



CEEMET POSITION ON THE COMMISSION'S PROPOSAL FOR IORP II DIRECTIVE

CEEMET finds the European Commission's proposal COM(2014) 167 to revise Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision to be overly burdensome for employers and with no real benefits for employees.

CEEMET supports high standards of governance, risk monitoring and communications for all workplace pensions. The Commission's proposal however is too rigid and provides for insufficient flexibility across all national pension systems.

GENERAL COMMENTS

IORPs are social institutions and need to be considered as such in the Directive

IORPs are a social instrument, providing occupational pension security for millions of employees. The successful functioning of an IORP is ensured only through strong commitment by a single employer or several employers who, often together with their employees, are responsible for funding the pension schemes.

The provision of occupational pension security and the functioning of pension funds are primarily guided by labour and social security

legislation and not prudential legislation. They are not consumer products and not subject to consumer protection regulation. Commonly social partners are given a central role in this framework such as co-regulators through collective agreements.

These factors clearly differentiate IORPs from insurance companies offering occupational pensions for profit. While the latter pursue profit from financial markets, IORPs only exist to ensure adequate and sustainable retirement income for their members and their beneficiaries. Thus, they must first and foremost be seen as social institutions instead of financial institutions.

Overregulating IORPs' governance will result in excessive administrative burden and undermine employees' future pension provisions

CEEMET finds it unfortunate that the special characteristics of IORPs have not properly been taken into consideration in the Commission's proposal. This causes the proposed legislation to have no real benefit for members and beneficiaries of pension schemes in many cases. Instead it piles up administrative burden and provides overly complex monitoring measures which will put a strain on the institutions and the employers behind them at large.

The proposal fails to adequately address the reality of pension provision across member states. The divergent and socially varied nature of pensions across the EU makes any homogenous platform for workplace pensions undesirable and likely to result in significant detriment to many employees. A single consumer-style framework will create overlapping and even contradictory provisions.

It is of utmost importance to keep in mind that the regulation as proposed is likely to cause significant costs and administrative burden for pension funds. In the end, additional costs will have to be covered by either higher pension contributions or cutting the level of benefits. Both options are detrimental for employers and their employees. The current proposal is even

contradictory and counterproductive regarding the Commission's own aims: The White Paper on adequate, safe and sustainable pensions (COM(2012)55) clearly strived to strengthen and foster the occupational pensions, "as people in the future will have to rely more on complementary retirement savings". Special attention was given to the efficiency and cost-effectiveness of supplementary pension schemes.

A comprehensive impact assessment should cover stakeholders' and IORPs' voluntary actions, not only existing legal requirements

CEEMET believes that the Commission's impact assessment is inadequate and does not properly assess the indirect consequences of proposed risk management functions and information obligations for the employers as the pension scheme sponsors. The Commission also overstates the benefits for pension scheme members and beneficiaries.

The impact assessment claims that adding a risk management and an internal audit function, and in the case of defined contribution schemes the appointment of a depository, benefits the employers. Also no drawbacks are described concerning the pension benefit statement (PBS). All the measures clearly increase the administrative costs of pension schemes.

The standardised two page PBS will add cost and little or no benefit. For many IORPs it will make the provision of information more, not less, difficult. It is an example of the lack of flexibility and over-prescriptive nature of the proposal.

SPECIFIC COMMENTS

Administration and risk management measures should serve a purpose, not exist for their own sake

The proposed Directive includes several new responsibilities concerning the governance of IORPs. It requires for fit and proper management

and an "appropriate" remuneration policy, for a risk management function and risk evaluation, internal audit function. Where applicable, also an actuarial function and the appointment of a depository are called for.

As the employer-sponsors of pension schemes, it is in the employers' interest to have IORPs under a sound management that takes into account and prepares for investment and other risks. Similarly, the scheme members have a direct interest in ensuring that the pension scheme is effectively governed, and have direct control over this. IORPs already benefit from professionally qualified advisers to assist the social partners in their oversight of the scheme. These elements, together with national systems for compensation for members prevent both poor management and unnecessary risk taking, without the need for excessive and inflexible regulatory intervention. This by itself prevents negligent management and unnecessary risk taking, without the need for excessive and inflexible regulatory burden.

Greater proportionality is therefore needed in the Commission's proposal. The professional qualifications requirements should only apply to professional advisers, not the social partner nominated representatives, and an additional article should be added making it clear that social partner agreements are paramount and shall take priority over any qualification provisions.

The proposed new remuneration policy should be clearly applicable only to service providers, (insurers), not social-partner nominees. The internal audit requirement should be sufficiently flexible to allow individual IORPs to determine how they wish to comply. For larger IORPs, the employer should be able to undertake the audit with social partner agreement. Smaller IORPs will face significant additional costs unless they are given the flexibility to decide how they wish to conduct the audit.

CEEMET concludes that all new obligations concerning the management functions should be subject to a re-evaluation and assess only recognised problems. The proposed measures for risk management and evaluation should be primarily renounced or made more flexible. Discussions on issues such as remuneration policy



should be left to the discretion of Member States and Social Partners.

Information obligations must be cost effective and proportionate to members' and beneficiaries' needs

The Directive proposal includes new measures for informing pension scheme members and beneficiaries of the features and performance of the scheme, their accrued pensions and future projections.

The proposed PBS requires a two page statement to be provided to each scheme member at least annually. The proposal prescribed in great detail the nature of the information to be provided, some of which is irrelevant and confusing. There is no distinction made between the information which member need to be provided with before and after their retirement, which will cause additional confusion and suggests that the provision has been inadequately prepared.

The requirements need to be retained at a high-level with Member States and IORPs determining how the objectives of the PBS should be met.

The requirement to inform future scheme members about the features of the pension scheme doesn't serve a real purpose as a prospective member is not entitled to choose their pension provider. The obligation is also premature and can often be fulfilled only by the employer and not the IORP. This kind of information is usually provided when the employment contract is signed, as there is no reasonable cause or way of doing this earlier.

Concerning the provision of information to scheme members close to retirement, at the time of retiring and during retirement, the unconditional obligation to provide information about payment options is too strict and detailed, when there most often is only one method of payment available.

If new obligations are set, they should cover only information considered generally essential for employees in different phases of their scheme membership. Furthermore, an IORP should always have the right to choose the mediums used and the methods for delivering information, including electronic means.

In short, it should be sufficient to inform scheme members about the features of the scheme, the amount of accrued pension benefits, the estimated or target amount of the benefits at the moment of retirement, and the payment options when applicable.

CEEMET concludes that the proposed information obligations should be amended to an outline requirement only.

About CEEMET:

CEEMET (Council of European Employers of the Metal, Engineering and Technology-Based Industries) is the European employers' organisation representing the interests of the metal, engineering and technology-based industries. Through its national member organisations it represents 200 000 companies across Europe. The vast majority of them are SMEs, providing over 35 million direct and indirect jobs.

