CROSS-BORDER PENSIONS

Ask the industry:

What cross-border collaboration projects do you want to see in the pensions space in 2021?

"Enhanced asset stewardship and effective governance structures will be critical as pension funds and investors more generally align their portfolios with a strategy that manages the risks of transitioning to a low-carbon economy. As investors embrace sustainability, they inevitably look for a framework through which to approach it. We consider the UN Sustainable Development Goals (SDGs) a good framework to overlay investor portfolios and would like to see their broader advocacy by the pensions regulators across Europe as indeed by institutional asset owners more generally. If a portfolio does not meet the needs and long-term sustainability agenda of society, it likely has significant pockets of risk, ranging from shareholder activism to obsolescence. If an investor can categorise portfolio investments as meeting various sub-goals within the framework, these portfolios become more future-proofed. We therefore suggest this is a once-in-a-generation opportunity for the pension and investment industry to collaborate and move to this framework of SDGs."

TOM GERAGHTY Mercer Europe CEO

"In 2021 we will see new IORP vehicles that will offer smart DC and PEPP solutions. Mostly these are established in Ireland and Luxembourg. From there, several European countries (i.e. Netherlands, Germany, Spain) and third countries (i.e. UK, US, the Gulf-region) can offer a pension solution through these vehicles. For employees (2nd pillar) and self-employed (3rd pillar), an occupational PEPP will also see the light of day. Due to the severe low-interest environment, we will see the revival of the tontine. In this centuries-old mechanism, the participants share the risks in a closed or open-end pool. Nothing is 'insured' anymore in the classical way. These IORP/PEPP-tontines might tighten the enormous pension gap that Europe faces. We will also see quite some debate about the 'EU Transfer Union'."

HANS VAN MEERTEN
Westerbrink partner

"This year might be interesting for cross-border pensions: the transposition of the IORP II Directive should be completed in all the EU member states (many were late in this process), and so those stakeholders who were planning to set up new cross-border IORPs, but were waiting for that final transposition, will likely start activating their initiatives.

Of course, we are also aware that the new directive will not significantly ease the cross-border activities with respect to the previous IORP Directive.

2021 should also be the year of the launch of the first pan-European personal pension products (PEPP): I will be very excited to follow the evolution of these new cross-border pension tools and wish that they will gradually take off.

Finally, I would be glad that a new public discussion will take place in the European debate about the need of the creation of a new pan-European occupational pension vehicle (PEOP), which should represent the corresponding occupational version of the PEPP. CBBA-Europe is strongly promoting this initiative, considering that such a vehicle might really boost cross-border workplace pensions in Europe."

DR. FRANCESCO BRIGANTI
Cross Border Benefits Alliance-Europe secretary general

“My company, Previnet, acts in the EU cross-border space as pension scheme administrator in support of IORPs. We are therefore well aware that collaboration across countries (and different authorities) is challenging.

One area where there is plenty to explore is the missing guidance that IORPs face when they manage members who are moving from one country to another under the same pension plan.

In short, a good example is member accumulating DC pension accounts in country A and in country B under the same pension plan (but it can also be a different plan), and retiring in country B (or even in country C). How to treat his/her retirement benefit: under A or B regulation? How vital is it to put in place adequate administrative ‘ring-fencing’ so to keep accounts and information virtually segregated? Are double taxation agreements (DTAs) properly covering such situations? What is the pension national competent authorities (NCAs) opinion in this respect?

The matter is of course complex. But maybe the European Insurance and Occupational Pensions Authority (EIOPA), similarly to what it did with similar topics, could collect ideas from NCAs as well as from the industry, putting together some principles to be used as a guide in this challenging, but steadily growing, cross-border pensions market.”

MARTINO BRAICO
Previnet senior manager

“From the perspective of our multinational clients, a readily accessible pan-European pension vehicle remains an elusive dream. With the IORP Directive up for review by 2023 it’s possible that changes can be made that would really facilitate this – but it would take brave souls in the European institutions to achieve the radical change necessary.

It seems more likely that the institutions will seek to develop a standalone ‘pan-European’ regime, akin to that of the PEPP, for works-based DC plans. We hope, however, that they can resist the temptation to apply similar conditions – framed by the best of ‘consumer-protection’ intentions – to those that are stifling the development of the PEPP.

At a higher level, there is likely to be continued co-operation on pension tracking services and a willingness to learn from one another’s experience on automatic enrolment. Adequacy and sustainability remain core concerns.

We also hope a less febrile political backdrop will see close co-operation between the EU and the UK on financial services regulation continue. Beyond that, progress on climate-related risk management and disclosures looks more likely to be shared across borders globally than was the case even twelve months ago. Cooperation on such globally critical issues is long overdue.”

JACCO HEEMSKERK
Willis Towers Watson Netherlands head of investment

“Improving the transparency and consistency of the data and methodologies used for the integration of environmental, social, and governance (ESG) factors and risks in the investment decision-making of institutional investors requires cross-border collaboration.

Evidence shows that pension funds, pushed by a growing public demand and the need to account for future material risks, are increasingly in need of incorporating the long-term effects of their investments in their risk and return analysis. Unfortunately, many lack the appropriate tools to do so.

Accessing ESG data can be costly, and datasets are often inconsistent. Moreover, there is a lack of consensus on how to evaluate the impact of ESG risks and factors on investments. Several promising initiatives such as the EU Taxonomy are underway, but more should be done through cross-border collaboration to ensure institutional investors use reliable and comparable data as input to their models, and robust methodologies to select ESG investments. Such progress is important to avoid greenwashing and increase public trust in financial institutions.”

ELSA FAVRE-BARON
OECD policy analyst - Private Pensions, Consumer Finance, Insurance and Pensions Division, Directorate for Financial and Enterprise Affairs