

PRESS RELEASE

How to Get Value for Your Money when Charges and Inflation seriously Erode Pension Savings Across Europe?

13 October 2021 – For the ninth year in a row, BETTER FINANCE embarked on the herculean task of gathering all the data on long-term and pension savings in 17 EU Member States and published its annual report on the real net returns of long-term and retirement savings. Unfortunately, the “Real Return of Long-Term and Pension Savings” Report remains the most complete research looking at the performance and actual costs of long-term and pension savings products in the EU.

Although years of bullish markets improved the long-term returns of most products analysed, too many barely cover inflation and only a handful come close to the performance of a simple, broad EU capital markets benchmark (50% equities and 50% bonds).¹

The problem lies partly with the asset allocation (51%² of capital invested in bonds, many of which currently provide negative yields), and partly with the high levels of fees that erode net returns. Another issue is the lack of transparency on charges, whose complexity and lack of harmonised disclosure also make it very difficult for individual savers to compare between different pension providers and products.

Add to this the fact that inflation is surging in the Eurozone, hitting a 13-year high in September 2021, that the European bond market is unlikely to come anywhere close to the extraordinary returns of the last 20 years, and the growing reliance on private pensions, and we’re forced for the ninth time in a row to recognise that the future of European pension savers may be far from rosy.

It is high time to assess value for money for pension savers and how to enforce and adequately supervise it. Good examples already exist within and outside the EU: the United Kingdom’s Financial Conduct Authority (FCA) already requires fund managers to report on how they deliver value for clients and is developing a framework for measuring value for money in occupational and defined contribution (DC) pension schemes in comparison with other similar products, and requiring fund charges to be assessed in the context of the overall value delivered, including fund performance (on the basis of reasonably expected future performance as well as past performance).

The Netherlands’ Financial Markets Authority already banned commissions for retail investments, thereby reducing costs, and the European Insurance and Occupational Pensions Authority (EIOPA) also proposed a definition and framework to supervise value for money in the EU’s unit-linked insurance market.

BETTER FINANCE wholeheartedly supports this new approach and lists essential criteria in its report to define and achieve value for money:

- The investment objective is clearly defined by the provider in the key disclosures;
- Simple and clear full cost and performance disclosure is made publicly available and is comparable to those of other investment products with similar goals;
- the costs borne by savers are commensurate with the investment objective (e.g., if “active” level fees are charged, then the product must overperform the relevant investment universe over the recommended holding period);

¹ It should be noted that, unlike investment products, a capital markets benchmark bears no costs.

² The data comes from the OECD, and it concerns only pension funds, and it represents the average on the jurisdictions covered in the report between 2015 and 2020 – see Table GR13(B) in the report.

- and commensurate to other comparable retail solutions on the market (e.g., sometimes index products on offer are ten times more expensive than the equivalent ETF solution);
- The governing body of the provider/product includes at least two independent members representing the investors;
- the provider reports annually on how the product delivered Value for Money to its investors;
- the Value for Money reporting is assessed annually by the supervisory authorities;
- and supervisors use their product intervention powers to address the most egregious cases.

BETTER FINANCE's Managing Director, Guillaume Prache, stresses that such measures are necessary, since *"our findings clearly confirm that the real performances of pension savings have too often very little to do with the capital markets' performances. High overall charges and resurging inflation may seriously erode pension adequacy further for many EU pension savers"*.

- [Download the Full 2021 Report](#) on the BETTER FINANCE website.
- BETTER FINANCE digitalised the nominal and real net performances of all pension products covered by the Report on a [user-friendly online interface](#).

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[Annex: Annualised Real Net Returns of Pension Savings - See next page](#)



ANNUALISED REAL NET RETURNS OF PENSION SAVINGS - BEFORE TAX

