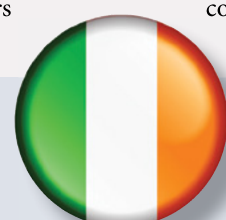
2024 PREVIEW

Flying steady through turbulence

Following a year plagued by economic uncertainty and geopolitical unrest, European pension sectors will be hoping for a less turbulent 2024. Jack Gray **takes a look at the major developments expected in the pensions landscape this year**

WRITTEN BY **JACK GRAY**

With the short-term economic shockwaves of the Covid-19 pandemic and geopolitical tensions, the European pensions industry is continuing to look to the long term. Managing this turbulence is not an easy task, but pension sectors across the continent are aiming to fly steady through the uncertainty to continue improving pension systems' sustainability and member outcomes. We look at the key developments in more detail on a country-by-country basis.



Ireland

This year promises to be a busy one in the Irish pensions space, with the effects of implementing the IORP II Directive being felt with further consolidation, as well as the introduction of legislation for the country's auto-enrolment system being expected in 2024.

"We are likely to see a continuation of consolidation in the DC market," explains Irish Association of Pension Funds CEO and PensionsEurope chair, Jerry Moriarty.

"The application of the IORP II requirements to all schemes, irrespective of size, has made it very difficult for smaller schemes to continue to exist on a standalone basis. Figures from the Pensions Authority showed that, by the end of October 2023, there were a total of 17 master trusts. Those 17 master trusts had over 275,000 active members, almost 125,000 deferred members and €17.7 billion in assets. This represents an increase in over 220,000 members and €10 billion in assets from the beginning of 2023. As the deadline for schemes to have either put in place all the requirements to comply with IORP II was the end of 2023, this number will have grown further."

He notes there will be further focus on IORP II requirements in 2024, with particular emphasis on the preparation of own risk assessments and critical reviews of service providers. This year will also see developments for the country's upcoming auto-enrolment system, a reform that will likely transform the pensions landscape in Ireland. The legislation to underpin the policy is due to be published, and with the processes for the administrator investment managers to be finalised, and a public awareness campaign to be started, there is "a lot that needs to be put in place" to get it up and running," Moriarty says.

In the DB pension space, Ireland is likely to see an increase in buy-in and buyout activity. "To date, there has been much less focus on this than in the UK, but much improved funding levels are opening up more opportunities," Moriarty concludes.

Italy

The integration of ESG factors into the investment process and private market investment are key themes in the Italian pension sector. Italian pension funds are required to get to grips with accurately reporting on how they assess ESG risks, how they pursue sustainability goals, and how they measure their performance, Mercer Italy Wealth leader and partner, Luca De Biasi, notes.

"At the asset allocation level, Italian pension funds are showing increasing interest in private markets," he continues. "Investment in private markets is rather recent for second pillar pension schemes; due to the limited number of internal resources, implementation is mainly through mandates.

"The geographic exposure of portfolios is mainly European, with a strong bias toward domestic investments."

To increase their range of investment options, Italian pension funds are exploring lifecycle mechanisms, including as a default option for unengaged members. "After all, OECD recommendations support the implementation of these schemes, which provide for an automatic adjustment of the member's asset allocation over the years with progressive de-risking as retirement approaches," De Biasi adds.

Norway

One of the key themes in the Norwegian pensions space this year is sustainability. Like most, if not all, European countries, the age demographic of people living in the nation is shining the spotlight on the affordability of the pension system and the challenges faced by the labour force. The authorities recently evaluated the 2011 pension reform, with the findings to influence developments and pensions debate going forward, according to KLP director for strategy, analysis and working life, Morten Gjelstad.

"The aim of the evaluation was to safeguard the economic and social sustainability of the Norwegian pension system," he explains. "The most important finding from the evaluation is that the essential features of the reform will be consolidated. This means that key elements of the reform will be retained, for example, everyone will accrue pension entitlements through all their years of employment, and pensions will be adjusted for life expectancy.

"Flexibility in terms of combining pension and employment income without reducing the pension is also important." Gjelstad notes that the government is also proposing adjustments to the pension reform to safeguard the economic and social sustainability of the pension system in the future, including that the minimum age to begin pension withdrawals should gradually rise by one to two months per cohort for those born in or after 1964. "The important development this year will be the proceedings in the Storting, which we expect to adopt the proposed principles in the spring of 2024," he adds.

Finland

"In Finland, there is currently a discussion about pension reform," states Varma public affairs manager, Sampo Varjonen. "Last year, the government of Finland set a goal of €1 billion in cost savings in the pension system. One suggestion that has been talked about is increasing the allocation of stocks in investment portfolios. Pension companies have long been discussing the need to achieve better returns on invested pension funds." These potential reforms will be discussed and prepared in a working group this year, he continues, and as Finnish pension companies' risk-taking is limited by regulations, collective deliberation will be required. In the self-employed pension space, earnings-related pension companies are required to review the YEL income of self-employed savers, with these reviews to continue in 2024.

The Netherlands

The biggest development in the Netherlands this year will be continuing the transition to the new pensions system under the Future Pensions Act (WTP). Dutch pension funds are required to switch to the new system by 1 January 2028. "Without any doubt the biggest development in the Dutch pensions sector – since 1 July 2023 – is the implementation of the WTP," says Dutch Federation of Pension Funds chair, Ger Jaarsma. "Many Dutch pension funds are preparing for the transition, although speed and progress varies due to the ambition each fund has chosen. Some funds are for instance aiming for a mid-2025 date, while others are happy to complete the transition in 2027. Interest rates can complicate matters, so those figures are monitored."

Aon Netherlands Wealth Solutions CEO, Frank Driessen, agrees that the biggest trends in 2024 will be the impact of interest rate developments and possible adjustments to the WTP, specifically regarding participant consent for the transition to the new system. "Protective structures for the coverage ratio for the remainder of the current pension system will also be a significant development in the Netherlands in 2024, as well as the impact of rising costs as a result of WTP for insured schemes, and deciding whether compensation will be paid as a pension or in cash," he continues.

"There will be assessments of WTP in the light of a modern employment conditions package, but one of the main challenges will be the increasing shortage of pension personnel to realise the WTP transition."

Jaarsma notes that, as political parties critical of the WTP recently gained a majority in the Dutch parliament, the government may want to adapt or even abolish the WTP, but that until further notice the WTP provides pension funds with clear deadlines that will see it dominate the pensions landscape.

Denmark

Pension investment is high on the agenda in Denmark this year, with the government, industry and regulators looking to find investment solutions in three key areas: Climate, the social sector, and defence.

"We are trying to focus on what it takes as a sector to invest in those areas," says Insurance & Pension Denmark deputy director, Tom Vile Jensen. "This includes public/private partnerships to build properties for in an efficient way and as a sound investment as well. We are trying to promote that model, but we need to get the regulations, the culture, and the understanding in the public sector right." Danish pension funds will be getting to grips with the large amounts of regulation that has been introduced in the past few years by the government, Supervisory Authority and the EU, especially in relation to sustainability, according to Vile Jensen. "We are trying to help *[pension funds]* **handle the amount of regulation and information requirements through implementation support and industry solutions," he states. "We are trying to use 2024 to be ready to meet all the disclosure requirements next year. The Danish pension sector back in 2019 made a pledge of investing €45 billion in the climate transition. We are going to make a new announcement this year about trying to put that on the basis of the European Environmental Taxonomy. We have been working on that for a long time, it's a bit complicated, but we are still committed to continue investing the money in the climate transition by 2030."**

Germany

Mercer Germany Wealth leader, Michael Sauler, says there are two main overarching themes in the German pensions sector in 2024: Digitalisation and the evolution of investment strategies to adopt to the new regime in markets and long-term opportunities. "Digitisation in Germany – and particularly around pensions – has still a lot of ground to cover before unlocking its full potential," he says. "Automation of pension processes needs to increase to better allocate sparse human resources and beneficiaries expect digital access to their benefit statements – anytime, anywhere. Technical solutions are available, and we expect companies to make greater use of them to increase the user experience and leverage efficiencies."

Meanwhile, investment portfolios will need to continue to adapt to the new regime in markets, Sauler argues, with higher interest rates and volatile inflation resulting in muted real returns. "Depending on accounting standards, the funded status of many DB pension plans has increased and still presents an opportunity to de-risk," he adds. "Efficiently matching benefit payments while providing attractive returns requires smart portfolio construction and testing whether portfolios are still up for the challenge. To attract and retain key talents, DC-type plans with attractive return potential for employees are a crucial building block and will increase in popularity."

France

Following the unrest in France amid state pension reform in 2023, the pensions landscape in 2024 should be less volatile, according to Mercer France Wealth sales leader, Benjamin Sanson. In the private pensions space, "a few measures" from the value-sharing law in November 2023, which aims to share profits more effectively between companies and employees, will gradually take effect until 2025, when every profitable company with more than 11 employees will have to introduce a value-sharing system, such as a company savings plan and/or pension scheme.

"In 2024, the main change we'll see will be the inclusion of an environmentally labelled fund in collective company savings schemes," Sanson continues. "The new requirements will create systematic access to these types of funds for all employees that benefit from this type of collective company savings scheme."

"DIGITISATION IN GERMANY – AND PARTICULARLY AROUND PENSIONS – HAS STILL A LOT OF GROUND TO COVER BEFORE UNLOCKING ITS FULL POTENTIAL"

Sweden

This year, the Swedish government announced it would be widening its review of the national pension funds to explore how the buffer funds can increase economies of scale. The review was first initiated last year, with an investigator tasked to submit proposals for measures to modernise and streamline the combined management of the first to fourth and sixth AP funds' fund capital. The investigator will examine how AP1, AP3 and AP4 could potentially be consolidated into two plans, and if AP6 could be merged into AP2. "The investigator must look at the possibility of taking greater advantage of economies of scale, which could mean a significant increase for future pensioners," said Financial Markets Minister, Niklas Wykman, at the time.

Spain

Spain is adapting to changing age demographics, with reforms introduced aiming to increase the income of the pension system. "They have delayed the retirement age and made the requirements for accessing the same amount of one's pension more expensive compared with previous years," says Mercer Spain Wealth business development leader, Miguel Ángel Menéndez. New regulations are encouraging companies and self-employed workers to supplement the state's public benefits through the business sector, recovering tax and social security incentives. Additionally, the construction industry is expected to implement the first 'simplified' pension scheme in February for around 1.4 million workers, notes Menéndez.