



ACTUARIAL ASSOCIATION OF EUROPE

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MINUTES of a meeting of the **PENSIONS COMMITTEE** held in London on 8 April 2016

Present:

Falco Valkenburg (Chairperson)	Het Koninklijk Actuarieel Genootschap
Hartwig Sorger	Aktuarvereinigung Österreichs
Philippe Demol	IA BE
Stacey Wilen	Channel Islands Actuarial Society
Richard Deville	Institut des Actuaire
Richard Herrmann	Deutsche Aktuarvereinigung
Agnes Matits	Magyar Aktuárius Társaság
Cathal Fleming	Society of Actuaries in Ireland
Jeroen van den Bosch	Het Koninklijk Actuarieel Genootschap
Hans Michael Øvergaard	Den Norske Aktuarforening
Anna Kwiecinska	Polskie Stowarzyszenie Aktuariuszy
David Bogataj	Slovensko Aktuarsko društvo
Diego Valero	Col.legi d'Actuaris de Catalunya
Lionel Candaux	Association Suisse des Actuaire
Mike Lord	Chairperson's Assistant
David Roberts	Chairperson's Assistant

In Attendance / Members of the General Assembly and other Committees:

Philip Shier	AAE Chairperson
Chris Daykin	Chairman, Social Security Sub-Committee
Ismo Risku	Suomen Aktuaariyhdistys (SSSC)
Maria Economou	Hellenic Actuarial Society (SSSC)
Marianna Papamichail	Hellenic Actuarial Society (SSSC)
Tibor Parniczky	Magyar Aktuárius Társaság (SSSC)
Rafaello Marcelloni	ISOA (SSSC)
Luis Oliveira	Instituto dos Actuários Portugueses
David Martin	Institute and Faculty of Actuaries

Apologies for absence:

Tatiana Bitunska	Bulgarian Actuarial Society
Ivančica Rajić	Hrvatsko Aktuarsko Društvo
Philippos Mannaris	Cyprus Association of Actuaries
Chresten Dengsøe	Den Danske Aktuarforening
Jaanus Sibul	Eesti Aktuaaride Liit
Steinunn Gudjonsdottir	Félag íslenskra tryggingastærðfræðinga
Ieva Ose	Latvijas Aaktuāru Asociācija
Rokas Gylys	Lietuvos Aktuarijų Draugija
Claudine Gilles	Association Luxembourgeoise des Actuaire
Florin Ginghina	Asociația Română de Actuarial
Jasmina Bojovic	Udruženje Aktuara Srbije
Martin Kosztolanyi	Slovenská spoločnosť aktuarov
Henry Karsten	Instituto de Actuarios Españoles
Rikard Bergström	Svenska Aktuarieföreningen
Alper Ünlenen	Actuarial Society of Turkey
Antonina Redka	Society of Actuaries of Ukraine

1. Opening of the meeting and adoption of the agenda

- 1.1 The Chairperson welcomed members to Bucharest, thanking the Institute and Faculty of Actuaries for hosting the meeting. There was a brief round of introductions.
- 1.2 The agenda as circulated was adopted. A copy is attached to these minutes as **Annex I**.
- 1.3 Falco gave a general update on activity over the previous six months, and AAE's participation in various meetings (his presentation is attached as **Annex II**).
The Pensions Forum due to be held on 23 November was cancelled due to a security alert and a revised date for the meeting has yet to be agreed.

2. Minutes of previous meeting

- 2.1 The minutes of the meeting held in Bucharest on 24 September 2015 were confirmed with one amendment – correction of the spelling of Philip Shier's name under 4.2.
- 2.2 There were no matters arising that were not already due for consideration under the day's agenda.

3. Review of the IORP Directive

- 3.1 Falco gave an overview of progress to date in the trilogue discussions on IORP II, highlighting areas where Council and Parliament suggested changes to the original text put forward by the Commission (presentation is attached as **Annex III**).

The Committee discussed these changes, focussing on areas where AAE can provide

further input, including:

- Article 3A, how should “duty of care” be defined taking into account the long term nature of IORPS and the different stakeholders involved?
- Article 9.4, what does ‘administered in the same member state as the registered office’ mean? In particular, clarity is needed around the term ‘administration’, for example, is this where benefits are processed or where decisions are made?
- Article 14.4.da, clarity is required on the extent to which a ‘full explanation of the impact of the changes’ is needed when assessing Technical Provisions – and how these should be disclosed to members. It was suggested AAE could share best practice from member states, for example, disclosure in full, partial disclosure with references to where more information can be found, information by request only.
- Article 17.1, clarity is needed on the definition of “long term stability” and what this means in the context of the operations of an IORP
- Article 20.1, it was clarified that the current drafting did not require Environmental, Social and Governance (ESG) considerations to be explicitly taken into account, rather that they could not be specifically excluded from relevant decision making processes. Further detail on what will be required in relation ESG considerations is expected to be provided through the Recitals (rather than directly in the text of the IORP directive).
- Article 20.1.b.2, what does ‘inter-generational balance’ mean and how is this linked to the earlier points about long-term stability?
- Article 25.6, clarification is needed on the trigger requirements for ‘whistle-blowing’, specifically what is in “best interests of the member” and how does this contrast with the other requirements in the IORP directive to focus on the decision making and governance of the IORP from a management committee perspective. It was suggested that “not meeting the requirements of the relevant National Competent Authority” might be a better requirement.
- Furthermore, in relation to whistle-blowing, there needs to be clarity over the reporting process (eg through the IORP supervisory board or direct to the NCA), what protections will be in place for ‘whistle-blowers’ and the likely supervisory responses.
- Article 28, the definition of Actuarial Function holder and when one is required. In particular, concern was expressed about voluntary funds and pure DC funds where there is no current actuarial function holder. By way of an example, the Pension Benefit Statement for pure DC schemes requires the forecast of future annuity rates but such arrangements would not be required to have an actuarial function holder.
- The Committee also noted that the suggested terminology around who bears ‘biometric risk’ could bring more IORPs into scope of needing an actuarial function holder and suggested this wording be reviewed.
- The Committee then discussed who can fulfil the role of actuarial function holder

and whether this needed to be a qualified actuary who is a member of the relevant local actuarial association, noting there would be distinct benefits to this approach. It was agreed the Committee should prepare a list of the requirements AAE saw as necessary to fulfil the role of actuarial function holder.

- Furthermore, there needs to clarity over how the actuarial function is distinct from, but complimentary to, the internal control/risk management function - in many cases the function holder will be the same individual. Philip Shier commented that he expects this point would be debated further in the next round of trilogue discussions.
- Article 29, it was noted that the requirements in relation to “Own Risk Assessment” include references to intergenerational fairness and long term stability. Furthermore, not with-standing the fact that EIOPA has been asked to discontinue its work on the ‘Holistic Balance Sheet’, the Committee noted the risk that solvency requirements could be brought in ‘through the back door’ using the Own Risk Assessment framework.
- Article 40.a, the Committee noted that a more principles based approach had been adopted, but expressed concern over some of the terminology used and suggested more clarity is needed. For example, what is meant by the term “pension projection”, does this mean a single “best estimate” (however that is defined) or should it include a range of possible outcomes, is it based on current benefits or should it include allowance for future contributions and/or investment returns etc...
- Furthermore, concerns were raised around the need to guard against members viewing pension projections as a statement of entitlement and how future risk and uncertainty regarding projected future income is communicated
- The Chairperson suggested that whilst further detail is not likely to be included directly in the wording for the IORP directive, the proposal that power be to delegated to the Council to determine the technical requirements of the PBS is likely to meet with objection from the other parties.
- Further, Philip Shier suggested that it was likely the requirements for a Pensions Benefit Statement would take a ‘tiered’ approach, whereby basic information would need to be provided to members, with details of where they can obtain more information.

The Committee agreed to keep progress of the trilogue discussions under review and to provide commentary to the relevant bodies the appropriate time (see item 3.3 below).

- 3.2 The Committee noted the AAE position paper ‘*Proposed revision of the IORP Directive*’ published in November 2015. Falco thanked Philip Shier and the other Committee members for their efforts in producing this document.

It was agreed that the document could be converted to the local language of any country represented on the Committee, providing appropriate disclaimers were made

and references to the original document are included in the translated version. The cost of any such translation will be borne by the host country.

3.3 Philip Shier referred to the draft position paper setting out the AAE's latest position on key issues arising as part of the trilogue discussions on the wording for the revised IORP directive. This covered areas such as:

- Recognition of different requirements and regulatory frameworks operated by member states
- The importance of proportionality in applying the amended IORP II directive
- Clarity in the definition of the Actuarial Function
- The focus on risk assessment and risk management rather than capital adequacy
- How to define cross-border activity and the requirements place don IORPs

Members of the Committee were invited to provide feedback and raised the following points:

- Whilst clarity on cross-border issues is important, the focus of the note should be to highlight key concerns from an actuarial perspective – for example the role of the Actuarial Function, the duties it needs to carry out and the requirements for who can fulfil this role.
- More emphasis should be placed on the consideration should be given to how “whistle-blowing” requirements would operate in practice; what are the appropriate avenues for reporting, what protection would be offered and what are the supervisory responses.
- Discussions around intergenerational balance/fairness should focus on the outcome of decisions made by the IORP and not decisions made solely by the member (for example individual investment decisions in a pure DC scheme)
- Further work is needed to understand what will be required in relation to the projection of member's benefits for inclusion in the Pension Benefit Statement (for example, based on current or expected future benefits, what investment return to assume, range of possible scenarios to present and whether to express information in 'current terms')
- The inclusion of Environmental, Social and Corporate Governance (ESG) is a necessary addition, but more consideration is needed on how this included in the text of the IORP – specifically it should be a consideration but not the primary driver for decision making.

The intention is for the paper to be presented to representatives from the Commission, the Council and selected Members of European Parliament ahead of the next round of trilogue discussions scheduled for 13 April 2016. In the interests of expediency, the Committee delegated authority to Philip Shier to update the paper to reflect the comments above and, working in conjunction with the Chairperson, to issue the

briefing note on behalf of the AAE.

4. EIOPA's further work on Solvency II for Pensions

- 4.1 The Chairperson confirmed that EIOPA is expected to publish results and an accompanying opinion from the Quantitative Assessment and stress test submissions from National Competent Authorities (NCAs) in the week commencing 11 April. It was agreed that once the results are published the Solvency II working party would review and publish an initial high-level response on behalf of the Committee. Consideration would then be given as to whether more in-depth commentary on the results is appropriate. There were no further updates.
- 4.2 A dialogue on the fundamentals of pension supervision had been suggested in the final call of the informal consultation and the Committee previously agreed that it made sense for representatives from the AAE to participate in any such discussions. The Chairperson confirmed that EIOPA had expressed interest in meeting with AAE but as yet no date for the meeting had been agreed. The Committee agreed that it continued to make sense to pursue this avenue for dialogue with EIOPA.

5. EIOPA consultation on a Pan-European Pension Product

AAE's response to EIOPA's consultation paper on establishing a Pan-European Pension Product was noted.

6. EIOPA consultation on improving communication with occupational pension scheme members

EIOPA's consultation paper on improving communication with occupational pension scheme members and AAE's response to this consultation were noted.

7. EIOPA consultation on development of an EU single market for personal pension products

EIOPA's consultation on development of an EU single market for personal pension products was noted. The Chairperson explained that AAE's Insurance Committee would be drafting the formal response and invited members of the Committee to provide comments outside of the meeting.

8. Actuarial Standards

- 8.1 Cathal Fleming gave a presentation on the development of model standards for Actuarial Function Reporting and Risk Reporting for IORPs (ESAP7 and ESAP8). Cathal chairs the Task Force established to consider whether model standards should be recommended. The Terms of Reference cover both actuarial function and risk reporting, but the group had initially focussed on actuarial function. The TF concluded that creation of model standards would be a challenge, that it needs to be certain that there is a "problem that needs solving before proposing a model standard as a solution" and that there was "no need for a model standard at this time". However, it sought the views of the Pensions Committee, which it

would consider before reporting back formally to the Standards Projects Team by Sept 2016.

- 8.2 The Committee discussed the TF's suggestions, agreeing that it is appropriate to at least be considering a model against the context of a dynamic path towards greater supervisory convergence and that the time to influence is when issues are in their infancy. AAE certainly could – and should - provide guidance and offer views, but there is no need to rush to a formal standard. The Committee was comfortable that the TF need not pursue a standard model and should, instead, consider development of an Educational Note (which could then form the basis of a standard, should this become appropriate). Cathal thanked the Committee for its input, which he agreed to consider and discuss with the TF. Anyone wishing to join the TF was invited to let Falco and Cathal know.

9. Social Security Sub-Committee

Chris Daykin gave a report on the SSSC's recent work and its meeting held on the previous day, which had been well-attended with some new members. He highlighted four issues:

- The AAE discussion paper "*The ageing of the EU – implications for pensions*", published in March 2016. The group is considering whether this might be updated regularly, possibly aligning with the cycle of the European Commission "Ageing report". The discussion paper helps to communicate the role of Actuaries in social security and pensions policy and AAE is setting up meetings with officials to further this.
- The Task Force on Adequacy of Pensions fed into the discussion paper (previous bullet) and more work is being conducted on
 - Replacement ratios and their limitations
 - Internal rates of return as a measure for intergenerational fairness
- A Task Force on pensioner mortality has been established. The Terms of Reference are substantial and the TF has been encouraged to be appropriately selective in its priorities e.g. communicating mortality issues to policymakers
- Co-operation with the IAA

10. EIOPA Occupational Pensions Stakeholder Group (OPSG)

Philip Shier, who recently stood down from the OPSG (of which he was Chairperson) having served the maximum permitted two terms, gave an overview on the OPSG's work over recent months.

The group met on 20 October 2015 and, on 1 December 2015, there was a joint meeting of the OPSG, the Insurance and Reinsurance Stakeholder Group (IRSG) and the Board of Supervisors (BoS). The BoS indicated that they would welcome the stakeholder groups having a higher profile. This would be positive for EIOPA: for example, were stakeholder representatives to accompany Gabriel Bernardino to meetings with MEPs, this would demonstrate stakeholder support. The BoS also suggested that they would be receptive to comments and views being fed directly to them, rather than through EIOPA senior management, protecting against filtering or nuancing of messages.

The OPSG is looking at ways in which to streamline/improve its efficiency and will take these on board.

On 24 February, the OPSG held the final meeting under its previous mandate. The change-over period can present continuity challenges: for example, the previous group had not completed its response to the personal pension consultation, yet the new group did not hold its first meeting until the consultation period had expired. This is another area in which the group is considering how to improve efficiency.

OPSG input over recent months has included:

- Opinion on the revised IORP Directive
- Document on EIOPA's stress-test
- Position papers on consumer protection issues, included costs and charges, communications and governance.

Philip offered to make available a copy of the end of mandate activity report, once this has been produced. *[Circulated to Committee members on 6 May]*.

11. Links with other organisations

11.1 EIOPA

It was noted that a meeting was held between Officers of AAE and the Chairman and staff of EIOPA in Frankfurt on 18 December 2015.

11.2 European Parliament

It was noted that a meeting was held between Officers of AAE and selected MEPs and/or their advisers at the European Parliament in Strasbourg on 16 December 2015.

11.3 IAA

The minutes of the IAA Pensions and Benefits Committee held on 15-16 October 2015 in Vancouver were noted.

12. Review of Committee priorities

The Chairperson gave a very brief overview (presentation attached as **Annex IV**) on priorities for the Pensions Committee. All are either on track (some completed) and the spreadsheet will be updated appropriately.

No new priorities were suggested. The new Chairperson of AAE (Philip Shier) intends to consider objectives across all Committees and streamline/update these to minimise repetition and overlap.

13. Information Exchange

France

Richard Deville explained that France proposes to develop a new pre-funded pension regime. Currently, occupational pension provision is almost entirely insurance-driven. Solvency II will restrict investment choices and there are fears that this does not support, or might even damage, the French economy. The new pre-funded pension wouldn't face these same restrictions and, it is hoped, would provide much-needed finance for the economy (investment in equities etc)

The proposal has some way to go before it is passed into law and does not have unanimous support. While the French Treasury and Insurance industry are supportive, the supervisory authorities appear rather less keen.

Netherlands

The last 10 years has seen a gradual shift away from defined benefit towards defined contribution, first collective DC and now, more towards individual DC.

From 1 August 2016 members will be able to purchase variable (rather than just fixed) annuities. Insurers and pension funds will be able to offer variable annuities, as will premium pension institutions (which currently aren't allowed to offer annuities). Some solidarity will be permitted e.g. shared investment risk and longevity risk within same cohorts.

Product providers will need to consider investment policy as members, on top of solidarity provisions, will hold risk-bearing assets beyond the retirement age.

Austria

- The maximum interest rate assumption Pensionskasse providers are allowed to use for new contracts and new joiners to existing contracts will decrease from 3% to 2.5%, from July 2016
- The supervisor is considering changes on information requirements for members, but this has been postponed until requirements under IORP II are finalised.

Belgium

From 1 January 2016:

- The minimum guaranteed interest rate on contributions decreased from 3.75% to 1.75%
- The insurance company maximum interest rate decreased to 2% from 3.75%
- The payment of benefits from an employer-provided plan must occur at the same time as the member's legal retirement and start of the social security pension

There will be a presentation on the new system in Barcelona (22 September 2016)

Channel Islands

A proposal to put in place automatic-enrolment type arrangements has been agreed. Details have still to be worked out and implementation is a few years off.

Germany

Pensioenfonds convert pension savings to income using a 2.5% conversion rate.

Decumulation going forward will determine a very small guaranteed annuity using a 0% interest rate, with the annuity delivered varying depending on the actual annuity rate (high volatility is expected). There are no changes to pensionskassen rules.

Aba is hosting a conference at the end of April at which an eminent professor will talk about the tax obstacles to company pension provision and what changes would encourage savings for low income groups. Around the same time, the Government is intending to publish a new law for pensions, which will cover the latter point.

Ireland

- There are now 12 codes of practice that DB plans must follow. Smaller single-employer plans may decide that it is uneconomic to continue, leading to mergers and/or transfers. The Pensions Authority (regulator) has made no secret of its desire to reduce the number of DB plans and is unlikely to be concerned at such an outcome.
- Separately, funding pressure on DB plans continues as corporate bond yields' decrease.
- The Society of Actuaries has reduced the assumption rates to be used in DC projections, which will lead to lower projected returns.

Norway

The public sector pension is moving from DB to more of a risk-sharing approach. However, this is expected to take many years to achieve.

Poland

The new Government pledged to undo some of the unpopular reforms undertaken by its predecessor. Raising the retirement age was one of the more controversial and the new Government is seeking to lower this again. However, it has also decided to undertake a general review of the pension system at the same time.

Switzerland

A project that will see the mandatory conversion rate (funds to income) reduce from 6.8% to 6% continues. Legislation is required to achieve this, which probably remains some years distant. Even then, a referendum will be needed to bring the change into effect.

UK

- DB remains under pressure within the Pension Protection Fund accepting more liabilities (and assets)
- There is consolidation within the DC arena, with many smaller funds closing and transferring into master trusts.
- The public sector is going through much change and, because different aspects are dictated by different bodies (e.g. funding is set by the Government Actuary Department, investment policy by the Government and other issues through the Pensions Regulator), this adds to the challenge.
- Automatic enrolment continues and the phasing of its introduction is now reaching the smallest employers. This presents certain challenges (e.g. a family employing a nanny might need to automatically enrol that person – or a carer for an older person might also need to be enrolled) and there is an element of politicisation emerging.
- A multi-agency task force has been established to tackle pension ‘scams’. While these have always been possible, the advent of ‘pension freedoms’ from April 2015 has exacerbated the problem
- The UK Budget introduced a new long-term savings vehicle with tax advantages – the Lifetime Individual Savings Account. This is separate to pensions, but will compete with them.
- A new flat-rate State pension came into existence from 6 April 2016. There is a long transition and until completed, in many cases the flat-rate will not be flat-rate ...

14. Any other business

The Committee briefly considered the recent ESMA discussion paper on benchmark regulation. AAE has responded and the focus of the paper is financial benchmarks such as LIBOR. It is not expected that the regulation will disturb IORP reporting.

The Committee also questioned whether it should be considering low and negative interest rates, noting that the Insurance Committee has already been looking at the former. The Chairperson agreed to take this away to consider how to address it efficiently. The Chairperson also explained that the Ultimate Forward Rate used in Netherlands has been made dynamic and agreed to forward a paper prepared by the Government committee (**Annex V**).

15. Date of next meeting

The next meeting of the Committee will be held in Barcelona on 22 September 2016 at the invitation of the Col·legi d'Actuaris de Catalunya.