Proposal for a Regulation of the European Parliament and of the Council on a pan-European Personal Pension Product

PEPP: a must for future EU pensioners and the EU economy

With a global pensions gap estimated at $ 70 trillion and forecasted to jump to $ 400 trillion by 2050, a simple, cost effective, performing and open pan-European personal pension is an absolute must. Therefore, BETTER FINANCE (BF), the European Federation of Investors and Financial Services Users, welcomes this initiative and the opportunity to comment on the Proposal for a pan-European Personal Pension Product (PEPP).

The advice to save early and amply – given by the financial industry and Public Agencies as the solution – misses a crucial prerequisite for pension adequacy: returns. Unfortunately, BF research demonstrates that real net pension returns have too often been negative (http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_report_2016_For_Web_-_Final.pdf).

Simple example (assuming no inflation, saving 10% of income for 30 years, 25-year life expectancy at retirement):

- with zero annual net real return: 12% replacement income only;
- with 8% annual net real return: 49 % replacement income.

Clearly, saving early and significantly does not work without decent long term net real returns. Independent research clearly identifies the key pre-requisites to get these crucially needed long-term returns: overall fees must be kept low and allocation to diversified equities must be strongly favoured. The future PEPP must fill these two over-arching conditions.

PEPP is also the single best solution among all CMU initiatives and elsewhere to initiate a much needed "re-equitization" of the EU economy. PEPP indeed is the best tool to foster retail equity investments: it is very long term, hopefully as tax incentivised as existing national personal pension products, and allows for diversification and protection via the safe and simple default investment option.

Concerns

We agree with the EC that the PEPP should be simple, standardised, cost-effective and open to various types of providers and support reinforcing investor protection rules, with the Key Information Document re-introducing some historical performance disclosure.
However, we do have two major concerns:

- The current design of the default investment option does not protect the long-term purchasing power of pension savings at all. A nominal long-term capital "protection" is not a real one and thus highly misleading for EU citizens who are subject to the "monetary illusion" (even with an average inflation as low as 2% it would destroy 55% of the value of such pension savings over 40 years). This certainly does not result "in a safe investment strategy" referred to in Article 37. The default option should provide a minimum guarantee not to lose the purchasing power of pension savings at retirement. Some providers complain this is impossible to offer, although long inflation-linked bonds already do precisely that, and French banks even provide this guarantee to a short-term savings product (a highly popular "livret A"). This option should be safe and simple enough to be subscribed without advice, and intermediaries should put in writing why they advise their clients against this option. Additionally, for this option, a fee cap could be considered, at least at the beginning.
- The alternative investment options seem to exclude direct equity investments. This is not consistent with the CMU initiative, which aims at strengthening the link between savings and the real economy. This exclusion will again confine EU PEPP savings to fee-laden "packaged" products only. This is all the more unfortunate since the very long-term nature of the PEPP makes it the ideal candidate for retail equity investments.

Last, but not least, EU Member States should thoroughly follow the EC "recommendation" and not discriminate PEPPs versus existing national pension products, even though they frequently suffer from the "NIH" ("Not Invented Here") syndrome.