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European Commission's Proposal for a regulation on a pan-European Personal Pension Product (PEPP)

Position Paper by the EIOPA Insurance and Reinsurance Stakeholder Group

Introduction

- On 4 July 2016, following several rounds of public consultations and interim reports, EIOPA published its final advice at the request of the European Commission (EC) on the creation of a single market for personal pensions. Following EIOPA's advice, on 29 June 2017 the EC launched its legislative proposal on the PEPP. In support of its initiative, the EC emphasized the CMU objectives and the relatively high level of household savings held in the form of deposits, the fragmentation of the personal pensions market in the EU, the insufficient degree of cross-border provision and portability of personal pensions, and the potential long-term impact on the pension gap.

General considerations

- The IRSG welcomes the European Commissions' proposal and agrees that the PEPP project should aim at creating a portable pan-European personal pension product in the form of a "voluntary 2nd regime". This would come in addition to the existing national personal pension regimes.

- Europe faces a massive savings gap which combined with longevity, demographic changes and recognition that governments cannot borrow their way out of the problem, creates a huge risk of old age poverty for millions across Europe. In addition, there is a need for long-term stable investment to fund infrastructure needs and the shift to a sustainable economy. Helping address these problems should also be the focus of the PEPP. The Commission is right to try to address this problem with urgency given the relatively small amount of private pension savings currently set aside for investment, compared to what is instead needed in order for European citizens to enter future retirement with sufficient overall funding from the three pillars of pension investment – state/public funds, corporate/occupational plans and those from personal pensions. Although the composition of EU and US pension systems is different, it is useful to compare private pension amounts currently available since both systems include a combination of these three sources and both regions have similar GDP. For example, the US has EUR 14.9 trn of investable private pensions assets, while the EU has only EUR 4.3 trn, with a substantial portion of this amount coming from the UK (Source: AFME BCG Bridging the Growth Gap report).

- PEPP Products should offer opportunities for more retirement savings, especially in emerging economies, as well as for cross-border mobile workers, and should offer pensioners guarantees against potential national initiatives that could affect their assets.

1. Cross-border provisions and portability

- Portability of the PEPP is one of the projects' key features. However, the compartment-based system included in the current text of the PEPP Regulation might hamper competition and consumer access to the PEPP products in some Member States due to the high costs and investments required. Under current provisions, small and medium undertakings might find it difficult to offer a PEPP.

- For providers, the ability to achieve scale through a standardised product sold across multiple European markets from a single platform can significantly lower costs of operations, fund management and distribution. This is particularly important in the current low interest rate environment.

- Transfer of savings without conditions between Member States should be mentioned explicitly as a right of European citizens in the PEPP Regulation.

2. PEPP Key Information Requirements

- The IRSG believes that providing clear, simple and standardized information to potential PEPP savers will be crucial to the success of the project.

- One IRSG Member expressed concerns that current proposals regarding information requirements would be heavy, overload the customer and create extra expenses for providers – thus suggesting a more tailored and simpler solution as necessary.

- Maximum cost transparency disclosures should be included in the PEPP Regulation, covering all fees impacting the net performance of PEPPs as well as the impact of inflation.

3. Investment rules

- The PEPP project has a major social role, namely providing a decent income to pensioners after retirement and a high level of security. Any decision on amending the EC PEPP Regulation should be made with this principle in mind.

- Taking the above statement into consideration, the majority of the IRSG is of the opinion that a simple default investment option with real capital guarantees that apply at maturity is a major contributing factor to the success of this project.

- Although the safety of the capital invested should be the first and foremost priority, this should not hinder the flexibility of other future pensioners, who may feel that their retirement saving should generate a certain rate of return and that are willing to accept to take some investment risk, to choose a more riskier investment option. It is therefore very important that other non-default options are available for cititzens who want more choice and flexibility including to take more risk to achieve a potentially higher return.

- Most IRSG Members agree that the decision on the default investment option should take into account that providing a real guarantee on capital at retirement offers a much higher level of protection for consumers than other investment strategies (such as structured products and life-cycling). In the latter, consumers are exposed to the risk of losing their capital and therefore having a lower retirement income than expected. On the other hand, a minority of the IRSG argue that life-cycle strategies should not be dismissed as means of providing effective benefits (as they incorporate an investment strategy in which the level of risk reduces gradually as the individual approaches retirement, and can have regard to the individual's chosen decumulation option).

- Additionally, and closely linked to the previous comment, all PEPP providers offering guarantees on capital at retirement should be subject to similar solvency and prudential rules ("same risks, same rules" principle). However, there is a need to examine how Solvency II could work for a specific long term product such as the PEPP.

4. Switching of PEPP Providers

- The IRSG welcomes the current text of the EC proposal referring to the switching between PEPP providers as a good compromise.

5. Decumulation phase

- The IRSG agrees with the fact that decumulation is a core part of what makes a product a pension product – because it puts the emphasis on saving in order to provide an income throughout retirement. It is also often a necessary part of allowing the tax incentives that can be crucial to encourage wide take up by citizens.

- The IRSG is also in agreement with the fact that, regardless of the final decumulation system established by the PEPP Regulation, its inherent risks for future pensioners should be very clearly laid out and explained to savers.

- Although there are divergent views within the IRSG on the various decumulation options, the Group agrees that this problem could be solved by including a standard option in the PEPP Regulation, while at the same time allowing Member States to opt-out on a national basis. This flexibility is particularly important for emerging economies, which hold a larger gap in terms of financial education.

- A number of IRSG Members feel that, given that pension saving products aim to provide an income during retirement, the protection against longevity risk (i.e. through life-long annuities) should have priority over other forms of out-payments (lump sums or drawdown plans).

- The current version of the PEPP Regulation proposes that pensioners should have the ability to change the decumulation vehicle every 5 years. This would not be practical where the chosen vehicle was an annuity.

6. Protection against biometric risks

- The Commission Proposal provides that PEPP providers may offer PEPPs with an option ensuring the coverage the risk of biometric risks (i.e. longevity, death, and disability) but this coverage is not compulsory.

- Most IRSG Members agree that PEPP providers should be allowed to offer PEPPs with an option ensuring the coverage of the risk of biometric risks, i.e. risks linked to longevity, disability and death, although this point of view is not shared by all Members.