Mercer

Navigating the unknown

Workplace retirement and savings plans

Top trends of 2023

welcome to brighter

No one knows what 2023 will bring, but if the economic mood at the close of the year is any indication, there are certain to be challenges ahead.

Although pandemic restrictions are mostly in the past, we still feel their fallout with an elevated debt burden and fragile supply chains. These conditions are exacerbated by regional conflicts, such as the ongoing war in Ukraine, which has caused energy prices to soar and major powers to trade sanctions.

Inflation, which central banks spent the majority of 2022 looking to control, still roils the world. Markets are volatile. Sky-high demand is causing a staffing crunch. And through it all, employees — looking at their volatile portfolios — are adrift, with their financial wellbeing suffering.

In what's sure to be another volatile year, employers and plan sponsors can be a rock by understanding what plan members want, how to deliver it effectively and how to stay abreast of change.

As we enter 2023, five major trends have arisen in the review of workplace defined contribution (DC) and saving programs. Your organization should keep an eye on these trends as you navigate through uncertainty.

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First things first with ESG

Organizations have been under pressure to incorporate environmental, social and governance (ESG) factors into their workplace investment strategies for some time. This pressure comes from multiple directions. Fifty-nine percent of organizations recognize ESG as an emerging issue, and only 10% say plan members would not materially benefit from learning more about ESG.[1]

But despite these pressures, organizations have just begun to respond.

According to a recent Mercer survey,[2] the vast majority of organizations — about 58% — never communicate with their plan members about general ESG topics. Sixty percent of organizations say their governance committees or other key stakeholders have never participated in formal ESG training. When asked whether their plans or funds include investment options or mandates that are positively tilted to ESG themes, only 24% answer "yes" — and a further 31% are unsure.

Despite years of discussion and a general awareness that ESG themes can be useful (36% of organizations believe ESG can have an impact on financial outcomes), organizations have just begun to explore how to implement them.

> **With organizations only beginning to grapple with what ESG means for their members, it's time to get back to basics.**

And it shows. Despite most plan sponsors having little understanding of ESG or how it can be incorporated into a workplace retirement plan, investment managers have begun to integrate ESG into investment options. This has led to plan members wanting more transparency on their employers' investment objectives and themes, and they want to know how taking such actions will improve financial outcomes.

59%

of organizations recognize ESG as an emerging issue

10%

of organizations say plan members would not materially benefit from learning more about ESG

This focus on ESG is taking place in a shifting regulatory environment. The Canadian Association of Pension Supervisory Authorities (CAPSA) has taken note of ESG considerations and has begun to review the fiduciary responsibilities of organizations offering workplace retirement plans when considering ESG investment themes.

With organizations only beginning to grapple with what ESG means for their members, it's time to get back to basics. It's crucial to understand the range of ESG options available, which are the best fit for your plan members and your roadmap to implementation.

Wherever you are on your ESG journey — if you have a solid understanding or are just beginning to consider it — Mercer can help.

[1] Mercer survey conducted October 14, 2022.
[2] Mercer October 2022 survey.

Navigating volatility and recession fears

Inflation has dominated financial headlines for months, and projections aren't promising. Central banks around the world are tightening screws with alarming regularity, while forecasters warn of a potential hard landing and recession. Understandably, markets are volatile, and investors are worried.

So are your plan members — especially those closest to retirement, who may have their investment mixes skewed toward fixed income assets.

To assuage this anxiety, examine the investment options available in your workplace plan. Take a look at target date funds — but also at your overall fund lineup. Do you offer a variety of fixed income options? Does your target date manager have a plan to manage risk as the time horizon for retirement gets closer?

Regular due diligence can help you manage future financial headwinds, let you determine how to communicate based on trends specific to your organization and help you plan for a future-proofed investment lineup.

Spending less time managing investments and more time managing your business

Newspapers will debate whether or not Canada has truly seen a "Great Resignation," but anyone who's hiring understands that talent is in high demand. Add in rising costs, and organizations are truly strapped for resources.

The investment environment is also becoming increasingly complex. Not only are additional factors and themes like ESG increasingly on the table, newer types of investments are being sought for diversification and yield. And regulators are expanding plan responsibilities in reaction to an evolving, complex market.

In this environment, the less administrative and regulatory complexity an organization has to deal with, the better. Freeing yourself up from these tasks allows you to refocus on your core business and on delivering value to your customers.

In addition to outsourcing investment decisions, you should consider a review of your governance model as it could provide additional benefits beyond investment option selection.

By delegating investment decisions and plan oversight through a service like Mercer Future Wise™, you can gain access to best-in-class governance, risk mitigation and management services. Mercer's global footprint gives you the reach and scale to drive down fees by pooling your assets with other employers. With Mercer Future Wise, you're always one step ahead of market volatility, regulatory change and economic uncertainty.

In addition to outsourcing investment decisions, you should consider a review of your governance model as it could provide additional benefits beyond investment option selection. You should also consider how you balance fiduciary demands on your organization with your business needs. And when the demands become too pressing, consider outsourcing to an expert.

Investing in a holistic approach to financial wellbeing

Employers know that when employees are financially well — freed from the stresses created by debts, comforted by the security of an emergency fund and empowered to manage their money — the business succeeds. Employees with high levels of financial wellness are more productive.

But every employee's situation is different. Financial goals, upcoming life milestones and levels of financial literacy will vary widely. A truly personalized financial wellness strategy needs to be delivered digitally. A successful strategy considers employees' personal situations and equips them with the knowledge to take control of their financial futures. The best strategies also consider an employee's financial and personal circumstances and include thinking beyond retirement. A holistic wellness solution is more than just debt or investment management advice. It includes other offerings, such as the employee assistance plan and digitally enabled flexible plan designs that allow employees to choose the benefits that are right for them.

Numerous options exist. In a resource-constrained environment, few organizations will truly have the bandwidth to find the programs and offerings that fit. Mercer's breadth of experience helps us find the solution that fits your organization.

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Getting ready for regulatory change

Plan sponsors have been waiting for changes to the capital accumulation plan (CAP) guidelines for a long time — they were written in 2004, and a revision is long overdue. Mercer and other interested stakeholders have reviewed a draft of the proposed rules, expected to be released in 2023, and provided input.

Along with clarification on the proposed governance policy, additional regulatory changes are expected. These include guidance on retirement income plans and providing needed support for employees transitioning to retirement — through retirement income tools, education and advice, and regular communications.

Although these guidelines have long been in the works, plan sponsors should make sure they're prepared. You need to understand what's coming as well as the changes you'll need to make to ensure compliance.

But in addition to regulatory changes, organizations should be aware of new retirement income investment strategies and products coming to the Canadian market. Whether you're offering a variable pension life annuity (VPLA) or implementing new longevity-focused investment strategies, it's imperative to evaluate the needs of your employees and make a plan to support retirement transition.

Each of these strategies and products has its uses. It's important to understand that these are not mutually exclusive categories — they complement each other. To deliver better outcomes for plan members, plan sponsors must deliver the right investment strategy — but also through the right product.

Plan sponsors should be aware of the available offerings. Determining what to prioritize that will fit your needs so you can be ready for the coming changes is critical.

At Mercer, we stay abreast of the latest developments and can inform and support your search for solutions that fit your objectives. Reach out to your Mercer consultant to learn how we can help make your DC plan ready for an uncertain future.

Reshaping the future.

About Mercer

At Mercer, we believe in building brighter futures.

Together, we're redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and wellbeing. We do this by meeting the needs of today and tomorrow. By understanding the data and applying it with a human touch. And by turning ideas into action to spark positive change.

For 75 years, we've been providing trusted advice and solutions to build healthier and more sustainable futures for our clients, colleagues and communities.

Welcome to a world where empathy and economics make a difference in people's lives.

Welcome to brighter.

For further information, please visit **www.mercer.ca**.

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How we can help

Continuously rethinking purpose and priorities drives HR transformation. Shaping the future of work requires improved strategies around investment and retirement, health and wellness benefits, talent and communications. We believe in the value of investing in the future to build resilience for your business and your employees.

Investments and retirement require sophisticated solutions. We approach these with a big-picture view that prioritizes long- term financial wellness. We offer research and advice on assessing risk and designing benefits programs while keeping in mind the need to optimize throughout changing times.

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