

**Comments Template on
Consultation Paper on Further Work on Solvency of IORPs**

**Deadline
13 January 2015
23:59 CET**

Name of Company:	Chartered Institute for Personnel and Development (CIPD)	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment/response in the relevant row. If you have <u>no response</u> to a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below. <p>Please send the completed template, in Word Format, to CP-14-040@eiopa.europa.eu . Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Consultation Paper on Further Work on Solvency of IORPs.</p>		
Reference	Comment	
General Comment	<p>Whilst the CIPD recognises that the proposals for a new financial reporting system for pensions would allow for comparisons of the state of pension funds in different EU member states, we are not sure what benefit this would bring to the sponsors of defined benefit plans. We are not convinced that these proposals have any meaningful benefits for UK employers sponsoring such arrangements.</p> <p>Most of our members report that there is now no business rationale for them to sponsor a defined</p>	

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benefit pension scheme for their employees. In fact, these proposals for new financial reporting standards for pension schemes could further accelerate the decline in the proportion of employees in the private sector that are covered by such plans, if they encourage those firms with defined benefit arrangements to close them to accrual.

Instead, we believe that the EU would find it more profitable if it focused on ways of looking at how to: extend pension saving to those European workers not already covered by a pension plan; improve outcomes for members of defined contribution pension arrangements, which are replacing workplace defined benefit pension schemes; and help workers extend their working lives to match the increase in their life expectancy.

Our interpretation of the proposals indicate that at one extreme (using the balance sheet to apply insurance style solvency to defined benefit pension plans, example number 1), the new supervisory reporting framework would result in defined benefit plan sponsors having to reduce the gap between their assets and liabilities within a one-year time horizon. If UK defined benefit plan sponsors have to: value their fund liabilities at a near risk-free basis; hold a minimum level of financial assets to cover their liabilities; and have one year to bring the IORP up to the required level, then a number of sponsors could face significant challenges which may result in a number of negative consequences. These might include: lower productivity, higher unemployment, lower real wages, a fall in the levels of innovation, creativity and entrepreneurship, reduced employment opportunities for young workers, as well as lower social cohesion.

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	<p>Even the least extreme of the proposals, namely the use of the holistic balance sheet (example number 6), whereby plan sponsors would only use it as a risk management tool, raises a number of concerns. Those defined benefit plans that are unable to create the new kind of balance sheet would, under these proposals, be required by the pension authority to change their arrangements so that member commitments could be fulfilled. This could result in some pension schemes asking for additional funding from their sponsor, or ceasing accrual.</p>	
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