



EUROPEAN COMMISSION

MEMO

Brussels, 27 March 2014

Revision of the Occupational Pension Funds Directive – frequently asked questions

See also [IP/14/320](#)

1. What are occupational pension funds?

Occupational pension funds or Institutions for Occupational Retirement Provision (IORPs) are financial institutions which manage collective retirement schemes for employers, in order to provide retirement benefits to their employees (the scheme members and beneficiaries).

Occupational pensions, which include an employer contribution, are known as the "second pillar" of pension systems, the "first pillar" being state-based social security pensions, and the "third pillar" being non-compulsory private pension savings by individuals.

There are some 125,000 such funds operating across the EU. They hold assets worth €2.5 trillion on behalf of around 75 million Europeans, which represents 20% of the EU's working-age population.

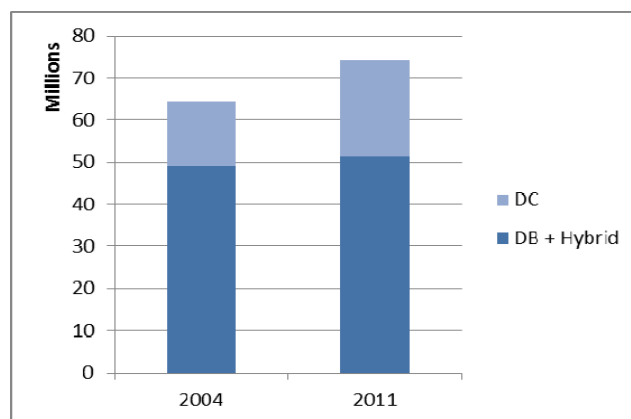
2. Why did the 2003 Occupational Pension Funds Directive need to be revised?

The Occupational Pension Funds Directive [2003/41/EC](#) (also known as the IORP Directive) lays down basic requirements for occupational pension funds and their supervision, including rules which oblige occupational pension funds to invest their assets prudently, in the best interest of members and beneficiaries. It aims to provide the conditions under which a single market for occupational pension services could start developing.

However, there have been significant developments since 2003.

First, the financial crisis has recalled the need for sound governance of financial institutions and clear information to members and beneficiaries. Failure of certain funds in the EU meant in some cases a cut in members' and beneficiaries' rights. This has shown a need to strengthen governance provisions. This is particularly relevant since there has been a decline of "defined benefit" and a growth of "defined contribution" occupational pension funds. Defined benefit pension schemes guarantee pay-outs upon retirement. Contrary to defined benefit schemes, in defined contribution schemes the investment risk is borne by the pension scheme member, with no guaranteed pay-out. Therefore, governance and transparency of information rules are especially important for defined contribution schemes. The growth of defined contribution schemes is illustrated in the figure below.

Figure 1: Membership in defined benefit, defined contribution, and hybrid schemes (combining both defined benefit and defined contribution), in millions of members



Source: Commission Services, Eurostat, OECD and national sources.

Second, ageing populations have increased the pensioner-to-worker ratio, and also the need for more retirement savings and for strong occupational pensions systems which are being developed in several Member States.

Third, there is an increasing recognition of the need for long-term investment in Europe's economy, and occupational pension funds are among the largest institutional investors in Europe.

3. What are the key aims and contents of this proposal?

The proposal has four key objectives and introduces improvements in all these areas to:

- **Ensure the soundness of occupational pensions and better protect pension scheme members and beneficiaries.** The proposal would introduce:
 - (i) new governance requirements on key functions (risk management, internal audit and where relevant actuarial function),
 - (ii) new provisions on remuneration policy, so that institutions have a sound remuneration policy (for instance avoiding conflicts of interest) and regularly disclose relevant information on such policy,
 - (iii) a self-assessment of the risk-management system (through a Risk Evaluation for Pensions),
 - (iv) the requirement to use a depository (that is an entity in charge of for the safe-keeping and oversight of members and beneficiaries' assets), particularly to reduce operational risk,
 - (v) enhanced powers for supervisors including for chain-outsourcing (outsourcing and all subsequent re-outsourcing) and stress testing.

- **Better inform pension scheme members and beneficiaries.** The proposal would introduce a Pension Benefit Statement standardised at EU level that provided pension scheme members with simple and clear information about their individual pension entitlements. The Pension Benefit Statement aims to support informed decision-making about (i) pension adequacy (answering the question "do I need to save more to maintain my standard of living after retirement?") and (ii) investment strategy (answering the question "is my investment approach right?"). The Pension Benefit Statement helps individuals maintain a good understanding of their occupational pension entitlements throughout their working lives and across Member States, the latter being particularly important for the increasing workforce that is mobile across the EU (see also Question 11 below on the administrative costs of the proposal and Question 12 on the Pension Benefit Statement).
- **Remove obstacles for cross-border provision of services so that occupational pension funds and employers can fully reap the benefits of the single market.** The proposal would make it easier for occupational pension funds to operate a pension scheme that is subject to the social and labour law of another Member State and for fund assets to be transferred across Member States, notably by introducing a pension fund transfer procedure (see also Question 13 below). Innovative companies, ranging from SMEs to multinationals, would be able to reduce staff costs through economies of scale, risk diversification and innovation.
- **Encourage occupational pension funds to invest long-term in growth-, environment- and employment-enhancing economic activities.** The proposal would modernise investment rules to allow occupational pension funds to invest in financial assets with a long-term economic profile thereby supporting the financing of growth in the real economy. The proposal would change the existing provisions on investment restrictions to make sure occupational pension funds remained free to invest in infrastructure, unrated loans etc., thus ensuring that investments, in particular with a long-term profile, should not be restricted if the restriction is not justified on prudential grounds.

5. What benefits would arise from this proposal?

The proposal would improve *financial stability*, as certain occupational pension funds are large financial institutions with several millions of members and beneficiaries.

Employers, including SMEs, are expected to benefit through the reduced cost of joining an existing occupational pension fund. Moreover, employers joining a pension scheme in an established market can expect to see a reduction in their administration and investment costs.

Multinational companies would also benefit from more easily consolidating their existing pension schemes (possibly in different Member States) into one occupational pension fund. *Member States* would benefit because well-governed occupational pension funds, and wider geographic coverage, are expected to reduce some of the fiscal pressure on state pension systems.

Citizens in general and those who are mobile across borders in the course of their careers in particular would also benefit from having the Pension Benefit Statement in a standardised format, for all the Member States in which they have worked. More generally, all citizens would benefit from better protection through strengthened rules for governance of occupational pension funds. They would also benefit from improved personalised information so that they could make better-informed decisions about their retirement provision.

6. How would this initiative contribute to long-term investment?

The proposal would stimulate the capacity of occupational pension funds to invest in financial assets with a long-term economic profile and thereby support the financing of growth in the real economy in several ways:

- The Risk Evaluation for Pensions would allow occupational pension funds to be more aware of their commitments to their beneficiaries and thus make better-informed decisions about investments in long-term assets;
- Provisions on investment restrictions would be modernised (as explained above) so that Member States could not restrict investment choices made by occupational pension funds (in particular in assets with a long-term profile such as infrastructure) if restrictions were not justified on prudential grounds.

7. How would it contribute to the agenda for safe and sustainable pensions?

In February 2012, the Commission adopted a White Paper on safe and sustainable pensions¹, containing a range of ideas and suggestions for improving various aspects of pension provision in the EU ([IP/12/140](#), [MEMO/12/108](#) and [MEMO/14/217](#)). A reform of the 2003 Occupational Pension Funds Directive featured prominently among the action points included in that White Paper. This legislative proposal meets that commitment.

8. Is there any link to the Acquisition and Preservation Directive for pension rights?

The proposal for the revision of the Occupational Pension Funds Directive includes the use of the Pension Benefit Statement, a common template for reporting to scheme members and would thus support the effectiveness of the Acquisition and Preservation Directive as scheme members would need to have a clear and concise overview about their pensions rights accumulated in different national occupational pension funds across Member States. The common template would also support the development of an EU-wide pension tracking system².

More generally speaking, as defined contribution schemes with investment choices for the member (multi-fund occupational pension funds) are becoming more widespread, the Pension Benefit Statement is expected to provide more relevant information to individuals for taking investment decisions in relation to their particular characteristics, notably their age and risk profile.

¹ COM(2012) 55 final, of 16 February 2012

² The project of an EU-wide pension tracking system, announced in the White Paper on pensions in 2012, aims at providing citizens with information about their pension entitlements, whether accrued in one or several Member States and whether stemming from statutory or occupational pension schemes.

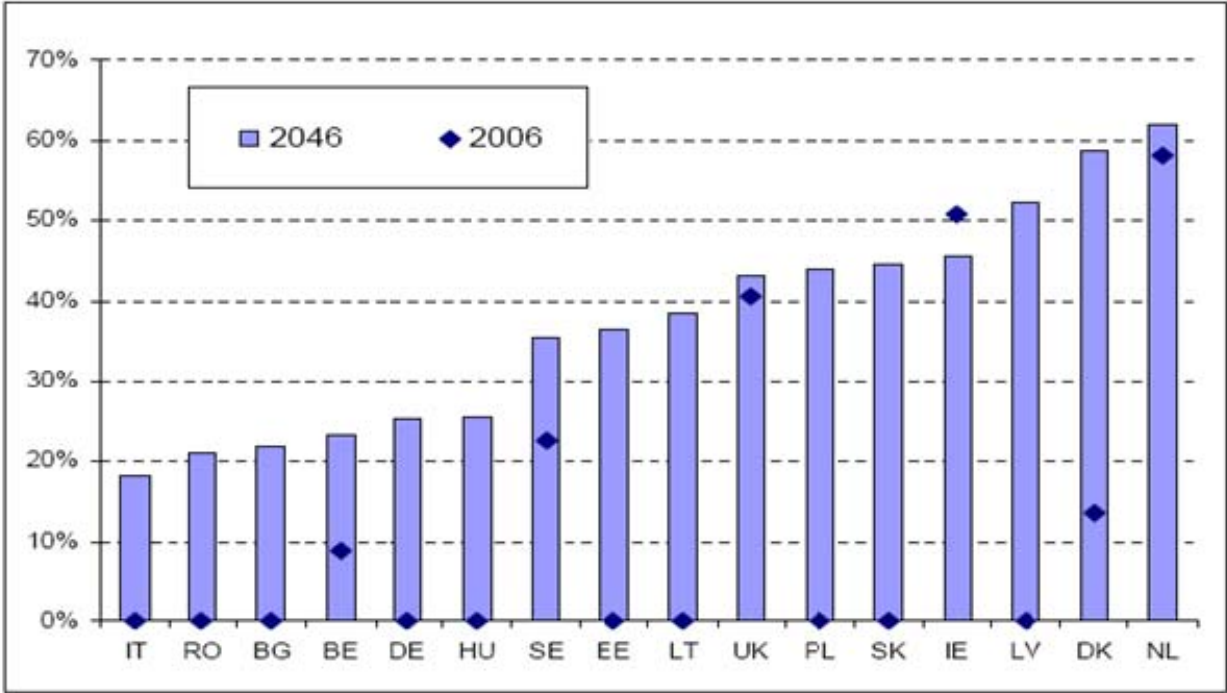
9. Where is the added value in EU-level action, given that occupational pension funds are concentrated only in a small number of Member States?

While occupational pension funds play a significant role in the pensions systems of only a minority of Member States, they exist to some extent in most Member States, and even in those Member States where they do not currently exist, employers are free to contract their occupational pension provision with an occupational pension fund in another Member State, if they choose to do so.

A more harmonised and robust EU regulatory framework for the supervision of occupational pension funds can therefore pave the way for the development of occupational pension funds in some Member States where they are currently not developed or non-existent. In particular, pension systems in some of the newer EU Member States are heavily dependent on state-provided social security ("pillar 1"), and there is scope for more funded pension provision, including occupational pensions. Currently, a number of Member States are considering developing an occupational pension fund sector. The revision of the Directive is also expected to facilitate cross-border activity by occupational pension funds, by removing some uncertainties about the legal framework applicable to such activity, and reducing the costs.

The figure below shows that there is a potential for the development of occupational pension funds in many Member States: the projected share of occupational pension funds within the overall pension systems is higher in 2046 than in 2006 in nearly all of the 16 surveyed EU Member States.

Figure 2: Actual and projected share of occupational pension funds in the overall pension systems³, 2046 versus 2006, survey for 16 EU Member States



Source: Indicator Sub-Group (ISG) of the Social Protection Committee (2009)

The proposal would also bring about a higher EU-wide minimum level of consumer protection, thus disseminating best practices across the EU and preventing unequal levels of protection in the EU. It also takes into account interests of cross-border workers, by ensuring that they would have clear and comparable information about their pension schemes in a consistent manner across Member States. All of these benefits can only be achieved by action at EU level.

10. Isn't this area part of social security and thus not part of the Single Market?

Member States retain full responsibility for the organisation of their pension systems as well as for the decision on the role of state, occupational or personal pensions. This proposal does not call into question that prerogative. However, within that framework occupational pensions are provided by financial institutions and may therefore be provided cross-border in the EU's Single Market for financial services.

³ Share of occupational and statutory funded pensions in total gross theoretical replacement rates in 2006 and 2046.

11. What costs would the proposal impose on occupational pension funds? Would smaller funds be forced to merge as a result?

The Commission has estimated the administrative burden of the proposal with the support of the occupational pension fund industry: the proposal would involve a one-off adjustment cost in the short-term estimated at around 22 euro per member, and recurrent additional costs estimated between 0.27 and 0.80 euro per member and per year. The benefits of the entire package of the proposal are expected to outweigh these costs.

The additional requirements are not likely to impose a disproportionate burden on smaller occupational pension funds, considering that outsourcing is widespread. Moreover, Member States would have the option not to apply the Directive, in whole or in part, to any occupational pension fund with less than 100 members in total. The simplification of cross-border definitions and procedures is likely to benefit smaller occupational pension funds more in comparison with larger ones because smaller ones have a lower financial capacity to absorb transaction costs.

12. How would the Pension Benefit Statement work?

The annual Pension Benefit Statement would contain both personalised and generic information about the pension scheme. The Pension Benefit Statement would be produced according to a standard template of two pages. Standardisation will help members to compare their rights under different pension schemes, and will help occupational pension providers to reduce implementation costs, including where they are active cross border.

It would contain general information for all types of pension schemes and information about an individual's personal situation (for example accrued pension rights or assets accumulated and projections) with a view to helping individuals take decisions regarding their retirement planning. It would also contain information for "defined contribution" schemes about risks, returns and costs with a view to helping individuals take decisions on investment. The Pension Benefit Statement would be the first layer in a modern multi-layered approach to communication, with national specificities described more in depth in subsequent layers. The Pension Benefit Statement would indicate where more detailed national information is available and could be integrated into more comprehensive national systems of information on all pillars of the pensions system.

13. How would the proposal contribute to more cross-border activity?

It is complex today for an occupational pension fund located in one Member State (home Member State) to manage schemes with members whose relationship is subject to the social and labour law of another Member State (host Member State). Specifically, occupational pension funds wishing to be active cross-border may face higher prudential requirements than local funds: the supervisor in the host Member State may impose additional investment rules or information requirements on top of those required by the supervisor in the home Member State.

The proposal would make it easier for occupational pension funds to operate cross-border pension schemes. In particular, the proposal would: (i) clarify the procedure when occupational pension funds wish to offer their services in other Member States, (ii) clarify the respective roles of the home and host Member States and (iii) puts in place a procedure for the transfer of pension schemes between occupational pension funds in two different Member States.

14. Is the Commission intending to introduce new solvency rules for occupational pension funds?

This proposal does not contain a review of the existing quantitative solvency rules for occupational pension funds. The [European Insurance and Occupational Pensions Authority](#) (EIOPA) is carrying out detailed technical work on this. A Quantitative Impact Study of occupational pensions was completed in February 2013⁴. However, based on the results of this work, the Commission did not consider it appropriate to introduce new quantitative solvency rules with this proposal.

For more information

http://ec.europa.eu/internal_market/pensions/index_en.htm

⁴ <https://eiopa.europa.eu/activities/occupational-pensions/index.html>