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EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

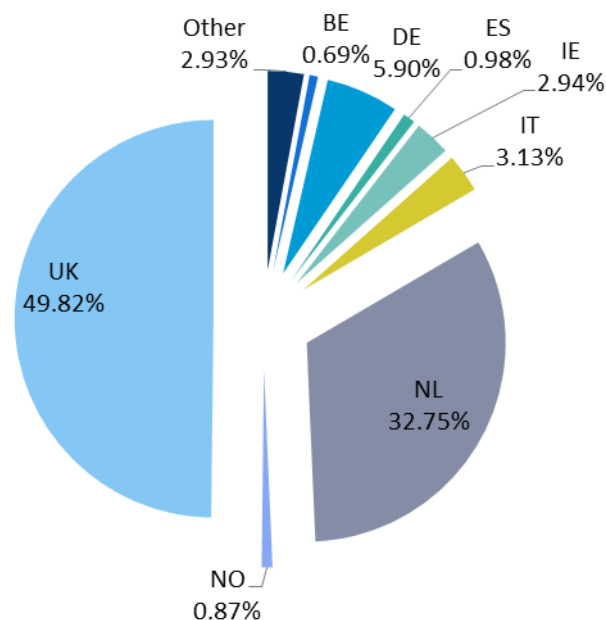
ASSET ALLOCATION IN EUROPE: What challenges and opportunities lie ahead?

Session 2: Pension funds

CEPS Task Force, Brussels, 24 October 2017

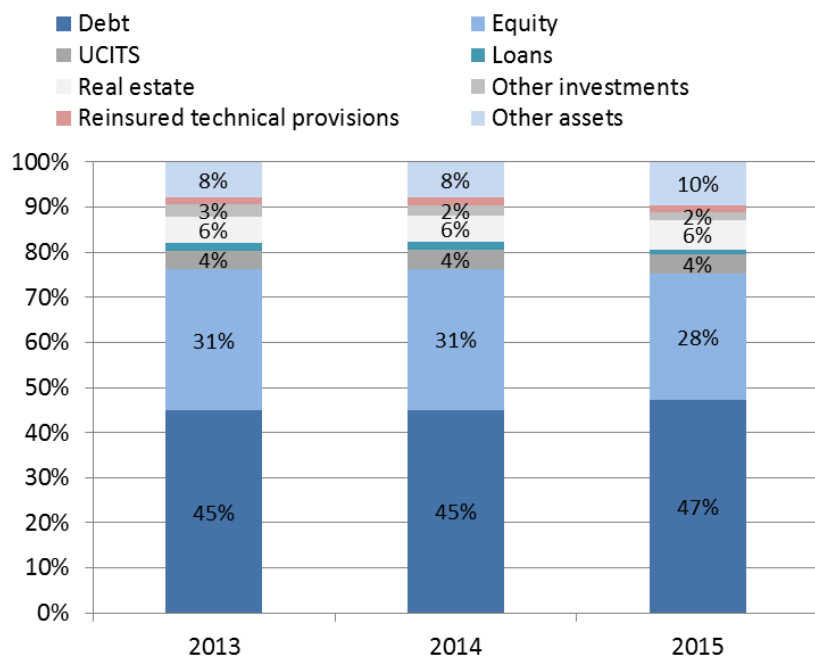
- Traditional Defined Benefit plans (DB) account for approximately 75% of the European occupational pension fund sector in terms of assets
- Increasing trend towards Defined Contribution schemes (DC) in many countries

**Occupational pension fund sector (DB, hybrid and DC schemes)
Total assets per country as a share of total assets**

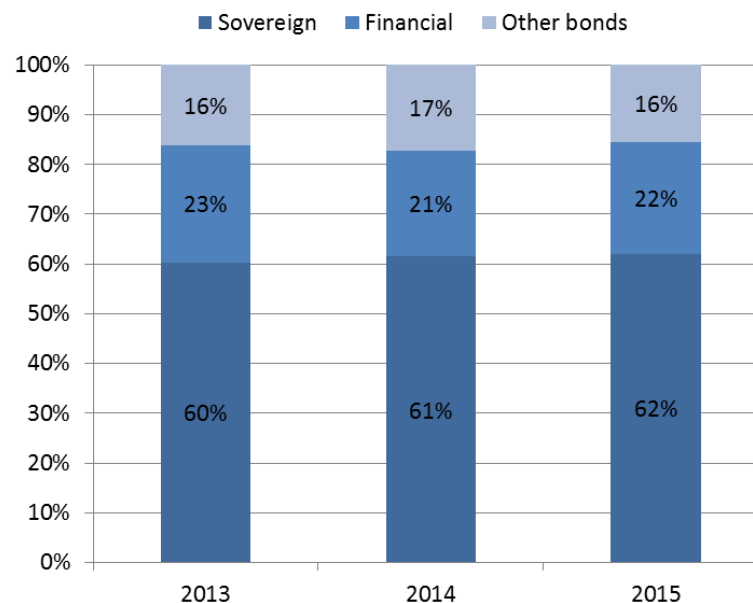


- The investment allocation of pension funds for most of the countries remained almost unchanged in recent years

Investment allocation for 2013 to 2015 in %



Bond investments breakdown for 2013 to 2015 in %



Results of the IORP stress test 2015 under different scenarios



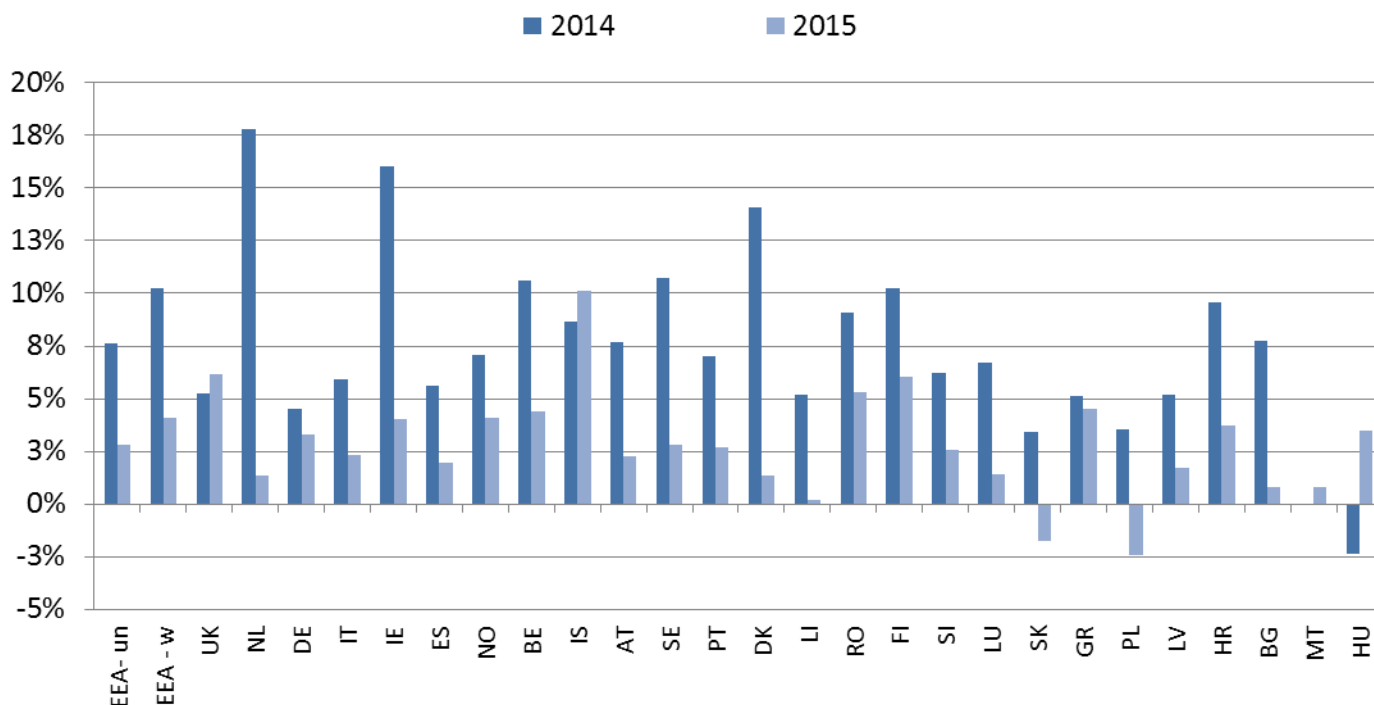
- Adverse market scenario 1 – severe drop in assets prices and a decrease in interest rates and inflation rates
- Adverse market scenario 2 – less severe drop in asset prices, more severe drop in interest rates and an increase in inflation rates

Excess of assets over liabilities

Scenario	NBS	EIOPA Common methodology
DB/Hybrid pre-stress	-78 bn EUR	- 428 bn EUR
DB/Hybrid Market Adverse 1	- 373 bn EUR	- 755 bn EUR
DB/Hybrid Market Adverse 2	- 346 bn EUR	- 773 bn EUR
DB/Hybrid Longevity	- 164 bn EUR	- 526 bn EUR

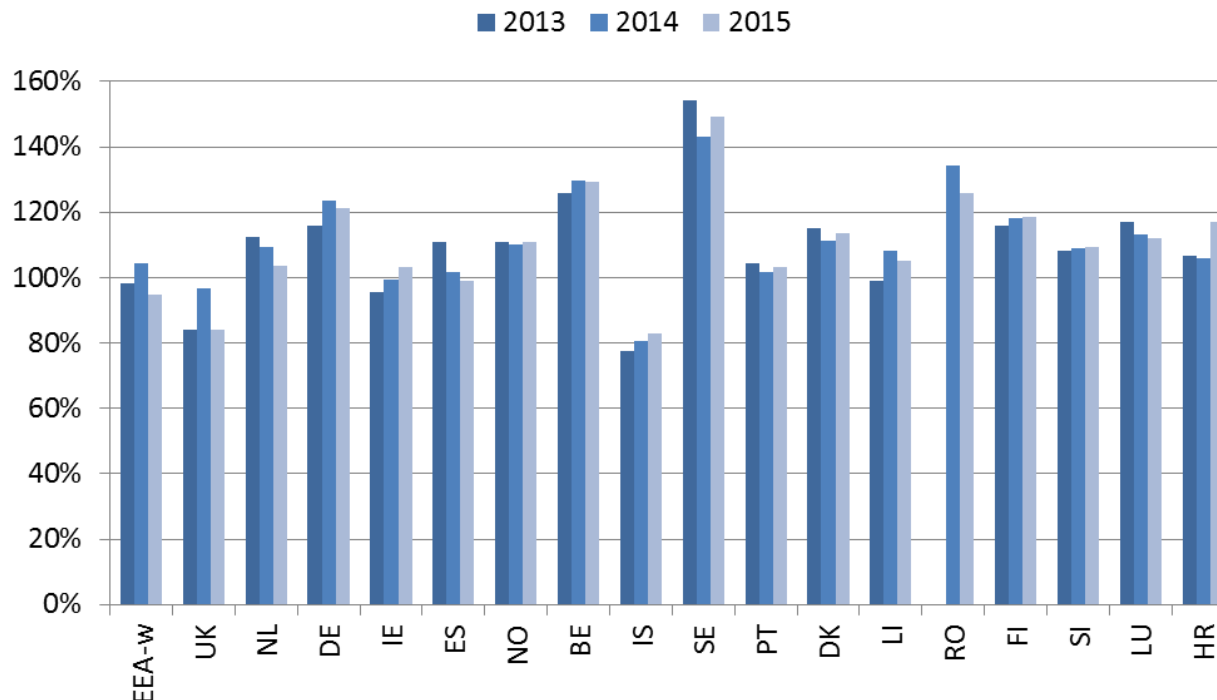
- The average ROA decreased in 2015 but remained positive in most of the countries

Return on assets (ROA) in %



- Cover ratios for DB schemes have decreased and remain a big concern for a number of countries

Cover ratios in %



Source: EIOPA. Notes: (1) Cover ratios refer to DB schemes. (2) The weighted averages for the cover ratio was calculated on the basis of the 17 countries depicted in the chart. The weighting was based on total assets. (3) Due to different calculation methods and legislation, the reported cover ratios are not comparable across jurisdictions.

➤ Lack of common framework

- Minimum harmonisation using IORP Directive does not allow full comparison across EU

➤ Impact on financial stability

- Via potential impact on sponsors
- Via investment behaviour – potential procyclical vs. countercyclical impact on financial markets



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Thank you for your attention!

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