

# How can Pan-European Personal Pensions (PEPP) work best for the European citizens?

## Pan-European Pension Forum

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# The Pension Gap

eiopa

## Mind the Gap - Quantifying the pension savings gap in Europe.



In 2016, we updated our landmark *Mind the Gap* study of Europe's pension savings gap. This latest research shows that Europe's pension savings gap remains substantial, surpassing €2 trillion a year – equivalent to 13% of Europe's GDP.

## Global Pension Timebomb: Funding Gap Set to Dwarf World GDP

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- The world's six largest pension saving systems – the US, UK, Japan, Netherlands, Canada and Australia – are expected to reach a \$224 trillion gap by 2050, a [new study](#) by the World Economic Forum shows

### The gender pension gap is widening, report finds

Adviser finds fewer women than men can afford to save into a personal pension



'Women are likely to have less money left over at the end of the month to contribute towards savings, compared to men' © WWPhotography/Alamy

Josephine Cumbo, Pensions Correspondent

OCTOBER 22, 2017

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The gap between the number of men and women saving into a personal pension in the UK has widened significantly in recent years, according to research.

"Further reforms are needed that are both fiscally and socially responsible. We cannot risk a resurgence of old-age poverty in the future. This risk is heightened by growing earnings inequality in many countries, which will feed through into greater inequality in retirement." OECD Secretary-General Angel Gurría

In middle-income countries, large gaps in pension coverage exist among lower-income, informal sector workers. This is compounded by demographic pressures straining the ability of pension systems to finance benefits. This is particularly true in transition economies in Eastern Europe and the former Soviet Union, where pension spending is frequently the largest government expenditure, as well as a major source of fiscal deficits, and accelerated ageing has reduced the number of younger workers supporting older workers that need pension coverage.

The World Bank is in a unique position to take intellectual leadership and collaborate with various development partners in building strong pension systems in developing countries. The Bank has been involved in pension reform in more than 90 countries and provided financial support for reform to more than 70 countries.

# Current and Future Challenges of the Pensions Sector



## **The need to save (more) for future retirement income.**

- **Demographic and employment trends**

- Ageing population - People living longer
- Unemployment - “broken careers”
- “Unconventional” career paths and self-employment
- Increasingly mobile workforce

- **Divergent pension landscape in Europe**

- Challenged national budgets and state pensions
- Stressed economic environment - low yields and negative interest rates
- Low consumer trust - often low available income
- Gender gap

# The European Pensions Landscape is and will be changing!



- **Pressure on Defined Benefit pension promises**
  - Significant underfunding
  - Big corporate failures in some MSs
- **On-going shift from Defined Benefit to Defined Contribution**
  - Accelerated by persistently low-interest and low-yield environment
  - Supported by recent Pension reforms in Europe
- **Sustainability of investments**
- **IORP II further promotes cross-border activities**

# Does Europe need PEPP? Why is PEPP needed?



## **Yes, because:**

- To **“bridge” the pensions gap** in Europe
- To **reach adequate retirement income** of European pensioners
- **Personal pension products** often **unavailable** to the majority of European citizens
- **Occupational pensions** often **unavailable** or **under-developed** to the majority of European citizens

# How to close the Pensions Gap? (I)

## Promotion of Private Pensions ...



**... through:**

- **Raising awareness** and by that **fostering private pensions:**
  - **Occupational pensions** via IORPs
  - **Personal pension products** (PPPs), in particular via PEPP
- **Making use of policy tools:**
  - **Transparency** - relevant, simple and clear information
  - **Governance**
  - **Risk management**
  - **Sound supervisory practices**
  - **Analytical toolkit**

# How to close the Pensions Gap? (II)

## Transparency ...



**... through the information** to members and beneficiaries of IORPs and PEPP savers, which is of **paramount importance**:

- **Standardised, relevant, easy accessible and decision-useful information** about the **pension promise**, such as real net return, default investment option, pension projections
- **Relevant information** about the **pension provider**, such as
  - Funding and solvency
  - Risk management - risk evaluation for pensions
  - Remuneration - conflict of interests - governance

# How to close the Pensions Gap (III) Through Interaction with CMU – the Capital Markets Union ...



## **... Provider of Pension Products = Driver for CMU?**

- **Important players** of the European financial markets
- **Long-term investments**
- **Efficient capital markets**
- **Efficient cross-border activities**

Potential hurdles: contract law, taxes,...

## **A 2<sup>nd</sup> Regime – Pan-European Personal Pension Product**

- **Through regulation – overcoming hurdles of cross-border activities and complementing national products**
- **Enabling standardisation:**
  - Transparency
  - Economies of scale
- **Enabling flexibility:**
  - Adapting to needs of local markets
  - Provider-neutral

**An efficient tool to foster the European Union Single Market for Personal Pension Products.**

- **Safe, transparent and cost-efficient** product
- **Behavioral economics - core default option**
  - **Investment strategy** effectively linking to accumulation and decumulation
  - **True retirement savings** product
  - **Economies of scale** and **benchmarking**
  - **Role of guarantees**
- **Standardised information**
  - Pre-contractual **easy accessible** information
  - **Benefit statement**

- **Central authorisation** of the product
- **Regular supervision of provider and product** by **national supervisory authorities**
- **Central register** for PEPPs

## Key provisions:

- **Distribution** via **Insurance Distribution Directive (IDD)** and via **Markets in Financial Instruments Directive (MIFID)** **providers**
- **Advice** to be **waived for non-complex default investment option** – enabling online distribution
- **Every five years** the possibility:
  - To **switch the provider**
  - To **change investment** and **decumulation options**

- **Pass-porting** throughout the **countries of the European Economic Area (EEA)** for **authorised PEPPs**
- **Obligation to offer** currently **28 compartments**

## **The European Commission's proposal:**

- **Same national tax treatment – non-discriminating**
- **Recommendation to the Member States**
  - **Tax benefits**
  - **Exchange of 'best practices' for the taxation of private pension products**

- **True retirement savings product** - linking accumulation and decumulation
- **Default product** - cost-efficient and attractive
- **Standardisation** - economies of scale and transparency
- **Risk mitigation** – innovative approaches
- **Central authorization** - strong national enforcement
- **Smart portability**

**Thank you for your attention.**

**Questions?**

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