



2019 OCCUPATIONAL PENSIONS STRESS TEST

Stress tests are regularly used by supervisors to assess the resilience and vulnerabilities of financial institutions to possible shocks.

The 2019 occupational pensions stress test assesses the resilience and potential vulnerabilities of the European defined benefit (DB) and defined contribution (DC) pension sector and potential impact on financial stability. The test took into consideration the diverse nature of the European pension sector.

For the first time, the occupational pensions stress test included an assessment of environmental, social and governance (ESG) exposures.

Stress tests organised by the European Insurance and Occupational Pensions Authority are not a pass or fail exercise. Instead, the aim is to identify areas of weakness and stimulate a discussion on possible preventive measures to address vulnerabilities should they occur.

In the 2019 stress test, EIOPA applied an adverse market scenario with a sudden reassessment of risk premia and shocks to interest rates on short maturities.

The scenario was applied to the end-2018 'baseline' balance sheet of a representative sample of institutions for occupational retirement provision from key occupational pension sectors of European Economic Area countries.

SCENARIO

2019 stress test assessed the impact on:

- › investment assets
- › liabilities
- › members & beneficiaries
- › sponsors

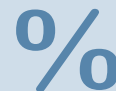
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SUDDEN REASSESSMENT OF RISK
PREMIA



2

SHOCKS TO INTEREST RATES ON SHORT
MATURITIES



WHO PARTICIPATED?

19

Countries

Institutions from countries with over EUR 500 million pension assets at year-end 2018

176

IORPs

99 DBs and 77 DCs

60%

Coverage of defined benefit assets

50%

Coverage of defined contribution assets

MAIN FINDINGS

As in previous years, the stress test showed vulnerabilities of the Institutions for Occupational Retirement Provision (IORP) sector linked to underfunding.

Adverse scenario would wipe off almost one quarter of the value of investment assets of the participating IORPS = EUR 270 billion – representing more than 2% of the gross domestic product of the participating countries.

Substantial aggregate shortfall of EUR 216 billion according to common methodology triggering:

- › aggregate benefit reductions of EUR 173 billion
- › financial support from sponsoring undertakings of EUR 49 billion.

Overall, the long-term obligations and long investment horizons of IORPs mean that they are able to sustain short-term volatility and market downturns for longer periods than other financial institutions. Yet, consequently, adverse developments and trends can have long-term negative implications.

If the tested adverse scenario occurred:

- › The financial situation of IORPS would be heavily affected in the short term,
- › IORPs would need financial support from sponsoring undertakings or other security mechanisms.
- › There would be long-term effects on the future retirement income of members and beneficiaries should the short term effects become permanent.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

Implementation of the IORP II Directive promotes IORPs to identify sustainability factors and environmental, sustainability and governance (ESG) factors in investment decisions.

This first European analytical element on sustainability risks sheds light on the current management and consideration of ESG factors in the IORP sector. It indicates high carbon footprint, relative to EU economy, in the sample's equity investments.

THE STRESS TEST SHOWED THAT



The majority of IORPs are taking appropriate steps

The preparedness of IORPs to integrate sustainability factors varies greatly and appears to relate to how developed national frameworks are.

30%

Have processes in place to manage ESG risks

19%

Assess the impact of ESG factors on investment risks and returns.



Equity investments show high carbon exposure relative to EU economy

NEXT STEPS

- › Follow up on the findings and analyse in more detail the investment behaviour of IORPs, in particular in relation to the persistently ultra-low and negative interest rate environment, using significantly improved pension reporting.
- › Further improve its analytical tool set for stress testing IORPs, extending the horizontal approach and assessing common exposures and vulnerabilities of the defined benefit and defined contributions sectors together.



THE NEXT STRESS TEST WILL TAKE PLACE IN 2022

LEARN MORE



Visit the dedicated webpage: <https://eiopa.europa.eu/Pages/Financial-stability-and-crisis-prevention/Occupational-Pensions-StressTest-2019.aspx>

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