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Press release

PensionsEurope and APAPR warn that unreasonable new capital requirements would devastate Romanian DC pension plans

PensionsEurope and its Romanian Member Association (APAPR) are very much concerned about the reform of the Romanian mandatory second pillar pension system introduced by the government at the end of December 2018. That pension reform e.g. envisages new disproportionate capital requirements for pension funds which PensionsEurope finds highly political and devastating for the Romanian pension system.

Radu Craciun, President of APAPR, said:

"The cost of an additional 10% capital requirements of historical contributions of the Romanian 2nd Pillar defined contribution (DC) pension plans is enormous and hard to bear, also considering that the new regulatory provisions dramatically lower the maximum level of fees to be charged by these schemes by up to 70%. At the end of 2018, the total historical contributions of the Romanian second pillar DC pension plans were around 8.76bn euro. The new 10% capital requirements would mean that pension fund managers need to put aside an additional estimate of EUR 800mn, 11 times the current capital requirements and almost twice as much as all fees charged by the pension schemes in the 11 years of operation."

PensionsEurope fears that these new capital requirements will *de facto* lead to the overhaul of the mandatory second pillar system, having devastating effects not only for the future retirement income of the Romanian pensioners, but also for the capital market, the financial sector and the Romanian economy as a whole.

Matti Leppälä, CEO/Secretary General of PensionsEurope, said:

"PensionsEurope calls on Romania to withdraw its plan to introduce new 10% capital requirements for the Romanian DC plans, as they would devastate their current stability and good results and together with other reform proposals, destroy Romanian second pillar DC pension plans. That would be contrary to the European policy recommendations which highlight the importance of strengthening supplementary pensions in order that all Europeans would have an adequate standard of living in retirement."

"Keeping a three-pillar pension system which includes mandatory occupational pensions is essential if the Romanian government wants to maintain an adequate retirement income for its citizens in the years to come. Over the last decade, the Romanian pension plans have generated in average one of the highest returns in Europe (of more than 8% nominal return on investments, after charges), while at the same time charging among the lowest level of fees. This good performance has received international acclaim from institutions such as the European Commission, the World Bank, IMF, OECD, the EBRD and

others. The Romanian pension funds have also played an important role in financing the Romanian real economy, providing capital to SMEs, corporates and infrastructure project to grow and create jobs. The envisaged reform puts at serious risk the Romanian economy and stability as a whole."

PensionsEurope considers the new capital requirements disproportionate. In general, the good outcomes in DC pension plans are secured in various ways but without over-burdensome capital requirements, as they fundamentally differ from defined benefit (DB) and hybrid pension plans which might include them. But even DB capital requirements around Europe are much more reasonable.

Also, the Romanian financial market regulatory agency ASF has raised its concerns about the Romanian pension reform e.g. by stating that *"The high level of capital requirements, combined with the short notice for compliance (against the required amounts), can discourage the administration side of these privately managed pension funds, bearing the risk that some of the companies managing these funds might be forced to withdraw from the market."* Currently, the guarantees provided by the Romanian second pillar pension plans (absolute capital guarantee at maturity and quarterly market relative guarantee) are covered by existing capital reserves (capital, equity, technical provisions and the Guarantee Fund), which proved sufficient to ensure the good operation of these pension funds.

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes. PensionsEurope has **24 member associations** in 18 EU Member States and 3 other European countries[1].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents more than **€ 4 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **28 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

What PensionsEurope stands for

- A regulatory environment encouraging workplace pension membership;
- Ensure that more and more Europeans can benefit from an adequate income in retirement;
- Policies which will enable sufficient contributions and good returns;

Our members offer

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often "not-for-profit" and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

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[1] EU Member States: Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden, UK. Non-EU Member States: Iceland, Norway, Switzerland.