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Beware! Saving for your pensions may be losing you money.

Brussels, 29 September 2014 - The outlook for European citizens saving money for their pensions is far from encouraging. Although lower inflation rates across the EU slightly improved real returns, current low interest rates (lower still following the latest ECB cut down to 0,05%) combined with heavy fees render pension savings markets extremely vulnerable to even the slightest increase in inflation.

Worryingly the actual performance of pension savings remains unknown to clients and to regulators. It comes as no surprise then that the latest EU Consumer Markets Scorecard again ranks pensions and investments as the worst consumer markets of all.
A new report on the gloomy status of private pensions in Europe was released today by Better Finance, the independent NGO looking after financial users' interests. The 2014 Edition of «Pension Savings: The Real Return» now covers 8 EU countries (Belgium, Denmark, France, Germany, Italy, Poland, Spain and the United Kingdom), representing 75% of the entire EU population.

The report clearly illustrates that the tendency to blame poor returns on the performance of capital markets holds no water. Pension funds too often underperform capital markets. As stated by the European Commission in 2013, some of the "*reasons for not saving long-term are the often poor performance of financial intermediaries to deliver reasonable return, and costs of intermediation*". A case in point is a Belgian pension fund, benchmarked against world equities and bonds, which over the last 13 years persistently lagged the performance of such capital markets by 40 %, destroying 19% of the real value of the participants' savings.

The Better Finance report confirms and significantly expands upon the 2012 findings of the OECD which revealed negative real returns for pension funds. Unlike the OECD report, however, Better Finance also covers personal pension products and takes into account all charges, fees and commissions borne by pension savers as well as the impact of taxation in order to reveal exactly what actually ends up "in the pockets" of pension savers.

With no clear information regarding their performance, a lack of comprehensive and harmonised disclosures for long term and pension products combined with biased advice at the point of sale, it is nearly impossible to work out how best to save for retirement.

Whereas the European Authorities rightly identified the promotion of long term investment as a priority for growth and jobs, their current policies with regard to long term and pension savings to this day remain inconsistent with this priority.

In order to address the issue of inadequate returns on pension savings Better Finance identified ten key policy measures, listed in «Pension Savings: The Real Return».

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Full report: www.betterfinance.eu

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Recommendations

Based on these research findings, we recommend the following ten policy measures to urgently address this issue of inadequate pension savings returns:

1. Improve and harmonize disclosures for all long term and retirement savings products;

   - "PRIIPs": the EU proposed Regulation for a Key Information Document (KID) must be extended to all retail long-term and pension investment products, or, at least, a summary of pension saving product information should be required and be as comparable as possible to this KID;

   - Disclosure of full costs and commissions, and long term historical returns must be provided:

     - After inflation;
     - After all charges borne directly or indirectly by the investor; and
     - After taxes (as required in the US for investment funds).

   - Disclosure of funding status (assets/liabilities coverage)

   - Disclosure of transfer/exit possibilities

2. For EIOPA to comply with ESAs Regulations article 9(1)[1]: to actually report on pension saver trends, including on the actual performance of all pension products - one can manage or supervise only what one can measure. It is indeed quite surprising that the actual net performance of pension saving products is not really known, nor by clients nor by supervisors.

3. Design a simple retirement savings vehicle:

   - that protects the long-term purchasing power of savings (could be used as a default option in other pension saving products):

[1] *"The Authority shall take a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market, including by:*
(a) collecting, analysing and reporting on consumer trends".

- readily accessible, without need for advice and its associated commissions;
- supervised by public bodies.

A pan-European Personal Pension Plan would definitely be welcomed by EU savers if it matches these requirements and if it is not disadvantaged in terms of taxation.

4. Simplify and standardize the range of product offerings; forbid non UCITs funds ("AIFs"[2]) in all retail packaged long-term and pension products (except for qualified investors who can access packaged products with choice of investment units), and find ways to thoroughly streamline the excessive number of UCITs offered in the EU (about 35,000 versus 9,000 in the US, and that for a smaller market).

5. Establish transparent, competitive and easy-to-use (standardised) retail annuities markets throughout the EU, and give more freedom to pension savers to choose between annuities and withdrawals when and after they reach retirement age.

6. For those individually subscribed to collective pension products, improve the governance of the collective scheme by having at least half of the scheme's supervisory body directly designated by the pension scheme participants.

7. Ensure the end of biased advice at the point of sale and guarantee competent advice on long term investments, including going back to basics in order to explain what the building blocks of LT saving products are: equities and bonds.

8. Ensure special treatment by prudential regulation of all pension products (insurance and non-insurance regulated): the long duration of the liabilities allow for higher portfolio allocation to long term investments such as equities

9. Taxation to incentivize long term retirement savings and investment over consumption and short term savings, or at least not penalise this virtuous behaviour

10. Basic financial mathematics to be part of school curricula, as this is a crucial tool in selecting suitable investment products for pension savers.

[2] AIFs stand for Alternative Investment Funds. They are subject to fewer investor protection rules than UCITs, however AIFs are up to now very widely used by personal pensions providers.