

European Pensions

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Still lighting the way?

Nordic pension funds lead the industry with bold investment strategies, but will outside forces dampen enthusiasm for risk?



Private equity

How the private equity industry is providing more transparency for investors



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Following the Netherlands' and UK's approaches to longevity management



Active v passive

How to combine both strategies in order to get the best of both worlds



Pan-European pensions

Why have they failed to grow as expected?



It is now a decade since the IORP Directive set out its framework for pan-European pension schemes, “the first step on the way to an internal market for occupational retirement provision organised on a European scale”, as it put it. Ten years on, though, few have followed its path.

There is, of course, still interest in international schemes. Towers Watson’s recent survey of multinational employers found another 33 international pension schemes set up in 2012. And some did use frameworks such as the EU’s Institutions for Occupational Retirement Provision (IORP).

“A number have done it and a number are continuing to consider



Hitting a brick wall

Peter Davy explains why pan-European pension schemes have failed to grow as expected

it,” says Towers Watson director and specialist on pan-European pensions Paul Kelly.

That number, though, remains limited. According to the European Insurance and Occupational Pension Authority there were 84 cross border IORPs by June 2012, up from 48 in 2007, but flat on the previous year.

“I can see the political appeal and the idea of making it all neat so that an international company should have an international scheme,” says the Federation of European Employers (FedEE) secretary general Robin Chater. “Companies, though, don’t always have the European vision that politicians do.”

Killing complexity

For defined benefit schemes the biggest barrier remains the requirement for those operating the

schemes to keep them fully funded.

The requirement to comply with national regulations in each country covered by the scheme means defined contribution schemes don’t have an easy time either. For Igor Guardiancich, a post-doctoral fellow at the Collegio Carlo Alberto in Turin and researcher on social policy, it remains the principle hurdle.

“It’s a major obstacle for sponsors, for providers and everyone because every time you want to set up one of these pan-European funds you have to comply with all the social and labour laws in the different countries you operate in.”

The effect, as ING Investment Management strategic adviser Tjitsger Hulshoff explains, is that there’s no pan-European pensions system to match the pan-European pension.

“You don’t really end up with one single pension plan; you still have to deal with administrative law, benefit administration and fiscal rule of each local market,” he says.

Tax barriers also remain, despite being assiduously tackled by the European Commission, which has taken various countries to court over the last decade to ensure consistent tax treatment of foreign pensions. In fact, it’s notable that 39 per cent of the cross border schemes are those based in either the UK or Ireland – countries with similar tax and legal frameworks – covering the other.

There are more temporary troubles, too. For a start, there are fewer new schemes being set up, with consequently fewer opportunities to look at some of the new pan-European structures. Likewise, mergers and acquisitions, which are



often a prompt to look at new ways of tackling pension liabilities, have been relatively rare.

"Corporate pension liabilities are always part of the due diligence in M&A and are an opportunity to do things differently," explains BlackRock head of the Nordic region Peter Nielsen. "Without that activity in the M&A market, corporates have had less motivation to look at how the pension scheme is organised."

Moreover, the move in recent years has largely been to DC, and the benefits to the company of a move to a pan-European scheme are less obvious here than with the DB market.

As Kelly says: "If you are putting lots of small DC funds together into a larger fund, it's better and there are economies of scale, but typically it benefits the members more than it benefits the corporation."

In the current environment though, it's also a difficult sell to members.

"There is still perhaps a distrust in some European countries of your pension being located outside," suggests Peter Docking, partner at solicitors Sackers. Trouble with Icelandic banks is likely to still be fresh in some minds, and events in Cyprus recently are unlikely to help bolster international trust.

Finally, against all this, many of the benefits can already be achieved simply by asset pooling. As Docking says, pensions can get the reductions in asset management charges just by having common investment funds for the European schemes, rather than setting up a new vehicle.

Some of these could be addressed by revisions of the IORP Directive. However, even that, with its protracted discussions is putting a brake on further uptake, with nervousness, particularly over solvency requirements.

"The whole debate about the

future of the directive and the uncertainty means many are very hesitant to make any major changes," says Pensions Europe (formerly the European Federation of Retirement Provision) secretary general Matti Leppala.

Options open

Others, however, are more hopeful.

For a start, the barriers to pan-European schemes can be overplayed. Even the requirement to be fully funded is not insurmountable, according to principal consultant at Aon Hewitt's international retirement practice Colin Haines.

"One reason Belgium has been a popular location is it has a flexible financing framework," explains Haines. "There's still a requirement to be fully funded but it is in accordance with the local country's definition."

It's only a matter of time, he reckons, before awareness and uptake grows.

"Almost 20 European and US multinationals have set up cross-border plans since 2010. Many are now actively moving some of their existing European defined benefit and defined contribution plans to these pan-Euro arrangements. Their main reasons are to improve overall governance, reduce costs and achieve financial synergies. We are also actively talking to at least another 20 companies, some who are implementing pan-European schemes, some are bound to, and others are doing feasibility studies."

There is also growing experience – and a growing number of schemes – for them to draw on. After all, the Dutch Premium Pension Institution (PPI), which is a DC IORP scheme, is only a couple of years old; the API, its DB cross-border equivalent, is yet to launch.

"A couple of years ago there were only a limited number of vehicles,"

says Alwin Oerlemans, managing director of institutional business development for Dutch pensions fund manager APG. "Now it is just the experience that's lacking."

Already the industry is wrestling with the issues. Italian-based third-party-administrator Previnet, for example, is working with a big insurance company on a pan-European master trust scheme. Its work is creating a technology platform to cope with challenges such as providing multi-country benefit statements and developing a 'rules mode' to track and notify users of the relevant regulations and fiscal issues in each country, such as tax rules, deductibility limits and mandatory communications.

"Once a scheme can prove that going cross-border is feasible then others will follow," argues Previnet senior manager, pension fund services, Martino Braico.

Aegon Global Pensions director Martijn Tans agrees: "It's a chicken and egg situation. Companies are interested but they want to step into something that is working and has proven itself."

Moreover, the crisis is reshaping Europe. While that might not be welcome, it does introduce interesting possibilities. To date, the problem has been the complexity on the liability side for pan-European pensions. The crisis in the EU could ultimately help resolve that.

"If they agree on centralised tax budgets and a more centralised fiscal authority going forward, it could be one potential driver for pan-European pensions," points out Allianz Global Investors head of European pensions Andreas Hilka.

It is, though, as he points out, a heavy price to pay.

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