

# The fundamentals

The EIOPA chairman recently set out three ‘fundamentals’ to improve EU pensions (strong governance, enhanced sustainability and full transparency). *European Pensions* asks: What else would you add to the list?

“Strong governance is obviously paramount, particularly when looking at the suitability of investments, but can pension schemes be satisfied if the funds chosen are constrained in their structure and therefore have a greater chance of delivering sub-optimal outcomes for their members?

“Being outcome driven needs to be on the list, which means that the funds offered to scheme members are not constrained in their structure and provide the best opportunity of generating the most appropriate outcome at retirement.

“DC fund solutions are becoming more complex and will continue to evolve as legislation changes across jurisdictions. Default funds are all trending towards complex fund of funds solutions and schemes are looking for more complex blended fund options, which cannot be easily catered for on the traditional investment accounting platforms.

“With the inevitable continued growth in this area, it is imperative that system providers and platforms develop their capabilities to remove the current constraints faced, thus enabling pension schemes to deliver funds that both meet their desired outcomes, and can be delivered within an acceptable cost base to meet the growing pressures of reduced costs in the DC world.”

**Milestone Group head of life, pensions and platform, Kevin Openshaw**

“All these are excellent ideals but on a practical level, we need to include engagement. If people [and employers] don’t fully understand the benefits of pensions then they will not become active participants in the process and risk becoming surprised and disappointed by the eventual pension benefits that they receive. Each European country seems to have a different approach to this but there is much we can learn from each other and ultimately, this will benefit the whole of the EU.”

**Partnership head of product development Mark Stopard**

“The fundamental objective of EU pensions policy must surely be to extend workplace pension saving to the 60 per cent of EU citizens who do not have access to it at the moment. This is a far more pressing priority than imposing extra regulation on existing pension schemes.

“Of course, this is a task that will involve action by national governments and EU institutions alike. We cannot expect EIOPA to shoulder the whole burden. But EIOPA could play a valuable part. With this in mind, it is disappointing that EIOPA and the European Commission have not done more to resist the state-sponsored raids on pension schemes across eastern Europe. These short-term fixes for public finances risk destroying confidence in pension saving over the long term. There is plenty for EIOPA to do.”

**NAPF policy lead, EU & International, James Walsh**

“EIOPA’s broad principles of governance, enhanced sustainability and full transparency are noble attempts at starting to build a consistent framework across member states with distinctly different approaches to benefit provision. They work well to the extent that people have chosen to save. However, what about those that have chosen not to? And are those that are in the system saving enough or aware of the pitfalls that face the unwary investor from the unscrupulous who would scam them out of their hard earned retirement savings? Whilst financial education could be considered to be a subset of the sustainability principle, we believe it deserves to stand alone and have the full backing of governments. Whilst full transparency might provide them with all of the data they need, there are the questions of understanding and awareness that needs to be addressed – and that requires a step back to education basics.”

**Dalriada Trustees director Adrian Kennet**

“ I would add an appropriately flexible supervisory regime. There is much good that EIOPA has done as a supra-national supervisor. Examples include its excellent report on providing information for DC schemes and the Database of European pension plans. The body is well placed to assimilate and distribute information and best practice. Where it falls down is in trying unilaterally to apply principles that may work for the insurance world to pensions.

“A great deal of time and effort has been spent, by both EIOPA and pension funds, on the holistic balance sheet project. Conceived as a way to enable members to compare how well pension promises are supported in other member states and facilitate member choice, it has merely revealed what was already known. The pension systems across the EU differ markedly and make comparisons difficult. Moreover, any suggestion that members could choose an alternative to their employer’s plan is nonsense. Overlay this against state pension systems that vary hugely in both amount and relative importance and it’s clear that it was always doomed.”

**Towers Watson senior consultant Mark Dowsey**

“ These are fundamental objectives, but their realisation depends on satisfactory precursors. Chief among these is a common tax treatment across member states. While presently the majority share the UK’s EET model, there are significant variations within that (and of course if the UK were to somehow switch to TTE (or TEE), that would be going in the opposite direction).

“Of Mr Bernardino’s three objectives, sustainability of an EU-wide regime in particular really depends on a common position on first-pillar provision; that has to be the foundation stone. Once again there is wide variation among member states, many of which have yet to recognise the threat of intergenerational conflict which Mr Bernardino rightly identified in his recent speech.

“Intrinsic to a successful EU regime is the removal of barriers to cross-border operation: that objective depends upon adoption of a more realistic position on second pillar (defined benefit) scheme funding – which EIOPA’s ‘holistic balance sheet’ is not.”

**Aries director Ian Neale**

“ I am sure in the eyes of many, it would be more a case of ‘what you would take away from the list’ rather than what you would add to it. While some of the ideas are in theory laudable and the drive to improve member communication is positive, the notion of a ‘truly cross-border pensions market’ is just pie in the sky.

“The UK is already ahead of the game in some areas thanks to auto-enrolment and an increased focus on charging structures and amounts. Over and above that, the notion of a pension in itself is now up for grabs with potential changes to the UK tax regime.

“In the DB space, many employers (and trustees) have access to sufficiently detailed risk metrics and analysis but many do not. The results of the further IORP stress testing analysis are awaited with interest and perhaps from that an agreeable framework on how best to measure risk will emerge. It is pretty much accepted practice that a “single figure” measure of a scheme’s deficit is no longer suitable and I can only see the focus on the scale of risk underlying schemes (and how to best manage that risk) continuing to increase.”

**Spence and Partners, scheme actuary, Alan Collins**

“ I think that the EIOPA chairman has missed a bit of a trick in not identifying the need for good communication which engages members as one of the fundamentals to improve EU pensions.

“Member engagement is key to ensuring that people understand what they have, as well as understanding what is possible, to help them ultimately achieve the retirement they want.

“When we think about communication it is often too easy to think engaging members is all about providing outputs – giving members the tools they need to explore the possibilities available to them.

“It’s obviously not a bad thing to provide members with tools, and they can be very engaging, but if you’re serious about engagement, the focus needs to be on member outcomes.

“Engagement should be about getting the attention of members at a time they can affect their retirement outcome, and equipping them with the knowledge of what to do about changing that outcome.

“In order to be effective engagement also needs to be achieved at a point in the member’s life when it’s not too late to improve their retirement outcomes.

“Schemes will invariably have an investment strategy in place which sets objectives and measures results. However, how many schemes will have a communication/engagement strategy that does the same? Sadly, I think the answer is very few and certainly not as many as should have.

“Perhaps the EIOPA chairman could add the fundamental need for members to engage and understand as part of a future recommendation.”

**AHC head of strategic communication Karen Heath**