OVERVIEW

Pensions in 2019

With new legislations, investment themes and opportunities, Sunniva Kolostyak **takes a look at what 2019 will bring for the pensions industry in Europe**

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The New Year 2019 kicked off immediately with the implementation of a new pensions directive for members of the European Union, and the industry looks to leave the bad taste and terrible returns of 2018 in the past. But what elements and events will define the coming year?

Defined benefit

PwC UK director Tim Reay says that for defined benefit activities, it is business as usual this year. "It's really a continuation of what we've seen before, so de-risking and exit strategy. But a number of companies still don't have a clear plan on the most efficient and effective way to be de-risking. So that is something we recommend companies to be sure they look at."

Eversheds Sutherland partner and head of pensions group François Barker thinks managing legacy DB will continue to be an issue for traditional DB nations such as the UK, Ireland, Netherlands, Germany, Spain and Belgium, particularly getting the funds off the corporate balance sheet.

"We've seen a lot of transfers in 2018 from schemes' insurance companies to get those pension funds off the corporate balance sheet and I think that will carry on in 2019," Barker notes.

Defined contribution

The growth of defined contribution around Europe has drawn attention lately because companies are seeing their assets grow more and increasingly employees are part of DC plans.

"They are starting to realise that actually, defined contribution is becoming much more important than they thought it was. Compliance and control are becoming key issues, compliance reviews and making sure that they are in control of the DC plans," Reay says.

Barker agrees and comments that the DC environment has a number of things going on because it is "the new normal".

"DC will carry on going up the

agenda as a general theme and there are specific countries that are going to be particularly impacted," Barker explains. "Germany has allowed pure DC for a couple of years now, and I think you'll see that taking more shape. In France they are implementing a new national pension scheme which again will be DC. So DC will not go anywhere."

Automatic enrolment

Automatic enrolment, the mission to enrol workers into occupational pension schemes, is a big theme in Ireland, among other countries.

The government's strawman on automatic enrolment closed in October and is currently being reviewed. Irish Association of Pension Funds (IAPF) CEO Jerry Moriarty expects the contents and responses to become available during the first quarter of 2019.

What the IAPF would like to see is a clear plan on how to go ahead with a 2022 implementation. "At this stage, is it's long overdue and we just need to make sure it happens."

Moriarty says: "The minister did say in an interview that it had been ripped to shreds in the consultation. That's not my understanding from anybody that I have spoken to of people actually looking at the responses, so we are just waiting to see what the next phase is, in terms of whether they publish a kind of overview of what may change what may not change."

In addition, Barker mentions that the Irish auto-enrolment plans would use DC vehicles. Poland is also currently developing new employee capital plans, third-pillar pension savings plans, which are coming into force this year, applying to the biggest employers. "So that's effectively automatic enrolment into a DC plan by another name."

PEPP

The Pan-European Pension Product (PEPP), a third-pillar, supplementary product for savers across member states, has been highly anticipated, but also significantly slowed down by stakeholders. But, as another DC savings vehicle, Barker believes 2019 might be the year for it, as the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are determined to have a product ready this year.

EIOPA has fought for the product for several years and says it is now confident that the co-legislators will decide on the implementation. An EIOPA spokesperson explains that the product is a solution that will address the need for smart portability. It will adapt to changing labour markets and offer an opportunity for mobile workers to be able to pay into the same product when moving within the EU in a "simple, safe, transparent and cost-effective long-term retirement product".

"PEPP ensures a level playing field for all relevant providers, encouraging competition and increasing consumer choice," the spokesperson says. "However, PEPP will only be successful if it is trusted."

Aiming to ensure consisting high standards and creating a quality label, the authority plans on creating a central contact point for accessing EU-widely comparable information on PEPP. "(This) is crucial for its success."

Reporting requirements

The new reporting requirements from EIOPA and the European Central Bank (ECB) are coming into effect in 2019.

The first reporting happens in the third quarter of 2019 for quarterly reporting and as of end-2019 for annual reporting, and a lot needs to be done in terms of getting systems and processes that schemes are not currently using in place, Moriarty comments.

The single framework requests information for national authorities regarding the provision of occupational pension information to assess the pensions sector, with a particular focus on effects to financial stability.

Furthermore, the 2019 Occupational Pensions Stress Test will be launched in Q2. The objective of these stress tests is to assess the resilience

2019 MIGHT BE THE YEAR FOR PEPP

of financial institutions to "adverse market developments using a consistent methodology across jurisdictions", the EIOPA spokesperson explains.

The Pension Benefit Statement will also be implemented this year, EIOPA says. The main goal is to provide information such as on the current situation of the pension scheme member regarding the accrual of pension benefits, projecting future retirement benefits, enabling retirement planning and helping the member to take informed decisions.

IORP II

EIOPA says the implementation strengthens the regulatory framework in three ways – firstly through using the internal market and setting up cross-border IORPs, thereby bringing economies of scales, while streamlining and efficiency brings down administration costs.

It also improves governance, risk management, promotes sustainable investments and implements mandatory disclosure of how ESG considerations impact investment strategies.

"There are a whole range of provisions in IORP II that specifically require funds to have regards to ESG when they are investing and managing their risks, when they are conducting their activities," Barker says.

"So if it weren't already an issue across Europe for pension funds, it's going to get another

THE 2019 OCCUPATIONAL PENSIONS STRESS TEST WILL BE LAUNCHED IN Q2

push from IORP II."

Moriarty says this brings a range of challenges. "New functions that pension schemes have to put in place, changes to the way benefits statements are produced, benefits statements now having to be provided to third members, there are a lot of practical challenges there."

Finally, EIOPA says transparency is key. "This means that IORPs have to provide comparable and relevant information to prospective, current and future members and beneficiaries, but also submit relevant data to supervisors and regulators."

The implementation of the directive has however not happened in all states yet, Barker says.

"We've seen a real difference in the way it's been approached. The Netherlands have done it properly, Ireland is thinking about it and the UK is some way behind. I guess you can understand the UK, they're trying to work out whether they're in the club long term and so they're probably soft-pedalling a bit."

Moriarty and the IAPF have found the Irish government's approach to implementation unsatisfactory. "We still haven't had any legislation or regulation transposing it into Irish law, which is a bit of a disappointment, and it kind of leaves trustees in the dark about what they are meant to be doing."

Barker says: "The other thing I think we will see on the back of the IORP II Directive is more cross-border activity and that could mean you end up with some pension funds moving from one country to another to achieve economies of scale."

ESG investments

ESG will continue being a big trend for 2019, Barker explains. He says the need for pension funds and institutions to invest in a responsible, long-term and sustainable way is going to continue to be a vital issue for the industry.

Reay says a lot more investors are and should focus on sustainability. "Investment managers with strong ESG credentials will likely be highly favoured. Have a look at climate change risks, what the impacts of climate change may have on investments. And look at generally governance and focus on clear policies."

EIOPA is also launching a Sustainable Finance Agenda, which is dependent on the capacity of market participants, such as insurers and pension funds, and their involvement. This will be covered by the IORP II Directive and the stress test. ■