



**Gabriel Bernardino**

Chairman

European Insurance and Occupational Pensions Authority (EIOPA)

## **Opening address**

### **The Pan-European Personal Pension Product: A step towards sustainable pensions**



**International Conference on the "Pan-European Personal Pension Product - Regulation, Effects and Problems" " organised by the University of Finance, Business and Entrepreneurship (VUZF) within the framework of the Bulgarian Presidency of the Council of the European Union 2018**

**Sofia, 30 May 2018**

Dear Deputy Prime Minister, Valeri Simeonov,

Dear Minister of Labor and Social Policy, Biser Petkov,

Dear Chairperson of the Committee of Budget and Finance in the 44<sup>th</sup> National Assembly, Menda Stoyanova,

Dear Chairperson of the Committee of Labor, Social and Demographic Policy in the 44<sup>th</sup> National Assembly, Hasan Ademov,

Dear Chairwoman of the Financial Supervision Commission and Member of EIOPA's Board of Supervisor, Karina Karaivanova,

Dear Rector of the VUZF University of Finance, Business and Entrepreneurship, Prof Grigorii Vazov,

Dear Vice-Rector of the VUZF University of Finance, Business and Entrepreneurship, Prof Virginia Zhelyazkova,

Ladies and Gentlemen,

It is a great pleasure to address this audience today on this very relevant topic that affects all of us - **personal pensions**. A big thank you to the organisers for having chosen this topic and for inviting EIOPA and me to deliver the opening address.

Today's conference will discuss the **Pan-European Personal Pension Product**, the PEPP, and let me set the scene with the following three points:

1. Why do we need a PEPP?
2. What are the benefits of PEPP?
3. What is EIOPA's role in the future of the PEPP?

### **To my first point: *Why do we need a PEPP?***

We are all aware of the fact that Europe faces a major challenge in ensuring sufficient retirement income for its citizens.

The national pensions systems are challenged by demographic and labour market changes, as well as by the pressure on national budgets. The population in the European Union is ageing due to a combination of increasing longevity and low birth rates. National pensions systems rely more and more on supplementary private pensions. However, traditional employment-based pensions systems are not necessarily prepared to support the changing environment of the labour market and cannot cater for unemployed, entrepreneurs or mobile workers.

To find relevant solutions to the challenges European pensions face, one needs to appreciate seriously the different starting points of the European Member States. In some Member States, a market of personal pensions' products is nearly non-existent. Only 27% of Europeans - aged between 25 and 59 - are enrolled in a personal pension product with a long-term pension objective. This represents an enormous potential to develop a European personal pensions market, but at the same time calls for a practical solution in providing Europeans with appropriate means to save for their retirement.

Last year, a brave step towards unlocking this potential has been made. The European Commission, based on EIOPA's Advice on the development of a European Union single market for personal pension products, proposed a regulation for a pan-European Personal Pension Product, the PEPP that would foster the development of a large and competitive European market for personal pensions. This step is a key milestone and an important pre-condition for the required next steps in the process of development and implementation.

**I would like to thank the Bulgarian Presidency for the excellent work done so far in the Council.**

**Coming to my second point: *What are the benefits of the PEPP?***

A more developed market for personal pensions in the European Union will help in reaching two major goals:

- Firstly, **to provide a better chance for adequate retirement** for European citizens;
- Secondly, to stimulate more savings and channel them into **long-term investments**, promoting growth and contribute to the **objective of the Capital Markets Union**.

At a micro-economic level, PEPP will **benefit individuals saving for their retirement** and **providers to have the opportunity to enter an enlarged market as well as to offer new types of products**.

The PEPP is designed to be **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. 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. Within the **default option,** savers will **benefit from a high-level consumer protection** and **strong information requirements,** including in online distribution.

PEPP will also **encourage competition** where providers are able to offer their products across several Member States by using a European Union passport to facilitate cross-border distribution. The cross-border business opportunities together with a standardised default option will allow achieving important economies of scale to reap cost efficiencies, provide opportunities for new products as well as enable new market players to enter the market.

The regulated design of this personal pension product framework, in particular through its **standardised elements,** can also help to **increase transparency and consumers' understanding.** In addition, it will provide **a level playing field for providers, increase trust among consumers** and **cater for the changes in the European labour market.**

In light of the current economic environment and the challenges faced by products with long-term obligations, the **design of the default investment option** will - to a significant extent - **determine the success of the PEPP.**

Furthermore the much needed **conceptual link between the accumulation phase of the PEPP, (the savings phase), and the decumulation phase (phase when retirement income is received) is important.** The most relevant outcome that counts is the **right result of receiving adequate retirement income for the consumer.**

To ensure that **the PEPP is indeed a truly pension product** and to ensure the adequate protection of savers benefitting from successful long-term investment strategies against longevity risk, it is my personal view that **the default option** should include the following requirements:

- **If provided, guaranteed** only at the point of decumulation
- **A specification of default conversion** of a significant part of the accumulated amount into programmed withdrawals or annuities

The design of the PEPP also needs to ensure conditions **to allow European**

**Union citizens to invest in a balanced portfolio** including assets such as equities, property, infrastructure and green technologies. With the appropriate safeguards, this will provide a good chance to accumulate a pension that outperforms inflation and grows to levels that can provide a decent standard of living.

Finally, the design of PEPP has to ensure the **highest standards in transparency, fairness, governance and risk management.**

**To my third point: *What is EIOPA's role in the future?***

- ***Authorisation***
- ***Transparency***
- ***Supervision***

Due to its European nature, and the conceptually inherent requirements on standardisation and portability, EIOPA, as a European supervisory authority can **ensure consistently high standards for authorised PEPPs throughout Europe.**

I welcome the proposal of the European Commission that EIOPA plays a key role in **enabling consistent implementation and European Union-wide consistent authorisation requirements** to safeguard the proper use of the PEPP label and to ensure high-quality PEPPs throughout Europe.

Furthermore, EIOPA's mandate **to promote supervisory convergence** is of **paramount importance for the trust and confidence in the PEPP.**

In my view, a **stronger coordination** through the development of supervisory plans for PEPPs **is needed** to support the initiative of a truly pan-European product.

To **strengthen the transparency of PEPPs supervision** towards EU consumers, I propose that EIOPA should be mandated to **publish an annual report on the PEPP's supervision activities performed throughout Europe.**

For EIOPA, **standardised, comparable and relevant information about available PEPPs needs to be easily accessible to consumers** to help them make well-informed and conscious decisions about their plans to save for retirement.

At the same time, the **information about PEPPs needs to be relevant**. Therefore, **pension-related consumer-friendly disclosures** for the pre-contractual and the regular benefit statements need to be further developed.

Furthermore, **PEPP should have an attractive tax regime**. By designing the PEPP with appropriate characteristics it should be possible, at least, to give the PEPP the same tax treatment of the national pension products.

**Ladies and gentlemen,**

PEPP has the **high potential to become a truly European, safe, transparent and cost-effective long-term retirement savings product** that will offer pensions savers an **entirely new personal pensions framework for saving for adequate future retirement income**. The potential is huge but we also need to have a look at the reality of the 3<sup>rd</sup> pillar and pension savings: **scale, competition and transparency are key**.

Let's be frank, in Europe, yet also in many other developed and developing countries, the pensions funding gap is increasing and will be harder and harder, if not impossible to close it. The pensions' "time bomb" has been on our agenda since at least 30 years. However, the outlook on the **sustainability of pension promises**, from state, occupational funds or private savings, **is anything but comforting**.

The European pensions sector is under pressure to address urgently its challenges and to promote sustainable pension promises. We need more long-term thinking in political decisions and these decisions have to be bold and taken now.

**The PEPP is not a silver bullet and the only response to this ticking "time bomb". But it can be an important tool to help closing the pensions gap and showing the European Union citizens that Europe helps them in building a more stable and sustainable retirement. The PEPP will help European Union citizens to be closer to the European project. For the sake of ours and future generations and for the sake of Europe. We cannot fail.**

Thank you for your attention.