2021 Hot Topics for Employer Retirement Provision across Asia Pacific

On The Horizon

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Asia Pacific Perspectives
‘Reasons for optimism’

The Spanish flu had long been forgotten and it is clear that around the world we had overlooked pandemic risks and our preparedness for such a global eventuality.
Investment markets thankfully have short memories too, and whist it took the S&P 500 only 22 trading days to fall 30% in March 2020, equities since rebounded back to new highs, fueled by monetary stimulus around the globe, with surging technology stocks, and sure signs of economic resilience across many Asia Pacific markets.

In Asia Pacific, we have 4 of the top 5 highest average life expectancies in the world.
Asia’s retirement systems are growing but remain relatively underdeveloped (see right), and are struggling to keep up with expected future retirement income needs and with high longevity (led by Hong Kong, Japan, Singapore and Australia). Employer support through offering supplementary plans and supplementary contributions is helping to bridge these systemic gaps.

Money worries are intrinsically linked to overall physical and mental health, and provision of workplace financial wellbeing support continues to increase.
For employers, engaging employees on financial topics has often been met with procrastination, however the pandemic has focused many of us to rethink – not just what is most important to us such as our family and friends and health – but to reassess our personal level of financial resilience under ‘what-if’ scenarios.

With global retirement savings surging towards $50 trillion, the focus on Responsible Investing (ESG) is also great reason for optimism as a sustainable force for good.
As we embrace the Chinese Year of the Ox (hopefully a good sign for bull markets) and vaccines deliver a much needed shot in the arm, it is right to anticipate better times ahead globally led by Asia Pacific.

Aon’s in-country experts across the Asia Pacific region have shared their local perspectives on the latest updates and opportunities for employers by market over the pages that follow, they are on hand to support you navigate these hot topics - do reach out to connect with us.
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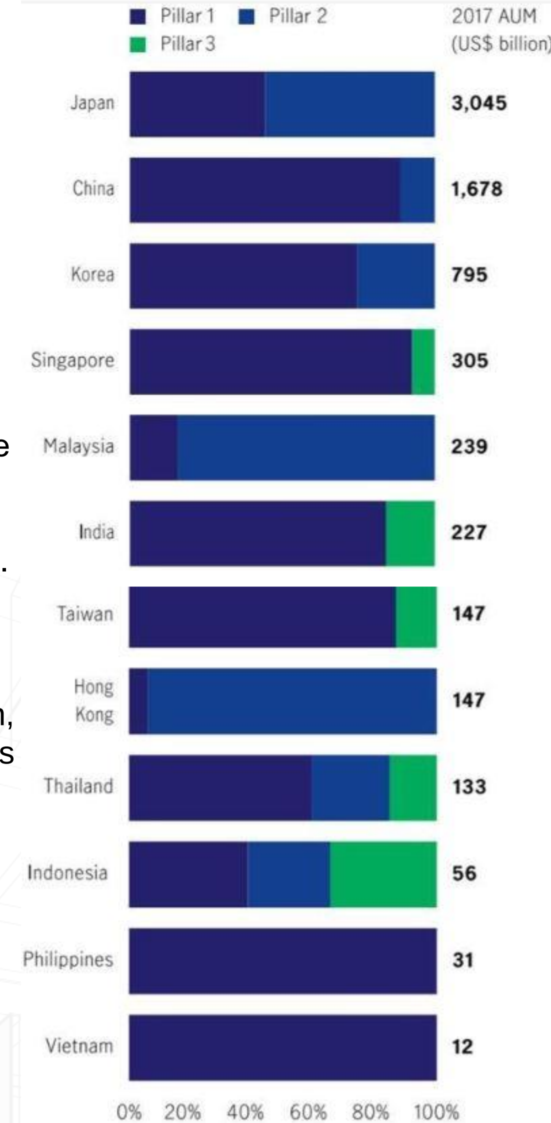
Contact us at apac.retirement@aon.com
Discover more and stay updated at www.aon.com/apac/insights/retirement-investment

Evolution of Asia’s retirement systems



Pillar 1 – State, Pillar 2 – Occupational, Pillar 3 – Personal

Sources: Aon, World Bank, IMF, Cerulli, Manulife, WHO

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APAC Market Overview: Australia

- Compulsory Superannuation Guarantee (SG) system has operated since 1992
- Mandatory 9.5% contributions (currently) from employer where relevant quarterly income can be capped at (2020/21 tax year) 57,090 AUD (approx. 44,000 USD)
- No official Normal Retirement Age - the Government Age Pension (means-tested) is currently age 66 and superannuation withdrawal is tax-free from age 60
- Reducing number of DB plans and few standalone Corporate plans still run
- Self-Managed Superannuation Funds (SMSFs) very popular – there are 593,000 (99.7% of total number of funds and 26% of total super assets)

Accumulated asset size of Superannuation system

3 Trillion AUD

(~150% of GDP)

High life expectancy by global standards

7th highest

OECD 2018

Reduction in number of DB plans now only

~5% of total super assets

Annual tax efficient concessional contribution limit is increasing from July 2021 to

27,500 AUD

(~21,000 USD)

Employees have

Choice of Fund

&

DC Investment Choice*

Aon has an award winning Super fund

smartMonday by Aon

Employer focus topics and opportunities

- SG rises and retirement adequacy concerns: currently legislated SG increases from **1 July 2021** – with potential budget, salary packaging and communications implications – but SG increases could be stalled due to concerns over salary growth and retirement adequacy impact
- Financial wellbeing: offer support to empower employees to navigate investment choices, encourage tax efficient personal savings and adequate life insurance: **engagement + positive action = better outcomes**
- DB risks including trapped surplus: wind-up of DB plans continue
- Proposed 'stapling of super': super to follow employee to minimise unintended multiple accounts - need to consider the impact on employer plans and communication of benefits to employees
- Super (as a benefit) is changing shape: more responsibility on employee thus employers need to consider their role in super and how to structure their employee benefits package, inc. consideration of life insurance inside super
- Legislation changes: Upcoming requirements on Member Outcomes and Design and Distribution aims to ensure better member benefits in the future

* a MySuper default applies where no choice is made

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APAC Market Overview: Cambodia

- National Social Security Fund (NSSF) has been operating since 2008 for the wellbeing and protection of all employees and workers covered under the Labour Law
- NSSF provides occupational risk and health care schemes
- **A pension scheme for the private sector is planned** but its implementation is currently pending
- Effective since 1 January 2019, employment seniority payments replace termination benefits for workers who have unspecified duration contracts
- Seniority payments have two components: 1. ongoing seniority payments 2. seniority back payments
- Ongoing seniority payments - for employees in employment from 1 January onwards requires employers to pay 15 days of wages per year of service, payable twice yearly at 7.5 days of wages in both June and December each year
- Seniority back payments - for current employees requires employers to pay 6 days of wages per year of pre-2020 service, payable twice yearly at 3 days of wages in both June and December each year, subject to a total maximum of 52 payments, starting **31 December 2021**

NSSF contribution only paid by

Employer

Pending scheme for implementation

New National Pension Scheme

Employer contribution to NSSF for occupational risk scheme

0.8%

of wages

Employer contribution to health care scheme

2.6%

of wages

Seniority Pay

payable twice yearly

7.5 days

every June December

Seniority Back Pay

payable twice yearly

3 days

every June December

Sources: NSSF, ILO, PwC

Employer focus topics and opportunities

- Retirement adequacy concerns: only government employees and veterans are eligible for pension plans - details for private sector employees are expected but have not been specified yet

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APAC Market Overview: China

- China's DC retirement system was launched in 2004 with Enterprise Annuity (EA) as the mainstream vehicle
- Mandatory employer contributions (no more than 8% of total payroll) and employee (total contribution should not exceed 12% of total payroll) to EA plans
- EA normal retirement age is age 60 for males and age 50 for females and age 55 for female civil servants
- Besides EA, employers are able to use other vehicles (EA-like trusts and insurance products) to implement more flexible plan design

Accumulated asset size of DC plans

~2.5 Trillion CNY

(~0.4 Trillion USD)

Market Competition: Number of Collective DC Plans Available

~70

Number of DC Participants

~30 Million

and growing

Annual tax efficient personal voluntary EA contribution limit

4%

of taxable payroll

Median return for balanced fund in 2020

12.19%

Pillar 1 under pressure: Projected China population over age 60 by 2050

(source: UN)

35%

Employer focus topics and opportunities

- Efficient budgeting when establishing new plans: investigate feasibility of redesigning contribution structure
- Concerns on performance and management fees: investment program and manager review to optimise plans
- Investment menu: rethinking investment options line-up against the backdrop of prolonged pandemic
- Special withdrawal during the pandemic: plan policy review for wealth accumulation plans and incorporate withdrawals under typical circumstances related to COVID-19 hardships
- Financial wellbeing: offer engaging educational sessions on financial wellbeing topics to employees and to client committees (through video or webinar) to enhance financial decision making

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APAC Market Overview: Hong Kong SAR

- Mandatory Provident Fund (MPF) DC system has operated since 2000
- Mandatory 5% contributions from both employer and employee to MPF where relevant monthly income is capped at 30,000 HKD (<4,000 USD)
- MPF normal retirement age is 65 with early retirement possible from age 60
- Reducing number of legacy employer ORSO plans still remain, either DB or DC
- Over 2020, the best performing MPF funds were Greater China equity funds, Korea equity funds and Asia Pacific ex-Japan equity funds, each increasing on average by 31%, 30% and 23% respectively

Accumulated asset size of MPF system
Source: MPFA
1.14 Trillion HKD
(~150B USD)

Market Competition: Number of Master Trust MPF Schemes Available
24

Reduction in number of ORSO plans
in year 2000
~18,000
in year 2020
~4,000

Annual tax efficient personal voluntary MPF contribution limit
60,000 HKD
(~8,000 USD)

Average MPF investment return achieved over 2020
Source: MPFA
11.7%

Hong Kong has the highest life expectancy in the world
World Bank Open Data 2018
1st

Employer focus topics and opportunities

- High fees eroding retirement savings: undertake periodic vendor reviews to achieve optimal fees and enhanced employee experience as service experience is number one MPF complaint (source:MPFA)
- Retirement adequacy concerns: mandatory MPF contributions are only up to 3,000 HKD (<400 USD) per month, plus highest average life expectancy - thus consider supplementary plans/contributions
- Financial wellbeing: offer support to empower employees to navigate investment choices and encourage tax efficient voluntary personal savings
- DB risks including trapped surplus: wind-up of DB ORSO plans continue, with only around 400 DB plans now remaining
- Vendor consolidation and ORSO/MPF benefits harmonisation: leverage scale, simplify administration and reduce fees eroding retirement savings
- Participant information to tax authorities: from 2020, MPF and ORSO plans are required to comply with Automatic Exchange of Account Information (AEOI) by submitting reportable information of all plan participants to tax authorities including employees outside of Hong Kong
- e-MPF platform: streamlined digital central administration is on the horizon

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APAC Market Overview: India

- Mandatory Provident Fund (PF) DC plan with employer and employee contribution of 12% of Basic Pay each
- Gratuity and Leave Encashment Plans are other Retirement and Long Term Benefits respectively which provide end of service lump-sum benefits
- Legacy DC Superannuation plans being replaced by voluntary National Pension Scheme (NPS) which has been gaining prevalence since launch, NPS allows upto 10% of Basic Pay contributions and employee chooses asset allocation
- Retirement age in India is typically either at age 58 or age 60

Maximum tax-free Benefit for Gratuity scheme

2M INR

Tax deductible employer contribution limit to NPS of Basic Pay

10%

Maximum investment in Equities by Retirement Funds

15%

Maximum annual tax-efficient DC contributions

750,000 INR

(~10,000 USD)

Provident Fund interest credit by Government in 2020

8.5%

Median age in India

(approx.)

29 years

Employer focus topics and opportunities

- Labour reforms: the Indian Government is undertaking significant Labour Reforms - amongst various provisions, the key ones impacting Retirement Benefits include:
  - consistent Definition of Wages across all statutory benefits
  - potentially higher Pensionable Wages for statutory benefits like PF and Gratuity leading to higher Balance Sheet actuarial liabilities
  - organisations need to ensure that they comply with the Labour Codes particularly around the implementation of the new Definition of Wages
- Leave encashment: COVID-19 has forced organisations to review their generous accumulating Leave encashment plans and explore opportunities to optimise costs and Balance Sheet accruals for accumulated employee leave
- National Pension Scheme (NPS): continues to gain popularity as a supplementary DC plan with tax benefits for both employers and employees
- Investments: from 2018 to 2020, employer managed Provident Funds were hit when investments in certain corporate bonds defaulted, thus stronger investment governance framework recommended for Trustees
- Financial wellbeing: education to empower employees take control of their finances

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APAC Market Overview: Indonesia

- National Security **BPJS** pension system is a combination of DB (>15 years' contributions) and DC lump sum (<15 years' contributions) (Law 24/2011) with contributions between 2% to 3.7% for employers and 1% to 2% for employees
- The **new Omnibus Law** brings changes to the Manpower Law (Labour Law 13/2003) impacting fixed term contracts and reducing mandatory severance payments for permanent employees, among other changes
- By design, these systems exclude many potential beneficiaries or provide inadequate benefits, due to contribution density issues and capped wages
- Normal Retirement Age is 57 and is projected to increase to 65 by 2043
- Two types of supplementary retirement plans are available (Pension Law 11/1992) – **DPPK** (DB or DC) or more commonly used **DPLK** (DC) plans offered by insurers and banks

Global ranking by number of population
4th
~274 Million

Global ranking by greenhouse gas emissions
5th
2017
Climate Change a major threat

Retirement system ranking out of 36 countries in terms of adequacy, sustainability and integrity
10th lowest
2019 MMGPI

Global ranking by number of Elderly population
5th

Working age individuals saving into retirement accounts each month
1 in 3

Expectation to rely on financial support in retirement from their children
3 in 4
Receive this support in reality
1 in 4

Sources: OECD, HSBC, MMGPI, PwC

Employer focus topics and opportunities

- Stand out from your peers & address retirement adequacy concerns: offer competitive retirement benefits with well designed matching contributions + vesting schedule to attract and retain the younger workforce
- Financial wellbeing: offer support to empower employees to save adequately and to start regular saving earlier through targeted communications
- Funding mandatory severance pay via DPLK: mitigate cashflow + liability risks, earn investment returns, increase employee benefit security and tax efficiencies
- PSAK24 / IAS19 accounting: assess impact of Omnibus Law changes on liabilities and possible special event accounting in financial statements, and ensure compliance with new regulation
- Responsible Investing: monitor retirement plans' ESG footprint and offer responsible investment options that align to employer social responsibility aims
- Governance: conduct a periodic retirement benefit and provider review to ensure compliance, competitiveness and to ensure being valued by employees

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APAC Market Overview: Japan

- Employees are required to join the public pension scheme consisting of National Pension (NP) and Employee Pension Insurance (EPI)
- Mandatory 9.15% contributions from both employer and employee to the public pension scheme with monthly income capped at 650,000 JPY (~6,000 USD) and bonus capped at 1.5M JPY (~14,000 USD) per payment
- Commencement age of public pension is generally age 65 with early retirement possible from age 60
- Vast majority of companies offer supplemental retirement benefits with accrual ranging from 6% to 10% of base salary
- Defined Contribution (DC) has been emerging as the supplemental plan in the last 20 years but Defined Benefit (DB) is still common

Accumulated asset size of GPIF (NP and EPI)
1.5 Trillion USD

Projected population over age 65 by 2036
1 in 3

Employees participating in DC type supplemental plans
1 in 8

Monthly DC contribution cap under Japan DC law
55,000 JPY
(~500 USD)

Annual return achieved by majority of DC participants is only
0% - 1%

Gap required to sustain standard of living over lifetime*
20 Million JPY
(~190K USD)

*on top of public pension if a couple lives until age 95
Source: Financial Service Agency

Employer focus topics and opportunities

- Governance is key: given the current volatile conditions, there is increased focus on monitoring DB asset & liability movements and also performance of DC investment products
- DB de-risking options: main options are freezing or closing DB plans, as buy-out is not currently allowed under Japanese legislation
- DB Investment strategy: as life insurers decrease interest rates on major investment products, importance of a sound investment strategy is increasing
- Continuous review of DC: staying up-to-date with regular law amendments occurring every year; regularly reviewing investment products and plan vendor; and mandatory employee DC education require ongoing attention so to improve DC performance both for employer and employees
- Financial wellbeing: companies in Japan now recognise the importance of financial wellbeing not only for DC education but with a broader perspective

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APAC Market Overview: Laos (Lao PDR)

- The Social Security Fund (SSF) is managed by the Board of the Fund under supervision of the Minister of Labour and Social Welfare
- The Government contributes 8.5% of total salary for state employees and civil servants, while employers of private employees contribute 6% of salary
- State employees and civil servants contribute 8%, while private employees contribute 5.5% of salary
- Voluntary insured persons contribute at 9%
- The Social Security Fund covers only employees who work in formal sectors, which is only 17% of the total workforce
- In 2020, mandatory contributions to the Social Security Fund were postponed for 3 months from April to June
- The Government agreed to compensate 60% of workers' salary, who currently participate in the Social Security Fund, and who have had their work suspended during May and June 2020

Employer SSF Contributions
6.0% - 8.5%
of salary

Workers in informal employment sectors
83%

Employee SSF Contributions
5.5% - 8.0%
of salary

Maximum monthly salary for tax deductible employee contributions
LAK 4.5 Million
(~500 USD)

Social Security Fund coverage
17%
of workforce

Retirement Age
60 males
55 females

Sources: NSSF, ILO

Employer focus topics and opportunities

- Retirement adequacy concerns: Social security old-age benefits are only payable to those who meet the required conditions and have low coverage of the population; in addition, non-mandatory retirement saving is not yet prevalent

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APAC Market Overview: Malaysia

- Employees' Provident Fund (EPF) DC system has operated since 1951
- EPF is a federal statutory body under the purview of the Ministry of Finance, which manages the compulsory savings plan and retirement planning for private sector workers in Malaysia
- Mandatory Employer contributions of 12% (or 13% if monthly salary 5,000 RM or lower) and Employee contributions of 11%, however due to the pandemic Employee contributions have been temporarily reduced to **9% for January to December 2021**
- Increasingly companies provide an additional benefit, mainly through contributing a top-up to the EPF
- The provision of DB plans is quite rare and only a few legacy DB schemes still exist, most of which are now closed to new hires

EPF accumulated asset size
~925 Billion RM
(~230 Billion USD)

Companies in Malaysia providing supplementary retirement benefits
30-40%

Tax-efficient Employer contributions up to
19%
of wages

Annual tax deductible Employee contributions limit
4,000 RM
(~1,000 USD)

EPF Annual Guaranteed Returns
2.5%

Average annual EPF dividends over last 10 years
6.2%

Employer focus topics and opportunities

- Retirement adequacy concerns: although the combined Employer and Employee EPF contributions are quite substantial, EPF allows early withdrawals which erodes the retirement savings – plus many employees are solely dependent on EPF for their retirement savings – and in addition the EPF pays out a lump sum benefit which usually results in the total savings being depleted a few years after retirement
- Financial wellbeing: financial literacy amongst employees is generally quite low – thus significant opportunity for employer wellbeing support

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APAC Market Overview: New Zealand

- KiwiSaver is the main form of 2nd/3rd pillar retirement saving and has operated since 2007
- Auto-enrolment, but employees can opt out if they wish
- Employers can select a preferred provider, but employees can choose any provider (full portability)
- Mandatory employer and employee contribution of 3%, but employees can make higher regular contributions and/or one-off contributions if they choose
- KiwiSaver normal retirement age is age 65, but savings may be accessible sooner in certain circumstances such as first home purchase and financial hardship
- Reducing number of legacy stand-alone workplace savings schemes, many of which are now part of master trust arrangements

KiwiSaver accumulated assets

>70 Billion NZD

(>50B USD)

Market Competition: Number of KiwiSaver Schemes Available

35

Wide coverage of KiwiSaver

3.1 Million active members

Contributions are subject to tax*, but government contribute

$0.5 per $1 member contribution

(up to 521.43 NZD)

Average Balanced Fund returns over the last 10 years**

8.0% pa

Aon is a KiwiSaver Provider

Aon KiwiSaver

Employer focus topics and opportunities

- Value for money: regulatory pressure on KiwiSaver industry to demonstrate value for money – does your preferred KiwiSaver provider offer sufficient value to members?
- Stand-alone workplace savings schemes: if your organisation has a workplace savings scheme, can it join a master trust, or what is the long term future given high compliance costs?
- Valuation of other employee benefits: other employee benefits such as sick leave, Long Service Leave (LSL), other entitlements, ACC partnership program liabilities (workers compensation) should be valued for employer accounting purposes (if applicable)
- Financial wellbeing: offer support to empower employees to navigate their investment choices

* Employee contributions are calculated on pre-tax income, but tax is paid on the full amount earned; employer contributions are paid after tax has been deducted

** As at September 2020 source: Morningstar KiwiSaver Survey, after fees and before tax

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APAC Market Overview: Philippines

- Mandatory Defined Benefit (DB) retirement benefit under RA 7641 legislation provided to employees who attain age 60 with at least 5 years of service
- Mandatory retirement benefit is inadequate – around half a month salary for each year of service
- Number of supplementary retirement plans is increasing and are key to attracting and retaining talent (56%* of employers provide them to employees)
- Supplementary retirement plans must provide a minimum benefit equal to the mandatory retirement benefit
- Vested retirement benefits are paid out on leaving service
- Principle of *non-diminution* applies – an important consideration in sustainable supplementary plan design

Employer focus topics and opportunities

- Stand out from your peers: offer competitive Defined Contribution (DC) supplementary retirement benefits, with a well designed vesting scale, to attract and retain a dynamic young workforce
- Retirement adequacy concerns: consider supplementary plans and providing matching employer contributions
- Financial wellbeing: offer support to empower employees to save adequately and to start saving early including targeted communications
- PAS19 accounting: ensure accounting valuation assumptions remain appropriate and assess the impact early of any business operation changes
- Register retirement plans with BIR: take advantage of tax exemptions
- Governance: conduct a retirement benefit review to ensure benefits are competitive, compliant and well communicated to employees

Young and growing workforce, largest group are

Millennials

Employees expected to leave current job in next 4 years

6 out of 10

Millennials feeling financially "stressed or anxious all or most of the time"

57%

Employers in the process of setting up a Supplementary Plan or may in future*

79%

Supplementary Retirement Plans*

66% DC
34% DB

Retirement system country ranking in terms of adequacy, sustainability and integrity

4th lowest

(2019 n=36)

*Source: Aon Philippines Retirement Benefits Study 2020

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APAC Market Overview: Singapore

- The national social security system, Central Provident Fund (CPF), is a DC system for retirement savings, healthcare and home ownership for Singapore Citizens and Permanent Residents
- Foreign employees (~40% of the working population) are not eligible for CPF benefits
- The population of Singapore are living longer and in better health; 15% of the population over age 65; the **retirement age is rising to age 63 in July 2022** (projected to age 70 in 2030) and re-employment ages from age 67 to age 68
- Supplementary plans are prevalent and suited for mobile and foreign employees and those outside Singapore with inadequate provision

Employer focus topics and opportunities

- Retirement benefits strategy: offer competitive benefits to enhance retention, attraction and provide equitable benefits for all employees
- Retirement adequacy concerns: mandatory CPF contributions are based on capped pay of 6,000 SGD per month (~4,500 USD) and foreigners are not eligible - consider supplementary plans/contributions
- Financial wellbeing: offer support to empower employees to navigate investment choices and encourage tax efficient voluntary retirement savings
- High fees and poor default eroding retirement savings: review transparency and fees of investment funds, and offer credible, carefully streamlined investment fund range appropriate to a long-term time horizon
- Responsible investing: offer impact funds that have an explicit sustainability target, allowing employees to invest for a better world without comprising expected future returns and driving engagement via increased investment choice
- Governance: conduct a retirement benefit and provider review to ensure being valued by employees, competitive, and compliant with changing legislation

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7th
highest average life expectancy in the world
World Bank Open Data 2018

80%
Singaporeans underestimate retirement needs
50%
Millennials worried about money
Source: OCBC

Retirement plan prevalence
for non-CPF eligible employees
50%
up from 34% in 2017

Retirement plans with a Default investment fund
< 15%

Employers currently reviewing retirement benefits
> 30%

CPF Contributions increase
for ages 55 to 70 from January 2022
0.5%

Source: Aon Singapore 2021 Trends in Retirement & Financial Wellbeing

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APAC Market Overview: South Korea

- All companies must provide a corporate pension plan in the form of either severance pay (SP), Defined Benefit (DB) or Defined Contribution (DC)
- SP and DB are identical plans – but SP is book reserved without external funding
- The statutory minimum for all plans are one month per year of service, as follows:
- The statutory minimum benefit under SP or DB are final monthly salary multiplied by years of service
- The statutory minimum contribution for DC is 8.33% (=1/12) of annual salary
- Benefits are paid in lump sum upon termination of employment and there are no further related obligations for the employer following termination of employment
- Employee Retirement Benefit Security Act approved on **24 March 2021** with new governance requirements for Defined Benefit (DB) plans with >300 members

Average ERBSA investment return achieved over 2019

2.83%

Accumulated asset size of ERBSA system

250 Billion USD

Market Competition: Number of ERBSA Providers Available

43

1st Pillar: National Pension Scheme (NPS) size of assets

600 Billion USD

Employer focus topics and opportunities

- Poor investment governance: plan assets for both DB and DC are heavily invested in Principal-Interest Guaranteed products (over 90%), and this extreme risk-avoidance of corporates and individuals is due to lack of investment governance – regular reviews of investment performance and optimising the asset allocation to enhance investment outcomes
- SP to DC transformation: SP is no longer tax-qualified, the Korean government has however now **excluded abolishing SP**, where all companies would have been forced to make transformation to DB or DC; a transition to DC enables companies to mitigate risk
- Vendor review: selecting too many providers as DC plan administrators results in inefficiency in costs and administration - consolidation of providers will not only ease the administration, but also will result in cost savings - review your vendors' quality of service and cost efficiency
- Financial wellbeing & monitoring DC performance: financial wellbeing is emerging in Korea and personal financial management is one of the hottest topics in Korea as the gap in individual wealth between successful and ill-informed investors is getting ever bigger; monitor ERBSA DC plan performance regularly and offer support to empower employees to navigate investment choices and encourage tax efficient voluntary personal savings

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APAC Market Overview: Taiwan ROC

- Labour Pension Act (LPA) has been in place since 2005
- Mandatory 6% contributions from employer where pensionable salary is capped at 150,000 NTD (~5,000 USD)
- LPA normal retirement age is age 60 with early retirement possible if certain disability conditions are met
- **New legislation** on full Labour Standards Law (LSL) plan contribution and recent Labour explanatory order has increase the DB liability burden for employers
- More and more employers encourage their employees to either transfer the DB liability or make more individual contribution to LPA

Labour Insurance expected to be bankrupt within

5 Years

Employees who make voluntary contribution to LPA is only

1 in 10

Total employer contribution to LSL plan has reached

660 Billion NTD

in the past 5 years

Employers who make the full contribution to LSL has reached to

98.9%

Average LSL/LPA investment return achieved over the past 5 years

4.9% vs. 4.5%

With the lowest newborn rate in history, Taiwan population declined first time in

2020

Employer focus topics and opportunities

- Retirement adequacy concerns: with a potential benefit cut to Labor Insurance by 2024, the replacement ratio will only reach 25% from state and employer pension thus more pressure on individual saving
- DB de-risking: seek opportunity to wind-up DB plans with replacement new DC type solutions
- Financial wellbeing: offer financial education support and savings solutions to improve financial literacy and encourage voluntary personal savings
- Open individual pension platform: media report that over 70% of workforce support the idea to setup an open individual investment platform with tax incentives (especially for younger generations) which can improve overall retirement savings with more options of retirement products
- Workforce impact: with a reducing newborn rate, the Taiwan government expects to see a 5.4% decline in the workforce in the next 10 years, thus attracting and retaining seniors in the workforce will be an important initiative

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APAC Market Overview: Thailand

- Statutory Severance Pay (SSP) is a mandatory Defined Benefit (DB) plan which is payable upon termination of service and retirement
- The minimum benefit of 30 days wage is provided to those with 120 days of service, while the maximum benefit of 400 days wage is provided to those with 20 years or more of service
- Thai Provident Fund (PVD) is an employer-sponsored voluntary DC plan with tax-deductible contributions of 2% to 15% for both employee and employer
- From **January 2021 to June 2021**, pandemic impacted employers are allowed to stop/postpone PVD contributions with employee consent
- "Relief compensation" applicable to the Social Security Fund (SSF) and those unemployed - this measure provides for insured workers receiving 50% of their daily wages for up to 90 days based on a monthly salary of 15,000 THB – this came into effect on 19 December 2020 - plus from **February 2021 to March 2021** there is a reduction from 5% to 3% in the employer contribution rate to the SSF and a 0.5% rate for employees
- All social security members who work in the formal sector (on or before **19 January 2021**) and have combined savings + fixed deposits <500,000 THB are entitled to 4,000 THB (~130 USD) to be paid into their government e-wallet

Thai Provident Fund (PVD) net assets
Q4 2020
~1,248 Billion THB
(~40 Billion USD)

Percentage of Employees that have PVD
(based on number of formal sector workers)
22.3%

Non-taxable Employer contributions between
2% to 15%
of wages

Annual tax deductible on Employee's PVD contributions
500,000 THB
(~17,000 USD)

SSP and PVD combined Replacement Ratio
assuming 5% pa returns
28%

Thailand average life expectancy
Females 78.9 years
Males 72.4 years
Thai Investment Board 2020

Employer focus topics and opportunities

- Retirement adequacy concerns: combined SSP and PVD projected to result in a replacement ratio of only 28% (assuming market returns of 5% pa on average)
- Financial wellbeing: financial literacy amongst employees is generally quite low; we observe too that personal debt defaults have exceeded 3% total outstanding loans
- National Pension Fund: get ready for the NPF which was approved on **30 March 2021**

Access our local specialist expertise

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APAC Market Overview: Vietnam

- Retirement benefits in Vietnam are provided through the state pension system under Social Insurance
- Contributions for all employees including foreign employees are currently 8% for employees and 17.5% for employers, capped at 20 times the minimum salary according to the respective regions
- **From January 2021 the retirement age will increase** gradually for females from age 55 years to age 60 years by 2035, and for males from age 60 years to age 62 years by 2028
- Due to the pandemic, employers impacted were eligible to suspend contributions from March 2020 to December 2020
- Vietnam's National Assembly approved a **new Labour Code** effective **January 2021** and a Decree guiding the implementation of the Labour Code effective **February 2021** - this amendment offers greater protections to employees (through new rights on labour contracts, working hours, holidays, unions, termination, discrimination) and is a step towards alignment with international labour best practices

Employer focus topics and opportunities

- Retirement adequacy concerns: Social Insurance coverage is low within the general population and only a small proportion of contributors will receive annuities after retirement; for those eligible, the amount of pension from Social Insurance alone is not considered sufficient to meet living expenses after retirement
- Financial wellbeing: general levels of financial literacy amongst employees is typically quite low

Social Insurance Employer Contributions
17.5%
of wages

Social Insurance Coverage
32.3%
of workforce

Social Insurance Employee Contributions
8%
of wages

Minimum number of years of contributions to be eligible for old-age allowance
20 years

Average Annual Health Insurance Premium Contribution Under Social Insurance
VND 1.1 Million
(~50 USD)

From January 2021 Retirement Age gradually increasing
to Age 60
for females by 2035
to Age 62
for males by 2028

Sources: Vietnam Government

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2021 Investment Focus Hot Topics

Questions We Help Answer

Ongoing Monitoring

Is the risk adjusted performance as expected?

Are there new asset class opportunities?

Fund Selection

Is the range of investment funds up to date and appropriate?

Are fund managers better in comparison to peers?

Fee Analysis

Can I reduce investment fees?

Asset Allocation

Is the asset allocation efficient?

Can I earn more?

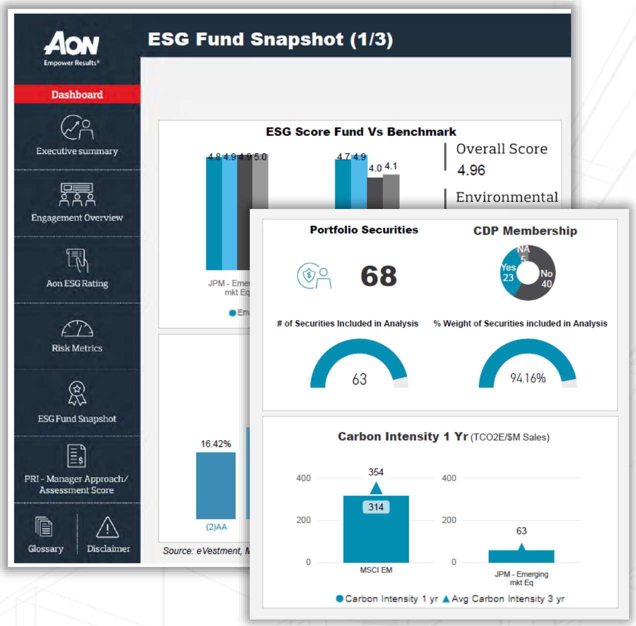
Can I better match liabilities?

Can I access exposure to Real Estate & Alternatives?

With Innovative Solutions

ESG Governance

An interactive dashboard that can be navigated easily to an area of interest, monitoring a retirement plan's ESG footprint. It provides a number of insightful metrics that allows the trustees/committees to fulfil their ESG governance duties.



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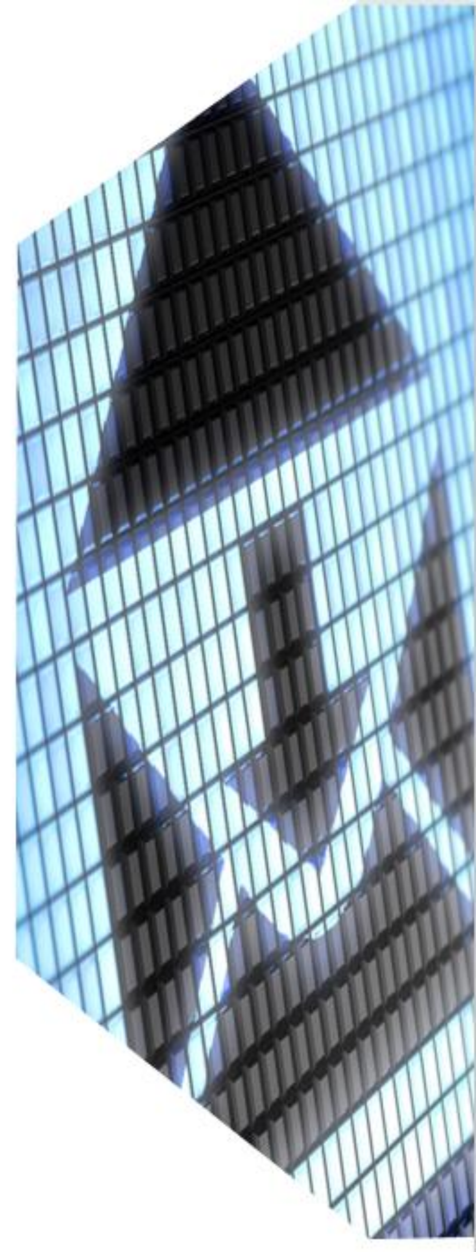
Aon's distinctive approach to Financial Wellbeing

Aon assists organisations understand what financial worries <u>your</u> employees seek support for, develop and execute <u>targeted</u> and <u>engaging</u> financial wellbeing and savings programs that <u>deliver sustainable behavioural change</u>, and <u>measure</u> the related improvement.

Aon's '4 Ps' framework focuses on sustainably improving individual behaviour to money, <u>establishing healthy financial habits</u> and <u>instilling financial resilience</u>.

Prepare	Plan	Protect	Preserve
Build financial knowledge and skills	Build short-, medium- and long-term financial goals and challenges	Build financial resilience for the unexpected	Build financial security & protect wealth against adverse events



Contact us for more information at **<u>apac.retirement@aon.com</u>**

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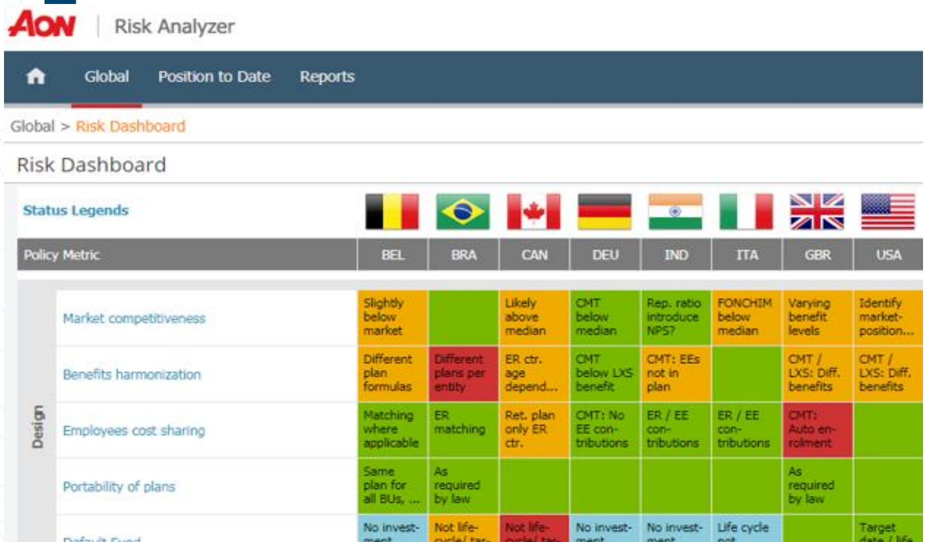
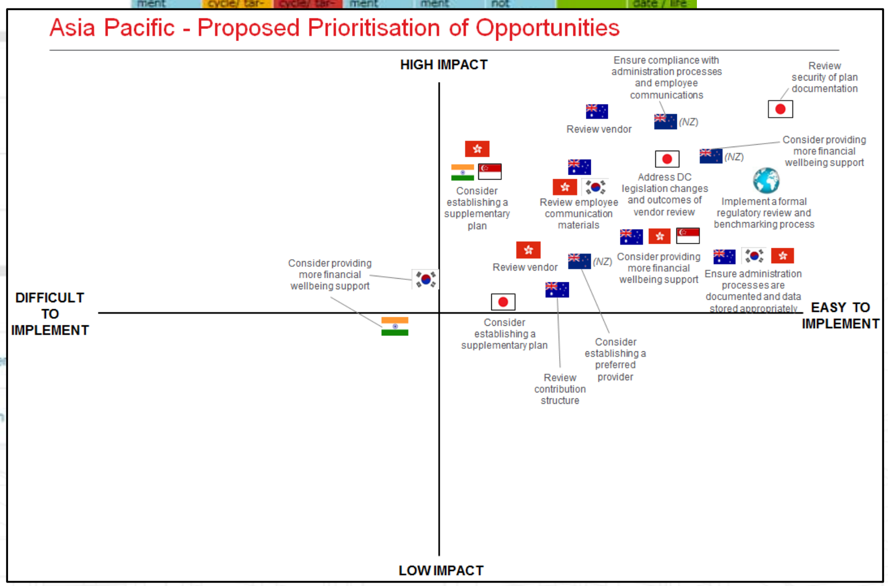
Aon's Retirement Governance Management for Multinational Employers





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'Plan Watch' Tailored Legislative Updates

Actuarial Valuation Consolidation

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- Retirement Governance Risk Management for Multinationals
- Global Investment Consulting Advisory
- Supplementary Savings Plans
- 'Globalist' Support For Internationally Mobile Employees
- 'Plan Watch' Legislative Updates
- Responsible Investing (ESG)
- Financial Wellbeing for Employees
- Plan Design & Implementation
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- Investments Operational Risk Due-Diligence
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About Aon

Aon is a leading global professional services firm providing **advice and solutions in Risk, Retirement, and Health** at a time when those topics have never been more important to the global economy. Aon develops insights-**driven by data and delivered by experts** that reduce the volatility our clients face and help them maximise their performance.

120
countries in which Aon operates

50K
Aon colleagues around the world

Risk

Aon provides a wide range of commercial risk and reinsurance solutions to help clients better identify, quantify, and manage their risk exposure

$120B
of risk premium placed annually

Retirement

Aon provides actuarial, investment, and bundled retirement solutions to help clients design and implement secure, equitable, and sustainable retirement programs

$3.3T
in assets under advisement

Health

Aon provides consulting, global benefits, and exchange solutions to help clients mitigate rising health care costs and improve employee health and wellbeing

$180B
of health care premiums directed annually

ENABLED BY Data & Analytics

Aon combines proprietary data, technology, and advisory services to develop insights that help clients reduce volatility and improve performance.

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