Press Release

Contact: Anzhelika Mayer
Phone: +49 (0) 69 95 11 19 6 8
press@eiopa.europa.eu

RESULTS OF THE FIRST EU STRESS TEST FOR OCCUPATIONAL PENSIONS

- *A prolonged period of low interest rates will pose significant future challenges to the resilience of defined benefit Institutions for Occupational Retirement Provision (IORPs).*
- *IORPs are relatively more resilient to an increase in longevity than to market adverse scenarios.*
- *Absorption of these shocks depends heavily on the time element for realising liabilities and the mitigation and recovery mechanisms in place in each country.*
- *The results of the severe stress scenarios applied reveal a number of risks and vulnerabilities that deserve proper attention from IORPs and supervisors.*

Frankfurt, 26 January 2016 – The European Insurance and Occupational Pensions Authority (EIOPA) today announced the results of the European Union stress test for Occupational Pensions. The objectives of the stress test were to produce a comprehensive picture of the heterogeneous European occupational pensions' landscape; to test resilience of defined benefits (DB) and hybrid pension schemes against adverse market scenarios and increased life expectancy; to identify potential vulnerabilities of defined contribution (DC) schemes; and to reveal areas that require further supervisory focus.

Seventeen European Economic Area countries with a material occupational pensions sector, which is over EUR 500 million in assets, participated in the exercise.

In order to compare diversified stress test results, EIOPA developed a Common Methodology using market-consistent valuation for assets and liabilities. Simultaneously, EIOPA conducted an assessment based on the National Balance Sheets (NBS).

DB and hybrid schemes demonstrated relative resilience to a permanent decrease of 20% in mortality rates. At the same time they appeared to be more sensitive to an abrupt drop in interest rates and an increase in inflation rates (under the Common Methodology) and to a severe drop in assets prices (under NBS).

The satellite module for DC schemes showed that the impact on the pensions' level strongly depends on the time which plan members have before retirement. Eldest plan members have the highest pension wealth and the least time to recover from price falls of assets. Youngest plan members are most heavily impacted by long-term low return on assets.

Gabriel Bernardino, Chairman of EIOPA, said: "*The occupational pensions' stress test was the first exercise of this kind conducted at the European Union level. It has deepened the supervisors' understanding of the impact that different future stress scenarios can have on the pension plans resilience.*

While pension plan liabilities have a very long-term nature, it is important that supervisory regimes are prepared to deal with these stresses in a transparent way, be it through appropriate recovery periods, the role of pension protection schemes, increased sponsor's contributions and/or benefit adjustment mechanisms.

Further work needs to be done to analyse how prolonged adverse market conditions will affect the sponsors' behaviour and the possible consequences for financial stability and the real economy.

EIOPA is fully committed to further enhancing supervisory convergence also in the field of occupational pensions."

The Report on the results of the first EU Stress Test for Occupational Pensions can be viewed here: https://goo.gl/m9KDmy

Note for Editors:

IORP is the Institution for Occupational Retirement Provision operating for the purpose of providing retirement benefits in the context of an occupational activity on the basis of an agreement or a contract agreed.

Defined Benefit (DB) pension scheme is a retirement plan that guarantees a specific retirement benefit amount for each scheme member.

Defined Contribution (DC) pension scheme is a retirement plan that is funded primarily by the scheme member while the employer matches contributions to a certain amount**.**

Hybrid pension scheme contains elements of both DB and DC retirement plans.

Stress test coverage included 17 countries: Austria, Belgium, Cyprus, Germany, Denmark, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom. Iceland volunteered to participate while Finland being above the threshold of EUR 500 million abstained due to minor importance of its IORP market compared to its state pension system. The total number of participating pension schemes is 140 for DB/hybrid schemes (where Irish sample is modelled as a single IORP) and 64 for DC schemes. In all the countries except for the United Kingdom the participation exceeded 50% of total assets for the DB/hybrid module. In all the countries except for Iceland, the Netherlands or Portugal the participation exceeded 50% of total assets or number of DC plan members.

DB/Hybrid module of the stress test consisted of the following elements**:**

- Adverse market scenario 1 – drop in assets prices, decrease in interest rates and decrease in inflation rates.
- Adverse market scenario 2 – drop in asset prices and interest rates and an increase in inflation rates.
- increased longevity scenario – 20% decrease in mortality rate

DC satellite scenario differentiated impacts on the income of plan members having 35, 20 and 5 years before retirement and consisted of the following elements:

- two asset price shock scenarios
- two low return scenarios
- one increased longevity scenario

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established on 1 January 2011.

EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.