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PEPP: a new personal pan-European pensions product

On 4 April 2019, the European Parliament adopted the Commission's proposal for a regulation on "Pan-European Personal Pension Product" (PEPP). The PEPP is a new cross-border personal (third pillar) retirement vehicle to be proposed to all European citizens – employees, self-employees, and unemployed people – and third-country nationals having their residence in the EU. The Commission expects the PEPP to come to the market within the next two years, once the whole technical regulation has been drafted and providers have designed their offer.

For UK readers, there are likely to be two key questions:

- first, given Brexit, what relevance is an EU pensions vehicle likely to have? Clearly, we don't know for certain but current political uncertainties mean that there must be at least a good chance that the EU will continue to have some influence going forward at least in the short to medium term
- second, given the UK's well-developed third pillar personal pensions sector, why is a further European version needed? The answer is that the PEPP will be particularly attractive to multinationals with a mobile EU workforce looking for a third pillar vehicle that can work across borders

In the proposal published a few years ago, the Commission set out the reasons and objectives of a new regulation on personal pensions vehicle. The aim was also to standardise the level of coverage of European citizens towards retirement risks – only 27% of Europeans between 25 and 59-years-old have enrolled themselves in a pension product – and develop a Capital Markets Union. The Commission said: "Personal pension markets are unequally developed and personal pension product are unequally affordable across the European Union. Market fragmentation prevents personal pension providers from maximising the risk diversification, innovation and economies of scales. This reduces choice and attractiveness and leads to increased costs for pension savers."

The PEPP will be an additional voluntary framework with its own features, especially suitable for citizens successively established in several EU states.

The PEPP could be provided by a broad range of financial providers, such as insurers, investment firms, asset managers and banks. Authorisation for providing the PEPP will be given by providers' national authorities - The Pensions Regulator in the UK - and then will be registered by EIOPA. Once registered, providers will benefit from the EU passport. The PEPP will be able to be distributed throughout the European Union and savers will continue to be entitled to contribute when moving residence. Savers will be able to ask PEPP providers to transfer their accrued savings from one compartment to another, and if providers have not already implemented the sub-account in the new country residence, savers will be entitled to switch provider free of charge or to continue contribution to the previous sub-account. The PEPP regulation will also guarantee savers a high level of information and full transparency on costs and fees, and it will offer savers the possibility to switch providers every five years.

From a financial standpoint, providers will be able to offer a "Basic PEPP" preserving the PEPP savers' capital (i.e. the default investment option) whose fees will be capped at 1% of the accumulated capital per annum. It is not immediately clear how the costs of the underlying guarantee will be met from this modest charge. For the other investment solutions that will be defined based on the nature of savings, the Regulation encourages providers to take into account sustainable investment criteria, such as environmental, social or governance factors.

For each compartment, providers will define the out-payments to be offered. The regulation allows annuities, lump sums, regular drawdown payments or a combination of these. An important issue remains that will most certainly determine whether the product will be successful or not in many EU states- and this is what tax and social rules will be applied to PEPPs. If national laws subject each sub-account to special conditions - e.g. type of particular exit – the advantage of the product during the payment stage may disappear. The take up of PEPPs will thus depend on whether Member States will play the game on retirement savings, tax and Europe.

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