

TRIALS AND TRANSITIONS

Revisiting the plan sponsor's role in the retirement process.

BY JANICE HOLMAN

In the aftermath of the market meltdown, plan members nearing retirement are more fearful than ever about their financial security. Defined contribution (DC) members are worried about having to postpone their retirement and may have lost confidence in their ability to invest their retirement nest eggs. Defined benefit (DB) members are apprehensive about their employer's continued ability to pay their benefits and uncertain about their rights if the employer files for bankruptcy. Multi-employer pension plan (MEPP) members are fearful that their benefits might be cut.

In light of these concerns, plan sponsors that believe their responsibility ends with their final contribution to the member's pension may need to reconsider. In fact, there are several simple steps that sponsors can take to ease members' worries. Giving members the tools they need to manage their transition to retirement is an effective HR management strategy that can ultimately lead to a more productive workforce.

Where Does the Sponsor's Responsibility End?

The answer is clearest in the case of a DB plan. As long as the plan continues to hold a liability for the member, the plan sponsor has an ongoing responsibility to manage the assets prudently to provide that member's pension. This holds true not only for active members but also for deferred vested members, retired members and surviving spouses. The plan can relieve itself of this duty by buying an annuity from an insurance company, but only if it has sufficient assets to fully fund the pension.

Whereas the primary responsibility in a DB plan is to secure the assets, the primary responsibility in a DC plan is to ensure that members continue to receive the information required to manage their accounts. Keep in mind that members are allowed to leave their assets in the DC plan until the end of the calendar year in which they reach age 71. This can translate into a significant period during which a plan sponsor must continue to send regular communications and keep members informed of changes in fund options or carriers.

The problem is that most DC plan sponsors are so focused on what happens during the accumulation phase of their plans that they pay little or no attention to the termination packages, products and fees offered to their members at retirement by their DC providers. If they did, they might discover that the provider has an obvious interest in retaining members' assets and that unbiased information is hard to come by.

The *CAP Guidelines* require the communication of the member's options at retirement. This requirement applies to all members, including active members, former employees, spouses or common law partners. What's not clear is whether this communication should disclose who is providing the options and what their motives might be. Does a plan sponsor have a duty to educate members about the implications of each of their options or simply to state what the options are? Should members be left to their own devices when it comes to evaluating their choices and deciding how they will take their money from the plan?

Jana Steele, a pensions lawyer at Goodmans LLP, points out that the person remains a member until his or her money is transferred out of the plan and, as a member, the plan administrator owes certain duties to them. "Certainly, there is a strong argument that the administrator should be educating members on their options at this stage as well," she says.

A Six-step Retirement Transition Plan

Providing guidance during the transition to retirement can support HR objectives while ensuring that plan sponsors are meeting their fiduciary obligations. Equipping members with knowledge can help them to overcome fear and inertia, giving them a better sense of control over their future. This can, in turn, lead to a more productive and engaged membership. If you can help people formulate meaningful retirement goals and understand what the plan has to offer in terms of retirement income, there will be fewer members retiring with inadequate savings and blaming their employer for their poor standard of living. Here are some simple steps that employers can take.

1. Lifestyle planning – The transition from employment to retirement can be a difficult period of change for some people. Lifestyle planning is intended to prepare them mentally for making the move. Prompting members to think in advance about the changes associated with leaving their jobs and how they will spend their days will better equip them for a successful transition.

The planning process should also give members a better understanding of the financial implications of their choices. This will allow them to adjust their goals, their savings levels or the timing of their retirement.

Lifestyle planning can be offered through seminars, workshops, keynote speeches and e-learning. It is available from many providers, but preference should be given to those that focus on education and do not sell financial products.

Members of both DB and DC plans will benefit equally from this type of training, as everyone needs to plan and adjust to this new phase in their lives.

2. Plan education – It is vitally important for members to understand the type and level of benefits they will receive in retirement. Without a solid understanding of the fundamentals of plan design—such as DB versus DC, early retirement benefits, the impact of age on retirement income, spouse's benefits, death benefits and, for DC plans, the conversion of savings into an income stream—members will not be able to make informed decisions about when and how they will retire.

In the long run, ensuring that members understand their benefits before they reach retirement will help minimize the possibility of negative publicity for the plan sponsor or legal action from disgruntled former plan members.

3. Financial planning – Once your plan members have figured out what they would like to do in retirement, they can begin the process of creating a financial plan to achieve those goals. While a significant portion of their retirement income might come from a pension, the knowledge gained from their lifestyle planning will allow members to assess their savings versus their goals.

This is where the services of a financial advisor can be very helpful for both DB and DC members. A financial advisor can review a member's financial position from a broad perspective that includes not just pension income but also insurance, inheritances, taxes and other elements.

Providing guidance to members on how to find a financial advisor can be of considerable value. One way to do so is to offer educational materials or group sessions. Employers may also consider conducting a local area search and create an alliance of one or more advisors to serve plan members. Keep in mind that

Retirement Reality Check

Key considerations for CAP sponsors to help their employees transition to retirement.

By Joan Johansson

It is amazing how quickly life can sneak up on you. One minute, you are a youthful 40-year-old and then, almost overnight, you are receiving mailers about your golden years in retirement! Just like those first silver hairs, this can be a tardy wake-up call for plan members.

Sponsors of capital accumulation plans (CAPs) hope to engage members long before this turn of events, providing educational materials, seminars and decision-support tools to help them with these challenges. The transition to retirement is more than just a numbers exercise. The realities of retirement and aging entail a different set of needs as the member's daily life, health and budget all undergo change.

Communications: Getting the Message Out

First and foremost, plan members need information and support in a variety of formats to help them realize that they are truly on the threshold of a new lifestyle. These communications can be delivered by various means—for example, age-targeted mailings, seminars, phone-in consultations or transition-targeted support materials.

Tools: Mastering the Numbers

The way we define retirement is also changing, driven by demographics and economic realities. For example, we now have increasing numbers of employees transitioning to semi-employed retirement, through either contract relationships or part-time and phased situations. No matter what the situation, the planning process should start early and be driven by realistic expectations.

There are tools that can help. A robust retirement planner will allow members to look at different scenarios, projecting income at different contribution levels, alerting them to potential corrective action to help them

if you decide to recommend certain firms or professionals, you should follow the suggestions in the *CAP Guidelines* for hiring and monitoring service providers.

DC plan members can also benefit from the financial planning tools now offered online by most recordkeepers. Use of these tools should be encouraged, as they provide members with a realistic picture of the level of savings required to fund their retirement. The earlier that members are introduced to the tools, the more control they will have over their destinies.

4. Simple, unbiased communication materials – When DC plan sponsors engage in a recordkeeper search, a great deal of time is spent reviewing the provider's services, including the information and tools offered to members. However, these reviews typically focus on the information provided to active members during the accumulation phase. As we enter a period in which a large portion

achieve their goals and tracking how long their investments will last based on a particular lifestyle. Plan members should acquire external financial advice specific to their requirements. Additionally, they will need tools to help budget for new personal needs—especially health-care costs, as well as debt management and paydown and, in time, perhaps some form of assisted living. These tools can provide comfort and minimize the guesswork involved, potentially also reducing the burden on others as the plan member ages.

Investment Choice: Providing Secure Income and Growth

Investment options, too, are transforming quickly to meet the needs of exiting plan members and aging demographics. Most often, these needs include a steady, reliable income, an inflation-fighting component (since seniors live much longer now than ever before) and, whenever possible, a legacy to leave to children, grandchildren or a charity.

There seems to be a genuine desire among plan sponsors to prepare their members for a smooth retirement transition. While they do not wish to increase fiduciary duties or costs, they are aware of the need to assist with planning and to facilitate the CAP member's transition from the accumulation phase to the de-accumulation phase. In some cases, the plan sponsor may even be able to provide a financial advantage to its retiring members, such as reduced investment pricing and other services that they would not otherwise have enjoyed.

Helping plan members with the transition to retirement is becoming an increasingly important focus for CAP programs. Support from the plan sponsor at such a challenging time can make a world of difference, assisting plan members both psychologically and financially in coming to terms with a new phase of life. **BC**

Joan Johansson is president and managing director of Integra Group Retirement Services. jjohansson@integra.com

of the workforce will be retiring, it is equally important that plan sponsors review the termination or retirement packages sent to members from the recordkeeper, for two reasons. One, the old attitude—that when a member retired, it was up to the individual to make decisions—no longer stands up in light of the *CAP Guidelines*. Two, with a maturing DC market, providers have shifted their focus from gathering assets to retaining assets under administration and becoming a lifelong provider to members.

In some materials, members are advised that the best option for them is to leave their assets with the provider. Clearly, what is best for each member will depend on the individual's circumstances. Arming members with knowledge of the different options available, the fee structure for the various products and a plan for drawing down their savings will allow them to make educated decisions in their best interests. As Steele noted earlier, as long as the member has money in the plan, the plan administrator continues to owe certain duties to the member and must be prudent in assessing what communications are provided.

While DB plans are not subject to the *CAP Guidelines*, there are many benefits to communicating carefully with DB members in the period leading up to retirement. DB plans typically offer a range of pension payment options, the implications of which need to be well understood. Above all, members need to understand that, once their pension payments begin, there is no turning back—the decision is final.

Also, there are a variety of circumstances in which a DB member may qualify for a lump-sum payment, which may or may not be locked in, depending on the nature of the payment. In some cases, members will be given the option to apply some or all of the payment

to buy additional pension benefits from the plan. Although members should be encouraged to obtain advice from a qualified independent financial planner, it is still incumbent on the plan sponsor to provide impartial information to help members understand the pros and cons of the various options available to them.

5. Competitive retirement product pricing – Should members decide to annuitize all or a portion of their DC savings, they may be tempted to rely on a quote from the current group provider for the purchase. In fact, in the absence of proper education, they might simply select the annuity option without even obtaining a quote.

Given that an annuity purchase is likely one of the largest purchases that members will make in their lifetime—which will have a significant influence on their lifestyle—it is very important for them to know what is available in the marketplace. Plan sponsors can provide information on annuity sellers and teach members how to shop the market for quotations. Plan sponsors can also put pressure on insurance companies to offer more attractive group pricing on annuities.

6. Documented processes – Plan sponsors should review their plan documents to ensure that termination and retirement

SPONSORS NOW SEE RETIREMENT PLANNING AS AN INDISPENSABLE BUSINESS TOOL.

processes are clearly articulated. What happens to members' money if they cannot be located when they reach certain age milestones? When a terminated DC plan member reaches the end of the year in which he or she turns age 71, the current practice is that an annuity is purchased on the member's behalf by the recordkeeper, unless a plan text indicates otherwise.

Converting to a life income fund would offer more flexibility, as only minimum payments are necessary. If the terminated member dies, beneficiaries can claim the assets. On the other hand, if the terminated member becomes aware of these assets and would prefer a guaranteed income, an annuity can still be purchased.

There is little doubt that attitudes to financial and retirement education are changing. With today's shifting demographics, sponsors concerned with meeting their fiduciary obligations and effectively managing their workforce now see retirement planning as an indispensable business tool. This has resulted in a burgeoning retirement transition industry, giving plan sponsors a whole new array of options to guide their members through the retirement process. **BC**

Janice Holman is a principal with Eckler Ltd. jholman@eckler.ca