PRESS RELEASE

BETTER FINANCE APPLAUDS EU PROPOSAL FOR A PAN-EUROPEAN PERSONAL PENSION (PEPP) TO DIFFUSE THE TICKING PENSIONS TIME BOMB

29 June 2016 – The global pensions gap is currently estimated at $70 trillion and forecasted to mushroom to $400 trillion by 2050: this is by far the biggest financial issue facing EU citizens, their children, and grandchildren.

With government pensions on the decline, and occupational ones covering only a minority of citizens and pension needs, all Public Authorities are asking EU citizens to save more and earlier for retirement. They are, surprisingly, omitting another crucial requisite for pension adequacy: decent net real (i.e. after inflation) returns. Compounded returns are the main – if often ignored - driver for pension adequacy[1].

Independent research into the real net returns of European pension savings has shown that fees and commissions severely hurt returns for pension savers. Pension savings products too often significantly underperform capital markets, and even sometimes destroy the real value of pension savings over the long-term. This in turn is due to the extreme fragmentation of the pension saving products markets within the EU, to the complexity and opacity of many products, and to insufficient competition.

No wonder then that investments and pensions continue to rank as one of the worst consumer markets in the entire European Union according to the European Commission's Consumer Scoreboards. With an ageing population, the EU can ill afford to continue down this road and needs to look into solutions to diffuse this ticking time bomb that is European pensions.

Fortunately, today, the European Commission has published a proposal for a Pan-European Personal Pension (PEPP), a much-needed initiative that BETTER FINANCE and others have been advancing for years.

BETTER FINANCE very strongly supports this proposal, which, if enacted, could reduce the pensions gap, by providing a good "value for money" option for all European savers and pensioners.

To this end, we concur with the EC that the PEPP should be simple, standardised and cost effective. We also fully support the EC proposal to open it to various types of providers: insurers (who are experienced in managing the longevity risk), asset managers, occupational pension funds, etc.

BETTER FINANCE is also happy to see reinforced investor protection rules. In particular, the Key Information Document (KID) re-introduces some historical performance disclosures,

[1] With a zero annual net real return, even saving 10% of one's income over 40 years (with a life expectancy of 30 years at retirement) will provide only a 12% replacement income. However, an 8% annual net real return would obtain a 49% replacement income.

The European Federation of Investors and Financial Services Users
76, rue du Lombard, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu - http://www.betterfinance.eu

which will thankfully allow pension savers to know whether a PEPP has ever made real money for savers, has or hasn't met its investment objectives, and compare its achievements with other similar products: today all such critical information is hidden from them in the appalling new KID for other retail investment products ("PRIIPs"[2]).

Also, as strongly advocated by EIOPA and BETTER FINANCE, the EC is including an even simpler and cost-effective default investment option, so that this option can be subscribed to without advice even by low income earners and by the least financially literate.

BETTER FINANCE has only two major concerns with this proposed regulation:

- The current design of the default option does not protect the long-term purchasing power of pension savings at all: a nominal long-term capital "protection" is not a real one and therefore highly misleading for EU citizens who are subject to the "monetary illusion", as - even with an average inflation as low as 2% - it would destroy 55% of the value of such pension savings over 40 years. This certainly does not result "*in a safe investment strategy*"[3]!
- The alternative investment options seem to exclude direct equity investments. This is not consistent with the Capital Markets Union (CMU) initiative, which aims at strengthening the link between savings and the real economy. This exclusion will again confine EU PEPP savings to fee-laden "packaged" products only. This is all the more unfortunate since the very long-term nature of the PEPP makes it the ideal candidate for retail equity investments.

Last, but definitely not least, EU Member States should thoroughly follow the EC "recommendation" and not discriminate PEPPs versus existing national pension products, even though they frequently suffer from the "NIH" ("Not Invented Here") syndrome.

"*A simple, open and cost effective Pan-European Personal Pension could go a long way towards restoring trust in financial services. EU citizens – the younger ones in particular – will not forgive politicians and governments if they let this vital initiative fail*", Guillaume Prache, managing director of BETTER FINANCE said.

***

Contact information:

Chief Communications Officer	Arnaud Houdmont
Phone	0032 (0)2 514 37 77
Email	houdmont@betterfinance.eu

[2] Packaged retail and insurance-based investment products

[3] Article 37 of the proposed regulation