

Divergence Ahead:

New Strategic Choices and Challenges for The Pension Lifecycle



The search for yield, the data challenge, the race for talent, and the drive for transparency are among the trends CIBC Mellon has identified for the next year, says Alistair Almeida, Segment Lead, Asset Owners, at CIBC Mellon. Along with Darlene Claes-McKinnon, Executive Director at CIBC Mellon; Caroline Madden, Director, Financial Solutions Group at CIBC Capital Markets; and Andrew Whale, Vice President, Strategic Risk Management, CAAT Pension Plan; they discussed ‘Divergence Ahead: New Strategic Choices and Challenges for The Pension Lifecycle’ during a *Benefits and Pensions Monitor Meetings & Events* session.

They are seeing a growing focus on consolidation to achieve scale, the transfer of risk through annuity purchases; and the use of outsourced chief investment officer (OCIO) models.

Asset owners are also bringing more asset management in-house. Roughly 53 per cent of the asset owners were managing in house. While this was just two per cent higher than the 2021 survey, Almeida said it represents a trend of inhousing versus outsourcing.

Major Trends

Claes-McKinnon said there are six major trends impacting asset owners – things such as transparency into data and the race for talent.

While asset owners are responding with a diversity of approaches, they always have to keep in mind that although they can outsource tasks and functions, “they ultimately remain accountable for their real responsibility as plan sponsors” – paying the pension promise – in a challenging environment that’s only becoming more difficult.

One approach is consolidation. “When we talk about consolidation, the channels to consolidation have seen some changes in intent,” she said. Indeed, more asset owners are considering managing other assets. They’re even seeking retail or individual assets, “which is an interesting new

trend we have not seen before.”

The more traditional forms of consolidation – OCIO structures and annuitization – are still under consideration, but at lower rates than in 2021, according to CIBC Mellon’s research.

Asset owners are considering consolidation primarily because of economies of scale and better financial outcomes. The opportunity to get easier access to new asset classes or complex structures is another draw for consolidation.



The CAAT plan offers access to a wide range of asset classes, such as private equity, real estate, and infrastructure, and the ability to employ complex investment strategies to generate added value for members

However, there are challenge. Feedback from asset owners identify cultural and policy differences between plans and the types of trades, transactions, investments that a plan undertakes as most prevalent.

On top of this are the risks facing organizations – geopolitical unrest, macroeconomic unrest, the pandemic, climate change, and the supply chain risk. These are forcing strategic choices that impact the long-term outcomes for pension plans.

Madden said the macro environment is one of the biggest concerns and, in this context, it has “really been quite a year,” she said. The world emerged from COVID experiencing extremely hot inflation, a war, aggressive monetary tightening, and crypto shocks. The result is the market has been extremely volatile.

As well, there are many opinions on

where in the cycle the market is and people are debating whether there’s going to be a hard landing or a soft landing.

Unique Choices

The choice and conversations plan sponsors are having are really unique to their mandates. However, the key message is that markets remain volatile and the near-term path ahead unknown, said Madden.

The CAAT pension plan is in the position of being a plan sponsor, an employer, and a pension and consolidation solution for over 280 employers across 14 industries and in all provinces in Canada, said Andrew Whale, Vice President, Strategic Risk Management, CAAT Pension Plan.

Originally established in 1967 to serve Ontario community colleges, in 2019 with the launch of DBPlus, it was opened up to any Canadian employer.

In less than four years, it has gone from 40 colleges to over 280 other employers and DBPlus now represents more than 50 per cent of its active membership.

In its conversations with employers, three general reasons are identified for joining CAAT – some are looking to simplify governance of their retirement programs which allows them to focus on their core business; they want to get out of the pension risk management business; and workforce management and culture which is emerging at a high velocity in the post pandemic world and includes attraction, retention, and the growing expectation that workplaces need to offer more than a paycheck. Its survey shows 97 per cent of employers in the plan believe it is “at least somewhat important in attracting and retaining employees,” he said.

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Most importantly, it provides employees and members access to a valuable retirement savings earnings in the form of a guaranteed lifetime income. **BPM**