


team. If the consultant is not the right fit—or is not able to provide that level of service—the plan sponsor may very well send out an RFP. “That’s how important the role of the consultant is.”

George says Aon Hewitt’s clients have been positive on the merger for the most part, but he does so with a qualification: “As long as we don’t change their teams or the people they deal with or reduce the service level.”

Big or small, maintaining close relationships with their clients is paramount for consultants. And the merger experience may have given the super consultants some insights into what their clients are facing. Consolidation has been an interesting experience to go through from the “other side of the fence,” Aselstine remarks. “I have had a number of clients very keenly interested in how our merger activities were going. Many, tongue in cheek, have said, ‘We’re watching you.’” 

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## Merger of the Minds

An inside look at Towers Watson’s new global total rewards strategy *By Sheryl Smolkin*

**A** major challenge for those designing Towers Watson’s new Canadian retirement program was that there were more than 400 benefits-savvy associates looking over their shoulders. Towers Perrin and Watson Wyatt announced their merger in June 2009, with a January 2010 closing date. Work started on developing the merged consulting firm’s new pension plan in April of last year, and it was rolled out to associates in October. At the same time, other components of the Towers Perrin and Watson Wyatt total rewards programs were harmonized.

“We’ve had a lot of positive feedback from clients on coming to market quickly and effectively as the merged Towers Watson,” says Nancy Forsyth, Towers Watson’s HR director for Canada and Latin America. “Because we believe in the strong correlation between engaged associates and client satisfaction, we were really committed to a fast internal pace of rewards integration.”

In order to align with the merged company’s business and workforce strategies, Forsyth says the new global total rewards strategy (including the benefits plans) is based on four key elements: ensuring that the benefits are competitive; giving employees choice to tailor their plans; sharing responsibility between employees and Towers Watson; and providing a transparent process.



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## Managing Legacy Plans

Prior to the merger, Towers Perrin gave employees a choice between a non-contributory final average DB plan and a DC plan with a company match. The vast majority of the company's employees elected to participate in the DB plan. Unreduced early retirement was based on the "rule of 85" (age + number of years of service = 85), and retiree non-pension benefits were mainly employee-paid.

Watson Wyatt associates were members of a non-contributory final salary DB plan with an early retirement age of 62. There was also a flexible contribution account and an employee profit sharing plan with company contributions based on profits. In addition, retirees had company-paid health and dental benefits.

Both companies had a supplementary employee retirement plan (SERP) for employees who earned in excess of the Canada Revenue Agency maximum. The Towers Perrin SERP was paid out in lump sums over four years after retirement; the Watson Wyatt SERP was paid out as an annuity in monthly instalments.

## Towers Watson Plan Design

In designing the new retirement program, Towers Watson's retirement growth leader, David Burke, says, "We didn't look in the rear-view mirror. Towers Perrin and Watson Wyatt don't exist anymore. We aimed for best practices that will work for Towers Watson." The design team included experts who came from both legacy organizations, led by Burke (formerly of Watson Wyatt) and senior actuary John McIntosh (formerly of Towers Perrin).

The new program had three global objectives: cost neutrality, reduced financial volatility for the company and a benefit that was targeted more toward retirement income than a termination payment. In addition, because of the firm's regional North American business structure, the new program had to be consistent with plan design principles in the U.S.

After broad consultation with senior management and a cross-practice

***"We have an educated workforce that understands pensions, and we had to be able to respond to a broad range of very detailed questions"***

**Nancy Forsyth, HR director, Canada and Latin America, Towers Watson**

employee focus group, Towers Watson's senior management approved the following elements in its plan design:

- an integrated career average plan (i.e., based on earnings over the member's career with Towers Watson);
- lump sum transfers available to employees of all ages when terminating employment or retiring from the company;
- a normal retirement age of 62;
- a company match for employee contributions to a savings plan;
- a flexible contribution option so that employees can make tax-sheltered contributions to buy up to a final pay benefit or purchase other ancillary benefits (i.e., indexing, unreduced early retirement); and
- a SERP paid out in a single lump sum at retirement or termination.

Non-pension retiree benefits were eliminated completely for new hires and existing employees who are not eligible to retire by 2016. Current employees who remain eligible for post-retirement medical benefits are covered by provisions similar to the original legacy programs.

## Meeting Company Objectives

Despite the trend toward DC, Burke explains why Towers Watson rejected a straight DC plan fairly early in the process. "We believe that, given the profile of our population and in view of our business priorities, a properly

managed DB plan is a better retirement vehicle than a DC plan alone. Also, one of our objectives was to place more weight on retirement benefits than on termination benefits, and this would have been more difficult with a DC plan."

The value of a career pay plan versus a final pay plan depends on a number of factors, but Burke says a reasonable working assumption is that a given career pay plan formula equates to roughly 70% of the benefit accrual under an identical final pay plan formula.

From the company perspective, a career pay plan design reduces volatility because eliminating the link to final pay effectively removes all risk aspects relating to pay increases and inflation risk. While lump sum payouts can introduce a potential cost to the organization (since the calculation is based on bond yields and tends to be lower than the expected return in a pension fund), allowing lump sums will increase cost predictability.

Burke concedes that a brand new DC plan would be less volatile than Towers Watson's career pay plan but says that in plan conversions, most plan sponsors move to DC only for new hires. As a result, volatility will not be reduced to any significant degree for 15 to 20 years through design changes alone.

## New Plan Rollout

The Towers Watson retirement program came into effect on July 1, 2011, for

associates hired in 2011, retroactive to their hiring date. Associates hired before that date will join the new plan as of Jan. 1, 2012, with benefits for all previous service continuing under either of the legacy plans.

While new benefits plan design rollouts are frequently viewed as an HR or finance responsibility, Forsyth says Towers Watson's senior leaders embraced the changes and made presentations in every Canadian office. "Of course, the first question on everyone's mind was, How do the changes impact me? But with an effective rollout strategy that recognized this as both a communication and a change management challenge, people were able to accept the changes and began to understand that the new program reflects what is happening in the market with their own clients."


Because the pension plan redesign was just one part of a merged benefits and compensation strategy, Forsyth says there were no real winners or losers. "We did an analysis of overall total rewards, including cash, health benefits and retirement, and, in aggregate, the impact as a result of the changes was minimal on an individual basis." Nevertheless, she believes that communications were critical in setting expectations for the associates and then delivering on those expectations. "We have an educated workforce that understands pensions, and we had to be able to respond to a broad range of very detailed questions."

Burke acknowledges that people are naturally change-averse and that it took time for some employees to get on board with the new program. And, given the company's benefits-savvy workforce, many of the questions during the launch sessions were quite challenging. However, he says, "I think now if you ask people if the new merged pension plan makes sense in view of our objectives and the marketplace we are in, most would say yes."

### A Different Approach

Burke says the final plan design would not have changed, but given more time, Towers Watson would have put more thought into considering the unusual situations and how best to effectively communicate to employees.

Forsyth and Burke agree that a standard integration usually takes much longer, but both say it was crucial to move as quickly as possible, given that removing uncertainty is an important aspect of a merger's success. One reason they could fast-track the process was the internal support from other Towers Watson practice areas, such as communications and investment consulting. Plus, assisting clients with program harmonization in mergers and acquisitions is a core Towers Watson competency.

"I'm satisfied with the way our thinking evolved and that we developed a plan that is appropriate for our business," Burke concludes. "Having gone through this process for our firm has made me, and everyone else involved, a better consultant. We were able to walk in our clients' shoes." 

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