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13 January 2017

**Position paper of the EIOPA Occupational
Pensions Stakeholder Group (OPSG) on
EIOPA's Opinion to EU Institutions on a
Common Framework for Risk Assessment
and Transparency for IORPs**

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Introduction

This position paper is prepared by EIOPA Pension Stakeholder Group (OPSG) as a response to EIOPA's paper EIOPA-BoS-16/075 'Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs'. This submission is prepared by a working group, discussed in two OPSG plenary meetings and approved by unanimity by the OPSG on 13 January 2017.

Executive Summary

- I. There is a large variety of occupational pension arrangements in Europe. Occupational pensions are generally the result of free negotiations of employers and representatives of employees. These occupational pension arrangements are governed by national social and labor law of the Member States. Any common approach for risk assessment and transparency should therefore allow for and respect those differences.
- II. There is a wide range in size of IORPs and the principles of proportionality should apply to a common approach for risk assessment and transparency for IORPs as for any other ESA regulation. Our remarks in the chapter ‘Simplifications and proportionality’ do apply to all we say in this position paper. A key point for the OPSG is that any risk assessment should not lead to undue costs for the IORP. We would suggest that a realistic cost/benefit analysis is conducted by an independent body such as the European Court of Auditors.
- III. The OPSG supports sound risk assessment and transparency for IORPs. Any risk assessment must be in line with the risk assessment required by the Articles 25 and 28 of the IORP II Directive¹, transparent and should be communicated to relevant stakeholders of the pension contract, as far as they are concerned.
- IV. The OPSG raises the point that the risk assessment and transparency as the revised IORP Directive and EIOPA are suggesting go beyond the IORP. Although we do support such a wider view in principle we think further consideration is needed as it would relate directly to social and labour law which are a matter of the Member States and are not matters that are dealt with on an European Union level. Occupational pension arrangements often have the risks not fully with the IORP, but also with the sponsor (e.g. sponsor support) and/or in certain cases by the members and beneficiaries. (e.g. reduction of pensions). That is also one reason why IORPs and Insurance companies are considered as completely different entities. In the end all negative effects of risks related to an IORP and/or sponsor not meeting commitments or risks related to the member/beneficiary’s choice of risk profile on invested funds are carried by the member/beneficiary and may ultimately materialise in reduction of pensions. The upside effects of risks is normally not distributed to members/beneficiaries unless specifically agreed in the pension arrangement.
- V. The OPSG further believes that given the huge variations in pension arrangements as well as in social and labour law and the fact that social and labour law is a matter of the Member States a European common framework is not feasible and perhaps not even possible. We therefore propose to develop European common *principles* for risk assessment and transparency instead.
- VI. The OPSG believes that risk assessment mainly based on a market-consistent balance sheet valuation as suggested by EIOPA is not the first thing that would come to mind. The risk of an

¹ Everywhere where we refer in this document to the IORP II Directive, we refer to the text as adopted by European Parliament on 24 November 2016 which is still marked as a provisional text:

P8_TA-PROV(2016)0448

Activities and supervision of institutions for occupational retirement provision ***I

European Parliament legislative resolution of 24 November 2016 on the proposal for a directive of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision (recast) (COM(2014)0167 – C7-0112/2014 – 2014/0091(COD))

IORP not meeting commitments is highly related to its cash-flows. We therefore believe that one approach, amongst others, to risk assessment is to have a good understanding of cash flows and to do analysis thereof - to the extent proportionate and necessary, in IORPs' management's view, and within the common principles set by relevant authorities. A consideration of how the IORP's requirement for cash flows and liquidity are reflected in investment strategies should also be included in the analysis. Cash flow analysis may not fit all IORPs, and the common principles should therefore allow relevant alternatives and simplifications for implementing the risk assessment: no single approach, such as cash flow analysis, should be mandatory provided that IORP management consider relevant risks within the common principles set.

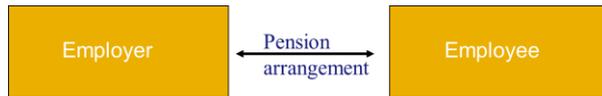
- VII. As the above is our principal point of view, and a lot has already been said in earlier responses to consultations, we decided not to comment on market-consistent valuation and propose as one alternative an outline for an approach based on cash flow analysis. The OPSG believes that a cash-flow-based methodology has several fundamental advantages over a market-consistent valuation approach: one main advantage is, that it is free – and, in our view, should remain free - from any valuation discount conventions. EIOPA should aim at developing certain principle-based minimum standards for any cash flow-based or other risk assessment methodology, and allowing for use of models based on national principles or IORP specifics. Where appropriate, sponsor support must also be included in IORP management's overall risk considerations. Depending on IORP circumstances, any cash flow analysis may involve stochastic or deterministic modelling of cash flows resulting from the IORP portfolio of assets and liabilities.
- VIII. We do agree though, that the information of development in financial markets, the close relation between cash flow, earnings and financial items assets and liabilities (including equity) development must remain a fundamental basis for any reasonable risk assessment.
- IX. Assessing risk in an IORP, as in any other economic activity, is about evaluating the risk of the institution not being able to meet its commitments when they become due. Measuring the distance to default, or the probability of not being able to meet commitments when they become due, is therefore an exercise which is highly related to cash flow risk, and not only related to the value of assets and liabilities.
- X. The OPSG agrees with EIOPA that a risk assessment should require a quantitative assessment of some risks. Other risks could be assessed in a more qualitative way. We strongly suggest that despite quantification of individual risks, it is the TOTAL risk that should be measured.
- XI. In our opinion communication of risks should be done on a total and aggregated level, with analysis of individual risk factors as supplementary information only for management and supervisor.. The main focus on risk assessment and transparency principles must always be from the member/beneficiary perspective. Due to the diversity of occupational pension arrangements and the differences in fiduciary responsibility of the IORP public disclosure at the level of the IORP is not enforceable. In some jurisdictions disclosure is part of social and labor law and should remain the responsibility of the member states.
- XII. The OPSG is of the opinion that Defined Contribution (DC) arrangements should be included in the scope. As the focus is risk assessment and transparency we would envisage a similar DC risk framework on an individual basis dealing with risk of future outcomes.
- XIII. The OPSG supports that risk assessment and communication of risk requires a high degree of transparency as regards the employer's pension arrangement (of which the IORP is an

integrated part), the investments and investment policies and the communication of relevant information related to the pension arrangement to members/beneficiaries.

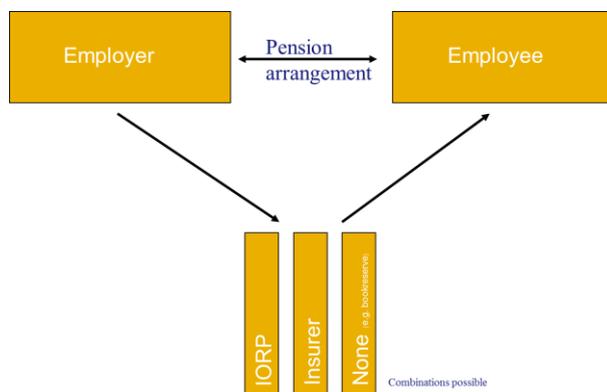
- XIV. The OPSG believes that the nature and content of public disclosure needs great care in terms of both presentation and unintended impact: sponsors will usually already disclose their pension arrangements under IAS19 (albeit that the IAS19 basis of calculating liabilities may differ to the basis used in arriving at technical provisions). Especially not information about risk, which could be detrimental for a sponsor company should not be given to a wider group of stakeholders, unless if it is relevant for these stakeholders their risk evaluation.
- XV. The OPSG supports EIOPA's view that decisions on supervisory actions are a national responsibility.
- XVI. Simplifications need to be explored and implemented in order to do the risk analysis in a more cost-effective way, especially for the smaller IORPs. Simplifications should in principle be such that the risk evaluation and transparency is reasonably expected to result in a similar risk evaluation (or perhaps somewhat more prudent) compared to applying the (theoretical) full approach.
- XVII. EIOPA is rightly speaking of 'protection of members and beneficiaries'. We note that in the field of occupational pensions 'member/stakeholder protection' ought to be the right wording, whereas we have the impression that this is sometimes mixed up with 'consumer protection'.
- XVIII. Occupational pension arrangements are governed by the social and labour law of its Members State. It is the prudential framework that could be different in another Member State. A risk assessment approach based on cash flow analysis could contribute to assess pension plans in a more objective manner so that the results in the context of social and labor law of the same pension arrangement but executed in different Member States would be (roughly) the same.

Basic principles of occupational pensions

1. An occupational pension is a social contract between employer and employees, usually granted by the employer on a voluntary base. The contract is normally not entered into between the employer and the individual employee, but rather a general benefit defined by the employer to employees or as an collective agreement with trade unions and/or worker representatives.



2. As a next step a choice is made how to finance the pension arrangement. This could be with or without external funding. External funding is possible via an IORP or an insurance company. Combinations are possible as long as allowed under national social and labour law.



3. IORPs are often jointly governed by employer's and employee's representatives.
4. In this paper we deal only with pension arrangements that are funded by using an IORP as IORPs are the starting point for the European Occupational Pension Directive and for EIOPA's supervision. We do refer to the next chapter for a discussion on supervising IORPs or pension arrangements.
5. Occupational pensions are as a rule always tied to the wider working contract.
6. Occupational pensions can vary considerably both in scheme and funding characteristics. The funded occupational pension plans are normally based on collectively invested funds. However, there is an emergence of plans where member/beneficiary may choose individual risk profiles on invested funds related to that particular individual.
7. Occupational pensions are governed by the social and labour law and/or by other national legislation of each Member State. The legal framework is not coordinated between member states thus far.
8. Neither politicians nor supervisors should aim to change the social contracts (including the "hardness" or "softness" of such contracts) insofar as past service is concerned since this would mean a limitation of free negotiation between social partners in the labour market.
9. Accepting the above and respecting the diversity of the European pension landscape only a more principle based (as opposed to EIOPA's holistic balance sheet) European common framework could add value in assessing risks related to occupational pension plans objectively and reasonably.

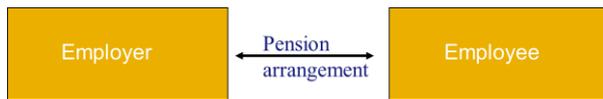
10. Any risk assessment must be in line with the risk assessment required by the Articles 25 and 28 of the IORP II Directive, should be transparent and should be communicated to relevant stakeholders of the pension arrangement.
11. Relevant stakeholders would include: (the representatives of) employees/members and beneficiaries, the sponsoring employer(s) and the respective national and EU competent authorities.
12. In a triangular relationship between the employees, the sponsor and the IORP Social and Labour law of each member state governs the information requirements to members. IORP II details the information to be provided by the IORP's.
13. Full results of the risk assessment should be provided to EIOPA and the NSA's in order to give them a holistic view on the risk situation.
14. The information provided should clearly reveal which risks are taken by the IORP, which risks are taken by the members/beneficiaries, which risks are taken by the sponsor or any successor, and, if relevant, what kind of support a national government would legally give in case of default. The information communicated to stakeholders should be given in a language easy to understand for the relevant stakeholder, and with sufficient explanations of words and expressions used.
15. For the risks that an IORP is taking, appropriate risk measurement and management systems should be in place. Risk measurement and management systems of an IORP should be properly described by the IORP and submitted to the respective national supervisory authorities. Risk mitigation policies, based on documented and well-established risk systems, should also be in writing, set by the IORP Board of Directors (or equivalent) and accepted by the relevant NSA's.

Risk assessment and transparency of the IORP or of the Pension arrangement?

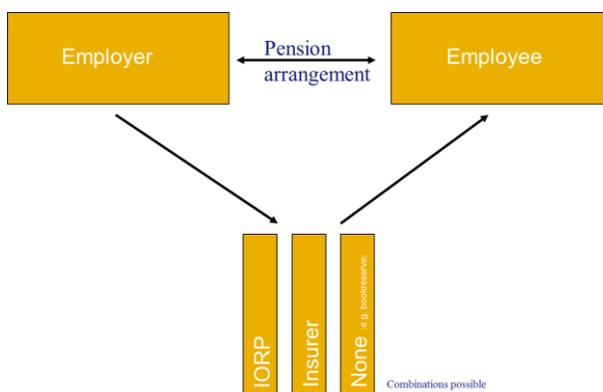
16. The members of the OPSG would like to express their concern on how to achieve an integral risk assessment within the current European legal structure.
17. The risk assessment and transparency rules have their basis in the European Directive of the European Parliament and of the Council 'on the activities and supervision of institutions for occupational retirement provision (IORPs)'.
18. We note that IORPs sometimes do take on higher risks and sometimes they do not. Although we have not assessed the numbers, we believe that the majority of the IORPs in Europe are not taking on too much risk. In fact this majority is merely an administrative body focused on executing the pension arrangement of employers and employees. As such these IORPs do only carry little risk, if any (in practice the risk in these IORPs are limited to bearing some operational risk). The pension arrangement between the employer and the employee, however, has many more risk components. If the risks are not carried by the IORPs these risks are with other stakeholders such as the sponsoring company and/or the members/beneficiaries.

19. Generally speaking we are supportive of assessing the total risks of the pension arrangement from a beneficiaries' point of view and not only the IORP risk, but we question whether that can formally be achieved within the current legal framework. We would like to illustrate this with some diagrams.

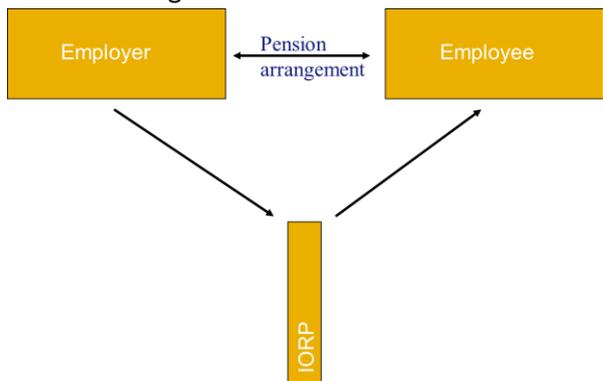
20. We have started our paper explaining the basics of occupational pensions as we see them. The starting point is the pension arrangement between employer and employee.



21. This pension arrangement can be executed via an insurance company, via an IORP, stay on the books of the company or any combination of these.

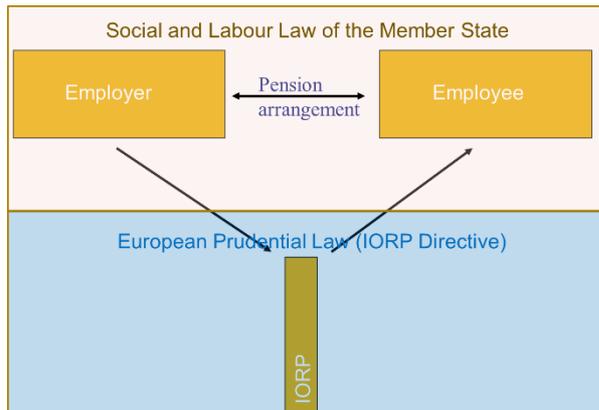


22. As said the starting point is the IORP Directive and so we can only deal with pension arrangements that are executed via an IORP.



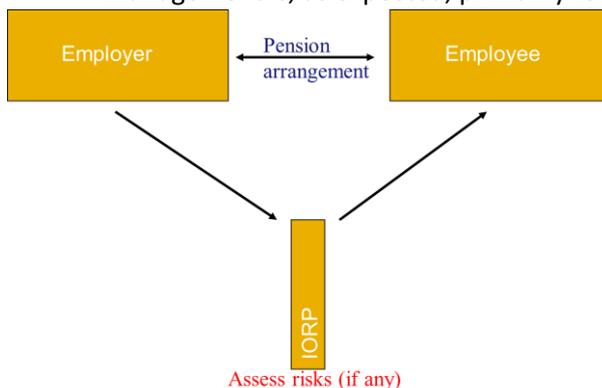
23. The pension arrangement is a promise from the employer or a contract between the employer and the employee (or groups of employees) which should be transparent for the employee and should easily be available in writing. The content of the pension arrangement should be specific and transparent on all relevant issues relevant for making a proper assessment of upside and downside risks. To make a proper risk evaluation the terms and conditions of any sponsorship from the employer to the IORP and/or any relevant Pension Protection Schemes should be included in the description of the pension arrangement.

24. It is important to realise that the Pension arrangement is to a large extent governed by the social and labour law of each Member State. It is the prudential regulation of the IORP that is arranged for, on a European basis, via the IORP Directive. At least the IORP Directive gives minimum rules that have to be applied in each Member State only for the IORP part of the pension arrangement. Consequently, all the discussion on Risk Assessment and Transparency on a European basis is dealing with only one of the important aspects of a pension arrangement which is the prudential supervision of the IORP.



25. The IORP Directive talks in the recitals (the part that is not mandatory to be transposed into the law of each Member State) about the triangular relationship between employer, employee and IORP. This triangular relationship, the recital says, should influence all other recitals and the articles of the IORP Directive².

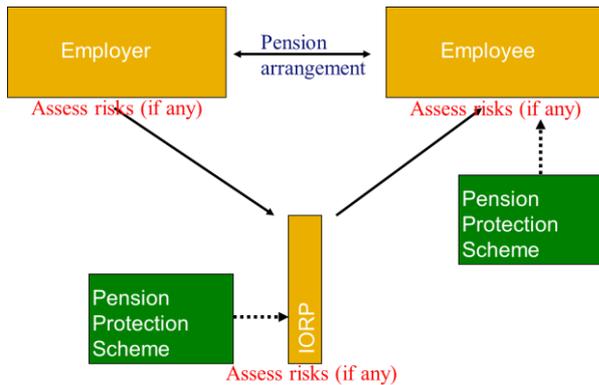
26. In Article 25 of the IORP directive the risk management function is introduced. The risk management is, as expected, primarily focused on the IORP itself.



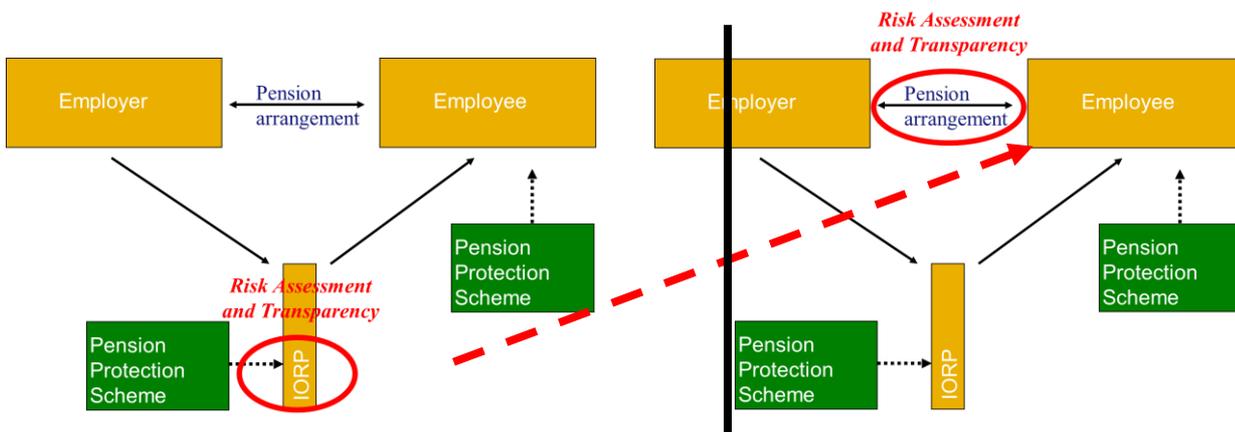
27. Any risk carried by the members/beneficiaries should be assessed from their perspective. The risk management function should also consider the risks from a members/beneficiaries' perspective. The own risk assessment as prescribed in Article 28 seems to go even further beyond 'just' the IORP as it refers not only to indexation and benefit reduction mechanisms that might affect the members/beneficiaries, but it also refers to sponsor support and

² Quote from Recital 32 of the IORP Directive: "Their social function and the triangular relationship between the employee, the employer and the IORP should be adequately acknowledged and supported as guiding principles of this Directive."

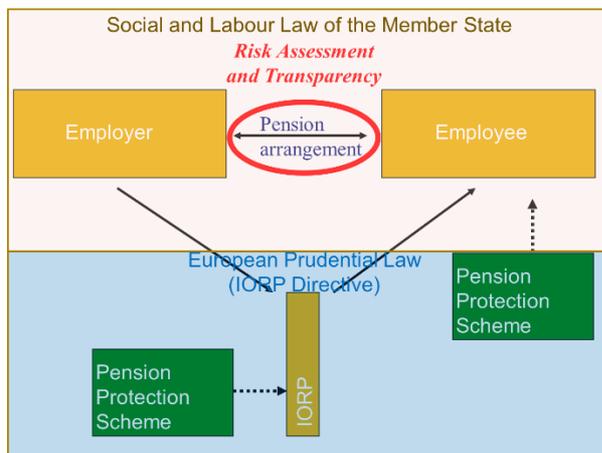
pension protection schemes. As there are different types of pension protection schemes (some work on the IORP, e.g. in the UK, and some on the employees/beneficiaries, e.g. in Germany), we have indicated this in the next diagram.



28. This is also the type of integrated risk assessment as EIOPA is suggesting. What it does is taking risk assessment and transparency from the level of the IORP to the level of the pension arrangement.



29. Moving the risk assessment and transparency focus from the IORP to the pension arrangement makes generally from a beneficiaries' point of view a lot of sense as the pension arrangement between the employer and the employee is where it all starts. We would encourage risk assessment and transparency on the level of the pension arrangement to the extent legally and practically possible. Such an approach will create legal issues, if such an assessment is done at a European level as it implies a move from European prudential law to the social and labour law of the member state.



30. In our view there are two points in this respect that we would want to mention:

FROM A EUROPEAN COMMON FRAMEWORK TO EUROPEAN COMMON PRINCIPLES

31. A European common framework for risk assessment and transparency is not possible as it goes beyond the boundaries of European prudential law. Since indexation and benefit reduction mechanisms, sponsor support and pension protection schemes are a national matter it is the national supervisory authority who should deal with such an integrated risk assessment at the level of the pension arrangement. At a European level we would see possibilities to agree a set of European *common principles* rather than a European common framework. This would leave sufficient space for member states and the national supervisory authorities to fill in the needs of a national framework that would be based on both the national specificities of the social and labour law and the European common principles for risk assessment and transparency.

FROM RISK ASSESSMENT AND TRANSPARENCY OF THE IORP TO RISK ASSESSMENT AND TRANSPARENCY OF THE PENSION ARRANGEMENT?

32. The above discussion shows that from a member /beneficiary point of view it would seem natural and logic to assess risk and transparency from their pension arrangement perspective rather than from the IORP point of view only. In certain countries this belongs to social and labor regulation. The IORPs or the sponsors, depending who is liable, could, if legally and practically possible, as an addition to the outcome of the risk assessment of the ordinary IORP activity in capacity of a legal entity take into account the relevant details of risk mitigating sponsor support which they are entitled to in case of non-performance.

33. Sponsors in this respect comprise both employers owning the pension arrangement and/or any relevant pension protection schemes offered by authorities. The support may be given either by bilateral agreements or according to social and labor law. If relevant the overall risk mitigation effects should be transparent to members/beneficiaries, not only by disclosing the terms and conditions at which sponsor funds' inflows are triggered, but also disclose relevant agreements, rules or regulations which could trigger outflow of funds from the IORP to stakeholders in the case of windfall profits or excessive funding.

34. The IORP and/or members/beneficiaries carry the risk in case a sponsor is not fulfilling their contractual/legal obligations. For the IORP, being a separate legal entity, this can represent a

counterparty risk, and could be treated as such in their risk analysis, in line with other counterparty risks. However, the sponsor support could also represent a risk mitigation effect for the IORP, and could therefore be addressed, and discussed as part of the overall communication of the IORP risk profile to relevant stakeholders, as specified above. Especially important is communication of such risk if increased likelihood of non-fulfillment of sponsor obligations is observed by the IORP.

35. Pension arrangements in general constitute a promise from the employer to the employee to receive a financial compensation, direct or through an intermediary institution. In this context direct includes all kind of pension arrangements where the liability (in total or partial) is not transferred to an IORP or other financial intermediary, but remains with the sponsor. We argue that the content of all such promises should be transparent, and the members/beneficiaries are in general entitled to be updated on the risks of default by any pension arrangements managed through intermediary institutions. We therefore emphasize that any principles for risk evaluation and transparency (and communication thereof) so communicated to the relevant stakeholders should be on a high level and total risk basis and in a format easily to be understood and interpreted by such stakeholders. However, direct pension arrangements between employer and employee, as defined above, should be considered a salary payment from a risk perspective, and should not be subject to risk evaluation by the IORP.
36. Nevertheless, all pension arrangements should meet the general transparency requirements.
37. OPSG supports principles for risk evaluation and transparency of IORPs and the related pension arrangements. In any case installing such principles on a pension arrangements level and subsequent disclosure should not in any case involve any requirements to make any assessment of the sponsor beyond a normal external counter party risk assessment, or otherwise be detrimental to funded pension provisioning using IORP's and thereby destroy members and beneficiaries' pension adequacy.

Some thoughts on the upside of risk

38. So far in this paper the negative aspects or downside of risk has been the main issue for discussion. However, any risk assessment also has to take into consideration the positive effects or the upside of risk. With the triangular risk sharing and a risk assessment of the pension arrangement it is natural to address the positive effects of carrying risk within the IORP in a pension arrangement. A higher return on assets than needed for meeting future payment obligations, windfall profits from sale of assets and change in the member/beneficiary structure due to a transition from DB to DC pension schemes may result in an overcapitalized IORP.
39. A holistic assessment of risks in an IORP or in a pension arrangement implies that downside risk as well as upside risk has to be addressed. In the same way as it is important to have a clear common understanding what conditions are needed to be fulfilled to trigger injection of funds from the sponsor to the IORP to meet its obligations, it is equally important to have common understanding what conditions have to be fulfilled in order to define when/at what point an IORP is overcapitalized. And even more important is to define how excessive funds

should be distributed. IORPs organized as self-owning institutions have no owners, and members are defined as the beneficiaries.

40. In most jurisdictions funds injected into an IORP are not allowed to be transferred back to the employer as sponsor. The consequence of this is that excessive funds in an IORP are normally for the benefit of the members/beneficiaries, i.e. the employees. However, in a triangular risk sharing concept, it does not seem fair that the reward is only to the benefit of one risk taker.
41. As pension regimes in the EU is under transformation with a transition from DB to DC pension plans, a natural consequence should be that the numbers of DB beneficiaries are constantly falling and the payment liabilities of the IORP is diminishing as a consequence of this. In a positive risk scenario with increasing asset values (booked and hidden) excessive funds will therefore accumulate in such IORP unless there is a set of rules for how to define, handle and distribute accumulation of excessive funds.
42. OPSPG is of the opinion that the upside of risk assessment should be addressed when discussing common principles. Equally important as having a transparent communication of the downside of risk and how these risks are mitigated, there should be a clear and transparent communication of upside risks and what rules should apply for defining and handling of excessive funds in an IORP. We propose that EIOPA and the European legislative bodies should include this in their further work on the issue.

Overview of the existing legal frameworks

43. The OPSPG intends to underline that all the activities and initiatives carried on by EIOPA with reference to the occupational pensions, should always take into consideration the existing EU (and national) legal framework.
44. In particular, in relation to the protection of the current and future beneficiaries of occupational pensions in case of insolvency of the employer, European legislation already deals with this scenario. Indeed, Article 8 of the Directive 2008/94/EC³ on the protection of employees in the event of the insolvency of the employer, states as follows: *“Member States shall ensure that the necessary measures are taken to protect the interests of employees and of persons having already left the employer’s undertaking or business at the date of the onset of the employer’s insolvency in respect of rights conferring on them immediate or prospective entitlement to old-age benefits, including survivors’ benefits, under supplementary occupational or inter-occupational pension schemes outside the national statutory social security schemes”*. The same Article 8 was also included in the former Council Directive 80/987/EEC then replaced by the said Directive of 2008.
45. This Article is relevant because the existing EU obligation for the Member States to take “necessary measures”, in case of insolvency of the sponsor company should be indeed assessed in all future initiatives and actions taken by EIOPA aimed at protecting the beneficiaries should be noted. In this regard, two judgments of the European Court of

³ Directive 2008/94/EC of the European Parliament and of the Council of 22 October 2008 on the protection of employees in the event of the insolvency of their employer (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32008L0094&from=EN>)

Justice⁴ referred to a British case (the so called “Robins case”), and an Irish case (“Hogan case”) gave more clarity on the interpretation of this Article. The Court of Justice stated that if the final pension does not reach at least a half of the value of the accrued old-age (occupational) pension rights because of the insolvency of the employer, then the State would infringe Article 8⁵. In addition, the case law determined the responsibility of the Member States more clearly by defining the possible scenarios and strongly limiting the exceptions under which a State could back out of such responsibilities⁶. Thus, even a hypothetical future EU solvency framework for the occupational pensions (which the OPSG believes to be neither justified nor reasonable from today’s point of view) addressed to the schemes relying on sponsor support should not ignore the existing EU legislation providing for a role of the Member States in case of the sponsors’ insolvency. This is because Member States are currently totally free to decide which “necessary measures” to adopt in order to protect the beneficiaries, whereas such a hypothetical EU solvency framework would impose harmonized rules on all.

46. Another important piece of European legislation that EIOPA should take into consideration before recommending new requirements for occupational pensions is the revised and recently adopted IORP directive. The revised directive will provide for new governance and information requirements for the existing Institutions for Occupational Retirement Provision. As for the own risk assessment provided by the IORP II Directive in its Article 28, the current EIOPA initiatives should be aimed at finding certain principle-based minimum standards for assessing the risks (referred to the entire occupational pension scheme landscape rather than to the sole IORP), and so no contradictions should arise.
47. In addition it is already known, that from the side of the EU institutions there is absolutely no political support for additional capital requirements neither imposed directly nor “through the backdoor”⁷ (i.e. by expecting reactions from NSA’s if a certain model calculation shows some financial gaps).
48. However, some conflicts may arise when EIOPA initiatives focus on the information to the members. The current Pension Benefit Statement of the IORP II Directive (Article 39) could

⁵ Point 5 of the final verdict of the Judgement of 25 April 2013 in case C-398/11; but also point 57 of the Judgment of 25 January 2007 in case C-278/05, where the Court stated that “less than half of that entitlement, cannot be considered to fall within the definition of the word ‘protect’ used in article 8 of the Directive (which was the article 8 of the Directive 80/987/EEC, at the time of the judgement of 2007).

⁶ As an example: “in order for that article to apply, it is sufficient that the pension scheme is underfunded as of the date of the employer’s insolvency and that, on account of his insolvency, the employer does not have the resources to contribute sufficient money to the pension scheme to enable the pension benefits owned to the beneficiaries of that scheme to be satisfied in full. It is not necessary for those beneficiaries to prove that there are other factors giving rise to the loss of their entitlement to old-age benefits” (Point 3 of the final verdict of the Judgement of 25 April 2013 in case C-398/11). Or: “the economic situation of the Member State concerned does not constitute an exceptional situation capable of justifying a lower level of protection of the interests of the employees” (Point 4 of the final verdict of the Judgement of 25 April 2013 in case C-398/11)

⁷ The Recital 77 of the IORP II Directive states that “*The further development at Union level of solvency models, such as the holistic balance sheet (HBS), is not realistic in practical terms and not effective in terms of costs and benefits, particularly given the diversity of IORPs within and across Member States. No quantitative capital requirements - such as Solvency II or HBS models derived therefrom - should therefore be developed at the Union level with regard to IORPs, as they could potentially decrease the willingness of employers to provide occupational pension schemes.*”

raise at least two different conflicts when related to the current EIOPA initiatives: either EIOPA's initiatives may create useless and confusing overlapping information; or they may just end up with adding further (information) requirements that the Council of the EU and the European Parliament already removed or reduced. After all, it is not by chance that the original regulation on the Pension Benefit Statement proposed by first draft of the Commission was strongly reduced and simplified. Its 14 articles were merged by the Parliament, and now the new rules provide flexibility for Member States. The Commission's information requirement proposals were copied from the rules on the investment products, and therefore, they did not consider the particular features of the second pillar pension provisions. Furthermore, numerous initiatives on information disclosure have taken place at Member States' level and some of them are moving towards more simplified, understandable and layered information. A similar reasoning could be made for the delegated acts – entrusted to the European Commission and to EIOPA itself - unequivocally omitted by the Council from the first proposal of the Commission. Important political decisions should not be determined by delegated acts.

49. In conclusion, the OPSG stresses that EIOPA must take into consideration the existing EU legal framework on occupational pensions and also the current status of work on the new IORP directive in order to avoid unsuitable overlapping or inappropriate attempts in introducing requirements that are either unnecessary because of the aforementioned existing legal framework, or simply not approvable, considering that they have been already rejected by the legislator and the stakeholders in the ongoing process of the revision of the IORP directive.

Scope

50. Page 4 of the Opinion states: 'The framework applies to all IORPs providing occupational pension schemes in which risks are shared to differing degrees between the sponsor, plan members and the institution itself. IORPs providing pure DC schemes, in which risks are directly and fully borne by the plan members, are not within the scope.'
51. The OPSG is of the opinion that DC should be included in the scope. As the focus is risk assessment and transparency we would envisage a similar DC risk framework on an individual basis that would provide members with information about past performance as well as future performance scenarios to better appreciate the potential future outcomes.
52. The OPSG would also point out that risks extend beyond the IORP for occupational pensions. Where EIOPA focuses on the IORP itself the OPSG would suggest to look beyond the IORP and assess all relevant risks including, where applicable, sponsor support and reduction of pension rights.
53. Considering that the occupational pensions are part of a labour package, it should be emphasized that any risk assessment referred to this kind of pensions is addressed to the occupational scheme considered as a whole, as opposed to the IORP as such. Indeed, the IORP is just one of the several actors of the more complex structure of an occupational scheme, where the role of the sponsoring employer(s), of the members, and sometimes even of the beneficiaries also need to be taken into consideration in order to assess the risks of such a structure.
54. That being stated, we consider that the title of the opinion provided by EIOPA the 14th of April 2016 "Opinion to EU Institutions on a Common Framework for Risk Assessment [...] for

IORPs” (EIOPA-BoS-16/075) sounds too restrictive, and imprecise. In fact, the aforementioned risk assessment is referred to the occupational schemes considered as a whole, and not only to the IORPs themselves.

55. Of course, it is well known that the extent of the roles of the aforementioned stakeholders vary according to the national legal and contractual arrangements regulating the occupational pension schemes: if in some Member States the IORPs are much more liable to the solvency of the occupational pension scheme, in some other States the IORPs are almost relegated to a role of mere executors of the scheme. In the latter case, the adjustment mechanisms aimed at keeping the solvency requirements are mainly managed by the representatives of the sponsoring-employers and members who can decide for example to raise the contributions, changing the criteria of calculating the final pension, freeze the indexation of the benefits under payment, or even to reduce the benefits themselves.
56. In short, occupational pensions are a part of a wider labour package; they are usually the result of a free negotiation between social partners and can be very different both in scheme and funding characteristics; and more in general, they are social contracts between the employers and employees. Likewise, occupational pensions are essential for the self-employed, who also may need to reserve part of their current labour income for retirement provision.
57. We consider this preliminary explanation quite important, because it reminds us of an important wider issue concerning the different competences between the EU and the Member States as for the solvency requirements of the occupational pension schemes. As a matter of fact, the current EU legislation regulates solely the functioning of IORPs; however, the conditions of an occupational scheme, here defined as “a contract, an agreement, a trust deed or rules stipulating which retirement benefits are granted and under which conditions” (art. 6, let. (b) of the IORP II Directive fall under the competence of the national social and labour laws. That is the reason why an EU legal framework on the solvency of the occupational pensions managed by IORPs would be legally problematic – if not impossible – to achieve, while respecting the existing share of competences between the EU and the Member States (subsidiarity).
58. If such a legal framework is applied only to the IORPs intended as the institutions in charge of running the scheme, in principle there would be no particular problems; but when the solvency framework of the occupational pensions managed by IORPs is concerned, such a framework is referred to the entire occupational scheme, and not only to the IORPs themselves. That is also one reason why IORPs and Insurance companies are considered as completely different entities with reference to the regulation of their solvency rules: insurance companies are based on commercial contracts and bear the entire risk of insolvency; IORPs instead, are, in most cases that we are aware of, just one of the several actors within the wider context of an occupational pension scheme. This clear distinction between such IORPs and Insurance companies at the European level must be respected.
59. On the other hand, a common framework for the risk assessment and transparency for occupational schemes – rather than solely for the IORPs – drafted by EIOPA would not be legally problematic, insofar as it respects the diversity of the European pension landscape and is purely aimed at providing more clarity on the different national solutions adopted by the actors (and other stakeholders) involved in the occupational schemes with reference to the assessment of their risks.

Market-consistent balance sheet

60. As EIOPA's Opinion is about risk assessment and transparency the OPSG believes that a balance sheet valuation is not the first thing that would come to mind. We believe that an approach of analysing the development of cash flows is more appropriate. The suggestions of developing a market-consistent balance sheet is directly related to first pillar quantitative requirements. The text of the IORP II Directive is very clear though that there will be no change in this area of quantitative requirements.
61. As this is our principle point of view we do not think it would add much value to comment on market-consistent valuation in this respect. A great deal has already been said in earlier responses to consultations, more could be said, but we suggest to focus on how to achieve a proper risk assessment and good transparency to all relevant stakeholders. We would prefer a set of European common principles rather than a European common framework.
62. We do agree though, that the current and expected future state of financial markets and the relation between cash flow, earnings and financial items (including equity where appropriate) must remain a fundamental basis for any reasonable risk assessment.
63. In order not just to say "no" to EIOPA's suggested European common framework we have dedicated an addendum on our thoughts on the possible alternative approach of cash flow analysis. We believe cash flow analysis, including ALM modelling etc., can be a valuable tool in risk assessment and we think it is worthwhile exploring as a key risk management option. Cash flow analysis may not be the only alternative for all IORPs and, we have stressed it before, alternatives and simplifications are important to look at. We would focus any risk assessment primarily on IORP risks and we believe that the consideration of sponsor support as well as benefit reductions (where permitted) could be conducted separately "in the round".

Standardised risk assessment

64. A regular risk assessment is important for all IORPs. We would like to point out that many IORPs in Europe are already conducting regular risk assessments and the results are submitted to the NSA's.
65. Most IORPs already today routinely and regularly carry out their own analyses (e.g. Asset and Liability Management studies) and stress tests as part of their own risk management processes.
66. We agree that a risk assessment, depending on the specific environment (the size, nature, proportionality, complexity,...) can require a quantitative assessment of some risks, recognizing the need for proportionality and cost controls. Other risks could be assessed in a more qualitative way.
67. The risks EIOPA is suggesting (operational risk, risk free interest rate risk, property risk, equity risk, spread risk, currency risk, concentration risk, counterparty default risk (incl. default risk of the sponsor) and longevity risk) are the risks that can, depending on the specific environment (the size, nature, proportionality, complexity,...) require a quantitative assessment except for operational risk where we would suggest a qualitative assessment.
68. These and other kind of market risks can, depending on the specific environment (the size, nature, proportionality, complexity,...) be analysed individually. However, a quantitative risk

analysis of an IORP should measure the TOTAL risk of an IORP where e.g. positive or negative correlations between these individual risk factors are taken into account. In our opinion communication of risks should be done on a total and aggregated level, with analysis of individual risk factors as supplementary information only for management and supervisor.

Public disclosure

69. The revised IORP Directive states in Recital 43 that “annual accounts and annual reports should be publicly disclosed, where possible on a website, or by other means such as making available copies on request”. The OPSG supports such a public disclosure and believes that this is already common practice for most IORPs in Europe.
70. A chapter in the IORP’s annual report on risks and subject to the concerns set out in Paragraph [44] could be integrated.
71. The OPSG concurs, however, with EIOPA that ‘public disclosure of quantitative results may also potentially lead to unintended consequences or a breach of confidentiality’. In particular, the OPSG believes that the IORP risk report should not seek to include the outcome of any credit assessment of a sponsoring employer. In a number of member states, sponsoring employers have obligations to meet certain IORP funding requirements. Therefore, those managing IORPs are likely to wish to consider the mitigating effect of sponsor support in the quantitative risk assessment and hence include also sponsoring employer’s credit risk in setting the strategy for the IORP. However, the OPSG do not advocate the publication of the IORP’s assessment of sponsor credit risk as in certain circumstances this could be damaging to the sponsor (and in turn the IORP and its beneficiaries).
72. Notwithstanding the OPSG’s view that any credit assessment of the sponsor should not be published, the OPSG does support disclosing to beneficiaries the principle – if it is the case – that the funding of their benefits may depend on adequate sponsor support. Further, where relevant, it might be sensible for the IORP to state that it considers sponsor risk in formulating its strategy; and to set out briefly and qualitatively how it does so.
73. We note that Paragraph 111 of EIOPA Opinion states: *‘In respect of public disclosure, EIOPA supports the general principle that relevant information needs to be publicly disclosed. Within that general principle, EIOPA considers that disclosure needs to be aligned with the interests of the (groups of) people that receive or have access to this information. This means that publicly disclosed information should be accompanied by proper explanation.’*
74. We believe that the nature and content of public disclosure needs great care in terms of both presentation and unintended impact: sponsors will usually already disclose their pension arrangements under IAS19 (albeit that the IAS19 basis of calculating liabilities may differ to the basis used in arriving at technical provisions); and will also usually already draw attention to key business risks, sensitivities and uncertainties resulting out of occupational pensions and other matters in their annual reports. Any additional public disclosure needs to be carefully managed. EIOPA’s Consultation Paper on Further work on Solvency of IORPs⁸ shows that the value for the sponsor support highly depends on the assumptions and the methodology used to value the sponsor support. This makes the values for the sponsor support very artificial. This might become an even bigger issue when the results of the

⁸ See Table 4.2 on page 77 of [EIOPA's Consultation Paper on Further Work on Solvency of IORPs](#)

common framework are disclosed publicly, as in doing so this artificial value of the sponsor support will impact the capital market value of the sponsoring undertaking.

75. Subject to these initial comments, the OPSG suggests a “layered” approach to the disclosure of risks, including:
- a. Full disclosure – subject to strict confidentiality requirements - to those representatives of the stakeholders who are involved in the management of the IORP (Trustees, Board members, official representatives of members who are involved in the management of the IORP, official representatives of beneficiaries who are involved in the management of the IORP etc) as well as to the National Supervisory Authority.
 - b. Disclosure only of material risk items – excluding any details regarding the quantitative effect of sponsor support and the credit assessment of, or any other sensitive information about, the sponsor - in an understandable way to the wider group of stakeholders. This implies that the nature and level of communication and disclosures might depend on the stakeholder group and the nature and scale of the IORP itself. Such disclosure may include, where appropriate, the impact of one or more material risks crystallising such that benefits may not be payable in full. However, benefit curtailment arrangements vary from member state to member state and the OPSG therefore believe that the decision as what is appropriate to disclose in relation to potential benefit curtailment must be left to IORPs and applicable local regulations / NSA requirements.
 - c. Where in line with the fiduciary responsibility of the IORP and the social and labour law of the country, public disclosure of the main elements of the risk assessment in a chapter of the annual report in a clearly understandable way, referencing the overall objectives of the IORP in meeting its responsibilities to beneficiaries.

Supervisory actions

76. We refer back to the earlier chapter where we discussed the basic nature of occupational pensions – usually an arrangement between employers and employees.
77. If the risk assessment implies that risk mitigation actions are needed, such actions are primarily the responsibility of the Board of Directors of the IORP to decide. Actions considered to be of an important nature would normally be required to be raised with the sponsor and with bodies representing members/beneficiaries for discussion of possible relevant actions to be taken.
78. We support EIOPA’s view that decisions on supervisory actions are a national responsibility.
79. The National Competent Authority (“NCA”) can monitor whether or not the IORP is following appropriate laws and regulations; or whether it is or is not following appropriate risk management systems, including not taking appropriate risk mitigation actions when needed. Appropriate NCA actions should be taken when material deviations are observed.

Proportionality and simplifications

80. The OPSG believes that given the huge variations in pension arrangements as well as in social and labour law and the fact that social and labour law is a matter of the Member States a European common framework is not feasible and perhaps not even possible. We

nevertheless support a risk assessment driven by the NSA taking into account the local specifications (the size, nature, proportionality, complexity,...).

81. Simplifications need to be explored and implemented in order to do the risk analysis in a more cost-effective way, especially for the smaller IORPs
82. Simplifications should in principle be such that the risk evaluation and transparency is reasonably expected to result in a similar risk evaluation (or perhaps somewhat more prudent) compared to applying the (theoretical) full approach.
83. We do appreciate the relative larger burden for smaller IORPs and that therefore Member States should have the possibility not to require the common framework for small IORPs. At the same time we want to state that all IORPs, whether large or small, are there to serve the members and beneficiaries. If a Member State would use the possibility of not applying the common framework it should ascertain that the members and beneficiaries of the small IORPs are similarly well protected as those of large IORPs.
84. A key point for the OPSG is that any risk assessment should not lead to undue costs for the IORP. We would suggest that a realistic cost/benefit analysis of EIOPA's final proposed approach is conducted by an independent body such as the European Court of Auditors.

Preparatory phase

85. We sympathise with EIOPA's suggestion to allow enough time for IORPs and other relevant parties to get acquainted with the new requirements.

Protection of members and beneficiaries

86. We support EIOPA's view on the need in some cases for a better understanding of the risks and vulnerabilities of occupational pension schemes. We would like to add to this that we are happy to see already many good examples in Europe. We do see space for improvement in many other situations as well.
87. We stress that the protection of members and beneficiaries is not the same as guaranteeing pensions in all situations. Whether or not that is the case would largely depend on the pension arrangement.
88. We appreciate that in some countries, many pension arrangements do include optionalities, such as possibilities to lower pensions in certain situations. As noted above, it should be clear to members when they are taking some or all (e.g. in a pure DC arrangement) of the risk.
89. Protection in these situations is about good communication about the characteristics of the pension arrangement and not about making the pension arrangement "better" by taking it to the level of full guarantees in cases where this was neither agreed nor intended by social partners when they decided on the pension arrangement.
90. EIOPA is rightly speaking of 'protection of members and beneficiaries'. We note that in the field of occupational pensions 'member/stakeholder protection' ought to be the right wording, whereas we have the impression that this is sometimes mixed up with 'consumer protection'. It is important that such protection does not burden the IORP or sponsor such that benefits are reduced and members/beneficiaries end up with less.

Cross-border activity and regulatory arbitrage

91. Looking at the legal framework in Europe, regulatory arbitrage in terms of altering the pension outcome for members and beneficiaries is not allowed⁹. The IORP II Directive clarifies the rules and procedures for IORPs' cross-border activities by introducing new transfer rules and by specifying the roles of authorities in home and host Member State and how they shall communicate with each other.
92. Each and every pension arrangement is governed by the social and labour law of its Member State.
93. This remains true if the pension arrangement is executed in another Member State. It is the prudential framework that could be different in another Member State. A risk assessment approach based on cash flow analysis could contribute to assess pension plans in a more objective manner so that the results pension in the context of social and labor law of the same arrangement but executed in different Member States would be (roughly) the same.

⁹ A pension arrangement is governed by (host) Member State social and Labor law. This is unchanged if the execution is transferred to another (home) Member State. This implies in our view that despite differences in the (prudential) supervision between the Members States the members/beneficiaries are entitled to receive broadly the same pension amounts when they are due.

ADDENDUM. An example of an alternative approach: cash flow analysis

94. We start this chapter by repeating what we have said before already. We believe cash flow analysis, including ALM modelling etc., can be a valuable tool in risk assessment and we think it is worthwhile exploring as a key risk management option. Cash flow analysis may not be the only alternative for all IORPs and alternatives and simplifications remain important to look at as well. We would focus any risk assessment primarily on IORP risks and we believe that the consideration of sponsor support as well as benefit reductions (where permitted) should be conducted separately “in the round”.
95. Assessing risk in an IORP, as in any other business activity, is about evaluating the risk of the institution not being able to meet its commitments. The commitments for an IORP can be of various sorts, depending on what the stakeholders have agreed. However, the most obvious risk to measure is the risk of the IORP not being able to fulfil its commitment to pay the promised pensions or contributions to members/beneficiaries of the pension scheme when they become due.
96. The IORP II Directive will make such a risk assessment a requirement as it states in Article 28 (Own Risk Assessment): ‘assess the risks ... that may have an impact on the IORP’s ability to meet its obligations’.
97. Measuring the distance to default, or the probability of not being able to meet commitments, is therefore an exercise which is highly related to cash flow risk, and not the risk related to the value of assets and liabilities.
98. The business activity of IORPs, like any other economic activity, is characterised by flows of incoming and outgoing cash. Each of these flows may have inherent uncertainties such as interest rate levels, fx rates, counterparty uncertainty, property rental prices, dividend payments, member/beneficiary life expectancy and the expected annual adjustments of pension payments etc.
99. The total cash flow of an economic activity may be split into main cash flow elements and assigned with historical volatility, expected future development of macroeconomic variables and the assumed correlations between the elements in the cash flow analysis. A model of the expected cash flow of the IORP for future years may be established by systemising this information and input, and to link the cash flow elements to an integrated model for future net incomes and statutory financial reporting. By using modern simulation techniques thousands of possible outcomes of the cash flow development may be calculated, giving a distribution of possible outcomes of key elements which can be drawn as bell curves with an expected mean (the most likely outcome) and a distribution of the outcome around that mean.
100. Such quantitative and statistical analysis of the future outcomes of IORP cash flows, also including liquidity reserves and other sources of rapid access to cash, can form part of risk assessment analysis, e.g. the probability of not meeting commitments to members/beneficiaries, the probability of having to cut benefits (where permissible), the probability of having to ask sponsor for additional funding etc., etc. Communicating risk through such probability numbers is easy to understand from a stakeholder perspective, and especially when communicated as a development of time series over a number of years where changes in risk levels can be observed.

101. We would suggest, based on arguments given above, that EIOPA should promote this kind of quantitative methods to assess and communicate risk, rather than assessing risk from a valuation point of view.
102. Describing cash flows as suggested and to bring it all into a model sounds complicated and costly. However, it is not according to the experience with this kind of modelling in industrial conglomerates with operations in countries on all continents. The task should even be much simpler for an IORP with less complexity compared to a large multinational industrial conglomerate with a multitude of production units in a setting with consolidation of accounts from a large number of countries with different reporting currencies. The key is to understand your economic activity and to connect cash flow modelling with modelling the profit and loss accounts and a balancing balance sheet. Especially larger IORPs already have some sort of modelling of their activities, and the real issue is to combine information in several existing models into one. By doing so a platform for better understanding of the activities is created, a platform which can also be of invaluable support for making business decisions.
103. For EIOPA the implications of this would be to set the overall structure of this kind of risk assessment in a principle-based way and the basic content of risk modelling. EIOPA could define the required development of few and simple risk parameters. The reporting of risk must be given in a format which meet the need for information normally required by and insofar relevant to the respective stakeholder or group of relevant stakeholders.
104. Any risk numbers communicated should of course be accompanied by a written description of the main risks and changes in risk relevant for the various groups of relevant stakeholders. The decisive question for an IORP providing benefits within a DB scheme is: will it always be able to pay all benefits in the guaranteed amount at that point in time, when they become due? Will it be able to annually grant beneficiaries the promised adjustment of benefits, if any, to cover inflation or meet general wage increases? Because this is the core purposes of the pension scheme underpinned by a combination of responsibilities of the IORP, the sponsor and benefit reduction mechanisms - and not, for example, guaranteeing that certain valuation-depending funding levels are met at certain points in time, irrespective if the underlying cash-flows are due or not. This differentiates IORPs principally from insurance companies. Hence from our point of view a risk assessment should primarily address this question, which is much more important than questions dealing with valuation issues.
105. The answer to the above mentioned question can technically be derived by cash-flow-modelling and cash-flow-analysis. Each IORP, also the smaller ones, has available a schedule of its planned future cash-flows resulting from contributions, benefits and costs - otherwise an actuarial valuation would not be possible. In this cash-flow-schedule all specifics of the respective IORP and its legal environment can be sufficiently taken into account. In case of a fixed population of beneficiaries (i.e. without an assumption of new members entering the scheme), which is not too small, the development of cash-flows resulting from contributions, costs and benefits, can be projected with a relatively high reliability, if adequate mortality assumptions are used. Hence, the only relevant risk factor in this context is biometry, especially longevity. As a consequence these cash-flow-components should behave relatively stable in a cash-flow-model, before taking biometrical risks into account. On the other hand, starting with the current asset base, the future investment income and the future development of assets can be projected under given capital market assumptions. One can therefore easily determine if in these capital market scenarios there are always enough liquid

assets available to pay the benefits (incl. costs) when they become due, which means that an “event of default” on the side of the IORP can be avoided.

106. Risk assessment of an IORP should be done under different scenario assumptions, especially under different capital market scenarios but also under different scenarios regarding changes in life expectancy. For this purpose it should be preferred to use a stochastic model with a sufficiently high number of randomly generated scenarios by application of simulation techniques. But also using a set of several deterministic scenarios varying from very pessimistic to very optimistic ones should be acceptable¹⁰ in order not to put undue burden and additional costs on the respective IORP (this is important especially for smaller IORPs). A general set of principles regarding the derivation of assumptions for pure external scenario parameters (i.e. parameters, which are neither specific for the respective IORP nor can be influenced by the IORP’s management) can be centrally defined by EIOPA in order to make results somehow comparable, although a full comparability will not be possible to achieve due to the diverse nature of different pension schemes. Examples for such external parameters are future returns for the different asset-classes, stochastic dependences between asset-classes, trends and deviations in life expectancy etc. However, additionally there should also be the possibility for IORPs to calculate also one alternative scenario using assumptions, which the IORP feels to be most realistic. In order to take a holistic view on the full scheme, also protection mechanisms like payments resulting out of sponsor support, a pension protection scheme or benefit reductions should be included as risk mitigating factors to the outcome from the IORP cash flow model. Disclosure to the relevant stakeholders will be on a total risk basis, with only full disclosure of all the composing elements to the management of the IORP and the supervisor.
107. Out of these models many different kinds of information can be derived. Regarding the disclosure of such information one general rule should prevail: Only that information should be given to a certain group of stakeholders of the IORP, which is specifically relevant for this group – see paragraphs [] to [] above. One example: for beneficiaries it is important to know how by much their benefits would have to be cut in a certain specified adverse scenario – after having taken available protection mechanisms like sponsor support into account. The probability of a default on the sponsor’s side should be outside the scope of a risk assessment for the IORP. The risk of the sponsor not meeting commitments should be given as a general risk assessment of that sponsor, i.e. as a credit rating or a general credit risk evaluation given by a neutral 3rd party.
108. On the other hand sponsor companies need to know the probability of the IORP not being able to pay the guaranteed benefits – if applicable -, when they become due, is and how much they should expect to have to pay in order to support the IORP in that scenario. This is obviously a piece of information, which is not really relevant for the beneficiaries and which could in some cases also be detrimental for sponsoring companies, if it was given to a wider public. However, this guarantee commitment given by the sponsor would normally be information required to be disclosed under the different reporting framework of IAS 19.
109. The OPSG believes, that this cash-flow-based methodology might have several fundamental advantages: one main advantage is, that it is free from any valuation discount conventions. Different interest rate curves used for the valuation of liabilities are suitable to analyse and

¹⁰ A deterministic approach is an example of possible simplifications

assess different questions, and we strongly believe, that there is not only one “right” curve describing the reality in full. By just modelling cash-flow-streams (without having to discount them) and assessing, whether the IORP is always in the financial position to pay the benefits, when they become due, such valuation decisions and problems can be avoided in an elegant manner. One further fundamental advantage is the flexibility of that approach, which really allows integrating all specific aspects of a pension scheme and its legal environment into the modelling. Also this methodology is able to differentiate certain risks over the time axis: it makes an important difference, if an IORP in a certain scenario gets into financial difficulties in the nearer or in the farther future. By knowing the exact scenarios (and their development over time) one can also examine, what the concrete future developments are, that would trigger financial difficulties to the respective IORP. This could also help identifying suitable strategies mitigating such effects.

110. In the case of DC schemes the same methodology can be applied. Here it can be determined for a defined level of probability which level of benefits can be expected by the beneficiaries in the different (randomly generated or deterministic) future performance scenarios and so beneficiaries get on the one hand side a clear view, what the concrete risks are, that they are exposed to. On the other hand side (in case of a stochastic model) they can be informed, e.g. with which probability a certain level of benefits will not be reached. Such information could help them planning for their retirement phase.