Finance Watch
Making finance serve society

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A first step on a long journey towards tackling the pensions gap: still more work is needed

Finance Watch comments on the Pan-European Personal Pension proposal (PEPP)

The pan-European Personal Pension Product (PEPP) is an important initiative from the European Commission, to improve the current private pension market. It is, however, unlikely to help most European citizens properly supplement their retirement income. **Even if the PEPP contributes to the uptake of private pension products, this will not be sufficient to meet the huge challenges facing pension provision in the EU.**

Ageing European populations, slow economic growth, and increasing inequality of income and wealth have put state pension systems under serious pressure. Occupational pension systems are also under threat with less jobs available and shorter and more fragmented employment periods becoming the norm.

Policymakers must continue to look for other measures to maintain adequate levels of state and occupational pensions and look to build a future-proof European model of the Welfare State. This must involve looking beyond the current ailing social security systems to exploring other possible alternative models.

The PEPP proposal does bring a number of important issues to the fore and with them an **opportunity to increase European citizen's trust in both the European Union and financial institutions**. This can be achieved by applying strong prudential and consumer protection requirements to ensure product safety. A focus should be put on longevity risk-sharing, income-generation and sustainable investment.

The question of tax relief offered to PEPP savers cuts to the core of the **solidarity aspects of pension products**. If the PEPP is to be a success then it must have the features of a pension product, to justify it receiving at least the same tax relief as equivalent pension products in the different EU Member States. Ideally a mechanism for calculating and collecting balancing payments among Member States should be developed as part of a tax regime for the PEPP.

Several amendments are still needed to key areas of the proposal for it to achieve the goals set out by the European Commission of **creating a genuine private pension product that is suitable for any European citizen aiming to save and supplement their retirement income**. Discussions should be directed to ensuring that this aim can be achieved and not to adapting the product to the perceived needs of different potential providers, under the threat that no one will offer it.

FINANCE WATCH'S PEPP RECOMMANDATIONS

☑ Prudential treatment

In order to ensure the trust of savers and a level playing field amongst PEPP providers a sufficient level of prudential treatment must be met. Only providers falling under the prudential regimes of CRD IV and Solvency II should be authorised to manufacture and distribute the PEPP.

☑ Basic or default investment option

One of the most important aspects of the PEPP is the default or basic investment option being proposed. This should provide a basic option to save for retirement that is suitable for all savers, especially if it is to be authorised for sale without advice.

☑ Sustainability and ESG factors

The PEPP proposal should be consistent with the European Commission aim under the Capital Markets Union to introduce sustainability and environmental, social and governance (ESG) considerations into financial legislation. Providers should disclose information on how they take into account ESG considerations to savers.

☑ Partnering agreements

Partnering agreements are being considered as a possible way for providers to meet the national compartment requirement. These agreements must be tightly regulated to ensure all compartments offer the same prudential safeguards to savers.

☑ Investment rules

PEPP savers must be provided with appropriate information and advice by providers to ensure that they choose the most suitable PEPP for them. This can be achieved in part by ensuring that MiFID II conduct of business provisions apply to all PEPP providers, to put in place a consistent consumer protection regime.

☑ A genuine pension product

The PEPP should incentivise saving for retirement income in the form of annuities. Lump sum pay-outs should be possible in cases where the capital accumulated will not provide meaningful retirement income.

The PEPP should have a long-term perspective, but savers should be able to switch providers under the right conditions to ensure competition and disincentivise bad practices.

☑ Role of EIOPA

The European Insurance and Occupational Pensions Authority (EIOPA) should play a key role in authorising PEPP providers and in ensuring supervisory convergence and cooperation, particularly in the face of possible partnership agreements. Given the cross-border nature and portability requirements, EIOPA should also be granted product intervention powers for the PEPP. This will help the authority to build trust in the EU label given to the PEPP.

For further information, please see our Finance Watch report "A Pot of Gold at the End of the Rainbow - The future of pensions in the EU" (40 p. - June 2017) or contact Paul Fox, Research and Advocacy Officer at Finance Watch: paul.fox@finance-watch.org