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New and independent research:

On average, the value of Pension savings is being destroyed … and stop blaming the performance of capital markets

The European Federation of Financial Services Users releases its research report on the real return of pension savings. This research confirms, broadens and deepens the OECD 2012 Pensions Report[1] conclusions which revealed **negative real returns[2] on average for pension funds**. Our research adds other pension savings than pension funds, includes France (not covered by the OECD report), includes all fees and expenses into account for the returns calculations and -whenever possible - taxes paid by pension savers. It also identifies the main factors of the destruction of the value of pension savings.

Besides establishing the methodology, **this first phase of the research selected three European countries**: Denmark, France and Spain. The research was quite challenging due to the very poor disclosure of long term historical net returns by providers and by Public Authorities. Only Denmark provides significant and lasting positive real returns.

The future outlook is grim due in particular to the "*financial repression*" at work:

- the issue of transparency and accountability of providers has yet to be addressed by Public Authorities;
- capital markets real returns are quite low and even negative for most Euro Sovereign bonds , due for a large part to Central Banks policy and solvency rules;
- fees and expenses do not show any sign of going significantly down,
- and taxes on savings are on the rise in many EU Member States (with tax rates now up to often more than 100 % of real income in France).

Why such a destruction of value since 2000?

It is primarily **not a poor performance of capital markets,** contrary to what pension savers are often told. If an individual had invested his pension savings 50% in equities and 50% in bonds thirteen years ago, the nominal value of his savings would have gone up by 48 %[3], and the real value -still significantly up at + 11%. Unfortunately, using a rather typical pension fund benchmarked on the very same market indices to do that, the nominal value went up only by 8%; meaning a real value destruction of his pension

[1] OECD 2012 Pensions Outlook, June 2012 http://www.oecd.org/finance/private-pensions/oecdpensionsoutlook2012.htm

[2] "real" means net of inflation, which is what matters for pension savers, not nominal returns which are meaning less and misleading for long term returns.

[3] 50% MSCI World equity index / 50% JPM Euro Government Bond index

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savings of – 19 %[4]. Besides, this appalling performance is not disclosed to the pension fund participants and not any explanation or management report provided.

Our research found that the primary factor here is commissions charged by intermediaries (and undisclosed in that case to pension fund participants). In our previous example, on the equity part commissions were about 50 % higher than the average commission rate in Europe, three times higher than in the US, and six to twelve times higher than for the corresponding indexed exchange-traded funds (ETFs).

As stated before, *financial repression* and taxes are other key drivers for the value destruction of savings.

Policy makers need to act promptly, by:

- Extending existing "UCITS" and "MiFID" disclosure rules to all long term, pension saving and investment products (and improve them): this is a priority identified by the EU back in 2007 but not yet implemented. In particular, full costs and long term historical net[5] real returns must be disclosed to savers at last.
- Designing simple retirement savings vehicles and securities that protect the long-term purchasing power of pension savings.
- Issuing specific prudential regulations for all long term and pension products (whether insurance-regulated or not) that do not discourage investing in long term assets such as equities.
- Reforming taxation to favor long term retirement savings and investment over short term ones, or at least not to penalise them.
- Imposing basic financial mathematics in schools curricula, as this is a crucial pre-requisite for selecting suitable investment products for pension savers.

"*Today, everybody recognizes the need to increase long term investments in the real economy to create jobs, so it is really time to stop making long term investment a losing game for the hundreds of millions of European pension savers*", Guillaume Prache, Managing Director of EuroFinuse said.

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If you would like additional information about this topic, or to schedule an interview with **Guillaume Prache** please call EuroFinUse Office on +32 (0)2 514 37 77, or email at info@eurofinuse.org

[4] Real case of a Belgian occupational pension fund from end of 1999 to end of 2012 (EuroFinUse research)
[5] Net off all charges and commissions and also net of taxes, as it is required in the US for all investment funds