

OPSG

OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

Activity Report 2020-2024

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European Insurance and
Occupational Pensions Authority

EIOPA OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

Activity Report 2020-2024



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1. MESSAGE FROM THE CHAIR

The mandate of the OPSG started in July 2020, right during the Covid-19 pandemic, and spanned four years. Throughout this period, the OPSG addressed numerous issues and produced several position papers, including some in recent weeks. In this context, I would like to thank Francesco Briganti, Lukasz Budzynski, Christian Gülich, Matti Leppälä, Elisa Luciano, Flavia Micilotta, Jerry Moriarty, Stefan Nellshen, Philip Neyt, Janina Petelczyc, Jan Sebo, Onno Steenbeek, and Falco Valkenburg. They took the lead of various OPSG working groups and contributed significantly to the preparation of this Activity Report by highlighting the main conclusions of the position papers they submitted for OPSG approval.

The process of preparing a position paper is intricate and multifaceted. It begins with deciding to embark on a project and selecting the leadership for the working group. This is followed by consulting with members, drafting an initial report, circulating it for review, incorporating feedback, making multiple revisions, and finally submitting the text for approval. Given the complexity of each project, the tight timelines, and the diverse backgrounds within the Group, this journey can be challenging. To reach a well-founded consensus, it is essential for all members to contribute their expertise and experience while attentively considering the perspectives of their colleagues. As Chair, I had the privilege of observing the members' sincere dedication to working together collaboratively.

In addition to preparing reports, another key aspect of the OPSG's work was the regular meetings with EIOPA's management and senior staff and, on some occasions, with members of EIOPA's Board of Supervisors. These meetings provided a unique platform for all members to share their views on important issues and offer EIOPA valuable insights. My only regret is that the OPSG met in Frankfurt much less frequently than under its previous mandate. The Covid pandemic has brought in an era where in-person meetings have become less common. While this shift allowed members to save time and money on travel, it came at a cost: OPSG members had fewer opportunities for informal interactions, which are very helpful for gaining a better understanding of each other's positions and strengthening the cooperative spirit that should guide the work of stakeholder groups like the OPSG.

Given that pension policy largely remains under the purview of Member States, EIOPA's mandate in the realm of pensions remains limited. Indeed, the IORP directive is a minimum harmonization directive that only regulates the activities of institutions providing occupational pensions, and there is no EU legislation covering pension plans and products except the Pan-European Personal Pension Product (PEPP) regulation. Given this situation, one of the OPSG's priorities has been to contribute effectively to the review of IORP II directive by providing an extensive [advice](#) to contribute to the preparation of EIOPA's advice to the European Commission. Chapter 2 of this activity report summarizes the [position](#) taken by the OPSG in six key areas and assesses how EIOPA has considered the OPSG's recommendations.

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Interestingly, EIOPA noted in its advice that *“there is clear evidence that the original purpose of the IORP II Directive, in terms of developing an internal market for cross-border IORPs, has failed. Incremental solutions, while removing some barriers, will not develop the system under the current framework to a genuine internal market for occupational pension provision. EIOPA advises that COM should explore frameworks beyond the IORP II Directive that may offer more potential to grow the internal market.”*

The OPSG agrees that the review of the IORP II Directive is a crucial opportunity to explore alternative solutions for expanding the internal occupational pensions market. Expanding this market would benefit EU citizens, who currently miss out on the advantages of a broader pension market. This is especially critical given the current lack of pension coverage and the need for cost-effective, attractive pension solutions in terms of expected returns. Strengthening the EU pensions market is also essential for achieving the EU's Capital Markets Union (CMU) objectives.

I believe one of the OPSG's important tasks under its new mandate will be to develop solutions beyond the current IORP II Directive, aiming for a more fully developed internal market for both occupational and personal pensions. The reports prepared by the OPSG under its current mandate, focusing on the contribution of funded pensions to income in later life, growth and employment, the revision of the PEPP regulation, and the development of a pan-European occupational pension product (PEOP) confirm that the OPSG can play a valuable role in these discussions.

Another testament to this role was the special OPSG workshop I co-organized with Philip Neyt in Brussels, featuring participation from Karin Lalieux, the Belgian Minister of Pensions and Social Integration, Declan Costello, Deputy Director General at DG ECFIN, and a group of distinguished experts from several countries. The workshop aimed to exchange views on recent pension system reforms and ongoing national discussions. Engaging with experts and policymakers, often working in isolation at the national level, allowed to share ideas, methods, and tools that have proven effective in enhancing the sustainability and adequacy of pension systems in anticipation of population aging. As OPSG members, we recognize the need to bridge gaps in information and understanding, prompting us to organize this workshop.

In taking this initiative, we were also motivated by the fact that the pension challenge seems to have lost its ranking among the topics of great importance for policymakers. The Covid pandemic, the rise of inflation, the war in Ukraine, the war in Gaza, the green and digital transitions have all taken more importance in the policy agenda. Of course, all these issues are very important, but we should not underestimate the pressure that the aging population will put on public finances and the well-being of pensioners in the coming decades. As pension reforms take a lot of time to produce results, there is no time to lose.

Let me conclude by commending EIOPA's Chairman, Petra Hielkema, and EIOPA's Executive Director, Fausto Parente, for their trust and support. Their commitment to engaging in meaningful discussions with the OPSG, explain EIOPA's positions, and providing feedback to comments and questions greatly enhanced the interest and quality of engagement of OPSG members.

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My thanks also go to Aleksandra Maczynska and Falco Valkenburg for their support as OPSG Vice-Chairs, as well as to the OPSG secretariat for its excellent assistance in organizing meetings and circulating documents for comments and approval.

Bernard Delbecque, Chair of the OPSG

2. EVALUATION AND REVIEW OF THE IORP II DIRECTIVE

2.1. ADEQUACY AND PROPORTIONALITY

2.1.1 OPSG'S ADVICE TO EIOPA

In January 2023, the OPSG provided Advice to support EIOPA's preparation of its response to the European Commission's Call for Advice on the evaluation and review of the IORP II Directive. In its Advice, the OPSG concluded that the existing provisions of the Directive on the adequacy of prudential and governance minimum standards already fulfill their purpose and do not require review. Indeed, **the Directive not only ensures a sufficient level of security for future pensioners and promotes sound, prudent, and effective management of occupational pension schemes**, but it has also prompted significant improvements and enhanced risk management for IORPs, thereby safeguarding their overall stability. Moreover, the governance rules are harmonized with those applicable to other financial institutions.

However, **the OPSG did highlight that some member states are not fully utilizing the opportunities provided by the Directive**, particularly regarding the provision allowing IORPs to be underfunded for a certain period in conjunction with a recovery plan (article 14.2). Additionally, questions were raised about whether the conditions permitting tri-annual calculation of liabilities (article 13.3) truly result in simplification, especially for smaller IORPs, as the declaration of changes in liabilities and funding of risks often necessitates a comprehensive calculation. Furthermore, the OPSG expressed confidence in the robustness of the Directive's general framework for pure DC pension schemes.

A more critical assessment was made regarding proportionality, which permits member states to exempt IORPs with fewer than 100 active members (article 5). This provision was deemed ineffective, not only due to its exclusion of too few IORPs but also because several member states do not allow their small IORPs to benefit from the exemption. Moreover, the OPSG questioned the adequacy of the "100 active members" criterion, suggesting that it may not accurately capture the operational complexities of certain schemes. Instead, risk profile factors such as operational complexity and risk structure should be considered alongside size. For instance, schemes with 50 members may possess more assets and complexity than those with 500 members.

The OPSG advocated for a regulatory approach that accommodates lighter application of provisions based on an IORP's unique characteristics, including size, complexity, and risk profile. It emphasized the need for clearer guidance on applying the principle of proportionality, urging EIOPA to move away from the prevailing "all or nothing" logic. Alternative policy options should be explored, particularly for educating IORPs in cases where national competent authorities have not practically

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defined the proportionality principle in their legislation. Additionally, the OPSG proposed alternative criteria for proportionality, such as establishing different minimum requirements for specific types of schemes and suggesting special exemptions for IORPs where operational costs are covered entirely by the employer, and it recommended including pension scheme administrators, investment managers, and custodians in the supervision process for outsourced management scenarios.

Lastly, **the OPSG emphasized the importance of collaboration between EIOPA and National Competent Authorities (NCAs) in defining criteria for proportionality.** While EIOPA could offer valuable insights, close cooperation with NCAs, given their better understanding of national-level issues, is essential. The OPSG also cautioned against a one-size-fits-all approach noting potential shortcomings in horizontal legislation like the Sustainable Finance Disclosure Regulation (SFDR) and the Digital Operational Resilience Regulation (DORA) in addressing the unique characteristics of IORPs, which could lead to excessive regulatory burden.

Transitioning to the OPSG's formal (online) response to EIOPA's consultation paper on technical advice for the review of the IORP II Directive, the OPSG answers largely echoed the comments outlined above.

Regarding EIOPA's questions on governance and prudential standards, the OPSG expressed a positive response to EIOPA's proposal to adjust the threshold outlined in article 5 to determine the application of proportionality. **The Group suggested that Member States or NCAs should have the discretion to exempt IORPs with fewer than 500 active members, less than 500 beneficiaries, and assets below 30 million euros from certain requirements.** However, the OPSG disagreed with EIOPA's proposal to remove considerations of size and internal organization from proportionality assessments, advocating instead for a more nuanced approach that takes into account the nature, scale, and complexity of risks.

Regarding the concept of "low-risk profile IORPs," while appreciating the idea in principle, the OPSG deemed the proposal not fully optimal due to incomplete implementation of the proportionality principle in some Member States. The Group suggested a nuanced approach to proportionality, advocating for a "lightened or facilitated application" of the Directive's provisions rather than full exemptions, as also stated in the OPSG advice from January 2022. It recommended exploring additional criteria beyond the four conditions proposed by EIOPA to assess low-risk profile IORPs as it is applied to insurance undertakings and emphasized the importance of NCAs in assessing risk conditions and applying proportionality measures appropriately.

The OPSG rejected EIOPA's proposal to introduce explicit requirements in the own-risk assessment (ORA) and the supervisory review process (SRP) regarding liquidity risk assessments for IORPs with material derivative exposures, arguing that such risks are already addressed within existing risk management systems. The Group emphasized the role of NCAs in assessing the materiality of these risks.

The OPSG concurred with EIOPA regarding the necessity to address potential conflicts of interest between IORPs and service providers in certain scenarios. The Group emphasized that this concern should be an integral component of IORPs' governance framework. In accordance with the OPSG advice of January 2022, the Group urged National Competent Authorities (NCAs) to incorporate pension scheme administrators, investment managers, and custodians (third party's providers) into their supervisory review processes, particularly when the operational management of IORPs is predominantly outsourced. Nonetheless, the identification of potential issues and the evaluation of the significance of such risks should be undertaken at the national level. Instead, the OPSG disagreed with the proposition to elevate EU standards for IORPs utilizing pension scheme administrators and service providers for critical functions, in light of potential conflicts of interest. The Group posited that member states permitting multiemployer IORPs have already demonstrated robust reporting standards, thereby minimizing additional risks associated with such schemes.

The OPSG had diverging opinions regarding the proposal to introduce an explicit provision in Article 50 of the Directive, empowering supervisors to collect quantitative information from IORPs on a regular basis. While some OPSG members opposed the idea, citing existing authority of NCAs and potential undue burdens on IORPs, others supported it, believing that comprehensive data collection is essential for effective supervision and monitoring of market developments.

The OPSG recommended maintaining NCAs as the responsible entities for reporting requirements to avoid double reporting burdens and suggested implementing XBRL as the standard for reporting data. Additionally, the OPSG rejected a common framework for risk assessment and transparency, arguing that it would not be suitable for European pension regulation.

Overall, the OPSG supported expanding the definition of regulated markets to include equivalent markets in third countries but emphasized the need for strengthened equivalent assessment to ensure adequate protection for IORP investments. Finally, the OPSG rejected EIOPA's proposals to specify ORA components in the Directive and introduce further provisions on risk tolerance limits, citing the adequacy of existing minimum harmonization requirements.

2.1.2 OPSG'S COMMENTS ON EIOPA'S ADVICE

OPSG finds EIOPA's IORP II review advice mostly agreeable. EIOPA has considered several proposals and approaches recommended by members of the Group in its advice on the IORP II review.

Firstly, OPSG supports EIOPA's decision to raise the exemption threshold for small IORPs in the Directive. Specifically, EIOPA agreed to adopt the Group's compromise threshold of both 1,000 members and beneficiaries (compared to OPSG's proposal of 500) and EUR 25 million in assets (OPSG proposed EUR 30 million). The OPSG also appreciates EIOPA's plan to allow existing small IORPs to continue benefiting from the exemption (grandfathering clause) and its separate, higher threshold for DORA and SFDR legislation.

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The Group notes, as requested in its answer, that EIOPA substantially also agreed not to introduce the category of low-risk profile IORPs, as proposed in the previous EIOPA consultation.

Regarding the proposal to introduce explicit requirements in the own-risk assessment (ORA) and the supervisory review process (SRP) regarding liquidity risk assessments for IORPs with material derivative exposures, once again the OPSG approves the EIOPA decision to not amend the IORP II Directive in this area, which is in line with the OPSG answer to the consultation, and to just issue guidelines or an opinion to NCAs on the supervision of liquidity risk in relation to those IORPs with such risk. This decision aligns with the OPSG's response to the consultation.

The OPSG found substantial alignment with EIOPA's position on addressing potential conflicts of interest between IORPs and third-party service providers, particularly when operational management is predominantly outsourced. Both the OPSG and EIOPA concluded that this concern should be an integral part of the IORP's governance, and thus, third-party providers should be incorporated into the supervisory review process. Additionally, EIOPA agreed with the OPSG not to apply strengthened rules to multi-sponsor IORP providers (MIPs). This decision was not based on the premise that MIPs have proven to handle this issue well, (as argued by the OPSG), but rather because defining MIPs appropriately would be too difficult, and other IORPs relying on third-party providers might face similar risks.

OPSG agrees with EIOPA adopting a more flexible approach in the Supervisory Review Process. EIOPA proposed a risk-based approach to IORP regulation, allowing national authorities to tailor rules to specific IORPs. They streamlined amendments on independent decision-making and oversight requirements and clarified outsourcing agreement requirements.

The OPSG welcomes EIOPA's final decision to maintain NCAs as the responsible entities for reporting requirements, thereby avoiding double reporting. EIOPA also acknowledged its lack of authority to enforce the consolidation of templates and IT infrastructure at the national level.

Agreement with the OPSG was also reached concerning a unified EU framework for risk assessment and transparency, as the draft advice refrains from recommending any alterations to the IORP II Directive in this realm. Both EIOPA and the OPSG have thus determined that no modifications should be made to the IORP II Directive in this regard. Nevertheless, EIOPA's counsel will persist in emphasizing its stance on establishing a shared framework for risk assessment and transparency applicable to IORPs.

The OPSG expressed appreciation for EIOPA's decision to broaden the definition of regulated markets to encompass equivalent markets in third countries, thereby maximizing the benefits of international diversification, while also aligning with Solvency II standards. Despite some OPSG members advocating for a more stringent equivalent assessment to ensure sufficient protection for IORP investments and opposing the inclusion of OTFs and MTFs in Article 19(1)(d), EIOPA deemed the equivalence assessment outlined in Article 25(4) of MiFID II (Directive 2014/65/EU) to be adequate. Consequently, EIOPA proposed treating OTFs/MTFs in the same manner as regulated markets in Article 19(1)(d).

The OPSG also acknowledges that in certain respects, opinions slightly diverge. However, EIOPA's overall stance in this part of the advice reasonably meets the OPSG's expectations.

EIOPA and the Group disagreed on the proposal to restrict the proportionality formulations throughout the IORP II Directive to 'proportionate to the nature, scale, and complexity of the (risks inherent in the) activities of the IORP,' thereby removing the 'size' and 'internal organization' criteria. The OPSG emphasized that size remains an essential parameter to consider, while EIOPA argued that the legislation should focus on the IORP's risk profile, without size or internal organization influencing this approach.

On conflict of interests with third parties, while the OPSG did not see the need to raise standards for IORPs using pension scheme administrators and service providers for key functions, EIOPA recognized the need to strengthen the management of conflicts of interest beyond the existing requirements in IORP II. This need was maintained in the advice, which has been amended to ensure that such assessments are proportionate.

Regarding the proposal to introduce an explicit provision in Article 50 of the Directive, empowering supervisors to collect quantitative information from IORPs on a regular basis, the OPSG is split on supervisors collecting additional data. EIOPA's decision to add an explicit reference, arguing that providing legal clarity on what is implicitly already included in the Directive should not lead to burdensome requirements and increased costs.

There was a slight divergence of opinions between the OPSG and EIOPA regarding the definition of a sponsoring undertaking, with the OPSG proposing an expansion to include professional associations. However, EIOPA opted against proposing a change to this definition, believing that the current definition outlined in the IORP II Directive adequately encompasses professional associations authorized, in their respective national jurisdictions, to provide pension schemes. The advice merely suggests that such situations could be clarified in the recitals for certain Member States. Overall, the OPSG could still find some satisfaction in this resolution, as the clarification represents a small step forward.

In contrast to the OPSG's suggestion to maintain the existing provisions on Own Risk Assessment (ORA), which were deemed satisfactory, and to delegate any potential definitions of disclosure contents to NCAs, EIOPA opted for a slightly different approach. While EIOPA acknowledged the absence of a detailed listing of main elements of ORA in its advice, it retained the principle of ORA policy, devoid of such a detailed listing, as it concurred with other stakeholders that national flexibility and costs might otherwise be compromised.

In addition, unlike the OPSG's stance, EIOPA chose to introduce a provision considering the risk tolerance limits approved by the IORP's management or supervisory body, aligning with the minimum harmonization approach of the IORP II Directive, as outlined by EIOPA. This approach, according to EIOPA, is justified by the absence of explicit mention of risk tolerance limits in ORA or elsewhere in the IORP II Directive, contrary to OPSG's argument that Own Risk Assessment should encompass the IORPs' risk tolerance limits. However, EIOPA emphasized that the approach should

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be sufficiently principle-based to allow for flexibility in implementation at the national level. While this decision diverges from the OPSG's position, the Group does not perceive it as a significant issue if EIOPA's suggestion is adopted by the European Commission.

As a final remark, the OPSG is substantially satisfied with EIOPA's IORP II review advice with reference to adequacy and proportionality. EIOPA committed to working with national regulators to ensure existing proportionality rules are applied better and assured that small, low-risk IORPs won't be burdened with extra control and cost. Moreover, the OPSG and EIOPA agree on the new threshold for small IORPs, liquidity risk, reporting and the general role national authorities as the best placed to interpret and assess the specific peculiarities of their local IORPs.

Disagreements involve IORP size and structure as proportionality factors, because EIOPA prioritizes the use of risk profile. Furthermore, opinions slightly diverge on a (wider) definition of sponsoring undertaking, the risk assessment framework and risk tolerance limits. Consequently, EIOPA committed to working with national regulators to ensure existing proportionality rules are applied better and assured that small, low-risk IORPs won't be burdened with extra control and cost.



Francesco Briganti
OPSG co-team leaders on adequacy and proportionality



Ioannis Janakos

Box 1: Stress-testing IORPs, especially in the case of DC schemes

The OPSG prepared a position paper as a general advice to EIOPA and NCAs of how IORPs can establish adequate and proportionate risk assessment – especially in case of DC schemes. Risk assessment has always been a key functionality for IORPs. Additional guidance must take current existing practices in Member States into account. IORPs (DB and DC) focus on providing an adequate pension level at an acceptable level of risk, i.e. sustainably financing a certain guaranteed (DB) or envisaged/planned/targeted (DC) level of benefit payments. This is also relevant on a macro-economic level, as a pensioner receiving lower than expected benefits consumes less.

Compared to a DB plan, **a DC pension plan means less risk for the IORP. But the risk has not vanished, it has been shifted from the IORP and/or the sponsor to the members.** Hence, also in the case of DC schemes, the general risk structure and especially the risk of not reaching an envisaged pension target must be properly assessed from a beneficiary's point of view.

This starts with the design of the pension plan by the plan sponsor. **A risk assessment should take all relevant characteristics of the pension plan and the IORP into account** (e.g. demographic decomposition, regulatory requirements, achieved benefit level up to now, type and specifications of the respective pension product, payout options, benefits for widows/widowers/orphans, investment smoothing, life-cycling, guaranteed returns, sponsor involvement, contribution level, possibility for members to select investment strategy etc.).

The risk **assessment should cover the full risk spectrum**, e.g. market risks (using realistic market data but also allowing for some kind of mean reversion and long-term convergencies), inflation risk, counterparty risk, all kinds of operational risk that cannot be appropriately covered by a general formula, cost risk (only costs borne by the members, no offsetting, strict look-through, no taxes), liquidity risk, biometrical risks. As these risks may change, a risk assessment should therefore be updated regularly. A change of the investment strategy may be a consequence of such an update. It should be made transparent in the statement of investment principles. EIOPA may define certain principle based minimum quality criteria for the assumptions used (especially long-term-return-expectations, measures for volatility and interdependencies). If a DC plan does not offer protection against biometrical risks, the beneficiaries should be generally informed about the consequences of biometric risk for them by an independent institution, e.g. an NCA. An inclusion of labour market risk seems to be quite problematic due to missing objective data and the dependence on individual factors. The same holds for behavioural phenomena.

For DC pension plans, the IORP should take the risk tolerance of their members into account, especially when defining a "default investment strategy". An objective scientific methodology in this context is generally not available and asking the individual members about their individual risk tolerance would be problematic. Also, a member's risk tolerance may change during his/her lifetime, requiring regular updates. The sponsor can take the estimated risk appetite of certain cohorts of plan members into account when designing a DC pension plan.

Due to huge differences in national law and in the individual set-up of IORPs, the OPSG appreciated that EIOPA did not propose one single model but more general principles instead. A "one size fits all approach" can never work. **Although stochastic modelling is a powerful tool to assess risks, it is also adequate under aspects of proportionality, that IORPs (especially smaller ones) use deterministic models based on defined scenarios.**

The main results of the risk assessment should be disclosed to the beneficiaries only in a simplified form, which is easy to understand. Any kind of misunderstanding leading them to drawing wrong conclusions being disadvantageous for them must be avoided.

Further, the OPSG issued papers (commenting methodology, specifications and results of the 2022 stress test. For the OPSG a stress test is an important tool to assess the macro-impact of stress scenarios – this time a climate stress scenario had to be simulated - on the European occupational pension landscape seen as a whole.

Compared to the 2017 and 2019 stress test exercise, several changes in the specifications could be observed. **The OPSG especially appreciated the toolbox approach** meaning that not all single analyses should be done in every exercise. Instead, only those ones that are in the concrete focus of the relevant exercise must be performed. In 2022 mainly only CBS calculations had to be done, a cash-flow analysis was not required this time. Such a toolbox approach should clearly lead to a reduction in effort and complexity for participating IORPs (which was the case in 2022). This level of complexity should not be increased by enlarging the toolbox by introducing new additional analyses. EIOPA should primarily assess the consequences of stress scenarios on whole national economies and financial stability in total. This can be done, e.g. by summing up necessary sponsor support for IORPs participating in stress scenarios and/or accumulating financial gaps in stress scenarios not being closed by sponsor support or benefit reductions and/or summing up total benefit reductions of IORPs after stress.

For this kind of macro-prudential impact analysis, further information about the individual sponsor companies (which is often very difficult to get for the IORPs) is not needed. From a beneficiary's point of view, an evaluation of the effect of the stress scenario on the IORP's funding degree taking all security mechanisms into account, excluding benefit restrictions, would be reasonable.

When assessing adequate pensions for beneficiaries the (country-specific) weight of the first pillar also must be considered. **The OPSG still thought that the CBS approach was not the most suitable one for IORP stress tests**; in that context the OPSG appreciated that also analyses using national balance sheet conventions were included. The use of risk-free rates for investment earnings and for discounting liabilities in the baseline scenario was seen inappropriate and not market-consistent by the OPSG.

The OPSG did not think that a one-time instantaneous shock was a realistic scenario for the materialization for climate change risks. A gradual and continuous development – giving IORPs also the opportunity for suitable reactions - would be much more realistic. Such scenario cannot be simulated within the CBS, but within a cashflow-analysis. Different IORPs – and especially in different countries – are quite different from each other, which makes any comparison of results somehow difficult. Hence, national specificities should be reflected by necessary flexibility regarding the methodology and in the interpretation of results. The OPSG appreciated very much that this time a stress scenario had to be applied, which was economically plausible and consistent, contrary to the not plausible double-dip scenario used in previous exercises (where all interest rates used for the valuation of assets, also “risk-free” ones, increased and those used for the valuation of liabilities decreased). The level of granularity of the stress test was already quite high and should not be increased further. For participating IORPs the grouping of sponsor companies into NACE-activities had been very burdensome and sometimes several NACE-activities could be assigned to one

company. Further, it was not clear why this was needed in the context of a stress test. Since the Netherlands (NL) made up for 70% of the assets in the stress test, additional analysis by EIOPA would be recommendable to allow to differentiate NL-specific risks from risks which exist generally in Europe.



When assessing the risk of inflation, EIOPA should see that even if the IORP does not compensate for inflation, the occupational pension product can offer inflation protection (e.g. in some countries the employer does compensate for inflation in an occupational pension). A general comparison of DB and DC schemes is not insightful – especially regarding inflation. Also, some figures (e.g. %-share of investments in ESG-sensitive industries) should be put into a relative context and generally some results should be carefully interpreted and further analyzed before drawing concrete conclusions.

Dr. Stefan Nellshen, OPSG team leader stress-testing IORPs

Box 2: Revised decision on EIOPA's regular information request

► General Remarks

The OPSG acknowledged EIOPA's efforts to enhance pension statistics, benefiting supervisors, IORPs, policymakers, members, and beneficiaries. However, the OPSG stressed the importance of proportionality in reporting requirements to avoid imposing excessive costs on IORPs, especially small and medium-sized ones.

The OPSG questioned the timing of the review of reporting requirements, suggesting that EIOPA should first publish comprehensive analyses of the data collected since 2020. We proposed postponing the review by a few years to allow NCAs and EIOPA to gain more experience with the current requirements. We also emphasized that any new requirements should avoid double reporting and focus solely on necessary information for supervising the IORP sector.

The OPSG also noted that starting in January 2023, IORPs will face new disclosure requirements on sustainable investments due to SFDR (Sustainable Finance Disclosure Regulation) and Taxonomy regulations. Thus, we recommended aligning any new EIOPA requirements with existing national and EU-level regulations to minimize additional burdens.

► OPSG Answers to EIOPA Consultation Questions

The OPSG proposed postponing the review by a couple of years to gather more experience from the current reporting requirements. If new requirements are introduced, they should be effective from April 30, 2025, and aligned with NCA timelines. National and EU requirements should be harmonized to minimize costs. The OPSG agreed that the changes would reduce complexity and ensure consistency, identifying no unnecessary data points. We assessed the costs of changes to balance sheet reporting as medium, with particular concerns for small and medium-sized IORPs.

The OPSG agreed that the proposed changes are necessary for monitoring cross-border developments, and while the impact is generally low, we noted potential increased costs for IORPs. An additional column specifying the reporting basis would enhance comparability, but we disagreed with the notion that the additional information will result in low costs, warning against dual reporting systems. More granular NACE sub-codes would provide better insights for ESG analysis but would also increase the reporting burden and costs.

The OPSG found the changes less useful for IORPs' internal reporting and risk assessments, as many IORPs use more sophisticated data for risk assessments. We highlighted the need for improved data quality, particularly for external ratings, and assessed the costs of changes to the list of assets reporting as medium. The OPSG agreed on the necessity of a comprehensive overview of exposures, including UCITs, for proper market risk analysis, and emphasized the importance of IORPs understanding their exposures for internal reporting and risk assessments.



The OPSG assessed the costs of removing transitional provisions on UCITs as medium, due to the necessity of using different data sources. We supported the need for additional data on derivatives for proper risk assessment but found the current approach insufficiently proportionate, suggesting a focus on member states and IORPs where derivative use poses significant risks. The costs of mandatory derivatives reporting were also assessed as medium. We agreed on the necessity of a comparable basis for EIOPA's risk assessment at the EEA level and the collection of cash-flow data for managing liquidity risks.

Finally, the OPSG preferred Option 2 for cash-flow reporting (aggregated) or alternatively Option 1 and assessed the costs of all cash-flow reporting options as medium.

Matti Leppälä, OPSG team leader responsible for this file.

2.2. CROSS-BORDER ACTIVITIES AND TRANSFERS: OPSG AND EIOPA ADVICE ON IORP II REVIEW

► Cross-border activities

EIOPA agrees with the OPSG that the market for cross-border pensions has failed to materialize in any significant size. **The IORP II Directive has failed to promote cross-border activities.**

EIOPA proposes to change article 9 and to perform a prudential assessment as part of the authorization to establish an IORP; for the OPSG it remains rather unclear what is meant by “prudential assessment” and what the role of the host and home NCA will be in that assessment. Fact is that a very large majority of IORPS (more than 99%) operate only locally.

By changing article 9, the OPSG is of the opinion that we should avoid that in addressing solutions for “cross border” activities and transfers, the process of registration/authorization of an IORP will become unnecessarily complex, burdensome and costly. EIOPA considers with this convergence of the authorization process for all IORPS in all home MS however an envisaged “proportionate” application of the requirements; the OPSG supports proportionality but it has still to be seen how this will be implemented.

► Cross-border transfers

Regarding cross border transfers the OPSG would like to reiterate in its response to EIOPA’s consultation on the Review, as clearly stated in its Advice to EIOPA’s technical advice, adopted in March 2022, that “since the introduction of the (IORP II) Directive, there is no evidence of new cross-border transfers, even not between Member States where such transfers were happening previously”.

EIOPA as well as the OPSG agree on providing a clearer definition of majority of members.

The OPSG opts for a uniform EU definition for the majority (in respect to threshold and basis) for both (cross border and local) transfers to provide enhanced clarity and uniformity, as well clarification that the national law of the host MS takes precedence to define the majority of members since the majority relates to members and beneficiaries and is embedded in the national law of the MS whose SLL is applicable.

The level playing field between domestic and cross-border transfers, will lead to a more “balanced approach” since the same majorities will apply for national and cross border transfers within the MS. In this option the OPSG stated that it should be made very clear which national law of the host MS will be applicable.

Consistently with this option, and in a framework of non-discriminatory level playing field between domestic and cross border transfers:

- when majorities will be not requested to approve domestic transfers, then no majorities should be requested to cross-border transfers either;
- when the majority votes will be only expressed by the representatives of the scheme members, then this should happen for the cross-border as well;
- when majorities will be calculated on the basis on votes cast, then the same will apply to cross-border transfers.

The OPSG is of the opinion that EIOPA could hold an updated register of which relevant (SLL) laws of the host MS will be applicable at each time. As stated above, SLL applicable to pensions should be consistent and clearly defined by each MS without requirements related to governance, funding and investments which do belong to the prudential authority of the home MS.

EIOPA has additional concerns regarding the preferred option on majority as formulated by the OPSG but the OPSG is of the opinion that it is easy to overcome, such as a centralized register of different majorities. Indeed, EIOPA preferred another option to provide clarity on majority and advices to limit the uniform EU definition to only cross borders transfers; this policy option does not affect national requirements (if any) existing for domestic transfers and could lead to different majority requirements for domestic and cross border transfers, or a discriminatory definition of majority.

The OPSG is also of the opinion that indeed industry practice shows that part of the cross-border activities/transfers failed due to the majority requirement of all members and that a majority of votes cast could be a more feasible solution; EIOPA is aligned with this opinion and advises a simple majority on the received responses of members but leaves the freedom to the MS to install a minimum participation threshold, up to 25%.

► Growth of the Internal Market for Cross-Border IORPs: Aligned Views

EIOPA acknowledges that there is clear evidence that the original purpose of the IORP II Directive in terms of developing an internal market for cross-border IORP has failed and that incremental solutions will not develop the system under the current framework.

The OPSG agrees with EIOPA's statement that "with the current internal market, members and beneficiaries lose out on scale and potential savings of access to a wider IORPs market. This is particularly salient considering the massive issues expected for future Europeans in retirement with the current lack of pensions coverage. The complexity of the system is noted by both NCAs and the industry as a barrier. Not finding another way to foster an internal European market for pensions leaves the system to stagnate further."

The OPSG welcomes EIOPA's statement that "it would be a missed opportunity to not use the review of the IORP II Directive to look at alternative solutions, BEYOND the IORP II Directive, to grow the internal market for occupational pensions".

The OPSG has previously stated that:

- the Commission’s Call for Advice should invite EIOPA to analyze all the obstacles that hinder, or may hinder, cross-border activities and transfers within the EU, and **to offer new innovative solutions to break down those barriers;**
- such solutions would have to ensure that IORPs having no need to undertake cross-border activities do not suffer any disadvantages against cross-border IORPs and that no potential for any kind of regulatory arbitrage is resulting out of them.

Additionally, the OPSG also stated that there is a wide range of solutions that could be envisaged to encourage more cross-border pension provision. The OPSG with its broad representation of the industry, members and beneficiaries, academics and associations, **is well placed to advise EIOPA on these various possible approaches, on the back of a Call for Advice that would stimulate an open and unconstrained debate on the growth of the internal market for occupational pensions.**

The OPSG provides in its Advice multiple “Roads to this approach”:

- 1) The majority requirement for cross border transfers should not make a distinction between local and cross-border transfer; this will lead to a more “balanced approach” since the “same” majorities will apply for national and cross border transfers within the MS.
- 2) The OPSG is of the opinion that the two “major” barriers to develop an internal market is the heavy administrative burden/heavy “red tape” to go through the agreement process by all relevant NCA’s.

Practice shows that when a pan-European IORP gets its agreement in one MS, host NCA’s may insist on an independent legal opinion to certify that the local plan respect the SLL. This already follows from IORP II and seems therefore not to serve a legitimate purpose. Timelines and clarity on the process could facilitate cross-border and EIOPA could play a role as mediator. In order to tackle this problem, the role of EIOPA in bringing relevant NCA’s to effectively work together and provide reasonable procedures should be strengthened.

- 3) The OPSG welcomes all notification procedures which lead to simplification, more in particular, but not limited to harmonized DC-plans and welcomes as well any alternative solutions to growth of the internal EU-pensions market. Actions of ETS (European Tracking System), Pension Dashboard and auto-enrollment should be prioritized.
- 4) The OPSG started to explore if a pan-European occupational pension provision through a so-called 2nd regime could be a feasible additional option clearly, inspired to the PEPP Regulation, which might represent an alternative option to develop occupational cross-border DC pensions beyond the legal framework of the IORP II Directive.

Given the fact that uptake of PEPP’s has so far been disappointing, a timely review of the PEPP regulation might be called for. That could be an appropriate timing to discuss opening the PEPP framework for collective arrangements as well.

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- 5) Cross-border IORPs could benefit from participation in the National Tracking System of a host state NTS or a European Tracking System (ETS), giving members anytime access to the information. EIOPA can establish minimum information standards.

Finally, some broader considerations of social policy are important. The heterogeneity of coverage of occupational pensions is very huge amongst member states and pension adequacy is a real concern and becomes a major challenge in protecting the social and occupational welfare in the EU.

We see that a lot of EU workers do not have access to good occupational pensions. This is a really important issue also in the light of principle 15 of the European Pillar of Social Rights. EIOPA does not have sufficient mandate to address this problem, but the OPSG feels it should nevertheless be mentioned.



On this issue EIOPA, with the support of the OPSG developed an important advice to the Commission on a Pension Dashboard. It would be very helpful if the Commission brings this initiative, which comes from the CMU Action plan of the Commission itself, quickly forward.

Philip Neyt, OPSG team leader on cross-border activities and transfers

2.3. INFORMATION TO MEMBERS

2.3.1 IORP II REVIEW: OPSG AND EIOPA ADVICE

The *Call for Advice* by the Commission to EIOPA focused in this section on three main topics:

- Evaluation of implementation and effectiveness of the Pension Benefit Statement.
- Possible need of adaption of current information duties by pension providers related to issues like transparency on costs and charges and digitalization.
- Relevance of other types of business conduct requirements in the context of the shift to DC schemes.

► Pension Benefit Statement

In its Opinion the OPSG stressed the need for more empirical research on the effective use of the PBS. Therefore, guiding questions were formulated. The need for more empirical evidence was confirmed by EIOPA and a considerable number of NCAs in the Advice. OPSG and EIOPA agreed that no major complaints related to the use of the PBS neither by pension providers nor by members and beneficiaries were expressed up to now.

The OPSG draw these main conclusions:

- Standardization of the PBS should be enhanced on the national level of each member state, not on EU level, because cross-border employment is still under-developed.
- Digitalization “by default” should be strengthened.
- Layering of information should be used as much as possible in order to prevent “information overload” and referring to the concept of “most vital information”.

EIOPA’s Advice clearly confirmed these positions in its proposals for amendments of the General Provisions (article 38 of the current directive). EIOPA added some precisions related to the information to be given where member bear investment risk (information at least in monetary terms on all costs of administration and investments in current, directly and indirectly, over the previous 12 months, if applicable for investment options separately, and an estimation of the impact of costs on the final capital accumulated; cf. article 39 and 41 of current directive). The concept of information layering is broadly used by EIOPA’s advice on sustainability factors included in the PBS.

► Additional information requirements by pension providers

Looking at EIOPA’s Annual Reports or its Consumer Trends Reports it may be stated that since 2018 and the implementation of IORPs II Directive (in some member states delayed) – fortunately – the issue of the information duties of IORPs seems not to be in the focus of any major criticisms. Therefore, the OPSG expressed the general opinion that the main focus of EIOPA’s forthcoming technical advice should be the evaluation of the implementation of the existing information

requirements of the current IORPs II directive for prospective members, current members and beneficiaries before adding any new requirements.

This statement does not exclude that there are some particular areas of concern like the digitalizing of information documents, the integration of information regarding ESG aspects in the pre-contractual phase or the broader scope of business of conduct rules which already now should be taken into consideration with regard to information requirements.

EIOPA supported this view by pointing out in its advice which supplementary information requirements should be added (like assumptions used for the pension benefit projections including the annuity rate where applicable, past performance of investments for a minimum of ten years and members bear the investment risk or can take investment decisions, in case of variable annuities projections of the potential variation in the amount of the pay-out over time).

► Other business conduct requirements

In its opinion the OPSG stressed the necessity to enlarge the scope of supervision mainly referring to the headlines of Title V (articles 45 to 59) and especially of article 46 of the current IORPs II directive (EU/2016/2341). In consequence, stressing the importance of this issue, an amendment should be that the “scope” of supervisory activities shall be enlarged to “prudential, governance and conduct of business supervision” in the headlines of Title V and article 46 of the revised IORPs II directive.

EIOPA went beyond this statement by recommending the establishment of an additional duty of care principle towards the members and beneficiaries of IORPs. This new principle should only be applied under the premises of proportionality.

2.3.2 SUPERVISORY REPORTING OF COSTS AND CHARGES OF IORPS

In January 2021 the discussions started by setting up a working group on “full cost transparency”, which highlighted the fundamental dimensions of this issue:

- Pre-enrolment, accumulation and decumulation phases;
- Obligatory and voluntary cost categories and cost indicators;
- Reliability, understandability and comparability of any cost disclosure for members and beneficiaries.

These points were continued and extended by the OPSG contributions to the opinion on the supervisory reporting of costs and charges of IORPs, finished in July 2021, and complemented by the relevant section in the OPSG Advice on the review of the IORP II Directive of 26 January 2023.

Considering that **a transparent and comprehensive view of all costs and charges is essential for IORPs, social partners and supervisors to assess the efficiency, value for money and affordability**

of occupational pension schemes, the OPSG set out expectations on the supervisory reporting of costs and charges of IORPs, using a proportional and risk-based approach.

The OPSG provided a generic classification of all costs to be reported to national supervisors, including templates, both for supervisors to collect cost information from IORPs and to assist IORPs to collect cost information from investment managers. Moreover, principles were provided for the compilation of the cost information, most notably the look-through principle, meaning that not only direct investment costs have to be included but also indirect costs at the level of investment managers – they should practicably be assessable for the IORP without any undue additional costs.

The OPSG also provided guidance on the supervisory use of the cost data. National supervisors are expected to assess the efficiency of IORPs, affordability for sponsors and the value for money offered to members and beneficiaries, not considering the costs in isolation, but in conjunction with risk and return characteristics and other individual partially qualitative criteria.

Some OPSG members only agreed upon the nominal amounts, but not upon the percentage of average assets under management. Other OPSG members stressed that in certain cases it is right to report costs as a percentage of AUM. The reporting of the costs as a percentage of average assets under management (basically costs related to the investment of the assets) should be assessed considering the landscape of IORPs at national level.

As costs are to cover expenses, **it was agreed the administrative costs to be reported as nominal amounts per member / beneficiary to enable a comparison with the nominal costs.** For investment related costs, it was suggested to report them both as a nominal amount and as a percentage of assets under management.

Some members agreed to introduce summary information in the PBS relating to any sustainable investments. As - for example - the templates of pre-contractual or periodical disclosure for the financial products referred to in Articles 8 or 9 of Regulation (EU) 2019/2088 and Article 6 of Regulation (EU) 2020/852 will encompass six pages each, it is necessary to use the concept of information layering. The pre-contractual information duties of IORPs should be aligned with the relevant EU regulations in this context (mainly SFDR: EU/2019/2088 and DelReg (EU/2022/1288) as much as possible.

Other members were more cautious on the inclusion of summary information on sustainable investments on the PBS, because they considered the current reporting under SFDR to be largely sufficient. More broadly, for IORPs to comply with SFDR is proving to be difficult and expensive. Further reporting on SFDR under the PBS would be unduly burdensome, without adding any added value to members; in fact, they can already rely on a broad set of sources of information on sustainability matters.

The proposals on the standardization of the PBS at national level by the NCA were welcomed to fully consider the heterogeneity of IORPs across the EU. It would be a significant step forward at least in countries where members can make choices, comparison would be of paramount importance. The

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experience of some member states in that respect is very positive. Similar standardization should be also followed for the criterion of projections in the PBS.

2.3.3 CONSUMER TRENDS REPORTS 2021 – 2024

Subsequently, for all four reports, contributions were made covering main developments related to court decisions, new business, product innovations, sustainable investments, shift from DB to DC schemes, initiatives for pension reform, digitalisation of services, implementation of Pension Dashboards and Pension Tracking Systems, impact of particular challenges like the pandemic or inflation, etc. All subgroups of stakeholders participated, and inputs for nearly all member states represented by the OPSG members were given. Therefore, the variety of facts delivered for EIOPA's annual reports was guaranteed reflecting the heterogeneity of occupational and private pension schemes in the EU.



Christian Guelich, OPSG leader on information to members

2.4. DEFINED-CONTRIBUTION SCHEMES

2.4.1 OPSG'S ADVICE TO EIOPA

In the first half of 2021 the OPSG prepared a Reflection Report on EIOPA's Proposal to work on Defined Contribution Principles – Proposals for Good Practices. It had been intended at the time that EIOPA would commence that work in Q4 of 2021, but that was subsequently deferred. The OPSG welcomed the objective of the proposed work and noted that EIOPA was well placed to carry out the work.

EIOPA had proposed an approach with core questions, comprising the following building Blocks:

- Manage the shift away from DB to DC.
- Make occupational DC pensions more engaging with members.
- Future-proof occupational DC pensions.
- Guide the transition to retirement.
- Protect future beneficiaries.

The OPSG Reflection Paper commented on each of the blocks and the core questions. The main observations made were:

- Many countries have not had DB pensions so were not experiencing a shift. DC pensions should be viewed in the context of the entire pension system.
- Starting to save early, paying sufficient contributions and a focus on costs and fees are important aspects in ensuring adequate benefits.
- It would be useful to examine the balance between giving individuals choice and making decisions on their behalf or offering efficient default options.
- It is important that DC pensions are well designed and robust but also adaptable to a changing environment, particularly as the nature of work is likely to continue to evolve.
- The role of advice, collective arrangements, annuities (including deferred annuities) and programmed withdrawals should be examined, taking into account all sources of pension income, the cost of the protection and the impact of the current low interest rate environment.
- It would be useful to look at the costs and benefits of regulation, particularly what is appropriate for different types of DC models.
- The OPSG suggested that the blueprint for sustainable and adequate DC pensions should also include a block dealing with investment strategies.

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The OPSG finalised the paper by including external work and country experiences that would be relevant and could provide a useful input to EIOPA's work.

2.4.2 OPSG'S COMMENTS ON EIOPA'S ADVICE

While the original work planned by EIOPA has not proceeded, some of the points made were reflected in the "Shift from Defined Benefit to Defined Contributions" section of EIOPA's Call for Advice on the IORP II Review. The OPSG also provided a response to the Call for Advice. The main points covered in the OPSG response are listed below.

▶ Long-term risk assessment

The OPSG view was that the ORA should deal with this and that it was too early in the IORP II implementation phase to determine if anything further was required. The OPSG also stated that additional requirements from EIOPA-BoS-21/429 of 07 October 2021 should be implemented. If EIOPA did intend to proceed, principles rather than specific standards should be formulated.

EIOPA advised that, for schemes in which members and beneficiaries bear material risk, IORPs should enact long-term risk assessments from the perspective of members and beneficiaries in order to better address their needs and expectations, taking into account national specificities of the IORP sector and a proportionate approach in the process of implementation.

EIOPA did set out some principles and also stated that the documentation of the risk assessment could be introduced into the ORA.

▶ Supervisory costs and reporting

The view of the OPSG was that transparency is critical to ensure value for money for members. There are no disadvantages to reporting but the focus should be on value rather than lowest cost.

EIOPA advised that NCAs require IORPs to report on an annual basis information on all costs and charges of schemes where members and beneficiaries bear risks, according to the principles, and with the definitions and templates set out in EIOPA's Opinion on the supervisory reporting of costs and charges of IORPs.

▶ Complaints procedure and alternative dispute resolution

The OPSG agreed that this was a reasonable advice and already existed in many countries.

EIOPA advised the introduction of a principles-based requirement for IORPs to have a transparent complaints and ADR procedure (Option 1). The procedure should be proportionate to the nature, scale and complexity of the activities of the IORPs.

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► **Increased transparency of national competent authorities – risk assessment framework**

The OPSG saw no disadvantages to this.

EIOPA advised the introduction of a requirement for NCAs to provide a high-level overview of their risk assessment framework, as part of the information publicly provided in the framework of the supervisory review process as set out in Article 51 (2) (b) of the IORP II Directive.

► **Member and/or beneficiary involvement in IORPs governance**

The OPSG agreed that this was a positive proposal although there can be practical issues for very large schemes.

EIOPA advised the introduction of a principles-based requirement for IORPs to demonstrate that their members and beneficiaries have had the opportunity to contribute in a meaningful way in the decision-making of the IORP in matters that have a direct impact on the members and beneficiaries themselves, in accordance with the scope of the IORPs' responsibilities and acknowledging the primary responsibilities of social partners and sponsors, where relevant.

► **Fit and proper requirements**

The OPSG agreed that it was reasonable that those responsible for the running of DC IORPS would have competence in the specificities of DC risks.

EIOPA advised an amendment to Article 22(1)(a)(i) of the IORP II Directive to acknowledge that the collective fitness of those who run IORPs should include the knowledge and competencies enabling them to address the different levels of risk that members and beneficiaries are exposed to, depending on the nature of the schemes they are part of.



In summary, many of the initial proposals made by EIOPA were found to be reasonable by the OPSG and, therefore, the final advice, to a very large extent, was in line with the views of the OPSG in our response to the Call for Advice. This is a good reflection of the very constructive engagement between the OPSG and EIOPA on DC matters throughout the term of the OPSG.

Jerry Moriarty, OPSG leader on DC pensions

2.5. SUSTAINABLE FINANCE

2.5.1 OPSG AND EIOPA ADVICE ON THE IORP II REVIEW

In its position on the evaluation and review of the IORP II Directive, the OPSG took as basis for this work the “Opinion on the supervision of the management of environmental, social and governance risks faced by IORPs”. In this Opinion, EIOPA highlighted their increased need to take into account the potential long-term impact of investment decisions on ESG factors in order to support society’s sustainability goals and be in line with the European Commission’s strong sustainability policy agenda. The Opinion touched upon the system of governance, the investment policy and the risk-management system as well as the own risk-assessment and the information to members.

Against this backdrop, and in reference to the ‘investment policy’, the OPSG suggested a further improvement of ESG integration by mandating¹ considerations around the long-term impact of IORPs investment decisions on ESG factors with the Prudent Person Principle. This could be done by amending the provision of Article 19 (1) (b) without prejudice to the objective of providing occupational retirement benefits and in line with proportionality requirements. In case of collective DC schemes with paritarian governance arrangements, it remains the role of Boards to act upon ESG investment decisions.

The position taken by EIOPA on this point in its advice to the European Commission, remained less audacious and rather followed the strict lines of conduct of ‘proportionality’ rules; therefore, encouraging IORPs to explain the (ESG-related) aspects determined as ‘material’ and feasible to be addressed always in line with the individual size, resources and capabilities of the individual IORP.

The OPSG felt the importance to joining the dots with the other directives or the sustainable finance package, particularly the CSRD²; for this reason, the OPSG stressed that double materiality considerations could be increasingly tested as part of the exercise to integrate ESG elements in the investment policy for IORPs. This element also builds on the new requirements for institutional investors EIOPA had previously touched upon it’s the previously cited ‘Opinion’.

EIOPA is aligned with the OPSG on this point as it emphasized the need to use the double materiality lens while integrating risk considerations, particularly in relation to the Solvency II framework, both in the monitoring phase and in relation to the long-term impact of their investment strategy.

A second recommendation made by the OPSG was to improve the sharing of information (also around ESG) to beneficiaries, and to request IORPs to retrieve information from their fund managers regarding their voting results at AGMs to make those available in turn to their beneficiaries. Also, as

¹ Article 19 Investment rules 1. Member States shall require IORPs registered or authorised in their territories to invest in accordance with the ‘prudent person’ rule and in particular in accordance with the following rules: (b) within the prudent person rule, Member States shall ~~allow~~ **require** IORPs to take into account the potential long-term impact of investment decisions on environmental, social, and governance factors

² Approved by the European Parliament on 10th November 2022

part of the OPSG contribution on technical advice for the review of the IORP II Directive³, the members supported the possibility (and with the support of NCAs) to gauge sustainability preferences of beneficiaries, making use of technology solutions which can provide in an efficient way the possibility to also raise awareness on ESG risks. This point was fully supported by EIOPA⁴, as they refer to Article 3g(1) of the Shareholder Rights Directive II (SRD) which sets out how IORPs must develop and publicly disclose an engagement policy describing how they integrated stewardship in their investment strategy.

Finally, to help ease the burden for smaller IORP in support of proportionality, the OPSG recommended that EIOPA together with the other ESAs and in collaboration with EFRAG, develop a platform⁵ where IORPs can learn and share examples of best practices to deal with ESG risks, to streamline and facilitate their work. This recommendation was not endorsed by EIOPA.

2.5.2 UNDERSTANDING WHAT IS GREENWASHING

EIOPA and the other European Supervisory Authorities (ESMA and EBA) received on 23 May 2022, a [Call for Advice \(CfA\) on Greenwashing](#) from the European Commission. In this context, EIOPA sought the OPSG's input to inform its work on the CfA on greenwashing.

The OPSG agreed to differentiate between 2 different types of greenwashing components: misleading intentionally or through negligence. Importantly, it considered that where one does not promote (i.e., advertise) its sustainability approach AND if there are only mandatory memberships in the respective IORP AND if there are no investment options for the beneficiaries to decide, greenwashing cannot occur by definition, and no further extensive reporting or data requirements are needed.

2.5.3 OCCURRENCE OF GREENWASHING

Typically, a pension product that has investments in funds from different product providers/asset managers is subject to those funds having their own/different definitions of what is a sustainable investment, different indicators and targets, and different exclusion policies. This state of things can make it very difficult to have a comprehensive portfolio view on sustainability related characteristics. Therefore, **it should be important for pension providers to define first their own sustainability policy, indicators and targets precisely and independently and make sure they are incorporated in the investment process of the pension product** (whole portfolio and look through basis regardless of the investment vehicles). For IORPs, this could mean, for instance, the alignment between the ORA and SIPP, in as much as the ORA as a relatively new requirement can lead to clear

³ May 2023 - Consultation paper on technical advice for the review of the IORP II Directive

⁴ 'Technical Advice for the review of the IORP II Directive page 191'

⁵ EIOPA could join forces, if not already foreseen, to collaborate with the EC on The European Single Access Point

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evidence of how potential ESG/green/sustainability claims are enacted in the risk policy, including a rigorous due diligence process.

Furthermore, **pension providers should have a stewardship and engagement policy in place (already as part of SRD II requirements)** and be able to ensure that the partners they delegate investment functions to have such policy, to be able to trigger changes in their investee companies.

The OPSG also called for further harmonisation between the different relevant directives (EU Taxonomy, SFDR, Mifid II) to help increase clarity of requirements while fostering the creation of a level-playing field, consequently advocating in favour of more guidance on ESG data provision, facilitating available standards for comparison, efficient use of available scenario analysis and stress tests tools. Such elements may be converging towards the set-up of a specific label as a valid standard of reference.

The OPSG also agreed that, while acknowledging the significance of the SFDR and the improvements in transparency it represents, its requirements could gain in simplification, particularly in the context of IORPs (particularly of small sizes).

In view of current existing standards (established or in the making), such as the Net zero and carbon neutrality for companies, where there is still quite some confusion (the real meaning of these strategies and the possibility to report on their impact), the OPSG further recognised that achieving Net Zero in the context of portfolio management and investment hasn't so far reached consensus in terms of best practices.

It also highlighted the role IORP Boards can play in the accumulation phase to help avoid greenwashing, in particular with the provision of accurate induction and regular training for members on sustainability. The Board needs to take accountability for the sustainability commitments of the IORP all along the value chain and needs to take ownership of the management of the same.

The sustainable finance regulatory framework is a great progress towards a greener financial system, but it also creates challenges that can lead to certain shortcomings due to the suboptimal sequencing of directives. For example, the timeline gap in the application of different regulations, namely SFDR, taxonomy regulation, CSRD creates a real data gap for investors to disclose



information that is non-existent. This means that while the original goal is to foster transparency and adoption of standards, the use of proxies that lack transparency and the application of varying definitions across the industry are starting to become the norm.

Flavia Micilotta, OPSG team leader on sustainable finance

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Box 3: Sustainable investments for IORPs: risk, return and inclusion properties

The OPSG prepared an own-initiative advice on sustainable investments for IORPs. In this advice, the OPSG welcomed both the opportunities provided by ESG investments and the mitigation of ESG risks by insurers and pension funds. The contribution of ESG investments to return and risk becomes crucial, because the asset allocation of IORPs should be consistent with the ESG preferences of policyholders and pension scheme members.

The OPSG reviewed the state of the art in ESG investing, namely how ESG factors enter into the investments process of institutional investors, which include IORPs, as well as the outcome of such investment process. There are motives for ESG investments to provide higher returns than non-ESG-tilted ones, as well as reasons for the opposite relation to hold, especially for stocks. The OPSG recognized that, consistently with these motives, past performance of ESG investments, both stocks and bonds, is mixed. For bonds, the relationship between credit and ESG rating is crucial in determining the spread.

The market is undergoing profound changes, though. Investor preferences, including underwriters' customers and pension scheme members' ones, are more and more sensitive to ESG factors. Also, the inclusion in the financial market of younger investors, such as the Millennials, who appreciate ESG policies, is pushing the demand for ESG assets. This higher appreciation for ESG assets on the part of households and their intermediaries, together with regulation, has pushed up realized returns over the last years, but is likely to diminish expected returns over the future, and to make capital less costly for ESG-compliant firms. ESG rating uncertainty is also rendering returns on green assets higher in the short run. In the long run, brown assets should get a positive premium, in order for investors to hold them.



The final outcome on extra returns for institutional investors is not clear-cut, given the rapid development of the market. But risks, especially climate-related ones, should be reduced, which is per se a welcome perspective for IORPs, that the OPSG welcomed.

Consistently with the EU spirit, both the inclusion of new investors and the change in the attitude of extant investors is likely to improve the contribution of finance to sustainable and inclusive growth. The OPSG welcomed the contribution to growth and inclusion per se.

Elisa Luciano, OPSG member responsible for this advice

2.6. DIVERSITY AND INCLUSION

2.6.1 OPSG'S ADVICE TO EIOPA

► Views on Recommended D&I Requirements in Management Bodies

Under the leadership of Matti Leppälä, the OPSG acknowledged the importance of diversity and inclusion in the management bodies of IORPs for enhancing decision-making processes. We supported the introduction of a comply-or-explain principle for D&I on management boards but highlighted the need for a more thorough analysis. The consultation paper referenced experiences from banks, suggesting that female directors are more likely to consider long-term societal issues, such as climate change. However, this argument needs deeper investigation specific to IORPs, whose governance significantly differs from corporate structures.

IORPs are typically not companies and often have a triangular relationship involving employees, the sponsoring employer, and the IORP itself. Members of IORP management bodies usually represent social partners, focusing on the interests of members and beneficiaries. Thus, issues in representation should be viewed as agency problems rather than gender issues.

Several countries like the Netherlands, Sweden, and Italy already have policies promoting D&I in IORPs through self-regulation or guidance. Other countries, such as Germany, mandate D&I requirements through company law. The OPSG sees potential in a European approach but insists on a thorough assessment of national approaches before moving forward. Additionally, we suggested considering diversity aspects beyond gender, such as age, to better reflect the structure of IORP members and beneficiaries.

► Views on an European Definition of D&I

The OPSG supported EIOPA's proposal for a coherent definition of D&I at the European level. We emphasized the importance of aligning new definitions with the existing comprehensive EU legal framework on D&I. Any new definitions should not ignore the complexity of current D&I aspects legislated within the EU.

► Views on Public Disclosure in Annual Reports

The OPSG agreed that enhanced reporting is vital for improving D&I in IORPs, as many national competent authorities do not currently collect D&I information. However, due to the heterogeneous nature of IORPs across Europe, the OPSG recommended leaving the specifics of new reporting requirements to Member States, potentially guided by standards developed by EIOPA. We cautioned that many IORPs have small management bodies, making gender representation targets potentially less meaningful. The priority should remain on ensuring all board members meet fit and proper requirements.

► Additional Key Points

- **Proportionality in D&I Requirements:** The draft advice limits proportionality to the nature, scale, and complexity of IORP activities. However, the OPSG believed that the size and internal organization of IORPs should also be considered, as D&I issues involve practical feasibility, not just risks. Since IORP management bodies are often small, D&I requirements should not impede the ability to find qualified board members.
- **Gender-Neutral Remuneration Policies:** The draft advice suggested new articles on gender-neutral remuneration policies but lacked a description of the existing legal framework or the specific issues the new legislation aims to address. The OPSG pointed out that equal pay for equal work is a long-standing EU principle, now legislated in Article 157 of the Treaty on the Functioning of the European Union (TFEU). It's unclear what additional value these proposals would add to the existing binding legal framework.
- **National Social Models:** IORPs are deeply embedded within national social models, often governed by social and labor law, which is under Member States' jurisdiction. Managed by social partners, the nomination of management body members should reflect this aspect, which is included in the draft advice.
- **Fit and Proper Requirements:** The OPSG concurred with EIOPA that the primary focus should be ensuring all management body members are fit and proper, rather than solely meeting D&I quotas.

2.6.2 OPSG'S COMMENTS ON EIOPA'S ADVICE

EIOPA acknowledged that diversity and inclusion in management committees and recruitment strategies are critical components for the effectiveness of IORPs in its recommendations for the IORP II review. It recommended that diversity and inclusion be considered when determining the structure of management bodies. Additionally, diversity and inclusion should be integral to the recruiting policies of IORPs in general (Option 1).

This reasoning was also expressed in the previous consultation paper. EIOPA welcomed the alignment of diversity and inclusion (D&I) matters across various financial sector regulations. Specifically, EIOPA advised three changes to achieve these goals:

1. Inclusion of a new provision in Article 21, requiring Member States or competent authorities to ensure IORPs engage a broad set of qualities and competencies when recruiting members to the management or supervisory body. For this purpose, a policy promoting diversity and inclusion shall be implemented.
2. Inclusion of a new provision in Article 21 to introduce a target for underrepresented genders in the management or supervisory bodies.

3. Introduction of a principle for remuneration policies in Article 23(3) to ensure they are gender-neutral.

The OPSG agreed with EIOPA on introducing a comply-or-explain principle for D&I on the management board. However, the OPSG noted that the rationale behind some recommendations lacks proper analysis of key issues. Specifically, the advice does not recognize the triangular relationship between the employer company, employee, and IORP, nor the significant role of social partners in the governance of many IORPs. Additionally, any advice and proposals should be based on data and a thorough analysis of practices in the IORP landscape. Comparisons with other sectors, such as banking, should be considered supplementary tools rather than the sole source of policy recommendations. Furthermore, the OPSG believed that established practices through non-binding self-regulation or guidance in some Member States had not been adequately considered. Finally, given that some IORPs have very small governing bodies, the OPSG emphasized the importance of proportionality in D&I measures.

On remuneration policies, the OPSG pointed out that this issue is addressed in Article 157 of the Treaty on the Functioning of the European Union, which has direct legal effect. Therefore, legislating on the same issue in the IORP directive would be superfluous.

Regarding reporting on D&I, EIOPA advised amending Article 21 of the IORP II Directive to require Member States to ensure IORPs regularly report their policies promoting diversity and inclusion to the competent authorities, and that these policies should be publicly disclosed. The OPSG agreed that developing reporting is important but noted that it can be burdensome, especially for smaller IORPs. Therefore, the principle of proportionality should be considered.

Box 4: Gender pension gap and occupational pension sector

The OPSG prepared an own initiative advice to contribute to tackling the pervasive challenge of the gender pension gap within the realm of occupational pensions. Delving into various sources of research, including comprehensive data from SHARE, the OPSG conducted a thorough diagnosis of the problem. The findings underscored evident gender disparities in pension coverage and benefit amounts.

Diversifying pension systems and relying on supplementary, including occupational, pension pillars may contribute to increasing gender inequalities in the allocation and level of benefits. This difference comes from many factors deeply connected to how the job market works. Part-time work, predominantly shouldered by women due to caregiving responsibilities, along with gender segregation across industries, significantly contribute to the widening gap. Moreover, the persistent gender pay gap and limited access to training opportunities further exacerbate the inequity.

Recognizing the complexity of the issue, OPSG put forth a series of comprehensive recommendations aimed at addressing the multifaceted nature of the gender pension gap. Among these recommendations was the call for equalizing retirement ages between men and women.

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Additionally, OPSG advocated for the promotion of survivor benefits within occupational pension schemes, providing a vital safety net for widows and widowers. Furthermore, OPSG highlighted the importance of enhancing financial education, particularly tailored to bridge the gender gap in financial literacy. This includes providing easily accessible and understandable information about pension plans, empowering individuals to make informed decisions about their retirement savings. Moreover, OPSG emphasized the significance of incentivizing employer contributions during parental leave, ensuring that women can continue to accrue pension benefits even during periods of caregiving responsibilities. Collaboration among policymakers, employers, and financial institutions was identified as pivotal in implementing these recommendations effectively.



In conclusion, the OPSG underscored the urgent need for concerted efforts to address the gender pension gap within occupational pensions.

Janina Petelczyc, OPSG leader on this advice

3. PERSPECTIVES ON THE FUTURE OF PENSION SYSTEMS

3.1. FUNDED PENSIONS CONTRIBUTION TO INCOME IN LATER LIFE, GROWTH AND EMPLOYMENT

Under the leadership of Francesco Briganti, the OPSG prepared an own initiative advice, arguing for the urgent need for EU member states and the EU to promote efficiently funded pensions. This paper lists reasons why these pensions are not only necessary for the income of future pensioners but also because developed funded pensions can significantly contribute to higher economic growth, increased employment in the EU, and improved stability in the euro area.

The paper serves as a platform for reflection rather than prescribing solutions, with the aim of sparking ideas and discussions among decision-makers and stakeholders. For clarity, when referring to "funded pensions," this paper encompasses all pension products operating on a funded basis. This includes occupational (workplace) second pillar, personal/individual third pillar, and first pillar "bis," which represent the secondary layer of traditional PAYG social security retirement schemes. Furthermore, regarding occupational pensions, the paper recognizes that these should not be exclusively associated with IORPs. This consideration arises from the fact that in some Member States, occupational pensions are provided by entities such as life insurers, asset managers, and non-financial companies (employers themselves).

The paper's first premise is that the economic and financial conditions of individual EU Member States, including their pension systems, carry broader implications for other states and the EU as a whole. Although pension policies primarily fall under national responsibility, the paper acknowledges that the EU frequently intervenes in national pension affairs through various means. These include the European semester's annual Country Specific Recommendations (CSR), the European Pillar of Social Rights, numerous reports, and several other EU initiatives. Furthermore, the EU's influence on pension systems has expanded through legislative, supervisory, and jurisprudential measures. These encompass aspects related to fundamental freedoms, the internal market, consumer protection, and economic governance, which extend to ensuring the financial stability of banks, securities and markets, insurance companies, and pension funds.

Acknowledging the mounting pressure on PAYG schemes due to aging population, characterized by increased life expectancy and low birth rates resulting in a structural rise in the number of pensioners alongside a continual decline in active workers, the OPSG recognizes that funded pension coverage remains notably low in Europe. For instance, the Netherlands holds more than half of the total assets of occupational pension funds among the 27 EU Member States. The OPSG

also notes that incentives alone may not suffice to address this issue adequately, particularly in certain Member States. In this context, the OPSG welcomes initiatives outlined in the Capital Markets Union (CMU) 2020 action plan, including the Report on "Best practices and performance of auto-enrollment mechanisms for pension savings," published by the European Commission in November 2021. Additionally, the OPSG suggests that mandatory obligations or nudging mechanisms to promote participation in funded pensions warrant serious consideration in some EU Member States. This also by keeping in mind that building a decent pension pot requires decades of contributions over one's working life.

In this regard, the OPSG acknowledges that some EU Member States still rely heavily on PAYG systems with high contributions. The introduction of mandatory obligations and/or nudging mechanisms to encourage additional contributions to funded pensions for complementary pension schemes might pose a challenge. This is especially true given the limited financial capacity of some workers and employers to contribute to occupational pensions and/or individual private pensions, particularly among low-income individuals. The paper proposes some solutions to address this challenge. For instance, redirecting a portion of mandatory contributions from PAYG schemes to funded pensions for young workers and adjusting PAYG pension payments to align with funded pension payouts upon retirement are among the suggestions. However, the paper acknowledges that it is crucial to consider transitional costs associated with maintaining public pension sustainability in such scenarios.

According to the paper, the transition from Defined Benefit (DB) to Defined Contribution (DC) systems, coupled with pension reforms, has sparked concerns regarding intergenerational solidarity and the financial stability of younger generations. On one hand, various pension reforms, characterized by a reduction in future pension benefits, fewer guarantees, and a certain individualization of pensions' accrual have predominantly impacted newer generations. On the other hand, younger cohorts often find themselves navigating an uncertain work landscape, marked by lower wages compared to their parents and the burden of inheriting substantial public debts, resulting in higher taxes and elevated labor costs.

Ensuring sufficient pension provisions in old age stands as a paramount objective, with the European Pillar of Social Rights (EPSR) highlighting the entitlement of workers and self-employed individuals to pensions proportional to their contributions and ensuring an adequate income. More in general, the paper states that very first notion of pension adequacy pursued by Governments should be to ensure pension income -independent of the previous wage income - permitting pensioners to live not only above the poverty level, but also in dignity. Once this baseline income threshold is attained, voluntary schemes should cater to individuals seeking to augment their pension revenues further.

Access to comprehensive information about pension entitlements is crucial for making informed decisions. Therefore, providing an overview that encompasses all three pillars of pension systems—first, second, and third—should play a pivotal role. This is why the paper welcomes the introduction of pension dashboard initiatives at the European level and underscores the importance of well-

structured, trustworthy, and transparent national and European pension tracking systems (PTS). Furthermore, financial education is deemed essential for enhancing understanding of the pension landscape. The paper advocates for member states to promote initiatives leveraging technology, digitalization, and social media, particularly targeting the youth, while ensuring the dissemination of accurate and reliable information and distinguishing between credible and misleading sources.

Assuming that individuals will not become financial experts overnight, the paper suggests complementing the financial education initiatives with a requirement for financial institutions to provide "simple, cost-efficient, and transparent" products. Additionally, it advocates for qualified advisors, good governance, and the active involvement of trade unions. Embracing financial technology (Fintech), including innovative distribution solutions for pension products, is also recommended. Moreover, the paper stresses the importance of high-quality default options for pension products, particularly for those lacking familiarity with financial literacy.

Labor market shifts, which include non-standard employment, present challenges to pension coverage, highlighting the need for solutions to guarantee comprehensive pension schemes for all workers. This may entail, as posited by this paper, overcoming entrenched norms and practices that restrict access to occupational pensions solely to workers with traditional employment contracts, and expanding coverage to encompass atypical employment arrangements such as gig workers, part-time employees, and the self-employed. Consequently, there is also a compelling case for national labor market regulations to extend (mandatory) pension entitlements to non-standard workers and solo self-employed individuals.

Given that social dialogue is deeply intertwined with occupational pension schemes, enhancing social dialogue and collective bargaining could also significantly enhance pension coverage, particularly for non-standard employment. Concurrently, while mandatory collective occupational pensions must be maintained, fostering conditions for a robust and competitive private pension market (both second and third pillars) could also benefit individuals not covered by funded pensions, providing them with options. Additionally, the Pan-European Personal Pension Product (PEPP) holds the potential to play an important role in this regard.

Concerning job mobility, the paper underscores that individuals may transition from an employer providing a workplace pension to one that does not. There's also the possibility that these individuals will alternate between periods of conventional employment contracts and self-employed endeavors. Solutions need to be swiftly identified, given that this mobility represents the future employment model for new generations in Europe. Portability should also be facilitated between different pension schemes, particularly DC ones, irrespective of the individual's job status.

Barriers to accumulating and safeguarding funded pensions amidst geographical mobility could be addressed by bolstering the aforementioned European tracking system (ETS). Additionally, enhancing balanced portability solutions across member states, particularly for DC schemes, and addressing the legitimate question of tax treatments are essential steps. Member States offering tax incentives during the accumulation phase (EET) risk losing pension taxation from workers who

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relocate before reaching the payout phases. Cross-border pensions, both personal and occupational, could also offer added value. Consequently, the paper suggests concrete improvements to both the functioning of the PEPP and occupational cross-border pensions.

The OPSG underscores the pivotal role of funded pensions in fostering economic growth and employment. Firstly, the paper emphasizes that bolstering funded pensions, alongside gradually reducing future PAYG pension expenditures—particularly when they strain public finances excessively—could serve as a fundamental driver for freeing government budgets for other strategic purposes. Secondly, the paper contends that a significant increase in capital invested in well-developed funded pensions can bolster anti-cyclical investments, facilitate infrastructure development, support SMEs still heavily reliant on bank credit, and promote diversification and consolidation in capital markets. This, in turn, can enhance the EU's geopolitical standing. Lastly, addressing environmental, social, and governance (ESG) concerns in pension investments would align with EU objectives, promoting sustainable finance and addressing societal challenges.

3.2. PENSION DASHBOARDS AND PENSION TRACKING SYSTEMS

3.2.1 PENSIONS DASHBOARDS

The concept of a Pension Dashboard was developed (in 2021) in response to the European Commission's call for technical advice on enhancing pension adequacy monitoring. This initiative stems from the broader Capital Markets Union action plan, aiming to provide a transparent, comprehensive, and up-to-date view of pension adequacy across the EU member states.

► Objectives and Benefits

The primary goal of the Pension Dashboard is to facilitate the monitoring of pension systems to ensure they meet the future needs of the population, considering public financial pressures and potential poverty in older age. The dashboard is intended to:

- Enhance communication clarity through transparent presentation of data.
- Address the incompleteness of current data, especially regarding occupational and personal pensions.
- Offer a comprehensive view by amalgamating various indicators.
- Allow for easy comparison and benchmarking across member states.
- Provide frequent updates to keep information relevant.

► Challenges and Considerations

- **Data Gaps:** Current reports like the Ageing report and Pension Adequacy report offer fragmented insights that are challenging to integrate. The dashboard aims to fill these gaps by incorporating a broader set of data, including less covered additional pensions and individual savings products.
- **Role of EIOPA and NCA's:** Given their existing roles in data collection, EIOPA and national competent authorities (NCAs) are suggested to manage the dashboard. This would involve expanding their current data collection to include first pillar pensions and integrating additional pensions into their reports.
- **Methodological and Strategic Issues:** The creation of a dashboard involves methodological challenges in presenting indicators that align with different policy goals, like balancing pension adequacy against financial sustainability.

3.2.2 PENSION TRACKING SYSTEMS/ EUROPEAN TRACKING SYSTEM

The development of national Pension Tracking Systems (PTS) is envisaged to enhance public awareness and participation in pension schemes, which is crucial for ensuring adequate retirement incomes.

▶ **Utility and Implementation**

- PTS are seen as highly beneficial where they exist, significantly enhancing public awareness and engagement with pension planning.
- The success of PTS relies heavily on cooperation with pension providers, ensuring that users can take actionable steps based on the information provided.
- PTS can contribute to enhancement of pension assets and the success of the CMU.

▶ **Legal and Operational Framework**

- PTS is recognized as a public good, suggesting that its funding and governance should be supported publicly, either through national budgets or levies on pension providers.
- Legal frameworks at national and potentially European levels are necessary to standardize data and ensure smooth operation and data sharing across borders.

▶ **European Integration and Future Outlook**

- An eventual European Tracking System (ETS) would require standardization and legal adjustments to ensure it can operate effectively across member states.
- The integration of new technologies and alignment with broader EU data strategies and regulatory proposals, like the Digital Finance Strategy and the Commission's proposal for a Financial Data Access Regulation (FiDA), is crucial for the long-term viability and effectiveness of PTS.

▶ **Recommendations**

- Both documents emphasize a gradual and pragmatic approach to development, considering both current capabilities and future technological advancements.
- The ongoing development and refinement of these systems should be open to stakeholder feedback to ensure they meet the diverse needs of EU citizens effectively.



Onno Steenbeek, OPSG leader on these two advices

3.3. LOW INTEREST RATES & LOW EXPECTED RETURNS

► Overview

Under the leadership of Onno Steenbeek, the OPSG issued a report on the persistent issue of low interest rates and their implications for pension systems in Europe, focusing on the dual challenges of low returns and inflation. The document provided a thorough analysis of the economic forces driving these trends and the resultant impact on retirement income stability. It raised essential questions for policymakers, pension providers, and consumers about enhancing the resilience and sustainability of pension systems amidst ongoing financial volatility.

► Economic Context and Drivers

- **Low Interest Rates:** Historically, interest rates have been declining, influenced by factors such as reduced economic growth, increased savings, and substantial central bank interventions, including quantitative easing. The report discussed these trends' interconnections and their implications for pension fund investments and returns.
- **Inflation Concerns:** Recent surges in inflation, exacerbated by the COVID-19 pandemic and geopolitical tensions, have eroded pensioners' purchasing power, highlighting the need for adaptive strategies within pension systems to cope with inflation risks.

► Impact on Retirement Income

- **Low interest rates and Retirement Income:** The report listed multiple sources, including state pensions, occupational pensions, personal savings, and income from investments and real estate. Each source is affected differently by low interest rates and inflation, requiring nuanced management strategies.
- **Inflation and Retirement Income:** Inflation poses a significant risk by diminishing the real value of retirement benefits and savings, prompting a need for pension schemes to incorporate inflation protection measures.

► Strategic Considerations and Recommendations

- **Pension System Adaptability:** The OPSG urged EIOPA and policymakers to evaluate the balance between pay-as-you-go (PAYG) systems and funded pensions, considering demographic shifts and financial strains. There's a call for regulatory adjustments to better accommodate long-term investment strategies and mitigate the impact of financial market volatility on pension benefits.
- **Transparency and Risk Management:** Pension funds should clearly communicate the guarantees and risks associated with pension benefits, particularly how capital market developments and inflation could affect them.

- **Consumer Awareness and Planning:** The report stressed the need to increase public awareness about the necessity of additional savings or delayed retirement to secure adequate retirement income in a low-interest environment. The importance of providing high-quality financial advice to consumers is also emphasized to enhance pension adequacy and understanding of the challenges posed by low interest rates and inflation.

▶ **Conclusion**

The OPSG report highlighted critical areas for future discussion and policy development to ensure that European pension systems remain robust and capable of providing sufficient retirement income despite the challenges of low interest rates and inflation. It calls for ongoing review and adaptation of pension policies to reflect changing economic conditions and safeguard the financial security of future retirees.

3.4. A POTENTIAL DEVELOPMENT OF A PAN-EUROPEAN OCCUPATIONAL PENSION PRODUCT (PEOP)

▶ Introduction

The OPSG has developed a Discussion Paper to catalyze a wide-ranging dialogue on the potential creation of the Pan-European Occupational Pension Product (PEOP). This initiative seeks to address the retirement planning challenges posed by the increasing mobility of workers across the European Union, aligning with broader EU objectives to bolster retirement security and economic resilience.

▶ Background and Scope

The Discussion Paper proposes PEOP not merely as a simplification of existing pension systems but as an additional, straightforward European second pillar pension product. Designed to be voluntary and flexible, PEOP aims to complement national systems by providing a standardized framework that could increase the coverage and effectiveness of retirement savings across Europe, particularly benefiting SMEs and workers in regions with underdeveloped pension systems.

▶ Influences and Strategic Alignment

Recent strategic documents like the Letta report and the statements from the European Finance Ministers on the Capital Market Union highlight the urgent need for enhanced European pension systems to support the EU's economic and social goals. While these documents do not specifically prescribe PEOP, they underscore the necessity for a European second pillar pension product. The PEOP, as outlined in our paper, could serve as the pivotal tool to fulfill this need, offering a structured yet flexible approach to harmonizing retirement savings across member states.

▶ Challenges and Opportunities

The implementation of PEOP faces several challenges, including the need to navigate diverse national regulations and potential resistance from existing pension providers. A key opportunity for PEOP's success lies in ensuring that existing IORPs are granted the option to offer PEOP, should they choose to participate. It is also crucial that existing occupational pension products are treated on an equal footing with PEOP to ensure a level playing field and broad acceptance within the existing pension landscape.

▶ Critical Success Factors

For PEOP to achieve its potential, it must secure widespread buy-in from employers and employees alike. This requires a robust communication strategy to educate stakeholders about the benefits and functionalities of PEOP. Furthermore, establishing a legal and regulatory framework that balances EU-wide prudential regulations with respect for national social and labor laws will be critical to facilitating PEOP's integration into diverse pension systems across the EU.

► **Consumer Protection and Stakeholder Engagement**

In addition to its structural benefits, PEOP emphasizes the protection of participant interests, a core value highlighted throughout the OPSG's discussion. Ensuring the safety and security of consumers' investments is paramount, aligning with the OPSG's commitment to protect citizens and foster trust in the new pension framework. By involving stakeholders – including employers, employee representatives, and pension providers—in the development process, PEOP aims to address the diverse needs and interests of all parties involved, enhancing consumer confidence and ensuring that PEOP is responsive to the needs of European workers.

► **Goal and Conclusion**

The overarching goal of this Discussion Paper is to spark a comprehensive discussion about how a PEOP could be structured to meet the varying needs of Europe's workforce effectively. By proposing this new, streamlined pan-European pension solution, PEOP aims to significantly improve retirement security for Europeans, aligning with the objectives of the EU's Capital Markets Union and contributing positively to the continent's economic stability and growth.



Falco Valkenburg, OPSG leader on this advice

3.5. PAN-EUROPEAN PENSION PRODUCT - MARKET DEVELOPMENT, CHALLENGES, OBSTACLES, SOLUTIONS

► Overview

Under the leadership of Jan Sebo, the OPSG prepared an own initiative discussion paper, arguing for the improvement of the PEPP landscape and promotion of the PEPP across EU. The discussion paper presents the results of an analysis of national regulations on the PEPP and presents the recommendations on the improvement of the PEPP market.

PEPPs are designed to be simple, safe, and transparent products, providing clear links between contributions, expected pensions, and investment risks. Continuous performance and safety testing at various stages enhance transparency and reliability. With a fee cap of 1% for the Basic PEPP, these products are positioned to outperform many national pension products while keeping costs low. The portability and flexibility of PEPPs are crucial for Europe's mobile workforce, allowing for flexible retirement planning and seamless saving across borders.

Despite the potential benefits, the implementation of PEPPs faces several challenges. By the end of 2023, countries like Portugal, Germany, and Belgium had not fully adopted PEPP regulations, hindering market development. Harmonizing national laws is essential to create a unified market environment for PEPP products. The variability in state support and tax treatment for PEPPs across EU countries is another significant challenge. Some countries offer strong incentives, while others lag, necessitating a harmonized approach to state support and tax treatments to ensure a level playing field.

PEPPs often face less favorable conditions compared to national pension products (PPPs). Many countries prefer local products, creating barriers for PEPPs. OPSG members recommend an in-depth study on tax treatment for PEPPs compared to national PPPs. There is a need to incentivize employer contributions and clarify regulations regarding employers' roles in promoting and negotiating PEPPs for their employees.

Switching between PEPPs and national PPPs is limited, which could hinder PEPP adoption and attractiveness. Policies facilitating the transfer of savings between different pension products should be implemented. Recommendations for further legislative improvements include ensuring fair tax treatment for PEPPs, simplifying advice requirements, aligning distribution requirements with those for other financial products, allowing employers and independent associations to negotiate PEPP conditions, clarifying the definition of residence for cross-border workers, and reviewing the adequacy of the percentage value of the fee cap in light of the view with a view to allowing appropriate market access for PEPP providers.

By addressing these recommendations, PEPPs can become a robust pillar in the European pension landscape, offering a secure, flexible, and cost-effective solution for retirement savings across the EU.

► **OPSG Recommendations**

- **Fair Tax Treatment:** Advocate for a fair tax regime for PEPPs, ensuring non-discriminatory treatment compared to national PPPs.
- **Simplification of Advice:** Replace mandatory advice for the Basic PEPP with cost-effective online tools for assessing product suitability.
- **Level Playing Field for Distribution:** Align distribution requirements for PEPPs with those of other financial products to facilitate efficient marketing and distribution.
- **Negotiating PEPP Conditions:** Allow employers and independent associations to negotiate PEPP conditions on behalf of employees or members.
- **Clarification of Residence Definition:** Clarify the definition of residence in the PEPP regulation to support cross-border workers in claiming tax benefits and opening sub-accounts.
- **Lifting Fee Cap:** Evaluate the potential benefits and drawbacks of lifting the fee cap for the Basic PEPP, considering market conditions and the impact on product attractiveness.

By addressing these recommendations, the European Commission and EIOPA can significantly enhance the attractiveness and effectiveness of PEPPs, ensuring they meet the diverse needs of savers across Europe.



Jan Sebo, OPSG leader on this advice

4. ANNEXES

4.1 MEMBERSHIP OF OPSG

Member's Name	Nationality	Organisation
Azzopardi, Pauline	Malta	Association for Consumer Rights
Briganti, Francesco	Italy	Cross Border Benefits Alliance Europe
Budzynski, Lukasz	Poland/France	Sanofi European Pension Fund
Bulk, Marjolijn	Netherlands	Federation of Dutch Trade Unions
Delbecque, Bernard	Belgium	European Fund and Asset Management Association (EFAMA)
Duarte, Valdemar	Portugal	Portuguese Association of Investment Funds, Pension Funds and Asset Management (APFIPP)
Gabellieri, Bruno	France	European Association of Paritarian Institutions (AEIP)
Gülich, Christian	Germany	German Consumer Association (BdV)
Jones, Olav	Norway/United Kingdom	Insurance Europe
Kupšys, Kestutis	Lithuania	Alliance of Lithuanian Consumer Organizations
Le Bihan, Paul	France	MNCAP Group
Lemaire, Christian	France	Amundi Pension Fund
Leppälä, Matti	Finland	PensionsEurope
Luciano, Elisa	Italy	University of Torino

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Maczynska, Aleksandra	Poland	BETTER FINANCE
Meyenberg, Ute	France and Germany	CFDT Cadres
Micilotta, Flavia	Italy	Diligent Vision
Moriarty, Jerry	Ireland	Irish Association of Pension Funds (IAPF)
Motroni, Antonello	Italy	Assoeuropea
Nellshen, Stefan	Germany	Bayer-Pensionskasse VVaG
Neyt, Philip	Belgium	Pensioeninvest
Nys, Nele	Belgium	UNI Europe Finance (federation of European financial sector trade unions)
Petelczyc, Janina	Poland	Warsaw School of Economics
Pils, Gertrude	Austria	PEKABE (Austrian Association of Beneficiaries Of IORPs)
Reinhammar, Torun	Sweden	CDP Europe GmbH
Sebo, Jan	Slovakia	Matej Bel University
Steenbeek, Onno	Netherlands	APG Group
Tzanakos, Ioannis	Greece	HUIORP (Hellenic Union of Institutions for Occupational Retirement)
Valkenburg, Falco	Netherlands	Actuarial Association of Europe (AAE)
van Meerten, Hans	Netherlands	University of Utrecht

4.2 LIST OF PUBLICATIONS

A comprehensive list of the OPSG advice provided to EIOPA is available on [EIOPA website](#).

Obstacles for setting up cross border PEPPs

July 2024

Low Interest Rates & Low Expected Returns

June 2024

A potential Pan European Occupational Pension Product (PEOP)

May 2024

Gender Pension Gap and Occupational Pension Sector

February 2024

EIOPA consumer trends report

June 2024 & August 2023 & May 2022 & July 2021

Advice on EIOPA's technical advice on the evaluation and review of the IORP II Directive

May 2023

Greenwashing risks and supervision of sustainable finance products

March 2023

Advice on EIOPA's technical advice on the evaluation and review of the IORP II Directive

January 2023

Revised Decision on EIOPA's regular information request towards NCAs regarding the provision of occupational pensions information

July 2022

Sustainable investments for IORPs: risk, return and inclusion properties

May 2022

Funded pensions contribution to income in later life, growth and employment

May 2022

OPSG-24/20
PUBLIC

IORP II review / cross border activities

March 2022

Draft stress test technical specifications

February 2022

From low-for-long to higher-for-longer interest rates

February 2022 & May 2024

Advice on EIOPA's technical advice on the evaluation and review of the IORP II Directive

26 January 2022

Methodological framework for stress-testing IORPs

September 2021

Pensions Gap Dashboard & Pension Tracking Systems

September 2021

Supervisory reporting of costs and charges of IORPs

July 2021

DC principles – Proposals for good practice,

July 2021

Supervision of long-term risk assessment by IORP providing defined contribution

July 2021

Proposal for revised Guidelines on the use of Legal Entity Identifier

June 2021

Taxonomy-related sustainability disclosures

May 2021

IORP II governance and risk management

March 2021

IORP governance and risk assessment, risk assessment and costs for defined-contributions pension scheme

March 2021

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Full cost transparency

January 2021

Product disclosure templates under the Sustainable Finance Disclosure Regulation

October 2020

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