

DC PENSIONS ROUNDTABLE

European pensions supervision: today DB, tomorrow DC

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1. EU DEMOGRAPHIC CHALLENGE – AN AGING POPULATION

The EU's population is aging

- According to EUROSTAT, in 2021, **21 %** of the EU's population were aged 65 and over, compared with a lower **16 %** in 2001;
- Regarding people aged 65 and over, as percentage in the total population, IT (**24 %**), FI and GR (both 23 %), as well as PT, DE and BG (all 22 %) had the highest shares, while IE and LU (both **15 %**) had the lowest;
- The highest shares of young people in the total population, those below 20 years old, were observed in IE (**27 %**), FR (24 %) and SE (23 %), while the lowest shares were recorded in MT, IT and DE (all **18 %**).



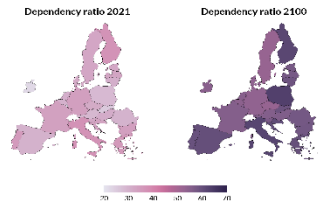
Old-age to working-age Ratio, 1950-2080

	1950	1960	1990	2020	2050	2080
IT	14.3	16.4	24.3	39.5	74.4	79.6
IE	20.9	22.8	21.6	25.0	50.6	60.0
EU27	14.6	16.0	21.6	33.6	56.7	62.0

Source: United Nations, Department of Economic and Social Affairs (2019), Online Edition (for future periods: medium-variant forecast)

EU DEMOGRAPHIC CHALLENGE – FUTURE PROJECTIONS

The EU's Aging Population 2021 vs. 2100



The dependency ratio is calculated as the ratio between the number of persons aged 65 and over (who are generally economically inactive) and the number of persons aged between 15 and 64. The value is expressed per 100 persons of working age (15-64).

The EU's population expectations for 2100

- According to EUROSTAT, it is expected that DE, FR and IT will remain the most populous Member States while the greatest declines in population will be suffered by LV (43,7%) and HR, BG, RO and LT (more than 30%) – respectively, Eastern and parts of Southern EU; On the other hand Members States like MT, IE, SE, CY and LU are expected to have growth in population (in part due to migration);
- The median population age is expected to increase on average with about 5 years in the EU, most notably in Members States such as MT, PL and LU (by more than 10 years), while the lowest increase is expected in DE (1.4 years);
- Age dependency ratios will increase, as already by 2060, the projections indicate that there will be fewer than two working-age persons for each elderly person in more than half of the EU. This will be caused by both the shrinkage of working-age population and the increase in the older population by increased life expectancy.

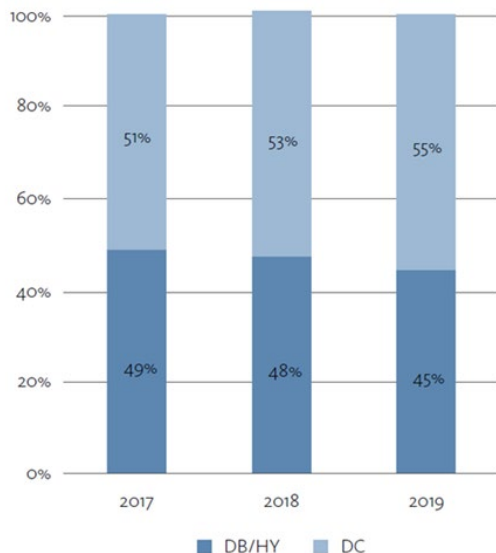
In the image to the left, the transparent population distribution is shown as of 2021, while the coloured one is the expected distribution in 2100; The increase in dependency ratios is shown below, marking the increased pressure that will be put on existing and future pension systems.

Source: World Economic Forum, Aging and Longevity (2022) and Eurostat data projections (2020)

2. SHIFTING OF RISK TOWARDS MEMBERS AND BENEFICIARIES

The EU pension landscape is becoming DC dominant

Active Members split by DB/HY and DC schemes (23 MS)



Source: EIOPA financial stability statistics.

- From EIOPA Consumer Trends Report in 2020 the DB to DC shift, already identified in previous years, remains noteworthy having increased by more than 4% in terms of members, at aggregate level in one year alone.
- 2021 - Overall, the Member States where the occupational pension sector is growing the most are those with a higher percentage of DC schemes.
- The shift towards a DC dominant market expected to occur when the transition will take place in NL market, the biggest European occupational pensions market, where in 2021 more than 90% of active members were in DB schemes.

3. IORP II DIRECTIVE REVIEW – DRAFT ADVICE FOR CONSULTATION

EIOPA advises on policies that would strengthen pension systems capacity of:

➤ **Embracing the future**

- Shift to DC exposes members and beneficiaries to more risk and need of making choices
- IORPs' impact on sustainability and other socio-economic factors, such as diversity & inclusion
- Governance, proportionality and minimum harmonisation

SHIFT FROM DEFINED BENEFIT TO DEFINED CONTRIBUTIONS

➤ Long-term risk assessment

- Enacting long-term risk assessment from the perspective of members and beneficiaries
- *EIOPA opinion on the supervision of long-term risk assessment by IORPs providing DC schemes* - establishing risk tolerance of DC members and beneficiaries and introduce the use of pension projections in the risk management system and ORA
- using pension projections of future retirement income complements the ongoing process of DC IORPs to effectively manage risks from the perspective of members and beneficiaries



➤ Supervisory reporting on costs and charges

- Requirement for DC IORPs to report on an annual basis information on all costs and charges
- *EIOPA opinion on the supervisory reporting of costs and charges of IORPs* - DC schemes' cost reporting to NCAs would nudge IORPs towards assessing and managing their cost structure in a more comprehensive and transparent way, leading to a better protection of members' and beneficiaries' interests

SHIFT FROM DEFINED BENEFIT TO DEFINED CONTRIBUTIONS

➤ **Complaints procedure and Alternative Dispute Resolution (ADR)**

- Requirement for IORPs to have a proportionate complaints and ADR procedure

➤ **Fit and proper requirements**

- Fitness of those who run DC IORPs should include the specific knowledge and competencies



➤ **Increased transparency of NCAs risk assessment framework**

- Requirement for NCAs to provide a high-level overview of their risk assessment as public information

➤ **Member and beneficiary involvement in IORPs' governance**

- IORPs to demonstrate that their members and beneficiaries have the opportunity to contribute in a meaningful way in the decisions that IORPs take with a direct impact on members/beneficiaries

INFORMATION TO MEMBERS AND BUSINESS CONDUCT

➤ Pension benefit statement (PBS)

- Improving structure and format (layering and development of templates), but also content

➤ Digitalisation

- Addressing leveraging of digitalisation (appropriate choice architecture)

➤ Transparency on costs and charges in the PBS

➤ Projections

- Further developing requirements in PBS, information to prospective members and in the pre-retirement phase

➤ Other business conduct requirements



THANK YOU!

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