



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

# Will you afford to retire?

Preliminary results of BETTER FINANCE's report on  
the real return of long-term and pension savings

Gertrude Pils, Deputy Chairwoman, PEKABE, and

Sébastien COMMAIN, Senior Research & Policy Officer, BETTER FINANCE

# Overview

- “Will you afford to retire?”: A research project to serve retail investors’ interests
- Performance of long-term and pension savings products in 2022
- A long-term perspective on long-term savings
- The Austrian pension landscape
- Links to current policy debates

“Will you afford to retire?”

## A RESEARCH PROJECT TO SERVE RETAIL INVESTORS' INTERESTS

# “The Real Return”: A long story, continuing

## A long history...

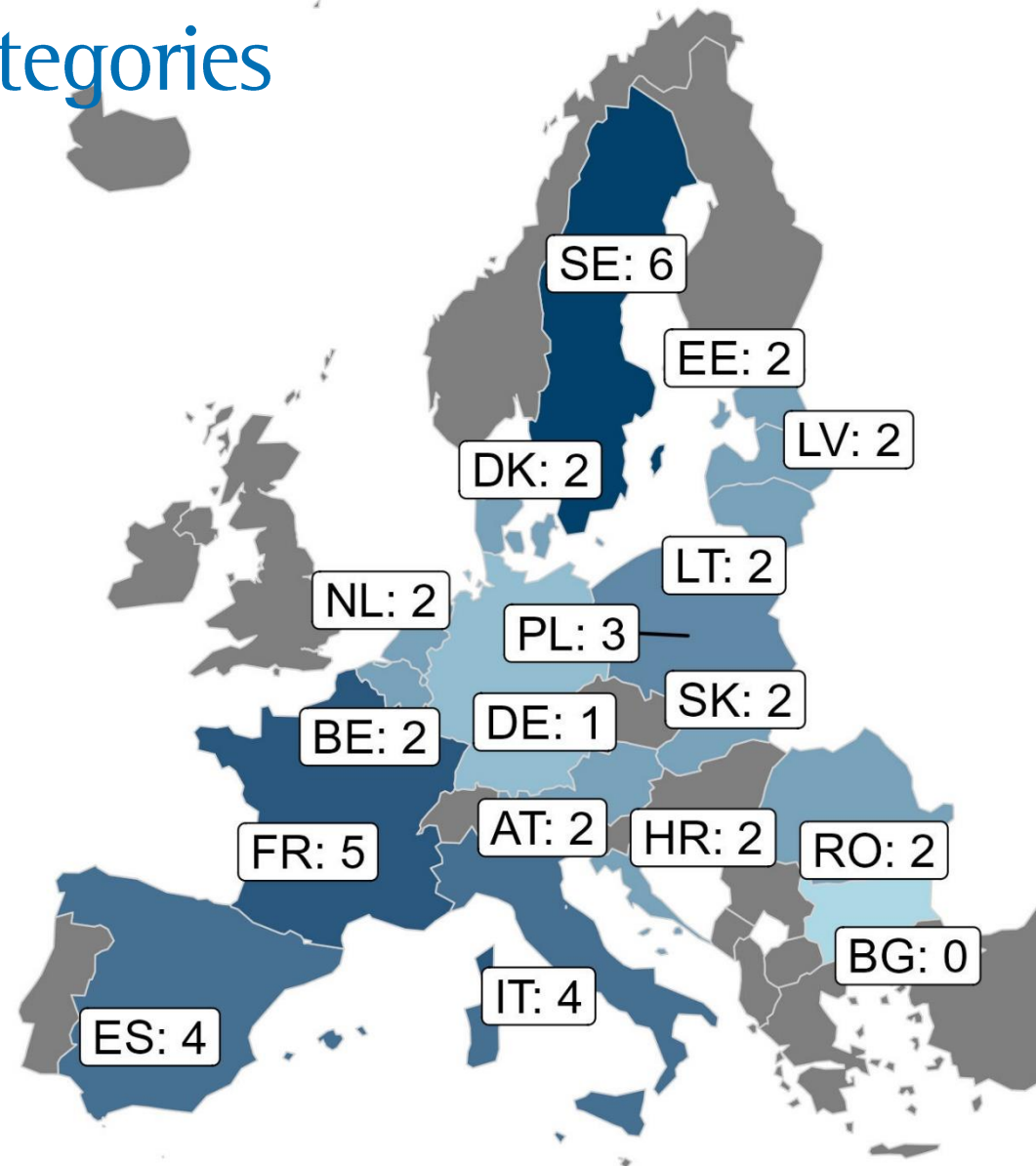
- 11<sup>th</sup> edition:
  - From 3 to 17 (well, 16) countries
  - Consolidating the legacy
  - Opening a new chapter
- New title, same ambition:
  - “Will you afford to retire?”, a question for all ages
  - Raise awareness about long-term financial planning
  - Highlight the cumulated effects of costs and inflation on long-term savings

## Still unique

- All providers in a product category (pension funds, IBIPs), not a sample
- Distinguishing between pillars
- Up to 23 years of data on:
  - returns (gross, net, real net)
  - costs & charges
  - asset allocation
- Description of and information on pension systems

# 16 countries, 43 product categories

- Work in progress:
  - Results are in for 41 product categories
  - Data collection ongoing in Denmark
- Data availability issues:
  - Scarce data on costs and performance
  - Important product categories excluded (e.g., BE life insurance)
  - Bulgaria: Impossible to compute any real net returns...



Annus horribilis

**2022, A YEAR TO REMEMBER?**

# 2022, a catastrophic year for investors

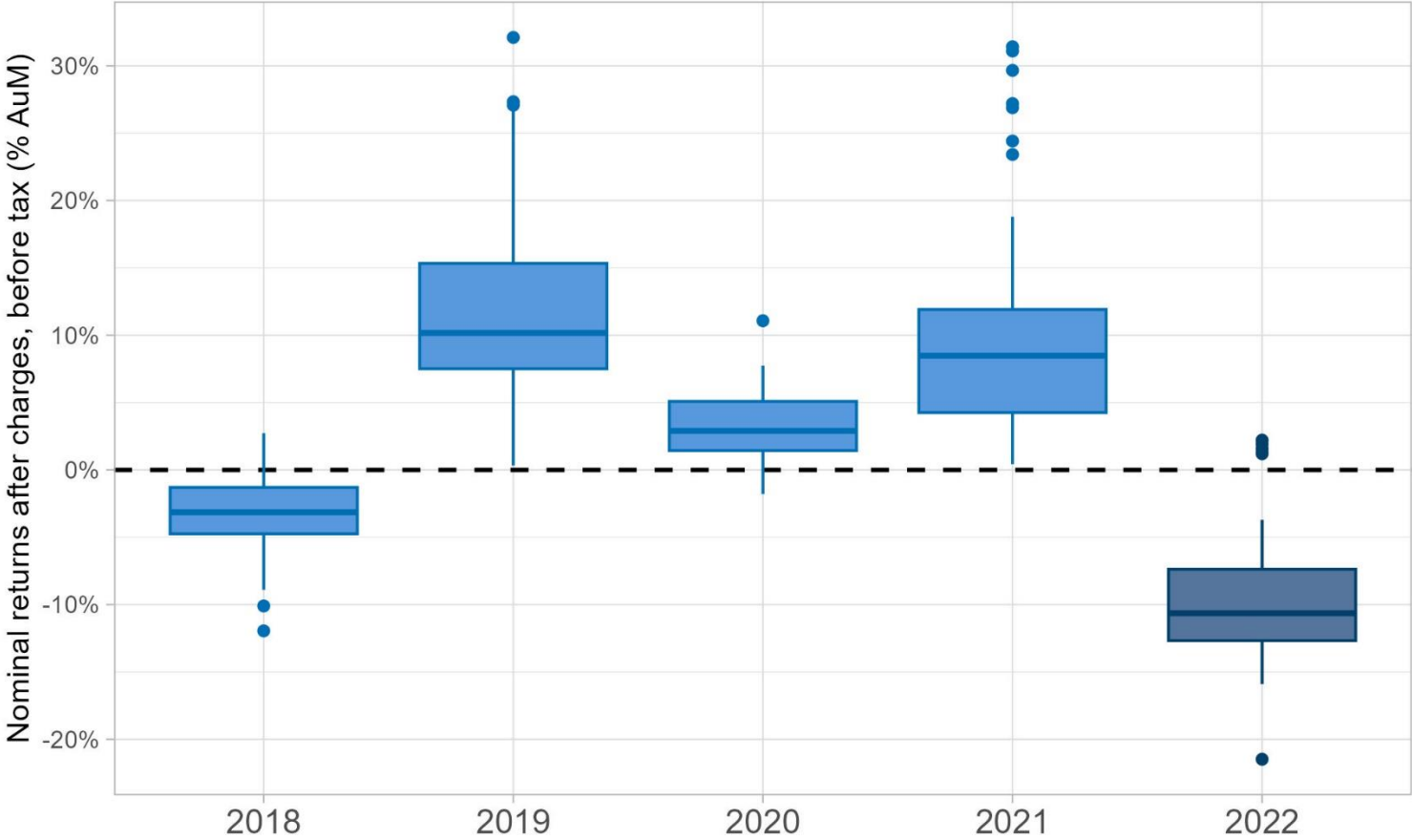
Average nominal returns positive for only 6 out of 41 products

Best performing product category: +2.2%

Worst performing product category: -21.5%

Average performance: -9.2% (vs. 10.8% in 2021)

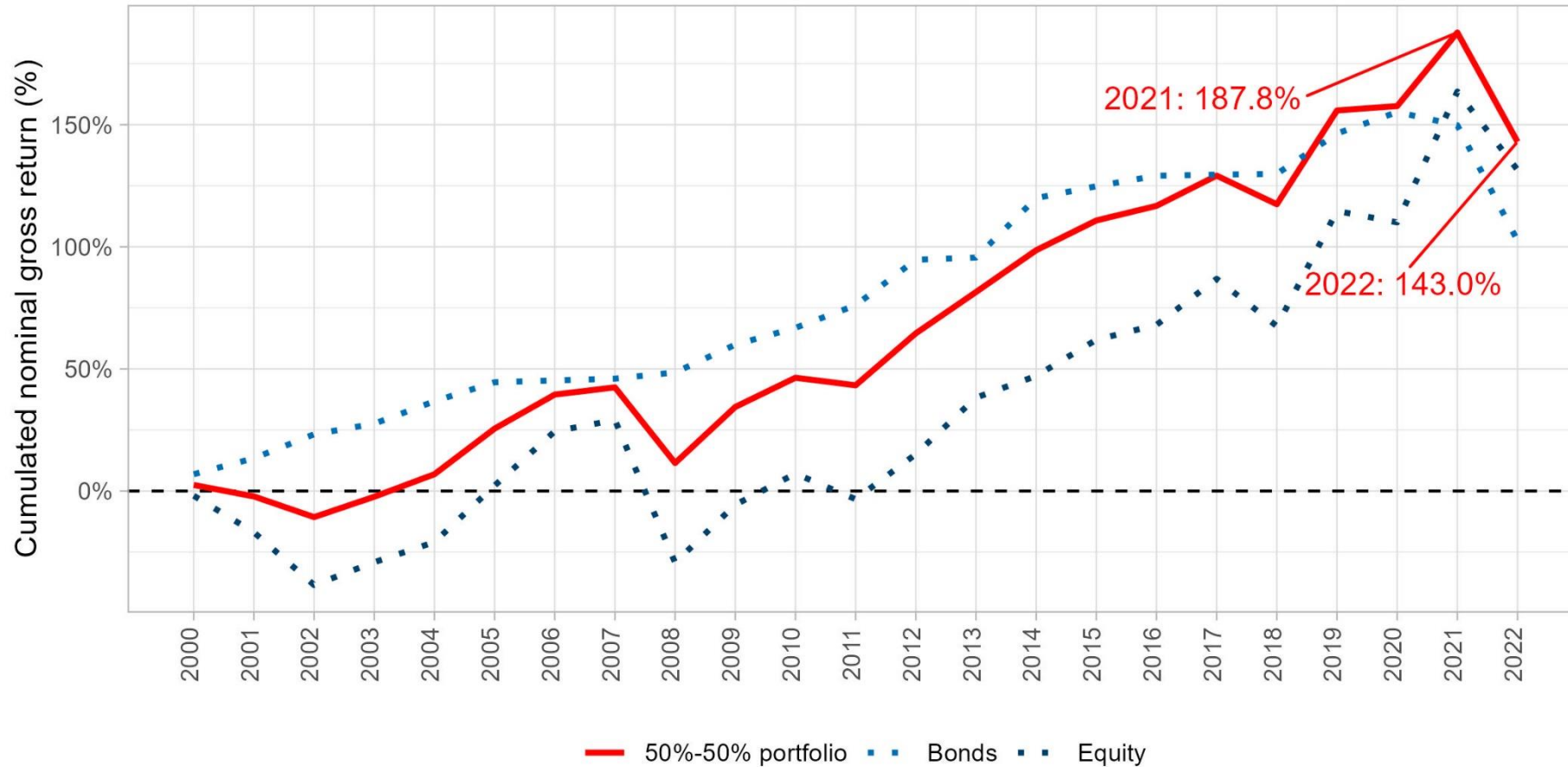
Average 1-year return rates of analysed product categories



BETTER FINANCE calculations.

# Capital markets plunged...

Cumulated performance of European capital markets (2000-2022)



Equity index: STOXX All Europe Total Market (gross return);  
Bonds index: Barclays Pan-European Aggregate Index (gross return);  
The 50%-50% portfolio is rebalanced annually.

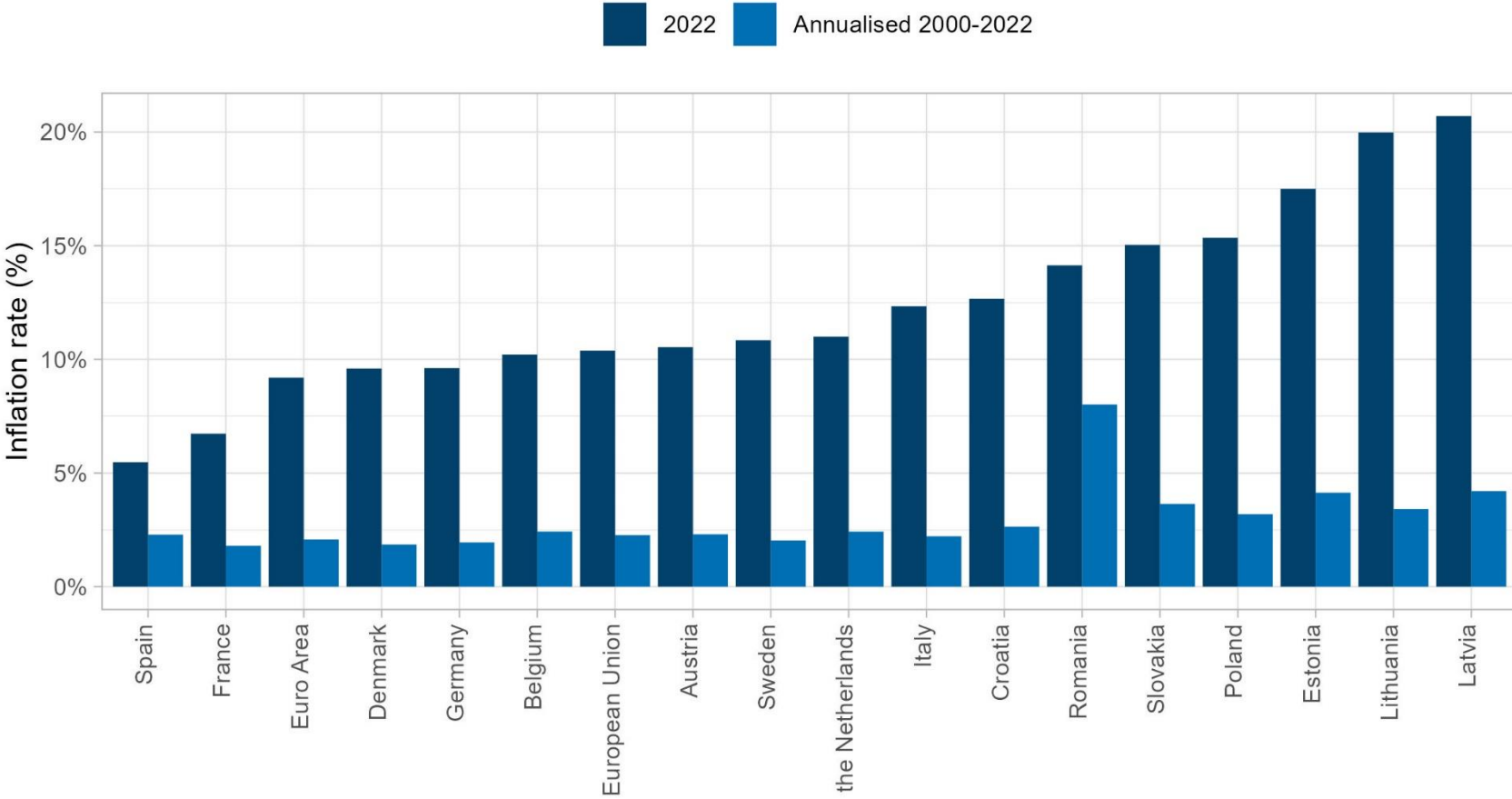


# ... and inflation peaked...

All countries affected, but to varying extents:

- EU average: +10.4%
- Spain: +5.5%
- Latvia +20.7%

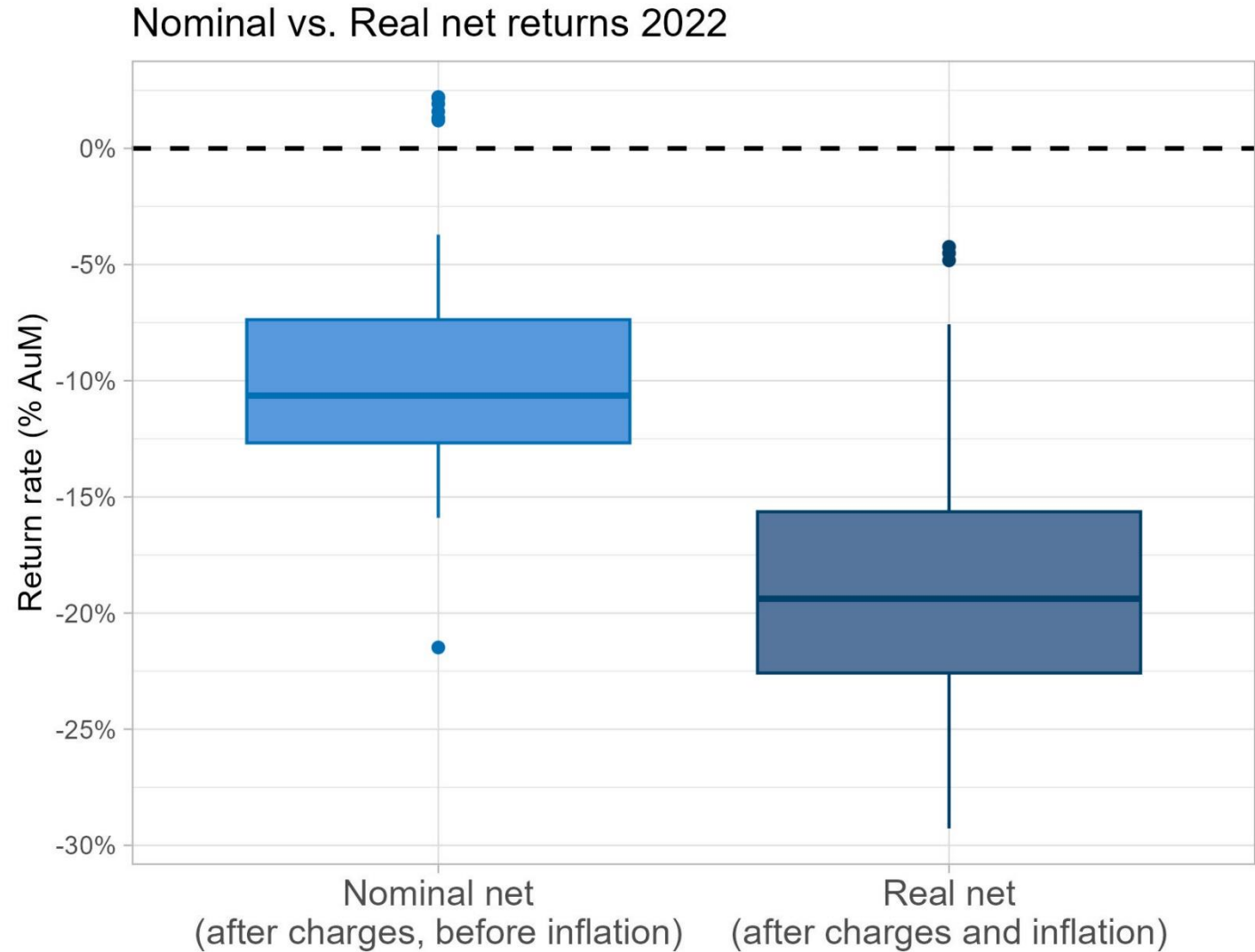
Inflation 2022 vs. 23 year annual average



Eurostat data (HICP monthly index); BETTER FINANCE calculations.

## ... leading to major losses in real terms

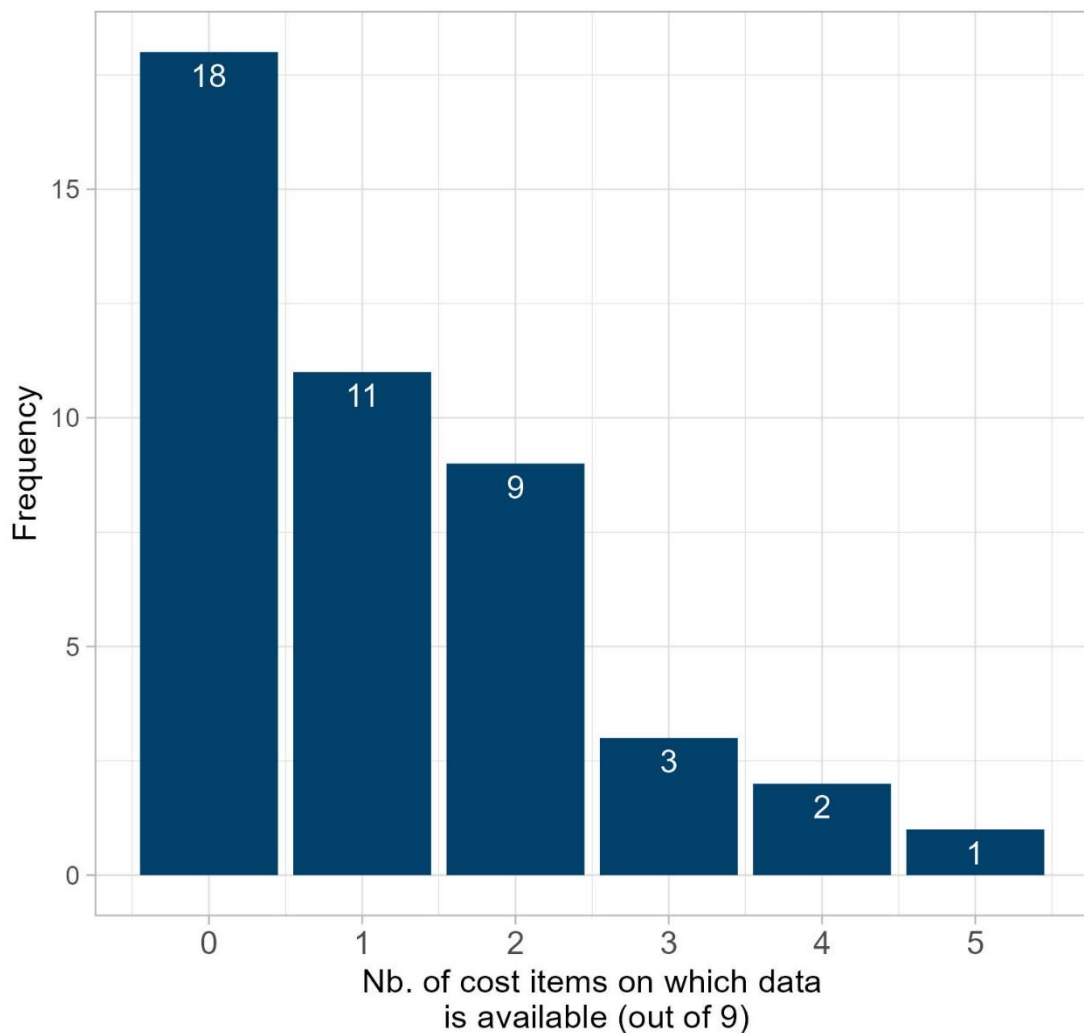
- Rising inflation further compounds the poor performance of capital markets in 2022.
- In real terms, return is negative across all products in our sample.



BETTER FINANCE calculations.

# Data on costs: Scarce and hardly comparable

Availability of cost & charges data for 2022



- Data on costs and charges still difficult to obtain in many cases
- Great variation across and within countries
- For only 26 of the 41 product categories in our sample do we have at least one cost item in 2022

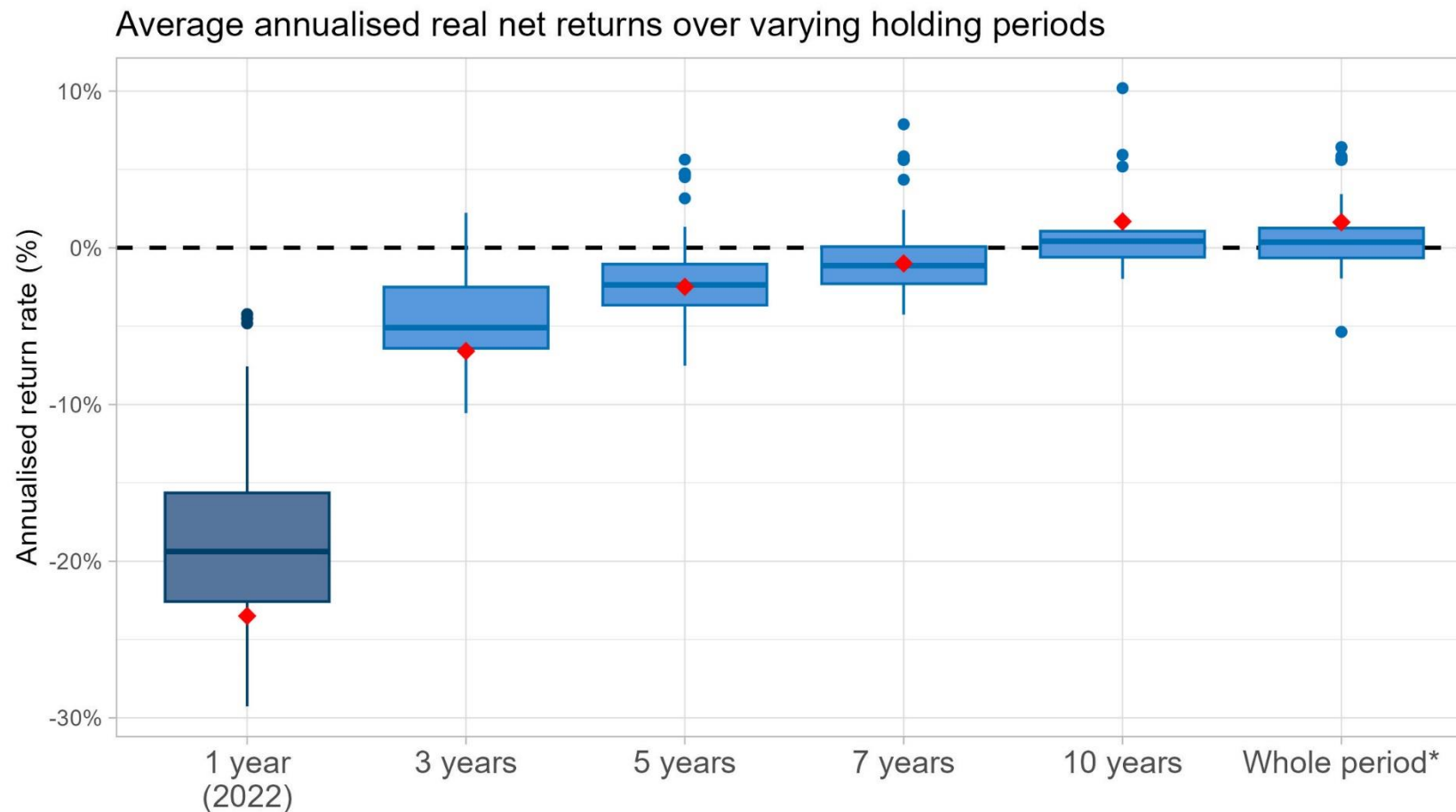
Good years, bad years...

# A LONG-TERM PERSPECTIVE ON LONG-TERM SAVINGS

# Too many underperforming products...

Over the past 10 years, average annualised returns after charges and inflation are...

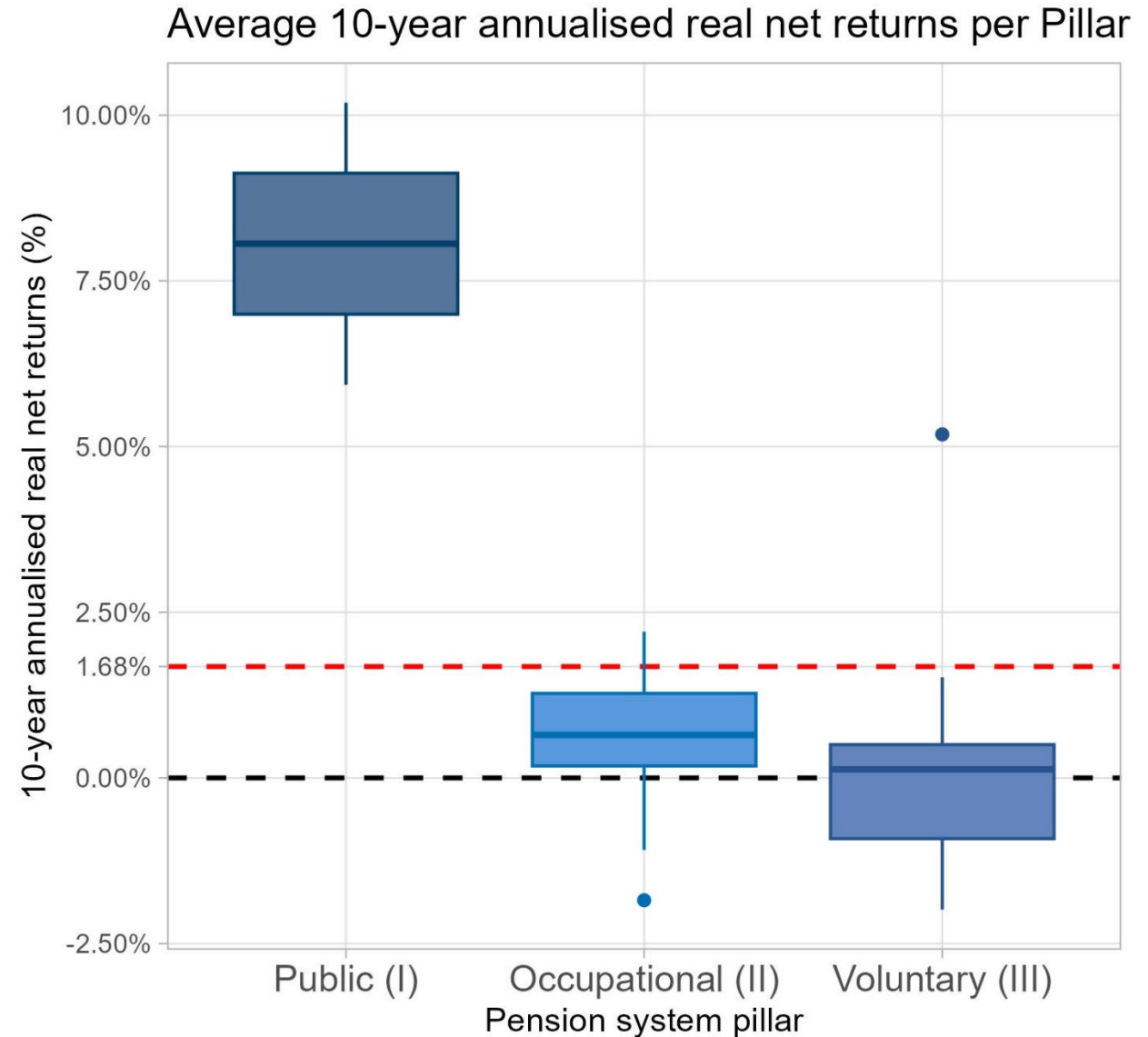
- Negative for 11 out of 35 analysed product categories;
- Below capital markets for 30 out of 35 product categories



BF calculations;  
 \* The reporting period varies across products (earliest year: 2000)

# Who performs best?

- Best performing over 10 years: Sweden's AP7 Såfa (Pillar I, +10.2%)
- Occupational (Pillar II) schemes *generally* perform better than voluntary (Pillar III) savings products



BF calculations;  
Returns after charges and inflation.

Danubian flatlands or Alpine summits?

# THE AUSTRIAN PENSION LANDSCAPE

Schutzverband  
der Pensionskassenberechtigten

pe | ka | be

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**BETTER FINANCE / IVA  
International Investors' Conference**

**Will you afford to retire ?**

Vienna, 13th of October 2023

Gertrude Pils

[www.pekabe.at](http://www.pekabe.at)



# PEKABE

- Legal Name (German): “Schutzverband der **Pe**n**nsions****ka**ss**e**n**be**re**ch**tigten”
  - abbreviated „PEKABE“
  - Federation for the Protection of the Occupational Pension Fund Participants
  - Short: Federation of the Occupational Pension Fund Participants
- **Objectives: Protection of the interests of beneficiaries and prospective beneficiaries (members) of occupational pension funds and similar pension insurance providers.**
- non-profit-oriented consumer organization
- incorporated and registered in the legal form of an association in Vienna, Austria
- politically and economically independent
- comprises 15 member organizations with app. 6000 individual members
- associated to BETTER FINANCE since 05/2023
- represented in the EIOPA OPSG (European Insurance and Occupational Pensions Authority)
- PEKABE represents the interests of
  - nearly 1.050.000 Occupational Pension Fund participants in Austria
  - i.e., roughly 25% of the working population
  - including around 137.000 beneficiaries

# Pension System in Austria

- **Public Pension / 1<sup>st</sup> pillar:**
  - provides app. 90% of the average retirement income
  - very reliant, more or less inflation protected
- **Occupational pensions / 2<sup>nd</sup> pillar:**
  - primarily offered through pension funds and insurance companies
  - mainly defined contribution (DC) plans
  - Major part financed by employers, but also voluntary contributions by employees
  - Over the years 2002 through 2022, the performance of pension funds in real net terms has been positive, with an annualised average return of 0.3% before tax
- **Life insurance / 3<sup>rd</sup> pillar**
  - low interest rates dampened demand for individual life insurance contracts
  - distinctly more conservative investment policy, average annual net real return before tax of 1.4%.

Source: BETTER FINANCE's pensions report 2023 (draft)

# Annualized real net returns of Austrian long-term and pension savings vehicles

BETTER FINANCE

Austria

Table AT.2 – Annualised real net returns of Austrian long-term and pension savings vehicles (% of AuM)

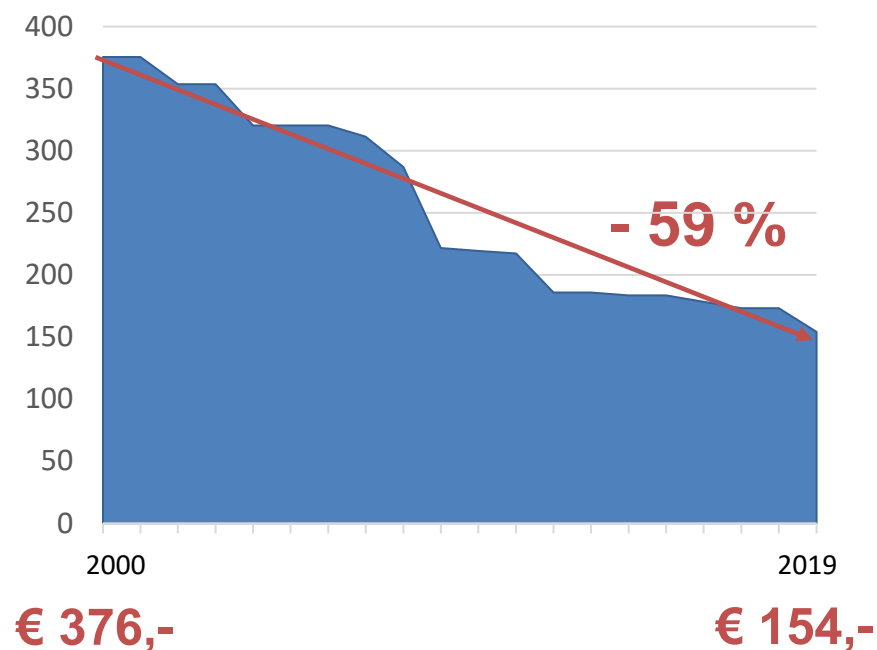
	Pension funds	Life insurance
Reporting period	2002-2022	2002-2022
1 year (2022)	-18.47%	-7.57%
3 years (2020–2022)	-5.10%	-2.49%
5 years (2018–2022)	-2.77%	-1.09%
7 years (2016–2022)	-1.22%	-0.42%
10 years (2013–2022)	0.14%	0.42%
Whole period	0.28%	1.38%

*Data:*

Fachverband Pensionskassen, OECD Pension indicators, Financial Market Authority, Eurostat; BETTER FINANCE calculations

Source: BETTER FINANCE's pensions report 2023 (draft)

## Concrete, Typical Example of an Occupational Pension: after 20 years, 59% of Pension has been cut



### Status 2019:

- Not a single valorization
- 12 pension reductions
- after 20 years, 59% of the occupational pension disappeared

>>> Meanwhile the situation worsened dramatically

# 2023: Exemplary Mail to an Occupational Pension Receiver



**Information zur Pensionsentwicklung im Kalenderjahr 2023**

Sehr geehrter Herr [REDACTED]

wie in unserem Schreiben vom Jänner 2022 angekündigt, müssen wir Ihnen mitteilen, dass sich Ihre Zusatzpension für das Kalenderjahr 2023 gegenüber der Vorjahrespension um -16,09 % (monatlich EUR [REDACTED] verringern wird.

Ihre im Kalenderjahr 2023 an Sie ausbezahlte Pension errechnet sich im Wesentlichen wie folgt:

Veranlagungsergebnis per 31. Dezember 2022	-10,80 %
abz. Rechnungszins	-5,00 %
abz./zzgl. Versicherungstechnik, sonstige Zuweisungen	-0,29 %
zzgl. eventuell bilanzielle Umbuchungen aus Schwankungsrückstellung	0,00 %
<b>% Satz der Pensionsanpassung</b>	<b>-16,09 %</b>

Ihre monatliche Brutto-Pensionshöhe im Kalenderjahr 2023: [REDACTED]

- The letter from the Occupational Pension Fund to a Beneficiary says: "We have to inform you that your occupational pension is to be cut by 16,09%."
- The average performance in 2022 of Occupational Funds in Austria was around -10%.
- The inflation of around 10% comes on top of the loss of purchase power.

# Conclusions on the Question “Will you afford to retire ?”

- Public Pensions - independent from capital markets - are the sole and only reliable and sustainable basis for pensions in Austria.
- Austria is a rare example in Europe with an Occupational Pension System based on Defined Contributions and 30 years of practical experience.
- The Occupational Pensions System **proved not being able** to provide inflation-protected pensions, and by far not even stable pensions.
- Austrian Occupational Fund Beneficiaries are more than upset after repeated cuts of the occupational pensions: in 2023 up to -17% whilst the inflation is 10%.
- This outcome is not surprising, because in Austria's Defined Contribution System all risks are with the Participants and all rights are with the Pensions Funds.
- PEKABE is pursuing a change of the legal framework in order to improve the situation for the suffering Pension Fund Participants.

Informing policy debates

**WHAT CONCLUSIONS FOR POLICY?**

# RIS, IORP...

- Can citizens rely on private pension savings vehicles (occupational or voluntary) to generate an adequate level of pension retirements?
- Is there sufficient transparency on costs and performance for individuals to compare products within a category, across different categories?

The Retail Investor Strategy legislative process and the upcoming review of the IORP directives offer opportunities to improve the situation. We need:

More coherence across products,  
Transparent and comparable information,  
Competitive and cost-efficient savings products,  
Bias-free advice and fair treatment.





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# Thank you for your attention

Contact:

Sébastien Commain, BETTER FINANCE

[commain@betterfinance.eu](mailto:commain@betterfinance.eu)