



OPSG Feedback Statement on EIOPA Good practices on information provision for DC schemes – Enabling occupational scheme members to plan for retirement

(Consultation EIOPA-BoS-13/010 24 January 2013)

Feedback statement from the OPSG

Information to members of pension plans is for OPSG of outstanding importance to make people better aware about how to build their future. The OPSG has issued a statement on information for members of occupational pension plans¹.

The OPSG finds the EIOPA report on good practices on information provision for DC schemes² an important contribution to the development of the legal framework for occupational pensions and private pensions at European level and in the Members States.

The landscape of pension provision in Europe is changing. The content and importance of the different pension pillars, pillar 1 public pensions, pillar 2 occupational pensions and pillar 3 personal pensions are changing. Due to serious economical necessities in a global environment of growing competition governments, employers and IORPs are increasingly shifting risks and the responsibility for individual financial planning towards members of pension schemes particularly via defined contribution (DC) schemes.

Members of the schemes – the non-professionals - are increasingly required to make decisions that used to be taken by the professionals managing the schemes. The purpose of information is changing from a legal purpose to a more operational purpose.

Member States should consider the development of developing specific financial and retirement educational plans.

Occupational pensions are very different. Some of the schemes are covered by the IORP directive others are not. Some of the schemes are defined benefit (DB) schemes some are defined contributions (DC)

¹ OPSG Statement on Information for members of occupational pension plans. EIOPA-OPSG-12-10, 6 March 2013.

² Good practices on information provision for DC schemes – Enabling occupational DC scheme members to plan for retirement. EIOPA-BoS-13/010, 24 January 2013.

EIOPA OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

FEEDBACK STATEMENT ON GOOD PRACTICES ON INFORMATION PROVISION FOR DC SCHEMES – JUNE 2013

schemes. Some schemes are not called occupational pensions, but private pensions. In some schemes members have no choices in other schemes members have a lot of choices.

In many schemes employee representatives or social partners are involved. This additional component is in particular with DC schemes suitable to support scheme structure and responsibility, to increase information quality and members confidence.

Cost is an important factor for pension benefits. In a low interest environment cost efficient investing as well as efficient plan operation are becoming of increasing importance. It is of importance to both DC and DB schemes and to both the employee and the employer. It depends on the type and construction of the scheme if costs appear to be of importance – or direct importance – to employers or employees. It depends also on the type and construction of the scheme if it is the employer or the employees who can influence the costs and the efficiency of the scheme.

The knowledge of employers as well as employees regarding the costs and the possibility to influence the costs vary from scheme to scheme. The awareness as regards costs is only at the starting level.

The distribution of costs between the employer (and eventually a practical/technical provider of the scheme) and the employee as regards fees or costs for administration advisory services, investment management, information services etc. is not the same in all schemes and not always disclosed in a clear and detailed way. It depends on the distribution of costs if costs are borne by the employer as an extra economic burden increasing the cost of labor or by the employees as a reduction in the investment or a reduction of the return of investment.

More transparency is needed with regard to costs. The total expense ratio (TER) for cost of investment could be disclosed in the annual reports as the case is in Switzerland³. Depending on the scheme design, members might or might not be affected by inefficient operation. In final salary plans, fixed amount benefit plans and plans with a guarantee, members will not be directly affected by higher cost because of inefficient operation due to the "overriding" plan design. In all other scenarios, whether it will be a DB or a DC plan, incurred costs will (negatively) influence benefit levels and/or member contributions unless the employer undertakes to meet these costs.

The Irish Government has recently published a report on charges which may be of interest to read.⁴

Purpose of the EIOPA report on good practices

"With this report, as EIOPA, we wish to support for European and national policymakers when they draft information requirements for occupational Defined Contribution (DC) schemes where members bear the investment risk and in particular the format of annual statements and pre-enrolment information."

(pg. 3)

Key recommendations of the report

The good practices report is very interesting. It recommends to policymakers a new approach to information provision.

The recommendation is based on what behavioural economics and communication science can tell us about how humans process information and make financial decisions.

³ Swiss Competent Authority (Oberaufsichtskommission); instruction – 02/2013; p 4 ff.

⁴ <http://www.welfare.ie/en/Pages/Report-on-Pension-Charges-in-Ireland-2012.aspx>

EIOPA OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

FEEDBACK STATEMENT ON GOOD PRACTICES ON INFORMATION PROVISION FOR DC SCHEMES – JUNE 2013

The report gives a presentation of the lessons from behavioural economics and communication science and adds to that a collection of good practices from various member states.

The important message in the report is that information provision that used to have foremost a legal purpose is changing. It used to be: Pension members need to have information that precisely document their rights and duties. The new approach is that the legal purpose is not sufficient and people need first and foremost “key information”.

In many ways the report is in harmony with the OPSG Statement on Information for members of occupational pension plans.

A cornerstone of the report is a checklist for drafting information requirements.

Checklist for drafting information requirements

<i>Preparation</i>	1	Have a behavioural purpose
	2	Provide a first layer of information that answers key questions of members
	3	Ensure that information is retrievable
	4	Ensure that the information provided is comprehensible
<i>Actual drafting</i>	5	Optimise attention
	6	Reduce complexity
	7	Provide figures that enable personal assessment and understanding
	8	Show potential implications of risks and ways to deal with them
	9	Support readers as much as possible towards financial decisions
<i>Testing</i>	10	Ensure thorough testing among members

Policymakers and experts should anticipate on the financial decisions members need to make. Therefore, they have to

- 1) Think through their behavioural purposes;
- 2) Provide layers of information, where, in the first layer, members’ key questions are answered and
- 3) In further layers legal or more complex information is retrievable;
- 4) Information is comprehensible and
- 5) Support members as much as possible towards financial decisions.

The report explains how people process information and make financial decisions and introduces as a benchmark Max, who is not a homo economicus. Then the report presents the new approach to information requirements and ends up with implications for the review of the IORP Directive.

Responsibility

The question of responsibility is not part of the report.

Who is responsible for the quality of the pension scheme?

When is the member responsible?

EIOPA OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

FEEDBACK STATEMENT ON GOOD PRACTICES ON INFORMATION PROVISION FOR DC SCHEMES – JUNE 2013

The pension provider is responsible for the structure and operation of a pension scheme and for the majority of decisions that are made. The pension provider is also responsible for asking the members to make the decisions that members must make and the decisions that members can make.

The OPSG Statement on Information for members of occupational pension plans does not propose a change in responsibility. The tacit assumption is that the pension provider is responsible for the product and services. The member shall through better information have improved possibilities to look into his or her pension and make the decisions he or she has to make within the scheme based on the information. The information shall also make it possible for members to make relevant decisions outside the scheme. That includes decisions on supplementing a DC scheme or a DB scheme by taking up private pensions outside the scheme.

The provider has an obligation to deliver pensions of the type and quality defined in the statutes of the scheme and in the contract with the member. Members shall be invited by the pension provider to make the decisions that the members have to make and the decisions that the members can make.

The member has to make decisions on the questions open to decision by the member. A member can improve the quality of the pension by making the right decisions or undermine the quality of the pension by making the wrong decisions.

The EIOPA report with the recommendation to use an approach focusing on members' key questions and how to engage the members in the decision making can be interpreted as a road to a change of responsibility. The main obligation of the provider is to deliver pension; information at the state of the art is a necessary additional service.

If the obligation to deliver information and create an information system that focuses on decisions that members shall make becomes too prominent is the door open to the next step: Changing the responsibility for the basic quality of the pension from the provider to the member. The claim could be that the member had the possibility to ask for information and make decisions.

It is important to come clear about the responsibilities. A distinction should be made between decisions that members must make and decisions that members can make. Many members neither understand nor expect that they have to make decisions.

Policy makers must be determined to stress that the main obligation of information providers is to deliver pensions. Information is only a tool.

Information providers who find that members do not make crucial decisions in spite of the communicative efforts of the providers should not say that members are to blame for the poor results, but consider the model. If the model requires members to make decisions, but the provider is unable to reach the members then perhaps the model should be changed, so that members only have to make the decisions that the provider can move the members to make.

The purpose of information

The purpose of Key Information to members of DC Schemes) is different from the purpose of the UCITS Key Investor Document (KID).

The purpose of the UCITS KID is to make it easy for investors to compare different investment possibilities. The information is always at the same place in all the KID documents and that should make it possible even for Max to see that UCITS are different. Then Max can start asking questions and later make a decision. It is a pre-contractual information document, but because it is possible to buy and sell UCITS is the KID for UCITS with the standardized information and presentation useful during the investment period for comparing different UCITS.

EIOPA OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

FEEDBACK STATEMENT ON GOOD PRACTICES ON INFORMATION PROVISION FOR DC SCHEMES – JUNE 2013

For occupational pensions is the purpose different. Membership of the scheme is often not a choice. The membership may be a mandatory part of an employment contract. But it is relevant for Max to be informed about the scheme when he starts the new job and becomes member of the new scheme. It is important that Max is invited to make the choices that he is able to make. It is important to inform members of the investment results, the costs, the expected pension etc. so that members can make informed decisions about the choices within the scheme and the possibility to supplement the scheme with a private pension.

Even for defined benefits (DB) schemes is it important that members are informed about their rights and duties and the expected result of the scheme so that they can make informed decisions on the need to supplement the scheme with a private pension.

It is also for members of DC and DB schemes important to know the development of the scheme and be able to compare with other schemes if they have the possibility to influence the scheme or the corporate governance of the scheme.

The purpose for information and consequently the need for information is not the same for UCITS and for pensions. For UCITS is the standardized information and presentation adequate. For pensions is a more flexible approach based on proportionality more in demand. But a basic standardized information document can be a useful tool exposing the basic differences in risks and costs⁵.

Trust in information

The EIOPA good practices report mentions the importance of reliability of information. OPSG would like to enforce it even more. Many DC occupational pension schemes are managed by private asset management companies and ordinary people do not perceive information provided by the firms as unbiased. If possible some part of clearly marked information should be prepared by national authority or at least based on official data. A link to supervisor's web-site is needed.

To encourage Member States to support employee representatives or social partners involvement may also be an adequate instrument to improve quality and trust in information and its acceptance.

Implications for the review of the IORP Directive

In the answer to the call for advice on the review of the IORP directive EIOPA stated that a KID-like document could be used as part of the pre-enrolment information and the annual statement. One of the questions is to which degree this KID document related to the IORPs could use the elements from the UCITS Key Investor Document.

The consequence of the new approach recommended in the report is that the starting point for information requirement shall be the "behavioural purposes" of the information. This leads to a call for a flexible approach.

The proposals or recommendations in the chapter on implications for the review of the IORP Directive are complex. An important point is the differences between a KID like the one for UCITS and the flexible approach recommended in the report.

The new approach recommended in the report is connected to the relations between the issuer of information (the pension provider) and the receiver of the information (the member). The starting point is that the provider shall have a behavioural purpose when sending out information to meet the key questions of the member.

⁵ See the OPSG Statement on Information for members

EIOPA OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

FEEDBACK STATEMENT ON GOOD PRACTICES ON INFORMATION PROVISION FOR DC SCHEMES – JUNE 2013

But the real challenge is that too many members don't ask questions. If we are certain that they don't need to ask questions, no problem.

But many members have low financial capability. They need support and the initial behavioural purpose should be: To get members to understand their own situation to such a degree, that they start posing questions.

Gains out of the involvement of employee representatives or social partners as multipliers or trusted bodies should not be neglected.

The lessons from the behavioural economics and communication science are relatively clear in the relations between the pension provider and the members. But the implications for the policymakers and the experts are less clear.

It was easy to set up information requirements with the classic legal purpose. It is more difficult to set up information requirements to cover the flexible information needs of the new approach.

Part of the EIOPA report is a presentation of various good practices that work in different systems, however it should be emphasized that an information system must be coherent. It is important to design exclusively for a particular pension program.

The collection of good practice examples could be further developed to a tool kit that other authorities and other pension providers could use when developing their own systems.

*

*

*

Adopted by the EIOPA Occupational Pensions Stakeholder Group via written procedure closed on 28 June 2013,

The Chairperson of the EIOPA Occupational Pensions Stakeholder Group

Chris VERHAEGEN