PensionsEurope
Pension Funds Statistics and Trends 2018

www.pensionseurope.eu

1. Summary and key messages

- According to PensionsEurope Pension Funds Statistics 2018 **PensionsEurope Member Associations include pension funds** (only the 2nd pillar) **which represent around €4028 billion assets and 66.5 million Members and 29 million Beneficiaries (including pensioner Members and deferred Members)[1].**
- **If all private pension arrangements** (both the 2nd pillar and the 3rd pillar, including pension funds/IORPs, group insurance, book reserves, and personal pensions) **are included, they represent around €4660 billion assets**: (i) pension funds: €4028 billion assets and 66.5 million Members and 29 million Beneficiaries; (ii) book reserves: €379 billion assets and 12.7 million people; (iii) group insurance: €61 billion assets and 7.7 million people; and (iv) 3rd pillar personal pensions: €191 billion assets and 16.5 million people[2].
- **PensionsEurope Member Associations represent around 101 437 pension funds in 21 countries.**
- **The tightening monetary policy attracts more investments in bonds, and this applies for pension funds as well. However, many pension funds have indicated that they do not expect significant changes to their investments in sovereign bonds**, and in some countries these investments are even expected to continue to decline in spite of the increasing interest rates.
- Pension funds have increasingly moved their assets to equities or (from equities) to alternatives or they have invested more in both equities and alternatives. In some other countries, there has been an increasing interest in illiquid assets (such as private debt, private equity, and real estate). **Pension funds do not aim to make significant changes to the share of their investments in public equities in the upcoming years.**
- **Pension funds expect that the share of sustainable investments will continue increasing in the coming years. There are several reasons why pension funds take longer-term sustainability interests into account in their investments.** Pension funds e.g. find that it is important for the globe and the returns of their investments.
- **Completing the Capital Markets Union (CMU) is important to remove barriers for cross-border investments and boost pension funds' investments in Europe.** Besides removing barriers for cross-border investments in general, it is important that there are enough big infrastructure investment opportunities available across Europe that match pension funds' needs.
- **Pension funds' stabilizing and countercyclical investment behavior is expected to continue. The main risks to this behavior are the growing popularity of low-cost passive investments** (although the rebalancing/countercyclical behaviour could very well be continued) **and the gradual shift towards DC/hybrid schemes instead of DB schemes** (although many DC schemes pursue a lifecycle approach implying a countercyclical rebalancing strategy). Furthermore, legislative capital requirements or accounting rules may drive pension funds away from equities (including long-term sustainable investments) in favour of other investments (including sovereign bonds).

[1] The number of Members and Beneficiaries contain some double counting.
[2] The number of people contain some double counting from the 2nd and 3rd pillar.

- **Pension funds are exploring and preparing for various Brexit outcomes, and they would like to see Brexit negotiations concluded in an orderly manner that provides stability, in economic terms and impact on investment markets.**
- **The asset allocation of personal pensions differs somewhat from pension funds.** In 2017, particularly the former had remarkably more assets under management in cash, deposits, debt, fixed income, and money market assets. On the other hand, pension funds invested more in alternatives, real estate, and equities.

2. Introduction

PensionsEurope[3] was established in 1981, and since then it has significantly expanded and developed and currently represents 24 member associations in the EU Member States and other European countries. The number of Members and Beneficiaries and the assets under management that our Member Associations represent have greatly increased over the years, and they continued to grow also in 2017.

The purpose of PensionsEurope Pension Fund Statistics 2018 is explicitly to show what our Member Associations represent, not the whole landscape of workplace or supplementary pensions in certain Member States or in Europe. PensionsEurope's recent statistics are based on the quantitative and qualitative surveys that PensionsEurope conducted amongst its Member Associations in the autumn of 2018.

Besides publishing our own statistics, PensionsEurope has actively worked on pension data over the last years, for instance related to the new pension data reporting requirements by the ECB and EIOPA. Pension funds' first reporting of quarterly data on assets (for the third quarter of 2019) under these new requirements will take place in mid-December 2019. As they will significantly increase the burden and costs to pension funds, it is important that the requirements will be fitness checked in the upcoming years. However, this needs to be balanced with the need for stable reporting templates and a stable taxonomy[4].

[3] At the time "the European Federation for Retirement Provision" (EFRP).
[4] See PensionsEurope comments to the EC on the fitness check on supervisory reporting requirements for pension funds (December 2018).

3. Number of pension funds and their assets under management

Most of the assets under management of pension funds that PensionsEurope Member Associations represent are in the Netherlands and in the UK.

Table 1. Number of pension funds per country represented by PensionsEurope Member Associations and assets held by them (in 2017)

Country	Number of pension funds	Assets held by pension funds (billion EURO)
Netherlands	260	1360.15
United Kingdom	1300	1173.80
Switzerland	1650	749.06
Germany	171	184.80
Ireland	71340	147.60
Italy	252	111.81
Spain*	1576	76.47
Sweden*	62	36.72
Norway	84	34.80
Iceland	24	28,47
Austria	10	22,70
Belgium	197	32.00
Portugal	189	18.43
France	25489	15.90
Croatia	12	12.23
Romania	7	8.53
Bulgaria	18	5.97
Finland	47	4.33
Estonia	22	3.60
Luxembourg	13	1.55
Hungary	4	0.77
TOTAL	**101,437**	**4028.21**

** PensionsEurope has two Member Associations in Spain and in Sweden. Spanish INVERCO represents the assets of €35.80bn and 1290 pension plans, whereas Spanish CNEPS represents €40.67bn and 286 pension funds. In Sweden, SPFA represents assets of €20.00bn and 53 pension funds, whereas Tjänstepensionsförbundet €16.72bn and 9 pension funds.*

In the Netherlands the assets grew by 42% (from €956.87bn to €1360.15bn) between 2013-2017. In the UK the successful roll out of automatic enrolment has had a major impact on the DC landscape and significantly increased the total amount of pension funds' assets. In addition to the UK and the Netherlands, the assets grew significantly in most of the countries between 2013-2017, including the increase of[5]:

[5] Data is shown where available.

- 174% in Romania (from €3.11bn to €8.53bn)
- 103% in Estonia (from €1.77bn to €3.6bn)
- 90% in Bulgaria (from €3.14bn to €5.97bn)
- 87% in Iceland (from €15.2bn to €28.5bn)
- 85% in France (from €8.6bn to €15.9bn)
- 82% in Luxembourg (from €0.85bn to €1.55bn)
- 78% in Belgium (from €18.0bn to €32bn)
- 61% in Ireland (from €91.5bn to €147.6bn)
- 60% in Croatia (from €7.63bn to €12.23bn)
- 32% in Italy (from €85bn to €111.8bn)
- 31% in Norway (from €26.5bn to €34.8bn)
- 28% in Portugal (from €14.42bn to €18.43bn)
- 27% in Austria (from €17.9bn to €22.7bn)

Also, other pension statistics[6] show the growing pension assets and pension funds' good returns in Europe. According to the latest OECD Pensions Markets in Focus (2018 edition), the total assets of funded private pension arrangements as a percentage of GDP are particularly high in the following European countries: Denmark (208.4%), the Netherlands (184.2%), Iceland (164.5%), Switzerland (148.8%), the UK (105.3%), and Sweden (90.2%). Some see risks that pension funds have large assets in relation to their country's GDP, but we believe that it is a much smaller concern compared to the situation that in many countries the pension assets are low.

PensionsEurope welcomes further research on the quality of occupational and personal pensions and the outcome of pension savings. PensionsEurope has highlighted numerous specificities that the research should take into account in order to give a realistic picture of the quality and outcome of pension savings[7]. If these specificities are ignored, the research faces a serious risk of comparing apples and pears.

When it comes to the number of pension funds (see Table 1 above), PensionsEurope Member Associations represent around 101 437 pension funds (5,5% increase during the last two years) in 21 countries. Around 70% of these pension funds (71 340) are located in Ireland, as there is a large number of small pension funds in Ireland. Most of the Irish pension schemes have only 1 member and would not be required to be registered in some other countries.

On the other hand, pension funds in the Netherlands are particularly big. Around a decade ago there were more than 1000 pension funds operating in the Netherlands, whereas currently PensionsEurope Member Association Pensioenfederatie represents 260 pension funds. As a consequence of consolidation, the number of pension funds in the Netherlands is expected to decline further in the upcoming years.

[6] See for instance OECD Pension Markets in Focus, 2018 edition and EIOPA occupational pensions statistics.
[7] See PensionsEurope opinion on the research on the quality and outcome of pension savings – Comparing apples and pears.

According to the PensionsEurope's survey, in many countries (such as Spain) the number of DB pension schemes will decrease in the coming years, whereas the number of DC pension schemes will increase in some countries (such as, again, Spain and Portugal), whereas in some others (such as Italy, Austria, Hungary, Ireland, and Iceland) the number of DC arrangements is likely to decrease through consolidation. In Croatia, there will be several more closed-end voluntary DC pension schemes (IORPs), whereas the number of open-end voluntary pension funds is not expected to change.

In Portugal, the number of DC pension schemes is expected to rise moderately in the coming years due to the creation of DC schemes for new hires of companies that have a DB scheme that is closed for new members. In Germany, DC did not qualify as an occupational pension until 01 January 2018, when the law to strengthen occupational pensions changed that. It enables the social partners to set up DC schemes, subject to a number of conditions, and therefore, it is expected that over the next few years DC schemes will be set up to deliver the German social partner model.

Table 1 on page 4 and Table 2 on pages 6-7 illustrate the diversity of the European pensions' landscape. Pension systems in Europe are as diverse as the Member States themselves. That is also why the modernised rules for pension funds[8] should recognise that

I. the way in which IORPs are organised and regulated varies significantly between Member States – not least because their integration with the first pillar (state) pension provision varies
II. it is not appropriate to adopt a 'one-size-fits-all' prudential approach to IORPs, and
III. the European Commission and EIOPA should take account of the various traditions of Member States in their activities and should act without prejudice to national social and labour law in determining the organisation of IORPs[9].

4. Pension funds' coverage

PensionsEurope Member Associations include pension funds (only the 2nd pillar) that represent around 66,5 million Members and 29 million Beneficiaries (including pensioner members and deferred members)[10]. A large part of them are from the UK and the Netherlands, as most of the assets under management of pension funds are in those countries as well (see above). Otherwise, the total amount of assets does not directly reflect the total number of people covered in different countries. Particularly Romania, Bulgaria, Croatia and Estonia are comparatively higher in the ranking of pension funds' coverage than in the ranking of pension funds' assets under management, as the average income and pensions are also lower in these countries.

[8] Directive of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision (IORPs) (recast)
[9] See PensionsEurope brochure on the outcome of the IORP II Directive.
[10] The number of Members and Beneficiaries contain some double counting.

Table 2. Pension funds' coverage

Country	Number of Members	Number of Beneficiaries
United Kingdom	20,000,000	10,493,000
Netherlands	5,646,763	13,046,483
Germany	7,903,000	1,493,000
Romania	7,042,179	20,000
Switzerland	4,174,580	1,183,910
Spain*	4,583,652	97,551
Italy	4,034,220	116,282
Bulgaria	3,965,174	n/k
France	2,400,000	n/k
Croatia	1,844,272	n/k
Sweden*	1,112,062	187,637
Belgium	974,842	759,473
Austria	928,000	99,000
Ireland	434,711	750,000
Estonia	744,675	37,373
Norway	148,000	360,000
Iceland	264,902	126,222
Portugal	166,530	131,831
Finland	20,131	48,796
Luxembourg	16,466	n/k
TOTAL	**66,460,490**	**28,950,558**

** PensionsEurope has two Member Associations in Spain and in Sweden. Spanish INVERCO represents 2,023,652 members and 97,551 beneficiaries, whereas Spanish CNEPS represents 2,560,000 members (the number of beneficiaries is unknown). In Sweden, Tjänstepensionsförbundet represents 1,032,062 members and 187,637 beneficiaries and SPFA represents around 80,000 members (a number of beneficiaries is unknown).*

Between 2013-2017 pension funds' coverage increased in most of the countries, including the increase of:

- 56% in France (from 1,536,000 to 2,400,000)
- 43% in Belgium (from 1,212,033 to 1,734,315)
- 33% in Iceland (from 294,507 to 391,124)
- 33% in Norway (from 382,000 to 508,000)
- 32% in Switzerland (from 4,058,979 to 5,358,490)
- 22% in Austria (from 840,000 to 1,027,000)
- 21% in Italy (from 3,428616 to 4,150,502)
- 20% in Luxembourg (from 13,718 to 16,466)
- 17% in Romania (from 6,039,261 to 7,042,179)
- 10% in Bulgaria (from 3,592,082 to 3,965,174)
- 8% in Estonia (from 725,200 to 782,048)
- 8% in Croatia (from 1,702,218 to 1,844,272)

The reason for the remarkable increase of 56% in France is that the Perco pension scheme is a relatively recent product which is provided by a growing number of companies, especially small and medium sized enterprises. This trend is expected to continue.

In the UK, thanks to the successful roll out of automatic enrolment the coverage has increased by several millions of people. In December 2018, PensionsEurope Member Association, the PLSA, represented around 20 million members.

In Italy, a reform in 2015 boosted second-pillar take up thanks to a ‘soft’ automatic-enrolment measure. This consists on ‘contractual enrolment’, a form of automatic enrolment established by collective labour contracts. It is a relatively new phenomenon in Italy, whereby trade unions and employers’ association agree that workers automatically join industry-wide pension funds. Workers receive contributions by employers, but have no obligation to contribute themselves.

In 2018, the Irish government set out a high-level roadmap for pension reform which includes the introduction of automatic enrolment, aiming to bring hundreds of thousands of new people into defined contribution (DC) pension schemes for the first time. The Irish government aims to introduce automatic-enrolment in 2022.

PensionsEurope continues to work to increase workplace pension coverage in Europe. We call on the European Commission and the EU Member States to work harder in order to promote and strengthen occupational pensions in Europe. European citizens need more supplementary pensions to enjoy an adequate standard of living at retirement. Countries with a well-developed multi-pillar pensions system experience significantly lower levels of old-age poverty and social exclusion. A lot needs to be done at the national level, but the EU policymakers should also consider carefully recommendations of the High-Level Group of Experts on Pensions. That group was established to advise the European Commission on matters related to ways of improving the provision, safety through prudential rules, intergenerational balance, adequacy and sustainability of supplementary pensions.

We reiterate that the sustainability and adequacy of pension systems are very important, and we welcome that, for instance, the European Commission’s Annual Growth Survey 2019[11] calls on Member States to ensure the sustainability and adequacy of pension systems for all. Clearly this requires more supplementary pensions in Europe[12].

[11] See the page number 7 of the European Commission’s Annual Growth Survey 2019.
[12] See also the European Commission’s 2018 Ageing Report (May 2018).

5. Type of pension schemes

Across Europe, the majority of pension assets are still held in (largely legacy) Defined Benefit (DB) arrangements, while at the same time there is a growing trend towards the establishment of Defined Contribution (DC) pension plans for ongoing workplace pension provision[13]. Against this changing backdrop, PensionsEurope has engaged in a forward-looking consideration of developments in order to contribute to the evolution of pensions. In June 2017, PensionsEurope published a paper "Towards a New Design for Workplace Pensions"[14] and its aim is to provide a framework for modern pension solutions in order to achieve good pension outcomes for participants and beneficiaries linking the best of the DB and DC world. This paper recognizes that the majority of new pension design ideas use elements from the development of DC plans, whilst there is a lot that can be learned from current DB that can be incorporated in future proof pension design as well.

In June 2017, PensionsEurope also published a paper "Principles for Securing Good Outcomes for Members of Defined Contribution Pension Plans throughout Europe"[15] that is part of our contribution to the evolution of DC pension plans, and a follow on from our previous papers[16]. Millions of citizens across Europe already rely upon workplace DC pension plans to supplement the pension benefits that they receive from the state. This number is likely to continue to increase significantly in the coming decades, as employers look for a less risky alternative to defined benefit pension plans and governments across Europe consider ways to help close the gap that is emerging – for economic and demographic reasons - between state pension provision and citizens' income needs in retirement.

In light of the increasing reliance on workplace DC pension plans throughout Europe, it is essential that Members and Beneficiaries can have confidence that workplace pension plans operate in their interests, are robust, well run and offer value for money. As we explore in our recent paper, this should ensure that all Members will have good outcomes. As a natural follow on from our previous DC papers, PensionsEurope is working on a new paper on the decumulation phase and our aim is for this to be published in the summer of 2019.

Currently, in terms of assets, 89,2% of the pension schemes that PensionsEurope Member Associations represent are still DB and hybrid, and 10,8% are DC schemes.

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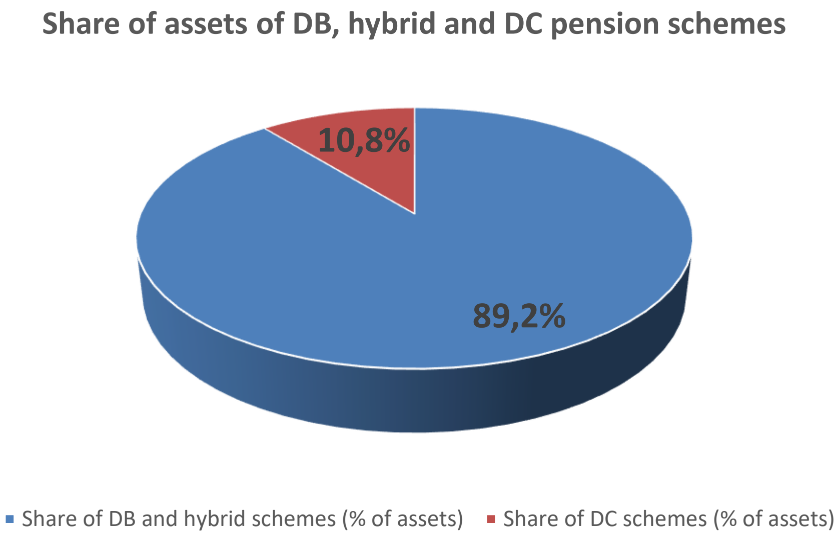
[13] It is worth of noting that in some cases there is not a common understanding of what constitutes DC/DB/hybrid across Member States.

[14] See PensionsEurope paper Towards a New Design for Workplace Pensions – Leveraging Defined Benefit Pension Design to Strengthen Workplace Pension Solutions for the Future in Europe.

[15] See PensionsEurope paper Principles for Securing Good Outcomes for Members of Defined Contribution Pension Plans throughout Europe.

[16] See PensionsEurope papers Pension Design Principles applied to modern Defined Contribution solutions and Key Principles of Good Governance for Workplace Defined Contribution Pension Plans throughout Europe.

Figure 1. The share of assets of DB, hybrid and DC pension schemes



PensionsEurope Member Associations represent almost purely DB schemes (including hybrid schemes) in Finland (100%) and in Norway (99,97% in capital, and some DC schemes in private sector pension funds have been established). However, almost all DB schemes in the Norwegian private sector have been closed for new members and employees below the age of 52 have been transferred to new DC schemes. Older employees still earn pension rights in DB schemes. Thanks to collective agreements, there are still many open DB schemes in the Norwegian public sector. These schemes will probably, within a few years, include hybrid schemes for the future accrual of pension rights.

DB schemes are also predominant in the Netherlands (93,7%), Sweden, and Germany. In the Netherlands new laws on DC schemes have been introduced and there is ongoing discussion about the current pension system. Currently in Germany there are only DB and hybrid schemes, but the social partners are discussing the introduction of the new DC schemes (social partner model). In order to introduce such DC schemes, the social partners are required to find an agreement. In Sweden new DC schemes have been negotiated and introduced in all sectors. New and younger employees are usually covered by new DC schemes, whereas older employees often remain covered by the DB scheme. In some cases, there are also long transition periods in the transfer from DB to DC. DB schemes will thus remain for the foreseeable future.

According to PensionsEurope's survey, in most of the countries, the number of members of DB schemes will continue to decline in the coming years, as most of the DB schemes have been closed for new members. In some countries (for instance in Iceland and Portugal), the number of beneficiaries of DB schemes will increase in the near future but, in the longer run, their number will also decrease.

In five countries (Bulgaria, Croatia, Estonia, France, and Romania) PensionsEurope Member Associations represent only DC schemes (In Bulgaria, DB schemes are not allowed by law). Their share is particularly high also in Italy (90%) and in Iceland (88%). According to PensionsEurope's survey, the number of members and beneficiaries of DC pension schemes will continue to increase in the upcoming years in many countries (for instance in Austria, Belgium, Bulgaria, Croatia, Estonia, Hungary, Iceland, Italy, Portugal, and Spain). In Ireland, the number of both members and beneficiaries of DC schemes is expected to grow due to planned introduction of automatic-enrolment in 2022.

In the UK, the Pensions and Lifetime Savings Association's (PensionsEurope Member Association) 2014 Annual Survey revealed that active membership of DC schemes outnumbered that of DB schemes for the first time. DB plans have traditionally been the dominant form of pension provision by the UK private sector employers, but this has changed, particularly over the past 15 years, with most private sector DB plans having been closed firstly to new members and more recently the future accrual of benefits. Increasing and unpredictable cost for employers (for example due to rising life expectancy, the prolonger low interest regime, variable investment returns, and growing regulatory burdens) have been the primary drivers of the decline in DB. The costs of DB provision in the UK are particularly inflexible because, unlike in some other countries, the law fully protects past benefits that have already accrued to members (it is not generally possible to reduce those benefits) and statutory minimum increases must also be provided on pensions in payment and in deferment.

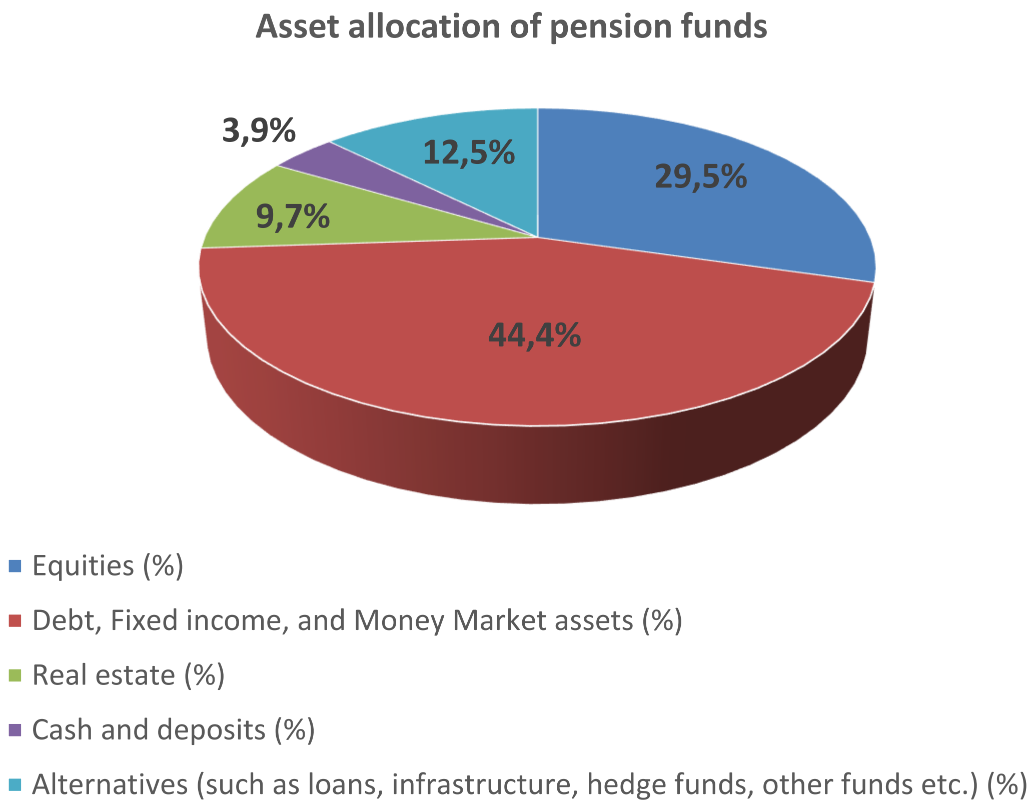
6. Asset allocation

Pension funds play an important role in the long-term financing of the EU's real economy and thereby contributing to jobs and growth in Europe. According to PensionsEurope's survey, in several countries pension funds invest a clear majority of their assets in the EEA and Switzerland. Pension funds are an important source of funding because they increase the amount of market-based financing available to the economy and improve the efficiency of financial intermediation. Countries with a substantial funded pension funds sector tend to have larger capital markets.

Many non-euro area investments can also have a positive impact on Europe indirectly, as many companies or part of their European business is financed via capital markets around the world. A growing, developing and stable economy attracts investments. If investment opportunities in Europe improve, the stake of the European investments by pension funds will increase accordingly. Implementing the European Commission's CMU action plan would be very helpful in this respect.

In 2017, around half of the assets under management (3,9%+44,4%=48,3%) of pension funds that PensionsEurope Member Associations represent were in cash, deposits, debt, fixed income, and money market assets. Their share has slightly decreased from the previous years (49% in 2016 and 51.9% in 2015).

Figure 2. Asset allocation of pension funds



Pension funds' investment strategy must balance risk, return and costs

Pension funds' investment strategy must balance risk, return and costs. Several drivers can spur a market shift in pension asset allocations, and they should not be considered independently, but rather as an ecosystem in which each driver influences the others. The main drivers of pension funds' asset allocation include asset and liability management, risk management, hedging against inflation, return on investments, hedging liability risks, and diversification. Pension funds invest in accordance with the 'prudent person' rule according to the IORP II Directive and/or in accordance with national regulatory investment requirements.

Pension funds' investment portfolios differ from many other institutional investors due to the long duration of liabilities, often an absence of early termination risks and different legislations. In general, pension funds invest more in private markets and international markets, whereas some other financial institutions invest more in fixed income.

Not only is asset class diversification crucial, but geographical diversification is also key to mitigate country or regional risks. This geographical diversification can lead to increased expected returns and better Sharpe ratio (risk-return). Traditionally pension funds have focused strongly on their domestic markets (equities and bonds). Nowadays pension funds invest more and more in international markets and in alternatives, even though the European pension funds are still very far from the allocation to alternatives which for instance the Australian and Canadian pension funds have in place. That said, in some countries (such as the Netherlands) this change has already taken place some decades ago.

The reasons for foreign exposure in investment strategies vary depending on risk tolerance and appetite, currency fluctuations, inflation, local market conditions, and diversification. In general, pension funds invest in international markets to reduce overall portfolio risks and to harvest different risk premiums. Furthermore, many countries have specific bias in their local stock market (e.g. financials or chemicals), and broadening the countries invested in also decreases sector and specific (company) risks. There are also other motivations for investing in international markets e.g. contain availability/access to attractive (price, quality, liquidity, transparency) foreign equity products and solutions. Not only the demand side matters, but also the supply side.

In countries with higher currency fluctuations, investments in local markets - including the exchange rate converted into the national currency/euro - are volatile. Hence, overseas investments are hedged against currency rate changes. Likewise, high inflation can motivate investments in assets abroad.

During the last decade, asset pooling has become more and more popular amongst pension funds in many countries (for instance in Belgium and Portugal), whereas in some other countries it is not (yet) allowed (for instance in Croatia). It can help pension funds to find more effective ways to manage their assets and to have lower investment fees. Particularly, multinationals search for better governance and oversight by pooling the assets of their various pension funds, but increasingly smaller (including domestic-only) funds do the same. In Germany asset pooling takes place in the area of occupational pensions across different vehicles within the same company, and multinationals also pool their pension assets across borders. The asset pooling between IORPs of different employers is very rare in Germany. However, most institutional investors invest in the German Spezialfonds which can be considered as asset pooling.

Slightly tightening monetary policy attracts more investments in bonds

The European Central Bank ended its net purchases under the asset purchase programme (APP) in December 2018. At the same time, the ECB intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The ECB expects the key ECB interest rates to remain at their present levels at least through the summer of 2019 (and in any case for as long as necessary).

Since 2017, the Bank of England has already increased its Official Bank Rate which is at the moment at 0.75%. However, so far, the Bank of England has continued its stock of corporate bond purchases and UK government bond purchases. In the USA, the Federal Reserve increased the federal funds rate, which is an indicator of the economy's health, to 2.5% in December 2018. This move marked the fourth increase in 2018 and the ninth since it began normalizing rates in December 2015. Furthermore, the Federal Reserve also signaled it would raise rates to 3% in 2019.

In general, the tightening monetary policy attracts more investments in bonds, and this applies for pension funds as well. However, many pension funds have indicated that they do not expect significant changes to their investments in sovereign bonds, and in some countries (such as Germany) these investments are even expected to continue to decline in spite of the increasing interest rates. In Croatia, pension funds are expected to continue to move their investments from the Croatian sovereign bonds to other asset classes (such as equities and alternatives).

In Iceland, the tightening monetary policy might lead to higher allocation to fixed income products (but with a shorter duration), whereas in Portugal (in DB schemes) a reduction of the exposure to fixed income securities and/or the duration of those securities is expected. In Estonia, pension funds aim to have higher allocation to real estate and non-listed fixed income. In Ireland, pension funds plan to invest more in sovereign bonds if interest rates rise, but also in alternative assets.

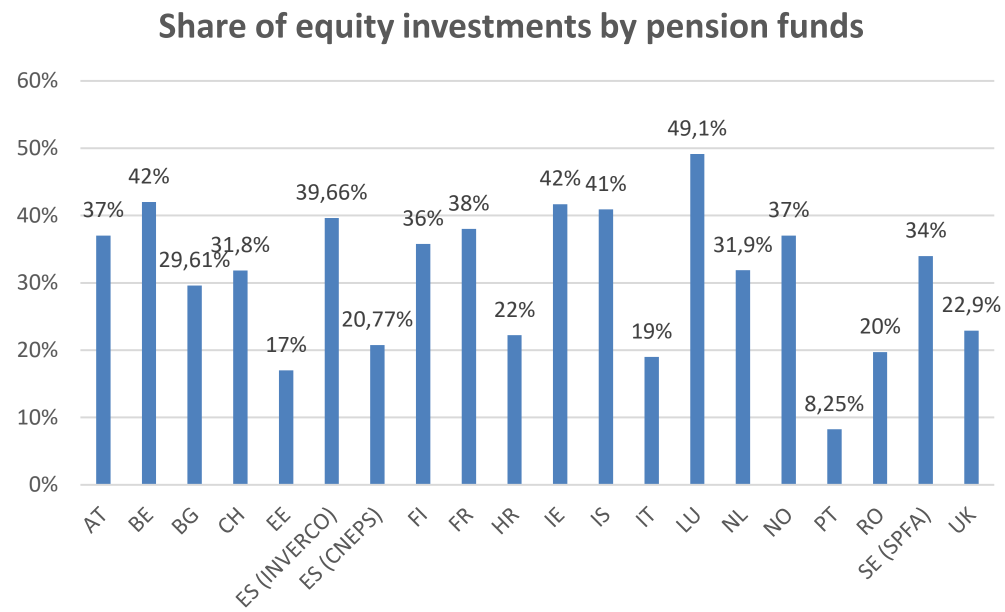
During the last years, a search for yield has been a necessity for pension funds (except Iceland where risk free rates are still above 5%, and assets have moved into that market rather than out of it). In other countries, the search for yield through the shift from traditional asset classes towards riskier investments has been necessary step for pension funds as this is in line with their primary objective to be able to provide for pensions (this is obvious for those who provide pensions with defined guarantees). Not searching for yield and remaining fastened to traditional investments, such as sovereign bonds, would have undoubtedly led to smaller pensions.

Pension funds have increasingly moved their assets to equities (for instance in Belgium and Romania) or (from equities) to alternatives (for instance in Ireland and Sweden) or they have invested more in both equities and alternatives (for instance in Portugal). In some other countries (such as Italy), there has been an increasing interest in illiquid assets (such as private debt, private equity, and real estate).

Pension funds do not aim to make significant changes to the share of their investments in public equities in the upcoming years

In general, the share of pension funds' investments in equities varies significantly from country to county in Europe. Depending on (i) the definition of a pension fund, (ii) from where the data originates, and (iii) whether statistics contain data from DB and/or DC schemes, various statistics show different figures. Furthermore, (iv) some statistics contain only pension funds' direct holdings of equities, whereas some others include also their indirect holdings via investment vehicles etc. According to PensionsEurope Pension Fund Statistics 2018, the share of equity investments by pension funds varies from 8,25% (Portugal) to 49,1% (Luxembourg).

Figure 3. The share of equity investments by pension funds in various countries



In many countries, the share of pension funds' investments in equities has increased in recent decades and the main drivers have been low interest rates, a search for yield, and risk diversification. On the other hand, currently many equities are at all-time high (and there has been some turmoil in stock market), and a notable exception to increasing equity investments has been UK defined benefit pension schemes, where equities fell from 52.6% in 2006 to 36.8% in 2016, as schemes are continuing to de-risk.

According to PensionsEurope's survey report on drivers of equity investments by pension funds (September 2018)[17], pension funds do not aim to make significant changes to the share of their investments in public equities in the upcoming years. Some pension funds aim to continue increasing equity shares in their portfolios, whereas some others do not expect to make significant changes. Even though the percentage is not expected to significantly increase (certainly it could for individual pension funds), the amount invested in equities is expected to increase in the upcoming years and decades. Pension funds' liabilities will continue to grow, and the assets will do so accordingly.

Instead, many pension funds are more interested or planning to increase their investments in private equities. The private equity market can provide long-term investments with higher yields in a low interest environment. This makes private equity a suitable candidate for more investments in the upcoming years. At the same time, in some countries (such as the Netherlands) there is discussion e.g. about the risks associated to these investments, and possibly this could lead to declining investments.

In general, the equity exposure depends on the development of pension funds' solvency position (funding ratio) and solvency requirements. In good times, there is more room for equity investments

[17] See PensionsEurope survey report on drivers of equity investments by pension funds (September 2018).

(also for instance from the perspective of the Dutch supervisory framework nFTK). Supervisors consider increasing equity investments as riskier investment strategy and they prompt higher solvency margins and/or require ex-ante approval to change the risk profile of the investment portfolio.

In the UK, as far as DB pension funds are concerned, the share of equity holdings has fallen markedly over the past ten years and it looks as though this trend will continue as UK funds look to an end point in 'journey planning' – often buy out. There is also a general trend towards de-risking as pension funds mature. In part, this is also driven by many sponsors wanting less volatility in the numbers reported on their balance sheet. Of course, there are exceptions to this rule with some sponsors being keen (perhaps keener than trustees[18]) to search for more return. On the other hand, DC funds will hold equities – probably in greater proportion than DB – through index tracking funds, lifestyle funds and Diversified Growth Funds. Few individual plan members are expected to actively 'self-select' funds with significant equity share.

Where DC schemes are important, and when they offer a choice of investments to their members, the proper design of default options can be key. For example, in France, thanks to a change in legislation, default options in DC schemes (PERCO and others) will progressively be life cycle funds (and no longer predominantly money market funds or capital guaranteed insurance contracts) and a positive impact on equity investing should follow suit.

The share of sustainable investments continues to increase

Global Sustainable Investment Alliance (GSIA) has estimated that sustainable investments now represent around 26% of assets managed globally[19]. However, some of the largest pension funds in Europe are already now investing all their assets in sustainable investments (See for instance IPE 2018 Asset Management guide). In Germany, according to the BaFin survey (2017), 73% of the assets of IORPs and insurers were invested sustainably.

PensionsEurope Member Associations and their pension funds expect that the share of sustainable investments will continue increasing in the coming years, and there are many reasons for that. In general, ESG (Environmental, Social and Governance) investments are becoming more are more mainstream, and there is an increasing awareness and interest in ESG consideration amongst pension funds and asset managers. Furthermore, national and EU legislations[20] are increasingly encouraging and/or requiring pension funds to consider ESG factors in their investments. In Belgium, pension funds have been required to communicate to what extend ESG factors are taken into account in their investments since 2004.

[18] In the UK the decision on investments is in the hands of the trustees although they are required to consult with the sponsoring employer.

[19] See 2016 Global Sustainable Investment Review.

[20] See PensionsEurope position paper on the Commission's Legislative Package on Sustainable Finance (November 2018).

In the UK, recent proposals for legislative change are likely to see (at least) more and better assessment of particular investments against a yardstick of sustainability. Whether this results in 'real' sustainable investment or merely greater analysis (and categorization) of what might be considered sustainable remains to be seen.

Pension funds have various views about the impact on returns of taking longer-term sustainability interests into account. Many pension funds find that usually it does not make a significant difference in returns. Some respondents to PensionsEurope's equity survey find that possibly it leads to lower returns in the short-term, and potentially such short-termism is exacerbated by triennial valuation cycles and short-term journey plan horizons. In general, capital market theory tells us that, if ESG reduces pension funds' investable universe, theoretically it also increases risk (ceteris paribus) because of a lower degree of diversification. Moreover, the reporting requirements and management of ESG financial products is higher than plain vanilla market based financial products.

On the other hand, some pension funds would agree with the following statement of the European Commission Action Plan on Financing Sustainable Growth[21]: *it is important to recognise that taking longer-term sustainability interests into account makes economic sense and does not necessarily lead to lower returns for investors.* There is an increasing awareness amongst pension funds that including ESG consideration into asset management may reduce risks and possibly it leads to improved risk-adjusted return in the long-term. Availability of data, insights and track records are quickly increasing. Some respondents find that possibly the highest returns are the non-financial gains associated with long-term sustainable investments, and that taking longer-term sustainability interests into account will impact the realization of returns (and their level) due to better active management decisions.

There are several reasons why pension funds take longer-term sustainability interests into account in their investments. Besides pension funds are encouraged (e.g. by many pension fund members) to take longer-term sustainability into account in their investments, many pension funds find that it is particularly important for the globe. Furthermore, several pension funds find that it is important for returns. The key objective of a pension fund is delivering good pension outcomes to members and beneficiaries, and this requires a long-term investment horizon.

The EU must continue to remove barriers for cross-border investments

Completing the Capital Markets Union (CMU) is important to remove barriers for cross-border investments and boost pension funds' investments in Europe. PensionsEurope has listed numerous actions that the EC and Member States should take and given policy recommendations on fostering long-term investments in infrastructure and real estate, on sustainable investments, and on the use of derivatives to hedge risks[22].

[21] See the European Commission Action Plan on Financing Sustainable Growth.

[22] See PensionsEurope answer to the European Commission's Capital Markets Union mid-term review.

Particularly, the obstacles with the withholding tax (WHT) procedures pose a major barrier to cross-border investments in the EU and to build the CMU[23]. In order to boost the economic growth in the EU, PensionsEurope calls on the EC and Member States to remove all the WHT barriers to cross-border investments. This means that the EU Member States (i) shall respect the case-law of the Court of Justice of the EU, (ii) commit to the EC's recent Code of Conduct on WHT[24] and to follow it, (iii) reciprocally and automatically recognize pension funds, and (iv) ensure simple, transparent, and inexpensive WHT refund processes. Furthermore and importantly, PensionsEurope has proposed to the EC to establish an EU tax register of recognised pension institutions in order that Member States can reciprocally and automatically recognise pension institutions[25].

Besides removing barriers for cross-border investments in general, it is important that there are enough big infrastructure investment opportunities available across Europe that match pension funds' needs. According to PensionsEurope's survey, pension funds in several countries (including Germany, Austria, and Croatia) find that this is not the case. Furthermore, in some countries the rules to invest in infrastructure can be too restrictive (for instance in Portugal direct investments in infrastructure are not allowed). On the other hand, some smaller pension funds (for instance in Belgium) find that several infrastructure projects are too big for them, as the minimum amount to invest in them is very high. In addition, smaller pension funds would lack resources to follow up on these projects.

PensionsEurope is against the establishment of taxes on financial transactions[26], since such taxes, in their various typologies, end up becoming taxes on savings or pensions, in addition to affecting the efficiency of markets and producing a relocation in the financing flows of the real economy, towards companies established in non-taxed jurisdictions. The Financial Transactions Tax (FTT) would increase the costs, lower the returns and reduce the efficiency of the investment strategies of pension funds which will ultimately lead to lower benefits for pensioners. Furthermore, it would significantly reduce hedging activities of Europe's pension funds and companies, impacting pension returns, and increase the cost of capital for FTT-zone issuers. FTT-zone member states would become less attractive and the movement of capital, particularly between the FTT-zone and the rest of the EU, would be impaired.

The FTT contradicts the EU strategy to create growth and foster investment in the EU, as it would severely affect pension funds in their roles as investors. The FTT would consequently have a negative effect on pension funds' ability to contribute to the CMU objectives. We firmly believe that the FTT would be detrimental to retirement savings and to the real economy. The EU wide FTT initiative should be withdrawn or otherwise at least pension funds should be exempt from its scope[27].

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[23] See PensionsEurope position paper on the withholding tax refund barriers to cross-border investment in the EU.

[24] See the EC Code of Conduct on WHT (November 2017).

[25] See PensionsEurope position paper on smoothing WHT procedures beyond Code of Conduct - EU tax register of recognised pension institutions (March 2018).

[26] See PensionsEurope answer to the Spanish consultation on the draft law on the Financial Transaction Tax in Spain (November 2018).

[27] See PensionsEurope press release FTT would be detrimental to pension savings (November 2018).

Pension funds' investment behaviour is stabilising and countercyclical

A long-term investment horizon allows pension funds to invest in asset classes that are not accessible to short-term investors, such as illiquid, private assets. In addition to higher expected returns and potentially lower risks, these investments make a significant contribution to the European economy.

In the 2015 stress test report EIOPA stated that pension funds' investment behaviour was on aggregate and on average counter-cyclical. Two years afterwards in 2017 EIOPA e.g. noted that many pension funds follow a buy-and-hold strategy, and consequently alleviate selling pressure during stressed market conditions.

The results of EIOPA's IORP stress tests, PensionsEurope surveys, and financial literature[28] confirm pension funds' countercyclical behaviour and their important role in stabilising financial markets. As long-term investors, pension funds are able to mitigate financial shocks and work as a stabilising factor for the financial sector. Pension funds' long-term horizon and their ability to follow contrary investment strategies support the proposition that pension funds can act as shock absorbers in the economy by providing liquidity and by not being forced to sell assets when asset prices are squeezed. The results confirm that the investment strategies of pension funds are very stable, including to a certain extent buy-and-hold-strategies. It is important that legislation continues to allow pension funds' countercyclical behaviour.

Pension funds do not employ significant leverage, as they are legally limited in their borrowings. The low level of leverage ensures that pension funds do not transmit significant financial stress to other counterparties. According to the original and recently recast IORP Directive, pension funds can use derivatives only to hedge risks and not to speculate. Hence, the potential build-up of leverage is limited.

It is important that adequate conclusions are drawn from the fair-market value of pension funds' assets, for instance when the values of equities drop in a financial crisis. This represents an excellent opportunity for long-term investors to buy, and therefore, pension funds should not be forced to sell when the value of their assets is at the lowest. Thanks to pension funds' countercyclical behaviour, they can contribute significantly to financial stability, as they did in the last financial crisis.

According to PensionsEurope's survey, pension funds' stabilizing and countercyclical investment behavior is expected to continue. The main risks to this behavior are the growing popularity of low-cost passive investments (although the rebalancing/countercyclical behaviour could very well be continued) and the gradual shift towards DC/hybrid schemes instead of DB schemes (although many DC schemes pursue a lifecycle approach implying a countercyclical rebalancing strategy). Furthermore, legislative capital adequacy requirements or accounting rules[29] may drive pension

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[28] Concerning Italy, see e.g: Marè, M., Motroni, A., Porcelli, F. *Investment Strategies of Italian Pension Funds: contrarian or momentum?* That Working Paper of Mefop n. 40 and study is based on a sample of 14 Italian occupational pension schemes and considers quarterly purchases and sales of equity, sovereign and corporate bonds in the period 2005-2012.

[29] See PensionsEurope comments on EFRAG Discussion Paper on accounting for pension plans with asset - return promise (January 2019).

funds away from equities (including long-term sustainable investments) in favour of other investments (including sovereign bonds).

Pension funds are exploring and preparing for various Brexit outcomes

Pension funds have been exploring and preparing for various Brexit outcomes. As the situation is rather unpredictable, the first scenario that many pension funds have explored has been a hard Brexit and the fact that British investment partners would lose the European passport for all activities with the Continent. The scrutiny includes mandates and/or funds managed by external managers. In general, few problems are foreseen regarding the continuation of service provision, but pension funds and their service providers are changing towards EU entities of banks and alternative transaction systems.

In the Netherlands, most attention has been given to the effect on derivatives and the impact on counterparties. It seems that the latter are looking into similar solutions. It is possible that repapering derivatives on the Continent could be an option but should certainly not lead to renegotiating existing contracts. The latter cannot vitiate, but it could lead to some juridical work. Brexit leads to uncertainty in politics, but also regarding clearing with parties such as LCH or Eurex.

So far, Brexit has led to a slight increase in investment risk in the British companies[30] and it has had impact on pension funds' currency risk management in many countries. However, in several countries, the currency risk has not been a major topic, as the currency exposure is limited by law which means that the majority of the assets is Euro denominated or there is a currency hedging to Euro. For instance, German IORPs follow the rules of the asset allocation circular which requires them to hold at least 80% of their assets in the currency of their liabilities.

In the UK, there appears to be a growing interest in managing FX risk specifically, particularly given the increasingly globalized nature of many UK pension scheme portfolios, but this does not yet seem to have resulted in a significant additional level of currency hedging. In Iceland, pension funds have decreased their exposure to British public and private equities, and they have less appetite for GBP denominated securities in general.

The final outcome of Brexit will have a significant impact on the pension sectors in the EU and in the UK. In this challenging and uncertain environment, it is of utmost importance that policymakers and supervisors do not cause any unnecessary burdens, costs or uncertainty for pension funds. Their consequences would be harmful also for the wider European public, as they would lead to decreasing investments by pension funds in the European real economy that creates jobs and growth.

PensionsEurope has e.g. stressed[31] that pension funds would like to see Brexit negotiations concluded in an orderly manner that provides stability, in economic terms and impact on investment markets. This is needed to allow pension schemes to invest in a manner that enables them to have

[30] It is worth of noting that many companies listed on the London Stock Exchange are not British companies.
[31] See PensionsEurope Position Paper on Brexit (March 2018).

confidence that they will be able to pay out the benefits to members of schemes. In order to do this, it is important that the negotiations are concluded with an agreement. Such an agreement would provide stability to the economy and investment markets. It would be good for the benefits of the employees, the employers who sponsor pension schemes and for the investments made by those schemes.

A no deal would have a negative impact on economic outlook which would then impact on investment markets and put the funding of schemes under pressure. It would also provide uncertainty for EU citizens working in the UK regarding their own pension rights and social security rights and UK citizens who work in other EU countries. Finally, if the UK leaves not only the EU but also the EEA, many IORPs would have to further adjust their asset allocations in order that they respect the investment rules.

7. Other private pension arrangements

In addition to IORPs and other pension funds, PensionsEurope Member Associations represent also other private pension arrangements: book reserves, group insurance, and the 3rd pillar personal pensions.

Book reserves covering €379 billion and 12.7 million people are represented in Germany, Spain (CNEPS), Sweden (Tjänstepensionsförbundet), and Italy. The book reserves are pension provisions that an employer realises on the company balance sheet to pay an occupational pension when an employee reaches the retirement age. In terms of liabilities, they are the most widely used type of occupational pension plans in Germany.

The German aba and the Portuguese APFIPP are the only Member Associations of PensionsEurope that represent group insurance. Since the aba is an occupational pensions association, it only represents group insurance if delivered as an occupational pension (direct insurance, Direktversicherung). Under a direct insurance scheme, an employer takes out a life insurance policy on behalf of an employee and pays contributions to the contract. The employee has a direct entitlement to the benefits accrued under the contract against the insurance company. Aba represents €61.3bn of assets and 7,738,000 people that are covered by the direct insurance, and APFIPP represents the group insurance for 20,897 people and €0.29bn assets under management.

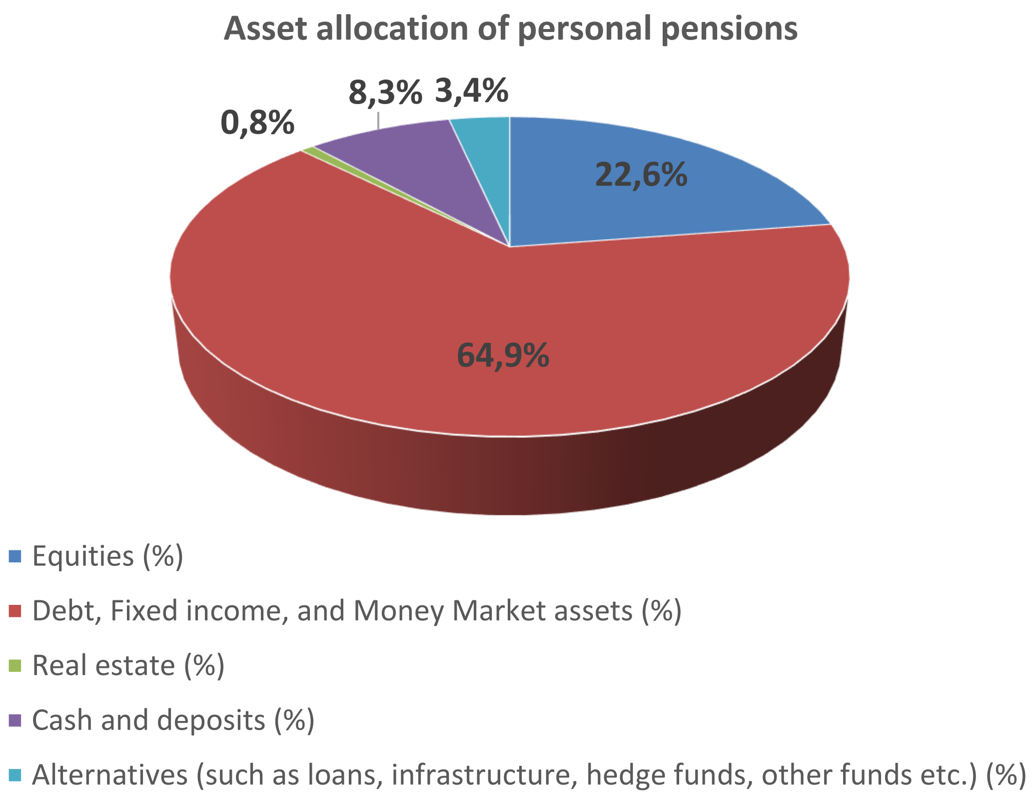
In 2018, third pillar personal pensions were represented by around half of PensionsEurope's Member Associations (11/23): Bulgaria, Croatia, Estonia, Hungary, Iceland, Italy, Portugal, Romania, Spain (both INVERCO and CNEPS), and Sweden (Tjänstepensionsförbundet). More than 60% of the total amount of assets under management (€115.61bn/€190.73bn) and 46% of people (7,633,830/16,508,735) are located in Spain. Italy covers the second largest proportion with 36% of the total amount of assets under management (€48,79bn/€190.73bn) and 26% of people (4,275,087/16,508,735). In both countries the assets of the third pillar personal pensions grew remarkably between 2013-2017: In Italy by 72% and in Spain (INVERCO) by 28%. Nevertheless, in

Spain, the growth in this period is mainly due to good performance, since net contributions only explain 20% of this rise.
In addition to Italy and Spain, the assets of third pillar personal pensions grew significantly in most of the countries between 2013-2017, including the increase of:

- 110% in Romania (from €0.18bn to €0.38bn)
- 90% in Estonia (from €0.105bn to €0.2bn)
- 87% in Iceland (from €1.64bn to €3.07bn)
- 79% in Croatia (from €0.29bn to €0.52bn)
- 57% in Bulgaria (from €0.35bn to €0.55bn)
- 46% in Hungary (from €2.99bn to €4.35bn)

The asset allocation of personal pensions differs somewhat from pension funds. In 2017, particularly the former had remarkably more assets under management in cash, deposits, debt, fixed income, and money market assets (personal pensions 64,9%+8,3%=73,2%, whereas pension funds 44,4%+3,9%=48,3%). On the other hand, pension funds invested significantly more (than personal pensions) in alternatives (12,5% vs 3,4%), real estate (9,7% vs 0,8%), but also equities (29,5% vs 22,6%).

Figure 4. Asset allocation of personal pensions



The assets of personal pensions are expected to continue to grow significantly in the upcoming years, also thanks to the attention that the EU is currently paying to private pensions in the context of the

CMU project, supporting the creation of a European legal framework for Pan-European Personal Pension Products (PEPPs). PensionsEurope welcomes[32] this initiative and believes that the European framework for voluntary personal pensions is needed by and particularly useful for those who do not have access to workplace pensions such as the self-employed and workers in new forms of employment, or where personal pensions offered at the national level are not reliable or attractive. Particularly, the PEPP could be useful for young European citizens who increasingly often will have a career in multiple Member States. However, it is important that the PEPP will not negatively affect existing and well-functioning pension systems and that it will be flexible enough to adapt to the different business models of its potential providers.

[32] See PensionsEurope Position paper on the pan-European Personal Pension Product (PEPP) (26 January 2018).

Annex: PensionsEurope Member Associations

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Belgium
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Bulgaria
Bulgarian Association of Supplementary Pension Security Companies
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Croatia
Udruga društava za upravljanje mirovinskim fondovima i mirovinskih osiguravajućih društava
Hektorovićeva ulica 2
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tel: +385 (0)1 644 82 12
www.umfo.hr

Estonia
MTÜ Eesti Fondihaldurite Liit
Luha 34
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Estonia
http://www.efhl.ee/et

Finland
The Finnish Pension Funds
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00100 Helsinki
Tel: +358 9 6877 4411
www.elakesaatioyhdistys.fi

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Association Française de la gestion financière – AFG
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75008 Paris
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www.afg.asso.fr

Germany
Arbeitsgemeinschaft für betriebliche Altersversorgung – aba
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10963 Berlin
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www.aba-online.de

Hungary
National Association of Voluntary Funds
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1051 Budapest
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www.penztar-szovetseg.hu

Iceland

The Icelandic Pension Funds Associaton
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Tel: +354 563 6450
https://www.lifeyrismal.is/

Ireland
Irish Association of Pension Funds – IAPF
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www.iapf.ie

Italy
Mefop - Società per lo sviluppo del Mercato dei Fondi Pensione
Via Aniene 14
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Tel: +351 21 799 4840
www.apfipp.pt

Romania
Romanian Pension Funds' Association – APAPR
c/o Sediul ING Pensii
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and

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and

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