

Actuarial Association of Europe

**Update on Regulation for
pan-European personal pension product (PEPP)**

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- On 29 June 2017, the Commission issued a draft Regulation
- The Council agreed a compromise under the Bulgarian Presidency in June 2018
- ECON approved its negotiating mandate on 3 September 2018 which was ratified by the European Parliament in plenary on 12 September 2018
- Provisional agreement between the co-legislators was reached on 13 December 2018 under the Austrian Presidency
- Following “technical finalisation”, the final compromise text was agreed by Coreper (Permanent Representatives Committee) on 13 February 2019
- Formal vote in European Parliament on 4 April 2019
- Regulation applies “12 months after the publication in the OJEU of the Delegated Acts”

- Established working group under Pensions and Insurance Committees in Copenhagen in Oct 2017
- Produced discussion paper in March 2018, which was sent to policymakers
- Engagement with ECON rapporteur, Sophia in't Veld
- Some discussion with Bulgarian Presidency in June 2018
- Conference call with EIOPA in December 2018

- AAE comments
 - Range of providers gives scope for regulatory “arbitrage”
 - The products offered by different types of providers are intrinsically different and customers must be made aware of this
 - IORPs as providers – okay so long as this does not have a detrimental effect on IORP members/sponsor (or vice versa)
- Final Regulation allows for a broad range of financial providers, to foster competition, including:
 - Insurers
 - Banks
 - Investment firms
 - Asset managers
- IORPs are permitted to provide PEPPS only if they are authorised to provide personal pensions under national law and the PEPP assets/liabilities are ring-fenced

Key issues - Portability/National Compartments



- AAE Comments
 - Requirement to have 28 compartments very onerous
 - Suggest “partnering” or EIOPA standard documents
 - Concerns about tax arbitrage
- Final Regulation permits PEPP providers (incl IORPs and AIFMs) to distribute within any MS under FoE or FoS
- PEPP providers are required to offer at least 2 “national sub-accounts” 3 years after the Regulation enters into force
- PEPP savers have the right to continue contributing to their PEPP account (a different national sub-account or their current one) if they change residence to another MS
- May provide portability by establishing a partnership with/outsourcing to another PEPP provider
- If PEPP provider cannot offer a “national sub-account”, the saver must be permitted to switch free of charge to another provider

Key issues - Accumulation Phase; Investment Options



- AAE Comments
 - Options should be limited but why specify 5 in the Regulation?
 - We agree there should be a default but why specify this in the Regulation? Should be linked to decumulation option.
 - Capital protection
 - is not necessarily in the best interests of consumers
 - inflation protection?
 - may be offered for the first few years to encourage saving habit?
 - if offered, should only apply at maturity
 - Preference for lifecycle approach in most circumstances
- “Prudent person rule” applies (taking into account ESG factors)
- May offer up to 6 options which *“shall be designed on the basis of a guarantee or risk-mitigation technique which shall ensure sufficient protection for PEPP savers”*
- Must include a Basic PEPP which is the default
 - This must provide either
 - *“a guarantee of capital at the start of, and during, the decumulation phase”, or*
 - *“a risk-mitigation technique consistent with the objective to allow the PEPP saver to recoup the capital”*
 - Maximum annual *“costs and fees”* [to be set out in RTS] must not exceed 1% of the accumulated capital [this can be varied every 2 years by Delegated Act]

- Article 46 sets out the objectives of the use of RMT
 - To ensure that the investment strategy “*is designed in order to build up a stable and adequate individual future retirement income...and to ensure fair treatment of all generations of PEPP savers*”
- Examples given:
 - life-cycling
 - smoothing
 - guarantees
- EIOPA, after consulting other ESAs and conducting industry testing, to develop RTS “*specifying the minimum criteria that the RMT have to satisfy..*”

Key issues - Change in Investment Strategy/Switching of PEPP Providers



- AAE Comments
 - Saver must be treated fairly but providers must be able to cover reasonable costs
 - Do not think it is desirable to specify a fixed cap on charges
 - Capital protection should not apply on switching provider
- Must permit saver to alter investment strategy after 5 years and every 5 years thereafter free of charge (provider may permit this more frequently)
- Must permit saver to switch PEPP provider after 5 years and every 5 years thereafter (provider may permit this more frequently)
- Maximum charge made by transferring provider is 0.5% of the amount transferred (MS may set a lower %).
- Any financial loss suffered by the saver on switching due to non-compliance by provider(s) shall be refunded to the saver
- Saver bears losses due to redemption of assets etc
- *“The transferring PEPP provider shall not be obliged to ensure capital protection or provide a guarantee at the moment of switching”*

- AAE Comments
 - Member State flexibility appropriate
 - Consumer should have flexibility; perhaps some of the fund should be taken as income i.e. annuity or drawdown
 - Transition from accumulation to decumulation should be as smooth as possible
 - Why force consumer to decide many years in advance?
- Conditions determined by MS e.g. minimum age for decumulation
- MS may set limits and conditions for incentives
- Providers may offer annuity, cash or drawdown payments
- Saver decides form of decumulation at outset, but may change this (if provider gives options) one year before decumulation, at the point of decumulation or *“at the moment of switching”*
- PEPP provider *“shall offer personal retirement planning”* which *“shall include a personal recommendation to the saver on the optimal form of out-payments...”*

Key issues - Information Requirements



- AAE Comments
 - More detail needed on proposed KID
 - Have regard to long term nature of pension saving
 - Consistent with PBS under IORP II Directive
 - Projections should include a “favourable scenario” as well as a “best estimate” and “unfavourable scenario”
 - Suggest “panel of experts” to set assumptions for projections?
 - Suggest “central projection” or “central scenario” instead of “best estimate”
- PEPP KID – content set out in Article 28
- *“What are the risks and what could I get in return?” includes “appropriate performance scenarios and the assumptions on which they are based”*
- EIOPA will produce RTS to specify details on information to be provided
- PEPP Benefit Statement content set out in Article 36 – similar to PBS
- Still refer to “best estimate” and “unfavourable scenario” only.
- EIOPA will produce RTS to specify the rules to determine assumptions to be used in projections, and to specify details of the presentation of the information, including past performance figures.

- Should AAE issue updated commentary on the key issues when the final Regulation is formally published?
- AAE has offered assistance to EIOPA in relation to
 - Risk mitigating techniques
 - Assumptions for projections in PEPPBS (which is based on IORP PBS)
- How do we deliver this?
- Should we try to influence other RTSs
- Consumer Protection aspects e.g. the PEPP KID (cf PRIIPs KID)

Thank you