

MINUTES OF THE MEETING OF THE AAE PENSIONS COMMITTEE HELD IN COPENHAGEN ON 21 SEPTEMBER 2017

The participants list is attached as **Annex 0.1**

1. OPENING OF THE MEETING AND ADOPTION OF THE AGENDA

The chairperson welcomed the members to Copenhagen and thanked Den Danske Aktuarforening for hosting the meeting. The chairperson noted that this would be his last meeting in that capacity, thanking the Committee for all its hard work and support over his tenure, and offering a warm welcome to the chair-elect – Maitane Mancebo Alzola.

The agenda was adopted. A copy is attached as **Annex 1**.

2. MINUTES OF THE PREVIOUS MEETING

- 2.1 The minutes of the meeting held in Malaga on 7 April 2017 were confirmed with Richard Hermann's name being removed as having been in attendance and an errant "the" removed from the final sentence of paragraph 8, page 5.

- 2.2 There were no matters arising to be added to the published agenda.

3. ACTIVITIES OF THE PENSION COMMITTEE

- 3.1 The Chairperson delivered a presentation (**Annex 3.1**) noting the activities of the Committee and the Social Security Sub-Committee (SSSC) since the Malaga meeting. No additional activities were identified by Committee members.

4. EDUCATIONAL NOTES

- 4.1 Cathal Fleming (Ireland) delivered an overview presentation of the Task Force's development of Educational Notes for Actuarial Function Reporting and Risk Reporting for IORPs (**Annex 4.1**). Work has focused on the Actuarial Function and work on Risk reporting may be taken forward by a new joint Task Force comprising members of the Pensions and Risk Management Committees.
- 4.2 Cathal then ran through a draft of the paper (**Annex 4.2**) with the Committee, answering questions raised and addressing concerns. The Committee agreed to move forward to a formal proposal document in parallel with considering whether the note should consider circumstances where technical provisions are not set by a local regulator and to also draw out the significance of the nature of any pension promise (e.g. hard, soft). The Committee agreed to start the formal due process for the development of a European Actuarial Note.

5. EIOPA's 2017 STRESS TEST FOR IORPs

The Chairperson reported on the AAE's participation in EIOPA's informal consultation on its proposals for stress testing IORPs, noting that although EIOPA had listened politely, it had made its own decisions.

EIOAs HBS assumes that all pension promises are the same and AAE would like to see an alternative approach based on cash flows e.g. stochastic probability of failure at what point in the future? EIOA is not opposed to this, but considers it too soon to develop a model for this. Pensions Europe has indicated that it would like to talk with AAE about the possibility of a cash flow approach. The Chairperson suggested that this would be helpful, but that AAE should lead on this, possibly with input from the Risk Committee. The Chairperson invited volunteers to work up a proposition/model, in discussion with Pensions Europe, within a new Task Force. Committee members were invited to contact the coming chairperson (Maitane) with names of any volunteers (these need not be Committee members, happy to accept nominees from local memberships).

6. OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

The Chairperson, as a member of the OPSG, offered a report on the group's work (Annex V). In relation to EIOA's consultation on "EIOA's regular information requests towards NCAs regarding provision of occupational pensions information", which closes 27 October, the Committee noted that there are currently requests for data from multiple sources and this is unhelpful. The Committee favoured a single set of requirements, via local regulators (national competent authorities – NCAs)

7. LINKS WITH OTHER ORGANISATIONS

- 7.1 The chairperson shared, and talked through, a note (**Annex 7.1**) identifying the many contacts with external parties, stakeholders and member associations since the Malaga meeting.
- 7.2 The minutes of the IAA meeting held in Budapest (April 2016) were noted and the UK representative (Charles Cowling) provided an overview, highlighting that the recent observed increase in mortality is not as straightforward as is sometimes presented. Longevity increases are continuing amongst the wealthy. The slowdown in longevity increases and increased mortality is being seen within less affluent groups.

8. INFORMATION EXCHANGE

Belgium

- Much discussion, but little definitive progress on transposition of IORP II, portability or Insurance Distribution Directive (around 75% of pensions are managed by insurers)

Bulgaria

- No major changes over last couple of years
- Discussion on whether State pension age should be equalised at 65 for men and women, from 2037 (currently 64 for men and 61 for women), but elections have made progress difficult

Finland

- There has been lots of change over the last 10 years to the State scheme. The birth rate is very low and this will feed through into demographics. Private pension provision, which is mainly insured, remains relatively modest.

France

- France has developed a new occupational pension product - fonds de retraite professionnelle supplémentaire (FRPS). Most French pension plans are insured and subject to Solvency II requirements. The FRPS is an IORP and will avoid this. It will be possible for Insurers to transfer rights into an FRPS, although this will create its own issues and it is not known how many will do so.

Germany

- A new collective DC pension will be available from 2018
- Will require a collective agreement with trade unions if employer wishes to establish one
- Major challenge in how to devise strategy to avoid pension decreases (and communication of bad news that would follow)
- Currently very difficult to move between DB and DC – this has yet to be addressed with new arrangement, but that does not mean that similarly onerous requirements will not be introduced.

Greece

- There is a new social security law for self-employed workers - a particularly vulnerable group. There is no tax relief on contributions, contribution rates are high – 37.5% and the ceiling for contributions is high.

Hungary

- Elections take place next year and little is expected before then.

Ireland

- A new pensions bill contains clauses that will require a minimum 12 months' notice period for any employer wishing to cease contributions to a DB pension and that will require employers not meeting the minimum funding standard to put forward a proposal to the regulator to rectify this.
- Progress on IORP II implementation is slow.

Italy

- A new law will allow workers to leave the workforce up to 3 years before State pension age and to receive a monthly benefit/income until SPA. That income takes the form of a loan and must be repaid within 20 years, once SPA is reached.
- There are few IORPs and implementation is therefore not high profile/priority.

Netherlands

- The absence of a government since March has meant that there have been few pension developments.
- Legislation to implement IORPII is expected to be sent to the Parliament by the end of the year. The biggest issue in relation to IORPII is the Pension Benefit Statement, which moves in the opposite direction to the current system, whereby information is provided on a layered basis.

Norway

- Ongoing development of public servant pensions (additional to pillar 1) is expected to be finalised this year or early next year.
- Tax favoured private pension savings (pillar 3) expected from November.
- The mechanism for implementing IORPII is currently uncertain.

Spain

- The social security scheme is currently under revision and a working group is considering this.
- Nothing has yet been published and the outcome is unclear.

- There is little pensions culture in Spain and IORP Boards are questioning whether they should undertake the risk management processes or whether asset managers might take on this responsibility.

Sweden

- Much of the occupational pension system is safeguarded through insurers and a new vehicle is being established that will allow insurers to provide occupational pensions outside of the Solvency II Directive (similar to the FRPS in France). See annex VII.

Switzerland

- The nation is due to vote on pension proposals, which include
 - o lowering the minimum conversion rate in the second pillar from 6.8% to 6%.
 - o scrapping a measure that only requires employer contributions to an employee's Pensionskasse if the salary is above a prescribed threshold

UK

- Brexit dominates domestic affairs and is likely to do so for the foreseeable future.
- It is currently unknown whether the UK will seek to implement IORP II
- There is a further consultation on the sustainability challenges faced by Defined Benefit schemes "over the winter" (which probably means Q1 2018)

9. **PROPOSAL FOR A PAN-EUROPEAN PERSONAL PENSION (PEPP)**

- 9.1 The European Commission proposal to develop a Regulation for a Pan-European Personal Product was noted.
- 9.2 The AAE press release on the PEPP, issued 7 July was also noted (Annex VIII). Within any DC system, decumulation is key and while variable income annuities provide a possible solution, these are not popular as people don't like (the prospect of) income reductions. Per Linneman (former member of the Investment and Financial Risk Committee), who has been working in this area for more than a decade, delivered a very interesting presentation on his approach to smoothed income annuities and drawdown solutions.
- 9.3 Philip Shier delivered a presentation on the Commission's PEPP proposal (**Annex 9.3**). The AAE wishes to draft a position paper on the PEPP, to be forwarded to key influencers (MEPs, rapporteur and shadows, Commission, Council). Philip is happy to co-ordinate drafting of the paper and will establish a small group of volunteers from the Pensions Committee and Insurance Committee to collate views and discuss. Gabor Borza (Hungary) and Philippe Demol (Belgium) volunteered to participate from the Pensions Committee.

10. **TRANSPOSITION OF THE IORP DIRECTIVE INTO NATIONAL LAW**

- 10.1 Committee members provided an overview of progress being made on IORP implementation within their member countries through the Information Exchange (item 8, above).
- 10.2 Gábor Pásztor, leader of the Risk Management Task Force and Chief Risk Officer of Aegon in Hungary delivered a presentation (**Annex 10.2**) on his experience of implementation of Solvency II and discussed with the Committee what pensions might learn from this.
 - It is a slow process and employers unlikely to welcome with open arms – it needs to be forced through
 - Pensions Committee has a year to develop its thoughts and then refine them, in time for implementation in 2019

- Communication of risks to those who ultimately bear it – members and shareholders – is a key area on which to focus, insurers were slow with this
- Be prepared to assess the unassessable
- (There are too many one in 200 year events happening!)
- ORSA requirements are determined by Member States – engage with them early
- Identify existing risk management practices and limits - evaluate whether they are appropriate under IORP II and whether there are gaps

It was suggested that AAE should take a view on what high-level risk management should cover (recognising different approaches will be appropriate in different countries). The Risk Management Committee should work on the technical detail, but the Pensions Committee should provide much input (with assistance from pensions experts within local associations).

11. **ROLE OF THE ACTUARY**

Karel Goosens discussed the results of a survey amongst Member Associations on this topic (**Annex 11**), setting the context as

- Between 25% and 50% of the time spent by Insurance Co Board directors relates to risk management
- 25% of actuaries within insurance companies are working on risk management
- Around 67% of Insurance Co CEOs are actuaries

Key messages

- The Commission spoke to actuaries about the actuarial function within Solvency II, but not specifically risk management. Don't let this be repeated for pensions
- The new Risk Management Committee provides the structure for actuaries to deliver risk management

Suggested actions

- Encourage the Insurance Committee to insist even more on Non-Life subjects and help the IAA on its further work on IFRS17
- To create a joint working group Insurance – Social Security section of the Pensions Committee to consider the role of actuaries in the field Health
- To continue to focus on investment and assets in all activity domains
- To encourage the Education Committee to consider the place of communication skills in the basic education and CPD of actuaries
- To encourage the future Risk Management Committee to strengthen the exchange and research in the field of broader risk management
- To give support to the future Risk Management Committee to assure that the role of the actuary in insurance and pensions is articulated

12. **SOCIAL SECURITY SUB-COMMITTEE**

Chris Daykin provided an overview of the recent work of the SSSC, which met the day before the Pensions Committee. Minutes of that meeting, which includes an update on the many different strands of work and activity over recent months is available as Annex XIII.

SSSC focus has been on

- Adequacy report
- Pension cost projections
- Survey on social protection provision for the self-employed
- A chapter on demographics for a paper in relation to the EC forthcoming ageing report

13. **ANY OTHER BUSINESS**

Richard Hermann notified the Committee of the 31st International Congress of Actuaries 2018 to be held in Berlin, 4-8 June 2018 (**annex 13**), encouraging attendance. The program will be available from 1 November.

There was no other business identified.

14. **NEXT MEETING**

The next meeting of the Pensions Committee will be held on 4 May 2018 in Warsaw, Poland at the invitation of Polskie Stowarzyszenie Aktuariuszy.