30 April 2020

Subject: **CRISIS 2020 – UPDATE 7**

Impact on pension funds of current financial markets turmoil and challenges to Europe and global economy

Action required:
For information

1. Impacts on IORPs and measures adopted by NCAs (based on various sources)

The Netherlands

ABP has lost over half of its 2019 investment gains in the first quarter of 2020. Its investments decreased by 9.8 per cent in the first quarter of 2020. In addition, the lower interest rates have put additional pressure on its funding ratio. Its current funding ratio has fallen from 97.8 per cent at the end of December 2019 to 82 per cent at the end of March 2020. The effects of the coronavirus crisis are likely to continue for years to come. Some of the losses will inevitably fall to investors, including pension funds. Although the Fund doesn't know what will happen to pensioner benefits and employee accrual in 2021, it expects to be able to make a better estimate in the autumn.

Germany

Pensionskassen could benefit from further regulatory relief, as the outlook does not look promising. BaFin has already approved applications to cut pension benefits filed by seven Pensionskassen. Four additional Pensionskassen have submitted applications, which are now being reviewed by the authority. BaFin has already decided to provide relief for employers to restore the coverage of guaranteed assets for Pensionsfonds, by allowing them to submit a plan to restore coverage of up to 10% until 1 October at the latest. Similar action could be put in place for regulated Pensionskassen, for example an extension of a financing period to strengthen calculation bases, or even a delay of an additional payment scheduled for 2020-21. Even if underfunded, a Pensionskasse usually has sufficient assets to make benefit payments for at least 30 or 40 more years, therefore, BaFin and the legislator should provide adequate time to overcome the current market volatility.

Belgium

ExxonMobil is to pay the Dutch section in its Belgium-based pension fund €250m to make up for a funding shortfall caused by the COVID-19 pandemic. The scheme's funding dropped to 92% in the first quarter of the year. The payment is meant to raise the funding level of the Dutch segment of ExxonMobil to 100%. Under Belgian pension rules, a 100% funding means a full coverage of liabilities including a 20% financial buffer and would equate to a coverage ratio of approximately 112% under Dutch rules.

Ireland

The Irish authority said it has engaged directly with sector and industry representatives on the implications the pandemic is having on pension schemes and how it can assist in the present difficulties. However, the authority warned those in the industry that it cannot waive obligations required by the Pensions Act. This announcement deals with regulatory matters and with employer pension contributions.

United Kingdom

Between 5-10 per cent of UK sponsoring employers have been requesting to suspend deficit recovery contributions (DRCs), according to The Pensions Regulator (TPR).

UK pension fund trustees will warn savers looking to transfer to a DC from a DB pension during the COVID-19 crisis that it will unlikely be in their best long-term interests. The call follows guidance published by TPR, in which trustees are asked to send DB members looking to move retirement funds a letter warning them of the risks during the pandemic and urging them to consider their decisions carefully.
The regulator is calling on trustees to:

- highlight the free, impartial pensions guidance from Pension Wise, including phone appointments and online information;
- encourage members to take regulated advice to understand their retirement options;
- identify increased risks in how a member has decided to access their pension funds and give appropriate warnings of the risks and implications of their chosen option;
- send all DB members requesting a cash equivalent transfer value (CETV) a template letter signed by TPR, the Financial Conduct Authority (FCA) and the Money and Pensions Service, which runs TPAS;
- monitor CETV requests and inform FCA of unusual or concerning patterns, such as spikes or the same adviser across multitude of requests.

In March, the UK Pension Regulator already provided Guidance for employers about automatic enrolment duties and workplace pension contributions during the COVID-19 situation and guidance on scheme funding for employers with defined benefit pensions to follow during the COVID-19 situation.

PLSA published two guides, respectively for DC and DB schemes, providing tips to face a number of tough questions on issues around administration, member communications, investment, governance and support on decumulation options (for DC schemes) and covenant strength, funding, investment, governance and communications to members (for DB schemes).
PLSA has published a new guide addressed to savers, designed to explain what happens to their workplace pension under a range of circumstances brought about by the virus and to provide tips on what to do about their pension.
Further information:

- Pension Regulator website
- PLSA website

Denmark
Danish insurance and pension provider, Topdanmark, has revealed it made a loss of DKK 193m in the first quarter of 2020, as a result of the financial impact of coronavirus.

United States
The Department of Labor's Employee Benefits Security Administration released a notice that provides more time to retirement plan officials to furnish benefit statements, annual funding notices, and other notices and disclosures required by ERISA (Employee Retirement Income Security Act) so long as they make a good-faith effort to furnish the documents as soon as administratively practicable. The Labor Department, Treasury Department and IRS also jointly issued a notice that extends certain time frames affecting participants' rights to health-care coverage, portability and continuation of group health plan

coverage, and extends the time for plan participants to file or finalize benefit claims or appeals of denied claims.

Australia

The Australian government is allowing members to take up to $20,000 as early release from their savings to meet COVID-19 financial stresses. Members switching to cash options will present a bigger liquidity challenge than early release of savings for Australia's A$3trn (€1.8trn) superannuation industry. The 2008-09 global financial crisis showed that member behaviour could drive people to make an investment switch from balanced options to cash. However, the industry would not have a liquidity problem of the type suggested by some critics because of the sector's high exposure to illiquid assets.

Canada

Canadian corporate and public pension plans in the RBC Investor and Treasury Services universe saw a median gross decline of 7.1% in the first quarter, the steepest decline since 2008.

IOPS Members measures taken to address the Covid-19 crisis

Supervisory authorities from around the globe are taking action, providing guidance and recommending measures to help address the collective challenge caused by the coronavirus crisis COVID-19 that is affecting all countries in 2020.

The International Organization of Pension Supervisors (IOPS) is publishing information from IOPS members and other relevant supervisory authorities in response to the current situation, to help financial institutions and consumers from the private pension sector to face the consequences of this major crisis. You can access IOPS database here.

We highlight that, among the measures taken by international organizations, IOPS is reporting our statement.

2. PensionsEurope questionnaires – interim results

PensionsEurope sent two questionnaires to full and observer members.
The first questionnaire was sent on 17 March 2020, and the results were summarized in the Updates 3. The second questionnaire was sent on 20 April 2020. We received answers from the following countries: **Austria, Belgium, Bulgaria, Finland, Italy, Ireland, Portugal, the Netherlands, Spain, Sweden, and Norway.**

If you have not yet answered the questionnaire, please send your answers to PensionsEurope Secretariat as soon as possible.

The table below summarizes the answers received to our second questionnaire:

Answers to PensionsEurope second crisis survey in the spring of 2020

Yes
No
Slightly / Possibly
Not applicable / relevant

	AT	BE	BG	ES (INVERCO)	FI	IE	IT	PT	NL	NO	SE (TPF)
1. Has the NCA provided flexibility to pension funds as regard the reporting of 2019 year-end and quarterly 2020 data?	Yes	No	Yes	Yes	Slightly / Possibly	No	No	Yes	Yes	Yes	Yes
2. Is the NCA currently providing / aiming to provide other operational relief to pension funds?	Slightly / Possibly	Yes	No	No	Slightly / Possibly	Slightly / Possibly	Yes	No	Yes	No	No
5. Has the situation changed very recently regarding pension funds' investment policies?	Slightly / Possibly	No	No	Slightly / Possibly	Yes	Yes	No	No	No	No	No
6. Have you observed a rise in the requests for early withdrawals?	No	No	Slightly / Possibly	Slightly / Possibly	n/a	No	No	Slightly / Possibly	n/a	n/a	n/a
7. Could an increase in early withdrawals become an issue and exacerbate liquidity risk?	No	No	No	Yes	No	No	Slightly / Possibly	No	n/a	n/a	No
8. Is your NCA considering the adoption of measures to allow individuals to withdraw their pension savings?	No	No	No	Yes	No	No	No	* Slightly / Possibly	n/a	n/a	No
10. Has NCA encouraged some flexibility regarding members' pension rights etc?	No	No	No	No	n/a	No	No	No	No	No	No
11. Are pension funds taking other measures to protect members and beneficiaries?	No	Yes	Yes	Yes	n/a	Yes	Yes	No	Yes	No	No
12. Has NCA encouraged to communicate on COVID-19 impact on IORPs' service continuity etc?	Slightly / Possibly	Yes	Yes	Yes	n/a	No	No	Yes	No	No	No
13. Are IORPs discouraging potential short-term decisions by plan members?	Yes	Not applicable / relevant	Yes	Yes	n/a	Yes	Yes	Yes	n/a	No	No

* Legal change for Personal Pensions PPR until 438,81 € per month

<u>Key findings:</u>

- **The measures chosen to address the crisis vary considerably from country to country**, also because the European pensions' landscape is very diverse.
- Notwithstanding EIOPA's communication, **not all NCAs have provided pension funds the flexibility as regards the reporting of 2019 year-end and quarterly 2020 data**.
- **Liquidity risk due to early withdrawal is generally not an issue**: in several countries early withdrawal is not allowed and the majority of those that allow it under strict conditions are not experiencing liquidity risks as the number of requests is closed to the usual levels. The **exception is Spain**, where Inverco envisages an increase in redemptions due to the recent measures adopted by the Government. Inverco highlights that this would probably generate higher sales of assets concentrated in a short time, thus distorting the normal functioning of the markets. Spanish pension funds may need to adopt measures to address liquidity issues such as increasing their liquidity rate.

- **Early withdrawal is not the only liquidity-risk factor.** In its statement published on April 17th, EIOPA mentions other elements which may increase the liquidity pressures on IORPs: expected declines in dividend payments on IORPs' equity holdings; delayed or missing contributions from employers and employees; potential need to cover cash margin calls on derivative hedging positions; moratorium on payments on loans and mortgages; difficulties in selling assets under current market circumstances. **Some members indicated missing contributions as the most pressing factor.**
- **Relaxing rules on early withdraw of pension savings to support members' liquidity is generally not an option** under governments' consideration.

- Some NCAs have encouraged **pension funds to communicate to members and beneficiaries about the consequences of the crisis**. FSMA, the Belgian supervisor, has also recommended IORPs to communicate proactively and clearly to their sponsoring companies about the evolution of their financial situation and any adjustments in their operational functioning.
- Members highlighted that pension funds must already periodically report to members and beneficiaries, and so, they will be properly informed on the impact that Covid-19 will be having on their assets.
- **Pension funds are taking own initiatives to protect their members in many countries**, e.g.:
  - In several countries pension funds are providing information or guidance to members to avoid potential (wrong) short-term decisions, for instance to members seeking to switch funds or to early withdraw their assets.
  - In Bulgaria, pension funds organized public awareness campaigns.
  - In Italy, many pension funds published statements to reassure members. The statements usually contain three messages: 1) the scheme is working despite the lockdown: business as usual but from remote. Members are requested to communicate with the scheme using mail. 2) Asset managers have the skills and the flexibility to deal with the turmoil, the current loss will turn in a huge return when the market recovers. 3) Based on the last assumption, discourage panic among members, asking for early withdrawal they would no longer be able to recover and would get a loss.

3. ECB communication on the extension of deadlines for the reporting of statistical information

The ECB released a communication to reporting agents - including pension funds - on the extension of deadlines for the reporting of statistical information in the context of COVID-19. The communication is aligned with EIOPA recommendations and deadlines.
A short extension of some deadlines is aimed at alleviating pension funds as well as all reporting agents in areas where the data is somewhat less urgent. The ECB has decided to postpone the following remittance dates:

- Insurance Corporations statistics (Regulation (EU) No 1374/2014): the remittance date of the annual data (reference 2019) is postponed by 8 weeks, i.e. from 7 April 2020 to 2 June 2020. Quarterly remittance dates will be delayed by 1 week, i.e. from 5 May 2020 to 12 May 2020;
- Pension Funds statistics (Regulation (EU) 2018/231): the remittance date of the annual data (reference 2019) is postponed by 8 weeks, i.e. from 16 June 2020 to 11 August 2020. Quarterly remittance dates will be delayed by 2 weeks, i.e. from 2 June 2020 to 16 June 2020;
- Payment statistics (Regulation (EU) No 1409/2013): the remittance date is postponed by 4 weeks from 29 May 2020 to 26 June 2020.

4. Statement of the EU Technical Expert Group on Sustainable Finance

"Sustainable recovery from the Covid-19 pandemic requires the right tools."

The Technical Expert Group (TEG) on sustainable finance, established to advise the European Commission on implementation of the Action Plan on Financing Sustainable Growth, believes the Sustainable Taxonomy, EU Green Bond Standard, and Paris-Aligned and Climate Transition Benchmarks, can guide public and private sector plans for recovery from the Covid-19 pandemic, including the European Council's recently announced Roadmap to Recovery.

- **Clear policy priorities.** Recovery plans should not support environmentally or socially harmful activities, which would worsen the current and future crises.

- **Role of the private sector.** The private sector has a clear role in ensuring access to finance in a sustainable recovery and must be transparent on the alignment of its strategies with the ESG objectives to increase the effective targeting of public recovery measures.

- **The right tool for the job.** The TEG has developed three tools that can guide both government and private sector plans in the recovery process: The Sustainable Taxonomy, the Green Bonds Standard and the Paris-Aligned and Climate Transition Benchmarks.

- **The time to work is now.** The TEG stands ready to work with the European Commission, providing guidance on the implementation of tools by both public and private sectors to enable finance to play its full role in a sustainable recovery. The opportunity for a resilient, sustainable and fair economic recovery is right before us.

5. Economic scenarios

The impact of the crisis on the real economy is clearly more severe than it was ten years ago in the financial crisis. In 2009, the real GDP decreased by 4.5% in the euro area. Now, the IMF has forecasted a fall by 7½ %, whereas last week (23 April) the ECB President Christine Lagarde warned the EU Leaders about middle-case scenario leading to a drop by 9% and the worst case scenario even leading to a fall of 15%.

Numerous scenarios have been created regarding the range of the possible impacts of COVID-19 on economic, business and financial market conditions in 2020. For instance, Willis Towers Watson uses three broad economic scenarios seeking to manage unpredictability and uncertainty by identifying the main epidemiological and public health policy indicators and the main economic policy and economic activity measures:

- Scenario 1: A global economic recovery in Q3: Europe has an acute contraction until the beginning of June 2020.
- Scenario 2: An extended global recession: There will be global recession until the end of September 2020 and the European economy will also contract significantly until then.
- Scenario 3: A wide-scale credit squeeze and defaults: The European economy will contract until the end of March 2021 and weak economic recovery will start only from April 2021.

On 29 April 2020, the Members of our WG IORP and its subgroup stress testing e.g. discussed the current economic outlook and the above-mentioned scenarios. In general, they stressed that in addition to different developments in economics (and demographics) across Europe, the impact of the crisis on pensions varies from country to country also due to the fact that the European pensions' landscape is very diverse and closely linked to the national pension rules and systems.

In general, based on your answers to our second crisis questionnaire, we have summarised the following general impact on pension funds:

Scenario 1: A global economic recovery in Q3

- Few problems for pension funds.
- Funding ratios of DB schemes: (new) recovery plans will not be needed.

Scenario 2: An extended global recession

- Funding ratios of DB/hybrid schemes: (new) recovery plans would/could be needed.
- Challenges with capital requirements.
- Potential withdrawal requests (if allowed).
- Contributions and liquidity:
- Lower contributions to voluntary pension schemes; they might need to adopt measures to address liquidity issues such as increasing their liquidity rate.

- Difficulties to pay contributions in most significantly affected sectors.
- Lower pension accrual rates.
- Hybrid schemes: Benefit reductions possible.

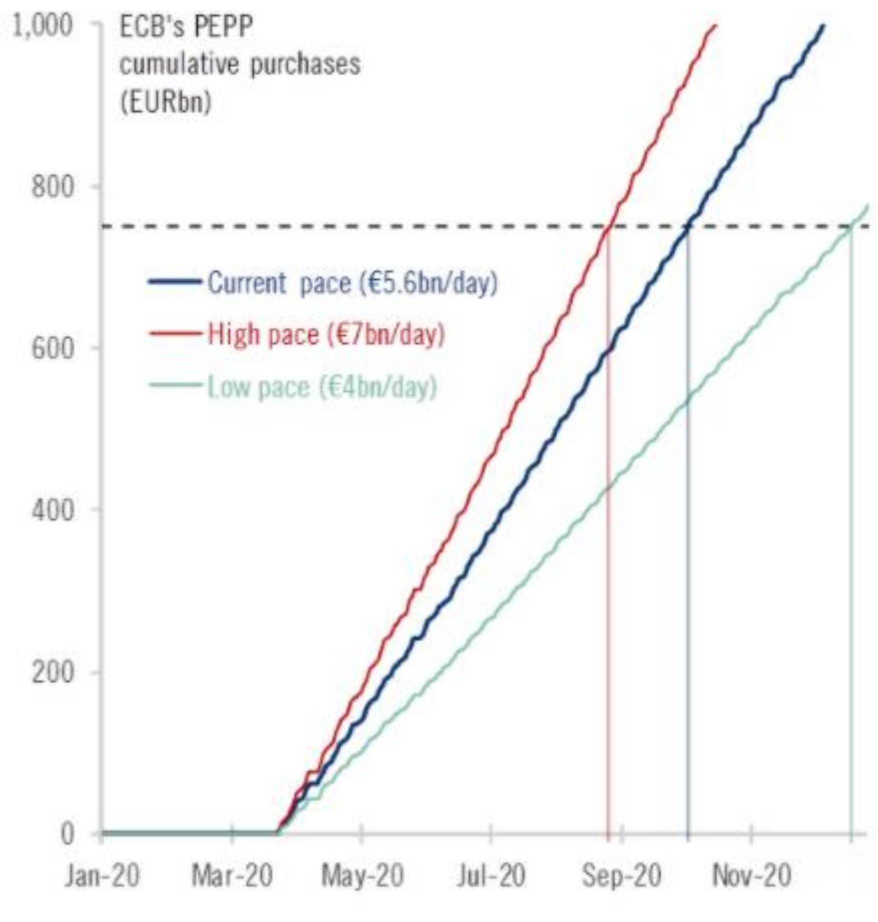
Scenario 3: A wide-scale credit squeeze and defaults

- Funding ratios of DB/hybrid schemes: would/could go lower than today.
  - Challenges with capital requirements.
- Would sponsors still be able to provide for pensions?
- Big risk of high default rate of sponsors.
  - Defaults would affect pension funds in case contributions have not been paid fully.
  - Possibility to recover missed contributions from the government(?).
- Pensions funds could opt for being more risk averse leading to change in their investment portfolios.
- Big risk of high volatility followed by credit risk.
- Lower pension accrual rates.
- Hybrid schemes: Benefit reductions possible.

6. Monetary policy

The ECB's Pandemic Emergency Purchase Programme (PEPP) is expected to increase the total assets purchased by the ECB to €1.1 trillion in 2020. This is a large sum in order to maintain financial stability in the debt markets, in particular in the government bond markets, and to safeguard the monetary policy transmission mechanisms.

The PEPP has been front-loaded, with purchases running at an average €5.6bn per day, or €118bn per month. At the current pace, the €750bn would be exhausted by mid-October. Purchases will/should slow to €4bn per day, or €83bn per month:



You can an updated summary of the ECB response to the coronavirus pandemic on the ECB website.

This week:

On 29 April 2020, the ECB published the recent monetary developments in the euro area and on 24 April 30 the consolidated financial statement of the Eurosystem. The meeting of the Governing Council of the ECB on 30 April 2020 (you can watch the press conference here).

7. Recent regulatory developments and actions in the financial markets

- **The European Commission Banking Package to facilitate bank lending- Supporting households and businesses in the EU**

  The Commission has adopted a banking package to help facilitate bank lending to households and businesses throughout the European Union. The aim of this package is to ensure that banks can continue to lend money to support the economy and help mitigate the significant economic impact of the Coronavirus. It includes an Interpretative Communication on the EU's accounting and prudential frameworks, as well as targeted "quick fix" amendments to EU banking rules.

  The Commission proposes exceptional temporary measures to alleviate the immediate impact of Coronavirus-related developments, by adapting the timeline of the application of international accounting standards on banks' capital, by treating more favourably public guarantees granted during this crisis, by postponing the date of application of the leverage ratio buffer and by modifying the way of excluding certain exposures from the calculation of the leverage ratio. The Commission also proposes to advance the date of application of several agreed measures that incentivise banks to finance employees, SMEs and infrastructure projects.

- **EBF and AFME welcome the adoption of the Banking Package by the European Commission.**

- **European Commission 2020 Work Program**

  The Commission is currently revising its original Work Program for 2020 (published in January 2020 and available here) in light of the COVID crisis.

  - Sustainable finance and non-financial reporting: work should continue as planned.
  - The timing of CMU is to be kept.
  - The CRD/CRR revision (Basel IV) will move to early 2021.
  - MiFID/R: a proposal could still come in 2020.
  - The revision to the Benchmark Regulation is now set for 4Q2020.

- **EFAMA calls for urgent completion of PRIIP KID review to protect retail investors and support economic recovery**

  In a letter shared with the European Commission, MEPs, and the three ESAs, EFAMA is calling upon legislators to examine the final report carefully.

  EFAMA's statement highlights a number of key points including:

  - Clear and relevant information on PRIIP KID will be essential for retail investors' participation in the post-COVID 19 recovery.
  - The current framework is misleading for retail investors and therefore damaging for the industry and the UCITS brand.
  - An urgent review of the current PRIIP KID is critical to protect retail investors interests, particularly in times of economic uncertainty.