

BF BETTER FINANCE

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Long-Term and Pension Savings | The Real Return

2021 Edition



Pension Savings: The Real Return

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A Research Report by BETTER FINANCE

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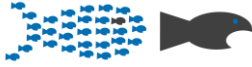
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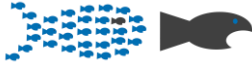
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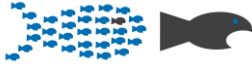


Acronyms

AIF	Alternative Investment Fund
AMC	Annual Management Charges
AuM	Assets under Management
BE	Belgium
BG	Bulgaria
Bln	Billion
BPETR	'Barclay's Pan-European High Yield Total Return' Index
CAC 40	'Cotation Assistée en Continu 40' Index
CMU	Capital Markets Union
DAX 30	'Deutsche Aktieindex 30' Index
DB	Defined Benefit plan
DC	Defined Contribution plan
DE	Germany
DG	Directorate General of the Commission of the European Union
DK	Denmark
DWP	United Kingdom's Governmental Agency Department for Work and Pensions
EBA	European Banking Authority
EE	Estonia
EEE	Exempt-Exempt-Exempt Regime
EET	Exempt-Exempt-Tax Regime
ETF	Exchange-Traded Fund
EIOPA	European Insurance and Occupational Pensions Authority
ES	Spain
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
EURIBOR	Euro InterBank Offered Rate
EX	Executive Summary
FR	France
FSMA	Financial Services and Market Authority (Belgium)
FSUG	Financial Services Users Group - European Commission's Expert Group
FTSE 100	The Financial Times Stock Exchange 100 Index
FW	Foreword
GDP	Gross Domestic Product
HICP	Harmonised Indices of Consumer Prices



IBEX 35	Índice Bursátil Español 35 Index
IKZE	‘Indywidualne konto zabezpieczenia emerytalnego’ – Polish specific Individual pension savings account
IRA	United States specific Individual Retirement Account
IT	Italy
JPM	J&P Morgan Indices
KIID	Key Investor Information Document
LV	Latvia
NAV	Net Asset Value
Mln	Million
MSCI	Morgan Stanley Capital International Indices
NL	Netherlands
OECD	The Organisation for Economic Co-Operation and Development
OFT	United Kingdom’s Office for Fair Trading
PAYG	Pay-As-You-Go Principle
PIP	Italian specific ‘Individual Investment Plan’
PL	Poland
PRIIP(s)	Packaged Retail and Insurance-Based Investment Products
RO	Romania
S&P	Standard & Poor Indexes
SE	Sweden
SK	Slovakia
SME	Small and Medium-sized Enterprise
SPIVA	Standard & Poor Dow Jones’ Indices Research Report on Active Management performances
Scorecard	
TEE	Tax-Exempt-Exempt Regime
TCR/TER	Total Cost Ratio/ Total Expense Ratio
UCITS	Undertakings for the Collective Investment of Transferable Securities
UK	United Kingdom



Glossary of terms

Accrued benefits* – is the amount of accumulated pension benefits of a pension plan member on the basis of years of service.

Accumulated assets* – is the total value of assets accumulated in a pension fund.

Active member* – is a pension plan member who is making contributions (and/or on behalf of whom contributions are being made) and is accumulating assets.

AIF(s) – or Alternative Investment Funds are a form of collective investment funds under E.U. law that do not require authorization as a UCITS fund.¹

Annuity* – is a form of financial contract mostly sold by life insurance companies that guarantees a fixed or variable payment of income benefit (monthly, quarterly, half-yearly, or yearly) for the life of a person(s) (the annuitant) or for a specified period of time. It is different than a life insurance contract which provides income to the beneficiary after the death of the insured. An annuity may be bought through instalments or as a single lump sum. Benefits may start immediately or at a pre-defined time in the future or at a specific age.

Annuity rate* – is the present value of a series of payments of unit value per period payable to an individual that is calculated based on factors such as the mortality of the annuitant and the possible investment returns.

Asset allocation* – is the act of investing the pension fund's assets following its investment strategy.

Asset management* – is the act of investing the pension fund's assets following its investment strategy.

Asset manager* – is(are) the individual(s) or entity(ies) endowed with the responsibility to physically invest the pension fund assets. Asset managers may also set out the investment strategy for a pension fund.

Average earnings scheme* – is a scheme where the pension benefits earned for a year depend on how much the member's earnings were for the given year.

Basic state pension* – is a non-earning related pension paid by the State to individuals with a minimum number of service years.

Basis points (bps) – represent the 100th division of 1%.

Benchmark (financial) – is a referential index for a type of security. Its aim is to show, customized for a level and geographic or sectorial focus, the general price or performance of the market for a financial instrument.

¹ See Article 4(1) of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174, 1.7.2011, p. 1–73.



Beneficiary* – is an individual who is entitled to a benefit (including the plan member and dependants).

Benefit* – is a payment made to a pension fund member (or dependants) after retirement.

Bonds – are instruments that recognize a debt. Although they deliver the same utility as bank loans, i.e., enabling the temporary transfer of capital from one person to another, with or without a price (interest) attached, bonds can also be issued by non-financial institutions (States, companies) and by financial non-banking institutions (asset management companies). In essence, bonds are considered more stable (the risk of default is lower) and in theory deliver a lower, but fixed, rate of profit. Nevertheless, Table EX2 of the Executive Summary shows that the aggregated European Bond Index highly overperformed the equity one.

Closed pension funds* – are the funds that support only pension plans that are limited to certain employees. (e.g., those of an employer or group of employers).

Collective investment schemes – are financial products characterised by the pooling of funds (money or asset contributions) of investors and investing the total into different assets (securities) and managed by a common asset manager. Under E.U. law collective investment schemes are regulated under 6 different legal forms: UCITS (see below), the most common for individual investors; AIFs (see above), European Venture Capital funds (EuVECA), European Long-Term Investment Funds (ELTIFs), European Social Entrepreneurship Funds (ESEF) or Money Market Funds.²

Contribution* – is a payment made to a pension plan by a plan sponsor or a plan member.

Contribution base* – is the reference salary used to calculate the contribution.

Contribution rate* – is the amount (typically expressed as a percentage of the contribution base) that is needed to be paid into the pension fund.

Contributory pension scheme* – is a pension scheme where both the employer and the members have to pay into the scheme.

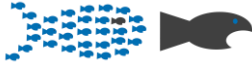
Custodian* – is the entity responsible, as a minimum, for holding the pension fund assets and for ensuring their safekeeping.

Deferred member* – is a pension plan member that no longer contributes to or accrues benefits from the plan but has not yet begun to receive retirement benefits from that plan.

Deferred pension* – is a pension arrangement in which a portion of an employee’s income is paid out at a date after which that income is actually earned.

Defined benefit (DB) occupational pension plans* – are occupational plans other than defined contributions plans. DB plans generally can be classified into one of three main types, “traditional”, “mixed” and “hybrid” plans. These are schemes where “the pension payment is defined as a percentage of income and employment career. The employee receives a thus pre-defined pension

² See European Commission, ‘Investment Funds’ (28 August 2019) https://ec.europa.eu/info/business-economy-euro/growth-and-investment/investment-funds_en.



and does not bear the risk of longevity and the risk of investment. Defined Benefits schemes may be part of an individual employment contract or collective agreement. Pension contributions are usually paid by the employee and the employer”.³

“Traditional” DB plan* – is a DB plan where benefits are linked through a formula to the members' wages or salaries, length of employment, or other factors.

“Hybrid” DB plan* – is a DB plan where benefits depend on a rate of return credited to contributions, where this rate of return is either specified in the plan rules, independently of the actual return on any supporting assets (e.g. fixed, indexed to a market benchmark, tied to salary or profit growth, etc.), or is calculated with reference to the actual return of any supporting assets and a minimum return guarantee specified in the plan rules.

“Mixed” DB plan* – is a DB plans that has two separate DB and DC components, but which are treated as part of the same plan.

Defined contribution (DC) occupational pension plans* – are occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience. These are schemes where “the pension payment depends on the level of defined pension contributions, the career and the returns on investments. The employee has to bear the risk of longevity and the risk of investment. Pension contributions can be paid by the employee and/or the employer and/or the state”.⁴

Dependency ratio* – are occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience.

Early retirement* – is a situation when an individual decides to retire earlier later and draw the pension benefits earlier than their normal retirement age.

Economic dependency ratio* – is the division between the number of inactive (dependent) population and the number of active (independent or contributing) population. It ranges from 0% to 100% and it indicates how much of the inactive population's (dependent) consumption is financed from the active population's (independent) contributions.⁵ In general, the inactive (dependent) population is represented by children, retired persons and persons living on social benefits.

³ Werner Eichhorst, Maarten Gerard, Michael J. Kendzia, Christine Mayrhuber, Connie Nielsen, Gerhard Runstler, Thomas Url, 'Pension Systems in the EU: Contingent Liabilities and Assets in the Public and Private Sector' EP Directorate General for Internal Policies IP/A/ECON/ST/2010-26.

⁴ Ibid.

⁵ For more detail on the concept, see Elke Loichinger, Bernhard Hammer, Alexia Prskawetz, Michael Freiberger, Joze Sambt, 'Economic Dependency Ratios: Present Situation and Future Scenarios' MS13 Policy Paper on Implications of Population Ageing for Transfer Systems, Working Paper no. 74, 18th December 2014, 3.



EET system* – is a form of taxation of pension plans, whereby contributions are exempt, investment income and capital gains of the pension fund are also exempt, and benefits are taxed from personal income taxation.

Equity (or stocks/shares) – are titles of participation to a publicly listed company's economic activity. With regards to other categorizations, an equity is also a security, a financial asset or, under E.U. law, a transferable security.⁶

ETE system* – is a form of taxation whereby contributions are exempt, investment income and capital gains of the pension fund are taxed, and benefits are also exempt from personal income taxation.

ETF(s) – or Exchange-Traded Funds are investment funds that are sold and bought on the market as an individual security (such as shares, bonds). ETFs are structured financial products, containing a basket of underlying assets, and are increasingly more used due to the very low management fees that they entail.

Fund member* – is an individual who is either an active (working or contributing, and hence actively accumulating assets) or passive (retired, and hence receiving benefits), or deferred (holding deferred benefits) participant in a pension plan.

Funded pension plans* – are occupational or personal pension plans that accumulate dedicated assets to cover the plan's liabilities.

Funding ratio (funding level) * – is the relative value of a scheme's assets and liabilities, usually expressed as a percentage figure.

Gross rate of return* – is the rate of return of an asset or portfolio over a specified time period, prior to discounting any fees of commissions.

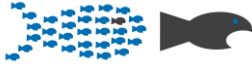
Gross/net replacement rate – is the ratio between the pre-retirement gross or net income and the amount of pension received by a person after retirement. The calculation methodology may differ from source to source as the average working life monthly gross or net income can be used to calculate it (divided by the amount of pension) or the past 5 year's average gross income etc. (see below **OECD net replacement rate**).

Group pension funds* – are multi-employer pension funds that pool the assets of pension plans established for related employers.

Hedging and hedge funds – while hedging is a complex financial technique (most often using derivatives) to protect or reduce exposure to risky financial positions or to financial risks (for instance, currency hedging means reducing exposure to the volatility of a certain currency), a hedge fund is an investment pool that uses complex and varying investment techniques to generate profit.

Indexation* – is the method with which pension benefits are adjusted to take into account changes in the cost of living (e.g., prices and/or earnings).

⁶ Article 4(44) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173, p. 349–496 (MiFID II).



Individual pension plans* – is a pension fund that comprises the assets of a single member and his/her beneficiaries, usually in the form of an individual account.

Industry pension funds* – are funds that pool the assets of pension plans established for unrelated employers who are involved in the same trade or businesses.

Mandatory contribution* – is the level of contribution the member (or an entity on behalf of the member) is required to pay according to scheme rules.

Mandatory occupational plans* – Participation in these plans is mandatory for employers. Employers are obliged by law to participate in a pension plan. Employers must set up (and make contributions to) occupational pension plans which employees will normally be required to join. Where employers are obliged to offer an occupational pension plan, but the employees' membership is on a voluntary basis, these plans are also considered mandatory.

Mandatory personal pension plans* - are personal plans that individuals must join, or which are eligible to receive mandatory pension contributions. Individuals may be required to make pension contributions to a pension plan of their choice normally within a certain range of choices or to a specific pension plan.

Mathematical provisions (insurances) – or *mathematical reserves* or *reserves*, are the value of liquid assets set aside by an insurance company that would be needed to cover all current liabilities (payment obligations), determined using actuarial principles.

Minimum pension* – is the minimum level of pension benefits the plan pays out in all circumstances.

Mixed indexation* – is the method with which pension benefits are adjusted taking into account changes in both wages and prices.

Money market instruments – are short-term financial products or positions (contracts) that are characterized by the very high liquidity rate, such as deposits, short-term loans, repo-agreements and so on.

MTF – multilateral trading facility, is the term used by the revised Markets in Financial Instruments Directive (MiFID II) to designate securities exchanges that are not a regulated market (such as the London Stock Exchange, for example).

Multi-employer pension funds* – are funds that pool the assets of pension plans established by various plan sponsors. There are three types of multi-employer pension funds:

- a) for related employers i.e., companies that are financially connected or owned by a single holding group (group pension funds);
- b) for unrelated employers who are involved in the same trade or business (industry pension funds);
- c) for unrelated employers that may be in different trades or businesses (collective pension funds).



Money-Weighted Returns (MWR) - also referred to as the internal rate of return, is a measurement of performance that takes into account cash flows (contributions) when calculating returns.

NAV – Net Asset Value, or the amount to which the market capitalisation of a financial product (for this report, pension funds’ or insurance funds’ holdings) or a share/unit of it arises at a given point. In general, the Net Asset Value is calculated per unit or share of a collective investment scheme using the daily closing market prices for each type of security in the portfolio.

Net rate of return* – is the rate of return of an asset or portfolio over a specified time period, after discounting any fees of commissions.

Normal retirement age* – is the age from which the individual is eligible for pension benefits.

Non-contributory pension scheme* – is a pension scheme where the members do not have to pay into scheme.

Occupational pension plans* – access to such plans is linked to an employment or professional relationship between the plan member and the entity that establishes the plan (the plan sponsor). Occupational plans may be established by employers or groups of thereof (e.g., industry associations) and labour or professional associations, jointly or separately. The plan may be administrated directly by the plan sponsor or by an independent entity (a pension fund or a financial institution acting as pension provider). In the latter case, the plan sponsor may still have oversight responsibilities over the operation of the plan.

Eurostat aggregate replacement rate for pensions refers to median individual pension income of population aged 65-74 relative to median individual earnings from work of population aged 50-59, excluding other social benefits.

Old-age dependency ratio - defined as the ratio between the total number of elderly persons when they are generally economically inactive (aged 65 and above) and the number of persons of working age.⁷ It is a sub-indicator of the economic dependency ratio and focuses on a country’s public (state) pension system’s reliance on the economically active population’s pensions (or social security) contributions. It is a useful indicator to show whether a public (Pillar I) pension scheme is under pressure (when the ratio is high, or the number of retirees and the number of workers tend to be proportionate) or relaxed (when the ratio is low, or the number of retirees and the number of workers tend to be disproportionate). For example, a low old-age dependency ratio is 20%, meaning that 5 working people contribute for one retiree’s pension.

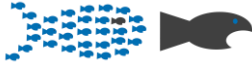
Open pension funds* – are funds that support at least one plan with no restriction on membership.

Pension assets* – are all forms of investment with a value associated to a pension plan.

Pension fund administrator* – is(are) the individual(s) ultimately responsible for the operation and oversight of the pension fund.

Pension fund governance* – is the operation and oversight of a pension fund. The governing body is responsible for administration, but may employ other specialists, such as actuaries, custodians,

⁷ See Eurostat definition: <http://ec.europa.eu/eurostat/web/products-datasets/product?code=tsdde511>.



consultants, asset managers and advisers to carry out specific operational tasks or to advise the plan administration or governing body.

Pension fund managing company* – is a type of administrator in the form of a company whose exclusive activity is the administration of pension funds.

Pension funds* – the pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund. Pension funds take the form of either a special purpose entity with legal personality (such as a trust, foundation, or corporate entity) or a legally separated fund without legal personality managed by a dedicated provider (pension fund management company) or other financial institution on behalf of the plan/fund members.

Pension insurance contracts* – are insurance contracts that specify pension plans contributions to an insurance undertaking in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan. Most countries limit the integration of pension plans only into pension funds, as the financial vehicle of the pension plan. Other countries also consider the pension insurance contract as the financial vehicle for pension plans.

Pension plan* – is a legally binding contract having an explicit retirement objective (or – in order to satisfy tax-related conditions or contract provisions – the benefits cannot be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age). This contract may be part of a broader employment contract, it may be set forth in the plan rules or documents, or it may be required by law. In addition to having an explicit retirement objective, pension plans may offer additional benefits, such as disability, sickness, and survivors' benefits.

Pension plan sponsor* – is an institution (e.g., company, industry/employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members.

Pension regulator* – is a governmental authority with competence over the regulation of pension systems.

Pension supervisor* – is a governmental authority with competence over the supervision of pension systems.

Personal pension plans* - Access to these plans does not have to be linked to an employment relationship. The plans are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans. Some personal plans may have restricted membership.

Private pension funds* – is a pension fund that is regulated under private sector law.



Private pension plans* – is a pension plan administered by an institution other than general government. Private pension plans may be administered directly by a private sector employer acting as the plan sponsor, a private pension fund or a private sector provider. Private pension plans may complement or substitute for public pension plans. In some countries, these may include plans for public sector workers.

Public pension plans* – are pensions funds that are regulated under public sector law.

Public pension plans* – are the social security and similar statutory programmes administered by the general government (that is central, state, and local governments, as well as other public sector bodies such as social security institutions). Public pension plans have been traditionally PAYG financed, but some OECD countries have partial funding of public pension liabilities or have replaced these plans by private pension plans.

Rate of return* – is the income earned by holding an asset over a specified period.

REIT(s) or Real Estate Investment Trust(s) is the most common acronym and terminology used to designate special purpose investment vehicles (in short, companies) set up to invest and commercialise immovable goods (real estate) or derived assets. Although the term comes from the U.S. legislation, in the E.U. there are many forms of REITs, depending on the country since the REIT regime is not harmonised at E.U. level.

Replacement ratio* – is the ratio of an individual's (or a given population's) (average) pension in a given time period and the (average) income in a given time period.

Service period* – is the length of time an individual has earned rights to a pension benefit.

Single employer pension funds* – are funds that pool the assets of pension plans established by a single sponsor.

Summary Risk Reward Indicator - a measurement developed by the European Securities and Markets Authority (former CESR) to be included in the Key Investor Information Document (KIID) for UCITS (undertakings for collective investment in transferable securities) to reflect the risk profile of a certain fund.

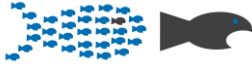
Supervisory board* – is(are) the individual(s) responsible for monitoring the governing body of a pension entity.

System dependency ratio* – typically defined as the ratio of those receiving pension benefits to those accruing pension rights.

TEE system* – is a form of taxation of pension plans whereby contributions are taxed, investment income and capital gains of the pension fund are exempt, and benefits are also exempt from personal income taxation.

Time-Weighted Returns (TWR) - is the standard method of calculating returns (and performance) of an investment and simply represents the growth/decrease in value without incorporating the distorting effects of cash inflows and outflows (for pensions, that means contributions and

Trust* – is a legal scheme, whereby named people (termed trustees) hold property on behalf of other people (termed beneficiaries).



Trustee* – is a legal scheme, whereby named people (termed trustees) hold property on behalf of other people (termed beneficiaries).

UCITS – or Undertakings for Collective Investment in Transferable Securities, is the legal form under E.U. law for mutual investment funds that are open to pool and invest funds from any individual or institutional investor, and are subject to specific authorisation criteria, investment limits and rules. The advantage of UCITS is the general principle of home-state authorisation and mutual recognition that applies to this kind of financial products, meaning that a UCITS fund established and authorised in one E.U. Member State can be freely distributed in any other Member State without any further formalities (also called *E.U. fund passporting*).

Unfunded pension plans* – are plans that are financed directly from contributions from the plan sponsor or provider and/or the plan participant. Unfunded pension plans are said to be paid on a current disbursement method (also known as the pay as you go, PAYG, method). Unfunded plans may still have associated reserves to cover immediate expenses or smooth contributions within given time periods. Most OECD countries do not allow unfunded private pension plans.

Unprotected pension plan* – is a plan (personal pension plan or occupational defined contribution pension plan) where the pension plan/fund itself or the pension provider does not offer any investment return or benefit guarantees or promises covering the whole plan/fund.

Voluntary contribution – is an extra contribution paid in addition to the mandatory contribution a member can pay to the pension fund in order to increase the future pension benefits.

Voluntary occupational pension plans - The establishment of these plans is voluntary for employers (including those in which there is automatic enrolment as part of an employment contract or where the law requires employees to join plans set up on a voluntary basis by their employers). In some countries, employers can on a voluntary basis establish occupational plans that provide benefits that replace at least partly those of the social security system. These plans are classified as voluntary, even though employers must continue sponsoring these plans in order to be exempted (at least partly) from social security contributions.

Voluntary personal pension plans* – Participation in these plans is voluntary for individuals. By law individuals are not obliged to participate in a pension plan. They are not required to make pension contributions to a pension plan. Voluntary personal plans include those plans that individuals must join if they choose to replace part of their social security benefits with those from personal pension plans.

Wage indexation* – is the method with which pension benefits are adjusted taking into account changes in wages.

Waiting period* – is the length of time an individual must be employed by a particular employer before joining the employer's pension scheme.

Winding-up* – is the termination of a pension scheme by either providing (deferred) annuities for all members or by moving all its assets and liabilities into another scheme.

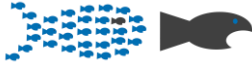


World Bank multi-pillar model – is the recommended design, developed by the World Bank in 1994, for States that had pension systems inadequately equipped to (currently and forthcoming) sustain a post-retirement income stream for future pensioners and alleviate the old-age poverty risk. Simpler, it is a set of guidelines for States to either enact, reform or gather legislation regulating the state pension and other forms of retirement provisions in a form that would allow an increased workers’ participation, enhance efficiency for pension savings products and a better allocation of resources under the principle of solidarity between generations.

The standard design of a robust pension system would rely on five pillars:

- a) the non-contributory scheme (pillar 0), through which persons who do not have an income or do not earn enough would have insured a minimum pension when reaching the standard retirement age;
- b) the public mandatory, Pay-As-You-Go (PAYG) scheme (**Pillar I**), gathering and redistributing pension contributions from the working population to the retirees, while accumulating pension rights (entitlements) for the future retirees;
- c) the mandatory funded and (recommended) privately managed scheme (**Pillar II**), where workers’ contributions are directed to their own accumulation accounts in privately managed investment products;
- d) the voluntary privately managed retirement products (**Pillar III**), composed of pension savings products to which subscription is universal, contributions and investments are deregulated and tax-incentivised;
- e) the non-financial alternative aid scheme (pillar IV), through which the state can offer different forms of retirement support – such as housing or family support. Albeit the abovementioned, the report focuses on the “*main pillars*”, i.e., Pillar I, II and III, since they are the most significant (and present everywhere) in the countries that have adopted the multi-pillar model.

Definitions with “*” are taken from OECD’s Pensions Glossary - <http://www.oecd.org/daf/fin/private-pensions/38356329.pdf>.



Contributors

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Pension Savings: The Real Return

2021 Edition

Executive Summary

With the two of three worst financial meltdowns of the past hundred years occurring in the past 12 years, can our societies rely on financial markets to deliver decent retirement outcomes for millions around the world?"⁸

Despite improvements, real returns of pension savings still struggle to deliver value for money

How much did pension savers earn on average?

The main question this report seeks to answer is: How much was the pension saver left with, on average, after charges and inflation were deducted from his benefits at the end of different periods, compared to the amounts he saved? The aggregate summary return tables show – for occupational/collective (“Pillar II”) and voluntary/individual (“Pillar III”) pension products - the annual average rate of return on investments in each country based on 5 periods: 1, 3, 7, 10 years and since the start of the available reporting period (differs case by case). These standardised periods eliminate inception and market timing biases, allowing to “purely” compare performances between different pension schemes.

⁸ Amin Rajan (Crate Research), ‘Coronavirus Crisis Inflicts a Double Blow to Pensions’ (FT.com, 15 April 2020) available at: <https://www.ft.com/content/bd878891-4f20-46c3-ab23-939162a85d9c>.



Aggregate summary return table			Pillar II						
	1 year		3 years		7 years		10 years		max. available *
	2020	2019	2018-2020	2017-2019	2014-2020	2013-2019	2011-2020	2010-2019	
Austria	1,41%*	8,01%	1,23%	1,78%	2,35%	2,53%	1,79%	2,01%	1,48%
Belgium	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bulgaria	1,41%	2,71%	-1,06%	-0,24%	2,06%	2,59%	1,96%	1,74%	-1,35%
Croatia	-0,29%	8,06%	2,81%	4,68%	4,99%	5,77%	4,10%	4,91%	3,28%
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia	4,64%	7,97%	2,10%	0,57%	2,13%	1,65%	1,31%	1,24%	0,67%
France	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany	n.a.	3,02%	n.a.	1,77%	n.a.	2,54%	n.a.	2,40%	2,28%
Italy	3,30%	7,30%	1,85%	1,76%	2,81%	3,33%	2,66%	2,57%	0,84%
Latvia	1,94%	8,43%	1,12%	0,77%	1,54%	1,62%	1,45%	1,83%	-0,07%
Lithuania	5,19%	14,92%	4,72%	3,04%	4,07%	4,15%	3,52%	3,65%	1,72%
Netherlan	6,23%	13,00%	5,01%	4,26%	5,79%	5,10%	5,26%	5,42%	2,89%
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Romania	2,59%	5,05%	1,81%	0,61%	2,68%	3,64%	2,95%	3,33%	2,41%
Slovakia	0,45%	5,37%	0,70%	-0,27%	1,50%	1,57%	0,79%	0,74%	-0,03%
Spain	2,10%	7,89%	1,74%	2,14%	2,80%	4,28%	2,94%	2,60%	0,79%
Sweden	6,45%	24,08%	8,23%	9,03%	n.a.	n.a.	n.a.	n.a.	8,32%
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: BETTER FINANCE own composition; see methodological explanation box below

Voluntary pension products vary in market share based on the jurisdiction: in some cases, insurance-based products are more prevalent, whereas in some countries pension funds are preferred. The table below shows the average real net returns for supplementary pensions by standardised holding periods.

- *Data for 2020 is estimated. So are the previous 2019 figures, which are now consolidated.*
- *Returns for Bulgaria are time-weighted, and the dataflow is updated compared to the last edition.*
- *In Germany AOPP is used as a proxy for pillar II returns.*
- *For Romania, returns are calculated in EUR and differ from previous editions. See Romanian country case explanations.*
- *For Spain, pillar II returns have been recalculated based on the weighted average between employer-sponsored and associate plans.*

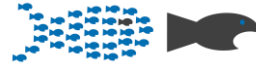


	Aggregate summary return table		Pillar III						
	1 year		3 years		7 years		10 years		whole reporting period*
	2020	2019	2018-2020	2017-2019	2014-2020	2013-2019	2011-2020	2010-2019	
Austria	1.82%*	1,2%	1,34%	1,01%	1,70%	1,73%	1,50%	1,51%	2,05%
Belgium	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Bulgaria	1,91%	3%	-0,92%	0,08%	2,57%	3,28%	2,65%	2,48%	0,17%
Croatia	-1,41%	8,57%	2,13%	3,58%	4,57%	5,07%	3,75%	4,58%	3,59%
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia	4,51%	13,84%	2,37%	1,64%	3,19%	3,03%	2,04%	2,45%	1,54%
France*	1,30%	2,83%	0,44%	0,46%	1,23%	3,55%	1,23%	2,81%	1,36%
Germany*	2,68%	0,67%	1,30%	0,68%	1,62%	1,53%	1,64%	1,58%	1,51%
Italy	0,03%	6,40%	1,18%	1,22%	2,58%	2,84%	2,49%	1,99%	1,85%
Latvia	2,14%	8,66%	0,82%	0,59%	1,75%	1,94%	1,58%	n.a.	1,58%
Lithuania	4,83%	8,72%	2,29%	1,22%	2,85%	2,93%	1,98%	2,48%	1,05%
Netherlands	1,83%	0,40%	1,39%	1,40%	1,14%	0,97%	0,27%	-0,08%	0,13%
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Romania	0,99%	3,99%	0,35%	-0,41%	1,53%	2,69%	1,91%	2,06%	-0,85%
Slovakia	1,30%	5,68%	0,00%	0,22%	1,00%	0,98%	0,44%	0,37%	0,60%
Spain	0,80%	8,11%	0,86%	1,24%	1,83%	3,25%	2,00%	2,15%	0,32%
Sweden	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

*Source: BETTER FINANCE own composition; *whole reporting period differs between countries; for DE, pillar III can be proxied through both Riester and Rurup pensions, the authors chose Riester for the purposes of this graph (Acquisition charges are included and spread over 5 years); for BG, VPF is proxied for pillar III returns and the returns are time-weighted; for FR, pillar III comprises life insurance, corporate savings plans, public employee pension schemes; for AT, the returns for 2020 are estimated, so were the 2019 figures which are now consolidated;*

Unfortunately, due to unavailability of data breakdowns, for some country cases (UK, Netherlands, Belgium, Denmark, Poland, Sweden) we were not able to calculate the annual real average returns by Pillar. Nevertheless, the results by retirement provision vehicle are available in Graphs 18 and Table 20 in the *General Report*.

Note: For a few pension systems analysed in the report, the data available on retirement provision vehicles clearly distinguishes between Pillar II and Pillar III (such as Romania or Slovakia). In other countries, where pension savings products may be used for both Pillars, the categorisation is more difficult since return data is not separated as such. However, for reasons of simplicity and comparability, the authors of the report have put in all the necessary efforts to correctly assign each product according to the pillar it is, or should be, used for.



Taxation

What happens to investment returns after charges and inflation are deducted?

Charges, investment strategies and inflation influence earnings, but the actual sum the pension saver will be able to withdraw and spend at retirement will depend on the taxation regime. In other words, when and how much do savers lose of their pensions due to taxes?

The actual taxation rates (in %) are highlighted in Table GR10 and in the *Taxes* sub-section of each individual country case. However, the purpose of the “pillar”-system is to stimulate pension savings by giving tax incentives (exemptions, lower taxes, deductibility, subsidises etc).

The table below shows whether the three pension saving steps (contribution – *what you pay for your pension*; returns – *what your investments earn*; and pay-outs – *what you will withdraw*) are **exempt (E)** or **taxed (T)** in each country under review.

Taxation of pension savings						
	Contributions		Returns		Pay-outs	
	Pillar II	Pillar III	Pillar II	Pillar III	Pillar II	Pillar III
Austria	E	E	E	E	T	T
Belgium	E	E	E	E	T	T
Bulgaria	E	E	E	E	E	E
Croatia	E	E	E	E	T	T
Denmark*	T	T	T	T	T	T
Estonia	E	E	E	E	T	T
France	E	E/T	T	T	T	T
Germany	T	T	E	T	T	T
Italy	E	E	T	T	T	T
Latvia	E	E	E	E	T	T
Lithuania	E	E	E	E	E	E
Netherlands	E	E	E	E	T	T
Poland	T	E/T	E	E	E	E/T
Romania	E	E	E	E	T	T
Slovakia*	E/T	E	E	E	E	T
Spain*	E	E	E	E	T	T
Sweden	E	E	T	T	T	T
UK	E	E	E	E	T	T

*There are rules and exceptions based on the type of pension vehicle. For details, see the relevant country case; Source: BETTER FINANCE own composition

Pension plan types: defined contribution on top

Who bears the risk of adequate pensions at retirement?

Originally, the level of pension (*benefit*) would be pre-defined by the provider of the pension plan, usually based on a formula that used some standard variables for each saver (income/salary,



inflation, etc). As such, the pension plan provider bears the risk of obtaining the necessary resources (money) to pay out this **defined benefit** pension to the saver at retirement age.

Nowadays, most private pension plans (Pillar II and III) use a **defined contribution** rule. This means that the saver only knows how much he can pay for his future pension, but the actual amount and income level at retirement will depend on external factors and will be subject to capital market fluctuations, just as any other investment. In other words, the risk of obtaining an adequate pension at retirement depends on the investment decisions made by the saver, where the provider is only obliged to pay-out the **real net returns**, before tax, earned during the investment period.

Pension scheme type (<i>who bears the risk?</i>)				
	Provider (defined benefit)		Saver (defined contribution)	
	Pillar II	Pillar III	Pillar II	Pillar III
Austria	X		X	X
Belgium	X	X	X	X
Bulgaria			X	X
Croatia	X			X
Denmark	X	X	X	X
Estonia			X	X
France	X		X	X
Germany	X		X	X
Italy			X	X
Latvia			X	X
Lithuania			X	X
Netherlands	X		X	X
Poland			X	X
Romania			X	X
Slovakia			X	X
Spain	X		X	X
Sweden	X		X	X
UK	X		X	X

Source: BETTER FINANCE own composition

For more details on how this information unfolds, what factors influence pension savings and how governments tax pension earnings, read the following chapter or the individual country case corresponding to your domicile.



Pension Savings: The Real Return

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EU Policy Updates

The High-Level Forum on the Future of the Capital Markets Union⁹ made three important recommendations¹⁰ for the European Commission to pursue in the area of pensions, to which BETTER FINANCE contributed and fully supported:

- establishing ***national pension dashboards***, which are systems of indicators for EU Member States “to monitor the state of play in Member States and, where applicable, the progress achieved by Member States with regard to pension sustainability and pension adequacy”;
- establishing ***individual pension tracking systems***, which would be platforms where EU citizens can see all their pensions data (State pension and private pension vehicles) with the purpose of providing “an overview and an estimate of the future retirement income from different sources”;
- supporting EU Member States in establishing ***auto-enrolment in occupational pension schemes***, which would mean that workers would by default contribute to a pension plan, with the possibility to opt-out (stop contributions) at no cost.

The European Commission (EC) and European Insurance and Occupational Pensions Authority (EIOPA) followed-up on these proposals and have started work towards their implementation. The EC formally initiated the process by mandating EIOPA to gather evidence, data, and technical recommendations on the first two actions while also commissioning a study from a consortium of consultants on best practices in auto-enrolment systems. Consequently, EIOPA published two public consultations requesting:

- [technical advice on the development of pension dashboards and the collection of pensions data](#), which is meant to gather input from stakeholders on where and how to aggregate the necessary information – and what indicators to use – to set up and update the pension dashboards;
- [technical advice on pension tracking services](#), which is meant to collect views from stakeholders on what types of investment products will be aggregated in the tracking service, what and how the estimations of the retirement pot will be made, etc.

BETTER FINANCE, together with the experts that collaborate with the writing of this report, will leverage the long-term experience accumulated through the efforts of publishing this report since 2013 and will provide EIOPA with technical advice on both topics.

⁹ A group of experts from EU public authorities, industry, and consumer associations established by the European Commission between November 2019 and May 2020 to brainstorm and make recommendations to improve the regulation and supervision of EU capital markets and create better conditions to invest for EU citizens; see https://ec.europa.eu/info/publications/cmu-high-level-forum_en.

¹⁰ See the Final Report here:

https://ec.europa.eu/info/sites/default/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf, Recommendation 11, page 85.



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Value for Money for Long-term and Pension Savings

For too many editions in a row (since 2013), BETTER FINANCE’s annual report on the real returns of long-term and pension savings finds, in many EU jurisdictions, poorly performing retirement saving vehicles (whether pension funds, products, or life-insurances used for pension provision) once fees and inflation are deducted. With a few notable exceptions, such as occupational pension funds in the Netherlands or the AP7 Safa fund in Sweden, the majority of products barely cover for inflation and only a handful come close to a simple, broad capital markets benchmark (50% equity and 50% bonds). Unfortunately, there is also a share – quite high – of products that deliver negative returns, which means that, in hindsight, keeping savings “under the mattress” would have been a more profitable solution.

Considering the impact on economic output generated by the global health pandemic, the strains on public pension systems, the current low interest rate environment, and the shift from defined-benefit to defined-contribution pensions, addressing the pensions time-bomb is long overdue.¹¹

While there is no silver bullet to rectify poor pension returns, BETTER FINANCE formulates a set of proposals to define *value for money* for retirement provision investments.

BETTER FINANCE already initiated the debate on *value for money* for retail investment products in November 2019, when it released the joint BETTER FINANCE-CFA Institute report on *Sustainable Value for Money*.¹² The report, gathering the views of investment professionals and retail investors, found, among others, that the duty of care (*to act in the best interests of clients*) should be mandatory for finance professionals and that consumers should be presented with simple and standardised information on cost and past performance.

Moreover, an earlier (2016) report by the CFA Institute found that retail investors have high expectations for finance professionals to generate similar or better returns than those of the benchmark, and that the charges and fees paid must reflect the value of the relationship, but with a level of satisfaction much lower in both regards.¹³

In 2021, the European Insurance and Occupational Pensions Authority (EIOPA) launched a public consultation aimed at gathering stakeholders’ views on the proposed framework to assess value for

¹¹ See BETTER FINANCE’s Press Release of 29 November 2017 “BETTER FINANCE Applauds EU Proposal for a Pan-European Personal Pension (PEPP) to Defuse the Ticking Pensions Time Bomb”, available at: https://betterfinance.eu/wp-content/uploads/publications/PR- PEPP_INITIATIVE_19072017_01.pdf.

¹² BETTER FINANCE-CFA Institute Report, *Sustainable Value for Money* (2019), p. 6, available at: https://betterfinance.eu/wp-content/uploads/BETTER-FINANCE-CFA-Institute-Report-on-SUSTAINABLE-VALUE-FOR-MONEY-201119_correct.pdf.

¹³ CFA Institute, *From Trust to Loyalty: A Global Survey of What Investors Want*, (2016), p. 14. , available at: <https://www.cfainstitute.org/-/media/documents/survey/from-trust-to-loyalty.ashx>.



money for unit-linked insurance-based investment products.¹⁴ According to EIOPA, value for money would mean that “*the costs and charges are proportionate to the benefits (i.e., investment performance, guarantees, coverage and services) to the identified target market and reasonable taking into account the expenses born by providers and in comparison to other comparable retail solutions on the market*”.¹⁵ EIOPA’s definition sets a very important milestone as it builds the concept of value for money (VfM) around cost and performance but, very important, not in a vacuum: what retail investors pay for their investments must be comparably better compensated through returns and other product features than other options on the market. On this occasion, BETTER FINANCE put forward several proposals to improve on EIOPA’s definition, namely:

- while comparability with “*other solutions on the market*” is a step in the right direction, in many cases the entire peer-group of a product may be poorly performing – as is already the case – which may still leave investors with undesirable outcomes; thus, BETTER FINANCE proposed to replace “*other solutions on the market*” with the market index benchmark, i.e., the underlying investments;
- a product’s purpose (objective and investment policy) must be aligned with the concept of value for money;
- the products’ costs must be reviewed regularly.

At the same time, inspiration can also be drawn from the practice of the UK Financial Conduct Authority (FCA), which spearheaded (and continues to) retail investor protection in Europe. To begin with, the UK was the first country in Europe to ban commissions, kickbacks, retrocessions (collectively, “inducements”) for retail investment services and products. Besides creating a conflict of interests, inducements also increase the cost of investing, which further erodes net returns.¹⁶

Second, the UK FCA issued a handbook (guidance) for fund managers on how to evaluate and report to clients the value their investment services deliver for the money they are paid. The guidance highlights that fund managers should assess the value of services in light of costs (in general and comparing classes of units), comparable market rates, the quality of the service (also in comparison

¹⁴ The framework takes the form of a supervisory convergence mechanism under the tools of EIOPA and it would be ultimately addressed to national insurance supervisors when evaluation the provision of insurance-based investment products to retail investors.

¹⁵ See the EIOPA Consultation Paper on Addressing Value for Money risk in the European unit-linked market, available at: <https://www.eiopa.europa.eu/document-library/consultation/consultation-framework-address-value-money-risk-european-unit-linked-en>.

¹⁶ See the BETTER FINANCE Report on the Correlation between Cost and Performance in eu Equity Retail Funds, where we analysed active funds’ ability to outperform the market and the impact of fees on mutual fund performance, finding that “*the more you pay, the less you get*” - <https://betterfinance.eu/wp-content/uploads/BETTER1.pdf>. See also the ESMA Annual Statistical Report Cost and Performance (latest the 2021 edition), highlighting that passive equity funds and UCITS ETFs (which are much cheaper) overperform the more expensive actively managed ones – https://www.esma.europa.eu/sites/default/files/library/esma_50-165-1710_asr_performance_and_costs_of_eu_retail_investment_products.pdf; see also the ESMA Annual Statistical Report on Cost and Performance of 2020, highlighting that more expensive, actively managed funds impact returns and underperform not only their passive and index-tracking peers, but also the benchmark - to passive and ETFs UCITS, ultimately impacting performance” - https://www.esma.europa.eu/sites/default/files/library/esma50-165-1106-asr-performance_and_costs.pdf.



with other services), and performance. The performance must be “*considered over an appropriate timescale having regard to the scheme’s investment objectives, policy and strategy*”.¹⁷

Recently, the FCA furthered their efforts in driving value for money in retail investment products by issuing a policy statement on *assessing value for money in workplace pension schemes and pathway investments*.¹⁸ The FCA highlights that managers¹⁹ of occupational pension funds must take into account three key elements in assessing whether they deliver value for money or not:

- costs and charges,
- investment performance, and
- the quality of services,

in comparison “*with other similar propositions on the market*”.

At the same time, one must also factor in *pension adequacy* when analysing the returns of retirement provision vehicles. Although there is no unified understanding of pension adequacy, a few sources can give an adequate starting point.

The European Commission builds the concept of pension adequacy (from public pensions) on three pillars: eliminating the risk of poverty in old age, smooth transition from work income to retirement income and the length of retirement.²⁰ By smooth transition, the European Commission refers to a pensions’ ability to replace the working-life income in such a way as to limit the financial impact brought about by this transition. In simpler words, an adequate pension must ensure, at the very least, that pensioners are not in a far worse position than when they were earning work income.

The European Commission also correctly noted that adequacy is achieved if individuals “*can spend a reasonable share of their lives in retirement*”.²¹

Other authors define pension adequacy as allowing individuals “*to maintain, to a reasonable degree, their standard of living after retirement*”.²² A World Bank report on adequate pension systems focused, besides the smooth transition between work-life and retirement and poverty in old age, also on smoothing consumption. In short, smoothing consumption over the lifetime of

¹⁷ See the Collective Investment Schemes sourcebook (COLL) rules that require fund managers to carry out a Value Assessment (AoV) at least annually, to report publicly on the conclusions of the AoV, and to appoint independent directors on AFM Boards - <https://www.handbook.fca.org.uk/handbook/COLL.pdf>.

¹⁸ UK Financial Conduct Authority, *Assessing Value for Money in Workplace Pension Schemes and Pathway Investments: Requirements for IGCs and GAAs* (October 2021) Policy Statement PS21/12, available at: <https://www.fca.org.uk/publication/policy/ps21-12.pdf>.

¹⁹ Independent Governance Committee (IGC) or Governance Advisory Arrangement (GAA).

²⁰ European Commission Pension Adequacy Report 2021 (Vol. I), p. 22.

²¹ Ibid.

²² Margherita Borella, Elsa Fornero, *Adequacy of Pension Systems in Europe: An Analysis Based on Comprehensive Replacement Rates* (April 2009), ENEPRI Research Report no. 68, AMI WP 9, available at: <https://www.ceps.eu/download/publication/?id=6260&pdf=1837.pdf>.



workers means that achieving an adequate level of pensions should not necessitate exaggerated savings during working life.²³

Therefore, it can be argued that pension adequacy:

- should not be achieved by “saving more and more”;
- should not be achieved by extending the work life (starting work earlier and retiring later);
- is achieved if the working income is replaced by a pension that is sufficient to ensure a smooth transition, or maintain the same lifestyle, from work-life to retirement.

Although pension adequacy is mostly aimed at statutory (public) pension systems, we believe that the growing importance of private pension savings in pension provision requires the application of the same “adequacy” standards.

Drawing inspiration from the above practices, but also from the knowledge and empirical findings of 9 editions of this report, BETTER FINANCE formulates the following definition for *Value for Money* in long-term and pension saving products.

Value for Money through design, objective, and governance

A long-term and pension savings product delivers value for money for individual, non-professional savers when:

- The investment objective is clearly defined by the provider in the key disclosures;
- Simple and clear full cost and performance disclosure is made publicly available and is comparable to those of other investment products with similar goals;
- the costs borne by savers are commensurate with the investment objective (e.g., if “active” level fees are charged, then the product must overperform the relevant investment universe over the recommended holding period) and commensurate with other comparable retail solutions on the market (e.g., sometimes index products on offer are ten times more expensive than the equivalent ETF solution);
- there are at least two independent members in the governing body of the product representing investors (can be the fund itself if it has legal personality or the product manufacturer) like in the UK (asset manager level) and in the US (fund level);
- the product’s cost and performance must be evaluated, periodically, against the investment objectives of the provider (for example for an active fund charging active level fees, it will be its benchmark or the performance of its investment universe);

²³ Robert Holzman, Richard Hinz, *Old Age Income in the 21st Century* (2005) World Bank, available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/7336/32672.pdf?sequence=1&isAllowed=y>.

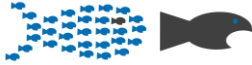


The services provided in relation to the distribution and management of a product that delivers Value for Money should encompass the following:

- the management or governing body should report annually and in a simple and concise manner on how the product delivered Value for Money for its beneficiaries;

SUPERVISION

- supervisory authorities should conduct annual assessments of Value for Money reporting;
- EU supervisory authorities (EIOPA) should use their product intervention powers which should also cover value for money issues.



Pension Savings: The Real Return

2021 Edition

General Report

I. INTRODUCTION

In June 2013, BETTER FINANCE published a research report entitled "[Private Pensions: The Real Return](#)"²⁴ which evaluated the return of private pension products after charges, after inflation ("real" returns) and – where possible – after taxation, in Denmark, France and Spain.

In September 2014, BETTER FINANCE published the second edition of the "[Pension Savings: The Real Return](#)"²⁵ report, which included data updates for the three initial countries covered and new in-depth evaluations of pension savings for five new countries: Belgium, Germany, Italy, Poland and the United Kingdom.

The following editions added 10 more countries to the report and updated the figures for those already included. This year's edition (the ninth in a row) expands the geographic scope once again to include Croatia.

The actual performance of this market is unknown to clients and to public supervisors

This report was built to respond to one of the big problems for the pensions market in the EU: lack of data on real net performances. Since a comprehensive approach to provide this indispensable information to savers is not yet provided by public authorities or other independent bodies, this report aims to improve transparency and comparability on the real returns of long-term and pension savings in Europe. This is in line with the European Commission's current "Action" to improve the transparency of performance and fees in this area (as part of its Capital Markets Union - CMU - Action Plan) and it corresponds with the current tasks the ESAs are undertaking in the area of personal pension products with respect to past performance and cost comparison.

Indeed, apart from the OECD's (the Organisation for Economic Co-operation and Development) report on pensions and EIOPA's (European Insurance and Occupational Pension's Authority) reports on cost and performance, which covers a part of the private pensions market, the contributors to this research report could not find any other more complete or more recent published

²⁴ Link for the print version available here:

http://www.betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_Study_EN_website.pdf.

²⁵ Link for the print version available here: http://www.oee.fr/files/betterfinance_pensions_report_2014.pdf.



comprehensive series of net real pension savings returns for such a wide coverage of EU countries and the UK.

The data reported by the OECD²⁶ are unfortunately quite incomplete:

- At the time of writing, the most recent OECD publication on *pension funds'* returns, "Pension Funds in Figures 2021", provides only 1-year preliminary data (for 2020) on the real returns of *pension funds* in selected OECD and non-OECD countries;²⁷
- The OECD "Pension Markets in Focus 2020" covers 15-year returns maximum (until 2019) only for *pension funds*.²⁸
- Although the OECD reports 5-year returns for 23 EU countries, it drops to 16 for 10-year horizons and to 11 for 15-year horizons, ending in 2019;
- A part of occupational pension products, and most - if not all - individual pension products are missing as well, as OECD performance data include only "pension funds" stricto sensu, and exclude all "pension insurance contracts and funds managed as part of financial institutions (often banks or investment companies), such as the Individual Retirement Accounts (IRAs) in the United States";
- It is questionable that the OECD was able to capture all expenses borne by pension savers - entry fees for example - because the OECD relies mostly on reporting by national authorities and, typically, this is not something covered by them;
- Finally, OECD figures are all before taxes, except for Italy.

EIOPA's Annual Report on Cost and Performance of 2021 covers only 57% of the unit-linked insurances market and 62% of the profit-participation one, and the personal pensions (insurance-based) part covers only a few (210) products from 14 jurisdictions in the EU. Moreover, and unfortunately, the cost data in EIOPA's report is the Reduction-in-Yield from the PRIIPs KID and only covers the previous 5 years.

In comparison, the present report documents a principal component of, and reason for, the generalised level of distrust of EU citizens in capital markets, namely the frequent poor performance of private pension products, once inflation, charges and (when possible) taxes are deducted from nominal returns, when compared to the relevant capital market benchmarks.

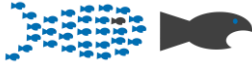
Totalling 17 EU Member States under review (Austria, Belgium, Bulgaria, Croatia, Denmark, Estonia, France, Germany, Italy, Latvia, Lithuania, Poland, Romania, Slovakia, Spain Sweden and The Netherlands), the BETTER FINANCE research now covers 87% of the EU27 population.²⁹ It also

²⁶ Namely the OECD "Pension Markets in Focus 2017" (1, 5 and 10 year data), and the subsequent editions (2018, 2019, 2020), available at: <https://www.oecd.org/pensions/private-pensions/pensionmarketsinfocus.htm>.

²⁷ <https://www.oecd.org/daf/fin/private-pensions/Pension-Funds-in-Figures-2021.pdf>.

²⁸ <https://www.oecd.org/daf/fin/private-pensions/Pension-Markets-in-Focus-2020.pdf>.

²⁹ As of January 1st, 2020 – Eurostat, [demo_gind]' <http://appsso.eurostat.ec.europa.eu/nui/show.do>.



extends the period of time covered in order to now measure performance over the 21-year period ranging from 2000 to 2020, in as far as data was available.

It is the ambition and challenge of this research initiated by BETTER FINANCE and its partners to collect, analyse and report on the actual past performance of *all* long-term and pension savings products.

The net real return³⁰ of pension saving products should be:

- the long-term return (at least covering two full economic and stock market cycles, since even long-term returns are very sensitive to entry and exit dates);
- net of all fees, commissions and charges borne directly or indirectly by the customer;
- net of inflation (since for long-term products only the real return matters; that is the right approach taken by OECD as mentioned above);
- when possible, net of taxes borne by the customer (in the USA it has been mandatory for decades to disclose the past performance of mutual funds after tax in the summary of the prospectus).

We have chosen a period starting from 31 December 1999 because pension savings returns should be measured over a long-term horizon, and because it includes two market upturns (2003-2006 and 2009-2019) and two downturns (post dot com bubble of 2001-2003 and the 2008 financial crisis).

Information on the returns of long term and pension savings is deteriorating

This report shows that it is not an impossible, albeit a very challenging, task for an independent expert centre such as BETTER FINANCE to collect the data necessary for this report since quite a lot of data are simply not available at an aggregate and country level, especially for earlier years. The complexity of the taxation of pension savings in EU countries makes it also extremely difficult to compute after tax returns.

Once more, for 2020 (2021 edition), we find that **the availability and quality of information** on long-term and pension savings returns is actually not improving but on the contrary **deteriorating**:

- ***Insufficient information***: for example the Belgian insurance trade organisation Assuralia no longer reports on the returns of insurance-regulated « Branch 21 » occupational and personal pension products since 2014, and the national supervisor FSMA does not do it either; in Bulgaria, the **necessary data** for Professional Pension Funds (pillar II and III) is no

³⁰ A limitation of the present report is that it does not take into account real estate as an asset for retirement. The proportion of households owning their residences varies greatly from one country to another. For example, it is especially low in Germany, where a majority of households rent their residences and where home loan and savings contracts have consequently been introduced as the most recent state-subsidised pension savings scheme. For the time being, returns on pension savings are all the more important since a majority of retirees cannot rely on their residential property to ensure a decent minimum standard of life. However, residential property is not necessarily the best asset for retirement: indeed, it is an illiquid asset, and it often does not fit the needs of the elderly in the absence of a broad use of reverse mortgages. The house might become too large or unsuitable in case of dependency. In that case, financial assets might be preferable, on the condition that they provide a good performance.



longer available since 2018; in the UK, the survey conducted by the Department for Statistics has been discontinued and information on the British pension funds stopped at 2017;

- **Late information**: at the time of printing, still a lot of 2020 return data have not been released by the national trade organisations or other providers. OECD has published preliminary data for December 2020, but on a limited number of jurisdictions and only for pension funds; however, considering that, in many countries, pension funds are not the most popular vehicle, this constitutes a large information gap.
- **Unchecked information**: the principal source remains the national trade organisations, their methodology is most often not disclosed, return data do not seem to be checked or audited by any independent party, and sometimes they are only based on sample surveys covering just a portion of the products.

The European Supervisory Authorities (ESAs) have a legal duty to collect, analyse and report data on “consumer trends” in their respective fields (Article 9(1) of the European Regulations establishing the three ESAs).

Moreover, savvy retail savers and EU public authorities must rely on private databases (and divergent methodologies) to learn about some of the costs and performances of “retail” saving products. This is because the PRIIPs Key Information Document (KID) eliminated pre-contractual disclosure of past performance and actual costs for UCITS and requires return and cost estimations instead for all “retail” investment products, including pension products. This severe setback in transparency and comparability is completely inconsistent with the CMU initiative. Four high-level initiatives have struggled to repair this situation, without success: the NextCMU Report, the High-Level Forum Final Report, the ECON CMU Report and the ESAs’ draft RTS on PRIIPs Level 2. BETTER FINANCE continues to deplore the content of the PRIIPs KID.

How to achieve pension adequacy?

Public pension authorities typically stress two requisites for pension savings to achieve “pension adequacy”:

- a) the need to start saving as early as possible;
- b) the need to save a significant portion of one’s income before retirement activity income: *“to support a reasonable level of income in retirement, 10% - 15% of an average annual salary needs to be saved”*.³¹

BETTER FINANCE continues to disagree: saving earlier and more is not enough. A third and even more important factor is the need to deliver positive and decent long-term **real net** return (i.e., net of inflation and fees).

³¹ World Economic Forum White Paper: ‘We’ll live to 100 – How can we afford it?’ May 2017



A simple example will illustrate why saving “*more and for longer periods*” is not sufficient, and too often even detrimental.

Assuming no inflation, saving 10% of activity income for 30 years (as recommended by Public Authorities, 25-year life expectancy at retirement, gross of fees and taxes) the table below shows that **unless long-term net returns are significantly positive** (in the upper single digits), **saving early and significantly will not provide a decent pension.**

Annual net return	Replacement income
negative 1%	10%
Zero	12%
2%	17%
8%	49%

© BETTER FINANCE, 2018

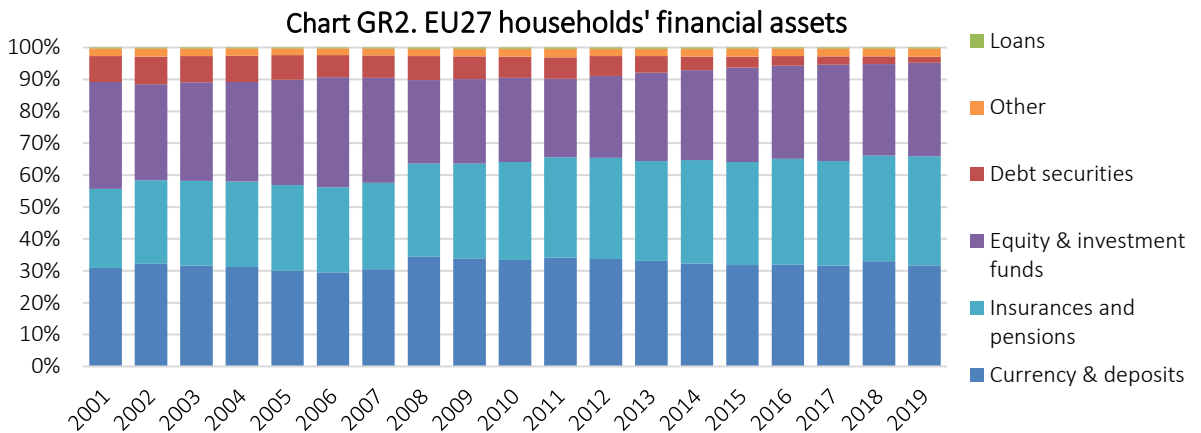
To achieve *pension adequacy*, retirement benefits altogether (State and private pensions) should amount to at least 70%-80% of late working life gross salary.

Nevertheless, this is harder and harder to achieve due to ageing populations, higher pension contributions, longer life expectancy, higher discounting rates etc.

There has been a shift from the full reliance on the public scheme of redistribution (tax-funded defined-benefit) to a more capital markets reliant system, where the main pension income stream should come from private pension products. Pension performances are subject to inflation and to tax, which eat into the retirement pot.

Most pension products recently improved but underperformed

Our findings clearly confirm that capital market performances have unfortunately very little to do with the performances of the actual savings products distributed to EU citizens. This is particularly true for long-term and pension savings. The main reason is the fact that most EU citizens do not invest the majority of their savings directly into capital market products (such as equities and bonds), but into “packaged products” (such as investment funds, life insurance contracts and pension products).



Source: BETTER FINANCE based on Eurostat data; 2020 data not yet available

Our research findings show that most long-term and pension savings products did not, on average, return anything close to those of capital markets, and in too many cases even destroying the real value for European pension savers (i.e., provided a negative return after inflation).

Performance: capital markets are not a proxy for retail investments

One could then argue that insurance and pension products have similar returns to a mixed portfolio of equities and bonds, since those are indeed the main underlying investment components of insurance and pension “packaged” products. However, this is not true since the share of packaged products and debt instruments are dominant in most pension portfolios. Realities such as fees and commissions, portfolio turnover rates, manager’s risks, etc., invalidate this approach.

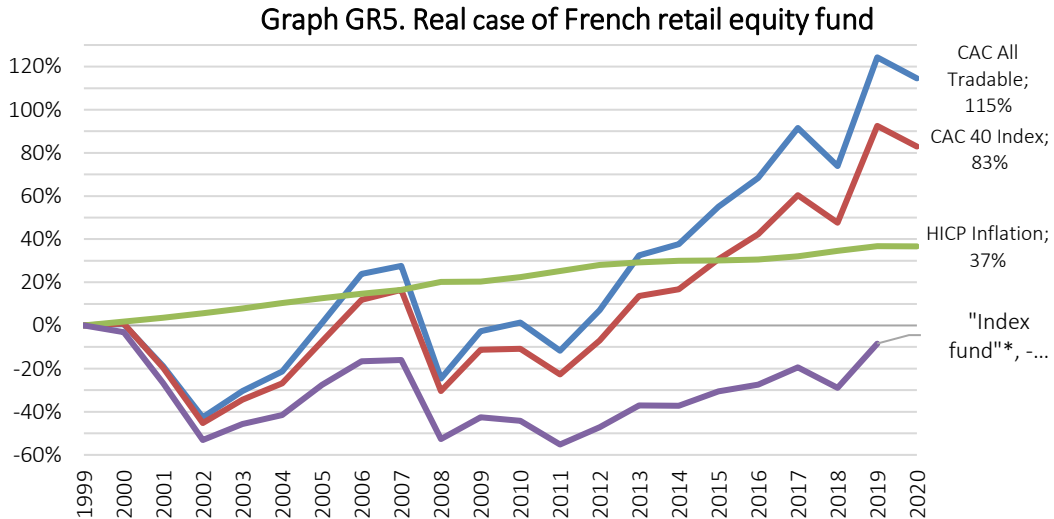
Table GR4 and Graph GR5 below show two striking – but unfortunately not uncommon – real examples of this largely ignored reality: capital market performance is not a valid proxy for retail investment performance and the main reasons for this are the fees and commissions charged directly or indirectly to retail customers. The European Commission itself publicly stressed this fact (see footnote 2 above).

Table GR4. Real case of a Belgian life insurance (branch 23)	
Capital markets vs. Belgian individual pension insurance 2000-2020 performance	
Capital markets (benchmark index*) performance	
Nominal performance	275%
Real performance (before tax)	186%
Pension insurance performance (same benchmark)	
Nominal performance	82%
Real performance (before tax)	23%

Source: BETTER FINANCE own computations based on Morningstar public website; *Benchmark is composed of 50% bonds (LP06TREU) and 50% Barclay’s Pan-European Aggregate Bond Index + 50% FTSE WORLD TGR



The real case of Graph GR5 illustrates a unit-linked life insurance product (Pillar III), in Belgium. The pension product's nominal return amounted to less than a third of its corresponding capital market benchmark's return.



Source: BETTER FINANCE research, fund manager; * 2000-2003 simulated

The real case above illustrates an investment fund domiciled in France, a so-called retail CAC 40 “index” fund³². The fund actually underperformed the relevant equity index by 101.4 p.p. after 20 years of existence (loss of -8.4% instead of a +83% profit), with the performance gap fully attributable to fees. The fund has also massively destroyed the real value of its clients’ savings, as inflation has been almost twice as high as its nominal performance. It is quite surprising that with such a huge return gap vis-à-vis its benchmark, this fund is still allowed to portray itself as an “index-tracking” one, and that no warning is to be found on the Key Information Document (KIID) of the fund. Unfortunately, the index fund has been sold to another manager and the 2020 performance is no longer relevant.

European Pension returns outlook

The overall mid-term outlook for the adequacy of European pension savings in 2021 is worrying when one analyses it for each of these main return drivers:

- a) It is unlikely that the European bond markets will come any closer to the extraordinary returns of the last 20 years (as we are already seeing stagnation or even signs of a downward trend), due to the continuous fall of interest rates, currently at rock-bottom levels; moreover, the global health crisis has already destroyed the record 2019 capital market returns;

³² Wrapped in an insurance contract as suggested by the distributor.



- b) The negative impact of this foreseeable trend in bond returns on pensions' returns will be reinforced by a higher proportion of bonds being taken up in pension products' portfolios in recent years; this is all the more relevant in light of the monetary policy response to the health-generated recession.
- c) The transparency of cost disclosures is not improving.
- d) While it seemed unlikely that inflation – just like interest rates – would turn into deflation, and the consequences of the “non-conventional” monetary policies of central banks on possible market “bubbles” are still uncharted, currently inflation (with its known devastating impact on the purchasing power of pension income) is surging, hitting record high after record high.
- e) Taxes on long-term and pension savings do not show any significant downward trend either.

The pan-European Personal Pension (PEPP) product

In an attempt to revitalise voluntary pension savings, the EU engaged in a project to create an EU quality label for personal retirement products, mainly to enable cross-border workers to save simply and efficiently for retirement. Named the pan-European Personal Pension product (PEPP), it is designed as a voluntary/personal pension product (pillar III), and should be:

- portable, allowing the PEPP saver to move across Europe and either continue contributing to his PEPP or switch to a new national sub-account without fees;
- simple, transparent and cost-efficient, embedding proper long-term risk-mitigation techniques; and
- benefiting of tax-incentives in a harmonised manner.

The last two objectives have not been attained – yet. First, taxation is still the sovereign competence of EU Member States and found strong opposition from national Governments, although the Commission and European Parliament have asked or recommended it.³³

Second, EIOPA allowed insurance-based investment products (IBIPs) manufacturers to charge the cost of guarantees separately from the “all inclusive” 1% cap for the basic PEPP.³⁴ What is more, is that the capital protection is a “scam” enshrined by EU law. The fact that EU savers would be informed that their capital (meaning accumulated contributions) would be protected, but only after the deduction of fees and without taking into account inflation, is highly misleading.³⁵

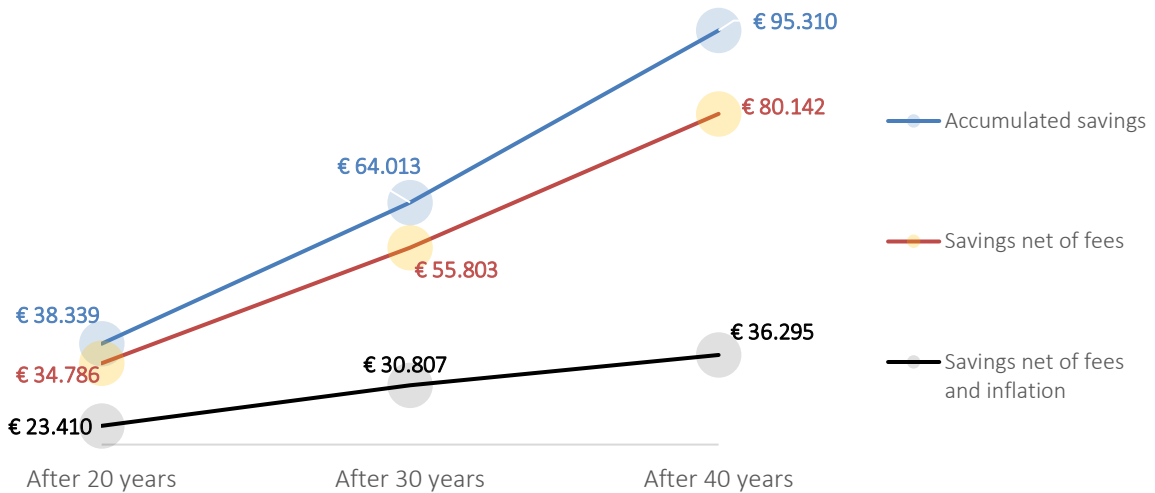
³³ Most recently, the European Parliament's Economic and Monetary Affairs' (ECON) own initiative report on the Further Development of the Capital Markets Union (CMU) does contain a resolution to incentivise and harmonise PEPP tax treatments across the EU; however, at the time of writing, the resolution was not yet final.

³⁴ See EIOPA Final Regulatory Technical Standards (RTS) supplementing Regulation (EU) 2019/1238 on the PEPP: https://www.eiopa.europa.eu/sites/default/files/publications/eiopa-20-500_pepp_draft_rtss.pdf.

³⁵ See BETTER FINANCE YouTube Video on the “PEPP Capital Protection SCAM”.



Graph GR7. Nominal, net and real capital protection



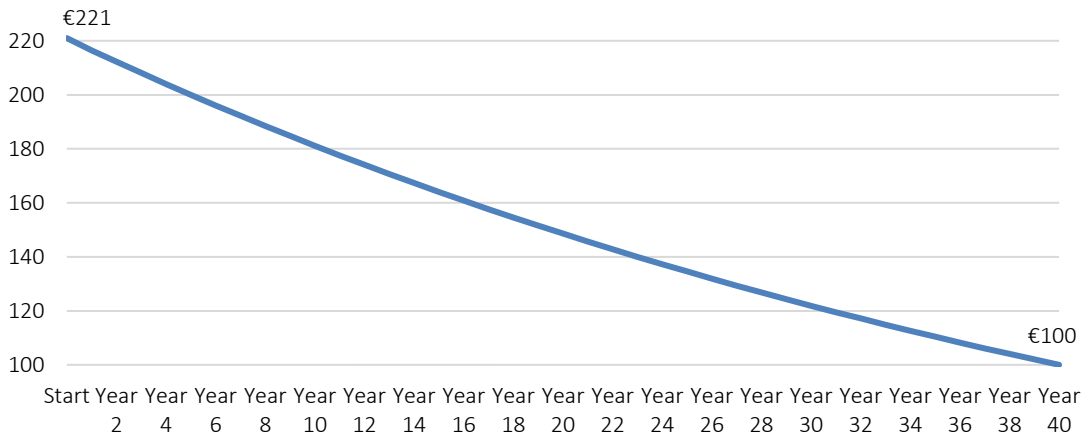
Source: BETTER FINANCE PEPP Level 2 position paper

Pension products have the longest investment horizon, usually until retirement age, which should imply 35 to 40 years of investments. The cumulative effect of inflation, assuming a modest inflation rate, over 40 years would decrease the value of savings by 56%.

What is a “nominal rate” of return?	What is a “real rate” of return?
<p>A <i>nominal</i> value and rate represent the actual amount of money (or mathematical result) of an investment. <i>Nominal returns</i> or profits in <i>nominal terms</i> designate the current entitlement from an investment at a certain point in time.</p> <p>E.g.: A €100 investment that increase by a quarter will have a nominal value of €125 (nominal profit of €25) or a nominal rate of return of 25%.</p> <p>In finance, rates are mostly expressed in <i>nominal</i> and, usually, <i>gross</i> terms. This shows the pure profit generated by an investment before fees, commissions, taxes are deducted and before inflation is adjusted for.</p> <p>Nominal returns can be recalculated into <i>real returns</i> (see right-hand side) by <i>adjusting for inflation</i>.</p>	<p>The <i>real</i> rate is a nominal rate adjusted by <i>inflation</i>. The real return is a “down to earth” indicator because it factors in the practicality (<i>reality</i>) of actually using the money:</p> <ul style="list-style-type: none"> • If inflation has been positive, then the <i>real value</i> of money will be smaller than the <i>nominal value</i>. • If inflation has been negative, then the <i>real value</i> of money will be higher than the <i>nominal one</i>. <p>This is because inflation (or deflation) shows how many goods or services one can buy with the same amount of money at different points in time. Economists call it the <i>purchasing power</i> and it calculates whether the same €10 bill earned in 2010 (for instance) can be exchanged for less, the same, or more of the same goods in 2020 (for instance).</p>



Graph GR8. Real value of savings



Source: BETTER FINANCE PEPP Level 2 position paper

BETTER FINANCE highlights and warns about the “money illusion” and how detrimental it is to consider pension savings in nominal terms rather than in **real** terms, i.e., adjusting for inflation.

II. COUNTRY PROFILES

This second part onward analyses each country profile available in this study. Tables GR9 (A and B) include some key indicators of the pension systems in the countries under review in this research report. These indicators, explained below, are representative of the sustainability of a pension system, or otherwise the pressure on State (public) pensions. Our aim is to highlight the importance of additional private pension savings for pension adequacy.

What is old-age dependency ratio?

It is defined as the ratio between the total number of elderly persons when they are generally economically inactive (aged 65 and above) and the number of persons of working age:

- when the ratio is low (e.g., Slovakia with 25% or 1 pensioner to 4 workers), it means that the pressure on the state pension is low;
- when the ratio is high (e.g., Italy with 37% or 1 pensioner to less than 3 workers), it means that the burden on PAYG schemes is high, and it can be alleviated through private pension sources.

What is population ageing trend?

An ageing population means that the number of retirees increases relative to the number of workers. This indicator refers to public (PAYG) pensions.

The effect is that the same pension contributions need to pay for a higher number of pensioners, which can make it difficult for the state pension to ensure an adequate level of retirement income stream.

What is the projected old-age dependency ratio?

It shows how the number of pensioners to working people will evolve in time.

If the old-age dependency ratio is now, on average, 1-to-3, by 2050 this level will be for most countries in this Report above 50%. In other words, every state pension will depend on the level of contributions of almost two working-age individuals.



What is the net equity of households?

It represents the value of technical (mathematical) provisions insurance and pension fund providers hold to pay future pension liabilities (entitlements of savers). This indicator is expressed both in nominal terms (in € billion) and as a percentage of the GDP for 2019. Therefore:

- a high value-to-GDP rate of *net equity of households* reflects well established privately funded systems, indicating a lower dependency on state pensions;
- a low value-to-GDP shows either that the private system is relatively new (as in Romania or Bulgaria) or that households do not contribute too much to pension funds and life insurances, relying more on state pensions.

What is the aggregate replacement ratio for pensions?

It represents the ratio between to median individual pension income of population aged 65-74 relative to median individual earnings from work of population aged 50-59, excluding other social benefits.

Note: In the previous editions of this report, the indicator used was *net pension replacement rate* – aggregated by the OECD – which was discontinued in 2019. Thus, the research team replaced it with the *aggregate replacement ratio for pensions* computed by Eurostat.

Table GR9(A). EUROPEAN UNION (EU27) at the end of 2019, except otherwise provided

Net equity of households in pension funds reserves (in € bln)	4,232	Net equity of households in pension funds reserves as % of GDP	30.30%
Net equity of households in life insurance reserves (in € bln)	5,226	Net equity of households in life insurance reserves as % of GDP	37.40%
Active population (mil.), 2020	214.4	Old-Age dependency ratio, old (% of working population)	32.40%
Population ageing trend (2020-2050)	61%	Projected old-age dependency ratio by 2050	52%
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019		57%	

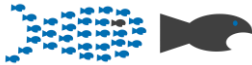
Source: for both parts, BETTER FINANCE own composition based on OECD, WorldBank, Eurostat data

Table GR9(B). Country Profiles (end 2019, except otherwise provided)

Austria			
Net equity of households in pension funds reserves (in € bln)	60	Net equity of households in pension funds reserves as % of GDP	15.10%
Net equity of households in life insurance reserves (in € bln)	83	Net equity of households in life insurance reserves as % of GDP	20.90%
Active population (mil.), 2020	4.6	Old-Age dependency ratio, old (% of working population), 2020	28.93%
Population ageing trend (2020-2050)	63%	Projected old-age dependency ratio by 2050	47.20%
Aggregate replacement ratio for pensions (excl. social benefits), total, 2020		61%	
Belgium			
Net equity of households in pension funds reserves (in € bn), 2020	120	Net equity of households in pension funds reserves as % of GDP, 2020	27%



Net equity of households in life insurance reserves (in € bn), 2020	204	Net equity of households in life insurance reserves as % of GDP, 2020	45.20 %
Active population (mil.) 2020	5.1	Old-Age dependency ratio, old (% of working population), 2020	30.22 %
Population ageing trend (2020-2050)	48%	Projected old-age dependency ratio by 2050	44.80 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2020			46%
Bulgaria			
Net equity of households in pension funds reserves (in € bn)	8	Net equity of households in pension funds reserves as % of GDP	13.20 %
Net equity of households in life insurance reserves (in € bn)	1	Net equity of households in life insurance reserves as % of GDP	1.30 %
Active population (mil.), 2020	3.2	Old-Age dependency ratio, old (% of working population), 2020	33.62 %
Population ageing trend (2020-2050)	64%	Projected old-age dependency ratio by 2050	55.00 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2020			34%
Croatia			
Net equity of households in pension funds reserves (in € bn)	15	Net equity of households in pension funds reserves as % of GDP	27.70 %
Net equity of households in life insurance reserves (in € bn)	3	Net equity of households in life insurance reserves as % of GDP	4.70 %
Active population (mil.), 2020	1.8	Old-Age dependency ratio, old (% of working population), 2020	33.10 %
Population ageing trend (2020-2050)	59%	Projected old-age dependency ratio by 2050	52.50 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2020			39%
Denmark			
Net equity of households in pension funds reserves (in € bn)	212	Net equity of households in pension funds reserves as % of GDP	68.00 %
Net equity of households in life insurance reserves (in € bn)	293	Net equity of households in life insurance reserves as % of GDP	93.90 %
Active population (mil.), 2020	3.0	Old-Age dependency ratio, old (% of working population), 2020	31.73 %
Population ageing trend (2020-2050)	37%	Projected old-age dependency ratio by 2050	43.40 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019			45%
Estonia			
Net equity of households in pension funds reserves (in € bn)	5	Net equity of households in pension funds reserves as % of GDP	16.80 %



Net equity of households in life insurance reserves (in € bn)	1	Net equity of households in life insurance reserves as % of GDP	2%
Active population (mil.), 2020	0.7	Old-Age dependency ratio, old (% of working population), 2020	32.27 %
Population ageing trend (2020-2050)	52%	Projected old-age dependency ratio by 2050	49.10 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2020		43%	
France			
Net equity of households in pension funds reserves (in € bn)	0	Net equity of households in pension funds reserves as % of GDP	0%
Net equity of households in life insurance reserves (in € bn)	2,084	Net equity of households in life insurance reserves as % of GDP	85.90 %
Active population (mil.), 2020	30.0	Age dependency ratio, old (% of working-age population), 2020	33.69 %
Population ageing trend (2020-2050)	46%	Projected old-age dependency ratio by 2050	49%
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019		65%	
Germany			
Net equity of households in pension funds reserves (in € bn)	911	Net equity of households in pension funds reserves as % of GDP	26%
Net equity of households in life insurance reserves (in € bn)	1,069	Net equity of households in life insurance reserves as % of GDP	31.00 %
Active population (mil.), 2020	43.4	Old-Age dependency ratio, old (% of working population), 2020	33.70 %
Population ageing trend (2020-2050)	43%	Projected old-age dependency ratio by 2050	48.30 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019		44%	
Italy			
Net equity of households in pension funds reserves (in € bn)	238	Net equity of households in pension funds reserves as % of GDP	13.30 %
Net equity of households in life insurance reserves (in € bn)	808	Net equity of households in life insurance reserves as % of GDP	45%
Active population (mil.), 2020	25.1	Old-Age dependency ratio, old (% of working population), 2020	36.57 %
Population ageing trend (2020-2050)	68.15 %	Projected old-age dependency ratio by 2050	62%
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019		73%	
Latvia			
Net equity of households in pension funds reserves (in € bn)	5	Net equity of households in pension funds reserves as % of GDP	16.00 %



Net equity of households in life insurance reserves (in € bn)	1	Net equity of households in life insurance reserves as % of GDP	2.40 %
Active population (mil.), 2020	0.98	Old-Age dependency ratio, old (% of working population), 2020	32.90 %
Population ageing trend (2020-2050)	72%	Projected old-age dependency ratio by 2050	56.70 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019		38%	

Lithuania

Net equity of households in pension funds reserves (in € bn)	4	Net equity of households in pension funds reserves as % of GDP	8.30 %
Net equity of households in life insurance reserves (in € bn)	1	Net equity of households in life insurance reserves as % of GDP	2%
Active population (mil.), 2020	1.5	Old-Age dependency ratio, old (% of working population), 2020	32.26 %
Population ageing trend (2020-2050)	75%	Projected old-age dependency ratio by 2050	56.50 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019		43%	

Netherlands

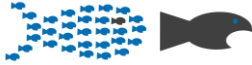
Net equity of households in pension funds reserves (in € bn)	1,725	Net equity of households in pension funds reserves as % of GDP*	212.90 %
Net equity of households in life insurance reserves (in € bn)	170	Net equity of households in life insurance reserves as % of GDP*	21.00 %
Active population (mil.), 2020	9.4	Old-Age dependency ratio, old (% of working population), 2020	31%
Population ageing trend (2020-2050)	44%	Projected old-age dependency ratio by 2050	45%
Aggregate replacement ratio for pensions (excl. social benefits), total, 2020		51%	

Poland

Net equity of households in pension funds reserves (in € bn), 2020	40	Net equity of households in pension funds reserves as % of GDP, 2020	7.80 %
Net equity of households in life insurance reserves (in € bn), 2020	15	Net equity of households in life insurance reserves as % of GDP, 2020	3.00 %
Active population (mil.), 2020	18.2	Old-Age dependency ratio, old (% of working population), 2020	28.37 %
Population ageing trend (2020-2050)	84%	Projected old-age dependency ratio by 2050	52.20 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019		60%	

Romania

Net equity of households in pension funds reserves (in € bn), 2020	16	Net equity of households in pension funds reserves as % of GDP, 2020	7.40 %
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Net equity of households in life insurance reserves (in € bn), 2020	2	Net equity of households in life insurance reserves as % of GDP, 2020	0.90 %
Active population (mil.), 2020	9.0	Old-Age dependency ratio, old (% of working population), 2020	29.47 %
Population ageing trend (2020-2050)	85%	Projected old-age dependency ratio by 2050	54.50 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2020			41%
Slovakia			
Net equity of households in pension funds reserves (in € bn), 2020	13	Net equity of households in pension funds reserves as % of GDP, 2020	14%
Net equity of households in life insurance reserves (in € bn), 2020	5	Net equity of households in life insurance reserves as % of, 2020	5%
Active population (mil.), 2020	2.7	Old-Age dependency ratio, old (% of working population), 2020	24.65 %
Population ageing trend (2020-2050)	109%	Projected old-age dependency ratio by 2050	51.40 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019			53%
Spain			
Net equity of households in pension funds reserves (in € bn), 2020	176	Net equity of households in pension funds reserves as % of GDP, 2020	16%
Net equity of households in life insurance reserves (in € bn), 2020	200	Net equity of households in life insurance reserves as % of GDP, 2020	18%
Active population (mil.), 2020	22.8	Old-Age dependency ratio, old (% of working population), 2020	30.44 %
Population ageing trend (2020-2050)	95%	Projected old-age dependency ratio by 2050	59.50 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2019			70%
Sweden			
Net equity of households in pension funds reserves (in € bn), 2020	531	Net equity of households in pension funds reserves as % of GDP, 2020	107.1 0%
Net equity of households in life insurance reserves (in € bn), 2020	116	Net equity of households in life insurance reserves as % of GDP, 2020	24%
Active population (mil.), 2020	5.5	Old-Age dependency ratio, old (% of working population), 2020	32.76 %
Population ageing trend (2020-2050)	19.04 %	Projected old-age dependency ratio by 2050	39.00 %
Aggregate replacement ratio for pensions (excl. social benefits), total, 2020			55%

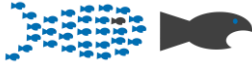


United Kingdom			
Net equity of households in pension funds reserves (in € bn)	3,571	Net equity of households in pension funds reserves as % of GDP*	137.2 0%
Net equity of households in life insurance reserves (in € bn)	830	Net equity of households in life insurance reserves as % of GDP*	31.90 %
Active population (mil.), 2020	34.7	Old-Age dependency ratio, old (% of working population), 2020	29.30 %
Population ageing trend (2020-2050)	-	Projected old-age dependency ratio by 2050	-
Aggregate replacement ratio for pensions (excl. social benefits), total, 2018			55%

Source: Eurostat; OECD; World Bank; own composition

Table GR10. Funding level of private pension systems				
	Pension Funds' assets (2020)		All retirement vehicles' assets (2020)	
	% of GDP	in € mil	% of GDP	in € mil
Austria	7%	24,969	n.a.	
Belgium	9%	41,959	37%	169,071
Bulgaria	15%	8,900	15%	8,900
Croatia	35%	16,959	35%	16,959
Denmark	58%	182,588	239%	436,290
Estonia	20%	5,302	20%	5,302
France	3%	58,500	11%	254,241
Germany	8%	269,582	n.a.	
Italy	10%	161,658	13%	209,158
Latvia	2%	610	19%	5,707
Lithuania	10%	4,663	10%	4,663
Netherlands	210%	1,679,386	n.a.	
Poland	6%	32,420	6%	32,420
Romania	7%	16,041	7%	16,041
Slovak Republic	14%	13,195	14%	13,195
Spain	10%	117,359	14%	161,373
Sweden	4%	19,719	95%	468,546
United Kingdom	119%	2,641,370	n.a.	

Source: OECD, 2021



In some countries the level of accumulated assets in pension funds is almost the same as that of the total value of pension vehicles (such as in Italy, Bulgaria or Romania), in others we see that the total amount of funded retirement products is up to four times higher than the amount for pension funds (Denmark – 219% of GDP).

III. RETURN ATTRIBUTION

Pension returns drivers

This report seeks to explain the (often poor) performance of pension vehicles, especially when compared to capital market returns. The underperformance (compared to a benchmark) of most pension vehicles can be explained by several return *drivers*:

- **inflation**, which over a full contribution period (40 years) at a modest rate can erode even more than 50% of nominal returns,
- pension portfolios' **asset allocation** and **performance**,
- the **asset managers' skills** in terms of picking securities and market timing,
- the **investment charges** deducted by asset managers and other financial intermediaries, to a great extent from net real returns of private pensions,
- ultimately by the **tax** burden.

These return drivers are analysed separately in the following sections.

Inflation

As explained in the previous section, inflation is a measurement for the *purchasing power of money* over time: positive inflation rate means that the **real value** of our money decreases over time; negative inflation rate means that the **real value** of our money increases.

For several of the countries analysed in this research report, inflation rates were significant and consequently had a severe impact on returns in real terms over the periods in review. One has to keep in mind that even for those countries with moderate inflation, the compound effect over long periods, as applicable to the case of retirement savings, can lead to considerable losses in purchasing power.



Table GR11(A). Inflation in Eurozone Member States (in %)

Year	AUSTRIA	BELGIUM	ESTONIA	FRANCE	GERMANY	ITALY	LATVIA	LITHUANIA	NETHERLANDS	SLOVAKIA	SPAIN
2000	1.8%	3.0%	5.0%	1.8%	2.2%	2.7%	1.7%	1.7%	2.9%	8.4%	4.0%
2001	1.8%	1.9%	4.2%	1.5%	1.4%	2.3%	3.2%	2.0%	5.1%	6.7%	2.5%
2002	1.7%	1.3%	2.7%	2.2%	1.1%	3.0%	1.5%	-0.9%	3.2%	3.2%	4.0%
2003	1.3%	1.6%	1.2%	2.4%	1.1%	2.5%	3.6%	-1.3%	1.6%	9.4%	2.7%
2004	2.5%	2.0%	4.8%	2.2%	2.3%	2.3%	7.3%	2.8%	1.3%	5.9%	3.3%
2005	1.5%	2.8%	3.7%	1.8%	2.1%	2.0%	7.1%	3.0%	2.0%	3.8%	3.7%
2006	1.6%	2.1%	5.1%	1.7%	1.4%	2.1%	6.7%	4.6%	1.7%	3.7%	2.7%
2007	3.5%	3.1%	9.7%	2.8%	3.1%	2.8%	14.0%	8.2%	1.6%	2.5%	4.3%
2008	1.5%	2.7%	7.5%	1.2%	1.1%	2.4%	10.4%	8.5%	1.7%	3.5%	1.4%
2009	1.1%	0.3%	-1.9%	1.0%	0.9%	1.1%	-1.4%	1.2%	0.7%	0.0%	0.9%
2010	2.2%	3.4%	5.4%	2.0%	1.8%	2.1%	2.4%	3.6%	1.8%	1.3%	2.9%
2011	3.4%	3.2%	4.1%	2.7%	2.2%	3.7%	3.9%	3.5%	2.5%	4.6%	2.3%
2012	2.9%	2.1%	3.6%	1.5%	2.1%	2.6%	1.6%	2.9%	3.4%	3.4%	3.0%
2013	2.0%	1.2%	2.0%	0.8%	1.2%	0.6%	-0.4%	0.5%	1.4%	0.4%	0.3%
2014	0.8%	-0.4%	0.1%	0.1%	0.1%	0.0%	0.3%	-0.1%	-0.1%	-0.1%	-1.1%
2015	1.1%	1.5%	-0.2%	0.3%	0.2%	0.1%	0.4%	-0.2%	0.5%	-0.5%	-0.1%
2016	1.6%	2.2%	2.4%	0.8%	1.6%	0.5%	2.1%	2.0%	0.7%	0.2%	1.4%
2017	2.3%	2.1%	3.8%	1.2%	1.5%	1.0%	2.2%	3.8%	1.2%	2.0%	1.2%
2018	1.7%	2.2%	3.3%	1.9%	1.7%	1.2%	2.5%	1.8%	1.8%	1.9%	1.2%
2019	1.8%	0.9%	1.8%	1.6%	1.5%	0.5%	2.1%	2.7%	2.8%	3.2%	0.8%
2020	1.0%	0.4%	-0.9%	0.03%	-0.7%	-0.3%	-0.5%	-0.1%	0.9%	1.8%	-0.6%
AVG	1.9%	1.9%	3.2%	1.5%	1.4%	1.7%	3.3%	2.4%	1.8%	3.1%	1.9%

Source: BETTER FINANCE own composition based on Eurostat data



Table GR11(B). Inflation in non-Eurozone Member States (in %)

Year	BULGARIA	CROATIA	DENMARK	POLAND	ROMANIA	SWEDEN	UK
2000	11.3%	5.9%	2.4%	8.4%	40.7%	1.3%	0.8%
2001	4.8%	2.4%	2.0%	3.5%	30.3%	3.2%	1.1%
2002	3.8%	2.8%	2.6%	0.8%	17.8%	1.7%	1.6%
2003	5.6%	2.2%	1.2%	1.7%	14.2%	1.8%	1.3%
2004	4.0%	2.0%	1.0%	4.3%	9.3%	0.9%	1.6%
2005	7.4%	4.0%	2.3%	0.8%	8.7%	1.2%	1.9%
2006	6.1%	2.1%	1.6%	1.4%	4.9%	1.5%	3.0%
2007	11.6%	5.4%	2.4%	4.3%	6.7%	2.5%	2.1%
2008	7.2%	2.8%	2.5%	3.3%	6.4%	2.1%	3.0%
2009	1.6%	1.8%	1.1%	3.9%	4.7%	2.8%	2.9%
2010	4.4%	1.7%	2.8%	2.9%	7.9%	2.1%	3.6%
2011	2.0%	2.1%	2.4%	4.6%	3.2%	0.4%	4.3%
2012	2.8%	4.4%	1.9%	2.1%	4.6%	1.0%	2.6%
2013	-0.9%	0.5%	0.5%	0.6%	1.3%	0.4%	2.0%
2014	-2.0%	-0.1%	0.1%	-0.7%	1.0%	0.3%	0.5%
2015	-0.9%	-0.3%	0.3%	-0.4%	-0.7%	0.7%	0.2%
2016	-0.5%	0.7%	0.3%	0.9%	-0.1%	1.7%	1.6%
2017	1.8%	1.3%	0.8%	1.7%	2.6%	1.7%	2.9%
2018	2.3%	1.0%	0.7%	0.9%	3.0%	2.2%	2.1%
2019	3.1%	1.3%	0.8%	3.0%	4.0%	1.7%	1.3%
2020	0.02%	-0.3%	0.4%	3.4%	1.8%	0.6%	-
AVG	3.5%	2.1%	1.4%	2.4%	7.8%	1.5%	-

Source: BETTER FINANCE own composition based on Eurostat data

Table GR11(C). EU27 inflation

2000	2001	2002	2003	2004	2005
4.0%	3.0%	2.5%	2.2%	2.6%	2.4%
2006	2007	2008	2009	2010	2011
2.1%	3.4%	2.0%	1.3%	2.5%	2.8%
2012	2013	2014	2015	2016	2017
2.3%	0.8%	-0.2%	0.2%	1.1%	1.4%
2018	2019	2020	AVG		
1.6%	1.6%	0.2%	1.9%		

Source: Eurostat HICP monthly index (2015=100, prc_hicp_aind), annual averages (AAVG) are calculated by BETTER FINANCE.



Why is inflation calculated per country/region?

Inflation is a relative term and depends on the “area” where one lives.

e.g.: €10 earned in 2010 will be worth more in 2020 in Germany than in Austria.

In 2020, we can observe deflation (negative inflation) in several countries, which means that the purchasing power of the currency increased over the course of the year. This is the case for Estonia, Germany, Italy, Latvia, Lithuania, Spain, and Croatia. With a few exceptions, the other countries in scope have recorded very low inflation rates. This can be attributed to decreasing prices of consumer goods and services, but also to lower economic output and pressure on the labour market. From a central bank’s point of view, deflation can be alarming as it reveals an undesired state of the economy. At the same time, deflation slightly increases real returns. In real terms, a 5% nominal return in 2020 actually means 5.53% given a deflation of -0.5%.

Aiming to maintain inflation rates below, but close to, 2%, the European Central Bank undertook considerable monetary policy efforts to bring the rates back to the desired levels.

Table GR12. Public sector deficit and debt (in %)

	Public Sector Deficit as a % of GDP						Public Debt as a % of GDP					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
EU	-1.9	-1.4	-0.8	-0.4	-0.5	-6.9	84.8	84.0	81.5	79.5	77.5	90.7
Austria	-1.0	-1.5	-0.8	0.2	0.6	-8.9	84.9	82.8	78.5	74	70.5	83.9
Belgium	-2.4	-2.4	-0.7	-0.8	-1.9	-9.4	105.2	105.0	102.0	99.8	98.1	114.1
Bulgaria	-1.7	0.2	1.2	2.0	2.1	-3.4	26.0	29.3	25.3	22.3	20.2	25
Croatia	-3.5	-0.9	0.8	0.2	0.3	-7.4	84.3	80.8	77.6	74.3	72.8	88.7
Denmark	-1.2	0.1	1.8	0.7	3.8	-1.1	39.8	37.2	35.9	34	33.3	42.2
Estonia	0.1	-0.4	-0.7	-0.6	0.1	-4.9	10.0	9.9	9.1	8.2	8.4	18.2
France	-3.6	-3.6	-3.0	-2.3	-3.1	-9.2	95.6	98.0	98.3	98	97.6	115.7
Germany	1.0	1.2	1.4	1.8	1.5	-4.2	72.3	69.3	65.1	61.8	59.7	69.8
Italy	-2.6	-2.4	-2.4	-2.2	-1.6	-9.5	135.3	134.8	134.1	134.4	134.6	155.8
Latvia	-1.4	0.2	-0.8	-0.8	-0.6	-4.5	37.1	40.4	39.0	37.1	37	43.5
Lithuania	-0.3	0.2	0.5	0.6	0.5	-7.4	42.5	39.7	39.1	33.7	35.9	47.3
Netherlands	-2.1	0.0	1.3	1.4	1.8	-4.3	64.7	61.9	56.9	52.4	48.7	54.5
Poland	-2.6	-2.4	-1.5	-0.2	-0.7	-7	51.3	54.2	50.6	48.8	45.6	57.5
Romania	-0.6	-2.6	-2.6	-2.9	-4.4	-9.2	37.8	37.3	35.1	34.7	35.3	47.3
Slovakia	-2.7	-2.6	-1.0	-1.0	-1.3	-6.2	51.9	52.4	51.5	49.6	48.2	60.6
Spain	-5.2	-4.3	-3.0	-2.5	-2.9	-11	99.3	99.2	98.6	97.4	95.5	120
Sweden	0.0	1.0	1.4	0.8	0.6	-3.1	43.7	42.3	40.7	38.9	35	39.9
UK	-4.6	-3.3	-2.5	-2.2	-2.1	-	86.9	86.8	86.2	85.7	85.4	-

Source: Eurostat: (1) Public Sector Deficit as a % of GDP; (2) Public Debt as a % GDP

In 2020, public spending on healthcare and economic support (due to the COVID-lockdowns) have put strains on state coffers. All countries analysed have recorded deficits, ranging from 1.1% of GDP (Denmark) to 11% of GDP (Spain). As such, public debt has increased everywhere: at EU27 level,



public debt increased by 13.2 p.p., and in the countries analysed the public debt increase ranges between 4.8 p.p. (Bulgaria) to 24.5 p.p. (Spain).

We recall the two criteria concerning public deficit and debt deriving from the Maastricht Treaty, i.e., EU countries should not exceed:

- *“-3% ratio of the planned or actual government deficit to gross domestic product at market prices”,³⁶*
- *“60% for the ratio of government debt to gross domestic product at market prices”.³⁷*

In this light, more than half of the countries analysed are still under the 60% threshold and 16 out of the 17 have exceeded the 3% deficit threshold. Data for the UK is no longer available from Eurostat, so it was excluded from the analysis.

Asset Allocation

There are striking differences between the asset allocation of pension funds across countries and products.

Equities dominate only in Poland and Lithuania, being the only two jurisdictions where pension funds are more than 50% invested in shares. Bonds are the main portfolio component in 8 out of 10 countries, and at least 40% in another 6 countries. In the UK, Germany, Spain and Slovakia at least a third of the capital is invested in collective investment scheme units or other instruments; cash and deposits are marginally used, mostly for short-term liquidity purposes.

The average portfolio composition remained almost constant, with a slight shift from liquidity and bonds to collective investment schemes (11% in 2015 to 15% in 2020) across the jurisdictions analysed in this report.

The decrease in government bond interest rates since 1999 have had a positive impact on outstanding assets, especially in countries where this asset class dominates, but it reduces the capacity to provide a good remuneration on new investment flows. The downside, starting in 2019, is that yields for sovereign bonds have started to turn negative.

In this edition we also continue to observe striking differences between pension funds' asset allocations across European countries as shown by the following table.³⁸

³⁶ Article 1 of the Protocol No. 12 on the excessive deficit procedure of the Treaty on European Union, OJ C 115, 9.5.2008, p. 279–280.

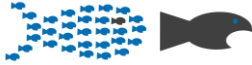
³⁷ Ibid.

³⁸ We could not find any available data for France.



Table GR13(A). Pension funds' asset allocation, [2020, in % of total assets]

Country	Year	Cash and deposits	Bills and bonds	Equities	Other
Austria	2005	3%	53%	37%	4%
	2016	9%	46%	33%	12%
	2017	7%	44%	35%	13%
	2018	8%	45%	33%	14%
	2019	7%	43%	34%	16%
	2020	2%	32%	29%	37%
Belgium	2005	2%	6%	9%	78%
	2010	7%	43%	38%	13%
	2015	4%	44%	42%	10%
	2016	N/A	N/A	N/A	N/A
	2017	5%	45%	43%	7%
	2018	6%	47%	41%	5%
	2019	2%	40%	42%	15%
2020	3%	46%	38%	13%	
Bulgaria	2015	12%	65%	19%	4%
	2016	16%	63%	17%	4%
	2017	6%	61%	17%	16%
	2018	9%	57%	17%	17%
	2019	8%	66%	12%	14%
2020	8%	61%	12%	19%	
Croatia	2015	3%	73%	24%	0%
	2016	5%	72%	22%	1%
	2017	4%	73%	22%	0%
	2018	6%	72%	21%	1%
	2019	2%	72%	25%	1%
2020	4%	69%	26%	1%	
Denmark	2005	1%	50%	26%	21%
	2010	3%	42%	5%	50%
	2015	0%	63%	18%	19%
	2016	0%	62%	17%	21%
	2017	1%	59%	19%	21%
	2018	0%	59%	21%	19%
	2019	0%	59%	21%	19%
2020	0%	52%	21%	27%	
Estonia	2010	9%	17%	4%	69%
	2015	20%	48%	31%	0%
	2016	23%	43%	34%	0%
	2017	4%	59%	36%	0%
	2018	3%	62%	34%	1%
	2019	4%	56%	40%	0%
2020	3%	48%	49%	0%	
France	2020	2%	68%	12%	18%

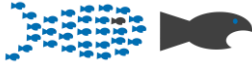


Germany	2005	3%	31%	35%	2%
	2010	2%	46%	5%	46%
	2015	4%	54%	5%	38%
	2016	4%	51%	6%	39%
	2017	4%	50%	6%	40%
	2018	4%	49%	5%	41%
	2019	4%	47%	6%	43%
	2020	3%	46%	7%	44%
Italy	2005	5%	37%	10%	17%
	2010	6%	47%	11%	36%
	2015	4%	50%	20%	27%
	2016	4%	49%	20%	26%
	2017	6%	45%	21%	28%
	2018	6%	45%	19%	30%
	2019	6%	45%	21%	28%
	2020	6%	44%	23%	28%
Latvia	2015	19%	46%	35%	1%
	2016	12%	61%	23%	4%
	2017	10%	57%	29%	4%
	2018	6%	42%	51%	1%
	2019	8%	59%	31%	2%
	2020	10%	56%	31%	3%
Lithuania	2015	9%	51%	38%	2%
	2016	9%	46%	41%	1%
	2017	5%	46%	46%	2%
	2018	7%	47%	44%	2%
	2019	2%	20%	75%	3%
	2020	2%	21%	74%	3%
NL*	2005	2%	41%	46%	4%
	2010	4%	56%	20%	20%
	2015	3%	46%	38%	13%
	2016	2%	45%	39%	14%
	2017	3%	48%	46%	2%
	2018	3%	51%	44%	2%
	2019	3%	50%	46%	0%
	2020	3%	52%	45%	0%
Poland	2005	4%	63%	32%	0%
	2010	3%	59%	36%	1%
	2015	7%	10%	82%	0%
	2016	7%	9%	83%	1%
	2017	6%	9%	85%	0%
	2018	6%	9%	85%	0%
	2019	7%	10%	82%	0%
	2020	4%	11%	85%	0%



Romania	2010	7%	80%	12%	0%
	2015	5%	73%	22%	0%
	2016	7%	71%	22%	0%
	2017	9%	68%	23%	0%
	2018	8%	72%	20%	0%
	2019	4%	71%	25%	0%
	2020	1%	74%	25%	0%
Slovakia	2005	78%	11%	7%	4%
	2010	27%	71%	1%	0%
	2015	17%	78%	2%	2%
	2016	12%	80%	3%	5%
	2017	12%	58%	2%	28%
	2018	11%	58%	2%	28%
	2019	11%	57%	3%	30%
2020	5%	59%	3%	33%	
Spain	2005	5%	58%	19%	18%
	2010	19%	58%	12%	11%
	2015	17%	62%	11%	9%
	2016	15%	64%	14%	7%
	2017	11%	47%	13%	28%
	2018	10%	48%	13%	29%
	2019	8%	44%	14%	33%
2020	9%	44%	14%	34%	
Sweden	2005	1%	58%	34%	7%
	2010	N/A	N/A	N/A	N/A
	2015	2%	67%	18%	13%
	2016	N/A	N/A	N/A	N/A
	2017	N/A	N/A	N/A	N/A
	2018	N/A	N/A	N/A	N/A
	2019	2%	45%	24%	29%
2020	2%	42%	26%	30%	
UK	2005	3%	19%	39%	27%
	2010	N/A	N/A	N/A	N/A
	2015	2%	34%	20%	43%
	2016	4%	43%	22%	31%
	2017	2%	28%	13%	57%
	2018	2%	30%	9%	59%
	2019	2%	30%	9%	59%
2020	2%	45%	26%	27%	
AVG 2020		4%	48%	30%	18%

Sources: OECD Pension Funds in Figures Preliminary Data 2021;



The asset allocation data in this table include both direct investments in cash and deposits, bills and bonds (both sovereign and corporate), equities and indirect investments through collective investment schemes (investment funds such as UCITS³⁹ or AIF⁴⁰) and other assets, such as loans, land and buildings, real estate investment trusts (REITS), hedge funds, derivatives, commodities and precious metals, insurance contracts, money market instruments, private equity funds and other structured (unallocated) products. Data for the asset allocation in collective investment schemes is not available for all jurisdictions and all years.

On average in 2020 as well, most pension funds employed a conservative/defensive investment strategy, investing more than half (51%) of the capital in debt securities (bills and bonds). Equities are the second largest position with an average of 28%.

However, there are significant deviations from the average:

- In countries such as Germany, Spain or Slovakia, the equity allocation is of small significance (7%, 14%, and 3%);
- In countries such as Poland and Lithuania, most assets are invested in equity (74% and 85%).

Table GR13(B). Evolution of average asset allocation in pension funds

	Cash & Deposits	Bills & bonds	Equity	Other (incl. CIS)
2015	8%	54%	27%	11%
2016	9%	54%	26%	11%
2017	6%	50%	29%	15%
2018	6%	50%	29%	16%
2019	5%	48%	30%	17%
2020	4%	48%	30%	18%
2015-2020	6%	51%	28%	15%

Source: own computations based on Table GR13(A).

So far, we were not able to obtain information on ESG-factored investments to correspond to the current reporting standards.

Asset performance

Concerning the recent *positive capital markets returns (1999 – 2020)*, equity markets managed to rebound well above the February 2020 level by the time of writing this report. Since the beginning of the 21st century, capital market returns have been positive (moderately for equities while strongly for bonds):

³⁹ “UCITS” stands for Undertakings for Collective Investment in Transferable Securities, which is the most common legal form mutual funds in the EU take, in particular because of the *passporting rights*.

⁴⁰ “AIFs” stand for Alternative Investment Funds, which are all the non-UCITS funds.



- Over the last 20 years, on a nominal basis (before taking inflation into account), world stock markets have grown in value (in €) by 151%,⁴¹ where the US stock market has grown by 176%⁴² and the European ones by 74% in the last 21 years;⁴³
- On a real basis (net of inflation), European stock markets (MSCI Europe NR) returned to positive cumulated performances by 2013, and once again reached significant levels by 2017 (+32%) and reached +17.4% in 2019.

Equity markets

Equity returns are more volatile in the short-term and hence need to be observed with a long-term perspective in mind. The real return calculations in this report date back to 31/12/1999 at the earliest, so we take a look at how equity markets performed over that same period. Overall, the 21st century began with one of the most severe bear markets in history and faced, in conjunction with the downward cycle of 2007-2008, two longer-lasting upward cycles from 2003-2006 and 2009-2019. Data in the table below is calculated based on gross performances (*nominal return*), then adjusted by inflation (*real return*).

Table GR14. Historical Returns on Equity Markets, yearly average

Country	Period	Nominal Return	Real return
Austria	(2000-2020)	3.2%	1.25%
Belgium	(2000-2020)	0.44%	-1.60%
Bulgaria	(2006-2020)	-9.10%	-3.61%
Croatia	(2003-2020)	5.24%	2.75%
Denmark	(2000-2020)	10.78%	9.20%
Estonia	(2000-2020)	11.95%	7.90%
Europe (EU27)	(2000-2020)	0.25%	-1.74%
France	(2000-2020)	-0.30%	-1.85%
Germany	(2000-2020)	3.29%	1.84%
Italy	(2000-2020)	-3.05%	-4.89%
Latvia	(2001-2020)	10.45%	6.12%
Lithuania	(2001-2020)	12.0%	8.6%
Netherlands	(2000-2020)	-0.34%	-2.4%
Poland	(2000-2020)	5.16%	2.5%
Romania	(2000-2020)	10.58%	1.06%
Slovakia	(2000-2020)	7.40%	4.42%
Spain	(2000-2020)	-0.91%	-2.96%
Sweden	(2000-2020)	1.43%	-0.20%

Sources: MSCI, Yahoo! Finance; Investing.com; NASDAQ Baltic; Bucharest Stock Exchange; GPW

Since not all equity indexes have the same coverage or data availability, it is difficult to perfectly compare the performances of the national equity markets. Most of the equity indices recorded negative nominal returns in 2020, ranging between -14.67% to -3.19%; the rest delivered positive

⁴¹ As measured by the MSCI All Country World Index (ACWI) Net Returns denominated in €.

⁴² As measured by the MSCI USA Net Returns Index, calculated in €.

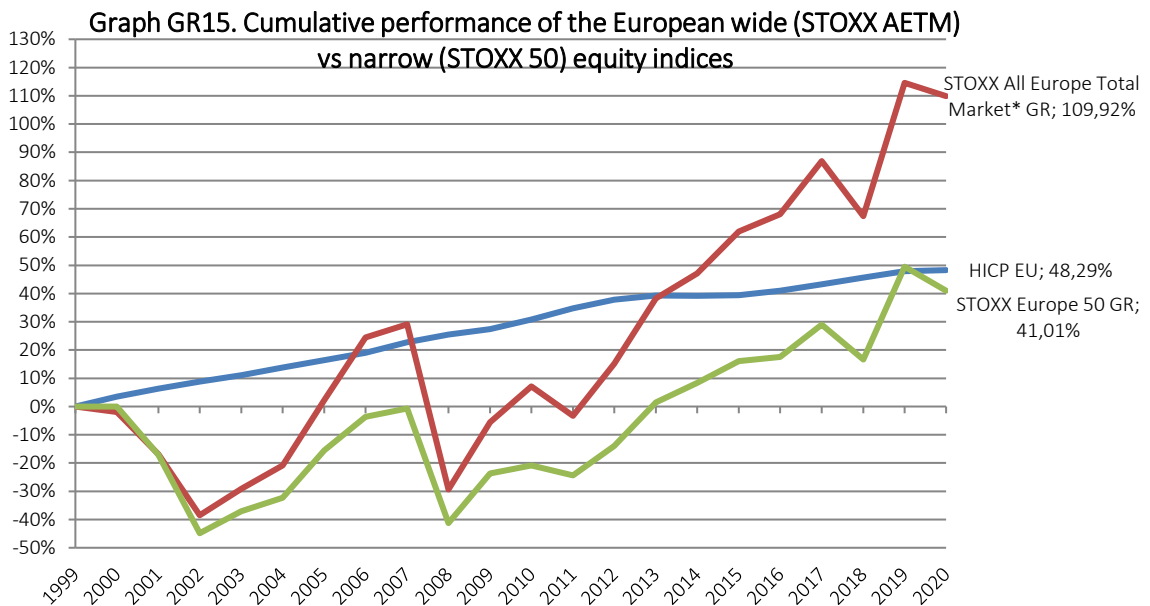
⁴³ As measured by the MSCI Europe Net Returns Index, denominated in €.



nominal returns ranging between 0.03% and 32.44%. In real net terms, due to predominant deflation, 2020 returns improved slightly. On average, the real returns for the equity markets listed in Table GR14 above are 2.34 p.p. lower than the nominal returns over their respective time periods.

When looking at the cumulated results at European level, as well as in the individual countries where we developed this analysis (see French, German and Spanish country cases), broad stock market indices performed much better than the better known and much narrower large cap or “blue chip” indices (Stoxx Europe 50, DAX 30, IBEX 35, CAC 40).

The following graph shows a comparison of the broad STOXX All Europe Total Market index which includes 1,793 European stocks (as of 2 September 2020)⁴⁴ and the much narrower Stoxx Europe 50.



Source: BETTER FINANCE; Eurostat; STOXX

At European level, the difference at the end of our 21-year period is an astonishing 69% in favour of the broader stock market index in nominal terms. And whereas the performance of the narrow index (29% nominal) was heavily outmatched by inflation (39%) over the last 18 years, the broader European stock market recorded a positive real performance with a cumulated gain of 34%.

⁴⁴ <https://www.stoxx.com/index-details?symbol=TE1P>. There was no data available for year of 2000. The performance of the narrower MSCI Europe TR (Net) index (435 components as of 02 September 2020) for that year was taken as a proxy instead.



Government bond markets

As already mentioned above, it is important to note that a decrease in interest rates translates into an increase in the mark-to-market value of bonds which had a positive impact on outstanding debt assets of pension funds. On the other hand, the capacity to provide good remuneration through new bond issuances is hereby reduced.

The following table indicates the returns of thirteen major European bond markets for the period 2000-2019.

Table GR16. Historical Returns on Bond Markets, yearly average			
Country	Year	Nominal Return	Real Return
Belgium	(2008-2019)	5.15%	3.35%
Croatia	(2009-2019)	6.03%	4.76%
Denmark	(2008-2019)	4.70%	3.54%
Germany	(2008-2019)	4.15%	2.82%
Spain	(2008-2019)	5.47%	4.24%
France	(2008-2019)	4.70%	3.43%
Italy	(2008-2019)	5.33%	3.99%
Lithuania	(2008-2019)	-	-
Netherlands	(2008-2019)	4.47%	2.92%
Romania	(2008-2019)	-	-
Slovakia	(2008-2019)	-	-
Sweden	(2008-2019)	2.98%	1.54%
UK	(2008-2019)	4.52%	2.23%
EMU	(2008-2019)	4.65%	3.31%

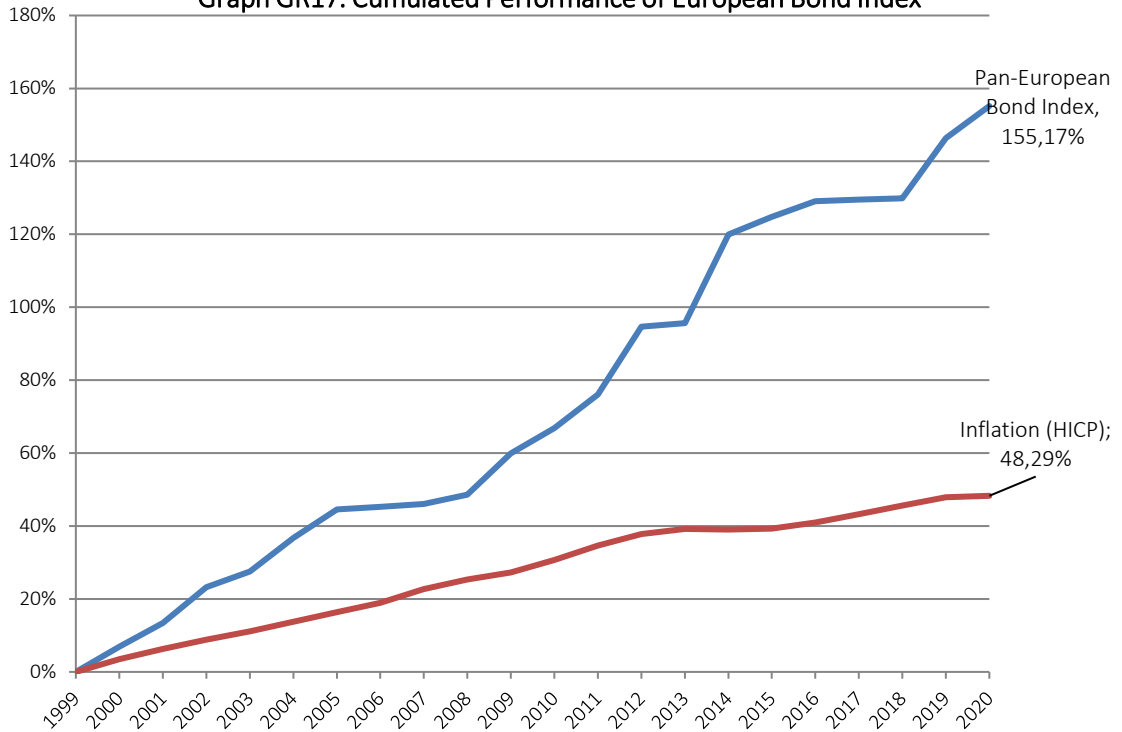
Sources: Morningstar Direct, Eurostat HICP annual average

The European government bond markets all showed steady nominal average returns over the past 10 years, ranging between 6.03% (Croatia) and 2.98% (Sweden). Real average returns ranged even closer together, with the highest in Croatia at 4.76% and Sweden and UK at the lower margin.

The following graph shows the long-term cumulated returns of European bonds as a whole - that is both government and corporate bonds - as measured by the Barclays Pan-European TR index:



Graph GR17. Cumulated Performance of European Bond Index



Source: Eurostat; Bloomberg website; own computations

Over the last 20 years, European bonds as a whole enjoyed a very positive nominal return which was significantly higher than the return of European equities. It is difficult to foresee a continuation of this past trend given the negative interest rates reached today. However, in 2019 this index grew from 129.86% to 146% in nominal terms. Overall, the real cumulative growth of the broad bond index was of 166.2%.



What are “**equities**”?

Equities, also referred to as *shares* or *stocks*, represent a certificate of ownership over a certain part of a company or undertaking.

Equity gives the *shareholder* the right to benefit of profits (through dividends) and the obligation to support losses, proportionally to his “ownership share” over the company. At the same time, it allows the *shareholder* to take part in the decision-making process of the company.

The value of a share is primarily determined by its growth potential, coupled with the amount and frequency of *dividend* payments: see here the BETTER FINANCE video about *Investing in Shares*.⁴⁵

If the company is going well, the **share price goes up**.

What are “**bonds**”?

Bonds, commonly referred to as *debt* or *fixed income securities*, represent a very liquid, easily fungible, and transferable **loan**.

The borrower issues the *bond*, which has a *principal* amount (sum to be repaid), a *maturity* (repayment date) and *coupon* (interest rate).

Bonds are used because they facilitate a very fast financing channel for borrowers (instead of making a loan contract with each lender) and a less risky source of investment return for lenders.

The price of a bond is primarily determined by the *credit rating* of the issuer, the *principal amount* and the *maturity*.

If the issuer is doing good, then the **bond price goes down**.

Graph GR15 shows that this period has indeed been particularly favourable to bonds as an asset class as illustrated by the considerable outperformance of European inflation over time.

Portfolio Manager / Advisor Competence

The initial BETTER FINANCE study highlighted that, in almost all categories of investment funds, a majority of funds under-performed their benchmarks. Investment funds play an important role in today’s asset allocation of pension vehicles, thus it is interesting to compare investment fund performances to benchmarks.

The Standard & Poor’s annual “SPIVA” report measures the proportion of active funds that have beaten their benchmark. The results from the latest SPIVA Europe Scorecard for year-end 2016 are shown in the following table:

⁴⁵ Link also here: <https://www.youtube.com/watch?v=bhYW-YnbEmc>.

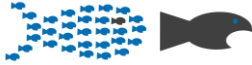


Table GR18. Percentage of European Equity Funds Beating their Benchmarks

Fund Category	Comparison Index	1-year (2020)	3-year (2018- 2020)	5-year (2016- 2020)	10-year (2011- 2020)
Funds denominated in Euro (€)					
Europe Equity	S&P Europe 350	63	30	25	14
Eurozone Equity	S&P Eurozone BMI	42	21	13	8
France Equity	S&P France BMI	66	9	14	8
Germany Equity	S&P Germany BMI	54	35	26	20
Italy Equity	S&P Italy BMI	45	12	18	20
Spain Equity	S&P Spain BMI	38	22	26	17
Netherlands Equity	S&P Netherlands BMI	17	0	0	0
Funds denominated in local currencies					
U.K. Equity	S&P United Kingdom BMI	80	66	44	35
Denmark Equity	S&P Denmark BMI	32	11	47	15
Poland Equity	S&P Poland BMI	94	68	39	37
Sweden Equity	S&P Sweden BMI	52	35	31	19

Source: BETTER FINANCE own computation based on S&P SPIVA Scorecard Year-End 2020 (<https://www.spglobal.com/spdji/en/documents/spiva/spiva-europe-year-end-2020.pdf>); *Outperformance is based on equal-weighted fund counts. Index performance based on total return.*

The latest findings for 2020 once again reveal that the large majority of funds do not outperform their respective benchmarks over the past 10 years. For funds investing in European equities, only 14% were able to outperform their benchmark, the S&P Europe 350. The worst results on a country basis were recorded for funds investing in the Netherlands equity where already since 2016 funds haven't overperformed the Dutch broad market index (S&P Netherlands BMI), as well Eurozone and France where only 9% and 10% of the equity funds delivered a cumulative profit over the past 10 years above that of their benchmark.

For retirement savings products, consistent positive long-term returns are of particular importance. However definitive conclusions cannot be drawn from these calculations because they relate to a period that is too short, including no more than two cyclical periods: equity markets fell sharply in 2008 and 2009, then they recovered progressively until the end of 2019, with short sub-periods of decline in most countries, as was the case again in 2020. Prior research found that investment funds tend to outperform their benchmarks in a bearish market while they underperform in a bullish market.⁴⁶

For a longer time-horizon and especially in the case of retirement savings, a study⁴⁷ provides relevant results for UK personal pension funds operated by 35 providers over a 30-year period (1980-2009). Big personal pension fund providers performed better than their prospectus benchmarks, but underperformed treasury bills over the period of a fund's lifespan. Similarly, specialisation of portfolio managers in the investment universe is shown to deliver superior average

⁴⁶ IODS (2014): Study on the Performance and Efficiency of the EU Asset Management Industry, a study for the European Commission (Internal Market and Services DG) and the Financial Services User Group (FSUG), August 2014

⁴⁷ Anastasia Petraki and Anna Zalewska (April 2014), "With whom and in what is it better to save? Personal pensions in the UK", working paper of the Centre for Market and Public Organisation, University of Bristol.



annual returns but does not show superior long-term performances. More generally, they found that short-term performances based on arithmetic annual averages are not relevant indicators of the long-term performance calculated as geometric compounded returns similar to the methodology used in the present study. The authors also showed that younger funds perform better than older ones, which are under lower competitive pressure given the cost of leaving a fund to join a better performing one.

A research report published by BETTER FINANCE in 2019 analysed the drivers of over- or underperformance of the comparison or benchmark index of EU Equity Retail Investment funds domiciled in France, Belgium and Luxemburg. While only 2 funds out of 2,086 managed to consistently deliver overperformance over 10 years between 2008-2017, the rest that managed to beat their respective markets seem to have done so by coincidence or luck.⁴⁸

In attempting to give an explanation for the latter, the analysis deployed showed that fees are the most negative factor for fund (over)performance or – in other words – *“the more you pay, the less you get”*.⁴⁹ More information on fees and charges is given in the following section.

IV. INVESTMENT CHARGES

Fees and commissions substantially reduce the performances of pension products, especially for personal “packaged” pension products, and for unit-linked life-insurance. Charges are often complex, opaque, and far from being harmonised between different pension providers and products. Some countries have started to impose overall caps on fees for some pension products (UK, Romania, Latvia).

Findings of the initial study by BETTER FINANCE on the opacity and weight of charges did not change dramatically over the successive research reports. Generally speaking, charges are heavier on personal pension products than on occupational pension funds, as employers are in better position to negotiate with competing providers than individuals are.

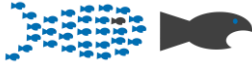
To tackle this complexity, some pension providers – for example, some auto-enrolment schemes in the United Kingdom – set up fixed costs per member, but this penalises low paid workers.

Following the OFT study, the Department for Work and Pensions issued a regulation which took effect on 6 April 2015⁵⁰. The default schemes used by employers to meet their automatic enrolment duties are subject to a 0.75% cap on AMCs. The cap applies to most charges, excluding transaction costs. Moreover, an audit was conducted on schemes being “at risk of being poor value for money”. It found that about one third of surveyed schemes had AMCs superior to 1% and that a significant

⁴⁸ BETTER FINANCE, *Study on the Correlation between Cost and Performance of EU Equity Retail Funds* (June 2019) <https://betterfinance.eu/wp-content/uploads/BETTER1.pdf>.

⁴⁹ Press Release, “New research by BETTER FINANCE on the Correlation between Costs and Performance of EU Retail Equity Funds without a doubt establishes a negative correlation between returns and fees” <https://betterfinance.eu/publication/the-more-you-pay-the-less-you-are-likely-to-get/>.

⁵⁰ <https://www.legislation.gov.uk/ukpga/2015/8/contents/enacted>



number of savers would have to pay exit fees superior to 10% in case they wanted to switch to a better performing fund. Moreover, starting from October 2017, existing early exit charges in occupational pension schemes cannot exceed 1% of the member's benefits and no new early exit charges can be imposed on members who joined that scheme after 10 October 2017.

V. Taxation

Finally, taxes also reduce the performance of investments. The general model applied to pension products is deferred taxation, with contributions being deducted from taxable income and pension pay-outs being taxed then. The accumulated capital can be withdrawn at least partially at retirement as a lump-sum, which is often not taxable. Our calculations of net returns are based on the most favourable case, i.e., assuming that the saver withdraws the maximum lump-sum possible.

One of the key elements of a pension system, as designed by the World Bank's conceptual framework of 1994,⁵¹ is to incentivise savings and private investments by giving fiscal advantages, either as deferred taxation, exemptions, or tax reductions.

Pension taxation concerns three stages: contributions, investment returns and payments (benefit drawdowns).

The general model applied to pension products is usually deferred taxation: contributions are deducted from the taxable income and pensions (pay-outs) are taxed within the framework of income tax or, usually, at a more favourable rate. Some countries are currently in the middle of a transitional phase comprising proportionate deferred taxation which will lead to entire deferred taxation in the future.

The so-called EET regime, "*a form of taxation of pension plans, whereby contributions are exempt, investment income and capital gains of the pension fund are also exempt, and benefits are taxed from personal income taxation*"⁵², is predominant in the countries covered by this research report. There are only a few exceptions, like in Poland, where the reverse rule is applied: contributions are paid from the taxable income while pensions are tax-free (the only exception from the TEE regime are IKZEs – individual pension savings accounts). Pensions in Denmark are taxed at all three stages with contributions to occupational pensions being partially deductible as the only exception. Furthermore, in Bulgaria and for the funded pensions in Slovakia, one can even observe EEE regimes with no pension taxation at all within defined tax exemption limits. In other countries, such as France or Poland, specific conditions apply in order to be tax-exempt or not.

⁵¹ World Bank, 'Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth' (1994) 10, <http://documents.worldbank.org/curated/en/973571468174557899/pdf/multi-page.pdf>.

⁵² OECD definition: <https://stats.oecd.org/glossary/detail.asp?ID=5225>



Usually, the accumulated capital can be withdrawn by the saver as a lump sum at retirement age, at least partially. Our calculations of returns net of taxation (where available) are based on the most favourable taxation case and assume that the saver withdraws the maximum lump sum possible.

Savings products used as retirement provision, but which are not strictly pension products, might benefit from a favourable tax treatment. This is the case of life insurance in France but successive increases of the rate of “social contributions” on the nominal income tend to diminish the returns of the investment.

An overview of the main taxation rules applied on a country basis can be found in the following table:

Table GR19. Overview of Main Taxation Rules Applied in the Country Reports

Austria	<ul style="list-style-type: none"> ● EET regime – generally, only payments are taxed; <ul style="list-style-type: none"> o direct commitments, occupational pension funds and group insurance have tax-exempt contributions, tax-exempt capital accumulation, and (income) taxed benefits; o life insurance contributions are subject to insurance tax (4%), investment returns are exempt, and payments are taxed (“TET” regime); o premium subsidised products carry a premium based on the contribution, the capital accumulation phase is tax-exempt, and benefits are also tax free if they are converted into an annuity (“TEE” regime).
Belgium	<ul style="list-style-type: none"> ● EET regime - only withdrawals/payments are taxed; <ul style="list-style-type: none"> o Contributions are tax deductible up to prescribed limits; o Employees pay generally 2% solidarity tax and 3.55% INAMI tax on benefits; o Pillar II: Taxation in pay-out phase depending on origin of contribution, local taxes to be added; o Pillar III: Taxation in pay-out phase at the age of 60, local taxes to be added.
Bulgaria	<ul style="list-style-type: none"> ● EEE regime; o Annual contributions of up to 10% of annual taxable income is tax free;
Croatia	<ul style="list-style-type: none"> ● EET regime Contributions and investment income are tax-exempt, whereas benefits are taxed. The tax allowance for pensioners is 1.7 times higher than for employees, meaning that pensions are only modestly taxed.
Denmark	<ul style="list-style-type: none"> ● TTT regime (combination of ETT and TTE); <ul style="list-style-type: none"> o Annuities, periodic instalments, and lump-sum pensions under the form of <i>kapitalpension</i> are income tax deferred and follow an ETT regime; o Lump-sum pensions under the form of <i>alderopsparing</i> are taxed TTE;
Estonia	<ul style="list-style-type: none"> ● EET regime for taxation: <ul style="list-style-type: none"> o Contributions paid towards the pension schemes are tax-exempt. o Returns achieved by respective pension funds are tax-exempt. o Benefits paid out during the retirement are subject to the income tax taxation.



France	<ul style="list-style-type: none">● ETT regime;<ul style="list-style-type: none">o PERP, Prefon, Corem, CRH contributions are income tax deductible;o Contributions to some DC pension plans (PERCO and PERP) are income tax deductible but no deductibility from social levies. No tax deductibility for life insurance contracts;o taxation of employers' contributions to corporate savings plans (PEE and PERCO) and defined contribution plans ("Article 83") increased from 8% to 20%.o the minimum tax rate on life insurance income is now 23%o pay-outs are taxed in the retirement phase (sometimes with tax reductions).
Germany	<ul style="list-style-type: none">● EET regime, taxation divides retirement savings into three groups:<ul style="list-style-type: none">o Statutory pension insurance and the Rürup pension: deferred taxation; contributions up to a deduction cap are exempted from taxation and generally subject to tax in its entirety during the pay-out phase.o Standard pension insurance or life insurance products: contributions to the products come from taxed income; benefits are taxed at the personal income tax rate on the corresponding earnings in the retirement phaseo Occupational pensions and the Riester pension: deferred taxation; contributions up to a deduction cap are exempted from taxation and generally subject to tax in its entirety during the pay-out phase.
Italy	<ul style="list-style-type: none">● ETT regime, contributions are tax deductible up to prescribed limits;<ul style="list-style-type: none">o Accruals are taxed at 20% (12.5% on income derived from public bonds) in the capital accumulation phase;o Taxation in the pay-out phase varies from 9-15%.
Latvia	<ul style="list-style-type: none">● EET regime;<ul style="list-style-type: none">o Pillar II – Contributions are personal income tax deductible item and therefore the contributions are not subject to additional personal taxation; Income or profits of the fund are not subject to Latvian corporate income tax at the fund level; a general principle for all investment and savings-based schemes to levy the income taxation on the final beneficiary.o Pillar III – Voluntary private pensions are generally taxed as Pillar II, however there are deduction limits in the contribution phase: payments (contributions) made to funds shall be deducted from the sum amount of annual taxable income, provided that such payments do not exceed 10 % of the person's annual taxable income.
Lithuania	<ul style="list-style-type: none">● EEE regime;<ul style="list-style-type: none">o Employee contributions are tax-deductible even if they are higher than required; for pillar III, there is a tax-refund policy during the contribution phase, which means that the contributions of up to 25% of gross earnings, the income tax (15%) is returned;
Poland	<ul style="list-style-type: none">● TEE regime for Employees Pension Programs (PPE) and Individual Retirement Accounts (IKE); EET for Individual Retirement Savings Accounts (IKZE);<ul style="list-style-type: none">o benefits are taxed with a reduced flat-rate income tax (10%)



Romania	<ul style="list-style-type: none"> ● EET regime applies for both mandatory and voluntary pensions; ○ for funded pensions (Pillar II), pension benefits paid out during retirement will be subject to a personal income tax (10% tax rate) above a certain level (€460 in 2018); the social security contributions have been removed as of 2018 and are supported completely from the consolidated state budget. ○ for voluntary private pensions (Pillar III), contributions are tax deductible up to a deduction limit, investment income is tax exempted, and benefits are subject to the personal income tax.
Slovakia	<ul style="list-style-type: none"> ● Funded pensions are usually not taxed (EEE regime); ● Supplementary pensions follow the EET regime with several exceptions and specifications.
Spain	<ul style="list-style-type: none"> ● EET regime, contributions are tax deductible up to prescribed limits; ● No taxation in the capital accumulation phase; ● Pay-outs are taxed differently depending on whether they take the form of an annuity or the form of a lump sum payment.
Sweden	<ul style="list-style-type: none"> ● EET regime for public pensions; ETT regime for private pensions; ○ Employers can partially deduct contributions to the second pillar; returns are subject to an annual standard rate tax based on the value of the account and the government-borrowing rate ○ Investment return is subject to tax rate on standard earnings at 15%; ○ in Pillar III, until 2016 there was a tax deduction of SEK 1,800 per year available; returns are subject to an annual standard rate tax based on the value of the account and the government-borrowing rate
Netherlands	<ul style="list-style-type: none"> ● EET regime; ● Contributions paid into pension funds are tax deductible; ● Taxation is applied in the pay-out phase at the personal income tax rate.
UK	<ul style="list-style-type: none"> ● EET regime; ● Allowances and tax relief on contributions with test against lifetime allowance ● Pay-outs are taxed as income, there are three marginal rates in the UK at the moment.

Source: BETTER FINANCE own composition

VI. RETURNS OVERVIEW

The BETTER FINANCE report now reaches 21 years (or maximum available) of performance disclosure for some retirement provision products. Unfortunately, in the long run, real returns were on average quite low and below those of capital markets (equities and bonds). In the context of negative interest rates and decreasing yields on capital markets, the pensions outlook looks grim.

One has to keep in mind that the diversity of the European pension landscape and the lack of available data complicate the drawing of straightforward conclusions. Although the aim of



comparability would be to present all results in a harmonised manner (either Pillar II vs Pillar III or on product categories - investment funds vs insurance products), complete data for all is not reported, neither the maximum periods available, nor are the concepts (Pillars, occupational vs supplementary plans) so common in all EU Member States. Therefore, for ease of reference, the names of the pension vehicles have been used in Graphs 18 (A, B and C) and Table 19 as presented in each individual country case.

Out of the 15 pension vehicles on which we report performances over at least 18 years (Graph 18(A)):

- only one so far remains on the negative side (-0.66%, French unit-linked life insurances);
- the majority (8) reported less than 1.5% real net return per year, equalling less than 35% pre-tax profits over the past 20 years.

Considering that an EU capital markets-representative benchmark (50% European Equities – 50% European bonds) recorded 72% real profits before taxes (2.69% p.a.), the 2020 data update shows few product categories overperforming this broad market benchmark.

On shorter reporting time frames (Graphs 18(B) and (C)) performances were much higher, but this may be due to the fact that some products did not pass through the same crises as the long-term ones (Graph 18(A)) did.

In general, we could observe significant performance differences in each country case, either between pillars or between types of pension vehicles:

- in Romania, Pillar II mandatory pension funds massively overperformed Pillar III pensions;
- in Austria, pension insurances overperformed pension funds by almost 17 percentage points;
- in Italy, both PIP-products have turned positive: PIP with profits had positive returns over the past 13 years (1.36%) unit-linked PIP recorded an average gain of 2.23%; and
- in France, where capital guaranteed insurance products gained 1.6% p.a. and unit-linked insurance lost -0.7% p.a.

These poor or even negative real returns have led public authorities in some Member States to take measures in order to ensure transparency and cap the fees charged by certain pension providers (in countries such as the UK, Romania and Latvia). The issue is crucial, especially in countries like the United Kingdom where the standard of living of retirees is heavily dependent on pre-funded pension schemes. The following tables detail the long-term real returns of the main long-term and pension saving product categories in the 17 European countries analysed. The categorisation in Graphs GR18(A), (B), (C) AND (D) is by the starting reporting year available in this report.

In Italy, an ambitious reform was implemented (as of 2011) by Minister Elsa Fornero under the Monti government in order to secure the public PAYG system, despite very unfavourable demographic trends. As such, the poor returns of the personal pension plans will have a limited

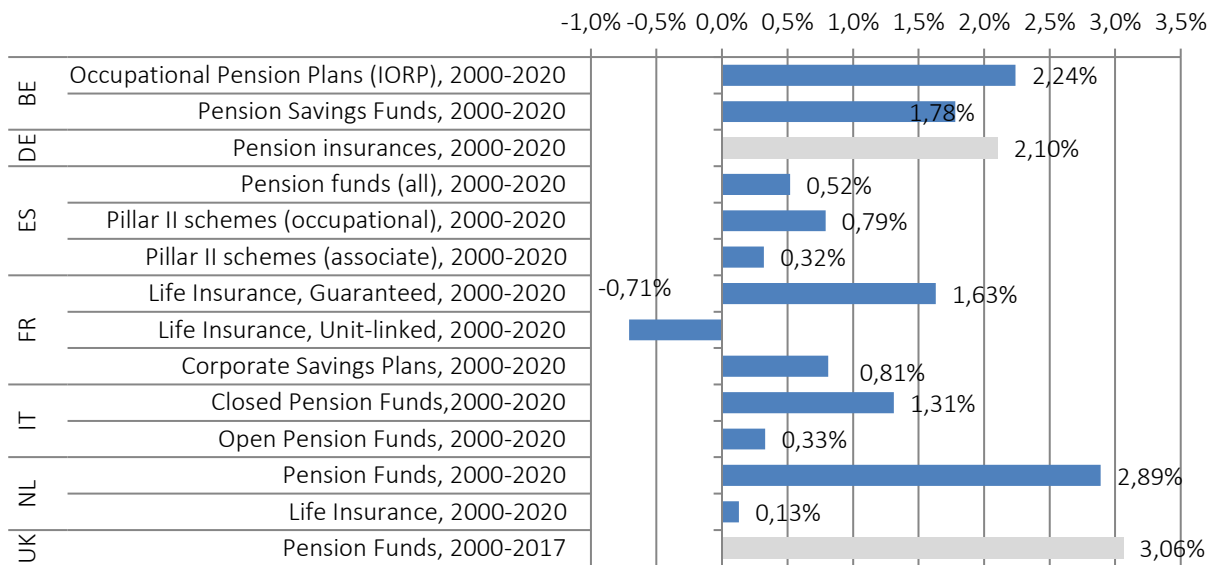


impact on the replacement rates of retirees’ income, the downside being the heavier reliance on the public pension scheme.

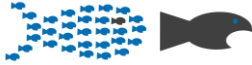
By contrast, pensions in the UK are more heavily dependent on pre-funded schemes. As such, the total value of pension assets as % of the 2018 GDP reached 105%, which is modest compared to the Netherlands or Denmark, but four times higher than the average (pension fund assets 25% of GDP) in the 17 countries in scope of this Report. The Government has implemented “auto-enrolment” to extend the benefits of pension funds to most employees. There, the excessive charges borne by pension fund members have led public authorities to take measures in order to improve transparency and to limit the fees charged by pension providers.

Note: In Bulgaria, data on professional pension funds (occupational and voluntary) was no longer available for the 2018 update. The data reported in these graphs and tables is time-weighted returns.

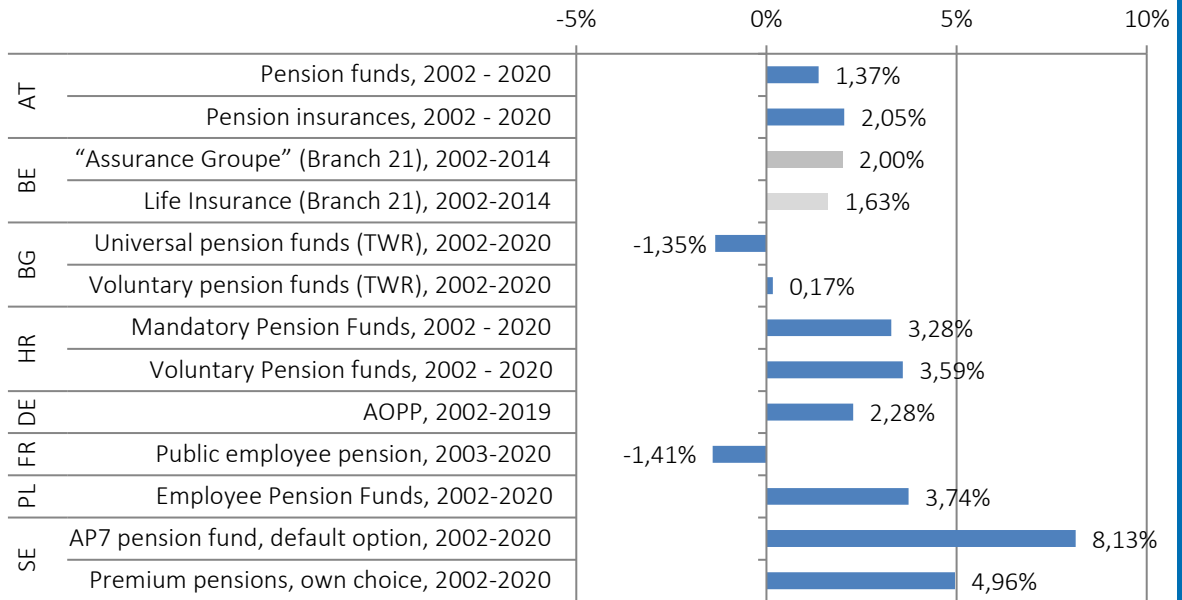
Graph GR19(A). ANNUALISED REAL RETURNS OF PENSION SAVINGS- AFTER CHARGES & INFLATION - BEFORE TAX - FROM 2000/01



Source: BETTER FINANCE Research (Table 20); * Net of taxes, charges and inflation

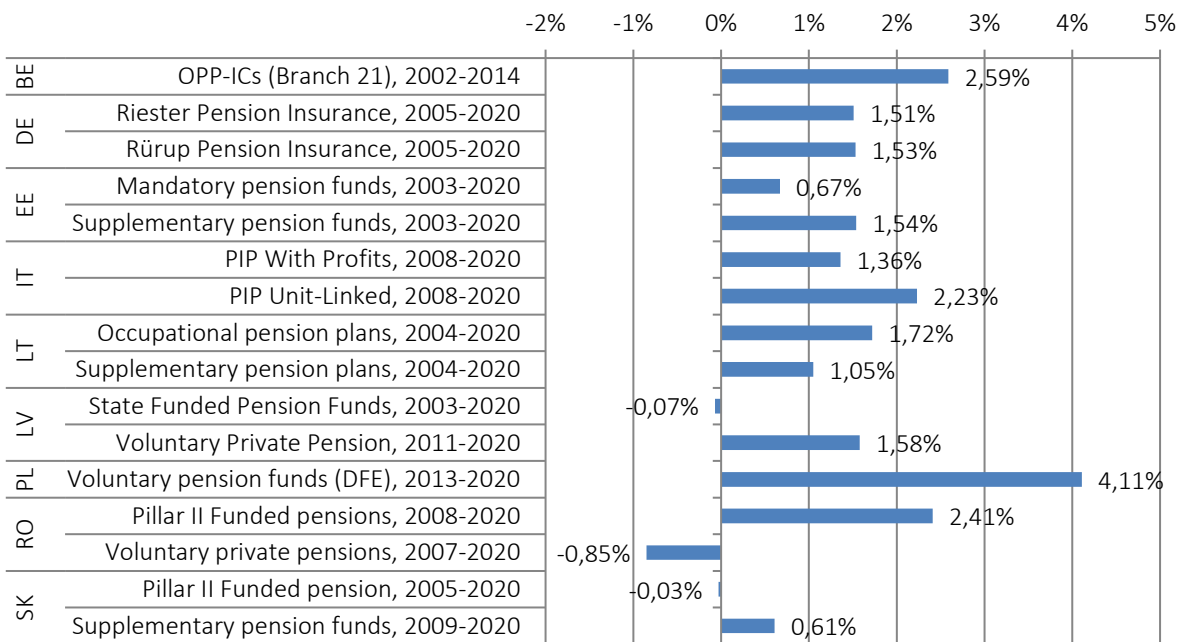


Graph GR19(B). ANNUALISED REAL RETURNS OF PENSION SAVINGS - AFTER CHARGES & INFLATION - BEFORE TAX - FROM 2002



Source: BETTER FINANCE Research (Table 20); * Gross of fees

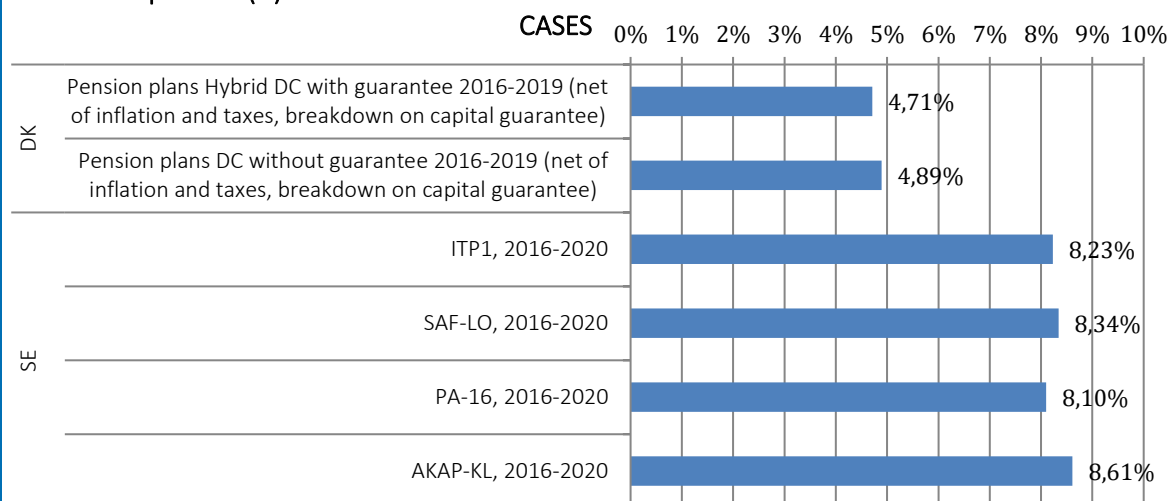
Graph GR19(C). ANNUALISED REAL RETURNS OF PENSION SAVINGS - AFTER CHARGES & INFLATION - BEFORE TAX - LATER STARTING DATES



Source: BETTER FINANCE Research, Table 20



Graph GR19(D). ANNUALISED REAL RETURNS OF PENSION SAVINGS - SPECIFIC

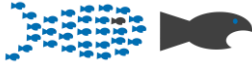


Source: Graph 20

The following table groups the pension vehicles available and reported on by country, and presents the average returns on the entire available reporting period.

Table GR20. Yearly Real Returns of Private Pension Products

Austria	Pension funds, 2002- 2020: +1.37%
	Life-insurances, 2002-2020: +2.05%
Belgium	Pension Funds (IORP [1]), 2000-2020: +2.24%
	“Assurance Groupe” (Branch 21), 2002-2014: + 2.00%
	Pension Savings Funds, 2000-2020: +1.78%
	Life Insurance, Guaranteed, 2002-2014: +1.63%
	OPP-ICs (Branch 21), 2002-2014: + 2.59%
Bulgaria	Universal Pension Funds (TWR), 2002-2020: -1.35%
	Voluntary Pension Funds (TWR), 2004-2020: 0.17%
Croatia	Mandatory Pension Funds, 2002–2020: +3.28%
	Voluntary Pension funds, 2002-2020: +3.59%
Denmark (after tax)	Pension plans Hybrid DC with guarantee 2016-2019: +4.71%
	Pension plans DC without guarantee 2016-2019: +4.89%
Estonia	Mandatory Pension Funds, 2003-2020: 0.67%
	Supplementary Pension Funds, 2003-2020: +1.54%
France	Life Insurance, Capital guaranteed, 2000-2020: 1.6%
	Life Insurance, Unit-linked, 2000-2020: -0.71%
	Corporate savings plans, 2000-2020: +0.81%



Germany	A.O.P.P.[1], 2002-2019: +2.28%
	Riester Pension Insurance, 2005-2020: +1.51%
Italy	Rürup Pension Insurance, 2005-2020: +1.53%
	Pension Insurances, 2000-2020: +2.10%
	Closed Pension Funds, 2000-2020: +1.31%
Latvia	Open Pension Funds, 2000-2020: +0.33%
	State Funded Pension Funds, 2003-2020: -0.07%
Lithuania	Voluntary Private Pension, 2011-2020: +1.58%
	Occupational pensions 2004-2020: +1.72%
Poland	Supplementary pensions 2004-2020: +1.05%
	Employee Pension Funds, 2002-2020: +3.74%
Romania	Voluntary Pension Funds, 2013-2020: +4.11%
	Pillar II Funded Pensions, 2008-2020: +2.41%
Slovakia	Voluntary Pension Funds, 2007-2020: -0.85%
	Pillar II Pension Funds, 2005-2020: -0.03%
Spain	Supplementary Pension Funds, 2008-2020: +0.60%
	Pension Funds (all), 2000-2020: +0.52%
	Individual plans (agg.), 2000-2020: +0.32%
	Pillar II schemes (occupational), 2000-2020: +0.89%
Sweden	Pillar II schemes (associate). 2000-2020: +1.07%
	AP7 fund, default option: 2000-2020: +6.95%
	Premium pension, other funds: 2000-2020: +4.18%
	ITP1, 2016-2020: +8.23%
	SAF-LO, 2016-2020: +8.34%
The Netherlands	PA-16, 2016-2020: +8.10%
	AKAP-KL, 2016-2020: +8.61%
UK	Pension Funds, 2000 - 2020: +2.89%
	Life Insurance, 2000 - 2020: +0.13%

**After tax*

Source: Own Research, Better Finance Research

Occupational pension funds as per the definition and scope of the EU "Institutions for Occupational Retirement Provision Directive" (IORP); [1] A.O.P.P. stands for Autonomous Occupational Pension Funds.

[1] The returns on private pension products in Denmark cannot be calculated on average since the Danish Supervisory Authority started to report the returns for two categories: hybrid defined-contribution (DC) with guarantee and defined-contribution (DC) with no guarantee. Therefore, averages as of 2016 cannot be calculated.



Pension Savings: The Real Return

2021 Edition

Country Case: France

Résumé

Le système français de retraite continue à reposer majoritairement sur les régimes d'assurance vieillesse de base et complémentaire par répartition (Piliers I et II), avec un taux moyen de remplacement du revenu d'activité de 65% en 2019,¹³⁵ et une valeur totale des actifs représentant 11% du PIB en 2020.¹³⁶ Malgré une allocation d'actifs plutôt dynamique, les plans d'épargne-retraite entreprise ont eu un rendement annualisé réel de +1.3% en 2020 et +0.81% en 21 ans entre 2000-2020 (+18.5 en cumulé). L'assurance vie – le produit individuel de loin le plus utilisé pour l'épargne retraite par les Français – a eu une performance très contrastée : +40,5% (+1,6% en moyenne annuelle) pour les fonds en euros (à capital garanti) encore dominants, mais -13,9% (-0,7%) pour les contrats en unités de compte qui sont davantage promus et se développent plus rapidement. Les produits individuels dédiés spécifiquement à l'épargne retraite (PERP, Préfon, Corem, etc.) sont beaucoup moins développés, et ont des performances plus opaques et le plus souvent plus mauvaises.

Summary

The French pension system continues to rely heavily on the “pay as you go” mandatory Pillar I and Pillar II income streams, with an aggregate replacement ratio for pensions of 65%,¹³⁷ and a total value of retirement assets of 11% of the French GDP in 2020.¹³⁸ Despite a rather dynamic asset allocation, corporate pension plans have a 20-year average annual real net return of +1.3% in 2020 and +0.81% annually in the 21 years between 2000-2020 (+18.5% cumulative). Life insurance products - by far the most widely used personal product for pension purposes by French savers - had very contrasted long term pre-tax real returns: +40.5% (+1.6% annual average) for the still dominant capital guaranteed ones, but -13.9% (-0.7%) for the more promoted and faster growing unit-linked ones, despite very positive listed stocks and bonds returns. The personal products

¹³⁵ Voir Tableau GR9(B) du General Report, dans la section concernant la France - *aggregate replacement ratio for pensions*, selon les données d'Eurostat.

¹³⁶ Voir Tableau GR10 du General Report, selon les données d'OECD *Preliminary Data 2020* (2021).

¹³⁷ See Table GR9(B) in the General Report, in the section concerning France – *aggregate replacement ratio for pensions*, according to Eurostat data.

¹³⁸ See Table GR10 of the General Report, based on OECD *Preliminary Data for 2020* (2021).



specifically dedicated to pensions (PER, PERP, Préfon, Corem, etc.) are much smaller, and their performances are less transparent and most often poorer.

Introduction

Using the World Bank multi-pillar structure, the French pension system mainly relies on:

- **Pillar I** – the public pension, a defined benefit (DB) Pay-As-You-Go (PAYG) scheme, which is managed by the State and comprises the basic pension insurance;
- **Pillar II** – the occupational retirement provision (complementary component), also DB and privately managed and funded by both employer and employee contributions, to which participation and contribution rates are mandatory;
- **Pillar III** – composed of the voluntary retirement savings plan, also privately managed, to which participation is optional, and which can be set up by the employer (voluntary occupational plans) or by providers for the pension saver on his own (voluntary personal plans).

Introductory table: French Pension System Overview		
Pillar I	Pillar II	Pillar III
Mandatory State Pension	Mandatory Private Pension	Voluntary Personal Pension
Basic pension insurance	Supplement of the 50% pre-retirement income target of Pillar I	Divided into different retirement savings financial products
Divided into multiple sub-categories of pensions regimes for private sector, private service and special professions.	The complementary component contributions are collected by different designated paritarian institutions, depending on the sector.	Voluntary pension products are tax-incentivised in order to support participation in the third pillar and are mostly defined contribution
DB PAYG	DB PAYG	DC
Quick facts		
A relatively high old-age dependency ratio of 33.7%		
An average pre-retirement income replacement ratio of 65% (2019)		

Sources: DREES, Table GR9(B) in the General Report

Summary return table - Average real net returns of French pension savings (before tax)					
	1 year	3 years	7 years	10 years	whole reporting
Average real net returns	2020	2018-2020	2014-2020	2011-2020	period
Life insurance - CG	1.11%	0.37%	1.89%	1.65%	1.63%
Life-insurance - UL	1.96%	0.24%	0.97%	1.04%	-0.71%
Corporate plans	1.35%	0.61%	1.71%	1.61%	0.81%
Public employee PS**	0.69%	-1.14%	-0.97%	-1.33%	-1.41%

Sources: Tables FR3, FR5, FR7; CG = capital guaranteed; UL = unit-linked; PS = pension schemes;

** return proxy measure*



Pillar I

The French state pension system (Pillar I) is divided into several sub-categories of pension regimes for:

- Private sector employees;
- Public service; and
- Special professions (such as the army or hospital workers).

Each pension regime is further organised into two sub-components: (1) *The base pension insurance*, which incorporates both the non-contributory pillar 0 and the defined benefit Pillar I to which all employees and self-employed individuals must contribute; and (2) *The complementary pension insurance*, which supplements the basic state pension allowance (Pillar II).

To benefit from the basic pension allowance (*assurance vieillesse*) of the French social insurance system, a person must reach the standard retirement age, which is currently not the same for all cohorts, thus birth-date dependent.¹³⁹

The full pension entitlement from Pillar I is calculated by multiplying the mean annual gross income,¹⁴⁰ by the correction coefficient,¹⁴¹ and by the insurance coefficient, the latter being calculated by dividing the total insured period (limited by a set ceiling in the form of a maximum insurable period) by the maximum insurable period (thus, it cannot be higher than 1).¹⁴²

Pillar II – occupational pensions

The French Pillar II is a mandatory defined benefit, PAYG and privately managed pension scheme, designed to supplement the 50% pre-retirement income target of Pillar I.¹⁴³

The complementary component contributions are collected by different designated paritarian institutions, depending on the sector. The largest part of complementary mandatory contributions, those for private sector employees, are collected and redistributed by AGIRC-ARRCO (employees' pension regimes association). Employer and employee participation in Pillar II is mandatory and usually set up through collective agreements.

¹³⁹ The standard retirement age for the basic allowance and for the full pension entitlement starts at 60 and 65 years, respectively (for those born before 1951) and grows by 5-months for each later year of birth until 1954. This is to say, all persons born after 1 January 1954 have a standard retirement age of 62 years (for the minimum allowance) and 67 years old (for full entitlement) – see

<https://droit-finances.commentcamarche.com/contents/1163-age-de-depart-a-la-retraite-en-2018>.

¹⁴⁰ Which is the average of the highest 25 annual gross salaries.

¹⁴¹ The correction coefficient, in fact, referred to as a *rate* which can represent a maximum of 50% of the social security income limit.

¹⁴² CNAV, "Elements de calcul de la pension" <https://www.statistiques-recherches.cnav.fr/les-elements-de-calcul-de-la-pension.html>.

¹⁴³ This is because, as indicated above, the full Pillar I pension entitlement at retirement is calculated by multiplying the average annual gross income and the insurance coefficient (which should be 1 in normal conditions) with a correction coefficient, which in normal conditions is set at 50%.



In France, Pillar I and Pillar II should cover 100 % of employees receiving a salary.

Pillar III – voluntary occupational and personal plans

The third pillar of the French pension system is composed of the voluntary pension plans. It was reformed in 2019, with the “PACTE” Law creating the “PER” (“Plan d’Epargne Retraite” or Pension Savings Plan) divided into:

- A. occupational PERs are:
 - Collective corporate PERs (Corporate plans, for private sector employees at large, which are set up by employers either through DC pension funds, which are progressively replacing the existing “PERCOS”; employee participation is voluntary;
 - “Mandatory” collective corporate PERs are insurance regulated PERs which are mandatory for employees or a category of employees, once the employer has set it up. They are replacing the existing PERE.
 - Existing professional or sector-specific personal plans, such as the *Contrats Madelin* (for self-employed), *Madelin Agricole* (for the agricultural sector) or the *CRH* (for Public Health sector,) and *Préfon* (mainly accessible to public employees) have or will be converted into individual PERs.¹⁴⁴
- B. Personal pension products unrelated to occupation
 - Individual PER (People’s Retirement Saving Plans), sub-divided into insurance - regulated contracts with capital guarantee (including *Préfon* and *Corem*, see below) or linked to units in collective investment schemes (UCITS or AIFs), and into securities accounts. The insurance regulated individual PERs are progressively replacing the “PERPs” (“Plan d’Epargne Retraite Populaire” or “People pension savings plan”) and “Contrats Madelin” (for self-employed workers): the existing balances can be transferred to PERs, and no new such plans can be opened since 1st October 2020.

The PER can be offered both by insurers and by banks / asset management companies, and pay-out option will be free to choose between annuities and capital withdrawals. All PERs are freely transferable to other PERs. However, the new law lifted the 15-year ban on inducements for unit-linked personal pensions in order to try to boost their promotion. French savers organization FAIDER estimates that this will cost pension savers at the very least €20 billion over the average life of the PER contract¹⁴⁵.

¹⁴⁴ *Fonpel*, *Carel-Mudel* and *RMC* are special pension vehicles and not covered by this report.

¹⁴⁵ *Faider.org*, 6 June 2019



The new French Pension savings Plan (PER) default option

Interesting innovation: the one and only default option for the accumulation phase is one simple “life cycle” one:

The share of low investment risk assets is at a minimum:

- 20% of total assets of the plan starting 10 years from the liquidation date envisaged by the Plan participant;
- 50% starting 5 years from then;
- 70% starting 2 years from then.

Voluntary pension products are tax-incentivised in order to support participation in the third pillar and are mostly defined contribution.

Life insurance contracts and bank accounts still represent the two largest blocks of financial savings products in portfolios held by French households. Total outstanding insurance-regulated savings reached €2,132 billion in 2020, i.e., 38% of total financial savings. Direct bond holdings continued to shrink to 0.7% of total.

Table FR 1. Financial assets of French households at the end of 2020

	% of total financial savings	2020/2019
Currency and bank deposits	32.2%	4.9%
Investment funds*	4.5%	7.6%
Life insurance & pension funds	38.0%	-2.3%
Direct investments (direct holdings of bonds & shares)	25.3%	-3.6%
Total	100.0%	

* 11,9% when including "units" of insurance-regulated products

Source: Banque de France

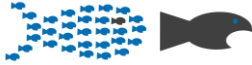
Pension Saving Vehicles

Life insurance contracts

Ordinary life insurance contracts are not specifically designed for pension purposes. However, retirement is the main objective of French savers who subscribe to these insurance contracts, and they are by far the main long-term financial savings products used in France.

From 2013 to 2020, contributions to unit-linked contracts rose more than those to “*contrats en euros*” (capital guaranteed contracts – or misleadingly called “with profit policies” in the UK)) and their share in total mathematical reserves increased from 17% to 23%¹⁴⁶. This increase is due

¹⁴⁶ BETTER FINANCE estimate, as of August 2, 2021, neither the French regulator nor the French Insurance Trade Association had released their key figures for the year 2020.



partially to capital gains, but more from net inflows (contributions minus benefits). Unit-linked contracts accounted for 30% of inflows to life insurance in France in 2013 and 34% in 2020.

Table FR 2. Life insurance mathematical provisions (in € billion)

	Capital-guaranteed contracts	Unit-linked contracts	All contracts
2013	1,195	239	1,433
2014	1,235	259	1,494
2015	1,269	282	1,549
2016	1,282	309	1,591
2017	1,28	352	1,632
2018	1,298	341	1,639
2019	1,389	394	1,783
2020	1,376	413	1,789
'19/'20	-0.9%	4.8%	0.3%

Source: FFA, Banque de France for 2020 UL contracts

In 2014 a new life insurance contract, the *Eurocroissance*, was created. The contract does not guarantee the invested capital in case of withdrawal until eight years following subscription. This new type of contract aims to incite savers to accept a higher level of risk in the short-term for potential better long-term return, for example by investing more on equity markets. By the end of 2019, those contracts amounted to only €3.1 billion of mathematical provisions,¹⁴⁷ probably at least partly due to the ultra-low interest rates, making it challenging to generate a decent return. Since 2016, insurers are allowed to transfer unrealized capital gains from their general assets covering capital guaranteed contracts to the *Eurocroissance* contracts to boost returns.

Personal pension plans

Individual “PERs”

Launched since October 2019, reached € 31.7 billion in assets and 2.8 million participants by the end of that year (but respectively 84% and 74% of which from transfers from older pension plans).

“People pension savings plan” (PERP¹⁴⁸)

PERPs were launched in 2004 as insurance-regulated personal pension plans. Thanks to higher contributions and paid benefits remaining low, mathematical provisions in PERP personal pension plans increased from €7.5 billion in 2011 to € 20.9 billion in 2020. However, the share of the PERP as part of the overall savings of French households remains very small.

The number of subscribers increased slowly from 2011 to 2019 from 2.1 to 2.5 million, (+18%), and flat in 2018 and 2019 due to an exceptional ban on tax deductibility and to the launch of the PER that year.

¹⁴⁷ *Source:* FFA

¹⁴⁸ “*Plan d’épargne retraite populaire*”. Figures source: FFA, French Federation of Insurance.



“Contrats Madelin” (for self-employed individuals)

Mathematical provisions related to “*contrats retraite Madelin*” decreased by 3.8% to 39 billion in 2020.¹⁴⁹ There were 1.363 million outstanding contracts at the end of 2019 (+2.0%). The “*contrats Madelin*” are widely used by self-employed individuals because the PAYG system is less generous (and contributions lower) than for employees.

“Contrats Madelin agricole”

Mathematical provisions of “*contrats Madelin agricole*” (plan for persons working in the agricultural sector) decreased by 1.6% in 2020 to € 6billion. 326,000 farmers had an open contract at the end of 2018.

Personal pension products exempted from governance rules

All personal pension products in France have to be subscribed by savers associations in which the participating pension savers are members of the General assembly, have the right to vote at the general assembly, have the right to propose resolutions to the general assembly. However French Law exempts the three biggest ones (Préfon, Corem and CRH) from all these governance rules protecting pension savers’ rights. They could also transform themselves into PERs as soon as 2019 without requiring the approval of their participants as for any other pension savings product.

Préfon

Préfon is a deferred annuity plan open to all current and former public employees and their spouses, had 399,500 participants at the end of 2019 (flat from 2018). Its assets under management reached € 18.2 billion (market value) at the end of 2020, up from €17.3 billion at the end of 2019.

Corem

Corem is also a deferred annuity plan open to everyone but so far mainly subscribed to by civil servants, had 380,674 participants at the end of 2020 (down from 397,515 in 2016). Its assets under management grew from € 7.6 billion at the end of 2012 to € 11.3 billion (market value) at the end of 2020¹⁵⁰.

CRH

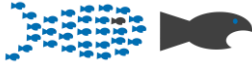
CRH (“*Complémentaire Retraite des Hospitaliers*”), a deferred annuity plan¹⁵¹ open to all public employees from the public health sector and their spouses, had 353,000 participants in 2019. Its technical reserves amount to €3.3 billion in 2018.¹⁵² We could not find more precise publicly available information.

¹⁴⁹ Source: Federation Francaise de l’Assurance (FFA)

¹⁵⁰ Combined participants and assets of Corem and other smaller pension plans managed by the same provider (UMR).

¹⁵¹ Rights acquired before mid-2008 do not provide annuities guaranteed for life, but only for 10 to 15 years.

¹⁵² Règlement intérieur CRH 2020 article 18.



Collective deferred annuities

In total, mathematical reserves grew a little, from €118.8 billion to 130.4 billion from the end of 2017 to the end of 2020.

For insurance-regulated corporate defined contribution plans under “Article 83” of the French tax code (“PER Entreprises” or PERE), mathematical reserves stood at € 69 billion at the end of 2020.

For insurance-regulated defined benefit plans (“Article 39” of the French tax code), mathematical reserves stood at € 40 billion at the end of 2020.

Corporate long-term savings plans

The total assets of French defined contribution corporate savings plans (PEE¹⁵³ + PERCO + collective PER) increased by 1.5% in 2020 to € 147.0 billion. The number of members in those plans increased to 11.2 million people in 2020.

The “*Plan d’Épargne Retraite Collectif*” (PERCO), exclusively dedicated to pension investments, is still less “mature” than other pension plans as it started in 2004 but continues to grow quite rapidly. Since October 2019, PERCOs have begun to be converted into the new “collective “PERs”. Assets under management amounted to € 22.5 billion at the end of 2020 (+12.5% over 2019). 3.2 million employees had a PERCO or collective PER at the end of 2020 and 172,000 companies propose this type of plan to their employees.

PERCO and collective corporate PER are quite similar to the US Corporate pension plans (“401k”) in their design. However, it is generally not invested in general purpose investment funds like UCITS, but mostly in specifically dedicated French-domiciled alternative investment funds (AIFs) called *Fonds Communs de Placement d’Entreprise* (FCPEs).

Charges: often opaque, high and rising

Available data on average annual charges for savings products are scarce in France.

- **Investment funds** – According to AMF¹⁵⁴, Overall annual fees for equity funds were 1.55% on assets, and 1.26% overall in 2019, and they would have gone down slightly from previous years. However, these averages are not asset-weighted, and include both “retail” and “institutional” funds. But the majority of investment funds offered to French retail investors are via insurance contracts’ “units”. For equity funds offered via those, annual total charges reached 2,03% on average in 2020 and even 2,28% for flexible funds¹⁵⁵: much

¹⁵³ PEE: « *Plan d’épargne entreprise* » is a corporate savings plan where savings are typically blocked for a minimum of five years.

¹⁵⁴ La lettre de l’Observatoire de l’épargne de l’AMF - n° 42 – mars 2021

¹⁵⁵ Good Value for Money, newsletter nr. 40, May 2020



more expensive than the overall French fund market estimated by AMF. But the full “units” cost for the majority of retail investors was even higher: respectively 2,93% and 3,18%, when including the annual wrapper charge. These charges are very high: the average ongoing fund charge for all UK domiciled active funds (both equity funds and all other funds) was only 0.92 % in 2015 (1.38% for retail funds and 0.69% for institutional ones).¹⁵⁶

- **Insurance capital-guaranteed contracts (“fonds en euros”)** - Since 2018, the Supervisor ACPR publishes their annual average charge, based on a sample of 92 insurers: 0.62% of assets for 2020¹⁵⁷, but that does not include:
 - profit sharing taken by insurers (0.31% in 2019¹⁵⁸),
 - underlying fund fees
 - and the impact of any entry and exit fees.

- **Unit-linked insurance contracts** - Neither ACPR nor the industry trade body disclose any information on their total charges, which cumulate at least two annual fees: the units’ (investment funds) charges plus those of the wrapper contract itself. Contract fees alone account for 0,90% to 0.95% in fees on average per annum on assets according to private surveys¹⁵⁹. Overall, for unit-linked insurance contracts invested in equity funds, the total average fees are estimated at 2.93% per annum, 2.08% when invested in bond funds, and 3,18% when invested in flexible multi asset funds¹⁶⁰. Multi asset funds and equity funds combined account for about 70% of all funds in French unit-linked contracts¹⁶¹. The majority of investment funds held by French households are through these unit-linked insurance contracts. These actual total annual charges are never disclosed to prospects and retail clients either.

And these fees do not include the “delegated management” fees which are growing as more and more savers are directed by insurers and distributors to this “delegated management” in unit-linked contracts. There are not aggregate data on the amount of this additional asset-based fees, but it is often and additional 0,30% or more every year on assets.

¹⁵⁶ UK Financial Conduct Authority – Asset Management Market Study, November 2016

<https://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf>

¹⁵⁷ ACPR, 2021

¹⁵⁸ Source: ACPR, 2020 (did not publish the data for 2020)

¹⁵⁹ Dossiers de l’épargne n°152, 2014. A more recent evaluation from Goodvalueformoney.eu (2020) mentions 0,90% but on the rise as newer contracts tend to charge 1,00% or more.

¹⁶⁰ Good Value for Money, newsletter nr. 40, May 2020

¹⁶¹ AMF, cartographie des risques, 2021



The total average fees of around 3% per year or more also seem to be rising further. For example, the biggest life insurance subscribing association announced in 2019 an increase of its units-linked contract annual fees by 35 basis points¹⁶².

- **Personal and occupational pension plans** - There are very few data available on their charges as well as for corporate DC plans. When available, the data tell us that they are on average rather high. For example, Préfon charged 0.54% on assets for asset management plus 3.90% entry fee in 2012¹⁶³. For unit-linked personal pension products, the French government has lifted the 15-year ban on commissions in 2019, when deciding to end “PERPs” for “PERs” (see above, previous sections). This massively increases their charges. FAIDER estimates the cost impact for French pension savers to be a minimum of € 20 billion over the life of these personal pension plans¹⁶³. A recent study of the National Public Advisory Committee CCSF¹⁶⁴ estimates that the annual ongoing costs of the new equity “units” are alone close to 3%, of which close to 0,90 % are coming from commissions (“inducements”). This represents an increase of more than 40% in annual charges for the new PER compared to its PERP predecessor, for which commissions on “units” if any have to be credited back to the PERP itself, i.e., to its participants.

This average annual fees of around 3% compares very unfavourably with the annual 1% fee cap of the basic option of the future PEPP (“Pan-European Personal Pension) created by the EU, and with the annual total charges of US IRAs (Individual Retirement Accounts, which are very often well below 1%.

The CCSF report also points to the opacity on these total annual charges and recommends the public disclosure of total annual charges of pension unit-linked PERs, i.e., the sum of the underlying “units’ costs and the wrapper fee. This had been obtained by FAIDER back in 2005 but this disclosure rule was repealed two years later by the French Authorities.

Since 2018, the French Supervisor ACPR publishes the average annual charges for the capital guaranteed funds in the personal and occupational insurance regulated pension products: 0.47% for 2020. But, like for life insurance, this does not include the profit sharing for the provider (0.24% on average in 2018), the underlying fund fees and the impact of entry and exit fees. Exit fees can be very heavy on annuities, typically 1 to 3% of their amounts.

Taxation

For PERs, PERPs and Public Employee schemes (*Préfon, Corem, CRH*), contributions are deductible from taxable income up to 10% of total professional income with a tax deduction ceiling (€41,136

¹⁶² Afer.fr, 2019

¹⁶³ Faider.org, June 2019

¹⁶⁴ CCSF – Rapport sur les nouveaux plans d’épargne retraite, July 2021



in 2021). For *Madelin* contracts, the ceiling is higher. Annuities are taxable like pensions with a 10% fixed haircut (with a ceiling of € 3,850 in 2021). They are also subject to a social contribution, currently limited to 9,10% (7.4% in 2017). In some cases, capital withdrawals from PERPs are allowed up to a 20% maximum of total pension rights. In those cases, the current taxation is 7.5% income tax plus social contributions of 17.2%.

Since August 2012, the taxation of employers' contributions to corporate savings plans (PEE and PERCO) and defined contribution plans ("Article 83") increased from 8% to 20% (with some exceptions).

The general rise in taxation of savings also impacted life insurance. In 2012 the rate of "social contributions" increased from 13.5% to 15.5%¹⁶⁵, and again in 2018 to 17.2%.

The taxation of all long-term financial savings has again been globally increased from 2018 on, with the creation of the "PFU" or "flat tax". It amounts to 30% for most investment income except for life insurance contracts after eight years (24.7%, or 17.2% for annual divestments below € 4,600 for an individual, and below € 9,200 for a couple). And direct long-term investments in equities are no longer taxed at a lower rate than short term ones: the negative impact of inflation on long term investment values is no longer taken into account except for real estate investments.

On the other hand, the wealth tax has been abrogated on all financial assets from 2018 on (but not on real estate).

Pension Returns¹⁶⁶

Shares and bonds (direct investment in securities)

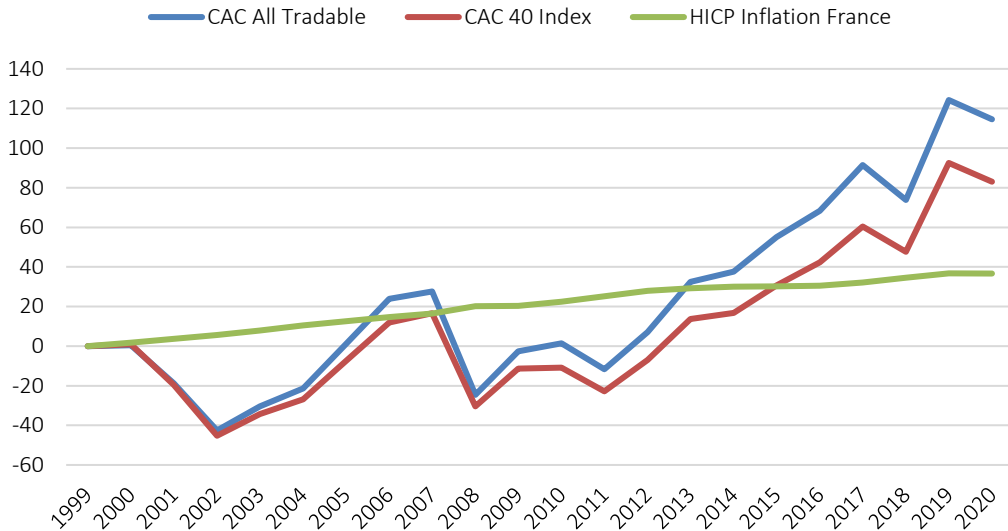
In 2020, the French equity market (dividends reinvested) suffered the impact of the covid crisis: -4% (CAC all tradable GR index). Over the last 21 years (end 1999 to end 2020), it returned a total of +115% (+3,7% annual average), while large capitalisations (CAC 40 index, dividends reinvested as well) returned notably less, +83% (2.9% annual average), demonstrating the very strong over-performance of small and mid-cap equities. Inflation over the same period was 37% (1.5% annual average). So, despite two sharp downturns (2000-2002 and 2007-2008) plus other drops in 2011, 2018 and 2020, French equities delivered positive nominal and real returns over the whole period. However, the real (after inflation) performance of the most liquid stocks (CAC40) started to be positive only since 2015.

¹⁶⁵ Loi de Finance rectificative du 29 Février 2012: LOI n° 2012-354 du 14 mars 2012 de finances rectificative pour 2012

¹⁶⁶ Real Returns in the French case are calculated using Eurostat French HICP monthly index annual rate of change (December to December)

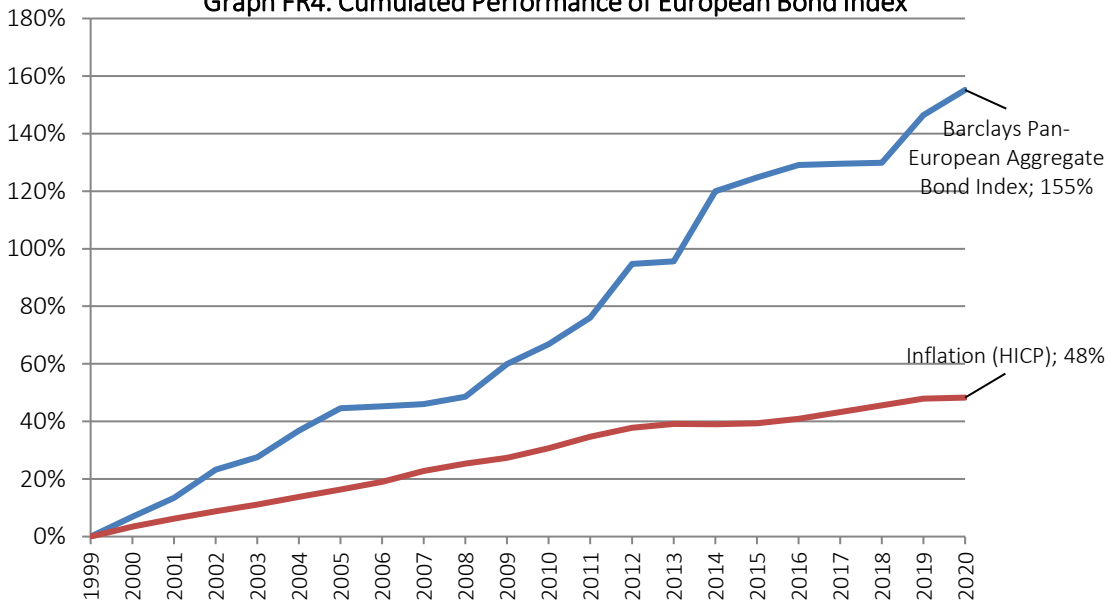


FR3. French Equity market performance: broad market vs. big caps market 21 years (1999-2020)



Sources: Euronext and Eurostat

Graph FR4. Cumulated Performance of European Bond Index



Sources: Barclays Pan-European Total Returns & Eurostat HICP EU28 (midx)

The performance of European Bond markets increased sharply again in 2020, thanks to the quantitative easing policy of the European Central Bank. Overall, capital markets delivered



significant positive returns¹⁶⁷ over the last twenty-one years despite two major downturns in equity markets, in large part thanks to the continuous decline of interest rates and its positive impact on the value of bonds.

Life insurance contracts – capital guaranteed

The after-tax real returns of guaranteed life insurance contracts rebounded to +0.8% in 2020 after two years of negative returns, due to a sharper drop of inflation (to zero) than of nominal returns. Such returns should be assessed from a long-term perspective: the last data available from the industry trade body indicate that outstanding life insurance contracts were open for 11 years on average. These contracts – although of a long-term nature – are invested only 8% in equities¹⁶⁸. The perspective for 2021 is not favourable with a further decline in nominal returns and a resurgence of inflation.

Over a 21-year period, cumulated after-tax real returns of guaranteed life-insurance contracts totalled 24%, and varied from a maximum annual performance of +3.1% in 2001 to a negative performance of -0.6% in 2019.

In the most favourable case, where savers do not redeem more than €4,600 per annum and at least eight years after the first subscription (see Taxation section above), real returns after tax are slightly better (+1.1% in 2020 and 31% cumulated over the last 21 years).

These returns do not take into account the changes in the insurers' reserves for profits sharing ("Provisions de participation aux bénéfices"), which are legally required and are credited with the capital gains on sales of non-fixed income assets. They have to be returned to the life insured within 8 years of their inception. They are then included in the annual return. French regulators allowed insurers to book most of these profit-sharing reserves into their shareholders' funds for prudential purposes from 2019 fiscal year. This is not an incentive for insurers to use these large and growing profit-sharing reserves to offset the poor current returns, quite the contrary. Indeed, the outstanding amounts of these reserves stood at 4.3% of total mathematical reserves end of 2018 and have increased again since then to reach 5.1% in 2020.¹⁶⁹

¹⁶⁷ Of course, these market returns are without charges and without taxes. The closest retail investment products would be low-cost index funds using the same indices over the same period. As a reference, total annual charges on the Lyxor CAC40 ETF index fund are 0.25%, and 0.25 % as well on the Vanguard Euro Government Bond Index Fund.

¹⁶⁸ Source: goodvalueformoney.eu, 2019

¹⁶⁹ Source: ACPR, Analyses et synthèses n° 126, 2021

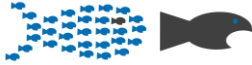


Table FR 5. The returns of French life insurance contracts – capital guaranteed (%)

	Disclosed return	Real return before tax	Real return after tax	Real return after tax*
2000	5.3	3.5	2.7	3.1
2001	5.3	3.8	3.1	3.5
2002	4.8	2.6	2.0	2.3
2003	4.5	2.1	1.4	1.8
2004	4.4	2.1	1.5	1.8
2005	4.2	2.4	1.6	1.9
2006	4.1	2.4	1.6	1.9
2007	4.1	1.3	0.5	0.8
2008	4	2.8	2.0	2.3
2009	3.6	2.6	1.8	2.1
2010	3.4	1.4	0.7	1.0
2011	3	0.3	-0.3	-0.1
2012	2.9	1.3	0.7	0.9
2013	2.8	1.9	1.3	1.5
2014	2.5	2.4	1.8	2.0
2015	2.3	2.0	1.5	1.6
2016	1.9	1.1	0.7	0.8
2017	1.8	0.5	0.1	0.3
2018	1.8	-0.1	-0.5	-0.4
2019	1.3	-0.3	-0.6	-0.5
2020	1.1	1.1	0.8	1.1

Source: FFA up to 2018, Good Value for Money since 2019, Eurostat (HICP inflation index)

* for redemptions below € 4,600 per annum

Following capital guaranteed life insurance reporting rules, capital gains or losses are not accounted for in the disclosed returns above.

In 2012, taxation increased by 200 basis points, as a result of the rise in social contributions from 13.5% to 15.5%. In 2018, social contributions rose again to 17.2%. As taxation is applied to nominal returns, any rise in inflation increases the real tax rate which reached 76% in 2017, as shown in the table below. For 2018 and 2019, as the real income before tax was negative, taxing nominal income had the effect of mushrooming the real loss for life insurance savers.



Table FR 6. French nominal and effective tax rates on capital guaranteed life insurance returns (%)

	Inflation	Nominal tax rate	Effective* tax rate
2000	1.8	13.4	21
2001	1.5	13.4	19
2002	2.2	13.4	25
2003	2.4	13.4	29
2004	2.2	13.7	29
2005	1.8	18.5	32
2006	1.7	18.5	32
2007	2.8	18.5	60
2008	1.2	18.5	27
2009	1.0	19.6	28
2010	2.0	19.6	49
2011	2.7	21.0	194
2012	1.5	23.0	49
2013	0.8	23.0	33
2014	0.1	23.0	24
2015	0.3	23.0	26
2016	0.8	23.0	40
2017	1.2	23.0	76
2018	1.9	24.7	-458
2019	1.6	24.7	-118
2020	-0.03	24.7	24

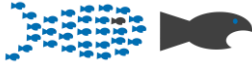
Sources: Eurostat (HICP index 2015 base), BETTER FINANCE computation

* Effective tax rate = tax / real (net of inflation) income

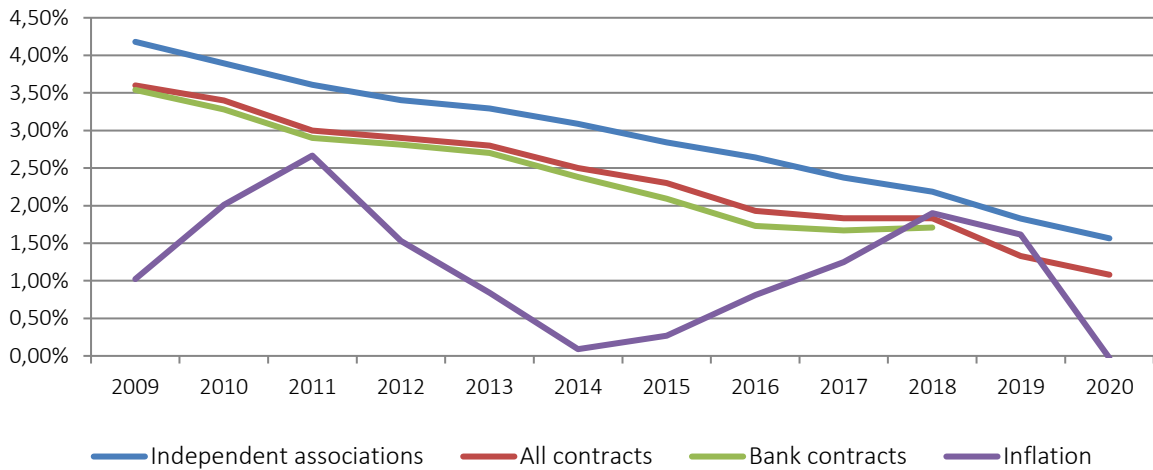
These average returns mask important differences depending on distribution networks and governance: for standard contracts distributed by banks, the 2020 average nominal return was less than 1.08%¹⁷⁰, whereas the return of contracts subscribed by independent associations was 1.56%¹⁷¹. Higher annual average fees for bank insurers (0.65% versus 0.58% for traditional insurers in 2020) and higher profit-sharing reserves are part of the explanation. Considering that contracts distributed by banks represent 60% of the French capital guaranteed life insurance market, this returns gap constitutes an opportunity cost of about €6 billion for 2020 alone for savers getting their capital-guaranteed life insurance contracts from their bank instead of from independent savers' associations.

¹⁷⁰ FAIDER estimates that it may have fallen below 1%, as, according to ACPR, the 2020 return of all types of types of capital guaranteed contracts run by bancassureurs was 10 bps below the market average, and the average return for standard contracts was 1,08% according to GoodValueforMoney.eu.

¹⁷¹ *Source:* FAIDER. Independent associations representing life insurance contracts holders included AGIPI, AMIREP, ANCRE, ASAC-FAPES and GAIPARE in 2019. FAIDER is a member organisation of BETTER FINANCE.



Graph FR7. Nominal returns - all contracts versus independent life insurance associations



Sources: Own composition based on FAIDER, ACPR, FFA and GVfM data

Life insurance contracts – unit-linked

Nominal returns were pushed upwards by the rise in stock prices from 2012 to 2017 and 2019, against the background of declining inflation. Despite this current long period of positive equity returns, unit-linked contracts still have a very negative cumulative return net of inflation since the end of 1999 (see next section and table FR9).

Over a 21-year period, real returns after tax of unit-linked life-insurance contracts were very volatile. The worst performance was recorded in 2008 (-23.9%) and the best one in the following year (+12.2% in 2009).



Table FR 8. The returns of French life insurance contracts – unit-linked (%)

	Disclosed Return	Real return before tax	Real return after tax
2000	-2	-4.6	-4.6
2001	-9.5	-11.7	-11.7
2002	-15.2	-17.8	-17.8
2003	8.4	4.9	4.9
2004	6.4	3.1	3.1
2005	14.4	11.4	11.4
2006	8.8	6.0	5.8
2007	1.5	-2.2	-2.2
2008	-22.3	-23.9	-23.9
2009	14.4	12.2	12.2
2010	5.2	2.1	2.1
2011	-7	-10.3	-10.3
2012	11	8.3	8.3
2013	8.2	6.3	4.6
2014	5.9	4.8	3.7
2015	4.1	2.8	2.1
2016	2.9	1.1	0.7
2017	5.8	3.5	2.4
2018	-8.1	-10.7	-10.7
2019	13.9	11.0	7.9
2020	2.8	2.0	1.5

Sources: FFA up to 2019, GoodValueforMoney.eu for 2020, Eurostat (HICP index), own calculations (deduction of the non-deducted fees, and of HICP price index variation from disclosed returns)

All life insurance contracts – 21 years returns (1999-2020)

In order to compute the real return achieved by an investor who would have subscribed to a life insurance contract at the end of 1999 and who would have withdrawn his funds 21 years later, one has to subtract the entry costs paid the year of subscription, as these fees are not taken into account in the disclosed returns. We estimate that entry costs in 2000 represented 2.76% on average¹⁷² of the investment, to be deducted from real returns that year. Also, annual contract fees on assets are already taken into account for capital guaranteed contracts by the insurance industry body (FFA), but not for unit-linked ones.

¹⁷² Source: OEE



Table FR 9. Real returns of all life contracts 1999-2020

	21-year return	Average yearly return
Before tax returns		
Capital guaranteed contracts	40.5%	1.6%
Unit-linked contracts	-13.9%	-0.7%
All contracts (avg.)	29.9%	1.3%
After tax returns		
Capital guaranteed contracts	24.0%	1.0%
Unit-linked contracts	-20.8%	-1.1%
All contracts (avg.)	15.4%	0.7%

Sources: FFA, GVfM, own computations (based on the relative weight of both categories in the overall mathematical reserves)

An average saver has thus gotten a cumulated net real after tax return of 24%¹⁷³ for this 21-year period of investment on guaranteed contracts, and a negative one of -21% on unit-linked contracts. On a yearly basis, the rates of returns would be +1.0% and -1.2% respectively. It is worth noting that, although unit-linked contracts are riskier for subscribers, they also provided returns that were much lower than those of the guaranteed contracts. Such a lower – and negative - real performance over 21 years is primarily due to:

- much higher fees (see the fees and charges section above): about five time higher for the dominant equity and flexible “units”,
- and to the fact that mostly expensive funds are offered and promoted and very few if any low-cost funds such as index ETFs. Independent research determined that over the mid and long term, high charges hurt net performance on average¹⁷⁴. This in turn is due to the higher sales commissions (“inducements”) for highly charged funds.

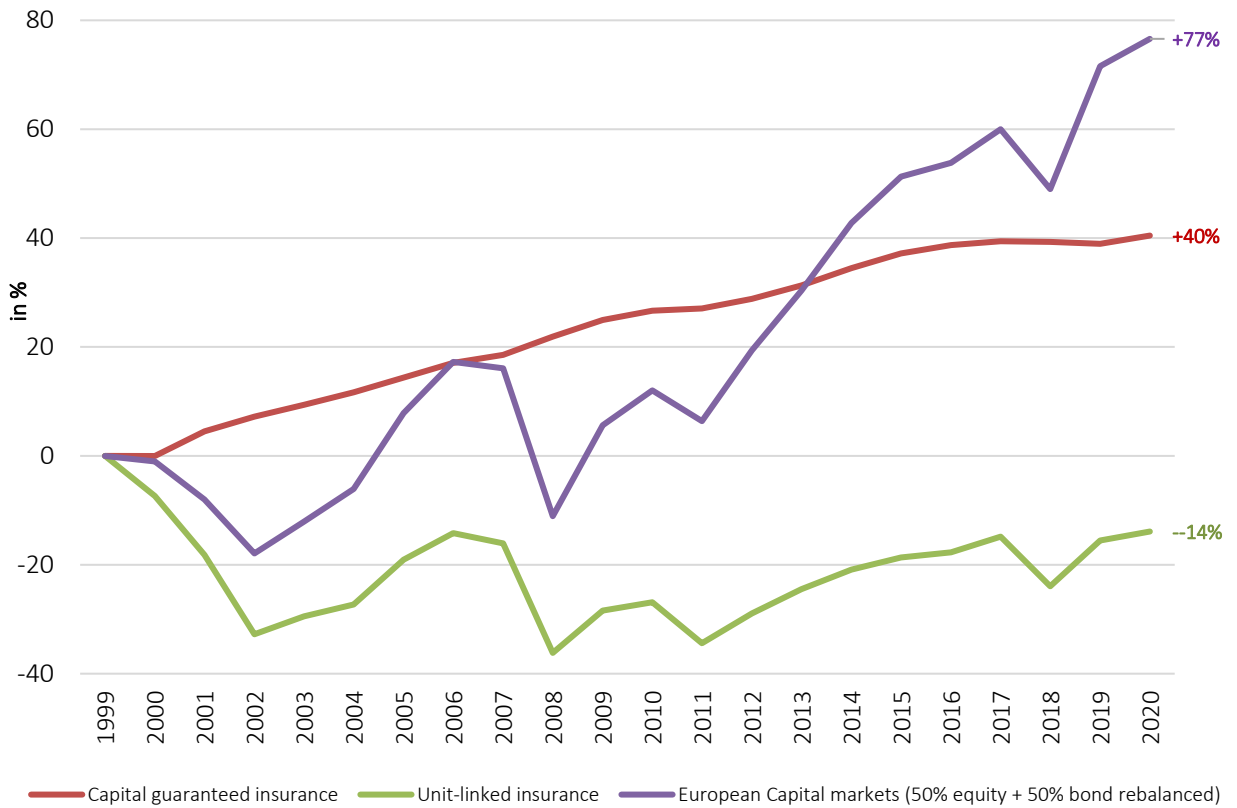
Capital markets as a whole (bonds and equities) provided a positive real performance over the same period (see graphs FR3 and FR4). Graph FR10 below shows that the pre-tax real performance of unit-linked contracts is well correlated to that of capital markets, but massively underperforming those over time (minus 91 percentage points over the last 21 years), making unit-linked a high-risk and low return offer.

¹⁷³ + 31% with the most favourable tax treatment and minimum 8-year-old contracts, see table FR 5 above

¹⁷⁴ See for example BETTER FINANCE research on-the-correlation-between-cost-and-performances-in-eu-equity-retail-funds, 2019



Graph FR10. Long-term life insurance real returns



Sources: Own composition based on STOXX, Bloomberg, Eurostat, Tables FR6 and FR7.

Personal and collective deferred annuities

PER

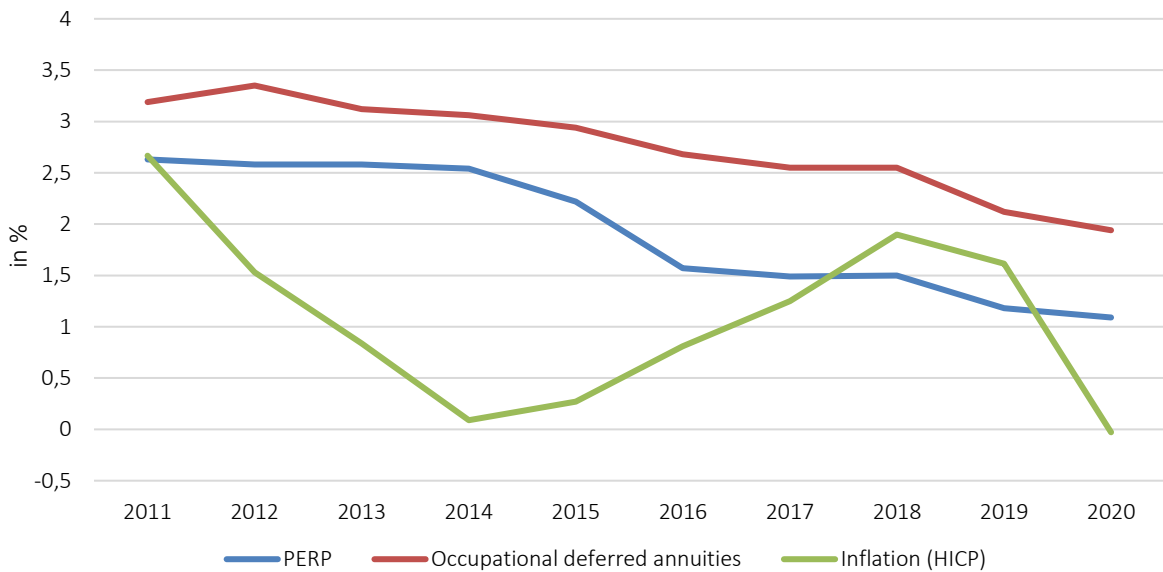
According to GoodValueforMoney.eu, aggregate performance data for the new PERs’ “fonds en euros” (capital guaranteed investment option) launched end of 2019 has been even lower than for ordinary life insurance contracts: +1,23% nominal in 2019 (versus 1.33%) and 1.04% in 2020 (versus 1.08%).

PERP

A majority of PERPs are structured like ordinary life insurance contracts in the accumulation phase: a combination of capital guaranteed funds (“fonds en euros”) and “units” representing investment funds. A minority of PERPs are structured like deferred annuities, similar to the main pension savings products for public employees (see next section below).



Graph FR11 - Nominal returns of PERP* and occupational deferred annuities**
2011 -2020 in %



* Capital guaranteed funds ("fonds en euros") only

** Those include PERE, Madelin and Article 39 contracts

Source: ACPR, 2021

It was again impossible to find global long-term return data on PERPs before 2011. The insurance industry body (FFA) publishes the average return of ordinary capital guaranteed ("fonds en euros") and unit-linked life insurance contracts (see previous sections), but not that of insurance-regulated personal pension products such as PERPs. Based on the disclosed nominal returns of a majority of PERPs collected by the French Supervisor ACPR only from 2011, the weighted average nominal return of the capital guaranteed PERPs ("fonds en euros") was 1.09% in 2020, similar to the average return of ordinary capital guaranteed life insurance contracts.

This can be surprising as PERPs enjoy a much longer duration of their liabilities, which should allow for a higher allocation to equities which have performed much better than bonds since 2011. The returns of PERPs should also be boosted by the rule unique to PERPs according to which the commissions (inducements) on units (funds) must be credited to the PERP, and, in practice they are credited to the capital guaranteed fund. On the other hand, PERPs are on average more recent than ordinary life insurance contracts and therefore so is their bond portfolio, which generates lower returns than older bond portfolios.

In addition, these returns do not take entry fees into account, which are probably comparable to those of ordinary life insurance (2.76% on average in 2000).

In 2020, pre-tax real returns of French personal pensions (PERP) are positive on average, after two negative years thanks to zero inflation.



Madelin, PERE and Article 39

The nominal returns of occupational deferred annuities were much higher (1.94% in 2020) and did not decline as much as for PERPs. This could be explained by older fixed income portfolios yielding higher rates, and by higher discount rates (“taux techniques”) forcing insurers to deliver higher returns. Charges may also be lower than for PERPs, but cost data are missing specifically for these pension products. Since 2018, the French supervisor ACPR publishes the average annual cost 0.47% (in 2020) but that is for all personal and collective deferred annuity products combined.

Unfortunately, it does not currently identify separately the historical returns and costs of the pensions products for self-employed individuals (“Madelin” - most of which are subscribed and supervised by independent pension saver associations), from the employer-sponsored DC plans (“PERE”) and DB plans (“article 39”). Following the European Commission’s request for the European financial Supervisory Authorities to improve the transparency of past performances and fees, it is urgent to collect, analyse and disclose these data.

Deferred annuity plans with less governance rules (Préfon, Corem, CRH)

One difficulty in assessing real returns of deferred annuity plans is that up to 2010, it was not mandatory for those plans to disclose investment returns. Following action by BETTER FINANCE’s French member organisations, a 2010 Law¹⁷⁵ made this a legal requirement from 2011 onward. Préfon has also started to give an indication of its economic returns (taking into account the annual evolution of the market value of all assets in the portfolio) in its annual report.

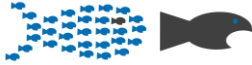
Préfon

Préfon published an accounting return (net of fees) on its investment portfolio for 2020 of 2.97% versus 2.88% in 2019. However, as mentioned above, the accounting return does not take into account the changes in the market value of assets (unrealized capital gains stood at € 4.4 billion end of 2020 (24 % of the total market value). In 2020 Préfon indicated that this portfolio performance reached +6.82%, excluding real estate and private equity, with the fixed income portfolio generating +8% thanks to the continued drop in interest rates. Préfon’s investment portfolio is still heavily tilted towards fixed income (79% of total, and equity weighing only 12% - in accounting, not market value terms). This seems an inadequate asset allocation for the long-time horizon of the pension plan.

Part of the investment return has been set aside in the past in order to replenish reserves. In 2010, the French Supervisor (ACPR) decided that Préfon reserves were not sufficient and forced Préfon’s insurers to contribute €290 million of their own funds (as of 31 December 2013) to help Préfon balance its assets and liabilities¹⁷⁶. At the end of 2016, this contribution from the insurers amounted

¹⁷⁵ Law n° 2010-737 of 1 July 2010 - art. 35 (V), which modified Article L441-3 of the French Insurance Code.

¹⁷⁶ “Les Echos” 27 December 2010. This information was not disclosed by Préfon to the participants.



to €333 million¹⁷⁷ despite the massive cuts in pension rights for those who retire after age 60 decided in 2014 and 2017 (see below Graph FR12).

In 2017, in relation to the entry into force of the Solvency II Directive, French Law was modified to move to use the market value of assets instead of their historical cost (accounting value). This enabled Préfon to show at last sufficient reserves and solvency ratio, but – up to now – not enough to allow for reducing or even capping the loss of purchasing power of its pensions since 2002. Thanks to this change in solvency rules, the ratio of assets to liabilities of Préfon increased from 97.5% in 2016 to 119.6% in 2020, allowing it for the first times in many years to increase the nominal value of its annuities from 2017 on. In 2020, also thanks to the zero inflation, it even for the first time since 2002 slightly improved the real value (purchasing power) of its participants pension rights (+0,21% nominal increase for a -0.03% inflation).

In addition, the value of the participants' accumulated savings is communicated individually to them only since 2012, and unfortunately with more than a one-year delay (this essential information should be released sooner), and just as an "estimate". It was therefore impossible to compute a real rate of return individually and for all participants with the data made available by the Plan up to 2019 (see below the new approach).

Another difficulty for deferred annuity products is to translate the impact of portfolio returns (and other factors such as the capital conversion rate into annuities, the discount rate and the evolution of annuities paid) on the actual long-term return for the pension saver. One proxy return indicator is the one computed by the French association of pension fund participants ARCAF. It has been collecting the annual rate of pension rights' and annuities' increases before tax for several years¹⁷⁸ (see graphs FR12 and FR13). Préfon participants who contributed in 2002 and who will retire at the age of 60 have lost 20% of the real value of their pensions (before tax¹⁷⁹). The advertised objective of Préfon to maintain the purchasing power of pensions has not been fulfilled since 2002 (except in 2020 as mentioned above) and Préfon remains silent on the perspectives to reduce this loss of the real value of pensions in the future. This key performance information is not publicly disclosed¹⁸⁰.

¹⁷⁷ Source: Rapport de gestion Préfon Retraite 2016.

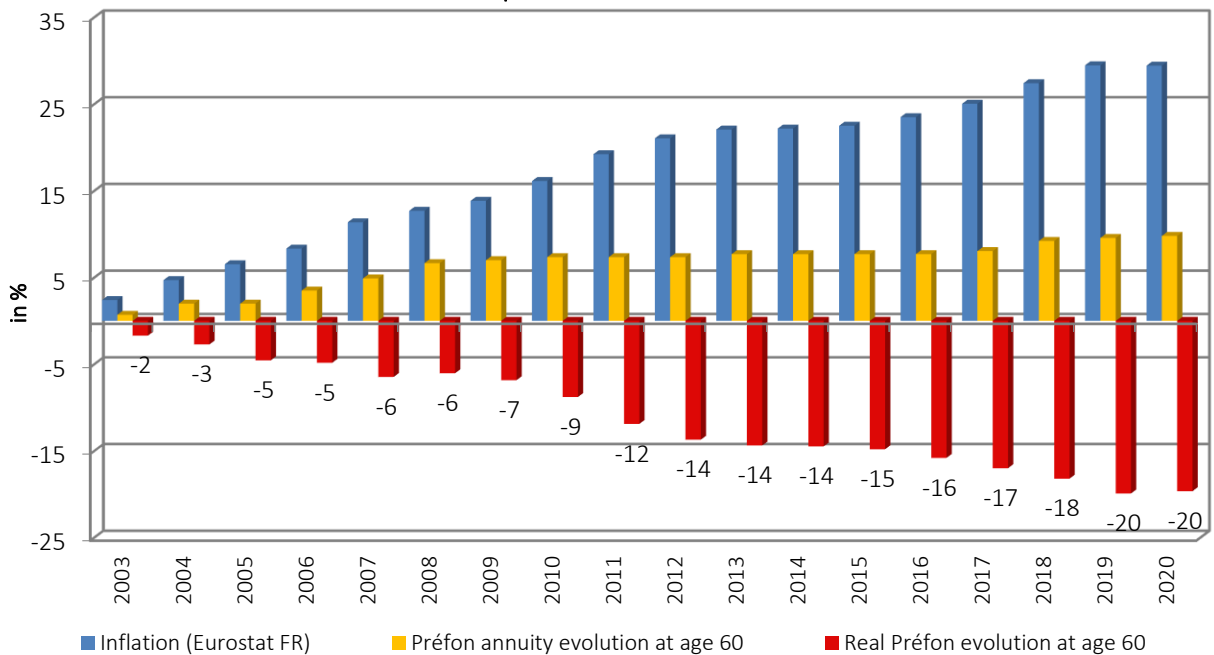
¹⁷⁸ This key data is very difficult to find, but recently Préfon has been making significant efforts to improve its transparency and disclosures.

¹⁷⁹ Savings into Préfon (like into PERPs and into Corem) are income tax deductible, but the annuities are fully taxable. Both savings and annuities bear social levies ("prélèvements sociaux").

¹⁸⁰ ARCAF, 2019



Graph FR12- Préfon annuities real value : retirement at age 60
Compounded evolution in %



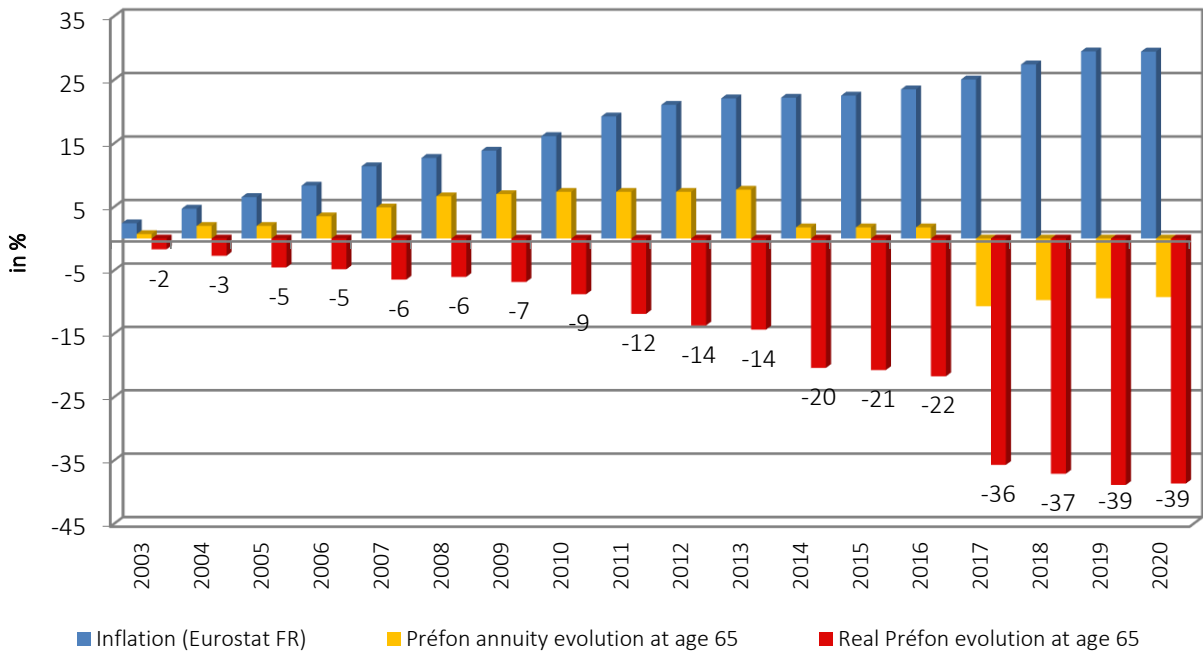
Source: ARCAF, 2021

This return indicator, however, does not include the discount rate embedded in the conversion ratio of accumulated savings to annuities. But this discount rate varies from one year to another, and also varies according to the actual retirement age - which is not disclosed.

Also, this indicator is only valid if one exercises his liquidation rights at age 60. But very few people can now retire at age 60 due to the postponement of the legal age to retire with full Pillar I pension rights to between 62 and 67. For example, if one exercises these rights at the age of 65, starting from the year 2026 on, the initial annuities have been reduced by 17.3% in nominal terms from 2013 to 2017, although Préfon has always guaranteed to its participants at subscription that its pension annuities could never be reduced in nominal terms. In real terms it is much worse (-39%), as shown by the graph below.



Graph FR13. Préfon annuities real value : retirement at age 65 from 2026 -
Compounded evolution in %



Source: ARCAF 2020

It is difficult to compute the evolution of the Préfon annuities paid after tax, since they are taxed at the marginal income tax rate on pensions and salaries (plus social levies) and since contributions have been deducted from the taxable income for income tax purposes (but not for social levies).

An alternative approach mentioned by Préfon in its latest annual report (for 2020), could be to use the new valuation of transfers or redemptions of accumulated pension rights in capital (which are allowed in certain cases since 2010). For valuations done since 2019, those are based on annual revaluation coefficients computed on contributions. Préfon claims that they beat inflation on average by nearly 1% since 2004. But they are computed on contributions net of the 3.9% commissions charged. And (based on a published graph that does not disclose the quantified data for two out of every 3 years), they are on average below the historical returns of other capital guaranteed long term products such as capital guaranteed life insurance (see table FR5), and much below the returns achieved by Préfon itself on contributions invested (e.g., for 2020 + 1.15% revaluation versus + 6.82% for the portfolio return: five times higher).

Corem

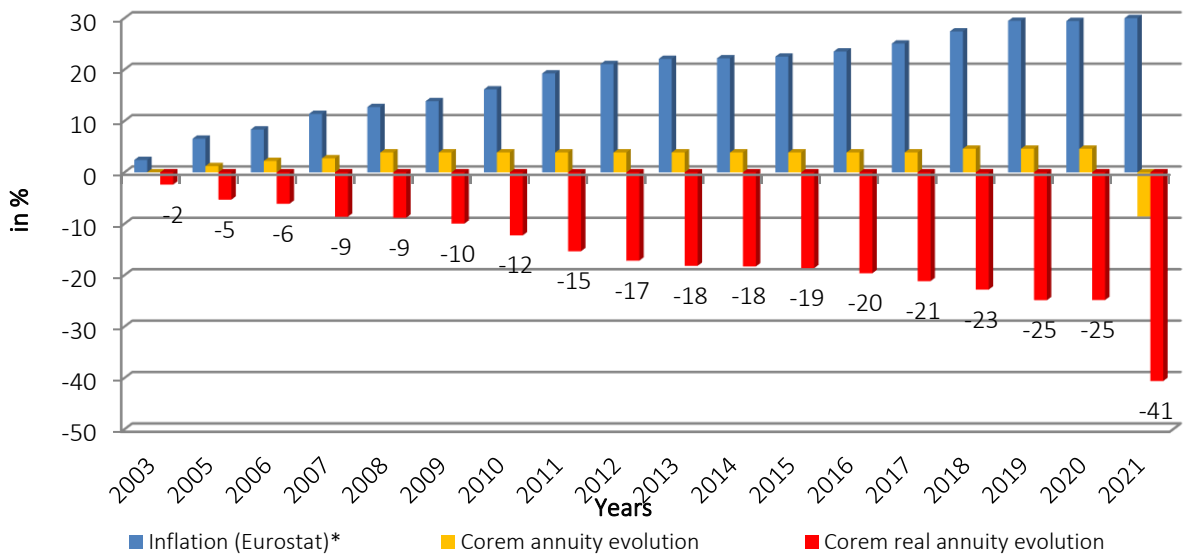
Corem publishes the annual accounting return on its investments but does not specify if these are gross or net of fees. The accounting return for 2020 was +2.86%, down from +3.74 % in 2019. Its



asset allocation is slightly less inadequate than Préfon’s for a long duration pension plan: 18% in equities. However, this accounting return does not take into account the changes in the market value of assets. In addition, and more importantly, all the investment return of the Corem assets is set aside in order to replenish reserves. It is therefore impossible to compute a collective real rate of return.

The deferred annuity mechanisms of Corem are similar to those of Préfon, with the same difficulties in estimating the real return for the pension saver. Therefore, we also use the evolution of the annuities’ values as a proxy return indicator here, as computed by ARCAF (Graph FR14 below). Corem has been in deficit for a very long time; the main – undisclosed – tool of its recovery plan in place since 2002 is not to increase the nominal value of annuities served. As a result, the annuities served by Corem will have lost a whopping 41% of their real value before tax (purchasing power) over the last 18 years (see graph FR14), as Corem has not increased them for many years, pocketing the return on its portfolio for other purposes, and has announced last April to its participants that the nominal value of their pension rights as of 1/1/2022 will be reduced by 12.6%. These figures are before tax. This key performance information is not disclosed to the public and to new participants.

Graph FR14. Corem annuities real value, compounded evolution in %



* ECB estimate for 2021

Source: ARCAF, 2021

The reality is even worse as, in November 2014, Corem announced new measures to reduce its reserve gap by further reducing the returns for participants (they now need to be 62 years of age to get the full pension rights instead of 60 years of age, and the minimum guaranteed return on pension contributions was lowered from 2.3% to 1.5% from 2015 on).



The financial situation has been very difficult as its reserve gap (difference between its assets and the present value of its pension liabilities) reached €2.9 billion at the end of 2014, as measured using French common prudential rules at that time¹⁸¹. At the end of 2015, Corem obtained permission from the French Government to use a minimum discount rate of 1.50% (instead of 0.59 % according to the previous rule) to compute the present value of its liabilities, helping it to reduce its reserve gap to €1.3 billion at the end of 2016.

In 2017, the French Government allowed deferred annuity schemes such as Corem to use the market value of assets instead of the accounting (acquisition cost mostly) one, to compute its assets/liabilities coverage ratio. This new rule improved its coverage ratio to 98.2 % at the end of 2018, but it went down again in 2019 and in 2020 to 91.8%. Otherwise, Corem would have been in breach of its Recovery Plan which required it to cover at least 90% of its liabilities.

Since 2016, the Corem rules also allow it to reduce the nominal value of annuities under certain conditions, contrary to the commitment that was provided to participants when they joined.

The distribution of new Corem contracts has resumed in 2019, despite the continuously escalating losses borne by its participants. In 2021, despite complaints to the French supervising Authority ACPR, the product is still actively distributed and without any visible and intelligible warning about its catastrophic performances and about its upcoming (1/1/2021) sharp drop in its pension rights.

CRH

CRH does not disclose an annual report or financial data publicly. Even its pre-contractual publications do not disclose past performance. Because of an on-going restructuring that started in 2008, the real returns of this plan are probably low and below inflation. For the last five years (2014-2019), CRH annuities value has increased by 2.1%, against an inflation of 6.0%.

Overall, BETTER FINANCE estimates the loss of purchasing power over the last teen years (2002-2020) of participants to the French Public Employee Pension Schemes (Préfon + Corem) to be at -21.4% (-1.4% per annum), based on the relative asset portfolio size of Préfon and Corem, and assuming that Préfon participants retire as early as age 60 and not later. As mentioned above, 2021 will be catastrophic for Corem participants.

Defined contribution corporate plans

With the most appreciated help of AFG, the French asset management industry association, we combine information provided by “Europerformance” on the performance of each category of

¹⁸¹ Until 2017, Corem's recovery plan allowed it to exceptionally use a discount rate of 3% and an older mortality table to compute the present value of its pension liabilities instead of the regulatory 0.78% at the end of 2014 and 1.5% end of 2015. Using the 3% discount rate, Corem assets cover 107.5 % of its liabilities at the end of 2015.



funds with data on their total outstanding relative weight¹⁸² to estimate the overall returns of corporate savings (PEEs, PERCOs and the new collective PERs).

Table FR15. French corporate savings plans - 21 years returns before tax 1999-2020

Fund ("FCPE") category	Equity	Bond	Money market	Diversified	All funds
21Y Nominal return	54.6%	76.2%	30.2%	64.0%	61.9%
Yearly average	2.1%	2.7%	1.3%	2.4%	2.3%
21Y Real return	12.1%	29.2%	-4.8%	19.8%	18.5%
Yearly average	0.5%	1.2%	-0.2%	0.9%	0.8%

Source: AFG/Europerformance

Real returns of corporate DC-based (Defined Contribution) plans before tax over a 21-year period, from the end of 1999 to the end of 2020, were overall positive: the yearly average real performance before tax of the aggregate of all funds was + 0.8%, which makes French DC plans the second-best performing pension savings product after life insurance capital-guaranteed contracts. This regards PEEs (€ 124.5 billion of assets). PERCOs and collective PERs (€ 22.5 billion) had a slightly higher return (+0.9% per annum) due to a slightly lower allocation to money market funds.

The overall real returns before tax are negatively influenced predominantly by the surprisingly heavy weight and negative return of money market funds (23% of assets; -4.8%), and by the real return of DC equity funds (with a positive real return in 2020 of +2.7%). Equity funds, which account for about 20% of total outstanding assets (excluding company stock), greatly underperformed equity markets over the last 21 years: +55% in nominal terms versus +110% for European equities or +152% for world equities¹⁸³. Also, DC Bond funds (around 21% of total assets) returned +76% in nominal terms over the period versus +155% for the European bond market (see graph FR4).

Like for unit-linked insurance contracts, a primary factor for this underperformance of DC equity and bond funds could be the level of fees charged. Unlike the US corporate DC pension plans ("401k"), the French ones do not invest in general purpose mutual funds, but in special purpose alternative investment funds (AIFs) called FCPEs, specifically dedicated to these plans. Consequently, French savers are faced with an additional offering of investment funds (about 1900 FCPEs in addition to the about 3,500 UCITs funds already domiciled in France), the average size of these AIFs is quite small, and many FCPEs are merely wrappers of other – general purpose – funds, adding a layer of fees. Another factor is that equity FCPEs are not 100% invested in equities.

However, the French supervisor AMF recently found that the ongoing annual charges of multi-sponsor FCPEs are on average lower than those of general-purpose funds: 1.31% in 2019 for the

¹⁸² Data published by AFG relate to "FCPE L214-39". These funds are diversified funds which do not invest in the own shares of the concerned company ("company stock"). There is another category of corporate savings' funds, the "FCPE L214-40" dedicated funds which can invest without limit in the own shares of the concerned company but there are no data available on the returns of these "FCPE L214-40" funds. The "FCPE L214-39" assets represented 65% of all FCPE assets at the end of 2020.

¹⁸³ MSCI ACWI NR index in euros



178 diversified (multi-asset) FCPEs analysed versus 1.53% for the general-purpose diversified funds; and 1.46% for the 145 European equity FCPEs analysed versus 1.53% for the general-purpose European equity funds¹⁸⁴. That is about half the cost of the comparable funds held via unit-linked insurance contracts. In addition, a part of the FCPE fees can be sometimes paid by the employers, not by the employees. Therefore (see above the costs and charges section) the differences are even bigger with investment funds held via insurance contracts. This seems due to the distribution modes - more “wholesale” for corporate plans, and more “retail” for life insurance (implying commissions paid out of fund charges to distributors) - and to the double layer of fees in the latter case.

A limitation of such computations is that performance indices provided by “Europerformance” only relate to diversified funds inside the corporate savings plans. They do not take into account the part of corporate long-term savings which is invested in shares of the concerned company (“company stock”), accounting for 35% (€ 50.8 billion end of 2020) of all corporate savings plans.

Return of regular identical investments over 21 years

Also – same rule whenever possible for the whole research report – the computed returns relate to a one-time investment at the end of 1999 and kept up to the end of 2019. Many pension savers will tend to invest regularly every year or every month. With the help of AFG, we computed the annualized returns from 2000 to 2020 for the same amount invested every year over the last 21 years. This generated a similar before tax real return of 17.8% instead of 18.5%. This return is less volatile with time, as it is spread over many years instead of only one.

After-tax returns are often higher

Finally, after-tax returns of French corporate long-term savings plans are difficult to compute globally, but they can often be very close to - or higher than before-tax ones since their taxation is the most favourable of all long-term and pension savings products in France (redemptions are exempt from income tax and are only subject to “social” levies of 17.2% of net gains). Also, most of these savings come from non-taxable profit-sharing income contributed by employees (“*intéressement*” and “*participation*”) and employers’ matching contributions.

Conclusions

After a year of negative real returns before tax in 2011, for the main long-term and pension savings product in France, subsequent years were more favourable to pension savers. Against the backdrop of bullish stock markets and lower inflation, unit-linked life insurance contracts showed a positive real performance every year from 2012 to 2017. However, their 21-year performance is still quite negative. The real performance of capital-guaranteed life insurance contracts (“*contrats en euros*”)

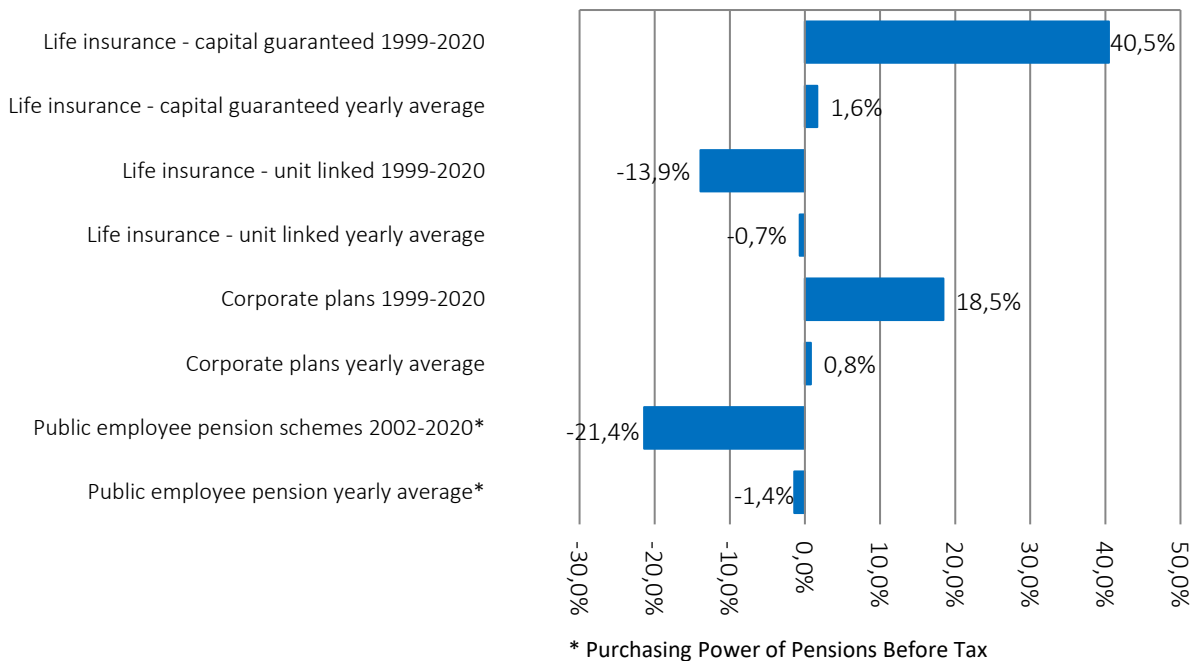
¹⁸⁴ La lettre de l’Observatoire de l’Épargne de l’AMF n 042 – mars 2021



has been positive for every year since 2011, but the continued decrease of interest rates, and increases of taxation, have turned it negative in 2018 and 2019.

Over a 21-year period, from the end of 1999 to the end of 2020, capital-guaranteed life-insurance contracts show on average a positive yearly pre-tax performance of +1.6% in real terms, while the unit-linked contracts show a negative yearly return of -0.7%. Corporate DC plans delivered +0.8% on an annual basis before tax. After-tax returns would typically be close for the latter due to a favourable tax treatment.

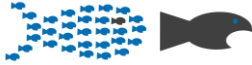
Graph FR16. French Pension Savings Real Returns before tax, 1999-2020



Summary return table - Average annual real net returns of French pension savings (before tax)					
Average real net returns	1 year 2020	3 years 2018-2020	7 years 2014-2020	10 years 2011-2020	whole reporting period
Life insurance - CG	1.11%	0.37%	1.89%	1.65%	1.63%
Life-insurance - UL	1.96%	0.24%	0.97%	1.04%	-0.71%
Corporate plans	1.35%	0.61%	1.71%	1.61%	0.81%
Public employee PS**	0.69%	-1.14%	-0.97%	-1.33%	-1.41%

Sources: Tables FR3, FR5, FR7; CG = capital guaranteed; UL = unit-linked; PS = pension schemes;

** return proxy measure*



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