July 2017 it would be using MSCI's Japan Empowering Women and Japan ESG Select Leaders indexes as benchmarks to track its progress and as a basis for passive equity allocations.

Re-auditioning on the world stage

Using and acting on environmental, social and governance analysis is allowing Japan to present a more attractive face to global investors, especially when it comes to transparency.

“There is an understanding that the way global investing is done today, companies simply need to be more transparent,” says Lee. “You're no longer just playing to your domestic market.”

A mere two years ago, only 12 to 14 per cent of Japanese companies would expand upon publicly available information used by MSCI to compile its ratings, Lee estimates. Today, that number exceeds 50 per cent.

The adoption of environmental, social and governance factors appears across multiple asset classes. While the focus has typically been on domestic





equities, the Japanese approach considers environmental, social and governance factors when it comes to both equity and fixed-income investments and as part of both active and passive strategies, says Jantzi.

One example on the fixed-income side is the sudden robust activity in green bonds in Japan, which Hawrylak notes isn't able to keep up with domestic demand. In 2015 and 2016, Sustainalytics provided an external review for only one Japanese green bond issuer per year. In 2017, that number jumped to six.

He notes, however, that even in the last six months, there has been closer scrutiny of how green bonds fit into an issuer's broader environmental, social and governance plan. "There is the idea that a green bond issuance should not be a one-off, random event. Rather, it should be part of a long-term, wide ESG strategy that a company has in place."

Test cases

So what qualifies an individual company as a leader? Among the companies highlighted by Sustainalytics is Konica Minolta, which manufactures and sells imaging products, printers and multi-functional devices for office and industrial use.

Among the company's actions is a focus on human resources, which is a significant concern given the high global demand for the biotechnology and information technology professionals it will need to hire to achieve its ambitious revenue targets in 2019. To boost its competitiveness, the company is actively tackling the lack of women in the workplace. The chief executive officer chairs the company's women's committee, the relative success of which is evident in the current percentage of female managers at 16.4 per cent. The result surpassed the company's previous goal of five per cent by 2017. The Japanese average for 2016 was 12.1 per cent, according to Japan's Ministry of Health, Labour and Welfare.

Another company highlighted by Sustainalytics is Kao Corp., a chemical manufacturer with 40 per cent of its business in beauty care.


In 2013, the company recalled a skin-whitening product from one of its major brands, Kanebo Cosmetics Inc., that inadvertently caused thousands of customers to develop white splotches. As of January 2018, the company had settled with 17,798 customers over the incident, according to a statement from Kanebo Cosmetics.

Part of rehabilitating the company's image included boosting its standards. Among the achievements, 95 per cent of Kao's manufacturing plants have obtained 9001 certification from the International Organization for Standardization, a global standards body. As well, Kao has established stricter safety standards for its products and has been transparent about the incident, having committed to supporting those affected until they make a full recovery.

Developments on the pension side

While the progress the Government Pension Investment Fund has made has focused on domestic equities, the plan is eager to expand its approach, according to a spokesperson. It's currently reviewing potential global environmental, social and governance indexes, and it revised its investment principles in October 2017 in order to expand its stewardship responsibilities to all asset classes. The fund is also developing a joint research program with the World Bank to explore solutions for integrating sustainability considerations into fixed-income portfolios.

The spokesperson noted the goal of the fund's environmental, social and governance strategy is to push the market in a more sustainable direction. "It is quite important for us that the whole market will grow sustainably, so as to receive [a] sustainable investment return for a long horizon," the spokesperson noted.

"GPIF regards ESG as a very convenient tool to request external asset managers and investee companies to get rid of short-termism." 

Martha Porado is an associate editor at Benefits Canada: martha.porado@tc.tc.

MAKING AN IMPACT

The Government Pension Investment Fund is the world's largest pension fund, with **US\$1.3 trillion** under management. As of March 2017, **3% of its total equity assets** were in three environmental, social and governance indexes. Currently, the fund is reviewing applications from **11 companies** to find its next equities benchmark for environmental, social and governance factors.





THE *quest* FOR *cu*

By Martha Porado

The Canadian dollar has had its share of ups and downs over the past year or so. At the beginning of 2017, it sat at 74 cents U.S., rising to a recent high of 82 cents in September. Since then, it has fluctuated at around the 80-cent level, falling by a few cents throughout early March.

The dollar's rise can have a negative material impact on pension plans' returns on their foreign holdings. In November, for example, the Canada Pension Plan Investment Board cited the Canadian dollar's 6.6 per cent rise over the prior six months against the U.S. currency as a factor in its modest return of 0.7 per cent in the second quarter of its 2018 fiscal year. Given the volatility, what are the most important factors for Canada's pension plans to watch for in the coming year and how can they use currency levers to enhance and protect returns?

Trade issues

Trade protectionism is likely to be one of the year's most significant market movers, especially for currencies, says Scott DiMaggio, co-head of fixed income at AllianceBernstein.

With the North American Free Trade Agreement under fire from U.S. President Donald Trump's administration, institutional investors are watching to see how aggressive he'll be on the issue, says DiMaggio.

"Depending on how this goes, in our estimation, the Canadian dollar looks a tad



urrency

How pension funds can navigate exchange rates at a time of uncertainty around everything from trade deals to monetary policies

expensive, and the Mexican peso looks cheap from a fair-value perspective,” he says.

Arnab Nilim, portfolio manager on the currency strategies team in the global fixed-income group at AllianceBernstein, explains the issue further. “If you look at the currency market performance heading into the Trump election . . . the Mexican peso underperformed the most. The Canadian dollar didn’t get any such negative performance on that,” he says, noting there’s potential for further downward pressure on the Canadian dollar if the NAFTA talks continue to look unfavourable for Canada.

For smaller defined benefit pension plans, NAFTA will be a key point to watch this year, notes Lesley Gallinger, chief financial officer for the Electrical Safety Authority, an Ontario-based administrative authority. “Anything that smacks of protectionism and softens global trade views is going to impact us from a currency perspective,” she says.

Plans like the Electrical Safety Authority’s, with an approximate size of \$350 million in assets, hold large amounts of non-Canadian equity. Canadian plans with less than \$1 billion in assets under management held an average of 20.9 per cent in U.S. equities, according to the Canadian Institutional Investment Network. “Global equity, [including U.S.], is actually our highest single allocation,” says Gallinger.

While the Canadian dollar will likely be more volatile in light of NAFTA negotiations and trade issues more generally, François Bourdon, global chief investment officer at Fiera Capital Corp., says they likely won’t send the loonie careening off in any particular direction. Issues with NAFTA are “going to take a little bit longer,” he says, suggesting the

questions around the trade deal will mean continued volatility for the Canadian dollar but won’t ultimately affect the currency’s long-term movement.

Rather than a broad rewrite of the trade agreement, the United States will more likely subject Canada to targeted trade actions, says Tim Alt, director of rates and currencies at Aviva Investors.

“The expectation we have this year is that there will be some tariffs implemented around the industries and sectors that are more sensitive to [U.S.] national security, so steel and things of that nature, energy. We’ve seen the tariffs on solar,” says Alt. Trump, of course, moved on steel tariffs in March but exempted Canada and Mexico temporarily.

Money in the bank

Currency fluctuations will also have a lot to do with the ongoing renormalization of global monetary policy, with the Bank of Canada and the U.S. Federal Reserve both forecasting further rate hikes this year and the European Central Bank and the Bank of Japan hinting at similar actions, says David Tulk, an institutional portfolio manager at Fidelity Investments.

The simultaneous edging away from easy monetary policy “is certainly something that could introduce a lot more volatility into currencies this year,” he says.

Both the European Central Bank and Bank of Japan have yet to take any actions on raising rates, but 2018 should be the year when they bring their quantitative easing programs to a gentle halt, says DiMaggio.

Not every central bank is raising rates, however. In 2017, India, Brazil, Chile, Australia and South

CURRENCY PLAYS

Pension plan sponsors often find themselves ill-equipped to answer the questions of what, when and how much to hedge when it comes to currencies, says Ross Dunlop, a partner at Ellement. While most plans with less than \$6 billion in assets under management don't bother to hedge currency risk, Dunlop suggests that knowing which strategies are out there and how they work is a good place to start in deciding whether to consider doing it. Here's a look at a few of the strategies available and some of the issues to consider:

Passive currency overlay: A passive overlay seeks to flatten out volatility from multiple currency exposures. To do so, a fund would lock in a particular exchange rate between the currency in which it holds a particular asset and the plan's own domestic currency. The currency manager locks in the rate by purchasing a derivative, such as a futures contract. The approach allows for the option to convert any foreign currency gained from the asset back into the domestic currency at the agreed-upon rate. While the process repeats for however long the plan wants the hedge to continue, it must re-establish the futures contract upon its expiry, at which point the new exchange rate could be different.

While the passive strategy can eliminate much of the stress of maintaining exposure to multiple foreign currencies, it also cancels out the potential benefit of the diversification achieved by holding assets in non-domestic currencies, says Dunlop. "You do it primarily because you're focused on getting access to the underlying securities or asset class, and you want to dampen that volatility due to the currency fluctuations, which in any year can be quite large."

Active currency overlay: An active currency overlay also seeks to mitigate risks of unfavourable exchange rates, while introducing the search for alpha from currency fluctuations. A percentage of the portfolio would fall under the passive strategy, with the remaining portion used to attempt to generate additional return from the active approach.

In those situations, active managers are using their expertise to determine when currencies are overpriced or undervalued relative to others and which direction they may be moving in, says Dunlop. "It's their viewpoint that they can forecast trends in currency."

Dynamic hedging: Under the dynamic strategy, the ratio of the hedged to the unhedged portion of the portfolio can change in order to more actively take advantage of opportunities to generate alpha from currencies. Take, for example, a plan that holds 20 per cent of its portfolio in euro-denominated assets and a manager who thinks the Canadian dollar is likely to drop relative to that currency. In that case, the manager would decrease the hedged percentage of the portfolio in order to take advantage of the extra strength in the euro versus the Canadian dollar, says Gregory Leonberger, director of research and managing partner at Marquette Associates Inc., an investment consulting firm based in the United States.

Africa all lowered them, for example. While investors traditionally assume lower interest rates will boost equities, what can be positive news for that asset class often has a negative impact on currencies, especially in developed markets, says DiMaggio. "We've found that when countries are cutting interest rates, that tends to be bad for the currency. While you may be making a very good stock decision in buying foreign stocks, you may lose if you're not monitoring that currency exposure," he says.

For less liquid, longer-term assets, however, that's less of a concern, he adds. "Currencies, in the long term, revert to fair value."

To hedge or not to hedge

Regardless of what may be influencing them, currency fluctuations are never something pensions plans can afford to ignore, says Nilim. "You can be the best stock picker and the best bond picker, but if you don't manage currency, you can actually end up having negative performance. So you have to . . . manage it," he says.

However, building currency considerations into the portfolio depends heavily on the mandate of a given pension fund, says Alt.

Most plans should probably take hedging practices into consideration, says Bourdon, who estimates 60 per cent of pension funds in Canada have more than 20 per cent foreign exposure. "Those funds with less exposure don't necessarily require a formal hedging strategy," he says. "You may have views, and you may want to express those views, but from a long-term positioning standpoint, I think anything under 20 per cent is not a cause of worry," says Bourdon. "As you move higher in terms of exposure, then you need to really take that into account and implement an active program to try to make money out of currencies or reduce your exposure to foreign currencies."

Even measuring that level of exposure has become more difficult in recent years, Gallinger points out. The international nature of modern business means purchasing a single U.S. equity gives a plan exposure not only to the U.S. dollar but possibly to other currencies as well.

For example, 3M Co. receives only about 40 per cent of its revenue from the United States, says Arthur Heinmaa, chief executive officer of Cidel Asset Management Inc. The remaining 60 per cent is revenue from a wide range of other countries.

Even without hedging directly, currency should still play a part in the timing of asset acquisitions, says Lewis Powell, a consultant at Proteus Performance Management. "If you're trying to make a new allocation outside of Canada, you are taking a lot of timing risk for sure, if you're pulling the trigger on any given day."

Another timing consideration relates to capital



“You can be the best stock picker and the best bond picker, but if you don’t manage currency, you can actually end up having negative performance.”


calls, when plans investing in foreign real assets or larger pooled funds require cash to fill a call in a foreign currency at a specific time, says Powell.

“A lot of the vehicles to access these asset classes have queues and lineups, so you need to work through the queue and as your assets get called, you need to provide it as per the contract you signed,” says Powell. “So the currency will be whatever it is at that time.”

He notes, however, that if an institutional investor is very confident about a currency’s direction, it can invest in it directly. “It doesn’t need to be a byproduct of foreign assets; you can just go and trade currencies and try to provide returns,” says Powell, adding he doesn’t know of any pension fund with less than \$1 billion in assets that views currencies as a separate asset class that it can use to enhance returns.

Indeed, trading currencies directly has become less popular among pension funds since the 2008 financial crisis, says Alt. “If I think back to the 2007 appetite, there was a lot more interest in investing currencies as a standalone asset class, if you will. And by default, that meant less hedging out the currency risk and more living with currency risk as a way to enhance returns.”

Even after moving on from the crisis period, Canadian pension funds don’t seem to have picked the habit back up, he adds. “I think that’s a reflection of the fact that currencies are somewhat more complicated. . . . When I’m investing in a currency, I need to know the fundamentals of a single country but also the fundamentals of the counter country with the counter currency, depending on what the currency pair is that you’re investing in. And not only that, you also have to take into account where we are in the global risk cycle relative to each other and where economies and global banks are to one another,” says Alt.

Gallinger says she has seen larger funds with active currency strategies post less impressive returns than her organization’s pension plan, which uses no specific currency overlay. “It’s different for every plan, and it’s different for every risk profile, obviously. So for us, it’s really just making sure you diversify and making sure you understand where the managers have made larger bets and keeping abreast of those,” she says. 

Martha Porado is an associate editor at Benefits Canada: martha.porado@tc.tc.



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Action steps to better outcomes

By Peter Diekmeyer

From governance to engagement, plan sponsors are looking for solutions to improve their defined contribution pension plans. What tools are available to plan sponsors to boost their plan outcomes and how can they put them into action? With case studies from plan sponsors that have already found some of the answers and presentations by experts about key trends, the 2018 Defined Contribution Plan Summit explored a range of solutions to help employers take their plans to the next level.



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touted as key behavioural techniques

With emotions often preventing people from acting in their own interest, nudges that leverage behavioural finance theory to account for them can generate better retirement outcomes.


Those were among the key messages delivered by Punam Keller, an associate dean at the Tuck School of Business in Hanover, N.H., to participants at *Benefits Canada's* Defined Contribution Plan Summit in February.

While defined contribution plans offer many advantages, not all employees recognize them, a fact often blamed on inadequate financial literacy or the difficulty of calculating the consequences of long-term financial choices. According to Keller, however, emotions are the more likely culprits.

“Our ability to learn, integrate [and] apply is driven by how we feel, as much as by what we know,” said Keller at the Montreal event. “Current nudges do not effectively manage emotion.”

One good way to nudge those who have made poor financial choices in the past is by using regret aversion, according to Keller. She recommends two tools, enhanced active choice and declining financial incentives, to increase plan participation and engagement and reduce leakage. Highlighting the consequences of not taking advantage of the plans offered is one technique. For example, in one study cited by Keller, test participants selected the more desirable option between opting in and opting out when the latter option highlighted the costs of inaction.

Effective use of terminology also plays a role. For example, characterizing the savings (which imply sacrifice) that employees invest in their pension plans as future income (which implies positive benefits) can change the dynamic of how targeted audiences respond, Keller suggested.

Communicating in ways target groups are comfortable with also affects outcomes. For example, Keller suggested that the low uptake of pension options among younger people may reflect the lack of available apps. She also highlighted the advantages of a strategy of declining financial incentives, which nudges participants to act quickly. She cited a promotion that offered a \$10 gift card in exchange for attending a seminar on asset allocation. The incentive declined to just \$5 after a certain date, she noted. 



PUNAM KELLER



DC INVESTMENT SPOTLIGHT

A look at the attitudes of DC members around the world

With defined contribution pension plans at various stages of evolution around the world, how are plan members faring in different countries? At *Benefits Canada's* Defined Contribution Plan Summit in February, Shawn Cohen, director of relationship management at MFS Investment Management Canada Ltd., and Peter Delaney, director of investment solutions at MFS Investment Management, shared the results of a global retirement survey that offered insight into plan members' perspectives on a range of retirement issues.

"We're stepping back and looking at the issues participants face, not only in employment but through retirement," said Cohen.

The survey, which compared the Canadian landscape to some of the more developed markets for

defined contribution plans, such as Australia, Britain and the United States, looked at retirement issues in a number of areas. On the issue of knowledge levels, only a third (31 per cent) of Canadians regard themselves as somewhat or very knowledgeable about developing a retirement plan. The number compared favourably to Britain and Australia but was lower than the findings for the United States. Only a quarter of Canadians feel they're somewhat or very knowledgeable about the decumulation process.

When it comes to some of their financial projections, only 52 per cent of Canadian baby boomers who have defined contribution plans expect to have their mortgages paid off by the time they retire.

Interestingly, many plan members regard their investment advisors as a more trustworthy source of investment advice than their employers.

One major difference in attitudes relates to health care. Americans expressed more concern about the challenges of financing unexpected health issues during retirement than those in the other three countries.

Delaney also cited a number of issues to take away from the survey data. They included a clear opportunity for employers and plan sponsors to increase the trust participants and retirees place in their advice. In addition, better education can help plan participants overcome misconceptions about their personal accounts when compared to their defined contribution assets. Educational efforts can also fill a need identified in the survey for more information about retirement income products, particularly when it comes to issues related to tax efficiency. *JW*

JAMES WAGNER

INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: Nadia Darwish, vice-president of development, marketing and investment strategy; and Karrina Dusablon, vice-president of business development, client relationship and member experience, at Desjardins Insurance

Topic: Balancing a human and digital approach to plan member experiences

Augmented reality, big data, robo-advisors and artificial intelligence are playing growing roles in the digital era. By 2020, Canadians will manage 85 per cent of their relationships with companies without human interaction. On the other hand, 83 per cent of Canadians prefer dealing with a person when getting advice and resolving customer service issues. What's the optimal balance between human-focused and digital services when it comes to effectively interacting with plan members?

Key takeaways:

- ▶ While digitization is clearly a growing trend, the pension industry needs to create authentic, relevant and personalized experiences.
- ▶ The goal is to leverage artificial intelligence and data to make the delivery of digital services indistinguishable from those provided by a human. The industry should also provide plan members with access to a live person at appropriate opportunities.
- ▶ Plan sponsors expressed a willingness to share more data with providers to help boost member experiences. Asking plan members directly for more information about themselves and getting their consent to reach out to other sources can also help.




SHAWN COHEN

U.S. CASE STUDY:

Company harnesses inertia to get majority of workers to 75% income replacement



What were the results? Since the changes took effect, 79.5 per cent of employees are now on track to replace 75 per cent or more of their income in retirement. “There was literally no push back,” said Schmidt. “We found that leadership mattered. When our committee overcame its inertia, plan participants did, too.” 

When Searles Valley Minerals Inc. upgraded its pension plan offerings, the situation appeared complicated. The average age of the 761 plan participants at the Kansas-based mining company was 47, and turnover was low. With many employees anchored in their careers, lifestyles and habits, change wasn't necessarily a priority.

“Inertia can be a powerful force,” said Larry Schmidt, the company's director of human resources, during *Benefits Canada's* Defined Contribution Plan Summit in February. “But we found that by taking the time to know participants and test their parameters with the new design, most went along willingly.”

Following an extended career in the U.S. Marine Corps, Schmidt joined Searles Valley Minerals in 1994. He's a long-time member of the administrative committee of its 401(k) plan and currently serves as its secretary. An initial spur for action occurred when two of the original three committee members changed and the group took on a plan advisor.

During a broad review, the new committee evaluated the plan's modest incremental performance and found there was room for improvement. For example, newly hired employees tended to opt for the most conservative investment fund and were reluctant to increase participation levels.

With some of the findings in mind, the group took several steps to improve projected retirement outcomes. They included instituting automatic re-enrolment into an appropriate target-date fund, moving participants to a minimum four per cent contribution rate and the introduction of limits on the amount employees could borrow against their retirement assets. At the same time, the company introduced automatic escalation of contributions up to a 10 per cent cap.



INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: Christine van Staden, regional vice-president, group customer; and George Ng, senior account executive, group customer, at Great-West Life Assurance Co.

Topic: Diverse needs – delivering better outcomes by getting to know plan members better

Canada is an increasingly diverse country. Canadians live across six time zones, comprise four workplace generations (traditionalists, baby boomers, generation Xers and millennials) and include more than 200 ethnic origins. The number of speakers of non-official languages has risen by 14.5 per cent since 2011. Canadians are just as likely to live alone as in a larger family group of two or more members.

Key takeaways:

- › Stereotypes, whether based on location, income or potential experiences, can be helpful in some cases. They can, for example, facilitate the use of behavioural economics and other strategies, including bringing in archetypes, such as a millennial or a retiree, to resonate with target groups. However, it's important to be careful as many people don't fit easily into stereotyped profiles.
- › Key resources to learn more about plan members include record keepers and other service providers, managers and Statistics Canada.
- › Constraints to effectively leveraging diversity include budget constraints, difficulty in aggregating pension information with data about plan members' other financial assets and the need to respect privacy restrictions.

DC INVESTMENT SPOTLIGHT

The role of financial attention in navigating the growing reach of digital data

Finding ways to leverage the engagement of plan members in order to optimize their experiences, decision-making and outcomes was a recurring theme at *Benefits Canada's* Defined Contribution Plan Summit this February. One way to boost outcomes is by considering the growing science of financial attention, according to Jane Henshaw, head of

digital research at the Vanguard Group Inc.'s Centre for Investor Research.


Henshaw described financial attention as “notice taken of information about one’s financial affairs, particularly when in digital form.” The degree to which people regard such information as interesting or important also

matters. For example, members may consult their accounts on a fairly regular basis but take action only once per year. Those facts matter, as there are increasing questions about the degree to which financial attention is shaping investor behaviour, choice and patience, Henshaw noted.

Research into financial attention has implications for several areas, including communications, digital design, savings and spending behaviour. For example, use of mobile or traditional web technologies may have differing effects on portfolio allocation. “Deep psychological phenomena govern our consumption of digital data,” said Henshaw, who has overseen the implementation and evaluation of several digital enrolment and savings techniques.

“We are only beginning to understand how behaviour and information interact.”

Financial attention varies markedly among different groups, said Henshaw. For example, defined contribution and retail investors have different areas of focus, with the latter group more sensitized to daily fluctuations. The size of one’s portfolio also affects financial attention, as does gender. Men, for example, tend to spend more time studying their portfolios than women.

With those issues in mind, financial institutions should emulate the efforts of companies such as Facebook Inc. and Amazon.com Inc. in routinely studying the attention customers pay to their websites, said Henshaw. “The importance of digital environments is only expected to grow, even for institutions and client groups where traditional methods of communication have dominated.” 



JANE HENSHAW

INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: Erica Hall, assistant vice-president for client relations, group retirement solutions; and Sharon Seifried, national vice-president for corporate accounts, group retirement solutions, at Manulife Financial Corp.

Topic: Why financial education isn't enough to change employee behaviour

While a significant portion of Canadians are in poor financial health, most don't like to talk about money, particularly those with challenges in the area. As a result, addressing employees' financial concerns needs to be part of every organization's list of workplace wellness tactics. What are the best ways of connecting with employees on an emotional level in order to help them overcome barriers to facing financial issues?

Key takeaways:

- ▶ Helping employees overcome barriers is a collective responsibility that affects plan sponsors, the government, regulators and educators. While the issues involved are complex, resolving them can improve outcomes significantly.
- ▶ Techniques cited included better use of technology and the creation of real-life educational scenarios that represent all types of plan members, including retirees. The scenarios can help employees identify the issues in an impersonal and, therefore, less-threatening manner.
- ▶ It's useful to increase employee awareness of available tools, such as employee assistance programs and the advice services that are often available in group plans.



JAMES WAGNER

INTERNATIONAL CASE STUDY:

Mandatory e-learning among British company's large DC revamp

While improving a defined contribution pension plan may appear to be simple, ensuring employees fully understand the changes is a crucial part of the exercise, said Ian Baines, head of pensions at Britain's Nationwide Building Society.

Baines told the story of his company's pension changes at the 2018 Defined Contribution Plan Summit in February. Nationwide, Britain's second-largest mortgage provider, has 18,500 employees, 12,500 of whom are in a defined contribution plan. Improvements introduced in 2015 included boosting the core employer contribution to 13 per cent of salary from nine per cent and adjusting the vesting rules.

Nationwide phased in the changes by incorporating a variety of behavioural nudges into a three-phase engagement process. The process started with an education and awareness phase, which then meshed into introductory and implementation components.

Employee interest was strong, said Baines. The proportion of defined contribution plan members who contributed more than the four per cent minimum rose to 90 per cent. Additional voluntary contributions also increased, as did employee engagement, as measured by website visits and participation in education seminars.

The changes the company made were, of course, very generous. However, good communications played a key role in encouraging acceptance. According to Baines, they included highlighting the theme of "pay more to get more" and inserting emotional triggers into a humorous video that explained the plan changes. Support from particular groups, such as unions, also helped. In another noteworthy technique, Nationwide made its pension-related electronic learning module compulsory as of September 2017. However, to maximize the effectiveness, education needs to be an ongoing process, said Baines. "It's never finished."

IAN BAINES



JAMES WAGNER

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DC INVESTMENT SPOTLIGHT

Leveraging glide paths to foster resilient asset allocation

While managers of target-date funds have benefited from strong tailwinds in recent years, how can they manage the current environment of uncertainty?


Ruthann Pritchard, an institutional portfolio manager at Fidelity Investments, cited the favourable conditions of 2017 and the healthy markets of the last nine

years as examples of trends that often end abruptly before transitioning to a different state. From the standpoint of asset allocation in target-date funds, Pritchard told participants at *Benefits Canada's* Defined Contribution Plan Summit in February that the key is to have a strategic approach and a glide path that are resilient to such transitions.

Pritchard noted U.S. equities, investment-grade bonds and short-term investments have generated average yields of 6.9 per cent, 2.4 per cent and 0.5 per cent, respectively, since 1926. She warned, however, that seemingly diversified portfolios that are too reliant on the past may be vulnerable to changing market environments.

While the long-term averages suggest a solid performance over time, Pritchard identified four different types of market environments that may persist over longer-term cycles, often for many years. She cited research that found markets are in growth mode 17 per cent of the time, expansionary periods 52 per cent of the time, so-called stagflation 17 per cent of the time and crisis conditions 14 per cent of the time. Given the different scenarios, she highlighted the value of deconstructing historical financial market environments and coming up with portfolios and glide paths that are resilient to changing circumstances.

"Understanding different market environments and having humility in forecasting is critical to creating a resilient portfolio," said Pritchard.

"Target-date managers should incorporate a flexible approach to changing environments, cyclical market views, time horizon and retirement readiness objectives. Flexibility is key to navigating capital market uncertainty and improving retirement outcomes." 

RUTHANN PRITCHARD



CANADIAN CASE STUDY:

Direct managers key to helping Coca-Cola manage DB/DC transition


Transitioning to a defined contribution plan from a defined benefit arrangement is hard enough during the best of times. But when the organization is a company like Coca-Cola Ltd., size can be an added complication.

“Encouraging employees to take action is not easy,” said Martha Callum, senior director for total rewards at Coca-Cola Refreshments Canada, during a session at *Benefits Canada’s* Defined Contribution Plan Summit in Montreal in February.

The challenges facing Coca-Cola as the June 30, 2017, closing date of its defined benefit plan approached were significant. The company has 6,300 employees spread across six manufacturing plants and 65 facilities throughout Canada. It has three employee populations — salaried, hourly and unionized — and manages 33 collective agreements and six different pension plan designs.

Among the issues was the fact that although Coca-Cola’s plan was highly attractive, with contributions potentially reaching 14.5 per cent of salary, the company needed to obtain the consent of existing employees to deduct the two per cent minimum required. To encourage employees to participate, Coca-Cola staff used a variety of materials that targeted different groups of employees according to the particularities of their pension plan design, as well as employment type and status. The materials included personalized direct mail, transition guides, case studies, webinars and documents addressing frequently asked questions.

According to Callum, however, the most effective strategy was to leverage company managers as agents of change. The process started at the top, with Coca-Cola’s president agreeing to provide a face to the message. After that, senior managers

participated in personalized briefings about how the changes would affect their own pensions, said Callum. The approach allowed them to raise any questions and become comfortable with the changes before they went out to speak about them with their own employees. According to Callum, the results exceeded the company’s expectations, with 92 per cent of employees actively enrolling in the new defined contribution plan. 



INTERACTIVE WORKSHOP: WHAT WE LEARNED

Moderators: Mazen Shakeel, vice-president of market development, group retirement services; and Jean-François Pelletier, regional vice-president for group retirement services, Quebec, at Sun Life Financial

Topic: Is plan sponsor inertia a thing?

The defined contribution pension plan industry is operating in a shifting economic environment. Expectations related to future returns are falling, and plan members are living longer. Focusing exclusively on improving net returns likely won’t close the retirement gap. Understanding the gap and then taking action using a variety of levers will become increasingly important to get plan members to a sustainable, financially secure retirement. Plan sponsors often cite member inertia as a key barrier to improving outcomes. But what steps can they take themselves?

Key takeaways:

- ▶ Participants all said they had reviewed their plans during the past year. Key elements of their reviews generally included investment performance fees and the investment lineup. Relatively fewer participants reviewed participation and savings rates, leakage and the degree to which members were on track to meet income replacement goals.
- ▶ Companies that have well-defined plan objectives for their plans are more likely to create meaningful measurement frameworks and take action to improve outcomes. Participants cited a range of objectives in their existing plans, including a desire for low costs, flexible programs and support for members to achieved dignified retirements. Participants generally agreed that reviewing and clearly articulating their plan objectives would likely lead to more focused actions and better outcomes.
- ▶ Participants have been relying on member education to address the changing environment with mixed success. Some plan sponsors have started to use plan design to influence outcomes, but very few have introduced automatic enrolment for newly hired workers. While plan sponsors aren’t currently using all of the tools at their disposal to drive better outcomes, there appears to be a willingness to try something different.



MARTHA CALLUM

DC INVESTMENT SPOTLIGHT

The long journey to better retirement outcomes



While saving for retirement is an incredibly long journey, visualizing the entire process is a great way to get to better outcomes, according to Neil Walton, head of investment solutions at Schroder Investment Management Ltd.


“Start with the end in mind,” Walton told participants at *Benefits Canada’s* Defined Contribution Plan Summit. “That means reviewing projected consumption and income needs and asking: What creates a successful retirement?”

Looking at the retirement process as a journey also positions participants to get better leverage at all key stages, Walton noted. For example, during the savings stage, increasing the account size is more important than asset protection, as there’s generally time to recover from market setbacks.

During the stage of approaching retirement, gradually transitioning into income-producing assets becomes more important. In active retirement, asset growth continues to play a role due to the extended retirement periods many of today’s seniors will likely experience. Finally, during late retirement, carefully balancing essential and

non-essential spending becomes more important as available asset balances dwindle.

The upshot is that using a dynamic approach to asset management can add considerable value, said Walton. That process includes applying risk management techniques to help members convert accumulated account balances into a suitable mix of post-retirement assets and investigating how a fixed-income portfolio can support essential retirement expenditures.

A key date to bear in mind is age 85, which Walton noted is the average age plan participants who make it to retirement can expect to live to. As most workers head into retirement in their early 60s, that date meshes well with the 20-year period that Walton said is an effective time horizon to structure a bond portfolio. Age 85 is also an appropriate starting point for retirees’ late retirement phase, as well as a good time to consider annuitizing, according to Walton. 



WRAPPING IT ALL UP: ACTIONABLE NEXT STEPS FOR PLAN SPONSORS

Participants at *Benefits Canada’s* Defined Contribution Plan Summit spent two days listening to a large roster of speakers offer up solutions on everything from communication tips about plan changes to strategies for allocating members’ assets. So what were some of the key learnings?

Janice Holman, defined contribution practice leader at Eckler Ltd., helped sum up some of the key learnings during the closing session at the February event.


“There was a lot of great stuff,” said Holman. “If we can keep the main themes in our head, we can improve member retirement outcomes.”

Holman cited the opening keynote presentation by Punam Keller of the Tuck School of Business that focused on the role of emotions in decisions about key matters such as health and finances. The implication is that those involved in defined contribution plans need to pay more attention to techniques such as enhanced active choice and declining financial incentives as ways of encouraging certain behaviours. Holman also reiterated the connection between health and wealth and the possibility of adapting the lessons learned from consumer marketing

campaigns to the pension industry.

Another opportunity stems from the potential to better harvest pension plan information and other data points – such as the probability that members will meet contribution targets and projected income replacement ratios – in order to improve plan management. That implies working with service providers to better understand plan members, how their savings are accumulating and their financial and wellness constraints and needs, Holman noted.

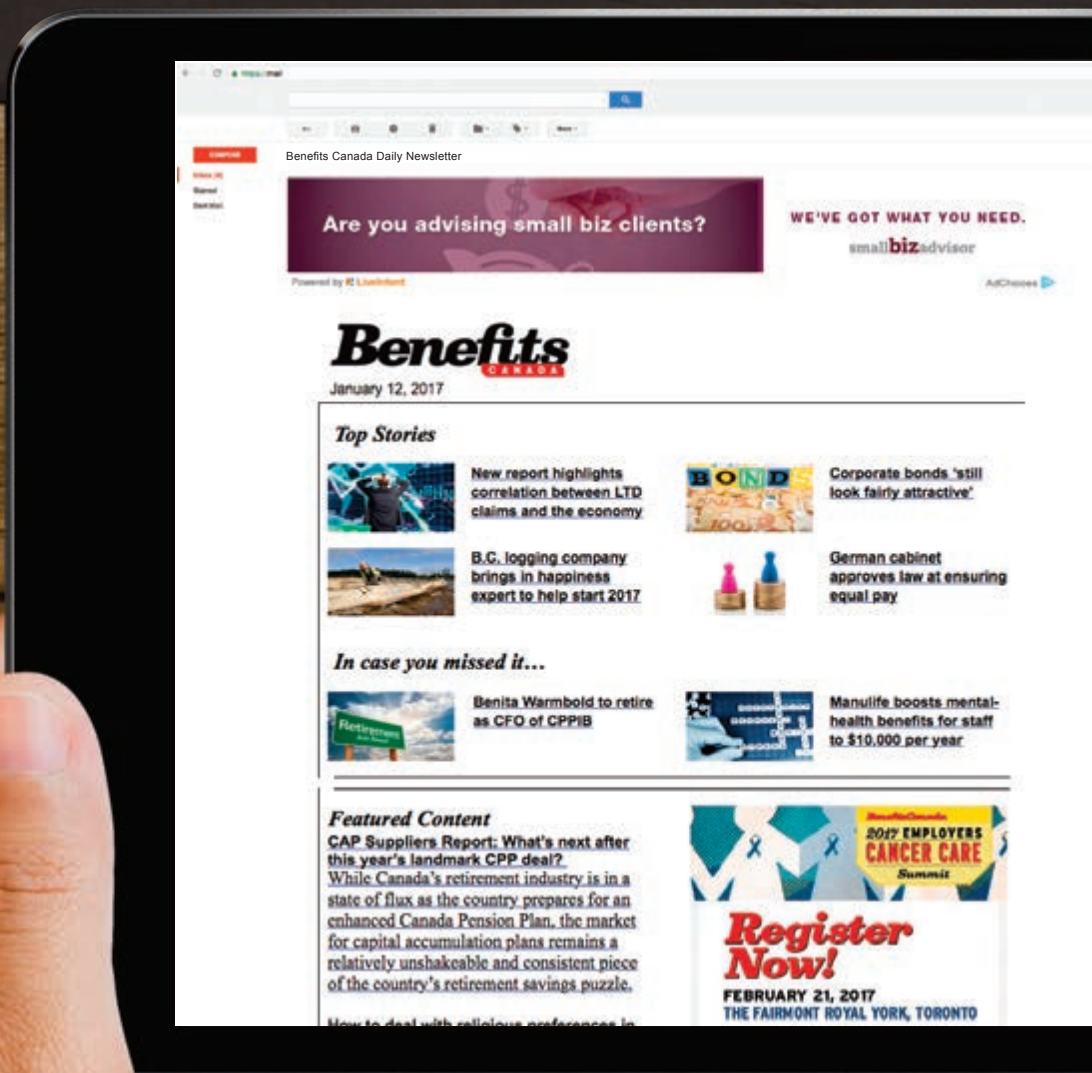
While data can be very helpful, it’s important to consider privacy concerns, said Holman. With that in mind, she suggested identifying a privacy champion in each organization as a good way to start.

It’s also important to remember that plan members may not be paying enough attention to a changing environment that includes increased longevity, health-care costs and debt. Among the solutions are more personalized communications that provide a better picture of potential outcomes, Holman noted. “Only when members understand their own personal financial picture will they engage and make the change required,” she said. 

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CAN YOU BELIEVE IT?

Compiled by **Ryan Murphy**

A look at some of the strange workplace happenings from around the world



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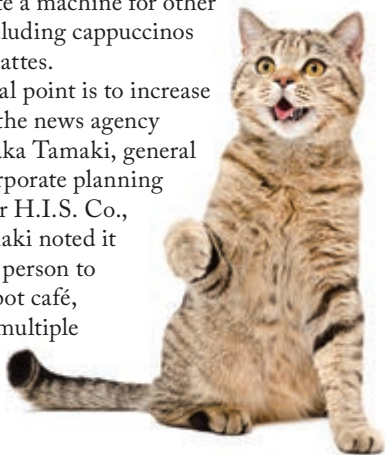
Those worried about technology's impact on jobs may want to read this story about a Tokyo café that has a new employee who's unlike any other.

According to The Associated Press, the Henna Cafe, which means "strange café" in Japanese, has started using a robot named Sawyer to serve coffee.

The news agency noted Sawyer, who has a single arm and a pair of cartoon eyes, takes a ticket purchased from a vending machine, scans it and greets the customer before setting to work on making a cup of java.

The robot grinds the beans, fills a filter and can pour hot water over a paper cup for up to five people simultaneously. The Associated Press reported, noting it can also operate a machine for other hot drinks, including cappuccinos and green tea lattes.

"An essential point is to increase productivity," the news agency quoted Masataka Tamaki, general manager of corporate planning at café operator H.I.S. Co., as saying. Tamaki noted it takes only one person to oversee the robot café, as opposed to multiple people at a regular coffee shop.



A foul-smelling firing

The City of Indianapolis is facing a lawsuit launched by a former employee who tried to inject some fresh air into the office.

According to the *Indianapolis Star*, Amber Bridges, a former lead staff in the magistrate court, has alleged the city fired her after she tried to attend to complaints from co-workers about a colleague with body odour. The colleague suffered from an "obnoxious chronic body odour condition," Bridges' court filing states.

According to Bridges' complaint, filed in the U.S. District Court for the southern district of Indiana in late 2017, staff began complaining about the malodorous co-worker in November 2016.

Bridges brought the complaints to her superior and took it upon herself to install air fresheners around the work area, according to the court filing. Other employees then followed suit.

In May 2017, Bridges learned the colleague with the offensive odour had lodged complaints with human resources about the air fresheners. The employer terminated Bridges after a supervisor and a human resources director suggested her actions had created an "uncomfortable and hostile work environment," the court filing alleges.

According to the *Indiana Daily Student*, Bridges claims she lost her job for her association with someone with a disability — in this case, the colleague with the bad body odour.


The *Daily Student* noted Bridges is demanding the city adopt appropriate policies regarding the hiring, training and supervision of employees, in addition to seeking punitive damages, legal fees and compensation.

Cats face government layoffs

Among the victims of the closure of Ontario's tree seed plant in Angus, Ont., this fall are two so-called mouse control technicians.

According to the *National Post*, Pepper and Sammy, two felines employed by the provincial government to protect the compound from pests and vermin, will be out of a job when the plant closes in September.

According to the *Post*, the government says the plant is losing more than \$1 million each year. "It no longer makes sense to operate such a large facility," the newspaper quoted then-natural resources minister Kathryn McGarry as saying.

As for what's next, the government will find new homes for the cats. 

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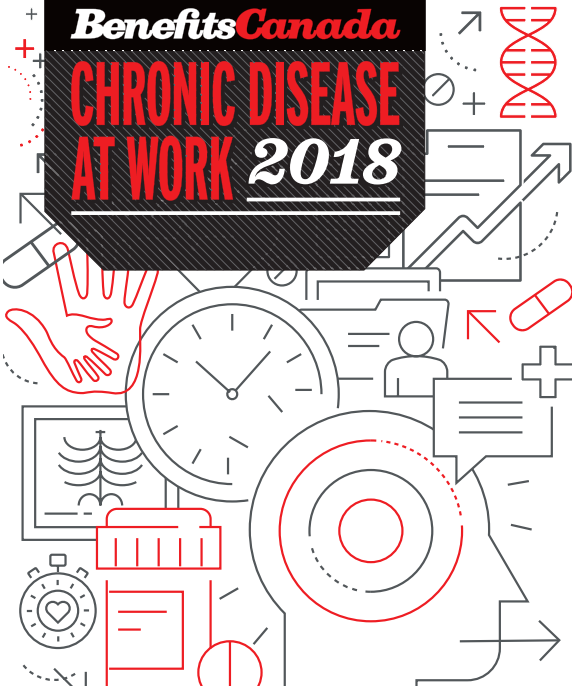
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