Global Pension Risk Survey 2019

Asia-Pacific Survey Findings

Enter

Executive summary

Executive summary

Welcome to the findings of Aon's 2019 Global Retirement Risk Survey for the Asia-Pacific region. Aon's Global Retirement Risk Survey has been conducted every two years for over a decade. The survey is part of a global series of surveys that follows defined benefit (DB) plan sponsors' risk management attitudes and practices around the world. This is the first time that the survey has been conducted in the wider Asia-Pacific region. Japan took part in the research in 2017. We also include some hot topics specific to Japanese plans at the end of this survey.

In the surveys of other countries the focus was on pensions. However, in the Asia-Pacific region, pensions are not offered in all countries and the survey focused on wider benefits offered at retirement.

The findings in this report will help sponsors to benchmark their risk management practices against those in the market in order to refine their strategies to better align with their objectives.

For many of the markets in Asia-Pacific, benefits are lump sum in nature and without post-retirement longevity risk. Nonetheless, significant operational risks remain prevalent across Asia-Pacific which can result in material remediations being required (incurring both management time and cost) when governance controls fail or are found to be inadequate – across areas such as misleading employee communications, data security, cyber risk, administrative errors, poor data quality, legacy arrangements, third-party vendor risks and investment manager underperformance or failure.

In addition, there are cashflow risks, particularly for unfunded arrangements, and risks of excessive surplus with funds building up that may not be tax-efficiently accessible to the sponsoring employer.

There are many untapped opportunities to optimise arrangements across the Asia-Pacific region. At the simplest level, many firms do not leverage their combined assets (across DB and DC) to secure the best terms for their employees with third-party vendors. These differences on a year-on-year basis can result in major differences in ultimate retirement outcomes for employees over their working lifetime. This is especially critical across the Asia-Pacific region, given that the region has some of the longest life expectancies in the world (eg, Japan, Hong Kong, Singapore, Australia) combined with limited state retirement safety nets and exponentially increasing housing and health care costs — creating a perfect storm.

We also observe an increasing trend of employers engaging in wellbeing initiatives which include financial wellbeing, and refreshing their retirement plan communications to promote engagement and drive adequate retirement savings.

Please contact us if you would like to discuss any topic raised in this report:
apac.retirement@aon.com

Survey demographics at a glance

46 Asia-Pacific region respondents to the 2019 survey

Respondents from across the region including:
Australia
Hong Kong SAR
Japan
South Korea
New Zealand

Almost 50% of respondent schemes had fewer than **100 members**

Across a range of **private industry sectors**

Long-term objectives

Long-term objectives

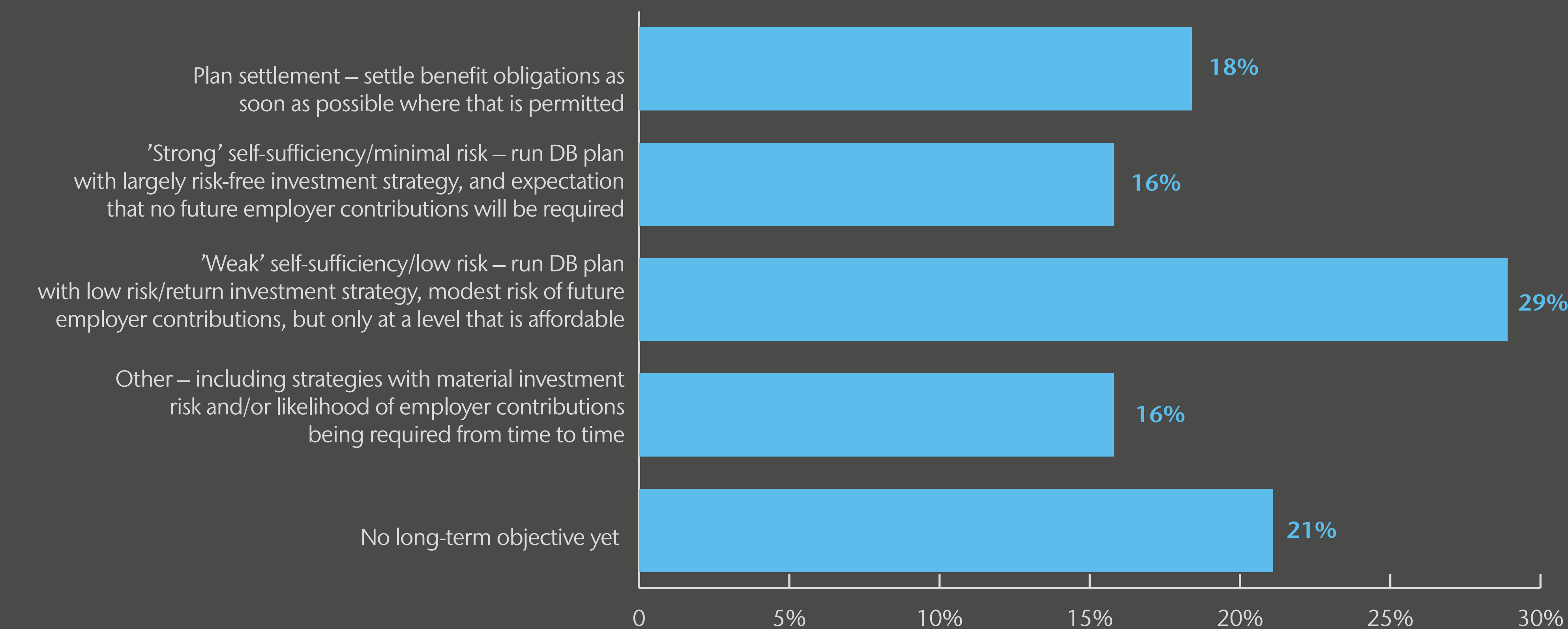
In the survey, we explore the long-term objectives of respondents with respect to their DB plans, including strategies and how robust they are, the timeframe for these objectives, and determining factors impacting these objectives.

Around one in five respondents (21%) have no long-term objective (broadly even across all locations). This is a higher proportion when compared with global respondents, where typically less than 10% of schemes have no long-term objective. Given that strategy and objectives are typically set at headquarters, which may be outside of Asia-Pacific, the global strategies may be inadequately communicated into Asia-Pacific or are yet to be executed. This may also present challenges, with entities in Asia-Pacific being able to provide globally strategically aligned business cases to their local management teams for investment in retirement plan governance and risk management.

There are also important locational nuances across Asia-Pacific to consider.

In Japan, companies cannot insure to remove all of their DB plan risks (ie, buyout), meaning that the potential options in Japan are more limited when compared with other countries such as Australia and South Korea.

Objective



Key findings

1/5 of respondents have no long-term objectives

Globally, less than 10% have no long-term objectives

70% of DB plans expect to reach long-term targets within 10 years

60% indicated their plan was 'robust'

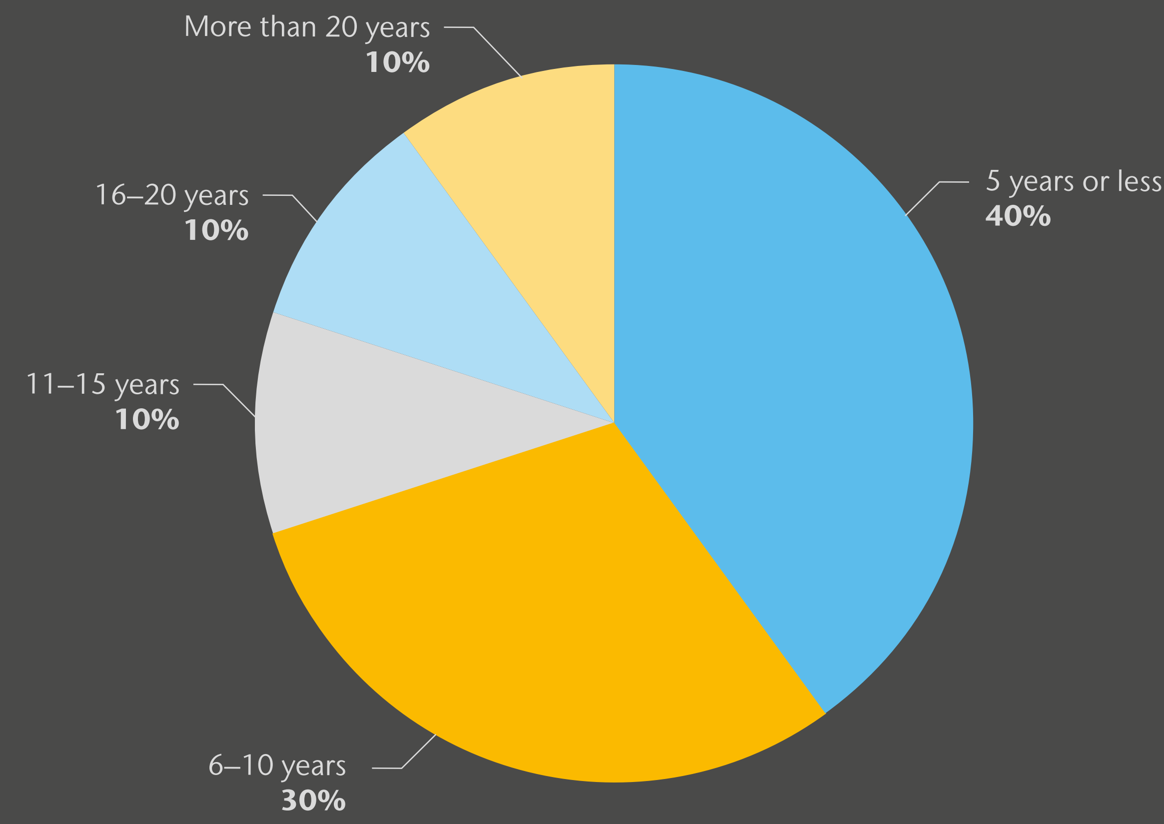
Click for more depth

Click for more depth

We were curious as to how long respondents expected to take to reach their long-term target (however defined).

The most common answers were five years or less (40%) and 6–10 years (30%). 70% of DB plans expect to reach their long-term target within ten years. This may assume relatively favourable ('normal') conditions will apply, whereas political and investment volatility and increased regulatory change could hinder such well-made plans in 2020 and beyond, as windows of opportunity open and close. Ability to execute remains key.

Timescales to long-term target



Managing benefits and liabilities

Managing benefits and liabilities

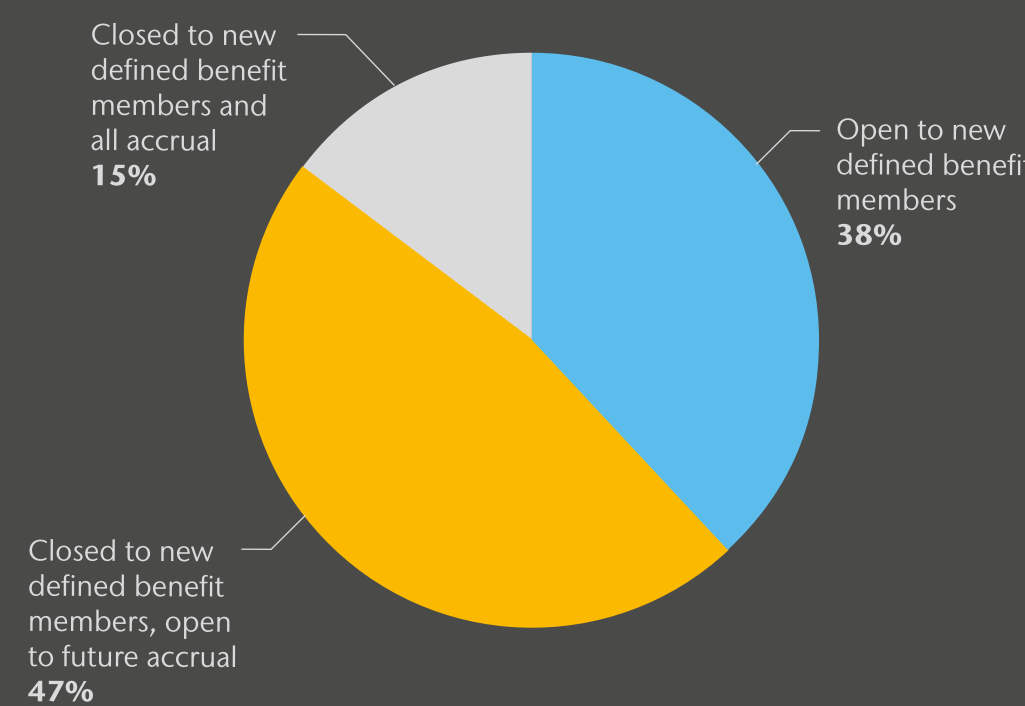
A material proportion of defined benefit (DB) plans (38%) remain open to new DB members when compared with more mature markets globally, such as the UK where the proportion is only 8%, possibly as a result of typically having no long-tail longevity risks in Asia-Pacific.

Many DB plans (47%) remain open to accrual but are closed to new members.

Closing DB plans to new entrants and freezing future accruals for existing employees are the typical ways of reducing the cost of DB provision.

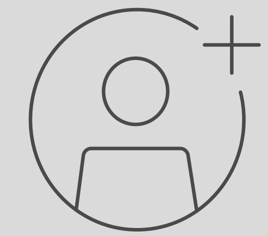
In some markets this can be very advantageous, such as in Australia, where (subject to the plan rules and structure) DB can be fully converted to defined contribution (DC). Surplus can be allocated to members to enhance DC balances, plus in some cases be accessible to the employer to fund future DC. This also provides members with investment choice under DC.

Plan accrual



Nonetheless, in many cases across Asia-Pacific, DB liabilities may be small in relative terms, presenting low or zero employer contribution costs, whereas alternative mandatory DC can result in higher employer contribution costs on an ongoing basis. However, with DB plans that are closed to new members, employers do need to consider in good time what happens as it approaches the 'last man/woman standing' in the DB plan. It can be equally unpalatable and inequitable where multi-millions of surplus assets (employer funding) are shared across a very small number of final DB members. Many firms actively seek to avoid a 'winner takes all' scenario.

Key findings

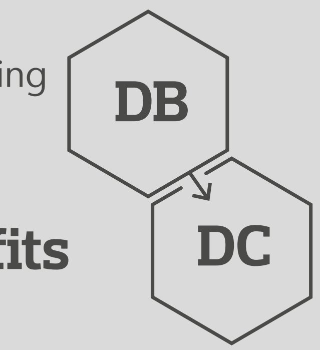


38% of DB plans remain open to new members

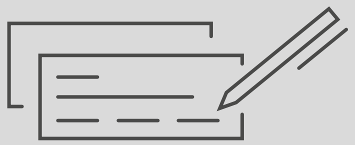
Only 8% in the UK

47% of DB plans remain open to accrual but are closed to new members

Top strategy for managing DB plan benefits:
Moving to DC-style benefits



Top strategy for liability management:
Offering members a lump sum
in exchange for annuity payments



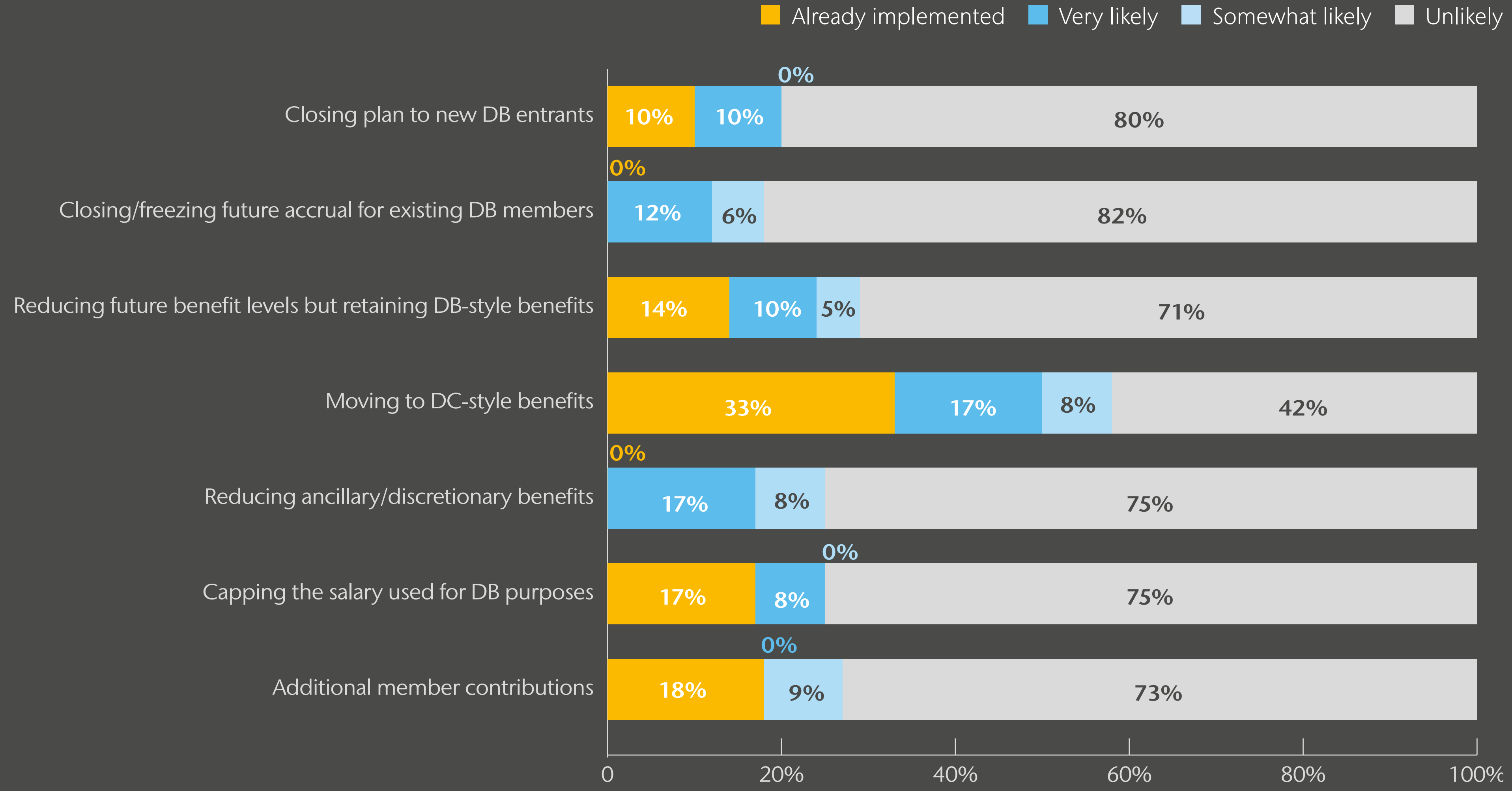
We take a closer look at the attitudes to liability management in the following charts.

For DB plans that remain open to future accrual, we asked about the potential implementation of other actions that could manage the cost and risk of DB provision. For each action, we asked whether it has already been implemented, whether it was considered very likely or somewhat likely that the scheme would implement it in the next 12–24 months, or whether it was an action that was unlikely to be implemented.

The top strategy is moving towards defined contribution (DC) style benefits, highlighting the general move globally in the private sector towards DC for future retirement provision.

You can find out more about global DC trends in [Aon's Global DC Retirement and Financial Wellbeing Study].

Managing DB plan benefits



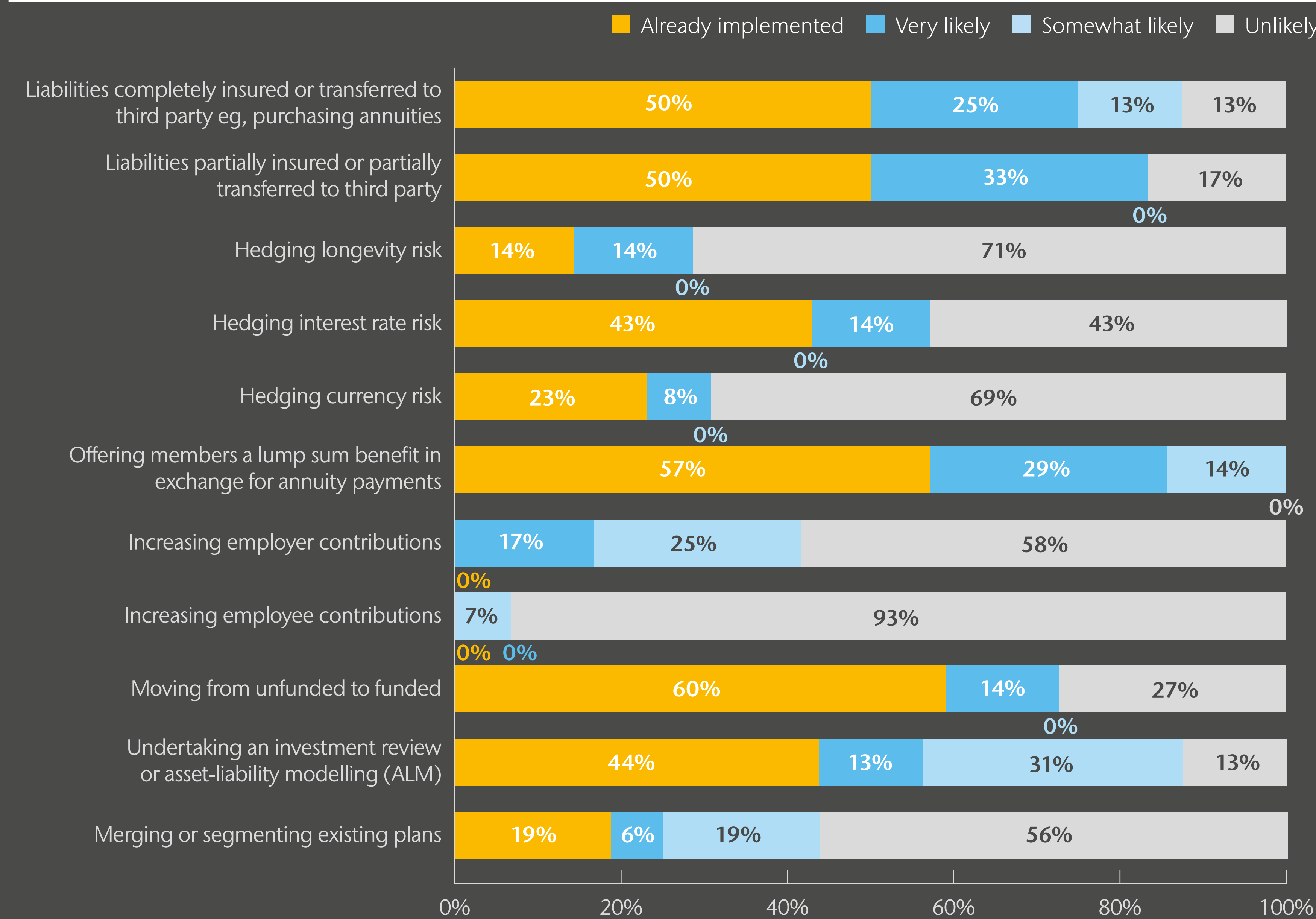
It appears that many respondents are not planning to implement any actions to reduce the cost of their DB plan. This could be due to several reasons, some of which are listed below:

- Sponsoring employers are not familiar with these actions
- They may believe they are not achievable/not permitted for their plan
- DB plans are typically smaller, so the cost of implementing some of these actions may outweigh the benefits
- The employees in the DB plan are long-serving or senior executives, and in many cases nearing retirement, and the company prefers not to make changes
- DB plan is in surplus
- Plans in Asia-Pacific are smaller so focussing on larger DB plans around the world first
- Lack of in-house expertise on the ground in Asia-Pacific to execute on change

Also, as already mentioned, having surplus may reduce the cost of the DB plan but it should be noted that it is not entirely risk-free as there could be potential issues with trapped surplus where excess funds cannot be returned to the employer (or returned in a tax-efficient manner).

The chart below shows the common actions in liability management. We asked respondents whether they had already carried them out for their DB plan, whether they were very or somewhat likely to implement them in the next 12–24 months, or unlikely to implement them.

Liability management*



* Total may not equal 100% due to rounding

The approach that came out on top was offering members options to take their benefits in other forms, namely a lump sum in exchange for annuity payments. These may either offer an immediate funding gain to the scheme due to the conversion terms; reduce the overall risk being run by the DB plan; or simply reduce the overall size of the DB plan because members transfer their benefits out where this is possible.

This approach is most favoured in Japan, where members are often provided with the option of a lump sum instead of a fixed-term annuity at retirement.

Many other locations in Asia-Pacific, such as Japan, South Korea and Australia, do not face longevity risks as benefits are typically taken as a lump sum or annuities are fixed term or there are forms of drawdown (DC account-based pensions). Therefore, many respondents are unlikely to hedge this risk.

Almost 60% of plans, where applicable, have moved towards funding their plan. We expect this trend to continue to increase.

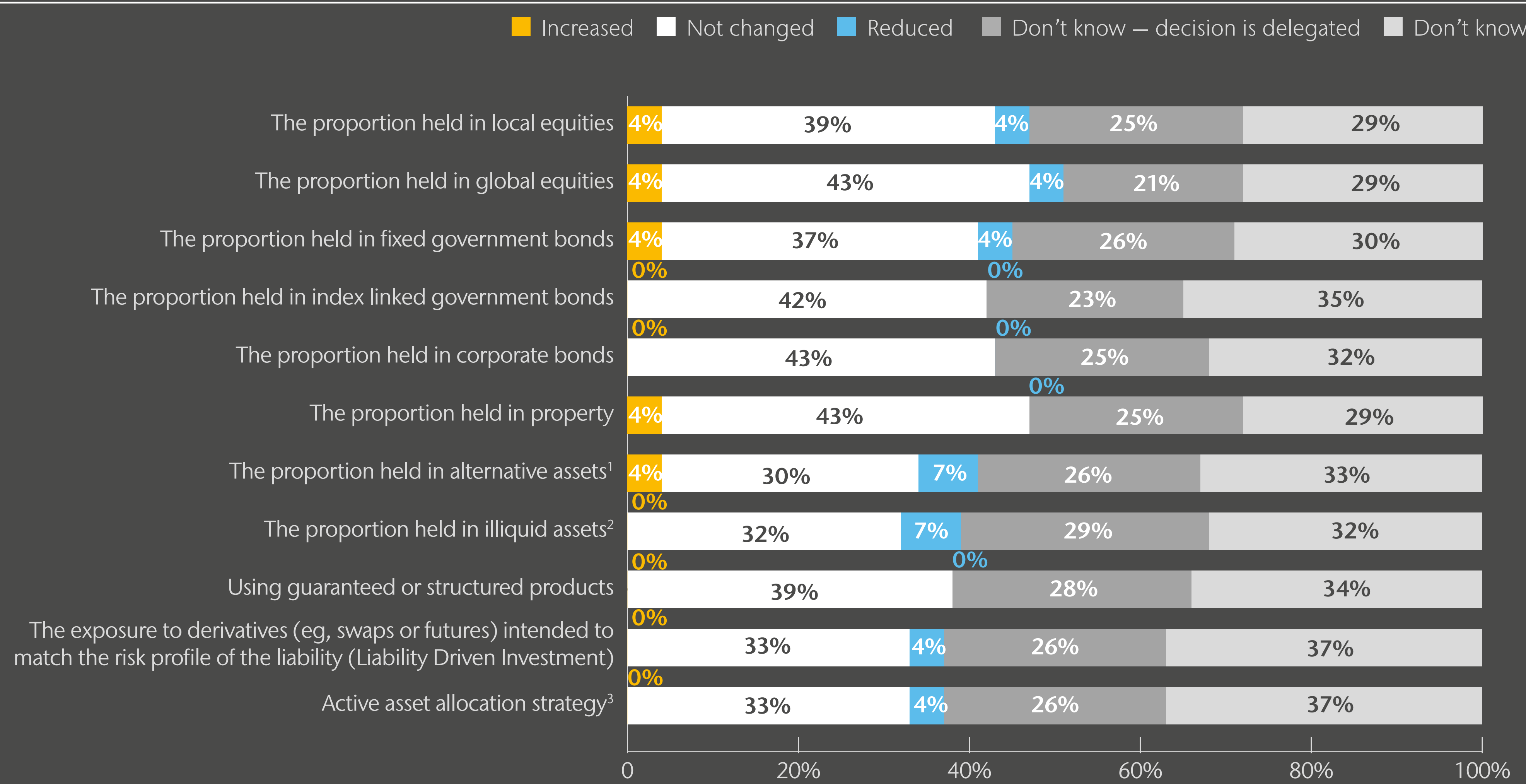
Investment strategy considerations

Investment strategy considerations

With the maturity of DB plans ever increasing, the focus on investment strategy intensifies. In this section of the survey, we investigate the extent to which DB plans have acted in these areas in the recent past, and also ask what their future plans are.

Our opening question was aimed at understanding what changes plans had made to their asset allocations over the past twelve months. On average, 30% of respondents did not know whether any of these changes had been made and it seems they are not clear on their investment strategy. This does flag some potential governance reporting concerns. There are no noticeable trends from the chart with most plans making no changes to their strategy (as far as respondents seem to be aware). Given this, unsurprisingly, the picture is similar for the next twelve months.

Historic changes to asset allocation*



* Total may not equal 100% due to rounding

[1] eg, hedge funds, commodities, insurance linked securities [2] eg, infrastructure, property debt, direct lending [3] eg, dynamic asset allocation advice or medium-term asset allocation advice

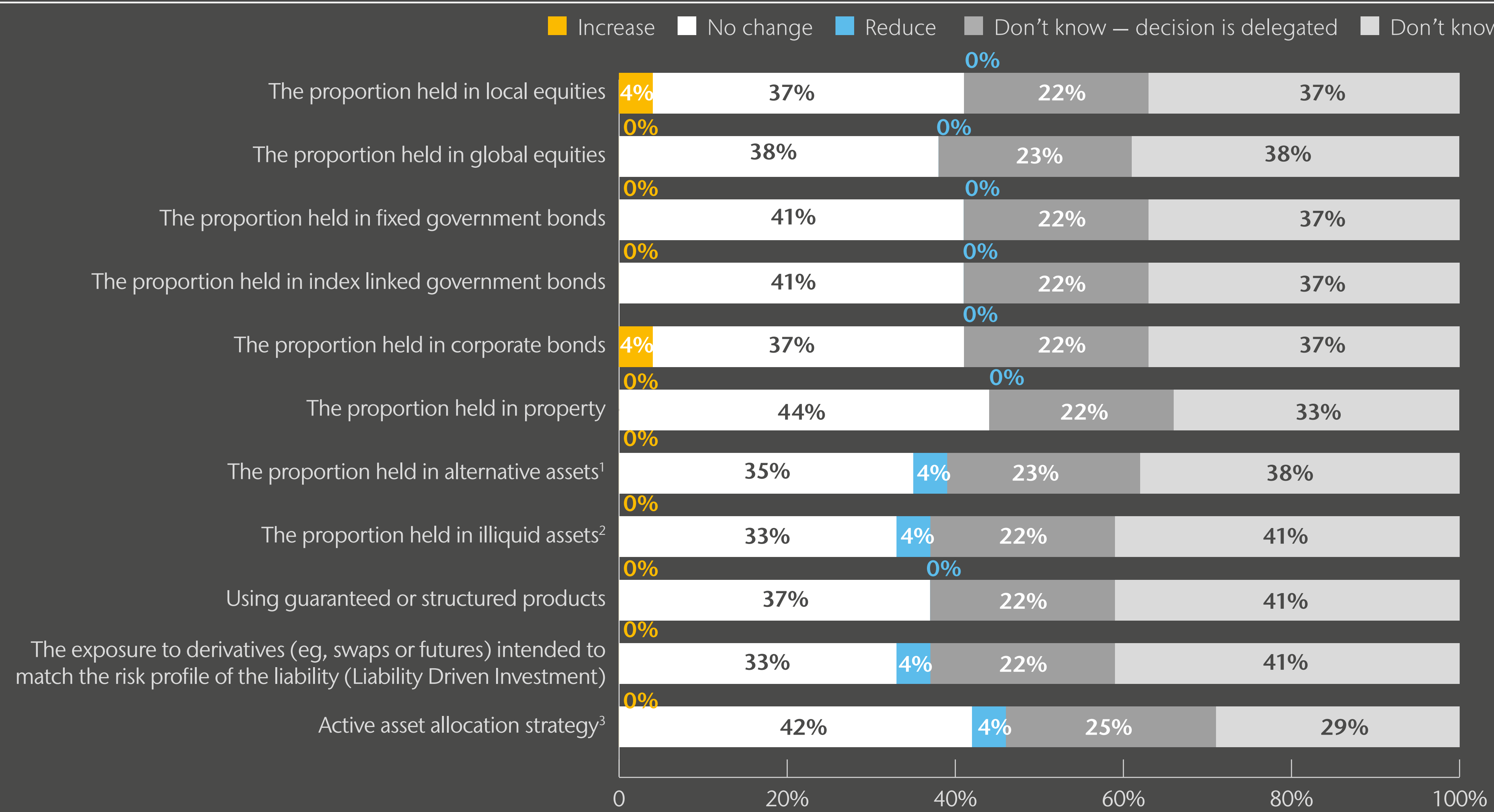
Key findings

On average: 30% of respondents did not know whether asset allocation changes had been made

61% of respondents delegate or plan to delegate **tactical asset allocation** to advisers

57% of respondents delegate or plan to delegate **implementation of entire investment policy**

Future changes to asset allocation*



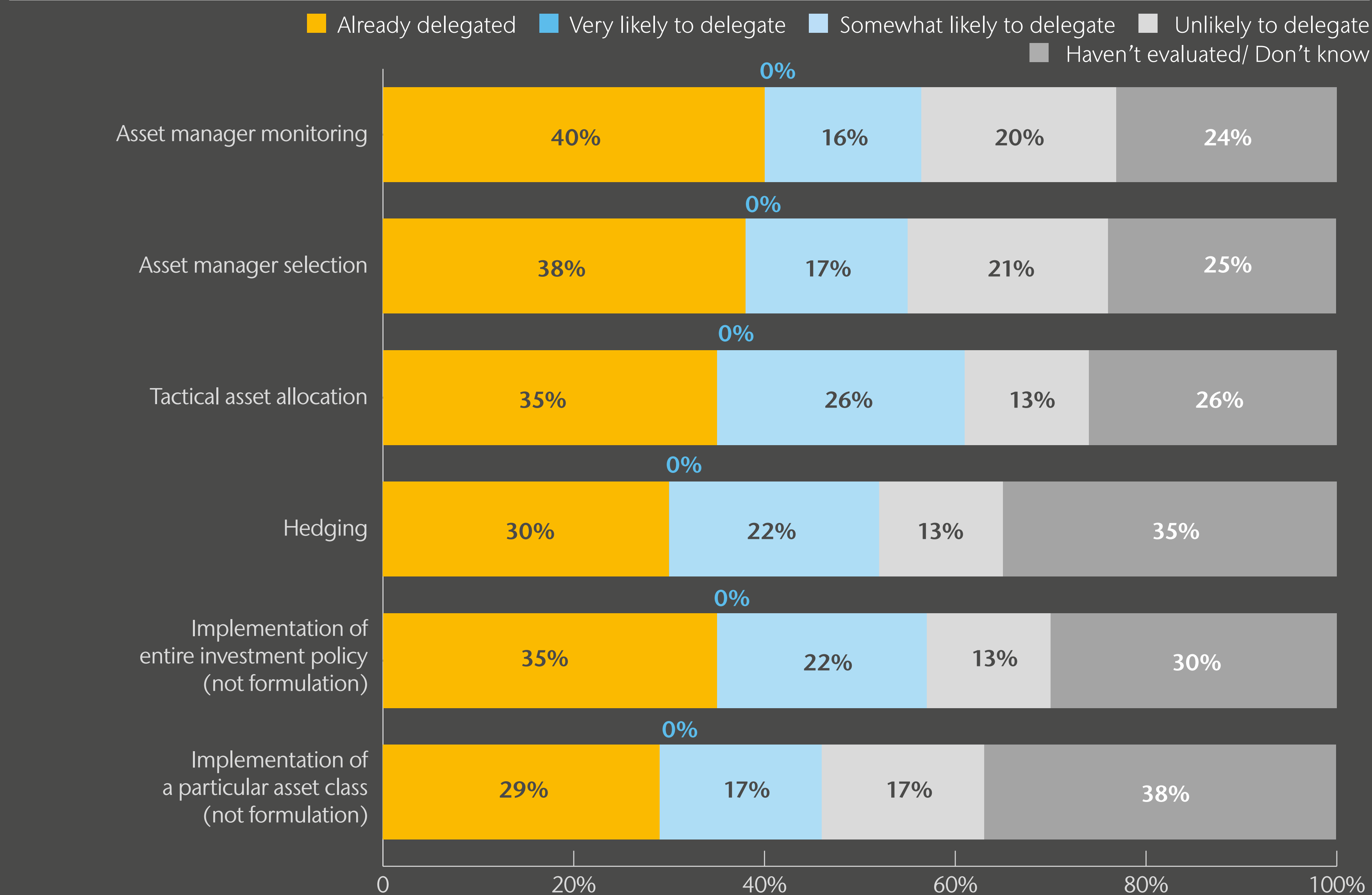
* Total may not equal 100% due to rounding

[1] eg, hedge funds, commodities, insurance linked securities

[2] eg, infrastructure, property debt, direct lending

[3] eg, dynamic asset allocation advice or medium-term asset allocation advice

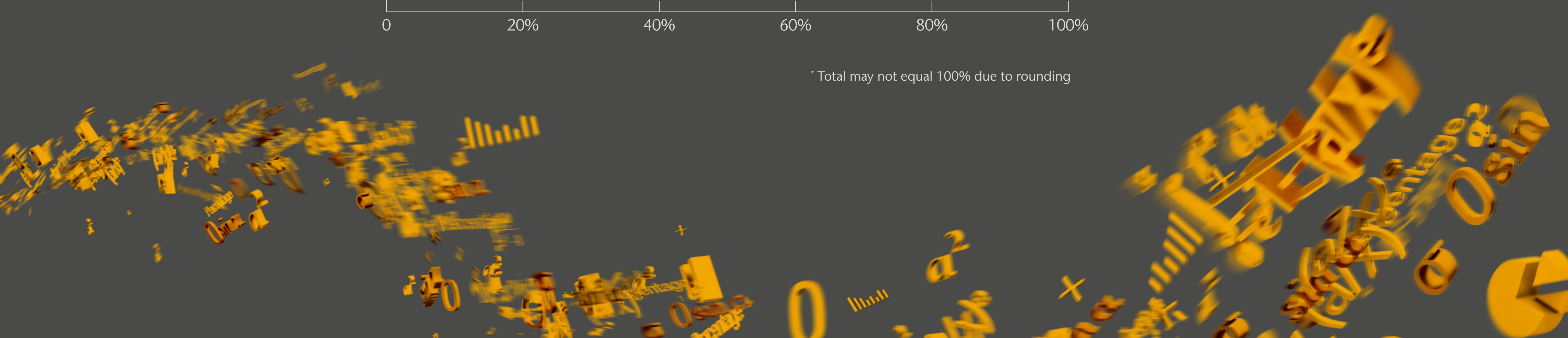
Investment delegation*



* Total may not equal 100% due to rounding

The survey also asked which elements of their investment strategy and implementation plans had been delegated or if they were planned to be in future.

We see that many DB plans are looking to delegate certain functions to their advisers. The most popular task is tactical asset allocation, with 61% respondents delegating this responsibility or are planning to delegate, followed by implementation of entire investment policy (57%).



Hedging retirement plan risk

Hedging retirement plan risk

We asked the Japanese survey respondents about their general policy for hedging different types of investment risk.

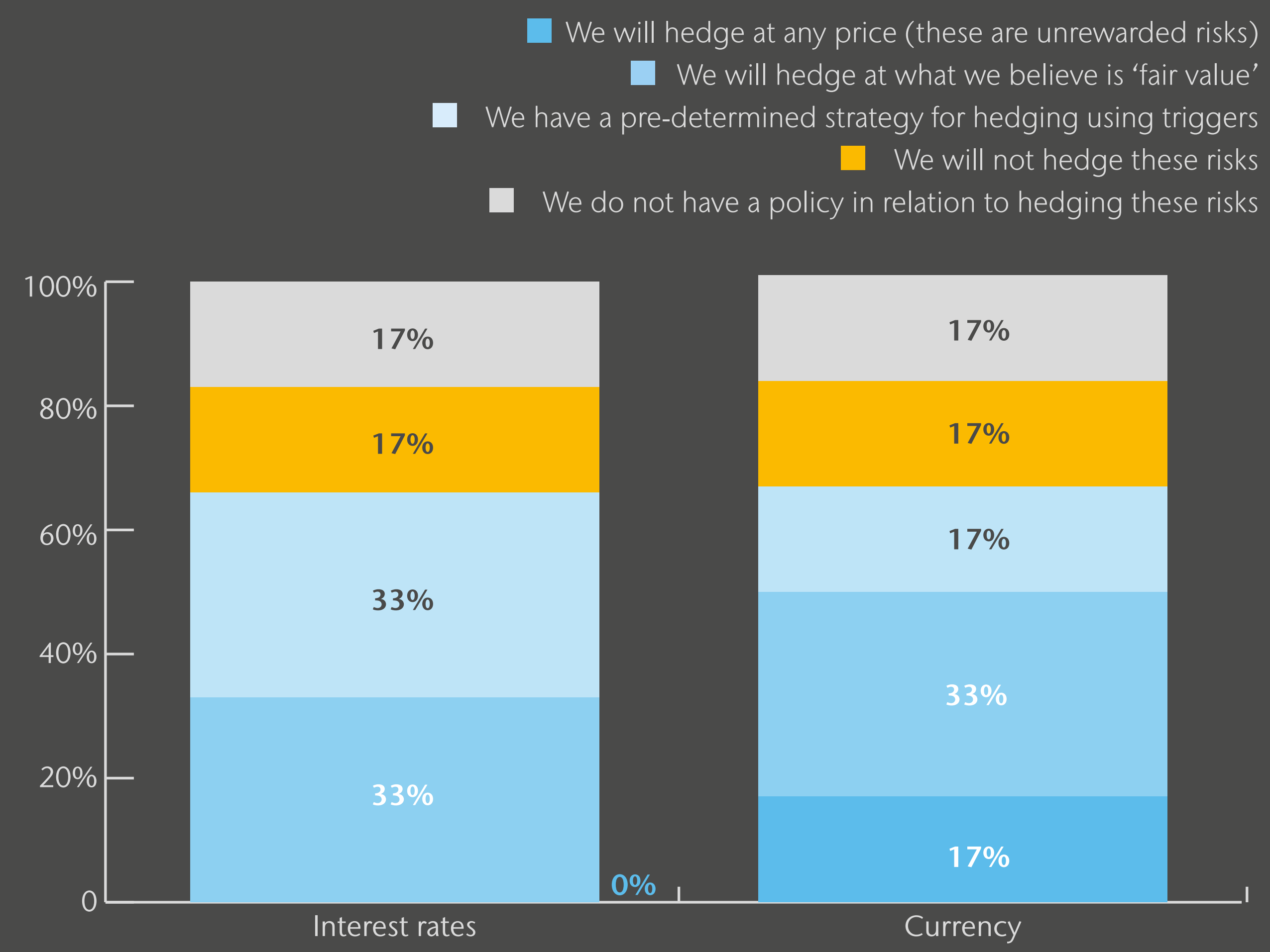
This section of the survey was not applicable to South Korea because the dominant form of pension assets are principal-guaranteed products (ie, the main source of investment risk is due to the fluctuation of interest rates). Generally, holistically assessing risk from assets and liabilities together is not yet an established market practice in South Korea.

Similarly, for Australia, this section is not applicable because most DB plans are part of multi-employer master trusts which means the employer has limited control over investment decisions such as asset allocation, selection of investment managers and the level of hedging. However, an employer can request the trustee to make investment changes to the DB section.

Japan — hedging retirement plan risk results

In Japan, interest rate risk and currency risk are, in general, viewed similarly. This does not come as a surprise when compared to our last survey in 2017. However, we noticed a change in the hedging approach. In the previous results, the most common approach was to hedge these risks at 'fair value' (58% did this in 2017). This year, hedging strategies are distributed more evenly, and 17% of respondents have selected 'at any price' to hedge currency risk. A policy of deliberately not hedging this risk was also prevalent (17%) and the same number of respondents have no policy in place to hedge interest rate and currency risks (17%).

Hedging strategies



Key findings

Currency risk hedging strategies in Japan are distributed more evenly than in 2017

17% will hedge 'at any price'
will not hedge this risk
have no policy in place

All respondents hedge interest rate risk at **20% or less**

When asked about how much of the plan interest rate risk was hedged, all responses were 20% or less. This percentage is low when compared to more mature DB markets, such as the UK, where this percentage is typically 60% or above. We view exposure to interest rate risk as a significant and often unrewarded risk, and a plan's risk budget is often better 'spent' elsewhere within a diversified portfolio of growth assets to help generate returns.

The final risk we asked for views on was hedging of longevity risk. In general, Japanese plans are less exposed to longevity risk because most of the (smaller) plans do not provide a lifetime annuity. It tends to be larger plans or multinational companies that will offer lifetime annuities. As a result, most plans are not exposed to longevity risk and 25% of respondents are comfortable to retain this risk. A further third have not considered their approach to longevity risk.

The market continues to experience record low yields on Japanese government bonds, with returns being in the red for bonds matching the average liability duration of pension plans. Volatility of the yields, however, is rather low. This, combined with the low-inflation environment, general lack of lifetime annuities and traditional liability settlement measures (such as buy-in and buyout) means that Japanese plan sponsors will likely keep managing risks through the use of conservative assumptions and slightly higher employer contributions. Click here to see the Aon low yield investment paper.

Measuring and monitoring plan risk

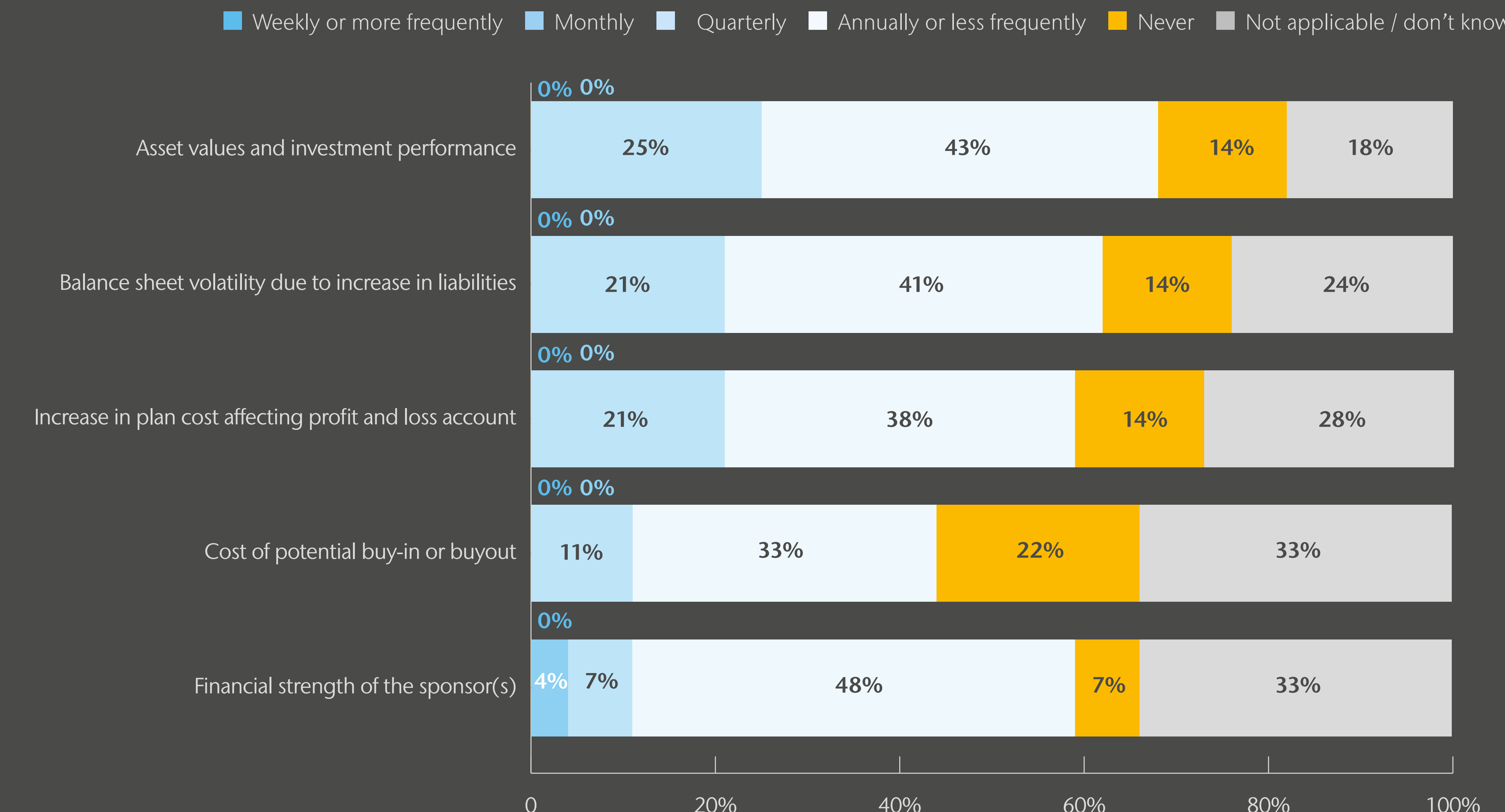
Measuring and monitoring plan risk

We asked respondents how often they monitor various plan risks.

On average, 40% of plans have never monitored such risks or do not know when they were last monitored. Where monitoring is carried out, it is typically annually or less frequently.

We also asked how often plans monitored the competitiveness and quality of their vendor, where applicable. Only 27% of plans had monitored this in the last year, with 30% of plans monitoring less frequently. This typically presents a major opportunity for employers in Asia-Pacific.

Monitoring frequency*



* Total may not equal 100% due to rounding

Key findings

On average:

40%

of plans have never monitored various plan risks or did not know when they were last monitored

Only

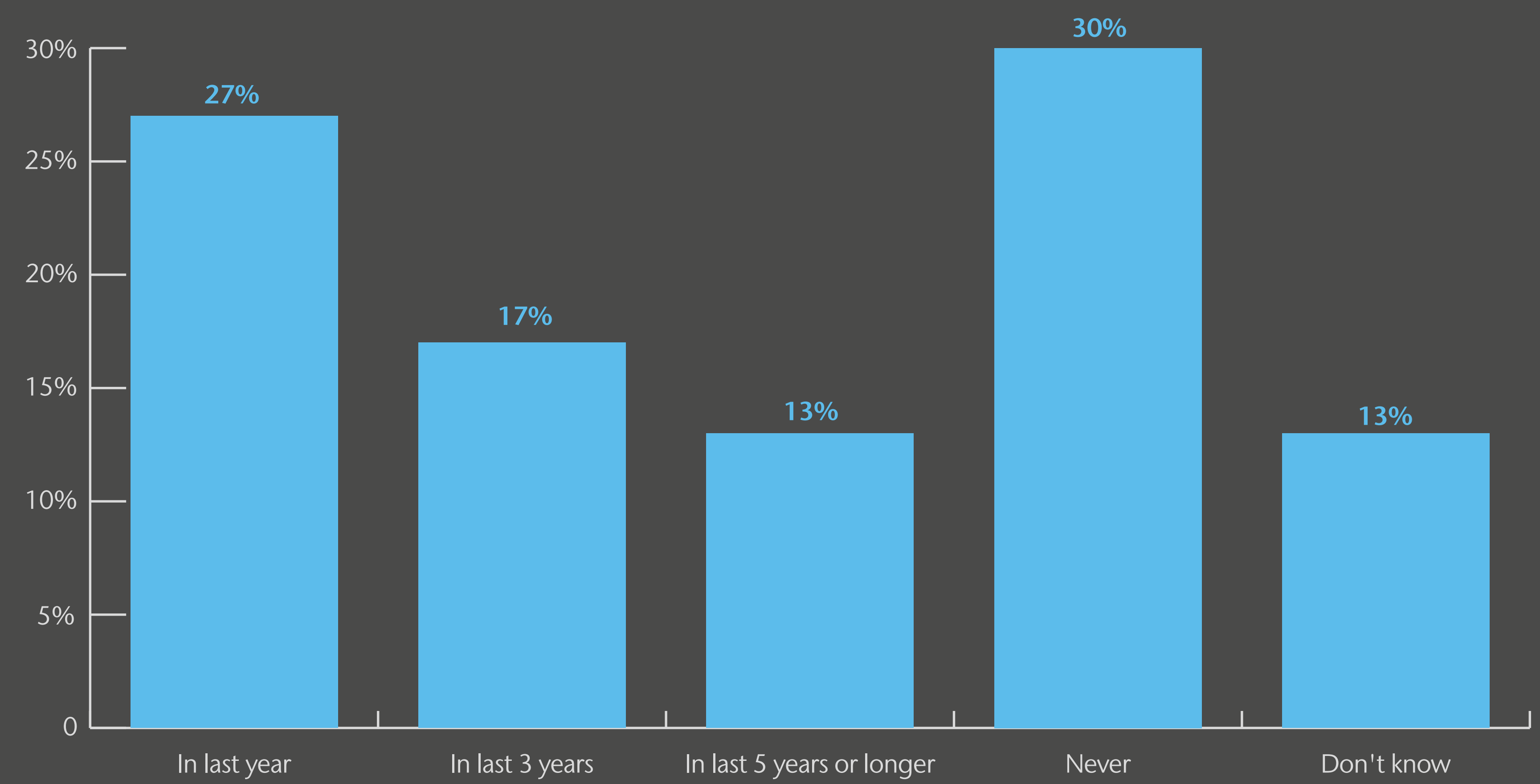
27%

had monitored the competitiveness and quality of their vendor in the last year

A high proportion of DB plans have never monitored their vendor or do not know.

Opportunities may be being missed to reduce cost and risk by not carrying out monitoring. DB plans that carry out monitoring as part of best practice governance have cited much more confidence in achieving business aims and achieving their objectives. You can read much more on this in Aon's Global Benefits Governance and Operations Study.

When did you last review your vendor?



Hot topics

Hot topics

Hot topic
Cyber risk

Hot topic
Financial wellbeing

Key findings

3/4 of respondents said their plan had not been affected by cybercrime

1/4 of respondents did not know if they had been affected by cybercrime

53% have no plans to implement a financial wellbeing programme

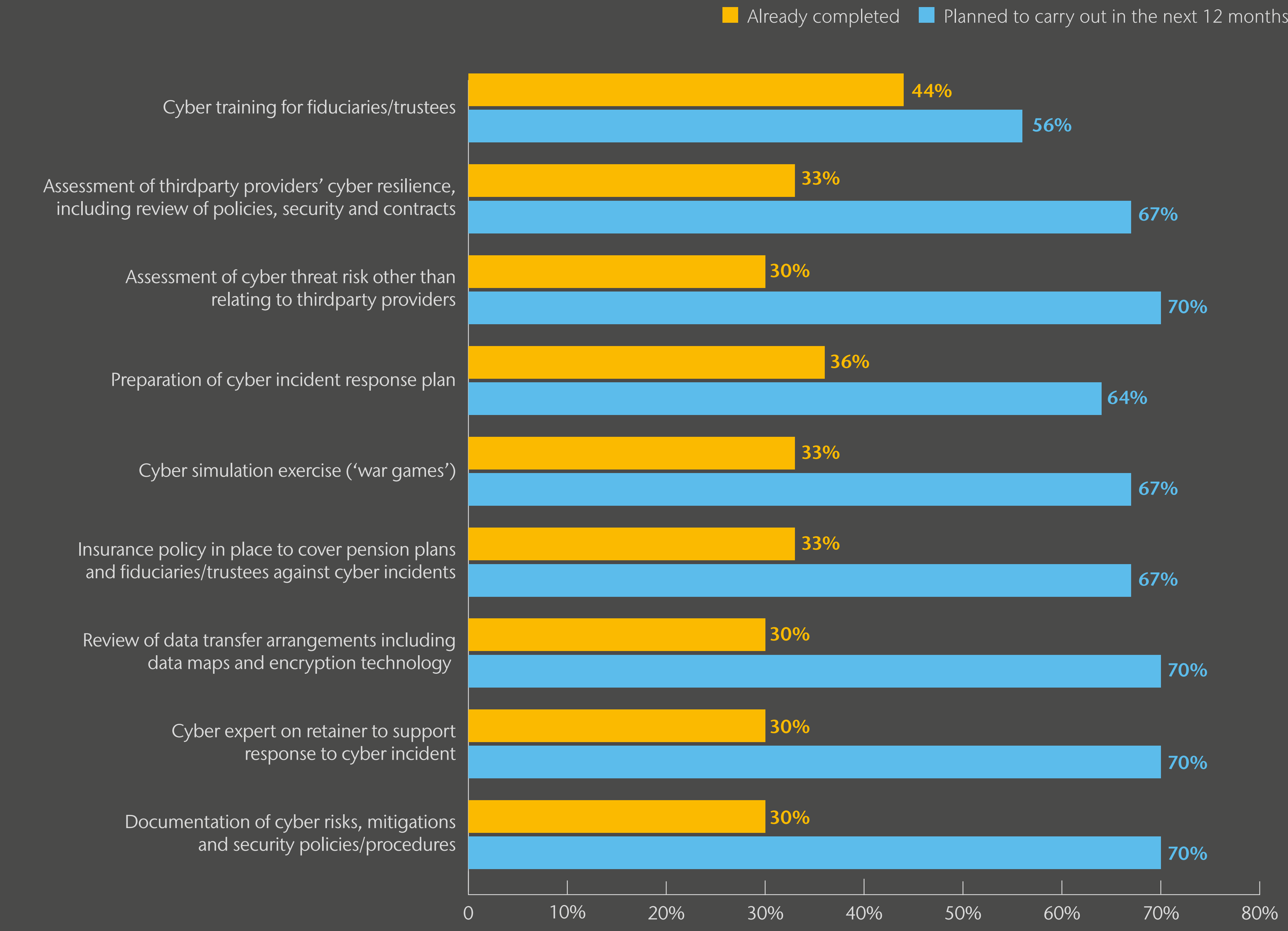
No respondents currently offer flexible benefits, employer loans or debt services

Hot topics | Cyber risk

Cyber risk is an emerging and increasing threat to modern businesses, and something that retirement plans are not exempt from. Three-quarters of respondents said that their plan had not been affected by cybercrime (as far as they know) and, unsurprisingly, a quarter did not know if they had been affected. Unfortunately, we expect cyber attacks only to increase.

It was encouraging to see that DB plans have been taking actions to prevent a cyber attack or plan to do so in the next 12 months. As with the respondents to our Global Benefits Governance and Operations Study, cyber security is clearly a priority. As a first step in understanding cyber threats, plans should be carrying out an assessment of both themselves and third-party providers.

Which of the following cyber risk management actions has your plan undertaken?

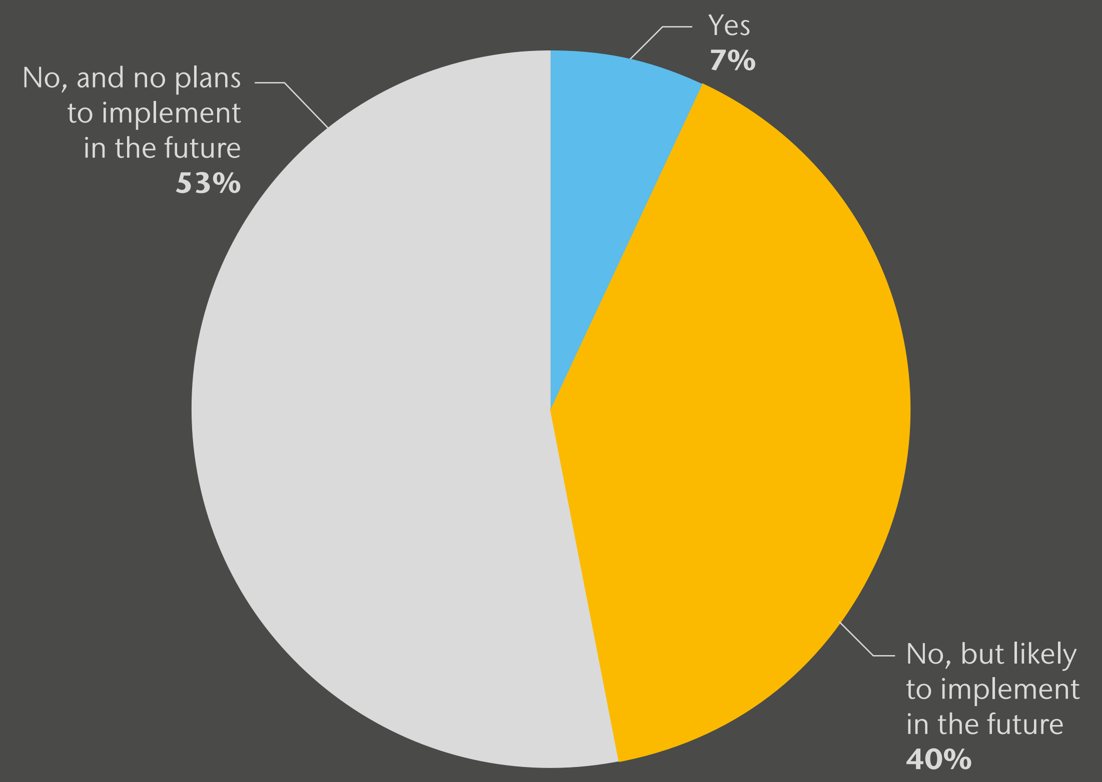


Hot topics | Financial wellbeing

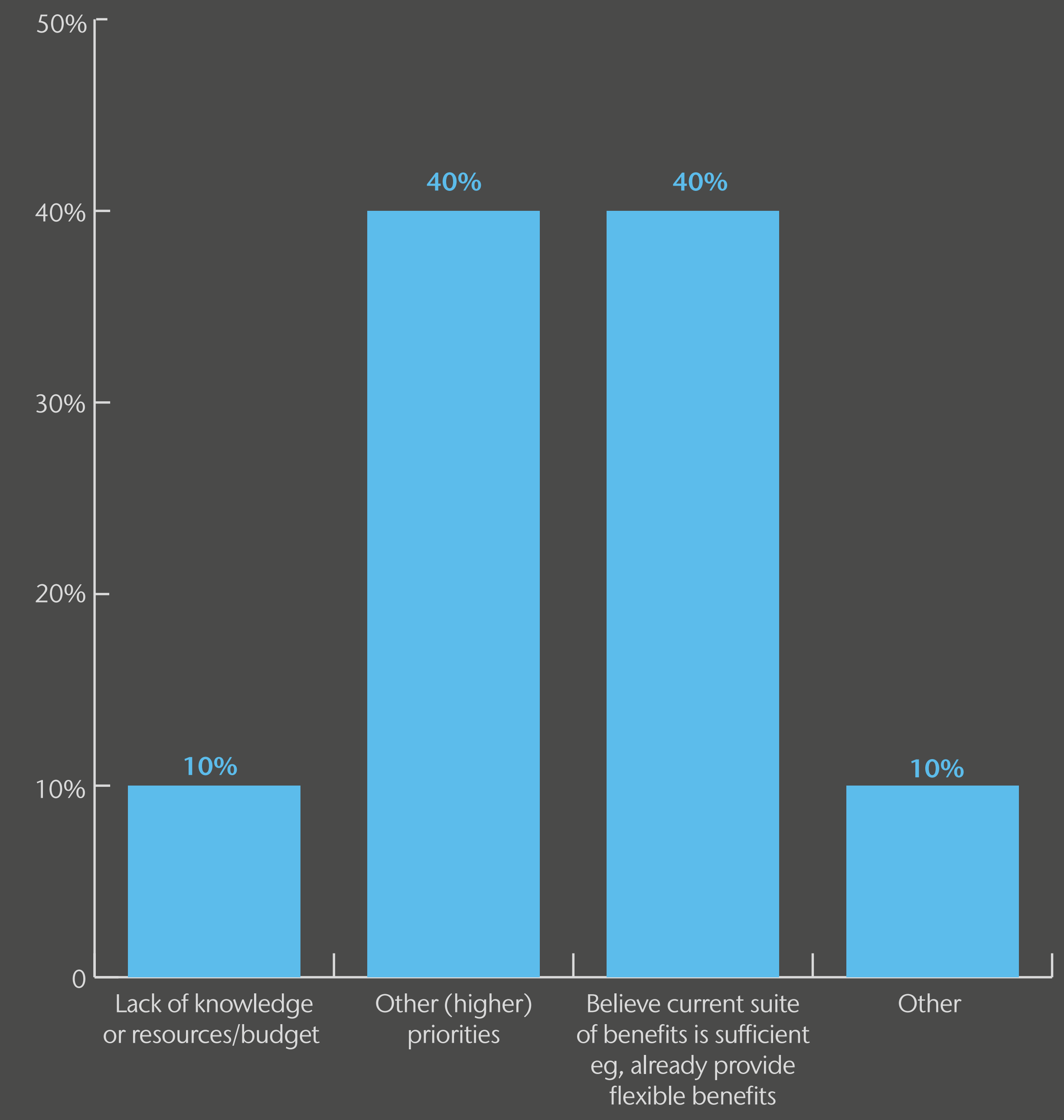
Financial stress has a significant impact on employee wellbeing, engagement and productivity in the workplace. The changing landscape means that employees are working longer as they cannot afford to retire, with spiralling healthcare and housing and childcare costs across Asia-Pacific putting additional pressure on an employee's savings. Financial wellbeing is becoming an increasing area of focus for employers as they look to reduce employee stresses and worries relating to finances.

It was surprising to see that 53% of employers had no plans to implement a financial wellbeing programme in the future. The main reasons cited were other (higher) priorities or that employers believe that their current suite of benefits is sufficient to cater to employees' financial needs. We would recommend that this viewpoint is tested with employee groups and any gaps/needs identified.

Do you have a financial wellbeing programme?

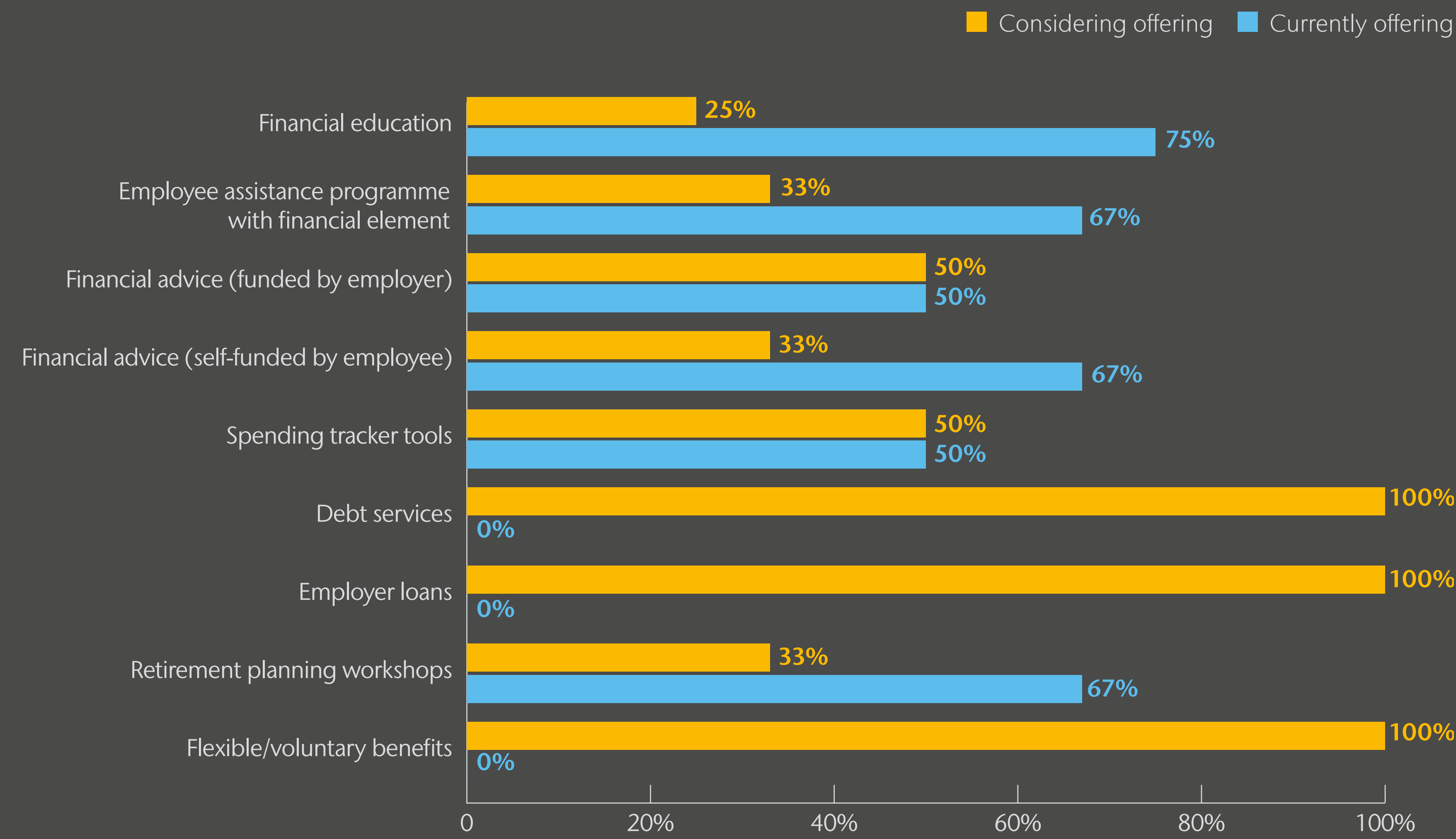


Reason for not having a financial wellbeing plan



For those with an employee financial wellbeing programme or who are considering offering a programme, we asked what they offer or plan to offer as part of the programme.

What do you currently offer or are considering offering as part of your financial wellbeing programme?

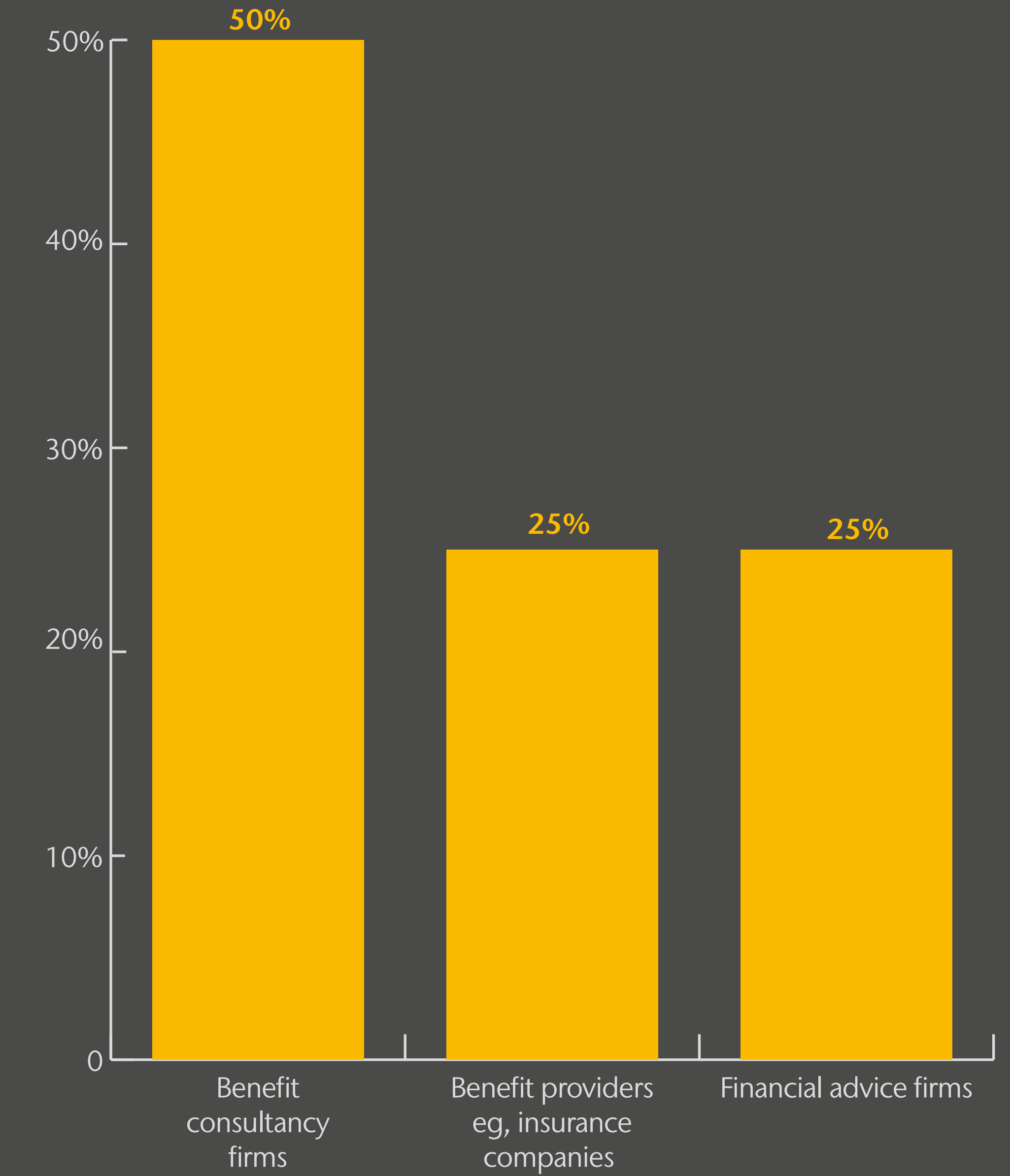


None of the respondents currently offer flexible/voluntary benefits, employer loans or debt services which may be viewed as less 'traditional' employer offerings.

We are, however, observing increased demand for voluntary benefits across Asia-Pacific (please contact us if you would like to know more about Aon's tailored voluntary benefits solutions for the Asia-Pacific markets launching in 2020).

Those who work with third parties to execute their programmes typically use benefit consultancy firms.

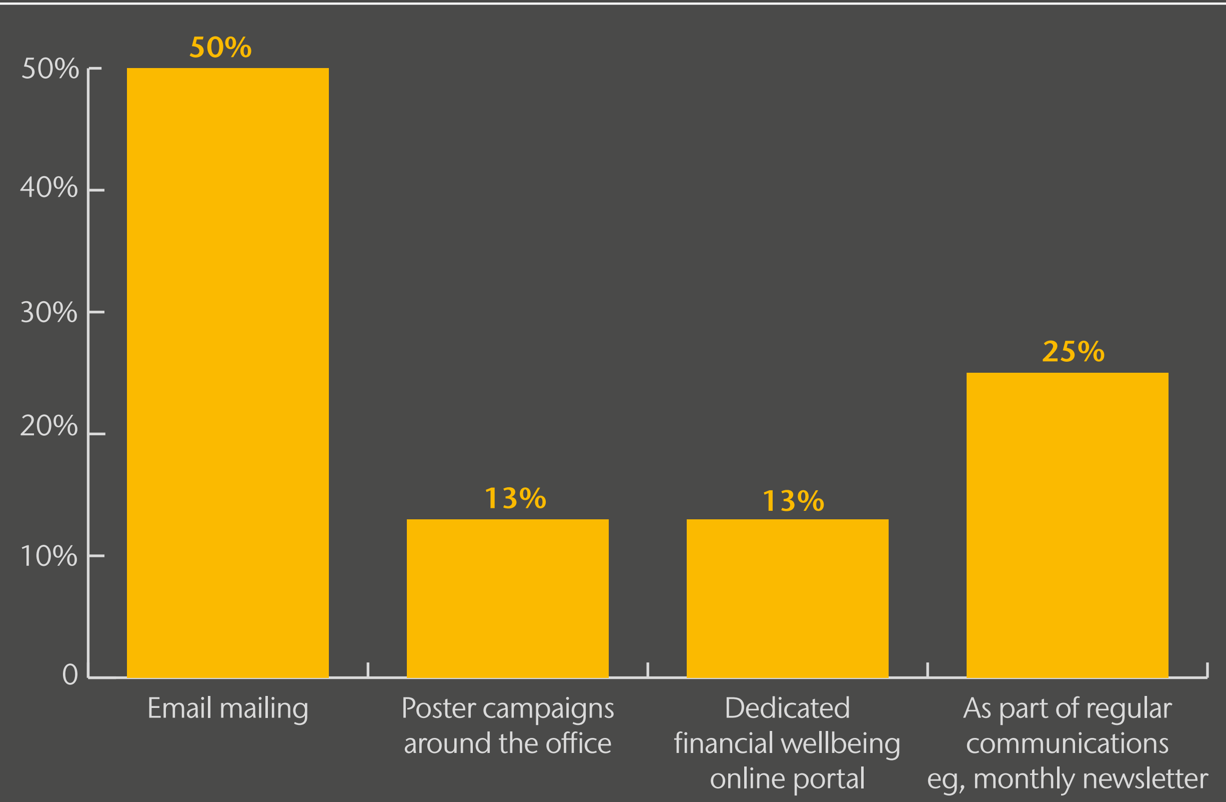
Do you work with third parties to execute your financial wellbeing strategy?



Next Section

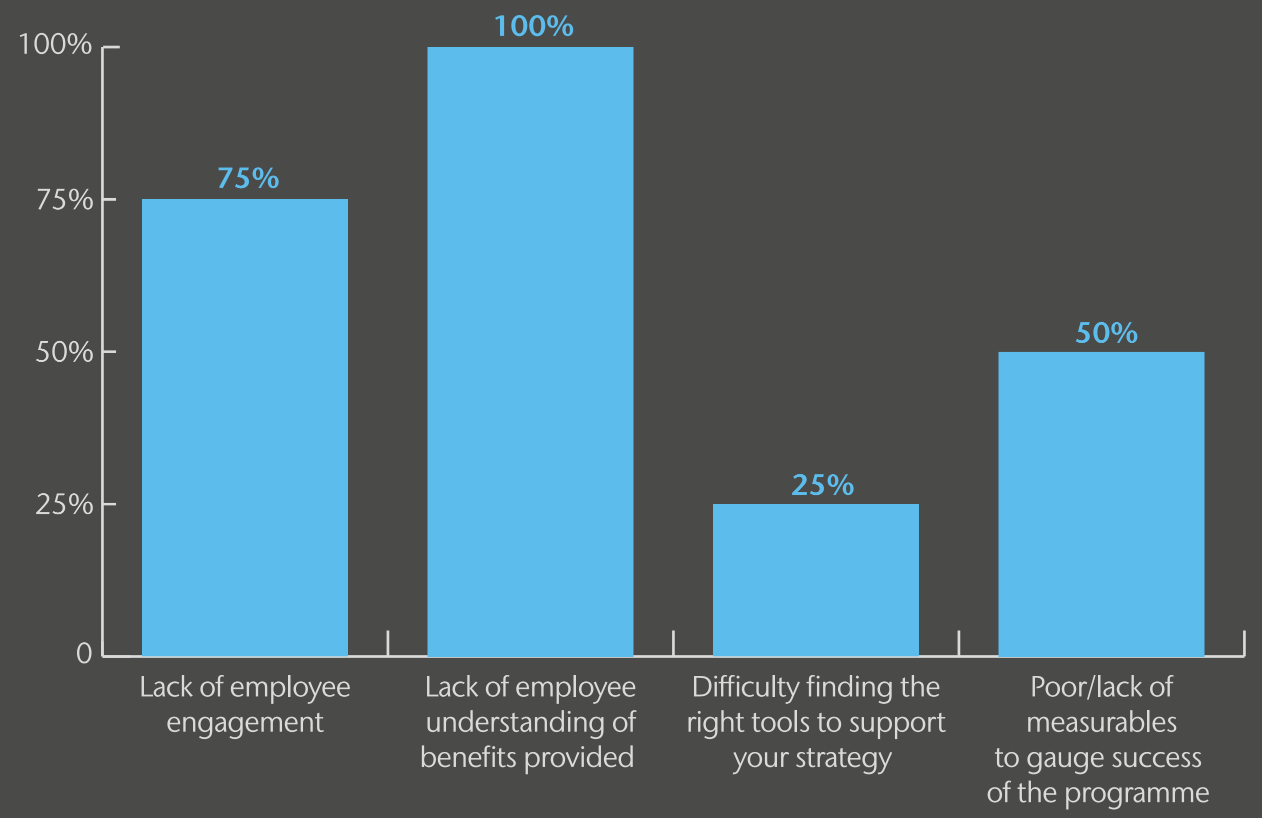
The chart below shows the most commonly-used communication channels used in executing financial wellbeing strategies. The most common is email, which may not be effective. Other options included smartphone apps and mobile phone text messages.

What communication channels do you use to reach employees on financial wellbeing?



The chart shows the obstacles faced (note that more than one option was allowed for this question) when implementing a financial wellbeing programme. All respondents cited a lack of employee understanding of the benefits provided as the main obstacle, followed by a lack of employee engagement.

What obstacles did you face when implementing your financial wellbeing programme?



Some firms are leveraging mobile apps to deliver personalised Financial Wellbeing scores.
Are you aware of Well One? Click here to find out more.

Hot topics: Japan

Hot topics: Japan

This year, we asked respondents about two hot topics in Japan.

Hot topic
Risk-buffer contributions

Hot topic
Risk-sharing corporate pension plans

Key findings

Nearly 60% are not interested in or are unlikely to implement risk-buffer contributions

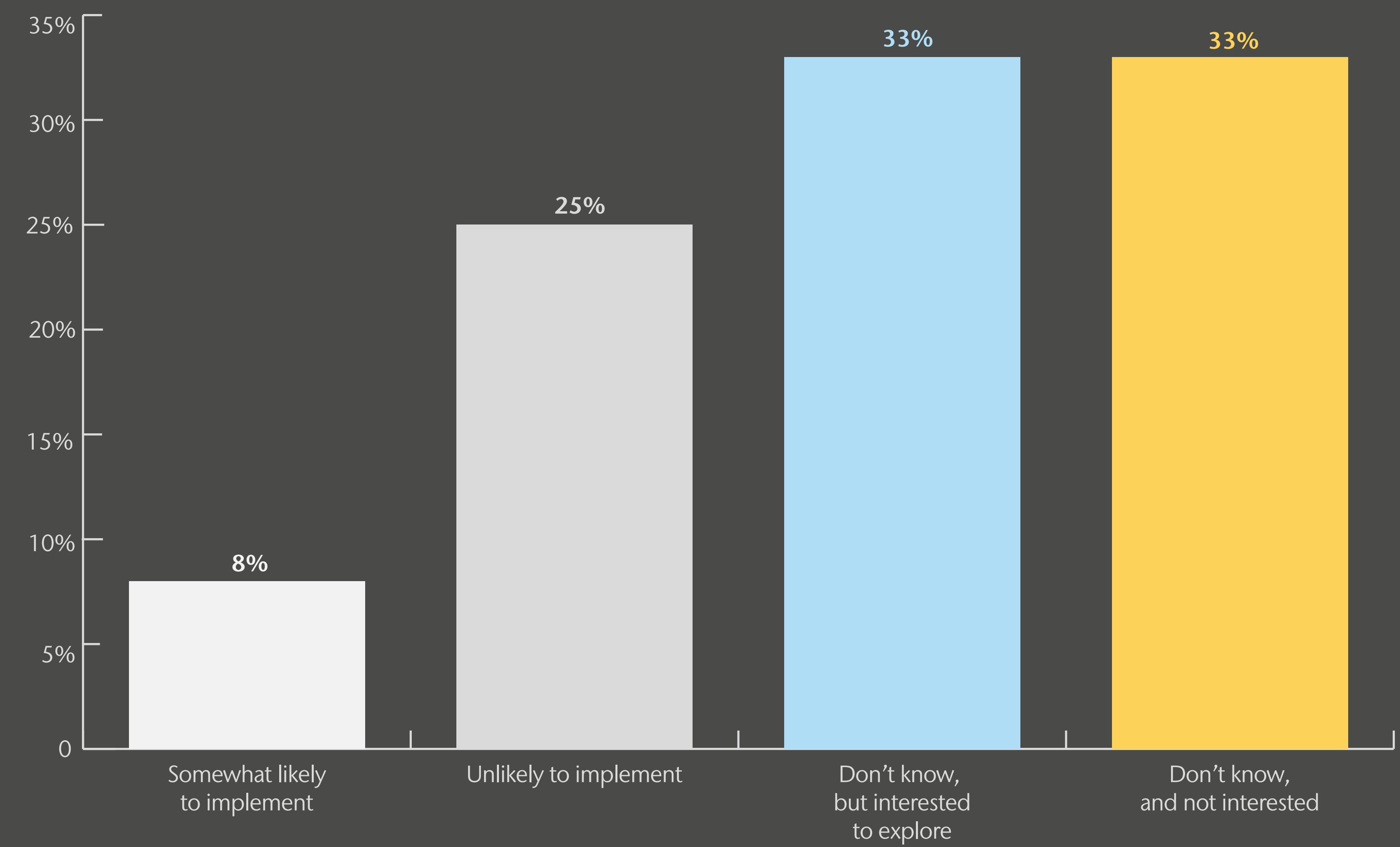
42% would be interested in further exploring risk-sharing corporate pension plans

Hot topics: Japan | Risk-buffer contributions

We wanted to hear about attitudes of respondents toward 'Risk-buffer contributions' for funded DB plans. These are paid on top of normal contributions determined by a funding valuation; the intention is to build up a risk-buffer that makes the funding status of the plan more robust in case of adverse market movements. Risk-buffer contributions are determined based on the risk and allocation of the asset portfolio and paid for a set duration.

While two out of three (66%) respondents do not know in detail about this option, half of them would be interested in exploring this further (33%). 'Unlikely to implement' responses are prevalent, coming in at 25%. Asset allocation of Japanese pension plans tends to be more conservative and risk averse, which probably explains why nearly 60% of the respondents are not interested or unlikely to implement risk-buffer contributions.

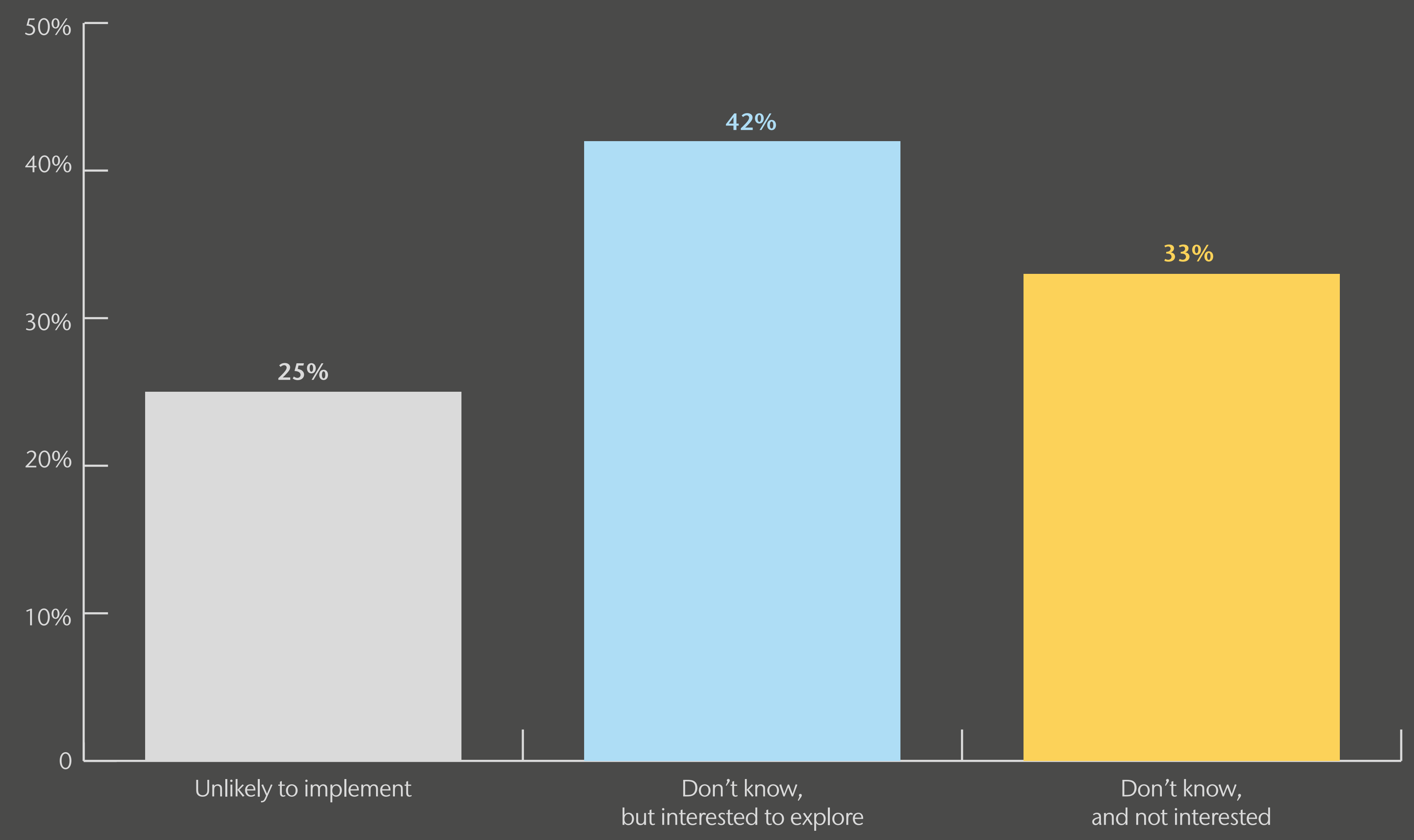
What is your attitude towards this advance reserving approach?



Hot topics: Japan | Risk-sharing corporate pension plans

Our other hot topic was related to risk-sharing corporate pension plans (RS plans). This arrangement became available at the beginning of 2017, but initial adoption was slow. While market share remains low compared to traditional DB and DC arrangements, we have seen a number of successful implementations in the market. We therefore wanted to understand whether the general attitude has shifted. Three out of four respondents do not know much detail about RS plans but 42% would be interested in exploring this further. The remaining nearly 60%, however, are either not interested or unlikely to implement, meaning the market penetration of the RS plan will likely remain low for now.

Risk-sharing corporate pension plan



Executive summary

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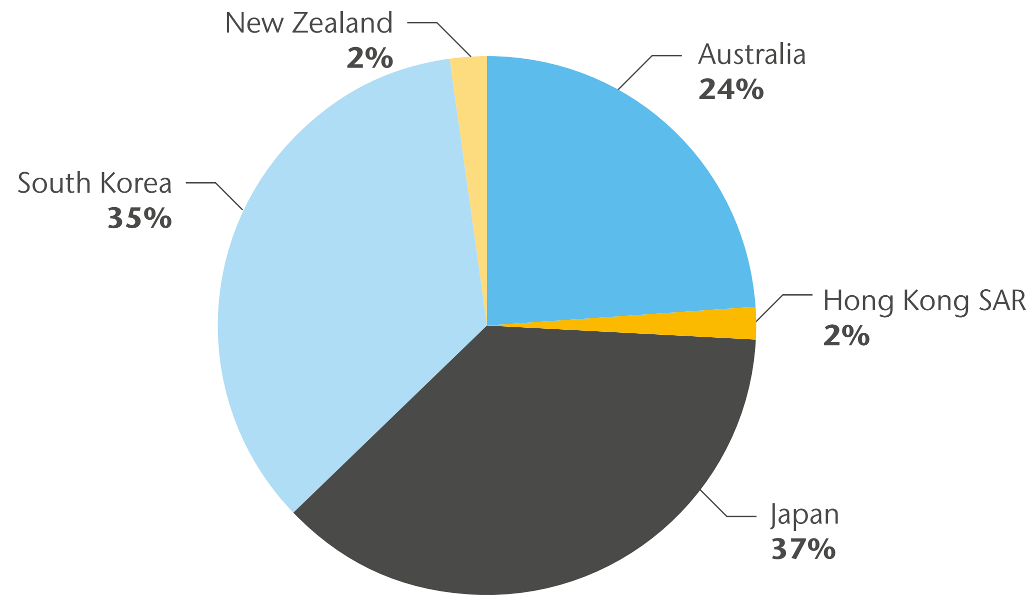
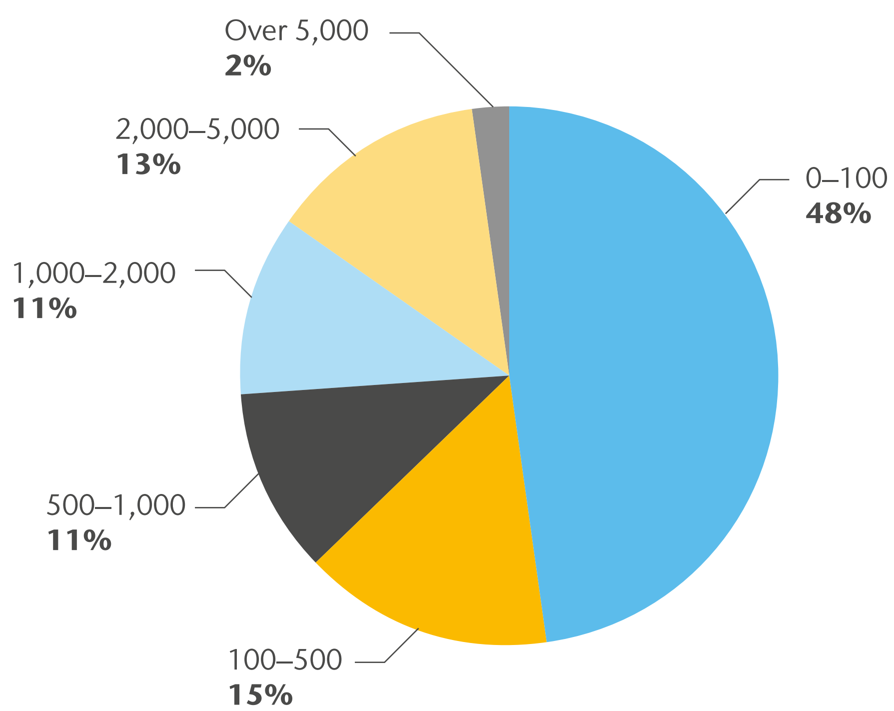
We had a total of 46 respondent organisations across the Asia-Pacific region covering Australia, Hong Kong SAR, Japan, South Korea and New Zealand. Most of the survey respondents were from smaller DB plans (plans with less than 100 members and less than USD 10M in assets and liabilities) across a range of private industry sectors. This reflects that in many cases, multinational firms are derisking their DB retirement plans which are typically no longer open to new hires in many cases.

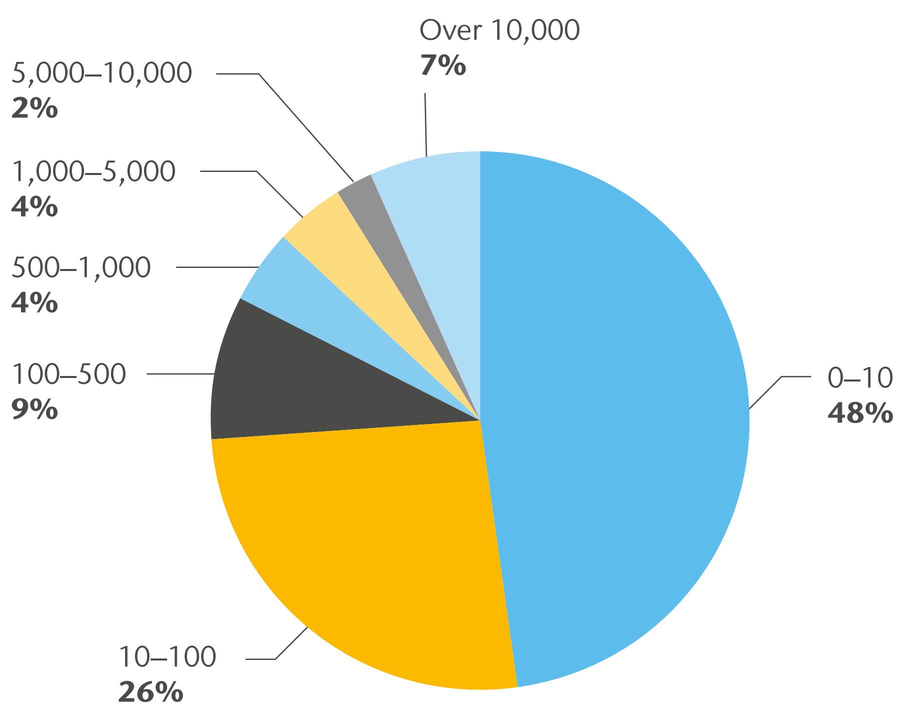
Respondents by location



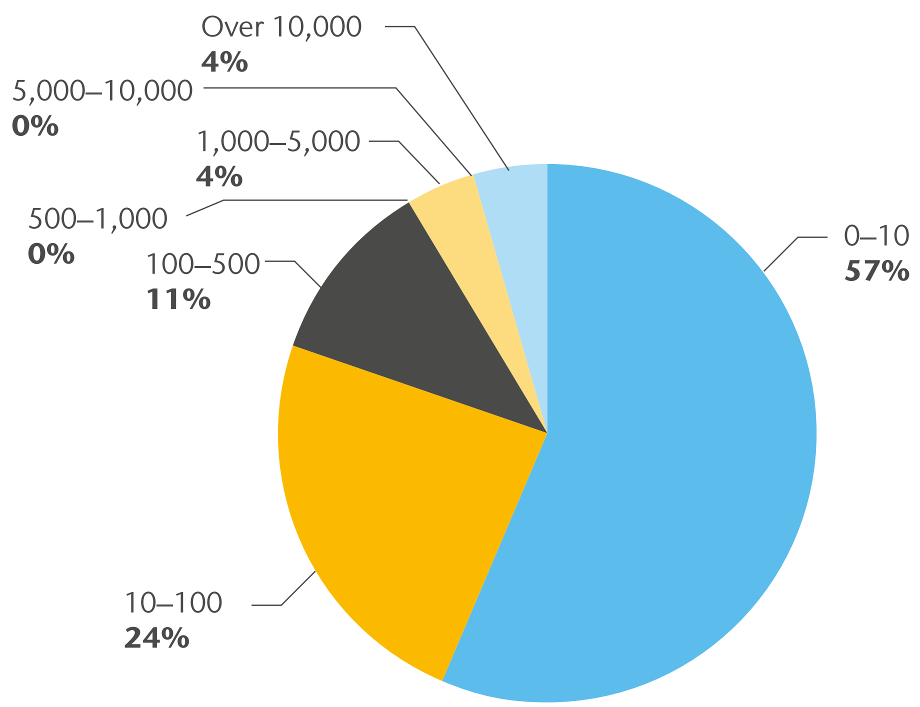
Respondents based on number of scheme members



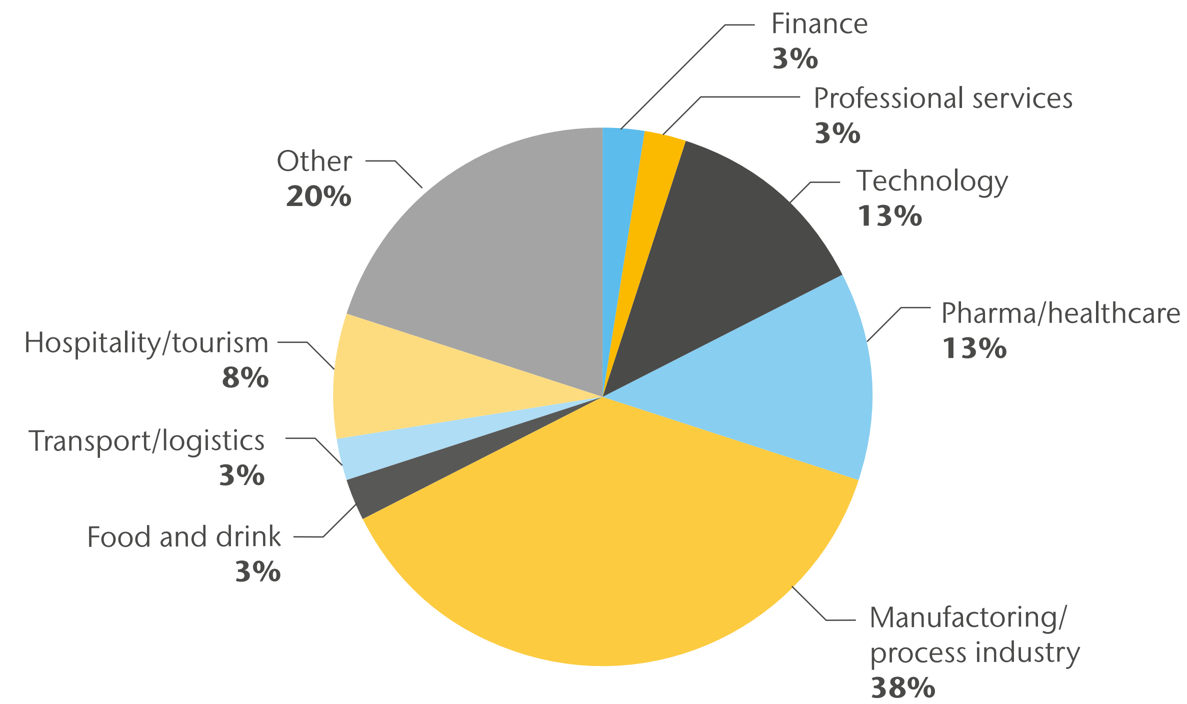
Respondents based on scheme asset size (USD)



Respondents based on liabilities (USD)



Respondents based on industry sector*



* Total may not equal 100% due to rounding

Long-term objectives

In more depth

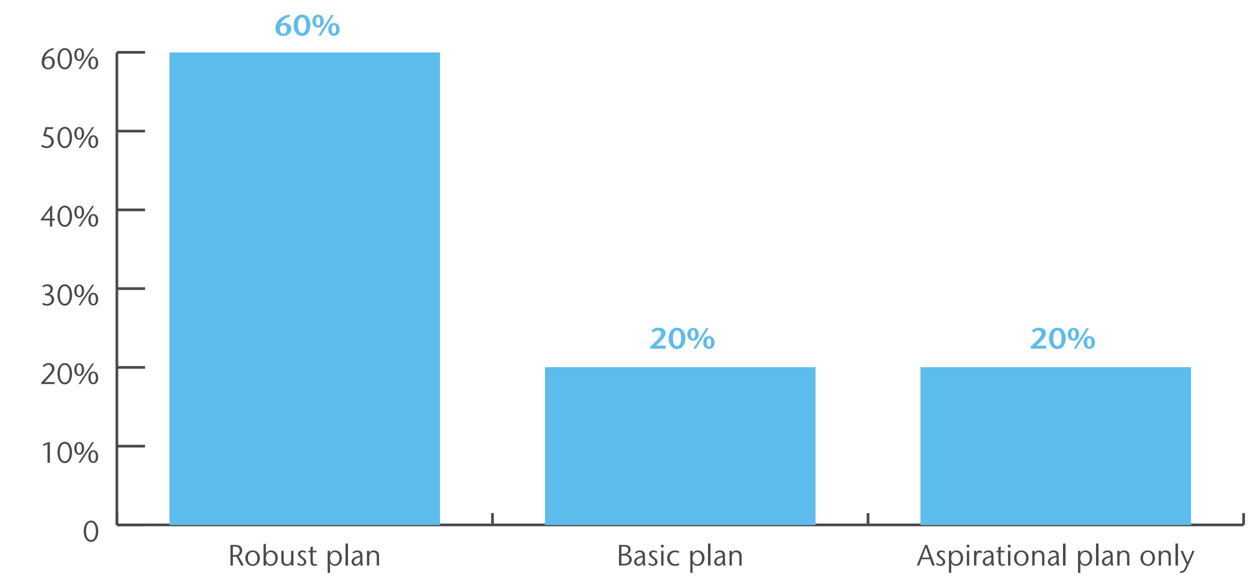
We asked respondents to describe their plan to reach their long-term objective as robust, basic, or aspirational.

Robust plan: is one which is documented and is in the process of being executed
Basic plan: is one which has the intent documented and the plan is being finalised
Aspirational plan: is one which has the intent documented but work has not started on the plan

Overall, 60% indicated their plan was 'robust' and only 20% as 'aspirational'. The results indicate that respondents are working hard to attain their long-term goals in shorter time frames (less than 10 years) with well thought out plans. Those with 'basic' or 'aspirational' plans should continue to develop these in order to yield the desired outcomes and also align with best practice governance.

You can find out more about best practice governance in Aon's 2018-19 Global Benefits Governance and Operations Study.

How would you describe your plan to reach your long-term objective?



Contacts

Ashley Palmer
Practice leader
Asia – Retirement Solutions
+852 2917 7963
ashley.j.palmer@aon.com

Stella Ho
Consultant
Asia – Retirement Solutions
+852 2917 7967
stella.ho@aon.com

Other enquiries
apac.retirement@aon.com

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