Proposals to protect pension savings

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> *"Due to the nature of long-term savings and pension plans, particular care is needed to ensure that consumers are being offered products that are really adapted to their needs and marketed appropriately. These are major, once in a lifetime, financial decisions for consumers. Therefore, consumers must be in a position to make their choices in full knowledge of the product, correctly assessing their circumstances and needs."*
> (European Commission – Green Paper on Retail Financial Services in the Single Market, April 2007)

Seven years have passed since this Green Paper, and pension saving products are however still a gaping hole in EU regulation and supervision of financial products. Even the recently adopted "PRIIPs"[1] Regulation again excludes personal and occupational pensions from the scope of harmonised retail investment product disclosure although pension saving products are the most "packaged" ones, and although – as correctly identified by the Commission seven years ago – they require particular care.

European savers therefore welcome the recently released EIOPA report on personal pensions requested by the Commission, and the upcoming call for advice on the same issue. It is all the more important as pension savings will be more and more needed to supplement mandatory pension schemes which are struggling due to the ever increasing life expectancy, the high level of unemployment and the poor state of public finances in the EU.

At the same time however, pension savings products have been too often delivering poor results and often have not even protected the purchasing power of pensioners' savings. It is therefore nowadays a challenge to advise EU citizens to pour more savings money into these products without thoroughly improving those.

The poor results of "packaged" long term products are evidenced by at least two independent research reports from the OECD[2] and from BETTER FINANCE for All. The Commission acknowledged this key issue in its Staff Working Document (and regrettably not in the Green Paper on the long term financing of the European economy itself) rightly pointing out that one of the reasons why households may not invest long-term is the "*often poor performance of financial intermediaries to deliver reasonable returns, and the costs of intermediation*"[3]. But even the Working Document falls short of analyzing how poor this performance is and why so. Our recently released research[4] does just that: Net real (net of inflation and other costs) returns of pension savings have been on average negative since the beginning of this century, and the main contributing factor – much more than the evolution of capital markets – is the high amount of fees and commissions charged year after year on "packaged" long term and pension products.

Example: Real case of a Belgian occupational pension fund:

Capital markets vs. Belgian Occupational pension funds 13 year performance (2000 to 2012)

Capital markets (benchmark index*) performance	
Nominal performance	+48%
Real performance (before tax)	+11%
Pension Fund performance	
Nominal performance	+10%
Real performance (before tax)	- 25%

** 50 % Equity / 50 % bonds (MSCI World equity index and JPM Euro Bond Index).*

One should not expect – and even more so push – EU citizens to continue and to increase their investments in such long term value destroying products.

Based on these research findings, we recommend the following 10 policy measures to urgently address this dramatic issue:

1. Improve and harmonize disclosures for all long term and retirement savings products:
   - "PRIIPs": the EU proposed Regulation for a Key Information Document (KID) must be

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1 *PRIIPs: Packaged Retail and Insurance-based Investment Products.*
2 *OECD Pensions Outlook 2012, www.oecd.org/daf/fin/private-pensions/50560110.pdf*
3 *Commission Staff Working Document "Long-Term Financing of the European Economy" accompanying the Green Paper on Long Investment, European Commission, 25 March 2013, page 10. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2013:0076:FIN:EN:PDF*
4 *Better Finance research report "Private Pensions: The Real Returns", June 2013. http://www.eurofinuse.org/fileadmin/user_upload/documents/Research_Reports/Pension_Study_EN_website.pdf This first phase research includes three country cases (Denmark, France and Spain). The upcoming (June 2014) second phase includes five more (Belgium, Germany, Italy, Poland, and the UK).*

extended to all retail long term and pension investment products, or, at least a summary pension saving product information document should be required and be as comparable as possible to this KID.
- Disclosure of full costs and commissions, and long term historical returns must be provided:
  - after inflation;
  - after all charges borne directly or indirectly by the investor; and
  - after taxes (as required in the US for investment funds).
- Disclosure of funding status (assets/liabilities coverage).
- Disclosure of transfer/exit possibilities.

2. For EIOPA to comply with ESAs Regulations article 9(1)[5]: to actually report on pension saver trends, including on the actual performance of all pension products: one can manage or supervise only what one can measure. It is indeed quite surprising that the actual net performance of pension saving products is not really known neither by clients nor by supervisors.
3. Design a simple retirement savings vehicle:
   - that protects the long-term purchasing power of savings (could be used as a default option in other pension saving products);
   - readily accessible, without need for advice and its associated commissions;
   - supervised by public bodies.

   A pan-European Personal Pension Plan would be most welcome by EU savers if it matches these requirements and if it is not disadvantaged in terms of taxation.
4. Simplify and standardize the range of product offerings; forbid non UCITs funds ("AIFs"[6]) in all retail packaged long term and pension products (except for qualified investors who can access packaged products with choice of investment units), and find ways to thoroughly streamline the excessive number of UCITs offered in the EU (35,000 versus 9,000 in the US, and for a smaller market).
5. Establish transparent, competitive and easy-to-use (standardised) retail annuities markets throughout the EU, and give more freedom to pension savers to choose between annuities and withdrawals when and after they reach retirement age.
6. For those individually subscribed collective pension products, improve the governance of the collective scheme by having at least half of the scheme's supervisory body directly designated by the pension scheme participants.
7. Ensure the end of biased advice at the point of sale and competent advice on long term investments, including going back to the basics: explain what are the building blocks of long term saving products: equities and bonds.
8. Ensure special treatment by prudential regulation of all pension products (insurance and non-insurance regulated): the long duration of the liabilities allow for higher portfolio allocation to long term investments such as equities.
9. Taxation to incentivize long term retirement savings and investment over consumption and short term savings, or at least not penalise this virtuous behaviour
10. Basic financial mathematics part of school curricula, as this is a crucial tool in selecting suitable investment products for pension savers.

5 *"The Authority shall take a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market, including by: (a) collecting, analysing and reporting on consumer trends"*

6 *AIFs stand for Alternative Investment Funds. They are subject to less investor protection rules than UCITs, however AIFs are up to now very widely used by personal pensions providers.*