

Summary of Conclusions

Occupational Pensions Stakeholder Group

Seventh meeting

Date: 10 March 2015

Time: 09:30 – 16:00

Location: EIOPA premises, Frankfurt

Contact: Simona.Murariu@eiopa.eu

List of participants:

OPSG: Philip Shier (Chair OPSG), Matti Leppälä (vice-Chair OPSG), Lukasz Budzynski, Janwillem Bouma, Charlotta Carlberg, Laure Delahousse, Alberto Floreani, Bruno Gabellieri, Ruth Goldman, Fritz Janda, Thomas Keller, Michaela Koller, Niels Kortleve, Pierpaolo Marano, Hristina Mitreva, Marianne Moscoso-Osterkorn, Ellen Nygren, Manuel Peraita, Jan Sebo, Federica Seganti, Marius Serban, Klaus Struwe, Douglas Taylor, Martine Van Peer, Chris Verhaegen, Vlado Petar, Neil Walsh and Allan Whalley.

EIOPA: Gabriel Bernardino, (Chair - morning), Peter Braumueller (Vice-Chair), Carlos Montalvo (Executive Director - afternoon), Olaf Sleijpen (OPC Chair); Gabriele Arnoldi (External Relations coordinator), Simona Murariu (External Relations team), Beatriz Garcia (Legal Team), Alexandra de Jong, Julian Arevalo, Adrien O'Brien (Cross-sectoral and consumer protection unit), Sandra Hack (Pensions team coordinator), Carine Pilot-Osborn, Barthold Kuipers and Cees Karregat (Pensions team).

European Commission: Jung Duk Lichtenberger, GD FISMA – via telco.

1. Welcome and approval of the draft agenda and minutes of the previous meeting

OPSG Vice-Chair welcomed Janwillem Bouma to the OPSG following his selection as IORP representative. Mr Bouma quickly introduced himself to the Group noting that he is currently the managing director for two Shell pension funds and that he is also increasingly involved in the work of Pensions Europe.

OPSG Vice-Chair requested group's approval for meeting agenda and minutes for October and November meetings.

Conclusions:

- Agenda was adopted
- Minutes of 15 October and 26 November 2014 meetings were approved subject to one minor change in minutes of 26 November

2. OPSG Vice-Chair update and report:

- OPSG input to the Review of the IORP Directive

The OPSG Vice Chair informed that the review of the IORP Directive is currently being discussed at the level of EP Committees with a decision envisaged for late 2015. The OPSG has

yet to crystalize a view on the topic but the group which was tasked with preparing a draft will endeavour to finalise this for adoption at the May meeting.

ACTION: issue draft prior to next OPSG

- *EIOPA work in infrastructure investments*

Thomas Keller provided an update of the EIOPA Roundtable on Infrastructure Investments by Insurers that took place on 27.02.15.

OSPG was informed that the Commission seeks advice on whether and how it would be appropriate to amend the Solvency II *standard formula* for the calculation of the SCRs regarding investments in infrastructure (Risk Sensitive Refinement of the Standard Formula). EIOPA has received a formal request for technical advice on the identification and calibration of infrastructure investment risk categories in the Delegated Act 2015/35 supplementing the Solvency II Directive 2009/138/EC (04. February 2015).

The Scope of EIOPA Advice will be as follows:

- clear and conclusive definition(s) of debt and equity infrastructure investment to allow for several categories "infrastructure risk".
- calibration for those new categories, in line with the 99.5% value-at-risk measure provided by the Solvency II Directive
- assessment of how the new categories could fit into the existing structures of the market risk module or counterparty risk module of the standard formula, whether new sub-modules should be created
- Identification of any obstacles in the Delegated Act which are not prudentially justified and need remedies

Given the formal request for advice EIOPA hosted a roundtable on Infrastructure Investments by Insurers on 27.02.2015. The objectives of the roundtable have been twofold:

- develop a definition of infrastructure investments that offer predictable long-term cash-flows and whose risk can be properly identified, managed and monitored by investors.
- analyse the prudentially and sound treatment of the identified and defined investments with the standard formula of Solvency II.

The topic has high relevance also for pension funds as institutional investors and as such will be addressed in May meeting.

The EIOPA timeline for delivering on the COM call for advice is as follows:

- two further roundtables in April 2015 and July 2015 envisaged (with different participants)
- minutes of first roundtable to be published on the EIOPA website [at https://eiopa.europa.eu/regulation-supervision/insurance/investment-in-infrastructure-projects](https://eiopa.europa.eu/regulation-supervision/insurance/investment-in-infrastructure-projects)
- Public consultation: April 2015 - https://eiopa.europa.eu/Publications/Consultations/EIOPA-CP-15-003_Discussion_paper_on_Infrastructure_Investments_for_public.pdf) with a deadline for comments of 26 April 2015.
- Submission of the EIOPA technical advice to the Commission in summer 2015.

Conclusions:

- Agenda of 08 May meeting to cover both topics.

3. Selection of new OPSG Chair

OSPG Vice-Chair introduced the topic by welcoming the two candidates for the position of OPSG Chair and presented the procedure to be observed for the purpose of the election (as per OPSG Rules of Procedure).

OSPG Vice Chair ascertained that the required meeting quorum is available for the Chair selection in accordance with Article 3 (paragraph 17) of the OPSG Rules of Procedure.

Candidates were invited to briefly introduce themselves before the election procedure was initiated.

A representative of the EIOPA legal team observed the process.

Following announcement of election outcome, OPSG Vice-Chair announced Mr Philip Shier was elected new OPSG Chair for the remaining duration of the OPSG mandate.

New OPSG Chair thanked OPSG members for their support and proceeded with taking forward the meeting agenda. OPSG Chair also welcomed Olaf Sleijpen, newly elected Chair of the EIOPA Occupational Pensions Committee (OPC). Mr Sleijpen is the Division Director at De Nederlandsche Bank (DNB) responsible for the supervision of pension funds as well as a member of DNB's Supervisory Board.

Conclusion:

- Philip Shier was elected new OPSG Chair for the remaining duration of the OPSG mandate.

4. EIOPA and EU COM Updates

- EU Commission update

Jung Duk Lichtenberger, EU COM representative updated as to current status of work on the review of the IORP Directive and confirmed OPSG Vice Chair info timeline i.e. decisions expected from the EP in late autumn 2015.

The COM updated also on the Capital Markets Union Green Paper consultation and COM plans to produce a proposal by summer time. This also explains some of the time constraints on the personal pensions work.

- EIOPA general update:

EIOPA Chairperson updated as to latest EIOPA work and publications in the field of pensions:

- EIOPA registers on IORPs available at: <https://eiopa.europa.eu/regulation-supervision/registers/register-of-institutions-for-occupational-retirement-provision>
- EIOPA database on pensions plans and products – latest updated version available at: <https://eiopa.europa.eu/regulation-supervision/pensions/database-of-pension-plans-and-products-in-the-eea>
- EIOPA Statistical Database on Pensions - This publication represents an important financial stability data source allowing EIOPA to better monitor developments on the market and identify at an early stage trends, potential risks and vulnerabilities.
- Publication of the Decumulation Report. The key findings of EIOPA analysis were:
 - Annuities and lump sum payments are the most prevalent pay-out option for pensions. Half of the jurisdictions covered by this exercise allow IORPs to let members choose a pension product or provider when entering the decumulation phase. However, very few IORPs offer professional advice on, for example, annuities.
 - The type and level of mandatory and conditional information to be provided to members of IORPs when entering the decumulation phase varies widely and is mostly determined by the specificities of the particular workplace pension regime. Similarly, the types of costs and charges on pension payments, as well as the regulation on cost and charges, like for example cost caps, differ significantly among countries.
 - Currently most jurisdictions envisage to start paying out pensions when aged between 60 and 65, but a growing number of countries are changing regulation towards a pension age of 67 or more.
- work undertaken by EIOPA on peer reviews of article 12 of the IORP Directive "Statement of Investment Policy Principles."

Furthermore, OPSG members were informed as to the upcoming Joint ESA Consumer Protection Day 2015. Set to take place in Frankfurt on 03 June, the event will benefit from a keynote

speech from Commissioner Hill as well as MEPs, representatives of EU consumer associations, regulators and academia.

Conclusion:

- EIOPA will update in early 2016 as to outcome of the IORP article 12 peer reviews
- EIOPA to provide invitations to upcoming Joint ESA Consumer Protection Day 2015
- OPSG to revisit the topic of decumulation in a future meeting.

5. EIOPA Consultation Paper on Further Work on Solvency of IORPs

Presentation was delivered by Barthold Kuipers, Principal expert on Pensions.

OPSG received an update on responses received from public consultation and next steps, including impact assessment.

During the consultation phase on the EIOPA further work on Solvency of the IORPS that closed on 13 January 2015, EIOPA received 77 answers (12 confidential) providing for approximately 2000 pages of feedback. Commentators were mainly from UK (49%) and DE (21%). Employer representatives' comments made up 43 % of these comments while 23 % of inputs came from actuaries/consultants and 17% from IORPs.

Under EIOPA timeline, the Advice to COM would need to be provided in the 1st quarter of 2016. For this, the following steps will be taken:

- 11 May – Launch quantitative assessment (QA) on further work on solvency of IORPs
 - Publication of all responses
 - Publication of reasoned feedback valuation part (Q1-71)
- Q1 2016 – Advice to Commission on solvency of IORPs
 - Publication of reasoned feedback supervisory responses (Q72-Q111)

Following comments made as to volume of work entailed by the QA and the Stress test (ST) exercises, EIOPA representatives noted that the Authority is fully aware of the resource/time constraints industry is facing. For this exact reason, the two exercises are run in parallel so as to allow as many synergies and reduce burden on both industry and supervisors. OPSG members from IORP representative category welcomed EIOPA presentation and noted that it is important for the exercise to be run within an appropriate timeframe.

Conclusion:

- EIOPA will circulate invitations for the launch of QA/ST public event in May. OPSG IORP representatives to ensure representative participation.
- OPSG proposed that:
 - NSAs should be encouraged to pursue similar initiatives at national level
 - EIOPA should consider also holding a QA closing event.

6. EIOPA Pensions stress test

Presentation was delivered by Barthold Kuipers, Principal expert on Pensions.

OPSG was informed as to upcoming Stress Test (ST) work including scenarios to be tested and timeline of the exercise that is same as for the QA except for the publication of the report that should be done by end 2015 as the data used is from 2014.

As to the nature of the exercise, EIOPA representative informed that the work is pursued in accordance with EIOPA Regulation (articles 23 and 32). The exercise is not mandatory in nature for IORPs. At Member State level, it is the NCA's who are engaging IORPs for their participation in the ST exercise. At EIOPA level only the expected/desired levels of participation are put forward.

EIOPA Chair welcomed the many comments and technical nature questions put forward by OPSG members for this agenda item and noted that this is the 1st ST exercise for the pensions sector. As such, similarly to experience on the insurance side, the first exercise does not aim to cover the entire EU pensions market nor does it seek to test a large number of scenarios.

In time, as the Authority, the NCAs and IORPs will gain more and more experience with this type of assessments, then the complexity and coverage of the ST will naturally increase.

Regarding expected timeline, the following milestones were noted:

- 26/27 Mar – BoS on stress test specifications
- 11 May – Launch stress test
- 18/19 May – Launch event
- 10 July – End exercise
- End-Aug – end-Sep – Validation
- End-Dec – Stress test report

The EIOPA expert also provided clarifications as to scope of the ST scenarios likely to be used, as follows:

- Baseline scenario with future returns
 - Risk-free rates and inflation based on forwards rates
 - Risk premiums over risk-free rate:
 - ✓ Equities 3%
 - ✓ Government bonds 0.3%
 - ✓ Corporate bonds 0.9%
- Longevity scenario
- Two types of adverse market scenarios
 - Scenario 1: negative demand due to fall in asset prices
 - Scenario 2: negative demand and a supply shock

OPSG members welcomed the EIOPA update and requested further information as to the programme and targeted audience for the EIOPA QA and ST launch event

Conclusion:

- EIOPA will circulate invitations to launch of QA/ST public event in May. OPSG IORP representatives to ensure representative participation..

7. OPSG statement – ESFS review

OPSG Chair presented the revised draft statement on ESFS review which had been circulated in February and sent to the IRSG for consideration. He noted that the IRSG had not yet agreed a joint IRSG/OPSG statement, and also that he had some feedback on some of the text inserted in the draft in the last review. After discussion, it was agreed that it would be desirable to have a joint IRSG/OPSG statement if possible but that it was also important to finalise the statement given that the review was published in August 2014.

Conclusion:

- OPSG statement will be revised to reflect on comments made during meeting and to update some of the content in light of time passed from COM report publication.
- OPSG & IRSG Chairs to liaise on the matter of a joint statement on the ESFS review.

8. COM Call for Advice on Personal Pensions – EIOPA update on developments & first views from OPSG subgroup

Cees Karregat, Pension team member, provided an update on work of TFPP which is currently focussing on development of a 2nd regime for personal pensions.

The OPSG also received an update as to EIOPA next steps and timeline of its consultation on the draft advice to COM.

The EU COM consultation on the Capital Markets Union Green Paper brought the topic of personal pensions to the forefront of EU political discussions (pls see Q13 in the CMU-GP). In order to include personal pensions initiatives into COM Action Plan, EIOPA report will need to be published after 29/30 June BoS meeting.

Stakeholders will be then invited to share their views on EIOPA Report during the consultation process currently scheduled to take place between 1 July and 30 September 2015.

EIOPA anticipates that its June 2015 report will focus on how a 2nd regime Personal Pension Product could be established through an EU Regulation.

Michaela Koller, OPSG workstream leader for personal pensions also provided an update of latest discussions among WS members and noted that further direct engagement with the EIOPA experts on personal pensions will be organised.

EIOPA Expert proceeding with presenting OPSG members the current key areas of discussion within the TFPP and invited views on a number of key topics. OPSG members put forward a number of comments and concerns on the personal pensions topic which will be further addressed through the work-stream discussions with EIOPA.

Conclusion:

- Telco of EIOPA experts and OPSG personal pensions workstream to be organised.
- Consider an OPSG response to question 13 of the COM consultation on the CMU green paper.
- Topic to be addressed at 08 May meeting

9. EIOPA pensions reports: costs and charges; effective investment decisions

Carine Pilot Osborn and Cees Karregat, Pension team experts provided an update as to the recently issued EIOPA reports on costs & charges and effective investment decisions.

OPSG members were informed that the initially, the cost and charges work started as fact-finding exercise to “unravel the different categories that comprise the totality of costs and charges borne by members and beneficiaries, consider definitions and work towards uniform ways to quantify them”. The project covered both DB and DC schemes and benefited from participation of 26 Member states.

EIOPA interim conclusions of the project indicated a lack of experience at MS level with costs and charges and relatively heterogeneous MS regulations on the matter.

At the end of its analysis, EIOPA concluded that it would be beneficial for all parties that bear costs and charges in IORPs if:

- All costs and charges within the value chain are disclosed transparently and comprehensively to the parties bearing them, so that:
 - The parties bearing costs and charges are able to assess if the costs and charges they are paying represent good value for money, and;
 - Disclosure of ‘costs and charges’ information better enables all parties to exert market pressure on costs.
- NCAs have effective means to assess costs and charges so as to be able to – in a wider perspective – assess how these affect value for money or the affordability of the pension schemes provided.

Although costs and charges should receive increased, specific attention, EIOPA believes that, when assessing if pension schemes offer value for money or are affordable, costs and charges should be considered in the context of contributions, risks and the performance of investments.

EIOPA will take further steps to address the two issues mentioned above, taking due note of the national initiatives that have already proven effective in this field and the differences in the IORP systems.

OPSG members welcomed the EIOPA report and presentation and noted that especially in a DC environment, costs are predictable (compared to returns) and because of this characteristic, they are a very important part of the pension fund investment strategy. The issue of costs is not always easy, even if recent EU legislation (UCITS, MIFID, etc) have made asset management costs transparent for retail users.

EIOPA Executive Director welcomed the OPSG openness to discuss the topic of costs and charges and noted that future discussions will follow on this topic, including part of the personal pensions consultation.

Carine Pilot Osborne presented the recently released report on Investment options for occupational DC scheme members. The report aims to map out the available choices that members of occupational DC pension schemes have in the European context regarding investment in their retirement plans.

The Report also highlights the main issues that national supervisors strive to address in order to ensure the making of effective investment decisions.

EIOPA has found that in most of the member states, occupational DC pension scheme members do not have the ability to make investment choices or have a limited ability to do so (a limited set of choices).

EIOPA will continue its work on this matter, potentially focusing on development of:

- better mechanisms and methods of improving suitability of investment options compared to target members' risk and return characteristics;
- methods of supporting third parties (e.g. employers) who make or frame investment decisions on behalf of members, where relevant;
- improved mechanisms for providing relevant standardised and comparable information to help members making better investment decisions, in case they have to make such decisions.

Conclusion:

- OPSG welcomed EIOPA findings and stands ready to further contribute on work undertaken on these topics.

10. EIOPA – Consumer trends report

Julian Arevalo, EIOPA Consumer Protection team representative presented OPSG the work undertaken in 2014/3 on identification of new trends in the EU insurance and occupational pensions sectors.

To date, EIOPA has produced three Consumer Trends reports, which were primarily focused on the insurance sector. As the EIOPA Regulation does not limit the scope of the trends report only to the insurance sector, the objective of the present exercise is to identify consumer trends also in the private pension sector, including both occupational and personal pensions. The analysis of consumer trends serves as a source for identifying possible issues leading to consumer detriment that may arise from such trends. Positive trends shall also be identified and highlighted.

The OPSG was invited to provide input as the top three financial innovations and the top three consumer protection issues in the pensions sector in 2014.

Additional questions for OPSG relate to financial literacy, pension tracking systems, shift from DB to DC schemes and costs & charges.

Conclusion:

- The OPSG to provide input to EIOPA on the consumer trends questionnaire as well as any additional observations that they would like to raise by 30 April 2015 cob.

11. EIOPA Consultation Paper on its Draft Good Practices Report on transfers of Acquired Pension Rights

Presentation was delivered by Alexandra de Jong, Expert on Consumer protection. OPSG received an update as to its current public consultation on Good Practices Report regarding transfers of acquired rights within occupational pension schemes that is due to close on 30 April.

EIOPA representative noted that the report identifies a number of good practices aimed at facilitating transfers within existing legal framework and that it does not intend to :

- Judge/comment on whether transferability of pension rights is desirable
- Aim for harmonisation of national Social and Labour Law

More specifically EIOPA has identified 8 main impediments to cross-border transfers of pension as well as 14 Good practices to overcome them.

OPSG members informed that in at least 1 MS new and potentially useful experience is made with DB to DC transfers while in other member states different national taxation regimes are triggering some cross border transfer initiatives.

EIOPA Executive Director reminded the attendance that the current young generations of workers will have quite a number of employers throughout their active professional life and as such tracking all their acquired rights and facilitating their consolidation through efficient transfer mechanisms will become increasingly important.

Conclusions:

- OPSG will input to EIOPA public consultation on this Advice, with Ruth Goldman as workstream leader.
- OPSG to provide written inputs to WS leader via email no later than 26 March 2015.
- The OPSG response must be approved and submitted by 10 April cob.

12. AOB

Next meetings:

- 08.05.2015 (welcome at 09.30)

Conclusion: Next meeting agenda to include:

- IORP Review – OPSG opinion
- Infrastructure project
- Personal pensions – input to EU COM CMU consultation.
- OPSG work programme
- 08.07.2015
- 20.10.2015
- 01.12.2015 – with EIOPA BoS & IRSG