Activities Report 1999


EFRP - Activities Report 1999

Introductory Remarks

The past year has seen the EFRP gain an even firmer foothold in the Brussels environment. This enabled us to become ever more effective in our lobbying effects and to disseminate even more and relevant information to our Members.

The Supporters' Circle was enlarged and for this Membership category, the EFRP launched a quarterly "Newsletter". The Supporters' Meeting (March 1999) was a unique opportunity to meet key people involved with pension issues at EU level. The EFRP's Supporters are now an established group within the Federation giving it additional expertise and market experience to complement that of the EFRP's regular membership.

During 1999 the Commission stepped up its efforts to achieve consensus among interested parties and – in the background – also among Member States about pension fund supervision.

The Commission Communication in May 1999 certainly was the start for another intense consultation process. The EFRP was ready for this exercise. The effectiveness of these efforts will be shown when the long awaited proposal for a directive will be tabled.

Although the pension fund activity and techniques are not yet commonly understood at every level of the European Institutions, we have observed a considerable increase in the degree of knowledge. This enables us to focus more easily on the real issues which are at stake.

We were pleased to note, that European policy makers rely more and more on the EFRP expertise, for example, on investment practice and pension fund management. We are confident this will also help those policy makers to appreciate the value of our arguments

Kees VAN REES
EFRP-Chairman

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This report was completed end February 2000

1. Liberalisation of pension funds' activity field

1.1. The Commission's Communication

On 11 May 1999, the European Commission published its long expected Communication to the Council and the European Parliament entitled **"Towards a Single Market for Supplementary Pensions"** [1].

This Communication should be viewed as a step forward in the process leading towards a prudential standard for supervision of pension funds.

The main purpose of this Communication was to formalise the degree of consensus achieved during the 1998 consultation process following the earlier publication of the Green Paper[2] .

The creation of a single market for supplementary pensions remains the main objective of the Commission. This single market should hinge on three main measures:

- the drawing-up of a proposal for a directive on prudential rules for pension funds;
- the removal of obstacles to labour mobility related to occupational pension schemes;
- the co-ordination of Member States' tax systems through a directive.

Prudential rules should primarily guarantee the best possible protection of fund members' rights. Although most Member States already have a prudential framework for occupational pension funds, an EU-level prudential framework will be needed to enable pension funds to operate fully on a cross-border basis.

The Commission states that over-restrictive **investment rules**, which cannot be justified for prudential reasons only, should be removed. The Paper is quite supportive of the "prudent person rule" for portfolio management and clearly advocates a qualitative approach to supervision practice.

Duly licensed asset managers wherever they are established in the Union, should be able to provide their services to pension funds. **Currency matching** remains a question, open for discussion.

The Communication furthermore suggests that the **equal treatment of operators** or "level playing field" could be tested at three levels: the institution, the product and the investment rules. Although there is support for the idea that similar products should be subject to equivalent prudential treatment, the Commission acknowledges there are differences between pension funds and insurance companies that justify a separate set of rules for the former.

The mutual recognition of prudential regimes could also be included in the first directive as a first step to cross-border membership of pension funds. However, the Communication regards this as a long-term aim rather than an immediate need.

Furthermore, the Communication finds that the Union lacks rules to effectively co-ordinate schemes falling under occupational pensions for **migrant workers.**

Apart from taxation, three major problems need to be faced:

- conditions for the acquisition of pension rights which do not hamper free movement (reference is made to vesting periods);
- the question whether or not actuarial standards might be needed to address the problem of the transfer values of accrued pension rights;
- the conditions to operate occupational pension schemes on a cross-border basis.

  The Communication underlines the point that, since occupational pensions are employment benefits, they are subject to specific rules connected to being employed. To determine how these rules have to be dealt with, the Commission says a technical study seems necessary.

The Commission also announces the establishment of a **"Pensions Forum"** bringing together representatives from Member States, pension institutions and the social

[1] *COM(99)134final*
[2] *Green Paper on Supplementary Pensions, COM(97)283final*

partners. The Commission would like to see **social partners** play a role in the removal of long qualifying periods in some supplementary pensions schemes.

Taxation constitutes another major obstacle to free movement of labour. The Communication highlights the problems arising from heterogeneous tax regimes and the Commission proposes tackling **the cross-border contributions by migrant workers to occupational pension** arrangements first. To achieve this a directive seems to be needed. The co-ordination of tax-systems is a pre-requisite for a single market of supplementary pensions. However, according to the Communication, consultations have led to the conclusion that further action should be built on three principles or constraints:

- no harmonisation;
- no discrimination against pension providers established cross-border;
- no revenue shortfall.

The Commission decided to take this issue forward through the proceedings of the Taxation Policy Group, where a technical sub-group is currently working on the issue.

The EFRP response

The EFRP particularly welcomed the Communication in its desire **to liberalise the investment regulations** of pension funds so as to improve the effectiveness of their financing. This liberalisation includes not only the asset allocation rules but also the appointment of service providers to pension funds on a cross-border basis. The EFRP supports the Commission in its strong plea for **a qualitative approach towards prudential supervision.**

The fact that the Commission acknowledged the need to have separate rules for pension funds is a step forward in the debate. However, the need for a minimum harmonisation of the regulatory framework for pension funds can only be justified by the objective of establishing a single market for occupational pension provision. This means that pension funds should also be enabled to operate under a single license, including, for example, the **mutual recognition of supervisory systems**. Pension funds should be enabled to take full advantage of the Single Market as wholesale consumers and providers.

The EFRP furthermore applauded the acknowledgement of the three pillar-type pension provision. From a political point of view, this means that an important step has been taken. However, the balance between these three pillars is subject to Member State decisions under the principle of subsidiarity.

The EFRP felt the Communication over-emphasised the security aspect of supplementary pensions. It might generate the impression that to some extent, they are unsafe.

Regarding the **competition aspects with insurance industry**, the EFRP has always advocated that the ultimate goal of EU level legislation should be to broaden the choice open to employers and pension fund managers in their search for service providers. **Harmonised minimum standards** for occupational pensions providers may be necessary but will not increase competition. On the contrary, they will reduce competition, which will lead to higher macro-economic costs for occupational pensions.

It is crucial for the EFRP that occupational pensions are considered as being part of the employment conditions. In addition, occupational pensions are, in some Member States (e.g. IRL, NL and U.K.) very much tailored to statutory social security pensions (i.e. first pillar pensions). In assessing the level playing field for different pension providers, the EFRP strongly argues that these nationally determined institutional aspects should not be ignored. Our proposal for **a pan-European pension fund** (see Chapter 1.3, page 10) did not receive the attention the EFRP had hoped for. It means we should step up our efforts in communicating this idea to European Institutions.

In the short term however, the EFRP believes the creation of a pan-European pension fund to be feasible. This envisages one single pension fund institution to administer a multitude of occupational pension schemes each of which complies with the relevant national employment regulations for employees working in several Member States. As medium and large sized European companies urgently need such a type of pension fund, the EFRP feels this proposal should be included in the first directive.

To remove **taxation hurdles** from cross-border activity of pension funds and their beneficiaries, the EFRP strongly recommends searching for an agreement on the EET (exempt, exempt, taxed) model for supplementary pension taxation. The clash of taxation systems and the constraints imposed by the Taxation Policy Group (no harmonisation, no discrimination and no revenue shortfall), will have to be overcome at some stage. The EFRP hopes that the ECJ-threat will induce Member States to speed up their proceedings on the subject.

As to the creation of a Pensions Forum, the EFRP urged the Commission to submit a specific agenda. Failing this, the Forum risks becoming just another place to exchange interesting views on pension policy.

The ESC Opinion[3]

The draft opinion had been prepared by a study group of the Section for the Single Market, Production and Consumption. From the beginning onwards, the EFRP was actively involved in the creation of the conceptual layer of the document. The EFRP is quite satisfied with the final document since it fully voices our concerns, although we have certain reservations on a number of points.

The ESC Opinion is quite supportive of the Communication. We highlight the following as the most salient items of the opinion:

- acknowledgement of three pillar system of which second and third pillar are "supplementary";
- the reinforcement of the second and third pillar should not undermine the first pillar;
- mutual recognition of existing supervisory systems are a pre-requisite for cross-border membership;
- "any early move" to mutual recognition to facilitate labour mobility will receive ESC support;
- the significant administrative and other costs to multinational employers should be alleviated without dilution of pension rights or regulatory protection;
- investment rules that are over-restrictive and incompatible with the use of the Euro should be abolished or adapted;
- the "level playing field" between pension funds and pension arrangements secured under a life insurance contract should be pursued, "although there is a fundamental difference between the two";
- progress to facilitate of cross-border membership is needed in three key areas : qualifying conditions, transferability of vested pension rights, and temporarily employment (to be distinguished from "posted") in another Member State;
- the EET taxation model is most appropriate for supplementary pensions;
- 50% paritarian board of trustees or a similar institution provides for "an additional safeguard";
- "a last resort 'guarantee' which would operate in the event of a pension fund not being able to meet its liabilities would be an important safeguard, provided that it does not result in the dilution of the prudent investment obligation".
  Reference is made to the U.K. compensation scheme and the German mandatory insolvency insurance scheme for "pension fund reserves created by employers".

[3] *20-21 October 1999, CES 950/99 E/AI/fb*

European Parliament Proceedings

After the June 1999 elections, the European Parliament needed some time to re-establish its Committees and appoint appropriate draftspersons for the various EP reports.

The Rapporteur in the main was Mr. Wilfried KUCK-ELKORN (PES/SPD-D) for the Economic and Monetary Affairs Committee. The latter received Opinions from the Legal Affairs Committee, the Social Affairs Committee, and the Women's Rights Committee. Mr. Enrico FERRI (PPE/I-FI)[4] has been appointed as the Rapporteur to the Legal Affairs Committee. For the Social Affairs Committee Ms Marie-Thérèse HERMANGE (PPE/RPR-F) was appointed, and for the Women's Rights it was Ms Astrid LULLING (PPE/PCS-L).

The EFRP will submit its position paper on the subject to those pivotal members as well as to other identified key MEPs early in 2000.

On 24 November 1999, the EP proceedings started with a **hearing** in the Economic and Monetary Affairs Committee. Six experts, coming from various industry sections (asset management, insurance, banking, supervisors) as well as from pension funds, were heard.

Mr. Klaus PETRY (BASF-D) spoke on behalf of the EFRP. Mr. Ton WENNEKUS (FNV Bondgenoten-NL) was introduced as a union representative on the board of an – industry-wide - pension fund. The Dutch industry-wide Pension Fund Association (VB) is a prominent member of the EFRP.

In his presentation Mr. PETRY stressed that the forthcoming directive should:

- take the variety of existing pension funds into consideration;
- liberate investment related decisions, meaning asset allocation and appointment of asset managers and custodians;
- shape prudential supervision on the basis of the "prudent person" principle instead of the quantitative approach we have seen in many countries to date;
- grant a European passport to pension funds in order to optimise labour costs and to improve labour mobility.

Throughout the year 2000, the EFRP will remain very much involved in the follow up of the dossier on the Communication of Supplementary Pensions. The next step, which is expected to take place early in 2000, is the publication of the various reports of the different Parliamentary Committees involved in the pension fund debate. The EFRP will comment each of the reports and lobby the MEPs in order to getting our ideas across via as much communication channels as possible. The EP Report will have political relevance for future Commission actions.

1.2. Pensions Forum

The Commission provided concrete details of its intention to set up a Pensions Forum, which would have the tasks of:

- considering how barriers to cross-border labour mobility in supplementary pension systems could be addressed;
- helping the Commission solve the problems identified;
- helping the Commission monitor the Community legislation in force.

This new Forum would meet twice a year and will include government representatives, social partners, pension fund institutions and others actively involved in the area.

As the representative of pension fund industry at European level, the EFRP was made a fully fledged delegate on this Forum.

At the first meeting, which was scheduled for 13 January 2000, the Commission's Communication on

[4] *Mr. FERRI also delivered the Report in the main on the Green Paper on Supplementary Pensions*

Supplementary Pensions will be the key item on the agenda.

The EFRP will provide all its expertise to contribute to the success of this Pension Forum, but fears yet another theatre of debate has been created which could lead to further delays as to the legislative process on pension funds.

1.3. Promoting pan-European pension provision

European pooled pension fund – pan-European pension fund

In its response to the European Commission's Green Paper on Supplementary Pensions, the EFRP already launched the idea of creating a "European Institution for Retirement Provision". This vehicle would pool the assets and co-ordinate the administration of pension obligations for a group of companies, usually belonging to the same economic group or industry. This kind of institution would co-ordinate, manage and administer the pension plans of affiliated companies in different Member States, so as to lessen the difficulties with respect to occupational pensions of migrant workers.

This idea however should, according to the EFRP, receive the appropriate attention at EU-level and ought to be included in future policy documents on occupational pensions.

The EFRP consequently undertook several initiatives during 1999 to highlight the interest and relevance such a proposal for many multinationals – smaller and larger ones - within the EU.

In February 1999, the EFRP (Ray MARTIN, EFRP Vice-Chairman) published a memo on **European Pooled Pension Funds.** The paper explored the idea of allowing the pooling of EU second pillar pension liabilities and assets, and had a limited circulation within the Commission as well as in the European Parliament.

The idea found widespread support and therefore the EFRP decided to carry out an illustrative survey on the subject. An EFRP Working Group was set up chaired by Ray MARTIN. The report is due for publication in 2000.

The EFRP strongly believes in a single license multi-taxation approach through a European Pooled Pension Fund, which would enable Member States to maintain – for the time being - their own taxation system with regard to second pillar pensions without jeopardising the opportunity for European multinationals to pool their assets and liabilities.

Other ideas on the subject were also floated. Mr. Paul O'FAHERTY, member of the EFRP Executive Committee, wrote a paper on **"European Retirement Transfer Account** – A Possible Pension Solution for Migrant Workers". The "ERTA-concept" builds on the transfer payment system already existing in theory, at least for transfers from an old employer's plan to a new one. The difference however would be that the assets would be transferred to a new individual retirement vehicle established at an EU-level.

It is the counterpart of already existing similar arrangements at a national level in the U.K. and Ireland.

The EFRP Bullet List for Prudential Supervision

At the request of the Commission's Directorate-General for the Internal Market, the EFRP produced a "bullet list" of prudential supervision together with two schedules; one explaining the various pension financing systems throughout the European Union and the other clarifying the pension fund typology. The Commission was most interested in getting a clear overview of the various systems of prudential supervisory regulation for second pillar pension funds in a selection of EU Member States.

The EFRP therefore launched a survey among its members, which resulted in a bullet list collating all the information on their current prudential framework for their domestic pension fund industry. These national regulations, how adequate they might have proven to be in the past, may however need alteration to fit the new economic reality of the single market.

The exercise proved to be very interesting and the following conclusions could be drawn from the survey:

- Pension funds are still strictly organised and supervised on a national basis;
- If pension funds are to be enabled to operate on a cross-border basis – both as institutional customers of financial services and as a provider of occupational pension schemes – a number of steps need to be taken with regard to the following topics:

  1) mutual recognition of pension funds;

  2) the subsidiarity principle;

  3) an single license (see European Pooled Pension Fund);

  4) a qualitative and dynamic prudential control based on the prudent man principle.

1.4. Commission Action Plan for Financial Services

The Implementing Communication

On 11 May 1999, the Commission published its Communication on Financial Services **"Implementing the Framework for Financial Markets: Action Plan"**[5] . The Communication's line of action was largely endorsed by the Cologne Council meeting in June. The paper confirmed the priorities set out in the 1998 Commission Communication on financial services[6] .

Summarising, one could say that wholesale financial markets will be harmonised leaving retail financial markets – for the time being – at national level.

The Action Plan earmarks the **forthcoming directive on the supervision of pension funds as a "number one" priority.** A draft proposal should be tabled mid 2000 in order to be adopted by the Council in 2002. The Council has thus endorsed the specific and separate route for the regulation of pension funds.

The adoption of the two draft proposals for a directive on UCITS also belongs to this category of first priorities for wholesale financial services. According to the timetable, these proposals should be adopted in 2000.

The Communication defines four main fields of action:

1) the establishment of a single wholesale market (including, as said above, pension funds and UCITS);

2) the development of open and secure markets for retail financial services;

3) the modernisation of prudential rules to ensure the stability of EU financial markets;

4) the abolition of tax barriers to financial market integration.

The "implementing" Communication has been adopted simultaneously with the Commission Communication on Supplementary Pensions (see page 6, chapter 1.1). The two of them are inter linked for defining the scenarios of the financial Europe of the next decades.

The EFRP welcomes the Communication in its urge to complete the wholesale financial markets. The liberalisation of financial services is highly needed if pension funds – being wholesale consumers - are to take full advantage of the single market and EMU.

[5] *COM(99)232*
[6] *Financial Services: Building a Framework for Action, COM(98)625*

1. Liberalisation of pension funds' activity field

Forum Groups

To speed up the work as forecast in the Communication on the Implementation of the Financial Services Action Plan, the Markt-DG decided to set up five "Forum Groups" of market experts, being:

1) ISD Green Paper;

2) market manipulation;

3) cross-border use of collateral;

4) codifying clear and comprehensible information for purchasers;

5) general good obstacles for financial services.

The Commission hopes to extract from these groups topical information on technical issues and possible ways forward from a market perspective.

Mr. Marinus KEIJZER (PGGM-NL/VB) was appointed as an expert for the Market Manipulation Forum Group, which is expected to provide input for a directive on market integrity.

All Forum Groups already held their first meeting at the end of 1999, during which the Action Plan was presented and the specific scope of discussions delineated.

The proceedings of the Forum Groups will be monitored by the industry organisations. For this purpose the Commission will organise two meetings a year, of which the first, introductory one was held in July 1999. The following meeting has already been scheduled for January 2000 and will be the first assessment of the progress being made by the various groups.

The final objective of the Forum Groups is to provide input by practitioners to assist in the fine tuning of the implementation of the Action Plan for Financial Services. This plan offers a comprehensive blueprint for the regulation of Europe's Financial Markets over the next five years setting out detailed proposals and deadlines. The EFRP has from the outset been involved in the process, which is expected to gain full momentum during 2000.

2. Taxation – Key obstacle for supplementary pensions in the single market

2.1. Taxation Policy Group (TPG)

As already decided during 1998, the group's first concern in relation to supplementary pension provision would be to tackle the problems of migrant workers.

In this respect Mr. Mario MONTI, former Commissioner of Taxation Issues, and as such, former Chairman of TPG, suggested a proposal for a new directive to be tabled at the end of 1999, that would solve certain taxation problems of this rather limited group of European workers. The objective is to enable workers to continue subscribing to a supplementary pension scheme in their country of origin when moving, **for a certain period of time**, to another Member State, without running into taxation problems. Only contributions to **occupational** pension plans would be concerned.

Current taxation obstacles for the free movement of workers have two main causes: the lack of a minimum EU harmonised prudential standard for pension funds and a lack of co-ordination of taxation. Commissioner MONTI wished to tackle this set of problems in a step-by-step process, which led to the creation of the technical subgroup of experts being instructed to define what is meant by "migrant workers" (including the self-employed), what type of schemes would be covered by the directive and to establish common criteria for the mutual recognition of national old age schemes.

This report is still in progress and during 1999 the taxation issue was more situated on Council level, where little progress on tax issues was achieved.

The EFRP had several meetings with the Directorate General on Taxation (formerly DGXXI) that is acting as the back up at the Taxation Policy Group. Our main concern was to get the message across that the Commission should show more ambition in this field and broaden the scope of the TPG action range to that of supplementary pension provision in general, instead of focussing on migrant workers only. The European Pooled Pension Fund (see Chapter 1.3, Page 10) idea was met with keen interest, upon which the EFRP decided to elaborate on the issue.

2.2. Taxation Conference in Brussels

Since taxation constitutes the most effective barrier to the single market for supplementary pensions, the EFRP kept this topic high on the agenda.

A notable initiative in this field was the conference on taxation, held in Brussels on 4 November 1999. This event jointly organised by the European Policy Forum, the Konrad Adenauer Stiftung, the Frankfurter Institute, the NAPF and the EFRP, drew over 100 delegates from across Europe. **Co-ordination instead of harmonisation** of pension taxation in EU Member States will be required to eliminate or neutralise the current inconsistencies within the European Union: this was the main message of Michel VANDEN ABEELE, Director General of DG Taxation and Custom Union at the European Commission. Mr. VANDEN ABEELE said that the EU Member States had agreed to put the issue on the agenda though advocating a step-by-step approach. The first step would be to focus on contributions made by posted workers to second pillar pension schemes. A pre-requisite to move forward is to find basic common criteria for a genuine old age scheme, concluded the top Commission executive.
Dirk HUDIG, Secretary General of UNICE (Brussels-based federation of employers) stated that cross-border movement of employees without tax hurdles in respect of their occupational scheme, is a real need. UNICE's chief said the present diversity of pension schemes should not be harmonised. According to UNICE, the Commission should firmly promote the adoption of the EET-taxation

model (exemption on contributions, exemption of investment income, taxed on pension income). Mr. HUDIG furthermore stressed the need for deeper and liquid equity markets to provide opportunities for funded pensions. He concluded this was the only way to cover the ever-growing costs of health care and old age income provision.

Also other speakers as Axel BÖRSCH-SUPAN (Professor at the university of Mannheim), Lyn ELLIS (Vice-President of Group Pensions at Kvaerner) and Paul HEWITT (Research Fellow at the Centre for Strategic and International Studies in Washington) favoured the EET-taxation approach. As Mr. BÖRSCH-SUPAN stated that "to improve the sustainability of the pension system, it is better to use tax relief, hence calling upon voluntary funding instead of forcing it by making pensions mandatory". "All other non-EET-routes lead to a bureaucratic mess and incur double taxation", he also told the delegates.

Lyn ELLIS supported this idea wishing for a pan-European pension fund on an EET-basis. "In this pool of assets I would have one management structure and one asset allocation structure." "This is where we see some real ability to improve returns", she said. Harmonisation of benefits across Europe was not on her agenda, but the call for EET-taxation and regulatory principles definitely were. The EFRP Chairman, Mr Kees VAN REES, believed a consensus will be reached along the EET-model as this is "economically sound". He furthermore stipulated that an overall harmonisation of tax rates is not achievable and reiterated the need for companies to have access to a European pension fund. He concluded that: "while not all companies may need it, it should be made available for those that do".

3.1. The Commission ideas for Europe's ageing society

On 27 May 1999 the European Commission adopted a Communication entitled **"Towards a Europe for all Ages - Promoting Prosperity and Intergenerational Solidarity"** [7] as its official contribution to the 1999 UN "International Year of Older Persons".

[7] *COM(99)221final*

The Commission recommended Member States to prepare reforms along following policy lines:

- **Employment policies** should aim at maintaining workers' capacities in order to raise **the activity rate of older people** and combat ageism biases.

  This would mean to promote:

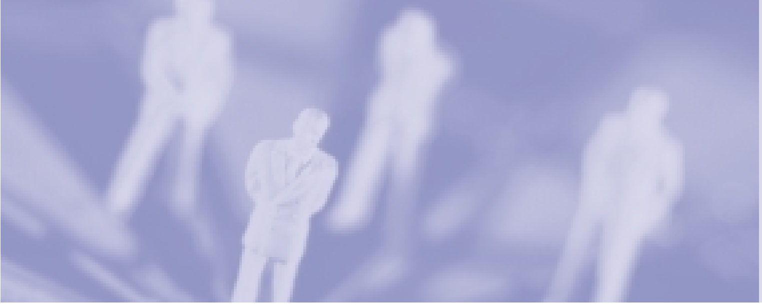
  - life-long learning;
  - flexible working arrangements;
  - the review of tax and benefit schemes to improve incentives to take up job offers and training opportunities.

- Regarding the need for **social reform**, the Communication announced an update of the "Modernisation and Improvement of Social Protection" paper. This Communication was expected to propose a new process of co-operation between the Commission and Member States to reverse certain social policy aspects (see below);
- Appropriate **health policies**, adequate **old age care** and **research** instruments are targeted issues that require policy review;
- Discrimination and social exclusion based on age grounds should be acknowledged and combatted developing appropriate measures and policies.

The Communication thus takes a stance against facilitating early retirement and acknowledges that **resources for pension systems will have to be increased.** However, the Communication does not say in which pillar this increase is to occur.

The possibility of placing limits on early retirement is clearly put forward. This policy should be backed up by:

- the provision of better and more appropriate employment opportunities for ageing workers, such as part-time work;



- the adaptation of pension schemes to permit more gradual retirement in flexible combination with various forms of work income.

For the short and medium term the Communication suggests raising the average effective exit ages by two years, while for the long term the goal should be set to enable the great majority to work longer and restore effective retirement ages to approach the formal pension age.

Especially **with regard to supplementary pension provision**, the Communication:

- advocates "a sustainable mix of mutually supporting pension pillars based on legislation, collective agreement and private contract". Although not explicitly stated, it may be assumed that reference is being made to the three pillar system in pension provision.
- calls for a more secure and profitable environment for supplementary pensions. Pension funds should be allowed to reap the potential benefits from EU-wide capital markets, but "the main issue is how to guarantee the safety of pensions while allowing a freer climate for fund investment".

The key concept in the Communication is ***active ageing****. Pension reforms are seen as an important part of the necessary adjustments needed to deal with ageing population. Yet, these reforms will only really be effective if backed up by policies aimed at active ageing and higher employment rates in general.*

3.2. The Concerted Strategy for Modernising Social Protection Communication[8]

On 14 July 1999, the European Commission adopted the Communication "A concerted Strategy for Modernising Social Protection". This was the next step stone in the cautious process of trying to start the **convergence process of social protection policies.** One of the four key objectives the Council should endorse is to "make pensions safe and pension systems sustainable".

The convergence process at EU-level of social protection - or, at least attempts to start it up - commenced in the 1990s marked by the publication of different documents[9].

All these reports stated that:

- The organisation and financing of social protection systems lie in the hands of Member States;
- A consensus was achieved between EU institutions and Member States that, given the changing nature of the European society, social protection systems need to be updated if they are to continue playing their traditional and valued role.

The Communication identifies some new changes since 1997 – when the first Communication on "Modernising and Improving Social Protection" analysed the rapid and vast developments in population, labour markets and family structure:

- Single market and single currency;
- Treaty of Amsterdam with new employment title and a specific legal basis to protect European citizens against social exclusion;
- Enlargement process (CEECs).

These changes call for an urgent and indispensable modernisation of social protection.

The Communication strongly emphasises the **correlation between higher employment rates and the sustainability of social protection, and of pensions in particular.** Therefore, the paper promotes measures to reverse current early retirement policies and set to in place more flexible employment opportunities for older workers.

The purpose of this new Communication though is thus to outline an updated strategy, which will be supported by enhanced mechanisms for exchanging information and monitoring policy developments in order to give the

[8] COM(99)347final

[9] - Council Recommendation COM(91)228 final of 27 July 1992 on "Social Protection - the Convergence of Objectives and Policies";
- Commission Communication COM(95)466 of 31 October 1995 on "The Future of Social Protection, a Framework for a European Debate";
- Commission Communication COM(97)102 of 12 March 1997 on "Modernising and Improving Social Protection in the European Union".

process a higher public and political profile. More concretely this implies that Member States will be invited to designate senior officials to act as focal points in this process.

The Commission aims to establish an **agenda** for deepened co-operation based on four key objectives:

1) to make work pay and provide secure income (rethink tax/benefit systems as to support employment, take new working arrangements into account in social protection systems, assurance of safe income support, reconciliation of work and family life, budgetary discipline and to rethink the financing of social protection);
2) to make pensions safe and pension systems sustainable (provision of securely funded and adequate pensions) and a continued participation of elderly in social life;
3) to promote social inclusion (ensure effective safety nets, focus on prevention, contribute to a comprehensive and integrated approach);
4) to ensure high quality and sustainable health care.

With regard to the second key objective on pensions, the Communication recognises that "this may involve finding an appropriate balance between funded and PAYG systems", however without specifying the pillar in which these funded schemes should be situated.

4.1. FT conference "The Changing Shape of the European Pensions Market", Brussels, 18-19 March 1999

At the Financial Times conference in Brussels Mr. K. VAN REES called on the delegates to lobby their national politicians and win support for the liberalisation of investment related decisions, such as the al location of the assets and the appointment of custodians and asset managers.

Some European governments continue to reject the idea that pension funds should be free to invest as they see fit. The EFRP however, firmly believes this aversion towards responsible freedom of investment is one of the main obstacles towards cross-border operations of pension funds. He was hopeful that appropriate EU legislation was in the pipeline that would eradicate this problem.

The EFRP Chairman continued by claiming that long-term investment returns are higher if asset allocation is governed by the "prudent man principle" rather than placing quantitative limits on classes of assets.

The growing trend towards defined contributions (DC) pension schemes generated some critical comments from Mr. VAN REES. One aspect he questioned was the pursuit of greater individualisation, leaving behind any solidarity level that all defined benefit (DB) schemes feature, although to a different degree. He also questioned the transparency of costs and performance in DC funds and called on a Europe-wide agreement on performance standards.

4.2. EFRP/NAPF International Conference, Monaco, 4-6 October 1999

An EU Directive paving the way for pan-European pension schemes could be introduced by 2002, Mr. John MOGG, Director General of the European Commission's Internal Market DG, announced during the first day of the Conference. This was not really the message for which the conference delegates, who were waiting for an indication that firm proposals for cross-border pensions would emerge within a few weeks, had hoped.

The Commission scheduled the publication of the proposal for a Directive, creating new investment rules applicable across Europe, during the first half of 2000. Adoption by Council could then be expected in 2002. Liberalising investment practice could facilitate cross-border investments, allow pension funds to choose the best managers from whichever country, and protect pension holders by ensuring their contributions were properly invested.

Ms. Ann ROBINSON, NAPF General Director of NAPF, and Mr. Geoffrey FURLONGER, Head of the EU practice William Mercer, thought that in spite of Mr. MOGG's warnings, a court case should be considered since it would keep up the pressure on Member States to start real negotiations on tax co-ordination. .

Kees VAN REES commented that we seem to be "hastening slowly" and sensed a diminished political will to move forward with the pensions issue. He called on the EFRP Member Associations to start lobbying senior national politicians and speak to their national pension fund supervisors. This type of action could rally more support for the Commission's informal proposals – largely inspired by the EFRP views – for the forthcoming directive on pension funds. Finally, Mr. VAN REES also called for a **pension fund committee** to be formed within the Directorate General for the Internal Market, so as to grant pension funds and national regulators an opportunity to provide better input in present and future pension fund regulations.

Other speakers included:

- Mr. Ray MARTIN, EFRP Vice-Chairman, and Mr. Jan ROELS, Partner at Arthur Andersen, who elaborated on the co-ordination of taxation in the pensions field at EU level.
- Mr. Patrick BÉDAT, Chief Operating Officer at Pictet & Cie Banquiers, spoke about various criteria used to optimise global asset allocation.
- Mr. Peter MURRAY, Chief Executive of the Railways Pension Trustee Company, criticised in his speech on "Can prudent man consider non-financial issues?" the government for imposing ethical investments onto pension schemes trustees.
- Mr. Peter SCHERKAMP Director of Siemens Kapitalanlagegesellschaft, and Mr. Peter THOMPSON from William M. Mercer, spoke about today's and tomorrow's pension systems in Germany and the U.K.
- Mr. Alan RUBENSTEIN, Managing Director at Morgan Stanley Dean Witter, elaborated on Europe - A single market or the Only Market.
- Mr. Jos VAN NIEKERK, Managing Director of Stichting Unilever Pensioenfonds "Progress", raised some questions on the impact of hidden liabilities of state pensions. He concluded that much more should be done to make people aware of the problems ahead of us and to promote acceptance of the need to reform.
- Mr. Paul ARLMAN, Secretary General of the Federation of Stock Exchanges, discussed the implications of the introduction of the Euro for the European Stock Exchanges, and Mr. Paul MERCIER, Deputy Director General of the DG Operations at the European Central Bank, outlined briefly the ECB's scope of action in respect of the EURO.

4.3. Special IPE report on the EFRP

The EFRP and IPE (Investments and Pensions Europe International Publishers) joined forces during the summer months to create a unique special report, which was completely devoted to the EFRP and its Member Associations. The report highlighted the activities and achievements of the EFRP and its constituent members. It was published along with the IPE October 1999 edition, and circulated at the EFRP/NAPF International Conference in Monaco.

The special report gave the EFRP the opportunity to present its work and that of its national pension fund associations to a large readership. It proved to be an effective way to bridge the information gap, especially since the entire report has also been published on the internet under the auspices of the IPE.

4.4. Seminars and conferences

The EFRP is very sought after to deliver speeches at industry-related seminars and conferences, which means that only a very limited amount of requests can be accepted. Some of these conferences however do offer us an excellent opportunity to getting our opinions across with regard to the pension fund developments at an EU-level.

Some of the most important speeches being delivered during 1999 were:

- Chairman, Mr. Kees VAN REES, at the:
  - "Financial Times Conference" in Brussels, 18 and 19 March (see above);
  - "Skarbiec Emerytura Pension Fund Conference" in Frankfurt (8-11 June) where he gave an overview of the history and present status of pension funds in Europe;
  - Seminar held in Lithuania (18-19 October) organised by the Belgian Bankers Academy in the framework of an EU-project on "the technical assistance of the financial sector in Lithuania". Mr. VAN REES gave an overview of the pension fund systems in five EU-countries and explained the different EU-initiatives being taken over the years with regard to the pension fund industry.
- Permanent Representative, Ms Chris VERHAEGEN, at the:
  - OBN-Confindustria Conference "Progetto Previdence" in Rome (12 May) where she presented an overview of the past and current pension fund systems in different countries with in the EU. She furthermore stressed the importance of a strong second pillar as well as the overall economic impact of pension funds in the current and future European Union. Ms. VERHAEGEN spoke out in favour of taxation of savings to be based on the EET-model and concluded her presentation by giving a short overview of the latest developments in this area at EU-level.
  - The OECD Working Party on Pensions in Paris (13 December), where the EFRP was asked to give an expert presentation on the taxonomy of pension funds. On this occasion, the EFRP publicised its analytical schedules of occupational pension provision and of pension provision as part of state social protection programmes.

5 International pension fund intelligence

5.1. EUROSTAT - pension fund statistics

As in 1998, EUROSTAT proceeded also in 1999 with the production of a pension fund database within the framework of the Council Regulation 58/97 concerning structural business statistics. The EFRP was very much involved in this process. Our Federation had to steer EUROSTAT to prevent excessively detailed disclosure requirements being imposed on pension funds.

The Task Force on Pension Fund Statistics was created in 1998 to make an in-depth study on the subject. It delivered a report on the possibilities and problems they encountered while trying to gather pension fund data within each of the Members' own country (the Task Force consisted of 5 Member States DK, I, IRL, NL, U.K., the European Commission, EUROSTAT and the EFRP).

The conclusion of the Task Force underwrites the EFRP's views not to make the pension database too detailed or complicated.

Not only are the various pension systems within the EU-countries enormously diverse and hard to classify according the three pillar taxonomy. But, we should also consider, that in some EU-countries it is difficult to collect correct and statistically representative information on the pension fund industry.

This is because not all EU-countries have laws compelling pension funds to submit their results to a national statistical office. Therefore, some national pension fund figures remain fragmentary.

In 2000, the Task Force on Pension Fund Statistics will look at the preliminary results of the 1997-1998 data collection and try to find ways to improve the database. Furthermore, a final list of variables will have to be approved, which will be used to collect future pension fund data from the national EU-authorities. The EFRP will remain involved.

5.2. OECD Working Party on Private Pensions

The OECD created a Working Party on Private Pensions as part of the Insurance Committee (Financial Affairs Division). This Working Party should provide better information about pension funds, so that it may be included in pension policies. Apart from the government delegations, the Working Party also includes "expert" groups, such as industry representative bodies (e.g. CEA, EFRP).

The meetings of the Working Party are to be bi-annual (June and December). In between these bi-annual meetings, about two to three Task Force Meetings are usually planned and the EFRP attends them according to the Agenda items.

At the last 1999 bi-annual OECD Working Party meeting on 13th December 1999, the EFRP's Permanent Representative, Ms. Chris VERHAEGEN, gave a presentation on the Taxonomy of Pension Funds.

This provided the EFRP with an excellent occasion to disseminate its views on the retirement provision system in general and the private (both occupational and individual pensions) in particular. The presentation highlighted the diversity of occupational pension funds and similar financial institutions and the need to provide companies with cost effective vehicles to fund their pension schemes.

The Working Party further considered other issues:

- Pension fund systems in Sweden, Turkey, Japan and Italy;
- Adequacy and Administrative Costs in DC schemes;
- Investment regulations;
- Prudential supervisory standards for pension business.

6 Pension fund assets in 1997 - 1998

1) Total pension fund assets[1]

The total 2nd pillar pension fund assets for the European Union rose at the end of 1997 to ECU 1,862 billion and to ECU 2,104 billion if one includes the Icelandic, Norwegian and Swiss assets.

At the end of 1998 these amounts had increased to ECU 2,082 billion and ECU 2,356 billion respectively.

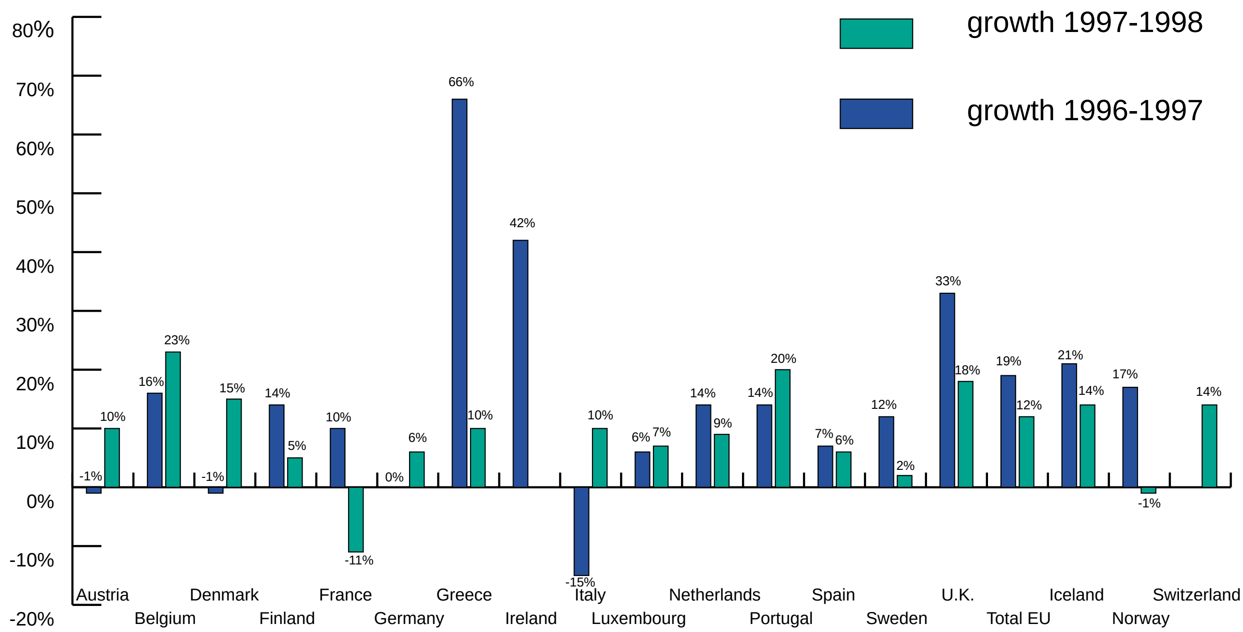
Total Pension Fund Assets 1997 - 1998

	Countries in bn. ECU	
	1997	**1998**
European Union		
Austria	20.93	22.93
Belgium	10.35	12.68
Denmark	29.30	33.80
Finland	8.88	9.35
France	84.42	75.33
Germany	270.72	286.89
Greece	4.59	5.06
Ireland	34.46	34.49
Italy	21.58	23.77
Luxembourg	0.03	0.03
Netherlands	361.66	393.90
Portugal	9.37	11.19
Spain	18.69	19.73
Sweden	96.18	98.54
U.K.	891.23	1,054.05
Total EU	1,862.39	2,081.74
Non-EU		
Iceland	4.38	5.01
Norway	6.18	6.12
Switzerland	231.14	262.91
Total Non-EU	**241.70**	**274.04**
Grand Total	**2,104.09**	**2,355.78**

[1] *Book reserves incl.*

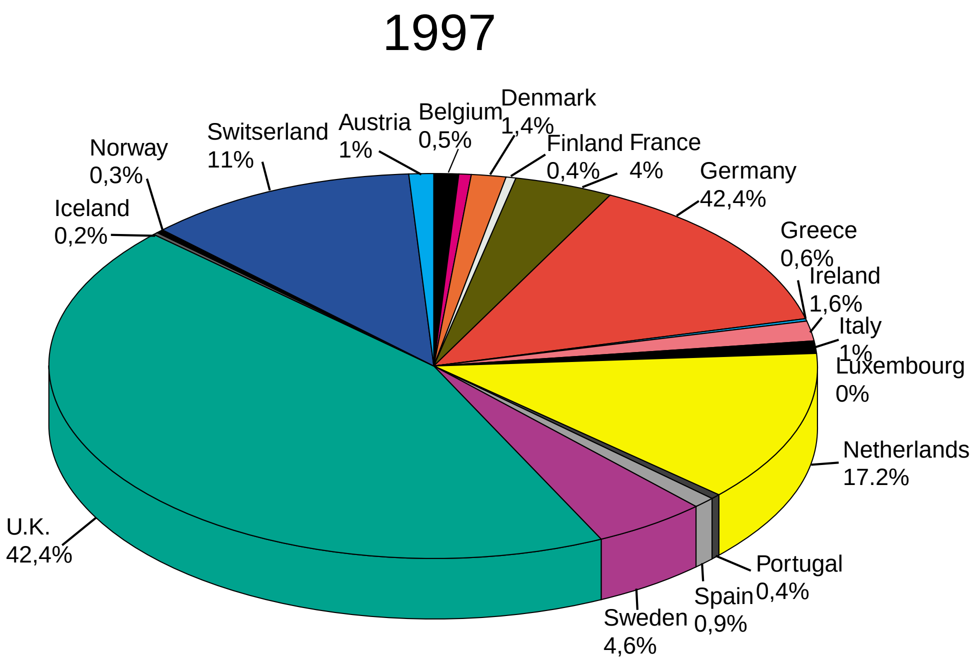
Compared to 1996 this means an increase of 19% for the first year and 12% from 1997 to 1998.

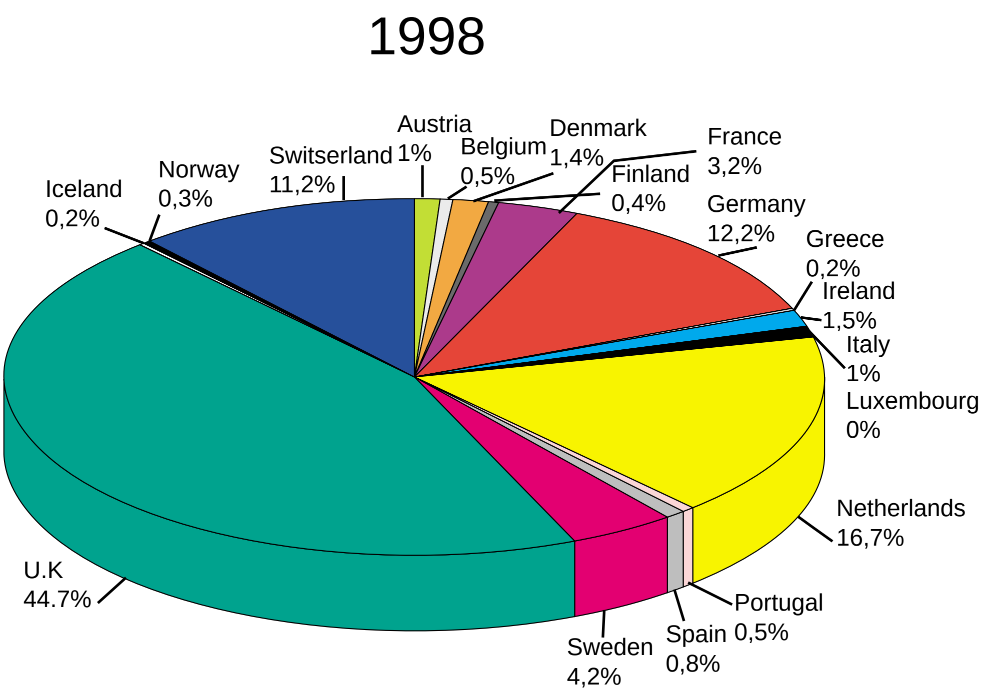
Growth rate pensions funds 1996-1998 in %



The nominal growth rate measured in local currencies in most countries exceeded the growth rates shown in the above graph, but they are somewhat tempered by the weakened local currencies in relation to the ECU from 1996 to 1998. For Ireland, the United Kingdom, Iceland and Norway local currencies gained strength towards the ECU in 1997, but the reverse happened during 1998.

As to the **geographical breakdown** of 2nd pillar pension fund assets, the following pictures can be drawn:



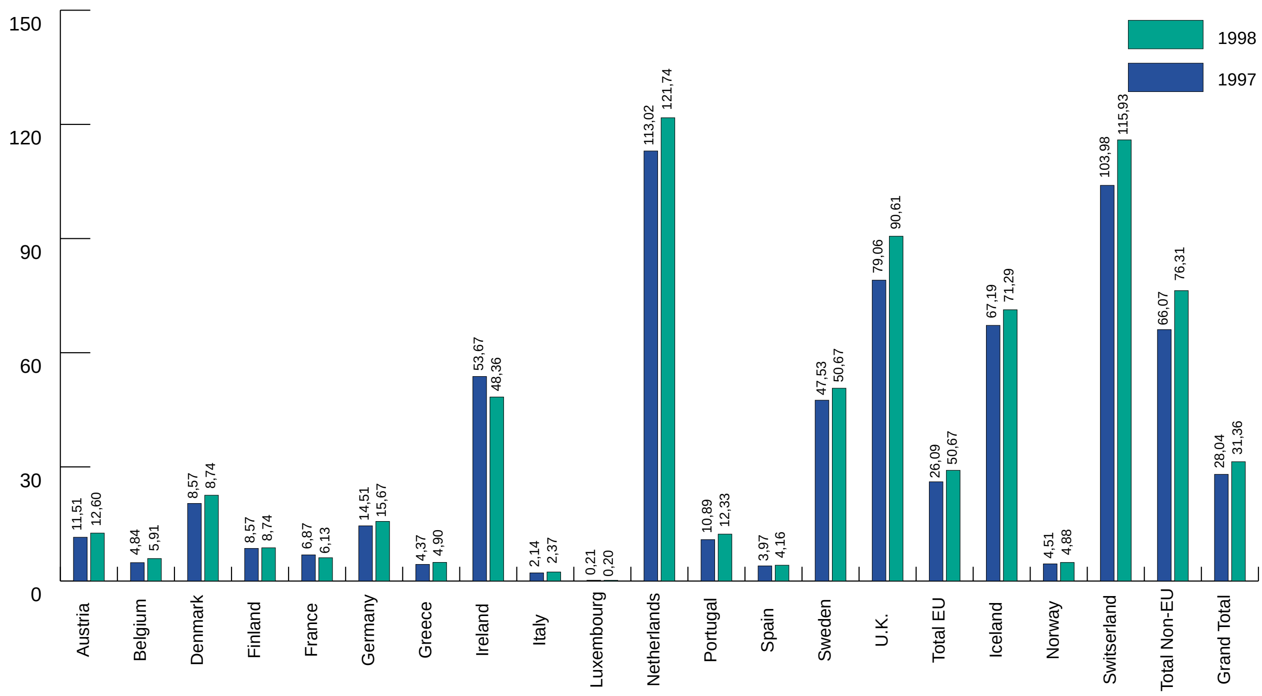


The U.K. remained the leader with 42,36% (1997) and 44,74% (1998) of the market share in Europe, followed by the Netherlands with 17.19% (1997) and 16,72% (1998), Germany with 12.87% (1997) and 12,18% (1998) and Switzerland with 10,99% (1997) and 11,16% (1998).

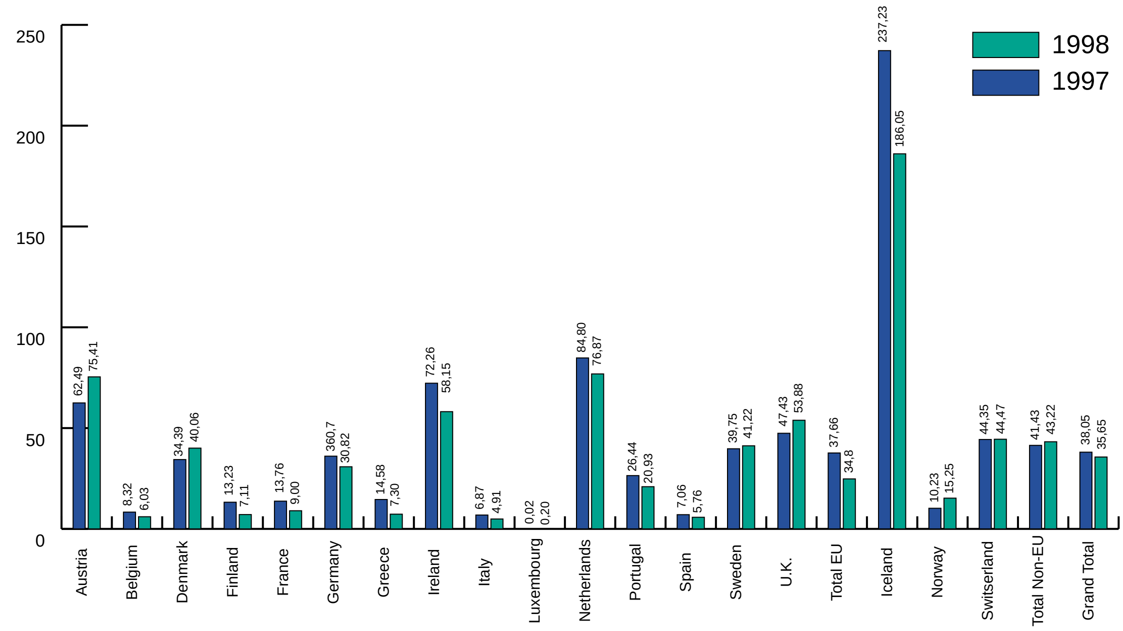
2) 2nd pillar pension fund assets as a percentage of GDP

Looking at the importance of 2nd pillar pension fund assets within a national economy, the Netherlands certainly took the lead. Their total amount of assets under pension fund supervision exceeded the total GDP by over 13% in 1997 and by almost 22% in 1998. Also the Swiss pension funds found themselves in the same situation (assets are 103.98% of GDP for 1997 and 115.93% for 1998). The U.K. with 76.06% for 1997 and 90.61% for 1998 and Iceland (67.19% for 1997 and 71.29% for 1998) follow them.

From 1997 to 1998 the relative importance of the total 2nd pillar pension fund assets to GDP rose by over 3%. Almost every country, except for France and Ireland, followed this trend. Especially the figures for Switzerland, the U.K. and the Netherlands show a significant increase in the importance of occupational pension funds as to their national economy, which amounted to around 10% for all three countries.



3) The importance of 2nd pillar pension fund assets as to stock market capitalisation

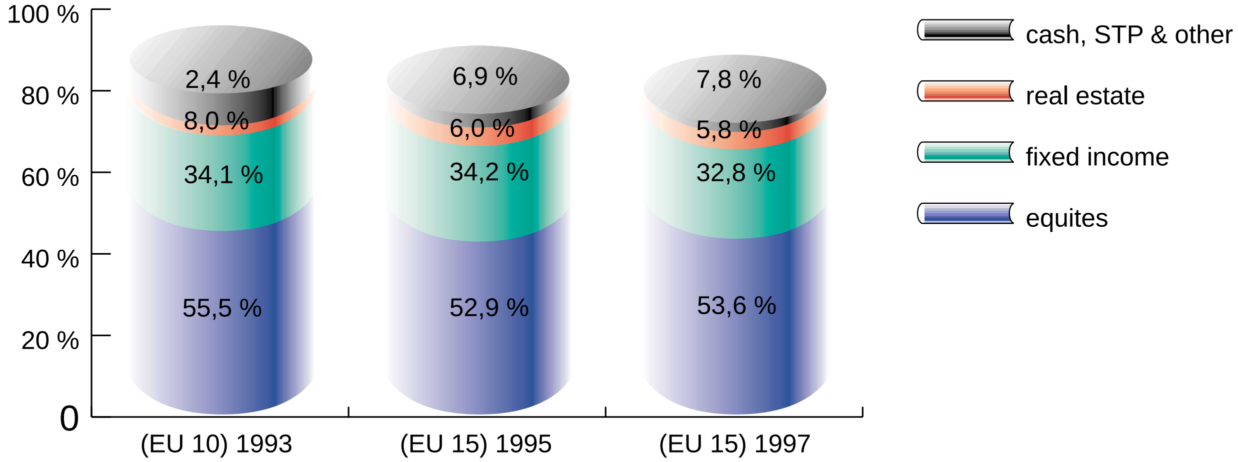


As to the importance of pension fund assets in comparison to stock market capitalisation Iceland, the Netherlands and Ireland took the lead. Icelandic pension funds are obviously obliged to invest a great deal of their assets in bonds and non-domestic equities.

Especially pension funds in the Netherlands, the U.K. and Ireland played a dominant role with regard to the further development and enforcement of their national and European stock markets.

Since most of Austria's pension fund assets are put into bonds, their actual importance to the Austrian stock market remains an opportunity for the future.

4) Breakdown of funds into the major asset categories



Note: EU (10): twelve member states of the EU prior to January 1, 1995 minus Luxembourg and Greece

At first sight one could conclude that nothing much changed over the years as to asset allocation. However the above sketched picture only gives an overall insight. One should furthermore take into account that the countries, which joined the EU after January 1995 placed most of their pension fund assets at that moment into fixed income investment vehicles. Therefore, looking at some individual figures might better clarify the underlying trends.

In three countries equities remained the main asset category:

	1993	1995	1997
United Kingdom	80%	77%	73%
Ireland	55%	59%	59%
Belgium	36%	39%	47%

Other European countries held a relatively important part of pension assets in fixed income:

	1993	1995	1997
Iceland	n.a.	95%	83%
Austria	n.a.	92%	82%
Italy	72%	63%	76%
Luxembourg	70%	67%	67%
Greece	n.a.	53%	63%
Norway	n.a.	71%	62%
Denmark	65%	63%	58%
Portugal	72%	69%	56%
Finland	73%	61%	55%
The Netherlands	60%	60%	51%

Although fixed-income investments still remained dominant in the above mentioned countries, there was definitely a trend (except for Greece and Italy) to reduce the amount of fixed income investments in favour of equities.

The total amount of 2nd pillar pension fund assets grew markedly in almost all countries (19% overall in 1997 and 12% overall in 1998), without significantly changing the proportions of national shares in the overall pension assets.

Also in 1997-1998 the bulk of European 2nd pillar pension fund industry assets were held in the UK, the Netherlands, Germany and Switzerland which together represented about 83.5% (in 1997) and 84.8% (in 1998) of the total amount (EU + Switzerland, Iceland and Norway).

Although many countries still hold a considerable amount of fixed-income investments, there is a clear trend emerging towards greater emphasis on investing in equities.

EFRP Member Associations

E.U. Member Associations

AUSTRIA	Fachverband der Pensionskassen
BELGIUM	Belgische Vereniging Pensioenfondsen - BVPF
	Association Belge des Fonds de Pension -ABFP
DENMARK	Forsikring & Pension
	Foreningen af Firmapensionskasser
FINLAND	Association of Pension Foundations
FRANCE[1]	Observatoire des Retraites
	Association Française des Régimes et Fonds de Pension -AFPEN
GERMANY	Arbeitsgemeinschaft für Betriebliche Altersversorgung – ABA
GUERNSEY[1]	Guernsey Association of Pension Funds
IRELAND	Irish Association of Pension Funds – IAPF
LUXEMBOURG[1]	Banque Générale du Luxembourg
NETHERLANDS	Stichting van Ondernemingspensioenfondsen – OPF Vereniging Bedrijfspensioenfondsen – VB
PORTUGAL	Associação das Empresas Gestoras de Fundos de Pensões
SPAIN	Associación de Instituciones de Inversión Colectiva y Fondos de Pensiones - INVERCO
SWEDEN	Swedish Association of Institutions of Retirement Provision - SIRP
UNITED KINGDOM	National Association of Pension Funds – NAPF

Non E.U. Member Associations

ICELAND[1]	Landssamtok Lífeyrissjóda
NORWAY[1]	Norske Pensjonkassers Forening
SWITZERLAND	Association Suisse des Institutions de Prévoyance – ASIP

[1] *Observer status*

EFRP's Executive Committee

Chairman: Kees VAN REES (NL)

Vice-Chairmen: Ray MARTIN (UK)

Ulrich JÜRGENS (D)

Members: Folke BERGSTRÖM (FIN)*

Rui CORREIA-PEDRAS (P) ***

Georg HAGSTRÖM (S)

Niels Lihn JØRGENSEN (DK)

Jaap F. MAASSEN (NL)

Dietmar NEYER (A)**

Paul O'FAHERTY (IRL)

Mariano RABADÀN (E)

The Executive Committee deals with the major issues and prepares the positions. The Chairman of EFRP chairs also the Executive Committee.

EFRP Staff

Permanent Representative: Chris VERHAEGEN

Research: Christel RUTTENS

* Until the end of the 1st semester 2000

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In order to meet the various needs and interests of a wide variety of institutions (multinational headquarters, large national pension funds, consultants, insurers as well as bankers and asset managers) with regard to the European pension fund scene, the EFRP developed a Supporters' Circle in 1997. At the end of March 2000, the Supporters' Circle counted 31 sponsors from six different European Countries.

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