

Useful links

Documentation and background information about the Green Paper

Green Paper towards adequate, sustainable and safe European pension systems

► Useful links

The Commission invites all interested parties to respond to the questions set out in the Green Paper on pensions by 15 November 2010, by means of the structured questionnaire below. The full paper is available here:

<http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=839&furtherNews=yes> .

Note that each question on the online questionnaire below allows free text answers to be up to 2000 characters long and that there is also a space for general comments up to this same length (note you can cut and paste pre-prepared answers - up to the 2000 character limit - into the free text boxes if you find this more convenient). Please note, received contributions, together with the identity of the contributor, will be published on the Internet, unless the contributor objects to publication of the personal data on the grounds that such publication would harm his or her legitimate interests. In this case the contribution may be published in anonymous form. Otherwise the contribution will not be published nor will, in principle, its content be taken into account.

Please provide us with some information about yourself

Are you replying as an individual or on behalf of an organisation? (compulsory)

Business organisation

Please indicate your name (maximum 100 characters) (compulsory) (maximum 100 characters)

Charles Young

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

Association of Consulting Actuaries (ACA)

In which country are you and/or your organisation based? (compulsory)

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. (optional)

Members of the ACA provide advice to thousands of pension schemes, including most of the UK's largest schemes. Members of the ACA are all qualified actuaries and all actuarial advice given is subject to the UK Actuaries' Code. ACA members include the scheme actuaries to schemes covering the majority of members of UK defined benefit (DB) pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

We agree with many of the conclusions of the Green Paper, in particular its analysis of the demographic and financial challenges facing pension schemes. We also welcome the proposals to improve the collation of pensions statistics and to facilitate new approaches to member communications and to participation routes such as auto-enrolment.

In particular, we agree with the increasing focus in this Green Paper on defined contribution (DC) schemes (reflecting current trends of provision within the EU) and we believe that the chief focus of pension policy should be on providing information and guidance to facilitate support for DC schemes rather than on over-regulating DB schemes.

The EU should also devote more attention to collating experience on risk-sharing arrangements with a view to facilitating such arrangements and encouraging Member States to remove any legislative obstacles to such schemes.

We note that the goals of adequacy, sustainability and safety conflict to some extent. Safety is a laudable aim, but if it comes at the cost of sizeable solvency margins, then employers will either close their pension schemes altogether or will reduce the level of pensions they provide, thereby damaging the aim of adequacy. Adequacy would seem essential, but if the bar is set too high, then the system may prove unsustainable, and therefore ultimately may also fail to be safe. The EU needs to recognise these conflicts in designing its pensions policy.

The EU should aim to facilitate good practice from the bottom up within each Member State rather than to impose mandatory requirements from the top down.

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? (optional)

The definition of an adequate pension system must be understood within the context of the specific circumstances of individual Member States. Many Member States are already taking action to improve pension adequacy - for example, the UK Government is in the process of introducing auto-enrolment coupled with a requirement for employers to make a minimum level of contribution. This aims at increasing saving by individuals and employers for retirement with a view to improving the overall adequacy of pensions when taken in conjunction with state benefits. However, this may not be appropriate for all Member States.

In particular, the EU should be wary of attempting to set a single definition of adequate retirement income because what is adequate will depend on a variety of factors specific to each Member State, such as: opportunities to continue paid employment after retirement age, the availability of additional family support in retirement, the nature of state support such as subsidised housing in addition to retirement income, the provision of free or subsidised long-term care facilities, the availability of free health-care, the cost of living within the Member State etc.

It is therefore not possible to set some benchmark such as 'an adequate retirement income is x% of national average earnings within the Member State' (because that percentage will differ from state to state) nor 'an adequate retirement income is €x' (because, even within the Euro zone, that level will vary because of the different circumstances in each state).

There may however be a role for the EU in establishing principles that set out what a minimum standard of living in retirement might entail. This could create a framework in which Member States could identify an appropriate measure of adequate retirement income that takes account of their specific circumstances (and the extent to which this income is met from state, employers or individuals).

2. Is the existing pension framework at the EU level sufficient for ensuring sustainable public finances? (optional) (between 3 and 2000 characters)

We question whether it is the role of a pensions framework to ensure sustainable public finances. The question should rather be whether the pensions framework is likely to have a detrimental effect on sustainable public finances.

We do not believe that the existing pensions framework will have a detrimental effect on sustainable public finances. However, we would caution against making any sweeping changes to the existing pensions framework which could have such an effect. For example, introducing an inappropriately high measure of pensions adequacy could leave Member States forced to provide an unsustainable level of public pensions, with a knock-on effect on public finances.

Another area in which the provision of pensions may impact on sustainable public finances is where the state provides pensions to public sector employees. In such cases, care will need to be taken to ensure that those promises are not unsustainable and unaffordable when compared to of the pension promises made to employees in the private sector.

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? (optional) (between 3 and 2000 characters)

We agree that higher effective retirement ages are needed to counteract the economic effects of increased demographic ageing. However, increased longevity is experienced mainly by the wealthy, whilst the poor still experience lower life expectancy.

We expect most Member States will increase the age for receipt of a full state pension in order to reduce the cost of public pension provision and to send a signal as to the 'normal' retirement age.

Many employers within Member States will want to take measures to increase the normal retirement age for their schemes, either by mirroring increases in state pension age or by introducing the automatic adjustment mechanisms described in the Green Paper. Such mechanisms work well in some schemes. However, we do not believe that they should be mandatory for the following reasons (although the EU could have a role in ensuring that there are no legislative obstacles to such mechanisms).

First, such mechanisms are only appropriate in DB schemes. In DC schemes, it is essentially the adequacy of the pension pot that determines the age at which individuals take their pension. If the pension pot is insufficient to provide the retirement level for that individual, then the individual will seek to work longer to increase the size of the pot and reduce the number of years in retirement. An automatic adjustment mechanism would therefore be unnecessary in a DC scheme.

Second, even in DB schemes, automatic adjustment mechanisms can be difficult to communicate to members. In addition, such mechanisms could introduce complex administration particularly if the result is that different retirement ages attach to different tranches of benefits.

We do not believe that the EU has a role to legislate in this area. However, any research it could carry out on practices that have been adopted in some Member States or individual pension schemes across the EU could provide useful guidance to other schemes contemplating such a risk-sharing mechanism.

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? (optional) (between 3 and 2000 characters)

We support policies to encourage older people to continue to contribute to the productivity of Member States by remaining in employment for longer. Options for later retirement should be accompanied, where possible, by the opportunity to phase in retirement so that an individual can take time to make the switch between economic activity and inactivity.

The EU should recognise that many Member States already implement policies encouraging older people to continue in employment and focus its attention on facilitating such policies in those states which do not currently encourage later employment.

The EU could have a particular role to play in collating and communicating the successful practices of those Member States which are already taking steps to encourage older workers to continue in employment.

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? (optional) (between 3 and 2000 characters)

In our experience, the main reason that employers decide not to undertake cross-border pensions activity with their DB pension schemes is that the IORP directive requires all schemes to be fully funded at all times, whereas in the UK, schemes can put in place a recovery plan to achieve full funding of their technical provisions within a timescale that the employer can afford. This has created an uneven playing field.

Applying the full funding requirement to all IORPs would simply deter employers from providing DB schemes at all, so the only way to level that playing field would be to allow alternative funding approaches for cross-border DB schemes.

Another obstacle to cross-border schemes that has been experienced is the difficulties that may be encountered in obtaining the relevant details of social and labour law in the relevant Member State – and when it is obtained, of translating it into the relevant language.

We think however that the main scope for improving cross-border activity is via pan-European DC schemes. There would be merit in the EU establishing a new framework for such schemes, whilst not preventing the provision of DC schemes in line with existing pension regimes across Europe. That framework might involve the ability to establish a scheme at ‘European’ level, i.e. not domiciled in any particular country. Such pan-European DC schemes could become the vehicle of choice for future cross-border provision and improve pension portability within the EU. They could also be used as a means of demonstrating in practice the EU’s views on good governance and practice for DC schemes.

Also, as noted in the Green Paper, the limited scope of the IORP directive is unhelpful and should be applied to all supplementary pension schemes, whether funded or unfunded. In particular, we see no reason for it not to be applied to book reserve schemes.

6. What should be the scope of schemes covered by an EU level action on removing obstacles for mobility? (optional) (between 3 and 2000 characters)

In principle, if the EU is to take action to remove obstacles for mobility for a sub-set of pension schemes (such as IORPs), they should do so for all schemes (including schemes provided by the state, and book reserve or unfunded schemes).

In practice, however, we believe that EU action should be limited to providing an environment which encourages the portability of pensions rather than to introducing mandatory requirements, which have already proved very difficult to design in respect of a limited range of pension schemes (i.e. IORPs).

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? (optional)



Look again at transfers



Minimum standards plus tracking services



Both

Comments (optional) (between 3 and 2000 characters)

We believe that the EU's focus should be on the vesting of rights for early leavers from a pension scheme, rather than on the portability of rights between pension schemes (and by extension, between Member States). Vesting ensures that individuals retain their rights in a pension scheme; portability merely gives them flexibility over where to transfer those rights to. The first is clearly of much greater importance.

The extensive process of discussion on the portability directive revealed that the obstacles to providing a mandatory right to a pension transfer are not easily surmountable. We do not believe there is a case for reopening this discussion.

The discussion on minimum standards on vesting and preservation had (largely) reached a position where it was possible to introduce proposals that both provided some measure of protection across the EU and at the same time were not unduly onerous. We believe the EU should return to these discussions and not widen the scope to include transfers again.

We believe that an EU-level tracking system would be of benefit. However, such a system should be implemented in such a way as to build on the tracing systems already in operation within Member States rather than imposing a new system on such countries. Any such system should be designed with an eye to minimising costs for Member States.

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? (optional) (between 3 and 2000 characters)

Consistent regulation and supervision of all funded pension schemes is almost certainly impossible to achieve for the reasons set out in the Green Paper. Pension schemes are provided by a range of different parties and the balance of provision varies between different Member States with some countries providing more retirement income through state social security arrangements, others through mandatory private supplementary provision, yet others through voluntary private supplementary provision. It would not seem possible to provide a consistent regulatory regime to all such types of provision without imposing a 'one size fits all' solution (and we are pleased to see that the Green Paper states this is not the EU's intention).

If consistent regulation were to be pursued, then we would question whether it is right to exclude unfunded schemes. It would seem perverse if stricter regulations applied where assets are formally designated for the provision of retirement income than where there is only a pension promise with no funds backing those assets.

The EU should support the plurality of pension provision across the EU and recognise that there are different ways of providing security. Attempting to 'gold plate' all pension systems across the EU will have disastrous consequences with

employers withdrawing pension provision entirely rather than having to provide pensions at a cost that is far greater than they had ever intended.

Another area where consistency of regulation is often mentioned is in a comparison between pensions and insurance. Within the UK, pensions and insurance are entirely different in scope and purpose. Supplementary pension schemes are provided by employers solely for their employees; they do not provide pensions in the open market. Insurance companies on the other hand compete in an open market on a commercial basis and sell their products to anyone who wishes to purchase them.

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? (optional) (between 3 and 2000 characters)

We do not believe that a better balance can be achieved by regulation. Further regulation will simply lead to a reduction in benefits payable to individuals and shift risks further on to them.

The ACA has long been a supporter of risk-sharing solutions to pension provision (in particular the use of conditional indexation) and we would welcome moves by the EU to encourage schemes that provide a 'middle way' between DB and DC pension schemes. However, the EU's role should be to facilitate the provision of such arrangements (e.g. by making sure that EU or national legislation does not impede the development of such schemes) rather than to regulate for the provision of such benefits. For example, there is currently some uncertainty as to whether collective DC schemes breach discrimination legislation and the EU could play a role in clarifying the legality of such types of arrangement.

In particular, we are strongly opposed to any mandatory requirement for minimum return guarantees on defined contribution funds. Such guarantees would reduce the short-term volatility of the pension fund; however, they are economically inefficient because they would increase the cost of providing the benefit and may lead to a lower (but more certain) overall return (and hence lower benefits in retirement). More importantly, any such guarantees would inevitably increase the risks to the employer. It should therefore be for individual employers to decide on an appropriate benefit structure for their employees.

We think that there could be scope for non-binding guidance which sets out ideas of good practice in the areas of lifestyling and investment choice (including the provision of a default fund) for DC schemes. The guidance should focus on the communication of risk, and the general need for good governance and risk management, not on specific measures. Given the very different nature of provision in the various Member States, we believe that a binding code would be counterproductive.

10. What should an equivalent solvency regime for pension funds look like? (optional) (between 3 and 2000 characters)

We strongly dispute the need for any solvency regime for pension funds and do not believe that the EU has a mandate to conclude that there should be a solvency regime for pension funds. The May 2009 consultation was only on the narrow topic of whether a solvency regime was needed for cross-border and Article 17 schemes and can therefore not suggest there is a consensus on the overall need for a solvency regime.

We believe that the IORP directive with its requirement for the prudent funding of technical provisions already provides an appropriate balance between protecting members' benefits and keeping the cost to employers at an affordable level. The Green Paper itself notes that regulation should be proportionate and not push employers into insolvency or into abandoning pension schemes.

We do not agree that Solvency II could ever be a good starting point for the regulation of pensions because of the considerable differences between insurance and pensions.

The focus should rather be on the different ways in which pension security may be achieved, encompassing issues such as the quality of the benefit being provided and the protections in place to support the provision of the benefit. In particular, any such regime for pensions would need to recognise that the existence of an employer with a continuing obligation to the scheme (the employer covenant) provides an important measure of protection (wholly unlike any protection in the insurance context). In addition, it would need to give due weight to other protection measures, including the provision of any guarantee funds.

Increasing security comes at a cost, which would reduce the funds available to provide benefits. Establishing a solvency regime for pensions would therefore be very likely to mean that lower benefits would be provided. Such a regime would also be economically inefficient, pegging DB funding to bonds, which would lead to capital-seeking entities being deprived of sources of long-term funding.

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



Strongly agree



Agree



Neither agree nor disagree



Disagree



Strongly disagree

Comments: (optional) (between 3 and 2000 characters)

We do not believe there is a need for an EU-wide pension benefit guarantee system as suggested under 3.4.2. However, we believe that the EU could have a role in promoting the benefits of such systems.

We agree with the Green Paper's analysis that the Insolvency Directive leads to some latitude in the measure of protection provided in the event of the insolvency of the employer. However, this latitude at least partly derives from the nature of the provision in different Member States - in particular, the extent to which the promise is in fact dependent on the employer's continuing existence. Imposing a particular level of funding or guarantees in the event of employer insolvency would ignore differences within each Member State.

We note in particular that any Member State which requires the pre-funding of pension promises is likely to be better placed to ensure that those promises are backed in the event of employer insolvency than those Member States where pension promises are unfunded. Any improvement in respect of security on the insolvency of the employer should focus first on those countries where there is no funding requirement.

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

☒ Strongly agree

☐ Agree

☐ Neither agree nor disagree

☐ Disagree

☐ Strongly disagree

Comments: (optional) (between 3 and 2000 characters)

We agree that there is a need for transparent communication particularly (but not exclusively) for members of DC schemes. It is particularly important that information should be provided to individuals throughout the life-course, from the time before they actually join a pension scheme to their choices on retirement and thereafter.

It is clear that many individuals do not understand the benefits provided by the pension schemes of which they are members. This is despite the fact that these individuals already receive a large amount of information as required by legislation. This would suggest that what is needed is an improvement in the targeting and quality of the information rather than increased legislation over the contents of the information. Such increased legislation would inevitably give rise to additional costs without necessarily improving members' understanding.

There is a risk that introducing new EU-wide disclosure requirements could have the opposite effect from that which is intended, by overloading individuals still further with information that they either cannot understand or simply choose not to read. There is no point if individuals receive all their information in a standardised format, but find that format unhelpful. A standardised format is also unlikely to be helpful given the wide variety of different scheme design in existence across the EU.

The supply of good-quality information should be encouraged. This could involve the provision of good practice examples. For example, the EU could offer prizes for the best pensions communication.

Any change in the disclosure requirements would need to look more widely at how information about financial matters is provided. The aim should be to develop a greater level of financial awareness and understanding in the target audience. This could be done through school education, workplace training, television advertising, use of social media etc rather than by specifying minimum requirements for information.

13. Should the EU develop a common approach for default options about participation choice and investment choice ? (optional) (between 3 and 2000 characters)

It is not clear what is meant by a 'common approach' - legislation, a code of practice, non-binding guidance, an education programme etc? Our view is that something at the lighter touch end of this spectrum would be appropriate.

For example, we believe that the EU may have a role to play in collating information on how successful auto-enrolment regimes work across Member States and in drawing out some principles of what constitutes best or good practice. However, we do not believe it is appropriate for the EU to mandate auto-enrolment. A similar approach may also be appropriate for default investment strategy.

We also note that the importance of these questions will depend on the role played by such default options within individuals' overall retirement provision. For example, if an individual already has a 50% replacement rate from their social security retirement provision, then the issue of a default option for any additional savings is much less relevant than if the state provides only a 20% replacement rate.

It should also be noted that investment markets are still relatively undeveloped in some EU Member States and therefore the default options that might be available will be much more limited.

These points highlight the need for the EU to take a flexible approach in this area.

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

(optional)



Strongly
agree



Agree



Neither agree nor
disagree



Disagree



Strongly
disagree

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

(optional)



Strongly
agree



agree



neither agree nor
disagree



disagree



strongly
disagree

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? (optional) (between 3 and 2000 characters)

We are firmly in favour of the EU taking appropriate steps to strengthen wider understanding of pensions policy (both on the part of individual Member States and on that of the EU itself) and therefore encourage the EU to develop further the collation of consistent pensions statistics and information. We also think there is considerable benefit in the EU producing non-binding guidance in a number of areas, for example setting out examples of good practice in terms of communication with members or auto-enrolment into pension schemes, based on the best evidence it has collated.

We believe that the EU has a particular role to play in facilitating an environment in which both DC and risk-sharing schemes can flourish. We believe that, to date, the EU has given too much attention to the provision of benefits via DB schemes, when, in fact, most members of DB schemes will receive far better benefits in retirement than members of DC schemes or those who have no access to supplementary private provision at all. The EU's role should not be to over-regulate the most successful part of pensions policy and thereby contribute to the demise of DB schemes, but rather to stimulate additional supplementary provision through DC and risk-sharing arrangements.

We agree that pensions policy should be viewed in the round, and this should embrace both social security benefits and supplementary pensions, funded and unfunded, DB and DC. This is not to say that there should be a single regulatory regime for all pensions, but rather that any decision taken any pension policy should take into account how that element fits within the overall pensions framework.

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

(optional)

☐ Strongly agree ☐ agree ☐ neither agree nor disagree ☐ disagree ☐ strongly disagree

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

(optional)

☐ Strongly agree ☐ agree ☐ neither agree nor disagree ☐ disagree ☐ strongly disagree