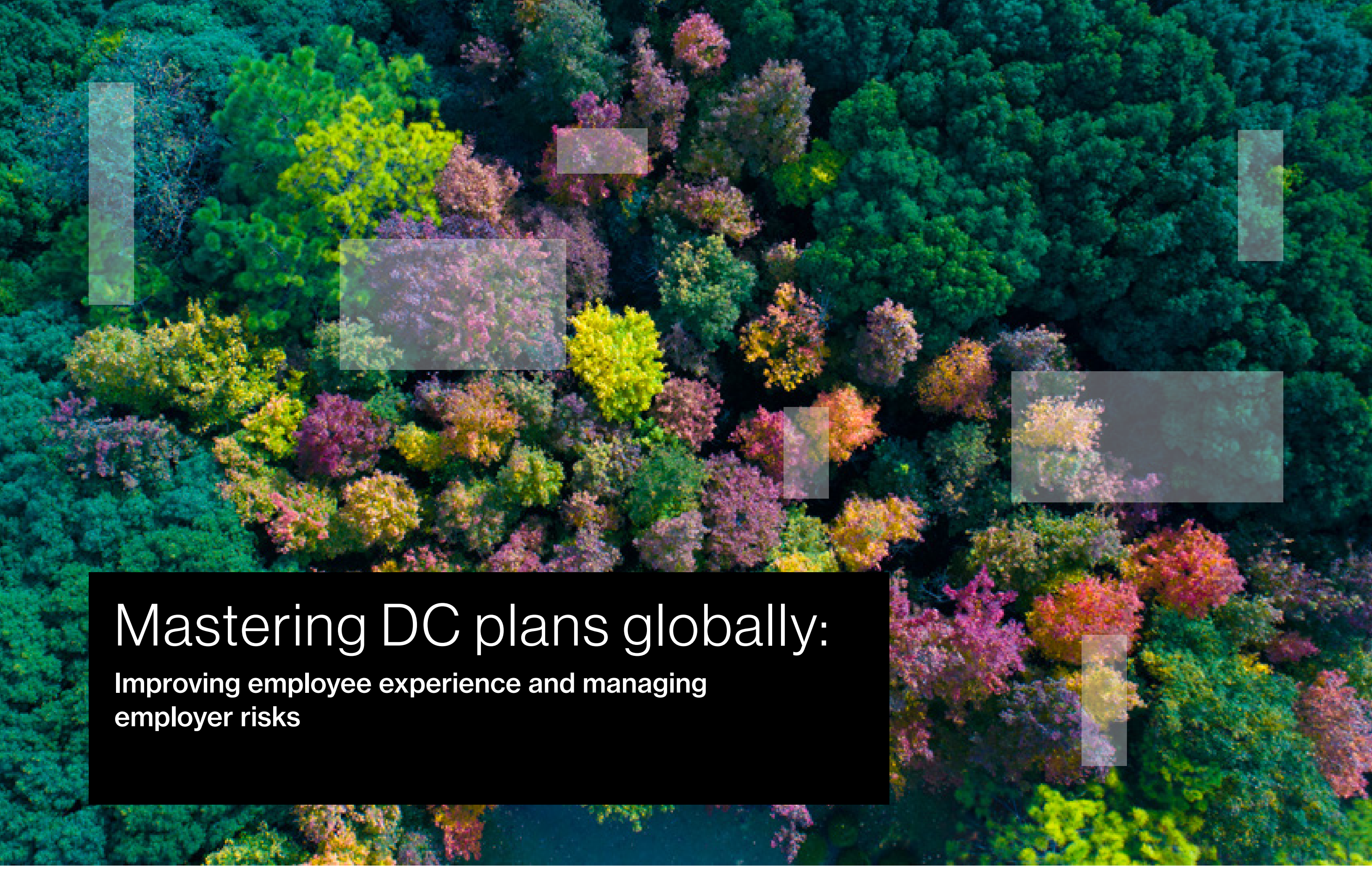

Mastering DC plans globally:

Improving employee experience and managing employer risks

The retirement benefit landscape has changed dramatically over the past decade and continues to evolve.

Defined contribution (DC) is the primary mode of providing retirement benefits to employees for a growing number of multinational companies. Others are transitioning away from their global landscape being dominated by defined benefit (DB) as they shift some, or even most, of the risk and saving decisions to employees – and off their balance sheets. With this shift, the effective management of employee saving and investing toward retirement is now becoming even more critical with a direct link to organizational workforce planning and business strategy.

Defined contribution: Big, still growing and complex

According to *Willis Towers Watson's Global Pension Assets Study*,[1] DC plans have overtaken DB plans as the prevalent form of retirement provision by employers, with global DC assets surpassing DB assets in the seven largest pension markets. This is a result of a 10-year trend of DC assets growing annually by 8.9%, while DB assets have grown by 4.6% per annum, and we expect this trend will continue.

In fact, this natural trend has been boosted by legislation requiring automatic enrollment of employees in DC arrangements in several countries – for example, the U.K., Poland and Turkey – with more in the pipeline.

Defined contribution plans come in many forms around the world. While many are pure DC plans, other forms include "collective defined contribution" and DC plans with underlying guarantees, e.g., on investment return. A range of financing structures has also emerged: trust-based, insurance- or contract-based, and single- or multi-employer.

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Human perspective

Willis Towers Watson's latest research, such as the *2019/2020 Benefit Trends Survey*,[2] reconfirms that overall wellbeing is critical to individuals – and, therefore, to companies' sustained success.

Retirement benefits have a key role in individuals' wellbeing – by providing both actual financial support and psychological confidence about a financially secure future. DC and DC-like plans are very visible to individuals as their account accumulates, in contrast to DB, which often only comes into focus as retirement approaches.

Employees' and their families' outcomes are affected by their own decisions and the decisions of their employers – for example, decisions about the benefit portfolio offered, its financing, its operation and the employee experience. Increasing member – and employer – contributions is one lever to improve outcomes but can be challenging.

This means other available levers, such as smart investment decisions and keeping costs low, are crucial to employees achieving good outcomes.

Providing a well-run DC or DC-like plan provides an ongoing opportunity to engage employees in their wellbeing and how the company is supporting them. How employees experience their benefits is key to them getting the best outcomes from their plans; our research shows that 68% of multinational companies are increasingly focusing on enhancing communication and engagement. For example, Willis Towers Watson's LifeSight DC master trust vehicles consistently achieve more than 50% engagement from active workforces and often as high as 90%, demonstrating that this is an achievable goal. And with improved engagement comes improved outcomes in terms of employees' retirement and workforce effectiveness – so there are benefits for both employees and the employer.

Multinational companies: A global perspective

Multinational companies are faced with an array of DC and DC-like plans of different sizes and types around the world – and their overall landscape is often growing fast. Regulations differ from country to country. Many solutions are available, but quality varies enormously from one country to the next. While some providers offer great solutions, low fees and informative materials, others have substandard investment choices with excessive fees.

The complexity and multitude of arrangements make it difficult for headquarters to achieve a sense of comfort that plans are compliant, and to provide input on key aspects and decisions affecting plans and their members. Some multinationals are turning to centers of excellence (COEs) to organize and govern a multicountry governance approach. Even such COEs need to be complemented by good external support, including to identify, comply with and optimize evolving DC legislation.

Increasingly multinationals are also realizing that there is a need to apply appropriate oversight of their DC and DC-like plans around the world.

According to a Willis Towers Watson survey, over 70% of multinationals are looking to improve global oversight and control of their DC plans.

Likewise, 60% indicated a desire to improve retirement outcomes. For many mature multinational companies, this can be an evolution from existing global governance for DB plans, although DC demands a different emphasis.

Coherent global strategy

As DC plans increasingly become the norm around the world, organizations find themselves overwhelmed by the multitude of choices and barriers confronting them – and how to navigate them successfully.

Having a coherent global strategy can be beneficial to individuals and their employer, but there are challenges to overcome.

- Making the case for a global strategy for DC typically involves focusing on overall Value on Investment (VOI), because the benefits of mastering DC plans are 1) better wellbeing and engagement for employees, 2) reduction of operational risk and less threat to the organization's reputation, and 3) allowing employers to manage their overall workforce strategy effectively as employees retire on a timely basis and make room for the next generation of leaders. Operational cost savings can also be achieved in some cases.
- There can be a misplaced sense that country differences mean there is no role for a global perspective.

However, not having a global strategy poses risks and leads to missed opportunities:

- A multinational employer simply may not have the necessary expertise in-country, for example, to assess effectively which solutions are good and which fall far short. Larger multinationals tend to have more expertise in some countries than others.
- A global strategy helps harness the multinational's scale, including transferring lessons learned in one country for the advantage of other locations.

Harnessing scale: Multi-country approaches

When it comes to globally driven DC approaches, there are three main alternatives:

1. **Best-in-class local vehicle** (single-employer or multi-employer) **+ global oversight.** The advantage of single-employer plans for each country is they are customizable, which enables an organization to fit a plan to the needs of the business; however, there is a cost for choosing multiple best-in-class providers. Alternatively, in some countries, multi-employer arrangements may provide access to increased buying power and best-in-class investment offerings that deliver good returns at an affordable cost. Involving a third-party locally can help with plan governance, including flagging any legislative or similar changes that may be coming down the road. Effective global oversight enables local decisions to benefit from local and global perspectives.
2. **Multi-local vehicle** (single vendor providing local solutions in several countries): A multinational organization uses the same third-party provider in different markets and gains confidence that they will receive the same quality across multiple countries. These factors make this multi-local approach a viable option, although determining the right fit will always depend on circumstances unique to each organization. No single provider will cover all markets, so this can be deployed as part of a thoughtfully considered combination of approaches. One variant of multi-local is using multiple master trust solutions, such as *Willis Towers Watson's LifeSight*,[3] from the same provider across multiple countries.
3. **Cross-border vehicle:** These include International Pension Plans or International Savings Plans (IPPs/ISPs) or European/Pan-European Pension Funds (cross-border IORPS).
   - Cross-border IORPs have been possible for a long time and, in theory, are a good way to pool assets and simplify governance; however, few companies or providers have made them work, other than in limited cases covering two or three countries. There are several reasons, both technical and relating to the challenges of navigating stakeholders. Most DC IORP cross-border activity has focused on the Netherlands, Belgium and Ireland – countries where multi-local is also viable.
   - Meanwhile IPPs/ISPs are a well-developed market and are frequently used in the right circumstances as covered in *Willis Towers Watson's International Pension Plan Survey Report 2018*.[4] For example, for expatriates and local employees with no good local alternative, including countries facing local economic challenges makes sense.

Multinationals will need a combination of approaches, and different companies require different combinations. So, it's imperative that multinational companies assess their DC footprint – including the future outlook – to understand how to set a path for the coming years. Many multinational companies have the joint challenge of trying to support large numbers of employees in some countries and some small populations, and these will be spread across developed and less-developed DC markets. This is where some tiering can help focus the multinational's resources.

Five dimensions to manage and optimize

Centrally steered global oversight helps ensure that DC and DC-like plans around the world fit the company's purpose, engage employees, support the business need, manage risks, achieve the best cost through economies of scale and optimize governance. At Willis Towers Watson, our approach helps companies to develop systematically the appropriate degree of oversight for them across five dimensions.

Such a systematic, holistic approach does not generally lead to a one-size-fits-all outcome, but rather to deploying a range of vehicles to suit the different country and business situations. *Figure 2* on the following page illustrates how this may play out for a sample multinational.

Figure 1. **Five key dimensions to mastering defined contribution globally**

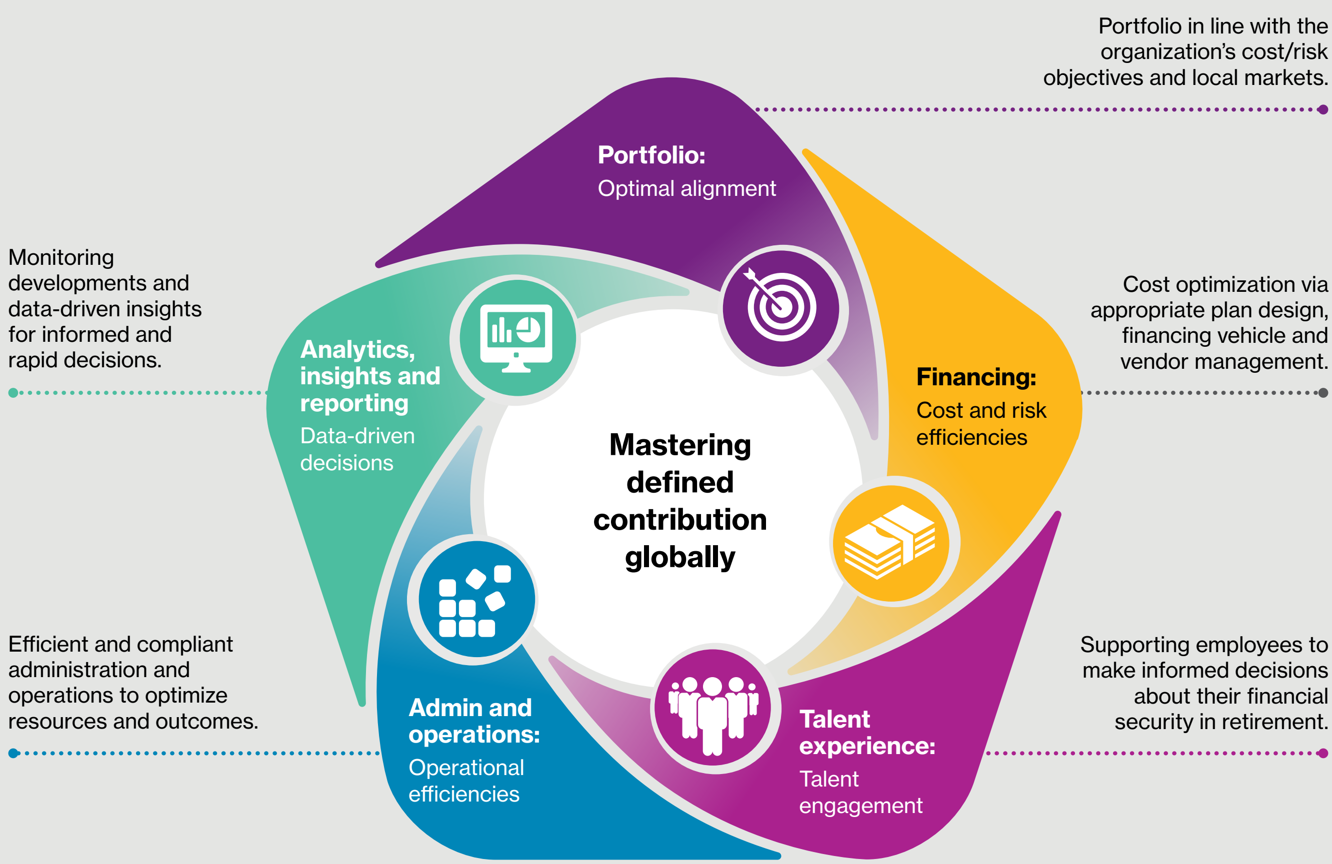
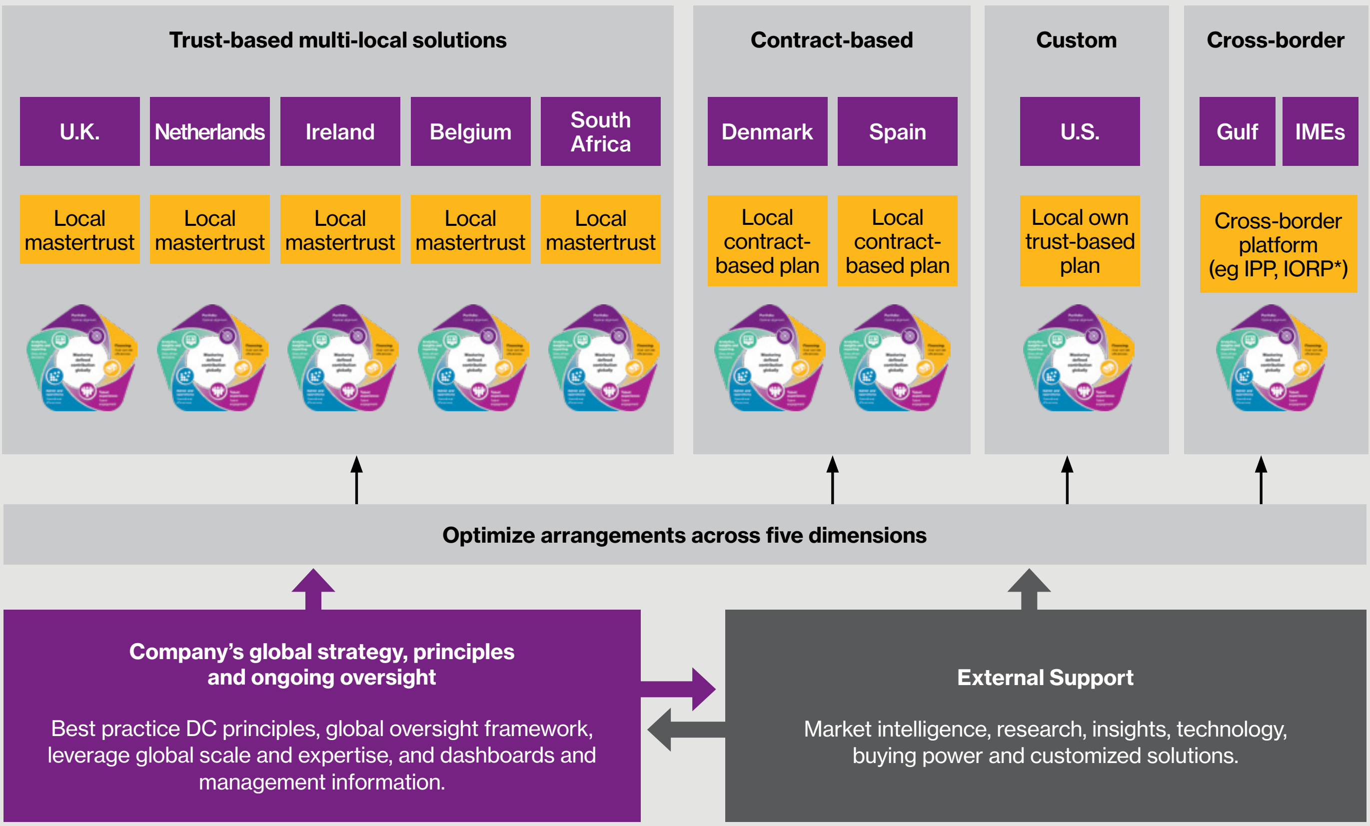


Figure 2. **An illustrative example of a systematic, holistic approach for a multinational**



*Institution for Occupational Retirement Provision, under EU Directive

Moving forward

The seismic global shift toward DC plans — and their importance for improving employee outcomes, employer workforce management and risk management — has grown too big to ignore. The pension landscape has changed forever, and companies have an opportunity to harness the new reality for the advantage of their employees and their business.

Many multinational companies recognize the need to act, yet few are equipped to tackle the opportunity on their own. A strategic partnership with an experienced global consulting firm with both local and global DC specialists enables organizations to identify opportunities to deploy appropriate solutions, overcome barriers, anticipate regulatory changes, ensure compliance and mitigate risks — so they can achieve the desired results from their DC plans over the next several decades.

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[1] Willis Towers Watson's Global Pension Assets Study: https://www.willistowerswatson.com/en-US/Insights/2019/02/global-pension-assets-study-2019

[2] 2019/2020 Benefit Trends Survey: https://www.willistowerswatson.com/en-us/Insights/2019/10/willis-towers-watsons-benefit-trends-global-insights

[3] Willis Towers Watson's LifeSight: https://www.lifesight.com/

[4] Willis Towers Watson's International Pension Plan Survey Report 2018: https://www.willistowerswatson.com/en-US/Insights/2019/02/international-pension-plan-survey-2018

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

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