
BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers
PENSIONS ATM
DO YOU HAVE ENOUGH FOR WHEN YOU RETIRE?

GUIDE ON PENSION AWARENESS

Every year BETTER FINANCE compiles the returns of private long-term and pension savings, so we can have an overview of how these products perform, compare them, and know their performances in *real terms*.

The report on the Real Returns of Long-Term and Pension Savings covers 17 countries in the EU and both occupational and voluntary pension savings.

This year marks the 10th anniversary of our report and is the perfect, occasion to provide a special presentation of our findings.

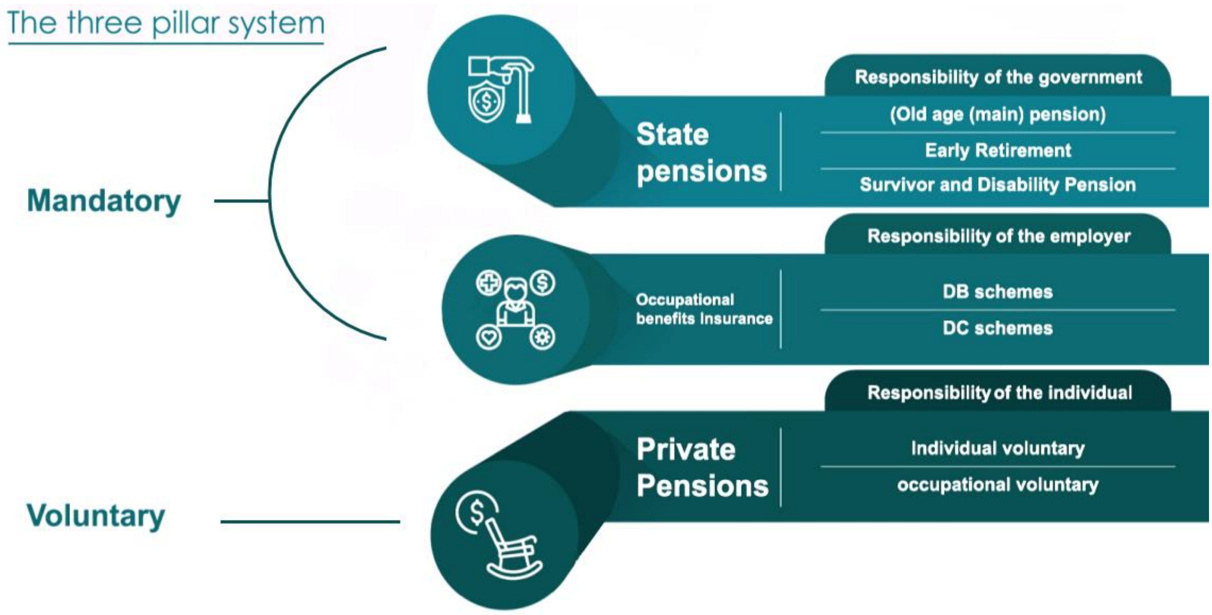
The report is available on our website and the returns can also be found on our interactive *pensions dashboard*.

Real (inflation-adjusted) **returns**

The value of our money decreases as long as there is inflation. This means that the same bill will buy less goods and services as time passes by. The same stands for capital market returns: the real return will be determined by the loss or gain in purchasing power, thus a 5% return with 2% inflation will mean, in real terms, 2.9%.

THE BASICS OF PENSIONS

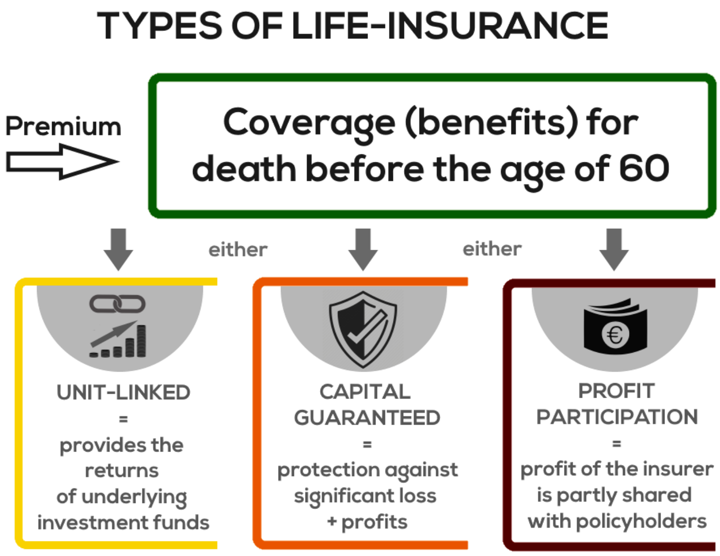
“Three pillar” structure | Pension systems are divided into three income streams:[1] the State pension (Pillar I), which is currently the main source for most pension savers; the occupational / employer-related pension (Pillar II); and voluntary pension savings (Pillar III). In BETTER FINANCE’s report, we only analyse the last two, which are *private pensions*.



Types of pensions vehicles | Typically, these take the form of investment funds or of life-insurances. Pension funds can be defined-benefit, where the sponsor commits to paying a certain pension amount, or defined-contribution, where the pension will be determined by investment returns.

Life-insurances commit to paying a certain sum to designated beneficiaries in the event of the policyholder’s death before pension. If not, the policyholder will be entitled to the investment earnings made on his behalf by the insurer. Typically, there are three types of life-insurances:

[1] These are the “formal” pension schemes; however, there are non-conventional ways to save for retirement, for instance long-term savings products.



Pensions vs other investments | Formal pension schemes are tax-incentivised: contributions can be deducted from the base income tax, investment returns can be tax-exempt, and pay-outs (pension) are almost always taxed (sometimes benefiting of a reduced income tax bracket).

Example: occupational pension taxation in Lithuania vs Sweden (see p. X here)

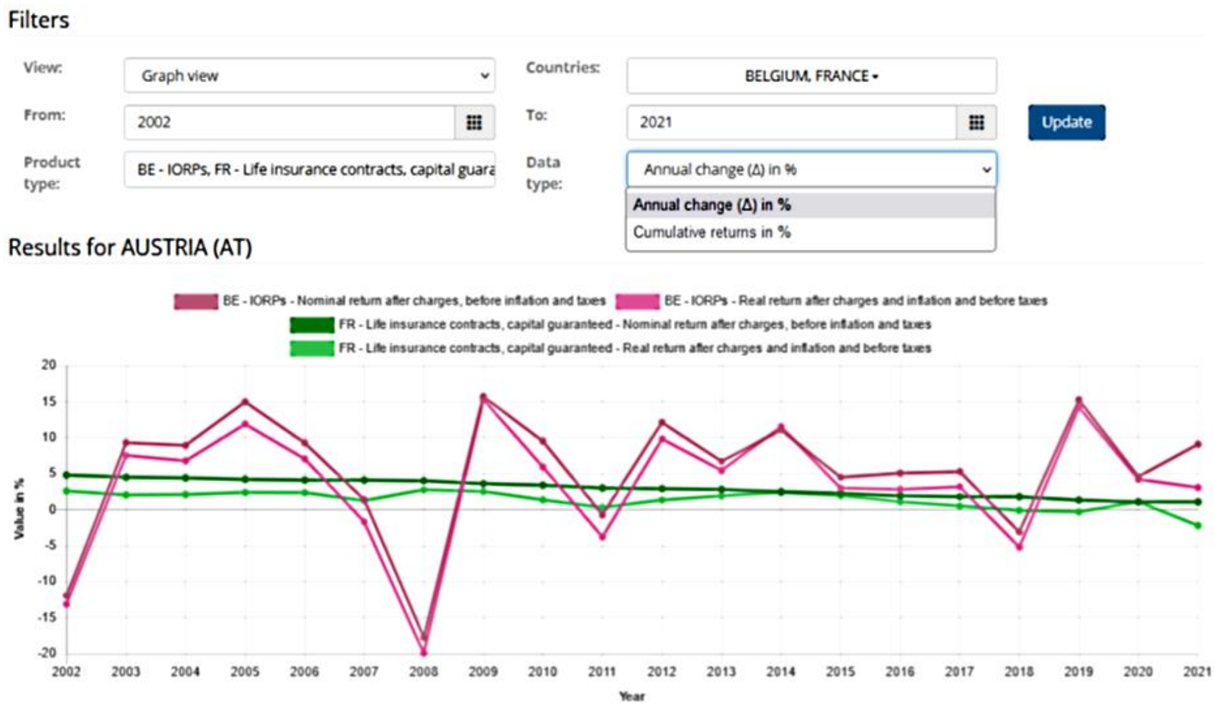
	Contributions	Investment returns	Pay-out
Lithuania	Tax-deductible	Tax-exempt	Tax-exempt
Sweden	Partially deductible	Taxed	Taxed

Long-term horizons | Pension investments are (or should be) designed for holding periods of 30-40 years. This allows for higher risk at the beginning of the holding period, which generates higher returns, without putting our savings at risk.

Inflation | The "money illusion" is that the value of our currency remains the same over time. In fact, it doesn't, and we must think of returns in ***real*** terms, i.e., after deducting inflation. BETTER FINANCE calculates long-term and pension returns in **nominal net terms** (after costs are deducted and before inflation) and in **real net terms** (after deducting costs and adjusting for inflation).

An interactive pensions dashboard that can be filtered by country and pension type is available on the BETTER FINANCE website. We present the nominal and real net returns by annual rate of return as well as cumulatively (compounded effect).

Our tool allows comparisons by year, country, and pension type. The pension dashboard also shows pension results in a table or chart view.



Source: http://betterfinance.eu/pensions-dashboard

Objectives | Long-term and pension savings must generate a replacement income for our salaries when we retire. How large that pension is, compared to our salaries, defines *pension adequacy*. The objective is to avoid a drop in our standard of living when we retire. All should be fine if the replacement ratio (pension divided by salary) is north of 70%.

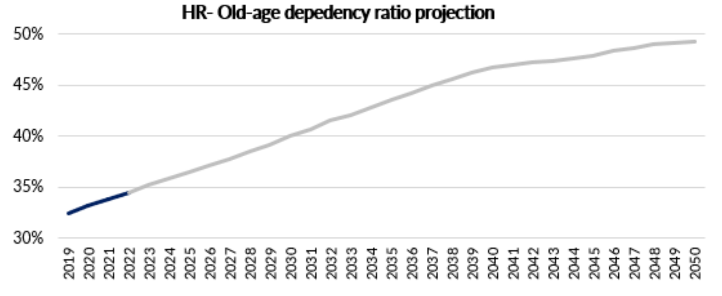
STATUS QUO

Pressure on public pensions forces us to take retirement provision into our own hands. BETTER FINANCE's report updates country cards with key information on the current state of pensions and the demographic outlook. Given that State pension contributions from the labour force pay for today's public pensions, the population ageing trend is indicative of the aforementioned pressure.

However, a fallacy is that saving more is saving better. The first step is enrolment in occupational pensions, which should ideally be complemented by voluntary pension savings.

Croatia			
Net equity of households in pension funds reserves (in € bn), 2020	16	Net equity of households in pension funds reserves as % of GDP	32.3%
Net equity of households in life insurance reserves (in € bn), 2020	2	Net equity of households in life insurance reserves as % of GDP	5%
Active population (mil.) 2021	1.7	Old-Age dependency ratio, old (% of working population), 2021	33.9%
Population ageing trend (2021-2050)	55%	Projected old-age dependency ratio by 2050	52.5%
Aggregate replacement ratio for pensions (excl. social benefits), total, 2021			38%

HR- Old-age depedency ratio projection



The next step is to monitor our pensions, think of returns in ***real net*** terms and, where applicable, after deducting tax.

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Aggregate summary return table	1 year		3 years		7 years		10 years		Since 2000	
	2021	2020	2019-2021	2018-2020	2015-2021	2014-2020	2012-2021	2011-2020	2000-2021	2000-2020
PILLAR II										
Nominal return	8.09%	1.53%	4.93%	3.32%	4.38%	4.33%	4.62%	4.02%	3.18%	2.94%
Real return	1.52%	2.10%	2.25%	2.40%	3.02%	3.86%	2.56%	2.86%	0.89%	0.86%
PILLAR III										
Nominal return	8.67%	0.29%	4.24%	2.25%	3.55%	3.55%	3.78%	2.77%	2.71%	2.42%
Real return	2.10%	0.86%	1.58%	1.33%	2.20%	3.08%	2.26%	1.60%	0.43%	0.35%
Both Pillars										
Nominal return	8.50%	0.67%	1.80%	0.79%	3.83%	3.81%	4.07%	3.22%	2.89%	2.62%
Real return	1.93%	1.24%	1.80%	-0.5%	2.48%	3.34%	2.56%	2.05%	0.61%	0.54%

Source: own calculations based on data from INVERCO

The individual country cases in BETTER FINANCE's report provide all the information needed to understand the pension system, taxation, charges, and pension returns.

No comparison is perfect in capital markets, but in certain cases we can find adequate proxies for pension returns. BETTER FINANCE uses EU capital markets returns as a proxy, by comparing real returns with a balanced benchmark of 50% European equities and 50% European bonds.

All this information is available in our report, where we strive to keep it simple, but complete and accurate. We know a 500-page document seems daunting, so that's why we prepare a ***Summary Booklet*** with key information and executive summaries, also translated into local languages.