



Responding to the EU Commission Green Paper on the European pension system, the ACA joins the chorus of those opposed to Solvency II being the 'starting point' for further EU regulation of pension funds...

ACA says EU-wide solvency regime for pension funds would undermine UK employers' commitment to providing 'quality' pensions

17 November 2010: The Association of Consulting Actuaries (ACA) has joined with organisations such as the CBI and NAPF in urging the EU Commission to abandon the idea that Solvency II might be the starting point for further regulatory intervention in EU-wide pensions.

Stuart Southall, Chairman of the ACA, commented:

“We believe that the IORP directive with its requirement for the prudent funding of pensions already provides an appropriate balance between protecting members' benefits and keeping the cost to employers at an affordable level. The EU Green Paper itself notes that regulation should be proportionate and not push employers into insolvency or into abandoning pension schemes. The UK has a sophisticated regulatory regime that has been built over a number of years to suit the shape and style of provision here. EU intervention would inevitably disturb the checks and balances in that system. Many hard-pressed employers providing 'quality' schemes would see such intervention as the final straw.

“Certainly, we do not agree that Solvency II – as is suggested in the EU paper – could ever be a good starting point for the regulation of pensions because of the considerable differences between insurance and pensions.”

The ACA says that if the EU is to be more greatly involved in member countries' pension provision, the focus should rather be on the different ways in which pension security may be achieved, encompassing issues such as the quality of the benefit being provided and the protections in place to support the provision of the benefit. In particular, any such EU regime for pensions would need to recognise that the existence of an employer with a continuing obligation to the scheme (the employer covenant) provides an important measure of protection (wholly unlike any protection in the insurance context). In addition, it would need to give due weight to other protection measures, including the provision of any guarantee funds.

The ACA notes that increasing pension security comes at a cost, which reduces the funds available to provide benefits. Establishing a tougher solvency regime for pensions would therefore be very likely to mean that lower benefits would be provided. Such a regime would also be economically inefficient, pegging defined benefit pension funding to bonds, which would lead to capital-seeking entities being deprived of sources of long-term funding.

Across Europe, pension schemes are provided by a range of different parties and the balance of provision varies between different Member States with some countries providing more retirement income through state social security arrangements, others through mandatory private supplementary provision, yet others through voluntary private supplementary provision. It would not seem possible to provide a consistent regulatory regime to all such types of provision without imposing a 'one size fits all' solution and the ACA notes that the Green Paper states this is not the EU's intention.

“The EU should support the plurality of pension provision across the EU and recognise that there are different ways of providing security. Attempting to ‘gold plate’ all pension systems across the EU will have disastrous consequences with employers withdrawing pension provision entirely rather than having to provide pensions at a cost that is far greater than they had ever intended,” said Stuart Southall.

The ACA has long been a supporter of risk-sharing solutions to pension provision and would welcome moves by the EU to encourage schemes that provide a 'middle way' between DB and DC pension schemes. However, the EU's role should be to facilitate the provision of such arrangements (e.g. by making sure that EU or national legislation does not impede the development of such schemes) rather than to regulate for the provision of such benefits.

The ACA's evidence to the EU Green Paper is available at www.aca.org.uk (see: recent publications).

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Note for Editors

About the Association of Consulting Actuaries (ACA)

The Association of Consulting Actuaries (ACA) is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.