EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Press Release

Contact: Jerneja Orthmayr
Phone:
+49 (0) 69 95 11 19 3 5 0
press@eiopa.europa.eu

EIOPA LAUNCHES ITS SECOND EU-WIDE OCCUPATIONAL PENSIONS STRESS TEST

- *A biennial exercise to gain insight into the risks and vulnerabilities of the European occupational pensions sector*
- *Designed to focus on the resilience of IORPs to a 'double-hit' scenario and the assessment of its impact on the real economy and financial markets*

Frankfurt, 18 May 2017 – Today, the European Insurance and Occupational Pensions Authority (EIOPA) launched an EU-wide stress test for the Institutions for Occupational Retirement Provision (IORPs). EIOPA's stress test provides insight into the risks and vulnerabilities of the European occupational pensions sector. This is the second exercise conducted by EIOPA in this sector. It takes into account the impact of the macro-financial developments since the first stress test conducted in 2015.

The exercise is designed to assess the resilience of the European occupational pensions sector to an adverse market scenario using common methodologies. It will also analyse how IORPs transfer shocks, resulting from the impact of the adverse market scenario, to the real economy and financial markets.

The stress scenario, referred to as "double-hit" scenario, was developed in cooperation with the European Systemic Risk Board and combines a drop in risk-free interest rates with a fall in the price of assets held by IORPs.

The occupational pensions stress test covers both Defined Benefit (DB) and hybrid as well as Defined Contribution (DC) plans, and includes all European Economic Area countries with material IORP sectors, exceeding EUR 500 million in assets. EIOPA's aim is to reach a coverage rate of IORPs of at least 50% of assets of the total IORP sector per country. The deadline for participating IORPs to complete the exercise is 13 July 2017.

EIOPA will regularly publish Questions & Answers addressing queries from the participating IORPs. The EU-wide results of the occupational pensions stress test are planned to be published in an aggregated way by the end of 2017.

Gabriel Bernardino, Chairman of EIOPA, said: '*EIOPA's second occupational pensions stress test analyses the effects of prolonged adverse market conditions on sponsoring companies, members and beneficiaries and financial markets through pension funds' investment behaviour, elaborating on the second round effects on the real economy and financial stability. It will provide up-to-date information on the vulnerabilities of the occupational pensions sector and the possible repercussions for the stability of the wider financial system and European economy.*

Notes for Editors:

IORP is the Institution for Occupational Retirement Provision operating for the purpose of providing retirement benefits in the context of an occupational activity on the basis of an agreement or a contract agreed.

Defined Benefit (DB) pension scheme is a retirement plan that guarantees a specific retirement benefit amount for each scheme member.

Defined Contribution (DC) pension scheme is a retirement plan that is funded primarily by the scheme member while the employer matches contributions to a certain amount.

Hybrid pension scheme contains elements of both DB and DC retirement plans.

EIOPA's Occupational Pensions Stress Test – EIOPA, in cooperation with the European Systemic Risk Board (ESRB), initiates and coordinates European stress test of IORPs. The EIOPA regulation distinguishes two possible objectives of such stress test, assessing:

(1) The resilience of IORPs to adverse market developments

(2) The potential for systemic risk that may be posed by financial institutions to increase in situations of stress

EIOPA's first Occupational Pensions Stress Test - EIOPA conducted its first stress test for IORPs in 2015. The outcomes showed in aggregate substantial pre- and post-stress shortfalls when comparing assets and liabilities of the DB/hybrid IORP sector. Those shortfalls would have to be covered by future sponsor support and/or benefit reductions or by future investment returns in excess of the risk-free interest rates used for valuing both the national balance sheet, where applicable, and the common balance sheet. The results of the DC satellite module demonstrated that older plan members that are close to retirement are relatively more vulnerable to an instantaneous fall in asset prices, while younger DC members are more sensitive to the low return scenarios.

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.