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PwC 1e Pension Plan Survey 2023

5th edition

July 2023

Introduction

The 1e market has continued to grow and in this 5th edition we share our insights on the current offerings of 1e plan providers

There's a range of 1e pension plan providers to meet the different needs of employers and employees.

Building on our past surveys, we continue to ask the largest providers of 1e funds about their offerings. Our survey covers 14 multi-employer pension funds ("MEPF") and 6 company-owned pension funds ("CF").

We provide insights on the current offerings of 1e providers and how the market has developed since the legislative changes in 2017. We also provide guidance on what employers should be considering when thinking about introducing a 1e plan.

Key statistics and findings at a glance

CHF 8 billion
assets under management in 1e plans (CHF 5.4 bn from MEPF)

41,958
employees covered by 1e plans surveyed

-8% /-12%
fall in average admin costs (2022 vs 2021 – MEPF and CF respectively)

15 / 20
funds incorporate ESG factors

CHF 881 million
of individual "buy-in" contributions by 1e plan members (69% of contributions)

+515
(+19%)
new companies affiliated to MEPF in 2022

-8% to -15%
average asset returns of 1e funds in 2022 in challenging markets

21%
expected growth in assets by MEPF p.a. over the next 5 years

A snap shot

1. **1e remains attractive –** Plans continue to interest employers and employees
2. **Providers are confident –** Multi-employer funds expect continued growth over the next five years
3. **Tough year for returns –** 2022 was a test for 1e plans with overall negative returns offsetting 2021 gains
4. **Falling costs –** Administration costs are falling
5. **ESG in focus –** ESG factors continue to be a focus area for 1e providers
6. **Risk averse members? –** Limited evidence of members seeking higher returns

6 key findings from our 1e pension plan survey

1	**1e remains attractive –** Plans continue to interest employers and employees	• 19% increase in the number of affiliated employers in multi-employer funds. • Small rise in average size per employer from 5.3 to 6.1 for multi-employer funds. • Significant “buy-ins” by members shows confidence in these plans as investment vehicles. • Assets in multi-employer funds grew by 17% in 2022 despite negative asset return.
2	**Providers are confident –** Multi-employer funds expect continued growth over the next five years	• Assets in all funds surveyed now total CHF 8 billion at the end of 2022. • Multi-employer funds expect annual growth of 21% and CHF 14 billion in assets by 2028. • Providers continue to invest heavily in digital solutions.
3	**Tough year for returns –** 2022 was a test for 1e plans with overall negative returns offsetting 2021 gains	• All funds experienced negative average asset returns in 2022, offsetting positive gains in 2021. • Negative returns directly hit individual savings accounts in 1e plans. • Individuals in 1e plans directly experience the upside and downside of investments markets rather than being “protected” through the collective principle.
4	**Falling costs –** Administration costs are falling	• Average admin costs reduced by 8% for multi-employer funds and 12% for company-owned funds. • The fall was despite higher inflation which saw traditional pension fund costs increase. • This suggests funds are becoming more efficient with economies of scale and competition kicking in.
5	**ESG in focus –** ESG factors continue to be a focus area for 1e providers	• Sustainable investment and ESG factors have become a key priority for the majority of pension fund providers. • 15 out of 20 funds surveyed have integrated ESG factors into their investment strategies.
6	**Risk averse members? –** Limited evidence of members seeking higher returns	• Asset strategies show slightly lower risks being taken by individuals of company-owned 1e pension funds than the average traditional Swiss pension fund. • Overall strategies of multi-employer 1e funds are broadly aligned to the average pension fund but with no evidence of members seeking higher returns. • A need for further investment in employee communication might be needed.

Participating 1e funds hold CHF 8 billion assets under management with 41,958 insured members at the end of 2022

Multi-employer 1e funds add 515 more employers in 2022

The 15 surveyed funds provide 1e plans for 3,573 affiliated companies covering 21,822 insured employees at the end of 2022. This represents 515 more affiliated companies compared to last year's survey, a 19% increase. The four largest multi-employer funds hold together a market share of 68% of assets.

The average number of insured members per plan also increased by 15% from 2021 to 2022 (6.1 members per affiliation in 2022 compared to 5.3 in 2021). The average assets per member in these funds is CHF 248,000.

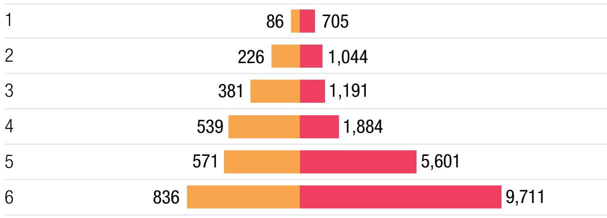
Company-owned 1e funds cover 20,000+ employees

The six surveyed funds cover 20,136 insured employees at the end of 2022, so almost the same number as the multi-employer funds. The average assets per member in these funds is CHF 131,000.

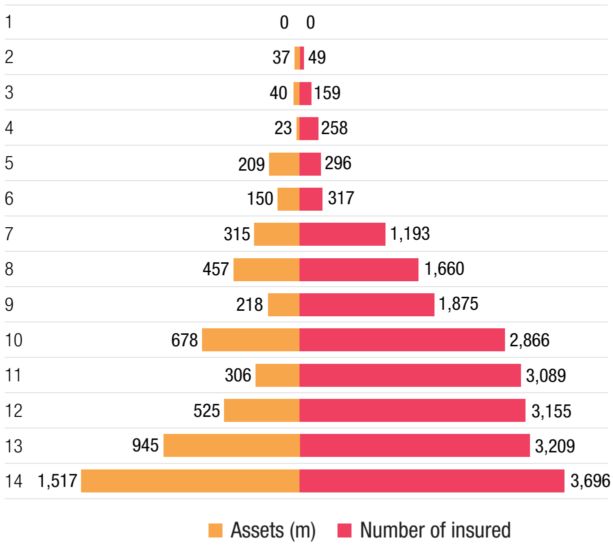
Finance, health care and pharma lead the way

Multi-employer providers reported finance as the most common industry among their affiliated employers. Pharma and health care were the second most common industries.

Company-owned 1e funds



Multi-employer funds



The 1e market returned to a higher rate of growth following a slow down during the COVID pandemic – we expect faster growth in the coming years

1e plan members increased by 20% in 2022

According to the official statistics for the whole of Switzerland, the number of insured members in 1e pension plans grew by 14% in 2022 compared to the 20% growth in our survey.[1] The previous year 2021, which was impacted by the COVID pandemic, was a year of single-digit growth of 3% according to the official statistics. Before that, more explosive growth was experienced – increases between 47% and 78% per year were seen in 2018 to 2020 according to official statistics.[1]

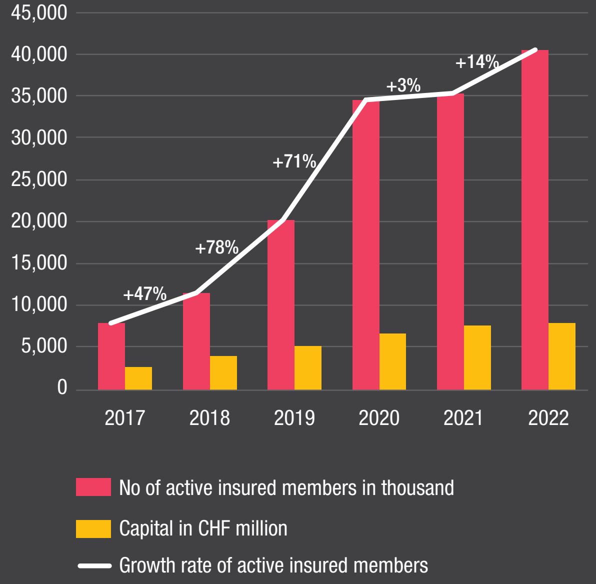
Our survey showed a 46% increase in the number of insured members for 2022 for multi-employer funds, whilst company-owned funds only show a 1% increase in the number of insured members in 2022.

Multi-employer survey participants expect the 1e market to continue to grow. See the following page.

Source of data

[1] Bericht zur finanziellen Lage der Vorsorgeeinrichtungen 2022 (Oberaufsichtskommission Berufliche Vorsorge, OAK BV)

1e pension market development[1]



The level of additional buy-ins in 1e pension plans remains high

Plan members continue to make large voluntary “buy-ins” to 1e plans

1e plan members continued to invest in their portfolios in 2022 with additional voluntary “buy-in” contributions. The size of total “buy-ins” of CHF 610 million covers 69% of the CHF 881 million regular contributions from employer and employee. This is high compared to total pension funds in Switzerland where the buy-ins accounted for 14% of the total regular contributions.[1]

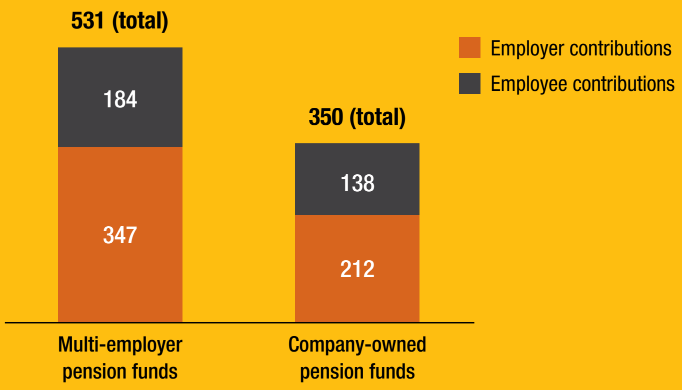
Multi-employer funds lead the way on voluntary contributions

Contributions to multi-employer funds saw buy-ins even slightly higher than the normal contributions (100.2%). The proportion of regular employer contributions compared to employee are also high. Multi-employer 1e plans continue to typically cover smaller groups of senior employees and management. In contrast, company-owned funds typically cover a larger number of employees.

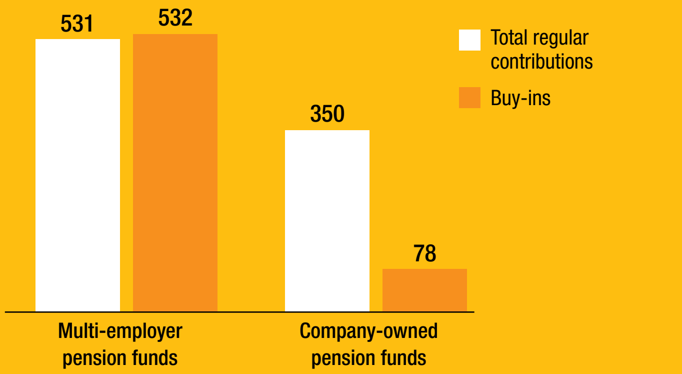
Source of data

[1] Pensionskassenstatistik Kennzahlen 2017 - 2021 (Bundesamt für Statistik, BFS)

Regular employer and employee contributions (CHF million)



Total regular contributions and buy-ins (CHF million)



Multi-employer providers expect to have CHF 14 billion assets under management in five years' time

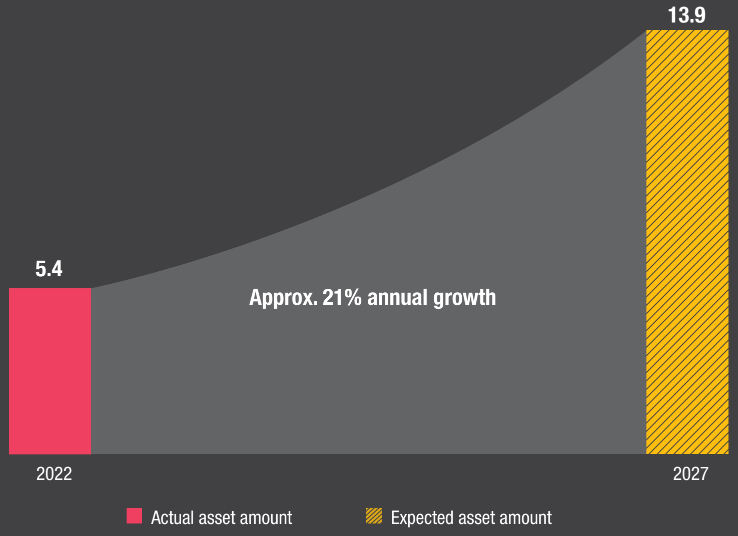
Providers see growth ahead

Multi-employer providers continue to see large opportunities in the 1e market and expect their total assets under management to grow from CHF 5.4 billion to CHF 13.9 billion by 2027. This would result in an annual growth of 21%. In addition, we saw one new provider coming into the market as evidence of the market appetite for these plans.

Multi-employer fund assets grew by 17%

Despite the negative asset performance over 2022, assets increased by around 17% over the year. Given the negative returns, this suggests growth may be even faster than they predict.

Development of total assets in MEPF (CHF billion)



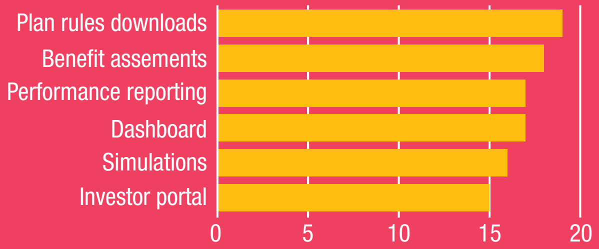
1e plan providers continue to invest heavily in their digital solutions to improve member experience

More providers have online platforms

In 2022, out of the 20 surveyed participants, 19 of them provide an online platform for employees, which is an increase compared to the previous year where 17 out of 19 participants offered an online tool.

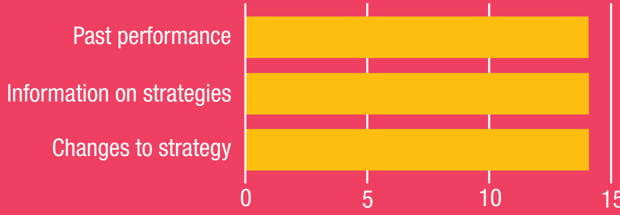
Most multi-employer providers are investing heavily in technology

Improving online platforms for members to access information is crucial for many multi-employer pension funds. Out of the 14 providers surveyed, 10 expressed their commitment to invest in enhancing or introducing online tools and apps for insured members such as asset performance simulations, financial planning tools, projections of retirement benefits and digital handling for voluntary buy-ins.



Features of the online platform

17 offer dashboards with asset performance reporting. Simulations can be conducted on 16 portals. Plan regulations and benefit assessments are available by at least 18 providers. Other vendors highlighted their fully digital voluntary buy-in process.



Features of the investor portal

12 MEPF and 3 company-owned funds offer an investor portal. These include information on investment strategies. 14 participants also allow changes to the strategy to be made through the investor portal. 14 tools disclose past performance.

Tough year for returns

2022 saw falling asset values for all Swiss pension plans including 1e plans but higher returns are expected in future given the increase in interest rates and bond yields

Negative asset returns across the board

As expected, all 1e funds showed negative average asset returns for 2022. For multi-employer funds, the range was -8% to -15%. For company-owned funds, there was a narrower range from -10% to -13%. The average performance for all Swiss pension funds was around -10%[1] in 2022 so 1e plans were broadly in line with this on average. Only real estate and alternative markets experienced positive returns.

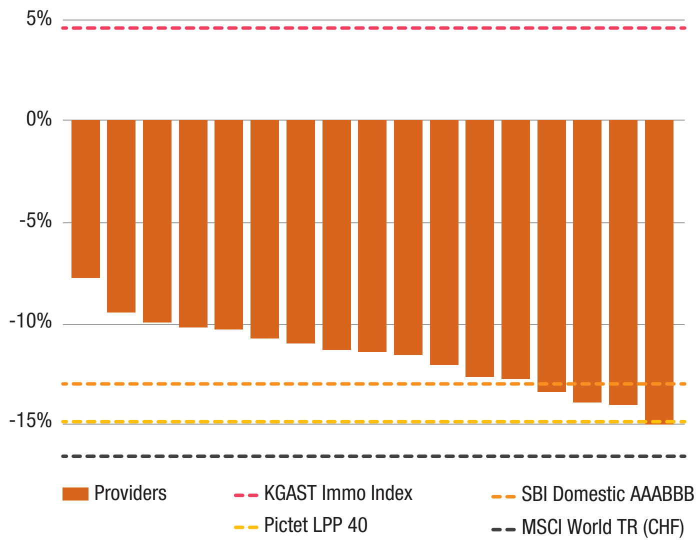
Higher returns expected in future

The increase in corporate bond yields, short and long-term interest rates mean providers now expect higher asset returns in the future. Participants indicated an expected return of 0.1% to 1.3% for their low-risk strategy (i.e. cash, bonds, money market) compared to previous years of non-positive returns.

Source of data

[1] Schweizer Pensionskassen Index 4. Quartal 2022 (Credit Suisse)

Asset performance of 1e pension funds vs different indices



Falling costs

Decrease in 1e admin costs but still widespread in multi-employer funds

Average administration costs of 1e multi-employer funds and company-owned 1e funds decreased

The average cost per member reported by providers was CHF 514 in 2022 compared to CHF 580 in 2021, representing a significant fall in costs, despite higher inflation. The average costs for 1e plans still remain higher than for traditional collective funds (CHF 405 per member, prior year: CHF 369)[1] which saw an increase in average costs.

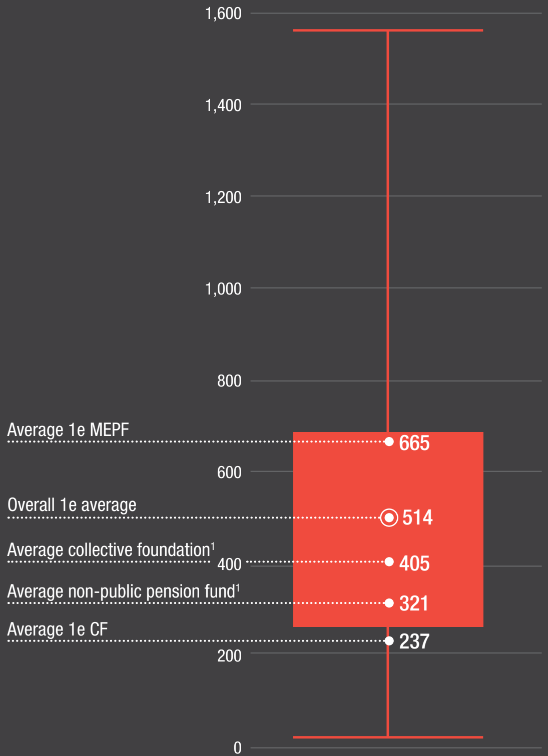
Company-owned funds retain lower costs due to size

The average admin costs per member in company-owned funds fell by 12% over the year from CHF 270 to CHF 237. Multi-employer providers also fell by 8% (CHF 665, prior year: CHF 723). The median multi-employer cost was at CHF 611 whereas for company-owned at CHF 243. Company-owned funds are typically larger, and can leverage resources from their main fund as well as the employer – this lowers reported admin costs.

Further declines ahead?

The decline in the average admin costs of funds indicates that experience, technology economies of scale and, for multi-employer funds, competitive forces have kicked in to lower costs. We'd expect this trend to continue, subject to inflation having an impact. Many multi-employer funds continue to have "high touch" service offerings which naturally have higher costs.

Admin cost per FER26 reporting
(CHF per member)



Source of data
[1] Schweizer Pensionskassenstudie 2023 (Swisscanto by Zürcher Kantonalbank)

Responsible investing – ESG factors

ESG remains high on the agenda

Environmental, social and governance (ESG) factors remain high on the agenda of most pension fund providers. There is more pressure to address climate change and the wider social impact of investment practices and we see more participants incorporating ESG as part of their strategy.

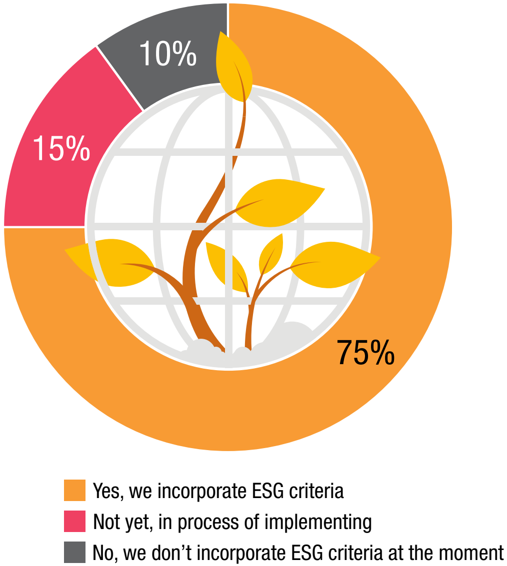
75% of funds incorporate ESG into their investment strategies

15 out of 20 survey participants incorporate ESG factors into their investment strategies or universe. A significant number of multi-employer pension funds (43%) have expressed their intentions to enhance the sustainability of their investment offerings. The Federal Social Insurance Office (BSV) states that pension institutions must incorporate climate risks into their investment risk assessments. ASIP also suggests that pension institutions should consider ESG risks and sustainability aspects in defining their investment strategies.[1]

Reporting standards ahead

An ESG reporting standard was published by ASIP towards the end of 2022. This standard embraces a couple of metrices around the "E" of ESG so far. This standard should prompt the Board of Trustees and pension managers to transparently communicate and report their ESG activities and their development.[2]

ESG criteria considered in 1e funds investment strategies



Source of data

[1] Vorsorgeeinrichtungen müssen den Anlageprozess umgestalten (PwC, Dimitri Senik)

[2] ESG-Reporting Standard für Pensionskassen (ASIP)

Overall asset allocation: less risks in company-owned 1e pension funds compared to multi-employer funds

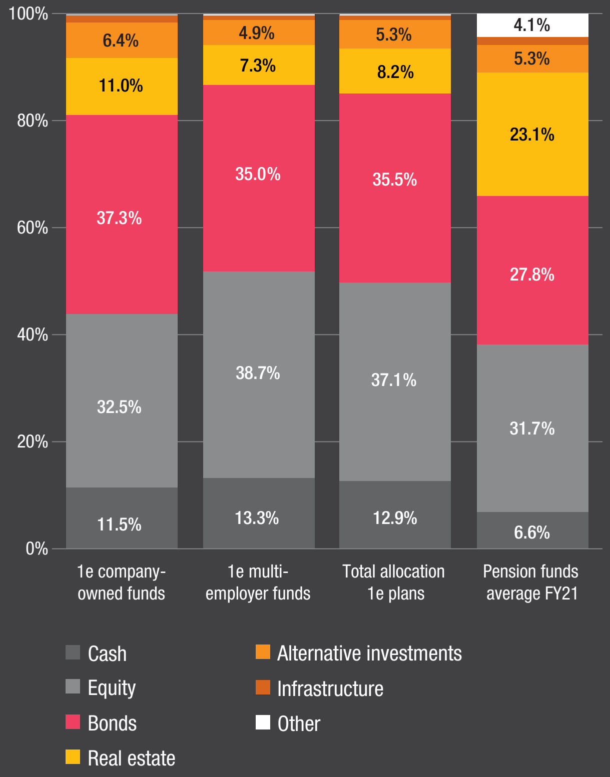
Less risks in company-owned funds

The overall asset allocation considering all 1e survey participants is broadly aligned to the asset allocation of an average Swiss pension fund. However, the asset allocation of 1e funds features a higher share of bonds and cash but a lower share of real estate compared to the average Swiss pension fund. Depending on how you assess the risks and volatility of these asset classes, 1e funds could be considered slightly less risky than the average pension fund. Lower risk is being taken by individuals of company-owned 1e pension funds compared to multi-employer 1e funds and traditional Swiss pension funds.[1]

Are members not taking advantage of the flexibility offered by 1e plans?

The majority of 1e funds reported that only a small proportion of insured members are invested in their default strategy. Considering the amount of investments in cash and bonds, it appears members are not seeking higher returns or seeking more aggressive strategies than their base plans. Might this be a result of a lack of active engagement by participants in their asset strategies, suggesting an increase and improvement in communication is needed.

1e asset allocations vs average pension fund allocation



Source of data

[1] Pensionskassenstatistik Kennzahlen 2017 - 2021 (Bundesamt für Statistik, BFS)

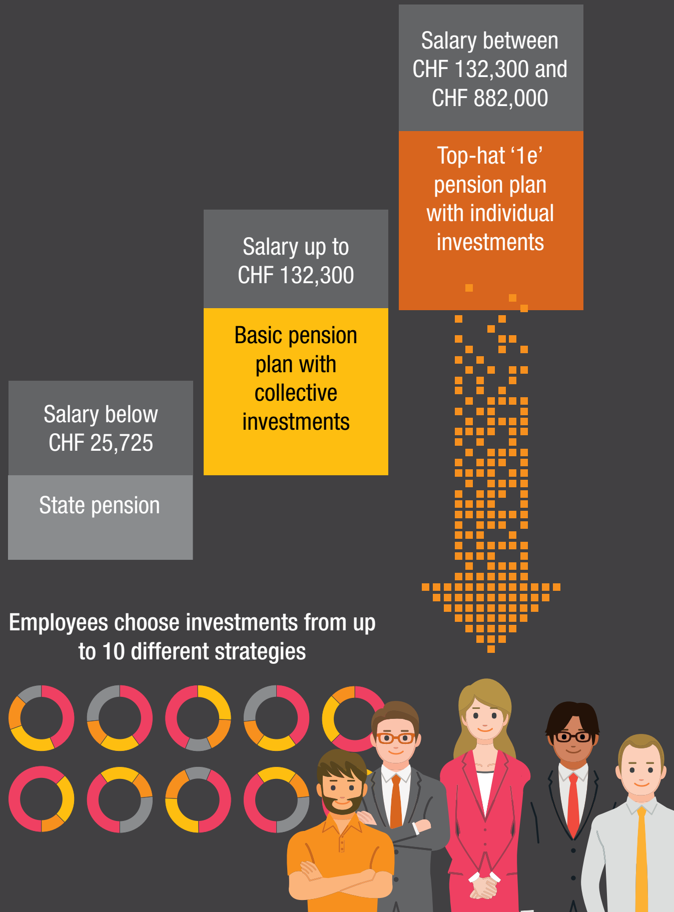
Guidance on 1e pension plan implementation

What are 1e plans?

1e plans allow individual employees to choose how their pension savings are invested from the range of strategies made available by the plan. 1e plans can be set up to cover earnings above CHF 132,300 (2023) either in addition to or partially replacing existing pension plans. Changes in law in 2017 mean that, depending on the design, these plans may be accounted for as defined contribution under IFRS and US GAAP.

As shown in our 2023 survey the 1e market has continued to grow. Many companies have already implemented 1e plans or are in the process of considering implementing such a plan. 1e plans fit corporate objectives to reduce employer pension risk, increase outcomes and choice for employees.

Pension plans according to art. 1e BVV 2



Five key decisions on 1e pension plan implementation

1e plans can have a similar design to your current plan, but there are some special considerations and questions you'll need to answer.

Benefit design 1

Should you make changes to benefits during the change? Making no change supports communication messages and continuity. Some changes may be needed to manage accounting treatment. It could also be a good moment to give employees options to pay more to boost their outcomes.

Structure 2

Should you operate your own fund or move to a full-service third-party provider? Own funds bring control and more choice in set up. Full-service providers have experience and can simplify the transition.

Investment strategies 3

How many strategies should you offer from the maximum 10? More strategies increases employee choice. Fewer strategies are easier to manage and simpler to communicate.

Eligibility 4

Who's in and who's not? There may be obvious criteria for deciding membership of the plan such as closeness to retirement or job grade. You may want to limit the number joining to simplify communications. But more members maximises the benefits of such plans.

Past service or just future 5

Do you intend to transfer past rights or just start the plan for the future? As with eligibility, transferring past rights in some form leads to the biggest impact of changing the plan. Starting for the future lowers the impact but is easier to communicate.

The key challenges and how to address them

01

Employee relations – Pensions can be an emotional topic. Effective communication ensures that the benefits of the new plan are understood. A 1e plan may mean that the option to take a pension at retirement is lost, which may be seen as negative. On the other hand, investment options and flexibility are increased and there's a higher chance of a better outcome due to higher potential returns (at a cost of more risk).

02

Aligning stakeholders – Multiple stakeholders need to be managed not only within management but also pension plan committees and boards and external providers. You'll need to ensure good alignment of all internal stakeholders from executive level to line management, finance to HR, global to local. Everyone will have an opinion, so strong sponsorship from the top is needed.

03

Impact on pension fund – Changing to 1e will have an impact on what's left behind. As a minimum your current pension fund will have less regular income to manage the fund. At most, a sizeable portion of assets (and obligations) may leave the fund, possibly with a share of any local surplus. This can raise significant questions and trigger the fund to look again at the reserves they hold.

1e survey participants – in alphabetical order

Multi-employer funds

Agilis 1e Sammelstiftung
AXA Sammelstiftung 1e
Credit Suisse Sammelstiftung 1e
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
Swisscanto Sammelstiftung 1e
Swiss Life Sammelstiftung Invest
UBS Optio 1e Sammelstiftung
VSMplus Sammelstiftung für Personalvorsorge
VZ Sammelstiftung

1e survey participants – in alphabetical order

Company funds

General Electric Switzerland Supplementary Insurance Plan

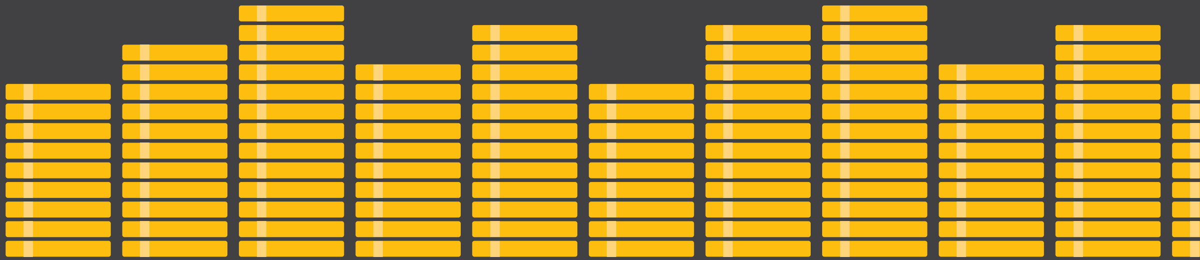
Novartis Kaderkasse

Pensionskasse 2 der Credit Suisse Group (Switzerland)

Pensionskasse Novartis 2

Zusatzkasse der Julius Bär Gruppe

anonymous 1



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