ECONSTOR
Make Your Publications Visible.

A Service of

ZBW Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Demary, Markus; Kochskämper, Susanna

Research Report

A new chance for private pension saving?

IW-Kurzbericht, No. 54.2017

Provided in Cooperation with:
German Economic Institute (IW), Cologne

Suggested Citation: Demary, Markus; Kochskämper, Susanna (2017) : A new chance for private pension saving?, IW-Kurzbericht, No. 54.2017, Institut der deutschen Wirtschaft (IW), Köln

This Version is available at:
https://hdl.handle.net/10419/167611

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

Markus Demary / Susanna Kochskämper

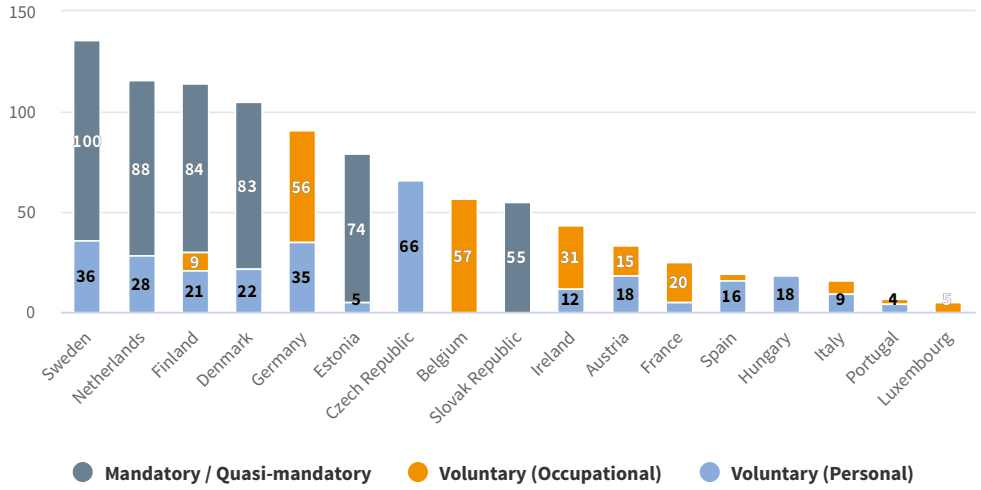
A new chance for private pension saving?

The European Commission aims at strengthening the cross-border provision of pension products by the introduction of Pan-European Personal Pensions (PEPP) as a new regime on top of existing national frameworks. However, a pre-requisite for the success of PEPP will be the support of the national legislators for this framework.

Advantages of a Pan-European Pension Product. Improving pension coverage is a major issue for the European Union (EU). The life expectancy in the industrialized countries rose by 13 years from 1960 to 2014, while the retirement age stayed more or less constant over the same time span. Public pay-as-you-go pension schemes are therefore under financial pressure and private pension saving becomes more and more important for maintaining the citizens' standard of living after retirement. The pension system in most EU country consists of three pillars: The public pension scheme forms the first pillar, an occupational pension scheme the second and personal pension schemes the third pillar. However, the public-private-mix, the combination of pay-as-you-go and funded elements and the importance of each pillar for pension saving is unique in each member state. Furthermore, coverage of private pension schemes also vary across the EU (see Table). The reason for this may somehow be explainable with different historical backgrounds and preferences, which might influence the awareness of the importance of private saving as well as the preferred form of private saving (e.g. pension products versus investment funds or real estate). However, regarding the market for pension products it can be seen, that this market is fragmented along national lines. Cross-border third pillar pension products are hardly available, from which the European Commission concludes that consumers' choices are limited (COM, 2017). Furthermore, the portability of existing entitlements from one pillar-III-pension scheme into the one of another Member State is also hardly possible. Based on a call for evidence of the European Commission, the European Insurance and Occupational Pensions Authority (EIOPA) suggested reducing barriers for the cross-border provision of pension products by the creation of a product passport for Pan-European Pension Products (PEPP), which is part of a 29th regime on top of the current 28 national regimes. With such a product passport, providers only need the authorization from one member country in order to distribute the product in the EU's single market. The establishment of a product passporting regime might

Coverage of private pension schemes by type of plan in selected EU member states

2013, number of private pension contracts as percentage of working age population (15-64 years)



ndividuals are counted more than once, therefore the summing of occupational and personal coverage does not reflect total voluntary pension plan coverage.
For Germany, Ireland and Sweden coverage rates are provided with respect to employees subject to, Source: OECD, 2015

be the easiest way for the EU to reduce at least some barriers. Yet, national differences in tax laws and, for occupational pensions, labour laws will still hinder portability and the cross-border pro-vision of pension products in the EU's single market. In addition, government subsidies are national specialties that shape the demand for certain pension products.

Characteristics of PEPP. EIOPA suggests PEPP to be a simple, transparent, cost-effective, trustworthy and well-governed product. It sees these principles as necessary for customers to feel confident enough to demand the product on a cross-border basis. To this end, the product is intended to provide the customer with a limit of five possible investment strategies. Transparency will be promoted by a clear definition of the investment strategies and disclosure rules. Moreover, the product is intended to be subject to appropriate product oversight and governance (EIOPA, 2015). Whether these principles help to develop a sufficient demand for the product can only be tested by reality.

Demand-side restrictions. It is highly uncertain whether there is sufficient demand for PEPP. In countries, like Germany, which have established markets for pension products and where consumers have the choice between many different providers the impact of PEPP will probably be limited. However, citizens in member states with an underdeveloped second or third pillar would possibly benefit from an improved cross-border provision of pension products. EIOPA expects that the pension providers can reach a sufficiently high number of consumers via online distribution channels. Although online distribution limits the costs of cross-border and within country provision, the assumption that online distribution is the customers' favoured distribution channel, can be taken into question. While online distribution works very well for consumer goods, financial services depend on trust between the customer and the supplier. Given the required high level of trust in such an important matter as retirement provision, online distribution might not be equivalent to the face-to-face communication to a trusted agent.

Supply of pension products. The underdevelopment of the markets in some countries in Southern and Eastern Europe raises the question why foreign providers have not tapped these markets already and

why even national providers for private pensions are more or less absent in these countries. The reason might not so much be a lack of cross-border provision, but barriers within the country based on tax laws or labour laws in case of occupational pensions or a lack of public subsidies. If this is the case, then PEPP alone will probably not encourage enough citizens to save more. A prerequisite for PEPP's success will be that the national legislator adjusts the legal framework in that way that private pension schemes are attractive to citizens, or in the case of occupational pension plans to employers and employees.

Tax incentives. EIOPA recommended a beneficial tax treatment for PEPP. Preferential tax treatments are in many countries available for long-term retirement planning. Most commonly are deferred taxation schemes (so-called EET systems – Exempt contribution, Exempt capital gains, Taxed benefits). However, also other preferential tax principles can be found in some member states. Since the tax code lies in the realm of the national legislator, the EU is heavily reliant on the cooperation with the national legislator to introduce the PEPP framework into national law.

Investible assets. EIOPA suggested guidelines for the investment policy. PEPP's underlying assets should, among other things, reflect a certain level of security, quality and profitability and assets should be diversified geographically, over assets as well as over issuers (EIOPA, 2015). The investment guidelines seem sensible. However, it has to be clarified what will happen to the customers' claims in case of an insolvency of the PEPP provider. This issue is serious, since customers have to invest vast amounts of their savings into retirement provisions over their life-cycle.

Supervision. The cross-border provision of pension products requires a higher degree of cooperation between the national supervisors. In other areas of financial supervision, national supervisory agencies already proved a functioning cross-border cooperation. From the viewpoint of the possible providers of PEPP, a supervision from more than one supervisor will lead to high bureaucratic costs. Providers will therefore prefer the sole oversight through their home country supervisor. From the viewpoint of customers it has to be clarified, which the supervisory body for consumer complaints is. Since consumers are non-experts, they have to tackle with a complex product from their viewpoint. They will likely have a preference for sending complaints to the supervisor in their home country. In order to avoid confusing and overlapping jurisdictions, supervisory cooperation has to be clarified.

Recommendations. PEPP can be a useful supplement in the market for private pension products. Especially in member states, where the second and third pillar of the pension system is underdeveloped, a Pan-European product might offer a valuable alternative. For being a serious alternative, however, there are still some issues, which have to be improved. First, PEPP has to be a trustworthy product. Second and most important however, its overall success is hugely reliant on the willingness of the member states to harmonise their tax code for PEPP. PEPP will only be attractive to consumers if it enjoys the same preferential tax treatment as comparable private pension products. This also implies that double taxation has to be avoided when PEPP is offered on a cross-border basis. Unfortunately, it is uncertain whether member states will guarantee their cooperation in this case.

Literature

EIOPA – European Insurance and Occupational Pension Authority, 2015, Consultation Paper on the Creation of a Standardised Pan-European Personal Pension Product (PEPP), EIOPA-CP-15/066

European Commission, 2017, Press release of 29 June 2017, http://europa.eu/rapid/press-release_IP-17-1800_en.htm