Retirement Income
JOURNAL

Would Europe’s pension cure be worse than the disease?

By Editor Test *Mon, Feb 13, 2012*

DB plan providers and plan sponsors in Europe say that higher capital requirements wouldn't make their plans safer, but would force them closer to insolvency.

Higher capital requirement measures could ruin all remaining UK defined benefit plans and push plan sponsors into insolvency, a recent letter from UK employee and employer representatives to the European Commission warns. (This report comes via IPE.com.)

The National Association of Pension Funds (NAPF), the Confederation of British Industry (CBI) and the union umbrella organization TUC, told EC president José Manuel Barroso that the EC’s recent revised directive on occupational pensions would undermine the retirement prospects of millions of Europeans.

According to the three organizations, plan sponsors would see the cost of pensions increase significantly due to the capital requirements imposed, forcing them “to divert money away from investment in growth, job creation and research and development.”

In addition, the NAPF, CBI and TUC contended that pension investment managers will shift from equities to risk-free bonds and gilts if they have to calculate liabilities using a risk-free discount rate.

“Less equity investment would restrict capital flows to businesses, at a time when they are being asked to put even more cash into [plans],” the letter said. “With European pension funds holding over €3trn (($3.97 trillion) in assets, a major switch in asset allocation would have an immediate catastrophic impact on the stability of European financial markets.”

The letter was sent as the EC prepares to receive draft advice on the IORP directive from the European Insurance and Occupational Pensions Authority (EIOPA) this week.