



# Global Pensions

**Meeting the global challenge  
for pension funds**

Financial Services

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KPMG International



**E**nsuring sustainable retirement benefits is a global challenge. Plan sponsors, governments and the industry are constantly challenged to make informed decisions which will meet organizational as well as members' expectations. Our clients are changing their investment portfolios to deal with the low interest rate environment or changing the risk characteristics of their pension plans to better align assets and liabilities. Many of our largest pension clients are also reaching out to other global institutional investors to understand and benchmark their operations and governance to determine best practice, operational efficiencies or identify organizational shortcomings for the purposes of reducing risk. KPMG, through our Global Pension Group as well as our large global financial services and government practices, is well positioned with the skills and the team to bring forward innovative strategies which will address the needs of public and private sector pension funds. Our global team combines deep technical pensions experience with a breadth of commercial and business understanding and with local market insight. We have extensive industry knowledge through the various roles we play as auditors, tax advisors on plan design, direct investment or tax reclaims on investments or other traditional advisory services that include information technology services, internal audit co-sourcing, enterprise risk management, or as transactions advisors. KPMG member firms develop and deliver strategies, to meet financial objectives and wider business objectives such as managing risks including reputational risk.



**John Hubbe**  
Global Lead for Pensions  
KPMG in the US



# Shifts in the pension fund landscape

## Savings and pension provision gap

Ensuring financially sustainable retirement benefits is a global challenge. With a population that is living longer, payout periods are extended. Governments, plan sponsors and industry are constantly challenged to make informed decisions which will meet the retiring and working population's needs as well as organizational and plan members' expectations.

## The low return/low interest rate environment

With clients targeting to achieve a seven to eight percent return on their investments, the search for new investment opportunities continues. More and more pension funds have made allocations in alternative investments. A 2015 FTfm/Towers Watson report indicated that among the top 100 alternative managers, pension funds hold USD1.2 trillion (one third of their total) assets under management. And, as the alternative assets market place becomes more regulated, institutionalized and liquid, it is likely that more pensions will be able to increase their allocation in these asset classes.

## Diversification driving complexity and a different approach to governance

With many managers making significant allocations to alternative investments and some investing directly in real estate, private equity and infrastructure, the price is often greater complexity and less opacity. The change in investment strategy is creating a need for an enhanced risk management and compliance

infrastructure, increased sophisticated and experienced internal capabilities, comprehensive operational reporting, and changes or replacement of processes or IT systems, processes for their alternative holdings. The financial stability of the fund manager and related third parties needs to be considered. While pensions are often held in tax exempt trusts or maybe exempt from tax, taxes are routinely paid or may need to be paid based on the structure of the plan's investments. Tax efficiency and reclamation is complex and the right skills are needed to maximize returns.

As well, trustee directors require an enhanced skill set to understand what safeguards are built into internal and external management structures and how effective is any operational due diligence being carried out on their behalf.

## Plan design

Most plans operate within a high level of scrutiny from government, lawmakers, regulators and participants. Plans must continually balance the needs of sponsors and members. The plan's design needs to be optimized for the pension plan sponsors ensuring employees are getting the most cost-effective plan with the best benefit package. This means spending smartly, while ensuring the plan is meeting the tax and regulatory guidelines.

## Cyber security

Every entity has information that can be monetized and that means every entity, including pensions are a potential target for cyber-crime. That could mean the misappropriation of assets. With today's demand for real time info, there is a need to ensure access and communication channels are secure

As the alternative **assets market** place becomes more regulated, **institutionalized and liquid** it is likely that more **pensions** will be able to **diversify their risk by increasing** their allocation to **alternative assets**.

and member's personal information is protected. Pension funds need to create a strategy for information protection; design programs, implement processes, and use technologies to thwart cyber-attacks; build monitoring systems and approaches to detect and thwart existing or emerging security compromises; and have protocols in place in the event of a successful attack.

## Taxes as an enterprise risk

Gone are the days when a tax could be viewed as a static, back office compliance obligation. Globally, governments are coordinating to scrutinize and challenge tax positions and to require ever greater information from pensions as investment portfolios grow in geographic and asset class breadth. Tax risk is now viewed by many pensions as a broader, enterprise wide risk matter and is being addressed at the most senior levels within many pensions. Pension funds should ensure that their existing tax function design and capabilities can meet the challenges presented under the new paradigm.

To **remain relevant**, implementing industry best practice and **undertaking benchmarking** are increasingly important.

**Table 1: Characteristics of pensions systems across major pensions markets**

(all currency in United States dollars)

Country	Canada	United States	Netherlands	United Kingdom	Australia	Japan
<b>Retirement age</b>	Eligibility for unreduced state pension: age 65  Drawdown of personal registered retirement savings required by age 71	Varied but generally age 62-65	Age 65 (67 in 2021)	Men: age 65  Women: age 60  Rising to age 68 for both by 2046	State old age pension: age 65 rising to 67  Can access personal superannuation: age 55 (rising to 60) and retired	Gradually rising from age 60 to 65 in 2025 for men and 2030 for women
<b>State pension system type</b>	Defined benefit (DB)	Benefits paid based on total amounts collected. The more paid in, the less in percentage terms is paid out.	DB	DB	State old age pension is funded from consolidated government revenue	DB
<b>State pension level (per year)</b>	Up to \$14,765	Up to \$15,528 (\$25,332 for married couple)	\$9,471 to \$17,334, depending on marital status	Maximum of \$11,879  Current actual average \$8,376	Single old age pensioner: \$16,205  Couple old age pensioners: \$24,426	\$27,392 per employee (eligible for 1st and 2nd pillar)
<b>State benefit type</b>	Flat rate and earnings related, indexed annually to increases in consumer price index	Flat rate adjusted for inflation increases	Flat rate	Flat rate	Maximum flat rate that reduces based on means testing	Flat rate and earnings related
<b>Private pensions system</b>	Voluntary occupational and individual	Voluntary occupational and individual	Mandatory occupational	Mandatory for employer  Voluntary for employees	Since 1992 compulsory superannuation – DC at 9.5%. Additional salary sacrifice available. Additional non-concessional contribution (\$129,410 per annum)	Voluntary occupational
<b>Average private pension level</b>	Very differentiated	Average DC account balance \$148,400  Average DB Funding – 85% (top 100 Corporate)  Government – 71%	Very differentiated	Scheme \$15,990  Personal \$7,767	New DC plan members can take lump sum or income stream based on account balance at retirement	Very differentiated
<b>Entitlement to state pension</b>	Old Age Security: age 65 and minimum 10 years residency after age 18  Canada Pension Plan: age 60	After age 62 with 10 years while earning at least \$4,800 per year	50 qualifying years of national insurance contribution (proportionally reduced if less than 50)	35 qualifying years of national insurance contribution (proportionally reduced if less than 35)	Age 65 and resident physically present in Australia  Means tested based on income and assets	10 qualifying years of national pension contribution
<b>Tax framework for pension assets</b>						
<b>Funds on the way in</b>	Exempt	Exempt	Exempt	Exempt	Taxed	Exempt
<b>Funds in accumulation phase</b>	Exempt	Exempt	Exempt	Exempt	Taxed	Exempt
<b>Funds on the way out</b>	Taxed	Taxed	Taxed	Taxed	Exempt	Taxed

# How KPMG can help you effectively deliver great results

Our member firms provide our pension and superannuation clients with a range of services across Audit, Tax and Advisory practices, delivering a holistic approach to analyze problems and deliver integrated services

## Case studies

### Understanding member churn in a fund identified 90 percent of exiting members

A superannuation fund witnessing a substantial decline in members asked us to help improve member retention. There was a need to understand the drivers behind members leaving, quantify the number of members and funds under administration at risk, and develop tailored retention strategies. The data analytic approach taken was to combine multiple data sources (contact, member and transaction data), to produce a single member view. A predictive model was then built based on five years of historical data of prior member exits. Based on the model, each member was scored based on their likelihood to exit on an ongoing basis. Dashboards were then developed for the retention teams to monitor attrition risk on an on-going basis, which included the key variables, member scores and tailored pro-active retention strategies.

### A risk assessment enabled trustees to have more meaningful discussions with third-party managers

A large corporate pension fund with over \$11 billion in assets had appointed a number of third party investment managers to manage specific parts of the overall portfolio of assets. As part of their fiduciary responsibilities, the scheme trustees needed expert assistance with the ongoing monitoring and assessment of the operations in place at the third-party managers in multiple countries. The approach taken was based on a risk assessment initiated by KPMG in the UK. A monitoring review program was developed and the priority of each manager established. Owing to the specialized nature of some of the mandates, specific procedures were tailored to the different asset classes. A specialist was also provided to help conduct the third-party manager reviews of their performance and areas and formally report the results to the trustees at their quarterly oversight meetings.

### Investment portfolio expansion leads to tax function design analysis

A large North American based pension group expanded its investment portfolio into new and complex asset classes. The pension identified the need to analyze their tax capabilities and group function design in light of the increased investment activity. Prompted by board related inquiries, and informed by insight provided by KPMG in the US, the chief financial officer (CFO) pursued a tax function design project. The project outline involved the development of tax related processes, procedures and materials (such as report templates and guidance) to help ensure the integration of tax related risk considerations/requirements into investment, risk and compliance group functions. Ultimately, the adoption of process improvements is anticipated to mitigate enterprise risk for the pension group.

# Our services

KPMG's network of professionals have the expertise to develop customized solutions which meet the needs of public and private sector pension funds

## Start up

**Setting up a pension scheme** • Business strategy and modeling  
• Creating tax effective structures • Regulatory advice and authorizations • Accounting structures • Scheme design and launch • Management remuneration • Project management  
• Investing in new markets • Investment strategy and modeling  
• Identification of investment opportunities and partners  
• Feasibility studies and economic assessments

**Consolidation through mergers:** • Target identification  
• Due diligence • Fund product profitability and rationalization  
• Integration planning, risk management and project management • Market research and commercial intelligence  
• Negotiation, structuring and pricing • Financing structures  
• Tax structuring • SPV establishment

## Business performance

**Business as usual** • Audit and internal audit • Accounting advice  
• ISAE 3400 reviews • SSAE 16 (SAS 70) reviews • Tax advice and compliance • Valuations • Strategic and process advice  
• Sourcing strategy • Corporate governance • Regulatory and compliance advice • Business advisory • Performance and cost optimization • Portfolio management (e.g. front office tools and portfolio analytics) • Risk management and control • Fund accounting and financial reporting • Service provider selection  
• IT strategy • Investment strategy

**Risk Management** • Combined ERM framework (risk governance, assessment, quantification and aggregation, monitoring and reporting, control enhancement) • Market, Credit, Operational, Investment and Liquidity risk • Governance  
• Acquisition valuation

**Regulatory and Compliance** • Coordinated approach and programs for ethics and compliance (anti-money laundering, Office of Foreign Assets Control, Foreign Corrupt Practices Act, codes of ethics) • Compliance and regulatory risk management  
• Fraud risk management • Independent forensic testing

**Technology** • IT strategy (buy vs. build, scalability) • Vendor selection assistance • FATCA

**Business process improvement** • Front-to-back-office operation reviews • Outsourcing and offshore operational risk management  
• Derivative settlement and valuation process services • Data flow analysis and improvements for enhanced performance reporting • Vendor selection assistance

**Internal controls** • Documentation, testing, remediation and sustainability assistance • Operational and financial controls development, documentation and implementation assistance  
• Internal audit services (co-sourcing/outsourcing) • Reports under ISAE 3400 and 3402

**IPO support** • Assistance with US GAAP and SEC reporting requirements • Assistance in the preparation of historical financial statements, disclosures and pro forma financial information  
• Tax structuring • Support in the design and implementation of ongoing financial reporting processes for a public company  
• Design and delivery of training for the new accounting and reporting requirements

**Unlisted investments** • Assistance formulating unlisted investment strategies • Advice on implementation models  
• Independent investment support • Portfolio analysis • Ongoing support with investments • Periodic pricing of illiquid or unlisted investments

## Investment and actuarial advice

• Independent advice to both trustees and corporate sponsors on their pension schemes' funding and investment policies  
• Objectives and long-term strategy for both defined benefit and defined contribution pension schemes • Independent advice to clients employing a fiduciary manager or implemented consultant  
• Research on investment markets, products and managers  
• Investment management advice on acquisition and sale of investments

## Audit

Manager and fund statutory audit • Technical accounting advisory  
• Global Investment Performance Standards attestation • Fund restructuring • Comfort letters and reports • Internal audit services

## Tax

Personal tax guidance for internationally mobile individuals  
• Corporate tax planning • Tax planning for new investments  
• International tax issues • Transfer pricing • Withholding tax  
• Tax technology • Planning for taxes on disposals • Value-added tax planning • Tax valuations and advice • Stamp and transfer taxes • Capital allowance valuations and advice • Compliance and reporting services • New and current legislation • Compensation and benefit tax • Merger and acquisition transaction tax  
• Sovereign wealth fund tax

# Our involvement and commitment to the industry

**KPMG member firms are active participants in the industry and are involved in a range of industry groups, trade associations and regulatory bodies.**

## Americas

- In Canada, advisory member of The Canadian Venture Capital and Private Equity Association (CVCA) – which represents the majority of private equity companies (including pension funds) in Canada, with over 2000 members. CVCA members have over \$105 billion in capital under management.
- In the US, actively involved with many industry organizations, conferences and committees including: American Institute of CPAs (AICPA's) Investment Companies Expert Panel, their Commodities Task Force, their Employee Benefit Plan Expert Panel, and their Employee Benefit Plan Audit Quality Center; the Alternative Investments Management Association, the Investment Company Institute, the Managed Funds Association, the National Investment Company Services Association, and the Securities Industry Association. We also routinely sponsor the Public Pension Financial Forum, National Association of State Retirement Administrators and participate in the annual conference of the International Foundation of Employee Benefit Plans.

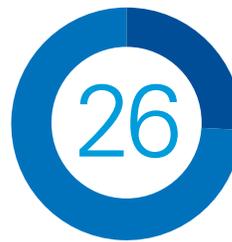
## Asia Pacific

- In Australia, member of The Association of Superannuation Funds of Australia (ASFA) and the Asian Public Real Estate Association (APREA) where the Head of our Singapore and Malaysia Business Practice in Australia chairs the Regulatory & Liaison committee. The firm actively sponsors and participates in a number of education programs including those of the Australian Institute of Superannuation Trustees (AIST), the Fund Executives Association Limited (FEAL) and the Australian Centre for Financial Studies (ACFS). We are principal sponsors of the Financial Services Council (FSC) annual conference.

## Europe, Middle East and Africa

- KPMG are members of the European Insurance and Occupational Pensions Authority Occupational Stakeholder Group and are involved in the European Fund and Asset Management Association (EFAMA), Alternative Investments Management Association (AIMA), and have been main sponsors of Fund Forum International for over 15 years and sponsor other highly recognized industry events such as Fund Forum International and GAIM.
- In the UK, member of the National Association of Pension Funds, the Institute of Chartered Accountants in England and Wales pension committee, the Pension Research Accountants Group (PRAG), chair the Continuous Mortality Investigation and have been instrumental in the development of the new Statement of Recommended Practice.

KPMG's pensions and investment management practice includes over **10,000<sup>1</sup> tax, audit and advisory** professionals servicing clients at regional, national and global levels



KPMG member firms are statutory auditors of **26 of the top 100** asset management firms

## Whom we serve

Netherlands 

**9** of the top 10 pension funds are clients

UK 

**6** of the top 10 pension funds are Audit clients

Australia 

**10** of the top 10 superannuation funds are clients

Canada 

**10** of the top 10 pension funds are clients

Sweden 

**9** of the top 10 pension funds are clients

US 

**8** of the top 10 retirement fund sponsors are KPMG clients

<sup>1</sup> As of 31 December 2013

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