



Trends in Global Benefit Governance

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Meeting the Challenges of Change

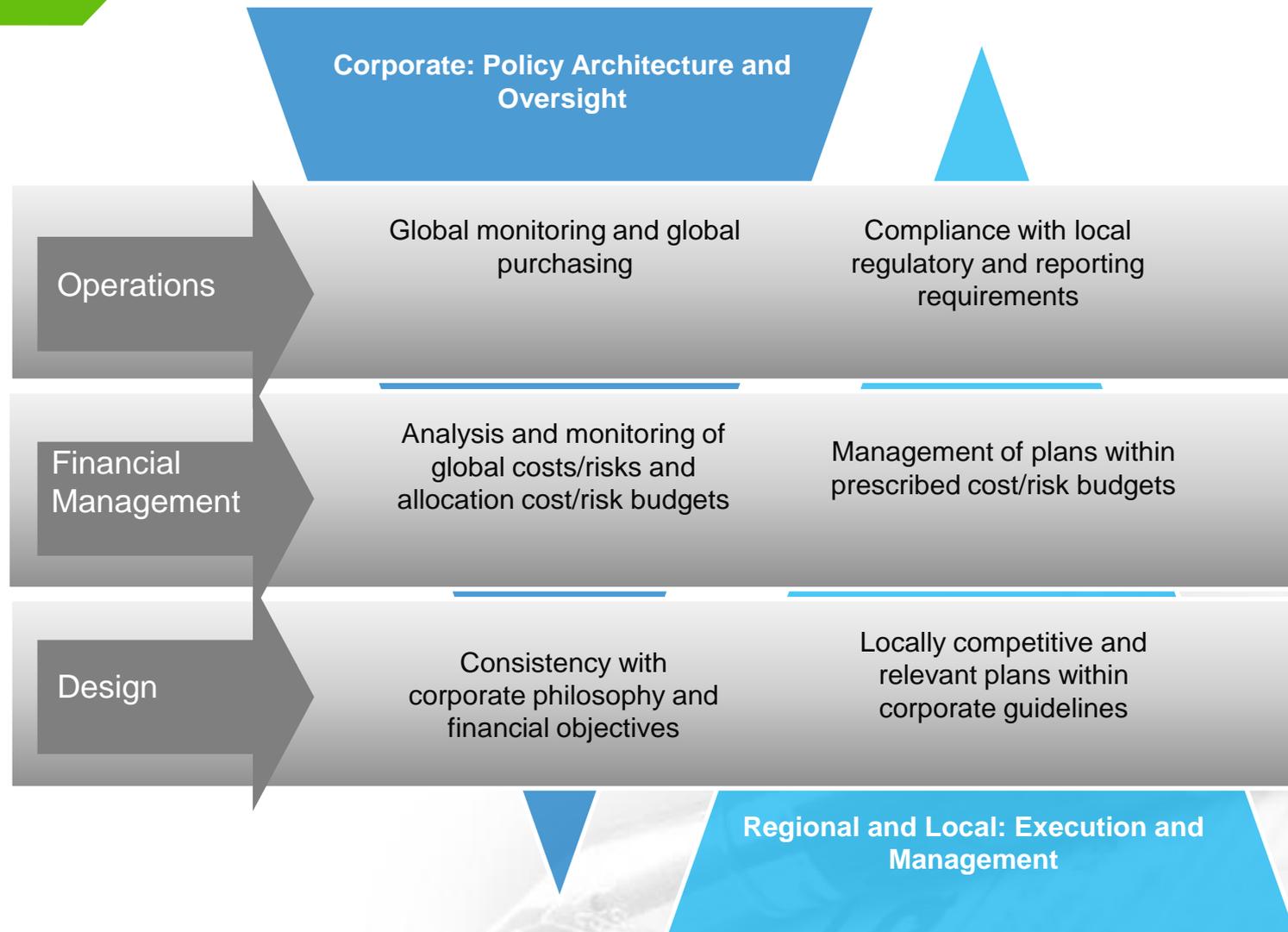
14th Global Conference of Actuaries

19th – 21st Feb, 2012 | Mumbai, India

Introduction

- Multinationals concerned about corporate line of sight to local benefit plans
- Three key policy areas requiring corporate involvement
 - **Operations:** costs of operations and risks of administrative and regulatory compliance
 - **Financial Management:** adverse financial outcomes for benefit plans
 - **Benefit Design:** costs and risks of misalignment with organisational strategy
- Implementing policies globally needs partnership between multiple stakeholders

Governing benefit programmes



Operational Governance



Example risk assessment



	Policy Metrics	Plan A	Plan B	Plan C	Potential Opportunities
Program Design	Preference for defined contribution pension plan design	⬮	⬮	●	<ul style="list-style-type: none"> Close Plans A/B and migrate current employees to DC plan arrangement under Plan C Cover future employees in all locations under Plan C
	Competitive benefit level established as the median of each relevant market	⬮	▲	▲	
	Coordination with social programs for adequate benefit provision	⬮	⬮	●	
Financial Mgmt.	Financing vehicles to remove liabilities from balance sheet preferred	⬮	⬮	●	<ul style="list-style-type: none"> Reduce exposure to growth assets of Plan B because the plan is fully funded Comingle Plans A and B assets to negotiate lower fees Establish glide paths to de-risk plans A and B
	Investment policy to eliminate uncompensated risks and operate plan within prescribed cost and risk budgets	●	●	●	
	End-state strategy and glide paths established for all DB plans	▲	▲	N/A	
Operation	Plan administration fully outsourced with local oversight preferred	⬮	⬮	●	<ul style="list-style-type: none"> Outsource administration of Plan B with same administrator of Plan A and negotiate lower fees Review contracts to ensure that trustee board members are fully indemnified
	Appropriate and adequate local and corporate representation in trustee/administrative body	⬮	⬮	●	
	Company employees who are fiduciaries to be fully indemnified and trained	▲	▲	▲	

● No issue identified

▲ Review suggested

⬮ Review and change suggested

Example decision-making allocation

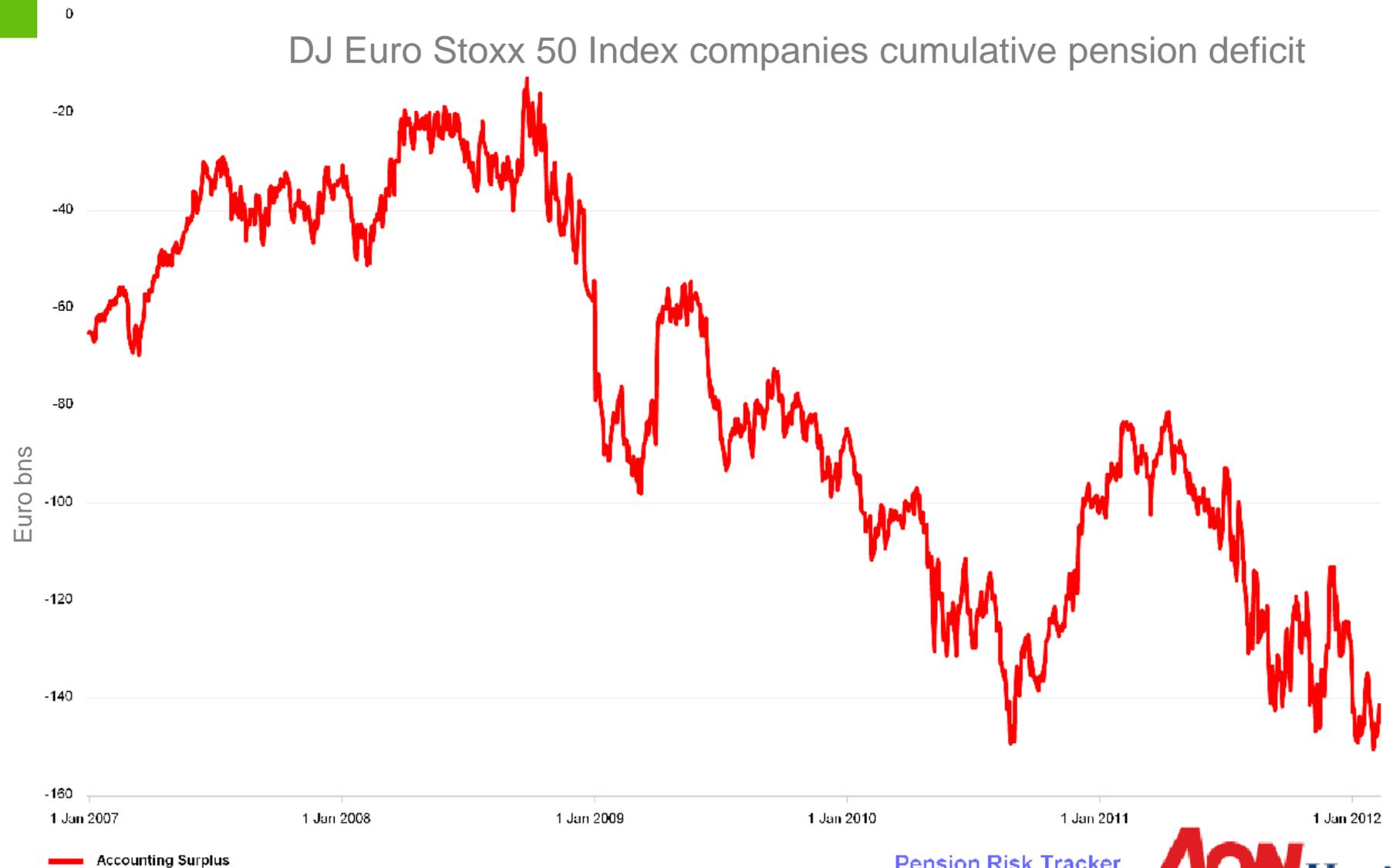
Policy making rights retained at only one level

● Policy
 ● Oversight
 ● Execution
 ● Approval

Program Management		Primary Responsibility											
Policy	Core Elements	Corporate				Region				Local Entity			
Program Design	Organizational Alignment	●	○	○	●	○	●	○	○	○	○	●	○
	Labor Market Alignment	○	●	○	○	●	○	○	●	○	○	●	○
Financial Management	Financing	○	●	○	○	○	○	○	●	●	○	●	○
	Funding	●	○	○	●	○	●	○	○	○	○	●	○
	Investments	○	●	○	●	●	●	○	○	○	○	●	○
	Insurance	●	○	○	●	○	●	○	○	○	○	●	○
Operations	Administration	○	○	○	○	●	●	○	●	○	○	●	○
	Regulatory compliance	○	●	○	○	○	●	○	○	●	○	●	○
	Fiduciary Governance	○	●	○	○	●	○	○	●	○	○	●	○
	Purchasing	●	○	○	●	○	●	○	○	○	○	●	○
	Reporting	●	○	○	○	○	●	○	○	○	○	●	○

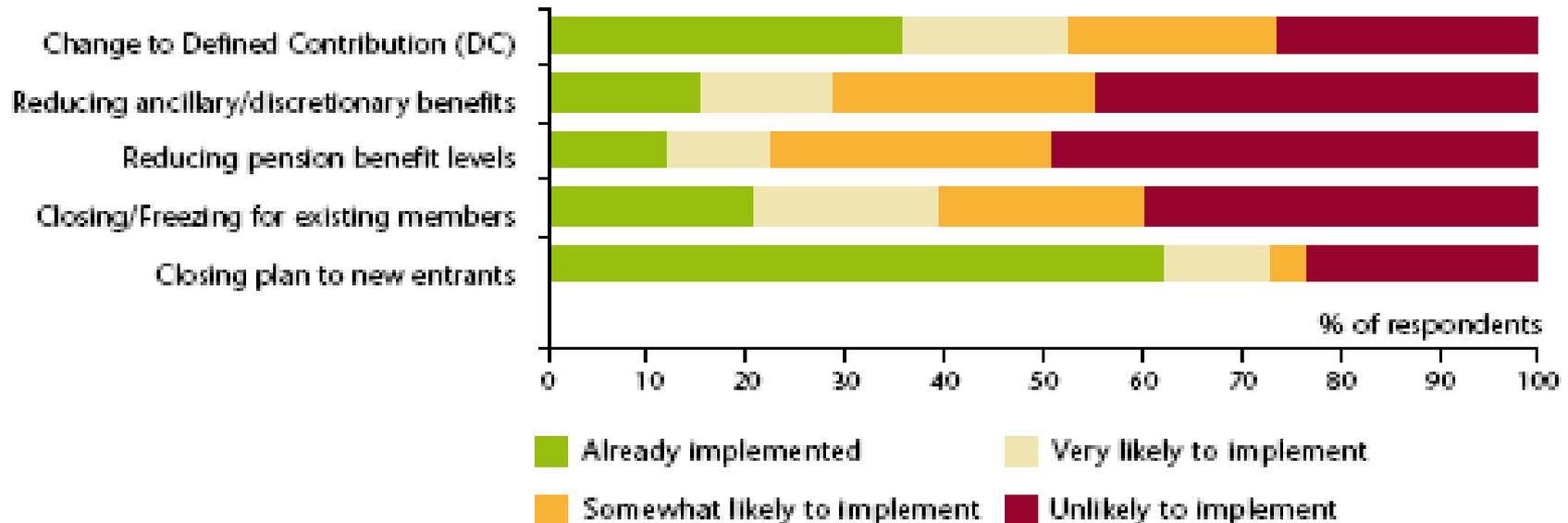
Financial management

DJ Euro Stoxx 50 Index companies cumulative pension deficit



Management actions: benefits

What is your attitude to the following strategies over the next 12-24 months?

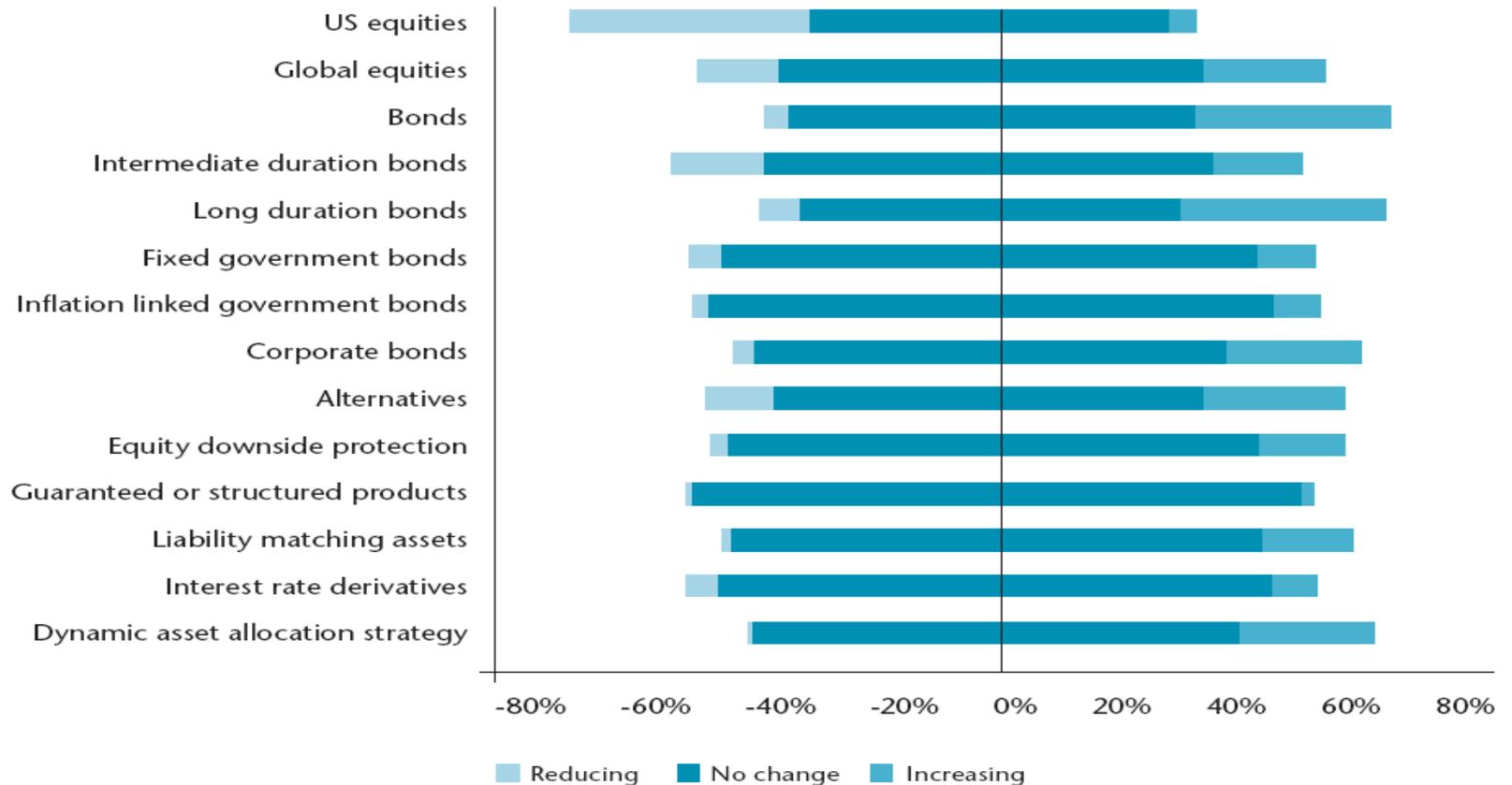


Source: Aon Hewitt Global Risk Survey 2011, Europe Survey results

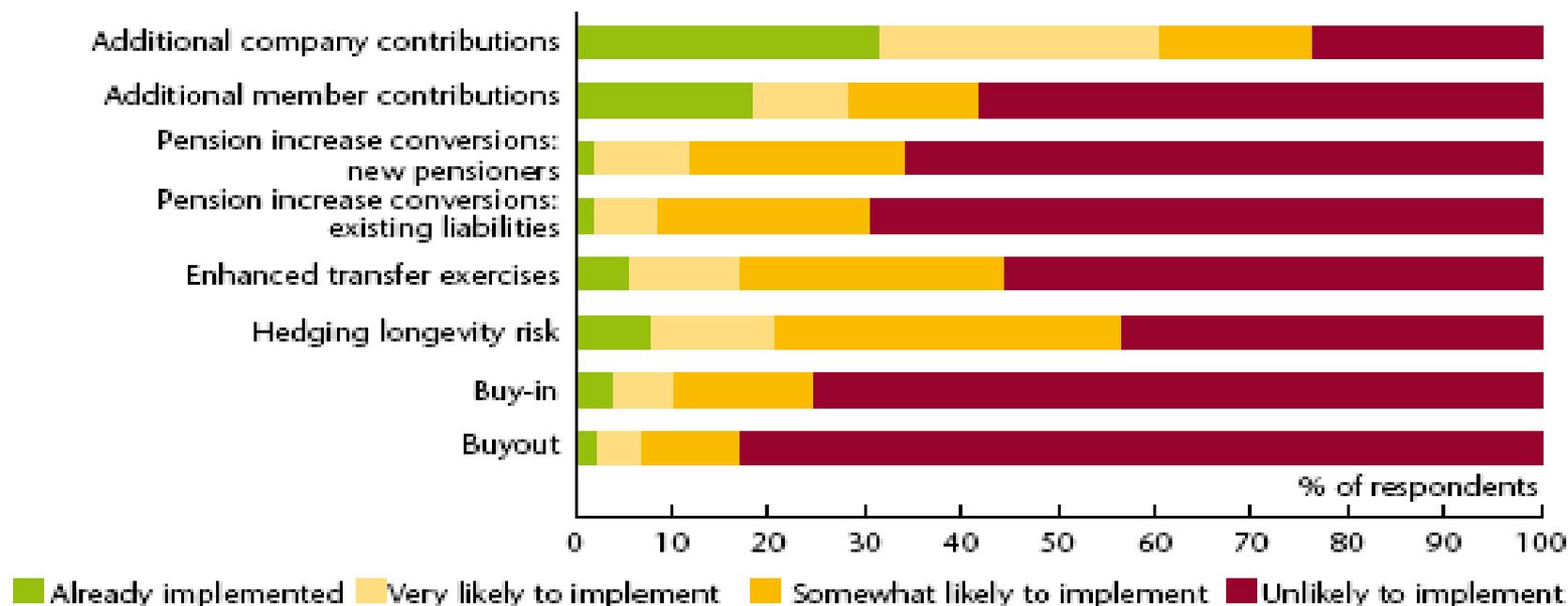
Management actions: investments

Investment Changes— What Changes Will You Make to Target Investment Strategy?

Next 12 Months



Management actions: liability and funding



Pension design: challenges

Challenge	What's happening?
Running-off the DB provision	<ul style="list-style-type: none">- 90% of UK DB schemes are closed to new joiners- 29% closed to future accrual for current employees
Balancing cost vs other drivers	US survey: puts retirement benefits only 5 th in top-ten drivers for employee attraction, and not ranked at all for retention engagement
Employees not choosing to join	Auto-enrolment becoming compulsory in UK, and increasing in US and elsewhere
Employees not saving enough	4% of US employers are very confident employees will retire with sufficient assets

Source: Aon Hewitt surveys 2011, 2012

Pension design: employer actions

Action	For example
Employer-sponsored arrangements to achieve economies of scale in DC arrangements	Monitor, review provider charges
Address employee knowledge and behavioural risks	Use auto-enrolment, financial advice / guidance, automatic escalation of contributions
Offer flexibility to help employees manage different risks	Target date funds, diversified growth funds, flexible annuities
Use a wide range of success measures for benefit programme, not just cost to employer	Take-up rates, contribution rates, employee involvement,



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