BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

PRESS RELEASE

EUROPEAN SAVERS AND INVESTORS WELCOME THE OFFER FROM «PENSIONS EUROPE» TO HELP BETTER FINANCE IN ITS RESEARCH EFFORTS TO IMPROVE TRANSPARENCY ON THE RETURNS OF PENSION SAVINGS

4 May 2017 –On 26 April 2017 "Pensions Europe" published a press release titled "*Pensions Europe opinion on the research on the quality and outcome of pension savings – Comparing apples and pears*".

We welcome the offer of cooperation that will enable us to further improve the next edition of the study. Indeed one of the difficulties we face is the absence of coherent data with a long historical perspective. Several of the national member organisations of the European organisation representing occupational pension providers already provide help and input for this multi-year research.

Better Finance would also like to clarify some misunderstandings as to the objectives, the methodology and scope of this research effort.

Objective of our research

Our research goal is far more specific and far less ambitious than the one Pensions Europe highlights in its headlines: the aim is not to analyse "*the quality and outcome of pension savings*" but to improve the transparency on the real returns of pension savings in Europe; i.e. to get more information on the "value for money" of these products, as also requested by the EC[1].

Better Finance concurs with Pensions Europe that the social objective of pensions is indeed to provide an adequate replacement income at retirement. The long-term net real returns (the value for money) that pension professionals are able to generate from the pension savings contributed by EU citizens is a critical condition to achieve this goal, at least as important as the duration and the amount of pension saving efforts.

Our goal is therefore not to compare the merits of pension providers across countries. It is to assess the performance of pension savings from the point of view of individuals. We recognise that several factors, including taxation, inflation, fees, liability constraints, regulatory constraints and risk appetite of social partners, have an influence on pension product returns. In the absence of coherent public and trade associations' statistics, our work contributes to fill part of the data gap. We agree that asset liability constraints are important for determining the asset allocation of pension funds. Asset allocation is well documented by OECD research and statistics.

We do not recommend savers to withdraw their savings as a lump sum in general. We refer to the "most favourable case" in terms of taxation in the UK but we agree that annuities are valuable when they are not too costly.

Its methodology

BF welcomes any advice to further improve its OECD-inspired methodology, but, more importantly, needs the help of trade associations to improve the transparency of data on pension returns, since the bulk of the criticism aimed at the report by Better Finance

[1] European Commission, Capital Markets Union (CMU) Action Plan, p. 18

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originates from the lack of available data on returns – in particular for the earlier years (2000-2004) and for the decumulation phase of annuity products. We did not select any period to make our calculation; we simply used all data available to us.

As far as Italy is concerned, we already provided answers to the arguments given in an exchange of emails with the pension association.

Regarding Bulgaria, our report demonstrates convincingly and undeniably that clients of pension companies in Bulgaria overpay for underperformance. As a result their 2nd pillar pensions are bound to subtract from, not supplement, their total pensions to which they are entitled had they not participated in the 2nd pillar at all. This outcome is not disputed or refuted in the comments from the association of pension companies. Pension funds in Bulgaria do deliver mediocre returns.

Better Finance already responded in detail to most of the other issues raised last year (attached).

Its scope

The scope of the Better Finance research on the real returns is much larger than the one Pensions Europe focuses on which is limited to non-insurance based collective occupational pension products, whereas our research encompasses all savings products actually used by EU citizens to save for retirement; therefore also including defined contribution insurance-based collective and occupational products, as well as all individual pension and long-term saving ones.

We agree that retail products (pillar 3) have to be distinguished from occupational arrangements (pillar 2). However, one should recognise that the distinction between pillar 2 and pillar 3 tends to be less clear-cut in some countries such as the UK where employers can fulfil their obligations by contributing to independent pension funds.

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