

CSC



MEETING

THE NEEDS OF THE
MODERN WORKFORCE

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1. INTRODUCTION

Across an ageing western world, the pensions and savings landscape is changing dramatically. Financial risks and responsibilities are shifting inexorably to employees, as Governments encourage individuals to plan for their own futures.

The wealth management industry is set to grow spectacularly as it responds to the burgeoning needs of a wider audience for personal asset management and advice - from a £40bn business today, to an estimated £240bn business in just two years time.

Following the lead of the US, European insurers, banks and intermediaries are launching wealth management services offering individual clients and their advisers powerful, fast, easy to use and guided help with investment decisions; and the ability to transact, view and manage different wealth assets, within different tax wrappers, in one place, via a technology platform.

Corporate employers have a major interest in this developing industry. Wealth management offers them significant opportunities to deliver staffing objectives cost-effectively, enhance brand values, and make real savings direct to the bottom line.

To achieve those benefits, employers must engage early with employees to determine what services they want and how they want them provided. Employers must work closely with wealth management providers and advisers to understand what offerings are available, and to make sure propositions are tailored to the specific needs of their employees as well as meeting their own corporate objectives.

This Paper assesses the benefits of attractive and effective wealth management services - to the employee and the employer. It explains the role of wealth management providers, their operational challenges, and the kind of service models that are becoming most popular.

It describes how CSC, with long experience and deep expertise in the sector, can create partnership links between employers and providers, and provide a unique CSC partner solution.

Wealth management is a business on the move. Now is the time to move with it.

2. CHANGES IN PERSONAL SAVINGS AND PENSIONS

For the first time in history, population pyramids are inverting. In many parts of the world, birth rates are declining, life expectancy is increasing, and the working population is ageing.

This means a smaller number of active workers and taxpayers will be struggling to support growing numbers of retired people. It also means retirees expected in the past to survive perhaps ten years of pension payments will now require funding for 20, 30, or even 40 years of retirement. State and private pensions and benefit schemes are straining to breaking point.

Many western governments recognise the effects of these demographic changes, but their scope for counter action is limited. The only workable policy is to encourage more personal responsibility for saving, by reforming legislation to create more taxable incentives and removing restrictions on tax free amounts that can be saved annually, while allowing more flexibility in how retirement income is taken.

Backed by regulatory change, employers have taken action themselves to encourage more savings responsibility within the workforce.

Many employers are now moving to more flexible Defined Contributions (DC) schemes. In the US, for example, it is estimated that DC plans grew by over 160% in the ten years to 2005 compared to only 40% growth in DB plans over the same period.

On the face of it, this encouragement to take greater individual responsibility for savings and pensions decisions seems appropriate to our climate of increasing consumer independence.

In most engagements with financial and retail organisations, consumers are demanding more value for money, greater choice and personalisation of offerings, improved service quality, and the ability to self-serve to save time in their busy lives. The Internet helps the process, providing many more instant consumer support services than have ever existed before.

However, employees do not necessarily realise or appreciate that they now carry the financial risk. In addition, evidence suggests that many people are not taking their new responsibilities seriously at present. In the UK for example, the Association of British Insurers (ABI) claims that in 2007/8 less than half the working population (45%, or 12.6 million people) are making adequate savings. A further 13% (or 3.7 million people) are certainly saving for their retirement, but at a contribution rate that is unlikely to provide an adequate retirement income. Most worryingly, 32% of the UK working population (9 million people) is not saving anything at all in a pension – although it is recognised that some people may be using alternative vehicles.

The ABI points to a glaring problem: a clear mismatch between what funds people feel they will need in retirement and what they can expect to receive. Only 3% of those surveyed felt very confident that they would have enough money to live comfortably in retirement, and only 29% felt even fairly confident – so over two-thirds (68%) of people expect their retirement to fail to reach their hopes and aspirations.

It is clear that one of the reasons why savings records are inadequate is that many people have simply not accepted the shift in responsibilities from their employers, and still expect the workplace to help them to save.

A recent *MetLife Study of Employee Benefits Trends* in the US found that employees are increasingly looking to employers as a place to purchase protection, investment and advisory-related products – conveniently and cost-effectively. Roughly one-third (34%) of all employees would like their employers to offer more voluntary benefits to purchase and pay for on their own.

It is a plea to which not all employers are responding, however. When asked to rank senior management's top benefits-related concerns, only 14% of employers in the study identified "helping employees make better benefits decisions" as most important.

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3. IMPACT ON EMPLOYERS

Employers are right at the centre of the changing savings and pensions scene. There are two consequent issues that affect many organisations today:

- How to attract and retain talented staff
- How to mitigate the effects on business performance of employees with serious money worries.

ATTRACTING AND RETAINING TALENT

Changing demographics are causing talent shortages in many industry sectors. The growth of outsourcing and off shoring of back office operations is just one example of the solutions considered. According to the *MetLife Study of Employee Benefits*, nearly three-quarters of employers believe that the competition for talent will intensify over the next 18 months.

The talent crunch is made worse by an increasingly knowledge based economy, which depends on creativity to deliver success. However, more traditional industries, such as automotive and energy sectors, are also suffering badly from perceptions that they are unglamorous or unexciting.

Branding is critical to encouraging young people to view an industry as challenging and offering a rewarding career path. A key brand value is a company's reputation for benefits and remuneration.

According to the *MetLife Study of Employee Benefits Trends*, nearly one-third (31%) of today's employees say benefits are an important reason why they came to work for their employer. In terms of retention, nearly four in ten (38%) full-time employees say the benefits offered to them are an important reason why they remain with their employer.

What the research also makes clear is that life stage and choice are highly significant to today's workforce in how they assess their employers' benefits provision, and their attitudes towards the organisation. The message is that employers will enhance their brand, and help to retain talent, if they are flexible enough to target benefits according to the very different requirements of employees at different stages of their working lives.

EFFECTS ON BUSINESS PERFORMANCE

Employees' inadequate savings records, and the worries that they have about current and future finances are rising steeply. Financial Literacy Partners (FLP), a US consultancy specialising in employee benefits, first reported in 1979 that 10% of working adults in the USA said that they routinely experience personal financial difficulties. Today that number is up to 25%, and financial stress is frequently listed as the top source of all stress experienced by employees.

According to FLP, that personal financial stress has a direct impact upon corporate performance. It has estimated that 'a silent epidemic' afflicts 30 million workers in the USA, with a direct negative effect on business at a rate of \$15,000 a year per employee.

With such a major drag on the bottom line, it is imperative that employers engage with employees. FLP proposes a much greater focus on financial education. There is little point, for example in having an employee assistance programme in place to deal with employee stress when the underlying problem is financial related.

"Employers who stay ahead of the curve will reap the benefits of more profits through better employee productivity, lower absenteeism, less work time wasted dealing with financial concerns, lower turnover and better employee health," FLP believes. "As the financial realm gets more confusing and volatile, it is more imperative than ever to put in place a financial education system that will benefit employees and the employer alike."

With so many employees looking to employers as a place to purchase protection and savings products, according to the *MetLife Study of Employee Benefits Trends*, employers offering access to guidance and independent advice will be knocking at an open door.

As a major contributor to staff morale and individual performance, guidance should also be aimed specifically at employees with Defined Contribution schemes, who may find that the funds available to them are inadequate for their requirements – especially when compared to Direct Benefit pensions of the past.

4. OPPORTUNITIES FOR EMPLOYERS THROUGH WEALTH MANAGEMENT

For employees wanting more engagement from their employers, this presents a situation that offers unique opportunities for employers to play a supporting role in facilitating the generation and management of their wealth:

- ▶ Meeting corporate HR objectives
- ▶ Cost effectively.

MEETING CORPORATE HR OBJECTIVES

Competitive wealth management packages offer a major point of differentiation for the diminishing pool of potential employee talent. Employers who tailor their benefits packages to meet their workers' life-stage and retirement needs are likely to reap significant advantages.

When it comes to making benefits choices, and staying with the same employers, life stage clearly matters.

Customising benefits provision according to the major life-stage segments - Singles, Young Families, Baby Boomers and Pre-retirees - provides a platform for an effective HR strategy to attract and retain the most valuable employees.

Research shows that Singles and Young Families demonstrate the strongest need for benefits education and financial advice, for example. More than two-thirds of these employees, a large percentage of whom have limited savings for retirement and difficulty managing their finances, admit they have trouble understanding which employee benefits are most appropriate for them.

If left unsupported during the early stages of their lives, these employees - many of whom are under the age of 40 - are at risk of under-protecting their income throughout their careers and outliving their nest eggs once they retire. They need help, and they will respond positively if it is provided.

Wealth management will also help to maintain morale across the organisation. It will position the employer as truly aligned with the needs of a modern workforce.

COST EFFECTIVE SOLUTION

A properly integrated wealth management solution is likely to result in a benefits package that maximises return on expenditure, to a much greater degree than a piecemeal approach to benefits selection. It also provides the potential to consolidate existing pension schemes and therefore reduce overall costs.

In addition, it presents a unique opportunity to offer employees increased remuneration, and releases funds otherwise earmarked for cash payments.

There is also the potential to broaden services to employees. The Single Euro Payments Area emerging across Europe in the next few years is likely to free up additional cash flow that could be used for employee benefits such as cheap loans (with repayments deducted directly from payroll): an increasing area of demand as the credit squeeze takes hold.

Information and decision support should have a positive effect upon financial stress in the workplace, with a potential boost to productivity. Employers will also be secure in their compliance measures if a comprehensive service is introduced, with full information.

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5. WHERE THE OPPORTUNITIES LIE

The growing wealth management sector offers a wide range of solution choices for employers to present to their workforce.

Technology can support large numbers of employees, offering one place to view and manage all client wealth assets, no matter what the source.

Employers can tailor propositions creatively with the right partner, offering the channels that employees like to use. Nevertheless, there are range of issues and challenges that employers need to consider in order to deliver a successful proposition:

- ▶ Development of propositions tailored to different employer segments and life events
- ▶ Ability to accommodate changing employee needs and meet increased expectations for the level and breadth of services offered, and investment returns
- ▶ Differentiation of the offering in order to attract and retain employees
- ▶ Giving employees access to the channels they want – including Internet self-service
- ▶ Integrating channels (eg web, telephone, face to face) to ensure a seamless link to individual client accounts
- ▶ Access to quality service delivery
- ▶ Provision of high quality and comprehensive guidance where face to face advice is in short supply and access to independent advice that is compliant across a tangled web of products and services
- ▶ Secure delivery over the Internet, which will be key for employees wishing to use the service for non-employer sponsored products and services.

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6. BENEFITS FOR EMPLOYEES

Wealth management, offered by a provider or number of providers, can give employees access to a wider range of products and services, from many different suppliers. The key is that the technology platform enables employee clients to buy, view and manage all products and services from all sources in one place.

By their employer's partnering arrangements, employees can receive a privileged premium service, available at a discount to less integrated retail alternatives. Although the services may be arranged through one employer, the kind of partnerships with wealth providers now being created ensure that the employee is able to stay with the provider even if he or she changes employer.

Properly tailored propositions can deliver employer sponsored products and services that are of high value to different employee segments. For example, employees in their 20s are often more interested in paying off student loans and getting on the housing ladder than thinking about pensions.

Individual choice can enable investment in ISAs rather than a pension, with a view to dumping savings into a pension wrapper at a later date during the working career.

One of the biggest benefits of partnering an effective provider or providers is access to guidance about selection of specific benefits, and enabling informed decisions. Part of the wealth provider support is provision of all necessary product wrappers.

The provider also aggregates information on the employee's corporate portfolio and administration of the individual products.

Wealth management providers can also deliver worksite communication via the employer. Employees are likely to be able to access their benefits account via both employer Intranet and the Internet. There is also potential in the future to link information about state benefits with personal accounts, to provide individuals with a complete picture of their future retirement pot.

7. THE HELP YOU NEED IS AVAILABLE

CSC can bridge between employer and the wealth management provider to advise on a number of different aspects in relation to wealth management provision.

CSC is taking its own medicine – surveying its own employees' wealth management needs with a view to developing a resulting wealth management provision methodology for employers to implement. Our support in this area includes:

- ▶ Research and proposition development for your different employee segments
- ▶ Business case build to assess the costs and benefits of current employer provision with a corporate wealth proposition
- ▶ Communications advice that assists with employee education about wealth, protection and future spend, and encourages saving where appropriate
- ▶ Delivery of the proposition through the use of technology portals and channels
- ▶ Leveraging our global experience, advice on the overall proposition requirements that provide employees with the right level of support, to enable them to make informed decisions and understand the impact of selecting different benefit options and different wealth management solutions.

Where CSC is involved in technology platform management, we can ensure that employees are able to access their benefits account via both Intranet and Internet, hosting the desktop and providing the integration link between the provider and CSC. Employers can benefit from CSC support by enabling:

- ▶ A powerful tool for attracting and retaining quality staff, and boosting productivity
- ▶ Employees to get access to guidance and advice, and freedom to make their own decisions
- ▶ Financially attractive propositions, particularly to young employees who may be more concerned to save for a mortgage deposit than a pension
- ▶ With lower cost to employers, representing a benefit to employees of much greater perceived value compared with some other benefits currently offered
- ▶ Employer positioning as an innovative organisation in the market place
- ▶ Opportunities to offer increased remuneration (via wealth management) instead of having to increase cash payment.

Wealth management offers employers an important key to recruiting and retaining valuable talent for the workforce, and alleviating financial worries amongst employees that in turn hit the bottom line hard. It can be delivered with a strong return on investment, and presents opportunities for future cost savings to the employers own business CSC can help you to design, develop and implement the right offering.

Please contact Joanna Hall on 07903819077 or Jhall56@csc.com to find out more.

We work with thousands of companies across the world, and this experience enables us to understand the demands of one of the most vibrant markets for wealth management propositions: employers and their employees. Examples of our work with wealth providers:

Merrill Lynch created a service to link financial consultants and clients, offering online access to account information, market research data, electronic bill payment service, Internet access and e-mail communication. The service had to be robust and reliable, user friendly and sophisticated in functionality.

CSC worked with the company to create a customer self-service web roadmap and successfully implemented it. CSC provided project management, business process design, technical architecture and implementation assistance, and technology planning and testing activities.

The Internet channel enhanced Merrill Lynch's customer intimate value proposition. Merrill Lynch enrolled 250,000 on-line clients and all of the firm's 13,000 financial consultants. An accelerated product launch saved \$60m for the entire project.

CSC has supported AAA rated **John Hancock Wealth Management's** annuity products since 1987, enabling the company to focus on product development and distribution. CSC provides applications and infrastructure support for administration of more than one million fixed and variable annuity policies. Services include applications development and maintenance, mainframe infrastructure support, 24x7 help desk support, and network connectivity.

"As John Hancock continues to introduce innovative retirement products, we want to ensure our systems are competently supported and meeting the needs of our customers. Our relationship with CSC gives us that peace of mind."

Jim Boyle, President of John Hancock Wealth Management



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About CSC

The mission of CSC is to be a global leader in providing technology enabled business solutions and services.

With the broadest range of capabilities, CSC offers clients the solutions they need to manage complexity, focus on core businesses, collaborate with partners and clients, and improve operations.

CSC makes a special point of understanding its clients and provides experts with real-world experience to work with them. CSC is vendor-independent, delivering solutions that best meet each client's unique requirements.

For more than 45 years, clients in industries and governments worldwide have trusted CSC with their business process and information systems outsourcing, systems integration and consulting needs.

The company trades on the New York Stock Exchange under the symbol "CSC."