



# Global Benefits Governance and Operations Study 2018/19

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The Study comprises overviews and sections giving deeper information on each topic.

Follow the hexagons on each page to stay at the high level.

# Align strategy. Manage risk. Execute.

Dear Reader,

We are pleased to present our 2018/19 Study exploring corporate governance of employee benefits within multinational companies. This is the third edition of an ongoing study the American Benefits Institute has conducted jointly with Aon.

Increasing costs and risks posed by employer-sponsored benefits programs around the world continue to drive centralization trends in global benefits management. Yet companies struggle to make decisions in the absence of ready access to information and the necessary infrastructure to execute their benefits strategy.

This new study explores best practice in global benefits management and offers insights into what companies can do to improve alignment of benefits with organizational strategy and better manage the costs and risks of global benefits.

Over 250 multinationals around the world participated in the study, including as many with more than 100,000 employees as with fewer than 10,000 employees. It was shaped by leaders responsible for global compensation and benefits at a range of multinationals. They offered guidance and insights into the challenges they face. We greatly appreciate their participation. Without their active involvement, this exercise would not have been possible.

We trust you will find the information and insights presented in this report of interest and value.

With best regards,

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## About the American Benefits Institute

The American Benefits Institute is the education and research affiliate of the American Benefits Council. The Institute conducts research on both domestic and international employee benefits policy matters to enable public policy officials and other stakeholders to make informed decisions. The Institute also serves as a conduit for global companies to share information about retirement, health, and compensation plan issues.

The Council is a public policy organization whose members include over 220 of the world's largest corporations, as ranked by Fortune and Forbes. Collectively, the Council's members either directly sponsor or administer health and retirement benefits for virtually all Americans covered by employer-sponsored plans.

# Introduction

In 2012, the first study into global benefits governance showed a strong desire among participants to implement strong governance of benefit plans globally.

Five key elements were identified that were critical to strong governance (as shown below).

Companies that indicated some effectiveness across all five of these elements were classified as applying best practice benefits governance. Very few companies achieved this.

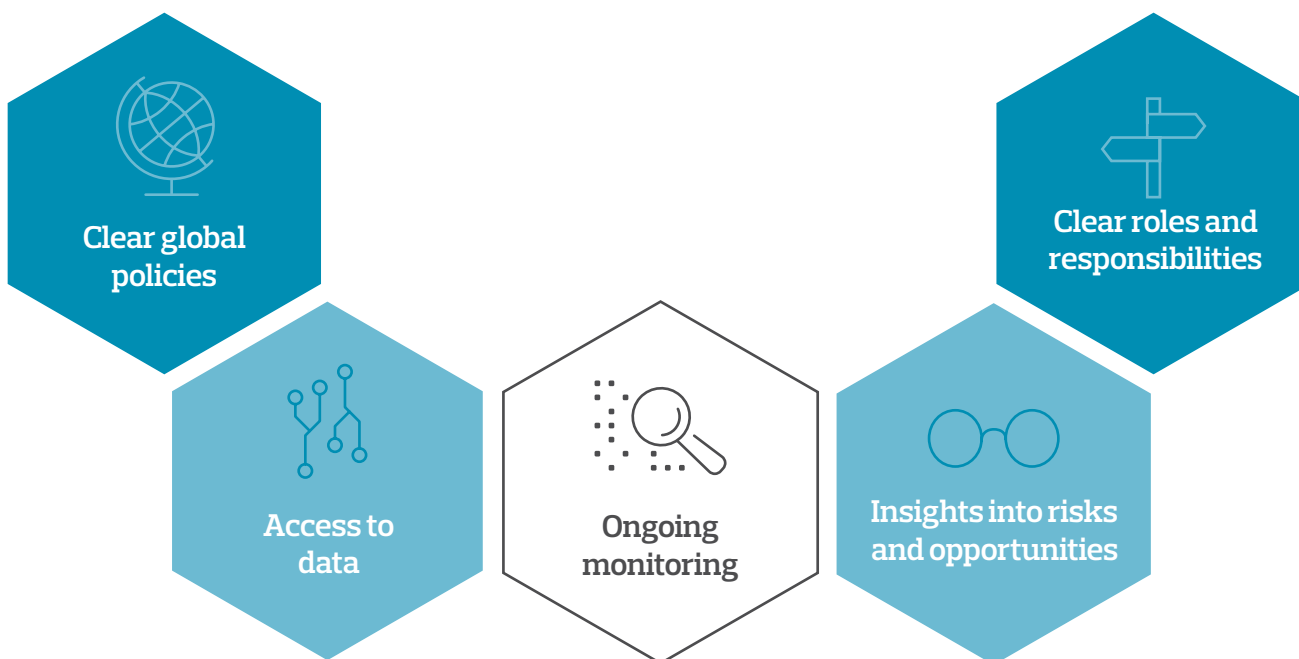
In 2015, the second study indicated that those who had implemented best practice identified stronger alignment with their corporate aims. The vast majority (80%) of participants indicated a desire to achieve best practice by 2018, but only 20% indicated that they met the criteria in 2015.

The biggest challenges related to information collection and monitoring.

In 2018, we have explored whether further progress has been made towards best practice governance, and whether value is still being seen in achieving best practice.

We have also dug a little deeper into the drivers and enablers for governance, as well as the barriers to progress that many have experienced. We also collected information on the areas in which companies are developing their strategy, how responsibilities are allocated between global and local roles, the information being collected and the manner and frequency of doing so.

The wide range of participating companies has also enabled analysis by size, geographic spread and industry – though the most interesting outcome from this deeper analysis is perhaps that in general there are a lot more commonalities than differences.



# Executive summary

## Progress made, but desire still greater than progress

This 2018/19 Study confirms a strong desire to implement best practice global governance.

74% of companies aim to achieve best practice global governance by 2021.

**Best practice global governance** has been defined by the previous studies as:

1. **Strategy:** Clearly defined policies to manage the risks deemed to be important
2. **Structure:** Clear responsibilities globally and locally for executing these strategies
3. **Alignment:** Ready access to information to identify misalignments with policies
4. **Prioritization:** Insights into local costs, risks and opportunities to prioritize actions
5. **Monitoring:** Regular receipt of reports on risk and emerging risks to aid decisions

The 2012 and 2015 studies indicated a similarly strong desire for best practice within three years, and while each of the five elements has now been achieved by 50% to 70% of companies, only 31% of companies have implemented all five (Best Practice companies).

### What has delayed progress, and what can be done to overcome the barriers?

For many companies, the main challenges in implementing or improving global benefits governance have been a **lack of** resources, technology, money, local expertise, and time.

Those with least progress towards best practice also highlight barriers of **not knowing**: where to start; who to work with; or how to demonstrate value to gain budget.

Hopefully, this report can help address some of these challenges and barriers, and enable multinational companies to achieve their aims of effective global governance.



# Executive summary

## Learnings from those who have made progress

### What can be learned from those who exhibit best practice global governance?

Organizational centralization has been a key driver and facilitator for many.

71% of participating companies described themselves as 'at least somewhat centralized', and 83% expect to be so by 2021. So, the environment for making progress with global governance may be easier now than it was in 2015, when only 40% of these companies described themselves in this way.

### But centralization alone has not enabled companies to achieve best practice governance

Those with best practice governance cite **internal and external collaboration** as critical.

They were also better aware of where to start, and identified value delivered through governance.

Where to start:

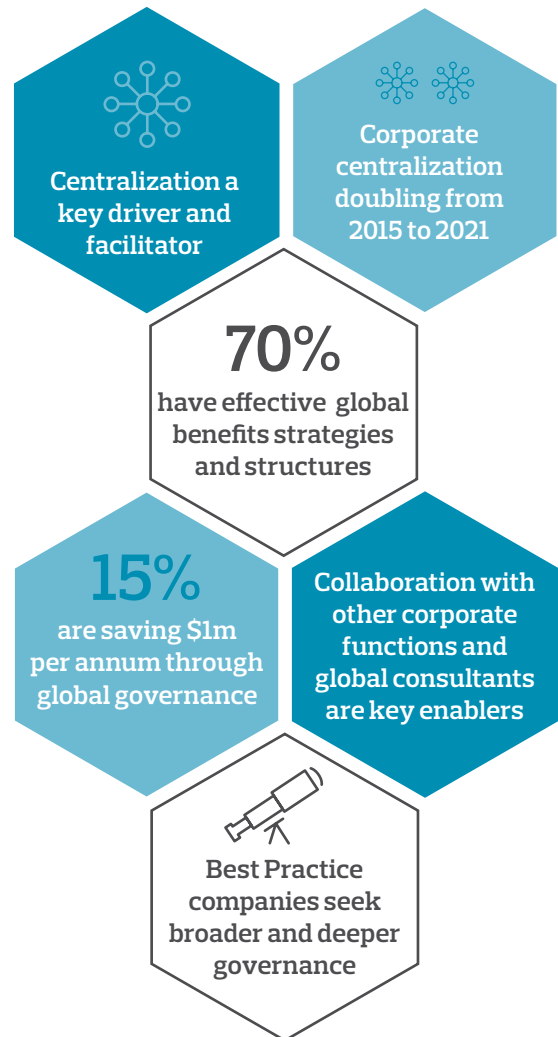
- **Strategy and structure** typically tackled first for Best Practice companies – done by 70% of all companies
- **Data and insights** 80% of all companies have prioritized this for tier 1 countries and expats

Demonstrating value:

- **Execution of priority actions** is far more successful among Best Practice companies
- **Quantified financial gains** for many companies – 15% are saving over \$1m per annum

Who to work with:

- **Other corporate teams** collaborate best in Best Practice companies – 60% view as key enabler
- **Global consultants** strongly support Best Practice companies – 55% use consultant technology



### And Best Practice companies are not standing still

They are now aiming for even stronger effectiveness across the five elements by:

- Broadening the range of benefits, countries and decision-types covered
- Deepening the levels of policies, information and involvement in decision-making

# Executive summary

## What next for those who have made progress?

### Evolving areas of focus

Focus is increasingly moving from governance of defined benefit (DB) towards Health and defined contribution (DC) arrangements. Operations and communication are also gaining focus alongside design and financing activities.

**Competitiveness and adequacy** – well-established policies, approvals and global monitoring, linked to attraction and retention. Increasing focus on *improving health coverage*, *global minimum benefits*, *employee perception of value*, and measuring *effectiveness of provisions relative to outcomes*.

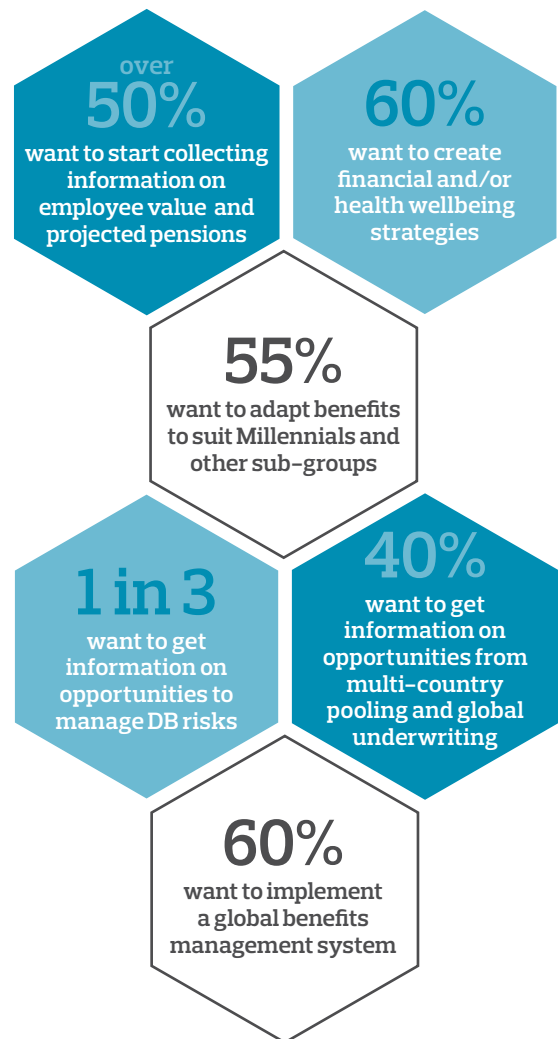
**Consistency and fairness** – policies, approvals and harmonization actions are much more prevalent among Best Practice companies. Review has been ad-hoc, but a strong desire to gain more information on *differences in choices across sub-groups*, and to develop *wellbeing strategies*.

**Choice and responsibility** – policies on employee choice are widespread, but encouragement of responsibility is much more common amongst Best Practice companies. A strong desire for more *information about employee choices*, and to provide employees with assistance to make choices.

**DB funding, investment and settlement** – policies, approval processes and regular monitoring well-established, though more so among Best Practice companies, who have also completed more actions to reduce costs and risks. Increasing focus on information on *opportunities to reduce risk*.

**Insurance solutions** – information on insurance cover, premiums and opportunities is widespread. Policies and approvals, particularly among Best Practice companies, naturally focus on multi-country solutions: pooling, use of captives and increasingly on *global underwriting*.

**Operational delivery** – provider approval is common, but no other aspects of global governance. There is a strong desire to collect information centrally on *delivery performance* and *data breaches*, and for actions against *cyber risk*, and to establish *technology systems* and *centers of excellence*.



# Executive summary

## Key differences by type of company



**Technology** companies were the largest single sector represented in the study, and while this was still less than 20% of all responses, they had responses very similar to the total group. The participants in this sector demonstrated rapid centralization, clarity over budgets and the value of governance, but concerns about lack of local experience, an evolving workforce and employee awareness, value and health.



**Banks** and **chemical** companies have made the most progress with global governance. Half of the participants in these groups followed best practice and most of the rest were very close to achieving this. **Chemical** companies have, by far, made the most progress with actions that they want to take around the world, with most focus to date being design-oriented to attract and retain, reflecting employee choices and the need for information. They want to make more progress with settling DB and improving DC investment choices. **Banks** have taken more actions than others in relation to harmonization of plans and providers, and retention of risks. Future focus will continue the path to individual responsibility for benefits, control of DB costs and enabling workforce transition.



**Insurers, machinery manufacturers** and **life science** companies have made the least progress with global governance. The barriers experienced were very much in line with those highlighted in general within the study by companies who have struggled to make their desired progress with global governance, particularly decentralization and the related challenges of internal collaboration and persuasion. Machinery manufacturers had the greatest challenge with the imbalance of central resources to work volumes.



**Consumer goods manufacturers** who participated had either adopted best practice or made very little progress at all with global governance. They are generally driven by a desire for benefits to be consistent and fair, and to attract and retain while managing change in the workforce, but have made least progress with design-related actions.



**Healthcare** companies have, in contrast, made strong progress with design-related actions, though also want more focus on how benefits can help in managing workforce change. Future focus is on the level of risks to retain while improving health insurance coverage, as well as consistency of employee experience through benefits portals.



**Oil and gas** companies lead the way with financing-related actions, though have desires to explore multi-country pooling, captives or global underwriting. Future focus is also on financial wellbeing, including employee access to information to make choices.



# Deeper look at the broad range of participating multinational companies

Over 250 multinational companies participated in the study, compared to just over 200 in 2015 and a little under 150 in 2012. This in itself indicates the growing interest in global governance.

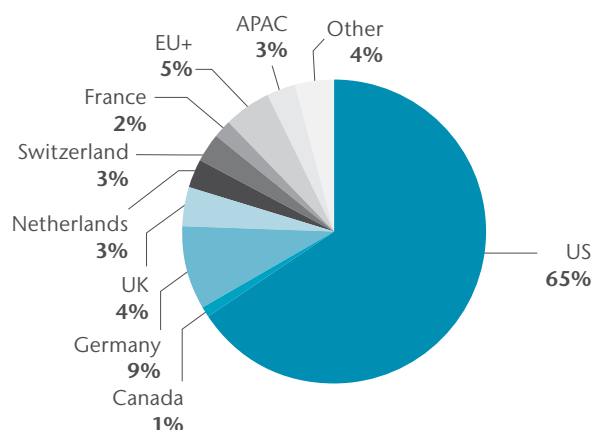
The participating companies were varied in terms of geography, business size and industry. 65% of companies have their headquarters in the US, compared to 55% in 2015. This is reasonably representative of multinational companies in general, though slightly more US-weighted given the strong involvement of members of the American Benefits Council. Most of the other participants have European headquarters.

As in previous studies, the size of the participating companies was very widely spread from fewer than 10,000 employees to more than 100,000. Almost half of the companies operate in more than 50 countries, while all but 15% operate in more than 15 countries, making global governance particularly complex. Almost three-quarters of the companies have over 40% of their workforce outside their headquarter country. Mobile and expat employees also feature strongly across most companies – 39% have at least 100 such employees.

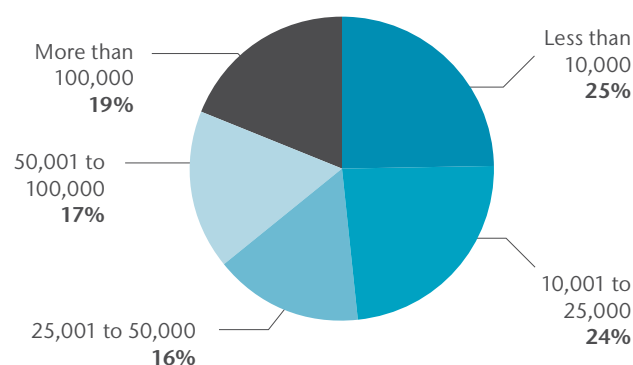
The industry spread is also broad, though with a particularly strong participation from the technology sector, which had made strong progress on corporate centralization. Mergers, acquisition and divestitures have been a strong theme among the vast majority of participants. 90% have had a merger/acquisition in last three years; 66% have divested part of the business in that timeframe. Global governance naturally helps through and beyond such business restructuring.

The roles of participants were much narrower than the nature of the companies they represent: 92% are HR leaders, with most of the rest in Finance roles. 69% are responsible for all benefits and 64% are responsible for all countries, with most of the others representing all countries outside the headquarter country.

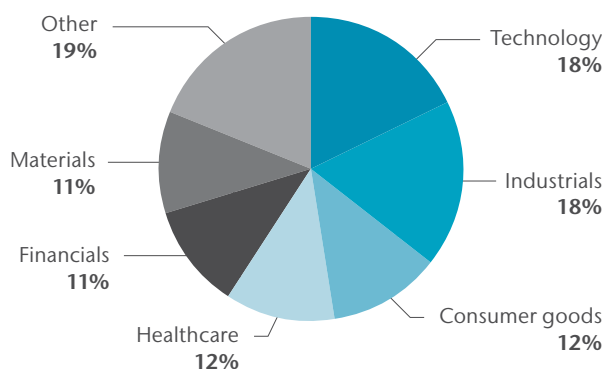
Country/region of company headquarters



Number of employees



Industry sector



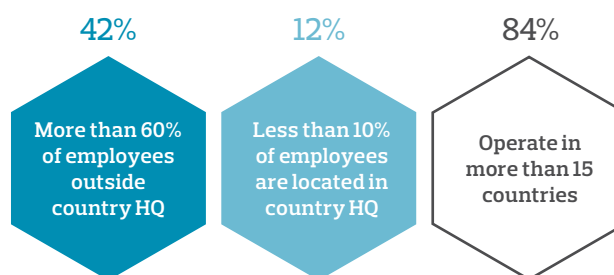
# Deeper look at participating companies

The table below lists the industries to which the participating companies are aligned.

## Industry category recorded

|                                        |     |
|----------------------------------------|-----|
| Agribusiness                           | 2%  |
| Aviation                               | 1%  |
| Banks                                  | 4%  |
| Beverages                              | 2%  |
| Consumer goods manufacturing           | 5%  |
| Chemicals                              | 4%  |
| Conglomerate                           | 2%  |
| Construction                           | 2%  |
| Energy                                 | 4%  |
| Financial                              | 6%  |
| Food                                   | 1%  |
| Healthcare                             | 6%  |
| Life sciences                          | 6%  |
| Lumber, furniture, paper and packaging | 1%  |
| Machinery                              | 10% |
| Metal                                  | 3%  |
| Non-aviation manufacturing             | 1%  |
| Non-aviation transport                 | 1%  |
| Power / utilities                      | 1%  |
| Professional services                  | 2%  |
| Real estate                            | 1%  |
| Retail trade                           | 3%  |
| Rubber, plastics, stone and cement     | 2%  |
| Technology                             | 18% |
| Telecoms                               | 3%  |
| Wholesale trade                        | 1%  |
| Other                                  | 9%  |

Of the participating companies:



Nearly all participants indicated that there had been some form of merger and acquisition activity in the last three years, with around half describing this activity as major. Divestitures were not quite as common, but still present for two-thirds of participating companies. Participants expect an increase in acquisitions and a reduction in divestitures in future.

|                                    | Merger/<br>acquisition | Divestiture |
|------------------------------------|------------------------|-------------|
| Major activity in the last 3 years | 49%                    | 25%         |
| Any activity in the last 3 years   | 90%                    | 66%         |
| Increase                           | 34%                    | 8%          |
| Decrease                           | 8%                     | 19%         |

The vast majority of participating companies operate in more than 15 countries, and most have more than half of their employees based outside of the headquarter country.

| Percentage outside HQ country |     | Number of countries operating in |     |
|-------------------------------|-----|----------------------------------|-----|
| 0-20%                         | 12% | 5 or fewer                       | 4%  |
| 21-40%                        | 15% | 6-15                             | 12% |
| 41-60%                        | 31% | 16-50                            | 44% |
| 61-80%                        | 28% | More than 50                     | 40% |
| >80%                          | 14% |                                  |     |

# Growth in best practice global governance

All three global governance studies have tested the effectiveness of global benefits management using five equally-weighted measures of global benefits governance:

1. Companies have defined specific plan design, financing and operations policies to manage risks that they believe are important to manage.
2. There is an operating structure with roles and responsibilities allocated at corporate, regional and local levels to execute the company's risk strategies.
3. Corporate HR and finance functions have the requisite data and market information on their global benefit programs.
4. Companies know their benefit costs and risks, and the opportunities to manage them.
5. Companies monitor and report such risks on an ongoing basis to corporate functions.

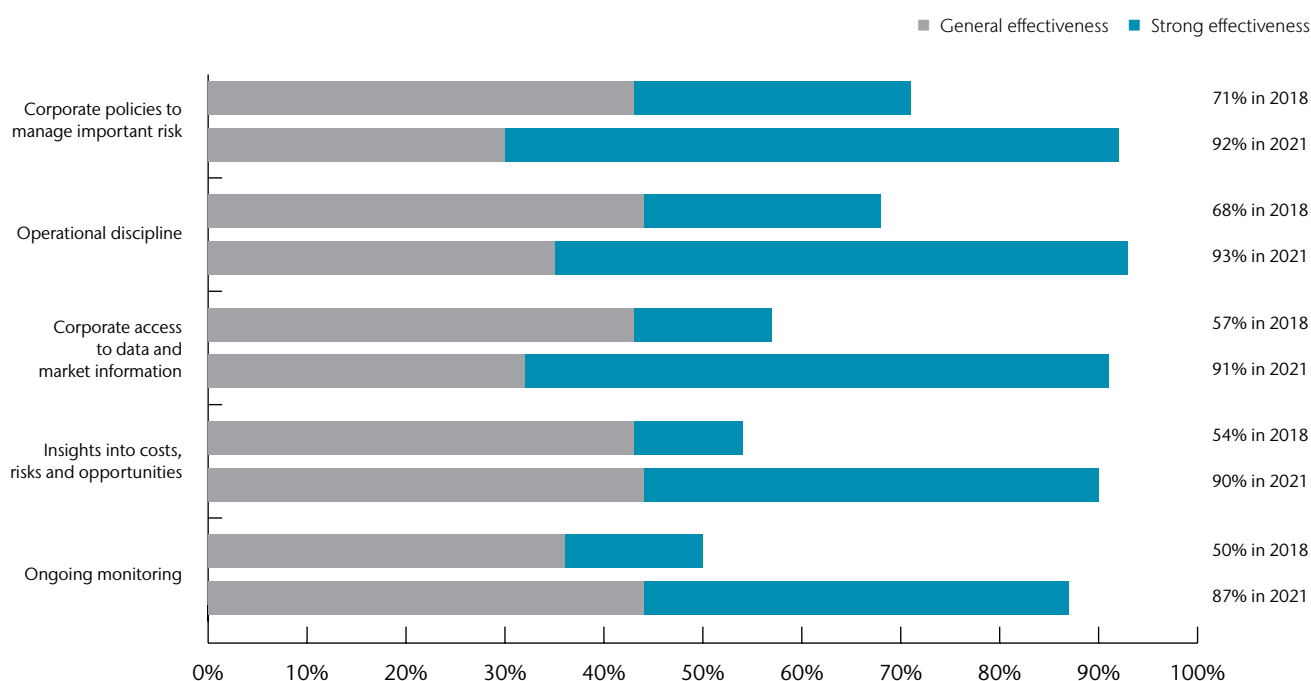
We refer to best practice companies as those that rated themselves as effective across each of these five measures. The responses reveal a difference in overall effectiveness between companies that meet some but not all of these measures.

Only 14% of respondents reported following best practice in global benefits management in 2012; this increased to 20% in 2015, and has reached 31% in 2018. 74% wish to do so by 2021, though in 2015 80% had wanted to do so by 2018!

Throughout this report, we analyse how the so called 'Best Practice' companies operate differently to the rest of the survey respondents – referred to as 'Other' companies in the report. An examination of these practices provides invaluable insights into:

- what companies can do to improve the governance and operations of their global benefit programs, and
- how following best practice can help companies improve their return on investment and reduce unrewarded risks related to their benefit programs

## Effectiveness across the five measures of global governance



# Deeper look at variations in progress across different companies

## HQ location

Deeper analysis indicates that there is very little difference in the proportion of Best Practice companies by location of headquarters, though analysis is only possible on a regional basis as there are too few participants with headquarters in any single country other than the US.

## Volume and spread of employees

The volume of employees seems to have a little more impact on progress with global governance. Companies with more than 50,000 employees are more likely to have developed best practice global governance than those with fewer than 25,000 employees – 35% of the larger companies compared to 25% of the smaller companies.

Strangely, the companies operating in most and fewest countries have made more progress with global governance than those present in between 16 and 50 countries, of which only 20% have achieved best practice global governance. Perhaps those in the most countries see the greatest urgency, while those in a more modest number of countries see easier implementation – or it could simply be randomness within these samples.

## Industry

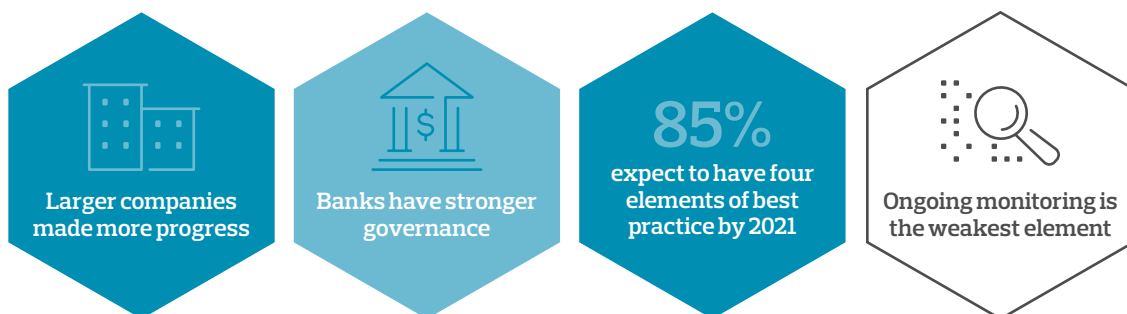
The wide spread of industries represented in the study makes it difficult to form many clear conclusions about differences in governance progress by industry. However, the banks that participated in the study have made noticeably more progress than the average participant.

Half of the banks participating have already achieved best practice governance, and those that have not are ahead of the average in progress towards best practice. By contrast, participants classing themselves as insurance, investment or finance are materially behind the average participant in such progress – as are machinery and equipment manufacturers.

## Commonality of future aims

While it is possible to look at different types of companies in relation to current levels of global governance, the scale of desire to have best practice in future is very consistent. 74% of the companies targeting best practice in three years leaves little room for variation across types of companies.

Only 15% of companies expect to have fewer than four of the five elements of best practice in place in 2021. As the missing element is commonly an ongoing process, the four base elements on which this ongoing process can be built are expected to be in place for 85% of participating companies.



# Deeper look at breadth of governance by decision area

## Financing

Global governance has progressed most in relation to the financing of benefit plans. 75% of participants indicate that they have financing policies that are generally effective in managing material risks and opportunities. 57% have progressed to generally effective ongoing monitoring of financial risks and opportunities.

Many companies that have not yet reached best practice benefits governance are operating best practice in the financing aspects.

## Design

The picture is fairly similar in relation to governance of benefit design decisions. 70% are comfortable with design policies, a proportion very similar to those indicating overall comfort with policies. 56% indicate that ongoing monitoring of design is somewhat established. However, it is interesting to note that despite more companies having financing policies, data availability is greater for design aspects than financing.

## Operations

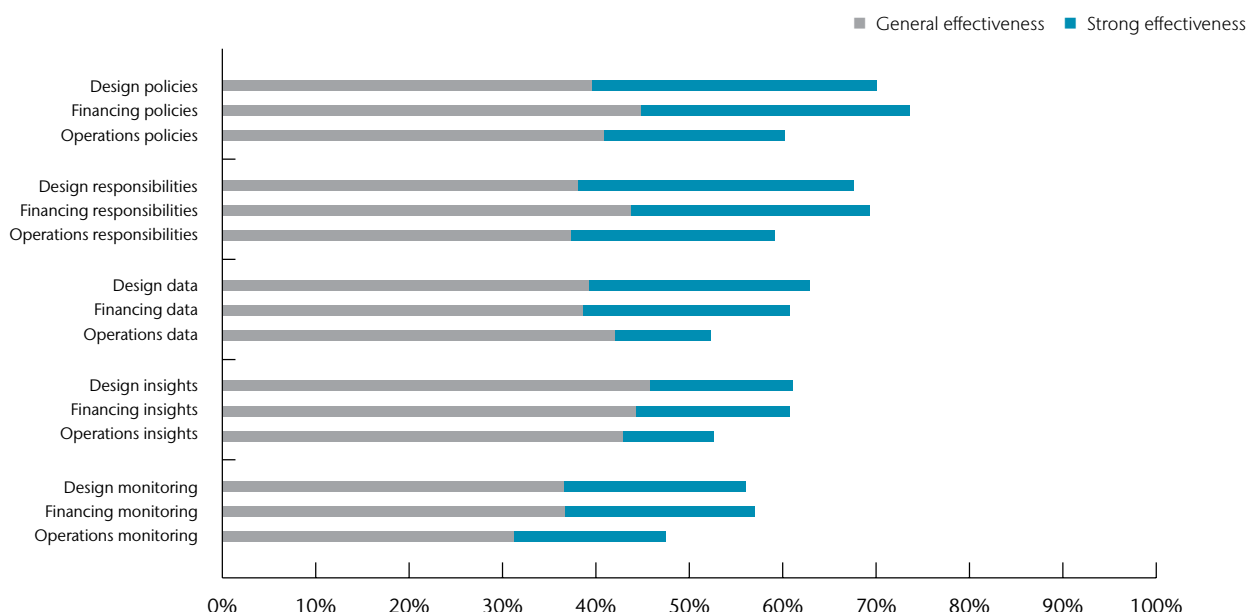
Operations is typically the area where global governance has not progressed quite as much. Only 60% indicate that they have policies that are generally effective, and fewer than half have ongoing monitoring in place. Besides the companies that are already operating best practice global benefits governance, progress with operational governance is quite limited.

## Insights

The prevalence of best practice in finance comes as no surprise, with the strong focus on policies to move away from DB pension plans and to manage the financial costs and risks of such plans. However, it is worth noting that over 90% of respondents described themselves as being in the HR function rather than a Finance function, yet financing is still indicated as having greater governance than the design and operational areas that would be more the direct responsibility of the HR team.

Nearly 40% of companies operate best practice across each of design and financing.  
Only 30% do so for operations matters

## Effectiveness of global governance



# Deeper look at breadth of geographies over which governance applied

The Study also explored the geographic spread of the five elements of governance.

For this, participants were asked to define tier 1 countries as those of greatest materiality, tier 3 as the least materiality, and tier 2 as countries that they consider and manage with a degree of focus in between. We also asked participants to rate their governance of benefits for mobile employees and expats.

## Larger countries

It is no surprise to see that more companies have put governance in place for their more material countries than across all countries. The earlier indications that most companies intend to make further progress to strong effectiveness in global governance, suggest that this focus on the most material countries is a natural step towards global governance, rather than a desired end point.

## Smaller countries

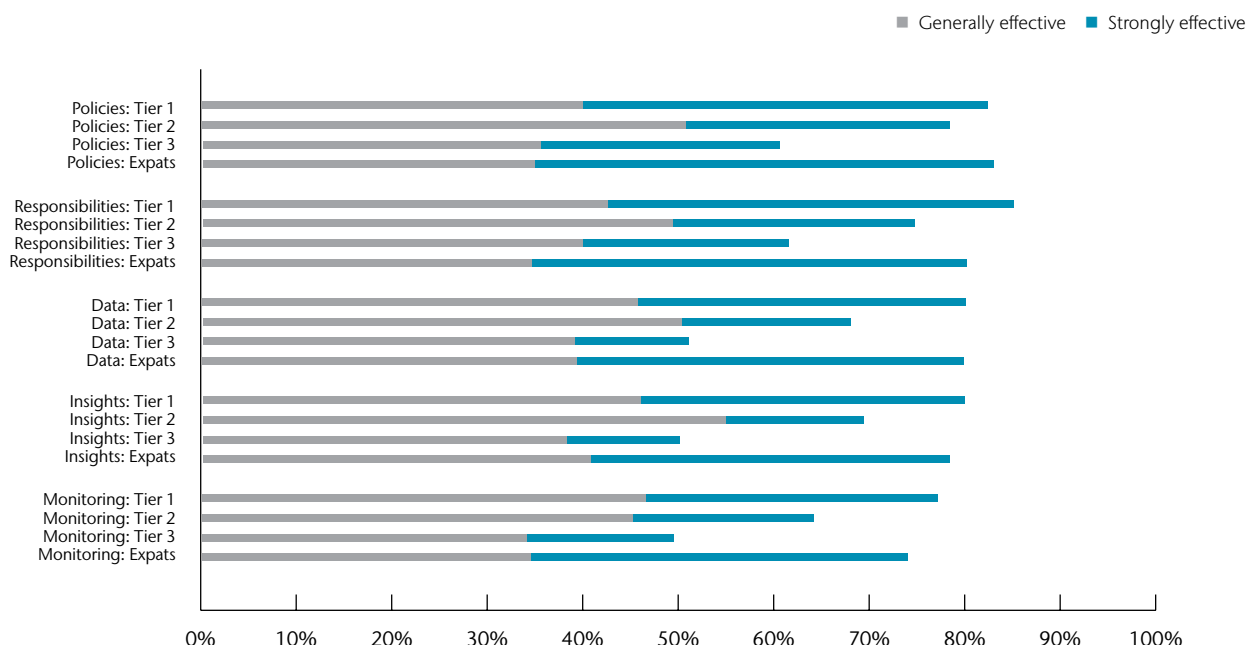
Elsewhere in the study, many companies indicate concerns arising from the lack of expertise in many of their smaller countries.

In our experience, many companies are increasingly aware of the reputational risks that can arise from weaknesses in countries that might be considered less material from a purely financial perspective. Regulatory fines can also often be more material than the benefit provisions themselves would indicate – EU data privacy penalties related to global revenues would be one example of this.

## Mobile employees and expats

The greater focus on mobile employees and expats is also no surprise given the materiality of benefits and roles typically carried out.

## How effective is governance in different countries?



Over 50% of companies operate best practice across tier 1 countries and for expatriates' benefits.

30% do so across tier 2 countries, but less than 30% do so for tier 3 countries.

# Deeper look at types of benefits for which global governance is in place

The Study also took a closer look at the types of benefits, to observe those where governance is not as strong.

## DB pensions

Again, the answers provide no surprises in terms of DB pensions being the most prevalent area of global governance.

## DC retirement plans

It may be surprising to some that governance of DC plans is now effective in most companies.

75% of companies indicate that they now have DC policies that are at least generally effective.

64% of companies are monitoring DC risks and opportunities.

Far fewer describe their DC governance as strongly effective.

## Health benefits

Governance of health benefits lags a little, despite rising health costs being a very common concern expressed by participants.

This is likely due to initial focus on one or two countries with the most material costs, and perhaps uncertainty how to approach globally.

## Looking forward

Elsewhere in the study, we see that most companies are now seeking to look much more deeply at their DC and health plans, with increasing focus on the outcomes for individuals and the business.

## How effective is global governance in different areas of benefits?



Nearly 50% of companies operate best practice for DB retirement plans, 45% for DC retirement plans and nearly 40% for health benefits. Only 32% do so for other types of benefits.

# Deeper look at DB pension plan governance

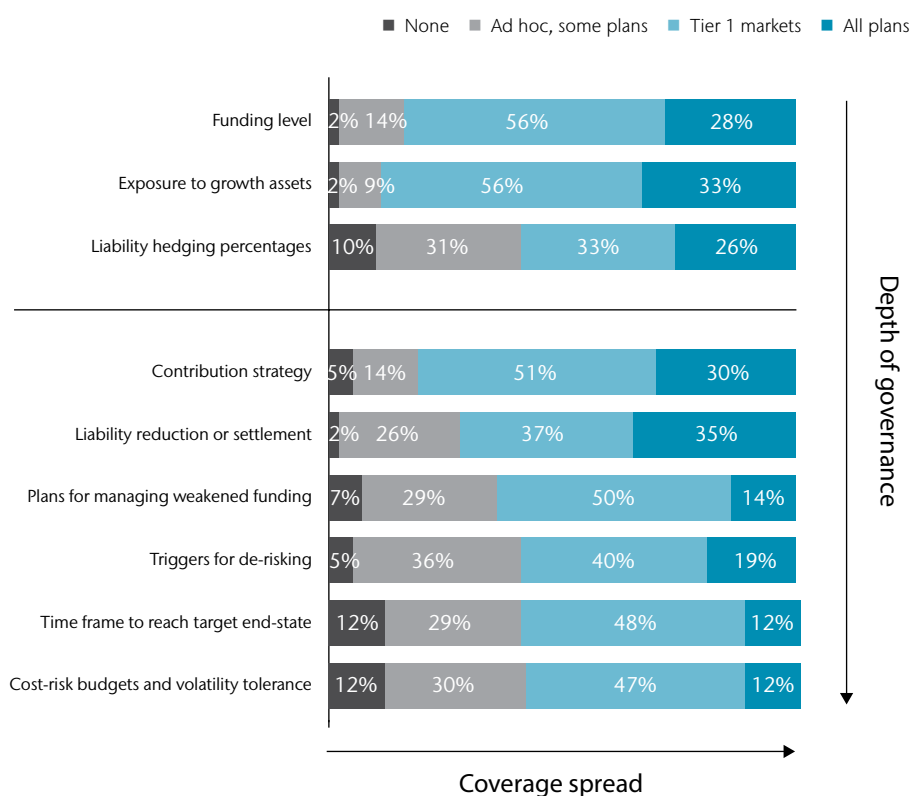
The Aon Global Pension Risk Survey 2017 indicated that while global policies have become the norm across a wide range of areas, there remains a lot of scope for local interpretation. For example, while two-thirds of respondents report the existence of long-term financing targets:

- Fewer than one-third of these indicated that full details of the target are specified globally
- Only one in eight indicated that timescales or tolerances have been specified globally
- Fewer than one-quarter indicated policies for dealing with experience gains and losses
- Approximately one-third had global contribution strategies or monitor opportunities

In most cases, the missing depth has been specified for tier 1 countries. However 20% - 40% of responses indicated a lack of most of these details even in their tier 1 markets.

There was a similar lack of detail in global investment policies – less than a half include guidance on the use of derivatives, active management or tactical asset allocation, and less than one-third include guidance on hedging of currency, inflation and credit risk.

## Depth and breadth of global policies



The survey also confirmed significant extension of the breadth of global involvement beyond pension design and financing, with over 70% reporting global involvement in operational matters.

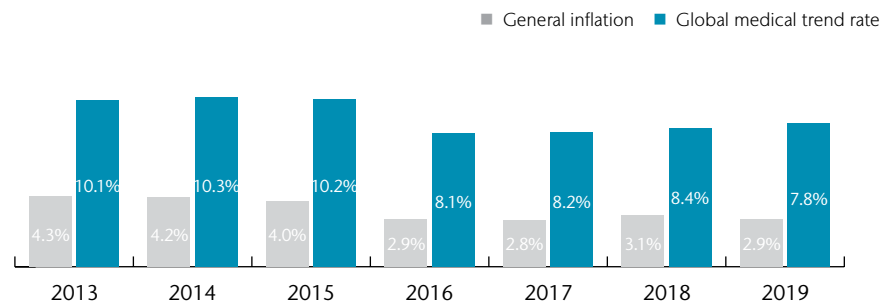


# Deeper look at challenges driving medical plan governance

The Aon 2019 Global Medical Trend Rate Report highlighted the significant gap between growth in medical costs and general inflation. This is likely to be a driver for the intended increasing focus on global governance of medical plans.

The excess inflationary growth of medical costs exists around the world, with the greatest differences in Latin America, the Middle East and Africa.

General medical trend rates vs. general inflation



| Region and Country        | 2018                              |                                      | 2019                              |                                      |
|---------------------------|-----------------------------------|--------------------------------------|-----------------------------------|--------------------------------------|
|                           | Annual General Inflation Rate (%) | Annual Medical Trend Rates Gross (%) | Annual General Inflation Rate (%) | Annual Medical Trend Rates Gross (%) |
| Global                    | 3.1                               | 8.4                                  | 2.9                               | 7.8                                  |
| North America             | 2.4                               | 6.9                                  | 2.4                               | 6.4                                  |
| Asia-Pacific              | 3.0                               | 8.9                                  | 2.8                               | 8.6                                  |
| Europe                    | 2.0                               | 5.8                                  | 2.1                               | 5.1                                  |
| Latin America & Caribbean | 5.2                               | 13.9                                 | 4.7                               | 13.2                                 |
| Middle East & Africa      | 7.6                               | 15.3                                 | 6.1                               | 13.7                                 |

# Corporate centralization a key driver and enabler of global governance



Previous studies have identified that corporate centralization is one of the natural drivers of a desire to improve global governance of benefits plans.

## Centralization continues at pace

Participants have witnessed strong development in corporate centralization since 2015 and expect more to come by 2021. 71% indicate that their firms are at least somewhat centralized, with a further 12% expecting this to be true within three years. The proportion viewing their firms as strongly centralized appears to be doubling every three years.

Best Practice companies are more centralized, as this has driven and enabled governance progress. Within Best Practice companies:

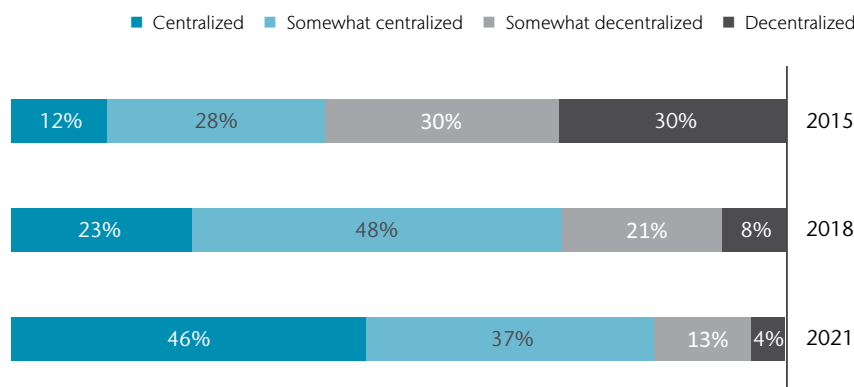
- 90% describe themselves as at least somewhat centralized
- 81% have a common corporate benefits strategy
- 74% have a common corporate talent strategy
- 60% have a benefits delivery Center of Excellence

Similar numbers of other companies expect these to be in place in the next three years.

## Other drivers of governance

However, despite its importance in the path towards global benefits governance, corporate centralization in itself was not the most common driver of benefits governance. A desire to align with corporate aims for benefits and the broader business beliefs are seen as the greatest drivers of global benefits governance. A strong desire to reduce risks relating to compliance, errors and DB pensions liabilities were also key drivers for most.

The need to understand and integrate a newly-acquired part of the business has been a strong driver of improved governance for most, particularly among those who have already implemented the five elements of best practice governance.



# Deeper look at variations in corporate centralization

A common talent strategy and Centers of Excellence (CoEs) for business innovation are seen in the majority of companies. A single corporate P&L is reported by two in three participants. Approximately 80% of participants indicated that their firms have a centralized treasury function and a single corporate brand.

Expectations for further centralization in the coming years are heavily focused on HR and Benefits. HR & Benefits CoEs are expected to be created by around 40% of participants, in addition to the 40%-50% who already have these.

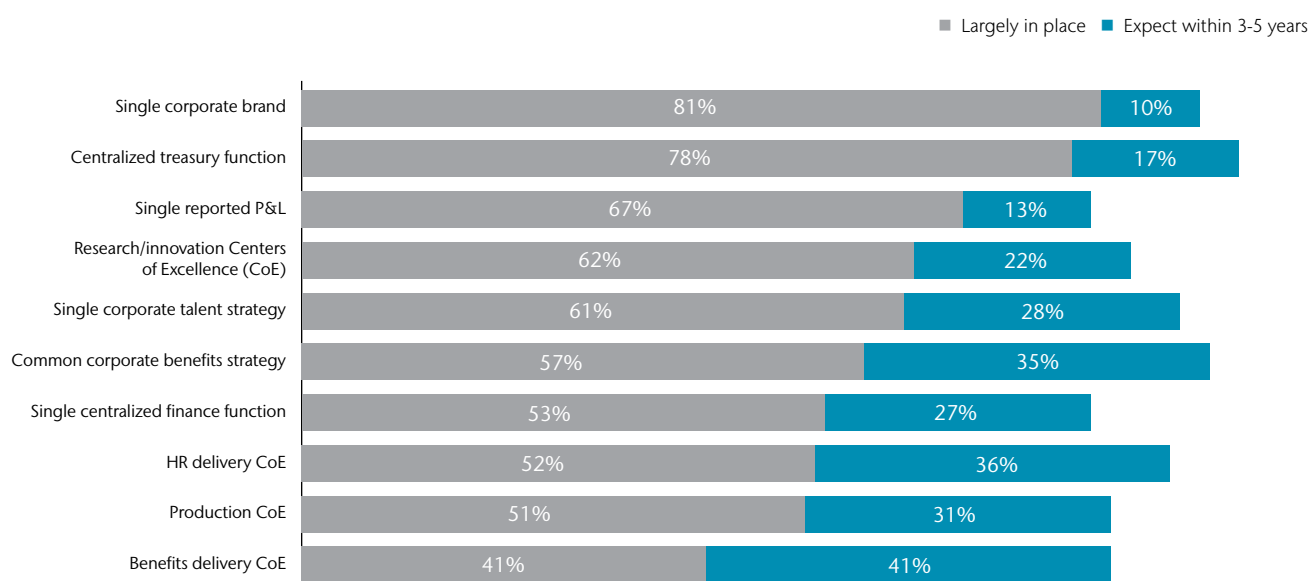
Common corporate talent and benefits strategies are expected to be developed by around 30% of participants, which would mean that over 80% of companies would have these by 2021.

Corporate centralization is well-progressed in the participating companies, with a slightly greater proportion of US headquartered companies (74%) indicating that they are currently centralized compared to those elsewhere. Similarly, slightly fewer of the largest companies are centralized. Being present in more countries is also linked to less centralization.

While the volumes of companies in each industry grouping are relatively small, there are indications that banks, technology firms and life science companies are the most centralized industries. Among those, technology companies have centralized most in the last three years.

Common brand and treasury functions are the most common aspects of operating as a united company, with very few expecting not to have these within three to five years. Strong progress with elements of centralization is now expected in the talent and benefits areas.

## Areas where centralization is in place



# Deeper look at drivers for Best Practice companies

The drivers for implementing global governance are fairly consistent across companies who have established best practice and those who have not done so yet.

A desire to ensure alignment with policies is a key driver for many to make progress in collecting and maintaining suitable data.

Operational risks rank highly as drivers for governance, yet as indicated earlier, operational governance lags behind that of design and financing controls.

## Drivers of global governance



# Best Practice companies experience fewer barriers

So, why have fewer companies made progress than was desired in 2015?

There are some common elements that Best Practice companies face in broadly equal measure to those who have not progressed as far with their governance. These common challenges could be summarized as 'lack of' – lack of resources, technology, money, local expertise, and time.

There are, however, some barriers that are much reduced among those companies that have managed to make progress to best practice governance.

The remaining elements of decentralization of the business or HR function are cited as barriers by around 50% of those who have not yet achieved best practice, three times more than among those who are already applying best practice.

Concerns about demonstrating value, where to start and who to partner with are also much greater among those who have not yet established best practice – three to four times as many companies without best practice see these as barriers than those with best practice.

There is little that can be done to accelerate the centralization of the business, but that is expected by many to happen anyway.

Hopefully this report can help to identify how to reduce some of these other barriers by seeing the value others can demonstrate, and noting where others have started and made progress. Once value is demonstrated, there is also potential to work alongside the right external partner to resolve many of the 'lack of' challenges.

## Common challenges

|                                        | Best Practice | All companies |
|----------------------------------------|---------------|---------------|
| Lack of expertise in smaller countries | 56%           | 69%           |
| Too many high priority projects        | 56%           | 65%           |
| Lack of central resources              | 31%           | 52%           |
| Lack of direct budget                  | 34%           | 50%           |
| Lack of suitable technology            | 44%           | 50%           |

## Barriers materially bigger for those who have not implemented best practice

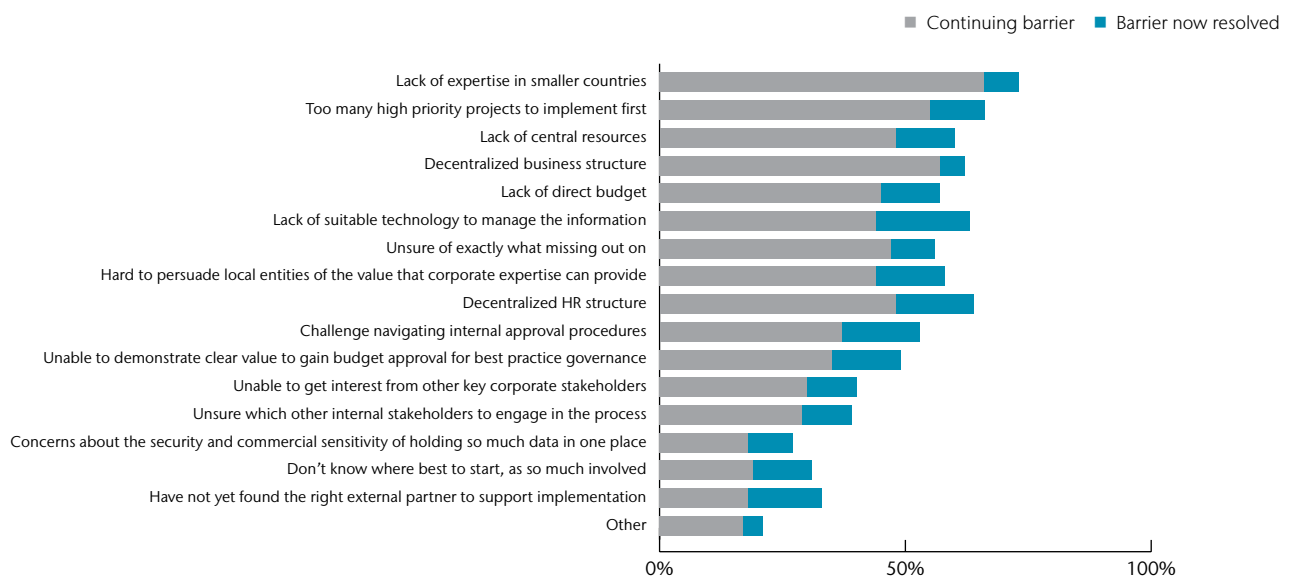
|                                       | Best Practice | All companies |
|---------------------------------------|---------------|---------------|
| Decentralized business structure      | 19%           | 57%           |
| Decentralized HR structure            | 16%           | 46%           |
| Unable to demonstrate clear value     | 15%           | 40%           |
| Don't know where best to start        | 6%            | 24%           |
| Have not found right external partner | 6%            | 21%           |

# Deeper look at barriers to global governance

A number of participants indicated that some previous barriers have more recently been resolved, though these are few in comparison to the extent to which barriers remain.

The barriers that have most been resolved relate to internal connections, and access to technology and external partners.

## Barriers to global governance



Comparison of barriers that remain in place for Best Practice companies and those for other companies naturally indicates fewer barriers for Best Practice companies.

This chart shows a stark difference in the extent to which decentralization and demonstrating value to gain budget are barriers.

## Barriers to global governance: Best Practice vs Non Best Practice companies



# Deeper look at how barriers vary across different types of company

Employers with more than 100,000 employees see fewer barriers to progress with governance. In particular, in relation to knowing where to start and who to partner with.

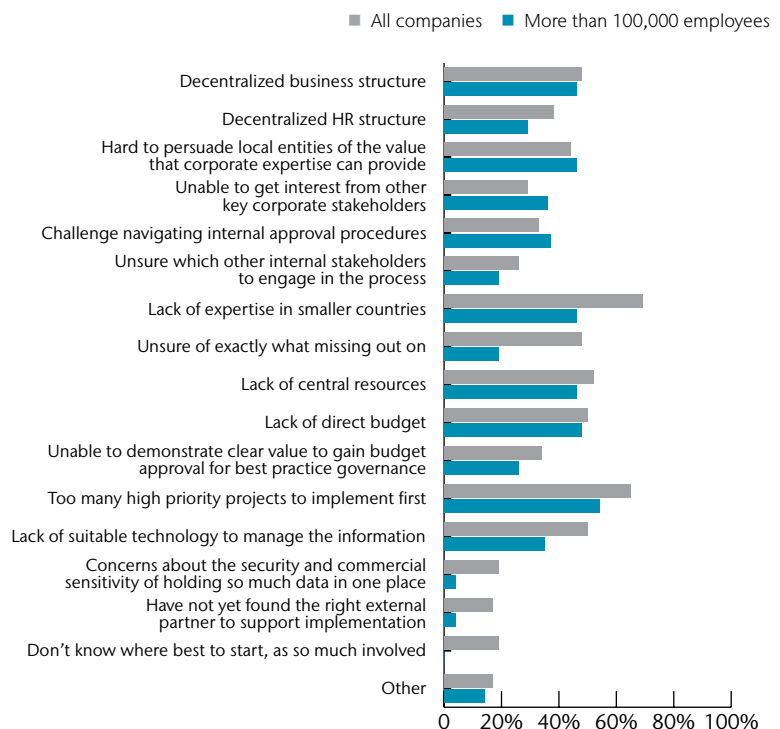
Perhaps unsurprisingly, companies with the greatest proportion of their employees outside the HQ location see the biggest barriers to global governance. Lack of expertise in smaller countries is by far the largest barrier for these widely spread companies – only 9.5% of these spread companies do not see this as a barrier.

Other notable variations by type of company were:

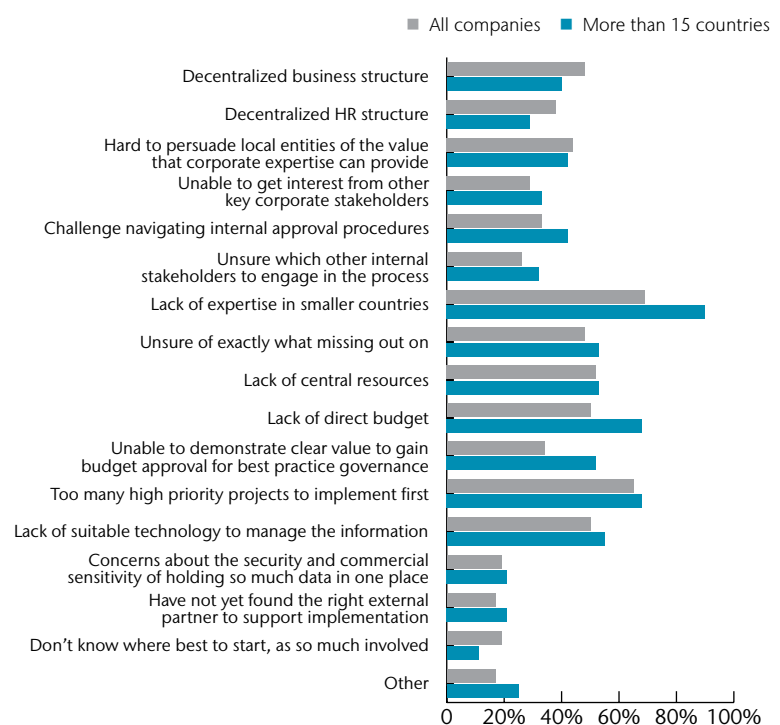
- Companies with German HQs see fewer barriers, but many see barriers in central resources and budget and in persuading local entities of the value of the central team.
- Companies in 15 or fewer countries have less access to a direct budget and less awareness of the value of global governance, but suffer from lack of centralization.
- Technology companies have clearer budgets and greater clarity on value centrally and for local businesses, but typically have more challenges with internal approval procedures.

Centralized companies, as expected, have far fewer barriers in general.

## Barriers to progress with governance



## Barriers to progress with governance



# Internal and external collaboration and support are key enablers

There are some common themes that participants indicated have facilitated good progress with governance.

Again, corporate centralization is key, both across the business generally and within the HR function.

Simply getting started by collecting and analyzing information from all (or key) countries has also enabled progress for around a third of companies, with slightly less prevalence among those who have reached best practice.

Notably a pure personal desire to ‘just get on with it’ is seen as key to progress by around a third of participants; a desire to move ahead despite the challenges and barriers that surround them, and to achieve the value that they are convinced will arise.

The differences between those who have implemented best practice and those who have not is perhaps of more relevance in identifying how others can make progress in future. Internal and external collaboration are materially stronger within Best Practice companies.

Buy-in from senior leadership and strong internal collaborations are noted as key enablers by around two-thirds of Best Practice companies, but only around half of other companies – these are therefore seen as the greatest enablers overall.

Strong support from consultants or brokers is noted by just over half of the Best Practice companies, but only around a third of the other participants.

Interestingly, Best Practice companies have had a tendency to start with setting strategy, while other companies have tended to start by collecting information.

## Common facilitators of progress with governance

|                                            | Best Practice | Not Best Practice |
|--------------------------------------------|---------------|-------------------|
| Increasing centralization of the business  | 53%           | 47%               |
| Corporate transformation of HR function    | 47%           | 51%               |
| Focused first on establishing an inventory | 29%           | 34%               |
| Personal desire to make it happen          | 26%           | 33%               |

## Enablers dominant for Best Practice companies

|                                         | Best Practice | Not Best Practice |
|-----------------------------------------|---------------|-------------------|
| Key expectation of senior leadership    | 68%           | 53%               |
| Strong internal collaboration           | 61%           | 47%               |
| Strong support from global consultant   | 53%           | 32%               |
| Focused first on policies and protocols | 34%           | 16%               |





# Deeper look at enablers

The first chart provides the full details on the differences in enablers for Best Practice companies.

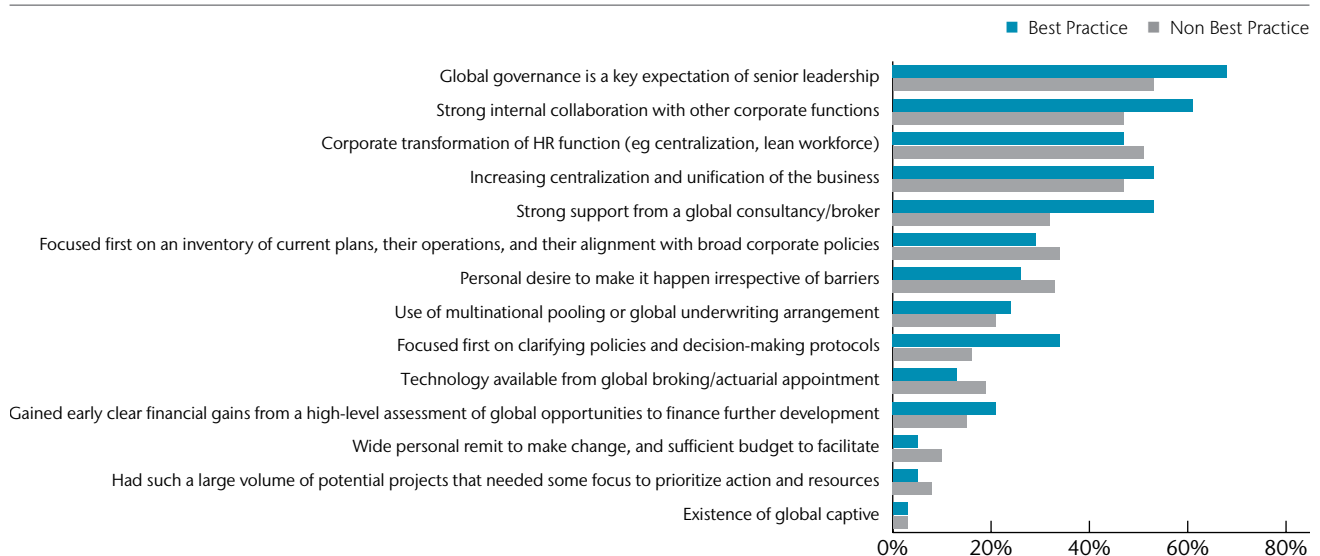
Deeper analysis indicates that the largest companies have not benefited from as much centralization, but have more senior support and more internal collaboration.

The most noticeable difference across groups of companies relates to the proportion of employees outside the headquarter country. Those with more than 80% outside the headquarter country have not benefited from internal collaboration and their progress has been enabled by a combination of technology and pure personal desire.

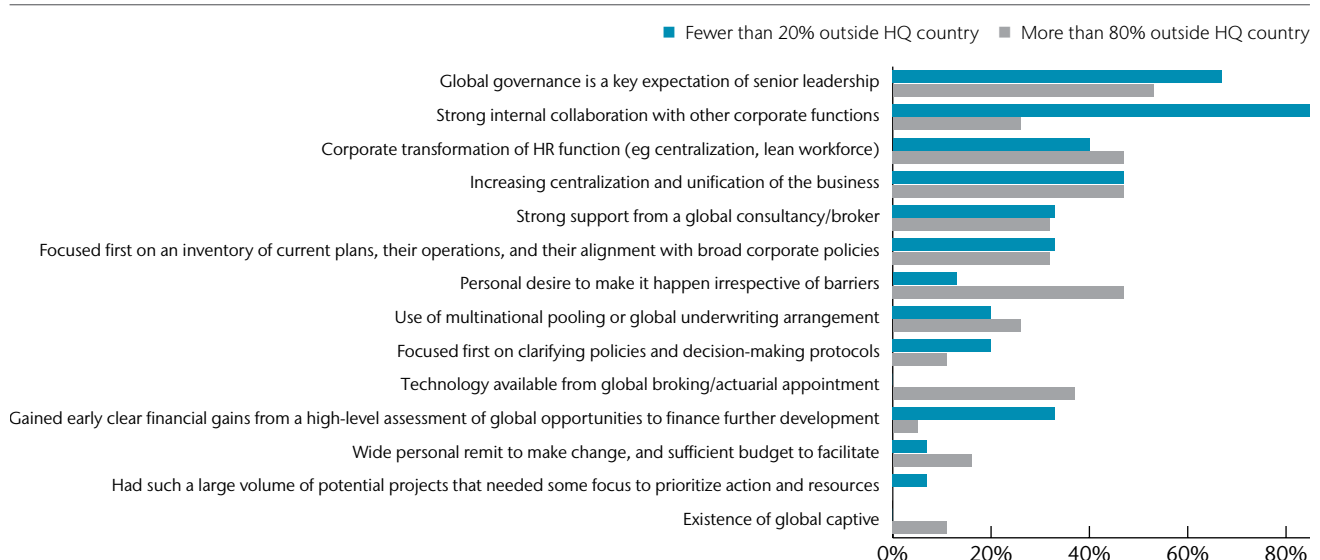
By complete contrast, those with fewer than 20% outside the headquarter country have benefited heavily from internal collaboration, have not used technology and have had to rely very little on their own personal desire. While not shown on the chart, companies between these extremes sit very much in the middle for all of these enablers.

There were few other notable findings by type of country. However, German companies have benefited from strong internal collaboration with other corporate functions and the strong support of senior leadership. This has been despite the barriers indicated earlier in relation to local businesses.

## Enablers of global governance



## Enablers of global governance



# Best Practice companies have identified greater value

Importantly, those participants who have progressed towards best practice have, as in previous studies, indicated that they see strong value in having done so. They have significantly more confidence that they will achieve their aims.

In each Study, we asked companies how confident they are in attaining their goals and achieving business outcomes. Each time, there has been a marked difference between those who have implemented best practice governance and those who had not, with many more indicating greater than 75% confidence of achieving the targeted outcome.

For nearly all of the most common strategic aims, there is a marked difference in the confidence levels of those with and without best practice governance – except for acquisition integration, which is seen as difficult by most.

In this 2018/19 Study we also tried to explore whether the value of good governance could be quantified. This proved harder to determine. Most participants were unable to quantify specific financial gains attributed to good governance. It is not clear whether this is an indication of lack of financial benefit, or perhaps more likely a lack of measurement.

However, 15% of participants indicated that global benefits governance is saving their firm over \$1m p.a. and 6% indicated one-off savings in excess of \$5m.

In total, a little over one-third indicated that they were able to quantify an ongoing financial benefit from the governance that they have in place – noting of course that most wish to make more progress towards best practice. The initial stages of quantification add support to the confidence that good governance has given – but we will also see a big value achieved in executing priority actions.



## Proportion of companies with over 75% confidence of achieving desired outcomes

| Most common desired outcomes                        | Best Practice | Not Best Practice |
|-----------------------------------------------------|---------------|-------------------|
| Alignment of benefit plans with global policies     | 73%           | 42%               |
| Benefits provide a fair level of coverage for all   | 70%           | 34%               |
| Governance in line with corporate expectations      | 69%           | 45%               |
| No benefits barriers for international mobility     | 66%           | 43%               |
| Reduced financial risks posed by DB plans           | 65%           | 42%               |
| Reduced compliance and error risk                   | 64%           | 38%               |
| Reduced reputational risk                           | 61%           | 40%               |
| Minimized data privacy or cyber risk                | 59%           | 32%               |
| Consistency of provision across employee groups     | 58%           | 40%               |
| Reduced barriers to corporate divestiture           | 57%           | 29%               |
| Benefits not a barrier to profitable production     | 55%           | 30%               |
| Alignment of plans with business beliefs and vision | 53%           | 38%               |
| Access to local expertise in all markets            | 53%           | 34%               |
| Successful integration of an acquired business      | 39%           | 37%               |

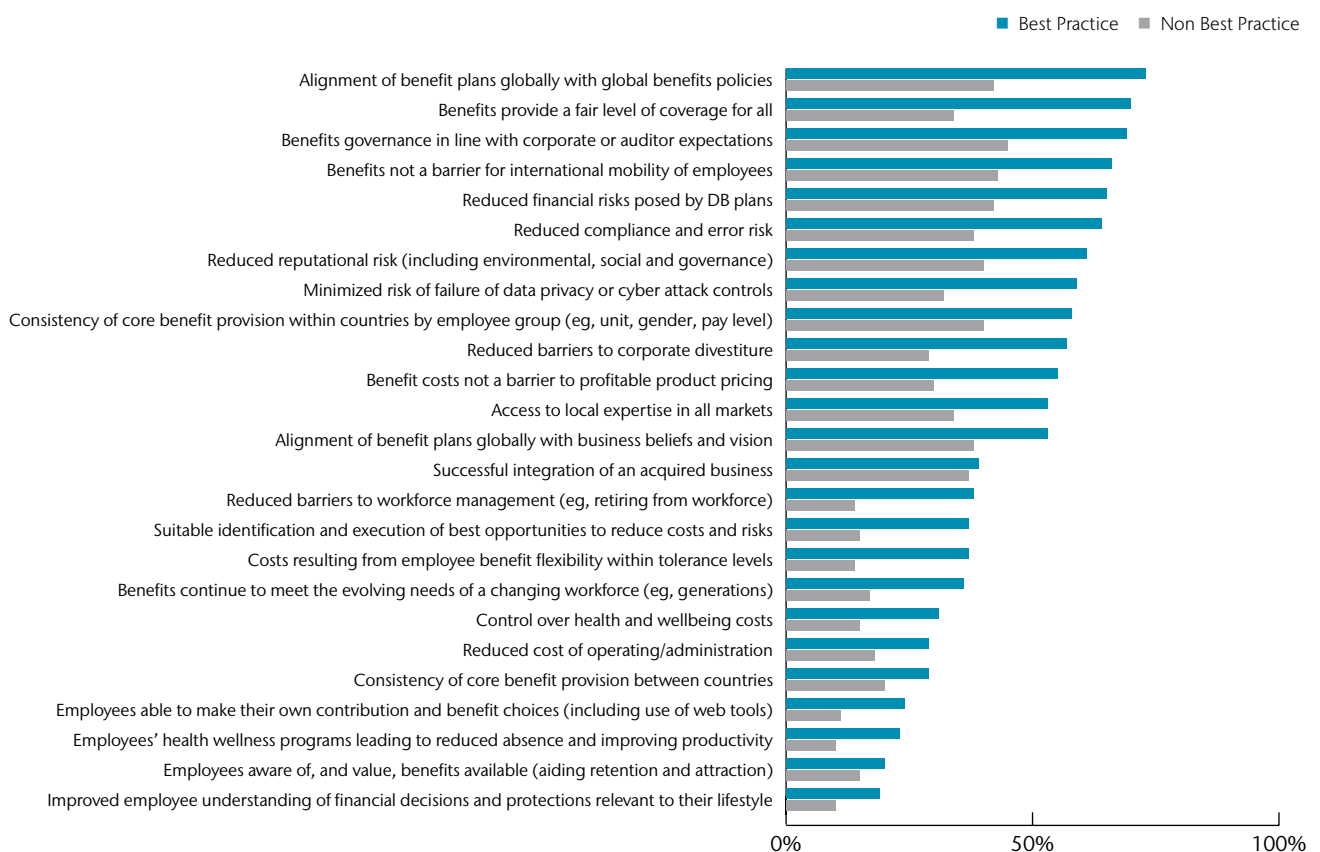
# Deeper look at the full range of aims with 75% confidence of achievement

The confidence of companies who have managed to implement best practice global governance is quite staggering. The additional confidence does not just apply to a few objectives, but extends across pretty much everything that companies indicated they wish to achieve. The chart clearly highlights that Best Practice companies are significantly more likely to indicate confidence.

Looking at different segments of companies shows that the largest companies and those with most employees outside the headquarter country have an even larger difference in confidence associated with best practice global governance.

Best Practice companies with over 100,000 employees are over 10% more likely to be confident than other Best Practice companies. A similar difference arises for Best Practice companies with more than 60% of their employees outside the headquarter country – though there is significant overlap between these two segments.

## Proportion of companies with over 75% confidence of achieving desired outcomes



# Deeper look at attempts to quantify value achieved

Around one-third of participants were able to indicate explicit financial gains arising from global governance. However, when considering that the majority of companies still want to make a lot of progress with global governance, one-third of participants is quite a significant proportion. Active measurement is much more prevalent in companies with more than 100,000 employees, and relatively rare in companies with under 10,000 employees.

The companies identifying the largest savings were, naturally, the larger companies. Nearly all of those saving \$1m per annum, reducing Value at Risk (VaR) by over \$5m or getting one-off savings in excess of \$5m have more than 50,000 employees, with more than 60% outside the headquarter country spread across more than 50 countries. However, some with fewer than 10,000 employees identified savings from global governance of \$2.5m or more.

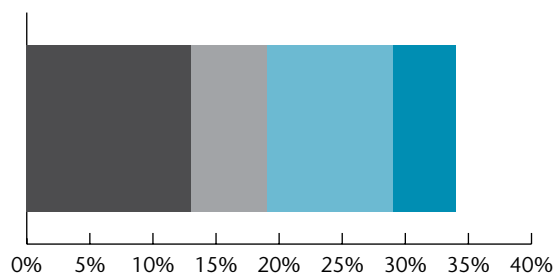
In our experience, companies that carry out best practice global governance quickly identify opportunities in more than one country that save many multiples of the cost of the governance.

## Ways of measuring value

|                                                                    |     |
|--------------------------------------------------------------------|-----|
| Insurance premium reductions                                       | 42% |
| Negotiated reductions from initially quoted premiums               | 37% |
| Reduction in total cost of benefits                                | 36% |
| Multinational pooling dividends received                           | 35% |
| Reduction in third-party costs                                     | 27% |
| P&L pension cost reductions                                        | 25% |
| Pension accounting obligation reductions                           | 24% |
| Reduction in cost of the benefits operations function              | 22% |
| Pension contribution reductions                                    | 17% |
| Reduction in projected costs over the medium term (eg, 5-10 years) | 16% |
| Medium-term Value at Risk (eg, 5-10 years)                         | 6%  |
| One Year Value at Risk                                             | 4%  |

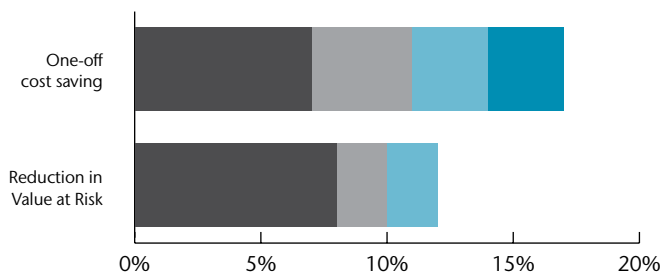
## Annual savings achieved with global governance

■ Gains over \$100k p.a. ■ Gains over \$500k p.a. ■ Gains over \$1m p.a. ■ Gains over \$5m p.a.



## Capital savings achieved with global governance

■ Gained over \$500k ■ Gained over \$2.5m ■ Gained over \$5m ■ Gained over \$25m



# Deeper look at financial gains

We have noted that an increasing number of participants have been able to quantify savings from improved global governance. 15% indicated savings of more than \$1m per annum and 6% indicated one-off savings of \$5m directly from global governance. Others also indicated risk reductions that have arisen and been quantified as a reduced Value at Risk.

Some savings come through operational efficiencies, but the main financial gains from global governance arise from identifying actions that would not otherwise have taken place. As noted, those who have implemented best practice global governance have identified and implemented far more actions globally than other companies. These actions combined will have easily saved well in excess of the above financial savings.

Naturally, the biggest savings of cost and risk tend to arise through changing from DB to DC retirement provision. Many of these changes arose without global governance, but increasingly multinationals are adopting the systematic process of global governance to challenge those countries that have initially resisted a move from DB. Naturally, the size of the savings varies, but typically reaches tens or hundreds of millions of dollars. In one example, a company saved \$300m by re-negotiating collective agreements rather than moving to DC across three mid-sized countries.

Harmonization of benefits and plans within a country is again something that is done more when structured global governance is in place to ensure actions are taken. We have witnessed this arising for various companies – one company with global DB obligations of \$10bn saved \$25m p.a.

A global perspective also drives focus on actions to settle DB liabilities, provide members with options of mutual benefit, and re-focus future DB plan financing – while a global review of accounting assumptions often reveals material gains, as does a review of solvency premiums in various countries.

Removal of risk, rather than necessarily cost, has also helped some companies to maintain a debt rating, saving millions of dollars beyond benefits.

We have witnessed companies who have halved their PBO (multiple \$bn) through settlement following plan freezes, or saved \$50m through providing benefit options across three countries. We have seen a company save \$50m cash over two years by establishing long-term financing strategies across tier 1 and 2 countries. A fresh look at accounting assumptions has often saved 1-2% on PBO and P&L (many millions of dollars).

While DB retirement plans create the headline figures, adjustments to health plans are naturally another source of material savings. Increasing medical costs have driven focus on savings through wellness initiatives, plan design changes and restrictions on access and delivery.

Multinational pooling and other global financing programs have enabled savings of 10%-15% of insured-benefit premiums directly and indirectly.

DC retirement governance does not create the same levels of direct savings, but reduces the risk of compensation for errors and fines (for data breaches, billions of dollars). It also adds value to employees by identifying and reducing excessive investment fees and inefficient investment choices, which is ultimately a more effective use of the company's spend.



# Action completion rates confirm the value of best practice governance

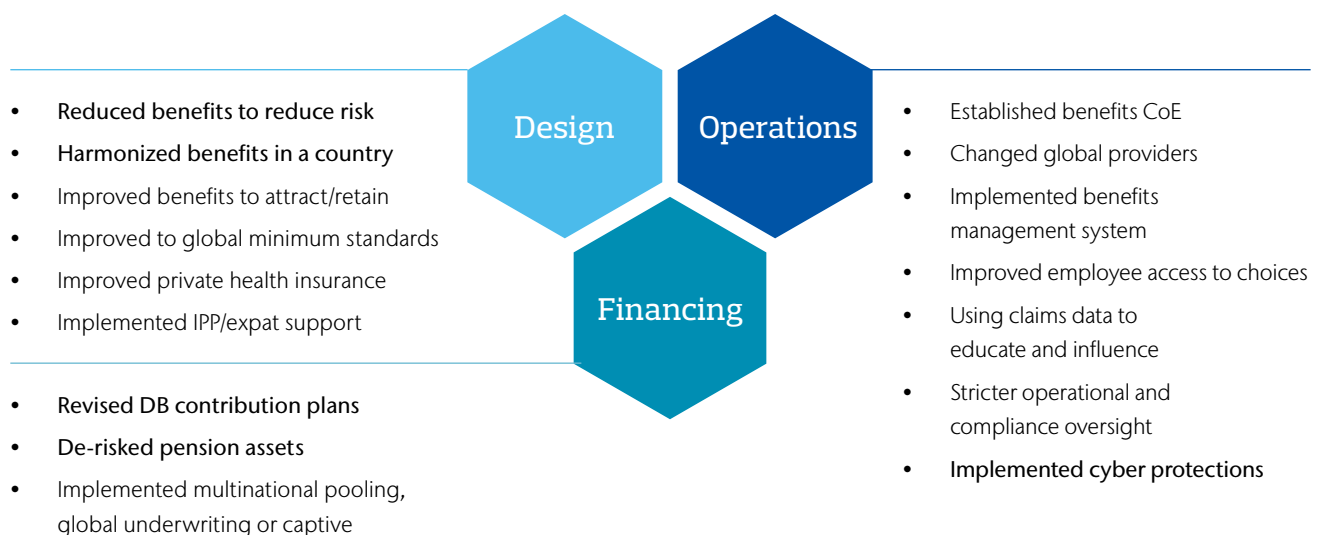
Best Practice companies have been far more successful at completing prioritized actions globally.

The graphic below lists the actions that are either the most desired or where most action has been taken relative to desire. In each case, significantly more Best Practice companies have completed these actions, while the other companies still aim to execute. The same is true of nearly all less-desired actions as well.

More than half of Best Practice companies indicated that they have completed all actions that they need to take relating to: harmonization of benefits within countries; reduction of benefits to reduce risk; de-risking of DB assets; revising DB contribution plans; and data and cyber security.

The priority actions that other companies indicate most progress executing are: improved private health insurance, and data and cyber security. However, while just over one-third of other companies indicate these are completed, this is still a lower proportion than of Best Practice companies who have completed these actions. No other actions are indicated as completed by more than one-third of other companies.

This is perhaps the clearest evidence of the value of implementing best practice global benefits governance. The confidence of success indicated earlier can be evidenced through progress with priority actions.



# Deeper look at actions completed and desired

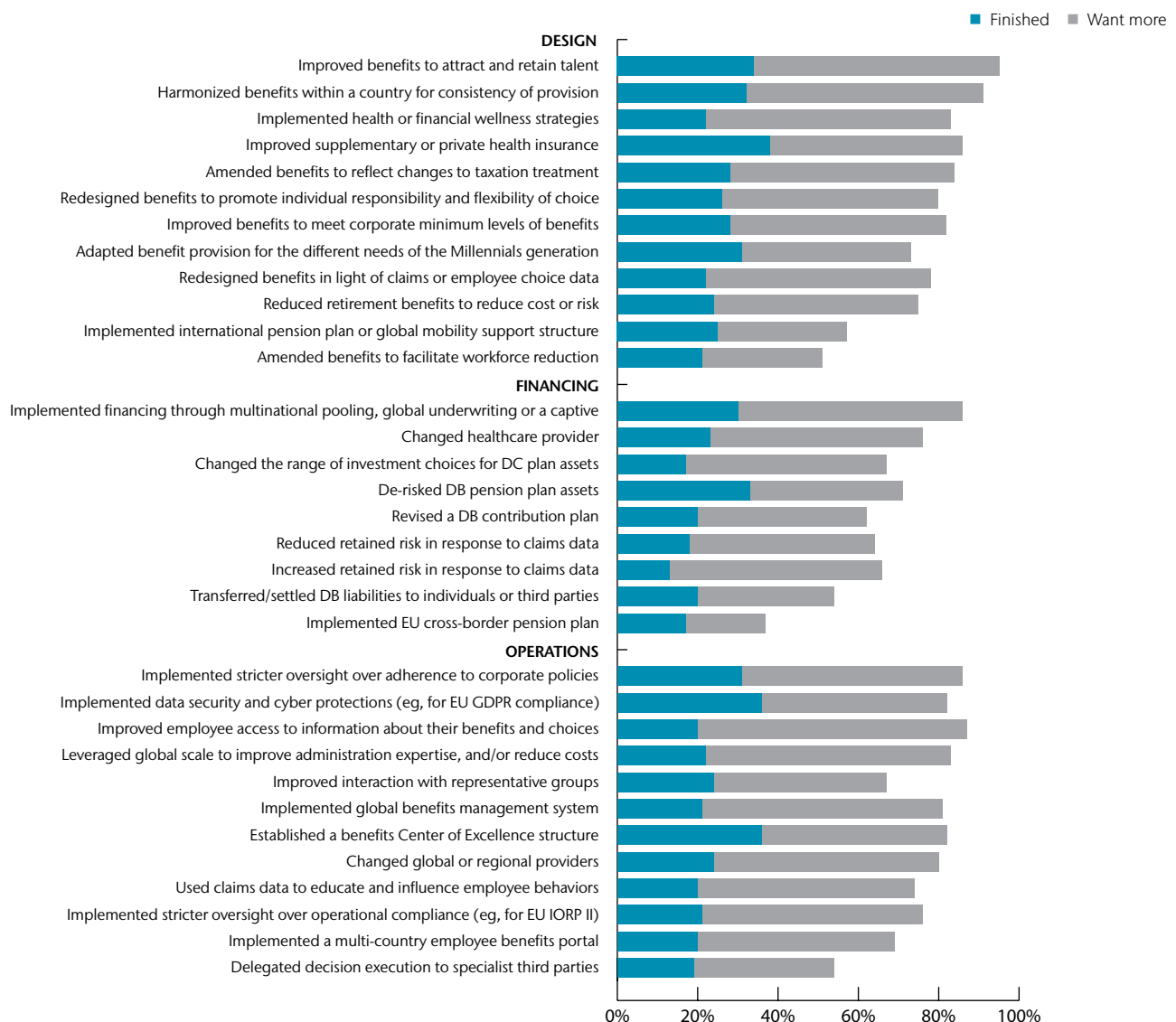
The lack of action by non-Best Practice companies was not a lack of desire, but a lack of ability to execute. The chart shows strong desire for most of the suggested actions, with around 90% of companies wanting to carry out many of the stated actions. However, there are very few actions that are noted as completed globally by more than a quarter of participants.

Companies with more than 100,000 employees are more likely to want to take more actions, and also more likely to have completed the actions.

By contrast, companies with fewer than 20% of their employees outside the HQ country have significantly less desire in general to take the listed actions. These findings are probably natural due to the potential financial significance of actions when large volumes of employees are outside the headquarter country.

The chart also indicates that even the actions with least interest (EU cross-border pension plans, and delegation of execution of decisions) are of importance to a third to a half of participants.

## Governance actions completed



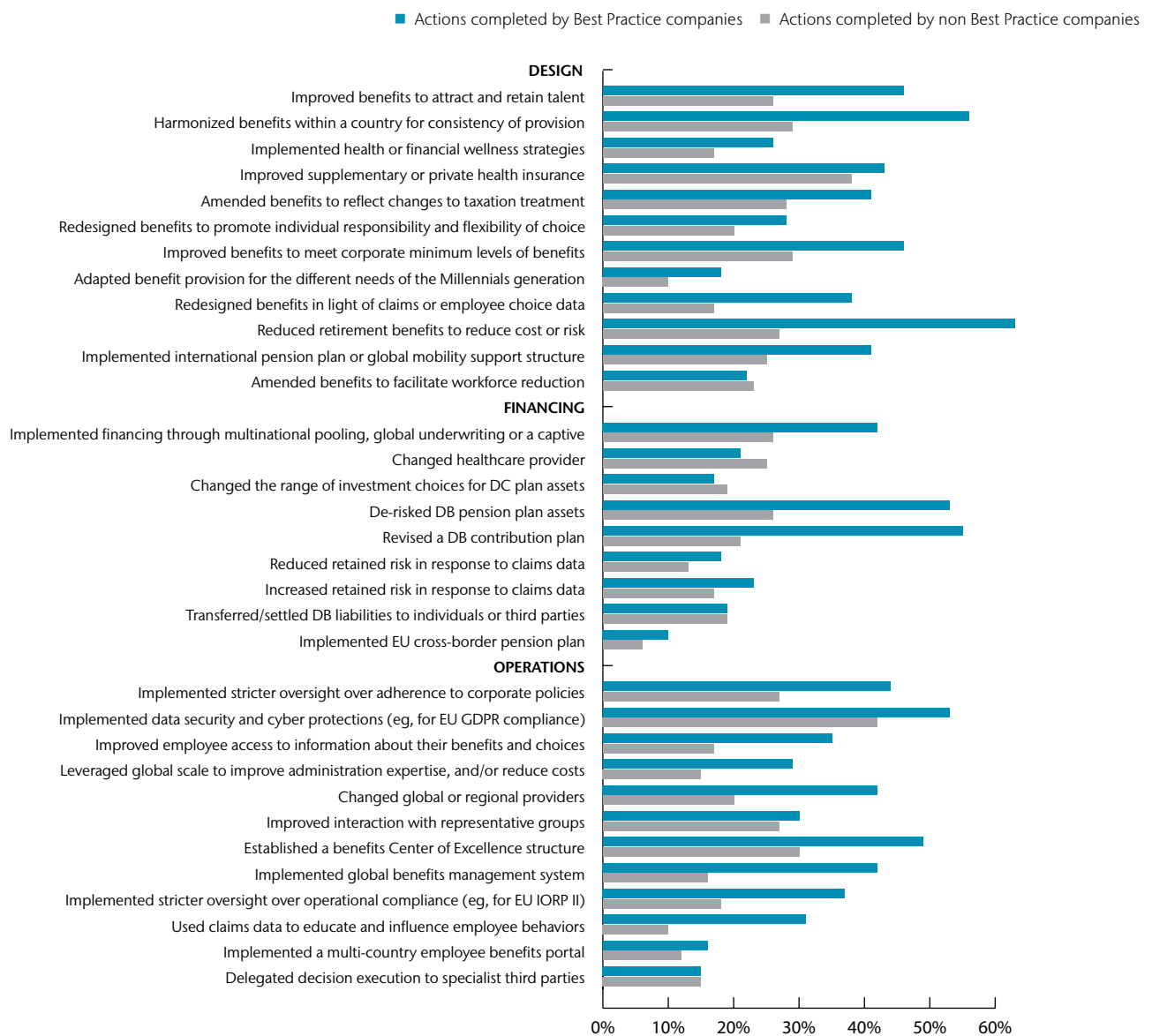
# Deeper look at action completion success by Best Practice companies

The extent of the difference in actions taken by Best Practice companies stands out in this chart.

The chart reveals some types of action where the completion is not too different, eg, adapting for the needs of Millennials, changes to healthcare providers and settlement of DB liabilities.

However, it also shows a great number of action types where the completion rates of Best Practice companies are significantly greater.

Actions are ordered by desire to execute.





# Deeper look at action completion success by company sector

The spread of company sectors represented in the Study makes detailed analysis less insightful in relation to any particular sector. However, there were sufficiently noticeable differences in the actions taken compared to actions desired across those sectors with the most participants.

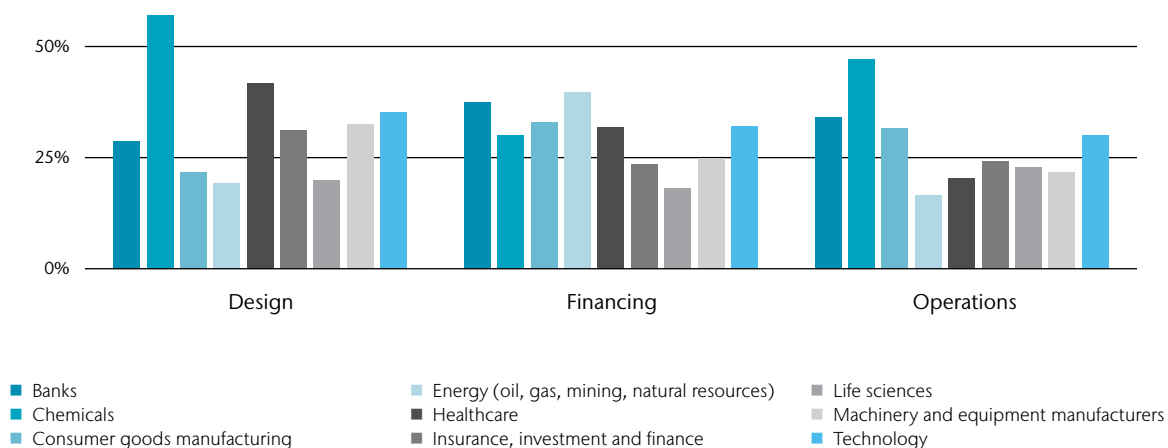
In particular, the chemical sector stands out as having taken almost half of all the actions desired, with that completion proportion greatest for design-related actions.

Oil and gas stand out for lack of action completion in relation to design and operations, but slightly lead the pack in relation to financing actions.

Life sciences companies lag overall on actions relative to those they desire.

Healthcare companies have made stronger progress with design actions than other actions, while consumer goods manufacturers have the reverse experience.

## Proportion of desired actions already completed



# Developing appropriate global strategy and structure

Establishing global strategy and structure was the preferred first step for Best Practice companies.

Many other companies have instead started with collecting data, but they have made less progress. In our experience, it is important to have at least general aims established, including some clarity on who and how to take actions, before determining what data to collect.

A structured and proven approach starts with clarity on which stakeholders, internally and externally, should be involved in determining or confirming the strategic aims and the areas in which data needs to be obtained.

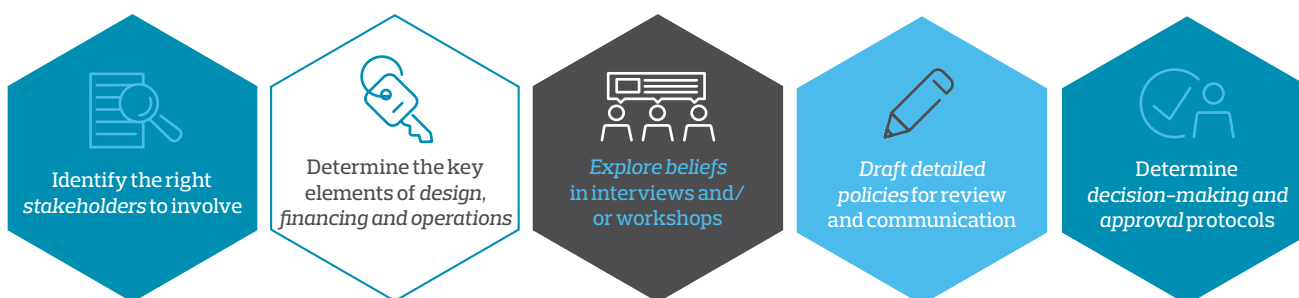
Different companies take different approaches to this connection between stakeholders, typically driven by the geographic distribution of these stakeholders.

A workshop is the most successful approach, but a series of questionnaires and interviews can work well where the logistics of a workshop are too difficult. An output of draft policies can then be developed to detailed policies, or paused for data analysis.

Clarity should also be established from the workshop/discussions around the responsibilities for decisions and approvals.

Around 70% of companies now indicate that they have generally effective policies and protocols. However, most have a desire to now make these policies more effective. The most successful approach to reviewing and adding depth to policies is the same as for when developing initially.

Proven approach to develop and improve policies and protocols:



# Global policies tend to naturally follow areas of concern

The 2018/19 Study showed some evolution in the concerns of multinational companies, with increased emphasis on the value, fairness, and perceived value of the benefits to employees.

Control of costs and risks, naturally, remains a key concern both in relation to health and DB retirement provision.

Approximately 70% of participants indicated concerns about employee awareness of value, and control over health and wellbeing costs. This level of concern was fairly independent of the degree of progress made with global governance. Indeed despite the degree of concern, only a quarter see employee value awareness as a driver for their desire for governance.

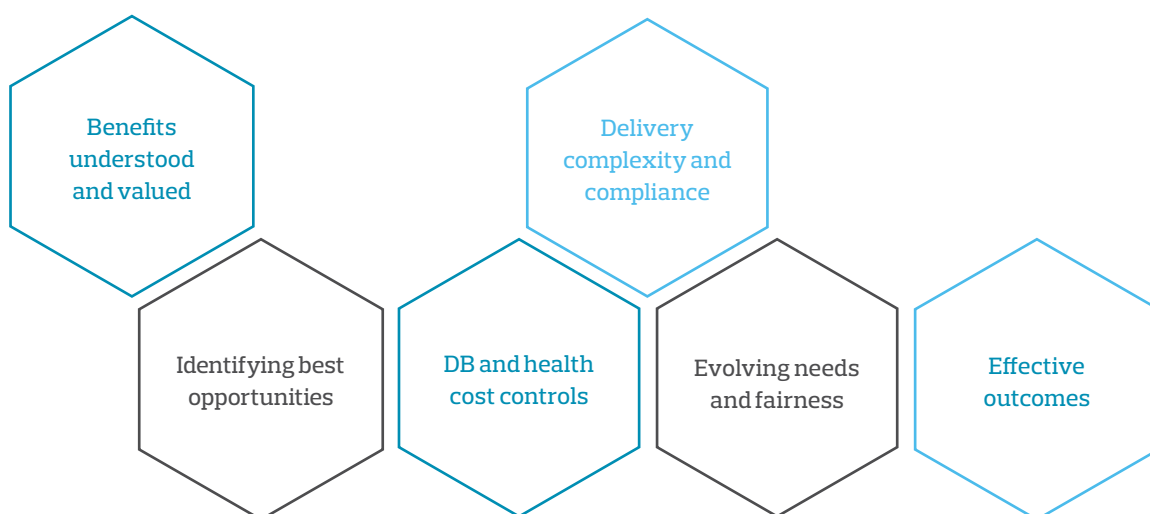
Similar results were found in relation to concerns about benefits meeting the needs of an evolving workforce (older workers, Millennials, etc), with a little over 60% of participants expressing concerns.

However, despite only a quarter seeing this as a driver for improving governance, materially more Best Practice companies (75%) see this as a concern.

Most of the other concerns were highlighted by around 50% of participants. Of these, DB costs and risks and compliance risks were highlighted as the main drivers for putting in place, and improving, global governance. We observe significant increases in concerns about missing out on opportunities to reduce already-frozen DB liabilities, and to maximize DB investment returns relative to risk and fees.

Overall, the range of material concerns expressed covered the areas of design, financing and operations.

## Common concerns



# Deeper look at concerns and drivers for governance

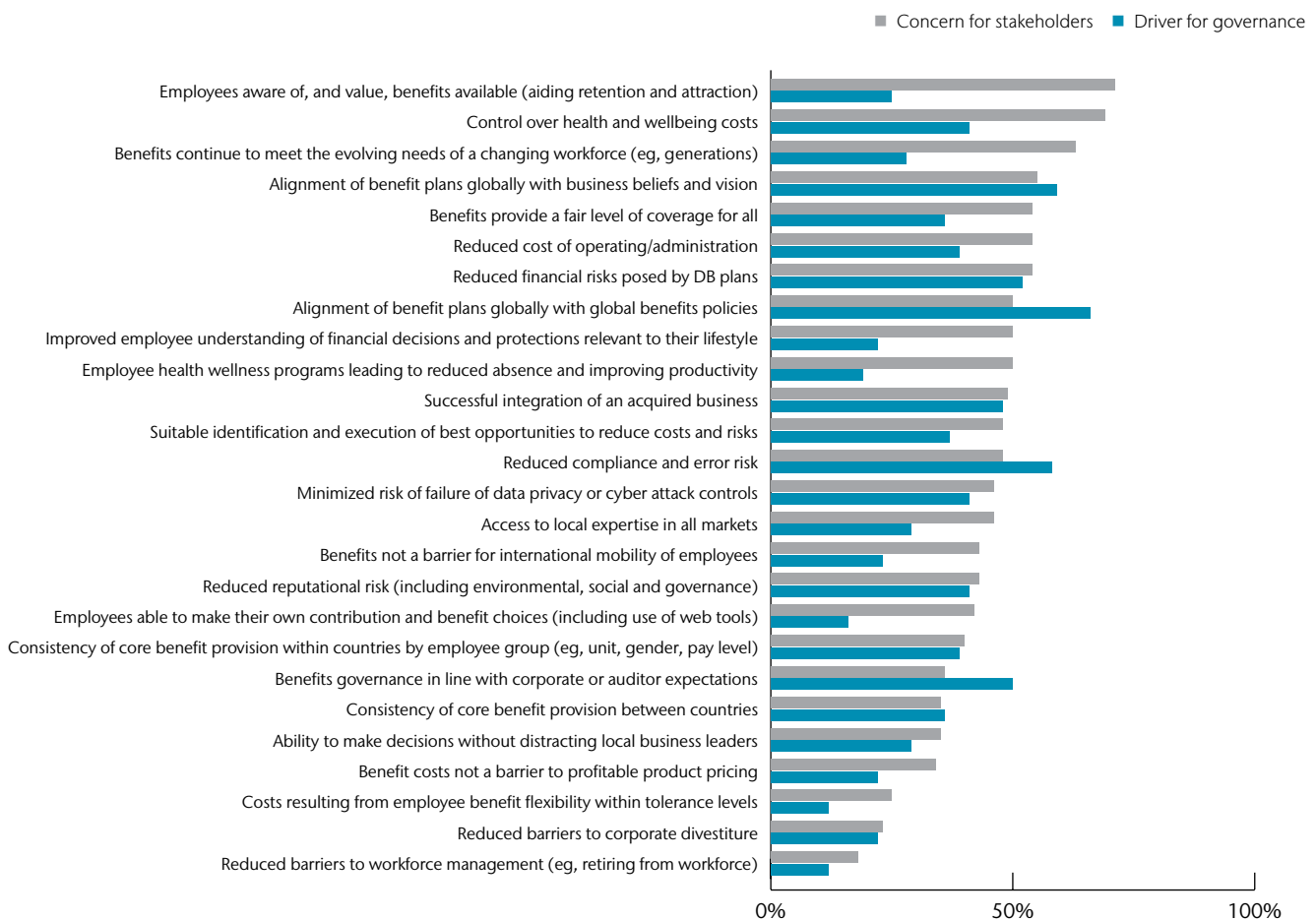
Perhaps surprisingly, the study revealed little correlation between the concerns of companies and the drivers for putting in place, or improving, global governance.

However, this may not necessarily be a contradiction, and may be a confirmation of the confidence coming from governance already in place.

For example, companies headquartered in Germany indicated much less concern about compliance, data and reputational risks. However, these were also particularly strong drivers of governance.

Experience confirms that these are areas of great importance to companies in Germany, suggesting that the lack of concern expressed is as a result of implementation of good governance in these areas.

## Areas of concern / drivers for implementing global governance



# Deeper look at how concerns and drivers vary across companies

Perhaps surprisingly, companies with fewest employees outside the headquarter location indicated the greatest number of concerns, while those with the most outside the home country indicated the least concerns. While both of these groups have low levels of governance progress, it may be that those with fewest beyond their borders are a little further behind in the thinking and planning about global governance, creating a fear of the unknown?

The main concerns for those with the smallest proportions outside the HQ country are compliance, consistency, reputation and employee choice – the desire for governance among these companies is very strongly driven by reputational risk and data security.

Governance among the largest companies (>100,000 employees) is more driven by acquisitions and divestitures, opportunity identification and reducing risks of all types. They also indicated greater concerns about employee understanding and choice – but divestitures stood out as the greatest concern.

The smallest companies (<10,000 employees) indicated that they are more driven by consistency and employee mobility, and also concerned about lack of local expertise, avoiding local distractions, alignment and compliance. Concern about lack of local expertise is greatest where companies are present in 16-50 countries, and also in the technology sector.

The technology sector expressed greater concerns relating to the evolving workforce and the impact of health on productivity – but they are also driven by a desire to improve employee awareness and valuing of benefits. Unsurprisingly, fewer technology companies have concerns about DB pension risks.

Nearly all German-headquartered companies see DB pension risks as a key driver for global governance – compared to half of all companies.

Those companies that have implemented best practice governance are more driven by desire to reduce compliance and data risks than those that have not yet progressed to being effective in all five elements. Their concerns are now more focused on enabling employee international mobility, evolving needs of employees, employee understanding and ensuring that the cost of benefits does not affect business competitiveness or profitability.



# Common global policies

The 2018/19 Study explored the types of policies that companies have typically put in place, and also those that companies wish to put in place.

There was, naturally, a lot of consistency between the types of policies, and the concerns that we have just highlighted relating to value, fairness and financial costs and risks.

However, by far the most popular policy covers competitive benefits. Around half of participants currently have such policies, and nearly all others aim to develop them.

Policies covering multi-country pooling also stand out, with around 40% of participants having such policies and a further 20% planning to do so. Observations from experience indicate that this not only relates to insurance pooling, but also asset pooling for retirement plans, and increasing focus on consolidating retirement plans in master trusts.

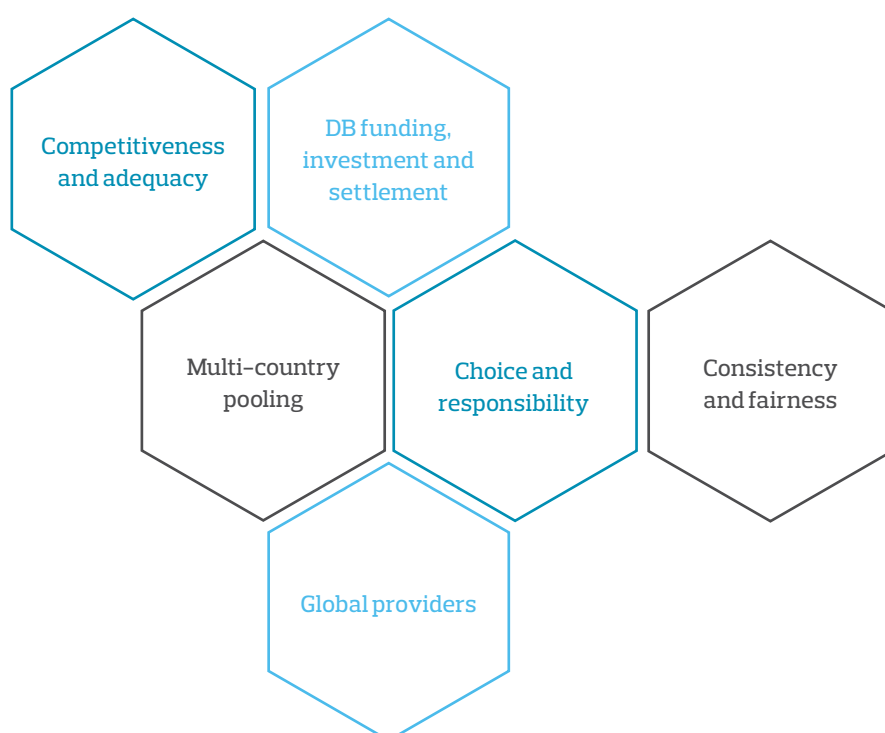
Most other policy types are currently relatively rare, with more desire to develop than current existence. Policies relating to

benefit adequacy and consistency, and employee choice and responsibility, are wanted by around 50%, but only around 25% have these in place at present.

Outside these design areas, various types of policies relating to the management of DB costs and risks are the most popular with around 20% having and 20% more wanting policies covering: medium-term funding; investment risk-return balance, and settling liabilities with a third party.

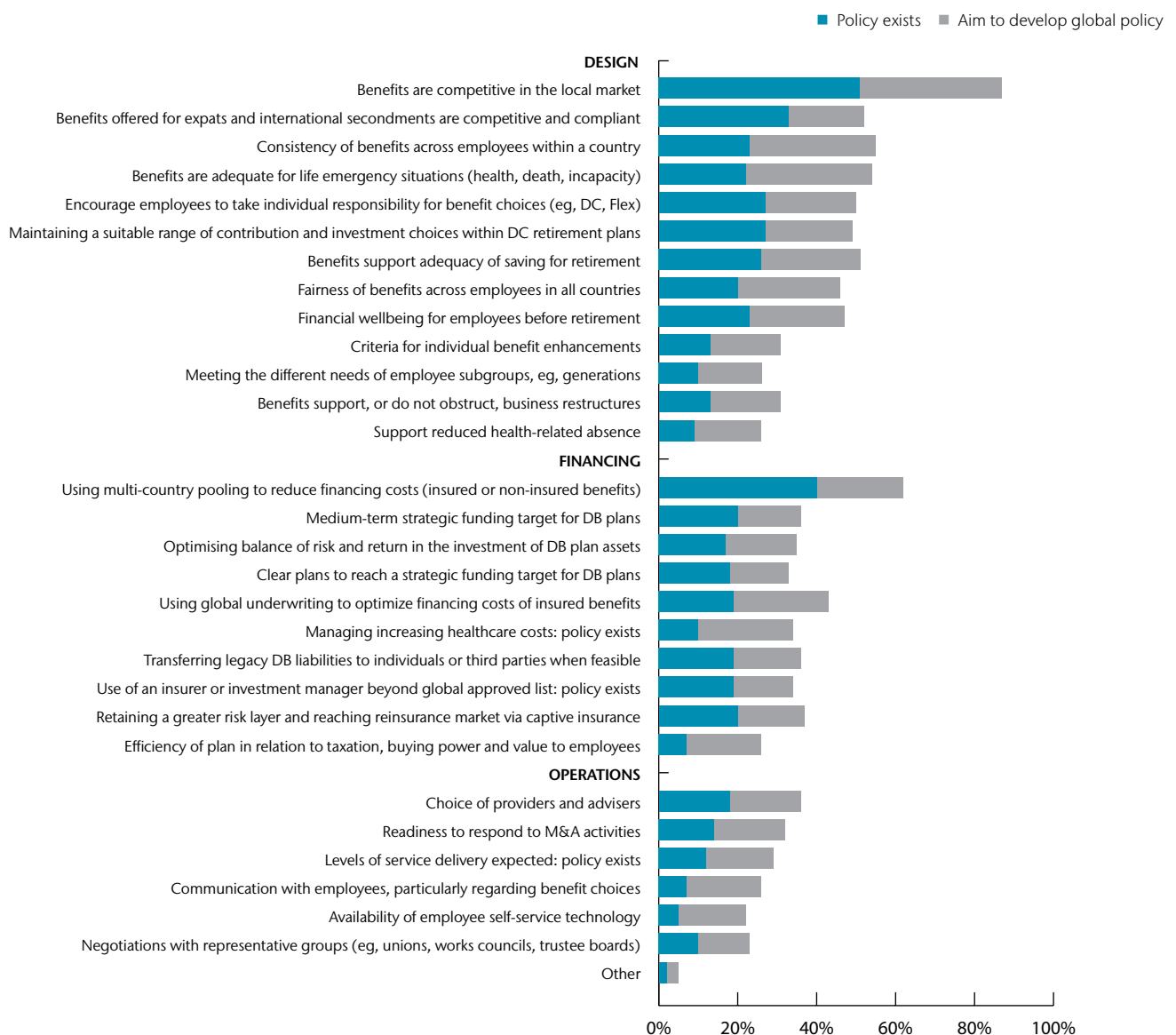
A similar picture is seen in relation to managing healthcare costs, insurance and reinsurance, the use of captives, and global underwriting – but with more desired growth in these areas.

In the operational space, global policies on choice of providers are similarly popular to the above financing policies. Readiness for M&A is an area for much more future policy focus.



# Deeper look at policies in existence and desired

There is a high correlation between policies that exist and those that are desired by other companies. The exception to this is largely in the operations area where current policies are much less frequent and demand is growing at a faster rate.



# Deeper look at the policies more prevalent in Best Practice companies

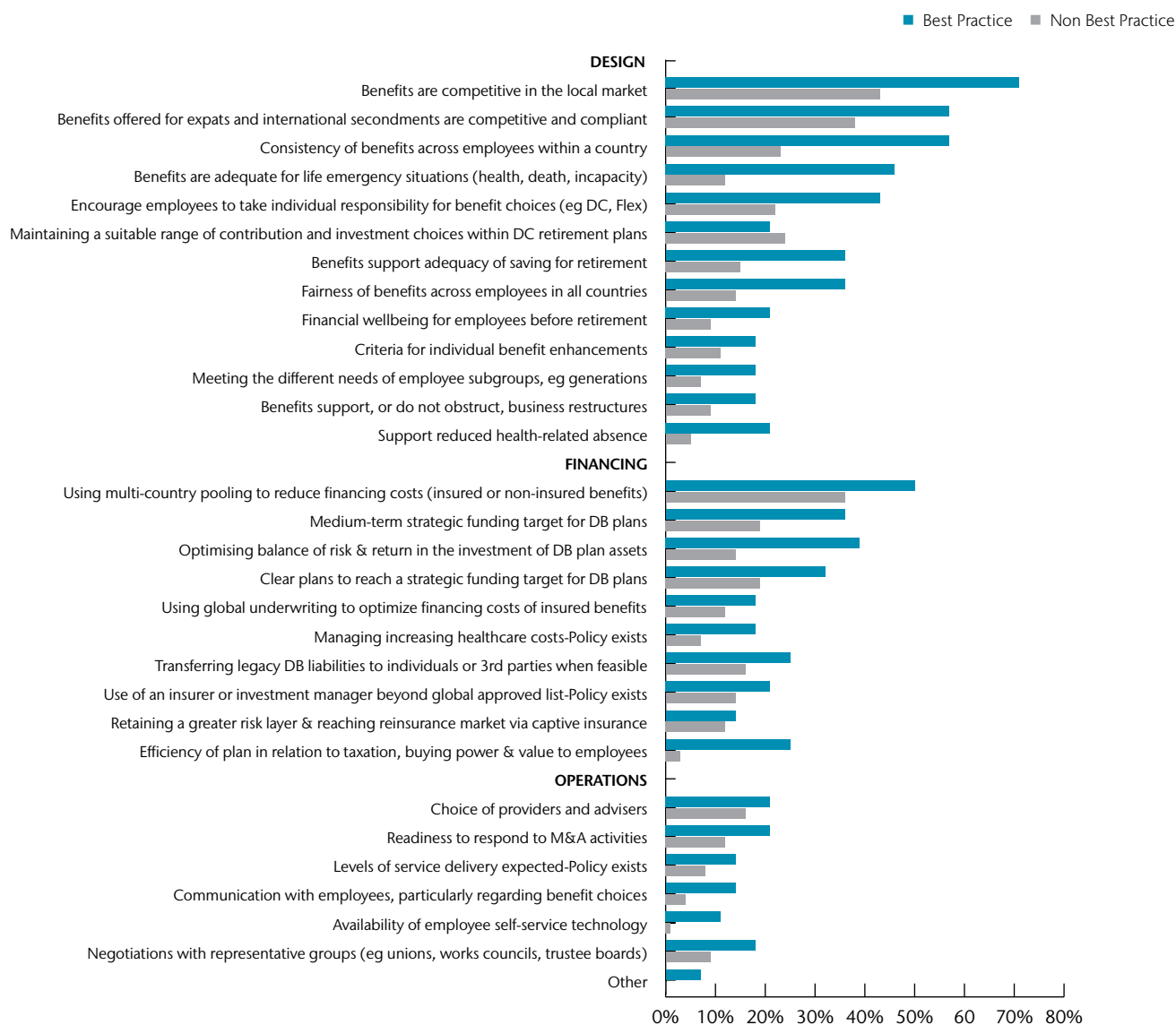
Best Practice companies have naturally got more policies in place than other companies.

The exception is in relation to maintaining a suitable range of choices for members of DC retirement plans. This is in the top five most common policies for companies that have not developed best practice.

The areas in which policies are much more prevalent amongst Best Practice companies than other companies are:

- Adequacy of life emergency benefits
- Optimizing DB investment risk and return
- Efficiency in relation to tax and value

Policies relating to the availability of self-service technology also stand out as a material difference, mostly because very few non-Best Practice companies have these policies.





# Deeper look at connection with broader corporate risks and aims

Every couple of years Aon carries out a Global Risk Management Survey looking at the risks considered to be most important to companies. This is primarily completed by Global Risk Managers.

It is noticeable each time, that benefits and retirement plans feature very low in the list of priority risks. This may be a reality, or it may reflect the lack of involvement of Global Risk Managers in the governance of benefits and retirement plans.

However, it is also noticeable that benefits and retirement plans can have a strong impact on some of the risks that are considered to be most important, and also be materially affected by some of the other risks considered to be most important to companies.

The table shows the top 10 risks identified in the 2017 survey as projected for 2020, together with the change in ranking from that in 2017.

## 2020 projected top ten

|    |                                           | Change from 2017 |
|----|-------------------------------------------|------------------|
| 1  | Economic slowdown / slow recovery         | ↑ (1)            |
| 2  | Increasing competition                    | ↑ (1)            |
| 3  | Failure to innovate / meet customer needs | ↑ (3)            |
| 4  | Regulatory / legislative changes          | = No change      |
| 5  | Cyber crime / hacking / viruses           | = No change      |
| 6  | Damage to reputation / brand              | ↓ (5)            |
| 7  | Failure to attract or retain top talent   | = No change      |
| 8  | Political risk / uncertainties            | ↑ (1)            |
| 9  | Commodity price risk                      | ★ New in top ten |
| 10 | Disruptive technologies / innovation      | ★ New in top ten |

It will of course be noticeable that economic slowdown; regulatory changes, cyber crime; and political uncertainties all materially affect retirement and benefits plans.

Additionally, retirement and benefits plans may be critical in attracting and retaining top talent; and can damage reputation/brand through errors, data losses, discrimination, poor levels of coverage, or lack of socially responsible investment. The cost of retirement and benefit provisions can also create competitive disadvantage.

A failure to innovate in benefit design, financing and operations can also create weaknesses in retirement and benefits plans that can ultimately affect the business in the areas mentioned above.

The next Global Risk Management Survey is due to be published in April 2019. It will be interesting to see whether any benefits-related risks receive any greater direct or indirect attention.

# Deeper look at defined benefit retirement policies

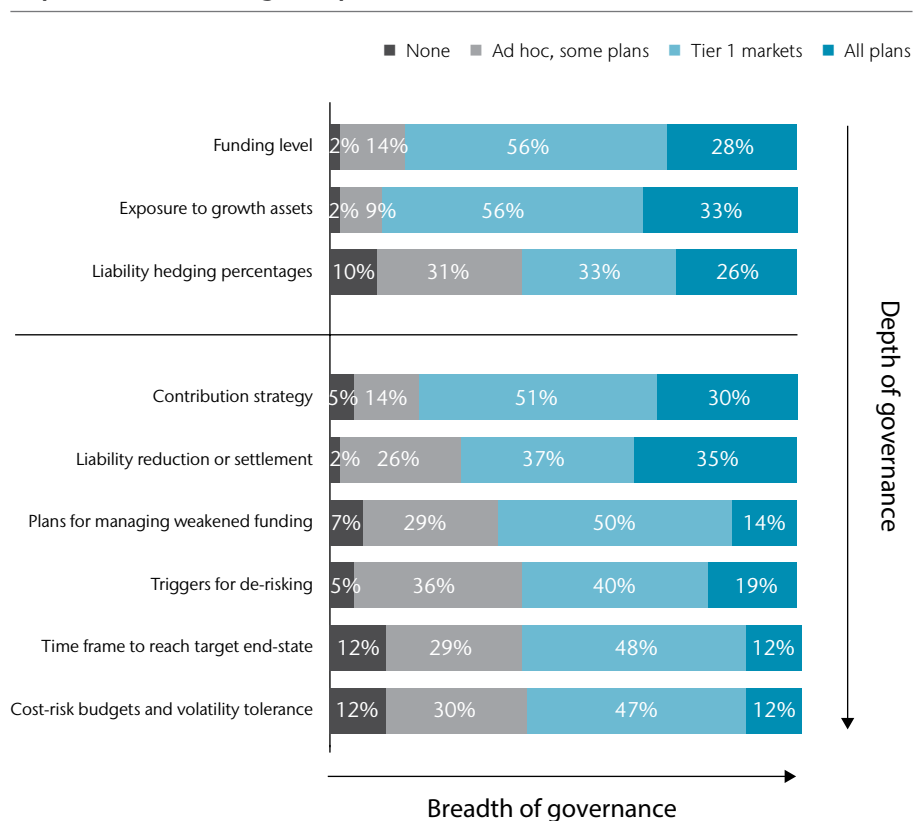
The Aon Global Pension Risk Survey 2017 looked a little deeper at global policies adopted for defined benefit retirement plans. This survey indicated that global policies are getting broader and deeper.

The top part of this chart shows that over a quarter of companies have defined an end-state for DB plan funding that specifies for the end-state; funding level; exposure to growth assets; and the degree of hedging of liabilities through the investment strategy. Most other companies have at least done so for their tier 1 countries, except in relation to hedging.

The bottom part of the chart indicates that the details of how to reach that end-state are less well specified at global level. However, there is again strong specification of these deeper elements of strategy for tier 1 countries. All aspects of moving towards the desired end-state were specified by over half of the companies in global policies that at least cover tier 1 countries.

The 2019 version of this survey opened in March 2019.

Depth and breadth of global policies



# Developing a structure to ensure decisions are aligned to policies

As noted, defining responsibilities for decisions and approvals is critical for successful execution of global policies.

These responsibilities can be specified in various ways to ensure clarity. The chart shown provides an illustration of the different functional teams and geographic roles that are likely to be involved in the decision-making process. This simple example places focus on those who have primary responsibilities by policy, while also briefly highlighting the role that others play. In many cases a RACI<sup>1</sup> chart is developed to indicate who has responsibility and accountability, and who should be consulted or

informed as part of the decision-making process for a particular policy.

As part of this 2018/19 Governance Study, participants were asked to indicate whether their global responsibilities, by policy, were to:

- **Decide** actions
- **Approve** proposals made by local teams
- Be **consulted** by local teams ahead of a decision
- Be **informed** of decisions to be made, and outcomes

Perhaps naturally, the responses followed those for the existence of policies. The areas where policies are most common are those in which participants indicate that they either decide actions or approve proposals.

Similarly, Best Practice companies have more of this proactive involvement in local decision-making than companies with less well developed governance.

|            | Policy metrics              | Corporate HR                                                                | Corporate finance                                     | Regional                       | Local HR                            | Local finance                                    | Fiduciaries                       |
|------------|-----------------------------|-----------------------------------------------------------------------------|-------------------------------------------------------|--------------------------------|-------------------------------------|--------------------------------------------------|-----------------------------------|
| Design     | DB to DC migration          | Approve design changes and new plan implementation                          |                                                       | Review design changes          | Review design changes               | Finance plans                                    | N/A                               |
|            | Market competitiveness      | Set guidance                                                                | Approve above market costs                            | Review                         | Conduct benchmarking                |                                                  | N/A                               |
|            | Cost flexibility            | Approve changes to employee contributions and changes to benefit provisions |                                                       | Review                         | Propose changes to EE contributions | Monitor costs                                    | N/A                               |
| Financing  | Asset and liability pooling |                                                                             | Review pooling opportunities                          |                                |                                     | Negotiate with trustees                          | Implement solutions               |
|            | Funding                     |                                                                             | Approve additional funding and allocate cash          |                                |                                     | Fund benefits                                    | Determine funding requirements    |
|            | Investment strategy         |                                                                             | Set global principles                                 |                                |                                     | Monitor investments                              | Invest per corporate guidance     |
|            | Risk optimization           |                                                                             | Provide guidance on target end-state and budgets      | Provide information on options |                                     | Monitor risk management strategy                 | Execute de-risking strategy       |
|            | Risk settlement             |                                                                             | Provide guidance based on capital and risk allocation |                                |                                     | Monitor market opportunities and propose actions | Implement risk settlement actions |
| Operations | Vendor management           | Select global providers                                                     |                                                       |                                | Negotiate services with vendors     |                                                  | Ensure compliance                 |
|            | Regulatory risk management  |                                                                             | Review cost/risk implications                         | Select regional providers      | Monitor impact of changes           | Evaluate financial impact of changes             | Comply with regulations           |
|            | Fiduciary management        | Define accountability and provide guidance on fiduciary solutions           |                                                       |                                | Monitor performance                 |                                                  | Discharge fiduciary duties        |

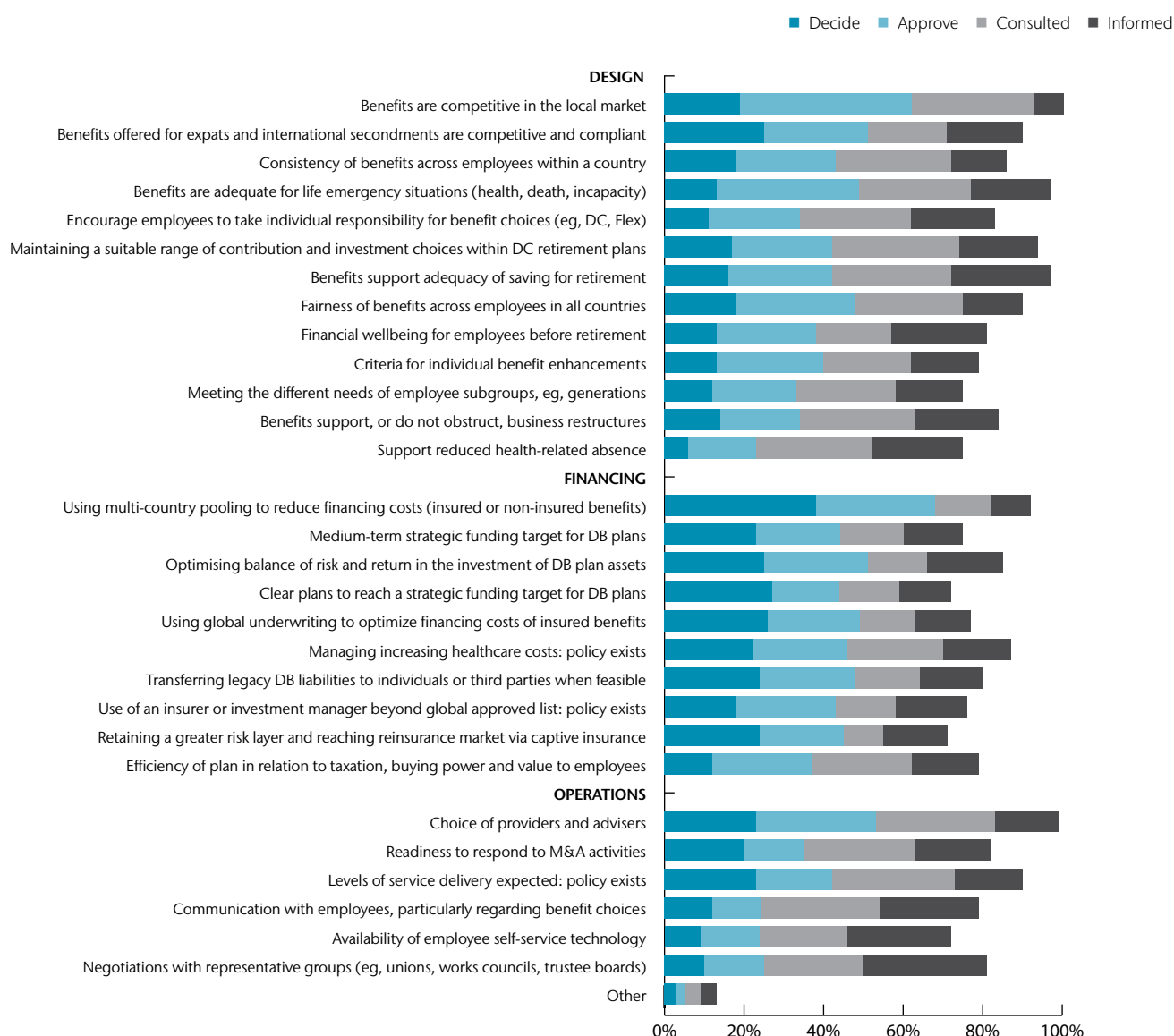
■ Primary responsibility

# Deeper look at role of global leaders in decision processes

Financing decisions are most likely to require a decision to be made at corporate level – most prominently (and naturally) multi-country pooling.

Corporate approvals are most common when making benefits decisions, particularly in confirming changes to align with the local market and life emergency benefits.

Operations decisions are generally left to local decision-makers, with corporate teams commonly being informed, or actively consulted, before a decision is made. The exception is the choice of providers and advisers, where the corporate team generally expects to at least approve, and often decide.



# Deeper look at greater global involvement in Best Practice companies

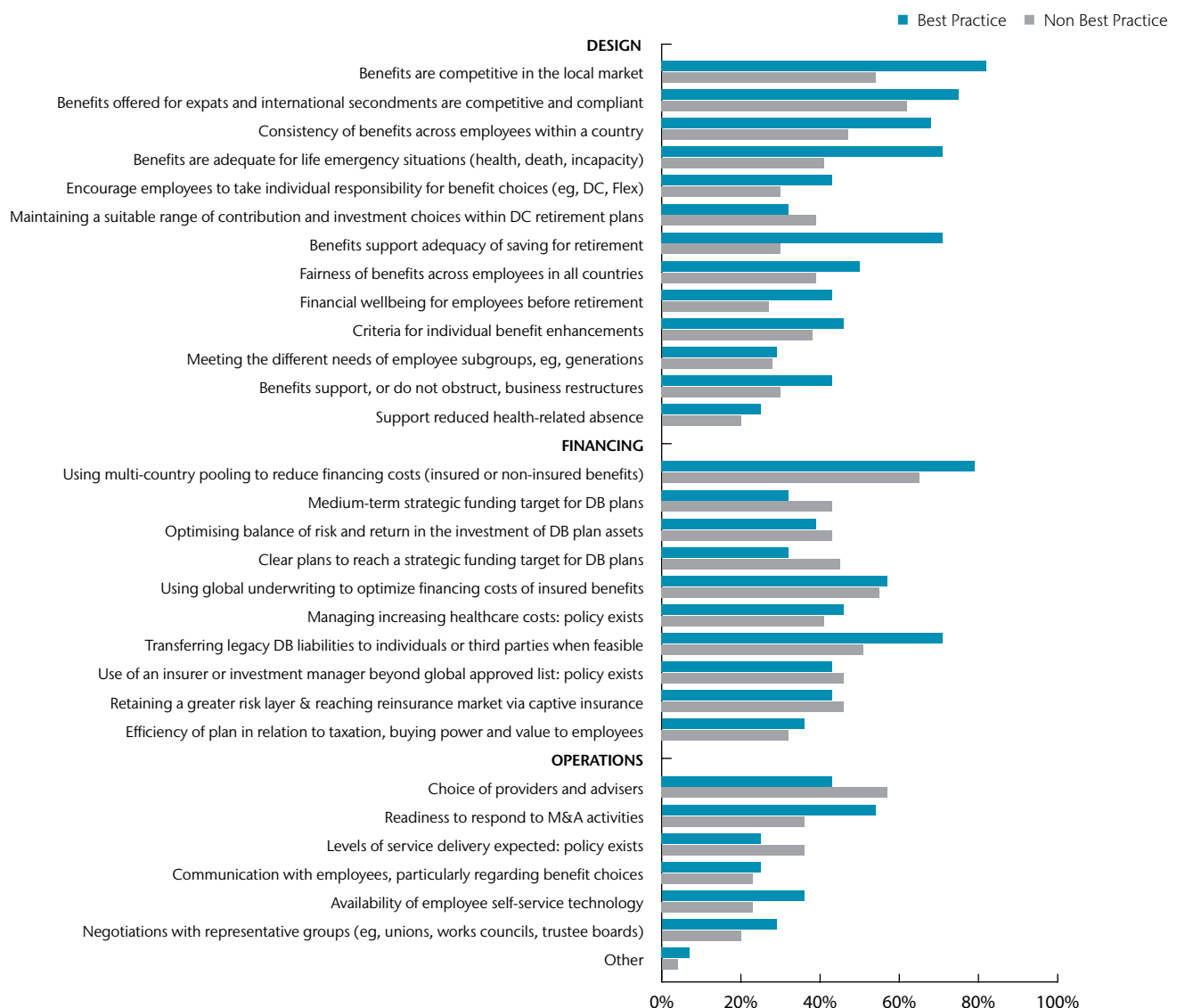
This chart combines corporate involvement in deciding or approving decisions, essentially where there is corporate control of the decision rather than just involvement.

In many areas there is very little difference between the degree of control expected in Best Practice companies and other companies. There are even a few areas in which there are slightly more non-Best Practice companies deciding or approving than Best Practice companies.

Best Practice companies generally have more control of design decisions; outside of design, they exert most control over decisions relating to:

- Multi-country pooling
- Transfer of DB liabilities to third parties
- Readiness for M&A activities

## Areas with global decisions or approvals



# Deeper look at involvement in DB decisions

The Aon Global Pension Risk Survey 2017 looked a little deeper at global involvement in decisions for defined benefit retirement plans and found increasing breadth and depth of global involvement in decisions.

The chart indicates that global leaders are involved in 85% of the key decisions affecting DB retirement plans. The involvement is greatest in decisions relating to the design and financing of the DB plans, but has increased significantly in key decisions relating to the operation of the plans.

The triangle on the chart below highlights the increasing lack of global involvement from design, to financing, and to operations decisions.

## Global involvement in DB pension decisions



# Measuring local alignment with global policies and prioritizing actions

Collecting data about local plans was a common first step among all companies. However, as noted earlier, actions from data collection are more successful if at least high-level policies have been developed before determining what data will help identify and prioritize actions.

Around 55% of companies indicated that data access is generally effective, but this is mainly for larger countries.

To make a start, 80% of Best Practice companies have prioritized data collection for tier 1 countries and expats, rather than attempting to collect data for all countries at once. This also enables learning from the initial process and refinement before completion of the full global data collection.

55% of companies use an external benefits management system to facilitate collection and analysis of data.

In our experience, another area in which companies often struggle to make progress from data to actions is in understanding the local market practices and opportunities. In many cases, a variation from high-level global policies will simply reflect market practices, leaving no opportunities to address the difference. However, in many other cases, this is often suggested as a reason by local management who are either unaware of opportunities or prefer to avoid change. It is therefore important, as participants highlighted as enablers, to partner with a firm with suitable local expertise and to identify these opportunities and help prioritize relative to those in other countries.

## Structured approach to prioritization of local actions:



# Visual display of misalignments and prioritized opportunities

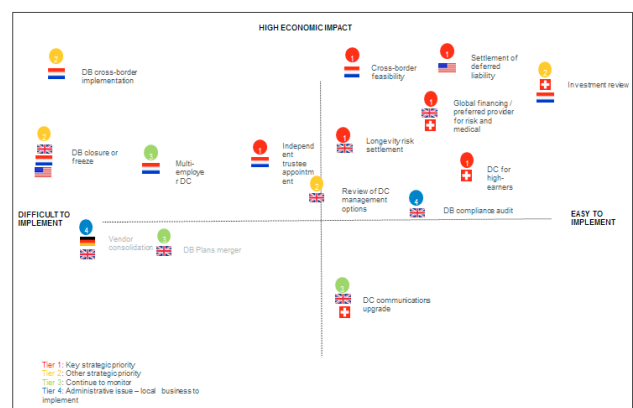
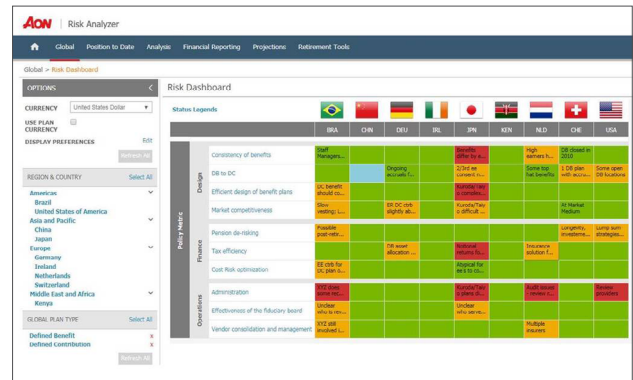
The challenges of knowledge management do not stop with the quality of local expertise. The volume of information often proves overwhelming, leaving even well-organized teams uncertain how to proceed.

In our experience, companies that have made most progress in identifying and executing valuable actions have been able to clearly present the findings from data analysis in a very visual manner. A simple RAG (Red, Amber, Green) dashboard typically provides the clearest picture of where in the world to focus attention and on what issues.

Combining insights from data and local expertise in a dashboard does not provide the full picture, though.

Some opportunities are more material than others, partly a result of the scale of benefits in a country and partly the degree to which change is possible. But companies then typically wrestle with the balance between low-hanging-fruit (easy implementation) and the most material gains.

A neat way to guide the discussion and decisions on such prioritization is to map the impact and implementation ease on a simple chart.



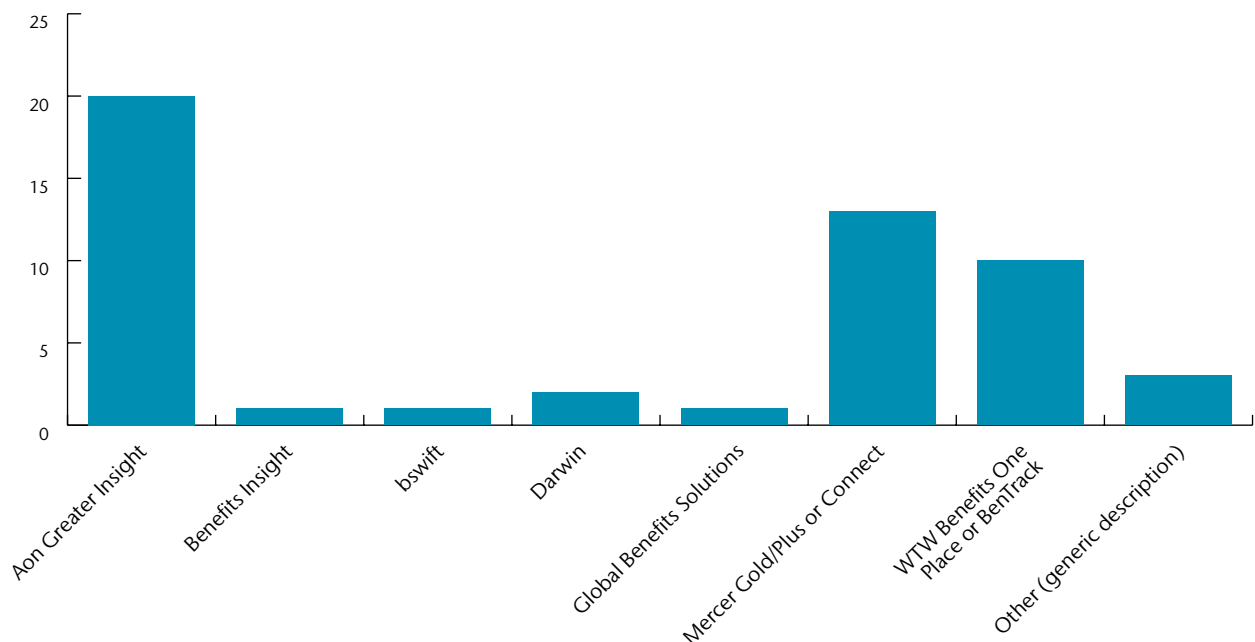


# Deeper look at global benefits management systems used

Around half of the participants that completed this question indicated that they use an external global benefits management system.

Perhaps unsurprisingly, the systems used by the big three consultancies dominate the systems named.

Proportion of respondents using external global benefits management systems



## What is Greater Insight?



## An Integrated Technology Platform



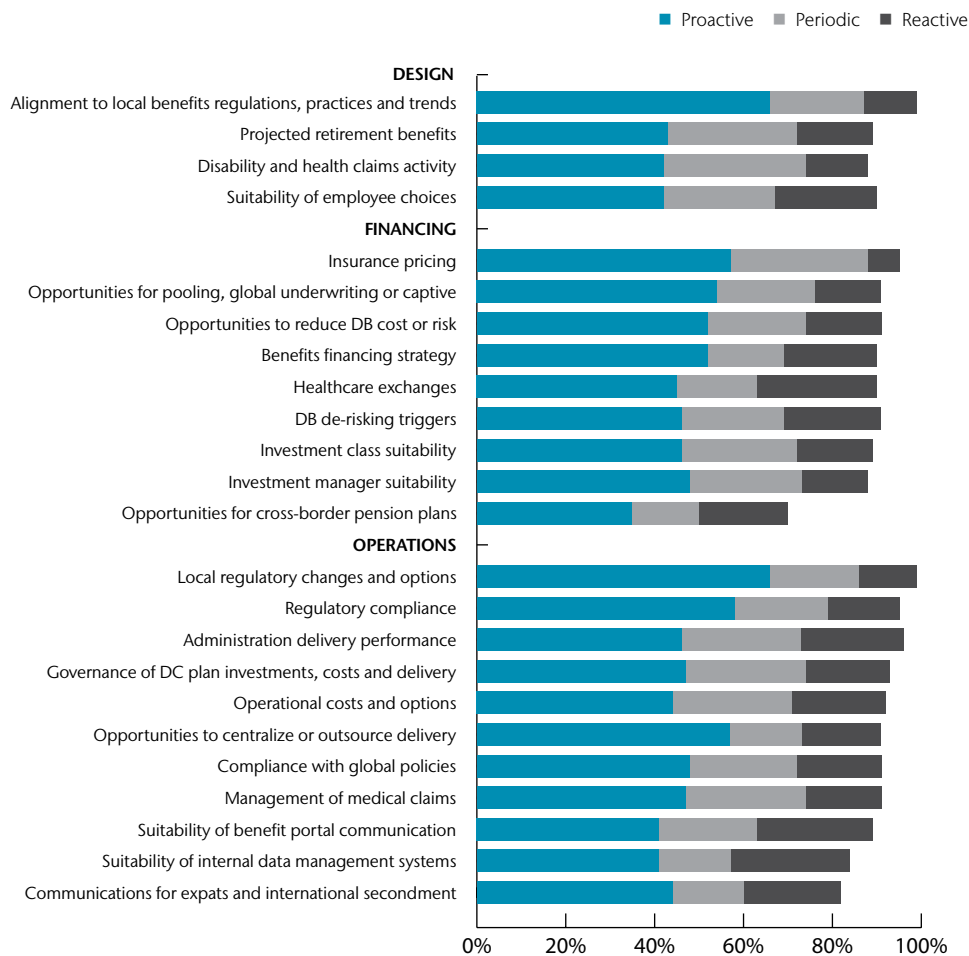
# Deeper look at expectations of external adviser support

The Study explored the way in which multinational companies would like to work with external advisers.

There was a strong preference for proactivity from advisers. This was pretty consistent across all activities, but most prevalent in relation to awareness of local market changes and continued local alignment.

However, significant minorities of companies prefer periodic or reactive advice instead of proactivity.

## Expectations of external advisers



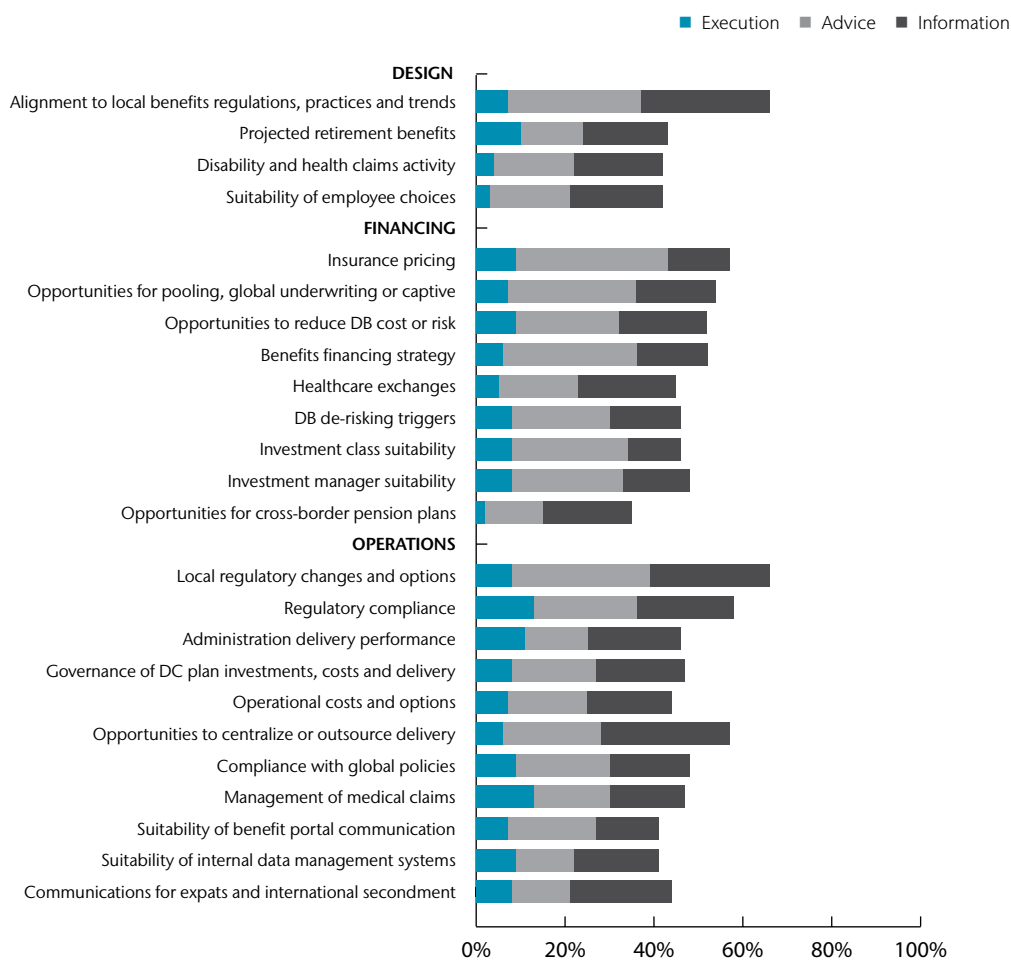
# Deeper look at the proactivity expected from advisers

Proactivity can mean a number of things. The study explored whether proactivity is desired in relation to information flow, advice on actions, or direct execution of actions required by the external adviser.

In general, expectation of adviser proactivity relates to information supply and advice on actions to be taken. Less than 10% of companies are looking for their adviser to carry out the actions when changes arise.

The types of decisions that multinational companies expect advisers to proactively execute are broad. This is a little surprising, as experience indicates that such proactive execution is most common in relation to retirement investment decisions, and very unusual in relation to many of the actions indicated.

## Expectations of external adviser proactivity



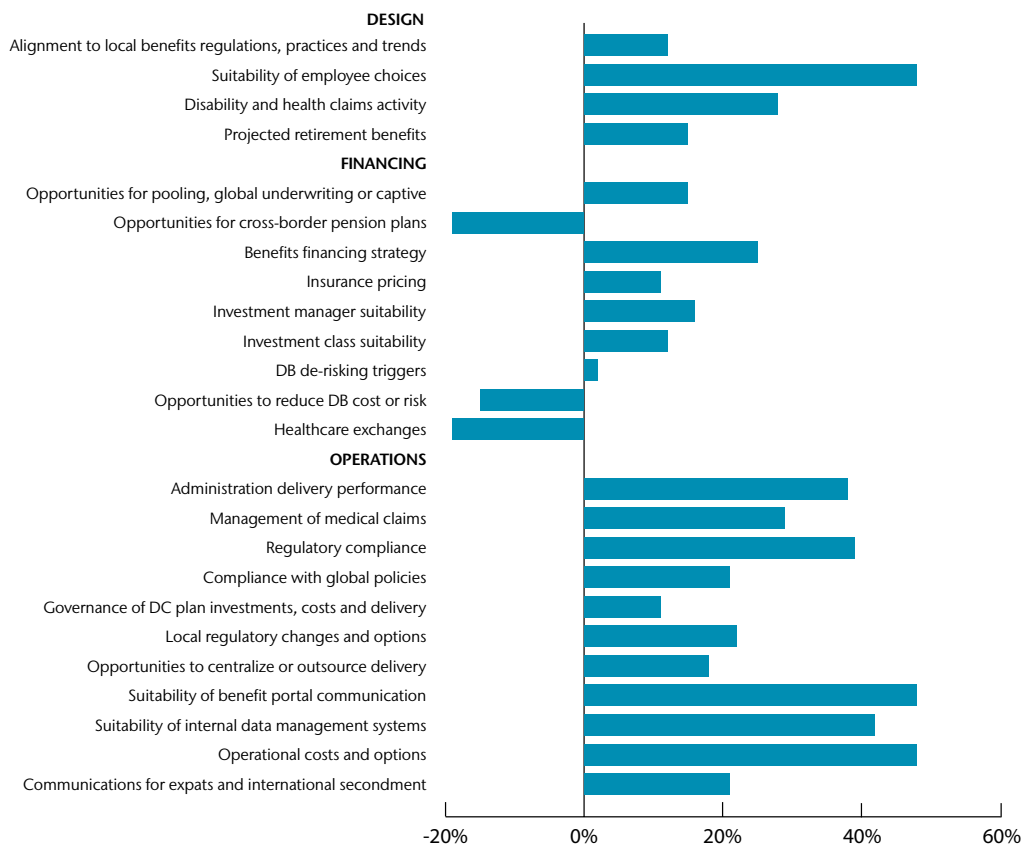
# Deeper look at proactivity expectations of Best Practice companies

Far more Best Practice companies desire proactivity than other companies. The exceptions are in identifying opportunities for cross-border pension plans; opportunities for reducing DC cost and risk; and healthcare exchanges, where companies without best practice governance are looking for most proactivity.

The chart shows the difference between the proactivity and reactivity needs of Best Practice and other companies. Proactivity is counted as a positive and reactivity a negative, with periodic advice being neutral.

For example, in making decisions about the suitability of employee choices, Best Practice companies are 27% more likely to want proactive advice and other companies are 21% more likely to want reactive active. This results in a metric of 48%. The scale therefore indicates extreme opposite approaches by Best Practice and other companies, in relation to desire for proactivity.

## Best Practice proactive v. Not Best Practice reactive



# Deeper look at DB risk management opportunities

The Aon Global Pension Risk Survey 2017 looked a little deeper at opportunities for managing the risks associated with defined benefit retirement plans. The survey identified six common themes across most of the eight countries analyzed.

Design of retirement plans has of course shifted heavily towards DC, with closure of DB plans common for new entrants, at least. In many countries, non-guaranteed benefits have been removed from DB plans and exchanges have been offered to members to remove elements of design that create greatest risk to the sponsoring company.

Financing trends are strongly towards transferring the liabilities elsewhere, whether to an insurer or to the members themselves. While liabilities remain, there is a strong focus on reducing funding level volatility through diversification of assets and hedging interest rates.

In relation to the operation of DB plans, there are trends towards delegation of execution of strategy and monitoring of progress, particularly in relation to the funding of the plans.

Some common areas of action and exploration across the eight countries involved in the survey are shown on the next page.

Global trend

|            |                     |                                                                                                                       |
|------------|---------------------|-----------------------------------------------------------------------------------------------------------------------|
| Design     | Fix future          | Closure of DB for new entrants<br>To a slightly lesser extent freezing DB for current employees                       |
|            | Alter accrued       | Removal of non-guaranteed benefits<br>Exchanges agreed with members, eg, remove escalations                           |
| Financing  | Lose liabilities    | Targeting ultimate settlement with an insurer<br>Cash/transfers to members                                            |
|            | Accelerate assets   | Diversifying asset classes to alternatives and higher-yield bonds<br>Hedging interest rate risks                      |
| Operations | Effective execution | Delegation of execution of investment strategy and monitoring<br>EU cross-border plans with more flexible regulations |
|            | Oversee opportunity | Regular monitoring of funding progress<br>To a lesser extent monitoring implications and opportunities                |

# Deeper look at DB plan opportunities and actions



Source: Aon Global Pension Risk Survey 2017.

# Deeper look at health and wellbeing opportunities and actions

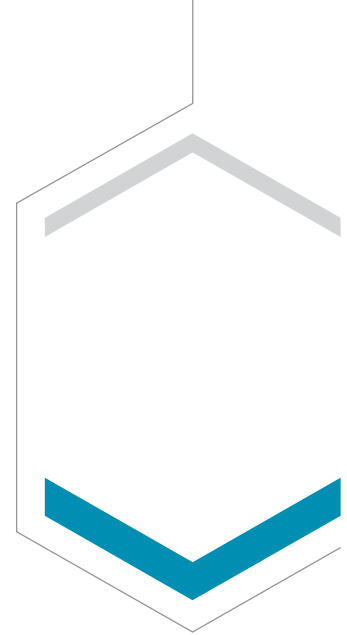
The Aon 2019 Global Medical Trend Rate Report identified some common themes around the world in the approaches taken to try to contain growing medical costs. Wellness initiatives and cost containment were the primary areas of focus when seeking to mitigate rising costs. Plan design changes are almost as common and consistent around the world, as are restrictions on access and delivery.

The emphasis on wellness initiatives was also found in this Global Governance Study.

| Global                           | Europe                                              | Latin America and Caribbean      |
|----------------------------------|-----------------------------------------------------|----------------------------------|
| Wellness Initiatives             | Wellness Initiatives                                | Wellness Initiatives             |
| Cost Containment                 | Cost Containment                                    | Cost Containment                 |
| Access and Delivery Restrictions | Plan Design Changes                                 | Plan Design Changes              |
| Plan Design Changes              | Flexible Benefit Plans to Cap Overall Benefit Costs | Access and Delivery Restrictions |

Source: Aon 2019 Global Medical Trend Rate Report

# Ongoing monitoring and reporting of key information and metrics



Ongoing monitoring is the weakest of the five elements of best practice governance (50% of companies). Monitoring is commonly annual, though some financial and operational elements are reviewed quarterly. As noted with policies, there is increased focus on employee value, and also on operational performance to address concerns highlighted about compliance and data breaches.

In general, design elements are monitored least frequently, and financing elements most frequently. Operational elements tend to either be monitored frequently, on an ad-hoc basis or not at all, but with a trend towards more focus on operational performance.

Naturally, as with the process of establishing data collection, monitoring is often priority-focused on tier 1 markets with the larger risk scales.

## Monitored by most companies at least annually

Alignment of plan design

Insurance cover, claims and costs

Local regulations and social security

Pending regulatory changes (30% at least quarterly)

Compliance confirmation

Operational costs (internally and externally)

Project implementation progress (20% at least quarterly)

DB funding levels and contributions (15% at least quarterly)

DB P&L and balance sheet (20% at least quarterly)

DB and DC investment performance (20% at least quarterly)

DB opportunities to reduce costs and risks

Opportunities for pooling, global underwriting or captive use

## Monitored by most companies, but less than annually

Design benchmarking (every 1 or 3 years)

Provider review (ad-hoc or annually)

## Most companies want to, but do not yet, monitor

Employee feedback on value of benefits (and complaints)

Overview of projected outcome shortfalls

Overview of choices by employees

Overview of variations in choice by employee sub-groups

Claims data and related employee behavior data

Administration delivery performance

Notification of data breaches



# Deeper look at information monitored and desired

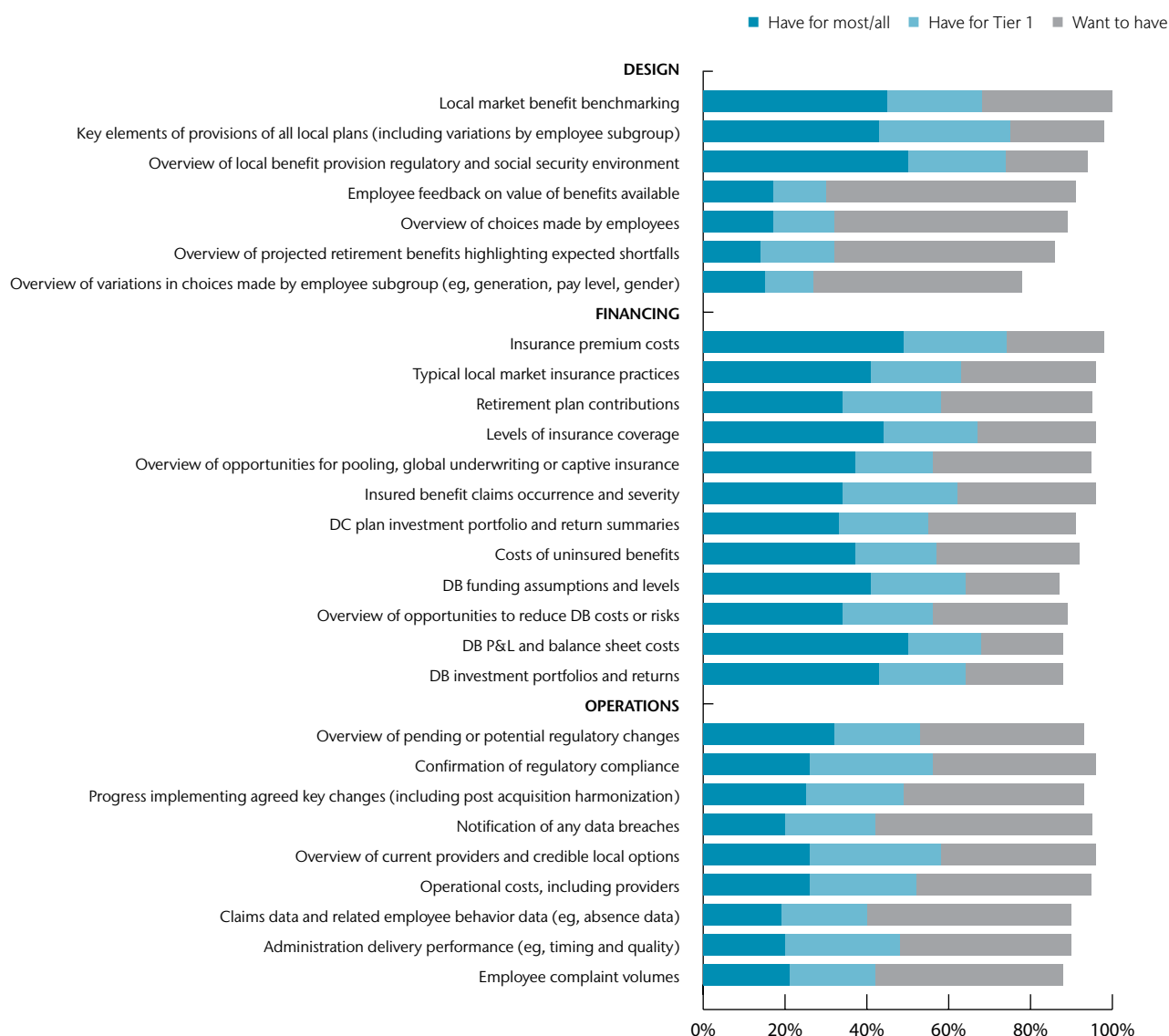
The stand-out insight here is the significant demand to start to monitor four areas of design relating to employee choices and value.

Materially fewer companies currently monitor these elements than any other information covered in the Study. The demand to monitor in future also greatly exceeds new demand for any other information.

Aside from these elements, design and financing information is generally monitored globally by 40%-50% of participants, with a further 10%-20% monitoring for tier 1 (most material) countries.

Operations information is monitored by fewer companies, though the demand to do so in future is high.

## Benefits information monitored and desired

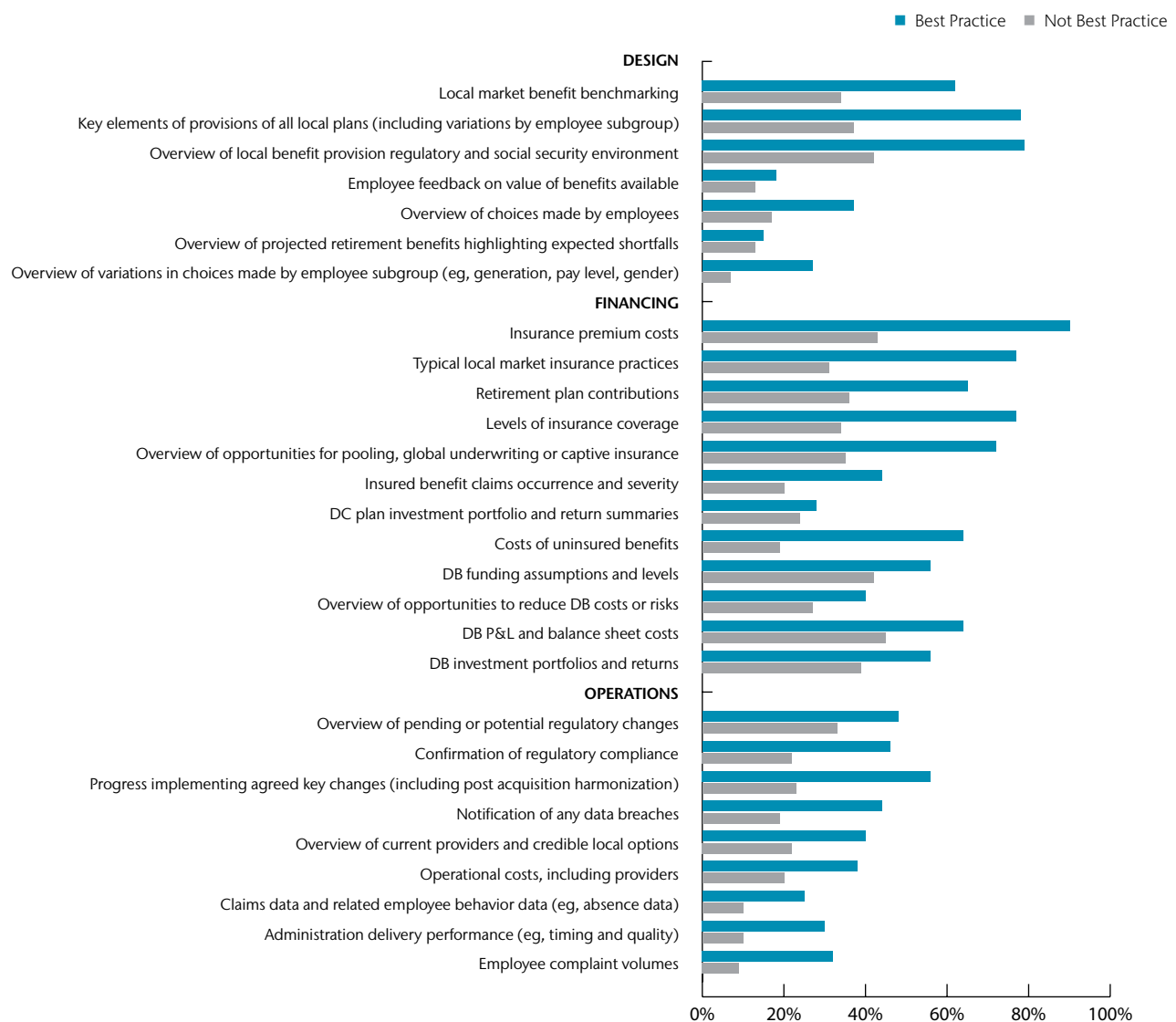


# Deeper look at Best Practice companies' access to information

By definition, Best Practice companies collect most of the data they want to have. There is a significant difference between the extent to which Best Practice and other companies monitor different types of information.

Where there is less difference between Best Practice and other companies, this tends to be in areas in which very few companies currently monitor information, and primarily relates to DC retirement plans.

## Benefits information monitored: Best Practice vs non Best Practice



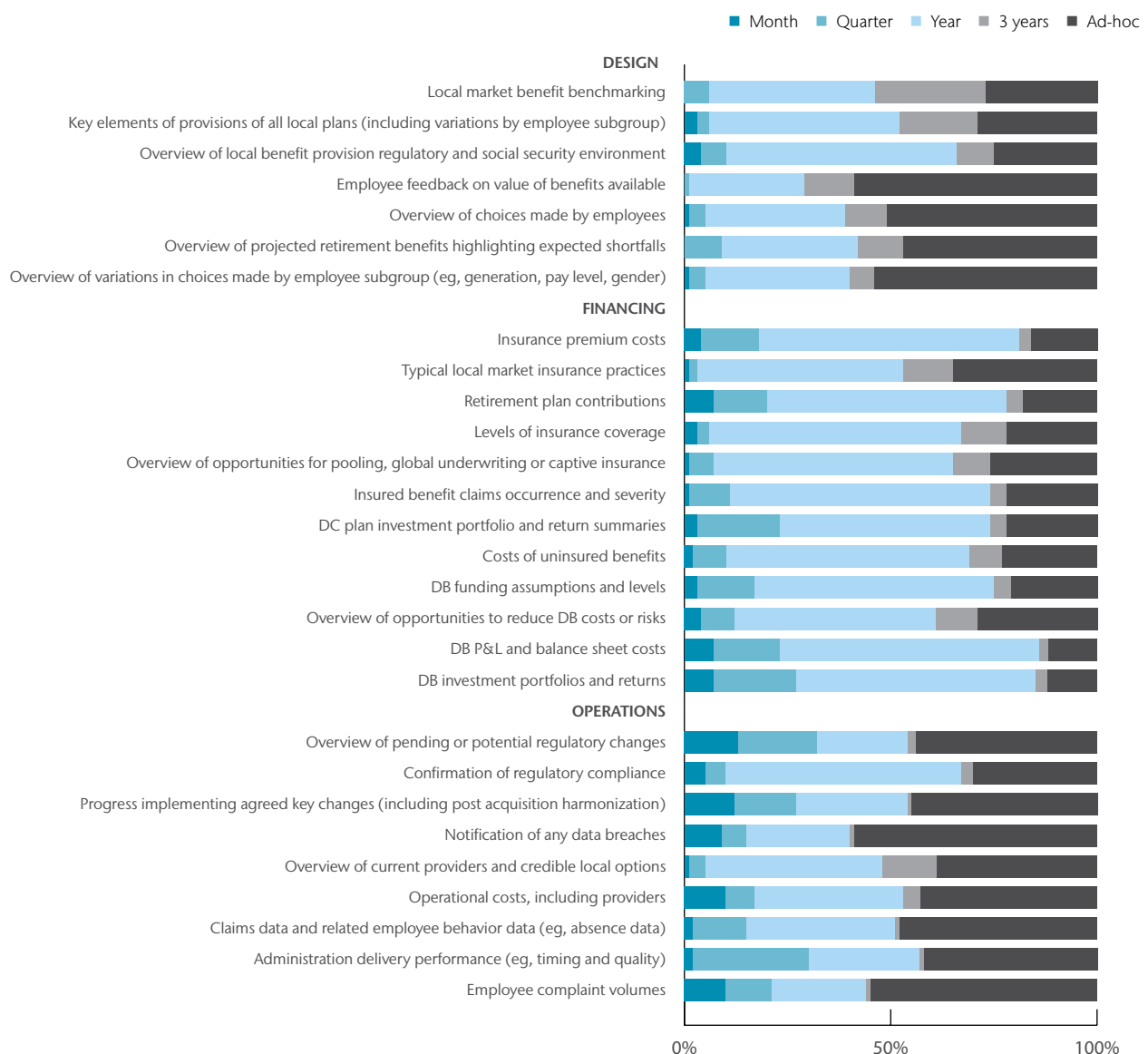
# Deeper look at frequency of monitoring information

Financing information is naturally monitored most frequently, with most companies monitoring a wide range of such information at least annually, and much retirement plan information being monitored quarterly.

Design information is perhaps naturally monitored in a more ad-hoc manner, though the most commonly monitored information is typically monitored at least every three years and usually annually.

Operations information appears to be either monitored very often or very infrequently; perhaps an indication that progress with governance of operational aspects is lagging behind the governance of design and financing.

## Frequency of monitoring

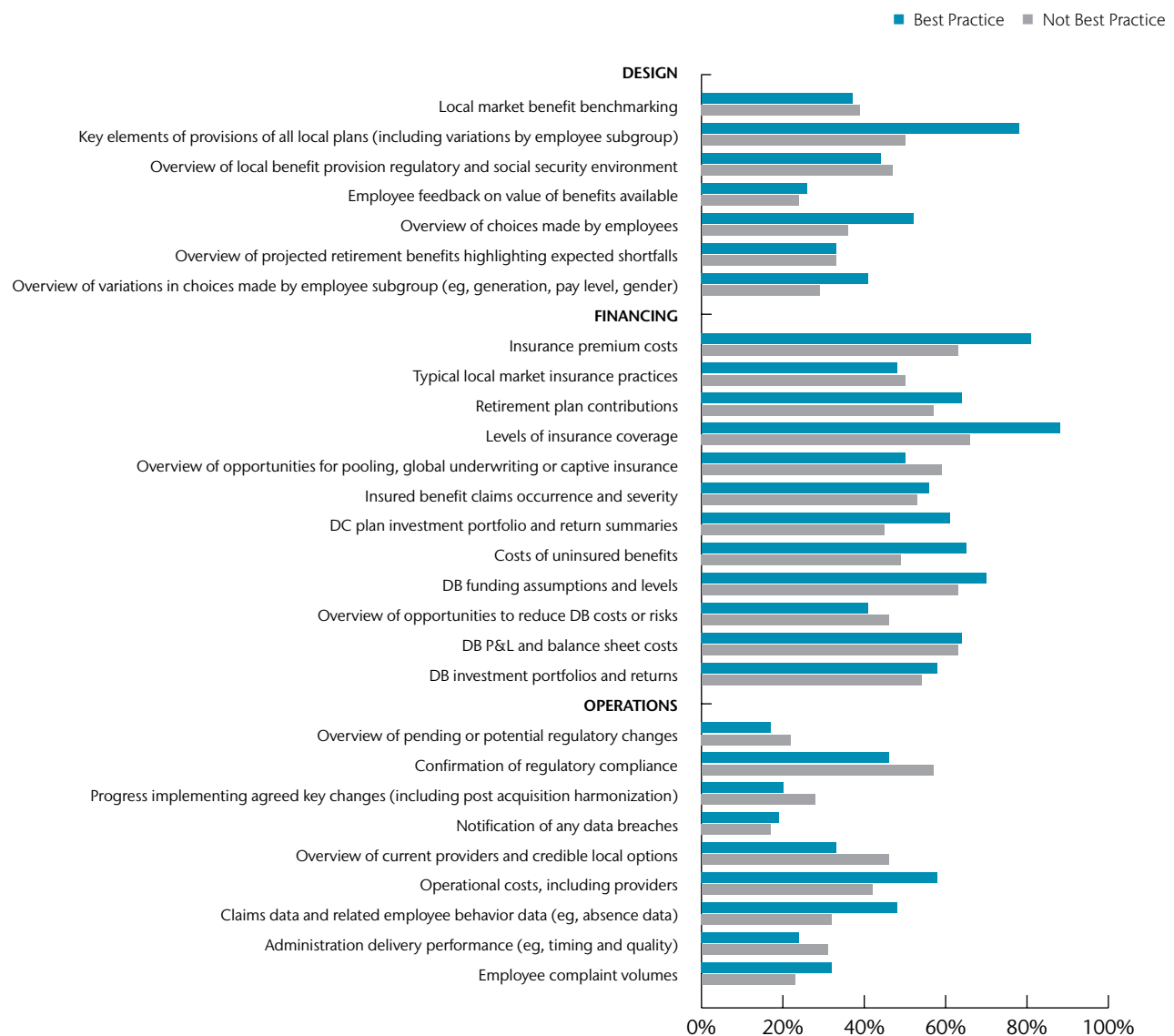


# Deeper look at variations in annual review by Best Practice companies

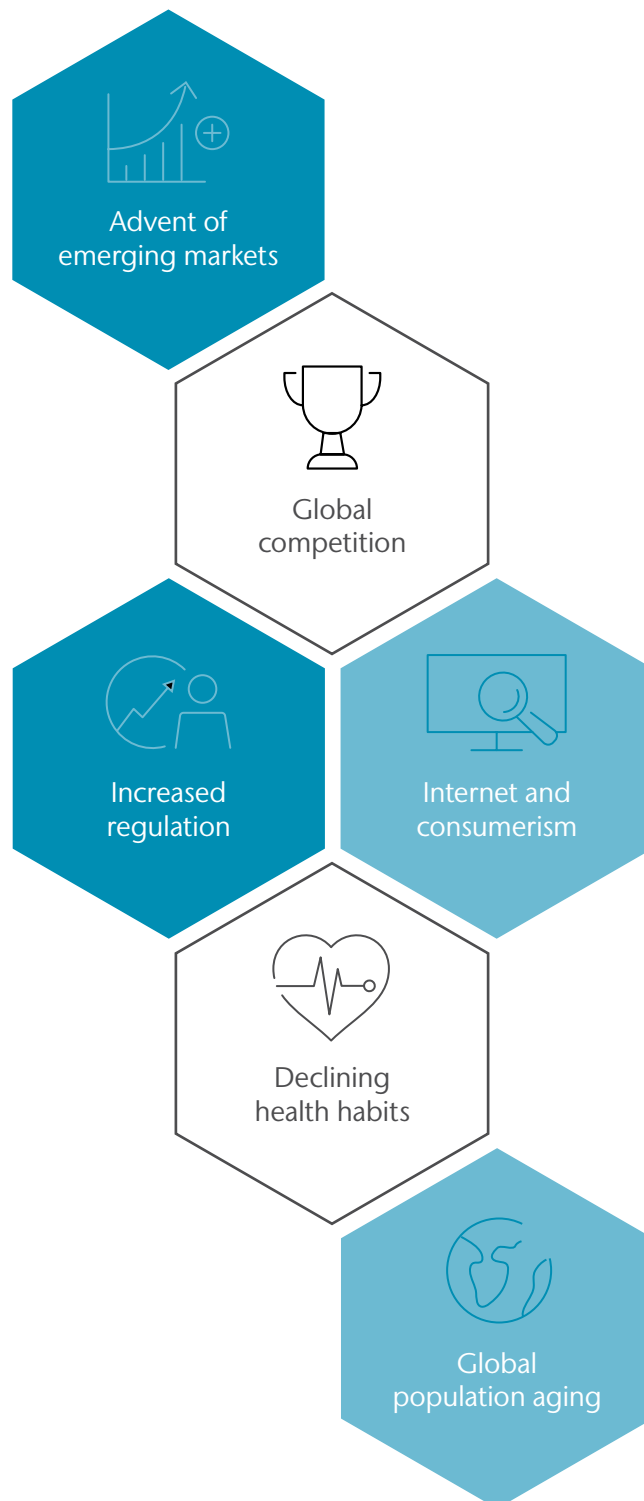
There is a stark difference between the existence of monitoring in Best Practice and other companies. However, if the information is being monitored, there is generally very little difference in the frequency of that monitoring between Best Practice and other companies.

The chart displays proportions of participants monitoring information annually, this being the most common frequency for most types of information, particularly financing information.

## Prevalence of annual monitoring



# Deeper look at drivers for monitoring change



# Deeper look at the breadth of retirement challenges to monitor globally

## Common across Europe

- Multi-employer plans to ease governance and operations
- Sustainable investment (ESG)
- Earlier vesting: From EU directive
- IORP II governance and risk management
- Lower and later state pension causing ER challenges
- Member communication standards
- New mortality tables

## North America, UK and Ireland

- DC optimization
- De-risking DB plans
- More formal plan governance
- Settlement with insurers

## Canada

- Pension funding reform in many Provinces

## United Kingdom and Ireland

- Supporting win-win member options
- Any implications from Brexit
- Ireland: Central bank DB reporting
- UK: GMP equalisation corrections

## Germany

- Increasing pre-funding of DB plans
- DC without guarantees

## Switzerland

- Reducing annuity conversion rates
- Pure DC for high-earners
- New discount rates and deficit recovery

## Italy

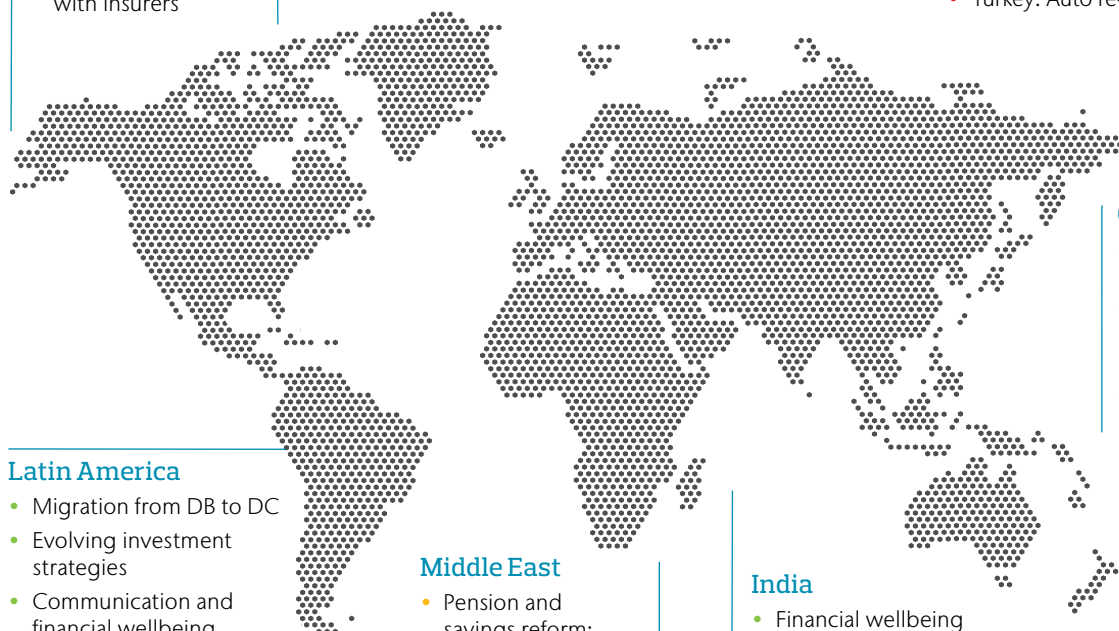
- New early retirement options available in 2019
- Encouragement of savings for sufficient pension

## Netherlands

- Netherlands: Pension supervision could devolve to private sector
- Deficit contributions or benefit reductions
- 2/3<sup>rd</sup>s approval for cross-border plans

## Elsewhere across Europe

- Belgium: Voluntary DC without guarantee
- Eastern Europe: 1<sup>st</sup> and 2<sup>nd</sup> pillar reform
- France: Pension rules harmonisation
- Hungary: Tax treatment pension products changed
- Norway: New pension solvency rules
- Poland: Mandatory plan implementation
- Turkey: Auto re-enrolment rules



## Latin America

- Migration from DB to DC
- Evolving investment strategies
- Communication and financial wellbeing
- 1<sup>st</sup> and 2<sup>nd</sup> pillar reform

## Brazil

- Settle DB risks with an insurer
- Plans of the new President
- DC plan operations and governance

## Middle East

- Pension and savings reform: Young population, reducing oil
- UAE/DIFC mandatory DC 2<sup>nd</sup> pillar proposal
- Funding end of service gratuities

## Africa

- Encouragement of saving for retirement

## India

- Financial wellbeing
- Improving attractiveness of NPS
- Investment risk governance

## South Pacific

- Australia: Focus on member outcomes and governance
- New Zealand: Report due on alternative tax regime

## China

- Growth of non-State provision
- HK: Proposed new reporting requirements
- HK: MPF offset proposals

## Japan

- New CDC type plans
- DC governance and quality

## Common across South-East Asia

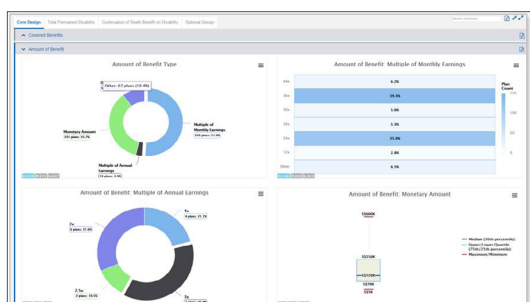
- Changes to mandatory funds

## Key

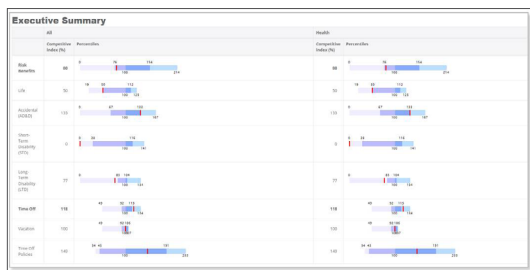
- Opportunity
- Proposal
- Requirement

# Technology-enabled monitoring: DB costs; DC choices; health occurrences

Technology has traditionally been used to enable benchmarking, though indices and other measures of value are now also common.

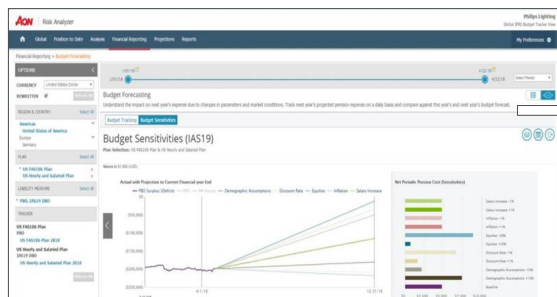


Benchmarking tools may compare the prevalence of key aspects of plan design across an industry or peer group, or explore the competitive value of each benefit element.



Technology now helps collect and present data and analytics globally across an increasing range of areas that multinationals wish to monitor.

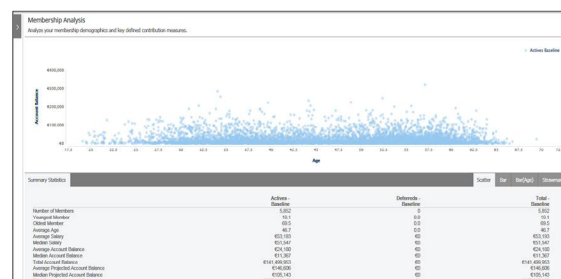
DB liabilities and assets can be tracked and accumulated across countries, enabling insights into the scale of risks from current and alternative strategies and actions.



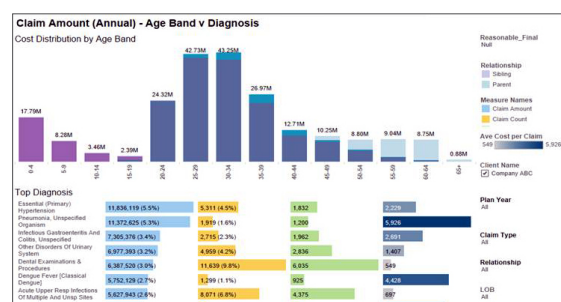
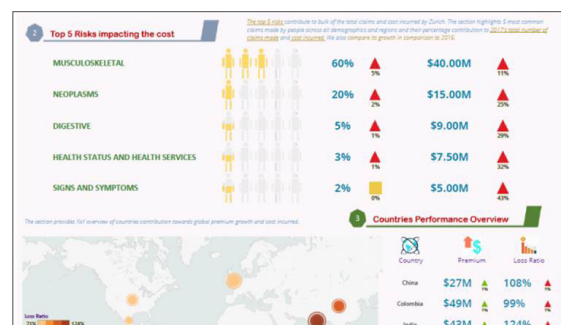
DC retirement provision has recently gained increasing attention, as noted in the trend of policies and information collection and monitoring towards employee value.

Technology helps multinational companies identify the likely adequacy of funds being accumulated, providing early warnings of likely challenges from a lack of natural workplace attrition.

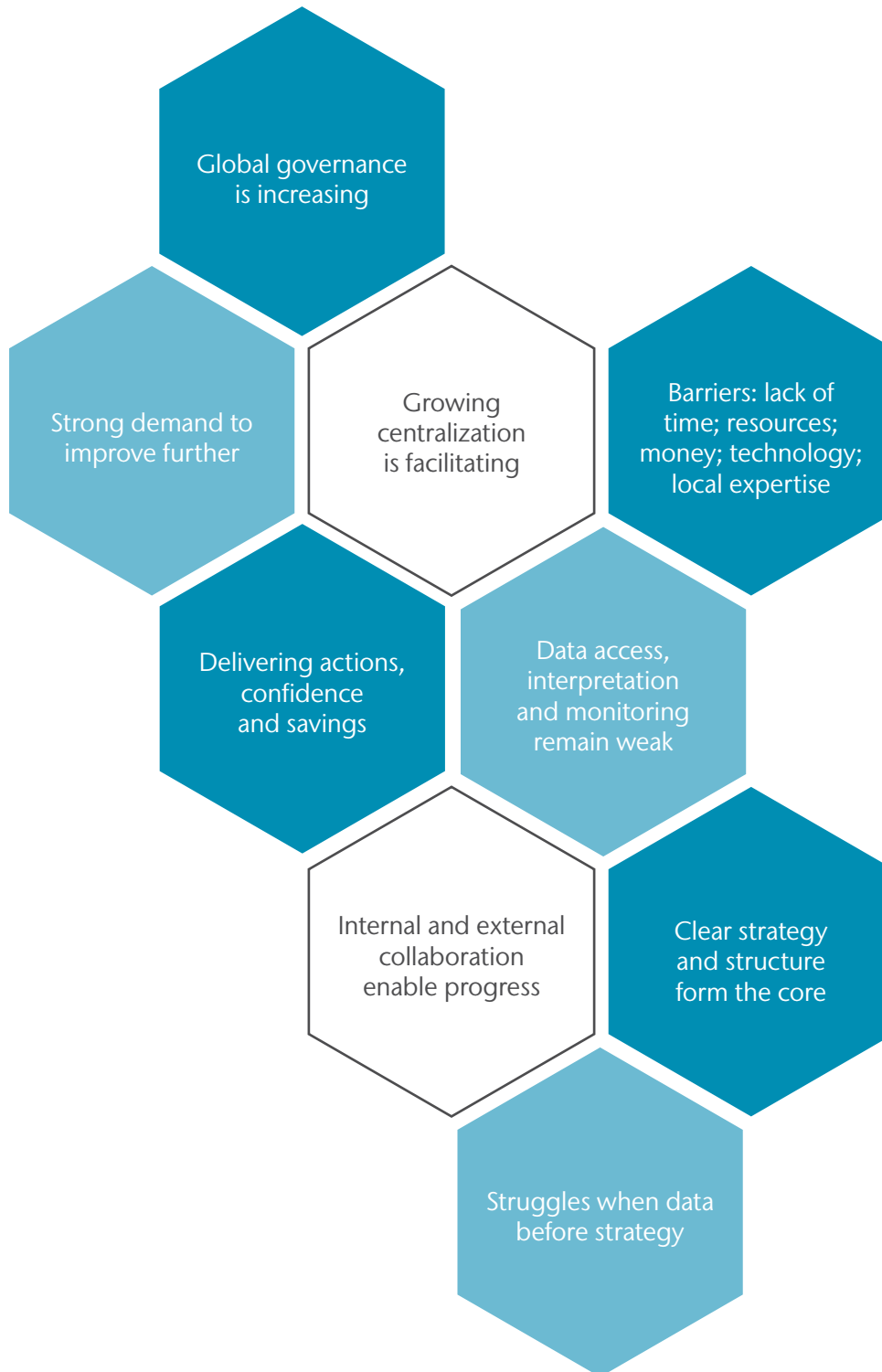
The effectiveness and value of choices made by employees can also be identified to drive action in education or default choices.



Health costs can be identified by issue, cost and country, highlighting areas in which education, support or cover changes may be beneficial to direct or indirect health costs.



# Recap





# Aon Global Benefits and Retirement Consulting Strategy, Governance and Execution

- We work with multinational companies who want to manage or oversee their benefit design, financing or operations regionally or globally.
- We help clients establish effective, compliant and competitive global benefits programs, and manage the financing and risk-transfer of legacy arrangements.
- We have witnessed, and supported, many companies on their path to best practice global governance.
- To find out more, please email us at [talktous@aon.com](mailto:talktous@aon.com)





## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com>.

## About the American Benefits Institute

The American Benefits Institute is the education and research affiliate of the American Benefits Council. The Institute conducts research on both domestic and international employee benefits policy matters to enable public policy officials and other stakeholders to make informed decisions. The Institute also serves as a conduit for global companies to share information about retirement, health, and compensation plan issues.

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