

MINUTES
of a meeting of the
PENSIONS COMMITTEE
held in Barcelona on 22 September 2016

Present:

Pedro	Barbosa	Instituto dos Actuários Portugueses	Portugal
Rikard	Bergström	Svenska Aktuariieföreningen	Sweden
David	Bogataj	Slovensko Aktuarsko društvo	Slovenia
Gábor	Borza	Magyar Aktuárius Társaság	Hungary
Lionel	Candaux	Association Suisse des Actuares	Switzerland
Richard	Deville	Institut des Actuares	France
Cinzia	Ferrara	Istituto Italiano & Consiglio Nazionale degli Attuari	Italy
Cathal	Fleming	Society of Actuaries in Ireland	Ireland
Richard	Herrmann	Deutsche Aktuarvereinigung	Germany
Paul	Kelly	Institute and Faculty of Actuaries	UK
Anna	Kwiecinska	Polskie Stowarzyszenie Aktuaruszy	Poland
Christos	Loucaides	Cyprus Association of Actuaries	Cyprus
Rita	Marques	Instituto dos Actuários Portugueses	Portugal
Agnes	Matits	Magyar Aktuárius Társaság	Hungary
Magne	Nilsen	Den Norske Aktuarforening	Norway
Tibor	Pámiczky	Magyar Aktuárius Társaság	Hungary
Dave	Roberts (chairperson's assistant)	Institute and Faculty of Actuaries	UK
Hartwig	Sorger	Aktuarvereinigung Österreichs	Austria
Diego	Valero Carreras	Col.legi d'Actuaris de Catalunya	Spain (Col.legi)
Falco	Valkenburg (chairperson)	Het Koninklijk Actuarieel Genootschap	Netherlands
Jeroen	Van den Bosch	Het Koninklijk Actuarieel Genootschap	Netherlands
John	Woodall	Institute and Faculty of Actuaries	UK

In Attendance / Members of the General Assembly and other Committees (for the entire meeting or part of the meeting):

Philip	Shier	AAE Chairperson	Ireland
Chris	Daykin	Chairperson, Social Security Sub-Committee	UK
Maria	Economou	Hellenic Actuarial Society (SSSC)	Greece
Raffaello	Marcelloni	ISOA (SSSC)	Italy
David	Martin	Chairperson, Standards Freedoms & Professionalism Committee	UK
Luis	Oliveira	Instituto dos Actuários Portugueses	Portugal

In Attendance / External parties (for the entire meeting or part of the meeting):

Maitane	Mancebo	OECD Observer	
Craig	Hanna	IAA Observer	
Thomas	Terry	IAA Observer	USA
Yas	Fujii	IAA, Chairperson PEBC	Japan

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 Gyllys	Lietuvos Aktuarijų Draugija
Claudine Gilles	Association Luxembourgeoise des Actuaire
Florin Ginghina	Asociatia Romana de Actuariat
Jasmina Bojovic	Udruženje Aktuara Srbije
Martin Kosztolanyi	Slovenská spoločnosť aktúarov
Henry Karsten	Instituto de Actuários Espanoles
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 the members to Barcelona and thanked Col.legi d'Actuaris de Catalunya and MGS for hosting the meeting.
- 1.2 The agenda was adopted. A copy is attached as **Annex I**.
- 1.3 The chairperson confirmed that Richard Deville will take his place as Rapporteur for the following day's General Meeting, providing an oral overview of the Committee's

discussions.

2. Minutes of previous meeting

- 2.1 The minutes of the meeting held in London on 8 April 2016 were confirmed with one correction – “London” substituted for “Bucharest” under item 1.1 and amendment of typographically errors.
- 2.2 The Chairperson delivered a presentation, updating members on activities of the Pensions Committee since the London meeting, attached as **Annex II**.

3. Review of the IORP Directive

- 3.1 The IORP 2 Directive has now been agreed in trilogue, although the European Parliament has yet to ratify it in plenary. This is expected to take place in October.
- 3.2 The Chairperson gave a detailed presentation on IORP 2, attached as **Annex III**, identifying emerging themes and areas of particular interest to actuaries. One of the more fundamental differences between the original IORP Directive and IORP 2 is recognition in the latter of the triangular relationship between IORP, employer and employee. This was considered very positive by Committee members and underpins many of the changes from the Commission’s original draft.

A definition of Actuarial function now appears in recital 25, but (unlike in Solvency II) it does not feature in the Articles themselves. This means that Member States (MS) do not need to incorporate it into National law and it is unclear how they will deal with this. It was suggested that National Member associations talk to their local National Competent Authority about ensuring recognition and encouraging robust rules about the skills and qualifications necessary to fulfil the actuarial function.

A theme of intergenerational fairness appears throughout the Directive (recitals and articles) and this is an area where actuaries can help inform the debate and offer opinions. Depending on how MSs choose to interpret the Directive, it is possible that provisions that favour one generation over another could be prohibited, for example, deficit recovery contributions with long durations could be seen as passing risk from older cohorts to younger. Similarly, where a scheme winds up, is it appropriate that pensioner benefits might be protected, at the expense of entitlements for younger members? Actuaries should consider issues and inform social partners.

Article 20 requires investments to be in “the best interests of members and beneficiaries as a whole”. In many MS, pension provision investment is largely in gilts (for example, where discount rates used are mainly risk-free), but is this really in the best long-term interests?

Risk management is a major component of the Directive and this is the responsibility of the risk-management, not actuarial, function. Asset-liability modelling falls within the competence of risk management and so there is a risk that non-actuaries could seek to take this on. However, actuaries are well-placed to fulfil the risk management role

and should consider applying/competing for this.

There is a requirement for IORPs to appoint an internal auditor and, within some MS, this will be a new requirement. The auditor must oversee key functions, which includes the actuarial function, and so there may be changes necessary to the way in which actuaries fulfil their role.

MS are required to exchange best practices and this is another area in which actuaries could, and should, have a role.

Action: Members were asked to draft a short note (half a side) in relation to risk management, including any actuarial involvement, within their country. This should be provided within the next few weeks. The Chairperson and Paul Kelly will draft and send an e-mail requesting this and seeking volunteers to form a small group to consider entries and identify possible best practice. This will then be discussed at the next meeting.

Action: Members were also requested to identify areas of IORP 2 that will be difficult to implement and provide this information to Paul Kelly (see also, item 9)

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

- 4.1 The Committee noted EIOPA's "Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs" (carry over of this item will correct heading to reflect this), published in April 2017.
- 4.2 This is an area in which actuarial input is key and AAE wishes to produce a note of its views on the opinion to share with EIOPA, the Commission and other interested parties.

A draft paper on the Committee's views was noted. One of the major questions to be discussed was whether any assessment should start from the position of an HBS valuation? Risk assessment could take the form of a cashflow analysis, which could for example identify the point at which a pension fund would actually experience difficulty in meeting its obligations – 5 years, 10, 20, etc.) This might give pension funds longer to manage and solve any problem. The time component doesn't really come through in a HBS valuation.

Following a discussion, the Chairperson agreed to make amendments to the note, in conjunction with Paul Kelly (who was already considering the issue from an OPSG context). The next iteration will be circulated before 1 November.

- 4.3 The Committee noted that EIOPA has asked for our technical input for the 2017 Stress Test for IORPs and to consider what our technical support could be. This in the context of AAE's role as an independent observer.

EIOPA will be establishing a working group, which will contact AAE formally in due course. More immediately, it is interested in the AAE's views on how best to deal with proportionality and small funds – e.g. should they be excluded and, if not, how should they be considered. The stress test is not looking to deliver a binary pass or fail outcome, rather the effects of sponsors and members/beneficiaries. While the emphasis is on DB, it will also cover DC, for example, DC projections will be stress tested in some way.

5. Personal Pension Product

- 5.1 The AAE response to the EIOPA Consultation Paper (CP-16-001) on its advice related to the development of an EU Single Market for personal pension products (PPPs) was noted.
- 5.2 The AAE Insurance and Pension committees will issue a joint response to the European Commission consultation on a potential EU personal pension framework (**Annex IV**). The Pensions Committee needs to consider only the 3rd part of the consultation and it was the widely-held view that the consultation does not introduce much that hasn't already been considered. In responding, therefore, the AAE input to the EIOPA consultation – at 5.1 – would be a good starting point.

One or two volunteers from the Pensions Committee were sought, who would work with colleagues from the Insurance Committee to prepare a draft response over the next two – three weeks. Members wishing to volunteer were asked to contact the Chairperson to let him know.

6. Impact of low/negative interest rates on pensions

EIOPA has asked AAE to comment on how low/negative interest rates might impact on modelling for pensions (both technical and economic effects) e.g. if projections show a negative real return, this might be a barrier to encouraging individuals to make savings.

Action: The Committee agreed that a short paper would be a useful starting point and agreed to send ideas to the Chair of the Insurance Committee who would take this forward, with the aspiration of producing something by the end of November.

7. Social Security Sub-Committee (SSSC)

The Chair of the SSSC, Chris Daykin, delivered an update on the work of the Social Security Sub-Committee. The agenda for the SSSC meeting on the previous day, 21 September, was noted and the minutes of the meeting are attached as **Annex V**.

The SSSC meeting was very well-attended and the Chairperson focused his presentation on the work of the adequacy taskforce. The task force had presented four case studies, looking at aspects of interpreting replacement ratios in the context of individual countries and one that used internal rates of return. Replacement ratios are much used and quoted

but care is needed in interpreting results, as low replacement ratios for those with high underlying earnings may be of less concern than higher replacement ratios for those on low earnings.

It is very difficult to draw conclusions and the next stage is to identify themes and consider how best to communicate findings, including limitations. The intention is to bring some understanding to issues not clear in the public arena and two outputs are planned.

- 1) A self-standing report on adequacy and how this could be measured
- 2) An SSSC update of the paper on The Ageing of the EU, which should be targeted for 2018 when the Ageing Report 2018 and the Pension Adequacy Report 2018 are published.

The Chairperson also noted that the SSSC paper on *The Ageing of the EU – Implications for Pensions*, was published on 14 March 2016 and will form the basis of a seminar in Brussels on 16 November for stakeholders, including MEPs, the Commission and other stakeholders.

8. Actuarial Standards

8.1 Gabor Hanak's report on the work of the Standards Project Team was noted. Of particular interest to the Pensions Committee is the work of the Task Force on Actuarial Function Reporting for IORPs. The TF had made an initial assessment that it would be inappropriate to start to develop standards in relation to IORPs at this point for a number of reasons e.g. there is no common method for calculating technical provisions across countries. It would also not be useful in some countries due to national standards. The Standards Project team agreed this approach and the suggestion that the task force should consider development of an Educational Note instead.

8.2 For reasons of governance, the TF should be disbanded and a new TF established, even if the participating members remained unchanged. The new TF should report to the Pensions Committee, not the Actuarial Standards Project Team.

9. EIOPA Occupational Pensions Stakeholder Group

9.1 Paul Kelly's report on the work of the OPSG was noted. This is a new OPSG, which has established 5 workstreams and 2 working parties. EIOPA is obliged to take opinions from OPSG in relation to the workstream topics, which are

- Risk assessment and transparency
- IORP II implementation
- Financial Stability
- IORP Stress test
- Communication tools

The first two of these workstreams are being led by members of the Pensions Committee - Falco Valkenburg and Paul Kelly, respectively (the other workstreams are not led by actuaries). All workstreams will be producing papers for EIOPA to consider and the next OPSG meeting is due 4 October 2016.

10. Links with other organisations

10.1 Commission DG FISMA (Insurance & Pensions Unit)

The Committee noted that a meeting was held between Officers of AAE and staff of the Insurance and Pensions Unit of DG FISMA in Brussels on 6 July 2016. The Unit is less open than it has been in the past, although it is hoped that this will change when there is a topic arising on which the Unit feels it needs AAE help. This point was also covered in the initial assessment of the Pension Committee's activities since the last meeting – see Annex II.

10.2 EIOPA

The Committee also noted a meeting between Officers of AAE and the Chairperson and staff of EIOPA in Frankfurt on 5 July 2016. The AAE has a strong relationship with EIOPA, which is quick to ask for AAE assistance (as evidenced by the many AAE action points picked up at the 5 July meeting). EIOPA faces its own political challenges and it could be damaging to AAE if other organisations (or even Member States) considered AAE to be the “lapdog” of EIOPA. Care will be needed to ensure that AAE is seen to be delivering robust challenges to EIOPA.

10.3 IAA

The minutes of the IAA Pensions and Employee Benefits Committee held on 9-10 April 2014 in St Petersburg were noted. Yas Fujii, Chair of the IAA Pension and Employee Benefits Committee (PEBC) offered insights into the activities and priorities of the PEBC. Relationships with the various supranational bodies are important and efforts continue to be made to maintain and grow these.

11. Report to the General Assembly

The Chairperson ran through the structure of the draft report, explaining the work of the Committee over the past year. The Chairperson also noted that Richard Deville would deliver the oral report to the General Assembly, the following day.

12. Review of Committee priorities

Maintaining and bolstering relationships with EU Institutions remain the highest priority for the Committee. The subjects discussed by the Committee at this meeting where there is read-across to EU Institutions are, therefore, key to the success of this.

No new key objectives were identified.

13. Information Exchange

Belgium

- Phillipe Demol had intended to deliver a brief presentation on the new pension system in Belgium. He gave a brief overview, explaining that it is very complex and offered to send summary documents, with an invitation to take questions at the next Committee meeting.

Poland

- Lowering of the State retirement age remains under consideration

Greece

- The additional pension is being reformed, with the intention of securing intergenerational fairness. There will be a single pensions' formula, which considers earnings over the full career, rather than earnings in the years before retirement. Pensions in payment will also be adjusted – potentially by significant amounts - and there is a lot of anger about this.

Ireland

- There is now a new Government and the Social Protection Minister is considering a universal savings system (automatic enrolment of individuals into a pension). Further review of the defined benefit system is expected, in light of continuing low yields.

Sweden

- Pensions assets are generally held in insurance companies (as in France and Norway) and the imposition of Solvency II will skew outcomes. The Government is looking at whether insurers that operate solely pensions' business, and which currently operate Solvency I, should move to the IORP structure, rather than Solvency II.

Norway

- Pension assets are held either in insurance companies or a pension fund. Insurance companies are subject to Solvency II and there are questions being asked as to whether pension funds should also be subject to Solvency II regulation. Minimum return requirements are also a significant challenge when schemes typically allocate only a small percentage of assets to return-seeking investments.

U.S.

- An assessment of the position of public sector pensions was undertaken that the American Academy of Actuaries would like to publish. However, the authors copyrighted it and there are ongoing discussions to try to move this forward. Public sector pensions hold around \$6 trillion of assets and the pension sector is not considered to be as tightly regulated as non-public pensions. There are concerns around governance and a tendency to bolster funding levels by taking greater investment risk, which can backfire.
He gave an overview of the principles in the meeting.

14. Any other business

There was no other business identified.

15. Date of next meeting

The next meeting will take place on Friday 7 April 2017 in Málaga, Spain.