

Strengthening the Single Market for occupational retirement provision

European Pension Funds Congress

Frankfurt, 16 November 2010

Karel Van Hulle

Head of the Insurance and Pensions Unit
Directorate Financial Institutions

European Commission 
Internal Market & Services DG

Occupational pensions cannot support adequacy and sustainability if:

- Over-regulation is making occupational retirement provision unaffordable;
- The solvency framework does not take account of the particularities of the pension promise;
- Employers are simply walking away because they can no longer afford the promise.

The Single Market can support pension reforms

- Pension debates are conceived in a national context and rarely consider that there are possibilities abroad.
- Single Market can help to realise cost savings through larger scale, lower transaction costs and market innovation:
 - DG MARKT decided to co-author the **Green Paper** on pensions
 - **Single Market Act** seeks to facilitate mobility of capital/services (IORPs) and labour.
- Everyone is better off with more **options** and greater **flexibility!**

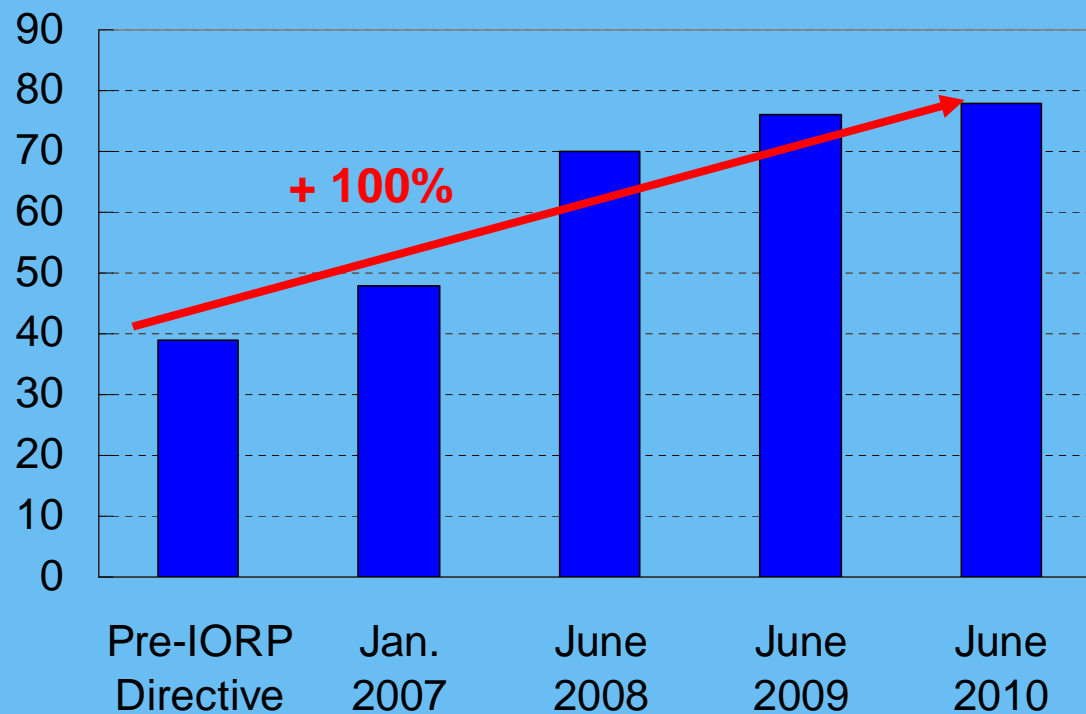
Outline

1. What has the IORP Directive achieved?
2. Regulatory challenges
3. Conclusion

The IORP Directive has been the first step in the creation of a Single Market for pensions

- IORP Directive adopted in 2003
- Supplementary **occupational** pension schemes: relationship between employees and employers
- “Enabling” Directive:
 - pension fund in country A and sponsoring employer in country B (**cross-border**)
 - **prudential rules** to protect members/beneficiaries: minimum harmonisation & mutual recognition

Still a long way to go ...

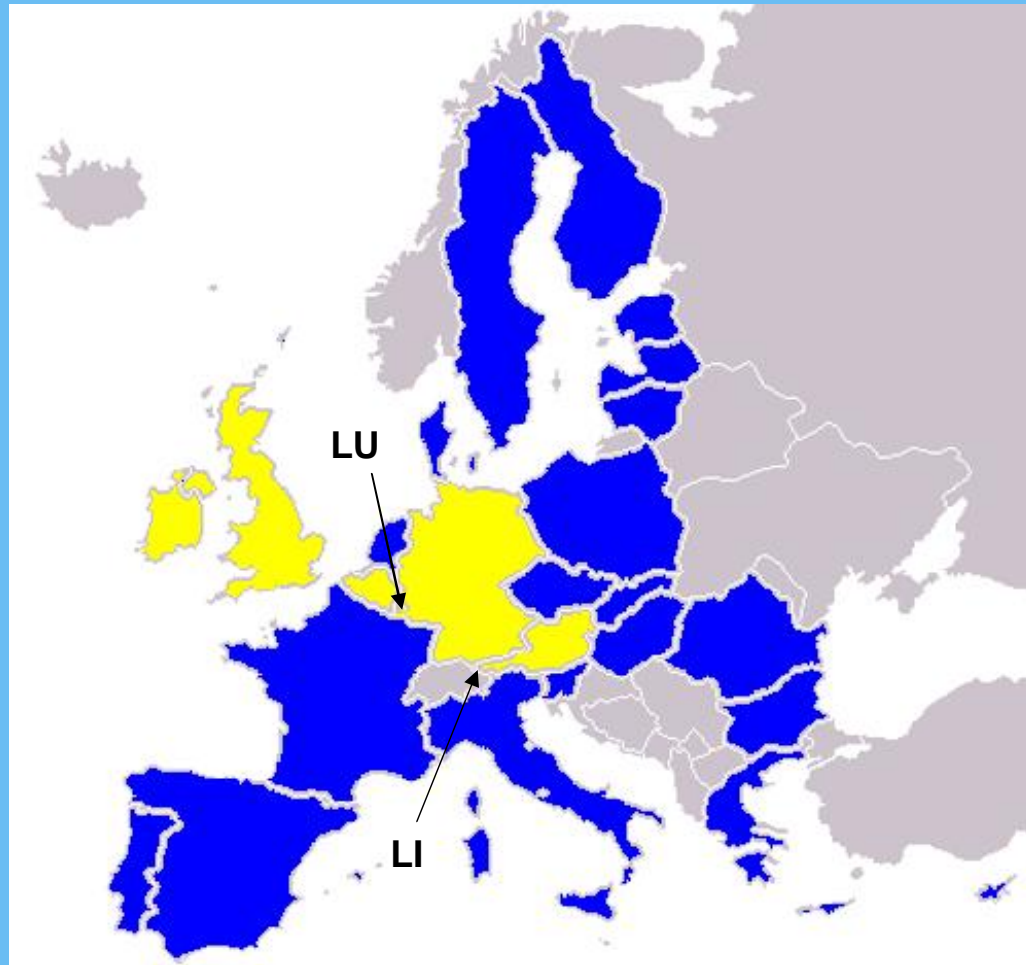


78 cross-border cases in EEA

Source: CEIOPS.



Limited number of MS directly concerned



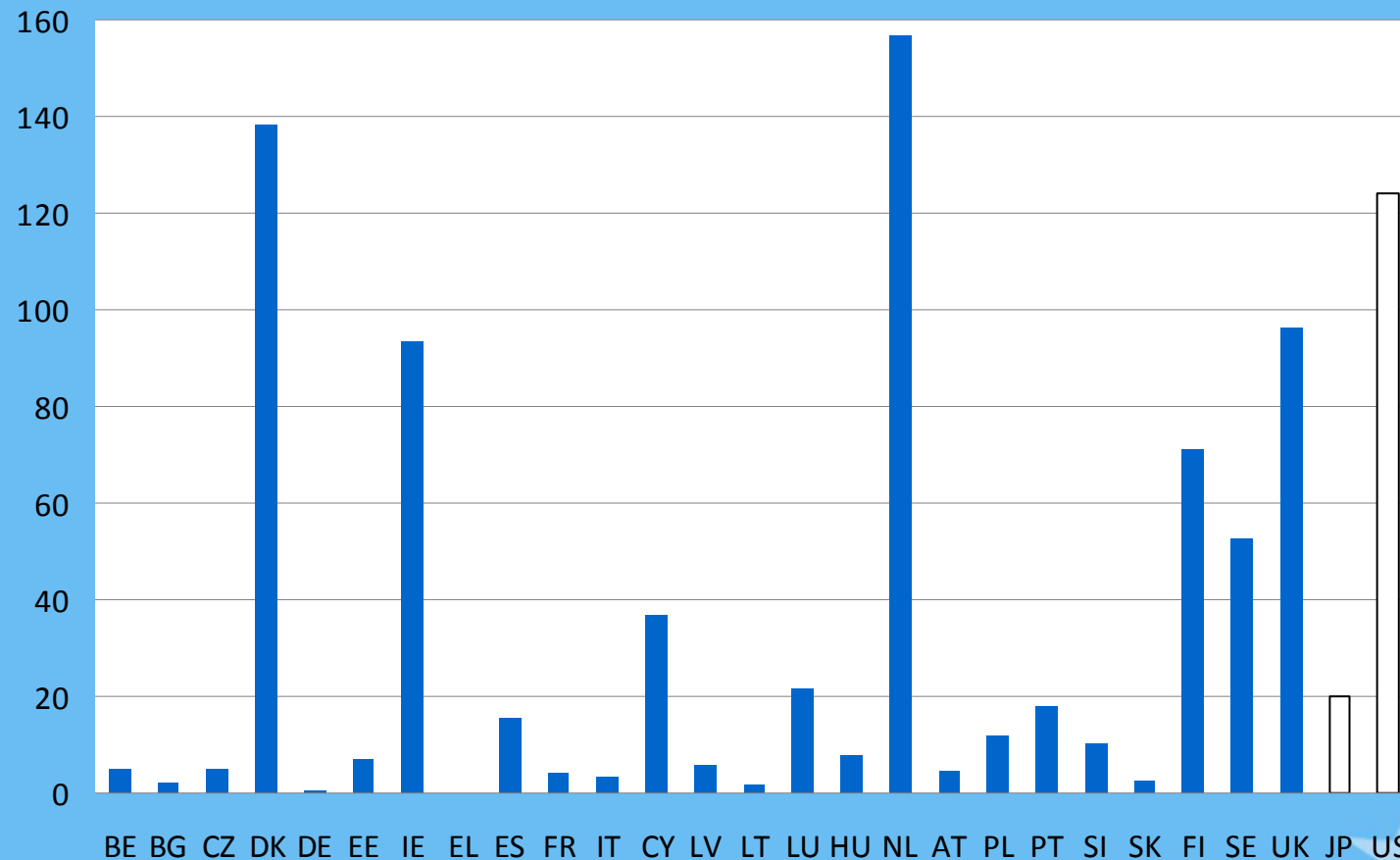
- 7 home Member States: location of IORP

- All are host Member States, except CY, LT, LV, MT, SL, PT.

Things could and should be better

- Some first results: more cross-border cases and more Member States involved
- But many MS have gone significantly beyond the IORP Directive.
- National legislation, regulation and administrative processes differ widely.
- Employers wishing to set-up cross-border pension schemes are still faced with a highly complex and costly business environment

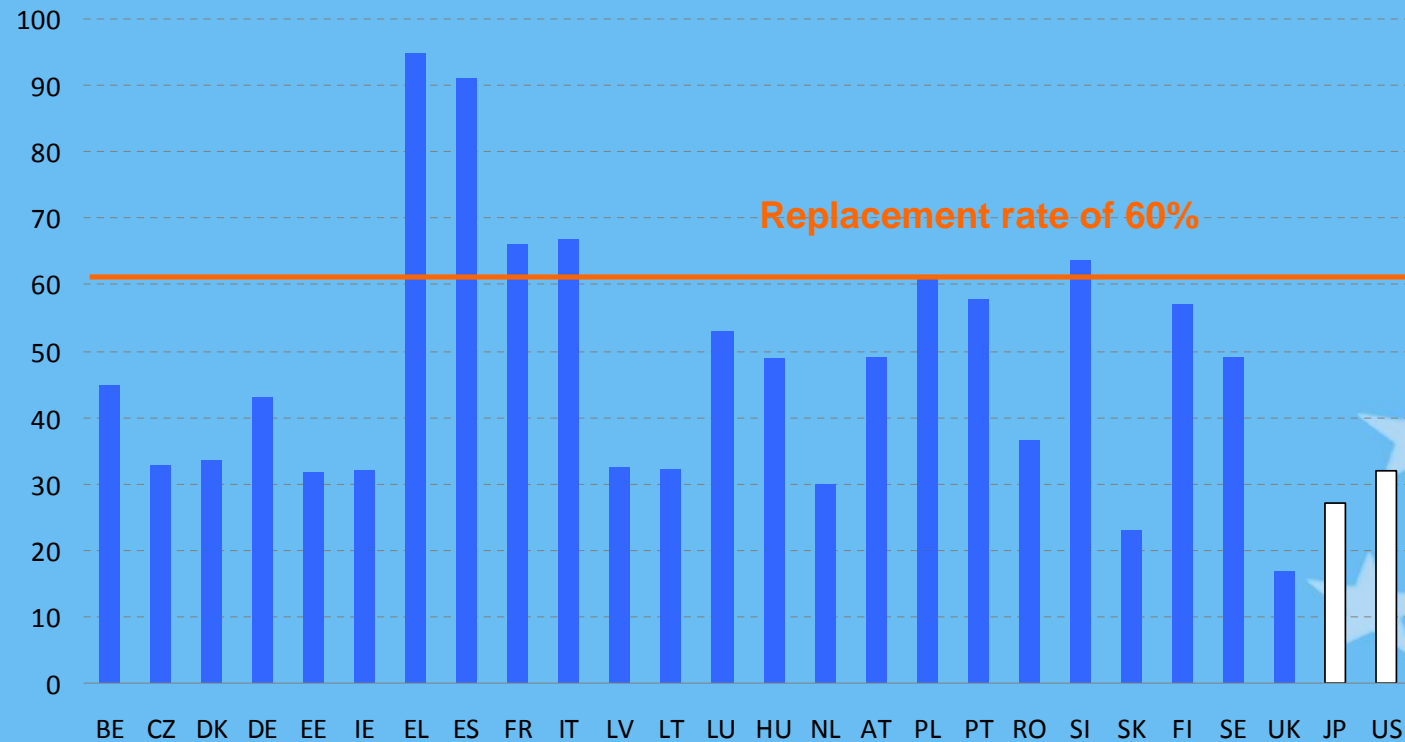
The importance of pension funds differs widely ...



Note: Pension fund assets as a % of GDP (source: European Commission, OECD)



... largely reflecting differences in state pension provision



Note: Gross replacement rate (% of last income) from state pension (source: European Commission and OECD.)



The EU's role on pensions is specific

- Design of pension systems largely the responsibility of Member States
- Open Method of Coordination
- Stability and Growth Pact
- EU regulation in 4 main areas:
 1. Cross border coordination of social security pensions;
 2. Supplementary pensions: labour mobility;
 3. Occupational pensions: Internal Market + protection in case of sponsor insolvency;
 4. Anti-discrimination rules.

Outline

1. What has the IORP Directive achieved?
- 2. Regulatory challenges**
3. Conclusion

The IORP Directive review has been progressing over the past 4 years

- 2006/2007: Solvency II proposal carves out IORPs (impact not assessed).
- 2008: consultation on solvency rules
- May 2009: Public Hearing
- Adoption of Solvency II: EP commits COM politically to develop proper solvency rules for IORPs.

IORPs are neither banks nor insurance undertakings

- IORPs are financial institutions with a social objective, i.e. not purely financial institutions
- Decisions concerning IORPs are politically sensitive:
 - Next step needs to be decided by new EP and new Commission
 - Green Paper takes for the first time a holistic view on pensions

Green Paper consultation ended yesterday – What are we going to do next?

- Carefully assess feedback
- Input for Call for Advice to CEIOPS in early 2011
- Draft proposal with impact assessment
- Public Hearing on IORP Directive review
- Legislative proposal for IORPs by end 2011

Main regulatory challenges (1/2)

1. What is cross-border activity?
2. More DC schemes than in 2003
3. Risk-sensitive and counter-cyclical funding rules
4. More developed rules on governance, risk management and investment
5. Strengthen information to members and relevant stakeholders

Main regulatory challenges (2/2)

6. Pension benefit guarantee schemes
7. Streamline financial education?
8. Fees: 100bp increase → 20% lower pension over 40 years (EFRP)
9. Socially responsible investment
10. Closing regulatory gaps

Outline

1. What has the IORP Directive achieved?
2. Regulatory challenges
- 3. Conclusion**

Conclusion

- The Single Market can help reduce the cost of pensions
- The Single Market for IORPs can do better !
 - Citizens should have access to a wide range of affordable pensions that are safe
 - But safety should not undermine the competitiveness of European businesses (growth and employment).
- Feedback from Green Paper consultation will help us take the next step in the right direction.