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BRIEFING PAPER

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Pensions after the EU referendum

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1. Introduction

The implications of the vote to leave the EU on 23 June are as yet unknown. This note brings together some responses from relevant organisations. It does not attempt to analyse them, merely to present of what was immediately available. Other material will be added as it becomes available.

A fuller analysis of issues in a wide range of areas can be found in a previous Library Note CBP-7213 EU referendum: impact of an EU exit in key UK policy areas (February 2016).

2. Background

The design of pension systems is largely the responsibility of Member States. The regulatory framework at EU level covers four main points: cross border co-ordination of social security; establishing an internal market for funded occupational pension schemes and the minimum standards to protect scheme members; minimum guarantees concerning accrued rights in occupational pension schemes in case of the insolvency of the sponsoring employer; and anti-discrimination rules.[1]

2.1 State Pensions

Long-standing rules enable the co-ordination of social security entitlements for people moving within the EU.[2] The rules also apply to EEA countries and Switzerland. They allow periods of insurance to be aggregated, so that an individual who has worked in other Member States can make one application in their country of relevance, which then arranges for each state where they were insured to pay a pension. They also allow for a pension built up in one Member State to be drawn in another.[3] UK state pensioners resident in EEA countries also receive annual increases to their state pension. Elsewhere, the UK state pension is only uprated if there is a reciprocal social security agreement

1 European Commission Memo 10/302 *Green Paper on Pensions*, July 2010; European Commission, *Green Paper. Towards adequate sustainable and safe European pension systems*, Brussels 7 July 2010, SEC(2010)830

2 Now in EC Regulations 883/2004 and 987/2009.

3 HM Government, *Review of the Balance of Competences between the United Kingdom and the European Union. Single Market: Free Movement of Persons*, Summer 2014, chapter 1; Archived DWP website – State Pension in EEA countries

requiring this.[4] Outside of the EU, the UK could presumably seek to negotiate bilateral agreements with individual Member States, or an agreement with the EU/EEA as a whole.[5] In February, Pensions Minister Baroness Altmann said the "detail of access to pensions and benefits for people in receipt of UK state pensions who are resident in Europe" would be considered as part of any process to negotiate the UK's exit.[6]

2.2 Workplace pension schemes

According the Pension and Lifetime Savings Association UK workplace pension schemes tend to operate on a national basis but do want "ready access to investment opportunities and service providers in EU and across the world", for which the Single Market has an important role to play.[7] EU legislation has an impact on them:

1. directly, through pensions-specific EU legislation such as the Directive on Institutions for Occupational Retirement Provision ('IORP Directive'), through the regulatory activities of EIOPA, and through EU employment law, such as the Equal Treatment Directive; and
2. indirectly, because the costs of complying with the EU's investment markets legislation (such as EMIR, MIFID, the draft Money Market Funds Regulation and the potential Financial Transaction Tax) are passed to pension fund clients by asset managers, brokers and banks.[8]

HM Treasury published analysis on 23 May looking at the possible impact of leaving the EU on the economy and, thereby, on current and future pensioners.[9]

3. Initial responses

Following the result on 23 June 2016, the Financial Conduct Authority said regulation would remain applicable until legislation was changed by the UK Government:

> Consumers' rights and protections, including any derived from EU legislation, are unaffected by the result of the referendum and will remain unchanged unless and until the Government changes the applicable legislation. The longer term impacts of the decision to leave the EU on the overall regulatory framework for the UK will depend, in part, on the relationship that the UK seeks with the EU in the future. We will work closely with the Government as it confirms the arrangements for the UK's future relationship with the EU.[10]

The Pensions and Lifetime Savings Association said the ramifications would become clearer over the coming weeks and months:

> Much will depend on the precise nature of our future relationship with the EU, which may mean that some aspects of UK pension provision continue to be influenced by the EU. In other areas, UK pension law may need to be disentangled from EU legislation […] It is essential that the UK government and policymakers in Brussels now act swiftly and decisively to manage current volatility and announce a clear plan to renegotiate our future relationship with the EU.[11]

4 *Social Security Contributions and Benefits Act 1992*, s 113; The *Social Security Benefit (Persons Abroad) Regulations 1975 (SI 1975/563)*; Library Briefing Paper SN01457 Frozen Overseas Pensions (May 2014)
5 See HC Library Briefing Paper CBP-07213 EU referendum: impact of an EU exit in key policy areas, February 2016, p104-5
6 PQ HL6343, 23 February 2016
7 PLSA, *HM Treasury review of the balance of competences: Single Market – financial services and the free movement of capital: a response by the National Association of Pension Funds*, January 2013
8 Ibid, Executive Summary and page 7
9 HM Treasury analysis: the immediate economic impact of leaving the EU, Cm 9292, 23 May 2016; Effects on pensioners from leaving the EU, 23 May 2016
10 FCA, Statement on the European Referendum result, 24 June 2016
11 PLSA responds to the UK's decision to leave the European Union, 24 June 2016

The Association of British Insurers said:

> The UK insurance and long-term savings industry is strong and built to protect customers from market uncertainty and shocks. Customers should remember we remain part of the EU until the process of leaving is complete and they should therefore avoid hasty decisions about their financial matters. For the UK Government, it will be important now to focus on ensuring the UK remains a globally competitive place to do business with the best possible future trading network with the EU and the wider world.[12]

The Association of Consulting Actuaries said it would be important for financial institutions to the "positive steps to calm markets." It saw some potential upsides in the UK not being subject to certain EU requirements, such as adjusting benefits for inequalities in Guaranteed Minimum Pensions or any future decision to increase funding requirements for DB schemes.[13]

Others expressed concern about the impact of market volatility on the funding of DB schemes. For example:

> Deborah Cooper, partner at Mercer, agreed that there "will be continued market volatility impacting on the health of the UK's defined benefit (DB) schemes as UK, European and global markets weigh up the likely implications. Increased volatility in gilt yields and sterling may have further impact on pension schemes. Trustee boards should already be monitoring events closely and should consider the impact of future market moves on scheme funding positions, sponsor covenants, as well as their financing and risk management strategies. Boards should review exposure to currency risks and how that might affect future investment strategy and current funding levels."[14]

12 ABI comments on EU referendum vote, 24 June 2016
13 BREXIT: experts look at the impact for pensions, *Pensions World*, 24 June 2016,
14 Ibid