08.

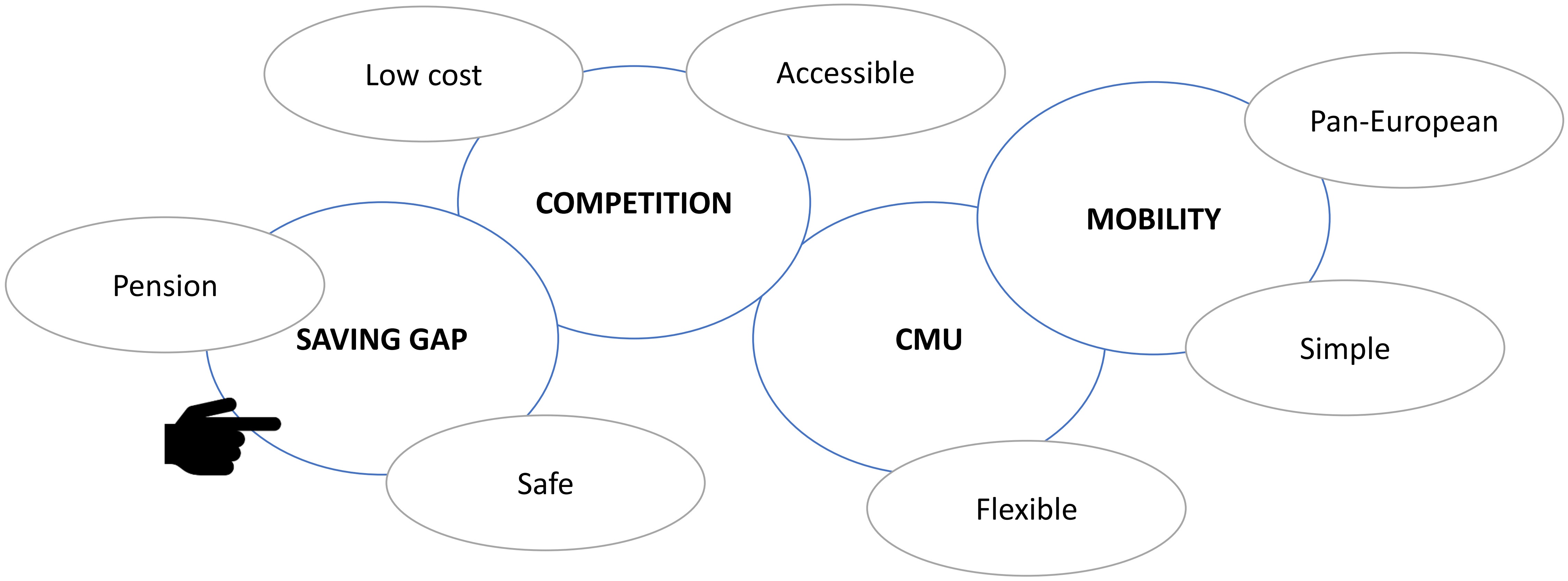
Safety of private pension provision

OPSG meeting

3 May 2018

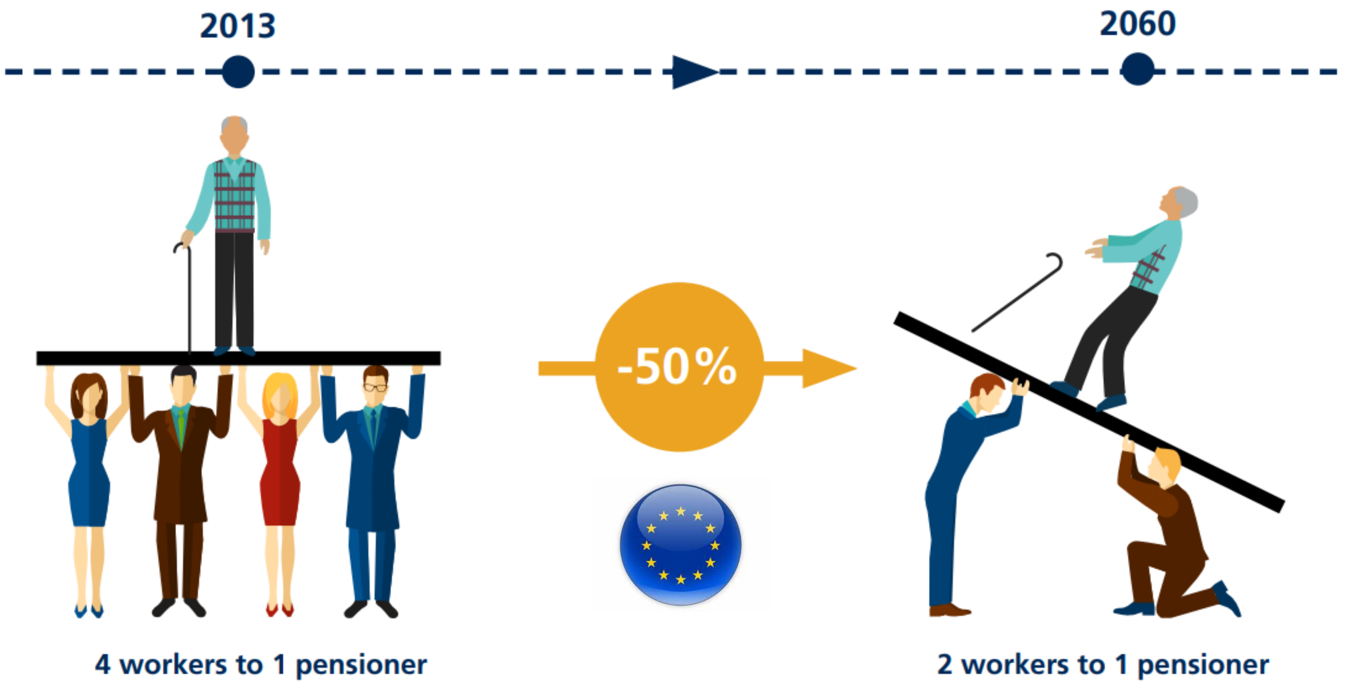
Michaela Koller

What are pension savings about today?
The PEPP example



The pension savings gap

Global and European



"€2 trillion a year"
Aviva

"USD 70 trillion"
WEF

The EU pension saving gap
in details

MOBILE WORKERS

3.7%

of EU's total working population

GENDER GAP

40%

Pension gender gap

NEW FORMS OF EMPLOYMENT

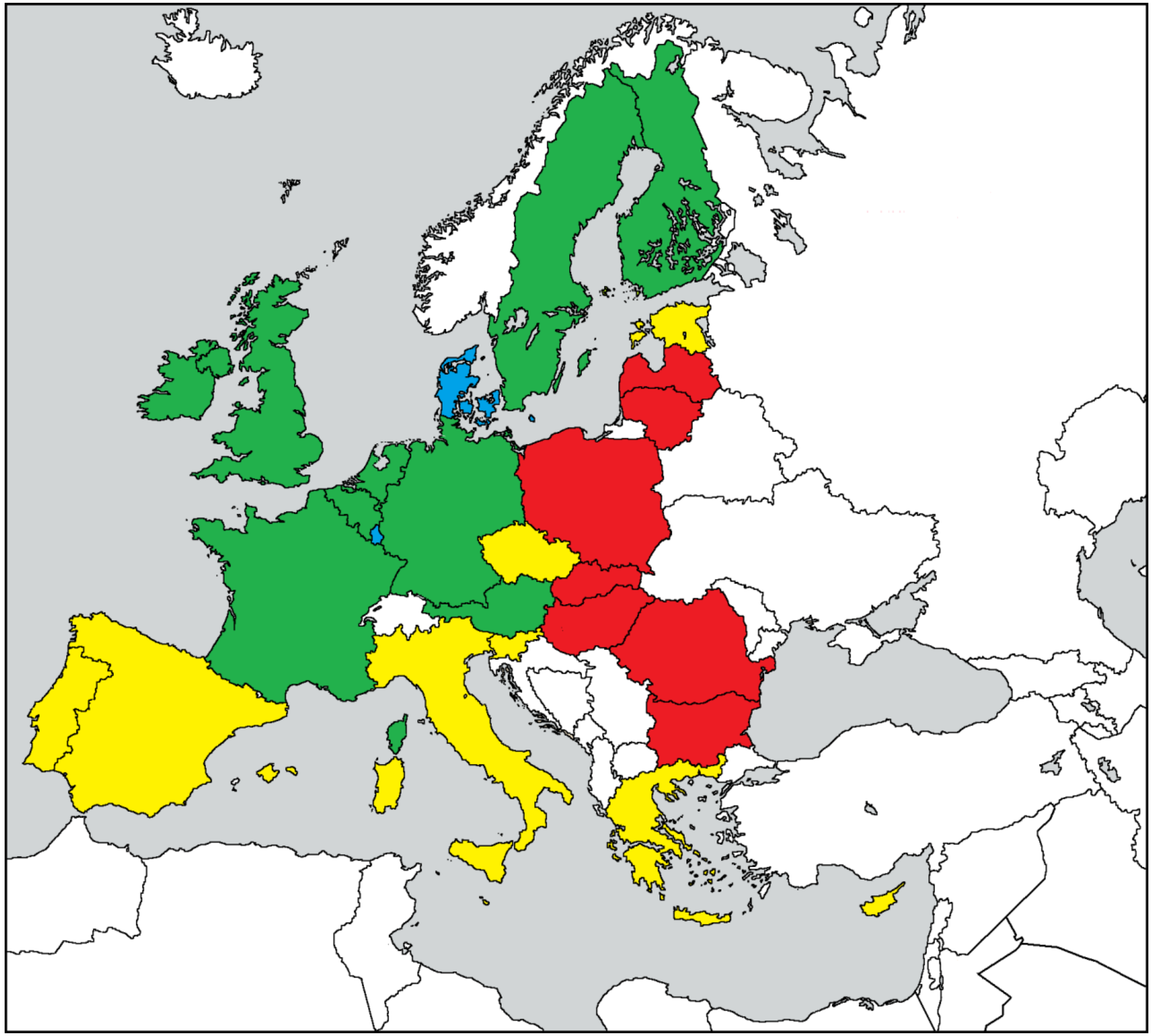
14%

of self-employed as per EU's total working population

EU pension savings availability/affordability

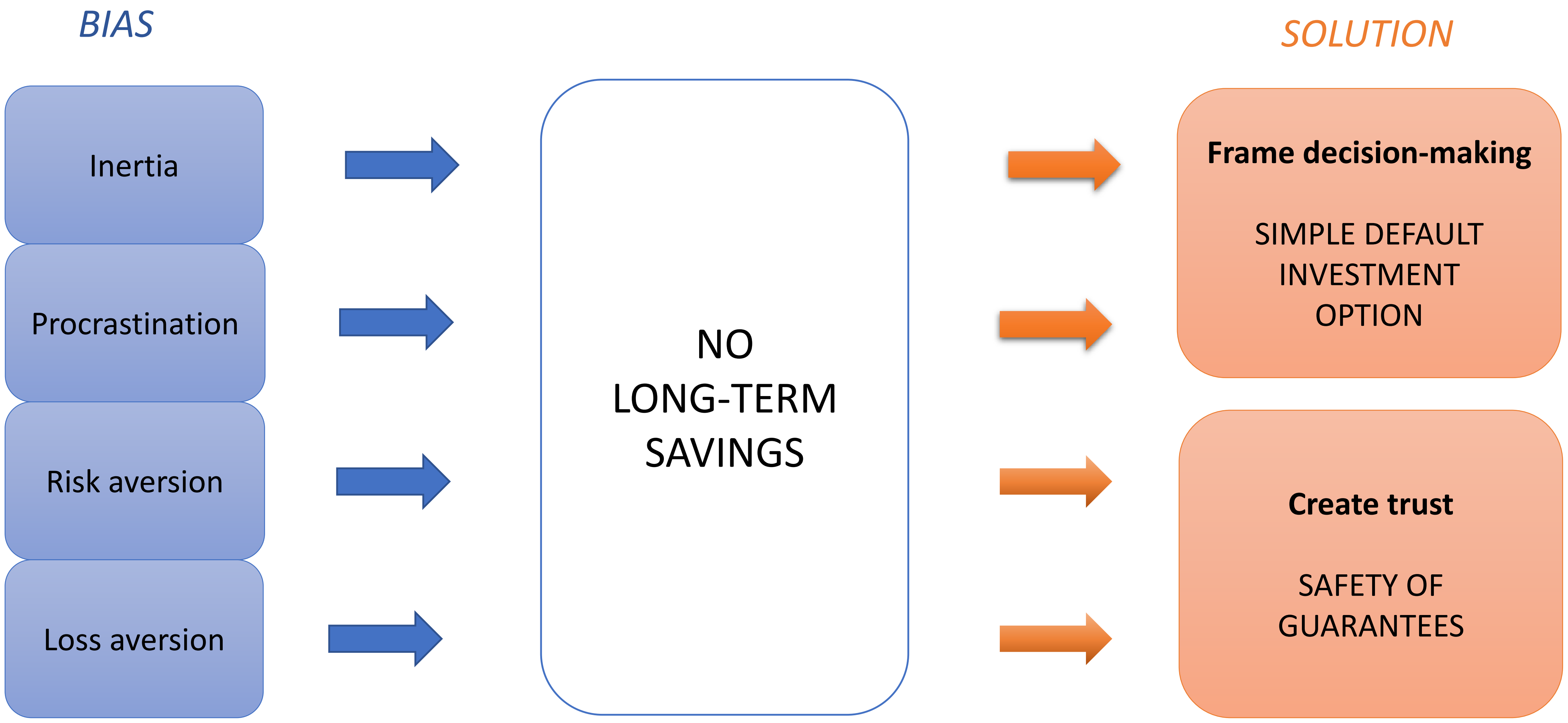
€ Net average monthly salary (after tax)

- < 800 €
  BG, RO, HU, LT, LV, PL, SK, HR
- < 2000 €
  CZ, ES, GR, PT, MT, SI, CY, SP, IT
- < 3000 €
  AT, BE, UK, FR, NL, DE, IE, SE, FI
- > 3000 €
  LU, DK



Convincing the target market

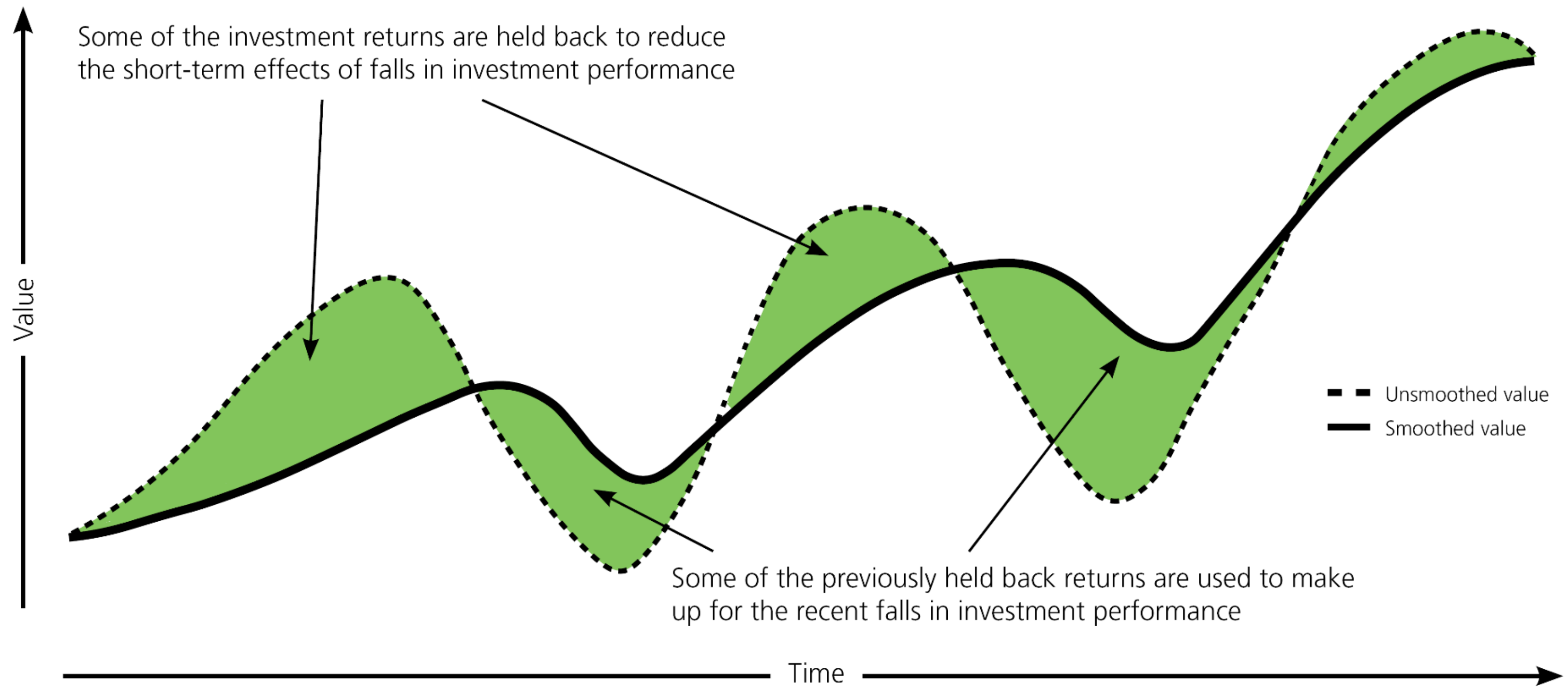
Behavioral economics consideration to overcome the typical reaction



How to combine safety and attractiveness?

1. *Collective investment approach ie. smoothing and pooling*
2. *Providing the long-term average return at maturity*

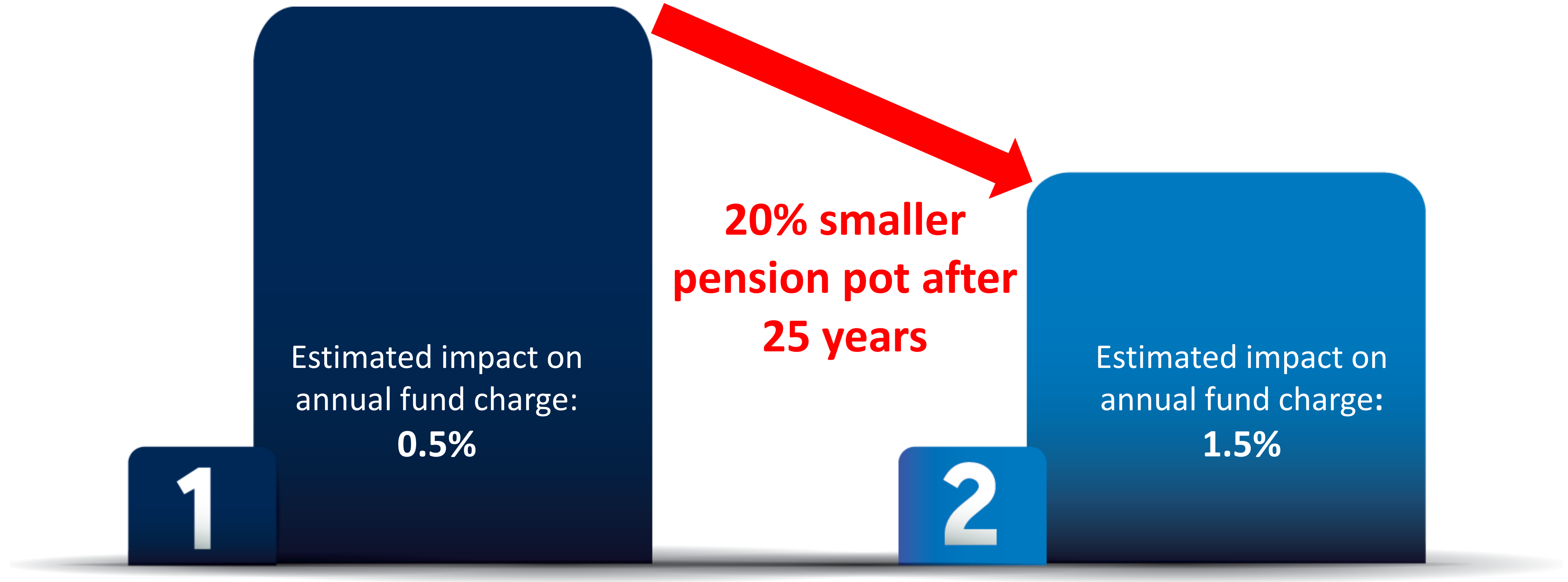
Return smoothing through collective mutualised investment products



Source: Legal & General

How to combine safety and attractiveness?

Getting capital requirements fitted to long-term liabilities



Scenario 1:
Careful calibration based on real risk

*Capital = **5%** of liabilities*

Scenario 2:
Overly conservative calibration

*Capital =**15%** of liabilities*

How to combine safety and attractiveness?

"We should use the development of the PEPP and the 2021 Solvency II review to thoroughly analyse the new evidence available on the risks and characteristics of the long-term life insurance products"

"I will propose to my Board the setup of a specific work stream to analyse these issues and, maintaining the sound market consistent orientation and the principles of policyholder protection of Solvency II"

"The intention should be to propose a regime that would better recognize the true risks of long-term transparent risk sharing products, for the benefit of consumers and the whole economy"

Gabriel Bernardino, November 2017: Insurance and Pensions Reloaded: A Game Changer.

Q&A

- Do you agree that the priority when developing an "EU label" for private pension savings should be to foster **trust**?
- Do you believe in the importance of having a **default** option to support investment decision making?
- Do you support the need for a more **adequate treatment for long-term liabilities** to prevent shifting all investment risks to savers?
- How would you address the issue of **equivalence in outcomes** if there were to be several default investment options?

Thank you for your attention!