EIOPA-BoS-13/033
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**SURVEY OF EU PRACTICE ON DEFAULT INVESTMENT OPTIONS**

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# II. INTRODUCTION

The pensions landscape has continued to evolve across Europe with a steady shift from DB provision to DC provision. In addition, in most of the Central and Eastern European member states occupational pension arrangements have always only been DC. This has meant that risks previously borne by employers and pension funds (such as investment, longevity and inflation risks) are now being partly or entirely borne by pension plan members.

These DC pension plans increasingly allow individual members some degree of choice about how to invest their plan contributions and a much greater degree of responsibility for ensuring the optimal asset allocation. Typically a range of investment funds is offered to them and they may choose one or more. Many DC plans also have a default option into which members' contributions are automatically placed if the member does not actively choose an investment fund.

While the responsibility for ensuring that the risks in the plan are managed and assets are invested in a cost efficient and optimal way resides with the member, supervisors may be involved in trying to ensure adequate protections for members. This report is aimed at reviewing current practice in the use of multiple investment options, defaults and life styling and what (if any) rules have been introduced by member states.

A recent EIOPA report on good practices on information provision (published on 22 February 2013) highlighted that while we would hope that members would be engaged and make the best possible decisions regarding investments for their retirement benefits this is far from always being the case. Often members will not have the willingness or the ability to engage in these decisions. As a result many will end up in default options where these are offered. The fact that the majority of plan members may well end up in the default fund means that the choice and design of the default (and any de-risking solutions contained in them) will be a crucial determinant of members' subsequent retirement income.

EIOPA advice to the Commission on the review of the IORP Directive (the call for advice) concluded in CfA 7.8.2 that

> *EIOPA recognises the importance of multi-funds, default options and life-styling as essential features that help risk control and sound development of supplementary pensions when members bear the investment risk. EIOPA encourages the identification and diffusion of best practices in this regard. Subsequently, subject to political discussion some aspects of these features might be made mandatory and/or regulated by European legislation.*

A project group undertook a mapping exercise of existing practices and approaches in member states in respect of investment options, default investment funds and life styling, in order to get acquainted with similarities/differences in existing approaches among member states as well as map the current situation and identify possible gaps between approaches chosen. This paper summarises the results of this survey.

# III. RESPONDING COUNTRIES

| Code | Country | questionnaire |
|---|---|---|
| AT | Austria | answered |
| BE | Belgium | answered |
| BG | Bulgaria | informed - out of the scope |
| CY | Cyprus | informed - out of the scope |
| CZ | Czech Republic | answered |
| DK | Denmark | answered |
| EE | Estonia | answered |
| ES | Spain | answered |
| FI | Finland | answered |
| FR | France | answered |
| DE | Germany | answered |
| GR | Greece | informed - out of the scope |
| HU | Hungary | answered |
| IE | Ireland | answered |
| IS | Iceland | no reply |
| IT | Italy | answered |
| LV | Latvia | answered |
| LI | Liechtenstein | answered |
| LT | Lithuania | answered |
| LU | Luxembourg (CSSF)<br>Luxembourg (CAA) | answered<br>answered |
| MT | Malta | answered |
| NL | The Netherlands | answered |
| NO | Norway | answered |
| PL | Poland | answered |
| PT | Portugal | answered |

| | | |
|---|---|---|
| RO | Romania | informed - out of the scope |
| SK | Slovakia | answered |
| SI | Slovenia | answered |
| SE | Sweden | answered |
| UK | United Kingdom | answered |

# IV. SUMMARY OF THE RESPONSES

In order to make an inventory of existing approaches and practices among member states (MS) with regard to investment options for pensions where members bear the investment risk and have investment choices, an Occupational Pensions Committee (OPC) workgroup ran a fact finding exercise among all MS. The aim was to map the current situation, to get acquainted with similarities/differences in existing approaches and to identify possible gaps between approaches chosen.

MS were asked a number of questions (19 in total) and were asked to provide relevant information for all pillars of pension provision, i.e., state, occupational and personal.

The majority of MS have provided answers although some of them were limited due to the fact that there is a great variety of pension design across Europe and therefore some of the questions were not applicable to the respective MS's pension products. In some cases supervisory authorities' involvement in the process of provision of multiple investment options and default funds was too limited to provide reasonable information due to the fact that usually this issue is negotiated between provider and customer on a voluntary basis, and is tailored to the specific contract[1].

RO and BG were considered out of the scope because in these MS pension schemes do not have investment choices and default funds. Since the scope of project was wider than occupational pensions, some EIOPA members, e.g. GR and CY, were considered out of the scope because the pensions under their supervision do not have investment choices and some of pension products/providers are supervised by other competent authorities.

The aggregation of the responses below gives the summary of existing practices among the MS.

[1] PT only provided information related to occupational pension provision.

## A. Multiple Investment Choices

*Question 1* Availability of investment choices

The first question asked MS to identify whether pensions provided on either a mandatory or voluntary basis allowed for the possibility of members choosing between different investment options. The answers have been divided by the type of pension product/plan and illustrate that in most cases multiple investment options are allowed.

| Pillar | Mandatory pension provision | Voluntary pension provision |
|---|---|---|
| **Social security scheme** (1st pillar and 1st pillar bis) | EE, LV, SE, SK | LT |
| **Occupational:** | | |
| IORP | | AT[2], BE, DE[3], DK, ES, FR (article 4 insurance), HU, IE, IT, LI, LT, LU (CAA)[4], LU (CSSF), LV, MT, NL, PT, SE (article 4 insurance), SI[5], SK, UK |
| Insurance (non-IORP) | | BE, DE[6], DK, FR, LU (CAA), NL, NO, PL |
| Pension fund (non-IORP) | | DK, HU, IT |
| Other occupational pension product | | PL[7], FR |
| **Personal:** | | |
| Insurance | | BE, DE, DK, FI, FR, IT, LI, LU (CAA), NL, NO, PL |
| Investment management companies | | BE, DE, EE, LT, PL |
| Pension funds | | CZ, ES, HU, IE, UK |
| IORP (providing personal pensions) | | LV, SI[8], SK |

[2] From 01.01.2013
[3] DB schemes that may offer multiple investment choices for parts of the contributions.
[4] LU (CAA) products indicated in the table should be treated as generic 2nd/3rd pillar products
[5] From 01.01.2013
[6] DB schemes that may offer multiple investment choices for parts of the contributions.
[7] Occupational pension scheme in the form of agreement concluded with open-end investment fund or specialised open-end investment fund (also umbrella investment fund).
[8] From 01.01.2013

| | | |
|---|---|---|
| Other personal pension product | | IE (PRSA), MT, NL, UK (GPP) |

4 MS (BG, CY, GR, RO) reported that there are no pension products under their supervision where members can choose from different investment options.

In other MS members were offered investment options to choose from. In EE, LV, SE, SK these were for mandatory social security schemes (1st pillar and 1st pillar bis) but in most cases this was for voluntary pension provisions.

In 19 MS IORPs may provide multiple investment choices for members for voluntary pensions. In 6 MS multiple investment choices may also be provided for insurance products, while in 3 MS non-IORP pension funds also provided these. Finally in one MS investment choices were also possible in occupational pension schemes developed in the form of an agreement with open-end investment fund. The results show that, for occupational pensions, investment choices are an actively used tool.

For personal pensions 10 MS indicated that investment choices may be in place for personal pension products provided by insurance companies. 5 MS indicated that investment choices are possible for personal pension provided by investment management companies (BE, DE, EE, LT, PL) and 5 MS use it for pension funds (CZ, ES, HU, IE, UK) while in three countries (LV, SI, SK) investment options could be provided by IORPs when offering personal pensions. In addition also other personal retirement products provide investment options – PRSA in IE, bank savings in NL, personal retirement scheme in MT and GPPs in the UK.

We can conclude from this that multiple investment choices are widely offered to members in both occupational and personal pensions. However, for social security schemes this possibility is not wide spread.

*Question 2* Application of contributions.

The second question asked MS to identify whether it was possible to split the contributions (i.e. apply multiple investment choices only to part of the contributions). The majority of respondents indicated that investment options are attributed to all contributions made (i.e. it is not possible to split contributions). Some MS (DK, LV, LU (CSSF), PT, SE, UK) indicated for respective products that this could be part of the affiliation agreement and therefore both situations are possible. In DE, if investment options are possible, multiple investment choices are attributed only to a part of the contributions made in the case of occupational pension plans and a number of personal pension products (depending on the precise product). In PL there are insurance retirement products where multiple choices are attributable only to part of the contributions. In SE for 1st pillar pension 2.5% of the salary and other taxable benefits go to the premium pension, where members themselves can choose funds to invest money in.

To conclude investment options mostly apply to all contributions. Only in a few MS it is possible or even required to split contributions.

*Question 3* Average number of investment options

In question three, MS were asked to provide information on average number of investment options provided to members. The aim of this was to gain an understanding of the average number of investment options a member usually has to choose from.

The majority of respondents indicated that on average there are 2-5 investment options members can choose from. In IE there are on average 10 investment options to choose from and in NO some providers offer 6-10 options. In UK it is common practice that some providers offer up to 10 (and not rare to see funds providing up to 20) options, but this typically includes a default fund in addition to other investment options. In SE there are more than 800 funds to choose from.

Therefore in majority of MS the number of options to choose from is kept limited.

*Question 4* Substantiation for offering investment choices

The fourth question asked MS to set out who developed the different investment options (the IORP/provider, employer, legal requirement, etc.)

| Legal requirements | Voluntary provided by provider | Specified by employer | Other |
|---|---|---|---|
| AT, HU (1st bis), IT, LT (1st bis), LV (1st bis), NL (3rd pillar), SE(state pension), SI, SK | AT, DE, DK, FI, HU, IE, IT, LI, LT (occupational), LU, LV, NL (2nd pillar), NO, PL, PT, SI, UK | AT, NL (2nd pillar), NO, PL (occupational), PT, SI, UK | LI (personal insurance), MT, PL (individual), (personal pensions)), SE (occupational) |

17 MS indicated that the IORP/pension provider specifies and/or develops the investment options. 7 MS indicated that the employer was involved in specifying/developing the investment options, often in combination with the IORP/pension provider. In 8 MS legal requirements set out the basis for developing investment options. Other possibilities mentioned are collective

agreements or that the member can opt out and choose investments. The prudent person principle was also widely used to develop investment options.

There is no clear conclusion to be drawn from this question with a wide range of IORP/providers, employers and legal requirements helping develop the investment options. However in most cases investment choices are provided voluntary and are not required by legislation.

*Question 5* Instruments for asset allocation strategy within investment options

In question five MS were asked what instruments were used to form an asset allocation strategy for investment options and what was the rationale for choosing these.

| Asset allocation strategy<br><br>(conservative, balanced, active) | Target date portfolios<br><br>(e.g. life-styling, etc.) | Other |
|---|---|---|
| EE, DE, HU, IT, LI, LT, LU CSSF, LV, NO, PL, PT, SI, SK | IT-PIP, PL, SI, UK | IT (contractual pension funds, open pension funds, old autonomous pension funds), NL, SE, MT |

Only some MS responded to this question but where they did they mostly indicated that the instruments were not prescribed and were left to the IORP or provider to determine. The type of asset allocation strategy seems to be popular instruments for a differentiating between investment options where asset types and related risks are distinguished. A wide range of other instruments including life styling and other forms such as target date portfolios were used though this remained a minority activity. Key principles such as diversification and the prudent person rule were heavily used.

## B. Default Option

*Question 6* <u>Use of default funds</u>

Question six asked MS to confirm whether default funds were used in pension products in their jurisdiction either on a mandatory or voluntary basis.

| Default options are used (either on a mandatory or voluntary basis) | Default options are not used |
|---|---|
| EE (1st pillar bis), ES (IORP DC), FI, HU, IE (PRSA), IT, LI, LV (1st pillar bis), MT, NL (second pillar), NO, PL, PT, SE, SI, SK (SK-2), UK (IORP, PP, GPP – mandatory if GPP or IORP is used for automatic enrolment) | AT, BE, CZ, DE, DK, EE (3rd pillar), ES (IORP DB, PP) IE, LT, LU CSSF, NL(3rd pillar), PL (1st pillar and 1st pillar bis, IORP, individual pensions in the form of agreement with a bank, with a brokerage house and with a voluntary pension fund), SK (SK-1) |

The responses were divided almost equally between products where default options are provided (either as a requirement or as good practice) and products where default funds are not made available. In the UK, for example, products used for automatic enrolment purposes are required to have a default option. In other MS this is not the case, e.g. because members have to take a decision.

This shows there is a clear divergence in this area which may make it difficult to develop good practice in this area.

*Question 7* <u>Definition of a default fund</u>

In question seven MS were asked whether any aspect of the use or nature of the default fund was set by legislation.

| An aspect of the use or nature of the default fund is set in legislation. | No aspect of the use or nature of the default fund is set in legislation. |
|---|---|
| AT, EE (obligatory), HU, IE (PRSA), IT, LV (SFPS), NL (2nd pillar), SI,, SK (SK-1), UK (IORP and GPP) | DK, IE, LT, LU CSSF, LU CAA, LV, MT, NO, PL, PT, SE, SI, SK (SK-2) |

A significant number of respondents indicated that no aspect of the use or nature of the default fund was set in legislation. However a number of respondents (AT, EE (obligatory), HU, IE (PRSA), IT, LV (SFPS), NL (2nd pillar), SI, SK (SK-1), UK) indicated that some aspect of the use or nature of the default fund was set in legislation.

In some MS legislation set out that the default fund should provide more conservative strategy, investing mostly in fixed income instruments. In NL and HU ($1^{st}$ bis) this set out that life-cycle investment principle should be used. In IE for PRSA the default fund must be certified by a PRSA actuary and satisfy certain objectives as set out by actuarial guidance. In HU the default has usually a balanced investment strategy. In IT and AT default funds are required to offer some guarantees for members. In SI default options are guided by rules depending on member's age. As mentioned above, in the UK schemes used for automatic enrolment must provide a default option (i.e. automatic enrolment should require no active member choice). In this situation the UK Government has set out guidance on the design of default funds used for automatic enrolment.

The conclusion to be drawn from this is that member states have set in legislation very different rules with regards to the use of the default. Some have no rules and some have rules around the nature of the investments and the form of guarantees. It is therefore hard to draw best practice on what is a very MS specific area.

*Question 8* <u>Rationale for default options</u>

Question eight aimed to map the rationale behind the type and the design of the default in different member states. The types of the default funds are specified in table below.

| Guarantee | Conservative | Life-cycle | Specified by provider/employer/IORP |
|---|---|---|---|
| AT, IT, PT | HU (VPF), LV (1st bis), PT, SE (insurance), SK (SK-1) | HU (1st bis), IE, PT, NL (2nd pillar), SE (1 pillar), ES, SI | HU (IORP), NL ($2^{nd}$ pillar), NO, UK |

These different forms of defaults serve different purposes. The aim of defaults with life-styling is to link the riskiness of the investments to the age of the member so that members are not exposed to excessive risk towards the end of their pensions savings cycle. For conservative funds the aim is to preserve the value of contributions and provide minimum return. For the defaults specified by provider/employer/IORP the aim is to allow provider to offer a default fund that matches the membership profile. For the default funds with guarantees the rationale is to provide some level of protection for members.

*Question 9* Enrolment into a default fund

Question nine asked MS to identify how members joined the default (i.e. whether this was done by choice or via automatic enrolment without the necessity of a choice). MS were also asked for the percentage of members who used the default.

In many MS the concept of a default was not in operation as indicated in question 6. For those that did use the concept of a default, many members actively choose the default fund (i.e. EE (obligatory pension), LI (IORP), HU). In AT it was only possible to choose the default fund five years before the members' retirement date. Members were automatically enrolled into the default in the case of ES (IORP DC) and SK (retirement pension savings - PAMC). In case of SK (PAMC) after the automatic enrolment for new members they are free to switch to whichever fund they like but if the member wants to spread his/her contributions to two funds, one of them must be the default fund. In the UK members did not need to express a choice if they were automatically enrolled and hence would automatically go into the default.

In most cases where the members have the choice to indicate a fund, if they do not do so they are enrolled into default fund (i.e. PT, LV (SFPS) and PL (occupational). In LV (SFPS) members who are not making any choice are distributed between providers of the conservative investment plans one by one in alphabetical order of the names of the providers.

As for the percentage of members relying on the default fund, in most MS there is no exact data (i.e. AT, IE, PL and PT), mainly because respective legislation does not impose the requirements to obtain such data. Where MS provided data, such data were based on estimations. In EE (obligatory) 37% and in SE 35% of members rely on the default options, whereas in NL (2nd pillar) this figure is about 8% of members in the second pillar. In the UK the figure is typically as high as 80%.

*Question 10* Substantiation for development of default

In question 10 MS were asked to provide information on what basis the default option is developed (i.e. whether this set in law, determined by the IORP/provider or determined by the employer).

| Legal requirements | Voluntary provided by provider | Specified by employer | Other |
|---|---|---|---|
| AT, EE (obligatory), HU (1st bis), IT, LV (SFPS), SE (state | DK, FI, HU (IORP, voluntary pension funds), IE, LI (IORP), MT, NL | NO, PL (occupational), PT | SE (occupational), PL (negotiations |

| | | | |
|---|---|---|---|
| pension), SI, SK (PAMC) | (second pillar), NO, PL (occupational), PT, UK | | between an individual and a provider in personal pensions) |

The default option is based on legal regulations: in 8 cases AT, EE (obligatory), HU, IT, LV (SFPS), SE (state pensions), SI and SK (PAMC). The nature and extent of the legal regulations varies from state to state. For example, in EE it only requires that each fund management company should have one conservative fund.

The majority of the default funds are determined and provided by the IORP/other pension provider voluntarily. This was identified in 11 MS including DK, FI, HU (IORPs), IE, LI (IORP), MT, NL (2nd pillar), NO, PL, PT and UK. In the UK the vast majority of IORPs provide default options to their members voluntarily. A default option is mandatory where the pension is offered under auto-enrolment.

In some MS the default is determined and provided by the employer.

In some MS such as SE (occupational) it was left to collective agreements between the IOPR/provider and the employer. In PL (occupational) default options are specified as a result of negotiations between an employer and representatives of employees and then negotiations between an employer and a provider contain provisions. In PT, the default option is contractually defined between the provider and the employer.

*Question 11* Requirements as regards defaults

In question 11 MS were asked to confirm whether the pension provider provides only one or more than one default. It was also inquired if the defaults provided contain a life-styling element.

| Only one default fund for the provider | Life-styling element in default fund |
|---|---|
| AT, FI, HU, IE(PRSA), IT, LI(IORP), NL (second pillar), PT, SE, SK (PAMC), UK | ES (IORP DC), HU (1st bis), IE (IORP), LU (ASSEP, SEPCAV), NL (second pillar), NO, PT, SE (state pension), SI, UK |

There is only one default fund provided by each provider in 11 MS.

According to the answers given life-styling is not very common - only 10 MS use life-styling in their default funds. In ES if there is life-styling, it is possible that this plan has two sub-plans where members can be in one sub-plan or the other or in both according to their age. The allocation system between both sub-plans is fixed in the rules of the pension plan. In

IE and UK (IORPs) where defaults are offered, life-styling is typically available – moving assets to bonds as retirement age comes closer. The case is similar in SI where life-styling is usually based on a strategy that favours a more risky investment policy during the first years of accumulation/younger ages and when the normal retirement age approaches the investment tends to less risky assets.

In LU (ASSEP, SEPCAV, 2nd pillar) and a number of other countries the existence of life styling depends on the contractual arrangement with features such as multiple funds and life styling possible but is dependent on what is specified in the contract.

*Question 12* Life-styling

Question 12 asked MS to identify how the life-styling feature was developed and provided (i.e. a legal requirement, by the provider or by the employer).

| Legal requirements | Voluntary provided by provider | Specified by employer | Other |
|---|---|---|---|
| SE (state pension), HU(1st bis) | AT, ES (IORP DC), IE, MT, NO, PT, SI, UK (IORP, PP, GPP) | | NL (2nd pillar), |

In most of the cases the life-styling feature is provided voluntarily by IORPs or other respective providers. Only in two cases (in SE for social security pensions as well as HU private pension funds) is the life-styling feature set by legal requirements. In NL for second pillar pension funds the life-styling feature is  part of the general duty of care requirements.

*Question 13* Implementation of life-styling

In question 13 MS were asked to provide details on how the life-styling approach is implemented.

Nine respondents (ES, HU, IE, NL, NO, PT, SE, SI, UK) commented on this question. ES, NL, UK confirmed that for respective products there may be more than one life-styling method employed. In ES there is a legal requirement for 2 sub-plans to be available to members where life styling options are set by the provider. Similarly in HU for private pension funds there is a legal requirement providing life-styling method applied based on the age of the member. In IE the approach is chosen voluntarily by provider where life-styling may be age dependent / glide paths and usually tailored to individual member. In NL for second pillar products this is also voluntarily provided by provider but the principles are set by legislation. In NO as well the life-styling is tailored to individual member and this is done by providers on voluntary basis. In PT and SI the approach is age related bearing in mind the length of time to retirement. In SE for state pensions the age of individual is taken into account and life-styling strategy is provided by legislation. In UK this may be linked to intended date or default retirement age but some IORPs are adopting target date rather than life styling as it is less mechanistic and gives more discretion to fund managers when to move to lower risk investments.

*Question 14* Regulation of default

In question 14 MS were invited to provide details on the regulation of the default funds for the respective pensions in their countries.

In most cases if the default fund is provided on legal basis the supervisory authority is also involved in supervision of the default funds specifically on top of general prudential supervision. This is the case in AT, EE, ES, HU, IE, IT, LV, NL, SE, SK. In the UK the obligation to set up a default for schemes being used for automatic enrolment is monitored by the supervisor.

In some MS (AT, HU, MT, NL, PL, SE, UK, SI) where the default funds are set on voluntary basis for the respective products the supervisors are anyway involved in the process by either providing guidelines, product reviews, prior authorization or ex-post checking.

*Question 15* Design and implementation of a default fund

In question 15 MS were asked to identify which factors were considered in the design and implementation of the default fund. The responses received are summarized in the table below:

| | Member State[9] |
|---|---|
| Investment objective of the fund | AT (applicable starting 2013), FI, HU, IE, LV (SFPS), LI, NL(second pillar), SK(SK-1), SE, UK |
| Long term investment targets (replacement rates) | LI, NL (second pillar), NO, SE, UK |
| Portability | HU (private pension funds), LV, LI, NL (second pillar), SE, UK |
| Liquidity and cash flows | HU, IE (PRSA), LV (SFPS), LI, NL (second pillar), SK(SK-1), SE, UK |
| Governance | FI, LV (SFPS), LI, NL (second pillar), SK (SK-1), SE, UK |
| Diversification | FI, HU, IE, LV (SFPS), LI, NL (second pillar), NO, SK (SK-1), SE, UK |
| Costs and fees | AT (applicable starting 2013), FI, HU, IE (PRSA), LV (SFPS), LI, NL (second pillar), NO, SK (SK-1), SE, UK |

[9] Supervisory authorities from DK, ES, MT and PT indicated that they were not in a position to provide any replies to this question, as they are not involved in the design and implementation of default funds/options.

| | |
|---|---|
| Information provided to the members | AT (applicable starting 2013), FI, HU, IE (PRSA), LI, NL (second pillar), SE, UK |

When analysing the responses, one should have in mind that a given factor may not be only specific to the design and implementation of default funds/options, but applicable in a broader sense.

Among the multiple factors that are considered, the investment objective of the fund, diversification, liquidity and cash flows, costs and fees and the information provided to the members seems to be the most common ones. Apart from those identified in the table, other factors that were indicated by some MS include the possible impact of "what if/bad case" scenarios, the proportion of contribution available for investment choice and existing guidance in the area.

*Question 16* Evaluation of the fitness of default options for the purpose

In question 16 MS were asked to set out what steps were taken to evaluate whether the default meets the needs of the member. MS were asked whether several aspects were considered in the design of the default including the level of protection, the risk tolerance/appetite of the members and the demographic and socio economic factors.

The responses received indicated that the level of protection is evaluated with reference to existing legal/regulatory framework (e.g. life directive, UCITS), principles (e.g. prudent person principle) and other guidance (e.g. actuarial guidance). In some MS (UK) IORPs frequently review the suitability of default option.

The assessment of the risk tolerance/appetite of members is done based on interviews at the moment of sale, surveys to evaluate members' knowledge, reasonable expectations and age. As for the demographic and socio economic factors the age and financial capability were indicated.

## C. Across the board questions

*Question 17* <u>"Safe-harbour" concept</u>

In question 17 MS states were asked to identify whether there is a "safe-harbour" concept in place, (i.e. categories of default options of the defined standard that, when adopted, provide immunity from litigation).

In the majority of cases this did not exist. Three MS have identified the concept of "safe-harbour". HU (1st bis) has a safe-harbour concept through a guarantee referring to all investment options. In SK default funds by law invest in the less risky assets so there is no need for a safe-harbour. In DK there is no "safe-harbour" concept, but the companies often try to provide immunity from litigation related to the investment options by setting up disclaimers as part of the general conditions related to the specific scheme.

*Question 18* <u>Aspects to be considered for default options</u>

In question 18 MS were given free space to identify domestic aspects that impacted the design of default funds and how these helped ensure these were designed in a way that was appropriate for member needs. The responses received show a variety of aspects including:

- an appropriate level of protection towards investment risks, without compromising too much the adequacy of the retirement incomes;
- a proper diversification and ability to respond to market changes;
- a transparent investment strategy;
- the inclusion of life cycle features as a way to enhance the adequacy of default funds/options to members individual profile and still ensure an appropriate balance between risk and return in a long term perspective;
- compliance with existing statutory/legal requirements and guidance.

*Question 19* <u>Commendable factors in the design of a default fund</u>

In question 19 MS were given free space to identify which factors they believed were essential in the design of the default fund. These are set out below:

- characteristic of members: age and other demographic factors, income level and financial capability, risk tolerance/appetite and expectation;
- composition of assets: the choice of assets should consider the aim and the objectives of the investments (e.g. investment strategy may be suited to the retirement options available), and should consider

appropriate levels of safety, quality return and liquidity of the investments;

- fees structures and control of administrative costs;
- there should be just a few, clearly defined default funds/options to avoid overwhelming information and confusion to members. A clear communication of risks and benefits to the members has to be ensured in order to allow everybody to make a sound decision based upon their individual risk tolerance;
- the communication between employees, employers and IORP /other pension provider can also play an important role in assessing the overall members risk appetite and expectations and therefore contributing to an appropriate design of default funds/options;
- individual member engagement (this needs to be encouraged to ensure that the fund designed for the generality of members meets the needs of their individual circumstances). A key component of this is the need to ensure that members are informed when life styling starts so that they can make the choice on whether this is the right time for them.

*Question 20* Other comments

Question 20 provided member states the opportunity to add additional comments that were not covered in the questionnaire. Five MS took this opportunity.

BG informed about the preparation of a draft law for introduction of multi-funds in the supplementary voluntary pension insurance. IE mentioned the growing importance of DC-type savers and default funds. LV is considering legislation to ensure that members are advised to switch from an active investment strategy to a conservative strategy when close to retirement. SE highlights the option to use traditional life insurance as the default option. UK refers to the debate about risks and benefits of life styling, such as the potential loss of investment growth when the capital is at its peak and mismatching timing to actual retirement age.

# V. CONCLUSIONS

This survey has highlighted 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 life-styling.

Multiple investment options are widely offered to members in both occupational and personal pensions and the number of options varies greatly from MS to MS. In most cases it is not a legal requirement to provide multiple investment choices. Mostly the investment options are provided voluntary by providers or specified by employer and usually provision of multi options is part of the agreement concluded with the provider.

A number of MS products do provide defaults either as a legal requirement or as best practice. But an equal number of MS do not. Equally legislation determines some of the features and parameters of the default fund in some MS products but not in others. Data on the amount of members who use the default is hard to come by but when a default is available this is often high.

Life-styling in pension products is still a minority activity and while it does provide benefits to the member it can also create risks in terms of possible loss of investment growth when the capital is at its peak especially if the member is not actively involved in the choice.

Safe harbouring in defaults is still an extremely minority approach with only three MS using this in some form.

The diversity of approaches in member states is understandable considering the diverse nature of provisions in both second pillar and 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 MS.

What we can conclude is that offering multi investment options is quite common across MS. The current approach across the Europe shows that default option is mostly provided voluntarily and only in few cases this is done on legal basis. Since the default options in most of the cases are provided voluntarily and only in few cases based on legal requirement consequently this also influences the way in which the supervisory authority is involved in supervision of default options. When there is a regulation stating that default option should be provided usually supervisory authority is substantially involved specifically in supervision (or registration) of the default funds that is done on top of overall prudential supervision of the pension products/providers. The involvement of the supervisory authority varies across the MS from setting the guidance for implementation to prior authorisation and ex-post checking. When a default option is offered many members do use it. So the design of the default fund, if it is offered, is very important especially bearing in mind the general inertia of members.

To conclude, the results of this mapping exercise indicate that although there are a lot of examples where members are afforded the opportunity to choose from multiple investment options in many cases this is not part of legal requirements but instead is done on voluntary basis. Similarly provision of default option is mostly done on a good practice basis instead of legal requirements.