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PwC 1e Market Study 2021

June 2021

Introduction

1e market expected to become worth CHF 10 billion in 5 years' time

Building on our 2020 survey, once again we asked the largest providers of Swiss 1e pension funds about their offerings and future expectations for the market.

We surveyed 17 current 1e pension funds in the Swiss market for facts, figures and their experiences. For the first time, the participants list also included four company 1e pension funds. Two additional multi-employer providers participated in our survey compared to last year, while one provider decided no longer to participate.

In our 2021 survey, we show the trends of actual and expected growth. While 2020 was again considered a good investment year after 2019 despite the COVID pandemic, a significant number of insured members still chose low-performing, low-risk strategies.

Key findings

The 1e market is expected to be worth more than CHF 10 billion in five years' time	The survey participants had a total asset volume of CHF 5.8 billion at year-end 2020. The multi-employer funds included 2,403 affiliated companies, covering 13,838 members. Company 1e funds covered an additional 17,154 members, making 30,992 in total. Multi-employer providers expect future growth of 17% per annum for the next five years, which would grow the assets in 1e pension funds to CHF 10 billion+ by 2026.
Less real estate, more cash and bonds	1e funds continue to have higher average allocations of cash and bonds and a lower share in real estate compared with more traditional collective pension funds.
Many choose a low-risk investment strategy, which can lead to negative returns	A significant number of insured members have chosen the low-risk investment strategy on offer despite the fact these strategies almost exclusively lead to negative returns in the current market. This suggests that individuals are still becoming familiar with 1e plans, not exercising investment choices and potentially not fully considering the long term risk vs. opportunities.
1e plans attractive for buy-ins	Compared to the regular contributions, buy-ins to 1e plans continue to be significantly higher than in traditional pension funds.
Digitalisation wide spread but with room for development	Almost all participating pension funds offer online-based tools to interact with members, but the level of functionality varies.
General administrative costs are slightly higher than in traditional pension funds	The average general administrative costs are slightly higher compared to the overall collective and company pension funds. The variety in costs per member reflects the different stages of the 1e funds in maturity and size as well as the enhanced service offering compared to traditional funds.

Provider 1e market shares vary, no correlation between AuM and insured members

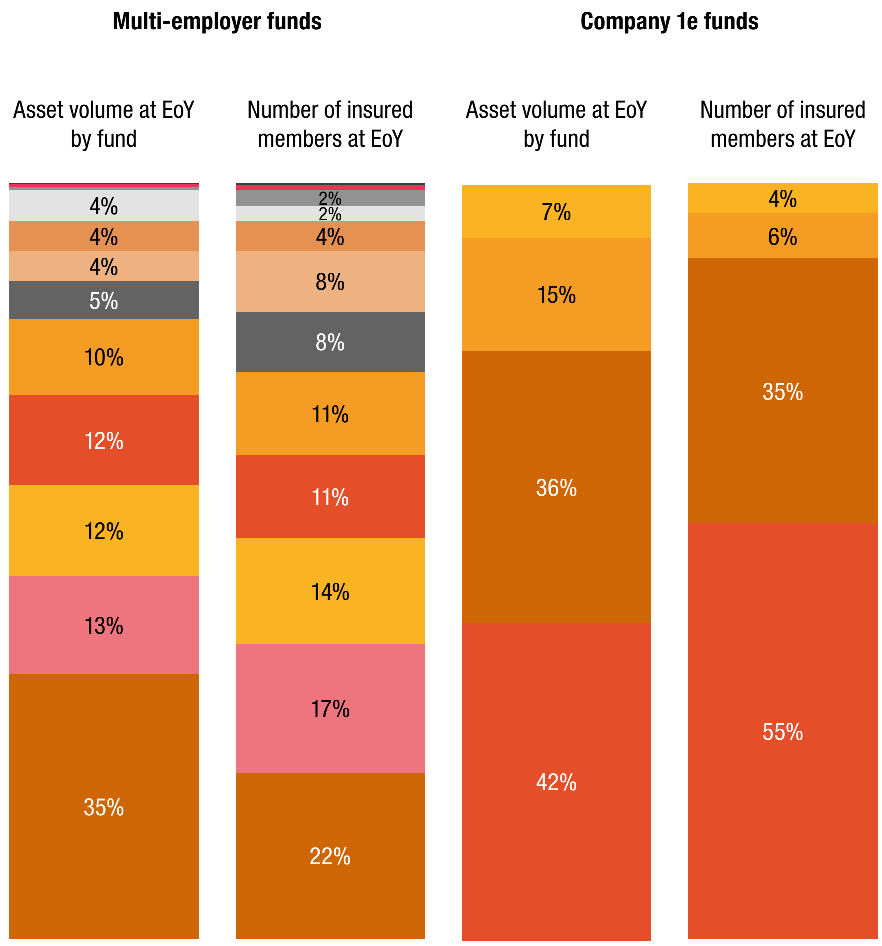
CHF 5.8 bn in AuM for 30,992 members

The survey participants showed a total asset value of CHF 5.8 billion at end of 2020, and covered a total of 30,992 insured members.

The multi-employer funds provide 1e plans for 2,403 affiliated companies. Compared to our last year's survey, this represents +174 companies (+8%). The average number of members per affiliated company is low at around 13, but there is a wide range between providers.

The multi-employer market is fragmented, but with a few larger providers. The three largest industry players hold 60% of the total 1e plan assets market share. The largest provider by asset volume covers 35% of the total assets, although these assets cover only 22% of members.

For the first time the list also includes four company pension funds with a total of 17,154 insured members, which makes up for more than half of all members recorded by the survey.



EoY = End of year

The 1e market to become a CHF 10 billion market within 5 years

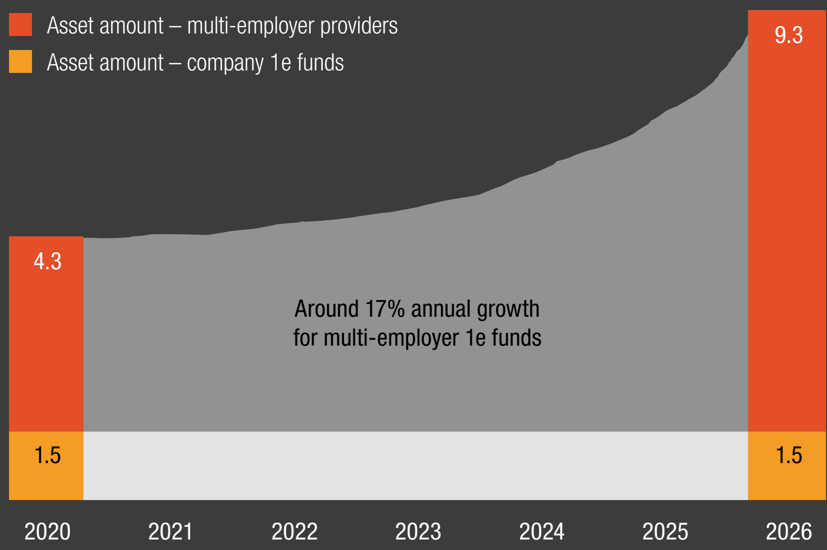
Multi-employer providers expect annual growth of 17%

The 17 survey participants covered total assets of CHF 5.8 billion at year-end 2020. CHF 4.3 billion of this relates to the 13 multi-employer providers.

These multi-employer providers expect their total assets under management to grow to CHF 9.3 billion by 2026 (17% per annum) which would mean the 1e market reaches the CHF 10 billion threshold (including the company 1e funds' current assets).

We did not evaluate the growth potential of the company 1e funds, as this is closely related to the development of the affiliated company.

Development of total assets CHF billion



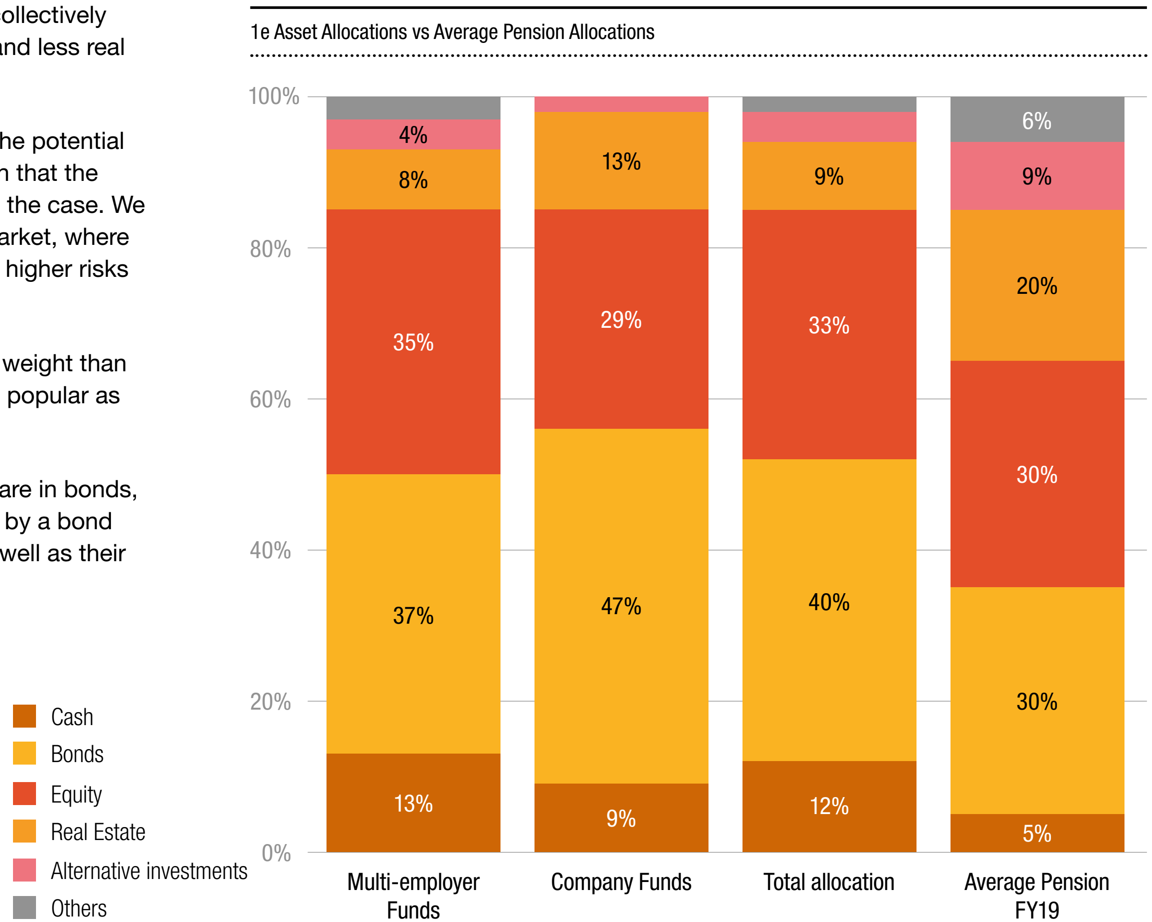
Overall asset allocation: less real estate, more cash and bonds

1e funds' asset allocations are arguably slightly less risky than collectively managed funds, which have a higher share of bonds and cash and less real estate investments.

This indicates that individuals still weight 'low-risk' higher than the potential for higher returns. This also means that the common assumption that the freedom to invest enables members to take too much risk is not the case. We suspect that the reason is largely due to the relatively new 1e market, where employees are still becoming familiar with the concept of taking higher risks with higher expected returns.

While in multi-employer providers the equity category has more weight than in average funds, investments in real estate are less than half as popular as for average pension funds.

Company 1e funds on the other hand invest a notably higher share in bonds, which make up almost half of the portfolio. This is mainly driven by a bond overweight in the investment strategies offered to members, as well as their choices.



Source of data: Average pension: Pensionskassenstatistik 2019 report (https://www.bfs.admin.ch/bfs/de/home/statistiken/soziale-sicherheit/berufliche-vorsorge.assetdetail.15944717.html)

The high number of participants selecting the low-risk strategy could be partially explained by the still-young 1e market.

Negative returns in low-risk strategies

Almost all 1e funds expect a negative return on their low-risk strategy

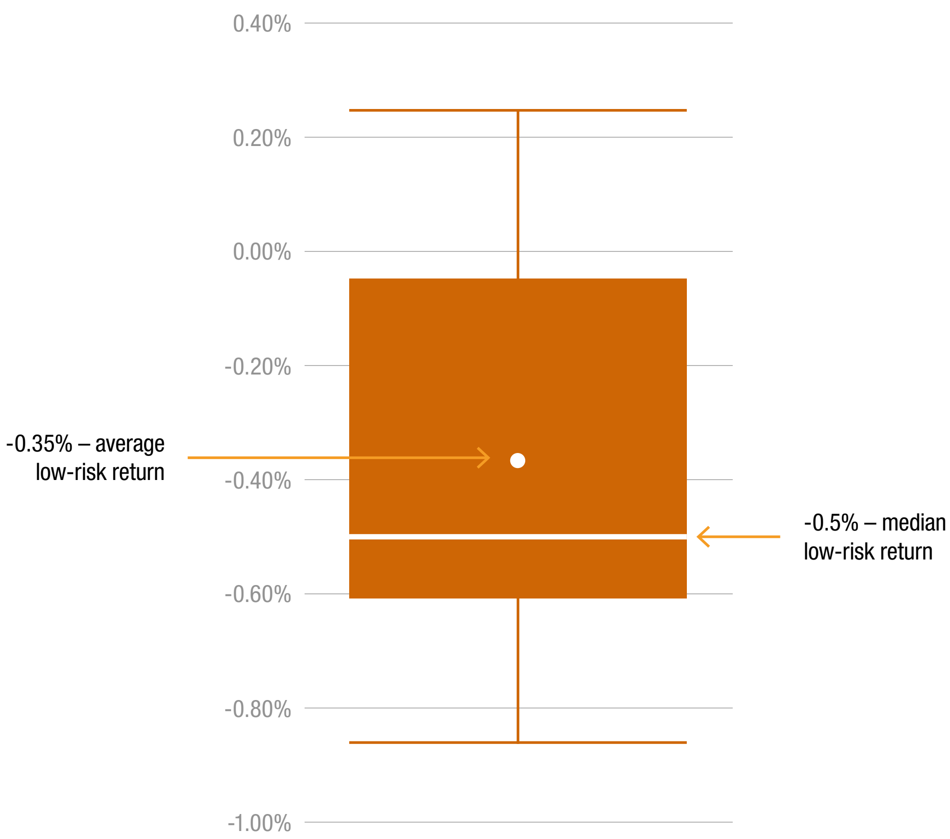
Due to the narrow definition of acceptable low risk strategies according to the ordinance, for most providers, the low-risk strategy represents CHF cash deposits and / or Swiss government bonds.

The expected annual returns on low-risk strategies of the surveyed funds range between -0.8% and +0.25% (-0.35% on average).

Of the 17 surveyed providers, five participants mentioned that up to 30% of the members chose a low-risk strategy. Three participants noted that the share of members choosing the low-risk strategy is around 30% to 50%. This can clearly be seen in the overall 1e asset allocation mix as outlined on the previous page.

The high number of participants selecting the low-risk strategy could be partially explained by the still-young 1e market. Many insured members are still becoming familiar with 1e plans, and tend to take more risks and opportunities over time.

Expected annual return of low-risk strategies

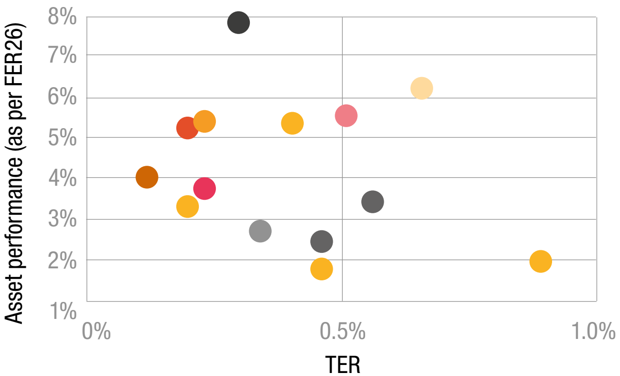


No link between Total Expense Ratio and returns

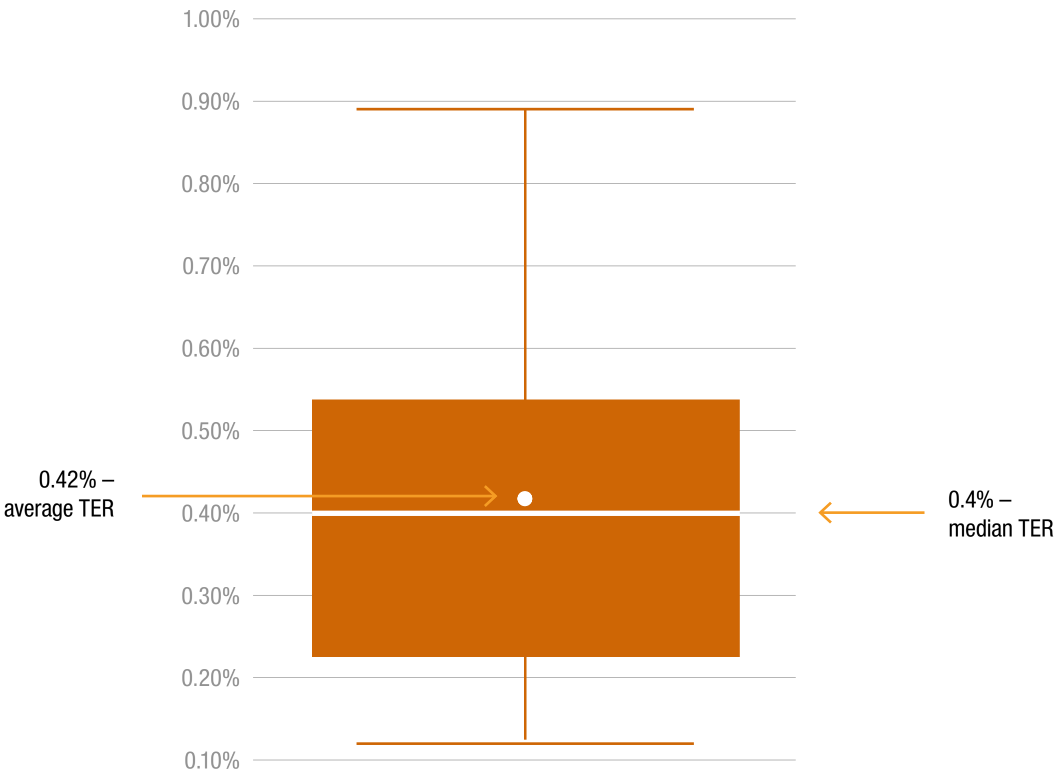
The average total expense ratio is 0.4%

Of the 17 surveyed participants, 15 provided us with their total expense ratio (TER). Whereas for the multi-employer foundations the TER ranges between 0.1% and 0.9%, the range is narrower for the company pension funds (within 0.2% and 0.4%). A comparison between TER and actual asset returns doesn't give a clear picture of how they are interrelated. The performance reported to us by participants is the overall asset return as disclosed in their 2020 annual accounts. It should be noted that the highest return is not necessarily the best performing plan, as the overall asset performance can be influenced by many factors. The returns will depend on the investment management style (active vs. passive), the asset allocations in the strategies offered, the employees' strategy choice and the timings of cashflows in and out of the plans.

TER versus asset returns



TER in % of assets (FER26 reporting)



1e plans grow strongly through buy-ins

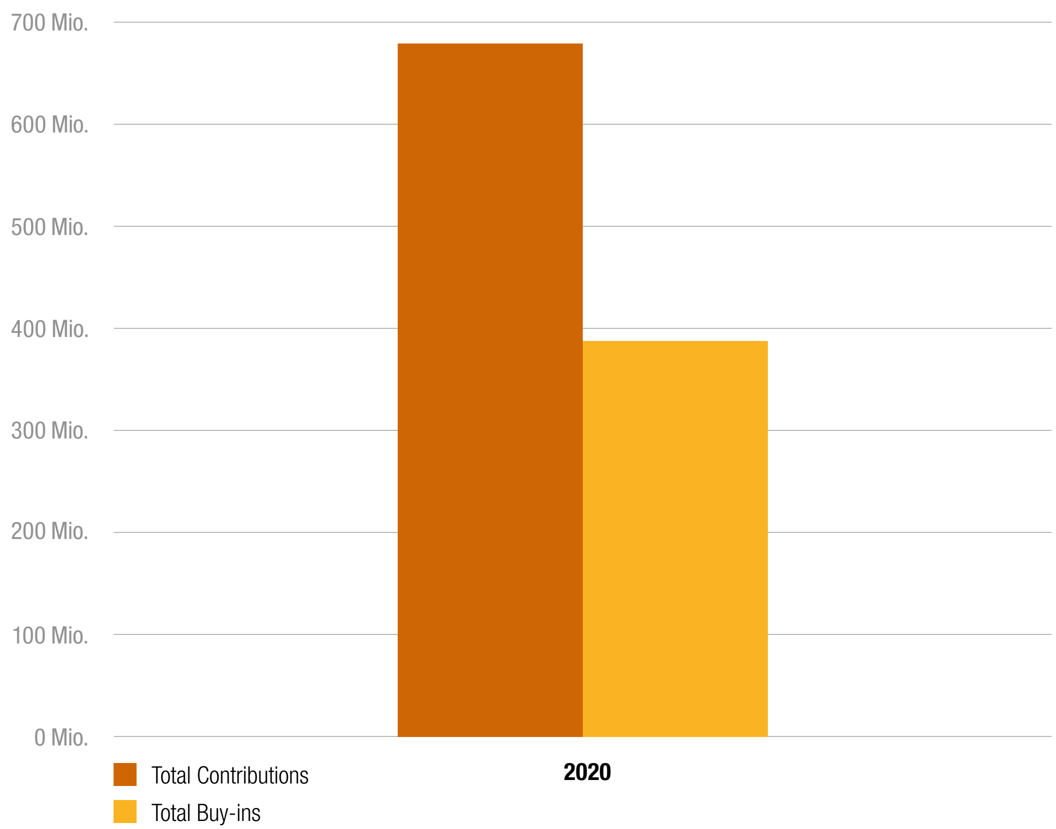
Buy-ins into 1e plans are high compared to regular contributions

In 2020, a high volume of contributions continues to flow into 1e plans in the form of individual buy-ins (60% of regular employer and employee contributions).

Compared to buy-ins to traditional collective funds, buy-ins to 1e funds were significantly higher in 2020 (57%)[1].

This confirms that individuals see 1e plans as attractive vehicles for additional retirement savings.

Total Contributions and Total Buy-ins by Year



[1] Buy-ins are approximately 18% of regular contributions: Pensionskassen-statistik 2019 report (https://www.bfs.admin.ch/bfs/de/home/statistiken/soziale-sicherheit/berufliche-vorsorge.assetdetail.15944717.html)

Widespread administration costs

Market presence, maturity and economies of scale the main drivers of administrative costs

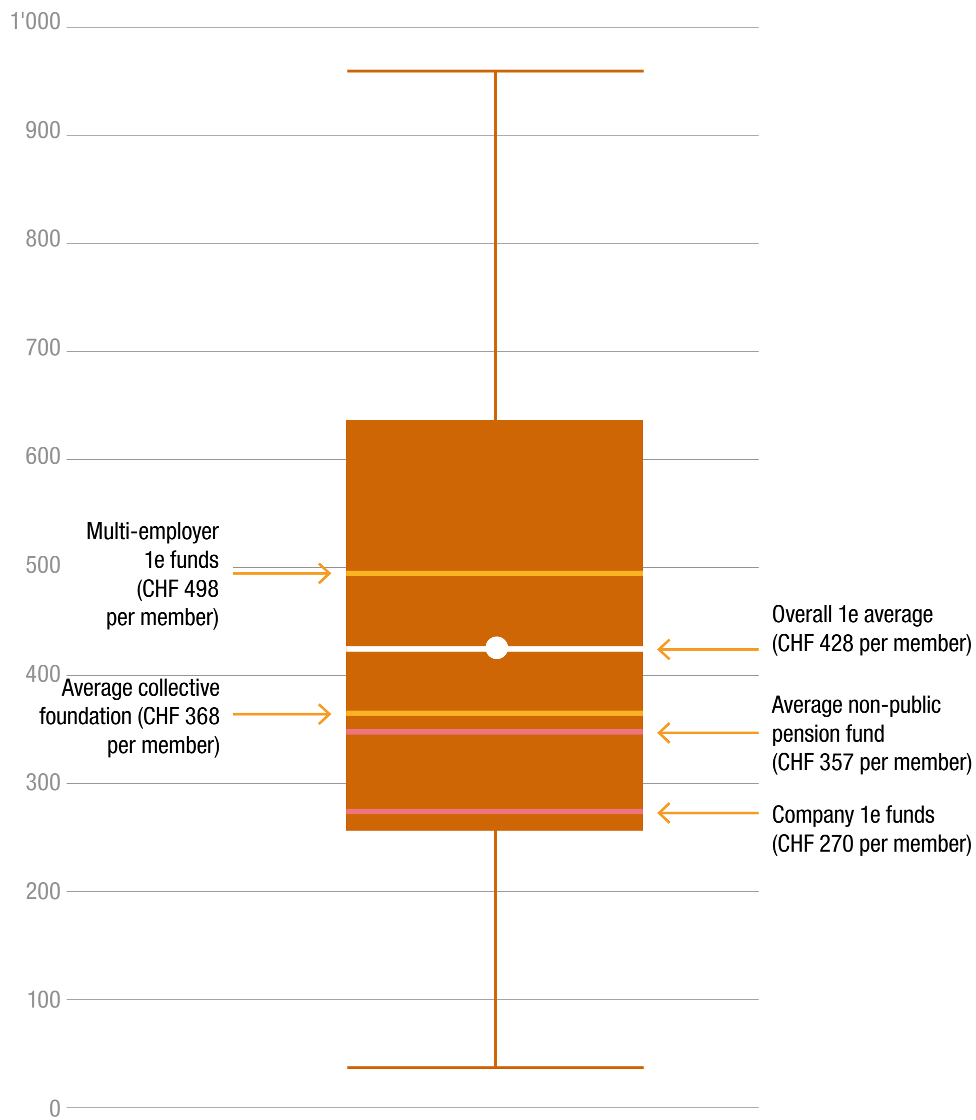
Of the 17 1e pension funds surveyed, 14 provided information on their annual administrative cost per member. The average cost of CHF 428 per member is higher than for traditional collective funds (CHF 368 per member). There is also a wide variety in average costs from fund to fund.

Higher costs per member are likely to be caused by the market's early stage of maturity. These costs should decline as the market grows. Some participants also experienced one-off transition efforts in 2020 that had an influence on the costs per member. The variety in admin costs reflects the different levels of maturity and size.

The multi-employer providers show higher average admin costs (CHF 498 per member) than the company funds (CHF 270). This is partially explained by the higher maturity of company pension funds as well as the scale, i.e. the larger average membership base of the company funds. It also shows that company pension funds can be run efficiently as of a certain scale.

Source of data: Average admin costs – collective fund: https://www.swiss-canto.com/media/pub/1_vorsorgen/pub-107-pks-2021-results-eng.pdf

Admin cost per FER26 reporting



Providers becoming more digital, offer of interactive tools still low

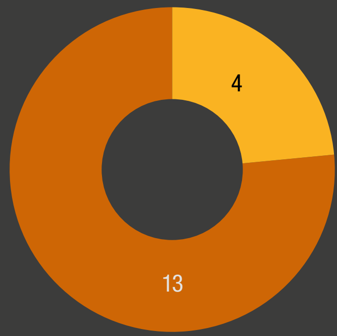
Increasingly digital approach, but only 35% of providers offer tools to change the strategy online

Providers are increasingly using a more digital approach to serve their clients. 13 out of the 17 participants surveyed offer an online platform. The online platforms offer a range of features, mainly related to the visualisation of current and past asset information data.

Ten of the participants' online platforms include an investor portal and seven offer also simulation tools. Out of the 10 investor portals, only six allow for members to change their asset strategy.

The majority of the multi-employer funds surveyed stated that they still offer face-to-face sessions at the client's request, especially during the onboarding phase.

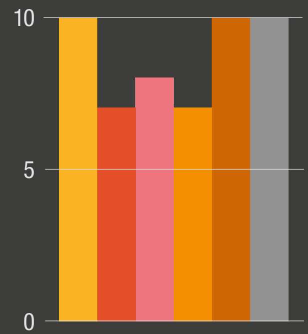
1. Online Presence



13 of the 17 participants surveyed have online facilities enabling their clients to access information on their offerings. Four providers currently have online platforms under construction.

Yes
Currently under construction

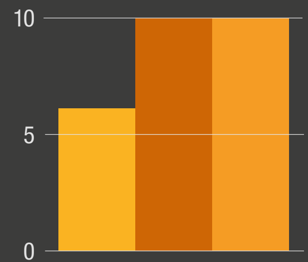
2. Features of the online platform



Ten participants offer a dashboard, including an overview of asset performance ratings and an investor portal. Simulations, plan regulations or benefit statements are less widespread, but are offered by at least seven of the survey participants.

Dashboard
Plan regulation downloads
Benefit statements
Simulations
Asset performance reporting
Investor portal

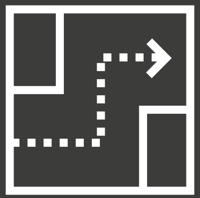
3. Features of the investor portal



All investor portals include a visibility functionality on past performance and investment strategies. Only six participants also allow changes to the strategy to be done through the investor portal.

Changes to strategy
Information on strategies
Past performance of the strategies

Further findings – multi-employer pension funds



Strategic priorities in asset management and sustainability

The focus of multi-employer funds seems to be on managing the asset portfolio, i.e. by offering specific investment strategies or a broad diversification.

Some of the survey participants also mentioned that they strategically focus on sustainable investments, i.e. introducing investment strategies with a focus on sustainability (ESG).

More than 50% measure client satisfaction

Seven out of the 13 multi-employer 1e funds surveyed mentioned that they regularly measure client satisfaction of their provided services. Feedback is mostly gathered either through surveys and questionnaires or through inputs from their consultants and annual meetings with employer and employee representatives.

On the basis of the feedback they had received, most providers described their ratings as ‘good’.

Further findings – company 1e pension funds

Origin of company 1e pension funds

All company 1e pension funds surveyed grew out of an existing management pension plan, i.e. none of the surveyed funds were built up as an addition to existing benefits.

They also stated that there were mostly made up of existing members and a part of the savings that was transferred from the previous plans.

Reasons for running a company 1e fund

The main reason for running a company 1e pension fund over a multi-employer pension fund is primarily the flexibility in terms of design, investment choices and influence on fund decisions.

Some of the plans surveyed also mentioned the importance of branding and linking the 1e offering to the base plan, as well as the advantages under international accounting.

Another reason for the 1e funds which have existed for longer than 5 years is that there were hardly any multi-employer pension funds around at the time of implementation.

1e survey participants – in alphabetical order

Multi-employer foundations

- Agilis 1e Sammelstiftung (prev. Katharinen Pensionskasse II)
- AXA Flex Invest (product)
- Credit Suisse Sammelstiftung 1e
- FCDE (Fondation pour Cadres et Dirigeants d’Entreprise)
- FCT 1e (Fondation Collective Trianon 1e)
- Finpension 1e Sammelstiftung
- GEMINI 1e-Sammelstiftung
- Liberty 1e Flex Investstiftung
- PensFlex – Sammelstiftung für die ausserobligatorische berufliche Vorsorge
- Sammelstiftung Vita Select der Zürich Lebensversicherungs-Gesellschaft AG
- Swiss Life Sammelstiftung Invest
- UBS Optio 1e Sammelstiftung
- VZ Sammelstiftung

Company funds

- General Electric Switzerland Supplementary Insurance Plan
- Pensionskasse 2 der Credit Suisse Group (Schweiz)
- Pensionskasse Novartis 2
- (anonymous)

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