Closing pension gaps in Europe

Speech by Petra Hielkema at the FIAP conference / Conference of the Spanish Association for Investment and Pension Funds

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Goodmorning ladies and gentlemen,

It is an honor to be here today and speak virtually about pensions in Europe at this FIAP conference.

But before I dive into pensions, let me start with a riddle that is very well know in my home country, the Netherlands: What moves on four legs in the morning, on two legs in the afternoon and on three legs in the evening?

The answer is a human being. As a baby, we are crawling on all fours, then we walk with two legs, and when we are old, we rely on a walking stick – the third leg.

What does this saying have to do with pension, you may be asking yourself.

The key point is of course old age – and the three legs that enable balance and a better quality of life.

It’s the same for pensions. In an ideal world, we will benefit from three pillars in our old age: national or state pensions, workplace pensions and private pensions. Combined, these three pillars will also provide a better quality of life when we need them.

And today, as I address some of the most pressing issues we see in Europe with regards to adequate planning for dignified old age, I will show why all three pillars count and what EIOPA is doing on some of these fronts.

In a fragmented landscape all three pillars count

First, let me mention that the pensions landscape in Europe is diverse. We have different frameworks in place – we see different models, levels of participation, and also different types of contribution. Still, some things are the same. We all see pensions as an important part of financial stability and consumer trust. We all know the three pillar structure, even though the use of all three pillars differs per country. And we all unfortunately need to deal with the low yield environment. As such we see across the board discussions about sustainability of penisons as well as a move from defined benefit – or DB – to defined contribution – or DC.

When it comes to sharing a European perspective on risks and ways to mitigate these, sharing data, identifying good practices as well as concerns, EIOPA’s has an important role. And I will mention some examples.

First of all, EIOPA has good data at hand and can therefore share relevant information with Member States.

This year, at the request of the European Commission, EIOPA has been working on advice on the development of pensions dashboards to support the EU and Member States in monitoring the adequacy and sustainability of pension systems.

Our advice will include the recommendation for an online tool that provides a comparable, transparent and up-to-date view of national pension systems including all three pillars to the extent possible. We will also include recommendations on how to source the necessary data, making the dashboard a valuable tool to help governments and policy makers make informed decisions.

Let me mention another project that we are working on. It’s important not only for policymakers have access to good information on pensions in Europe, people should also know more about how their pension savings are doing.

So also this year EIOPA has been working on advice regarding the development of a national pension tracking tool. Building on the experience gained through existing national tracking systems, and especially the expertise of a group from industry with experience in this field, our advice will provide recommendations for a tracking system that provides consumers with an overview of future retirement income, based on entitlements from all the pension schemes that they are participating in, all three pillars.

By providing support to develop dashboards and tracking systems, EIOPA can help raise awareness at an individual level.

This is necessary as many people don’t start thinking about their retirement income until they are getting close to retirement and for many people this is too late. The reality of today is that 1 in 5 Europeans are not saving enough for their retirement and within that group women are historically more disadvantaged then men. These are serious considerations for a continent with an ageing population and it requires an informed and serious discussion on the sustainability of pensions, in all three pillar.

The second pillar: Conduct supervison in a minimum harmonized environment

Now let me turn to the second pillar, as this is where EIOPA’s role in the world of pensions starts. From a regulatory point of view, at the European level we have legislation that takes a minimum harmonisation approach, IORP II. It is very positive, especially in the present COVID times, that stronger governance and risk management requirements were introduced with this revised Directive. And, given the diversity of pension systems across Europe, it is also positive that the minimum harmonisation allows Member States to supplement the regulation with additional prudential rules as needed.

In terms of supervision, one way for EIOPA to add value when it comes to mitigating risks and maintaining the sustainability of pension funds, is the fact that we are in the position to see different approaches and supervisory practices and share them. Through opinions – discussed and agreed by national supervisors – we state our expectations towards the supervisory community. Earlier this month we published two such opinions.

Our Opinion on the supervision of risk assessment by IORPs providing DC schemes seeks to ensure that risks borne by the DC IORPs are appropriately monitored, quantified and managed.

Our other Opinion is on the supervisory reporting of costs and charges of IORPs.

Cost efficiency, especially in times of low yield is important for costs and charges can have a substantial cumulative impact: a 1% increase in costs can have a 20%

impact on the amount of pension received. To address this, the Opinion sets out expectations on the supervisory reporting of costs and charges of IORPs.

EIOPA can and will also look carefully at the impact of the implementation of the IORP II Directive on cross-border activity. We expect to receive a call for the advice on the review of the IORP II Directive early next year and this will be part of that work as well as the role of sustainable finance in pensions and pension solvency.

The third pillar: Offering products with value for money

Now let's go back to the riddle I started with and the fact that in old age stability comes from three legs, or in pension terminology, from three pillars. First of all, we must do more to encourage people to take interest in their retirement saving from as early as possible. To do this, we need engaging information that is simple to follow. We are making progress: with annual pension benefit statements and key information documents – we are trying to create information that appeals and will prompt people to make decisions and take action.

It is also important that when people want to act, there are simple pension products in place also for the ones that can or do not benefit from workplace pensions and we must ensure that these products offer the right value for money.

The Pan-European Personal Pension product, the PEPP,should be one such products: it is simple, transparent, portable and digital. It could be a game-changer for people who do not fit the traditional workplace pension mould. As the first PEPPs enter the market next year, we need to learn from that experience, as most likely more of these types of products will be needed.

Global risks on pensions

Before I finish, I would like to address two global risks that will have an impact on all three pillars, on the financial industry, in fact on the entire society: climate change and cyber risk.

Let me start with cyber. In the area of cyber and operational risks, National Compentent Authorities should increasingly pay attention to pension funds' future viability and operational liabilities. Outsourcing and the overall cyber risk faced by pension funds makes supervisory oversight all the more important.

Last, but certainly not least, pension funds will have to deal with climate change. Pension funds invest large sums of money for the long term and can in fact play an important role in moving society to a more sustainable future. Pension funds can choose to invest in responsible industries and responsible businesses. Here is a clear and important role that IORPs can play in the transition to a green economy while leveraging on the growing public interest in how and where their pension savings are invested.

In conclusion

Let me conclude and end at where I started. In our old age, we are all aiming for balance and quality of life. Just as many of us will need a third leg to walk, we will probably also all need all three pillars of our pension system. As such we need to be aware of possible gaps in each pillar as early in our lives as possible.

This means we need to consider the whole picture. And so we need good, clear information. From pensions dashboards to ESG disclosures, from taxonomies to financial reporting, we need to encourage and to empower both pension funds as well as people with transparency and clarity, so that they can take informed decisions, saving for a good retirement.

It is in all these areas that EIOPA can contribute to the discussion, fostering the pension landscape in Europe. As such it was a pleasure speaking here today and I look forward to future encounters.

Thank you very much.

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