



Tight Squeeze

The economic environment means employers are under pressure to keep costs down. Are pension and benefits consultants feeling the strain?

BY ALYSSA HODDER

Employers today are facing more than just the usual pension and benefits issues. Cost control isn't optional—for many, it's a matter of survival. Are they turning to their consultants for help or pulling back to save on costs?

Hard Lessons

In this unprecedented economic environment, employers face significant HR issues. Defined benefit (DB) plan sponsors are particularly challenged, as the rapidly falling markets led to many plans becoming underfunded. "They've been hammered by volatility, hammered by the markets,

hammered by changes in long bond yields," says Ian Markham, director of pension innovation with Watson Wyatt Worldwide. "So they are very much into the frame of mind of trying to mitigate their risks and develop plans for how to get out of the hole."

Defined contribution (DC) plans were also hit hard—and while employers may not bear the investment risk, they still have to deal with the fallout when employee balances plummet. Mardi Walker, senior vice-president, people, with Maple Leaf Sports & Entertainment Ltd., says most of her DC plan members aren't panicking, but some who are close to retirement are concerned

about the impact of the markets on their retirement savings. "The challenge there is keeping people educated and helping them make good investment decisions."

Not surprisingly, risk management has become a major issue. "On the pension side, we've had a lot of extra work in this economic time," says Zahid Salman, executive vice-president with Morneau Sobeco. "Clients have been coming to us saying, 'How can we better manage the risk associated with our pension programs, given how investments have performed?'"

Greg Malone, a principal with Eckler Ltd., says this focus on isolating risk means

that more clients are making changes to their plans, but in a calculated way. "There's a lot of stepping up of due diligence efforts: examining benefits costs with more frequency, examining the design of programs and [making] minor tweaks or wholesale changes to plan design. Whatever looks to best serve a sponsor and its employee population in the long term."

On the group benefits side, cost containment is the main priority. Walker says her No. 1 challenge is controlling costs while trying to maintain the same benefit level. But while this may be an easy time to slash benefits, it seems most employers aren't willing to sacrifice their talent management and employee engagement objectives to save a few dollars.

Sarah Beech, managing principal, consulting, with Hewitt Associates, says one upside to this downturn is that employers are looking more closely at the rewards they're offering and making longer-term strategic decisions. "They're looking for more overall plan management costs as opposed to direct takeaway costs," she explains. "So it's really working with the insurers and other providers to see, How can plans be run more efficiently? How can we ensure that they're getting the best rate for the size of the organization?"

Joy Sloane, a partner with Morneau Sobeco, agrees that clients have been more receptive to making strategic changes to their benefits plans. "There's nothing like an economic downturn to motivate people to consider things that, a year ago, they would have just dismissed—which I think is the opportunity. There's a lot more creativity that they're looking at: solutions they may not have entertained a couple of years ago."

Consulting Cutbacks?

When employers are focused on controlling costs, consulting expenses could be one of the first areas cut from company budgets.

Consultants admit that many clients have delayed implementing new projects or pulled back from certain discretionary expenses. "By early in the new year, pretty much everybody was holding off on some assignments with a clear message of, 'Can you help us reduce costs?'" affirms Kevin Sorhaitz, principal and consulting actuary with Buck Consultants. And this has been

a challenge both across the consulting industry and beyond it.

However, while some consulting areas are suffering, others are seeing more activity. "Like many others, we have seen a decrease in the number of opportunities that are available in more discretionary areas of our consulting practice," remarks Kevin Aselstine, managing principal with Towers Perrin. "By the same token...we've seen more care taken to trying to identify, from a longer-range business planning perspective, what are the pivotal roles inside an organization and what do we need to do to continue to drive our longer-term growth and profitability agenda, notwithstanding a short-term focus on expense reduction?"

As sponsors strive to shore up their struggling pension plans, advice on governance and risk management is in greater demand. "On the risk side, what happened in 2008 was a real wake-up call," says Stephen Lee, worldwide partner and Central Canada market leader with Mercer. "I think there's a lot of value that consulting firms can add in helping clients to better understand, deal with and manage risk going forward."

Employers are also paying more attention to how they communicate with employees. Especially in a downturn, consultants say communications can play a vital role in improving employees' perceptions of the value of their benefits. "This year, when we're seeing a number of organizations that are significantly reducing compensation increases—or, quite frankly, freezing compensation levels—the value of all of the other offerings becomes so much more important," says Beech.

"We're seeing a lot of organizations take a look at communicating the value of those programs."

David Krieger, president of Krieger + Associates, agrees there's been more work in this area. "Plan sponsors want to make sure that employees not only understand their benefits but truly appreciate the value of what they have," he explains. "An awful lot of money is spent on providing group coverage—too much to leave employees thinking that their coverage is standard or has little value. Multimedia communication programs can address these concerns."

In some ways, difficult times may actually create demand for a consultant's expertise. "Has our industry been affected? Absolutely it has," Lee acknowledges. "Having said that, many of our clients actually need our help now more than ever."

Talking Shop

Consultants share their views on...
The impact of the recession

"Organizations that struggle financially are obviously going to be preoccupied with more pressing issues than their pension and benefits programs. But you've still got to manage your pension and benefits plans, and you need to meet your regulatory requirements, so those activities will continue."

- Greg Malone, principal, Eckler Ltd.

"While people are looking at cutting back on things, like trying to lower their overall health cost spend, we're seeing increased interest in investments in wellness, health promotions, et cetera, despite the recession. So it's a two-edged sword: while we see a lot of cost reduction going on, it's actually represented a fair bit of opportunity to



support clients around those types of issues."

- Kevin Aselstine,
managing principal,
Towers Perrin

Helping clients through tough times

"It's more about walking alongside them—just being there to make sure things go as they should, relying on us more...we're there for the long term."

- Joy Sloane, partner,
Morneau Sobeco

"It is our responsibility to get very creative, deeply thoughtful and empathetic in terms of being able to work with clients who are going through tough economic times, and think about the relationship from a longer-term standpoint."

- Ashim Khemani, chairman and
CEO, Aon Consulting

Changing client expectations

"Clients are asking us to help them—to work smarter and get more bang for their benefits buck, and to keep things moving through the economic conditions."

- David Krieger, president,
Krieger + Associates

81% of consultants said cost containment is one of their clients' top benefits challenges.

Source: 2009 Consultants Survey conducted by Benefits Canada

Role Playing

When employers face greater challenges, do they expect more from their consultants? In a word, yes. In this environment, the onus is on consultants to demonstrate the value of the advice they provide.

Kerry Veldhuis, vice-president, HR, with SMS Equipment Inc., says that while she'd like to say her expectations of her consultants haven't changed, the truth is, they have. "The reality is that the easier solutions are the first ones offered, and I'm less likely to accept those solutions today because I have more constraints," she acknowledges. "Therefore, I am pushing [my consultants] to be more creative in their solutions."

David Smith, vice-president, HR, with Ivanhoe Cambridge, agrees that he's looking for more from his consultants today. "You're expecting them to be proactive, you're expecting them to provide you with suggestions, ideas, trends—more so than ever."

In particular, employers are asking for detailed and segmented data on their employee base, best practices in their industry and how they stack up against competitors, as well as pension and benefits trends to anticipate going forward. "Plan sponsors want to understand their demographics and, as the demographics evolve, what's going to happen to their claiming patterns," explains Michael Worb, president and CEO of Pal Benefits. "Understanding your claims patterns, understanding your benchmarks or best practices—those are key things that we're hearing from employers every day."

Aselstine agrees that sharing trends and best practices with employers is an integral part of the consultant's role. "We should always be in front of them with new trends and evolving thinking,

in terms of ways to address issues. I think it's even more important right now that we share our finger to the pulse—what we're seeing and hearing—because things are changing

so rapidly and the degree of importance of some of the situations that we're addressing has increased exponentially."

Delivering on the Promise

The support of a capable consultant could make a real difference during difficult times. Are consultants rising to the occasion?

Walker says she relies on her consultant to help with activities such as getting regular updates from fund managers for the DC plan and, on the group benefits side,

handling the renewal process. "They make my life very easy, and I couldn't imagine managing the benefits any other way."

However, getting the right consulting support isn't just a matter of picking a reputable firm. Employers say the true value comes from the relationship they've developed with the individual consultant. "A lot of it boils down to the consultant working with you on your particular plan to assist in resolving different situations—the person, rather than the firm," says Smith. Walker agrees, adding that hiring a consultant is almost like hiring your own internal staff. "The consulting industry is as good as the people in it. It's as good as the people you're connected with."

What qualities do employers value the most in a consultant? Client service is critical. "It all goes back to basic customer service," says Smith. "Someone who understands your position, who's responsive and, more than responsive, someone who's creative and proactive."

Sorhaitz adds that employers today are looking for a consultant that has both depth of expertise in specific areas and broader knowledge of business issues and industry trends. "The need is moving toward an actuary that also functions like an MBA—deep analytical and technical skills but [also] broader management and HR focus."

The most vital quality, however, is the consultant's ability to partner with the client—and how well that partnership serves the client's needs. And when employers are in cash- and credit-constrained positions, consultants may need to focus on the long-term relationship rather than any short-term gains. "In some cases, we've had clients

come to us and say, 'Look, we need a fee reduction in 2009 just to help us to get through this,'" says Lee. "And we're happy to work with them on that."

While this may be painful in the near term, consultants agree that maintaining strong partnerships with clients is of paramount importance. "Consultants

who are spending more time with their customers—trying to understand where they need to be, and being a partner with them—are the ones who I think are going to survive and do really well," Worb adds.

After all, when it comes down to it, consulting is a relationship business. "In a shaky environment, clients want to know they can count on the people they work with," says Beech. "Staying close to your clients is really important. The trust is extraordinarily important on both sides."

"Everyone's looking to do more with less. One of the solutions is for us to help employers manage their employees' health and well-being so they get that outcome of having lower absenteeism and higher productivity."



- Sarah Beech, managing principal, consulting, Hewitt Associates

Pension plan funding and investing

"Solvency rules have driven many of our clients crazy because of the volatility that they create. They have become frustrated because the solvency relief has not necessarily given them what they felt was important as a plan sponsor."

- Ian Markham, director of pension innovation, Watson Wyatt Worldwide

"How many cycles of five-year volatility in the equity markets do we need to see to accept that DB plans are simply too risky to have a significant amount of equity holdings to effectively weather short-term market volatility? What do we need to see before we accept that we need a different strategy?"

- Kevin Sorhaitz, principal and consulting actuary, Buck Consultants

Plan member education

"Retirement education and overall financial planning education are becoming extremely important—not just for those near retirement but also for younger people."

- Sarah Beech, managing principal, consulting, Hewitt Associates

"I've seen many more clients—even mid-size ones—being much more focused on governance of their pension and benefits programs. I think two-way communication is a big part of that."

- Zahid Salman, executive vice-president, Morneau Sobeco

Competition and consolidation

"The large, mammoth firms will be able to offer virtually every conceivable service to their clients. I think the simple truth is that most companies don't need every single one of the services. But, in some manner, they end up paying for the availability of the services—

61% identified communications/engagement as a key pension issue.

Partners or Competitors?

Finding the best solution for a client may mean partnering with others in the industry—even if they're competitors. It's common for employers to have different pieces of business with different consulting firms, and consultants often need to work with insurers to serve the client's interests.

"Turbulent times are when consulting firms tend to do well, because that's when clients need their creativity and their intellectual capital," explains Stuart Monteith, senior vice-president, group benefits, with Sun Life Financial. "We don't compete with them on that front. But we have to be close and working hand in hand with the consultant to make sure that we are capable of delivering the kinds of creative services that they want to offer—and also, to be able to work in tandem with them to come up with creative solutions."

Maintaining such a relationship can be tricky, though, when there is overlap in the services offered. From a third-party administrator's perspective, Marla Schwartz, co-president of Benecaid Health Benefit Solutions Inc., says she doesn't see her firm in direct competition with consulting firms. "We're very much a complementary

product to what exists out there." However, insurance companies and consulting firms do compete on recordkeeping services and plan administration.

"If you go back to the '80s, early '90s, the consulting industry was predominantly focused on consulting services," says Henry Chudak, vice-president, group distribution, with Manulife Financial. "Today, their services have evolved to be much more focused on outsourcing and providing HR-type support to their clientele. And that has created some competition between the insurers and the consultants in the areas of administration—whether it be flex or standard administration, disability management and, to some extent, absence management."

Insurers are also expanding their presence in member communications, particularly for DC plans. "The insurance companies have changed their model over the last couple of years," notes Salman. "They have many services now that do compete with what the consultants provide, particularly in the area of communication and member education." Barry Noble, vice-president, distribution, group savings and retirement solutions, with Manulife Financial, says that from the insurer's

even if they don't use them."

- **David Krieger, president,**
Krieger + Associates

"One of the trends we've seen is an increased focus on partnership—the plan sponsors themselves, their service providers, the beneficiaries of the program. There seems to be a more coordinated effort, not just in



being informative but in the whole designing and operation of plans."
- **Greg Malone,**
principal, Eckler Ltd.

Future pension reform in Canada

"The fear that we have from the expert panels is, will they eliminate any incentives for employers to have single-employer pension plans?"

- **Zahid Salman, executive vice-president, Morneau Sobeco**

"If there's no significant change in regulation, I don't think you're going to see many single-employer DB pension plans that aren't associated with

Nine Points to Ponder When Evaluating Your Consultant

By Esther Huberman

How do you know you are getting great value from your consulting relationship? Here are nine critical factors to discuss at your next meeting.

Does your consultant...

1. Understand how your benefits objectives fit into your company's compensation structure? If your consultant discusses your benefit renewal without questioning the total compensation, he or she is missing the forest for the trees. You must discuss the prior year's performance and cost influencers at renewal, but a review of overall HR objectives is equally important. Your consultant should understand your goals regarding labour and advise if your benefits programs should be modified to better suit the company's complete compensation.

2. Empower you to be better? Your consultant must understand your organiza-

tional "type"—whether your company sees itself as progressive or conservative, takes care of employees or nurtures their independence. Whatever your company culture, if it will make a positive difference, your consultant should respectfully try to influence a change to help your company keep up with relevant trends.

3. Anticipate the future? Consultants are in that role because they have hard data and years of experience. They should understand what has happened before in the business and in the industry, what is happening now and what is likely to happen, in terms of future employment, benefits and compensation trends, with current data to back it up.

4. Help you talk to various stakeholders? A benefits program is not just about the employees; it's also about their families, and it's about executives as well as non-executive employees. To achieve success with all of these stakeholders, not only must your consultant help your program evolve, you and all other parties must be able to understand and support its evolution. Your consultant should demonstrate sensitivity to the communication needs

of the various parties and the channels to reach them and then advise you on how best to deliver your message.

5. Help you to avoid heartache? Improve the health of your employees, and you will likely improve productivity and reduce health-related claims. The most common employee ailments manifested in drug claims are high blood pressure, high cholesterol and diabetes—all of which can be managed, improved or even eliminated through lifestyle changes. Yet a wellness program, like any other benefit, must be strategic for your organization, and it must be delivered, maintained, evaluated and modified accordingly. Your consultant should guide you to worthwhile investments in wellness now to help you avoid high claim costs later.

6. Bend over backwards? Is your consultant nimble in responding to you and in anticipating your needs? How often does he or she visit or call? Does he or she provide additional resources, such as data, benchmarking, communications assistance, legal insight into industry matters and updates on benefits trends? Will your consultant help manage a complex claim? Are these included in the core services, or are there additional fees?

7. Benchmark your company and plan? Engaging in the battle for talent and competing for quality workers requires an understanding of how others in your industry compensate their employees. Consultants must be tapped in to all kinds of data, enabling them to benchmark your company against its peers.

8. Use technology in innovative ways? Ask your consultant about the role of technology in creating tools to serve you, such as online questionnaires, Web-based health risk assessments, communications, links to industry sites and plan administration systems.

9. Ask what you really think? Does your consultant solicit your feedback on performance? If not, he or she may not be able to pinpoint what's going well and what needs improvement. While you should speak up when you are dissatisfied, getting asked means that, for your consultant, client service is top of mind. **BC**

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perspective, adding these services was a logical fit. “A big part of the DC business is about member engagement. It was just a natural progression that evolved into a more comprehensive communications strategy.”

The Big Get Bigger

One development that could significantly change the competitive landscape is the merger between Towers Perrin and Watson Wyatt. Yet the full impact of the deal (expected to go to a shareholder vote in late 2009 and closing as soon as possible thereafter) remains to be seen.

It will certainly create a big player in the marketplace. Noble believes that combining the two firms brings together complementary services that could serve them well. “Across the board, they will now be stronger in terms of full-service delivery to an end client,” he says, adding, “those firms that can create a nice bundled solution and a high level of expertise in the majority of competencies should have a competitive advantage at both the solicitation and retention stages.”

But the devil of a merger is in the details, and bringing the two firms together won't be easy. “It will be interesting to see how clients react to this merger,” Lee remarks.

“There will be a lot of distraction internally and [Towers and Watson] will need to manage that. Because the key thing is to focus on your clients—and it's challenging to do that when you've got that sort of disruption in your organization.”

Depending on how events unfold, other firms see the potential to acquire new talent—and new clients. “Over the next three years, it creates a tremendous opportunity for the rest of the industry,” says Ashim Khemani, chairman and CEO of Aon Consulting. “Getting two culturally—and to some extent, commercially diverse—large global competitors to come together and go through a successful integration, certainly over the medium term, is a daunting challenge.”

Is the Towers/Watson deal a sign of more consolidation to come? Aselstine doesn't necessarily see it that way. This merger, he says, isn't a commentary on how the consulting industry is evolving; rather, it's an opportunity that two businesses found to add value. “I don't see this as being a rationalization of the industry as much as a business opportunity.”

However, that's not to say we won't see more consolidation. “There's a point of view that to be successful and globally viable,

a union or aren't in the public sector. It's just not feasible; they can't handle the large [cost] fluctuation. If they want to avoid the inevitable cost spikes of DB that can jeopardize the short-term viability of a business, DC is a much safer bet in the current legislative environment.”

- *Kevin Sorhaitz, principal and consulting actuary, Buck Consultants*

“At this stage, we're at a big crossroads. We wait to see whether the pension reform will take us down the route of enhanced benefit security for past service and just let sponsors do whatever they're going to do for future service, or whether there will be more catering toward the future service accruals and trying to help sponsors



manage those going forward on a DB basis.”

- *Ian Markham, director of pension innovation, Watson Wyatt Worldwide*

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you need to grow larger,” says Malone. “I think, personally, it depends on what your definitions of success and viability are.”

“Will there be more consolidation? It wouldn’t surprise me if there was,” adds Lee. “We’ve seen it in other professional service firms and not as much in consulting. So maybe it’s consulting’s turn.”

Evolution Theory

How the consulting industry develops in the future will largely depend on clients’ needs. In the near term, the focus on costs

will likely continue, so consultants will want to ensure that they’re adding value and billing work at the right fee levels. “Clients want to be well served with practical and pragmatic advice that doesn’t cost a lot,” says Malone. “And I think that’s where the consulting community needs to respond.”

The need for cost control is especially

90% said attraction/retention ranks among their clients’ top five HR challenges.

evident in group benefits plans. Walker says her company is considering ways to better position its benefits plan for the future. “We’re looking at making a couple of changes to the plan that will help save costs while not impacting the overall level of coverage—trends that we hadn’t

introduced before, such as HCSAs and mail order for maintenance drugs.”

As risk management remains a priority, particularly for DB plan sponsors, Markham says that “the biggest trend of all will be on the investment front: the LDI move, gradually moving your assets to be more closely aligned to the nature of your liabilities so that the volatility gradually goes down.” This focus on risk also means employers will be looking at their plans within a broader HR and business context. “The biggest pension and benefits trend is making sure that the design of your program meets the goals of the organization and does so in a way that doesn’t create too much risk for the plan sponsor,” Lee adds.

And many of the hot topics *before* the downturn haven’t disappeared; they’ve just been pushed to the back burner. For instance, the demographic shift that will create a labour shortage in the not-so-distant future hasn’t gone away. Veldhuis says her company has employee groups at both ends of the age spectrum, and she expects to see increased demands and benefits utilization from the older population. “We’re going to see a demand on us to provide more retiree benefits across the country,” she explains. “We’re going to see a shift from public funding to private funding, and employers are going to be looked at to fill that gap.”

However, the most significant challenge for employers will be to maintain, on an ongoing basis, an appropriate balance between managing costs and offering strategic benefits programs to attract and reward employees. And that’s not an easy task—even in the best of economic times. “Many private sector organizations will need to balance the financial viability and strength of their organizations with the need to maintain well-designed, competitive and financially secure pension and benefits plans,” says Malone.

The good news for consultants is, employers still need support to help them make strategic decisions and position their companies well going forward. Consulting firms may feel the pressure when budgets are tight—but they won’t be squeezed out. **BC**

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