BEUC The European Consumer Organisation

Permanent Representation to the EU

B - Brussels

The Consumer Voice in Europe

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Brussels, 10 December 2018

Subject: Trilogue negotiations on European Commission's legislative proposal for a pan-European Pension Product - BEUC calls for a cap on costs

Dear Ambassador,

I am writing on behalf of BEUC, the European Consumer Organisation, concerning ongoing trilogue negotiations on the European Commission's legislative proposal on the pan-European Pension Product (PEPP). If well-designed, this initiative by the European Commission could help to reduce the pension gap in Europe and give consumers access to more cost-effective, simple, transparent and standardised personal pension products. In order to deliver value and better retirement outcomes for consumers in Europe, we strongly believe that the **default option of the pan-European Pension Product must include a cap on costs and charges not exceeding 1% of the accumulated capital per annum**, as proposed by the European Parliament.

The high costs associated with investing in pension funds in Europe are well-documented. For instance, a recent external study from the European Commission, shows that **the fees associated with personal pension product can vary significantly between European countries**. In Poland, the 'ongoing charge' for investing into a pension mutual fund costs on average 2%, with ongoing charges for the most expensive funds reaching 3.10%.[1] In Portugal, the average ongoing charge was 1.44%, with the most expensive funds costing investors 2%.[2] The costs and fees associated with pension investing can have a significant impact on the final value of a savers' pension pot. To demonstrate the impact of costs on return, one should consider that an additional 1% yearly charge **can cost a consumer a quarter of their pension pot at the end of the accumulation phase.**[3] Research shows that the net return of many personal pension products in Europe is currently close to zero, or even negative, due to the high levels of charges associated with these products.[4]

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[1] European Commission, 'Distribution systems of retail investment products across the European Union', 2018, https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems_en.pdf, p. 66.

[2] European Commission, 'Distribution systems of retail investment products across the European Union', 2018, https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems_en.pdf, p. 66

[3] To see the impact of fees on investment returns, see pages 22-25 of Better Finance paper on 'The dispersion of risk mitigation techniques in life cycle pensions."

[4] Better Finance, 'Pensions Savings, the Real Return – 2017 edition', http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_Report_2017_-_Full_Report_-_Online_Version.pdf

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Transparency alone will be insufficient to ensure greater price competition among future PEPP providers and in turn deliver lower costs for consumers. There is mounting evidence, drawing from behaviour economic studies that due to cognitive biases, price transparency alone is insufficient in helping consumers make better informed investment decisions. For instance, the UK's Financial Conduct Authority's recently completed market study into the asset management industry[5], found evidence that consumers "rarely engage with [the] charges associated with fund investment." The study also found that **"investors' awareness and focus on charges is mixed and often poor,"** with nearly half of retail investors not even aware that they are paying fund charges for their asset management services. According to FCA analysis of browsing data from online investment platforms, very few investors seek out information related to costs. Of all the visits to the website to look at funds, **fewer than 9% of visitors looked for charges' information,** while under 3% look at documents (including the KID).

A lack of understanding about the fees and costs associated with investing harms retail investors in two ways: directly by causing savers to hold poorer-value-for money products, and indirectly by reducing competition between asset managers to lower charges over time. Indeed, the FCA's study confirms that there is evidence of "**weak price competition in a number of areas of the asset management industry"** – firms **"do not typically compete on price, particularly for retail active asset management services."** The FCA's study meanwhile also found that there is "no clear relationship between price and performance – **the most expensive funds do not appear to perform better than other funds before or after costs**." In fact, "there is some evidence of **a negative relationship between net returns and charges**."

Given the cognitive biases and evidence of the limits of transparency and competition in bringing down prices for consumers, plus evidence that higher fees do not necessarily correlate with better performance, a cap on fees is needed for the default option of the pan-European Pension Product. We therefore strongly urge EU negotiators to include a cap on fees and costs for the default option of PEPP, not exceeding 1% of the accumulated capital per annum.

Thank you for taking these concerns into consideration during your deliberations. We remain at your disposal should you require any further information or if you have any questions.

Yours sincerely,

Monique Goyens
Director General

N.B: This letter has been sent to the European Commission, the European Parliament, and the Council of the European Union.

[5] Financial Conduct Authority, 'Asset Management Market Study', 2018, https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf.