PENSIONS EUROPE

How pension funds contribute to jobs and growth in Europe – and how to strengthen their participation in the Capital Markets Union

Occupational pension funds play an **important social role** in the European economy: they contribute to ensure that European citizens have an adequate retirement income.

Pension funds are important **investors in the European economy**. Pension fund capital contributes – and could even more than today – to growth and jobs. What should be done to increase the flow of capital to European projects and companies?

AT A GLANCE:
PensionsEurope's members cover the workplace pensions of about 62 million citizens and represent approximately 3.5 trillion euros of assets managed for future pension payments.

The amount of assets invested in the European Union differs between Member States and ranges from 50% to over 75%.

Pension funds invest in bonds and stocks, as well as in alternative investments such as infrastructure, venture capital, private equity and real estate.

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1. Pension funds as investors

Pension funds' role is to provide pensions

Pension funds are key institutional investors, which represent the buy-side on the financial markets.

PensionsEurope's member organisations cover the workplace pensions of about 63 million citizens and represent approximately 3.5 trillion euro of assets managed for future pension payments.

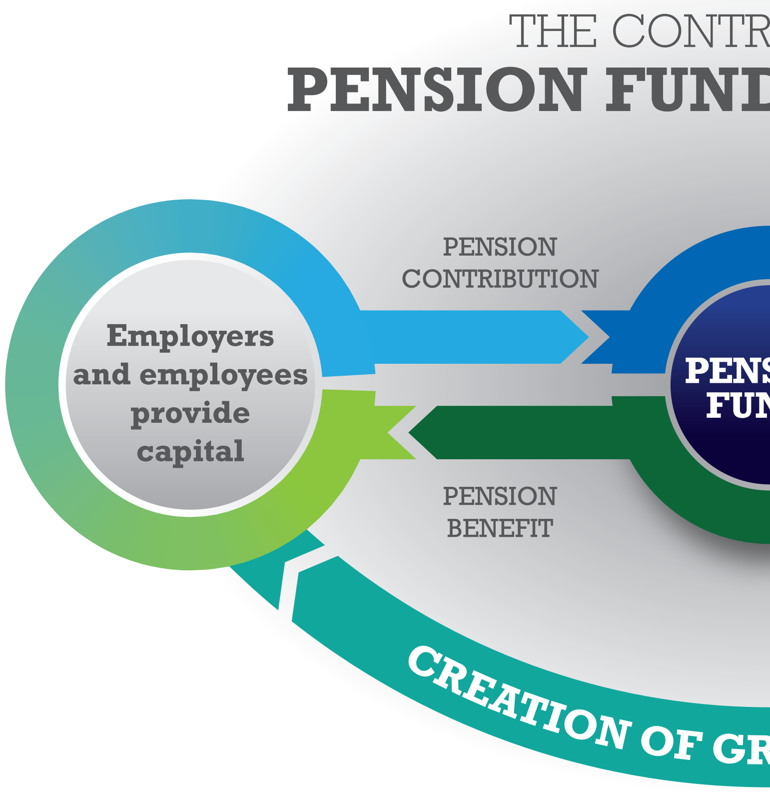
The success of the Capital Markets Union (CMU) will depend on whether it will really facilitate long-term investments by pension funds in the European economy. It is therefore crucial that any policies arising from building a CMU take into account the characteristics of pension funds.

What kind of investors are pension funds?

- A pension fund's role is to provide pensions. Pension funds invest in the interest of their beneficiaries, making investment decisions based on the nature of their liabilities and the risk-return profile of their assets.
- Freedom of investment is crucial for returns and for the confidence in funded pension systems. Governments should neither raid pension funds nor force them to invest in specific assets or regions.
- Pension funds are potential natural long-term investors, due to the long maturities of their liabilities. Under the right conditions, pension funds' capital can contribute to the development of the real economy and drive growth by making long-term investments.
- Long-term investors also contribute to financial stability.

Diversity

- Pension policy is the responsibility of Member States and thus there are very different pension systems in the EU (e.g. with large and small funds). As well, pension funds are subject to different regulatory and supervisory frameworks across the EU.
- Pension schemes (defined benefit, defined contribution, hybrid) differ in who bears the investments risks. This affects investment policies.
- European pension funds are very diverse – and so are the obstacles that pension funds face in different Member States when making investments in capital markets. Therefore, the exchange of ideas and best practices to incentivise investments in the real economy is crucial.



Truly European

- Pension funds invest a large share of their assets in the European economy. The level of assets invested in the EU differs between Member States and ranges from 50% to over 75%. These differences are explained by the diversity of pension systems across the EU and for reasons of risk allocations and diversification.
- Many pension funds already invest in SMEs and start-ups, mainly through funds, venture capital and private equity.

Low interest rates

- The current low interest rate environment represents a great challenge for pension funds as it affects both assets and liabilities. On one hand, the funding ratio of Defined Benefit funds is deteriorating as liabilities - which are calculated using the long term interest rate - increase. On the other hand, Defined Contribution funds face more expensive annuities because low interest rates raise the price of annuities.

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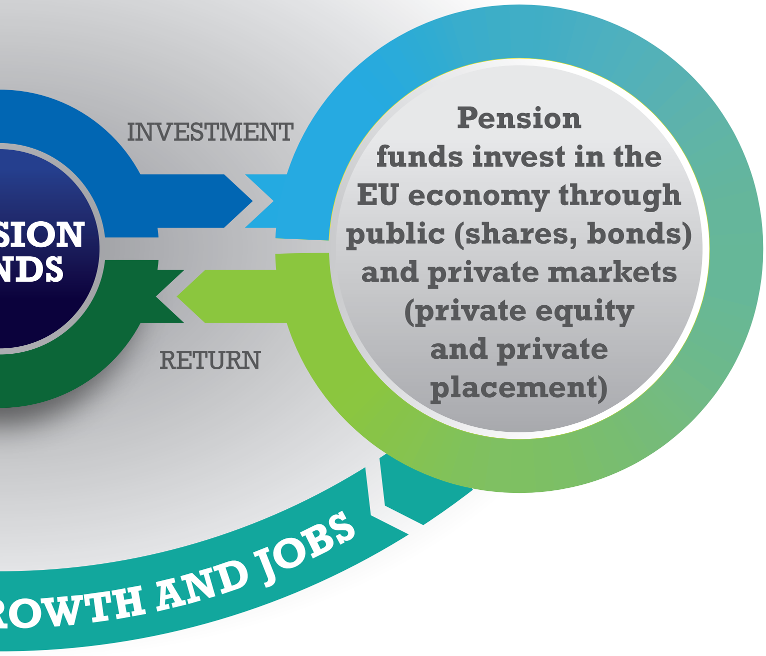

2. What do pension funds need?

Regulatory frameworks feature various bottlenecks that do not facilitate long term investments. What are these obstacles and what can be done?

Pension policy

- As a general principle, national prudential regulation and supervisory frameworks applying to pension funds should encourage long-term investments.
- Mismatches between short term regulatory framework and/or supervisor behavior and long term ambitions of pension funds should be addressed.
- There are many examples of existing national prudential regulation or supervision that discourages long-term investments, by focusing on short-term liquidity and punishing illiquid assets. This is not sufficiently in accordance with the nature of the liabilities of pension funds and may excessively limit asset allocation to long-term investment categories.
- It is key that in upcoming policy initiatives policy-makers refrain from imposing inappropriate quantitative measures or capital requirements (e.g. with the Holistic Balance Sheet) on pension funds as such measures would have negative effects on their investment capabilities and consequently on the goals of the CMU.

Financial market regulation

- Central clearing is an important piece of the G20 reform agenda, but it is funded by investors' capital that cannot be directly invested in growth. With its high costs and fees, the European Markets Infrastructure Regulation (EMIR) is currently not based on a system of risk of default. Without a fundamental review, pensioners (European tax payers) are expected to pay for a system that facilitates highly profitable private institutions to benefit substantially from mandatory clearing. But this system puts pensioners' money at risk and pension funds may even become less safe as a result of EMIR.
- The current FTT proposal would apply to the transactions of all types of financial institutions, regardless of their role in the system and regardless of whether they contributed to the financial crisis. We believe that there should be a distinction between short-term speculators investors and long-term investors.
- The Shareholder Rights Directive should improve the attractiveness of EU capital markets by removing cross border obstacles for shareholders. However, it should not make it more difficult or costly for pension funds to invest in European companies by for instance introducing costly and unnecessary disclosure and other transparency requirements.
- In the upcoming CMU Action Plan, and in accordance with the Better Regulation approach, the European Commission should first evaluate existing legislation and ensure that it does not discourage long term investments by pension funds, before proposing new initiatives.

Stability in policy

- Pension funds need a stable long-term investment environment. Political risks discourage long-term investments in the real economy, for example in infrastructure projects.
- Together with Member States, the European Commission should consider measures to reduce political risks.

Without savings no investments

- PensionsEurope strongly supports the development of workplace pensions within Member States. This would contribute to the development of capital markets in Europe as pension funds channels savings into capital markets.

3. Broaden investment opportunities

What other measures could help increase investments by pension funds in the European real economy? PensionsEurope welcomes initiatives by the European Commission such as ELTIFs and the EU Investment Plan, however we wish to make some comments.

Transparency and standardisation

- Improving the transparency and availability of information would increase investment opportunities for pension funds. It would also lower the costs of investments.
- In particular, parts of real estate and infrastructure investment could benefit from standardisation.

Securitisation

- A new EU securitization framework should be internationally consistent.
- The standardization of definitions, of information disclosure and of performance metrics across the EU could have a positive impact on the development of EU securitization markets, help ease investors' analysis and increase the comparability of securitization instruments across the EU.

Infrastructure investment

- Treatment of infrastructure investments within regulatory and solvency frameworks should be appropriate. That is: no excessive risk premiums, fair risk-weighing vis-à-vis other categories and no daily pricing.
- Government decisions are often crucial for the development of infrastructure projects. Political and regulatory risk can be a major barrier to investing in infrastructure over the long term. Policy-makers at national and EU level should look to ensure a stable regulatory and fiscal framework.
- The best way to address the diversity of the sector is through tailored responses. In the UK the Pensions Infrastructure Platform is a good example of how knowledge and experience about infrastructure investments are shared.

ELTIFs

- Advantages of ELTIFs over other funds already available should be made clearer.
- The take-up of ELTIFs could be encouraged by a favourable treatment in prudential and tax regulation.

EU Investment Plan

- Pension funds need effective intermediate channels. The development of a project pipeline and of an advisory hub could be especially helpful.
- The EFSI should target projects where financing is not available from other sources under reasonable terms. This means that it should support private investment and not compete with it.
- With the EU Investment Plan and the CMU combined, the EU has the ability to provide to investors and policy-makers the opportunity to come together and develop and exchange ideas on how to better incentivise specific investments.

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace pensions. Some members operate purely individual pension schemes.

PensionsEurope has **24 member associations** in EU Member States and other European countries with significant – in size and relevance – workplace pension systems. In addition to this, PensionsEurope's members include corporate and supporter organisations such as leading European pension funds, asset managers, banks, custodians, investment advisers, insurers, lawyers and social partners.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope member organisations cover the workplace pensions of **about 62 million European citizens**. Through its Member Associations PensionsEurope represents approximately **€ 3.5 trillion of assets** managed for future pension payments.

PensionsEurope Members are large institutional investors representing the **buy-side** on the financial markets.

There are approximately **140,000 IORPs** in the EU. PensionsEurope represents **132,061** of those IORPs.

Workplace pensions offer:

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often "not-for-profit" and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

What PensionsEurope stands for:

- A regulatory environment encouraging workplace pension membership
- Ensure that more and more Europeans can benefit from an adequate income in retirement
- Policies which will enable sufficient contributions and good returns

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