Xavier Larnaudie-Eiffel
Chair, Personal Insurance Committee, Insurance Europe
Deputy CEO, CNP Assurances, France

PENSIONS

Second sight

Clear trends emerge from Insurance Europe's second Pan-European Pension Survey

The median age of the world's population has been rising since the 1980s, driven by medical advances and falling birth rates. And recently the increase in the old-age to work-age ratio has accelerated, with the ratio predicted by the UN (pre-COVID-19) to almost double by 2060.

Adequate, affordable and sustainable pension provision is therefore a key concern for policymakers. While pension policy falls under the remit of national governments and comes in a variety of forms depending on a broad range of local factors, there is still much that can be done at EU level to influence pension adequacy, exchange best practices and boost awareness of the need to save for retirement.

The European Commission's Capital Markets Union project, for instance, recognises the role of personal pensions in raising retirement saving and includes various pension-related actions such as investigating best practice in national pension tracking systems, pension dashboards and auto-enrolment schemes. EU legislation has also been passed to introduce a pan-European personal pension product (PEPP) intended to complement national pension products and be portable between EU states (see box on p49).

Insurance Europe, too, is active on pension-related issues. As well as its contributions to EU policy discussions and its own financial education initiatives under the InsureWisely brand, it was a key driver behind 2021's first ever European Retirement Week (see box above) and in 2019 it started a biennial Pan-European Pensions Survey.

European Retirement Week

Insurance Europe was a driving force behind Europe's first ever Retirement Week, which was held in 2021. Supported by 11 European associations, European Retirement Week provided a platform for a wide range of interested parties to debate the future of pensions in Europe and raise citizens' awareness of the need to save for retirement.

The week was opened by Mairead McGuinness, the European Commissioner for financial services, financial stability and Capital Markets Union. Twelve events were organised during the course of the week by the participating consumer and financial associations.

Insurance Europe itself presented and discussed the results of its second Pan-European Pension Survey in a session called "Pension pots and how to fill them — providing for old age". It also co-hosted with the European Banking Federaton and Better Finance an event on the importance of financial literacy in boosting pension resilience.

European Retirement Week 2022 will run from 28 November. Watch the Insurance Europe website for further details.

Well over a third not saving

Insurance Europe's second Pan-European Pension Survey, carried out among nearly 17 000 respondents in 16 countries in July and August 2021, revealed that 38% of respondents were not saving for retirement and — perhaps even more worryingly — that 30% of those not saving said they could not afford to. More women than men were not saving, more 18 to 35-year-olds, more unemployed people and more people with lower levels of education.

Unsurprisingly, given the impact of COVID-19 and government lockdowns on national and personal finances, 17% of those surveyed said they had reduced, stopped or delayed their pension saving as a result of the pandemic, with the biggest impact among the self-employed, the unemployed and the young.

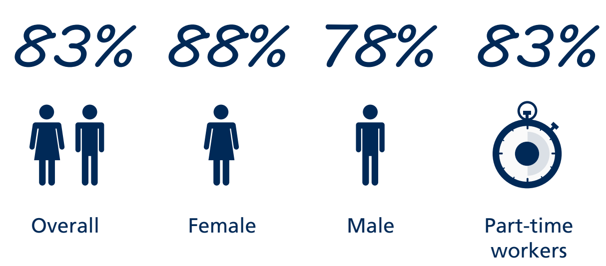
The pandemic aside, clear trends are starting to emerge from the first and second surveys, even though direct comparisons cannot be drawn between the two due to new countries and new questions being added to the second one.

When asked in the second survey about their top three pension saving priorities, there was a clear preference for ensuring the security of the money invested, followed by the importance of the robustness of the pension provider and the flexibility to increase or decrease or to stop or resume contributions. Least important to respondents was the ability to move pension savings between European countries (portability). Security is clearly key; asked to choose between investment security or investment performance, a massive 83% chose security.

Bias towards higher amounts

How people wish to receive their pension savings at retirement depends on whether they favour an immediate

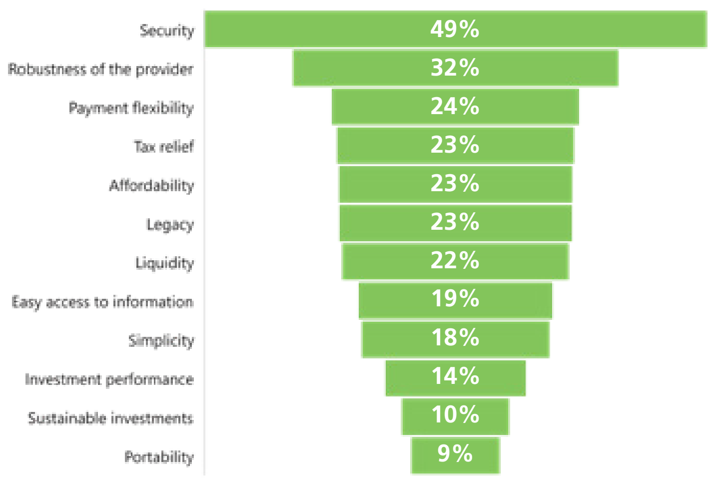
Safety favoured over performance



Pan-European Pension Survey — key findings

1. The EU pension savings gap persists; more than a third of respondents are not saving for retirement
2. Almost a fifth of respondents said COVID-19 had a negative impact on their pension savings
3. Security and safety remain by far the most important priorities
4. Pension savers continue to prefer to receive information digitally rather than on paper
5. In all survey areas, there are significant differences between countries
6. Responses are influenced by personal circumstances such as age, gender, marital status, level of education and employment

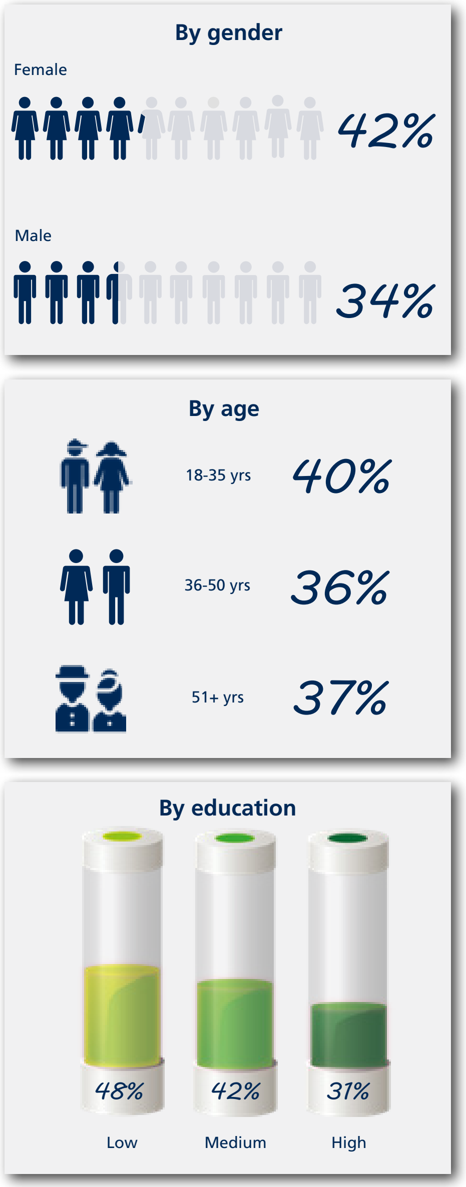
Pension saving priorities



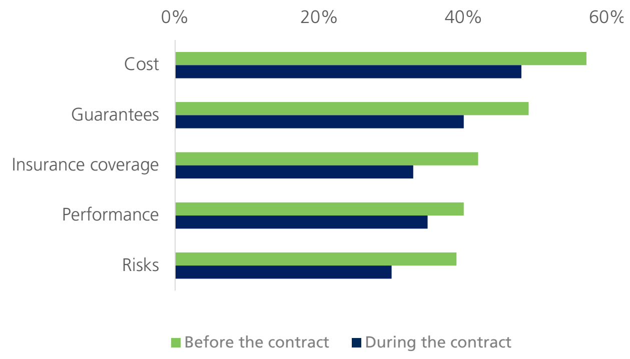
About the survey

- Date: July and August 2021
- Respondents: 16 799
- 16 countries: Austria, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland
- A representative sample:
  - 50% female, 50% male
  - Aged from 18 to 70
  - Different employment statuses
  - Different education levels
  - Different personal circumstances

Respondents not saving



Top five information priorities



lump sum or wish to ensure that they do not outlive their savings. It is interesting to note that preferences shift if monetary projections for the relative amounts of the lump sum or annuity are given.

When not given projections of likely amounts, 43% chose to buy an annuity to guard against the longevity risk, 20% chose to receive a lump sum and only 7% preferred drawdown payments, while 30% chose a mixed pay-out combining different options. However, when monetary projections were given, people were drawn to the higher figure of the lump sum and 54% chose a lump sum over an annuity, indicating both the importance of how options are presented to retirees but also the perhaps unrealistic expectations that people have of the cost of covering longevity risks and the need for more education around retirement planning.

Definitely digital

72% of survey respondents preferred to receive pension information digitally rather than on paper — confirming the preference seen in Insurance Europe's first survey. The information that respondents were most keen to receive was on costs — both before signing a contract and after — and they were also interested in information on guarantees, insurance coverage and investment performance. Least interesting to them was information on investment strategies, pension portability and pension switching.

Insurers are major providers of pension products and, as greater responsibility shifts to individuals to ensure they have sufficient income in retirement, Insurance Europe will continue its biennial survey to help inform the debates on how to tackle the pension savings gap.

PEPP: reality falls short of expectations

The EU legal framework for pan-European personal pension products (PEPPs) has finally entered into force. In theory, since late March 2022, European citizens should be able to start saving or further save for retirement by buying new, portable, EU-labelled, cost-efficient and voluntary personal pension products. The reality, however, is different, and the very high expectations of the PEPP's EU architects have had to be scaled back for now. This is the result of multiple factors.

First, many countries are still in the process of adopting national implementing measures. Indeed, despite being an EU regulation and thus directly applicable at national level, many elements were left to national discretion (such as the decumulation phase and tax treatment) to reflect and fit into the variety of pension set-ups in EU countries, and that process is far from over in most states.

And despite PEPPs being billed as simple products, the framework is highly complex and regulates many elements not regulated before at EU level and in many countries. It leaves savers, providers, local regulators and supervisors with many questions. These translate into legal risk for insurers and other potential providers, which are still waiting for clarification before deciding whether to offer PEPPs.

Furthermore, it is questionable whether some of the requirements in the PEPP Regulation can actually be met by providers. The Institute for Finance and Actuarial Science in Ulm, Germany, published research in January 2022 testing the feasibility of the technical requirements applicable to the risk mitigation techniques for the basic PEPP. It showed that, in the current capital market environment, none of the products analysed met the requirement to outperform inflation by at least 80% while limiting losses to a certain probability.

Despite these difficulties, the stakes are too high to give up on the opportunity PEPPs represent for both savers and providers. The insurance industry is ready to contribute to discussions to make PEPPs a success.