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PwC 1e Pension Plan Survey 2022

July 2022

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Introduction

Digital transformation will help providers grow the 1e pension plan market to CHF 15 billion over the next five years

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

Our survey covered 19 current 1e pension funds in Switzerland and looked at facts, figures and experiences. We were able to expand our pool of participating company 1e pension funds to six. All those who participated in the previous year took part again this year and were joined by two additional company 1e pension funds.

In our 2022 survey, we show that the trend of actual and expected growth of 1e pension funds is continuing. While 2021 was once again considered a good investment year after 2019 and 2020, even despite COVID being still a point of discussion throughout the year, a significant number of insured members still chose low-performing, low-risk strategies.

Key findings

Digitalisation of member interfaces is becoming the norm	17 out of the 19 survey participants have an online presence, including all of the surveyed company funds. 10 of the 13 multi-employer providers surveyed are working on further digital innovations such as improving their online presence or creating apps. We expect having an online platform for members to be the market norm soon.
Many plan members choose a low-risk investment strategy and many do not change their chosen strategy	Around one in five insured members have chosen a low-risk investment strategy despite these strategies often having negative expected returns in the current market. In the vast majority of multi-employer providers, less than 10% of insured members changed their investment strategy in 2021. Both numbers indicate to us that ongoing communication and education for members is needed to ensure employees are making informed choices about how their assets are invested.
Conversion of existing management plans is the main vehicle for change for larger companies	Over the last few years, we have expanded our survey to six company funds. Five out of the six company funds were created by converting an existing management plan. Management plans typically cover higher salaries and employees in management positions are typically better positioned to take higher risks in their pension plans.
Growing impact of ESG	ESG is having an impact on the investment market and 1e pension funds are no exception to this. Many survey participants are reviewing their investment offerings to take ESG into account more thoroughly. We expect this trend to continue until ESG investing becomes standard practice.
The 1e market is expected to reach more than CHF 15 billion in five years' time	The survey participants had a total asset volume of CHF 7.3 billion at year-end 2021. The 1e pension funds surveyed covered 34,778 members, 19,926 of whom in company pension funds and 14,852 of whom in multiple-employer funds spread over 2,788 affiliated companies. The surveyed providers expect future growth of 16% per annum for the next five years, which would grow the assets in 1e pension funds to CHF 15 billion+ by 2027.

Provider 1e market shares vary and there's no direct link between members and asset volumes

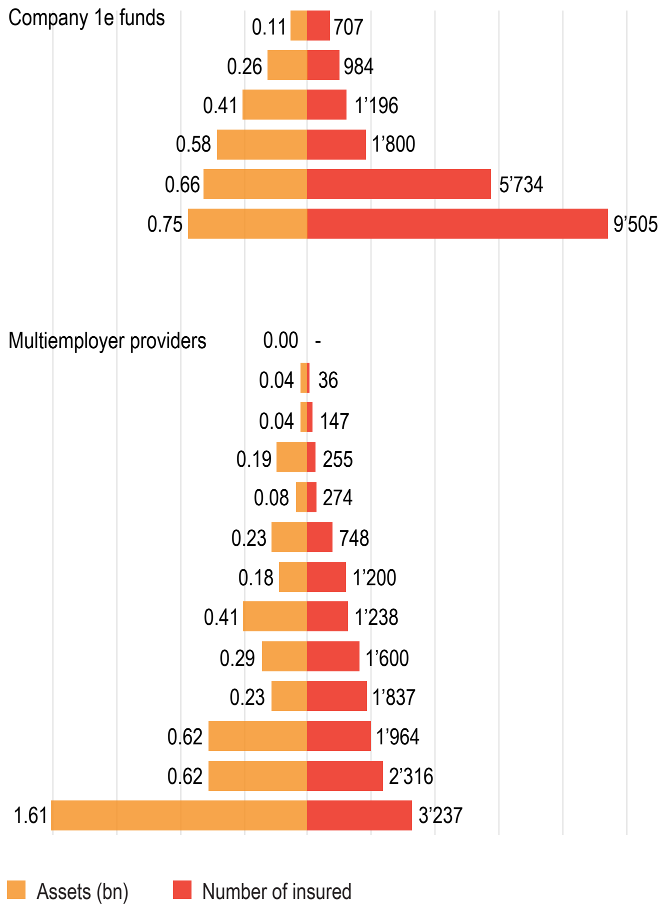
CHF 7.3 bn AuM for 34,778 members

The survey participants held total assets of CHF 7.3 billion in their funds at the end of 2021 and covered a total of 34,778 insured members.

The multi-employer funds provide 1e plans for 2,788 affiliated companies. Compared to last year's survey, this represents +385 companies (+16%). The average number of members per affiliated company is low (around 5) but there is a wide range between providers.

The multi-employer market is fragmented but has a few larger providers. The three largest industry players hold a market share of around 63% of total 1e plan assets. The largest provider by asset volume accounts for 35% of the total assets although these assets cover only 22% of members.

The list also includes company pension funds for the second time. The six company pension funds in the survey have a total of 19,926 insured members, which constitute more than half of the members included in the survey.



The 1e market is going to become a 15 billion market in 5 years' time

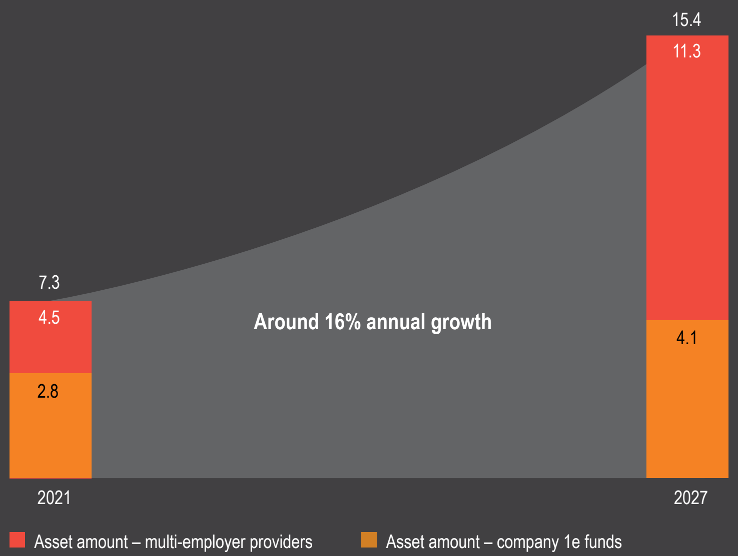
Multi-employer providers expect annual growth of 16%

The 19 survey participants covered total assets of CHF 7.3 billion at year-end 2021. CHF 4.5 billion of this relates to the 13 multi-employer providers.

These multi-employer providers expect their total assets under management to grow to CHF 11.3 billion by 2027 (20% per annum), which would enable the 1e market to easily surpass the CHF 10 billion threshold expected in the prior year (including the company 1e fund's current assets).

At 8% a year, the growth expected by company 1e funds is, unsurprisingly, more moderate. Reasons for this could be that multi-employer providers are taking an expected increase in the number of companies opting for a 1e pension plan into consideration whereas the growth of company 1e funds relates directly to the growth of the company.

Development of total assets CHF billion



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

The asset allocations of 1e funds feature a higher share of bonds and cash coupled with fewer real estate investments, and are arguably slightly less risky than an average pension fund[1].

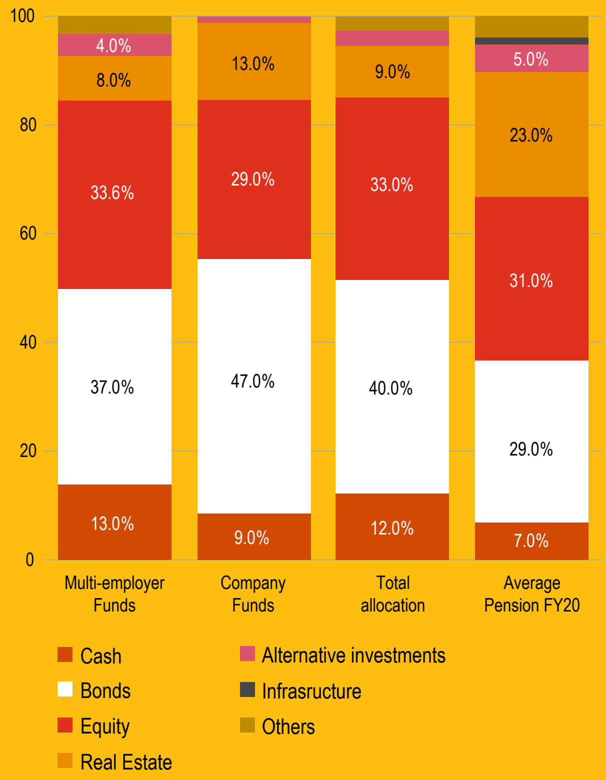
This could indicate that individuals still value security higher than potential returns. This also means that while members' freedom to invest is commonly thought to result in excessive risk-taking, the opposite has materialised with the concept of choice and the risk/return framework. We suspect that the conservative investment behaviour is largely due to the 1e market being relatively new, with insured parties still only just becoming familiar with the concept of the risk/return framework. Other reasons could be that not enough savings have accumulated in employees' 1e accounts yet for employees to make a well-founded decision.

All 1e funds expect a non-positive return on their low-risk strategy. For most providers, the low-risk strategy constitutes CHF cash deposits and / or Swiss government bonds. The expected annual returns on low-risk strategies of the surveyed funds range between -0.99% and +0.0% (-0.32% on average).

Source of data

[1] Average pension fund (assets from insurance contracts excluded): Pensionskassenstatistik 2020: Definitive Ergebnisse (https://www.bfs.admin.ch/news/de/2022-0085)

1e asset allocations vs average pension allocations

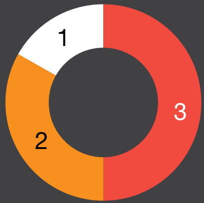


Many employees are choosing the low-risk investment strategy and do not change their investment strategy during the year

Of the 19 providers surveyed, nine participants mentioned that less than 10% of members chose a low-risk strategy. Eight participants noted that the share of members choosing the low-risk strategy is around 10% to 30%, while two indicated that the share of members is around 30% to 50%. This is clearly expressed in the overall 1e asset allocation mix as outlined on the previous page.

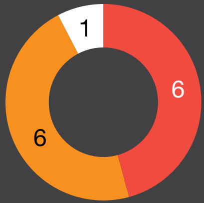
The high number of participants selecting the low-risk strategy (around one in five employees) could be partially explained by the fact that the 1e market is still young. Many insured members are slowly becoming familiar with 1e plans, and tend to take more risk and opportunities over time.

Only two of the 13 multi-employer providers answered that more than 10% of their affiliated employees changed their investment strategy in 2021. This strikes us as low, and might be a signal that ongoing communication and education is needed for employees to fully recognise the opportunities and chances of a 1e plan.



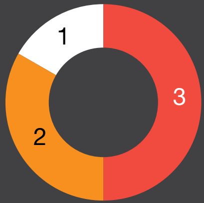
% of affiliated employees who chose the low risk investment strategy – company pension funds

<10%
>10% to 30%
>30% to 50%



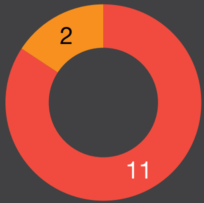
% of affiliated employees who chose the low risk investment strategy – multi-employer providers

<10%
>10% to 30%
>30% to 50%



% of affiliated employees who changed their investment strategy in 2021 – company pension funds

>30% to 50%
<10%
>10% to 30%



% of affiliated employees who changed their investment strategy in 2021 – multi-employer providers

<10%
>10% to 30%

Increasing impact of ESG

ESG is already an important topic for 1e pension plans and its importance will grow

5/13 Multi-employer pension providers are reviewing their investment offerings. That includes a review focused on ESG or investment strategies offering a higher equity ratio.

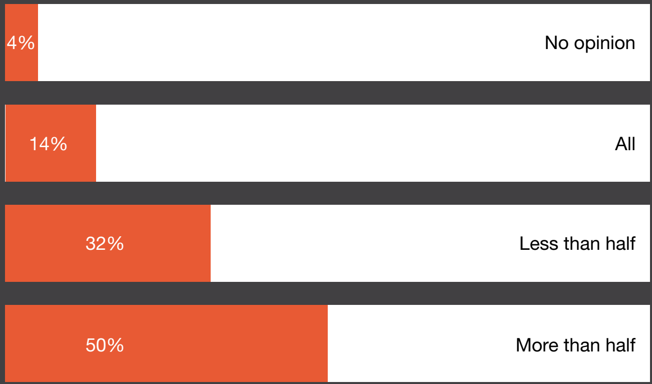
Moreover, many multi-employer providers already offer an investment strategy in line with ESG principles. Other comments from the participants include that asset managers invest in accordance with the UN principles for responsible investment.

This trend towards ESG investing can also be observed in the wider asset manager and custodian market as shown in the chart to the right[2].

Based on an ASIP-Survey in November 2020 that included 160 traditional pension funds, 60% to 80% already consider ESG when investing in equity and 39% have included ESG aspects to be considered within their investment regulations[3].

10/13 Multi-employer pension providers offer several different options for the affiliated companies to chose which investment strategies they would like in their "portfolio". This gives employers the option of choosing ESG-related investment strategies to satisfy employees' needs.

Study of large Swiss asset managers and custodians as well as large Swiss asset owners (including pension funds): What percentage of your investments/products are invested according to ESG criteria?



Source of data

[2] ESG Investment Reporting Survey by PwC and bmpi as of May 2021

[3] Verwantwortung Schweizer Vorsorgeeinrichtungen beim Klimaschutz – Wo geht die Reise hin?

No link between total expense ratio and returns

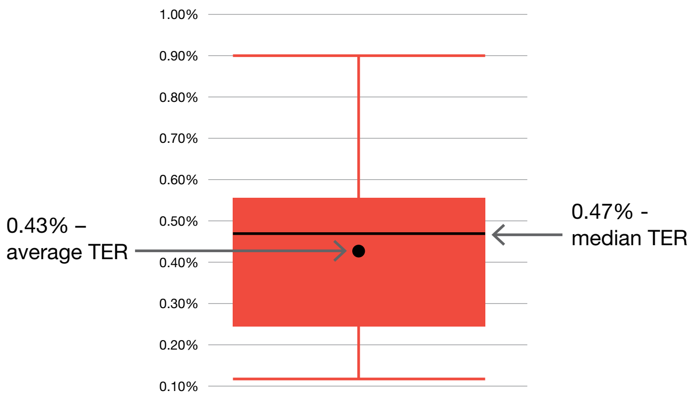
The total expense ratio is 0.43% on average

Of the 19 participants surveyed, 13 provided us with their total expense ratio (TER). Whereas the TER ranges between 0.1% and 0.9% for multi-employer foundations, the range is narrower for company pension funds (within 0.2% and 0.5%).

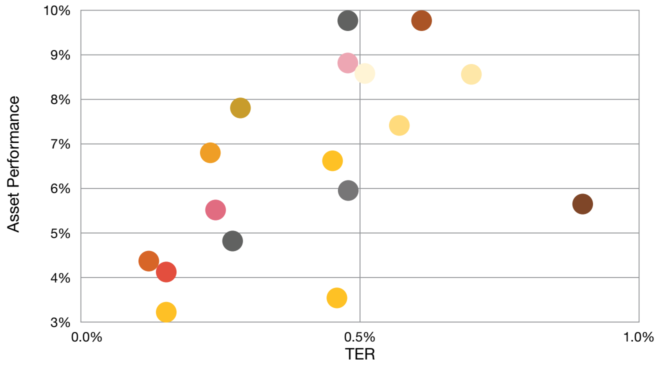
A comparison of TER with actual asset returns does not paint a clear picture regarding the presence of any correlation.

The performance reported to us by participants is the overall asset return as disclosed in their 2021 annual accounts. It should be noted that the highest return is not necessarily the best-performing plan, as 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, as well as the timings of cashflows in and out of the plans.

TER in % of assets (FER26 reporting)



TER in % of assets (FER26 reporting)



1e plans grow strongly through buy-ins

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

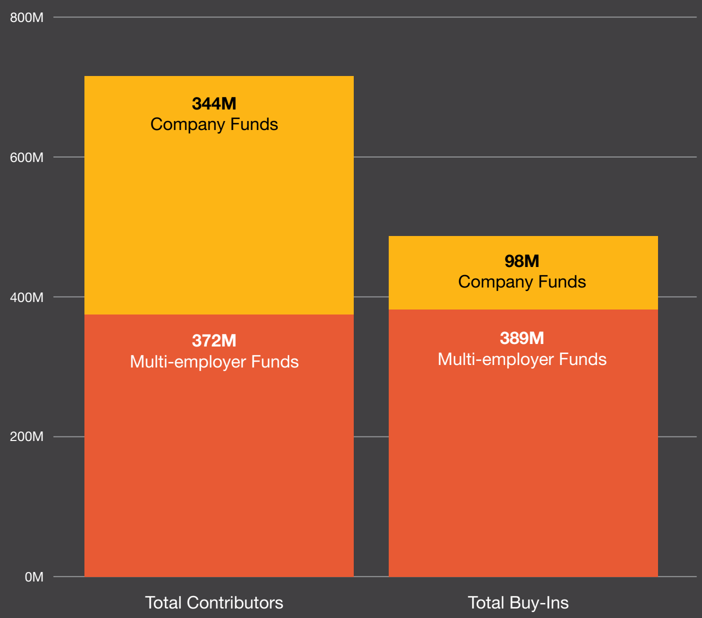
In 2021, a high volume of contributions continues to flow into 1e plans in the form of individual buy-ins (buy-ins equal 68% of regular employer and employee contributions).

Compared to buy-ins to traditional collective funds[4], buy-ins to 1e funds were significantly higher in 2021.

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

In 1e multi-employer pension funds, the voluntary buy-ins even surpassed the regular employer and employee contributions in 2021. We think this is due to the fact that companies actively seeking a 1e solution in the market are better informed about the advantages offered by 1e plans than company funds, for example, that might be setting up a 1e plan to benefit from advantages in the area of international accounting.

Total contributions and total buy-ins by year



Source of data

[4] Buy-ins are approximately 30% of regular contributions: Pensionskassenstatistik 2020 report (https://www.bfs.admin.ch/bfs/de/home/aktuell/neue-veroeffentlichungen.assetdetail.21304941.html)

Widespread administration costs

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

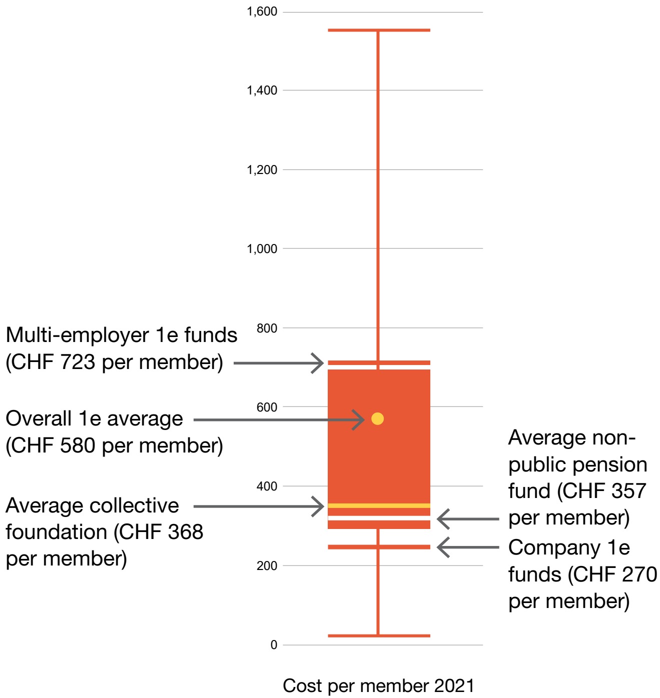
Of the 19 surveyed 1e pension funds, 18 provided information on their annual administrative cost per member. The average cost of CHF 580 per member (compared to CHF 428 per member in the prior year) is higher than for traditional collective funds (CHF 357 per member). Average costs also vary widely from one fund to another.

Higher costs per member are likely caused by the market's early stage of maturity. These costs should decline as the market grows. The variety in admin costs reflects the different levels of maturity and size.

Multi-employer providers show higher average admin costs (CHF 723 per member) than the company funds (CHF 270 per member). This is partially explained by the higher maturity level of company pension funds as well as scale, i.e. the larger average member base of company funds. It also shows that company pension funds can be run efficiently once they reach a certain scale.

Source of data
Average admin costs – collective fund:
https://pensionstudy.swisscanto.com/21/app/uploads/Schweizer-Pensionskassenstudie-2021.pdf

Admin cost per FER26 reporting



Providers becoming more digital

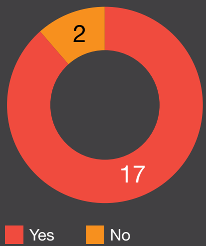
Increasingly digital approach, as 9 out of 19 of providers offer tools for changing the strategy online.

Providers are increasingly using a more digital approach to serve their clients. 17 out of the 19 participants surveyed to offer an online platform. The online platforms offer a range of features mainly around the visualisation of current and past asset information data.

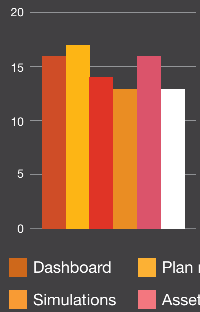
13 of the participants' online platforms include an investor portal and 13 also offer simulation tools. Of the 13 investor portals, nine allow for plan members to change their asset strategy.

Other offerings on the investor portal are simulations (e.g. impact of WEF or early retirement) or research services.

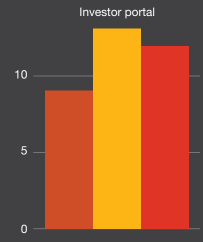
The majority of the multi-employer funds surveyed stated that they still offer face-to-face sessions at the client's request, especially during the onboarding phase.



1. Online presence
17 of the 19 surveyed participants have online facilities allowing their clients to access information on their offerings. The number of participants without an online presence fell from four in the prior year to two this year.



2. Features of the online platform
16 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 offered by at least 13 of the survey participants.



3. Features of the investor portal
All investor portals include information on investment strategies. Nine participants also allow changes to the strategy to be made through the investor portal.the low risk investment strategy – company pension funds.

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. offering specific investment strategies or broad diversification.

More than 50% measure client satisfaction

Six of the 13 surveyed multi-employer 1e foundations and three out of six company funds mentioned that they measure client satisfaction for the services they provide. Feedback is mostly gathered either through surveys, by using the net promotor score (NPS) and questionnaires or through input from consultants as well as annual meetings with employer and employee representatives.

Based on the feedback they received, most providers described their ratings as ‘good’.

Further findings – company 1e pension funds

Origin of company 1e pension funds

Five out of six company 1e pension funds surveyed grew out of an existing management pension plan. Management plans typically insure higher parts of the salary, and employees in management positions are financially better positioned to take more risk in their occupational benefit scheme compared to employees with lower savings. These are prime premises to set up a successful 1e plan.

At least four company 1e pension funds transferred existing pension savings. Pension savings accrued in a traditional pension fund have a capital guarantee, while pension savings in a 1e plan do not. This aspect is vital for a 1e plan and should be understood by employees transferring their savings.

Reasons to run a company 1e fund

The main reasons to run a company 1e pension fund over a multi-employer pension fund are primarily flexibility in terms of plan 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 in terms of international accounting.

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

Further findings

Digital innovations to come

The majority of 1e pension funds surveyed are working on further improving their digital presence.

Such improvements include an online platform or an app for the insured to see their investment performance and provide further information e.g. simulations of a planned change in investment strategy.

Changes in investment strategy made at a low rate

13/19 surveyed participants noted that fewer than 10% of affiliated employees had changed their investment strategy during 2021 (excluding employees being put automatically in the default strategy).

This shows that many people stick with the strategy they initially chose. That therefore begs the question of whether the employees are satisfied with their chosen strategy or if they are not taking the time to make a different investment choice.

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
(anonymous)

Company funds

General Electric Switzerland Supplementary Insurance Plan
Novartis Kaderkasse
Pensionskasse 2 der Credit Suisse Group (Switzerland)
Pensionskasse Novartis 2
Zusatzkasse der Julius Bär Gruppe
(anonymous)

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