

# Long Term & Pension Savings: The Real Return 2016 Edition



A Research Report by

**BF BETTER FINANCE**

The European Federation of Investors and Financial Services Users  
Fédération Européenne des Epargnants et Usagers des Services Financiers

# About Better Finance



Better Finance, the European Federation of Investors and Financial Services Users, was founded in 2009 under the name of EuroInvestors. In 2012 it merged with 20 year old Euroshareholders.

Better Finance advocates for all financial services users: shareholders, bond holders, fund investors, pension plan 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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**BETTER FINANCE**  
**FOR ALL**

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

# Why is this pension savings performance report unique?



Pension savings appear to be one of the few retail services where neither the customers nor the public supervisors are properly informed about the real net performance for customers of the services rendered.

There is no recent and comprehensive study on the real net pension savings returns for EU countries. Even OECD data is unfortunately quite incomplete.

The European financial supervisors fail to report on the actual performance of products and services they regulate and supervise.

It is still extremely difficult to find data on the returns of long term and pension savings

# Background: OECD 2015 Pensions Outlook

OECD reports Pension funds' 5 and 10 years returns

Country	5 year-average		10 year-average	
	Nominal	Real	Nominal	Real
United Kingdom (1)	11.8	8.4	9.5	6.5
Netherlands	9.8	7.8	6.6	4.8
Denmark	8.9	7.1	7.3	5.4
Australia (2)	8.8	6.0	6.6	3.7
Canada	8.7	6.9	6.5	4.7
New Zealand (3)	8.6	6.3	5.9	3.3
Mexico (4)	8.2	4.1	7.2	2.9
Iceland	8.0	4.5	7.6	1.7
Chile	7.1	3.7	7.1	3.5
Belgium	6.9	5.0	6.0	4.0
Norway	6.6	4.9	6.2	4.2
Israel (5)	6.5	4.8	6.3	4.1
United States	5.7	3.9	2.6	0.5
Luxembourg	4.7	2.8	..	..
Austria	4.6	2.4	3.4	1.4
Switzerland	4.6	4.8	3.6	3.3
Spain	4.4	2.9	..	..
Germany	4.3	2.9	4.2	2.6
Slovenia	4.2	2.7	..	..
Korea	4.2	2.1	3.8	1.2
Italy (6)	4.0	2.4	3.8	2.0
Estonia	3.6	0.9	1.9	-1.7
Portugal	2.9	1.3	3.9	2.3
Japan	2.5	1.8	0.6	0.3
Czech Republic	2.3	0.6	2.5	0.3
Slovak Republic	2.1	0.3	..	..

1. Data refer to the 4-year and 9-year average annual returns, calculated over the period Dec 2009 - Dec 2013 and Dec 2004 - Dec 2013 respectively.
2. The 5-year average and the 10-year average returns have been calculated over the period June 2009 - June 2014 and June 2004 - June 2014 respectively.
3. The 5-year average and the 10-year average returns have been calculated over the period March 2009 - March 2014 and March 2004 - March 2014 respectively.
4. Data refer to personal plans only.
5. Data refer to new pension plans only.
6. Investment returns are net of taxes.

Source: OECD 2015 Global Pension Statistics.

# Background: OECD 2015 Pensions

## Outlook Private Pensions 5 and 10 years returns

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

### BUT

- ❑ Does not cover several EU countries (France, Sweden, Poland, etc; and Spain and Slovakia for 10 year returns)
- ❑ Only covers private “pension funds” but not insurance-regulated ones and not personal pension products
- ❑ 10 year (2014 – latest data published) horizon only
- ❑ **Not net** of all charges borne by pension savers, i.e. “what goes into his pocket”
- ❑ No tax impact included except for Italy

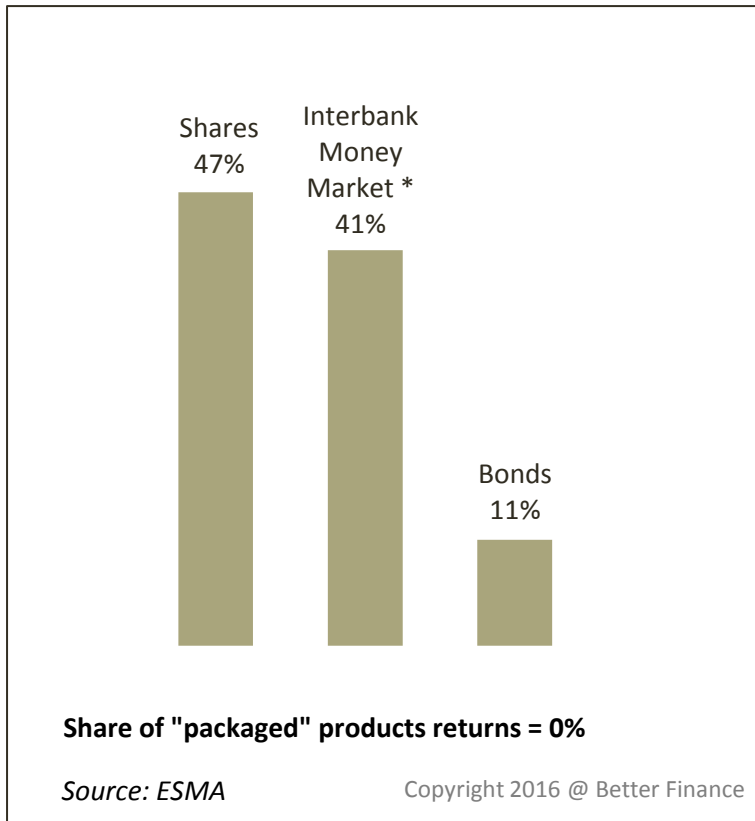


# Scarce and sometimes flawed data on savings' returns

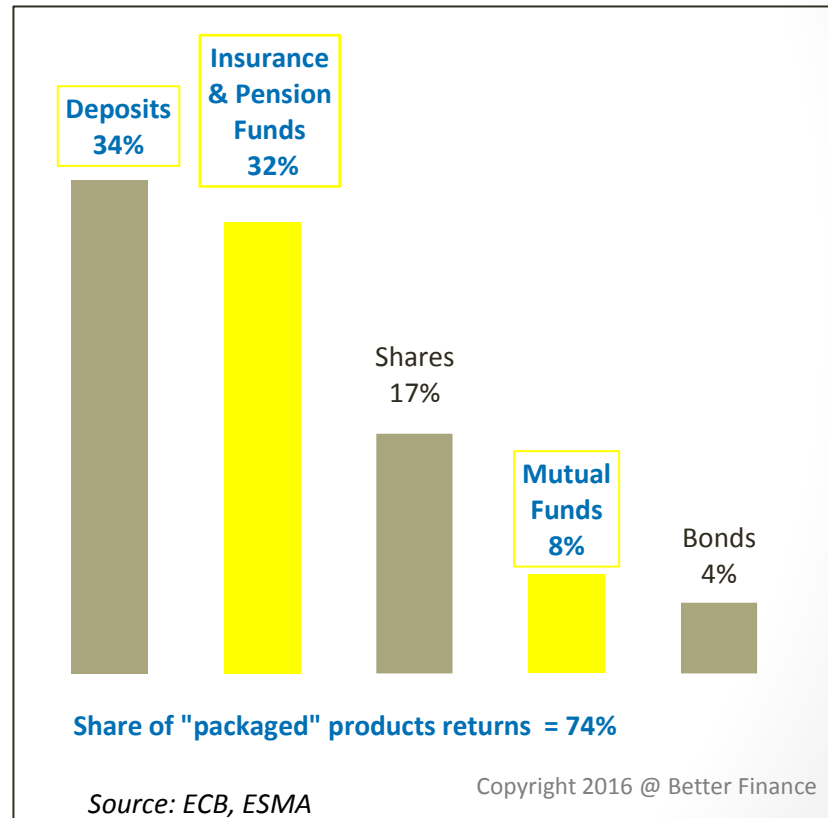
## Composition of EU households' savings

(as used to assess retail investor returns)

### The view of the EU Regulator

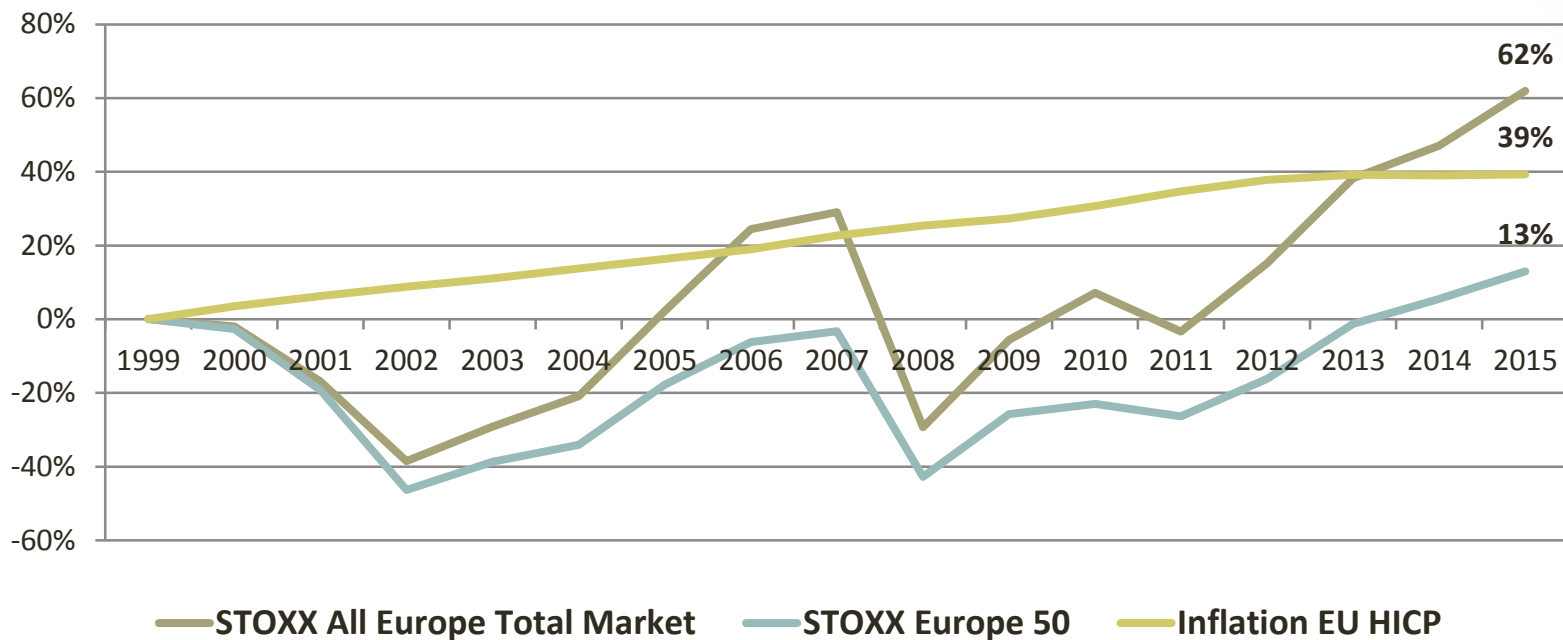


### The reality



\* Return proxy for bank deposits used by regulator is 1y Euribor (shares: Stoxx 600, bonds: Barclays euro aggregate 7-10 years)

# European Equity market performance: broad market vs. big caps market 16 years (2000-2015)

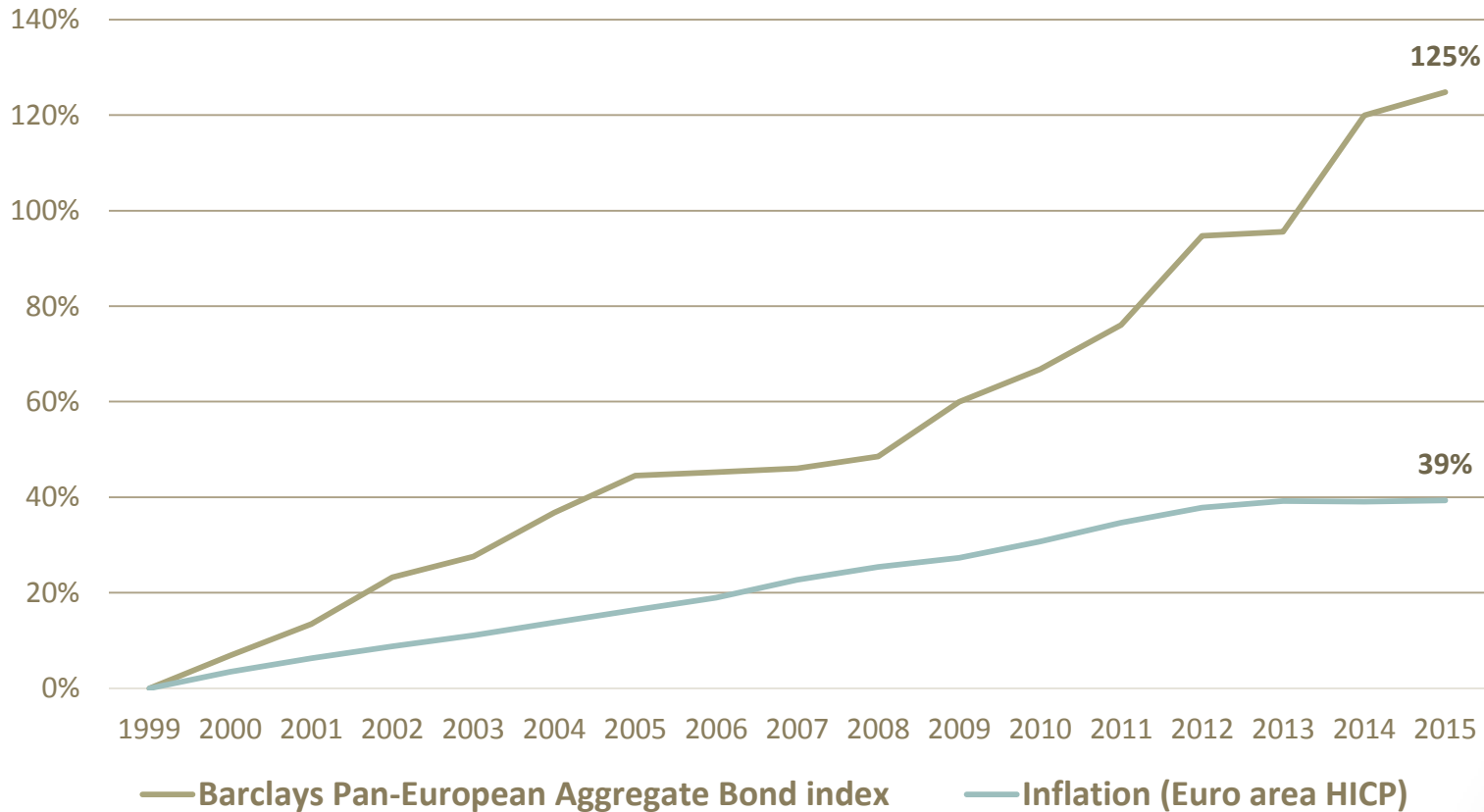


\* Inflation used is HICP (2015 = 100), European Union 28. Monthly data index

\* MSCI Europe data used for 2000-2001 as proxy for STOXX All Europe Total Market (no data)

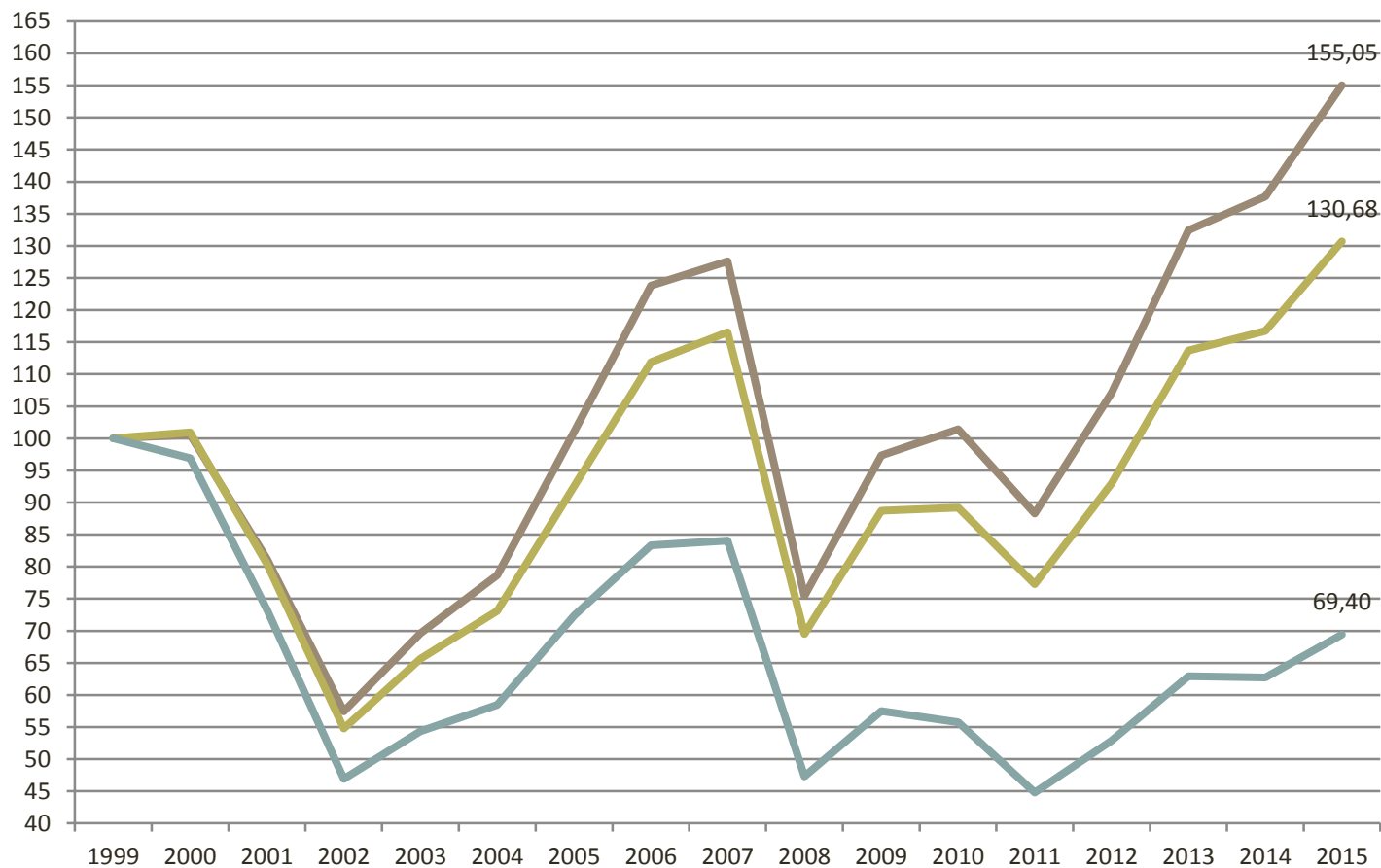
\*Gross returns used for both STOXX All Europe Total Market and Euro STOXX 50 except for Euro STOXX 50 2000 (net returns)

# European bond market 16-year performance (2000-2015)





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



- French shares (all tradable) \*
- French large caps ("CAC 40") \*
- French shares retail index fund wrapped \*\*

\* Dividend reinvested  
\*\* 2000-2003 estimated  
Source: Better Finance

## 2) Returns: Savings products have little in common with capital markets (occupational pension example)

### Capital markets vs. Belgian Occupational pension insurance 2000-2016\* performance

#### Capital markets (benchmark index\*\*) performance

Nominal performance **100%**

Real performance (before tax) **44%**

#### Pension insurance performance (same benchmark\*\*)

Nominal performance **33%**

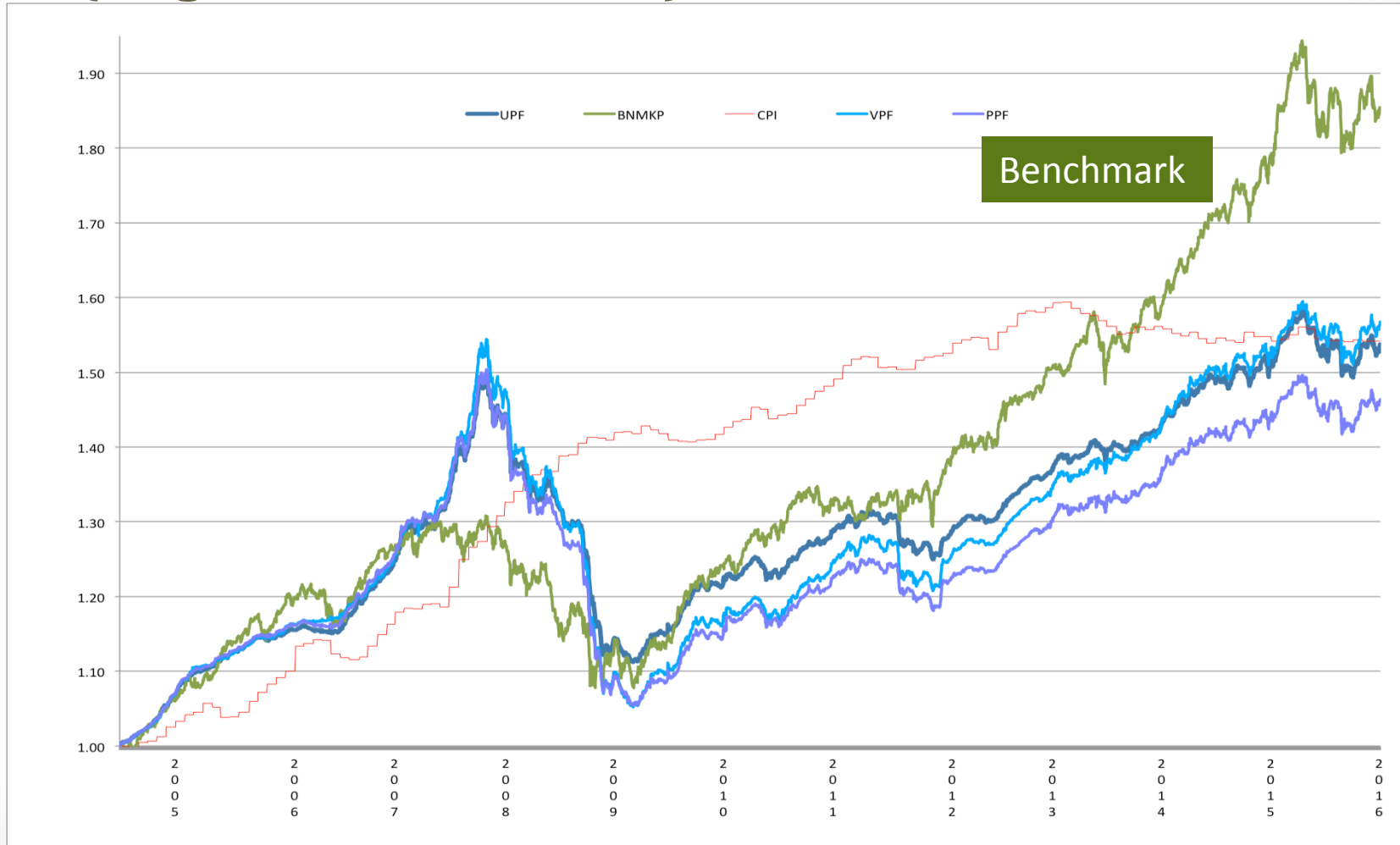
Real performance (before tax) **-4%**

\* To 30/06/2016

\*\* 50 % Equity / 50 % bonds (MSCI World equity index and JPM Euro Govt Bond Index invested on 31/12/1999)

Sources: Better Finance, provider

# 3) Returns: Savings products have little in common with capital markets (Bulgarian Pension Funds)



\* Inflation used is CPI (2004 = 1).

\* Benchmark: 35 % STOXX 600 Europe : 65 % Bond 10Yr Term Index (EUR).



# Why low returns for pension savers?

## Not primarily capital markets performance!

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



# What is new in the 2016 edition?



- It widely broadens the geographical coverage of the initial research report first published by Better Finance in June 2013: Belgium, Bulgaria, Estonia, Germany, Italy, Latvia, Poland, Romania, Slovakia, Sweden, The Netherlands and the United Kingdom have been added to the initial group composed of Spain, France and Denmark.
- It now covers 86 % of the EU population.
- It also extends the period of time covered in order to measure performance over 16 years from 2000 to 2015 as far as data was available.
- New research was included on capital markets' 16 year performance as a benchmark to packaged long term and pension savings products
- A complementary measure has been introduced for one product category (French corporate saving and pension plans): the return of equal investments made every year from 2000 to 2016 (“euro cost averaging”).

# EU countries can be divided into three broad categories:



- The Netherlands, Denmark and the United Kingdom at one end, where pension funds and life insurance assets represent far more than the annual GDP and where the real returns of private pensions is of crucial importance;
- at the opposite end, Italy, Spain and –to some extent- France where pensions mainly depend on the quality and sustainability of pay-as-you-go (PAYG) schemes;
- and the other countries in an intermediate position, where the standard of life of retirees depends both on the sustainability of pay-as-you-go systems and the returns of private savings.
- Sweden is an original case where the Pillar one mandatory pension is now for a small part funded instead of PAYG.

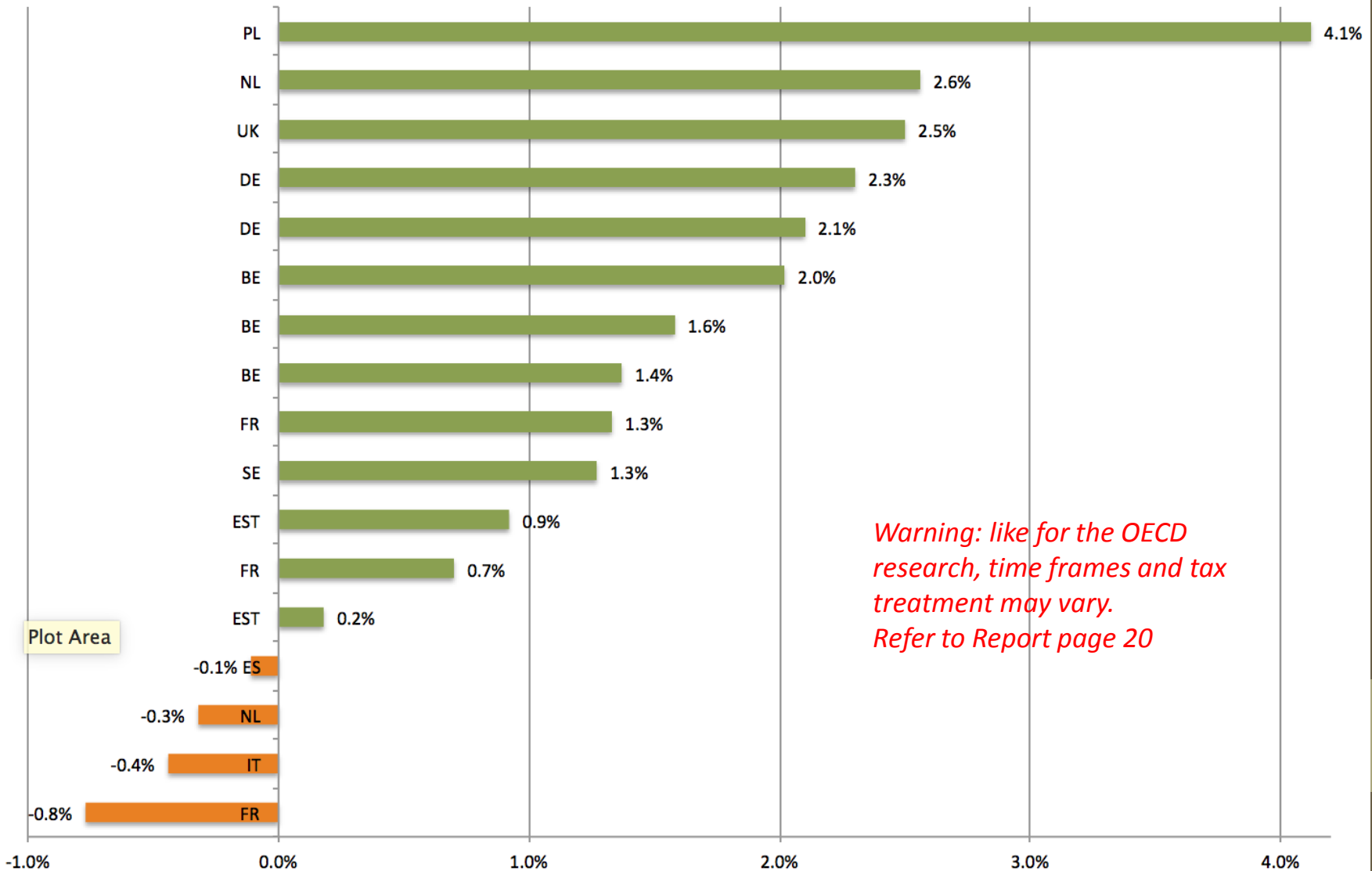
# Better Finance methodology

## Real (after tax) return

- Nominal return (net of fees and commissions borne by pension savers, including entry and exit fees whenever possible)
- Minus inflation (measured by the HICP (Eurostat) consumer price indices)
- Whenever possible minus estimated taxes borne by pension savers
- 16 years : from end of 1999 to end of 2015 whenever available  
(which is too often not the case)

# Selected Annualised Real Net Returns of Pension Savings (%)

(complete info on page 20 of the Report)



*Warning: like for the OECD research, time frames and tax treatment may vary. Refer to Report page 20*

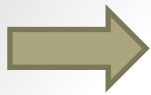


# Why low returns for pension savers?

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« *Sunlight is said to be the best of disinfectants; electric light the most efficient policeman.* »

(Louis D. Brandeis, *Other People's Money and How the Bankers Use It*, 1914)

Transparency is still dramatically lacking for actual net returns and fees of long term and pension savings

- **All supervisory authorities must better comply with their legal duty as required by the EU Regulations to collect, analyse and report on long term and pension saver trends.**
- **The European Commission's CMU Action - must be completed ASAP**  
“To further promote transparency in retail products, the Commission will ask the European Supervisory Authorities (ESAs) to work on the transparency of long term retail and pension products and an analysis of the actual net performance and fees, as set out in Article 9 of the ESA Regulations”\*
- **The upcoming implementing rules on the Key Information Document for packaged retail investment products (“PRIIPs”) must not eliminate the disclosure of the products’ past performances and of their benchmarks”**
- **Draw the lessons for PEPP disclosures**



# Better Finance

The European Federation of Investors and Financial  
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The full version of the Report is available for download at  
[www.betterfinance.eu](http://www.betterfinance.eu)

Thank you for your attention!



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