

Occupational pensions stress test 2019

Designed to assess the resilience of the European occupational pensions sector to an adverse market scenario using common methodologies

Objective

Stress tests are an important supervisory tool to provide insight into the risks and vulnerabilities of the European occupational pensions sector. They contribute to the stability of the financial system and the European economy and enhance the protection of pension scheme members and beneficiaries.

The 2019 exercise is designed to assess the resilience of the European occupational pensions sector to an adverse market scenario using common methodologies. It will also analyse how IORPs transfer shocks, resulting from the impact of the adverse market scenario, to the real economy and financial markets.

This is a crucial, biennial exercise to assess the resilience and potential vulnerabilities of the European Defined Benefit (DB) and Defined Contribution (DC) pension sector, tailored to the specificities of the diverse European pension sector and its potential impact on financial stability.

Scenario and results

In its 2019 exercise, EIOPA applied an adverse market scenario, characterised by a sudden reassessment of risk premia and shocks to interest rates on short maturities, resulting in increased yields and widening of credit spreads. That adverse market scenario was applied to the end-2018 'baseline' balance sheet of a representative sample of European Economic Area (EEA) IORPs. In the baseline, those IORPs were underfunded by EUR 41 billion on aggregate, which translates into 4% of their liabilities, according to the common methodology.

The adverse market scenario would have led to substantial aggregate shortfalls

of EUR 180 billion according to national methodologies and EUR 216 billion following the stress test's common methodology. Under the assumptions of the common methodology, the shortfalls in the adverse scenario would have triggered aggregate benefit reductions of EUR 173 billion and sponsoring undertakings would have to provide financial support of EUR 49 billion. In the 2019 exercise, EIOPA employed an extended cash flow analysis, which provided important insights into the stress effects in terms of timing: IORPs' financial situation would be heavily affected in the short term, leading to substantial strains on sponsoring undertakings within a few years after the shock and resulting in potential long-term effects on the retirement income of members and beneficiaries over decades (should the short-term effects become permanent).

Assessing the potential conjoint investment behaviours of IORPs after the stress event, EIOPA observed an expected tendency to re-balance to pre-stress investment allocations within 12 months after the shock. That may indicate counter-cyclical aspects of the expected investment behaviour, yet would also come at a risk.

The majority of IORPs in the sample indicated having taken appropriate steps to identify sustainability factors and ESG risks for their investment decisions, which is important for an effective implementation of the IORP II Directive, yet only 30% of them have processes in place to manage ESG risks. Further, only 19% of the IORPs in the sample assess the impact of ESG factors on investments' risk and returns. The preparedness of IORPs to integrate sustainability factors is widely dispersed and seems correlated to how advanced national frameworks were.

Matching the participating IORPs' investment information with Eurostat's greenhouse gas emission statistics by business sectors, indicates a relatively high carbon footprint, compared to the average EU economy, of the equity investments and, concentrated in a few Member States, of the debt investments.

To learn more, read:

- [Eiopa 2019 IORP pensions stress test report](#)
- [Factsheet](#)
- [Presentation of the stress test results by Gabriel Bernardino, EIOPA Chairman](#)
- [EIOPA publishes the results of the 2019 Occupational Pensions Stress Test](#)

Scope

The stress test is a European-wide exercise, covering both defined benefit (DB) schemes and defined contribution (DC) plans. For the first time, this European stress test exercise covered the analysis of Environmental, Social and Governance (ESG) factors for IORPs.

The exercise includes all countries with material IORP sectors, exceeding EUR 500 million in assets.

In total, 19 countries participated in the exercise, covering more than 60% of the national DB and 50% of the national DC sectors in terms of assets – in most countries. In total 176 IORPs participated, thereof 99 DB IORPs and 77 DC IORPs.

Questions and answers on the stress test 2019

Participating IORPs are welcome to use the centralised Q&A process, which is open for questions until 15 May 2019. This is to support participating IORPs to interpret correctly the specifications and the reporting templates. For any queries related to this exercise, please fill in the template you can find under related elements and send it to your National Competent Authority (NCA). The template and the email addresses of the NSAs can be viewed in the download section under "Questions & Answers on the Stress Test 2019".

Working process

The exercise is carried out in close cooperation with the NCAs, which are the direct contact points for the participants in the stress test.

Between 31 January and 21 February 2019, EIOPA collected input from EU pensions stakeholders (see the informal consultation in the download section under "Background documents") including EIOPA's Occupational Pensions Stakeholder Group on the draft stress test package. Stakeholders were asked to provide technical feedback to enhance the clarity of the specifications, questionnaires and spreadsheets as well as to identify inconsistencies.

Supporting documents