

Steve Webb MP
Minister of State for Pensions
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Dear Minister,

Directive on Institutions for Occupational Retirement Provision ('IORP Directive')

The European Commission published its new version of the IORP Directive on 27 March and the Council of Ministers has already started initial discussions on it at working party level. With the new European Parliament now elected, the co-decision process will get up to full speed over the next few months.

Our organisations represent business, the pensions industry and employees across the UK and we have all appreciated your support as the EC has been developing these proposals. We thought you might find it helpful if we were to write again now to give you an overview of where we stand on the new Directive.

Our starting point is that we strongly support the Directive's objective of ensuring pension schemes are well run and communicate well with their members. However, we are concerned that the way the new Directive has been put together runs counter to these objectives. We urge the Government to press for a much simpler, less prescriptive new Directive as the Council of Ministers begins its scrutiny of the legislation.

We have six key concerns about the new Directive.

- First, the evidence base is weak. The impact assessment has twice been rejected by the EC's own Impact Assessment Board and there has been no serious attempt to quantify the potential benefits. It is not acceptable for the EC to introduce such a far-reaching set of new requirements without proper evidence-based policy-making, particularly in view of the potential costs to pension schemes and employers.

- Second, the Directive risks undermining the vital role that businesses and employees play in workplace pensions. The new requirement for professional qualifications for ‘all persons who effectively run the institution’ appears to mean the end of member-nominated and employer-nominated trustees. We doubt this is the EC’s intention, but the current text would need significant amendment to ensure there is still a place for lay trustees operating within the Pensions Regulator’s requirements for ‘trustee knowledge and understanding’.
- Third, many of the new provisions are simply copied across from existing EU legislation designed to regulate consumer products. In workplace pensions, it is the employer who makes the crucial choice of which pension scheme to provide, so a consumer-style framework intended to help employees compare one pension scheme with another misses the point.
- Fourth, the Directive would impose significant extra costs on pension schemes and employers at a time when the Government is seeking to bear down on costs (for example, with the 0.75% charge cap). The EC’s own papers estimate a one-off implementation cost of €22 per member (over £300 million for UK pension schemes), plus recurring costs of €0.27-0.80 per member per year (around £7.5 million per year in the UK).
- Fifth, some of the provisions would be counter-productive. For example, the standardised two-page Pension Benefit Statement would actually make it more difficult for schemes to provide the information their own members need in the format that works for them. Furthermore, the list of information required is so extensive that these statements are likely to run to at least seven pages.
- Finally, the Directive misses an opportunity to strengthen the Single Market in pensions. EC statements had led us to expect the removal of the current, very demanding, requirement for cross-border pension schemes to be fully funded at all times, subject to strong protection against regulatory arbitrage. This reform would have been widely welcomed, but it was omitted from the final draft. If the EC is serious about strengthening the Single Market, then this is the kind of step it should take, and we hope the Government will press for this to be added.

There may be a case for revising the IORP Directive to take account of the transition from Defined Benefit to Defined Contribution pensions and the challenge of the ageing society. The new Directive, however, should be much less prescriptive, with more flexibility for implementation in a way that recognises the huge variety in national pension systems.

We urge you and your officials to make these arguments in the Council of Ministers and we look forward to providing further briefing as necessary.

We are copying this to Nicky Morgan MP at HM Treasury and to Ioannis Stournaras for the Greek Presidency.

Yours sincerely,

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