



# More companies are putting their pension scheme out to tender

**Price increases in the pension market are causing many companies to choose tenders when renegotiating their pension scheme.**

*By Kristine Seest*

Significant increases in insurance prices, discounts on investment costs and ongoing cash subsidies have created increased complexity in the pension scheme market. The complexity has arisen with the Danish Financial Supervisory Authority's so-called SUL regulation, which came into effect on 1 January 2022 to create greater transparency on how pension companies price their health and accident insurance (SUL).

»Previously, the employee insurance cost was one of the competitive parameters that pension companies were free to adjust. This is no longer the case. Now, the price of insurance cover must reflect the risk that the pension company expects to have on the company's pension agreement. This has led to significant price increases on the insurance policies,« says Chief Broking Officer Erik Kongsted from WTW.

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Before the SUL regulation came into effect on 1 January 2022, many of WTW's clients had their insurance prices locked in with a three-year price guarantee. These guarantees are now about to expire, and companies must therefore act in the current market. This has prompted many companies to contact WTW, and during 2023, WTW has completed tenders with total retirement savings approaching DKK 10 billion.

»It hasn't come as a surprise to us that more companies have requested tenders this year. Companies have been presented with employee insurance prices that have doubled and tripled. On the other hand, new opportunities have arisen to obtain compensation for the price increases, so it has become more difficult for the individual company

to figure out what is the best solution for their employees,« says Erik Kongsted, emphasising that company pension schemes have generally become more expensive.

## Compensation for the price increases

Pension companies offer compensation for insurance price increases by reducing investment costs and by making cash contributions to the individual employee's savings.

»It's a major equation to find the scheme that is the best overall solution for the entire workforce, taking into account variations in the employees' salary levels and the size of their savings, « says Erik Kongsted.

WTW assists clients in the tendering process by analysing their needs and wishes, developing a tailor-made solution and negotiating terms and conditions with the pension companies on their behalf.

»Eight out of ten clients get a scheme that is more expensive than the one they had before. That's the way it is now. On the other hand, all of WTW's clients, that choose a tender, end up with a scheme that is cheaper than the one they have been presented with in the renewal offer from their pension company, « says Erik Kongsted.

### More reasons to switch pension companies

In more than half of the tenders carried out by WTW, the client chooses to stay with their existing pension company. Other clients choose to change pension companies – either because they get a better offer or because they want to renew their agreement, so that the communication to employees is not only about more expensive insurance, but also about employees having to consider their own insurance coverage, the size of their contributions and the investment of their savings.

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»Before the SUL regulation, clients switched companies because they could get a better and cheaper agreement. That's no longer a story companies can tell their employees. Now, factors such as satisfaction with the pension company's return and the need for a change also play a role when switching to a new pension company, « says Erik Kongsted.

In the agreements that have been closed in 2023, a new trend is that companies are increasingly demanding that their pension scheme should contribute to employee health and well-being, the green transition and to human rights. Several companies have decided that up to half of their

employees' savings should by default be invested in more sustainable ESG investment products. It is then up to the employees themselves to decide whether this proportion should be higher or lower.

Once a new company pension scheme comes into effect, employees can make individual adjustments – to the insurance coverages and the investment of their savings. In addition to individual counselling, WTW regularly organises webinars where clients and their employees can find out more about investing their savings and the pension companies' sustainable investment products.