FK | Finanssialan Keskusliitto
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Pia Santavirta

OCCUPATIONAL PENSION SCHEMES AND CURRENT REGULATORY PROJECTS IN THE EU

Main differences between Finland and other member states

Occupational Pension Schemes refer to supplementary pension that is linked to employment relationship. The occupational pension is usually funded either by the employer alone or jointly by the employer and employee. This means the schemes are not connected to voluntary personal pension schemes or to the statutory pension system. The many different kinds of occupational pension schemes include for example group pension insurance contracts, pay-as-you-go or funded pension schemes, and employer's pension promises backed by book reserves.

In Finland occupationl pension schemes comprise only about 6% of the total pension cover. In other EU states, occupational pension can form more than half of the total pension cover, and therefore the Commission has several pending regulatory projects that focus on occupational pension schemes. The Commission considers the development of their market also important due to population ageing.

Regulatory differences hinder competitive neutrality and cause disparity in insurance cover

Life insurance companies are the most regulated and book-reserve plans the least regulated option. Because life insurers have strict solvency requirements, an employee's occupational retirement benefits are best secured in the form of group pension insurance from a life insurance company. In the other options, payment of the occupational pension is usually highly dependent on the employer's solvency situation.

Current regulation requires that employers secure fifty per cent of the promised book-reserve pension e.g. with a bank guarantee, but few member states have implemented this requirement. The Finnish Ministry of Employment and the Economy is at the moment working on a legislative project to implement such EU requirements.

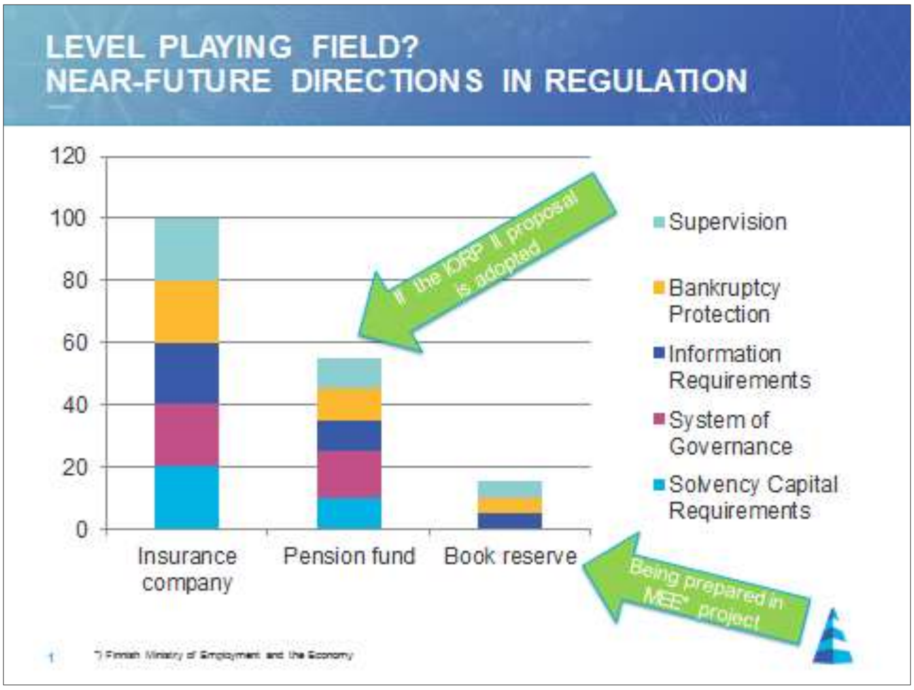
The amount of regulation is directly reflected in the costs of occupational pension arrangements. In order to have a level playing field in the occupational pension market, the different options should be subject to reasonably similar requirements. In FFI's view, the occupational pension market does not presently have competitive neutrality. As of 1 January 2016, Solvency II will impact life insurers with a large volume of regulation that covers capital requirements, governance and risk management, reporting and supervision. For pension funds, proposals have been made only on new governance provisions, not on capital requirements (IORP II draft directive). To ensure equal competition, FFI holds that new capital requirements should be included in the IORP II directive. This would improve the protection of the pension scheme members as well. Administrative burden could be lessened by adding a proportionality principle into the IORP II proposal (like in the Solvency II directive).

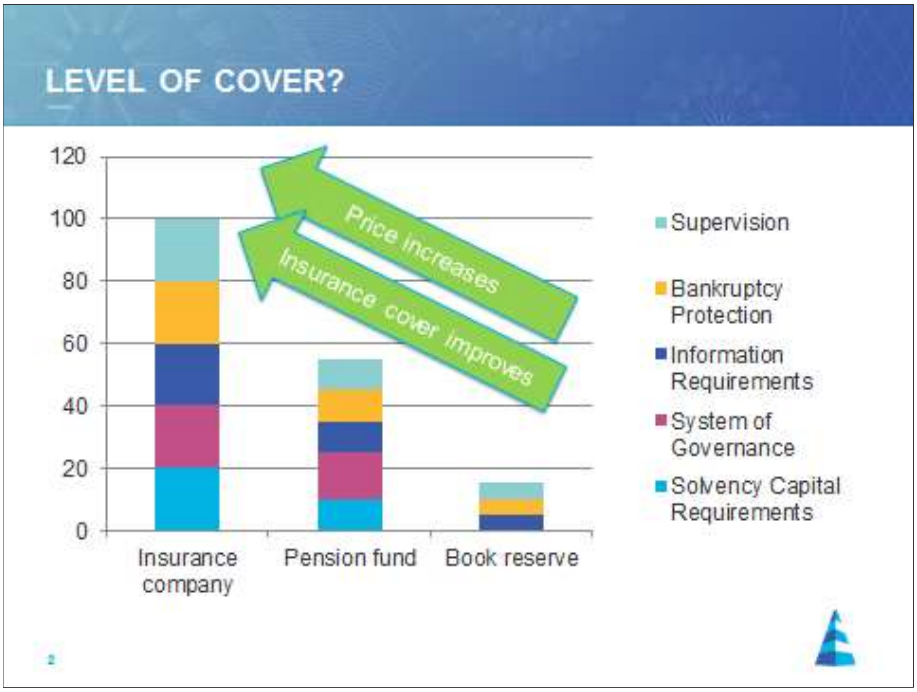
Book-reserve pension schemes should also be subject to regulation to ensure that book-reserves do not become an inexpensive way to circumvent the other occupational pension options that are more regulated and better in terms of protection of scheme members.

Finanssialan Keskusliitto
Bulevardi 28, 00120 Helsinki
Puh: 020 793 4200
Faksi: 020 793 4202
etunimi.sukunimi@fkl.fi
www.fkl.fi

Finansbranschens Centralförbund
Bulevarden 28, 00120 Helsingfors, Finland
Tel: +358 20 793 4200
Fax: +358 20 793 4202
fornamn.efternamn@fkl.fi

Federation of Finnish Financial Services
Bulevardi 28, 00120 Helsinki, Finland
Tel: +358 20 793 4200
Fax: +358 20 793 4202
firstname.lastname@fkl.fi





Further information:
Pia Santavirta, Senior Legal Adviser
tel. +358 20 793 4237
pia.santavirta@fkl.fi