Can the PEPP convince Europe's savers?

Written by

Sandra Wolf Editor

Sandra is editor at mallowstreet, responsible for editing articles posted by expert contributors and writing mallowstreet content. Sandra has worked in pensions journalism for more than 10 years. Before joining mallowstreet, she was the editor of Pensions Expert, the Financial Times' magazine for pension professionals. Sandra speaks four languages and has previously covered the German, French and Italian-speaking markets.

Published on 26 August 2020 at 07:41

The EU plans to address the pension savings gap with a low-cost portable product, but could the Pan-European Personal Pension Product end up as a niche tool for multinationals, rather than serving the underpensioned?

The European Insurance and Occupational Pensions Authority this month delivered a set of draft technical standards and advice on delegated acts for the Pan-European Personal Pension Product to the European Commission, but the 'PEPP' struggles to find its identity between insurance and savings, and could face headwinds in the form of tax regimes.

On 14 August, Eiopa drafted level 2 of the PEPP regulations, which now need to be officially adopted by the European Commission. Once adopted, the first licences for providers are expected to be issued in early 2021, with the first consumer products potentially on the market towards the end of next year.

The PEPP was officially designed to address Europe's demographic problem – with very low birth rates and increasing longevity, future governments on the continent will struggle to balance tax-take with the cost of healthcare and state pensions, yet member states are slow at tackling the issue because cost cutting measures are unpopular among voters. In addition, private pension saving is still the exception in the EU: currently only 27% of Europeans between 25 and 59 are enrolled in a pension fund, with state pensions still the main source of retirement income for most.

Apart from closing the savings gap, the European Commission also hopes that PEPPs will "increase the depth, liquidity and efficiency of capital markets" and that "this will ultimately promote growth and the creation of new jobs in the EU and contribute significantly to develop a Capital Markets Union", one of its ambitions for the future.

But the product might have suffered from too many cooks, as rather than being a portable savings account, its main feature now appears to be a guarantee on contributions, making it more akin to an insurance product.

At the same time, it was agreed to put a 1% charge cap on the product covering investment and administration but which excludes the cost of the guarantee. The cap has itself come under fire as, in handing the draft regulations over, Eiopa highlighted industry representatives' disapproval of including the cost of mandatory 'advice' in the cap, which some consider to be distribution and marketing costs.

A difficult product

Even its proponents acknowledge that the PEPP might face a few hurdles. It's "a difficult product", admits Hans van Meerten, a professor at Utrecht University who is also a partner at Westerbrink, a pensions consultancy which collaborates with platform TontineTrust to distribute a PEPP within two years.

Van Meerten characterises the PEPP as a voluntary pension savings product for the accumulation phase aimed at solving the pensions gap, as well as being the EU's second attempt at making pensions more portable across the union.

The first attempt, crossborder occupational pension funds, "didn't work, we concluded more or less", says van Meerten, as it has resulted in fewer than 100 crossborder schemes, the majority of which are concentrated in Ireland and Northern Ireland. The main issue with this, he argues, was that occupational pensions fall into the regulatory remit of member states, which did not approve of the EU's interference in this sector. The PEPP, in contrast, is a purely financial product and as such in the EU's legislative remit.

Thorn in the EU’s side: National tax regimes

However, there are still hurdles, the biggest of which could be taxation, which lies with national governments. The recommendation is to adopt an exempt-exempt-taxed model for PEPPs, which van Meerten says all but one or two member states already apply to pensions.

But for Francesco Briganti, secretary general of the Cross Border Benefits Alliance-Europe, taxation is a major stumbling block. The PEPP overall “was well designed” he says, but how PEPPs are taxed is “a problem, because there isn’t any harmonisation of the tax treatment, and basically every member state will be free to decide the level of tax on the PEPP”.

National governments “will even be free to discriminate and offer tax advantages to national pension products and not the PEPPs” he says. Not all EU member states supported the new PEPP, and these could boycott it through heavier taxation, he fears.

The other factor that is within member states’ remit is the minimum retirement age – which Briganti does not see as an obstacle. “I don’t think it would be a big issue if one [country’s retirement age] is 65, 63 or 67. You accrue capital, there is no big difference” resulting from when the money is accessed, he claims.

Where is the demand coming from?

While Eiopa and the Commission are debating the technical terms of the PEPP, is there actually any demand for voluntary pension saving in the middle of an economic crisis?

The PEPP will be available in just over a year at the earliest, notes Briganti, saying that even if the economy remains in a precarious situation, there will always be people who are unaffected by job market upheaval.

Interest in the product is there, he says. “Several companies are asking me for information about the PEPP. There are many, not only European but also American companies,” says Briganti.

"Another interesting aspect is that not only insurers, banks and asset managers are interested but also some big employers are interested in understanding whether they would be able to offer PEPPs to their employees,” he adds.

These multinational companies are considering offering the PEPP as a benefit to improve employees’ mobility. To Briganti, this is not surprising; the issue with crossborder occupational pensions was not a lack of interest from employers, he argues. “If it didn’t take off it was not due to appetite, it was because the legislation is too complex,” he says.

Companies could therefore start using the PEPP as an alternative way of offering crossborder pensions, he says, hoping this would serve as a wake-up call for legislators to make the crossborder occupational pensions regime less burdensome.

Whether UK residents will ever have access to the PEPP is as yet unclear – all depends on the UK’s ongoing negotiations with the EU, where no agreements have been reached so far. UK providers could however still sell the PEPP from their European subsidiaries if they choose to – whether they will remains to be seen.

Is the Pan-European Personal Pension Product a future success story for pensions adequacy or a niche product for multinationals?

[This question might be the object of another, separate interview]

Interview available on:
https://www.mallowstreet.com/Article/b53073