



**Occupational pension schemes:
assessment of the organization and recommen-
dations for decision-makers**

Michael Paulweber and Claudio Thum

March 2024

Occupational pension schemes: assessment of the organization and recommendations for decision-makers

The pressure to rethink the organization is growing.

Forecasts for the German economy have been continually revised downwards in recent months. The German economy is in crisis due to numerous reasons. Many sectors and companies are facing a necessary process of adjustment and transformation. Occupational pension schemes and their organization are also affected.

One reason for this is demographic change, which has now reached companies. Baby boomers are retiring without the same number of young workers entering the labor market.¹ Occupational pension schemes and their organization are particularly affected by demographic change. On the one hand, the transition of the baby boomers into retirement must be accompanied by the organization of occupational pensions. This includes providing information to those approaching retirement, calculating, and determining benefits and supporting those entitled to benefits. On the other hand, many occupational pension specialists are also among the baby boomers approaching retirement. This coincides with increasing labor shortages. Overall, there will be fewer skilled workers available to occupational pension providers and labor costs can be expected to rise.

In addition, decision-makers in occupational pensions face other challenges. These include increased expectations of the scope and quality of occupational pension services, rapid technological development, and regulatory uncertainty. In recent months, several conditions have changed that deserve the special attention of occupational pension decision-makers.²

Overall, the pressure on managers to review their occupational pension schemes and their organization to make them sustainable has increased.

¹ See Claudio Thum und Silke Übelmesser, "The future of occupational pension schemes: challenges and opportunities of demographic change in Germany", WTW, August 2023, Link: <https://www.wtwco.com/de-de/insights/campaigns/the-future-of-occupational-pension-services-current-topics>

² See also Claudio Thum, "For a sustainable occupational pension scheme", WTW, December 2022, Link: <https://www.wtwco.com/de-de/insights/campaigns/the-future-of-occupational-pension-services-current-topics>

Meeting the challenges for the occupational pension organization

Economic development and the associated challenges vary greatly from sector to sector and from company to company. However, there are challenges for the design and organization of occupational pension schemes that are common to all companies.

1 Digitalization to unlock efficiency potential

In recent months, many companies have initiated adjustment and transformation processes in the face of changing conditions related, e.g., to energy prices, global sales markets, supply chains, demographics and the economic outlook. Business models, organization and sourcing are being put to the test. New opportunities arising from new technologies are a key factor. Occupational pensions and their organization are also affected. Digitalization offers the opportunity to make processes more efficient while at the same time meeting the increasing demands of modern pension management. Although digitalization has progressed in recent years, there is still a need to catch up in some areas (e.g. digitalization of pensioner support) and potential for further productivity gains.³

The worsening economic climate has not made it any easier for decision-makers to push ahead with the necessary digitalization in the face of tighter budgets. Traditionally, occupational pension schemes are not at the top of the list of priorities when it comes to allocating IT budgets in many companies. Now more than ever, managers need to demonstrate the cost-effectiveness of their digitalization projects through an appropriate strategy.

However, the time for change is overdue as the effects of demographic change are already being felt. The combination of additional work in pension administration and a looming shortage of pension specialists requires a fundamental review of strategy, ranging from accelerated digitalization of the entire value chain to a review of sourcing.

³ See Sylvia Heßler, Marie Rieber and Claudio Thum, " Digitization of administration 2023, survey report", WTW study, October 2023, Link: <https://www.wtwco.com/de-de/insights/campaigns/the-future-of-occupational-pension-services-current-topics>

2 Innovations to improve the member experience

There is increasing pressure to improve member services. Members' expectations are based on their experiences in the consumer goods sector, which sets standards for personalized communication and fast business processes. The same must be true for occupational pensions, along the entire value chain - from a new employee's application to the entitlement and benefit phases. Compared to consumer market standards, occupational pension services must become faster, better, and more digital to meet member expectations.⁴

This is a complex undertaking that requires innovation. It is not enough to replace a front end. Rather, all processes must be fundamentally rethought to consistently align the service with the needs of the member. A positive side effect is that unnecessary services can be eliminated, and overall efficiency increased.

3 Transformation towards future-proof technologies

Closely linked to the necessary changes in member experience described above is the question of an appropriate and sustainable technology strategy. A new technology strategy is all the more necessary as the following technologies relevant to occupational pension schemes have changed in recent years:

- *Changes in software vendors' release strategies:* Some pension software solutions are integrated into national HR solutions. HR software vendors have evolved their release strategies towards global solutions. As a result, national solutions will no longer be supported, or only to a limited extent. These national solutions often include German-specific occupational pension systems, for which alternative solutions will have to be found soon. Extensive sourcing and make-or-buy projects are the result, often leading to the outsourcing of services to external providers.
- *Cloud solutions* have traditionally been viewed critically in Germany for reasons of data protection and IT security. However, more and more companies are using cloud solutions as part of their entire value chain. Reasons for this include cost, scalability, IT security and easier integration with other services. These considerations also apply to the provision of occupational pension services, so it is not

⁴ See Sylvia Heßler, Marie Rieber and Claudio Thum, "Digitization of administration 2023, survey report", WTW study, October 2023, Link: <https://www.wtwco.com/de-de/insights/campaigns/the-future-of-occupational-pension-services-current-topics>

surprising that cloud-based elements are increasingly being used. Another reason is certainly that the shortage of skilled labor is leading to an increasing reliance on standardized cloud solutions.

- In 2023, *generative artificial intelligence (AI)* has revolutionized solutions. AI is seen as a game changer for many services. Occupational pension services can also benefit from it. Directly through first-level support, but also in other areas of the value chain that make it easier to manage the complexity of occupational pensions, from software development to testing and knowledge management.

Considering these changes, it is advisable to analyze the future viability of the technologies currently in use. In addition, decision-makers need to consider the overall corporate IT strategy when determining the software strategy.

4 Talent management to secure knowledge in the long term

Demographic change and the associated expected labor shortages have now reached companies. The necessary adaptation and transformation processes are already underway to prepare for the gradual decline in the labor supply.

Occupational pensions are particularly affected by this structural change. Due to the high degree of specialization, it takes a very long time to train new employees. In addition, the attractiveness of the occupational pension field is not transparent to many applicants, which does not make the competition for talent any easier in a tightening labor market.⁵

Talent management is becoming increasingly important for occupational pension administration. This concerns both the retention of existing pension experts and the recruitment and training of new talent. The key challenge is to ensure the long-term retention of specialist knowledge about the specifics of the company and to initiate succession planning

⁵ See Lisa Mühlner and Claudio Thum, "More talents for the occupational pension sector!", WTW, January 2023, Link: <https://www.wtwco.com/de-de/insights/campaigns/the-future-of-occupational-pension-services-current-topics>

processes in good time. In addition, talent management must ensure that experts acquire all the necessary skills, e.g. through further training, to meet future challenges.

5 Regulation and risk management

Nearly two-thirds of occupational pension scheme managers see compliance and the associated increasing complexity and costs as one of their top concerns.⁶

Technical expertise and specialization are becoming increasingly important as regulation in the occupational pensions sector increases. There are already many "non-specialist" areas that impact on the proper implementation of occupational pension schemes, such as data protection, IT issues or product information requirements. This is even more the case for regulated occupational pension schemes.

From a risk management perspective, it is becoming increasingly important to assess existing and future regulation and to manage the associated risks. This requires appropriate governance structures and the involvement of experts from other areas of the business and external consultants.

Recommendations for decision-makers

There is no patent remedy for the perfect occupational pension organization. The starting points and opportunities vary too much from company to company. However, it is possible to outline a general approach to a strategy to meet the challenges outlined.

Assessment of all services

A sustainable service model must be based on the needs of the members. Occupational pensions are not an end in themselves. The value of the occupational pension scheme should be transparent to employees and beneficiaries, so that they appreciate it. To communicate this value, the entire value chain - from information and communication to processing - must be reviewed and adapted. The goal will only be

⁶ See Sylvia Heßler, Marie Rieber and Claudio Thum, " Digitization of administration 2023, survey report", WTW study, October 2023 , Link: <https://www.wtwco.com/de-de/insights/campaigns/the-future-of-occupational-pension-services-current-topics>

achieved if the services are perceived as valuable by those involved (i.e. employees and beneficiaries).

To achieve this, the services must be geared to the consumer market. The credo here is to make occupational pension services "faster, more digital and more transparent" in line with the needs of members.



Review of the organization and sourcing

As soon as the target services have been defined, a review of the occupational pension organization can be carried out. This will show the extent to which the occupational pension organization is able to meet future challenges. This also applies to processes and systems. This review is necessary in a timely manner, as occupational pension transformation projects usually take a long time due to their complexity.



Roadmap and transformation

Transforming an occupational pension organization requires a strategy and based on that, an action plan that covers all aspects of occupational pensions: processes and organization, communication with beneficiaries, technology, talent management and the scope and quality of services. These aspects must also consider the underlying pension plans, in the most cost-effective way possible.

Seeing change as an opportunity.

The transformation of occupational pension schemes offers many opportunities:

- Employers can improve their employees' perception of the occupational pension scheme and thus further strengthen employee loyalty and satisfaction. At the same time, cost increases can be limited through more efficient administration.
- Employees also benefit from greater transparency and offers that are better tailored to their individual needs. This is crucial to improving their overall retirement planning.

- Last but not least, the HR and pension functions also benefit: they are perceived as attractive, forward-looking areas of the company. This could also be decisive in the competition for pension fund talent.

A sustainable occupational pension strategy encompasses the organization, the technology, and the employees in equal measure - holistic thinking and action is required.



Dr Michael Paulweber
Managing Director

Willis Towers Watson GmbH
Am Heilbrunnen 47 | Wettinerstraße 3
72766 Reutlingen | 65189 Wiesbaden
Germany

Phone: +49 7121 3122 983
michael.paulweber@wtwco.com



Dr Claudio Thum
Senior Director

Willis Towers Watson GmbH
Am Heilbrunnen 47 | Wettinerstraße 3
72766 Reutlingen | 65189 Wiesbaden
Germany

Phone: +49 160 9622 3040
claudio.thum@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 organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at [wtwco.com](https://www.wtwco.com).