Insight Briefing

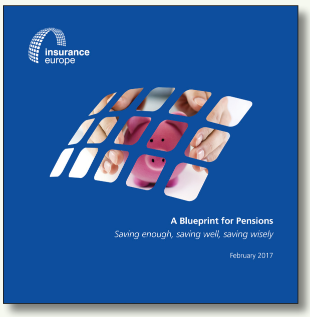
A Blueprint for Pensions

Saving enough, saving well, saving wisely

Europe is ageing, adding to the huge challenge governments face in making sure that people have an adequate retirement income. There is no single policy measure or solution that will fix Europe's pension crisis, but a Blueprint published by Insurance Europe contains recommendations that could significantly reduce the pension savings gap.

The challenge

Effective, affordable and sustainable pension systems are a cornerstone of a successful modern society and economy. The fact that Europeans are living longer is putting increasing pressure on pension systems at a time when public finances are already under strain (see chart overleaf). The number of people aged 65 or above relative to those aged 15 to 64 is expected to double between 2013 and 2060. As a result, many European states have already started reforming their pension systems, but that is not enough. Citizens also need to take personal responsibility and contribute more, and for longer periods, if they are to have an adequate income in retirement.



Insurance Europe's "A Blueprint for Pensions" is available to download at www.insuranceeurope.eu

Multi-pillar pension systems are widely seen as the most effective way to ensure the sustainability and adequacy of retirement provision. As major providers of occupational and personal pensions, insurers are a key part of any multi-pillar system.

Insurance Europe recommendations:

- Governments should introduce (or enhance) funded pension pillars (ie occupational and personal pensions) alongside the traditional pay-as-you-go statutory pension systems to improve their sustainability and the adequacy of retirement incomes.
- To be successful, pension pillars must be mutually reinforcing and have clear roles and objectives.

Ways to save enough

As individual responsibility becomes ever more vital, policymakers must raise public awareness of the need to make adequate provision for retirement.

Insurance Europe recommendations:

- Policymakers should ensure that European citizens are informed about their expected future statutory pension entitlements.
- EU member states should take action to increase the uptake of supplementary pensions, introducing enrolment systems suited to local circumstances.
- Member states should adopt tax configurations that incentivise citizens to save for the long-term, eg by deferring the point of taxation. They should introduce or maintain tax incentives for supplementary pensions that

are simple, stable and incentivise adequate saving over the long-term, eg by penalising early exit/surrender.

- Digital distribution can increase private pension coverage and should not be hindered.

Ways to save well

Future pension adequacy depends not only on how much individuals save and how early they start saving, but also their asset mix. Investing in a range of assets that includes equities and property can be as important as saving enough because of the very different long-term returns and diversification that are offered by the different asset classes. The long-term nature of insurance savings products also allows insurers to invest in illiquid and long-term assets, such as infrastructure and green projects. The natural and legitimate concerns many individuals have over the risks and volatility of certain asset classes can be overcome by taking a long-term approach, together with the traditional insurance techniques of collective pooling of risks and providing customers with the option to have minimum returns guaranteed.

Insurance Europe recommendations:

- Savers should be informed about the importance of the asset mix in achieving their goals for income in retirement.
- Policymakers and the insurance industry should work together to facilitate the offering by insurers of well-designed collective mutualised investment products for those savers that need them.
- The EU Solvency II regulatory regime's treatment of long-term investments should move from a trading to a long-term approach, so that measurements are appropriate and not unnecessarily excessive.
- Against the background of increasing longevity risk, policymakers must ensure that consumers can access decumulation products that best suit their needs.

Ways to save wisely

The level of financial literacy is still low in most countries in Europe. Policymakers must ensure that there is sufficient financial education to empower individuals to plan and manage their financial future, supporting the work being done by insurers in this area. Citizens must also have access to information about the products and services available to them.

Insurance Europe recommendations:

- Financial education and awareness
  - The European Commission and member states should favour the adoption of national strategies for financial education and their inclusion in school curricula in order to develop financial literacy and responsibility from an early age.
  - A Commission-led European Day of Financial Education for sharing best practice and new approaches to financial education at national and EU level should be introduced.
  - EIOPA (the European Insurance and Occupational Pensions Authority) should review and coordinate financial literacy and education initiatives by national authorities.
- Any EU initiative on pension product information should respect local market characteristics, be suitable for current and future distribution channels and be thoroughly tested with consumers. Consumers should be able to freely decide in which format they wish to receive the information and have equal access to both digital and paper means.

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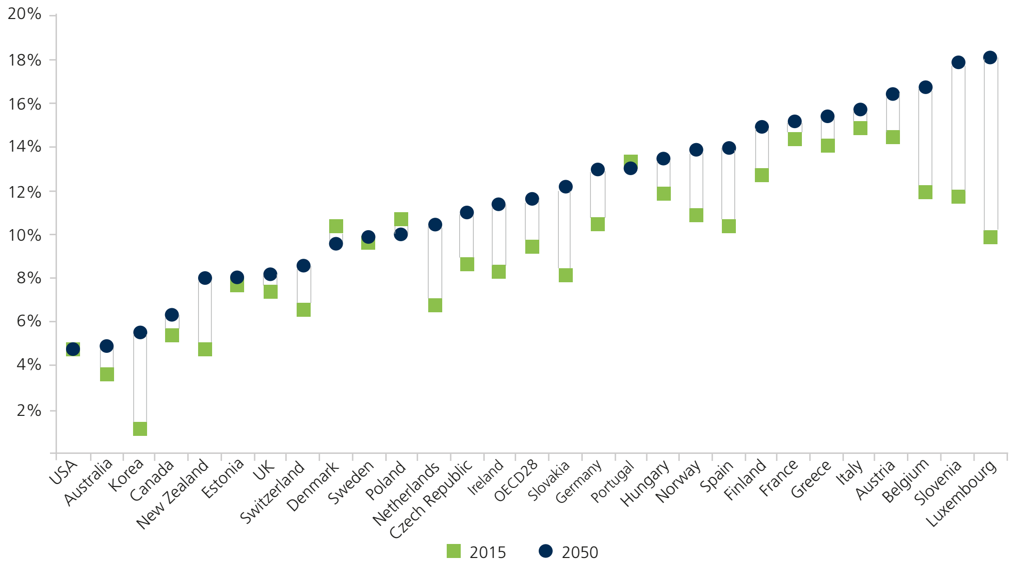
Estimated government pension payments as a % of GDP — 2015 to 2050



Source: "The Coming Pensions Crisis", Citi, March 2016 (OECD and Citi research)