

## **Stress Tests and Solvency II under IORP: Additional Costs of Billions of Euros**

Commission's Proposal Contradicts the Aim to  
Strengthen Occupational Retirement Provisions

## IORP: Delete Expensive and Unjustified Proposals

It is the aim of the European Commission to strengthen the framework for occupational retirement provision with a proposal amending the Directive on the activities and supervision of Institutions for Occupational Retirement Provision (IORPs).<sup>1</sup> Nevertheless, the Commission proposes very strict stress tests for defined benefit pension schemes, which are currently not required to apply risk-based solvency capital requirements: A permanent relative decrease in interest rates, a decline in investment returns on non-depreciable assets such as listed shares or private equity and a decrease in the mortality rates of members and beneficiaries.

Furthermore, the Commission proposed a risk-based prudent person principle which is an approach taken e.g. in Solvency II.

In our position paper we reject the stress tests and the application of Solvency II.<sup>2</sup> With a focus on short-term market fluctuations, both measures contradict the long-term investment horizon of pension funds. In addition, these proposals are cost-intensive, which we show in the calculations below.

In the calculations we assume a typical German defined benefit pension fund (“Pensionskasse”). With assets of EUR 210.2 billion (2023), nearly 30 per cent of the German occupational pension assets, the 124 Pensionskassen are the most relevant German institutional investors applying the IORP Directive.<sup>3</sup>

Pensionskassen are regulated by the German supervisory authority Bafin and subject to detailed requirements set out in the law and guidelines. These include e.g. governance obligations (fit and proper test for the management etc.), sound risk management systems, own funds requirements and information/reporting duties towards the members and Bafin.

The calculations illustrate the dramatic additional burden for pension funds. For example, the application of Solvency II would, under certain assumptions regarding portfolio structure, demographic structure of beneficiaries’ population etc., reduce pensions to roughly 72 per cent of the current level. Employers would have to step in and cover the additional financial requirements. According to our calculations

<sup>1</sup> See [Proposal for a Directive of the European Parliament and of the Council amending Directives \(EU\) 2016/2341 and 2016/97 as regards the strengthening of the framework for occupational retirement provision \(COM/2025/842 final\)](#).

<sup>2</sup> See [Deutsches Aktieninstitut: Make the revised PEPP and IORP a success story, 2026](#).

<sup>3</sup> See [Arbeitsgemeinschaft für betriebliche Altersversorgung e.V.: Prozentuale Aufteilung der Deckungsmittel in der betrieblichen Altersversorgung im Jahr 2023 nach Durchführungswegen](#). Although the German law allows defined contribution schemes, their prevalence has so far been negligible. Therefore, we assume that all Pensionskassen provide defined benefit schemes.

affected employers in Germany would have to contribute an additional EUR 58.8 billion. Money, which would no longer be available for future pensions.

Against this background, the Commission's proposal contradicts the over-arching aim of the legislator to strengthen the framework for occupational retirement provision. Therefore, we strongly recommend deleting the provisions.

#### **Do not confuse Pensionskassen with Versorgungswerke**

The institutional framework of Pensionskassen is different from the framework governing the roughly 90 pension funds of professions like lawyers, doctors, dentists, auditors etc. ("Versorgungswerke"). Currently, the court reviews a claim for damages filed by the "Versorgungswerk der Zahnärztekammer Berlin", which suffered a billion Euro loss due to mismanagement and inefficient control systems. Versorgungswerke are part of the first pension pillar, not covered by the IORP Directive, and ruled by federal state law and supervised by federal state authorities. In most cases the state law refers to the rules applicable to Bafin-supervised pension funds. Nevertheless, deviations from these laws in practice are common; a uniform supervisory practice across all federal states does not exist. Furthermore, Versorgungswerke are often managed by members of the respective profession.

## Calculations on the Proposed Measures

### Basis of the calculations

The calculations are based on the typical investment portfolio of a hypothetical pension fund providing defined benefit schemes in Germany (“Pensionskasse”). The portfolio comprises 75 per cent fixed-income instruments, 15 per cent are invested in listed shares and private equity, and 10 per cent real estate. Although the answers below do not take individual circumstances into account, they are representative for many Pensionskassen.

### Impact of the stress test pursuant to Article 18a

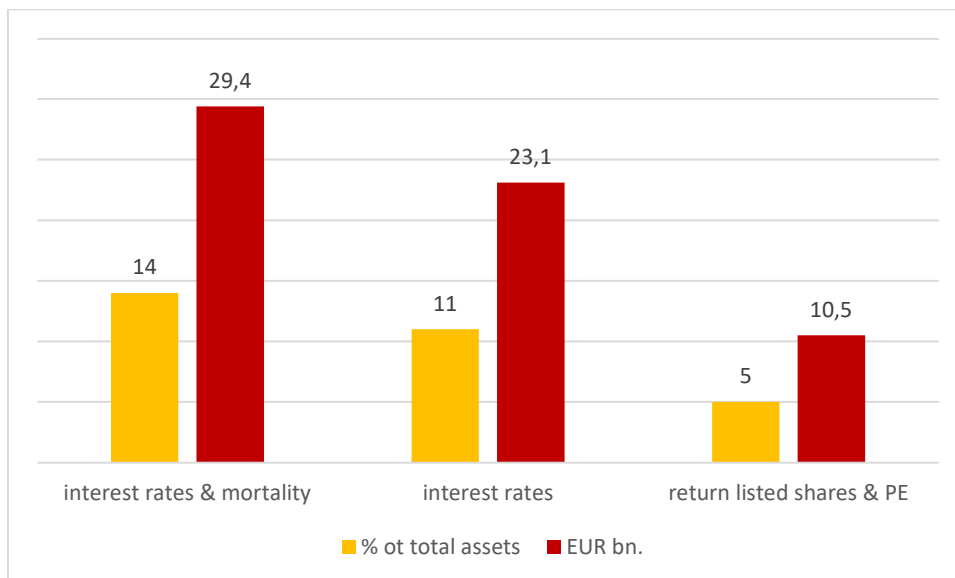


Fig. 1: Additional assets associated with Art. 18a stress test

- A permanent relative decrease in interest rates would result in a need for additional assets of approx. 11 per cent of total assets after 10 years (see Fig. 1). Extrapolating this to the assets of all Pensionskassen in Germany, this equates to approx. EUR 23.1 billion.
- A combined scenario (decrease in interest rates and mortality rates of members and beneficiaries) would require additional assets amounting to approx. 14 per cent of total assets (EUR 29.4 billion).
- The scenario of a decline in investment returns on non-depreciable assets such as listed shares and private equity would result in a need for additional assets amounting to 5 per cent of the total balance sheet, which is EUR 10.5 billion of the assets of Pensionskassen in Germany.

- Note, that Article 18a allows supervisory authorities to define stricter national scenarios.

### Impact of the application of Solvency II (Pillar I)

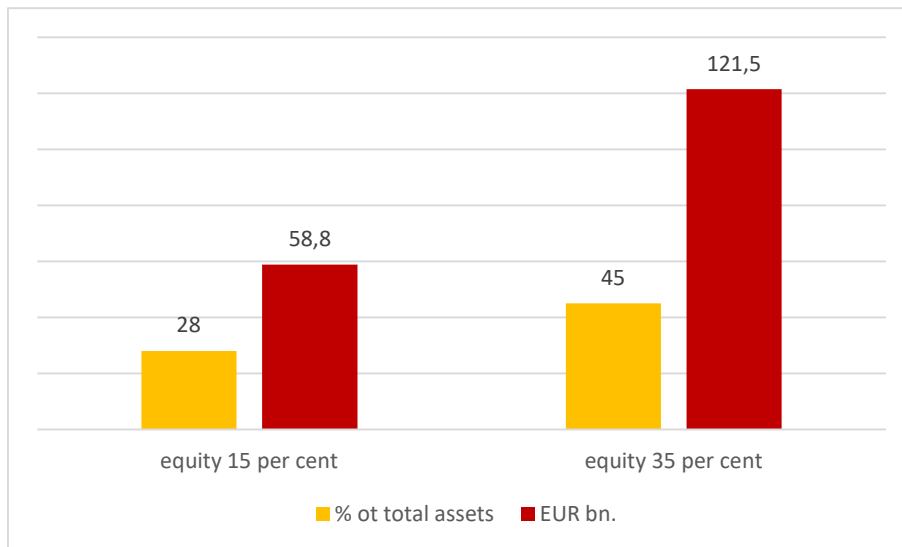


Fig. 2: Additional assets associated with the application of Solvency II

- Application of Solvency II (Pillar 1) would require additional assets of 28 per cent of total assets, or EUR 58.8 billion (see Fig. 2).
- Nearly half of the additional assets needed stem from the transition from German national accounting principles (“Handelsgesetzbuch”) to mark-to-market valuation. The figures would increase significantly further if market interest rates decrease.
- Assuming that the Pensionskasse increases its equity allocation from 15 to 35 per cent, the need for additional assets would amount to 45 per cent of total assets (EUR 121.5 billion). This clearly shows that Solvency II makes investment in equity instruments significantly more difficult, which contradicts the legislator’s aim of channelling more institutional money from occupational pension schemes into the equity market.

### Conclusion

The additional financial needs of Pensionskassen will be borne by pensioners or employers. For example, the application of Solvency II to Pensionskassen in Germany would cut pensions by 28 per cent and result in a pension level of just 72 per cent of the current value. However, as these are defined-benefit schemes in which employees receive fixed pension promises, employers would have to step in and cover the additional funding requirements. In the transition to Solvency II, the

employers affected in Germany would have to raise an additional EUR 58.8 billion. Money that would not be available for future pensions.

Occupational pension provision should be strengthened across the EU, not weakened. As pension funds are long-term investors, neither the strict stress tests nor the application of Solvency II is justified.

## Contact

---

Dr. Norbert Kuhn  
 Head of Think Tank  
 Phone +49 69 92915-20  
 kuhn@dai.de

Sophie Steininger  
 Policy Advisor EU Liaison Office  
 Phone +32 2 7894102  
 steininger@dai.de

Frankfurt Office:  
 Deutsches Aktieninstitut e.V.  
 Senckenberganlage 28  
 60325 Frankfurt am Main

EU Liaison Office:  
 Deutsches Aktieninstitut e.V.  
 Rue Marie de Bourgogne 58  
 1000 Brussels

Berlin Office:  
 Deutsches Aktieninstitut e.V.  
 Behrenstraße 73  
 10117 Berlin

Lobbying Register German Bundestag: R000613  
 Transparency Register: 38064081304-25  
 www.dai.de

*We want capital markets to be strong, so that they empower companies to finance great ideas and to contribute to a better future for our communities.*

*We act as the voice of capital markets and represent the interests of our members at national and European level.*

*We promote connections between our members, bringing them closer together and providing them with the most compelling opportunities for exchange.*

*As a think tank, we deliver facts for the leaders of today and develop ideas for a successful capital markets policy. We do this because companies, investors and society alike benefit from strong capital markets*