PEPP KEY MESSAGES: PENSION FEATURES

The PEPP must come with real pension features to address the pension gap

1 Insurance Europe welcomes the European Commission's objective of making national pension systems more sustainable by boosting retirement saving by individuals

Insurance Europe particularly welcomes Article 2 of the European Commission's proposal for a pan-European personal pension product, which identifies the PEPP as being a "long-term savings personal pension product (…) subscribed in view of retirement".

- While today (2013) there are 4 workers per retired person, in the future (2060) there will be just 2.[1]
- Europe's pension savings gap remains substantial, surpassing €2 trillion a year, at 13% of the European Union's 2016 GDP.[2]
- There is currently a $70 trillion global retirement savings deficit which will grow to $400 trillion by 2050 — a growth of $28 billion each day.[3]
- Only 67 million people (27% of EU total population between 25-59 years old) are currently voluntarily subscribed to financial products with a long-term pension objective.[4]

Europe faces an unprecedented pension challenge, resulting from the fact that there are, year after year, fewer workers and more retirees. This puts a significant and growing strain on state pension systems.

In light of this, Insurance Europe believes that more private savings are needed overall and that mutually reinforcing pension pillars will become increasingly important. Personal pensions already play a key role in today's pension landscape and are likely to become even more important in the future.

2 A true pension product must take account of both the accumulation and decumulation phases

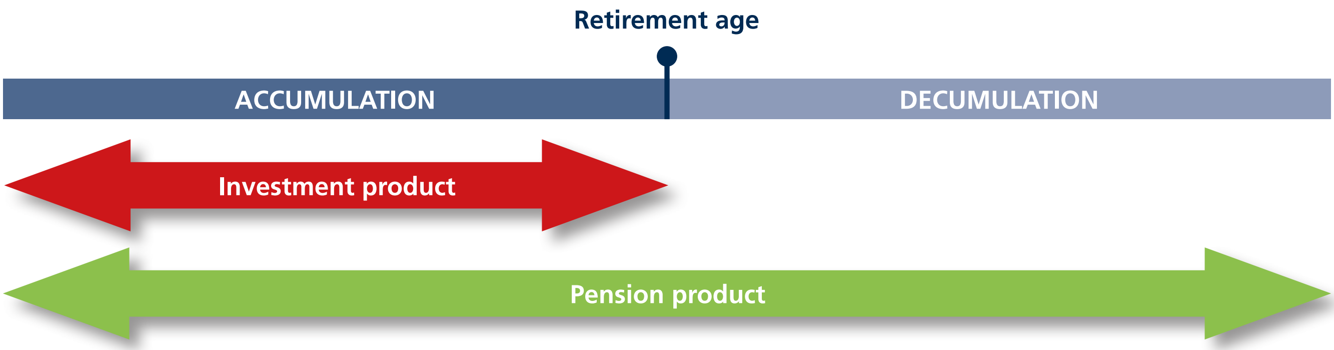
While building adequate pension capital is crucial, the design of the pay-out phase likewise plays a key role in ensuring that individuals enjoy an adequate standard of living in retirement (see Figure 1 overleaf).

As it stands, the proposal does not give sufficient consideration to the decumulation phase.

Other pension features, such as the coverage of biometric risks (beyond longevity), should also be given greater consideration in the proposal.

1 "The 2015 Pension Adequacy Report: current and future income adequacy in old age in the EU", European Commission
2 Aviva, 8 September 2016
3 "We'll Live to 100 – How Can We Afford It?", World Economic Forum, 2017
4 EIOPA's advice on the development of an EU Single Market for personal pension products (PPP), 4 July 2016

Figure 1: What is a true pension product?



Insurance Europe recommendations

With a long track record of tackling demographic challenges, life insurers are major providers of personal pension products that consumers can trust.

Based on its long-standing experience, the insurance industry stands ready to work with EU policymakers to make the PEPP a workable and safe tool for EU consumers without any unintended consequences for Europe's pension landscape.

Insurance Europe proposes the following solutions:

- **Article 52(1)** Given that pension products are usually defined by their objectives (ie to provide an income in retirement), the insurance industry is of the opinion that the protection against longevity risk (eg through **life-long annuities**) should be promoted over other forms of pay-outs.

  That said, Insurance Europe believes that due consideration should also be given to national practices that result from structural factors (eg home-ownership rates, healthcare systems, taxation and other relevant national laws). Consequently, members states should be allowed to opt for the forms of decumulation most suited to their pension systems.

- **Article 45 and 52(2**) Insurance Europe is of the opinion that the possibility to **switch providers** should not apply to the decumulation phase when annuities are provided, as this could be detrimental to PEPP savers and render the provision of PEPPs virtually impossible. Since annuities are usually meant to provide a stream of payments for as long as the pensioner lives, the pooling of longevity risks is required. There is also a need for providers to make long-term investments.

  Therefore, the possibility to (a) switch providers or (b) revise the form of the pay-out should only exist during the accumulation phase and at retirement, and due consideration should be given to national pension systems.

- **Article 42** The insurance industry believes that the importance of **biometric risk** coverage is undervalued if it is only introduced as an optional feature as part of the section on investor protection. These elements are often fundamental components of long-term products offered by insurers and are mandatory by law in some member states.

  Again given that pension products are usually defined by their objectives (ie to provide an income in retirement), the insurance industry believes that protection against longevity risks should be considered one of the core features of the PEPP, in line with existing national legislation. Providers not able to cover biometric risks could establish arrangements with other providers that are able to do so.

- **Article 23** PEPP pre-contractual **disclosures** should specifically emphasise whether coverage for biometric risks is included so that all prospective PEPP savers have a complete and accurate picture of the service provided.

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Insurance Europe is the European insurance and reinsurance federation. Through its 35 member bodies — the national insurance associations — it represents insurance and reinsurance undertakings that account for around 95% of total European premium income.