Private Pensions: The Real Return

A Research Report by

EuroFinuse

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

About The European Federation of Financial Services Users

- The European Federation of Financial Services Users (EuroFinUse) was founded in 2009 under the name of EuroInvestors

- EuroFinUse 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 EuroFinUse represents 50 national associations which in turn have about 4 million citizens as members. Its activities are supported by the European Commission.

- Main 2013 objective: restore confidence and trust in the financial providers and markets.

- President: Jean Berthon (FAIDER)

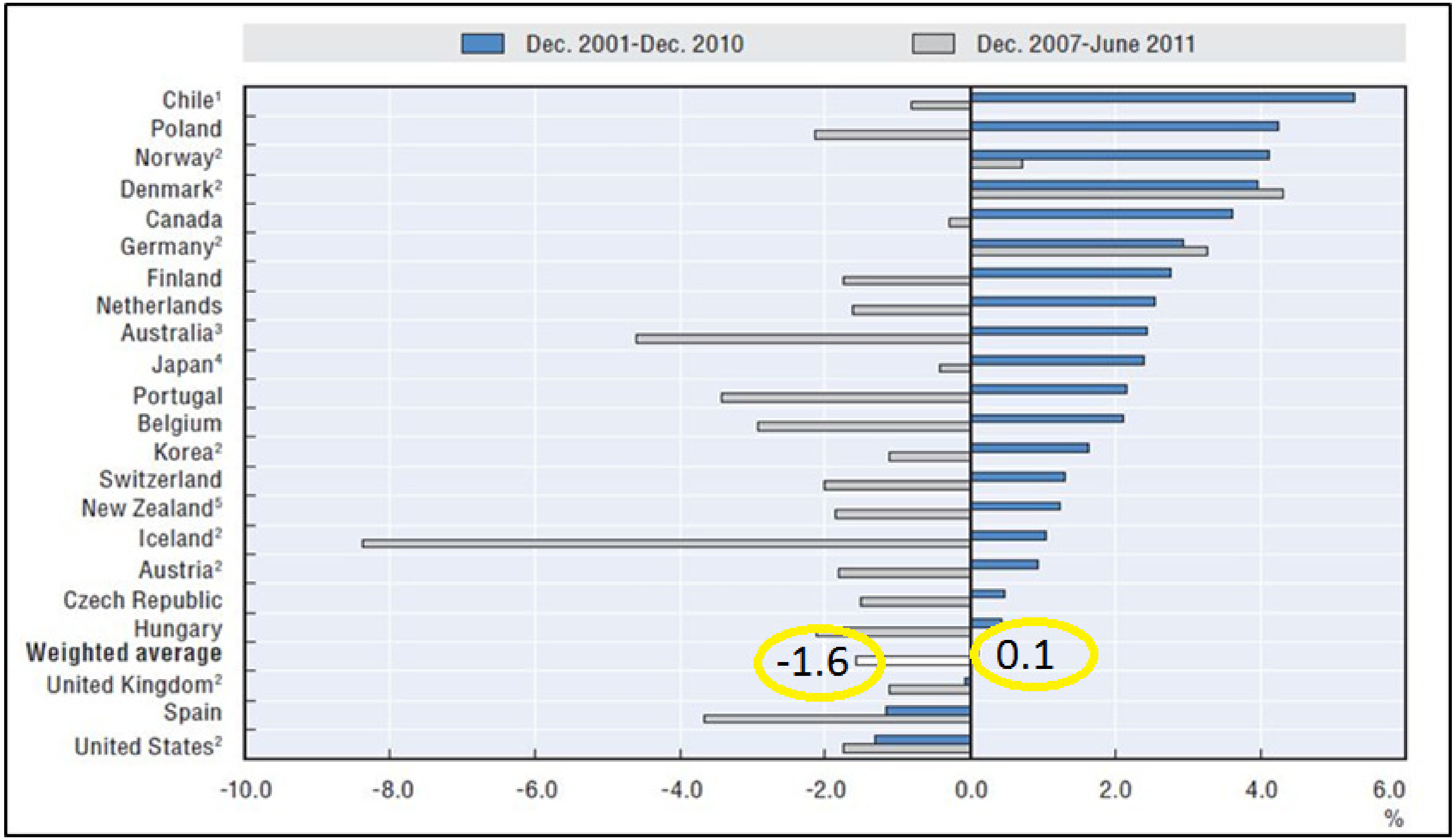
- Vice-Presidents: Jella Benner-Heinacher (DSW),
  Jan Maarten Slagter (VEB), Leif Vindevag (Aktiespararna)

- Managing Director: Guillaume Prache

Background: OECD 2012 Pensions Outlook

Pension funds 5-yr and 10-yr returns

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



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Background: OECD 2012 Pensions Outlook

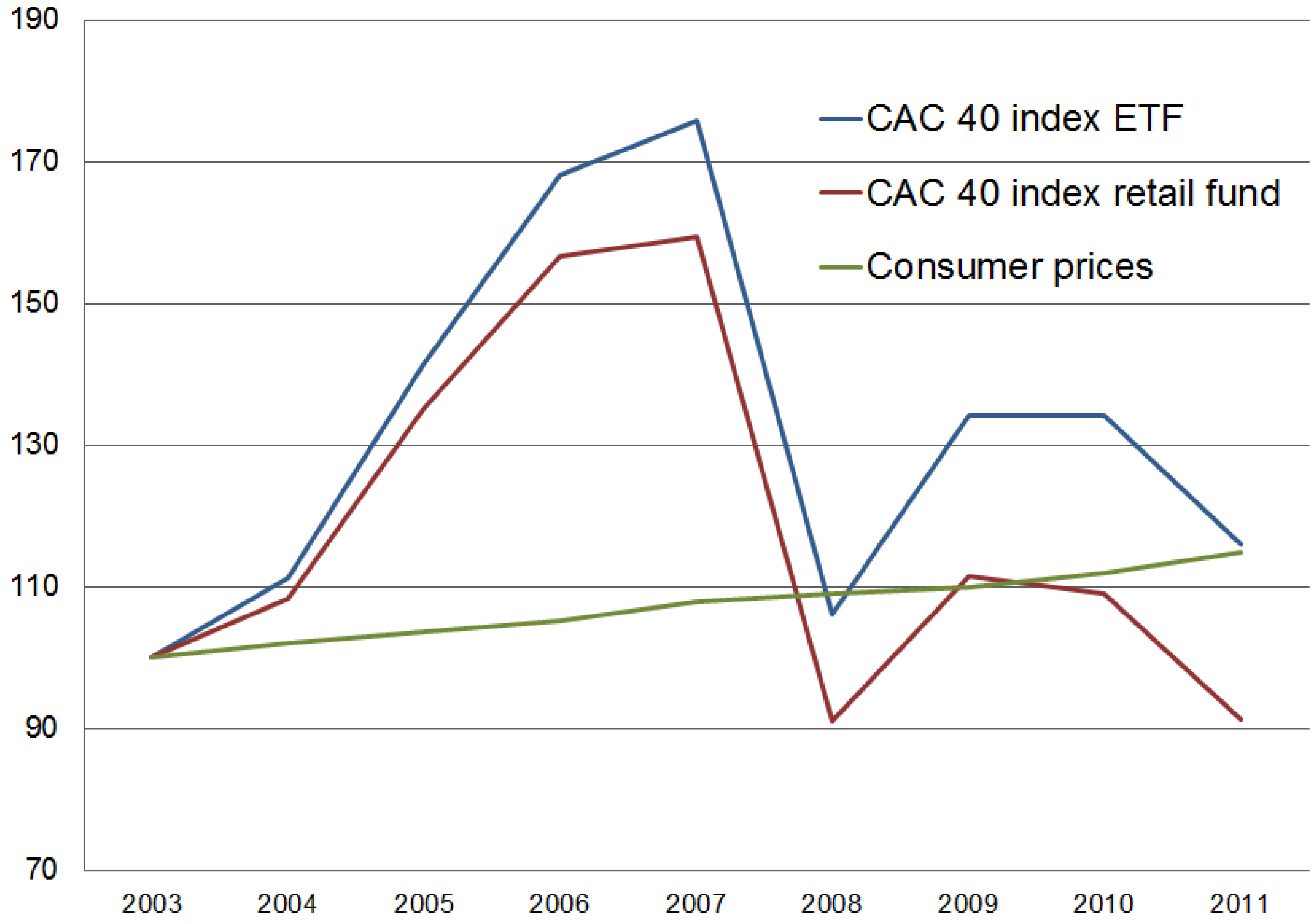
Private Pensions 5-yr and 10-yr returns

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

BUT

- ❑ No disclosure of net of all charges borne by pension savers e.g. "what goes into his pocket"
- ❑ Does not cover all EU countries e.g. France
- ❑ Only covers private pension funds but not all Third Pillar pension products
- ❑ No tax impact included

EF research on an index equity investment ETF vs. Retail fund



EuroFinUse methodology
real return (after tax)

- 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 includes three country cases: Denmark, France and Spain
- 2nd phase will examine additional countries

Modelled yearly Returns of Private Pension Products After Inflation and Before Taxes

	Modelled nominal return	Taxation on returns	Investment charges	Net nominal return	Net real return
Denmark	3.46% + 4.0% = 7.46%	-15.3%	-1.0%	5.32%	1.32%
France	1.49% + 7.3% = 8.79%	-23.0%	-2.0%	4.77%	-2.53%
Spain	1.79% + 6.0% = 7.79%	Tax free	-1.8%	6.00%	0.00%

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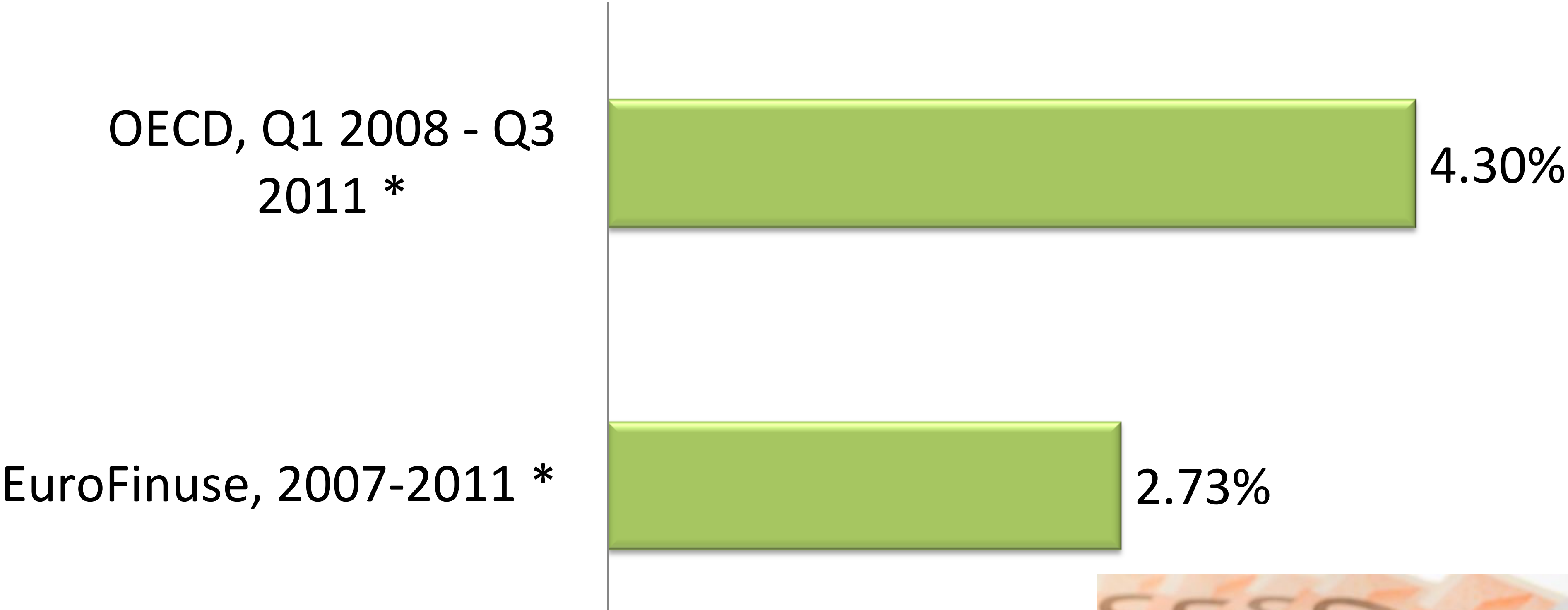
Country cases (actual historical returns)

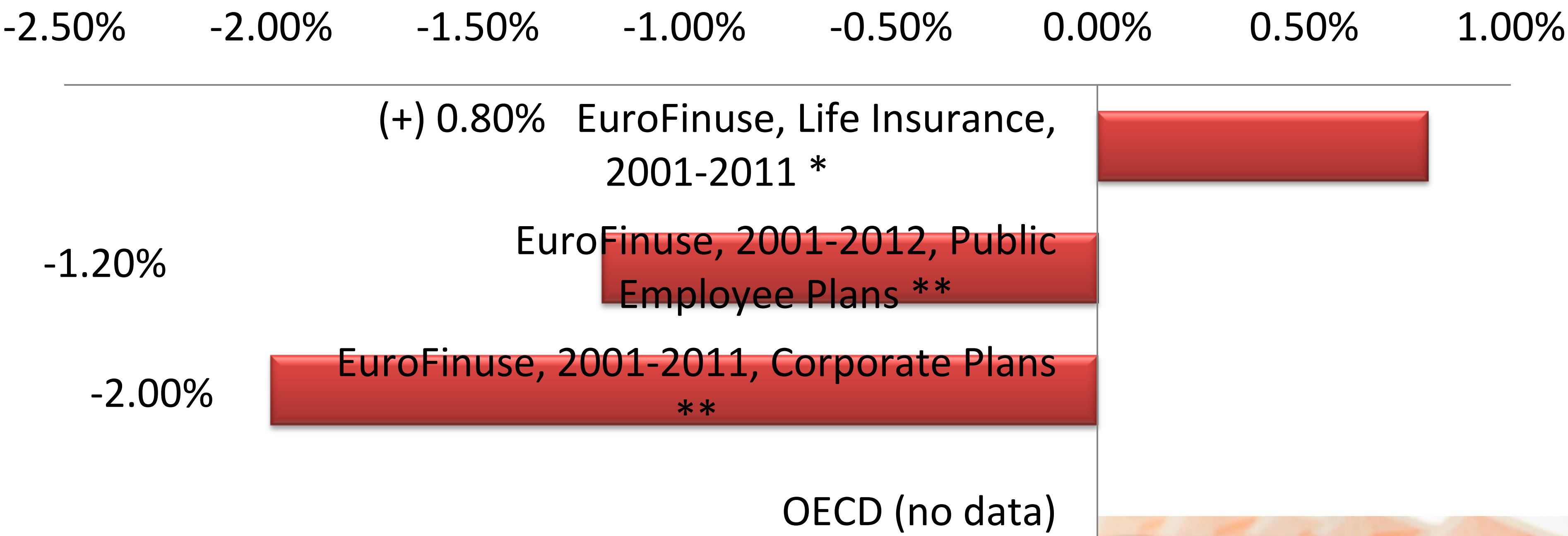
Real yearly returns of private pensions in Denmark



*after tax

Country cases (actual historical returns)

Real yearly returns of private pensions in France



*after tax **before tax

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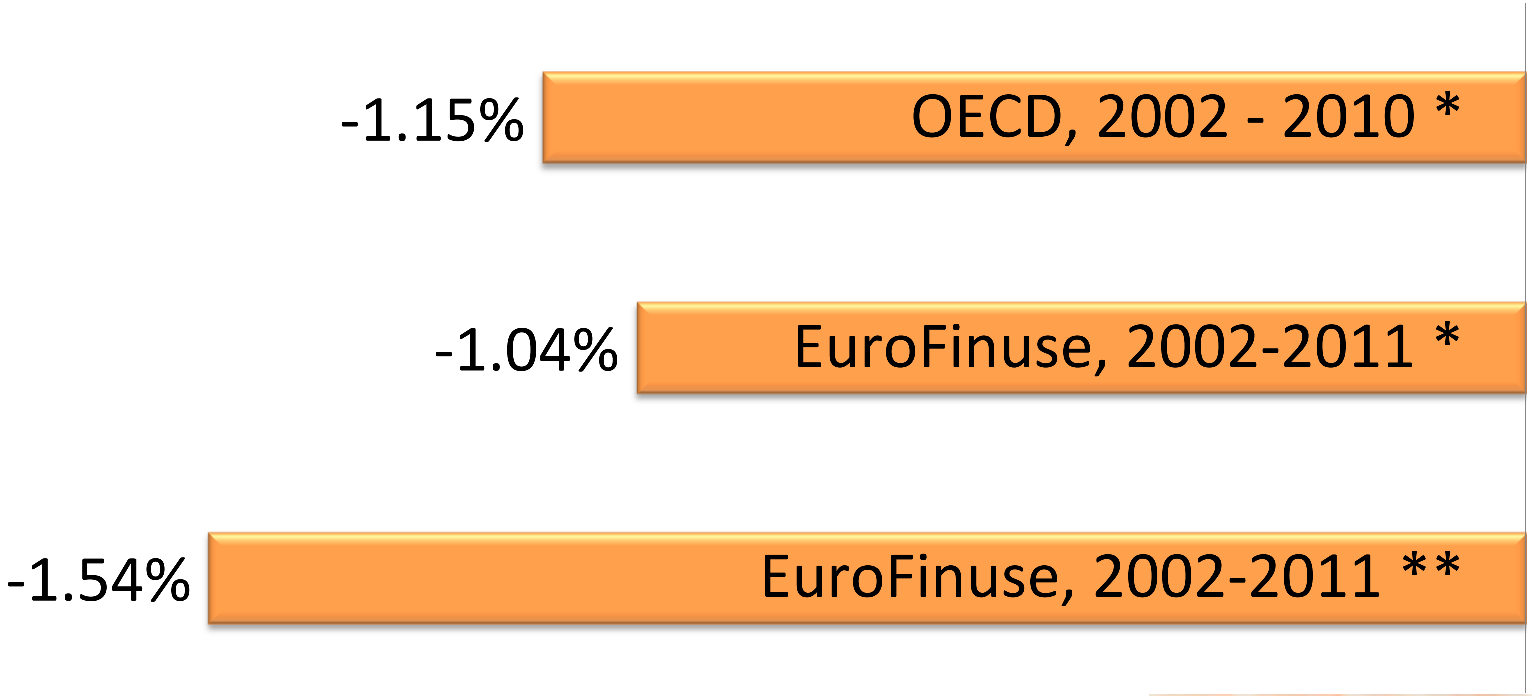
Country cases (actual historical returns)

Real yearly returns of private pensions in Spain



*before tax ** after tax

Future outlook

- Only Denmark provides significant positive real returns (1st phase of research)
- Poor disclosure of historical returns, almost never after inflation, after all charges, and after tax
- Sale and advice: more influenced by commissions than by suitability (64% of respondents of a CFA Institute Survey agree)
- Solvency rules reduce opportunities to earn real returns, by shifting asset allocation away from real assets in favour of fixed income, with particular emphasis on sovereign debt;
- Complex and burdensome taxation of private pensions (e.g. tax in France can exceed 100% of real returns)
- Capital markets performance is not the primary factor of recent negative returns;

Why ? – Real Case 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)

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Why ? – Conclusion

Not primarily capital markets performance

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

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Policy implications / requests from pension savers

Improve and harmonise disclosures for all long term and retirement savings products

- "PRIPs" (EU proposed Regulation for a Key Information Document (KID) fore all retail investment products
- Disclosure of full costs and long term historical returns must be provided:

  -After inflation;

  -After all charges borne directly or indirectly by the investor; and

  -After taxes (as required in the US for investment funds).

Design simple retirement savings vehicles and securities that protect the long term purchasing power of savings

- Readily accessible, without need for advice and its associated commissions
- Promoted by public programmes

Policy implications / requests from pension savers

- Special treatment by prudential regulation of all pension products (insurance and non-insurance regulated)

  long duration of the liabilities allow for higher portfolio allocation on investments such as equities;

- Taxation to incentivize long term retirement savings and investment over consumption and short term savings, or at least not penalise this behaviour;

- Basic financial mathematics part of school curricula, as this is a crucial tool in selecting suitable investment products for pension savers;

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Thank you for your attention

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