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<tr><td colspan="2">**Comments Template on
Consultation Paper on Further Work on Solvency of IORPs**</td><td>**Deadline
13 January 2015
23:59 CET**</td></tr>
<tr><td>Name of Company:</td><td colspan="2">Assuralia, Belgium</td></tr>
<tr><td>Disclosure of comments:</td><td>Please indicate if your comments should be treated as confidential:</td><td>Public</td></tr>
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⇨ Do **not** change the numbering in the column “reference”; if you change numbering, your comment cannot be processed by our IT tool
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The numbering of the questions refers to **Consultation Paper on Further Work on Solvency of IORPs**.</td></tr>
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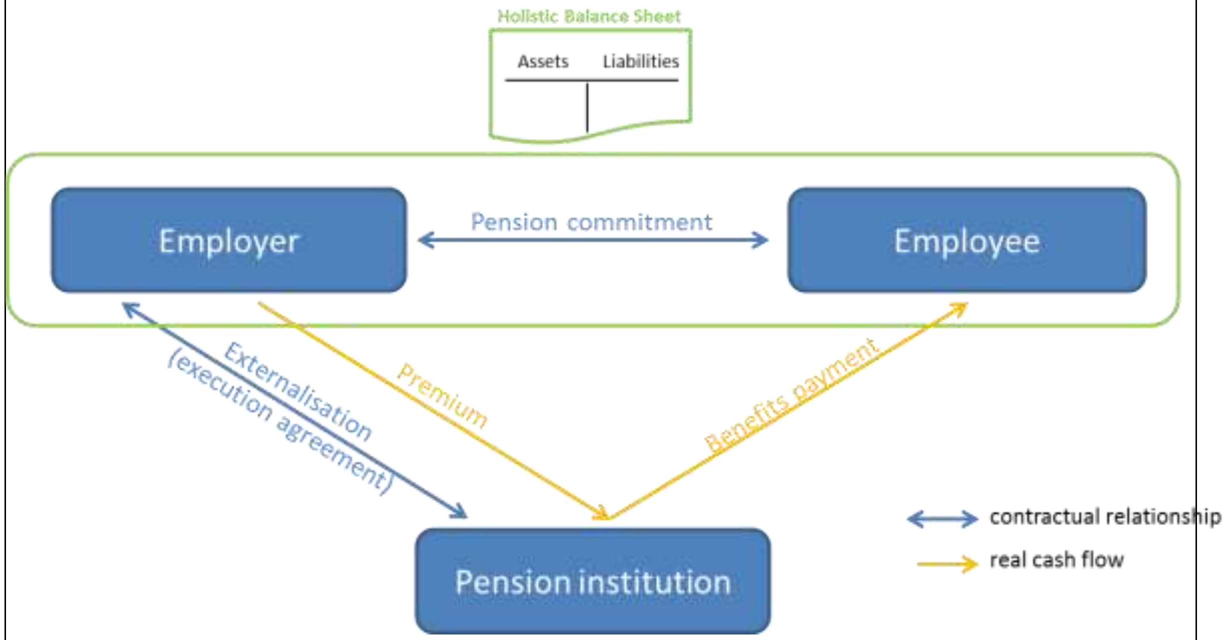
General Comment	As the professional association of Belgian insurers, with members managing around 80% of second-pillar pensions in Belgium, Assuralia wishes to respond to the EIOPA Consultation Paper on Further Work on Solvency of IORPs. Below it outlines its views on the main aspects of this consultation paper, without going into detail about every single issue raised in the document. Its main focus here is on the supplementary pensions for wage-earners. ***The importance of safe and secure pensions*** With the ageing of the European Union's population, supplementary pensions are set to play an ever more important role in the pension policy of EU Member States. Therefore it is important that in developing a policy on pensions, in particular supplementary pensions, the following basic principles are applied: 1) With state pensions under pressure it is necessary to ensure that occupational pensions are safe and affordable. 2) The objective of European prudential requirements is to ensure that beneficiaries all over the EU can reasonably trust that they will effectively receive the occupational pension benefits that have been promised to them (harmonized security level). These requirements set the practical and financial boundaries of what can realistically be promised and therefore need to be respected by national rules and agreements in the social field. 3) Prudential rules and capital requirements must respect the long-term perspective of occupational pension provision without resulting in excessive volatility of own funds and solvency ratios. 4) Prudential rules and capital requirements for long-term pension business must consistently protect all pension beneficiaries, regardless of whether they are affiliated with an insurance company or an IORP. Since insurers and pension funds offer similar pension products (namely supplementary pensions with or without a guaranteed return), these two types of pension providers must be subject to equivalent solvency rules. If it were concluded that some principles could not be made applicable because it would be inappropriate based on a long-term view of supplementary pensions, the same approach would need to be applied to all pension providers. ***Second-pillar pensions for employees in Belgium in a nutshell***	

	• Supplementary pension commitments can be provided on a discretionary basis by the employer or the sector of employment. Responsibility for actually fulfilling these commitments lies solely with the employer/sector. This party is however required to externalise their commitments to either an IORP or to an insurer. • Some 80% of supplementary pension reserves for second-pillar pensions are managed by insurers, with more than 95% of them guaranteeing protection of the investment and a fixed return, showing that the demand for certainty is a very important factor for both employers (cost control) and employees (maintaining their standard of living after retirement) when joining supplementary pension schemes. • Belgium's second-pillar pensions are subject to extensive social regulations protecting the rights of affiliates. The employer is, for example, legally bound to: - honour certain minimum entitlements in the case of defined benefit (DB) schemes (which must be financed at all times); - ensure that affiliates of a defined contribution scheme receive a minimum return on the pension payments made (3.25% or 3.75%), to be financed by the employer. If the pension institution does not offer this return, the employer must make up the shortfall. ***Notion and use of the holistic balance sheet (HBS)*** The EIOPA consultation paper takes a closer look at the notion of the holistic balance sheet (HBS), a framework that aims to chart the various risks relating to the fulfilment of pension obligations and how and by whom these risks are borne. Assuralia notes that second-pillar pension commitments often involve a kind of triangular relationship: • the employer makes a pension promise to (a part of) its employees and is responsible for actually fulfilling this commitment; • with a view to fulfilling this commitment, the employer will sign a contract with a pension institution (which may offer certain guarantees on the payments made under the contract); • the pension institution pays out the reserves accumulated in this way to the	

affiliate.

As proper information about pensions (whether supplementary or not) is crucial to ensuring EU citizens' faith in them, it is essential that they are duly and clearly informed about their supplementary pension. Attention needs to be paid in this regard also to the level of certainty that this pension commitment will be honoured.

Assuralia believes that the HBS should only be used to give the beneficiary/affiliate a clear idea of the level of certainty/security associated with the fulfilment of the pension commitment made by an employer and of the various risks bound up with it. As indicated in the diagram below, the HBS approach must only relate to the pension commitment an employer/sector makes to employees and not to the underlying execution agreement with the pension institution. Furthermore, the HBS must reflect the financial risks linked to the actual commitment.



	Assuralia would like to make the following remarks about a few of the potential components of the HBS that are referred to in section 4 of the consultation paper. • *Sponsor support* Sponsor support should be seen as a potential claim against a sponsor to make up any shortfalls relating to pension obligations. Assuralia believes that the following criteria must be met before such sponsor support can be considered: - Sponsor support has to be solid and situated within the time horizon used to determine the security level of the pension plan. - The sponsor support must be legally or contractually enforceable. Sponsor support which is neither legally nor contractually enforceable can never be considered. - The value of this sponsor support and its consideration (or not as the case may be) in the HBS must be determined based on the financial strength of the employer/sponsor. In this context, it should not be forgotten that certain developments that may have a negative impact on the pension institution's obligations may at the same time also have an adverse impact on this sponsor's financial strength. In this respect the current financial strength of the sponsor does not always give a clear image of this sponsor's ability to make the required payments. As a result, it is important to make as realistic an assessment as possible of the sponsor's ability to make necessary payments. - The employer's obligations associated with this sponsor support must be included in this employer's accounts (e.g. IAS19). With a view to protecting the scheme members, the employer must ensure that the security needed for this purpose is established. - Treating sponsor support as a balancing item (see question 39 in the consultation paper), based on the assumption that the difference between assets and liabilities will be automatically covered by sponsor support, does not fit into the approach outlined above. • *Pension Protection Scheme* Pension protection schemes (PPS) are last resort protection mechanisms that intervene in case of bankruptcy of the pension vehicle. So as to protect the affiliate, it is only natural that these protection mechanisms should be kept completely separate from the fulfilment of the pension commitment itself. The following key points back	

	up this approach: - PPS are last resort protection mechanisms that redistribute the consequences of bankruptcy of the pension vehicle over the market or over the tax-payers. Allowing PPS to cover technical provisions and risk buffers will provide an incentive for pension vehicles and plan sponsors to take undesirable levels of risk ('moral hazard'). - A call on the full capacity of PPS would entail considerable risks for society. By introducing a PPS public authorities assume the final responsibility for the occupational pensions that have been promised by employers. Although PPS are important to restore and maintain confidence, it is fair to say that the more technical provisions and solvency buffers are being covered by a pension protection plan in the HBS, the more the liability of the state grows. Counting on such large state interventions economically comes down to transferring (part of) the cost of occupational pensions to future generations of tax-payers. It does not help to achieve the European Commission's objective of creating adequate, safe and sustainable pensions. Note that the proportionality principle should be used for the application of the HBS. Small companies (with few employees) should be exempted (or a simplified approach should be allowed and applied by the IORPs or insurers). The pension commitment (which would be overruled for small companies) should not be restricted to big companies. ***A prudential framework for IORPs*** As mentioned above, Assuralia believes that the HBS should not be used for the commitments a pension institution is required to fulfil in relation to its execution agreement. A special prudential framework (including solvency requirements), tailored to the pension institutions specific obligations (between the employers and the affiliates), should be established for this purpose. Assuralia upholds the following principles in this context: • Certainty regarding the fulfilment of the pension obligation is a necessary condition for creating confidence in supplementary pensions among the public and employers. In this regard, it is necessary for all occupational pension schemes to be managed by a pension institution external to the employer. This	

	prevents eventual employer's financial and economic problems impacting accrued pension rights. • A pension institution can manage the pension promises of the employer in the form of a resource guarantee (best efforts obligation - no guarantees) or a performance guarantee (a guaranteed investment return or capital). To ensure appropriate certainty in terms of meeting pension obligations, it is important to build up sufficient solvency capital. Here, the general principle should be: "the greater the risk regarding the commitments, the greater the required solvency margin". If an employer has fully covered the pension entitlements with a pension institution, the pension institution's solvency must be ensured (and it makes sense for lower solvency requirements to be imposed on the employer/organizer). However, if the pension institution manages the pension reserves in the form of a resource guarantee (best efforts obligation), then the risk for compliance with pension obligations in the first place lies with the employer/organizer. In this last case, the solvency requirements for IORPs remain limited to the relevant IORP's residual risks (e.g. operational risks) but care needs to be taken to ensure that the employer is sufficiently solvent to be able to meet its obligations. The level of security of the acquired pension rights of the employees should however be clearly communicated in this context. • Life insurance companies and pension funds offer a similar range of benefits, namely long term pension benefits which can be either guaranteed or not. Therefore, the same solvency obligations need to be established for both pension funds and insurers (under the 'same risks, same rules' principle) so that all the beneficiaries enjoy the same level of protection when it comes to the fulfilment of their pension rights regardless of the pension provider in charge. Hence, the solvency that must be built up in the IORP needs to be based on the similar solvency obligations applying to insurers in this area (Solvency II). In cases where the new solvency requirements appear to require such a major financial effort on the part of the organiser that this would put this party in a dangerous financial situation, consideration could be given to putting in place transitional provisions and/or recovery periods within which the new solvency requirements should be met.	
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