



European Pension Industry and Financial Stability



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European Pension Funds Congress – 16 November 2010



Outline

1. Introduction
2. Trends and Size
3. Assets and Liabilities
 - a) Funding
 - b) Investment
4. Pensions and Sovereign Debt Crisis
5. Regulation & Supervision



1. Introduction

Pension Industry is Connected with Financial Stability Through Two Channels:

1. Public Expectations in Relation to Retirement Savings
 - Expectations regarding retirement benefits affect confidence in Financial Institutions and Markets
 - Affects the funding of pension funds and stability of other institutions
 - Need for transparency and public disclosure (also regarding benefits and risks involved)
2. Size, Funding and Investment (Rest of the Presentation)



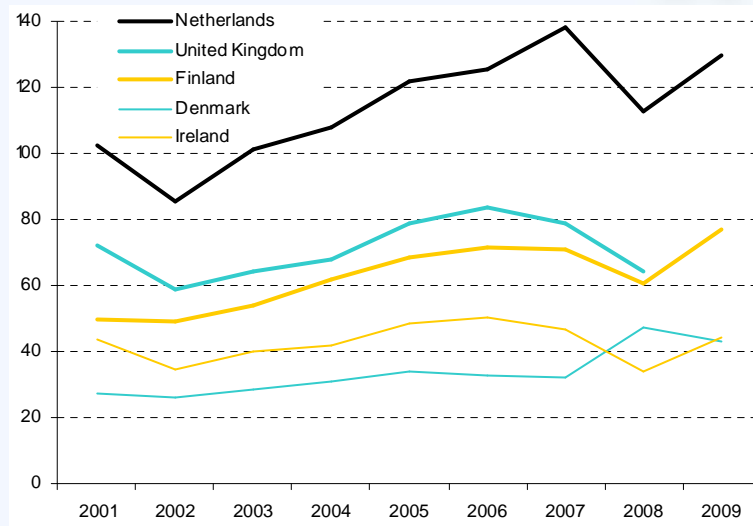


2. Size of the Pension Industry and Trends

- In General, Very Sizeable in Terms Assets Relative to GDP
- Large Differences Across Countries
- Consequence: their investment decisions are important for market conditions in terms of demand for certain asset classes and price movements when (announcing) changing course.

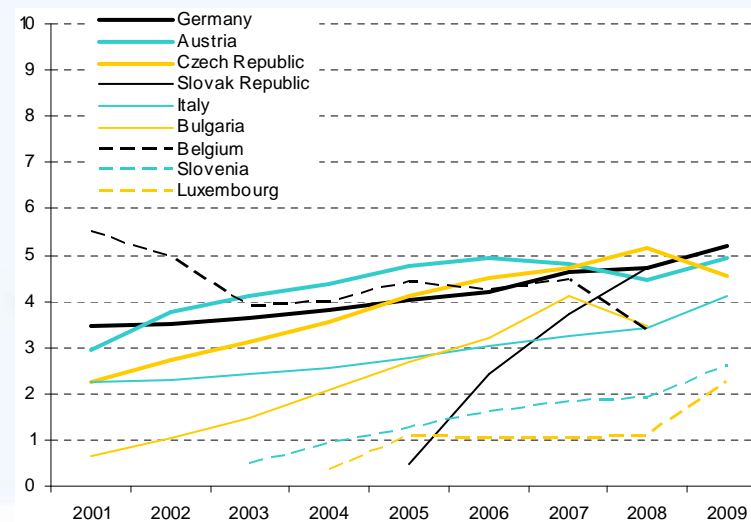
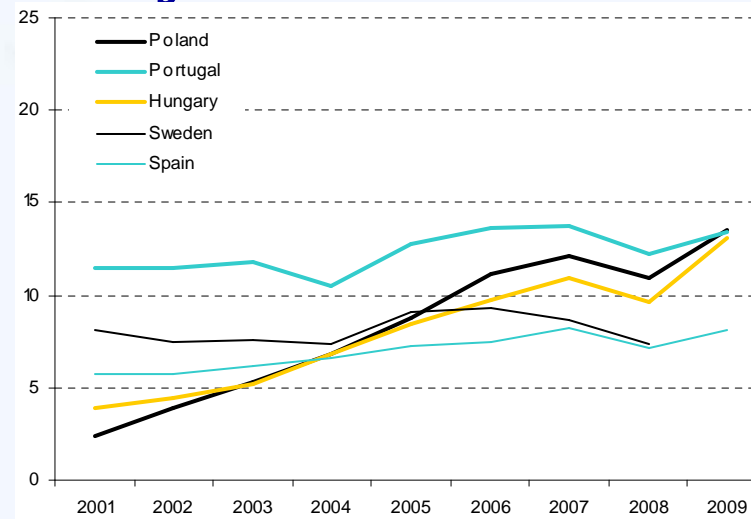


Size of the Pension Industry and Trends



Evolution of Assets of Pension Funds as a Share of GDP

Data: OECD





Size of the Pension Industry and Trends

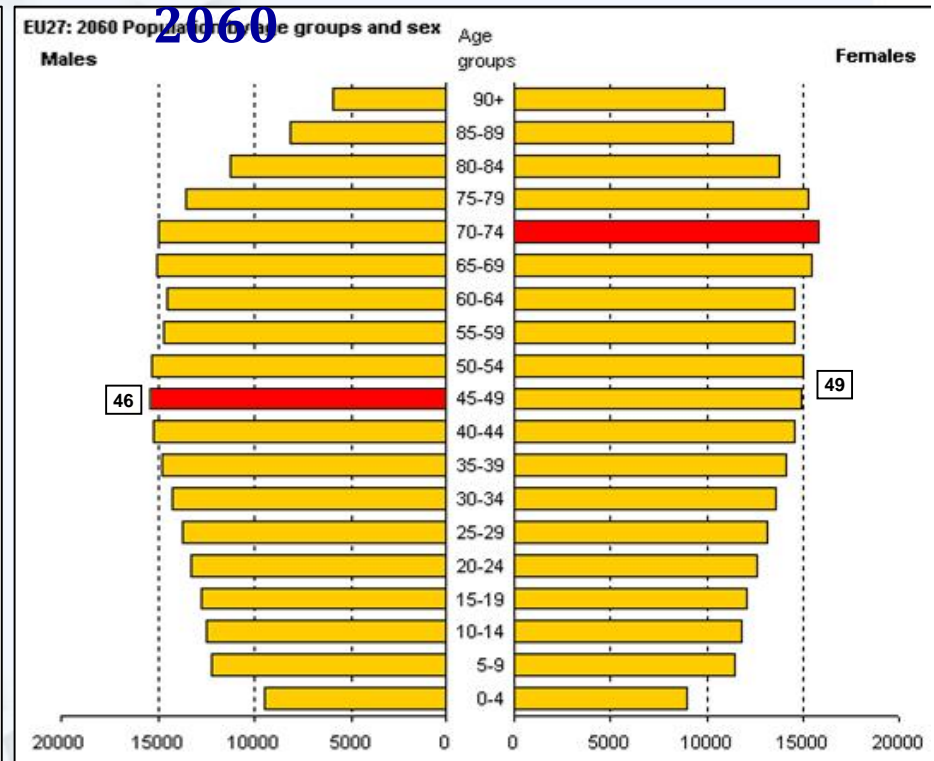
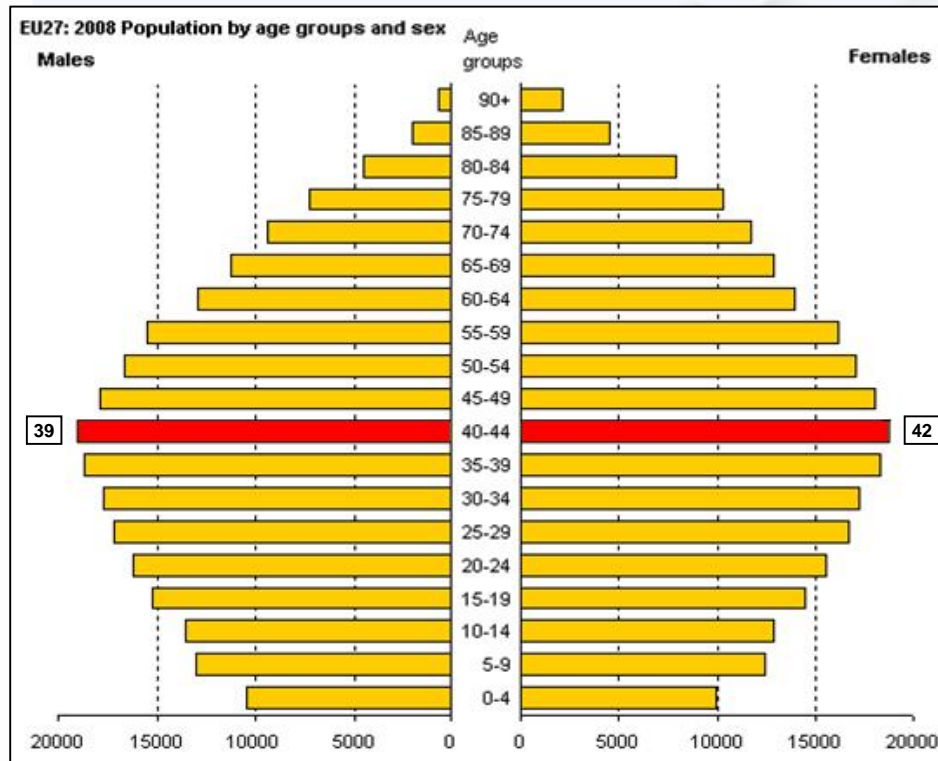
- Pension Contributions are Rising, also due to an Ageing Population and Increased Life Expectancy
- There is Increased Demand for Retirement Savings, also as a Substitute to other Savings Products
- Access to Retirement Savings Products is Increasing, also in Relation to Financial Market Development in Europe.





Size of the Pension Industry and Trends

2008



Data: Population Projections EUROPOP 2008

☒ Median age



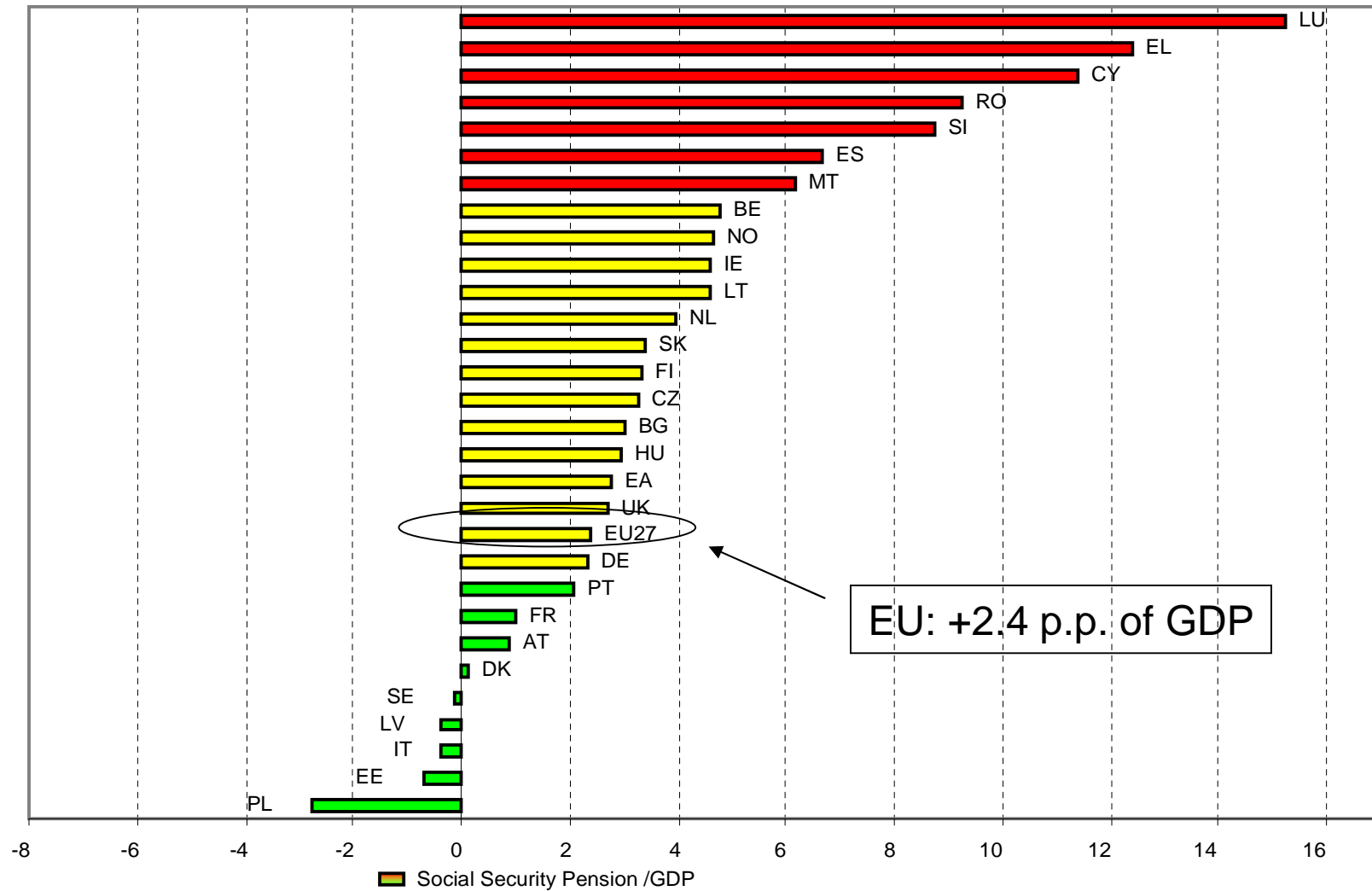
3. a) Funding of Pension Funds

1. Government Pension Plans and the Problem of Pay-As-You-Go Schemes

- Relies on General Budget and Taxation
- Possible Funding Gaps:
 - Ageing population and already high levels of public debt
 - Benefit cuts
 - Retirement Age



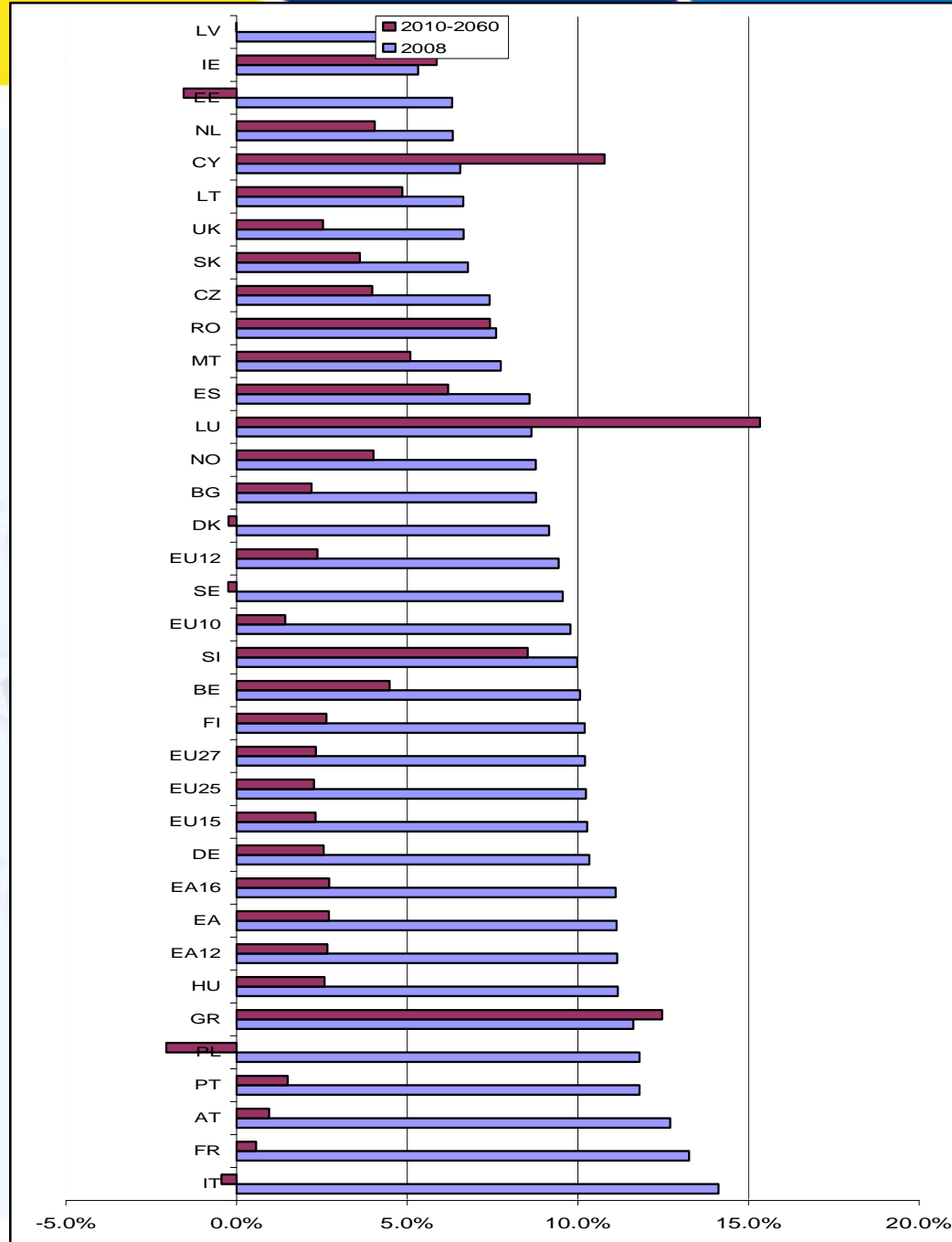
Projected changes in public pension expenditures 2007-2060 in percentage points



PENSION EXPENDITURE as % of GDP and change 2010-60



	2008	2010-2060
IT	14.1%	-0.4%
FR	13.3%	0.6%
AT	12.7%	1.0%
PT	11.8%	1.5%
PL	11.8%	-2.1%
GR	11.6%	12.5%
HU	11.2%	2.6%
EA12	11.2%	2.7%
EA	11.1%	2.7%
EA16	11.1%	2.7%
DE	10.3%	2.5%
EU15	10.3%	2.3%
EU25	10.2%	2.3%
EU27	10.2%	2.3%
FI	10.2%	2.6%
BE	10.1%	4.5%
SI	10.0%	8.5%
EU10	9.8%	1.4%
SE	9.6%	-0.2%
EU12	9.4%	2.4%
DK	9.2%	-0.2%
BG	8.8%	2.2%
NO	8.8%	4.0%
LU	8.6%	15.3%
ES	8.6%	6.2%
MT	7.7%	5.1%
RO	7.6%	7.4%
CZ	7.4%	4.0%
SK	6.8%	3.6%
UK	6.7%	2.5%
LT	6.6%	4.9%
CY	6.5%	10.8%
NL	6.3%	4.0%
EE	6.3%	-1.6%
IE	5.3%	5.9%
LV	5.2%	0.0%



Pension Expenditures as % of GDP and change 2010-2060



Funding of Pension Funds

2. Occupational Pension Funds & Personal Pension Plans

- (pre-)Funded
 - Constitute an important source for capital markets: suppliers of long-term capital
 - Funding source for business and government
- Threats to stability: Implicit guarantees and too-big-to-fail/save
- Internal stabilizing factor: Liability structure different from other financial institutions for Occupational Pension Funds



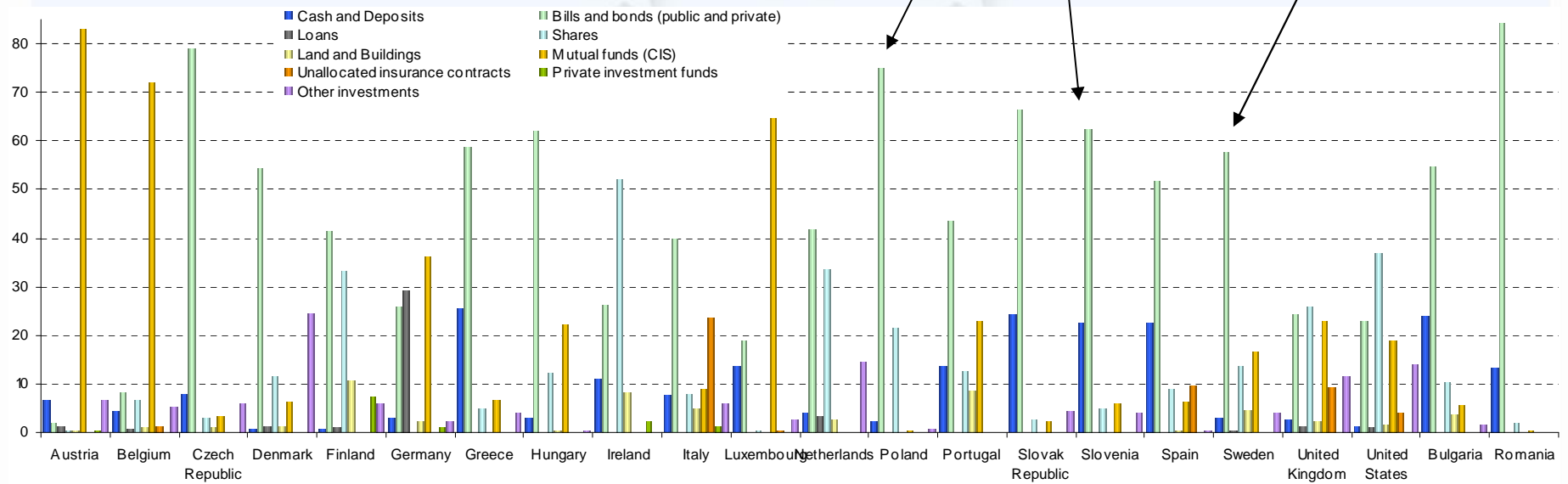
3. b) Pension Fund Investment

Investment and Asset Allocation

- Core of Assets: Corporate and Government Bonds, Mutual Funds
- Gaining Importance: Shares and Alternatives (private equity, hedge funds)
 - Creates new challenges in terms of supervision and regulation
- **Key Element:** *Interrelatedness between Government Finances and Pension Fund Assets/Liabilities -> Sovereign Debt Crisis*



Pension Fund Investment



Government and Corporate Bond Investment

Data: OECD



4. Pensions and the Sovereign Debt Crisis

For the Pension Industry

- Significant Exposure to sovereign debt

For Governments

- Pension fund insolvencies are themselves a threat to public debt/finances
- Development of pension industry and move away from government bonds reduces the basis for some countries government financing
- Funding gaps and increasing government spending on pensions poses a threat to the sustainability of public finances





Pensions and the Sovereign Debt Crisis

EU Response With Regards to the Current Sovereign Crisis:

- **EFSF:** European Financial Stability Facility
- **EFSM:** European Financial Stabilization Mechanism
- **PCRM:** Permanent Crisis Response Mechanism



5. Regulation & Supervision

Past EU Initiatives: IORP-Directive (2003)

New Regulatory Initiatives:

- **ESRB:** European Systemic Risk Board
- **EIOPA:** European Insurance and Occupational Pensions Authority
- Green Paper on Pensions by the European Commission

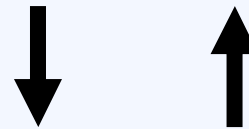


The New Regulatory Framework

European Systemic Risk Board
(ESRB)

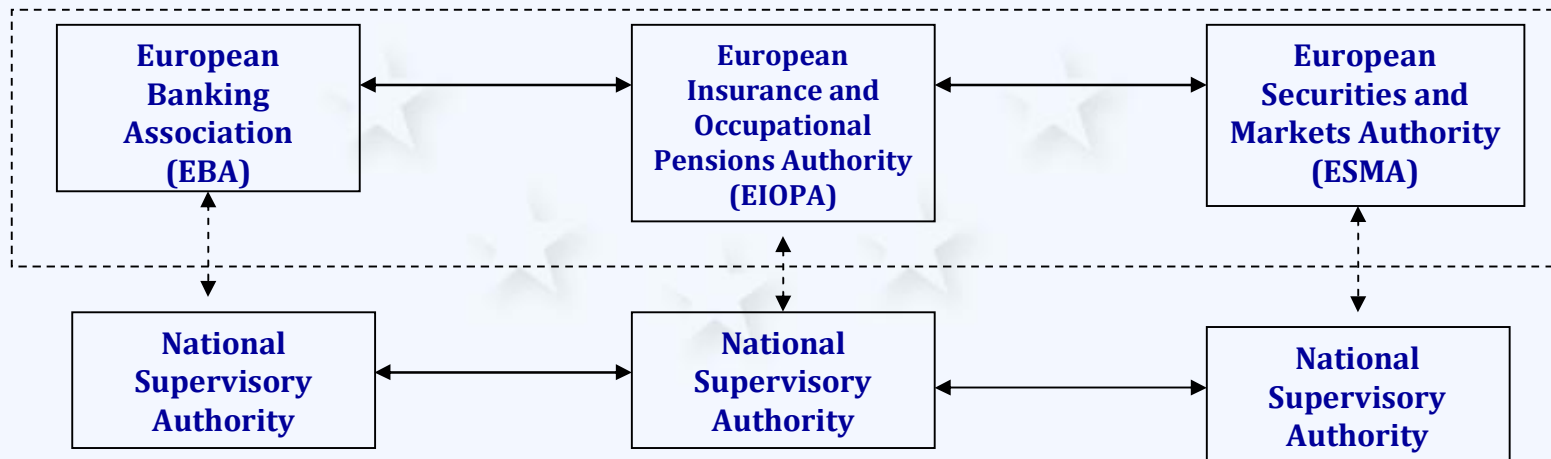


Information Exchange on an Individual Basis (micro)



Early Risk Detection

European Financial Stability
Facility (EFSF)



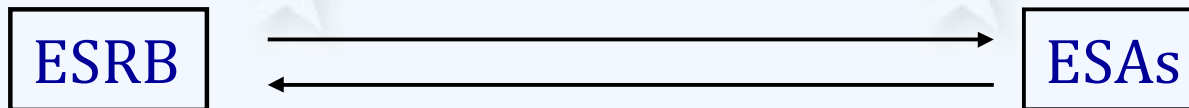


Which interplay with the European Supervisory Authorities ?

Macro-prudential supervision

Micro-prudential supervision

Information, warnings, recommendations on systemic risks



But may also request data directly

All necessary information (collective or individual) upon request, though with confidentiality safeguards

National supervisory authorities (or any concerned national authority)

Close cooperation with the European Supervisory Authorities mainly based on information exchanges and crossed participations



Thank you for your attention!



Questions ?

