European Parliament

# Recast occupational pensions directive (IORP II)

The Institutions for Occupational Retirement Provision (IORP) Directive, from 2003, covers certain occupational pension savings. IORPs hold assets worth €2.5 trillion on behalf of around 75 million Europeans and are found mainly in the United Kingdom (55.9 % of IORP assets) and the Netherlands (30.7 %). Around a further 10 % of IORP assets are in Germany (4.5 %), Italy (2.8 %) and Ireland (2.4 %). The proposed revision (known as IORP II), to be debated during the Parliament's November plenary session, aims to improve the governance, risk management, transparency and information provision of IORPs and help increase cross-border IORP activity.

## Background: Ageing EU population, less generous public pensions

Europe's population is ageing. We are moving from having around four people of working age (15-64) for every person aged over 65 years today, to just two by 2060. This puts increasing pressure on pension systems and has led to reforms to make them more sustainable. As a result, pay-as-you-go (PAYG) public pensions are, in general, expected to become less generous in future. Hence there have been calls for more opportunities for citizens to save in safe and good value funded pensions, to supplement their public pensions. Occupational pensions may be a good choice. They are linked to an employment relationship, with contributions (often with tax advantages) by employers and/or employees, and offer a collective and not-for-profit option with involvement from the social partners. Although the design of pension systems is largely a national competence, there is existing EU legislation covering certain funded occupational pensions, known as 'IORPs'.

## European Commission proposal

In March 2014 the Commission proposed a recast IORP Directive ('IORP II') with four key objectives: (1) ensure the soundness of occupational pensions and better protect pension-scheme members; (2) better inform pension-scheme members; (3) remove obstacles for cross-border (broadly, IORPs with a sponsoring employer in another Member State) provision of services; and (4) encourage occupational pension funds to invest long term in growth, environment and employment-enhancing economic activities. Notably, the final proposal did *not* include previously discussed, but controversial, ideas for a new harmonised solvency standard for IORPs. The Commission noted the benefits would include: greater financial stability (given the systemic importance of some large IORPs); potential cost savings for multinational companies from consolidating pension schemes in different Member States; reduced fiscal pressure on Member States' PAYG public pension systems through better, more widespread IORPs supporting citizens' retirement income; and safer IORPs for citizens and better information on their IORP pensions, including for mobile workers, allowing for better retirement planning.

## Trilogue agreement

The Committee on Economic and Monetary Affairs (ECON) voted on a report (rapporteur: Brian Hayes, EPP, Ireland) on 25 January 2016 and to open trilogue negotiations. The resulting compromise text was endorsed by ECON on 13 July. Some key differences from the original proposal include: the removal of provisions for delegated acts; recognition of the need for intergenerational balance of risks and benefits; the need for IORPs to take account of environmental, social and governance (ESG) factors; a new process for cross-border transfer of schemes by IORPs with clearer timeframes, a limited set of assessment criteria, approval by members and a key role for both home and host countries' supervisory authorities, with EU level mediation; a funding standard for IORPs operating cross-border which is more in line with that applied to non-cross-border IORPs; and standardised core information for pension-scheme members via annual pension benefit statements, with flexibility beyond this to account for national differences. Next steps are the first reading vote in the Parliament's November plenary, and, if approved, the recast directive could then be adopted by the Council shortly after that. Member States would then have 24 months to implement the new law.

EPRS | European Parliamentary Research Service
Author: David Eatock, **Members' Research Service**
PE 593.532