European Federation for Retirement Provision

20 October 2005

Press statement

EU COMMISSION ADOPTS PROPOSAL FOR A PORTABILITY DIRECTIVE

THE PROPOSAL MODIFIES MEMBER STATES' SOCIAL AND LABOUR LAW TO MAKE OCCUPATIONAL PENSIONS FLEXIBLE

EFRP lends qualified support to the proposal for a Portability directive as adopted by the European Commission today.
Although EFRP supports the labour mobility objective underpinning the proposal, the federation has **still many reservations** when it comes to putting this concept into practice because of the large **diversity** in occupational pension **schemes** and types of funding **vehicles** across the EU.

Chairman Jaap MAASSEN said that "increasing the coverage of affordable and adequate occupational pension provision calls for **simplification** and **cost-effectiveness**. Increased costs ultimately mean lower pensions unless contributions increase significantly. And, increased contributions would risk endangering the competitiveness of the European economy."

EFRP is a longstanding advocate of removing barriers to **cross border transfers** of pension capital and mobility in general. It is pleased to see that the proposal takes this into account.

The federation is happy that the proposal takes into account the possible need of Member States to be given a **realistic time frame to adapt** to the new harmonisation requirements.

The EFRP is less enthusiastic about the other objective underpinning this directive, namely the improvement of the quality of the pension promise by

- shortening qualifying and vesting periods
- granting the right to transfer – which may not always be the best option available
- providing “fair adjustments of dormant pension rights”, and,
- imposing more information requirements on plan sponsors or pension providers.

This will not only bring about changes in Member States’ social and labour law but it will also increase the costs of occupational pensions.

In this respect the EFRP will read with interest the **impact assessment** the Commission prepared in line with its own better law making initiative. According to EFRP, the cost impact could be dramatic considering that 1 percentage point indexation of both deferred pension entitlements and pensions in payment corresponds to a 15 % increase in liabilities. EFRP has understood that the proposal **has taken the possibility of such dramatic consequences into account and leaves scope for more flexible approaches.** However, one should not underestimate the force of the stated principle : “Member States shall adopt the necessary measures in order to ensure a fair adjustment of dormant pension rights so as to avoid that outgoing workers are penalised” (art. 5).

During the preparatory phase, the EFRP recommended to the Commission that it produce a proposal that aimed at achieving wide coverage but was modest in terms of requirements incurring “costs”. This proposal, on the contrary, looks rather ambitious. Portability of occupational pension rights does not by itself improve pension values. Indeed, it comes at a cost. The **combined impact** of shorter qualifying and vesting periods, adjustments of dormant rights and the right to transfer accrued pension capital **risks accelerating the move from DB to DC schemes** because DB systems will be hit more by the cost increase.

The **information requirements** upon changing jobs in respect of the occupational pension schemes go beyond those required in the pension funds directive (Dir.

2003/41) . Although nobody could object to full transparency for transfers, the more detailed requirements mean more sophisticated information systems and technology generating another category of additional costs. EFRP had hoped that the recent pension funds directive had set an EU standard that would have endured for more than two years.

"To avoid policy failures in times of ageing societies" Chairman MAASSEN concluded "the functioning and long term effects of the different types of occupational pensions funding need better understanding by policy makers and the working population. Collective capitalisation offers the most cost-efficient way to fund occupational pensions. This should be borne in mind when proposing measures that affect their cost-efficiency. A **difficult balance** needs to be achieved between providing **affordable and adequate occupational pensions and increasing the flexibility of labour markets.** EFRP will continue to monitor developments in national portability at Member State level to assess whether this balance is struck."

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ABOUT THE EFRP

The European Federation for Retirement Provision represents the various national associations of pension funds and similar institutions for pension provision. The EFRP has members in most EU Member States[1]. It will enlarge its membership in other new EU Member States as and when representative organisations for occupational pensions emerge.

EFRP membership at large consists of institutions for occupational (2nd pillar) retirement some of them also operating purely individual pension schemes. In some Member States up to 90-95 % of the work force have their occupational pension funded through EFRP membership (e.g., Denmark, Netherlands, Poland, Sweden). Whereas in Germany, Spain, Ireland, the United Kingdom 80 % of the occupational pension provision is funded by EFRP members.

Most EFRP members are non-profit making associations.

Members and beneficiaries are usually represented in their governance structures; many of them are managed on a paritarian basis between unions/employees and employers.

73 million EU citizens are covered for their occupational pension plan by EFRP Member Associations.

The EFRP's aim is to provide Europe with a financing vehicle (pension fund or similar) – not precluding any others catered for by commercial undertakings – that is affordable for large sections of the population and that provides a degree of intra- and inter-generational solidarity. This is feasible if the conditions for investment and the proper prudential framework facilitate this type of collectively organised occupational pension provision.

Through its Member Associations the EFRP represents € 2.670 billion of assets (2003) managed for future occupational pension payments.

[1] EU Member States: Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Spain, Sweden, UK.
Non-EU Member States : Croatia, Guernsey, Iceland, Norway, Switzerland