



# IORP II review: a view from the Actuarial Association of Europe



**There is a European angle to pensions, via the IORP II Directive. This Directive is under review. In this article, we discuss some of the areas where change is being considered, and set out the Actuarial Association of Europe (AAE) position on these.**

In 2003, the EU issued a Directive on 'the activities and supervision of institutions for occupational retirement provision' which became known as the IORP Directive. This was reviewed and substantially amended in 2016 in the IORP II Directive, which was required to be transposed into national law by January 2019, although a number of Member States missed this deadline. IORP II included a requirement to review certain aspects after 5 years and the European Commission (EC) issued a Call for Advice to EIOPA in 2022. EIOPA undertook a consultation, to which AAE and other stakeholders made submissions, and issued its advice to the EC on 28 September 2023, when it also published feedback on the consultation exercise. It is expected that the new EC will issue a Proposal for a Directive in the coming months.

## THE EC HIGHLIGHTED THE INCREASING TREND OF A SHIFT FROM DB TO DC IORPS

In its Call for Advice, the EC highlighted the increasing trend of a shift from Defined Benefit (DB) to Defined Contribution (DC) IORPs, and the consequent transfer of part or all of the risk from the IORP to the members, and asked if the regulatory system needed to be adapted to recognise this shift. Other issues noted in the call for advice related to cross border activity and transfers, whether the Pension Benefit Statement meets its objectives, the interaction of sustainability and fiduciary duties and the desirability of diversity in the management boards of IORPs. In its advice, EIOPA made proposals for change to the Directive in some of these areas, as well as some other issues which it considered worthy of review.

AAE submitted responses to the questions posed in the consultation document, and has considered the feedback given and the advice given by EIOPA to the EC.

M. Melchior (links) is Founder of Archanan and Chair of the Pension Risk Management working group of the AAE.

P. Shier is a Fellow of the Society of Actuaries in Ireland. He was AAE Chairperson in 2015/16. He currently leads the AAE Taskforce on the IORP II review.



In its response<sup>1</sup> to the EIOPA advice, the AAE identified two overarching issues:

- the balance between 'protecting the legacy' and 'embracing the future'  
Whilst of course the existing rights of members and beneficiaries must be protected, this should not mean the retention of structures and practices where these are no longer appropriate, but more modern principles of governance and risk management should be applied.
- the IORP Directive is a minimum harmonisation Directive  
Given the heterogeneity of IORPs in different Member States, it would be wrong to impose a one-size-fits-all approach but the Directive should set out principles and provide flexibility for Member States to apply these appropriately and proportionately for IORPs in their jurisdiction. Guidelines and best practices should be encouraged.

The longest section of the consultation document and EIOPA's advice deals with governance and prudential standards. One controversial issue is deciding the threshold at which the provisions of the Directive must be applied; below this limit Member States can (but are not required to) exempt IORPs from almost all of the requirements. The existing limit of 100 members is inappropriate as it takes no account of beneficiaries (which in some IORPs may be significantly greater in number than members) or of the level of assets of the IORP. EIOPA proposes to increase the limit to 1,000 members and beneficiaries, and €25 million in assets, with IORPs which are currently exempt but would be required to comply with the Directive under the new limits being 'grandfathered' i.e. they would continue to enjoy the exemption. AAE is supportive of the proposal to increase the limits provided Member States consider to what extent they should apply at least some of the provisions of the Directive to IORPs below the threshold, and that the grandfathering provision not be included, with a transitional period granted instead.

## RISK MANAGEMENT: THE AAE'S VISION FOR SMARTER PENSION OVERSIGHT

Effective risk management is central to the AAE's vision for a modernised IORP II Directive. The AAE calls for a shift from static, compliance-driven approaches to dynamic, principle-based systems that strengthen governance and member protection. Risk assessments should be part of continuous risk management – not just limited to periodic exercises through the Own Risk Assessment (ORA). This includes clearly defining and regularly reviewing an IORP's risk appetite and tolerance across funding, investment, biometric, operational, and sponsor risks. Governance should allow risk signals to be addressed proactively, not reactively.

## AS PENSION SYSTEMS MOVE FROM DB TO DC, RISK INCREASINGLY SHIFTS TO MEMBERS

As pension systems move from DB to DC, risk increasingly shifts to members. The AAE stresses the need for actuarial frameworks that reflect this reality. It is no longer sufficient to focus only on portfolio and sponsor risks – actuaries must also help assess income adequacy and investment risk at the member level.

Long-term risk assessments are key tools for modelling outcomes under varying economic and demographic scenarios. These projections guide the design of default strategies, such as lifecycle strategies, which adjust asset allocation as members age. They also help evaluate the

long-term effect of costs and charges – crucial for assessing value-for-money as DC plans become more widespread.

The AAE supports standardised risk assessments (SRAs) to improve comparability across Member States. These should enhance supervisory insight into systemic and national risks and serve as input to inspire future regulatory improvements – without undermining national frameworks or introducing unintended capital requirements.

By promoting risk-based, proportionate regulation and long-term modelling, the AAE aims to ensure IORPs are better equipped to deliver secure and sustainable member outcomes.

## IT IS ESSENTIAL THAT THE NARRATIVE USED TO DESCRIBE THE SCENARIOS MUST BE MEANINGFUL TO MEMBERS

### MEMBER COMMUNICATION

The Advice has a section on communications with members and in particular on the Pension Benefit Statement. There is already a long list of items which must be included, and EIOPA proposes that more be added – details of past performance, information on costs and charges, and information on sustainability. The AAE emphasises the need for the key information, including expected benefits and risk measures, to be highlighted with additional nice-to-know issues available in a layered fashion. To facilitate this, the AAE is very supportive of the use of a digital platform and tools to enhance member engagement and understanding.

The AAE welcomes the proposal that a 'favourable scenario' be included in projections of DC benefits, to balance the 'unfavourable scenario' currently required, and would be pleased to participate in further discussion about the projections and the assumptions to be used. It is essential that the narrative used to describe the scenarios must be meaningful to members, most of whom will not have high levels of financial literacy.

EIOPA's advice addresses other issues which the Commission has requested, including requirements on the integration of sustainability in investment decisions, and recommendations on diversity and inclusion in the administrative body. The AAE is broadly supportive of these initiatives.

The AAE supports most of the recommendations made by EIOPA although care will be needed to ensure that the regulatory burden on IORPs does not become too onerous, and that the information provided to members is concise and comprehensible. The AAE looks forward to participating in further discussion and assisting in implementation of the changes ultimately agreed by the co-legislators and is confident that the actuary can play a key role in DC pensions, especially in the areas of risk management and member communication. ■

1 – <https://actuary.eu/wp-content/uploads/2024/12/AAE-Position-Paper-on-IORP-II.pdf>