



McCarthy Tétrault *Advance*TM
Building Capabilities for Growth

Better Pensions for Law Firm Employees

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TLOMA
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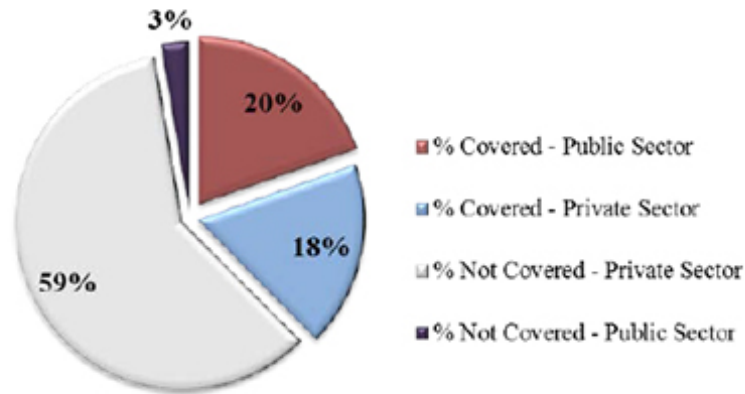


Agenda

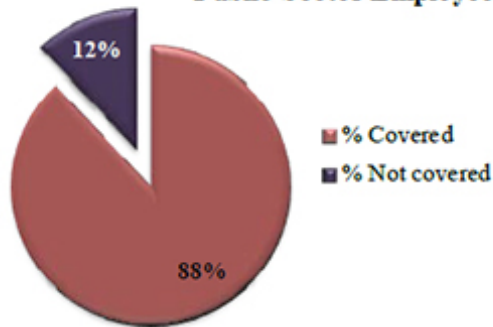
1. The Coverage Issue
2. DB vs DC Plans
3. Better Defined Contribution (DC) Plan Designs
4. Monitoring DC Providers
5. Keys to Successful DC Management

1. The Coverage Issue

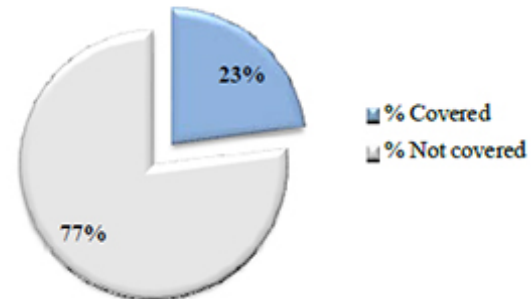
**Distribution of Employees in 2016 -
By Sector and RPP Coverage**



**RPP Coverage -
Public Sector Employees**



**RPP Coverage -
Private Sector Employees**



1. The Coverage Issue

Summary:

- Less than 23% private workforce covered
- Most law firms have no pension arrangement
- Law firms with pension arrangements have DC arrangements
- Most generous are 4+4 plans

2. DB and DC Plans Comparison

	Defined Benefit	Defined Contribution
Purpose	Provide a lifetime pension income	Provide savings
Employer Contributions	Variable (whatever the cost is)	Fixed
Employer Financial Risk	High	Low
Employer Legal Risk	Low	High
Investment Decisions	Professionally Managed	Do-It-Yourself
Cost of Benefits	??	??

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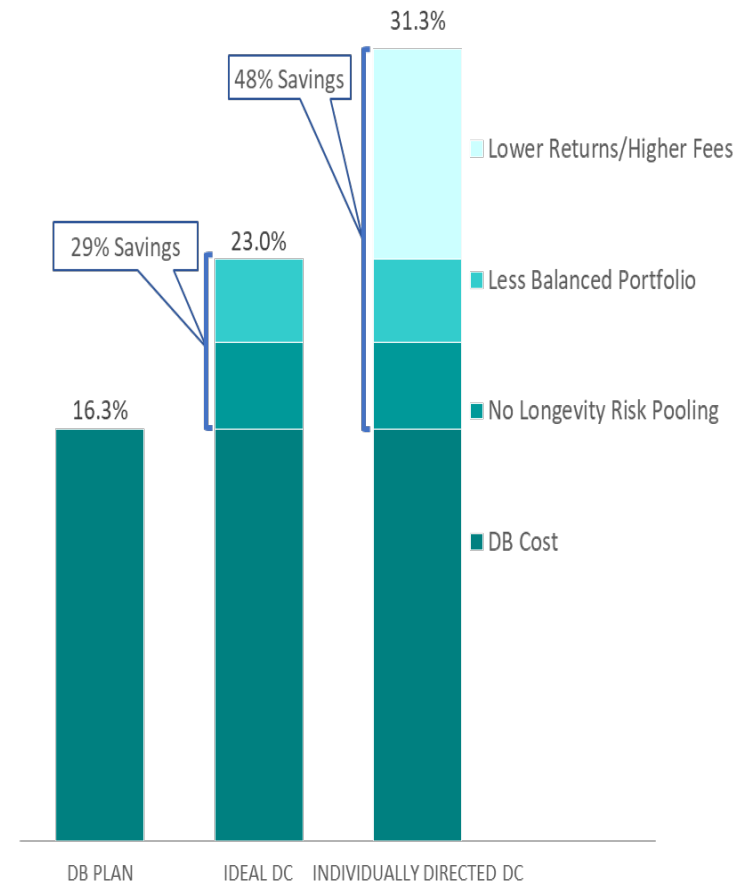
DB is less costly

DB plans deliver the same \$1 of pension income at 48% less cost than individually directed DC plans. The drivers for cost savings are:

- Obtain scale, eliminate member choice, pool investment risk and investment cost
 - **Save 27%**
- Maintain balanced portfolio through retirement
 - **Save 11%**
- Pool longevity risk
 - **Save 10%**

In other words, contributions must be 92% higher in an individually directed DC plan to produce the same \$1 of retirement income as a DB Plan.

Figure 1:
Cost of DB and DC Plans as a Percentage of Payroll



Source: *Still a Better Bang for the Buck*, National Institute on Retirement Security, Washington, DC, 2014

Xi is 35 & saves 8% per year

Contributions			
	Rate	Year 1	Year 30
Employee	4%	\$2,800	\$4,972
Employer	4%	\$2,800	\$4,972



Xi

Age: 35

Projected service: 30 years

Earnings at age 35: \$70,000

DC Plan ASSUMPTIONS (per year):

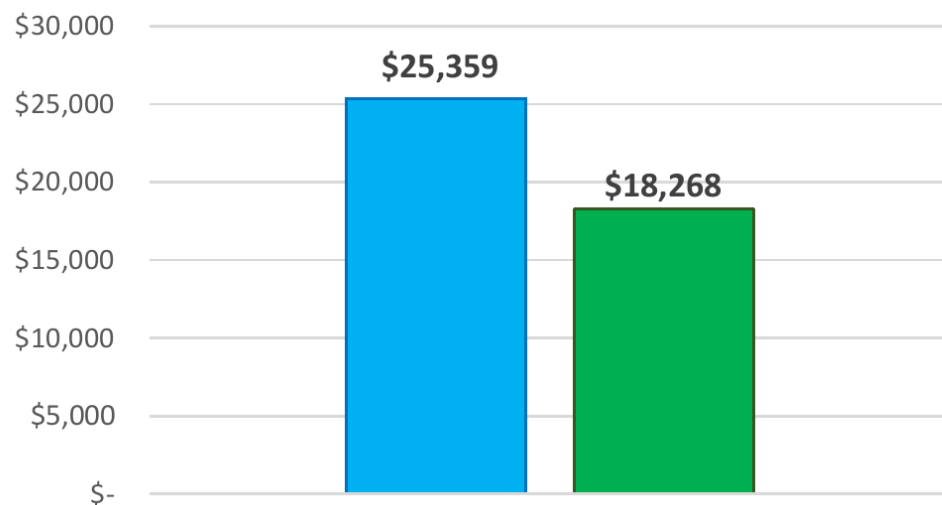
Balanced investment return (net of all fees): 4.0%

Annuity conversion rate (non-indexed): 3.0%

Pension indexed at: 2.0% per annum

Pension guaranteed for first 60 payments







TBP vs DC Plan – Annual Pension at age 65



■ Professionals Plan (indexed by 2% each year after age 65)

■ DC Plan (indexed by 2% each year after age 65)

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Cost of Benefits	Low 	High

Better DC designs

1. Multi-Employer
2. Administrator – Directed Investment
3. Annuity Alternatives
 - Advanced Life Deferred Life Annuities (ALDA)
 - Variable Payment Life Annuities (VPLA)

Monitoring DC Providers

Concentrate on 3 areas:

1. Fees
2. Provider Selection and Monitoring
3. Outsourcing Arrangements
 - OCIO
 - Delegated Fiduciary

Fees

- ❑ **Fees are a litigation target**
- ❑ The issue is, are you paying too much ?
- ❑ 1% too much can reduce an individual's total savings by 25% over a 40 year savings period (2% = 40% reduction)
 - Selection of higher priced retail mutual funds, when lower-fee institutional funds are available
 - Fee dynamics: different fee structures complicate apples-to-apples comparisons
 - Ancillary fees: account opening and closing, transfers, transaction fees, account monitoring fees,

Fees

1. Up-front charges
2. Charges based on contributions
3. Charges based on funds under management
 - Individual and group
4. Switching and transfer charges
5. Exit charges
 - Sales of retail products (RRSPs)
6. Annuitisation charges

Get full disclosure

Provider Selection and Monitoring

- ❑ Significant effort on selection
 - Comparison with alternative candidates
 - Performance often a priority
 - Consider services and fees

- ❑ Monitoring process less clear cut
 - Frequency?
 - Annual, quarterly, monthly
 - How thorough?
 - When should new selection process be initiated?

Outsourcing Arrangements

- OCIO
 - Outsourced Chief Investment Officer
 - “Delegated Fiduciary”
 - No matter what they tell you: the employer retains full responsibility for oversight
- Multiemployer plan
 - Transfer of fiduciary responsibility to administrator

Pension Provision: Key Success Factors

1. Governance – Appropriate governance structure and diligent oversight
2. Managed as a professional business
3. Scale

Questions

