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BANKING AND FINANCE

Public consultation on a potential EU personal pension framework

Part B3 - Stakeholders in a professional capacity - for providers, potential providers, stakeholder representatives, public authorities regulating personal pensions, academics etc.

Fields marked with * are mandatory.

Introduction

Creating a true Capital Markets Union (CMU) which strengthens Europe's economy and creates jobs in all 28 Member States is a top priority for the Commission. CMU is intended to mobilise capital in Europe and channel it to companies, including SMEs, and infrastructure projects that need it to expand and create jobs. By linking savings with growth, it will offer new opportunities for savers and investors.

Pension products in general and personal pensions in particular are key players in the capital markets through their central role for linking long-term savers with long-term investment opportunities. In the Action Plan on Building a Capital Markets Union [1], the Commission announced that it will assess the case for a policy framework to establish a successful European market for simple, efficient and competitive personal pensions, and determine whether EU legislation is required to underpin this market.

Personal (or private) pensions are long-term savings products with a retirement objective which are subscribed voluntarily and are neither social security-based nor occupational. Personal pensions can be offered in different forms such as life insurance products, pension insurance or investment funds. Personal pensions complement state pensions and workplace pensions.

The maturity of personal pension markets differs throughout the EU, with the take-up of products being limited in most Member States, where they act as additional savings vehicles targeted primarily at higher-income households. Only a few Member States (for example the Czech Republic or Germany) have achieved wider take-up of personal pensions, thanks to incentives such as tax advantages and public co-payments. However, the volume of savings and their potential contribution to adequate retirement incomes remains limited.

Challenges and opportunities

Costs and charges: Personal pension products are provided to savers throughout the EU, but individuals are often unable or uninterested to save more for retirement. Individuals tend to postpone making decisions for retirement, and when they do, they can be discouraged by the poor performance of investment products, their fees (impacting on the final returns) and their complexity, which limit the attractiveness of personal pension products in particular for lower- and middle-income households. A recent study shows that returns of personal pension products can be very distinct. For instance in Denmark, the average yearly real returns of pension funds after charges and taxation reached almost 4% over the period 2002-2013. However, in other Member States, such as Bulgaria, Estonia, Italy, Latvia, Slovakia, or Spain, there were negative returns for certain pension products in the same period. Consequently, there is potential for improving performance, creating lower cost products and ultimately improving the attractiveness and uptake of personal pensions.

Limited Portability: Personal pension products are not usually available for take-up from other Member States even if more attractively priced or performing better. Cross-border provision is currently limited. When individuals move within the European Union, they are often prevented from taking their investment with them and are, as a consequence, unable to benefit from any economies of scale they might otherwise have developed by pooling their personal pension savings.

Diverse Taxation: Tax aspects can be especially challenging as Member States have different tax regimes for personal pension products. While most Member States use tax advantages or other public incentives, such as co-payments to boost the take-up of personal pensions, individuals might be penalised if they wish to have their accumulated benefits in one Member State recognised in another Member State. As a consequence, individuals may be deterred from buying personal pension products from providers in other Member States if these products do not qualify for the tax relief available for domestic products. Individuals may not be able to continue to pay into their personal pension plan if they relocate to another Member State. The differences in the tax rules add complexity and contribute to higher cost of personal pension products, both for the individual and for the provider. The lack of clarity for providers on how to apply tax rules adds to the complexity and high cost of personal pension products offered across borders. Providers are often unable to offer their personal pension products in other Member States because they might not qualify for tax relief there. While it is not envisaged to harmonise tax requirements for personal pensions, national tax incentives remain very important for the uptake of personal pensions in the framework of a potential EU initiative.

Competition between providers: the maturity of personal pension markets differs throughout the EU, with the take-up of products being overall limited in most Member States. Differing regulatory requirements applicable to personal pensions limit providers' willingness and ability to create new business opportunities in other countries. Markets are predominantly national and dominated by local providers. Insurance companies manage approximately 90% of personal pension assets. Other suppliers, such as pension funds, investment companies or banks play only a marginal role. This indicates there is an opportunity to create stronger competition resulting in more choice for consumers.

Potential opportunities of an EU personal pension framework

European pension systems are facing the dual challenge of remaining financially sustainable and being able to provide Europeans with an adequate income in retirement. Not saving enough for retirement is a top concern for the British, German and Irish workforce (54%, 53% and 50% respectively) [2]. The old age dependency ratio – the ratio between the number of elderly persons who are inactive and the number of persons of working age – is highest in Italy, Sweden and Germany (above 30%). It is also high in Belgium, France, Denmark and the United Kingdom (25%). Demographic trends anticipate that the proportion of workers supporting those in retirement will halve from an average of four today, to just two, by 2060. In recent years, Member States have adopted a multitude of reforms aimed at managing public spending on pensions to safeguard their sustainability. The 2015 Pension Adequacy Report highlights that the lowering of benefit levels could imply significant risks for the future adequacy of incomes in old age. The impact of lower pensions from public schemes could be offset or mitigated by increased entitlements from supplementary retirement savings [3].

Personal pensions can help secure adequate replacement rates in the future as a complement to state-based or occupational pensions. There is scope for further development of personal pensions at EU level, in particular by making them more attractive and accessible to potential savers. They can also fit the increasing mobility of EU citizens better as well as the needs of a future workforce with fluctuating work patters.

An EU single market for personal pensions could offer individuals more choice between products and providers, as well as more understanding and control of the risks that they face at different stages of their private pension investment. A single market would also create new market opportunities for providers, including SMEs, and help decrease the costs for savers.

Personal pensions are a flexible way to build up additional retirement income for a large category of individuals. This includes everybody wishing to save more for retirement, such as employed people willing to complement their public or occupational pension; individuals who are self-employed or those who have an irregular activity on the labour market, as well as individuals who do not work but can afford to invest in a pension.

European personal pension solutions could be particularly attractive to individuals who move from one country to another and wish to continue to contribute to their existing personal pension savings while having the accumulated benefits recognised for tax relief in the new country.

Personal pension savings also have an important role to play in channelling retail savings into capital markets, a key building block of a Capital Markets Union.

The ultimate goal is to support individuals in the EU to save more to achieve appropriate levels of retirement income. To achieve this, it should be possible:

for providers based in one EU Member State to offer personal pensions in other EU Member States; for savers to be able to sign up for a personal pension offered in other EU Member States; and for savers to transfer the benefits accumulated in one or more Member State(s) if they move from one Member State to another, whether to work or to retire – facilitating so-called "portability".

Objective of the consultation

The consultation will help the Commission analyse the case for an EU personal pension framework. It builds on previous consultations [4] launched by the Commission and EIOPA on personal pensions, but increases their scope. In July 2012 and in 2014, the European Commission asked EIOPA to develop technical advice on an EU Internal Market for personal pension schemes or products. The Commission sought advice in particular on the cross-border, prudential regulation and consumer protection measures that would be required to develop an EU single market for personal pension schemes. EIOPA has responded to those requests and favoured the creation of a harmonised legal framework for a Pan-European personal pensions market [5].

The Commission, in this consultation, aims to build on that advice and widen the range of possible options and stakeholders consulted.

The consultation also builds on recent initiatives such as the Call for Evidence on the EU Regulatory Framework for Financial Services [6] and the Green Paper on Retail Financial Services [7], placing personal pensions in the area of retail financial services to benefit European consumers and facilitate the cross-border supply of these services.

In particular, it will help the Commission map individuals' and providers' expectations for an EU personal pension framework. It will also help in identifying a set of key features to build on when assessing the case for an EU personal pension framework. It will seek views on how, in the future, personal pensions can better complement retirement income. The Commission also intends to make individuals more confident about using personal pensions to save for their retirement.

This consultation seeks views on how to best address the current obstacles within the personal pensions market and will contribute to assessing the feasibility of a potential EU policy framework to establish a successful European market for simple, efficient and competitive personal pensions.

The public consultation is open until **31 of October 2016**.

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[1] COM(2015) 468 final

[2] European Employee Benefits Benchmark, Expectations vs. Reality: Meeting Europe's Retirement Challenge (Aon Consulting, 2010)

[3] The 2015 Pension Adequacy Report: current and future income adequacy in old age in the EU

[4] During the consultation launched by the Commission in 2015 on Building a Capital Markets Union, most respondents indicated that personal pension savings have an important role to play by channelling retail savings into capital markets and expressed support for the creation of a single market for personal pensions as one of the building blocks of a Capital Markets Union.

[5] EIOPA's advice on the development of an EU Single Market for personal pension products (PPP's), ref.EIOPA-16/457, available at: https://eiopa.europa.eu/publications/submissions-to-the-ec. During the consultation launched by the Commission in 2015 on Building a Capital Markets Union, most respondents indicated that personal pension savings have an important role to play by channelling retail savings into capital markets and expressed support for the creation of a single market for personal pensions as one of the building blocks of a Capital Markets Union.

[6] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0630&from=EN

[7] COM(2015) 630 final, available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2015:630:FIN

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-personal-pension-framework@ec.europa.eu.

More information:

- on this consultation
- on the protection of personal data regime for this consultation

1. Information about you

*First name and last name:

*Name of your organisation:

Contact email address:

The information you provide here is for administrative purposes only and will not be published

*Is your organisation included in the Transparency Register?

(If your organisation is not registered, we invite you to register here, although it is not compulsory to be registered to reply to this consultation. Why a transparency register?)

- ○ Yes
- ◉ No

*Type of organisation:

- ○ Academic institution
- ○ Consultancy, law firm
- ○ Industry association
- ○ Non-governmental organisation
- ○ Trade union
- ○ Company, SME, micro-enterprise, sole trader
- ○ Consumer organisation
- ○ Media
- ○ Think tank
- ◉ Other

*Please specify the type of organisation:

The Dutch Government

*Type of public authority

- ○ International or European organisation
- ○ Regional or local authority
- ◉ Government or Ministry
- ○ Regulatory authority, Supervisory authority or Central bank
- ○ Other public authority

*Where are you based and/or where do you carry out your activity?

The Netherlands

*Field of activity or sector (*if applicable*):

at least 1 choice(s)

- ☐ Accounting
- ☐ Auditing
- ☐ Banking
- ☐ Credit rating agencies
- ☐ Insurance
- ☐ Pension provision
- ☐ Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- ☐ Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- ☐ Social entrepreneurship
- ☑ Other
- ☐ Not applicable

*Please specify your activity field(s) or sector(s):

Government and administration

Important notice on the publication of responses

*Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?

(see specific privacy statement)

- ◉ Yes, I agree to my response being published under the name I indicate (*name of your organisation/company/public authority or your name if your reply as an individual*)
- ○ No, I do not want my response to be published

2. Your opinion

B3. Questions for stakeholders in a professional capacity – for providers, potential providers, stakeholder representatives, public authorities regulating personal pensions, academics etc.

Please justify your choice(s) - where possible please provide reference to any evidence, data, reports or studies.

Section 2: Challenges and key features

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

At present, the EU personal pensions market does not seem to be reaching its full potential, both in terms of the products supplied and the level of demand from potential investors. There is evidence that personal pensions markets remain fragmented along national borders, are dominated by a limited number of national providers, and national tax requirements limit the possibility to purchase personal pension products from another Member State. As a consequence, cross-border provision of these services is limited. Competition is imperfect, restricting investors from enjoying the benefits of more innovative and efficient personal pension products.

Encouraging the provision of third pillar personal pensions by a wider range of financial institutions would foster more competition and could offer more choice with more attractive prices to consumers. Provided the above-mentioned challenges are overcome, the uptake of personal pensions would increase with more coverage among policyholders. Consumers could benefit from simpler, more innovative and more efficient personal pensions to complement their retirement income.

***1. Do you offer personal pension products to consumers?**

- (●) No, we do not offer personal pension products
- ( ) Yes , in one Member State
- ( ) Yes, in more than one Member State

2. What are the issues which 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 character(s) maximum

> The need for a PPP is limited in the NLDs. The NLDs has a universal 1st pillar pension for all its citizens that provides for a minimum income for people of pensionable age as well as a capital funded 2nd pillar pension which has a high participation rate among employees. Pension contributions are tax deductible (EET). There is also a third pillar personal pension market which generally functions well and provides citizens with the opportunity for supplementary savings for old age.

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

500 character(s) maximum

In the NLD there are multiple insurance companies, banks and asset managers active on the 3rd pillar market. Consumers can choose a particular product that suits their needs. In general these firms are covered by European regulation in the field of Solvency II, CRDIV or UCITSIV. In the market for life insurance there has been a decline in size of gross premiums for insurers as banks and asset managers have gained in market share. This decline predates the current interest rate environment.

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 income for pensions savings purposes)

500 character(s) maximum

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

500 character(s) maximum

NLD thinks it is important to stimulate pension savings. in particular for those people not covered by a 2nd pillar whilst respecting individuals' freedom of choice. In NLD 3rd pillar personal pension savings are tax deductible in the build-up phase to a certain limit; in particular for people with no or limited second pillar savings. The Dutch public organization 'Wijzer in Geldzaken' additionally organizes an annual campaign to make people aware of the need to plan financially for retirement.

e. Any other limitation

500 character(s) maximum

The need and demand for personal pensions is highly dependent on national particularities which amongst other things relate to the provision (and level) of a 'livable pension' by the 1st and 2nd pillars, the fiscal facilitation of pensions, the set-up of the labor market (percentage of self-employed people and small businesses) as well as social customs and preferences and the ability to save for pension through home ownership.

3. What are the issues which 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.)

500 character(s) maximum

In the EU regulatory frameworks for insurers, banks and asset managers are in place to operate across borders. As such there should be no impediment to offer PPP similar products within the EU. We would encourage the EC to do an in-depth analysis to the current impediments for pension savings across MS and what a top-down PPP framework could contribute to this (vis-à-vis the status quo). The Dutch tax regime for contributions for PPPs similarly applies to products provided by non-Dutch firms

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.)

500 character(s) maximum

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

500 character(s) maximum

In the NLD there is a well-functioning third pillar pension market which is open to other European suppliers of PP. Consumers in the NLD in general save in personal pension plans as a supplicant to first and second pillar savings, therefore a personal pension regime would not offer an obvious added value to the Dutch pension system. There could be room for growth in the third pillar PP-market for self-employed persons, but NLD notes that suitable products for this market already exist.

d. Any other limitation

500 character(s) maximum

The fiscal facilitation of pensions is a member state competence. One can use the Dutch tax facilities if the conditions for these facilities are met. Furthermore, if the need for a European framework would be established, it needs to be noted that there are clear differences in fiscal facilitation across Member States (TEE vs. EET) which are not compatible. This could lead to potential for arbitration which is undesirable.

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

As outlined in the 2014 EIOPA preliminary report [1], 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 advice [2] to the EU Commission 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 saving products are often perceived as being complex, relevant information on those products needs to be provided to consumers to enable them 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) [3], in the Markets in Financial Instruments Directive (MiFID II) [4] and in the Insurance Distribution Directive (IDD) [5] 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 pension 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 in order to facilitate the cross-border provision of personal pensions and to offer appropriate consumer protection. 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 the context of the tax regime on personal pensions, which is a key driver for the take-up of personal pensions.

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

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[1] EIOPA: Towards an EU single market for personal pensions: An EIOPA Preliminary Report to COM, 2014

[2] EIOPA's advice on the development of an EU Single Market for personal pension products (PPP's), ref.EIOPA-16/457, available at: https://eiopa.europa.eu/publications/submissions-to-the-ec

[3] Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs)

[4] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

[5] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast)

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 for the long-term, potentially maximising their retirement savings. The range of investment options is a key issue to address in this area to balance various risk profiles and respond to the needs and expectations of individuals in terms of investment strategy, given the various levels of financial literacy.

According to the 2016 EIOPA advice [1], 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, 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 savers with specific investment profiles, or 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.

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[1] EIOPA's advice on the development of an EU Single Market for personal pension products (PPP's), ref.EIOPA-16/457, available at: https://eiopa.europa.eu/publications/submissions-to-the-ec

***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?**

- (●) Yes
- ( ) No
- ( ) No opinion

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

- ( ) Guarantee on capital
- ( ) Guarantee on returns
- ( ) No need for a guarantee
- (•) Other

Please specify:

500 character(s) maximum

The scope of the 3rd pillar PPP should be specified first; this is now unclear. Does it apply to just the accumulation or to the pay-out phase as well? An accumulation product should have a life cycle investment principle that aims at reducing investment risk towards retirement date. If the PPP product also has a payout phase, NLD believes a life cycle principle that aims at reducing conversion risk towards retirement is preferred. In both cases, a life cycle is to be preferred over a guarantee.

***6. Should the number of alternative investment options be limited?**

- (•) Yes
- ( ) No

If yes, please specify the scope of the limitation and which type of protection they should feature:

500 character(s) maximum

A private sector formulation of key principles for a PPP product on the basis of existing regulatory regimes is most appropriate. The options within a product should be limited to a range of distinct alternatives of which the risks (and costs) are spelled out to facilitate ease of choice. To all options the life-cycle principle should apply. For the default one could think about a max. percentage of equity risk. It is equally important to think about the costs as costs impact cumulative returns.

PORTABILITY OF PERSONAL PENSIONS

Personal pensions are typically long-term products as their focus is on retirement. During their lifetime, investors' preferences and needs could change, and they may move between Member States for multiple reasons (employment, settling for retirement etc.).

Following changes in individuals' preferences and/or personal circumstances, the question of portability of pensions arises, within the same country or across borders. Portability would allow for the recognition and transfer of pension contributions across providers and across Member States.

A portability feature of personal pensions across the EU should make personal pensions a more attractive option for mobile workers than they are offered at present through allowing them to keep their pension contributions together and therefore enjoy higher benefits in retirement.

In addition, if personal pensions were portable, providers of personal pensions could scale up their activities in a more integrated EU market, and thus offer products across borders to savers in less mature personal pension markets.

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?

5000 character(s) maximum

Portability does not seem to be the key issue inhibiting pension savings in particular as cross-border labor market mobility in the EU is quite limited as a share of the total population. In addition cross-border regulatory frameworks are already in place. An analysis as to the limited pension saving in some MS seems to be missing. What specificities explain the limited saving in a number of MS? NLD would therefore encourage a more in-depth study into the differences in pension saving across MS.

INFORMATION TO POLICYHOLDERS

In order to determine which personal pension products best fit their needs, individuals should be appropriately informed of the key features of such products, in particular in view of the products' long-term nature and inherent complexity. 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 [1] (PRIIPs), Markets in Financial Instruments Directive [2] (MiFID II) and Insurance Distribution Directive [3] (IDD). PRIIPs introduces a Key Information Document (KID – a simple document giving key facts to retail investors in a clear and understandable manner) covering not only collective investment schemes but also other 'packaged' investment products offered by banks or insurance companies.

In the work conducted so far on the key elements of information to be disclosed, the options for personal pensions range from using existing models such as the KID in PRIIPs as a basis with some adaptations, to designing a more specific set of information requirements tailored to the specific nature of personal pensions.

The EIOPA technical advice recommends using the existing rules based on the idea of the PRIIPs KID as a starting point for disclosure requirements for personal pensions. However, EIOPA recommends adjusting the PRIIPs KID to allow for the specificities of personal pensions to be accommodated. This could for example include information related to the choices to be made by savers or options provided by national law and options provided by the provider on reaching retirement.

According to EIOPA it is important to project and estimate how investments (typically including periodic contributions) and the related returns accumulate over a potentially very long time period, and what that could mean in terms of a retirement income. Therefore, projections could also be a feature of the disclosure requirements.

A distinction should also be made between information provided before subscribing to a product (pre-contractual information) and information provided to savers during the product lifetime.

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[1] Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs)

[2] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

[3] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast)

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)?

500 character(s) maximum

NLD thinks communication about a 3rd pillar PPP should follow existing regulatory regimes and bear in mind 2nd pillar national rules. The goal should be to create a clear, concise document for the consumer. Info should be presented in a 'layered' fashion and where possible in a digital format. This to secure availability but prevent information overload. The info presented should be focused on the elements of choice for the consumer and key properties of the product (risk, cost, suitability).

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)

	Not at all important	Rather unimportant	Fairly important	Very important	No opinion
Available investment options	◎	◎	◎	◎	◎
Different types of fees	◎	◎	◎	◎	◎
Level of fees disclosed annually	◎	◎	◎	◎	◎
The rate of return over the last two years	◎	◎	◎	◎	◎
Level of protection provided	◎	◎	◎	◎	◎
Information provided in a standardised format (similarly to the PRIIPs KID)	◎	◎	◎	◎	◎
The tax regime for contributions, returns and pay-outs	◎	◎	◎	◎	◎

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

500 character(s) maximum

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The following points would contribute to the overarching private sector
product principles. The product should:
1)        have a target group in terms of investment options offered by the
provider.
2)        be clear about the projected ranges of outcomes (in terms of
annuities or build-up capital) related to investment risk , contributions
paid and characteristics of the underlying product.
3)        stipulate the costs and ability to switch to a different investment
cycle or to cancel/transfer the product
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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					
Available investment options					
Level of fees					
The rate of return					
Level of protection provided					
Accumulated benefits					
Expected benefits at retirement					
The tax treatment of savings					

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

500 character(s) maximum

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The following points would contribute to the overarching private sector
product principles. The product should stipulate:

1)        The returns in relation to the projected outcome at the start of
the product. What do these returns mean for the income at pensionable age (in
terms of capital / annuity)?
2)        The ability to switch to a different investment cycle or strategy
and the ability to cancel the product and switch to a different provider in
the build-up phase.
```

DISTRIBUTION

As personal pension products are often considered complex and information asymmetries between providers and savers subsist, distributors play an important role. Distributors, and in particular the advice they could provide, could have a very significant impact on the development of a sound personal pensions market, reduce the asymmetry of information and ultimately serve the interests of consumers. Distributors can assist consumers in assessing personal pension products before they make a purchase and help identify which product best meets their needs. They can provide advice to those with more complex needs or those who are less financially literate. Distributors can also play a role during the lifetime of a personal pension product, assisting consumers in assessing their retirement provisions over time and helping trigger changes in consumers' allocation of resources within a personal pension product, or switching investment option over time, especially in the run-up to retirement.

Currently, personal pension products tend to be distributed face-to-face and through branches, which may or may not be accompanied by advice. However, technological developments may change the way personal pension products are distributed and how advice is provided. The choice and/or variety of distribution channels is a key factor in determining the success of a personal pension framework.

In the work conducted so far by EIOPA on this key feature (i.e. distribution aspects), the options range from encouraging physical sales in parallel to adapting key features so that personal pensions can easily be sold online. EIOPA recommends that at least for the default option, distribution without advice via the internet should be permitted in the case of non-complex personal pension products, easy for customers to access and understand.

The question of advice, and it being compulsory or not, remains a question in the case of more complex investment options and potentially higher risks for savers.

During the product's lifetime, EIOPA recommends that the distributor should monitor and review the product in the context of the saver's needs and future plans. For known trigger events, for example when the saver is nearing retirement, the distributor should inform the saver about the upcoming event, and provide all relevant information in order to enable the individual to choose the best option for his / her retirement.

12. As a provider, which types of distribution channels would you favour in order to maximise the benefits and efficiency gains of a Single Market for personal pensions (e.g. online/face-to-face, directly/via agents)?

500 character(s) maximum

NLD is open to different distribution channels for a PPP as long as there are no 'kickbacks' or other perverse financial incentives that could induce 'miss-selling'. A pension product has a long-term nature and the interrelation between investment risk, costs and paid-in contributions can be complex. The level of expertise of a client therefore needs to be verified and a clear default for different types of clients (according to their preferences) should be developed.

13. Would you consider that advice should be mandatory for the provision of personal pensions?

500 character(s) maximum

No. NLD is of the opinion that the provider of the pension product should decide whether advice is needed for every individual consumer. Advice can be appropriate, depending on the complexity of the product. However, advice can also be a considerable investment. Because of these advice costs, NLD rejects the proposal of obligatory/mandatory advice. Mandatory, costly advice could also decrease motivation to consider these products

SWITCHING BETWEEN PRODUCTS OR 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 to 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 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 savers to switch providers 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 under some limitations such as minimum holding periods. Switching costs should also be fair and transparent. EIOPA favours transparent and clearly allocated costs of switching over free charge switching whereby costs might be hidden elsewhere.

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

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

- (x) Switching should be without conditions
- ( ) Switching should be subject to a fee
- ( ) Switching should be only possible after a minimum period of time and be allowed only a limited number of times
- ( ) Switching should not be possible

Please explain: *(optional)*

500 character(s) maximum

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We are still reviewing this issue.
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PAYOUT (DECUMULATION)

Decumulation, or pay-out, starts at the legal age of retirement or when the policyholder chooses to retire.

Different pay-out options should allow policyholders to choose the most appropriate decumulation option for them. In the work conducted by EIOPA on this key feature, the options range from allowing any type of pay-out, bearing in mind that a personal pension is typically supplementing the main source of pension revenue, to recommending one or several preferred pay-out options, notably in order to maximise consumer protection.

In its technical advice, EIOPA does not recommend standardising the decumulation phase of personal pension products. It considers that more work should be done to determine the advantages and disadvantages of the distinct pay-out options.

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

- ○ lump sum
- ○ life time annuities
- ○ temporary annuities (limited in time)
- ○ individuals' choice
- ● any other
- ○ there should be flexibility on pay-out

Please explain: *(optional)*

500 character(s) maximum

A lump-sum can induce myopic behavior, this important downside needs to be very carefully considered in product design. NLD believes pensions and pension products should be a supplementary and steady source of income during old age. In NLD a lump-sum pay-out is therefore not possible. A PPP should as a principle have a lifelong pay-out to cover longevity risk as well. In NLD products are offered that allow for a limited pay-out phase of 20 years, thereby still ensuring a steady source of income.

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	○	○	○	○	○
Transparency on fees and costs	○	○	○	○	○
Type of investment policy (active vs passive)	○	○	○	○	○
Ease of distribution	○	○	○	○	○
Consumer awareness of the availability of retirement products	○	○	○	○	○
A benchmark to assess the product's performance, safety and simplicity	○	○	○	○	○
Tax and other financial incentives to personal pension savings	○	○	○	○	○

B2. Effect of key features on the tax regime of personal pensions

Personal pensions are vehicles which may benefit from national tax incentives under the form of tax relief at different stages of the life of the product. National tax rules may constitute an obstacle to the development of a single market for personal pensions given the complexity and variety of tax regimes applicable in Member States. Increased complexity could create additional administration costs for personal pension products and might reduce incentives for suppliers to operate across borders.

At the same time, taxation is a key factor that determines the success of a framework for personal pensions because tax incentives play an important role in the decision to subscribe to personal pensions savings. Generally, a deferred taxation model is applied to personal pension products; contributions are deducted from an individual's taxable income and pensions are taxed within the framework of income tax or, in many instances at a favourable rate. In most Member States the investment results are tax exempt. However, the taxation rates and regimes vary widely between Member States.

While it is not envisaged to harmonise tax requirements for personal pensions, national tax incentives remain very important for the uptake of personal pensions in the framework of a potential EU initiative.

17. In your experience, to what extent are tax incentives important for the uptake of personal pension products by savers?

Please explain:

5000 character(s) maximum

Tax incentives have been important in reinforcing the tendency of employers and employees (2nd pillar) and consumers (3rd pillar) to save for retirement.

The Netherlands applies an EET-system in the second pillar that is applicable to approximately the first 100.000 euro of a person's income. For incomes above 100.000 a TEE system is in force. The only tax facility in force for these pension savings is that the interest and dividends yielded from the paid-in contributions are not taxed during the accumulation phase (but are on pay-out).

In the 3rd pillar the build-up facilities may be used by people that do not have enough pension-savings in another way, for instance by making use of the tax-facilities in the second pillar. In the third pillar an EET-system is applicable to approximately the first 100.000 euro of a person's income. The yearly tax-deductible contribution is a percentage of the income. For incomes above 100.000 euros a TEE-system is in force. The only tax facility in force for these contributions (regarding income above approximately 100.000 euros) is that the interest and dividends yielded from the paid-in contributions are not taxed during the accumulation phase (but are taxed on pay-out).

***18. If you are a provider offering personal pension products in other Member States, how do you accommodate differing national tax regimes?**

- ○ We operate through branches or subsidiaries
- ○ We operate directly across the border without branches or subsidiaries
- ◉ Other

Please specify:

500 character(s) maximum

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We are not a provider.
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C. On the benefits of potential EU action on personal pensions

A true EU market for personal pensions could create a number of benefits and contribute to growth and investment within a Capital Markets Union. For investors, this should ensure delivery of affordable personal pensions through better prices at the point of sale, good returns and a wider range of providers due to increased competition. Furthermore, products could be more transparent, easier to understand and also safer, if there were some minimum standards, which should lead to increase consumer confidence. It might also be easier to change providers or to transfer accumulated benefits when moving to another Member State. Providers could benefit from reduced complexity, facilitated cross-border activity, reduced administrative costs, and efficiencies could be created by pooling assets from a larger investor base. Providers would be able to provide similar products within a wide range of Member States.

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 character(s) maximum

The benefits of a top-down EU-framework for PPPs for the Dutch market are limited. Some MS might potentially benefit from increased pension savings. In the NLD pension savings are high and the 3rd pillar market functions satisfactorily, making the need for a PPP more questionable. More broadly the question is what a PPP would add to the opportunities to provide PPP on the basis of CRD, Solvency or UCITS. The most relevant inhibitions on pension saving seem related to MS policies.

D. On the type of potential EU action

The previous sections on the key features of a personal pension framework and on the benefits of potential EU action focused on assessing the effects that an EU initiative would have on the personal pension market. The consultation now turns to views on how to best frame such an initiative, from self-regulatory approaches (cooperation among stakeholders) to more comprehensive EU intervention (harmonising at EU level the national personal pension regimes).

For each of the potential approaches, we invite respondents to detail how the chosen approach would address the problems identified in the first part of this consultation. These would address issues such as insufficient personal pension take up by individuals, insufficient cross-border provision, insufficient variety in personal pension providers, lack of efficiency of personal pensions on costs and returns, and insufficient innovation in personal pensions.

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...

	...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 of personal pension products by providers in the EU	○	○	○	○	○
Widen the range of providers	○	○	○	○	○
Enhance efficiency, asset allocation and returns when offering personal pension products	○	○	○	○	○
Contribute to innovation within the personal pension product market	○	○	○	○	○

Other (please specify):

500 character(s) maximum

NLD could support an approach focusing on a non-binding self-regulatory standardization of pension products, by setting particular overarching principles a product should adhere to in order to qualify for a private sector label. An external auditor could then report on the effective implementation of these standards. NLD believes a stakeholder approach is most effective given the differences between MS pension systems that makes top-down European product harmonization less suitable.

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...

	...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 of personal 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):

500 character(s) maximum

NLD would be strongly against a European harmonized IRA. NLD already has a strong and well-functioning collective 2nd pillar pension system with a supplementary 3rd pillar. The savings accumulated in each pillar can already be transferred cross-border. NLD therefore does not see the added value of a European IRA, especially as pensions closely relate to fiscal and social and labor market policy which are MS competences

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...

	...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	○	○	○	○	○
Enhance cross border offer of personal 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):

500 character(s) maximum

Some MS might potentially benefit from increased pension savings. The NLD is, however, unconvinced a top down European PPP is the most proportionate and effective measure to increase savings. The question is what a PPP framework would add to the existing opportunities to provide PPP cross-border on the basis of CRD, Solvency or UCITS. The lack of pension savings seems tied towards particular MS policies and competences in the European treaties not the lack of a European framework.

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...

	...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 within the EU	○	○	○	○	○
Enhance cross border offering of personal pension products by providers within the EU	○	○	○	○	○
Contribute to a wide range of providers to offer personal pension products	○	○	○	○	○
Contribute to enhancing the efficiency, asset allocation and returns when offering personal pension products	○	○	○	○	○
Contribute to innovation within the personal pension product offer	○	○	○	○	○

Other (please specify):

500 character(s) maximum

NLD would like to see specified how such an approach could stimulate pension savings in a concrete fashion. Lack of pension savings could be caused by MS specificities that do not relate to product design. A clear problem analysis is a necessary prerequisite. In addition a European framework for product harmonization sits uneasy with the European frameworks of sectoral legislation for banks, insurers, IORPs and asset managers.

24. Would you favour an alternative EU approach?

Please provide details.

5000 character(s) maximum

This consultation reaction is on behalf of the Dutch Financial Markets Authority (AFM), the Dutch Central Bank (DNB) and the Dutch government.

The Netherlands has a universal 1st pillar pension for all its citizens, that provides for a minimum income for people of pensionable age, as well as capital funded 2nd pillar pension which has a high participation rate among employees. Pension contributions are tax deductible (EET). There is also a third pillar personal pension market which generally functions well and provides citizens with the opportunity for supplementary savings for old age. This third pillar market is important for people not covered by the 2nd pillar or the increasing group of people that is self-employed. Together these three pension pillars provide for an internationally high replacement rate that is to a large extent capital-funded (see OECD; Pensions at a Glance, 2015). The need for a PPP framework in the NLD is therefore limited as an active market already exists for 3rd pillar pensions and the 1st and 2nd pillar already provide a 'liveable pension' to the majority of the Dutch citizens.

A clear problem analysis on the limitations to pension savings in MS with lower savings ratios seems to be lacking in the current discussion. The Netherlands agrees that pensions savings in some MS could be increased. The Netherlands, however, questions whether a voluntary and individual European PPP framework would be an effective and proportionate policy given MS specificities on pension facilitation and MS competences in the areas of tax law and social and labor market policies. The development of 2nd pension systems in Member States with nascent systems might be further prioritized whilst respecting the autonomy of Member States with established systems. In addition one needs to bear in mind that a European framework for banks, insurers and asset managers is already in place. Personal pension plans can already be offered on the basis of these regulatory frameworks. What would a standardization of a product regime add to these already extensive pieces of regulation is a question one might ask. In addition the Netherlands sees a potential issue with the calibration of capital requirements, investment rules and communication standards resulting from a standardization of a PPP.

This standardization could disrupt products and regulation already in place for banks, insurers, asset managers and pension funds.

The Dutch government has additionally commissioned research on standardized personal pension products in a national context as well. Preliminary outcomes, which will be made public shortly, show that adding standardized personal pension products to the current products available does not have the desired effects on consumers' choices. 1) It is not likely to increase pension savings as standardization does not necessarily increase demand, 2) standardized products are generally not regarded by consumers as more attractive or trustworthy than alternative products, and finally it seems 3) to make comparisons between products more complex. As soon as the final research report is available, the Netherlands would be glad to share insights with the European Commission.

Taken into account these points the Netherlands could support a stakeholder cooperation processes to create a non-binding common approach to an individual and voluntary PPP product that is limited to the 3rd pillar (thereby respecting the prerogatives of employers and employees in the 2nd pillar). The self-regulatory approach would then only extend to particular features of product design and key principles on investment risk and investment options as well as cost transparency and communication. In this process we think it is important to ensure a life-long and stable pay-out phase and take on board behavioral insights in the use of default investment profiles and the risk of short-term myopic behavior. The PPP could thereby become a private sector label that implements certain key principles the compliance of which could be ensured through periodic reporting by the companies as well as by an external auditor if deemed appropriate.

A bottom-up private sector approach has the advantage that it is flexible across MS which might face different obstacles in stimulating pension saving and respects MS competences in the field of tax and social and labor law. This approach could build upon the existing regulatory framework in place as deemed appropriate by the providers of the PPP.

3. Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

Useful links

Consultation details (http://ec.europa.eu/finance/consultations/2016/personal-pension-framework/index_en.htm)

Specific privacy statement (http://ec.europa.eu/finance/consultations/2016/personal-pension-framework/docs/privacy-statement_en.pdf)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

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