Will You Afford to Retire?

The Real Return on Long-Term and Pension Savings

2024 Edition

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2024 Edition — Spain

A research report by BETTER FINANCE

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Executive Summary

Was 2023 the year when European retail investors finally obtain the "fairer deal" that the outgoing European Commissioner Mairead McGuiness wished for them (McGuinness, 2023)? As far as long-term and pension products are concerned, this report presents mixed results. While European capital markets performed strongly in 2023, helping many pension funds and life insurance companies to rebound after a calamitous 2022, we find that many of the products we analyse failed to pass on the benefits of this renewed performance to pension savers. One or even two years of past performance, however, do not tell us much about the long-term performance of saving products. What matters for individuals who invest part of their income into those products is how much income they will be able draw from them in the distant future, in particular for retirement purposes. The objective of this report therefore is to provide readers with a long-term perspective on performance that aligns with the extended investment horizon. We analyse the costs and performance of a broad range of products across various holding periods, spanning up to 24 years. Over this longer period good years supposedly make up for bad ones. Nevertheless, we observe that many of the product categories do not offer sufficient nominal returns in the long run to compensate for inflation, even with the moderate inflation rates of the of the 2000s and 2010s. This weak performance then results in a loss of purchasing power for many European savers and investors.

The real net return of European long-term and pension savings

The object of this report is to assess the ability of long-term and pension savings products to at least preserve the purchasing power of European retail investors' savings over more than two decades, and at best increase the real value of these savings, increasing the capital on which European pension savers may rely on to maintain their living standard in retirement. That is why we focus our analysis on time-weighted returns.

The risk of financial losses is inherent in any investment in capital markets: capital markets are volatile—as their performance over the last two years clearly shows (see Figure XS.4). Nevertheless, we share European Insurance and Occupational Pensions Authority (EIOPA)'s view that

> the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently "aggressive" to reach higher investment returns to compensate for potentially low contribution levels (European Insurance and Occupational Pensions Authority [EIOPA], 2020, p. 3),

and generalise it to any long-term and pension savings product. Short-term volatility—the alternance of good and bad years—is of little consequence for most pension savers; what matters is the cumulated performance over the life of the contract, the holding period, which often spans more than two decades. Over such long periods, the crucial risks are those arising from cumulated costs—which divert a portion of the accumulated capital towards financial intermediaries profit and loss accounts—and inflation—which progressively erodes the purchasing power of savings. The *real net rate of return* is therefore the main metric of interest for pension savers.

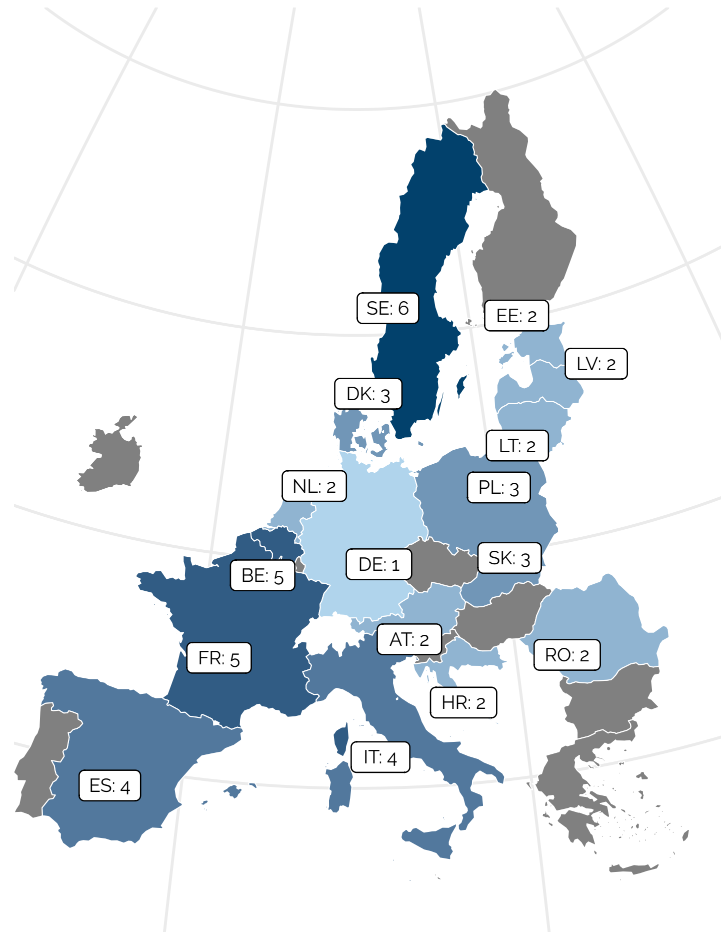
This research report by BETTER FINANCE covers 16 of the 27 European Union (EU) Member States. In each of these countries the team of contributors analyses the costs and performance of up to 6 product categories. Our goal is to calculate, based on publicly available data about these product categories, the *real net return* that long-term and pension savers may expect to obtain from their investments, going back as far as the year 2000. When we refer to real net return, we are indicating the rate of return on an investment after deducting all costs and charges levied by the product provider. This calculation also accounts for inflation, which reduces the purchasing power of both the invested capital and returns. The map in Figure XS.1 shows the countries included in this study, and the total number of product categories analysed in each country.

Assessing the real net return of a category of pensions products requires three classes of information about these products: (a) reliable data about the nominal, gross return of investments made on behalf of pension savers in relation to the total amount of accumulated capital; (b) total costs being levied for the management of these investments (administrative costs of managing the investor's contract, cost of management of investment fund "units", entry fees, exit fees, etc.) and; (c) the rate of inflation in one's country for each year of the investment period.

These are but typical examples of the data availability issues that our team of expert contributors face across countries and product categories. While data about average inflation is easy to come by—thanks, inter alia, to the work of Eurostat—, we can hardly say the same for data about returns and costs. The availability of such data often limits the scope of our study. Reliable information about the average performance of a product category may be unavailable, as is the case of most German long-term and pension saving products, or not fully appropriate for an assessment of what the client actually get, as is the case with Belgium's *Assurance Groupe* products. Costs data are even more difficult to obtain: for many of the product categories we analyse, cost information is too scarce to assess the impact of costs on performance.

Long-time followers of BETTER FINANCE's work on pensions might remember that past editions of the report also included Bulgarian pensions products and may be surprised to see that we analyse no product category in Bulgaria in this report. In the case of Bulgaria, despite BETTER FINANCE's multiple calls to the relevant authorities, essential data necessary to calculate the real net returns of Bulgarian pension savings remain unavailable, forcing us to renounce including any Bulgarian long-term or pension savings product category in our study.

Figure XS.1 – **Countries and number of product categories included in the report**

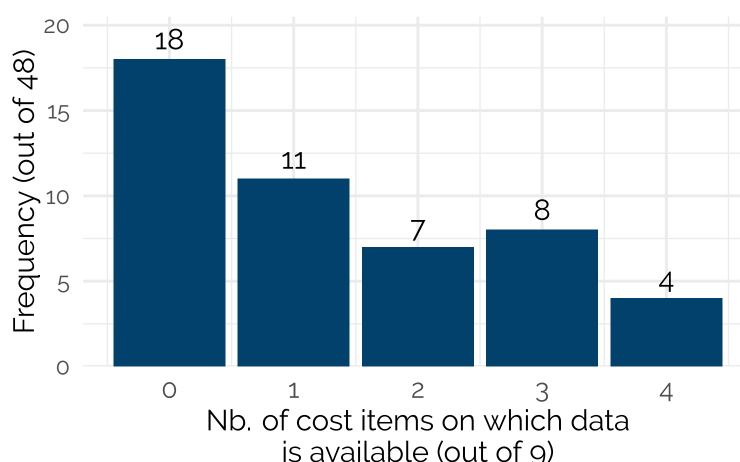


Besides performance data, information on costs is very often patchy and displayed in a way that makes it impossible for investors to compare cost levels across product providers, and for our contributors to aggregate this information at the level of product categories. The reader can appreciate this reality in Figure XS.2: for none of the 48 product categories included in our study could our contributors find data for more than 4 out of the 9 cost items defined in our methodology. Additionally, for more than a third of the product categories in our study, there is simply no cost information available.

For the 18 product categories for which no cost data is available, the lack of information on costs and charges prevents us from evaluating the average effect of charges on investors' returns. Consequently, we are forced to start our analysis with disclosed nominal *net* returns, whereas providers' marketing communications usually communicate on the basis of nominal *gross* returns.

Given the challenges in obtaining fundamental data on the average costs and performance of long-term and pension savings products, which capture a large share

Figure XS.2 – **Availability of cost and charges data for 2023**



of the wealth of European households, we advocate for EU and national authorities to urgently enact and implement the proposed rules on product oversight, governance, and information to investors, as outlined in the recent Retail Investment Strategy (RIS) proposals made by the European Commission (see our policy recommendations on Page xiii). Costs and performance disclosures are key to properly assess the functioning of the European market for pension savings products.

While opacity on cost and charges presents a challenge for many of the product categories we study, it is only fair to acknowledge the few cases in which industry and supervisors made significant efforts to define and implement coherent reporting frameworks, such as that of the Dutch pension funds or the Italian *Commissione di Vigilanza sui Fondi Pensione* (COVIP)'s annual report on pension funds and *Piani Individuali Pensionistici* (PIP).

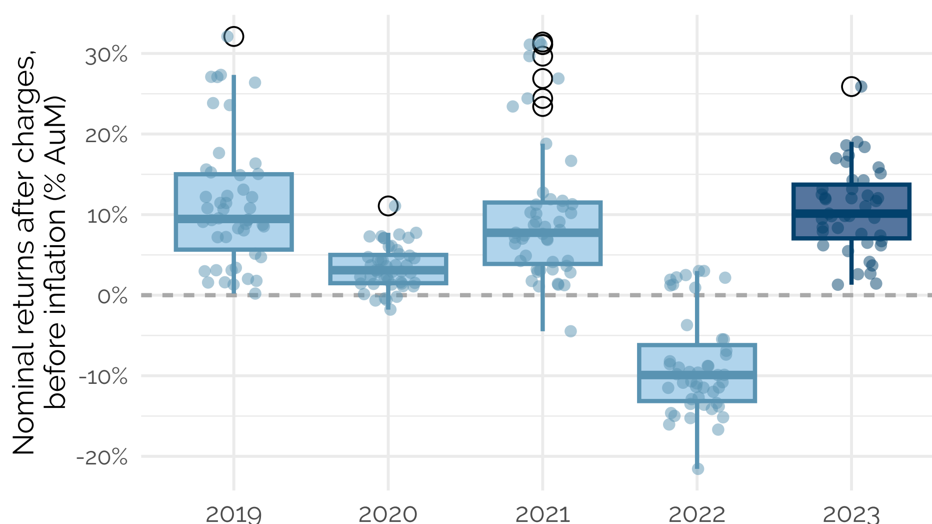
2023: Recovering from the slump

The product categories included in our study generally performed strongly in 2023. All of the 43 product categories for which we could obtain performance data for 2023 had a positive nominal net return. As can be appreciated in Figure XS.3, this performance is in sharp contrast with the previous year, when out of 47 product categories, 38 returned a loss in nominal terms, after charges.[1]

These good results reflect the good performance of, in particular, equity markets between January and December 2023, which recovered strongly after the slump of 2022. Figure XS.4 shows the performance of European capital markets. Using two pan-European market indices as proxies—one for equities and one for bonds, we calculate the cumulative return of a hypothetical portfolio composed of European equity and bonds in equal proportion, with annual rebalancing. The cumulated return, in nominal terms, of this portfolio dropped by 44.8 percentage points between

[1] In box plots such as Figure XS.3, the central box represents the interquartile range (i.e., 50% of the data), the thick central line is the median, the whiskers (vertical lines) indicate where roughly 99% of the data points are located, and the black circles at each end of the whiskers represent outliers.

Figure XS.3 – **Average 1-year return rates of analysed product categories (2019–2023)**



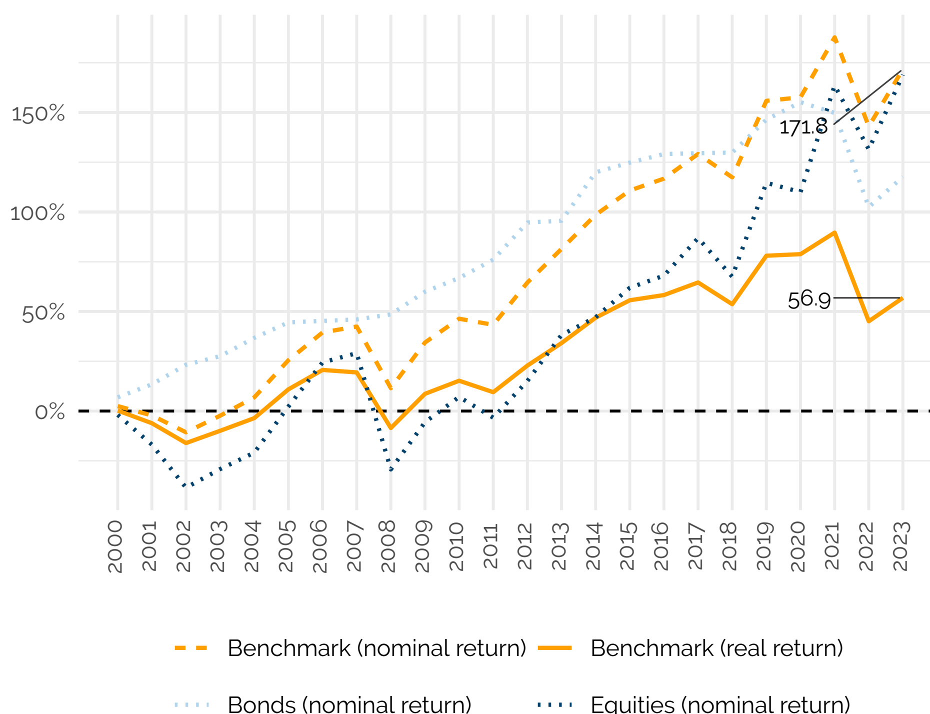
Data: NCAs and sectoral associations (see Country Cases); *Calculations:* BETTER FINANC

end-2021 and end-2022 before rebounding to 171.8% by the end of 2023. After adjusting for the average inflation across the EU, we obtain a 56.9% real net return, +11.8 percentage points (p.p.) from end-2022.

Inflation, in turn, slowed down in most EU countries in 2023, after the peak of 2022. In 8 of the 16 countries of our study, inflation in 2023 was below the annual average over the period 2000–2003. Nevertheless, for most of our sample, inflation remained high, as can be observed in Figure XS.5. Inflation across the Euro Area, stood at 2.93%, still significantly above the close-to-but-below-2% target of the European Central Bank (ECB).

The result of this combination of strong capital market performance and slowing inflation is a reduced gap between nominal net returns and real net returns for 2023: With a median net return standing at 10.1% in nominal terms and 7.4% after inflation, the gap is reduced to 2.8 p.p. (see Figure XS.6), down from 8.6 p.p. in 2022, when the already severly negative median nominal returns (-9.9%) where further depressed by the strongest inflation seen in Europe is decades, yielding a median real net return of -18.5%. These median values, it should be noted, hide markedly contrasting differences: The maximum performance for 2023, in nominal terms and after deduction of charges, stands at +25.9% (Poland's Employee Capital Plans), while the poorest performance with +1.3% (ironically, that of Italian PIP "with profits" contracts) narrowly avoids returning a loss in real terms thanks to the low level of inflation in Italy (+0.46%).

Figure XS.4 – **Cumulated performance of European capital markets (2000–2023)**



Pan-European Pension Product (PEPP): First full year of return data

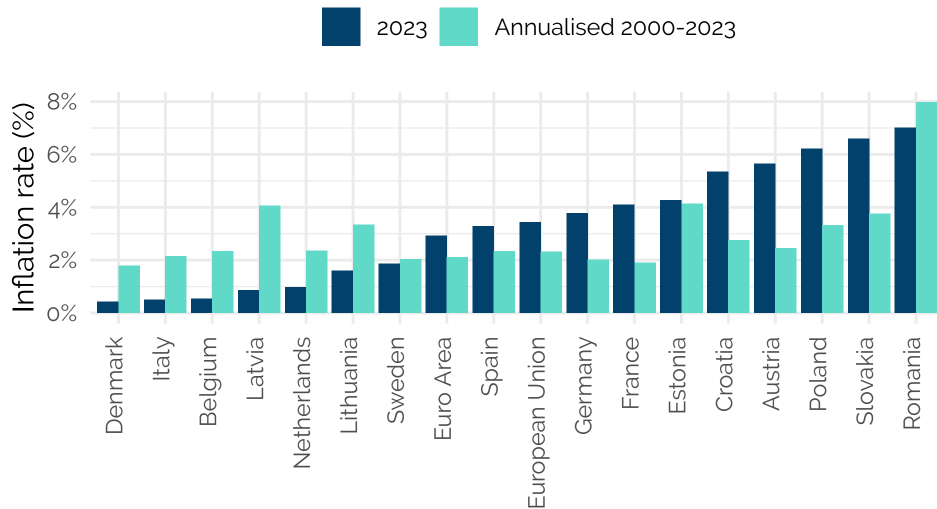
We wish to highlight the good performance of the first PEPP to be included in our study: with a nominal return before charges and inflation standing at +15% and charges amounting to 0.72% of assets under management (AuM), the Slovak PEPP yielded a net return of +14.3% in nominal terms and 7.2% in real terms, largely outperforming its capital markets benchmard (11.8% and 4.9% in nominal and real terms, respectively). Find more information in the Slovak country case in part II of this report.

These data show that the PEPP is indeed a promising personal pension product. The Slovak case shows that it is indeed possible to offer a PEPP under the conditions set by the current PEPP regulation, including the "1% fee cap", that is, the limiting of fees to 1% of accumulated capital per annum for the Basic PEPP.

BETTER FINANCE will keep monitoring its development not only in Slovakia, but also in Poland—another of the country cases of this report, where PEPP was introduced in the course of the year 2023—and other countries.

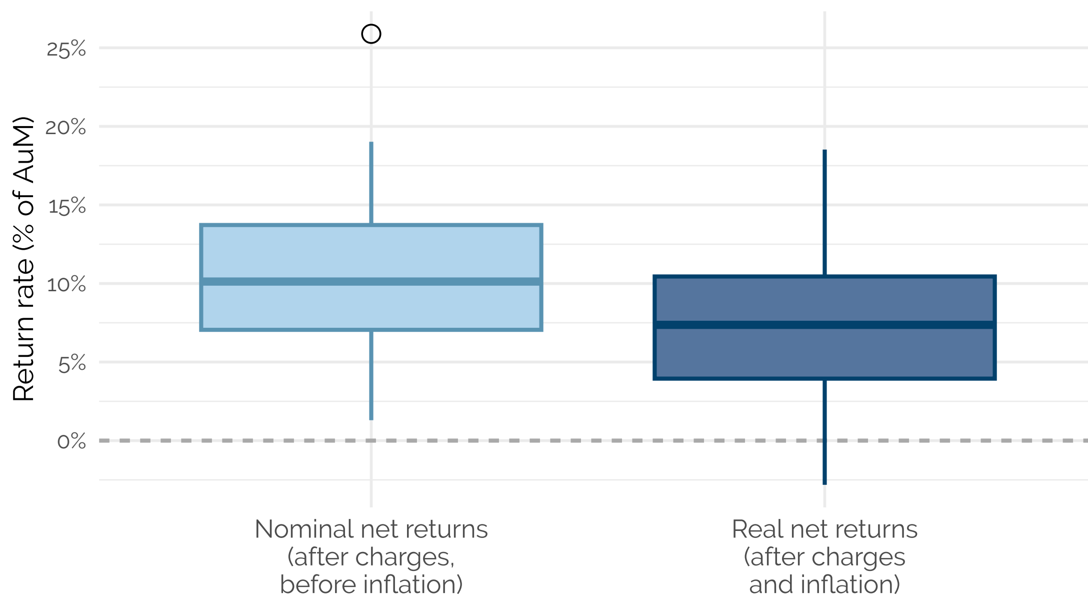
In the meantime, we urge Member State governments to offer the PEPP the same treatment, as regards taxation, subsidies and transferability of accrued pension benefits, that existing national personal pension products enjoy (see our policy recommendation on this topic on Page xvii).

Figure XS.5 – **Inflation 2023 vs. 2000–2023 annual average**



Data: Eurostat (HICP monthly index); *Calculations:* BETTER FINANCE.

Figure XS.6 – **Average 1-year nominal vs. real return in 2023 (after charges, % of AuM)**

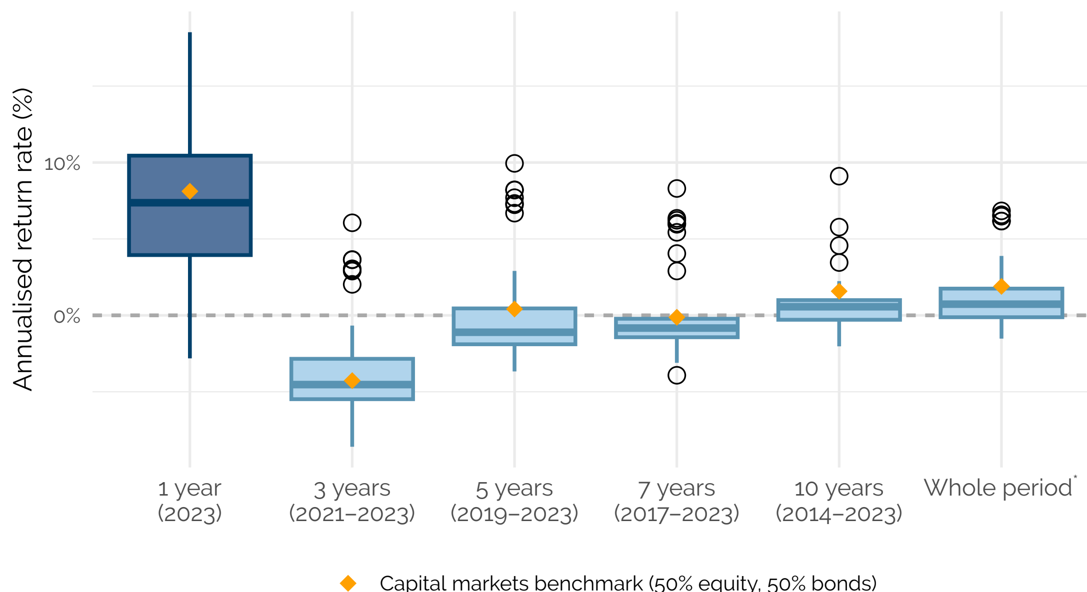


Calculations: BETTER FINANCE

The long-term view on long-term savings

Naturally, one should not assess the performance of long-term and pension savings products based on the results obtained in one bad year but rather take a long-term view. That is why our ambition in this report is to gather data about costs and performance for a period of up to 24 years (2000–2023).

Figure XS.7 – Average annualised real net returns over varying holding periods



Calculations: BETTER FINANCE; * Up to 24 years, the reporting period varies across products

Figure XS.7 displays the distribution of average performances after charges and inflation of the long-term and pension saving products analysed in our report, over varying holding periods from 1 year (2023) to the whole period for which data could be found ("whole period", up to 24 years). We immediately observe that the capital markets slump of 2022 still weighs down on performance over shorter periods (3, 5 and even 7 years), with annualised rates after charges and inflation negative for a large majority of product categories. Over 7 years (2017–2023), the negative performance of 2022 comes atop that of the year 2018, with the result that only a few outliers manage to yield a positive real net return over that period.

Market volatility, whether upwards or downwards, is cancelled out over longer periods (the standard devaition falls from 4.9 p.p. for 1 year to 2 p.p. for 10 years, see Table XS.1), allowing us to more accurately assess the returns offered by the various product categories. Over 10 years and over whole reporting periods (up to 24 years), we see that the most of the interquartile range (the boxes in Figure XS.7) lies in positive territory. This may seem reassuring, until one notes that over 7 years, 10 years and whole periods, the annualised real performance of our capital markets benchmark (50% equity–50% bonds, rebalanced annually), shown with a yellow diamond in the figure, lies in the top quartile of the returns of product categories (above the

upper bound of the box), meaning that 75% of the product categories fail to beat the benchmark.

Table XS.1 – Summary statistics of real performance over varying holding periods

Holding period	Nb. of product cat.	Median	Mean	Standard Deviation	Best performance	Worst performance
1 year	43	7.4%	7.3%	4.9pp.	18.5%	-2.8%
3 years	47	-4.5%	-3.6%	3.4pp.	6.1%	-8.6%
5 years	46	-1.1%	0.2%	3.5pp.	9.9%	-3.7%
7 years	46	-0.8%	0.0%	2.8pp.	8.3%	-3.9%
10 years	40	0.6%	0.7%	2.0pp.	9.1%	-2.0%
Whole period*	48	0.8%	1.3%	2.3pp.	7.2%	-1.5%

Calculations: BETTER FINANCE

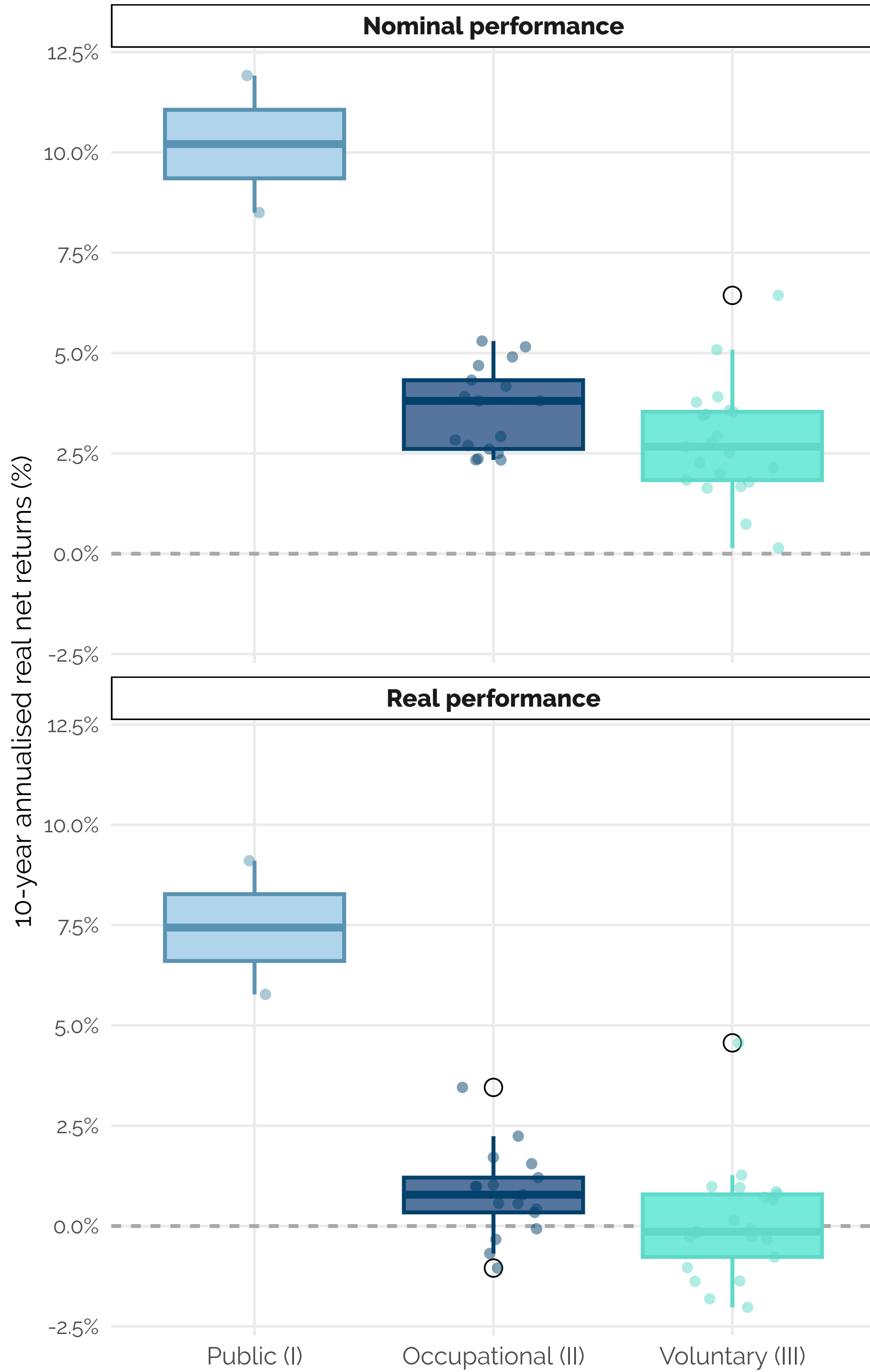
* Whole period varies across products (up to 24 years).

Observing the distribution of performance levels across pension system pillars, we also note that occupational pension schemes in Pillar II generally outperform voluntary products within Pillar III. Figure XS.8 illustrates the distribution of 10-year performance per pillar.

Swedish Premium pensions, which show very strong performance compared to the rest of the analysed product categories, are classified as Pillar I but although they are funded, earnings-based pensions that bear strong resemblance to occupational pension schemes (Pillar II). Leaving these extreme positive outliers aside, we observe that median 10-year performance of Pillar II products (central line of the middle box) is above the upper limit of the interquartile range of Pillar III performances (upper bound of the right-hand box), meaning that 75% of Pillar III products have a performance below the median performance of Pillar II products.

It is beyond the scope of this report to explore the significance of the trend, although future research should investigate the factors that may explain it, including differences in asset allocation, management costs, distribution costs, and the potential effect of auto-enrolment schemes. Additional cost data would be particularly valuable to consistently analyse whether the observed divergence in performance might arise from higher costs associated with Pillar III products. We hope that such data becomes available if the EU legislator follows the much-welcomed proposals regarding cost disclosures under the Markets in Financial Instruments Directive (MiFID) and Insurance Distribution Directive (IDD), crucial elements of the European Commission's proposals for the Retail Investment Strategy (RIS).

Figure XS.8 – Average 10-year annualised performance per Pillar



Calculations: BETTER FINANCE, returns are shown after charges and inflation.

Policy recommendations

Policy recommendation 1 — Supervisory reporting and statistics

Step up efforts to collect and disclose data on long-term and pension savings products, both at the national and EU level (ESAs's cost and past performance reports) to empower European citizens as retail investors.

The contributors to this report can testify of the difficult to obtain even basic, aggregated data about long-term and pension products in many EU countries. If a team of expert contributors, with knowledge and experience in the field, find it challenging, how can we expect EU citizens to make any use of these data to assess the performance of their own pension products in relation to the market? Making available full historical data sets of both aggregated and provider-level data would enable non-profit organisations like BETTER FINANCE to provide an independent, consumer-friendly analysis of this market. But national competent authorities (NCAs) could also step up their efforts to create consumer-friendly reports and comparison tools.

Harmonised frameworks for reporting from product providers to NCAs and pension scheme participants already exist for various of the product categories we analyse in this report. These commendable efforts should be assessed through a peer-review process to be organised by the European supervisory agencies (ESAs) in order to identify best practices, but also discard misleading disclosure practices that prevent retail investors to obtain a clear picture of the cost and performance of the products on offer. As part of these efforts to better report on the costs and performance of retail investment products, BETTER FINANCE calls on the ESAs to keep improving their annual costs and performance reports. Currently, the data and coverage of these reports are incomplete and based on commercial databases or surveys. The European Securities Markets Authority (ESMA), the EIOPA and—in the future—the European Banking Authority (EBA) should be able to rely on regular reporting of supervisory data from NCAs, which themselves should have the necessary powers to require regular reporting of data on the costs and performance of saving and investment products in their respective areas of competence.

Going further, the EU legislator should draw inspiration from these examples and incorporate into EU law - specifically, theMiFID and IDD legislation for Pillar III products, currently under review as part of the Retail Investment Strategy (RIS), or the next revision of the IORP II directive on occupational pensions - requirements for NCAs to adequately report figures on a quarterly or monthly basis. This should include the constant updating and public reporting of AuM and net AuM, unit value, asset allocation, as well as the number of participants for all supervised vehicles in the area of long-term and pension savings.

Policy recommendation 2 — Conflicts of interest in scheme management and product distribution

Harmonise and reinforce rules to curb the conflicts of interests in the distribution of long-term and pension saving products, and improve the governance of collective long-term pension schemes.

Conflicts of interest plague the management and distribution of long-term and pension saving products in Europe. The sales commissions-based distribution system of voluntary long-term and pension saving products (Pillar III) directs retail investors towards fee-laden and often underperforming products. Our report showcases various product categories with high average fees and poor long-term returns that so-called "advisors" are paid to recommend to consumers, against the best interest of the latter.

BETTER FINANCE has consistently opposed this system, and strongly supported the European Commission's proposal to partially ban so-called "inducements" as part of the RIS. We believe that the inducements-based distribution system hurts retail investors through higher charges, the illusion of "free" investment advice and a selection bias in distributors' recommendations, all of which result in lower returns and inadequate retirement income for European citizens (BETTER FINANCE, 2023b, pp. 4–13). The financial industry failure to acknowledge the problem and its intense lobbying efforts to maintain a damaging status quo resulted in the utterly disappointing provisional positions of the Council and, especially, the European Parliament (BETTER FINANCE et al., 2024), which should not be expected to improve outcomes for consumers in any meaningful way. Nevertheless, ignoring the problem will hardly make it disappear, and so we urge all involved policy-makers, supervisors, but also willing representatives of the indsutry, to keep working towards the generalisation of high-quality bias-free financial advice that EU citizens can rely for their retail investments.

In occupational pension schemes (Pillar II), the issue of conflicts of interest takes on a different form. In those schemes, it is crucial that the board, which takes decisions on behalf of the scheme's members, includes independent members representing the interests of beneficial owners.

Policy recommendation 3 — Information to (prospective) investors

Provide simple, intelligible, and comparable information on cost and performance of long-term and pension saving products.

Obtaining information on long-term and pension vehicles, as well as monitoring them, should not be difficult for non-professional savers. This implies also reinstating standardised actual cost and past performance disclosure, and in real terms alongside the less relevant nominal ones.

The proposed revisions to the EU's MiFID and IDD legislation, along with the amendments to the PRIIPs regulation, offer the opportunity to finally provide investors with

the information they actually need to compare the costs of products. BETTER FINANCE strongly supports, in particular, the provision of annual statements to holders of investment funds' shares distributed under MiFID and to life insurance policyholders distributed under IDD, including the provision of information on the cost of distribution and the possibility to obtain a detailed breakdown of all charges.

Although we welcome the innovations introduced to the format of Key Information Documents (KIDs) by the proposed amendments to the PRIIPs regulation, we still call for a thorough review of this legislation to drastically improve the understandability and comparability of the information provided in the KID. We strongly believe that providers of packaged retail and insurance-based investment products (PRIIPs) should include the actual most recent costs of their products in the KID.

PRIIPs providers should also be required to provide 10 years of past performance data together with the benchmark that is used as investment objective by the product provider. While past performance is not indicative of future performance, it is a good indicator of whether a PRIIP has ever made money or not for the investor, and of an asset manager or insurance company's ability to meet its investment objectives, and to generate returns for the client. Furthermore, it is comparable across product providers and timelines, as it does not rely on assumptions and hypothetical scenarios. The past performance of various products shows how their respective providers navigated through a similar set of real-world circumstances. Finally, displaying past performance in comparison with the product's stated benchmark enables the prospective investor to clearly see whether the provider has been able to make good on their commitment to meet its target.

While we are generally disappointed with the current state of the legislative negotiations on the EU's RIS, we urge the co-legislators to adopt these proposals on disclosures. For more information about our recommendations regarding information to investors and prospective investors, see BETTER FINANCE (2023b, pp. 17–22).

Readers may also refer to BETTER FINANCE's response to the consultation conducted by EIOPA on the review of the Directive on institutions for occupational retirement provision (IORPs) (BETTER FINANCE, 2023a). In occupational pension schemes too, managers should provide pension scheme participants with the information necessary to keep track of their pension benefits and effectively plan their savings and investments to ensure adequate levels of retirement income.

Finally, we urge EU and member state authorities to step up efforts towards the implementation of comprehensive individual pension tracking systems, following the recommendation of the High-Level Forum on the Future of the Capital Markets Union (HLF CMU). These constitute crucial empowering tools, enabling individuals to keep track of their accumulated pension rights across employers and across borders.

Policy recommendation 4 — Sustainability

Provide clear, intelligible information on the sustainability of European long-term and pension savings and investments.

An increasing number of retail investors expresses a desire to invest in financial products that consider sustainability criteria and pursue environmental, social and governance (ESG) objectives (2° Investing Initiative [2DII], 2020). Despite significant progress in recent years, much remains to be done to provide retail investors with an investing environment that accommodates both their financial and sustainability preferences.

First, EU policymakers should increase their efforts to develop a clear, precise, and standardised taxonomy of economic activities. This taxonomy should be grounded in scientific analyses and address all three major aspects of sustainability: environmental, social and governance (ESG). These efforts should also include the development of a well-designed EU-wide Ecolabel for retail investment products that avoids the pitfalls of existing national labels.

EU policy-makers should also address the short-termism of the financial industry by reinforcing the consistent linkage between sustainability and long-term value creation. It must be clearly emphasised that exemplarity with regard to investor protection rules first and ensuring decent returns for individual investors is compatible with investing in a way that respects environment and society. To this end, clear and intelligible ESG disclosures should be combined with financial disclosures, preferably integrated into one document providing savers and investors with a holistic picture of the products they buy.

Finally, EU and national policymakers should require sustainability and ESG knowledge and training for board members in long-term and pension savings vehicles, as well as for financial advisors and sales personnel distributing such products. Regarding the latter, BETTER FINANCE supports the European Parliament's proposal, within the framework of the RIS to impose on financial advisors and sales personnel a yearly training requirement on sustainable investing (see BETTER FINANCE, 2023b, pp. 12–13).

Policy recommendation 5 — Asset allocation

End the fixed-income bias in the asset allocation of long-term savings.

Prudential rules, designed to protect investors against the risk of excessive risk-taking leading to financial losses, require pension fund managers and life insurance providers to allocate a significant portion of participants' and policyholders' funds into fixed-income assets, particularly sovereign debt from EU Member States.

However, in doing so, these rules excessively restrict the possibility for long-term and pension savers to take advantage of investment opportunities in equity markets, which, while more volatile, also offer higher yields in the long term.

Regulations governing long-term and pension savings should not discriminate against long-term equity investments. Specifically, life-cycling strategies that adjust risk to the investment horizon of the saver should enable managers to invest a substantial portion of younger investors' contributions or premiums in equity market instruments (as is the case of Sweden's Premium pensions, in particular the AP7 Såfa fund).

Policy recommendation 6 — Taxation

Stop penalising taxation of long-term and pension products.

Taxation on pensions, whether on contributions, returns, or payouts, should be based on real values rather than nominal ones. Taxes should be applied to values adjusted for inflation, using the harmonised index of consumer prices (HICP). To recoup the value of pension pots, at least occupational schemes (Pillar II) should apply an "EEE" regime. Pillar II contributions should be deductible from the income base tax.

Policy recommendation 7 — Pan-European Pension Product (PEPP)

Create a friendly environment for the PEPP

This year's report, for the first time, includes cost and performance data on PEPP, as implemented in Slovakia. As previously mentioned, these data are encouraging. Nevertheless, we note that the current environment is not conducive to the take up of this product, despite its intrinsic qualities from the point of view of retail investors:

- As noted by EIOPA:

  > [t]he higher costs of products considered "competitors" to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper enquotecompetitor product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products4 (EIOPA, 2024).

  Shielded from competition by the opacity of costs and performance disclosures, and the dominant inducements-based distribution system that biases "enquote" towards high-fee products, incumbent providers have little incentives to add a low-cost product to their range of personal pension products.

- Member State governments have generally failed to ensure that PEPP competes on a level playing field with existing personal pension products: rules on tax rebates and subsidies applicable to equivalent personal pension products have only in a few cases been extended to the PEPP, and transferability of accrued personal pension benefits from existing products to PEPP is only possible in a handful of Member States (EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024).

BETTER FINANCE urges policy-makers not to give in to industry pressures to delete

the 1% fee cap for the Basic PEPP. Instead,

- Member States should amend their respective legislations to ensure that PEPP receives the same treatment as any other personal pension product marketed in their jurisdiction.
- EU and Member State authorities must further explore the suggestions put forward by EIOPA in its recent paper to expand the target market for PEPP with a view to offer potential PEPP providers the perspective of greater economies of scale.

Policy recommendation 8 — Auto-enrolment

Introduce auto-enrolment in occupational pensions.

The active labour force should be automatically enrolled in a default pension fund, with the option to withdraw or switch provider at no additional cost. Romania, Sweden, Slovakia and other serve as best practice examples: This auto-enrolment ensures that working individuals start saving early and consistently for their retirement, reducing the risk of insufficient income in retirement. This was also a recommendation of the HLF CMU.

In this regard, we consider with interest EIOPA's suggestion, in its paper from September 11, 2024 to enable the use of PEPP as an occupational pension product, in which employers could then automatically enrol their workforce (EIOPA, 2024).

Policy recommendation 9 — Suspensions

Allow savers to defer contributions to pensions without penalties.

Savers should be allowed to suspend payments into a pension savings or life insurance plan without incurring a penalty. In an era characterised by uncertainty, it can never be assumed that an individual will always have an income sufficient to cover their immediate needs as well as pay their premium or set contribution towards their pension plan.

When an individual, for whatever reason, cannot, for a short period of time, contribute to their pension product, they should not be faced with the choice between foregoing their pension plan or paying a penalty. Instead, they should be able to suspend payments and resume as soon as they have a new income stream.

Policy recommendation 10 — Insurance guarantee schemes

Urgently establish harmonised insurance guarantee schemes in the EU.

EU citizens are partially covered against the default of product manufacturers through

Directive 2014/49/EU on deposit guarantee schemes (DGSs) and Directive 97/9/EC on investor compensation schemes (ICSs). However, many pension savers across the EU lack an appropriate protection for insurance-based investment products (IBIPs), a shortcoming of the EU's protection regime that is particularly problematic as IBIPs (such as life insurance) are predominant in some pensions systems in the EU (e.g., in France).

BETTER FINANCE calls on the EU legislator to revamp the project for a Regulation on insurance guarantee schemes (IGSs), which should mimic the rules of the DGS Directive, and urgently harmonise protection against defaults at a minimum level across the EU.

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Country Case 15

Spain

Resumen

Los trabajadores españoles ahorran poco para complementar su pensión. Más del 70% de su riqueza total son viviendas y las pensiones de Seguridad Social sustituyen más del 80% del salario previo a la jubilación. Como resultado de estos y otros factores, la "industria de las pensiones" (Pilares II y III) en España es pequeña y menos eficiente que si fuese tan grande como las de los Paises Bajos o el Reino Unido. Los activos de los Planes de Pensiones convencionales, a 31 de diciembre de 2023, equivalían al 8,17% del PIB de ese año y las reservas técnicas de los productos asegurados para la jubilación alcanzaban otro 11,75% del PIB, en total un 19,92% del PIB. La gestión de estos activos no es barata, aunque puede llegar a ser muy competitiva en los esquemas del Pilar II. La Fiscalidad de los activos y rentas de ambos pilares en España responde al régimen EET, común en la OCDE, si bien en 2021 y 2022 se deterioró considerablemente para los vehículos del Pilar III, habiéndose producido una cierta corrección en 2023. En el periodo 2000–2023, el rendimiento (neto) acumulativo medio de los esqemas del sistema de Planes de Pensiones, una vez descontada la inflación, y antes de impuestos, varia de +8.7% para planes de pensiones de empleo, hasta -30.8% para planes individuales invertidos en fondos de pensiones de renta fija.

Summary

Spanish workers don't save for their retirement. "Bricks & Mortar" make more than 70% of a typical Spanish household's portfolio and Social Security old-age benefits replace more than 80% of lost labour income at retirement. So, why Spanish employees should save for their retirement? As a result, the Spanish pensions industry (Pillars II and III) is small and less efficient than that of the Nederland or the UK. Pension Funds' assets at end 2023 reached 8.17% of gross domestic product (GDP) that year, and if insured retirement or retirement-like vehicles' mathematical reserves were added to this, an extra 11.75% could be found, adding to a grand total of 19,92% of GDP. These and other reasons imply that asset management in this low-scale industry cannot be cheap. To be sure, Pillar II assets are as cheap to manage as in advanced markets or more, but this is not the case with Pillar III assets. Taxation of retirement assets and income in Spain responds to the EET regime, as in most OECD countries, although 2021 and 2022 have witnessed a serial deterioration of fiscal terms granted to Pillar III schemes, recovering in 2023. Over the period 2000–2023, the (net) cumulative return of conventional pension plans, after correcting for inflation and before taxes, ranges from +8.7% for occupational pension plans to -30.8% for individual pension plans invested in bonds.

Introduction: The Spanish pension system

It is well known that Social Security contributions, even if they are immediately spent on current benefits and not accumulated as savings by workers, may return relevant yields when retirement benefits are finally received. This happens everywhere, also in Spain. Estimations of the implicit rate of return for Spain are around 6% real per year. This means that Social Security, as a matter of fact, has returned every euro paid in contributions around 12 years after retirement when the average retiree has yet another 10 years of remaining life. This implicit return is difficult to beat by marketed retirement products, even if these are by default sustainable when they are of the defined contribution (DC) variety.

Since 2020 Spain has witnessed several major pensions reforms that complemented, and partly reversed, reforms adopted in 2011-2013. The automatic indexation of benefits on inflation was enacted in law in 2021, together with the abolition of the Benefits Revalorization Index (IRP, Spanish acronym) and of the Sustainability Adjustment Index (FS, Spanish acronym, a correction factor for Life Expectancy changes) of 2013. By Budgetary laws in 2020 and 2021, tax deductibility of contributions to Pillar III pension products was greatly reduced from EUR 8 000 (in 2020) to EUR 2 000 in 2021 and EUR 1 500 in 2022. This latter measure impacted severely contributions to Pillar III vehicles. Also in 2022 Pillar II products were additionally regulated to introduce a new kind of "Simplified Occupational Pension Plans" that could be promoted by employers' associations, trade unions, professional trusts and mutual funds and self-employed workers associations. Independent workers could also join sectoral employers' associations pension plans. Finally, a major reform took place in 2023 to reinforce the sustainability of Pillar I (Social Security) with a series of measures consisting in higher and additional payroll taxes on workers and employers to cope with massive retirement of the baby-boom cohorts. This legislation let the door open to further tax increases if needed.

Debates were hot along these lines of reform as many analysts and experts feared that the combination of these measures could not ensure sustainability. Inflation adjustment mechanism was deemed a powerful cost increasing factor, which was demonstrated amid heated debated when inflation came close to the 9% mark in 2022. An increase of 8.5% for all pension benefits was finally due in January 2023 after the automatic mechanism enacted in December 2021 played its role.

The figures we present in this chapter tell a story that bears a sharp contrast with the above description of Social Security internal rate of return. The long-term (2000–2023) cumulated net real return—that is, after deducting costs and adjusting for inflation—returns of standard retirement plans in Spain has been 88.9% for Pillar II conventional occupational retirement plans, and 51.7% on average across the three types of retirement plans we analyse in Pillar III.

In this chapter, we have decided to offer the reader a comprehensive overview of Spanish private pensions, including conventional pension plans and insured pension products. However, due to data limitations, we can only compute real net returns for conventional pension plans. As shown in Table ES.1, we distinguish four categories:

occupational pension plans, first, that belong to Pillar II of the pension system; and three categories of individual pension plans in Pillar III, which differ from each other with regard to the allocation of assets into equity vs. bonds.

Table ES.1 – Long-term and pension savings vehicles analysed in Spain

Product	Pillar	Reporting period	
		Earliest data	*Latest data*
Conventional Occupational Pension Plans	Occupational (II)	2000	2023
Mostly Bonds Pension Plans	Voluntary (III)	2000	2023
Mostly Equity Pension Plans	Voluntary (III)	2000	2023
Equity Pension Plans	Voluntary (III)	2000	2023

The real net returns of these four categories of pension plans is presented in details in the penultimate section of this chapter. However Table ES.2 already gives the reader an overview of the situation of Spanish private pensions over the long term: The good performance of capital markets in 2023 was passed on unequally to Spanish pension savers, with the performance of equity pension plans over the past year reaching close to five times that of mostly bonds pension plans. This past year, good as it was, remains set against a backdrop of low long-term returns.

Table ES.2 – Annualised real net returns of Spanish long-term and pension savings vehicles (before tax, % of AuM)

	Conventional Occupational Pension Plans	Mostly Bonds Pension Plans	Mostly Equity Pension Plans	Equity Pension Plans
1 year (2023)	4.0%	3.1%	6.1%	14.8%
3 years (2021–2023)	-3.0%	-4.7%	-2.0%	2.9%
5 years (2019–2023)	0.1%	-2.0%	0.9%	6.7%
7 years (2017–2023)	-0.3%	-2.2%	0.0%	4.0%
10 years (2014–2023)	1.0%	-1.0%	1.0%	4.6%
Whole period	0.3%	-1.5%	-1.0%	0.0%

Data: INVERCO, DGSFP, Eurostat; *Calculations:* BETTER FINANCE.

Pension system in Spain: An overview

The Spanish pension system is composed of three pillars:

- Pillar I — Public, with a pay-as-you-go major branch of compulsory, earnings related pensions (old-age, invalidity, and survivors' benefits) and a minor, means-tested assistance branch for over 65 years old individuals (old-age and invalidity).

- Pillar II — Voluntary, defined benefit and defined contribution occupational, employer-sponsored pension plans (restricted de facto to large companies) and other qualified pension vehicles (insured and non-insured).

- Pillar III — Voluntary, individual defined contribution pension plans and a variety of other qualified retirement savings vehicles (insured and non-insured).

A more detailed description of these three pillars is presented in Table ES.3.

Table ES.3 – Overview of the Spanish pension system

	Pillar I	Pillar II	Pillar III
	National Social Security	Employer-sponsored Pension Plans	Individual Pension Plans
Participation	Mandatory	Voluntary	Voluntary
Type of funding	Financed by social contributions (employees 4.8%, employers 24.1% of pensionable wage)	Financed normally by employers' contributions (no standard rate); Matching is rare.	Financed by insured persons
Type of benefit entitlement	Final Wage formula (variable % of a 25/29 years average of actualized pensionable wages)	Both defined benefit (DB) and DC benefits	DC benefits
Management	The scheme is managed by the Social Security Administration (INSS)	Managed by licensed Asset Managers under sponsor companies' Social Partners supervision	Managed by Plans' Sponsors (Financial institutions, Insurers or Associations)
Products	Contributory State Pension, Non-contributory State Pension and Minimum Basic Income (Ingreso Mínimo Vital, means tested, as from July 2020)	Company Pension Plans (standard vehicle), Simplified Employment Pension Plans (new since 2022, sectoral & associative), Company Group Insurance and Company Insured Pension Plans	Individual Pension Plans (standard vehicle), Insured Pension Plans and Pension Mutual Societies (Mutualidades de Previsión Social) and other minor (insured) pension and pension-like vehicles
Average benefit	Average contributory retirement pension (14 payments per year): EUR 1 579 per month (old-age, newly retired employees, average January-May 2023) Average non-contributory pension (per year): EUR 6 402 (old-age and invalidity) + EUR 525 for rented housing	Employer-sponsored standard Pension Plans (14 payments per year): EUR 893 per month (retirement, income only benefits, 2021)[a] Only 37.38% of total beneficiaries opt for income only retirement benefits and amounts payed were 42.48% of total benefits paid	Individual standard Pension Plans (14 payments per year): EUR 164 per month (retirement, income only Plans, 2021)[b] 64.62% of total beneficiaries opt for income only retirement benefits and these amount to 34.38% of total benefits paid
Coverage	Social Insurance is compulsory for all workers. There are 6.4 million old-age pensioners (as of May 2023). All persons 65 and over are eligible for Social Assistance	Barely 11.7% of employees were covered by Employer-sponsored standard Pension Plans in 2021. Only 48.1 thousand beneficiaries received income only retirement benefits in 2021	Below 24.4% of population aged 16 to 64 was covered by Individual Plans in 2021. Up to 339 thousand beneficiaries received income only retirement benefits in that year
Tax treatment	Contributions are tax exempt and benefits are taxable (ET)[d]	Contributions and returns are tax exempt and benefits are taxable (EET)	Contributions and returns are tax exempt and benefits are taxable (EET)
Net replacement ratio[c]	74.3% (Q1, 2023)	44.2% (2021)	8.1% (2021)

Data: Social Security, INE, INVERCO, DGFSP

[a] Employer-sponsored Pension Plans are the standard employee pension vehicle. Besides these, Group Insurance has a far larger popularity, although average assets are one fifth that of the Pension Plans. Income-only benefits are rare as average assets are low for most participants.

[b] Individual Pension Plans are the standard personal retirement vehicle for independent workers and employees and other eligible persons.

[c] This ratio is a gross, effective, average "benefit ratio" rather than a standard Organisation for Economic Co-operation and Development (OECD) type replacement ratio.

Pillar I

The *Instituto Nacional de la Seguridad Social* (INSS), or National Institute for Social Security, is the Department for Pensions at the core of the Spanish *Ministerio de Inclusión, Seguridad Social y Migraciones* (MISSM). The Spanish Social Security covers all workers against old-age, invalidity, and survivorship (widowhood and orphanhood). It has two separate branches: an insurance, contributory and earnings related branch and a non contributory, assistance, flat means-tested benefits branch, sharply differentiated not only by law but also by its size, nature, and functions.

The insurance branch of Social Security is, by far, the dominant scheme in the Spanish pension's arena (all public and private vehicles considered). It is contributory, compulsive for all workers, either employees or self-employed workers, and firms and is financed through social contributions that, within each current year, are used to pay for current pensions. The financial method of the system is thus of the pay-as-you-go (PAYG) variety. The pension formula is a "defined benefit" one where only last years' pensionable wages, age at retirement and a number of equivalent full contribution years are considered (besides penalties/bonuses for early/delayed retirement) and not effective contributions paid.

As of December 31, 2022, The INSS was paying 9.99 million pensions (to about 9 million pensioners) at a rate of EUR 1 095 each per month (14 payments in a year, all pension categories, all pensioners). Within these figures, slightly more than 6.3 million pensions went to the old age category at an average rate of EUR 1 260 per beneficiary and month (14 payments in a year). Direct total expenditure in earnings-related Social Security benefits in 2022 amounted thus to around EUR 152 billions, that is 11.45% of that year's GDP.[1]

As for workers' coverage, as of December 31, 2022, 20.29 million workers were affiliated to the national Social Security scheme. Out of these, 15.8 million (77.9%) were wage earning workers covered by the Social Security General Regime and 3.3 million (16.3%) independent workers covered by the Self-employed Workers Regime. The remaining few, a mere 5.8% of workers, belonged to different sub-regimes within Social Security.

There were also 2,8 million registered unemployed workers, 56.4% were covered by Social Security through social contributions paid on their behalf by the *Servicio Público del Empleo Estatal* (SEPE), the Spanish Employment Agency for as long as they received unemployment benefits.

Besides social insurance pensions, the Spanish Social Security, through its assistance branch, as of December 31, 2022, paid 445.4 thousand pensions of which 267 thousand were old-age pensions and the rest were invalidity pensions. The average pension under this scheme was EUR 5 899.60 a year (2022 average), a total amount of almost EUR 2.63 billions, or 1,98% of that year's GDP. Non-contributory (assistance)

[1]In 2022, Spanish GDP grew by 5.5% in volume in one year (as in 2021) and continued its recovery from a strong decrease of 10.8% in 2020 with respect to 2019 because of Covid-19 administrative restrictions to economic activity. Direct earnings-related benefits in 2019 amounted to 10.9% of that year's GDP. Social Security expenditure over GDP in 2020 was 12.5%.

pensions are subject to means (income and assets) tests and are clearly a minor scheme since autonomous regions in Spain offer a wide range of basic benefits to those individuals and households in need.[2] These benefits are paid by the Social Security thought fully financed out of general taxation. These benefits can be complemented by other personal characteristics (housing, dependent spouse and other health or disability conditions).

Within the contributory pensions scheme, social contributions received by the Social Security administration, that amounted to EUR 136.3 billion, provided in 2022, for 89.84% of total cost of direct Social Security contributory benefits. For 2023 the total contribution rate is 28.9% of gross contribution wage. This rate splits in 24.1 pp paid by employers and 4.8% paid by workers. The self-employed must pay the whole 28.9% rate on their pensionable earnings. Contribution wages track effective wages closely through a scale with a minimum (as of 2023) of EUR 1 260 and a maximum of EUR 4 495.50 per month. Employees cannot choose their contribution wage but self-employed can do it and most of them do choose the minimum contributory earnings base corresponding to their earnings bracket. This results in their ex-post retirement benefits being too small. Many of these benefits will have to be latter complemented with an assistance allowance to reach the statutory minimum retirement pension benefit. This resulting, paradoxically, in a larger internal rate of return for minimum earnings-related old age pensions recipients, over their past contributions, compared to retirees receiving higher or maximum earnings-related pensions payable by Social Security.

Pillar II

As shown in the introductory Table ES.3, Social Security old-age benefits in Spain replace pre-retirement wages with one of the highest rates in the world and against a rather high pay-roll tax mostly paid by employers.[3] So, there is little margin left for occupational and individual retirement accounts to step substantially into the retirement arena. And, indeed, what we observe in Spain is a very limited landscape for marketed retirement solutions even though the modern regulation for these products was enacted around 1987.

Pillar II in Spain embraces employer-sponsored retirement schemes for wage earners.[4] These products are financed through contributions mostly paid by employers, with employees rarely participating on a matching basis.

There is a variety of retirement vehicles that employers may offer to their employees, or available for self-employed workers as well. Amongst them, tax-qualified Pension Plans are the standard and most prevalent vehicle. Other company sponsored retirement schemes include a variety of insured schemes. Pension Plans are

[2] Since June 2020, Social Security is offering a new individual Minimum Basic Income. As for December 2022 there were 1.54 million beneficiaries.

[3] This said, however, pay-roll taxes to Social Security or other welfare programs are deferred wages and, were they to be entirely supported by employees, gross wages should be accordingly updated to accommodate this wedge.

[4] "Associated pension plans", a very minor category used by cooperatives' members are classified as "other personal pensions" together with individual pensions within Pillar III vehicles by the regulator.

capitalisation retirement accounts of either Defined Benefit or Defined Contribution type to which employers contribute with a percentage of their wage. Workers can also contribute. Contribution rates to occupational Plans may vary considerably, but their average rate can be estimated at around a modest 2.6% of average gross wage,[5] or around EUR 619.71 per covered employee and year (2020). Normally, only workers in large firms are offered with these deferred wage benefits.

Employers are not obliged by law to offer this coverage to their employees, although some may be obliged by Collective Bargaining agreements in an industry or sector, which is rare. And indeed, very few companies, but the large ones, offer them to their workers as less than 1.95 million participants where registered through 2021, to a total salaried workers of 16.6 million that same year, a mere 11.7%. Also, in 2021, only 48.1 thousand retired employees received old-age, income-only benefits from standard pension plans. Average annual equivalent benefit was EUR 11 628.65 (before taxes) and the equivalent benefit rate (against average annual gross pay) was 43.6%.[6] As of December 31, 2022, total assets under management (AuM) to these accounts totalled EUR 34.4 billion (EUR 3.4 billion below AuM one year earlier), that is, a tiny 3.14% of Spanish GDP in that year.

Pillar II retirement accounts are fiscally qualified by the government. Contributions by employers or employees are tax deductible up to an absolute limit of EUR 10 000 per person per year.[7] Benefits, no matter whether retrieved in form of monthly income, as a lump-sum or otherwise, are taxed under the current personal income taxation rules.[8] When benefits are retrieved in form of an income stream, beneficiaries are obliged to buy an annuity (life or term) or a drawdown. Nearly half of beneficiaries opt for a lump-sum given the tiny pension pots they manage to accumulate during their working lifetimes.

Often, in Spain and many other countries, and this is a crucial issue to understand for our industry, layman savers and even experts refer to the fiscal treatment explained before as "incentives" or even "a fiscal gift". The truth is that having contributions tax exempted and taxing benefits (tax deferral) is the world EET standard (Exempt contributions, Exempt returns on those and Tax benefits), rather than the opposite or, even worst, double taxation of pensions if both contributions and benefits were to be taxed. Tax deferral, as opposed to an "incentive", is not a gift from government or from the rest of society, is a just treatment for income won after decades of work efforts and thrift.

[5]Estimation based on data from INVERCO and INE.

[6]Detailed data on benefits is only available up to 2021.

[7]Up from EUR 8 000 as for December 2020. This absolute limit breaks down to EUR 1 500 as the general limit for Pillars II and III schemes and an additional limit of EUR 8 500 from employers plus employees' social contributions to Pillar II schemes. The Spanish Government has enacted in mid 2022 new legislation that regulates new Pillar II schemes called Simplified Pension Plans to which both employees and the self-employed can contribute. The above fiscal limits also apply to these schemes for employees, but now self-employed workers have an additional (to the general) limit of EUR 4 250 tax deductible.

[8]Spain has a Dual Personal Income Tax that differenciates income from investments from labor income. Pension benefits (both principal and interest), however, are fully taxed as labor income.

Pillar III

Pillar III embraces personal, individual Pension Plans and other retirement schemes, the former being again the dominant type within a large variety of types (see Table ES.3). These plans are personal, voluntary and "complementary" to both Pillar I and Pillar II arrangements. These schemes were equally treated, as Pillar II schemes, from the tax point of view up to 2020. But, as already mentioned, Law 11/2020 radically changed this status quo by reducing tax deductibility of contributions to EUR 2 000. In 2021 a new change in the 2022 Budget Law established that EUR 1 500 can be tax-free as the new extant general limit. One of the lowest thresholds in the OECD.

This double tax shock to Pillar III retirement savings is already having devastating effects difficult to compensate in the sort to medium term. As a result of these fiscal shocks, contributions in 2023 (EUR 1 555 mln.) represent only 38.2% of the amount collected in 2020 (EUR 4 339 mln.), the year when contributions peaked and the last year before the first reduction of the tax deductibility. An accumulated fall of 61.8% One salient feature within this category is that contributions by participants are delayed until the end of the year using balances left in their income-expenditure flows at that point in time to profit from tax deductibility.

In what concerns other features, however, Pillar III Personal Pension Plans are virtually the same product as employer-sponsored Pension Plans, albeit quite more expensive to manage. In 2021, only 339 thousand people received income-only benefits. Average annual benefit for income-only recipients was EUR 2 296 (gross). As of December 31, 2021, Pillar III included 7.5 million retirement accounts that belonged to around 6.5 million individuals (or 24,4% of Spanish population 16-64 years old). AuM for these plans in 2022 totalled EUR 80.2 bln (EUR 9.1 bln. down from one year earlier), that is, a mere 6.0% of Spanish GDP.

Household savings

Personal financial saving is not a prominent aspect of Spain's economy. Spaniards tend to prefer saving in tangible assets, such as real estate —"bricks & mortar"—, rather than in financial instruments. However, households do manage to set aside some money by the end of the year, allowing them to accumulate a financial buffer. Unfortunately, only a small portion of these assets is earmarked for retirement. One reason for this is the structure of Spain's Social Security system, which requires workers to "save" through payroll taxes largely paid by their employers. This system effectively reduces disposable income and the amount households can allocate to savings. Additionally, in return for these substantial payroll taxes (which stand at 28.9% of gross wages as of 2023), public pensions replace an average of about 74% of wages during retirement (see Table ES.3).

These factors reduce the desire and/or capacity to save for retirement of Spanish workers. Social contributions paid by employers (24.1 percentage points of the total rate) are commonly considered to be "deferred wage" translating into a correspondingly lower gross pay received effectively by workers as compared to the gross pay they would receive had them to pay the full contribution rate.

As for real estate, it is well known that it is hardly a retirement asset at all. Yet many home-owners, that in Spain tend to own more than one house or apartment, think that they could use their houses as a source of retirement income. However realistic this may be, the fact is that an astonishing three fourths of Spanish households' total wealth is made of "bricks & mortar", its value representing near four times the value of Spanish GDP. Housing, in a way, is *the* retirement asset in Spain and retirement solutions providers would better think on how to develop sound retirement income products based on housing assets rather than hope for households to start accumulating proper retirement assets. This would not happen at least for a generation and provided that radical changes help a development of brand new markets for retirement solutions in Spain.

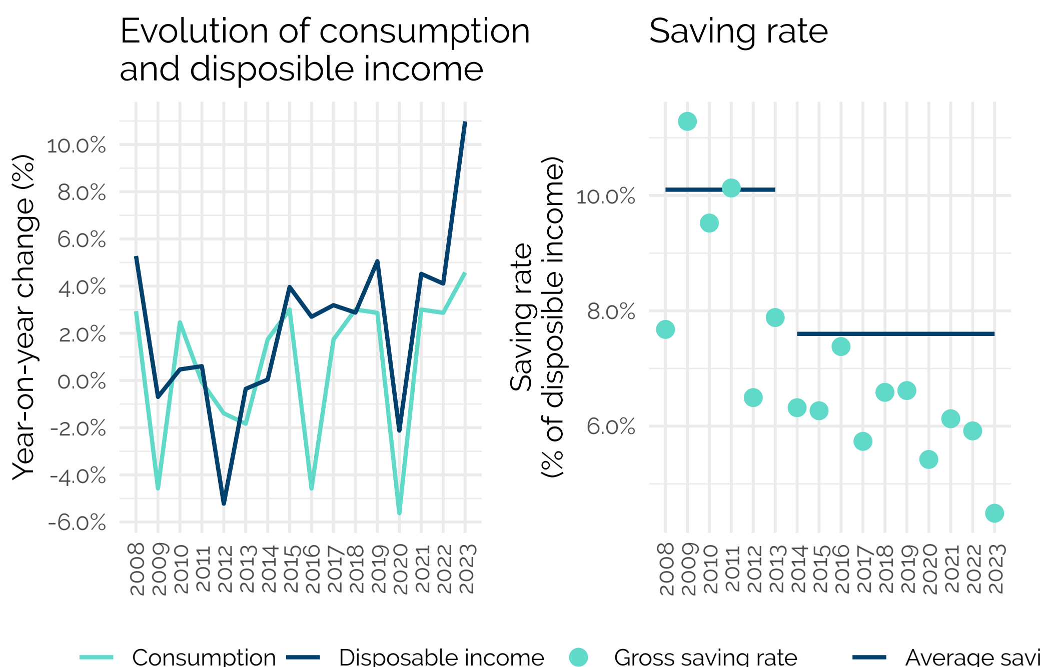
The above, basically the same text we wrote last year, tended to be the picture before Covid-19. And so continued to be in 2022, but for few important differences. First comes the fact that households, who were given by the government the possibility to withdraw part of their retirement savings to cope with financial hardship at home and/or at their businesses, did not actually use this window. Total AuM at Pension Funds (both Pillar II and III) have not decreased in over 2019, even if dynamics of total AuM has been driven by yields performance rather than by net inflows of contributions. These net flows, actually, have been negative for most of the last years due to gradual decline en number of persons covered both in the occupational en the individual schemes.

The overall picture on households' gross disposable income (GDI) (year-on-year change), Consumption (year on year change) and Gross Savings (rate over Disposable Income) is shown in Figure ES.1. During the crisis (2009-2013), the savings rate oscillated amply around an average of about 10% of GDI. 2009 and 2013 were precisely the most recessive years of the period. Pre-crisis years (since mid-90s in the last century) savings rate was low, reflecting the strong dynamics of private consumption, fuelled by cheap loans and intense employment creation, coupled with wage increases. After 2008, the deep recession of 2009 and a second (and large) recession in 2011-2013, led Spanish households to increase their savings ratio above 13% in 2009, and keep it around 10% in the recessive years. Meanwhile, wages stagnated, and employment continued to fall bringing the unemployment rate above 25% in the through of the second recession, at mid-2013.

For year 2023, we see an increase in disposable income of 7 percentual points along with an steadier increase in consumption of 1,3 p.p. compared to the previous period. As for the savings rate, the Spanish households lowered their savings both in absolute and in relative terms, related to their disposable income we see a decrease from 5,9% in 2022 to 4,5% at the end of 2023. The spike of YoY change of disposable income for 2023 is also in line with the GDP growth of this last period.

Expansive years (2015-2018), when consumption was growing vigorously the savings rate dipped to a bottom 5% of disposable income in 2018. In 2019, consumption (and the economy) decelerated and savings bounced to just above 8%. As for 2020, we have seen a more than doubling of the savings rate observed in 2019, to a high of 17.6%. Covid-19 effectively restrained consumption in 2020 to a 2015 standard (a yoy

Figure ES.1 – **Evolution of households' spending and (financial) saving rates**



Data: Banco de España.

12.0% fall) while disposable income suffered far less (a yoy 2.0% fall). In 2021, 2022 and 2023, we have seen positive rates of change for these two indicators, notably a far larger increase in disposable income than in consumption and a fall in the savings rate from 5.9% in 2022 to 4.5% in 2023, which is in line with an increase on consumption spending related to inflation.

By the end of 2023, (gross) financial assets owned by Spanish households—and non-profit institution serving households (NPISHs)—amounted to EUR 2.8 trillion, according to the Bank of Spain financial balance sheets statistics. That amount represented slightly more than 3 times households' GDI and slightly below 2 times Spanish GDP. In fact, households slightly increased their holdings of financial assets compared to 2022 by 3.8%.

If we take a closer look at the distribution of (gross) financial assets owned by Spanish households in 2022–2023, as shown in Table ES.4, one can immediately observe that the distribution of financial assets held by Spanish households reveals a strong preference for liquidity, with "cash and bank deposits" as the largest asset class, totalling EUR 1.063 trillion in 2023 (37.6% of total assets). "Equity" are the second-largest category at EUR 847.6 billion (29.9%), showing a modest increase from the previous year. Investment funds grew by 13.5%, representing 15.5% of assets, while insurance products increased by 11.2%, maintaining their share of GDI. Pension rights rose by 5.3% in nominal terms but declined slightly as a proportion of GDI, reflecting stagnant

growth in retirement savings. Overall, total household financial assets increased by 3.8% to EUR 2.830 trillion. However, the asset-to-GDI ratio dropped from 327.6% to 306.4% as GDI rose 11%, indicating a relative decrease in household wealth. This trend highlights the lingering impact of COVID-19, with households maintaining a conservative approach to savings. The surge in investment funds and the "Other" category, which saw the largest percentage growth at 26.1%, may signal an emerging shift toward diversification and higher-yield investments, reflecting growing impatience among investors as long-term assets now constitute a smaller share of total financial assets.

Table ES.4 – Financial assets held by Spanish households 2022–2023

	2022			2023			
	EUR bln.	%	% of GDI	EUR bln.	%	% of GDI	Change (%)
Cash and bank deposits	1 078.3	39.6%	129.6%	1 063.3	37.6%	115.1%	-1.4%
Investment Funds	386.6	14.2%	46.5%	438.8	15.5%	47.5%	13.5%
Shares	832.6	30.5%	100.1%	847.6	29.9%	91.8%	1.8%
Pension rights	172.8	6.3%	20.8%	181.9	6.4%	19.7%	5.3%
Insurance	159.8	5.9%	19.2%	177.6	6.3%	19.2%	11.2%
Other	95.9	3.5%	11.5%	120.9	4.3%	13.1%	26.1%
Total	**2 726.0**	**100.0%**	**327.6%**	**2 830.1**	**100.0%**	**306.4%**	**3.8%**

Data: Banco de España; GDI: Gross Disposable Income.

Spanish households significantly increased their investment funds and insurance holdings in 2023. Equity holdings, however profited from a large increase (+EUR 14.9 billion) as reflected in the table above. Pension entitlements reduced their share of total financial assets by 1.1 percentage points.

In 2023, households' Gross Disposable Income GDI increased a healthy 11% reflecting a robust recovery in the economic and financial landscape. This growth was accompanied by an equivalent 11% rise in total financial assets compared to 2022. As a result, the overall financial assets remained at a nominal size of 3.1 times the households' GDI and approximately 2 times the Spanish GDP.

Long-term and pension savings vehicles in Spain

Even if, due in part to the overwhelming presence of Social Security, the room for Pillars II and III is not a very large one in Spain, there is a large variety of marketed retirement products. The most standard retirement vehicles, as said above, are Pension Plans (occupational and individual) and Insured Pension Plans. Most retirement vehicles in Pillar III are provided by financial institutions and insurers that also act as managers and depositories of Pillar II occupational pension plans. The latter are basically provided by employers. Also, several professional associations have since long created *Mutualidades* (Mutual Funds) that offer complementary (mostly Pillar

III) coverage to *mutualistas* (members), with some of those Mutual Funds also operating as regulated alternative schemes to Social Security's self-employed schemes (Pillar I) for these occupational groups.

Table ES.5 – Retirement vehicles in Spain (Dec. 2023)

	AuM (EUR mln.)	Participants (thousands)	Assets per participant
Conventional Pension Plans[a]	**122 385.00**	**9 492.44**	**12 892.90**
Pillar II	36 670.00	2 099.74	17 464.10
Occupational Pension Plans	*36 670.00*	*2 099.74*	*17 464.10*
Pillar III	85 715.00	7 392.70	11 594.55
Individual Pension Plans	*84 923.00*	*7 337.92*	*11 573.17*
Associated Pension Plans[b]	*792.00*	*54.78*	*14 458.10*
Insured Retiremet Vehicles	**176 033.47**	**16 378.31**	**10 747.96**
Pillar II	37 092.52	7 797.58	4 756.93
Income (Acc. & Pay-out Phases)	*22 155.99*	*514.32*	*43 077.80*
Retirement Group Insurance	*9 186.89*	*4 416.00*	*2 080.37*
Other Pillar II Insured Vehicles	*5 749.63*	*2 867.26*	*2 005.27*
Pillar III	138 940.96	8 580.73	16 192.20
Annuities (Life & Term)	*45 325.31*	*2 451.44*	*18 489.25*
Defferered Capital Pensions & Savings	*41 570.50*	*2 103.87*	*19 759.10*
Unit/Index- Linked	*21 401.66*	*1 338.55*	*15 988.74*
PIAS[c]	*15 032.67*	*1 529.80*	*9 826.54*
Insured Pension Plans	*11 856.01*	*809.50*	*14 646.09*
SIALP[d]	*3 754.81*	*347.58*	*10 802.84*
Total	**298 418.47**	**25 870.75**	**11 534.98**
Pillar II	73 762.52	9 897.32	7 452.78
Pillar III	224 655.96	15 973.43	14 064.35

Data: INVERCO and UNESPA; *Calculations:* BETTER FINANCE.
[a] Non insured retirment vehicles.
[b] Retirement vehicles sponsored by labour associations and regulated as Pillar III.
[c] *Plan Individual de Ahorro Sistemático* (PIAS), "Systematic Individual Savings Plans"
[d] Seguro Individual de Ahorro a Largo Plazo (SIALP), "Long Term Individual Insurance"

Current laws regulating modern Pillars II and III were enacted around 1987–1988. Occupational pensions, which were directly provided by employers to their employees before then, were gradually taken out of P&L accounts and entrusted to newly created entities that have their own legal personality (*Planes de Pensiones*) and their assets integrated into standard vehicles also created by those laws (*Fondos de Pensiones*). As recently as June 2022, however, the Spanish Parliament passed Law 12/2022 by which Public Occupational Pension Funds were created and brand new private Simplified Occupational Pension Plans were regulated allowing self-employed workers to join occupational schemes for the first time in Spain.

Notwithstanding the fact that Spanish households preferred to hold their financial

assets in the form of bank deposits and cash, equity remained at a 29.9% share of total financial assets in 2023, well above Investment Funds (see Tables ES.4 and ES.5). In 2023, total investment in this class of assets increased by 1.8%. Investment Funds faced an increase of 13.5%. Pension funds had a nominal 5.3% increase, recovering their performance from 2022, and in line with 2021 and 2019.

Table ES.6 – Total assets managed by Group Investment Institutions 2010-2023 (EUR mln.)

	Group Investment Funds						
	Investment funds		Investment trusts				
	Financial	Real estate	Financial	Real estate	Foreign IF	Pension funds	Total
2010	138 024	6 123	26 155	322	48 000	84 750	303 374
2011	127 731	4 495	24 145	316	45 000	83 148	284 835
2012	122 322	4 201	23 836	284	53 000	86 528	290 171
2013	153 834	3 713	27 331	868	65 000	92 770	343 516
2014	194 818	1 961	32 358	826	90 000	100 457	420 420
2015	219 965	421	34 082	721	118 000	104 518	477 707
2016	235 437	377	32 794	707	125 000	106 845	501 160
2017	263 123	360	32 058	620	168 000	110 963	575 124
2018	257 514	309	28 382	734	168 000	106 886	561 825
2019	276 557	309	29 446	725	195 000	116 419	618 456
2020	276 497	311	27 599	886	220 000	118 523	643 816
2021	317 547	311	29 247	913	287 000	127 998	763 016
2022	306 198	312	16 182	990	245 000	113 994	682 676
2023	347 912	256	15 968	993	265 000	122 385	752 514
YoY 22-23	**13.62%**	**-17.95%**	**-1.32%**	**0.30%**	**8.16%**	**7.36%**	**10.23%**

Data: INVERCO.

In 2023, pension fund savers saw strong yields of EUR 9.499 million, continuing the recovery from recent challenging international conditions. Despite these positive yields, pension funds faced net outflows of EUR 1.108 million, resulting in an end-of-year asset value of EUR 122.385 million, an increase of EUR 8.391 million from the previous year, as shown in Table ES.7. Meanwhile, investment funds received substantial net investments of EUR 18.362 million and achieved positive net yields, raising the end-of-year AuM to EUR 324.513 million, marking a recovery after the significant losses of 2022. These trends reflect a stabilizing environment for both types of funds as market conditions improve post-pandemic.

Unfortunately, we cannot compute the real net returns for all product categories in this chapter. We therefore focus on pension plans: the occupational pension plans of Pillar II on the one hand and three types of Pillar III pension plans on the other. Figure ES.2 shows the AuM of these four categories of products since 2000.

Table ES.7 – Flows of funds for Investment Funds & Pension Funds 2012–2023 (EUR mln.)

	Investment funds (national, financial)				Pension funds			
	BoY assets	Net invest-ments	Net yields	EoY assets	BoY assets	Net invest-ments	Net yields	EoY assets
2012	127 731	-10 263	4 854	122 322	83 148	70	3 310	86 528
2013	122 322	23 048	8 463	153 833	86 528	239	6 003	92 770
2014	153 833	35 573	5 412	194 818	92 770	898	6 789	100 457
2015	194 818	24 733	413	219 964	100 457	526	3 535	104 518
2016	219 964	13 820	1 652	235 436	104 518	264	2 063	106 845
2017	235 436	21 410	6 277	263 123	106 845	451	3 667	110 963
2018	263 123	8 410	-14 019	257 514	110 963	-170	-3 907	106 886
2019	257 514	1 693	17 350	276 557	106 886	799	8 734	116 419
2020	276 557	1 161	-1 221	276 497	116 419	1 176	928	118 523
2021	276 497	25 723	15 327	317 547	118 523	-270	9 745	127 998
2022	317 547	17 219	-28 615	306 151	127 998	-907	-13 097	113 994
2023	306 151	18 362	—	324 513	113 994	-1 108	9 499	122 385

Data: INVERCO; *BoY*: begining of year, *EoY*: end of year.

Pension plans

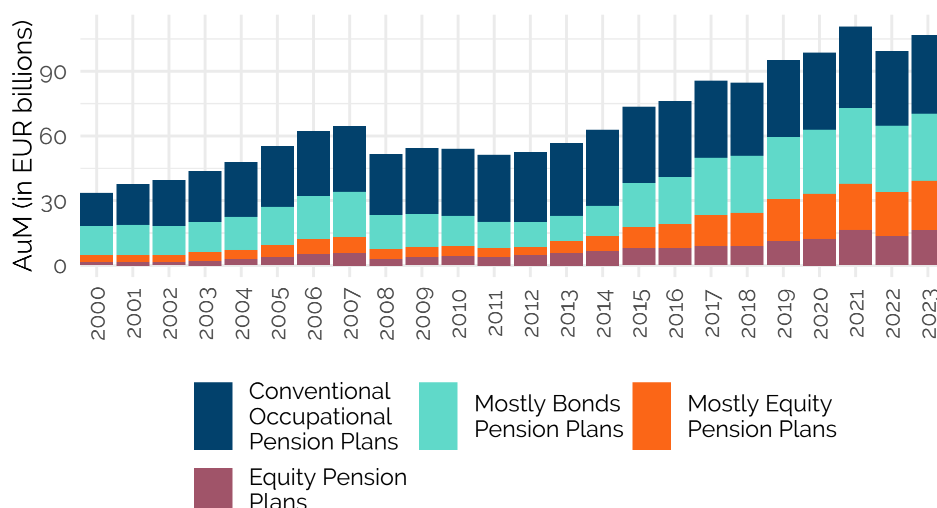
Pension Plans (*Planes de Pensiones*) are the standard retirement saving vehicles in Spain, albeit only one of many different retirement vehicles that are currently being marketed in the country. They can be promoted by employers on behalf of their employees, by professional associations on behalf of their members or by financial institutions for the general public (workers included). Insurance companies also promote *Planes de Previsión Asegurados* (PPA) ("Insured Retirement Plans") for the general public and *Planes de Previsión Social Empresarial* (PPSE) ("Insured Employer Retirement Plans"). These insured vehicles are essentially equivalent to their non-insured counterparts and share the same regulatory standards with them.

Pension Plans are voluntary and complementary to Social Security pensions. Their benefits are not integrated in any way with Social Security benefits. Plans created after 1987 legislation are DC plans, but many previously existing occupational plans that had to be later segregated from their parent companies and transferred to Pension Funds continue to be DB plans, accounting for roughly half the volume (but decreasing) of assets managed into the occupational subclass.

Pension Plans integrate for the sake of management and by law into Pension Funds (*Fondos de Pensiones*) to reach scale and financial synergy. This is the case of small Pillar II, occupational plans and of virtually all Pillar III, or individual retirement plans and associated plans. Pension Funds are legal entities, linked or not to financial institutions, obliged by law to contract out their managing and depositary functions with specialized, licensed agents.

Pension Plans in Spain, like in most countries, are tax-qualified (EET) retirement ve-

Figure ES.2 – **AuM of Spanish conventional pension plans**



Data: INVERCO; *Calculations:* BETTER FINANCE.

hicles. All payments by participants (or on their behalf) are tax-exempt up to a limit so that compounded interest may play its full magic over larger savings over many years. Benefits are taxed (see below). In exchange for this tax treatment, funds cannot be cashed before retirement unless some major contingencies happen (redundancy, sickness, or long-term unemployment), albeit some extra flexibility has been added recently (see below). Accrued rights, however, can be switched by participants to different plan promoters at no cost within the individual plans scheme.

Table ES.8 below presents the number of participants (accounts rather, see note at the bottom of the table) to Pension Funds as of 31st December 2010 and 2023. The past decade has witnessed a worrying trend in the number of accounts/participants and things are not likely to improve in the current one unless strong action is taken.

As of December 2023, slightly less than 9.5 million accounts were integrated in the whole scheme. The individual accounts sub-scheme totalled barely 7.3 million accounts, 77.3% of the total number of accounts.

The most salient feature displayed in the above table is the drop in the number of participants' accounts since 2010, a 13.4% rather uniformly distributed on time, shared by all sub-schemes but especially relevant (in absolute terms) in the individual plans sub-scheme, that lost 1.2 million participants' accounts in the period.

Correspondingly, as Table ES.9 the number of pension plans has shown an almost regular decrease throughout the present decade. The number of plans totalled 2 964 in 2010 and 2 282 at the end of 2023, a 23% drop, a fairly regular though time decreases averaging over sub-schemes, most relevant again (in absolute terms) for the individual plans sub-scheme. Associated schemes (inside Pillar III, according to the regulator classification) are a minority.

Table ES.8 – Number of participants to Pension Plans 2010–2023

	Dec. 2010		Dec. 2023		
	Accounts	% of total	Accounts	% of total	Change 10–22
Associate schemes (Pillar III)	78 072	0.7%	54 779	0.6%	-29.8%
Company schemes (Pillar II)	2 149 334	19.8%	2 099 736	22.1%	-2.3%
Individual schemes (Pillar II)	8 601 775	79.4%	7 337 921	77.3%	-14.7%
Total	10 829 181	100.0%	9 492 436	100.0%	-12.3%

Data: INVERCO.

These data hide the fact that the average size of Pension Plans increased in the period from 3.2 thousand accounts per plan in 2010 to around 4.1 thousand accounts per plan, likely making the system more efficient. However, one cannot get rid of the feeling that the whole scheme reached a ceiling some time ago and is now well set for a continuous and regular decline unless a "big bang" happens in this industry.

Table ES.9 – Number of Pension Plans by type of scheme 2010–2023

	Individual schemes	Company schemes	Associated schemes	Total
2010	1 271	1 484	209	2 964
2011	1 342	1 442	198	2 982
2012	1 385	1 398	191	2 974
2013	1 384	1 350	187	2 921
2014	1 320	1 330	178	2 828
2015	1 257	1 312	172	2 741
2016	1 189	1 305	164	2 658
2017	1 107	1 291	156	2 554
2018	1 079	1 293	151	2 523
2019	1 027	1 284	146	2 457
2020	976	1 282	141	2 399
2021	903	1 286	136	2 325
2022	856	1 295	131	2 282
2023	823	1 335	124	2 282
Change 2010 - 2023	**-35.2%**	**-10.0%**	**-40.7%**	**-23.0%**

Data: INVERCO.

Pillar II schemes (employer-sponsored) represented, as of December 2023, 22.1% of total accounts and 58.5% of total plans (accounts per plan). AuM within Pillar II plans

represented 30% of the system's AuM (Table ES.10), a diminishing share. This, in turn, implies that average retirement assets per account are also larger within the Pillar II schemes than within Pillar III. Actually, EUR 17 388 per account in the former versus EUR 11 573 per account in the latter for 2023.[9]

As of December 2023, the total AuM for the whole Pension Plans and Funds industry showed a heavy fall of 7.4%, due mostly to assets' yields in the year, albeit net investment was also negative for the second year in a row (see Table ES.7). Note, however, that the total AuM for Pension Plans today barely reach 8.17% of GDP for 2023.

Table ES.10 – Evolution of Pension Plans' Assets under Management by type scheme 2009–2023

	Individual		Employer sponsored		Associate		
	AuM (EUR mln.)	% of total	AuM (EUR mln.)	% of total	AuM (EUR mln.)	% of total	Total AuM (EUR mln.)
2009	53 228	62.6%	30 784	36.2%	992	1.2%	85 004
2010	52 552	62.0%	31 272	36.9%	926	1.1%	84 750
2011	51 142	61.5%	31 170	37.5%	835	1.0%	83 148
2012	53 160	61.4%	32 572	37.6%	795	0.9%	86 528
2013	57 954	62.5%	33 815	36.5%	1 001	1.1%	92 770
2014	64 254	64.0%	35 262	35.1%	940	0.9%	100 457
2015	68 012	65.1%	35 548	34.0%	958	0.9%	104 518
2016	70 487	66.0%	35 437	33.2%	921	0.9%	106 845
2017	74 378	66.9%	35 843	32.3%	903	0.8%	111 123
2018	72 247	67.5%	33 957	31.7%	829	0.8%	107 033
2019	79 850	68.6%	35 710	30.7%	859	0.7%	116 419
2020	82 014	69.2%	35 681	30.1%	827	0.7%	118 523
2021	89 323	69.8%	37 792	29.5%	883	0.7%	127 998
2022	78 579	68.9%	34 636	30.4%	779	0.7%	113 994
2023	84 923	69.4%	36 670	30.0%	792	0.6%	122 385

Data: INVERCO.

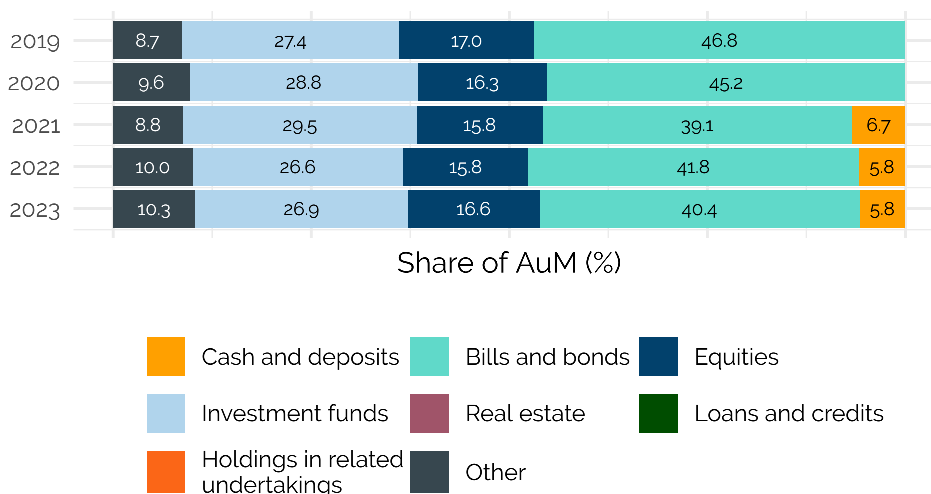
It can also be seen that around 69.4% of total AuM in these retirement vehicles belong to the Individual plans sub-scheme, representing a mere 5.6% of GDP. This category of assets has increased its nominal value an 8.1% over the previous year, com-

[9] Using standard mortality tables for Spain and assumptions about returns, these reduced amounts would yield very low instant lifetime annuities. The annuity a typical individual account could buy retiring at 65 years old amounts to around EUR 58 per month (twelve payments) and increases up to around EUR 87 per month in the case of the typical occupational account. This said, retirement savings under these two varieties tend to be sensibly larger at retirement age but won't even double the figures mentioned in the main text. Also, within the occupational variety, around half a million accounts belong to civil servants and most of these accounts have assets below one thousand euros per account. That's why benefits at retirement are normally cashed in as a lump-sum. On the other hand, some employer-sponsored plans, covering dozens of thousands of employees in manufacturing and financial and advanced services (notably in the Basque Country, manufacturing), hold rather large average retirement accounts.

pared to a 5.9% increase for occupational pension plans' assets. This recovery for individual pension plans could be attributed to higher net yields and an increase in Gross Disposable Income, linked to the uncertainty generated after the COVID crisis and the ongoing debates in Spain regarding the sustainability of the pension system, which has led to an increase in precautionary savings.

Typically, Pension Funds offer a variety of risk profiles that participants generally adhere to for some time until they decide to switch, for instance, as they age. This is generally the case with individual schemes, where participants can switch regularly between schemes, albeit these schemes remain relatively specialized for their risk profile as participants come and go. The above implies that all standard asset classes must be present in overall portfolios at minimum and maximum thresholds, ranging from mostly bond-based schemes to mostly equity-based schemes. Occupational schemes, however, are set with the risk profile established (if at all) by their sponsors and fund managers (or control boards, where employers and workers' representatives sit) will have a certain freedom to change the risk profile of the fund according to market conditions. Over a large period of time then, both participants, with their regular scheme choices, and managers and social partners may induce relevant changes in the asset allocation of pension funds.

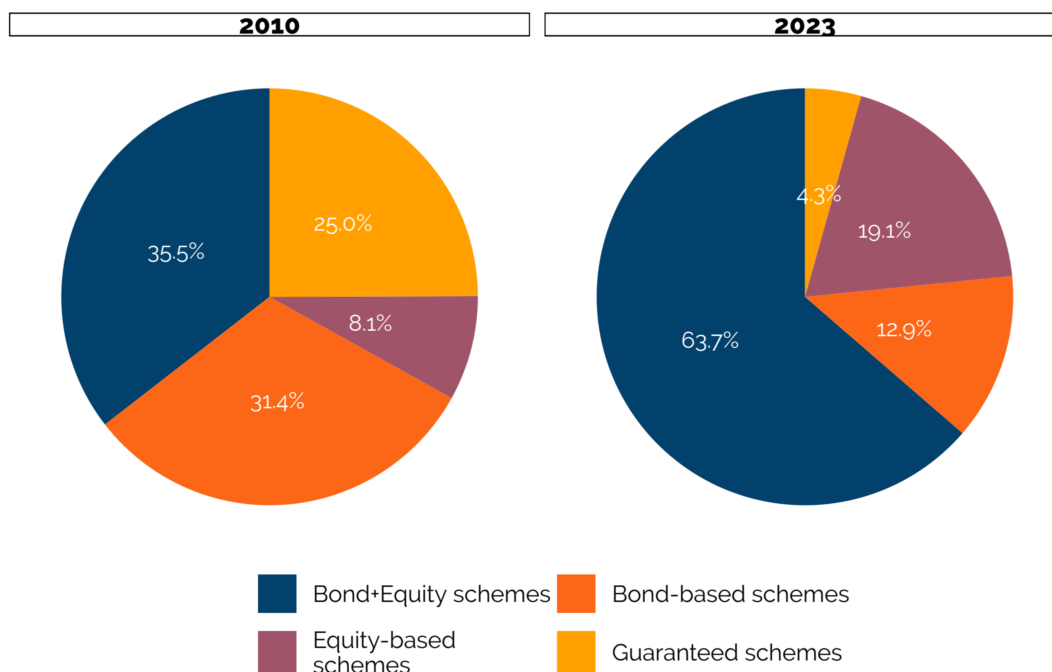
Figure ES.3 – Allocation of Spanish conventional pension funds' assets



Data: ; *Calculations:* BETTER FINANCE.

Figure ES.4 shows that within Spanish Pillar III Pension Funds, investors globally allocate 63.7% of their assets to mixed schemes (investing in both bonds and equity to varying degrees). This predominance of mixed schemes has come about at the expense of mostly bond-based schemes (12.9% of total, down from 31.4% in 2010) and guaranteed schemes (only 4.3% of total, down from a quarter of Pillar III investments in 2010), possibly indicating an increase in Spanish savers' risk appetite during the "low-for-long" interest rate phase of the 2010s, although in 2023 funds have switched towards safer investments than in 2021 (see Table ES.11) due to rising interest rates.

Figure ES.4 – Investments by asset class (Pillar III schemes) 2010–2023



From a short-term perspective (Table ES.11), the asset allocation structure of Pension Funds (all schemes) is obviously more stable, even if there has been a sharp contrast with respect to 2021 concerning assets' returns. At the end of 2020, despite the current terrible economic conditions, allocative decisions did not dramatically change the picture seen by the end of 2019. But at the end of 2022, very significant changes towards Investments Funds & Trusts and out of domestic and private bonds could be observed. In Figure ES.5, we see the evolution of the main Pension Funds' assets, noting the convergence and leadership change between Investment Funds & Trusts and Government Bonds over the last five years, with the former becoming the largest asset class in 2023, representing 26.9%. This trend aligns with the patterns observed in the previous graphs, reinforcing the notion that Investment Funds are gaining dominance over fixed-income assets.

As shown in Figure ES.5, when a mid-term perspective is adopted, the increasing role of riskier assets in pension funds' allocation strategy is the result of a gradual switch from bonds in the last few years after sovereign debt became less and less attractive in an ultra-low interest rate scenario. A bet that, in 2019, rewarded those who undertook it. 2020, as said, for all its complexity in economic terms, has really been a continuation of the basic allocation structure of the previous year with 2021 showing a continuation of the trend towards Investment Funds and Trusts. This trend suddenly reversed as interest rates started to increase due to inflationary pressures provoked by geopolitical conditions after the Russian invasion of Ukraine. Foreign

Table ES.11 – Pension Funds' Asset Allocation 2018–2023

Year	Equity	Investment funds	Gvt. bonds	Corporate bonds	Deposits	Other	Total
2016	12.8%	19.2%	37.0%	17.6%	–	13.4%	100.0%
2017	15.0%	23.5%	31.3%	17.7%	–	12.4%	100.0%
2018	15.3%	24.2%	31.3%	17.7%	–	11.4%	100.0%
2019	17.0%	27.4%	28.9%	17.9%	–	8.7%	100.0%
2020	16.3%	28.8%	26.5%	18.7%	–	9.6%	100.0%
2021	15.8%	29.5%	22.3%	16.8%	6.7%	8.8%	100.0%
2022	15.8%	26.6%	25.1%	16.7%	5.8%	10.0%	100.0%
2023	16.6%	26.9%	24.1%	16.3%	5.8%	10.3%	100.0%

Data: DGFSP

bonds and private securities gained important shares in Pension Funds portfolios against mostly investment funds in 2022. Similarly, Government Bonds increased their share at the cost of private funds and trusts in 2022, driven by the instability caused by the Ukraine-Russia conflict, before returning to the previous trend that had been followed before 2022 in 2023. For the most recent data we do not have the asset allocation by foreign or domestic bonds, instead we only have public and private debt.

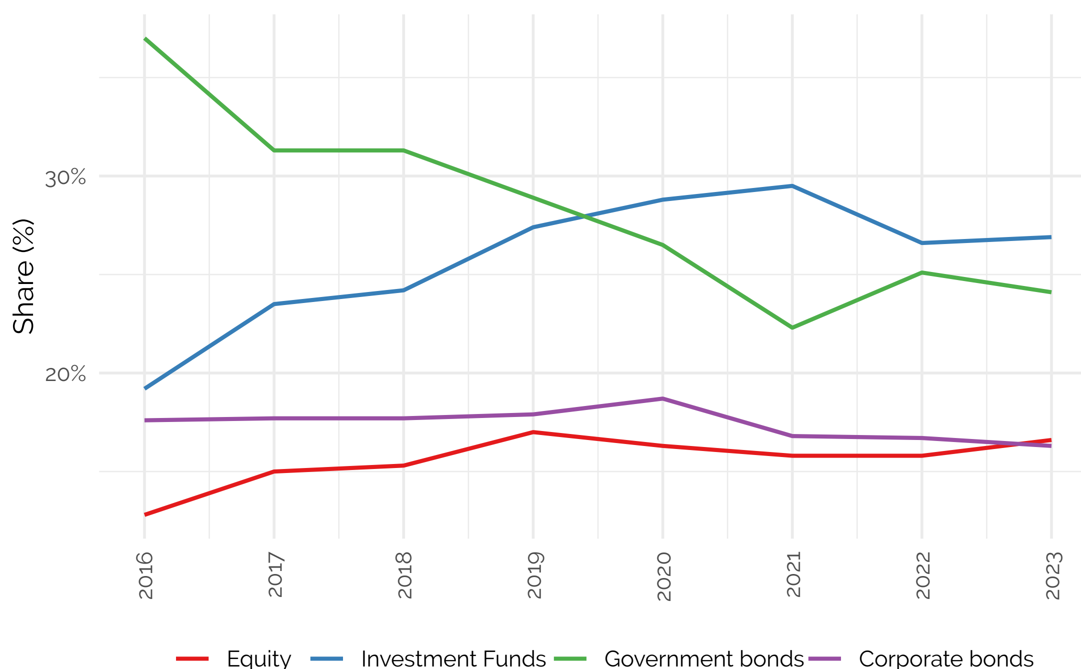
Life insurance

Measured by its AuM, the Insurance Industry is a major provider of retirement income products in Spain, both for Pillar II and, especially, Pillar III. Insurers also manage a substantial part of standard Pension Funds' assets. A salient feature of this trade is the large variety of retirement and quasi-retirement vehicles that the industry markets in Spain and everywhere.

Some of these vehicles are indistinguishable from genuine retirement or pension plans (if we forget about the insurance part of any retirement solution), and quite a few are genuine life insurance solutions marketed since very old times by the industry and turned into retirement vehicles through progressive assimilation with the standard vehicle (Pension Plans) firstly regulated in Spain in 1987/1988 (*vid supra*). This assimilation has been fuelled by converging fiscal treatments for all these products, even if some of them continue to have distinctive features of their own.

Very often, market practitioners make the distinction between "financial" and "insurance" solutions when describing the nature of a given retirement solution. It must be said that if a given retirement product is a true, integral "retirement solution", it must contain insurance DNA in its composition. What is also true, instead, is that this insurance part must not necessarily be the heaviest part of any retirement product. Any retirement solution can contain an insurance part all through the accumulation and decumulation cycles of the most comprehensive product one might imagine o just the time span past the life expectancy points of the cohort the buyer belongs to. In between that span, a retirement product may or may not embody insurance features but just financial ones. Insurance-only retirement products tend to be safer

Figure ES.5 – **Evolution of Pension Funds' Asset Allocation (2010–2023, end of year)**



Data: DGFSP

and thus costlier for the buyer than financial-only products (no insurance features on them, thus). This balance implies per se a rather large array of products, but not necessarily a "very large one". As retirement products are not easy to understand by the common buyer, a very large array of products in the market does not make things easier for the retirement industry.

According to UNESPA, the Spanish Insurers Association, the total life and savings technical reserves or assets under management in the Spanish insurance sector at the end of 2022 amounted to EUR 187 billion euros. This reflects a decrease of 1.69% compared to 2021. Additionally, there were EUR 55.9 billion in third-party assets under management, marking a decline of 9.56% from the previous year. By the end of 2022, the number of insured individuals reached 14.3 million, representing a year-over-year decrease of 1.66%. The number of participants in conventional Pension Plans managed by insurers totaled 4.3 million (see Table ES.12). This year 2023 marks the first increase in the number of insured individuals over the past three years, even though assets associated with the pension system continue to decline. This trend is likely due to an increase in gross disposable income, allowing more people to invest privately for retirement. We can see that while more individuals are choosing to join Pillar III schemes, their average investments across both pillars have been noticeably lower.

Table ES.12 – **Insured Retirement and other Retirement-like schemes 2022**

Broad category	Type of scheme	Persons insured (thousands)			Technical provisions (EUR mln.)		
		Pillar II	Pillar III	Both pillars	Pillar II	Pillar III	Both pillars
Deferred capital	Insured Pension Plans (PPA)	–	858.3	858.3	–	11 034.0	11 034.0
	Company Retirement Plans (PPSE)	39.0	–	39.0	377.2	–	377.2
Pension Accruals and Insured Saving Vehicles	Risk	2 305.3	–	2 305.3	531.1	–	531.1
	PIAS[a]	–	1 071.3	1 071.3	–	13 644.7	13 644.70
	SIALP[b]	–	404.0	404.0	–	4 022.3	4 022.3
	Deferred capital	198.2	2 080.7	2 278.9	2 945.0	41 122.5	44 067.5
	Annuities[c]	–	1 663.5	1 663.5	–	63 647.3	63 647.3
	Income (acc. phase)	178.2	–	178.2	13 246.5	–	13 246.5
	Income (pay-out phase)	290.0	–	290.0	9 079.0	–	9 079.0
	Unit/Index-Linked	41.1	1 363.4	1 404.5	1 652.1	17 022.2	18 674.3
Other Retirement-like Group Insurance	Risk	3 459.4	–	3 459.4	1 077.3	–	1 077.3
	Defered capital	294.1	–	294.1	2 770.5	–	2 770.5
	Pensions (acc. phase)	18.4	–	18.4	1 084.9	–	1 084.9
	Pensions (pay-out phase)	48.6	–	48.6	2 834.7	–	2 834.7
	Unit/Index-Linked	35.9	–	35.9	1 123.0	–	1 123.0
Total		**6 908.1**	**7 441.1**	**14 349.3**	**36 721.3**	**17 022.2**	**18 674.3**
YoY change (in %)		*1.67%*	*-4.55%*	*-1.66%*	*-3.29%*	*-1.30%*	*-1.69%*

Pro memoria	**Persons insured (thousands)**	**AuM**
Pension plans managed by insurers	4 327.3	55 932.31
YoY change (in %)	*-0.49%*	*-9.56%*

Data: UNESPA;
[a] *Plan Individual de Ahorro Sistemático* or Regular Individual Saving Plan;
[b] *Seguro Individual de Ahorro a Largo Plazo* or Individual Long Term Saving Insurance;
[c] Life and Term Annuities, including tax-qualified asset's conversions into annuities in the year.

Insured Retirement Plans (PPA)

The *Planes de Previsión Asegurados* (PPA)—"Insured Retirement Plans"—are the insured counterparts of standard pension plans that were previously discussed. Among all insured retirement (or retirement-like) vehicles, PPAs are the most proper for this purpose. Their features concerning taxes, redeemability, or other factors are thoroughly the same as those of pension plans, but the fact is that interest and principal risks are taken by the insurer at a cost naturally. In particular, a known and certain interest rate is attached to this product. Once retirement happens, the insured person gets a life annuity (a lump-sum is also a popular option). In a way, technically, at least, a PPA is basically a pure deferred annuity. Table ES8 shows that, by December 2023, 809.5 thousand individuals had adopted this Pillar III retirement vehicle, with total technical reserves amounting to EUR 11.8 bn, a mere EUR 14 646 per contract, which has increased compared to the previous year 2022 that returned EUR 12 856.

Company Retirement Plans (PPSE)

These are employer-sponsored Group Insurance aiming for a complementary retirement benefit, basically a deferred capital product. They are the insured counterpart to the employer-sponsored Pension Plans (Pillar II), albeit more flexible as they adapt better to SME conditions. Table ES8 shows that, as of December 2023, only 41 thousand workers have been opted-in to this Pillar II retirement vehicle by their employers, with technical reserves amounting to EUR 406 million, again a mere EUR 9 930 per account. In 2022, the number of participants increased by a healthy 4.9%, continuing with the increasing trend for this asset.

Regular Individual Savings Plan (PIAS)

Plan Individual de Ahorro Sistemático (PIAS)—"Regular Individual Saving Plans" are, again, insured saving plans to which individuals can contribute regularly. If certain conditions are met and savings are not removed after a long period of time, accumulated assets must be converted into a permanent income at very low (and decreasing with age) fiscal cost (on interest or capital gains). Table ES8 shows that, as of December 2023, more than 1.5 million individuals have adopted this Pillar III retirement vehicle, with technical reserves amounting to EUR 15 billion, or EUR 9 826 per account, almost EUR 3 000 less than in the previous year.

Long-Term Individual Saving Plans (SIALP) Seguro Individual de Ahorro a Largo Plazo (SIALP)—"Long-term Individual Saving Plans" are PIAS-like retirement vehicles. The major difference with a PIAS is that it can be cashed either as an annuity or as a lump sum As of December 2023, 348 thousand individuals had contracted this product totalling EUR 3.75 bn technical reserves, barely EUR 10 803 per account.

Charges

Since its inception in 1987/1988, the Pension Plans market in Spain has been characterized by high average charges. There are three key aspects to consider from the outset: (i) the Spanish retirement solutions market has historically been very small,

which negatively impacts scale and efficiency, (ii) Pillar II schemes offer internationally competitive low fees, but due to the limited market size, these must be subsidized by the significantly higher fees charged in Pillar III markets, and (iii) fees have been decreasing in recent years due to intense regulatory pressure on companies.

The data discussed below clearly illustrates the consequences for savers arising from current market conditions. Over the past decade, average fees have steadily decreased to around 1% of AuM. Using this figure as a proxy for Total Expense Ratio (TER) (or total cost ratio for investors),), it can be inferred that typical investors may endure a lifelong reduction in their reduction in yield (RiY) retirement savings—amounting to approximately 13% of their final labour life savings—due to these charges.

In the insurance sector of the retirement market, there is limited knowledge regarding data that can be used for harmonized comparisons. While regulators and the industry provide relevant data in raw form, the wide variety of retirement and pension products—each with its unique features—complicates the process of producing directly comparable data. This chapter cannot cover the extensive work required to achieve that goal, but any initiative aimed at this would be greatly welcomed.

Even though regulations contribute to the additional burden of management and depositary fees for consumers, the presence of too many intermediaries—such as managers, brokers, and retailers—exacerbates the overall costs for participants or insured individuals. Recently, management and depositary fees have been regulated to prevent excessive charges. However, these regulations permit variable fees to be established based on specific yields, within certain limits.

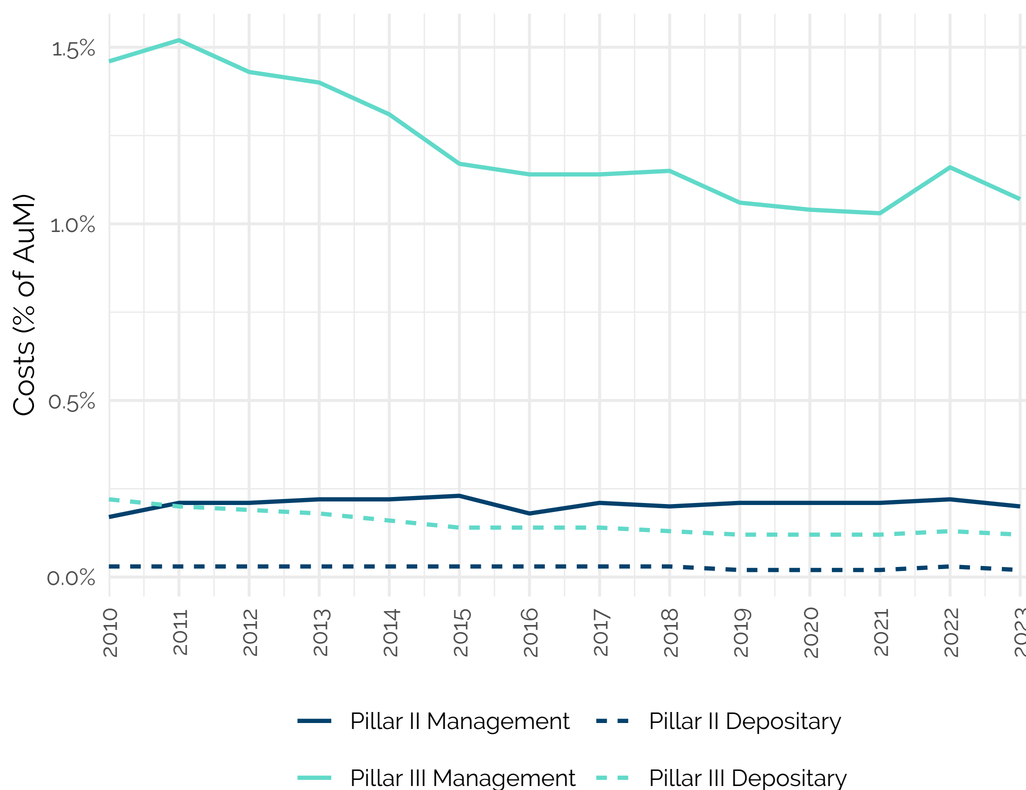
Figure ES.6 and Table ES.13 show the evolution of effective average fees charged to plan participants by both managers and depositories on Pillars II and III Pension Funds. Note that, as said before, some retailing fees (not known) may also be added to management fees.

The most notable aspect of the data in the graph is that Pillar II assets, which include employer-sponsored pension plans, are significantly more cost-effective to manage—up to nearly six times less expensive in recent years. Furthermore, depositary fees, which are already relatively low in both pillars, remain five times cheaper in Pillar II compared to Pillar III. This raises the question of whether the substantial difference in fees is solely attributable to market scale (Table ES.13).

In this context, industry transparency requirements at the international scale are starting to provide a framework for generating a comprehensive understanding and common ground for comparison about the cost and advantages of complementary retirement vehicles, as these solutions become increasingly necessary to help cushion the hard landing of Social Security benefits everywhere.

All Pillar III vehicle providers are obliged to advance a KID to their customers. These KIDs are firmly rooted in PRIIPs regulation, which is not binding for pension products. Pillar II products are not obliged to advance a KID to their customers, albeit they must, of course, provide information akin to this package regularly.

Figure ES.6 – Effective charges in Pension Funds (% of AuM), 2010–2023



Data: DGSFP.

Table ES.13 – Charges in Pension Funds 2018–2023

	Pillar II			Pillar III		
	Mgt.	Depository	Total	Mgt.	Depository	Total
2010	0.17%	0.03%	0.20%	1.46%	0.22%	1.68%
2011	0.21%	0.03%	0.24%	1.52%	0.20%	1.72%
2012	0.21%	0.03%	0.24%	1.43%	0.19%	1.62%
2013	0.22%	0.03%	0.25%	1.40%	0.18%	1.58%
2014	0.22%	0.03%	0.25%	1.31%	0.16%	1.47%
2015	0.23%	0.03%	0.26%	1.17%	0.14%	1.31%
2016	0.18%	0.03%	0.21%	1.14%	0.14%	1.28%
2017	0.21%	0.03%	0.24%	1.14%	0.14%	1.28%
2018	0.20%	0.03%	0.23%	1.15%	0.13%	1.28%
2019	0.21%	0.02%	0.23%	1.06%	0.12%	1.18%
2020	0.21%	0.02%	0.23%	1.04%	0.12%	1.16%
2021	0.21%	0.02%	0.23%	1.03%	0.12%	1.15%
2022	0.22%	0.03%	0.25%	1.16%	0.13%	1.29%
2023	0.20%	0.02%	0.22%	1.07%	0.12%	1.19%

Data: DGFSP.

Taxation

Taxation of charges and returns (*vid infra*) is one of the most contentious issues surrounding retirement products, but it shouldn't be. It's important to think critically about this topic.

While everyone agrees that income must be taxed, double taxation is unjust and inefficient. There is a consensus that labour and capital income can be taxed differently, and that tax bases can reflect certain policy objectives. However, it is fundamentally problematic to perform double taxation to the same income source.

In the absence of ordinary tax deductibility (or tax deferral) on income saved for retirement, which is the standard practice in nearly all countries, individuals who save for years for their future retirement face being taxed twice on that income and the interest it earns when they eventually receive benefits.

This situation is often labelled as "tax incentives" or, more plainly, "tax gifts", leading some social and political groups to question their fairness, calling them regressive benefits. This perception is misleading. The conventional tax treatment applied to pension assets and products is generally recognized as the best means to prevent what would otherwise be an unacceptable scenario of double taxation on personal income. Furthermore, tax deferral enhances the potential for capital growth, though it may necessitate additional regulations that few countries implement—Spain being one of them.

The pensions industry must advocate clearly and assertively for these issues to demonstrate that they genuinely care for their clients' best interests. They also need to prioritize transparency, open competition, and efforts to ensure fair charges and returns.

Typically, the taxation of retirement vehicles involves exempting income during the saving phase (along with the interest earned) and taxing benefits as they are withdrawn. This approach is known as the "Exempt-Exempt-Tax" (EET) model, which is commonly adopted worldwide. Another method to avoid double taxation on income set aside for retirement is the TTE model, where contributions and interest are taxed while benefits are tax-exempt; however, this model is rarely utilized. In reality, no country adopts a pure approach, as all have some limitations on deductibility and benefits exemption.

Tax allowances during the accumulation of savings are usually justified on the grounds that retirement savings cannot be cashed or converted into non-retirement assets before the designated retirement age. This serves as a legitimate rationale for EET schemes. However, tax authorities could recapture unpaid taxes when savings are converted rather than enforcing restrictions on savers.

The taxation of retirement savings and benefits continues to be a heavily debated topic in both literature and practice. The fairest and most effective tax regime for these funds should resemble the same taxation structure that Social Security contributions and benefits enjoy, which is generally a full (or nearly full) and unlimited

(or almost unlimited) EET. While standard pension plans set the tax precedent for many other retirement vehicles, there are significant differences, particularly during the payout phase, among various pension plans and insurance products.

Pension plans

Tax exemptions during accumulation are important for participants. This is well reflected in the Spanish market as most of the payments into these vehicles happen at the end of the year when investors seek to improve their final tax bills by deciding up to what limit they want to bring their contributions to retirement saving plans. The absolute limit up to which income saved for retirement under a Pension Plan is tax exempt in Spain is currently EUR 10 000 for occupational Plans up by EUR 2 000 with respect to 2019) and EUR 1 500 for personal Plans (down by EUR 6 500 in 2019). When the absolute limit of EUR 10 000 for Pillar II schemes is reached, participants can't put a single cent on their personal schemes.

The Budgetary Law for 2022 (December 2021) furthered the move initiated by the Budgetary Law for 2021 (December 2020) that eliminated equal tax treatment for Pillars II and III schemes, with personal retirement savings resulting clearly discriminated. The reason behind seems to be the need to reinforce occupational Plans, something that should not be done at the expense of personal Plans, however. And something that has not brought more participants to the former.

The new Simplified Occupational Pension Plans introduced in 2022, however can enlist for the first time independent workers and these enjoy a deduction limit of up to EUR 5 275. When withdrawal of benefits at retirement occurs, there are three possible cases:

1. Benefits are retrieved as a lump-sum: after a deduction of 40% from this sum the rest is taxed at the current marginal personal income tax rate as this income is considered labour income, even if the participant has never worked. No distinction is made between principal and interest earned during accumulation phase, despite the fact that Spain has a dual personal income tax.

2. Benefits are retrieved as a life (or term) annuity: this income is also considered labour income and taxed at the current marginal personal income tax rate, again with no distinction whatsoever between principal and interest part of benefits.

3. Benefits are retrieved both as a lump-sum and an annuity ("mixed income"): both tax regimes apply, each of them to the corresponding part of the retirement benefit in the first year.

Depending on the Spanish region where a retiree has their fiscal residence, the tax bill may vary. Spain's Personal Income Tax system is divided between the Central Government and its seventeen Autonomous Regions, along with the autonomous cities of Ceuta and Melilla. While the Central Government's tax scheme is consistent across the country, except for the two "Foral" (historical) regions of Navarre and the Basque Country, the regional tax schemes feature different income brackets and

marginal tax rates, as shown in Tables ES.14 and ES.15. For the 2022 tax year, the highest marginal tax rate in non-historical regions ranges from 20.5% (above EUR 57 320.40 as the upper limit) in Comunidad de Madrid to 29.50% (above EUR 200 000 as the upper limit) in Comunitat Valenciana. This creates a significant disparity in both tax rates and taxable income.

Table ES.14 – Personal income tax scale and rates – Central government*

Tax base from...	...to	Nominal marginal rates‡
EUR 0	EUR 12 450	9.50%
EUR 12 450	EUR 20 200	12.00%
EUR 20 200	EUR 35 200	15.00%
EUR 35 200	EUR 60 000	18.50%
EUR 60 000	EUR 300 000	22.50%
EUR 300 000	—	24.50%

Data: Agencia Tributaria.

* Spain has several government levels and PIT is roughly split in half between Central and Regional Governments

‡ Only Central Government and only labor income, interests and dividends are thoroughly taxed at 19

Table ES.15 – Personal income tax – Autonomous regions, 2023

Region*	Top income bracket (ordered)	Top marginal tax rate beyond top income bracket
Castilla y León	EUR 53 407	21.50%
Comunidad de Madrid	EUR 57 320	20.50%
Castilla-La Mancha, Galicia, Ceuta y Melilla	EUR 60 000	22.50%
Andalucía, Región de Murcia	EUR 60 000	22.50%
Cantabria	EUR 90 000	25.50%
Canarias	EUR 120 000	26.00%
La Rioja	EUR 120 000	27.00%
Extremadura	EUR 120 200	25.00%
Aragón	EUR 130 000	25.50%
Illes Balears	EUR 175 000	25.00%
Principado de Asturias, Cataluña	EUR 175 000	25.50%
Comunitat Valenciana	EUR 200 000	29.50%

Data: Agencia Tributaria.

* Two historical Autonomous Regions (Navarra and The Basque Country) are exempted from the Common Tax Regime; Two Autonomous Towns are included (Ceuta and Melilla).

Life insurance products

Since 1999 premiums paid into insured saving are taxed. Retirement lump sums or income from these vehicles are not taxed except in its interest and capital gains' part (thus a TEET regime). These capital gains are integrated into the savings tax base and subject to a tax rate schedule of 19% up to the first EUR 6 000, 21% from EUR 6 000 to EUR 50 000 and 23% beyond EUR 50 000. When benefits are paid as annuities, the tax rate depends on the life of the annuity and the age of the annuitant when payments began. In case of annuitant's death, with remaining capital reverting to them, heirs will have to pay inheritance tax, which may vary considerably depending on the region where they have their fiscal residence, as this tax lies within the regional jurisdiction.

Insured Retirement Plans (PPA)

This vehicle has a similar tax treatment as standard Pension Plans, Contributions to these plans are tax exempted up to an annual limit of EUR 10 000 and benefits are taxed as labour income considering the recipients age at retirement. Capital gains are subject to a dual income tax scheme. The tax regime of this vehicle thus can be said to be of the EET kind.

Regular Individual Savings Plan (PIAS)

PIAS (Permanent Individual Savings Accounts) are more flexible than traditional pension plans and Personal Pension Accounts (PPAs). They also offer advantages in terms of taxation. However, they are not strictly retirement vehicles. As a retirement savings option, annual contributions to a PIAS are fully tax-deductible, up to a limit of EUR 8 000 per year. Additionally, there is a global capital limit for this type of savings plan, which is EUR 240 000 It is important to note that individuals can only own one PIAS. During the payout phase, if the income is received as a lump sum, taxation applies as usual, involving the dual income tax on labour income (the principal) and capital gains income (the returns).

If retirement income is received as a life annuity, capital gains are completely exempt from taxation, while the principal amount is taxed at decreasing rates over time as savings accumulate before retirement. A PIAS can be withdrawn well before the typical retirement age. However, if cashed out after the age of 65, the tax rate is 20%, which decreases to 8% for withdrawals made after the age of 70.

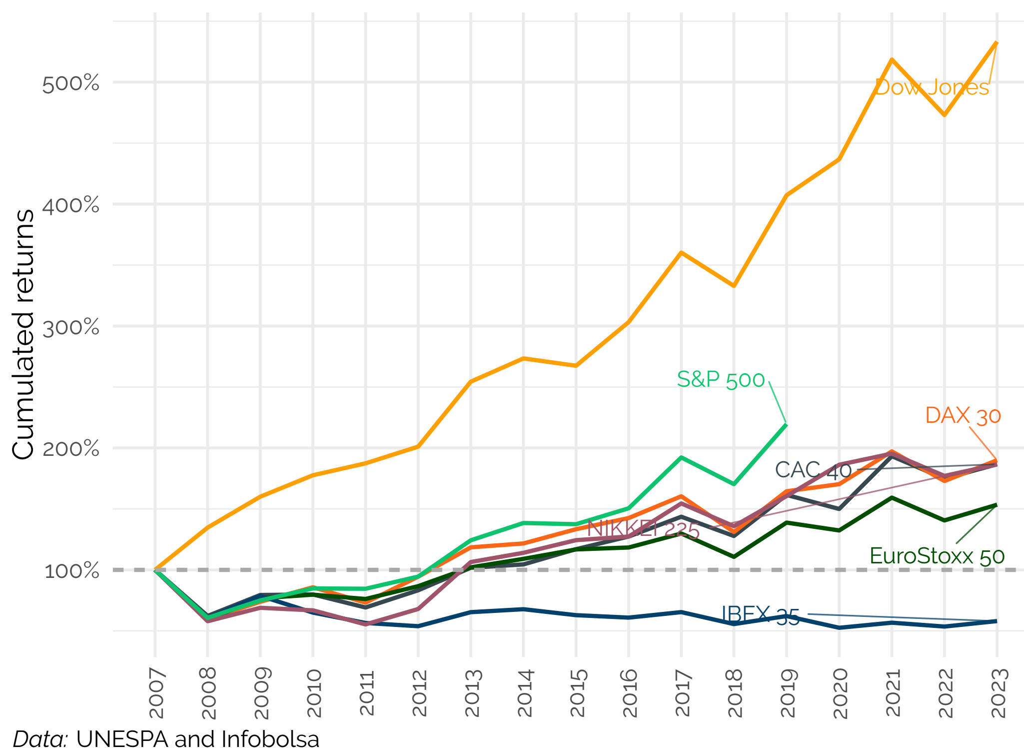
The EUR 240 000 limit for total savings under a PIAS is important because, starting from 2015, individuals aged 65 and older who sell any assets they own (including financial assets, real estate, artwork, etc.) to purchase a life annuity are exempt from capital gains tax under the dual income tax system.

Performance of Spanish long-term and pension savings

Spanish capital and debt markets returns

In 2008 major world stock indexes suffered a 40% loss with respect to the previous year. That was a catastrophe. All asset classes linked to stock suffered accordingly. Hundreds of thousands of workers in advanced countries had to postpone their retirement because these losses would mark the value of their retirement incomes for the rest of their lives nearing many of them to poverty at old age. Most of these stock markets recovered the 2007 line by 2012–2013, but the Spanish stock market has not even recovered its end-2007 level. This can be seen in Figure ES.7.

Figure ES.7 – Major stock markets performance 2007–2023



Data: UNESPA and Infobolsa

Some may argue that Spanish workers are fortunate to have their retirement savings largely protected from the stock market. While equity funds have shown the highest annualized performance among the three Pillar III products during this period, it would be misleading to suggest that Spaniards benefit from avoiding equities altogether; instead, they should consider steering clear of the IBEX 35 specifically. However, the reality is that many Spanish workers possess little to no relevant retirement assets. This situation primarily stems from the substantial implicit wealth they have in Social Security, as pension benefits replace over 80% of labour income, according to the OECD. Additionally, many individuals own significant amounts of real estate.

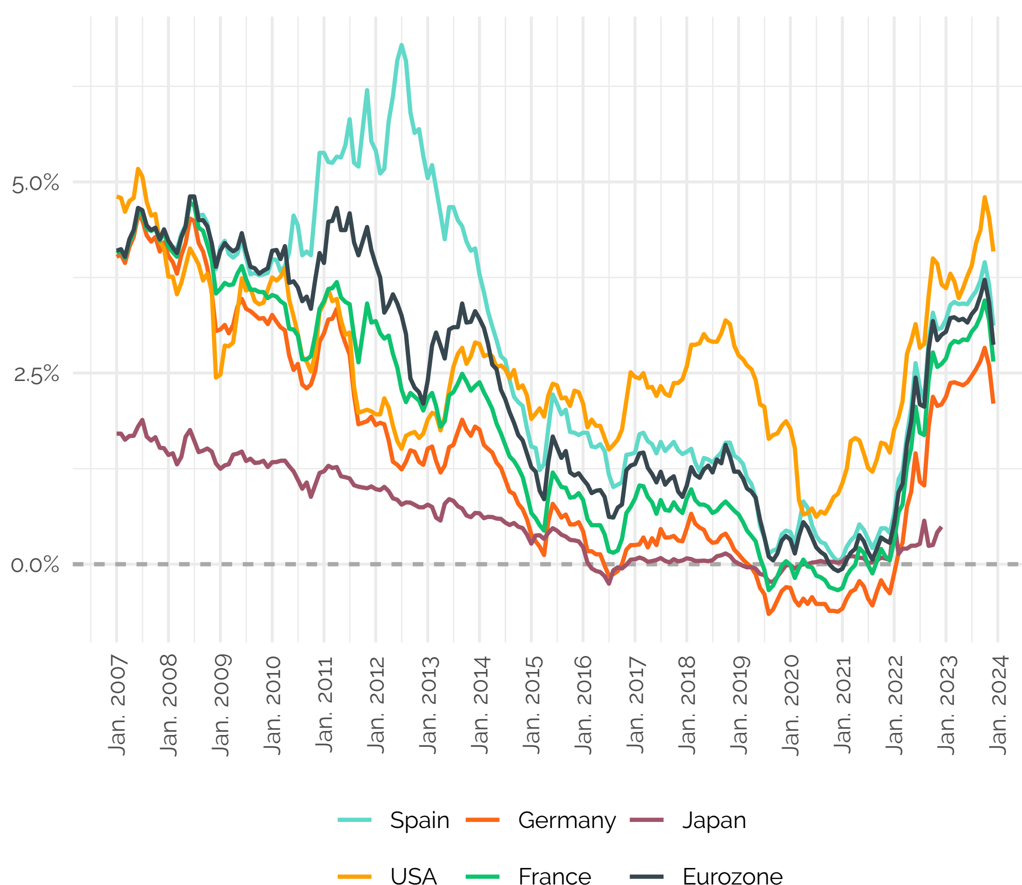
The year 2020 was unfavourable for stock returns due to various reasons, but 2021 witnessed a notable recovery, with most exchanges surpassing 2019 levels and reaching all-time highs since the financial crisis began. However, 2022 proved detrimental

for returns, with major exchanges dropping by around 10%. The Spanish IBEX index experienced a comparatively modest decline of 5.56%. In contrast, the index grew by 8.4% in 2023, outpacing the growth rates of the French and Japanese indexes.

From 2007 to 2023, the Dow Jones index increased by 433%, which equates to an annualized growth rate of 11.81%. The German DAX 30 rose by 89.91%, reflecting an annual growth rate of 4.37%. Meanwhile, the Spanish IBEX 35 in 2023 reached only 41.97% of its 2007 value, indicating an annual decline of -3.56%. However, it has gradually been closing the gap compared to previous years' results.

Sovereign debt markets in advanced countries have also experienced volatility. Spanish 10-year bond yields reached critical levels in August 2012, hitting 679 basis points. An EU financial sector rescue package was necessary to stabilize the Spanish sovereign market and potentially save the Euro, incurring significant costs (see Figure ES.8).

Figure ES.8 – Major Sovereign Bond Yields (yoy, monthly, 10 years) 2007-2023



Data: Banco de España

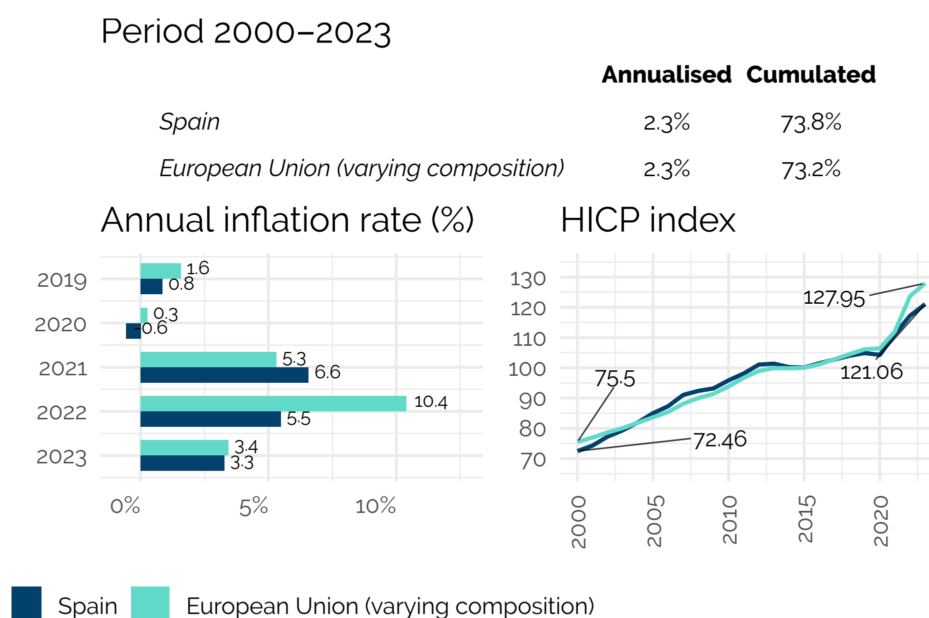
Since May 2015, the ECB has succeeded in calming lenders, and sovereigns have entered a considerably quieter environment. By mid 2019 European and Japanese 10-year bond yields reached around null or negative levels. Spanish 10-year bond

yields were quoted at 3.12% in December 2023 (0.04% in December 2020, 0.41% in December 2021 and 3.09% in December 2022) versus a 2.1% quote for Germany's 10-year bond, an exact 100 bp risk premium for Spain, although only slightly above the Eurozone level, and below the United States (US).

Figure ES.8 clearly shows both the assets price depreciation and corresponding increasing in interest rates that Central Banks intervention has brought since inflation started to hit Western economies in 2022 and 2023. However, these trends have stagnated by January 2024, reaching levels similar to those in 2023.

In contrast to the conditions in 2021, both stock and bond markets experienced significant declines in 2022. This general deterioration in 2022, along with substantial depreciation in bond values—assets typically used for retirement savings—resulted in one of the worst years for the pension asset management industry since the Great Recession. Most portfolios saw nominal returns hovering around -10%. Additionally, an overall inflation rate not seen in decades exacerbated these issues. In 2023, markets recovered strongly and inflation fell to 3.3%, in line with the EU average (see Figure ES.9).

Figure ES.9 – **Inflation in Spain**



Period 2000–2023

	Annualised	**Cumulated**
Spain	2.3%	73.8%
European Union (varying composition)	2.3%	73.2%

Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

Real net returns of Spanish long-term and pension savings

One of the salient features of the Spanish retirement vehicles market is the large variety of solutions marketed and the small size of the overall market, let apart the small significance of some of its segments. This may seem hard saying, but a way

must be found to substantially enlarge the number of workers covered and the size of per account assets and reserves. There is some hope that the newly adopted regulation on "Simplified Employment Pension Plans" helps to this purpose.

As shown in the figures presented in this section, savings that maintained their purchasing power until 2021—with a few exceptions—performed significantly worse by the end of 2023, with real returns falling well below inflation. The main reason Spaniards are driven to participate in the complementary retirement savings system is the benefit of tax deferral, along with the locking-in effect it creates. This factor is more influential than the real returns on these retirement assets after accounting for management fees.

All the evidence produced in this section belongs to the standard Pension Plans system, not to insured retirement vehicles, due to data limitations. All data comes basically form the website of INVERCO, the Spanish body representing Mutual Investment Institutions and Pension Funds.

Notice, nevertheless, that retirement products insurance comes at an additional cost (with respect to purely financial vehicles) due to the intrinsic nature of both guaranteeing assets' value, on the one hand, and covering longevity risk, on the other hand. Even if insurers are good performers, also as assets managers, and enjoy the very long-term premiums of the underlying matching assets they invest in, they also need to beat the insurance extra cost that these products entail.

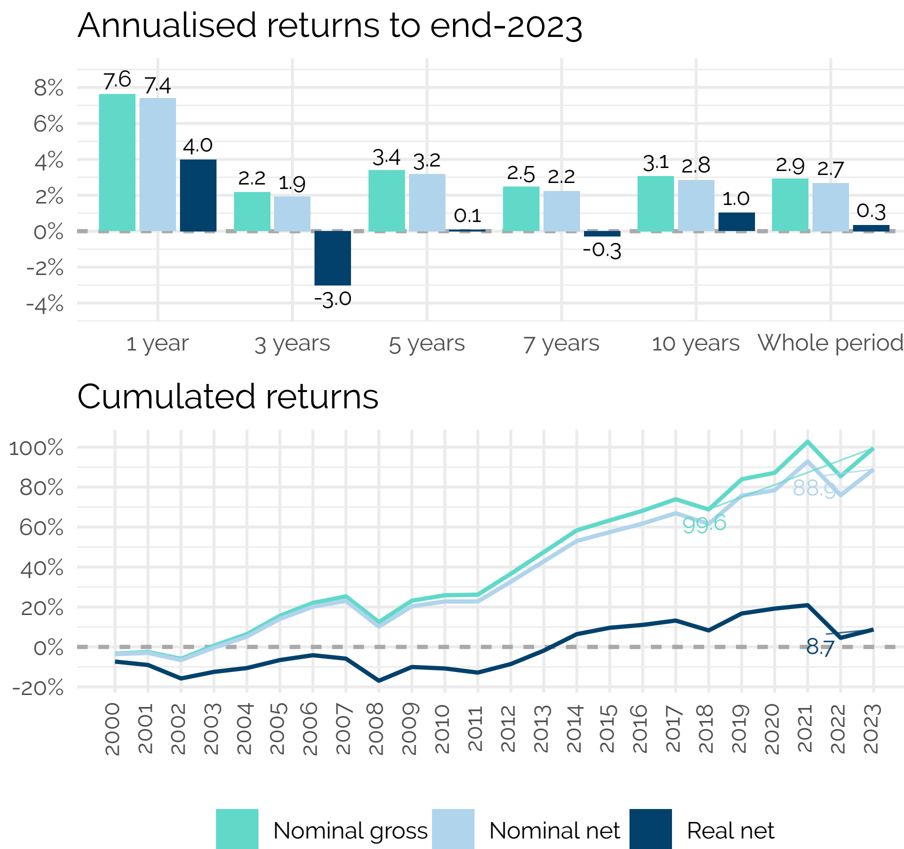
The returns of Pillars II and III Pension Funds are displayed under the following graphs Figures ES.10 to ES.13. The returns are classified as "gross", "net" and "real". "Gross" refers to returns before deducting management fees, depositary fees, and commissions (any retailing and other transaction costs are not explicitly shown). "Net" indicates the returns after these costs have been deducted. Both gross and net returns are nominal figures. In contrast, "real" returns adjust for inflation. Since 2009, there has been a predominance of positive net nominal returns, with several years showing particularly strong returns on invested assets. On a historical basis, the average cumulative real returns remain significantly positive (according to INVERCO), indicating an overall upward trend. However, the year 2022 disrupted this trend, bringing cumulative return rates down to levels seen in 2014. In 2023, the upward trend in returns has started to recover.

2018 was a challenging year for investment returns across all asset classes, particularly in the stock market. However, returns sharply rebounded in 2019. The volatility continued into 2020 and 2021, as markets were significantly impacted by the economic collapse caused by COVID-19, followed by a notable recovery in 2021. Unfortunately, 2022 turned out to be another difficult year, with nominal returns across all assets suffering substantial losses when adjusted for inflation. In contrast, 2023 marked a recovery, compensating for the declines of 2022 and delivering overall positive results for the Spanish economy. A clearer picture emerges when we track overall returns over time using cumulative return calculations, as shown in the lower pane of each figure.

In the period 2000–2023, cumulative nominal net returns for conventional occupa-

tional pension funds reached 88.93%— a recovery of 13 p.p. compared to 2022 but still a drop by about 4 p.p. from end-2021—and annualised returns over the period amounted to 2.7%. After correcting for inflation, the cumulative *real* return is reduced to 8.7% (0.3% annualised). Over the past 10 years, the nominal *gross* annualised return was 3.1% per year; the 2.8% annualised nominal *net* return and 1% *real* return therefore imply that each year, on average, 0.3 p.p. of returns were given to managers, while 1.8 p.p. of returns each year were destroyed by inflation.

Figure ES.10 – Returns of Spanish conventional occupational pension funds (before tax, % of AuM)

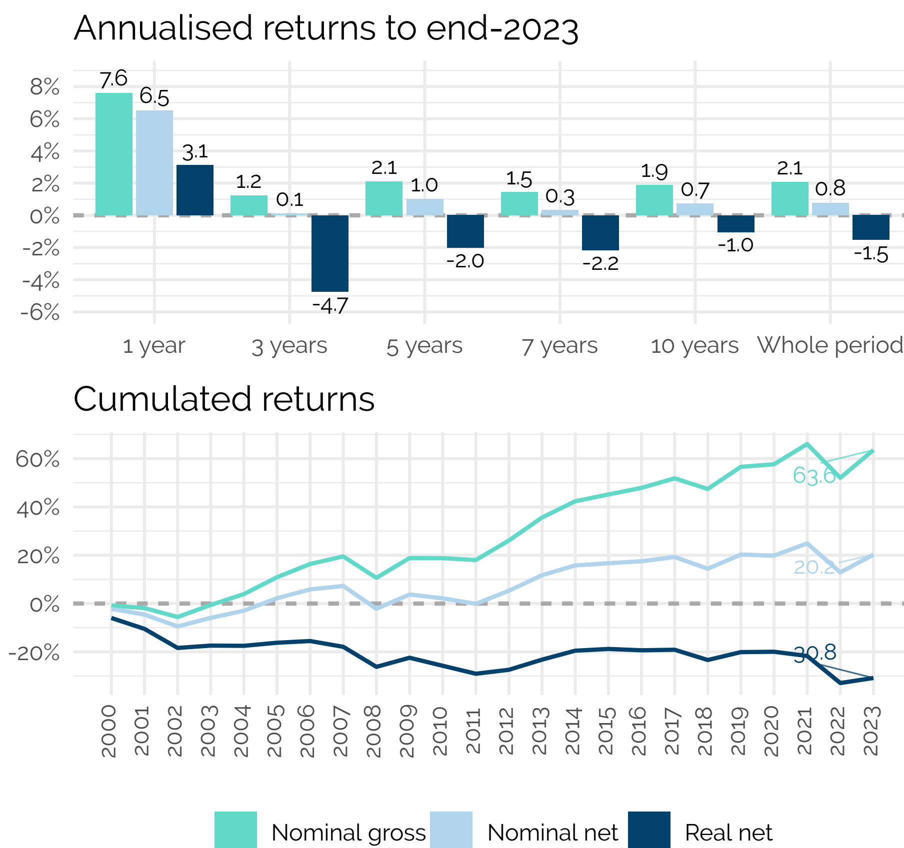


Data: INVERCO, DGSFP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to er

The situation is particularly concerning for Pillar III funds. Those that primarily invest in bonds have achieved a cumulative nominal return of only 20.2% over the past 24 years, which translates to an average annual return of just 0.8% (see Figure ES.11). In contrast, funds investing primarily between 30% and 75% in equities have performed slightly better, with a cumulative nominal net return of 36.5%, or an annualized return of 1.3% (see Figure ES.12). Funds that allocate over 75% of their assets to equities have seen a much higher cumulative nominal net return of 73.5%, which amounts to an annualized return of 2.3% (see Figure ES.13), largely due to the strong performance of equity markets in 2019 and 2021.

Nevertheless, when adjusted for inflation, all three categories of funds demonstrate negative real performance. The worst affected are bond funds, with a staggering negative return of -30.8%, while equity funds show a marginally better performance with a negative return of -0.1%. Overall, equity funds exhibit the best evolution among the three, recording almost no losses.

Figure ES.11 – **Returns of Spanish mostly bonds Pillar III pension plans (before tax, % of AuM)**

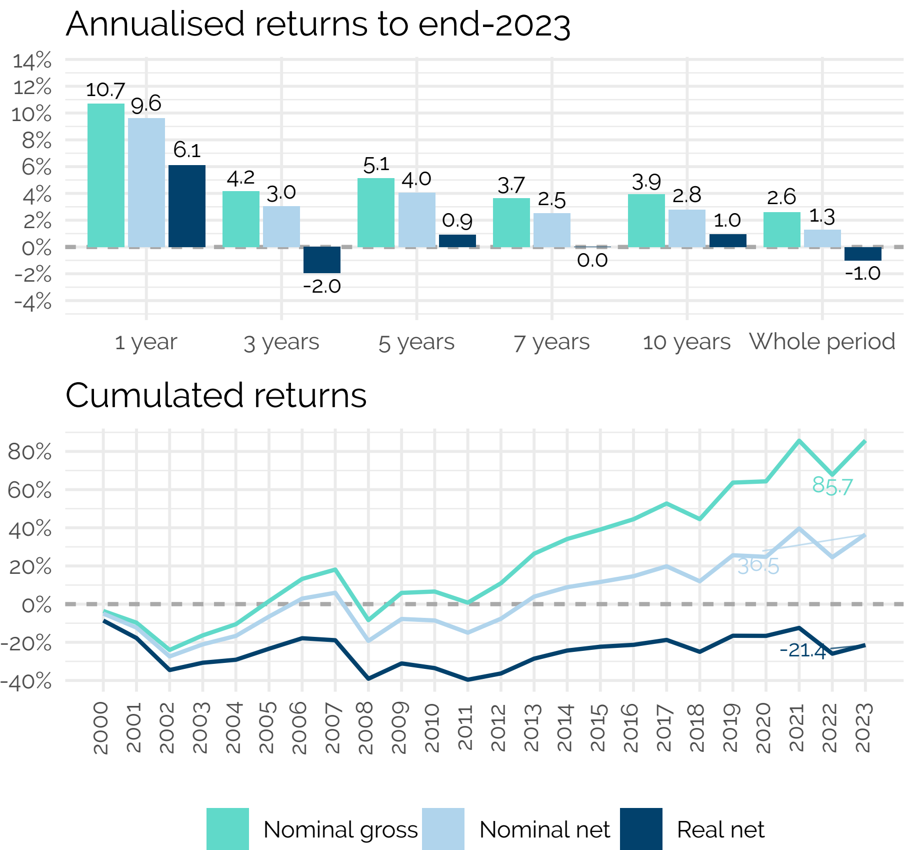


Data: INVERCO, DGSFP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to er

Over the period 2014-2023, bond, mixed, and equity Pillar III pension funds lost respectively 1.2, 1.1 and 1.2p.p. of their average annual nominal gross returns to costs and charges, and 1.7, 1.8 and 1.9 to inflation. This comparison confirms the already mentioned observation that the costs of Pillar III funds, being much higher than those of occupational pension funds, constitute a major negative performance factor, worsened with the higher inflation of the previous year.

Occupational Pension Funds (Pillar II) are much cheaper to manage, as seen before, and obtain a larger net nominal return, as seen in Figure ES.10, even though their gross performance is not better than that of equity individual plans once compared in the longer term. Among Pillar III funds, we observe that, for the same level of costs, the "best" performance is obtained by those funds that are mostly invested

Figure ES.12 – **Returns of Spanish mostly equity Pillar III pension plans (before tax, % of AuM)**

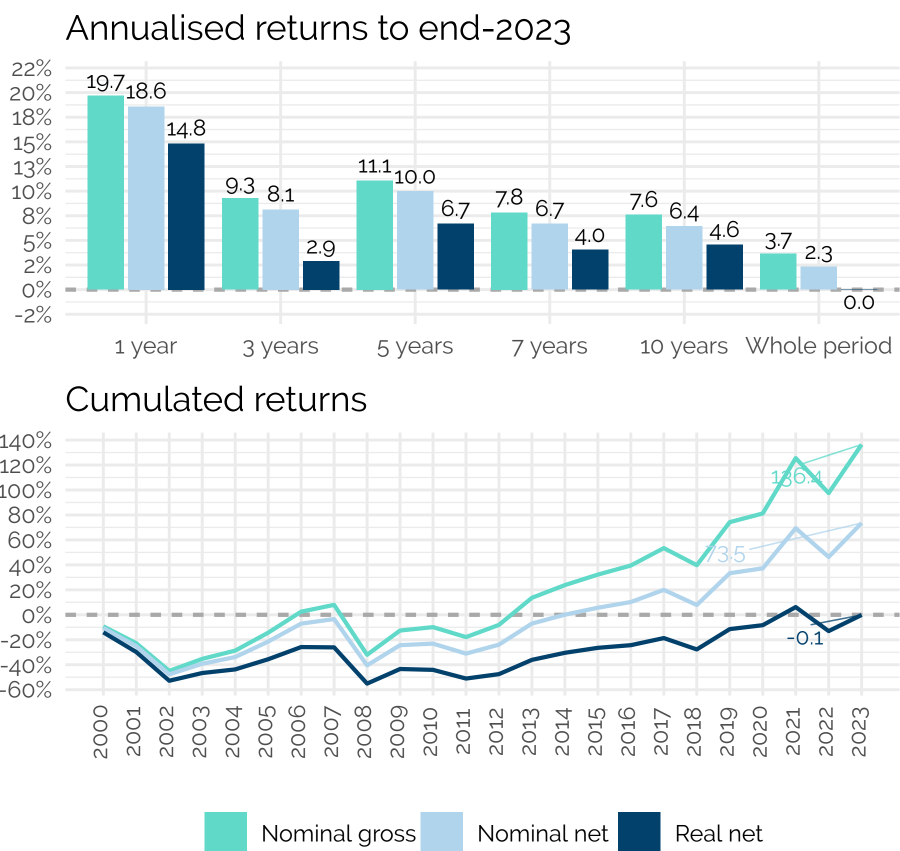


Data: INVERCO, DGSFP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to er

in equity, although they were, for a long period of time, the worst performing of the three categories of funds. Figures ES.14 and ES.15 offer a comparative perspective.

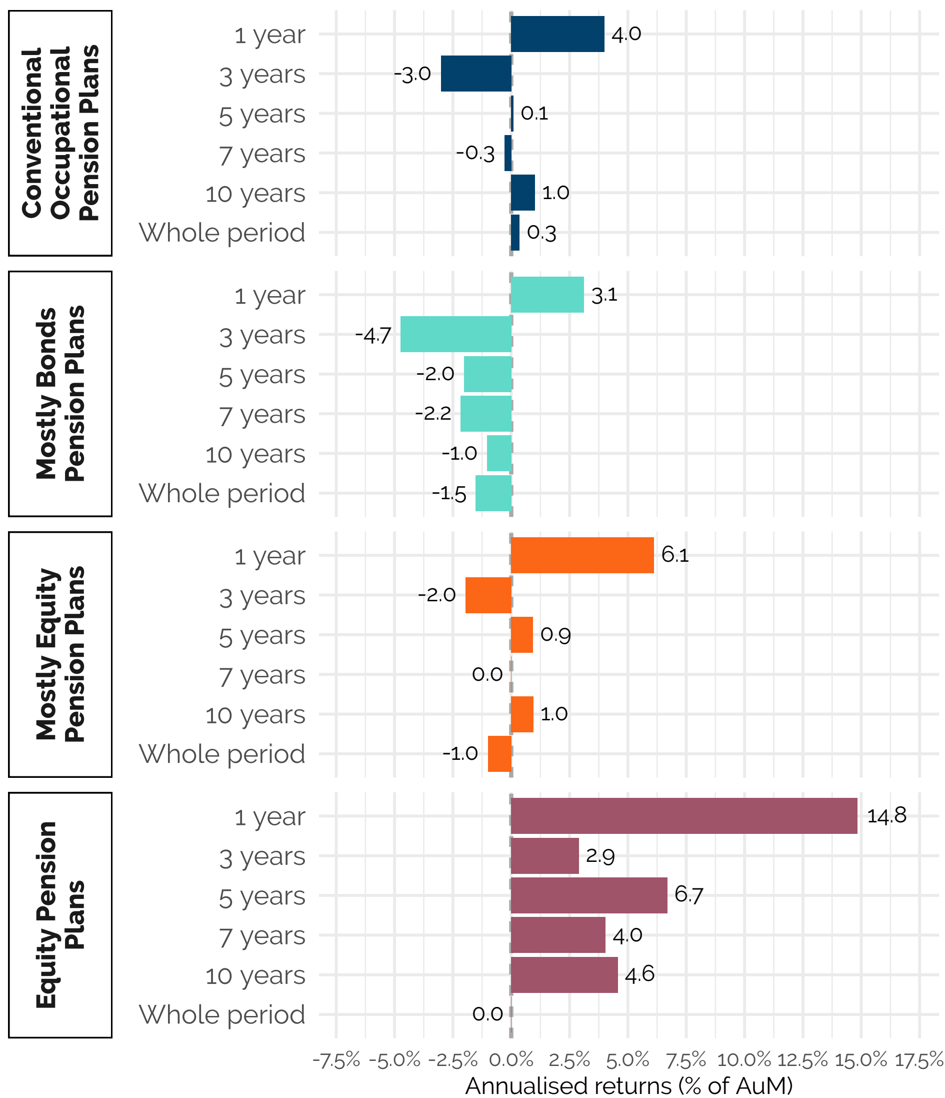
Given the performance of Pillar II (Figure ES.10) and Pillar III (Figures ES.11 to ES.13) pension funds and the overall system performance just discussed, the conclusion emerges Spanish pension funds either barely manage to operate above inflation (for occupational funds), or do not manage to at least preserve the purchasing power of pension savings (individual funds). However, this year 2023, all funds have slightly recovered from last year's crash.

Figure ES.13 – **Returns of Spanish equity Pillar III pension plans (before tax, % of AuM)**



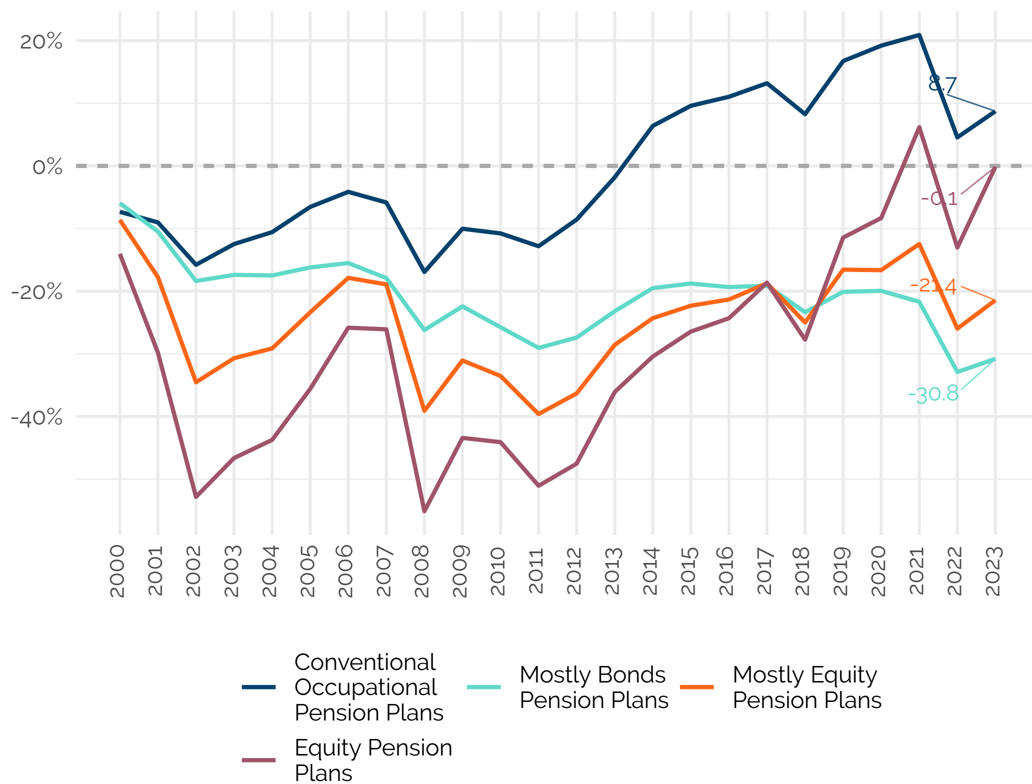
Data: INVERCO, DGSFP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to er

Figure ES.14 – Annualised returns of Spanish long-term and pension vehicles over varying holding periods (before tax, % of AuM)



Data: INVERCO, DGSFP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to enc

Figure ES.15 – Cumulated returns of Spanish long-term and pension savings vehicles (2003–2023, before tax, % of AuM)



Data: INVERCO, DGSFP, Eurostat; *Calculations:* BETTER FINANCE.

Do Spanish savings products beat capital markets?

In this section, we compare the performance of the four categories of pension funds analysed in this chapter with the real returns of four hypothetical capital market portfolios over the period 2000–2023. Acknowledging the different asset allocations of the four types of funds, we have set the equity-bond balance of each benchmark portfolio at different levels; however the underlying indices are the two pan-European indices of the "default" benchmark (see introductory chapter). The composition of the benchmark portfolios is summarized in Table ES.16

Table ES.16 – Capital market benchmarks to assess the performance of Spanish pension vehicles

Product	Equity index	Bonds index	Allocation
Conventional Occupational Pension Plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
Mostly Bonds Pension Plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	30.0%–70.0%
Mostly Equity Pension Plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
Equity Pension Plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	75.0%–25.0%

Note: Benchmark porfolios are rebalanced annually.

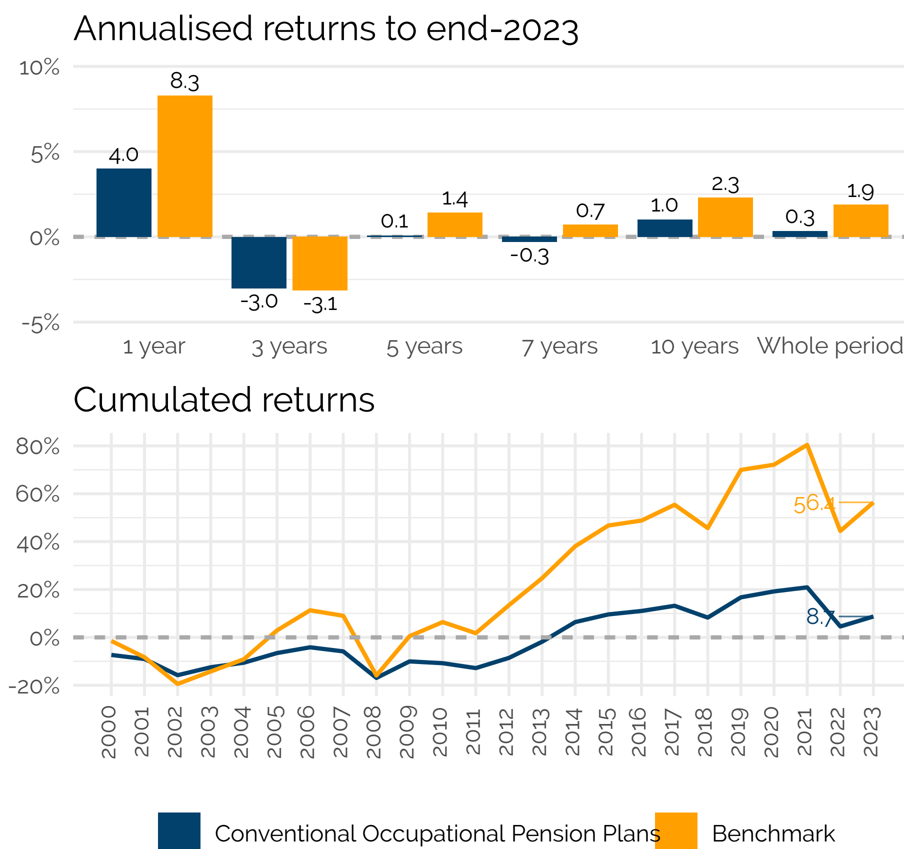
As shown in **??**, over the 24-year period, conventional occupational pension funds failed to beat a 50% equity–50% bond benchmark by an average of 1.5p.p. per year, or 47.7p.p. accumulated.

Investment strategies

Returns discussed in the previous section are indeed varied. Their diversity, of course, is rooted in a couple of basic factors: (i) the assets in which retirement funds are invested in and (ii) the strategies managers deploy, given the portfolio, in order to get a high return for their customers. As clues for the reasons behind the varied results just discussed, several standard facts emerge irrespective of managers' capacity to beat the records: (i) long-term and short-term debt have yielded more than mixed debt, (ii) debt is less volatile than stocks and thus less risky, and (iii) managers' fees are far smaller for Pillar II vehicles than for Pillar III ones. The superior returns of guaranteed funds however defy common sense as these are more conservatively invested and should bear some extra cost due to the guaranty over the principal they embody.

To what extent have managers been responsible for the poor results of pension funds in Spain since 2000? While a detailed analysis of each fund and manager is beyond the scope of this chapter (Fernandez & Fernández Acín, 2019), some gen-

Figure ES.16 – Performance of Spanish conventional occupational pension plans against a capital market benchmark (returns before tax, after inflation, % of AuM)



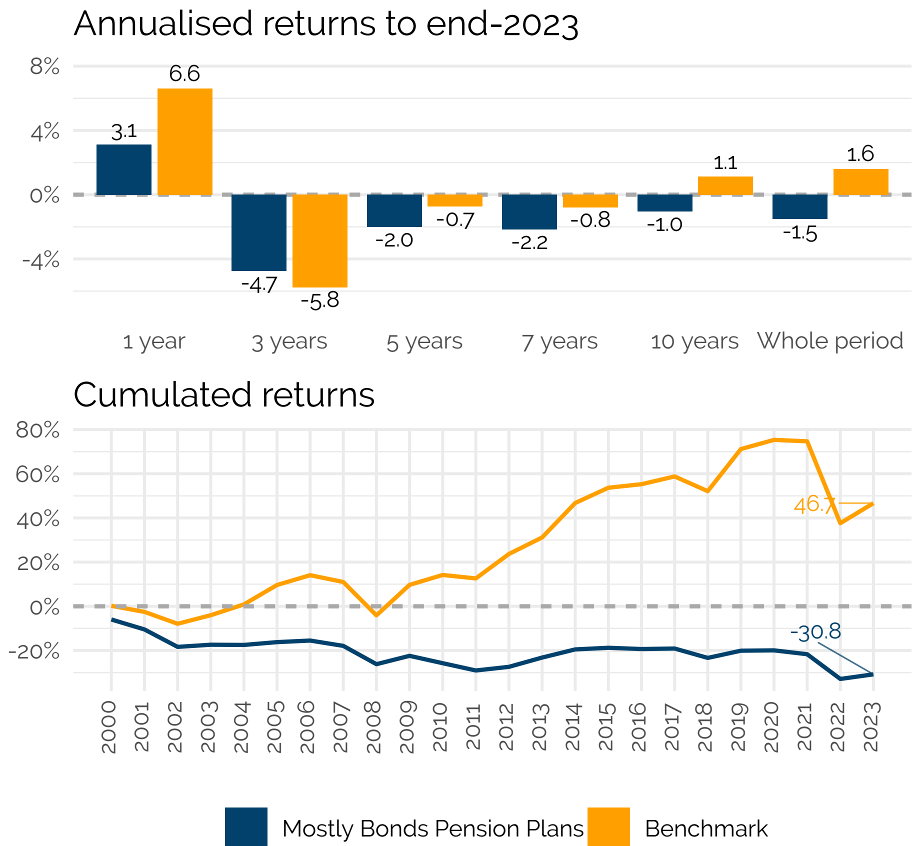
Data: INVERCO, DGFSP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to er

eral observations can be made. Guaranteed funds, which represented 4.09% of Pillar III total assets in 2022 (down from 19.47% in 2010), have proven to be more profitable for participants compared to other options. However, it is likely that these funds are more expensive to manage due to the insurance coverage they provide. Additionally, funds in Pillar III typically incur higher management fees than those in Pillar II.

Managers in Spain may face restrictions due to the rigid asset structures found in established portfolios within Pillar III, while they generally have more freedom with Pillar II vehicles, even though these may ultimately be similar. Over the last decade (2014–-2023), the gross returns (before charges) in these two categories differ only slightly, with Pillar III funds having a slight advantage. However, the significant difference in net returns favouring Pillar II funds is mainly due to much lower management fees associated with Pillar II funds compared to those in Pillar III.

All categories of retirement vehicles in Spain tend to invest cautiously in foreign assets, with only a few funds dedicated to this category. While foreign assets can offer

Figure ES.17 – **Performance of Spanish mostly bonds Pillar III pension plans against a capital market benchmark (returns before tax, after inflation, % of AuM)**

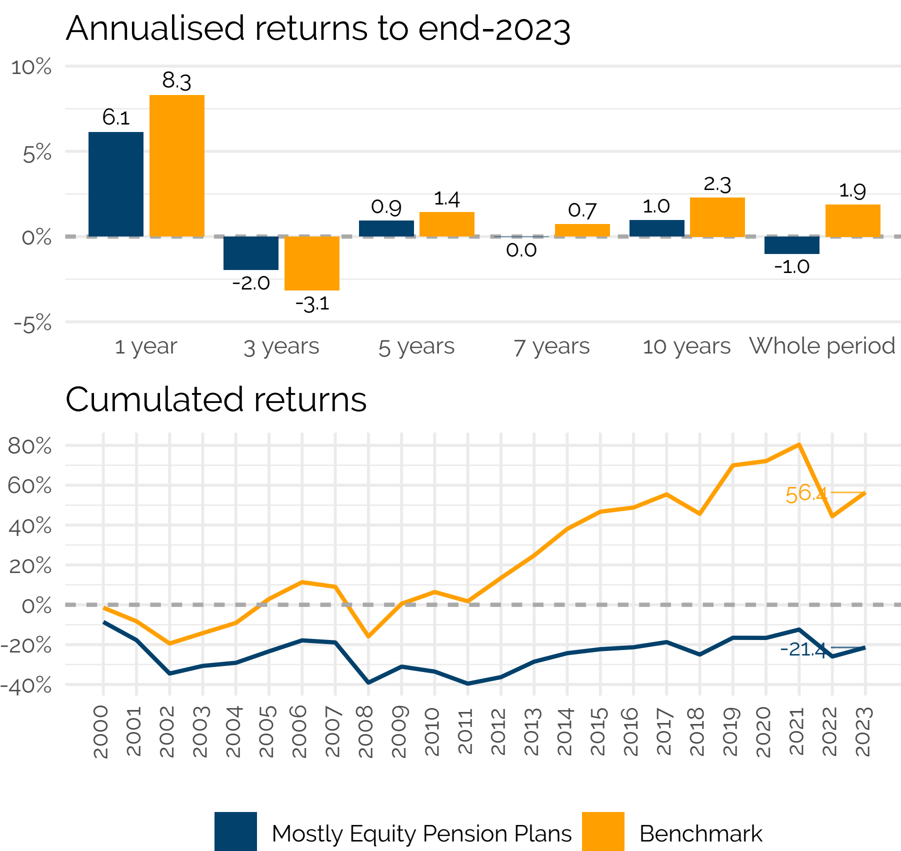


Data: INVERCO, DGFSP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to er

superior returns, these outcomes are not guaranteed, and this investment strategy often incurs additional costs.

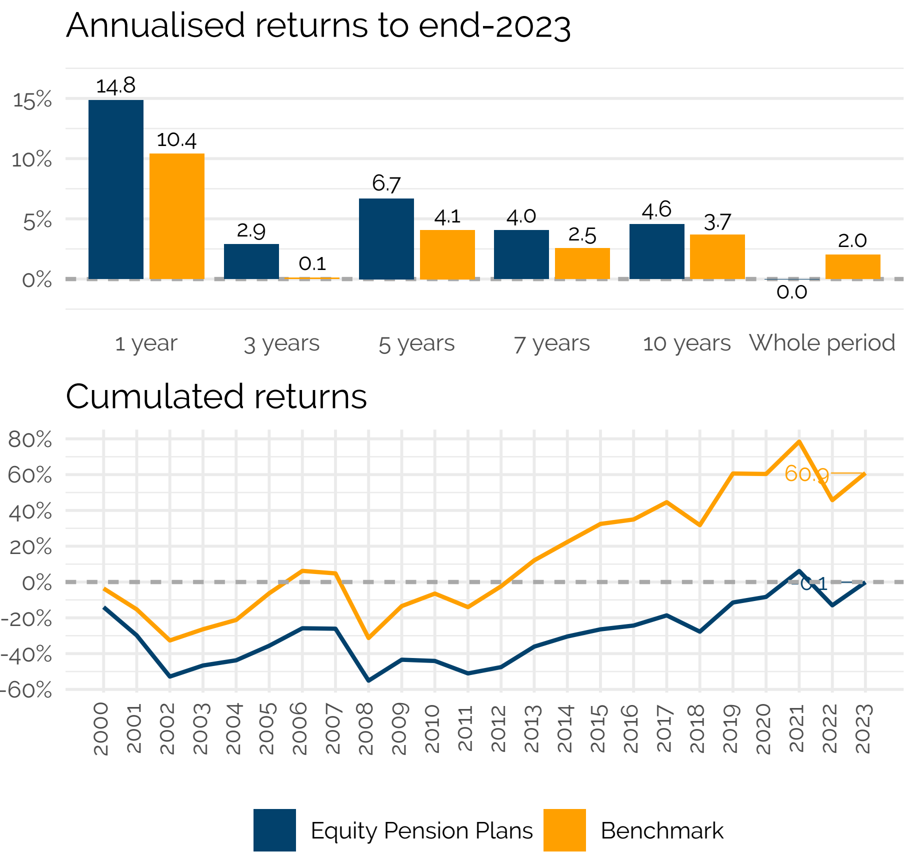
Managers of guaranteed funds, who have considerably more freedom than their non-guaranteed counterparts (despite often being the same individuals), do not have to contend with internal controls like those imposed on Pillar II managers. As a result, they seem to have taken advantage of this greater flexibility to achieve higher returns for the participants in their funds.

Figure ES.18 – Performance of Spanish mostly equity Pillar III pension plans against a capital market benchmark (returns before tax, after inflation, % of AuM)



Data: INVERCO, DGFSP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to er

Figure ES.19 – **Performance of Spanish equity Pillar III pension plans against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: INVERCO, DGFSP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to er

Conclusions

Spanish retirement assets, through standard Pension Plans are a mere 8.17% of GDP in 2023. Insurance retirement (and retirement-like) assets and provisions, a large array of different products not equally qualified as retirement vehicles, could add another 11.75% GDP points to standard Pension Plans. This, by all standards, is a small pensions industry even if some 9.5 million individuals participate in Pension Plans and some 16.4 million individuals are covered by insurance retirement or quasi-retirement vehicles. Assets, technical provisions, or other retirement rights amount, on average, (2023) to EUR 12,092 per contract or account making the whole system an insufficient complement to Social Security retirement benefits. This unfortunate complementary pensions landscape is rare among advanced countries.

The retirement vehicle market in Spain boasts a diverse array of agents, products, and retirement schemes that, in theory, should adequately serve the entire work-force and beyond. However, two closely related factors hinder this from occurring: the widespread availability of Social Security pensions, which replace approximately 80% of lost labour income upon retirement, and the significant costs associated with these pensions for both employers and employees. Additionally, many employers, especially those in small and medium-sized enterprises (SMEs), are often reluctant to sponsor company retirement schemes for their employees due to the extra costs involved.

This chapter of the Better Finance Pension Report 2024, apart general descriptions of the landscape in Spain, has gone with a certain detail through some of the most salient features of our Pillars II and III arrangements on, basically, three crucial dimensions: (i) charges, (ii) taxes and (iii) returns.

On charges, we find that these are rather large on average, but only because the Individual schemes are considerably costlier to manage than occupational ones. The latter keep their charges very low in line with what is observed in other more advanced and developed markets or even lower. Thanks to intense regulatory effort in the last few years, charges in Pillar III schemes have decreased clearly. A continuation of this trend, without a significant increase in market size, continues to look far less affordable for managers than before. Scale is at the core of this.

On taxation, Spain has an EET, tax-deferral regime for retirement assets and incomes, which is the standard in most countries in the world. Spain also has deductibility of contributions to retirement vehicles (up to certain limits), an even more followed standard in most countries in the world. This is the right way to avoid unacceptable double taxation. No tax expert would have any doubt about the importance of keeping the current deductibility of contributions and thus tax deferral. Tax deferral empowers the accumulation of pension rights and may also turn to be a good business for tax authorities in the longer run. Spain however is still recovering from its dark period in 2021 and 2022 which strongly limited the deductibility in Pillar III schemes. This has been corrected in part in 2022 with the new legislation regulating the "Simplified Employment Pension Plans" to which independent workers can join in much better tax conditions than if they remain in Pillar III schemes.

Tax deductibility, along with deferral, should not be viewed as gifts or favours; instead, they represent the most effective strategy to promote long-term retirement savings. Some limits on tax deductibility may be excessively low or even arbitrary. It's also perplexing to see certain political and social groups advocating for the complete elimination of tax deductibility.

Tax deferral in Spain is viewed by most participants in the retirement market—whether they are workers, insured individuals, managers, or retailers—as the sole reason for purchasing or selling these products. This cultural trait, along with other factors discussed in this report, may help explain the underdevelopment of Pillars II and III in this country.

On real returns, it must be acknowledged that performance to date is struggling to overcome inflation in the long term. Many will find the results disappointing. Nominal gross returns for more than two-thirds of participants are burdened with significant charges, as previously mentioned. However, the gross returns (before charges) are not that bad. Once again, taxes play a role in helping many participants conclude that investing in these vehicles is still worthwhile, despite the illiquid nature of most of them.

Participants often tackle this challenge by strategically allocating just enough funds each year to these investments to maximize their tax benefits without exceeding them. This strategy is mainly feasible for those participants who can set aside some extra money for retirement regularly, as roughly half of the total participants cannot afford to contribute more to their supplemental pension funds since the Great Recession. Meanwhile, millions of workers who do not participate in supplemental pension schemes may believe that Social Security will always be available to provide them with retirement benefits. They may assume this comes with a much higher implicit rate of return on their contributions, free of management fees and linked to inflation, while possibly overlooking the fact that someone will have to cover an increasing portion of their expenses. Therefore, it is vital for individuals to remain proactive and informed about their investment choices to secure a stable financial future.

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