Europe's Borderless New DC Plans

By Kerry Pechter *Thu, Mar 24, 2022*

After 10 years of preparation, the European Union has created Pan European Personal Pension plans (PEPPs). These will be available to any EU-country citizen working in any EU country. But who will offer them?

Citizens of any of the 30 countries in the European Economic Area can work at jobs in any of the other member countries. As of last Tuesday, March 22, they can participate in equally border-agnostic retirement savings plans, called Pan European Personal Pensions, or PEPPs.

Not to be confused with the "Pooled Employer Plans" in the US, Europe's PEPPs don't require sponsorship or supervision by an employer, and don't use an employer's payroll system. Instead, each participant chooses a PEPP provider and contributes to their account on their own.

Banks, insurance companies, and asset managers can offer PEPPs. They must register their offerings with a central registry at the European Insurance and Occupational Pension Association (EIOPA), and agree to maximum 1% annual investment fees. Annuities may entail additional fees. Participants can switch providers, but only once every five years.

Europe's retirement regulations are just now catching up with European labor trends. "In 2015, 11.3 million Union citizens of working age (20 to 64 years old) were residing in a Member State other than the Member State of their citizenship and 1.3 million Union citizens were working in a Member State other than their Member State of residence," according to a July 2019 article in the *Official Journal of the European Union*. About 447 million people live in the EU.

"[EU] households are amongst the highest savers in the world, but the bulk of those savings are held in bank accounts with short maturities," the Journal added. "More investment into capital markets can help meet the challenges posed by population aging and low interest rates."

PEPPs can be offered by credit institutions, direct life insurance companies, institutions for occupational retirement provision (IORPs, which are authorized and supervised to provide also personal pension products), investment firms, asset managers, and EU alternative investment fund managers.

But there was a sign this week that insurance companies, for one industry category, may choose not to implement PEPPs. Hugh Prenn of the Capital Markets division of UNIQA Group, a major insurer in central and eastern Europe, who appeared in a **webinar** introducing PEPP this week, told *RIJ* that "There will be no PEPP from our side."

He added, "I guess my opinion is representative for many if not all insurance companies." Asked why he was on the webinar, he said, "Because I have been a member of the expert panel at EIOPA." On EIOPA's **registry**, no PEPP offerings are listed. Prenn noted an industry study showing that the consumer protections required on PEPPs will make it difficult to offer a product. [Note: We will update this story as more information becomes available.]

"Certainly higher interest rates could help us to become more interested," Prenn said in the webinar. "That would make complying with these rules much easier. We would need benchmark rates of about 2%, and we are halfway there." Without more yield, he noted, it would be impossible for an insurance company to meet the PEPP's specific requirements for minimum returns and maximum losses.

He also expressed concern about potential legal liabilities. "How will a civil court see this regulation? In a negative market scenario, we will have unhappy customers pursuing us with skillful lawyers. This creates legal risks that will have to be covered by the 1% return on this product."

European investors are famously averse to market risk. So a capital preservation feature was added to the default version of PEPP (Basic PEPP). "For the Basic PEPP with a guarantee, PEPP savers will have a legal obligation to ensure that PEPP savers recoup at least the capital invested. The guarantee on the capital shall be due only at the start of the decumulation phase and during the decumulation phase," according to a PEPP **fact sheet**. Such guarantees will be difficult for providers to offer when yields are low.

In an aging, low birth-rate Europe, where a declining worker-to-beneficiary ratio is putting pressure on social insurance programs with tax-based, pay-as-you-go funding mechanisms, governments want to encourage individuals to save more on their own. European workers face many of the same retirement challenges that Americans do—insufficient savings, incomplete access to savings plans, and unconventional careers.

Contributions to PEPP funds could also help the investment industry in Europe. Europeans traditionally save at banks, and PEPPs could draw savings toward capital markets investments in exchange-listed companies. A larger market could also give PEPP providers greater efficiencies and economies of scale.

The idea for Europe’s PEPPs was hatched in July 2012 when the European Commission, eager for individual savers to shoulder more of their own pension burden, asked EIOPA to gather information on a personal, private pension option for EU workers. The project advanced slowly through the European bureaucracy until, in 2020, a package of new **regulations** and services was submitted for the European Commission’s approval.

RIJ submitted the following questions to the EIOPA this week and received the following answers:

Q. How do PEPP participants make contributions, especially if contributions aren’t facilitated by employer payroll mechanisms?

A. The PEPP is a pillar three product. It is separate from the state pensions and the occupational pensions. Savers make contributions on their own without facilitation by payrolls.

Q. Is there any limit to the number of companies that can offer plans?

A. No. Eligible providers are credit institutions, insurers, institutions for occupational retirement provisions as well as investment or management companies. Each provider can offer as many PEPPs as they want. There is a limit on the number of investment options. Providers can offer basic PEPP and six other investment options.

Q. How are plans distributed and payments made? Purely online? Is there an emphasis on smartphones?

A. It is not prescribed to use online distribution only. However, the PEPP Regulation aims to put ‘digital first’ and allows a fully digital disclosure and distribution. Digital disclosure may include more engaging forms of media (such as video) or interactive elements which makes it more appealing and easier to understand for consumers.

PEPP providers and distributors are obliged to give advice. The PEPP Regulation, in addition to traditional advice, allows either fully automated or semi-automated advice. Content of the pre(contractual) information to consumers has to be presented in a way that is adapted to the PEPP saver’s device used for accessing the document. Font size, size of the different elements should be adjusted depending on the device being used for accessing the information.

Q. Is there any limit to the kinds of savings vehicles—such as annuities, mutual funds, collective investment trusts—that PEPPs can offer?

A. Providers can offer different forms of out-payments, which can be modified by savers free of charge one year before the start of the decumulation phase, at the start of the decumulation phase and at the moment of switching providers. The forms of retirement income can be an annuity and life-long pay-out, a lump sum payment, drawn down payments or a combination of the aforementioned.

Q. How is the conversion to decumulation handled?

A. PEPP providers should inform PEPP savers two months before the dates on which PEPP savers have the possibility to modify their pay-out options about the upcoming start of the decumulation phase, the possible forms of out-payments and the possibility to modify the form of out-payments. Where more than one sub-account has been opened, PEPP savers should be informed about the possible start of the decumulation phase of each sub-account.

National competent authorities are required to publish national laws, regulations and administrative provisions governing the conditions related to the decumulation phase. These also are published on our **website**.

Tuesday's webinar panelists included Til Klein, founder of Vantik, which puts credit card rewards into a personal pension, Christian Lemaire of the Occupational Pensions Stakeholder Group, Hugo Prenn of Uniqa Insurance, Tim Shakesby of EIOPA, and Peter Ohrlander, Directorate General for Financial Stability, Financial Services and Capital Markets Union at the European Commission.