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

PRESS RELEASE

BETTER FINANCE Research – The Real Return 2018: Real Pension Returns across the EU on average still too low and opaque

BETTER FINANCE has been monitoring the performance of EU pension and long-term savings since 2013, with its 6th edition of the "*The Real Return*" by now covering 16 countries and over 85% of the EU population. Unfortunately, the dire state of pension savings across the EU has not improved much over the years. Despite a six-year bull market both for European equities and bonds, the outlook for European pension savers remains bleak.

Opacity

Carrying out this research was once again very challenging for BETTER FINANCE, given the severe and increasing lack of transparency on the actual returns of long-term and pension savings in the EU.

Europe's pension savings gap remains extremely worrying, exceeding €2 trillion a year which is about equivalent to 13% of Europe's GDP[1]. This is by far the biggest financial issue facing EU citizens, their children, and grandchildren.

With government pensions on the decline, and occupational ones covering only a minority of the needs of EU citizens, Public Authorities claim that the only solution for EU citizens is to save more and earlier for retirement. We beg to disagree. This advice ignores a key reason as to why too many long-term and pension savings are failing to provide for an adequate replacement income: insufficient and sometimes even negative long-term real (net of inflation and fees) returns.

In fact, saving "more and for longer periods" will not even remotely address the issue by itself, since even saving 10% of activity income for 30 years with a zero real net return, will only provide about 12 % of one's activity income through retirement.

It is time for Public Authorities to address the real reason as to why returns are so opaque and so low. BETTER FINANCE research into the real net returns of European pension savings once again shows that fees and commissions are the main culprits and severely hurt returns for pension savers. Asset allocation and taxes on long-term savings are also to blame and continue to rise across the EU.

Inadequate long-term returns

On top of that, pension savings products also too often significantly underperform capital markets, and sometimes even destroy the real value of pension savings over the long-term.

Whereas returns have improved in recent years - both for bonds and equities - thanks in large part to a prolonged bull market dating back to 2011, the BETTER FINANCE study

[1] "Mind the Gap 2016", Aviva Report

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shows that most long-term and pension savings products did not, on average, return anything close to those of capital markets.

Overall, a direct balanced (50% in European equities / 50% in European bonds) investment from a European saver in capital markets at the eve of the 20th century, would have returned a hefty +130% in nominal terms (gross of fees and taxes) and +60% in real terms, which translate to an annual average real return of +2.64% (+4.71% annual nominal return).

Extrapolating from the different pension returns taken up in the research, the average difference between the return generated by the pension products across Europe (net of inflation and fees, gross of taxes) and the return generated by capital markets (for each corresponding period, net of inflation, gross of taxes) is still in negative territory at -1.82%.

Guillaume Prache, Managing Director of BETTER FINANCE indicated that "*there is hope that the EU Authorities are eventually going to tackle the opacity issue: in 2015, following a proposal from BETTER FINANCE, the European commission launched an Action as part of its "Capital Markets Union" (CMU) Action Plan to enhance the transparency of past performance and fees of long-term and pension savings products. The EC sent a request to the European Supervisory Authorities (ESAs) last year and the first reports of the ESAs are due by the end of this year.*

Unfortunately, that alone will not be enough to improve the overall real returns of long-term and pension savings to ensure pension adequacy. If EU policy makers are at all serious about addressing the ticking pensions time-bomb in Europe, urgent action is needed. To this end BETTER FINANCE has published its Policy Recommendations[2] *that would go a long way towards addressing this most urgent threat to the wellbeing of EU citizens.*"

[2] See pages 6-71 of the 2018 report "Pension Savings – The Real Return"