PRESS RELEASE – 14 February 2019

Final EU Compromise on European Personal Pensions: good news for EU Pension Savers, but beware the imbedded "Capital Guarantee" Scam

The Situation - With a global pension gap forecasted to mushroom to $400 trillion by 2050 and income replacement rates decreasing, EU citizens are increasingly asked to rely on personal pension products to complement the insufficient government-sponsored mandatory and occupational pension plans.

Unfortunately, independent research by BETTER FINANCE into the real net returns of European pension savings has shown that fees and commissions severely hurt returns for pension savers. Pension savings products too often significantly underperform capital markets, and even sometimes destroy the real (after inflation) value of pension savings over the long-term. This in turn is linked to the extreme fragmentation of the pension saving products markets within the EU, to the complexity and opacity of many products, and to insufficient competition.

The PEPP - For these reasons, BETTER FINANCE welcomes the final compromise reached yesterday (13/02/2019) between the three top level EU Authorities for the creation of **a pan-European Personal Pension Product** (PEPP) that would go a long way towards alleviating this worrying situation, provided the PEPP ensures pension adequacy through decent long-term returns and a "basic PEPP" (default investment option) that is really safe and really simple.

Several proposals to improve the protection of EU citizens as pension savers made by BETTER FINANCE and AGE Europe have been taken on board, in particular by the European Parliament and more specifically the cap of 1% per annum on fees charged on the "basic PEPP". BETTER FINANCE wishes to thank the EP rapporteur and other MEPs for this improvement.

If properly implemented, the "basic PEPP" should protect the long-term real value of your nest egg, shielding your savings from fees and inflation, and ensure you don't have a bad surprise when you reach retirement age. To this end a PEPP will offer so-called "capital guarantee".

As it stands, however, the basic PEPP is not "safe" and the capital invested by EU pension savers is anything but "guaranteed". BETTER FINANCE has repeatedly stressed that for a "*capital guarantee*" to mean anything, "capital" must be equal to the amounts saved, i.e. before the deducting all accumulated fees and charges directly or indirectly borne by pension savers, and, if possible, in real terms (offsetting the devastating impact of inflation on the "real" value of pension savings – their purchasing power - over time). This is all the more important since citizens are subject to what economists refer to as "monetary illusion": they are usually not aware of this very negative impact of inflation on the real value of their savings. Without such a protection covering the real value of capital invested (without deducting fees over decades), the purchasing power of the "capital guarantee" upon retirement will amount to just a small fraction of their lifetime savings, as the following example clearly illustrates:

The Scam - Say that you set aside €100 in a PEPP when you get your first salary at the age of 25. You would at the very least expect to be able to withdraw those €100, upon your retirement, let's say at age 65. You'd be wrong.

Over the 40 years that your money is invested between the ages of 25 and 65, fees charged by your pension provider will be subtracted from your initial investment. Even modest fees of just 1% of your total savings per year, after 40 years will have reduced your "capital guarantee" from €100 to €60[1].

Add inflation into the equation and even a very optimistic inflation rate of only 2% per year over the next 40 years will further reduce the purchasing power of your "capital guarantee" to a mere €27.

The PEPP Capital Guarantee Scam Video - EU Regulators did not even require any prominent warning to be disclosed to pension savers on the highly damaging impact of deducting accumulated fees and not taking inflation into account on the value of this "guarantee". Therefore, we tried to explain it to EU citizens in a short 2-minute video taking the viewer through 40 years of the life of 2 EU citizens as pension savers. The video is available on the BETTER FINANCE website and YouTube channel and calls on viewers to take action to stop this scam! Watch it here.

The Petition - There is still time to make sure that EU lawmakers do not mislead EU citizens about the Capital "Guarantee" of their pension savings! After all, a simple, open and cost-effective Pan-European Personal Pension with a true capital guarantee could go a long way towards ensuring a bright future with adequate pensions. At the very least (as proposed many times by BETTER FINANCE and AGE Europe), if the Capital Guarantee does not include any protection against the devastating impact of inflation over time, the "guaranteed" basic PEPP should at least have the stated objective of offsetting it, and the PEPP Key Information Document should include a prominent warning about this critical weakness of the "guarantee".

Having failed so far to convince EU policy makers about this critical issue, BETTER FINANCE now calls on citizens themselves to stand up against this scam and demand a real and clear guarantee of their pension savings.

Sign the BETTER FINANCE petition on www.avaaz.org and forward this video to your national Minister of Finance and to your Member of the European Parliament. To find your MEP's email address go to the European Parliament website.

***

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

[1] Assuming a zero nominal return before fees over the saving period to simplify.