



# Introduction and executive summary



# Introduction

This is the second edition of the Aon Global Pension Risk Survey to look at global involvement in local pension risk decisions. The survey explores involvement in design, financing and operational aspects of global pension risk management, but with most emphasis on the financing elements.

Questions asked covered responsibilities, areas of concern, strategies and attitudes to key risks and opportunities. The survey therefore covered two of the three major trends that we are observing in global retirement management:

- [global interest and involvement in local retirement plan decisions and actions](#)
- [focus on reducing DB plan risks through design, investment and liability management](#)

This survey did not explore the third major trend – the increasing focus on the effectiveness of DC plan design, financing and operations. This is covered in a [separate global survey](#).

In the [local country surveys](#) section, we also summarise the key findings from the Global Pension Risk Surveys we carried out in the UK, US, Canada, Netherlands, Ireland, Germany, Switzerland, and Asia-Pacific, with [links](#) so you can explore the findings from those surveys in more detail.

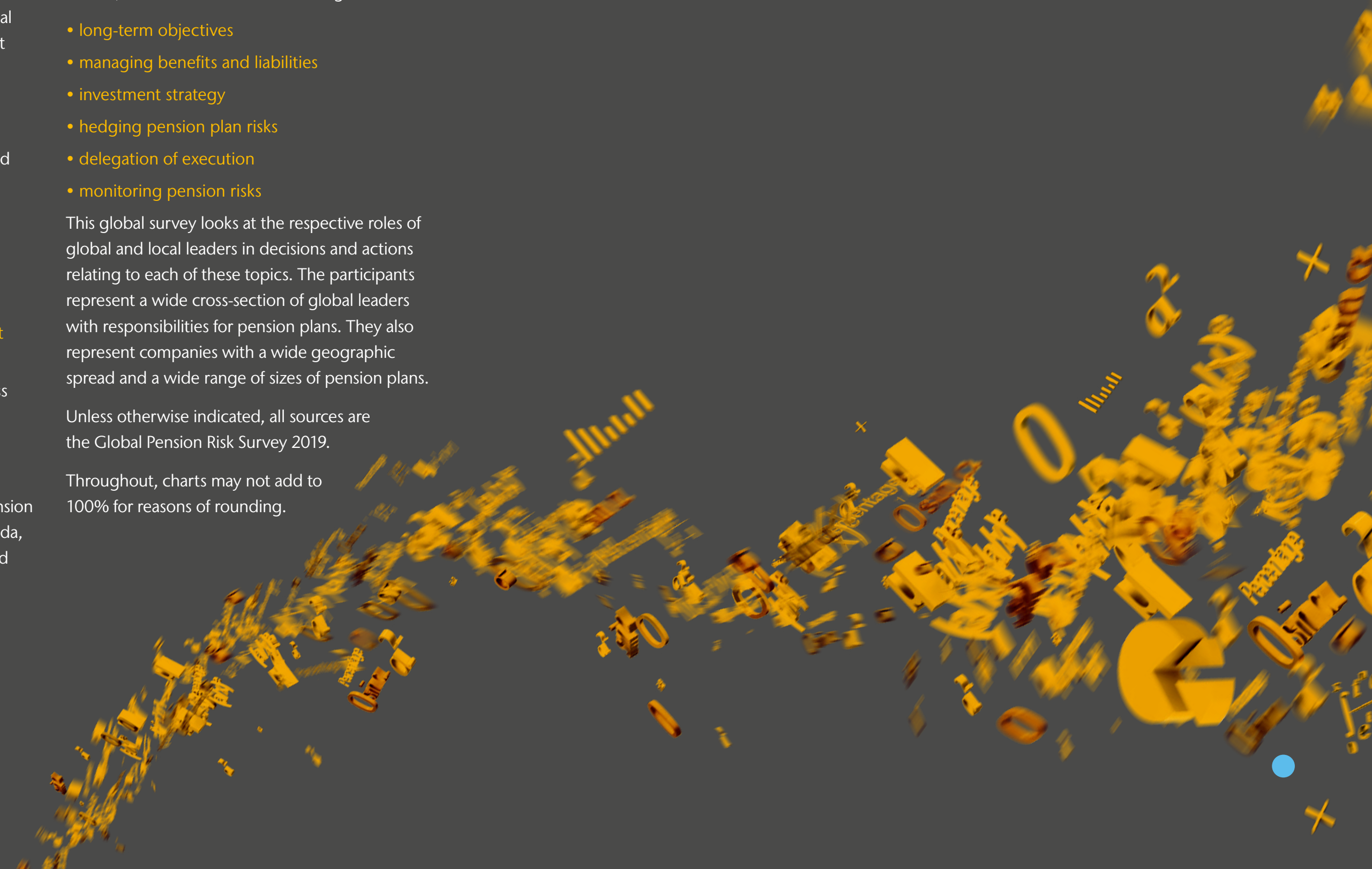
These local market surveys focused on the major actions, risks and opportunities in each market, with common themes relating to:

- [long-term objectives](#)
- [managing benefits and liabilities](#)
- [investment strategy](#)
- [hedging pension plan risks](#)
- [delegation of execution](#)
- [monitoring pension risks](#)

This global survey looks at the respective roles of global and local leaders in decisions and actions relating to each of these topics. The participants represent a wide cross-section of global leaders with responsibilities for pension plans. They also represent companies with a wide geographic spread and a wide range of sizes of pension plans.

Unless otherwise indicated, all sources are the Global Pension Risk Survey 2019.

Throughout, charts may not add to 100% for reasons of rounding.



# Executive summary

The survey confirms high and increasing involvement of global leaders in decisions relating to local pension plans around the world. Two-thirds of responding companies now have a global committee with a material role in overseeing and providing clear objectives and policies to local plans.

Involvement is particularly strong in design and financing decisions. Involvement in, and creation of, strategies for moving from DB, defining end-state financing, investment allocation and managing and settling liabilities are commonplace. Local teams tend to make decisions about hedging and the execution of investment strategy, but global policies on hedging have become more prevalent over the last two years.

Specification of long-term strategies has developed significantly, though primarily with focus on the tier 1 (most material) countries. The nature of the target varied considerably among respondents, with a pretty even spread between aims to terminate, fund with minimum risk, and fund with growth assets. However, details of how to reach the target are often still lacking.

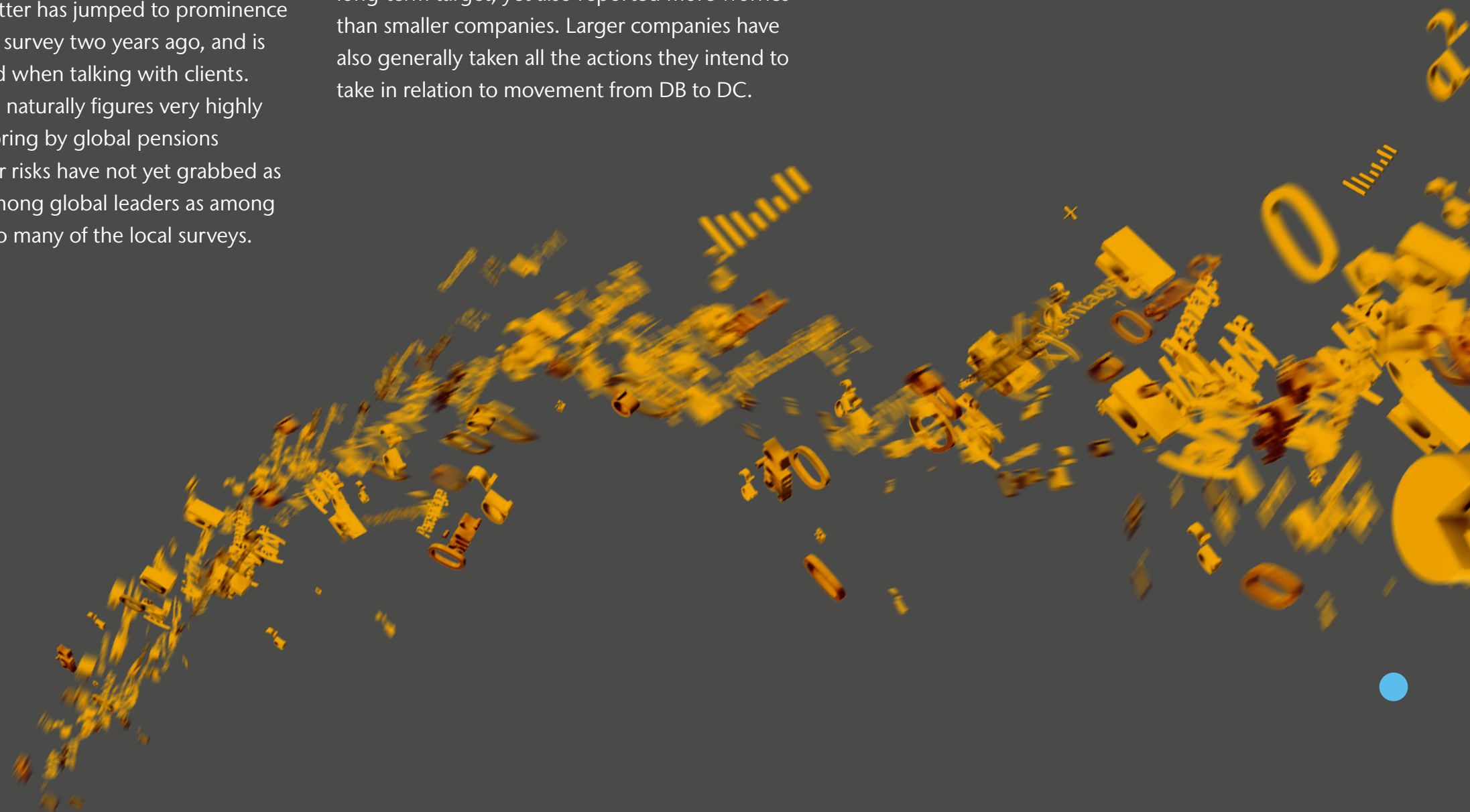
Specification of global investment guidelines has developed but appears to lag behind actions being taken locally. The local surveys indicated significant movements into property and illiquid assets, but the survey of global leaders indicated few global guidelines in these areas.

Global pension leaders are most concerned about their liabilities in the US and the UK, although concerns about pension plans in Asia-Pacific have increased noticeably and Germany and Canada also attract interest for many. The US and the UK are also the countries where global leaders have greatest awareness, and typically also involvement.

Away from managing the liabilities, the areas that concern the vast majority of the respondents are regulatory change and the financial wellbeing of employees. The latter has jumped to prominence since the previous survey two years ago, and is a very visible trend when talking with clients. Legislative change naturally figures very highly in terms of monitoring by global pensions committees. Cyber risks have not yet grabbed as much attention among global leaders as among the respondents to many of the local surveys.

The breadth of size of survey respondents enabled some analysis by size, which indicated some differences among those with more than \$10Bn liabilities globally. These larger companies are more likely to be targeting retention of growth assets in the long term – but by contrast are also more likely to hedge liabilities and are more likely to have plans to settle some liabilities in the next couple of years. Larger companies also typically have more detailed plans on the path towards their long-term target, yet also reported more worries than smaller companies. Larger companies have also generally taken all the actions they intend to take in relation to movement from DB to DC.

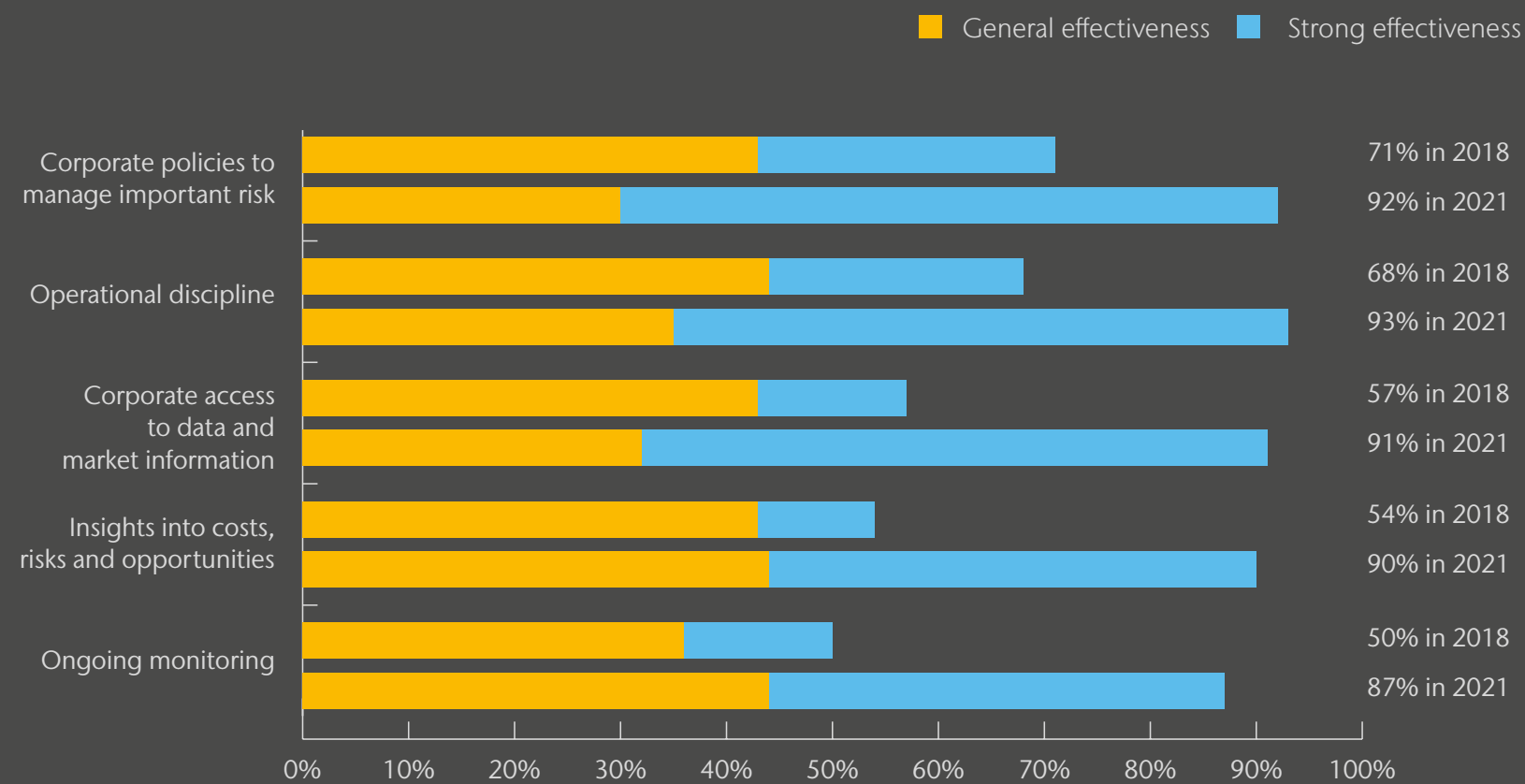
Both global and local surveys confirmed the continued focus on de-risking liabilities through settlements with insurers and members, and de-risking assets through increasing use of alternative asset classes and particularly illiquid assets, including real estate and infrastructure projects. The complexity of approaches to enable de-risking has increased the need to delegate to experts of both the governance and execution of strategies.



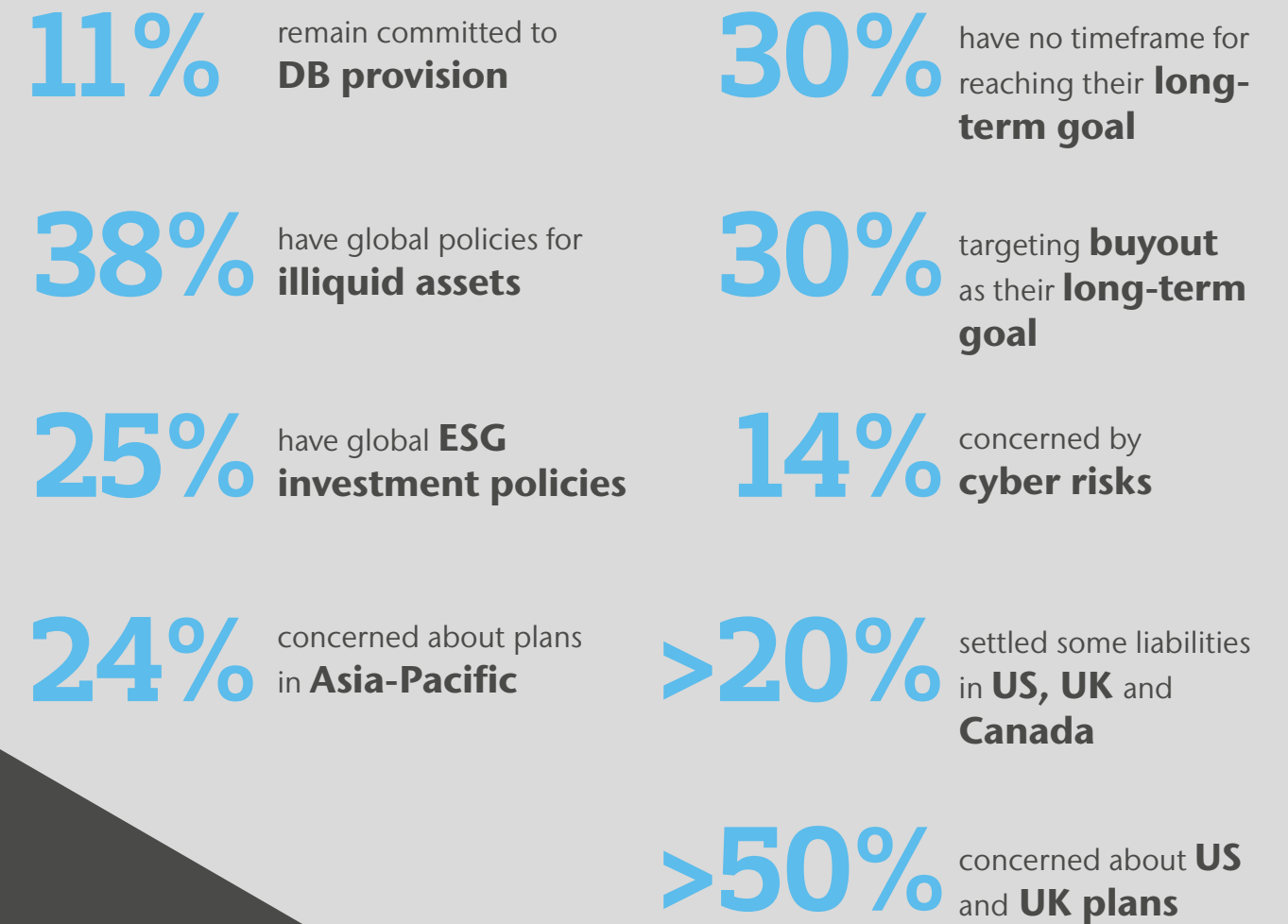
# Executive summary (continued)

The trend towards greater global involvement and governance is consistent with the [Aon Global Benefits Governance and Operations Study 2018-19](#), which covered global involvement in the full breadth of employee benefit design, financing and operations. That broader study indicated increasing effectiveness of multinationals in the five key elements of global governance, and a particularly strong desire to further improve in these areas by 2021.

## Five measures of best practice in global governance



## Key DB risk management solutions:



# Demographics of survey participants



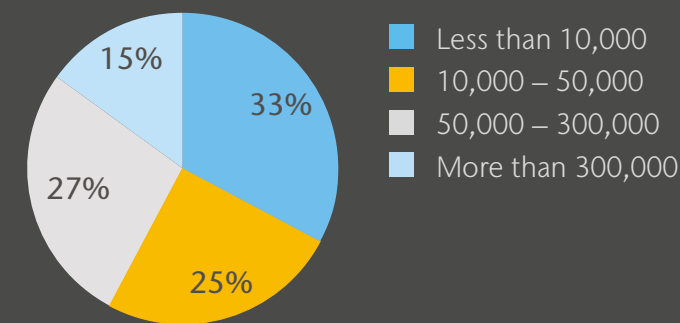
# Demographics of survey participants

We had a total of 60 responses to the 2019 survey for multinationals, covering employers with over four million employees and around \$500Bn of DB assets (and around \$250Bn of DC assets).

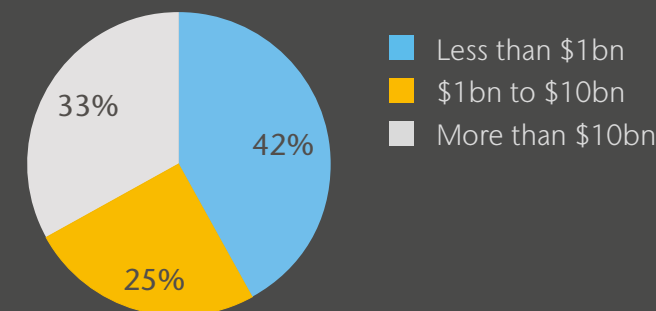
## Size of participating companies

The respondents represented companies with a wide range of employee numbers, with a broadly even split between those with under 10,000 employees, over 50,000 employees, and those in between – a pattern that broadly mapped across to global pension liabilities under \$1Bn, over \$10Bn, and in between.

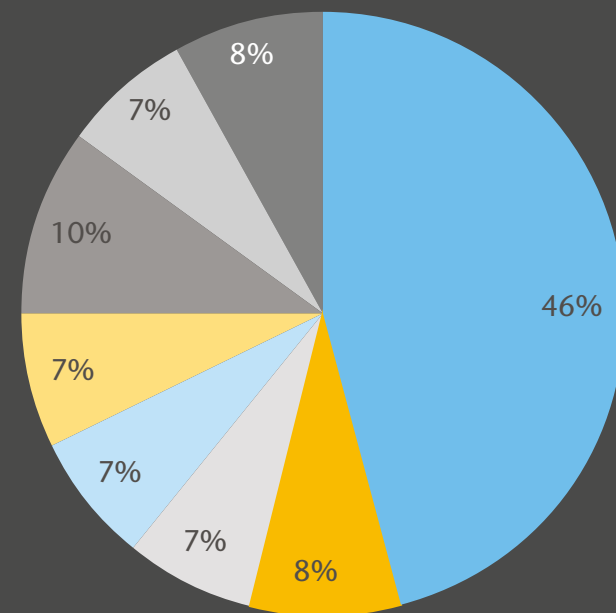
## Number of plan participants



## Global pension liabilities

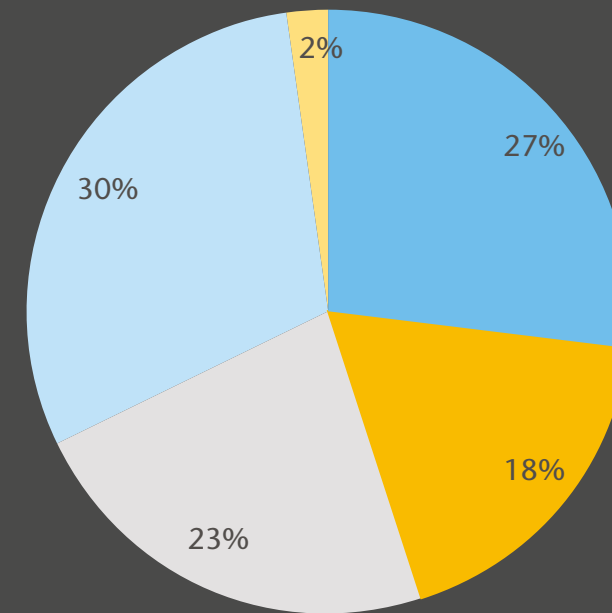
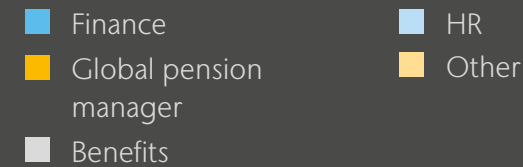


## Location of corporate headquarters



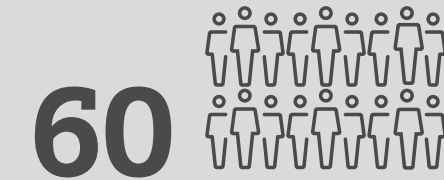
The survey was dominated by companies with a US headquarters – nearly 50% of respondents work for a multinational company with a US headquarters. The others have headquarters spread across 12 countries, with no country host to more than 10% of the responding companies' headquarters.

## Role



The 60 respondents to the survey were spread across pensions, finance, benefits and HR functions. Just over half described their role as benefits or HR, the other half being broadly evenly split between a specific pensions focus and a finance role. Around one in four respondents has regional responsibilities; the others full global responsibility.

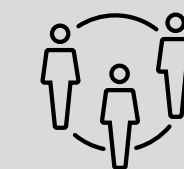
## Key findings



Multinationals responded with over **four million** employees and around **\$500 billion** of DB assets



of respondents work for a multinational company with a **US headquarters**



of respondents described their role as **Benefits or HR**

# Global roles and responsibilities





# Global roles and responsibilities

## Global leaders are involved in decisions for most companies – particularly for design and financing

Of those with global responsibilities, over 80% indicated that they have some involvement in local pension plan decisions. Around half of the others indicated that colleagues with other global responsibilities are involved in the local pension plan decisions. Only 6% indicated that there is no global involvement in any aspect of pension plan management.

Global involvement does not necessarily mean global decision making, but there is an expectation of increasing global involvement, with just under half of all respondents (42%) expecting to see an increase in global involvement in the next three years.

The areas in which there is greater global involvement in pension plans decisions are the design and financing elements of:

- long-term financing strategy
- future accrual
- managing existing DB liabilities
- investment strategy

There have been significant increases in global involvement in the latter three since our previous survey in 2017.

There is less global involvement in the operational areas. But even then, no more than 22% of respondents indicated that any topic covered is left solely to locals. This indicates a significant broadening of the scope of global governance from design to operational elements.

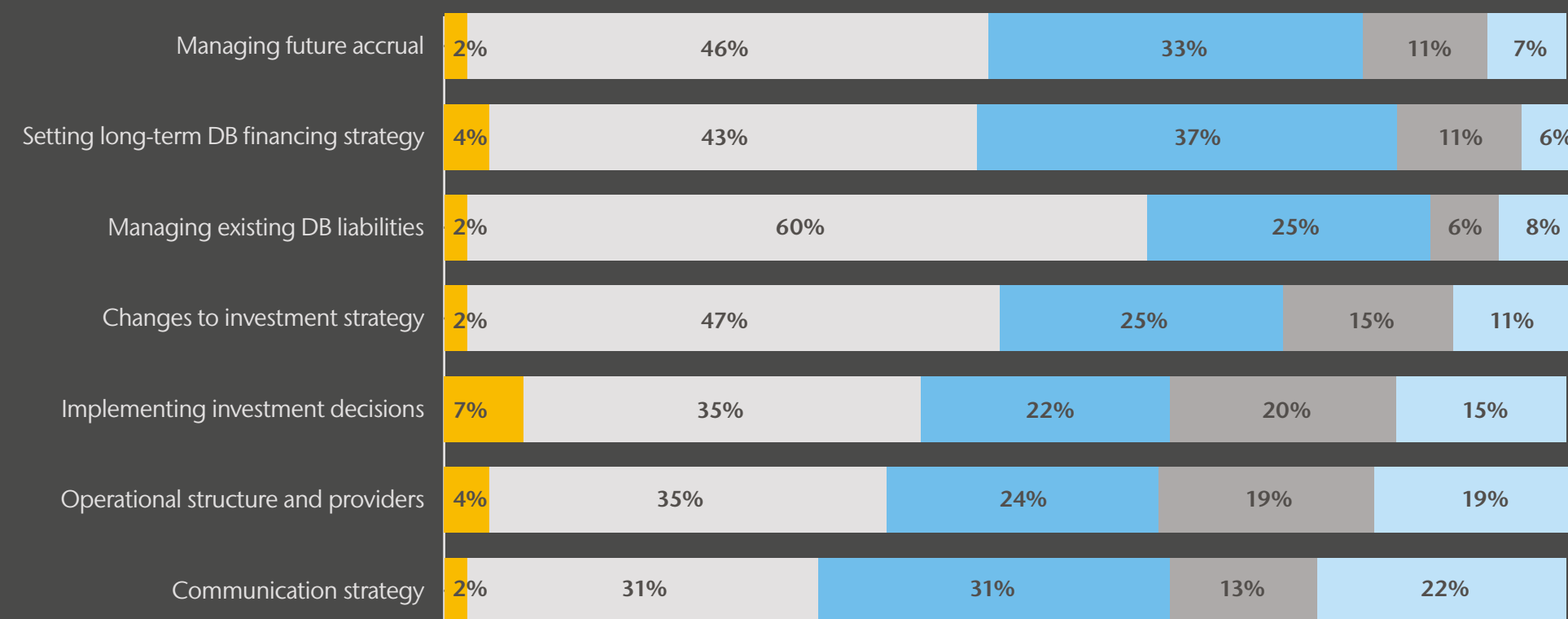
## Key findings



of global leaders indicated that they have some involvement in **local pension plan decisions**



## Areas and degrees of global involvement in local pension plan decisions



- Sole decision maker (where permitted by law)
- Member of a small team who decide long-term strategy
- Involved in the discussion process but not decision making
- Not involved, but a colleague with global responsibility is involved
- Not involved, we leave decisions to local market

### Execution commonly carried out locally – often via delegation to a third party

Just over half of companies execute some aspects of investment strategy globally, primarily through the treasury function, but with a significantly growing existence of a global chief investment officer.

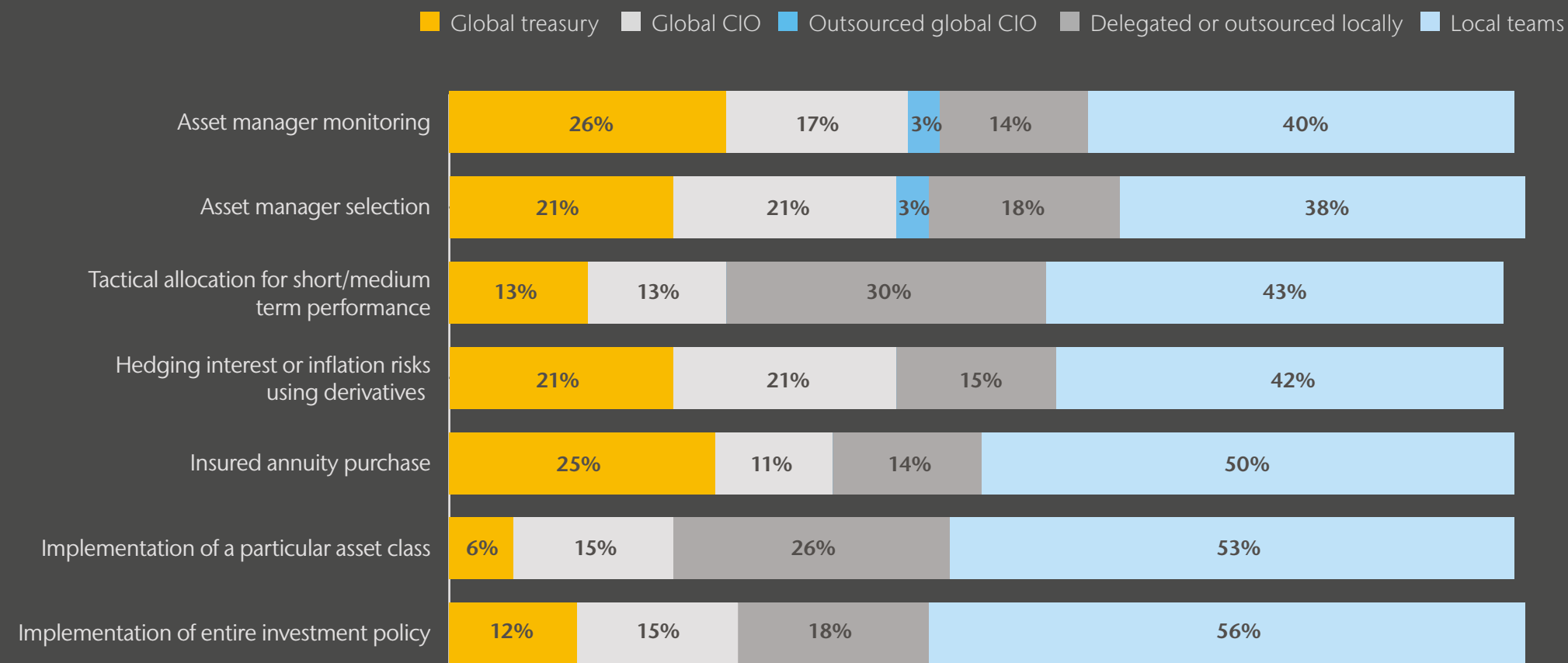
One-third execute all aspects of strategy globally, including implementation of the strategy.

### Global committees are common

Two-thirds of respondents report the existence of a global committee for oversight of material pension plans. Nearly all of those with a global oversight committee have clear objectives and policies.

Best practice governance, and the improved confidence in outcomes that it brings, involves clear policies, clear roles and responsibilities, and clear reporting and monitoring structures. There seem to be opportunities for those companies that have established policies or committees, but not yet both, to take that next step in the discipline of global governance.

### Implementation team



# Prioritising actions

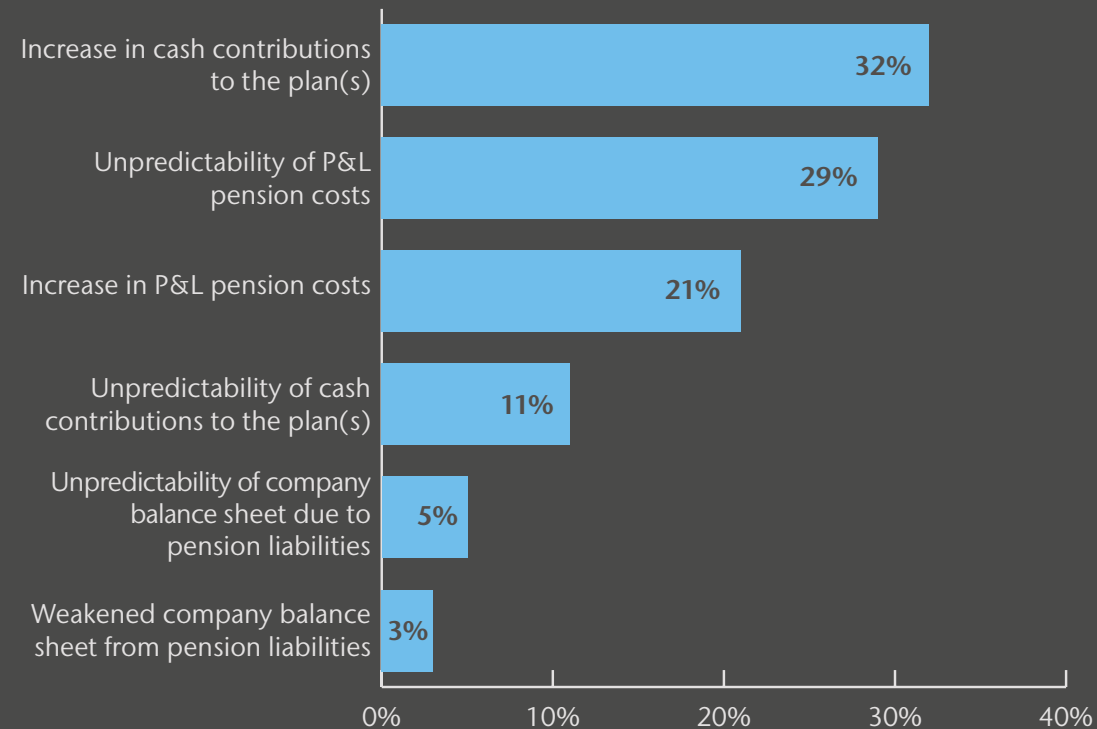


# Prioritising actions

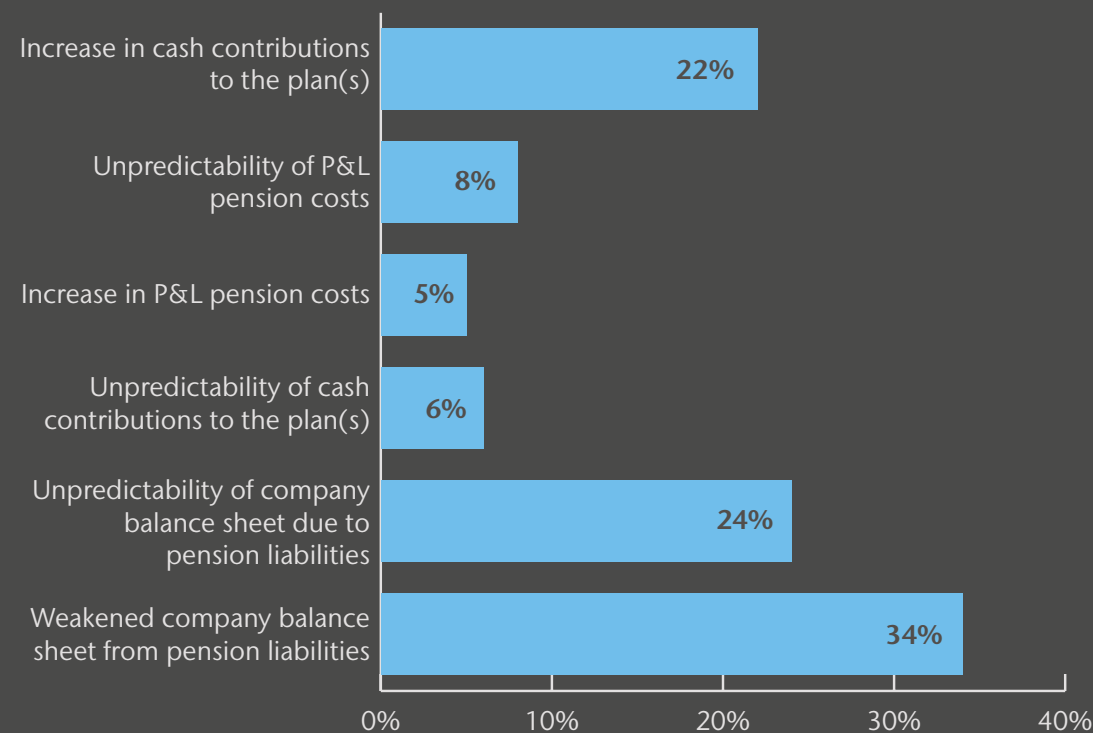
In the 2017 survey, the impact of pension risks on cash calls on the company was generally of more concern to respondents than changes in P&L or balance sheet figures. This time, while increases in cash contributions were still rated as the greatest concern by the largest proportion of respondents (32%), they were also rated as the least concern by a significant proportion (22%); this is a topic that polarised respondents. By contrast, very few considered P&L costs to be the least important, while significant proportions considered it to be the most important.

There were common themes among the respective levels of importance of P&L, cash and balance sheet across all types of respondents. The same picture arose by role and by region of headquarters.

## Greatest financing concern



## Least financing concern



## Key findings

Increases in **cash contributions** were rated as:



**32%** greatest concern

**22%** least concern

**65%**

say **financial wellbeing** of employees jumped to be the greatest area of concern

**Only 14%**

say **cyber threats** are of concern at a time when occurrences are becoming increasingly common



### Big liabilities drive the biggest concerns

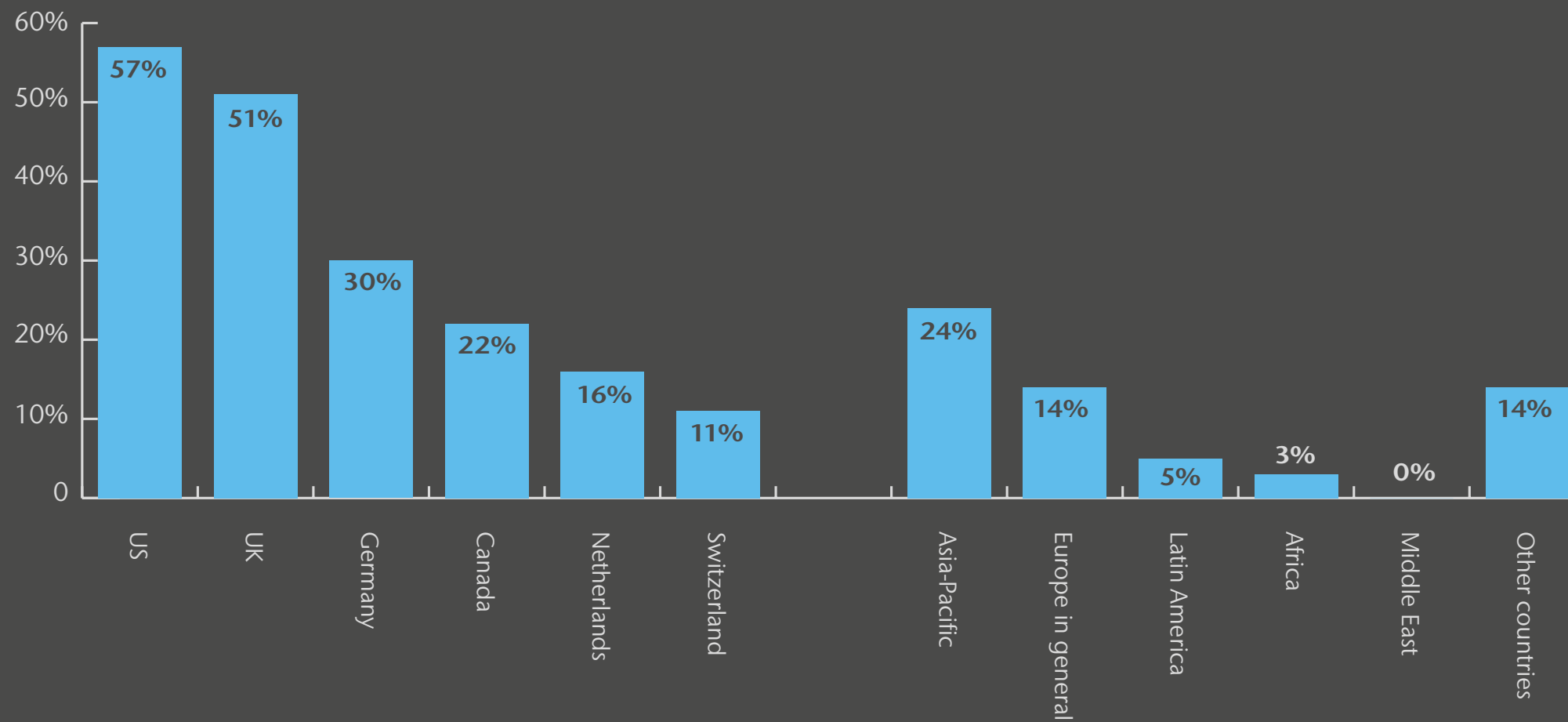
While responding companies have employees in a wide range of countries, there are two countries that generate the most concern. Unsurprisingly, they are also the two countries that have the largest DB liabilities.

Respondents were able to list more than one country of concern, with most doing so. More than half named the US; the UK was also named by over half of the respondents. Around 30% highlighted Germany and just over 20% were concerned about their DB plans in Canada. Switzerland and the Netherlands were the only other countries named by more than 5% of the respondents.

Asia-Pacific was the region that stood out much more than two years' earlier, with nearly a quarter highlighting it as a top concern. This may reflect less local expertise, or the increased volume of regulation.

The Middle East was not highlighted by any participants. This was surprising given the significant lack of pre-funding of defined benefit retirement promises across the region – and the first steps starting to be made by legislators to explore alternatives to DB provision.

### Countries and regions of concern



### Regulations and politics cause concerns

Regulatory challenges and political uncertainty created the greatest concerns for respondents in 2017. This time regulatory challenges remain a major concern, but the financial wellbeing of employees jumped to be the greatest area of concern. This reflects a trend we have seen with clients.

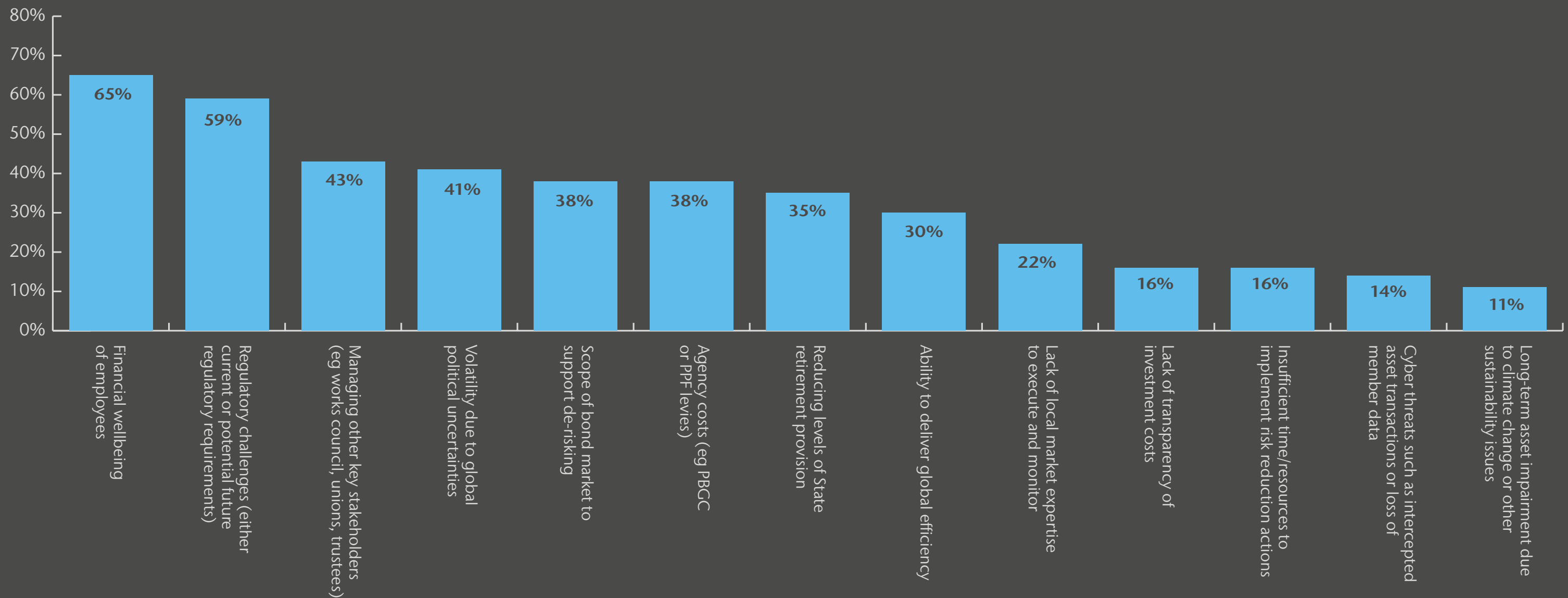
[Aon's 2018 Financial Wellbeing Study](#) showed that 62% of multinationals expect to have a global financial wellbeing strategy in place within the next three years.

A significant number of respondents also have concerns about political uncertainty, agency costs, scope of bond markets, managing stakeholders and global delivery efficiency, which supports the gradual extension of global governance towards operational matters.

Perhaps surprisingly, less than one in five consider lack of time and resources to be a concern in managing their pension risks.

Cyber threats hold surprisingly little concern among the respondents at a time when occurrences are becoming increasingly common and pension plans hold substantial volumes of personal data. Many of the local surveys showed a greater degree of concern about cyber risks than was seen among the global leaders.

### Material worries



# Setting strategy



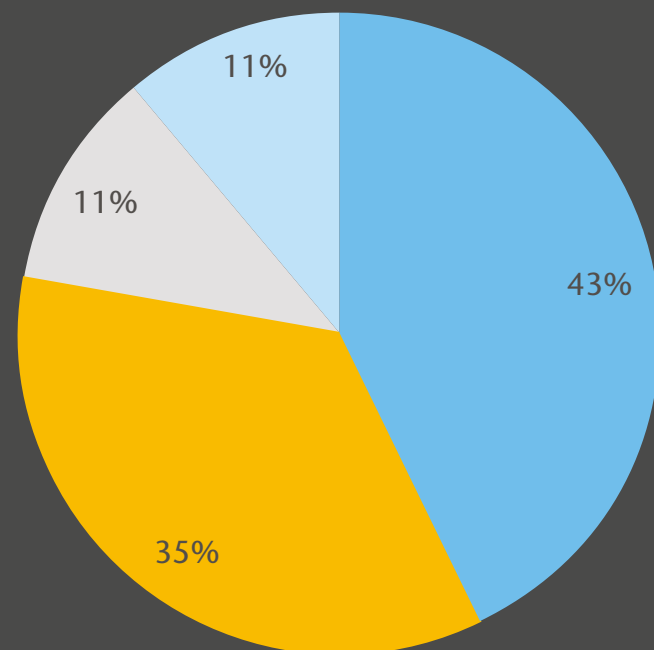
# Setting strategy

## Global strategies for moving from DB are common

While this and all the other Global Pension Risk Surveys indicate a clear trend away from DB plans, 11% of respondents have no global strategy in this respect, and the same proportion indicated a continued commitment to DB. Slightly under half indicated a clear global strategy (where legally possible) not to provide DB for new entrants, and around one in three indicated a clear global strategy to also freeze accrual for current employees. So, in total nearly 80% of companies have a strategic aim to remove DB accrual, at least for future employees, in countries where it is possible to do so.

### Future DB accrual

- Closed – no future DB accrual for new employees
- Freeze – no future DB accrual for current or future employees
- Continued commitment to DB plans where legislation allows
- No global strategy




Elsewhere in the research we noted that, in terms of taking action towards the strategic aim, less than 40% of companies that aim to freeze accrual in all countries where possible have done so to date, and only a further 25% expect to do so in the next couple of years. Those that are aiming to close DB accrual only for future employees have fared a little better, with 55% having already achieved this globally, and most of the rest expecting to do so in the next two years.

## Key findings

**Nearly 80%** 

of companies have a strategic aim to **remove DB accrual**, at least for future employees

 **70%** of companies have a well-defined long-term plan for funding DB plans



**Over 75%**

have a **contribution strategy** for, at least, their tier 1 countries



### Global strategies commonly exist for the long-term funding of DB plans

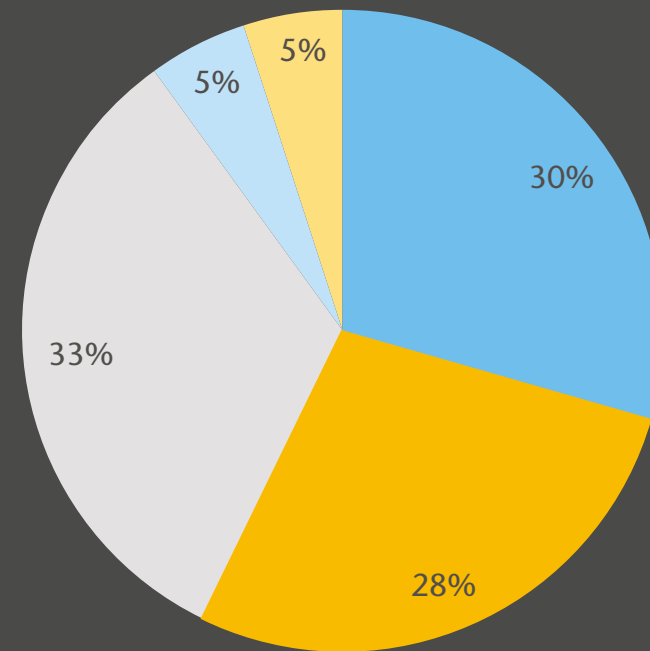
Around 70% of companies have a well-defined long-term plan for funding DB plans. However, those long-term plans vary significantly.

The survey identified a range of long-term goals, with a broadly even spread between a desire to terminate at the lowest economic cost; to retain growth assets; and to fund with low-risk assets. A similar picture was seen in responses from participants in the local versions of the survey, but with much less emphasis on funding with growth assets.

Settlement of plans was once primarily a focus for smaller businesses. Over time, this focus has evolved to companies of all sizes. The survey confirms that companies of all sizes are equally likely to aim to terminate plans at the lowest economic cost.

### Funding strategy

- Terminate plans at lowest economic cost and transfer the liabilities from the balance sheet (buyout)
- Fund plans on a self-sufficiency basis (finance benefits until last participant is paid out with minimal investment risk)
- Fund plans with growth assets within an acceptable cost/risk profile, and full hedging of unrewarded risks
- Fund plans to the minimum level permitted (eg, as payments arise where book reserving is permitted)
- Other

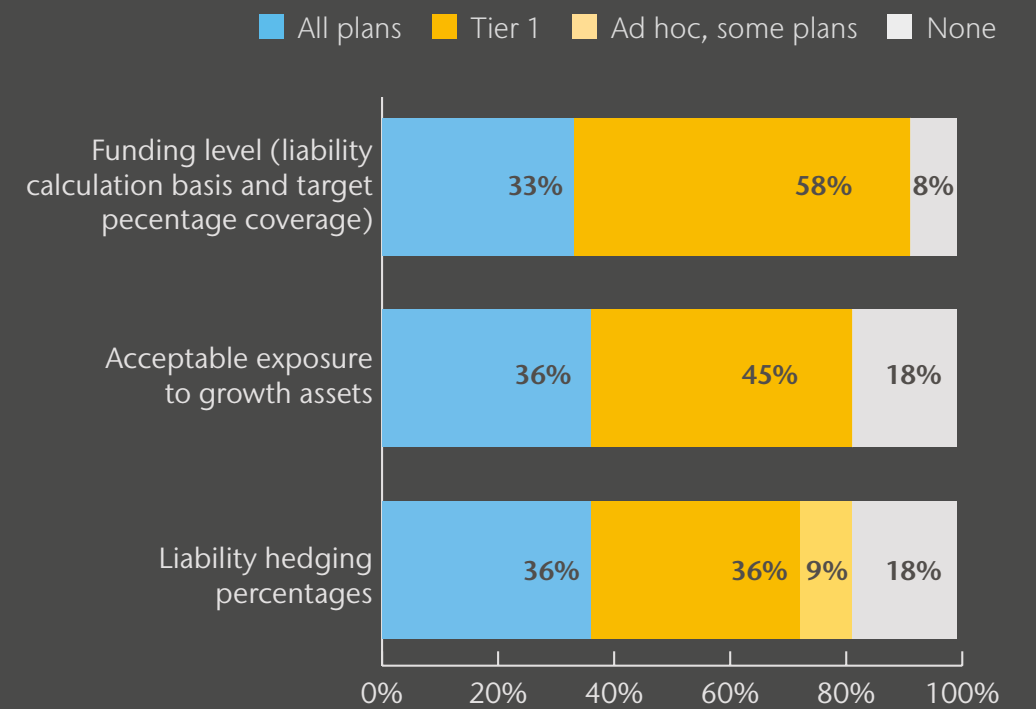


### Long-term plans are surprisingly not well defined

While global involvement in long-term strategy is high, the depth of involvement is surprisingly low. There is a clear opportunity for global leaders to add that depth and provide more clarity on the timeframes and actions needed to turn these strategies into realities.

Of those that indicated a desire to retain growth assets with an acceptable cost-risk profile, only 33% have well-defined policies across all countries for funding bases, growth asset exposure and hedging percentages. Most have focused on these details only for the markets with their most material plans (tier 1), and have focused more on the target funding level than the level of acceptable growth assets or the hedging to sit alongside those growth assets. But, that said, there has been progress in this respect since 2017 when fewer than 50% had specified hedging targets for tier 1 countries or more.

### End-state specification where retaining growth assets

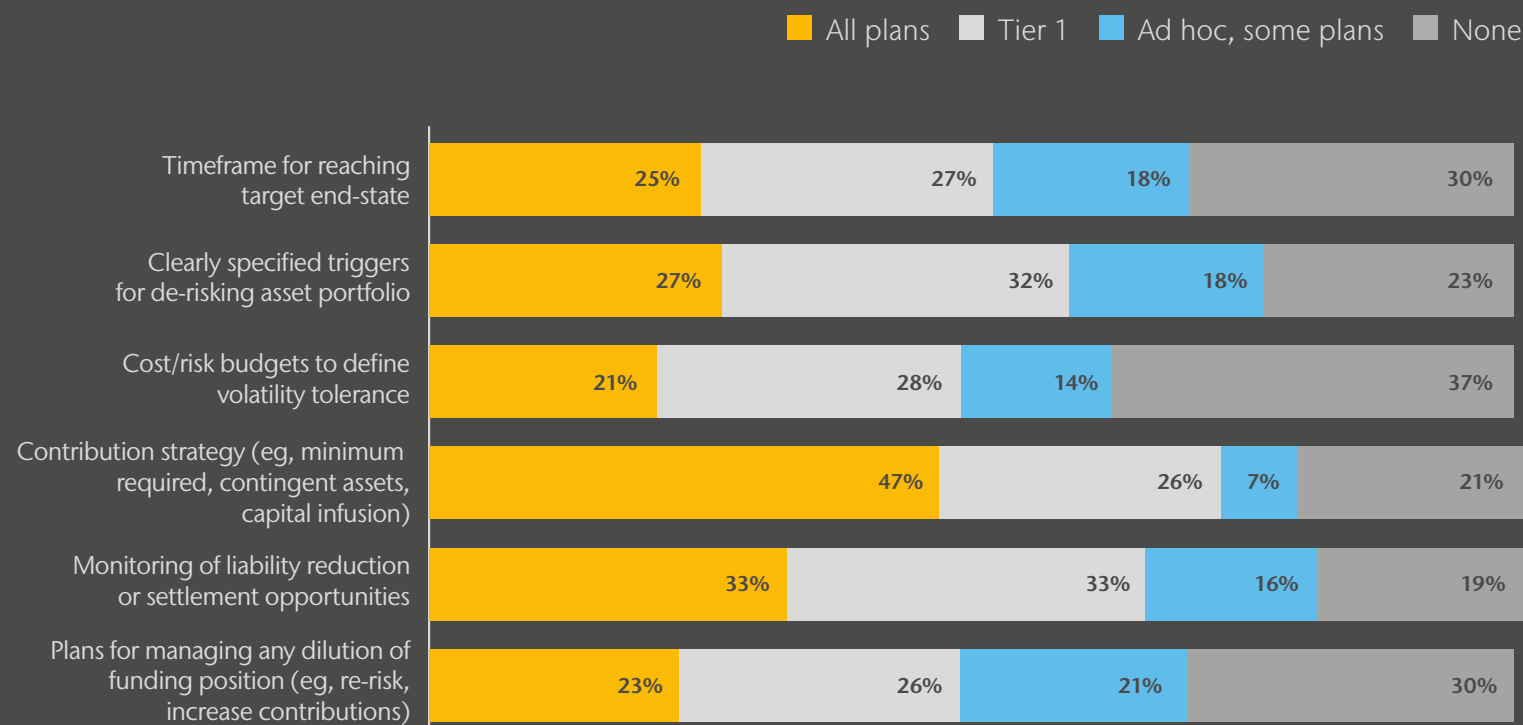


### Plans typically only detailed for tier 1 countries

Respondents have put in place far more detailed plans for the end-state they are trying to achieve than they have for the de-risking necessary to achieve that end-state. Only around one in four companies have:

- well-defined timeframes
- asset de-risking triggers
- volatility tolerances
- re-risking plans should the funding position be diluted

#### De-risking plan



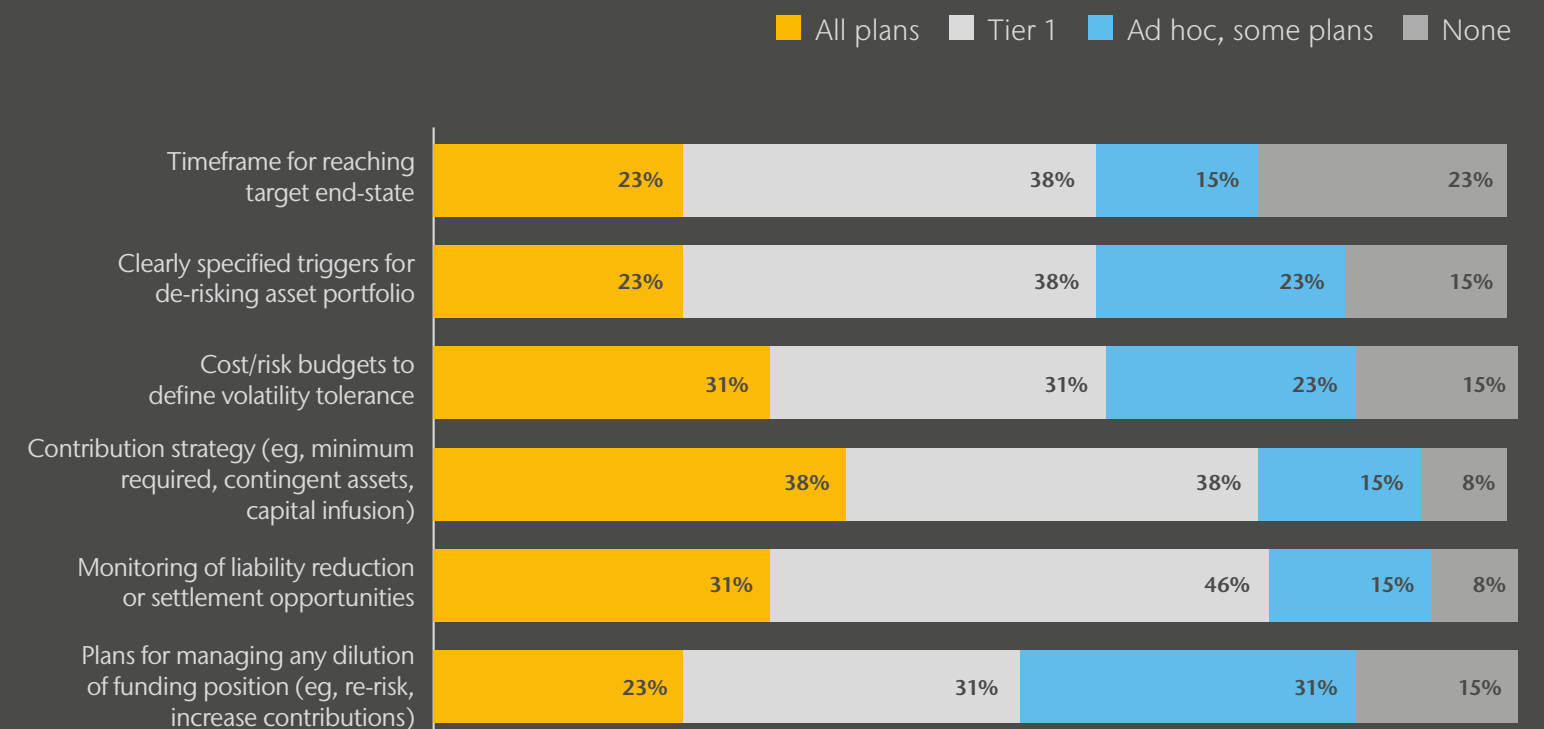
However, a similar proportion has defined most of these elements for their most material (tier 1) plans.

The number of companies that monitor opportunities to reduce or settle liabilities across all of their plans is a little larger, and two-thirds of companies are monitoring such opportunities for their tier 1 countries, at least.

Contribution strategies have the greatest focus for the path to an end-state – over three in four have a contribution strategy for, at least, their tier 1 countries.

Companies that are targeting termination have specified more details about their path to that end-game, though only in their tier 1 countries.

#### Extent to which plans for reaching end-state are specified for those targeting termination



# Aligning actions and strategy



# Aligning actions and strategy

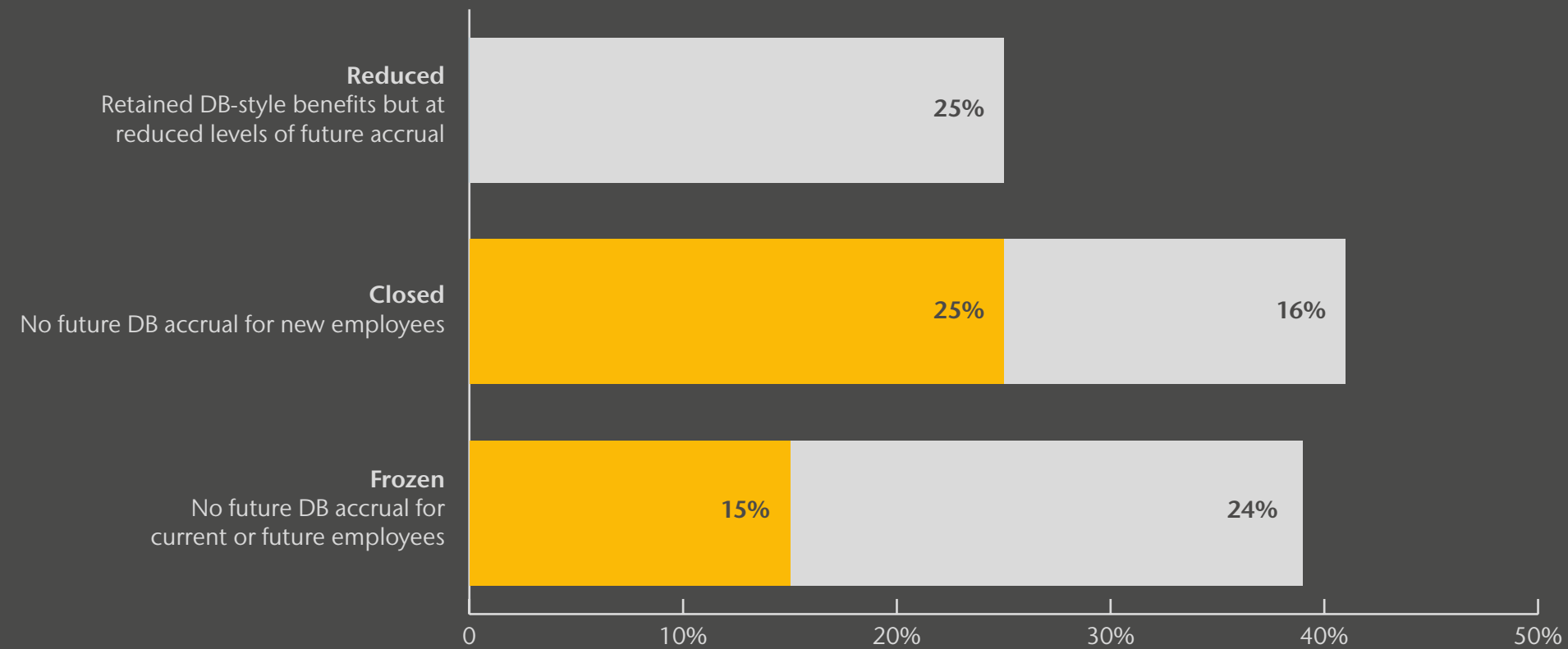
## Movement from DB continues

A quarter of respondents who have not yet stopped all DB accrual plan to stop accrual for new recruits globally in the next 12–24 months.

25% of respondents also indicate that they plan to reduce future DB accrual in some countries in the next couple of years.

### Implementation plans (over next 12–24 months)

- Plan to implement in all markets (where legal)
- Plan to implement in one or a few markets



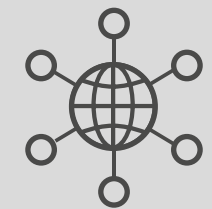
## Key findings

**25%** 

of respondents indicate that they plan to **reduce future DB accrual** in some countries in the next couple of years

**Over 40%** of respondents have already settled some liabilities with an insurer

**34%** of responding companies have **global policies** to hedge interest rate risks



### Global investment strategies often miss depth

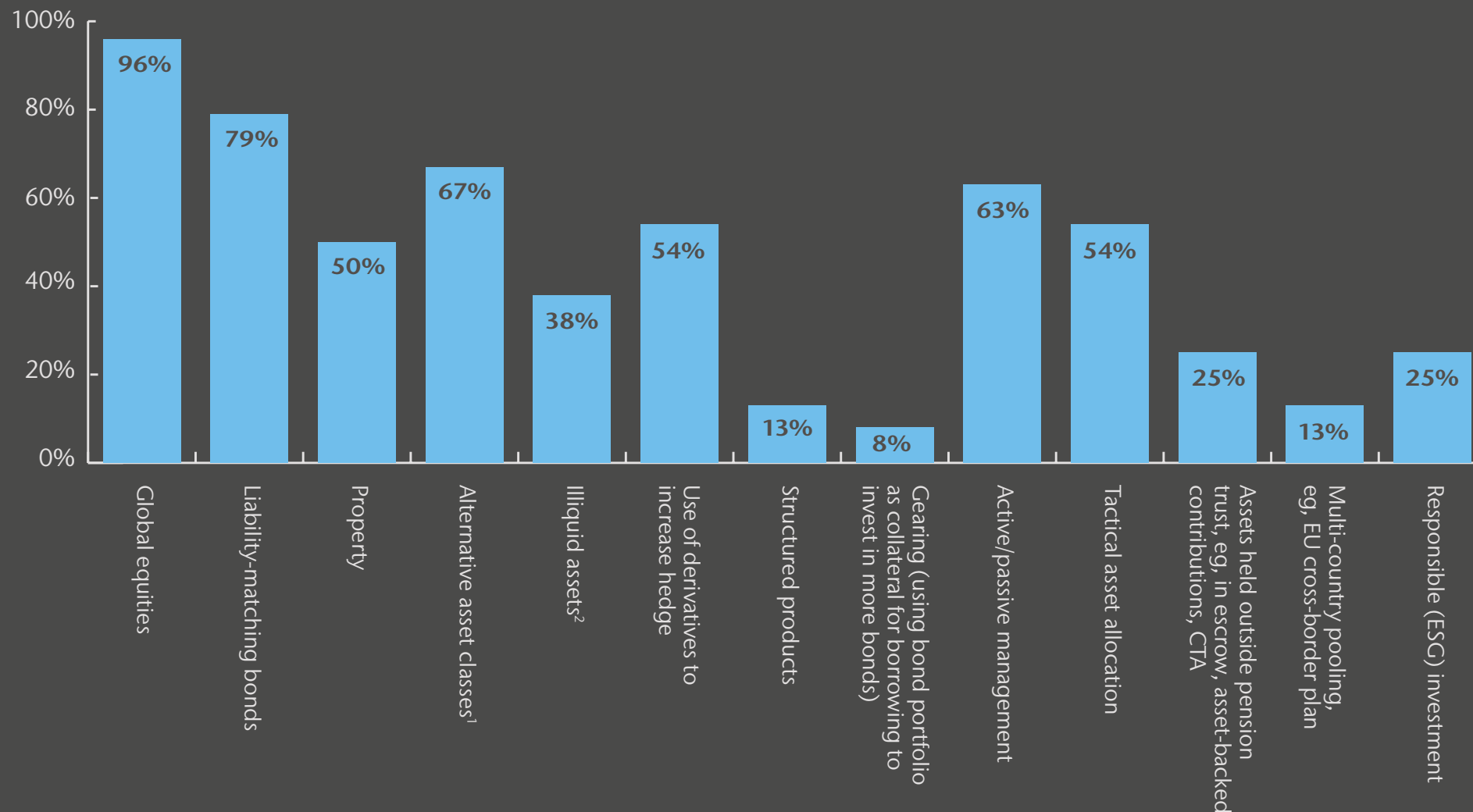
Two-thirds of respondents indicate the existence of well-defined global investment guidelines. This is an increase from half in the 2017 survey. We expect this trend to continue based on conversations with companies that currently do not have global investment strategies.

Where guidelines exist, they commonly cover global equities, liability-matching bonds, alternative asset classes and active management. Most notably, guidance on use of derivatives has grown significantly in comparison to the 2017 survey.

Gaps in global guidelines can weaken the aims of those guidelines that do exist.

The local surveys indicated a strong move towards holdings in property and illiquid assets, but this survey of global leaders indicated that global guidelines have not yet picked up this trend.

### Elements defined in global investment strategies



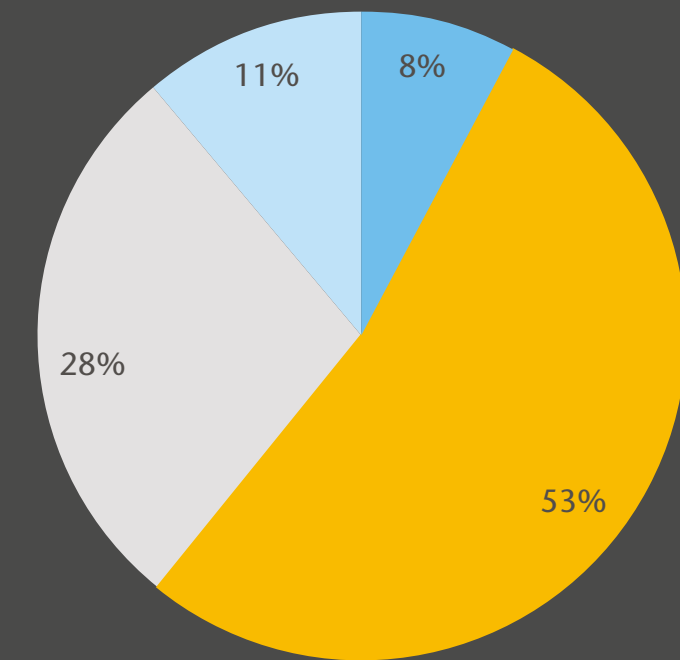
<sup>1</sup>eg, hedge funds, commodities, insurance linked securities <sup>2</sup>eg, infrastructure, property debt, direct lending

### Global approval is common when settling liabilities

While a little more than 10% indicated that settlement decisions are fully managed globally, not many less are fully managed locally. Global approval of local proposals is by far the most common approach taken to dealing with decisions on these major transactions. But it is noticeable that global leaders take the lead in over one-third of companies, though typically relying on local expertise to implement the global decision.

### Settlement

- Fully managed locally
- Global approval of local proposals
- Global proposals implemented locally
- Fully managed globally



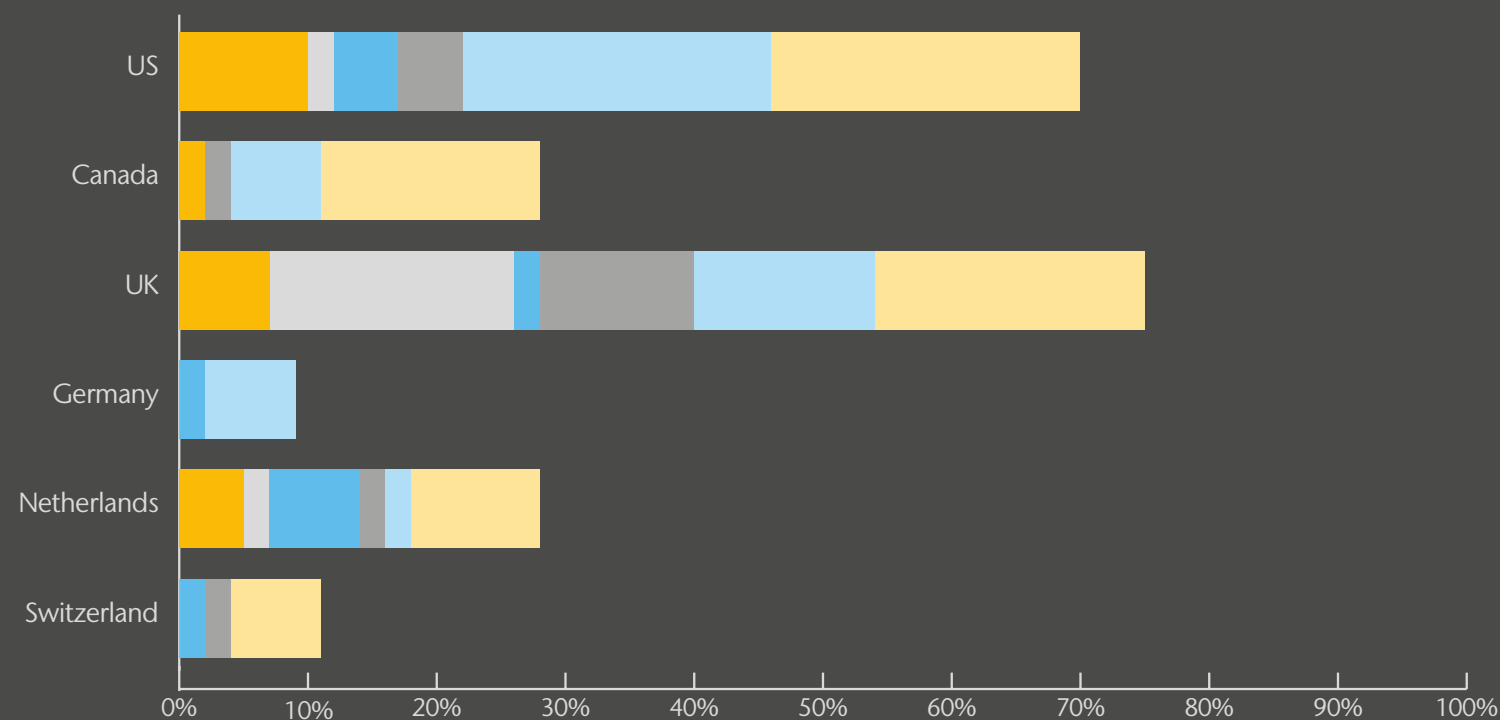
### Plan settlement volumes are growing significantly

Over 40% of respondents have already settled some liabilities with an insurer and over 30% have settled through transfer to members, or plan to do so in the next couple of years. The majority of the transfers to members and insurers have been in the US and UK. Transferring inflation risk to employees has also been prevalent in the UK. Plan settlements have reached record levels in the UK in 2019, well before the year is complete.

The findings from this survey of global leaders were very consistent with the findings from the related local surveys.

#### Actions taken or planned to reduce liability risks

- Reduced accrued benefits, guarantees applying to accrued benefits or discretionary benefits relating to past service
- Transferred inflation risk to members – pay higher, flat pensions to beneficiaries to remove an obligation to increase pensions regularly
- Hedged longevity risk – a swap with a financial institution to match the pension cashflows from the plan
- Transferred to multi-employer fund (in country, or cross-border in the EU)
- Settled by transfer of, or cash payments to, a group of members
- Settled through an insurer – annuity buyout/in

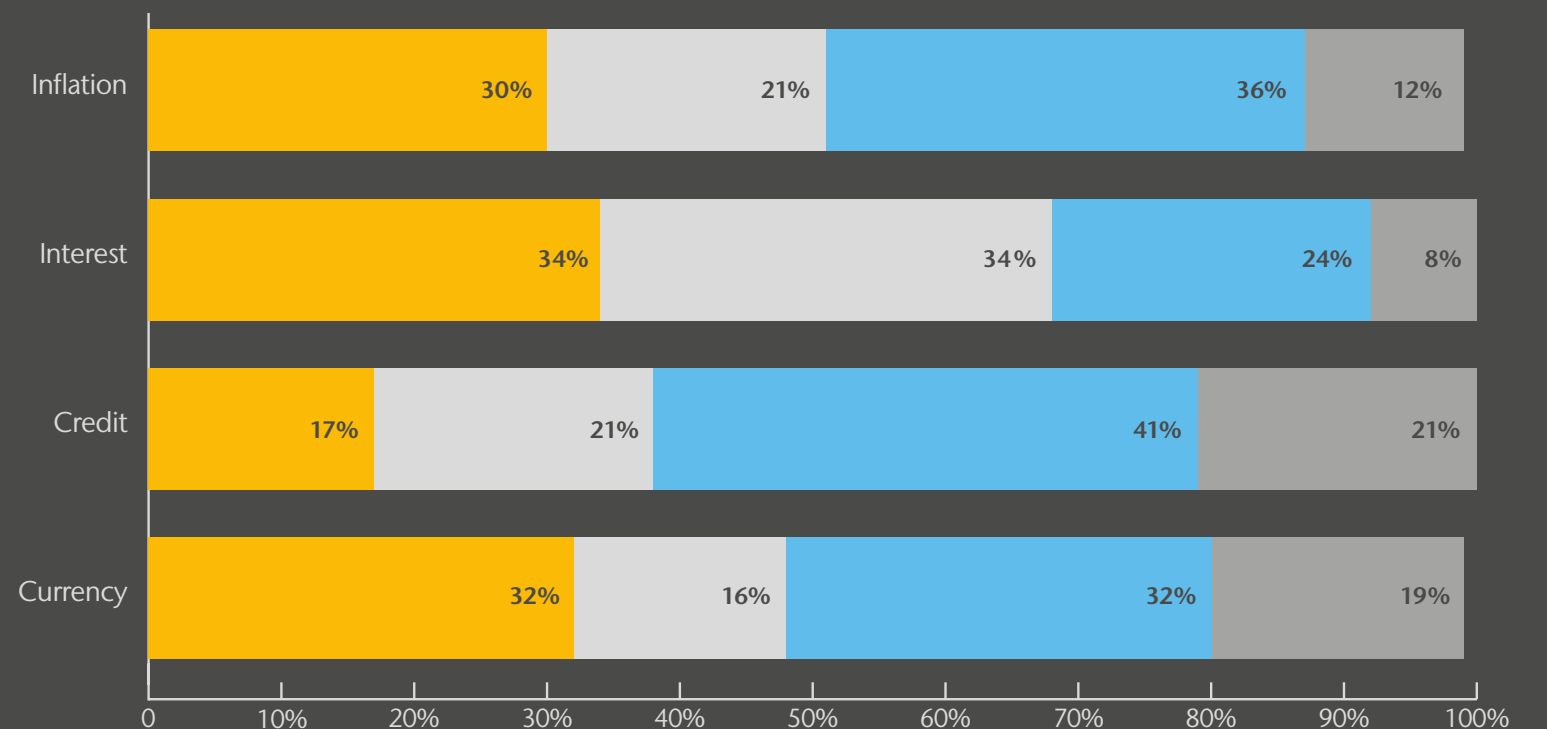


### Hedging: typically left to local plans to manage

Global involvement in hedging decisions is uncommon despite the degree of risk that relates to interest rates worldwide.

#### Attitude to hedging DB pension risk

- Our global policy is to hedge this risk
- Considered to be an important risk to manage
- Local plans decide whether or not to hedge this risk
- Our global policy is to NOT hedge this risk



# Monitoring risks and opportunities



# Monitoring risks and opportunities

## Global leaders typically monitor local risks and opportunities

Legislative changes and progress with risk management actions are the most common areas for global leaders to monitor.

Annual cost reconciliation and budgets, sources of risks, market trends in risk management, and compliance with global investment principles are also monitored by the majority of those who carry out any form of global monitoring.

Surprisingly, 33% of respondents indicated that they do not carry out any regular monitoring.

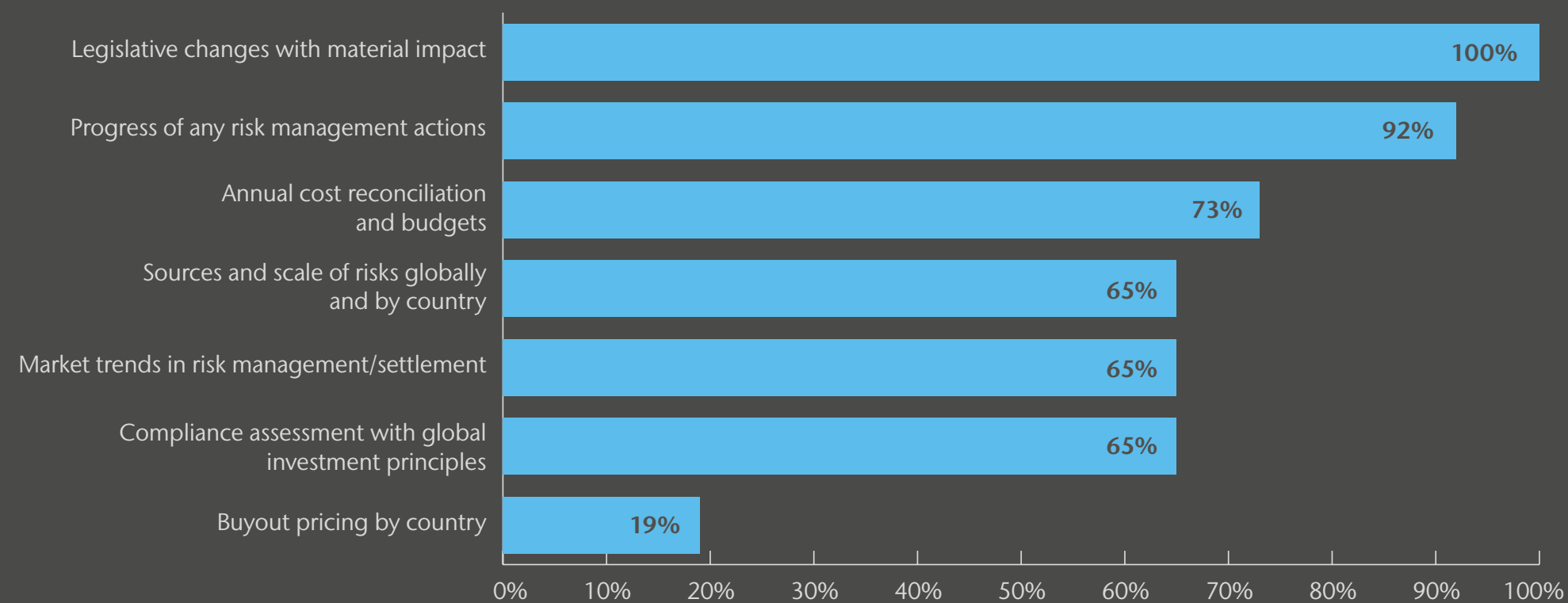
## Key findings



# 33%

of respondents indicated that they **do not** carry out any regular monitoring

## Aspects of regular monitoring





# Local market surveys



# Local market surveys

We also carried out local market trend surveys across countries with large DB pension liabilities:

- the four that were highlighted by global respondents as the markets that give them most concerns: [US](#); [Canada](#); [UK](#) and [Germany](#), plus [Switzerland](#), the [Netherlands](#), [Ireland](#) and [Asia-Pacific](#) as a region.

There are a lot of common trends across these local markets, many of which are in line with global strategies. Naturally, there are also some differences, some of which reflect the different regulatory frameworks and historic trends, while some differences may reflect corporate attention not yet having turned focus to those markets.

## Long-term strategy

In common with responses from global leaders, the vast majority of local market respondents indicate that long-term strategies exist, with over 90% reporting this in the four ‘main concern’ markets.

The strategies themselves vary significantly between markets. While nearly 30% of global respondents indicated an aim to settle liabilities, this level of focus on settling in the long term was only seen at a local level from UK and US respondents. Settlement activity has grown each year in the US and UK, with record levels achieved in 2019 well before the end of the year. The UK saw a string of multi-billion pound transactions after the summer, with smaller settlements continuing.

In some other countries there is less awareness of, or confidence in, the settlement market, or current funding levels are a long way short of being able to afford to settle with insurers.

However, global insurers indicate that they are happy to deliver settlement options in various markets in which their local teams are not so familiar with pension settlements.

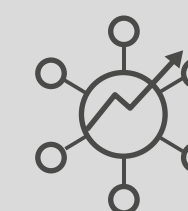
Whether aiming to settle or not, minimising risk is a clear aim of most respondents to the local surveys. In some countries, this desire to reduce risks also extends to operational and governance matters.

## Managing benefits and liabilities

Global and local survey responses confirm that significant DB plan closures have taken place around the world, particularly in the four ‘main concern’ markets, where the majority reported closed plans. Further actions to reduce costs and risks from future and past DB accrual were reported. The UK reports the greatest range and prevalence of actions, while in the US, offers of lump-sums to former employees have been used extensively, as has settlement with insurers.

Actions are expected to continue in the next 12-24 months. In many markets, the focus of the next couple of years is expected to be on lump sum cash-outs (or transfers) and other options for members that reduce costs and risks. In Germany, low interest rates have made lump sums for pensioners favourable to sponsoring employers relative to accounting liabilities. Terms for lump sums also remain favourable in the US, while in Switzerland terms for converting lump sums to an annuity are being reviewed by many companies in light of the low interest rates. The provision of a range of options before retirement is now commonplace in the UK.

## Key findings

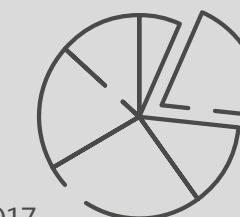


**Liability hedging**  
continues to grow in US

Investment strategy execution –  
**delegated assets**  
grew by over

**50%**

in Canada since 2017



**71%**

of respondents in Switzerland  
carry out **stress test analysis** each year

## Investment strategy

There is significant commonality in the changes that have been made to local investment strategies over the last 12 months, and also in the changes expected to take place in the next 12 months. Diversification and de-risking remain the common themes.

There has been a strong move from equities to bonds and, in some countries, to liability-driven investments. The most significant movement is towards alternative assets and particularly illiquid assets, and this move is expected to continue.

Within bond investments there has generally been a move from government bonds to corporate bonds and high-income bonds. Reductions in yields since the survey, with many countries now experiencing negative yields on government bonds, may accelerate this move further.

The increased breadth of investment classes in use has increased the complexity for employers and fiduciaries in monitoring and managing their portfolios. This has led to an increase in the degree to which execution of investment strategy is delegated to third-party specialists, whether for the whole portfolio or specialist subsets such as overseas real estate.

## Monitoring

Quarterly is the core monitoring cycle in most markets; however, the depth and breadth of aspects considered varies considerably between markets. For example, progress against long-term strategy is monitored by the majority in the UK but by less than half elsewhere.

Surprisingly, in most markets P&L costs are monitored less frequently than quarterly by over half of the companies.

Cyber risk is an increasing threat to modern businesses, and something that pension schemes are starting to monitor.

It was encouraging to see that some preparation regarding cyber risk has started, or is intended, by the majority of respondents across most countries.

Progress seems to be greatest in the UK where three in four have either had or intend to have cyber training, and almost half have already carried out assessment of third-party providers' cyber resilience.

Progress has also been made in Germany, where assessment of risk and insurance were noted as common, and Switzerland, where many plan to retain a cyber expert and carry out cyber attack simulation exercises. Respondents from the US indicated the least degree of preparation for cyber threats.

## Local market surveys – Hot topics

### US — lump-sum offers, annuity buyout, hedging

Improved funding levels have helped stimulate focus on buyout with insurers. More than one in three companies are now targeting buyout as their long-term aim, three times more than were targeting this only two years ago.

The improved funding positions have also resulted in half of the respondents expecting to achieve their long-term target within the next five years.

Lump-sum offers to former employees can perhaps now be considered a business-as-usual activity, given their prevalence, and they continue to be an attractive way for employers to reduce liabilities.

Delegation of the implementation of investment strategy to an outsourced CIO continues to expand to ever larger pension plans. Among plans with more than \$1Bn assets, more than one in four now fully delegate all aspects of investment execution. Liability hedging also continues to grow, with more than half hedging in excess of 60% of their liabilities against interest rate volatility. Given the increased levels of settlement with insurers and through lump sum payments, the average unhedged liabilities are much closer to 20% of original liabilities.

### Canada — improved funding levels, diversification, delegation

The last couple of years saw funding levels improve, before dipping at the end of 2018. At points in 2018, more than half of Canadian plans fully met their solvency requirements.

Naturally this triggered an increase in settlements, or partial settlements, though not as much as the affordability would suggest – most likely due to the preparations that are needed ahead of such transactions, such as clarity of data and provisions, to enable them to be executed quickly when suitable pricing is found.

Investment trends were consistent with those globally, with significant diversification via illiquid assets and foreign real estate particularly popular. This breadth of investments added value but also added complexity, which is likely the reason for an increase in the delegation of investment strategy execution – delegated assets grew by over 50% over the two years since the previous survey.



**UK — settlement, liability management options, delegation**

The UK has the widest range of activities to help progress towards long-term targets – which are just as likely to be buyout with an insurer as to be reaching a minimum-risk level of self-sufficient ongoing funding.

Together with helpful investment markets, and maturing age profiles, good progress has been made towards long-term targets. The average period until targets are expected to be achieved is now a little over nine years – which is only three funding valuation cycles for a UK pension plan.

Documentation of long-term targets has become more robust as the time period reduces, although this has also been helped by the Regulator's demands for such a long-term focus.

Investment trends are very similar to those in other countries, with a reduction in equity holdings and increases in bond holdings, liability-driven investments (LDI) hedging and alternative asset classes, particularly illiquids. Nearly half of the respondents have now hedged over 80% of interest rate risk, and only 5% have no hedging policy in place.

The increased diversification of investments has also seen growth in delegation of investment governance and management, with two-thirds delegating monitoring of managers and a quarter of plans fully delegating all aspects of investment execution. The recent Competition and Markets Authority's requirements for periodic formal review of fiduciary mandates have further increased awareness of the value of full delegation.

The actions taken by most to drive towards long-term targets also have positive impacts for members. Half of the respondents now quote transfer values at retirement (almost double the rate in 2017), which appeals to many members through the resultant flexibility and potential for more tax-efficient management of their subsequent retirement income. A further quarter intend to provide such information in the coming years.

Three-quarters of plans currently provide a range of options for members on retirement, and many support members' decision-making through provision of technology tools and/or a company-funded independent financial adviser.

The various actions now commonly available to manage liabilities are significantly reducing the timeframe over which full settlement with an insurer is affordable. It is therefore quite likely that many will reach their long-term targets ahead of the nine years average indicated in this survey.

Following a legal ruling in late 2018, GMP equalisation is a major project that will need to be carried out by most UK pension plans. Survey respondents highlighted the time and cost of implementation as by far their biggest concern in this respect, with 50% of plans having it as their main concern.

The key to managing costs will be effective project planning and management, and an industry body has issued a checklist to help.

**Germany — funding, diversification, operational risks**

The main trend has been the increased focus on asset-backing of pension obligations as a means of risk management – through reinsurance contracts, CTAs or Pensionfonds.

Where assets are already held, there is increased expectation that future holdings will diversify, with greater real estate and alternative investments increasingly popular. Liability hedging is generally considered if the value is regarded to be fair, and would help towards the long-term financing targets that are generally focused on minimal risks.

Operational risk management has also attracted more attention, including cyber risks, in addition to the regular day-to-day legal and operational risks. Most have developed cyber protection plans and assessed their vulnerability.

### **Netherlands — new widespread pension agreement, self-sufficiency aim, under-funding affecting benefits**

The new pension agreement is by far the most significant point affecting the Dutch pensions market. This will affect a wide range of areas from state retirement age to flexibility of retirement from pension plans. The most significant change is perhaps the removal of age-dependent premiums. Two types of age-independent DC plans will be available:

- **regular DC with no risk sharing before annuity purchase**
- **risk sharing between existing and future members with volatility spread over ten years**

By contrast, investment strategies will be age-dependent through the life-cycling approaches that are increasingly common elsewhere in the world.

Ahead of this, there has been further progress in setting longer-term funding targets – focused mainly on strong self-sufficiency and risk minimisation rather than settlement, with nearly half of the respondents indicating that they expect to reach their target within 10 years. However, formal documentation of these targets, and of the path to achieving the target, is not yet well developed. Investment returns are the primary source for achieving the target.

Flexibility at retirement is a developing theme in the Netherlands in common with many other countries, but investment portfolios have seen much less change than most other countries.

### **Switzerland — annuity conversion terms, retirement lump sums, risk modelling**

Negative long-term interest rates and increased life expectancy are the primary areas of focus, with many employers concerned about resulting generational inequality of provision.

Around half of respondents have now changed retirement conversion rates to reflect the fall in interest rates and increase in life expectancy; a further third plan to make such changes in the coming year or two. In many cases, employers have encouraged employees to increase their contribution rates to avoid a reduction in expected retirement income.

The reduced terms for annuity conversion have also triggered increases in members taking a lump sum at retirement to gain the extra flexibility of income. This has helped reduce financing risks for employers to the extent that two-thirds of respondents describe themselves as happy with the current levels of risk in their plans, and less than one in five considered the recent changes in technical interest rates to be very important, despite the consequently lower funding levels that will arise.

The comfort with risk may also result from the high levels of risk analysis carried out each year. 71% of respondents carry out stress test analysis each year, and 55% carry out scenario analysis. Investment policies have been evolving in a similar way to those in many other countries, with increases in diversification of portfolios.

### **Ireland — strong funding targets, diversification, IORP II**

The strong minimum funding standard with a short recovery period has driven most plans to target strong self-sufficiency or annuity buyout. Combined with low interest rates, this strong funding expectation is expected to drive further freezing of DB accrual that has to date remained available in two-thirds of plans. The vast majority of plans are already closed to new recruits.

In common with most countries included in this survey, there has been a trend away from equities towards interest rate hedging and illiquid assets, such as infrastructure – while equity portfolios have also become more diversified. In some cases the trend has been stalled by lack of expertise in these newer areas, though others have found expertise through delegation.

The pending implementation of the EU IORP II Directive is expected to increase the desire to delegate to master trusts both within Ireland and elsewhere in the EU. Many pension plans do not have the scale and in-house expertise to manage the extra governance that is expected to come with the implementation of IORP II in Ireland.

### **Asia-Pacific — DB to DC, pre-funding, operational risks**

The issues and activities in Asia-Pacific are generally a little different to the other countries covered in this survey. In many of the countries across the region the progress from DB to DC is a little behind the rest of the world, partly due to lower materiality in a global context and partly as plans in many countries do not provide life-long pensions and therefore avoid the financing impact of longevity. But the survey indicates desire to increase the move from DB. Australia is a key exception as their move to DC was perhaps the fastest in the world.

Pre-funding DB has not been the norm in some countries in the region, but cashflow risks have driven increasing desire to pre-fund. By contrast, in some cases historic funding has resulted in surplus which may result in a ‘winner-takes-all’ situation in closed DB plans. Employers are looking to find the right balance of funding for tax-efficiency and cashflow management.

Operational risks are perhaps starting to take priority over design and financing risks. All respondents were keen to better understand and manage their cyber risks. Nearly one-third indicated that they have never monitored their vendors in relation to either quality or cost. Opportunities are often being missed to improve vendor terms, including by simply combining DB and DC for greater leverage through scale.

### **All markets — de-risk, diversify, delegate**

The survey responses for all markets and global leaders indicate that de-risking plans and diversification of assets remain hot topics globally. Settlement of liabilities has grown, particularly in the markets with largest liabilities. As investment strategy has diversified, the complexity of management has led to execution being delegated across an increasingly broad range of activities, across all markets, and as evidenced in the responses from global leaders.

## **Global involvement in local hot topics**

The hot topics and common actions in local markets are generally consistent with the strategic aims of most multinational companies. However, the volume of opportunities across those local markets makes it challenging for global leaders to have sufficient involvement in all the key local decisions. This volume of opportunities not only creates resource prioritisation challenges, but also challenges in ensuring the most effective use of corporate capital where necessary to enable risk reduction.

The global leaders’ responses indicate that this challenge is often being resolved by focusing on the tier 1 markets. This will help to ensure that the decisions relating to the largest liabilities are consistent with global strategies. However, decisions made in other markets can in some cases create material costs and risks that develop over time and/or are hard to reverse – and local expertise and proactivity may also be weaker in some countries beyond tier 1. Increasing numbers of multinationals have broadened the coverage of their global involvement in pension plans’ decisions in all markets, to optimise alignment with global strategies and the most efficient use of corporate capital.

Some companies have reached a strong level of confidence in the governance of their DB pension risks, and are starting to turn attention to the global governance of their DC plan risks.

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