Annual Report

European Federation
for Retirement Provision

EFRP 2011

EFRP 2011

Annual Report 2011

Contents

The publication of our 2011 annual report offers an opportunity for us to thank all our Members and Supporters for their continued support and assistance throughout the year and to recognize the efforts of our Working Groups, our Staff and the Board of the EFRP in continuing our tradition as the voice of pensions in Europe.

For the EFRP the most important EU development in 2011 was the process of reviewing the European pension fund directive (“the IORP Directive”) and analyzing the potential implications of the review on defined contribution, defined benefit and hybrid pension systems across our Members’ pension systems.

Early in 2011, the Commission issued a Call for Advice to the supervisory authority European Insurance and Occupational Pensions Authority (EIOPA) which led to two extensive consultations during the summer and the fall. Those consultations kept EFRP very busy as the Commission planned to propose new rules for IORPs by the end of 2012. The Call for Advice and the EIOPA consultations were often based on the Solvency II Directive as it applies to insurance activities and included considerable disclosure and governance measures which would impact both DC and DB IORPs.

The EFRP remains convinced that the same rules that regulate insurance companies should not apply to pension funds and other IORPs. Consequently, we have called for thorough Quantitative Impact Study as well as broad impact assessments before any proposal is tabled. Our main concern is that if risk-based capital requirements are harmonized and pushed upon IORPs for the sake of security and in the form of a “Holistic Balance Sheet” the consequences will be detrimental for many IORPs (and their sponsors) and will lead to reduced retirement provision for the beneficiaries.

The EFRP is broadly supportive of the Disclosure and Governance responses which EIOPA has made to the Call for Advice and much of our recent research regarding DC pensions in Europe allows us to respond constructively to these proposals. Many of our Members with significant DC systems already operate to standards which exceed the requirements of the existing IORP Directive and this review presents an opportunity to strengthen the legislative basis and growth opportunities for these systems.

The full text of EFRP Responses to the consultation processes can be accessed on our website.

The European Commission White Paper on Pensions was published in February 2012 and continues the comprehensive approach on pensions that was launched with the Green Paper in 2010. The White Paper addresses very important topics such as supporting pension reforms in Member States in view of long-term sustainability, enhancing the contribution of complementary retirement savings to retirement incomes, making supplementary pensions compatible with mobility through a new proposal for a directive on portability, better coordination of social security schemes across the EU, the removal of tax obstacles, the development of pension-tracking services and of a pan-European pension fund for researchers. The EFRP welcomes the attempt by the Commission to pursue a holistic approach on pensions.

Europe struggled with the euro crisis through 2011 and continues to do so in 2012. The new European economic governance framework now in place and the new social and economic policies being pursued will have a major impact on pension systems too. Even though retirement provision remains in the competence of the member states, the EU continues to pressurize Member States that are seen not to manage their own systems in a sustainable manner having regard to the aging population. As the sustainability of public finances is faced with increasing challenges, the need for funded pensions is evident. The EFRP is working hard to ensure that policy steps taken within the European Union support the continuation of our existing funded pension schemes as well as promoting and enabling the creation of new funded schemes which are attractive to employees, employers and Member State governments.

The year 2011 was busy in financial market regulatory reform including the new European Market Infrastructure Regulation EMIR (covering the use of derivatives). The EFRP has been working to protect the position of IORPs that use derivatives to hedge their liabilities (as opposed to the use of derivatives for speculative purposes). Following our activities the adopted regulation exempts pension schemes from a derivative clearing obligation for a transitional period. However, the complexity of this issue is shown by the fact that new bank legislation, Capital Requirements Directive IV, has to reflect this exemption and not impose capital burdens on banks when they act as counterparties for pension funds managing uncleared derivatives.

In many regulatory issues (relating to financial markets) the EFRP aims to find the right balance between the security that IORPs need, the cost of this security, and the proper functioning of the European financial market.

Many issues are increasingly global as seen by the correspondence between European financial market legislation and the American Dodd-Frank Act. During 2011, the EFRP also worked to exempt EU-based pension funds from a U.S. withholding tax that would be imposed on foreign financial institutions under the upcoming American FATCA legislation.

The EFRP celebrated its thirtieth anniversary in December 2011. The role that the EFRP has played in EU pension policy over the past thirty years is well recognized by the EU institutions as well as by many others in Brussels and around Europe. December 2011 was also a time of transition as the Secretary General Chris VERHAEGEN assumed new challenges beyond the EFRP. During her 14 year tenure the EFRP grew strongly and established its position as the leading voice of workplace pensions in Europe. The Board of Directors and all the EFRP Members and Supporters wish to warmly thank Chris for all her dedicated work. We are very happy that we may continue to benefit from her expertise and experience as she chairs the Occupational Pensions Stakeholder Group of EIOPA.

As EFRP continues its efforts to ensure good pensions for the citizens of Europe in a world that continues to present many challenges we, as Chairman and Secretary General, thank you for your continued support and we commit to listening to the needs of you, our Members, and serving your needs to the highest possible standards.

Patrick BURKE Chairman	Matti LEPPÄLÄ Secretary General - CEO

Looking ahead to 2012

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EFRP staff: Jens TINGA, Thomas MONTCOURRIER, Matti LEPPÄLÄ – Secretary General, Bram VAN MALDEREN and Antonio FANCELLU (not pictured: Jurre de HAAN)

The EFRP will pursue its activity on the review of the IORP directive throughout 2012. The outcome of the Quantitative Impact Study (QIS) by EIOPA will be a key event. Although the QIS itself will be carried out by national supervisors, the EFRP will advocate an open and transparent exercise, duly taking into account the needs of pension providers. The QIS outcome will determine whether EIOPA will advise the introduction of a Holistic Balance Sheet (HBS) to the European Commission. EIOPA has set up five working groups to examine different aspects of the HBS in further detail. The EFRP will follow the QIS process closely, as well as the Impact Assessment that the Commission will carry out based on the result. A crucial question in this process will be the methodology of the QIS. We have also emphasized the need for assessing the macro economic impact of the envisaged changes in the IORP directive.

The publication of the White Paper in February 2012 represents another milestone of pension policy in the EU. We support further development of complementary pensions and we think that IORPs are the best way to achieve this. The White Paper recognizes the need for better coverage and better access to complementary pension systems. This reflects one of the top EFRP priorities. Moreover, the “pension industry” is invited to participate in the development of a “code of good practice for occupational pension schemes”. We will actively participate in this initiative and in other processes that will result from the White Paper.

One difficult issue in the White Paper that the EFRP will address is the review of the directive on pension portability. In addition, we may support efforts from the EU on the “tracking” of pensions and protection of pension plan members in the event of insolvency of the employer.

Europe and European pension systems need stability and economic growth. The solving of the euro crisis is of paramount importance in this respect. The financial crisis has led to an influx of new rules and regulations. Also in 2012 we will work hard to find the right balance between different types of security and dynamism, which is essential for the functioning of the financial market. In 2012, many regulatory issues will be tackled on a very detailed technical level, such as Level 2 rules, and the EFRP is well-placed to provide the best expertise for the sake of IORPs’ interests. We can also benefit from working increasingly with other stakeholders on issues of common concern.

30 years anniversary

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Christian BÖHM, Chris VERHAEGEN, Herman VAN ROMPUY - President of the European Council, Patrick BURKE and Angel MARTINEZ-ALDAMA at the EFRP 30 years anniversary dinner

The EFRP celebrated its thirtieth anniversary in 2011. To mark the occasion, a festive dinner was held on 13 December 2011. President of the European Council Herman VAN ROMPUY attended the dinner and recognized the role the EFRP has played in EU pension policy over the years. He highlighted its pivotal position between the EU institutions, the Member States and IORPs. He also stressed the role of occupational pensions in the provision of adequate pensions to EU citizens and in the preservation of the European social model, particularly in the difficult context of dire state finances and an ageing population.

For this occasion, the EFRP published a commemorative booklet entitled “Pensions in Europe: 30 years of the EFRP”. It highlights our main achievements in the last three decades and presented a variety of articles by leading regulators and supervisors, industry representatives, researchers and other stakeholders

Current and former EFRP chairmen: Alan BROXSON, Jos VERLINDEN, Angel MARTINEZ-ALDAMA, Patrick BURKE, Kees van REES and Jaap MAASSEN at the EFRP 30 years anniversary dinner

Workplace pensions reform

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Karel VAN HULLE - Head of Unit Insurance and Pensions (DG Internal market), European Commission, delivering a speech at the EFRP pay-out seminar in Brussels on 19 April 2011

On 30 March 2011 the European Commission submitted a Call for Advice to the European Insurance and Occupational Pensions Authority (EIOPA) on how to improve the IORP Directive. According to the Commission, there were three main reasons to review the IORP Directive:

- The Commission wants to stimulate the number of cross-border pension schemes;
- The economic and financial crisis has demonstrated the need for risk-based supervision according to the Commission;
- The Commission would like to modernise prudential regulation for IORPs that operate DC schemes, since the number of Europeans who rely on a DC scheme for an adequate retirement income is increasing sharply.

The Commission asked EIOPA to give advice on the scope of the IORP Directive, cross-border aspects, what quantitative and qualitative requirements should apply to IORPs and what information should be provided to members and beneficiaries. In the Call for Advice, the Commission often asked EIOPA if specific articles from the Solvency II Directive could be applied to IORPs. During two consultation periods, EIOPA asked stakeholders to respond on their draft answers to the Commission. The first consultation period ended on 15 August 2011 and the second on 2 January 2012. EIOPA published its final response to the European Commission's Call for Advice on the Review of the IORP Directive on 15 February 2012.

3.1 IORP review

A broad range of topics is discussed in EIOPA's response to the Call for Advice (see box 1). In its advice, EIOPA expresses a cautious approach by pointing out that the nature of its advice is technical rather than political and EIOPA affirms that it will not question whether the Solvency II framework is the correct starting point for the Review of the IORP Directive, because this was not asked by the Commission. However, in its advice, EIOPA acknowledges the differences between IORPs and insurance companies, particularly with reference to the following characteristics of IORPs:

- The social and labour context of IORPs;
- The extensive commitments by sponsors, greater length of pension fund liabilities and the protection in case of insolvency of the employer in some Member States of IORPs;
- The huge difference in numbers (140,000 IORPs vs. 4,753 insurance companies).

According to EIOPA, the structure of the revised IORP Directive could be similar to other financial supervisory frameworks like Basel III and Solvency II and can consist of three different pillars. Pillar I could prescribe the quantitative requirements, pillar II would set out the requirements for risk management, supervision and governance and pillar III would pay attention to disclosure and transparency.

Based on the aim of the Commission to introduce a harmonized risk-based prudential regime for IORPs, EIOPA proposes a so-called Holistic Balance Sheet. This single balance sheet should enable IORPs to take into account the various adjustment mechanisms (conditional indexation, reduction of accrued rights) and security mechanisms (sponsor support, pension protection funds) in an explicit way. By taking this approach, EIOPA tries to acknowledge the existing diversity of occupational pension systems in the EU Member States. According to EIOPA, a Quantitative Impact Study (QIS) is required in order to provide further information about whether a common level of security is feasible in practice and effective in terms of its costs and benefits, given the diversity of IORPs in the different member states, and EIOPA will consider whether to offer further views on these matters in light of the results.

EIOPA's advice also contains proposals to enhance qualitative requirements in such areas as governance and risk management. These have been modelled on Solvency II with the necessary adjustments for IORPs. In addition, EIOPA pointed out that the information to Members needs to be relevant, correct, understandable and not misleading. EIOPA calls for the introduction of a Key Information Document for all defined contribution schemes.

Box 1: Call for Advice: A broad range of different topics

- Scope of the IORP Directive
- Definition of cross-border activity
- Ring-fencing
- Prudential regulation and social and labour law
- Valuation of assets, liabilities and technical provisions
- Security mechanisms
- Investment rules
- Objectives and pro-cyclicality
- General principles of supervision, scope and transparency and accountability
- General supervisory powers
- Supervisory review process and capital add-ons
- Supervision of outsourced functions and activities
- General governance requirements
- Fit and proper requirements
- Risk management
- Own risk and solvency assessment
- Internal control system
- Internal audit
- Actuarial function
- Outsourcing
- Custodian / depository
- Information to supervisors
- Information to members / beneficiaries

3.2 EFRP position and actions

Based on the input of its members, the EFRP responded to the two different extensive consultations of EIOPA. These two consultations were characterized by a high level of detail and a very short period of time to respond. In its responses, the EFRP supported the improvement of IORP governance and better communication to members and beneficiaries in general.

Therefore, the EFRP supported EIOPA's response in these areas and believes there is a significant opportunity to enhance pensions in Europe through the proposed measures. The growth of defined contribution and hybrid pension systems across Europe is set to accelerate and EIOPA has recognised this fact in its proposals. This is a critical opportunity to deliver a strengthened European framework which will help European citizens plan for retirement, according to the EFRP.

The EFRP supports EIOPA's idea of taking into account all the risk mitigating instruments inherent to IORPs. However, the complexities of the proposed Holistic Balance Sheet make this an unsuitable as a primary tool of supervision. Furthermore, the main assumptions underlying the Holistic Balance Sheet approach are taken from the Solvency II legislation for insurance companies. There are fundamental differences between pension funds and insurance companies, so the argument of "same risks, same rules" does not hold. The EFRP warned EIOPA therefore that a *Solvency II–style* regime for pensions will have a negative impact on pension plan sponsors, members and beneficiaries. Inappropriate solvency requirements will lead to an unnecessary reduction in benefits, higher contributions and a shift away in corporate capital investment from projects that would otherwise enable growth in the European economy. The EFRP – as well as its members and other pension organizations – has firmly rejected the proposed harmonization of capital requirements from the beginning. This has not only been done in the response to the consultation, but also in publications, presentations and meetings with all the relevant stakeholders.

The EFRP did this together with its members and with other European organisations. In April 2011, just after the Call for Advice was published by the Commission, the EFRP wrote a joint letter with ETUC and BusinessEurope to Commissioner BARNIER in order to share the concerns regarding the plans to propose a new solvency regime for occupational pensions. On 1 March 2012, the EFRP published a joint press release with AEIP, BusinessEurope, CEEP, EFAMA, ETUC, EVCA and UEAPME. In the press statement, these eight European associations argued that it is dangerous to apply legislation made for insurance companies to IORPs and that any effort to harmonise the regulatory regime is based on flawed logic and could have unintended consequences for pension plan members, IORPs and the economy as a whole by impeding growth and job creation.

3.3 Follow-up

The process of the revision of the IORP Directive will be one of the core activities of the EFRP in 2012. EIOPA will carry out a Quantitative Impact Study (QIS) of the review of the IORP Directive, as envisaged by the European Commission. The EFRP will monitor this process closely, and try to help its Members in this process. Furthermore, the EFRP will offer its knowledge to help the European Commission to come up with an adequate proposal for the revised IORP Directive, especially in the fields of governance, risk management and information provision to members and beneficiaries. The Commission intended to come up with a proposal for the revision of the IORP Directive at the end of 2012, but this goal seems to be too ambitious and this date will probably be postponed.

EC White Paper on Pensions

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Fritz von NORDHEIM, policy co-ordinator Active Ageing, Pensions, Health and Social Services (DG Employment), European Commission, at the European Pension Funds Congress in Frankfurt on 15 November 2011

The European Commission published its White Paper on Pensions on 16 February 2012. It urges the Member States to undertake important reforms to their public pension systems and to set up and further develop complementary pension systems.

The White Paper, which follows the extensive Green Paper stakeholder consultation of 2010-11, sets the Commission's pensions agenda for the coming years. It highlights the threats to state budgets posed by the rapidly ageing European population and the effects of the economic crisis. The 20 concrete proposals contained in the White Paper aim to address these dangers and to keep pensions "adequate, safe and sustainable". The proposals are centered around three themes:

- Balancing time spent in work and retirement
- Developing complementary private retirement saving
- Enhancing the EU's monitoring tools and creating synergies

Proposals include a review of EU rules on pension portability, the "tracking" of pensions and protection of pension plan members in the event of insolvency of the employer.

For the EFRP, there are many positives in the White Paper. Firstly, the White Paper makes a clear distinction between the second and the third pillar. Secondly, the EFRP is pleased that the EC recognizes the need for better coverage of and access to complementary pension systems. It is important to find solutions to today's retirement challenges that include workplace pensions. One of the EFRP's priorities is therefore to improve the coverage of good supplementary pensions to European citizens. Thirdly, the EFRP welcomes the stronger stance that the EC takes against discriminatory tax rules and double taxation with regard to cross-border pensions. Finally, the "pension industry" is invited to participate in the development of a "code of good practice for occupational pension schemes".

We regret the European Commission's stated intention to create a "level playing field" between pension funds and insurance companies (IORP review process) and the fact that the timing of the White Paper and the IORP review process was not better coordinated.

Overall, the EFRP sees opportunities to work together with the European institutions to implement this important pensions agenda and hopes to be closely involved in the various initiatives set out in it.

Supervisory reform

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The EFRP pay-out seminar in Brussels on 19 April 201

5.1 EIOPA

In 2011, the European Insurance and Occupational Pensions Authority (EIOPA) responded to the Call for Advice from the European Commission on the review of the IORP Directive. The Commission submitted its Call for Advice on 30 March 2011, and EIOPA delivered its advice on 08 July 2011. This advice was submitted to public consultation until the 15 August 2011. In fact, the advice was divided into two parts, which were submitted to two different consultations. The first part of the Advice and the relevant consultation focused on:

- Scope of the Directive;
- Cross-border activity;
- Ways to facilitate risk-based supervision for IORPs;
- Specific features for DC schemes;
- Quantitative impact study and data related issues.

The second part of the Advice, and the relevant consultation, re-proposed some of the issues on which comments were already sought in the first part, such as the scope of the IORP Directive and the definition of cross-border activity, but added further topics, such as ring-fencing or the distinction between social and labour law vs. supervisory rules. Other topics submitted to consultation can be grouped under three main pillars:

1. Quantitative requirements: additional capitals for solvency purposes - the Holistic Balance Sheet was the supervisory tool proposed by EIOPA to ensure appropriate quantitative risk-based supervision;
2. Qualitative requirements: Governance and supervision mechanisms;
3. Disclosure requirements.

The EFRP, as many other European and national associations, including social partners, was very critical of the conceptual starting point of the Call for Advice: the assumption of the Solvency II Directive as a model for reviewing the IORP Directive. On this point, EIOPA assumed a nuanced position in its advice to the Commission. In the course of 2012, EIOPA will carry out a Quantitative Impact Study (QIS) of the review of the IORP Directive, as envisaged by the European Commission. This exercise will be carried out jointly with supervisors in some Member States. No further involvement of stakeholders at European level is foreseen by EIOPA for the time being. The only direct involvement of the industry will be represented by the activity of pension funds that will participate in the simulation exercise at national level. Nonetheless, the EFRP will advocate an open and transparent assessment, possibly with further consultation on the standards set by EIOPA for the QIS. We think that this is the only appropriate way to evaluate the impact of the proposed changes on IORPs' activity.

Occupational Pension Stakeholders Group (OSPG)

In the course of 2011, the OPSG held six meetings. The Group elected Ms. Chris Verhaegen as its Chair and Mr. Benne Van Popta as its Vice-chair for a period of two years and a half. The activity of the Group in 2011 has been mainly focused on the definition of its opinion on the EIOPA advice to the Commission on the IORP Directive review. The OPSG dismissed the application of Solvency II-like rules to IORPs and recalled the significant differences between IORPs and insurance companies: these differences suggest the adoption of a *sui generis* approach to security of IORPs. The OPSG intends to follow the further activity of EIOPA on the review of the IORP Directive, despite lack of direct involvement in the QIS.

5.2 Omnibus II Directive Proposal

On 19 January 2011, the European Commission proposed the so-called Omnibus II Directive, which will bring the Solvency II Directive (2009/138/EC) in line with the new European supervisory structure. The Omnibus II proposal will:

- Amend a number of articles in Solvency II so as to empower EIOPA to adopt level 2 measures in respect of insurance undertakings; the Omnibus II Directive will set out the areas and the procedures for adopting these acts;
- Postpone the entry into force of Solvency II to 1 January 2013;
- Introduce more transitional and flexible arrangements for insurance companies to comply with Solvency II;
- Grant EIOPA the power to resolve differences between national supervisors where supervision of multinational insurance groups is concerned.

An amendment proposed by the ECON *Rapporteur* on the Proposal, Mr Burkhard BALZ (DE – EPP/CDU), aimed to grant EIOPA powers to adopt technical standards in respect of solvency margins for IORPs. The EFRP, jointly with national associations, acted to ensure that no power is attributed to EIOPA with respect to solvency margin, before these same margins are defined in the reviewed IORP Directive. Mr. BALZ seemed receptive of the EFRP arguments; the discussion in the European Parliament is to be continued before the vote in Plenary.

The crisis and its consequences

6

Peter PRAET, Chief Economist and Member of the Executive Board at the European Central Bank, speaking about pension funds investment strategies at the European Pension Funds Congress

6.1 Consequences of the economic and sovereign debt crisis on IORPs

6.1.1 Economic consequences

The most widespread effect of the market turmoil on pension institutions is the impact on their funding level. The main causes are the low-interest rate environment and the decrease in stock values and annual asset returns. This current environment has several causes: first, central banks including the ECB reacted to the crisis with exceptional monetary policy actions, including abundant and unconventional liquidity operations and the recourse to debt purchase programmes in several countries. Secondly, the severe economic slowdown and decline in inflationary expectations put downward pressure on long-term interest rates. Thirdly, the flight to safety during the past few years contributed to increased demand for debt instruments perceived to be risk-free.

The decline in interest rates raises the present value of liabilities more than it raises the value of assets, because liabilities typically have a longer duration (adverse balance sheet valuation effect). It entails negative impact on the funding level of IORPs.

6.1.2 Exposure to sovereign debt

IORPs represented by the EFRP Members usually invest in domestic bonds. Therefore, the exposure to EU Southern Member States is generally very low. However, EU Southern Member States have invested in their sovereign debt and have been exposed to the volatility of their government bonds.

The exposure to Greek debt by pension institutions was marginal. However, the question whether pension funds had to participate in the Greek rescue measures was raised by several national supervisors or Central Banks. In Germany for instance, despite the very low exposure to the Greek debt, pension funds were asked to participate in the Greek debt restructuration.

6.1.3 National reforms

Many Member States have implemented or are planning reforms of first pillar pensions in response to the financial crisis and the deterioration of public finances. These reforms mainly take the form of a raising of the retirement age.

The economic and financial crisis also triggered reforms of workplace pensions. Some Member States are targeting their funded systems to improve government finances by incorporating funded schemes into the pay-as-you-go system (Hungary) or by reducing tax relief on contributions (Ireland).

6.2 EU's economic policies and EFRP positions

A large set of legislative acts has been voted in response to the crisis and to prevent similar crises in the future. It notably includes the legislative package on economic governance (the so-called "Six Pack"), the Green Paper [1] on the feasibility of introducing stability bonds, the Treaty on stability, coordination and governance in the Economic and Monetary Union (EMU), the Treaty on establishing the European Stability Mechanism, the Euro Plus Pact, and the introduction of the European Semester.

6.2.1 "Six Pack" and Treaties on economic governance

The legislative package (five Regulations and one Directive) aims to strengthen economic governance in the EU and especially in the Eurozone. The new rules are expected to improve budgetary discipline in the Member States and strengthen the economic stability of the EU economy. Three regulations deal with fiscal and budget issues (reforms of both preventive and corrective part of the Stability and Growth Pact (SGP)) while the two other Regulations are focusing on surveillance of the Member States' economic policies (new alert sanctions system for macroeconomic imbalances). The Directive sets out common standards for national accounts. The automaticity of sanctions for non-compliance with the new rules will be stronger than they were under the Stability and Growth Pact thanks to the introduction of the "reverse majority" rule: the Commission's proposal for imposing sanctions related to non-compliance with the preventive and corrective arm of the SGP will now be considered adopted unless the Council turns it down by qualified majority.

Two major Treaties were signed in 2011 and early 2012: the Treaty on stability, coordination and governance in the Economic and Monetary Union and the Treaty establishing the European Stability Mechanism. The first one, which shall enter into force on 1 January 2013 - provided that twelve Contracting Parties whose currency is the euro have deposited their instrument of ratification - includes a "fiscal compact" which makes the balanced budgetary position mandatory for the Contracting Parties. According to the Treaty, this rule shall take effect in the national law through provisions of binding force, preferably constitutional. It represents a major step towards closer and irrevocable fiscal and economic integration and stronger governance in the Euro area. The Treaty establishing the European Stability Mechanism – which will have to be ratified by the 17 euro Member States - creates a permanent firewall with a broad range of tools and a strong financial basis to safeguard financial stability with an initial maximum lending volume of €500 billion. Granting financial assistance will be conditional, as of 1 March 2013, on the ratification of the Treaty on stability, coordination and governance in the EMU.

1 OM(2011)818 final

6.2.2 EFRP position on economic governance

The sustainability of public finances and pension systems are paramount issues and are closely linked. The EFRP strongly supports the fostering of funded pension systems to cope with these issues. In its Position Paper [2] "Towards more funded pensions" published in March 2011, the EFRP welcomed the Euro Pact's commitment to pay the highest attention to the sustainability of pensions, health care and social benefits. The EFRP called to maintain the holistic approach to pensions as economic, pension and social policy are all intertwined and cannot be considered in isolation.

Moreover, the EFRP made some recommendations to the European Council:

- The excessive deficit procedure of the Stability and Growth Pact should not only consider funded pension systems on a permanent basis, but also in a symmetrical way to diminish the incentive to reverse reforms [3].
- The Member States should increase their commitment to price stability by issuing more index-linked bonds to put an end to governments speculating on higher inflation. At the EU level, the European Financial Stability Facility (EFSF) – and its successor the European Stability Mechanism (ESM) – could finance itself by placing inflation-linked bonds.
- The European Council should aim for greater convergence towards funded pension systems to cope with the population ageing issue and the foreseen decline of public pension replacement rates.

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2 Available on http://www.efrp.eu/Publications/EFRPLibrary.aspx

3 This recommendation has been taken into account in the "six pack" legislation. Indeed, member states can avoid the Excessive Deficit Procedure and potential sanctions if their excess debt is racked up because of pension costs or other essential economic reforms. This is clearly stated in article 2(7) of the Council Regulation No 1476/97, "In the case of Member States where the deficit exceeds the reference value, while remaining close to it, and where this excess reflects the implementation of a pension reform introducing a multi-pillar system that includes a mandatory, fully funded pillar, the Commission and the Council shall also consider the cost of the reform to the publicly managed pillar when assessing development in EDP deficit figures.".

6.2.3 Green Paper on Stability Bonds

In its response to the EC's consultation on Stability Bonds, the EFRP welcomed the proposal while raising some concerns. The IORPs might be interested in investing in Stability Bonds, particularly with reference to their low risk, high liquidity and high stability. These bonds could be an important tool for enhancing financial stability and be part of a solution to help prevent the emergence of unsustainable fiscal positions.

However, the EFRP shared the concerns expressed by the Commission regarding the risk of moral hazard as well as the crucial need for fiscal integration, budgetary discipline and policy coordination. In that sense, the Stability Bonds could be a significant step, on top of a strengthened fiscal surveillance and a coordinated definition of macro-economic policies at EU level.

Furthermore, the EFRP highlighted that Stability Bonds should be rather seen as a medium- and long-term instrument to help prevent the emergence of unsustainable fiscal positions than as an immediate response to the sovereign debt crisis. Finally, the EFRP warned for the complexity of the implementation of such Bonds, and called for an impact assessment to evaluate the positive and negative consequences of the introduction of Stability Bonds.

6.2.4 EU Project Bonds

On 2 May 2011, the EFRP cautiously welcomed the "EU Project Bond Initiative", which envisages enhanced credit ratings for private operators managing infrastructure projects. Responding to the European Commission consultation on project bonds held in the spring of 2011, the EFRP indicated that it supports the plan to make investing in project bonds more attractive for institutional investors. Being long-term investors by nature, pension institutions could use those instruments to improve their matching of liabilities. Project bonds with low risk rating would be welcome as a long-term investment diversification to sovereign debt instruments.

The Commission tested the idea because it identifies a great need for infrastructure investment (€ 21.5bn per year in the post-2013 period), but it also recognises that Member States budgets may be unable to finance large infrastructure projects. Under the terms of the plan, which could be operational by 2014, the European Investment Bank (EIB) would select operators and carry out due diligence before enhancing their ratings. It would not spend any EU monies itself, but it would take on some of the project risks.

The EFRP warned, however, that infrastructure projects require high levels of up-front investments and only produce yields after a considerable period of time, while also presenting investors with certain risks (delays, higher costs, financial problems for operators, changing context and regulations). Moreover, pension institutions themselves tend not to have the know-how to assess construction risk. The EFRP therefore called on the Commission and the EIB to design strict eligibility criteria for operators in order to attract pension institutions to these sectors. It is important that (pre-)construction risk is taken away. Credit enhancement alone will not determine the pension institution's decision to invest in infrastructure projects or not. Their decision to invest in project bonds will first and foremost be determined by the risk-return characteristics, as well as by the state of liquidity in the project bond market, solvency and other regulatory requirements. The EFRP would therefore welcome a move to take away (pre-) construction risk and recommends rating the project bonds as "investment grade" as well as making them index-linked.

Financial market regulation

7

MEP Ria OOMEN-RUIJTEN, Rapporteur on the Green Paper on Pensions at the European Pension Funds Congress

7.1 European Market Infrastructure Regulation (EMIR)

In the course of 2011, the European Parliament and the Council of the European Union negotiated the EC Proposal for a Regulation on OTC Derivatives, central counterparties and trade repositories. The negotiations contributed to define a compromise text, establishing, amongst other rules, an exemption from central clearing of derivative contracts managed by IORPs and similar schemes recognised for retirement planning, for a period of 3+2+1 years, subject to reporting from the European Commission. The compromise text is scheduled for adoption by the EP Plenary in 2012. The EFRP has been strongly advocating such an exemption. EBA, ESMA and EIOPA are expected to have a primary role in drafting standards for clearing of derivative contracts. This shall be particularly relevant with reference to the regime applying to IORPs after the end of the transitory regime.

7.2 Capital Requirements Directive IV (CRD IV)

On 20 July 2011, the European Commission tabled a Proposal for a Directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC and a Proposal for a Regulation on prudential requirements for credit institutions and investment firms. In practice, both these pieces of legislation aim to increase security of credit institutions and investment firms, by requiring them to put capital aside to back risky financial transactions. These requirements may affect IORPs when banks act as their counterparties in derivative transactions, as the costs of backing these transactions would be passed to IORPs. In fact, such costs would be particularly high, as management of uncleared derivatives by pension funds as allowed under EMIR to avoid negative effects on pensions, would be considered management of risky products under CRD IV. The EFRP has acted to inform the EP Rapporteur, Mr. Othmar KARAS (AT – EPP/AOV) of this inconsistency between CRD IV and EMIR, with a view to obtain a viable solution.

7.3 Markets in Financial Instruments Directive II (MiFID II)

On 20 October 2011, the European Commission tabled a Proposal for a Directive on markets in financial instruments repealing Directive 2004/39/EC (MiFID II). The revision aims to bring a new type of trading venue into the MiFID regulatory framework, such as the Organised Trading Facility (OTF). It also aims to introduce new safeguards for algorithmic and high frequency trading activities, increased transparency of trading activities in equity markets and a new trade transparency regime for non-equities markets. Also, the role of supervisors should be strengthened. The EFRP has been monitoring the revision process and, despite lack of any direct reference to IORPs in the proposal, is willing to consider inputs from IORP-related financial actors.

7.4 Alternative Investment Fund Managers Directive (AIFMD)

After the publication of the final text of the Directive on Alternative Investment Fund Managers in the Official Journal of the European Union on 1 July 2011, the Directive entered into force on 21 July 2011. Its aim is to create a comprehensive and effective regulatory and supervisory framework for alternative investment fund managers within the EU. Since the date of publication of the first draft in April 2009, the scope and content of the Directive have caused much controversy and debate. Yet, the final text of the Directive causes fewer concerns than the original draft. However, there is and will remain for some time uncertainty as to the full effect of some elements of the Directive. The consequences of the Directive should become clearer once the European Commission provides implementing measures, in the form of Level 2 regulations. Advice on L2 standards was submitted by ESMA to the Commission on 16 November 2011. The Directive introduces harmonized requirements at a European level for entities engaged in alternative investment:

- Funds domiciled within the EU can be marketed by authorized AIFM and benefit from AIFM Passport, attributed after fulfillment of appropriate authorization and registration requirements;
- Funds based outside the EU, marketed by an AIFM based inside or outside the EU, will be subject to a transitory regime of 5 years, during which they will have to fulfill requirements similar to those applying to EU-based funds, on the basis of cooperation agreements between the State where they are based and the Member State through which they intend to enter the EU market. After 5 years and agreement from the Commission, they can be attributed an EU-passport;
- IORPs are excluded from the scope of the Directive.

EU Member States will have two years to implement the Directive.

Tax developments

8

EFRP Members and Supporters at the EFRP pay-out seminar in Brussels

8.1 Interests and dividends paid to foreign pension institutions

In 2011, there were some developments in the procedure opened with the complaints tabled by the EFRP and PricewaterhouseCoopers (PwC) jointly:

- France was referred to the Court of Justice of the European Union for the discriminatory taxation of interests and dividends paid to foreign pension funds;
- Portugal received a reasoned opinion from the European Commission on the same issue: the reasoned opinion is the last opportunity for the Member State concerned to comply with the request from the European Commission before referral to the Court.

8.2 Financial Transaction Tax (FTT)

In 2011, the European Commission carried out a consultation on taxation of the financial sector, which led to the adoption of a Proposal for a Directive on Taxation of Financial Transactions. Despite the fact that the Communication by the Commission, which accompanied the consultation, and responses to the consultation were more favourable to taxation of financial activities, the Commission pursued the idea of taxation of financial transactions. The proposal aimed to tax all financial transaction at a rate of 0.1% and derivative transactions at a rate of 0.01%. Only transactions on primary markets, currency exchanges and subscription of insurance policies were excluded from the scope of the Directive. Pension funds and their managers were explicitly brought into the scope.

Although there was no international consensus reached when the Proposal was presented at the G-20 Meeting in Cannes, the European Parliament, represented by the *Rapporteur* Anni PODIMATA (EL - S&D/PASOK), expressed support for the measure, even if adopted within the EU only.

The EFRP expressed its strong opposition to the proposal, because of the disproportionate impact of this tax on pension beneficiaries, its indiscriminate application to all transactions, be they speculative or not, of its dissuasive effect on non-EU based investors to enter the European financial market. Moreover, this tax would not address major market failures which led to the crisis. Rather, it would reduce market liquidity and this could increase market volatility. Finally, the proposed FTT would increase the risks of market distortion through relocation of financial transactions outside the FTT-covered area and of tax avoidance through fiscal engineering.

The proposal sparked a harsh debate within the Council of Ministers with some Member States, such as the Czech Republic, Denmark, Ireland, Malta, Sweden and the UK, strongly opposing the initiative, whilst others, such as Luxembourg or the Netherlands, expressing growing doubts. Despite strong pressure from France and Germany, the Council did not seem to move towards the unanimity needed to introduce the tax. Alternatives may be envisaged, in the form of an EU stamp duty or of a tax on high-frequency trading.

8.3 Foreign Account Tax Compliance Act (FATCA)

In 2011, the EFRP has been monitoring developments in FATCA adoption and lobbyied the European Commission with a view to raise its attention on treatment of EU-based workplace pension plans during its discussions with US Authorities on this act. The dialogue between EU and US institutions on FATCA has been going on during the year 2011. Also, it has progressively involved EU Member States, with a view for them to play the role of intermediaries in reporting between financial institutions based in the EU which receive contributions from US citizens and US tax authorities. It should be recalled that, according to FATCA, financial institutions not complying with reporting requirements will be subject to a withdrawal of 30% on any payment that is made to them from US sources.

US authorities have seemed receptive to comments sent by the EFRP and other actors, aiming to define characteristics of EU-based occupational pension funds, which shall be exempt from FATCA requirements, due to the low risk of tax evasion that they pose. In this sense, further activity in moulding the definition of FATCA-exempt occupational pension funds is expected, before final adoption of the act.

CEEC Forum

9

Incoming Secretary General Matti LEPPÄLÄ discussing with ETUC Deputy Secretary General Jozef NIEMIEC

The EFRP set up the Central and Eastern European Countries Forum in 2006 in order to bring together pension fund members from that region. The Forum acts as a platform to discuss issues of common interest and to exchange information and best practices between the CEEC pension systems.

The network met twice in 2011. During its March 2011 meeting, Chris VERHAEGEN presented the EFRP Position Paper **"Towards more funded pensions – recommendations to the European Council - 24-25 March 2011"**. This Position Paper was issued in the run-up to the EU summit and called for a more comprehensive EU approach to the pension reforms undertaken in the Central and Eastern European Member States.

9.1 Economic Governance

Throughout 2010 and 2011, the CEEC Forum's work focused on the treatment of systemic pension reform under the Stability and Growth Pact. Indeed, several CEE Member States are undertaking such reforms or are planning to do so. The CEEC Forum sent a letter to the European Commission, the President of the European Council and the Belgian Presidency of the EU in 2010. It expressed concern about the danger of using pension capital to finance current consumption and suggested investigating whether the Stability and Growth Pact rules impacted the possibilities for Member States to implement structural reforms in their pension systems.

The European Council of 18 March 2011 agreed that due consideration should be given to the implementation of pension reforms when assessing compliance with the deficit and debt criterion of the Excessive Deficit Procedure.

The legislative package on economic governance – the so-called *"Six Pack"* – which aimed to reform and strengthen the Stability and Growth Pact, was approved by the European Parliament on 28 September 2011 and confirmed by the ECOFIN Council on 4 October 2011. One of the *Six Pack* Regulations [1] explicitly takes into consideration the CEEC's concern and the above-mentioned European Council decision:

"When assessing compliance with the deficit and debt criterion and in the subsequent steps of the excessive deficit procedure, the Council and the Commission shall give due consideration to the implementation of pension reforms introducing a multi- pillar system that includes a mandatory, fully funded pillar and the net cost of the publicly managed pillar. In particular, consideration shall be given to the features of the overall pension system created by the reform, namely whether it promotes long-term sustainability while not increasing risks for the medium-term budgetary position."

1 COUNCIL REGULATION (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, article 2(5)

9.2 IORP Directive in the Czech Republic

In 2011, the **Czech Republic** adopted reforms that will see the introduction of a second pillar, bringing it closer to full compliance with the IORP Directive. According to the approved bill, a part of the current first pillar contributions will be diverted to the new private second pillar. The reforms came several months after the European Commission referred the Czech Republic to the European Court of Justice for the second time and brought sanctions against it for failing to implement the IORP Directive.

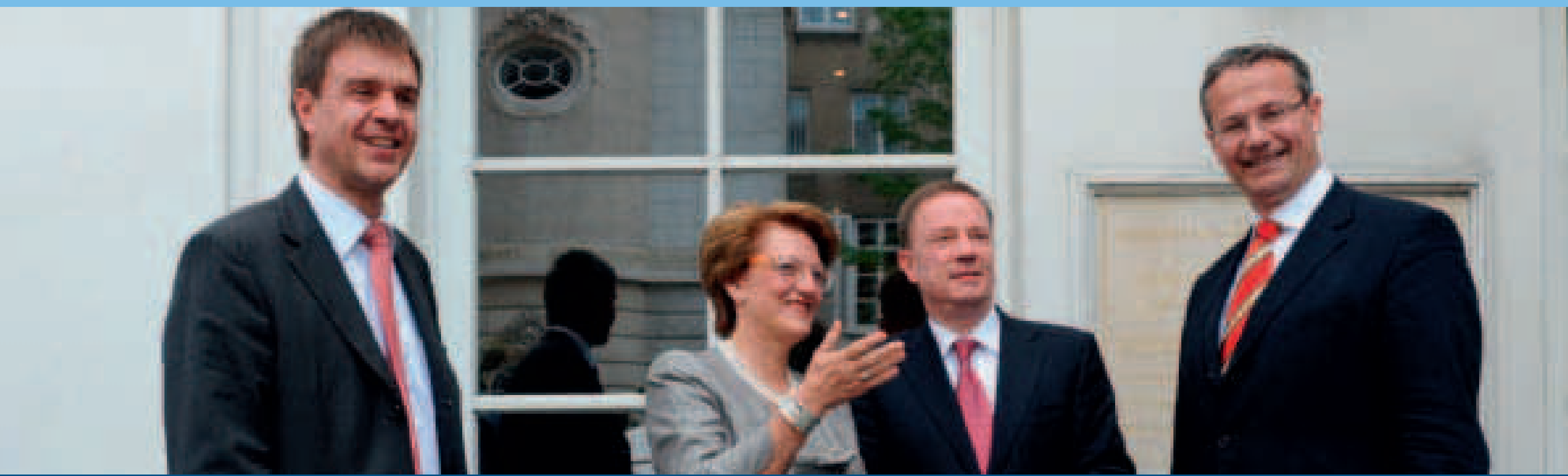
9.3 Hungary

In Hungary in 2011, hardly anyone remained in the complementary pension system after its effective nationalisation in 2010, which drastically reduced coverage. Pension funds transferred the bulk of their assets to the State pension system following the government reform, which also effectively stopped the flow of contributions into pension funds.

CEEC members and observers/attendants of the CEEC Forum Meetings

- Association of Croatian Pension Funds Management Companies and Pension Insurance Companies
- Association of Pension Funds Management Companies of Slovakia
- Association of Pension Funds of the Czech Republic
- Bulgarian Association of Supplementary Pension Security Companies
- Estonian Association of Fund Managers
- Hungarian Association of Pension Funds – Stabilitas
- Investment Management Companies' Association of Lithuania
- Polish Chamber of Pension Funds - IGTE
- Private Pension Funds Committee of the Banking Association of Latvia
- Romanian Pension Funds Association

Supporters' Circle 10



Jean-Christoph ARNTZ - CEO Allianz Global Investors Luxembourg, Chris VERHAEGEN, Burkhard OBER – Allianz Global Investors Representative in Brussels and Oliver CLASEN, Board Member BVI and Managing Director at Allianz Global Investors Germany sharing views at the EFRP pay-out seminar.

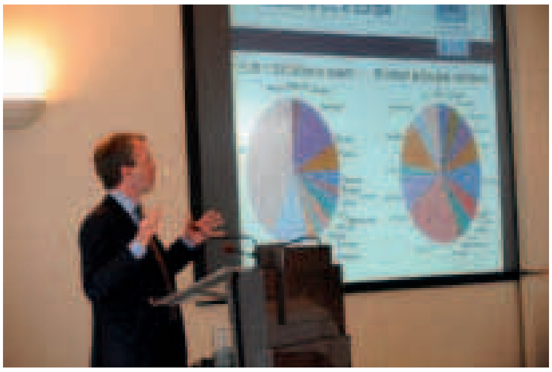
In 2011 the EFRP kept its supporters informed through its regular newsletters, by providing advice to them upon their request and through the Supporters' Circle annual event. This year, a list of expert speakers gave presentations on a wide range of pension-related issues, ranging from the review of the IORP Directive, the Project Bond Initiative and the European Financial Security Mechanisms, the role of EIOPA, the Foreign Account Tax Compliance Act (FATCA) and the Packaged Retail Investment Products (PRIPs) initiative.

The EFRP Supporters' Circle is open to companies providing professional services to private pension institutions or schemes that:

- want the certainty that a representative organization campaigns for an environment that speeds up the development and coverage of workplace pensions provision in Europe;
- want to be kept up to date on key issues affecting private pension provision in Europe;
- want to support the EFRP in achieving good pensions for all European citizens.

Members of the Supporters Circle

- Allianz Global Investors Europe Holding GmbH
- Fidelity Investments
- Goldman Sachs International
- Ius Laboris
- JP Morgan Asset Management, Frankfurt Branch
- Kohlberg Kravis Roberts & Co Ltd
- Linklaters
- Loyens & Loeff
- Maleki Group
- Mercer Ltd
- Northern Trust Management Services
- OYAK (Turkish Armed Forces Pension Fund)
- PriceWaterhouseCoopers Accountants N.V.
- Slaughter & May
- Standard Life Investments
- State Street
- Towers Watson
- Wellington Management International Ltd.



Barthold KUIPERS presenting the results of the decumulation survey at the EFRP pay-out seminar

Institutional presence and public platforms

11

Commissioner Michel BARNIER meets an EFRP delegation in Brussels on 20 April 2011
to discuss the upcoming review of the IORP Directive

11.1 Institutional presence

The EFRP is represented on the following international organisations and institutional consultative/advisory bodies:

European Commission Pensions Forum

The European Commission Pensions Forum consists of representatives from Member States, the social partners and other organisations active in the pension sector. The Pensions Forum is an EU platform for exchanging information, good practices and advice on pension policy.

In 2011, the EFRP was represented by:

- Mr. Patrick BURKE, EFRP Chairman
- Ms. Chris VERHAEGEN, EFRP Secretary General
- Dr. Withold GALINAT, BASF Pensionskasse, Germany

During its 2011 meeting, the Forum discussed the intention of the Commission to table a new Proposal for a Directive on portability of pensions and the content of the planned White Paper. On the first topic, the EFRP, although confirming its support for portability of pension rights, recalled that, on a cross-border level, this issue concerns a small minority of EU citizens. Therefore, we invited the Commission to envisage a pension tracking service at national level, twinning a cross-border service. On the White Paper, the EFRP expressed its indicative support, although regretting the approach expressed on the IORP review.

OECD Working Party on Private Pensions

The OECD influences EU and national policy through its analysis, guidelines and recommendations in the field of pensions. The EFRP has observer status in the OECD Working Group on Private Pensions and the Taskforce on Private Pension Statistics. In 2011, the Working Party on Private Pensions addressed the effects of accounting and solvency regulation on long-term investing, worked on developing good practices on alternative investments and derivatives and early 2012 it launched a project on long-term investing, to which the EFRP will contribute. Importantly, it also identified policy options to strengthen retirement income adequacy in DC plans.

International Organisation of Pension Supervisors (IOPS)

The IOPS is an international structure that brings together over 60 pension supervisors from over 50 countries. The main goal of IOPS is to identify good practice in the field of private pension supervision. The EFRP has observer status within the IOPS. After launching its toolkit for risk-based supervision in 2010, the IOPS in 2011 demonstrated its practical application through a series of workshops. Last year also, national supervisors identified strengths and gaps in their supervisory approaches through self-assessments based on the IOPS Principles of Private Pension Supervision.

European Parliamentary Financial Services Forum (EPFSF)

The EPFSF facilitates discussion between the European Parliament and the financial services industry. It provides briefing papers and organizes round-table events on topical issues. The EFRP is a member of the Financial Industry Committee, which is chaired by Mr. Guido RAVOET from the EBF (European Banking Federation). The Steering Committee, composed of 28 MEPs, is chaired by Mr. Wolf KLINZ. In the course of 2011, discussion within the EPFSF focused on the relevant topics, such as the training of MEPs' assistants on insurance and pensions, the response from the industry to the financial crisis and, more in general, the management of the crisis. Other topics of interest were the CRD IV; E-financial services, the MiFID Review.

EC Expert Group on Taxation of Savings

The EFRP is represented in the European Commission Expert Group on Taxation of Savings. The Expert Group is assessing the functioning of the "Savings Directive" and giving advice to the Commission on possible amendments. In 2011, the Expert Group addressed the start-up and recurrent implementation costs of the current Directive, the first review, amending Proposal and the discussion in the Council as well as substitution effects. Despite long discussions and technical commitment from the Group, the review process did not seem to know substantial advancements, particularly because of divisions within the Council of Ministers.

11.2 Public platforms

Seminar on the pay-out phase of pension benefits

On 19 April 2011, the EFRP held a seminar on the pay-out or "decumulation" phase of DC pension plans.

Presenting the findings of a survey of 41 mandatory and workplace DC pension schemes from 20 countries, Barthold KUIPERS of the EFRP Secretariat examined the regulations and most common methods for the payment of DC pensions. He showed that annuities (47%) or a combination of an annuity and a lump sum (26%) are the two most popular pay-out methods for DC pensions. In half of the surveyed countries, regulation obliges pension plan members to take out an annuity, sometimes in combination with a partial lump sum.

The findings also showed that there is great diversity in the design of pay-out phase methods and that reforms in this area are ongoing, most notably in countries with important DC pillars. As DC pensions are expected to grow in terms of members and assets, the design of the pay-out phase gains importance.

The seminar benefited from the expertise of panel speakers from the European Commission, the actuarial and legal professions and the pension industry. The abolition of compulsory annuitisation in the United Kingdom and Ireland was an important topic for discussion among the speakers, as was the relationship between the design of the decumulation phase and the overall success of voluntary DC schemes.

European Pension Funds Congress 2011

On 15 November 2011, during the Euro Finance Week in Frankfurt am Main, the EFRP held its 6th European Pension Funds Congress.

Mr. Peter PRAET, Member of the European Central Bank Executive Board, and Mr. Gabriel BERNARDINO, EIOPA Chairman, delivered keynote speeches at the conference. Peter PRAET assessed the impact of regulatory standards and the low-yield environment on the fixed income strategies of institutional investors. He stressed that these factors tend to encourage a shift away from long-term investing. This will reduce the supply of equity capital to the economy, and limit the traditional role of pension funds in mitigating procyclicality. Gabriel BERNARDINO outlined EIOPA's priorities for the months ahead.

The conference heard the views and expectations of various stakeholders on the (then) upcoming EC White Paper on Pensions, with top-level European pension experts commenting on how Europe can deliver adequate, sustainable and affordable pensions. Mr. Fritz VON NORDHEIM of the European Commission pointed out the linkages between the White Paper and other EU initiatives in the socio-economic field, such as the Annual Growth Survey, Country Specific Recommendations and the Euro Plus Pact.

Speakers from the financial world shone their lights on the current economic and financial turmoil and provided the audience with views and insights on how pension funds and asset managers could successfully invest long-term in these volatile times.

The ongoing review of the IORP Directive concerns many pension funds across Europe. During the panel discussion dedicated to it, a number of representatives from national pension fund associations presented their views on the impact of the IORP review on pension funds in their Member State.

For your calendar:

On 20 November 2012, the EFRP will host the 7th European Pension Funds Congress in Frankfurt am Main.

More information on the conference is available on our website: www.efrp.eu

Statistics

12

Neil CARBERRY - Director of Employment Affairs, Confederation of British Industry representing BusinessEurope, Heribert KARCH – Chairman AbA, Cornelia COMAN – Chairman APAPR and Jozef NIEMIEC, ETUC Deputy Secretary General discussing the White Paper at the European Pension Funds Congress

12.1 Introduction

The EFRP Statistical Survey 2010 is based on figures provided by EFRP Members (national associations of pension funds and similar institutions for supplementary/ occupational pension provision) and several CEE countries. The Survey is based on the data provided by **19** EFRP Members associations[1] and **4** CEE countries [2] and covers **132,186** IORPs[3].

The EFRP estimates that end 2010[4], **€ 4,481.203 bn** of assets is managed in the Member States covered by the survey for future workplace private pension payments. This figure includes assets managed by different financing vehicles (IORPs, insurance companies and book reserves). Through Member Associations covered by the survey, including Members of the CEEC Forum, the EFRP represents approximately **70%** or **€ 3,114.886 bn** of this total amount as the EFRP only represents IORPs and book reserves vehicles.

12.2 Methodology

The EFRP statistical survey is structured to reflect the diversity of the European landscape for workplace pensions. To reflect reality, a distinction is made between mandatory and voluntary privately managed pension arrangements which are accessed through paid work (2nd pillar in EFRP terminology)

- "**Mandatory**" schemes linked to paid work are defined as private pension arrangements for which the "product characteristics" are set in the national statutory law.
- "**Voluntary**" schemes linked to paid work are defined as private pension arrangements for which the "product characteristics" are negotiated by social partners or at company level within a legally defined framework.

12.3 Work-related pension provision – mandatory schemes

Mandatory schemes are found in some EU-15 Member States but these types of schemes are most found in the **CEE region** as well as in Iceland, Finland and Sweden[5].

12.3.1 Assets under management:

The value of mandatory private pension arrangements in the Member States covered by the survey is estimated – end 2010 – at approximately **€ 124.063 bn**. This figure represents assets managed by different financing vehicles (IORPs, group insurance and book reserves).

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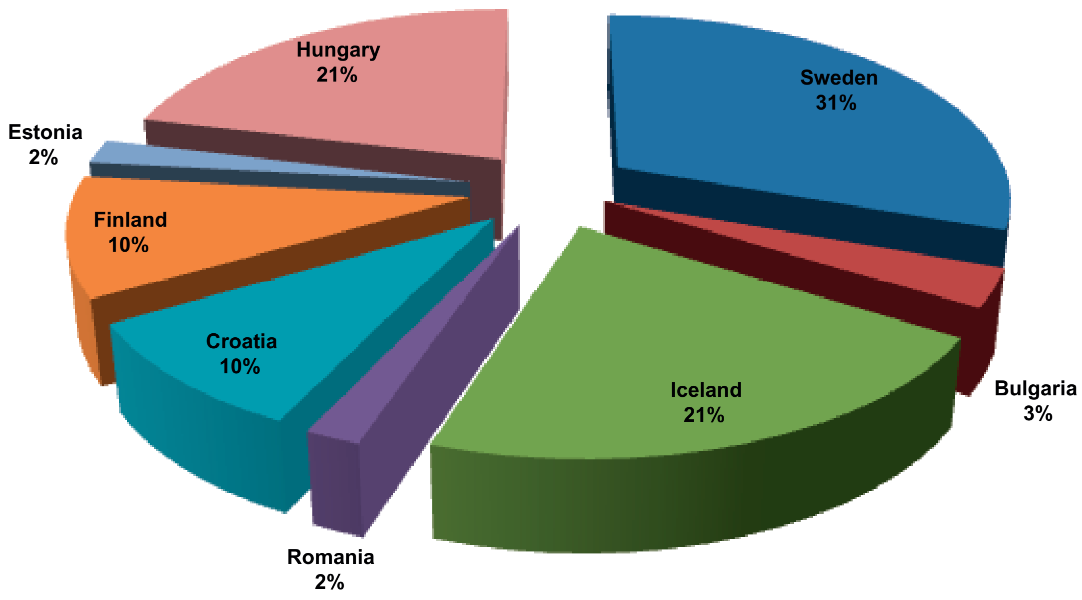
1 Austria, Belgium, Finland, France (AFG), Germany, Hungary, Iceland, Ireland, Italy, Luxembourg, Norway, Portugal, Romania, Spain (Inverco and CNEPS), Sweden, Switzerland, the Netherlands and the United Kingdom.
2 Bulgaria, Croatia, Estonia and Slovakia. Please note that Hungary and Romania are both EFRP Members and CEE Countries.
3 The survey also covers 124,000 pension plans under the French system (PERCO and PEE). This figure does not include IORPs in Germany and Switzerland.
4 In Germany and Switzerland, the 2010 statistical data have not been published yet. Therefore, in order to be time-consistent, this survey will take the 2009 figures into account. Please note that updated figures will be posted on www.efrp.eu once they are available.
5 To observe the development of a particular market, it is advisable to use national currencies.

Through Member Associations, the EFRP represents approximately **€ 52.463 bn** or **42.3%** of this "workplace saving pot". The remaining **57.7%** are managed by insurance undertakings.

The assets managed by IORPs between 2007 and 2010 are as follows (in billion €):

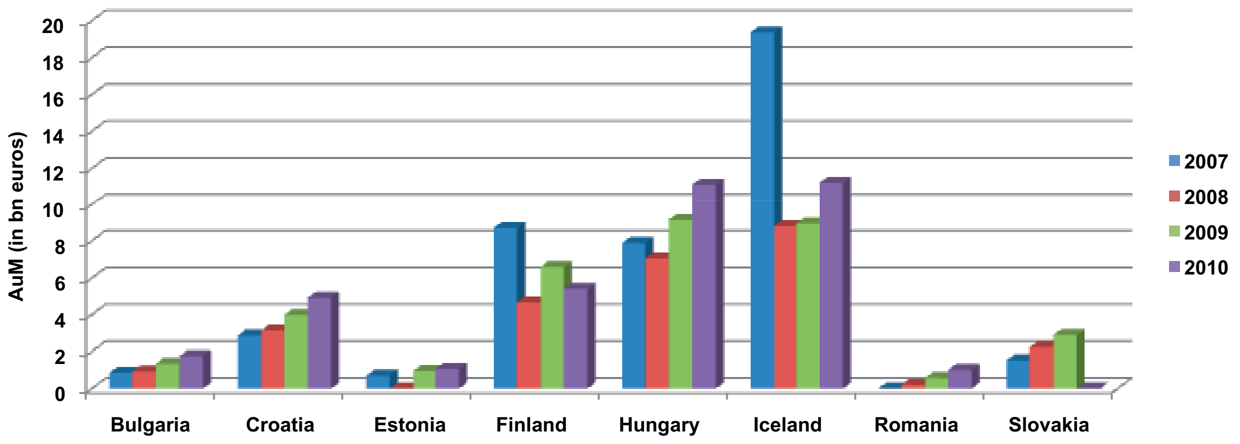
	2007	2008	2009	2010
Bulgaria	0.841	0.930	1.351	1.755
Croatia	2.867	3.127	3.987	4.92
Estonia	0.700	n/a	0.950	1.071
Finland	8,700	n/a	6.600	5.4
Hungary	7.870	7.060	9.148	11.100
Iceland	19.368	8.8	8.938	11.207
Romania	n/a	0.209	0.564	1.01
Slovakia	1.518	2.231	2.899	n/a
Sweden	n/a	n/a	n/a	16
TOTAL	41.864	13.557	34.437	52.463

The geographical split of the IORPs' assets under management of mandatory private pension arrangements is as follows:

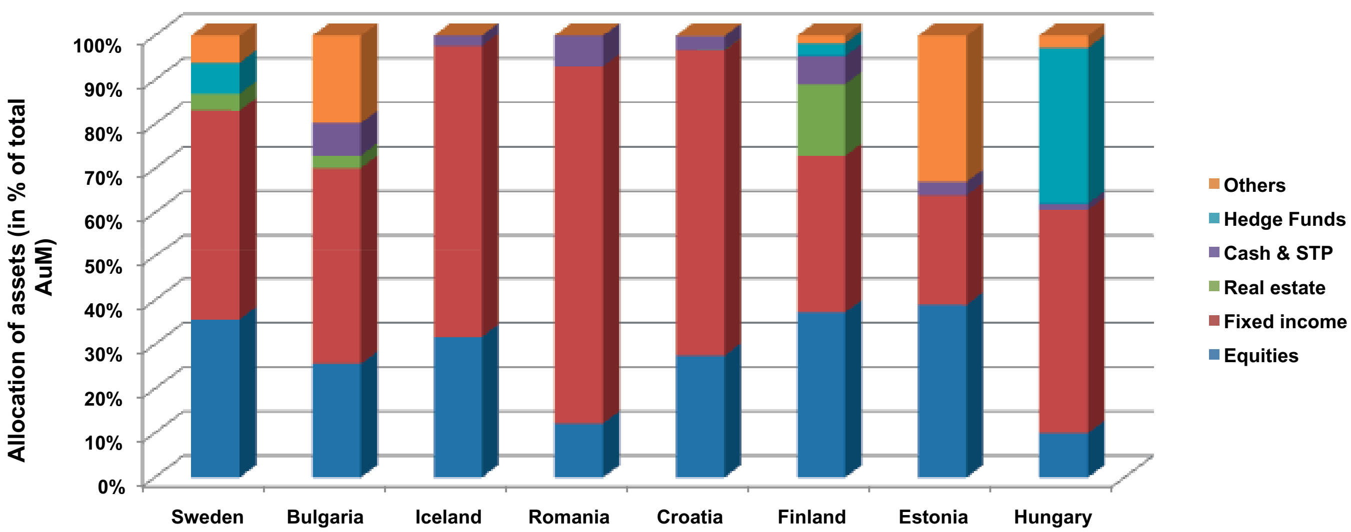


12.3.2 Evolution of assets under management:

The evolution of the assets under management held by IORPs from 2007 to 2010 is as follows[6]:



12.3.3 Asset allocation



6 Please note that the figures for Estonia in 2008, Romania in 2007 and Slovakia in 2010 are not available.

12.4 Work-related pension provision – voluntary schemes

According to the organization and the structure of 2nd pillar pension market in the Member States, different inancing vehicles are used: IORPs (pension funds), book reserves and insurance companies.

12.4.1 Assets under management:

The value of voluntary private pension arrangements in the Member States covered by the survey is estimated end 2010 – at approximately **€ 4,357.14 bn**. This figure represents assets managed by the above-mentioned financing vehicles. Through Member Associations, the EFRP represents approximately **€ 3,062.423 bn** or **70%** of this “workplace saving pot”. The remaining 30% is provided by insurance undertakings. Please note that boxes are striped when the financing vehicle is not used in the Member State.

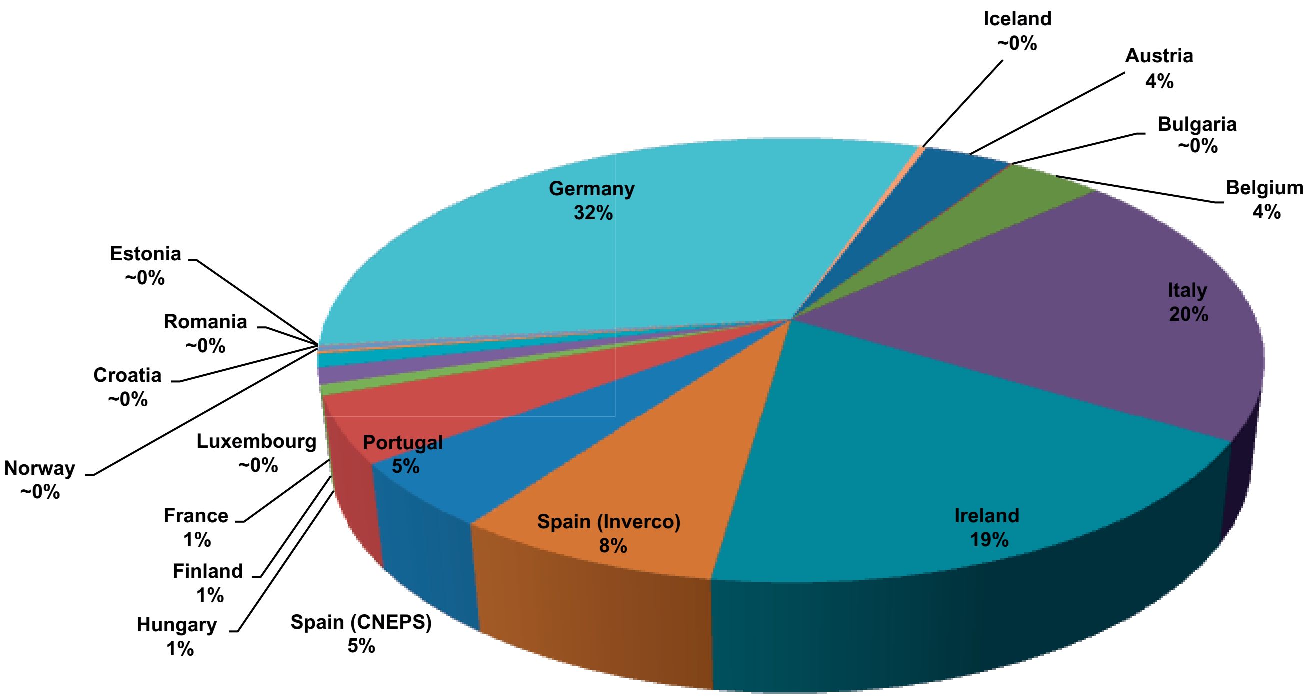
The assets managed by IORPs between 2009 and 2010 are as follows (in billion €):

	Sector		Pension funds/IORPs		Group insurance		Book reserves	
	2009	2010	2009	2010	2009	2010	2009	2010
Austria	36.22	35.60	13.70	14.90	2.19	2.70	20.33	18.00
Belgium	56.00	60.00	14.20	16.00	42.00	44.00	////////////	//////////
Bulgaria	0.27	0.29	0.27	0.29	///////////////	/////////////	////////////	//////////
Croatia	n/a	0.53	n/a	0.20	n/a	0.33	////////////	//////////
Estonia	n/a	0.25	0.07	0.09	n/a	n/a	////////////	//////////
Finland	12.60	12.60	5.37	4.84	7.23	7.76	////////////	//////////
France	n/a	89.00	n/a	4.00[7]	n/a	n/a	////////////	//////////
Germany	430.40	430.40[8]	130.70	130.70	50.50	50.50	249.20	249.20
Hungary	2.97	3.10	2.97	3.10	///////////////	/////////////	////////////	//////////
Iceland	n/a	2.07	0.96	1.24	n/a	n/a	n/a	n/a
Ireland	72.20	75.50	72.20	75.50	///////////////	/////////////	////////////	//////////
Italy	72.96	97.35	60.71	83.22	8.97	11.21	3.28	2.92
Luxembourg	n/a	0.69	n/a	0.69	///////////////	/////////////	////////////	//////////
The Netherlands	743.00	801.33	743.00	801.33	n/a	n/a	////////////	//////////
Norway	n/a	7.51	n/a	1.44	n/a	6.07	////////////	//////////
Portugal	21.92	19.72	21.92	19.72	///////////////	/////////////	////////////	//////////
Romania	0.05	0.08	0.05	0.08	///////////////	/////////////	////////////	//////////
Spain	159.91	183.63	61.71	50.77	121.20	123.90	8.00	9.00
Switzerland	583.49	583.49[9]	399.19	399.19	184.30	184.30	////////////	//////////
UK	1,869.00	1,954.00	1,236.00	1,176.00	633.00	778.00	////////////	//////////
TOTAL	4,061.738	4,357.14	2,763.006	2,783.303	1,049.393	1,208.77	280.809	279.12

7 Assets in PERCO and PEE systems
8 Figures from 2009
9 Figures from 2009

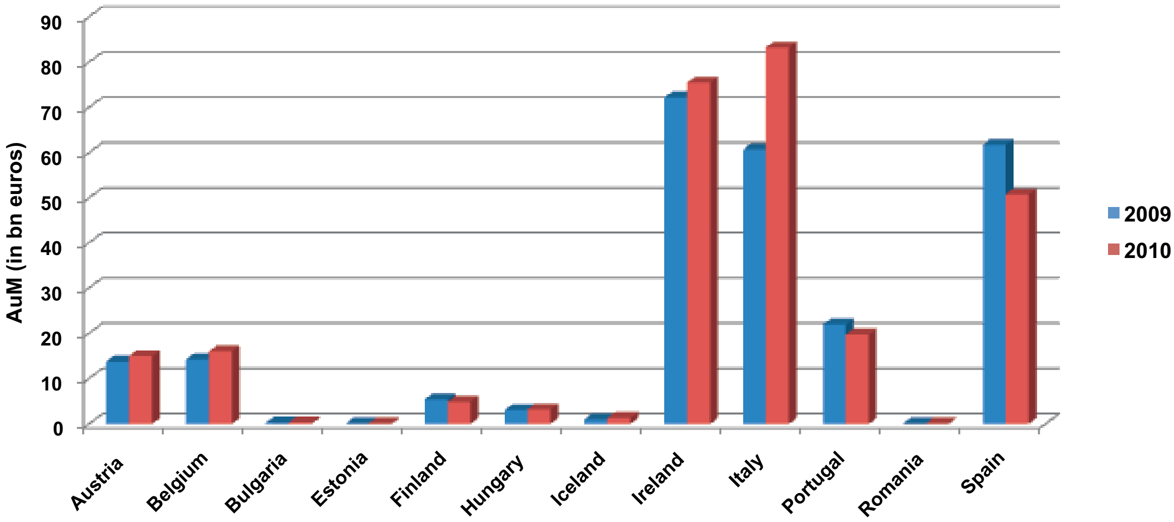
The figures on insurance companies are likely to be underestimated as not all EFRP Members were able to report or estimate the assets held by life insurance companies for future workplace pension payments, nor is there aggregate data available at EU level on assets held by life insurers to back workplace pensions.

More than 85% of the 2nd pillar pension funds' assets in Europe are concentrated in the Netherlands (**€ 801.33 bn** or **28.8%**), in the United Kingdom (**€ 1,176 bn** or **42.25%**) and in Switzerland (**€ 399.19 bn** or **14.34%**). The geographical split of the remaining 15% 2nd pillar pension funds' assets under management of voluntary private pension arrangements is as follows:

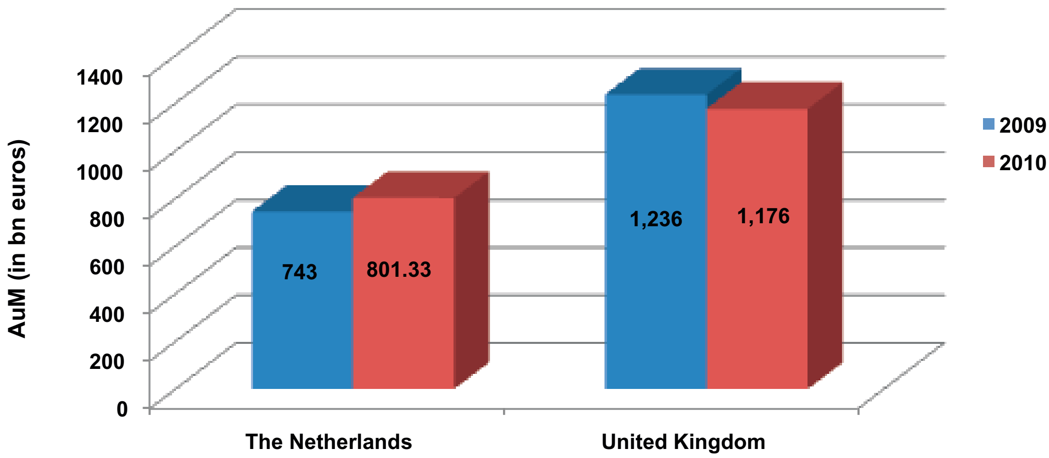


12.4.2 Evolution of assets under management:

The evolution of the assets under management held by IORPs in 2009 and 2010 is as follows (excluding the Netherlands and the United Kingdom):



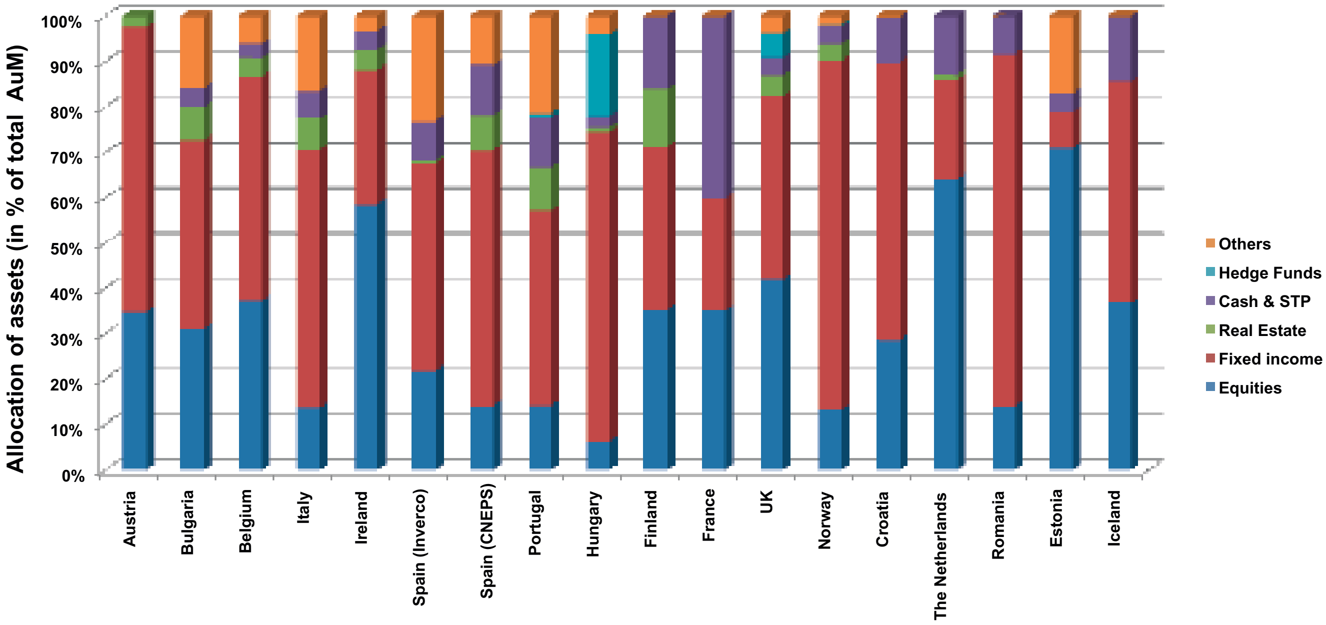
The evolution of the assets under management held by IORPs in the Netherlands and the United Kingdom[10] in 2009 and 2010 is as follows:



10 Exchange rate 15 December 2009: 1GBP=1.116 EUR

12.4.3 Asset allocation:

The aggregate asset allocation of IORPs in 2010 in 17 Members States covered by the Survey is as follows:



The traditional asset classes (bonds and equities) remain the main asset classes used by IORPs. The degree of exposure to equities can be divided in three groups of Member States:

- Low exposure (less or around 10% of total assets under management): CEE countries such as Hungary and Romania. It is also relatively low in Italy (13.7%), Portugal (14.2%) and Norway (13.24%).
- Medium exposure (around one third of total assets under management): Austria (34.83%), Belgium (37%), Bulgaria (31.06%), Finland (32.7%), France (35%), Croatia (28.5%) and Iceland (36.8%).
- High exposure (more than 40% of total assets under management): Ireland (58.6%), UK (42%), the Netherlands (64.1%) and Estonia (71%)

The IORPs have often a high exposure in fixed income. The most common proportion of bonds in the asset mix is around 50%. It is the case in Belgium, Bulgaria, Italy, Spain, Portugal, and Iceland. A high exposure to bonds (more than 60% of AuM) can be found in Member States such as Austria, Hungary, Norway, Croatia and Romania. The proportion of bonds is low or very low in Ireland (29.5%), France (25%), the Netherlands (21.86%) and Estonia (8%).

Few Member States have reported investment in hedge funds: Portugal (1%), the UK (5.4%), Norway (0.4%) and Hungary (18.04%[11]).

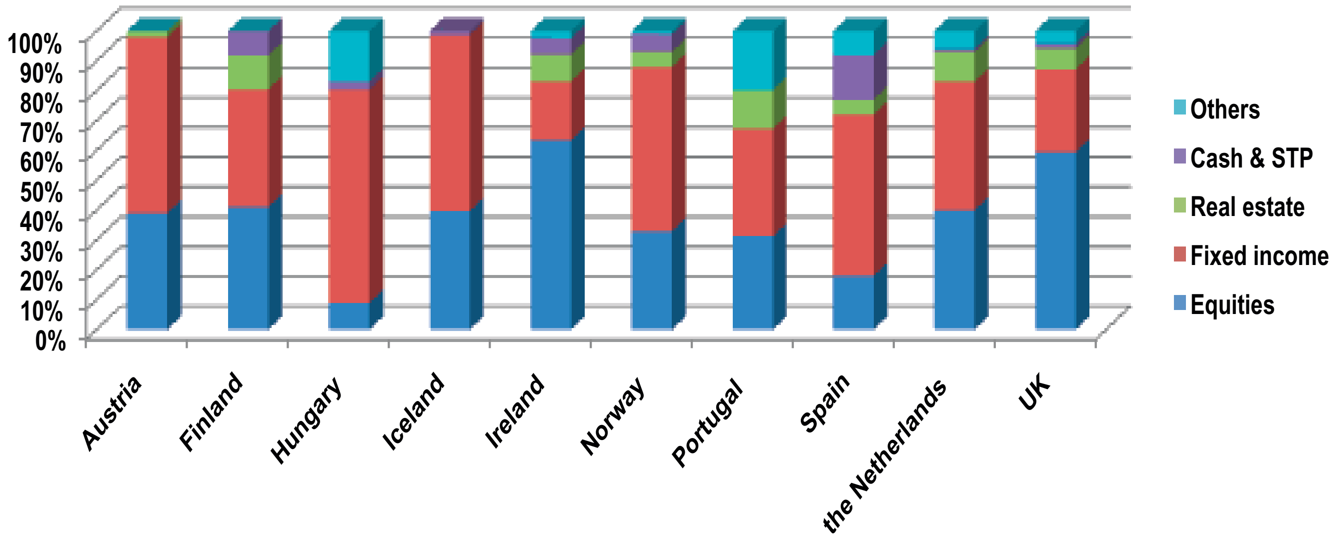
Assets invested in real estate vary from 0 to 11% of the total assets with an average value of 5%. Investments in cash and deposits represent basically the same average than those in real estate except for France where it represents 40% of the asset mix.

12.4.4 Evolution of asset allocation

In the past 5 years, IORPs have often adopted a more conservative approach. They have re-allocated their assets in order to cope with the consequences of the financial and economic crisis and notably with the low interest rate environment that followed and still continues. Indeed, balance sheets of pension funds are particularly exposed to the low-interest rate environment due to the long-term duration of their liabilities compared to those of their assets.

Moreover, changes in the regulatory environment including accounting standards (introduction of fair value principles, greater transparency and consistency in financial statements etc.) and solvency regulations have changed the investment strategies of the pension funds.

The following chart shows the asset allocation of 10 EFRP Members in 2006 before the economic and financial crisis:



Between 2006 and 2010, the share of equities as total of assets under management decreased by 10.7% in Austria, 20% in Finland, 30% in Hungary, 7.4% in Iceland, 7.6% in Ireland, 60% in Norway, 52% in Portugal and 30% in the UK. On the contrary it increased by 60% in the Netherlands and 2.5% in Spain. Therefore, the general trend between 2006 and 2010 has been towards a decrease in equity exposure.

11 This figure includes investments in investment funds.

Regarding the bond exposure, it is more difficult to emphasize a general trend in the IORPs' asset allocation behaviour. Indeed, IORPs in Members States such as Hungary, Iceland, Spain, The Netherlands and Finland decreased their exposure to bonds between 2006 and 2010 by respectively 4.6%, 17.3%, 5.1%, 50% and 15%. In the same time, IORPs in some Member States invested massively in fixed income during this period. The proportion of bonds as percentage of total assets raised by 6.8% in Austria, 49.7% in Ireland, 39.9% in Norway, 25.5% in Portugal, and 46% in the United Kingdom.

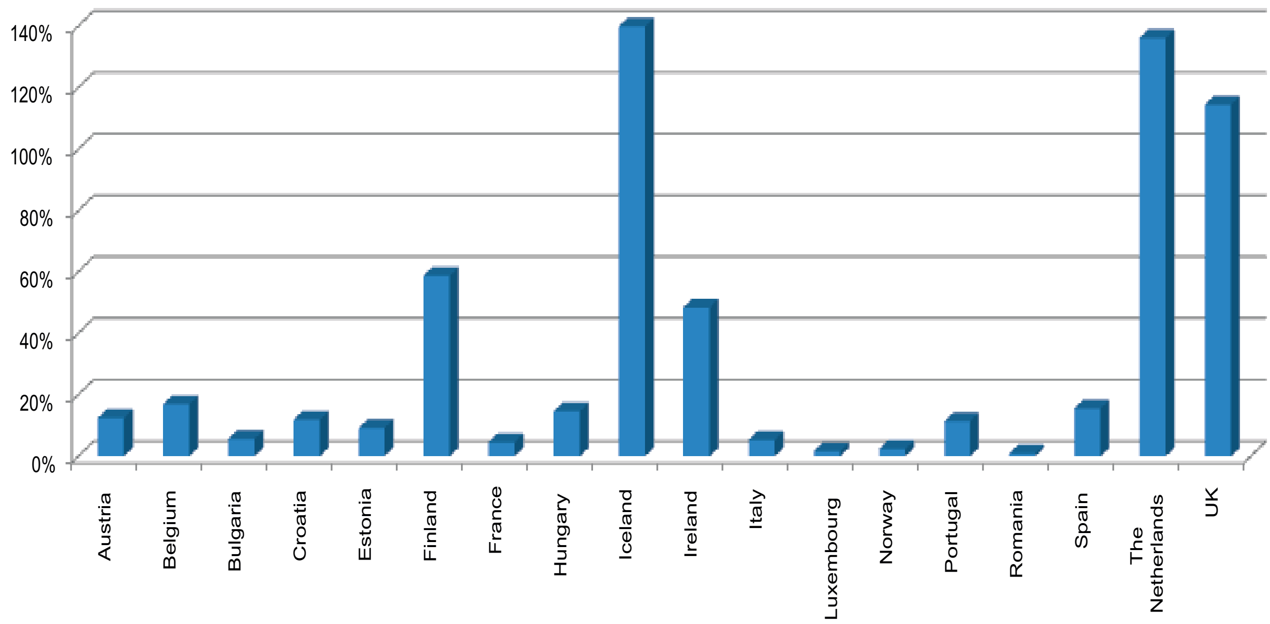
12.5 The importance of 2nd pillar pension funds' assets as to GDP

The following table represents the share of occupational sector and IORPs as % of GDP and the share of IORPs as % of the total occupational sector. The occupational sector represents the assets managed by IORPs, group insurance and book reserves.

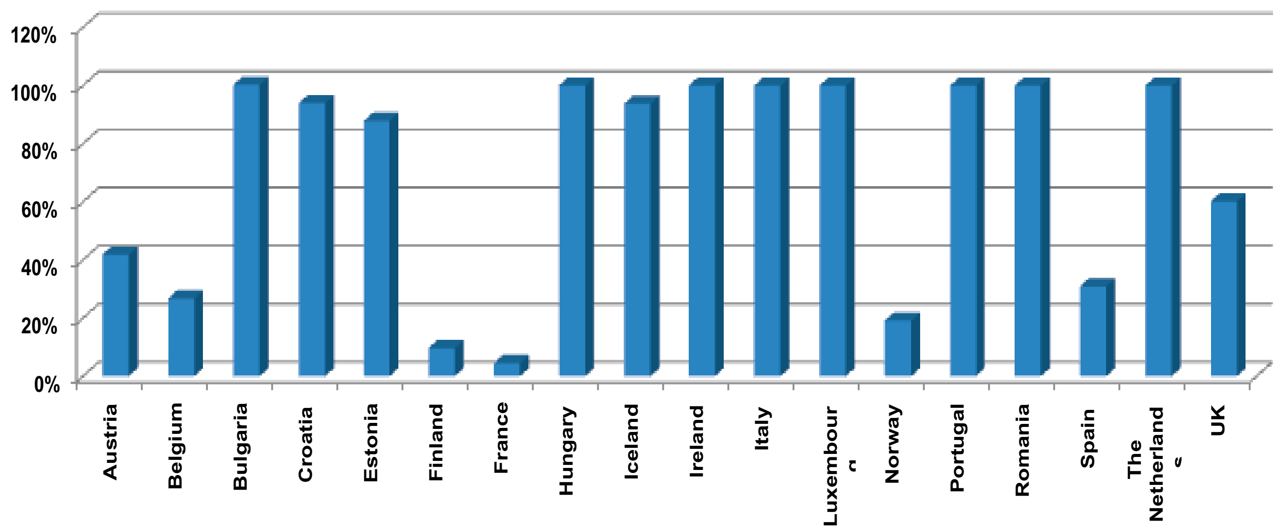
	GDP 2010 (bn. €, current prices)	Assets of occupational pension sector as % of GDP	Assets of IORPs as % of assets of occupational pension sector	Assets of IORPs as % of GDP
Austria	286.197	12.44%	41.85%	5.21%
Belgium	354.378	16.93%	26.67%	4.51%
Bulgaria	36.033	5.67%	100.24%	5.68%
Croatia	45.899*	11.87%	93.94%	11.15%
Estonia	14.305	9.23%	87.89%	8.12%
Finland	179.721	58.76%	9.70%	5.70%
France	1,932.801	4.60%	4.49%	0.21%
Hungary	97.094	14.63%	100.00%	14.63%
Iceland	9.494	139.87%	93.76%	131.14%
Ireland	155.992	48.40%	100.00%	48.40%
Italy	1,556.028	5.35%	100.00%	5.35%
Luxembourg	40.266	1.71%	100.00%	1.71%
Norway	315.233	2.38%	19.14%	0.46%
Portugal	172.571*	11.43%	100.00%	11.43%
Romania	124.058	0.88%	100.00%	0.88%
Spain	1,051.342	15.61%	30.94%	4.83%
Sweden	346.536	n/a	n/a	4.62%
The Netherlands	588.414	136.18%	100.00%	136.18%
UK	1,706.301	114.52%	60.18%	68.92%
TOTAL	8,794.19			

Source: EFRP members and Eurostat (GDP).
(*) forecast

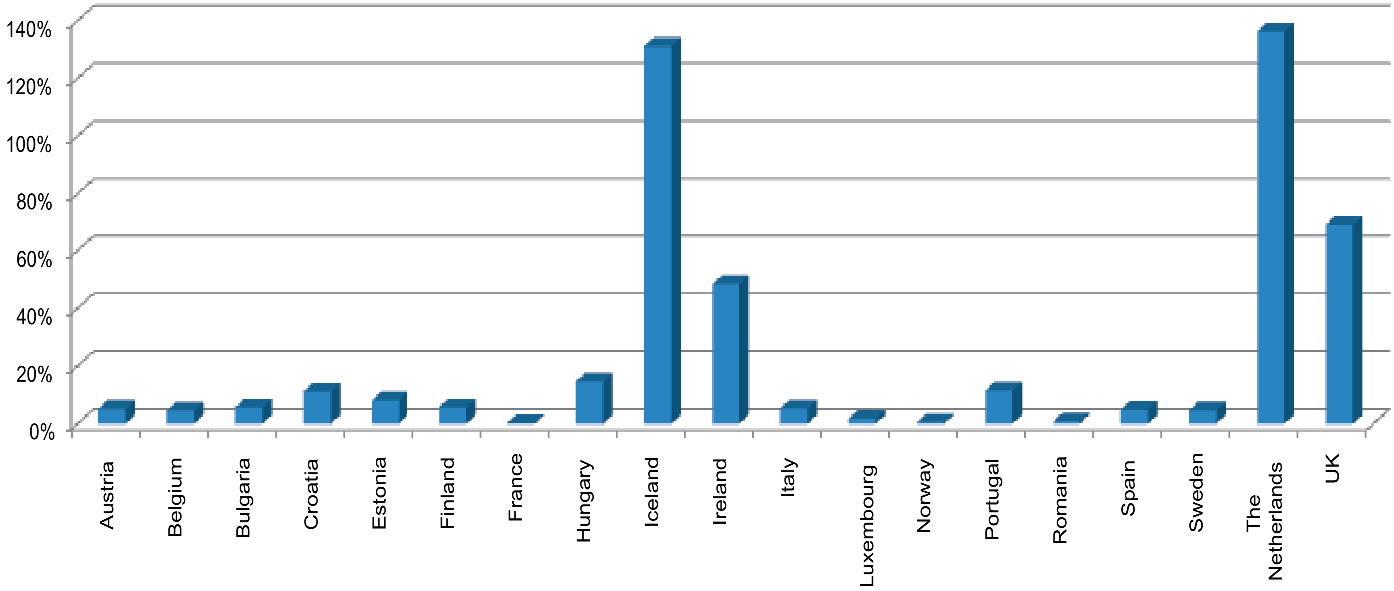
The following chart shows the share of the total assets of the occupational private pension sector as % of GDP:



The following chart shows the share of the assets of IORPs as % of the total assets of private occupational pension sector:



The following chart shows the share of the IORPs' assets as % of GDP:



EFRP organisation

13

Current and former EFRP staff at the 30 years anniversary dinner
(not pictured: Matti LEPPÄLÄ)

13.1 Board of Directors

Mr. Patrick BURKE (IE) – Chairman
Director Investment Development Irish Life Investment Managers

Mr. Christian BÖHM (AT) – First Vice-Chairman
CEO APK-Pensionskasse AG

Mr. Angel MARTINEZ-ALDAMA (ES) – Second Vice-Chairman
Director General INVERCO

Mr. Pierre BOLLON (FR)
Director General AFG

Mr. Fabio GALLI (IT)
Director General Assogestioni

Mr. Charles MULLER (LU)[1]
Deputy Director General ALFI

Ms. Joanne SEGARS (UK)
Chief Executive NAPF

Mr. Loek SIBBING (NL)[2]
Managing Director Univest Company

Mr. Klaus STIEFERMANN (DE)
Managing Director AbA

CEEC Forum representation
Mr. Csaba NAGY (HU)
Chairman Stabilitas

1 Left ALFI on 28.10.2011
2 As from 24.10.2011: Mr. Klaas Benne van POPTA (NL)

13.2 Member Associations

European Union

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BELGIUM

Belgische Vereniging van Pensioeninstellingen – BVPI / Association Belge des Institutions de Pension – ABIP

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FRANCE

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Centre Technique des Institutions de Prévoyance – CTIP

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3 As from 01.09.2011: Mr. Pasi Strömberg

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4 Observer Status

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Mr. Benne van POPTA & Mr. Willem NOORDMAN — Chairmen

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5 As from 15 November 2011
6 As from 11 November 2011
7 As from 15 November 2011

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APAPR

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8 As from 19 May 2011
9 As from 21.10.2011: Mr. Mark HYDE-HARRISON

Non-EU Member Associations

CROATIA

Association of Croatian Pension Funds Management Companies and Pension Insurance Companies

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Mr. Stephen AINSWORTH — *Chairman*

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10 2012: Mr. Petar VLAIC
11 Observer status
12 Observer status.
13 As from 01.08.2011: Ms. Thorey S. Thordardottir

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13.3 Secretariat

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Deputy Secretary General:	Mr. Jeroen CLICQ[15]
Economic Adviser:	Mr. Barthold KUIPERS[16]
	Mr. Thomas MONTCOURRIER[17]
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14 As from 01.01.2012: Mr. Matti LEPPÄLÄ
15 Left EFRP on 23.09.2011
16 On secondment from APG; as from 05.09.2011: Mr. Jurre de HAAN, also on secondment from APG
17 As from 07.09.2011
18 As from 28.03.2011

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