

REVIEW OF THE PAN-EUROPEAN PERSONAL PENSION (PEPP)

Key points for consumers

Why it matters to consumers

There is a growing pensions gap in the European Union and about half of consumers could meaningfully mitigate the risk of poverty in old age for themselves by investing into a good quality retirement savings product, if one was available. However, even the consumers who could, often don't engage due to mistrust in financial services. Offering a high-quality, standardised product could increase participation by establishing a trustworthy and recognisable option and would meaningfully improve the retirement outlook for a large number of consumers.

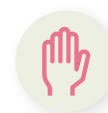
There are enough options for retirement savings products in the European Union. What's missing is a **high quality, easily accessible** option to circumvent the often-unsuitable results European retail investment markets offer to consumers. For the PEPP to fill this need it must be standardised and quality controlled.



what BEUC supports



what can be improved



what BEUC considers problematic

COMMISSION PROPOSAL

The proposal **removes the requirement to provide advice** before selling the PEPP to consumers.



Opening distribution in this way will allow market entry for new competitors who were previously blocked by the requirement to offer advice. Advice requires a distribution network, which only the incumbents have in the EU, allowing entrenched industry to avoid competition. This market power has allowed for high fees and low performance products to persist in retirement savings markets.

Any advice that is provided on the basic PEPP must be **independent**.



Where consumers do seek advice, they must receive independent council that is in their favour and not beholden to a sales interest.

Replacing the requirement to offer guarantees in favour of a **Lifecycle approach** to allow more effective investment strategies.



Guarantees are very expensive to manufacture, because they constrain the investment options. Products that must avoid volatility because of this produce lesser returns for decades reducing the chance for retail investors to reach pensions adequacy.

Removing the 1% fee cap that PEPPs had to adhere to.



High fees reduce the quality of an investment product. The purpose of investment is to earn returns; fees reduce returns. 1% of a large-scale pensions' product is already a substantial incentive for any potential product provider who doesn't have the market power to demand even more. The removal of mandatory advice makes this change unnecessary.

COMMISSION PROPOSAL

BEUC POSITION

The proposal allows to offer PEPP variants without providing the basic version. This means **no mandatory standard** will exist.



For the PEPP standard to be useful to consumers, it must always be available where PEPPs are. If it becomes possible to not offer the basic PEPP while still offering variants there will, in practice, be no standard that consumers can rely on.

The proposal introduces a **Value for Money** approach to the PEPP.



Value for Money, which is the idea to enforce adequate net returns for a risk profile, is a good addition by itself, but the proposal contains 2 weaknesses on this front:

1. VfM replaces a fee cap in this draft, which is counterproductive.
2. VfM is tethered to the RIS proposal implying that the rules for PEPP may be the same as for the rest of the market. However, PEPP must do better to provide value, otherwise it is not needed.

The proposal removes the requirement for industry to provide **national compartments** in different EU countries.



This simplification means that PEPP will be less useful for mobile citizens in the EU and less useful for the common market. It may, however, be easier to produce supply of PEPPs through dropping the requirement for presence in several jurisdictions. If a good quality PEPP was available, even on a national market only, this would improve the situation there. Making it a European solution could come afterwards.

The commission recommends considering **auto-enrolment** in the supplemental pensions package, which is relevant to the PEPP.



While not part of the PEPP proposal, the package on supplementary pensions also includes a recommendation to member states on Auto-enrolment.

This can be very useful provided a quality standard is observed to prevent consumers from being auto enrolled into an exploitatively poor-quality product. PEPP fails to ensure this due to the absence of a binding standard and a cost cap.