Actuarial Association of Europe

Discussion paper on Regulation for pan-European personal pension product (PEPP)

Pensions Committee, Warsaw

4th May 2018

Activity to date

- 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
- The Economic and Monetary Affairs Committee (ECON) of the European Parliament has had some initial discussions on this (rapporteur Sophie in’t Veld (NL))
- The Estonian Presidency put forward a Council compromise text last year but this was not supported; the Bulgarian Presidency issued a second Council compromise text on 23 April 2018

AAE activity

- Following the meetings in Copenhagen, a cross practice Working Party was set up to develop the AAE position on the PEPP Regulation
  - Gábor Borza
  - Daphné Deleval
  - Philippe Demol
  - Agnes Joseph
  - Mária Kamenárová
  - Katarina Östberg
  - Philip Shier
  - Falco Valkenburg
- Discussion Paper issued in March 2018 and sent to policymakers – MEPs, Commission, Council, EIOPA

Extracts from the Foreword

- *The AAE supports this initiative which will provide additional opportunities for retirement saving, particularly for consumers in some Member States where existing opportunities are limited.*
- *There is a difficult balance to be struck between the objective of a common European framework and the need for some flexibility to provide for national requirements and practices. The AAE considers that in order for the PEPP to be successful, more flexibility should be provided than is set out in the draft Regulation.*
- *It is important to ensure that consumers are aware that the different types of provider are subject to different regulatory, distribution and information requirements so that they can make an informed choice.*

Issues discussed in paper

- Providers
  - 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)
- Tax Treatment
  - Support Commission recommendation that tax treatment of PEPPs is in line with that granted to other pension products
  - May cause difficulty where approval of pension products locally requires features incompatible with PEPP framework
  - Must not lead to increased complexity for existing arrangements e.g. IORPs

Issues discussed in paper (2)

- Portability/National Compartments
  - Requirement to have 28 compartments very onerous
  - Suggest “partnering” or EIOPA standard documents
  - Concerns about tax arbitrage
- Accumulation Phase - Investment Options
  - 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

Issues discussed in paper (3)

- Change in Investment Strategy/Switching of PEPP Providers
  - 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
- Decumulation
  - 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?

Issues discussed in paper (4)

- Information Requirements
  - 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”
  - How to determine assumptions for projections?
    - Delegated Act proposed
    - AAE suggests “panel of experts”
  - Footnote on “best estimate”
    - Concern that the term is misunderstood by consumers (and politicians!)
    - Suggest “central projection” or “central scenario” instead

Pricing

- ECON Secretariat has asked if AAE can give some independent advice on the cost of the PEPP product
- This could mean the costs of production, distribution etc which will be high if the provider must cater for 28 compartments – but this does not require actuarial expertise
- We are considering the cost to the provider of the capital guarantee as required under the draft Regulation for the default option (although our view is that this should not be prescribed in the Regulation)
- Note the Bocconi study (commissioned by EFAMA) which indicates that a lifecycle approach will almost always provide a better outcome than a capital guarantee.

What next?

- ECON timetable
  - Amendments submitted 24 April
  - Amendments considered 28 May
  - ECON vote 11 July
  - Plenary vote in September
- Council compromise to be agreed
  - Bulgarian Presidency to June 2018
  - Austria: July - December 2018
  - Romania: January - June 2019
- Trilogue to agree Regulation
- AAE engagement with the policymakers ongoing

Thank you