OUTLOOK 2020

A changing landscape:
Europe's busy pensions agenda for 2020

This year already promises to be a busy one for European pension schemes and the wider industry

WRITTEN BY NICK REEVE, A FREELANCE JOURNALIST

Ireland's government has a backlog of legislation to get through, including the implementation of the European Union's IORP II Directive and its plans for auto-enrolment, which it intends to launch in just two years' time.

France is in the midst of its pension reform plans, with a draft bill approved by the country's Council of Ministers on 24 January 2020 amid widespread protests against raising the retirement age.

In Eastern Europe, Romania and Estonia are implementing wide-ranging reforms to their retirement savings systems, while Poland has just begun the second phase of its auto-enrolment regime.

Additionally, of course, the UK left the European Union on 31 January, with ongoing trade negotiations that potentially will have a profound impact on all industries.

European Pensions highlights four issues that will shape the pensions agenda in different countries, and how the experts think they will pan out.

The Netherlands: Inching towards fundamental change

The Netherlands is home to one of the most admired pension systems in the world. At home, however, it has been under serious pressure. Ultra-low interest rates have meant few schemes have been able to pay inflation-linked annual increases for years, despite strong investment performance.

For members, while the financial services sector has recovered from the global financial crisis, they have seen little if any improvement to their prospects. Instead, many of the country's biggest schemes have been edging closer to having to cut benefits.

Strict solvency rules require schemes to cut pension payments if their funding levels are below 100 per cent for five consecutive years. Many of the country's biggest schemes – including the €459 billion civil service fund ABP and the €225 billion healthcare fund PFZW – have struggled to hit full funding for some time.

Pension funds pleaded with the government to relax the rules temporarily while a new national pension system was negotiated. Social Affairs Minister, Wouter Koolmees, eventually relented, reducing the solvency limit from 104 per cent to 100 per cent in June, and to 90 per cent in November.

While schemes' short-term solvency has received a reprieve, their long-term structure remains under review. The government has set up a steering group to flesh out the detail of the new system as broadly agreed upon by unions, employers and politicians last year, which will see the current collective defined contribution (CDC) structure move to a system of individual accrual.

Chair of trade body, the Dutch Pensions Federation, Shaktie Rambaran Mishre, has called for the sector to embrace the challenge of a new pension system to improve its communications and standing with members.

"It is an opportunity that we can only make good use of once," Mishre says. "At least as important as the content of our message is that we radiate as much unity as possible across the sector [and] that we clearly state what the new contract means for the participant.

"The amount of the pension is no longer a certainty, but we can sketch different scenarios, can show how the pot is growing and what the impact of choices is."

This year could also be a pivotal one for self-employed Dutch workers. The lack of pension coverage for self-employed workers – known as zzp'ers – has been an issue in the Netherlands for many years.

However, a number of Dutch pension funds are also testing pilot programmes to bring self-employed workers into the retirement savings system, and Koolmees has indicated that he will support successful projects with new legislation.

Sweden: AP fund reforms spark controversy

Sweden's state pension system has been subject to significant changes in the past few years.

The main four 'buffer' funds for the income-based state pension, AP1, AP2, AP3 and AP4, are preparing for new investment rules taking effect on 1 May that will open up more illiquid asset classes. AP4 CEO, Niklas Ekvall, explains, the new rules will mean the AP funds can allocate to a broader range of structures to access illiquid investments.

"We have more flexibility to co-invest with other institutions," he says. "We can set up 'risk capital companies' to work with other long-term investors. It is a big improvement from before."

However, the CEO adds that the new structures could also prove "cumbersome". Each AP fund can own up to a maximum of 35 per cent of a co-investment company and cannot be the majority shareholder.

The four funds – which manage nearly SEK1.5 trillion (€141 billion) between them – will also have greater flexibility to invest in unlisted assets such as private debt directly. Prior to this, the funds could only access this asset class through pooled fund structures.

Germany: DC on the horizon

While across many European countries DC has become the vehicle of choice for retirement savings, increasingly replacing expensive defined benefit (DB) schemes, in Germany so-called 'non-guaranteed' pensions have yet to take hold.

In 2018 the government rolled out the Occupational Pensions Act, known as the BRSG. For the first time, it set out a legal framework for DC pensions. However, discussions between unions and employers through the country's social partner model have taken longer than some expected to reach a conclusion.

In October, insurance company Talanx and trade union Ver.Di reached an agreement to roll out a new pension scheme from 1 January 2020 for its 12,000 employees.

Talanx board member, Fabian von Löbbecke, said at the time: "Roughly two years after [BRSG] came into effect, we have found an important partner in Ver.Di, with whom we have now established the foundation for making the new retirement provision model available to our employees."

However, while negotiations into the precise nature of the DC-like model are ongoing, Willis Towers Watson director of retirement in Germany, Michael Karst, says this is unlikely to lead to a broader trend.

Karst adds that the preference for most unions and employers is for the 'Beitragszusage mit Mindestleistung' structure, in which employers guarantee to pay a pension at least in line with the employee's contributions.

EU: Sustainable finance taxonomy to the fore

The EU's work on sustainable finance will start to make an impact on investors in 2020.

The EU's technical expert group (TEG) on sustainable finance is gearing up to issue its final set of reports into the planned 'taxonomy', a set of definitions and methods for assessing the sustainability and environmental impacts of different industries. The EU aims to publish regulations based on this work by the end of the third quarter of 2020, according to Climate Bonds Initiative CEO, Sean Kidney, a member of the TEG. For those seeking guidance on green investments, the TEG has already published a 70-page user guide for the taxonomy. Kidney says investors should familiarise themselves with it and with the revised version when it arrives in March.

However, Kidney emphasises that the taxonomy will be a "dynamic beast" as more feedback is received from those implementing it. "We're going to have to keep going with that work and engage with the member state labelling schemes, and so on," he says. "There are several areas like that where there's a bit of ongoing work, which is essentially fleshing out some of the technical details."

The TEG will also be conducting workshops with industry bodies and other stakeholders as part of a wider education process. These are just a few examples of the work going on to transform and improve outcomes for pension savers across Europe. It is clear that 2020 is going to be a landmark year for the retirement industry.