Cyprus Defined Contribution Provident Fund Survey 2020

How do you measure up?

For professional clients only

Empower Results®

You want the best fit for your members and business. But do you have the right measures of success?

Get the measure of how the Cyprus market is changing with Aon's 2020 Defined Contribution Provident Fund Survey results.

Executive summary

In this report, we see how DC schemes in Cyprus measure up across key areas, including strategy, scheme design, contribution levels, investment approaches and member engagement. The report includes insights from Aon experts on what the findings mean now and for the future shape of workplace savings objectives.

You want the best fit for your provident fund members – and your business. But how do you compare, and do you have the right measures of success?

In our 2020 Defined Contribution (DC) Provident Fund Survey we sought the views of trustees, scheme managers, and finance directors from a wide range of sectors, about the challenges they face and their aspirations for their scheme members.

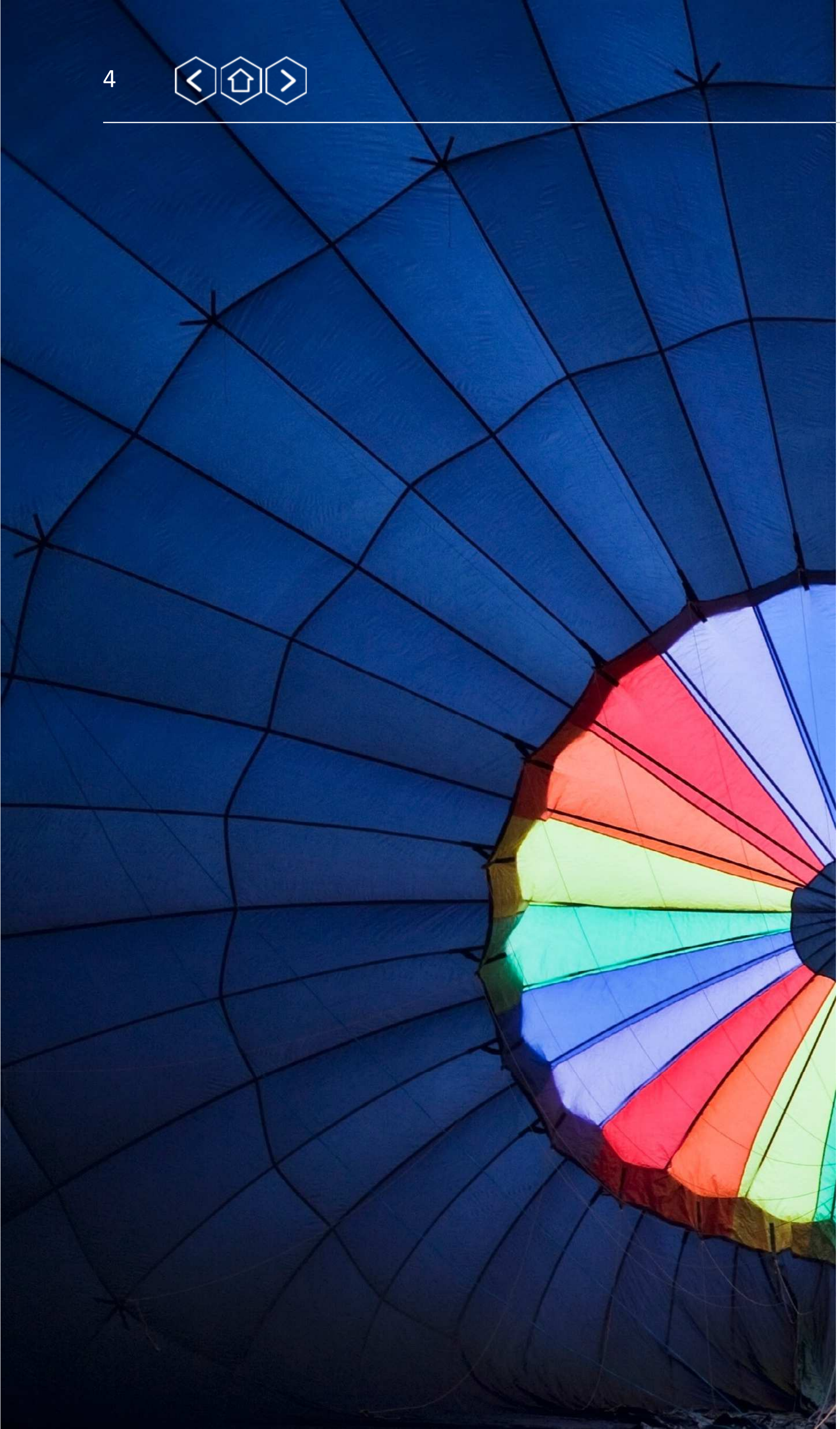
Responses were received from representatives of DC schemes in Cyprus, covering over €500m of assets.

Our research shows that respondents want to offer competitive, 'good value', DC benefits. However, there are many that do not measure whether they are succeeding in meeting their objectives. There is an opportunity to make DC benefits more tailored towards retirement goals, lifestyle, income and behaviours.

Some key findings include:

- The majority of the schemes aim to deliver sufficient funds for employees to retire
- Two-thirds do not measure progress against their objectives
- Two-thirds of respondents do not know what level of benefit outcome their default rates will deliver
- One in 2 schemes want to spend more time on communications
- None of the schemes measure levels of engagement with their benefit and wider wellbeing programmes
- Only 1 in 10 assess their range of investment options against ESG criteria

Throughout, charts may not add to 100% for reasons of rounding. Unless otherwise stated, all data is from Aon's 2020 DC Provident Fund Survey



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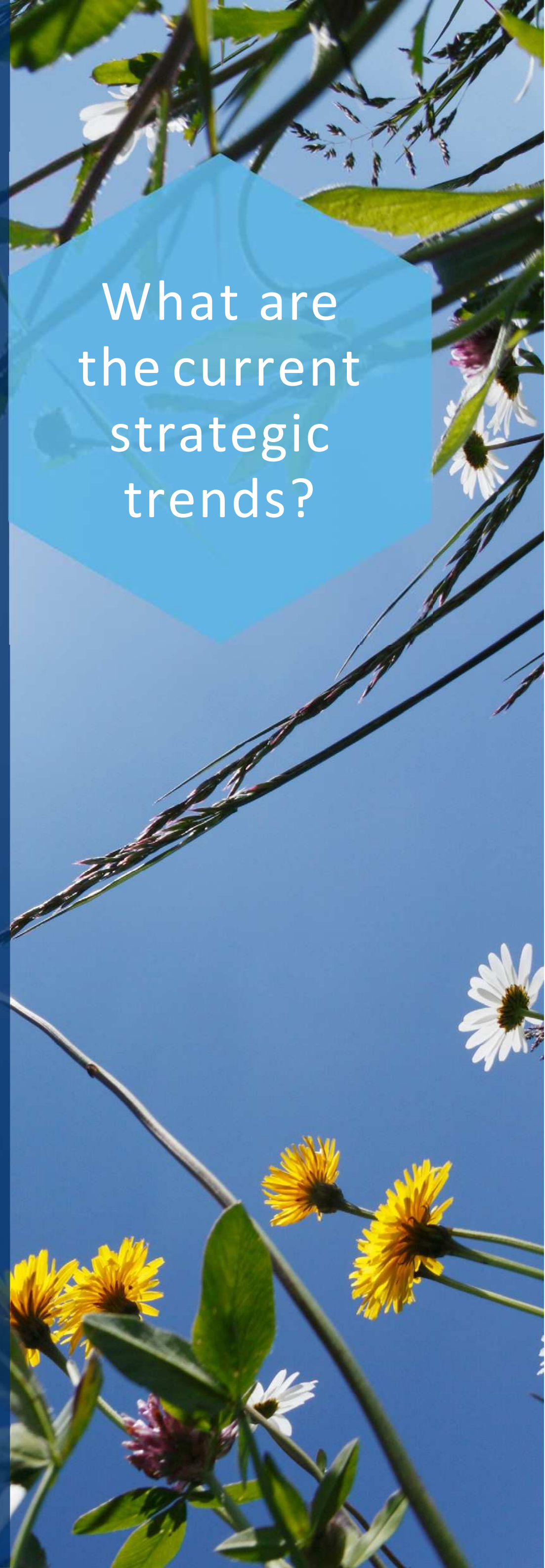
If you want to offer a great fit for your provident fund members and your business, is it time to review your approach?

SECTION 1

Get the measure



What are the current strategic trends?

Q. What are the current strategic trends in DC provident funds?

In this section, we explore how DC schemes measure up against others and also how they measure against their own aims and objectives. Do schemes have the information they need to do this accurately or are they shooting in the dark?

2 in 3

schemes do not measure progress against their objectives

4 in 10

schemes' main aim is to deliver a sufficient benefit while only **1 in 10 aim to deliver a benefit in line with competition**

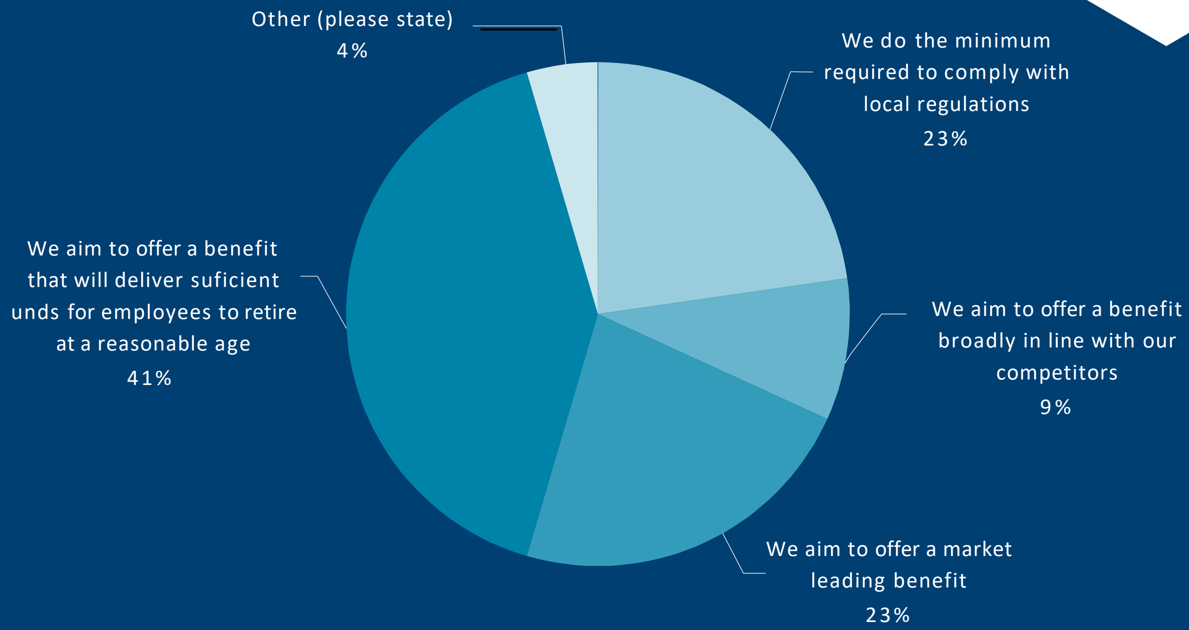
Value for members and **improved investment returns,** are objectives for around 80% of DC plans

We asked schemes how they would best describe their main aim for their DC arrangement. While all schemes are trying to provide a benefit for employees in retirement, we found a range of views on how to approach retirement provision.

4 in 10

aim to offer a benefit that will deliver sufficient funds for employees to retire at a reasonable age

- The most popular response was to offer a benefit that will deliver sufficient funds for employees to retire at a reasonable age. A challenge with this approach is to reach consensus on how much is a sufficient retirement income. We consider the question of what an adequate level of retirement saving could be for members later in the survey
- The next most popular response focuses on market-leading benefits. In practice this could mean very different things to different people, so it is important to define what market-leading looks like.
- Around one in five respondents just do the minimum required to comply with local regulations, without allocating the extra effort/ time/resources to achieve a better member outcome in line with international best practice.
- Around 1 in 10 respondents offer a benefit broadly in line with the competition, i.e. use what is offered by others as a benchmark. The rationale for this approach is often to seek to retain employees by offering a similar level of benefits to other employers. However, there is limited evidence to show that employees leave or stay with an employer due to DC benefits alone.

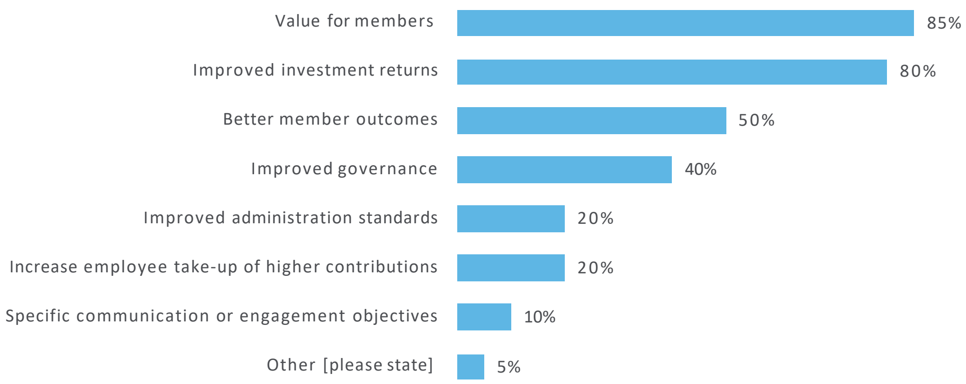


Q. Which of these objectives are in your scheme's business plan?

It is not a surprise to see that over eight in ten schemes have 'delivering value for members' and 'improving investment returns' as objectives. However, it is how schemes work towards meeting these objectives that is really important. Later in the survey, we consider DC investments in more detail.

One objective found to be relatively popular is that of improving scheme governance. This may be a result of the new IORPII requirements.

Which of these objectives are in your scheme's business plan?

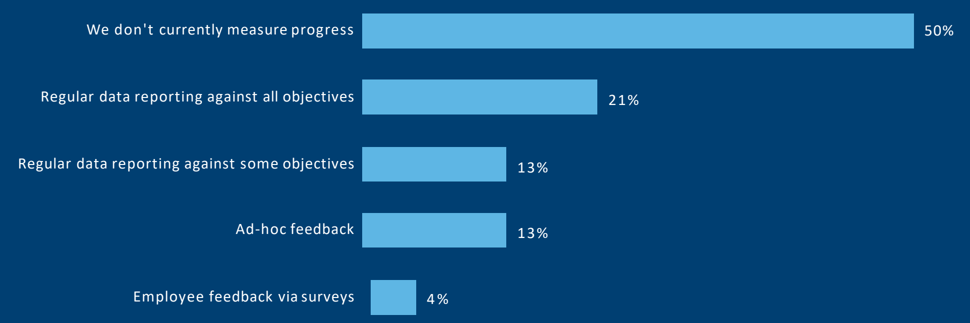


Making sure your objectives are aligned

It is important to take into account the views of all stakeholders when setting objectives to make sure everyone is pulling in the same direction. For example, if the HR team has an objective to encourage employees to contribute more to take full advantage of higher matching company contributions, but the finance team has an objective to minimise increases in benefit costs, there will be a conflict between different parties. (In this instance it would be perhaps more sensible to consider a change to the contribution design, so that members can be encouraged to save more while costs can be controlled for the sponsoring employer.)

Measuring progress against objectives

Which of these objectives are in your scheme's business plan?



Collating data and ad-hoc feedback were the most popular methods of measuring progress towards objectives. It was somewhat surprising to see that nearly three in ten respondents say that they receive regular data reporting against all of their objectives, given that this number includes those with objectives, such as improved governance standards and specific communication or engagement objectives, which can be difficult to assess with quantitative measures.

only

1/3

of schemes measure progress against objectives

Quick win

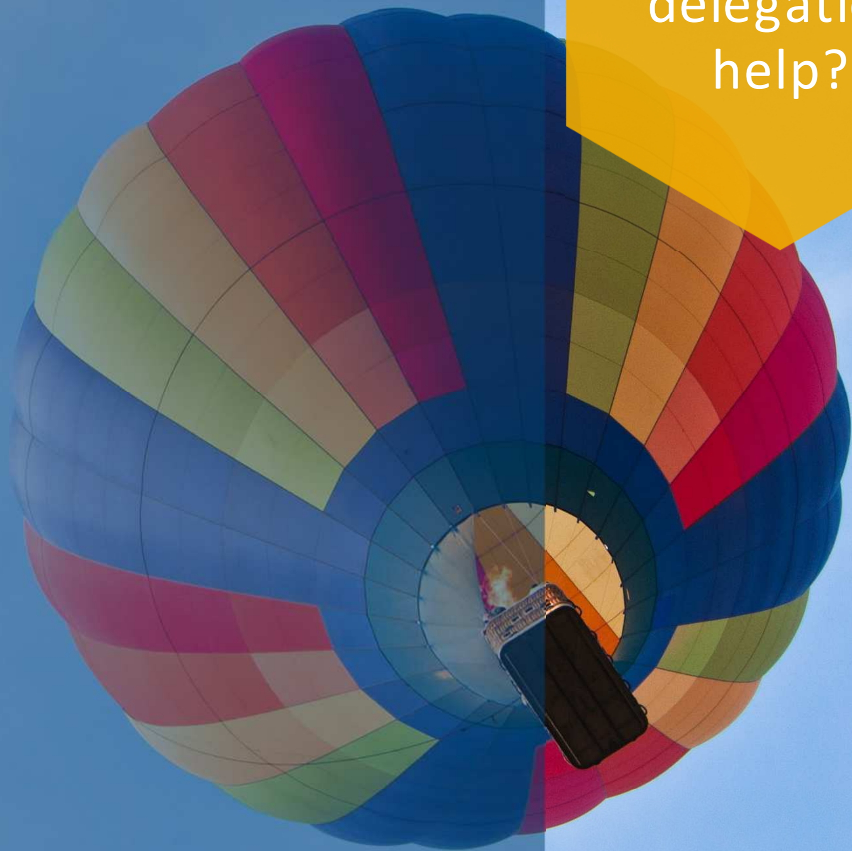
- For each objective in your business plan include one or two practical actions which will help work towards it.
- Consider objectives used by other plans and whether they could be appropriate for you.
- Consider sensible measures you can put in place to use information already available to monitor your objectives.

Longer term

Consider other useful measures of progress towards your objectives, both quantitative and qualitative, and consider how to source the information that would be needed on a regular basis.

What is the biggest challenge over the next two years?

There is a range of different challenges ahead for DC schemes over the next few years. While each scheme is different, a number of emerging themes can be seen in our ‘responses word cloud’. The remaining sections of our survey report cover what others are doing in some of these areas and include our own insights on how to measure up today and in the future.



Could delegation help?

SECTION 2

Weigh up your options

Time to focus

The options for DC scheme structures are wide-ranging. Not only does a decision need to be made on the overall structure of your scheme, but also on who is responsible for the day-to-day tasks such as administration and investment.

We asked those running DC provident funds whether they are comfortable with the amount of time they are spending. 36% said they are spending too little time on provident fund matters.

This section considers the different types of DC structure, and options available to delegate more to focus on the areas that matter to you.

40%
expect to delegate more over the next three years.

40%
of Provident Funds expect to move to a Multi-Employer provident fund within five years

1 in 2
want to spend more time on their communications

Aon has been working with a number of trustee boards and employers, helping them to become more strategic and effective.

Find out more

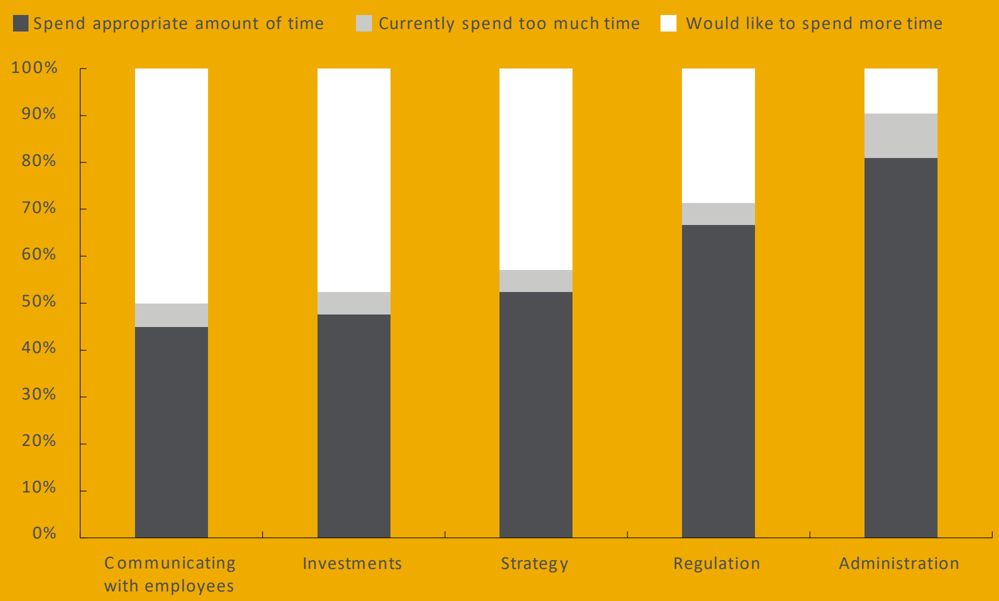
Q. How happy are you with the amount of time you spend in the following areas?

50% of the respondents wanted to spend more time communicating with employees on DC benefits and also wanted to spend more time on strategy and investments.

It is important that those running schemes have the right scheme structure and resources in place, especially given the increasing levels of regulatory oversight.

Schemes should consider a structure that gives them the time they need to focus on their priority areas.

Amount of time spent in the following areas



Our biggest challenge is:

Compliance with new IORPII regulations

Future DC Provident Fund structures

Respondents expect there to be a significant move towards multi-employer provident fund in the coming years.

Around 40% of those currently running their own Provident Funds expect to move to a multi-employer provident fund in the next five years.

This trend is even more pronounced in bundled schemes, which could be because this would be a less significant change to the current structure than for unbundled schemes.

For Provident Funds schemes, the governance requirements and the time and resources required to run the scheme are the key triggers for a discussion regarding whether the current structure remains appropriate.

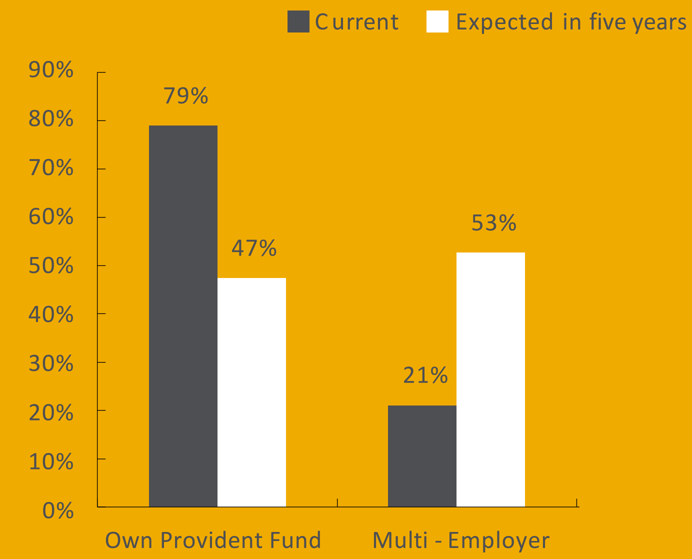
Jargon buster

Bundled Provident Funds – one provider delivers administration, communication and investments.

Unbundled Provident Funds – different providers are used for administration and investments.

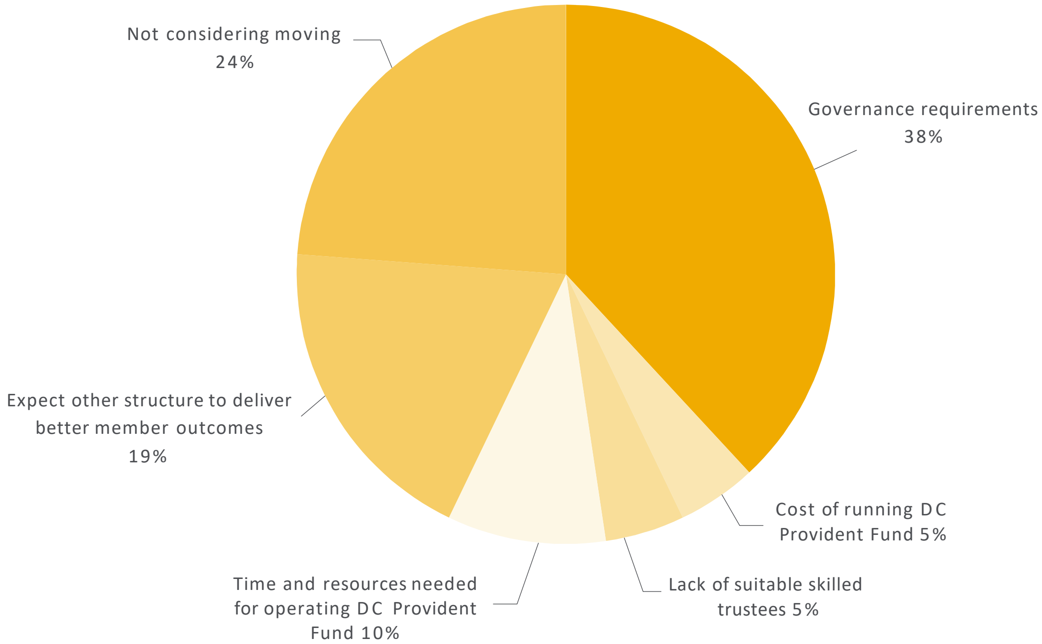
Q. What type of Provident Fund do you use to provide your main DC benefits? What would you expect it to be in five years' time?

2019 – Current vs. Expected in ve years



Reasons for moving from current governance structure

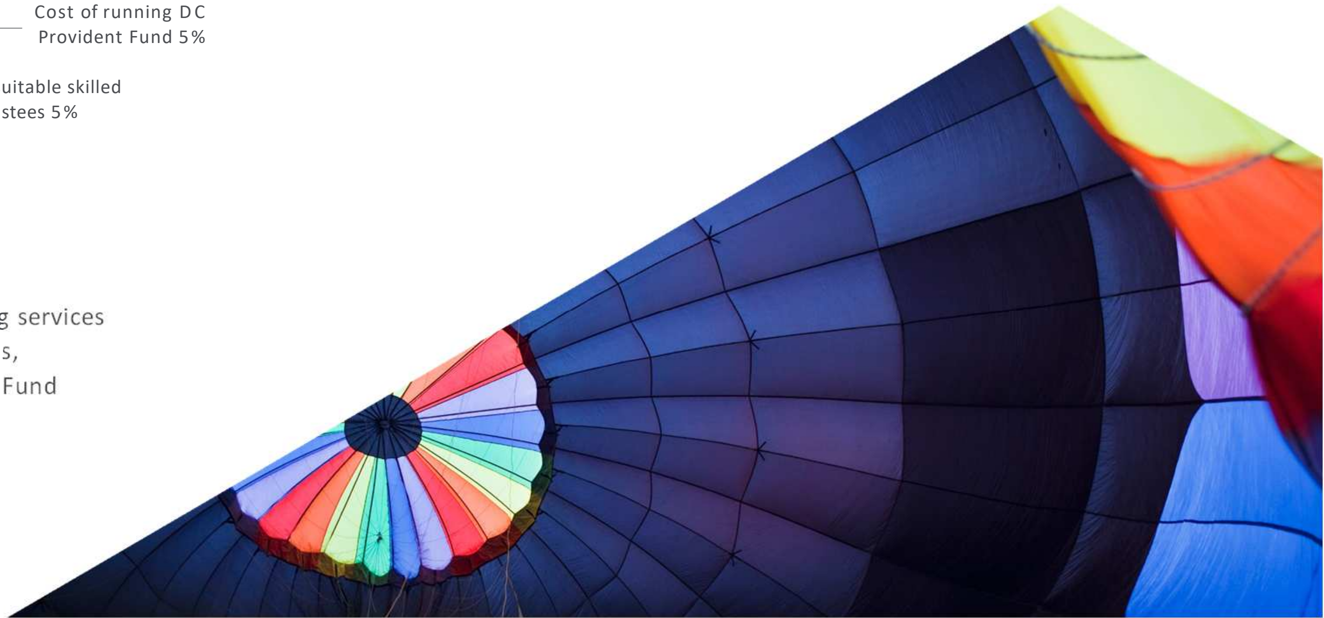
The main reasons of moving from the current governance structure are the increased regulatory requirments as a result of IOPR II, and the need of delivering better member outcomes.



> Our biggest challenge is:
> **Managing increased cost due togovernance requirements**

Aon’s DCsolutions

Aon can help with the full range of DC benefit options – from consulting services and our investment-only and bundled solutions for own Provident Funds, through to our standalone solutions, the Aon multi-employer Provident Fund (UnitedPensions - MAP Fund).

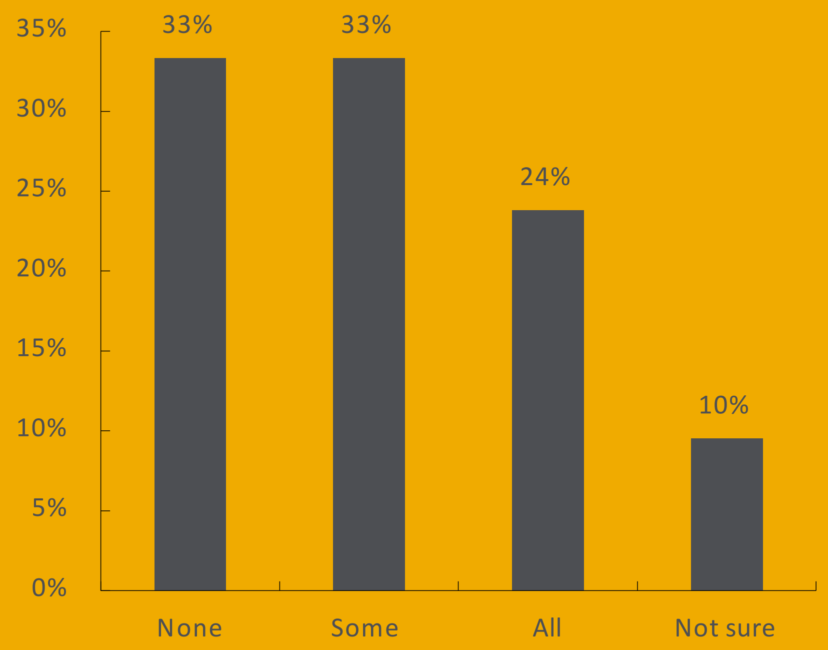


Delegating roles

One method to free up time for those running DC schemes is to delegate responsibility to third parties, for example the administration or investment.

We found that, one in three schemes do not outsource any investment responsibility to a third-party investment professional. However, approximately 40% of the schemes expect to delegate more over the next three years.

How much responsibility is delegated to third-party investment professionals?



1/3

do not outsource any responsibility to a third-party investment professional

"Our biggest challenge is: Keeping up with governance and changes in compliance"

Aon point of view

Those responsible for Provident Funds should regularly review whether their current operating model meets their objectives and delivers the best possible outcomes for their members. We expect the trend towards more delegation to continue, either through moving to a multi-employer scheme, or by delegating specific functions like administration or investment.

This will allow those running DC plans to free up more time to focus on the areas they want, such as strategy and member communications.

SECTION 3

Fit for the future?

What are the desired outcomes?

Q. What are the desired outcomes?

For members of DC schemes, good outcomes are about building an adequate level of savings to be able to retire at a time of their choosing.

For sponsors, the ultimate outcome is for employees to be able to retire, but shorter-term issues can sometimes take priority, such as benchmarking benefit levels to peers or controlling costs.

Contributions paid over time are one of the main drivers of the amount of pension fund for an individual. How that fund is used subsequently in retirement can also make a real difference to an individual's quality of later life, or even whether they can afford to retire at all.

Most individuals expect to rely on their company and State pensions in retirement. Many will, of course, have other sources of income as well. It can be difficult for schemes to take these into account when considering retirement outcomes.

1 in 2

of plans use voluntary enrollment for members. This may result to reduced participation rates, due to the voluntary nature of enrollments.

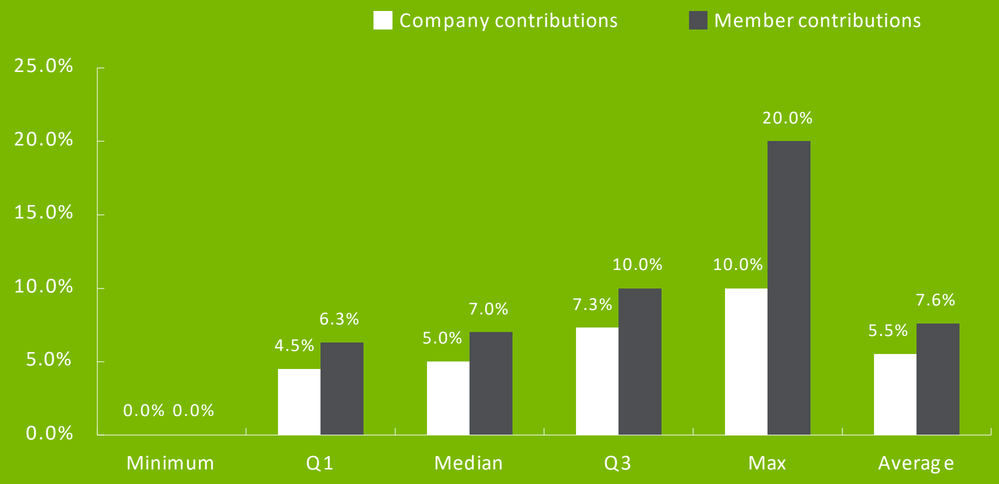
2 in 3

do not know what the expected replacement ratio would be.

The option of drawdown is not offered by any scheme. Benefits are only paid in a single lump sum.

There is still a lack of awareness of expected retirement outcomes among those running schemes

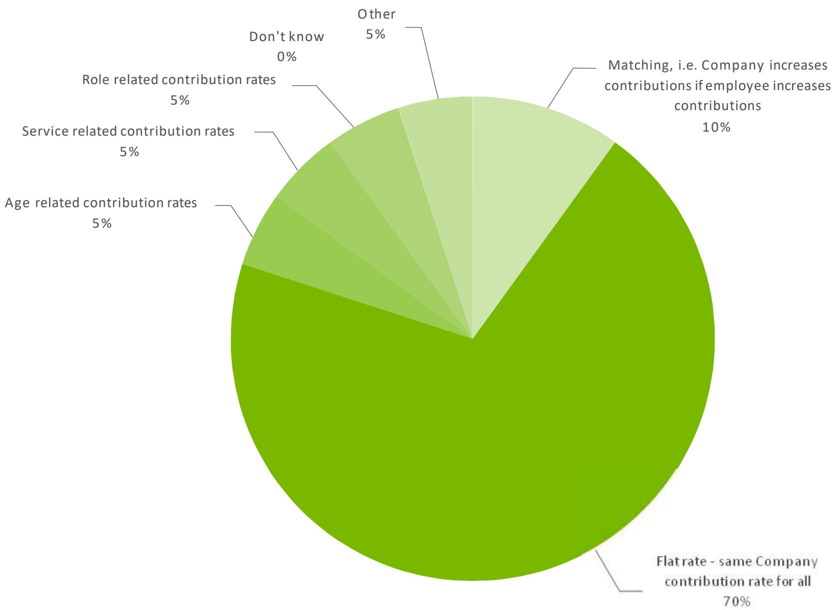
	2019	2016	2013
Median company contributions	5.0%	5.0%	6.0%
Median member contributions	7.0%	6.0%	6.5%
Total average contributions	12.0%	11.0%	12.5%



The level of contributions made by employers and members into DC schemes has a significant impact on outcomes at retirement.

Looking at contribution levels, our respondents' median contribution rate is 12% (5% employer and 7% employer). This is higher than the median found in previous scheme survey in 2016, where it was 11%. However, the employer rate has remain stable at 5% while the employee rate has increased by 1%.

How would you describe your contribution structure?



The contribution level only tells part of the story on contribution rates.

Although, the majority of schemes offer a flat rate of company contributions, there are also schemes that do not just offer this.

For example, a matching contribution design is the second most popular option, with around 10% of the respondents offering members the option to increase their contribution levels and receive higher company contributions.

This type of design incentivises employees to save more and focuses spend on employees who are most engaged with the scheme.

Q. Are all employee options equal?

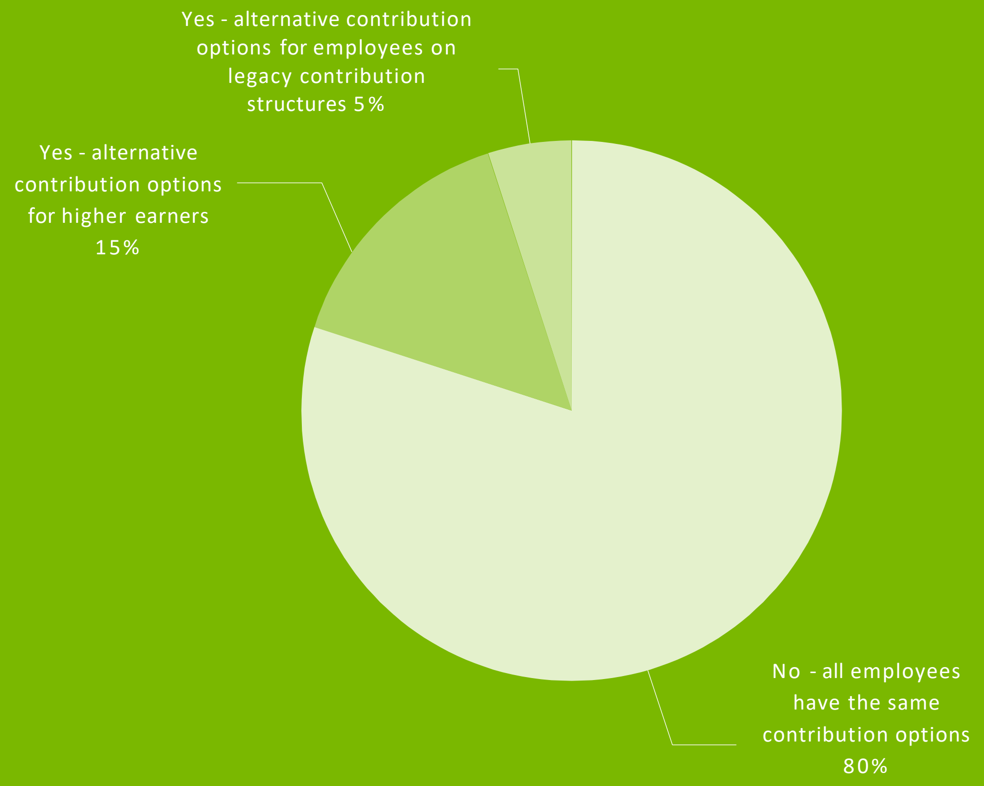
We asked whether all employees are offered the same level of DC Provident Fund contributions.

It is not a surprise that around 80% of the companies offer a consistent contribution design for all employees.

5% have legacy contribution designs, in which the benefit level available for two employees in the same role could be different simply because of when they started work with the company.

15% have alternative options for higher earners. This may be to offer flexibility for income tax relief purposes.

There are schemes where higher contributions are offered to those at more senior role levels (around 5% of schemes).



Thinking about the future – measuring the outcomes

We asked what the expected replacement ratio (income in retirement compared to pre-retirement earnings) would be for a typical lifetime member of their scheme.

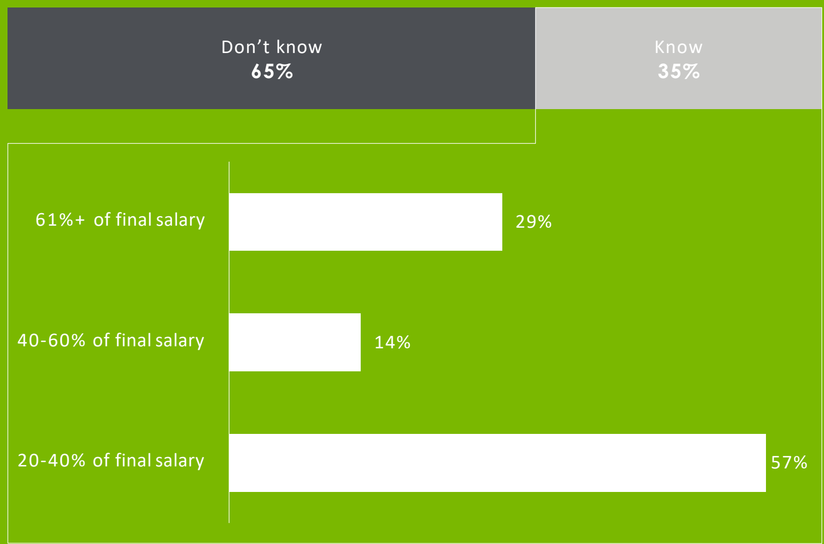
Approximately, two-thirds of respondents did not know what the ratio would be.

Usually employees rely on their employer when deciding how much to save towards their retirement.

As noted earlier, employers not thinking about contribution levels in the context of whether their employees will be able to afford to retire could be storing up a huge problem for the future.

Of the respondents who did know what the expected replacement ratio was, most of them are expecting a typical employee to receive between 20% and 40% of their final pay.

What is the expected replacement ratio (excluding State pension) for atypical lifetime member?



Aon point of view

We believe that most individuals and schemes focus too strongly on what contributions are being paid rather than how much they might receive in retirement.

Looking at projected outcomes across a scheme's membership using tools like Aon's Retirement Calculator Tool (, can help those running schemes to identify how many are on track for an adequate retirement and which groups need more help.

Encouraging members to set a target to work towards, is an important step in helping them to understand their retirement benefit and how it fits into their wider retirement savings.

The inability of members to afford to retire is likely to lead to an ageing workforce, with potential benefit cost implications. This could also limit career progression opportunities for younger employees and cause succession challenges.

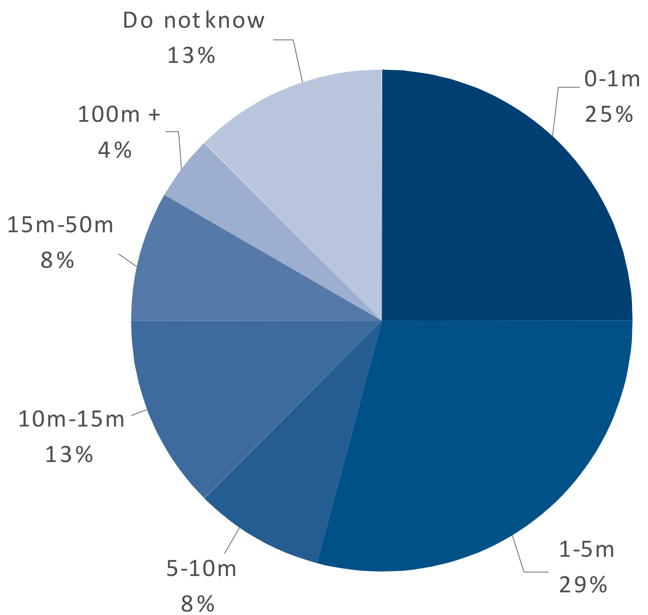
SECTION 4

Made to measure

An ever-changing investment landscape

Q. What size is your DC Provident Fund based on total assets invested, as measured in local currency?

This is an important charecteristic of the pension market in Cyprus, where there are a lot of small Funds (both in membership size and asset value) compared to other developed countries.



54%

of the participating Funds have a total asset value of less than €5m.

4%

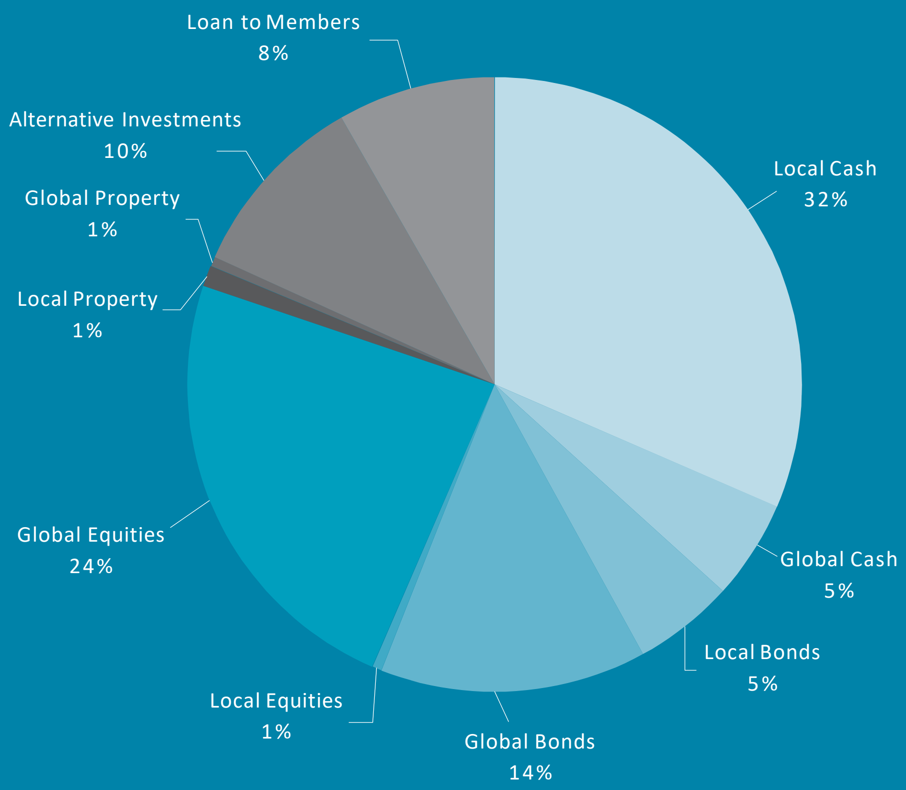
of the funds have a total asset value of €100+ millions

29%

have €5-50 millions.

Q. What is the percentage allocation of the Plan assets invested in each of the following categories?

Percentage allocation of the plan assets

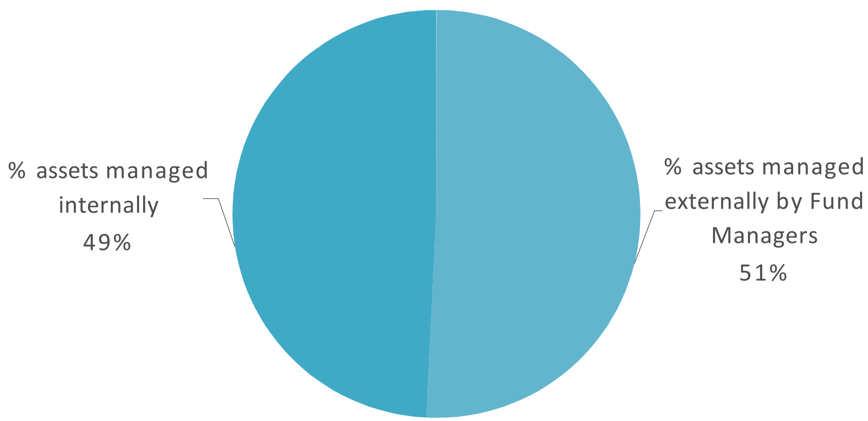


The participating funds are, on average, mainly invested in cash, bonds and equities.

Q. What proportion of the Plan assets manage by external Fund Managers?

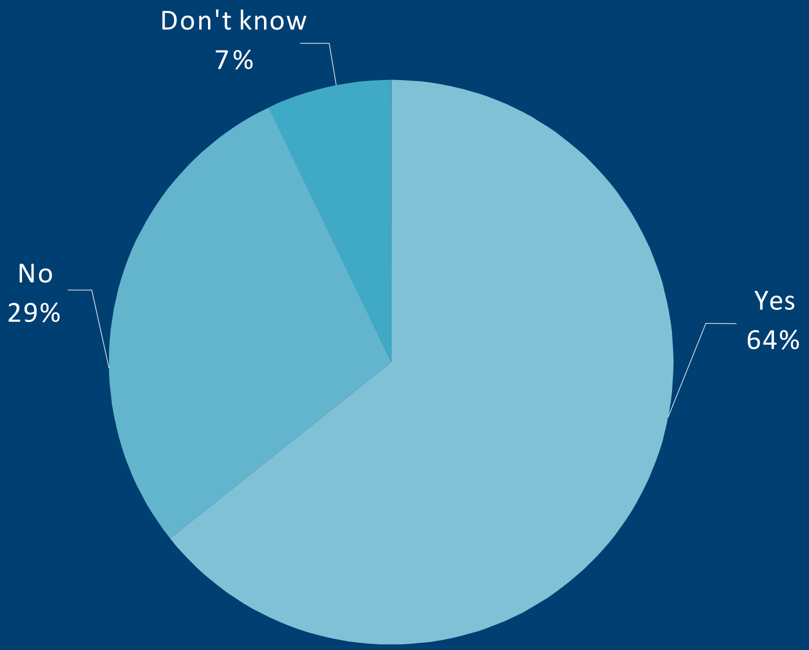
Around half of the fund assets are managed externally by Fund Managers. Typically investments in cash, local government bonds and local property are managed internally.

Proportion of the Plan assets managed by external Fund Managers



Q. Is there an independent Investment Consultant for the Plan assets?

Independent Investment Consultant



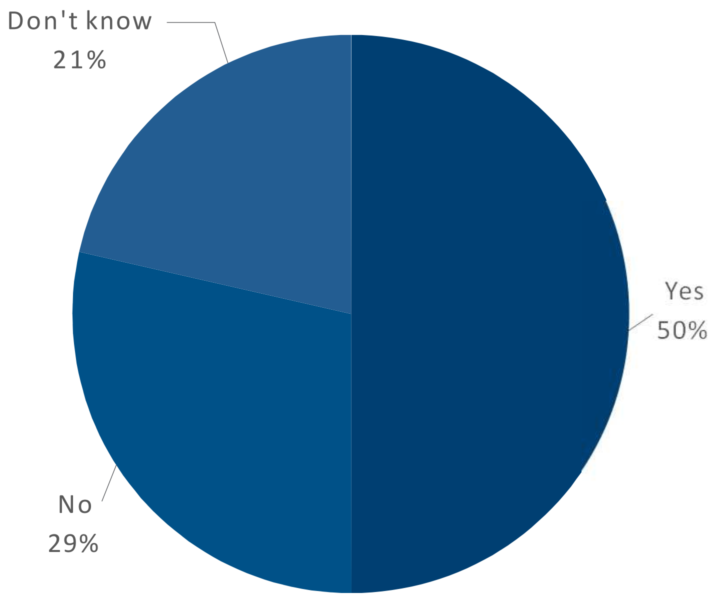
Approximately

7 in 10

of the participating funds use an independent Investment Consultant.

Q. Is there a Custodian for the Plan assets?

Custodian

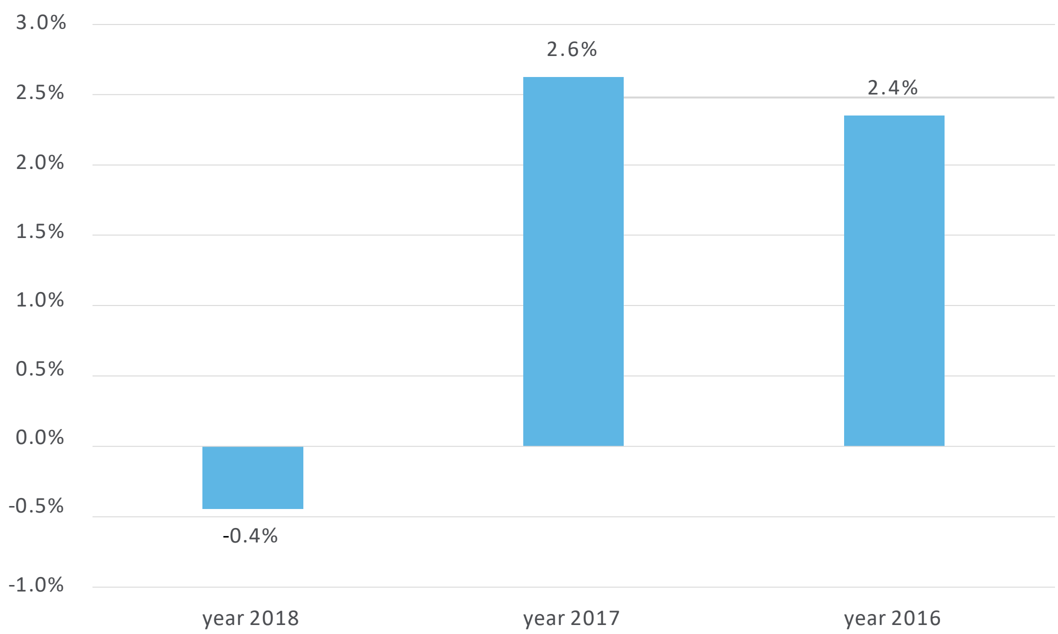


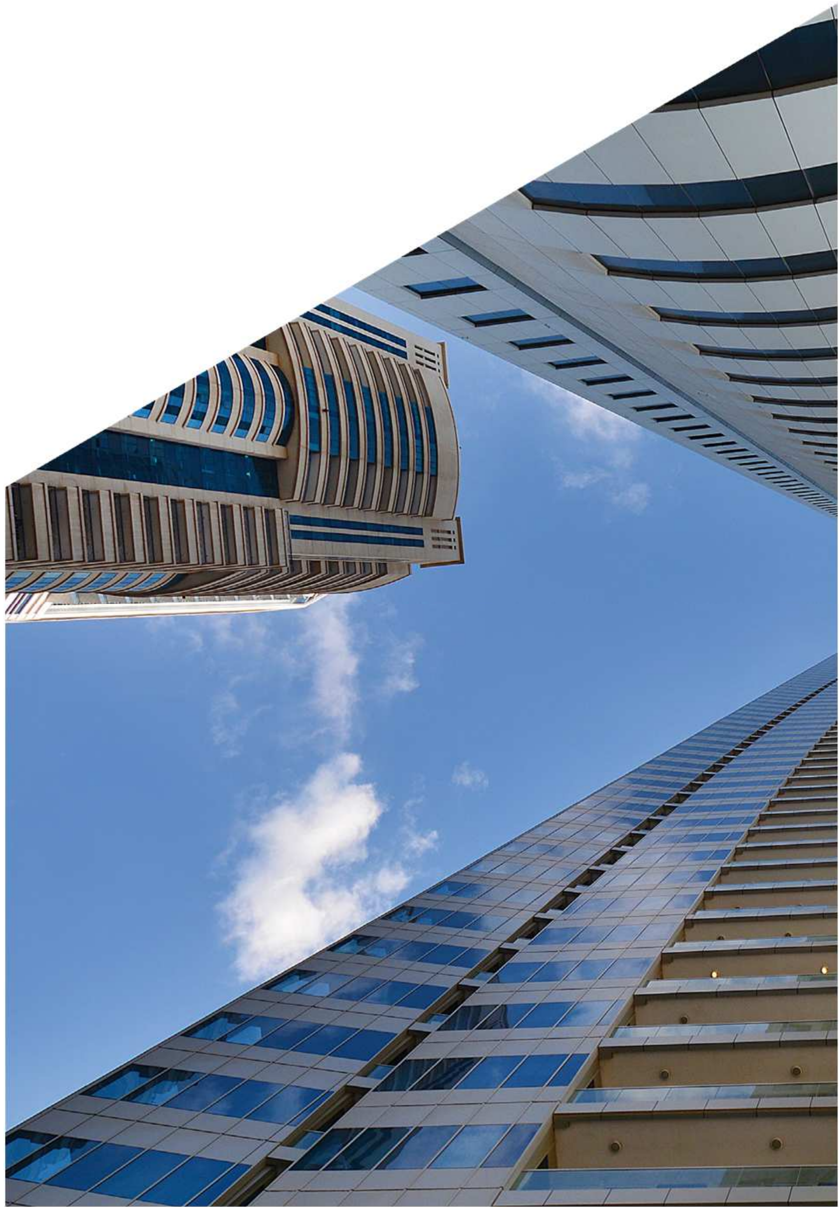
1 in 2

of the participating funds use a Custodian for their Plan assets

Q. What was the total investment return achieved by the Plan (net of all fees) as at:

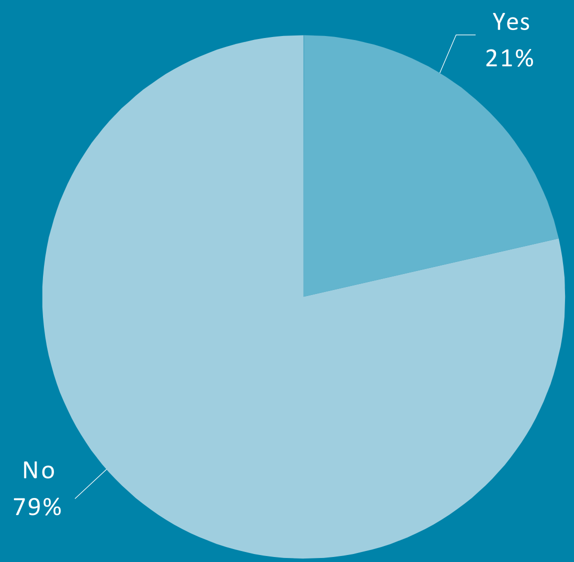
Total investment return achieved by the Plan (net of all fees) in the last 3 years





Q. Are individual investment choices available to members?

Individual investment choices



only **2 in 10**

of the participating funds offer an individual investment choice for their members.

Responsible Investing

Those running DC schemes are being compelled to consider Responsible Investing – and not just by societal pressure. The Regulator now requires trustees of DC schemes to state their policy on financial and non-financial matters in relation to ESG.

Historically, the view was that Responsible Investing would very much fall into the non-financial category, ie, it was a matter of ethics and therefore most trustees and employers took the view that it was up to individual members to choose whether they wanted to invest in this way. However, this view is changing.

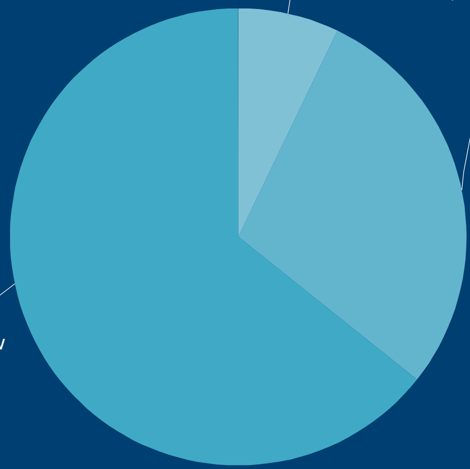
We are seeing increasing pressure on governments to curb carbon emissions and reduce nations' impact on local ecology (eg, Brazil and the Amazon rainforest). People are becoming more aware of issues relating to how goods are produced, such as concerns about slave labour, fair pay or cruelty to animals.

Companies linked to environmental damage or social issues are under increased scrutiny in the public eye.

Many companies developing environmentally friendly technology or a reputation for being socially aware have gained a strong footing in their respective fields. As a result, investing in funds aligned with these factors can be increasingly profitable and is seen as a sustainable way to generate financial growth.

Only a small proportion of the funds (approximately 1 in 10) currently assess the plan investments against ESG criteria.

ESG Invesment



Jargon buster

ESG stands for Environmental, Social and Governance.

ESG investing aims to take positive environmental, social and governance factors into account in investment decisions.

SECTION 5

Calibrate your comms

We need to talk about provident funds and financial wellbeing

Target-setting for retirement

More needs to be done to help employees understand how much they need to save. This is backed by the fact that most employees rely on their employer when deciding how much to save towards their retirement, and that most have not set a target for how much to save before they can fully retire.

Both employers and trustees of provident funds need to focus their attention on encouraging employees not just to save more, but to save at adequate levels for the standard of retirement they desire. Increasingly, it is being recognised that retirement saving is not something that individuals consider in isolation, but as part of their wider financial situation.

1 in 5

schemes communicate targets to encourage employees to save at an appropriate level

Currently, very limited services relating to financial wellbeing are being offered

Currently no scheme is measuring members' engagement with retirement and financial programmes

Q. What methods do you use to encourage employees to save at appropriate levels for retirement?

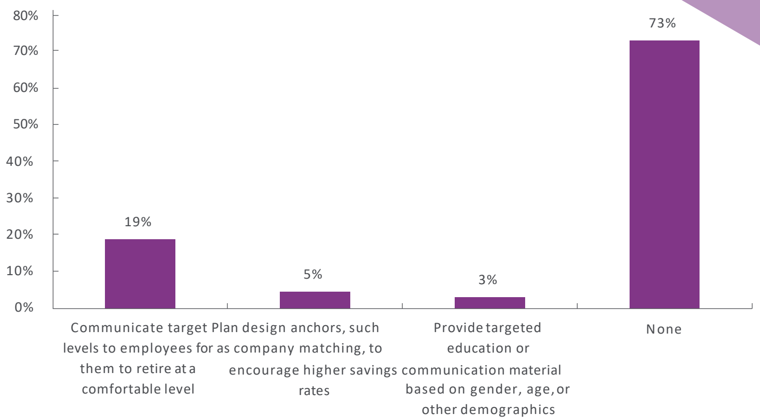
Our biggest challenge is:

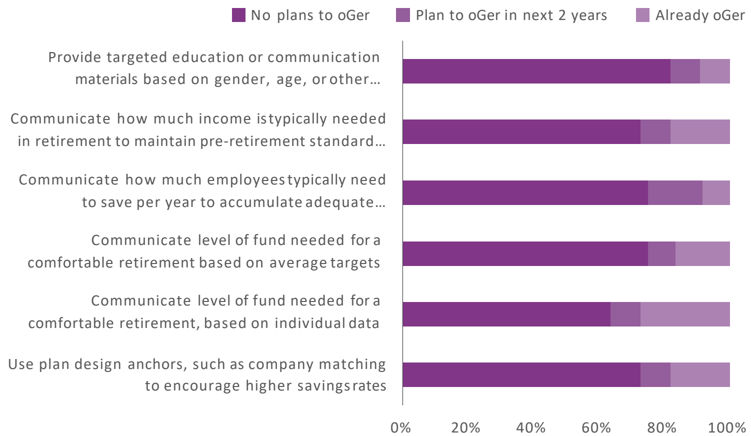
I want to deliver value for money from a company perspective

The most popular method used by those running schemes to encourage members to save more is to communicate one or more targets to their employees to help them retire at a comfortable level. This covers those who provide target contribution rates, target fund values and target retirement income levels. These can be used as part of regular communications, member presentations or online tools that members can access.

Around a third of those running schemes communicate one or more targets to their employees to help them retire at a comfortable level. This covers those who provide target contribution rates, target fund values and target retirement income levels. These can be used as part of regular communications, member presentations or online tools that members can access.

We are starting to see some schemes implement the auto-escalation of contributions. This could either be as a choice for members or as a default position. The phased introduction of contribution levels for auto-enrolment and subsequent low level of opt-outs following the increases has shown that this is an effective way to achieve higher contributions into DC schemes.



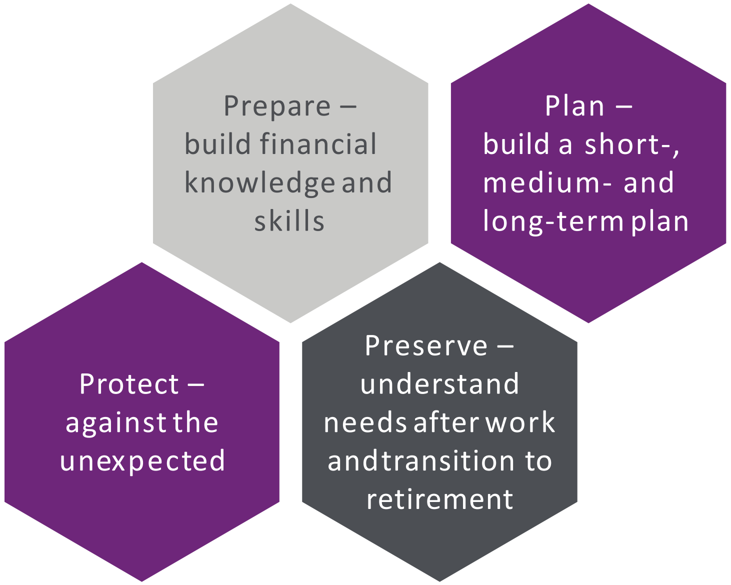


Financial wellbeing support

> Our biggest challenge is:
> **Getting members to own their future financial security**

Financial wellbeing is a hot topic on many agendas, and retirement benefits is a key part of any programme.

Currently, very limited services relating to financial wellbeing are being offered. However, the most popular financial wellbeing support currently offered is ‘saving for retirement’, followed by ‘insurance’. At Aon, we summarise financial wellbeing support into four key areas using our four P’s framework: prepare, plan, protect and preserve. The most popular wellbeing support focuses on ‘plan’, building a short-, medium- and long-term plan, and ‘protect’ against the unexpected.



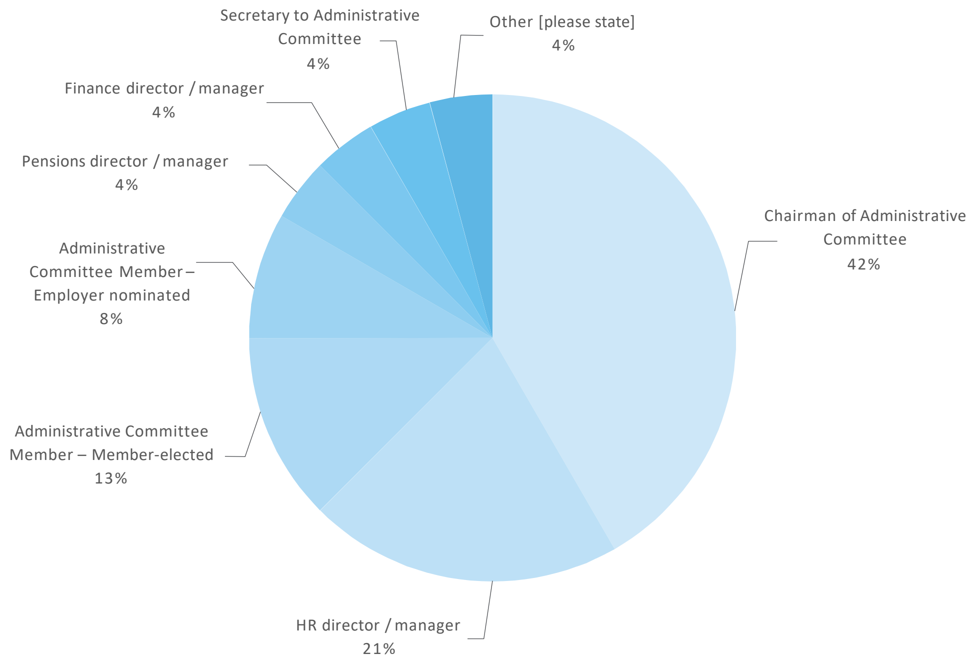
Measuring success

Our research shows that while there is a variety of ways in which employee engagement with retirement and financial wellbeing programmes can be measured, none of the participating plans measure success.

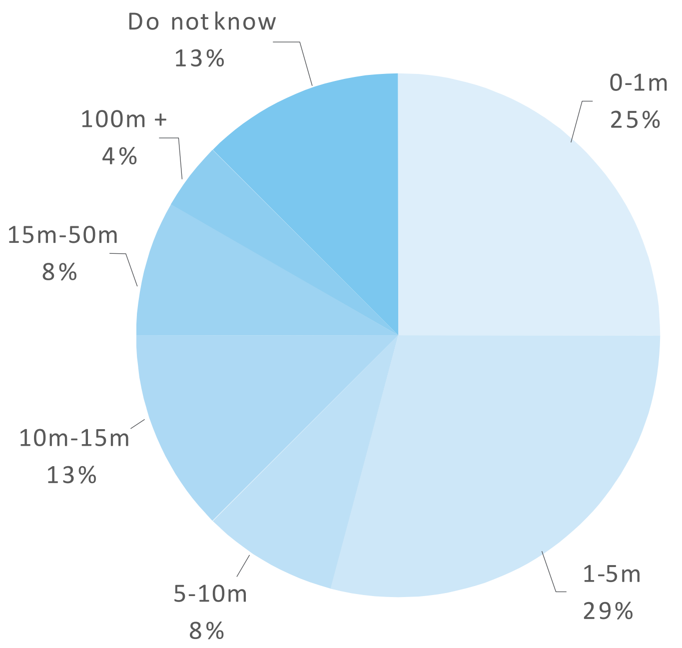
Breakdown of survey participants

This research encompassed a wide range of DC schemes, including own Provident Funds and Multi-Employer schemes, as a well as a broad range of scheme sizes.

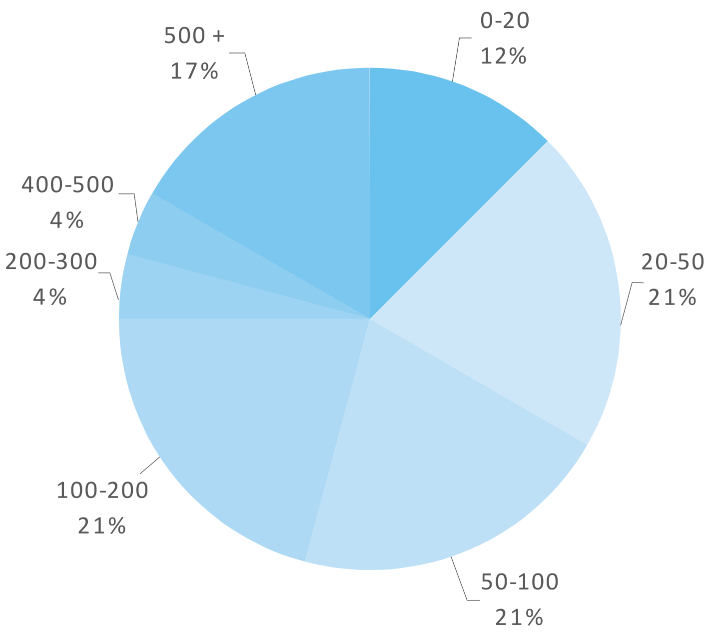
Role of respondents



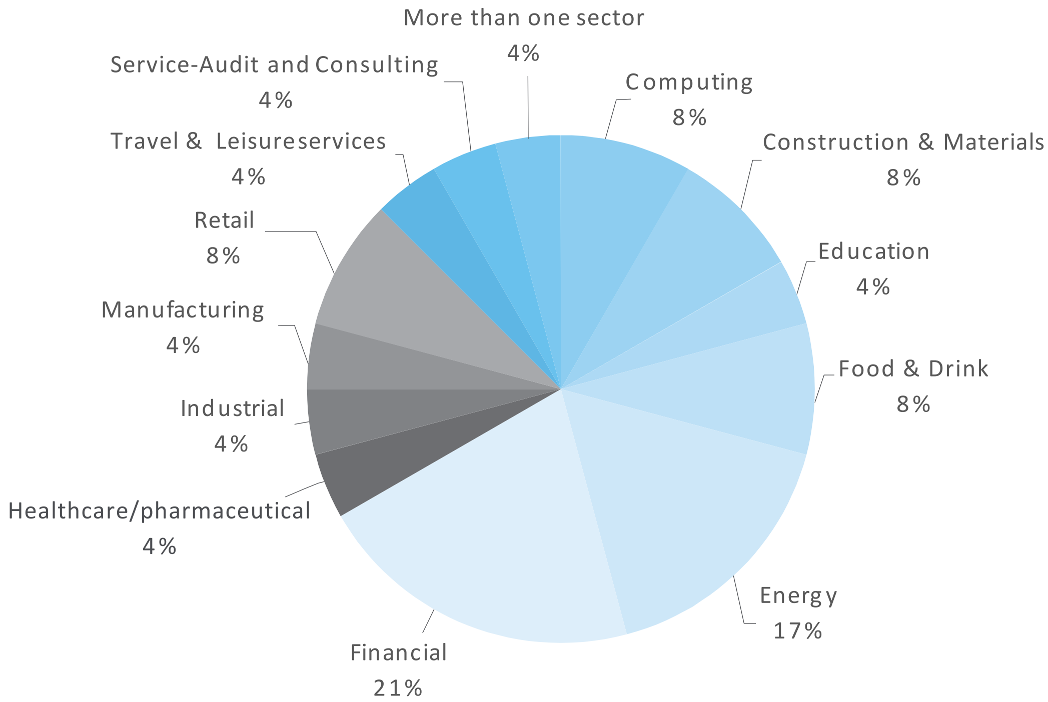
Size of DC plan



Total number of DC members



Sector of sponsoring employer



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