# ACTIVITIES REPORT 1998

# EFRP Activities Report
# 1998

Brussels, February 1999

# Table of Contents

# Introductory Notes[1]

**Drs. C.J. VAN REES**
**Chairman**

*The year 1998 has certainly been a landmark year for the EFRP. From our new offices in Brussels we have been able to improve as well as intensify the services rendered to our Member Associations. EFRP's supporters' Circle grew significantly and a lot of effort and time was dedicated to provide as much relevant information as possible to both parties.*

*Most importantly, the EFRP consolidated its formal acknowledgement by the European Union Institutions as the unified voice for national associations of pension funds.*

*EFRP explained the needs of the pension fund industry, including both the sponsoring company – as a benefit provider – and the service providers, i.a. asset managers, custodians.*

*European policy makers requested EFRP assistance to supply them with relevant information in the appropriate format. Our aptitude to serve them increased the credibility of the federation as the EU-representative of the industry.*

***1998 highlights***

*Our activities concentrated principally on communicating to the various decision-making bodies of the European Union the EFRP response to the Green Paper on Supplementary Pensions of the European Commission.*

*Mobility of the work force and the safeguarding of their supplementary pension rights were other predominant themes in EFRP's work. This was needed while the European Commission had tabled a proposal for a Council Directive.*

*1 All publications and articles as well as EFRP positions papers referred to are available from the Secretariat*

## What's ahead?

*The European Commission's Communication on Supplementary Pensions – as a follow up and preparatory paper to a Directive on the subject - is expected early 1999. The EFRP will continue to keep a close eye on developments at the European Commission and nurtures its contacts with relevant Commission officials.*

*Commissioner MONTI hopes to accelerate the decision making so that 1999 will also bring a new proposal for a Directive on supplementary pensions, including a prudential framework for pension funds. In this regard the EFRP is currently in discussions with DG XV about the nature of prudential regulations presently used at Member State level. This will help to see how and to what extent a degree of harmonisation can be achieved against the background of cross border membership of pension funds.*

*The successful outcome of this issue is correlated to the proceedings in two Council policy preparatory bodies. On the one hand the Taxation Policy Group has discussed the tax co-ordination of supplementary pensions (including life insurance). On the other hand, the newly installed Financial Services Policy Group is having a preliminary exchange of views on the upcoming Communication on Supplementary Pensions. Meanwhile these discussions have resulted in a delay for its publication.*

*1999 promises to be an interesting year with the Commission's Communication and a Draft Directive on Supplementary pensions. The EFRP/NAPF Conference in Monte Carlo from 4-6 October 1999 will certainly be the place to elaborate on both initiatives.*

# 1. EU-Commission's Green Paper on Supplementary Pensions – EFRP response

*Communicating the EFRP response to the numerous players on the European scene absorbed a large amount of resources. At the end of the year the EP Report granted relief by welcoming the basic option to move to more funded pension systems.*
*The responses to the European Commission Green Paper were numerous and the vast majority of them welcomed the Commission proposals. However, the scope was enlarged from pension funds towards other types of supplementary pension provision meaning widening the debate to all possible players in this field. EFRP would like to keep the focus more on pension funds in their role of financial institutions that need the liberalisation of capital markets both as users and providers of financial services.*

## 1.1 Communicating and explaining pension funds' needs to the European Commission.

Commission officials qualified the EFRP response to the Green Paper as a major contribution to the debate. Our response provided a substantial answer on each of the questions the Commission had raised. The officials extensively discussed with EFRP delegations the ideas put forward in our position paper.

The EFRP response provided an excellent opportunity to publicise and focus on our core ideas:

- Pension funds need to be able to operate more efficiently within the Single Market. Their cost effectiveness will contribute to a decrease in the labour costs of European companies thus enhancing their competitiveness in a global market.
- To achieve this, pension funds need more liberalisation in their asset allocation.
- Pension funds should be allowed to make cross-border appointments of asset managers and custodians if they are to take full advantage of the monetary union and of the financial services single market.
- Pension funds want to be responsible investors and the EFRP promotes the highest standard of best practice in investment strategies whilst replacing quantitative restrictions by a qualitative and more dynamic prudential supervision based on the concept of the "prudent man rule".
- The EFRP is committed to improve and promote pensions issues relating to labour mobility but strongly recommends to take into account the contractual nature of supplementary pension provision plans.
- The lack of co-ordination of taxation systems constitutes the main obstacle to the mobility of the employees of multinational companies with respect to their supplementary pension plans.

In every presentation or exchange of views these ideas were put across.

Our lobbying efforts included correspondence and subsequent meetings with :

- Cabinet Members of the European Commissioners (Flynn, de Silguy, Monti, Santer, Van Miert);

- Senior and junior officials of selected Directorate-Generals (Economic and Financial Affairs, Competition, Employment and Social Affairs, Internal market and Financial services);
- Representatives from C.E.A. (Comité Européen des Assurances).

## 1.2 A keynote delegate at European Commission hearing

On the 21st April 1998, the European Commission held a special hearing in Brussels to take views on the Green Paper on Supplementary Pensions. The EFRP delegation was among the keynote delegations that were allotted enough speaking time to express their ideas substantially. EFRP :

- made a strong statement about the prudent man rule;
- stressed the necessity to differentiate the prudential framework for pension funds from that for insurance industry;
- recommended a prudential supervision that acknowledges both the institution and the product, declining the purely product driven control;
- called for the recognition of the social dimension of the pension funds.

All participating parties agreed on the difficulty and complexity of the issues yet insisted on the need to make further progress.

## 1.3 Influencing the European Parliament (EP) opinion

Almost throughout the full year the Green Paper on Supplementary Pensions continued to be on the agenda of the European Parliament. Four Parliamentary Committees were called to deliver an opinion for the main Report drafted by Enrico FERRI (PPE-I) as a member of the Legal Affairs Committee.

At the very first stage of the parliamentary work on the subject, EFRP started its lobbying work with the draftspersons and key MEP's from the respective committees on Economic & Monetary Affairs, on Employment and Social Affairs, on Women's Rights and on Legal Affairs and Citizens' Rights.

Further efforts were put in to communicate our views to parliamentary assistants and EP officials that counsel the political groups and assist in drafting reports.

EFRP was actively involved in editing the final draft report through drafting proposals for amendments and delivering comments on amendments tabled by others.

The final EP report was voted in the Plenary on 3rd December 1998.

Generally speaking, the EP Report is quite supportive of the Green Paper. The idea to liberalise investment regulations is not challenged. However, there is a voice calling for strict prudential control in order to protect beneficiaries (i.a. calculating liabilities, solvency requirements).The level playing field between the insurance industry and pension funds is referred to as well.

A general concern of the European Parliament is the issue of social protection which, in their opinion, should be increased instead of weakened. The underlying idea is: provided statutory social security pension systems are kept safe, private supplementary systems are acceptable. This is quite in line with the EP attitudes while usually there is a great concern for consumer – in this case, beneficiary – protection. In this respect the Report regrets the lack of tackling the vesting period issue for those Member States where this period is rather long.

*EFRP warmly welcomes a number of paragraphs in the Report since they express ideas cherished in our circles (i.a. freedom of investment, diversity of funding vehicles, prudent man principle, E.E.T.-taxation model). Of course, the EP discussions also reflected views challenging the move towards more pre-funded pension provision in EU Member States.*

## 1.4 Commissioner MONTI prepared the minds at Council level

At the ECOFIN Council on 19th May 1998, Commissioner MONTI presented the overview of the next steps to be taken as a follow up of the European Commission's Green Paper.

Mr. MONTI indicated he was in favour of a legislative framework taking the format of a directive, tackling both the investment aspects and the level of playing field with insurance products.

EFRP's reacted to the Commissioner's statement that was made public, through an article on "European Pensions News" of 1st June 1998. EFRP took the position that a more pragmatic approach to supplementary pensions was needed taking into account the large diversity of the 2nd pillar systems. Furthermore, EFRP insisted on keeping and/or introducing a specific prudential framework for pension funds that is different from that in place for the insurance industry.

## 1.5 The Economic and Social Committee's (E.S.C.) opinion

As one of the consultative bodies of the European Union where industry, unions and a variety of business and organisations are represented, the Economic and Social Committee had also to submit its Opinion on the Green Paper on Supplementary Pensions.

The Economic and Social Committee has delivered its opinion on the Green Paper on Supplementary Pensions on the 11th December 1997. We include reference to it for full reporting on the EFRP activities related to the Green Paper.

The E.S.C. opinion is largely supportive for the further development of supplementary pensions along the lines EFRP is advocating.

## 1.6 A constructive dialogue with C.E.A. (Comité Européen des Assurances) on prudential principles of pension funds

From early 1997 onward EFRP started talks with C.E.A. to achieve a common understanding of basic definitions such as on "occupational pension" and on "pension fund typology". It is common knowledge the word "pension fund" covers a large variety of institutions especially when looking around in the EU. Our aim was to clarify the notion and consequently define its scope. This step has been crucial to EFRP as it is the foundation needed prior to reaching agreement on a minimum harmonisation standard of pension fund activity. Although EFRP has tried to accelerate this process by tabling a proposal of pension fund typology, internal discussions within the C.E.A. have so far precluded an agreement on this matter.

# 2. Liberalisation of pension fund activity field

*The EFRP made presentations on the Insurance Committee of the European Commission about the strategic pension fund management.*
*To give more impetus to the liberalisation of financial markets as well as to seek to improve the overall safety to consumers – both wholesale and retail – the European Commission launched an in depth consultation process with the industry at large.*

## 2.1 Assisting the European Commission to inform national supervisors on investment strategy

The EFRP has taken up an educational role in providing the European Commission the support for technical informative sessions on investment policy and the strategic management of pension funds.

A first seminar was held on the 23rd September 1998 on the **Insurance Committee of the European Commission.** This is the official Commission consultative body with national insurance supervisors. Its members are top officials from supervisory and regulatory bodies from the Member States.

The European Commission thought it would be a good idea to make national supervisors and regulators more familiar with up to date strategic management insights. EFRP was asked to organise an expert presentation on "Modern Portfolio Management" with a special focus on "Asset Liability Modelling". Both EFRP Chairman van REES and Professor Dr. David WIILKIE (University of Heriot-Watt, UK) gave a presentation illustrating the need for liberalisation of investment regulations, underpinned by practical as well as theoretical arguments. The top officials raised a lot of questions to the EFRP representatives showing their vivid interest yet also some scepticism and doubts about the soundness of the exposed theory.

Major statements:

1) since pension schemes within the EU are arranged in so many different ways, no single format for asset-liability supervision would suit all arrangements;

2) any real asset-liability modelling study will result in a set of asset mix which should be taken into consideration and can form a benchmark for the investment manager;

3) restrictions on which investment mix can be chosen **always** moves the responsible investor away from his choice of possible efficient portfolios;

4) as a result of the introduction of the EURO, requirements to invest considerable proportions in government bonds will become ineffective either in helping governments, or in providing security to the beneficiaries of institutional investors.

## 2.2 Contributing to policy preparatory process for financial services single market

In view of the Vienna Summit in December 1998, the European Council had requested an updated review of the priority actions needed to complete the financial services single market.

Therefore the European Commission (DG XV) had established the **Strategy Review Group–Financial Services.** This working party of high-level industry specialists was to assess whether and to which extent the strategy – and consequently the action programme – of the Financial Services Directorate-General should be reoriented on the short and medium term. The issues raised covered also the pension funds as financial services industry components.

EFRP's Chairman, Kees VAN REES, was invited to take part in these discussions on an intuitu personae basis, together with fifteen other key people in financial services (insurers, bankers, collective investment funds, security dealers and pension funds).

The meetings started 10th June and ended in September. Discussions were held on the basis of a DG XV checklist aiming to identify issues and priority actions for the coming years. In this paper the question was raised whether any steps should be taken to encourage the growth of funded pension schemes, and if so, what exactly they should be?

Kees VAN REES introduced a written contribution elaborating on i.a. the future regulatory framework – to the extent it might be needed at E.U. level – in the coming years. More specifically, the following items were highlighted:

1) subsidiarity principle : 2nd pillar pension arrangements are the implementation of labour conditions;
2) the overall non-necessity of regulatory framework for pension funds at EU level;
3) the need for mutual recognition of both 2nd pillar pension funds and schemes/plans;
4) level playing field and competition aspects;
5) the proportionality principle : the volume of activities should also be taken into consideration.

The European Commission (DG XV) wanted to check the views of the Strategy Review Group on Financial Services against the opinion of financial services providers at large. Therefore they convened a specific **hearing on financial services** on the 14th September 1998 in Brussels.

EFRP interventions focussed on:

- The need for European industry to have a cost effective vehicle for occupational retirement.
- The taxation barrier is probably the most effective barrier to cross border activity of both pension funds and workers and needs to be tackled in the very short term.
- The language barrier should not be underestimated as an aspect of consumer protection.

- The issues that should be considered for immediate future action: make sure that pension funds:
  * can decide on asset allocation on the basis of economic variables (freedom to invest);
  * can appoint their – duly licensed – service providers (freedom to appoint custodians and asset managers, including insurers as providers of services);
  * are not discriminated against by tax authorities or supervisors while operating on non-domestic capital markets;
  * can affiliate in all Member States the employees of a multinational EU group into one single fund while managing different schemes/plans (according to national labour regulations and relations).
- The lack of any urgent need to regulate the competition – or what has been considered as such by the insurance industry – between pension funds and insurance undertakings in respect of the financing of occupational retirement.

The output of all this DG XV consultation activity was the **European Commission Communication on Financial Services - A framework for action,** of 30th October 1998.

Generally speaking, the Commission Communication on 'Financial Services - A framework for action' is very supportive for the policies EFRP has been advocating over the years. The input of the financial service industry is likewise evident.

The following ideas, relevant to pension funds, were raised:

- more qualitative and less quantitative regulation and supervision;
- promotion of supervisory best practice;
- interpretative Communications from the Commission should replace detailed directives;
- prudential control authorities should strengthen their co-operation and co-ordination;
- need for some additional legislation, i.a. the liberalisation of investment restrictions to pension funds;
- promotion of efficient integration of wholesale financial markets;
- distinguish between professional and non-professional users of financial services;
- tackle tax obstacles to cross-border membership of pension funds thus facilitating the development of pan-European company structures.

Two new decision making mechanisms have been proposed and accepted by the Council:

1 Financial Services Policy Group : a high level group of personal representatives of the Ministers of Finance chaired by Commissioner M. MONTI;
2 High-level consultation mechanism of market practitioners: in fact this is the continuation of the "strategy review group" but with a modified membership that will take more vested interests into account.

*Throughout the whole policy preparatory process EFRP was actively involved by submitting contributions and participating in working parties, public hearings and having individual meetings with Commission senior officials that worked on this matter. The outcome is that the Communication on Financial Services includes our concerns and recommends a policy line that E.F.R.P. can subscribe.*

## 2.3 Risk Capital and Investment Restrictions

In view of the Cardiff Summit (June 1998), the EFRP tabled a briefing memo to the Cabinet of Mr. J. SANTER that was preparing the Commission Communication on "Risk capital: a key to job creation in the European Union".

Our paper made a strong statement in favour of the prudent man rule and qualitative prudential supervision. For the purpose of this Commission Communication EFRP illustrated that prudent man rule had led to more diversified and balanced portfolios in terms of asset categories. This phenomenon made it clear that if the Commission would want to give impetus to private equity markets as a factor for job creation in SME's, the prudent man principle has to be adopted for prudential supervision of pension funds. They are, as well as the insurance industry, institutional investors that have the capacity to accept the inherent risk and the illiquidity of small company shares in the context of a diversified portfolio.

*The Commission Communication (April 1998) accepted our views and published another plea for liberalisation of investment restrictions.*

# 3. Promoting appropriate taxation for supplementary pensions

*The European Court of Justice delivered its judgement in the SAFIR Case. This decision resulted in a call by pension fund professionals to sponsor a test case. EFRP's Vice-Chairman, Mr. Ray MARTIN strongly supported this action. The response of the European Commission to the ECJ decision was to bring the taxation of supplementary pensions (including life insurance) to the agenda of the Taxation Policy Group.*

## 3.1 SAFIR ruling of the European Court of Justice (E.C.J.)

On the 28th April 1998, the European Court of Justice ruled that Swedish tax legislation, which treated life insurance policies purchased from an insurer established in Sweden differently from policies provided by an insurer established outside of Sweden, was contrary to the European Treaty's provision regarding the freedom to provide services (article 59).

In response to this ECJ ruling, EFRP's Vice-Chairman, Ray MARTIN of ZENECA Group tried to promote a test case together with the KVEARNER conglomerate and looked for support from other companies. The message this group of multinational companies wanted to give was : the door for cross-border membership of pension funds is open and it should be pushed further.

As a federation, EFRP was fully supportive of this initiative. However, since SAFIR could be a turning point in the taxation issue of supplementary pension plans, EFRP considered that a court case was perhaps not the very first step to consider.

EFRP continued to repeat at various meetings with European Commission officials that the taxation of supplementary pensions is an urgent matter indeed, if the mobility of the work force is to be enhanced without jeopardising the pension rights of these mobile workers.

## 3.2 Taxation Policy Group (T.P.G.)

The taxation of supplementary pensions and of the pension funds as financial institutions was given new impetus by putting this issue on the agenda of the Taxation Policy Group. Personal representatives of the Ministers of Finance compose this consultative body chaired by Commissioner M. MONTI. This reflects the high political flavour of the issues discussed.

Since taxation has proven to be a serious barrier to the single market, the Commission proposed to tackle some particularly disturbing phenomena. On 1 December 1997 the ECOFIN Council agreed to investigate 3 areas of harmful competition between Member States and damaging single market objectives, being:

- company taxation for which a code of conduct should be established;
- a tax scheme applicable to interest payments and payment of fees between companies;
- taxation of savings
  With respect to this issue, the Commission tabled a proposal for a Directive. A first analysis indicated that this Directive will affect individuals and not companies or pension funds.

During 1998 the T.P.G. had almost fully implemented the Council's decisions and could take new items on the agenda. The "problems related to pensions and insurance taxation" were identified as an urgent matter and taken on the agenda.

*On different occasions (i.a. a letter to Commissioner M. MONTI, Response to Green Paper on Supplementary Pensions, expert memo's to officials, conference speeches) the EFRP has highlighted the need for harmonisation of taxation models for supplementary pension plans and the need to mutually recognise the providers of supplementary pensions. This concern has now reached the official agenda of the T.P.G.*
*EFRP very much welcomed this development and encouraged the Commissioner to take further steps in this field. Although many Member States remain reluctant, pressure to take action has been put on them through the SAFIR ruling of the E.C.J.*

# 4. Safeguard the supplementary Pension Rights of Migrant Workers

*The protection of beneficiaries' pension entitlements when migrating in the Union has a long history. In order to obtain the necessary support in the Council, the European Commission had to table a modified proposal of its Directive. The main modification was the deletion of the taxation aspects removing much of its relevance.*
*The European Commission – initial - proposals gained substantial support from the Economic and Social Committee and the European Parliament.*

## 4.1 Economic and Social Committee reflects EFRP ideas

EFRP played a substantial role in the drafting of the E.S.C. opinion since our Vice-Chairman, Ray MARTIN was appointed the rapporteur's expert. In his opinion to the Plenary, Rapporteur Mr. WITHWORTH stressed the need for more Member States to be willing to extend the duration of the assignment under the 1408/71 Regulation.

Although also union representatives had a say in the debate, the final version of the ESC opinion reflects fairly well the EFRP views and it was largely supportive for the Commission's initiative. Among the main items we recall:

- the merits of the continued membership and payment of contributions in the Member State of origin;
- the need to extend the period under which posted workers can benefit from the Regulation 1408/71 application to supplementary systems;
- the welcome attempt (but deleted in the Council) to cut through the jungle of the different tax treatment of supplementary pension contributions;
- the call on the flexibility of the Member States to resolve the existing anomalies.

In line with its comments on the Green Paper on supplementary pension, the ESC would like to tackle the qualifying conditions (i.a. long vesting periods were identified as requesting further action by the Commission) and the transferability of vested pension rights. The complete portability of occupational and personal pensions was earmarked as an essential goal to pursue.

## 4.2 The European Parliament welcomed the directive as a first step towards regulation at EU level on supplementary pensions

By the end of January 1998 the proceedings had also started within the European Parliament. The Social Affairs Committee delivered the Report with Mr. H. ETTL as the Rapporteur in the main. It was adopted in the Plenary on the 30th April 1998.

Although EFRP had put extensive efforts in explaining the needs of multinational companies for their employees that migrate within the group structure, the draft report disregarded this aspect. It is current practice indeed that these migrant workers are contracted by the subsidiaries in the different Member States and not posted by one subsidiary to another, along the lines of the 1408/71 Regulation.

Therefore EFRP tried again and tabled proposals for amendments that aimed to i.a.:

- extend the scope of the proposal to employees of multinational companies, beyond the posting in the framework of 1408/71;
- maintain the taxation proposals : deductibility of contributions and taxation of final benefits (= E.E.T. model);
- water down the focus on waiting periods as a hurdle for free movement;
- include temporary and part-time workers according to national employment conditions;
- consider the Community level as appropriate to alleviate barriers to labour mobility in respect of supplementary pensions;
- distinguish clearly supplementary pension schemes under the scope of this proposal from those arranged for in statutory social security, i.e. Regulation 1408/71.

The Economic & Monetary Affairs Committee of the EP delivered an opinion with Ms. M. KESTELIJN-SIERENS as a rapporteur. This opinion recommended i.a. to extend the scope of the proposal for a Directive to employees of multinational companies, beyond the posting in the framework of 1408/71. However, the Rapporteur in the main did not include this recommendation in his Report for the Plenary.

It has to be pointed out that there was much support in the EP for eliminating waiting periods beyond 5 years. The final report however does not contain any specific reference to number of years but calls on the Council to regulate on this specific issue.

## 4.3 British Presidency firmly decided to have a "social" directive in its trophy book

The British Presidency, strongly pushing to get this Directive adopted during its term, succeeded on 29th June 1998. The consequence being that – due to insufficient negotiation time - the tax aspects of the Commission's Proposal – endorsed by the European Parliament – have been deleted failing the consensus among Member States on this aspect.

## 4.4 The EFRP continues to claim appropriate action to alleviate the barriers to labour mobility

Member States obtained the deletion of the deductibility of contributions to supplementary pension from taxable income if this exemption was given to nationals contributing to nationally established financial institutions.

Reacting to this fact, EFRP initiated a lobbying exercise through its Member organisations who were asked to get in touch with their respective national governments to make them understand the interest for companies to have no taxation barriers for their mobile personnel.

The legal basis (art. 51 of EC Treaty) of this Directive seems highly questionable.It is widely accepted that art. 51 refers to statutory social security only and not to supplementary or occupational social security. It might well be that in this way supplementary pension schemes swiftly come under the scope of the social security notion, which could have detrimental effects on the cost and flexibility of employer sponsored plans.

*EFRP achieved some of its objectives in this issue though on an important one (taxation) no progress was made. Consequently the Directive will have a limited impact in most Member States. Its significance is the safeguarding of supplementary pension rights of migrant workers posted under the terms of the 1408/71 Regulation and not the creation of more efficient vehicles for pension rights accruals.*

# 5. Using public platforms to present EFRP opinions

## 5.1 EPF/EFRP/NAPF/KAS Conference "What next for Pensions", Brussels, 5th November 1998

*Swift action from the EU Commission as well as Member States was demanded at the conference in Brussels on "The next steps toward a Single Market for Pensions" as to avoid a pensions "gridlock".*
*Organised by the European Policy Forum (EPF), the European Federation for Retirement Provision, the National Association of Pension Funds (NAPF-U.K.) and Germany's Konrad Adenauer Stiftung (KAS), the conference highlighted the difficulties ahead for the nations relying on pay-as-you-go State schemes as well as the difficulties for pension funds to take full advantage of the single market for financial services.*

As the keynote speaker, EU Commissioner **Mario MONTI** announced that the next step to a single market in supplementary pensions would be the publication of a Commission Communication early 1999. This document would outline the steps towards a single market for pensions. Mid summer 1999 a Directive is expected which would allow pension funds to invest anywhere in the single market and use approved fund managers and custodians from any Member State. Furthermore the Commission is still working on tackling the following problems:

1) seek co-ordination of national tax systems in order to solve obstacles to free movement arising in the pensions field;

2) harmonisation to pave the way for certain forms of cross-border membership.

The Commissioner indicated he favours a qualitative approach with regard to investment rules, based on the "prudent man principle" rather than rigid uniform quantitative investment rules on pension funds, which would only be counterproductive. Therefore a Directive is needed to harmonise basic prudential principles and to offer pension funds the advantage of wider and more liquid capital markets. Considering the idea of insolvency insurance, Prof. MONTI indicated the Commission is rather reluctant to make a legislative proposal in this issue while, for the time being, they feel it is subject to subsidiarity.

EFRP's Chairman, Drs. **Kees VAN REES**, of Shell Pensioenfonds Beheer b.v. of the Netherlands highlighted the new partnership between public and private welfare provision that Europe needs for the sustainable financing of retirement income. He stated that eventually we would see a balanced mix of statutory state arrangements, occupational pensions and private individual savings. This will lead to a new balance in which Governments are responsible for basic social security coverage and where social partners and individuals will be made responsible for part of old age income.

In this way, the European Union can achieve enhanced competitiveness of its industry without giving in on overall social protection.

Referring to the benchmarking practice in the private industry, the EFRP Chairman called on politicians to have a look at the Dutch retirement system and recommended it as a "best practice" to be promoted throughout the Europe. In the Netherlands, so he explained, the public and private pension provision systems are fairly well balanced.

Among the critical success factors Mr. van REES mentioned, i.a.:

- social partners jointly accepted responsibility for a collective system that contains a substantial degree of solidarity;
- joint governance of social partners has worked well;
- social partners have accepted society changes to which the system had to adapt to remain sustainable.

How did the Government create the favourable environment factors the pension system needed?

- appropriate taxation model (EET);
- effective and high standard prudential supervision;
- freedom of investment with "prudent man rule" as the basic principle;
- trust in the capabilities of pension funds to manage private savings over the longer term in a responsible manner.

Other speakers included:

- Ms. **Anne MAHER**, Chief Executive of the Irish Pensions Board underlined the different regulatory frameworks in the EU Member States. She especially stressed the fact that, while Governments consider regulations to be necessary to protect consumers, industry often argues they are merely a source of increasing costs and impeded markets. Consumer protection should not, however, inhibit market development and product innovation, but rather stimulate public awareness, she said.
- Mr. **Jos VAN NIEKERK**, Managing Director of the Dutch Unilever Pension Fund "Progress", said that regulation should be effective, efficient but not over-restrictive. The Dutch Pension Funds are supervised as to their overall investment policy that should be solid, transparent and consistent. This absence of restrictions has never in the past led to any unduly risky investment profiles.
- Prof. Dr. **Norbert WALTER**, Chief Economist of Deutsche Bank and of the Frankfurter Institut, focussed on the negative effects of a predominant 1st pillar pension system that is furthermore based on collectivist principles. Companies being based in countries where such a system rules, face high labour costs through social security contributions.
- Dr. **Bernd HOF** of the German Economic Institute said the new German Government aborted the previous Pension reform Act, but had opened up discus-

sions for the development of a second and third pillar of pension provision.

- Mr. **Jean-Pierre THOMAS** of Lazard Frères Gestion, being one of the French politicians to question the dominant role of the French PAYG system, presented the ideas behind the so-called Thomas-law. After the switch in political coalition, this law has not been implemented by the Jospin Government. The latter does however feel the need for action and is planning to introduce a new pensions law in Spring 1999.
- Prof. **Hans Jürgen ROSNER** of the University of Köln Social Policy Institute said that pension systems needed to be adapted to the rapidly changing social and economic development and harmonisation and integration in the EU. EU Member States have to strive for solutions that make financing more employment friendly and reduce PAYG costs. Prof. ROSNER believes in a complementary role between PAYG schemes and occupational funded schemes in order to combine the benefits of both systems to a situation of optimal mobility and free flow of labour and capital, protection from poverty and social exclusion.

*At the "What next for pensions in Europe" conference in Brussels on 5th November 1998 Commissioner MONTI showed us the way ahead in the struggle to a single market for supplementary pensions. The industry made clear which priorities it has on the agenda for this same single market and delivered also its policy recommendations.*

## 5.2 Seminars & Conferences

The EFRP Board Members are largely sought after speakers at industry related seminars and conferences and we have to be selective in our acceptance.

However, some of these conferences provided for an excellent opportunity to voice our opinion on the developments at the European Commission in the pension funds' area.

Most important addresses included i.a.:

- Chairman Kees VAN REES at the OTOE-Conference in Athens (19 February 1998) where Commissioner MONTI was the keynote guest speaker. The EFRP Chairman explained the cost efficiency of the pension fund as a financing vehicle and the beneficial effects of it to the overall economy and to the individual company. He stated that the "pension fund is able to combine economic efficiency with social cohesion".
- Vice-Chairman Ray MARTIN at
  - ❍ ABI (Association of British Insurers) conference (8th May 1998) in London where differences between pension fund and insurers' activities were discussed;
  - ❍ The Annual European Institutional Asset Management Conference (17th June 1998) in Milan where he spoke on defined contribution schemes.

- Vice-Chairman Ulrich JÜRGENS at The Royal Institute of International Affairs (26&27 February 1998) in London on the Future of European Pensions Conference. His presentation focused on the reform of the German pension system.

## 5.3 Economic and Social Committee hearing on EMU & Single Currency

*The EFRP attended the hearing of the Economic and Social Committee of the European Communities on "Which Single Market beyond the EURO?" on the 15th September 1998 in Brussels. EFRP took a firm stance to remove barriers for pension funds to act on the single market.*

The EFRP highlighted the following topics:

1) EMU increases the need to remove remaining internal barriers in the European Union (investment restrictions for pension funds, mutual fiscal recognition of supplementary pension systems);

2) replacement of national currencies by the EURO is a technical operation and has marginal consequences for pensioners;

3) some worry persists concerning the stable value of the EURO;

4) EMU increases transparency and competition, also in the field of supplementary pensions.

# 6. Pension funds' statistics

## 6.1 EUROSTAT

*EUROSTAT puts priority on the production of a pension funds database within the framework of the Council Regulation Nr. 58/97 concerning structural business statistics. The EFRP is fully involved in the process and wishes to avoid any burdensome and highly time-consuming data query.*

Under the explicit request and supervision of the European Commission, EUROSTAT has been working on the creation of a European wide database for pension funds. Therefore a Task Force on Pension Statistics was developed, grouping five Member States (the pilot group) that, on a voluntary basis, were requested to collect a whole range of pension data. Every semester, a meeting is being organised to further elaborate the results being obtained as well as to choose the variables that will be used to create a pension fund questionnaire.

The EFRP is involved in the development of this database. Bilateral as well as multilateral meetings together with EUROSTAT have taken place. The EFRP has strongly urged EUROSTAT not to overburden pension funds by asking too much information. Often this information is not collated at the pension funds. In this way the process can be steered in the right direction.

The EFRP approach has been supported by Member States representatives involved in the pilot project. In all five countries major difficulties occurred in gathering the requested information on pension funds.

## 6.2 EFRP as private industry supplier of pension fund statistics

*The EFRP produces its 1995 & 1996 report on pension fund assets.*

During the first semester of 1998, the secretariat collected data among its Member Associations with regard to the 2nd pillar pension fund assets on a national level for the years 1995-1996.

During the second semester of 1998 the data were checked and counterchecked several times before the figures were found to be reliable and complete.

Apart from being able to make comparisons between these new figures and already existing data files, the secretariat has processed the gathered information into an assets report, which will be published early 1999.

The data for 1997 are being gathered as well, but have not yet been submitted by all the EU-Countries. The assets for 1997 will likewise be published as soon as all figures have been received and processed.

# 7. Monitoring the Union's Social Policy developments

*The EFRP keeps its membership informed on developments in the social benefit scene while they often affect pension fund managers as well as their sponsoring companies. In this framework, we monitor the social policy scene at European level (European Commission, European Parliament and the social partners' social dialogue).*

## Part-time Work

The European Council of the 15th of December 1997 accepted, without any amendment, the agreement between social partners on part-time work. It has now been formally enshrined in the Community legal framework. It will be however recalled that the Agreement was made under the Social Policy protocol of Maastricht that did not include the United Kingdom.

In the meantime, the European Commission tabled a directive to the European Council in order to extend the Part-time directive to the U.K. as well. The Council adopted the Directive on the 7th April 1998, which shall be binding for the U.K. from the 7th April 2000 onward.

# EFRP Member Associations

## E.U. Member Associations

| | |
|---|---|
| AUSTRIA | Fachverband der Pensionskassen |
| BELGIUM | Belgische Vereniging van Pensioenfondsen - B.V.P.F./<br>Association Belge des Fonds de Pension - A.B.F.P. |
| DENMARK | Forsikring & Pension<br>Foreningen af Firmapensionskasser |
| FINLAND | Association of Pension Foundations |
| FRANCE[1] | Observatoire des Retraites<br>Association Française des Régimes et Fonds de Pension – AFPEN |
| GERMANY | Arbeitsgemeinschaft für Betriebliche Altersversorgung – A.B.A. |
| GUERNSEY[1] | Guernsey Association of Pension Funds |
| IRELAND | Irish Association of Pension Funds – I.A.P.F. |
| LUXEMBOURG[1] | Banque Générale du Luxembourg |
| NETHERLANDS | Stichting van Ondernemingspensioenfondsen – O.P.F.<br>Vereniging Bedrijfspensioenfondsen – V.B. |
| PORTUGAL | Associacao das Empresas Gestoras de Fundos de Pensoes |
| SPAIN | Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones - INVERCO |
| SWEDEN | Swedish Association of Institutions of Retirement Provision - S.I.R.P. |
| UNITED KINGDOM | National Association of Pension Funds – N.A.P.F. |

## Non E.U. Member Associations

| | |
|---|---|
| ICELAND[1] | Landssamtok Lífeyrissjóda |
| NORWAY[1] | Norske Pensjonkassers Forening |
| SWITZERLAND | Association Suisse des Institutions de Prévoyance – A.S.I.P. |

*1 Observer status*

# E.F.R.P.'s Executive Committee

| | |
|---|---|
| Chairman: | Kees J. VAN REES (NL) |
| Vice-Chairmen: | Ray MARTIN (UK)<br>Ulrich JÜRGENS (D) |
| Members: | Folke BERGSTRÖM (FIN)*<br>Paul O'FAHERTY (IRL)<br>Niels Lihn JØRGENSEN (DK)<br>Jaap F. MAASSEN (NL)<br>Dietmar NEYER (A)**<br>Mariano RABADÀN (E) |

*The Executive Committee deals with the major issues and prepares the positions. The Chairman of E.F.R.P. chairs also the Executive Committee.*

* *Until the end of the 1st semester 2000*
** *Until the end of the 1st semester 1999*




# EFRP Offices:

*Hertogstraat 85 rue Ducale*
*B – 1000 Brussel Bruxelles*
*Tel: +32-(0)2-289.14.14*
*Fax: +32-(0)2-289.14.15*
*Email: efrp@efrp.org*

| | |
|---|---|
| Permanent Representative: | Chris VERHAEGEN |
| Research Assistant: | Christel RUTTENS |
| Office Assistant: | Cecile BUSSCHERS |

EFRP
European
Federation
for Retirement Provision

**EFRP**
European Federation for Retirement Provision
Hertogstraat 83 rue Ducale
B-1000 Brussel - Bruxelles
Tel.: +32-2-289.14.14
Fax: +32-2-289.14.15
e-mail: efrp@efrp.org