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

The Future Pan-European Pension Product: Realising PEPP's Potential for Pension Adequacy

Executive Summary

Something new on the personal pensions front? 2024 might enter history books as the year in which the European Union (EU) finally decided to offer its citizens a competitive personal pension product and its firms a steady source of long-term funding. Over the past twelve months, three high-level reports on the EU's economy advocated plugging EU citizens' retail savings to EU firms' investment needs through via pan-European long-term investment plans.[1] The long-awaited "Capital Markets Union" (CMU) —or more fitly, "Savings and Investments Union"(SIU)— has the potential to put Europe back on the road to prosperity, at the same time unlocking innovation in the economy and addressing the pensions time bomb. These discussions on the SIU triggered renewed discussions on the Pan-European Personal Pension, including in a staff paper that the European Insurance and Occupational Pensions Authority (EIOPA) published on 11 September 2024.[2]

A strong supporter of the PEPP project from its inception, BETTER FINANCE, the European Federation of Investors and Financial Services Users, shares EIOPA disappointment at the slow take-up of the product on the European market. BETTER FINANCE also shares most of EIOPA's diagnosis of the reasons for this development: delayed implementation by Member States, discriminatory tax treatment compared to existing national-only products, excessive complexity of the product, small potential target market, lack of pension awareness among the general public, but also, reluctance of potential providers to introduce a lower-cost alternative to the wide array of expensive and underperforming personal pension products that biased "advisors" keep pushing to their clients.

Where the financial industry would blame the cap on cost and charges (the "1% fee cap", which only applies to the default "basic" option) for the lack of interest from product providers, EIOPA rightly remarks that providers of similar products in other jurisdictions seem perfectly able to market their products with lower fees. EIOPA instead points to the limited size of the PEPP's target market as a more convincing explanation: small market means little economies of scale, seemingly making the 1% fee cap difficult (though not impossible) to comply with. EIOPA then suggests various ways in which the target market for PEPP may be expanded.

[1] Draghi, The Future of European Competitiveness (Part A); Letta, Much More than a Market; Noyer et al., Développer les marchés de capitaux européens pour financer l'avenir.
[2] European Insurance and Occupational Pensions Authority, The Future Pan-European Pension Product.

BETTER FINANCE advocates for retaining the 1% fee cap and adjusting the PEPP features to expand the target market instead of yielding to the calls of the financial industry to lift the fee cap. From the retail investors' perspective, the latter is unacceptable: it would make the PEPP yet another expensive personal pension product in a market that is already crowded with such products. The former, by contrast, offers a much welcome outlook: make the PEPP the simple, low-cost pension product that meets the needs of most pension savers and finally introduces competition on a market that has for too long worked for the detriment of consumers. This requires (a) the full commitment of the Member States to grant the PEPP the same tax treatment as that granted to their most incentivised personal pension product; (b) a simplification of the PEPP features, which could usefully draw inspiration from the half-century old and highly successful US Individual Retirement Account (IRA). The PEPP constitutes a possible answer to European leaders' call for a successful pan-European long-term pension plan. If EU policy-makers are serious about improving the competitiveness of the EU and to better allocate households' savings to the real economy, they must give a second chance to the PEPP.

Introduction

The European Insurance and Occupational Pensions Authority published on 11 September 2024 a staff discussion paper presenting its analysis of the initial roll-out of Pan-European Personal Pension (PEPP) products in the EU.[3] This publication could not be more timely, with various high-level reports published in 2024 calling for re-routing households' savings from bank accounts into capital markets, offering funding opportunities to European firms and, hopefully, better return opportunities and pension adequacy for European citizens.[4]

BETTER FINANCE, the European Federation of Investors and Financial Services Users, has been a strong supporter of PEPP and of the broader idea of a Capital Markets Union—or "Savings and Investments Union", as Enrico Letta rebrands it in his report—as a way to spur competition in personal pension market by introducing a low-cost, simple and transferable product that would improve savers' situation and would make clear that such SIU and financial integration "serves not merely the finance sector itself".[5]

We share EIOPA's disappointment that, two years after the entry into force of the PEPP Regulation, only one company has brought PEPP products to (some parts of) the European market.[6] We also share EIOPA's assessment that, while a simplification of the product is necessary, the slow take up for the product is also due to the very structure of the market that we would like to see it challenge. For anyone following BETTER FINANCE's work on

[3] Ibid.
[4] Letta, Much More than a Market; Noyer et al., Développer les marchés de capitaux européens pour financer l'avenir; Draghi, The Future of European Competitiveness (Part A).
[5] Letta, Much More than a Market, 28; BETTER FINANCE, PEPP Position Paper L2; BETTER FINANCE, Individual Investors' Key Priorities for 2024-2029.
[6] According to the list of PEPP providers maintained by EIOPA, https://pepp.eiopa.europa.eu.

long-term and pension saving products, it will come as no surprise that we would support the introduction of a low-cost alternative to existing personal pension products.[7]

EIOPA's 2023 Cost and Past Performance report shows an average reduction in yield (RiY) of 1.5% for "profit participation" (capital-guaranteed) personal pension products, and 2.1% for unit-linked products. With average nominal net returns (before adjusting for inflation) of 1.3% and -11.5%, respectively, this results in negative average returns of -0.2% for capital-guaranteed products and -13.6% for unit-linked products in 2022 – illustrating how crucial cost and charges are in designing personal pension products that help savers build up capital for retirement. That much being said, the question remains: what can be done to increase the number of PEPP products on offer and EU citizens' demand for these products? In the remainder of this paper, we discuss EIOPA's analysis of the reasons the slow take-up of PEPP and the measures that it suggests.

Reluctant supply side: The "1% fee cap excuse" and the small target market conundrum

The financial industry is all too quick to blame the reluctance of potential providers on the PEPP Regulation's provisions that limit the amount of costs and charges that a PEPP provider can levy each year to 1% of the accumulated capital (the "1% fee cap"). It is impossible, the industry's argument goes, to offer a product like PEPP with all costs compressed under this level. However, "*EIOPA does not find the 1% fee cap of the accumulated capital per year to be particularly low in the long term*", in comparison with the average costs of similar products in other jurisdictions. If the Australian, Americans and British can make it, why not Europeans? Is the European personal pensions industry so inefficient that it cannot rise up to the challenge? If that is so, we wonder, why should it fall on EU citizens to bear the cost of that inefficiency?

EIOPA suggests that the difference of market size between PEPP and its extra-EU cousins (e.g., Australia's Superannuation products, the US IRA) might explain why, in these early days of the PEPP, potential providers may struggle to offer products with comparably low fees. Indeed, the large potential market for a 401k product in the US, for instance, allows for economies of scale. By contrast, some of the PEPP's core features (portability and, crucially, sub-accounts in at least two countries) make it a *de facto* niche product tailored to the needs of the tiny (though growing) minority of the EU's working age population that may need a cross-border pension product.[8] This much smaller target market entails limited economies of scales; that much is true and must be acknowledged. Nevertheless, we derive from this observation a conclusion that is strikingly different from that of the industry, as will be made obvious later in this paper.

EIOPA may be getting to the heart of the matter when it notes that:

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[7] BETTER FINANCE, Will You Afford to Retire? (2023 Edition).
[8] The PEPP Regulation requires adhering to different EU frameworks to ensure portability of PEPP products, leading to operational complexity.

> [t]he higher costs of products considered 'competitors' of PEPP may diminish its appeal to potential providers.[…] potential PEPP providers, when deciding whether to offer PEPPs, may consider how it would compare to and impact their current product offerings. Offering a cheaper 'competitor' product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products.[9]

Why would any product provider, currently enjoying the financial rent coming from fee-laden products, *willingly* forego (part of) that steady inflow of cash and give it back to consumers? Disruptive robo-advisors —offering fees as low as 0.51%— have shown it is possible to offer low-cost, scalable investment product alternatives by leveraging technology and operational efficiency, making them a potential prime vehicle for PEPP.[10] Mainstream distributors may then soon find themselves under the pressure of PEPP whether they like it or not.

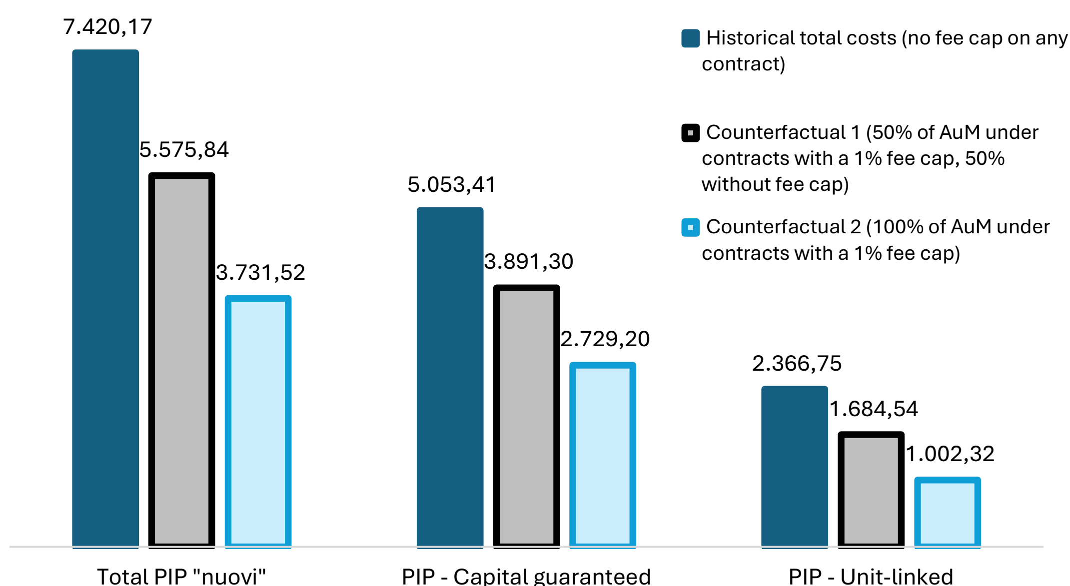
In Error! Reference source not found., we calculate the total amount paid in costs by Italian savers in so-called "new" Individual Pension Plans (*piani individuali pensionistici*, PIP "nuovi"), since its inception.[11] We then compare that with the total amounts Italian investors in PIP would have paid under two counterfactual scenarios: one in which *half* of these savings had been placed in contracts with a fees amounting to 1% of accumulated capital per annuum (the maximum under the Basic PEPP), the second in which *all* of these savings had been charged to 1% of accumulated assets per annuum. The results of this thought exercise are mesmerizing: Since 2008, Italian PIP "nuovi" investors have paid a total of 7420.17 million euros in costs. If half of these savings had been subject to a 1% fee cap, that amount would have dropped by at least 24.9% to 5575.84 million euros (-1844.32 million euros). If *all* of these savings had been subject to a fee cap, total costs would have dropped by at least 49.7%, to merely 3731.52 million euros (-3688.65 million euros). The difference is even more striking for unit-linked PIP contracts: since the costs of those contracts have been historically higher than those of capital-guaranteed contracts (oscillating between 2.16% and 2.45% over the period 2008-2023), the implementation of a 1% fee cap on all those contracts would have reduced total costs for investors by at least 57.7% over the whole period.

[9] European Insurance and Occupational Pensions Authority, The Future Pan-European Pension Product, 4.

[10] BETTER FINANCE, Robo-advisors: Breaking barriers of traditional advice.

[11] Based on data from the *Commissione di Vigilanza sui Fondi Pensione* (COVIP), the Italian pensions supervisor. For the cost data, we use COVIP's "Synthetic Cost Indicator" (ISC), retaining the average value of the ISC for a 10-year holding period. We shall note here that the full-replacement scenario is unrealistic: some existing life insurance and PIP contracts might offer lower cost levels than 1% of accumulated capital per year, and there would always remain consumers whose specific needs and demands cannot be met by a PEPP, warranting a different type of product. Nevertheless, this scenario remains useful as a thought exercise, to help us realise the magnitude of the drain that fees put on EU citizens' savings.

Figure 1 — What a PEPP-like 1% fee cap could have brought Italian PIP investors: Comparison of historical total costs vs. counterfactual scenarios with a fee cap (EUR mln.)



Data: Commissione di Vigilanza sui Fondi Pensione; Calculations: BETTER FINANCE. The total costs are calculated on the basis of total assets under management in PIP "nuovi" and COVIP's average "Synthetic Cost Indicator" (ISC) for a 10 year holding period. For counterfactual 1, the ISC is applied to half the AuM and the 1% fee cap to the other half. For counterfactual 2, the 1% fee cap is applied to the full amount of AuM.

We should note that the illustration in Figure 1 doesn't account for the fact that amounts saved on costs would have been reinvested into the pension plans, rather than pocketed by the investor. These extra investments could have generated higher (compounded) returns for Italian PIP savers. In contrast, when high costs are charged, those amounts are captured by the product provider and are not reinvested in capital markets. The issue of costs in retail investments isn't just about product affordability, but also relates to efficient resource allocation in the European economy. Over time, lower-cost investments direct more capital toward productive assets, fostering economic growth and enhancing financial returns. If one thing was made clear from the recent debates on the EU's Retail Investment Strategy (RIS), it is the fact that the financial industry will fight hard to fend off any attempt at redistributing in favour of investors the profits derived from EU citizens' investments in capital markets.[12] A major reform of distribution practices on the market for packaged retail investment products—including personal pensions—is overdue, and we can already consider RIS, rendered almost toothless by the EU's co-legislators, as a missed opportunity in this regard.

What is to be done, then? If the mainstream, obvious channel to make PEPP accessible to the mass of EU citizens is obstructed by the reluctance of incumbent providers, policymakers need to look for alternative ways. Several suggestions in EIOPA's paper could significantly enhance PEPP uptake: allowing workplaces to set up PEPPs for their staff (by

[12] BETTER FINANCE et al., "Joint Letter to MEP Yon-Courtin"; BETTER FINANCE, RIS Position Paper; BETTER FINANCE, BEUC, and Finance Watch, Retail Investment Strategy: A "Compromise" That Undermines the Capital Markets Union and Harms Retail Investors.

negotiating favourable conditions), while also enabling employer contributions could prove beneficial. The introduction of an occupational version of PEPP, with the possibility for employers to automatically enrol their workforce could be the most transformative measure, streamlining access for workers and organisations and offering more efficient ways for PEPP to reach the market. For individual subscriptions, removing the 'mandatory advice' requirement to enable self-directed online sales could further simplify its adoption.

Uninterested demand side: groomed unawareness

As EIOPA notes, "*few EU citizens are aware of PEPP and therefore not seeking to invest in it*."[13] In the defence of said EU citizens, it is hard to seek a product that simply isn't available. Short of monitoring EIOPA, BETTER FINANCE, or *niche* financial industry bodies' websites—which few EU citizens do—finding any information on PEPP is nearly impossible.[14] "*Awareness*" of specific pension products primarily stems from receiving information from product distributors. It logically ensues that if providers are unwilling to offer PEPP, they will not inform prospective clients about it, let alone recommend it.

As we have shown elsewhere, in the dominant inducements-based distribution system, so-called "non-independent advisors"—product providers' salesforce—are generally incentivised to recommend high-fee products and keep silent on the existence of available low-cost investment options.[15] Even if more providers were to put PEPP products on the market, these products would fall victim of this pervasiveness of biased investment advice in the EU. In this regard, the general reluctance of Member States to extend the favourable conditions otherwise applicable to national personal pension products to PEPP—in terms of subsidies, tax incentives and general legal conditions[16]—only compounds the issue: biased financial advisers tied to rent-seeking product providers will readily stress the less advantageous tax treatment of the PEPP to dissuade clients from opting for it.

Of course, other factors are at play. One must acknowledge the broader difference between some of the extra-EU pension products that EIOPA cites as examples and most EU countries: "*It's important to note that these products have developed in countries where the first pillar of pension provision is minimal, often only providing basic retirement benefits and sometimes functioning as an anti-poverty measure*."[17] In contrast, the first pillar of pensions—"pay-as-you-go" State pensions—remains the primary source of retirement income in most EU countries, not merely anticipated as an anti-poverty safety

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[13] European Insurance and Occupational Pensions Authority, *The Future Pan-European Pension Product*, 1.
[14] Unless one lives in one of the four EU Member States where the currently only provider of PEPP, roboadvice firm FINAX, has made PEPP available to consumers.
[15] BETTER FINANCE, RIS Position Paper, 4–9.
[16] EIOPA Occupational Pensions Stakeholder Group, PEPP Market Development.
[17] European Insurance and Occupational Pensions Authority, *The Future Pan-European Pension Product*, 3.

net for the elderly. The corollary of this prominence of the first pillar is that many EU citizens do not see saving for their pension as urgent, contributing to low demand for personal pension products, even in those countries where governments tried to raise awareness about pension savings.[18] Furthermore, in those few EU countries where the first pillar functions as a universal anti-poverty safety net (e.g., the Netherlands), the second pillar—occupational pension funds, set-up and managed by employers and social partners—is more developed; not the third pillar of personal pensions.

And with good reason: first, occupational pension schemes tend to have lower costs than personal pension products, as evidenced by data from our annual report on long-term and pension savings.[19] Second, occupational pension schemes require less on individuals' awareness of the need to save for their pensions, as contributions are automatically deducted from salaries at a pre-agreed rate (or amount). Those systems help overcoming individuals' tendency to "procrastinate" on their long-term savings.[20] These factors provide strong reasons to facilitate the distribution of PEPPs as both occupational and personal pension products.

Where to from here? Expensive niche product or popular, low-cost pension product?

Yet, the current market for PEPP remains too small for potential providers to distribute the fixed costs effectively. In our view, two main alternative adjustment measures present themselves: either lift the 1% fee cap *or* increase the size of the target market. Either leg of the alternative could solve the issue —although with very different consequences for savers.

Lifting the fee cap on the Basic PEPP: a no-go for retail investors

Raising the level of the fee cap, or even deleting it altogether, would make it possible for providers to offer PEPPs without worrying about compressing costs, *but* PEPP would then lose much of its appeal for pension savers. With this course of action, the PEPP would most likely become yet another expensive pension product (as our abovementioned research on the real return of long-term and pension savings shows, there is no shortage of those).

[18] Nolan and Doorley, Financial Literacy and Preparation for Retirement.
[19] We calculate the median cost of Pillar II and Pillar III products across 16 EU countries. In 2022, the average of these country median values was 0.29% for Pillar II versus 1.15% for Pillar III, a difference that we observe since 2000, first year of our data collection, see BETTER FINANCE, Will You Afford to Retire? (2023 Edition), 29.
[20] Mastrogiacomo, Dillingh, and Li, "The Displacement Effect of Compulsory Pension Savings on Private Savings. Evidence from the Netherlands, Using Pension Funds Supervisory Data". We should note that this "salary conversion" mechanism can be either voluntary (based on an individual contract between employee and employer) or made mandatory by law or a collective bargaining agreement between employers and trade unions; pension awareness remains absolutely relevant in the former case.

Furthermore, a hard limit on the level of charges offers much welcome certainty for pension savers, in a pensions landscape that is otherwise rapidly evolving, with successive waves of pensions reforms, and rapidly changing capital markets. As EIOPA's Occupational Pension Stakeholder Group (OPSG) remarked in its report from July 2024:

> The predictability is intended to be a response to volatile pay-as-you-go pension schemes that will offer lower income replacement rates as the population ages. *A PEPP product must therefore be based on a stable regulatory position of supervisors, stable legislation and a clear relationship between the value of savings and market developments.*[21]

It is our hope that, given time and careful adjustments of some of the requirements surrounding PEPP products (see below), EU citizens come to associate PEPP with the idea of a simple, clear, understandable and *reliable* product to save for their old days. Although a thorough simplification effort of the PEPP features is needed, the fee cap is and will remain a crucial element of that simplicity, clarity and reliability: it is a guarantee for consumers that, whoever the provider and whatever the country, this will remain an affordable option.

EIOPA suggests "*focus[ing] the PEPP conversation on value for money*", as an alternative to the fee cap. Whilst BETTER FINANCE strongly supports EIOPA's work on value for money in life insurance and pensions, from an investor protection standpoint, value-for-money supervision and its expected benefits remain too uncertain to be a viable alternative to the fee cap. Crucially, as BETTER FINANCE already noted in its position paper on RIS and its response to EIOPA's consultation on the methodology for Value for Money benchmarks,[22] the proposed approach to Value-for-Money assessments rely on peer-group comparisons with similar products—without comparing their performance to the underlying capital market or accounting for inflation. Without such external comparison and without a fee cap, there is nothing in the market situation to prevent the entire PEPP market to rather drift towards low value for money. This would eliminate a key added value the PEPP should offer over existing products, aside from its portability, which still depends on deployment and adoption based on cost-suitability factors. We also note that EIOPA's methodological approach to Value-for-Money relies on future performance and cost scenarios from Key Information Documents (KIDs), which are often unreliable and misleading, rather than on actual past performance and cost data.

The Italian PIP example is a telling one as to why a "Value for Money discussion" would not be as effective as the 1% fee cap: According to COVIP,[23] the lowest "synthetic cost indicator" (*indicatore sintetico dei costi*, ISC) for a PIP "nuovo" for a 10-year holding period was 0.58% of accumulated assets per annum, admittedly lower than the PEPP's 1% fee cap. Nevertheless, the maximum 10-year ISC was 4.07% and the average was 2.17%, which means that most of the providers are likely to charge costs well above 1%. By implementing a Value for Money assessment through peer-group comparisons, supervisors' attention

[21] European Insurance and Occupational Pensions Authority, *The Future Pan-European Pension Product*, 5.
[22] BETTER FINANCE, RIS Position Paper, 15–16; BETTER FINANCE, VfM Benchmarks.
[23] Commissione di Vigilanza sui Fondi Pensione, Relazione per l'anno 2023, 66.

focus on a few outliers with the highest costs, whereas their action would have little effect on the cost structure of most PIP providers.

Enlarging the target market: making PEPP the popular, simple, low cost default pension product

EIOPA notes that "*it may be difficult for potential PEPP providers to develop a viable business case given its limited market size*" and suggests potential measures that would lead to increasing the share of the EU population that could constitute a target market for PEPP. That is an orientation BETTER FINANCE supports.

Enlarging the potential market for PEPP could be done by removing specific requirements of the product, or adding features that bring more potential savers to PEPP. EIOPA suggests various of these measures in its paper. Here we would like to discuss five: removing the requirement to offer advice for all sales of PEPP, removing the obligation to open at least two sub-accounts in two different Member States, automatically enrolling EU citizens in a PEPP, and making it possible for employers to set up PEPPs as occupational pension products; enabling transfers from other personal pension products to PEPP; let us examine these in turn.

1. Drop the "mandatory advice" requirement for sales of PEPP

The "mandatory advice" requirement aligns with the general requirement applying to Insurance-Based Investment Products (IBIPs, such as life insurance), which are deemed generally too complex to be sold without an advisor assessing whether a particular IBIP fits the needs of an investor. We argue that the logic does not apply to the Basic PEPP, the default option of PEPP: it is meant to be a simple, transparent, standard product, which providers should be able to offer without advice. BETTER FINANCE once again urges EU policy-makers to consider how to further simplify the Basic PEPP to make it truly simple and understandable without the need of advice.[24] This would enable its distribution via digital channels, potentially constituting a (superior?) alternative to ETF savings plans on offer with an increasing number of neobrokers[25], reaching a younger generation of investors.

2. Allow PEPPs without second sub-account

Making the opening of two sub-accounts in different Member States optional rather than mandatory would make the PEPP more interesting for the majority of EU citizens who do not (plan to) move across borders during the course of their career. As EIOPA rightly notes: " *The need for a simple vehicle to promote retirement savings goes beyond the benefits it brings to mobile workers*." For the vast majority of European pension savers, whose country of work and residence is the same, starting a PEPP with a single account in that country would be sufficient.

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[24] BETTER FINANCE, "A PEPP to Provide Pension Adequacy through Decent Long-Term Returns and Protect the Purchasing Power of the Life Savings of EU Citizens".
[25] See our research agenda on neobrokers in BETTER FINANCE, *Neobrokers' Inception Paper*.

It should, then, be possible to open a PEPP with a single account, with the option of open additional sub-accounts later, if one's career path requires it. PEPP would, therefore, not be the "pension product for expatriates", but the low-cost, simple personal pension product that is desperately needed in all Member States.

3. Create an occupational version of the PEPP

With the shift from defined-benefit (DB) to defined-contribution (DC) occupational pensions currently underway across the EU, the relevance of having two clearly separated categories of pension products is waning. Indeed, the difference between a pure DC occupational pension scheme and a unit-linked personal pension product without capital guarantee is, from the saver's perspective, far from obvious (beyond the question of who sets it up for them and who makes contributions into it). The French *Plan d'Epargne Retraite* might be a case in point: while most French PER are personal pension plans (*Individual* PER, or "PERIN"), the French law also establish an occupational version, with its specific rules, features and tax regime (*Collective* PER, or "PERCO").

From there, it is perfectly possible to imagine a system in which every worker (or even every citizen) would have a PEPP opened for them when entering the workforce, which would follow them throughout their career, in which their various successive employers would make their contributions. For savers, that would avoid the burdensome tracking of multiple occupational and personal pension schemes that inevitably come with increasingly fragmented careers, increasingly often across multiple countries. When changing jobs, savers could choose to remain with the same PEPP provider and have their new employer direct their contributions there, or—thanks to the portability of PEPP—switch their PEPP to a provider selected by the employer. And when changing jobs across countries, savers would not need to open a new pension product, making moving abroad for work much more simple.

4. Make an occupational PEPP the default option of an EU-wide automatic enrolment system in Pillar II pensions

Research on various pension systems where automatic enrolment has been enacted has demonstrated a positive effect on overall pension participation. Analyses of the UK's introduction of an auto-enrolment requirement into occupational pensions show that it led to a large increase in pension participation rates, with a particularly strong effect on early career, lower-wages employees and in industries with previously lower rates of pension participations.[26] What is more, automatic enrolment is found to have a much greater effect on wealth accumulation than subsidies and tax incentives: tax incentives only marginally increase individuals' overall saving rates, instead inducing pension-aware savers to shift assets across accounts to take advantage of the different tax rates. Incidentally, differentiated tax incentives distort competition in the private pension market and enable those providers that benefit from it to obtain and consolidate a dominant position in the

[26] Cribb and Emmerson, "What Happens to Workplace Pension Saving When Employers Are Obliged to Enrol Employees Automatically?"

market.[27] By contrast, policies that automatically direct part of individual's income towards retirement savings have a significant effect on amounts being saved and invested.[28]

Key to the functioning of an automatic enrolment system into occupational pension schemes is the design of the default option, which should offer the highest possible value for money to the average participants. Indeed, a vast majority of auto-enrolled workers in occupational pensions remain with the default option, even where other options are provided.[29] As automatic enrolment in occupational schemes is now increasingly being considered as a desirable policy option to increase pension participation, an occupational version of the PEPP looks like an ideal candidate for the role of the default option. Indeed, as EIOPA notes: "*It offers an affordable default investment option where costs are capped at 1% of the accumulated capital per year and where capital invested is protected. Savers can continue saving in the same product even if they change job or if they change residence in the EU.*"

There are various ways to imagine an auto-enrolment mechanism with a Basic occupational PEPP as the default option. Many different systems are already in place across the EU and beyond, the respective merits of which need to be properly assessed in terms of pension participation and wealth accumulation. It is crucial to ensure that the right pre-conditions are in place (in terms of tax treatment, social security contributions, etc.) before implementing an autoenrollment mechanism, and to ensure that the enrolled members retain the possibility to opt out of the scheme.

5. Enable transfers from existing pension products

Enabling transfers of accumulated amounts from existing contracts into a revised PEPP that would be cheaper, simpler, more portable and more transparent while offering the same tax treatment would, in EIOPA's words, "*help achieve mass adoption*". Pension savers that have been trapped into expensive, underperforming pension products would be offered an alternative. There is good reason to expect that many would seize the opportunity. There also exist national-only insurance-based investment products (IBIPs), deferred annuities, etc., which could be transformed into PEPP with only minor adaptations; national authorities should enable providers to make these adaptations.

Currently, only a minority of Member States have introduced in their national law the possibility to transfer accumulated savings from national products to PEPP.[30] According to an analysis of national PEPP implementations conducted by EIOPA's OPSG, of the 21 Member States who at the end of 2023 had adopted the legislative updates necessary to enable the provision of PEPP, only 6 allowed transfers from national personal pension

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[27] BETTER FINANCE, *Will You Afford To Retire?*, 182–216.

[28] See, e.g., Chetty et al., "Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts" on Denmark, who estimate that, with 85% of individuals being "passive savers", a system based on subsidies in fact only targets a minority of rather wealthier and financially sophisticated individuals whilst having little to no effect on the majority of the population.

[29] See, e.g., Clark and Young, *Automatic Enrolment: The Power of the Default*.

[30] France is one of these, who established full transferability between its pension savings products through the 2019 PACTE law.

products to PEPP. In the 15 other MS, "*the expected added value for the consumers is not achieved*".[31]

Of course, as the financial industry would object, people's situations are varied and the PEPP may not be the most appropriate pension product for all. That is true. But the possibility to switch for a PEPP would give many EU pension savers something that the current status quo denies them: the right to make a choice.

Curiously, EIOPA does not seem to see these measures as alternative but potentially cumulative: lift the fee cap *and* remove the features that make PEPP a niche product for expats. As was made clear in this paper, BETTER FINANCE does not share this view. We believe that the choice is between either lifting the fee cap, putting at risk most of the added value that pension savers may expect from PEPP products, *or* keeping the fee cap and expanding the market, making this high-value for money product available to all EU citizens. Needless to say that BETTER FINANCE strongly advocates for the latter.

As a starting point, PEPP needs to be simplified to the point where its default option —the Basic PEPP— can be sold online without advice, and Member States must commit to grant it the most favourable tax and subsidy treatment applied to a personal pension product in their jurisdiction. These two measures alone would already greatly contribute to a successful future for the PEPP in the personal pension market. Then, an occupational version of the PEPP needs to be developed, to be used as the default option of a carefully crafted auto-enrolment system that offers the best possible outcome for workers and the possibility to opt out.

Finally, reform the market

We have said it before: no matter how good PEPP products are, they will never take off unless the European market for packaged retail investment products is thoroughly reformed. The reason for this is simple, and EIOPA highlights it in its paper:

> The higher costs of products considered 'competitors' to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper 'competitor' product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products.[32]

As long as the status quo—in which product providers and intermediaries are free to market expensive and underperforming products that align more with their own financial interest than with that of their client—remains unchallenged, PEPP, like many other cost-efficient investment options, will remain conspicuously absent from the investment recommendations that retail investors get from product manufacturers' salesforce.

Some of the measures considered in EIOPA's paper and discussed above have the potential to challenge this status quo—auto-enrolment, letting employers set up PEPP products as occupational pension schemes. Nevertheless, a far-reaching reform remains

[31] EIOPA Occupational Pensions Stakeholder Group, PEPP Market Development, 19.
[32] European Insurance and Occupational Pensions Authority, The Future Pan-European Pension Product, 4.

needed to re-establish competition on the EU's retail investment market on the basis of product quality. This is key to increasing retail participation in capital markets, address the pension gap, but also make the EU's life insurance, asset management and pensions industry more competitive.

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