

# Global Retirement Breakfast Briefing 2 March 2023

**AON**



# Agenda

Welcome/housekeeping

*08:30-08:35*

Speakers

*08:35-09:15*

Paul Rangelcroft – USA

Patti Barra – LATAM

Rachael Ingle – EMEA

Ashley Palmer – APAC

Q&A

*09:15-09:30*

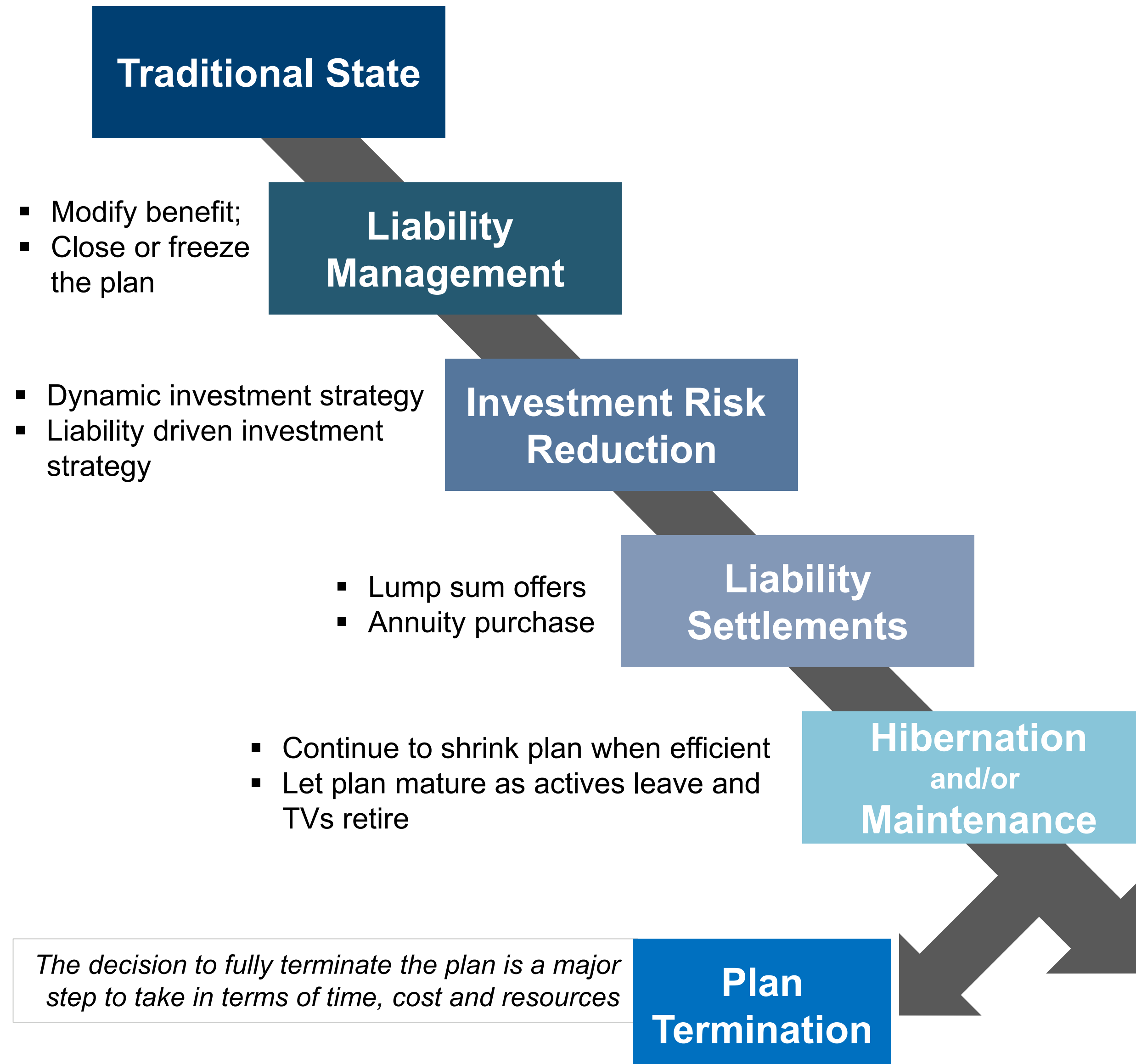
Wrap-up and optional networking

*09:30-10:00*

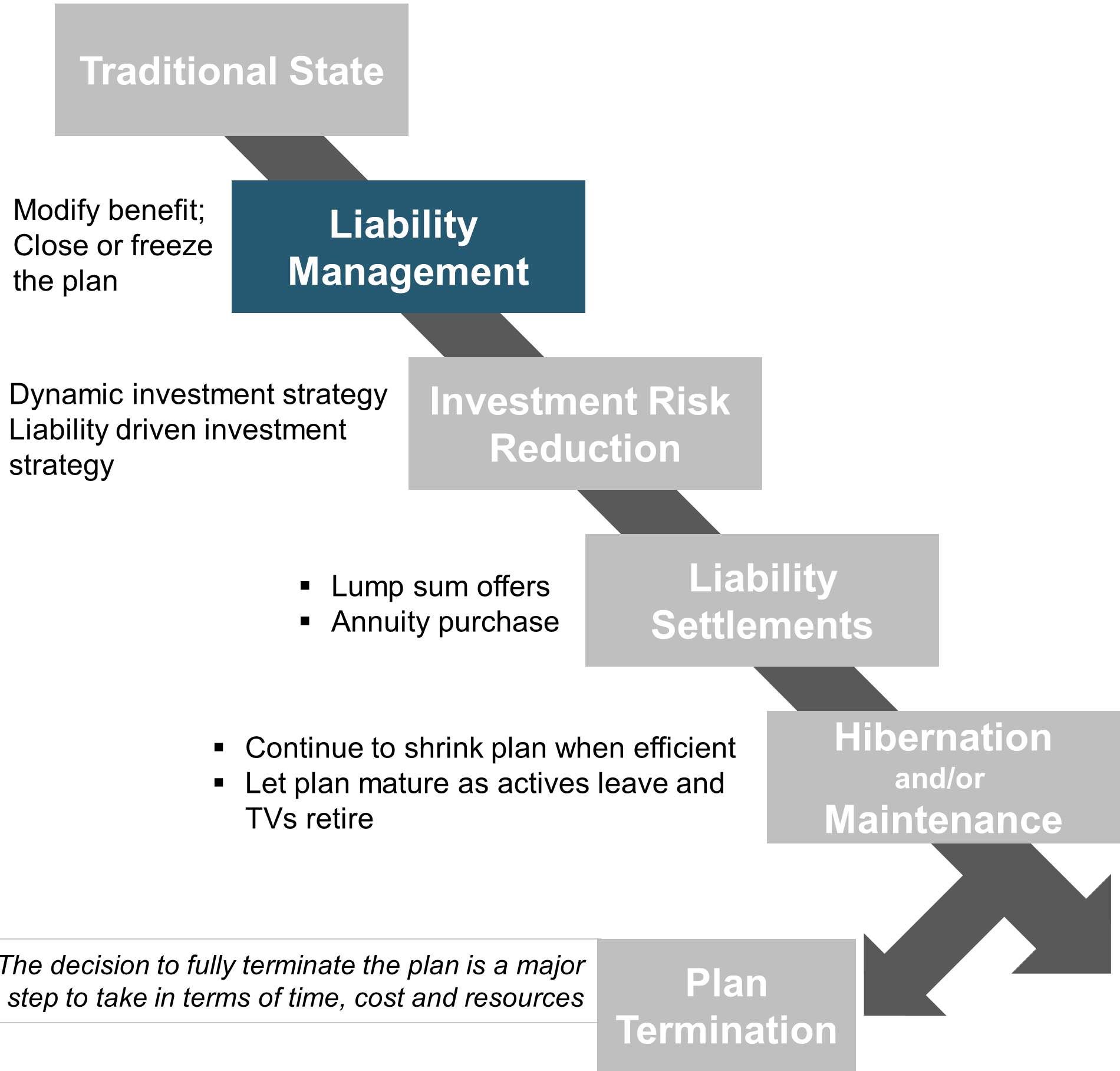
# USA

Paul Rangepcroft

# Pension Risk Management Lifecycle

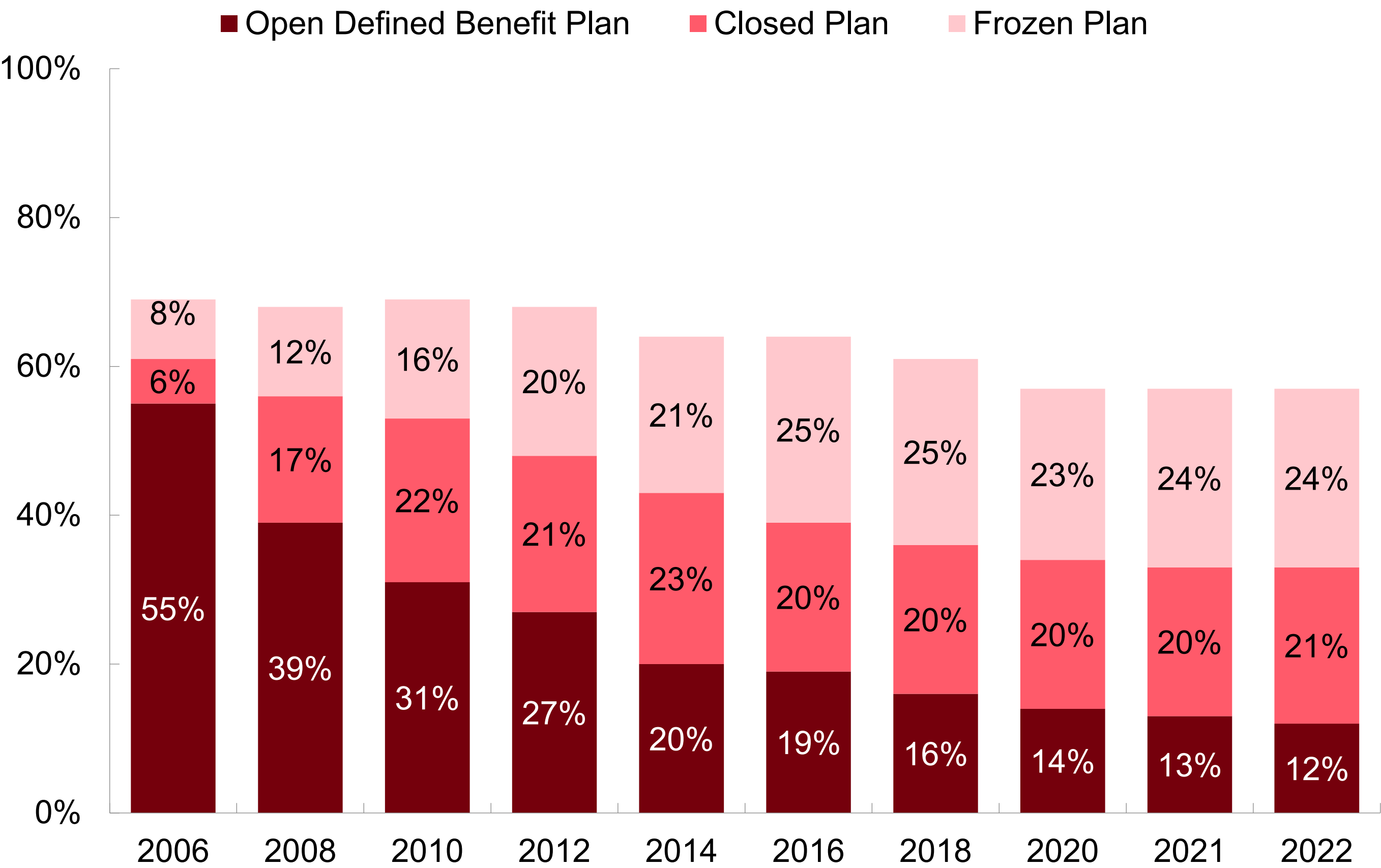


# Pension Risk Management Lifecycle



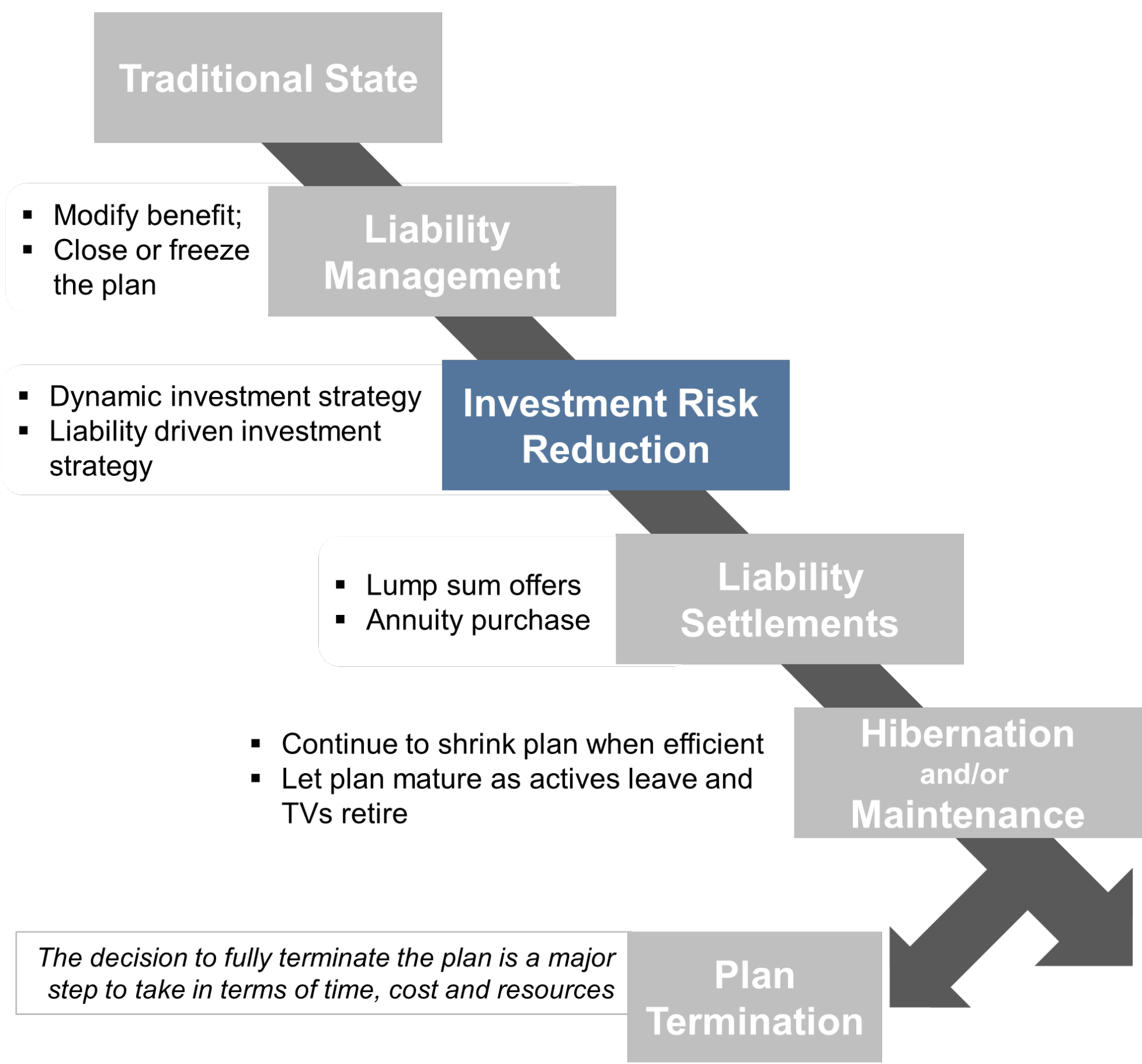
# Liability Risk Reduction

## General Industry—Salaried New Hire Benefits

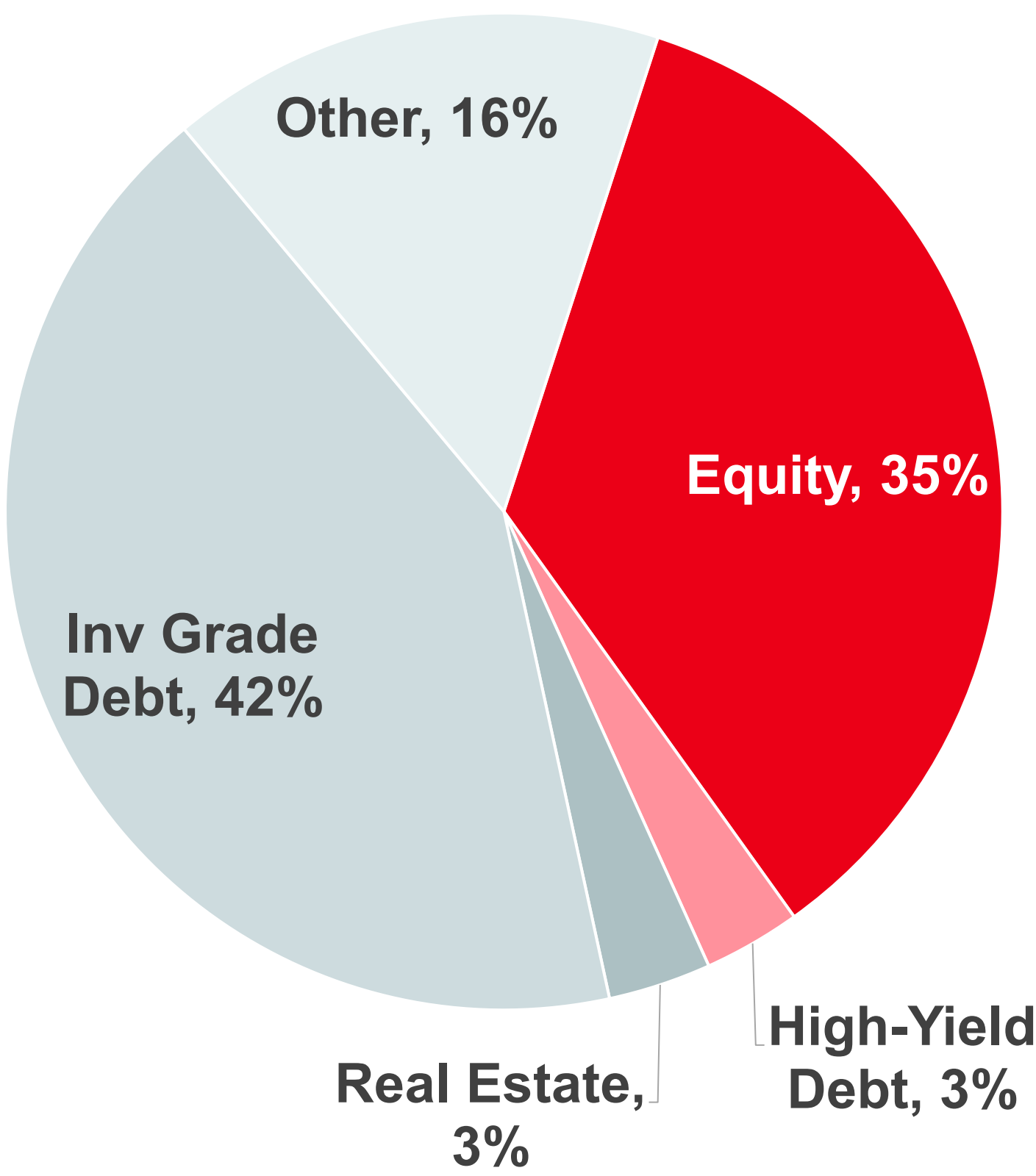


Not a constant sample. (Employers may differ in each year.)  
Source: Aon's Benefit SpecSelect™ (954 employers).

# Pension Risk Management Lifecycle



# Investment Risk Reduction

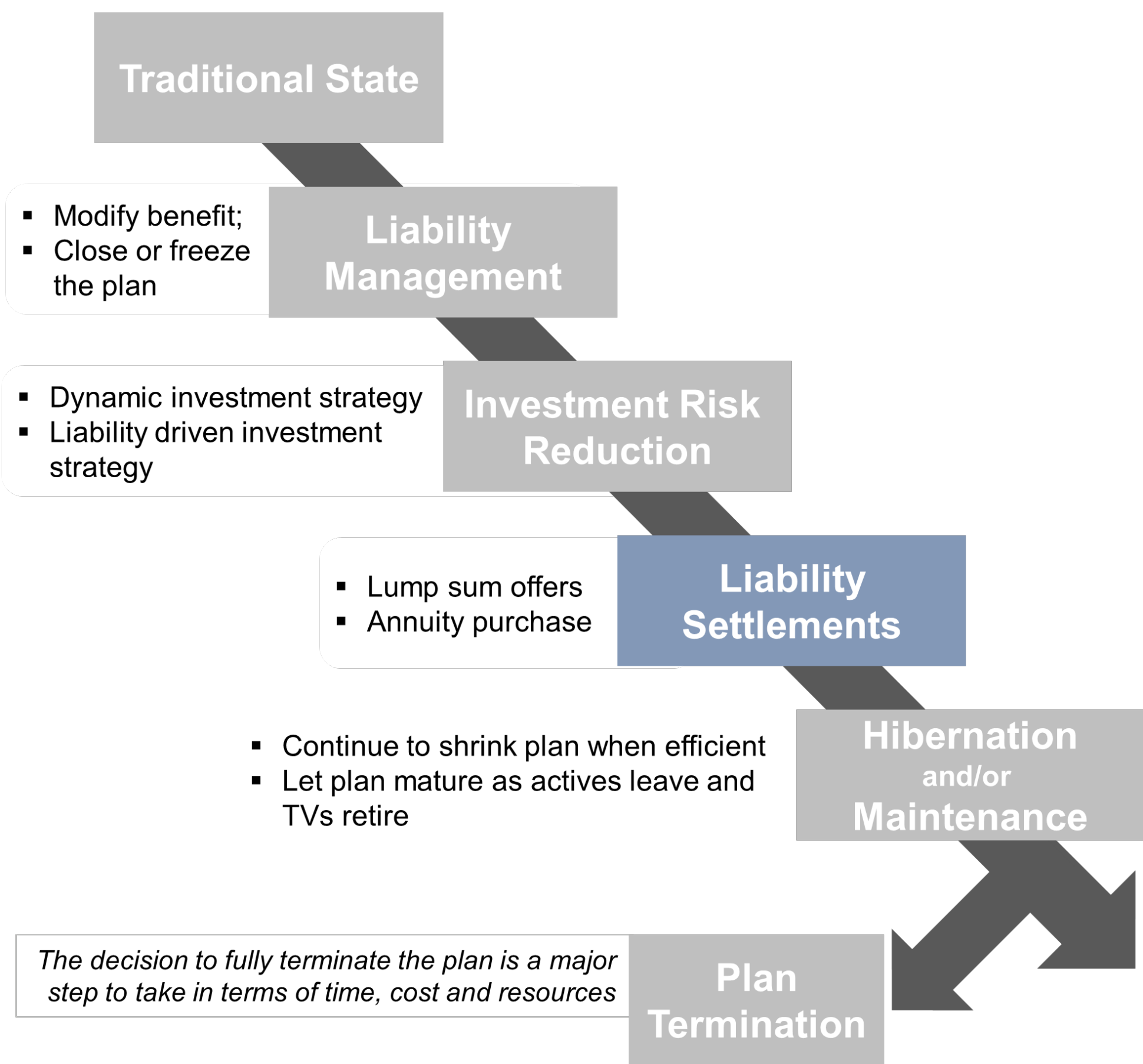


Plan Status	Equity & High Yield
Open	43%
Closed	39%
Frozen	35%

Funded Status	Equity & High Yield
<90%	47%
90-110%	38%
>110%	37%

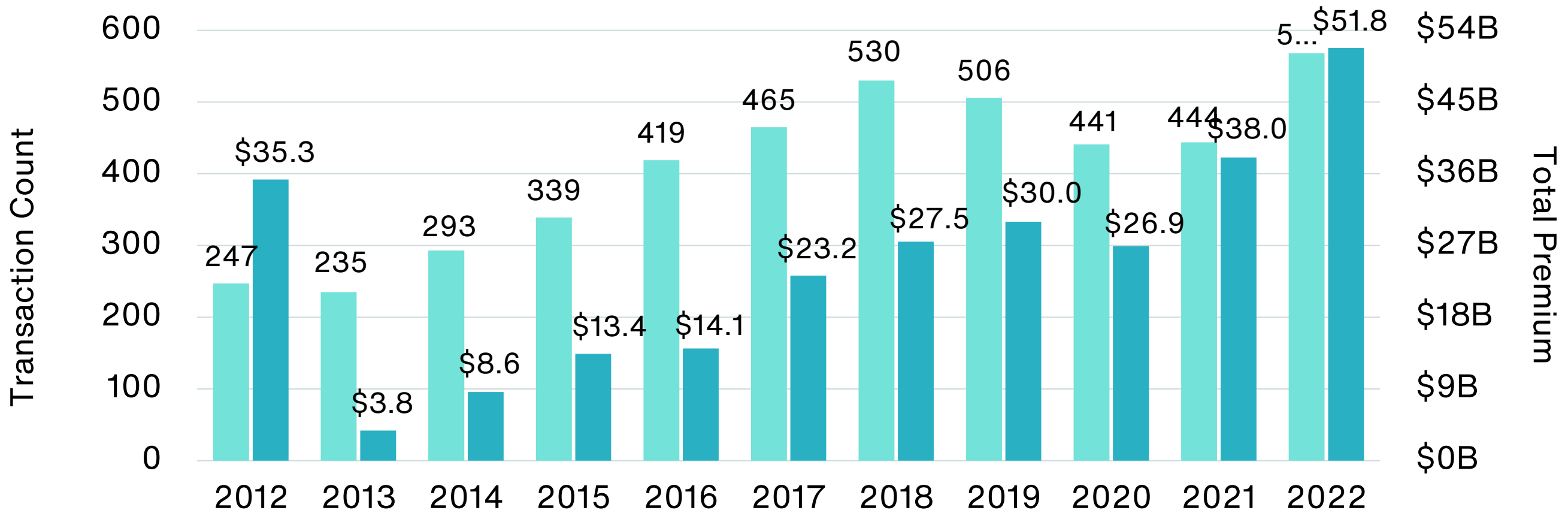


# Pension Risk Management Lifecycle

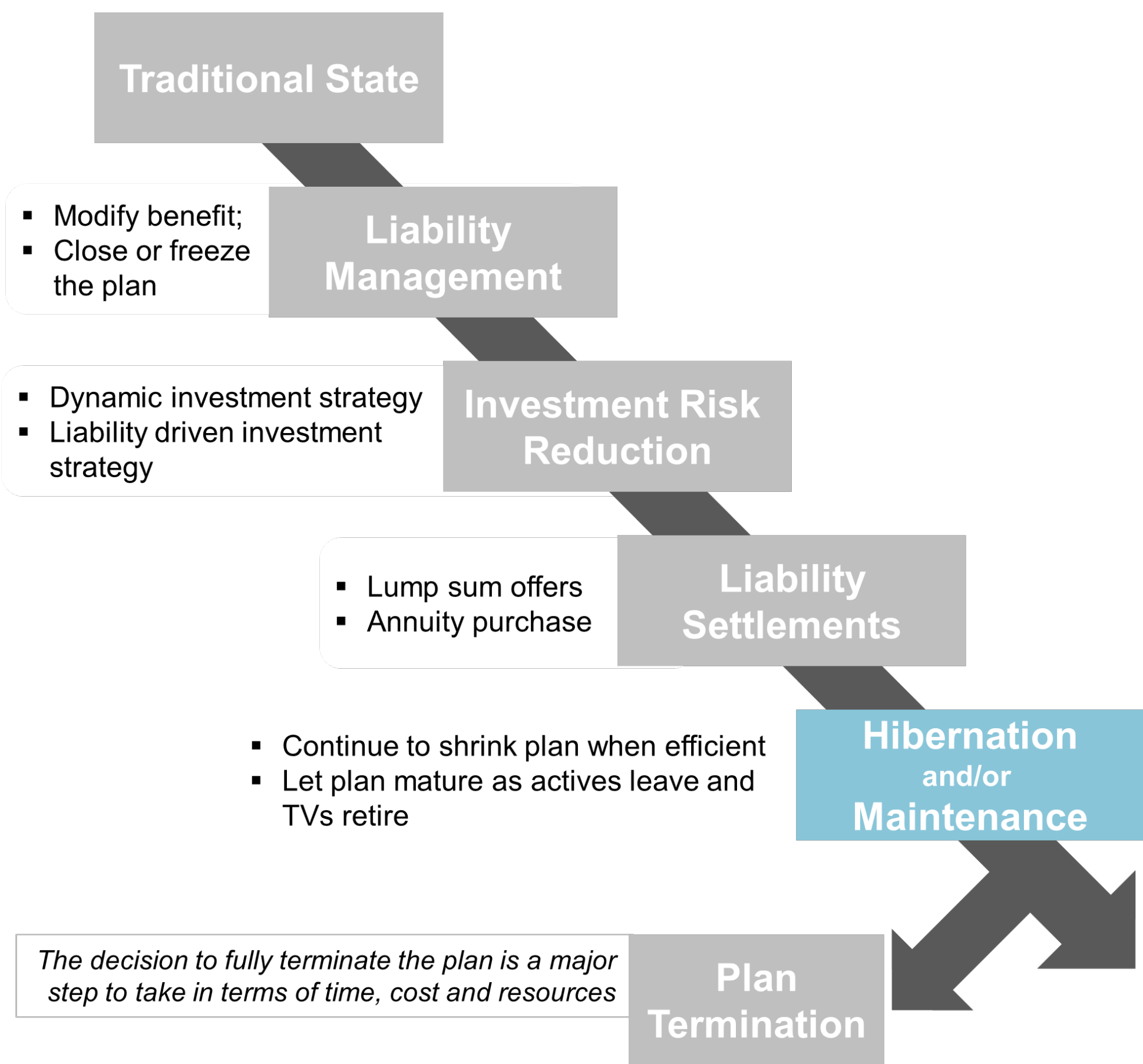


# Liability Settlements

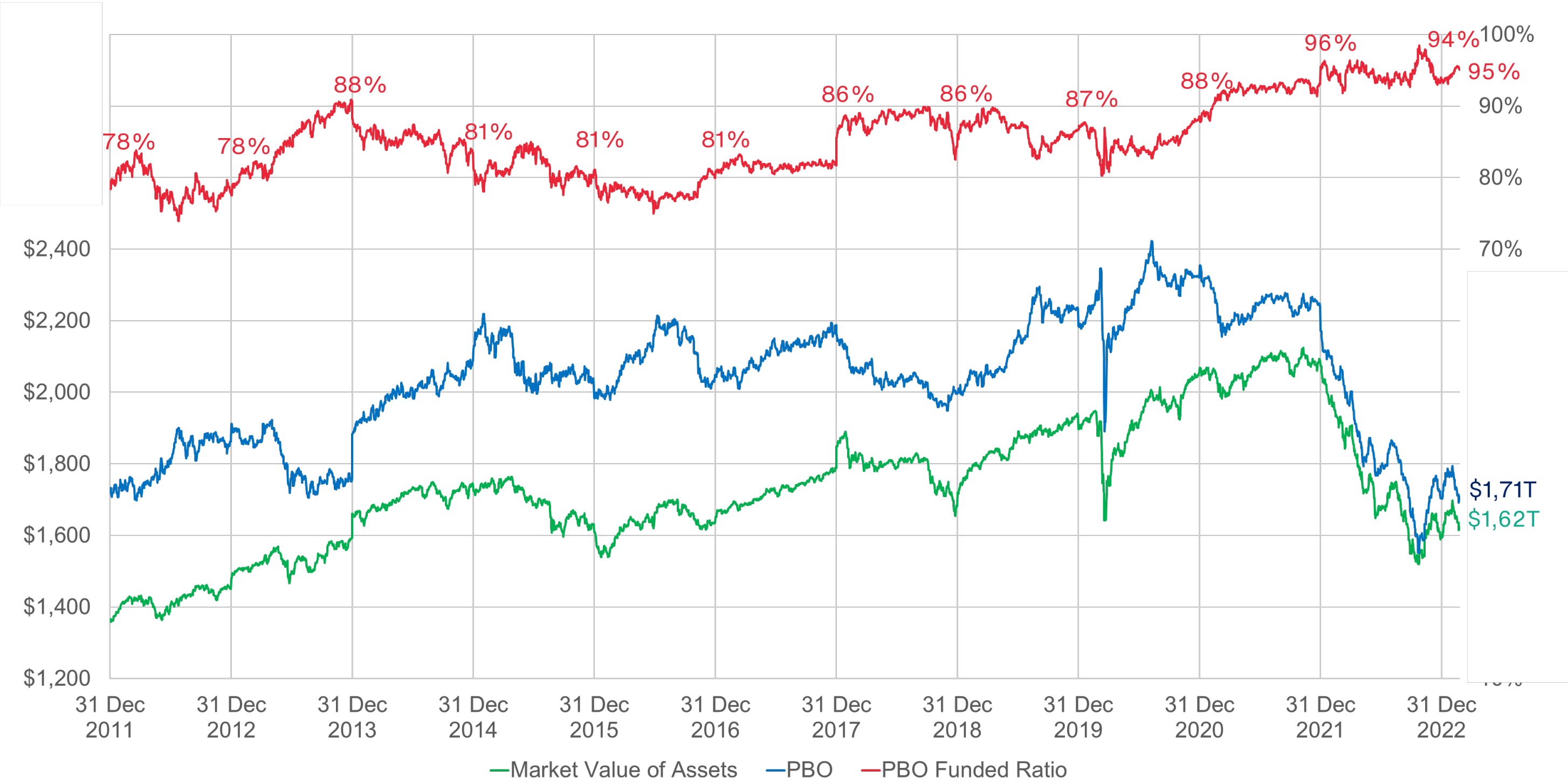
Population Group	Settlement Solutions					
	Lump Sum Window			Annuity Purchase		
Actives	Only in certain situations, such as age 59-1/2 or plan termination			Typically, only part of full plan termination		
	% of PBO	Implement	Prevalence	% of PBO	Implement	Prevalence
	95%–100%	Medium	Uncommon	105%–130%	Complex	Uncommon
Term Vesteds	Commonly done as window if not offered as part of termination			Often expensive and usually secondary to lump sum window		
	% of PBO	Implement	Prevalence	% of PBO	Implement	Prevalence
	95%–100%	Medium	Most common	105%–120%	Easy	Uncommon
Retirees	Allowable again after IRS reversed position in March 2019			Favorable insurer pricing and opportunity to target small benefits		
	% of PBO	Implement	Prevalence	% of PBO	Implement	Prevalence
	100%–103%	Complex	Less common	100%–105%	Easy	Common



# Pension Risk Management Lifecycle



# Hibernation and/or Maintenance





# Challenges Facing U.S. Plan Sponsors

## Benefits Disparity

Grandfathering and Industry trends leading to large disparity

Gap from richest industries (Energy, Oil, Pharma, Utilities) with 3x benefits of poorest industries (hotels, retail)

## Litigation

Accelerating in both DC (fee related) and DB (actuarial factors)

18 large lawsuits in last four years on actuarial equivalence.  
  
DC lawsuits moving to fees from fund options.

## PBGC Cost Escalation

Sharp increases have pushed companies to question efficiency of DB system

From 2012 to 2022 the PBGC Per-Person Premium increased from \$35 to \$96, and Underfunding Premium increased from 0.9% to 5.2%

## Lack of Income Adequacy

Lowering of benefits and poor individual choices in DC hurting outcomes

Shortfall for average American of 3.2x wages at age 67 versus need of 11.1x.  
  
81% of people projected not to meet Retirement Savings needs by age 67.

## Gender Gap

Gender retirement savings gap in U.S. now at 34% (versus 18% pay gap)

Challenges related to move to DC when women live longer; designs favoring those without career breaks, conservative decision making and barriers to saving.

## Safety Net Weakness

Social Security reserves exhausted in 2034; Medicare in 2028

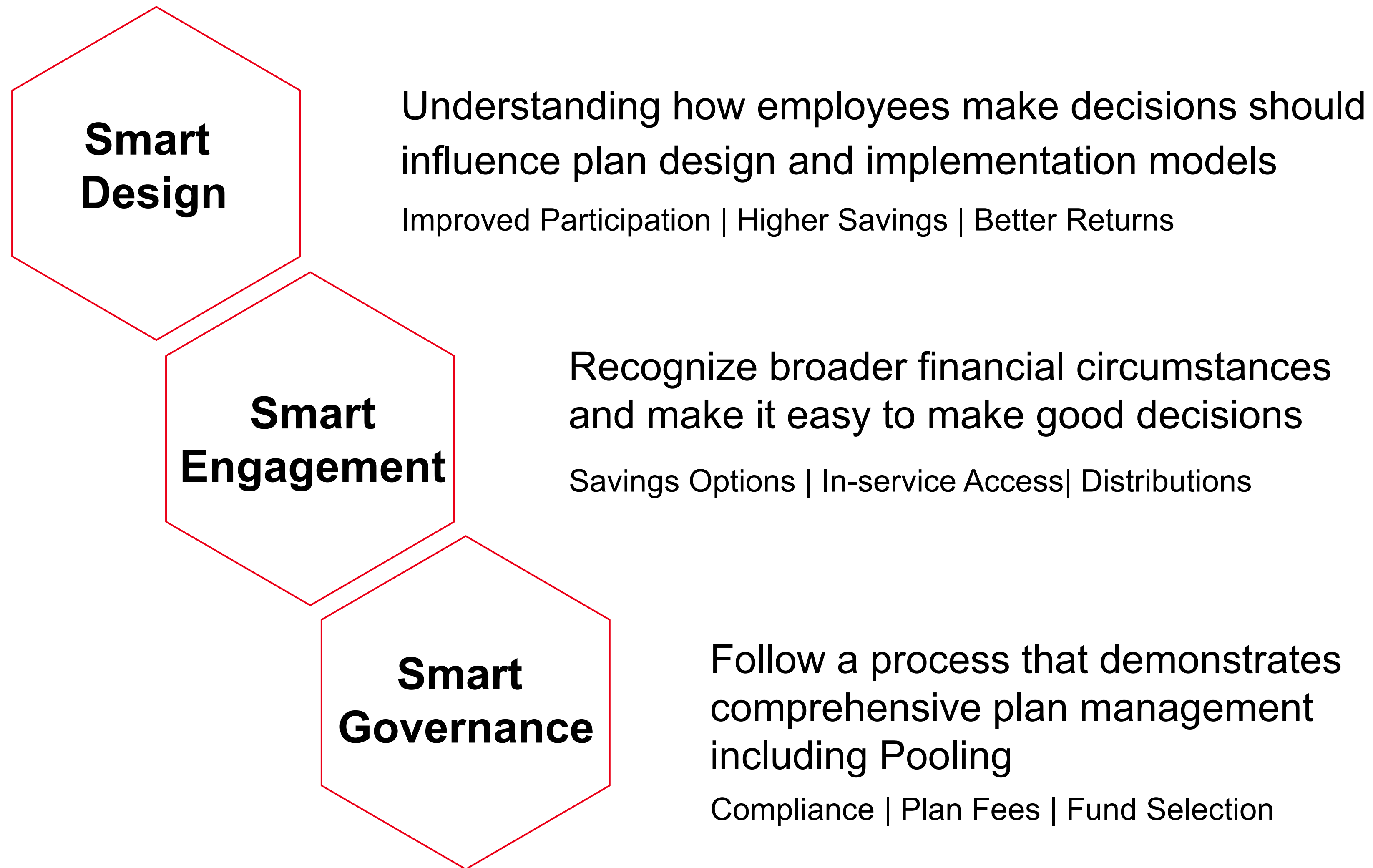
While ongoing taxes will cover much of short-term needs (up to 80% of Social Security) changes are needed and likely to impact younger generations.

## Increasing Longevity

Male longevity assumptions at age 65 has increased by 37% since the 1980s

Males now living average of 21 years post-65 and females 23 years. These increases continue to impact savings and hurt sponsors.

# Aon's DC Point of View



# LATAM

Patti Barra

# Overview on the Social Security Benefits

## Type of Plans and Retirement Requirements

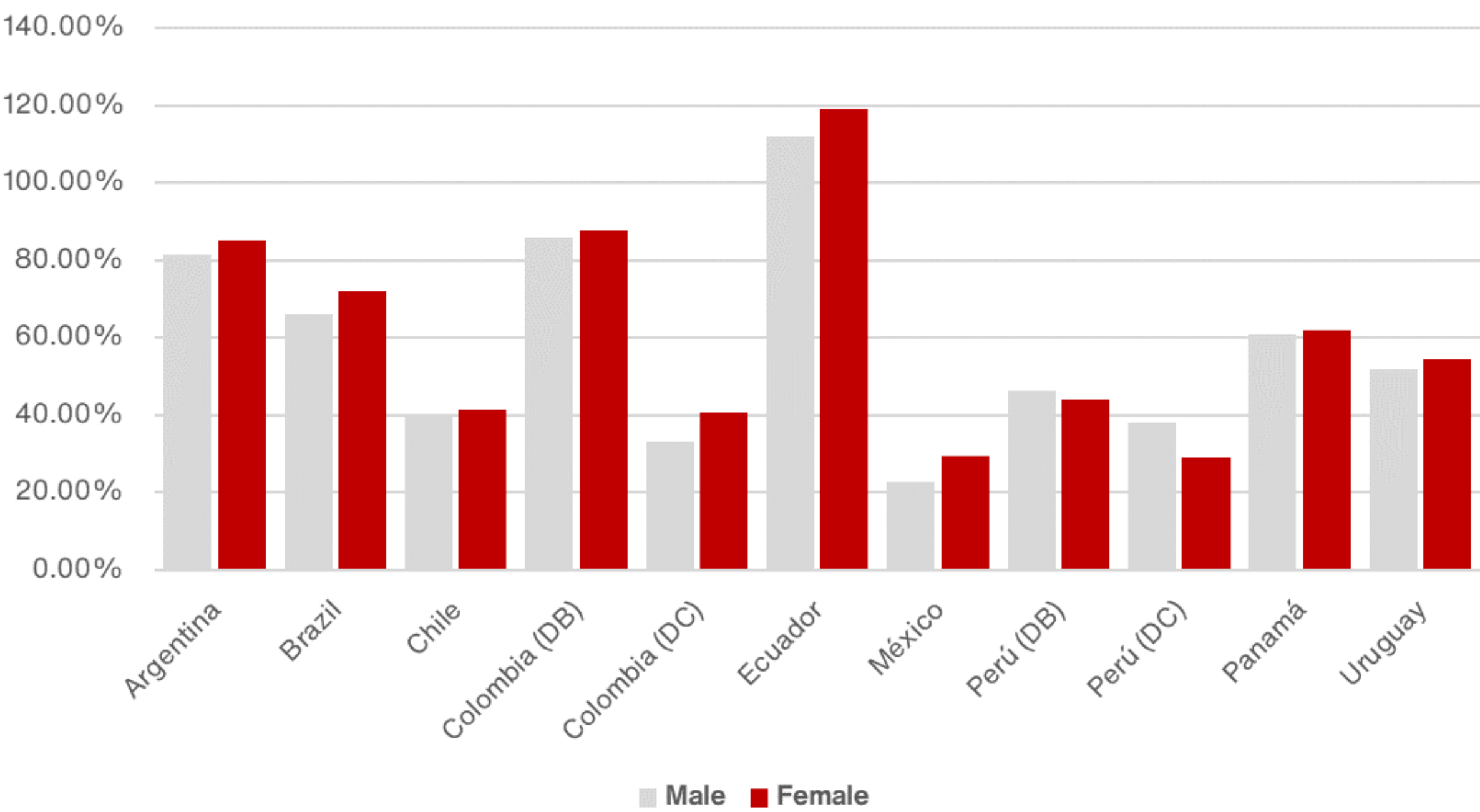
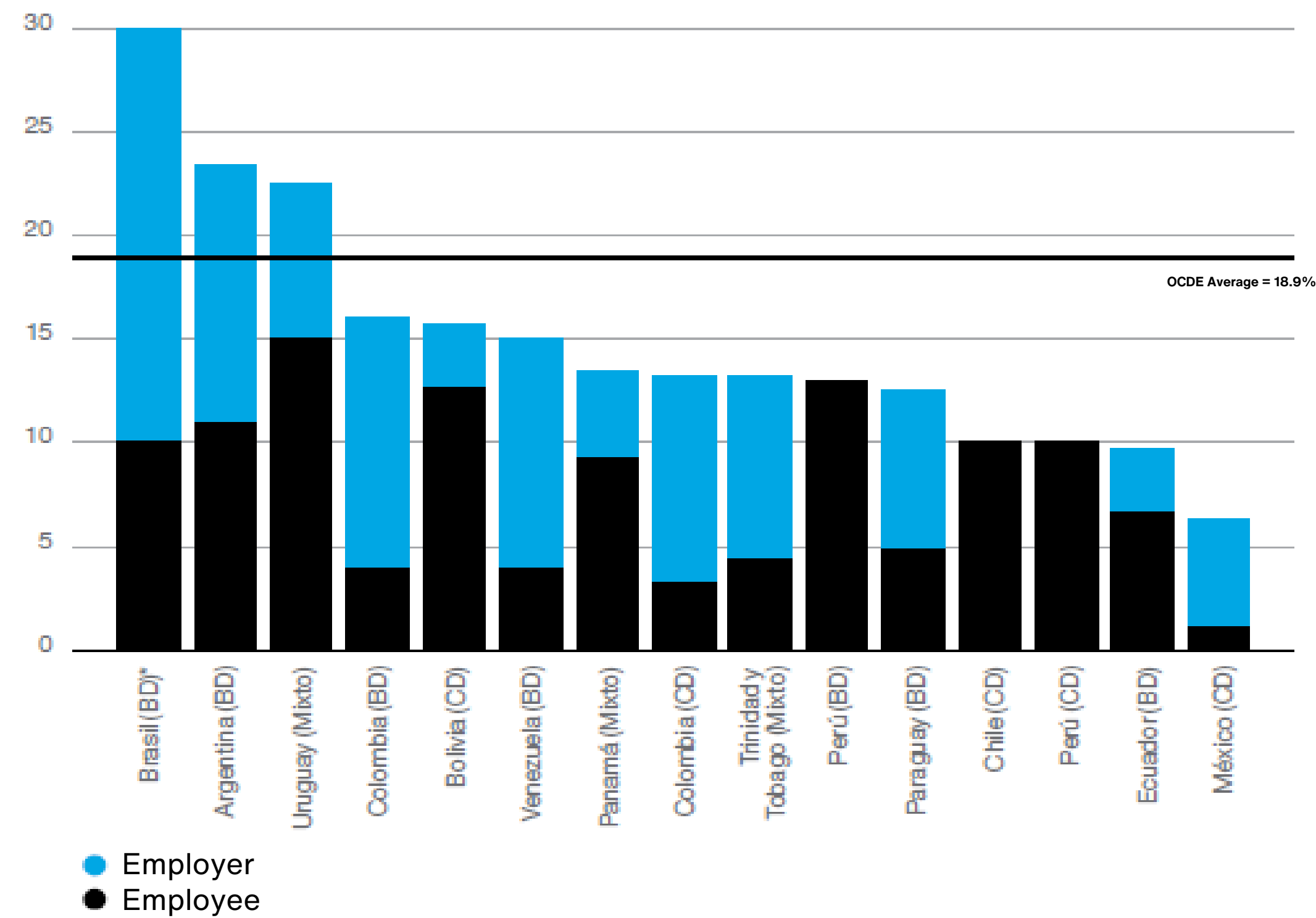
Country	Contributory Systems			Non-Contributory Systems	
	Defined Contribution			Focused	
	Defined Benefit	Public Funds	Private Funds	Universal	Not having another Pension
Argentina	x				x
Brazil	x		x		x
Bolivia		x		x	
Chile			x		x
Colombia	x		x		x
Costa Rica	x	x	x		x
Ecuador	x				x
Mexico			x	x	
Panamá	x		x		x
Paraguay	x				x
Peru	x		x		x
Dominican Republic			x		
Trinidad & Tobago	x		x		x
Uruguay	x	x	x		x
Venezuela	x				x

Country	Retirement Age		Years of Contributions
	Male	Female	
Argentina	65	60	30
Brazil	65	62	20 for male and 15 for female
Bolivia	58	58	10
Chile	65	60	Not required
Colombia	62	57	25 for DB, not requirement for DC
Costa Rica	65	65	25
Ecuador	60 if 30 years of contributions; 65 if 15 years of contributions; 70 if 10 years of contributions; any age if 40 years of contributions		
Mexico	65	65	24
Panama	62	57	20
Paraguay	60 if 25 years of contributions; 55 if 30 years of contributions		
Peru	65	65	20
Dominican Republic	60	60	30
Trinidad & Tobago	Between 60 and 65		Between 14 and 15
Uruguay	60	60	30
Venezuela	60	55	15

# Overview on the Social Security Benefits

## Contributions and Replacement Ratio

Average of Gross Salary



Source: Los Sistemas de Pensiones y Salud en América Latina / Banco de Desarrollo de América Latina, 2020

# Supplementary Pensions



27% offer a supplemental Retirement Plan

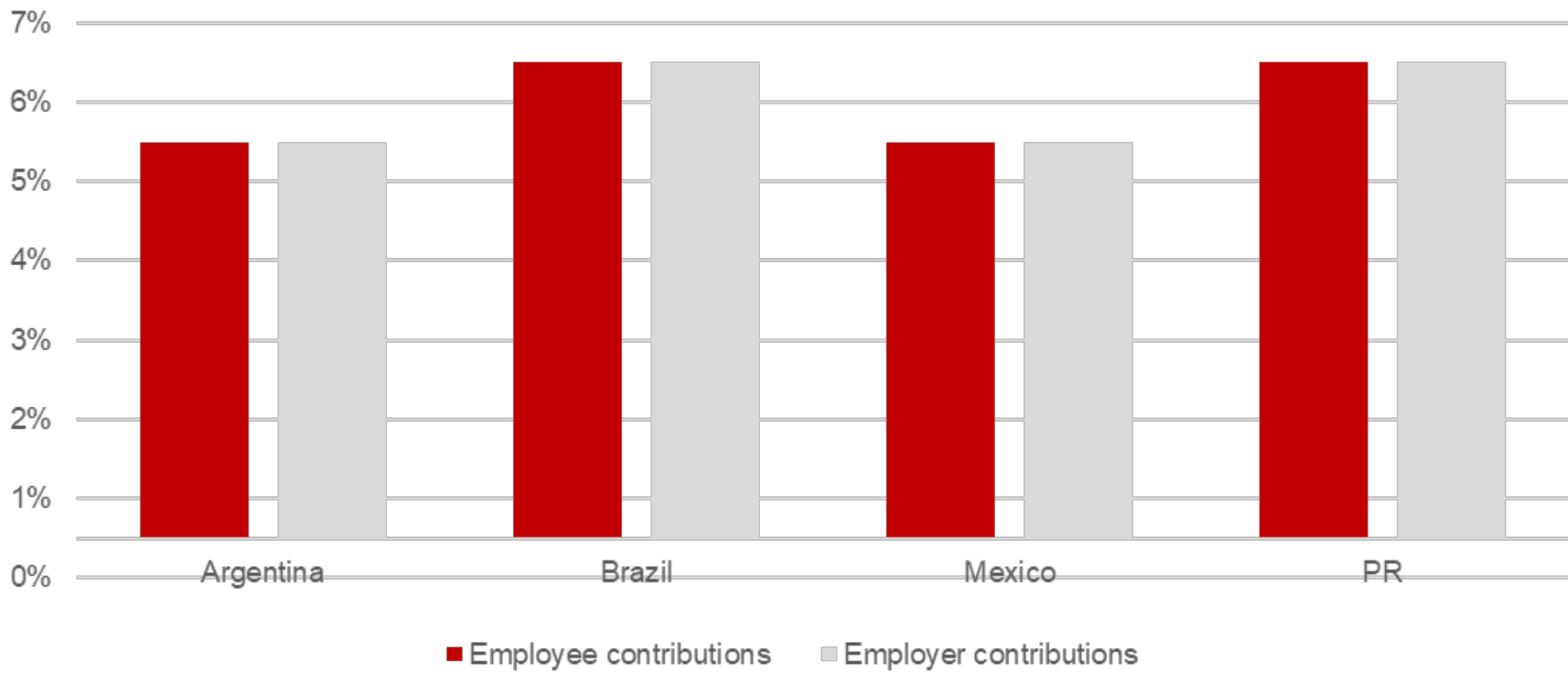
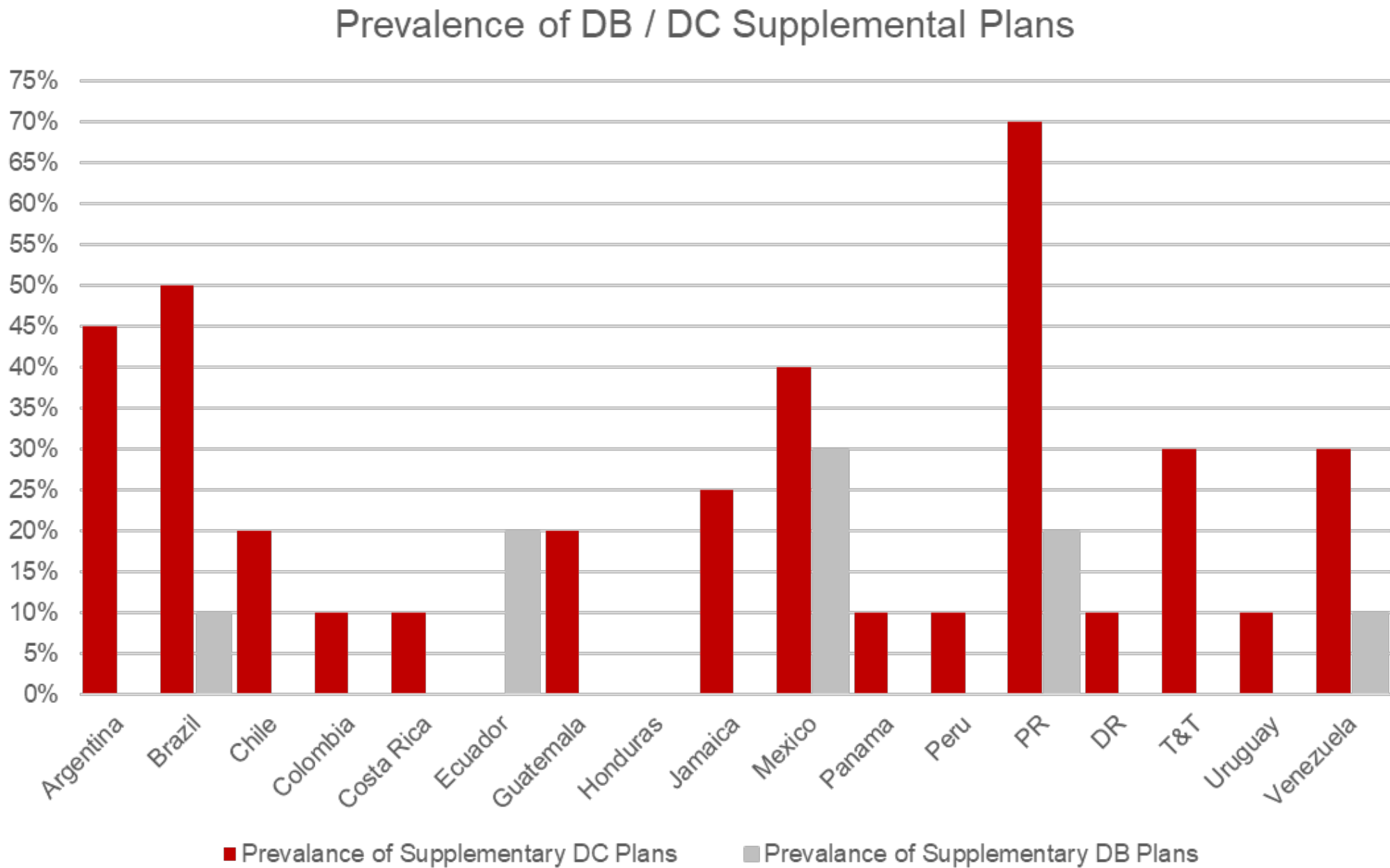
28% have a range of contributions

85% pay it as a lump sum

86% are DC pension plans

64% may select the type of investments

46% contributions are over base salary



Source: LatAm 2021 Aon Benefits Survey





# Other Labor Liabilities

Liability	Description
Notice Period	<p>Most countries require both the company and the employee to present a Notice period upon termination of employment. Required days prior to termination vary from country to country.</p> <ul style="list-style-type: none"><li>• <b>Chile, Costa Rica and Dominican Republic</b> are examples of countries which require the company to pay an amount in lieu of the Notice Period</li><li>• Some companies use to consider this as a <b>labor liability to be booked under ASC or IAS</b> methodologies</li></ul>
Cesantia	<p><b>Colombia, Costa Rica and Panama</b> also require the Payment of the Cesantia Benefit in case of almost all cases of termination of employment</p> <ul style="list-style-type: none"><li>• In average, Benefit is equivalent to 1 month of salary times years of service, some of countries having a maximum benefit</li></ul> <p><b>Mexico</b> requires the payment of the Seniority Premium in case of death, disability, dismissal, or voluntary termination with more than 15 years of service</p>
Termination Indemnity	<p>Payable in case of dismissal without a just cause</p> <p>Mostly equivalent to the Cesantia payment, commonly subject to minimum or maximum ceilings</p>



# Hot topics in Latam:

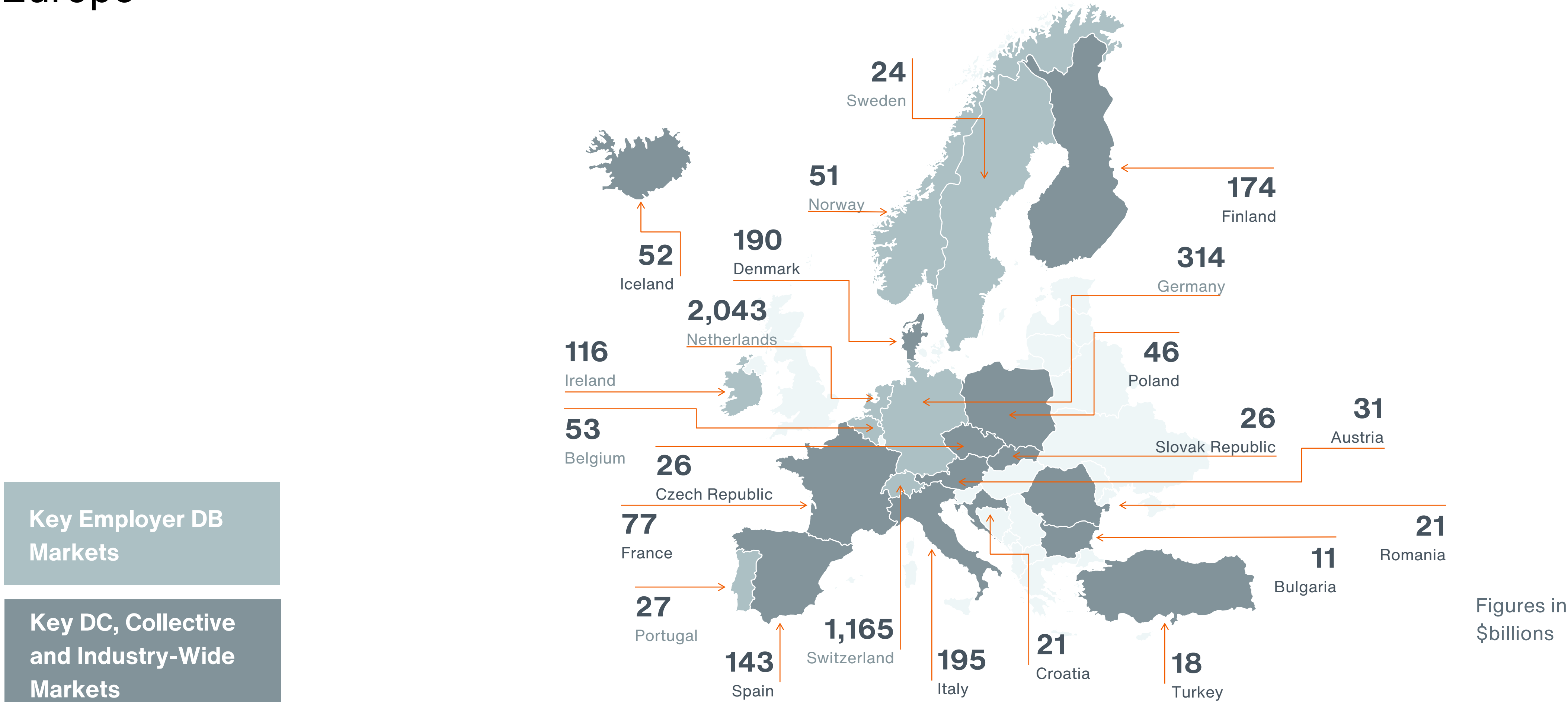
Legal Changes	Call to action
Mexico   Pension Reform	<ul style="list-style-type: none"><li>• Evaluate impact of the pension reform   Company cost &amp; Benefit level for colleagues</li><li>• Benefits   Redesign or implement Pension Plans according to new Social Security benefits and costs</li></ul>
Brazil   Risk on Post-Retirement Medical Plans	<ul style="list-style-type: none"><li>• Many companies are looking into optimizing or reduce risk in their post retirement medical plans, which are very common in Brazil</li></ul>
DC trends	<ul style="list-style-type: none"><li>• All countries moving into DC schemes (some with minimum guaranteed benefits)</li><li>• Pension plans with only employee contributions</li><li>• Communication to participants (financial awareness)</li><li>• Reduce risk due to inflation rates in the region</li><li>• Reduction in vesting schedules</li><li>• Inclusion of voluntary additional life/disability benefits through pension plans</li></ul>
Financial Wellbeing	<ul style="list-style-type: none"><li>• Companies are worried about employees being educated about financial issues that they might be facing all along their active and post-retirement lives, such as debts, savings, investments, fiscal opportunities, legal requirements, taxes, etc</li><li>• There is an opportunity to help employees in the diagnostics of their financial health and with any issues that are found upon these diagnostics.</li></ul>
Administration & Investments	<ul style="list-style-type: none"><li>• Outsourced administration rather than bundle services with the investment management</li><li>• Investment policy &amp; monitoring</li><li>• Governance and best practices (Prospective and strategic vision on market risks)</li><li>• Accompaniment to retirees</li><li>• In Argentina, offshore investment becoming more prevalent due to high inflation rate</li></ul>

# EMEA

Rachael Ingle

# Pension Fund Assets

## Europe



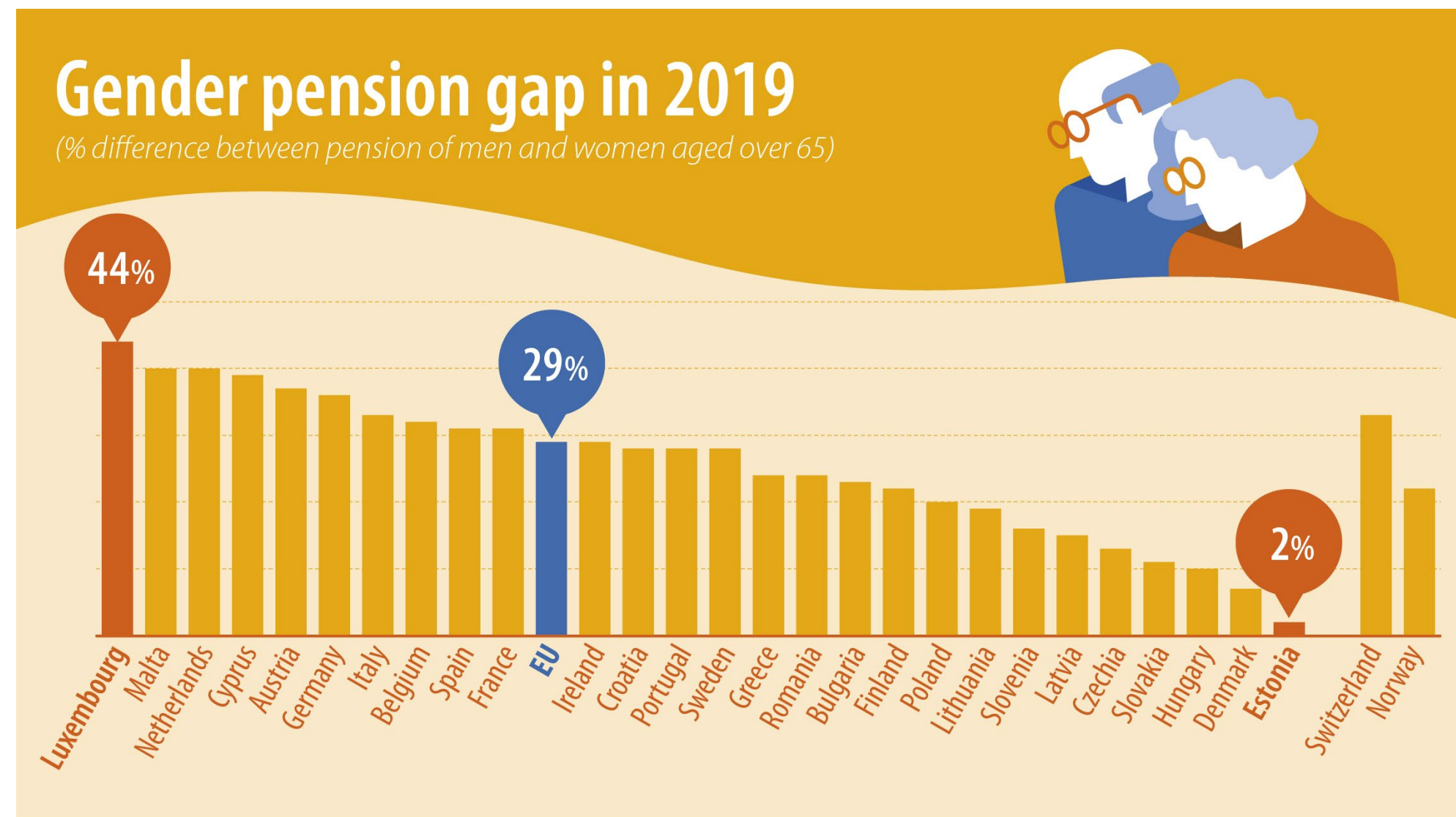
Source: OECD (end 2021 data)

Data generally refers to assets in pension and excludes unfunded plans (e.g., Austria, Germany, Sweden); pension insurance contracts (e.g., Belgium, Denmark, France, Sweden); and vehicles offered and managed by banks, investment companies or other entities (e.g., Belgium, Denmark)

Data includes: PERCO/company PER and IORPs in France, Pensionskassen and Pensionsfonds supervised by BaFin in Germany, open pension funds and employee pension plans in pension funds in Poland, personal plans in Turkey



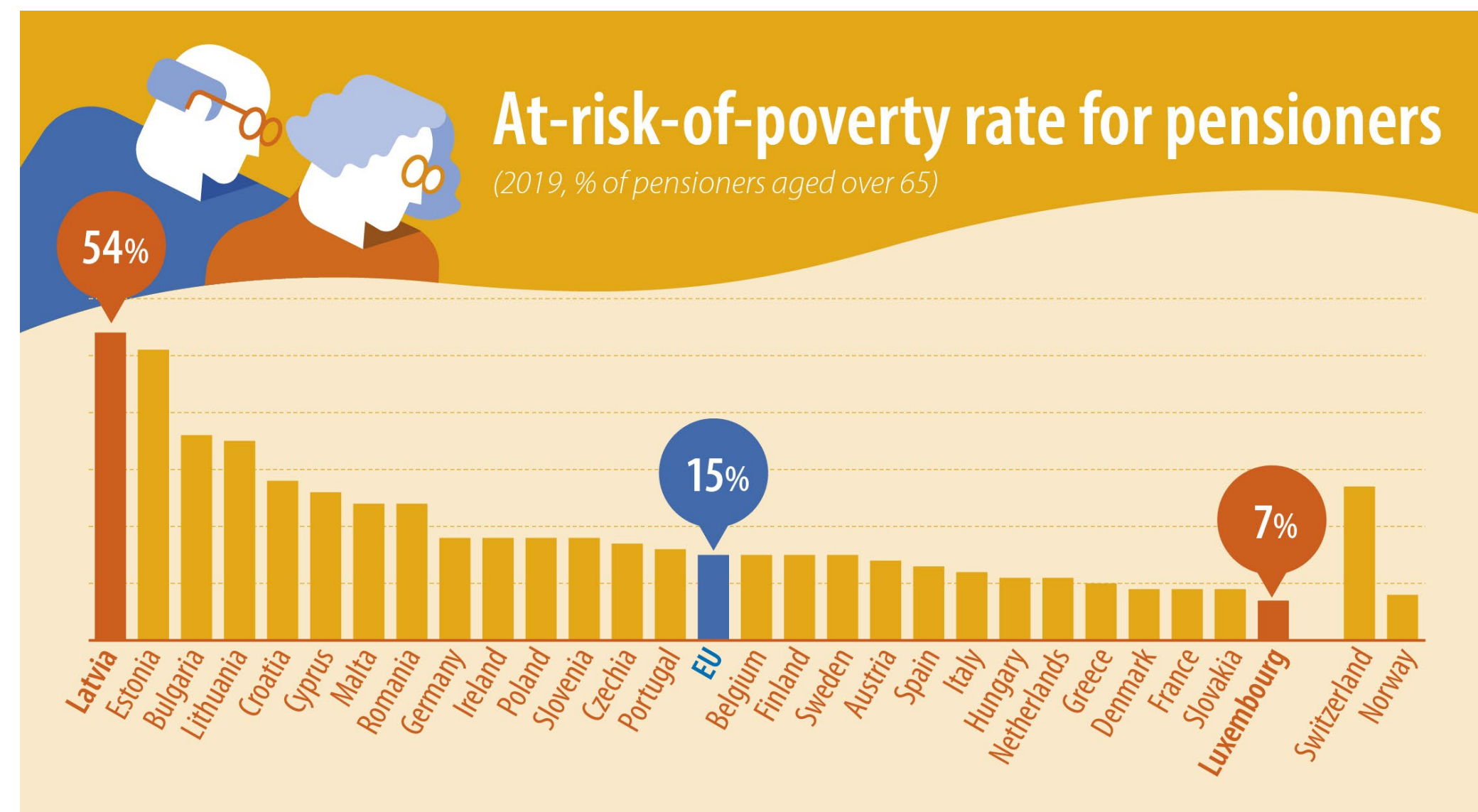
# European Gender Pension Gap and At-Risk-Poverty Rates



ec.europa.eu/eurostat

- Aon can help companies assess this for their workforces (for example: sample members; entire populations; those approaching retirement)
- Employers can then take targeted actions to improve retirement outcomes

- Official European Union data - precise rates will vary by company and earning levels



ec.europa.eu/eurostat

# Focus Areas for 2023



IORP2

Mastertrusts

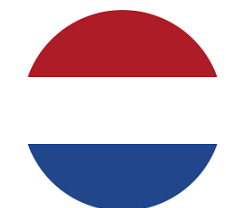
Auto-enrolment



Pension financing

Insured/DC broking, administration & communication

Liability management (lump sums)



Pension Reforms / DC

Financial Wellbeing

Asset-Liability Modelling



Plan consolidation (mid-tier)

High earner 1e (pure DC)

Long-term funding



Social security / retirement age reforms

DB settlement

DC management

Financial wellbeing & communications



ESG

Governance & Risk Management

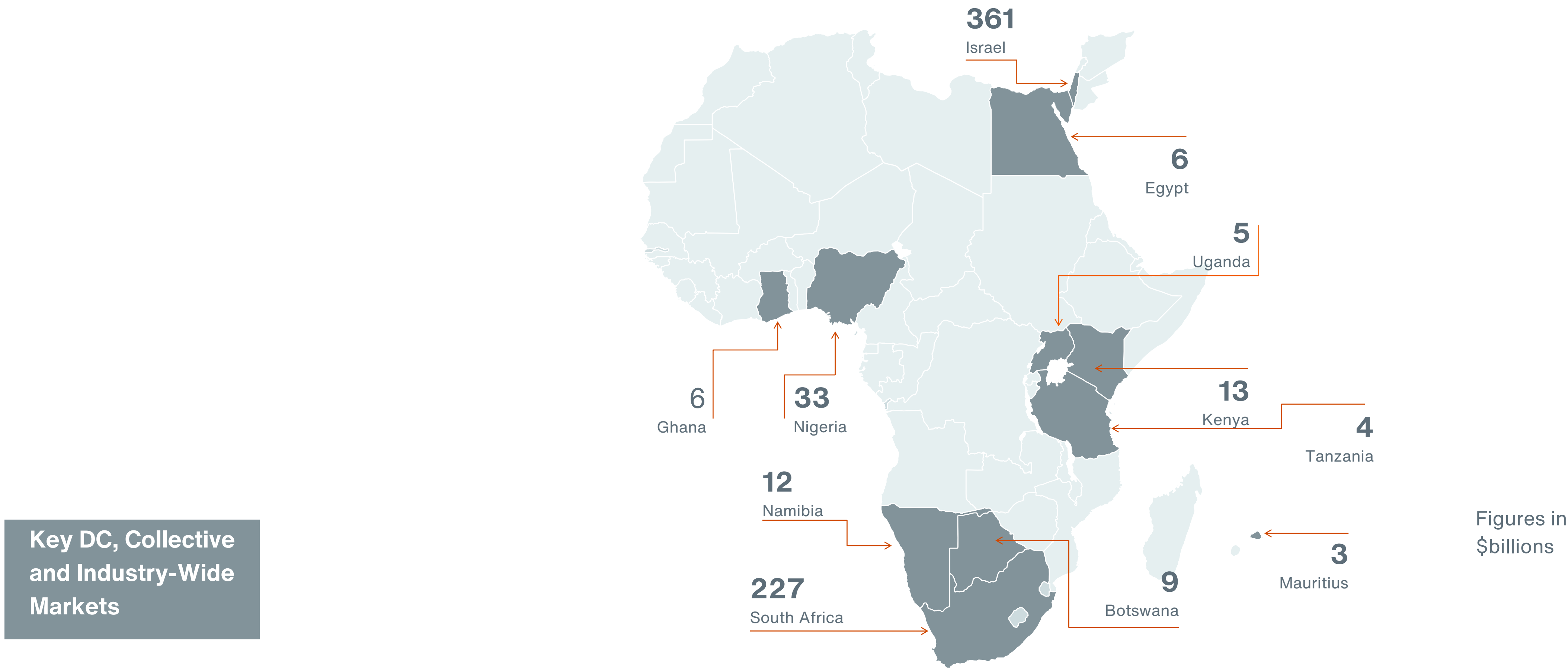
Communications / Dashboards

Cross-border



# Pension Fund Assets

## Middle East and Africa



Source: OECD (end 2021 data); Bright Africa (end 2020 data)  
Data generally refers to assets in pension and excludes unfunded plans (e.g., Austria, Germany, Sweden); pension insurance contracts (e.g., Belgium, Denmark, France, Sweden); and vehicles offered and managed by banks, investment companies or other entities (e.g., Belgium, Denmark)  
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# APAC

Ashley Palmer

# In focus now for APAC employers

## NEW News

- **Australia:** this week announced superannuation balances above AUD \$3M will have their concessional tax rate doubled from 1 July 2025, and will be taxed at a concessional tax rate of 30%, up from 15%
- **China:** tax-efficient 'Individual Retirement Accounts' (IRA-like) personal savings now launched and invest in new Class-Y shares
- **Philippines:** new EPRI proposed (4%/1%)

## OLD News

- **India:** preparedness for change in labour code wage definitions
- **Australia:** stapling now in force for new hires; also Superannuation Guarantee increase to 11% from 1 July 2023, then incrementally up to 12%
- **Korea:** ERBS Act requires all existing DC plans to implement Default Investment Option by July 2023

## BAD News

- **Hong Kong SAR:** high fees eroding MPF/ORSO retirement savings
- **Singapore:** DEI gap for non-CPF eligible
- **Australia:** APRA superannuation fund performance test
- **Employee cost of living concerns and volatile markets:** importance of financial wellbeing support to mitigate money stress and mental health impact

# Financial stress on the rise

Global Risks Report 2023

## Top 10 Risks

“Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period”

WORLD  
ECONOMIC  
FORUM

### 2 years

- 1 Cost of living crisis
- 2 Natural disasters and extreme weather events
- 3 Geoeconomic confrontation

### 10 years

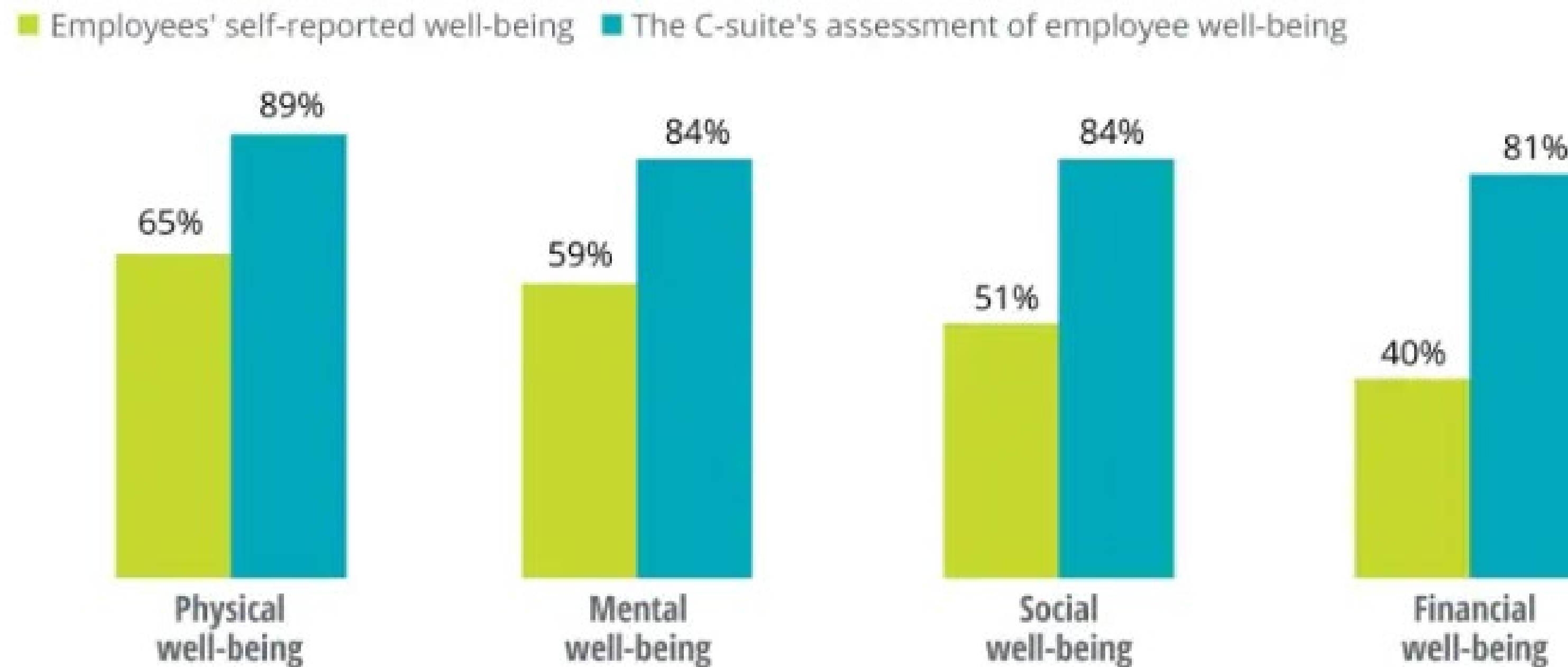
- 1 Failure to mitigate climate change
- 2 Failure of climate-change adaption
- 3 Natural disasters and extreme weather events

# Financial worries are not linked to income nor age

Financial stress impacts mental and physical health – and vice versa

66% of employees struggling financially reveal poor mental health

18% of those with mental health problems have problem debts  
they are **3.5 times** more likely to be in problem debt than other people





# Snapshot of the 8 habits

Can be customised

1

## **Nurture Future YOU**

Understand your behaviour to money. Learn some instant money hacks. Identify how to have a daily habit of nurturing your future self.

2

## **Having effective money conversations with your loved ones**

Consider the behaviours of your loved ones. Identify strategies to open an effective money conversation with kids, partner, sibling or parents.

3

## **Protect those YOU love**

Identify those around you that are important to you. Create your own 'risk register' and identify where employee benefits mitigate the risk and also where are the gaps.

4

## **Invest in what you understand and have a plan**

Easy introduction to investing, the common mistakes made and also how to consider your appetite to risk. Also includes a basic savings plan to create funds to invest.





# Snapshot of the 8 habits

Can be customised

5

## Managing Financial Stress

When we worry about our finances we can feel anxious or even depressed. This topic explores how to reduce financial stress and nurture your wellbeing.

6

## Finance MATTERS for Women

Women have specific financial behaviors and life events. We explore what these are and identify how to create your own financial wellness strategy.

7

## Preparing for life after work

Before considering life after work, consider your own behaviour to money and how you plan to transition through into retirement or something else.

8

## Kids

Kids don't hear. They see.  
How to identify early your kid's behaviour to money. Simple tips for kids to know before they get their first pay packet.





# Aon Financial Wellbeing March/April 2023

...International Women's Day  
presentation

*“Finance **Matters** for Women”*

**AON**



# Q&A

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