The European Commission unveils the PEPP proposal

After a long debate started in 2012, in June 2017 the Commission adopted a proposal for a Regulation on a pan-European Personal Pension Product (PEPP).

The PEPP is a voluntary personal pension scheme that will offer consumers a new pan-European option to save for retirement. This initiative is complementary to existing pension plans, whether state-based, occupational or personal pensions and it will not replace or substitute them (so called 2^{nd} regime product).

PEPPs will be created under the auspices of the EU’s Capital Markets Union (CMU), the Commission's project to create a single market for capital in the EU. The PEPP supports the goal of the CMU, which is to create the right conditions to unlock funding so that it can better link savings to investment opportunities. Consequently, this not only benefits savers, but increases the funds available to finance the EU economy.

Currently, insurance companies manage about 90% of personal pension assets across the EU. Other providers, such as pension funds, investment companies, asset managers and banks play only a marginal role. In the opinion of the European Commission, this indicates there is an opportunity to create stronger competition. PEPPs could facilitate cross-border activity for these entities creating large pools of capital with economies of scale that allow for reduced administrative costs.

The PEPP Regulation lays down uniform rules on the authorization, manufacturing, distribution and supervision of personal pension products that will be distributed in the Union under the PEPP label.

Among the features delineated in the proposed Regulation, the Commission emphasizes the attractiveness of PEPPs for mobile workers, as PEPPs will be portable between EU Member States. This enables PEPP savers who change their domicile by moving to another Member State to continue contributing to the PEPP which they have already contracted with a provider, retaining all advantages and incentives granted. When moving abroad, PEPP savers will have the possibility to either contribute to a new national compartment, within the same PEPP, or to transfer accumulated rights into this new compartment, without asset liquidation. The mechanism behind the portability service thus envisages opening a new compartment with each individual PEPP account. This compartment corresponds to the legal requirements and conditions for using tax incentives fixed at national level for the PEPP by the Member State to which the PEPP saver moves. During the first three years of application of the PEPP framework, PEPP providers will have to inform PEPP savers of compartments available. However, three years after the launch of the PEPP initiative, providers will have to implement portability for PEPP savers across the whole EU. This might represent a burdensome requirement for PEPP providers and could reduce the attractiveness of such an EU product.

The Regulation aims to achieve a safe, transparent and cost-effective long-term retirement savings product that will offer pensions savers new savings opportunities for future retirement income the greatest possible transparency.

The proposal for the PEPP Regulation is accompanied by a Commission Recommendation on the tax treatment of personal pension products, including the PEPP. The Commission encourages Member States to grant the same tax treatment to PEPPs as is currently granted to similar existing national products, even if the PEPP does not fully match the national criteria for tax relief. Member States are also invited to exchange best practices on the taxation of their current personal pension products which should foster convergence of tax regimes. However, it remains to be seen whether EU Member States will follow the recommendation.

The Impact Assessment accompanying the PEPP proposal states that all economic additionality to the existing national markets for personal pension products depends on the access of PEPP to national tax incentives. The private pension market will grow organically to €1.4trn by 2030, reaching €2.1trn by that date if PEPP is introduced and has access to tax incentives in all member states. This implies that the European Commission expects that the introduction of the PEPP would contribute to 50% of the growth on the whole personal pension market between now and 2030.

The PEPP proposal will now be discussed by the European Parliament and the Council. Once adopted, the Regulation will enter into force 20 days after its publication in the Official Journal of the European Union. PensionsEurope is currently internally discussing about the proposal and will publish a position paper later on in Autumn/Winter 2017.