

# OPSG FEEDBACK ON EIOPA SURVEY OF EU PRACTICE ON DEFAULT INVESTMENT OPTIONS

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## **Reason for the survey**

EIOPA's response to the Call for Advice on the review of IORP Directive (for which one of the main drivers was the growth in defined contribution (DC) pensions) recognised the importance of "multi-funds, default options and lifestyling that help risk control and sound development of [DC] pensions" and encourages the identification of "best practices" which might lead to EU regulation.

## **Summary of responses to questions**

The overriding impression is the diversity of approaches within the EU in relation to the structure and regulation of DC provision. For this reason, it would have been instructive to present the results (perhaps in Appendices) in the form of an overview of the system in each country, so that a more holistic view could be obtained of how DC pensions operate in each MS. However, there are some informative statistics on practice in relation to DC provision across the EU, and more specifically the design, use and supervision of default funds from which the following general trends can be noted:

- a) In most MS, member choice is offered (for IORPs and personal pensions) so the question of a default arises: clearly where there is no member choice this is not relevant
- b) Where choice is offered, there are usually 5-10 funds (except for Sweden, where there is a choice from 800)
- c) The menu is usually devised by the provider or the IORP, or by employer/social partners. There are 8 MS in which there are "legal requirements" in relation to the choice – it would be interesting to have more detail on these
- d) Default options are used in about half of the cases considered, although this may include cases with no member choice.
- e) Life cycling/lifestyling is probably the most common structure where a default is offered, although "conservative" is also common: more detail would be of interest.
- f) The numbers (actively or passively) choosing the default vary: in UK about 80% do so, whereas in other countries it is much lower. It would be of interest to investigate further the reasons for this: is it due to communication materials, "sales" process, range of funds offered etc?
- g) There is no detail given on the regulation (by MS) in relation to default funds, although in a number of MS the supervisors are "involved" in some way
- h) The safe harbour concept (which is intended to provide immunity to the IORP/provider in the event that the member chooses the default) is not widely used

**Conclusion**

The conclusion in the paper is that the survey "highlights the diversity of the design of pensions in different MS with regard to the use of multiple investment options, defaults and design elements such as lifestyling", which is "understandable considering the diverse nature of provisions across all three pillars". "This makes it difficult to identify best practice in this area as it will depend on the nature of the pensions system in the MS".

There is no indication in the paper as to next steps. Having identified the diversity of practice in relation to DC provision across the EU, it would seem premature to try to develop an EU-wide harmonised approach to investment choices/default funds, although further research in this area could assist MS and providers of DC IORPs and personal pensions in refining their approach to such issues within the context of the existing system and regulatory structure in each MS.