

AAE Response to the European Commission Consultation on the PEPP Regulation

The Actuarial Association of Europe (AAE) welcomes the Commission's initiative to review the PEPP framework with the objective of improving its attractiveness, scalability and usability as a long-term retirement saving solution. Our earlier contribution on supplementary pensions highlighted that PEPP uptake has been limited, and that a more workable framework should balance consumer protection, transparency and value for money with provider viability and operational feasibility.

We support efforts to simplify the framework and reduce unnecessary operational friction, including through more proportionate distribution requirements for a standardised default option and through clearer support for digital channels. In a product intended to be accessible to citizens across Member States, comparability and clarity of information are essential, and disclosure requirements should remain aligned, as far as possible, with existing EU disclosure regimes applicable to comparable retail products.

A sustainable PEPP market also requires an appropriate approach to cost control and value for money. The AAE notes that fixed design constraints can unintentionally deter market entry and innovation, particularly where upfront costs are material, and therefore welcomes a focus on value-for-money supervision and benchmarking as a core consumer protection mechanism.

The AAE also welcomes measures that strengthen the practical portability and usability of PEPPs, including improved interaction with pension tracking systems and clearer rules facilitating switching and transfers in a way that protects savers and avoids unnecessary administrative duplication.

Regarding investment design, the AAE recognises the Commission's intention to embed a life-cycle approach in the Basic PEPP. In implementing this approach, we encourage a principles-based articulation that focuses on expected risk and outcome objectives and avoids overly prescriptive portfolio rules that may not be appropriate across market regimes. We also consider it important that the regulatory framework does not inadvertently constrain the appropriate use of well-established actuarial risk assessment tools in product design and monitoring. The AAE also wishes to emphasise that, from an actuarial perspective, a pension product should be defined by a payout phase as much as an accumulation phase; adequate weight should therefore be given to ensuring that PEPP savers have access to payout options that provide income during retirement.

Finally, PEPP success will continue to depend on a level playing field with national personal pension products, including in relation to tax treatment. Measures that improve cross-border usability while respecting national competences would materially support take-up.

The AAE's detailed response to the European Commission's August 2025 Consultation on Supplementary Pensions can be read here: https://actuary.eu/wp-content/uploads/2025/09/250829-AAE-Consolidated-Response_EC-Pensions-Consultation_Board.pdf

Technical Attachment: Detailed Comments on the Proposal to Amend PEPP Regulation

This attachment provides technical observations intended to support clarity, internal consistency and implementability of the revised PEPP framework. It should be read as technical input and not as a change to previously submitted AAE positions or consultation responses on this topic.

1) Internal consistency of life-cycle definition and implementation (Article 2(1) and Article 46 / 46(2a))

The definition of “life-cycle investment strategy” in Article 2(1) appears to emphasise the management of risk characteristics (e.g., volatility / risk measures), whereas Article 46(2a) introduces more prescriptive expectations regarding a shift from equity-type to fixed-return investments and requires specification of average exposures.

Consider aligning Article 46 more closely with the risk/outcome-based concept in Article 2(1), to avoid implying a single “correct” strategic asset allocation that may not be appropriate across market regimes.

2) Use of stochastic modelling (Article 46(3) — Level 2 criteria)

While it is reasonable to avoid hard-coding model-dependent probabilities of loss in primary legislation, an outright exclusion of stochastic modelling risks being counterproductive. Stochastic techniques are widely used for long-term retirement product design and risk monitoring, and can improve consistency and consumer protection when used appropriately. The framework could instead remain neutral as to modelling technique, while ensuring outcomes-based robustness and adequate governance around assumptions and validation.

3) Cost disclosure comparability with PRIIPs (Articles 28(f) and 36(f))

In the context of long-term retirement saving products such as PEPPs, the use of “Reduction in Wealth” (RIW) as a headline cost indicator raises a number of practical and interpretational concerns. RIW does not represent the actual level of costs charged, but rather the cumulative impact of costs over the full holding period, discounted at the assumed rate of return. As a result, a cost of one euro incurred at the beginning of a long-term contract can translate into a significantly higher RIW figure when projected over several decades.

Moreover, RIW increases mechanically with the length of the holding period, even where the underlying cost structure is unchanged. For example, under identical assumptions regarding annual costs and gross returns, a product with a longer accumulation phase will necessarily display a substantially higher RIW than a shorter-term product. This risks making long-term retirement products appear disproportionately expensive compared with shorter-term savings products, despite having the same annual cost burden.

By contrast, an annualised indicator such as “Reduction in Yield” (RIY) provides a more stable and intuitive measure of ongoing costs and supports comparability across products with different maturities. From a consumer perspective, RIY more clearly reflects the annual cost drag on investment performance and avoids penalising products solely due to their long-term nature.

Finally, consistency with the PRIIPs framework is important to ensure comparability between PEPPs and other retail investment products with which they compete. Divergent cost indicators risk confusing

consumers and undermining the objective of transparent and comparable disclosures. In this context, it would also be helpful to clarify that costs associated with guarantees are disclosed only where they are explicitly charged to the PEPP saver, and that opportunity costs arising from risk-mitigation techniques are not presented as explicit product costs.

4) Basic PEPP investment universe (Article 45(2))

The proposal requires that at least 95% of Basic PEPP assets (other than cash) be invested in certain non-complex instruments as defined by reference to MiFID categories.

It may be helpful to clarify how this requirement should apply in collective or general-account insurance structures, where “look-through” to underlying holdings and instrument-by-instrument assessments may not be meaningful in the same way as for direct retail holdings, and where appropriate safeguards can be achieved through other mechanisms (e.g., ALM, diversification, liquidity management, and prudential regimes).

5) Value for Money indicators (Article 25 and related benchmarking/disclosure)

Value-for-money assessment and benchmarking will be most effective where indicators are comparable with competing products and existing EU regimes. Introducing product-specific metrics that differ materially from PRIIPs could reduce comparability and create avoidable consumer confusion.