EPFSF Briefing on
"Pan-European Personal Pension Product (PEPP) Chapter"
20 March 2018

Introduction

The European Commission (EC) published in June 2017 a proposal for a Regulation on a pan-European Personal Pension Product (PEPP) in order to:
•Enhance choice for citizens when saving for retirement;
•Foster more competition in a truly integrated EU personal pension market;
•Create a pension product portable between Member States;
•Complete the Capital Markets Union (CMU).

The PEPP is considered as a way to address the unprecedented demographic transformation and correlated pension saving gap. It would provide a framework for the creation of a voluntary personal pension product that can be marketed by providers on a pan-European scale and help – alongside national initiatives aiming at doing so – improve the financial sustainability of European pension systems.

Main elements of the Commission's proposal

•**Authorisation and Supervision** – The PEPP authorisation is granted by EIOPA, which is also in charge of keeping a public central register listing authorised PEPPs. National competent authorities remain in charge of providers' ongoing supervision.

•**PEPP providers** – The Commission text lists credit institutions, insurance undertakings, IORPs, investment firms, investment/management companies and alternative investment funds as eligible PEPP providers.

•**Cross-border provision and portability** – The Commission's proposal allow the saver to keep contributing into the same PEPP when changing domicile to another Member State, with retention of advantages and incentives granted by the PEPP provider and information. In order for this to be possible, providers are required to establish national compartments for all Member States upon request addressed to the PEPP provider, within three years after the entry into force of the Regulation.

•**Information disclosures** – Before a PEPP is proposed to PEPP savers, a PEPP KID shall be drawn up on the basis of the PRIIPs KID requirements (with additional information on i.e. retirement benefits and associated guarantees, minimum or maximum period linked to the PEPP scheme, retirement age, description of national compartments, information on portability and switching, applicable laws, and past performance). Presentation and content of the PEPP KID would be determined by level 2 measures (Delegated act and Implementing Technical Standards). Throughout the term of the contract, a PEPP Benefit Statement shall be drawn up, on the basis of the IORP II "Pension Benefit Statement", including – among other things – information on prospective benefits, guarantees, past performance, costs deducted at least over the last 12 months and how ESG criteria have been taken into account.

•**Accumulation phase** - Investments shall be made in accordance with the prudent person rule – i.e. assets shall be invested in the best long-term interest of PEPP savers as a whole; investment shall ensure security, quality, liquidity and profitability of the portfolio as a whole; assets shall be invested predominantly in regulated markets.

•**Investment options** – PEPP providers can offer a maximum of five investment options, including a default investment option ensuring "capital protection" to allow "the PEPP saver to recoup the capital invested". The Commission is empowered to adopt delegated acts in order to specify risk-mitigation techniques for both the default and alternative investment options.

•**Switching** – Domestic and cross-border switching is possible not more frequently than once every five years with a fee cap of 1.5% of the positive balance to be transferred to the receiving PEPP provider.

•**Decumulation phase** – The proposal leaves a high degree of flexibility regarding the form of out-payments: annuities, lump sums, drawdown payments and/or a combination of the previous being allowed. The choice of the form of out-payments shall be exercised by PEPP savers. The conditions for the decumulation phase such as the setting of the retirement age and of a minimum period of belonging to a PEPP scheme, are left at Member States level.

•**Taxation** – The Commission proposal does not seek to harmonise the tax treatment of personal pension products. However, the Recommendation on the PEPP tax treatment – published at the same time as the proposal – encourages Member States to grant PEPP the same tax relief as their national personal pension products.

State of play

The EC proposed Regulation is currently discussed by the Council (Working Group level) and the European Parliament (ECON, IMCO and EMPL committees) with the ambition to reach a political agreement before next European Parliament elections in May 2019.

The majority of industry players have very much welcomed the proposal as way to increase retirement savings across Europe and contribute to fill the pension gap. However, a number of concerns have emerged from potential providers around the implementation of some of the aspects of the Commission proposal.

Additional consideration needs to be given to some of the issues included in the draft text (such as the construction of a default option, requirements over portability and information disclosures, as well as distribution regime and switching process) in order to make the product commercially viable. The ongoing industry discussion and debate at national level have raised a number of different options to resolve many of these questions drawing on best practices in the EU and beyond.

Conclusion

One of Europe's major challenge is to safeguard adequate and sustainable retirement income for its citizens. One way to make pension systems more sustainable is to boost retirement saving by individuals. At the same time, the CMU project reiterates the need to channel more capital – and therefore private savings – into long-term investments to boost growth and job creation.

If successful, the PEPP could contribute to these important objectives, as well as fostering more cross-border provision in a truly integrated European market for personal pension products.

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