BUSINESSEUROPE

SPEAKING NOTES

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EC PUBLIC HEARING: REVIEW OF IORP DIRECTIVE 1 MARCH 2012

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BUSINESSEUROPE is strongly opposed to the Commission plans to impose higher solvency requirements on pension funds. It would hamper pension fund schemes unnecessarily and undermine the goal of promoting occupational pensions savings. Moreover, it will damage economic growth because investment patterns of pension funds have to change into risk-free products. This would seriously restrict capital flows to businesses and – as a consequence – hamper new investments and innovation to increase economic growth and competitiveness.

Some countries in the EU have developed an occupational pension system, introduced by the management of companies or the social partners, based on a long tradition. Different choices have been made in the design of these pension provisions. Some have chosen to create a pension fund to collect contributions, to invest for higher returns and to provide for pension benefits based on the specificities of the negotiated pension contract. Others have decided to use an insurance contract to provide for an occupational pension that can vary according to the agreed conditions, for example defined benefits or defined contributions. In some countries book reserve schemes are customary. This huge diversity of occupational pension systems is also demonstrated in the EIOPA advice. And we have to assume that decisions on form, conditions, contributions etc. have been taken by management and labour on good grounds, taking into account the social and labour laws and the traditions in a member state.

As a consequence of increasing life expectancy and high volatility on the financial markets there is a tendency to adapt pension contracts in order to strike a new balance between risk profile (guarantee or conditional entitlements) and pension safety on the other hand. This is necessary to make occupational pensions systems affordable and sustainable.

In a nutshell I have sketched a picture of reality in which we operate these days.

The Commission has decided to review the IORP Directive. The main argument for Commissioner Barnier is to strengthen the Single Market and to create a level playing field between pension funds and insurance companies. For insurance companies capital requirements will increase based on Solvency II and that was the start for the discussion on a review of the IORP Directive.

As you might know BUSINESSEUROPE has consistently advocated a good functioning of the internal market and the need to create a level playing field in case there is unfair competition. We believe in it. But in this case we don't think there is unfair competition and that a level playing field has to be created between pension funds and insurance companies. Because pension schemes offered by IORPs differ substantially from the products offered by insurance companies. And the same applies to their operations. Pension funds have adjustment mechanisms and safeguards that are not conceivable in insurance contracts. Such as increase of contributions by the sponsoring employer or the workers, temporary or permanent decrease of benefits, renounce of indexation of the benefit and the possibility of the employer to cover underfunding. IORPs are usually not operating in a retail market and are non-profit making organizations, only providing a pension for workers in a specific company or a well-defined sector. Moreover, they are usually subject to a bipartite board and the obligation of board members to protect members' benefits and interests. In other words: the pensions provided by pension funds differ substantially from the promises that result from a pension contract with an insurance company.

Increasing the capital requirements for IORPs would considerably raise the cost of providing occupational pensions and would force companies to economize pension plans or ultimately to stop offering such schemes.

This would seriously damage occupational pension provision in the member states and is incomprehensible when – at the same time - the Commission stresses the need for sustainable pension systems in which occupational pension systems should play a larger role.

By raising the solvency requirements of pension funds the Commission would throw out the baby with the bathwater. I hope that I also have made clear that such an operation would seriously interfere in the way member states design their national pension system and would therefore also go against the subsidiarity principle.

I want to conclude by making a reference to the joint letter ETUC and BUSINESSEUROPE wrote to President Barroso to urge the Commission not to introduce additional solvency requirements for pension funds. A press release with the same message has been released today by all European social partners, the EFRP and two European organisations of investors (EFAMA and EVCA). I really hope and expect the Commission to reconsider its measures accordingly and based on transparent and unbiased quantitative impact studies.