PRESS RELEASE

THE REAL RETURN 2017: A BLEAK OUTLOOK FOR EUROPEAN PENSIONERS AS INADEQUATE RETURNS CONTINUE TO HARM LONG-TERM SAVERS

9 October 2017 - Today BETTER FINANCE launches the fifth edition of its annual and unique research on the real return of long-term savings (covering 86% of the EU population and a period of 17 years), unfortunately once more drawing attention to the fact that too many pension products are massively underperforming capital markets, and still deliver low or even negative long-term real returns, despite very good returns for both equity and bond markets since 2011. No wonder that pensions and investments remain ranked at the bottom of all consumer products covered by the EU Consumer Scoreboard[1].

The Organisation for Economic Co-operation and Development (OECD) recently repeated the Public Authorities' mantra that citizens need to take their responsibility with regard to their pension savings, stating that "*in light of the challenges facing pension systems, the only long-term solution for achieving higher retirement income is to contribute more and for longer periods*"[2].

Whereas this may be sound advice, it repeatedly 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 (after inflation) 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 - as often recommended - 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 also address the responsibility of providers.

Why such low returns? Fees and commissions are the main culprits, especially for packaged personal pension products and unit-linked life insurance. Taxes on long-term savings are also still on the rise.

Asset allocation is also to blame. The mid-term outlook for European pension savings is anything but rosy, since interest rates have reached rock bottom level, making it impossible for European bond markets to continue to provide the extraordinary returns of the last decades. Since European pension funds are currently primarily invested in bonds, a further blow to returns seems inevitable.

[1] EU Consumer Scoreboards
[2] OECD, Pensions Outlook 2016, Highlights, p.4

Guillaume Prache, Managing Director of BETTER FINANCE stated that "*if EU policy makers are at all serious about addressing the mushrooming pensions gap in Europe, urgent action is needed, starting with the speedy implementation of the "retail" components of the 2015 "Capital Markets Union" (CMU) Action Plan by finally enhancing the transparency of performance and fees of long-term and pension savings as well as launching a Pan-European Personal Pension Plan (PEPP) that should, at the very least, not destroy the long-term purchasing power of the life-time savings of EU citizens.*"

→ Please find the 2017 Edition of "*Pension Savings – The Real Return*" here.

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