INTERVIEW

A European view

Talya Misiri speaks to PensionsEurope CEO Matti Leppälä about factors that make a successful workplace pension, the impact of a 'no deal' Brexit on European pensions and the European Commission's Action Plan on financing sustainable growth

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Having experience with schemes across Europe, what do you consider to be the key features of a good workplace pension?

The design of a workplace pension is very much connected with what is intended to be achieved within a given member state. The role of workplace pensions varies considerably across Europe, ranging from member states with a mandatory or quasi-mandatory second pillar workplace pensions system, to others where they hardly exist. But the main goals should not be that different: adequate pensions that are sustainable, sustainable for the companies that provide them and for the society. Good coverage is essential and funding becomes increasingly important.

Across Europe, the majority of pension assets are still under DB management, while at the same time there is a growing trend towards DC pension plans for new and even ongoing workplace pension provision. In my view, the line between DB and DC schemes is getting thinner.

Against this background, it is very difficult to determine the 'good features' of workplace pensions, but PensionsEurope has tried to provide a principle-based framework to achieve good pension outcomes for participants and beneficiaries, linking the best of the DB and DC world. Our members have identified four features of a good pension system – adequacy, sustainability, reliability and efficiency. For each of these features, PensionsEurope has identified specific design principles that lead to good pension outcomes, namely: good financial outcome for beneficiaries, length and level of contribution, level of risk sharing, long-term investment strategy, tax framework (for the adequacy); good supervisory framework, accounting rules, sponsor health, pension age/length of the working period, fiscal sustainability, size of the provider, level of risk sharing (for the sustainability); good governance, financial literacy, level of transparency, level of flexibility (for the reliability); level of compulsion, operational excellence, level of costs (for the efficiency).

With the introduction of GDPR fast-approaching, what advice can you give to pension schemes regarding this?

Pension funds across the EU are implementing the GDPR and it is one of the key compliance issues this year. Company pension funds may be able to rely on the resources of the sponsor, but it is important to put a good framework in place with a clear distribution of roles and responsibilities. It is also important to follow guidance from the national data protection authorities. Even though there is now a directly-applicable regulation, there are still some details to be filled in and national guidance may vary.

PensionsEurope has recently supported the European Commission's relief at source suggestion, whereby member states should automatically recognise pension funds. Other than recognition, what are the key benefits of this?

The key benefit of a relief at source is that it reduces operational impact for taxpayers and member states (including double refunds by mistake), but also prevents any unwarranted delays in receiving such refunds. Often there is no access to a relief at source mechanism and alternatively when a withholding tax reclaim needs to be filed pension funds need to go through operationally burdensome, costly and time-consuming procedures.

PensionsEurope has emphasised that a relief at source is clearly the best practice for pension funds, and the commission and member state should further work to make it possible. A pan-European tax register for recognised pension institutions could be an appropriate tool to make this work in practice. As an alternative to a tax register, it could be considered to develop a EU-relief at source system based on uniform self-certification forms, with a specific form for recognised pension institutions, which would be applicable in all member states.

We have proposed that in the EU, both mutual recognition and efficient tax relief could be achieved by the introduction of a tax register in which pension institutions can be entered. Once registered and accepted, a pension institution would qualify for tax relief within the EU, based on domestic tax law or a tax treaty. The register would provide upfront authorised certainty that a pension institution qualifies for tax relief, preferably at source or otherwise by means of a refund. This would make life much simpler.

PensionsEurope has suggested that a 'no deal' Brexit could cost pension schemes millions. Could you explain this further? Would this be the worst outcome for pensions in Europe?

The most important factor for pension funds is the impact of Brexit on the wider economy. It is important that both sides come together to negotiate an orderly exit, as this could hurt the current strength of the European economy and therefore put stress on funds' equity portfolios. It will be challenging to reach a deal that respects the red lines on both sides while avoiding any disruption to trading relations, but a smooth transition would help to mitigate the effects.

Next, Brexit will have an impact on the European financial services ecosystem, in which London is currently the most important hub. There should be legal certainty about existing contracts, for example for derivatives, the majority of which is cleared in the City. Many pension funds have relations with asset managers and banks in other EU member states that make use of the so-called passport. There would be costs involved in re-establishing these relationships and capital market fragmentation could increase the pricing of financial services in general.

PENDING PAN-EUROPEAN PERSONAL PENSIONS LEGISLATION (PEPP) HAS AN IMPORTANT PART IN RESHAPING EUROPE'S PENSION LANDSCAPE

Another challenge is that we will lose an important member state championing the relevance of pension funds as a means of saving for retirement. The UK was instrumental in avoiding Solvency II-style prudential requirements in the IORP II Directive.

PensionsEurope has supported the European Commission's Action Plan on financing sustainable growth. What key recommendations will improve the scope of sustainable investments and expand the amount of information available to institutional investors on ESG aspects of investments?

The taxonomy for sustainable assets will help pension funds better understand and measure their exposure to sustainable assets and establish a common ground to talk about sustainability with other market participants and stakeholders. We have seen some very large funds establish such a system of classification for internal use, but this will help schemes that do not have the capacity to do so.

The commission also wants to improve corporate disclosure in line with the recommendations of the Taskforce for Climate-related Financial Disclosure. Better data is absolutely key for investors that want to integrate ESG factors in their investment decisions.

In terms of pension fund investments, what are the key areas you have seen gain the most traction in 2018 to date? Which areas are most popular?

There is a lot of interest in ESG investments and asset managers are providing an increasingly large choice of strategies. This trend is likely to continue over the next few years, as societal expectations put the onus on pension funds to think about new types of risks, as well as the impact of their investments.

Overall, what is PensionsEurope hoping to achieve this year?

We are busy working on our own strategy revision and examining relevant developments. We prioritise the sustainable finance actions by the European Commission as there is a strong political momentum behind them and we need to secure good and sensible outcomes. Pending Pan-European Personal Pensions legislation (PEPP) has an important part in reshaping Europe's pension landscape and also the pension revision of the EU supervisory framework (ESA's) can have a big impact going forward. We need to secure that pensions are taken well into consideration. ■