

Interview with Fausto Parente, Executive Director of EIOPA conducted by Lukas Blekaitis, ELTA (Lithuanian news agency)

1. What are the main challenges for national pensions systems?

Pension systems, including national pensions systems, face severe challenges of an ageing population. For example, by 2020, one quarter of Europeans will be older than 60. While population ageing accelerates, population growth is slowing down. Projections show that there will be fewer and fewer people paying into the pension systems to support an ever-increasing number of pensioners.

National systems are also not adjusted to globalized economy and changes on the labour market: mobile workers changing jobs regularly and moving from one European country to another. Also, too many people are inadequately or not covered by the traditional pensions systems. The outlook on the sustainability of pension promises, from state, occupational pension funds or private savings, is therefore not positive at all.

All this, together with the low interest rate environment, puts pressure on any pension system in Europe.

2. Is it more challenging for smaller countries with smaller economies to deliver adequate and sustainable pensions to its citizens than for bigger countries?

I think this is not necessary the question of size. We have to be aware that the challenges such as demographic challenges and low interest rates are affecting every pensions system in Europe regardless of the market size. To properly address these challenges, concrete actions and solutions are needed at national as well as at European level. In EIOPA we believe that national reforms can be complemented by initiatives in all three pillars, this means also in occupational and personal pensions.

3. Not long ago EIOPA advised to create a Pan-European Personal Pension Product. Please tell more about this product, what its main purpose?

In 2016, EIOPA provided its advice to the European Commission recommending the creation of an attractive PEPP in the form of a complimentary regime alongside national regimes.

At the beginning of September this year, the European Parliament approved and published the report on the proposal for a regulation for PEPP. Considering the political commitment of the Member States and the European Parliament's ambition to bring PEPP to a successful launch, we can expect an agreement by the end of the year.

The idea of PEPP is to create a safe, transparent and cost-effective long-term retirement savings product that will offer pensions savers new savings opportunities for future retirement income within a European personal pension framework. It will address consumers needs and encourage personal pension savings for individuals while also enable important long-term investments.

In some Member States personal pension products are more widely available and in some they don't exist at all. With PEPP, savers would have more choice from a wide range of providers and the right to **switch providers**, both domestically and cross-border. The PEPP will be portable between different Members States. This means that savers will be able to continue contributing to the same scheme when moving to another Member State.

In addition, it will create a bigger market for providers, encourage competition, increase trust among consumers and cater for the European labour market. The PEPP will not replace existing national personal schemes, but will be a **complimentary regime alongside national regimes**.

To ensure that the PEPP is simple and safe in terms of capital protection for the savers, a **well-designed default option** with applied risk mitigation techniques will need to be developed. The design of such default option will to a great extent define the success of PEPP. The default option means that the investments options should be framed and cover the elements which allow investors to make informed decisions. This would offer the opportunity especially to a vast majority of people to acquire a simple and safe product. Under default option, savers will benefit from a high-level consumer protection and strong information requirements required

from providers, including online distribution. Standardised, comparable and relevant information about available PEPPs need to be easily accessible to consumers to help them make well-informed and conscious decisions about their plans to save for retirement.

4. EIOPA mentions that PEPP is safe. Why is it so safe? Are there any risks associated with Personal Pension system?

The risks of personal pension products are in theory the usual ones of any long-term products. For example, here I would mention market and counterparty default risks. However, in case of PEPP, those risks are minimised as the PEPP label will ensure the highest quality standards, both in authorisation and in on-going supervision.

According to the current proposal, together with national supervisory authorities EIOPA would take on the **responsibility in ensuring fully consistent quality criteria for the authorisation, licensing and therewith pass-porting of PEPP**. EIOPA's mandate to promote supervisory convergence throughout Europe, close cooperation with and amongst national supervisory authorities is of paramount importance for ensuring PEPP will be a safe product.

5. When can we hope to see PEPP unfold? Which European countries would feel the strongest effect of PEPP?

The final vote on a proposed regulation still needs to take place this year. When exactly the PEPP could be put on the market, depends on the political agreement.

However, the potential for the development of personal pension market is huge. The European Commission has previously estimated that the European Union market for personal pensions could hit €2.1trn in assets by 2030 if the PEPP is introduced. Only 27% of Europeans - aged between 25 and 59 - are enrolled in a personal pension product with a long-term pension objective. Similarly in Lithuania, the market of personal pensions' products is almost non-existent: less than 3% of the Lithuanian working age population has a voluntary personal pension.

The impact of the PEPP will be different across Member States. In some countries, where first and second pillar are not so developed, PEPP can offer solution for people who currently don't have access to adequate provisions. In those countries

where the personal pension market is highly developed, the PEPP can increase competition.