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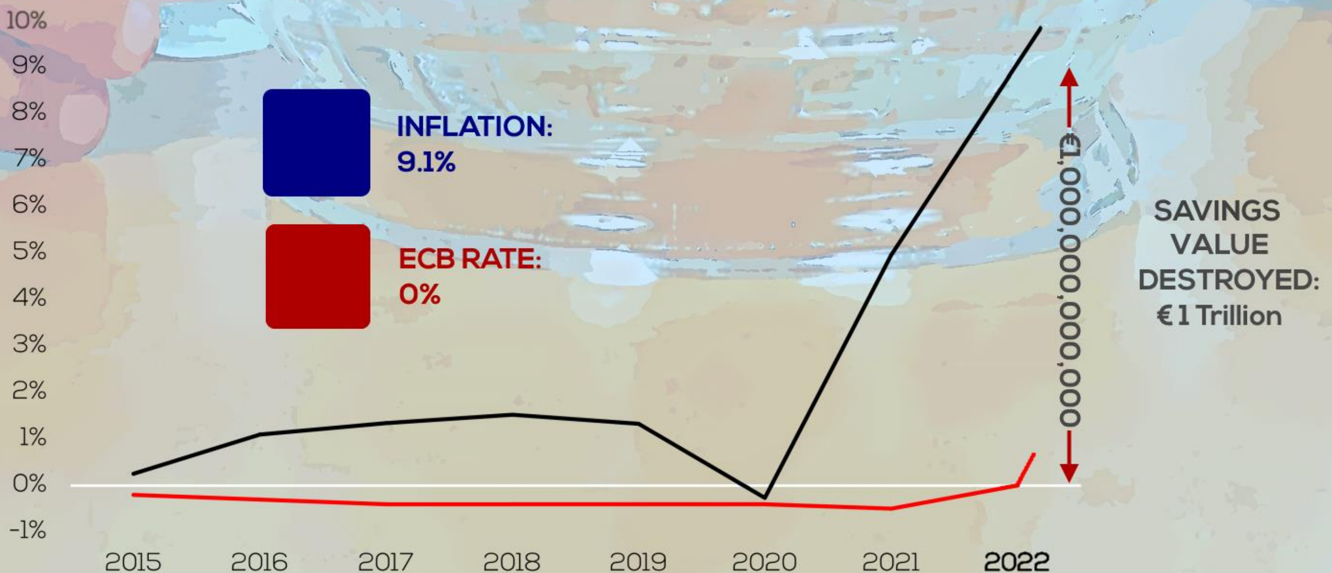
Long-Term & Pension Savings | The Real Return

2022 Edition

PENSIONS & LONG-TERM SAVINGS

FINANCIAL REPRESSION



Pension Savings: The Real Return

2022 Edition

A Research Report by BETTER FINANCE

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Since the first edition in 2013, and on an ongoing basis, **BETTER FINANCE invites all interested parties to submit proposals and/or data wherever they believe that the gathered publicly available data is incomplete or incorrect** to the email address info@betterfinance.eu.

Pension Savings: The Real Return

2022 Edition

Executive Summary

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

Strong equity returns in 2021 slowed down by inflation, which is here to stay

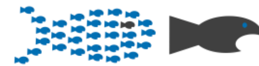
How much did pension savers earn on average?

In this report, we aim to provide pension comparisons on every front possible. The aggregate summary return tables compare the annual average rates of returns between occupational/collective (Pillar II) pension schemes and between voluntary/individual ones (Pillar III) on 5 periods: 1, 3, 7, 10 years. These standardised periods eliminate inception and market timing biases, allowing to "purely" compare performances between different pension schemes. For information purposes, we also show the average return since data is available (last column).

Aggregate summary return table	Pillar II								
	1 year		3 years		7 years		10 years		max. available*
	2021	2020	2019-2021	2018-2020	2015-2021	2014-2020	2012-2021	2011-2020	
Austria***	3.08%	1.40%	4.12%	1.23%	1.92%	2.35%	2.68%	1.79%	1.56%
Belgium	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Croatia	2.55%	8.06%	3.38%	2.81%	4.76%	4.99%	4.82%	4.10%	3.25%
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia	1.30%	7.97%	4.60%	2.10%	1.61%	2.13%	2.35%	1.31%	0.75%
France	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany	n.a.	3.53%	n.a.	2.23%	n.a.	2.63%	n.a.	2.46%	2.35%
Italy	1.44%	7.30%	3.96%	1.85%	1.97%	2.81%	3.30%	2.66%	0.86%
Latvia	2.21%	8.43%	4.22%	1.12%	1.15%	1.54%	2.30%	1.45%	0.05%
Lithuania	5.97%	14.92%	8.60%	4.72%	3.95%	4.07%	4.60%	3.52%	1.95%
Netherlands	0.85%	6.23%	6.58%	5.01%	3.84%	5.79%	5.00%	5.26%	2.80%
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Romania	-2,58%	2,59%	1,64%	1,81%	1,23%	2,68%	2,83%	2,95%	2,04%
Slovakia	3.38%	5.37%	3.13%	0.70%	1.59%	1.50%	1.43%	0.79%	0.21%
Spain	1.52%	2.10%	2.25%	2.40%	3.02%	3.86%	2.56%	2.86%	0.86%
Sweden	13.50%	6.45%	17.44%	8.23%	n.a.	n.a.	n.a.	n.a.	10.59%
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; **UPF data used as proxy for Pillar II; ***Pension funds used as proxy for Pillar II, 2021 data is estimated; data for Netherlands Pillar II is only occupational pension funds*

[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.



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.

Aggregate summary return table	Pillar III								
	1 year		3 years		7 years		10 years		whole reporting period*
	2021	2020	2019-2021	2018-2020	2015-2021	2014-2020	2012-2021	2011-2020	
Austria*	0.44%	1.27%	0.96%	2.65%	1.29%	3.09%	1.50%	3.30%	1.95%
Belgium	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Croatia	2.00%	-1.41%	2.97%	2.13%	3.48%	4.57%	4.41%	3.75%	3.51%
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia	6.30%	4.51%	8.14%	2.37%	3.04%	3.19%	4.00%	2.04%	1.78%
France*	0.37%	1.13%	1.55%	0.65%	1.07%	1.43%	1.63%	1.47%	1.47%
Germany**	-3.72%	2.68%	-0.16%	1.30%	0.64%	1.62%	1.11%	1.64%	1.20%
Italy	1.92%	0.03%	3.04%	1.18%	2.18%	2.58%	3.18%	2.49%	1.91%
Latvia	-1.01%	2.14%	3.18%	0.82%	0.59%	1.75%	2.17%	1.58%	1.34%
Lithuania	0.54%	4.83%	4.65%	2.29%	2.17%	2.85%	3.37%	1.98%	1.03%
Netherlands	-2.29%	1.83%	-0.04%	1.39%	1.19%	1.14%	0.33%	0.27%	0.02%
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Romania	-3,07%	0,99%	0,60%	0,35%	0,22%	1,53%	1,90%	1,91%	-1,00%
Slovakia	1.92%	1.30%	3.03%	0.08%	0.92%	1.00%	1.39%	0.44%	0.71%
Spain	2.10%	0.86%	1.58%	1.33%	2.20%	3.08%	2.26%	1.60%	0.35%
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 spread over 5 years*

Unfortunately, due to unavailability of data breakdowns, for some country cases (UK, 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 Graphs 19 and Table 20 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.

Pension Savings: The Real Return

2022 Edition

General Report

One can supervise only what one can measure:
Why is this long-term savings performance report (unfortunately) unique?

I. INTRODUCTION

2022 marks the anniversary edition of BETTER FINANCE's Long-Term and Pension Savings Report. For 10 years, BETTER FINANCE aggregated and updated data and information on pension systems' structure, characteristics, charges, tax, and real net returns in a unique publication in this field.

Our report grew from the initial three country cases (Denmark, France, and Spain) covered in the 2013 report ("Private Pensions: The Real Return"[11]) to reach 18 jurisdictions and true long-term reporting horizons: where available, 22 years of gross, net, and real net returns of private occupational and voluntary retirement provision vehicles.

Today, BETTER FINANCE's research on the real returns of long-term and private pension savings comprises:

- this report (full version);
- the summary booklet;
- the *pensions dashboard*, an interactive tool on BETTER FINANCE's website to view and compare returns between private retirement provision vehicles.

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

This report was built to respond to one of the big problems for the pensions market in the EU: lack of comprehensive and comparable data on real net performances. So far, two other publications also aim to provide transparency on the topic, but have a limited scope and are too general to be useful for the average pension saver:

[11] Link for the print version available here: http://www.betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_Study_EN_website.pdf.

Table GR1. Comparison BETTER FINANCE report with EIOPA/OECD		
	EIOPA	OECD
Private pension products	Only insurance-based pension products (unit-linked and profit-participation) based on surveys (68 providers/17 EU Member States/200 products)	Only pension funds (20 EU jurisdictions)
Distinction between pillars (occupational vs voluntary)	No	No
Time horizon	5 years	15 years max.
Data/information on public pension systems	No	Yes
Pension system description (structure, conditions, costs, taxes)	No	Yes
Asset allocation	No	Yes
Gross returns	No	No
Nominal net returns	Yes	Yes
Real net returns	Yes	Yes
Real net returns, after tax	No	No

Source: BETTER FINANCE own research

Our report closes this informational gap for pension savers in 17 EU Member States. This is in line with the European Commission's "Action" to improve the transparency of performance and fees in this area (as part of its Capital Markets Union – CMU - Action Plan) and it corresponds with the current tasks of EIOPA in the area of personal pension products with respect to past performance and costs comparison.[12]

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

Reporting the real net return[13] of pension saving products should be:

- the long-term return (at least covering two full economic and stock market cycles, since even long-term returns are very sensitive to entry and exit dates);
- net of all fees, commissions and charges borne directly or indirectly by the customer;

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

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

- net of inflation (since for long-term products only the real return matters; that is the right approach taken by OECD as mentioned above);
- when possible, net of taxes borne by the customer (in the USA it has been mandatory for decades to disclose the past performance of mutual funds after tax in the summary of the prospectus).

Table GR2. BETTER FINANCE report structure and scope	
Structure	1. Executive summary 2. General report (overview of data and findings) 3. Individual country cases (Austria, Belgium, Bulgaria, Croatia, Denmark, Estonia, France, Germany, Italy, Latvia, Lithuania, Poland, the Netherlands, Romania, Slovakia, Spain, Sweden, UK until 2019), representing 87% of EU27 population
Time horizons	22 years (December 1999 – December 2021) or maximum available
Products covered	1. Occupational pension pillar (pension funds, insurance-based pension products, other defined-benefit/contribution vehicles) 2. Voluntary pension pillar (pension funds, insurance-based pension products)
Public pensions	Structure, coverage, funding type, entry/pay-out conditions
Occupational pensions	Architecture (types of products offered), coverage, assets and/or asset allocation, costs, applicable tax regime(s)
Voluntary (individual pensions)	Architecture (types of products offered), coverage, assets and/or asset allocation, costs, applicable tax regime(s)
Returns	1. Gross returns (before costs, tax, and inflation – where available) 2. Nominal net returns (before tax and inflation – where available) 3. Real net returns, before tax, inflation deducted 4. Real net returns, after tax (where available)
Data sources	Publicly available data and information sources

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

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

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

Once more, for 2021, we find that information on long-term and pension savings returns is actually not improving but on the contrary deteriorating:

- ***Insufficient information***: for example the Belgian insurance trade organisation Assuralia no longer reports the returns of insurance-regulated « Branch 21 » occupational and personal pension products since 2014, and the national supervisor FSMA does not do it either; in Bulgaria, the necessary data for Professional Pension Funds (pillar II and III) is no longer available since 2018 and the transfers to Pillar I (data from NSSI) are not disclosed; in the UK, the survey conducted by the Department for Statistics has been discontinued and information on British pension funds stopped at 2017;
- ***Late information***: at the time of printing, still a lot of 2021 return data have not been released by the national trade organisations or other providers. OECD has published preliminary data for December 2021, but on a limited number of jurisdictions and only for pension funds; moreover, considering that, in many countries, pension funds are not the most popular vehicle, this constitutes a large information gap.
- ***Unchecked information***: the principal source remains the national trade organisations, their methodology is most often not disclosed, return data do not seem to be checked or audited by any independent party, and sometimes they are only based on sample surveys covering just a portion of the products.

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

2. Value for Money: how to achieve pension adequacy?

Public pension authorities typically stress two requisites to achieve "pension adequacy":

a) the need to start saving as early as possible;
b) the need to save a significant portion of one's income before retirement activity income: "*to support a reasonable level of income in retirement, 10% - 15% of an average annual salary needs to be saved*".[14]

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

[14] World Economic Forum White Paper: 'We'll live to 100 – How can we afford it?' May 2017

Assuming no inflation and saving 10% of activity income for 30 years,[15] the table below shows that **unless long-term net returns are significantly positive** (in the upper single digits), **saving early and significantly will not provide a decent pension.**

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

© BETTER FINANCE, 2018

Moreover, in light of the special analysis undertaken in this report on *financial repression*, savers must also be aware and take into account the effects of ***inflation***, particularly since currently it reaches historical records.

What is pension adequacy?

This question ultimately revolves around the level of retirement income (pension) compared to the pre-retirement income. The EU defines *pension adequacy* indirectly through three objectives that a pension system should achieve:

1) **income replacement**: ensure a minimum standard of living at retirement,
2) **sustainability**: ensure that the public pension system is sustainable; and
3) **transparency**: inform workers about the need to plan for their retirement.[16]

On income replacement, the EU's Open Method of Coordination on Social Protection and Social Inclusion[17] further specifies that pensions should:

- *in general*, be at a certain level so that the standards of living pre-retirement are maintained, to "*the greatest possible extent*", after retirement;
- *for special cases*, ensure a minimum standard of living at retirement so as to avoid pension poverty.

To measure the two above objectives, two indicators are generally used: the *aggregate replacement ratio*,[18] showing how big the gross pension is compared to the salary, and the

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[15] As recommended by Public Authorities assuming 25-year life expectancy at retirement, gross of fees and taxes.
[16] Directorate-General for Employment, Social Affairs and Inclusion of the European Commission and the Social Protection Committee, *Pension Adequacy in the European Union 2010-2050* (May 2021) European Commission, available at: file:///C:/Users/Stefan/Downloads/pension%20adequacy%20in%20the%20european%20union%202010-2050-KE3012757ENN.pdf.
[17] See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - "*A renewed commitment to social Europe: Reinforcing the Open Method of Coordination for Social Protection and Social Inclusion*" {SEC(2008) 2153} {SEC(2008) 2169} {SEC(2008) 2170} {SEC(2008) 2179}, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52008DC0418.
[18] According to Eurostat, the *aggregate replacement ratio* is the ratio of the median individual gross pensions of 65-74 age category relative to median individual gross earnings of 50-59 age category, excluding other social benefits.

theoretical replacement rate, showing the instant change (drop/increase) in income when retiring from active life:

$$Aggregate\ replacement\ ratio = \frac{gross\ median\ pension\ (pop.aged\ 65-74\ yo)}{gross\ median\ income\ (pop.aged\ 50-59\ yo)}$$

$$Theoretical\ replacement\ ratio = \frac{pension\ in\ the\ first\ year\ of\ retirement}{income\ in\ the\ last\ year\ of\ work}$$

The International Labour Organisation obliges parties to the Treaty to guarantee a minimum 40% of the previous earnings (prior to retirement) after 30 years of contributions;[19] the same threshold is used by the European Code of Social Security.[20] However, an actual threshold for pension adequacy was never agreed, although EU Member States agree on its objectives (to prevent old-age poverty, to replace income at a rate to *maintain* the standard of living, to be sustainable).

The reality is that pension adequacy[21] comprises two additional components, besides the actual *pension vs salary* ratio:

- the time spent to earn the pension vs the time spent receiving it;
- the amount of contributions to pension provision, namely mandatory (State) schemes and voluntary (occupational/individual) ones; put simply, *pension savings*.

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

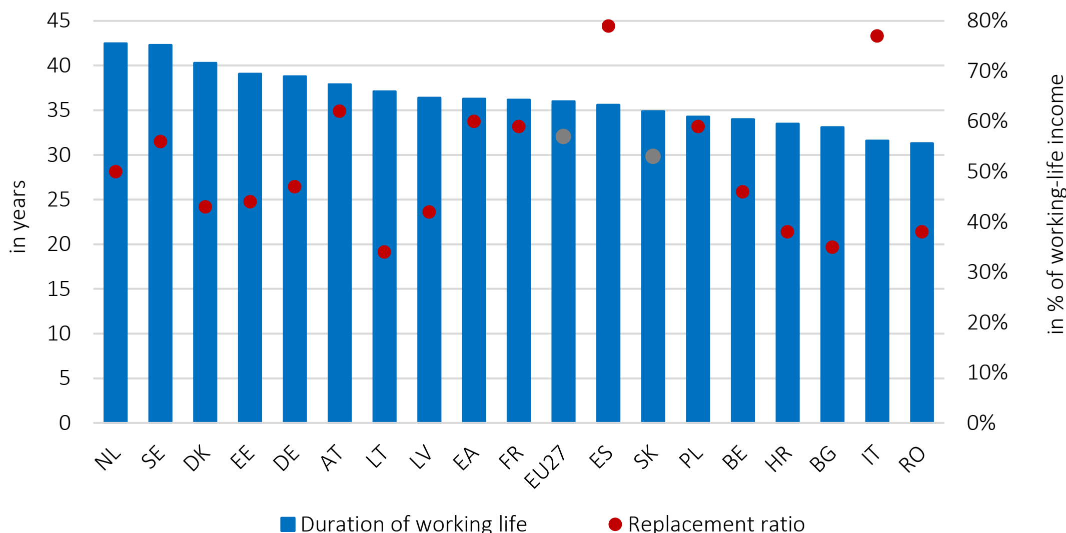
Currently, the aggregate replacement rate (mostly State pension) is very low across the countries in scope of our report: fourteen out of seventeen jurisdictions provide a replacement rate lower than 60% for over more than 30 years of working life.

The indicator is based on the EU-SILC (statistics on income, social inclusion and living conditions) – See Eurostat, *Aggregate Replacement Ratio for Pensions (excluding other social benefits) by sex*, available at: https://ec.europa.eu/eurostat/databrowser/view/tespn070/default/table?lang=en.

[19] Art. 67 of Convention C102 on Social Security (Minimum Standards) of the International Labour Organisation, available at: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C102; Art. 29 of the later adopted Convention C128 on Invalidity, Old-Age and Survivors' Benefits Convention of the International Labour Organisation (available here: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:55:0::NO::P55_TYPE,P55_LANG,P55_DOCUMENT,P55_NODE:CON,en,C128,/Document) required a higher threshold, i.e. 45%.

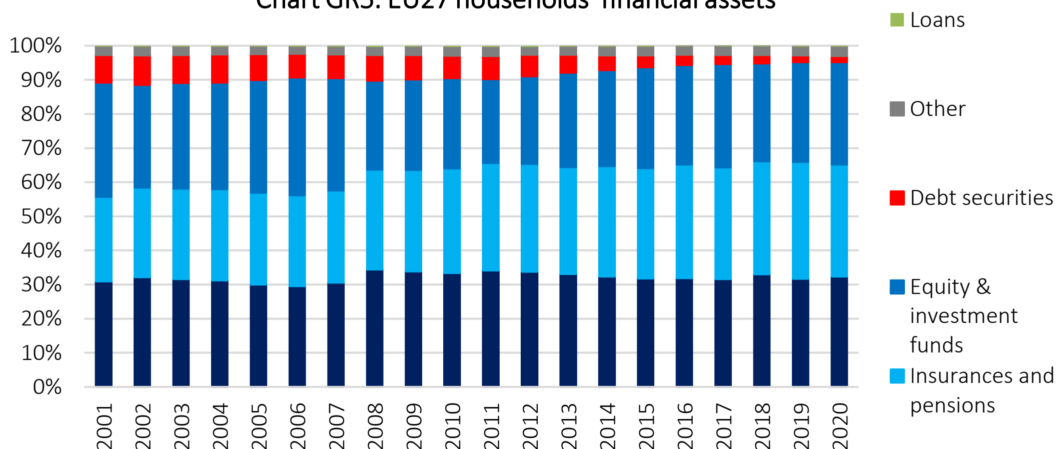
[20] Art. 67, Schedule to Part XI, of the European Code of Social Security, available at: https://rm.coe.int/168006b65e.

[21] Here we take only the financial point of view, but there are several other factors (non-financial) that contribute to "*maintaining the standard of life at retirement*", such as home ownership, sources of income, employment opportunities and access to non-financial benefits – see European Commission, *European Semester Thematic Factsheet: Adequacy and Sustainability of Pensions* (2017) European Commission, p. 3, available at: https://ec.europa.eu/info/sites/default/files/file_import/european-semester_thematic-factsheet_adequacy-sustainability-pensions_en_0.pdf.



Source: own composition based on Eurostar data; *EU27 replacement ratio corresponds to 2019; Slovakia replacement ratio corresponds to 2020

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



Source: BETTER FINANCE based on Eurostat data

Our findings clearly confirm that capital market performances have unfortunately very little to do with the performances of the actual savings products distributed to EU citizens. This is particularly true for long-term and pension savings. The main reason is the fact that most EU citizens do not invest the majority of their savings directly into capital market products (such

as equities and bonds), but into “packaged products” (such as investment funds, life insurance contracts and pension products).

3. Performance: capital markets are not a proxy for retail investments

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

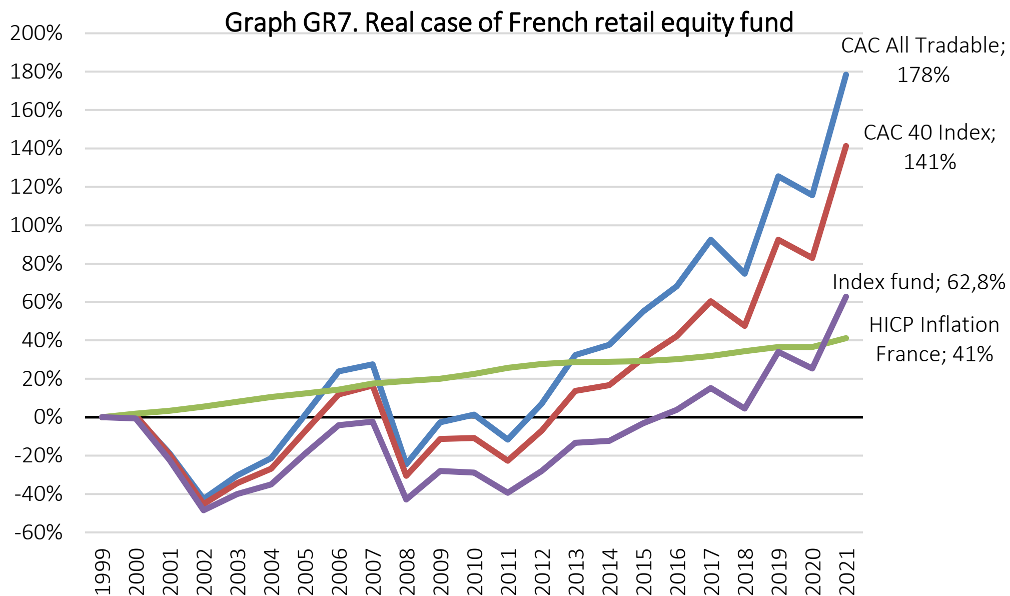
Table GR3 and Graph GR4 below show two striking – but unfortunately not uncommon – real examples of this largely ignored reality: capital market performance is not a valid proxy for retail investment performance and the main reasons for this are the fees and commissions charged directly or indirectly to retail customers. The European Commission itself publicly stressed this fact (see footnote 2 above).

Table GR6. Real case of a Belgian life insurance (branch 23)

Capital markets vs. Belgian individual pension insurance 2000-2021 performance	
Capital markets (benchmark index*) performance	
Nominal performance	288%
Real performance (before tax)	183%
Pension insurance performance (same benchmark)	
Nominal performance	182%
Real performance (before tax)	116%

*Source: Sources: BETTER FINANCE own computations based on Morningstar public website; *Benchmark is composed of 50% bonds (LP06TREU) and 50% STOXX All Europe Total Market Return*

The real case above illustrates a unit-linked life insurance product (Pillar III in Belgium). The pension product’s nominal return amounted to less than two thirds of its corresponding capital market benchmark’s return.



Source: Own elaboration based on Graph FR3 in the French chapter

The real case above illustrates an investment fund domiciled in France, a so-called retail CAC 40 "index" fund.[22] The fund actually underperformed the relevant equity index by 78.5 p.p. after 22 years of existence (1.85% per year), with the performance gap fully attributable to fees. The fund has also massively destroyed the real value of its clients' savings, as inflation has been almost twice as high as its nominal performance. It is quite surprising that with such a huge return gap vis-à-vis its benchmark, this fund is still allowed to portray itself as an "index-tracking" one, and that no warning is to be found on the Key Information Document (KIID) of the fund.

4. European Pension returns outlook

Our research findings show that most long-term and pension savings products did not, on average, overperform a broad capital markets index (balanced 50% equity – 50% bond), and in one too many cases even destroying the real value for European pension savers (i.e., provided a negative return after inflation). Based on our calculations and available data, 37 out of the 41 retirement provision vehicles analysed underperformed European capital markets by an average 1.93% per year. Moreover, three out of these 37 even delivered real negative performances over long-term periods (between 15 and 22 years).

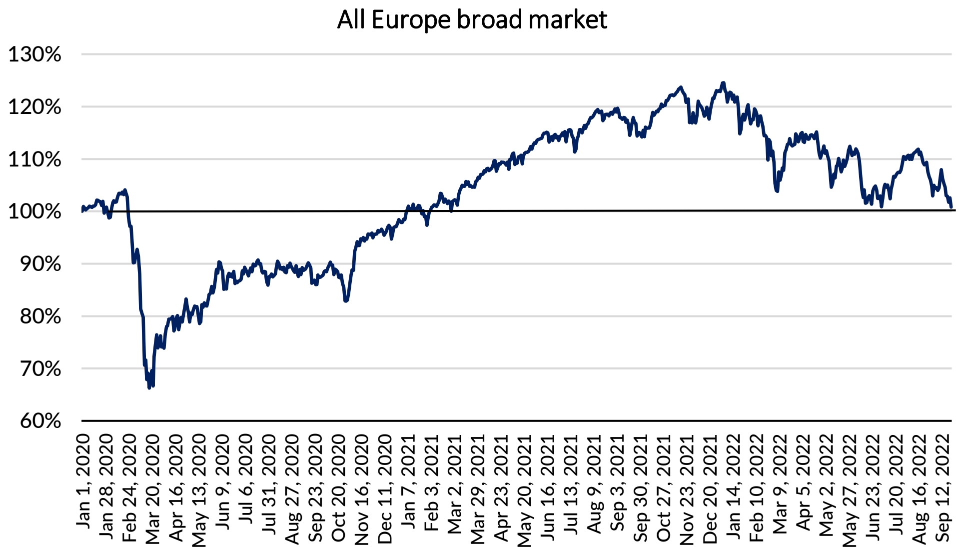
At the time of writing, the overall mid-term outlook for the adequacy of European pension savings is worrying when one analyses it for each of these main return drivers:

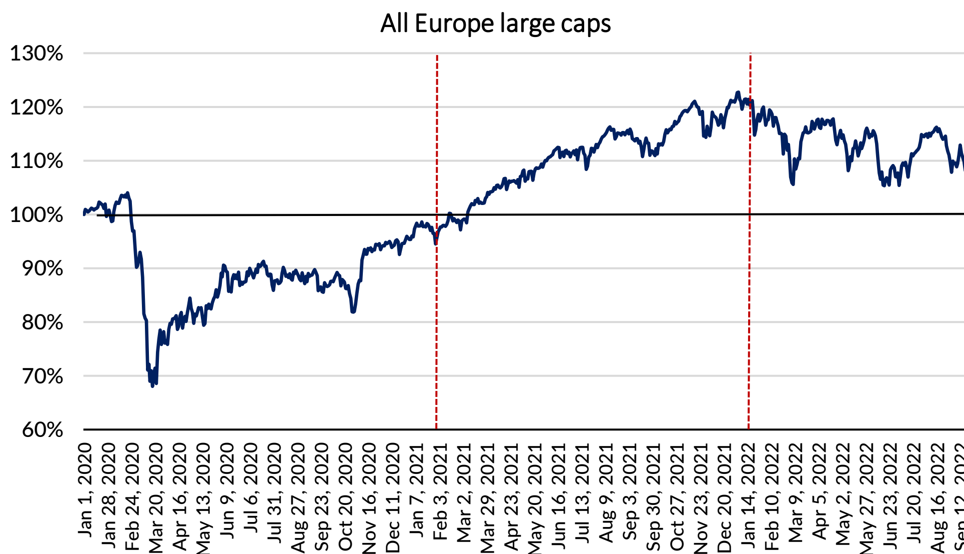
a) it is unlikely that the European bond markets will come any closer to the extraordinary returns of the period ended in 2020 for bonds due to the continuous

[22] Wrapped in an insurance contract as suggested by the distributor.

fall of interest rates, currently at rock-bottom levels; moreover, the reversal of quantitative easing programmes of Eurozone central banks will further affect the returns on sovereign bonds; the negative impact of this foreseeable trend in bond returns on pensions' returns will be reinforced by a higher proportion of bonds in pension products' portfolios in recent years; this is all the more relevant due to monetary policy response to the health-generated recession;

b) the strong growth of equities in 2020 and 2021 is already reverting, with the European all country broad equity index reaching pre-2020 levels and the large caps market also close by;

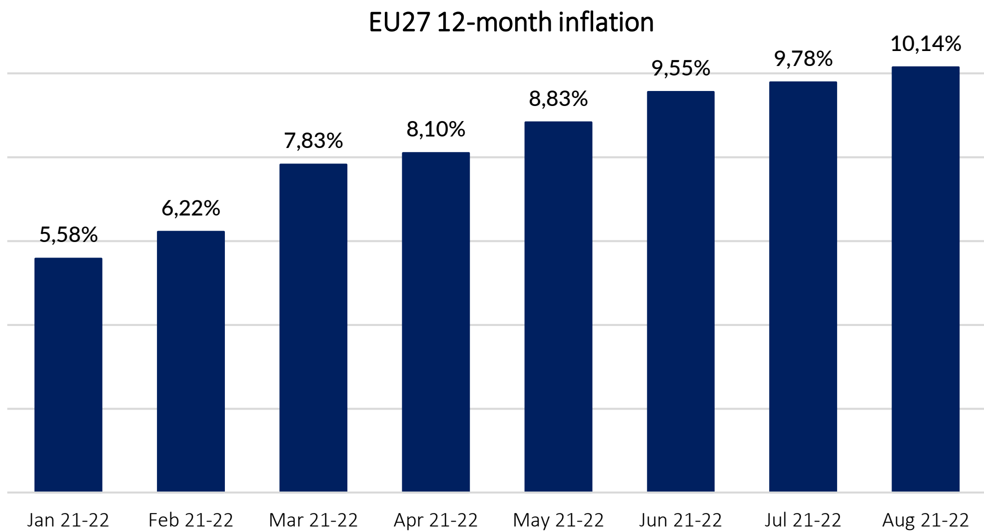


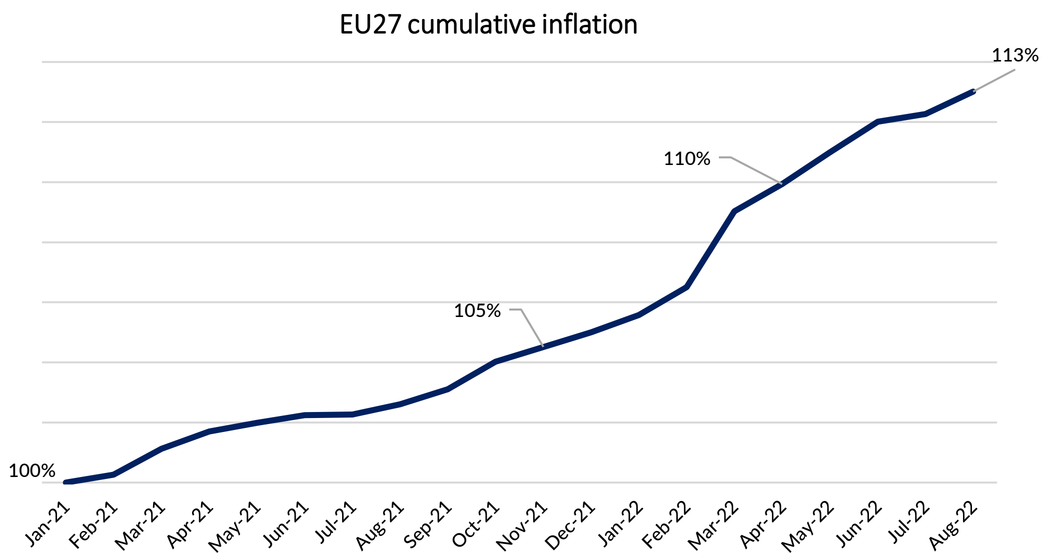


Source: Own composition based on MSCI data

c) costs and charges, as far as our data indicates, are not significantly improving;

d) inflation already took a heavy toll on pension returns in 2021 and it will be much, much stronger in 2022 due to record rates;





Source: Own composition based on Eurostat data

e) Taxes on long-term and pension savings do not show any significant downward trend either.

Pension Savings: The Real Return

2022 Edition

Country Case: France

Résumé

Le système français de retraite continue à reposer majoritairement sur les régimes d'assurance vieillesse de base et complémentaire par répartition (Piliers I et II), avec un taux moyen de remplacement du revenu d'activité de 48% en 2020,[112] et une valeur totale des actifs représentant 11.1% du PIB en 2021.[113] Malgré une allocation d'actifs plutôt dynamique, les plans d'épargne-retraite entreprise ont eu un rendement réel de +4.26% en 2021 et +0.96% en 22 ans entre 2000-2021 (+23.4% 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 : +37.3% (+1,45% en moyenne annuelle) pour les fonds en euros (à capital garanti) encore dominants, mais -8.4% (-0,4%) 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.

Summary

The French pension system continues to rely heavily on the mandatory "pay as you go" Pillar I and Pillar II income streams, with an aggregate replacement ratio for pensions of 48%,[114] and a total value of retirement assets of 11.1% of the French GDP in 2021.[115] Despite a rather dynamic asset allocation, corporate pension plans had an annual real net return of +4.26% in 2021 and +0.96% average annual for the 22 years between 2000-2021 (+23.4% 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: +37.3% (+1.45% annual average) for the still dominant capital guaranteed ones, but -8.4% (-0.4%) for the more promoted and faster growing unit-linked ones, despite very positive listed stocks and bonds returns. The personal products specifically dedicated to pensions (PER, PERP, Préfon, Corem, etc.) are much smaller, and their performances are less transparent and most often poorer.

[112] Voir Report GR9(B) du General Report, dans la section concernant la France - *aggregate replacement ratio for pensions*, selon les données d'Eurostat.
[113] Voir Report GR10 du General Report, selon les données d'OECD *Preliminary Data* 2021 (10 Juin 2022).
[114] See Table GR9(B) in the General Report, in the section concerning France – *aggregate replacement ratio for pensions*, according to Eurostat data.
[115] See Table GR10 of the General Report, based on OECD Preliminary Data for 2021 (10 June 2022).

Sustainability disclosures assessment and ranking

The following analysis was prepared by Zielke Research GmbH, based on the methodology available here.

Executive Summary

Environmental, Social and Governance aspects (ESG) have become an important feature in the choice of investment products, and particularly pension products as these usually amass large volumes of capital for long-term periods, making them the vehicles with the highest potential to drive stable and sustainable change.

According to new EU law provisions, in force since August 2022, distributors must inform, explain, and ask new clients about their sustainability preferences and take the latter into account when making suitability or appropriateness assessments. For this, disclosure of ESG/sustainability information in the public disclosure documents of financial institutions becomes a key aspect of "retail" investors protection.

The researchers analysed the 20 largest (by gross written premiums) insurance companies domiciled in France that provide life-insurance products (as the general FR case shows, life-insurance contracts make for a large part of voluntary retirement provision vehicles in France).

Our analysis shows that, on a company level, a certain degree of insight is given into the different investment styles in the reports published by insurance companies. On a product level, however, based on publicly available information, the majority of pension providers do not give sufficient information. As an overview, the best disclosure (most valuable information) was given by AXA and Generali, whereas 13 out of the 20 companies researched did not give relevant information on a product level.

At insurance company level, the researchers also evaluated their disclosures on a point system, explained at the end of this assessment.

Introduction

What is the EU taxonomy? | The EU taxonomy defines technical criteria to evaluate whether an economic activity contributes to one of the following six environmental objectives:

- climate change mitigation,
- climate change adaptation,
- protection of water and marine resources,
- avoiding pollution,
- enhancing circular economy projects,
- protecting biodiversity.

For the time being, only the first two criteria are defined by the EU. The four others will follow soon.

If an activity falls within the technical criteria defined by the EU taxonomy, it can be called sustainable. But it must not put harm to any of the other five objectives. If an insurance product or an investment fund invests in such an asset, it would fit the client's preference for an economically sustainable objective. But other aspects are also important:

Stranded assets	Stranded assets could be defined as assets that are stranded due to new government regulations that limit the use of fossil fuels (like carbon pricing), a change in demand (for example, a shift towards renewable energy because of lower energy costs) or even legal action against high emitters (LSE). If the insurance provider invests in possible stranded assets because he thinks these assets might overperform (in the current energy crisis oil and gas stocks have outperformed by far the rest), he might face the problem that he will not be able to sell the assets on the market as the other actors also consider ESG aspects. Then the policyholder cannot be reimbursed.
Riskiness	More sustainable companies tend to be perceived as less risky by the stock market and investors benefit from a lower cost of equity capital and, as a consequence, better access to finance. Taking into account sustainability risks in the owning company's strategy shows that the management is anticipating the effects of climate change in their risk policy. This is then reflected in the stock price or corporate bond spread.

Different investment styles | There are different ways in order develop an ESG investment strategy on the pension provider's side:

- **Exclusion**: it implies excluding (from the list of potential investments) the companies that violate internationally recognized standards or conventions; It would not be unfair to say that Exclusion could be considered the easiest strategy to put into place. You just define negative criteria the invested companies must not fall into. Typical examples are not investing in alcohol, weapons or coal industries.
- **Best-in-class**: investing in the companies with the most sustainable performance; Best-in-class is already a bit more complicated. You have to choose the investment funds which implement ESG criteria at the strictest. However, as these criteria may vary, it is also a bit vague;
- **Sustainability themed**: investments in companies whose activities contribute to solving societal problems; Sustainability themed is not limited to environmental issues and shows a general commitment to ESG issues when selecting financial assets. It is more a guideline than strict rules.
- **ESG integration**: consideration of ESG indicators in asset analysis and for assessing investment decisions; ESG integration is more concrete. The pension provider defines clear parameters which have to be respected before he decides to invest;
- **Engagement & Voting**: direct participation in ESG strategy of investee companies; Engagement & Voting goes beyond looking at ESG criteria. The asset manager tries to influence the company's strategy he decides to invest in by exerting his voting rights at the general assembly. This works only with equity investments.
- **Impact investing**: investing in companies to achieve measurable, beneficial, social or environmental impacts; Impact Investing is the most powerful and difficult investment style. The asset manager chooses for instance a polluting industry, puts the condition that,

with the given capital, the company has to reduce its CO_2 emissions by 40 % within three years and tracks down the performance every year.

Methodology

Scope	We looked at the 20 biggest private French life and pension providers: Allianz, AXA, AG2R La Mondiale, Apicil, Aviva, BNP Paribas Cardif, CNP Assurance, Crédit Agricole Assurances, Covéa, Generali, Groupama, Groupe des Assurances du Crédit Mutuel, HSBC, Le Conservateur, MACIF, MAIF, Natixis Assurances, Société Générale Assurances, Suravenir, Swiss Life.
Data sources	Data sources used are mainly CSR/sustainability reports as well as the official websites of the 20 pension providers. Some other sources such as articles on Sustainanalytics to define certain technical terms were used. We have put our judgements on which investment style the pension providers are following given the information in their CSR reports.
Determining investment styles	First, we looked at the different sustainability or Corporate Sustainability Reports (CSR) based on the fiscal year 2020. We tried to find the information given to qualify the investment style. In a second step, we asked ourselves whether this information is transmitted to the interested policyholder when he wants to get informed about an insurance product. We looked at the company's website and, depending on the result, we qualified the information given. Each step is described company by company.

Key concepts:

Non-financial returns |	It is the returns beyond the financial short-term performance. For example, new product development or expanding organizational capabilities may be important strategic goals but may hinder short-term accounting performance in the short-term.
ESG risks |	ESG risks are risks related to a company's environmental, social and governance practices. Investors, lenders and customers may rely on ESG data to assess a firm's risk exposure to therefore decide on their investments or purchasing choices.

Analysis

I. Allianz France

I.1. Investment Styles

Best-in-class: Allianz's sustainable strategies apply sustainability assessments to construct portfolios reflecting their clients' values. All apply exclusions and climate engagement or SRI best-in-class. However, they do not use best-in-class as a strategy for their proprietary investment.
Sustainability-themed: Some of Allianz's investments are sustainability-themed funds.
ESG integration: The company provides details about the number of transactions undergoing ESG analysis per sensitive sector as well as explanations about ESG integration processes. An

example of ESG integration is the real estate sector, where investments are only made in buildings that have received green certification.

Engagement & Voting: The company explains its engagement processes, and it provides information about its engagement practices and a breakdown per sector, topics and location. It mentions regular dialogue and exchange with the insurance's clients, investee companies and asset managers.

Exclusion: The company provides an overview of all sectors in which Allianz has invested, including € 6,331 million divested or settled from coal-based business models since 2015.

Impact investing: The company provides impact investing funds for asset management clients, but they do not proceed to impact investment in their proprietary investments.

I.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	1
Were ESG opportunities and risks clearly identified?	1
Are green investments options available?	1
Do clients have a say?	-1

I.3. Particular comments on provision of ESG information

Allianz France: Clearly explains the approach of the integration of ESG factors in the investment decisions; Demonstrates the alignment of the company's ambitions with the Paris accords (financing low carbon emission solutions, accelerating energy transitions etc); Develops methods and tools to measure the impact of their investments on soil erosion, natural capital, flora and fauna, water and air pollution; Presents their ESG approach in actual numbers; Explains the Taxonomy and SFDR regulations and how the company is implementing it; and provides details about their green portfolios.

II. AXA

II.1. Investment Styles

Best-in-class: no particular information given.

Sustainability themed: The company mentions holding green bonds for the energy transition.

ESG integration: Based on the annual report, some of the company's investments are aligned with the Sustainable Development goals. Additionally, investments in companies meeting strict environmental criteria account for a growing proportion of the Group's financial assets; the Group mentions a commitment to address biodiversity loss through investment and underwriting policies. There is also information about the ESG review process within the due diligence for ESG integration strategy in investment in the climate report.

Engagement & Voting: In its climate report, AXA provides a description and several topics where it engaged in ESG topics.

Exclusion: Based on the annual report, AXA mentions divestment in coal and exclusion of the following sectors: controversial weapons, coal mining and coal-based power generation, tar oil sands and associated pipelines, palm oil, food commodity derivatives and tobacco.

Impact investing: AXA's fund invests in companies that have committed to generating positive, measurable impact externalities for the environment or society. €700 M was committed to impact investing since 2013. Also, the company launched a $175 million "Impact Investment" fund focused on biodiversity protection. In 2020, AXA decided to double this commitment to $350 million.

II.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	1
Were ESG opportunities and risks clearly identified?	1
Are green investments options available?	1
Do clients have a say?	1

II.3. Particular comments on provision of ESG information

AXA includes: Information about the different green investments the company invests in; Explanation of the SFDR regulation and how the company is implementing it; Explanation of the importance of green investments; Explanation of the fact that performance and green investment are not mutually exclusive; Introducing different labels to determine responsible investments; and provides the customer with the option to have a say regarding SRI strategy: either investing with a positive impact strategy or exclusion strategy (not including harmful activities).

III. AG2R La Mondiale

III.1. Investment Styles

Best-in-class: The company uses funds that go beyond the common basis of the IR policy to select the best issuers in each sector (best-in-class approach).
Sustainability themed: The company holds sustainable bonds and green activities.
ESG integration: The company declares extra-financial performance and takes it into account in its investment decisions.
Engagement & Voting: The SRI team held 65 meetings in 2020 to discuss and vote on topics related to COVID/exchange, climate, biodiversity, governance and social issues.
Exclusion: Outstanding coal-related assets were reduced by 10 % regarding MSCI and other benchmarks.
Impact investing: 55 % of the company's real estate assets are certified green.

III.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	1
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	1
Do clients have a say?	1

III.3. Particular comments on provision of ESG information

AG2R La Mondiale: offers the possibility to choose how their customers' money will be invested including socially responsible investments but has very limited information about green investments and no details about their socially responsible investments.

IV. Apicil

IV.1. Investment Styles

Best-in-class: As part of the Group's SRI trajectory, in 2020, APICIL Asset Management has undertaken an innovative transformation of its "Stratégie indice Europe" mutual fund into a "Stratégie Euro ISR" mutual fund. This innovation will be extended over 2021 to other APICIL Asset Management funds.
Sustainability themed: The Group has thus chosen to invest in investment funds created in the context of the COVID-19 crisis to support weakened economic players:
- €500,000 by APICIL Mutuelle for the FNMF's IMPACT investment fund.
ESG integration: The company has an outstanding 86 % Carbon intensity coverage rate. The Group also uses the services of an extra-financial rating agency (MSCI) to inform its investment decisions.
Engagement & Voting: The company applies principles of engagement and shareholder dialogue since 2021.
Exclusion: The company's SRI policy is based on 4 pillars: exclusion, ESG screening, environment and engagement. As an example, the Group is committed to excluding issuers whose activities are deemed incompatible with APICIL's values (coal, alcohol and tobacco above a defined threshold, controversial weapons).
Impact investing: The company invested and developed impact Scoring-as-a-Service.

IV.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

IV.3. Particular comments on provision of ESG information

No information is available.

V. Abeille Assurance (old Aviva)

V.1. Investment Styles

Best-in-class: Aviva mentions green investments based on EU Taxonomy.
Sustainability themed: Aviva accompanied 4815 green projects and 100+ companies and incubators in 2020.

ESG integration: Aviva mentioned an increase in green bond positions based on EU Taxonomy. The company also offers pension-saving solutions that have CSR labels.
Engagement & Voting: Aviva voted against the ESG policies of Royal Dutch Shell and Exxon Mobil.
Exclusion: Aviva plans the complete exclusion of coal in 2030.
Impact investing: Dedicated funds to help companies in difficulty due to the Covid crisis.

V.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	1
Were ESG opportunities and risks clearly identified?	1
Are green investments options available?	1
Do clients have a say?	1

V.3. Particular comments on provision of ESG information

Abeille Assurances (old Aviva): Explains socially responsible investments in a simple and clear way; Provides constructive arguments about the importance of SRI; Offers clients, a wide range of responsible investments options; Provides the details about which kind of green investments constitute their portfolios; and includes the use of labels to prove that their funds take into account ESG factors.

VI. BNP Paribas Cardif

VI.1. Investment Styles

Best-in-class: 78 % of the company's assets reach a high ESG inclusion.
Sustainability themed: According to Bloomberg, the company is the second largest global player with €10.8 billion in green bonds.
ESG integration: The company has put in place an ESG strategy and a rating/climate risk management process to integrate these risks into overall risk management.
Engagement & Voting: Most resolutions are on governance issues and a few resolutions deal with environmental and climate issues.
Exclusion: Progressive exclusion of coal.
Impact investing: The company chooses investments with positive impact to generate a measurable environmental (renewable energies, protection of the biodiversity) and/or social, societal (job creation, inequalities reduction) impact.

VI.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

VI.3. Particular comments on provision of ESG information

No information is available.

VII. CNP Assurances

VII.1. Investment Styles

Best-in-class: Only partly.
Sustainability themed: Based on Bloomberg, CNP Assurances is the second largest actor with €10.8 billion in green bonds for its clients in 2020.
ESG integration: The company has in place an ESG strategy, a process to manage risks related to climate, and it integrates ESG factors in the global management of risks.
Engagement & Voting: CNP Assurances voted in 110 general meetings in 2020.
Exclusion: The company progressively excludes coal actors from its investments (1000 excluded already).
Impact investing: European leader I, sustainable thematic with 18.4 billion in assets under management at the end of 2020.

VII.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

VII.3. Particular comments on provision of ESG information

No information is available.

VIII. Crédit Agricole Assurances

VIII.1. Investment Styles

Best-in-class: Investments in certified (BREAAM) real estate assets.
Sustainability themed: Based on the ESG report, the company has €6.3 billion in green bonds at the end of 2020.
ESG integration: The company relies on ESG criteria in supplier selection. Additionally, it has +45% of assets under management in contracts with SRI, Finansol and Greenfin labels, and it has +57% of green loans in its portfolio.
Engagement & Voting: The shareholders voted in 69% of the General Assemblies.
Exclusion: Exclusion of coal and tobacco.
Impact investing: The company invested € 7 billion in green offices and buildings.

VIII.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

VIII.3. Particular comments on provision of ESG information

No information is available.

IX. Covéa

IX.1. Investment Styles

Best-in-class: Investments in certified ISR funds.
Sustainability themed: The company invests in the following: "Covéa actions solidaires, Covéa Flexible ISR, Obligations vertes".
ESG integration: Covéa finance, portfolio management, subject to the Energy Transition Law.
Engagement & Voting: The company organizes multiple general meetings during the year to vote on important matters (Board of directors' appointments etc).
Exclusion: The company has put a plan to completely exclude coal in 2030.
Impact investing: The company has funds which are considered Impact investing funds including "Covéa Aeris, Covea Aqua, Covéa Solis, Covéa Terra, Covéa Immobilier, Charte énergétique, Empreinte Carbone".

IX.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	1
Do clients have a say?	-1

IX.3. Particular comments on provision of ESG information

No significant information is available (except CSR report).

X. Generali

X.1. Investment Styles

Best-in-class:
United Nations Global Compact, PRI since 2007 and 2011. Assets appraised by GIAM, Trucost, and S&P Global.
Sustainability themed: €1.6 billion in green bonds with labels such as ISR, Greenfinch and Sycomore.
ESG integration: 47% of the portfolio is eligible for the EU Taxonomy.
Engagement & Voting: No significant information is given.
Exclusion: The company has presented a plan for decarbonization in 2050.
Impact investing: €3.8 billion of real estate assets are certified BREEAM and LEED.

X.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	1
Were ESG opportunities and risks clearly identified?	1
Are green investments options available?	1
Do clients have a say?	1

X.3. Particular comments on provision of ESG information

Generali: Offers to invest responsibly via labelled funds such Label ISR, Label Finansol and Label Greenfin.

XI.Groupama

XI.1. Investment Styles

Best-in-class: BREEAM or LEED certification for sustainable real estate.
Sustainability themed: The company invests in social housing, renewable energies and green buildings.
ESG integration: The company uses ESG criteria to select suppliers. Additionally, it has ESG management strategies for more than 45 % of assets under management.
Engagement & Voting: Voting in 69 % of general meetings.
Exclusion: The Company excludes coal and tobacco.
Impact investing: The company launched green structured products in 2020 for reforestation or to support territories and SMEs.

XI.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

XI.3. Particular comments on provision of ESG information

No information is available.

XII. Groupe des Assurances du Crédit Mutuel

XII.1. Investment Styles

Best-in-class: The company has 14 pension funds with SRI, Greenfin and Finansol labels.
Sustainability themed: The company has green and sustainable development bonds. €3.8 billion for ESG p19.
ESG integration: 50.1 % of assets under management include ESG criteria, compared to 48.2 % in 2018.

Engagement & Voting: GACM exercises its voting rights assisted by ISS to develop ISS' sustainability policy.
Exclusion: Progressive exclusion of coal, 80 million € divested by 2020 and no more new coal-related infrastructure.
Impact investing: The company launched green structured products in 2020 for reforestation or to support territories and SMEs. It also invests in real estate investments certified by SINTEO, BREEAM, HQE and BBCA.

XII.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

XII.3. Particular comments on provision of ESG information

No information is available.

XIII. HSBC Insurance

XIII.1. Investment Styles

Best-in-class: The company has €1.6 billion in green bonds including investments in sustainable infrastructure and energy systems.
Sustainability themed: Almost 89 % of total assets under management were invested according to at least one of the seven strategies defined by the Global Sustainable Investment Alliance.
ESG integration: The company raised ESG issues in engagements with over 2,300 corporate and non-corporate issuers in 78 markets in 2020.
Engagement & Voting: The company voted on more than 86,000 resolutions at over 8,200 company meetings in 70 markets.
Exclusion: The company excludes coal.
Impact investing: No significant information is given.

XIII.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

XIII.3. Particular comments on provision of ESG information

No information is available.

XIV. Le Conservateur

XIV.1. Investment Styles

Best-in-class: The company markets SRI label.
Sustainability themed: Minor significant information is given.
ESG integration: Minor information is given.
Engagement & Voting: The Group votes on proposals that are of interest to the members such as executive compensation, dividend and capital issues, diversity of the board and capital issues.
Exclusion: Minor information is given.
Impact investing: No significant information is given.

XIV.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

XIV.3. Particular comments on provision of ESG information

No information is available.

XV. MACIF

XV.1. Investment Styles

Best-in-class: The company has real estate assets managed by Macifimo Finansol, Greenfin, ESG Luxflag, state SRI labels.
Sustainability themed: The company has €735 million of green bonds.
ESG integration: No significant information is given.
Engagement & Voting: The Company organized relevant meetings including a meeting with bond issuers and another one related to plastics.
Exclusion: Exclusion of coal in 2020.
Impact investing: The company invested in the following:

- €17 billion in real estate assets that are certified or in progress,
- investments in renewable energies in 2020.

XV.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	-1
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	1
Do clients have a say?	1

XV.3. Particular comments on provision of ESG information

MACIF: Automatically invests in projects for the development of renewable energies, plastic recycling or social integration projects.

XVI. MACSF

XVI.1. Investment Styles

Best-in-class: The company has European convertible bonds with an SRI label and energy transition funds according to Greenfin and Finansol.
Sustainability-themed: The company invests in green bonds, infrastructure funds, and renewable energies.
ESG integration: The Company takes into account ESG factors in its investment strategies and has at least 8% of funds that respect the ESG factors.
Engagement & Voting: Dialogue with companies the company has invested in to encourage them to implement the Group's ESG policies, in particular, to reduce their carbon impact.
Exclusion: The company excludes any investments in coal and tobacco.
Impact investing: Responsible investments have doubled in two years to €1.3 billion in 2020.

XVI.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	1
Do clients have a say?	1

XVI3. Particular comments on provision of ESG information

No information is available.

XVII. Natixis Assurances

XVII.1. Investment Styles

Best-in-class: The Company has put in place a methodology to avoid investing in companies with mediocre ESG investment strategies.
Sustainability themed: The company invested €880 million in green bonds.
ESG integration: Minor information is given.
Engagement & Voting: Minor information is given.
Exclusion: Minor information is given.
Impact investing: The company supports the stimulus plan presented by the Minister of the Economy in 2020.

XVII.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

XVII.3. Particular comments on provision of ESG information

No information is available.

XVIII. Société Générale Assurances

XVIII.1. Investment Styles

Best-in-class: 90 % of assets are in connection with the requirements of the reporting standards of the Task Force on Climate Disclosures (TFCD).
Sustainability themed: The company invests in green bonds.
ESG integration: 93 % of assets are covered by ESG analysis.
Engagement & Voting: In 2020, the various types of direct engagement resulted in 2,378 topics with 878 companies in ESG topics.
Exclusion: Funds are aligned with Paris Agreement. Exclusion of investments in Tobacco and coal.
Impact Investing: Societe Generale structured and distributed the first "Positive Impact Support Notes - Africa", enabling their clients to promote Positive Impact Finance in Africa, including projects to build hospitals or provide access to drinking water.

XVIII.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

XVIII.3. Particular comments on provision of ESG information

No information is available.

XIX. Suravenir

XIX.1. Investment Styles

Best-in-class: The company invests in real estate funds with SRI and Greenfin labels.
Sustainability themed: Suravenir has committed nearly 780 million in activities that promote the energy transition.

ESG integration: The company developed an environmental charter and integrated ESG in its investment policy.
Engagement & Voting: Suravenir responded to 100% of the votes at the 47 General meetings for which it held voting rights.
Exclusion: There are no investments in coal.
Impact investing: Primonial Reim manages 56 % of real estate under PRI and SRI standards.

XIX.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

XIX.3. Particular comments on provision of ESG information

No information is available.

XX. Swiss Life

XX.1. Investment Styles

Best-in-class: Distribution of green labeled funds.
Sustainability themed: Minor information is given.
ESG integration: Minor information is given.
Engagement & Voting: Minor information is given.
Exclusion: Swiss Life does not invest in sovereign bonds issued by states that are sanctioned by the United Nations Security Council or by the European Union.
Impact Investing: Participation of 25 million CHF in impact investments.

XX.2. Evaluation

Information type	Grade
How easy is it to get ESG information?	N/A
Were ESG opportunities and risks clearly identified?	-1
Are green investments options available?	-1
Do clients have a say?	-1

XX.3. Particular comments on provision of ESG information

No information is available.

Ranking | Based on the above results, we have added up the different scores to create a ranking – in terms of how well the investment styles are applied and explained.

ESG in investment policy	Minimal points	Maximal points
Best-in-class	-1	0,5
Sustainability themed	-1	1
ESG integration	-1	0,5
Engagement & Voting	-1	1,5
Exclusion	-1	0,5
Impact investing	-1	2

Source: Zielke Research Consult

In addition, we award points for the four aspects in the analysis section. On this basis, points are awarded for transparency: +1 if the information given is detailed (on each category, risks, opportunities and impacts on investment returns), 0 if the information is addressed but not detailed (on each category), -1 if no information is given (on each category).

Introduction

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

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

Introductory table: French Pension System Overview		
Pillar I	**Pillar II**	**Pillar III**
Mandatory State Pension	Mandatory Private Pension	Voluntary Personal & Occupational Pension
Basic pension insurance	Supplement of the 50% pre-retirement income target of Pillar I	Divided into different financial retirement savings products
Divided into multiple sub-categories of pensions regimes for private sector, private service and special professions.	The complementary component contributions are collected by different designated paritarian institutions, depending on the sector.	Voluntary pension products are tax-incentivised in order to support participation in the third pillar and are mostly defined contribution
DB PAYG	DB PAYG	DC
Quick facts		
A relatively high old-age dependency ratio of 34.3% (2021)		
An average pre-retirement income replacement ratio of 48% (2020)		

Sources: Table GR9(B) in the General Report

Summary return table - Average real net returns of French pension savings (before tax)					
Average real net returns	1 year 2021	3 years 2019-2021	7 years 2015-2021	10 years 2012-2021	whole reporting period
Life insurance - CG	-4.19%	-1.14%	0.01%	0.46%	1.45%
Life-insurance - UL	3.41%	1.00%	1.71%	3.17%	-0.40%
Corporate plans	4.21%	4.38%	1.78%	2.68%	0.96%

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

Pillar I

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

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

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

To benefit from the basic pension allowance (*assurance vieillesse*) of the French social insurance system, a person must reach the standard retirement age, which is currently not the same for all cohorts, thus birth-date dependent.[116]

The full pension entitlement from Pillar I is calculated by multiplying the mean annual gross income,[117] by the correction coefficient,[118] and by the insurance coefficient, the latter being calculated by dividing the total insured period (limited by a set ceiling in the form of a maximum insurable period) by the maximum insurable period (thus, it cannot be higher than 1).[119]

Pillar II – occupational pensions

The French Pillar II is a mandatory defined benefit, PAYG and privately managed pension scheme, designed to supplement the 50% pre-retirement income target of Pillar I.[120]

The complementary component contributions are collected by different designated paritarian institutions, depending on the sector. The largest part of complementary mandatory contributions, those for private sector employees, are collected and redistributed by AGIRC-

[116] The standard retirement age for the basic allowance and for the full pension entitlement starts at 60 and 65 years, respectively (for those born before 1951) and grows by 5-months for each later year of birth until 1954. This is to say, all persons born after 1 January 1954 have a standard retirement age of 62 years (for the minimum allowance) and 67 years old (for full entitlement) – see https://droit-finances.commentcamarche.com/contents/1163-age-de-depart-a-la-retraite-en-2018.

[117] Which is the average of the highest 25 annual gross salaries.

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

[119] CNAV, "Elements de calcul de la pension" https://www.statistiques-recherches.cnav.fr/les-elements-de-calcul-de-la-pension.html.

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

ARRCO (employees' pension regimes association). Employer and employee participation in Pillar II is mandatory and usually set up through collective agreements.

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

Pillar III – voluntary occupational and personal plans

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

A. occupational PERs are:
- Collective corporate PERs (corporate plans, for private sector employees at large), which are set up by employers either through DC pension funds, which are progressively replacing the existing "*PERCOs"*; employee participation is voluntary;
- "Mandatory" collective corporate PERs are insurance regulated PERs which are mandatory for employees or a category of employees, once the employer has set it up. They are replacing the existing PERE.
- Existing professional or sector-specific personal plans, such as the *Contrats Madelin (for self-employed), Madelin Agricole* (for the agricultural sector) or the *CRH* (for Public Health sector,) and Préfon (mainly accessible to public employees) have or will be converted into individual PERs.[121]

B. Personal PERs UCITS unrelated to occupation
- Individual PER (People's Retirement Savings Plans), sub-divided into insurance-regulated contracts with capital guarantee (including Préfon and Corem, see below) or linked to units in collective investment schemes (UCITS or AIFs), and into securities accounts. The insurance regulated individual PERs are progressively replacing the "PERPs" ("Plan d'Epargne Retraite Populaire" or ""People pension savings plan") and "Contrats Madelin" (for self-employed workers): the existing balances can be transferred to PERs, and no such new plans can be opened since 1st October 2020.

The PER can be offered both by insurers and by banks / asset management companies, and beneficiaries are free to choose between the two pay-out options: annuities or capital withdrawals. All PERs are freely transferable to other PERs. However, the new law lifted the 15-year ban on inducements for unit-linked personal pensions in order to try to boost their promotion. French savers organisation FAIDER estimates that this will cost pension savers at the very least €20 billion over the average life of the PER contract[122].

[121] *Fonpel*, *Carel-Mudel* and *RMC* are special pension vehicles and not covered by this report.
[122] Faider.org, 6 June 2019

The new French Pension Savings Plan (PER) default option

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

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

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

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

Life insurance contracts and bank accounts still represent the two largest blocks of financial savings products in portfolios held by French households. Total outstanding insurance-regulated savings (excluding real estate units) reached €2.16 billion in 2021, i.e., 33% of total financial savings. Direct bond holdings continued to shrink to 0.54% of the total, but direct listed equity ones rose to 6%.

Table FR 1. Financial assets of French households at the end of 2021

	% of total	2021/2020
Currency and bank deposits	32.4%	0.3%
Investment funds*	4.3%	-4.7%
Life insurance & pension funds	36.1%	-4.8%
Direct investments (direct holdings of bonds and shares)	27.2%	7.6%
Total	100.0%	

* 10.2% when including "units" of insurance-regulated products

Source: Banque de France

Pension Saving Vehicles

Life insurance contracts

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

From 2016 to 2020, contributions to unit-linked contracts rose more than those to *"contrats en euros"* (capital guaranteed contracts – or misleadingly called "with profit policies" in the UK) and their share in total mathematical reserves increased from 15% to 22%.[123] This increase is partially due to capital gains but can be mostly attributed to net inflows (contributions minus

[123] Source: ACPR

benefits). Unit-linked contracts accounted for 30% of inflows to life insurance in France in 2013 and 39% in 2020.

Table FR 2. Life insurance mathematical provisions (in € billion)							
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2021/2020**
Unit-linked life contracts	285	328.4	328.3	372	416	488	17.2%
All life contracts	**1,871**	**1,919**	**1,917**	**2,057**	**2,163**	**2,181**	0.8%

Source: ACPR (solvency 2 reports)

In 2014 a new life insurance contract, the *Eurocroissance*, was created. The contract does not guarantee the invested capital in case of withdrawal until eight years following subscription. This new type of contract aims to incite savers to accept a higher level of risk in the short-term for potential better long-term returns, for example by investing more on equity markets. By the end of June 2022, those contracts amounted to only €5.4 billion of mathematical provisions,[124] probably at least partly due to the ultra-low interest rates, making it challenging to generate a decent return. Since 2016, insurers are allowed to transfer unrealised capital gains from their general assets covering capital guaranteed contracts to the *Eurocroissance* contracts to boost returns.

Personal pension plans

"PERs"

Launched in October 2019, PERs reached €48.5 billion in assets and 4.3 million participants by September 2021.

"People pension savings plan" (PERP[125])

PERPs were launched in 2004 as insurance-regulated personal pension plans. Thanks to higher contributions and paid benefits remaining low, mathematical provisions in PERP personal pension plans increased from €7.5 billion in 2011 to € 20.9 billion in 2020. New PERP contracts are not allowed since October 2020.

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

"Contrats Madelin" (for self-employed individuals)

Mathematical provisions related to "*contrats retraite Madelin*" decreased by 3.8% to 39 billion in 2020.[126] There were 1.363 million outstanding contracts at the end of 2019 (+2.0%). The "*contrats Madelin*" are widely used by self-employed individuals because the PAYG system is

[124] Source: France Assureurs
[125] *"Plan d'épargne retraite populaire"*. Figures source: FFA, French Federation of Insurance.
[126] Source: Federation Francaise de l'Assurance (FFA)

less generous (and contributions lower) than for employees. New Madelin contracts are not allowed since October 2020.

"Contrats Madelin agricole"

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

Personal pension products exempted from governance rules

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

Préfon

Préfon is a deferred annuity plan open to all current and former public employees and their spouses that had 398,500 participants at the end of 2021. Its assets under management reached €17.6 billion (market value) at the end of 2021, up from €17.3 billion at the end of 2019.[127]

Corem

Corem is also a deferred annuity plan open to everyone but so far mainly subscribed to by civil servants. It had 326,678 participants at the end of 2021 (down from 397,515 in 2016). Its assets under management went from €1.7 billion (market value) at the end of 2020 to 11.0 billion at the end of 2021.[128]

CRH

CRH (*"Complementaire Retraite des Hospitaliers"),* a deferred annuity plan[129] open to all public employees from the public health sector and their spouses, had about 350,000 participants in 2021. Its technical reserves amount to €3.3 billion in 2018.[130] We could not find more precise publicly available information.

[127] https://www.prefon.asso.fr/assets/files/publications/rapport-gestion/rapport-de-gestion-prefon-2021.pdf.
[128] Combined participants and assets of Corem (9.5 billion) and another smaller pension plan ("R1") managed by the same provider (UMR).
[129] Rights acquired before mid-2008 do not provide annuities guaranteed for life, but only for 10 to 15 years.
[130] Règlement intérieur CRH 2020 article 18.

Collective deferred annuities

In total, mathematical reserves grew a little, from €118.8 billion to 134.9 billion from the end of 2017 to the end of 2021.

For insurance-regulated corporate defined contribution plans under "Article 83" of the French tax code ("PER Entreprises" or PERE), mathematical reserves stood at €65 billion at the end of 2020.

For insurance-regulated defined benefit plans ("Article 39" of the French tax code), mathematical reserves stood at €40,5 billion at the end of 2021.

Corporate long-term savings plans

The total assets of French defined contribution corporate savings plans (PEE[131] + PERCO + collective PER) increased by 14% in 2021 to € 167.6 billion. The number of members in those plans increased to 11.2 million people in 2020.

The *"Plan d'Epargne Retraite Collectif"* (PERCO), exclusively dedicated to pension investments, is still less "mature" than other pension plans, since it started in 2004, but continues to grow quite rapidly. Since October 2019, PERCOs have begun to be converted into the new "collective "PERs". Assets under management amounted to €26 billion at the end of 2021 (+15.6% over 2020). Close to 3.4 million employees had a PERCO or collective PER at the end of 2021 and 189,000 companies propose this type of plan to their employees.

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

Charges: often opaque, high and rising

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

- **Investment funds** – According to the AMF[132], overall annual fees for equity funds were 1.51% on assets, and 1.25% overall in 2020, and they would have gone down slightly from previous years. However, these averages are not asset-weighted, and include 2,374 funds, both "retail" and "institutional" ones. Moreover, they only include French-domiciled funds and leave out other UCITS funds sold to French individuals. Even more important is the fact that the AMF data do not take into

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

[132] La lettre de l'Observatoire de l'épargne de l'AMF - n° 47 – février 2022

account the fact that two thirds of investment funds offered to French retail investors are via insurance contracts' "units".

- For French equity funds offered via those, annual total charges of the funds themselves reached 2,17% on average in 2021 and 1,96% for the now most offered mixed funds[133]: much more expensive than the overall French fund market estimated by AMF.
- But the full "units" cost was even higher: respectively 2,98% and 2,77%, when including the annual contract wrapper charge.

These charges are very high: the average ongoing fund charge for all UK domiciled active funds (both equity funds and all other funds) was only 0.92 % in 2015 (1.38% for retail funds and 0.69% for institutional ones).[134]

- **Insurance capital-guaranteed contracts *("fonds en euros")* –** Since 2018, the national supervisor ACPR publishes their annual average charge, based on a sample of 93 insurers. The published charge increased from 0.62% in 2020 to 0.65% of assets in 2021[135], but doesn't include:
  - the profit sharing taken by insurers (0.31% in 2019[136]),
  - the underlying fund fees,
  - and the impact of any entry and exit fees.

- **Unit-linked insurance contracts** - Neither ACPR nor the industry trade body disclose any information on the total charges of UL insurance, which cumulates at least two annual asset-based fees: the units' (investment funds) charges plus those of the wrapper contract itself. Contract fees alone account for 0.81% to 0.95% in fees on average per annum on assets according to private surveys[137].Overall, for unit-linked insurance contracts invested in French equity funds, the total average fees are estimated at 2.98% per annum, 2.08% when invested in bond funds, and 2,77% when invested in mixed funds[138]. Mixed funds and equity funds combined account for 71% of all funds in French unit-linked contracts[139]. Two thirds of investment funds held by French households are through these unit-linked insurance contracts. These actual total annual charges are never disclosed to prospects and retail clients either.

And these fees do not include the "delegated management" fees which are growing as more and more savers are directed by insurers and distributors to this "delegated

[133] Source: Good Value for Money
[134] UK Financial Conduct Authority – Asset Management Market Study, November 2016 https://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf
[135] ACPR, 2022
[136] Source: ACPR, 2020 (did not publish more recent data)
[137] Dossiers de l'épargne n°152, 2014. A more recent evaluation from Goodvalueformoney.eu (2021) mentions 0,81% but could be on the rise as newer contracts tend to charge 1,00% or more.
[138] Good Value for Money, newsletter nr. 54, August 2022
[139] AMF, cartographie des risques, 2022, page 106

management” in unit-linked contracts. There are no aggregate data on the amount of these additional asset-based fees, but it often represents an additional 0,30% or more every year on assets.

The total average fees of around 3% per year or more also seem to be rising further. For example, the biggest life insurance subscribing association announced an increase of its units-linked contract annual fees by 35 basis points in 2019 [140].

- Personal and occupational pension plans - There are very few data available on their charges as well as for corporate DC plans. When available, the data tell us that they are on average rather high. For example, Préfon charged 0.54% on assets for asset management plus a 3.90% entry fee in 2020. For unit-linked personal pension products, the French government has lifted the 15-year ban on commissions in 2019, when deciding to end “PERPs” for “PERs” (see above, previous sections). This massively increases their charges. FAIDER estimates the cost impact for French pension savers to represent a minimum of €20 billion over the life of these personal pension plans[141]. A recent study of the National Public Advisory Committee CCSF[142] estimates that the annual ongoing costs of the new equity “units” alone are close to 3%, of which close to 0.90% result from commissions (“inducements”). This represents an increase of more than 40% in annual charges for the new PER compared to its PERP predecessor, for which commissions on “units”, if any, have to be credited back to the PERP itself, i.e., to its participants.

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

The CCSF report also points to the opacity of these total annual charges and recommends the public disclosure of total annual charges of unit linked PERs, i.e., the sum of the underlying “units’ costs and the wrapper fee. This was obtained by FAIDER back in 2005, but this disclosure rule was repealed two years later by the French Authorities. The French Government then reinstated the mandatory disclosure of the total annual charges in February 2022[143]. This also applies to all UL life insurance contracts.

Since 2018, the French Supervisor ACPR estimates the average annual charges for the capital guaranteed funds in the personal and occupational insurance regulated pension products and puts it at 0.43% for 2021. But like for life insurance, this does

[140] Afer.fr, 2019
[141] Faider.org, June 2019
[142] CCSF – Rapport sur les nouveaux plans d’épargne retraite, July 2021
[143] Arrêté du 24 février 2022 portant renforcement de la transparence sur les frais du plan d’épargne retraite et de l’assurance-vie

not include the profit sharing for the provider (0.24% on average in 2018), the underlying fund fees or the impact of entry and exit fees. Exit fees can be very heavy on annuities, typically 1 to 3% of their amounts.

Taxation

For PERs, PERPs and Public Employee schemes (*Préfon, Corem, CRH*), contributions are deductible from taxable income up to 10% of total professional income with a tax deduction ceiling (€41,136 in 2021). For *Madelin* contracts, the ceiling is higher. Annuities are taxable like pensions with a 10% fixed haircut (with a ceiling of €3,850 in 2021). They are also subject to a social contribution, currently standing at 9.10% (7.4% in 2017). In some cases, capital withdrawals from PERPs are allowed up to a 20% maximum of total pension rights. In those cases, the current taxation amounts to 7.5% income tax plus social contributions of 17.2%.

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

The general rise in taxation of savings also impacted life insurance. In 2012 the rate of "social contributions" increased from 13.5% to 15.5%[144], and again in 2018 to 17.2%.

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

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

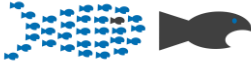
Pension Returns[145]

Equities and bonds (direct investment in securities)

In 2021, the French equity market (dividends reinvested) rebounded very strongly + 29.1% (CAC all tradable GR index) after a loss of 4% in 2020, in line with European equity markers overall (see Graph GR15). Over the last 22 years (end 1999 to end 2021), it returned a total of

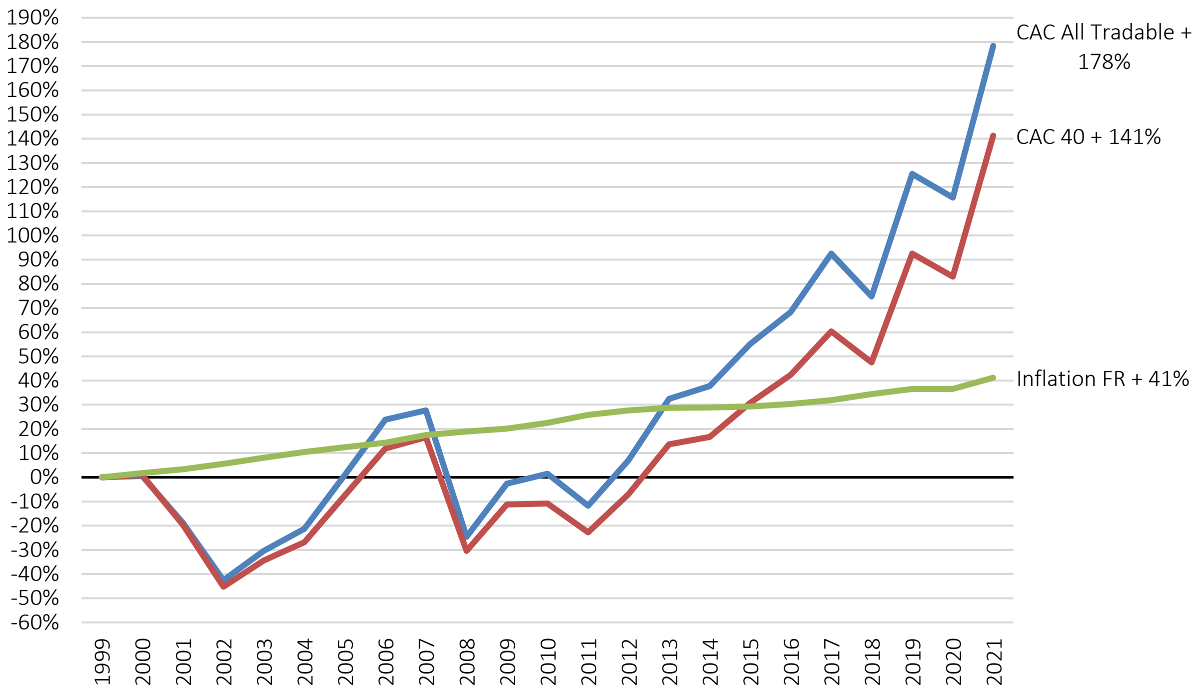
[144] Loi de Finance rectificative du 29 Février 2012: LOI n° 2012-354 du 14 mars 2012 de finances rectificative pour 2012

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

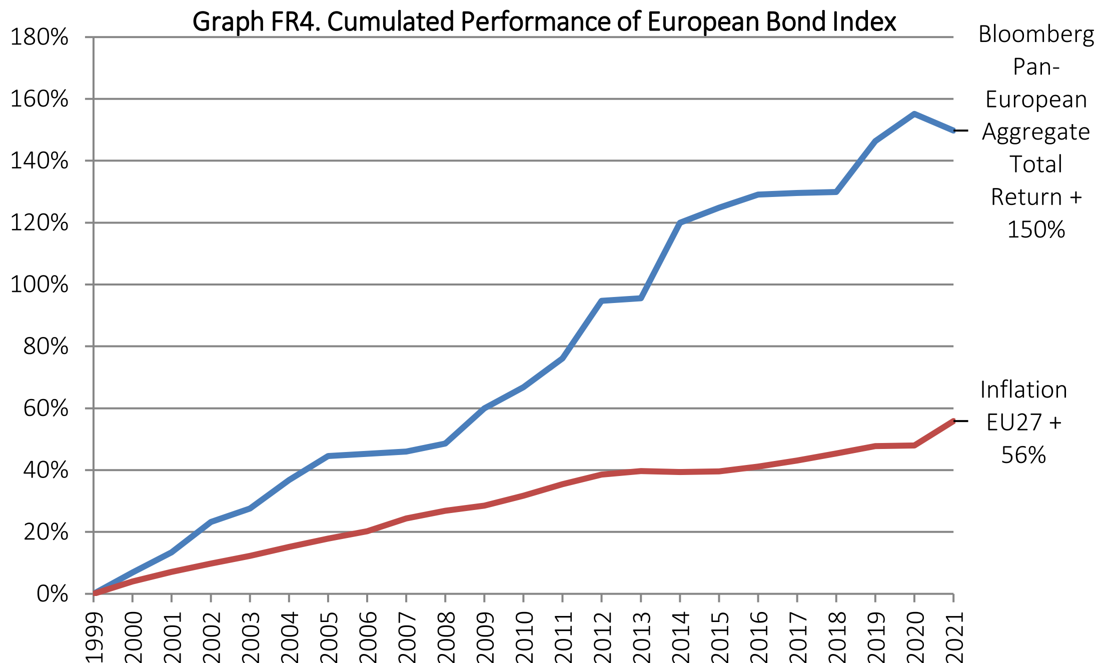


+178% % (+4.8% annual average), while large capitalisations (CAC 40 index, dividends reinvested as well) returned notably less, +141% (4.1% annual average), demonstrating the very strong long-term over-performance of small and mid-cap equities. Inflation over the same period was +41% (1.6% annual average). So, despite two sharp downturns (2000-2002 and 2007-2008) plus other drops in 2011, 2018 and 2020, French equities delivered positive nominal and real returns over the whole period. However, the real (after inflation) performance of the largest stocks (CAC40) started to be positive only since 2015.

Graph FR3. French Equity market performance: broad market vs. big caps market 22 years (1999-2021)



Sources: Own composition based on data from Euronext and Eurostat



Sources: Bloomberg Pan-European Total Returns & Eurostat HICP EU27 (midx)

The performance of European bond markets fell for the first time in 2021, as bond interest rates slightly firmed up after several years of quantitative easing policy by the European Central Bank. Overall, capital markets delivered significant positive returns[146] over the last twenty-two years despite two major downturns in equity markets, in large part thanks to the continuous decline of interest rates and its positive impact on the value of bonds.

Life insurance contracts – capital guaranteed

The after-tax real returns of guaranteed life insurance contracts plunged deeply into negative territory in 2021: -2.5%, mainly due to the rise of inflation to +3.4%, while nominal returns remained quite stable. Such returns should be assessed from a long-term perspective: the last data available from the industry trade body indicate that outstanding life insurance contracts were open for 11 years on average. These contracts – although of a long-term nature – are invested only 9% in equities[147]. The perspective for 2022 is much worse still, with a much higher inflation.

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

[147] Source: goodvalueformoney.eu, 2021

Over a 22-year period, cumulated after-tax real returns of guaranteed life-insurance contracts totalled +22%, and varied from a maximum annual performance of +3.1% in 2001 to a negative performance of -2.5% in 2021.

In the most favourable case, where savers do not redeem more than €4,600 per annum for at least eight years after the first subscription (see Taxation section above), real returns after tax are slightly better (-2.4% in 2021 and +28% cumulated over the last 21 years).

These returns do not take into account the changes in the insurers' reserves for profit sharing ("Provisions de participation aux bénéfices" or PPB), which are legally required and are credited with the capital gains on sales of non-fixed income assets. They must be returned to the life insured within 8 years of their inception. They are then included in the annual return. French regulators allowed insurers to book most of these profit-sharing reserves into their shareholders' funds for prudential purposes from 2019 fiscal year. This is not an incentive for insurers to use these large and growing profit-sharing reserves to offset the poor current returns, quite the contrary[148]. Indeed, the outstanding amounts of these reserves stood at 4.3% of total mathematical reserves at the end of 2018 and have increased again since then to reach 5.4% in 2021.[149]

[148] "*The persisting accruals to the PPB could be also helped by the evolution of rules, which allow insurers since 2019 to include part of it in the computation of own funds eligible to cover capital requirements*" (ACPR)
[149] Source: ACPR, Analyses et synthèses n° 126, 2021

Table FR 5. The returns of French life insurance contracts – capital guaranteed (%)				
	Disclosed return	Real return before tax	Real return after tax	Real return after tax*
2000	5.3	3.5	2.7	3.1
2001	5.3	3.8	3.1	3.5
2002	4.8	2.6	2.0	2.3
2003	4.5	2.1	1.4	1.8
2004	4.4	2.1	1.5	1.8
2005	4.2	2.4	1.6	1.9
2006	4.1	2.4	1.6	1.9
2007	4.1	1.3	0.5	0.8
2008	4	2.8	2.0	2.3
2009	3.6	2.6	1.8	2.1
2010	3.4	1.4	0.7	1.0
2011	3	0.3	-0.3	-0.1
2012	2.9	1.3	0.7	0.9
2013	2.8	1.9	1.3	1.5
2014	2.5	2.4	1.8	2.0
2015	2.3	2.0	1.5	1.6
2016	1.9	1.1	0.7	0.8
2017	1.8	0.5	0.1	0.3
2018	1.8	-0.1	-0.5	-0.4
2019	1.3	-0.3	-0.6	-0.5
2020	1.09	1.1	0.8	0.9
2021	1.08	-2.2	-2.5	-2.4

* for redemptions below € 4,600 per annum

Source: France Assureurs up to 2018, GoodValue forMoney since 2019, Eurostat (HICP inflation index)

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

In 2012, taxation increased by 200 basis points, as a result of the rise in social contributions from 13.5% to 15.5%. In 2018, social contributions rose again to 17.2%. As taxation is applied to nominal returns, any rise in inflation increases the real tax rate which reached 76% in 2017, as shown in the table below. For 2018 ,2019, and 2021, since the real income before tax was negative, taxing nominal income had the effect of deepening the real loss for life insurance savers. 2022 will be even worse.

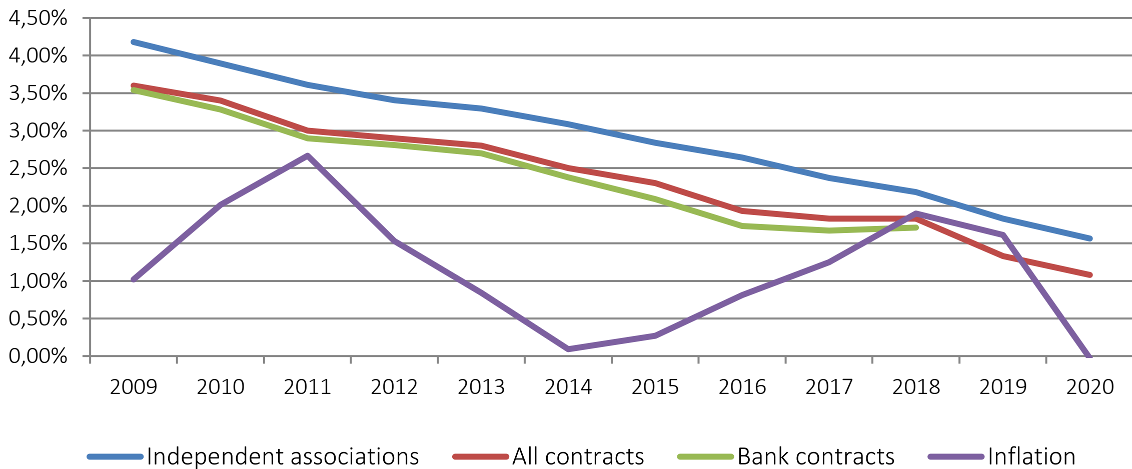
Table FR 6. French nominal and effective tax rates on capital guaranteed life insurance returns (%)			
	Inflation	Nominal tax rate	Effective* tax rate
2000	1.8	13.4	21
2001	1.5	13.4	19
2002	2.2	13.4	25
2003	2.4	13.4	29
2004	2.2	13.7	29
2005	1.8	18.5	32
2006	1.7	18.5	32
2007	2.8	18.5	60
2008	1.2	18.5	27
2009	1.0	19.6	28
2010	2.0	19.6	49
2011	2.7	21.0	>100
2012	1.5	23.0	49
2013	0.8	23.0	33
2014	0.1	23.0	24
2015	0.3	23.0	26
2016	0.8	23.0	40
2017	1.2	23.0	76
2018	1.9	24.7	> 100
2019	1.6	24.7	> 100
2020	0.0	24.7	24
2021	3.4	24.7	> 100

Source: Eurostat (HICP index 2015 base), BETTER FINANCE computation; * Effective tax rate = tax / real (net of inflation) income

These average returns mask important differences depending on distribution networks and governance: for standard contracts distributed by banks, the 2020 average nominal return was less than 1.08%[150], whereas the return for contracts subscribed by independent associations was 1.56%[151]. Higher annual average fees for bank insurers (0.65% versus 0.58% for traditional insurers in 2020) and higher profit-sharing reserves are part of the explanation. Considering that contracts distributed by banks represent 60% of the French capital guaranteed life insurance market, this returns gap constitutes an opportunity cost of about €6 billion for 2020 alone for savers getting their capital-guaranteed life insurance contracts from their bank instead of from independent savers' associations.

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

[151] Source: FAIDER. Independent associations representing life insurance contracts holders included AGIPI, AMIREP, ANCRE, ASAC-FAPES and GAIPARE in 2020 FAIDER is a member organisation of BETTER FINANCE.



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

Life insurance contracts – unit-linked

Nominal returns were pushed upwards by the rise in stock prices from 2012 to 2017 and from 2019 to 2021. Despite the current long period of positive equity returns, unit-linked contracts still have a very negative cumulative return net of inflation since the end of 1999 (see next section and table FR9).

Over a 22-year period, real returns after tax of unit-linked life-insurance contracts were very volatile. The worst performance was recorded in 2008 (-23.9%) and the best one in the following year (+12.2% in 2009).

Table FR 8. The returns of French life insurance contracts – unit-linked (%)			
	Disclosed Return*	Real return before tax	Real return after tax
2000	-2	-7.3	-7.3
2001	-9.5	-11.7	-11.7
2002	-15.2	-17.8	-17.8
2003	8.4	4.9	4.9
2004	6.4	3.1	3.1
2005	14.4	11.4	11.4
2006	8.8	6.0	6.3
2007	1.5	-2.2	-2.2
2008	-22.3	-23.9	-23.9
2009	14.4	12.2	12.2
2010	5.2	2.1	2.1
2011	-7	-10.3	-10.3
2012	10.2	8.5	8.5
2013	7.4	6.5	4.8
2014	5.1	5.0	3.8
2015	3.3	3.0	2.3
2016	2.1	1.3	0.8
2017	5	3.7	2.6
2018	-8.9	-10.6	-10.6
2019	13.1	11.3	8.1
2020	1.10	1.13	0.9
2021	9.10	5.52	3.3

* net of wrapper fees since 2012

Source: FFA / France assureurs, Eurostat (HICP index), own calculations (deduction of the non-deducted fees, and of HICP price index variation from disclosed returns)

All life insurance contracts – 22 years returns (1999-2020)

In order to compute the real return achieved by an investor who would have subscribed to a life insurance contract at the end of 1999 and who would have withdrawn his funds 22 years later, one has to subtract the entry costs paid in the year of subscription, as these fees are not taken into account in the disclosed returns. We estimate that entry costs in 2000 represented 2.76% on average[152] of the investment, to be deducted from real returns that year. Also, annual contract fees on assets are already taken into account for capital guaranteed contracts by the insurance industry body (France Assureurs), but not for unit-linked ones in its annual "key figures". The aggregate figures deduct an entry fee of either 2.77% (for 2000) or a proxy 2% for other periods.

[152] Source: OEE

Table FR 9. Real returns of all life contracts 1999-2021		
	22-year return	Average yearly return
Before tax returns		
Capital guaranteed contracts	37.2%	1.45%
Unit-linked contracts	-8.4%	-0.40%
All contracts (avg.)	**25.5%**	1.0%
After tax returns		
Capital guaranteed contracts	21.7%	0.896%
Unit-linked contracts	-15.6%	-0.8%
All contracts (avg.)	12.1%	0.52%

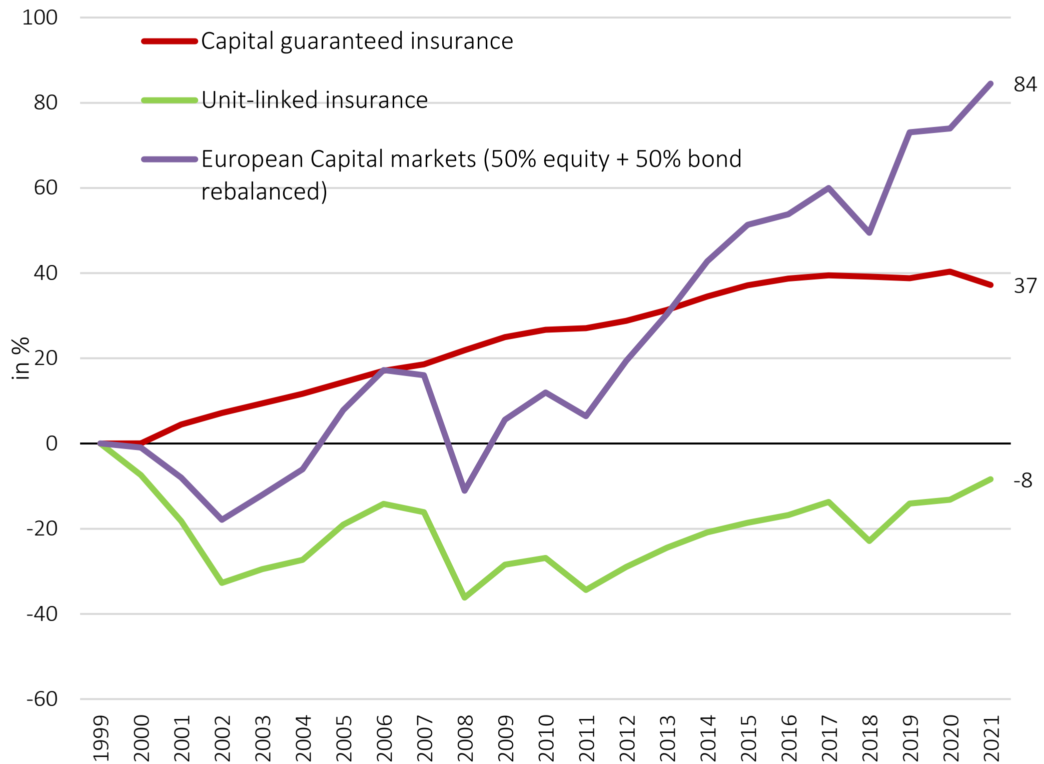
Sources: France Assureurs, GVfM, own computations (based on the relative weight of both categories in the overall mathematical reserves)

An average saver has thus received a cumulated net real after tax return of 22%[153] for this 22-year period of investment on guaranteed contracts, and a negative one of -17% on unit-linked contracts. On a yearly basis, the rates of returns would be +0,9% and -0,8% respectively. It is worth noting that, although unit-linked contracts are riskier for subscribers, they also provided returns that were much lower than those of the guaranteed contracts. Such a lower - and negative - real performance over 22 years is primarily due to:

- much higher fees (see the fees and charges section above): about five time higher for the dominant equity and mixed asset "units",
- and to the fact that mostly expensive retail share class actively managed funds are offered and promoted and very few, if any, low-cost funds such as index ETFs or institutional or "clean" share classes of actively managed funds[154]. Independent research determined that over the mid and long-term, high charges hurt net performance on average[155]. This in turn is due to the higher sales commissions ("inducements") for highly charged funds.

Capital markets as a whole (bonds and equities) provided a strong positive real performance over the same period (see graphs FR3 and FR4). Graph FR10 below shows that the pre-tax real performance of unit-linked contracts is well correlated to that of capital markets, but massively below those over time (minus percentage points over the last 22 years), making unit-linked a high-risk and low return offer.

[153] + 28% with the most favourable tax treatment and minimum 8-year-old contracts, see table FR 5 above
[154] The institutional share class of an investment fund bears lower annual fees than the retail share class but requires a higher minimum initial investment. The "clean" share class of an investment fund bears no sales commissions and therefore also enjoys lower overall annual fees.
[155] See for example BETTER FINANCE research on-the-correlation-between-cost-and-performances-in-eu-equity-retail-funds, 2019



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

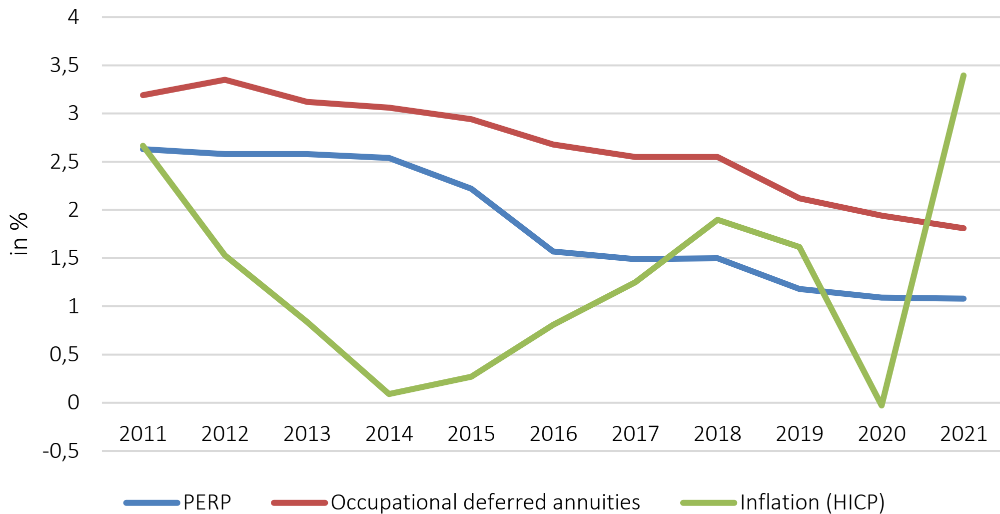
Personal and collective deferred annuities

PER

According to GoodValueforMoney.eu, aggregate performance for the new PERs' "fonds en euros" (capital guaranteed investment option) launched at the end of 2019 has been better than for ordinary life insurance contracts: +1,51% nominal in 2019 (versus 1.33%), 1.35% in 2020 (versus 1.09%).

PERP

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



* Those include PERE, Madelin and Article 83 contracts
Source: ACPR, 2022

It was impossible to find global long-term return data on PERPs before 2011. The insurance industry body publishes the average return of ordinary capital guaranteed *("fonds en euros")* and unit-linked life insurance contracts (see previous sections), but not that of insurance-regulated personal pension products such as PERPs. Based on the disclosed nominal returns of a majority of PERPs collected by the French Supervisor ACPR only from 2011, the weighted average nominal return of the capital guaranteed PERPs *("fonds en euros")* was 1.08% in 2020, similar to the average return of ordinary capital guaranteed life insurance contracts.

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

In 2021, pre-tax real returns of French personal pensions (PERP) became very negative; on average -2,2%.

Madelin, PERE and Article 39

The nominal returns of occupational deferred annuities were much higher (1.81% in 2021) and did not decline as much as for PERPs. This could be explained by older fixed income

portfolios yielding higher rates, and by higher discount rates ("taux techniques") forcing insurers to deliver higher returns. Charges may also be lower than for PERPs, but cost data are missing specifically for these pension products. Since 2018, the French supervisor ACPR publishes the average annual cost (0.43% in 2021) but that is for all personal and collective differed annuity products combined.

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

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

One difficulty in assessing real returns of deferred annuity plans is that up to 2010, it was not mandatory for those plans to disclose investment returns. Following action by BETTER FINANCE's French member organisations, a 2010 Law[156] made this a legal requirement from 2011 onward. Préfon has also started to give an indication of its economic returns (taking into account the annual evolution of the market value of all assets in the portfolio) in its annual report.

Préfon

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

Part of the investment return has been set aside in the past in order to replenish reserves. In 2010, the French Supervisor (ACPR) decided that Préfon reserves were not sufficient and forced Préfon's insurers to contribute €290 million of their own funds (as of 31 December 2013) to help Préfon balance its assets and liabilities[157]. At the end of 2016, this contribution from the insurers amounted to €333 million[158] despite the massive cuts in pension rights for those who retire after age 60 decided in 2014 and 2017 (see below Graph FR12).

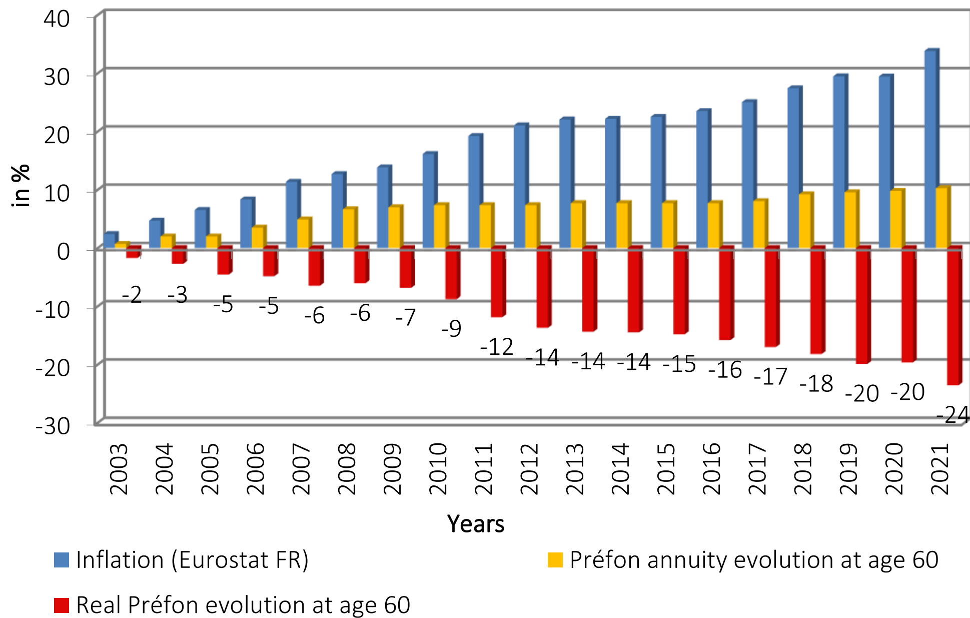
[156] Law n° 2010-737 of 1 July 2010 - art. 35 (V), which modified Article L441-3 of the French Insurance Code.
[157] *"Les Echos"* 27 December 2010. This information was not disclosed by *Préfon* to the participants.
[158] Source: Rapport de gestion Préfon Retraite 2016.

In 2017, in relation to the entry into force of the Solvency II Directive, French law was modified to move to use the market value of assets instead of their historical cost (accounting value). This enabled Préfon to show at last sufficient reserves and solvency ratio, but – up to now – not enough to allow for reducing or even capping the loss of purchasing power of its pensions since 2002. Thanks to this change in solvency rules, the ratio of assets to liabilities of Préfon increased from 97.5% in 2016 to 119.6% in 2020, allowing it for the first times in many years to increase the nominal value of its annuities from 2017 on. But from then to the end of 2021, despite these increases, the real value (purchasing power) of its participants pensions rights (for those who retire at the age of 60) shrank again by 5.5% (+2.4% nominal increase for a +8.4% inflation). It will be even worse in 2022.

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

Another difficulty for deferred annuity products is to translate the impact of portfolio returns (and other factors such as the capital conversion rate into annuities, the discount rate and the evolution of annuities paid) on the actual long-term return for the pension saver. One proxy return indicator is the annual rate of pension rights' and annuities' increases before tax for several years[159] (see graphs FR12 and FR13). Préfon participants who contributed in 2002 and who will retire at the age of 60 have lost 24% of the real value of their pensions (before tax[160]). The advertised objective of Préfon to maintain the purchasing power of pensions has not been fulfilled since 2002 and Préfon remains silent on the perspectives to reduce this loss of the real value of pensions in the future. This key performance information is not publicly disclosed[161].

[159] This key data is very difficult to find, but recently Préfon has been making significant efforts to improve its transparency and disclosures.
[160] Savings into Préfon (like into PERPs and into Corem) are income tax deductible, but the annuities are fully taxable. Both savings and annuities bear social levies ("prélèvements sociaux").
[161] ARCAF, 2019



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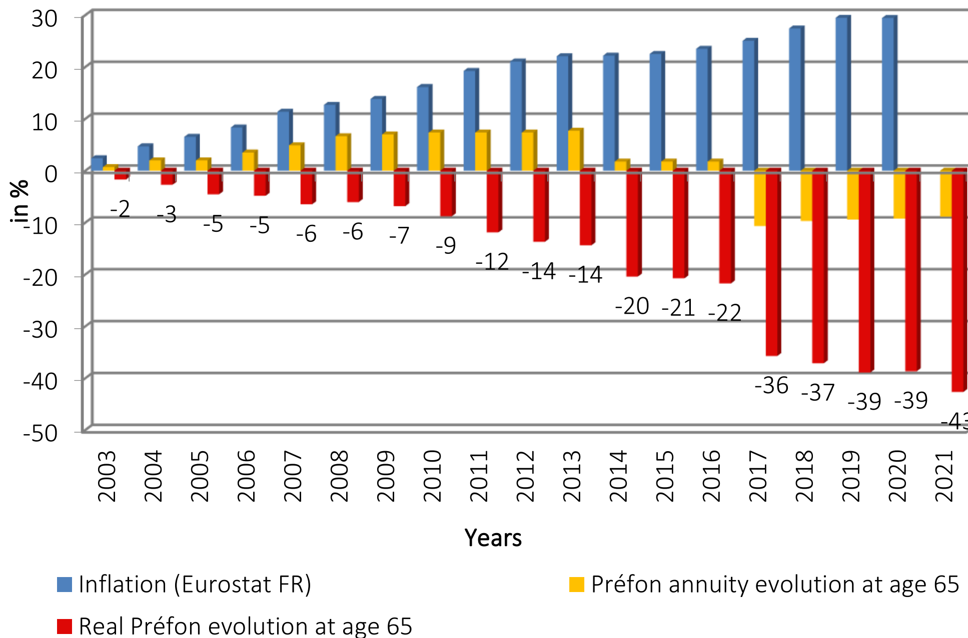
This return indicator, however, does not include the discount rate embedded in the conversion ratio of accumulated savings to annuities. But this discount rate varies from one year to another, and also varies according to the actual retirement age - which is not disclosed.

Also, this indicator is only valid if one exercises his liquidation rights at age 60. But very few people can now retire at age 60 due to the postponement of the legal age to retire with full Pillar I pension rights to between 62 and 67. For example, if one exercises these rights at the age of 65, starting from the year 2026 on, the initial annuities have been reduced by 17.3% in nominal terms from 2013 to 2017), even though Préfon always guaranteed its participants at subscription that its pension annuities could never be reduced in nominal terms. In real terms it is much worse (-43% lost since 2002 to 2021), as shown by the graph below.

Graph FR 13 - Préfon annuities real value : retirement at age 65 from 2026 - Compounded evolution in %



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

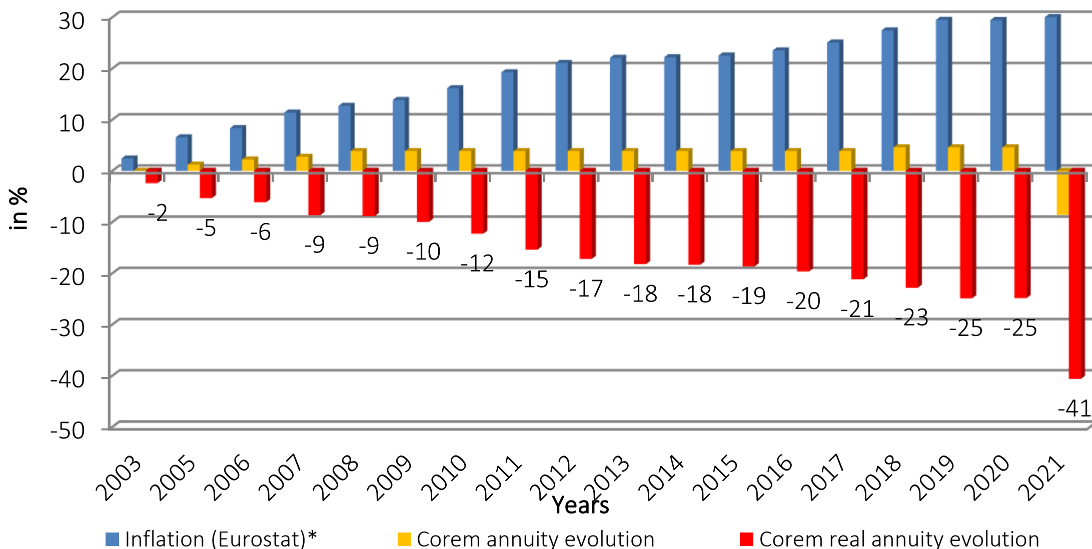
An alternative approach mentioned by Préfon in its latest annual report (for 2020), could be to use the new valuation of transfers or redemptions of accumulated pension rights in capital (which are allowed in certain cases since 2010). For valuations done since 2019, those are based on annual revaluation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

Corem

Corem publishes the annual accounting return on its investments but does not specify whether these are gross or net of fees. The accounting return for 2021 was +3,37% up from +2.86 in 2020. Its asset allocation is less inadequate than Préfon's for a long duration pension plan: 22% in equities. However, this accounting return does not take into account the changes in the market value of assets. In addition, and more importantly, all the investment return of the Corem assets has been set aside in order to replenish reserves. It is therefore impossible to compute a collective real rate of return.

The deferred annuity mechanisms of Corem are similar to those of Préfon, with the same difficulties in estimating the real return for the pension saver. Therefore, we also use the evolution of the annuities' values as a proxy return indicator here (Graph FR14 below). Corem has been in deficit for a very long time; the main – undisclosed – tool of its recovery plan in place since 2002 is not to increase the nominal value of annuities served. As a result, the annuities served by Corem will have lost a whopping 41% of their real value before tax (purchasing power) over the last 18 years (see graph FR14), since Corem has not increased them for many years, pocketing the return on its portfolio for other purposes, and has announced in April 2021 to its participants that the nominal value of their pension rights as of 1/1/2022 will be reduced by 12.6%. These figures are <u>before</u> tax. This key performance information is not clearly disclosed to the public and to new participants.

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



* ECB estimate for 2021 *Source: ARCAF, 2021*

The reality is even worse since, in November 2014, Corem announced new measures to reduce its reserve gap by further reducing the returns for participants: they now need to be 62 years of age to get the full pension rights instead of 60 years of age (thus losing 2 years of

pensions), and the minimum guaranteed return on pension contributions was lowered from 2.3% to 1.5% from 2015 on.

The financial situation has been very difficult as its reserve gap (difference between its assets and the present value of its pension liabilities) reached €2.9 billion at the end of 2014, as measured using French common prudential rules at that time[162]. At the end of 2015, Corem obtained permission from the French Government to use a minimum discount rate of 1.50% (instead of 0.59% according to the previous rule) to compute the present value of its liabilities, helping it to reduce its reserve gap to €1.3 billion at the end of 2016.

In 2017, the French Government allowed deferred annuity schemes such as Corem to use the market value of assets instead of the accounting (acquisition cost mostly) one, to compute its assets/liabilities coverage ratio. This new rule improved its coverage ratio to 98.2% at the end of 2018, but it went down again in 2019 and in 2020 to 91.8%. Otherwise Corem would have been in breach of its Recovery Plan which required it to cover at least 90% of its liabilities. Thanks to the massive cut in pension rights as of 1/1/2022, the coverage has jumped to +119%, again at the sole expense of participants

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

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

CRH

CRH does not disclose an annual report or financial data publicly. Even its pre-contractual publications do not disclose past performance. Because of an on-going restructuring that started in 2008, the real returns of this plan are probably low and below inflation. For the last six years (2015-2021), CRH annuities' nominal value has increased by 2.7%, against an inflation of 9.2.0%; representing a loss in the real value of the outcome of participants' savings of 6%.

Overall, BETTER FINANCE estimates the loss of purchasing power over the last eighteen years (2002-2020) of participants to the French Public Employee Pension Schemes (Préfon + Corem) to be at -21.4% (-1.4% per annum), based on the relative asset portfolio size of Préfon and Corem, and assuming that Préfon participants retire as early as age 60 and not later. As mentioned above, 2022 will be catastrophic for Corem participants.

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

Defined contribution corporate plans

With the precious help of AFG, the French asset management industry association, we combine information provided by SIX on the performance of each category of funds ("FCPE") with data on their total outstanding relative weight[163] to estimate the overall returns of corporate savings (PEEs, PERCOs and the new collective PERs).

Table FR15. French corporate savings plans - 22 years returns before tax 1999-2021

Fund ("FCPE") category	Equity	Bond	Money market	Diversified	All funds
22Y Nominal return	85.4%	74.2%	29.6%	78.2%	74.2%
Yearly average	3.0%	2.7%	1.2%	2.8%	2.6%
22Y Real return	30.5%	23.4%	-8.5%	26.1%	23.4%
Yearly average	1.3%	1.0%	-0.4%	1.1%	1.0%

Source: AFG/SIX

Real returns of corporate DC-based (Defined Contribution) plans before tax over a 22-year period, from the end of 1999 to the end of 2021, were overall positive: the yearly average real performance before tax of the aggregate of all funds was + 1.0%, which makes French DC plans the second-best performing pension savings product after life insurance capital-guaranteed contracts. This regards PEEs (€ 141.6 billion of assets) and PERCOs and collective PERs (€ 26 billion). PERCOs and collective PERs only had a slightly higher return (+1.1% per annum) due to a slightly lower allocation to money market funds.

The overall real returns before tax are:

- positively influenced by the positive real return of DC equity funds (with a positive real return in 2021 of +16.5%). However, equity funds, which account for about 24% of total outstanding assets (excluding company stock), largely underperformed equity markets over the last 22 years: +85% in nominal terms versus +164% for European equities or +221% for world equities[164];
- CAC 40 (dividends reinvested) returned cumulatively +141.3%;
- negatively influenced predominantly by the declining but surprisingly heavy weight and negative return of money market funds (respectively 21% of assets; -3.9%).

Also, DC Bond funds (around 19% of total assets) returned +74% in nominal terms over the period versus +150% for the European bond market (see graph FR4).

A primary factor for this underperformance of DC equity and bond funds relative to capital markets could be the level of fees charged. Unlike corporate DC pension plans ("401k") in the

[163] Data published by AFG relate to "FCPE L214-164". These funds are diversified funds which do not invest in the own shares of the concerned company ("company stock"). There is another category of corporate savings' funds, the "FCPE L214-165" dedicated funds which can invest without limit in the own shares of the concerned company but there are no data available on the returns of these "FCPE L214-165" funds. The "FCPE L214-164" assets represented 63% of all FCPE assets at the end of 2021.

[164] MSCI ACWI NR index in euros

US, the French ones do not invest in general purpose mutual funds, but in special purpose alternative investment funds (AIFs) called FCPEs, specifically dedicated to these plans. Consequently, French savers are faced with an additional offering of investment funds (about 1100 FCPEs in addition to the about 3,500 UCITs funds already domiciled in France), the average size of these AIFs is quite small, and many FCPEs are merely wrappers of other – general purpose – funds, adding a layer of fees. Another factor is that equity FCPEs are not 100% invested in equities.

However, the French supervisor AMF recently found that the ongoing annual charges of multi-sponsor FCPEs are on average lower than those of French-domiciled general-purpose funds: 1.31% in 2019 for the 178 diversified (multi-asset) FCPEs analysed versus 1.53% for the general-purpose diversified funds; and 1.46% for the 145 European equity FCPEs analysed versus 1.53% for the general-purpose European equity funds[165]. As mentioned above in the costs & charges section, these estimates are unfortunately not asset weighted. Still, that is about half the cost of the comparable funds held via unit-linked insurance contracts. In addition, a part of the FCPE fees can sometimes be paid by the employers, not by the employees. Therefore (see above the costs and charges section) the differences are even bigger with investment funds held via insurance contracts. This seems due to the distribution modes - more “wholesale” for corporate plans, and more “retail” for life insurance (implying commissions paid out of fund charges to distributors) - and to the double layer of fees in the latter case.

A limitation of such computations is that performance indices provided by SIX only relate to diversified funds inside the corporate savings plans. They do not take into account the part of corporate long-term savings which is invested in shares of the plan sponsor company (“company stock”), accounting for 37% (€ 61.3 billion end of 2021) of all corporate savings plans.

Return of regular identical investments over 22 years

Also – same rule whenever possible for the whole research report – the computed returns relate to a one-time investment at the end of 1999 and kept to the end of 2021. Many pension savers will tend to invest regularly every year or every month. AFG computed the annualised returns from 2000 to 2021 for the same amount invested every year over the last 22 years. This generated a similar before tax real return of 21.9% instead of 23.4%. This return becomes less volatile with time, as it is spread over many years instead of only one.

[165] La lettre de l’Observatoire de l’Epargne de l’AMF nr 42 – mars 2021

After-tax returns are often higher

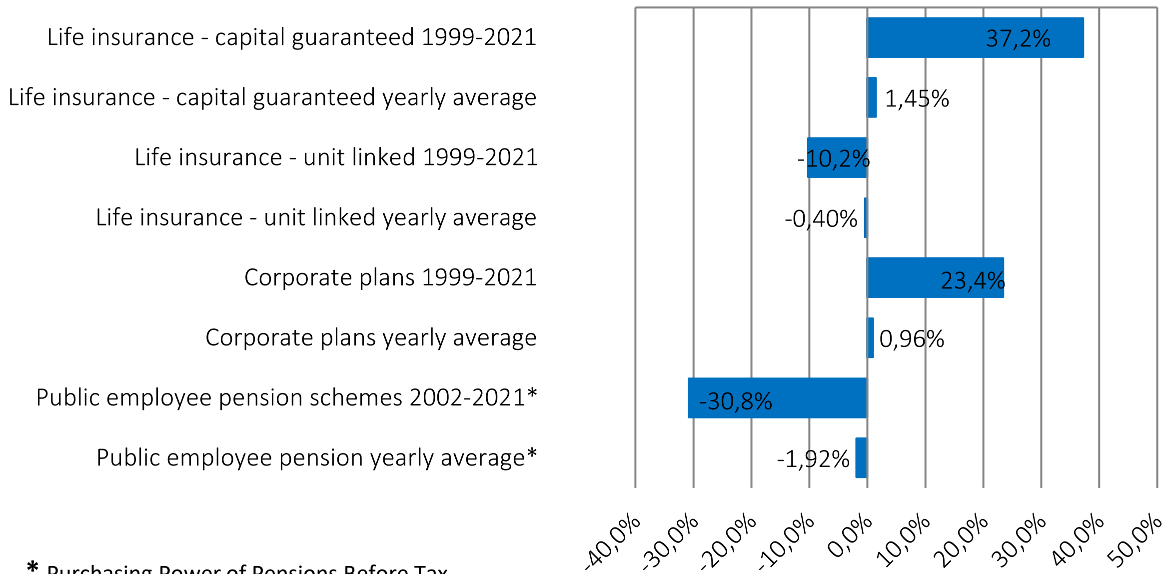
Finally, after-tax returns of French corporate long-term savings plans are difficult to compute globally, but they can often be very close to - or higher than before-tax ones since their taxation is the most favourable of all long-term and pension savings products in France (redemptions are exempt from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

Conclusions

After a year of negative real returns before tax in 2011, for the main long-term and pension savings product in France, subsequent years were more favourable to pension savers. Against the backdrop of bullish stock markets and inflation kept at historically low levels, unit-linked life insurance contracts showed a positive real performance every year from 2012 to 2017. However, their 22-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 already turned it negative in 2018 and 2019. The rise of inflation since 2021, "financial repression" at its highest level (policymaking induced negative spread between nominal interest rates and inflation) and taxation of the largely fictitious nominal long-term investment income, combine for a disastrous 2022 year for long-term savers, as EU public policies to ensure bias-free investment advice and transparency of costs and performances are either stalled or going backwards.

Over a 22-year period, from the end of 1999 to the end of 2022, capital-guaranteed life-insurance contracts show on average a positive yearly real pre-tax performance of +1.5% in real terms, while the unit-linked contracts show a negative yearly return of -0.4%. Corporate DC plans delivered +1.0% on an annual basis before tax. After-tax returns would typically be close for the latter due to a favourable tax treatment.

Graph FR16. French Pension Savings Real Returns before tax, 2000-2021



Summary return table - Average real net returns of French pension savings (before tax)					
Average real net returns	1 year 2021	3 years 2019-2021	7 years 2015-2021	10 years 2012-2021	whole reporting period
Life insurance - CG	-4.19%	-1.14%	0.01%	0.46%	1.45%
Life-insurance - UL	3.41%	1.00%	1.71%	3.17%	-0.40%
Corporate plans	4.21%	4.38%	1.78%	2.68%	0.96%

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

** Purchasing power of annuities as return proxy measure*

Acronyms

AIF	Alternative Investment Fund
AMC	Annual Management Charges
AuM	Assets under Management
BE	Belgium
BG	Bulgaria
Bln	Billion
BPETR	'Barclay's Pan-European High Yield Total Return' Index
CAC 40	'Cotation Assistée en Continu 40' Index
CMU	Capital Markets Union
DAX 30	'Deutsche Aktieindex 30' Index
DB	Defined Benefit plan
DC	Defined Contribution plan
DE	Germany
DG	Directorate General of the Commission of the European Union
DK	Denmark
DWP	United Kingdom's Governmental Agency Department for Work and Pensions
EBA	European Banking Authority
EE	Estonia
EEE	Exempt-Exempt-Exempt Regime
EET	Exempt-Exempt-Tax Regime
ETF	Exchange-Traded Fund
EIOPA	European Insurance and Occupational Pensions Authority
ES	Spain
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
EURIBOR	Euro InterBank Offered Rate
EX	Executive Summary
FR	France
FSMA	Financial Services and Market Authority (Belgium)
FSUG	Financial Services Users Group - European Commission's Expert Group
FTSE 100	The Financial Times Stock Exchange 100 Index
FW	Foreword
GDP	Gross Domestic Product
HICP	Harmonised Indices of Consumer Prices
IBEX 35	Índice Bursátil Español 35 Index

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

Glossary of terms

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

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

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

AIF(s) – or Alternative Investment Funds are a form of collective investment funds under E.U. law that do not require authorization as a UCITS fund.[289]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Collective investment schemes – are financial products characterised by the pooling of funds (money or asset contributions) of investors and investing the total into different assets (securities) and managed by a common asset manager. Under E.U. law collective investment schemes are regulated under 6 different legal forms: UCITS (see below), the most common for individual investors; AIFs (see above), European Venture Capital funds (EuVECA), European Long-Term Investment Funds (ELTIFs), European Social Entrepreneurship Funds (ESEF) or Money Market Funds.[290]

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

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

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

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

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

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

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

Defined benefit (DB) occupational pension plans* – are occupational plans other than defined contributions plans. DB plans generally can be classified into one of three main types, "traditional", "mixed" and "hybrid" plans. These are schemes where "the pension payment is defined as a percentage of income and employment career. The employee receives a thus pre-defined pension and does not bear the risk of longevity and the risk of investment. Defined

[290] See European Commission, 'Investment Funds' (28 August 2019) https://ec.europa.eu/info/business-economy-euro/growth-and-investment/investment-funds_en.

Benefits schemes may be part of an individual employment contract or collective agreement. Pension contributions are usually paid by the employee and the employer".[291]

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

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

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

Defined contribution (DC) occupational pension plans* – are occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience. These are schemes where "the pension payment depends on the level of defined pension contributions, the career and the returns on investments. The employee has to bear the risk of longevity and the risk of investment. Pension contributions can be paid by the employee and/or the employer and/or the state".[292]

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

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

Economic dependency ratio* – is the division between the number of inactive (dependent) population and the number of active (independent or contributing) population. It ranges from 0% to 100% and it indicates how much of the inactive population's (dependent) consumption is financed from the active population's (independent) contributions.[293] In general, the inactive (dependent) population is represented by children, retired persons and persons living on social benefits.

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

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

[292] Ibid.

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

Equity (or stocks/shares) – are titles of participation to a publicly listed company's economic activity. With regards to other categorizations, an equity is also a security, a financial asset or, under E.U. law, a transferable security.[294]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

a) for related employers i.e., companies that are financially connected or owned by a single holding group (group pension funds);

b) for unrelated employers who are involved in the same trade or business (industry pension funds);

c) for unrelated employers that may be in different trades or businesses (collective pension funds).

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

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

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

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

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

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

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

Old-age dependency ratio - defined as the ratio between the total number of elderly persons when they are generally economically inactive (aged 65 and above) and the number of persons of working age.[295] It is a sub-indicator of the economic dependency ratio and focuses on a country's public (state) pension system's reliance on the economically active population's pensions (or social security) contributions. It is a useful indicator to show whether a public (Pillar I) pension scheme is under pressure (when the ratio is high, or the number of retirees and the number of workers tend to be proportionate) or relaxed (when the ratio is low, or the number of retirees and the number of workers tend to be disproportionate). For example, a low old-age dependency ratio is 20%, meaning that 5 working people contribute for one retiree's pension.

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

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

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

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

[295] See Eurostat definition: http://ec.europa.eu/eurostat/web/products-datasets/product?code=tsdde511.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

a) the non-contributory scheme (pillar 0), through which persons who do not have an income or do not earn enough would have insured a minimum pension when reaching the standard retirement age;

b) the public mandatory, Pay-As-You-Go (PAYG) scheme (**Pillar I**), gathering and redistributing pension contributions from the working population to the retirees, while accumulating pension rights (entitlements) for the future retirees;

c) the mandatory funded and (recommended) privately managed scheme (**Pillar II**), where workers' contributions are directed to their own accumulation accounts in privately managed investment products;

d) the voluntary privately managed retirement products (**Pillar III**), composed of pension savings products to which subscription is universal, contributions and investments are deregulated and tax-incentivised;

e) the non-financial alternative aid scheme (pillar IV), through which the state can offer different forms of retirement support – such as housing or family support. Albeit the abovementioned, the report focuses on the "*main pillars*", i.e., Pillar I, II and III, since they are the most significant (and present everywhere) in the countries that have adopted the multi-pillar model.

Definitions with "*" are taken from OECD's Pensions Glossary - http://www.oecd.org/daf/fin/private-pensions/38356329.pdf.

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