



Technical support for the setting up of RESAVER

Choice of IORP home country

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Presentation to the RESAVER Consortium

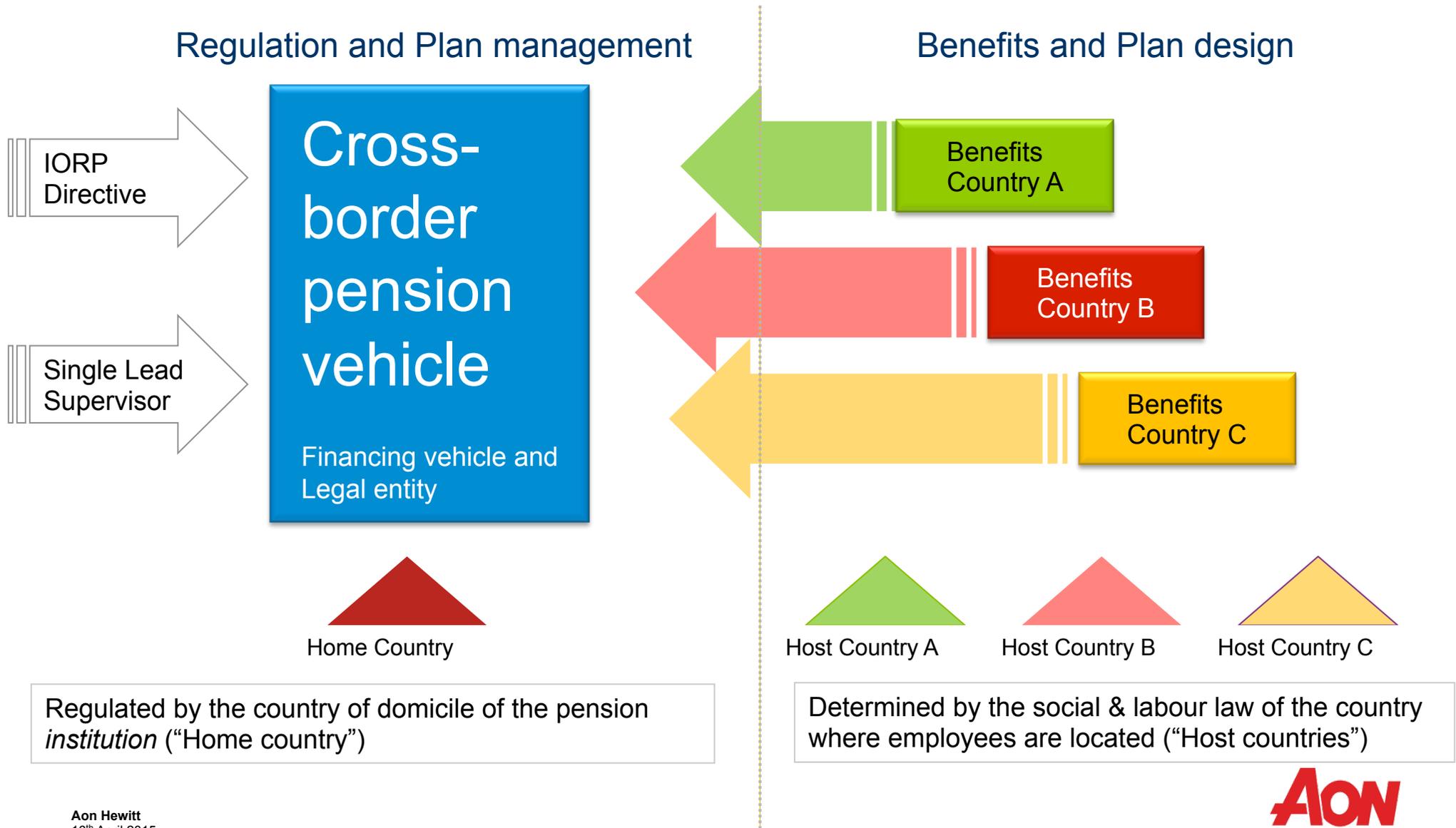
Purpose

This document contains our advice and recommendation in relation to selecting a suitable «home» Member State for the RESAVER IORP.

The IORP Directive specifically allows for the mutual recognition of IORPs by national supervisors within the EEA and for cross-border affiliation of employees. This means that employer(s), irrespective of country of registration or operation, can establish a pension fund in any EEA country with a view to manage retirement benefit schemes and members in any other country within the EEA (defined as the «home» country).

Cross-border IORPS are always authorised and regulated by the home country rather than the country(s) where the schemes and the employees operate (defined as the «host» country(s)).

Cross-border vehicle structure



Requirements

- The main factors to consider in selecting the home Member State are that the location should:
 - Have a resilient framework, effective supervisory principles and authorities
 - Be able to accommodate the widest range of pension scheme options, the diversity of sponsor undertakings and the potential modifications that over time may arise in relation to the participating sponsors
 - Provide an appropriate and efficient framework for supervision, in cooperation with the host Member State's competent authority
 - Have direct experience with cross-border pension vehicles

The choice will also be influenced by the broader pension environment in the country, the tax framework and the way in which the IORP Directive is practically implemented.

- We have met with the regulators of Belgium, Luxembourg and the Netherlands to discuss the project plan and test the practicality of using them as the home Member State.

Technical comparison

The following two slides set out our comparison of the main features of the vehicles under consideration. Note that legislation for the APF in the Netherlands is not yet final so not all the information is available yet.

Home location	Belgium / OFP	Luxembourg / SEPCAV	Luxembourg / ASSEP	Netherlands / PPI	Netherlands / APF
Which type of schemes / benefits can be provided by the IORP?	All	DC only	All	DC only	All
Can the IORP bear risk (e.g. financial, survival or mortality)?	Yes – but this is very unusual. Normally the employer is ultimately responsible	No – is a pure DC savings vehicle.	No – employer is ultimately responsible	No – is a pure DC savings vehicle	Yes
Is there any restriction on the form of benefits that can be paid at retirement?	No	Yes – benefit must be paid out as a lump sum	No	Cannot pay pension directly	No
Can assets and liabilities be ring-fenced inside the IORP (e.g. for different schemes)?	Yes (optional)	N/A – is a pure DC savings vehicle.	Yes (optional)	N/A – is a pure DC savings vehicle.	Yes
Flexibility to outsource administration	High	Yes	High	Yes	Yes
Is the IORP covered by a national protection or guarantee fund?	No	No	No	No	No
Is there a requirement for the IORP to hold a minimum level of assets?	No	Yes (€ 1 million, to be reached within first two years)	Yes (€ 5 million, to be reached within first ten years)	Yes (€0.5 million paid-in capital by sponsor)	Yes (expected) (€0.5 million paid-in capital by sponsor)

Technical comparison *continued*

Home location	Belgium / OFP	Luxembourg / SEPCAV	Luxembourg / ASSEP	Netherlands / PPI	Netherlands / APF
Can employees be represented on the IORP Board?	Dual-board structure General Assembly: unusual Board: optional	Dual-board structure General Assembly: all plan members Board: optional	Dual-board structure General Assembly: mandatory Board: optional	Possible but not common; generally expected to be independent members to avoid conflict of interest. Must demonstrate they are qualified	Unknown
How burdensome are the compliance and reporting requirements?	Medium	Light	Light	Heavy (similar to OPF); reporting lighter	Heavy (similar to OPF); reporting heavier
Legal form of the IORP	Organization for Financing Pensions (OFP)	Société d'épargne-pension à capital variable (SEPCAV)	Association d'épargne-pension (ASSEP)	Public limited company, not-for-profit organisation or European Limited Company (SE)	Foundation
Who can found an IORP	Employers or related entity	Unlimited	Unlimited	Unlimited	Unlimited
What restrictions are placed on the IORP's investments?	Prudent person – flexible	Prudent person – flexible	Prudent person – flexible	Prudent person – life-cycle default	Prudent person
Flexibility of regulator to accommodate changes outside core legislation	High	High	High	Limited	Limited
Minimum member requirements?	None	None – but possible for plans with less than 100 members to be excluded from cross border requirements	None – but possible for plans with less than 100 members to be excluded from cross border requirements	None	None

Meetings with Regulators

Meetings were held with the pension regulators in Luxembourg (CSSF), Belgium (FSMA) and the Netherlands (DNB) during February/March 2015 to discuss:

- Process for setting up a pan-European defined contribution IORP
 - Timeline for provider selection – before application submitted
 - Forms to complete (expected to be ready by end of 2015)
 - Timeline for approval (expected to be ready to accept first contributions mid-2016)

- Process for including new organisations
 - The intention is for RESAVER to be open to all organisations employing researchers in the EEA – potential for hundreds/thousands of organisations to join – need a streamlined approval process
 - Plan documents (rules, statement of investment principles etc) expected to vary by country, but only where necessary e.g. where SLL requires
 - Within a country, plan rules are expected to be the same across organisations other than for the contribution rates and death in service benefit level, which are expected to vary by organisation

- Timeline for implementation
 - Application forms submitted by end of 2015
 - Ready to accept first contributions mid-2016

- Feedback from regulator, including any concerns they may have

The following two slides summarises the discussions that took place.

Meetings with Regulators *continued*

	Belgium – FSMA	Luxembourg – CSSF	Netherlands - DNB
Meeting date, location	27 February 2015, FSMA Brussels	13 February 2015, CSS Luxembourg	18 th March 2015, DNB Amsterdam
Meeting attendees	Thierry Verkest (Aon Hewitt), Andreas Dahlen (European Commission), Henk Becquaert (Department Head, FSMA), Luk Behets (Cross-border legal adviser, FSMA)	Thierry Verkest (Aon Hewitt), Andreas Dahlen (European Commission), Paul Jankowitsch (Chairman, RESAVER Consortium), Tom Becker (CSSF), Jean-Paul Heger (head of UCITS, CSSF), Nathalie Wald (advisor pension funds, CSSF), Didier Bergamo (actuary, FSMA)	Thierry Verkest (Aon Hewitt), Rob Vandersanden (Aon Hewitt), Johan Huysse (VSNU), Rick Hogendoorn (policy advisor), Ger Roelofsma (PPI supervision), Jan Nierop (legal advisor)
Timeline for provider selection	No issue with provider selection process being run by Consortium prior to IORP being legally created	No issue with provider selection process being run by Consortium prior to IORP being legally created	No issue with provider selection process being run by Consortium prior to IORP being legally created
Forms to complete	Standard forms. Recommend submitting drafts prior to official submission Application fee is EUR2,500	Standard forms (including copies of draft provider agreements). Recommend submitting drafts prior to official submission	Standard forms, plan documents and including business plan with risk analysis (quantified), expertise of Board of Management, written dividend policy etc. Application fee is EUR26,000 (PPI)
Timeline for approval	No issues expected provided submission file is complete	No issues expected provided submission file is complete	13 weeks (PPI)
Including new organisations	Open to agreeing a practical solution e.g. single notification per country, if design similar	Open to agreeing a practical solution e.g. single notification per country, if design similar	Each new organisation would need to follow the Budapest protocol. Processing times expected to improve as more organisations for the same country are added.
Experience with cross border activity	11 plans with active cross-border activity at mid-2014	2 plans with active cross-border activity	None to date
Other comments			Discussed possibility of starting with PPI and possibly moving to APF once RESAVER is large enough

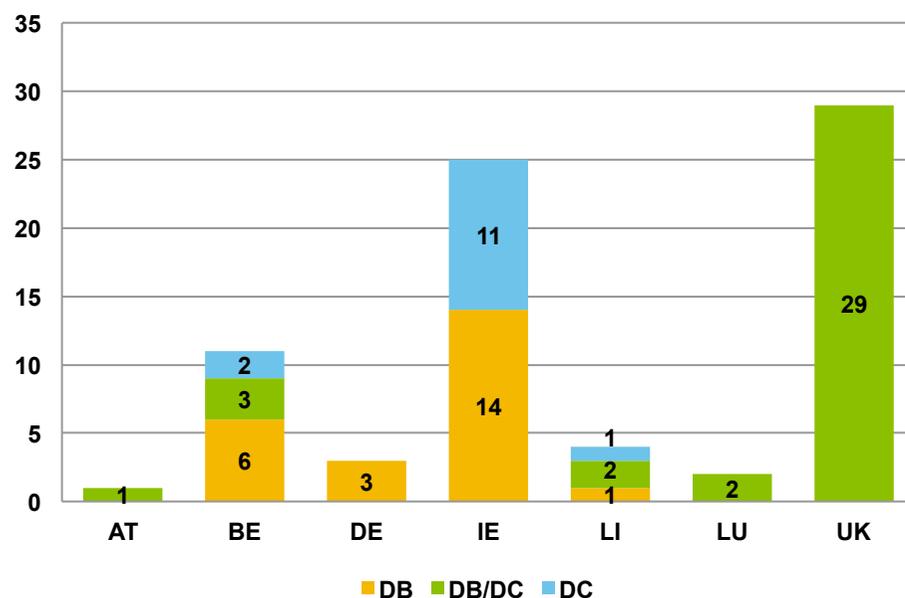
Meetings with Regulators *continued*

	Belgium – FSMA	Luxembourg – CSSF	Netherlands - DNB
Main advantages	<ul style="list-style-type: none"> • Most multinational companies choose Belgium because of the flexibility in governance, funding and investments, within a clearly defined legal framework, based on the IORP Directive • Directive transposed into local legislation offering lots of flexibility – objective was to be a centre of excellence • The governance structure allows explicitly for creating committees where social partners can be involved • The FSMA confirmed that they provide high quality supervision, insisting that flexibility does not mean weak supervision. Rather it requires closer supervision • Technical infrastructure and service providers in place • Multi-lingual / multi-cultural environment • Supportive of cross-border pension funds 	<ul style="list-style-type: none"> • Longstanding reputation as financial centre in an international context • Experience in setting up multi-employer cross-border pension fund • Pension legislation dates from pre-IORP directive, updated to comply with IORP directive • Multi-lingual / multi-cultural environment • Supportive of cross-border pension funds 	<ul style="list-style-type: none"> • International reputation as leader in pension supervision to one of the largest second pillar pension countries in the world • PPI vehicle specifically developed for cross-border DC activity; 12 currently registered • APF legislation expected in 2016 which could accommodate DC and risk benefits once RESAVER has reached critical mass • High standard of pension supervision and governance will provide comfort to RESAVER employers and plan members • Supportive of cross-border pension funds • Multi-lingual / multi-cultural environment
Concerns noted post meeting	<ul style="list-style-type: none"> • Currently department is relatively small and they are very busy at the moment with applications. Do they have the capacity to work with RESAVER? • Governance requirements are demanding, but this ensures a clear governance structure • Lack of experience in regulating large DC pension funds • All benefit payments need to be declared to social security department – administration burden (more problematic with annuities) 	<ul style="list-style-type: none"> • Will be Incorporating pension department with UCITS, owing to small number of pension plans in Luxembourg. Around half of the current pensions team will be relocated to another team. The condensed team may not have capacity to work with RESAVER, and there will be fewer pension experts. • Limited experience, limited number of pension funds 	<ul style="list-style-type: none"> • No practical experience with active cross-border plans • Requirement for at least EUR500,000 capital buffer • Governance requirements are highly demanding, but this ensures a clear governance structure • APF rules not final; process for transitioning from PPI to APF uncertain • Rules-based approach to regulation/ supervision is less flexible

Summary of active cross-border IORPs on 1 June 2014

The following charts summarise the cross-border IORPs that were in existence at 1 June 2014, based on an EIOPA study. The next slide comments on these numbers.

Number of active cross-border IORPs



Note: Countries were asked to classify their active cross-border IORPs as DB, DC or DB/DC. Where the categorisation was not clear (e.g. not provided or conflicting categorisation by different countries), we have included them as DB/DC plans.

Source: 2014 Report on Cross Border IORP Market Developments © EIOPA 2014

Home-host relationship of active cross-border IORPs

		Home						
		AT	BE	DE	IE	LI	LU	UK
Host	AT	■		■				
	BE		■		■	■		■
	CY		■					
	CZ							■
	DE	■		■		■	■	
	EL							■
	ES		■					
	FR						■	■
	HU				■			
	IE		■		■		■	■
	LI	■				■		
	LT		■					
	LU		■	■			■	■
	MT		■					
	NL		■		■	■	■	■
	SE							■
	UK		■		■	■	■	■
		(3)	(9)	(3)	(5)	(5)	(6)	(10)

Summary of active cross-border IORPs on 1 June 2014 *continued*

- Most cross-border IORPs are in the UK. The UK applies a very broad definition of cross-border activity; looking into the individual members and whether they are temporarily “based” outside the UK, while other member states use the location of the benefit scheme as a starting point or the location of the sponsoring undertaking. As such, in contrast to what one might conclude at first sight, the UK is not the most popular choice of home-country for “true” cross-border pension solutions as the overseas members are typically still receiving UK style benefits and many are expected to return to the UK. The same applies to a certain extent to Ireland.
- German-speaking countries are well represented, reflecting the fact that insurance companies have started to use IORPs as open pension funds mainly for multi-employer solutions.
- Many cases pre-date the IORP directive and were formalised once the Directive was implemented. These cases mainly refer to cross-border employees (UK/Ireland; Belgium/Luxembourg).
- Based on our experience of working with multinational, Belgium has been the most popular location for setting up a “true” cross-border pension plan

Overall Appreciation

In summary:

	Belgium / OFP	Luxembourg / SEPCAV	Luxembourg / ASSEP	Netherlands / PPI	Netherlands / AFP
Main advantages	Principle-based regulatory approach. Flexibility of structure and regulator	Flexibility	Flexibility	Vehicle tailored to cross-border DC plans. Strong governance/regulation. DNB reputation.	Flexible vehicle. Strong governance/regulation. DNB reputation.
Disadvantages	Lack of local practice of "pure" DC	Unable to bear risk directly. Limited cross-border experience	Lack of (written) local practice. Less experience with cross-border activity	No cross-border experience. Required capital buffer. No risk benefits. Rule-based regulatory approach is less flexible.	Legislation is pending; no cross-border experience. Rule-based regulatory approach is less flexible. Unclear transition from PPI
Overall Appreciation	High	Medium	Medium/High	Low/Medium	Low

Recommendation

- In the original feasibility study 10 retirement vehicles in six different EEA locations were compared and contrasted in terms of scope of benefits, governance, financing and a number of other characteristics. It was concluded that the most practical locations/vehicles were primarily in Belgium (a new vehicle has been created – “OFP”), or Luxembourg (SEPCAV and ASSEP). We continue to support this conclusion. All three countries have been positioning themselves as locations of choice. In addition, we have considered the Netherlands, as requested by the RESAVER Consortium.

- Belgium is preferred for the following reasons:
 - Legislation fully in line with EU Directive
 - Principles-based (prudent person) approach to regulation and supervision
 - Regulator accessible, open-minded and supportive
 - No quantitative investment and financing regulations
 - Flexibility of governance framework according to specific situation
 - Zero tax base
 - Establishment of country pension councils (committees) to comply with local social regulations
 - More than 20 year of experience with pension funds
 - Experience with cross-border pension funds
 - Multi-cultural and multi-lingual community in the centre of Europe

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