

Current issues in pensions – Spring 2013
Dave Roberts



IORP II A new European Directive?

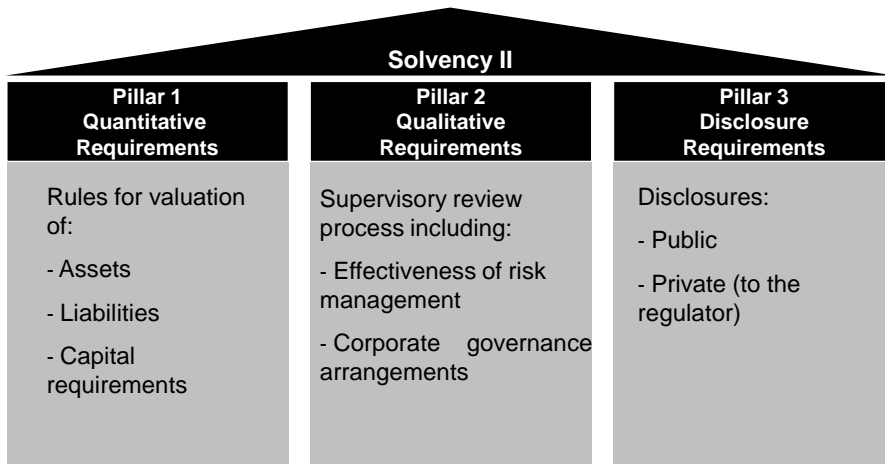
April 2013

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IORP Directive 2003: background

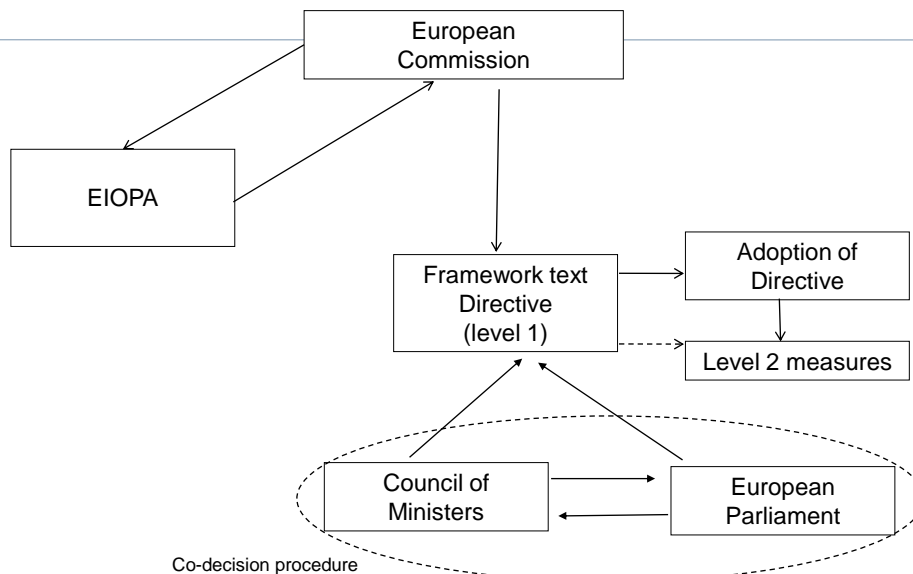
- IORP Directive includes provision for review after four years i.e. 2007
- European Commission (EC) considered Solvency II for *certain* pension funds in 2008
- Prospect of SII for (all funded) pensions returned in EC (Green Paper) consultation July 2010
- The Commission wants an IORP II Directive based on the Solvency II regime for insurers:
 - Facilitate cross-border pension provision
 - Strengthen protection of scheme members
 - Restore a level playing field.

The three pillars of Solvency II: to be replicated in IORP II



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Review of IORP Directive: process



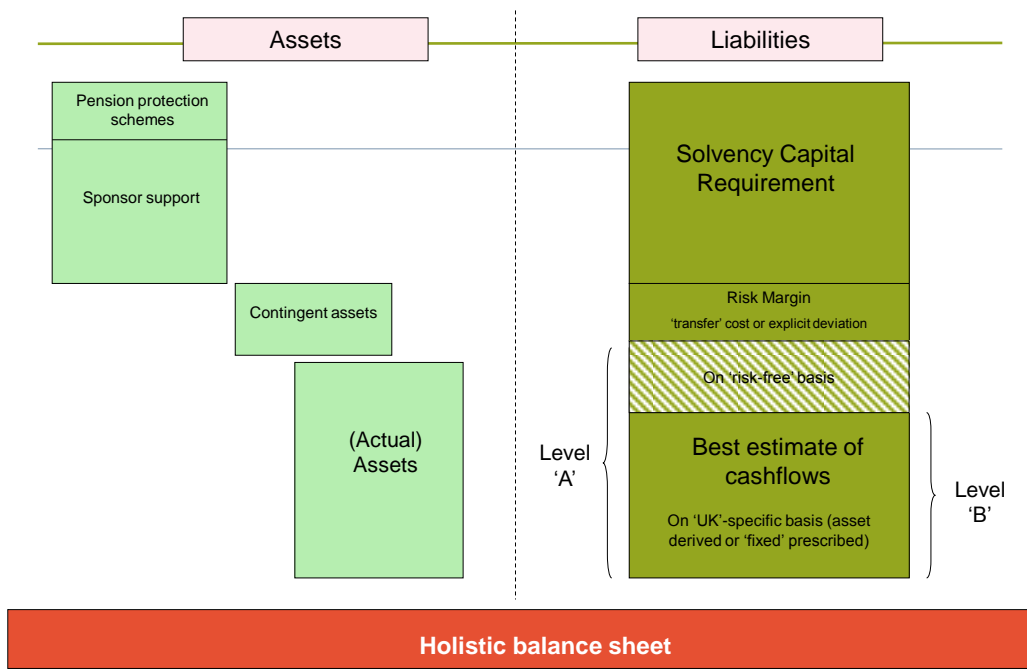
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Reviewing the IORP Directive: process

- The Commission sought advice from EIOPA in April 2011 on how to amend the Solvency II Directive for pension schemes
- EIOPA consulted over two 6-week periods (in 2011) on the advice it proposed giving to Commission, delivering 500+ pages of advice in Feb 2012
- Advice centres on concept of *holistic balance sheet*
- EIOPA's advice on capital adequacy is conditional on the results of a quantitative impact study (QIS)

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Not everyone is a fan ...

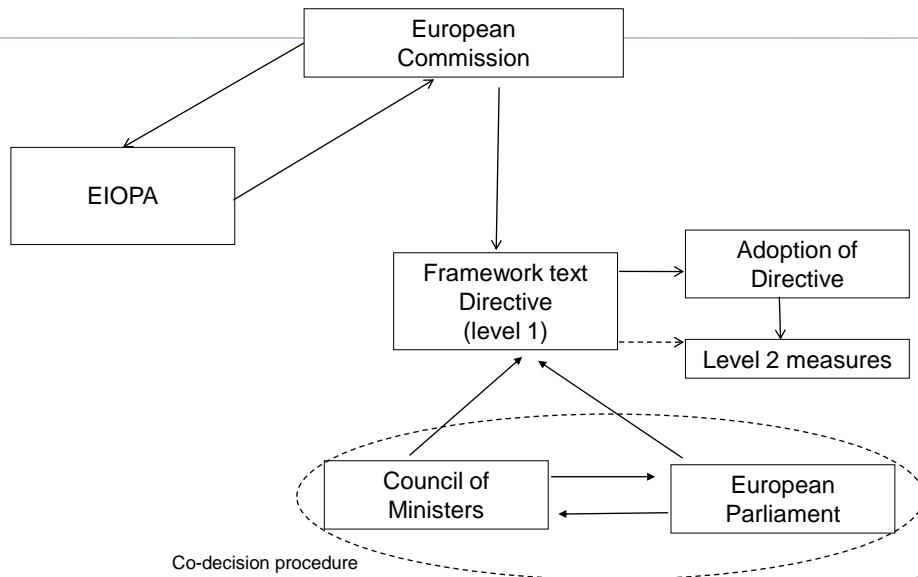


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Review of IORP Directive: process



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Background - Qualified Majority Voting

France	29	Bulgaria	10
Germany	29	Sweden	10
Italy	29	Denmark	7
United Kingdom	29	Finland	7
Poland	27	Ireland	7
Spain	27	Lithuania	7
Romania	14	Slovakia	7
Netherlands	13	Cyprus	4
Belgium	12	Estonia	4
Czech Republic	12	Latvia	4
Greece	12	Luxembourg	4
Hungary	12	Slovenia	4
Portugal	12	Malta	3
Austria	10		

A qualified majority is at 255 out of 345 – 91 to 'block'

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Reviewing the IORP Directive: process

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Impact assessments

Macro-economic impact assessment (2 workstreams):

1. Asset Liability Simulation
 - Impact of changing capital requirements
 - Impact of changing asset mix (further shift towards bonds)?
 - Less capital available for other investment in economy?
 - Higher cost of capital?
2. QUEST III, global macro-economic model
 - Impact of shock in Cost of Capital in economy
 - Effects on households

Quantitative Impact Study

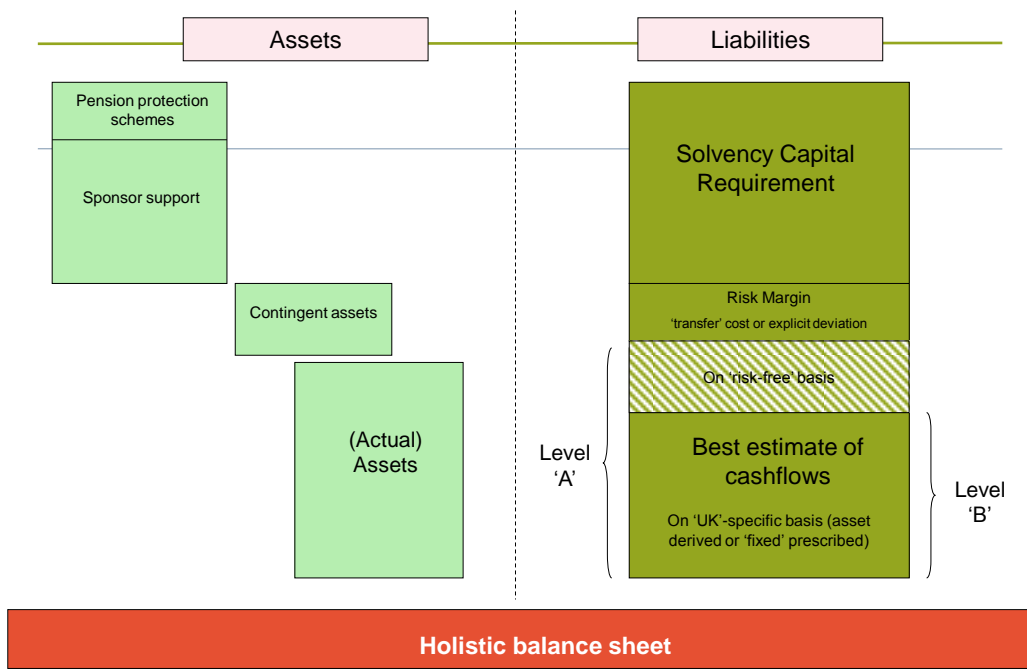
Commission asked EIOPA to conduct QIS
QIS Process started in October 2012

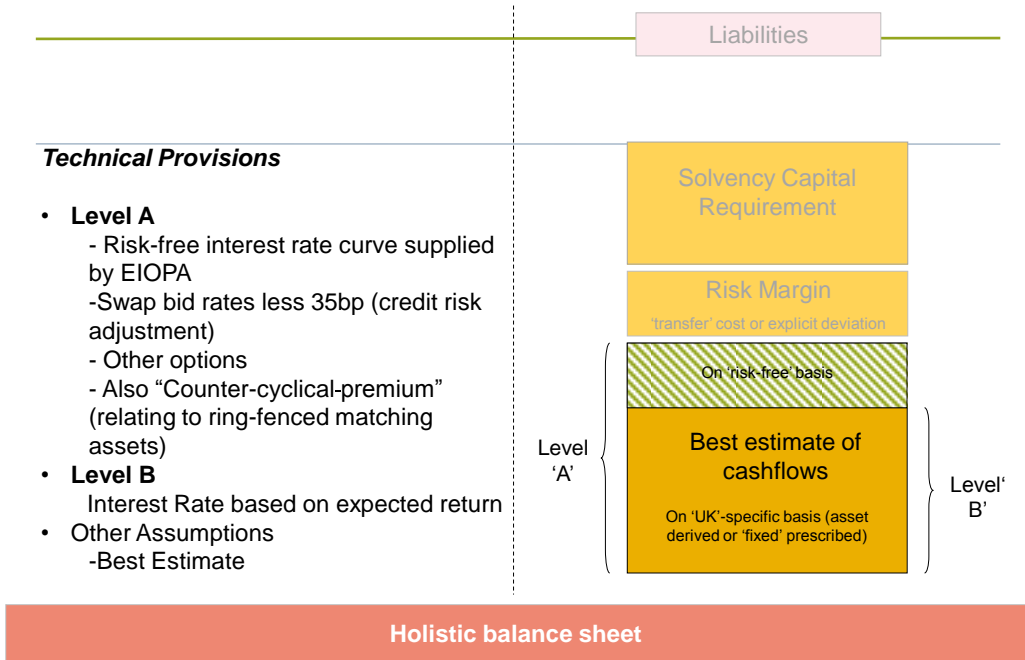
Quantitative Impact Study (QIS)

9 Participating countries:

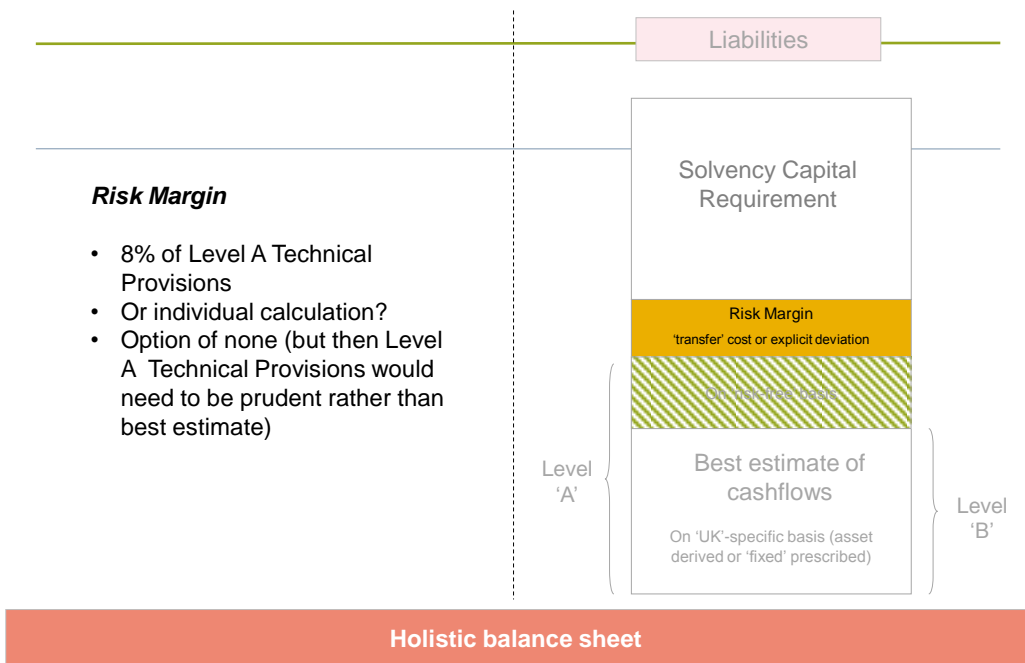
- Germany
 - Ireland
 - Netherlands
 - UK
- } On EC's request

- Belgium
 - ~~• France~~
 - ~~• Portugal~~
 - Sweden
 - Norway
- } Voluntary participation

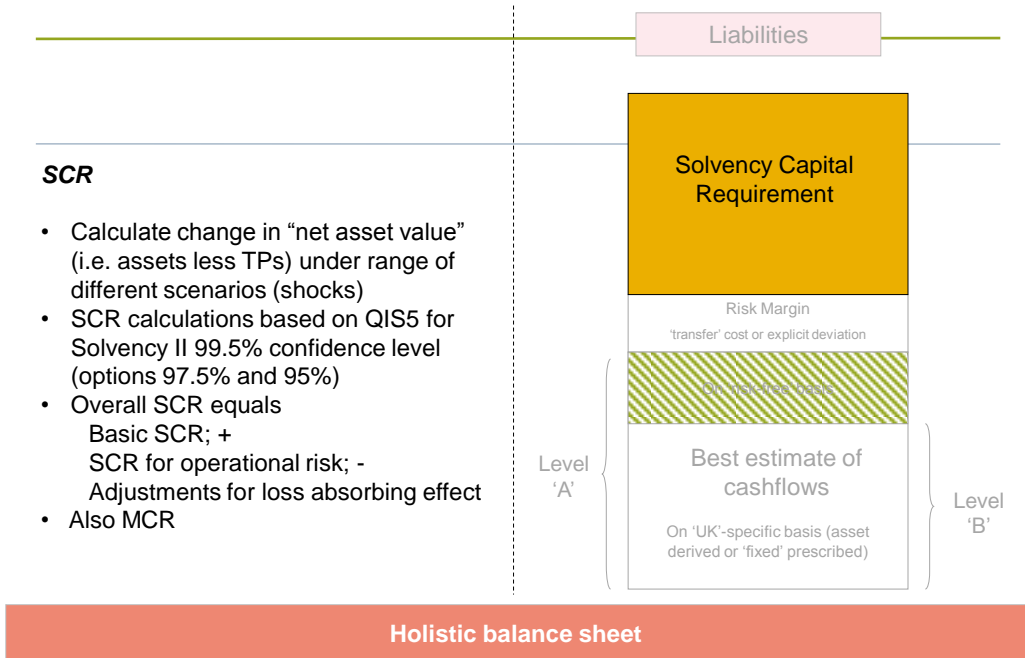




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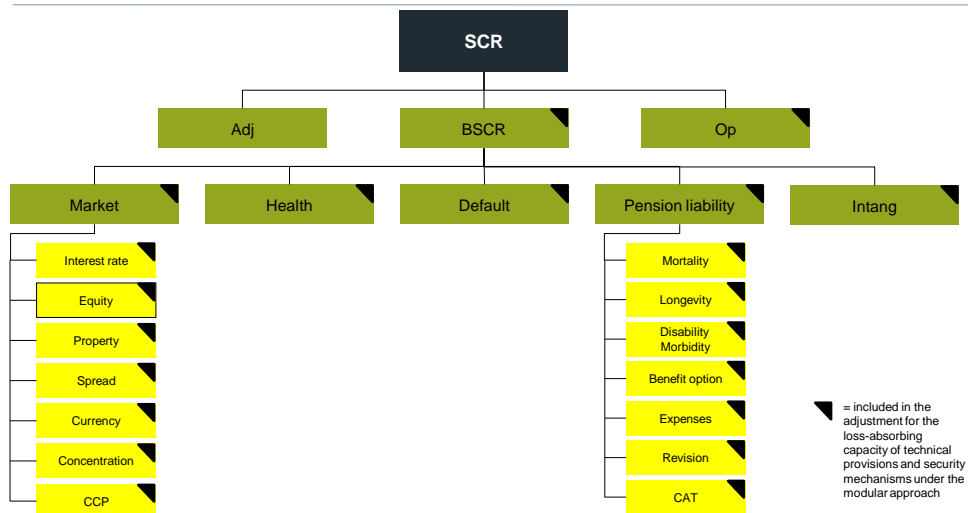


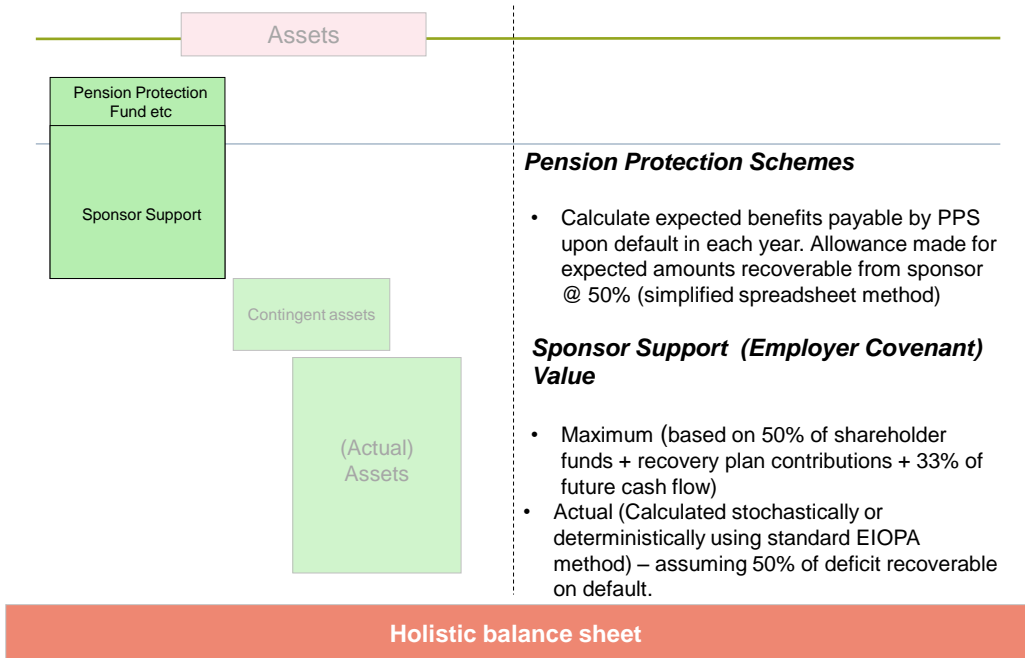
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Components of SCR





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QIS Issues and areas not dealt with

UK QIS

- The pensions regulator (tPR) undertook the QIS on behalf of UK pension schemes, using data it already holds (or that is publicly available).
 - 6,432 schemes
 - 342 = > £500m
 - 3,858 more than 100 members, but < £500m
 - 2,232 – fewer than 100 members (o/s IORP)
- It supplemented this with data from the top 100 (by size) pension funds in the UK
- Responses to tPR's large scheme questionnaire (that it used to complete the QIS on behalf of UK pension schemes) were critical of the covenant valuation methodology
- Sponsor support information derived from companies house information
- Barrie & Hibbert and PwC papers on sponsor support valuation presented to Institute and Faculty of Actuaries.

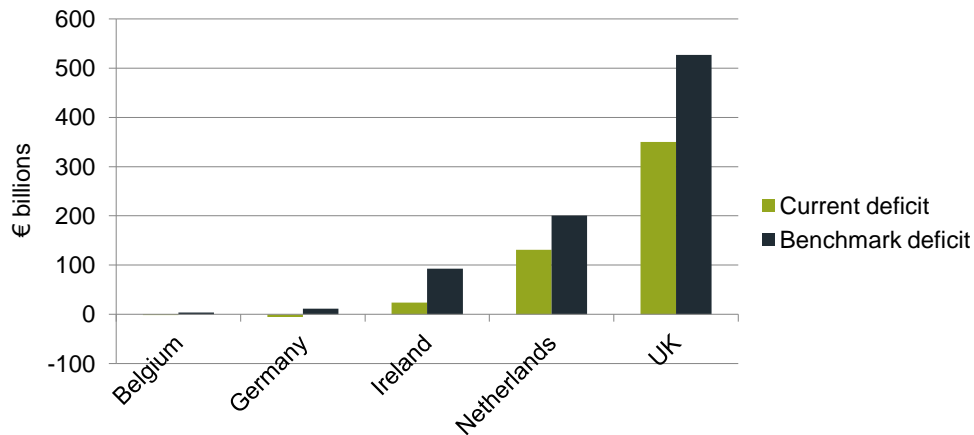
EIOPA preliminary QIS numbers

- EIOPA report to Commission 9 April 2013

<https://eiopa.europa.eu/consultations/qis/occupational-pensions/quantitative-impact-study/results-of-the-qis/index.html>

Preliminary QIS numbers

benchmark assumptions (99.5% confidence level)

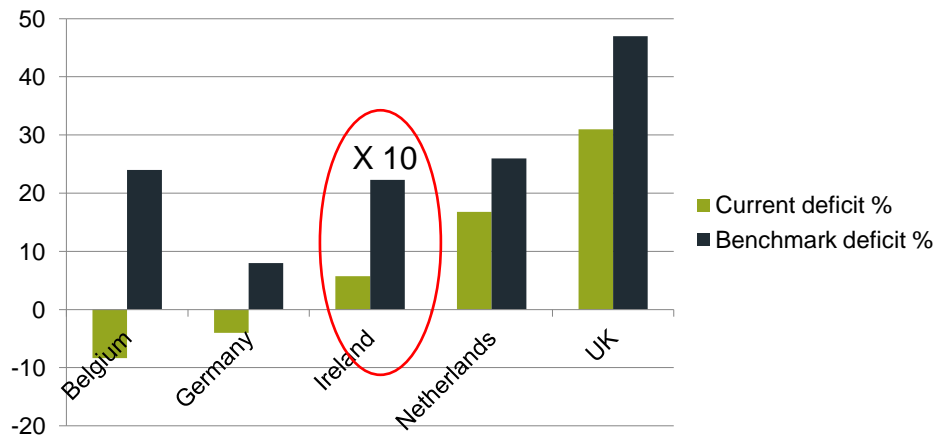


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Preliminary QIS numbers

benchmark assumptions (99.5% confidence level)



Deficit as a percentage of investments – no allowance for the value of sponsor support, pension protection schemes, insurance recoverable or other assets

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IORP I and IORP II – apples and pears: What's a deficit?

	IORP I	IORP II
Deficit	additional funding required from the sponsor to reach the funding requirement	amount that cannot be met from any source currently (i.e. beyond the sponsor's capability)
	Shortfall between assets (investments) and scheme-specific funding requirement	Shortfall between total assets (including sponsor support) and buy-out level plus solvency capital requirement

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EIOPA commentary around preliminary QIS numbers

- rough estimates surrounded by a lot of uncertainty
- considerable practical difficulties ... not ... enough time to resolve ...
- large variations in outcomes ... for similar IORPs within some countries ... not visible in the aggregates presented
- supervisory framework not only comprises the prudential balance sheet, but also the set of responses by supervisors ... this QIS cannot be considered a full assessment of a comprehensive supervisory framework
- not enough time to resolve ... issues ... the outcomes ... must be treated with caution
- EIOPA has initiated [further] work on sponsor support ... This and other work would have to be tested in follow-up QIS exercises

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Timelines

Taking stock and going forward

- Commission wants a draft Directive Summer 2013?
- EIOPA published its report to Commission on preliminary QIS findings 9 April 2013
- EIOPA Board of Supervisors will need to sign-off final report at their June meeting 27th/28th
- Commission seeking input on Governance and Disclosure (but not through EIOPA) – Pillars II and III

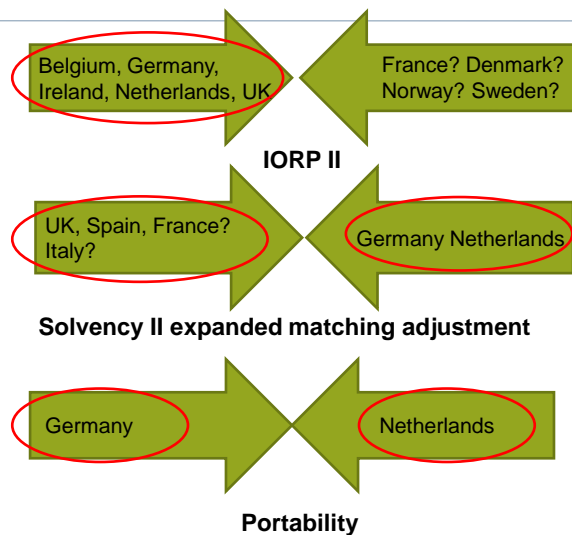
“Political”

- College of Commissioners – 22 June
- Other proposals to be pushed through – is IORP that key?
- Green Paper on long-term financing of the European economy
- *Might pillars II and III be a reasonable compromise?*
- What are the views of other countries?
- How does the IORP review fit in with Solvency II?
- Key personnel change at Commission

Why the urgency?

- European Parliamentary elections in June 2014.
- European Parliament unlikely to accept new proposals for Directives beyond the end of 2013.
- New Parliament heralds new Commission – New Commissioner responsible for IORP II unlikely to be French, Irish or Italian.
- But would a delay kill-off IORP II?
- And what happens when the political horse-trading starts?

Politics and compromise



Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

