PRESS RELEASE

Personal Pensions- BETTER FINANCE releases Research Findings on Life Cycle Pensions and once more requests that EU Policy Makers ensure a Real Protection of Personal Pension Savings

13 July 2018, Brussels – BETTER FINANCE welcomes the recent opinions of the Committee on Employment and Social Affairs (EMPL) and the Committee on Internal Market and Consumer Protection (IMCO) on the proposed "PEPP"[1] EU Regulation, but remains concerned regarding the recent developments at the European Parliament and Council, in particular with regards to the capital "protection" and the tax treatment of the future PEPP.

To shed some light on the debate between the capital "guarantee" at retirement and the "life cycle" approaches for the default investment option of the PEPP, BETTER FINANCE just published an independent study on life-cycle approaches[2].

Although the study is based on a limited sample, BETTER FINANCE found too much divergence between the starting and ending asset allocations of the portfolios of the different life cycle products reviewed, as well as between their rebalancing (de-risking gradient) strategies, especially in the EU markets. Fund documentation in the US also contains more and far clearer information on the evolution of asset allocation over time. What's more is that the average annual fee for these funds was found to be above 1,6% in the EU versus about 0,6% in the US.

HIGH DISPERSION OF RISK MITIGATION TECHNIQUES (Equity Allocation Glidepath)

	Starting equity allocation	Gradient	Ending equity allocation	Fees (average)
U.S.	74-99 %	0.95%-2%/p.a.	20-51 %	0.64%
E.U.	50-100 %	0.579%-6%/p.a.	1-34 %	1.64%
Bocconi 1	50%	0.625%/p.a.	25%	1%
Bocconi 2	75%	1%/p.a.	35%	1%
Bocconi 3	100%	1.25%/p.a.	50%	1%

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BETTER FINANCE is in favour of allowing both capital "guarantee" and life cycle "de-risking" approaches for the default investment option, albeit under certain conditions.

BETTER FINANCE has repeatedly stressed that a real capital "protection" or "guarantee" implies that the notion of "capital" must be calculated on the basis of the amounts saved before the deduction of all accumulated fees, charges and expenses directly or indirectly borne by investors, and if possible in real terms (offsetting the heavy negative impact of inflation over time). If not, the PEPP KID should at the very least include a prominent warning

[1] PEPP : Pan-European Personal Pension

[2] BETTER FINANCE' research study, The Dispersion of Risk Mitigation Techniques in Life Cycle Pensions
http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/The_Dispersion_of_Risk_Mitigation_Techniques_in_Life_Cycle_Pensions_-_Final_Report_-_130618.pdf

about the devastating impact of inflation and fees on the real value of pension savings over time. Otherwise, BETTER FINANCE will have no choice but to strongly recommend for EU citizens to steer clear of such a misleading and value destroying option.

As for the life-cycle "de-risking" approach, BETTER FINANCE insists that it must be clear, simple, standardised and therefore supervised at EU level. Information on the risk mitigation technique used must be clearly disclosed to the PEPP saver (publication of the asset allocation glidepath chart and the corresponding target allocation) and overall fees must be capped at 1% per annum. This approach should also be allowed during the decumulation phase with:

- A first phase that allows either fixed-term annuities or programmed draw-downs until the age of 80/85;
- Followed by a second phase with a deferred life annuity subscribed to at retirement.

Thus, providers will still be able to invest significantly in equities after the retirement of EU citizens, who will also enjoy a real protection against the risks associated to a very long life.

For both designs, PEPP providers must disclose the provider's benchmark(s) and publish their past performance alongside the PEPP's past performance for at least the last 20 years or since the inception of the product as suggested in the ECON Committee draft report.

The PEPP could be the opportunity to reduce the pension gap that is currently estimated at $70 trillion, and growing fast. The success of the PEPP will heavily depend on its tax treatment by Member States: it is important that PEPP products benefit from the best tax conditions everywhere to allow a real European coverage. National compartments seem to be the only solution to make the PEPP a true "Pan-European" personal pension that can be portable cross-border within the EU.

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