

The Pan-European Personal Pensions product (PEPP)

Following EIOPA's advice on the development of an EU Single Market for personal pension products (PPP)

European Insurance and Occupational Pensions Authority

- The Authority should act with a view to improving the functioning of the internal market, in particular by ensuring a high, effective and consistent level of regulation and supervision taking account of the varying interests of all Member States and the different nature of financial institutions.
- The Authority should actively promote a coordinated Union supervisory response, in particular to ensure the orderly functioning and integrity of financial markets and the stability of the financial system in the Union.
- The Authority should serve as an independent advisory body to the European Parliament, the Council, and the Commission in the area of its competence.

Pensions gap?



Mind the Gap - Quantifying the pension savings gap in Europe.



In 2016, we updated our landmark *Mind the Gap* study of Europe's pension savings gap. This latest research shows that Europe's pension savings gap remains substantial, surpassing €2 trillion a year – equivalent to 13% of Europe's GDP.

Global Pension Timebomb: Funding Gap Set to Dwarf World GDP

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- The world's six largest pension saving systems – the US, UK, Japan, Netherlands, Canada and Australia – are expected to reach a \$224 trillion gap by 2050, a [new study](#) by the World Economic Forum shows

The gender pension gap is widening, report finds

Adviser finds fewer women than men can afford to save into a personal pension



'Women are likely to have less money left over at the end of the month to contribute towards savings, compared to men' © WWPhotography/Alamy

Josephine Cumbo, Pensions Correspondent
OCTOBER 22, 2017

The gap between the number of men and women saving into a personal pension in the UK has widened significantly in recent years, according to research.

"Further reforms are needed that are both fiscally and socially responsible. We cannot risk a resurgence of old-age poverty in the future. This risk is heightened by growing earnings inequality in many countries, which will feed through into greater inequality in retirement." OECD Secretary-General Angel Gurría

In middle-income countries, large gaps in pension coverage exist among lower-income, informal sector workers. This is compounded by demographic pressures straining the ability of pension systems to finance benefits. This is particularly true in transition economies in Eastern Europe and the former Soviet Union, where pension spending is frequently the largest government expenditure, as well as a major source of fiscal deficits, and accelerated ageing has reduced the number of younger workers supporting older workers that need pension coverage.

The World Bank is in a unique position to take intellectual leadership and collaborate with various development partners in building strong pension systems in developing countries. The Bank has been involved in pension reform in more than 90 countries and provided financial support for reform to more than 70 countries.

Current and future challenges of the pensions sector



- Need to save (more) for future retirement income
 - o Demographic and employment trends
 - ageing population, people living longer
 - Unemployment, “broken careers”
 - “Unconventional” career paths and self-employment
 - Increasingly mobile workforce
 - o Divergent pension landscape in Europe
 - Challenged national budgets and state pensions
 - Stressed economic environment: low yields, negative interest rates
 - Low consumer trust, often low available income
 - Gender gap

The EU pensions landscape is and will be changing



- On-going shift from Defined Benefit to Defined Contribution
 - Accelerated by persistent low-interest and low-yield environment
 - Supported by recent Pension reforms in Europe
- Pressure on sustainable pension promises
 - Big corporate failures in some MSs
 - Significant underfunding
 - Sustainability of investments
- IORP II further promotes cross-border activities

Does Europe need PEPP?



- Aim: 'bridging the pensions gap', reaching adequate retirement income
- Personal pension products often unavailable to the majority of citizens
- Occupational pensions often unavailable or underdeveloped

Interaction with the CMU 'capital markets union'



- Provider of pension products – driver of the CMU?
 - o Important players at European financial markets
 - o Long-term investments
 - o Efficient capital markets
 - o Efficient cross-border activities
 - [potential hurdles: contract law, taxes...]

- 2nd regime – Pan-European Personal Pension Product
 - Regulation – overcoming hurdles of cross-border activities (to the extent possible), complementing national products
 - Enables standardisation:
 - Transparency
 - Economies of scale
 - Enables flexibility:
 - to adapt to needs of local markets
 - provider-neutral
- ➔ Efficient tool to foster an EU Single Market for Personal Pension Products

- Safe, transparent and cost-efficient product
- Behavioural economics - core default option
 - Investment strategy effectively linking accumulation and decumulation
 - True retirement savings product
 - Economies of scale and benchmarking
 - Role of guarantees
- Standardised information
 - Pre-contractual
 - PEPP benefit statement

- Authorisation of the product
- Regular supervision of provider and product by national supervisory authorities
- Central register for PEPPs

- Entry into force expected for Q2 2019
- Technical standards expected by Q2 2020
- Regulation becomes applicable 12 months after publication of Delegated Acts

Overview of EIOPA's deliverables



- Preparatory phase:
 - o Development of technical advice: delegated acts, RTSs and ITSs
 - o Development of policies, processes and implementing structures, most importantly for IT infrastructure: central public register and notifications
- Execution and maintenance phase:
 - o Registrations, modifications and deregistrations
 - o Supervisory convergence and cooperation: product intervention powers, mediation, etc.

EIOPA's technical advice – to be delivered within 12 months



- Information documents of PEPP:
 - o PEPP KID (RTSs)
 - Design of the documents and methodology for presentation/calculation of key items
 - Conditions for revising KIDs
 - Conditions on the provision of the KID when advising or offering for sale
 - o PEPP Benefit Statement (RTS)
 - Design of the documents and rules to determine the assumptions on benefit projections
 - Supplementary information: presentation of where and how to obtain additional information on the PEPP or the provider, e.g. annual accounts, SIPP

Including consumer and industry testing

EIOPA's technical advice – to be delivered within 12 months

(cont)



- Features of PEPP:
 - o Cost cap for the Basic PEPP (DA and RTS): which costs to include in the cap, adequacy of 1%
 - o Risk-mitigation techniques (RTS): minimum criteria for life cycling, buffers and guarantees
- Supervision and cooperation between NCAs and EIOPA:
 - o Supervisory Reporting (DA and ITS)
 - o Cooperation between NCAs and EIOPA and information exchange (ITS)
 - o EIOPA's product intervention powers (DA): criteria and factors to be applied in the assessment

PEPP: risk-mitigation techniques



- Setting minimum criteria for:
 - o Guarantees
 - o Life cycling
 - o Establishing buffers/reserves
- Setting enforceable rules – enabling trust and reliability of the product
- Leaving sufficient room to facilitate innovation

PEPP: risk-mitigation techniques – guarantees



- Challenges:
 - o Consumers bias towards avoidance of financial loss
 - o Level of guarantees offered is very low
 - o Address conflicts of interest and disincentivise opportunistic behavior
 - o Limits of providing guarantees and effect of switching of investment options/providers
- Approach:
 - o Develop relevant, comprehensible disclosures
 - o Transparency of the impact of inflation
 - o Cost cap of 'Basic PEPP'

- **Challenges:**
 - Volatility and potential financial loss
 - Which investments at which stage
 - Fixed accumulation period
 - Promote inter-generational fairness
 - Address conflicts of interest and disincentivise opportunistic behavior

- **Approach:**
 - Principle-based regulation of investment allocation
 - Fair allocation of illiquidity premium
 - Link to decumulation solutions

PEPP: risk-mitigation techniques – building buffers/reserves



- Challenges:
 - o Ownership of investments
 - o Intergenerational fairness
 - o Intransparent allocation of returns
- Approach:
 - o Segregating PEPP assets
 - o Full transparency of the allocation rules

- True retirement savings product: linking accumulation and decumulation
- Default product: cost-efficient and attractive
- Standardisation: economies of scale and transparency
- Risk mitigation – innovative approaches
- Central information hub, authorisation, strong national enforcement
- Endorsing smart Portability



Thank you

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