



### Trends in Global Benefit Governance

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Meeting the Challenges of Change

14th Global Conference of Actuaries

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## 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

Corporate: Policy Architecture and Oversight



Operations

Global monitoring and global purchasing

Compliance with local regulatory and reporting requirements

Financial Management Analysis and monitoring of global costs/risks and allocation cost/risk budgets

Management of plans within prescribed cost/risk budgets

Design

Consistency with corporate philosophy and financial objectives

Locally competitive and relevant plans within corporate guidelines

Regional and Local: Execution and Management

## Operational Governance

#### Inventory

- Data on plan designs, provisions and financials
- Current design, financial / operational policies
- Existing fiduciary bodies, roles and responsibilities
- Current providers

Central repository of information

#### **Risk Assessment**

- Policy misalignment
- Risk analysis
  - Financial costs and risks
  - Administrative, and legislative non-compliance

Identification of business opportunities and risks

### **Strategy**

- Policies to capture business opportunities and risks
- · Risk strategies
  - Risk solutions
  - Reduction in operational costs and risks

Clear mandates
to improve
alignment and
manage
business
opportunities
and risks

#### Governance

- Global and local governance committees
- Allocation of decision-rights between corporate and local
- Approval protocols
- Monitoring and reporting protocols and procedures

People, structure/ process and technology to manage global programs

### **Operating Model**

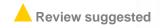
- Management of plans within cost and risk budgets
- Reporting against prescribed policy metrics
- Regular audits

Ongoing execution and monitoring of program management policies

# Example risk assessment

	Policy Metrics	Plan A	Plan B	Plan C	Potential Opportunities	
Program Design	Preference for defined contribution pension plan design				Close Plans A/B and migrate current employees to DC plan	
	Competitive benefit level established as the median of each relevant market				<ul><li>arrangement under Plan C</li><li>Cover future employees in all</li></ul>	
	Coordination with social programs for adequate benefit provision				locations under Plan C	
Financial Mgmt.	Financing vehicles to remove liabilities from balance sheet preferred				Reduce exposure to growth assets of Plan B because the	
	Investment policy to eliminate uncompensated risks and operate plan within prescribed cost and risk budgets				plan is fully funded  Comingle Plans A and B assets to negotiate lower fees  Establish glide paths to derisk plans A and B	
	End-state strategy and glide paths established for all DB plans			N/A		
Operation	Plan administration fully outsourced with local oversight preferred				Outsource administration of Plan B with same	
	Appropriate and adequate local and corporate representation in trustee/administrative body				administrator of Plan A and negotiate lower fees	
	Company employees who are fiduciaries to be fully indemnified and trained				Review contracts to ensure that trustee board members are fully indemnified	





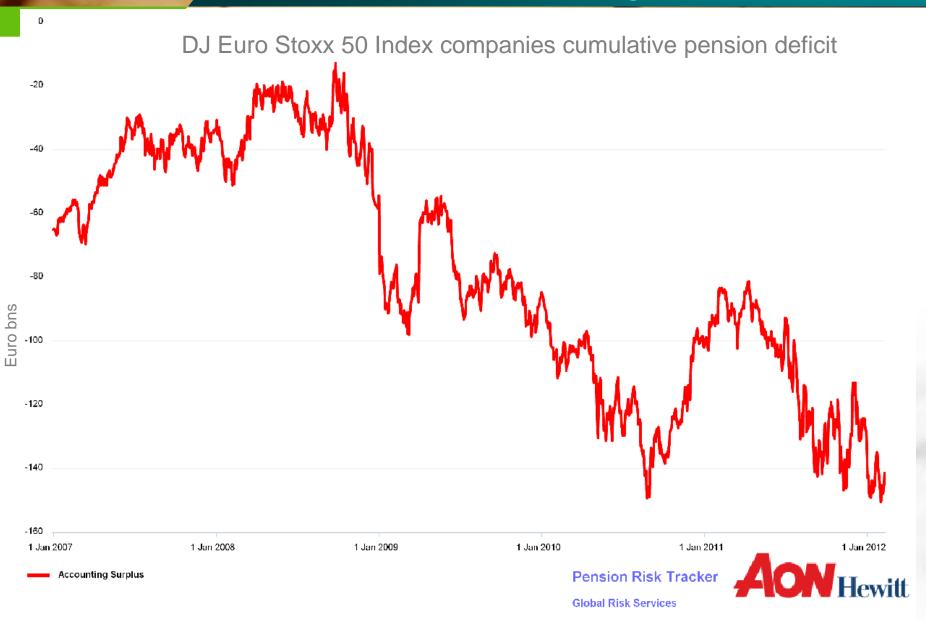
## Example decision-making allocation

Policy making rights retained at only one level

Policy Oversight Execution Approval

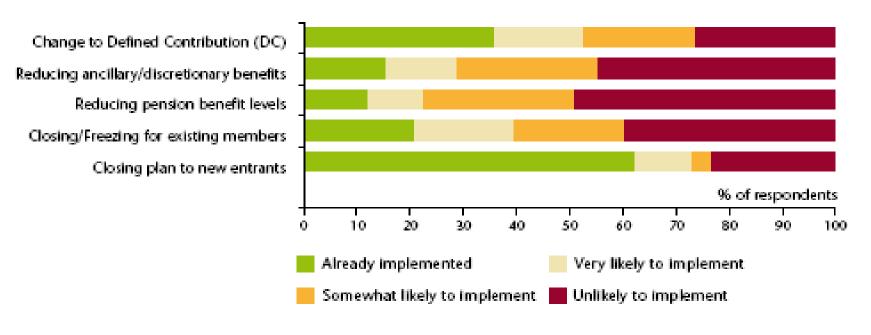
Program Management		Primary Responsibility			
Policy	Core Elements	Corporate	Region	Local Entity	
Program	Organizational Alignment				
Design	Labor Market Alignment				
	Financing				
Financial	Funding				
Management	Investments				
	Insurance				
	Administration				
	Regulatory compliance				
Operations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

# Financial management



## Management actions: benefits

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

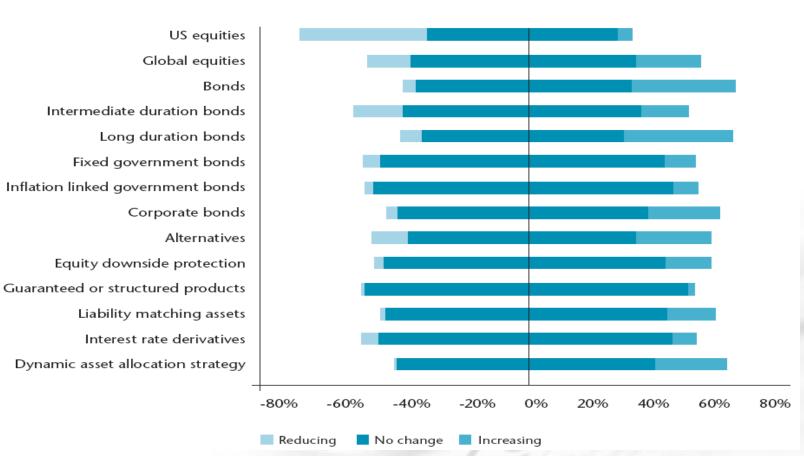


Source: Aon Hewitt Global Risk Survey 2011, Europe Survey results

### Management actions: investments

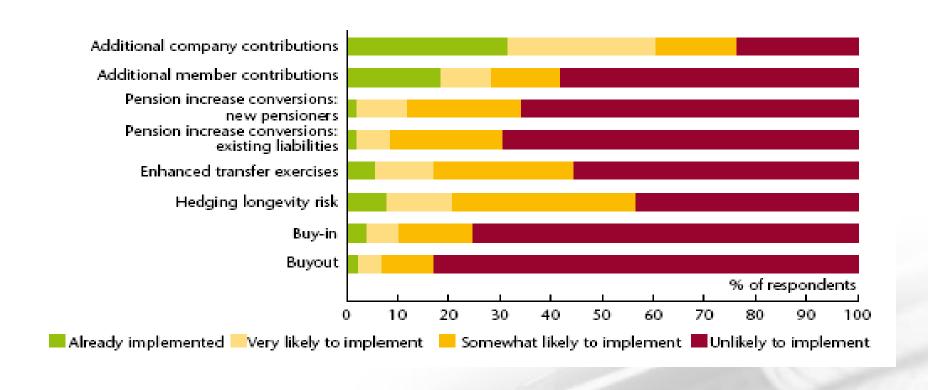
Investment Changes-What Changes Will You Make to Target Investment Strategy?

**Next 12 Months** 



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

### Management actions: liability and funding



# Pension design: challenges

Challenge	What's happening?
Running-off the DB provision	<ul><li>- 90% of UK DB schemes are closed to new joiners</li><li>- 29% closed to future accrual for current employees</li></ul>
Balancing cost vs other drivers	US survey: puts retirement benefits only 5 <sup>th</sup> 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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