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HEALTH WEALTH CAREER

BRACE FOR (OR EMBRACE) CHANGE IN THE CANADIAN RETIREMENT LANDSCAPE

We are about to enter an unparalleled time of change for employer-sponsored retirement plans in Canada thanks to external market influences, technology, and demographic shifts.

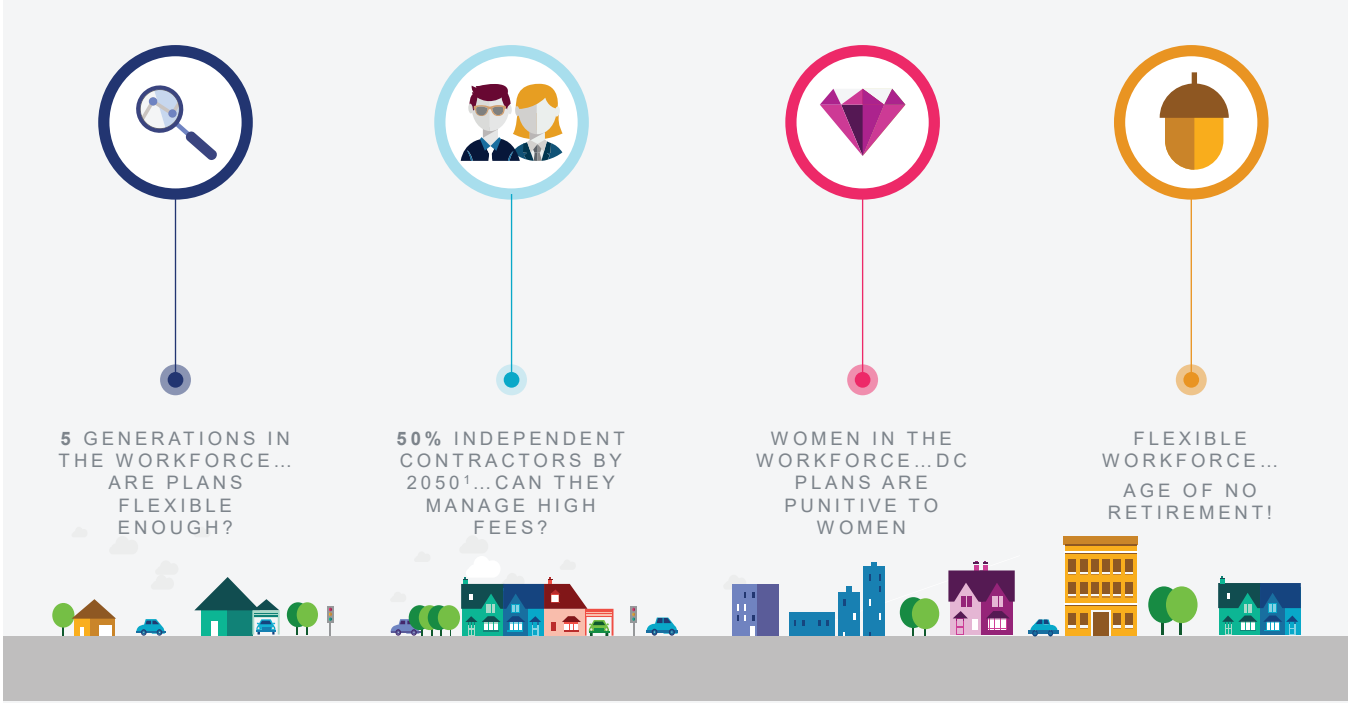
If you think 2016 was a wild ride for employer-sponsored retirement plans, hold on. There's unprecedented change ahead, and you'd better be prepared as momentum continues to build for a shift from defined benefit (DB) retirement plans to defined contribution (DC) retirement plans in the private sector.

GLOBAL EFFECT

Nearly 20 years ago, major markets began shifting from DB to DC arrangements, and today, only Canada, Finland, Turkey, Portugal, Israel, and Ireland have DB assets representing more than 50%of their respective funded retirement systems.

The world is moving to capital accumulation plans, whether we like it or not. And though only 5% of Canadian corporate retirement assets are in capital accumulation plans, we expect this to grow significantly.

SO THE WORLD IS GOING DC...



[1] Canadian Business, "The Freelance Economy Prompts the Rise of a New Kind of Temp Agency" March 2015

WHY IS CANADA NEXT?

1. **Generation Shift.** Canada currently has five generations in the workforce. That's five different age groups with diverse backgrounds, experiences, cultures, expectations, technological acumen, and retirement needs, which calls for a more flexible and portable retirement offering. In many markets globally, employees are better meeting their retirement needs and choices through flexible plans.

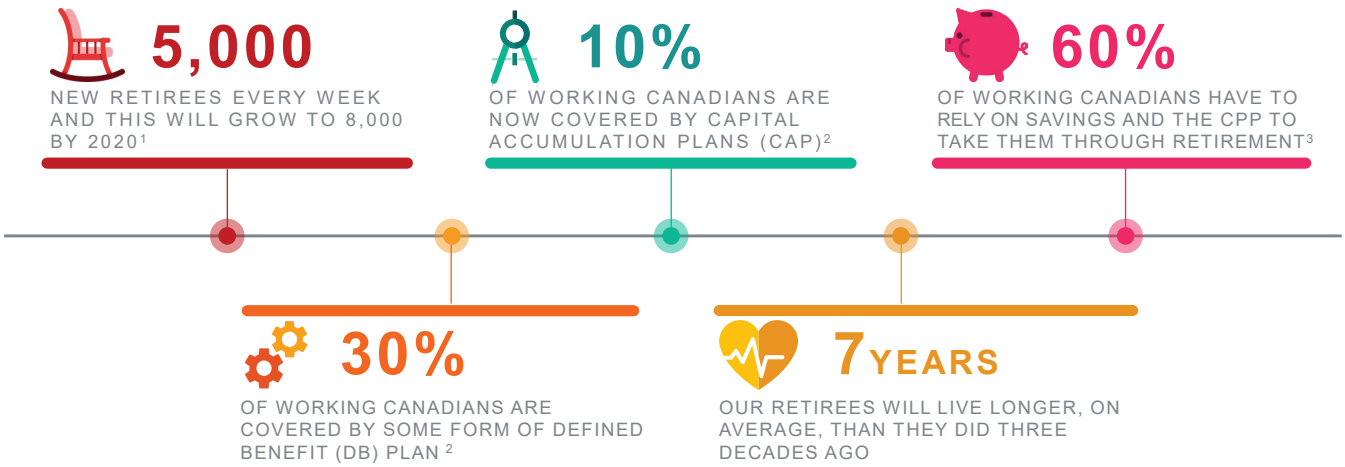
2. **Rise of Freelancers.** In the very near future, we're expecting that freelancers will comprise 50% of the North American workforce; there are already 53 million in the US today. This has driven a newfound demand for self-funded, self-directed benefits that aren't currently offered through their employers. This introduces a new retirement planning dynamic of the consumer asking: how, what, where, and for how much.

3. **Women's Needs.** It can be argued that traditional defined contribution plans are punitive for women given that, due to women's longer life spans and reduced years in the workforce (often due to family commitments), they would have to save about 25% more to achieve the same replacement ratio as their male counterpart. In a world where most organizations and country leaders have made gender parity a priority, not enough attention is being paid to how retirement arrangements could contribute to help us reach a new milestone.

4. **Changing Workforce.** With the workforce rapidly evolving, we need to incorporate and embrace more flexibility that considers nomadic and diverse workers, longevity, those who refuse to retire — either by choice or financial strain — and more.

5. **Canada is Trending DC.** As mentioned earlier, Canada's portion of DC to DB plan assets and membership is relatively quite small compared to most developed nations. However, a look at the data shows this is rapidly changing. In a Statistics Canada study released in 2016, the number of Canadians in a DB plan has been steadily dropping, while those in DC and hybrid/combined plans are growing substantially. We expect this to only pick up steam.

THE "CHANGING" FACE OF CANADA...



1 Globe and Mail, "Boom, Bust and Economic Headaches" November 2015

2 Fraser Institute, "Comparing Government and Private Sector Compensation in Canada" June 2015

3 Statistics Canada, "Pension Plans in Canada as of January 1, 2015"

WHAT CAN EMPLOYERS DO?

Now is the time to consider a retirement re-boot that includes a multi-level strategy. It's what we call **Managing the Past, Optimizing the Present**, and embracing the **Rising Power of the Workforce**. This involves balancing retirement liabilities with talent management concerns, which can be a complex, risky proposition.

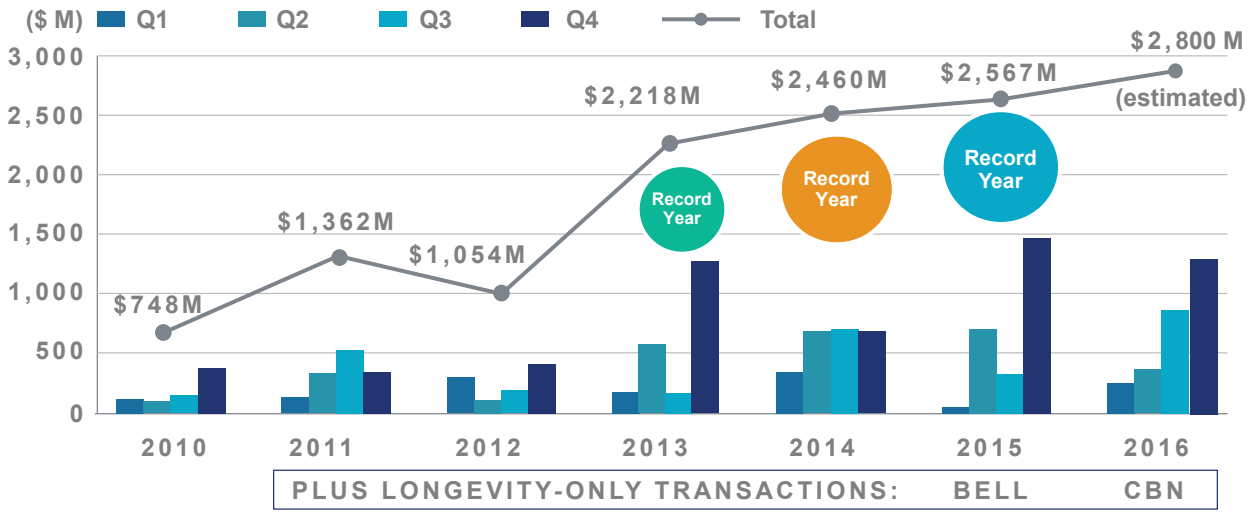
MANAGE PENSION PLAN RISKS

More employers have been de-risking, or right-risking, their pension liabilities through asset and/or liability strategies. We've seen record de-risking activities in 2016 and believe this could grow by as much as 50% in 2017.

Group Annuities: Historically, employers turned to group annuities to settle pension obligations on plan termination. Today, this strategy is being employed by many active plans that are using annuity placement to transfer risk to an insurance company, as witnessed by a tremendous uptick in activity over the past two years. The challenge for sponsors has been knowing when to act. Web-based tools like Mercer's Pension Risk Exchange provide buyout price transparency and deal readiness by streamlining the process and serving as a type of Amazon marketplace.

Longevity Insurance: A recent study released by the Canadian Institute of Actuaries indicated that the life expectancy of a 65-year-old male had increased to 87 years; and females continue to outlive males. The impact is substantial as every one-year increase in life expectancy can equate to an 8% increase in pension obligation. Plan sponsors are looking to ease this potential liability through longevity insurance, something that is relatively new to Canada but has been utilized successfully in the UK for some time. Under longevity insurance, the pension plan agrees to make a fixed stream of payments to the insurer based on agreed mortality assumptions. In return, the bank or insurer pays certain amounts back to the plan based on the plan's actual mortality rates.

PENSION RISK TRANSFER TRANSACTIONS IN CANADA



Over **200** transactions in last two years alone

More than **50%** of transactions being done by ongoing plans

x2 average deal size increasing

Sources: LIMRA and Mercer

TACKLE THE FUTURE, TODAY

The challenges faced in Canada in the retirement space will require business leaders, organizations, and regulators to work together. Employers will need to become more flexible, enhance retirement education, and strive for better outcomes, all as healthcare costs rise and savings rates remain low.

STEPS TO A STRONGER TOMORROW

1. **Enhance Outcomes** through more flexible, higher-access, lower-cost investments, via enhanced expertise and scale.

2. **Embrace Technology** to help drive, maintain, and increase engagement.

3. **Instill a Drawdown Period** with the goal to achieve better, sustainable retirement outcomes, or financial wellness.

4. **Outsource** to benefit from outside expertise, free up staff time and resources, and greater choice and economy of scale. The market is ripe for new solutions, and some new solutions are showing a lot of promise. Later this year, Mercer will unveil our ***Defined Contribution Outsourced Solution***, which will allow you to offload as much or as little of the responsibilities of running a defined contribution plan.

5. **Focus on the Employee** and design a program that incorporates their main drivers and opportune times for engagement, or what we call their "Moments that Matter."

WORKING TOWARDS ACHIEVING BETTER OUTCOMES
THE RISING POWER OF THE WORKFORCE!

10%
OF MILLENNIALS ARE THINKING ABOUT SAVING AND ONLY HALF OF RESPONDENTS LINKED THEIR SAVINGS TO RETIREMENT INCOME[1]

50%
OF THE GLOBAL WORKFORCE WILL BE **MILLENNIALS**[2]

INCREASES IN **HEALTH CARE COSTS**

LACK OF ENGAGEMENT IN **SAVING FOR RETIREMENT**

TRADITIONAL CAREER PATH

EMPLOYER CENTERED COMMUNICATION

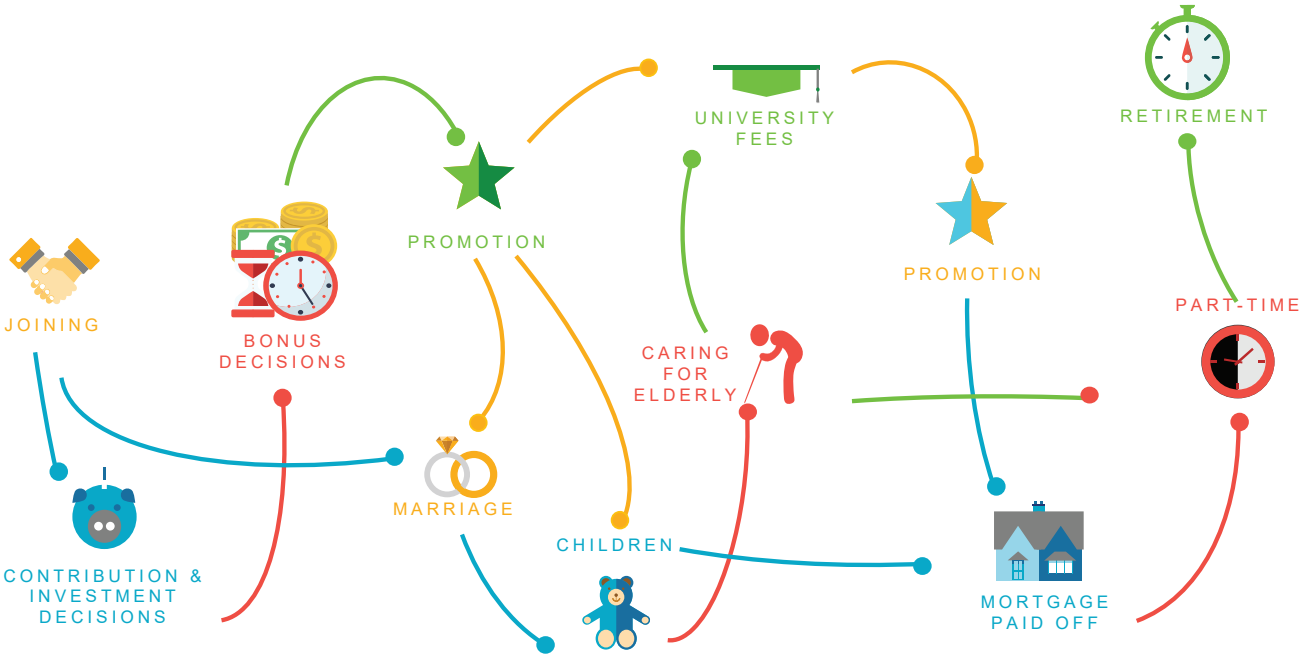
1 Mercer, *"Mercer's Inside Employees' Minds™ Study"* 2016

2 PwC, *"Millennials at Work: Reshaping the Workplace"*, 2011

MOMENTS THAT MATTER

Communication is vital going forward, but unfortunately, many providers often present a traditional approach centered around communicating when there are changes to plans.This is not the way to engage employees.

It's important for both employers and employees to think about retirement through a different lens. Technology needs to be further leveraged and employees must be engaged, especially at key moments in their careers – their Moments that Matter. At these moments (initial hire, promotions, mortgage payoff, birth of children, etc.), they are more prone to listen and take certain action. Technology will help us discover these moments and take effective and immediate action.



EMBRACE CHANGE

Going forward, all of us have a choice. We can either simply brace for change, and try to react to it, or, we can proactively embrace change and innovation and build a competitive advantage through a sound financial position and stellar employment brand. We welcome your input and would enjoy an opportunity to continue the conversation.Going forward, all of us have a choice.

ABOUT MERCER

At Mercer, we make a difference in the lives of more than 110 million people every day by advancing their health, wealth, and careers. We're in the business of creating more secure and rewarding futures for our clients and their employees — whether we're designing affordable health plans, assuring income for retirement, or aligning workers with workforce needs. Using analysis and insights as catalysts for change, we anticipate and understand the individual impact of business decisions, now and in the future. We see people's current and future needs through a lens of innovation, and our holistic view, specialized expertise, and deep analytical rigor underpin each and every idea and solution we offer. For more than 70 years, we've turned our insights into actions, enabling people around the globe to live, work, and retire well. At Mercer, we say we *Make Tomorrow, Today.*

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