Ressort: Wirtschaft und Finanzen

Time for a Pan-European Personal Pension Product

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In its 2017 Pensions at a glance report, the OECD states that "even taking into account the progress that has been made, concerns about the financial sustainability and pension adequacy of the current state of pension systems in OECD countries remain [...] Continued ageing of societies combined with the changing nature of work puts pressure on both the financial sustainability and the retirement income adequacy of

pension systems; in addition, risks of increasing old-age inequality have been building up. [...] Public expenditure on pensions as a percentage of GDP has increased and is expected to rise further in the near future in most OECD countries. [...] At the same time, recent reforms will lower replacement rates in many countries due to measures aimed at improving pension finances. This may jeopardise the adequacy of retirement income in some countries, especially for retiring low-skilled and low-paid workers. The long term need to reform is still present in many countries, especially given the ongoing improvements in longevity".

Old age pensions are an essential part of a retiree's income, and for many people an adequate pension provision makes the difference between a comfortable old age or poverty. It is a prerequisite for exercising fundamental rights laid down in the EU Charter of Fundamental Rights, not least Article 25, the rights of the elderly: "The Union recognizes and respects the rights of the elderly to lead a life of dignity and independence and to participate in social and cultural life". In addition, as a substantial part of old age pensions are provided under public schemes, there is also a direct correlation between pensions and the sustainability of public finances.

In spite of the exclusive national competences concerning the organization of pension systems as determined by the EU Treaties, income adequacy and financial sustainability of national pension systems are vital to the stability of the European Union as a whole, and of the euro area in particular.
Pension savings influence the Capital Markets Union, and thus to the economy of the European Union. Europe is facing several challenges including demographic challenges: Europe is an ageing continent. Moreover, career patterns, the labour market and the distribution of wealth are withstanding radical changes, not least as a result of the digital revolution.

It is all the time more clear that national security systems are not in harmony with a globalized knowledge economy based on open borders, labour mobility and migration. Too many people are not, or inadequately

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covered by the traditional national pension systems: women, young people, migrants, low-skilled workers, self-employed workers, workers with a-typical contracts and so on.
Most EU Member States are aware of the challenges, and in recent years they have started far-reaching reforms of their national pension systems. Anyway, priority must be given to further developing, strengthening and reforming the first (public) and second (occupational) pillars of the pensions systems.

Nevertheless, it is plausible that the share of first pillar pay-as-you-go public pensions as part of the replacement rate will decrease. This may be partially balanced by entitlements from second pillar funded schemes. But a well-developed third pillar can and must play a significant part to increasing the adequacy and sustainability of the existing pension systems. A Pan-European Personal Pension Product may supplement and strengthen the market for individual pension products across Europe.The European pension market is highly fragmented and uneven, so the impact of Pan-European Personal Pension Product will be very different across Member States, and the target audience is in the same way wide-ranging.

In countries where the first and second pillar are inadequately developed, PEPP may offer solutions for people who do not currently have access to adequate provisions. In countries with highly developed pension markets, the PEPP may simply broaden the consumer choice, or offer solutions to mobile citizens, roughly 3.7 % of the Europeans who work and live in another Member State. At the same time, PEPP generates new business opportunities for providers of personal pension products in Europe.
Therefore, PEPP must meet various criteria. It must be a safe, reliable, consumer friendly retirement savings product with cross-border portability.

It must offer options that meet the needs of people ranging from those who are not financially literate and with very limited means, who need PEPP as their basic retirement income, up to those who are in search of alternative products to expand their retirement provision.
PEPP must be attractive to the providers as well. As PEPP will be a voluntary retirement provision, it has to compete with existing personal pension products in well developed markets, and at the same time it has to conquer new markets. In countries with lesser-developed pension markets the PEPP can provide a reliable retirement provision with a European label.

There seems to be a broad support for the idea of PEPP, but the context is extremely complex and politically sensitive. The differences between 28 Member States of the EU are huge and thorny. Regulatory and fiscal rules differ widely, the structures of the national pension systems, the state of development of first and second pillar provisions, national traditions and the state of the economy are all so different, that no two Member States are the same. The range of possible providers is very wide, and each sector is subject to special regulatory regimes of both national and international rules. The potential consumers are wide ranging, but is there a true political will at European level?

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