Improving retirement outcomes through defined contribution plans

Highlights from the Asia Defined Contribution Survey

wtwco.com

TABLE OF CONTENTS

Introduction

The pensions landscape has seen significant change over the last few decades. Globally, we have witnessed a consistent shift toward defined contribution (DC) pension arrangements as governments and employers attempt to make retirement systems more sustainable amid a rapidly ageing society.

Asia has some of the longest life expectancies worldwide[1] and relatively underdeveloped social security systems. As such, providing for employees' retirement has become more important than ever – and a key differentiator in the suite of benefits offered to employees.

For most markets in Asia, the shift to DC is still relatively new but accelerating quickly. In Hong Kong, DC assets comprise around 45% of the market's GDP. Japan has 10 million DC members, and the Indian government has recently introduced a state DC plan called the National Pension System. In China, assets under management of the Enterprise Annuity (the only tax-qualified DC plan in the country) have had an average annual growth rate of 20% in the last decade.

Moreover, our survey shows that about 1 in 5 employers in the region plan to enhance their DC plans or set up and transition to one if they don't currently provide one. In the Philippines, this number jumps to 2 in 5 employers.

Employees also recognise that they need help saving for retirement and are highly appreciative of their employer's plans. Our Global Benefits Attitudes Survey found that a majority of employees (69%) feel they are saving less for retirement than they should, and that retirement is the area of benefits in which they most want help from their employers. This highlights the importance of retirement plans as a key tool for attracting and retaining talent, particularly in a tight labour market.

As employer-sponsored DC retirement savings continue to grow and become the main source of employees' retirement security, there will be pressure on employers to overhaul the way they oversee their pension plans, engage employees with their DC plans and, in turn, provide better outcomes for them.

Our inaugural Asia DC Survey focuses on five markets in Asia and explores the challenges employers face with their DC strategies, and how they navigate this changing landscape, not only creating value, but also providing crucial support for employees as they move toward retirement.

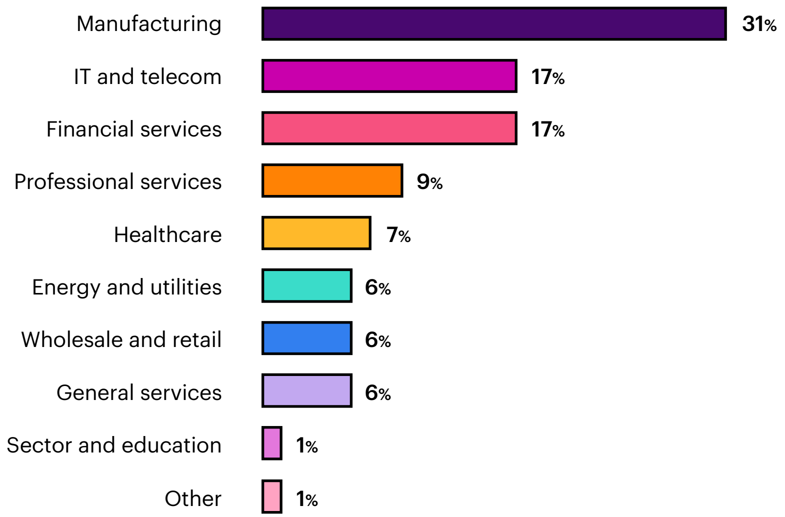
[1] World Population Review, Life Expectancy by Country 2023

About the survey

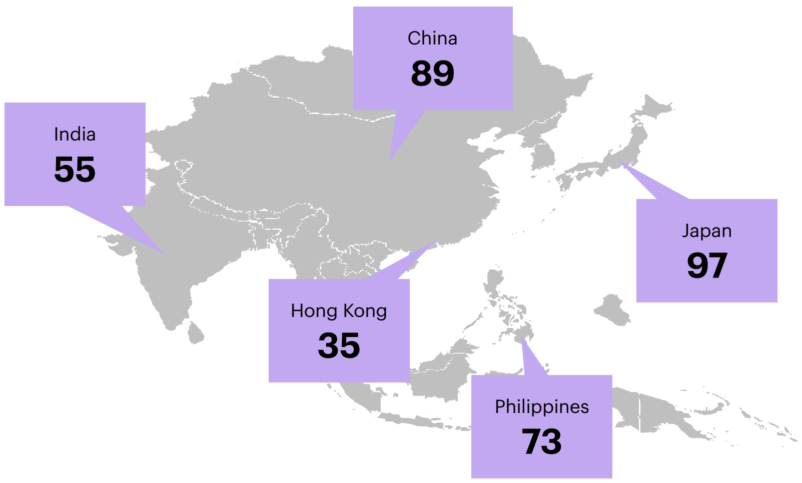
The Asia Defined Contribution (DC) Survey was fielded between May and June 2023. Our first survey of its kind in the region, it collected information about the key issues for DC retirement plan management in Asia, including strategy, investments, governance and employee experience across five markets in Asia.

The survey findings reflect responses from 349 employers, 236 of whom have DC plans covering almost two million participants.

Industry



Region



Key findings

1. Improving retirement outcomes for employees is the most important objective for DC plans for all the markets surveyed, closely followed by enhancing the employee experience and enhancing support for financial wellbeing.

2. Employers are working toward achieving these objectives, moving to support a more interactive and personalised experience that includes tools and modellers, retirement projections and a better understanding of employee wants and needs around benefits and providers.

3. In the current war for talent, retirement plans are now seen as a fundamental differentiator; however, less than half of employers think their DC plan is currently acting as an effective attraction and retention tool.

4. Our survey showed that less than half of employers in the region have a governance group or committee providing oversight around their DC plan.

5. When it comes to investment strategy, only half of employers have reviewed its appropriateness in the past two years, and only 2 in 5 have performed a risk assessment of the overall membership.

6. Although ESG awareness is increasing in the insurance and pension industries across Asia, the incorporation of ESG into the investment strategy of DC pensions is still not widespread, with about a third of employers offering ESG investments to members (mostly as a self-select option).

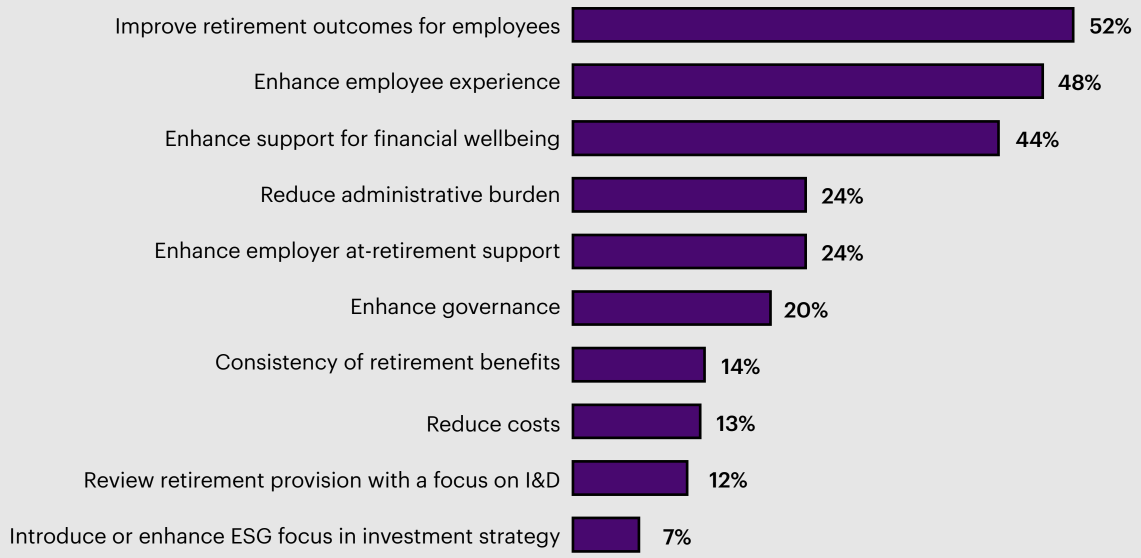
What do employers want to achieve with their DC plans?

Our survey shows that employers in the region are taking a broader view of their strategy for DC plans, with objectives focused on the key aspects of retirement adequacy, financial wellbeing and employee experience (Figure 1).

Improving retirement outcomes for employees is the most important objective for DC plans, cited by 52% of employers surveyed and appears consistently in the top three for all the markets surveyed (Figure 1). This is closely followed by enhancing the employee experience (48%) and enhancing support for financial wellbeing (44%).

However, there is some variation between markets in the survey (Figure 2). We find that enhancing at-retirement support edges out financial wellbeing support in China, whereas in Japan, reducing the administrative burden edges out enhancing the employee experience.

Figure 1: **Objectives of DC plans in Asia**



Q: Which of the following are the most important objectives for your organisation's DC retirement provision over the next two years? Please select up to three
Note: 3% for "Other".

Figure 2: **Top three objectives of DC plans**

	Asia	China	India	Hong Kong	Japan	Philippines
1	Improve retirement outcomes	Enhance employee experience	Enhance financial wellbeing	Enhance employee experience	Improve retirement outcomes	Improve retirement outcomes
2	Enhance employee experience	Improve retirement outcomes	Enhance employee experience	Improve retirement outcomes	Enhance financial wellbeing	Enhance employee experience
3	Enhance financial wellbeing	Enhance at-retirement support	Improve retirement outcomes	Enhance financial wellbeing	Reduce administrative burden	Enhance financial wellbeing

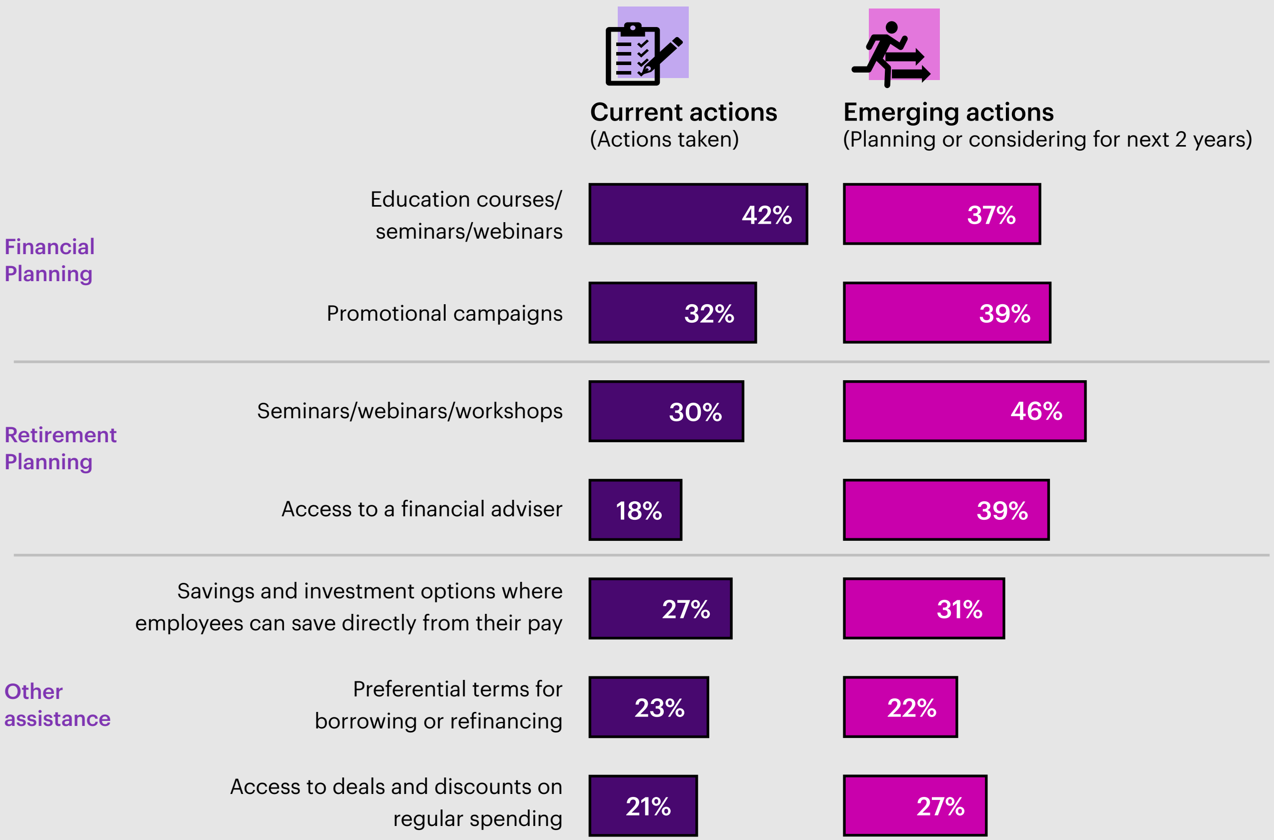
All these objectives are interconnected: helping employees to make better choices both through the focus on enhancing financial wellbeing and the employee experience is very well aligned with the desire to improve retirement outcomes and help employees save more.

Employers are working toward achieving these objectives. They understand the importance of improving the employee experience and are adjusting their strategy accordingly (Figure 3). From a current focus on communication to new hires, providing benefit statements and access to information via apps, they're moving toward a more interactive and personalised experience that includes tools and modellers, retirement projections and a better understanding of employee wants and needs around benefits and providers. This will boost employee engagement and appreciation of their plans, and result in better retirement outcomes for them.

Figure 3: **Enhancing the employee experience around retirement**

Q: Does your organisation do any of the following to enhance employee engagement with the DC retirement plan? Or does it have plans to do so in the next two years?

Figure 4: **Supporting employee financial wellbeing**



Q: Does your organisation offer any of the following to support employees with their financial wellbeing? Or does it have plans to do so in the next two years?

Importantly, employers are also taking steps to tackle financial wellbeing (Figure 4). While currently the focus on financial wellbeing support is mostly centred on short-term financial planning (education and campaigns), employers are looking to enhance support for retirement planning through education (seminars, webinars and workshops) and access to financial advisors. With a global focus on financial wellbeing and the current cost-of-living crisis, employees face even more barriers to saving.

With a global focus on financial wellbeing and the current cost-of-living crisis, employees face even more barriers to saving.

Employers are looking to alleviate some of these pressures via access to deals and discounts and introduce savings and investment products to help break any saving barriers. Still, introducing financial wellbeing benefits and effectively delivering these programs to employees to tackle their needs in the context of inflationary pressures and constrained resources is challenging.

Do DC plans deliver for employers?

More than half of employers (56%) believe their DC plan is effective at providing adequate retirement incomes for employees, and a similar number think it is effective at supporting employees at retirement (Figure 5). Employers are less positive about the ability of their DC plans to attract and retain talent – only 44% think their DC plan is an effective attraction and retention tool. These results indicate that there is still room for improvement.

Our research shows that competition for talent is the most important factor influencing the benefits strategy today[2], and that retirement benefits are the most important area where employees want their employer to increase support.[3] This makes retirement plans a fundamental lever to pull to differentiate benefits offerings from competitors and stay ahead in the talent war.

There is a growing recognition of the complexities employees face as they approach retirement, and the need for employers to make that decision-making process – one where employees feel comfortable and confident with their choices – easier. Therefore, it is important for employers in the region to enhance the support they provide to older employees and encourage them to use the resources and solutions provided.

Figure 5: **How effective are DC plans in delivering the following for employers?**

44%
using retirement benefits to attract and retain key talent

56%
providing adequate retirement outcomes for employees

56%
supporting employees at-retirement

Q: How effective is your organisation at the following, with regards to its DC retirement benefits? Percentage citing “effective” or “very effective”.

[2] WTW 2023 Benefits Trends Survey, Asia Pacific
[3] WTW 2022 Global Benefits Attitudes Survey, Asia Pacific

Investment strategy

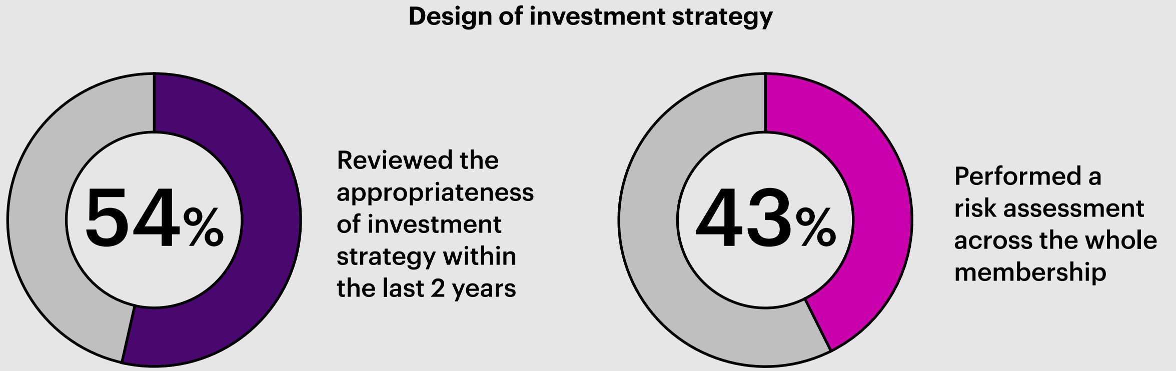
Investment strategy and design is a complex area for employers and managers of DC plans. It involves careful design of investment choices, default options, asset allocation and manager selection, among others. Employers also need to consider how the strategy interacts with local guidance and legislation, how it fits members' preferences and their risk appetite, and review it on an ongoing basis.

Moreover, the recent shifts in global investment markets (rise in interest rates, increases in market volatility and rise in ESG investing, among others) point to a fast-moving environment that requires careful attention and adaptability. Our survey finds that only half of employers have reviewed the appropriateness of the investment strategy in the past two years and that only 2 in 5 have performed a risk assessment of the membership (Figure 6).

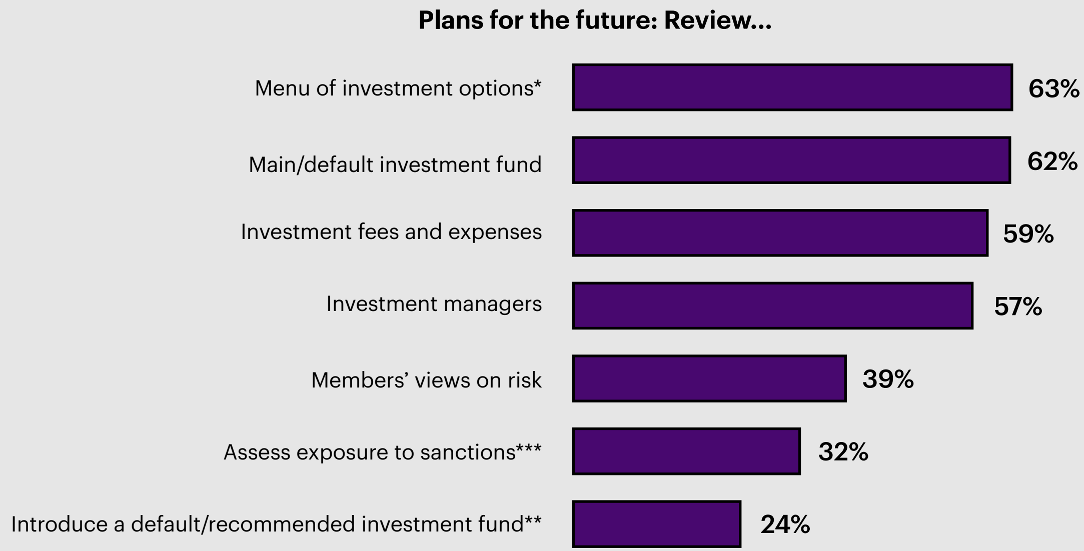
A focus on investment managers

Looking into the future, plans for reviewing the investment strategy tend to focus much more on the investment side rather than in understanding members' risk appetite. About 3 in 5 are planning to review their main or default investment options, but only 39% are looking to assess members' views on risk, which would be key in informing any investment strategy.

Figure 6: **The investment strategy of DC plans**



Q: Are any of the following used to determine the investment strategy for the DC plan's investment option?



Q: Is your organisation planning any of the following in the next 2 years? *Sample restricted to those that offer choice of investment. **Sample restricted to those that don't have a default fund. ***Hong Kong and India only.

Additionally, 3 in 5 employers across the region are looking to review their investment fees and expenses, with most of that activity to take place in China and the Philippines, where 4 in 5 plan to do so. Employers are also looking at reviewing their investment managers. This varies across the region from a high of 83% planning to do so in China to just over 2 in 5 in India and Japan (Figure 7). Reviewing managers and the associated costs will lead to opportunities to find ways to deliver more value for employees and improve retirement outcomes.

Figure 7: **Plans to review investment managers and associated costs**

	Asia	China	India	Hong Kong	Japan	Philippines
Plan to review investment fees and expenses	59%	78%	45%	62%	41%	79%
Plan to review investment managers	57%	83%	44%	59%	43%	67%

Limited investment choice

Japan and Hong Kong stand out in our survey as the two markets where almost all DC plans offer investment choice: About 2 in 3 employers with DC plans offer over 15 investment options for members to choose from. There is less choice in the other three markets surveyed, where only half of the employers in India offer members a choice of investment options, 2 in 5 employers in China and 3 in 10 in the Philippines. Most plans in these three markets offer their member fewer than five options to choose from (Figure 8).

A majority of employers (63%) are planning to review the menu of investment options they offer (Figure 6). However, few (21%) are planning to increase these choices in the future. This number dips to 11% in Hong Kong, likely owing to the abundance of choice in that market already – half the respondents offering investment choice to employees have 20 or more investment options. India stands out where 40% of respondents with choice plan to increase choice, given that 2 in 3 of respondents have fewer than five options on average.

Phased investment strategies

Only 35% of plans in Asia will automatically shift the member into lower-risk investments as they get older. This number is significantly higher in markets where DC plans are more established, such as the UK and Australia. The number also dips down in some markets. For instance, in the Philippines, only one in five plans will automatically shift to lower-risk investments as members get older. This may put employees at a disadvantage as they come closer to retirement.

Figure 8: **Number of investment options offered to employees**

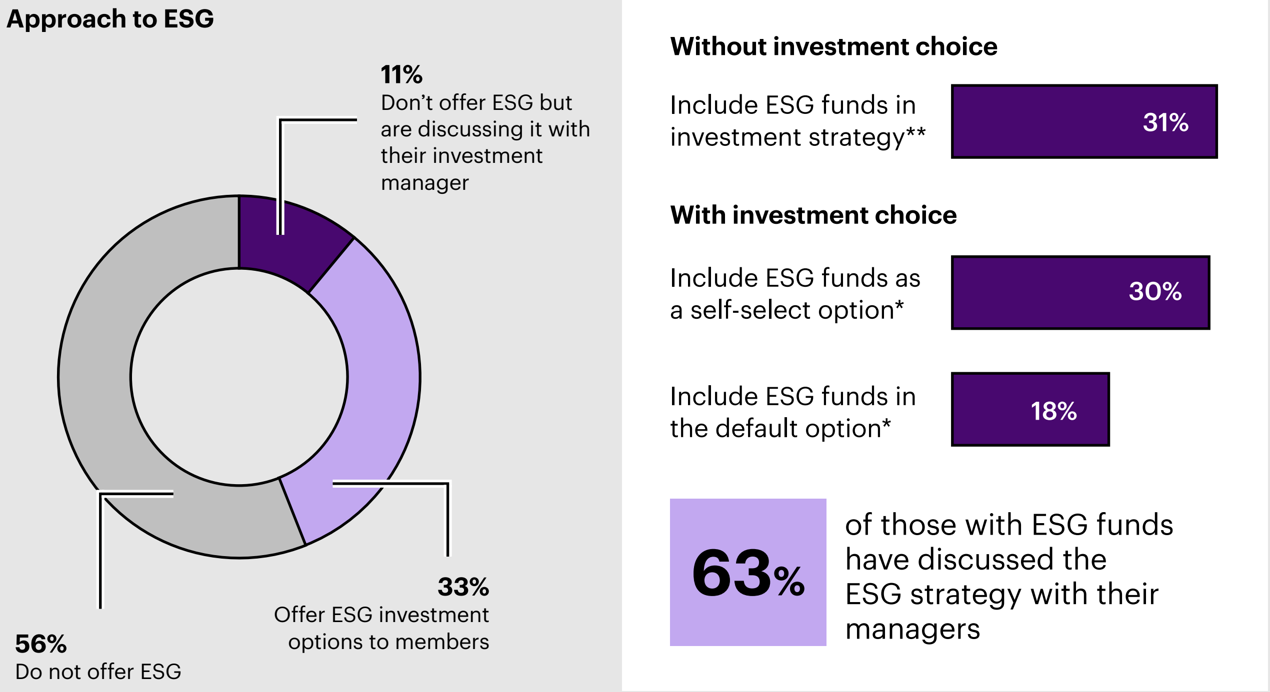
	Asia	China	India	Hong Kong	Japan	Philippines
Less than 5 options	**32%**	**88%**	**68%**	**7%**	**6%**	**85%**
5 – 9	**11%**	**6%**	**24%**	**7%**	**9%**	**8%**
10 – 14	**13%**	**6%**	**4%**	**21%**	**18%**	**0%**
15 – 19	**13%**	**0%**	**0%**	**14%**	**24%**	**0%**
20 or more	**31%**	**0%**	**4%**	**50%**	**44%**	**8%**

Note: Percentages may not add up to 100% due to rounding

Emerging interest in ESG investments

Although ESG awareness is increasing in the insurance and pension industries across Asia, the incorporation of ESG into the investment strategy of DC pensions is still not widespread, with about a third of employers offering ESG investments to members (mostly as a self-select option). A further 11% require investment managers to share their approach and views on ESG, showing incipient interest in this area (Figure 9). This can well be a reaction to the increased interest in ESG from employees; our [2022 Global Benefits Attitudes Survey] found that about 44% of employees in the region state having an ethical preference for ESG investing for their retirement plan (with a further 18% who, though prioritizing return-seeking investment in their retirement plans, still think that ESG investments will outperform in the long run).

Figure 9: **Growing interest in ESG investing**



Q: Does your organisation's retirement plan's investment strategy include a focus on Environmental, Social, and Governance (ESG)?
*Sample restricted to those that have choice on investment. **Sample restricted to those that don't have choice.

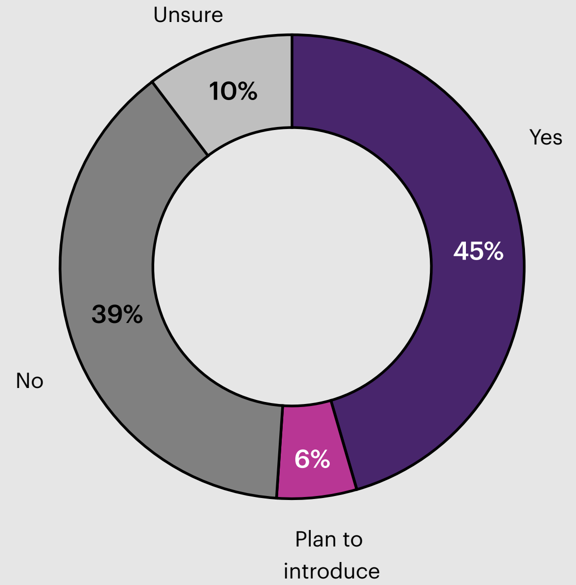
Having a governance group can provide an edge

As DC plans continue to grow and become a more important source of retirement security for employees, it is crucial that members can have confidence that their workplace retirement plan operates in their best interest. For employers to continue offering and funding these plans, it is also essential to ensure that DC plans are well-run and offer good value for money. Good governance practices are therefore essential to underpin the confidence of both employers and employees in DC plans and increase engagement.

Our survey showed that less than half of employers in the region have a governance group or committee providing oversight around their DC plan (Figure 10), and a further 6% plan to introduce one. This finding varied by market, with 80% of employers with DC plans in the Philippines saying that such a governance body is in place, and the lowest prevalence was in India, where only 24% of employers with DC plans said the same.

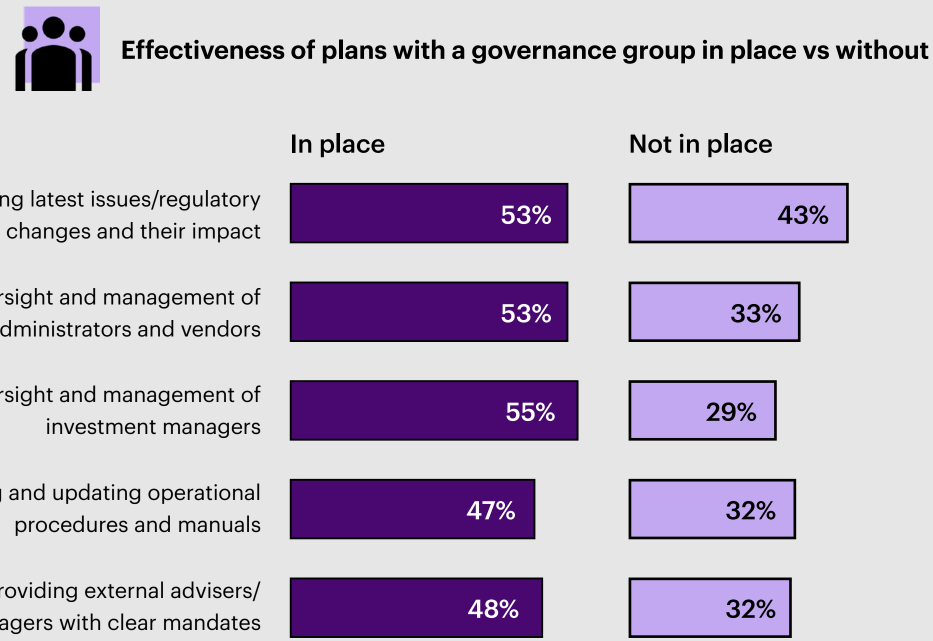
Less than half of employers in the region have a governance group or committee providing oversight around their DC plan

Figure 10: **Presence of a governance group**



This impacts employers' ability to manage and oversee their pension arrangements. Employers with a governance group are almost twice as likely to say that they are highly effective in exercising oversight over investment managers; 55% say they are highly effective compared to 29% of employers without a governance group (Figure 11). They are also 1.6 times as likely to say they are highly effective in exercising oversight of administrators and vendors, 53% for those with a governance group compared to 33% for those without one.

Figure 11: **Governance effectiveness**



Q: How effective is your organisation at the following?
Note: Percentages indicate "effective" or "very effective".

Conclusion

With DC plans being an increasingly important differentiator for employers and a critical retirement and savings vehicle for employees, it'll be crucial to have a road map for the future. Some actions for employers in Asia to consider include:

- **Consider the employee experience.** Employers recognise the need to improve the employee experience and improve retirement outcomes. A well-structured plan design and targeted communications can help employers achieve these goals.
- **Use technology effectively.** From the employee perspective, DC introduces many choices including making contributions, investment decisions, and how and when to take retirement benefits. Access to digital tools and simulations at the right time focuses employees on the impact their choices can have.
- **Undergo regular reviews of the plan.** As the employer is often involved in pre-selecting the investment line-up or default option, employees may assume that the investment options presented are suitable or optimal. In a dynamic investment market, regularly reviewing and updating the funds and fees have a real and significant impact on employee balances.
- **Look forward to ESG options.** Employers in Asia have a chance to take a lead on ESG within their DC plans by talking to providers and investment advisors.
- **Have a robust governance framework in place.** Employers with a retirement or DC governance structure in place are more effective in managing their DC plans, including operations and investments. DC plans present many advantages for the sponsoring employer, but they still need consistent oversight.

Contact us

To learn more about this survey or how to elevate your benefit strategy, contact us:

Jeff Howatt
Head of Retirement — Asia
Jeff.Howatt@wtwco.com

Serena Wu
Head of Retirement — China
Serena.Wu@wtwco.com

William Chow
Head of Retirement — Hong Kong and Macau
William.Chow@wtwco.com

Ritobrata Sarkar
Head of Retirement — India
Ritobrata.Sarkar@wtwco.com

Toshiyuki Kinugasa
Head of Retirement — Japan
Toshiyuki.Kinugasa@wtwco.com

Romeo Carabeo
Head of Retirement — Philippines
Romeo.Carabeo@wtwco.com

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.

wtwco.com/social-media

wtwco.com