

## PRESS RELEASE

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### At an average of 14%, the financing of retirement benefits weighs more heavily in CAC 40 companies' 2020 net results due to COVID.

SIACI SAINT HONORE, a leading provider of consulting and brokerage services in property and personal insurance for companies, has published for the second year running its Observatory of employee benefits for CAC 40 companies. This year was marked by a sharp increase in the cost of retirement benefits in companies' net results, rising from 8% of net results in 2019 to 14% of net results in 2020.

A company's pension liabilities reflect various benefits granted to employees, such as the payment of a lump sum upon retirement, the payment of a predefined pension amount or the financing of a post-employment complementary insurance plan. Cumulatively, these pension liabilities accounted for €210 billion for CAC 40 companies in 2020. This can be broken down into average liabilities of €5 billion per company, ranging from €16 million for Unibail-Rodamco-Westfield to €23 billion for Airbus Group.

This level of liability is relatively stable compared to the previous year (€208 billion in 2019). This is the result of several factors:

- **The drop in discount rates** over 2020 (-40bp\* in the euro area and -70bp\* in the UK and the US) led to increases in liabilities (\*bp = basis point).
- **Exchange rates development** (-9% for the \$/€ exchange rate and -5% for the £/€ exchange rate over 2020) had a downward impact on consolidated liabilities in euros.
- Lastly, some groups booked exceptional reductions for liabilities related to the **restructuring or modifications of pension plans**.

On average, CAC 40 companies pre-financed 63% of their liabilities via plan assets. Yet **the practices regarding pre-financing these liabilities vary greatly**: from 9% for Teleperformance to 94% for Pernod Ricard.

Accounting provisions, which are measured by the difference between companies' liabilities and plan assets, are very significant: **overall, they account for 7.5% of CAC 40 groups' equity** (compared to 7.0% in 2019).

The impact of these plans on income statements and cashflow is also a major financial challenge for companies:

- The annual average cost in p&l (income statement) is €126 million, ranging from €4 million for Teleperformance to €749 million for Airbus Group. **Given the drop in companies' net results in 2020 due to the COVID crisis, the weighting of the cost of retirement benefits has risen sharply, from 8% of net results in 2019 to 14% of net results in 2020.**
- Cumulatively, annual retirement benefits (cash payment by the employer or hedge fund) account for €9.2 billion. **These payments represent 4% of personnel costs** for CAC 40 companies.

*“The financial divisions of the major CAC 40 groups are aware of the financial challenges and are continuing to consider risk mitigation strategies. These may include outsourcing, amending pension plans, cash transactions, etc.”, observes **Simon CLAVERIE**, Director of Corporate Pension Savings Consulting Services at SIACI SAINT HONORE and co-author of the study. “They can also leverage other elements in a bid to further improve their balance sheets: by adjusting the assumptions that underpin the assessment of liabilities, by improving the quality of their investments, or by aligning their asset allocation with the average duration of their liabilities, etc.”, he adds.*

#### **Methodology:**

The **retirement liabilities** mentioned in this study and subject to a provision in the accounts according to the standard **IAS19**:

- are predominantly made up of “**post-employment benefits**”, such as defined-benefit pension plans, retirement lump sum payments and complementary insurance plans for retired employees;
- but also include “**other long-term benefits**”, such as seniority bonuses, long-service awards and long-service leave.

Long-term equity-based compensation, such as free shares, indexed deferred cash payments or stock options are booked according to the IFRS2 standard and are not included in this report.

The companies considered are those listed in the CAC 40 in December 2020. Compared to the 2019 Observatory report, changes to the review panel are as follows:

- Alstom has replaced Accor Hotels
- Teleperformance has replaced Sodexo
- Worldline has replaced Technip FMC

The data presented are taken from the universal registration documents for accounts closed in 2020. Two groups of the review panel closed their accounts before December 31st. They were Alstom, which closes its financial year on March 31st, and Pernod Ricard, which closes its annual accounts on June 30th.

Data collected in \$ (for ArcelorMittal, STMicroelectronics and Total) were converted into € on the basis of the conversion rate as at December 31st, 2020, of €0.813 for \$1.

Lastly, the merger between PSA Group and FCA to create the Stellantis entity was effective as of January 16th, 2021. As a result, account aggregation will be completed only in the 2021 consolidated accounts and this study includes PSA Group for the last year.

Read the full [report by downloading it here](#) (in French).

#### **About SIACI SAINT HONORE**

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