Green Paper towards adequate, sustainable and safe European pension systems

Please provide us with some information about yourself

Are you replying as an individual or on behalf of an organisation?	Business organisation

Please indicate your name (maximum 100 characters)

Edward Weiss

Please indicate your organisation's name (if applicable, maximum 200 characters)

Hundred Group of Finance Directors

In which country are you and/or your organisation based?	United Kingdom

General comments

Please use this space for any general comments you wish to make about the Green Paper towards adequate, sustainable and safe European pension systems, separately to answering the consultation questions below.

The Hundred Group represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of that of companies listed on the London Stock Exchange. Although the Green Paper makes some useful observations about the challenges facing pension provision within Europe, our view is that those challenges can best be addressed on an individual Member State level taking into account the different nature of pension provision in each country (state or employer provision, funded or unfunded, defined benefit or defined contribution). In particular, we believe that the European Commission should recognise that, just as significant as the economic and demographic challenges described in the Green Paper, are the challenges presented by excessive and short-sighted regulation, especially in the context of defined benefit pension schemes. Already within the UK, some Hundred Group companies have taken the decision to close their defined benefit pension schemes to future accrual and many have done so in respect of new members. One of the reasons frequently cited for scheme closure is the increasing burden of regulation that has been imposed since these schemes were initially established. Introducing an additional layer of European regulation over and above the requirements already enshrined in the IORP directive could have very damaging consequences for the future of pension provision with employers seeking to level down their pension provision to whatever is the minimum level of provision permitted within that Member State. Excessive regulation within Europe can also lead global organisations (such as those represented by many Hundred Group members) to base their centre of operations outside the EEA.

Adequate and sustainable pensions

1. How can the EU support Member States' efforts to strengthen the adequacy of pension systems? Should the EU seek to define better what an adequate retirement income may entail?

2. Is the existing pension framework at the EU level sufficient for ensuring sustainable public finances?

Work and retirement

3. How can higher effective retirement ages best be achieved and how could increases in pensionable ages contribute? Should automatic adjustment mechanisms related to demographic changes be introduced in pension systems in order to balance the time spent in work and in retirement? What role could the EU level play in this regard?

4. How can the implementation of the Europe 2020 strategy be used to promote longer employment, its benefits to business and to address age discrimination in the labour market?

Removing obstacles to mobility

5. In which way should the Institutions for Occupational Retirement Provision (IORP) Directive be amended to improve the conditions for cross-border activity?

6. What should be the scope of schemes covered by an EU level action on removing obstacles for mobility?

7. Should the EU look again at the issue of transfers or would minimum standards on acquisition and preservation plus a tracking service for all types of pension rights be a better solution?	Minimum standards plus tracking services

Comments

The EU should take a proportionate approach to issues relating to the acquisition and portability of pensions. Only a tiny proportion of EU nationals are likely to wish to transfer their pensions between Member States. However, it is possible that any measures introduced to improve portability could have unintended consequences that impose additional cost burdens on companies in respect of the vast majority of individuals who have no interest in transferring their pensions outside their country whatsoever. There is a risk that portability for a few could be achieved at the cost of restricting provision for the many.

Safe and transparent pensions

8. Does current EU legislation need reviewing to ensure consistent regulation and supervision of funded (ie backed by a fund of assets) pension schemes and products? If so, which elements?

9. How could European regulation or a code of good practice help Member States achieve a better balance for pension savers and pension providers between risks, security and affordability?

10. What should an equivalent solvency regime for pension funds look like?

The Hundred Group does not believe that there is any need for a solvency regime for pensions. We believe that the current IORP directive with its requirements for the prudent funding of technical provisions provides an appropriate balance between protecting the benefits of pension scheme members and not placing unaffordable burdens on the employers who provide those schemes. This is particularly true in the UK where prudent funding is supported both by the ongoing legal obligation of companies to continue to fund their defined benefit pension schemes and, where companies become insolvent and are unable to meet those obligations, by the existence of the Pension Protection Fund as ultimate guarantor of scheme benefits. We would also note that providing additional funds as a solvency margin is not a cost-free optional extra. The additional security is itself a benefit and so comes at a cost. If a solvency regime were introduced, employers would therefore be likely to provide lower benefits with a higher degree of security. We question whether that is what members would really want. In addition to the effects on individual member benefits, we also believe that introducing a solvency margin would have negative effects on businesses and the wider economy. Companies would have to tie up their assets in providing solvency capital to back their pension schemes rather than being able to use those assets to develop their business and so ultimately to increase the likelihood of the company continuing to survive in order to pay the promised benefits to members. Pension schemes would be likely to be penalised with higher solvency margins where they invest in equities - this could lead to a major disinvestment from equities into lower risk assets which could have long-term effects on UK markets. Gilt prices might also rise because of an increased demand by pension schemes for lower risk assets to reduce the size of the solvency capital requirement.

11. Should the protection provided by EU legislation in the case of the insolvency of pension sponsoring employers be enhanced and if so how?

Comments:

12. Is there a case to modernise the current minimum information disclosure requirements for pension products (e.g. comparability, standardisation and clarity)?

Comments:

13. Should the EU develop a common approach for default options about participation choice and investment choice ?

Should the EU develop a common approach for default options about participation choice?

Should the EU develop a common approach for default options about investment choice?

Governance

14. Should the policy coordination framework at EU level be strengthened? If so, which elements need strengthening in order to improve the design and implementation of pension policy through an integrated approach? Would the creation of a platform for monitoring all aspects of pension policy in an integrated manner be part of the way forward?

Should the policy co-ordination framework at EU level be strengthened ?

Would the creation of a platform for monitoring all aspects of pension policy in an integrated manner be part of the way forward ?

Meta Informations

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