BUSINESSEUROPE

SPEECH

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Panel session - Pan-European pension solutions: benefits and challenges

1. General remarks

- The long-term sustainability of pension systems for governments and employers providing pensions is a precondition for adequate pensions.
- Ensuring the sustainability of the pension system therefore has to take into account all of the different pillars in a holistic way.
- The development of a multi-pillar pension system is beneficial, as it helps to diversify the risks in the pension system and take pressure off the state pension.
- Sustainability of public finances must be ensured in the long-term. Age-related public expenditure is projected to increase on average in the EU by 4.75% of GDP between 2007 and 2060. In some member states the increase is even projected to be around 7% (for example Greece, Netherlands, Spain and Ireland).
- The OECD has found that men can now expect to spend between 14 and 24 years in retirement and women, between 21 and 28 years. In some countries this is twice as long as in 1970.
- Further reforms are needed at national level to ensure the sustainability of public pension systems. The EU should support member states in ensuring longer working lives. Pension system reforms should be complemented by labour market reforms, to raise the number of people in work.
- Occupational pension schemes are widely used in some member states to deal with the challenge of demographic change. Provision of occupational pensions is socially desirable. Such schemes therefore need to remain cost-effective for employers.

2. Specific questions

- *What is the appropriate design of pension schemes? In which direction should regulation go when developing the regulatory framework for pensions?*

- The design of pension schemes is the responsibility of individual member states and companies. What is appropriate will depend on the specific national and company context. Therefore most regulation is at a national level, according to the principle of subsidiarity.

- The regulatory framework should ensure that occupational pensions are cost-effective for companies. There should not be substantial changes to the rules governing funded pension schemes (e.g. additional solvency rules), as this could further increase the costs for operating schemes and lead to closures.

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- The regulatory framework at EU level provided by the IORP Directive is sufficient. This provides an effective prudential framework, with pension funds continuing to invest and pay-out benefits in retirement, without governments having to bail them out.

- This is partly due to sponsoring employers continuing to back their pension promises even during difficult times. For example, one large multinational company contributed an additional 2 billion euros to its pension fund, leading to a rise of more than 50% in the pension fund's assets by the end of 2009. This was to compensate for a drop in the coverage ratio of the scheme in 2008 as a result of the crisis.

- The EU should focus on providing for coordination between the different schemes and encouraging member states to ensure that a framework is in place which adequately protects pension plan members and ensures access to good quality information.

- Are personal accounts also advantages with regard to the goal of pension portability (if this is a goal at all)?

- The discussions on the proposed directive on portability of pensions have shown us that regulating this issue at EU level is very difficult.

- Transferability of pension benefits implies costs for companies, due to complex issues regarding the valuation and taxation of pension rights. In addition, replicating pension schemes of the previous employer when an employee moves jobs, also implies administrative burdens and costs for the new employer.

- It is the nature of future pension accrual, not the transfer of already accrued benefits that is important for those people who are considering moving or already mobile across the EU.

- Which type of guarantees should be granted regarding the accumulation phase and/or the pay-out phase? Who should grant these guarantees?

- The type of guarantees to be provided in terms of pension schemes paying out benefits, and by whom, varies from one scheme to another. There is no one-size-fits-all approach.

- Some member states have found pension benefit guarantee schemes a useful tool for protecting employee benefits, for example in the case of insolvency of the employer. These are sometimes funded by employers (for example in Denmark and the UK). By March 2010, the UK Pension Protection Fund had provided funding for 120 pension funds, where the employer had become insolvent.

- In some member states other routes are chosen such as insurance policies or higher funding standards (such as in the Netherlands), which are equally valid.

- We would not agree on a guarantee fund being established at EU level. It would not be able to take into account the large diversity between member states but also between different schemes.

- Is a pan-European market a realistic goal?

- An internal market for pension products is already being developed. Even though the IORP Directive has until now had a lower impact than expected, partly due to slow implementation by member states, it is leading to the development of an internal market for occupational retirement provision.

- Although the number of cases of cross-border provision of occupational pensions still remains relatively low, moderate progress has been made: since the directive came into force in 2007 the number has risen from 48 to 78.

- Do we need revision of the pension directive? In which direction?

- BUSINESSEUROPE does not believe that a revision of the IORP directive is necessary, as the directive is increasingly leading to the development of the internal market in this field. This was also recognized in the Commission's 2009 report on implementation.

- One of the barriers to more extensive development of cross-border activity cited by the Commission (in its 2009 implementation report) is the regulatory differences caused by the different implementation of the directive by member states. For example, there are differences in the definition of "cross border activity" by the national pension supervisors. This has led to situations where the host state of a pension provider considers a pension institution as cross border activity, whereas the home state does not consider the same pension institution as such.

- However we do not believe this justifies a revision of the directive towards more convergent national implementation. The flexibility afforded to member states allows them to implement and interpret the directive in the most appropriate way according to national circumstances.

- Another reason that has been cited is that in providing occupational pensions across borders, the social and labour law of the host country is applicable. BUSINESSEUROPE supports this principle, as occupational pensions are an important social contribution by employers. Therefore we would not support changing the legislation to reverse this principle. Since it is rather a problem of communication of the relevant social and labour law between the member states, the EU should concentrate on facilitating better exchange of information.

- BUSINESSEUROPE supports the further development of an internal market for pension products. A well–functioning internal market in this area is beneficial for all companies which desire to provide pension products cross-border, as well as providing citizens with more choice in terms of pension products available on the market.

- The results in the field of pensions have only been moderate until now, due to slow implementation of the directive by member states. Rather than reviewing the directive, the Commission should concentrate on ensuring better implementation at national level. This should include promotion of cross-border administrative cooperation between member states, improving coordination among the various EU and national information sources and providing clearer guidance to member states on how to implement the directive.

- Is the EU Commission Green Paper a good starting point for extending the EU pension framework?

- The Green Paper is a good starting point for putting pressure on member states to reform and modernize their public pension systems.

- It should also be useful in launching a debate on how to improve coordination of pension policies at EU level, by building on the existing EU common principles and objectives in the area of pensions.

- The Green Paper could help in particular to encourage better provision of information at member state level, so that citizens are aware of their options and are educated on the need for reform of pension systems.

- BUSINESSEUROPE agrees that improving mobility in the labour market is important. 84% of Europeans have no experience of living or working in another country. Workers moving across borders need to be able to keep track of their pension rights and how to access them.

- BUSINESSEUROPE takes note of the proposal in the Monti report to introduce an optional 28th regime for supplementary pensions. Many questions remain on how this would work in practice and whether there would be demand for such a regime. Therefore the implications and demand should be thoroughly studied before deciding on any action.

- The focus in the Green Paper is on extending EU regulation to deal with the risks in funded schemes, whereas risks are inherent in all pillars of the pension system. The effect of high unemployment on the sustainability of PAYG pensions should not be neglected.

- The EU regulatory framework on pensions is already sufficient. Companies are concerned that additional rules for funded pension schemes would raise the costs of operating such schemes for them, which could lead to scheme closures.

- Many firms choose to voluntarily offer Defined Contribution schemes as a benefit to their employees, because offering a Defined Benefit scheme has in some cases become too costly to provide adequate pension benefits. In the UK, the proportion of plan members in a DC scheme is now 75% and in Ireland and Sweden, 50% and 70% respectively. It is therefore highly important that DC, as well as DB pension schemes are not overregulated, as this will lead to higher costs for running such schemes and potentially scheme closures.

- In particular, it would not be appropriate for the EU to regulate the design of pension schemes and the investment choices that pension funds make. This is specific to each individual company or sector and should therefore be managed at company or sector level on a voluntary basis.

- We do not agree that additional solvency rules based on Solvency II should be established for pension funds, to ensure a level playing field with insurance schemes offering retirement benefits. Life insurance undertakings and pension funds offer pension plans in very different ways. Pension funds are schemes specifically associated with a sponsoring employer, making up part of their benefit plan to employees. Their primary purpose is therefore not to earn a return for their sponsor, but to provide their sponsor's employees with a valuable benefit. This means that pension funds do not generally seek further "business", in contrast to most insurance-provided funds.

- In addition, it is estimated that compliance with the solvency capital requirements of the Solvency II directive would require an increased funding ratio of around 40% in the Netherlands, Belgium and Spain, over 50% in the UK and over 60% in Ireland.

- Which are the main impediments that have to be overcome when creating a pan-European market?

- Regarding the issue of mobility, tax rules can be an obstacle. Efforts must continue in this area, in particular to address problems caused by double taxation.

- Creation of a pan-European market for pension schemes is difficult due to the fragmented character of the European framework. However, this is simply a reflection of the differences in member state systems and schemes. This diversity is legitimate given the different choices made by member states regarding the balance between the different pillars of the pension system and the rules governing these.

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