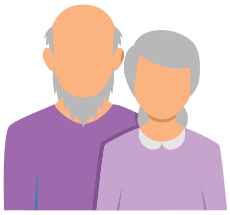

AMBITIONS FOR EUROPE

RESPOND TO THE CHALLENGES OF AN AGEING SOCIETY

THE CHALLENGES

Effective, affordable and sustainable pension systems are a cornerstone of a modern society and inclusive economy. However, most pension systems across Europe currently face the dual challenge of remaining financially sustainable and being able to provide Europeans with an adequate income in retirement.

Increased life expectancy is putting pressure on the sustainability of national, traditionally pay-as-you-go, systems, which are being obliged to reduce public pension levels.

The challenge of having an adequate income in retirement is particularly acute for certain groups. For instance, women on average receive pension benefits that are 37% lower than men. And those who are self-employed, have temporary jobs or work part-time often have limited access to social protection and occupational pension schemes.

All these factors result in an increasing gap between the amount people need for a comfortable retirement and the amount at their disposal.

"The number of people aged 80 or above in the EU is projected to more than double between 2017 and 2080."[1]

"An estimated €2trn in additional retirement savings is needed per year to close the EU pension gap."[2]

WHAT INSURERS OFFER

Multi-pillar pension systems, which complement state provision with occupational and personal pensions, are widely seen as the most sustainable and effective. Life insurers are major providers of occupational and personal pensions.

Traditional insurance pension products play a key role in building up a retirement income: they provide a minimum return guarantee, so offer peace of mind and incentivise risk-averse individuals to save for their retirement.

Insurers also use innovative risk-sharing mechanisms, eg collective pooling and smoothing, based on the principles of long-term investment and risk diversification, to ensure a good income in retirement.

What also marks out insurers is their ability to provide services that increase the scope of protection:

- Protection for dependants/beneficiaries (mortality risk)
- Protection if savers are unable to pay contributions due to invalidity/disability (morbidity risk)
- Protection if savers live longer than expected, to avoid them outliving their savings (longevity risk).

Given the protection insurers offer in difficult moments, several countries have made some of these features mandatory.

Insurers also provide different decumulation options, such as lifetime annuities, lump sums and other innovative solutions.

Europe's ability to provide social protection, prosperity and inclusive growth will depend in great part on its capacity to build effective, affordable and sustainable pension systems.

> *"The average public pension in relation to the average wage is projected to decline by 10.6 percentage points in the EU between 2016 and 2070."*[3]

At EU level

The EC, notably through its Capital Markets Union (CMU) project, recognises the role of personal pensions in closing the savings gap and contributing to long-term growth. However, further action is needed to meet the dual objective of increasing pension saving and promoting long-term growth.

Ensure the PEPP is attractive to buyers & sellers

It is too early to assess whether the Regulation on a pan-European personal pension product (PEPP) — a flagship initiative under the CMU project — will channel savings to long-term investments. Many key issues still need to be addressed by EIOPA and the EC in implementing regulation. Specifically, for the PEPP to be a success it is essential that:

- PEPP information requirements — both the key information document (KID) and benefit statement — provide savers with meaningful, easily understandable information.
- The items included within the cap on costs do not deter providers from offering PEPPs with protection features or certain providers from offering PEPPs at all.
- The criteria applied to the risk mitigation techniques protect individual savings but do not hinder innovation.

Adjust Solvency II to reflect the real risks of long-term pension liabilities

The Solvency II insurance regulatory framework that applies to insurers was designed to ensure a high level of protection for consumers' long-term savings and pension products. However, it overstates the long-term liabilities and exaggerates balance-sheet volatility, resulting in capital charges that are too high. Consequently, it unnecessarily and adversely affects the cost of offering long-term products.

The 2020 Solvency II review and PEPP Level 2 discussions should investigate the mismatch between the current regulatory approach and the real exposure of insurers to investment risks. Refining Solvency II would help insurers play an even bigger role in the provision of safe, long-term savings products, including PEPPs.

Raise awareness among European citizens

European citizens must be made more aware of the need to take responsibility for planning and managing their financial future. EU-wide initiatives are needed to raise levels of financial literacy and inform citizens of the different retirement savings options available.

At member state level

To increase the effectiveness of multi-pillar systems, member states should encourage participation in complementary occupational and personal pension schemes.

Introduce appropriate tax incentives

Tax treatment can incentivise citizens to save for retirement. And tax incentives — such as credits, reliefs or subsidies — can be targeted at different sections of the population. It is important that tax incentives remain stable to foster trust in private pension savings.

Conversely, taxes that would reduce people's saving for retirement should be avoided. A financial transaction tax (FTT) that includes pension products would be a case in point.

Stimulate uptake of supplementary pensions

Member states should stimulate the uptake of supplementary pension arrangements through the most appropriate enrolment systems for local circumstances. For instance, auto-enrolment mechanisms via the workplace/employment are proving effective in encouraging participation in an increasing number of states, while still allowing individuals to opt out. They have the added benefit of helping to achieve the critical mass necessary for providers to benefit from economies of scale.

Provide information on pension entitlements

Information on expected retirement income is currently not widely available in many countries. States should be encouraged to provide citizens with appropriate information on their expected benefits, which would encourage people to save more through the arrangements that best meet their personal circumstances. Digital solutions, such as tracking services and dashboards, can encourage people to think about their retirement savings.

1 Pension Adequacy Report 2018, European Commission
2 Aviva estimate
3 Pension Adequacy Report 2018, European Commission

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