

Capital Market Union – Proposal for a Pan European Pension Product (PEPP)

I. Background

The demographic changes in Europe create a massive challenge especially for public pay-as-you-go old age provisioning systems. In 2060 only two workers will have to finance one pensioner in Europe on average (for Germany the ratio will drop to 2-to-1 already around 2030) resulting in either massively higher contributions, lower benefits or higher retirement age (or probably a combination thereof) to stabilize the system.

This evolution highlights the need for people to save more for their retirement through funded personal pension schemes.

After various consultations by the European Insurance and Occupational Pension Authority (EIOPA) and the EUCOM, on 29 June 2017 the EUCOM published a legislative proposal of a Pan-European Pension Product (PEPP) in order to address the demographic challenges, to respond to the need of pensioners and to complement already existing national frameworks, resp. to give new source of capital for long term investment.

II. Position fpmi

- Fpmi generally supports the development of a PEPP as proposed by the European Insurance and Occupational Pension Authority (EIOPA) and considered by the EU Commission (EUCOM) as part of the Capital Markets Union. We believe that a well designed PEPP could help to close the pension gap in Europe and promote growth by fostering long-term real economy investments in Europe (subject to adequate supervisory framework).
- Notwithstanding the above, fpmi considers the PEPP design currently discussed as insufficient. We believe that any future PEPP regulation must also cover the decumulation phase (mandatory longevity cover), provide a solution for an attractive tax treatment throughout Europe and enable competition regarding costs and investment options between providers in order to establish a solid basis for a successful PEPP introduction.
- So the proposal of the EUCOM from 29 June 2017 includes some measures that correspond with basic considerations from our side but on the other hand remains largely vague for a lot of further features.
 - Corresponding measures
 - Regarding distribution fpmi is convinced that bringing PEPPs to a broad range of customers requires the use of both online and traditional offline distribution channels. Where PEPPs are sold online, additional advice should be available

upon customer demand. Following the EUCom, PEPP could be provided online, including advice.

Fpmi believes that additional disability insurance and further biometrical risk riders should be offered to the client (examples are a death benefit or a waiver of premiums until age 60 for occupational disability). EUCom's proposal includes the possibility for PEPP providers to cover the risk of death and other biometric risks.

- Imperfections subsist as regards some relevant features for a PEPP to close the pension gap and to promote growth, e.g.:
 - Regarding the accumulation phase, the EUCom proposes that one of the investment options the provider has to offer must be a "default investment option", that provides "capital protection" for PEPP savers– without however providing any detail regarding legal substance of this capital protection (no use of term "guarantee") and details of claim. Fpmi is convinced that guarantees in terms of paid-in premiums (level determined by provider and subject to chosen investment option) available at the end of the accumulation phase, should be offered at contract conclusion.
 - Fpmi supports cross border portability and supply of the PEPP whereby conditions have to be uniformly defined throughout the EU. The option so far recommended by the EUCom is based on a technique of creating national compartments when changing Member States. From our point of view, this proposal sounds very vague and burdensome, leaves a lot of questions open and needs to be defined more precisely to be discussed as effective and operational.
 - Fpmi is of the opinion that a uniform reliable and preferable tax treatment throughout all Member States (MS) is essential for the PEPP to become attractive. The EUCom's proposal includes (only) a recommendation that MS grant the same tax treatment to the PEPP as to similar existing national products and provides for the creation of so called compartments (see also preceding dot) by the provider for any PEPP and every jurisdiction the PEPP contract may be governed by. fpmi is not convinced that the creation of compartments is able to resolve the issue of 28 different tax environments (see also above) – at least there is need of more detailed explanation.