



Pan-European Personal Pension Product (PEPP) – Frequently asked questions

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What is a pan-European personal pension product (PEPP)?

The PEPP is a voluntary personal pension scheme that will offer consumers a new pan-European option to save for retirement. This new type of product is designed to give savers more choice when they are putting money aside for old age and provide them with more competitive products. It could be offered by a broad range of financial companies such as insurance companies, banks, occupational pension funds, certain investment firms and asset managers.

The Commission's proposal will lay down the foundations for a pan-European Personal Pension market, ensuring standardisation of the core product features, such as transparency requirements, investment rules, switching and portability. It will ensure sufficient consumer protection on the essential features of the product, while at the same time being flexible enough to enable different providers to tailor products to suit their business model. This initiative is complementary to existing pension plans, whether state-based, occupational or personal pensions and it will not replace or substitute them.

Why is the Commission proposing a PEPP framework?

Europe is facing an unprecedented demographic challenge that will increase pressure on public finances. Over the next 50 years, the share of the population in retirement-age versus those in working-age is forecast to double (going from four to one, to two to one, meaning two people in working age to one pensioner). This calls for reforms in national pension systems, which some EU Member States have already begun. Part of the answer lies in occupational and personal pension schemes complementing state-based pensions.

One issue, however, is that the European market for personal pensions is fragmented and uneven. The offers are concentrated in a few Member States, while in some others they are nearly non-existent. This variation in supply is linked to a patchwork of rules at EU and national levels, which impede the development of a large and competitive EU-level market for personal pensions. The PEPP regime would provide the building blocks for the creation of a voluntary single personal pension product that can be marketed by providers on a pan-European scale. Pensions providers have signalled their interest during the Commission's public consultation on pensions. The PEPP is expected to lead to a broader offer of personal pension products in the EU, with providers able to pool assets and diversify their investments across Member States, reducing the fragmentation of capital markets in the EU.

A more developed market for personal pensions in the EU is also expected to channel more savings into long-term investments and increase the depth, liquidity and efficiency of capital markets. This will ultimately promote growth and the creation of new jobs in the EU and contribute significantly to the objectives of the EU's plans for a [Capital Markets Union](#) and the Investment Plan for Europe.

The PEPP initiative is also part of the consumer financial services action plan presented by the Commission in March 2017. For consumers, PEPP will offer a new simple, transparent and cost-effective option to save for retirement on top of their state-based and occupational pensions. Today, only 27% of Europeans between 25 and 59 years old have enrolled themselves in a personal pension product, mainly in a few EU countries.

Who can save in a PEPP?

PEPPs will be available to all individuals who are keen to save for retirement, be they employed, unemployed, in work or in education. PEPPs could be particularly attractive to both mobile citizens and self-employed individuals who are not participating in state-based or occupational pension provisions. Young people could also benefit from starting to save for retirement early: the longer the investment horizon, the more the PEPP can contribute to income in retirement. As PEPPs will be complementary retirement savings products, one can contribute to a PEPP even when already in retirement.

What are the benefits for savers?

PEPPs are designed to be simple and cost-effective European retirement savings products. For savers, this new option will represent an opportunity to bridge the pension gap. Consumers will also benefit from increased competition between PEPP providers and from a more dynamic personal pension market.

PEPPs will contain a **default investment option** for the majority of savers, under which the saver recovers at least the capital invested, and a limited number of alternative investment options. **Fees and costs will be transparent**, disclosed via a simple Key Information Document (KID) that will be supplied before the purchase, as well as a standardised benefits statement during the product lifetime.

Providers will be able to offer PEPPs on a pan-European basis, allowing savers to move across borders without the need to change product. Standardisation of core product features will be combined with flexibility to cater for national differences. PEPPs will also allow the possibility to switch providers periodically, every five years, at capped costs. This feature will allow transferability of the accumulated savings between EU Member States while maintaining the same contract. The PEPP Regulation will also facilitate access by allowing for online distribution and purchase of PEPPs.

In other words, PEPP would offer additional incentives for people to save for their pension, alongside the occupational and state-based pensions available today. With PEPP in place, the European market for personal pension products would grow significantly faster.

What are the benefits for providers?

For providers, the PEPP framework will allow pooling of assets and creating economies of scale, which will contribute to completing the Capital Market Union (CMU). PEPP providers will benefit from a real single market for the PEPP and from facilitated cross-border distribution, including an EU passport.

Insurers, which represent the bulk of the personal pension market today, will benefit by expanding their activities from mostly domestic distribution to the EU as whole, reaping the benefits of scale and of asset pooling.

New market entrants will also benefit thanks to the standardisation of the core PEPP features, the possibility to sell PEPPs online and to distribute them in several Member States with one single product authorisation.

What is the market potential of PEPPs?

As part of the impact assessment, the Commission analysed the potential effect of the PEPP on capital markets. A study conducted by a consultant for the European Commission estimates that the current EU personal pension providers hold €700 billion of assets. According to that study, the PEPP has the potential to double the growth of the personal pension market: by 2030, personal pension providers will hold €2.100 billion of assets with PEPP in place and only €1.400 billion without the PEPP. This is under the assumption that the PEPP receives favourable tax treatment in all Member States.

This increase represents an additional EUR 231 billion of investments in equity and EUR 385 billion of investments in debt securities, of which EUR 14 billion of investments in unlisted infrastructure, if generally accepted assumptions for diversified investment are used. This additional funding would help in particular non-financial corporations with their financing needs, especially in the form of bonds and listed equity. Of course, PEPPs will be long-term savings products, and consequently it will take time to reach their full potential.

How will a PEPP come to the market?

As first step, to provide a PEPP, a provider has to be authorised in accordance with existing EU rules, such as [Solvency II](#) for insurance companies or the Directive for Undertakings for the collective investment in transferable securities (UCITS) for investment firms.

Second, the provider must seek a product authorisation for its PEPP from the [European Insurance and Occupational Pensions Authority \(EIOPA\)](#). EIOPA will assess, among other things, compliance of the proposed PEPP with the Regulation, and how the investment strategy will allow for the retirement outcome contained in the PEPP's contractual rules. EIOPA will publish the list of authorised PEPPs.

Upon authorisation of the product, the PEPP manufacturer could then distribute the PEPP across the EU or have it distributed by another undertaking authorised under the existing sectorial EU legislation, i.e. the [Markets in Financial Instruments Directive](#) (MIFID II) and the [Insurance Distribution Directive](#). Distributors authorised under EU rules, such as intermediaries regulated according to the Insurance Distribution Directive, can also distribute a PEPP that have been produced by other providers.

There will however be specific supplementary rules, in particular in order to encourage online distribution, to allow for the safe default investment option to be sold without preceding advice and to adapt information requirements to the nature of this retirement product, building on the [Regulation on key information documents for packaged retail and insurance-based investment products \(PRIIPs\)](#).

What are the main benefits of PEPP for savers?

The proposed PEPP Regulation will define the following core product features and rules:

- MORE SAVINGS OPTIONS

PEPP savers will be able to choose from up to five savings options. Providers will design these savings options using investment protection techniques capable of ensuring a high level of consumer protection. A safe default investment option under which savers recoup at least the capital saved will be offered in every PEPP.

PEPP savers will be able to switch to another savings option once every five years, with a capped cost, i.e. limited to maximum 1.5% of the positive balance. PEPP providers can invest in various types of assets on condition that they respect the "prudent person" principle and invest the assets in the best long-term interest of PEPP savers.

- PEPP IS PORTABLE ANYWHERE IN THE EU

The PEPP will be portable between EU Member States, i.e. PEPP savers will be able to continue contributing to their PEPP when moving to another Member State. PEPP will comprise national compartments, fitted to the specific national tax requirements.

During the first three years of application of the PEPP framework, PEPP providers will have to inform PEPP savers of compartments available. However, three years after the launch of the PEPP initiative, providers will have to implement portability for PEPP savers across the whole EU. This staggered approach will allow providers to adapt to the PEPP framework and set up compartments progressively in different Member States.

If they move within the EU, PEPP savers will have the possibility to either contribute to a new national compartment, within the same PEPP, or to transfer accumulated rights into this new compartment, without asset liquidation. The latter could entail tax consequences depending on the Member State from which the saver requests a transfer. Essentially it means that PEPP savers living in several Member States over the lifetime of a PEPP contract will accumulate funds in multiple compartments, each complying with the national requirements of the Member State in which they have accumulated funds.

- EASIER TO SWITCH PROVIDERS

The PEPP framework includes the right for PEPP savers to switch providers, with a cap on switching costs. Switching under these conditions will be possible only to another PEPP and not to other financial products.

As the PEPP is a long-term product, this right is limited to once every five years.

- DIFFERENT PAY-OUT OPTIONS OFFERED BY PROVIDERS

PEPP providers will be able to offer different types of pay-out options – annuities, lump sums, a combination of both, or regular withdrawals. PEPP savers will have the possibility to change their preferred option once every five years under their PEPP scheme, in order to benefit from sufficient flexibility.

- DETAILED INFORMATION FOR SAVERS

PEPPs will normally be sold with in-depth advice, taking into account the PEPP saver's financial situation, investment objectives and also his or her knowledge and experience in investment, allowing the seller to make a personalised recommendation of the PEPP most suitable to the saver's situation.

Information will be provided on the PEPP product for potential PEPP savers in a PEPP Key Information Document and during the lifetime of the product, PEPP savers will receive periodic information on the state of their savings. This includes information on the cost structure of the product, the risks and rewards of the product the different investment options available, the existing switching options or on how to receive benefits in pay-out.

However, PEPP savers will be able to waive their right to advice when purchasing a PEPP in the safe default investment option. In this case, the seller will, under certain circumstances and depending on the complexity of the PEPP, nevertheless have to ask questions about the PEPP saver's knowledge and experience to make sure that the envisaged PEPP is appropriate for the saver.

- MORE TRANSPARENCY

The PEPP will require providers to disclose all fees to savers before they subscribe in a Key Information Document, and during the lifetime of their PEPP in the Annual Benefits Statement. This will facilitate comparison with fees charged by different providers. This enhanced transparency and possibility to switch providers creates incentives for providers to keep their fees low.

- COST EFFECTIVE

The PEPP will also be cost-effective for providers. The PEPP proposal offers providers the building

blocks to develop their pan-European personal pension products based on core standardised product features. Once authorised, providers can distribute PEPPs to consumers throughout the EU. They can benefit from economies of scale, e.g. by pooling assets of the larger EU market. Finally, providers can make use of the innovative online distribution option to reduce their costs.

How will the PEPP protect savers' financial interests?

To protect financial interests of savers, every PEPP must include a lower-risk default investment option with mandatory risk mitigating techniques. Risk mitigation techniques have the objective to reduce the exposure of savers to risk. All investment options under the PEPP proposal include a risk mitigation technique. The technique will be chosen by providers and can take the form of a guarantee, life cycling (i.e. the portfolio is rebalanced towards safer investments when the saver nears pay-out age), or any other form that provides adequate safeguards for consumers. Providers will take national requirements or specific wishes of consumers in a certain Member State into account in implementing this product feature.

In addition, the default investment option, which should cater for the majority of savers, entails capital protection, ensuring that the saver recoups at least the nominal capital invested.

PEPP providers will be free to offer different investment options with more aggressive or alternative investment strategies, which savers will be able to choose on their own initiative and following proper professional advice by the provider and/or distributor on the risks involved (except for the default investment option, where the need for advice could be waived by the consumer).

To ensure appropriateness of investments over time, PEPP savers will be able to switch to another investment option once every five years.

Who will be in charge of supervising PEPPs?

The European Insurance and Occupational Pensions Authority (EIOPA) will be in charge of authorising PEPPs and maintaining a central register for PEPPs across the EU. National supervisory authorities will remain in charge of supervising PEPP providers. To achieve supervisory convergence, EIOPA will also monitor the market and survey the annual supervisory plans of national competent authorities.

In order to ensure high-quality standards for the PEPP label, EIOPA is empowered to withdraw the product authorisation in case a provider no longer matches the PEPP requirements. EIOPA is also requested to collect information and report on market data and periodically report to the Commission.

In addition, the Commission will consider infringement procedures to ensure that PEPP savers can buy objectively comparable PEPPs from providers established anywhere in the EU.

What are the obligations on PEPP providers?

Obligations for providers include offering a default investment option with some capital protection and limiting the number of investment options for PEPP savers to five at most to facilitate savers' choice. Providers have also to make sure that PEPP savers are sufficiently informed and advised about the product. PEPP providers must follow the standardised features of the PEPP framework when developing a PEPP, while they may exercise flexibility regarding the other features.

Are there mandatory investment requirements for providers?

No. PEPP providers can invest in various types of assets on condition that they respect the prudent person principle. It entails a series of rules for sound investment, such as the following: assets shall be invested in the best long term interests of consumers, shall be predominantly invested on regulated markets and in derivative instruments only in as far as this is beneficial to efficient portfolio management.

When will PEPPs come on the market?

The proposal will now be discussed by the European Parliament and the Council. Once adopted, the Regulation will enter into force 20 days after its publication in the Official Journal of the European Union.

Once the Regulation enters into application, following stakeholders input during the consultation phase, expectations are that approximately two years thereafter the first providers will start offering PEPPs on the market. The Commission will evaluate the effects of the Regulation five years after its entry into application.

Why is the Commission issuing this Recommendation?

Each Member State has its own rules on the taxation of personal pensions. Current personal pensions markets have developed in the Member States under the influence of national tax incentives. To create a level playing field for the PEPP towards the existing personal pension products in the Member States, the Commission encourages Member States to grant the same tax treatment to PEPPs as they grant to

similar existing national personal pension products, even if the PEPP does not match all national criteria for tax relief. The Commission also invites Member States which have more than one type of PPP to give PEPPs the most favourable tax treatment available to their PPPs.

Furthermore, the Commission encourages Member States to exchange best practices on the taxation of their current personal pension products. The Commission considers that this approach will over time bring Member States' tax rules on personal pension products closer to each other.

How will the PEPP be treated for tax purposes in Member States?

The Commission is not harmonising tax treatment of personal pension products: the taxation is dependent on the domicile of the PEPP saver. But if PEPP providers want to offer PEPPs that qualify for tax relief in a Member State, they can tailor a national compartment for that Member State in such a way that it fulfils all national criteria to get tax relief. The national treatment principle guarantees that the PEPP saver paying contributions to that national compartment gets the same tax treatment as when he paid contributions to the comparable national personal pension product

How will the Commission monitor the implementation of the recommendation?

The Commission will monitor to what degree Member States provide the same tax treatment to PEPPs as they grant to similar existing national personal pension products, even if the PEPP does not match all national criteria for tax relief. 4. PEPPs and other Commission initiatives, next steps

How does this initiative relate to other EU pensions legislation?

In the area of pensions, the EU has adopted the following major initiatives in recent years:

- 1998 Directive on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community;
- 2014 [Directive on the portability of supplementary pension rights](#), aimed at promoting worker mobility by reducing the obstacles created by certain rules on occupational pensions;
- 2016 [Directive on institutions for occupational retirement provision \('IORP2'\)](#), which strengthens governance, information disclosure and cross-border requirements for occupational pension funds.

The proposal for a PEPP framework does not affect these three directives as they target occupational pensions.

Non-legislative measures taken by the Commission in the pensions area include the 'Track and trace your pension in Europe project' to create a European tracking service to help people track information about their pension entitlements across Member States. The RESAVER project is a sector-specific occupational pension fund designed to make it easier for research staff to keep their pension arrangements as they move between research institutions in different EU countries. The PEPP framework could be integrated into future projects. RESAVER for example includes a personal pension option.

Furthermore, the proposal is consistent with the EU policy of encouraging complementary retirement savings in order to achieve pension adequacy.

For More Information

Press Release

Proposed Regulation

EY Study

Impact assessment

Tax Recommendation

[Feedback statement]

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