Long-Term and Pension Savings

The Real Return

2020 Edition

SUMMARY BOOKLET

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

Pension Savings: The Real Return

2020 Edition - ***Booklet***

A Research Report by BETTER FINANCE

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Executive Summary

"*With the two of three worst financial metldowns of the past hundred years occurring in the past 12 years, can our societies rely financial markets to deliver decent retirement outcomes for millions around the world?*"[1]

Despite strong 2019 performances, poor real long-term returns persist

How much did pension savers earn on average?

The main question this report seeks to answer is: How much on average, was the pension saver left with 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.

[1] 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.

*What is the "**Pillar II**"?*

Pillar II represents all pension schemes that are employment-related, reason for which these are called *occupational pensions*.

This means that the employer makes the pension contributions on behalf of the employee (and for all employees, collectively) by virtue of law or collective bargaining agreements.

Pillar II is commonly called:

- second Pillar,
- Pillar 1Ibis,
- occupational Pillar,
- mandatory Pillar.

Aggregate summary Average real net returns in different periods	Pillar II – Occupational pensions								
	1 year		3 years		7 years		10 years		whole reporting period*
	2019	2018	2017-2019	2016-2018	2013-2019	2012-2018	2010-2019	2009-2018	
Austria	7.99%	-5.3%	1.78%	-0.1%	2.53%	2.6%	2.01%	1.9%	1.49%
Belgium	n.a	n.a.	n.a	n.a.	n.a	n.a.	n.a	n.a.	n.a
Bulgaria***	1.73%	-7%	-0.86%	-0.7%	1.67%	1.9%	1.13%	1.3%	-0.91%
Croatia	8.06%	0.9%	4.68%	5.1%	5.77%	5.7%	4.91%	4.9%	3.59%
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia	7.88%	-5.8%	0.54%	-1.6%	1.64%	1.4%	1.23%	1.8%	0.43%
France	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany	n.a.	0.18%	n.a.	1.47%	n.a.	2.48%	n.a.	2.47%	2.24%
Italy	7.30%	-3.6%	1.76%	0.05%	3.33%	3.2%	2.57%	2.7%	0.86%
Latvia	8.43%	-6.6%	0.77%	-1.9%	1.62%	1.5%	1.83%	2.4%	-0.20%
Lithuania	14.92%	-5%	3.04%	-0.9%	4.15%	2.9%	3.65%	3%	1.50%
Netherlands**	13%	-3.6%	4.26%	2.5%	5.10%	4.3%	5.42%	5.2%	2.73%
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Romania	7.84%	-2%	2.44%	1.2%	4.76%	4.5%	4.63%	5.14%	4.90%
Slovakia	5.36%	-3.5%	0.81%	0.2%	1.57%	0.72%	0.81%	0.3%	-0.03%
Spain	7.89%	-4.4%	2.14%	0.6%	4.28%	3.2%	2.60%	1.4%	0.79%
Sweden	24.60%	-2.1%	10.30%	5.80%	n.a.	n.a.	n.a.	n.a.	11%
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; **Pension funds' data used as proxy for Pillar III; ***UPF data used as proxy for Pillar II and represents Time-Weighted Returns, while the Bulgarian country case uses mostly Money-Weighted Returns*

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.

*What is the "**Pillar III**"?*

Pillar III is composed of all voluntary, supplementary pension savings products. Employer-organised (occupational) plans exist also for the "third" pillar.

Third pillar pensions are meant to supplement the State and mandatory (occupational) plans and also benefit of tax incentives.

Pillar III is commonly called:

- third Pillar,
- supplementary pillar
- individual/ voluntary plans.

Aggregate summary Average real net return in different periods

Pillar III – Voluntary/ Individual pensions

	1 year		3 years		7 years		10 years		whole reporting period*
	2019	2018	2017-2019	2016-2018	2013-2019	2012-2018	2010-2019	2009-2018	
Austria	0.98%	0.62%	0.84%	1.31%	1.67%	1.75%	1.54%	1.73%	2.09%
Belgium	n.a	n.a.	n.a	n.a.	n.a	n.a.	n.a	n.a.	n.a
Bulgaria	3%	-7%	0.1%	0.8%	3.1%	3.4%	2.4%	2.6%	-0.14%
Croatia	8.57%	-0.5%	3.58%	3.2%	5.07%	5.0%	4.58%	4.7%	3.88%
Denmark		n.a.		n.a.		n.a.		n.a.	
Estonia	17.90%	-9.8%	2.83%	-1.9%	3.55%	2.3%	2.81%	3.3%	1.58%
France*	2.83%	-2.6%	0.46%	-0.1%	1.5%	1.4%	1.3%	1.4%	1.37%
Germany**	0.67%	0.6%	0.68%	0.8%	1.53%	1.7%	1.58%	1.7%	1.43%
Italy	6.40%	-3.5%	1.22%	-0.1%	2.84%	2.4%	1.99%	2.1%	1.24%
Latvia	8.66%	-5.2%	0.59%	-1.8%	1.94%	1.7%	n.a.	n.a.	1.52%
Lithuania	8.72%	-6.1%	1.22%	-0.6%	2.93%	2.8%	2.48%	3.6%	0.82%
Netherlands	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Romania	6.76%	-3.7%	1.40%	0.2%	3.8%	3.6%	3.35%	3.7%	2.61%
Slovakia	4.23%	-5.5%	0.32%	0%	0.94%	0.9%	0.42%	0.1%	0.50%
Spain	8.11%	-5.7%	1.24%	-1.4%	3.25%	2.2%	2.15%	1.5%	0.18%
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; ** Riester pension insurances contracts. Acquisition charges are included and spead over 5 years*

Unfortunately, due to unavailability of data breakdowns, for some country cases (UK, Netherlands, Belgium, Denmark, Poland) we were not able to calculate the annual real average returns by Pillar. Nevertheless, the results by retirement provision vehicle are available in Graph 17 and Table 18 in the *General Report* and on an annual basis (nominal, net and real net return) in each country case).

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 (*who bears the risk?*)				
	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.

BETTER FINANCE President's Take on Key 2020 Developments

The monetary policy response to the global pandemic encourages cheap sovereign debt accumulation which, coupled with the existing debt, may inevitably be transferred into the portfolios of pension savers.

The majority of pension products are defined-contribution (DC), meaning that the pension saver himself bears the risk of potentially inadequate returns at retirement.

The average returns of private pensions have increased due to the strong 2019 performances; however, some still lag behind a simple capital markets benchmark (half equity, half bonds). The report finds again fees, taxes, and asset allocation to weigh significantly on long-term nominal net returns of pension products.

Pension policies must be reformed to ensure that private retirement savings can deliver adequate ***real*** long-term investment returns. First, information on charges and returns must be improved: the authors of this report are facing increasing difficulties in merely updating the already scarce information. Moreover, disclosure should be *fair*, *clear*, and *not misleading* to enable savers engage more and make informed decisions for their pension savings.

Second, conflicts of interest in the distribution of pension products must be curbed: the rules on fair investment advice must be harmonised across sectoral legislations (MiFID2, IDD, IORP) and eliminate the *packaged-products'* bias that has steered pension savings into fee-laden, poorly performing investments.

Third, pension products must receive incentives to invest for the long-term and directly in the real economy: taxation and product governance rules should enable retirement provision vehicles gain more exposure to public and private equities.

Last, savers must be granted adequate protection in case of crises: considering the significant market shares of insurance-based pensions, a harmonised insurance guarantee scheme across the EU should be urgently adopted.

With the Pan-European Personal Pension (PEPP) product lies new opportunity and hope. I firmly believe it has the potential to positively disrupt the current pensions market and deliver some impulse for better retirement provision.

It may be that 2020 is a turning point for our pensions outlook. The measures to be taken must be swift and have at their core EU citizens as the main, largest source of long-term funding for the economy.

Axel Kleinlein, President of BETTER FINANCE

Pension Savings: The Real Return

2020 Edition

Corona Pensions

2020: The Rise of Corona Pensions

What is a share index?

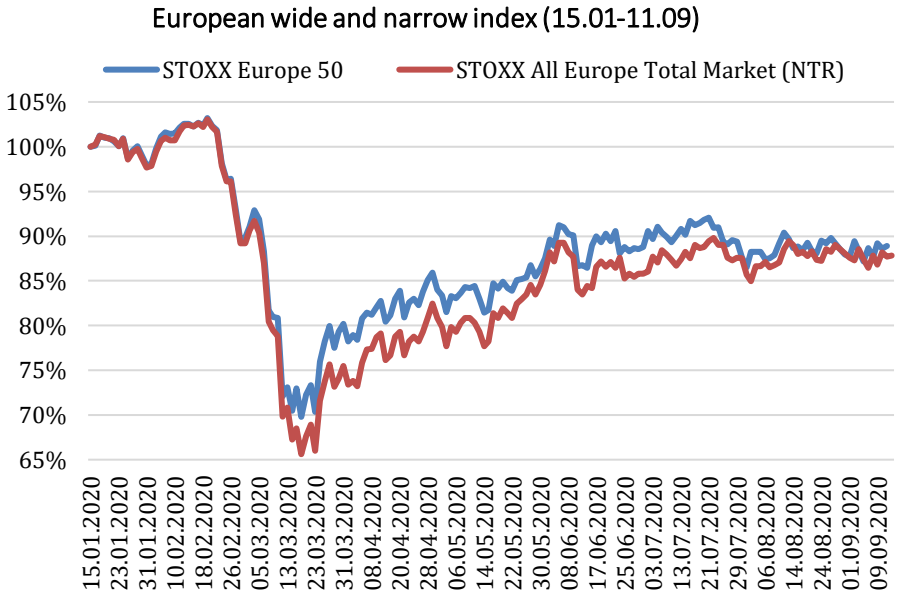
Financial companies calculate the average increase or decrease in the stock values of all companies in a country, sector, of a certain size etc.

This average value is the index, also called a reference index or benchmark, and depicts the overall picture of a certain economy or sector.

E.g.: The Belgian BEL20 index has increased +5.20%: this means that the largest 20 Belgian companies listed on the Brussels stock exchange have seen an average increase in the value of their shares by +5.20%.

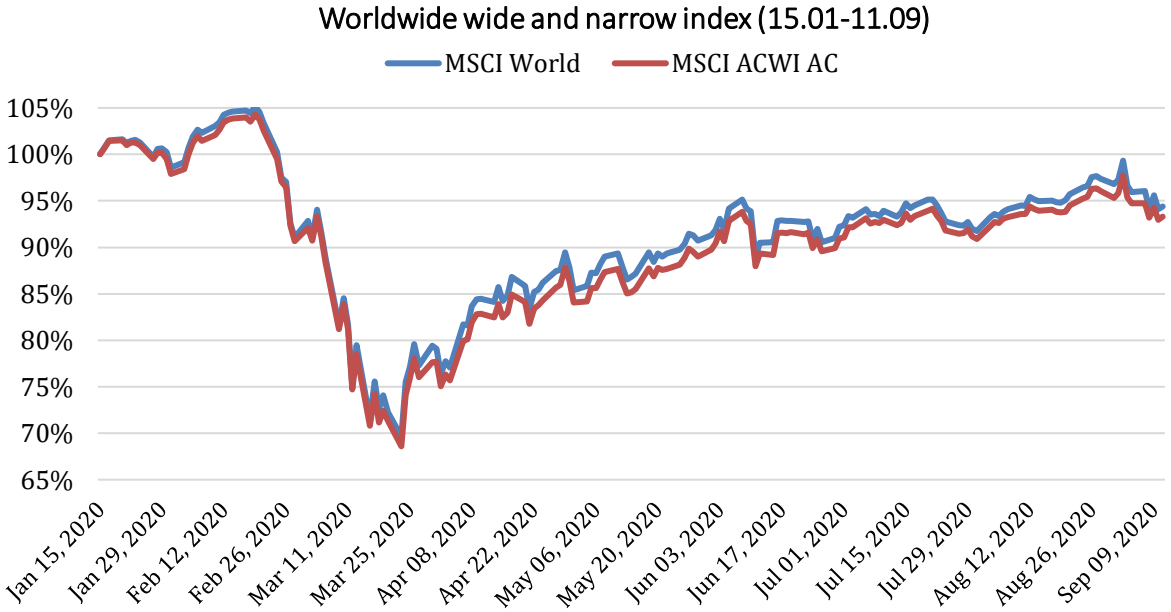
The same applies to **bond indices**.

The global health crisis generated a "swift and massive shock" to financial markets,[2] including European ones. The tumble of equity markets reversed most of 2019 gains: the European all shares index (STOXX Europe 600) and the MSCI All Country Index fell respectively to -15% and -9.4% from their all-time high of February 2020. Sovereign bond yields remain negative and have decreased as well, reaching for 10y maturities -0.41% on AAA-rated Eurozone bonds and close to negative for all issuers (0.02%) by the 10th of September (according to ECB data).



Source: Own composition based on STOXX data; this graph shows the evolution of European companies before and during the outburst of the global health pandemic.

[2] World Bank, 'COVID-19 to Plunge Global Economy into Worst Recession Since World War II' (Worldbank.org, 8 June 2020) World Bank Press Release No. 2020/209/EFI, available at: https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii.



Source: Own composition based on MSCI data; this graph shows the evolution of worldwide companies before and during the outburst of the global health pandemic.

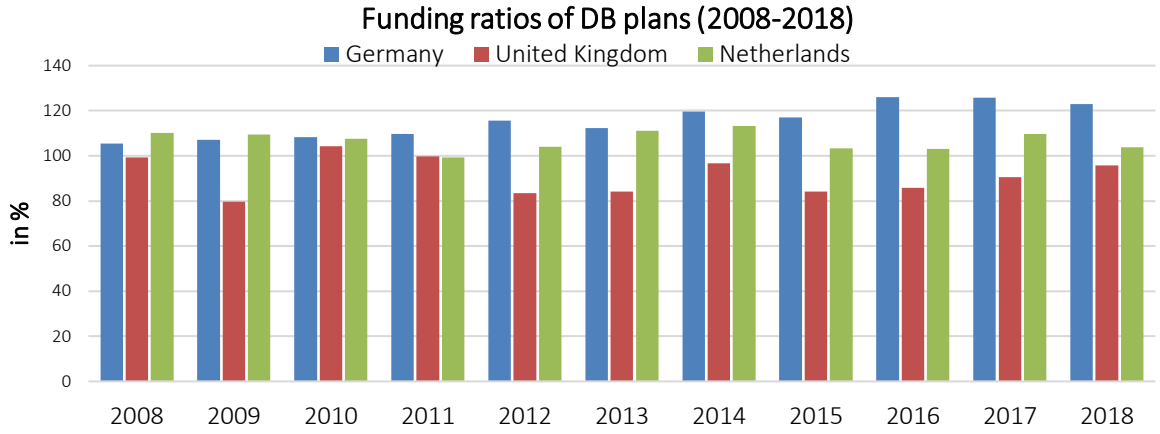
Alexandra Mączyńska

Corona Pensions: Who Bears the Burden of Tumbling Returns?

First, the decline in investment returns puts pressure on defined-benefit (DB) and life annuity plans – generally provided as occupational pensions –since discounting of future pension liabilities will mathematically require much higher returns in the time left. At the same time, both DB and defined-contribution (DC) may suffer temporary liquidity shocks as many workers are expected to withdraw their savings either in a "flight to safety" run or to exit the labour market early.[3]

In DB plans, short-term shocks affect savers less because, when the funding ratio decreases, sponsors or underwriters have to increase the reserves of the scheme to ensure pensions can be paid in full. The disadvantage is that, if the funding ratio falls below a critical limit, the DB plan would be forced to reduce pension entitlements to re-balance liabilities with assets. However, according to the Dutch National Bank, the extension of recovery periods for certain pension funds during the COVID-19 crisis has prevented them from curtailing pension benefits.[4] Thus, recovery can be swift and efficient, although sponsors or underwriters may face difficulties in covering the shortfall as the global crisis affects commercial revenues and tax collection.

[3] See Csaba Feher, Ignatius de Biedegain, 'Pension Schemes in the COVID-19 Crisis: Impact and Policy Considerations (20 July 2020) IMF Fiscal Affairs, Special Series on COVID-19.
[4] DNB, 'Pensions: Funding Ratio' (DNB.nl, accessed 19 August 2020), available at: https://www.dnb.nl/en/about-dnb/dnb-pension-system/pensions-funding-ratio/index.jsp#.



Source: BETTER FINANCE based on OECD data

*What is a "**funding ratio**"?*

Defined benefit (DB) plans promise a certain monthly payout to their participants (beneficiaries) when they will reach retirement.

To do so, these must hold sufficient capital (*assets*) to pay out (*liabilities*) current retirees.

The ratio between the two (*assets/liabilities*) is called the *funding ratio*.

In DC plans, the pension saver is more exposed as the risk of insufficient accumulated retirement income is borne by himself. In DB plans, the pension saver is promised a certain benefit at retirement, which is determined by the sponsoring company. The trade-off is between the "safety" of the pension benefit for the saver and the fact that he cannot control the investment strategy (to aim for a higher return, for instance). However, the sharp drop and sluggish rebound in asset prices will affect DC members more. Unfortunately, as highlighted in the *Executive Summary* (see table *Funding ratios of DB plans*) DB schemes are more and more of an exception, with a majority of Pillar II (occupational) and pillar III (supplementary) plans in the 18 countries analysed are DC-type. Therefore, except for certain companies that have DB-plans in place, the tumble of financial markets already affected the majority of pension savers.

Second, a large hit is taken also by all debt-exposed or debt-dependent portfolios (guarantees in life insurances or many pension funds). Public over indebtedness, the debt bias and how these translate to *financial repression* affecting pension savers is explained below.

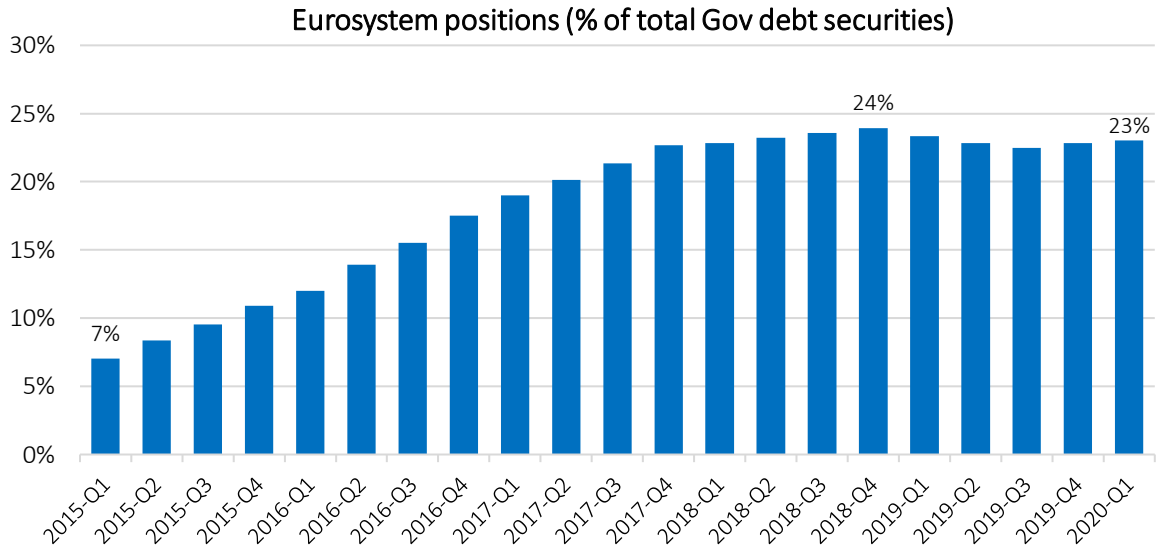
Arnaud Houdmont

Corona Pensions: Redoubling of Financial Repression in the COVID and Post-COVID Era

With the entire world in the grip of an unprecedented pandemic, Governments struggle to bring the devastating virus under control, save lives and alleviate overburdened health systems. Unfortunately, the necessary public health measures implemented to fight the ongoing COVID-19 pandemic are taking their toll on economies and on pensions.

Monetary and budgetary expansions of unseen magnitudes in response to the sudden imposed shutdown of the world's economies will have lasting and damaging economic consequences. By mid-2020, when the magnitude of the pandemic had really dawned on most European leaders, national Governments, European institutions and central banks stepped in to try and mitigate the

economic fallout from COVID-19 with very ambitious and far-reaching fiscal and monetary stimulus packages and measures.



Source: ECB Statistical Data Warehouse, BETTER FINANCE own composition

*What are "**Government debt securities**"?*

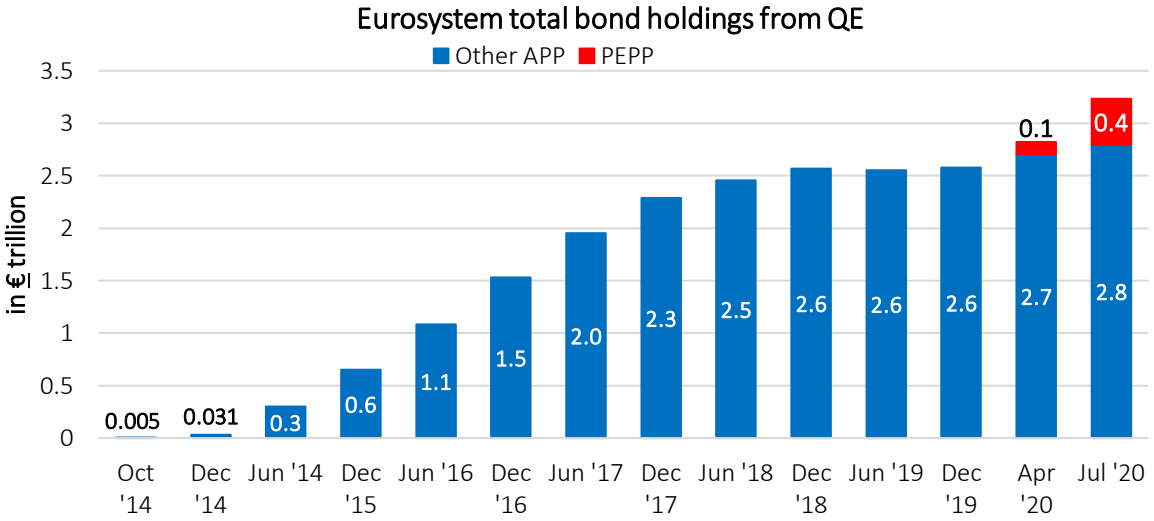
When public authorities need financing, they loan capital from ***private*** financial institutions and individual investors by issuing *debt securities* (bonds, bills, certificates etc).

These debt securities acknowledge the loan, the repayment date (*maturity*) and the interest rate (*yield*).

Debt securities are mainly distinguished by the *credit rating*, by *maturity* and by the type of interest paid (fixed, variable, inflation-covered etc).

The financial balance sheets of the Eurosystem's central banks have begun to be heavily loaded with sovereign debt instruments since the beginning of 2015 and reached almost a quarter of the total issuance at the end of 2018. While a small decrease was recorded by the end of the third quarter of 2019 (22%), the new pandemic Emergency Purchase Programme (PEPP) has re-increased the total value of Government bonds bought and owned by Eurozone central banks. In other words, the largest buys of Government debt seem to be central banks, albeit the prohibition of monetary financing enshrined in the Treaty on the Functioning of the EU.

In absolute values, central banks' holdings of sovereign (and corporate) debt instruments increased by 64,000% (from €5 billion to €3.2 trillion) in almost six years. While redemptions were made during this period, the chart below represents the net capital still invested to date by the Eurosystem through quantitative easing programmes. The latest addition, the PEPP, brough some new €0.4 trillion by the end of July 2020.



*Source: ECB SDW, BETTER FINANCE own composition; *APP = asset purchasing programmes; PEPP = pandemic emergency purchasing programmes*

This is because on 4 June 2020 the Eurosystem decided to increase the €750 billion envelope for the Pandemic Emergency Purchase Programme announced on 19 March by another €600 billion to help bolster the numerous initiatives implemented at the national level of EU Member States. This does not include some €3 trillion by the European Central Bank (ECB) in refinancing operations at the lowest interest rate ever of -0.75%. This amounts to a vast, disguised, subsidy from the ECB to European banks, as it will actually pay banks to lend them money at the rate of billions of euros per year.

Echoes of 2008

In retrospect, the 2008 financial crisis can be seen as a full-dress rehearsal for what is to come post-COVID. In its aftermath, Governments took on new debt in an attempt to rekindle growth. Central banks printed money like never before, with their balance sheets ballooning in recent years[5] under the "quantitative easing" or "unconventional monetary policy" labels.

This is what economists refer to as "*financial repression*", the result of policies implemented by Governments and Central Banks during the last crisis and highly likely to be implemented to deal with the new COVID-19-induced economic crisis.

Financial Repression

Whereas growth is undoubtedly the preferable and most efficient way in which to reduce debt, the reality is that developed countries are faced with an aging population, making growth very difficult to achieve. Paradoxically, Governments tend to try and create growth out of thin air by taking on new debt to subsidise growth with the hope to create jobs and to pay off old debt.

[5] The amount of EU Sovereign Debt owned by the ECB increased by 146% from 2009 to 2019. The annual consolidated balance sheet of the Eurosystem comprises assets and liabilities of the Eurosystem national central banks (NCBs) and the ECB held at year-end vis-à-vis third parties: https://www.ecb.europa.eu/pub/annual/balance/html/index.en.html

Financial Repression, or *Debt Relief through Inflation*, is no different and over the years has emerged as a definite favourite among European policy makers, following the realisation that sovereign debt in the developed world is simply too high for it to be significantly reduced through economic growth. At the same time, financial repression also translated to forcing investors to buy low or negative yielding investment products through incentives such as those given to insurers to buy Government debt for prudential reasons (as Solvency II requires no minimum/solvency capital requirements for such assets. Whereas austerity measures can to some degree keep debt in check, it can also easily choke recovery. This means that the debt must either be written off (not a palatable prospect for any politician) or slowly inflated away.

This last option is particularly effective at liquidating debt but penalises creditors and pension savers most. Following the massive monetary stimulus measures deployed in response to the Coronavirus crisis, Governments will implement policies to redirect funds to the State's coffers that in a free market environment would go elsewhere. The least conspicuous Financial Repression method to achieve this is to get Central Banks to massively purchase sovereign bonds on secondary markets through the quantitative easing campaigns we are now familiar with.

Another is by requiring banks and insurers to hold government debt via prudential rules and capital requirements and restricting the transfer of assets abroad, or by prohibiting or discouraging the use of alternatives.

The combined effect is to reduce interest rates on sovereign debt, bringing about negative real interest rates across the board, and even often negative in nominal terms.

A Grey Future for Retirees

In effect Financial Repression and quantitative easing will lead to price increases by spilling more monetary mass into the economy, thus stimulating demand and creating inflation while debts remain nominally the same, thereby losing value in real terms. Debts are essentially eliminated by means of inflation whereas citizens lose purchasing power (without being properly informed bout this) and are partially stripped of their financial means in the process. Governments and financial intermediaries are exploiting to the maximum extent the cognitive bias of citizens known as "monetary illusion".

Finally, with interest rates at historical lows, the vast Corona-induced fiscal and monetary stimulus packages no longer leave any doubt to the fact that financial repression is here to stay and will deepen, with negative or close to zero real interest rates becoming the norm for many years to come.

This unprecedented money creation, combined with tensions in the logistics chains that are developing right now, are **likely to generate a significant upsurge in asset prices, further eroding the purchasing power of pension savings and income**.

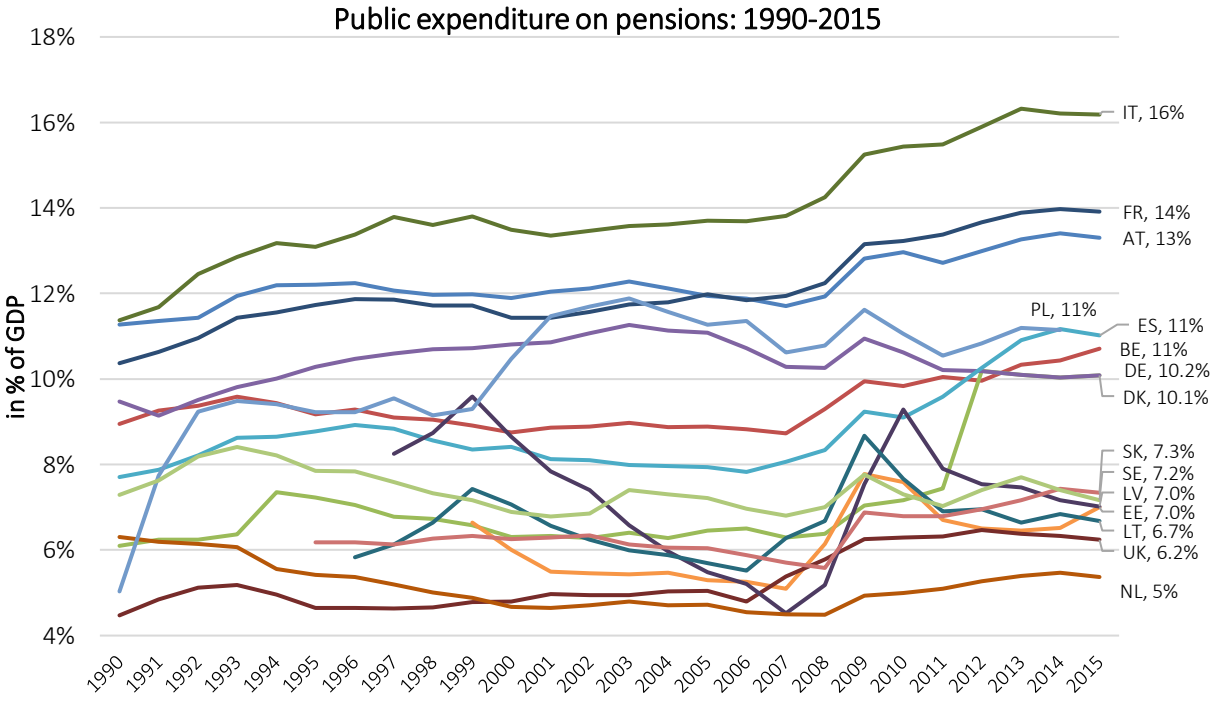
Guillaume Prache

Corona Pensions: Growing Strains on Public Pension Expenditure

Current public pension expenditure and debt accumulation may pose significant strains on Governments providing an adequate retirement income in the future. Estimated bankruptcies and growing unemployment figures will also weigh heavily on public pensions since most EU Member States redistribute today's contributions as pension benefits to today's pensioners (Pay-As-You-Go, PAYG).

Most countries covered by this report (excl. BG, HRV, RO for which there is no data) have significantly increased public expenditure on pensions in the 25-year period between 1990 and 2015: with an average of 2% increase, Poland (6%), Italy (4.81%) and Denmark (4%) have increased most, whereas Sweden (-0.12%), Netherlands (-1.24%) and Latvia (-0.93%) have reduced public spending on pensions (see graph below).

Considering the demographic challenges faced by most EU countries, and in some cases the mass migration of the workforce, coupled with increased life expectancy at retirement, state budgets will come under more and more pressure in the future to pay out an adequate replacement income at retirement. However, this is less problematic in countries where private pension schemes have high values (Netherlands, Denmark) compared to others where the pension portfolios of private retirement vehicles do not exceed 15% of the GDP.



Source: BETTER FINANCE own composition based on OECD data; more recent stats are not available for all countries analysed

Current pension savers suffer from the economic contraction, with many losing jobs or part of their revenue. The current recession is expected to trigger generalised deeper decreases of

income per capita "in the largest share of economies since 1870", with unemployment rates climbing "to the highest level since 1965".[6] In turn, this affects future pension pots as at least public[7] and private retirement contributions[8] decreased or temporarily ceased. However, in most EU Member States, such as Belgium, public policy response focused either on deferring contributions or reducing the contribution base to keep companies afloat and retain their workers in paid employment.

For instance, a law of 7 May 2020 tabled by the Belgian Federal Government offered employers the possibility to continue the social, health insurance and pension plan coverage of their employees by deferring payments until the 30th of September 2020.[9] Moreover, measures allowing retired healthcare personnel to cumulate temporary remunerations with legal pension were also adopted.[10]

[6] Ayhan Kose, Naotaka Sugawara, 'Understanding the Depth of the 2020 Global Recession in 5 Charts' (World Bank Blog, June 15 2020) available at: https://blogs.worldbank.org/opendata/understanding-depth-2020-global-recession-5-charts.

[7] See for instance Feher, de Biedegain, 'Pension Schemes in the COVID-19 Crisis: Impact and Policy Considerations (n 4).

[8] See also the Public Statement by PensionsEurope, according to which "*The cash flow issues impact* […] *possibly more so as in DC plans the contributions required are based on salaries which are being reduced or not paid*" – PensionsEurope, 'Statement on the COVID-19 Crisis 2020' (9 April 2020), available at: https://www.pensionseurope.eu/system/files/PensionsEurope%20Statement%20-%20COVID%2019%20CRISIS%202020%20%20-%20FINAL%20-%202020-04-09.pdf.

[9] Cecile van Huffel, 'L'Impact du COVID-19 sur les Pensions' (EY.com, 5 June 2020) available at : https://www.ey.com/fr_be/alerts/l-impact-du-covid-19-sur-les-pensions.

[10] Carine Govaert, 'Covid-19 : Décumul des Revenus COVID-19 et des Pensions Jusque Fin Août' (Wolters Kluwer Legalworld) available at : https://legalworld.wolterskluwer.be/fr/nouvelles/moniteur/covid-19-decumul-des-revenus-covid-19-et-des-pensions-jusque-fin-aout/; see also EY Belgium People Advisory Services, 'COVID-19 and the State Pensions' (19 May 2020) available at: https://www.ey.com/en_be/tax/tax-alerts/covid-19-and-the-state-pensions.

Net pension replacement rate evolution 2014-2018				
	2014	2016	2018	Δ'14-'18
Austria	92%	92%	90%	-2%
Belgium	61%	66%	66%	5%
Bulgaria		89%	89%	0.4%
Croatia		129%	54%	-75%
Germany	50%	51%	52%	2%
Denmark	66%	80%	71%	5%
Estonia	60%	57%	53%	-7%
France	68%	75%	74%	6%
Italy	80%	93%	92%	12%
Lithuania		71%	31%	-40%
Latvia		60%	54%	-5%
Netherlands	96%	101%	80%	-16%
Poland	53%	39%	35%	-18%
Romania		52%	42%	-10%
Slovakia	81%	84%	65%	-16%
Spain	90%	82%	83%	-6%
Sweden	56%	55%	53%	-2%
UK	29%	29%	28%	-0.1%
EU28	**71%**	**71%**	**64%**	**-7%**

Source: BETTER FINANCE composition based on OECD data

In two thirds of jurisdictions covered by this report, and at EU28 level, replacement ratios have decreased between 2014 and 2018, meaning that pensions decrease compared to the level of pre-retirement income.

BETTER FINANCE believes that the increased strains on public pension budgets will convert into a further decrease of the pension income replacement rate. And it will be challenging to fill the gap through voluntary pension income, as analysed by this report.

Edoardo Carlucci

Corona Pensions: Social Bonds to the Rescue?

Besides unprecedented unemployment levels and decreasing income per capita, COVID-19 leaves huge gaps in States' coffers. Efforts to compensate activity shutdowns and increasing healthcare costs are limited by burdened public finances. However, sustainable finance can offer a win-win solution for society and pension savers, particularly through social bonds: it can gather the available savings of "retail" investors to boost economic recovery.

The sustainable finance trend, integrating **E**nvironmental, **S**ocial, and **G**overnance (ESG) considerations into the investment process, has taken off for some years. Non-Governmental Organisations' reports show increasing interest of "retail" investors for ESG-issuances, in particular for those delivering a positive impact (*impact investing*) to the environment and society.

In terms of debt financing to speed up recovery, one instrument stands out: *social bonds*. The International Capital Markets Association (ICMA) issued voluntary guidelines and principles for the issuance of social bonds by both public and corporate actors. According to the said guidelines, a social bond has a specific purpose to finance projects that address social issues such as employment or avoidance of unemployment, reduction of income inequality or better integration of target groups in the market and society. Among the target groups, examples include the unemployed or aging populations.[11] As such, the current socioeconomic challenges faced by most EU countries could be helped to overcome through the issuance of social bonds. Industry reports show that, although trailing behind, social bonds are gaining momentum in tandem with green bonds.[12]

So far, the main social bond issuers were public authorities and supranational authorities, with 77% of the total issuance up to mid-2019, followed by corporate (21%) and private (2%) issuers.[13] Due to the global health crisis, social bond issuance increased five-fold from €5.5 billion in April 2019 to €30.4 in April this year. Among the largest issuers of social bonds in response to the Coronavirus pandemic were the Regional Authority of Madrid (€52 mln in April),[14] the European Investment Bank (€2 bln in April and May) or the IBRD (€3 bln in April).[15]

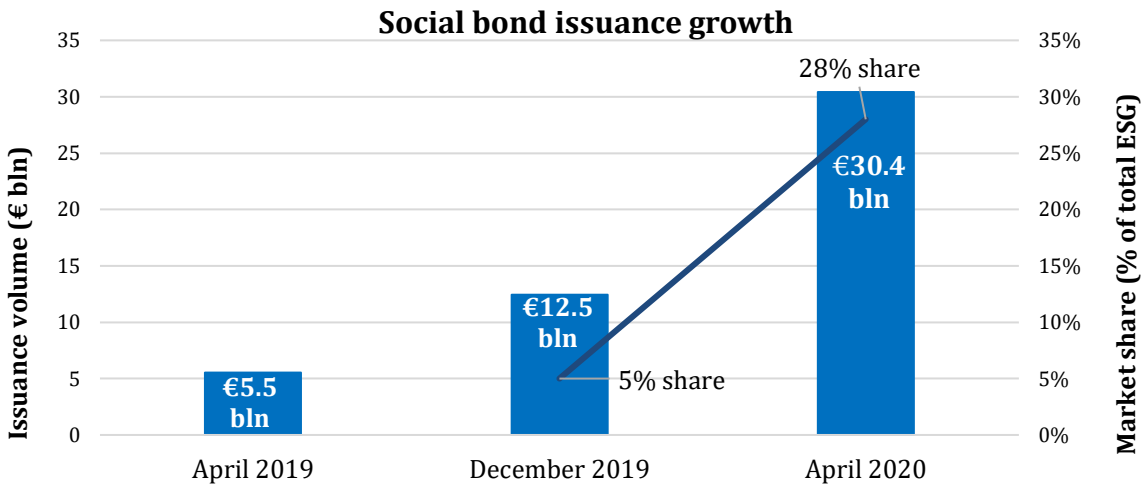
[11] International Capital Markets Association. 'Social Bond Principles: Voluntary Process Guidelines for Issuing Social Bonds' (June 2020) ICMA, available at: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf;

[12] See Nadege Tillier, Benjamin Schroeder, 'Green Bonds Fade with Social Bonds' (ING.com, 8 July 2020) available at: https://think.ing.com/articles/sustainable-finance-green-bonds-fade-social-bonds-flare/; Natalie Kenway, 'Covid-19 Fuels Social Bond Issuance: Will They Overtake Green Bonds in 2020?' (ESGclarity.com, 2 June 2020), available at: https://esgclarity.com/covid-19-fuels-social-bond-issuance-will-they-overtake-green-bonds-in-2020/.

[13] Agnes Gourc, 'Social Bonds: The Next Frontier for ESG Investors' (CIB.Bnpparibas.com, 23 July 2019) BNP Paribas, available at: https://cib.bnpparibas.com/sustain/social-bonds-the-next-frontier-for-esg-investors_a-3-3005.html.

[14] Elisabet Furio, 'MAPFRE, the Autonomous Community of Madrid and BBVA Issue Spain's First Social Bond Against the Coronavirus' (BBVA.com, 24 April 2020) available at: https://www.bbva.com/en/mapfre-the-autonomous-community-of-madrid-and-bbva-issue-spains-first-social-bond-against-the-coronavirus/

[15] BNP Paribas, 'COVID-19 Response: Led or Supported by BNP Paribas' (Cib.bnpparibas.com, 7 May 2020), available at: https://cib.bnpparibas.com/documents/covid-19-response-bonds.pdf.



Source: BETTER FINANCE own composition based on BNPP data[16]

According to the pre-cited sources, Europe held a leading position in issuance of social bonds, with 67% of the global issuance in 2019. The main issue for institutional investors to take up more social bonds is the reduced liquidity, which makes them riskier. However, social bonds often provide better yields than traditional sovereign or corporate bonds: for instance, almost all social bonds listed on the Luxembourg Stock Exchange have positive (and quite high) yields compared to the already-usual negative rates practiced with traditional sovereign bonds.[17]

Therefore, this specialised part of sustainable debt finance could be a significant factor in speeding up economic recovery and to improving the returns on bond exposures of pension products.

[16] See Ibid; see Agnec Gourc, 'Capital Markets and COVID-19: Have Social Bonds Come of Age?' (Cbi.bnpparibas.com, 7 May 2020) BNP Paribas, available at: https://cib.bnpparibas.com/sustain/capital-markets-and-covid-19-have-social-bonds-come-of-age-_a-3-3503.html.

[17] See here the list of the 46 social bonds traded on the LSE: https://www.bourse.lu/lgx-displayed-international-bonds?bonds=social.

POLICY RECOMMENDATIONS

Non-toxic, transparent, comparable, and simple long term and pension savings products

Unfortunately, again this year, most of the BETTER FINANCE's 2017 and 2018 recommendations remain valid for the 2019 edition of the Report.

1. Provide simple, intelligible and comparable reporting on pension products across the EU.

National and EU supervisory authorities must improve disclosure and report on the costs and net past performance (at least) of all the long term and pension saving products in their scope.

2. Tell the EU citizen the whole truth

Disclosing the net asset value (NAV) is not enough, neither is it intelligible for the average pension saver. Therefore:

- performance disclosure must be made in relative terms (%) and with cumulative effects (compound returns), and in gros, net and real net terms;
- key mandatory disclosures and public authorities' reporting must cover at least 20 years, to reflect the long-term nature of these products period as

3. Restore and standardize relative past performance disclosure for all long-term and retirement savings products.

The EU must re-instate standardised disclosure of past performance of "retail" investment products compared to objective market benchmarks.

4. Improve EIOPA's report on cost and performance of retail investment products.
5. Ensure that the PEPP truly represents an "EU quality label" product
    - *Fee cap*: ensure that the basic PEPP fee limitation to 1% covers all direct and indirect costs;
    - *Capital guarantee*: the notion of "capital" must be calculated on the basis of the amounts saved before the deduction of all accumulated fees, charges and expenses directly or indirectly borne by investors and, if possible, in real terms
6. Simplify, standardise and streamline the range of product offerings:

BETTER FINANCE recommendations concerning the product offerings are:

- Restrict the use of non-UCITS funds (the 20,000 or so "AIFs") in all packaged long-term and pension products promoted to savers and individual investors, and in particular in the future PEPP;
- Reduce and consolidate the excessive number of UCITS on offer in the EU;
- ESAs to ensure EU individual investors have full access to low fee investment products such as shares, bonds and index ETFs

7. Better align the pricing of investment products with the interests of savers and end biased advice at the point of sale[18] and guarantee competent advice on long-term investments, including equities and bonds.

[18] The 2018 EC Study on retail investment products confirmed BETTER FINANCE's findings, i.e. that investment products are not bought but sold, and that an average individual investor is not able to differentiate between the benefits and risks of different types of advice, often believing that advice

8. Improve the governance of collective schemes:
9. Establish EU-wide transparent, competitive and standardised retail annuities markets:
10. Grant special treatment by prudential regulations to all long-term & pension liabilities allowing for an adequate asset allocation.
11. Use tax to incentivise Pan-European long-term retirement savings and investments over consumption and short-term savings.
12. Improve the rules and requirements for automated investment advice on criteria that comply with the legislation (MiFID II) with regards to the investment advice process, in order to ensure a harmonised, minimum level of quality.
13. Improve financial literacy: introduce financial mathematics' basics as part of school curricula.
14. Sustainability
    - Develop a clear, precise and common **taxonomy** established on science and facts (not on emotions and ideologies);
    - Develop **a well-designed EU-wide Ecolabel** for retail investment products,
    - **Address the short-termism in retail investment products.**

provided by non-independent advisors via banks and insurers is "free" (unaware of incentive schemes and potential conflicts of interests).

Pension Savings: The Real Return

2020 Edition

Country Case: Austria

Summarisch

Rund 90% des durchschnittlichen Alterseinkommens in Österreich stammen aus dem öffentlichen Pensionssystem. Damit ist die Altersvorsorge sehr stark auf die erste Säule konzentriert. Die betriebliche Altersvorsorge wird in erster Linie von Pensionskassen und Versicherungsunternehmen getragen. Direktzusagen sind ein alternatives Instrument deren Nutzung seit Jahren stagniert. Die Möglichkeit für beitragsorientierte Pensionspläne in Pensionskassen und über Versicherungen hat die Verbreitung der betrieblichen Altersversorgung in Österreich gestärkt. Während betriebliche Formen der Altersvorsorge im Laufe der Zeit beliebter wurden, dämpften niedrige Zinssätze und die hohe Liquiditätspräferenz die Nachfrage nach individuellen Lebensversicherungsverträgen. In den Jahren 2002 bis 2019 war die Performance der Pensionskassen real und nach Abzug der Verwaltungskosten positiv. Die annualisierte Durchschnittsrendite lag bei 1,4% vor Steuern. Die Lebensversicherungsbranche verfolgt eine deutlich konservativere Anlagepolitik und erzielte eine durchschnittliche reale Nettorendite vor Steuern von 2,1% pro Jahr.

Summary

With around 90% of the average retirement income received from public pension entitlements, the pension system Austrian is very reliant on the first pillar. Occupational pensions are primarily offered through pension funds and insurance companies. Direct commitments are an alternative vehicle, but their usage stagnates. The option for defined contribution (DC) plans with favourable tax treatment offered by pension funds and insurance contracts definitely boosted the occupational pensions in Austria. While occupational pensions have become more popular over time, low interest rates and a high liquidity preference dampened demand for individual life insurance contracts. Over the years 2002 through 2019, the performance of pension funds in real net terms has been positive, with an annualised average return of 1,4% before tax. The life insurance industry followed a distinctly more conservative investment policy and achieved an average annual net real return before tax of 2.1%.

Summary Table Austria. Annualised Performance for Various Holding Periods (in %)

	Holding period	Nominal return before charges, inflation, and tax	Nominal return after charges, before inflation and tax	Real return after charges and inflation before tax
Pension	In years		In %	
	1 year	11.79	11.54	10.05
	3 years	4.02	3.81	1.85
	5 years	3.71	3.51	1.98
	7 years	4.49	4.30	2.70
	10 years	4.30	4.09	2.18
	Since	3.55	3.30	1.40
Pension				
	1 year	2.84	2.47	0.98
	3 year	3.14	2.78	0.84
	5 year	3.42	3.06	1.54
	7 year	3.61	3.27	1.67
	10 year	3.79	3.44	1.54
	Since	4.32	3.96	2.09

S: Compare Tables AT5 and AT6. Annualised performance corresponds to geometric mean over the holding period.

Conclusions

The performance of pension funds in real terms has been positive over the whole period from 2002-2019, with an annualised average real return of 1.4% after service charges and before taxation. Especially the difficult years after 2000, in 2008, 2011, and recently 2018 dampened the investment performance considerably. The consequences are either additional payments by sponsoring firms (defined benefit plans) or reduced expected and realised pension levels (defined contribution plans). A mediocre investment performance will be more intensively felt in risk and investment pools with a high imputed interest rate used for the computation of the expected pension level. For example, plan members whose entitlement was transferred from a direct commitment to a pension fund around the year 2000 still suffer from investment losses after the dotcom bubble because overly optimistic imputed interest rates had been used at that time.

The average real rate of return on investments by insurance companies benefits from a conservative asset allocation with strong government bonds holdings. This allowed insurers to avoid large losses in years with a financial market crisis and reach an average real rate of return of 2.1% annually after service charges and before taxation. The net nominal rate of return, however, declines since the beginning of the public debt crisis in Europe in 2012. Higher inflation after 2015 increased the pressure on net real rates of return. Insurance companies benefit from the long duration of their investment portfolio, i. e. they still own bonds featuring high interest coupons, but these bonds will expire during the next few years creating a potential for low yield reinvestments. Consequently, demand for classic life insurance by individual households is shrinking and even premium subsidised pension insurance is in low demand now because subsidies were halved in 2012 and investment losses, due to the concentrated investment in small and under-developed markets, affected this vehicle disproportionally.

The opportunity to offer defined contribution plans has certainly boosted the spread of occupational pensions in Austria. Within pension funds around three quarters of the entitlements are defined contributions plans, while occupational pensions based on insurance contracts are all of the defined contribution type.

Note: The addition of the Austrian Country Case was possible also thanks to our partners from Pekabe (the Austrian Association for the Protection of Pension Fund Investors), who reviewed the Country Case and co-funded it with BETTER FINANCE.

Pension Savings: The Real Return

2020 Edition

Country Case: Belgium

Sommaire

En Belgique, le système de retraite est constitué de trois piliers. Le premier pilier par répartition reste le plus important des trois piliers. Les retraités bénéficient d'un taux de remplacement moyen de 66.2% en 2018. Les piliers 2 et 3 représentent les pensions complémentaires professionnelles et individuelles basées sur les cotisations volontaires des individus. Le nombre d'individus couverts par les véhicules de placements dans ces deux piliers continue de croître rapidement. Respectivement 75% et 66% de la population active est couverte par ces deux piliers. Dans chacun de ces piliers, les véhicules de placements peuvent être soit un fonds géré par une IRP dans le pilier 2 ou une banque dans le pilier 3 ou soit un contrat d'assurance groupe dans le pilier 2 ou un contrat d'assurance vie individuelle dans le pilier 3.

Sur une période de 20 ans (2000-2020), les fonds de pension gérés par les IRP (pilier 2) et les fonds d'épargne retraite (pilier 3) ont eu un rendement réel annuel moyen après charges de 2,14% et 1,78% respectivement. Au sein du pilier 2, tous les fonds à contributions définies gérés par les IRP et tous les contrats d'assurance groupe Branche 21 doivent verser un rendement minimum garanti de 1,75% sur les cotisations des employeurs et des employées. Avec la baisse des rendements des obligations d'Etat à 10 ans, les sociétés d'assurance ont revu à la baisse le rendement minimum garanti offert sur les nouvelles cotisations versées sur les contrats d'assurance groupe Branche 21. Cependant, les sociétés d'assurance continuent de garantir les anciens rendements sur les cotisations passées jusqu'au départ à la retraite. Les provisions passées sont toujours rémunérées avec des rendements garantis oscillant entre 3.25% et 4.75%. En 2015, le rendement garanti moyen était légèrement supérieur à 3%. En raison, du manque d'informations publiques, il est plus difficile de fournir des informations sur les rendements des contrats d'assurance-vie individuels souscrits dans le cadre du pilier 3.

Summary

The Belgian pension system is divided into three pillars. The first PAYG pillar is still important among the three pillar and provides on average a replacement rate of 66.2% in 2018. Pillar II and Pillar III are both based on voluntary contributions. Numbers of individuals covered by pillar II and pillar III pension schemes continue to grow rapidly. Respectively 75% and 66% of the active population is covered by these pillars. In both pillar II and pillar III, pension scheme can take the form of a pension fund (managed by an IORP in pillar II and by a bank in pillar III) or can be an insurance contract ("Assurance Groupe" contracts in pillar II and individual life-insurance contracts in pillar III).

Over a 20-year period (2000-2020), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) had annualized real performance after charges of 2.14% and 1.78% respectively. Within the pillar II, all Defined Contributions plans managed either by IORP and "Assurance Groupe "Branch 21 contracts are required to provide an annual minimum guaranteed return of 1.75% on both employee and employer contributions. With the decline in the return on the Belgian 10-year government bonds, insurance companies were forced to decrease the minimum guaranteed return offered to new contributions on "Assurance Groupe" Branch 21 contracts. However, insurance companies continue to guarantee the previous returns on the past contributions until the retirement. Past reserves continue to have guaranteed returns range from 3.25% to 4.75%. In 2015, the average guaranteed return was slightly above 3%. Due to a lack of information, it is more difficult to provide return information on individual life-insurance contracts subscribed in the framework of pillar III.

Summary Table - Real net returns of Belgian pension vehicles					
	Pillar II		Pillar III		
	IORP	"Assurance Groupe Branch 21"	Pension savings funds	Life Insurance Branch 21 contracts	Life Insurance Branch 23 contracts
2019	14.19%	na	14.30%	na	na
2017-2019	3.75%	na	2.49%	na	na
2013-2019	4.82%	na	4.62%	na	na
2010-2019	4.52%	na	3.62%	na	na
Since	2019: 2.14%	2002-2014: 2.59%	1994-2019 (source BeAma): 6.56%	2002-2014: 1.99%	2002-2014: 1.64%

Source: Belgium country case (main Report)

Conclusions

Belgians are encouraged to save for their retirement in private pension vehicles. In 2003, the implementation of the Supplementary Pensions Act defined the framework of the second pillar for sector pension plans and supplementary pension plans for self-employed individuals. The number of employees covered by occupational pension plans keeps rising as well as the number of self-employed individuals covered by supplementary pension plans.

Measures to guarantee the sustainability and social character of the supplementary pensions were enforced in January 2016:

- The guaranteed minimum return on contribution was lowered to 1.75% for both employee and employer contributions. This return will be revised according to an economic formula considering the evolution of government bond yields in the future;
- The supplementary pension age and the legal pension age were aligned;
- Beneficial anticipation measures granted to employees when they claim their supplementary pension before the legal age were abolished.

Over a 20-year period (2000-2019), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) had a real annualised performance before taxation of 2.14% and

1.78% respectively. These funds offer returns linked to the performance of the underlying assets. Unlike insurance companies, asset management companies are less constrained in their asset allocation and can more easily benefit from potential increases in markets.

Assuralia reported some information on “Assurance since 2015 Groupe” contracts on its website. In 2015, “Assurance Groupe” Branch 21 contracts offered on average nearly 3.5% of return (including profit share) and “Assurance Groupe” Branch 23 contracts offered a return close to 4%. Nevertheless, we do not have any information on return for “Assurance Groupe” and individual life-insurance contracts within the third pillar since 2014

Pension Savings: The Real Return

2020 Edition

Country Case: Bulgaria

Executive Summary (English)

With the average public pension dangerously close to the official poverty line, Bulgarians place hope on Pillar II pensions to supplement their retirement income as early as 2021, when the first cohort of women, born in 1960, become eligible for pensions from universal pension funds. Whether these hopes will come true, depends crucially on the long-term real return pension savers receive in their accounts. Yet, long-term real returns are neither calculated, nor published in Bulgaria. This report fills in the gap of evaluating long term pension funds' performance from the viewpoint of the pension saver. The main findings are as follows:

1) Pension savers in Bulgaria receive low returns.

2) Bulgarian pension funds of all types - universal, voluntary and professional - have underperformed a simple benchmark portfolio with comparable investment strategy.

3) For pension savers to count on a supplemental pensions from universal pension funds, the return on their accounts needs to exceed the growth rate of the average insurable income in Bulgaria .

The three-pillar pension system is failing pension savers in Bulgaria by delivering miniscule real returns, resulting in a reduction of retirement income for participants in universal pension funds.

Резюме

Дългосрочната реална доходност, която осигурените в пенсионни фондове фактически получават по партидите си, е критично важна за тяхната способност да натрупат средства и да теглят пенсии в бъдеще. Въпреки това, тази доходност не се публикува в България. Приносът на този доклад е в оценката на дългосрочното представяне на пенсионните фондове от позициите на осигурените. Основните резултати са както следва:

1) Фактическата доходност, получавана от осигурените, трябва да се изчислява по парично претегления метод.

2) Българските пенсионни фондове – универсални, професионални и доброволни – показват резултати, по-ниски от тези на прост бенчмарк със съпоставима инвестиционна стратегия.

3) За да разчитат на допълнителна пенсия от УПФ, осигурените трябва да получават по партидите си доходност, надхвърляща темпа на нарастване на средния осигурителен доход за страната

Тристълбовата пенсионна система в България проваля осигурените, като носи мизерна дългосрочна доходност и намалява пенсионния доход на мнозинството, осигуряващи се в УПФ.

Table BG2. Annualized Time-Weighted Returns						
	Universal pension funds			Voluntary pension funds		
Holding period	Gross Returns	Nominal Net Returns	Real Net Returns	Gross Returns	Nominal Net Returns	Real Net Returns
1 year (2019)	5.9%	4.7%	1.7%	7.1%	6.1%	3.0%
3 years (2017-2019)	2.6%	1.4%	-0.9%	3.2%	2.4%	0.1%
7 years (2013-2019)	3.6%	2.1%	1.7%	4.4%	3.5%	3.1%
10 years (2010-2019)	3.9%	2.2%	1.1%	4.5%	3.6%	2.4%
Since 2002	4.1%	1.6%	-0.9%	4.4%	3.0%	-0.1%

Source: Bulgarian country case (main Report)

Conclusion

Pension savings real returns are of crucial importance for the accumulation of capital and, hence, for the size and adequacy of pensions to be expected from defined contribution schemes. Yet, pension savings money-weighted real returns are neither calculated nor published in Bulgaria. This report is the only source, documenting the real pension savings returns across pension vehicles, available in Bulgaria, for the 2002-2019 period.

With the pay-as-you-go pension pillar in Bulgaria under financial stress and the universal pension funds being the default option for employees born after 1959, the defined contribution pillars are growing in importance in securing adequate pensions for future retirees. However, as the analysis of the real return of pension funds from 2002 to 2019 illustrates, with very low real returns in universal pension funds and no real returns in voluntary pension funds, the task of providing Bulgarians with adequate pensions and old age security is proving beyond reach.

Pension fund charges in Bulgaria are limited in number, capped by law and transparent. They have proved, however, too high a hurdle for fund managers across all pension vehicles to overcome and deliver market-like long-term returns.

Bulgarians can choose whether to contribute to universal pension funds but if they do, they don't have a choice as to how their savings are to be managed. Their contributions are invested irrespective of their individual time horizon and risk tolerance, which indicates that perhaps a majority of the Bulgarians invest their pension savings in unsuitable portfolios.

Universal pension funds – by far the largest pension vehicle by number of participants and assets under management – is detrimental to pension savers interests as it cannot generate the returns needed to ensure a supplemental pension and on the contrary, will reduce the pension income of future retirees as two pensions in Bulgaria are less than one.

Policy Recommendations:

The analysis above substantiates the conclusion that the partial privatization of the state Social Security system has failed in Bulgaria as elsewhere. Besides, the legislation governing private pension funds is primitive, and not in line with generally accepted practices of managing other people's money. We, therefore, suggest two steps to reform the Bulgarian pension system if it is to serve pension savers' interests.

Step 1: Reverse the 2000 pension privatization completely by:

a) directing the entire mandatory contribution for all to the State pension fund from a future date (e.g. 1 January 2022).
b) giving participants in universal pension funds the option to transfer their accounts to the Government fund for stabilization of the pension system. This option should be limited to a reasonable period of time, such as 18 or 24 months. Those who transfer their UPF accounts avoid the reduction of their state pension entitlement.
c) Merging the remaining universal pension fund accounts into the voluntary pension funds.

This step will ensure that no state pension will be reduced and everyone, contributing to a pension fund will receive a supplementary pension, funded by truly supplementary contributions over and above the mandatory pension contribution.

Step 2: Upgrade the private pension funds regulation in Bulgaria and bring it up to the best practices in the asset management area as follows :

a) Benchmarks: Require pension funds to announce in advance a benchmark, according to which the portfolio will be managed and to report the one-, 3-, 7-, and 10-year historical performance against this benchmark. This will facilitate pension savers' choice of pension funds.
b) Suitability: Require pension companies to offer multiple investment options with different risk and expected return characteristics and, ideally, target-date portfolios with pre-announced gliding paths as a default option. Pension companies need to assess the suitability of the portfolios for each individual client along the lines the MiFID II requirements.
c) Competition: Break the oligopoly of pension companies in Bulgaria. Every firm, licensed to manage assets and duly supervised, such as banks, insurance companies, asset management companies etc., should be allowed to manage clients' "pension accounts" in compliance with the Social Insurance Code. The notion of a "pension fund" should be abolished and replaced by a "pension account". It is hoped that competition will reduce fees and charges more effectively than legal caps.
d) Competency: Subject pension insurance intermediaries (sales people) to relevant and proportional knowledge and competency requirements, modeled after those MiFID II imposes on investment advisors.

e) Annuities: Incentivize insurance companies to offer annuity products. Give pension savers, approaching retirement, the option to purchase an annuity from any licensed provider and not be tied to the company, where they held their pension account during the accumulation phase.

Only by introducing competition in the pensions sector and imposing suitability requirements on pension account providers, can the average Bulgarian hope that his or her interests will be adequately served.

Pension Savings: The Real Return

2020 Edition

New Country Case: CROATIA

Croatian summary

Hrvatska je stvorila tipični mirovinski sustav s tri stupa, gdje se državni organizirani mirovinski stup na temelju PAYG-a (preraspodjela doprinosa radno sposobnog starijeg stanovništva) nadopunjuje obveznim financiranim mirovinskim sustavom (II. Stup) i subvencionira se (izravno kao i neizravno) dobrovoljni mirovinski sistem štednje (III. stup).

Povećavajući omjer obuhvata radnog stanovništva od strane II. stub nadoknađuje slaba pokrivenost unutar III. stup. To bi moglo donijeti rastući problem niskog životnog standarda za umirovljenje populacije u budućnosti, jer I. stup pruža samo 30% stopu zamjene, a preostala dva stupa neće moći dodati značajne izvore za pojedince tijekom umirovljenja. Iako su izvedbe oba financirana stupa prilično solidne, prilično mali doprinosi i nizak omjer pokrivenosti III. Stup postavlja pitanja o adekvatnosti mirovinskog sustava u Hrvatskoj.

Summary

Croatia has created typical 3-pillar pension system, where the state organized pension pillar based on PAYG (redistribution of contributions from working to elderly population) is supplemented by mandatory funded pension scheme (II. pillar) and subsidized (directly as well as indirectly) voluntary pension saving scheme (III. pillar).

Increasing coverage ratio of working population by the II. pillar is offset by low coverage within the III. pillar. This might bring the increasing problem of low living standard for retiring populutation in future as the I. pillar provides only 30% replacement rate and remaining two pillars will not be able to add significant sources for individuals during retirement. Even if the performance of both funded pillars is quite solid, rather small contributions and low coverage ratio of the III. pillar rises questions about the adequacy of the pension system in Croatia.

Summary Returns Table. Croatian pension system				
	Mandatory Pension Funds		Voluntary Pension Funds	
Holding Period	Net Nominal Performance	Real Net Performance	Net Nominal Performance	Real Net Performance
1-year	9.32%	8.06%	9.83%	8.57%
3-years	5.85%	4.68%	4.75%	3.58%
5-years	7.04%	6.25%	5.58%	4.79%
7-year	6.38%	5.77%	5.69%	5.07%
10-years	6.16%	4.91%	5.83%	4.58%
Since inception	5.58%	3.59%	5.86%	3.88%

Source: Croatian country case (main Report)

Conclusions

Croatian pension system offers rather low replacement rates from the state organized I. pillar. This leaves the working population to rely on individual savings and thus the importance of mandatory as well as voluntary pension savings will rise over time and will play a significant role of one´s income during the retirement.

Mandatory as well as voluntary pension funds have provided the savers with solid returns over the last 17 years. II. pillar is compulsory for the working population and thus the coverage ratio will be expected to rise in future. The problem could be seen in rather low coverage ratio within the III. pillar, where only 12% of working population saves for retirement.

Policy considerations

Understating weak points of Croatian pension system (low coverage ratio and relatively low contribution rates for funded schemes), the pension system could be improved by:

1. allowing for additional voluntary contributions for mandatory pension pillar on top of 5% contribution rate envisaged by the current law as the II. pillar offers quite solid performance with low cost ratio;
2. increase indirect state support and further enhance the tax exemption for III. pillar contributions in order to increase the coverage ratio.

Overall, the performance of Croatian pension funds could be considered solid, compared to other peers in other countries. However, the performance is driven mostly by bond yields of domestic issuers, which would not hold for the longer period.

Pension Savings: The Real Return

2020 Edition

Country Case: Denmark

Danish Summary

Det danske pensionssystem er et veludbygget 3-søjle-system. De tre søjlers betydning har gradvist ændret sig i løbet af de sidste 30 år. PAYG-systemet i søjle 1 (folkepensionen) er fortsat den væsentligste indkomstkilde for de fleste pensionister, men arbejdsmarkedspensionerne spiller en stadig større rolle. Mere end 80 pct. af arbejdsstyrken er medlem af en eller flere arbejdsmarkedspensioner. Den gennemsnitlige dækningsgrad forventes at stige i de kommende år fra det nuværende niveau på ca. 3/4.

Det danske pensionssystem er karakteriseret ved en høj grad af forudgående opsparing og ved en klar arbejdsdeling mellem de offentlige, skattefinansierede pensioner og de private, opsparingsbaserede pensionsordninger. Den samlede pensionsopsparing udgør 4.430 mia. DKK eller næsten det dobbelte af BNP.

De danske pensionskasser har klaret sig pænt igennem den finansielle krise og perioden med lavt renteniveau. Selv om den sidste tiårsperiode startede med betydelige tab, har de følgende år mere end kompenseret for disse tab. Og selv om væksten og renteniveauet har været lavt, så har den private pensionsformue I perioden fra 2007 til 2018 opnået en akkumuleret real forrentning på ca. 50 pct. Det svarer til en realrente på ca. 4 pct. om året. [Det samlede investeringsafkast for 2018 var negativt (-3,1 %) med tab for næsten alle aktivklasser. Den politiske situation med handelskrig mellem USA og Kina og Brexit påvirkede markederne i negativ retning og resulterede i samlede tab på investeringer, typisk på mellem -1 og -5 pct. De største investeringstab fik de markedsrentebaserede pensionsordninger, mens de garanterede pensionsordninger typisk opnåede et resultat på lige under nul. Det illustrerer en mere forsigtig investeringspolitik for de garanterede produkter.

Der er endnu ikke offentliggjort tal for 2020, der dog igen viste særdeles pæne stigninger over hele linjen. En fremgang der fortsatte i de første måneder af 2020 indtil verdensøkonomien blev ramt af Covid-19, som resulterede i et betydeligt fald, der dog viste sig at hurtigt at vende igen. Hvad året samlet vil resultere i er endnu uvist.

Summary

The Danish pension system is a well-established 3-pillar system. The role of the pillars has changed gradually within the last 30 years. The PAYG- system of Pillar I still provides the basic income for most elderly, but occupational DC pension schemes play an increasingly important role. More than 80% of the Danish labour force is enrolled in one or more occupational schemes.

The average replacement ratio is expected to increase in the years to come from today's level at around 75%.

The Danish pension system is characterized by a high degree of funding and clear roles for the tax-based public pensions of Pillar I and the privately funded pensions. The total value of funded pension schemes exceeds €593 billion,[19] or almost than twice the Danish GDP.

The Danish pension funds have managed the financial crisis and the low interest rate environment rather well. Although the last decade started out with substantial losses, the following years more than compensated for these losses. Although it has been a decade of low interest rates and low economic growth, money invested in a private pension scheme in 2007 has, on average, accumulated a real return of approximately 50% by 2018 (an average real return after tax of around 4% a year). The investment return for the sector in total for 2018 is negative (-3,1%) with a general negative return for almost all asset groups. Political topics such as the relations between the USA and China and Brexit have had a negative impact on the markets, resulting in overall losses – typically between -1% to -5% - for 2018. The greater losses were in market rate-based schemes with no guarantee while the investment return for guaranted DC-schemes typically was just below zero, illustrating a more cautious investment policy for guaranteed products.

The figures for the investment return for the sector in total for 2019 are not yet available but they were extremely positive, which also was the case for the first couple of months in 2020 until Covid-19 came along. Covid-19 resulted in a huge drop but came back again after 3-4 months. What the whole year of 2020 will bring is still unknown.

Nominal and real return of private pension schemes in Denmark 2007-2019 (in %)

	Nominal return before taxes and inflation		Nominal return after taxes		Real return after taxes and inflation	
2007	0.89		0.75		0.74	
2008	-3.09		-2.62		-2.65	
2009	7.57		6.41		6.4	
2010	10.13		8.58		8.56	
2011	9.12		7.72		7.7	
2012	10.47		8.87		8.84	
2013	1.88		1.59		1.59	
2014	12.95		10.97		10.96	
2015	1.8		1.52		1.52	
	Hybrid DC with guarantee	DC with no guarantee	Hybrid DC with guarantee	DC with no guarantee	Hybrid DC with guarantee	DC with no guarantee
2016	7.58	6.16	6.42	5.22	6.42	5.22
2017	5.45	8.54	4.62	7.23	4.6	7.22
2018	-0.63	-3.15	-0.53	-2.67	-1.2	-3.34
2019						

Source: Danish FSA; own computations

[19] All currency conversions are made at the exchange rate provided by the ECB Statistical database for EUR/DKK on 31.12.2019, 1 EUR = 7.4715 DKK.

Conclusion

The Danish pension system is characterized by a high degree of funding and clear roles for the tax-based public pensions of Pillar I and the private funded pensions.

In the next decades, the benefits from occupational pension schemes will be growing and will thereby contribute to a high replacement ratio and, at the same time, improve public finances through higher tax revenue and lower public pension expenses. The replacement ratio is at an acceptable level for almost all parts of the population. A relatively small fraction of the working population with no or little private pension will face a problem of relative poverty when they retire. Most of the people retiring today (57 percent) has pensions from pillar II and III. As a result, the number of poor, elderly people has fallen sharply over the past 10 years (with more than 60 percent).

The problem therefor only affects a small number of people but is all the more severe for the few. Most likely, a political solution of some sort will have to be found within the next years. The statutory retirement age is gradually raised in the forthcoming years in order to keep elderly people in the work force as life expectancy increase. Presently this raise political discussions on how to give elderly people below retirement age who are no longer able to work a right to earlier retirement.

The pension system's high degree of funding makes future generations of pensioners less vulnerable to political risk. Their income from Pillar II and Pillar III does not depend directly on political decisions. But, at the same time, they become more vulnerable to market risk. A sudden increase in inflation rates will most likely result in great losses for pension savers. An increase in interest rates will lead to lower market value of bonds owned by future pensioners. So, too much volatility of the economic environment has become a greater risk for the retired generations.

The charges of private pensions have been decreasing for a long period of time. This is due to the growth of private pension schemes and efforts in the market to obtain economies of scales. The pluralism of the market with suppliers organized in many different ways is said to put pressure for higher efficiency.

Pension Savings: The Real Return

2020 Edition

Country Case: Estonia

Kokkuvõte

Eesti pensionisüsteem on tüüpiline Maailmapanga mitmesambaline süsteem, mis põhineb personaalsetel pensionikontodel. Aastal 2019 oli mõlema samba tulem positiivne. Teise samba keskmine tootlus oli 9,67% ja kolmanda samba keskmine tootlus oli 19,70%. Peale inflatsioon arvesse võtmist, oli reaal-tootlus teise samba puhul 7,88% ja kolmanda samba puhul 17,90%. Tänu neile tootlusnumbritele tulid mõlemad sambad välja 2018 aasta kahjumitest ja pika-ajalised keskmised reaal-tootlused on jälle mõlema samba puhul positiivsed.

Alates 2017 aastast on Eesti turule lisandunud mitmeid madalate kuludega passiivse valitsemisega pensionfonde (nn. indeks fonde), mis on kiirelt võitnud kliente ja suurendanud turuosa. Madalate kuludega konkurentide lisandumine turule on sundinud fondivalitsejaid 2018 ja 2019 kulusid alandama ja aidanud tuua alla nii teise kui kolmanda samba fondide kulusid.

Aastal 2019 leidsid aset ka muudatused pensionfondide seaduslikule raamistikule, mis olid eriti laiaulatuslikud teise samba puhul. Täiendav teises samba pensionfondide reform oli selle rapordi kirjutamise hetkel ootel, kuniks Riigikohus otsustab selle põhiseaduspärasuse üle.

Summary

The Estonian Pension system is a typical World Bank multi-pillar (three pillar) system based on individual (personal) pension savings accounts. 2019 saw positivereturns across all pension pillars, with Pillar III recording average returns of 19.70% and Pillar II funds averaging returns of 9.67%. After adjusting for inflation, the real returns were: 7.88% for Pillar II funds and 17.90% for Pillar III funds. This more than offset the losses for both pillars in 2018 and pulled the long term (since 2003) real returns of Pillar II funds back to positive territory, after they had briefly dipped to negative, when adjusted with inflation.

Low-cost passively managed pension funds introduced in 2017 recorded increased assets under management as well as a higher number of savers despite negative returns. In 2018, the low-cost competitors have forced providers to further decrease the fees charged in Pillar II as well as Pillar III pension funds.

2019 also saw the implementation of legal changes significantly restructuring the legal framework surrounding pension funds, especially mandatory ones. Some further fundemental legal changes are currently pending before the supreme court.

Summary Table – Real net returns				
	Mandatory Pension Funds		Supplementary Pension Funds	
	Nominal	Real	Nominal	Real
2019	9.67%	7.88%	19.70%	17.90%
2017-2019	3.53%	0.54%	5.87%	2.83%
2013-2019	3.54%	1.64%	5.47%	3.55%
2010-2019	3.88%	1.23%	5.48%	2.81%
2003-2019	3.91%	0.43%	5.22%	1.58%

Source: Refer to the EE country case

Conclusions

Estonia, as an early pension system reformer, has introduced a typical multi-pillar pension system that combines state unfunded schemes, as well as mandatory and voluntary fully funded pillars. Different types of pension vehicles in Pillar II (as well as Pillar III) allow savers to choose from a wide variety of investment strategies. Lower transparency in fee history contrasts with the high transparency of performance disclosed on a daily basis. The exception is Pillar III insurance contracts, where no information about performance or fees is publicly disclosed. This resulted in an inability to confront the nominal as well as real returns of insurance contracts with other options available to Estonian savers.

Performance volatility of most pension vehicles is relatively high. However, Estonian savers tend to accept higher risk with regards to their savings. Pillar III vehicles are a typical example of high volatile pension vehicles. But after the financial crisis, pension asset management companies also started to offer more conservative funds for Pillar III savers.

Concerning the pension funds´ portfolio structure, one trend is clear. Portfolio managers are steadily replacing direct investments into bonds and equities with the structured financial products. Thus, the question of potential future returns when using financial intermediaries should be raised. Most of the pension funds can be seen as passively managed, which raises the question of high fees. A new trend arising in 2016 and continuing in 2019 is the introduction of low-cost index pension funds for both pension schemes, which could bring higher value to the savers due to lower fees compared to the peers.

Even if in most cases the net performance (adjusted for fees) is disclosed by pension funds, the overall level of fees is questionable. Comparing the level of fees, there is a significant risk undermining the ability to deliver above-benchmark performance in future years.

Pension Savings: The Real Return

2020 Edition

Country Case: France

Résumé

Le système francais de retraite continue à reposer majoritairement sur les regimes d'assurance vieillesse de base et complementaire par répartition (Pilliers I et II), avec un taux moyen de remplacement du revenu d'activité de 60.1%, et une valeur totale des actifs représentant 5,7% du PIB en 2019.[20] Malgré une allocation d'actifs plutôt dynamique, les plans d'épargne-retraite entreprise ont eu un rendement annualisé réel de +0.4% en 20 ans (+7.8% 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 : +39% (+1,8% en moyenne annuelle) pour les fonds en euros (à capital garanti) encore dominants, mais -24% (-1.4%) 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. A l'exception des fonds obligataires, tous les

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 average pre-retirement income replacement ratio of 60.1%,[21] and a total value of assets of 5.7% of the French GDP in 2019. Despite a rather dynamic asset allocation, corporate pension plans have a 20-year average annual real net return of +0.4% (+7.8% 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: +39% (+1.8% annual average) for the still dominant capital guaranteed ones, but -24% (-1.4%) for the more promoted and faster growing unit-linked ones. The personal products specifically dedicated to pensions (PERP, Préfon, Corem, etc.) are much smaller, and their performances are less transparent and most often poorer. Except bond investment funds, all fixed income long term savings products generated real losses for French savers in 2019.

[20] https://www.statista.com/statistics/960085/pension-assets-to-gdp-ratio-by-country/
[21] In 2018, gross - https://data.oecd.org/pension/gross-pension-replacement-rates.htm.

Summary return table - Average real net returns of French pension savings (before tax)					
Average real net returns	1 year 2019	3 years 2017-2019	7 years 2013-2019	10 years 2010-2019	whole reporting period
Life insurance - CG	-0.28%	0.06%	1.08%	1.06%	1.66%
Life-insurance - UL	11.85%	1.13%	2.61%	1.74%	-0.80%
Corporate plans	7.67%	0.96%	2.34%	1.58%	0.78%
Public employee PS**	-1.53%	-1.91%	-1.19%	-1.62%	-1.44%

Source: Refer to the FR country case

Table FR9. Real returns of all life contracts 1999 - 2019		
	20-year return	Average yearly return
Before tax returns		
Capital guaranteed contracts	42.7%	1.8%
Unit-linked contracts	-12.38%	-0.66%
All contracts (avg.)	28.5%	1.3%
After tax returns		
Capital guaranteed contracts	26.4%	1.2%
Unit-linked contracts	-16.1%	-0.9%
All contracts (avg.)	14.4%	0.7%

Source: Refer to the FR country case

Table FR15. French corporate savings plans - 20 years returns before tax 1999-2019					
Fund ("FCPE") category	Equity	Bond	Money market	Diversified	All funds
20Y Nominal return	50.6%	73.8%	30.8%	61.3%	59.8%
Yearly average	2.1%	2.8%	1.4%	2.4%	2.4%
20Y Real return	9.1%	27.4%	-4.4%	17.8%	16.9%
Yearly average	0.4%	1.2%	-0.2%	0.8%	0.8%

Source: Refer to the FR country case

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 20-year performance is still quite negative. The real performance of capital-guaranteed life insurance contracts *("contrats en euros")* has been positive for every year since 2011, but the continued decrease of interest rates, and increases of taxation, have turned it negative since 2018.

Over a 20-year period, from the end of 1999 to the end of 2019, capital-guaranteed life-insurance contracts show on average a positive yearly pre-tax performance of +1.7% in real terms, while the unit-linked contracts show a negative yearly return of -0.8%. Corporate DC plans delivered +0.8% on an annual basis before tax. After-tax returns would typically be higher for those due to a favourable tax treatment.

Pension Savings: The Real Return

2020 Edition

Country Case: Germany

Zusammenfassung

Das deutsche Rentensystem gehört zu jenen, in denen das System der gesetzlichen Rentenversicheurng (Säule I) eine relativ wichtige Rolle für das Alterseinkommen der deutschen Rentner spielt. Die Bruttorentenersatzrate aus dem obligatorischen öffentlichen System beträgt 38,7% des individuellen Einkommens (gegenüber durchschnittlich 36,6% im Durchschnitt der OCED-Länder), während die Ersatzrate aus freiwilligen Systemen (Säule II und Säule III zusammen) 13,5% beträgt. Die Riester- und Rürup-Reformen von 2002 und 2005 zielten auf eine stärkere Beteiligung deutscher Arbeitnehmer an betrieblichen und individuellen Altersversorgungssystemen ab, da die akkumulierten Ansprüche relativ gering waren.

Summary

The German pension system is among those where the mandatory public scheme (Pillar I) plays a relatively important role in German retirees' old-age income. The gross pension replacement rate from mandatory public scheme is equal to 38.7%[22] of individual earnings (against 39.6% on average in OCED countries), while the replacement rate from voluntary schemes (Pillar II and Pillar III together) is 13.5%. With a relatively low level of accumulated entitlements, the *Riester reform (in 2002)* and the *Rürup* reform (in 2005) were aimed at increasing participation in occupational and individual pension schemes for German workers.

[22] OECD (2019), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris, https://doi.org/10.1787/b6d3dcfc-en.

Aggregate summary annualised return table [1] - After charges, inflation and before tax					
		A.O.P.P.**	Riester	Rürup	Other pension insurances
1 year	2019	n.a.	0.67%	0.67%	0.72%
	2018	0.18%	0.56%	0.58%	0.60%
	2017	1.70%	0.68%	0.52%	1.06%
3 years	2017 - 2019	n.a.	0.68%	0.69%	0.74%
	2016 - 2018	1.47%	0.77%	0.79%	0.84%
	2015 - 2017	1.99%	1.32%	1.16%	1.75%
7 years	2013 - 2019	n.a.	1.53%	1.54%	1.59%
	2012 - 2018	2.48%	1.65%	1.67%	1.71%
	2011 - 2017	2.07%	1.59%	1.40%	2.07%
10 years	2010 - 2019	n.a.	1.58%	1.59%	1.62%
	2009 - 2018	2.47%	1.72%	1.73%	1.86%
	2008 - 2017	2.01%	1.84%	1.45%	2.34%
Whole reporting period*		2.24%	1.43%	1.45%	2.07%

**maximum available in this report; **A.O.P.P. stands for autonomous occupational pension plans (Table DE7); (1) Riester pension insurances contracts. Acquisition charges are included and spead over 5 years; (2) Classic pension insurance products or life insurance products. Acquisition charges are included and spead over 5 years; [1] after tax returns*

Conclusions

The performance of *Pensionskassen* and pension funds in real terms has been positive over the whole period from 2002-2018, with an annualised average return of 2.24% before taxation. Even the difficult years of 2007, 2008 and 2011 still recorded modest positive real returns. German Voluntary Occupational Pensions are currently exclusively offered as DB or hybrid plans but pension reforms, including the introduction of DC pension vehicles as early as January 2018, are under way. It remains to be seen if the abandonment of traditional guarantees which has already created much debate and uncertainty among employees and providers can boost participation in occupational pensions, in particular for SMEs.

The real annualised average returns of Voluntary Personal Pensions have also delivered positive results, 1.43% for *Riester*, 1.45% for *Rürup* and 1.82% for classc pension insurances over a 15-year span. Voluntary Personal Pensions have somewhat stalled over recent years and a considerable share of subscribed *Riester* pensions is put on hold for the time being. Persistent low interest rates, as reflected in the steadily falling guaranteed interest rate (from 2.75% in 2005 to 0.9% in 2017), contribute to render new contracts of these pensions less profitable. While more and more providers already undercut these minimum return guarantees, a definite abolishment of this regulated interest fraction is still under discussion. The other important return part of pension insurances, surplus sharing, has likewise been plummeting over the last years, if nothing else to fulfil commitments of former contracts with higher guarantees. Voluntary Personal Pensions, especially the bureaucratic and expensive *Riester* pensions, continue to be at the centre of controversial debates.

Policy Recommendations

Instead of trying to introduce new forms of old-age provisions, efforts should be focused on improving the existing products. The "Riester" product, with its licensing process, its strict legal framework, its exclusive number of categories and its comparability, is already an existing standardised private product. Nevertheless, the contracts are often criticised for their high costs.

There is a lot of potential for reform within all three systems of old-age provision. Whereas the public pension system should be focused on its core purpose, both company and private pension schemes could be revamped by reducing excess bureaucracy, abandoning contradictory legislation and further enhancing transparency.

Proposals have been made by different stakeholders. It is up to the legislator to take them into consideration and to propel legislation to increase penetration and to make old age provision more sustainable.

The discussion on "Riester" should take into account the fact that more than 16 million people have concluded Riester contracts and trust in this form of private old-age provision. Statutory reforms should therefore retain the current Riester scheme. The aim should be to maintain the current Riester-product diversity, to open it up to all citizens and at the same time tp simplify the Riester support and make it more transparent, easier to understand and more attractive for citizens.

An education effort should also be made to encourage people (notably young people) to save for retirement and to promote existing products. A recent survey among young people highlighted that a decreasing number of young adults save for their old age, but an increasing number supports a stronger role of government in additional pension schemes. This obvious contradiction reveals a lack of knowledge regarding the pension system, options already available and the necessity to take responsibility for oneself.

Pension Savings: The Real Return

2020 Edition

Country Case: Italy

Sommario

Il sistema pensionistico italiano attualmente ha una spesa pubblica del 16,2% del PIL. La riforma del sistema pensionistico italiano nel 2011 ha creato un forte regime per il primo pilastro (Pillar 1), con un rapporto di sostituzione del reddito prepensinistico netto del 92% per i lavoratori con retribuzione media in piena carriera nel 2018, uno dei più alti tra i paesi in esame in questo rapporto. Considerando anche il tasso di partecipazione relativamente basso delle famiglie italiane nel mercato dei capitali, l'incentivo a indirizzare il reddito disponibile verso il risparmio previdenziale privato o prodotti di investimento è basso. Ciò diventa evidente se si guarda alla percentuale del patrimonio dei fondi pensione italiani, pari al 10% del PIL, nonché al coefficiente di copertura del secondo pilastro del 20% e del terzo pilastro del 14,2% della forza lavoro.

Per quanto riguarda la performance, i fondi pensione contrattuali hanno reso mediamente l'1,4% annuo negli ultimi 20 anni (2000-2019). I fondi pensione aperti hanno restituito in media lo 0,3% annuo nello stesso periodo., PIP (Piani Individuali Pensionistici) con profitti ha registrato una media annua dell'1,4% negli ultimi 12 anni, mentre i PIP unit linked hanno registrato una media annua dello 0,98% nello stesso periodo. Tutti i rendimenti sono espressi al netto di oneri e inflazione.

Summary

The Italian Pension System currently has a public expenditure of 16.2% of GDP. The Italian pension system reform in 2011 created a strong Pillar I scheme, with a pension net pre-retirement income replacement ratio of 92% for full-career average-wage workers in 2018, one of the highest among the country cases under review in this Report. Considering also the relatively low participation rate of Italian households in capital markets, the incentive to direct available income to the private retirement savings or investment products is low. This becomes apparent when looking at the percentage of Italian pension funds' assets, of 10% of GDP, as well as the coverage ratio for Pillar II of 20% and Pillar III of 14.2% of the labor force.

With regards to performances, contractual pension funds returned 1.4% annually on average over the past 20 years (2000-2019). Open pension funds returned 0.3% annually on average over the same period., PIP (*Piani Individuali Pensionistici*) with-profits experienced 1.4% annually on average over the past 12 years, while PIP unit-linked experienced 0.98% annually on average over the same period. All returns are expressed net of charges and inflation.

Summary Table – Real net returns of Italian pension vehicles				
	Contractual pension funds	Open pension funds	PIP with profits	PIP unit-linked
2019	6.68%	7.78%	1.11%	11.66%
2017-2019	1.46%	2.04%	0.84%	1.45%
2013-2019	3.01%	3.64%	1.71%	3.90%
2010-2019	2.38%	2.75%	1.32%	2.57%
2000-2019	1.41%	0.28%		
2009-2019			1.32%	0.90%

Source: IT country case

Conclusion

The Italian Pension System has a strong State component, which is likely to displace complementary pension funds. The mandatory contribution rate amounts to 33%. As the system is pre-funded, contributions to the pension system will translate one to one to future pension incomes. In this scenario the second and third pillar are likely to only develop slowly.

Even if the number of employees enrolled in private pension funds increased, it remained quite low. 7.953 million individuals are enrolled in private pension funds, representing 30.2% of the labor force. Experiences from the automatic enrolment implemented by labour agreements in 2015 and 2016 did not fundamentally change the framework, as employers' contributions were still low, and few employees voluntarily contributed to the new schemes. In addition, women and young people are under-represented in pension funds. The government has to play a role in encouraging all profile among employees to save for the retirement in pension funds.

The complementary pension funds can be of three types: contractual occupational pension funds (managed by Social Partners), open funds managed by financial institutions and Individual Pension Plans (PIP), split into with-profits and unit-linked policies.

Over the period 2000-2018, we calculated the return rate associated to open funds and contractual pension funds. We calculated returns over the 2008-2018 period for all types of pension funds available in Italy. Over the eleven-year period, all types of pension funds experienced positive annual average real return, except PIP funds with unit-linked contracts. Contractual pension funds experienced the highest annual average real return (+0.98%), PIP unit-linked policies experienced the lowest one (-0.2%).

Since 2000, contractual pension funds recorded a positive annual average return (+0.69%), while open pension funds recorded a negative one of -0.36%.

Private pension funds in Italy offer low real returns after inflation and taxation, even negative for open pension funds on a long period (19 years). Sovereign bonds remained the most important assets on average (42% in 2018) in the asset allocation of private pension funds. The private pension funds have to elaborate other investement strategies which could provide higher returns to pensioners.

Pension Savings: The Real Return

2020 Edition

Country Case: Latvia

Summary

Funded pension schemes have experienced negative returns even the portfolio of pension funds in mandatary pension pillar is conservatively oriented. Pillar II pension funds recorded on average solid annual nominal return of 12.59%, while Pillar III funds delivered also on average positive nominal return of 10.80%. A positive development could have been seen on the Pillar II market, where the introduction of passively managed funds contributed to further decrease of fees in 2019. The fees have decreased also in the Pillar III, however, complex fee structure and still higher fees of Pillar III pension funds play a significant role on the expected accumulated benefits.

Summary Return Table		
Latvian Pillar II		
Holding Period	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	10.57%	8.43%
3-years	3.06%	0.77%
5-years	2.63%	0.75%
7-year	2.95%	1.62%
10-years	3.57%	1.83%
Since inception	3.79%	-0.20%
Latvian Pillar III		
Holding Period	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	10.80%	8.66%
3-years	2.89%	0.59%
5-years	2.86%	0.98%
7-year	3.27%	1.94%
10-years	3.94%	2.58%
Since inception	3.18%	1.52%

Source: Own calculation based on Manapensija data (http://www.manapensija.lv/en/2nd-pension-pillar/statistics/), 2020

Policy Recommendations

Latvia has improved significantly its mandatory part of funded pension system. Together with its NDC scheme for pay-as-you-go pillar, mandatory funded part as well as NDC part form a well-

designed pension system that motivates individuals to contribute as there is a clear connection between paid contributions and expected pension benefits. However, voluntary part of the pension system still suffers from very complicated fee structure, high fees and low transparency.

These limits, despite a generous fiscal stimulus, larger participation in voluntary pension scheme. Regulators should seek for modern fee policies that would on one hand decrease the fee structure and on the other hand introduce success fee tied to the market benchmark. Applying high-water mark principle could limit the risk appetite of asset managers as they will start to prefer low-risk investments where constant fee revenue could be expected. If the benchmarking principle is applied, where the asset manager is rewarded by higher fee when the market benchmark has been outperformed and penalized by lower fees if the fund performance is lower than the market benchmark, savers could benefit more and start trusting the voluntary pension providers on a larger scale.

Pension Savings: The Real Return

2020 Edition

Country Case: Lithuania

Summary

Lithuania adopted the typical World-Bank multi-pillar system, where the PAYG pillar (state pension, Pillar I) still plays the dominant role in ensuring the income for old-age pensioners. As of 2019, accumulating savings in Pillar II takes place in life-cycle pension funds, which change investment risk themselves on the basis of participants' age. Since 2019, management fee for accumulating in Pillar II life-cycle funds is being gradually reduced. In 2019 it will be 0.8 per cent and in 2020 it will be 0.65 per cent, until as of 2021 it reaches an annual asset management fee of 0.5 per cent. For the asset preservation fund, meanwhile, the management fee will be just 0.2 per cent.

Overall, pension funds' performance in both pillars were nicely positive in 2019 across all asset classes, however there were significant differences among the pension funds´ returns with different risk-return profiles.

Table LT16. Performance of Pillar II Pension Funds according the holding period		
Holding Period	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	17.65%	14.92%
3-years	5.79%	3.04%
5-years	5.31%	3.31%
7-year	5.63%	4.15%
10-years	5.70%	3.65%
Since inception	4.64%	1.50%

Source: Lithuanian country case (2020)

Table LT21. Performance of Pillar III Pension Funds according the holding period		
Holding Period	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	11.45%	8.72%
3-years	3.96%	1.22%
5-years	3.96%	1.98%
7-year	4.41%	2.93%
10-years	4.53%	2.48%
Since inception	4.05%	0.82%

Source: Lithuanian country case (2020)

Conclusions

Considering the wider factors, it is safe to say that the decreasing labor force and the implementation of the automatic balancing mechanism within the PAYG pillar will lead to a lower replacement ratio generated from Pillar I pensions. Therefore, Lithuania can be seen as a strong advocate of private pension savings where the pillars will grow on importance.

Reforms in the area of PAYG scheme supported with the funded pension schemes that have been adopted in 2018 and effective since 2019 are started shifting the preferences of the Lithuanian savers to rely more on their private funded pension schemes.

Performance of the Pillar II as well as Pillar III pension funds can be seen as satisfactory. However, the dominance of Pillar II funds opens the question on the further changes in the Pillar III, which cannot compete to the similar and cheaper peers in Pillar II.

The latest changes in the contributory mechanism, where additional individual contributions towards Pillar II are promoted and tax deductible, puts more pressure on Pillar III fund managers due to the growing crowding-out effect.

Introduction of life-cycle investment style into the Pillar II since 2019 created significant differences between the portfolio structure of pension funds within both pillars, which leads to the conclusion that Pillar III with more conservative approach will need to find its competitiveness against promoted Pillar II funds.

Lithuania has a favorable tax treatment of private pension savings, where in both cases an “EEE” tax regime is applied.

Pension Savings: The Real Return

2020 Edition

Country Case: Poland

Streszczenie

Dodatkowy system emerytalny w Polsce, który został wprowadzony w 1999 roku, a następnie był kilkukrotnie reformowany (główne zmiany w 2004, 2012 oraz 2018 roku), jest nadal w początkowej fazie rozwoju. Obecnie składa się z czterech elementów:

- pracowniczych programów emerytalnych (PPE),
- indywidualnych kont emerytalnych (IKE),
- indywidualnych kont zabezpieczenia emerytalnego (IKZE) oraz
- pracowniczych planów kapitałowych (PPK funkcjonujących od 1 lipca 2019 r.).

Poziom uczestnictwa w grupowych i indywidualnych planach oszczędzania na starość (odpowiednio 3,7%, 5,8%, 4% i 2%) wskazuje, że bardzo nieliczna część Polaków zdecydowała się na oszczędzanie w oferowanych zinstytucjonalizowanych formach gromadzenia kapitału na starość.

PPE mogą być prowadzone w czterech formach: umowy z funduszem inwestycyjnym; umowy z zakładem ubezpieczeń na życie (grupowe ubezpieczenie na życie z ubezpieczeniowym funduszem kapitałowym); pracowniczego funduszu emerytalnego (PFE) lub zarzadzania zewnętrznego. Na koniec 2019 roku w PPE zgromadzono 14,5 mld zł (3,42 mld €).

PPK mogą być oferowane w formie funduszu inwestycyjnego, funduszu emerytalnego i ubezpieczeniowego funduszu kapitałowego (UFK). Ta forma dodatkowych planów emerytalnych została dopiero wprowadzona, tj. funkcjonuje od 1 lipca 2019 r.

IKE i IKZE mogą być oferowane w formie: ubezpieczenia na życie z ubezpieczeniowym funduszem kapitałowym; funduszu inwestycyjnego; rachunku papierów wartościowych w domu maklerskim; rachunku bankowego lub dobrowolnego funduszu emerytalnego (DFE). Aktywa zgromadzone na IKE i IKZE na koniec 2019 roku wyniosły odpowiednio 10,17 mld zł (2,39 mld €) oraz 3,29 mld zł (0,77 mld €).

Pracownicze programy emerytalne (PPE), pracownicze plany kapitałowe (PPK) i indywidualne konta emerytalne (IKE) funkcjonują w reżimie podatkowym TEE (podatek pobierany jest na etapie opłacania składki), podczas gdy w IKZE podatek pobierany jest na etapie wypłaty środków (reżim EET).

W analizowanym okresie (2002-2019) pracownicze fundusze emerytalne (PFE) wypracowały dość wysokie stopy zwrotu sięgające 17,41% w skali roku. Straty pojawiły się jednak w latach 2008,

2011, 2015 i 2018 w czasie załamania na rynkach finansowych. Realne stopy zwrotu uwzględniające opłaty osiągnięte w 13 z 17 lat są pozytywne. Średnia realna stopa zwrotu za cały analizowany okres wyniosła 3,75%.

Dobrowolne fundusze emerytalne (DFE) osiągnęły natomiast nadzwyczajne wyniki inwestycyjne w początkowym okresie funkcjonowania, głównie z uwagi na hossę na rynku akcji w pierwszym roku ich działalności. W 2013 roku najlepsze DFE wygenerowały nominalny zysk przekraczający 50%. Wyniki te nie zostały jednak powtórzone w kolejnych latach. W 2014 roku część DFE wykazała straty, które jednak zostały pokryte przez zyski w kolejnych latach. Średnia realna stopa zwrotu z uwzględnieniem opłat za lata 2013-2019 wyniosła 4,33%.

Summary

Starting in 1999, with significant changes introduced in 2004, 2012 and 2018, the Polish supplementary pension market is still in its early stage of operation. Pillar III, which supplements the basic, mandatory pension system, consists of four different elements:

- employee (occupational) pension programmes (*pracownicze programy emerytalne*, PPE),
- individual retirement accounts (*indywidualne konta emerytalne*, IKE);
- individual retirement savings accounts (*indywidualne konta zabezpieczenia emerytalnego*, IKZE) and
- employee capital plans (*pracownicze plany kapitałowe*, PPK).

The coverage ratios (3.7%, 5.8% 4% and 2% respectively), show that only a small part of Poles decided to secure their future in old age by joining the occupational pension plan or purchasing individual pension products.

PPE can be offered in four forms: a contract with an asset management company (investment fund); a contract with a life insurance company (group unit-linked life insurance); an employee pension fund run by the employer (*pracowniczy fundusz emerytalny*, PFE) or external management. PPE assets amounted to PLN 14.54 bln (€3.42 bln) at the end of 2019.

PPK can operate as investment funds, pension funds or a unit-linked life insurance. These plans have just started to collect money (introduced in July 2019). Due to a very short period of operation the PPK assets amounted to only PLN 84.69 mln (€19.9 mln) at the end of 2019.

IKE and IKZE can operate in the form of either: a unit-linked life insurance contract; an investment fund; an account in a brokerage house; a bank account (savings account) or a voluntary pension fund (*dobrowolny fundusz emerytalny*, DFE). The total amount of IKE assets amounted to PLN 10.17 bln (€2.39 bln) and IKZE assets amounted to PLN 3.28 bln (€0.77 bln) at the end of 2019.

PPE, PPK and IKE operate in TEE tax regime while IKZE is run in EET one.

During the period of 2002-2019 employee pension funds (PFE) showed rather positive returns up to 17.41% annually. Negative results appeared only in the years 2008, 2011, 2015 and 2018 when

equity markets dropped significantly. Positive after-charges real returns were observed in 13 of 18 years and the average return over the 18-year period is highly positive as well (3.75%).

Voluntary pensions funds (DFE) have obtained extraordinary investment results from their start in 2012. The first years of their operation coincided with the Polish financial market recovery and allowed funds to maximise rates of return from the equity portfolios. The best DFEs reported more than 50% nominal return in 2013. But such returns were impossible to achieve in next years. In 2014, some of DFE even experienced slightly negative returns that were covered by returns in the following years. The average real rate of return after charges in years 2013-2019 amounted to 4.33%.

Summary return table - Polish pension funds				
Polish Employee Pension Funds (PFE)				
		Nominal	Net	Real net
1 year	2019	n.a.	4.72%	1.66%
	2018	n.a.	-1.47%	-2.33%
3 years	2017-2019	n.a.	3.83%	1.93%
	2016-2019	n.a.	3.40%	2.22%
7 years	2013-2019	n.a.	2.91%	2.04%
	2012-2018	n.a.	4.24%	3.49%
maximum	2002-2019	n.a.	5.82%	3.75%
Voluntary Pension Funds (DFE)				
		Nominal	Net	Real net
1 year	2019	4.87%	1.77%	-1.21%
	2018	-9.75%	-12.28%	-12.72%
3 years	2017-2019	1.02%	-1.77%	-3.44%
	2016-2019	2.06%	-0.58%	-1.01%
7 years	2013-2019	7.69%	4.89%	4.33%
	2012-2018	n.a.	n.a.	n.a.
maximum	2013-2019	7.69%	4.89%	4.33%

Source: See Polish country case in the main report

Conclusions

Starting in 1999, with individual supplementary elements introduced in 2004, 2012 and 2019, the Polish supplementary pension market is still in its early stage of operation. The coverage ratios (2.6%, 5.8%, 4% and 2% respectively), show that only a tiny part of Poles decided to secure their future in old age by joining the occupational pension plan or purchasing individual pension products. This could be because of low financial awareness, insufficient level of wealth or just the lack of information and low transparency of pension products.

The official information concerning supplementary pension products in Poland is limited. Financial institutions do not have any obligation to disclose rates of return, either nominal or real, nor after-charges. Published data includes the total number of programmes or accounts by types of financial institution and total assets invested in pension products. The Financial Supervisory Commission (KNF) collects additional detailed data about the market (the number of accounts

and pension assets managed by every financial institution) but does not disclose the data even for research purposes.

Moreover, no comparable tables on charges, investment portfolios and rates of return are prepared or made accessible to the public on a regular basis. Certain product details must be put in the fund statutes or in the terms of a contract, but they are hardly comparable between providers. The Polish supplementary pension market is highly opaque, especially in terms of costs and returns.

Among a wide variety of pension vehicles, there are only a few products with sufficient official statistics to assess their investment efficiency: employee pension funds (PFE) managed by employees' pension societies and voluntary pension funds (DFE) managed by general pension societies (PTE). Other products are more complex due to the fact that supplementary pension savings are reported together with non-pension pots. That makes it impossible to analyse the portfolio allocations and rates of return for individual pension products separately.

After-charges returns in the "youngest" pension products offered as a form of voluntary pension fund (DFE) were extremely high in 2013, both in nominal and real terms. The second series of products analysed, namely employee pensions funds (PFE), delivered significant profits as well, with the annual average real return of 3.75%. But other pension vehicles may turn out not to be so beneficial, especially when a wide variety of fees and charges are deducted from contributions which are paid to the accounts.

To sum up, the disclosure policy in supplementary pension products in Poland is not saver oriented. Individuals are entrusting their money to the institutions, but they are not getting clear information on charges and investment returns. Keeping in mind the pure DC character of pension vehicles and the lack of any guarantees, this is a huge risk for savers. All this may lead to significant failures on the pension market in its very early stages of development. In the future, some changes in the law should be introduced, such as **imposing an obligation** on financial institutions **to disclose rates of return** to pension accounts holders. Moreover, there is **an urgent need for a full list or even ranking of supplementary pension products**, both occupational and individual ones, published by independent body. This would help individuals make well-informed decisions and avoid buying inappropriate retirement products.[23]

[23] Especially, taking into consideration very limited official information concerning supplementary pension products, as well as the extent of mis-selling of e.g. unit-linked insurances that took place in Poland and the subsequent enforcement action (as the sector's self-regulation failed) https://uokik.gov.pl/news.php?news_id=12776.

Pension Savings: The Real Return

2020 Edition

Country Case: Romania

Rezumat

Populaţia României emigrează, scade şi îmbătrâneşte într-un ritm accelerat, ceea ce pune presiune semnificativă asupra sistemului de pensii publice.

Deşi contribuţiile la fondurile de pensii ocupaţionale sunt obligatorii (Pilonul II), fără a distinge forma de angajare (salariaţi sau liber-profesionisti), cetăţenii români trebuie motivaţi să investească mai mult în planuri voluntare de pensie (Pilonul III).

Evoluţia randamentelor reale ale planurilor de pensii din România a continuat să înregistreze o evoluţie pozitivă până la sfârşitul anului 2019, însă criza monidala de sanatate publică ar putea afecta semnificativ de asemenea profiturile portofoliilor de investiţii.

Summary

Romania's population is rapidly decreasing, aging, and migrating, which puts considerable pressure on the State pension system.

Although occupational pensions are mandatory regardless of the work form (employees and self-employed), the Romanian households must be incentivised more to save in voluntary pension plans (Pillar III).

The evolution of the real returns of private pension schemes in Romania continued to record a solid positive performance until 2019, but the effects of the global health crisis may weigh heavily on portfolio returns as well.

Summary Return Table				
	Pillar II		Pillar III	
Holding Period	Nominal	Real	Nominal	Real
1 year	11.89%	7.84%	10.81%	6.76%
3 years	5.64%	2.44%	4.60%	1.40%
7 years	6.36%	4.76%	5.41%	3.80%
10 years	7.29%	4.63%	6.02%	3.35%
Entire history	8.04%	4.90%	6.58%	2.61%

Source: BETTER FINANCE own composition

Conclusions

Romania's population is rapidly decreasing and aging, which – unless they adopt the necessary reforms - will lead to the explosion of the demographic bomb in a few decades. That is why

Romania introduced the private pensions system in 2007, which is based on the model tested and recommended by the World Bank. The multi-pillar private pensions system includes Pillar II (mandatory schemes) and Pillar III (voluntary schemes).

In the public PAYG pensions system, the state collects contributions from employees and redistributes the money among existing pensioners. Demographics show that this redistribution logic is no longer viable, as contributors' numbers will fall, and the number of pensioners is already going up. The departure from this dilemma takes the form of the private pensions system, allowing each active person to save for their own future retirement.

Romanian pillar II is a fully funded system based on personal accounts and on the defined contribution (DC) philosophy. Pillar II is mandatory for all employees aged under 35 years and voluntary (optional) for employees aged 35 to 45. The starting level of contribution was set at 2% of the participant's total gross income and increases by 0.5 percentage points annually until it reaches 6 of total gross income in 2017. However, this level has not been reached, and the contribution system has inversed.

Mandatory pension funds are managed by their administrators - Pension Management Companies (PMCs). Each PMC is obliged by respective law to administrate and manage just one mandatory pension fund. Currently, there are seven PMCs managing seven mandatory funds on the Romanian Pillar II market. The market is dominated by two PMCs (AZT and NN).

Romanian pillar III is also a fully funded system based on personal accounts and on the defined contribution (DC) philosophy. Pillar III represents privately managed supplementary pensions. This system is opened to all income cohorts. The tax advantage contribution is limited to 15 of participant's total gross income.

Voluntary pension funds in Pillar III are managed by their administrators - Pension Management Companies (PMCs), Life Insurance Companies (LICs) or Asset Management Companies (AMCs). Each administrator is obliged to establish and operate at least one voluntary pension fund. Currently, there are eight providers offering 10 voluntary pension funds. Pillar III market is fairly concentrated, where three dominant players cover almost 90 of the market.

Mandatory as well as voluntary pension funds' investment strategy is strictly regulated. The law imposes percentage limits and restrictions for different asset classes. It must be noted that investment rules in mandatory and voluntary system are very similar. This fact logically causes implications on portfolio structure, thus also on performance of mandatory and voluntary pension funds in Romania. Currently about 70 of all investments in Pillar II as well as Pillar III pension funds are bond investments (Romanian Government Money market instruments and Bonds) and only about 19 is invested in equities.

Overall, the real return of pension funds in Pillar II as well as Pillar III are positive and well above the inflation. However, considering the fee structure, Pillar II savers are better positioned as the charges are almost 5-times lower than the fees applied in Pillar III.

Pension Savings: The Real Return

2020 Edition

Country Case: Slovakia

Zhrnutie

Slovenský dôchodkový systém je typickým modelom Svetovej banky založenom na viac-pilierovom (troj-pilierovom) systéme s individuálnymi (osobnými) účtami sporiteľov. V roku 2019 došlo výrazným zmenám v I. pilieri, ktoré boli motivované politickým populizmom pred voľbami. Do dôchodkového systému bol ústavným zákonom zapracovaný dvojpilierový systém a zároveň strop dôchodkového veku. V závere roka 2019 bol výrazne zvýšený minimálny dôchodok s napojením valorizácie na priemernú mzdu a na začiatku roka 2020 schválené 13. dôchodky vo výške priemerného starobného dôchodku. Všetky tieto zmeny odklonili priebežne financovaný pilier od dlhodobej udržateľnosti a znížili dôveru v stabilitu štátom garantovaného piliera.

Summary

The Slovak Pension system is a typical World Bank multi-pillar (three pillar) system based on individual (personal) pension savings accounts. The year 2019 brought significant changes in the I. pillar that were motivated by political populism before the elections. Pension system has been changed by constitutional legal act that confirmed two-pillar basic pension system but introduced constitutional ceiling on retirement age. The end of the year 2019 brought the increase in minimum pension with the valorization mechanism tied to the average wage increase. At the beginning of the 2020, the government introduced the 13. pension which value should be paid to each pension beneficiary. All changes have shifted the state pension pillar away from fiscal balance and decreased the trust in the state organized pillar.

Summary return table - Slovakia				
	SK Pillar II Pension funds		SK Supplementary Pension funds	
Holding Period	Net Nominal Performance	Real Net Performance	Net Nominal Performance	Real Net Performance
1 year	8.53%	5.36%	7.40%	4.23%
3 years	2.93%	0.81%	2.46%	0.32%
5 years	2.53%	1.41%	1.67%	0.55%
7 years	2.57%	1.57%	1.94%	0.94%
10 years	2.37%	0.81%	1.98%	0.42%
Since inception	1.94%	-0.03%	2.00%	0.50%

Source: See Slovakia country case

Policy Recommendations

Slovak Pillar II suffers from the misalignment between the remaining saving horizon of savers (age profile) and applied investment strategy or allocation of savings. Most of the savers allocate their savings into the bond funds even if their remaining saving horizon is far longer than 15 years. Pension asset managers and regulators should therefore acknowledge inertia of savers and imply default investment strategy that would at least recognize the remaining saving horizon of savers and thus allocate the savings accordingly.

Pillar III faces two main limitations that are in fact deeply interconnected. The first problem is the small coverage of economically active population, which disqualifies the pillar from being recognized as universal pension pillar. This problem is however connected to the high fees that effectively refrain larger participation of employers and employees in this pillar. Regulators should scrutinize the possibilities to lower the management fees with rising assets under management, which would show the clear and transparent road map towards the development of supplementary pension schemes in Slovakia.

However, the key issue of the pension system in Slovakia is the I. pillar managed by state-owned Social Insurance Company. Pension populism has financially destabilized the I. pillar and decreased the trustworthiness of the I. pillar, while the private forms of pension savings have increased on importance. The government should immediately start taking actions to increase the financial stability of the I. pillar and remove the populist features introduced in 2019 as soon as possible.

Pension Savings: The Real Return

2020 Edition

Country Case: Spain

Resumen

Los trabajadores españoles no ahorran para su pensión. Más del 70% de sus activos totales son "ladrillos y cemento", que de ninguna manera puede considerarse un "activo previsional". Cuando las pensiones de Seguridad Social sustituyen más del 80% del salario previo a la jubilación, ¿por qué los asalariados deberían ahorrar para ello? Como resultado de estos y otros factores, la "industria de las pensiones" (Pilares II y III) en España es pequeña y menos eficiente que si fuese tan grande como las de Holanda, Dinamarca o el Reino Unido. Los activos previsionales de los Planes de Pensiones a 31 de diciembre de 2019 llegaban al 9,35% del PIB de ese año, y las reservas técnicas de una amplia gama de productos asegurados para la jubilación (o similares) alcanzaban el 15,24% del PIB. Por estas razones, la gestión de estos activos no es barata, aunque puede llegar a serlo, y mucho, en los esquemas del Pilar II. La Fiscalidad de los activos y rentas de ambos pilares en España responde al régimen EET, común en la mayor parte de los países de la OCDE. El rendimiento cumulativo medio general de los esquemas del sistema de Planes de Pensiones una vez descontada la inflación, ha sido del 0,43% por año en el periodo 2000-2019. Poco se sabe de los rendimientos medios de los esquemas asegurados y su estimación no ha sido el objeto de este informe. Todos los datos utilizados provienen de las fuentes oficiales habituales (INVERCO, DGSFP, INE y Banco de España).

Summary

Spanish workers don't save for their retirement. "Bricks & Mortar" make more than 70% of a typical Spanish household's portfolio. And there is no way to think of this asset as retirement savings. As Social Security old-age benefits replace more than 80% of lost labour income at retirement, why Spanish employees should save with this purpose? As a result, Spanish Pensions Industry (Pillars II and III) is small and less efficient as that of Denmark, Nederland or the UK. Pension Funds assets at end 2019 reached 9.35 percentage points of GDP that year, and if insured retirement or retirement-like vehicles were added to this, an extra 15.24 percentage points could be found. These and other reasons imply that asset management in this limited industry cannot be cheap. To be sure, Pillar II assets are as cheap to manage as in advanced countries, but this is not the case with Pillar III assets. Taxation of retirement assets and income in Spain responds to the EET regime, as in most OECD countries. Average cumulative net real returns since 2000, in the standard Pension Plans system, once inflation adjusted, has been just 0.43% annually. Little is known about average returns to insured vehicles' assets, and its computation has not been the purpose of this report. All data used can be found on readily available official sources' web sites (INVERCO, DGSFP and Bank of Spain).

Aggregate summary return table									
	1 year		3 years		7 years		10 years		Since 2000
	2019	2018	2017-2019	2016-2018	2013-2019	2012-2018	2010-2019	2009-2018	2000-2019
PILLAR II									
Nominal return	8.74%	-3.19%	3.73%	1.83%	5.26%	4.01%	4.78%	2.76%	2.86%
Real return	7.89%	-4.42%	2.14%	0.58%	4.28%	3.15%	2.60%	1.39%	0.79%
PILLAR III									
Nominal return	8.81%	-4.48%	2.72%	0.26%	4.33%	2.90%	3.42%	1.85%	2.40%
Real return	7.96%	-5.71%	1.14%	-0.97%	3.35%	1.70%	2.10%	0.47%	0.32%
Both Pillars									
Nominal return	8.80%	-4.08%	1.57%	0.79%	4.66%	3.29%	3.91%	2.18%	2.58%
Real return	7.95%	-5.31%	1.25%	-0.46%	3.67%	2.09%	2.60%	0.80%	0.51%

Source: ES chapter in the main report

Conclusion

Spanish retirement assets, through standard Pension Plans are a mere 9.3% of GDP. Insurance retirement (and retirement-like) assets and provisions, a large array of different products not equally qualified as retirement vehicles, could add another 15.24% GDP points to standard Pension Plans. This, by all standards, is a small pensions industry even if some 9.5 million individuals participate in Pension Plans and some 15.5 million individuals are covered by insurance retirement or quasi-retirement vehicles. Assets, technical provisions or other retirement rights barely reach € 10,000 per contract or account making the whole system an insufficient complement, let alone an alternative, to Social Security retirement benefits. Unfortunately, this state of affairs is common to many other European countries.

The retirement vehicles market in Spain, however, has a rich structure of agents, products and retirement schemes that, on paper, should be able to cover the entire work force and beyond. Two tightly related factors prevent this to happen: the pervasive presence of Social Security pensions, whose old-age variety replaces lost labour income at retirement by around 80% and the reluctancy of employers to sponsor retirement schemes for their employees because of costs reasons, particularly among SMEs.

This Spanish pension report, apart general descriptions of the landscape, has gone with a certain detail through some of the most salient features of our Pillars II and III arrangements on, basically, three crucial dimensions: (i) charges, (ii) taxes and (iii) returns.

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

On taxation, Spain has an EET, tax-deferral regime for retirement assets and incomes, which is the standard in most countries in the world. Spain also has deductability of contributions to retirement vehices (up to certain limits), an even more followed standard in most countries in the world. This is the right way to avoid unacceptable double taxation. No tax expert would have any doubt about the importance of keeping not only the current deductability of contributions but also tax deferral. Tax deferral empowers the accumulation of pension rights and may also turn to be a good business for thax authorities in the longer run.

This means that the above-mentioned tax treatment of pensions (deductability cum deferral) should not be seen as gifts or favours, but as the best policy that can be perfrormed. Some ceilings to tax deductibility may be too low or even arbitrary. Less understandable is still the push among political and social agents to dismantle deferral and/or deductability. The latter would be even worse.

This said, tax deferral in Spain is seen by most agents participating in the retirement market, be they workers, insured persons or even managers and retailers, as the only reason to buy/sell these products. A cultural trait that may explain, jointly with other reasons discussed in this report, the poor development of Pillars II and III in our country.

On returns, it has to be admitted that performance to date has been barely enough to just beat inflation. A result that many will find poor. Nominal gross returns for more than two thirds of participants are loaded with heavy charges, as mentioned before, but before charges returns are not that terrible. Again, it is taxes that come in to help many participants to reach the conclusion that it is still worth putting their money into this vehicle, despite the illiquid nature of most of these schemes. Participants' *revanche*, however, takes the form of a strategic game in which they allocate just enough money every year to these investments as to exhaust the fiscal margin, no more. And this just for some of them, as the rest of participants cannot perhaps afford to put more money into their complementary pension pots and/or, perhaps, they think that Social Security will walways be there to give them back retirement benefits with a much higher implicit rate of return (on their contributions) free of management fees and inflation linked.

Pension Savings: The Real Return

2020 Edition

Country Case: Sweden

Sammandrag

Det svenska pensionssytemet består till stor del av avgiftsbestämda/fonderade pensioner. Totalt förvaltas över 6000 miljarder SEK (€566 miljarder) i pensionskapital. I det allmänna pensionssystemet sätts 2.5% av lönen av till den så kallade premiepensionen. I premiepensionen har förvalsalternativet, AP7 Såfa, haft en genomsnittlig realavkastning på 9.4% sedan 2001, jämfört med 6.1% för alla andra valbara fonder. Tjänstepensionssystemet domineras av fyra stora avtal som täcker över 90% av alla arbetstagare. Tjänstepensionerna har till största del gått från att vara PAYG till fonderade pensionssystem.

Summary

The Swedish pension system contains a great variety of different retirement savings products with over SEK 6 trillion (€566 billion) in assets under management (AuM). There are funded components in each of the three pillars. In the public pension system, 2.5% of earnings are allocated to the *premium pension*, whereas the default fund, AP7 Såfa, has had an average real rate of return of 9.4% compared to the 6.1% of all other funds over the last 19 years. The second pillar is dominated by four large agreement-based pension plans, covering more than 90% of the workforce. These have largely transitioned from a pay-as-you-go (PAYG) system to a funded system.

Summary returns table. Sweden nominal returns in 1st and 2nd pillar						
	Public pension		Occupational pension*			
	AP7 Såfa	Other funds	ITP1	SAF-LO	PA-16	AKAP-KL
2019	30.4	25.6	22.1	24.7	25.4	25.0
2018	-2.7	-2.8	-0.2	-1.97	-3.2	-2.12
3-year average (2017-2019)	14.4	14.3	11.56	11.64	11.7	12.0
3-year average (2016-2018)	9.6	5.1	6.6	6.03	6.14	6.13

** For each occupational pension plan, the return is an unweighted average among the available funds.*

Source: BETTER FINANCE own composition – see Swedish country case

Conclusion

The Swedish pension system is considered robust and sustainable. The balancing of the income-based system contributes to preserving the system's debt balance and secures the long-term nature of the system. The premium pension, which is a system unique to Sweden, also contributes towards spreading the risk in the system and enhancing the return on capital by enabling people to place part of their national pension capital on the stock market. As a result of the change in the Swedish pension system, individual responsibility will increase, and the occupational pension will constitute a bigger part of the total pension in the future.

The occupational pension system in Sweden covers more than 90 percent of the working population. The collectively negotiated pension schemes are procured for a large number of workers, which leads to lower costs, and more transparent pension plans. Individual occupational pension plans and third-pillar pension accounts are, however, often characterized by higher management fees, deposit fees and less transparency.

The statistics on net returns in the second and third pillar pension plans are quite cumbersome to collect. The Swedish Consumers' Insurance Bureau reports fees and returns in most pension plans, but there is no immediately available information on net returns. It is also difficult to calculate historical returns in the second pillar because the set of funds that the retirement savers can choose from might change, for example due to procurement.

A source of concern is that the pension system is becoming increasingly complex. The number of occupational pension plans per individual is increasing both because job switches across sectors become more common and because pension capital can be moved between companies. The ongoing transitions between old and new occupational pension plans also contribute to the increased complexity of the second pillar. All three pillars also contain many elements of individual choice both during accumulation and decumulation phase. Pension systems that are too complex risk leading to inertia and distrust, which in turn could lead to worse saving and retirement outcomes. Well-designed default fund options with low fees and appropriate risk exposure as well as comprehensive, user-friendly information/choice centers are necessary features in a complex pension system.

Although the Swedish pension system is considered robust and sustainable there is reason to be concerned. As life expectancy increases, the gap between wages and pensions will increase. The total pension amount for people born between 1938 and 1946 shrank from 86 % to 77 % of the final salary. And the public pension, which every Swedish citizen with a salary or another taxable benefit is entitled to, shrank from 61 % to 49 % of the final salary for the same age groups. The average exit age from the labour force has been increasing ever since the new public pension system was implemented in the late 1990s and is currently 64. However, the average claiming age has been fairly constant.[24] The combination of constant claiming age, later labour force entry

[24] This is mainly due to reduced disability pension rates (through stricter eligibility rules), which affects the exit age but not necessarily the claiming age if people claim their pension instead. Another

among youths, and indexation of pension benefits to life expectancy unavoidably means lower pension benefits.

To encourage later retirement, policy makers have agreed to raise various retirement ages in a stepwise manner. By 2026, the minimum claiming age, the eligibility age for the minimum guarantee, and the mandatory retirement are expected to have increased to 64, 67 and 69, respectively (currently at 62, 65 and 68, respectively). The 65-norm is still strong in the second pillar, however. Pensions are usually paid out automatically at this age, and pension rights are in most cases not earned after this age. As replacement rates fall, individuals also need to take more responsibility for their private pension savings. This makes accessible good pension savings products with low fees even more important.

Policy recommendations:

- Expand the portability right of second pillar pension capital.
- Improve information on historical net returns and other fund characteristics in second and third pillar pension plans.
- The digital pension tool www.minpension.se makes it possible for individual retirement savers to collect information on their total pension savings. A useful extension would be to allow users to execute their pension fund choices from this site.
- Replace automatic payment of occupational pensions at a certain age (usually 65) with a claiming requirement (as in the public pension system).

explanation is that individuals who work past the age of 65 do not postpone the withdrawal of their pension.

Pension Savings: The Real Return

2020 Edition

Country Case: The Netherlands

Samenvating

In veel opzichten verkeren inwoners van Nederland in een luxepositie, als we het over hun pensioenvoorziening hebben. In de twee meest recente jaarlijkse onderzoek naar pensioenstelsels wereldwijd, uitgevoerd door Mercer in 2018 en 2019, komt het Nederlandse pensioenstelsel als beste uit de bus. Toch maken veel Nederlanders zich zorgen over hun pensioen. Uit recent onderzoek, eveneens van Mercer, bleek dat één op de vijf denkt dat zijn/haar pensioen voldoende inkomen zal opleveren als ze met pensioen gaan.

Een belangrijke reden waarom een grote meerderheid van de Nederlanders zich zorgen maakt over zijn pensioen is omdat de historisch lage rentes in de wereld Nederland, in pensioenopzicht, relatief hard raken vergeleken met andere landen. Dat komt niet alleen doordat de Nederlanders een van de grootste pensioenspaarpotten hebben maar ook omdat de Nederlandse toezichthouder, De Nederlandsche Bank (DNB) een relatief strenge rekenrente voorschrijft voor Nederlandse pensioenen. Dat dwingt Nederlandse pensioenfondsen om de helft van het pensioenvermogen te beleggen in obligaties en andere vastrentende waarden. Deze beleggingen stijgen weliswaar flink in waarde bij rentedalingen (echter minder hard dan de pensioenvoorzieningen zelf) maar leveren al jarenlang heel weinig daadwerkelijk rendement op, aangezien pensioenfondsen ook uit prudentie worden gedwongen om deze bezittingen grotendeels aan te houden in plaats van die door te verkopen.

Uit een rapport van Thinking Ahead Institute blijkt dat 27 procent van het pensioengeld in de wereld in obligaties is belegd. Dat aandeel bedraagt bij de Nederlandse pensioenfondsen bijna het dubbele, namelijk 53,6 procent aan het einde van 2019. Sinds 2011 heeft dit percentage altijd boven de 50 procent gelegen. Het Nederlandse driepijler pensioenstelsel biedt voldoende mogelijkheden voor iedereen om voor aanvullend pensioen te zorgen. De vraag bleef echter of de de Nederlandse pensioenaanbieders voldoende rendement behalen om de pensioenen op peil te houden. Ondanks de torenhoge rendementen (die uitkwamen boven 16% in nominale termen) van 2019 die het pensioenvermogen vergrootten bleef de financiële positie en dekkingsgraad van de meeste pensioenfondsen precair. De waarde van de pensioenverplichtingen (de andere kant van de balans van pensioenfondsen), steeg namelijk eveneens hard.

Onder andere om deze reden is in juni 2020, in een verdere uitwerking van het Pensioenakkoord dat in de zomer van 2019 werd gesloten, afgesproken dat de komende jaren Nederlandse pensioenregelingen moeten worden omgezet naar een beschikbare-premiesysteem (*Defined Benefit*, oftewel DC), waarbij de ingelegde premie in plaats van de beoogde toekomstige pensioenuitkering het uitganspunt is. Pensioenaanbieders zullen daardoor minder hoeven te

beleggen in veilige obligaties, meer uitzicht hebben op hogere rendementen, maar ook meer risico lopen op verliezen en fluctuerende pensioenvoorzuitzichten. Een belangrijke vraag wordt daarbij of de ingelegde premies op een prudent genoeg niveau blijven om de relatief hoge Nederlandse pensioenuitkeringen haalbaar te houden.

Summary

In many ways, the Dutch are in an enviable position as far as their pensions are concerned. In the most recent *Melbourne Mercer Global Pension Index*, for 2019, the Dutch pension systems topped the chart for the second year in a row, ranking highest out of 37 examined pension systems around the world.[25] Still, many Dutch people worry about the future of their old-age income. A recent Mercer study shows that only one in five believe their pension scheme will provide them with sufficient income by the time they retire.

An important reason why a large majority of the Dutch worry about their retirement income is the fact that the historically low interest rates worldwide are causing, relatively speaking, more harm to the Dutch pension system than to other countries' pension systems. This is due not only to the fact that the Dutch boast one of the world's largest pension reserves, but also to the fact that the Dutch central bank (DNB), the national pension supervisor, applies one of the world's most prudent and therefore lowest discount rates for the calculation of pension liabilities. This forces Dutch pension funds to invest around half of their assets in bonds. Bonds rise sharply in value (although less so than the pension liabilities) when interest rates drop but have yielded very low actual dividends over the past several years. Due to the strict regulatory regime, Dutch pension funds are discouraged to cash in on rising values of bonds. Instead, they are obliged to retain these low-yielding assets for reasons of future prudence.

Summary returns table - Netherlands					
	1 year	3 years	7 years	10 years	whole reporting period
	2019	2017-2019	2013-2019	2010-2019	
Pension funds	13,00%	4,26%	6,36%	7,12%	2,73%
Life insurances	0,39%	1,40%	0,97%	-0,08%	0,04%

Source: Refer to the NL country case

Conclusion

Dutch employees are far less dependent on a State pension compared to other Europeans since their individual pension plans account for the main part of their retirement income. Generally speaking, the pension funds that invest the largest share of pension contributions tend to provide decent returns after taxes, charges and inflation. For the period considered here, 2000-2019, the average annual real return is 2.73%. The pension vehicles in the third pillar, such as life insurance companies, return far less, practically nil over the same period. However, one must note that the third pillar is relatively small, and a relatively small number of individuals are enrolled in it. Historically, in the postwar period, Dutch employers and employees have invested much in pension schemes and premiums, with the traditional rule of thumb being that one-fifth of wage

[25] https://www.mercer.com.au/our-thinking/mmgpi.html.

benefits were dedicated to pension investments. Also, the Dutch pension system has maintained an exceptional degree of compulsion, submitting most sectors of the economy to mandatory sectoral pension schemes. This, combined with a regulatory framework which utilizes discount rates that are more prudent (many argue that these are too prudent) than those used by EIOPA, for example, explains why the Dutch pension system is consistently judged to be (one of the) strongest in the world. Like other pension systems in OECD countries and elsewhere, however, Dutch pensions have come under strain by the combination of an aging population and historically low interest rates. Over the last decade, Dutch pensions have not kept up with inflation rates despite positive real returns. The reason for this is the low discount rate that pension funds are forced to employ in their valuation of pension liabilities, which in the age of low interest rates has made the *effective* returns of pension funds (the growth of assets compared to the growth of liabilities) negative. Also, as the labor market has become increasingly flexible, generational conflict has increased within pension funds (which utilize cross-generational subsidies in the traditional expectation that employees spend their entire working lives within a single sectoral or company-based pension fund) and a growing part of the work force does not fall under any Pillar II pension scheme at all.

The Dutch government, trade unions, and employers' organizations have signed an accord (*Pensioenakkoord*) aimed to address the issue of intergenerational subsidies and financial difficulties which points towards a general move away from DB towards DC. So far, however, little has been done to address the growing Pillar II 'blind spot' (*witte vlek*) which may lead to strongly declining average replacement rates in the future and to growing elderly poverty rates. On a brighter note, Dutch pension regulators and pension funds, have pioneered a focus on cost-related transparancy over the last few years. Due to the financial clout of Dutch pension funds, this has forced many (internationally operating) investment firms to clarify the structure of fees and charges, as well as their policies on sustainable investments. The governance and efficiency of pension funds themselves has improved as well, partly as a result of an ongoing process of consolidation driven by mergers between pension funds.

Pension Savings: The Real Return

2020 Edition

Country Case: United Kingdom

Summary

2018-2019 data unavailability: Unfortunately, due to the significant number of pension funds in the UK, it's difficul to obtain reliable aggregated data on costs and performance. Moreover, the two main national public sources that we were using for this publication are no more available:

- for charges, the "Pension Charges Survey" that was conducted by the Department for Work and Pensions until 2016 was a very useful source of information, but unfortunately it has not been available since then.
- for the performance, we used to make our own caluclations from figures available in the quarterly publication of the Office for National Statistics "MQ5: Investment by insurance companies, pension funds and trusts". The last publication is dated 21 March 2019 and has been discontinued since then. It has been partly replaced by the annual "Occupational Pension Schemes Survey", but for the moment we don't have enough elements to calculate performance of occupantional pension schemes from this survey. The survey mainly includes information about the number and type of members of occupational pension schemes.

In international publications, the coverage for the UK is also of a lesser quality than for several other countries:

- In the OECD publication "Pension funds in Figures", there is no data for the UK regarding the indicator "Real investment rates of return of pension funds" for the year 2018.
- In the EIOPA "Pension Statistics" database the indicator "Change in the market value of investment assets" (that could have been used in the place of "capital gains" available in the "MQ5: Investment by insurance companies, pension funds and trusts" database) is only available from 2012 to 2016.
- In the OECD database "Funded Pensions Indicators" (that we use for instance for Germany for the charges), there is no data for the UK.

It should be noted though that the last edition of EIOPA publication about cost and past performance of Insurance_Based Investments Products (IBIPs) and Personal Pension Products (PPPs)[26] includes data for the UK for the period 2014-2018 but it's only available at an aggregated level and corresponds to 15 unit-linked products that submitted data.

[26] EIOPA – Costs and Past Performance – 2020 Report
https://www.eiopa.europa.eu/sites/default/files/publications/cost_and_past_peformance_report_corrigendum.pdf

Lastely, unlike other European countries, in UK national finalcial accounts, there is no disctinction between insurance companies and pension funds, which makes difficult to use national financial accounts for international comparison purpose.

British households mainly need to rely on private pension funds for their retirement. Indeed, the replacement rate from the mandatory public system (1st pillar) for an average wage is among the lowest among OECD countries (21.7%[27] against 39.6% on average in OECD countries). Private pension pension funds had a relatively good preformance in real terms on the long run, returning an average annual growth rate of +3.1% (+73% cumulative) in the period going from 2000 to 2017. This is partly due to the "auto-enrollment" regime in private pension funds implemented by the British Government as of 2012, which boosted competition on the market and allowed players to benefit from economies of scale which, coupled with a close supervision of the FCA, lowered fees and charges on pension products. The "auto-enrollment" regime had a significant impact on the number of people subscribing to a pension fund. Since the start of automatic enrolment in 2012, more than 10.2 million workers have been automatically enrolled[28]. The annual total amount saved on behalf of eligible employees across both sectors (public and private) stands at £90.4 billion (€101.2 bln) in 2018, which is an increase of £7 billion (€7.8 billion) from 2017. The total number of active members of occupational pension funds increased by 122%.

Summary Table - Rate of return of UK pension funds (2018 data)				
		Nominal before charges	Nominal after charges	Real after charges
1 year	2018	n.a.	n.a.	n.a.
	2017	5.78	5.21	2.26
3 years	2016-2018	n.a.	n.a.	n.a.
	2015-2017	7.81	7.25	5.67
7 years	2012-2018	n.a.	n.a.	n.a.
	2011-2017	8.23	7.63	5.61
10 years	2009-2018	n.a.	n.a.	n.a.
	2008-2017	7.12	6.48	4.10
Whole reporting period*		5.83	5.12	3.06

[27] OECD (2019), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris, https://doi.org/10.1787/b6d3dcfc-en.

[28] Source: Department for Work & Pensions, *Automatic Enrolment evaluation report 2019*, February 2020: https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2019/automatic-enrolment-evaluation-report-2019

Policy Recommendations

Due to the high number of various occupational pension plans in the UK, that are not standardised, it's difficult to get aggregated information about costs and charges. Given the importance of the second pillar in this country, in particular since the introduction of “auto-enrollment” regime, this information is very valuable for savers.

In the past there was a Survey that was conducted by Department for Work & Pensions namely the "Pension Charges Survey". The last published Survey provides data for the year 2016. This Survey should be conducted again on order to get aggregated information about pension charges on an annual basis.

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