10 Best Practices for Global DC Plans

DC GOES GLOBAL

by Nigel Aston, Head of European Defined Contribution
# A Note of Thanks

This paper is the result of dozens of conversations with some of the largest plan sponsors in the world, across three continents, as well as leading consultants, colleagues and other defined contribution professionals. We would like to thank everyone who contributed their time and insights to this project, including:

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Many of our multinational clients have asked us for help developing a strong framework for managing their global DC benefits. We believe the growing demand for this kind of assistance stems from two important underlying trends. First, many large corporations have globalized their operations over the past several decades, and in the process they have also globalized their workforces and employee benefits. Second, the period of expansion into international markets has coincided with a shift from defined benefit to defined contribution (DC) plans*. Companies in the US and Australia started the trend, but many other countries have since followed suit.

Countries have taken a variety of policy approaches to DC plans. Stacy Scapino, global leader of Mercer Investments Multinational Consulting activities, organizes global DC regimes into the following categories:

- the **open-architecture, broad-investment choice** system in largely Anglo-Saxon countries (US, UK, Ireland, Australia), where the administrative provider offers a large range of funds from which employers and employees can select.
- the **government-mandated or collectively bargained guaranteed return** system, prevalent in Germany and Belgium, in which insurance contracts provide set returns on participant savings.
- the **government-or state-approved provider** system is used in countries like Chile and New Zealand, where employees may have a degree of investment choice. In countries like Thailand, Hong Kong and Mexico, employers select a provider from several licensed entities, and the provider determines participants’ investment choices, much like the US 403(b) system.
- the **personal pension brokered markets**, in which participants use DC savings to purchase individual pensions through brokers, as in the Czech Republic and Israel.
- the **state insurance** model, common in emerging markets such as Morocco and Pakistan, in which participants make payments into the state’s insured funds.

The differences among these models — as well as the varying local rules related to employment law, tax, investments, fiduciary responsibilities and benefits around the world — naturally preclude complete uniformity between plans. Companies cannot simply transplant the DC plans they use in their home countries, but to some extent must tailor each arrangement to its market. Global companies must also navigate differences in languages, currencies, cultures and expectations for the role DC savings are intended to play, which may be influenced by the specifics of a country’s state-sponsored social safety net and many other regional factors.

Given the differences between nations and their DC models, multinational corporations may be tempted to develop and manage each country’s plan in isolation. Yet an approach of extreme localization can pose risks of its own. Managing a collection of disparate DC structures worldwide, without global oversight or coordination, raises the possibility that the plans may not suit the enterprise’s overarching goals and culture. Similarly, hazards may creep in if individual plans do not provide the degree of governance needed by the parent company. Considering benefit strategies separately might also lead to missed opportunities to improve efficiency and reduce costs by capitalizing on economies of scale.

* The definitions of defined benefit and defined contribution are in the Glossary of Terms at the end of this document.
Global firms also face challenges in making DC design work effectively for participants around the world. The Organization for Economic Co-operation and Development (OECD) recently identified a number of key difficulties, summarized here:

**Employees Lack Confidence in Their Plans’ Ability to Provide for Their Retirement Needs.** We conducted a transatlantic survey of participants in the US, Ireland and UK. In the most recent version, only 31 percent, 16 percent and 26 percent, respectively, expressed confidence that they had enough DC savings for a comfortable retirement.

**Contribution Levels are Too Low.** According to Towers Watson’s “2013/2014 Global Benefit Attitudes Survey,” five out of six employees in 12 major DC markets say they save less for retirement than they should.

**People Struggle to Choose Appropriate Investments.** Less than a quarter of participants responding to our transatlantic survey say they are either extremely or very knowledgeable about financial affairs.

**Investment Options May Not Be Up to the Task.** Funds may provide insufficient protection and exhibit excessive volatility; retirement income options may be unclear or inadequate. For example, only 23 percent of participants responding to a 2013 SSGA survey in the United States said their plan sponsor is effective at helping with the transition from savings to income.

The challenges are considerable. Many plan sponsors are facing them with a patchwork collection of DC strategies around the world, built ad hoc over the past few decades. Our work with many of the world’s largest corporations gives us a valuable vantage point on the hurdles the top multinational plan sponsors face as they strive for consistency, and the practices they employ as they attempt to manage their global benefits as effectively and efficiently as possible.

Over the past few years, we have worked to identify effective practices among our clients and other global plan sponsors. We have articulated and refined these practices through consultations with many of our global plan sponsor clients, commercial partners and other collaborators; through dedicated listening campaigns in the US and UK; through a global DC colloquium held in September, 2014; and with frequent contact in the normal course of business. We’d like to thank everyone who has helped us to pull these conclusions together, and invite all readers to participate in the ongoing dialogue.

Through this process we have developed a list of 10 best practices for global plan sponsors. We offer them here, in the hope that they can help other companies better capitalize on the potential of DC plans to further both their own business objectives and the retirement readiness of their participants around the world.
10 Best Practices for Global DC Plans

**DEFINE**

01. Articulate objectives of total rewards globally.

02. Assess your company’s existing reward structures around the world.

03. Seek ever-closer interaction between benefits functions globally.

**BUILD**

04. Establish a clear, flexible governance framework.

05. Thoroughly understand and adhere to regulation, compliance and legislation.

**WEIGH**

06. Decide on the degree to which the company employs a global investment philosophy.

07. Seek efficiencies.

**IMPROVE**

08. Promote higher savings rates globally.

09. Establish a specific plan for the transition from accumulation to de-accumulation.

10. Create a strong employee communications program.

* In investment and other functions.
Define Goals & Align Benefits

01
Articulate objectives of total rewards globally, ensuring they reflect the company’s overarching culture and values.

02
Assess your company’s existing reward structures around the world, taking stock of opportunities for improvement.

03
Seek ever-closer interaction between benefits functions globally. Recognize that DC plans fit into a wider ecosystem of benefits that may differ from country to country, but must be considered in the aggregate.
Articulate Objectives of Total Rewards Globally

Firms can choose to provide a broad array of benefits, including defined contribution and/or defined benefit plans, insurance of various kinds, paid time off and a variety of other perks and lifestyle benefits. Whether the components of a package may be as varied as health coverage, gym memberships and traditional financial compensation, the right mix of benefits for a particular company will depend on its specific goals within the various employment markets in which it operates.

To evaluate the effectiveness of its rewards structure, the company must first identify what its goals are. Clearly articulated objectives can help guide plan sponsors’ decisions about what package of benefits to provide, including the role DC should play, and can keep their efforts on track over time.

A company’s history, culture and values play a large role in determining the goals the firm has for its reward structure as a whole and for its DC plans in particular. Many factors could influence their approach. In general terms, a conglomerate that has globalized by acquiring disparate businesses around the world may have a relatively heterogeneous culture, and may not feel the need for consistency of benefits across countries. For example, UPS has expanded through acquisition in all but a few of the 71 countries in which it operates, and it takes a relatively decentralized attitude toward benefits (in the context of a carefully constructed global governance framework).

On the other hand, a firm that has grown organically and has essentially replicated its home operations abroad may prefer a more uniform approach, particularly if its workforce is highly mobile between company locations. Many energy firms fit this description, and employ a relatively centralized benefits governance structure.

Each distinct offering helps to advance discrete goals. For example, on-the-job training can reduce turnover; physical wellness programs and gym membership subsidies can help manage health care premiums and reduce sick time; and paid time off helps to compete for employees.

Among clients and partners we spoke with, most companies’ have goals for their DC plans that fall into one or more of the following categories:

Paternalism
The desire, or perhaps the feeling of obligation, to help employees prepare adequately for retirement. We found this trait particularly prevalent in family firms that have grown organically over time and where employees have relatively long tenures. Paternalistic plan sponsors tend to implement plan designs that emphasize optimal retirement outcomes over individual employee choice.

Competitive Benefits
In many markets, a retirement plan of some sort is necessary to attract and retain workers. These days, that plan typically is a DC plan. Some employers choose to provide a plan that meets median or perhaps top-quartile standards in a given market, to ensure that its quality doesn’t count against them in their employees’ and prospective employees’ eyes.

Strategic Workforce Management
Supporting employees’ ability to retire when the time is right for both the employee and the employer. At our 2014 global DC colloquium and previous international events, plan sponsors clearly identified a need to ensure that workers don’t have to continue working past retirement age simply because they can’t afford to leave. In the words of Matthew Webb, head of international benefits for Thomson Reuters, “Our biggest concern is that DC members will not have enough to retire on. It’s in our company’s interest and the employee’s interest to solve this problem so people can retire at a reasonable age.”
Assess Your Company’s Existing Reward Structures Around the World

After the company has identified and articulated its overall objectives, it can review its benefits offerings at a global level to determine the degree to which they advance the firm’s overarching goals. Although companies may orchestrate this review through an in-house, cross-border committee of staff members, firms increasingly are utilizing independent advisors to help. Many consultants are establishing expertise in this field.

As part of a global benefits review, companies might evaluate the total monetary cost and value of rewards across all countries. A reasonable rule of thumb holds that the value of benefit components should exceed their cost, both individually and in the aggregate. For example, the value of tax advantages that US and UK DC plans provide to employees should exceed the plans’ cost to employers. Economies of scale achieved by aggregating large groups of employees may help companies provide certain benefits more efficiently than individuals could secure on their own, as in the case of employer-provided insurance policies.

Many companies have developed their offerings ad hoc over time, and are therefore not as effective as they could be at advancing the current HR agenda. For example, competing for employees may be a firm’s primary goal for its suite of benefits — but it may be allocating budget and resources to offerings that do little to advance that objective. Moreover, the costs and value of a particular offering may shift over time: a medical policy’s structure may become less effective as underlying costs change, or a DC plan might be less beneficial for participants if the laws governing it shift. In a similar vein, DC representatives from a global security systems company told us that they struggle with the inconsistencies between individual vendors.

Assessing your company’s current reward structures in light of your goals provides the information you need to improve upon them.
Seek Ever-Closer Interaction Between Benefits Functions Globally

Multinational plan sponsors also may find that their internal structures aren’t built to coordinate benefits functions across borders. Better communication between departments and divisions around the world that influence employee rewards — such as HR, finance and legal — may improve the efficacy of DC plans and even benefits packages as a whole.

Consider business information provider Thomson Reuters. “It is important for us to have a culture in which we all share common objectives for our plan and participants, and in which we ensure cross-functional collaboration both in our day-to-day work and in our decision making,” says Andrew Perrin, the company’s global head of pensions & investments. “That way, for example, we can make investment decisions with a full understanding of the implications for plan design and benefits structure. And we can ensure that the individual decisions we make about our plans around the world work cohesively to advance our company’s overall goals.”

To cultivate a unified team, companies may want to establish structural connections between different groups. This connection point could take the form of a monthly board meeting at which the HR and finance groups are both present, or a working group assigned to develop a solution to a particular challenge. Where possible, secure the endorsement of senior managers, so employees know that teamwork is an institutional imperative.

Wellness programs take a holistic approach, helping participants coordinate the disparate elements of their financial, physical and emotional lives. To build and manage the programs globally, employers need to consider the way reward offerings around the world work together. That process naturally encourages communication and teamwork among decision-makers in different departments.

State Street has initiated a wellbeing program throughout 29 countries. Some elements are offered in all of those countries:

- A global wellbeing website in multiple languages gives participants tools to manage their overall wellness
- Global wellness challenges motivate employees around the world
- A global Employee Assistance Program provides tools for emotional wellness

Other aspects of the program are tailored to specific countries. For example, many of the financial counseling services offered to employees revolve around retirement planning, so they must take into account each country’s distinct social security systems and retirement programs.

Building the program requires a team effort. “In creating our program we had to look at our many different wellness-related offerings around the world and the ways they support participants’ overall wellbeing,” says Raji Antoun, senior vice president of global benefits at State Street. “People throughout our firm’s departments and geographic locations are working together with a common goal to develop a well-coordinated wellbeing program.”
Establish a clear, flexible governance structure endorsed by senior management. Consider tiered structures with varying degrees of global versus local oversight across countries and regions. Build in independent oversight and participant representation where appropriate.

Thoroughly understand and adhere to regulation, compliance and legislation in every market of operation, irrespective of the desire to achieve global uniformity.
Establish a Clear, Flexible Governance Structure

Governance represents one of the greatest challenges plan sponsors face in starting and running defined contribution plans in multiple countries. Each nation has distinct laws and regulations that must be handled country by country. Yet governance risks are global — problems in one market could affect the company as a whole — so a multinational corporation needs coordinated oversight of its DC governance.

Furthermore, by its very nature, governance is not always suited to outsourcing; plan sponsors must manage it themselves to a great degree. “Plan sponsors have learned one critical lesson,” said one participant at SSGA’s 2014 global DC colloquium. “The biggest problems have occurred where oversight of plans has been delegated to an outside party, so it’s important to keep oversight in-house.”

Stacy Scapino, global leader of Mercer Investments Multinational Consulting, advises clients to focus on and prioritize the risks they face in each market. The degree of importance placed on a given risk will be influenced by the company’s goals. For example, a company may be particularly concerned about the risk of losing employees to competitors, of participants being unable to retire when they want, or of facing a financial liability, depending on their objectives for their plans.

Next, says Scapino, plan sponsors need to distinguish the risks they have control over from those they don’t. These will vary from market to market. “I advise clients to identify the risks they can control and take steps to manage them,” she says. “In many markets you may have risks but not be able to do much about them. In those cases you need to understand the risks, monitor them and track them over time.”

“We have found education critical in setting up good-quality governance structures,” agrees the EMEA head of pensions & benefits at one multinational financial company. “People at a global level need to come to grips with and understand the different regime types before they can properly assess risk.”

Multinational companies increasingly are looking to manage enterprise-wide risks, such as those related to operations, taxes and investment oversight, by centralizing oversight of their global DC plans. This is in part because local HR staff may not have the skills to manage benefits programs with complete authority. Yet certain issues must be addressed locally, regionally or according to specific regulatory models. Tiering can present an effective solution to this challenge. Establishing various tiers of governance responsibility enables companies to exert top-down oversight of their plans globally, while tailoring plans in each market as needed.

Tiering may take several forms. Plan sponsors may establish committees at local and global levels. In some cases, they may establish regional committees as well. Alternatively, plans may establish separate governance structures based on the DC plan’s role in a given market—for example, depending on whether the plan is a primary or supplementary source of retirement income. One participant in our global DC colloquium noted:

“Some global plan sponsors that manage variable governance requirements have created regional committees. Each committee is empowered to make decisions about how to operate the plans in its part of the world. For instance, plans in both Canada and the US have fiduciary responsibilities, so the North America committee requires specific approvals from executives. By contrast, the Asia Pacific and India regions have different standards, so the committees there need approvals only from the heads of human resources.”
FIVE GOVERNANCE MODELS

Global companies take a variety of approaches to managing governance in their plans around the world. Here are four examples:

**UPS** operates plans in 71 countries including the US. It employs three committees — local, international and enterprise-wide — to assign oversight where it is most appropriate and efficient.

**State Street** performs oversight using three regional committees: North America; Europe, Middle East and Africa; and Asia/Pacific. Each committee is empowered to approve local policies within certain financial thresholds, holds at least two meetings per year and reports annually to US headquarters.

**Unilever** has a Pensions and Equity Committee (PEC) that is responsible for monitoring financial and reputational risk related to its pensions around the world. The PEC sets global policy for benefit design, governance, funding and investment, trying to balance the desire to centralize and standardize practices with the need for a degree of autonomy on the part of local governance groups. The company employs an approvals process that requires PEC sign-off on all material changes to individual plans, and performs an annual review to ensure compliance with its policy.

**A global manufacturing company** (name omitted by request) has DC plans in dozens of countries. The firm manages global plan governance from the US, but handles specific aspects of governance locally when a particular country’s laws and rules demand a tailored approach.

10 Best Practices for Global DC Plans

State Street Global Advisors

**Thoroughly Understand and Adhere to Regulation, Compliance and Legislation**

Clearly, any governance effort must ensure that the plan operates in accordance with the laws and regulations in each market. Although in some cases the local focus required may prove costly or cumbersome, it should go without saying that complying with all applicable rules is of paramount importance.

This necessity may demand that local leaders engage subject matter experts such as consultants and legal counsel in local jurisdictions. It may also lead company managers to engage with policymakers themselves. In many countries where employment and pension law evolves frequently and rapidly, many governance bodies and fiduciaries take an active, vocal part in lobbying and campaigning — not just for their own plans but for the industry and participants in general. Companies may act alone or as part of a trade body or industry collective such as the National Association of Pension Funds (NAPF) in the UK, the Association of Superannuation Funds of Australia (ASFA), or the Plan Sponsor Council of America (PSCA) and Committee on Investment of Employee Benefit Assets (CIEBA) in the US.
To evaluate the effectiveness of its rewards structure, the company must first identify what its goals are.
06 Decide on the degree to which the company employs a global investment philosophy. Identify where a global approach to asset management produces efficiencies and mitigates risk, and where local considerations outweigh the advantages of consistency.

07 Seek efficiencies through global pricing, technology, external providers, advisors, systems and fund structures.
Decide on the Degree to Which the Company Employs a Global Investment Philosophy

Investments are a major consideration for any DC plan, but are particularly critical in open architecture markets such as the US, Ireland, the UK and Australia. In other DC regimes, plans may provide a guaranteed return through an insurance contract, feed a federal insurance fund or leave investments up to employees and brokers. These complexities make it particularly difficult to achieve investment synergies and efficiencies across borders.

Developing and applying a consistent investment philosophy across many markets can therefore prove challenging for plan sponsors. Different countries have distinct cultural norms and regulatory approaches related to DC investments, even among the limited number of markets in which DC plans may offer participants investment choice. These differences may make it easier for plan sponsors to address investments locally. Yet for companies that can achieve it, consistency in investment philosophy offers significant benefits, including:

A Clear DC Brand for Mobile Employees
Workers who transfer to different countries can benefit from a coherent set of investment options. Consistency can also promote a degree of benefits harmony among colleagues who work together from different countries.

Simplified, Streamlined Governance
A consistent investment philosophy can help guide efficient and clear decisions related to governance issues and strategic direction.

Cleaner Communication Among Plan Decision-Makers Around the World
A unified investment philosophy can provide a common language of sorts for HR and finance employees around the world.

Application of Best Practices Across Borders
Investment approaches that are standard in a given market may not be optimal. For example, in pre-financial crisis UK and Ireland it was not uncommon for DC plans to hold large percentages of their assets in equities, even as participants approached retirement. As a result, during the financial crisis some employees saw their retirement savings drop by as much as half at the same time as they lost their jobs. A plan sponsor that applied universal best practices rather than local norms could have helped participants avoid some of that pain, while sidestepping potential public relations problems.

A Logical Framework to Explain Plan Decisions
A consistent investment philosophy helps company managers provide a coherent rationale for decisions related to DC investments when asked by regulators, the press or other interested parties.

A Consistent Approach to Regional Diversification
Many countries traditionally have favored a bias towards domestic equities in their plans. While this approach is understandable from the perspective of currency, tax and participant perceptions, home bias has resulted in diverse outcomes for employees of the same firm working in different regions. To give one example, DC plans in Australia and Ireland produced very different performance during the global financial crisis. A consistent, globally diversified approach may help mitigate home country bias.

The investment philosophy a company embraces may depend in part on the degree of paternalism it exercises in its DC plan. Plan sponsors that do not traditionally take a paternalistic approach tend to emphasize participant choice by presenting employees with an array of investment options. More-paternalistic plan sponsors are likely to focus to a greater extent on providing solutions that they believe will be most effective at maximizing participants’ retirement readiness. With this decision comes a certain degree of risk. Plans must answer questions that are almost philosophical in nature. For example, whose job is it to decide investment options? And should that role be consistent across all territories?

We see a global trend toward default-led plans, particularly in the US and UK. Sponsors and fiduciaries are increasingly comfortable making some investment decisions on behalf of participants. Plan sponsors that emphasize intuitive,
outcome-oriented default solutions over participant choice tend to provide simplified investment lineups. This tactic is based largely on behavioral finance research that shows that participants presented with many investments choices frequently select nothing at all, a random assortment of funds, or some other less-than-optimal result. Relatively paternalistic plan sponsors also tend to embrace diversified, age-based default investments such as target date funds to a greater degree than choice-orientated plan sponsors do.

We support the move towards greater simplicity and automaticity. An overwhelming majority of participants lack the knowledge, interest and time to make optimal investment choices. Moreover, a great deal of research tells us that participants want this kind of help. For example, in a recent survey 94 percent of investors told us that they are looking for small steps to help them move in the right direction. Whether a company ultimately chooses to emphasize solutions or choice, it should hold a discussion about its core investment-related beliefs, and the extent to which it wants to express them in its plans. Such a conversation can help the firm develop a conscious, intentional approach to providing plan investments around the world in ways that further its goals.

One Multinational’s Approach to Plan Investments

A large, global consumer products company takes a distinctive approach to the investments it offers in its small-country plans. The firm determines its views on asset allocation between global equities and local fixed income (where possible), and imparts them on the smaller plan — often using exchange-traded funds. This approach simplifies the process for creating and managing dozens of DC plans around the world.

ASSET POOLING

A Case Study

Unilever, which operates 80 funded plans in more than 40 countries, has been a leader in pooling assets across countries since 2005. This key innovation allowed pension plans for the first time to use pooled investment vehicles without negative taxation impacts.

The DB and DC plans offered in different countries can invest in the common vehicle, while strategic asset allocation decisions remain with the company’s governance groups. The arrangement allows Unilever staff to focus on the firm’s core business, while giving governance bodies the reassurance that central monitoring and manager appointments and terminations will be managed within a controlled governance structure.

Pooling also enables economies of scale that result in reduced costs and improved efficiency. Unilever’s investment team can take decisions once, rather than duplicating efforts across multiple plans. This approach has also given the company’s smaller-country plans access to a broader range of products, including sophisticated options.
Seek Efficiencies

A plan sponsor might seek efficiencies in four primary areas:

- Investment
- Cross-border plan structures
- Administration
- Communication

**Investment**

Plan sponsors may be able to reduce costs by negotiating global investment management fees with large asset managers. Focusing investment management with a small number of companies can increase the assets with any one provider, giving plan sponsors greater leverage to negotiate lower expenses. Although local rules will mean that the cost of “wrapping” investment strategies will differ from place to place, there is nothing to stop an asset manager from charging fixed investment fees worldwide for each underlying asset class — for example, managing indexed developed equities at a set cost everywhere, regardless of differences in the cost of, say, a European unit trust vehicle versus a US-based mutual arrangement. We are starting to see negotiations that recognize that uniformity of fees can be attractive to multinational clients. Moreover, the opportunity for scale and the efficiencies that result can be attractive to asset managers.

**Cross-Border Plan Structures**

Pooling assets across borders is becoming increasingly feasible in certain regions. For example, Institutions for Occupational Retirement Provision (IORPs) allow multinational employers to centralize retirement plan assets in the EU. IORPs offer a number of potential benefits, including simplified governance, economies of scale, standardization of technology, and increased benefits options for small countries. They may allow corporations to use a single vehicle, rather than expend the time and resources necessary to develop as many as 27 individual DC savings plans. Plan sponsors considering them should be aware of a few caveats, however, including the likelihood that legal documentation and tax and regulatory issues will take longer than expected.

**Employee Administration**

This principally entails record-keeping and investment architecture. In a perfect world plan sponsors could gain efficiencies by using a single record-keeping system or fund trading platform. In reality, the task is probably too complicated for any one record-keeper — and the question is academic, because no single service provider operates in every market. That said, some record-keepers are starting to move toward cross-border efficiencies, in particular by developing pan-European capabilities that include multi-language member platforms and call centers. Plan sponsors should consider reviewing global record-keeping offerings periodically to see if new developments create an opportunity for greater efficiencies and cost savings.

**Communications**

Using a single set of communications materials across markets would be tremendously convenient and efficient for plan sponsors. Language, cultural differences and local preferences tend to make it unfeasible. Plan sponsors can, however, look for opportunities to leverage work in one country across others. For example, they can use similar approaches and templates for particular topics, and tailor the content to the local market.

Consultants may be able to help as many offer suites of cross-border materials. Likewise, the evolution of digital communications may present opportunities to deliver simple messages efficiently to employees in a number of countries.
08 Promote higher savings rates globally. Work systematically to understand employee needs through research, employee data analysis, surveys and engagement.

09 Establish a specific plan for the transition from accumulation to de-accumulation. The appropriate plan for a given country will depend on its approach to DC plans.

10 Create a strong participant/member communications program to encourage greater participant engagement, improve retirement outcomes and build participant confidence.
Promote Higher Savings Rates Globally

The OECD has identified insufficient savings rates as one of the primary challenges facing global DC providers. Many countries have addressed this problem through regulation. For example, Australia mandates employees set aside 9.5 percent in automatic contributions to DC plans. That will rise to 12 percent by 2020. In the UK, ongoing auto-enrollment legislation will effectively require all employers to offer plans with a combined contribution of 8 percent of a “band” of earnings. Sweden mandates an 18.5 percent savings rate, with 16 percent going to a defined benefit plan and 2.5 percent to a national defined contribution plan. New Zealand’s KiwiSaver program lets participants select contribution rates of 3 percent, 4 percent or 8 percent of pay, with employers adding an additional 3 percent. In Chile, workers must contribute 10 percent of monthly pay. In other countries a plan sponsor may have a good deal of leeway to influence savings rates. Evidence strongly suggests that auto-enrolling participants at relatively high default savings rates helps the vast majority of participants accumulate greater retirement savings — particularly when the plan incorporates automatic savings increases as well. Moreover, employees are asking plan sponsors to use automatic features. About three-quarters of participants in a recent survey said they want plan sponsors to “automatically make me do something, like enroll and invest in a diversified fund with the option to opt out.”

Giving participants the choice to opt out maintains their freedom to save less, or not at all.

“At the center of this grand design we need to ensure that there is a robust foundation of strong defaults; products that can support the changing needs of the majority of plan members at a reasonable cost and that deliver a member experience to encourage long-term saving and retirement readiness.”

— A Plan Sponsor Taking Part in SSGA’s 2013 UK Listening Campaign

AN EVOLVING ROLE FOR IPPS

Towers Watson’s 2014 International Pension Plan (IPP) Survey found that the number of firms providing IPPs jumped from 438 in 2013 to 584 in 2014. These plans have traditionally been used to help globally nomadic employees save for retirement, but companies have begun using the plans to fill other roles as well:

• As a plan option in locations with weak retirement systems, in some cases because of political or economic challenges
• As a retirement plan for expatriates who are ineligible for local retirement systems requiring citizenship

Plan sponsors in these or related situations should consider meeting with consultants to discuss whether IPPs could provide a solution that helps employees save for retirement.
Establish a Specific Plan for the Transition from Accumulation to De-Accumulation

In some countries, DC plans are structured around generating retirement income (for example, plans in Switzerland generally convert assets into a guaranteed pension at retirement, and plans in Sweden provide annuity-like pooled income.) In others, participants may struggle to transform the savings in their plan at retirement into a stream of regular, dependable income that can support them throughout retirement. Plan sponsors can help here.

Greater use of annuities is one potential solution, but plan sponsors need to contend with a shifting global landscape. Prior to 2015, tax rules in the UK, for example, effectively required most of the country’s DC plan participants to purchase annuities at retirement or face a steep tax charge. Those rules were lifted in April 2015, allowing participants aged 55 and older to withdraw their savings as a lump sum with no tax penalty. Other countries, including Switzerland, Chile, Singapore and Israel, are going in the other direction, with annuity use becoming more common, sometimes due to government backing or mandates.

These discrepancies demand that plan sponsors base their approach to annuities on the requirements of each market. Likewise, differences between social safety nets, cultures and other factors may make it appropriate for plan sponsors to target income replacement rates to particular countries. A plan sponsor participating in our 2014 global DC colloquium noted: “In Europe, an adequate replacement rate is determined by a percentage of the average current working population’s earnings. The variation makes some sense considering that retirement costs vary greatly by region. For instance, health care costs are a major concern for retirees in the US, but not for Europeans.” Other aspects of the social safety net, such as the generosity of social security programs, may also influence an appropriate target retirement income level.

By thinking through issues such as these and creating a conscious plan for transforming DC savings into income, companies can help make their plans more effective at supporting retirement readiness for participants around the world.

“The real solution lies not in providing employees with a specific number. Instead, plan sponsors should work toward transitioning people away from a lump-sum concept and toward a retirement income stream. This conversation is best started when participants are around age 50.”

— A Plan Sponsor Quoted at SSGA’s 2014 Global DC Colloquium
Create a Strong Employee Communications Program

Plan sponsors can focus their communications efforts in countries where participants have meaningful choice in terms of savings rates, investing and options for distributing assets in retirement.

Lack of financial skill among participants is another of the major challenges named by the OECD in its list of difficulties faced by global plan sponsors. Research from our Center for Applied Research graded financial literacy in 16 developed countries. Participants globally scored 61 percent, getting a grade of a D. Singapore, which led the way with a C- (70 percent), was the only country measured that fared better than a D or an F.

A lack of financial literacy undermines participants’ ability and willingness to take advantage of their DC plans’ benefits, possibly undermining the effectiveness of the plans themselves. For DC plans to advance employers’ goals, employees need to use them well; improved fluency in financial concepts can help, particularly when the plan sponsor or fiduciary does not wish to make decisions on behalf of participants.

In the near term, automatic plan features and other behavior-based plan design elements can help address the shortfalls in participants’ financial literacy. But for DC plans to fulfill their potential, participants may need to acquire a stronger grasp of how to use them. There is a small silver lining for plan sponsors in the financial literacy findings. The lack of literacy is consistent enough across borders that plan sponsors may be able to make the communications relatively uniform around the world.

Simply increasing the quantity of communication tools and guidance will not in itself solve the literacy problem. Plan sponsors need communications that encourage, in the words of a plan sponsor who attended our recent global DC colloquium, “a larger perception shift, whereby employees truly understand that saving for retirement is their responsibility.”

The transition from DB to DC plans necessitates its own approach to participant communication. In a Towers Watson Q&A, Europe, Middle East and Africa consultant Frederico Jorge observes:

“We see companies in EMEA converting from defined benefit (DB) to defined contribution (DC) pension plans. It can be difficult for employees to understand why they’re moving from a secure retirement situation to one in which they must take much more responsibility for their post-retirement financial health. When the employer puts the change in the context of total rewards — in which new and different benefits can help balance out the move from a DB to a DC plan — and communicates it well, employees are better equipped to understand and deal with the change.”

Simple language and evocative imagery are critical when communicating with a global audience. Movie studios have figured out this lesson. Blockbusters increasingly rely less on complex dialogue and more on visuals, which translate more smoothly for international moviegoers. As one attendee at our 2014 global DC colloquium noted, “Starting with simple language makes it easier to translate your message accurately for different languages and cultures. Images often don’t need translating at all.” Like movie studios, plan sponsors may be able to take a single product — whether a video or an email campaign — and rebrand it to suit the audience’s culture and language.

Financial literacy score of participants globally.
Research conducted by State Street’s Center for Applied Research. 2,880 investors were surveyed in Q1 2014, in 16 countries globally.
Conclusion

Among the many conversations we have with plan sponsors, some of the most engaging involve defining and evaluating success in their benefits structure, analyzing potential improvements, and considering the best ways to bring a global perspective to that work. The insights derived from those discussions are integral to the 10 Best Practices for Global DC Plans identified in this paper.

We hope these best practices provide a useful framework for your global DC initiatives, and help you to create processes that can improve the effectiveness of the benefits packages your company offers to its employees around the world. Please contact us if you would like more information about any of the content in this paper, or if you would like to participate in our global plan sponsor events. We look forward to continuing the global DC conversation.

1 OECD Pensions Outlook 2012.
2 The SSGA ‘Transatlantic DC Investor Survey’ is conducted by SSGA. The initial survey in 2013 canvassed plan participants in the United Kingdom and the United States. SSGA’s 2014 survey canvassed plan participants in the United Kingdom, Ireland and the United States.
3 Towers Watson, “2013/2014 Global Benefit Attitudes Study”.
4 SSGA, “Transatlantic DC Investor Survey 2014”.
5 The SSGA ‘Biannual DC Investor Survey,’ July 2013 edition, was fielded in partnership with TRC Market Research, an independent marketing research firm in Philadelphia, USA. The data were collected in April, 2013 using a panel of 1,498 verified plan participants and retirees, age 40 to 70.
6 The SSGA ‘Biannual DC Investor Survey,’ January 2012 edition, was fielded in partnership with Boston Research Group. The data were collected in September 2011 using a panel of 1,076 verified plan participants.
8 “Freedom and Choice in Pensions: comparing international retirement systems and the role of annuitization.” Pensions Policy Institute, PPI Briefing Note Number 66.
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Glossary

**Annuity** A financial product offered by an insurance company and designed to accept and grow funds from an individual and then, upon annuitization, pay out a stream of payments to the individual over a specified period of time. Annuities are often used to secure steady cash flow during retirement years.

**Defined Benefit Plan** An employer-sponsored retirement plan where employee benefits are derived from a specified formula using factors such as, but not limited to, salary history and duration of employment. Investment risk and portfolio management are entirely under the control of the company.

**Defined Contribution Plan** An employer-sponsored retirement whereby employees make contributions to accumulate wealth during their working years to provide income in retirement. Often times, an employer will match an employee's contribution, up to a certain amount.

**ERISA 3(38)** The Employee Retirement Income Security Act (ERISA) is a Federal law that sets standards of protection for individuals in most voluntarily established, private-sector retirement plans. ERISA requires plans to provide participants with plan information, including important facts about plan features and funding; sets minimum standards for participation, vesting, benefit accrual, and funding; provides fiduciary responsibilities for those who manage and control plan assets; requires plans to establish a claims and appeals process for participants to get benefits from their plans; gives participants the right to sue for benefits and breaches of fiduciary duty; and if a defined benefit plan is terminated, guarantees payment of certain benefits through a Federally chartered corporation, the Pension Benefit Guaranty Corporation (PBGC). (Source: dol.gov) Section 3(38)(B) of Title I of ERISA was also amended to reflect the above-described changes to the investment adviser registration requirements under the Advisers Act. Specifically, section 3(38)(B) of ERISA requires that, to be an investment manager under Title I, an investment adviser must: (i) Be registered with the SEC under the Advisers Act of 1940, or (ii) if not registered under such Act by reason of paragraph (1) of section 203A(a) of such Act, be registered as an investment adviser under the laws of the state in which it maintains its principal office.

**IRA** Individual Retirement Account, an investment account used by individuals to save for retirement.

**Longevity Risk** The risk that an individual will live longer than expected with the potential result of exhausting all income sources before death.

**Liquidity Risk** The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Liquidity risk is typically reflected in unusually wide bid-ask spreads or large price movements (especially to the downside).

**Target Date Fund** An investment fund designed to adjust an asset allocation mix over time typically by becoming more conservative as the target date (usually retirement) approaches.

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