PENSIONS EUROPE

Good pensions for Europe

FIAR 2018 - THE INTERNATIONAL INSURANCE-REINSURANCE FORUM (13-16 May 2018, Bucharest)

LIFE INSURANCE & PRIVATE PENSIONS

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Matti Leppälä, Secretary General

PensionsEurope

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1. PensionsEurope

PensionsEurope: Who do we represent

Leading European voice for pensions

23 member associations:

- 18 EU Member States (AT, BE, BG, DE, EE, ES, FI, FR, HU, HR, IE, IT, LU, NL, PT, RO, SE, UK)
- non-EU (CH, IS, NO)

Our Members manage pension assets of over **€ 4 trn** for more than **110 million people**.

30 Corporate & Supporter members

2. Trends and projections

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Global megatrends will shape the future of pensions

- **Longer life expectancy and changing demography**
  - According to the OECD the old-age dependency ratio, which is the ratio of older dependents (people older than 64) to the working age population will increase from 28% in 2015 to 51% in 2050
  - The 1st pillar PAYG pensions will face tremendous challenges.
  - Financial and social sustainability
  - Sustainability of Public finances
- **Structural changes in the labor market**
  - More self-employed workers – Automatic enrolment to pension schemes needed in order to safeguard adequate and sustainable pensions?
- **Technological breakthroughs**
  - Easy-to-use applications to follow up all pension savings, returns, costs etc.

The risk of poverty and social exclusion among older people are very diverse across the Member States

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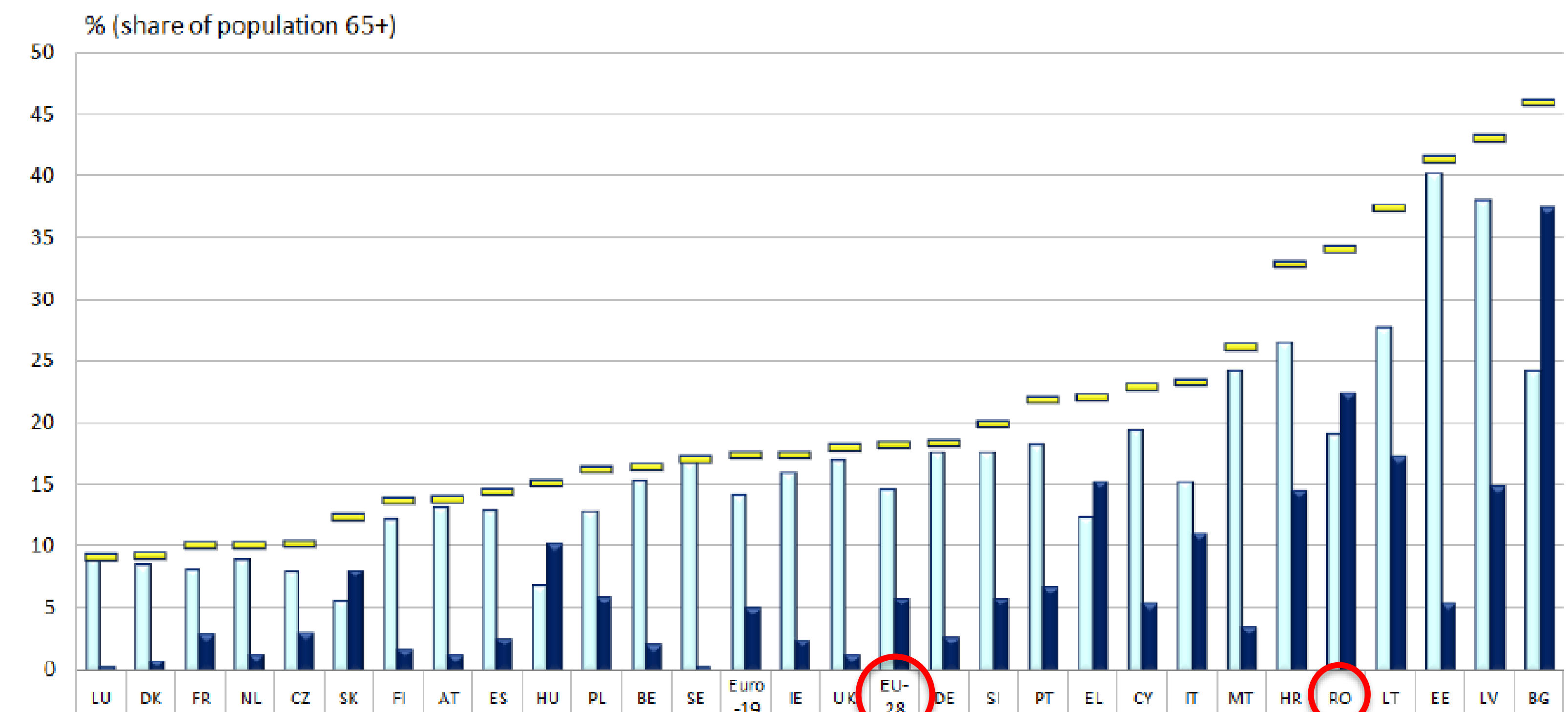
Figure 8: At risk of poverty and severe material deprivation in old age (65+), 2016, %



	LU	DK	FR	NL	CZ	SK	FI	AT	ES	HU	PL	BE	SE	Euro -19	IE	UK	EU-28	DE	SI	PT	EL	CY	IT	MT	HR	RO	LT	EE	LV	BG
AROP	9	8.5	8.2	9	8.1	5.7	12.3	13.2	13	6.8	12.8	15.4	16.8	14.2	16	17.1	14.6	17.6	17.6	18.3	12.4	19.5	15.3	24.2	26.5	19.1	27.7	40.2	38.1	24.3
Severe material deprivation	0.2	0.7	2.9	1.2	3	8	1.7	1.2	2.5	10.2	5.9	2.1	0.3	5.1	2.4	1.2	5.8	2.7	5.8	6.7	15.2	5.4	11.1	3.5	14.5	22.5	17.3	5.4	14.9	37.5
AROPE	9.1	9.2	10	10	10.1	12.3	13.6	13.7	14.4	15.1	16.1	16.4	17	17.3	17.4	18	18.2	18.3	19.9	21.8	22	22.9	23.2	26.1	32.8	34	37.4	41.4	43.1	45.9

Source: Eurostat. Notes: cut-off point: 60% of median equivalised income after social transfers. Sorted by the AROPE rate. AROP refers to the income year 2015; severe material deprivation refers to the survey year 2016.

Outlook for Romania – EC Pension Adequacy report 2018

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- "Between 2016 and 2056 the theoretical replacement rate (TRR) will more than halve under all scenarios."

6. Theoretical Replacement Rates (TRRs)

	TRR case	Net (%)				Gross (%)			
		2016		*2056*		*2016*		*2056*	
		Men	Women	Men	Women	Men	Women	Men	Women
Average Earnings	Variant: old base case: 40 years up to 65	77.2	71.6	32.2	34.4	56.7	52.9	22.1	23.6
	New base case: 40 years up to the SPA	77.2	71.6	32.2	31.4	56.7	52.9	22.1	21.5
	Increased SPA: from age 25 to SPA	80.0	65.6	32.2	30.6	65.1	51.6	22.1	21.0
	AWG career length case	71.3	58.7	32.6	30.2	55.7	45.2	22.4	20.7
	Longer career: 42 years to SPA			33.0	32.2			22.6	22.1
	Shorter career: 38 years to SPA			31.4	30.6			21.6	21.0
	Deferred exit: 42 years to SPA +2			36.2	35.2			24.8	24.1
	Earlier exit: 38 years to SPA -2			31.4	30.6			21.6	21.0
	Career break – unemployment: 3 years			32.2	31.4			22.1	21.5
	Career break due to childcare: 3 years			32.2	31.4			22.1	21.5
	Career break caring for family dependant: 3 years			32.2	31.4			22.1	21.5

Allianz Pension Sustainability Index 2016

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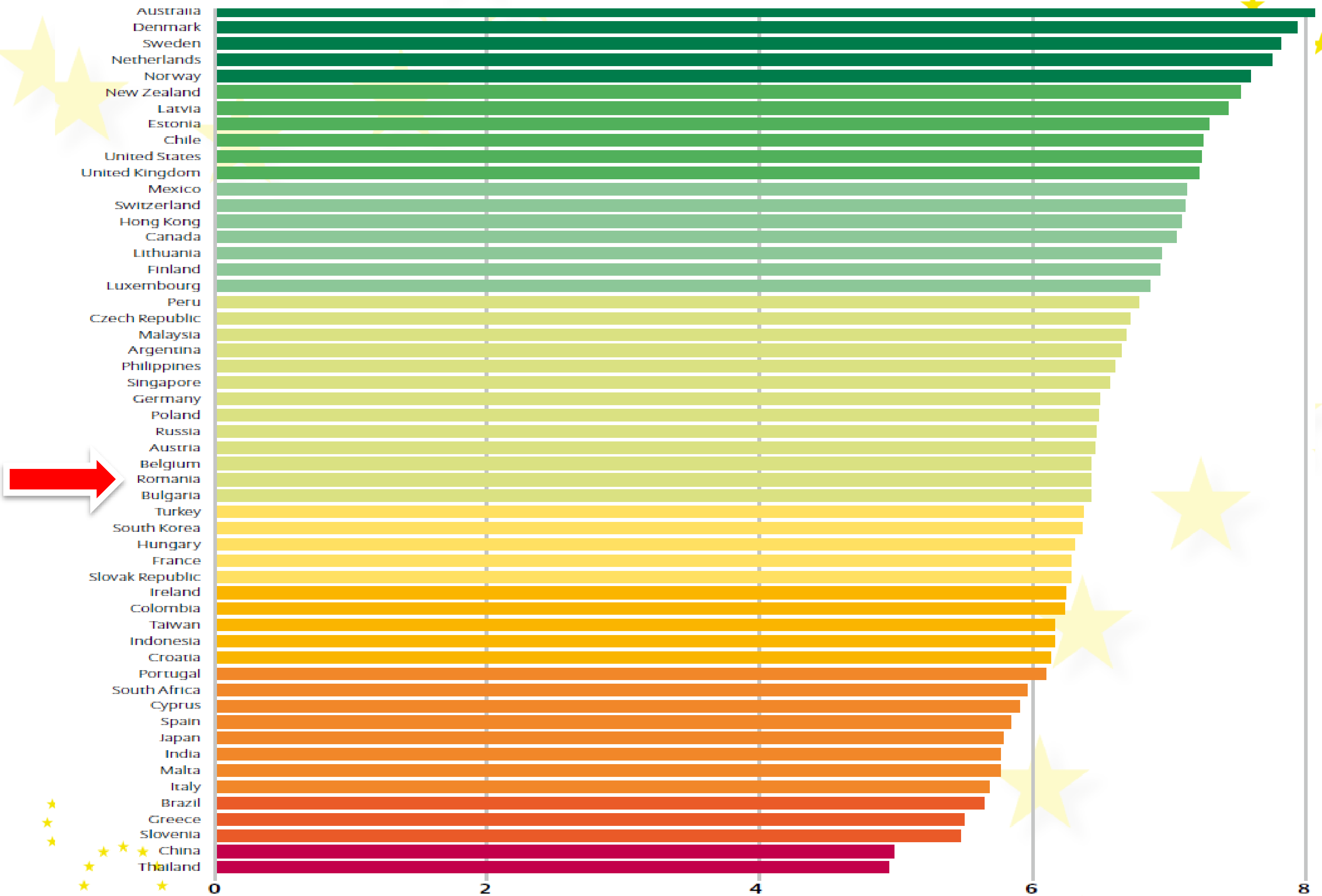

* Scale from 1 – high need for reforms to 10: minor need for reforms

Source: Allianz Asset Management, International Pensions, September 2016

The real challenge is to find the right match between sustainability and adequacy.

3. The role of (funded) pensions

Objectives of pension systems

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1. Poverty relief
2. Consumption smoothing
3. Redistribution
4. Adequacy/replacement rate
5. Coverage
6. Sustainability

Designs versus objectives

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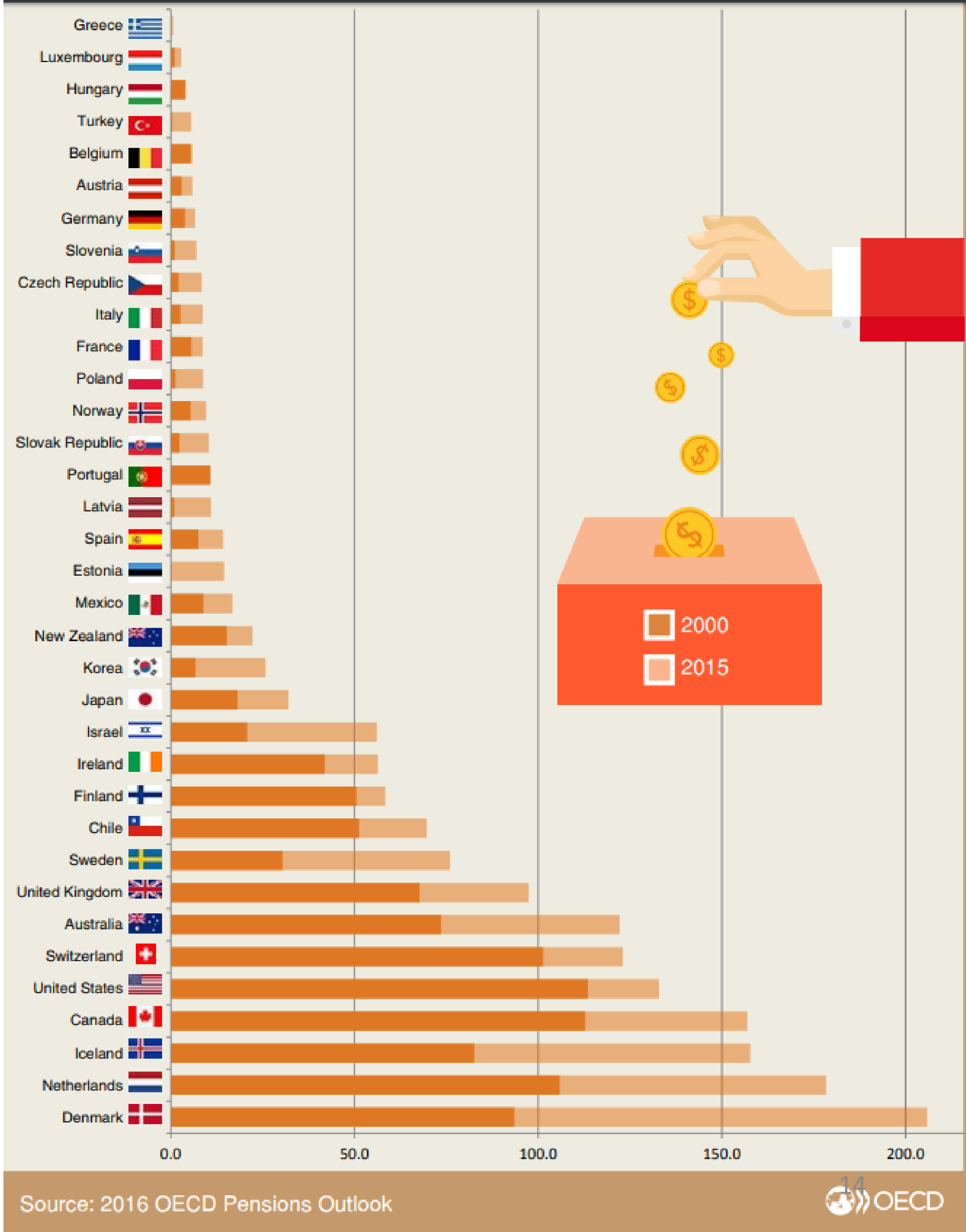
	Public	Public contributory		Mandatory private		Voluntary
	Minimum basic	PAYG	Funded	D. B.	D. C.	D. C.
Poverty relief	✓✓	✓	✓	✓	?	
Consumption Smoothing	×	✓	✓	✓	✓✓	?
Re-distribution	✓✓	✓	✓	✓	×	×
Adequacy/ replacement	?	?	?✓	?✓	?✓	
Participation		?×	?	?×	✓✓	
Coverage	✓✓	?✓	?✓	?×	?×	×
Sustainability		?	?	?	✓✓	✓✓

Source OECD

The growing importance of funded pension arrangements

Pension funds in relation to the GDP



What PensionsEurope stands for:

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We believe that private pension saving should be encouraged to compensate for potential lower state pension benefits. In particular we support a regulatory environment encouraging workplace pension membership. Work based pensions indeed offer:

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often not-for profit;
- Members of work based pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreement and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

Advantages of funded pensions

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- Risk diversification (PAYG systems are more exposed to demographic risks, while funded pensions to financial risks).
- They provide stronger incentives to participate in the labour market and save for retirement.
- They create a pool of savings that can be put to productive use in the broader economy (real economy).
- Invested assets can exploit opportunities in the financial markets to earn more than the rate of wage inflation (which is the implicit rate of return of PAYG schemes)

Pension funds' real net investment returns

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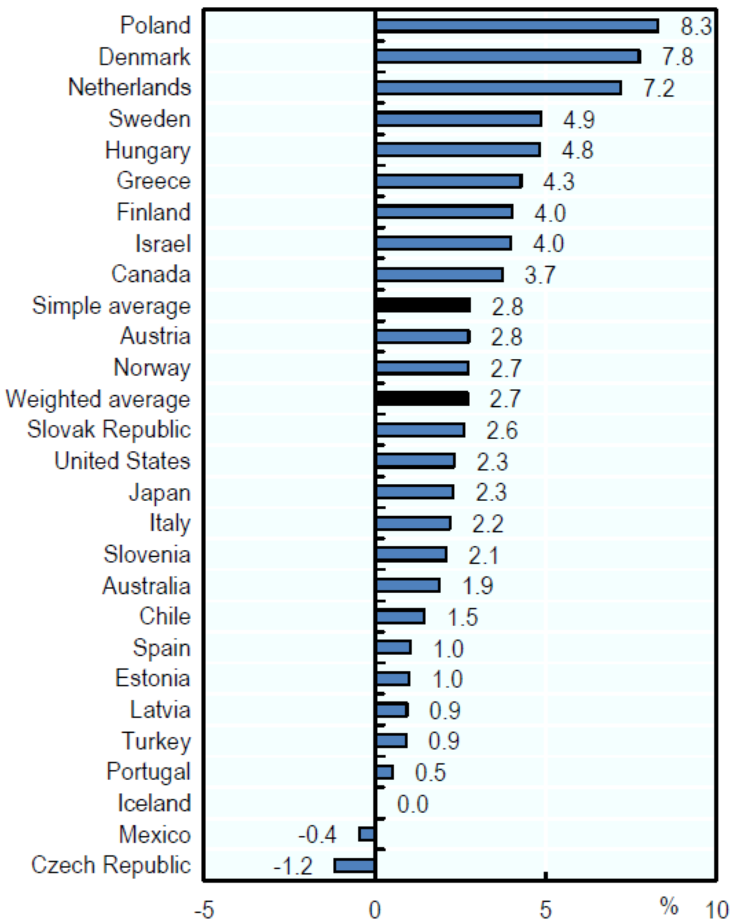
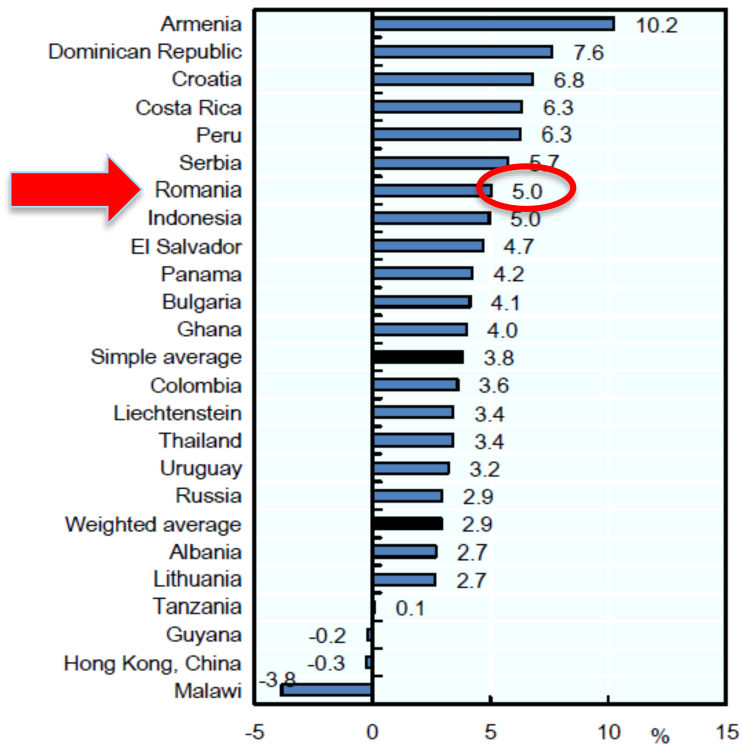
A. Selected OECD economies



B. Selected non-OECD economies



Notes: The weighted average is calculated using as weights for each economy the amount of pension fund investments. See the end of this factsheet for explanations of the calculation method and country-specific details.

Source: OECD Global Pension Statistics; Pensions &Investments (Japan).

4. Good pensions for Europe

Which is the best pension system?

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Melbourne Mercer Global Pension Index considers adequacy, sustainability and integrity in 30 Countries

Country	Overall Index Value	Sub-Index Values		
		Adequacy	Sustainability	Integrity
Argentina	38.8	42.4	33.1	41.2
Australia	77.1 3	75.3	73.0	85.7
Austria	53.1	67.6	19.9	76.4
Brazil	54.8	67.8	29.2	70.0
Canada	66.8	69.9	55.4	77.7
Chile	67.3	58.0	69.1	79.7
China	46.5	54.2	38.2	46.0
Colombia	61.7	66.4	49.9	70.7
Denmark	78.9 1	76.5	79.8	81.3
Finland	72.3	70.2	61.3	91.0
France	59.6	80.4	38.6	55.8
Germany	63.5	76.5	40.9	74.0
India	44.9	39.5	43.8	55.1
Indonesia	49.9	40.1	49.3	66.4
Ireland	65.8	77.9	43.9	77.2
Italy	50.8	66.2	16.4	74.3
Japan	43.5	48.0	26.0	60.7
Korea	47.1	46.9	46.8	47.9
Malaysia	57.7	42.3	61.2	77.6
Mexico	45.1	38.5	55.9	40.5
Netherlands	78.8 2	78.0	73.5	87.5
New Zealand	67.4	66.2	61.5	77.8
Norway	74.7	77.0	61.0	90.3
Poland	55.1	58.1	43.1	67.1
Singapore	69.4	65.2	66.2	80.7
South Africa	48.9	34.0	45.7	77.1
Sweden	72.0	67.7	71.0	80.3
Switzerland	67.6	60.2	64.7	83.3
UK	61.4	58.2	49.4	83.5
USA	57.8	57.0	57.1	60.1
Average	**59.9**	**60.9**	**50.8**	**71.2**

What do the best pension systems have in common?

They are mixed systems: there is a PAYG tier, but also a mandatory or quasi-mandatory tier that is funded. In addition personal pensions.

Coverage of supplementary pensions

Table 6: Coverage of supplementary pensions by type, 2016, % of population aged 15-64

	Occupational pensions	Personal pensions
Austria	15	23.8
Belgium	59.6	38
Bulgaria	0.2	12.9
Croatia	1.1	9.3
Cyprus	39.1	..
Czech Republic	n/a	52.6
Denmark	63.4	18
Estonia	n/a	12.3
Finland	6.6	19
France	24.5	5.7
Germany	57	33.8
Greece	1.3	..
Hungary	..	18.4
Ireland	35	12
Italy	9.2	11.5
Latvia	1	17.1
Lithuania	..	2.8
Luxembourg	5.1	..
Malta	..	..
Netherlands	88.0	28.3
Poland	1.6	~10
Portugal	3.7	4.5
Romania	n/a	3.3
Slovakia	n/a	26.3
Slovenia	36.5	1.4
Spain	3.3	15.7
Sweden	~70	24
UK	43 (total)	

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EC High Level Group on pensions

- Lead DG: EMPL - DG Employment, Social Affairs and Inclusion, Associated DG: FISMA - DG Financial Stability, Financial Services and Capital Markets Union
- The mission to provide policy advice to the Commission on matters related to ways of improving the provision, safety through prudential rules, intergenerational balance, adequacy and sustainability of supplementary (occupational and personal) pensions in light of the challenges in the Union and the Member States affecting the adequacy of old age incomes and the development of the Union's pension market.
- Mandate 18 months

5. Pan-European Personal Pension Product – PEPP -

PensionsEurope Position on PEPP – general observations

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- PensionsEurope promotes good pensions for the people in Europe in all different shapes and forms.
- Supporting the PEPP: it could be useful in those countries with no well-developed 2nd pillars, for self-employed and people in atypical forms of work, and for mobile people.
- Need of long-term planning on pensions (multi-pillar approach) to tackle the "pension gap"
- Role of taxation & potential market uptake

PensionsEurope Position – Room for improvements

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- Authorization procedure and the role of EIOPA
- PEPP providers and role of IORPs
- Portability service and compartments
- Investment options
- Decumulation phase
- Delegated acts
- PEPP distribution regime
- PEPP information documents (PEPP KID and PEPP BS)

6. Conclusions

Good pension systems and reforms

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- Prerequisites for all pension systems: “Effective central government, fiscal stability, economic growth, well-established financial markets, and adequate public and government understanding of and trust in them” (Barr, 2002)
- It is important to diversify the sources of retirement income.
- Pension funds play an important part in economic growth and financial markets.
- Funded pension are vital for future pensions as public pension will be lower than before.
- Good pension reforms are based on in depth analysis and long-term goals on adequacy and sustainability.

Complementing statutory pensions with broad and well-designed supplementary schemes can help support adequate pension outcomes
(European Commission, 2018 PAR)

A pension system that includes both PAYG and funded arrangements is better able to achieve its various objectives and more resilient to the multiple risks to old-age financial security
(OECD)

Contacts

PENSIONS EUROPE

Matti Leppälä, Secretary General/CEO
PensionsEurope
Koningsstraat 97 Rue Royale
1000 Brussels
Tel.: +32 2 289 14 14

www.pensionseurope.eu