

Pension Savings: The Real Return 2014 Edition



A Research Report by



**BETTER FINANCE
FOR ALL**

The European Federation of Financial Services Users
Fédération Européenne des Usagers des Services Financiers

About Better Finance



Better Finance for all, the European Federation of Financial Services Users, was founded in 2009 under the name of EuroInvestors

Better Finance advocates for all financial services users: private shareholders, bond holders, fund investors, pension fund participants, life insurance policy holders, bank savers, mortgage borrowers, etc.

Today Better Finance represents 50 national associations which in turn have about 4.5 million European citizens as members. Its activities are supported by the European Commission.

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Background



-“The crisis has increased savers’ distrust in financial institutions and markets”. (European Commission Staff Working Document, 2013)

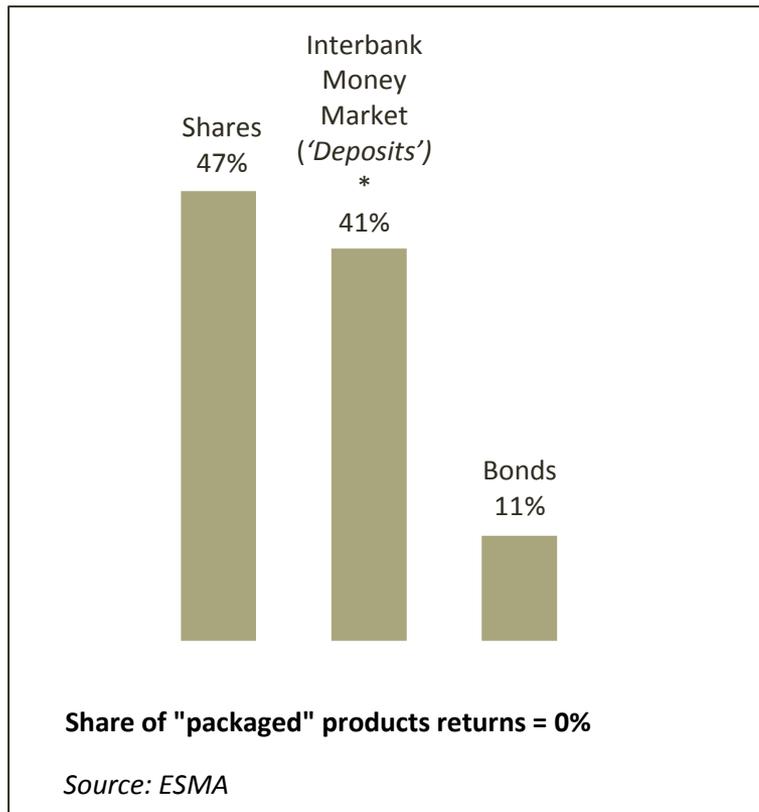
-“Other reasons for not saving long-term are the often poor performance of financial intermediaries to deliver reasonable return, and costs of intermediation”. (European Commission Staff Working Document, 2013)

-Latest EU Consumer Markets Scorecard again ranks pensions and investments as the worst consumer markets of all.

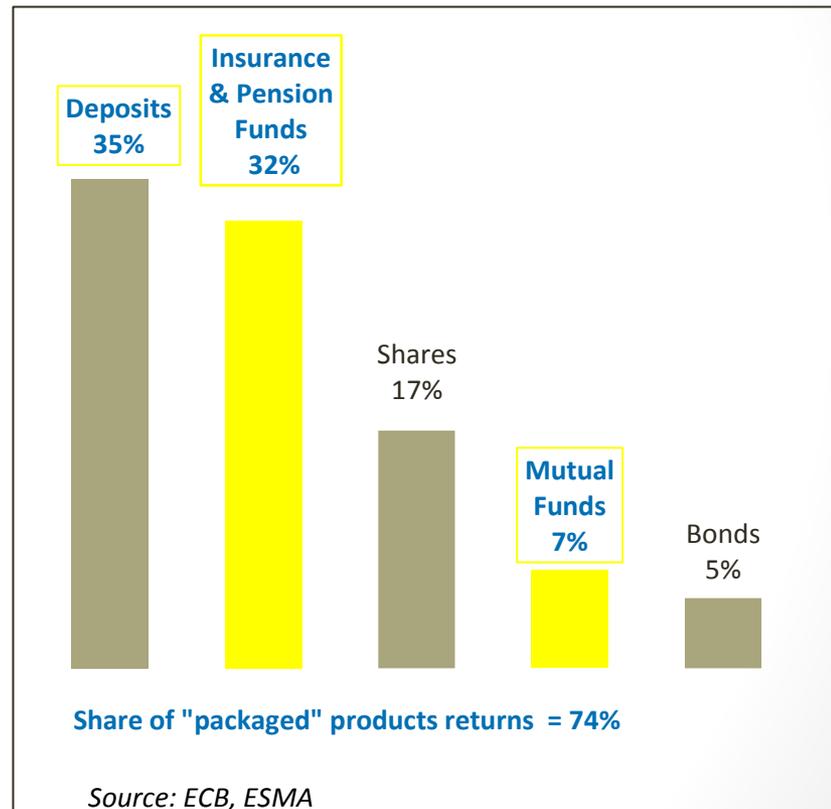
Scarce data & research on savings' returns

Composition of EU households' savings (as used to assess retail investor returns)

The view of the EU Regulator

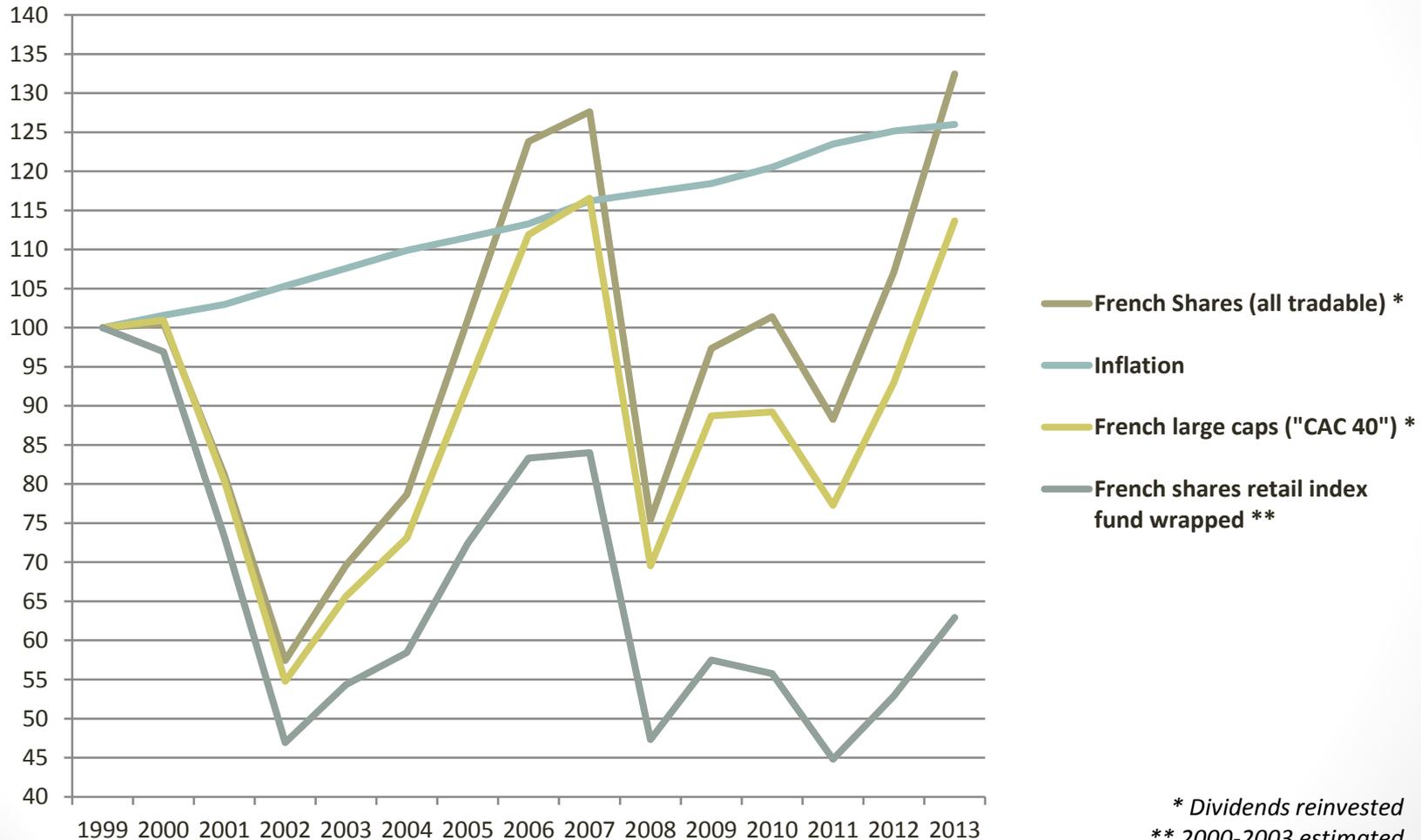


The reality



* Return proxy for bank deposits used by regulator is 1y Euribor: a (rather long) interbank money market rate, not a (shorter) retail banking rate.

Returns: Savings products have little in common with “capital markets” (index equity fund example)



Source: Better Finance

* Dividends reinvested
** 2000-2003 estimated

Returns: Savings products have little in common with capital markets (pension fund example)

Capital markets vs. Belgian Occupational pension fund 13 year performance (2000 to 2012)

Capital markets (benchmark index*) performance

Nominal performance **+48%**

Real performance (before tax) **+11%**

Fund performance

Nominal performance **+ 8%**

Real performance (before tax) **-19%**

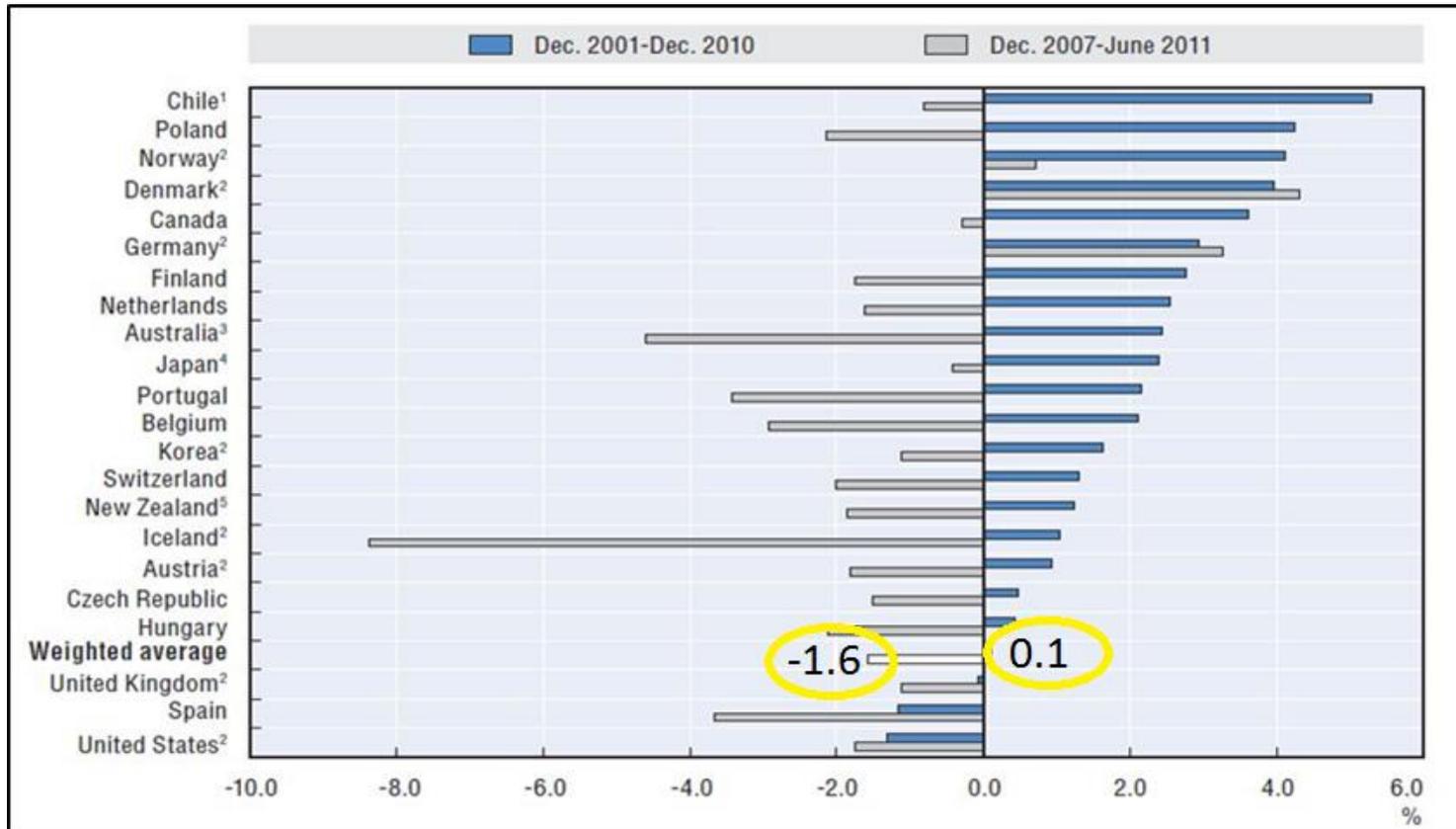
* 50 % Equity / 50 % bonds (MSCI World equity index and JPM Euro Bond Index)



Background: OECD 2012 Pensions

Outlook - OECD reports Pension funds' 5-yr and 10-yr returns

...and then advises citizens to contribute more to such funds!



Background: OECD 2012 Pensions

Outlook Private Pensions 5-yr and 10-yr returns

- ✓ Real (after inflation) returns: this is what matters for pension savers, very rarely disclosed elsewhere

BUT

- Not net of all charges borne by pension savers, e.g. “what goes into his pocket”
- Does not cover several EU countries (France, Eastern Europe MS)
- Only covers private pension funds but not all Third Pillar pension products
- No tax impact included



Better Finance methodology

Real (after tax) return

- Nominal return (net of fees and commissions borne by pension savers)
- Minus inflation (measured by the consumer price indices)
- Whenever possible minus estimated taxes borne by pension savers
- 1st phase (2013) with three country cases: Denmark, France and Spain
- 2nd phase(2014) : 75% of EU population (Belgium, Denmark, France, Germany, Italy, Poland, Spain and United Kingdom)

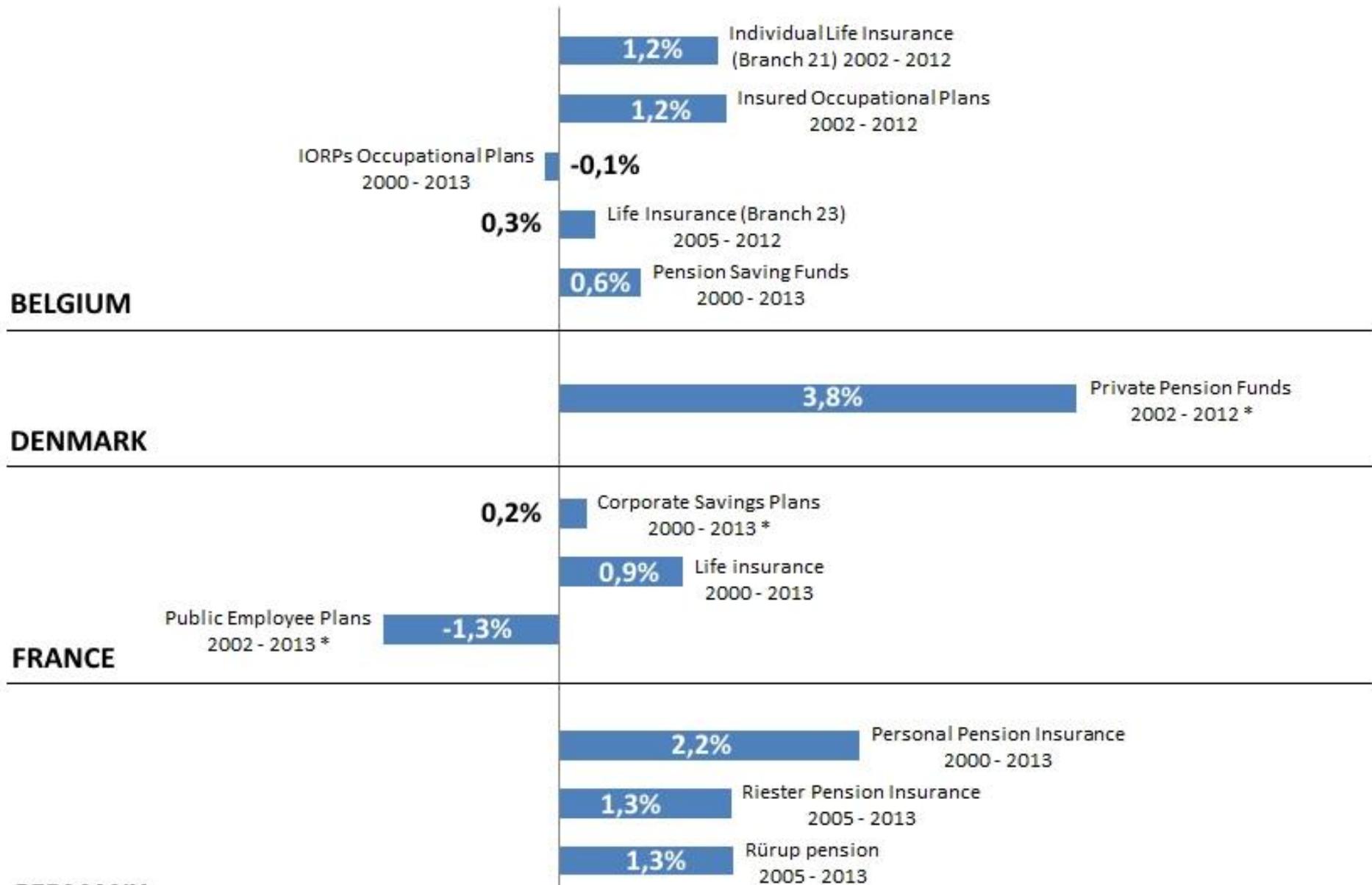
Real yearly returns of private pensions: country cases

- **Belgium**
- **Denmark**
- **France**
- **Germany**
- **Italy**
- **Poland**
- **Spain**
- **United Kingdom**



Annualised real net returns of pension savings

After charges, inflation and tax (except * = before tax)



GERMANY



Individual Pension Plans (PIP)
Unit Linked / 2008 - 2012

0,1%

Closed Pension Funds
2000 - 2013

-3,3%

0,6% Individual Pension Plans (PIP)
with profits / 2008 - 2012

Open Pension Funds
2000 - 2013

-1,1%

ITALY

Employee Pension Funds
(PFE) / 2002 - 2013 *

4,7%

POLAND

Pension Funds
2000 - 2013

-1,2%

SPAIN

Pension Funds (best case)
2000 - 2012

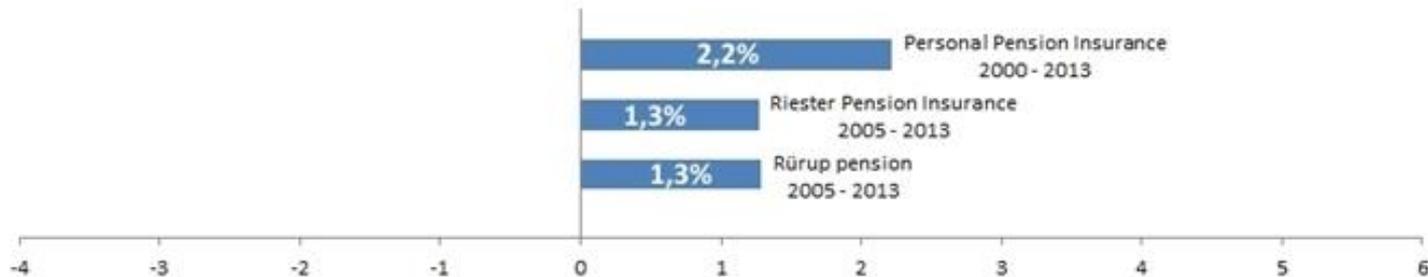
-0,7%

UK



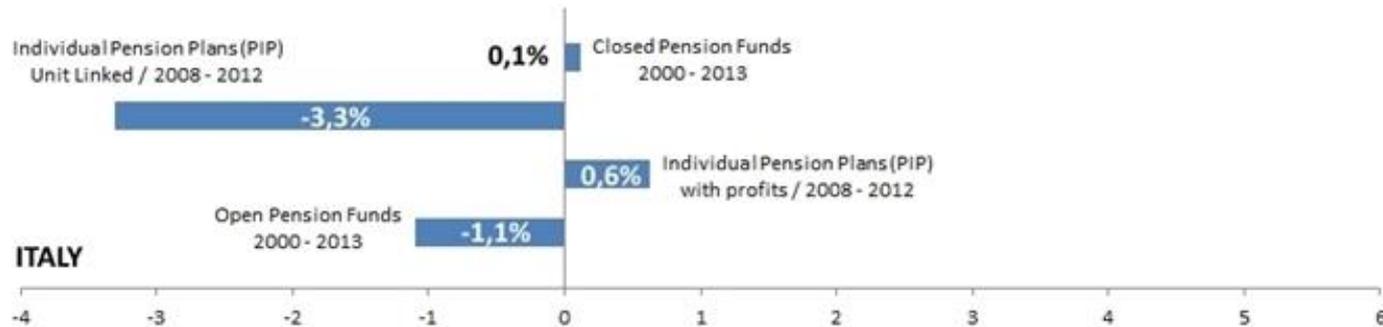
Germany – Case Study

Annualised real net returns of pension savings | GERMANY
After charges, inflation and tax (except * = before tax)



Italy - Case Study

Annualised real net returns of pension savings | ITALY
After charges, inflation and tax (except * = before tax)



United Kingdom – Case Study

Annualised real net returns of pension savings | UNITED KINGDOM
After charges, inflation and tax (except * = before tax)



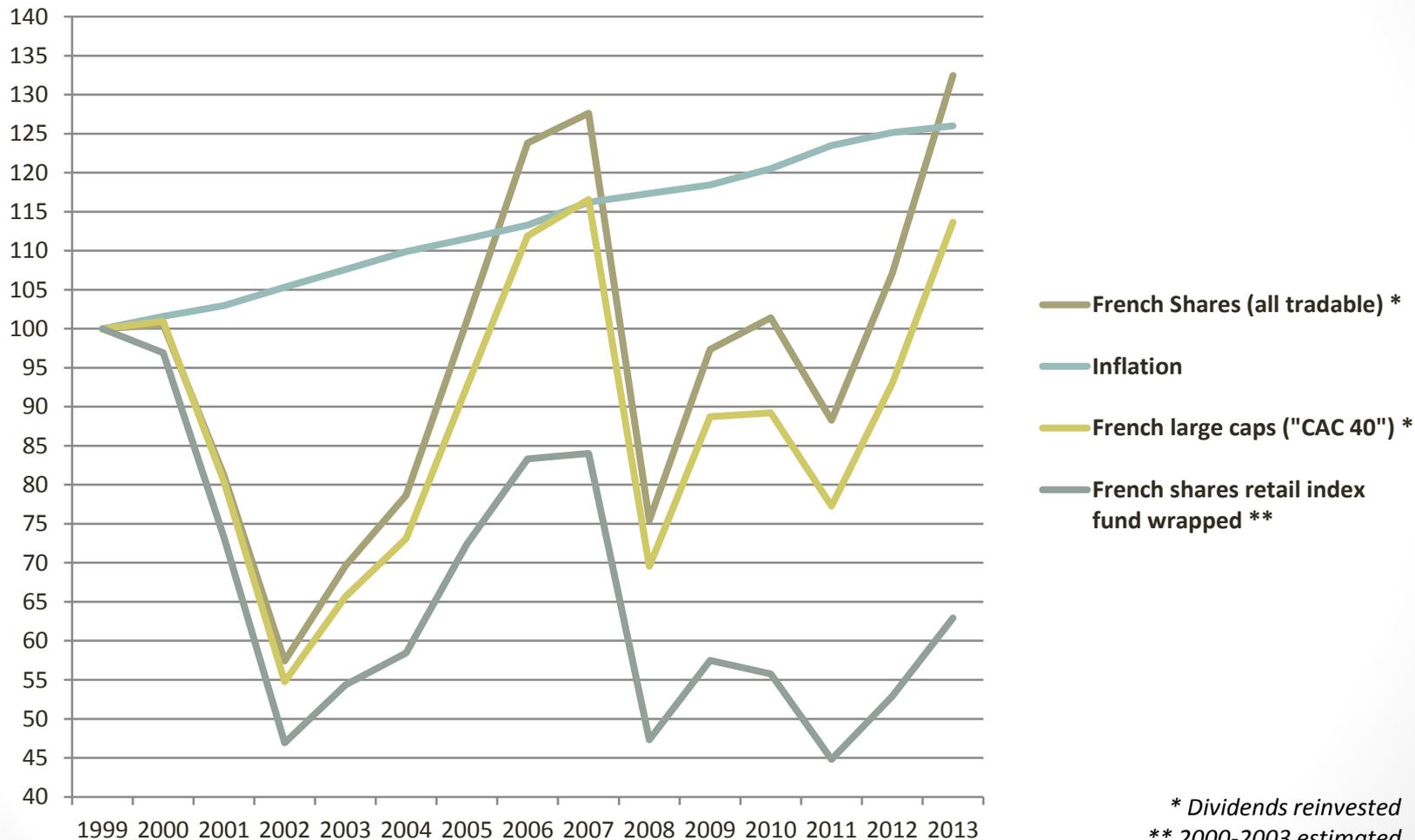
Why very low returns for pension savers?

Not primarily capital markets performance!

1. Fees and commissions
2. Investment manager choices and performance
3. Financial repression and taxes



Returns: Savings products have little in common with capital markets (index equity fund example)



Source: Better Finance

* Dividends reinvested
** 2000-2003 estimated

➔ 10 Policy recommendations

1. Improve and harmonize disclosures for all long term and retirement savings products:

- PRIIPs' KID extended to all retail long-term and pension investment products

- Disclosure of full costs and commissions: long term historical returns after inflation; after all charges to the investor; and after tax

- Disclosure of funding status

- Disclosure of transfer/exit possibilities

2. EIOPA, EBA and ESMA must comply with their legal duty as required by the EU Regulations to analyse and report on long term and pension saver trends, including actual performance of all retail long term and pension products



➔ 10 Policy recommendations

3. **Simple retirement savings vehicle to protect long-term purchasing power** of savings

- readily accessible, without need for advice (and no related fees)
- supervised by public bodies.
- pan-European Personal Pension Plan?

4. **Simplify and standardize the range of product offerings**

- Forbid non UCITs funds (“AIFs”) in all retail packaged long-term and pension
- Reduce the excessive number of UCITs offered in the EU

5. Establish **EU-wide transparent, competitive and standardised retail annuities markets**; and more freedom to pension savers to choose between annuities and withdrawals



➔ 10 Policy recommendations

6. **Improve the governance of collective schemes:** at least half of the schemes' supervisory bodies directly designated by the pension schemes' participants
7. **End biased advice** at the point of sale and guarantee competent advice on long term investments, including equities and bonds.
8. Special treatment by **prudential regulation** of all long term & pension products
9. **Taxation** to incentivize long term retirement savings and investment over consumption and short term savings
10. Basic **financial mathematics** to be part of school curricula



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The full version of the Report is available for download at
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Thank you for your attention!



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