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Simplification and opportunity – the case for Pan-European Pensions

An interview with Dr. Francesco Briganti, Secretary General of CBBA-Europe. Dr. Briganti is working with European governments and CBBA's diverse membership to establish a pan-European occupational pension scheme that would create an alternative, simpler option to saving and investing.

Ian Houri, 03 September 2020

AMX was founded in the belief that simplification, flexibility and consolidation can foster opportunity for pension plans, managers and investors. As we seek to expand investment access across borders, we are keenly interested in learning from others seeking similar outcomes with innovative solutions.

I recently had the pleasure of speaking with Dr. Francesco Briganti, Secretary General of CBBA-Europe. Dr. Briganti is working with European governments and CBBA's diverse membership to establish a pan-European occupational pension scheme that would create an alternative, simpler option to saving and investing.

The Cross Border Benefits Alliance – Europe (CBBA-Europe) is an advocacy organisation with a diverse membership comprised of multinational corporations, asset managers, pension funds, insurance companies, trade unions and consumer groups and more.

Dr. Briganti founded CBBA-Europe in 2017, recognizing the huge need and potential for a pan European solution to occupational pensions and the need to coordinate efforts across industries and jurisdictions.

Transportable, cross-border pensions have been discussed for some time but always seemed unachievable. Why?

Pension plans are heavily regulated by the country in which they are offered and have a tremendous amount of variability. Historically, attempts to create cross border plans faced jurisdictional or structural obstacles that could range from legal structures to rules around contributions and other national social and labour legislation, different approaches to taxation (whether upon contribution, on investment returns or at payout), varying appetites for risk, and so on.

Typically, a multinational corporation with employees in different European countries must set up individual plans for each location. Each plan and its assets must be managed, invested and monitored separately, preventing the ability to pool assets to achieve scale or better investment returns. Managing all these plans is a formidable task, requiring substantial human and financial resources.

Furthermore, an increasingly mobile workforce is unlikely to stay in the same firm, sector or even country for their entire career. They desire portability and flexibility, even as employers search for a simpler solution.

What is changing to allow pan-European pensions to become a reality?

Across Europe, there's a growing recognition that many workers cannot adequately save for retirement and traditional pension products may not be sufficient to meet the needs of today's workforce. Recent regulation by the European Union (EU) will allow the creation of Pan-European Personal Pension Products, or PEPPs. This innovation is widely supported by asset managers who can then offer workers broader access to portable pension solutions.

As a new fund structure regulated by the EU, PEPPs are expected to have options ranging from default to semi-guaranteed to guaranteed (allowing an investor to recoup all contributions). Other options would allow for growth and capital gains, with a correspondingly higher amount of risk. The investor could switch investments once every five years without incurring a penalty, providing flexibility while also minimizing the risk of frequent switching based on market swings.

PEPP in practice

An insurance company or asset manager setting up a PEPP would follow all EU regulated provisions and then ask the local supervisory authorities—say in Luxembourg and Germany—for permission for its fund to operate. Once granted, the PEPP becomes active in those countries and is registered at the European Authority of Supervision (EIOPA).

A worker invested in the Luxembourg PEPP moves to Germany. That worker can continue investing in their PEPP in Germany, just as they did in Luxembourg. But if that worker then moved to France, where the fund was not approved, the worker could continue to pay into the PEPP in their country of origin (Luxembourg) or their last country of residence (Germany). The benefits to the worker are clear: pension contributions continue despite a change of location and there's one pension to track.

The insurance company or asset manager also benefits; they have a simplified pension scheme to manage and a broader potential pool of assets to invest, creating efficiencies on one side and opportunities on the other.

Although simpler to implement than pan-European occupational pensions would be, PEPP regulation involved complex discussions about how distribution costs would be covered and whether fees would be capped. Not all initial ambitions were achieved and taxation remains an open issue: while the EC has made a non-binding recommendation that a PEPP should enjoy the same tax advantages that a local pension has, this is still under discussion as each jurisdiction has different rules.

You mentioned occupational pensions are even more complex. Can you elaborate?

Several years ago, large multinational corporations looked at pooling pension assets from different countries or whether a single pension could be available to workers in different countries. The complexities were astronomical. As mentioned earlier, every pension fund working across borders needs to comply with local and social labor laws in each country in which it operates.

Local pensions culture varied enormously in the past, with some countries having no workplace options whereas those such as Britain, Sweden and The Netherlands did. In some payout was only in annuities with no lump sum or vice versa, others offered better returns but higher risk while other countries were risk adverse. Countries which are younger in terms of a pension culture all have DC schemes, as well as Australia which has a more established culture of pension provision, whereas older cultures like Germany or Canada have a historical DB culture.

"…every pension fund working across borders needs to comply with local and social labor laws in each country in which it operates."

Dr. Francesco Briganti

In the 1990s, the first IORP Directive was discussed and, as countries are now facing similar challenges such as low interest rates and a move to DC schemes, cultural differences are declining. IORP II allows cross-border activities but because each country still has varying rules about contribution, payments, governance or investments' guarantees, whether contributions, returns and/or payments are taxed, IORP has to set up a local scheme under local regulations causing huge complexity. In my view cross-border activities as conceived by the current IORP directive do not work smoothly enough.

What is CBBA-Europe currently focusing on?

First of all, CBBA-Europe is monitoring that the new IORP 2 Directive will be implemented properly by the member states with particular regards to the articles on cross-border activities of pension funds. Indeed, the new IORP Directive aims at easing those activities and not to make them more difficult. Unfortunately, in some cases, we noticed that some member states are implementing the new Directive in a way that cross-border border activities will be more difficult than under the provisions of the previous IORP 1 Directive. Of course, such an approach is unacceptable for CBBA-Europe and for its members, which are often also IORPs already running cross-border activities.

Moreover, we have been following the last technical specifications produced by EIOPA on the PEPP, in particular the fee-cap, the information requirements and the risk-mitigation techniques

We are finalizing a study on creating a Pan-European DC Occupational Pension (PEOP) and will then socialise our findings with decision makers across the EU. Our goal is to address the same issues for occupational pensions that PEPP solves for personal pensions: to create cross-border or pan-European schemes acting with almost the same conditions across all the countries where a multinational firm has employees.

Ideally, we would create a defined contribution plan that could have different contribution amounts, varying by country and depending on wages, labour conditions, etc. If one or two products could be created with broad applicability, an employer could utilise this type of plan wherever they have employees and still offer a local plan for locations with a critical mass of staff.

Taking this one step further, a PEOP multi-employer/master trust-type plan could be created for small/medium-sized companies to provide them with better buying power and potential access to returns. This not only makes those companies more competitive but also supports the movement of workers across employers or countries while remaining under the same PEOP scheme.

PEOP: An example Today, an employer with 70% of staff in France and 30% in smaller pockets in five other European countries would be managing six pension plans.

With PEOP, the local French plan could remain, but a single PEOP plan could be set up for the other five countries. Any employee moving between those countries could stay invested in the same plan.

Six plans drop to two, dramatically simplifying plan management while providing more flexibility for employees.

What are you optimistic about, and where are you cautious?

I see a real window for change as we all struggle with the same challenges: declining interest rates, growing payment demands and the need to encourage participation by younger workers. Many historical challenges—workplace pension availability, different risk tolerances, varied plan types and payout options—have abated, clearing the way for new solutions.

There is work needed to define a consistent standard of worker representation (such as trade unions) in government bodies since participation rules vary by country. Education will critical to help local representatives understand how a broader pension scheme could work.

“The solution is co-existence – allowing pan-European occupational pensions to exist side-by-side with local pensions”

Dr. Francesco Briganti

In my opinion, the solution is co-existence – allowing pan-European occupational pensions to exist side-by-side with local pensions gives employers and workers choice while allowing local pensions to remain under local control. Pan-European pensions would not displace local pensions; instead, they could cooperate well with them and provide opportunities where local pension options don’t exist, or in those companies and sectors where cross-border mobility in Europe is very high.

I'd like to thank Dr. Briganti for his work and for sharing his expertise with us. Many of the themes discussed herein – consolidated plan management, investment flexibility across jurisdictions and simplified governance – are hallmarks of the AMX platform. What challenges are you facing in managing cross-border investing or multiple plans? Please do get in touch to discuss.

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