Pan-European Personal Pensions (PEPP)

EIOPA OPSG

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Disclaimer:

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Why do we need an EU initiative? (1/4) Demographic challenges

- **Ageing of the population**
- **Ensure an adequate income in retirement**
- **Current personal pension products are underdeveloped in some MS**
- **Need to complement the existing pension systems: state-based, occupational pensions**

Why do we need an EU initiative? (2/4)
CMU objective

- **National markets in the EU remain fragmented**

- **Investment Plan: need to increase long-term investment in the EU to foster growth and jobs**

Why do we need an EU initiative? (3/4) Create a single market for personal pensions

- **Portability is limited with the existing PPPs**
- **Savers are in certain cases locked in their personal pension product, without a possibility to switch providers (or subject to penalising fees)**
- **Providers are subject to a patchwork of EU and national rules on personal pension products. National tax incentives play a key role**

Why do we need an EU initiative? (4/4) Increase cost efficiency

- **Lack of competition:**
  - **Only one main type of personal pension providers today: insurers**
- **Insufficient supply of personal pension products in some MS:**
  - **Costs are deemed high by consumer associations (public consultation)**
- **Lack of transparency and ability to switch providers (public consultation)**

Key figures about personal pension products

- 67 million individuals out of 250 aged 25-59 years own a personal pension product today (27%)
- Personal pension products exist in all 28 MS but are **underdeveloped in many MS**. In only 5 MS (SI, DE, ES, AT, SE), more than 15% of the population has bought a personal pension product
- On average personal pension products represent **2.3% of the household financial assets**. Many MS are below this average: AT, EE, IE, LT, LV, PL, RO, SK, etc.
- Current market:**0.7 trillion EUR**. By **2030**: **1.4 trillion** EUR without the PEPP, **2.1 trillion** EUR with it (with national tax relief)

What is in the EU initiative of 29 June?

- **A Regulation Proposal on a PEPP**
  - Voluntary, EU-wide 2nd regime, not replacing existing pension systems including PPPs
- **A Recommendation to MS on the tax treatment of PPPs, including the PEPP**
  - Will apply to PEPP once launched

The PEPP proposal harmonises the core product features (1/4)

- **Authorisation & Supervision**
  - Open to **many types of providers**, if already authorised under EU rules: asset managers, insurers, banks, IORPs, some investment firms
  - **One product authorisation granted by EIOPA**.
    - Objective:
      - Create a European label for PEPP
      - Verify compliance with the PEPP Regulation
    - Depending on the entity, EIOPA to coordinate this work with other ESAs & NCAs
    - Once authorised the PEPP can be distributed throughout the EU
    - EIOPA to manage a central public register
  - **Supervision by NCAs**
    - EIOPA to coordinate supervisory work-plans on an annual basis
    - Mediation power for EIOPA on cross-border disagreements

The PEPP proposal harmonises the core product features (2/4)

- **Distribution**
  - Sectorial rules apply for IDD and MIFID firms, specific rules apply for other firms
  - Sale without advice for default investment option
  - Pre-contractual information
- **Investment rules - for savers:**
  - Up to five investment options, all with risk mitigation
  - One mandatory default investment option, with protection(the saver recoups at least his capital)
  - Possibility to change investment option once every 5 years under a PEPP
- **Investment rules - for providers:**
  - Prudent person principle
  - freedom to invest in capital markets (sectorial legislation)

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The PEPP proposal harmonises the core product features (3/4)

- **Switching providers**
  - Possibility to switch once every 5 years under a PEPP
  - Switching costs are capped

- **Portability**
  - Savers changing residence to another MS can keep their providers and start accumulating with multiple compartments or asset transfer (see slide on portability)
  - Providers can distribute throughout the EU (passporting)

The PEPP proposal harmonises the core product features (4/4)

- **Decumulation options**
  - Providers are allowed to offer any decumulation option:
    - (annuities, regular withdrawal, lump sum, etc.),
    - or a combination thereof,
    - savers to choose between these options
  - Savers can change their decumulation option once every 5 years under a PEPP

Other product features <u>not harmonised</u>

- Accumulation conditions (e.g. minimum duration of contribution, maximum age to start contributing, etc.)
- Biometric coverage (e.g. protection against disability, death)
- Decumulation conditions (e.g. minimum age to receive benefits)

Why? Preserve flexibility so providers can adapt to national laws and criteria for tax relief

Building on existing EU rules

- **Distribution** (advice, inducements, etc.): inspired from sectorial legislation (IDD, MIFID)
- **Information:** inspired from PRIIPs (pre-contractual), IORP (information over the contract term)

Tax recommendation on the PEPP

- MS have to **apply national tax treatment** if the PEPP matches all the national criteria for tax relief
- **Encourage MS to grant tax relief to future PEPPs**, also when the PEPP does not match all national criteria for tax relief
- Encourage MS to **exchange best practices on the taxation of PPPs**, so that criteria for tax relief start converging

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Thank you for your attention!