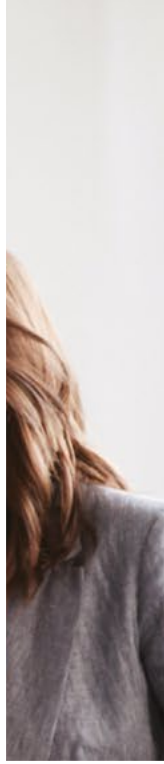
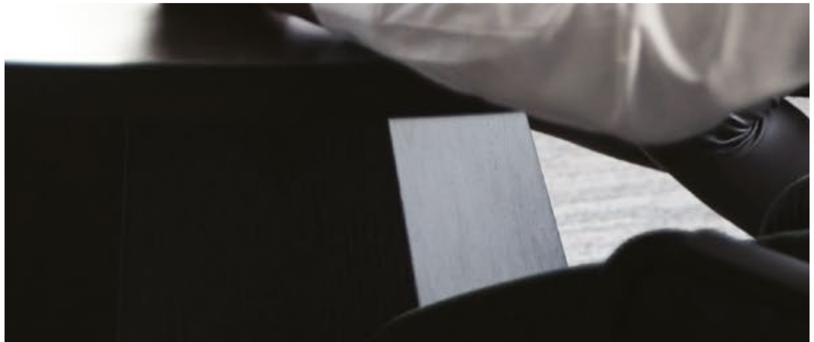




PwC 1e Pension Plan Survey 2024

6th edition
August 2024



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Introduction

The Swiss 1e pension market is experiencing evolution. Assets under management are continuously growing while the players in the market seem to remain the same – but for how long? In this 6th edition we share our insights on the current offerings from 1e plan providers.

There is familiarity to the survey in our 2023 edition as we once again asked the largest providers of 1e pension funds about their offerings. Our survey covers 14 multi-employer pension funds (MEPFs) and six company-owned pension funds (CFs).

We share insights into the current offerings from 1e plan providers and how the market has evolved since the changes in pensions legislation in 2017, and take a look at future trends in the 1e market.

What's next? To augment our standard 1e survey, in the coming months we will be gathering unique insights directly from both companies and insured members. This comprehensive approach will provide more detailed and valuable insights, which we plan to share later in the year.

Key statistics and findings at a glance

CHF 9.2 billion
assets under management in 1e plans (CHF 6.4 bn in MEPFs)

43,559
employees covered by 1e pension funds surveyed

5 out of 14
multi-employer pension funds measure member satisfaction

+436 (+12%)
new companies affiliated to multi-employer pension funds in 2023

20% annual growth
1e multi-employer pension funds retain ambitious growth plans over the next 5 years

5% average return on assets
achieved by participating 1e pension funds in 2023

Snapshot of key findings from the survey:

1. Transformation of high-earner pensions continues: an estimated 9% of eligible Swiss workers are covered by 1e pension plans.
2. CHF 174 m lost in value through risk-averse investment choices? 1e plan members continued to choose on average more risk-averse investment strategies than the average Swiss pension fund
3. Pressure on higher 1e costs to increase? Average 1e MEPF costs still higher than the average collective foundation
4. Market consolidation ahead? One merger will take place in 2025, which may be the start of further consolidation considering that 2/3 of AuM is held by 4 largest providers
5. Digital transformation ongoing, customer experience next? Most multi-employer providers worked towards optimising online tools and digitising processes in 2023.

Five key findings from our 2024 1e survey

1	2	3	4	5
Transformation of high-earner pensions continues	**CHF 174 m lost in value through risk-averse investment choices?**	**Pressure on higher 1e costs to increase?**	**Market consolidation ahead?**	**Digital transformation ongoing, customer experience next?**
• 12% increase in employers (+436), and 14% increase in members (+ 3,058) in multi-employer pension funds: slower relative and absolute growth than in 2022 • 45,698 total insured members in 1e plans, representing an estimated 9% of eligible Swiss workers • Corporate funds saw a drop in 1e insured members of 7%, partly driven by corporate changes	• 1e plan members continued to choose on average, arguably, more risk-averse investment strategies than the average Swiss pension fund • Majority of providers report that most members do make an investment decision but many follow a lower risk strategy or are still using the default strategy • If 1e plan members had allocated their assets to slightly riskier strategies, returns would have been CHF 174 m higher	• Average multi-employer pension fund admin costs are at a similar level to last year, higher than the average collective pension fund • Range of costs for each provider indicates that lower costs can be achieved • Providers will have to continue to look to scale and leverage technology to make their funds attractive	• 14 multi-employer pension funds now hold CHF 6.4 bn of assets, an increase of 18% in 2023; the largest 4 providers manage two-thirds of these assets • One new provider entered the market in 2023 and one merger will take place in 2025. This may be the start of further consolidation	• Most multi-employer providers worked to optimise online tools and fully digitise processes in 2023 • Only 5 out of 14 providers actually measure member satisfaction, which indicates scope for better understanding and improving member experience

Transformation of high-earner pensions continues

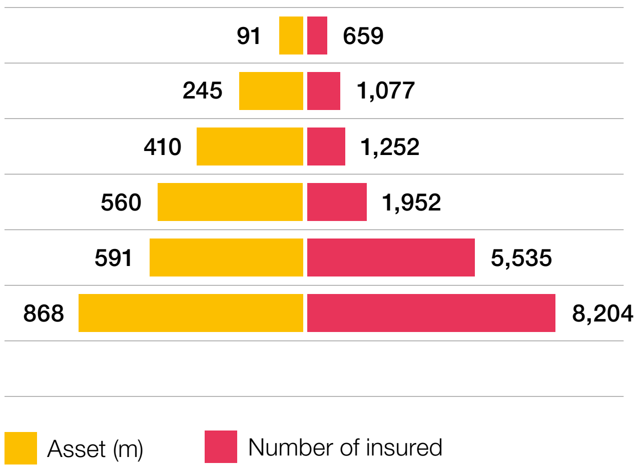
Participating 1e funds held CHF 9.2 billion in assets under management at end of 2023 (+14%), with 43,559 insured members (+4%)

Multi-employer 1e funds added 436 employers by end-2023
The 14 surveyed multi-employer funds provided 1e plans for 4,009 affiliated companies covering 24,880 insured employees at the end of 2023. 436 new employer affiliations were added, an increase of 12%. In both 2022 and 2021 the increase was 19%.

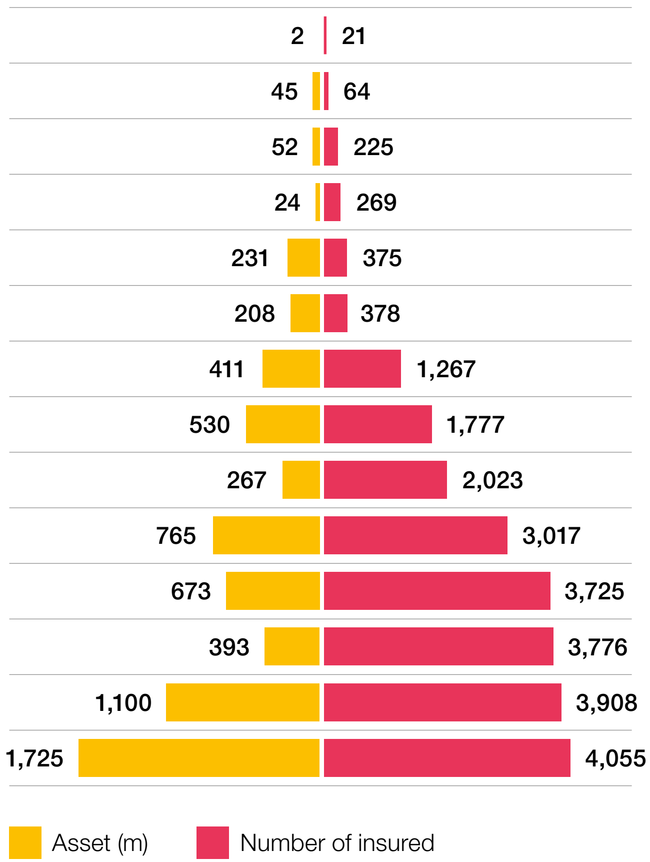
The average number of insured members per plan increased slightly by 1.6% from 2022 to 2023 (6.2 members per affiliation in 2023 compared with 6.1 in 2022). The average assets per member in these funds increased slightly from CHF 248k to CHF 258k (+ 4%) (after a decline of around 19% the prior year). This was largely influenced by asset returns. Note that many new joiners in the MEPFs surveyed started with no assets invested: growth in numbers impacts the average.

Company 1e funds surveyed cover 18,600+ employees
At the end of 2023, the five surveyed funds covered 18,679 insured employees, fewer than the prior year, partly owing to reorganisations at one of the employers behind these funds. The average assets per member in CFs 1e is CHF 148k, an increase of 13% versus the prior year.

Company-owned 1e pension funds



Multi-employer 1e pension funds



Number of employees covered by 1e plans increases, but at slower pace in 2023

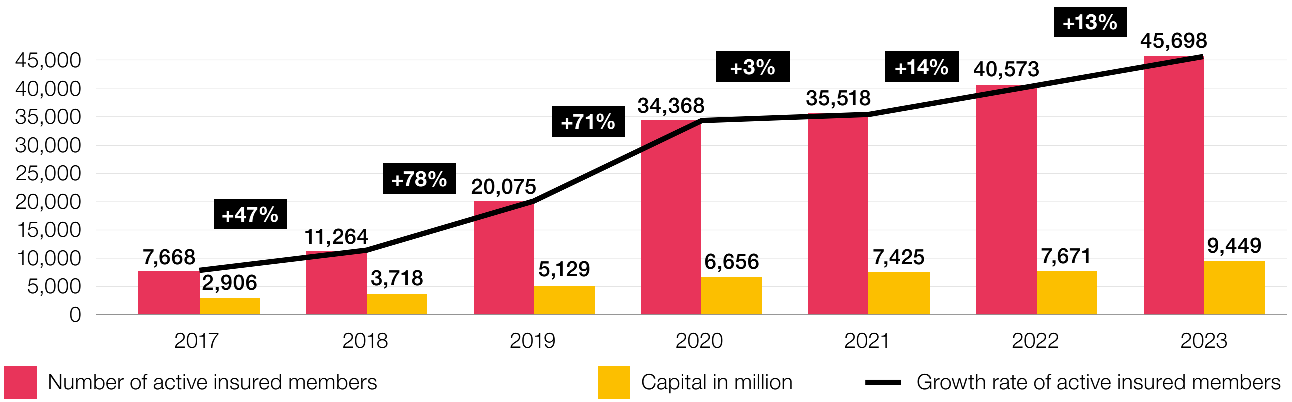
Recent market trend shows slower but steady growth of 13% and 14% in the last 2 years[2]

Around 1 in every 11 eligible employees are now insured in a 1e plan
Based on the surveyed funds, fewer than 1% of Swiss registered companies offer a 1e plan to their employees. Nevertheless, based on official statistics we estimate that around 9%[1] (1 in 11) of overall eligible employees are covered by a 1e plan. This shows that there is clearly more interest at companies with a higher number and proportion of higher-earning employees.

1e plan members increased by 13% in 2023
According to the official statistics for the whole of Switzerland, the number of insured members in 1e pension plans grew by 13% in 2023 (14% in 2022) compared with a 4% growth rate according to our survey.[2] This single-digit growth is heavily impacted by 1e CFs, as they faced a 7% decline in members (-1,457). However, this is mainly driven by one bigger 1e CF where employee numbers fell after a reorganisation.

Surveyed 1e MEPFs reported a 14% increase in insured members for 2023 (+3,058) (compared with a 46% increase at participating MEPFs last year[3]).

1e pension market development[1]



Source
1 AHV-IK, 2022 (Stand 2024), Bundesamt für Sozialversicherungen (BSV)
2 Datenauswertung zum Bericht zur finanziellen Lage der Vorsorgeeinrichtungen 2023 (Oberaufsichtskommission Berufliche Vorsorge, OAK BV)
3 1e MEPF that participated in 2022 and 2023 survey only

Insured members missed out on asset returns owing to lower risk investment strategies, with an estimated lost value of CHF 174 million

Market recovered in 2023 and insured members received a positive return on their invested assets

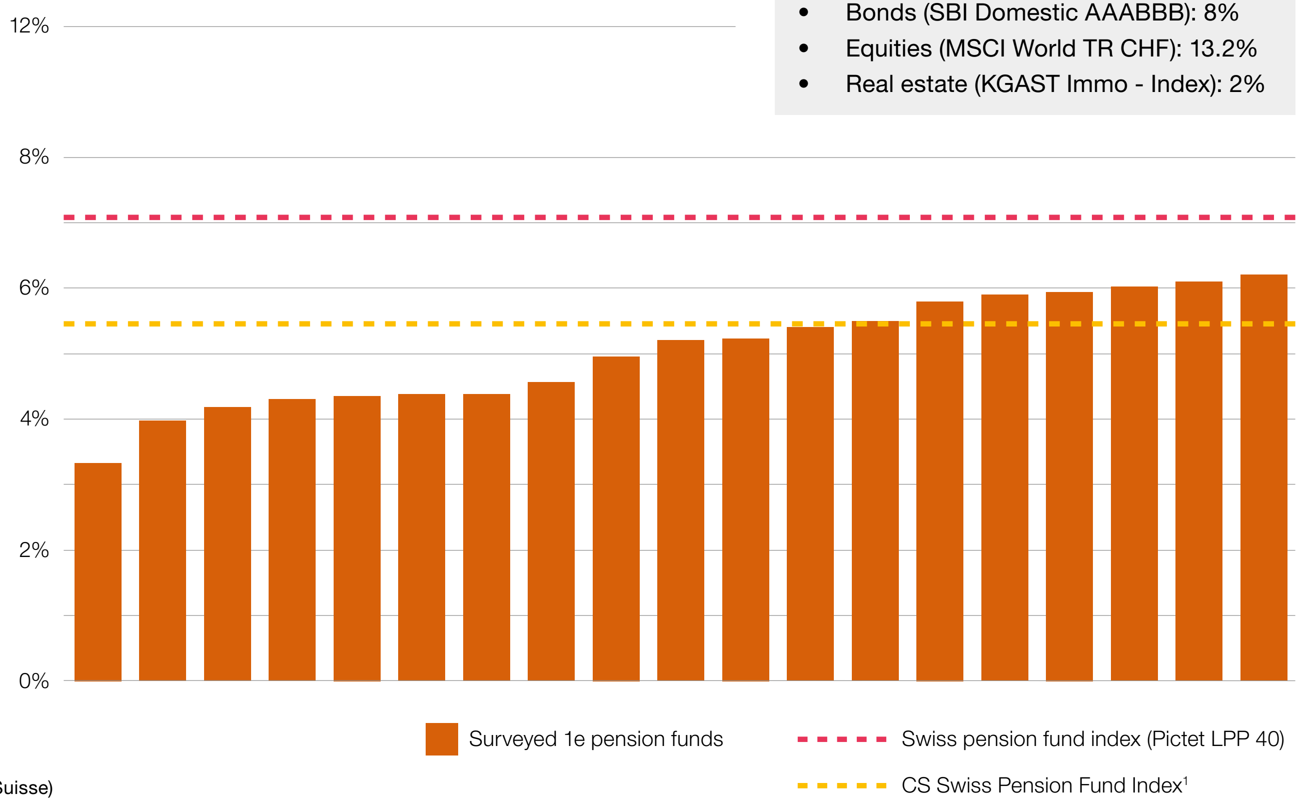
Market recovery in 2023 boosted returns
While asset returns fell in 2022, positive returns were achieved in 2023. The average performance of all participating 1e pension funds was 5% (median 5.2%). Slightly higher returns were achieved by multi-employer funds than corporate funds (median 5.2% compared with 4.81% of CF). This is a reflection of more conservative investment strategies chosen in corporate funds (see p. 13).

“Lost” return of approx. CHF 174 m
In 2023 the Pictet LPP 40, which could be viewed as a proxy for a comparable Swiss pension fund, showed an average return of 7.09%. Had 1e funds been invested following this strategy, the returns would have been CHF 174 m higher. This shows the opportunity cost in 2023 of following a more conservative investment strategy chosen by 1e members. (Note that the reverse occurred in 2022, when the more conservative approach of 1e investors was less heavily impacted by the negative returns in that year).

Higher returns expected in 2024
While corporate bond yields have declined slightly since the end of 2022, investment returns have continued their positive trend in 2024. Average Swiss pension funds enjoyed an average return of 5.28% in the year to June 2024.[2]

Survey participants indicated an expected return of 0.25% to 2% for their low-risk strategy (i.e. cash, money market, bonds).

1e pension funds asset performance compared to different indices



Other indices‘ performance in 2023
- Bonds (SBI Domestic AAABBB): 8%
- Equities (MSCI World TR CHF): 13.2%
- Real estate (KGAST Immo - Index): 2%

Source
[1] Swiss Pension Fund Index Q4 2023 (Credit Suisse)
[2] Swiss Pension Fund Index – June 2024 – positive monthly result (Credit Suisse)

Are insured 1e members risk-averse or indecisive?

Survey shows that 1e members continued to choose risk averse investment strategies

83% of 1e providers said up to 30% of their insured members were invested in the low-risk strategy at end-2023
Many factors can influence a more risk-averse investment strategy, such as age, lack of confidence in financial markets or the need to balance risks from elsewhere in an individual's investment portfolio. It can also be the result of a lack of guidance and advice, a lack of interest or simply the failure to make a choice.

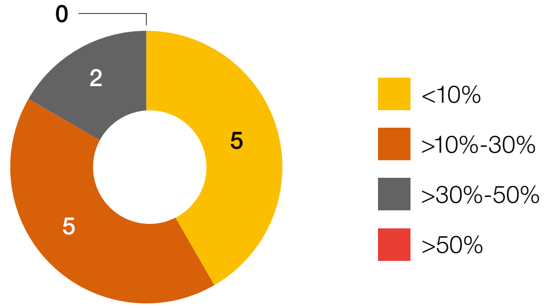
Our survey showed that a substantial number of members are invested in the low-risk strategy offered by providers. At the end of 2023, 2 out of 12 funds said that between 30% and 50% of their members were invested in the low-risk strategy. A further 5 funds responded that between 10% and 30% are doing the same.

Typically a 1e plan is viewed as an opportunity to take more risk on top of the more secure and collectively invested "base" plans. This suggests opportunities are being missed to take more risk and target higher returns.

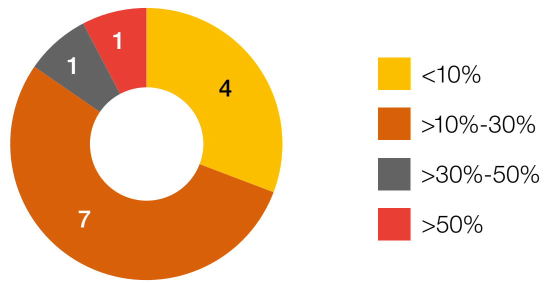
Majority of 1e MEPFs report that most members do make an active investment decision
How many members make active decisions when joining a 1e plan? When a member does not actively make an investment decision, they end up with the default strategy, which is typically lower risk. However, the majority of 1e providers surveyed said that insured members do make an active decision.

Our findings suggest that there is still a need to provide more information and guidance to newly insured members to help them make active decisions. This approach would empower members to take control of their financial futures and arguably open up potential for higher returns on their investments over the long term.

Number of 1e providers stating % of insured members invested in low risk strategy at 31.12.2023



Number of 1e providers stating % of new insured members put in default strategy



1e admin costs remain "high" – further scaling needed

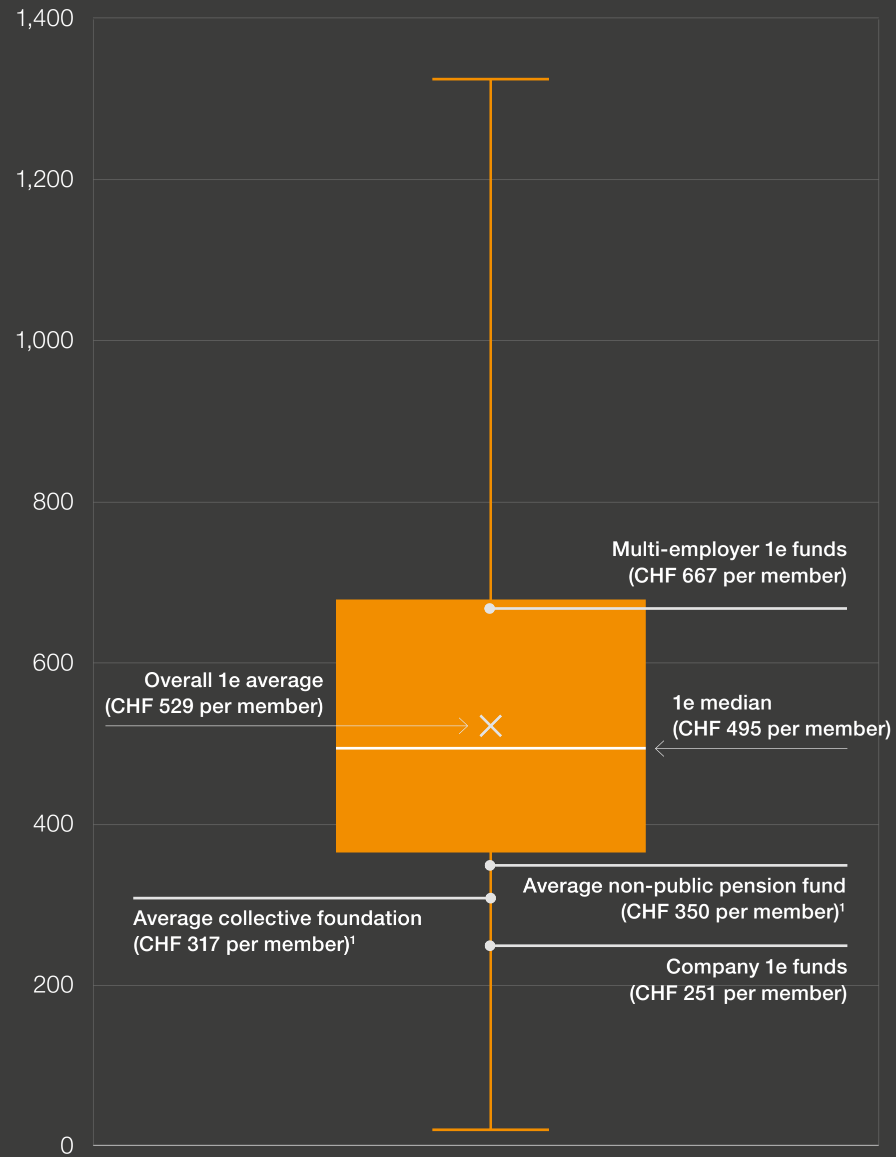
Multi-employer funds were not able to continue the cost reductions of 2022 into 2023

Average administration costs of 1e MEPFs running at CHF 667
1e multi-employer funds were not able to reduce their admin costs further in 2023 on average. The average cost per member reported by providers was CHF 667 in multi-employer funds, representing a similar cost level to the prior year (2022: CHF 665; 2021: CHF 723). The median multi-employer cost was CHF 592. The average costs for 1e plans still remain higher than for traditional collective funds. The costs for collective funds also appear to have decreased by 14% in 2023 according to Swisscanto's 2024 Schweizer Pensionskassenstudie (2023: CHF 317; 2022: CHF 405; 2021: CHF 368 per member).

Missing opportunities to increase efficiency in 1e pension plan management?
The admin costs for 1e plans remain relatively high. 1e plans should arguably have a higher average cost owing to the risk profile of member, administration of multiple strategies, flexible offering for affiliations, advanced digital tools, etc. However, with the rise of AI and digitalisation, costs may become even more challenged without further scaling. This could drive market consolidation, beyond just the factor of size.

Company funds keep costs lower thanks to size
The average admin cost per member in company funds increased by 6% over the year from CHF 237 to CHF 251 (2021: CHF 270). The median for company funds was CHF 257. Company funds are typically larger and can leverage resources from their main fund as well as the employer, which lowers reported admin costs.

Admin cost per FER26 reporting (CHF per member)



Source
[1] Schweizer Pensionskassenstudie 2024 (Swisscanto by Zürcher Kantonalbank)

Multi-employer providers retain their ambitious growth plans

Multi-employer providers expect to have CHF 16 billion in assets under management in five years' time

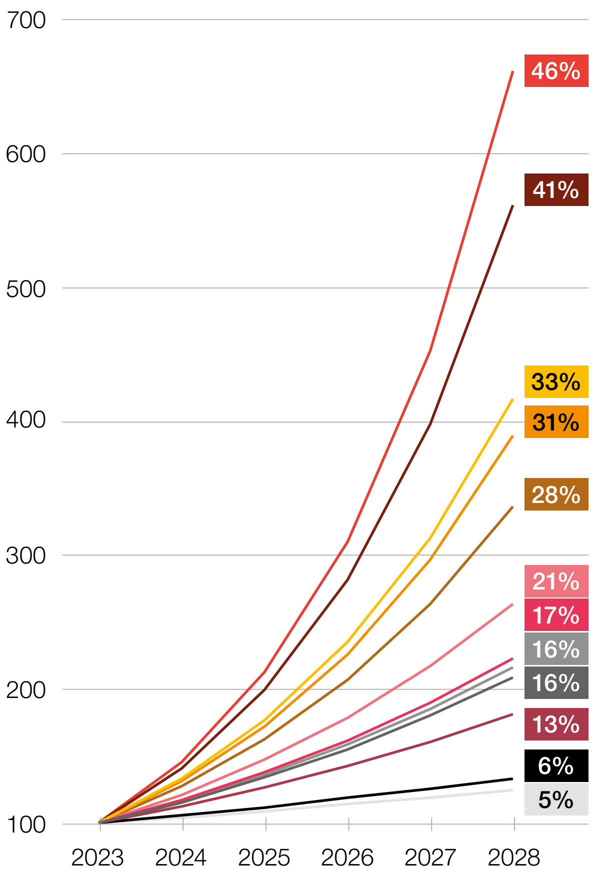
Multi-employer fund assets grew by 19%
The assets under management of multi-employer funds grew steadily at a rate of 19% in 2023 (17% in the prior year).

Ambitious AuM growth expected by providers
The study shows that MEPFs continue to see large opportunities in the 1e market and expect substantial double-digit growth in their total assets under management at a rate of 20% a year on average over the next 5 years. Individual provider growth expectations range between 5% and 46% a year.

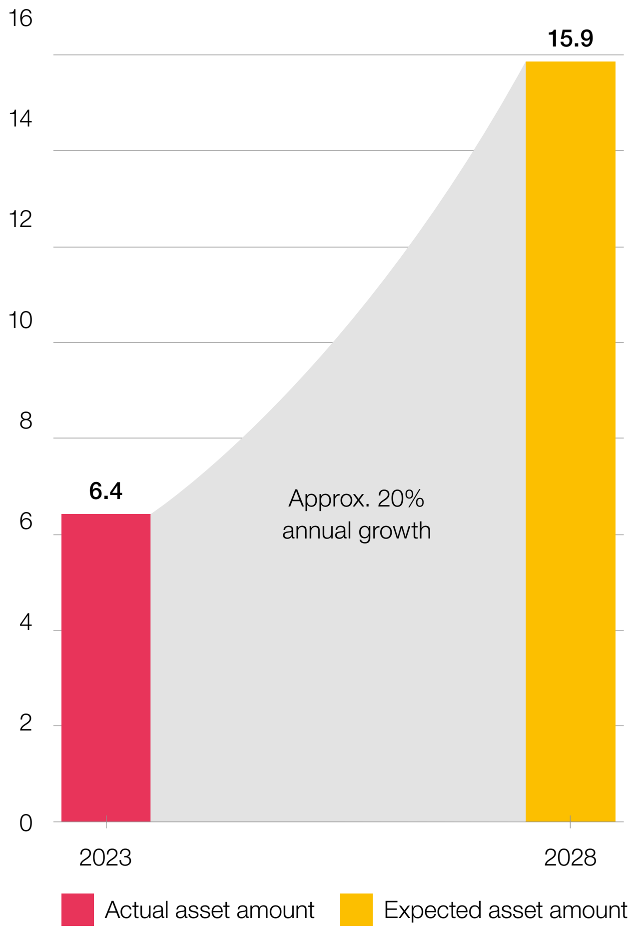
This would increase assets from CHF 6.4 billion to CHF 15.9 billion by end-2028. Compared with the past 2 years, growth of around 20% was expected, in line with the official statistics, which measured a growth rate of 23% for 2023 vs 19% among the participating MEPFs.[1]

Consolidation has started as two-thirds of assets are already held by the 4 largest providers
While in the past year one new 1e player came into the market, in 2025 one of the surveyed providers will transfer its 1e business to another provider. We expect further consolidation. Two-thirds of total assets in multi-employer funds are held by the 4 largest providers (out of 14 participating funds). With the growing AuM and number of affiliations at the larger MEPFs, smaller providers may face pressure to stay in the market.

Individual growth targets of 1e MEPF providers[2]



Development of total assets in 1e MEPF (CHF bilion)



Source
[1] Datenauswertung zum Bericht zur finanziellen Lage der Vorsorgeeinrichtungen 2023 (Oberaufsichtskommission Berufliche Vorsorge, OAK BV)
[2] Excluded providers with < 20m CHF

Multi-employer funds are optimising their solutions but only a few measure customer experience

1e MEPFs are focusing on improving member experience and flexibility through digitalisation

13 out of 14 providers offer employee portals (1 in development). 9 out of the 13 providers are enhancing their online tools to improve user experience, including the development of mobile applications for easier access by insured members. Additionally, some providers have implemented or are in the process of implementing fully digital processes, e.g. for voluntary buy-ins or exits.

To further enhance flexibility in investment products, providers are expanding their offerings relating to different investment strategies to better meet the needs of insured members.

Tip: measure member satisfaction key to success: client measurement a focus going forward?

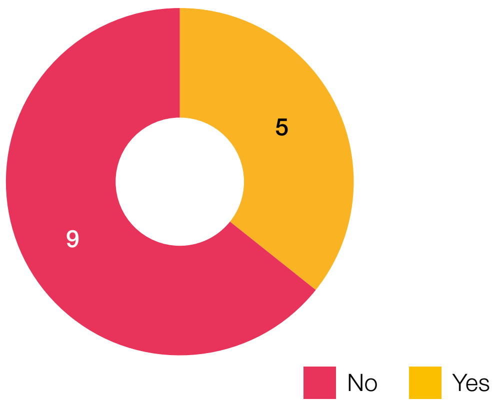
Only 5 out of 14 providers actually measure member satisfaction. This means fewer than 50% of providers are checking on how insured members perceive their services. In the current massively changing digital environment, understanding what members need can be the most important differentiator.

Think outside the box – making pension plans even more flexible

What's next for over-mandatory pension plans? How do they tackle job changes and transfers from a 1e plan to a collective plan? How important are (the missing) annuities? Shall insured members choose their own 1e pension fund provider in future?

We asked insured members in 1e plans and employers what they think about 1e plans. What is missing? How to tackle challenges? Stay tuned for these survey results later in the year.

Customer exerience: Measurement of member satisfaction by 1e MEPF



Further observations on the 1e pension market

Asset allocation

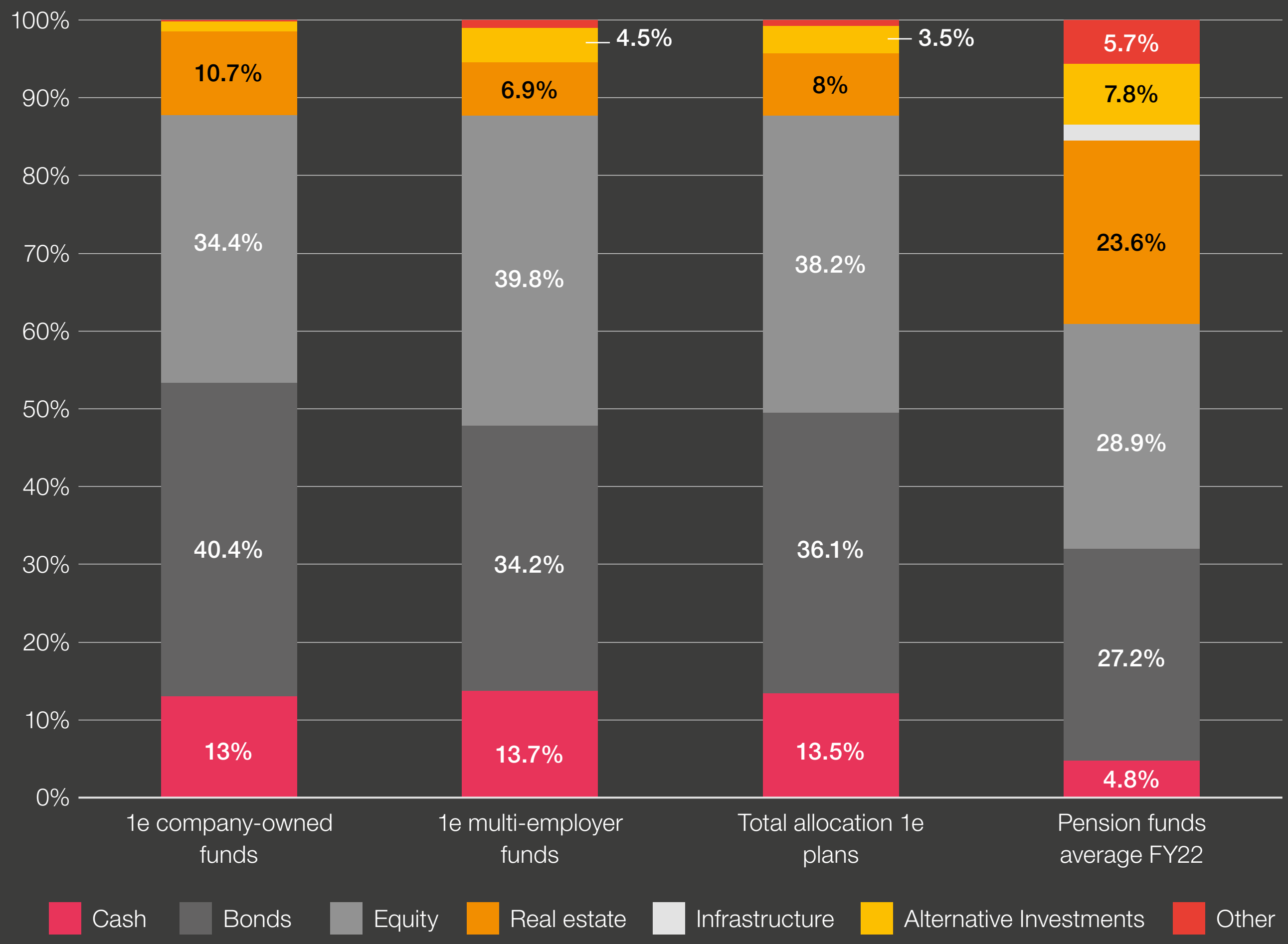
Overall asset allocation: 1e company-owned funds have lower risk appetite than 1e multi-employer funds

Only small change in asset allocation and risk within MEPF
In terms of overall asset allocation for 1e MEPFs, the risks taken are very similar to those of the previous year. The equity weighting among the 14 surveyed providers ranges from 27% to 56%. Insured members in MEPFs continue to assume higher risk exposure than those in CF 1e plans, where the equity weighting ranges from 19% to 50%. Reasons for the varying risk appetite may be the different types of insured members: It is assumed that MEPFs insure management and higher-level employees, with 6.2 insured members on average, while 1e CFs typically insure all members who meet the defined salary threshold.

High cash position compared with average pension fund
Both 1e MEPFs and CFs have around a 2.5x higher cash position than the average Swiss pension fund. Since 2023, holding cash and cash-equivalent assets has become more attractive than in prior years thanks to positive interest rates. At the end of 2023 the allocation to cash and cash equivalents ranged from 4% to 28% in 1e CF plans and 1% to 22% in MEPFs.

Compared with the average Swiss pension fund allocation for 2022, it is notable that real estate holdings continue to be substantially higher, while equity and bond allocations are somewhat lower.[1] Additionally, it is important to consider that the average asset allocation for 2022 posted a double-digit negative performance, leading to a significant devaluation, primarily in equities.

1e asset allocations vs average pension fund allocation



Source
[1] Pensionskassenstatistik Kennzahlen 2018 – 2022 (Bundesamt für Statistik, BFS)

High voluntary buy-ins to 1e pension plans

The level of voluntary buy-ins to company-owned funds slightly increased while multi-employer funds remained at 100% of contributions

Plan members continue to make large voluntary "buy-ins" to 1e
1e plan members continued to invest in their portfolios in 2024 with additional voluntary "buy-in" contributions. These contributions accounted for 74% of the total of CHF 935 million invested in the prior year. This is an increase of +5%. By comparison, across all pension funds in Switzerland, buy-ins accounted for 14% of the total contributions.[1]

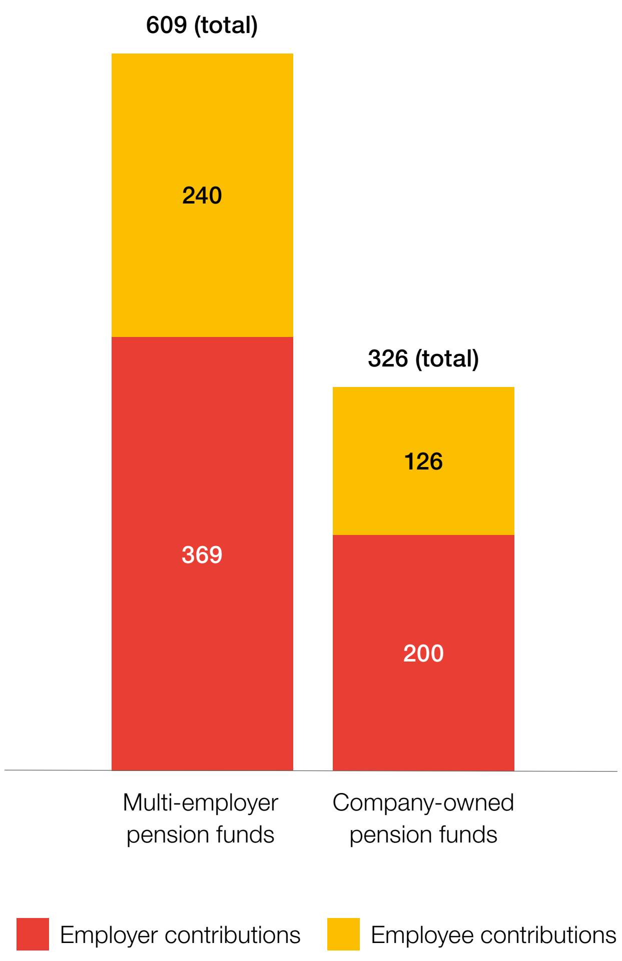
High voluntary buy-ins at multi-employer pension funds
This year, contributions to multi-employer funds came to the same as normal contributions (100%, prior year: 100.2%).

At 61%, the proportion of regular employer contributions to employee contributions was almost aligned with official statistics (58%)[1], compared with employer contributions of an average of 65% for MEPFs the prior year. At 61%, the proportion of regular employer contributions to employee contributions was closely aligned with official statistics (58%), compared to the 65% average employer contribution for MEPFs the previous year. A possible explanation might be that more employees opted for the highest available choice plan option, which generally has a 50/50 financing split.

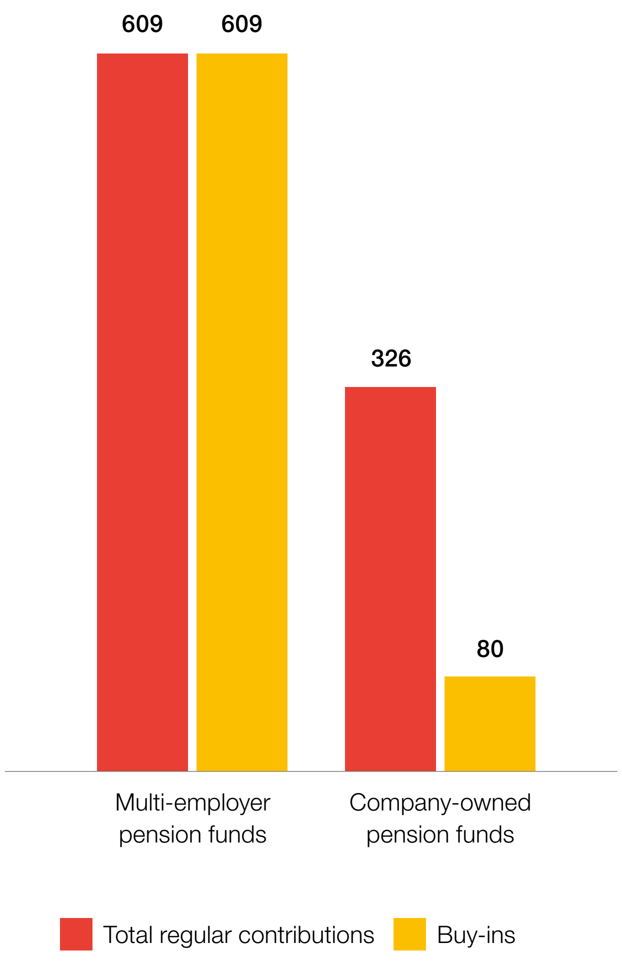
By comparison, employers of 1e CF bore around 62% of contributions in 2023 and 2022.

In a 1e plan, the average total contribution per member is 1.5 – 2x the average contribution paid at pension funds in Switzerland overall.[1]

Employer and Employee contributions (CHF million)



Total regular contributions and buy-ins (CHF million)



Source
[1] Pensionskassenstatistik Kennzahlen 2018 – 2022 (Bundesamt für Statistik, BFS)

Total expense ratio higher than prior year

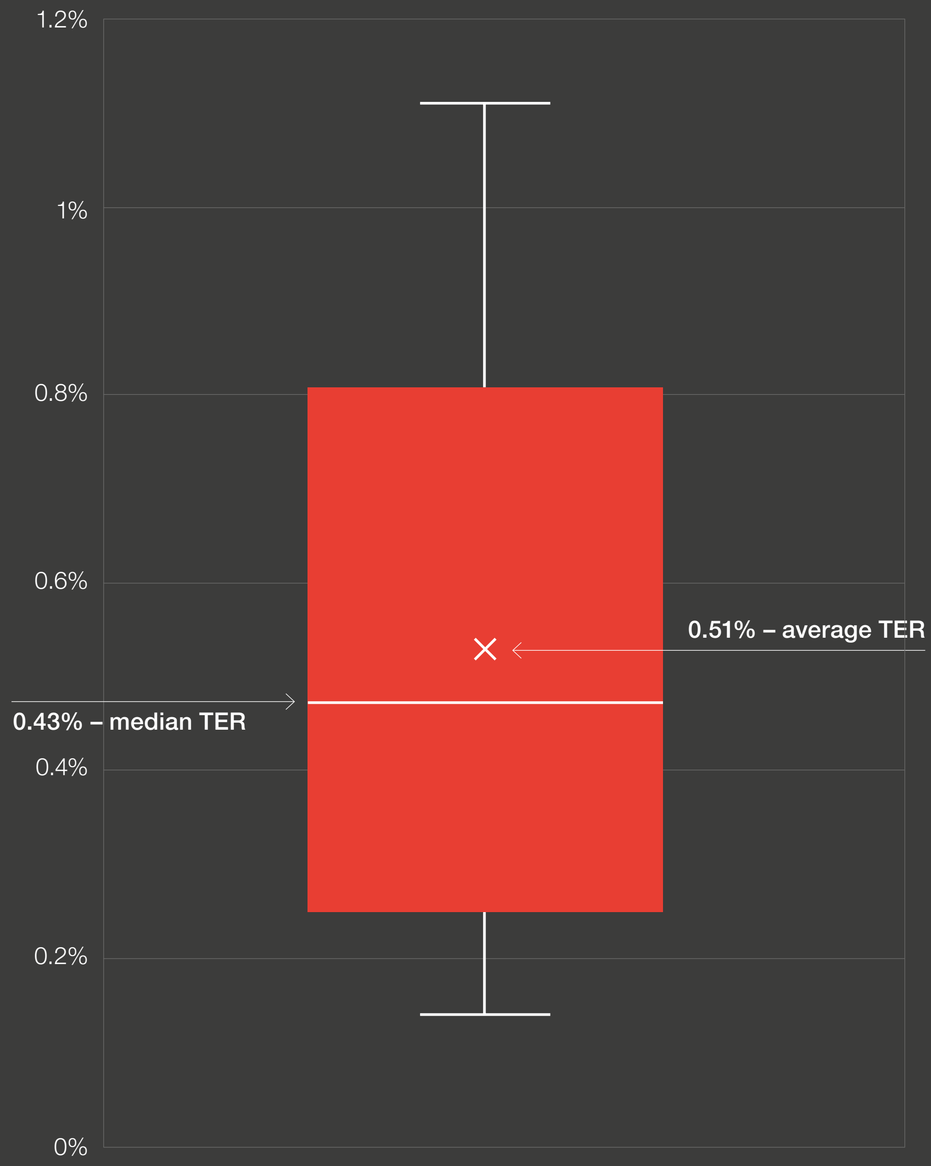
TER costs still present a mixed picture, also impacted by investment funds offered

The average total expense ratio in 2023 was 0.51%.
All participants provided their total expense ratio (TER) figures based on their annual accounts. On average, the TER increased by 6 bps, while the median rose by 3 bps versus the prior year. The TER for multi-employer funds ranged between 0.14% and 1.11%, whereas the range for company pension funds was narrower between 0.14% and 0.36%.

The trend in TER movement within MEPFs is mixed, with both increases and decreases observed. In contrast, the trend within 1e CF is in decline. Some 1e funds offer more standard funds – such as 1e CF, while others provide unique products that include alternative investments, impacting costs. Only 2 out of 5 1e CF funds offer the option of investing in the alternative category. In MEPFs, 4 out of 14 funds do not provide this option.

Ultimately, the costs incurred depend heavily on the strategies offered, the investment management style (active vs passive) and the strategies chosen by the employees.

TER in % of assets (FER26 reporting)



Appendix

Market updates

Market updates and innovations

Adapting legislation to give 1e flexibility in vested benefit transfers to 1e pension funds

Dittli motion: protecting assets at exit
The motion by Josef Dittli aims to protect pension assets when an employee exits a 1e pension plan. The motion seeks to allow employees to park their 1e pension assets for up to two years in a vested benefits (VB) institution if their new employer does not offer a 1e plan. This measure is intended to prevent forced liquidation of investments during unfavorable market conditions, thus avoiding potential capital losses.

The Dittli motion was issued in 2021. In spring 2023, the Council of States (Ständerat) and in autumn, the National Council (Nationalrat), voted in favour of this change. The next step is for the Federal Council to draft a legislative proposal. The preliminary proposal will then be subject to consultation (Vernehmlassungsverfahren). The timeline is not yet clear.[1]

Today, about 1/3 of the surveyed 1e providers offer custody account transfers to one of their own VB foundations or their VB foundation partners for employees who do not have new employment immediately after leaving the 1e plan.

Transferring vested benefits from a non-1e pension fund to a 1e pension fund
How existing pension assets can be transferred from a non-1e pension institution to a 1e pension institution is not explicitly regulated at either the legislative or regulatory level. Different approaches are applied by the pension providers, confirmed in our survey: “start at 0”, where all assets are transferred into the base plan and 1e plan savings start with joining the new 1e plan; “historical match”, where all previous assets are precisely allocated to excess salary; the “buy-in table approach”, where the base plan is credited up to the maximum buy-in amount and only the surplus is allocated to the 1e plan; and “exceeding savings proportional to 1e salary”, where the existing balance is split between the base and 1e plan based on the insured salary portion on day 1 in each respective plan.

The global authority on pension funds in Switzerland (OAK) now aims to establish clear guidelines for the transfer of vested benefits. So far, the draft rules from the pension fund specify that the non-1e pension fund is responsible for the transfer, and only the savings capital accrued on salaries above CHF 132k can be released. Additionally, the process must be documented with written minutes including objectivity. These requirements must be met to facilitate a transfer. Hearings on this matter were open until mid-January 2024. A final guideline from OAK is still pending.[2]

Source
1 Altersguthaben schützen bei einem Austritt aus einem 1e-Plan – 21.4142 Motion (Parlament.ch)
2 Anhöhrung zum Mitteilungsentwurf «Übertragung von Vorsorgeguthaben von einer Nicht-1e-Vorsorgeeinrichtung auf eine 1e-Vorsorgeeinrichtung» (OAK, 2023)

Appendix

Guidance on 1e pension plan implementation

What are 1e plans?

1e plans allow individual employees to choose how their pension savings are invested from the range of strategies made available by the plan. 1e plans can be set up to cover earnings above CHF 132,300 (2023) either in addition to or partially replacing existing pension plans. Changes in law in 2017 mean that, depending on the design, these plans may be accounted for as defined contribution under IFRS and US GAAP.

As shown in our 2023 survey the 1e market has continued to grow. Many companies have already implemented 1e plans or are in the process of considering implementing such a plan. 1e plans fit corporate objectives to reduce employer pension risk, increase outcomes and choice for employees.

Five key decisions on 1e pension plan implementation

1e plans can have a similar design to your current plan, but there are some special considerations and questions you'll need to answer.

1 Benefit design

Should you make changes to benefits during the change?

Making no change supports communication messages and continuity. Some changes may be needed to manage accounting treatment. It could also be a good moment to give employees options to pay more to boost their outcomes.

2 Structure

Should you operate your own fund or move to a full-service third-party provider?

Own funds bring control and more choice in set up. Full-service providers have experience and can simplify the transition.

3 Investment strategies

How many strategies should you offer from the maximum 10?

More strategies increases employee choice. Fewer strategies are easier to manage and simpler to communicate.

4 Eligibility

Who's in and who's not?

There may be obvious criteria for deciding membership of the plan such as closeness to retirement or job grade. You may want to limit the number joining to simplify communications. But more members maximises the benefits of such plans.

5 Past service or just future

Do you intend to transfer past rights or just start the plan for the future?

As with eligibility, transferring past rights in some form leads to the biggest impact of changing the plan. Starting for the future lowers the impact but is easier to communicate.

The key challenges and how to address them

1

Employee relations – Pensions can be an emotional topic. Effective communication ensures that the benefits of the new plan are understood. A 1e plan may mean that the option to take a pension at retirement is lost, which may be seen as negative. On the other hand, investment options and flexibility are increased and there's a higher chance of a better outcome due to higher potential returns (at a cost of more risk).

2

Aligning stakeholders – Multiple stakeholders need to be managed not only within management but also pension plan committees and boards and external providers. You'll need to ensure good alignment of all internal stakeholders from executive level to line management, finance to HR, global to local. Everyone will have an opinion, so strong sponsorship from the top is needed.

3

Impact on pension fund – Changing to 1e will have an impact on what's left behind. As a minimum your current pension fund will have less regular income to manage the fund. At most, a sizeable portion of assets (and obligations) may leave the fund, possibly with a share of any local surplus. This can raise significant questions and trigger the fund to look again at the reserves they hold.

1e survey participants in alphabetical order

Multi-employer funds

Agilis 1e Sammelstiftung
AXA Sammelstiftung 1e
Credit Suisse Sammelstiftung 1e
FCT 1e (Fondation Collective Trianon 1e)
Finpension 1e Sammelstiftung
GEMINI 1e-Sammelstiftung
Liberty 1e Flex Investstiftung
PensFlex – Sammelstiftung für die ausserobligatorische berufliche Vorsorge
Sammelstiftung Vita Select der Zürich Lebensversicherungs-Gesellschaft AG
Swisscanto Sammelstiftung 1e
Swiss Life Sammelstiftung Invest
UBS Optio 1e Sammelstiftung
VSMplus Sammelstiftung für Personalvorsorge
VZ Sammelstiftung

Company funds

General Electric Switzerland Supplementary Insurance Plan
Novartis Kaderkasse
Pensionskasse 2 der Credit Suisse Group (Switzerland)
Pensionskasse Novartis 2
Zusatzkasse der Julius Bär Gruppe
Anonymous 1

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