DUTCH ASSOCIATION OF INSURERS

Insurance & Pension Denmark

Safe pensions for empowered consumers

The PEPP can play a role to strengthen pension systems in the EU, especially if there is a less developed first and second pillar in a given market. In this paper Insurance & Pension Denmark and the Dutch Association of Insurers present recommendations to improve the consumer protection and to better secure the growing and aging populations a steady source of income after retirement.

The Dutch and Danish pension market share some of the same characteristics, such as innovative pension communication and the uptake of life cycle products. As members of Insurance Europe, we support the message of the European insurance and reinsurance federation, but would like to share with you some additional input based on the specific experiences in our two markets.

The European Commission (EC) stipulates certain product characteristics in order for a product to be considered a PEPP.
Amongst these a PEPP saver shall, according to the EC-proposal, be offered:

- up to five investment options, including a safe default investment option
- a possibility to opt for a different investment option once every five years
- a switching service allowing for the PEPP saver to switch providers every five years

Decumulation: A true long-term pension product

The design of the pay-out phase plays a key role in ensuring that the PEPP is a “true” pension product that provides an adequate standard of living in retirement. It would undermine the consumers trust if a pension product approved by the EU as a “safe and affordable pension” turns out to be nothing more than a simple, short-term savings or investment product.
Therefore, we suggest that a PEPP should have the following two key characteristics:

- Pay-outs shall only commence at the retirement age in the third pillar (depends on the country in which the pension has been accumulated).
- As a general rule the pay-out should take the form of a term or lifelong annuity. Smaller capital amounts can be allowed to be paid in the form of a lump-sum at retirement.

Accumulation: Safe pensions

A PEPP may have a guarantee attached to ensure the saver a certain minimum capital, but it should not be required as the default option as a guarantee is a relatively expensive option for the saver in a low interest rate environment. Modern life cycling strategies are an alternative way to significantly mitigate investment risks. In addition, life cycle products often generate higher returns over the long term to the benefit of the savers. Furthermore, life cycle products can offer strategies to mitigate also the conversion risk by matching the bonds portfolio with the future pay-outs in terms of an annuity.

It is important to note that even though the investment risks might seem greater for unguaranteed products, the chances for the saver of actually receiving lower pension pay-outs from life cycle products than from a guaranteed product is very small, since:

- The PEPP providers limit the investment risks by diversifying their investments.
- Pensions are very long-term products and financial downturns are quickly replaced by financial upturns. Thereby, the long-term risk for the PEPP saver's future pension is very limited and at the same time the PEPP saver's chances of a higher return are higher.
- The provider reduces the investment risk the closer to retirement the saver gets by gradually replacing equities with bonds.

Cross-border switching: Facilitate mobility and strengthen competition

The obligation to open compartments for every Member State is a very burdensome obligation and will most likely mean that only very few, large providers will be able to bear the costs of offering PEPP services.

Insurance & Pension Denmark and the Dutch Association of Insurers suggest leaving it up to the individual PEPP providers to decide where and when to offer national compartments. In return, the provider should be obliged to offer the savers the option of transferring to a different PEPP provider on fair terms, if the provider does not itself offer a compartment in the relevant Member State. Information about the compartments that are offered by the PEPP provider should be easily available for (prospective) PEPP savers. Providers can somewhat be facilitated by a central database with information about the fiscal and social requirements in the Member States.

Switching providers: More flexibility

In the EC's proposal PEPP savers can switch PEPP providers every five years.

Acknowledging the different traditions and practices across the EU, we suggest giving PEPP providers the possibility to also offer shorter switching periods in the accumulation phase.

Introducing a possibility to switch providers in the decumulation phase would make it difficult to offer life-long annuities.

Digital information: Making informed choices in a digital age

We welcome the digital-friendly approach for the information requirements. This can be strengthened by making digital communication the default for each provision and facilitating layered information.

Information about coverage against biometric risks (longevity, death and disability) should be added to the pre-contractual information of each PEPP provider to ensure that PEPP savers have a complete picture of the product.

Relevant pre-retirement information is important to support PEPP savers to make informed choices in opting for the pay-out form that best suits their needs and demands. PEPP savers should be duly informed on all different decumulation options and the possibility to switch providers should exist for every PEPP saver at retirement.

For contact:
Cathrine Olsen, col@forsikringogpension.dk; Egbert Bouwhuis, e.bouwhuis@verzekeraars.nl

February 2018