PENSIONS EUROPE

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PensionsEurope answers to EIOPA consultation on the draft opinion on the supervision of long-term risk assessment by IORPs providing DC schemes

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Q1: Do you agree with the focus of the draft Opinion on the quantitative elements in operational risk management and long-term risk assessment from the perspective of members and beneficiaries? Please explain and provide any suggestions for further aspects of DC risk management that need attention.

No. We do agree that following the IORP II Directive, where members and beneficiaries bear risks, the risk management system shall also consider those risks from the perspective of members and beneficiaries. Effective risk management is essential for any IORP, and the protection of members and beneficiaries is very important for us and our members. It is critical that IORPs have appropriate systems and processes in place to identify, monitor and manage risks.

As also further explained in Q3 below, it is critical that the scope of application of the Opinion is consistent with the internationally recognised understanding of DC schemes, i.e. limited to schemes where members and beneficiaries bear *all* risks. All our answers regarding the focus and elements of the risk management for DC schemes are in consequence limited to those DC schemes and they should under no circumstances lead to a situation where some IORPs are considered both DB and DC and subsequently have to comply with both sets of regulation.

However, since many Member States have transposed the IORP II provisions only very recently, we believe it would be better to first research the different approaches and practices that have been adopted and only after a reasonable timeframe, consider whether it is appropriate to set new supervisory expectations. Although not binding, the fact that EIOPA is monitoring the national implementation of its opinions and guidance puts pressure on national supervisory authorities, thus risking setting new standards/benchmarks that might not be adequate for the national contexts.

We note that this opinion encourages CAs to take specific approaches and a preferred methodology on risk assessment, thus going beyond the minimum-harmonisation character of the IORP II. The minimum-harmonization-level framework for risk management of IORPs was deliberately calibrated in the IORP II by the EU legislator to provide a robust framework while allowing enough room for MSs and NCAs to adapt the provisions to the characteristics of the IORPs they supervise and to the national context in which they operate. The EU legislator considered that there is no need for uniform supervisory practices and approaches throughout the Union for IORPs, and calibrated the IORP II provisions to allow the flexibility needed by CAs to accommodate the heterogeneity of pension provision in their jurisdiction and the fact that pension policy remains primarily a competence of the MSs. Also, the EU legislator decided to not include any delegated acts in this Directive, as it considered that there is no need for full harmonization or uniform conditions for its implementation. The legal and supervisory framework in which IORPs operate is diverse, as it is set not only by the minimum-harmonization provisions of the IORP II Directive, but first and foremost by the different applicable national social, labour and tax laws.

All in all, we very much welcome the recognition of the heterogeneity in occupational DC schemes across Europe and of the differences in DC schemes described in par. 2.7, but we think it should be better reflected throughout the Opinion.

We would like to stress that there are fundamental differences between pure DC schemes where no risk is shared at all, usually coupled with choice for the individual, and collective systems with or without a mechanism to smooth the impact of capital market developments, often coupled with less choice for the individual. Collective systems often include security mechanisms, such as the involvement of the social partners, and should therefore be treated differently.

Q2: Do you agree that Annex 2 provides a balanced view of the costs and benefits of the draft Opinion? Please explain and provide any suggestions.

No. We believe the analysis could be improved. Although we appreciate that EIOPA has included a cost-benefit analysis, thus recognising the need to assess it, in our opinion, the information included in Annex 2 and the analysis of Annex 1 do not enter into enough details to allow the reader to understand the link between the evidence shown in the analysis and the need to fill the "gap" (see par 2.6) through the opinion itself. The analysis reaches the conclusion that "there is no assurance that risks borne by DC IORPs – most notably operational risks – and by members and beneficiaries in terms of future retirement income are appropriately managed and supervised[1]". In our view, this conclusion is not supported by enough analysis. EIOPA bases this on the considerations that:

a) *In few Member States, national regulation and/or supervisory guidance specifies how IORPs should conduct DC risk assessment […], also in relation to establishing their risk tolerance and designing and reviewing the investment strategy.*
b) *In few Member States, national regulation and/or supervisory guidance lays down specific quantitative risk measures for operational risk.*

We believe the cause-effect link between these considerations and the conclusion should be better explained.

a. The lack of further specifications on how IORPs should conduct risk assessment from the perspective of members and beneficiaries does not imply that members and beneficiaries are not protected. Investment strategies should (and do) consider risks (also) from the point of view of members and beneficiaries. Compliance with the prudent person rule requires an investment policy geared to the IORP's membership structure, and the IORP II Directive requires disclosing to members information on pension projections in the PBS.

   In 2.3. EIOPA concludes that few MSs conduct DC risk assessment in IORPs using projected retirement benefits and risk tolerance. Yet, EIOPA uses the argument of supervisory convergence to encourage the majority of MSs to introduce these practices. This runs against the minimum-harmonization character of the IORP II, neglecting the heterogeneity between different MSs and IORPs and increasing costs for IORPs. These costs will reduce the retirement income of the members and beneficiaries of DC schemes.

   We believe NCAs are best placed to know how members and beneficiaries' risk tolerance should be assessed and eventually how it should be considered in the IORPs' investment strategy. NCAs are best placed to know how to supervise their IORPs, eventually also according to such an assessment, taking into account the specificities of the IORPs, e.g. the level of risks the member's bear (e.g. with a level of guarantee, lump sum payment or annuity to buy at retirement age) and the level of influence members and beneficiaries have to avoid this risk in part or in whole (e.g. by making their own investment choice, by opting for a guarantee). The risk tolerance of members and beneficiaries can be difficult (and consequently costly) to be assessed (see further comments on risk tolerance in Q11).

[1] See par. 2.4 Annex 2

b. Having specific quantitative risk measures for operational risk does not ensure that risks borne by DC IORPs – most notably operational risks – and by members and beneficiaries in terms of future retirement income are appropriately managed and supervised.
   EIOPA should not ask NCAs to encourage DC IORPs to quantify operational risk exposures in terms of asset value losses, nor to require IORPs to use a stochastic or a deterministic model to calculate pension benefit projections, nor what kind of stochastic model they should use, nor to benchmark their model with a common one set as a standard at the EU level. Each NCAs should be able to decide what is more appropriate.

Also, the conclusion reached in par. 2.8 of Annex 2 seems not supported by enough evidence. We appreciate that EIOPA is confident that the potential benefits of the opinion will exceed the potential additional costs, but this is not supported by thoughtful cost-benefit analysis.
EIOPA mentions in par. 2.9 that a consistent supervisory approach will benefit DC members, in particular mobile workers, contributing to similar levels of protection and preventing regulatory arbitrage. We note that risk management, including from the perspective of the members and beneficiaries, is one of the cornerstones of IORP II, which is based on a minimum harmonisation.
Finally, we question the reference made in par. 2.9 to the importance of ensuring cross-sectoral consistency with the PEPP regulation. This is not an objective of the IORP II. Recital 20 of the PEPP regulation states that "a PEPP is an individual non-occupational pension product subscribed to voluntarily by a PEPP saver in view of retirement […]". This fundamentally differs from an occupational pension scheme where individuals are mandatorily affiliated in the context of an employment and as part of compensation benefits which are defined by social partners.

Q3: Do you agree with the scope of application of the Opinion, i.e. all IORPs providing schemes where members and beneficiaries bear material risks, or should the scope of the Opinion cover only IORPs providing schemes where members and beneficiaries bear all risks? Please explain and provide any alternatives that EIOPA should consider.

No, we do not agree with the scope of application of this draft opinion.

The opinion should adopt the current internationally recognised understanding of DC scheme, i.e. only applying to schemes where members and beneficiaries bear all risks.

Par. 3.1 correctly quotes the IORP II Directive and its implicit definition of DC as a system, where members bear investment risk. However, our understanding of the IORP II Directive is different: in our opinion, DC must be understood as a plan where members bear all risks. This comprises risks like longevity as well as investment risks. A plan is characterised as DB as soon as it includes guarantees – such as a minimum guarantee or rules around indexation in the pay-out phase.

Our understanding is also shared by the OECD and is consistent with IASB's international accounting standards, which apply it both in statistical work and when developing policy recommendations. The OECD takes the perspective of the employer and defines a DC pension plan as a plan under which the employer pays fixed contributions and has no obligation to pay further contributions. As soon as there is an element of guarantee, i.e. the employer might have to pay further contributions, a scheme is considered a hybrid DB plan (see Private Pensions: OECD Classification and Glossary - OECD)

In this Draft Opinion, this definition is turned upside down: a system is considered DC as soon as the members/beneficiaries bear (material) risk. As an example, it is stated that a scheme with a minimum guarantee would fall under that definition. We do not see any evidence in this opinion that explains the necessity of using such a broad definition and how the added value from the changed definition would outweigh the confusion this would bring. In any case, we do not think such an important issue as the definition of what constitutes DC and DB should be determined in an EIOPA Opinion.

Importantly, changing this definition should under no circumstances lead to a situation where some IORPs are considered both DB and DC and subsequently have to comply with both sets of regulation.

At any rate, there are further unclarities in this draft opinion: the suggested definition leads to a lot of conceptual and practical questions, e.g. how should “minimum” and “materiality” be defined in the sense of par. 3.2 and 3.3? What is a suitable definition of a “minimum” guarantee to qualify as DC? Are these absolute levels of guarantees, and if yes, how are they defined? Is this only meant in nominal terms or even adjusted for inflation/wage changes? Is there a “lower” bound for guarantees (nominal zero – or even lower than capital preservation)? How would these levels change in the context of changing capital markets/low yield environment? What are the criteria for judging materiality? Is this understood in absolute terms or proportions of guaranteed and potential parts of retirement income? Which amount of non-guaranteed income is permissible within DB? Do even high guarantees qualify for DC if only the level of the non-guaranteed part is high enough? These aspects are only some for illustration. This underpins that defining DC should not be changed but kept in line with the current understanding of the IORP II Directive in order to reduce uncertainty for IORPs as well as for CAs and to have a meaningful and stable regulatory differentiation between DC and DB.

Setting the points raised above aside and assuming this application would be applied, we would like to point out that this should not lead to the same regulatory requirements for all schemes. As art. 25 of the IORP II Directive states, the risk management should be tailored to the circumstances at hand: *The risk-management system shall cover, in a manner that is proportionate to the size and internal organisation of IORPs, as well as to the size, nature, scale and complexity of their activities, risks which can occur in IORPs or in undertakings to which tasks or activities of an IORP have been outsourced, at least in the following areas, where applicable […].*

This requirement implies that the national competent authorities must have leeway to determine what is needed for their system, and that IORPs need adequate flexibility to assess where they stand regarding e.g. their internal organisation, size and complexity.

As EIOPA rightly states in par. 2.7, occupational pension systems across the EU are heterogeneous. Where in doubt whether a plan should be considered DC or DB, the NCAs should apply the implicit definition of the IORP II Directive to their respective systems, bearing in mind all relevant national characteristics. This opinion should provide leeway for this by referring to the IORP II Directive, but leaving it to the NCAs to apply it. We welcome in this context that par. 2.8 states that competent authorities “may take into account that national specificities of the IORP sector to determine the requirements necessary for implementing this Opinion considering a risk-based and proportionate approach”.

Q4: Do you agree that the use of quantitative elements in operational risk assessment should be encouraged? Please explain how this could best be done in your view.

No. We agree that quantitative assessments can play a noticeable part in the overall risk-assessment processes, and that they can be useful for risk-based supervision. However, if a quantitative assessment using accurate data and relying on robust risk models can be viewed as objective in providing outcomes, it must also be borne in mind that quantitative analysis can be (and usually is) much more complex, costly, and subject to the limits of the specific model (and assumptions) used. It is critical that NCAs use quantitative assessment in a proportionate manner and on the basis of a proper cost benefit analysis that proves the added "real" value of its use, i.e., in terms of better and reliable pensions. As mentioned above, we do not believe the cost and benefit analysis provided in Annex 2 is detailed enough.

The IORP II requires IORPs to carry out an Own Risk Assessment that (also) includes a qualitative assessment of the operational risks[2]. The relevance and meaningfulness of supplementing the qualitative management with quantitative measures depend on the kind of DC scheme considered, which is influenced by the overall national context in which the IORP operates. This decision is and must remain one for NCAs in the context of their national systems.

The IORP II does not set or suggest a specific methodology to quantitatively measure operational risk, as the co-legislators considered this inappropriate given that there is not a one-size-fits-all approach able to capture the different kinds of DC arrangements across the EU. As reported by EIOPA, only three Member States already specify any quantitative measures for operational risk. Encouraging NCAs to require IORPs to quantify (operational) risks would therefore lead to significantly increased costs in most MS, which would ultimately be transferred to members and beneficiaries with questionable additional benefits.

Some supervisors might consider that:

- the pseudo-scientific precision of a quantitative assessment can be misleading and result in "missteering" (i.e. prompting inappropriate responses)
- a quantitative assessment will add to operational costs without (necessarily) resulting in cost savings (by reducing the operational risks) sufficient to offset those costs
- a quantitative assessment will reduce retirement outcomes because the additional costs will be charged ultimately to the members
- not all operational risks/costs are borne by the member – a quantitative approach should only be considered if all operational risk directly impacts a member's benefit – in all other situations this should be a decision of the IORP's board.
- their knowledge and experience allow the NCAs to base their supervision on a purely qualitative assessment

Finally, we would like to stress again that the scope of the Opinion should follow the internationally recognised definition of DC and that under no circumstances, schemes should fall under requirements for both DB and DC schemes.

[2] See article 28, paragraph 2(g).

Q5: Are in your view the Value at Risk (VaR) formulas presented in Annex 3 helpful for better understanding the possible quantitative impact of operational risk exposures of DC IORPs? Please explain and provide any suggestions or alternatives that EIOPA should consider.

No. We do not believe EIOPA should encourage the use of quantitative elements in operational risk assessment and, consequently, we do not believe EIOPA should suggest any specific methodology to understand it. We do not believe there is an objectively derived algebraic formula able to calculate operational risks in a fully appropriate and exhaustive manner.

EIOPA correctly notes in par. 3.8 of the draft Opinion that "Given this diversity of operational risks, there is no single algebraic formula or model which could capture overall operational risk." However, EIOPA adds that "Nevertheless, to get a better view of the possible quantitative impacts, CAs should encourage DC IORPs to estimate the possible impact of operational risk of at least the activities performed internally. This can be done by means of own custom-made operational risk estimates or by using the standard formulas included in EIOPA's common framework for risk assessment and transparency (see Annex 3)". We do not believe that EIOPA is correct in suggesting a Common Methodology (CM) or framework to assess risks, as a one-size-fits all approach will not capture the different characteristics of DC schemes across the EU. A Common Methodology must not become a standard and/or a benchmark against which IORPs would be required to assess their risks. PensionsEurope has often stressed that we see no benefit from EIOPA continuing to work on the Common Framework and we are completely against its application in any context. EIOPA must bear in mind that any model has its own limitations[3]. Even within a specific country, the circumstances of specific pension schemes can vary significantly, and therefore very different models might suit a particular pension scheme, its rules and its members – but not others. As also highlighted by the International Organization of Pensions Supervisors (IOPS), models – however good – are no substitute for the judgement of experienced supervisors[4].

All in all, in our opinion it is preferable that EIOPA does not enter into such details, as we think NCAs are best positioned to decide how to value the impact of operational risk exposures of DC schemes, taking into consideration the specific characteristics of the supervised entity and the environment in which they operate.

Finally, we note that the approach suggested in Annex 3 seems inspired by Solvency II. We highlight that the environment of an IORP is very different from the one of a life insurance company, in terms of scale and complexity of the activities, but also in terms of governance and organisation of the activities. Many IORPs are characterised by a triangular relationship between sponsor, members and beneficiaries and the IORP.. Often, small and medium-sized IORPs outsource all operational activities,

[3] See, for instance, the remarks made by several members of the Panel of Experts on PEPP on the stochastic model and the list of limitations reported at the EIOPA's workshop organised in January 2021

[4] See IOPS Toolkit for Risk-based pension supervision

which are evaluated on a regular basis. Third party providers mostly have an insurance to cover the operational risk, for which the premium is included in the pricing of the services.

Q6: Do you agree that the risk assessment from the perspective of members and beneficiaries should include a long-term assessment using projections of future retirement income? Please explain.

No. Generally, we do agree that the risk assessment should consider risks (also) from the point of view of members and beneficiaries. Compliance with the prudent person rule requires an investment policy geared to the membership structure of the individual IORP, and the IORP II Directive requires disclosing to members information on pension projections in the PBS.

However, in our opinion, whether projections of future retirement income should be part of the risk assessment has to be determined by NCAs and IORPs.
The design of DC plans (e.g. investment options, smoothing of investment outcomes, the introduction of guarantees, etc.) is very different between MSs, as it is shaped by the applicable national social and labour laws. In plans regulated by social bargaining agreements, when negotiating the plan design the sponsor and social partners decide on the plan specifications and might be looking at projections of future retirement income and the risk tolerance of the members. It is not the competence of the IORP to question and/or evaluate the outcome of the plan design determined by the sponsor and the social partners.
Therefore, this opinion should not set supervisory expectations that go beyond what required by IORP II. It would not be correct to suggest a Common Methodology (CM) or framework to assess risks, as a one-size-fits all approach will not capture the different characteristics of DC schemes across the EU. A Common Methodology must not become a standard and/or a benchmark against which IORPs would be required to assess their risks. PensionsEurope has often stressed that we see no benefit from EIOPA continuing to work on the Common Framework and we are completely against its application in any context. It is also not clear how the Common Methodology / Framework would be applied to a DC scheme.

EIOPA must bear in mind that any model has its own limitations[5]. Even within a specific country, the circumstances of specific pension schemes can vary significantly, and therefore very different models might suit a particular pension scheme, its rules and its members – but not others.

As also highlighted by the International Organization of Pensions Supervisors (IOPS), models – however good – are no substitute for the judgement of experienced supervisors[6]. In this light, we agree with the first insights shared by EIOPA that any quantitative measuring – if and when decided by NCAs- should supplement and not diminish the qualitative management of risks.

[5] See, for instance, the remarks made by several members of the Panel of Experts on PEPP on the stochastic model and the list of limitations Willis Towers Watson reported in the presentation at the workshop
[6] See IOPS Toolkit for Risk-based pension supervision

As for the risk tolerance of members and beneficiaries, we note that it can be difficult (and consequently costly) to assess[7]. Therefore, we do not believe EIOPA should encourage (explicitly or implicitly) NCAs to follow overly detailed principles on its assessment. IORPs and NCAs are best placed to consider how members and beneficiaries' risk tolerance should be assessed and eventually how it should be taken into account in the IORPs' investment strategy. See further comments on the assessment of risk tolerance in Q11.

Finally, we would like to stress again that the scope of the Opinion should follow the internationally recognised definition of DC and that under no circumstances, schemes should fall under requirements for both DB and DC schemes.

Q7: In your view, what are the potential benefits and limitations of using pension projections for long-term risk assessment in the context of DC-based pension schemes that are prevalent in the EU Member States or your Member State? Please explain and provide any alternative methods that should be considered.

In our opinion, it should be up to the NCAs and IORPs to determine if projections of future retirement income should be part of the risk assessment.

Depending on the MSs, the DC plan design (e.g. investment options, smoothing of investment outcomes, introduction of guarantees, etc.) is governed by the national social and labour law. When negotiating the plan design, the sponsor and social partners decide on the plan specifications and might be looking at projections of future retirement income and the risk tolerance of the members. It is not the competence of the IORP to question and/or evaluate the outcome of the plan design determined by the sponsor and the social partners.

How to judge the outcome of the projection of the future retirement income? This can only be done in combination of the 1st pillar pension and the 2nd pillar pension accrued with other employers. This information is not accessible to IORPs. Therefore, we believe it cannot be the IORP who makes this assessment.

During the plan design phase, it can be objective to reach a target retirement income, but the main characteristic of a DC scheme is that this target or ambition is only set in the design phase. Once the DC scheme is up and running there is no further link anymore with this initial target or ambition. Any link to the target or ambition would give it a DB character.

Q8: Could you provide information on the use in practice of pension projections for the purpose of risk management and/or the design of investment strategies (e.g. in Europe, your country or within your IORP)? If yes, please provide this information.

Yes. Pension projections are often used in the design of the pension plan and its investment strategy. Moreover, as prescribed by the IORP II Directive, they are used for projecting future retirement income as part of communication towards members and beneficiaries.

In the Netherlands, the URM scenarios provided by DNB ensure that benefit statements are comparable and can be added together in the national tracking system. These quantitative measures

[7] EIOPA's work on the PEPP mandatory personal advice proved how complex this can be.

are therefore very helpful for participants. Next to that, Dutch IORPs use ALM models (stochastic and/or deterministic).

Q9: Do the principles for conducting projections of future retirement income strike the right balance between setting sensible minimum standards and recognising the specificities of DC schemes in the various Member States? If not, please explain your suggestion

No. We think the draft Opinion could strike a better balance between setting sensible minimum standards and recognising the specificities of DC schemes in the various Member States by better reflecting the minimum harmonization character of the IORP II Directive and by improving the application of the proportionality principle. Also, EIOPA should not propose one single model or preferred methodology but should propose more general principles instead. Given the heterogeneity of DC pension plans, we do not believe a "one size fits all approach" could work. Depending on the Member States considered, the DC plan design including the investment options, smoothing of investment outcomes, introduction of guarantees, etc. is governed by the national social and labour laws.

In our view, it should remain up to the NCAs and IORPs to determine if projections of future retirement income should be part of the risk assessment and how these projections should be carried out.

Finally, we note that one additional issue to tackle is the different role of 1st pillar pensions in the replacement rates across Europe, as also recognised in EIOPA's DC stress test.

Q10: Do you agree with the content of the below principles, as put forward in paragraphs 3.14-3.28 of the draft Opinion:

- Stochastic scenarios of asset returns; NO

- Market-sensitive and realistic assumptions; YES

- Characteristics of members and beneficiaries; YES

- Pension scheme characteristics; YES

- Target variables and risk & performance indicators? NO

If not, please provide your suggestions to improve the principles.

As mentioned in the previous answer, we think the draft Opinion could strike a better balance between setting sensible minimum standards and recognising the specificities of DC schemes in the various Member States. Although par. 3.13 mentions the need of taking into account the specificities of DC schemes, the principles suggest a certain approach, model, or preferred methodology instead of setting more general principles.

- <u>Principle of stochastic scenarios of asset returns</u>: in principle, EIOPA requires to NCAs to base the projections on stochastic scenarios of asset returns. The exceptional option of using a deterministic approach is provided only if the NCA need to ensure a proportionate application of the opinion. In our opinion this does not strike the right balance, as NCAs should be able to decide whether to use stochastic or deterministic models. The IORPs landscape and their pension plans in Europe are far too diverse to set detailed rules. Deterministic models, if well designed, can lead to reliable projections and can be a valid way to calculate future pension income. Deterministic models are more comprehensible for members and beneficiaries and could therefore be chosen by the legislator as their preferred option. We recognize that stochastic models provide a fuller picture of potential risks, and they are used by some CAs. At the same time, we question whether more information is always useful and whether the additional costs are proportionate to the benefits. Therefore, in our view, EIOPAs' opinion should not encourage NCAs to limit the use of deterministic models with the presumption that stochastic modelling is preferable.

- Market-sensitive and realistic assumptions: although we generally support this principle, we have reservations on the further specifications suggested:
  - *Realistic risk premiums over risk-free rates*
  - *Refrain from assuming mean reversion in returns*

  We highlight that these specifications risk overestimating the real risk of life-cycle strategies over their long investment horizon and could mislead plan members.
  Financial economists have struggled to agree on what constitutes a risk-free rate. During EIOPA's work on the level-2 legislation on PEPP, EIOPA suggested using its Ultimate Forward Rate (UFR) as a proxy for the long-term risk-free rate and as a performance benchmark for the PEPP. We have strong reservations about the use of the UFR. The UFR concept is largely unknown to most and is used for Solvency II, not for pension products or occupational pension schemes. It is sufficient to point out that the UFR for the euro applicable in 2021 equals 3.6%. In today's ultra-low interest rate environment, it would therefore be misleading to suggest that members can or should expect to obtain this high level of return without taking any risk.
  Moreover, we believe that the risk-premium in Annex 4 for non-fixed income of 300 basis points is on the low side, particularly during times of low-interest rates.

- Target variables and risk & performance indicators: the IORP II does not foresee target variables and risk & performance indicators. Therefore, providing further guidance would bring a very limited added value.

Q11: The supervisory expectations recognise and allow different methods to establish the risk tolerance of DC members and beneficiaries. Do you agree or would you propose more specific guidance? Please explain and provide any suggestion.

Yes, agree to recognise and allow different methods.

Yes, we strongly agree and urge EIOPA to maintain a flexible approach in this area.

NCAs and IORPs are best placed to consider how members' and beneficiaries' risk tolerance should be assessed and eventually how it should be considered by the IORPs' investment strategy. Therefore, we appreciate EIOPA's supervisory expectations do not encourage NCAs to follow overly detailed principles or more specific guidance on the assessment of the risk tolerance of members. What is adequate depends on the specificities of the DC scheme considered.

Generally, there are arguments running against the requirement for IORPs to regularly survey their members and beneficiaries:

- Individual members might not be able to understand this issue to an extent that allows them to make the best decision. This might be due to a lack of information or a lack of financial education. To give an example, as for the maximum tolerable cut to an occupational pension, members need to know what their overall income in retirement is projected to be and compare that to the costs of the lifestyle they expect.

- Surveying some or even all members is very costly to the IORP – this makes occupational pensions more expensive and might be to the detriment of members and beneficiaries. In proportion, smaller IOPRs would suffer the most in case they will have to face additional administrative costs.
- For collective DC schemes, a collective risk tolerance would have to be determined. It is unlikely that the best way to achieve this is a survey of all individual members.
- We expect that the risk tolerance of participants does not change very strongly, except potentially during a financial crisis. It is questionable whether a strong but temporary change in risk appetite should influence strategic asset allocation. Although certain events (e.g. children, mortgage) might change the risk appetite of members and beneficiaries, changing the investment strategy accordingly might not be in their best interest.
- The social partners can take risk tolerance into account when designing DC pension plans. Hence, a DC risk assessment from a member´s point of view starts already with the design of the pension plan and is performed then.

Q12: Do you agree that the design and the periodical review of the investment strategy, or investment strategies in case of multiple investment options, should consider the long-term risk assessment using projections of future retirement income, taking into account their risk tolerance? Please explain and provide any suggestions.

No. We believe that it should be the responsibility of the NCAs and IORPs to determine whether projections of future retirement income should be part of the risk assessment.

Depending on the member state, the DC plan design including the investment options, smoothing of investment outcomes, introduction of guarantees, etc. is governed by the national social and labour law. When negotiating the plan design, the sponsor and social partners decide on the plan specifications and might be looking at projections of future retirement income and the risk tolerance of the members. It is not the competence of the IORP to question and/or evaluate the outcome of the plan design determined by the sponsor and the social partners.

Q13: What should in your view be the frequency of conducting the risk assessment using pension projections? Is at least every three years sufficient, unless there is a significant change in the risk profile, as provided by Article 28 (ORA) and Article 30 (SIPP) of the IORP II Directive. Or should DC IORPs conduct these projections more regularly, as suggested by Article 25 (Risk-management system). Please explain.

We believe the frequency should be considered by the NCA. We do not believe that NCAS should necessarily expect IORPs to measure risk tolerance every time as part of the ORA, i.e. once every three years. The heterogeneity in occupational DC schemes described in par. 2.7 should be better reflected throughout the opinion.

Q14: Do the expectations put forward in the draft Opinion achieve a proportionate approach to DC risk management, fitting small-, medium- and large-sized IORPs? If not, please provide your suggestions to improve proportionality of the draft Opinion.

No. A more proportionate approach would consist of focusing efforts on the assessment of the implementation of the provisions included in the IORP II Directive and in supporting and facilitating the exchange of good practices among NCAs. The supervisory expectations set by this opinion go beyond the requirements of the IORP II Directive. It would be preferable to first investigate further the different approaches and practices that have been adopted. A more in-depth analysis of the cost and benefits of this opinion is needed. This should also include a more thoughtful explanation of the added value that this opinion would bring to members and beneficiaries and of the costs of implementing any supervisory changes. It should be considered that too stringent and ill-conceived risk assessment would probably lead to less long-term investment for financing Europe’s post-pandemic social, climate and digital’s transitions. A strongly uniformised risk assessment could lead to herd behaviour, in particular in periods of stress, ultimately increasing systemic risk.

Q15: Do you have any other comments on the draft Opinion? If yes, please provide these other comments.

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes. PensionsEurope has **24 member associations** in 17 EU Member States and 4 other European countries[8].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents more than **€ 4 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **22 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

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

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

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.

Our members 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.

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[8] EU Member States: Austria, Belgium, Bulgaria, Croatia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden. Non-EU Member States: Iceland, Norway, Switzerland, UK.