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DC in Europe



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Defined contribution (DC) pension provision appears to be emerging around the world as the future form of retirement savings. While the US, Australia and the UK are the leading countries of DC growth, the trend away from defined benefit (DB) provision is fast becoming universal. But what about Europe? To what extent is DC becoming a more dominant form of provision? How are different European countries dealing with DC in terms of plan design and operations? And how are countries dealing with the issues that DC brings?

To help you understand this change to the European pensions landscape and its implications on sponsoring employers, in this booklet, some of our leading DC associates consider and discuss some of the key issues and challenges emerging from DC pension provision both at a pan-European level as well as in some of the key individual pensions markets and countries across Europe.

If you would like further information about any of these articles or our DC services more generally, please contact your Watson Wyatt consultant or

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Introduction

Gary Smith

A changing pensions landscape

If one looks at the maturity of pension funds in general across the different European countries and, in particular, the size of assets under management in these funds as a percentage of gross domestic product (GDP), then one finds considerable heterogeneity between countries. A large number of countries do indeed have substantial, well-developed pension markets, such as the United Kingdom and the Netherlands, but there are also countries in which the industry is relatively underdeveloped. Reasons for these differences may well be related to the system of state pension provision in each country; typically, the more generous and developed the state benefit, the smaller and less-developed the employer-sponsored pensions industry. Examples of this are Austria, Belgium, Finland, France and Luxembourg.

The average size of pension fund assets across European countries is around 30 to 40 per cent of GDP. But in countries with underdeveloped pensions markets – such as Austria, Belgium, France, Hungary and Poland, for example – we see pension fund assets below 10 per cent of GDP. In countries such as Denmark, Finland and Ireland the ratio of

pension fund assets to GDP climbs to around 30 per cent of GDP while in the United Kingdom it is around 70 per cent. The Netherlands and Switzerland have the highest ratio, where pension fund assets are in excess of 100 per cent of GDP.

However, as more and more countries gradually cut back their state benefits due to the increasing cost of an ageing population, we are likely to see a corresponding growth in respective pensions industries. This growth is more likely to be in the form of DC pension benefits, where cost is more certain.

So how widespread is DC pension provision today across Europe?

The growth of DC pensions

One feature that is almost universal across the pension markets of Europe (and indeed across most of the world) is the growing interest in, and emergence of, DC pension provision by employers. Indeed, a significant number of multinational employers now have a global policy to operate only DC plans wherever they offer their employees retirement savings provision anywhere around the world.

While DB pension fund assets will usually often dwarf those of DC, this is a timing effect and hides the real picture. It is more useful, when trying to get a handle on the current and likely future extent of the coverage of DC pensions, to consider plan membership.

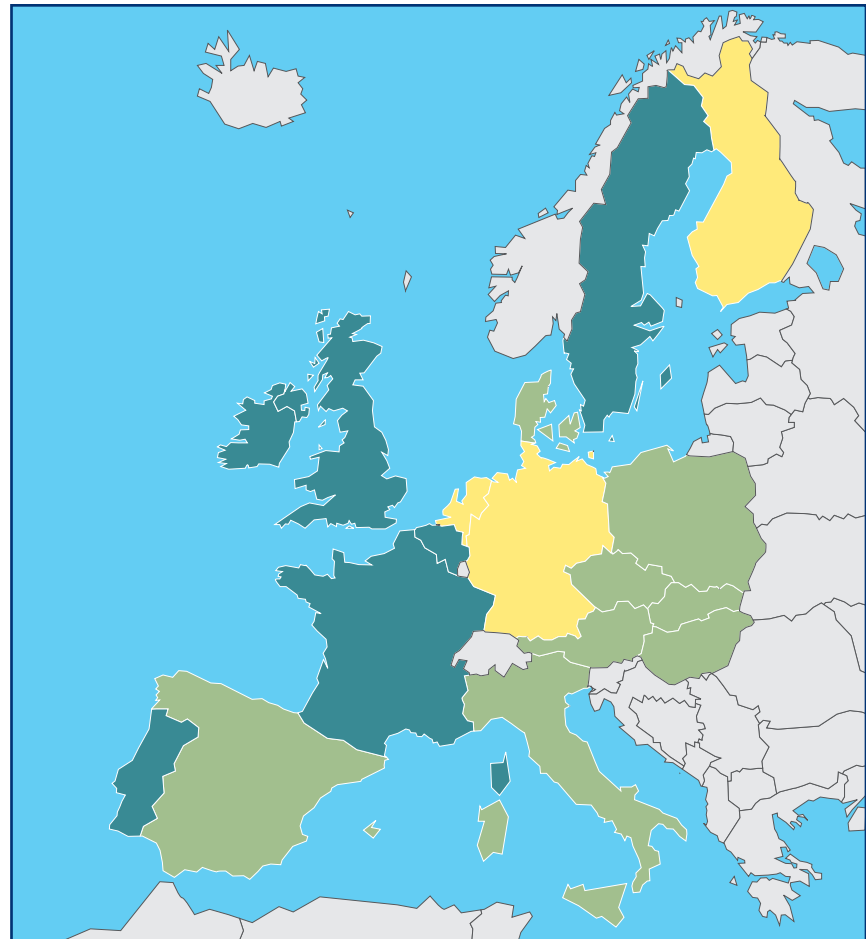
On this measure, DC pension arrangements are predominant for around half of the main pension markets across Europe. Indeed, in the Czech Republic, Hungary, Poland and the Slovak Republic there is no funded alternative to DC (although unfunded DB arrangements do exist). In contrast, in countries such as Belgium, Germany and the Netherlands, around 95 per cent of pension fund members are still in DB pension schemes.

Interestingly enough, there appears to be quite a strong correlation between the maturity of the pensions industry in a country and the proportion of members in DC plans (supplementary to social security and other mandatory retirement provision).

Figure 1 gives a snapshot of the current DC landscape across Europe by showing the proportion of plan members in occupational DC arrangements.

For this purpose, we have grouped countries into one of three categories: countries in which up to a third of total plan members are in DC arrangements; countries in which between a third and two-thirds of total plan members are in DC arrangements; and countries in which over two-thirds of total plan members are in DC arrangements. Those countries with the lowest proportion of DC pension plan members include Belgium, Finland, Germany and the Netherlands. France, Ireland, Portugal, Sweden and United Kingdom are in the second group.

Figure 1 | Proportion of total plan members in DC arrangements



Austria, the Czech Republic, Denmark, Hungary, Italy, Poland, the Slovak Republic and Spain make up those countries where DC pension arrangements dominate. Clearly, it is also worth emphasising here that in many of these countries, particularly the Eastern European countries, the number of employees covered by any occupational pension provision is relatively small.

- Up to 1/3 of total plan members in DC arrangements
- Between 1/3 and 2/3 of total plan members in DC arrangements
- Over 2/3 of total plan members in DC arrangements

DC drivers

So what is driving this growth in DC? The drivers are largely universal; the drivers behind the growth of DC in the US are broadly the same as those driving it in the UK and elsewhere.

The drivers really fall into two groups – financial drivers and HR drivers. The financial drivers are principally the desire of employers to have greater certainty and control over their pension costs, and this has been somewhat accentuated by changes to accounting practices. In certain sectors and circumstances, some employers have seen the switch away from DB to DC as an opportunity to reduce their pensions spend.

While the financial drivers tend to be strong, there are also some important HR drivers. In recent years, employers have generally been making fundamental changes to their benefits and reward philosophy and approach to reflect the growing cultural shift in the workplace to give greater flexibility, control and personal responsibility to individual employees. This global shift in the employer/employee relationship reflects, among many other things, the changing demands of an increasingly skilled workforce that is becoming considerably more mobile and less in tune with the traditional work and retirement patterns. In this context and total reward framework, DC-type pension provision is generally felt to be more suitable than DB.



DC in practice

What DC pension provision looks like in terms of contributions, member choice, investment and operational delivery differs quite considerably between countries. For example, a number of countries, such as Belgium and Germany, impose, by legislation, the requirement to provide a minimum annual investment return. As a result, plan members are given only modest, if any, investment choice.

The delivery of DC is also, at least currently, typically through bundled providers – often insurance companies and banks – who do the administration, investment management and, often, all the plan communication as well. Indeed this bundled approach is a legislative requirement in Spain. Provider markets,

however, are typically underdeveloped in many European countries and the quality of the proposition, especially administration, often leaves a lot to be desired.

This emergence and growth of DC pension provision is generally viewed with concern. Experience in countries where DC has been around for a few years is that too often employees do not join the plan and, where they do, they typically do not save anywhere near enough to provide an adequate level of retirement income. Couple this with inefficient investment approaches, fairly low levels of plan governance and management as well as poor employee communication and you have all the ingredients for a very worrying future.

Additionally, in some countries the tax regime surrounding pensions does not encourage satisfactory levels of pension savings and often low levels of tax deductibility, for both the sponsor and the employee, drives DC design with 3 to 5 per cent total contribution rates being common in some countries.

“ **What DC pension provision looks like in terms of contributions, member choice, investment and operational delivery differs quite considerably between countries.** ”

A number of multinational companies, however, are waking up to this DC 'ticking time bomb' and implementing pan-European (or even global) governance frameworks to manage the emerging risks as well as strengthen the overall delivery and employee experience of their DC arrangements.

The HR risk

While the fundamental shift from DB to DC pension provision has been driven largely by the desire of many employers to divest themselves of risk, the reality is that these employers have simply swapped one type of risk (mainly financial risk) for another, no less significant type of risk (mainly HR in nature). Recognition of this is vital and

employers need to adopt a few, relatively simple, measures if they are to avoid the DC 'ticking time bomb' exploding.

If DC continues to grow, and companies do not take these related issues on board, then they will soon begin to experience the effects of a workforce which cannot afford to retire. How would this impact employers? What would happen if the workforce could not afford to retire in the future?

In this situation employees are likely to turn to their employers for support, either by allowing them to continue to work or by blaming their employer for letting them under-provide and not giving them enough help and assistance to support them in the choices and decisions they had to make. The problem will be a particular concern for employers where there is a strong union presence. A union backlash when these employees simply cannot afford to retire is a certainty.

There is nothing wrong with DC pension provision in itself, indeed it is undoubtedly here to stay to some extent or another, but it is how DC is implemented, delivered and managed by the employer that will determine the extent to which it succeeds or fails. DC is not a pensions panacea and employers should ask themselves what they are doing to make sure their DC pension plan succeeds.



Italy

Pensions reform drives growth

Marcello Marchese

The comprehensive nature of the social security system in Italy, combined with a mandatory termination indemnity (TFR), has traditionally meant that the scope for supplementary pension arrangements was limited.

Only a few companies set up pension arrangements for their employees, with these being schemes set up before 1993 (so called 'pre-existing funds') and generally DB in nature. These funds were later converted to DC arrangements when the April 1993 pension law changes limited the possibility for new and continuing DB schemes.

The establishment of DC supplementary schemes (industry-wide schemes, regional schemes, open pension funds) was viewed as providing flexibility in adjusting retirement provisions to meet the different needs of citizens and employees. It was seen as allowing workers to offset the reduction in replacement rates resulting from reforms of state schemes moving from pay-as-you-go to the Notional Defined Contribution (NDC) system, and for strengthening the role of institutional investors in the capital market.

The last objective has yet to materialise considering the current limited size of assets under management in the pension fund industry.

In terms of assets, Italy is a small pensions market in its early stages of development. The market accounts for about €51 billion, equivalent to about 3 per cent of the national GDP. Voluntary industry-wide funds, available to employees working in a specific company or industry, play an important role as, up until 2007, they represented the main vehicle permitted for financing employees' supplementary retirement together with pre-existing DC funds.

At the end of 2006, the share of DC arrangements represented three million members and €41 billion assets under management represented by approximately:

- 58 per cent of DC pre-existing funds, which have been running for a longer time
- 22 per cent of industry wide funds, with about 40 per cent of total members
- 11 per cent of individual life insurances – based around traditional with-profits or unit-linked policies
- 9 per cent of open pension funds – bundled products set up by banks, insurance companies and asset managers.

transfer of TFR accruals to a default pension fund. The new pension reform, aimed to strengthen the second and third pillars, is increasing pressure on products and plans to be competitive.

The challenge for employers

One of the key challenges for employers is selecting and engaging the right provider. It must be a provider who can guarantee high quality and efficiency in the contractual arrangement, fees, and services it provides to the company and its employees.

“ One of the key challenges for employers is selecting and engaging the right provider. ”

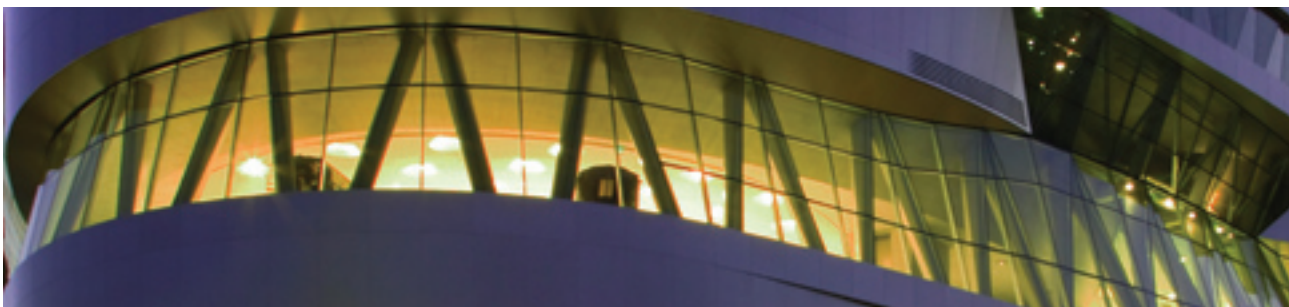
In order to boost supplementary retirement plans, the new pension reforms require employees to make an election on either transferring their annual termination indemnity accruals (TFR – equivalent to about 7 per cent of gross annual salary) to a pension plan or leaving it with the employer. For those who do not choose either way, the ‘silent-consent’ principle kicks in with an automatic membership and

An issue common to all employers is a lack of general employee financial and retirement awareness and understanding. This has been, and will be, a deterrent for employees to join the new company plan. Employees’ participation is most likely to be effective where employers play a leading role in pension provision, especially if employer contributions exceed mandatory industry wide fund rates, and if communication campaigns are proactive and engaging.

Although residual, employers already running their own plans are faced with the need to review the current scheme design and financing vehicle and consider the establishment of an internal governance committee.

For employers in Italy, a few tips for DC success are to:

- undertake a thorough and informed consideration of the various potential plan providers to minimise the risk of embarrassing and expensive problems later on
- commit to a good level of communication aimed to improve employees’ financial awareness and understanding of the DC plan
- select and introduce products with several investment options, including lifecycle options (so far not very common but essential to a good proportion of the population with limited financial knowledge and high risk aversion)
- introduce plan governance activity to manage and monitor the DC plan, including plan design features, administration, investments, financing vehicles and providers.



Germany

Move to DC driven by multinationals

Marc Oliver Heine

While the trend in Germany is a move away from DB plans, a large number of pension schemes in Germany remain DB orientated.

In the long-term, however, the shift away from DB seems inevitable as employers become more and more concerned about the financial risks. DC schemes transfer the risks that are related to future benefits from the employer to the employee and therefore the DC concept is increasingly favoured by employers in Germany.

In general, German pension law makes changing existing pension schemes difficult if the result means cuts in employee benefits. However, a recent Watson Wyatt benchmarking study showed that Germany is likely to see a boom in DC type

schemes, which will look similar to those currently being run in the UK. As many as 80 to 90 per cent of German companies are currently thinking about implementing a DC plan.

The demand for DC orientated plans among German employers is mainly driven by the need to minimise pension risks for the employer. However, under current German legislation and tax regulations a pure DC promise is still not possible but the promise of a contribution which needs to be transformed into a benefit (a DC orientated plan or DCO) is, so at least the company bears the remaining risk that the benefits which result out of the contribution need to be paid. Companies that want to change completely to DC plans need to maintain benefits that have already been agreed upon previously. Usually, this implementation is done in various phases and by applying them to new hires first.

Guaranteed minimum benefits

DC and DCO plans in Germany were given a boost by the 2002 enactment of the so-called 'Riester reform' in German pension law. Contrary to DC plans in the UK, the concept of DC pension schemes in Germany requires a guaranteed minimum benefit for the employee. This is a different understanding of DC in Germany as opposed to international accounting guidelines. In accordance with German pension law, minimum benefits are defined as the total of contributions minus risk premiums, if any. DC with a

minimum benefit guarantee is covered by the funding vehicles direct insurance, pension fund and pensions-kasse. That also means that there is no funding alternative with a probate tax and accounting treatment for those companies which still have book reserves on their balance sheet. The only opportunity for them is to choose a DCO plan.

Numerous firms have either introduced DCO plans alongside existing DB pension schemes or implemented them as their first pension plan. The decision to set up or review a pension plan is generally preceded by a thorough discussion of the various options and possibilities, including alternatives ranging from new benefits where none had been provided, switching between forms of DC/DCO plans or a transition from DB to DC schemes.

Employers are often keen to implement DC/DCO plans because they want to reduce costs and risks to contributions. They aim at achieving efficient risk management and at avoiding future risks, especially out of longevity, which naturally means cost savings. The concept of salary and transparency of cost needs to be in the foreground meaning that individual careers need to be considered. With the transition from DB to DC/DCO plans, there may be a problem of past periods of service being considered since these are evaluated in DB pension plans but not with DC.

Benchmarking study

Watson Wyatt conducted a benchmarking study that analysed 94 companies and 102 different pension plans with the aim of getting an overview of benefit levels and related costs. The results showed that many plans have obligatory employee financing and some others are subsidised by a matching employer contribution. It is therefore becoming increasingly important to take the employee on board. Some 49 per cent of the plans in the study that were implemented after 1996 were DC schemes, which are mostly granted to blue collar workers while executives keep DB plans.

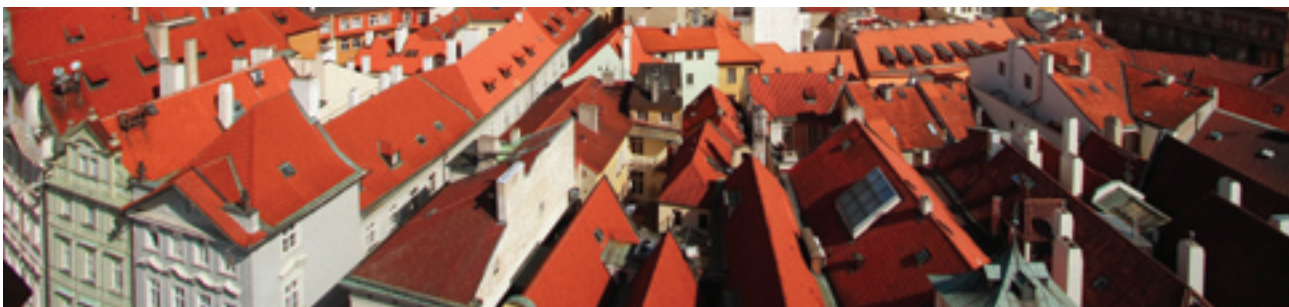
In general, it is important to consider the right pensionable salary as a basis for the contribution formula since many German companies – as it has been the case in the past – promise guaranteed specific fixed interest rates for contributions. With average DC/DCO type plans, the contribution rates for salaries below the SSCC are 4 per cent and for salaries above it about 8 per cent. If such rates are promised, one has to consider the related expenses, as the cost of those DC plans is much higher than the DC rates. This means that if 4 per cent and 8 per cent are guaranteed, the cost of that plan is higher than this contribution rate allows for – the reasons being pensionable salary and guaranteed interest. Companies that want to

“ Germany is likely to see a boom in DC type schemes, which will look similar to those currently being run in the UK. ”

implement a DC scheme should take a guaranteed interest which is linked to a public benchmark.

Another finding of the benchmark study was the increase in employee participation over the last 10 years and a higher competitiveness with UK/US pension schemes as a result of a total reward approach. The latest changes supporting this competitiveness have been embedded in German pension law.

The driving force that might accelerate or maybe slow down the growth of DC schemes in Germany is that an increasing number of multinationals are implementing their own pension funds which will certainly encourage the DC/DCO trend – a trend which is definitely on the increase in the German pension market as the examples of IBM, Vodafone and other well-known companies show.



Eastern Europe

DC emerging from significant pensions change

Michael Brough

The pensions landscape, like many areas of life in Eastern Europe over recent years, has seen significant change.

Concerns about the high future cost of state pension liabilities have resulted in reforms and the development of traditional three pillar pension structures. Second and third pillar pension structures have been introduced across the region with varying degrees of creativity and tax incentives. There has been a shift from providing benefits on a traditional pay-as-you-go basis to being provided on a funded basis with DC becoming the norm. DC is offered through state agencies or by third party pension providers with the quality of the products varying widely across Eastern Europe.

As the table (right) shows, three pillar structures are largely in place across Eastern Europe now, but design varies as different countries have chosen to introduce their own unique pension structures with sometimes minimal consideration of their neighbours' approaches to pension design. Often Eastern European countries have chosen to develop pension models based on those adopted in Latin America and the Far East.

The diversity seen across the region can be seen by focusing on the approaches that Poland and Russia have followed for their third pillar pensions.



There has been a shift from providing benefits on a traditional pay-as-you-go basis to being provided on a funded basis with DC becoming the norm.



Table 1 | The current pensions landscape

Country	1st pillar contribution base	2nd pillar mandatory contributions	3rd pillar
Bulgaria	100 per cent of pay – capped	5 per cent of pay – capped	Yes
Croatia	100 per cent of pay – capped	5 per cent of pay (by employee) – capped	Yes
Czech Republic	100 per cent of pay – capped	Not in place yet	Yes
Hungary	100 per cent of pay (company contribution)	8 per cent of pay (by employee) – capped	Yes
Poland	On pay up to 250 per cent of national average earnings	7.3 per cent of pay – capped	Yes
Romania	On pay up to 300 per cent of national average earnings	Phasing since 2007 from 2 per cent to 6 per cent of pay – capped	Yes
Russia	Company pays on degressive scale from 26 to 2 per cent	Degressive from 14 per cent for low paid down to a flat amount	Yes
Slovakia	100 per cent of pay – capped	9 per cent of pay (deducted from previous pillar 1 contribution by company) – capped	Yes
Slovenia	100 per cent of pay	None	Yes

DC pensions in Russia

In Russia there have recently been typically two approaches that can be adopted when it comes to introducing a third pillar DC plan – the insurance company option and the pension company option. These two approaches differ in legal structure and tax treatment. The Russian government has, however,

announced its intention to unify the tax system for pensions to the model currently in place for the pension company option. The change is expected to be applied from 1 January 2008.

This pension company route is described in [Table 2](#) (below).

Table 2 | DC in Russia

	Pension company
Legal framework	The sponsoring company is either the depositor or the policyholder and the employee is either the member or the insured
Tax structure:	
Employer	Contributions tax-relievable to the company (up to 12 per cent), the employee does not suffer benefit in kind income tax charge, but these are subject to Unified Social Tax (typically 10 or 2 per cent in most cases)
Employee	Neither tax on contributions nor tax on benefits applies if contributions or premiums are paid out of net income (after personal income tax is paid)
Benefit structure	Retirement benefits to employees are subject to personal income tax

In the areas of investment, administration and communications the local Russian pensions market is evolving fast to the demands of multinational and local employers that are setting up pension plans.

The following is now available from providers:

- investment choice (although limited)
- basic web access to pension accounts (application forms, balance queries, making limited changes to personal details and so on)
- support with communication materials, such as brochures, benefit statements, FAQs and even pension projection tools
- provider presentations and one to one advice on pension choices
- dedicated account managers.



“ ...the local Russian pensions market is evolving fast to the demands of multinational and local employers that are setting up pension plans. ”

DC pensions in Poland

In Poland there is a wider range of approaches to introduce a third pillar pension arrangement. Some of these options are outlined in **Table 3** (below).

In the areas of investment, administration and communications the local Polish pensions market, like the Russian, offers multinational and local employers that are setting up pension plans the following provider services:

- investment choice is widely available with perhaps four to six fund choices ranging from very stable guaranteed funds to those funds predominantly investing in equity markets (can be up to 90 per cent invested in equity markets)
- basic web access to pension accounts (balance queries, making limited changes to personal details and so on)
- support with communication materials, such as brochures and benefit statements
- provider presentations and one to one advice on pension choices
- dedicated account managers.

Table 3 | Some of the approaches to providing DC in Poland

	Employee Pension Programmes (PPE)	Non-PPE Savings Plan	IKE
Legal framework	Regulatory approved (by Financial Supervisory Commission) Pension Fund or Retirement Savings Plan	Unapproved Retirement Savings Plan	Individual Personal Plan
Tax structure:			
Employer	Contributions tax-relievable to the company (up to 7 per cent), but the employee suffers benefit in kind income tax charge (19 per cent)	Contributions tax-relievable to the company (no limit), but the employee suffers benefit in kind income tax charge (19 per cent)	Not applicable
Employee	No tax deduction on contributions paid, which are limited to 4.5 times national average monthly earnings	No tax deduction on contributions paid, which are not limited	No tax deduction on contributions paid, which are limited to 1.5 times national average monthly earnings
Benefit structure	Retirement benefits to employees are free from personal income tax and can be paid out as a lump sum or as an annuity	Retirement benefits to employees are free from personal income tax (except the growth on investments taxed at 19 per cent) and can be paid out as a lump sum or as an annuity	Retirement benefits to employees are free from personal income tax and can be paid out as a lump sum or as an annuity

Future of DC in Eastern Europe

Given that the frameworks are now in place across Eastern Europe, that demand is growing for labour in this area and such labour costs are significantly less than in the west, it is likely that DC will continue to flourish and become more sophisticated offering greater investment choices and even better administration and communication services.

It is also likely that this region will become a growing area of interest for pan-European pension plans. Multinationals are beginning to see difficulties in the recruitment and retention of staff in their Eastern European sites, which will result in an increased demand for third pillar pension options. Should such a demand occur in more than one location, it would offer a company

an ideal opportunity to introduce a single plan in one domicile, but to make it available in more than one domicile, creating a single pan-European pension vehicle for perhaps a cluster of countries. Such a pan-European plan might be established either within the region or for the region (perhaps in a euro country

“ It is also likely that this region will become a growing area of interest for pan-European pension plans. ”

such as Finland, Ireland or Luxembourg). If this proves successful, more developed countries pension arrangements may well follow into the pan-European plan.



Ireland

Developing better DC strategies

Ray McKenna

Retirement income in Ireland is predominantly a combination of state and occupational pension provision.

The state pension, payable from age 65, aims to provide the equivalent of 33 per cent of the average industrial wage. Some form of occupational provision, with the cost shared between employer and employees, is almost universal practice and in recent times there has been a strong move by employers to DC arrangements.

DC schemes first emerged in Ireland in the mid 1980s in newly established subsidiaries of multinational companies. Early scheme designs were fairly unsophisticated with low contribution levels. Since then almost all newly established

schemes are on a DC basis. In the last few years we have seen an increasing number of employers closing DB schemes for new hires in favour of some form of DC arrangement. Although the memberships of these schemes have grown, the average contribution remains relatively low and scheme designs, in the main, remain reasonably unsophisticated.

Pensions coverage in small enterprises remains an issue and the Irish government is examining the merits of some form of mandatory pension provision for private sector employers to increase coverage. Unions are also very focused on coverage and more importantly, we believe, adequacy issues. As the risks associated with DC schemes become more apparent, employers and trustees are also taking a greater interest in governance issues.

Revisiting existing arrangements

With an increasing dependence on DC schemes as the main source of retirement income, companies and trustees are revisiting their existing arrangements in terms of design. Companies establishing or switching to DC are also spending considerably more time in designing new arrangements.

We believe to meet the common goal of adequate retirement provision which companies and trustees share, we need to address four key areas:

- Design is key to adequate retirement provision. The majority of new schemes that have been established are on a pure DC basis, although we are increasingly seeing a movement towards hybrid and some form of cash balance arrangements – with a sharing of risk and responsibility for retirement planning between employers and employees.
- Effective communications is key in terms of engaging members to take ownership of retirement planning, maximise the effectiveness of company spend and to protect trustees.
- With increasing dependence on DC as the main stream of post retirement income, a strict governance policy is as important for trustees as it is for companies.
- Assuming that an appropriate level of contribution is paid, a carefully considered and monitored investment strategy will have a significant impact on retirement accumulation.

Over the last year we have seen employers continue to move to career average and hybrid arrangements. This increased sophistication is driven by union pressures and awareness of the need to provide adequate retirement provision. Most significant employers have or are reviewing their pension provision and we expect a number of these larger employers to announce

“ **As the risks associated with DC schemes become more apparent, employers and trustees are also taking a greater interest in governance issues.** ”

changes in the coming year. In these reviews, it is quite noticeable that the terms of reference of such research considers pensions scheme design as part of the overall strategy to motivate and reward staff and not just as a stand alone item.

For newly-established pure DC schemes, we are seeing a growing trend towards a base level of employer contribution with a corresponding matching of employee contributions. Depending on the type of scheme this could be anything from an employer contribution rate of 6 per cent of base salary with the potential for the employee to benefit from a further contribution of up to 3 per cent of base salary which will be matched by the employer.

Communications and governance

Recent Watson Wyatt research shows that members' perception of the quality of their pension scheme has a far greater link to the quality of communication than it does to the level of contributions.

Employers are recognising that effective communication is fundamental to engaging members and to ensuring value from the pension scheme spend.

“ The process of education and engagement should not be underestimated... ”

The process of education and engagement should not be underestimated and is, we believe, a staged process from initially engaging members to join to eventually becoming 'planners' of contribution levels and investment strategy. Employers and trustees are beginning to recognise this and are adopting a much more dynamic, multi-dimensional approach that appeals more to individuals and addresses adequacy, investment strategy and enrolment.

In Ireland, trustees are recognising that a governance-strategy not only should meet compliance requirements, as set

by the regulatory authorities, but should strive to meet the best practices of the boardroom. This is as a result of the increasing funds under management and the realisation of the coverage and adequacy issues.

This means developing standards and solutions to translate the lessons of the executive boardroom to that of the trustee board. Directors nationwide are also reviewing the role of their 'trustee' status within the terms of the Company Acts.

In addition, the trusteeship report by the Pensions Board in February 2007 details increased activity in the area of monitoring by the Board, which will lead to requirements to establish a register for administrators and increase a requirement for trustee training.

Investment strategy

At the end of 2005, total private sector pension assets amounted to €67billion, of which DC assets amounted to over 35 per cent. The issue of investment strategy and choice within DC schemes is becoming a key issue for trustees and members given the amount of money now flowing to DC schemes. In particular, with regards to DC investment choice, there is a growing realisation that 'less is more' and the key to successful member engagement is to provide simple, but not simplistic, investment options.

Investments have the greatest potential for influencing the ultimate size of pensions, assuming contribution rates are set at an appropriate level. However, many members do not understand how different investment choices can impact upon their retirement plans. An appropriate default investment option is increasingly being adopted by trustees but this may not be right for everyone. Having the bulk of the membership passively invested in a default fund may carry significant risks for trustees and employers. We are seeing a pro-active review by trustees of investment strategy and communications and a much more monitored evaluation of what members want, whilst trying to satisfy this within the trustee's fiduciary responsibilities.

As the move to DC grows, there is an increased focus on taking time to develop a strategy which ensures the employer, trustee and especially, the beneficiary, gets the most from their DC scheme and all are adequately protected. This, we believe, requires a revised focus on scheme design, effective communications and strong governance principles.





Spain

Dominated by the large institutions

Begona Benito

The occupational pension market in Spain consists essentially of two funding vehicles: company tax-qualified pension plans (CTQPPs) and group insurance policies (GIPs).

The market is small compared to more developed markets in Europe. The assets of the end of 2006 were split almost equally between CTQPPs and GIPs (about €30 billion for each vehicle). CTQPPs are part of the qualified plans set, which also includes individual tax-qualified pension plans (about €50 billion under management by the end of 2006).

The qualified plan aggregate asset mix at the end of 2006 was approximately 28 per cent Spanish fixed income,

20 per cent foreign fixed income, 10 per cent Spanish equity, 12 per cent foreign equity and 14 per cent cash. The foreign assets are predominately in Europe. Spain is a DC market dominated by the large domestic financial institutions. Investment approaches are generally not as sophisticated as in Anglo Saxon countries, with exception of a few large funds.

Design requirements

CTQPPs are funded arrangements controlled by a committee that comprises 50 per cent employee representatives (Pension Plan Control Committee) and 50 per cent company appointed representatives. In the context of a DC plan, the main additional design requirements that the law imposes are:

- all employees with two years' or more service must be eligible to join the plan
- immediate vesting
- irrevocability of contributions
- benefits are only payable upon retirement, death, disability, serious illness or long-term unemployment.

The contributions are invested in a qualified pension fund. Qualified pension funds are generally managed by banks and insurance companies. There are two main types of pension

funds: segregated pension funds (which invest the assets of a sole company tax-qualified pension plan) and pooled pension funds (which invest the assets of several company tax-qualified pension plans).

There is a Pension Fund Control Committee made up of the same members as the Pension Plan Control Committee (in the case of a segregated pension fund) or of delegates from the various Pension Plan Control Committees (in the case of a pooled pension fund).

The assets are managed by an individual investment manager and are deposited with a custodian. Investment management companies are subject to certain capital requirements (except those insurance companies acting as investment managers). The asset mix of qualified pension plans to date consists principally of fixed income securities.

An option with an interesting balance between flexibility and taxation is a combination of an Individual Tax Qualified Pension Plan (ITQPP) and a group insurance policy. Under this option, employee contributions up to the specified limits are paid into the ITQPP and the amount above the limits is contributed to a vehicle selected by the employee or alternatively the employee is not required to fund it in an individual vehicle. All employer contributions are paid into the GIP. Although it is theoretically possible to have employees contribute to a GIP,

this option is hardly ever used because it is not tax efficient and is less flexible in terms of investment choices.

New legislation

New legislation issued in November last year makes allowances for both company and employee contributions into occupational provident plans (OPPs). These plans replicate the regime applicable to a CTQPP and are therefore as tax effective. OPPs are required to feature a guaranteed interest rate.

The regulations stipulate that the pension fund control committee, with the participation of the fund manager, must draw up a detailed investment mandate and obtain a review report, employing independent firms or experts for the purpose. These studies must reflect the possible distributions of assets, as well as detailed management benchmarks and other control instruments for the investment made.

The regulations allow the possibility of multi-management. This is a key issue, because it provides room for the diversification of a pension scheme's assets among various funds and managers, as well as specialisation resulting from such diversification.

Multi-management may be implemented in one of three ways:

- Channelling of the occupational pension plan's funds to other open occupational pension funds.

- Channelling of the occupational or personal pension fund's assets to other pension funds of the same class.

- Subcontracting of financial asset management to third parties authorised within the territory of the European Union by the fund manager, with the express consent of the Fund Control Committee. This would be accompanied by subcontracting by the incumbent custodian to third parties authorised restrictions imposed by the former regulations, which limited subcontracting solely to foreign assets up to a ceiling of 20 per cent of total fund assets.

The fact that no individual investment choice is permitted and no lifestyle option exists is a basic fact of the legislation. The regulations establish the possibility of applying different investment policies for sub-plans of different nature (DB and DC), and for those exclusively consisting of beneficiaries receiving annuities, or those corresponding to a co-sponsor in jointly sponsored occupational pension plans. However, the regulations do not provide for the application of 'lifestyle' type systems. Nevertheless, the regulations do empower the Ministry of Economy and Finance to permit 'lifestyle' systems in the future. In fact, a draft version of the pension law is now considering this possibility.



The Netherlands

Improving the efficiency of DC

Ron van Os

Traditional pension plans are alive and remarkably well in the Netherlands.

The overwhelming majority of the Dutch workforce is covered under fully funded DB plans of the average-pay variety with a good deal of inflation protection through conditional indexation. The trust funds administering those plans, especially the larger ones, are known to be highly efficient organisations due to economies of scale.

Consequently, the DC system is decidedly unpopular and there has not been any mass switch from DB to DC, although there are some areas with exceptions. DC plans are increasingly offered by relatively small subsidiaries of foreign multinationals. Executive compensation is another area in which DC is the trend. However, while some domestic

companies offer a supplemental DC plan on top of a DB basis, very few have abandoned the DB system altogether.

Under a typical Dutch DC plan, the annual contribution to be credited to each participant's individual account is an age-dependent percentage of covered pay, varying from, for example, 6 per cent at age 18 to 34 per cent at age 64. Upon retirement, normally at age 65, the accumulated contributions plus investment earnings must be converted into a life annuity with or without a surviving spouse's benefit.

In some plans, the contributions are immediately converted into a retirement pension. The resulting annual benefit payment is usually a fixed amount without any sort of inflation protection. Death-in-service and disablement-in-service are often built in. While a supplemental DC plan may be channelled through the trust fund administering the basic DB plan, most stand-alone DC plans are insured directly with an insurance company.

Advantages and disadvantages

DC plans may not be popular in the Netherlands but they do have two major advantages: they are relatively simple and, in contrast to DB commitments, they do not appear on the employer's balance sheet. The other side of this coin is that for better or for worse, the employees bear all the investment risk. Moreover, they are exposed to a major risk at the

retirement age. This has to do with the interest rate that will be used at that time to convert the assets in their accounts into annual pensions: the lower the prevailing market interest rate, the higher the insurance tariff and the lower the resulting retirement benefit.

The advantage of deferred taxation, which applies to DB as well as DC plans, means that contributions are deductible from taxable income since the benefit payments are of course not taxed until the retirement phase.

Unfortunately, insured DC plans tend to be rather inefficient due to a combination of administrative expenses (around 5 per cent of the amount contributed is not unusual), commissions (at around 4 per cent of the contribution), and asset management costs (over 1 per cent a year of total assets, including hidden charges). To make matters worse, the terms under which the assets are converted into annuities usually include a substantial expense loading and may reflect a safe interest rate somewhat below the comparable risk-free market rate. All things considered, it turns out that the cost structure of a DC plan may wipe out the tax advantage. If that is the case, then simple cash may be a preferable form of compensation.

The main challenges in the DC area, therefore, are to avoid at least the most dramatic inefficiencies and to design

investment options having more suitable risk and return characteristics, such as life-cycle systems.

Improving efficiency

In view of the problems mentioned above, DC plans should not operate as a simplistic insurance scheme designed to defer taxation from the active phase to the retirement phase. This is the current default option – it is widely available in the insurance market and it tends to be highly inefficient.

“ **...the DC system is decidedly unpopular and there has not been any mass switch from DB to DC, although there are some areas with exceptions.** ”

As a first step, the efficiency of the DB system could be achieved by using a pension fund with trustees as a funding vehicle. Within such funds, DB benefits could be mimicked to some extent by investing in a mix of high-quality bonds in combination with suitable swap constructions. Moreover, such a fund would be in a strong position to negotiate full reinsurance terms for all benefits in the payment phase. The idea is: start with a DC plan and see how close to DB one can get without leaving the DC system.

This can be done without exposing the sponsoring company to the risk of having to comply with DB funding and accounting requirements.

With regard to investment options: does the average person have the ability to make rational long-term investment decisions? If not, then a case can be made for restricting the number of options or offering none at all. A reduction in the administrative complexity of the plan would be a valuable by-product.



The Nordics

Shifting towards a DC framework

Matt Weaver

In the Nordics it has been common for employees to have been provided with generous DB pensions, by either the state on its own or by both the state through the pillar 1 pension and by companies offering pillar 2 occupational pensions.

In Finland, pension provision, known as TyEL is prescribed, while in Norway, employers must now make a minimum contribution to a plan of the members choosing. In Denmark, employers must contribute to a compulsory defined contribution plan, the Labour Market Supplementary Pension Scheme known as ATP.

In recent years, with increases in life expectancy and other demographic changes (as well as greater volatility in investment markets) there has been a realisation by governments, companies, the unions and other workers representation that generous state pensions and DB occupational pension provision are no longer sustainable and there needs to be a greater shift towards DC.

DC in Sweden

In Sweden, this change has encompassed both the state system and the main union-arranged collective plans for both blue and white collar workers.

As in the other Nordic countries, worker representation is very strong in Sweden – most large employers are signed up to collective agreements with the major unions and these collective agreements require the employer to provide specific, standardised pension benefits. These benefits have been designed to integrate with the Swedish state pension.

Blue collar wage-earners are provided with benefits through a central collective agreement known as the SAF-LO agreement. This arrangement is now entirely DC, and is administered by an organisation called FORA. There are currently some 1,400,000 members of this plan.

White collar workers are provided with predominantly DB pensions via the ITP arrangement, which is a multi-employer arrangement backed by the insurance company Alecta (a mutual insurer jointly set up by the main salaried unions, Svenskt Näringsliv and PTK). Since July this year, younger employees (those born after 1978) are only eligible to join a DC ITP.

Additionally, provided their employer agrees, this DC ITP will also be open to higher earners (known as 'tiotaggare' members), who are able to opt out of receiving existing defined benefit pension in return for having contributions of equivalent value paid into a DC fund of their choice. There are currently some 700,000 members of this type of DC ITP.

While other forms of company-sponsored pension provision do exist, these two plans dominate to the extent that it is commonplace for companies to set up mirror plans even if they are not signed up to the collective agreements.

The Swedish state pension has also recently converted from DB to something more akin to DC. The pensionable salary for most Swedish pensions is defined in terms of a multiple of Income Base Amount (in 2007, 1 income base amount = SEK 45,900, which is around €5,000). The state pension is provided only on salary up to the first 7.5 Income Base Amounts. The employer must pay 18.5 per cent of this restricted salary into two funds. 16 per cent of salary is directed to provide an 'income

pension'. This is presented as a DC plan, although indexation is linked to average earnings rather than being investment related. This is funded on a pay-as-you-go basis. The final 2.5 per cent goes into a 'premium pension' fund, which is a genuine DC fund administered by the Premium Pension Authority. The competition among insurance companies and investment managers is steep, with over 750 funds competing for an individual's money. Unsurprisingly given this bewildering level of choice, the most popular fund is the default fund called Premiesparfonden, which is an average-risk global share fund managed by Sjunde AP-fonden.

In total, the funds under management are in excess of SEK 280 billion and around SEK 25 billion is invested in the premium pension each year. Each year, employees receive a statement of their premium pension in an 'orange envelope'.

In contrast, the union arranged plans are somewhat more selective in the numbers of funds on offer. In terms of contribution rates, under the SAF-LO blue collar agreement, employers have paid 3.5 per cent of earnings into an investment vehicle of the member's choice. This sounds a relatively low rate, however most blue collar members earn less than the 7.5 Income Base Amounts threshold and their state pension normally makes up the majority of their retirement income. However, the contribution rate is being increased in steps and will equal the rates in the DC ITP plan (see right) by 2012.

In the new DC ITP plan for white collar workers, contribution rates will be 4.5 per cent of salary on the first 7.5 Income Base Amounts then 30 per cent on all earnings above this threshold. High-earners will take note that all salary is being pensioned, and not just salary up to 30 Income Base Amounts – as is currently the case in the DB ITP.

Informed decisions

Given the standardised nature of pension provision in Sweden, the issues facing the employer are not so much "what should I provide?", or even "how should I provide it?", but really whether employees have enough information or access to expertise to make an informed decision regarding their investment choices and whether supplementary arrangements should be put in place for exceptional employees, such as directors or expatriates.

For other Nordic countries, further changes can be expected to develop DC and reform systems away from generous paternalism to greater empowerment and this is particularly the case in Finland, with perhaps more being needed in Norway.

The evolution of pan-European pensions is also slowly progressing and we have yet to see the offerings coming out of the Nordics, but given the regions embracing of technology and sophisticated administration systems, there might be greater pan-European DC opportunities coming from this region.



Belgium

Stifled by legislation and investment options

Sven Schroven

Pensions in Belgium have been in the spotlight in recent years. An ageing population has led the government to review the legislation around occupational pension plans.

Through the introduction of new social legislation the government wanted to defer retirement to later ages, encourage occupational pension plans (including industry-wide pension plans) and improve employee protection and involvement. Forced by European developments, further legislative initiatives have taken place in the area of antidiscrimination and control legislation.

Belgian employers are required to fund pension plans externally, either through a pension fund or a group insurance

(branch 21 or branch 23). Under branch 21, as opposed to branch 23, insurance companies offer a guaranteed investment return on DC account balances. Branch 21 group insurance products therefore dominate the DC market in Belgium as they avoid unpleasant surprises when stock or bond markets fall. Even when investment returns on bonds are negative, DC account balances in Branch 21 policies will still be credited with positive interest. Insurance companies can offer this service mainly through a buy and hold strategy of an underlying bond portfolio.

Similar to many countries, there is a trend of switching from DB plans to DC plans in an attempt to limit volatility in the pension expense and/or employer's contribution. However, since January 2004, Belgian employers can only terminate a DB plan for future service. Moreover, benefits accrued with service prior to a plan change still have to be updated with salary increases subsequent to the plan change. Branch 21 became even more popular when, on top of the existing guaranteed interest rate on employee contributions, legislators introduced a 3.25 per cent annual guaranteed interest rate on employer contributions paid to DC and cash balance plans from 2004.

In Belgium, all employees who belong to the covered category of personnel and who are older than 25 years of age have to be affiliated. Discrimination on the basis of type of employment contract (definite or indefinite term) or part-time percentage is prohibited.

As the state pension is being accrued on capped salary (currently €44,081), most DC plans in Belgium are step rate whereby employees accrue a lower pension on that part of their salaries below the social security cap. Many plans provide age-related contributions within DC plans. However, the maximum allowable difference in contributions is 4 per cent per year age difference.

As employer contributions are fiscally more advantageous than employee contributions, many DC plans are fully sponsored by the employer. Moreover, since the new social legislation, employee contributions lead to more legally required employee involvement. One example is the possible requirement of a collective labour agreement in the event of a plan change.

Under 'new' pension plans, payment of retirement benefits prior to age 60 is no longer possible. Under 'existing' pension plans this is still possible until December 2009. A pension plan which is introduced after January 2007, should have normal retirement age 65.

While retirement benefits in Belgium are traditionally being paid as lump sums, lump sum plans now also have to provide the option of payment as periodic pension. Minimum conversion rates have been set by law.

Issues and challenges

Because of legal constraints in Belgium and the general lack of understanding by employers of the issues associated with DC plans, the innocent looking DC plan may, in the not too distant future, turn into a financial and HR nightmare.

As many Belgian DC plans are insured through Branch 21, there are concerns that the underlying investment strategy of most DC plans in Belgium will lead to inadequate levels of retirement income by the time employees reach retirement age, in particular as interest rates have been decreasing over the last couple of years (with some recovery in 2006 and 2007). As a consequence, many employers may face difficulties in managing their workforce. Moreover, the introduction of a legal minimum investment guarantee has, in practice, eradicated any innovation in investment choices or lifecycle approaches.

One of the arguments used to justify a move to DC has been that these types of plan are more transparent and easier to understand and communicate. It is fair to say that, compared to DB plans, it is easier to value DC plans in light of the total remuneration package. However, DC plans are far more complex to understand in the context of retirement planning from the employee's perspective as it requires full understanding of the risks associated. This may ultimately turn against the employer if and when employees are

unpleasantly surprised and believe that they were not properly informed by their employer.

Hints and tips for DC success

We believe that the absence of investment choice and innovation as well as the scarcity of more long-term investment strategies represent a largely knee-jerk reaction to minimum guarantee requirements and short-term risks and employee expectations. However, this will incur significant costs and risks in the long term for both employers and employees. Therefore we encourage more creative thinking around investment strategy – as is being seen in UK DC plans – aiming at better long term perspectives with a fair control of the short-term risks.

Similarly, we encourage adequate and effective governance (including risk control planning) with periodical review of benefits and design. We also believe that effective communication is crucial for DC plans. If the employer requires employees to take more of the risk, this should go hand in hand with helping employees to understand these risks and their options to effectively deal with them.



The future

What does the future hold for DC?

Gary Smith

The growth of DC is probably one of the most important developments of the last few years in the pensions world. It is fundamentally changing the nature of pensions saving.

However, there are wide and growing concerns that DC is not meeting the needs of employees – or even those of many employers. Will future generations of workers be able to achieve financial security in retirement? Are many employers building up potential problems in resource management and disillusioned employees?

Many employers believe that DC is 'risk-free' but, in reality, it is not. Unless appropriate action is taken, employers could

wake up to an HR nightmare not too far down the road as and when their employees come to retire, or, at least, start to realise that their dreams of a comfortable retirement will not be realised. Nor is the problem solely an HR one; it could involve the company stumping up cash.

What is the problem?

DC transfers all the investment risk to employees and 'empowers' them to take control of their retirement savings. This employee empowerment could indeed be part of a wider cultural shift within an organisation to give greater flexibility, control and personal responsibility to individual employees. This global shift in the employer/employee relationship reflects, among many things, the changing demands of an ever-increasingly skilled workforce who are becoming considerably more mobile and less in tune with the traditional work and retirement patterns.

However, while employees are demanding more flexibility and choice, employers should not be fooled into thinking that this is entirely the right thing to deliver. Empowerment is great if you have the ability and know-how to deal with it, but unfortunately most individuals do not. They need all the help they can get to deal adequately with it. Given full empowerment, particularly in relation to retirement savings, the majority of employees will not cope. Indeed, most will not even know where to start. We are already seeing this in

countries where DC provision has become well established.

Far too often the level of retirement savings being made by these employees, if any is being made at all, is woefully inadequate to ever have any chance of providing a sustainable level of retirement living.

If this is allowed to continue, companies will soon begin to experience the effects of a workforce which cannot afford to retire. Employees are likely to turn to their employers for support, either by allowing them to continue to work or by blaming their employer for letting them under-provide and not giving them enough help and assistance to support them in the choices and decisions they had to make.

The impact on employers

Employees who cannot afford to retire are likely to want to remain in work – creating both financial and HR implications for the employer. Managing a workforce and succession planning in such an environment will be difficult. Ultimately, keeping these employees on the payroll could be unnecessary if the business expects to get little or no benefit from them. Enforcing retirement, even if legal in an anti-age discrimination environment, may not be a palatable option especially if the

employee is claiming that the company failed to alert them or adequately equip them to make the right pension decisions.

The alternative option is to enhance the pension of these employees to a level where they can afford to retire. This clearly sets dangerous precedents.

Indeed it is interesting to note that in a recent Watson Wyatt survey, 32 per cent of HR and pensions managers believed that employees not being able to afford to retire was one of the biggest risks they faced in running a DC plan.



What can employers do?

One overriding issue is the general lack of governance or management around DC plans. Are employers monitoring benefit adequacy alongside their ongoing measurement and monitoring of service providers? There are some critical issues that employers should be on top of as part of the ongoing governance or management of their DC plans – it is, after all, just basic risk management.

While not, on its own, solving any of the problems identified above, basic governance is an essential part of any solution.

Other potential solutions to consider include:

■ **Greater employee communication.**

In DC, employee engagement is becoming vitally important as employees are expected to make significant, far-reaching decisions regarding their financial affairs. As a result, traditional disclosure-driven communication, while effective to a point, is simply not enough. Employers need to follow a strategy that delivers the right messages to the right people at the right time – in effect a more dynamic, multidimensional approach is needed.

■ **Auto-rules.** Employee apathy is the enemy of DC. It can though be avoided neatly by implementing auto-



rules. For example, automatic enrolment – where members automatically join the plan unless they physically decide to opt-out – can help with take-up. Auto-rules can also be applied to automatically increase employee contribution rates or change investments over time. These solutions have been proved to work but one downside is that they do not help with employee engagement – if employees do not have to think about what contribution rate to pay or where to

invest then many will not and it will be even harder to encourage them to do so!

■ **Increase (or restructure) employer contributions.** Problems can of course be mitigated by increasing, or restructuring, employer contributions and this may also go some way to helping improve take-up rates, although only in conjunction with an effective communications strategy.

“ DC is not a panacea. It comes with many problems and risks ...the critical point is to recognise the need to act now to avoid the next pensions crisis and stop the DC ‘time bomb’ from blowing up in our faces. ”

■ **Review investment strategy.**

Many DC plan members either choose to, or are forced to invest their accounts in very inefficient investment strategies. Too often, what is generally accepted as ‘good’ investment practice – even things like diversification and specialist management – are not applied to DC plan investment.

Effective governance

DC is not a panacea. It comes with many problems and risks. There are a range of possible solutions to these problems – the key ones discussed above – but the first step must always be to ensure adequate and effective governance or

management of the DC plan. In practice, no one single solution will deal with all the problems and a combination of the potential solutions is likely to be the most appropriate way forward.

Whatever is the right way forward for companies though, the critical point is to recognise the need to act now to avoid the next pensions crisis and stop the DC ‘time bomb’ from blowing up in our faces.

Our European DC pension service



Watson Wyatt has unrivalled experience and understanding of employer-sponsored DC pension provision throughout Europe.

Our specialist DC consulting team has been in operation for more than 10 years and over this time has worked for some of the world's largest companies across Europe, consulting, administering and communicating DC schemes.

Throughout our network of European offices, we offer consulting and operational support on all areas of DC pension provision. Whilst flexible, this service is built upon

a consistent pan-European approach to DC in which the use and development of tools, processes and thought-leadership are shared and coordinated, providing a more efficient and fulfilling experience for our clients.

Furthermore, unlike many of our rivals, Watson Wyatt does not manage any funds or offer a bundled DC proposition of its own. This means that we have no conflict of interest when recommending a DC provider to our clients. It also means that the providers we research allow us unrivalled access to their underlying processes, systems and fully share their development plans with us.

Our services are designed to help you create effective pension arrangements that meet your business and people goals.

Working with our clients, we can create an effective DC plan design, ensuring initial and future costs satisfy budgets; select providers; review the administrative, legal and HR issues; provide training; and successfully communicate all of this to your employees. We further understand and fully recognise that all these factors must be organised within the agreed deadline and project budget.

Furthermore, at the heart of our DC service is a commitment to helping our clients operate an effective, rewarding and risk-managed pension arrangement. Our governance services are designed to achieve just that. We have seen, and been involved in many different types and styles of pension schemes over the years and have seen what works well and what not quite so well. One conclusion that we have drawn from all this experience is that good, effective scheme governance is critical and makes a real and significant difference to the success of a pension scheme. Using our unrivalled experience we have developed a flexible service to help you achieve this governance ideal and get to the heart of ensuring the successful management of your DC scheme.

In summary the key aspects of Watson Wyatt's DC services include:

- global reach – Watson Wyatt has more than 7,000 associates based in 101 offices around the world
- we have a peerless book of clients, including DC clients of all shapes and sizes
- we have depth and breadth of experience in DC, not equalled in the European marketplace
- our thorough and robust DC provider research process brings significant value and piece of mind to our clients and is built around cutting-edge technology, modelling tools and other data to produce objective provider research results
- we work in cross-practice teams, leveraging the experience and skills of our market-leading investment and administration consultants
- we have unlimited access to in-house, leading edge investment manager research and a specialist DC investment team geared towards delivering investment solution specifically for DC clients
- one of our key differentiators is our governance services and we produce a range of documents to help clients both at the provider selection stage and also support them in the ongoing management of their DC schemes.

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