Press release

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Policymakers must act now to address EU pension gap

Insurance Europe publishes policy suggestions stressing importance of saving enough, saving well, saving wisely

Europe faces an unprecedented challenge, as fewer workers and more retirees put a huge and growing strain on state pension systems. Policymakers must make pension systems more sustainable, encourage people to save more and remove regulatory barriers to avoid harming long-term investment, according to Insurance Europe, the European insurance and reinsurance federation.

In its latest publication, A Blueprint for Pensions, the federation sets out the extent of this challenge and suggests actions to help ensure that Europe's citizens save enough, save well and save wisely for their retirement.

"Twenty years ago discussions around demographics sounded like a futuristic and theoretical issue, but now they have become serious problems for many European governments trying to provide for their retired populations. However, when you look another twenty years down the line, these challenges will have increased substantially to the point where governments could find it almost impossible to provide an adequate retirement income to citizens. This is a difficult situation, but one thing is clear: to avoid passing these problems on to future generations, we must act now," said Michaela Koller, director general of Insurance Europe.

"While there is no single policy measure or solution that will fix this challenge, if picked up widely and consistently, our Blueprint's proposals could help to significantly reduce the pensions savings gap," Koller added.

These recommendations are designed to feed into the European Commission's work on the pan-European Pensions Product (PEPP). Insurance Europe believes that it is crucial for any work on the PEPP to focus primarily on supporting national efforts of closing the pensions gap and generating long-term investments.

Saving enough

As individual responsibility becomes ever more vital, there are several ways for policymakers to motivate people to save more for retirement. The Blueprint suggests:

- Raising awareness of the need to save, notably by promoting tracking services through which citizens can view their expected future pension entitlements.
- Stimulating the widest possible uptake of supplementary pension arrangements through the most appropriate enrolment systems.
- Introducing or maintaining stable, effective tax incentives for supplementary pensions.

Saving well

Future pension adequacy depends on more than how much individuals save or how early they start. In fact, investing in a range of assets that provide adequate returns can be as important as saving enough. Insurers have a role to play as they can provide policyholders with the opportunity to benefit from higher returns available from certain asset classes, while limiting policyholders' risk exposure by using adapted, long-term investment strategies. Policymakers must ensure that regulation does not prevent insurers from offering well-designed, long-term, collective pension products offering exposure to such assets.

Koller said: "To avoid damaging the returns that savers receive from pension products, EU rules like Solvency II must not make it unnecessarily expensive for insurers to make the long-term investments needed to back these products. Currently, Solvency II capital charges for long-term investments do not reflect the risks insurers face, and so are needlessly high and must be adjusted."

Saving wisely

It is paramount that savers are given the correct information to make the right decision when planning for their retirements. Pension products have specific characteristics that differ from other investment products, and this must be reflected in the information provided to consumers. Insurance Europe does not believe that the key information document (KID) required under the EU's Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation is the right starting point for pre-contractual disclosures for pension products.

Koller added: "Pension products require different information to that in the PRIIPs KID, such as information about the pay-out phase and tax treatment. Pension products are also inextricably linked to member states' social policies and taxation rules, which require a different information approach."

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Notes for editors

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