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The background of the slide features a blurred image of a globe in the upper left and several interlocking puzzle pieces scattered across the lower half. The overall color palette is a soft, monochromatic blue.

Mercer 2009 global DC survey

Consulting. Outsourcing. Investments.

Survey overview

The Mercer 2009 Global DC Survey reflects the responses from companies in 33 countries across Continental Europe, Asia-Pacific, Latin America, the US, Canada and the UK. The survey confirms the increased global prevalence of defined contribution plans and focuses on current issues and future trends. The executive summary provides survey highlights on the topics listed below and high-level Mercer insights.

Corporate philosophy: Perspectives on global and country-specific DC plan provision and success rates

Global DC plan management: The extent to which multinational companies are managing their DC plans centrally

Administration: Outsourcing and vendor/plan management issues

Investment: Range of investment options and default strategies

Governance: Global and local monitoring issues

Financial: Contribution rates and cost management

The future: Short-term challenges and expected DC plan changes over the next 12 to 24 months

A more comprehensive analysis and in-depth report will be made available to participants in the near future. You can also contact your local Mercer consultant for more information.

Survey methodology

The web-based survey was conducted in June 2009. We invited DC plan sponsors around the world to participate and received over 1,500 responses (including over 300 responses from multinational companies), representing over \$440 billion in plan assets. Respondents included publicly traded companies or their subsidiaries (53%), private companies (27%) and not-for-profit organizations (10%). The survey represents over 6 million members, primarily in voluntary pension plans (75%).

Key findings – Global results

Corporate philosophy

The majority of survey respondents only offer a DC plan to new employees. Among companies with DC plans (those with only DB plans did not participate), almost 70% have closed, frozen or terminated their DB plans. This generally reflects the trend toward DC plans as the primary employer-sponsored retirement program around the world.



DC plans appear to have matured since we last measured them in 2002. More than three-quarters of DC programs have been in place for at least five years and over half for more than 10 years. The percentage of plans in existence for more than 10 years varies by region as shown below:


	Global	Canada	US	UK	LATAM	Europe ex-UK	APAC
Percentage of respondents with DC plans in place for more than 10 years	56%	52%	81%	34%	42%	27%	43%

Most DC plan sponsors (55%) see their role as a “facilitator” when designing their DC plans. Their goal is to offer employees a competitive plan with access to financial education which provides employees the opportunity to accumulate adequate retirement savings. Over a quarter of plan sponsors (27%) take a more “paternalistic” approach to the design of their DC plans with a goal that members retire with adequate retirement income. A smaller number (18%) of DC plan sponsors simply offer DC plans for compliance reasons and see their role as providing only basic support for retirement.

The top three reasons cited for establishing DC plans indicate a focus on employees. Overall, 76% of companies indicate their top reason for sponsoring a DC plan is to remain competitive in terms of attracting and retaining employees. Fifty-six percent want to encourage employee responsibility, and 53% want to provide adequate benefits at retirement.

The UK marginally ranks *reductions in overall cost and volatility* higher as reasons for establishing DC plans than *encouraging employee responsibility* and *providing employees with an adequate benefit at retirement*. Asia-Pacific ranks *compliance with legislative requirements* above *encouraging employee responsibility*.

	Global	Canada	US	UK	LATAM	Europe ex-UK	APAC
Most common reasons for establishing a DC plan Scale is 1 to 6; 1 = most common							
Remain competitive in terms of attraction and retention of employees	1	1	1	2	1	1	1
Encourage employee responsibility	2	2	2	4	3	3	4
Provide adequate benefits at retirement	3	4	3	5	2	2	2
Reduce volatility in cost of providing retirement plan	4	3	4	1	5	4	6
Reduce overall cost of providing retirement plan	5	4	5	3	4	6	5
Comply with regulations	6	5	6	6	6	5	3



The majority of organizations are seeking strong participation by their employees with 74% setting target participation rates of 80% to 100%. However, only 50% of companies have actually achieved a participation rate of 80% or more.

Most sponsors do seek to evaluate their success in achieving their stated corporate philosophies by measuring employee responses to the plan. The key success indicators are:

- Valued by employees (73%)
- Attract and retain employees (65%)
- Achieve high participation rates (34%)

These indicators support typical human capital goals of employee engagement and responsibility. However, only about half of respondents indicate they have been very successful in meeting their objectives. Of note, 73% of respondents include valued by employees as a DC plan success factor, but 60% still list this as one of the biggest challenges they face (see “The Future” section below).

Global DC plan management

Multinationals cite member communication and market/investment volatility as primary risks associated with their DC plans. While there appears to be a general movement by multinationals toward more centralized DC plan management, corporate headquarters (HQ) are currently selective in their areas of involvement.


Of the respondents, 44% stated that their DC plans are managed and overseen by either global committees or individuals at corporate HQ. An additional 13% centralize DC plan management/oversight at the regional level. Over one-third of sponsors (both centralized and decentralized companies) plan to move toward more centralization of DC plan oversight in the next 12 – 24 months. Of the companies that plan to make changes, 48% highlight risk management as one of their top two priorities, 44% economies of scale, and 39% the creation of consistency in benefit design across geographies.

The aspect of DC plan management that tends to be the most centralized is plan design. HQs at 71% of multinational companies play an active role in setting the plan’s contribution rate. The selection of providers and the selection of DC plan investment options tend to be handled in a more decentralized manner.

Recent economic events appear to be creating a need for multinationals to seek cost savings and improve risk management. In the past, focus on these issues has not been as prevalent.

Administration

Forty-eight percent of sponsors use a bundled service approach for the administration of their plans (a formal, joint relationship between independent administrators and investment managers). Only 19% use a fully integrated service (in-house administration and money management). Types of service providers include insurance companies, investment management companies and benefits consulting or accounting firms. Insurance companies are the most prominent at 31%.



Most service providers offer investment and educational tools to members to help them better manage their DC accounts and save for retirement with providers offering:

- Websites to view balances (76%) or to initiate transactions (67%)
- Call centers or interactive voice response systems (71%)
- Annual benefit statements (80%), with some companies providing more often than annually
- Online retirement projection and investment modelers (66%)
- General plan information through group meetings (64%)
- Generic financial education/advice (62%)

Fewer plans provide targeted employee communications (56%), one-on-one financial education/advice (44%), or annuity brokering (29%).

Typically, on at least an annual basis, plan sponsors monitor their service provider's performance against set standards (76%) and review their internal controls (69%). Fewer monitor the credit rating of the service provider, the service provider's long-term commitment to offering DC pension services, and their fees and service levels ranked against other providers.

Autopilot features, a relatively recent development in DC plan design, show considerable penetration on a global basis. One-third of respondents offer at least one of the autopilot features of enrollment, rebalancing of investment options and escalation of contribution rates. The growth of auto-enrollment features is mixed across the regional DC markets. The US and Latin America markets are leading in the implementation of all three features; the Asia-Pacific, European and UK markets are lagging in providing some features. Over time, we expect all three autopilot features to become the norm in most countries.

Investment


Over 72% of sponsors offer 15 or fewer investment options to members. The most prevalent options are:

- Balanced funds (61%)
- Lifecycle funds, including target date, target risk and lifestyling (57%)
- Fixed-interest gilt/bond funds (51%)

Interestingly, only a third of respondents plan to change their investment options or structure over the next two years. Of those planning changes, the most common expected change is an increase in the number of options offered, followed by an introduction of lifestyle or target date funds.

The use of lifecycle type funds (including target date, target risk and lifestyling) varies by geography. In the US and the UK, the target date/lifestyling funds are around eight times more prevalent than target risk funds. In other parts of the world, approximately the same number of target date/lifestyling funds exist as target risk funds.

Of the close to 80% of the sponsors that confirmed they have a default investment option, lifecycle funds (including target date, target risk and lifestyling) are the most common instrument, currently used by 67% of respondents. A full 90% of sponsors considering adding or changing a default option are looking at lifecycle funds. Where a company has a default option in place, a weighted average of 40% of members have automatically been defaulted into it.



The majority (71%) of those respondents that currently have a global corporate social responsibility (CSR) strategy have not considered actively reflecting this strategy in the management of their DC plans. This speaks to potential gaps in how companies are implementing their CSR strategies. As an extension of CSR policies, some plans offer “responsible investment” options (such as socially responsible investment or environmental/green funds). The survey results showed that only 12% of plans currently offer these choices.

Companies are generally active in monitoring and managing their fund line-up and investment managers. Fifty-eight percent of sponsors review the range and number of fund options on an annual basis. Over 73% of sponsors review investment performance at least semiannually, but only 42% review a manager’s qualitative factors over the same time period. Fewer sponsors monitor providers’ credit ratings, commitment to the DC pension business, fees and service levels.

Prevalence of different types of “at-retirement” distributions, including lump sums, programmed withdrawals and annuities, vary considerably by geography, as would be expected given different country regulations. Where annuities are required, in the UK for example, there is a fairly wide range of practices of employers’ provision of annuity distributions. In the UK, it is most common for employers to use an independent adviser to identify the most competitive annuity provider in the market (58%). Six in ten employers that use an independent adviser pay for this advice, while four in ten require the employee to cover the cost of the adviser. Thirty-one percent of UK employers provide an annuity through the plan using the current provider. In the US, where annuities are not required, the vast majority of plans do not offer an annuity (68%). Among US companies that do offer an annuity, the majority (79%) provide it through the plan using the current provider.

Governance

Fewer than two-thirds of respondents have a formal, documented DC plan governance policy and others indicate they have only undocumented policies. It is clear from the survey that few companies have implemented formal governance policies.

Of the survey participants that have a DC plan governance/oversight structure in place, the majority have their governance programs focus on the basics:

- Contribution accuracy (87%)
- Compliance (87%)
- Accuracy of communication materials (82%)
- Accuracy and timeliness of benefit payments (80%)

DC plan oversight can also include the following: review of administrator expenses/fees (77%), eligibility (73%) and unit pricing validation (68%).

What respondents stated about their corporate philosophies and what they actually do in terms of corporate governance reveal some inconsistencies. One example is the relatively low incidence of monitoring of benefit adequacy (44%), despite 53% of companies stating that one of their primary reasons for establishing a DC plan was to ensure workers retire with sufficient retirement income. This suggests more companies will take action to review DC plan benefit adequacy over the next 12 – 24 months.

Financial

Two-thirds of respondents require a minimum level of employee contribution in order to qualify for a “core” company contribution. In addition, 69% of plan sponsors require members to make a contribution in order to receive employer matching contributions.

The two most common types of contributions are matching contributions (53%) and flat contributions allocated to members (42%), with some companies having both types of contributions. These results are influenced by responses from (1) US and UK companies where contribution structures based on a company match feature are prevalent and (2) Asia-Pacific companies where the trend is toward allocating flat contribution rates across all members. Europe, excluding the UK, has a greater focus on contribution rates designed around the member’s base wage, while Latin America has an even split between using the base wage and an employer match to determine contributions.

It is most common across the globe to limit the company match on member contributions to 6% (30% of respondents). Matching contributions range from 1% to more than 10%, with the most common match being 3% (21%) or 4% (18%) of pay. The average actual cost of employer contributions globally (core and/or matching) is 5.5% of annual payroll. The average cost to members as a percentage of salary is 4.1%.

There is no common practice on who (the employer or member) pays for the administrative and investment costs for the plan. While 45% of sponsors reported that members bear all or most of the costs, another 39% of sponsors share costs with members (for example, the company pays for administration and members meet investment costs).

The future

Will market instability and the global economic crisis have long-term impacts on the future of DC plans?

According to the survey, very few companies (fewer than 10%) have changed their contribution strategies as a result of the financial crisis and only a small number expect to do so in the next 6 – 12 months.

Sponsors, however, report that employees are concerned about the recent financial crisis. According to company experience, the most common employee reaction has been to ask about investment performance. Sponsors are also of the opinion (based on interaction with employees) that some members have changed their asset allocations or have ceased or reduced their voluntary contributions because of the crisis. This is especially true in the US, although general US market data from service providers indicates otherwise. In fact, in the US the trend has been toward inaction by the majority of employees. This disconnect may be a case of a vocal minority influencing general employer perceptions.



The table below indicates that in most regions, in the view of plan sponsors, employees simply sought reassurance around the plan’s security and performance and took no further action. Employers in Latin America and Europe ex-UK received relatively more requests to change investment options than in other geographies:


	Global	Canada	US	UK	LATAM	Europe ex-UK	APAC
Ranking of employer perspectives on the top employee reactions to the financial crisis*							
Asked about DC plan investment performance	1	1	3	1	1	1	1
Changed their personal DC plan asset allocation	2	2	1	3	4	3	3
Asked about the security of the DC plan	3	3	4	2	2	2	2
Decreased or stopped voluntary contributions	4	6	2	4	5	6	5
Asked the company to make changes to the DC plan investment options	5	5	6	7	3	3	4
Increased complaints/concerns about DC plans	7	4	8	6	6	3	6

* The table captures the top three employee reactions for all geographies and the comparable rankings on these reactions across geographies. Further details are available upon request.

The employee reactions above reflect the identification of two equally challenging hurdles for DC plans; investment performance and member understanding of the plan are both highlighted as top challenges by 60% of respondents. In reaction to these concerns, 56% of companies have ranked changing the investment options/structure as a priority. As noted in the “Investment” section above, only one-third have specific plans to change investment options. So, while many respondents consider this a priority, fewer expect to actually make these changes in the next two years, possibly due to competing priorities. Sponsors consider improving member understanding and communication even more important, with 86% rating this a high priority.

Mercer insights

In the recent report *Transforming Pensions and Healthcare in a Rapidly Ageing World*, published by the World Economic Forum (in partnership with Mercer and the OECD), three possible future economic scenarios are presented. These economic scenarios are based on the thinking of over 200 CEOs, senior executives, government ministers, academics and representatives from international organizations. The scenarios are: “Winners and the Rest,” “We are in This Together” and “You are on Your Own,” each with different implications for employers and employees.



Looking at the results of the 2009 Mercer Global DC Survey, it appears that employees are fast moving toward being “on their own.” The majority of companies that responded to the survey see their role as “facilitators” in providing retirement security. They have closed their DB plans to new employees and are providing these employees market-competitive, but perhaps not fully “adequate,” DC plans along with education to enable them to make adequate provision for themselves. These employers are encouraging employees to take more responsibility for their retirement savings. Employers who still take a paternalistic view of providing retirement security to employees are in the minority.

But are workers ready to be “on their own?” Not yet. For years, employees have looked to their employers and to the government to provide financial security in retirement. Now this responsibility is largely sitting on their shoulders, and many are not equipped to take this responsibility on. A number of governments around the world have, or are planning to, reduce social security benefits and push out retirement ages. If two of the three legs of the retirement stool are shortened at the same time (government- and employer-based support), the third leg (employee savings) are bound to be unsteady.

On the positive side, we are seeing a number of important global DC trends that will help workers better prepare for retirement. We’ve learned a lot about how employees handle financial decisions, including retirement decisions, and many plan sponsors are applying these behavioral finance principles to their DC plans. Taking advantage of “inertia,” the survey shows that the majority of DC plan sponsors now use automatic enrollment and other automatic features where possible. While these features are not currently used (or even permitted) in all regions, we do expect this to become a common practice in DC plans across the globe wherever DC savings aren’t already mandatory. We expect governments to support this trend through legislation.

While the majority of DC plans surveyed still offer more than 10 investment choices to members, the vast majority also have a default investment that reflects the age and expected retirement date of the member. We expect lifecycle or lifestyle funds to become the default fund choice around the globe. But while autopilot features can help members make (by default) better decisions, the ideal situation is one in which employees have the knowledge and tools to make their own decisions, a scenario that may be unrealistic in the short term.

Importantly, members’ need for advice is not just related to wealth accumulation during their working years. Members clearly need assistance with their transition to retirement and post-retirement issues before they retire. Current practices in helping employees with the spend-down of their retirement income are quite different around the world. In some countries, such as Australia, the use of financial planners is quite common and often tied to recordkeeping services. In other countries, governments have stepped in to mandate annuity purchase or have regulated other ways to ensure individuals won’t run out of money. We expect to see more governments getting involved in this area and reviewing current annuity or spend-down policies.

Finally, we are seeing a number of governments introducing “personal account” systems or looking for other ways to support individual savings by more workers (for example, matching contributions for lower-income individuals). The UK, the US, Canada, India, Ireland and other countries have either already enacted legislation or are considering regulations along these lines. These government-sponsored programs will be increasingly important as employers move more to a facilitation role. But will these plans be enough to replace the employer-sponsored retirement programs of the past? It will be interesting to see what happens as these new programs get started.

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