



Press Release

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EIOPA launches pensions stress test and quantitative assessment on solvency for occupational pension funds

- The stress test assesses resilience to adverse market scenarios and a longevity scenario;
- The stress test provides insight and raises awareness of the occupational pensions' sector risks and vulnerabilities;
- Quantitative assessment to support advice to European Commission on solvency.

Frankfurt, 11 May 2015 Today the European Insurance and Occupational Pensions Authority (EIOPA) has launched its first stress test for Institutions for Occupational Retirement Provision (IORPs), and a quantitative assessment of further work on solvency of IORPs.

The stress test will assess the resilience of IORPs and their pension schemes to adverse market scenarios and a longevity scenario. The exercise will be conducted in seventeen European countries with material IORP sectors covering at least 50% of their national market.

The stress test covers both defined benefit (DB) schemes and defined contribution (DC) plans. IORPs providing DB schemes have to calculate the impact of adverse scenarios on a common, holistic balance sheet and their national balance sheet. A dedicated satellite module for DC IORPs analyses the effects of a variety of shocks on future retirement income of three representative plan members, which start to receive pension benefits respectively 5, 20 and 35 years from now.

The stress test will provide insight and raise awareness of the occupational pensions' sector risks and vulnerabilities, while potential transmission mechanisms of IORPs to the rest of the financial sector and the real economy will also be evaluated.

Quantitative assessment on solvency

The quantitative assessment will gather data of IORPs on potential uses of the holistic balance sheet within an EU-wide supervisory framework. The outcomes will support EIOPA in further developing its Advice to the European Commission on EU solvency rules for IORPs.

The quantitative assessment follows last year's consultation paper on further work on solvency of IORPs. In it EIOPA put forward proposals to simplify the valuation of

technical provisions and sponsor support using a principles-based approach. The consultation paper also discussed possible uses of the holistic balance sheet, such as an instrument to set funding requirements or a risk management tool to assess the long-term sustainability of pension funds. Today, the feedback of stakeholders to the consultation paper has also been published on EIOPA's website.

EIOPA expects to deliver its Advice to the European Commission in March 2016.

Cooperation with national supervisors

The selection of the IORPs which will be finally involved in every jurisdiction will be made by national supervisors. They will keep as well the prerogative of the direct contact with IORPs for the data submission, during the quality assurance phase to deal with any validation issue, and during the Questions & Answers (Q&A) process, which EIOPA will have in place during the exercise with weekly updates on its website.

The stress test and the quantitative assessment will be conducted in parallel to minimise the burden on IORPs. Both exercises will run until 10 August 2015.

Gabriel Bernardino, EIOPA's Chair: *"Pension funds are already experiencing a challenging environment with low interest rates and rising life expectancy. A key vulnerability for the occupational pensions sector is a prolonged period of low interest rates combined with a fall in asset prices due to a re-appraisal of risk on financial markets. The stress test will retrieve valuable information on the sensitivity of IORPs, sponsoring undertakings and members and beneficiaries to such a scenario."*

Click [here](#) to view the Occupational pensions stress test webpage

Click [here](#) to view the Quantitative assessment webpage

Note for Editors:

The Consultation Paper on Further Work on Solvency of IORPs was published on 13 October 2014 and the consultation period ran until 13 January 2015. EIOPA received 77 responses to the consultation of which 12 confidential. The non-confidential responses have been published on EIOPA's website as well as EIOPA's reasoned feedback on the stakeholder responses to the valuation part of the consultation paper. Reasoned feedback on the supervisory responses part of the consultation paper will be provided together with the publication of EIOPA's Advice to the European Commission on EU solvency rules for IORPs in the beginning of 2016.

The quantitative assessment constitutes the next step in EIOPA developing its advice to the European Commission. The aim of the assessment is to collect data from IORPs on the possible implementation of various supervisory frameworks. IORPs will have to calculate two baseline scenarios comprising the valuation of the holistic balance sheet including all security and benefit adjustment mechanisms and the calculation of a Solvency Capital Requirement (SCR). In the first baseline scenario the elements on the holistic balance sheet have to be valued using the basis risk-free interest rate, in the second baseline scenarios the elements on the holistic balance sheet have to be valued using the expected return on assets. The outcomes for these two baseline scenarios can be used to derive other examples of supervisory frameworks, which exclude specific security and benefit adjustment mechanisms.

The IORP stress test 2015 consists of a core module for IORPs providing defined benefit (DB) or hybrid schemes and a satellite module for IORPs providing defined contribution (DC) schemes. IORPs providing DB/hybrid schemes have to assess the impact of two adverse market scenarios and one longevity scenario on their national prudential balance sheet and the common holistic balance sheet. The baseline scenario in the core module corresponds to the first baseline scenario in the quantitative assessment. The two adverse market scenarios have been developed by the European Systemic Risk Board (ESRB), in cooperation with ECB and EIOPA.

The satellite module for DC IORPs analyses the impact of adverse scenarios on future retirement of three representative plan members which start to receive pension benefits respectively 5, 20 and 35 years from now. Five adverse scenarios are distinguished; two scenarios with an instantaneous fall in asset prices, two scenarios with lower future investment returns and one scenario with an increase in life expectancy. The satellite module takes a top-down approach. Participating IORPs only have to provide input data on the features of the representative plan members and their DC plan. The calculations will be performed by EIOPA using a dedicated spreadsheet tool, which has been made available on EIOPA's website.

The stress test has been designed for the countries where the IORP sector exceeds 500 million euros in assets. The following Member States fall within this scope: Austria, Belgium, Cyprus, Germany, Denmark, Spain, Finland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Slovenia, Slovakia and the United Kingdom.

EIOPA

The European Insurance and Occupational Pensions Authority (EIOPA) was established on 1 January 2011 as a result of the reforms to the structure of supervision of the financial sector in the European Union.

EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.