

# Convention A: 20 March 2024

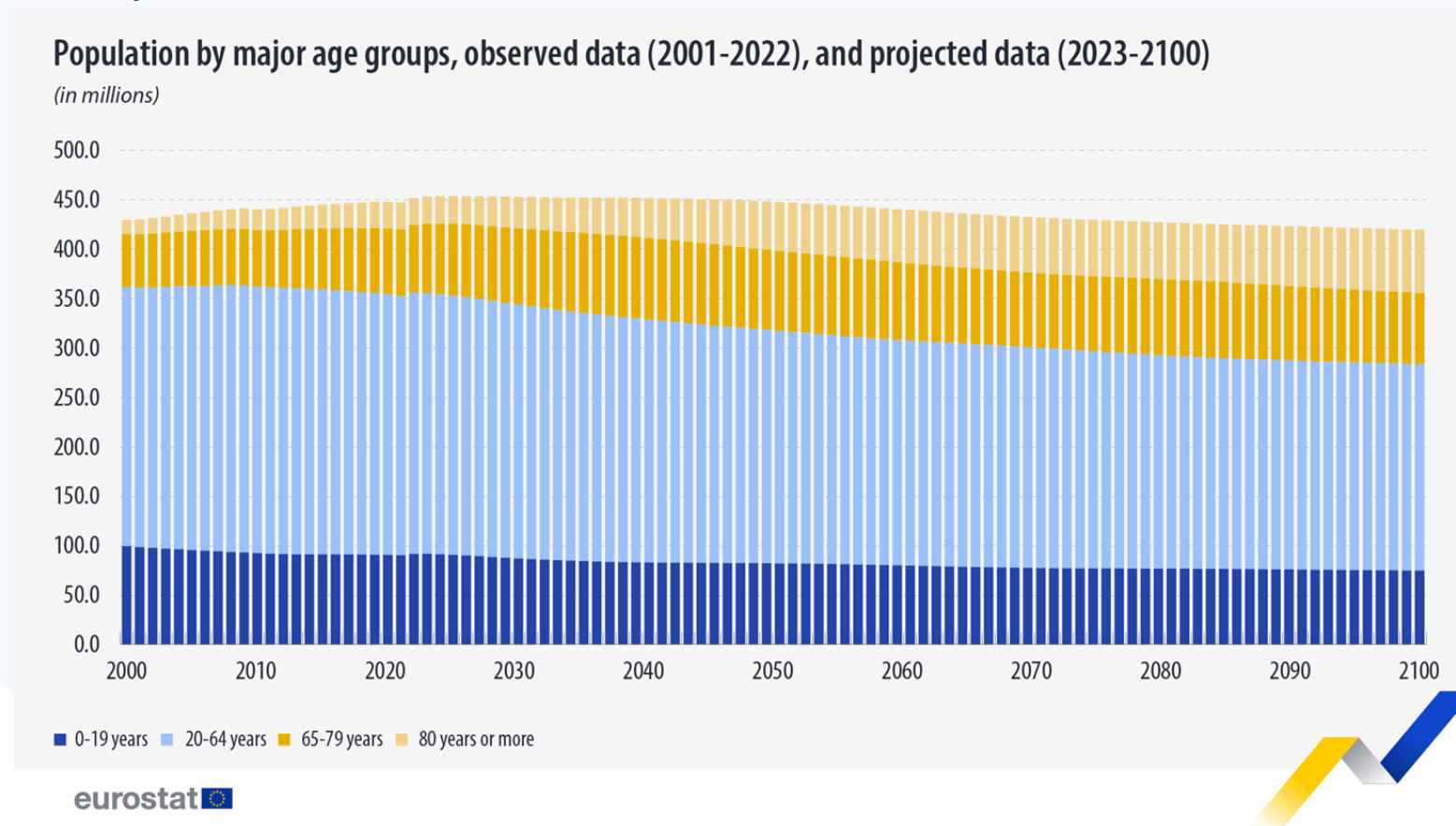
The Future of Pensions Regulation in Europe

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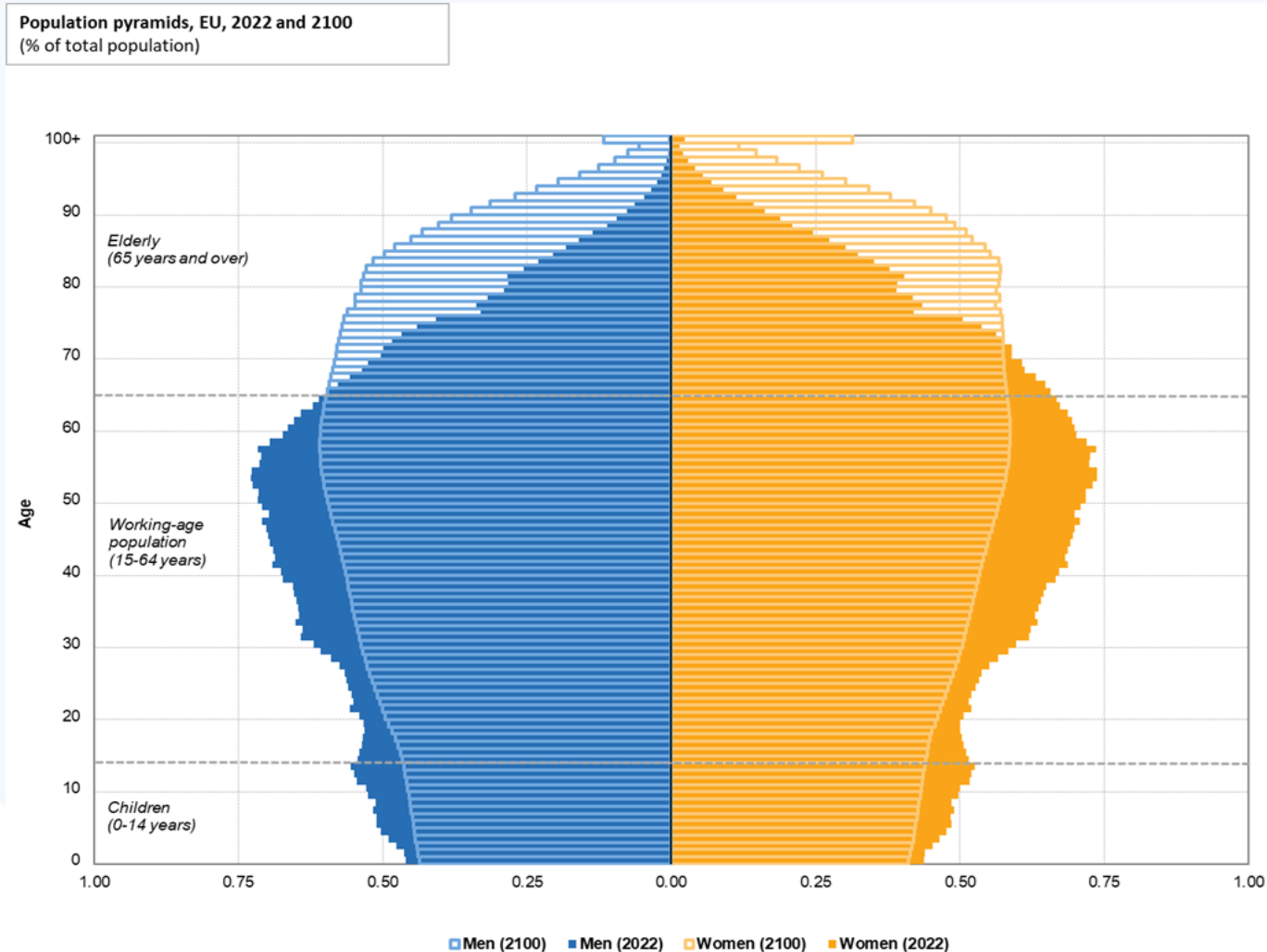


## European population is expected to drop by 6% till 2100

- to increase from **446.7** million in 2022 to reaches **453.3** million in 2026 (+1.5 %),
- then gradually decrease to **447.9** million in 2050 and to **419.5** million in 2100.



# The changing shape of the population pyramid



Source: Eurostat (online data code: proj\_23np)

## Pressure on Social System

Adequacy of Pillar 1 - public pension spending in % of GDP

- according to OECD data public pension spending varies from 5% (NL, UK) to around 15,9% (GR, IT) in 2019.
- average 7,7% for OECD countries

Increasing importance of supplementary pensions plans (Pillar 2 and Pillar 3)

Countries across Europe show big variety of Pillar 2 plans

- In some countries the pure DB occupational schemes have a long history and still prevail; trend of switching from DB to DC;
- In others – the supplementary DC plans have been set aside under a specific regulation during the last 2 decades.

## In the beginning.....

The original IORP Directive came into effect in 2005

It was a short document - 12 pages including the recital

Set out key requirements such as

- Legal separation between sponsoring undertakings and IORP
- IORP must be effectively run by persons of good repute with appropriate qualifications and experience or employ advisers with appropriate professional qualifications and experience;
- Registration/authorisation
- Annual reports and accounts
- Statement of investment policy principles
- Information to members and supervisors
- Technical provisions and funding
- Investment Rules (prudent person principle)

Provided for cross border (pan-European) IORPs

## IORP II

A review of the IORP Directive was carried out which led to IORP II in 2016

This was a much longer document – 49 pages in total

More specific governance requirements including key functions:

- Risk management
- Internal audit
- Actuarial (for DB IORPs)

Introduced new requirements in relation to Pension Benefit Statements  
(particularly for DC IORPs)

IORP II was required to be transposed into national law by January 2019, but a number of Member States did not meet the deadline e.g. Ireland implemented the requirements in April 2021

## Current review

IORP II included a requirement for review after 5 years

In June 2022 the Commission issued a Call for Advice to EIOPA; the deadline for response was pushed out to 1 October 2023, recognising that in some Member States it was too early to assess the impact of IORP II due to late transposition.

The Commission asked EIOPA for its advice on:

- prudential and governance issues
- cross-border activity
- the Pension Benefit Statement
- adapting the regulatory framework to the shift from DB to DC schemes
- strengthening the sustainability aspects of the fiduciary duties and stewardship rules
- including requirements to include diversity and inclusion in management bodies

# EIOPA Consultation in H1 2023

Topics set out in 6 sections

- Governance and prudential standards
- Cross-border activities and transfers
- Information to members and beneficiaries and other business conduct requirements
- Shift from defined benefit to defined contributions
- Sustainability
- Diversity and inclusion (D&I)

Submissions were sought by 25 May

EIOPA Advice (covering the 6 topics above) and feedback statement published on 28 September

The existing Commission will not consider producing a proposal for amendments to the Directive, so no progress before 2025



# Proportionality

IORP II retained the provision in the original Directive that “small schemes” with “less than 100 members” should be exempt

Some Member States did not avail of this exemption; others felt it was too low  
EIOPA advice is

- Increase threshold to 1,000 members and beneficiaries and €25 bn in assets
- Higher threshold for horizontal legislation such as DORA and CSRD
- “Encourage” members states to apply appropriate requirements to “small schemes”

Proportionality is referenced throughout the Directive

EIOPA advises that the definition be amended to “proportionate to the nature, scale and complexities of the risks inherent in the activities of the IORP” and that references to “size” and “internal organisation” be removed

# Pension Benefit Statement

The Call for Advice noted that:

- *The purpose of the Pension Benefit Statement is to provide clear and comprehensive as well as relevant and appropriate information to facilitate the understanding of pension entitlements over time and across schemes.*

EIOPA was asked to advise on whether these objectives were being achieved

Main concerns of NCAs

- Too much information?
- Difficult to find specific information in the PBS
- Too long, too much jargon

Recommends Member State specific templates (except where there are Pension Tracking Systems)

How to illustrate risk to members in DC plans?

Additional requirements to disclose costs and charges

## Digitalisation

Advantages of providing information to members electronically e.g. via a dedicated IORP website

- up-to-date investment values and information
- facilitate “what if?” modelling of possible outcomes
- provide information in a layered fashion

AAE is strongly supportive of the provision of information via a digital platform, whilst recognising that there are individuals who cannot or may not wish to access information in this way, to whom a hard copy must be provided.



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