



The future of occupational pension services:
For a sustainable occupational pension scheme

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The management of occupational pension schemes has become more challenging in Germany in recent years. With a clear strategy, the challenges can be mastered in a sustainable way.

The occupational pension system needs a broad perspective

In recent years, HR managers have been able to flexibly and quickly find and implement solutions to address unexpected challenges. Examples include coping operationally with the aftermath of the pandemic, managing the impact of disrupted logistics chains and adjusting to inflation and the consequences of energy shortages resulting from the Russian war of aggression.

Based on this experience, longer-term challenges and supposedly distant risks are not at the top of HR managers' list of priorities – after all, one can react situationally whenever it is necessary. Nevertheless, they have to make far-reaching decisions now.

One example of this is occupational pension provision. The relatively fast-changing conditions force pension managers to assess occupational pension schemes and their organization. This does not only concern the design of pension schemes, as in the past, for example with regard to investment models and payout options, but above all the transformation to a sustainable operation model that can meet future requirements.

Some challenges affect all companies

Unlike other HR or corporate functions, the challenges for occupational pensions are very different from company to company; the supply landscapes and the degrees of standardization and digitalization often differ significantly. Nevertheless, there are key challenges which are common to all companies:

- Digitization to utilize efficiency potentials,
- Innovations to improve the user experience,
- Transformation towards sustainable, long-term usable, technologies,
- Talent management to secure knowledge in the long term
- and regulatory oversight and governance to manage risks.

Challenge 1: Digitization to utilize efficiency potentials

Pension managers have assessed the efficiency of occupational pension administration for many years. Digitization offers the opportunity to implement more efficient processes and at the same time to manage the increasing demands on modern occupational pension administration.

Many companies took advantage of this opportunity during the COVID pandemic by accelerating their digitization projects. This is another reason why many pension managers said they managed the crisis well [["Digitalization of pension administration in Germany 2020/21"](#), WTW study]. At the same time, the digitization approaches show that there is still potential for further productivity increases.

Nevertheless, many digitization projects are being reviewed. The reasons are tight IT budgets within the HR function. Many companies will probably cut the digitization projects because of the expected economic downturn. So, more than ever, pension managers need to demonstrate the economic viability of their digitization projects through an appropriate strategy.

Challenge 2: Innovate to improve the user experience

The occupational pension scheme is by far the most important benefit in Germany [[WTW Benefits Attitude Survey 2022](#)]. Employers have recognized the importance of occupational pension provision for their employees in times of declining levels of provision in the social security systems. This results in an increasing need for information on the part of employees, which employers must satisfy through appropriate communication.

In addition, the demands of employees and pension recipients in terms of service scope and quality have changed, simply because of their experience as consumers in the BtoC sector. The leading global players in the consumer sector set the benchmark for personalized communication and handling of business processes in terms of speed and convenience. Employees expect a corresponding level of interaction within the company.

The pressure to innovate on established pension standards affects all dimensions – be it data use, personalization or processes, technology, media or service scope, quality and speed. The member experience from the consumer sector should also be achieved in the pension sector.

Challenge 3: Transformation towards sustainable, long-term usable, technologies

Closely connected to the ability to innovate is the question of the appropriate technology strategy. On the one hand, it must be in line with the current standards and on the other hand, anticipate future requirements that go far beyond traditional inventory management. Examples of this are IT and data protection topics, networking with upstream and downstream systems or the support of data analytics.

Finding a strategy is made more difficult because the underlying technologies are constantly changing. For example, large HR software providers have further developed their release strategies towards global solutions. As a result, national solutions will no longer be supported in the future, or only to a limited extent. These national solutions often include the German-specific occupational pension systems, for which alternative solutions will have to be found in the near future.

In this respect, a precise analysis of the current technologies is recommended. In addition, a software strategy must be aligned with the company-wide IT strategy and the software providers.

Challenge 4: Talent management to secure knowledge in the long term

The search for workforce has intensified in many industrialized countries. The competition includes both skilled and unskilled workers [<https://www.economist.com/business/2022/02/05/how-americas-talent-wars-are-reshaping-business>]. The search for talent is becoming increasingly difficult in Germany as well. And this is only the prelude to a gradual decline in the labor supply as a result of demographic developments. [<https://www.iwkoeln.de/studien/holger-schaefer-viel-besser-wird-es-nicht-deutschlands-arbeitsmarkt-am-hoehepunkt.html>]

The occupational pension sector is particularly affected by these structural changes. This is because it takes a very long time to build up knowledge due to the required comprehensive specialization. And the attractiveness of the "occupational field of occupational pensions" is not transparent to many applicants, which makes the recruitment of young talent difficult. In addition, many senior pension experts and managers will soon retire.

In this respect, talent management is becoming increasingly important. This concerns both the retention of existing pension experts and the recruitment and qualification of new talent. Talent management must also ensure that the experts, for example through further training, acquire all the skills they need to meet future challenges.

Challenge 5: Regulatory oversight and governance to manage risks

There is no doubt that expertise and specialization are becoming more and more important with the increasing amount of regulation in occupational pensions. Already today there are numerous "non-specialist" areas that have an influence on the proper implementation of occupational pensions, such as data protection, IT issues or product information requirements.

This complexity will increase. From a risk management perspective, it will therefore become increasingly important to assess existing and future regulations and to counter corresponding risks. This requires appropriate governance structures as well as teamwork with subject matter experts from other business units and with specialist advisors.

Three recommendations lead further

What strategy can be used to overcome these challenges? Is there a "one size fits all" remedy for every company? The answer is no, because the conditions vary too much from company to company. Nevertheless, there are some general recommendations for a sustainable occupational pension strategy:

Firstly, "Assess the occupational pension organization." Even if HR managers are currently focusing on other challenges as mentioned above, the challenges of occupational pension administration are no less urgent. The conditions will continue to change rapidly. An assessment of the occupational pension organization will show to what extent it can cope with future challenges. This review is immediately necessary, as administration transformation projects usually take a long time due to their complexity.

Secondly, "Realignment of services to employees." The occupational pension scheme is not an end in itself. The value of this benefit should be transparent to employees so that they can appreciate it. Therefore, the entire value chain must be adapted to the needs of employees – from information and communication to processing. The benchmark is provided by the experiences as consumers in the BtoC sector.

Third, "Develop a roadmap for change." The realignment of the pension organization requires a strategy and, based on this, an action plan that covers all aspects of the pension services: processes and organization, communication with beneficiaries, technology, talent management and service scope and quality. These aspects must also consider the underlying pension plans and do so as efficiently as possible.

Turn challenges into well-used opportunities

Because the challenges for occupational pensions are manifold, their reorientation also offers many opportunities for all parties involved. Employers can enhance the value of occupational pensions in the perception of their employees and thus further strengthen employee loyalty and satisfaction. At the same time, the increase in costs can be limited through more efficient processing.

Furthermore, employees benefit from more transparency and from services that are better tailored to their individual needs. This is crucial for improving their overall financial planning.

Finally, the HR and occupational pension functions are also winners: they are perceived as attractive, future-oriented areas of the company. This could be decisive in the competition for talents. A sustainable pension strategy encompasses the organization, the technology and the employees in equal measure – holistic thinking and action is required.



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