Pan-European personal pension product (PEPP)

An aging population increases pressure on pension systems, and traditional pay-as-you-go pensions are likely to be less generous in the future. To increase the options for those saving for retirement, and stimulate competition on the market, the European Commission proposed a new EU framework for a voluntary personal pension product (PEPP), which would be complementary to other personal pensions and national regimes. Trilogue negotiations concluded with a compromise approved by the ECON committee and by the Council. The European Parliament is due to vote on the PEPP file during the April I plenary session.

Background

The increasing median age in the EU population creates numerous challenges, not least in the sustainability of current pension arrangements, while the market for personal pensions in the EU is fragmented and its level of development varies across the Member States. These limitations make it harder for many personal pension providers to diversify their risks, innovate and achieve economies of scale. Furthermore, people who wish to set aside more money for retirement often face limited choices.

European Commission proposal

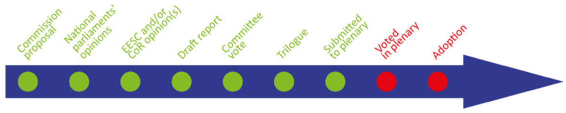
In June 2017, the Commission set out a framework for a voluntary personal pension product (PEPP). Providers would need authorisation from the European Insurance and Occupational Pensions Authority (EIOPA), and the products would be portable between Member States. Participation is voluntary, but early access to accumulated funds would be limited. Consumers would have access to transparent standardised information and a right to switch providers every five years at a capped cost. Every PEPP would offer up to five saving options, including a safe default investment guaranteeing savers would recoup at least the capital invested. Providers would also offer options on pay-out, which could be changed every five years.

European Parliament position

The ECON committee adopted its report in September 2018. The main amendments included giving consumers a right to buy cross-border and removing the obligation for providers to offer national 'compartments' (PEPP elements to comply with national rules on tax incentives) in all Member States within three years. The report proposed to cap costs of switching at 0.5 % rather than 1.5 % of the PEPP balance, and permit changing providers in accordance with the PEPP contract terms, rather than every five years. However, switching would always be allowed at the time of retirement. The report also included fees, costs and compensation for inflation in the capital guarantee, which the saver may recoup. Furthermore, institutions for occupational retirement provision (IORPs), which already provide personal pension products, would be able to offer PEPPs while ring-fencing the corresponding assets.

These amendments were largely upheld in the provisional agreement, which also introduced some modifications. Each PEPP should offer national sub-accounts (the new term for national 'compartments') for at least two Member States within three years. Providers would not be obliged to provide a switching service during the decumulation (pay-out) phase, but savers may switch PEPP providers a minimum of five years after the conclusion of the PEPP contract, and, in case of subsequent switching, five years after the last switch. Guarantees under the default investment option should cover at least the contributions during the accumulation phase, after deduction of all fees and charges. The EP is to vote on the text on 4 April.

First-reading report: 2017/0143(COD); Committee responsible: ECON; Rapporteur: Sophia in 't Veld, (ALDE, Netherlands). For further information see our 'EU Legislation in progress' briefing.



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