2024 Canadian Defined Contribution Plan Sponsor Survey

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The focus on financial resilience is higher than ever for plan sponsors; DC[1] plan design, oversight and investment solutions are evolving in response

Today, defined contribution (DC) plans[1] serve as an integral tool to support employees' financial health into retirement. Many studies have shown that employees themselves are expressing concern about their retirement readiness and are seeking support from their employers. The DC industry has evolved concurrently with this change — creating innovations such as auto-enrollment and decumulation — and regulators have overhauled their expectations for plan sponsors.

This convergence of employer priorities, employee needs and regulator expectations is leading to a wave of reexamination of DC plans. Employers are increasingly aligning their plan oversight with employees' perspectives as well as refining plan design and operational choices to optimize member outcomes.

Employers seek to refine plan features and tools to support the resilience, accumulation and protection priorities of their employees.

WTW recently conducted a survey of 154 Canadian DC plan sponsors, capturing employer views and actions focused on various areas, such as financial resilience, plan investments, and risk and governance management.

[1] For the purposes of this analysis "DC plans" include all forms of capital accumulation plans, including registered DC plans, group Registered Retirement Savings Plans, Tax-Free Savings Accounts and other retirement savings vehicles.

1. Financial resilience

Sponsors are establishing objectives for member outcomes and then starting to measure against those objectives.

The focus on financial resilience is higher than ever for plan sponsors; DC plan design and oversight is evolving in response. When sponsors were asked the reasons for modernizing their DC design, employee financial resilience was top of mind, as three-quarters of plan sponsors mentioned prioritizing retirement readiness (Figure 1). This issue has become of much greater importance over the past few years; back in 2020, only 41% prioritized financial resilience with respect to modernizing plan design. [2]

Figure 1. Reasons for modernizing DC

Why have you modernized, or considered modernizing, your DC plan design?

Focus increased significantly from 41% in 2020 survey

	Rank	Reason	%
Main reasons	#1	Employees' financial resilience/retirement readiness	**76%**
	#2	Talent attraction/retention	**64%**
	#3	Flexibility to accommodate unique employee circumstances and priorities	**43%**
Emerging focus	#4	Diversity, equity and inclusion goals	**29%**
	#5	Operational efficiency	**24%**
	#6	Workforce management	**20%**

n = 139

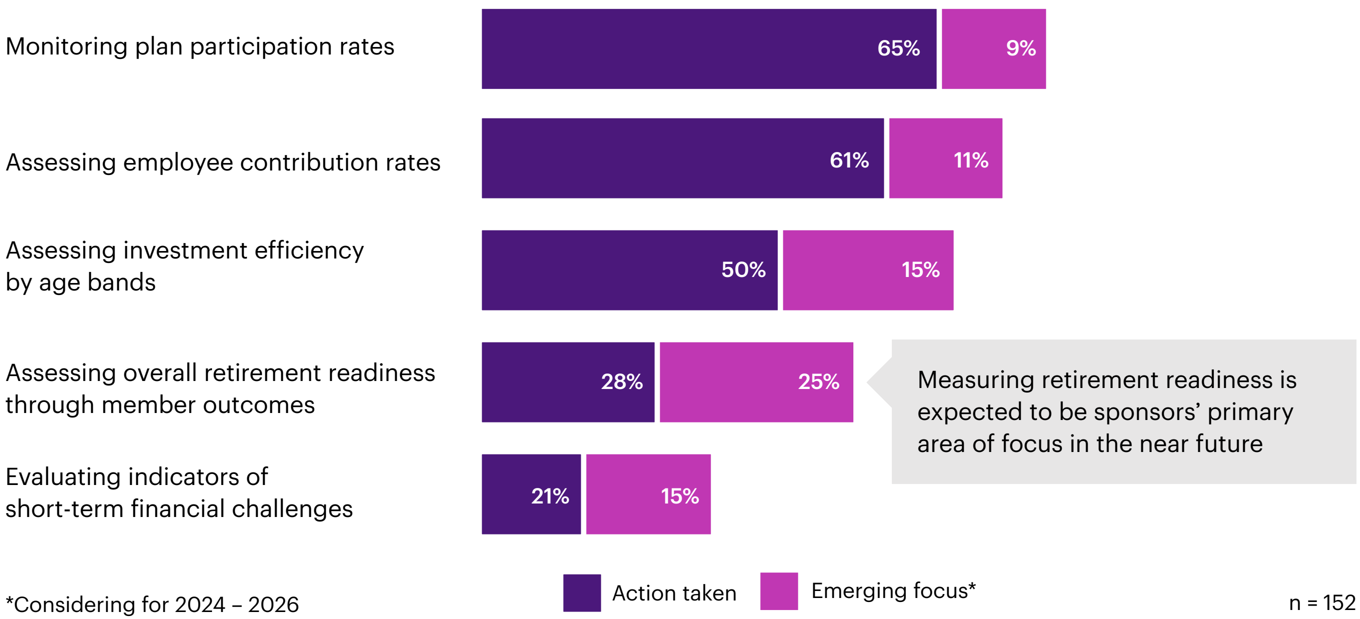
[2] 2020 DC Plan Survey

Currently, plan sponsors are using data analytics to examine participation rates and contribution rates, but less of a focus is being put on assessing retirement readiness and financial wellbeing, with only 28% of plan sponsors measuring retirement outcomes for their workers (Figure 2).

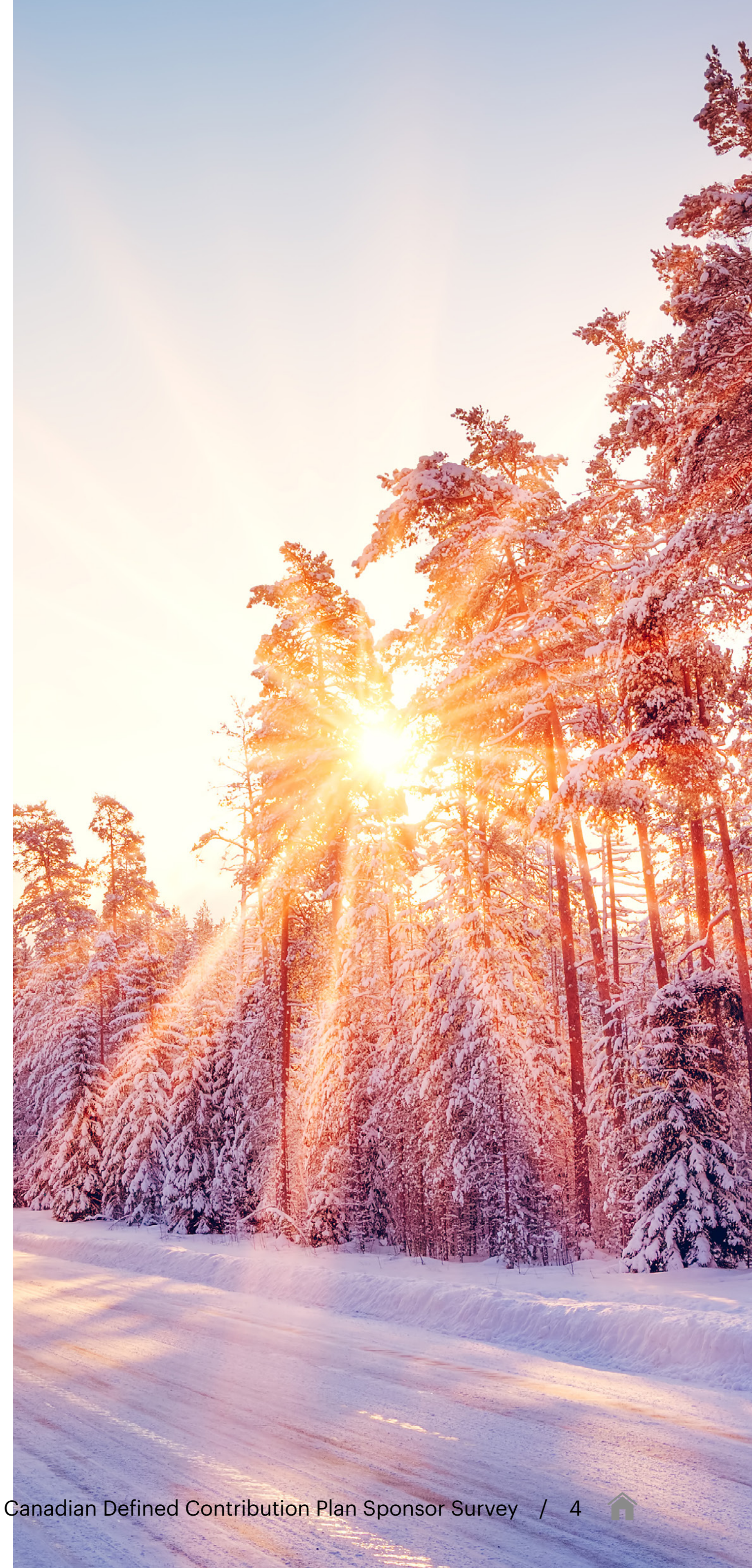
According to the 2024 WTW Global Benefits Attitudes Study, 76% of Canadian employees say they are saving less for retirement than they think they should be. To better help address this issue, plan sponsors are increasing support around this area, with another 25% of sponsors expected to start measuring outcomes in the next two years.

Figure 2. Impact of data analytics

In which of the following areas has your organization engaged with data analytics to examine the impact of DC plan benefits on your specific employee cohorts? In which areas does your organization plan to engage or consider engaging?



In further connection with helping workers better address retirement readiness issues, plan sponsors are interested in adding design features that will augment flexibility and security around employees' needs, including the use of auto-enrolment and decumulation solutions. Currently, only 14% of respondents offer such, but in two years an additional 35% of respondents mentioned this as an emerging focus in helping to modernize their DC defined contribution plans.



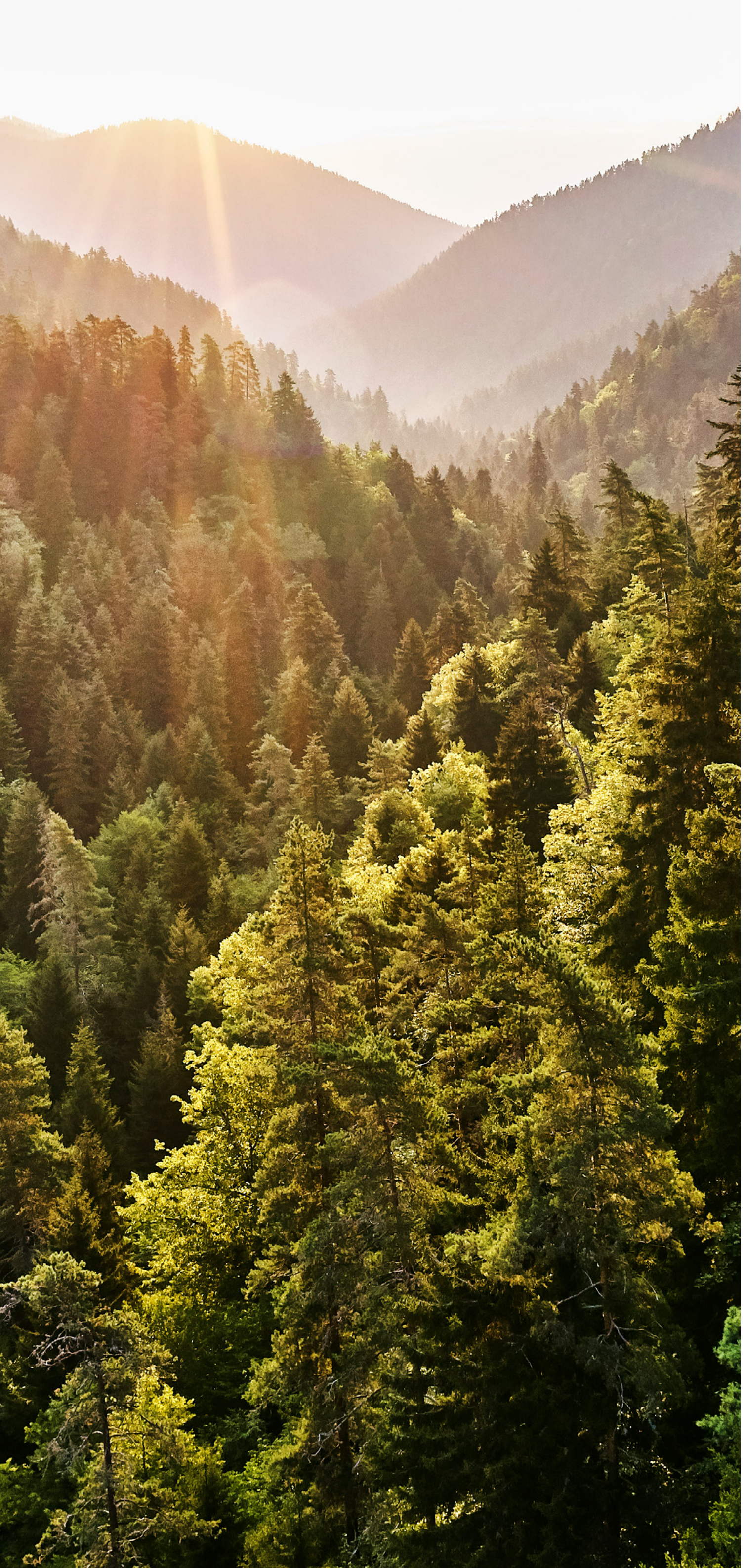
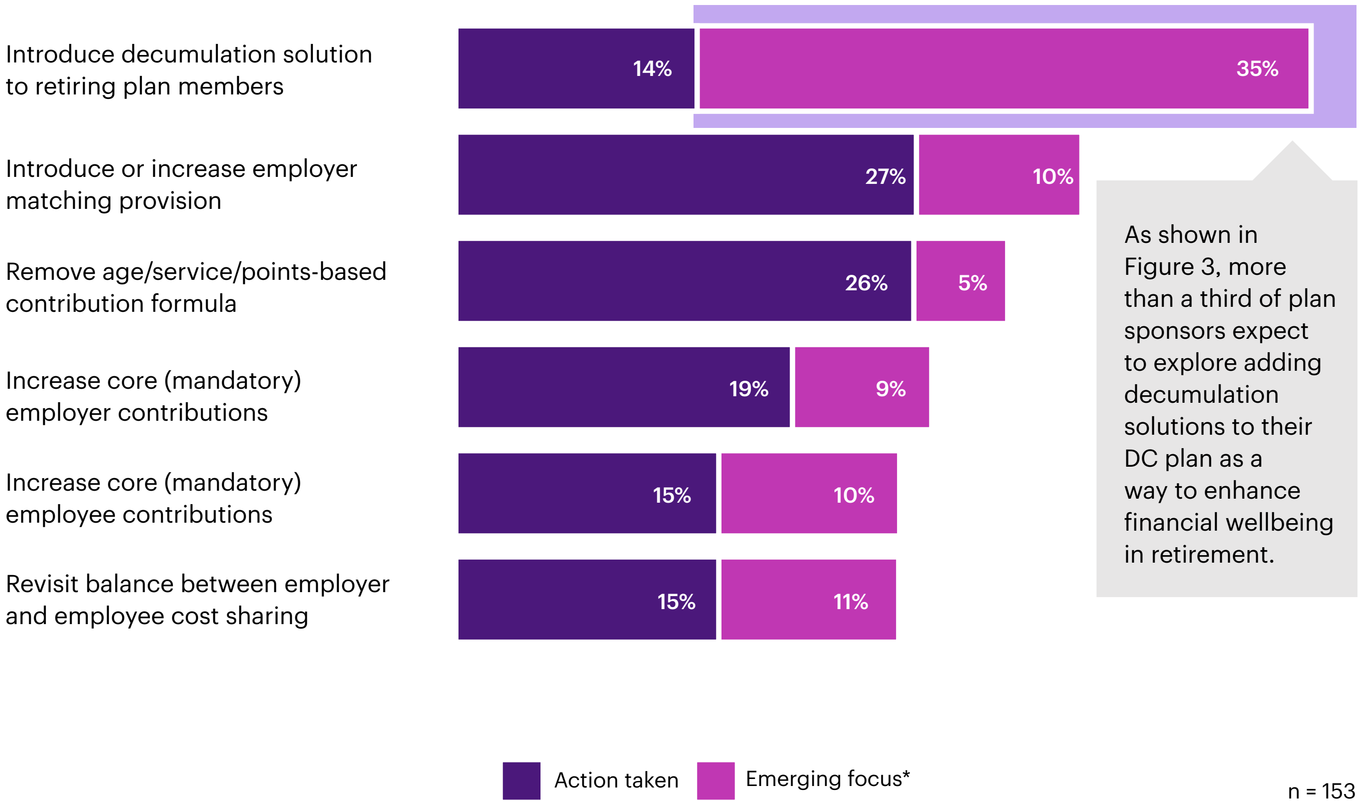


Figure 3. Solutions to modernize DC

In the past five years, has your organization modernized, or are you considering modernizing, its DC plan in any of the following ways?



As shown in Figure 3, more than a third of plan sponsors expect to explore adding decumulation solutions to their DC plan as a way to enhance financial wellbeing in retirement.

n = 153

*Considering for 2024 – 2026

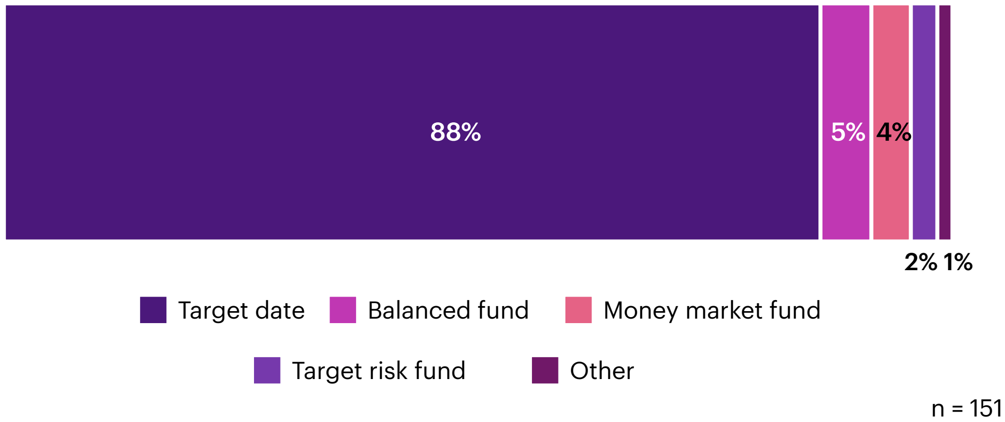
2. Optimizing investments

Opportunities arise for sponsors to optimize their investment lineups

As target-date funds (TDFs) have become more available in the Canadian marketplace in the past 15 years, we've seen an increase in their use as a plan's default investment option. Today, roughly nine in 10 respondents use TDFs as their default fund (Figure 4).

Figure 4. Default investment options

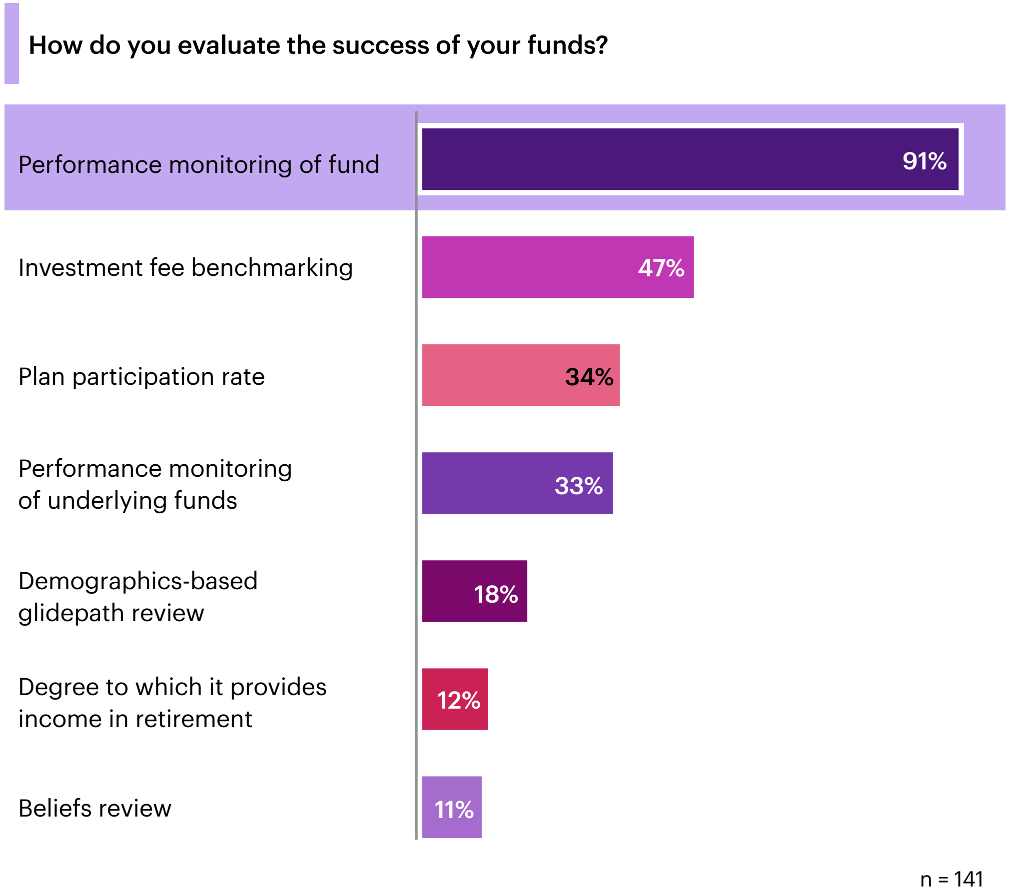
What is your DC plan's default investment option?



With the prevalence of TDFs reaching new heights, now is the right time for sponsors to revisit their investment beliefs in light of changes to economic expectations, investment opportunities and the increased size of assets in their DC plans. Currently, only 11% of sponsors have revisited the investment beliefs behind their original TDF selection (Figure 5). With so many more TDFs available today, including customized TDF solutions, sponsors should be revisiting how they measure a TDF's success and if the TDFs currently offered still meet the needs of their plan members.

When evaluating TDFs, most sponsors are evaluating past performance, which is important, but only 18% of respondents are evaluating the asset allocation and glide path, which are the most important drivers of future investment outcomes in both the accumulation and decumulation phases for plan members.

Figure 5. Evaluating success in TDFs

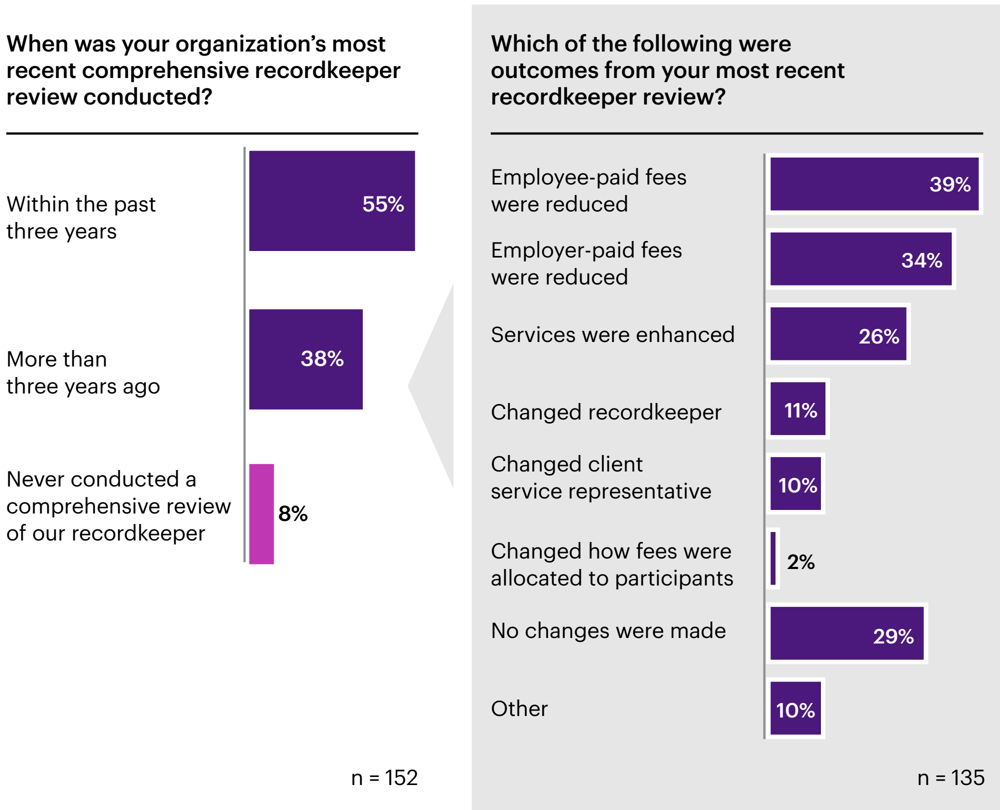


3. Managing risk and governance

Opportunities to elevate approaches to risk management arise

Today, more than half of plan sponsors have conducted a comprehensive review of their recordkeeper within the past three years (Figure 6). And one message is clear: Active management of recordkeepers has paid off for the majority of plan sponsors.

Figure 6. Active management of recordkeeper

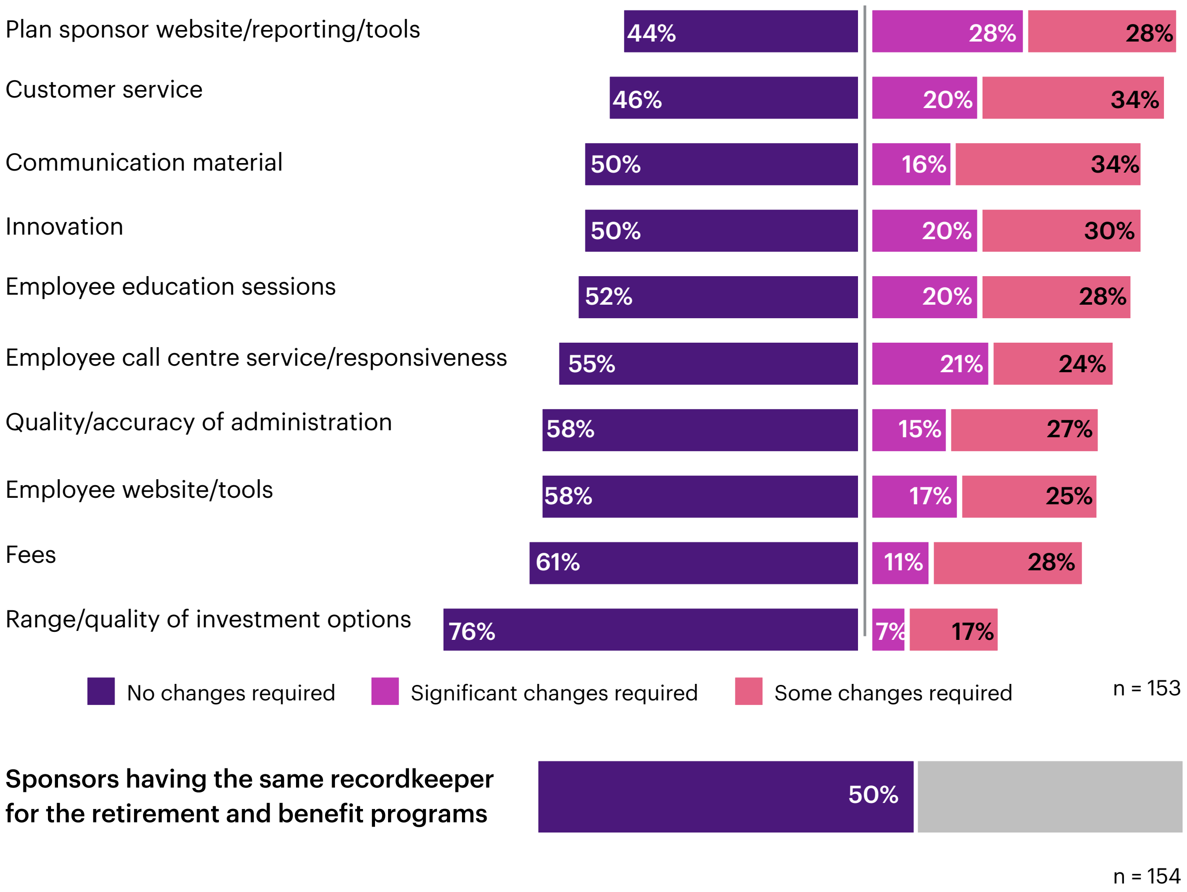


For those that conducted reviews of their recordkeepers, 71% achieved some improvement. In a lot of cases, fees were reduced as a result, and most improvements in the plan occurred without the need to change recordkeepers, as only 11% of plan sponsors elected to change providers (Figure 7).

However, the work is not done yet, and sponsors are still seeking improvement from their recordkeepers. Many sponsors would still like to see improvement in some areas, with the majority wanting enhancements in tools, communication materials and customer service.

Figure 7. Opportunities to improve recordkeeper services

Are there any areas where you would like to see improvements in your DC plan administrator/ recordkeeper services?



Next steps

In order for plan sponsors to ensure their DC plans are best positioned for success, they should focus on three important priorities:

1. **Establish plan objectives for member outcomes, and then measure against those objectives:** Sponsors should ensure that the specific objectives for each DC plan vehicle are considered. Even more importantly, they should also elevate their oversight from measuring inputs (e.g., participation rates, contribution levels, investment decisions) to assessing member outcomes.

2. **Optimize investment lineup:** Sponsors should revisit their investment objectives and beliefs to evaluate if their current TDFs and overall investment lineup are optimal for their plan members. They should consider diversifying the a la carte investment options and reexamine the investment lineup for any short-term savings vehicles in light of evolving market conditions.

3. **Elevate approach to risk management:** Plan sponsors should proactively review their recordkeeper's performance and fees to drive an optimal partnership and support positive member outcomes. Given CAPSA's risk management expectations, sponsors should also develop a risk framework to identify and manage the risks inherent in DC plans — both those borne by the plan sponsor and those borne by the employees.

As DC plans continue to evolve as a key vehicle to enhance employees' financial health as they progress through their career and into retirement, plan sponsors are encouraged to avail themselves of increasingly robust tools and features to support their employees' resilience, accumulation and wealth protection priorities.

Organizations that look to differentiate their plans from their peers will be well served in focusing on strategic initiatives, and evaluating the organization's optimal role in retirement plan delivery can provide meaningful opportunities while reducing risk to their organization.

Survey demographics

The 2024 Defined Contribution Plan Sponsor Survey, conducted in September 2024, drew responses from 154 Canadian sponsors in the WTW client base.

Many industries were represented, led by manufacturers at 27% of responses.

Responses representative of a broad cross-section of size of employer:

Fewer than 100 employees	3%
100 – 499 employees	20%
500 – 1,999 employees	34%
2,000 – 4,999	20%
5,000 or more	22%

The Canadian Association of Pension Supervisory Authorities — the collective of pension regulators from each jurisdiction in Canada.

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