Actuarial Association of Europe

Commission proposal for a regulation on a pan-European personal pension product (PEPP)

Background

- The introduction of PEPPs was one of the initiatives in the Commission's Capital Markets Union (CMU) Plan
- This was intended to supplement existing first and second pillar pension provision and to provide capital for long term investment
- Since then there have been consultations (to which AAE responded) and EIOPA advice to the EC
- On 29 June 2017, the Commission issued a draft Regulation which once agreed by the Council and the European Parliament will have direct application in Member States (transposition into national legislation is not required)
- The Commission also issued a recommendation to Member States on the tax treatment of PEPPs

What is a PEPP?

- *“personal pension product” means a product which:*
  - *(a) is based on a contract between an individual saver and an entity on a voluntary basis;*
  - *(b) has an explicit retirement objective;*
  - *(c) provides for capital accumulation until retirement with only limited possibilities for early withdrawal before retirement;*
  - *(d) provides an income on retirement;*
- *"pan-European Personal Pension Product” means*
  - *a long-term savings personal pension product, which is provided under an agreed PEPP scheme by a regulated financial undertaking authorised under Union law to manage collective or individual investments or savings, and subscribed to voluntarily by an individual PEPP saver in view of retirement, with no or strictly limited redeemability;*

Providers

- PEPPs will be authorized by EIOPA [who will consult the NCA of the applicant's MS] and may then be distributed in all MS. Existing PPPs may be converted to PEPPs
- May be offered by banks and investment firms authorized under CRD IV, insurance undertakings (Solvency II), IORPs, investment firms (MiFiD II), UCITS, AIF managers.
- *PEPP providers and PEPP distributors shall comply at all times with the provisions of this Regulation, as well as with the relevant prudential regime applicable to them*
- There are detailed provisions regarding
  - the information to be provided to EIOPA for authorisation (including the MSs where the PEPP is to be marketed) and
  - the conditions required for authorisation (which will be granted within 2 months).

Cross Border/Portability

- PEPP providers may distribute PEPPs in MSs on either *freedom of establishment* or *freedom of services* basis
- A PEPP saver must be allowed to continue to contribute to the PEPP if he/she moves to another MS
- The PEPP must have a “national compartment” for each MS
  - Within 3 months of a request from an existing PEPP saver who moves to that MS
  - 3 years after the Regulation comes into effect, the PEPP must be able to offer a national compartment for each [27] MS
- Must provide for transfer between national compartments *without redemption in kind of the assets*

Distribution

- Distribution rules under IDD and MiFiD II apply to insurers and investment firms, other providers follow this Regulation. Product oversight and governance requirements apply
- Documents must be provided electronically
- PEPP key information document in line with KID under PRIIPs Regulation, with additional information including information on switching, portability and ESG policy.
- PEPP savers may waive the right to advice if they select default investment option.
- PEPP providers must *draw up* a personalised *PEPP Benefit Statement* similar to the PBS under the IORP II Directive.
- The Commission will adopt delegated acts regarding the determination of assumptions for the projections.
- EIOPA will develop ITS on the *PEPP Benefit Statement*.

Investment options

- Prudent person rule applies to investment of contributions
- A PEPP
  - *shall offer up to five investment options to PEPP savers*
  - *shall include a default investment option and may include alternative investment options [at least one of which must be cost effective]*
  - *shall ensure sufficient protection for PEPP savers by designing all investment options on the basis of proven risk-mitigation techniques*
- The PEPP saver selects an investment option at inception and may change this once every 5 years without charge.
- The default investment option shall ensure capital protection for the PEPP saver i.e. shall allow the PEPP saver to recoup the capital invested.
- The Commission may adopt a delegated act specifying the risk-mitigation techniques

Switching providers

- PEPP savers may switch providers [within an MS or cross border] "*no more frequently than once every 5 years after conclusion of the PEPP contract*".
- Information on current balances etc. must be provided free; the total fees and charges applied by the transferring PEPP provider for closing the account must not exceed 1.5% of the balance transferred.
- The PEPP saver shall bear the costs and any loss incurred in redeeming the assets for the sake of transfer.
- *The PEPP saver shall bear the costs and any risk of financial loss connected with the capital protection provided by the transferring PEPP provider. This capital protection …shall be consumed at the moment of switching providers.*
- Any other charges imposed by the transferring or receiving PEPP provider must be reasonable/in line with actual costs

Decumulation

- MS determines conditions relating to decumulation options
- This includes setting the retirement age, minimum and maximum saving periods, *redemption in case of particular hardship*
- *PEPP providers may make available to PEPP savers one or more of the following forms of out-payments:*
  - *(a) annuities;*
  - *(b) lump sum;*
  - *(c) drawdown payments;*
  - *(d) combinations of the above forms.*
- The choice of decumulation approach is made by the PEPP saver at outset and can be changed once every five years during the accumulation phase thereafter

Other issues covered

- Reporting [by PEPP providers] to National Authorities
- Investor Protection
  - Depositary
  - Complaints process
- Supervision
  - supervised by NCA and monitored by EIOPA
- Sanctions
- Final provisions
  - Review after 5 years
  - Comes into effect 20 days after publication in the Official Journal

Related documents

- Feasibility study (undertaken by EY)
  - Tax mapping (mostly EET)
  - Stark differences between MSs in levels of market penetration
  - Workshop discussions; results included
    - Default investment option should not be defined at EU level
    - No capital guarantee is needed
    - No harmonisation of decumulation phase
    - Provision of PEPPs should be open to asset managers and banks, as well as insurers
  - Market potential estimated at €0.7trn by 2030
- Commission recommendation on tax treatment
  - MSs are encouraged to treat PEPPs in the same way as the most tax-favoured domestic PPP

Next steps?

- AAE Press release issued on 7 July
- Exchange with InsuranceEurope re “default investment option”
- Establish AAE position
  - Working party drawn from Insurance & Pensions Committees
  - Develop a position paper for approval by Committees/Board
  - Publish/ send to relevant stakeholders
    - MEPs (particularly rapporteurs on the file)
    - European Commission
    - Council i.e. national Governments esp. Presidency
- Timelines
  - Depends on time taken for co-legislators to determine their positions and commence trilogue