



EUROPEAN COMMISSION

MEMO

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Revision of the Occupational Pension Funds Directive – frequently asked questions

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

1. What are occupational pension funds?

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

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

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

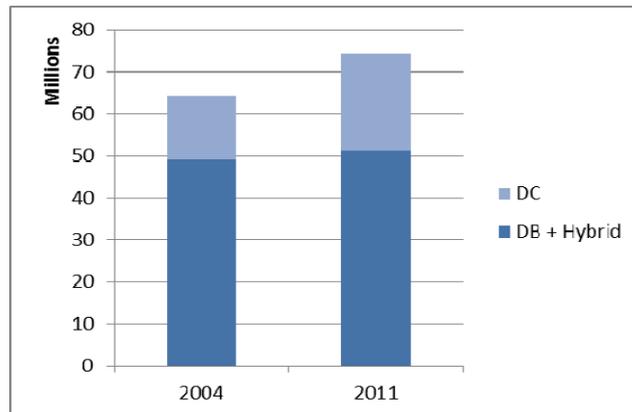
2. Why did the 2003 Occupational Pension Funds Directive need to be revised?

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

However, there have been significant developments since 2003.

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

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



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

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

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

Fourth, pension funds and their capacity to invest in long-term assets make them ultimately key players to deliver a deep and liquid Capital Markets Union.

3. What are the key improvements in this Directive?

The Directive introduces improvements in the framework that governs occupational pension funds which aim at:

- **Ensuring the soundness of occupational pensions and better protecting pension scheme members and beneficiaries.** The Directive introduces:
 - (i) new governance requirements on key functions (risk management, internal audit and in cases of Defined Benefit pension schemes, an actuarial function,
 - (ii) new provisions on remuneration policy, so that IORPs have a sound remuneration policy (for instance avoiding conflicts of interest) and regularly disclose relevant information on such policy,
 - (iii) an own-risk assessment regarding the risks that IORPs are or could be exposed to,
 - (iv) an option for Member States to require a depositary especially in the case of Defined Contribution pension schemes (that is an entity in charge of for the safe-keeping and oversight of members and beneficiaries' assets), particularly to reduce operational risk,
 - (v) enhanced powers for supervisors that mirror the IOPRs' obligations including for chain-outsourcing (outsourcing and all subsequent re-outsourcing) and stress testing.

- **Better inform pension scheme members and beneficiaries.** To the benefit of pension scheme members, the Directive introduces a Pension Benefit Statement (PBS) that provides members of pension schemes with simple and clear information about their individual pension entitlements. The Pension Benefit Statement helps individuals maintain a good understanding of their occupational pension entitlements throughout their working lives and across Member States. The PBS leaves Member States the flexibility to tailor its exact content and design to their market. The Directive also includes the provision of general information about the pension fund to future members, and beneficiaries must also receive clear information about their pension benefits.
- **Remove obstacles for cross-border activities and cross-border portfolio transfers so that occupational pension funds and employers can fully reap the benefits of the single market.** The Directive introduces rules to make it easier for occupational pension funds to operate a pension scheme that is subject to the social and labour law of another Member State. It also makes it clear how fund assets could be transferred across Member States, notably by introducing a portfolio transfer procedure (see also Question 13 below). By making use of these possibilities, innovative companies, ranging from SMEs to multinationals, would be able to reduce staff costs through economies of scale, risk diversification and innovation.
- **Encourage long-term investment in growth-,and employment-enhancing economic activities.** The Directive modernises investment rules to allow IORPs to invest in financial assets with a long-term economic profile thereby supporting the financing of growth in the real economy.
- **Encourage responsible investment.** IORPs will have to consider taking into account the risk of environmental, social and governance risks in their investment decisions and if so, document this in their three-yearly statement of investment policy principles.

5. What benefits does this Directive bring?

The Directive contributes to IORPs' role in improving *financial stability*, as certain IORPs are large financial institutions with several millions of members and beneficiaries.

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

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

Citizens in general will benefit from better pension adequacy for their retirement through well-managed, professional occupational pension funds. They will also benefit from a clear overview of their pension rights through the regular receipt of the Pension Benefit Statement..

6. How do these rules contribute to the CMU goal of increasing long-term investment?

The Directive stimulates the capacity of IORPs to invest in financial assets with a long-term economic profile and thereby support the financing of growth in the real economy in several ways:

- IORPs' own-risk assessment allows them to be more aware of their commitments to their members and beneficiaries and thus make better-informed decisions about investments in long-term assets;
- Provisions on investment restrictions are modernised so that Member States can only restrict up to 35% of IORPs' investment choices provided that it is prudentially justified and certain criteria are met.

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

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

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

While IORPs play a significant role in the pension systems of only a few Member States, a more robust EU regulatory framework for the supervision of occupational pension funds can pave the way for the development of IORPs funds in Member States where they are currently underdeveloped or non-existent. In particular, pension systems in some of the newer EU Member States are heavily dependent on state-provided social security ("pillar 1"), and there is scope for more funded pension provision, including occupational pensions. The Directive will provide a modernised EU-level framework for those Member States that are considering developing an occupational pension fund sector. The revision of the Directive also facilitates cross-border activity by removing uncertainties about the legal framework applicable to such activity, and reducing its costs.

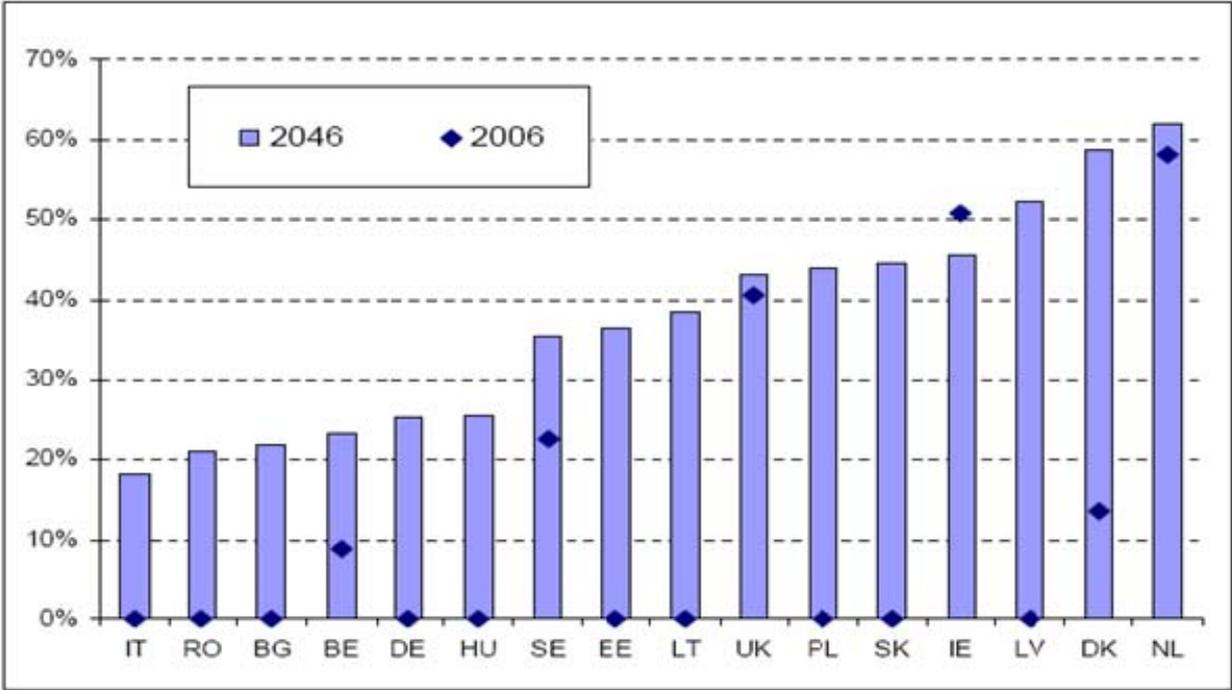
The figure below shows that there is a potential for the development of occupational pension funds in many Member States: the projected share of occupational pension funds within the overall pension systems is higher in 2046 than in 2006 in nearly all of the 16 surveyed EU Member States.

9. Will the Directive encourage responsible investments by IORPS?

Yes. As a result of the agreement, pension funds will have to consider taking into account the risk of environmental, social and governance risks in their investment decisions and if so, document this in their three-yearly statement of investment policy principles.

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

Figure 2: Actual and projected share of occupational pension funds in the overall pension systems², 2046 versus 2006, survey for 16 EU Member States



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

The Directive also brings benefits to members and beneficiaries: better governed pension funds perform better and are therefore able to provide better returns to their members and beneficiaries. IORP2 makes sure that the interests of members and beneficiaries are kept at the forefront by taking into account their preferences in terms of investment decisions, approval of cross-border activities and cross-border transfers, and ensuring sufficient and appropriate assets are available to protect members' and beneficiaries' pension rights should their employer become insolvent.

The current minimum level of information provision to members and beneficiaries has also been increased in the Directive, providing a clear overview of their pension rights.

All of these benefits are due to arise from EU level action.

10. Isn't this area part of social security?

Member States retain full responsibility for the organisation of their pension systems as well as for the decision on the role of state, occupational or personal pensions. IORP2 does not call into question that prerogative. The Directive regulates workplace pensions only. It does not regulate or have any impact on state pensions in any way.

² Share of occupational and statutory funded pensions in total gross theoretical replacement rates in 2006 and 2046.

11. What costs does the Directive impose on IORPs? Would smaller funds be forced to merge as a result?

The Commission has estimated the administrative burden of the IORP2 proposal with the support of the occupational pension fund industry: a one-off adjustment cost in the short-term was estimated at around 22 euro per member, and recurrent additional costs estimated between 0.27 and 0.80 euro per member and per year. The benefits of the entire package are expected to outweigh these costs.

The Directive has built-in proportionality throughout the text and the additional requirements are unlikely to impose a disproportionate burden on smaller occupational pension funds. Moreover, Member States have the option not to apply the Directive, in whole or in part, to any IORP with less than 15 or 100 members, while keeping some basic requirements to comply with. The simplification of cross-border definitions and procedures is likely to benefit all IORPs in terms of legal certainty as well as reduced transaction costs.

12. How will the Pension Benefit Statement work?

The Pension Benefit Statement is a document to be provided to pension scheme members annually. It would contain information about the pension scheme such as the guarantees provided under the pension scheme, the pension benefit projections, information on the accrued entitlements, the contributions paid and the costs deducted, as well as information on the funding level of the pension scheme.

The PBS is designed to provide a clear overview of pension rights and allow pension scheme members to take more informed decisions about their retirement.

The Pension Benefit Statement will be produced at national level based on the minimum rules developed at EU level while taking into account the specificities of the national pension system.

13. How do the rules facilitate cross-border activity?

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

The Directive makes it easier for IORPs to operate cross-border pension schemes. In particular, the Directive:

(i) clarifies the procedure when IORPs wish to offer their services in other Member States. The principal rule that cross-border IORPs should be fully funded at all times will continue to apply. However, the Directive acknowledges the possibility of cross-border IORPs to be underfunded, in which case the supervisor must promptly intervene and require the pension fund to develop and implement measures without delay to protect members and beneficiaries.

(ii) clarifies the respective roles of the home and host Member States and

(iii) puts in place a procedure for the transfer of pension schemes between occupational pension funds in two different Member States based on a list of criteria. Non-binding EIOPA mediation is possible in case these authorities disagree.

14. Does the Commission intend to introduce any further rules?

First, this Directive does not contain a review of the existing quantitative solvency rules for occupational pension funds. Secondly, there are no delegated acts to be adopted by the Commission to specify any of the principles laid down in the Directive. Therefore, no further rules can be expected.

For more information

<http://ec.europa.eu/finance/pensions/iorp/>