EUROPEAN COMMISSION
Directorate-General for Financial Stability, Financial Services and Capital Markets Union

Insurance and Pensions

Brussels, 22 February 2017

NON-PAPER FOR THE FINANCIAL SERVICES COMMITTEE

A PAN-EUROPEAN PERSONAL PENSION PRODUCT

1. Introduction

The Commission is working on an initiative on a pan-European personal pension product (PEPP), in the context of Capital Markets Union. The objective is threefold: to generate more savings for investment in growth-creating sectors, to improve the single market for private pension products, with more supply and cross-border portability, and to enhance the uptake of personal pensions in the EU, thus helping to plug the pensions gap in Europe identified in the 2012 Commission White Paper "An Agenda for Adequate, Safe and Sustainable Pensions". This paper describes the state of play of this project, outlines the broad options and issues (including tax issues), and seeks support and input from Member States.

2. State of play of the PEPP initiative

A public consultation on personal pensions[1], organised between July and October 2016, collected more than 500 replies and showed clear support for an EU personal pension framework. Indeed 73% of consumer associations which responded are not satisfied with the available choice of personal pensions, and 69% of the individuals who responded are interested in an EU framework if it is launched.

[1] Personal pensions are defined as long-term savings products that individuals contribute to on a voluntary basis, complementing state and occupational pensions. Personal pensions are typically long-term savings, which should be matched by long-term investments.

Among the four policy options tested through the consultation[2], a majority of professional respondents supported the pan-European personal pension product (PEPP) as the best option to achieve the policy objectives identified above.

Several Member States have already provided input. Overall, those Member States support an EU personal pension framework while stressing that it should not undermine existing national pension systems, including state-based and occupational pensions, and that a key challenge for making an EU personal pension a success is taxation.

The Commission services are currently running a study by a consultant on the mapping of tax requirements across the EU, assessing the market potential for an EU personal pension framework. The interim results show that a wide variety of national qualification criteria for tax benefits for personal pensions exist. The tax aspects will be discussed more in detail at a meeting of national tax experts organised by DG TAXUD on 2 March 2017.

3. Potential key features of a PEPP

The PEPP project looks at key aspects of the potential product, including its scope, product and provider authorisation and governance, the distribution regime, disclosures, investment options and how to keep it low-cost. The upcoming legal framework would set out key characteristics of PEPPs. Some or all of the following features could be determined at EU level (non-exhaustive list):

3.1. Explicit **retirement objective**, to allow for long term investments and provide an income for retirement. The retirement objective distinguishes pension products from other investment products.

3.2. Characteristics of the **accumulation phase** (the phase during which funds are paid into the product). The main issues are the timeframe and how to deal with early withdrawals.

3.3. A limited number of **investment options –** investments will determine the outcome of the product at the age of retirement and should take into account the retirement objective, allow for an appropriate balance between risk and returns, as well as take into account the individual's needs. The main topics considered are the default option and the number of permitted alternative investment options.

[2] A code of conduct, personal pension account, pan-European personal pension product or PEPP, harmonisation of national personal pension regimes.

3.4. A mechanism for **mitigation of investment risk** is needed, so that the investment options take into account the individuals' risk profile and mitigate investment risk through additional investment decisions following the acquisition of a pension product. The main question here is how to mitigate risk, whether for instance through guarantees (on capital, return and/or other), or through alternative techniques such as life-cycling[3]. A defined contribution PEPP will be simpler to create at European level since a fully or partly guaranteed (defined benefit) product would raise the issue of the applicable prudential rules.

3.5. Decumulation is the product phase after the age of retirement. The main question is whether there should be a flexible choice between the forms of out-payments: in particular, a lump sum or annuities.

3.6. With regard to **fees and charges** (all the charges on the pension product), the main question is whether they should be regulated or not.

3.7. Disclosure requirements are essential to ensure that individuals make well-informed decisions in choosing a PEPP. The principal questions are the type of information, timing, as well as format.

3.8. After signature of the contract, individuals might want to **switch** from one provider to another. It is to be decided whether switching should be flexible and, where appropriate, under which conditions it could be limited.

Some other issues to be tackled under the PEPP project are the following:

- **Portability** concerns how to deal with individuals moving cross-border while maintaining the same product and provider.
- Distinct **distribution** channels could be employed to sell PEPPs to individuals. These include traditional channels, such as physical distribution, an agents network, or online distribution.
- It could be beneficial to ensure that individuals obtain **advice** on the most favourable outcomes at the moment of purchase of the PEPP. The mandatory or optional nature of advice, and its content, could be differentiated depending on the distribution channel.

[3] I.e. through the creation of a "life-cycle fund" (sometimes also referred to as "age-based fund") – a special category of balanced, or asset-allocation, mutual fund in which the proportional representation of an asset class in a fund's portfolio is automatically adjusted during the course of the fund's time horizon.

Contacts with stakeholders have shown that the PEPP should be flexible enough to be adapted to national specificities. This may include, for instance, offering several options at EU level for decumulation or for investment risk mitigation, so that a PEPP can be offered by different types of providers (banks, pension funds, asset managers, or, as is mostly the case today, insurers), and widely across all Member States. At the same time, some harmonisation will also help ensure a degree of portability of a PEPP across Member States. These considerations seem to point towards an approach where a core of features of a PEPP would be determined at EU level, possibly with default options, while leaving Member States with flexibility about other features, in order to still take national specificities into account. However, an approach with more determined features is not excluded at this stage.

4. Way forward

In the context of the Capital Markets Union, an EU personal pension framework structured as a PEPP has potential to generate significant additional savings towards capital markets, providing additional financing for productive investments. It is estimated by the consultant that within 10 years, an EU personal pension could attract 2 trillion euro of assets under management. This would be a significant increase as compared to the existing national personal pensions, which manage around 600 billion euro of assets[4].

The PEPP should not compete with existing state-based and occupational pension systems. It is meant as a complement to existing systems, a voluntary regime allowing providers to develop saving products and policyholders to complement their savings for retirement.

A Commission legislative proposal on personal pensions is expected for the summer of 2017. Support of Member States will be instrumental in ensuring the success of this initiative. Member States are therefore invited to give their views on the options and possible features for the PEPP initiative.

Questions to FSC members:

1. What are the key features of a PEPP that could be determined at EU level? What features should be left to Member States?

2. What is the best way to promote cross-border selling and portability of personal pensions, in light of the identified barriers, including taxation?

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[4] Source: Ernst&Young interim study for the Commission.