European DC – What's next?

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Pan-European occupational DC framework

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The EU occupational pension landscape is and will be changing rapidly.
Why now?

**IORP II implementation**
- EIOPA is actively fostering more procedural efficiency for cross-border activities

**But market remains fragmented at EU level**
- Limited number of active cross-border IORPs
- Limited geographical coverage of cross-border activities

**Unlock untapped potential from the Single Market**
- Absence of critical mass to operate a cross-border IORP
- Cater for employee mobility
- Benefit from scale economies in long-term investments
- Deliver better outcomes to DC members
- Help unlock capital markets
First ideas of a framework

IORP II is the starting point

Objective is to foster cross-border DC IORPs/activities

Not a substitute to existing national occupational pensions

Voluntary basis without prejudice to national SLLs and tax regimes

Work is at an early stage of development

- Publication of Discussion Paper by end of year
- Launch of public consultation
DC in Europe: Strengthening occupational pensions both at home and at EU level

Verena Menne
Policy Adviser
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Strengthening occupational pensions: Structural innovation

- Defined Contribution through IORPs and direct insurance
- Making auto-enrolment legally watertight
- Ban on guarantees
- Structural innovation: new role for the tariff partners
- Can be used by employers with a reference to the relevant tariff agreement
Main points of the reform (in addition to structural innovation)

• EET system
  • Extending the EET system (currently the annual limit is 4.848 EUR, this would be increased to 6,049 EUR)
  • Making it more flexible: possibility to use up previously unused tax incentives under specific circumstances (up to 10 years)

• Occupational Riester: no longer statutory health and long-term care insurance contributions in the pay-out phase

• Support for low income workers (employers of those with a gross income of up to 2,200 EUR will be offered a tax incentive of 30% of employer contributions, max. 144 Euro per year)

• Incentives to save for those on low incomes: allowance so that low income pensioners can receive their occupational pension without having it deducted from the minimum income provided by the state
Conclusions

• No mandatory measures, but additional options – success of the reform depends to a large extent on the tariff partners

• This reform likely to be the last effort to strengthen occupational pensions on a “voluntary” basis

• Existing systems are not being converted into the new model

• Twofold responsibility of the social partners:
  • Establishing the new pension promise through tariff agreements
  • Part of management and governance structures of the new vehicles
EIOPA’s own initiative work: occupational DC

Legal aspects
• Occupational DC is own-initiative work of EIOPA
• How is EIOPA’s work compatible with national tax, social and labour law?

Other concerns
• No EU-wide definition of what constitutes an occupational pension?
• Is there the need or demand for EU-wide occupational pensions DC?

Strengthen national occupational pension systems in Europe (Recital 20, IORP II) rather than European DC
For more information on the reforms in Germany

http://www.aba-online.de/en/germany.html
Pan-European pension funds

Christian Lemaire
Global Head of Retirement Solutions
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Main challenges for multinational corporations with separate local pension arrangements

• Operating under different employment and tax regulations (complexity)
• High costs (often hidden)
• Potential liability risks (even for DC)
• Loose monitoring and weaker governance

“Fees and lawsuits remain big concerns for DC plan executives and consultants even as plan costs have fallen in recent years”

_Pension & Investments article on April 17, 2017 "Fees, lawsuits top issues for sponsors, consultants"._
Cross-border pension fund: how does this work?

IORP
Pension institution
(legal entity = single vehicle)

Pension scheme 1 (country 1)
Pension scheme 2 (country 2)
Pension scheme 3 (country 3)

Regulated by the domestic authority of the pension institution (Home country)

Each country compartment is regulated by the local authority of each pension scheme (host country) to be compliant with local social, tax & retirement rules.
How to foster development of cross-border pension funds?

Implement a pan-European pension fund fully operational in several countries requires a large amount of time, money and expertise that only few large corporates can afford

→ Need for pan-European multi-employer pension funds

Documentation of each compartment includes:

- the general framework and legal requirements of each country
- the scheme’s governance and characteristics of each plan of each employer

→ Need for an open architecture:

- Partnership w/ companies to include insurance services
- Access to thousands of funds from hundreds of asset managers)
Main issues to really foster the development of pan-European Occupational Pension Plans

- The new IORP 2 directive is moving to the right direction to better develop “cross-border” IORPs

- But to date, the Budapest Protocol, which describes the operational process between member states, does not take into account these multi-employers solution

- To move further, let’s take the opportunity of the revision of the Budapest Protocol to operationally implement this directive as efficiently as possible

  Adopt “proportionality”: when a corporate wants to join a multi-employer pension fund through a compartment already approved by the Home member state and the Host member state, their regulators should work by “analogy” to simplify and accelerate the agreement process
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