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PRESS RELEASE

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A framework for improving pension security

The importance of security of occupational pensions has been highlighted by the financial crisis, and there have been calls for the Solvency II framework to be applied directly to pension plans to provide greater security for plan members. Whilst this is one possibility, it would have significant ramifications; other approaches may be more suitable for pensions. That is the principal conclusion of a report entitled *Security in occupational pensions*, published today by the Groupe Consultatif Actuariel Européen, the umbrella organisation of actuaries across Europe.

“Security of occupational pensions is all about how members are protected from a failure to deliver their pensions. A strong capital requirement is one way of doing this, but there are many consequences. Other, more flexible, approaches are possible, which in our view stand a better chance of preserving the delicate balance between the voluntary provision of occupational pensions, their generosity and cost”, said Chinu Patel, who chaired the Groupe Consultatif working party which produced the report.

The report sets out the principal issues that will need to be addressed in any attempt to bring about a uniform EU-wide regulatory regime for occupational pension plans. It offers a framework within which the issues could be addressed against the background of a very diverse pension landscape, under which uniformity and harmonisation at the EU level mean different things to different people. It also considers a number of possible approaches for improving pension security, some within the existing IORP Directive and others within a new EU-wide framework, which would require some very difficult decisions at the highest political levels.

“The principles of Solvency II are sound and the Groupe Consultatif fully supports them”, said Philip Shier, Chairman of the Groupe’s Pensions Committee, who commissioned the report. *“But a framework designed for insurance is not necessarily right for pensions. Insurance is largely contract-based with clearly defined obligations, which makes it easier to apply a uniform set of regulations, including standardised capital requirements. Occupational pensions*

have a social element which is not within the control of sponsors; hence the regulatory regime has traditionally been more flexible.”

However, the report also points to many similarities between insurance and pensions and does not rule out the potential application of some elements of the Solvency II framework to occupational pension schemes. *“But it is essential first to get the objectives right, as well as the constraints within which a solution is sought, since some of the decisions required for uniformity across the EU will require an appropriate balance to be struck between community level welfare and individual country level aspirations”,* said Chinu Patel.

The full text of the report is available from the Groupe Consultatif web site at http://www.gcactuaries.org/documents/IORPSecurity_full_May2010.pdf

Notes to Editors:

The *Groupe Consultatif Actuariel Européen* was established in 1978 to represent actuarial associations in the countries of the European Union. Its purpose is to provide advice and opinions to the various organisations of the European Union (EU) - the Commission, the Council of Ministers, the European Parliament, CEIOPS and their various committees – on actuarial issues in European legislation.

The *Groupe* currently has 36 member associations in 33 countries, representing over 17,000 actuaries. The actuarial associations in 26 of the 27 Member States of the European Union (Malta does not yet have an actuarial association) are currently members of the *Groupe*, along with associations in EEA countries, Switzerland, and a number of EU candidate states.

Advice and comments provided by the *Groupe* on behalf of the European actuarial profession are totally independent of industry interests.

The *Groupe* regularly publishes, via its web site (<http://www.gcactuaries.org>), surveys amongst its member associations on issues of topical relevance in pensions, insurance and investment and financial risk.

Chinu Patel is a consulting actuary and has been a member of the *Groupe Consultatif Pensions Committee* for several years. He has contributed to and edited a number of reports and surveys on pension security.

Philip Shier has been Chairman of the *Groupe’s Pensions Committee* since 2005. He is a Past President of the Society of Actuaries of Ireland and a consulting actuary.

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