

A Pan-European Personal Pension Product (PEPP)



The PEPP must be a true, long-term pension product that provides value for citizens

The EU is currently facing an unprecedented demographic transformation brought about by declining birth rates and rising life expectancy. It faces a major challenge in ensuring adequate retirement income for its citizens.

Personal, or “third pillar” pensions play a key role in today’s pension landscape. This role is likely to become increasingly important, as multi-pillar pension systems are the most effective way to ensure the sustainability and adequacy of retirement provision. With a long track record of tackling demographic challenges, life insurers are major providers of personal pension products that consumers can trust.

Insurance Europe welcomes the discussion around a possible PEPP as a potential way to increase both the share of the population with private pensions and the allocation of funds to long-term investments. PEPP’s overarching goal should be to increase long-term savings, especially in member states where these are low.

Key considerations

- To be suitable as a source of retirement income, the PEPP must truly be a long-term product. Consumers should be incentivised to save for a long period, ideally until retirement, for instance through minimum investment periods. This would in turn allow PEPP providers to access the benefits of being able to invest long-term.
- The PEPP should offer policyholders an appropriate level of security. Protection against longevity risk — outliving savings — should be one of the options on offer. And taking account of national practices in the member

state concerned, policyholders should be able to access guarantees or choose additional coverage against biometric risks, such as disability.

- PEPP providers should be subject to appropriate regulation that takes account of their products’ long-term horizon and specific features.
- The EU’s new insurance regulatory regime, Solvency II, was specifically designed to ensure a high level of protection for customers of insurers, who are the main providers of personal pensions. Protection is ensured through a range of measures, including stringent capital requirements. If other financial institutions offer true personal pensions, they should be subject to the “same risks, same rules” principle, otherwise consumers could suffer.
- Decumulation is, in many markets, intrinsic to pension products. National practices and rules on decumulation and protection mechanisms, such as pay-out and annuities, and survivor’s/death benefits should be considered in any discussion at EU level.
- However financially literate they are, people must be given sufficient, high-quality and appropriate information to enable them to compare and choose products. Pre-contractual information requirements must be tailored to the specific nature of the PEPP. The PRIIPs Regulation, for example, would not be the right benchmark, as the methods of calculation of the main PRIIPs indicators (the risk indicator, performance scenarios and cost indicator) are as they stand inappropriate for pension products and would mislead pension savers. Pension products also require information about pay-out phases and tax treatment. Moreover, pension products are inextricably

linked to member states' social policies and taxation rules, necessitating a different information approach.

- Tax incentives play an important role in an individual's decision to postpone consumption and instead save for retirement. Tax incentives could therefore determine the success or failure of a PEPP framework. Saving through a funded pension scheme can be taxed at three possible stages: when money is paid in, on capital gains and on the pension payouts or lump sums. Exempting pension contributions from taxation is crucial to incentivise saving.
- A simple product does not mean no risks. Consumers find it difficult to assess and make decisions about their future retirement income needs. However, simple pension products would not necessarily deliver more adequate pensions. On the contrary, a certain level of product sophistication is rightfully needed to reduce certain risks and uncertainties, while taking account of savers' needs and preferences.
- A simple and less risky way for individuals to gain exposure to a wide range of assets is through traditional insurance products, which play an important role in providing guarantees and smoothing returns.

- The roles of and interaction between statutory, occupational and personal pensions are unique to each member state, shaping national pension markets for decades. It is therefore natural that personal pension products differ substantially across the EU. PEPP providers must be able to adapt their PEPP to national markets, particularly in terms of product features (eg long-term guarantees, profit-sharing mechanisms, risk coverage, pay-out options, surrender options).

Further information

- [Comments](#) on EIOPA's advice to the EC on PEPP (April 2016)
- [Response](#) to the EC consultation on personal pensions (October 2016)
- [Blueprint for Pensions](#) (February 2017)

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Elements for a key information checklist for a PEPP

Name of product	
Name of insurance undertaking	May also include company head office address and legal form
Type of product	Summary of product
Insurance cover	<ul style="list-style-type: none"> • Risk coverage description (death, disability, sickness, etc.) • Related biometric risk premium
Target retirement age	Indication of target retirement age, according to national rules, if applicable
Pension benefits/decumulation	Description of pay-out option(s)
Objectives and investment policy	General description of investment objectives of: <ul style="list-style-type: none"> • PEPP • default investment option • other investment option(s), if applicable
Risk and reward profile	<ul style="list-style-type: none"> • Narrative explanation describing risks, risk mitigation elements, guarantees and existence of Solvency II requirements • Possible maximum loss • Smoothing rules, if applicable • Reward description
Investment charges	<ul style="list-style-type: none"> • Description of investment costs and charges
Access to pension pot	<ul style="list-style-type: none"> • Minimum investment period(s) • Special conditions for partial withdrawal (eg medical expenses), if applicable according to national law
Fiscal treatment	<ul style="list-style-type: none"> • Description of tax treatment, including relevant tax incentives (rationale, amounts, eligibility, etc.), if applicable • Link to national law granting the incentive, if applicable
Consequences of early termination	General warning (if consequences of early termination are too long to be detailed). The general warning can consist of a reference to the general policy conditions for further information.
Mediation mechanisms	Information about how and to whom a retail investor can make a complaint about the product or the conduct of the manufacturer
Date of publication	[day/month/year]