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PensionsEurope position paper on personal pension products

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace pensions. Some members operate purely individual pension schemes.

PensionsEurope has **23 member associations** in EU Member States and other European countries with significant – in size and relevance – workplace pension systems¹.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope member organisations cover the workplace pensions of about **80 million European citizens**. Through its Member Associations PensionsEurope represents approximately € **3.5 trillion of assets** managed for future pension payments.

PensionsEurope Members are large institutional investors representing the **buy-side** on the financial markets.

Contact:

Mr. Matti LEPPÄLÄ, Secretary General/CEO

Koningsstraat 97 rue Royale – 1000 Brussels

Belgium

Tel: +32 (0)2 289 14 14 / Fax: +32 2 289 14 15

matti.leppala@pensionseurope.eu

www.pensionseurope.eu

¹ EU Member States: Austria, Belgium, Croatia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden, UK, Non-EU Member States: Guernsey, Iceland, Norway, Switzerland.

Executive Summary

PensionsEurope supports the development of a strong EU framework of supplementary pension savings. Such framework must clearly differentiate between the three so-called pillars (state, workplace, and personal pensions), ensuring that all the existing national regimes are taken into consideration. With this position paper PensionsEurope would like to contribute to the debate of the development of high quality personal pension products.

It is PensionsEurope's view that state and workplace pensions should provide the bulk of the retirement, as they have advantages compared to personal pension products. However, third pillar retirement products can also be a useful instrument to further top up the retirement income in a customized, individualistic way and contribute to securing the future adequacy and sustainability of retirement income. For instance, personal pension products can be a particularly useful tool for the self-employed persons.

In order to achieve this goal, it is of key importance to adequately define the scope of personal pension products, clearly differentiating them from workplace pensions. Any pension scheme linked to a current or previous employment relationship should be considered as part of workplace pensions, with the involvement of the employer being a key factor to distinguish workplace pension from personal pensions.

Due to their specific nature and characteristics, the so-called 1st pillar bis personal pensions should also be subject to a specific tailor-made approach. This approach could be in the form of guidelines developed in strong collaboration between the EU legislators and interested stakeholders.

European savings products currently face important cross-border obstacles such as different national taxation regimes. When developing the pan-European internal market of personal pension products, it is important to respect the existing national personal pension regimes so as to avoid disrupting systems that currently operate satisfactorily.

Finally, although we agree that there might be scope to consider personal pension products within the scope of the PRIPs initiative, we consider that at this stage the PRIPS Directive should not apply to personal pensions. PensionsEurope suggests waiting to the outcome of the different initiatives that EIOPA and the European Commission are undertaking in the field of personal pensions.

Supplementary pension savings

In times when Member State public finances suffer strong economic and demographic constraints, a supplementary pension system becomes increasingly necessary. We believe that the development of workplace pensions should be given priority in developing supplementary retirement savings. Workplace pensions are more cost-efficient in comparison with personal pension products as they benefit from the fact they are mostly based in collective agreements and are not for profit. Work-related pensions also benefit from enhanced governance structures, with the active involvement of main stakeholders and social partners, thus facilitating the alignment of interests and eliminating possible agency problems. For instance, in some countries the sponsoring employer has obligation to ensure that the pension promise they made is finally met. This provides additional protection to the members and beneficiaries of occupational pension.

It is therefore necessary to recognise the important role of workplace pensions and their provision should be strengthened. One way of doing so and of fostering the European single market at the same time would be to address existing tax obstacles to facilitate employee mobility between Member States. A mutual recognition of occupational pensions systems, at least if posting a worker abroad, would be a step in the right direction.

Definition of private personal pensions

The distinction between three different pillars in the pension systems is generally used across Europe. However, the boundaries between the pillars may be blurred and the respective importance of each pillar can differ widely. Given the diverse nature, structure and purposes of each pillar, it is essential that each of them is governed by specific rules and policies that adequately address their specific features.

We believe that personal pension products should be clearly differentiated from workplace pensions. Indeed, while personal pensions deal with “consumers”, workplace pensions have “beneficiaries”, who are protected and regulated by the national social and labour laws of the EU Member States. An unclear or excessively broad definition of personal pension products risks impeding the correct functioning of workplace pensions in some EU Member States. Pension schemes that are currently treated and satisfactorily regulated as workplace pensions (such as “Group Personal Pensions” in the UK and the choice there is in Belgium when leaving one’s employer to transfer (or not) the accumulated pension capital to another occupational pension institution²) must continue to be treated and regulated as such.

The OECD’s 2002 *Revised taxonomy for pension plans, pension funds and pension entities*³ states that access to personal pension products “does not have to be linked to an employment relationship”. PensionsEurope fully supports the view that any pension scheme linked to a current or previous employment relationship should be considered workplace pensions. Pension plans where the employer is in any way involved in the scheme should be treated and regulated as workplace pensions, whereas schemes where the relationship is direct and voluntary between the consumer and the provider should be regulated as personal pensions.

PensionsEurope proposes to consider as personal pension products those “private retirement products subscribed to by consumers exclusively on an individual and voluntary basis, as opposed to workplace pension schemes linked to an existing or former employment relationship”.

1st Pillar bis personal pensions

PensionsEurope believes that a specific treatment should also be granted to 1st pillar bis personal pensions, i.e. those pension provisions commonly found in Central and Eastern European countries where the 1st pillar pension contributions are re-directed to market

² Belgian workplace pension schemes falling under Article 32 of the Belgian Occupational Pensions Act

³ OECD Revised taxonomy for pension plans, pension funds and pension entities [\[Link\]](#)

operators after employees have made their choice of a private pension provider. We consider that the individual elements of these schemes are mainly technical rather than constituent. Additionally, in many countries they are mandatory and are often linked to an employment relationship. Furthermore, 1st pillar bis plans are likely to pose significant social and labour challenges to cross-border activity since Member States often consider them as part of the Social Security system of the countries where they exist and are therefore regulated by their social and labour laws. The EU Institutions and EIOPA, in collaboration with stakeholders, should consider developing guidelines for 1st pillar bis pension schemes as an initial EU-wide approach on this matter. This should be done outside the IORP Directive or any potential regulation of personal pension products.

Single market for personal pension products

Once the distinction between personal and workplace pensions has been clarified, PensionsEurope supports the development of a pan-European personal pension products market by facilitating the personal pension providers to offer their services across Europe.

However, as stated above, it is also of great importance to strengthen workplace pensions and encourage companies to post their workers abroad, in particular by exploring possible ways of mutual (tax) recognition of occupational pensions (at least for periods when workers are posted abroad). This would enhance worker mobility between Member States and at the same time increase the attractiveness of occupational pensions.

Moreover, to foster the single market for personal pensions, an EU framework could be created through an EU Directive. Such framework would determine a series of common rules for personal pension products and then, based on the principle of mutual recognition, enable the personal pension providers to “passport” their services in the different EU countries. Such approach is already satisfactorily applied in other EU legislations such as the UCITS Directive.

Regardless of which policy option is followed by the EU legislators, it is PensionsEurope's view that it should respect the existing national personal pension regimes so as to avoid disrupting systems that currently operate satisfactorily.

Personal pension product characteristics

Personal pensions are currently provided by a wide variety of institutions which are already regulated both at EU and at national level. Thanks to this diversity of providers, personal pensions can reach an extensive network of potential clients and the latter also benefit from a broad offer of products and services. In view of the foregoing, PensionsEurope considers that potential new legislative actions in the field of personal pensions should aim to avoid adopting new rules for pension providers and focus on developing the product characteristics. Moreover, it is also important that any prospective policy action seeking to improve the EU framework for the cross-border provisions of personal pensions does not discriminate between personal pension providers.

The PRIIPS Regulation

Transparency, both at pre-contractual and at contractual stages, should be a key feature of personal pensions. Ideally, the information relating to personal pensions should be presented in the form of Key Investor Information (KII) or Key Information Documents (KID) like documents. Nevertheless, although PensionsEurope agrees that there could be scope to include personal pension products into the PRIIPS project, at this stage we consider that the PRIIPS Regulation shall not apply to personal pensions and we suggest waiting to the outcome of the different initiatives that the European Commission and EIOPA are undertaking in the field of personal pensions. It should be noted that, unlike other retail financial products, personal pensions play an important role in Member States' overall social protection systems, especially in Member States with limited reliance on work-related pensions. In such cases those pension plans perform a fundamentally different public policy objective from other retail investment products; as a consequence, different regulatory considerations must be taken into account. This explains why a number of Member States encourage people to contribute to personal pension plans with tax facilitation. In addition, the characteristics of personal pensions vary widely across Europe and the transparency

provisions of some personal pension products are already regulated on the Member State level, for example if they are subsidized / get tax exemptions. In order to avoid double regulation, these official products should not be included in the PRIPs Regulation – if the national level grants subsidies / tax exemptions⁴, they should also regulate these official products, and therefore it should not be done on the European level.

⁴ In Germany this is for example the case for the Basisrente (subsidized pension for the self-employed who are outside the state pension system, explanation for both see below) and the Riester-Rente (subsidized 3rd pillar pension).