PODCAST

How can a cross-border approach to pensions benefit multinationals?

We are living in a global business world, with companies operating in multiple nations. While their operations may be integrated, local and regional pension schemes often remain isolated from one another. This, however, is a challenge they can overcome, by taking advantage of cross-border pension and asset pooling solutions.

In this podcast, Irish Association of Pension Funds (IAPF) CEO, **Jerry Moriarty** and AMX Head of Client and Manager Development, **Aaron Overy**, discuss with European Pensions Editor, **Natalie Tuck**, how a cross-border approach to pensions can benefit multinational companies

Jerry, to begin with, as CEO of the IAPF I'm sure you hear from your members that work for multinational companies about the challenges of running multiple pension schemes in different countries. Could you give us an overview of the issues they face?

JM: Yes, there has always been a lot of multinationals based in Ireland and those with European operations tend to have their headquarters based in Ireland. That's becoming more prevalent as a result of Brexit, as a lot of companies are starting to move headquarters here.

In terms of issues, it is difficult because you are running a lot of pension schemes in different countries, with various rules and regulations. Multinationals also tend to have multiple pensions teams and it can be hard to control that. Often, the driver to pull things together comes from a desire for better governance. It can also give you the power to make better deals with investment managers, remove some of the overheads, some of the administrative costs and there are also some tax efficiencies to gain.

Those challenges are the reason why cross-border pensions, whether that be through cross-border IORPs or asset pooling, have a role to play within the management of multinational pension schemes. Aaron, do you want to explain the options available to companies?

AO: There are two options that we're talking about, one is pension pooling – or the use of cross-border IORPS – and the second is asset pooling, which is the use of a common investment fund for multiple schemes. The IORP is a European directive, the Institutions for Occupational Retirement Provision, first established in 2003, and recast in 2017 as IORP II.

The cross-border element allows pension schemes to come together into one pension scheme in one country and have sections. The IORP is in the home country and the members and schemes are in the host countries.

Common locations include Luxembourg (Association d'Epargne Pension - ASSEP), Belgium (Organisation for Financing Pensions - OFP), and the Netherlands (Premium Pension Institution - PPI). These can be defined benefit (DB) or defined contribution (DC) schemes.

On the asset pooling side, this is where you use a fund to invest alongside the multinational schemes. For example, a German pension fund would invest alongside the Dutch pension fund. Asset pooling is about gaining economies of scale. For multinationals, I think the options are a combination of both pension pooling and asset pooling. Not all schemes can move to a pan-European pension scheme and some will be very resistant, but everyone can benefit from asset pooling.

When it comes to operating across borders, what regulations need to be taken into account and what are the challenges that firms face to comply with these?

JM: IORP II has already been mentioned and prior to that IORP I set out the basis for cross-border pan-European pension schemes. I think there was some disappointment at the low take-up of cross-border pension schemes. IORP II was designed to try and improve that, although many would argue that it's actually made it more difficult. Cooperation between countries and the relationship between the home and host country can be difficult in terms of what regulators are looking for from an information perspective.

AO: As Jerry mentioned, harmonisation, which is something the IORP directive wants to achieve, is actually very difficult across member states. There is very much a tension between home and host and how countries see each other and the protection they want to afford to their members. For example, the Dutch restriction on their member schemes moving to Belgium OFPs is clearly a restriction on free movement. That is something that will be worked through but it is an ongoing debate. However, I think we'll see more cross-border IORPS in the future.

Can you tell us why tax is such an issue for multinational companies and why cross-border pension pooling and cross-border IORPs can create tax efficiencies?

AO: Multinationals have lots of tax to consider as global corporations. Of course, pension schemes run in different countries on different bases – most of them are run on an Exempt, Exempt, Tax (EET) basis. However, everywhere is slightly different; in Luxembourg pensions are run on a Tax, Tax, Exempt (TTE) basis. From a withholding tax perspective, for multinationals, their pension schemes, as taxed exempt investors, typically get a good outcome when they are paid equity dividends, in terms of withholding tax on those dividends. They can take advantage of double taxation agreements that have been negotiated over many years.

When you move schemes together into a cross-border IORP or into an asset pooling relationship, you need to consider what the impact of the withholding tax outcome is. It is certainly going to be considerable, of the order of 40 basis points, according to our recent study.*

However, companies can gain some benefits; for example, it may be that the Belgium OFP can provide a better outcome than a domestic pension scheme. In terms of asset pooling, we are great advocates of using tax transparent funds so that the fund doesn't act as a blocker. Typically this isn't something multinationals are looking at; carrying out a project like pension pooling or asset pooling can really peel back those layers and find out what's going on in these schemes.

From a tax perspective there are lots of benefits to gain, but I'm sure there are lots of other benefits, could you talk us through some of those?

AO: I would start with governance, particularly on the DB side of course. In terms of supply and management, multinationals have consolidated their procurement and HR processes, why not their pension processes? This would enable them to really understand how much they are paying asset managers, how much they are paying every actor in this environment, and start to ask how can they get some efficiencies and how can they drive down costs?

We can't ignore the global pandemic that we're currently living with and the impact it is having on financial markets. What impact has this had on pooled assets and how has this volatility been managed?

AO: There has been plenty of volatility this year. There was a severe test in money market funds and that came on the back of the European money market fund regulations being redrawn at the start of the year. This was in order to face any future crisis and we saw them come through. I think that is a great example of European rules preparing for the future. We've also seen the European Securities and Markets Authority (ESMA) bring out a consultation on delegation, to try to understand where work is being done, whetherthere is good substance and whether there is good oversight.

As a final note, we have the end of the Brexit transition period creeping up, what post-Brexit risks are associated with cross-border IORPs?

JM: I'm not sure there are risks per se but I do think it changes the nature. The vast majority of cross-border IORPS that exist are between Ireland and the UK. Clearly post-Brexit they cease to be cross-border schemes in the European context. I'm sure there will continue to be an agreement between Ireland and the UK in terms of how those are managed. I think investment managers, in terms of getting ready for Brexit, have done a lot of preparation. ■

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