

The Actuarial Profession  
making financial sense of the future

# The 2004 Pensions Convention

7-8 June 2004, Sheraton Skyline Hotel, Heathrow

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# The EU Directive and other key European Trends

Sally Dixon, PricewaterhouseCoopers

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# Outline of presentation

- Background - pensions in Europe
- The EU Pensions Directive
- Are Pan-European plans now a possibility?



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Background

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EU from 1 May 2005

- ☐ Cyprus
- ☐ Czech Republic
- ☐ Estonia
- ☐ Hungary
- ☐ Latvia
- ☐ Lithuania
- ☐ Malta
- ☐ Poland
- ☐ Slovakia
- ☐ Slovenia



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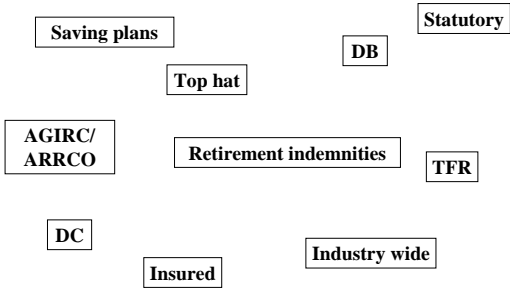
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'Pensions' in the EU - diversity



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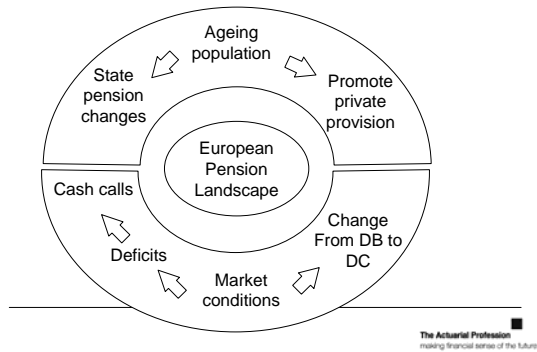
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..but some common pressures



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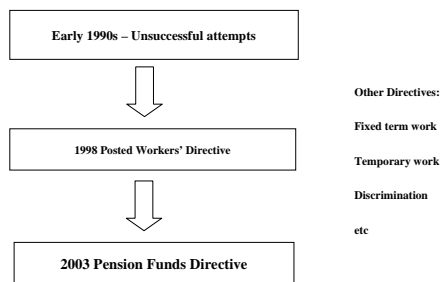
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## EU pensions directives – history



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## The EU Pensions Directive

= Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision

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## The Directive – key aims

❑ 'first step on the way to an internal market for occupational retirement provision organised on a European scale'

❑ Prudential supervision of IORPs necessary for encouraging this internal market

❑ Hence provides:

❑ Framework for operation and supervision

❑ Allows IORPS in one member state to be sponsored by employers in other member states

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## Scope of the IORP directive

Supervision

Disclosure

Cross-border activities

Investment

Funding

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## What is an IORP?

### IT IS:

❑ Funded pension schemes established in the EU

### MAYBE...(states can exempt)

❑ < 100 members & not operating cross border  
❑ insurance company schemes

### IT IS NOT:

❑ Book reserved  
❑ PAYG

❑ Social security schemes

❑ If covered by certain insurance company directives

❑ If no legal rights to benefits & insolvency insurance

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## Supervision

- ☐ Conditions of operation
- ☐ Annual report and accounts
- ☐ Information to the authorities
- ☐ Powers of intervention
- ☐ Management and custody

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## Disclosure

- ☐ Annual report and accounts
  - ☐ Statement of investment principles
  - ☐ Detailed info on prospective benefits
  - ☐ Rule changes
  - ☐ Financing level
- ☐ UK
    - ☐ Most covered by current disclosure requirements
    - ☐ Annual funding information

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## Funding

- ☐ **Technical provisions**
  - ☐ Annual calculation or update
  - ☐ Members' accrued rights
  - ☐ Shall be "sufficient" for benefits to be paid
  - ☐ Prudent assumptions
    - ☐ margin for adverse deviation
    - ☐ gilts/ bonds or scheme assets
  - ☐ Further harmonisation?
    - ☐ Commission review every 2 years
- ☐ **Funding of provisions**
  - ☐ 'at all times sufficient and appropriate assets to cover the technical provisions'
  - ☐ Cross border: strict 'at all times'
  - ☐ Non cross border: concrete and realisable plan to rectify any underfunding over a limited period of time

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## Funding - discussion points

- ☐ UK: Scheme specific funding standard?
  - ☐ Will it be specific enough/ suffice? Is buyout implied instead?
  - ☐ Prudent assumptions?
  - ☐ What are 'accrued liabilities'? (or 'commitments'?)
  - ☐ Does 'at all times' imply some form of ongoing monitoring & out of cycle valuations?
  - ☐ Statement of Funding Principles and Schedule of Contributions = recovery plan
  - ☐ DWP proposes no set period for recovery plan
  - ☐ Company 'guarantees the payment' (Slaughter and May)
- ☐ How will other territories implement?
  - ☐ 2 year review
  - ☐ ECJ threat

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## Investment

- ☐ **'Prudent person' not restrictive investment rules**
  - ☐ Appropriate, diversified
  - ☐ Limit on quantitative restrictions
  - ☐ Predominantly on regulated markets
  - ☐ Self investment restrictions
  - ☐ Borrowing very limited
  - ☐ Phased implementation period
- ☐ **Discussion points:**
  - ☐ Will countries ringfence to keep some investment restrictions?
  - ☐ 'Regulated markets' – what about pooled funds?
  - ☐ What about money purchase?
- ☐ **Statement of investment principles**

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## Cross-border activities

- ☐ **Where an institution in one country is sponsored by any one or more undertakings in another country**
- ☐ **Detailed notification procedure**
  - ☐ Employer only has to deal with one set of country authorities
  - ☐ Comply with pension and labour laws for each country
- ☐ **Full funding a must, all other articles must be complied with.**

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## Overriding aim?

**“The overriding objective of the Directive is to put in place a framework that removes cross-border barriers to the development of occupational pension schemes.”**

*DWP Consultation paper on implementing the Directive*

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## So are Pan-European plans now a possibility?

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## EFRP Model – EIORP 2005

☐ **“the way forward for pan European pension funds is now open”**: *European Federation for Retirement Provision, October 2003*

### ☐ Why?

#### ☐ IORP Directive:

- ☐ Only need report to one state's supervisor
- ☐ EU-wide start up procedure

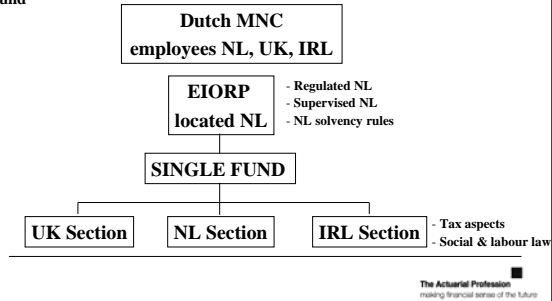
#### ☐ Taxation developments

- ☐ Tax Communication
- ☐ Danner & Skandia
- ☐ Infringement proceedings

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## EIORP 2005 model example

Notional national sections within a single, indivisible fund



## “EIORP 2005 is for everyone”?

### Large MNC?

□EFRP say: cost savings, better investment returns, consistent benefit philosophy & improved risk control

□Simplifies for mobile ees

□But how much of already available eg Global steering groups, negotiate fees/ pooling?

### Small MNC?

□EFRP say: Small workforces in each territory can be part of bigger/ more professional plan

□Simplifies for mobile ees

□One pay out institution

□If insurers offer packaged multi-state product?

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## EIORP – is there a demand from wider trends?

### □Governance is a hot topic

- Sarbanes-Oxley Act – personal certification of processes
- IAS19 – visibility of costs and encouraging pan-European coordination
- Corporate philosophy shifting?

### □Environment of change

- State benefit reform (reduction)
- DB to DC
- Trend to funding

### □Accession countries

- Will pan European schemes be the way forward for expansion into these territories?

### □Deficits?

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But...

- ☐ Tax
- ☐ Differing level/ style of countries' benefit provision
- ☐ How will states implement Directive?
  - ☐ Light touch regulation to encourage EIORPs in their territory?
  - ☐ Protectionist (eg demanding ring fencing)
- ☐ Not me first...

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Cross border – discussion points

- ☐ Are savings realistic?
- ☐ Is there a demand from MNCs?
- ☐ Will insurers introduce products?
- ☐ What about book reserving/ PAYG countries?
- ☐ What are the key opportunities?
- ☐ Which will be popular locations?
- ☐ What are the barriers?
- ☐ How critical is the ability to pool liabilities as well as assets?

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