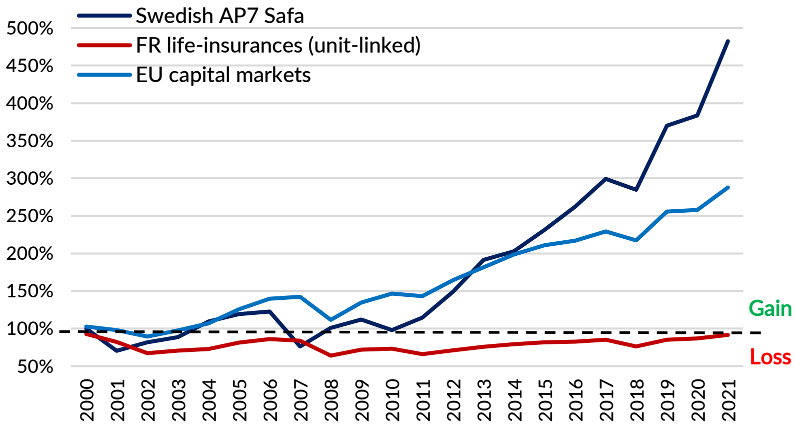
Press Release | 10 October 2022

BETTER FINANCE Pensions Report 2022: It will get much worse for EU Savers before it even has a chance to get better

10 October 2022 | For 10 years now BETTER FINANCE points to the often-poor real net returns of long-term and pension savings across a large number of EU jurisdictions. It is getting worse, and while a couple of years of poor performances can be made up for, the same can't be said for 22 years.

Since the change of the millennium French unit-linked life insurances lost 8.4% of the real value of contributions, while a Latvian worker enrolled in an occupational pension fund (Pillar II) earned a measly *cumulative* +1% real net return over the last 19 years.



One could argue that when markets perform poorly, so do pension savings. However, Swedish workers enrolled in the default occupational pension fund (AP7 Safa) since 2001, enjoyed a five-fold (+482%) multiplication of their investments.

Source: Own composition; the red line represents unit-linked life insurance contracts in France (FR8 in French case); EU capital markets represents a gross return, balanced 50% equity and 50% bond indices.

What are the main factors for these too often poor results?

Inflation: The Enemy Hidden in Plain Sight

Over the years, the cumulative effect of inflation in the EU27 caused for €100 in 2000 to be worth just €64 by 2021, explaining the too often poor ***real*** net returns BETTER FINANCE draws attention to each year. In 2021 the situation took a turn for the worse and inflation started to skyrocket, reaching 10% in September 2022. Eurozone inflation is optimistically forecasted to decrease gradually from 6.78% in Q4 this year to 3.94% in the same quarter next year,[1] in any case well above the ECB's 2% target.[2] However, inflation has been underestimated[3] for all three quarters so far: 3% instead of 7.4%; 6% instead of 8.6%; 7.3% instead of 10%.[4]

> *"In 2022, inflation alone is taking a heavy toll on savings and investments: it is about time to stop ignoring it."*
>
> *Guillaume Prache, Managing Director, BETTER FINANCE*

Fees

It is an almost impossible task to aggregate full and comparable data on costs and charges across the pension systems we analyse. Most of our data comes from supervisors only reporting net returns, making it difficult to

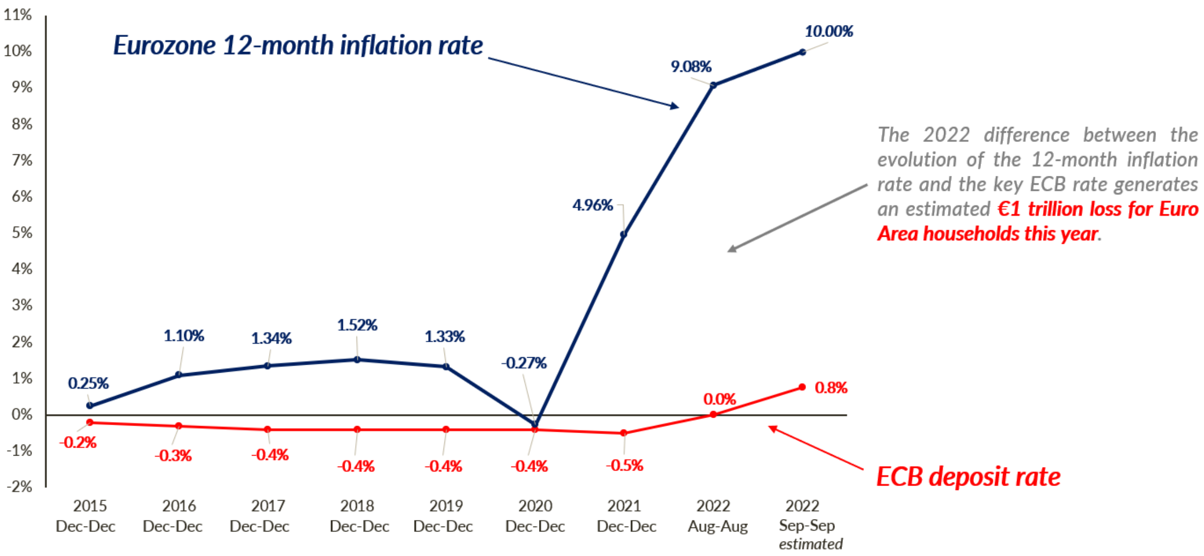
[1] Based on data from the OECD, retrieved 24 September 2022, available at: https://data.oecd.org/price/inflation-forecast.htm.
[2] See European Central Bank, *Our Price Stability Objective and Strategy Review* (ECB) available at: https://www.ecb.europa.eu/home/search/review/html/price-stability-objective.en.html.
[3] See *Current calendar years* (2022 Q1-Q3) on ECB Inflation forecasts (accessed 2 October 2022), available at: https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/table_hist_hicp.en.html.
[4] September 2022 estimated, see Eurostat, *Euro area annual inflation is expected to be 10.0 % in September 2022, up from 9.1 % in August 2022* (1 October 2022) available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area.

The European Federation of Investors and Financial Services Users
44, Rue d'Arenberg, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu - http://www.betterfinance.eu

proxy gross returns. However, when compared to capital market returns, which bear no costs, only four outperformed EU capital markets[5] out of the 41 vehicles analysed in our report.

"Financial Repression" taxes today's Savings and tomorrow's Pensions

Far more damaging still than inflation for EU savers is "financial repression". This is how economists call the public policies channelling savings to Government funding and ensuring that nominal interest rates are kept below or much below inflation rates. The magnitude of financial repression can be illustrated by the difference between the inflation and the Central Bank nominal interest rate. Over the last ten years the EU entered an era of financial repression, which is reaching historical highs this year:

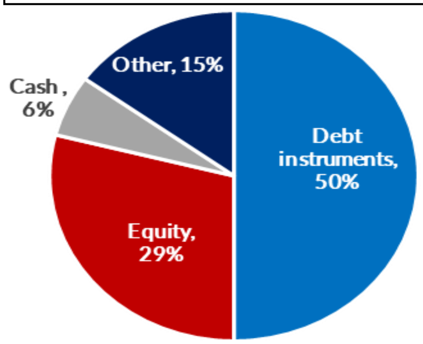


Source: BETTER FINANCE own composition based on ECB, Eurostat, Banque de France, Bloomberg

The ECB has also made sure that its ultra-low short-term intervention rates (currently standing at about minus 8% in real terms) are also impacting the longer-term ones, in particular by buying massive amounts of Euro Sovereign debt. Despite these record low real interest rates, the recent comparatively modest increase in nominal short- and long-term interest rates has triggered a sharp fall of bond values: year-to-date the European bond market is down by 16%.

BETTER FINANCE conservatively estimates the financial repression impact on Eurozone savers in 2022 to stand at a real loss of about € one trillion, since a large majority of EU households' financial savings are linked directly or indirectly to nominal interest rates: when those are below or much below inflation, their net returns collapse.

Pension funds' asset allocation



This is in particular the case of insurance-regulated long-term and pension savings products, since they are subject to Solvency II rules which exempt Sovereign debt from solvency requirements. But it is also the case for pension plans (IORPs), although they do not have this constraint: the real returns of about 56% of their portfolios are directly impacted by financial repression.

Source: Own calculations based on OECD data, *2015-2021 average, 17 EU jurisdictions, pension funds only*

[5] Proxied in our computations through a balanced index consisting of 50% broad equity market (STOXX All Europe Total Market GR) and the aggregate bond market (corporate and sovereign, Barclay's Pan-European Aggregate Bond Index). Capital market returns and indices do not bear fees.

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

Outlook

Our report covers 22 years for some products, representing more than half of the vesting period for savers that started their career in 2000. For them, the best scenario at the moment is for State pensions to remain at the same level (56% of occupational income) for the next 18 years. Highly unlikely, but not impossible.

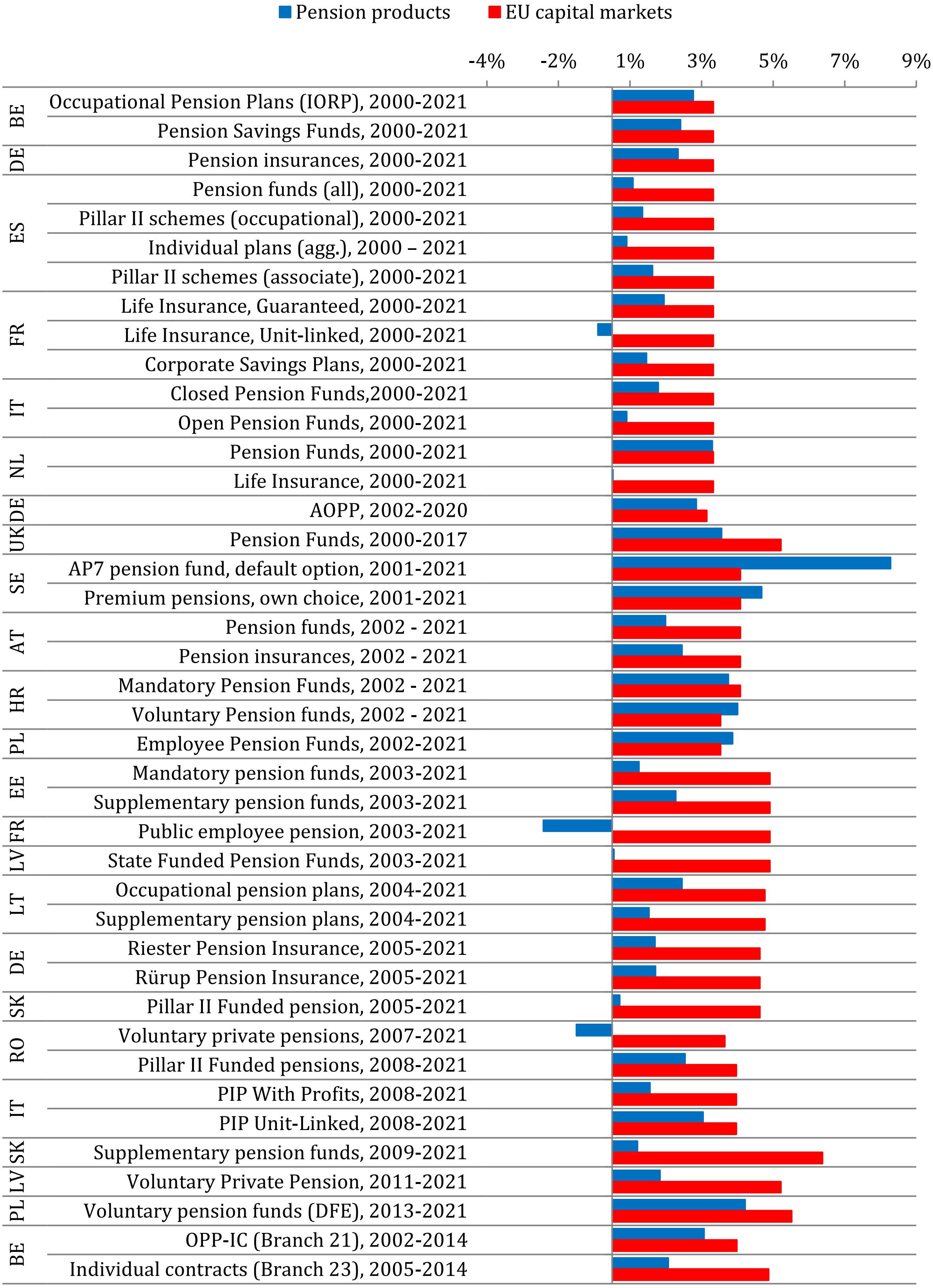
For the younger generations, there is still time, though it is running out: financial repression must end, asset allocations must move towards more adequate long-term investments, asset managers' incentives must be aligned with that of savers, and fees must come down.

***

Contact: Chief Communications Officer | Arnaud Houdmont | +32 (0)2 514 37 77 | houdmont@betterfinance.eu

ANNEX 1

ANNUALISED REAL NET RETURNS OF PENSION SAVINGS - BEFORE TAX



The European Federation of Investors and Financial Services Users
44, Rue d'Arenberg, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu - http://www.betterfinance.eu