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MINUTES
of a meeting of the
PENSIONS COMMITTEE
held in Bucharest, Romania on 24 September 2015

Present:

Falco Valkenburg (Chairperson)	Het Koninklijk Actuarieel Genootschap
Hartwig Sorger	Aktuarvereinigung Österreichs
Philippe Demol	Institut des Actuaires en Belgique/ Instituut van Actuarissen en België
Tatiana Bitunska	Bulgarian Actuarial Society
Richard Deville	Institut des Actuaires
Richard Herrmann	Deutsche Aktuarvereinigung
Jeroen van den Bosch	Het Koninklijk Actuarieel Genootschap
Anna Kwiecinska	Polskie Stowwarzyszenie Aktuariuszy
David Bogataj	Slovensko Aktuarsko druśtvo
Lionel Candaux	Association Suisse des Actuaires
Rikard Bergström	Svenska Aktuarieföreningen
Paul Kelly	Institute and Faculty of Actuaries
David Roberts	Chairperson's Assistant

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

Philip Shier	AAE Vice-Chairman
Chris Daykin	Chairman, Social Security Sub-Committee
Ksenija Sanjkovic	Hvratsko Aktuarsko Društvo
Tibor Parniczky	Magyar Aktuárius Táraság
Aidan Kennedy	Society of Actuaries in Ireland
Corina Moldovan	Den Norske Aktuarforening
Ana Tripsa	Asocitatia Romana de Actuariat
Huw Evans	Institute and Faculty of Actuaries
David Martin	Institute and Faculty of Actuaries
Ken Hohman	US Society of Actuaries (Observer)

Apologies for absence:

Debra Smith	Channel Islands Actuarial Society

Philippos Mannaris	Cyprus Association of Actuaries
Chresten Dengsøe	Den Danske Aktuarforening
Jaanus Sibul	Eesti Aktuaaride Liit
Tony Airio	Suomen Aktuaariyhdistys
George Dimitriou	Hellenic Actuarial Society
Steinunn Gudjonsdottir	Félag íslenskra tryggingastærðfræðinga
Cinzia Ferrara	Istituto Italiano degli Attuari
Stefano Visintin	Consiglio Nazionale degli Attuari
Ieva Ose	Latvijas Aaktuãru Asociãcija
Rokas Gylys	Lietuvos Aktuarijų Draugija
Claudine Gilles	Association Luxembourgeoise des Actuaires
Rita Marques	Instituto dos Actuarios Portugueses
Jasmina Bojovic	Udruženje Aktuara Srbije
Martin Kosztolanyi	Slovenská spoločnosť aktuárov
Diego Valero	Col.legi d'Actuaris de Catalunya
Henry Karsten	Instituto de Actuarios Españoles
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 Asocitatia Romana de Actuariat 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**.

2. Minutes of previous meeting

2.1 The minutes of the meeting held in Berlin on 20 March 2015 were confirmed.

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 The Chairperson gave an activity update on progress of IORP II (and related issues) over the previous 6 months and AAE's participation in various meetings. A presentation covering this is attached as **Annex II.**

Highlights (covered in slide deck) included -

- AAE met with the new Head of Unit, DG FISMA (previously Internal Markets) Natalie Berger, in July and is setting up a further meeting before the year end.

- Falco attended the Pensions Forum meeting in May. These have now been extended to bi-annual meetings due to the volume of ongoing issues to be addressed. The next meeting will take place in November.
- Most of the meetings attended have been related to either the IORP II draft Directive or EIOPA's continuing working on solvency for IORPS.

Philip Shier gave an overview of progress to date on IORP II (presentation is attached as **Annex III**), noting -

- March 2014 Commission proposal issued
- Council position agreed in November 2014
- European Parliament started to consider proposal in 2015 and the Rapporteur – Brian Hayes MEP- published his report in July 2015. This is scheduled to be voted on by the ECON Committee 1 December, following which it may be taken to plenary (there is no requirement for this, it is the Rapporteur's decision). There may be pressure in plenary to re-introduce capital requirements, but the Rapporteur does not expect this to succeed.

Once the European Parliament's negotiating text is available, there will be three versions of the draft Directive – Commission, Council of Ministers, Parliament – and there will then be negotiation between the three (trilogue) with a view to reaching compromise. Trilogue is expected to begin early in 2016 under the Dutch Presidency.

3.2 While much of the IORP II text is mirrored in the Solvency II Directive, the definition of "actuary" has not been copied across. It is not clear why this has been omitted and AAE will press Rapporteur for the same definition to be inserted, lobbying ECON MEPs also..

3.3 Falco suggested that AAE should produce an AAE paper on IORP II for MEPs in advance of their deliberations. The paper will be presented and discussed with the Commission, selected Members of European Parliament, EIOPA and relevant European lobby organisations such as Pensions Europe and Insurance Europe. Falco gave a presentation on suggested items for inclusion (attached as **Annex IV**), which were discussed.

Falco offered to draft the paper, which, given the short timescale before the ECON vote, ideally needs to be finalised by mid-October. The Committee agreed that the paper should be short and precise – MEPs will not wish to wade through detailed technical points – and, as such, should be a position, not discussion, paper. Falco invited Committee Members to send any further additional suggestions to him, which he would consider when drafting. A draft will be circulated for approval as soon as possible.

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

4.1 EIOPA is now validating the Quantitative Assessment and stress test submissions from National Competent Authorities (NCAs) and considering the direction of the opinion that it will deliver to the European Commission. This is expected to be delivered in April 2016 (see **Annex II**).

It seems unlikely that EIOPA will recommend using a Holistic Balance Sheet for capital requirements, but it is still looking at the circumstances in which this might be appropriate. There is concern from NCAs in countries which have availed themselves of article 4 of the Directive (allowing insurers carrying out 'occupational retirement-provision business', to use IORP, rather than comparable Solvency II provisions) would be keen to use the 'weaker' IORP provisions.

4.2 A dialogue on the fundamentals of pension supervision (see **Annex II**) had been suggested in the final call of the informal consultation and EIOPA is currently re-working a draft programme for this.

There is considerable difference of opinion between stakeholders with some, such as PensionsEurope and AEIP taking an entrenched negative view. EIOPA's draft programme appears very technical and not conducive to constructive, candid views. Falco suggested that perhaps AAE, which is considerably more balanced, might try to lead this initiative acting as a neutral moderator and trying to build trust between stakeholders – and progress.

The Committee agreed that this would be sensible and Falco will speak directly to Gabriel Bernardino, explaining concerns and offering that AAE takes over the initiative. Falco will keep the Committee informed and Committee members who expressed an interest in participating in dialogue were Paul Kelly (UK), Richard Hermann (Germany), Philp Shire (Ireland) plus Falco.

4.3 It was noted that the discussion paper "Clarity before Solvency" has been published.

4.4 Regulatory arbitrage remains a concern within some Member States, fearing that IORPs might be tempted to relocate to countries where the discount rate is higher (see **Annex II).**

The Committee discussed this, noting that changing the discount rate would change the pension deal, unless there were balances elsewhere, which countered this change. Examples cited were where an IORP moved from a Member State without a national guarantee scheme to one in which such a guarantee scheme were present, or relying instead on other areas of the HBS.

Although concerns are rational, the reality differs - to suggest arbitrage is too simplistic. Falco and Paul Kelly (UK) will draft a note that seeks to explain the position and expresses the AAE view. This will be circulated for comment.

5. Portability/Transferability of Pensions

5.1 AAE's response to EIOPA's Consultation paper on good practices on transfers of supplementary pension rights and EIOPA's report on the consultation were noted.

5.2 EIOPA's annual report on Market Developments in cross-border IORPs was also noted.

5.3 The Committee considered whether to update its 2001 survey on Transferability and decided that, in light of the volume of other work and priorities, not to do so.

6. EIOPA consultation on a Pan-European Pension Product

The AAE response to this consultation will be prepared by the Pensions, Insurance and Investment and Financial Risk Committees. The deadline for submissions is 5 October and Falco requested ideas and suggestions/comments in time for this.

The Committee discussed the consultation, noting confusion over whether the product is intended to be 2nd or 3rd pillar (or both).

There was some questioning as to whether a standard product would work across all Member States, with a suggestion that a product might represent little more than 'lowest common denominator'. However, it was also acknowledged that some Member States don't currently have such markets/products and that an EU stamp of approval might be beneficial in inspiring confidence (an example was cited of Member States where fledgling pension markets have been re-integrated into the State - assets confiscated)..

7. Social Security Sub-Committee

Chris Daykin gave a report on the recent work of SSSC and its meeting held on the previous day. This covered -

- Disclosure of information to individuals ("tracking services")
- Sustainability and adequacy of pensions
- Task Force on Adequacy of Pensions
- Task Force on Mortality Tables and Expectations of Life

8. Mortality issues

The minutes of the IAA Mortality Working Group meeting held in Zurich on 10/11 April 2015 were noted.

9. EIOPA OPSG

Philip Shier, current Chairman of OPSG, gave a presentation on the OPSG's work over recent months and its work programme (attached to these minutes as **Annex V**).

The tenure of half (15 out of 30) of the members is coming to an end and EIOPA has invited nominations for new members. Appointments are in a personal capacity, but are apportioned between individuals representing IORPs, employees, beneficiaries, SMEs and relevant professional associations. Five of the current OPSG have an actuarial background. Committee members were invited to put themselves (or colleagues) forward to AAE for nomination.

In August 2014, the Commission reported on European Supervisory Authorities (ESAs) and there has since been pressure for each ESA to have one stakeholder group only (EIOPA has two, the OPSG and an Insurance and Reinsurance Stakeholder Group). EIOPA and its stakeholder groups oppose this and are considering a joint response, which they will discuss at a meeting on 1 December 2015.

10. Links with other organisations

10.1 ***Commission DG FISMA (Insurance and Pensions Unit)***

It was noted that a meeting was held between Officers of AAE and staff of the Insurance and Pensions Unit of DG FISMA in Brussels on 16 January 2015.

10.2 ***Meeting with EIOPA***

It was noted that a meeting was held between Officers of AAE and the Chairman and staff of EIOPA in Frankfurt on 1 July 2015.

10.3 ***IAA***

The minutes of the IAA Pensions and Benefits Committee held on 9/10 April 2015 were noted. The next IAA meeting will be held in Vancouver, Canada on 14 and 18 October 2015. The agenda for this is almost finalised.

The IAA is trying to develop a more-structured approach to dealing with the OECD and the suggestion of a joint subcommittee on OECD matters was agreed discussed by the Chairs of the Insurance Regulation Committee and Insurance Regulation Committee. The role of the Subcommittee, to be headed by Esko Kivisaari, will be to coordinate IAA activities with the OECD and promoting actuaries to a supranational association.

11. Report to General Assembly

The Committee noted and approved the report of its activities which Falco will present to the General Assembly. He will add to the report as necessary in the light of discussions at this meeting.

12. Review of Committee priorities

Falco identified the priorities for the Pensions Committee. It was noted that the position paper on market consistency for pensions (covered by “Clarity above Solvency”) was published in May and that all other priorities remained on track and valid. No new priorities

were suggested.

16. Information Exchange

Romania

Ana Tripsa (ARA vice-president) delivered a presentation on the Romanian 2nd (mandatory) and 3rd (voluntary) pillar pension systems (attached to these minutes as **Annex VI**). Both systems are DC and, in their current guise, relatively new (less than 10 years). The presentation compared the 2nd and 3rd pillars and covered contributions, charges, investments, number of participants, assets under management and challenges – including confiscation risk.

Netherlands

The Pensions Communication Act came into force from 1 Jul 2015. This will require plans to inform participants about the risks associated with their pensions. From 2017, the Dutch pension tracking service (Pensioenregister) will provide 3 probable outcomes at the retirement age:

- the estimated outcome (50th percentile or median scenario)
- worst case scenario (5th percentile)
- absent case scenario (95th percentile)

This method uses a stochastic ALM model and enables modelling of risks (outcomes) in real terms (i.e. taking into account the possibility that the retirement benefits are not always increased with inflation).

All pension providers will use a uniform calculation - all parameters, including the set of scenarios are prescribed - in order to be able to compare (and aggregate) results from different pension providers.

Belgium

The State pension age will rise to 66 in 2017 and then 67 in 2025.

UK

- The UK NCA (the Pensions Regulator), which used to have a predominantly DB focus, is shifting that focus onto DC
- 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) 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.

US

A paper on decumulation and DC lifetime income, drafted by US and Australian Actuaries, is expected to be published in the coming weeks.

13. Any other business

There was no other business.

14. Date of next meeting

The next meeting of the Committee will be held in London on 8 April 2016 at the invitation of the Institute and Faculty of Actuaries.