Actuarial Association of Europe

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

Pensions Committee, Utrecht

20th September 2018

Activity to date

- On 29 June 2017, the Commission issued a draft Regulation
- The Council agreed a compromise under the Bulgarian Presidency in June 2018
- The Economic and Monetary Affairs Committee (ECON) of the European Parliament approved its negotiating mandate on 3 September (still to be ratified by the Parliament?)
- What positions have the co-legislators taken on the key issues identified in the AAE discussion paper?

Providers

- 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)
- EC proposes
  - IORPs can only provide PEPP if they are also authorised by national authority to provide personal pensions (and PEPP business must be ring-fenced)
  - Authorised by NCA and report to EIOPA
- EP proposes
  - IORPs can only provide PEPP if they do not provide investment or biometric guarantees (and PEPP business must be ring-fenced)

Portability/National Compartments

- AAE Comments
  - Requirement to have 28 compartments very onerous
    - Suggest “partnering” or EIOPA standard documents
    - Concerns about tax arbitrage
- EC proposes
  - On moving to a new jurisdiction, must offer account in that MS if provider can offer one; otherwise must transfer free of charge to another provider or permit member to continue to contribute to existing account
- EP proposes
  - On moving to a new jurisdiction, if provider cannot offer a PEPP account in that MS he must offer a switch to another provider free of charge
  - Additional information must be proved on transfer of accumulated assets

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
- EC proposes
  - Default shall adopt a strategy "directed at ensuring capital protection" or provide a guarantee of capital [which must be provided by an insurer or bank]
  - EIOPA to make RTS on risk mitigation techniques
- EP proposes
  - Explicit reference to "mitigating risks related to ESG-factors"
  - Must offer Basic PEPP and may offer others (no limits?)
  - Basic PEPP (default): "objective to allow saver to recoup capital"
  - Detail on risk mitigation techniques (life-cycling and/or capital guarantees) with provision for EIOPA to make RTS

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
- EC proposes
  - May change strategy once every 5 years
  - May switch provider once every 5 years
  - Transferring provider charges limited to 1% of the balance transferred
  - Transferring provider “not obliged to ensure capital protection or guarantee at the moment of switching”.
- EP proposes
  - Terms for modification of investment option and for switching providers must be set out in the policy/contract
  - Compliance with requirements on switches of provider to be monitored by MS NCA (domestic) and EIOPA (cross-border)
  - Transferring provider charges limited to 0.5% of the balance transferred

Decumulation

- 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?
- EC proposes
  - Flexibility regarding forms of outpayment, but MS can impose rules
  - May change (with no charge) decumulation option 2 years before, or at, decumulation, or when switching
- EP proposes
  - Limits on immediate drawdown of 30% for Basic PEPP
  - If capital guarantee, at least 35% must be used to buy annuity
  - EIOPA will produce RTS on process/merits of different types of drawdown
  - Decide on decumulation option 5 years before decumulation commences

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”
- EC proposes
  - Complete rewrite of KID with more detail; more detail in PEPP Benefit Statement
  - MS to determine projection assumptions for PBS
- EP proposes
  - Complete rewrite of KID and PEPP Benefit Statement with more detail
  - EIOPA to develop RTS re projection assumptions for PBS in consultation with ECB and NCAs

Next steps

- Trilogue
- Should AAE issue updated commentary on the key issues, in the light of the two proposals?
- Should AAE seek to engage further with co-legislators?
- If agreed when does it come into effect?
  - Commission proposal – 20 days after publication in OJEU
  - EC proposal – 24 months after this date
  - EP proposal – 12 months after the publication of the delegated acts

Thank you