International Pension Plan Resilience Survey

Key Findings

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Prepared by Aon

Empower Results®

IPP Resilience Survey: Key Findings

International Pension Plans (IPPs) have often been used to great effect to solve the complexities of providing retirement benefits to mobile employees – with a particular focus on populations such as rotators and career expats. But with the majority of IPPs being defined contribution, how are they responding to recent financial market volatility and what should sponsoring employers do now?

Our survey highlighted five key trends. Click each hexagon for actions employers could adopt to address these issues:

1 **Employers are yet to engage actively with members regarding the impact of the COVID-19 crisis on IPP DC account balances.**

2 **Most employers have not yet looked to cut costs by reducing contributions to retirement plans.**

3 **Members who have suffered a slump in their savings could be left financially exposed at retirement.**

4 **Much around member behaviours and investment performance remains unknown. This lack of information is a concern.**

5 **IPP providers are generally performing well against service level agreements but business continuity measures are not well known.**

About the survey
We surveyed organisations across all sectors who currently have an IPP to gather a market perspective on how those plans are responding to challenges during the COVID-19 crisis.

We received 22 responses from organisations with stated IPP assets ranging between $1m and $6bn, and between 8 and 8,000 members.

Of these, 76% were DC plans, 14% were DB plans and 10% were hybrid plans.

IPP Resilience Survey: Key Findings

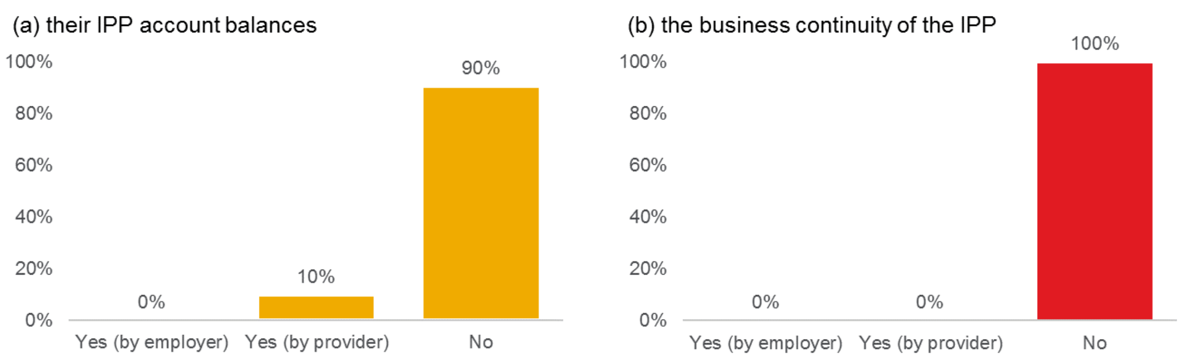
1

Employers are yet to engage actively with members regarding the impact of the COVID-19 crisis on IPP DC account balances.

This echoes our wider research, where we found employers have so far prioritised physical and mental wellbeing as the pandemic took hold, but there is an emerging trend to provide information and reassurance around long-term savings goals.

Interestingly, many providers of domestic retirement plans have communicated directly with members, which does not appear to be the case for IPPs covered in this survey.

Members have been contacted with information on…



Risk
With significant volatility in investment markets, members who are not experienced **investors may make knee-jerk decisions**. As a result, eventual member retirement outcomes may suffer.

Solution
Employers should take an active interest in members' financial wellbeing, as they do their physical and mental wellbeing. There is no time like the present crisis to push forward with a **financial wellbeing strategy to increase engagement and retention.**

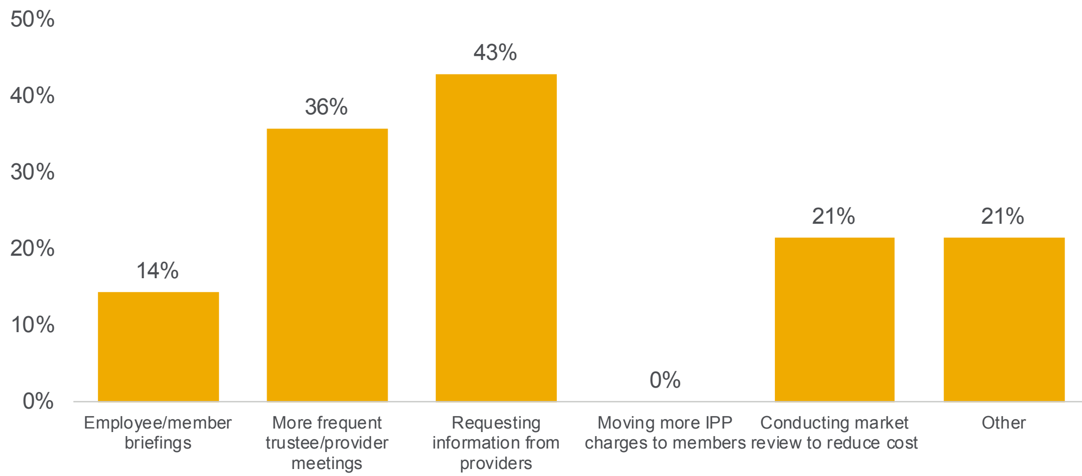
IPP Resilience Survey: Key Findings

2

Most employers have not yet looked to cut costs by reducing contributions to retirement plans.

Only **21%** of our sample appear to be actively pursuing cost-saving initiatives such as a market review of their IPP, and there is no appetite to shift any of the cost burden to members.

Specific actions relating to their IPP that survey participants are taking



Note: "Other" included reviewing fund ranges and implementing a wider plan review.

Risk
Should the economy be slow to recover – or worsen again – employers may **miss valuable opportunities** to control costs and preserve cashflow at a time where cash is critical.

Solution
It is important that employers continue to support their members' long-term savings goals but with the mid- to long-term economic outlook uncertain, employers who **research all their cost-cutting options now** may reap the rewards later.

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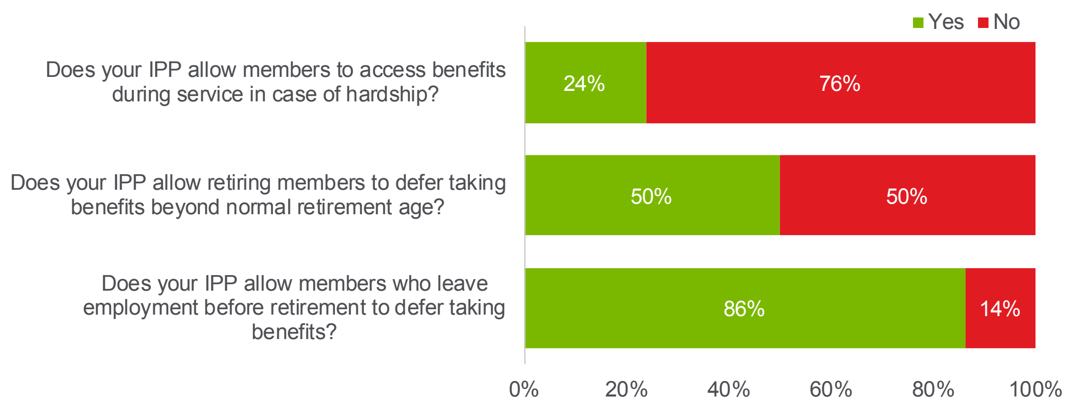
3

Members who have suffered a slump in their savings could be left financially exposed at retirement.

Of our sample, **50%** of IPPs did not allow retiring members to defer taking benefits beyond normal retirement age. More positively, **86%** of IPPs allow pre-retirement leavers to defer payout on termination.

Three-quarters of plans do not allow access to assets in case of financial hardship, despite flexibilities afforded by an IPP in plan design due to not having tax-approved status in the vast majority of cases.

Member Options



Risk
With many DC savings values currently lower than expected, **members close to retirement may be forced** into drawing benefits before the markets have a chance to recover, leading to poorer member outcomes.

Solution
Consider reviewing flexibility in the IPP by **allowing leavers to remain invested at retirement** or by allowing access to DB or DC assets in case of financial hardship through temporary or permanent loss of earnings.

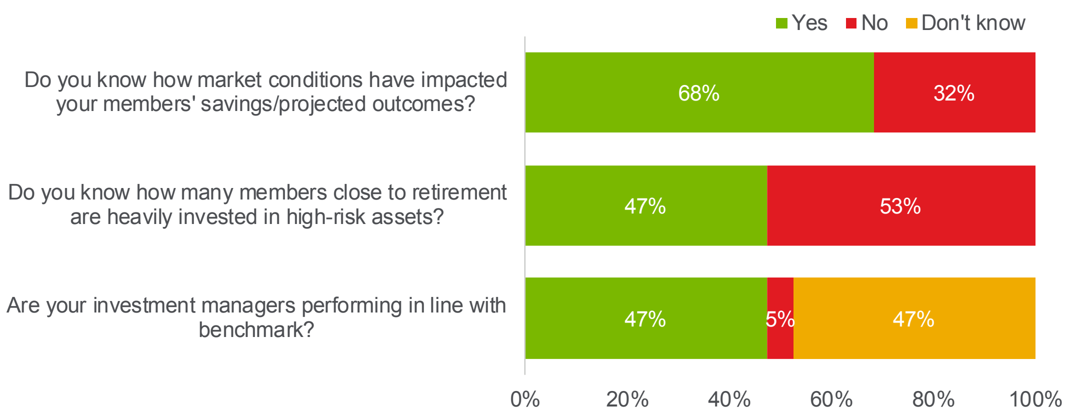
This will typically require amendments to the plan rules.

4

Much around member behaviours and investment performance remains unknown. This lack of information is a concern.

Around half of respondents appear not to be actively monitoring investment manager performance or member investment behaviours (including whether members close to retirement are invested in high-risk assets).

Investment Performance and Member Behaviours



Risk
Failing to understand the investment behaviour of members and how their investments are performing could lead to **poorer member outcomes**.

Solution
Member communications (or “nudges”) can prompt actions leading to improved member outcomes.

Meanwhile, you can ensure you are giving members the best chance of a good retirement outcome, **by monitoring fund performance** against benchmark and **reviewing default funds/investment strategies** for appropriateness.

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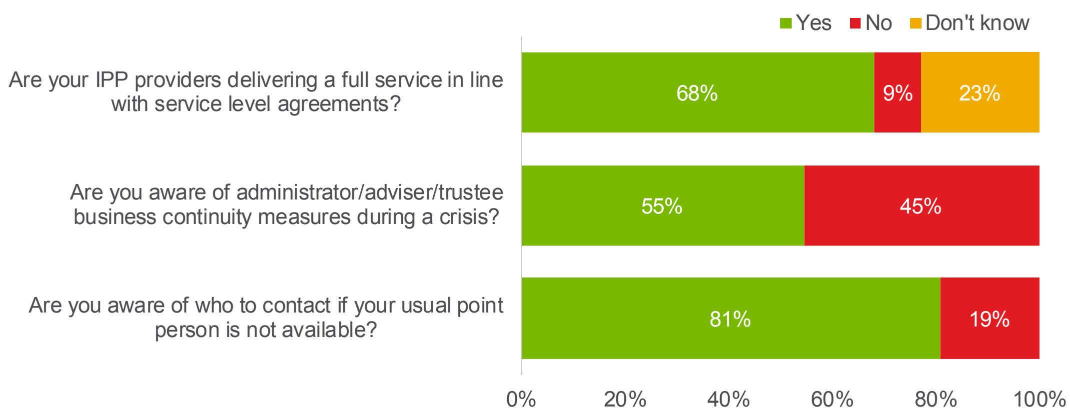
5

IPP providers are generally performing well against service level agreements.

Only **9%** of respondents believed their IPP provider was falling short at this time, although nearly **a quarter** were unsure either way. Nearly **half** are unaware of their providers' business continuity measures during a crisis.

Risk
Lack of robust business continuity measures within providers means significant risk of interruption in service, leading to **financial risk for members and wasted management time** for employers.

Administration and Business Continuity of IPPs



Solution
Take the opportunity to **review provider business continuity measures** to mitigate potential interruptions in service, which may form part of a longer-term review of governance measures and will increase resilience in the face of future challenges.

How Can Aon Help?

We have solutions to help employers explore the areas highlighted by the survey findings:

Financial Wellbeing Employee Communications

Employers are yet to engage actively with employees on their IPP account balances.

We provide tailored email communications and deliver customised local/regional webinars designed to help your employees manage personal finances during the COVID-19 crisis.

- COVID-19 is having material impacts on personal finances and savings;
- Each session provides an action plan to support employees to take control and avoid financial stress;
- It also explores what it means for employees' retirement savings and investment choices.

Governance Review

Better governance will increase plan resilience to future challenges.

We review your DC, DB or hybrid IPP to:

- Assess alignment with your global benefits strategy and philosophies, as well as market practice;
- Identify areas of plan flexibility which could have a positive impact on employer costs and member outcomes;
- Audit operational processes and plan documentation to mitigate business continuity and vendor service risks.

PlanWatch Investment Review

Much around member behaviours and investment performance remains unknown.

We help you set a global DC policy and implement robust, world-class governance to:

- Improve investment performance and member outcomes;
- Identify opportunities to reduce fees;
- Access market-leading investment governance advice;
- Reduce volatility as members approach retirement to avoid sudden drops in asset values.

Global DB/DC Flexibility Assessment

Employers should know their options for cost savings/deferrals within their wider global plans.

We deliver analysis (based on our wider DB and DC study) to help you explore where changes can be made to your DB/DC plans including:

- Opportunities for employers and members to flex/reduce their cash outflows;
- Improved accessibility to draw against DB or DC assets in the event of financial hardship;
- Flexibility to defer benefit payment where account values have fallen.

To discuss any of these solutions, please contact us.
Note that independent tax and legal advice should be sought before implementing any solution.

Contacts

Click here to contact us for a discussion, or email us individually below.

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