

EIOPA-OPSG-15-11

November 2015

Feedback Statement of the EIOPA Occupational Pensions Stakeholder Groups (OPSG) on 2015 EIOPA Report on Occupational Pensions and Cross Border IORPs

Executive Summary

The OPSG

- welcomes the 9th annual report prepared by EIOPA and recognizes a number of enhancements made, especially over the last two years → the OPSG proposes further areas of interest that EIOPA may wish to include in future reports
- supports EIOPA's intention "to continue to seek an understanding of market developments in this area and to continue to improve the information available to market participants" → the OPSG could, where possible, facilitate this via direct interaction with IORPs (including existing Cross Border IORPs), employers, participants and providers like actuaries, legal and investment advisors, administrators as well as asset managers
- shares EIOPA's assessment that "the creation of a true internal market for occupational pension schemes is still a distant goal" → the OPSG regrets that, despite a need for better occupational pension coverage in all but a few Members States, IORP 1 after eight years from its full adoption failed in delivering on its objectives; the OPSG stresses the importance of active stakeholders' engagement in current legislative process of IORP 2 directive and will continue to offer further advice on how to facilitate Cross Border pension provision

Introduction

On 9 July EIOPA issued its 2015 Report on Occupational Pensions and Cross Border IORPs. It shared a draft of the report and a summary presentation with OPSG members ahead of the OPSG meeting on 8 July. The presentation was shown under Item 9 during the meeting. In the discussion that followed it was agreed that OPSG will prepare its position paper about the Report.

Scope of the report

The OPSG recognizes continued EIOPA's efforts to improve its understanding of European pension fund landscape. The first CEIOPS report on market developments from 2007 contained only information about home, host countries and number of cases. Major improvement occurred in 2014 when EIOPA added a comprehensive summary of occupational pension funds in the EEA. This allows to compare the number and size of Cross Border IORPs with these operating purely "on a local" basis. The 2015 report contains again a number of significant improvements like splits between DB and DC assets or information about funding levels. Figure 1 contains a summary of information contained in all nine reports issued between 2007 and 2015. Attachment 1 contains all nine reports.

Figure 1:

Evolution of Market development report on occupational pensions and cross-border IORPs Report			
Date of Publication	Length (Pages)	Data as of	Evolution of Content Year over Year
7 March 2007	2	January 2007	48 cases of cross borders IORP
11 November 2008	3	June 2008	70 cases of cross borders IORP 9 Home countries and 21 Host countries
30 October 2009	5	June 2009	76 cases of cross borders IORP (10 new and 4 withdrawals) 7 Home countries (2 new and 4 withdrawals) 22 Host countries (2 new and 1 withdrawal) Description of activity: DB vs DC, Number of participant and beneficiaries
20 June 2010	6	June 2010	78 cases of cross borders IORP (7 new and 5 withdrawals) 7 Home countries (0 new and 0 withdrawals) 22 Host countries (0 new and 0 withdrawal) Description of activity: DB vs DC, Number of participant and beneficiaries Identification of dormant cross-border IORP (no active members) Reason of cessation of cross-border activities
14 July 2011	9	June 2011	84 cases of cross borders IORP (11 new and 5 withdrawals) 9 Home countries (2 new and 0 withdrawals) 23 Host countries (1 new and 0 withdrawal) Description of activity: DB vs DC, Number of participant and beneficiaries, Dormant cross-borders IORP Identification of dormant cross-border IORP (no active members) Reason of cessation of cross-border activities
25 July 2012	7	June 2012	84 cases of cross borders IORP (6 new and 6 withdrawals) 9 Home countries (0 new and 0 withdrawals) 22 Host countries (0 new and 1 withdrawal) Description of activity: DB vs DC, Number of participant and beneficiaries, Dormant cross-borders IORP Identification of dormant cross-border IORP (no active members) Reason of cessation of cross-border activities
23 July 2013	8	June 2013	82 cases of cross borders IORP (1 new and 3 withdrawals) 9 Home countries (0 new and 0 withdrawals) 19 Host countries (0 new and 3 withdrawal) Description of activity: DB vs DC, Number of participant and beneficiaries, Dormant cross-borders IORP Identification of dormant cross-border IORP (no active members) Reason of cessation of cross-border activities
10 July 2014	12	June 2014	Overview of total (cross-border and local) IORP/art. 4 insurance undertakings landscape (Number and assets) 86 cases of cross borders IORP (8 new and 4 withdrawals) - 75 are actively operating cross-border 8 Home countries (1 withdrawal) - 7 active Home countries (mainly UK, Ireland and Belgium) 17 Host countries (no change) - 17 active Host countries (mainly UK, Ireland and Belgium) An overview of which countries act as home and host countries to which country
9 July 2015	22	June 2015	Much more qualitative approach with analysis of the data and trends Overview of total (cross-border and local) IORP/art. 4 insurance undertakings landscape (Number, assets and evolution) - Identification of ART17 IORPs - Identification of Art4 Ring Fenced funds - Split per type of schemes per number (DC, DB, Hybrid) - Split per type of schemes per assets (DC, DB, Hybrid) - Funding position DB schemes and DB/DC schemes 88 cases of cross borders IORP (8 new and 4 withdrawals) - 76 are actively operating cross-border - Split per type of schemes per number (DC, DB, Hybrid) - Split per type of schemes per assets (DC, DB, Hybrid) - Funding position of cross border IORPs 9 Home countries (1 new) - 8 active Home countries (mainly UK, Ireland and Belgium) 17 active Host countries (mainly UK, Ireland and Belgium) Developments in cross border activity - New cross border IORPs and withdrawals - New host countries of active cross border IORPs Overview of which countries act as home and host countries to which country

In Bold, new information that was not available in the previous version of the report.

IORPs

EIOPA provides valuable statistics for all IORPs. Its report is now considered one of the main sources of information about Europe’s funded pension sector (<http://www.ipe.com/reports/top-1000-pension-funds/the-top-1000-who-counts-what/10002923.fullarticle>). The OPSG notes however that the scope of the report is limited to IORPs only and does not cover occupational pensions financed via “book reserves” or “group insurance”.

In Table A EIOPA gives an overview of total number of IORPs per country and approximate assets held by these IORPs per country. The OPSG suggests enhancing the table by providing another column with assets expressed as per cent of each country's GDP. This would show the relative importance of occupational pensions in each of the countries. It might also help to assess a potential pension gap.

Commenting on a very large number of IORPs in Ireland and in Cyprus EIOPA states that "there might be opportunities for economies of scale if these markets would consolidate". Later in the report a similar comment is repeated for Cypriot, Irish and UK DC schemes. Under Section 2.2. 'Scheme types' EIOPA shows that most IORPs (92%) manage DC schemes but their proportion of assets is low (7%). The OPSG agrees that small schemes are likely to incur costs that are multiple of what large schemes pay. Consolidation and scheme mergers would therefore likely be beneficial. However, the OPSG does not know how the consolidation would work in practice. Firstly, the OPSG believes that many IORPs are small pension arrangements, sometimes for just one person, which lack the features of a typical pension fund. The OPSG suggest distinguishing between small and large arrangements in the report. One way of addressing this could be showing IORPs with 100 or more members in another column in Table A. This split would be consistent with provisions of Art. 5 of IORP1 directive which stipulate that Member State may choose not to apply the directive to institutions operating schemes with less than 100 members. Secondly, small schemes often do not have resources to dedicate to consolidation projects. Some countries, notably the Netherlands, have a long tradition of industry wide schemes and plan mergers which other countries lack. Thirdly, rather than fostering consolidation some countries like the UK chose to impose efficiency via introducing cost caps to their DC schemes. It remains to be seen in practice if these measures achieve what is intended by the authorities.

Under Section 2.3. 'Funding position DB schemes and DB/DC schemes' EIOPA shows assets and liabilities for DB and for hybrid schemes. Rather than providing details per country in a separate table it comments on evolution of funding position per country in text. Generally there was a reduction in deficit of DB schemes in most of the countries with the exception of the UK. For the future the OPSG suggests expanding on reasons behind this development like asset performance or changes in discount rates or inflation assumptions.

Cross-border IORPs

The 2015 report contains more details about cross-border IORPs. Please refer to Figure 1 above for an exhaustive list of enhancements. The OPSG welcomes these enhancements.

EIOPA states that 76 IORPs are actively operating on cross-border basis which is an increase of 2 from the last year. One home member state (Malta) was added during the year to reach a total of eight while the total number of host countries remained stable at 17. The 76 active cross-border IORPs manage 53,830 million euro or 1.46% of IORPs' total assets under management for both domestic and cross-border activities. There are 309 sponsoring undertakings standing behind these IORPs. The total number of members and cross-border beneficiaries exceeds 800,000. With 38 IORPs operating DB schemes and 38 IORPs operating DC or hybrid schemes there is a greater balance between scheme types. However, in

line with the overall market situation most of the assets are managed for DB schemes. As required by Art. 16 of the IORP directive the IORPs are fully funded.

The OPSG believes that the report overestimates the true number of cross-border IORPs introduced following the adoption of IORP directive. Nearly half of the institutions referenced in the report are legacy schemes between the UK and Ireland that existed prior to the IORP directive. They are considered cross-border simply because they have members based in another country. They have never “actively” gone through the notification procedure as stipulated by the IORP directive; they just got classified as cross-border after the adoption of IORP directive. The OPSG suggests that such legacy schemes shall be clearly distinguished from the post-2005 newly established cross-border IORPs. The first CEIOPS report from 2007 contained this split with 39 out of 48 IORPs operating on cross-border basis prior to the directive.

EIOPA states that the assets under management of cross-border IORPs of 53,830 million euro cover “both the domestic and cross-border activities. As a result, the actual cross-border activities will be even lower.” The OPSG agrees with this assessment and believes that the assets related to cross-border activities are significantly lower. The OPSG suggests that EIOPA asks member states to quantify cross-border assets in future reports.

Next steps

EIOPA states that it “intends to continue to seek an understanding of market developments in this area and to continue to improve the information available to market participants.” The OPSG welcomes this and will support EIOPA in its dialogue with stakeholders interested in cross-border activities including plan members, sponsors, fiduciary boards and advisors.

Annexes

The OPSG welcomes the information available in Annexes of the report. The OPSG recommends that EIOPA introduces an additional category to count the cross-border activity in its report. EIOPA could record number of active “sections” for existing cross-border IORPs e.g. an IORP based in Luxembourg which operates in Luxembourg, Belgium, Spain and the Netherlands would be recorded with four sections while an IORP based in Germany which operates in Germany and Austria would be recorded with two sections. Growing cross-border IORPs by expanding them to new host countries is a time consuming activity involving many stakeholders. Capturing this dimension and developments over time would provide meaningful information of cross-border trends.

Conclusion

EIOPA concludes that “the creation of true internal market for occupational pension schemes is still a distant goal”. The OPSG agrees with this assessment. Eight years after the IORP directive was implemented by all Member States the size of cross-border activity remains limited. The directive failed to achieve its objective to develop further occupational pensions. The debate is still ongoing if this is for the lack of need or the lack of attractiveness because the directive makes cross-border provision too difficult. The OPSG recognizes that some multinational corporations, consulting firms and asset managers established cross-border IORPs despite difficulties associated with the process. The OPSG recognizes too that fully funding requirement is often considered as one of the main obstacles in greater prevalence of cross-border activity.

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Adopted by the EIOPA Occupational Pensions Stakeholder Group on 30 November 2015

The Chairperson of the EIOPA Occupational Pensions Stakeholder Group

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