



# Executive summary



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For the past decade, Aon has carried out its Global Pension Risk Survey in a two-year cycle. The objective of this year's survey is to once again give companies the opportunity to compare their approach to deal with pension risks with the market and recognize current developments both in the local and global risk management of occupational pension schemes. Additionally, this report reflects the participating companies' common understanding on current developments for occupational pension schemes in Germany.

The move from final salary to contribution-based pension plans means that today by far most pension plans open to new entrants are contribution-based. Companies considering plan changes currently focus less on cost reduction but are aiming to further reduce the legal, financial and operational risks associated with occupational pension schemes.

About half the participants reported that they have already funded or are planning to fund their pension obligations, either via a reinsurance contract or a CTA solution, in order to manage their pension risk. Only about 30% of the interviewed companies considers the transfer to another funding vehicle (e.g. pension fund) as a possible pension risk management measure. Only slightly more interviewed companies (35%) either already implemented or assessed the option to settle pensions in payment.

The survey shows that the majority of the companies pursues a long-term strategy planning when it comes to hedge against pension plan risks. Attention is focussed on a variety of risks, including interest rate and inflation risks. Hedging is a topic most companies engage in. However, very few companies currently implement hedging as part of a defined strategy.

With respect to the target-investment strategy, most of the interviewed companies maintained a large degree of continuity over the past 12 months and only selectively carried out modifications. At the same time, companies have not yet specified which changes they are planning to make in the next 12 months. The results of the survey also show that diversification of the investment activities into several types of investments has a high priority. Furthermore, owing to the low-interest environment, a growing demand for property, alternative and illiquid investment opportunities can be identified.

Regarding transferring or outsourcing decisions, the survey shows a continued demand to outsource functions to external service providers within a coordinated control framework.

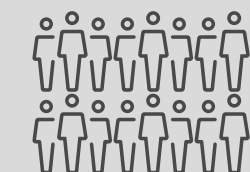
Cyber risks are increasingly being regarded as a threat which will not spare occupational pension schemes. So far, attention is mainly focussed on the secure data transfer to service providers (such

as the actuary). Companies have also started to implement additional measures for risk management such as cyber training for those responsible or comprehensive assessments of the threat risk. The demand for targeted insurance covering cyber risks is continuously increasing, as well.

Faced with the developments in Germany, and in light of the newly introduced Occupational Pensions Reinforcement Act, companies typically provide pension plans backed by assets specifically set aside for future benefit payments. Avoidance of financial risks and liability mitigation have top priority. Despite this, 44% of all companies responded they consider a defined contribution plan with a minimum guarantee to be contemporary which is more than those who consider offering a pure defined contribution plan without such guarantees as state of the art. With respect to pension plan administration, the trend continues that companies are concentrating on their core business and therefore outsource administrative activities and processes for pension schemes to respective service providers.

## Survey demographics at a glance

**35** participants



**50%**

of benefit plans had up to 1,000 members

**26%**

of benefit plans had > 10.000 members

**Amount of scheme liabilities**  
50% of benefit plans up to €100m  
18% > €1b



**Nearly 2/3** of the companies are bound by collective agreements

# Long-term strategy and planning



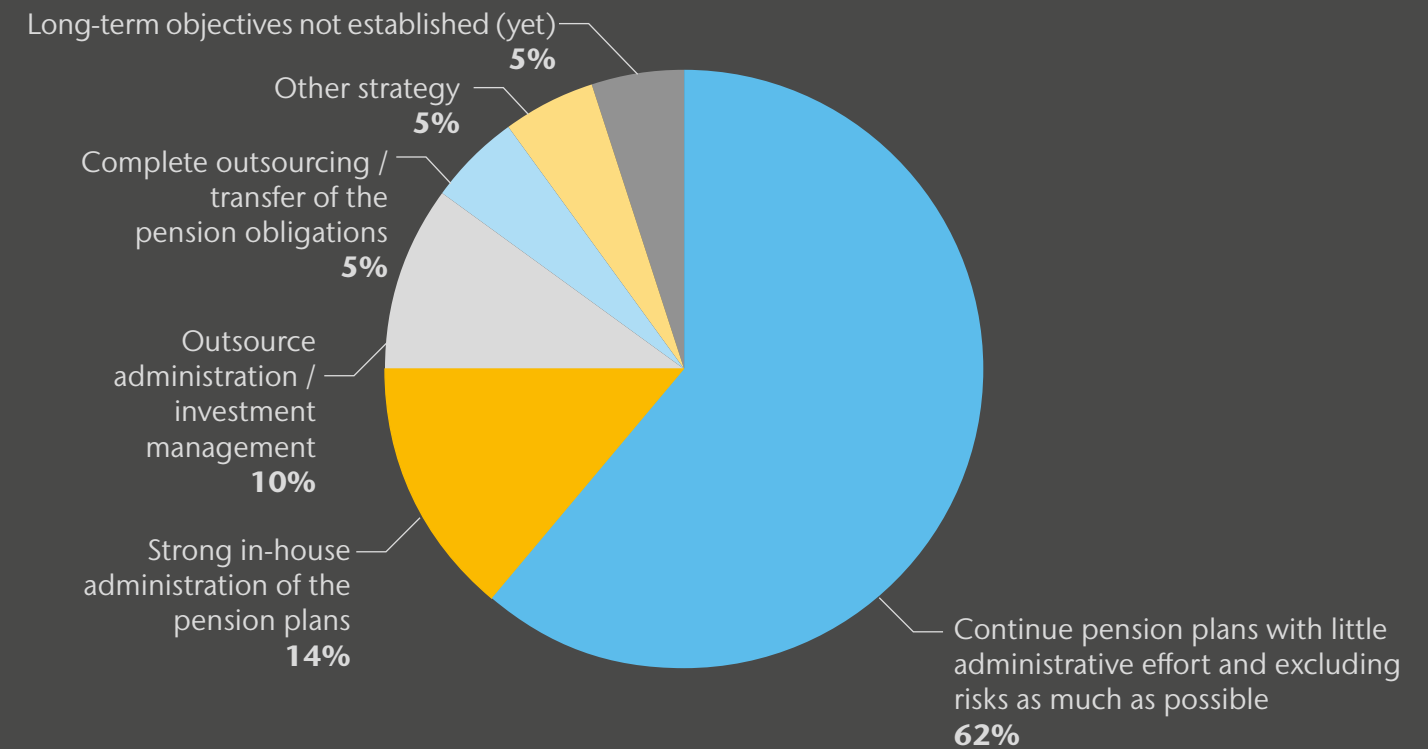
# Long-term strategy and planning

Most employers pursue a long-term strategy for the overall management of their pension plans and the related tasks. Often, but not always, the strategy includes measures to reduce risks inherent to the plans over the course of time. Almost two thirds of the respondents intend to continue their pension plans and to keep the risks at the lowest level possible. At the same time, they aim for a solution with minimal administrative effort. In contrast, a considerably smaller share of the participants counts on a strong individual responsibility of the employees to support the HR policy targets including an active management of the risks involved. Other strategies, such as, for example, the outsourcing of pension obligations or of the tasks related therewith, only play a rather subordinate role.

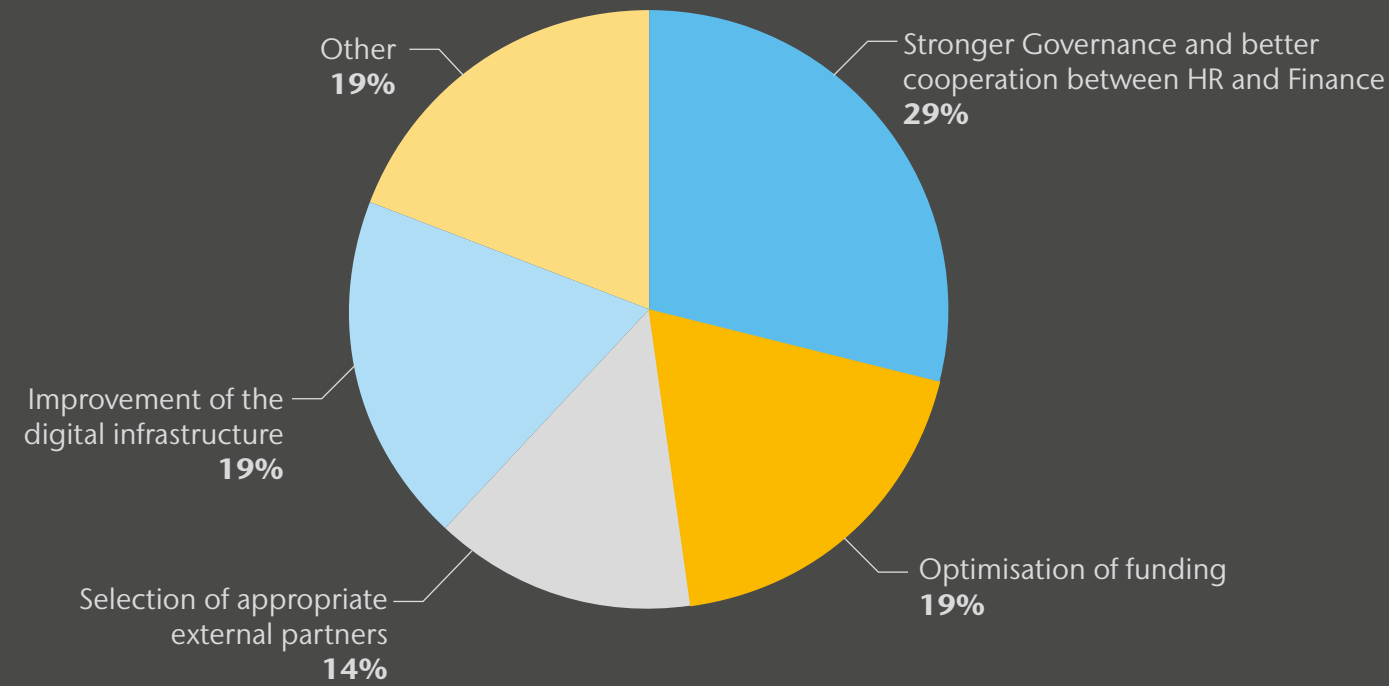
52% of the study participants stated that they have already achieved their long-term objectives or that they expect to achieve them within the next five years. About one third allows for a planning horizon for the implementation of their long-term strategy between six and 15 years. Only 14% specified a very long period of more than 20 years.

Implementation of the (long-term) pension plan strategy is considered to be an important objective by many companies. This is also clearly shown by the fact that more than half of the participants has already set up a robust or basic plan to implement their strategy. Only about 15% of the respondents are still discussing how to plan such an implementation and are currently aiming to set up such a plan. Surprisingly, almost 30% of the participants answered that they currently do not have any concrete plans on how to achieve their objectives. As means to achieve their goals, focus is placed on the topics “Governance” and “Digitalisation” which are also in focus for other strategic considerations.

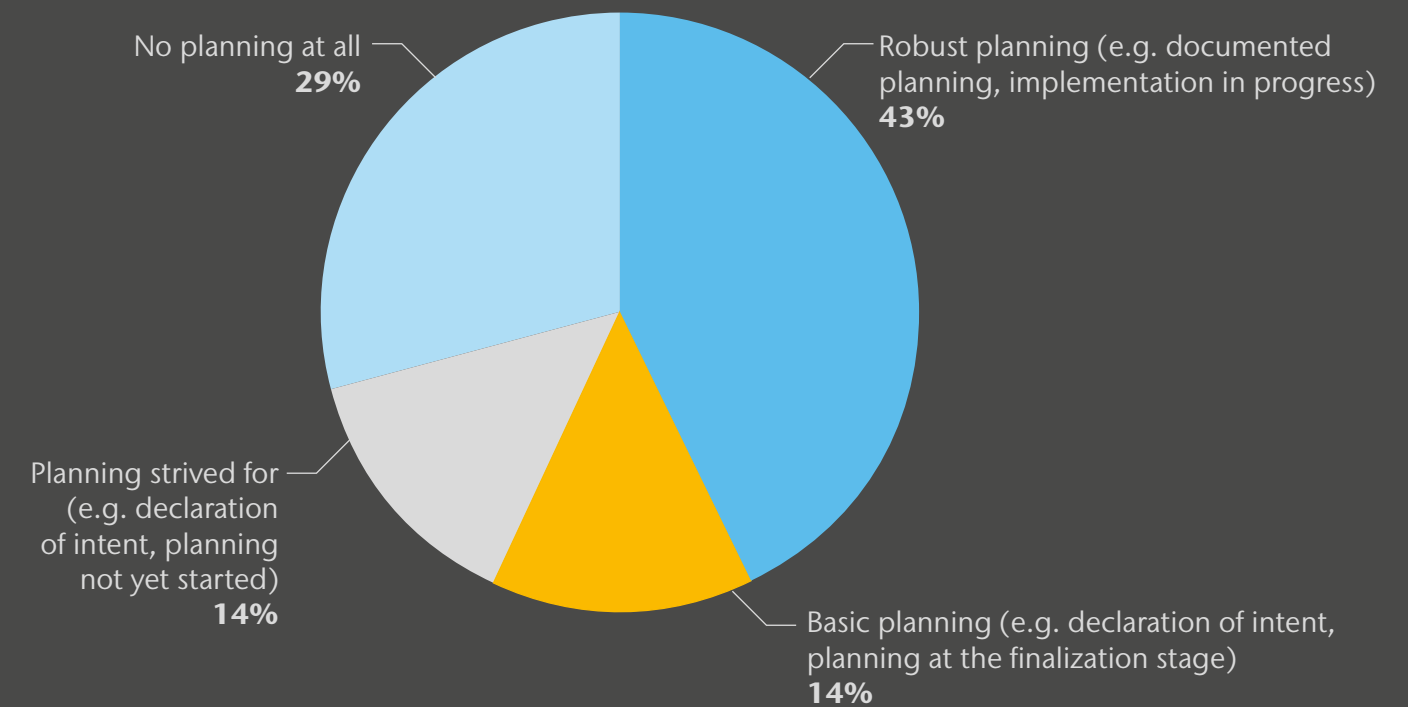
Description of the long-term strategy



Means to achieve objectives



Planning for achieving long-term objectives



Apart from management, to a large extent respondents see the main responsibility for pension plans and associated strategies with HR. Finance’s influence on the pension plan strategy is perceived to be secondary. In companies with a Pension Manager, this person will bear the main responsibility for the strategic focus of the pension landscape.



Risk  
management  
of pension  
obligations



# Risk management of pension obligations

## Plan design for future accruals and new joiners

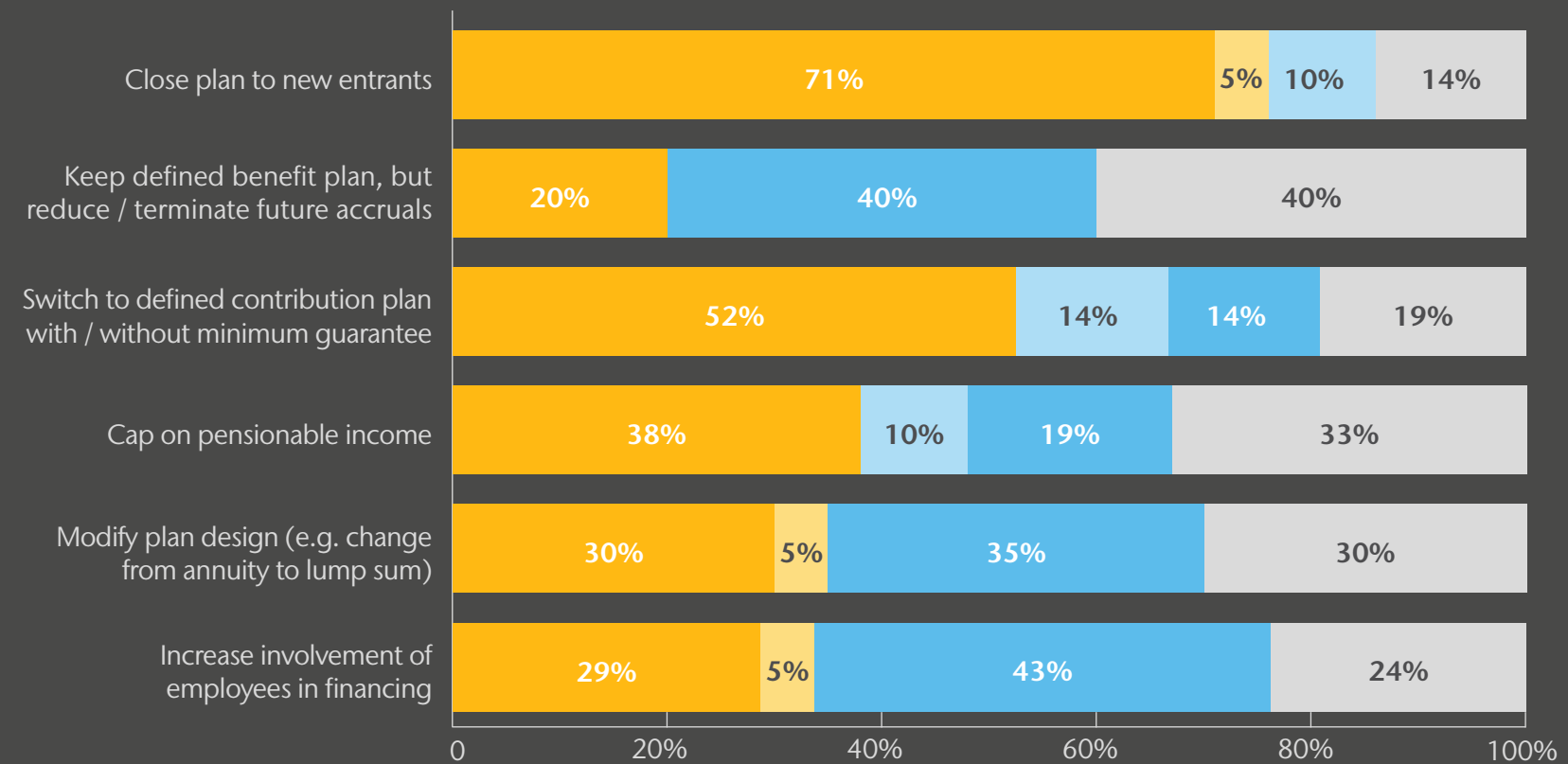
More than 80% of the study participants reported their final salary plans are closed to new entrants. This is or often was the first step towards converting to a contribution-based design. The term contribution-based refers to plans which still include a hypothetical risk for the employer, but where such a risk has been limited as much as possible within the existing legislation framework.

The next step is often to transfer future accruals of existing plans into a contribution-based plan. One third of the participants reported this step has already been implemented as well.

The following table provides an overview of risk reduction measures companies plan to implement in the short term:

### Plan design measures in the next 12 to 24 months

■ Already implemented 
 ■ Implementation very likely 
 ■ Implementation rather unlikely 
 ■ Implementation unlikely 
 ■ Not an option

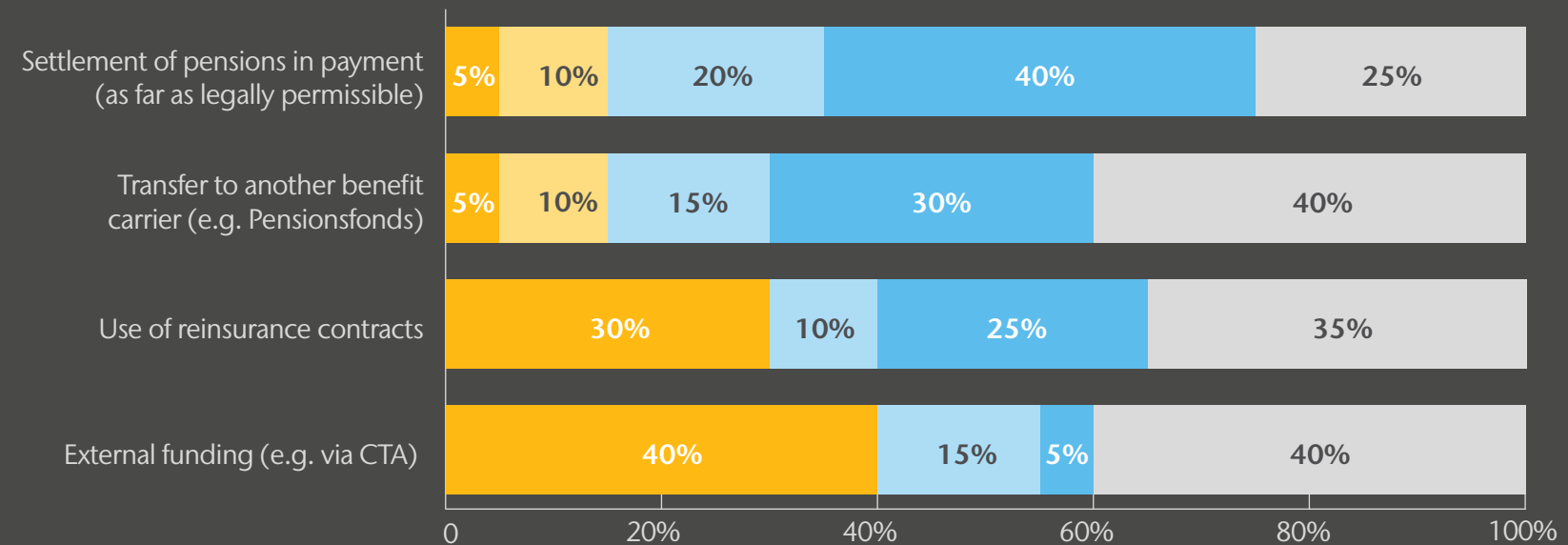




In addition to fundamentally changing the entire set-up such as closing an existing final salary plan to new entrants, risks can also be reduced by modifying the plan design. A change could for example be a cap on the pensionable income, a measure which has already been taken or currently being planned by almost half of the respondents. Further measures such as financing benefits with additional employees' contributions or changing the payment from an annuity to a lump sum have already been or are planned to be implemented by about one third of the companies.

### Risk management measures for existing plans in the next 12 to 24 months

■ Already implemented 
 ■ Implementation very likely 
 ■ Implementation rather unlikely 
 ■ Implementation unlikely 
 ■ Not an option



The participants' responses lead to the conclusion that risk reduction is mainly achieved with the switch to contribution-based plans as well as with a modification of plan design elements. In our observations companies place their focus on the control and management of pension risks. In this context – and in accordance with market observations – funding pension obligations using CTA solutions or reinsurance contracts are commonly implemented or planned pension risk management measures. A smaller number of companies have already implemented or considered the implementation of other solutions such as settling pensions in payment or the transfer to an external pension provider.



# Investment strategy



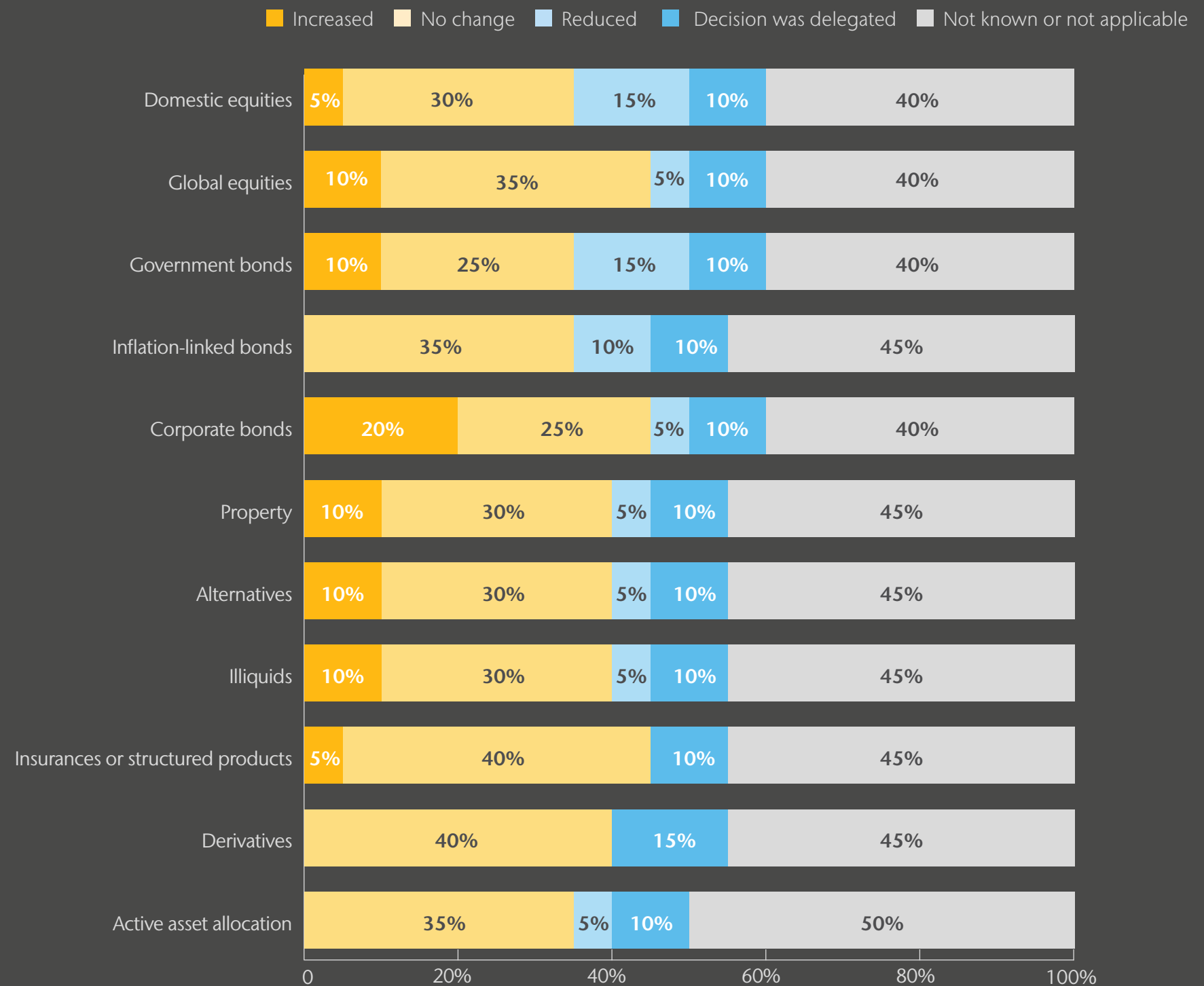
# Investment strategy

The survey results show that the investors in Germany have not carried out any fundamental, but instead few selected changes in the present environment. Most companies have not made any significant change to their target investment strategy during the last 12 months.

An important result of the survey is that some companies increased their share of global equities, whereas investments in domestic equities were further reduced. This shows that, also driven by the continued low interest environment, diversification of investments into several investment classes has high priority. In addition to the diversification within one investment class (equity), a shift away from traditional investments and towards property, alternative and illiquid assets can also be observed. 10% of the companies increased their share of property, alternative as well as illiquid assets respectively during the last 12 months and at the same time reduced their allocation to government bonds by 10% (inflation-linked) and 15% (fixed-interest). The lacking attractiveness of government bonds coupled with the low yields increasingly let investors shift their attention to corporate bonds.

Only 10% of the companies delegated the decision making on adjustments to their target investment strategy to third parties during the last 12 months.

Looking back: Changes carried out in the target investment strategy



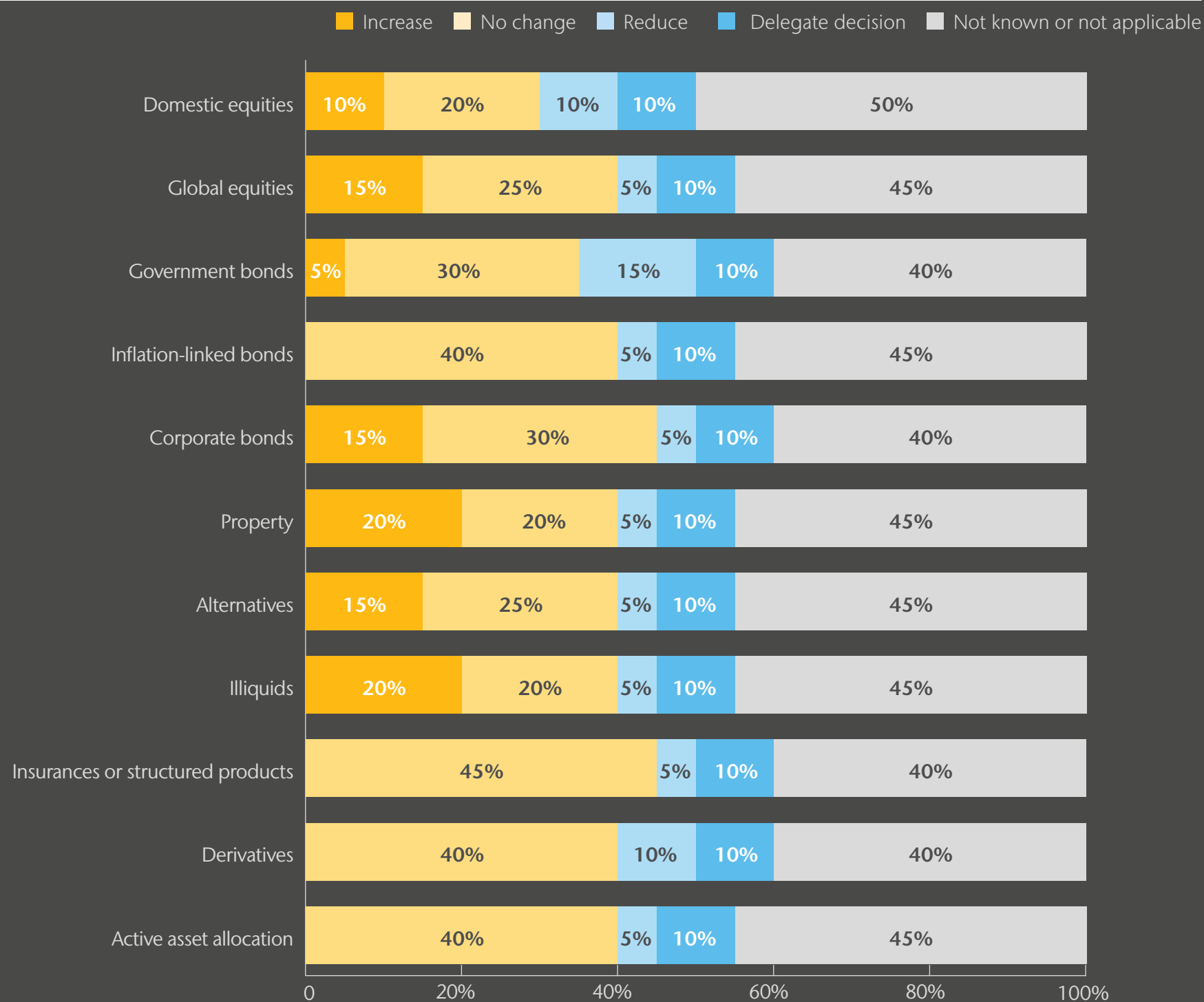
The majority of interviewed companies has not made a decision to amend their target investment strategy for the next 12 months. At the same time, about one third of the interviewed companies has not yet or still finds it difficult to come to an opinion on this issue.

15% of the companies plans to further reduce their share of government bonds during the next 12 months. A smaller number of companies (10%) expects that their share of local equities and the use of derivatives will be cut back.

Considerable increases are expected for alternative financial instruments and global equity (15% of the companies in each case) as well as with property and illiquid assets (20% in each case).

These survey results show that some companies – especially in light of the present low-interest environment – aim to use alternative investment opportunities in order to increase diversification within the yield-generating investment portfolio.

### Looking ahead: Changes expected in the target investment strategy



### Outsourcing of pension scheme functions

As soon as a target investment strategy is determined, the question arises on how and by whom such strategy should be implemented. We asked the participants which investment activities and other functions they have outsourced to external service providers within a coordinated control framework and how likely it is they will outsource such services in the future.

On the one hand, the survey results show that up to now outsourcing of functions (monitoring asset managers, selecting asset managers, tactical asset allocation, hedging the interest rate and inflation risk, implementation of the entire investment policy, introduction of a special asset class) has only taken place to a very small extent.

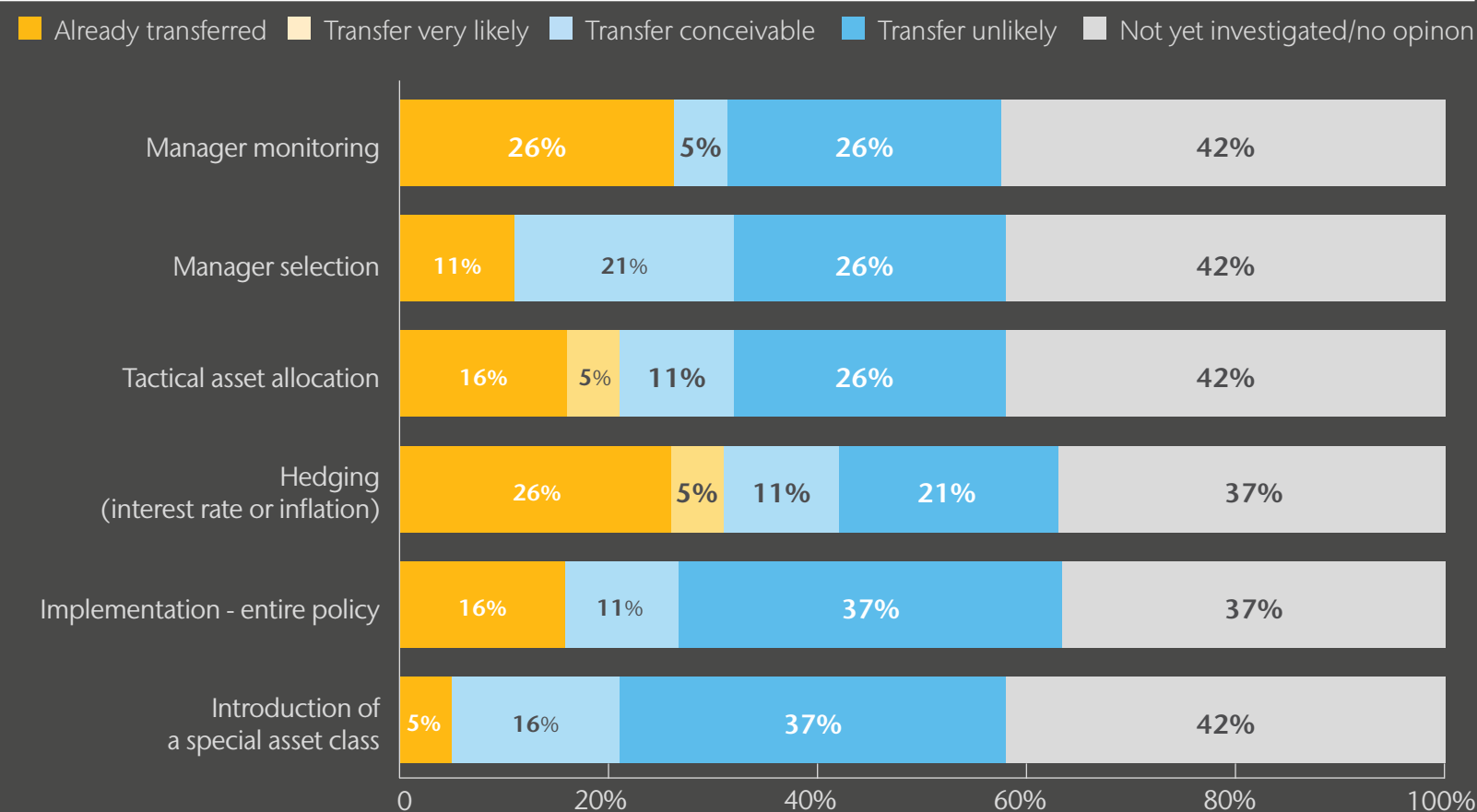
Depending on the function, only 5% to 26% of the companies have already outsourced any of them. Approximately 40% of the respondents have not yet formed an opinion whether to outsource functions to external service providers nor have they looked into such an option. Further 21% to 37% of the companies consider such outsourcing as unlikely. In particular companies' willingness to outsource the implementation of the entire investment policy (not the policy design) and the introduction of a special asset class is rather low.

On the other hand, the trend towards outsourcing has gained momentum. For instance, 16% of the interviewed companies have transferred the implementation of the entire investment policy to external service providers and for another 11% of the companies, such transfer is conceivable. It could be concluded that there is a need for delegated concepts, i.e., outsourcing the entire investment management. A similar increase in acceptance can be seen in the outsourcing of tactical asset allocation.

Carried out most frequently is the outsourcing of investment activities, such as the continuous monitoring of the asset managers and the hedging against pension risks (interest rate or inflation risk). 26% of the companies have already transferred each of these functions to external service providers.

Furthermore, 31% to 47% of the companies regard a partial outsourcing of investment activities, such as the selection and monitoring of the asset managers, as very likely or conceivable. Since the participating companies are largely internationally operating companies with pension schemes in many countries, this result is not surprising. Owing to the increasing complexity – especially due to recent M&A activities – it is hardly possible for the CFO and the finance department to cope with all investment functions anymore.

### Outsourcing of functions to external service providers in Germany



### Attitude towards hedging pension risks

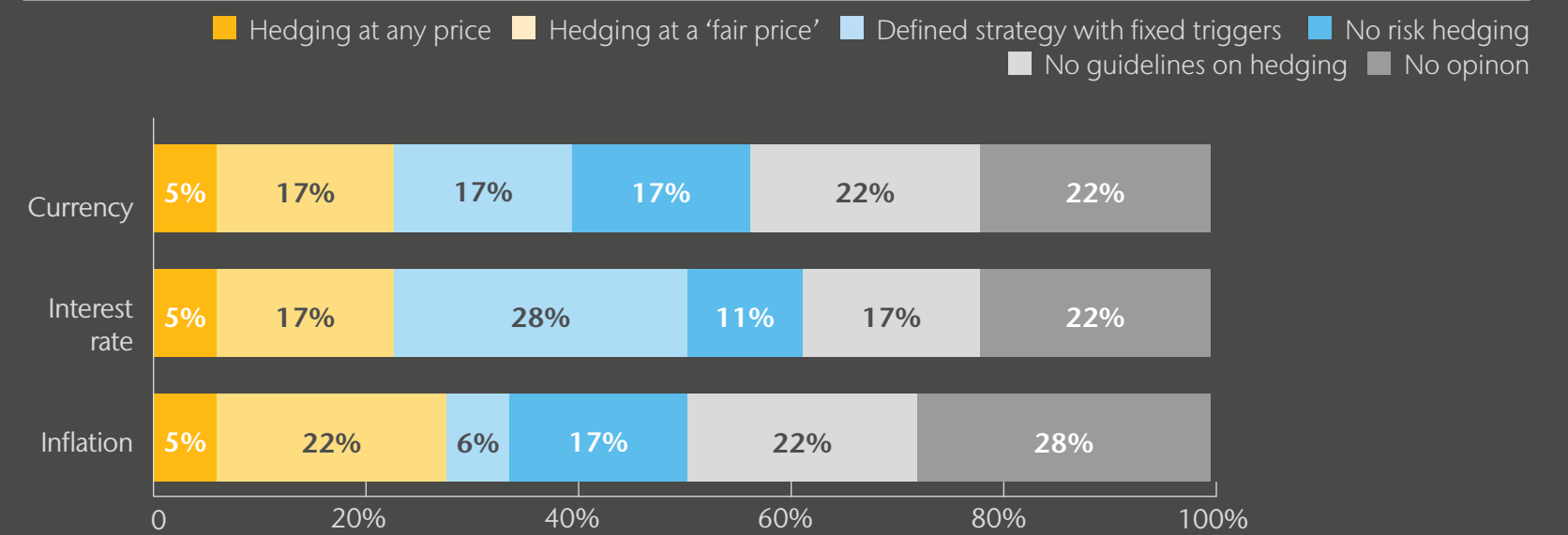
Apart from making use of additional investment classes and thereby improving the portfolio's diversification, a better hedging against certain pension risks may be achieved, e.g. by means of Liability Driven Investments (LDI) for interest rate hedging or commissioning an Overlay Manager for currency hedging. Hedging against currency, interest rate or inflation risks is reasonable for companies to do, but also requires additional effort.

It is therefore no surprise that the survey shows that in Germany only few companies have already implemented a defined strategy with fixed triggers. The survey findings also show that approximately only 6% of the companies consider hedging risks at any price. Interesting is also the large number of companies that do not have a policy in place for the hedging risks (17% to 22%), say they will not hedge these risks (11% to 17%) or have not yet formed an opinion on this issue (22% to 28%).

In the current low interest rate environment, the most important risk for companies to hedge against is change of interest rates. 28% of the respondents have already implemented a defined strategy with fixed triggers against this risk.

If hedging were possible at a 'fair price', hedging the inflation risk would have highest priority, followed by the currency and interest rate risk.

### Attitude towards hedging



In summary, the survey results paint a very heterogeneous picture to the question which part of the liabilities or plan assets is hedged against interest rate or inflation risk by German companies. Most respondents could not provide specific details on this topic.

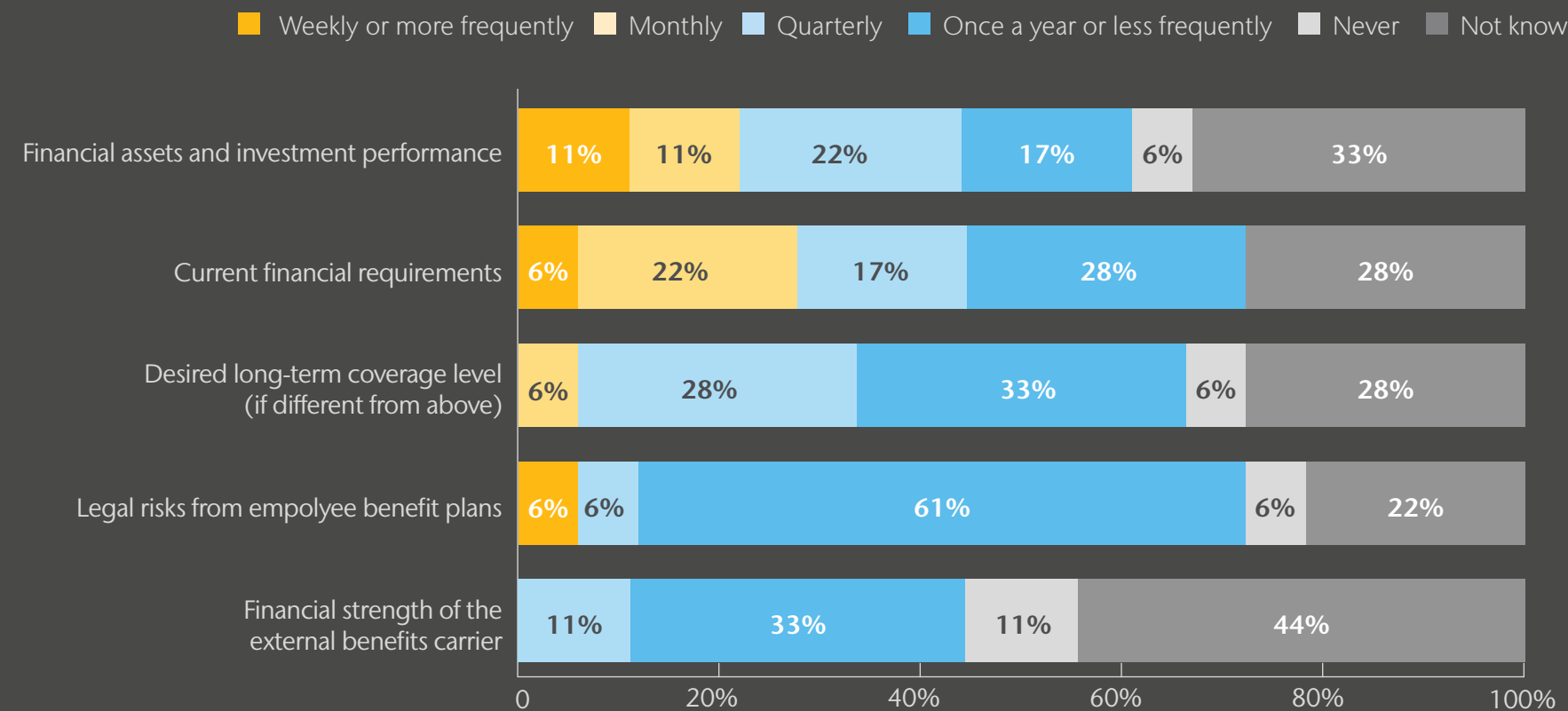
# Monitoring and measuring pension risks



# Monitoring and measuring pension risks

When asked how often costs, risks and opportunities are reviewed, we see that the asset-side risks (assets and investment performance) tend to be monitored most frequently. Almost half the participants conduct weekly, monthly or at least quarterly reviews. The current financial requirements are reviewed by almost half of the participants at a comparable frequency, as well. The long-term desired level of coverage and legal risks to the pension plans are checked less often; about two thirds of the companies only conduct such a review on an annual basis. The participating companies place less focus on the regular control of the financial strength of the involved (external) benefit carriers.

## Frequency of review



The picture presented here shows factors sensitive to short-term control are more frequently subject to monitoring. This is particularly the case for the investments. Other pension risks are subject to less frequent review also due to the greater difficulty of influencing them (owing to the German legal framework).



# Hot topics





# Hot topics | Cyber Risks

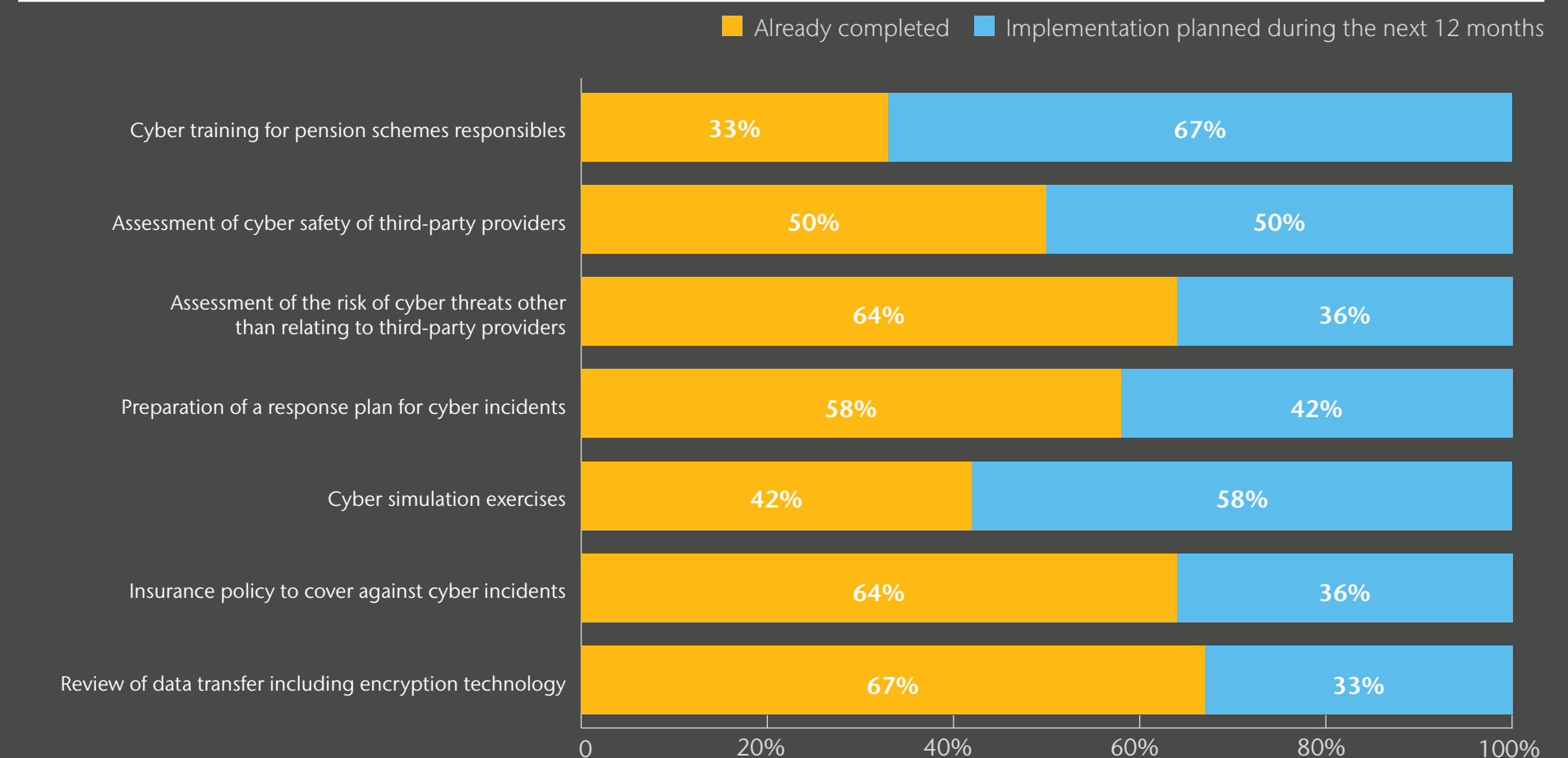
Becoming victim of a cyber-attack is an increasing threat to businesses and pension schemes are not spared from these risks. Although the number of known cyber-attacks in this area is low, we expect that cybercrime will increasingly become an issue for pension schemes, as well. After all, pension schemes regularly exchange lots of data, some of it personal, with third parties (e. g. with the actuary to determine pension liabilities).

As a first step to better understand cyber threats, pension schemes should carry out both an assessment of the internal risks as well as of risks associated with all involved third-party providers. This may be a demanding task as there are not only many processes which have to be considered, but possibly many providers, as well.

As part of the survey we asked the participants which risk management measures they have already taken for their pension schemes. Altogether, 63% of the interviewed companies have already become active and have implemented or intend to implement measures within the next 12 months.

Participants who have already become active or plan an implementation, the measures are as follows:

**Risk management measures which have been carried out for pension schemes**



Almost two thirds of the participants have already assessed their existing cyber risk and taken out respective insurance policies. Focus is especially placed on the secure data transfer with the involved service providers.



It is not yet possible to take out specific cyber insurance policies for occupational pension schemes in Germany. We believe that solutions tailored for pension schemes will be available soon. Pension schemes responsables should verify whether it is possible to include a certain cyber protection in existing insurance policies. Furthermore, we expect that the insurers will assess companies with a dedicated cyber expert favourably or even require such a position in the company to provide adequate protection.

Cyber trainings for pension scheme responsables or cyber simulation exercises still only play a minor role. Although such exercises can help to make people more aware of cyber risks and help to recognize which measures are necessary in case of a cyber-attack to minimize the possible effects on the pension schemes.

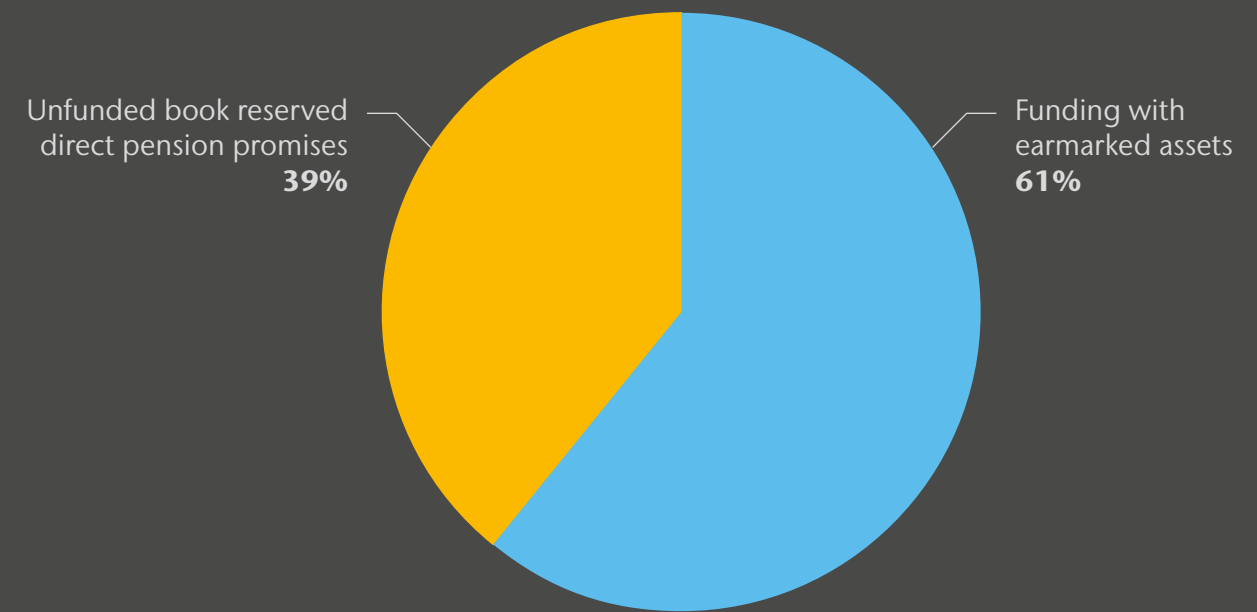


# Hot topics | State-of-the-art pension plan

The world of the occupational pension schemes has significantly changed during the last decade. Owing to the increased complexity and diversity, the requirements for a state-of-the-art design of occupational pension schemes are changing, as well. With the introduction of the Occupational Pensions Reinforcement Act (“Betriebsrentenstärkungsgesetz”) on January 1, 2018, the social partners now have the opportunity to introduce pure defined contribution plans. This possibility could change the entire German pension landscape. However, many companies still appreciate the flexibility in designing final salary or contribution-based pension schemes.

Regarding the state-of-the-art design of pension plans, 61% of the participants consider funding pension plan obligations with assets earmarked for this purpose (internally or externally) to be an effective risk reduction measure. 39% continue to regard book reserved direct pension promises as a contemporary approach.

State-of-the-art pension plan funding from a risk perspective

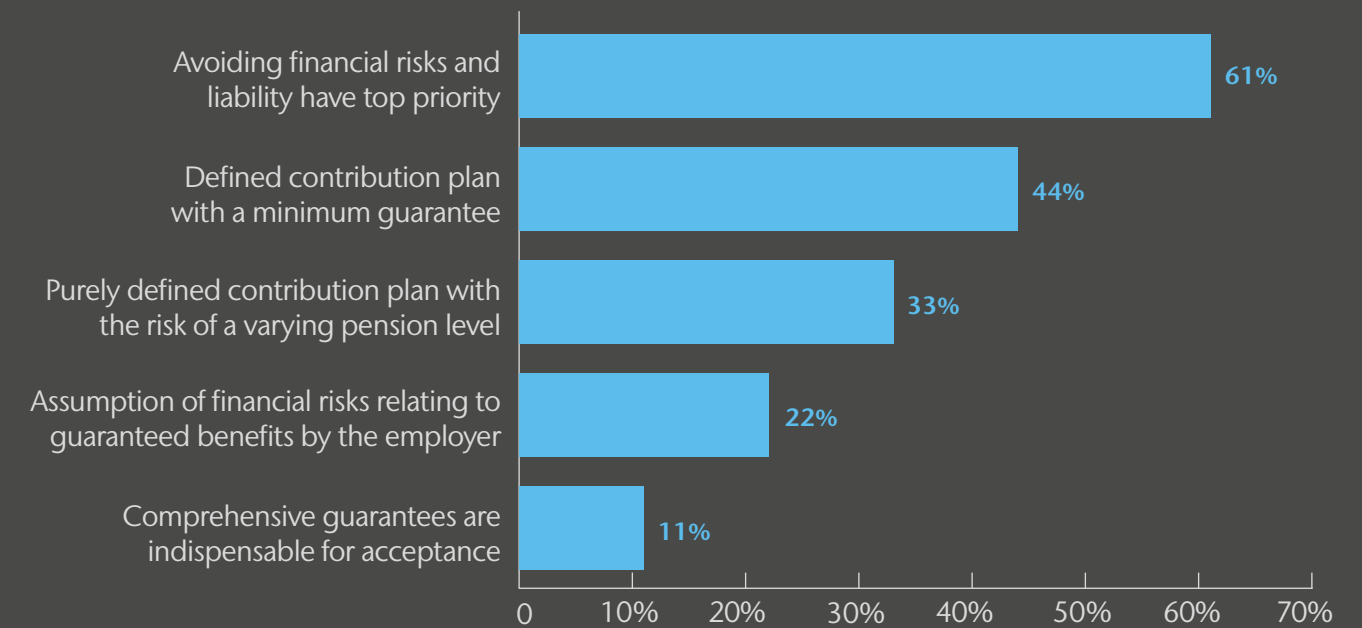


In the past, the employer’s liability was often cited as a reason to redesign or not to introduce pension schemes at all. This is reflected in the present study in which avoiding financial risks and liability has top priority; the response given by most participants (61%), to the question of what characterizes a state-of-the-art pension plan.

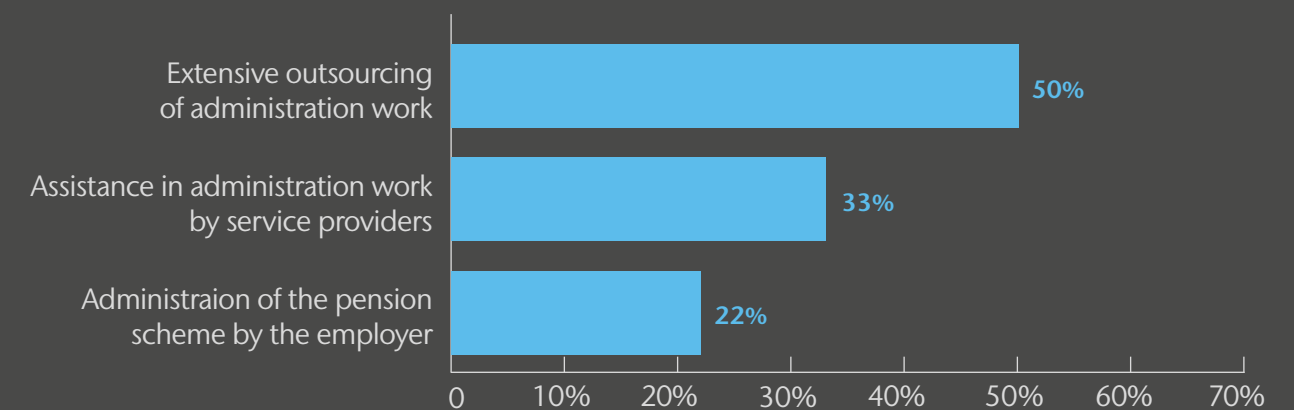
Only 11% of the respondents consider comprehensive guarantees for the employees to accept the pension scheme and only 22% of the companies are willing to bear the financial risks of guarantees within the pension scheme. Nevertheless, a complete waiver of guarantees by implementing pure defined contribution plans with the risk of a variable, possibly lower, pension is not regarded as the preferred solution, either; only 33% of the respondents considered the pure defined contribution plan as desirable. 44% of the interviewed companies regard a contribution-based plan with a minimum guarantee as a state-of-the-art solution where the employer is responsible for a minimum pension and the opportunities for the employees are optimised as the actual pension payments may be higher than the guaranteed minimum.

With companies increasingly focusing on their core business, the trend, which was already recognized in the past, to outsource administration of pension schemes to respective service providers continues. 50% of the companies consider extensive outsourcing of administration work as state-of-the-art. Provided that the administration activities continue within the companies, 33% would be in favour of making at least using the support by external service providers. Only 22% regard the administration tasks as an inherent function of the employer.

### State-of-the-art pension plan promises from a risk perspective with respect to guarantees and employer liability



### State-of-the-art administration of pension plans



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## About Aon

Human Resources and Aon – these two simply belong together. In this respect, we rank among the leading consulting companies throughout the world. In Germany, we are developing practice-orientated and innovative solutions in the areas of occupational pension schemes and remuneration. It is our objective to contribute to the success of our clients in a sustainable way. For this purpose, we reduce complexity for them and elaborate individual solutions. Our customers appreciate us as a strategic partner who has a strong ability to put ideas into action as well as an exceptional expertise. 50,000 employees work for Aon in 120 countries throughout the world, thereof about 1,650 in Germany. In the area of Retirement Solutions, we are represented with more than 350 employees at our German locations in Hamburg, Mülheim an der Ruhr, Munich, Stuttgart and Wiesbaden.

You will find further information about Aon at [www.aon.de](http://www.aon.de).  
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# Survey participants

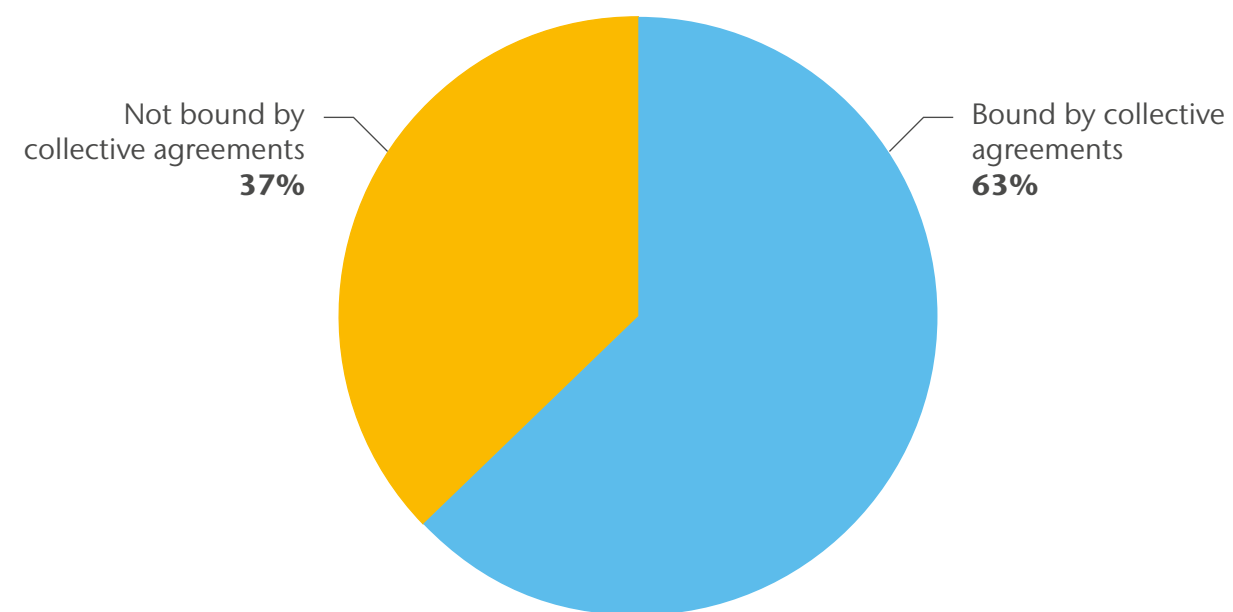
## In more depth

Internationally operating Aon clients were invited to participate in the Global Pension Risk Survey 2019. Pension obligations play an important role for these companies and therefore their approach to the associated pension risks is of special interest.

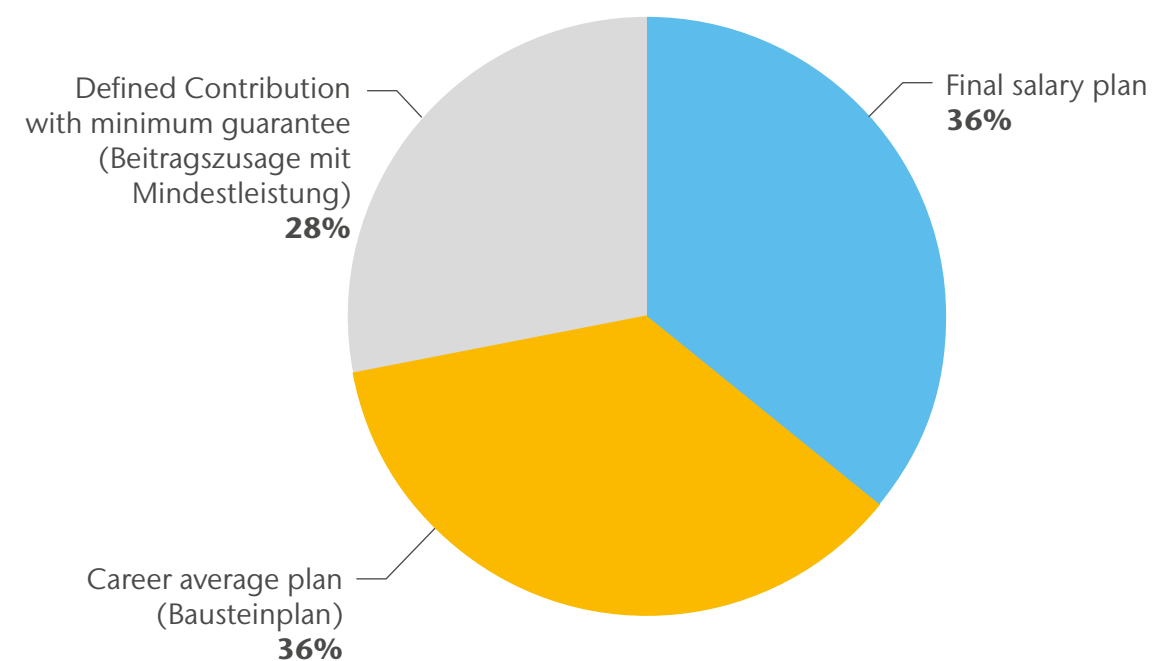
In total, 35 participants large and mid-size companies participated in the study in Germany. The questionnaires were completed online between April and June 2019.

Almost two thirds of the companies (63%) are bound by collective agreements. The benefit plans with the largest obligations in Germany are final salary plans and career-average plans (36% each) as well as defined contribution plans with minimum guarantees (28%). Cash balance plans were not reported.

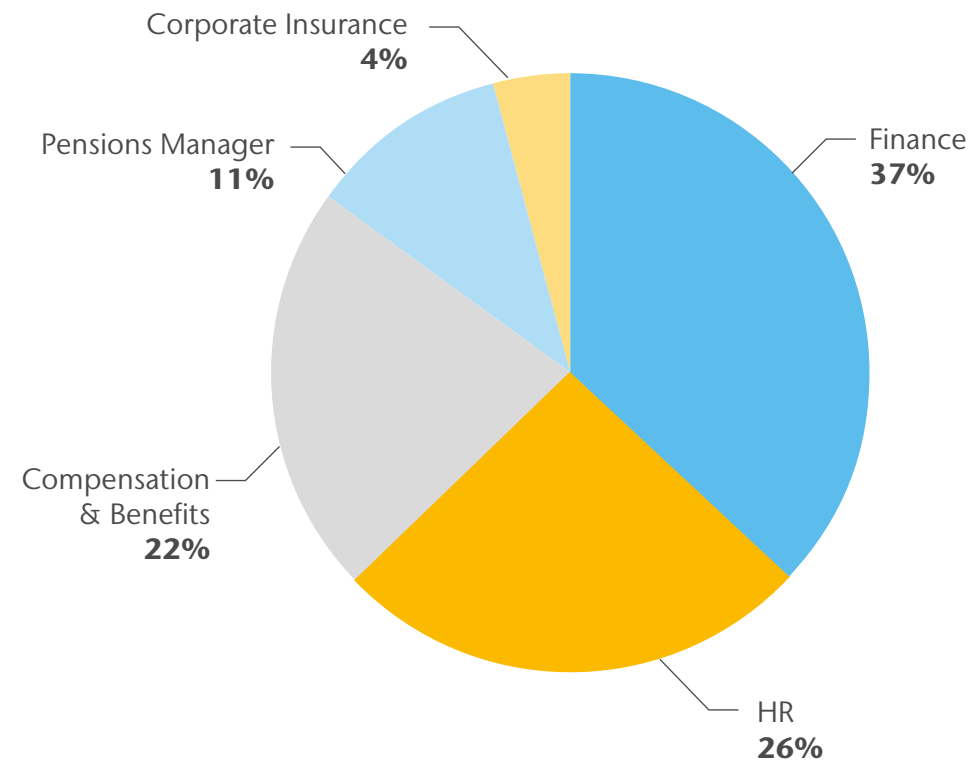
### Bound by collective agreements



### Type of benefit plan



Function of respondent



Number of plan participants

