Session 3: Financial Considerations for Firm Leaders

Cost-Efficient Retirement Plans

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Multi-employer Target Benefit Plans Combine the Best of DB & DC

	DB	DC	Target Benefit
Purpose	Provide lifetime income	Provide savings	Provide lifetime income
Contributions	Variable	Fixed	Fixed
Employer Financial Risk	High	Low	Low
Employer Legal Risk	Low	High	Low
Investment Decisions	Professionally Managed	Do-It-Yourself	Professionally Managed
Cost of Benefits	Low	High	Low

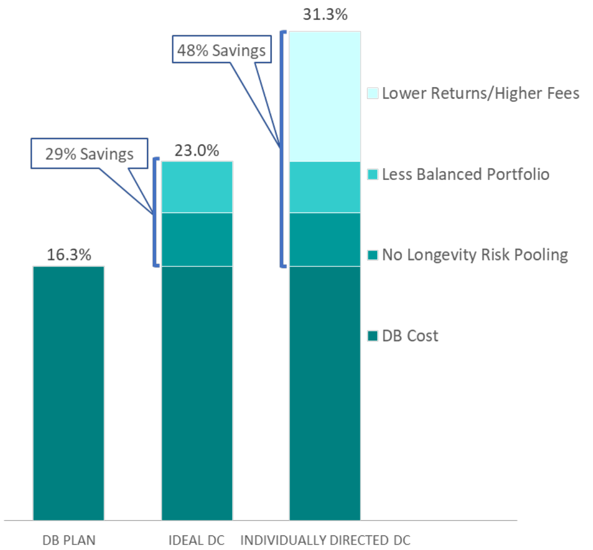
A Better bang for your Pension Buck

Collective, centrally-managed pools of capital that also pool longevity risk deliver the same $1 of pension income at 48% less cost than individual-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 target benefit 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

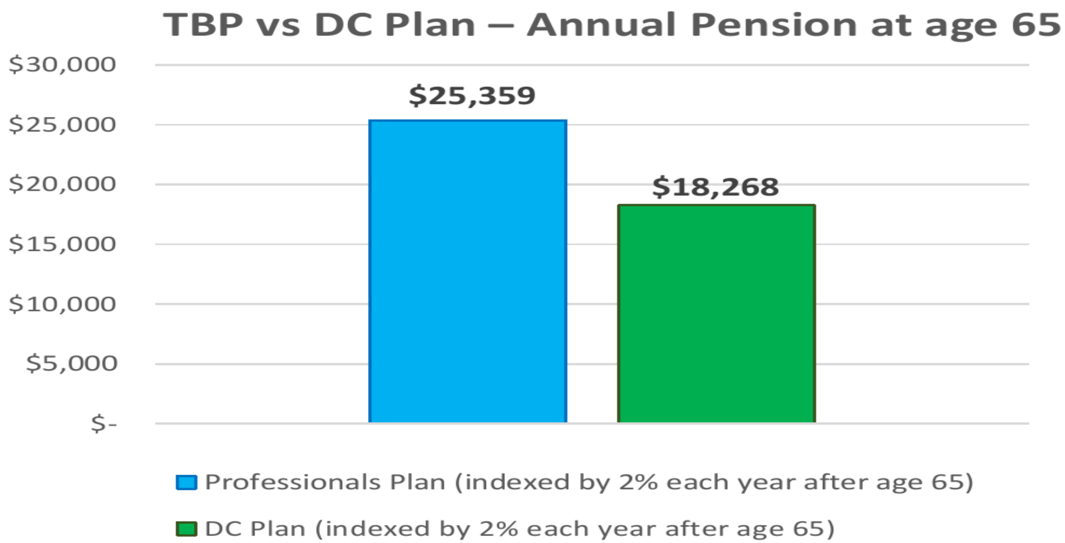
Xi is 35 & saves 8% per year

Source: Morneau Shepell

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