



European cross-border pensions

Aon's view following EIOPA's recent
Market Development Report



Aon's view on European cross-border pensions

Aon's view of EIOPA's recent Market Development Report

EIOPA has issued a second report on European cross-border pension funds in December 2022. This is a good time for an update in the current status of the market for cross-border pensions in Europe.

European cross-border pension funds

A cross-border pension fund allows a multinational company to provide retirement benefits for employees in different EEA countries through a single pension fund.

It's a great way to achieve economies of scale and simplify governance.

A common European Directive facilitates the establishment of cross-border pension funds and applies equally to all EEA countries.

The benefits delivered for each group of employees still need to meet local country requirements (social and labour law) where the employees are located, but the funding and governance is determined by the country where the pension fund is established. The EEA includes EU countries as well as Iceland, Liechtenstein and Norway, but not Switzerland nor UK.

Key statistics in the EIOPA report

At the end of 2021, there were 31 cross-border pension funds operating in the EEA with total assets of about EUR13b. A significant number of cross-border pension funds are multi-employer and provide services to multiple unconnected employers. Overall there are almost 2,300 sponsoring companies providing benefits to around 93,000 employees which is a significant increase compared to the last report of 2017.

The number of countries where employees are located has increased to 18.

Belgium is the home to 15 cross-border pension funds. It remains the country with most cross-border activity, providing retirement benefits to employees in 14 different countries. The number of cross-border DC retirement plans is increasing but cross-border DB plans are still more prevalent in cross-border pension funds.

Aon's perspective

Aon surveys indicate clearly that multinationals wish to be more effective at managing global retirement plans. Cross-border pension funds improve effectiveness by providing central governance across Europe. Different pension funds in different countries are shut down and consolidated into a single larger cross-border pension fund. It's then only necessary to deal with one regulator and one set of funding rules. Bigger pension funds allow more corporate focus, generate economies of scale and increase purchasing power. Cross-border pensions also facilitate employee mobility and strengthen employer branding.

Existing cross-border pension funds deliver both DB and DC plans:

Cross-border pensions help manage the legacy of the past

Many multinationals still have considerable DB liabilities which can be consolidated in one vehicle. Cross-border pensions can be a solution for optimizing financing strategy, surplus management and cash management. The consolidation of DB assets leads to more consistency in defining the investment strategy and facilitates access to higher quality, more diversified investments, leading to potentially better performance.

Cross-border pensions can help manage the future

Delivering consistent good quality DC retirement benefits across the European region is a key aim of many multinationals. Cross-border pension funds enable this to become a reality through the offer of consistent DC investment choices to members, common look/feel. It also enables the delivery of better member outcomes through the scale of cross-border pension funds and improves financial well-being.

Cross-border pensions are the ideal solution for many multinationals. How do they meet the challenges?

Introducing cross-border pensions requires a well-prepared business case and communication process. One important challenge is the local stakeholder engagement process and the willingness to make changes to the management of existing local pension plans. It is about explaining the win-win solution for all parties.

Setting up an own pan-European pension fund requires time, resources and good planning. A simpler approach is to join a pre-existing Multi-employer cross-border pension fund.

The need to comply with social and labour law in each of the participating countries does not really add complexity because existing local plans are already designed to meet these requirements. Cross border pension funds simply replicate local plan designs... but centrally in one place.

Did you know

- *In order to involve social partners, cross-border pension funds can appoint member representatives in dedicated local country committees within the cross-border pension fund governance structure.*
- *Cross-border pensions is not only about retirement liabilities, but also enables the pooling of death and disability benefits, with possibility to get access to company captive risk benefit financing.*
- *European Cross-border pension funds can also manage pension schemes outside of EEA, including international pension plans.*

How are companies implementing cross-border pensions

Companies have 2 options :

1

Employers can establish a standalone cross-border pension fund

Some multinationals have set up their own cross-border pension funds. They are all working well and none have been discontinued. They typically continue to expand by adding new country sections when it makes sense.

2

Join a cross-border multi-employer pension fund

Many companies do not necessarily have the resources and the time for setting up their own cross-border pension fund. Some multi-employer pension funds offer the possibility to manage pensions on a cross-border basis. This is usually offered on a fund-in-fund basis with ring-fenced employer sections, with each section defining their own funding principles and investment strategy.

Did you know

That Aon's multi-employer cross-border pension fund United Pensions is not only managing several cross-border client sections, but also delivers retirement benefits for international mobile employees through a dedicated International Retirement Savings Plan section?

**Want to know more about European cross-border pensions?
Do not hesitate to contact our Aon cross-border pension experts**



Emmy Verbist

emmy.verbist@aon.com



Thierry Verkest

thierry.verkest@aon.com





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The Aon Centre
The Leadenhall Building
122 Leadenhall Street London EC3V 4AN

Aon Investments USA Inc. 200 E. Randolph Street Suite 700
Chicago, IL 60601

Aon Hewitt Inc./Aon Investments Canada Inc. 20 Bay Street
Suite 2300 Toronto ON M5J 2N9