OPSG

OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

Advice on Consumer Trends

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BACKGROUND

EIOPA is required under its Regulation to collect, analyse and report on consumer trends . To date, EIOPA has produced nine Consumer Trends Reports. The term 'consumer trend' is not defined in EIOPA's Regulation. EIOPA therefore devised the following working definition:

"Evolutions in consumer behaviour in the insurance and pensions markets related to the relationship between consumers and undertakings (including intermediaries) that are significant in their impact or novelty"

The term 'trends' is understood in a broad sense: it covers, for example, evolutions in volumes of business or in the relationship between customers and undertakings/intermediaries, as well as the emergence of new products or services, or other linked financial innovations. The trend may already be consolidated for a number of years, but it may also be only emergent, with the possibility of becoming significant in the future.

The report aims to inform EIOPA in the identification, prioritisation and development of targeted policy proposals or issues requiring supervisory measures. EIOPA seeks to identify possible consumer protection issues arising from identified trends. Nevertheless, positive developments are also identified and highlighted.

For the development of Consumer Trends Report, EIOPA follows an agreed upon methodology, which includes collecting inputs from stakeholders.

Questions

The questionnaire follows a similar structure as the questionnaire shared last year, however the inputs sought on specific products, risks or issues observed in the market should NOT ONLY be focussed on the COVID-19 situation.

Like in the past years, EIOPA would like to collect informal input from stakeholders to complement the other sources of information available for the Consumer Trends Report. In addition to your experience as stakeholders, it would be very useful if you could attach or provide the links to any relevant sources of information to complement your feedback. You are also encouraged to refer to specific examples they may have observed at national or European level.

1.1. Top 3 risks and positive developments observed in the market

1.1.1. Top 3 Consumer Protection Issues

Kindly highlight what are the most concerning consumer protection issues. The information on product specific initiatives will be requested in section 3 of the questionnaire.

Note: The wording 'first', 'second', and 'third', is not meant to rank the top 3 issues.

Consumer Protection Issue 1

Christian Gülich, Beneficiaries (Germany):

Due to the enforced "low for long" interest rate phase by the economic impacts of the Corona crisis the NCA (BaFin) published several statements that in April 2021 40 IORPs (out of 135 "Pensionskassen") are under "intensified supervision" (cf. speech of Executive Director Frank Grund of 10 March 2021, Annual Conference of 21 April 2021, Annual Report of May 2021). This mainly implies that these IORPs had to ask their sponsors for additional capital ressources and/or that they have to fulfill additional reporting requirements towards the NCA. The NCA stresses that additional IORPs may be put under "intensified supervision" in the long run.

Valdemar Duarte, IORPs (Portugal):

COVID-19 pandemic is having a big impact on people's jobs and lives. The segments associated with Tourism, namely restaurants, passengers' transportation and accommodation / hospitality, are in Portugal, amongst the most affected sectors. In this context, the Portuguese Authorities have been implementing several measures to help companies and citizens in order to minimize the effects of the pandemic crises and to allow companies and households to overcome the current situation (see initiative 1 of point 2.1.2).

Antonello Motroni, IORPs (Italy):

Basically, Italian pension schemes performed well during the pandemic. No delays or interruptions in the operational activities occurred thanks to the work from remote. Also board meetings and general assemblies moved from physical to virtual meetings by law (the provision is still in place). Members were encouraged to communicate with the scheme through mail.

Italian legislation provided members with the legal right to request for early withdrawal already before the pandemic, so no changes occurred to the legislation. Despite the opportunity members have behaved wisely, not asking for early withdrawal. Data shows that requests for early withdrawal in 2020 were in line with previous years. This important achievement has been reached also thanks to communication campaigns and active engagement with members asking for early withdrawal.

Despite the economic crisis also the contribution flowing to pension schemes (IOPRs+PPPs) did not curb during 2020 and instead slightly increased compared to 2019. No differences were recorded between IORPs and PPPs, despite the differences in the eligible members.

All in all no liquidity risks emerged.

Consumer Protection Issue 2

Christian Gülich, Beneficiaries (Germany):

The second very important economic impact by the enforced "low for long" interest rate phase is that the minimum interest rates often guaranteed by the IORPs had to be decreased at least for new contracts. BaFin clearly stressed that those IORPs under the supervisory regime of IORPs II-directive had to decrease the minimum interest rate for new contracts (maximum 0,25%, some of them still offering even more than 0,9%). Additionally any "surplus" or "profit participation" of tariffs calculated like life-insurers will even be more reduced or completely suppressed.

Christian Gülich, Beneficiaries, and Stefan Nellshen, IORPs (Germany):

This may have the additional consequence for those future beneficiaries without a fixed guaranteed pension calculation parameter ("Rentenfaktor"), i.e. for example in contracts providing for a minimum guaranteed benefit plus an additional profit participation, that either future payouts will be reduced or they will have to increase their contributions to be able to expect the same result. In a worst-case-scenario of course many IORPs have due to their constitutional documents– as a measure of last resort - for the possibility of a reduction of current payouts by IORPs (so called "Sanierungsklausel"). The NCA has to approve this measure as this has already been done in three cases in 2019/20.

Valdemar Duarte, IORPs (Portugal):

Taking into consideration the dynamics and evolution of the theme of "Sustainable Finance", it is important to assure that investors are well informed and are making conscious investment decisions in this field. In order to avoid any attempt of greenwashing, Europe has been launching several initiatives (some already in force), harmonizing rules, establishing important concepts and fixing rules of transparency that must be fulfilled by several market participants, including Pension Funds and its Management Companies.

Antonello Motroni, IORPs (Italy):

Portfolios are slowly shifting toward riskier profiles, due to the enduring low interest rate. The appetite for illiquid assets is growing but the investments are far below the thresholds fixed by the law for these asset classes.

The low interest rate environment is particularly challenging for guaranteed lines. These investment options are the default for employees automatically enrolled through the so called "Silenzio-assenzo" (tacit approval) mechanism for the Trattamento di fine rapporto (TFR, a severance payment equal to 6.9% of the monthly wage). These options have to get a return comparable to that of TFR (the yearly return of the TFR is defined by the law and it is equal to 1.5% + 75% of CPI). The low interest rate makes it increasingly challenging to find asset managers (there is a legal constraint to invest assets through asset managers, banks, fund managers, insurance companies) for these investment lines, moreover the costs increased sharply and returns plummeted.

At the end of 2020 members of guaranteed lines of closed occupational pension schemes accounted for 24% of total membership (40% at aggregate level IORPs+PPPs).

Consumer Protection Issue 3

Christian Gülich, Beneficiaries (Germany):

IORPs in run-off: two "Pensionskassen" were not able to fulfill the SCR on 31 December 2020 (Bafin Jahresbericht 2020, S. 83). Therefore any new business was forbidden by the NCA.

Very surprisingly additionally in October 2020 Allianz announced that its "Pensionskasse" will go into run-off from 2022 on. It is the second biggest Pensionskasse in Germany with more than 838.000 future beneficiaries and more than 27.500 current beneficiaries (balance sheet: 12,8 bn Euro) in 2018. Main raison for this decision is the ongoing low interest rate phase and the problem of guarantees given. If one of the biggest players in the national market takes such a step, it was interpreted that other smaller IORPs could follow.

https://www.lbav.de/allianz-schickt-pensionskasse-in-den-run-off/

Valdemar Duarte, IORPs (Portugal):

Fees charged by Pension Funds have been under scrutiny by Regulators, especially with regards to the costs related to the transfer of vested rights from one Pension Fund to another. The fees charged to Members of PPR (Portuguese Individual Retirement Savings Product), have already been capped at 0,5%, in those cases where there is a guarantee on the capital invested and /or on the return on investment, while PPR that do not offer such guaranties were not allowed to charge any fee on the transfer of the accumulated amount to another similar product (from the same provider or from a different one), and this limitation was extended to individual contributions to Pension Funds / Plans.

Antonello Motroni, IORPs (Italy):

An emerging risk is stemming from compliance to the regulation, both domestic and european. IORP2 (as transposed and regulated at second level), ESG disclosure (SFDR, SRD), GDPR… (upcoming DORA regulation) stand on very thin staff and are triggering a sore in the costs and in the administrative burden that, in the end, are borne by members/beneficiaries, while giving no or limited advantage to members/beneficiaries.

Given their social purpose, at EU level, IORPs should deserve a better and targeted legislative treatment, different from the one recognized to other financial institutions.

2.1.2. Top 3 Initiatives Observed

Kindly provide information about the top 3 initiatives observed. These can be initiatives put in place by pension funds to ensure the fair treatment of consumers. Initiatives referred to in this section should be focused on specific actions taken to guarantee the fair treatment of policyholders/members/savers in general.

Note: The wording 'first', 'second', and 'third', is not meant to rank the top 3 initiatives.

***Initiative 1*,**

Christian Gülich, Beneficiaries (Germany):

In June 2020 the German legislator adopted the law on IORPs solvency protection especially for those IORPs being under the IORPs II-regime. Now all these IORPs have to pay contributions to this general solvency institution ("Pensions-Sicherungs-Verein" – PSV) which shall guarantee the payouts in case of insolvency of the sponsors (cf. BaFin Jahresbericht 2020, S. 69). Additional information on the number of concerned beneficiaries and other occupational pension schemes can be found here:

https://versicherungswirtschaft-heute.de/politik-und-regulierung/2021-05-28/sind-betriebsrenten-wirklich-sicher/

In Germany due to the corona-crisis especially for small and medium sized companies there was a "moratorium" of the legal procedure of insolvency for about one year (from Q2 2020 to Q1 2021). In consequence it is not yet clear, how many sponsors are possibly concerned by an future insolvency procedure.

Valdemar Duarte, IORPs (Portugal):

One of the measures stablished, during the first Portuguese "State of Emergency" (which lasted between 19th March and 2nd May), was related with the possibility to request the redemption of PPRs (individual Retirement Savings Product, that can assume the form of a Pension Fund, a Mutual Fund or an Insurance), if the investor or any member of his household were under one of the specific situations, foreseen in the law, that allows the access to this extraordinary regime without any tax penalties.

The specific situations cover workers who are in prophylactic isolation or illness, or providing assistance to children or grandchildren, in partial or total lay-off, unemployed, that have a drop in the relevant average monthly income greater than 40% or that are eligible to certain extraordinary supports granted by the government. The maximum amount that can be reimbursed, each month, was fixed at one IAS - Social Support Index (438.81 €). For those who are benefiting from the deferral rental payment regime in an urban building agreement for their own permanent use, the amount of redemption can reach to one and a half times the IAS.

Nevertheless, according with the information reported to APFIPP by its Members, the solicitations under the referred regime are almost non-existent and Pension Funds PPR market represents less than 4% of the total PPR Industry (since PPRs can assume, also, as mentioned above, the form of Insurance and Mutual Investment Funds).

Antonello Motroni, IORPs (Italy):

During the pandemic the communication had been key to avoid members to request early withdrawal. Communication (web sites, publications, direct engagement) was (is) based on three messages:

1) the pension scheme continued to work as usual even though from remote; inviting members to engage with mails.

2) The assets were (are) invested wisely and safely. Asset managers were (are) prepared to deal with every market condition, also the worst-one; besides pension funds are long-term investors and in the long run the losses turn into returns (indeed it happened).

3) Discourage early withdrawal as in a long term perspective it would put at risk the achievement of the pension target; ask for early withdrawal only if really needed.

Initiative 2

Christian Gülich, Beneficiaries (Germany):

In February 2021 the *German Actuarial Association (DAV)* published a study justifying the forthcoming reduction of the guaranteed minimum interest rate for life-insurers and IORPs by the legislator. It argued that - under the ongoing conditions of low or zero interest interest rates - strongly reduced or even no guarantees could increase the return of long-term pension plans.

Only by reducing or completely abolishing the capital guarantees the returns will be high enough to cover the costs.

https://aktuar.de/unsere-themen/fachgrundsaetze-oeffentlich/2021-02-26_DAV-IVS-Ergebnisbericht_Garantien_bAV.pdf

These conclusions were criticized by the *German Association of Insured (BdV)* by stressing that first the costs of distribution, of administration and of investment have substantially to be reduced by the product providers (public position paper of 31 March 2021 on website). Nevertheless the legislator followed the proposals of the actuaries: now the highest level of interest rates guaranteed for the entire contract duration by life-insurers and IORPs (under the Solvency II-regime) is at 0,25%.

https://www.bundderversicherten.de/files/stellungnahme/pdf/de/2021-03-31-bdv-stellungnahme-hochstrechnungszins.pdf

Valdemar Duarte, IORPs (Portugal):

During 2020 and the beginning of 2021 there was a significant adoption of teleworking by Pension Funds Management Companies, and a reinforcement / preference for digital communication, both internally and externally (e.g.: clients and supervisory authority). There were also, in some cases, specific flexibility measures (e.g.: suspension of the requirement to provide "life proof" documentation or postponement on the deadline of its submission), in an effort to maintain the usual levels of business and to avoid any service interruptions that could jeopardize participants and beneficiaries. The significant changes occurred and the adjustment implemented are being analysed by several Organizations in order to identify aspects that could persist into the future.

Initiative 3

Christian Gülich, Beneficiaries (Germany):

In May 2021 the *German Association of Insured (BdV)* together with two other national consumer organizsations asked via a public event in Berlin for a "Stop" of the Riester-Pensions. These are PPPs, strongly supported by state allocations and taxe incentives since 2001 (in recent years about 3 bn Euro each year), but despite these huge state efforts the sales of these PPPs stagnate for years now, as official statistics by the Federal Ministry of Labour and Social Affairs show (about 16 millions contracts, mostly by life insurers).

https://www.bmas.de/DE/Service/Statistiken-Open-Data/Statistik-zu-Riester-Vertraegen/statistik-zusaetzliche-altersvorsorge.html

Payouts are too low, due to a mixture of reasons: high distribution and administration costs, 100% return guarantee of contributions paid ("Beitragsgarantie") and mandatory annuity as payout option. BdV asks for real choices of different payout options (full one-off payouts (not limited to 30% of accumulated savings), timely unlimited draw-down plans (now possible only until the age of 85), temporary annuities, combinations etc.) and of course the strict reduction of costs.
https://www.bundderversicherten.de/presse-und-oeffentlichkeitsarbeit/pressemitteilungen/stoppt-die-riester-rente

Valdemar Duarte, IORPs (Portugal):

Regarding "Sustainable Finance" topic, is important to highlight the effort done by the Pension Funds Management Companies not only to comply with the rules foreseen in IORP II, that were transposed, last year, into the Portuguese Regime of Pension Funds, (Law n.º 27/2020, on July 23, which entered into force on 1st August 2020), but also, in relation to the Regulation (EU) 2019/2088 of the European Parliament and of the Council, of 27 November 2019 (SFDR), where besides the necessity to publish information about: i) their policies on the integration of sustainability risks in their investment decision-making process; ii) the considerations of principal adverse impacts of investment decisions on sustainability factors; iii) and other elements especially related to the products; we assisted, also, a movement, where several Companies decided to established concrete policies in this field and designated, in some cases, Chief Sustainability Officers.

2.2. Product related trends

You are invited to explain how the members in occupational pension schemes and demand and/or offer personal pension plans and products has increased/decreased/remained unchanged, during 2020. Please, where relevant, refer to any possible financial innovations, market developments, and/or changes in market practices, as well as any possible consumer protection issues arising from such developments.

	Developments in demand / offer / financial innovations / market environment / market practices/ consumer protection
Occupational pension schemes overall	**Christian Gülich, Beneficiaries (Germany):** Total figures for IORPs not yet available for 2020, probably a slow increase of contracts following to BaFin's 2020 Annual Report. One must not forget that "Pensionskassen" and "Pensionsfonds" are only two out of five vehicles of occupational pensions in Germany, which *together* represent only about one quarter of the total market of occupational pensions (following to figures by GDV-Association of German Insurers for 2019): https://www.gdv.de/de/themen/news/betriebliche-altersversorgung-weiter-auf-wachstumskurs-60730 **Stefan Nellshen, IORPs (Germany):** Additionally, the German supervisory authority intensified supervision against many IORPs regarding operative processes before the background of the Covid-crisis: several interviews with IORPs have been done by the authority in order to assess if the operative business processes of the IORPs can be continued without any severe disturbance and also in order to assess other difficulties which might arise out of the crisis. Furthermore, the German government reacted and simplified rules for supervisory board meetings and general (annual) meetings in order to make also virtual formats for

	these meetings possible. However, according to current las this is only possible in 2020 and 2021. Also, the German supervisory authority issued two new circulars affecting IORPs: the first one specifies minimum standards regarding organization and governance of IORPs, whereas the second one sets specific requirements regarding the own risk assessment (ORA resp. ERB). **Valdemar Duarte, IORPs (Portugal):** In the context of COVID-19 pandemic, the Insurance and Pension Funds Portuguese Supervisory Authority (ASF), in line with the guidance issued by the European Insurance and Occupational Pensions Authority (EIOPA), published some extraordinary and urgent measures in order to facilitate the monitorization and supervision of the situation of the sectors under its supervision (*links*). Regarding Pension Funds, the Portuguese Supervisory, despite introducing some flexibility in relation to the deadlines of some periodical supervisory reporting and other public disclosures, has imposed a set of new reports covering specific extraordinary information, namely related with: i) Portfolios; ii) Reimbursements made under Individual Savings Plans (PPR and other Open-ended Pension Funds); iii) Defined Benefit Plans Liabilities; and iv) other quantitative and qualitative indicators related with markets conduct supervision. Additionally, the Supervisor established an extraordinary questionary regarding some specific conduct indicators related with COVID-19 (e.g.: suspension/delay on contributions; early withdrawals; payment of benefits in case of death; complains received; …).
Occupational pension schemes (Defined Benefits)	**Christian Gülich, Beneficiaries (Germany):** Following to Bafin's Annual Report 2020 (published in May 2021) "**Pensionskassen**" (IORPs mostly with business models like life-insurers) earned in total less GWP in 2020

	(6,5 bn Euro - 5,4% less than in 2019). BaFin did not publish the total figures of new and ongoing contracts of *Pensionskassen* (following to the GDV-Association of German Insurers in 2019 there were about 3,7 million contracts of PK). In contrast "**Pensionsfonds**" (actual pension funds) were able to increase the total GWP (from 2,6 bn Euro in 2019 to 5,0 bn Euro in 2020). But this is mainly due to the fact that they strongly depend on one-off payments which are very volatile. They have concluded only about 96.000 DB, but about 707.000 DC pension plans. **Valdemar Duarte, IORPs (Portugal):** According to ASF, in 2020, the amount managed by Portuguese DB Occupational pension schemes rose by 4.2%. Compared to the previous year, contributions to Portuguese DB Occupational pension schemes fell 33.5% in 2020, partly explained by the fact that, in 2019, there was an increase in the volume of the contributions to some of the largest funds, in order to face the increase in the value of the liabilities resulting from the downward revision of the discount rates. The transposition of the IORP II Directive, mentioned above, was a chance to review some details of the Legal Regime Governing Portuguese Pension Funds. Amongst the novelties, it is worth mentioning the extension of the "Flexible Pensions" (allows the beneficiaries of Occupational Pension Plans to receive their benefits directly from Pension Funds without having to mandatorily buy a life annuity) that already is in place for the payment of benefits originated in DC Plans to the benefits paid by DB Plans. This new possibility needs to be further regulated by ASF, which has not been done yet. **Antonello Motroni, IORPs (Italy):**

	During 2020 the membership continued to grow especially thanks to the automatic enrolment envisaged by some collective agreements bargaining of some economic sectors. The challenge for the receiving IORPs is now represented by the change of the status of these membership (from automatic to explicit membership), to trigger all the sources of contributions available for members of IORPs (adequacy).
Occupational pension schemes (Defined Contributions)	**Christian Gülich, Beneficiaries (Germany):** Pure DC pension plans ("reine Beitragszusage") may be offered in Germany only since 2018 and only by binding collective agreements. This restrictive legislation is very probably the reason why until now – even under the enhanced general conditions of the "low for long" interest rate phase – only one such pension plan is concluded so far, but not yet implemented (and this has been a so called house-tariff contract for an insurance company offering that product). Still the model of minimum guarantees as well for the accumulation phase as for the decumulation phase is prevalent in the public opinion. Study of Willis Towers Watson on pure DC schemes and the lack of interest in Germany: https://www.lbav.de/87-versus-35-die-haelfte/ **Valdemar Duarte, IORPs (Portugal):** According to ASF, in 2020, the amount managed by Portuguese DC Occupational pension schemes rose by 4.9%. In relation to this type of Plans there were no major changes in 2020. The returns were, in general, positive and there was not any particular shift in the compositions of portfolios. The possibility to pay Pensions directly by Pension Funds, as an alternative to the mandatory buying of an annuity from an insurance, led some Pension Fund Providers to

	create new Pension Funds specifically dedicated to this payment.
PPP overall	**Christian Gülich, Beneficiaries (Germany):** Following to BaFin's Annual Report in 2020 the percentage of PPP contracts at the total new life business increased (from 58,5% to 61,7%), but the total number of new concluded life contracts decreased from 5,1 million contracts in 2019 to 4,6 million contracts in 2020. In consequence the percentage of PPP contracts with regard the total number of concluded lfe contracts increased in 2020 from 57,3% to 58,9% (about 81,1 million life contracts in 2020, but 82,4 million life contracts in 2019). In contrast the total life GWP increased from 97,6 bn Euro in 2019 to 98,1 bn Euro in 2020. In total for life insurances 2,1 million contracts were cancelled early or exempted from premiums in 2020 (same figures as in 2019). **Valdemar Duarte, IORPs (Portugal):** According with ASF, in 2020, the amount managed by Portuguese individual Pension schemes rose by 20.6%. Besides the new rules related with the redemption of PPRs (see Initiative 1 in Point 2.1.2 of this document), some additional tax incentive measures were introduced, in the beginning of 2019, with the entry into force of the 2019 Portuguese State Budget. As mentioned in the comments presented in this table regarding "Occupational pension schemes overall", the extraordinary questionaries conducted by ASF also covers PPP.
PPP for personal private savings which are also IBIPs	**Christian Gülich, Beneficiaries (Germany):** The average net return of investments of life insurers decreased from 3,9% in 2019 to 3,7% in 2020 following to

	BaFin's Annual Report (mainly because of the sale of "hidden reserves" due to mandatory additional capital reserves – "Zinszusatzreserve"). Not astonishingly the life-insurers reduced their guaranteed profit participation for 2021 ranging from 1,25% to max. 3,0%. Other example: In February 2021 Allianz (representing about 30% market share in Germany's life sector) decreased the technical rate of interest ("Rechnungszins") for future pension payouts from 1,75% to 1,25%. About 750.000 future beneficiaries will be concerned by this unilateral reduction. **Valdemar Duarte, IORPs (Portugal):** APFIPP does not represent this kind of products. **Antonello Motroni, IORPs (Italy):** Not relevant.
Other products different from IBIPs and also different from: banking products, UCITs and AIF products	**Christian Gülich, Beneficiaries (Germany):** Following to the statistics of the Federal Ministy of Labour and Social Affairs the total number of "Riester" pensions contracts based on bank or mutual funds saving plans stagnates or even decreases since 2013 (banks: about 600.000 contracts) and 2019 (mutual funds: 3,2 million contracts). https://www.bmas.de/DE/Service/Statistiken-Open-Data/Statistik-zu-Riester-Vertraegen/statistik-zusaetzliche-altersvorsorge.html In contrast the total number of the other category of state subsidized PPPs ("Rürup" or "Basic" Pension Plans with strong tax incentives for the contribution phase) slightly increased (from 2,25 million to 2,3 million in 2019 following to GDV-Association of German Insurers). https://www.gdv.de/de/zahlen-und-fakten/versicherungsbereiche/riester--und-basisrenten-24046

	There are no statistics on pure mutual funds saving plans in the framework of Rürup pensions. The official 2020 Report on Retirement Provision by the Federal Ministry of Labour and Social Affairs ("Alterssiche-rungsbericht 2020", p. 156) clearly states that the reasons for the stagnation of sales of Rürup Pensions are more or less the same as those for Riester Pensions, even if there is no mandatory 100% return guarantee of contributions for the first. **Valdemar Duarte, IORPs (Portugal):** APFIPP does not represent this kind of products. **Antonello Motroni, IORPs (Italy):** In 2020 continued the growth of the membership to PPPs, even though at a lower pace.

2.3. *Ad-hoc* questions

In addition to providing views on trends and issues observed with regard to specific products the Members are also kindly invited to provide their views, examples, and comments on the following specific focus topics.

2.3.1. COVID-19

Lack or lower contributions in mandatory and voluntary schemes – changes in the accumulation phase

The economic crisis resulting from the COVID-19 outbreak is having a direct impact on people's personal finances, business and employment. This may have already had an impact or could have a future impact on pensions' contributions – both personal pension products because of savers not being able to contribute, and occupational pension schemes because of business shrinking, unemployment, etc.

Regardless of whether you have observed the issue, please set your views on the possible implications on the issue highlighted above. Please also provide examples and information on whether you have observed such issues in your market or whether you may believe it may happen. When providing such information please specify if it refers to personal or occupational pensions and whether the initiatives have been taken/may be taken in the future by pension funds, by pension savers or by governments.

Christian Gülich, Beneficiaries (Germany):

In contrast to IORPs due to the economic impacts of the corona crisis life-insurers noticed in Q2 2020 a temporary increase of exemptions of payment of premiums and simultaneously a decrease of new business (cf. no. 2.2.2.: PPP). There is a continuous enhanced development that the German life-insurers exclusively offer products with reduced or even no guarantees for new business. This is an important change for the German market and certainly additionally enforced by the strong increase of customers who in 2020 made growing investments in securities (shares, mutual funds, etc.).

Cf. Annual study of Assekurata Rating-Agentur (Cologne) on decreasing life-insurance returns, Feb. 2021:

https://www.assekurata.de/publikationen/studien/detail/assekurata-marktstudie-zu-ueberschussbeteiligungen-und-garantien-2021/

Stefan Nellshen, IORPs (Germany):

All in all the Covid-impact on IORPs from today's point of view seems to be rather limited. Of, course some IORPs´ investments suffered due to the capital market effects out of the crisis, which could be observed in spring 2020 – especially those ones, who used risk-budgeting techniques in their equities portfolios not offering the possibility to recover after such a shock event. Also in non-residential real estate investments some tenants claimed not being able to pay their rent and hence such payments had to be temporarily abandoned. Additionally, one must consider, that the full impact out of the crisis regarding bankruptcies (of sponsor companies) might not have been seen yet, since in Germany the legislator created the possibility to defer official bankruptcy declarations.

Valdemar Duarte, IORPs (Portugal):

The lack or reduction on the contributions in mandatory and voluntary schemes is a situation that could impact on the funding level of the Pension Funds and result in the necessity to make greater contributions in the future in order to comply with the minimum funding levels in DB Plans and to resume / restore the contributions to DC Plans that have not been made because of the economic crisis originated by the COVI-19 pandemic. Nevertheless, in Portugal, as far as we know, there were punctual cases were some financing needs occurred and some delays on the contributions happened, but nothing materially relevant.

Antonello Motroni, IORPs (Italy):

The year 2020 has been a tough year for the Italian economy, however, so far, this has not meant a decrease in the contribution payments. This is true both for occupational and for personal plans. One of the reasons is the fact that during the peaks of the pandemic the Parliament passed a lot of measures to shore up the economy, like state-guaranteed (fully or partially) loans, non-repayable subsidies for companies, the ban to fire employees (just partially removed starting from July 1st) and furlough schemes. The government is planning to restrict the pro-pandemic package starting from the second part of 2021 and it is reasonable to expect that as the measures are removed, some negative effects in the labour market could occur, with an impact on supplementary pensions.

Changes in the decumulation phase

Given the market trends and undergoing economic crisis resulting from the COVID-19 situation, benefit cuts, where schemes fail to absorb the shock, may be expected in the future. Moreover, as consumers may be facing loss of income they may opt for specific types of benefit payments such as lump sums or may opt to access their retirement savings early.

Regardless of whether you have observed these issues, please set your views on the possible risks for the sector and for pension savers on the issue highlighted above.

Christian Gülich, Beneficiaries (Germany):

Unfortunately the legislator did not promote any change of the existing taxation laws for occupational or private pensions. There are only two payout options by which beneficiaries may profite from tax reductions: one-off payouts or life-long annuities. This lack of innovation is strongly critized by the German Association of Insured (BdV, cf. above No. 2.1.2, Initiative 3). Some life insurers offer temporary annuities for PPPs, but in each individual case it has to be examined, if tax reductions may be applied or not.

Valdemar Duarte, IORPs (Portugal):

In Portugal, the prevailing rule is that Portuguese Pension Funds can only pay benefits in case of retirement (which includes pre-retirement, early retirement, old-age retirement and retirement due to permanent disability). However, in case of contributions made directly by the Members (either under an Individual Pension Plan or in the context of an Occupational Plan), these can access the benefits in cases of force majeure foreseen in the legislation. These situations include long-term unemployment (more than 12 months), permanent incapacity to work and serious illness.

An exception to this framework are, however, PPRs, for which early withdrawals are possible, leading, however, to some fiscal penalties.Therefore, early access to benefits is restricted to PPRs (PPP) and to cases of force majeure (Member's individual contributions to individual / occupational pension Plans), and, in such cases, the benefits are always received as lump sum.

The same occurs at the age of retirement, where individual contributions may always be paid as lump sum. Annuities or regular drawdowns are also allowed but these situations are exceptional.

It is worth mentioning that the amendment in the taxation rules mentioned in 2.2 (PPP overall) intends to create incentives to the payment of a regular income over a period until 10 years (as opposed to the receipt of a lump sum, that is currently the most common way of receiving benefits resulting from individual contributions), but there is no mandatory rule demanding beneficiaries to opt for this regular drawdown.

Antonello Motroni, IORPs (Italy):

In Italy the bulk of retirement income comes from the 1st pillar, pension schemes only account for a thin share. Moreover the market is dominated by DC schemes that does not experience any imbalance by definition. As already explained (please refer to the section: Consumer Protection Issue n. 2) no sudden increases in early withdrawal have been recorded as well as for pension payments.

The pay-out phase is largely dominated by lump-sums. The market of annuities is thin and presumably the landscape won't change, at least in the near future.

Please indicate whether in your jurisdictions there are plans to allow cutting pension rights of members of Defined Benefit schemes in case of failure to implement the scheme recovery plans to improve funding ratio and share examples:

Christian Gülich, Beneficiaries (Germany):

Any possible reduction of current pension payouts by IORPs has to be approved by the NCA. The NCA (Bafin) reported three such cases in 2019/2020 (speech of BaFin Executive Director Frank Grund of 12 November 2020; cf. **Consumer Protection Issue 2** above)**.**

In June 2020 the German legislator adopted the law on IORPs solvency protection especially for those IORPs having several sponsors and being under the IORPs II-regime. Now all these IORPs have to pay contributions to this general solvency institution ("Pensions-Sicherungs-Verein" – PSV) which shall guarantee the payouts in case of insolvency of the sponsors (cf. **Initiative 1** above).

Stefan Nellshen, IORPs (Germany):

Furthermore, it is foreseen to amend the paragraph 234 of the insurance supervisory law allowing IORPs to split the population into sub-populations belonging to different sponsor companies in case of measures regarding the financial restructuring of an IORP. The respective legislative proposal has already passed the German parliament. It is expected that the new law enters into force on January 1st 2022.

Valdemar Duarte, IORPs (Portugal):

The Portuguese Law does not allow cutting pension rights to restore / improve the funding ratio of a DB Pension Plan.

Where a DB Plan is not sufficiently funded and the Sponsor fails to make the additional contributions to restore the minimum funding level, the law demands the extinction of the Pension Plan. In the case of extinction of a DB Plan, the assets of the Plan are used to finance the liabilities of the Plan, in accordance with a preestablished order, until the amount of the assets runs out.

Please indicate if you have you have observed changes in the way in which members approaching retirement age are behaving and share examples:

Christian Gülich, Beneficiaries (Germany):

Several empirical consumers studies have been made showing despite the general negative economic impacts of the corona crisis (short-time work, unemployment, financial markets volatility, etc.) in total there was no major change of attitudes of private savers in 2020:

https://www.dia-vorsorge.de/sparverhalten/sparverhalten-trotz-corona-kaum-veraendert/

Actual exemptions of payment of premiums or even early cancellations of pension plans remained on a low level taking into consideration the entire year of 2020 following to BaFin's Annual Report.

In contrast the *German Investment Funds Association (BVI)* reported for 2020 an increase of new business by private retails investors and concluded that the year 2020 was their third best year since the 1990s (about 43 bn Euro new business and 1.180 bn Euro total assets only for retail investors):

https://www.bvi.de/en/news/detail/bvi-branche-verwaltet-3-850-milliarden-euro0/

Even if it is still too early to make the definite conclusion that "culture of shareholders" ("Aktienkultur") has made a decisive step forward, this result is nevertheless remarkable, because it contradicts the prevalent biais towards capital guarantees.

Antonello Motroni, IORPs (Italy):

No changes.

2.3.2. Sustainability in the pension sector

Changes in disclosure requirements

Regulations implemented in the EU in relation to sustainability aim at supporting the EU's climate, environmental and social sustainability goals.

Please state your views on whether you believe disclosure requirements are being adequately implemented to reach the desired outcomes – if possible please share concrete examples.

Christian Gülich Beneficiaries (Germany):

On 10 March 2021 the regulation EU/2019 /2088 on sustainability-related disclosures in the financial services sector had to be applied. The German NCA had timely published an comprehensive artikel in its monthly journal (BaFin-Journal, Februar 2021, S. 36-39), how to practically deal with this regulation and how to take into consideration the missing details of the level 2 regulations by product providers and their intermediaries.

Nevertheless there was a strong a public discussion about this issue, many product providers and associations of intermidiaries complaining about "over-bureaucratizing". But at least three federal associations of intermediaries (BVK, AfW and VOTUM) published non-binding practical guidelines for their members, which can be considered as substantial and useful. It still is too early for any empirical assessments on their application.

Valdemar Duarte, IORPs (Portugal):

The industry faces several challenges due to the lack of data disclosed by investee companies and, also, because the inconsistency between the information provided by ESG data providers. In fact, there is a need to improve accessibility, comparability and usability of the information and, to overcome these issues, there are some ongoing initiatives like the creation of a European Single Access Point (ESAP) and the new Corporate Sustainability Reporting Directive ("CSDR") proposal to amend the NFRD.

Antonello Motroni, IORPs (Italy):

The implementation of the SFDR is currently in place but a first assessment may be shared.

SFDR is perceived as too burdensome for IORPs; it is triggering a big cost to comply with as Italian IORPs are small entities, with limited staff, budget and assets under management. Another problem stems from the fact that IORPs have a legal requirement to invest through mandates and it is not easy to classify the agreements currently in place under the criterias of the SFDR, it requires further engagement with asset managers that come with a cost. The situation is even more complicated by the lack of a consolidated legislative framework as the second level regulation is still pending. Also, the search of data is not an easy task to deal with. Finally, it is questionable how members of IORPs may be interested in reading such a detailed and difficult disclosure, a feature that the consumer testing made by the ESAs has already spotlighted.

This regulation lacks proportionality toward IORPs and there is the risk that the fulfilment will end up in a mere administrative task, failing to reach the outcome of the EU Commission. In addition to that, in the long run, the huge reporting requested risks to curb the interests of IORPs towards ESG investments.

Things are easier for PPPs providers.

Sustainable investment as product offering and stewardship role of pension funds

Given the general increase in the consumer awareness of investing in more sustainable assets, it is interesting to understand to which extent this trend has also affected the pension sector and how the market players are adapting their offer.

Did you observe an increase in pension product offering sustainable investment options? Please share information, views, or example of situations observed in the market:

Christian Gülich, Beneficiaries (Germany):

There are – not surprisingly - a lot of advertisements on ESG conform investments by pension providers. Additionally the NCA (BaFin) published a detailed info-sheet ("Merkblatt") on organisational requirements of ESG conform risk management (in September 2019) by financial product providers. Any empirical or statistical evidence on this issue is not yet possible.

Valdemar Duarte, IORPs (Portugal):

In that sense, in the last years, several Portuguese Pension Funds Management Companies turned signatories of the UNPRI, Principles of Responsible Investment, promoted by the United Nations, taking those standards as their main reference. In addition, they are also making several commitments regarding the respect of international declarations about Human Rights.

The Portuguese industry made an effort to comply, since 10th March 2021, with the rules foreseen in the level 1 measures of SFDR. Nevertheless, there is a great road ahead, namely with regards to the application of level 2 measures, as well as with respect to the fulfilment of the requirements arising from Taxonomy EU (which is not finalized and is still under development).

Antonello Motroni, IORPs (Italy):

The interest of supplementary pension schemes (IOPs and PPPs) is growing, however the increasing regulatory compliance could curb the future engagement.

Do you observe the emergence of any specific risks in your market with regard to this, including a mis-match between consumers/beneficiaries/policyholders' expectation vs actual investments in ESG or possible impacts on replacement ratios because of the increased focus on ESG investments?

Christian Gülich, Beneficiaries (Germany):

There are a lot of polls which clearly show a constantly increasing interest of private investors and savers in ESG conform investments, like this one:

https://www.fondsprofessionell.de/news/maerkte/headline/umfrage-zur-nachhaltigkeit-was-anleger-wissen-wollen-und-tun-204360/

With special regard to pension savers and policyholders the main issue continues to be a fundamental information problem, how to evaluate possible „green washing" and „green bubbles". That is why a general and binding classifcation system of ESG conform investments is definitely necessary.

Antonello Motroni, IORPs (Italy):

It is too early to assess.

Do you observe a more prominent stewardship role of pension product providers on the firms they invest in to push the latter towards more sustainable investments? If yes, please indicate the main approaches used by pension product providers to influence investee companies with some examples:

Valdemar Duarte, IORPs (Portugal):

The Law n.º 50/2020, which transposed into the Portuguese framework the Shareholder Rights Directive II, includes new requirements regarding the invest in listed companies. In Portugal, these rules are not only applied to IORPs, as foreseen in the European Directive, but also to all other Pension Funds, establishing the necessity of each Pension Fund to have an Engagement policy or disclose a clear and reasoned explanation why they have chosen not to comply with it.

Although this is a recent framework, according to our perception, most of the market decided to proceed with the publication of their engagement policies, showing a more prominent stewardship role of the Pension Funds market in relation to the firms they invest.

Antonello Motroni, IORPs (Italy):

As regards the stewardship role of pension products, despite some new legal requirements stemming from the directive 2017/828, active and long term engagement of Italian IORPs is still a niche given the size of total assets under management and the limited investments in equity. Portfolios are extremely diversified due to legal limits on investments in a single company/issuer. Furthermore, by law, assets are invested through mandates with asset managers and the costs related to the engagement are still too high (proxy advisory, extra fees for asset managers/custodian banks). Despite that, the interest is growing.