DAV

DEUTSCHE AKTUARVEREINIGUNG e.V.

Stellungnahme der Deutschen Aktuarvereinigung e.V.

EUROPEAN COMMISSION'S CONSULTATION DOCUMENT
CAPITAL MARKETS UNION: ACTION ON A POTENTIAL EU PERSONAL PENSION FRAMEWORK

Köln, 31. Oktober 2016

A. On the challenges to personal pension development in the EU

1. Do you offer personal pension products to consumers?

X No, we do not offer personal pension products

o Yes, in one Member State

o Yes, in more than one Member State

2. What are the issues which, in your view, limit the development of personal pensions in your Member State? (Please specify your answer below in maximum 500 characters. You may reply to one or several categories)

a. National legal requirements (e.g. prudential rules governing providers, administrative rules, tax regime for personal retirement saving, non-tax legal requirements, etc.)

(500 characters max.)

b. Barriers to entry for providers (e.g. costs are too high to enter to market, competition is not strong enough on the market, the current low interest rates disincentivise providers to offer long-term products, etc.)

Different legal (tax-, social-, labor-, regulatory law, etc.) frameworks require deep knowledge of the national specifics in order to enter the market.

c. Insufficient demand from individuals for personal pensions (e.g. lack of information about pension savings, low level of individuals' financial literacy, lack of interest in pension savings, insufficient disposable income for pensions savings purposes)

We do not recognise insufficient demand as a general problem. However parts of the population have insufficient disposable income.

d. Insufficient public policy incentives to stimulate saving in personal pension products

Public debate often paints existing solutions in a too negative light. Undoubtedly no solution is perfect - however public policy should emphasize benefits and not generalize possible shortcomings.

e. Any other limitation

(500 characters max.)

3. What are the issues which, in your view, limit the development of personal pensions across borders? (Please specify your answer below in maximum 500 characters. You may reply to one or several categories)

a. Varying national legal requirements (e.g. complexity of national legal frameworks, differing national tax requirements, difference in conduct of business rules, etc.)

Differences in tax-, social-, labor law and national regulatory law necessitate products to be fitted to the local requirements.

b. Challenges for providers to operate cross-border (e.g. high set up costs, high operating costs in another Member State, language issues, unfamiliar customer base, branding issues, local dominant distribution channels, presence of conflicts of interest in the distribution channels, etc.)

Different legal (tax-, social-, labor-, regulatory law, etc.) frameworks require deep knowledge of the national specifics in order to enter a market.

c. Insufficient demand from individuals for cross-border pensions (e.g. uncertainty about cross-border providers, perception that a cross-border pension would only be relevant in case of mobility, etc.)

Transferring products from one state to the next often means that they match the local requirements (fit to national pension system, customer preferences and legal) less precisely than the local products which are tailored to meet the national requirements and are often eligible for tax benefits or other incentives.

d. Any other limitation

(500 characters max.)

B. What should be the key features of an EU personal pension framework?

As outlined in the 2014 EIOPA preliminary report18, personal pension savings are expected to be a successful alternative source of retirement income and provide for replacement rates in the future but only in so far as those savings are safe in the sense of trustworthiness, cost effectiveness and transparency. They should also be sufficiently flexible to cater for a European labour market where workers' mobility is increasing.

Furthermore, the 2016 EIOPA technical advice19 outlined that objectives for personal pensions determine and affect to some extent the required product characteristics:

• Safe products imply the need for addressing conflicts of interests and information asymmetries between providers and savers. Conflicts of interests need to be addressed and incentives need to be aligned to facilitate optimised results for consumers. The main tools for ensuring safety could include authorisation and governance requirements and also cover controls and limits on product design and characteristics. Those product limitations could entail investment limitations or the inclusion of guarantees on capital or returns.

• Transparent products: As long-term savings are often perceived complex, relevant information on those products needs to be provided to consumers to make well-informed decisions about taking up and maintaining long-term savings. The nature, frequency of disclosure and presentation of information contributes to the overall transparency of these products. There are several recent examples in EU financial services legislation about information disclosure requirements, such as in the Regulation on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs)20, in the Markets in Financial Instruments Directive (MiFID II)21 and in the Insurance Distribution Directive (IDD)22 which could serve as a basis for establishing the appropriate disclosure requirements for personal pension products.

• Cost-effective products: building a stronger market for personal pensions could provide efficiency gains for providers through standardisation, enabling economies of scale and allowing for improved risk diversification. This can help reducing administrative costs arising from distribution, information and manufacturing and lower the asset management costs by increasing the size of the asset portfolio under management. According to EIOPA, such efficiency gains could be offered by a well-functioning Single Market for personal pension products, without obstacles to cross-border activities, facilitating healthy competition and financial innovation. Online distribution is often seen as a relevant alternative distribution channel that can help reduce those costs.

Building on the essential features of an EU personal pensions framework as outlined above through the EIOPA technical advice, an EU personal pension framework should be complemented by a number of areas which could be subject to enhanced standardisation. These areas include investment rules, guarantees provided, portability of pensions, information requirements, rules on switching providers or products and the options for pay-out. In addition, the key features should not be looked at in isolation, but in in the context of the tax regime of the personal pension, which is in many Member States a key driver for the take-up.

This section is thus divided into key features first (B1), and secondly how they affect the tax regime applied to personal pensions (B2).

B1 – KEY FEATURES

INVESTMENT RULES

Many long-term retirement savings are reliant on investments (in capital markets or other areas) in order to grow. Personal pension products create the opportunity for savers to invest long-term, potentially maximising their retirement savings. The range of investment options is a key issue to address in this area.

According to the 2016 EIOPA advice23, savers tend to have difficulties to determine their own investment portfolio, are often overwhelmed by the choice of investments and strongly influenced by the way that choice is presented to them. Savers seem to prefer choosing a "standard" default investment option over complex options. Savers are not aware that their needs may change over the lifetime of the product and may not monitor, review or rebalance the asset allocation of their investment portfolio over time.

In the work conducted by EIOPA, the options for a personal pensions framework range from including a default investment option to be provided to savers with a very limited number of alternative options in order to steer individuals towards a standard option, towards an approach where more investment options would be provided to cater for individuals with different risk appetites. In this context, the first approach, namely a default investment option, could provide the benefit of simplicity, provide safety and a limited risk for the majority of savers. The other approach, namely alternative investment options, could provide flexibility to cater for the needs of specific savers which specific investment profiles, with different risk return profiles.

EIOPA recommends in its technical advice a limited number of investment options to help limit information overload on consumers. Furthermore, EIOPA recommends a default or "core" investment option in case a product would incorporate more than one investment option in order to simplify decision-making for the majority via choice- and information architecture.

EIOPA also addresses the question whether there should be a guarantee to protect the individual saver, and/or a life-cycle strategy with de-risking when approaching retirement. A life-cycling strategy with de-risking (LCS) is an approach that ensures that savers do not have to make investment decisions during the lifetime of their personal pension product.

EIOPA recommends a de-risking strategy for at least the default investment option unless all investment options contain a guarantee. The de-risking strategy should aim to maximise returns at defined risk levels for that investment option. These conditions would seek to mitigate potential issues of individuals' loss and regret aversion.

4. Should there be a default investment option in a personal pension product which would provide simplicity and safety catering for the needs of a majority of personal pension savers?

o Yes

X No

o No opinion

5. Which type of protection should be attached to the default investment option ensuring simplicity and safety for investors in personal pensions?

e. Guarantee on capital

f. Guarantee on returns

g. No need for a guarantee

h. Other (please specify)

It should be the providers' choice how to set and create the various types and features of guarantees (esp. type and guarantee level). The DAV e.g. has developed a new guarantee concept.

6. Should the number of alternative investment options be limited? If yes, please specify the scope of the limitation and which type of protection they should feature (max. 500 characters)

X NO: a minimum guarantee will contribute to limit investment risks. In general there should be no limitation. However for a standardised product a huge variety of options could decrease comprehensibility and transparency. Investments that bear high risks should not be admitted.

7. Should a personal pension product be portable:

Please tick the appropriate field, only one choice is allowed per category of reply.	**Not at all important**	**Rather unimportant**	**Fairly important**	**Very important**	**No opinion**
Across Member States					
Within the same Member State					
Both within the same Member State and across Member States					

8. What are the main barriers for portability of existing personal pension products?

Very different legal and regulatory frameworks (tax-, social-, labor-, regulatory law, etc.)

9. The PRIIPs Key Information Document (KID) provides an example of pre-contractual information disclosure. Should the KID be used for the purposes of personal pensions disclosures? Alternatively, which KID elements could be directly used for disclosures regarding a potential EU personal pension and what are the elements that should be adapted (e.g. to take into account the long-term nature of the investment)?

It should be differentiated between proposals for information on PPPs and information requirements for products used for cross-border business. For PPP only non-exhaustive and principle-based information requirements should be considered which are sufficiently flexible to cater for different national systems. For cross-border sales a more standardised KID might be helpful which is better tailored to the specificities of PPP than the PRIIP-KID.

10. What information, in your opinion, is most relevant to individual savers before signing up to a product?

(Please tick the appropriate field, only one choice is allowed per category of reply)

Please tick the appropriate field, only one choice is allowed per category of reply.	Not at all important	Rather unimportant	Fairly important	Very important	No opinion
Available investment options			x		
Different types of fees		X			
Level of fees disclosed annually			X		
The rate of return over the last two years		X			
Level of protection provided				X	
Information provided in a standardised format (similarly to the PRIIPs KID)		X			
The tax regime for contributions, returns and pay-outs			X		

Is there any other information that would be of importance for savers before signing up to a product?

- RIY as cost indicator is more transparent and comprehensible than a mere disclosure of different types of fees
- level of fees annually: is part of the ongoing information.
- rate of return over last two years: pensions are long-term by nature.
- Standardised format for information: should be differentiated between information requirements for PPPs and for products used cross-border.
- tax regime: only high-level if the products are sold in different countries.
- Information on annuity phase

11. What information, in your opinion, is most relevant to individual savers during the lifetime of the product?

Please tick the appropriate field, only one choice is allowed per category of reply.	Not at all important	Rather unimportant	Fairly important	Very important	No opinion
Current investment option				XX	
Available investment options		XX			
Level of fees			XX		
The rate of return			XX		
Level of protection provided				XX	
Accumulated benefits				XX	
Expected benefits at retirement				XX	
The tax treatment of savings		XX			

Any other information that would be of importance for savers during the product lifetime?

500 character(s) maximum (500 characters left)

Ongoing information should enable consumers to assess their product's performance with regard to the target level of benefits at retirement. Since PPP are long-term by nature, information about the current status of certain aspects (rate of return, fees) may not help in determining the prospective product performance.

Switching between Products and Providers

For personal pension products which are by nature very long-term products, it is necessary to offer consumers the flexibility to switch between products as well as providers. Switching allows investors a choice between products and providers, and could be a means to encourage competition and keep levels of fees under control. Being locked into in a product or with a provider for a long time, especially until reaching retirement age, regardless of whether the performance of the product is satisfactory or not, could be highly detrimental for the individual.

However, this needs to be weighed against the benefits provided by long-term investment, which requires that funds be made available over extended periods. In line with the idea of long-term saving and of creating a Capital Markets Union, personal pensions should help generate funding for long-term illiquid investments (for example infrastructure, real estate or unlisted SME equities). This objective could be undermined if consumers shifted providers constantly, leading to short term liabilities and forcing providers to invest in more liquid assets. Consequently, a balance should be struck between allowing the possibility for switching by savers and ensuring that providers can invest in long-term illiquid assets.

In the work conducted so far by EIOPA on this key feature, namely switching, the options range from allowing very limited switching possibilities over time to preserve the long-term investment, to fostering competition by allowing savers to switch more often their personal pension across providers.

EIOPA recommends that switching providers should be possible but that some limitations on switching, such as minimum holding periods, should be allowed. Switching costs should also be fair and transparent. EIOPA favours transparent, clearly allocated costs of switching over free charge switching whereby costs might be hidden elsewhere.

In this context switching refers to changing personal pension product across providers within a Member State; it is not intended to provide for switching outside the personal pensions environment.

In your opinion:

14. Under what conditions should it be possible to switch personal pension providers?

- Switching should be without conditions
- Switching should be subject to a fee
- Switching should be only possible after a minimum lifetime of the product and allowed only a limited number of times
- Switching should not be possible

Please explain max 500 characters:

DAV welcomes long-term savings products, esp. if a default option contains a guarantee. Frequent shifting weakens collective effects and makes biometric protection more difficult; it impedes investing in illiquid long-term assets (LTA). For rather short durations providers cannot invest in LTA (consumer should be well aware of this limitation). Shift options should be limited if investing in illiquid LTA. Market value adjustment charges could be applied for shifts ahead of time.

15 Which forms of pay-out should be favoured? Please provide an explanation of your choice (Max. 500 words)

O Lump sum

X Life time annuities

O Temporary annuities (limited in time)

O Individuals' choice

O Any other

O There should be flexibility on pay-out

Please explain (optional)

As the PPPs aim on providing a better financial situation during the retirement it is essential to have life time annuities as one favoured choice. They may be accompanied by some option for flexibility e.g. that customers may choose to get part of the savings as a temporary annuity or as a lump sum in times of higher needs. Considering this it may be important to have some flexibility on pay-out.

16. Overall, in your opinion, what factors would encourage competition to offer high quality, affordable personal pension products?

Please tick the appropriate field, only one choice is allowed per category of reply.	**Not at all important**	**Rather unimportant**	**Fairly important**	**Very important**	**No opinion**
Level of fees and returns		X			
Transparency on fees and costs				X	
Type of investment policy (active vs passive)		X			
Ease of distribution		X			
Consumer awareness of the availability of retirement products				X	
A benchmark to assess the product's performance, safety and simplicity		X			
Tax and other financial incentives to personal pension savings				X	

17. In your experience to what extent are tax incentives important for the uptake of personal pension products by savers? Please explain in max 500 words.

Even if there is awareness of the importance of personal pension savings it might not be affordable for people with lower income. Especially in this case tax subsidies and co-payments are one of the most important key issues to promote retirement saving. Convenient tax rules which aim at people with lower income could be helpful.

19. In your opinion, what are the most significant benefits of providing personal pensions on an EU scale?

Please tick the appropriate field, only one choice is allowed per category of reply.	**Not at all important**	**Rather unimportant**	**Fairly important**	**Very important**	**No opinion**
Larger pools of assets due to a wider reach					
Opens up the market to other providers					
Improved asset allocation					

Product innovation					
Improved returns					
Lower operating costs					
Attractive to mobile customers					
Attractive to regular (non-mobile) customers					
Encourages a level playing field between providers					

Others? Please specify

(500 characters max.)

There is no general shortage in provision of personal pensions. Of course, a standardised PEPP could contribute to cross-border transfer of a pension product to different Member State without necessarily changing the provider. However, this does not apply to all pension products in general.

20. The EU could foster cooperation between stakeholders (Member States, providers, consumers) around a common approach to providing personal pension products. This would imply designing together with the national authorities, pension industry and consumers a series of recommendations which providers could follow when offering personal pensions.

Fostering cooperation among stakeholders would…

Please tick the appropriate field, only one choice is allowed per category of reply.	**…not address this challenge at all**	**…partly address this challenge**	**…largely address this challenge**	**…decisively address this challenge**	**No opinion**
Enhance the take-up of personal pensions by consumers in the EU	xx				
Enhance cross-border offer of personal pension products by providers in the EU	xx				
Widen the range of providers	xx				
Enhance efficiency, asset allocation and returns when offering personal pension products	xx				
Contribute to innovation within the personal pension product market	xx				

This question should only apply to a standardised PEPP

21. A European personal pension account could be established, similarly to the Individual Retirement Account (IRA) offered in the United States. An IRA is a personal savings plan that gives individuals tax advantages when saving for retirement. It encompasses different types of plans, depending on the income or employment status of an individual, their tax circumstances and the investment options they choose. There can be many different types of providers: an IRA can be opened with banks, credit unions, insurance companies, mutual fund companies and brokerage firms. Most IRA providers offer a broad variety of investment options, including stocks and bonds, money market funds and mutual funds.

Would such an approach address the challenges below?

A personal pension account would...

Please tick the appropriate field, only one choice is allowed per category of reply.	...not address this challenge at all	...partly address this challenge	...largely address this challenge	...decisively address this challenge	No opinion
Enhance the take-up of personal pensions by consumers in the EU					
Enhance cross-border offer ofpersonal pension products by providers within the EU					
Widen the range of providers					
Enhance the efficiency, asset allocation and returns when offering personal pension products					
Contribute to innovation within the personal pension product offer					

Other (please specify):

We understand IRA as a rather complex instrument for providing tax advantages developed for the US-market. Furthermore, we believe that in general the pension level in the USA is not sufficient. Therefore, these standards should not be used as a blueprint for the European Market.

22. A European personal pension product could be established on a voluntary basis, based on a set of common and flexible features, in order to provide pension income in retirement. Such features could include transparency and disclosure requirements, investment options, accumulation and decumulation options, distribution specificities, guarantees on the product, and fees and charges levied. The main difference between a personal pension account (described under question 36) and a personal pension product is that a personal pension account does not pre-define investment options. The role of tax advantages would be similar for the personal pension account and the personal pension product. This approach could take inspiration from the Undertakings for Collective Investment in Transferable Securities (UCITS), European Long Term Investment Funds (ELTIF), the EuVECA and EuSEF funds, the European company statute and the EIOPA advice on the development of a Pan-European Personal Pension Product.

A European personal pension product would...

Please tick the appropriate field, only one choice is allowed per category of reply.	...not address this challenge at all	...partly address this challenge	...largely address this challenge	...decisively address this challenge	No opinion
Enhance the take-up of personal pension products by consumers in the EU		XX			
Enhance cross border offer of personal pension products by providers within the EU			XX		
Widen the range of providers					
Enhance the efficiency, assetallocation and returns when offering personal pension	xx				
Contribute to innovation within the personal pension product offer		xx			

Other (please specify):

A standardised PEPP could improve pension provision and supply of long-term financing, if the product features are set in an appropriate way. The features should try to balance standardisation, flexible elements and national product requirements which are necessary to adapt to consumers' needs and expectations. A standardised PEPP could provide additional choice, given that it is a 'true' pension product and that it does not replace existing national pension solutions.

23. The EU could consider harmonising national personal pension regimes, in particular on the aspects of prudential supervision, possible providers, maximum costs, disclosure requirements, distribution models etc. but excluding tax requirements. Would such an approach address the challenges below?

Harmonising national personal pension regimes would...

Please tick the appropriate field, only one choice is allowed per category of reply.	...not address this challenge at all	...partly address this challenge	...largely address this challenge	...decisively y address this challenge	No opinion
Enhance the take-up of personal pension products by consumers within the EU	xx				
Enhance cross-border offering of personal pension products by providers within the EU	xx				
Contribute to a wide range of providers to offer personal pension products	xx				

Contribute to enhancing the efficiency, asset allocation and returns when offering personal pension products	xx				
Contribute to innovation within the personal pension product offer	xx				

This is only relevant for standardised PEPP. National pension products should not be harmonised across EU.

24. Would you favour an alternative EU approach? Please provide details. Max. 500 words.

(500 characters max.)

There are benefits for a standardised PEPP. However, national pension products should not be harmonised. It is important that PPP/PEPP are true pension products: the main target should be an adequate level of income in, retirement. In particular, life-long annuities should be a key feature of PPP/PEPP, a minimum guarantee will contribute to limit investment risk, an additional biometric risk cover should be possible to take into account the increasing longevity of consumers in the EU.