European Insurance and Occupational Pensions Authority

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CONSUMER PROTECTION DEPARTMENT

EIOPA STAFF PAPER

A simple and long-term European savings product: the future Pan-European Pension Product

INTRODUCTION

The high rate of EU savings held in bank deposits, combined with an ageing population and the need to finance the EU economy, including the double (digital and green) transition, underscores the necessity for a simple, long-term European savings product. EU citizens have significant savings, totalling €34 trillion in 2023. However, 34% of these savings are held in deposits or savings accounts[1]. This represents a missed opportunity for EU citizens as deposits yield little to no real returns. This is also a missed opportunity for the financing of the EU economy and of the double transition, especially as public spending decreases. Additionally, EU citizens are ageing, with the EU old-age dependency ratio expected to rise from 33% to 50% by 2050[2], highlighting the need to ensure that EU citizens are saving sufficiently for their retirement.

The Pan-European Pension Product (PEPP) aimed to address these concerns, but its uptake in the EU has been limited so far, warranting a re-assessment. The PEPP Regulation introduced the first EU-wide personal pension product in March 2022[3]. However, it has seen limited success both from the supply side, with few providers offering PEPPs, and from the demand side, as few EU citizens are aware of PEPP and therefore not seeking to invest in it.

This EIOPA paper contributes to the ongoing discussion on the future of the PEPP by presenting EIOPA views on i) the necessity for a simple and long-term saving product, ii) the key challenges faced by the PEPP, iii) possible solutions to enhance the PEPP and iv) future work on the PEPP.

[1] Source: Eurostat; available at: Link.
[2] Source: Eurostat; available at: Link.
[3] Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP); available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R1238.

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1. THE NEED FOR A SIMPLE AND LONG-TERM EUROPEAN RETIREMENT-FOCUSED SAVINGS PRODUCT

The need for a simple vehicle to promote retirement savings goes beyond the benefits it brings to mobile workers. Europe is facing substantial pension gaps, which are expanding due to an ageing population and evolving labour markets characterized by more fragmented and non-linear career paths.

There is a clear pension gap in the EU, leading to poor financial confidence in retirement for EU citizens. According to EIOPA's 2024 Eurobarometer survey[4], only 42% of Europeans feel financially confident about their retirement (37% of women and 47% of men). Furthermore, most EU citizens rely entirely on statutory pensions for their future retirement income, with only 20% participating in an occupational pension scheme and 18% owning a personal pension product. In 2023, some Europeans did not buy or renew personal pension products due to high costs (19%), product complexity (15%), and poor performance (10%). Moreover, in 2023, 34% of EU household savings were held in deposits, which not only limits the returns for households but also fails to benefit the financing of the EU economy.

The ageing EU population will continue to put pressure on state pensions. Currently, there are almost 3 people of working-age for every pensioner within the EU, but this will decline to less than 2 in the coming 50 years and is already below 2 today in some Member States. As such Member States face the major challenge of providing their citizens with adequate retirement income, while ensuring sustainable public finances. Many Member States have already taken measures to make future public finances more sustainable. The reforms have, however, put at risk the future adequacy of state pensions. The average state pension in the EU as a percentage of earnings at retirement is expected to fall from 46.2% in 2019 to 37.5% in 2070[5]. This is a major concern, and steps need to be taken across the EU to minimise the risk of widening existing pension gaps, in particular when we consider increases in life expectancy, and falling birth-rates leading to a decrease in the working-age population.

Private pensions can reduce pension gaps, provide citizens with adequate and sustainable retirement income, and boost the financing of the EU economy[6]. Increased private pension savings will have a broad impact on capital markets, going beyond the core objective of delivering adequate, safe and sustainable pensions to EU citizens. Pension savings can play an important role in realizing the objectives of the Capital Markets Union (CMU) by supplying capital to finance the long-term growth of the real economy, as well as its green and digital transitions.

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[4] These figures come from a representative sample of EU consumers with various occupational statuses: self-employed (8%), employee (41%), manual worker (7%), retired (26%), others not working (18%).

[5] Source: European Commission Ageing Report; available at: [2024 Ageing Report. Economic and budgetary projections for the EU Member States (2022-2070) (europa.eu)](https://economy-finance.ec.europa.eu).

[6] Notwithstanding that private pensions do not seek to replace statutory pensions which plays an important role in income and fair redistribution of retirement income.

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The need to increase retirement savings warrants a consumer-centric personal pension product that is straightforward, that provides safe and adequate returns, and that is portable and flexible due to increasingly non-linear career/working paths. The PEPP was designed with that need in mind, as it focused on simplicity, transparency, flexibility, cost-efficiency, protection, and good governance**.** It offers an affordable default investment option where costs are capped at 1% of the accumulated capital per year and where capital invested is protected. Savers can continue saving in the same product even if they change job or if they change residence in the EU. Moreover, the PEPP can be offered by a broad range of providers who benefit from a single market and from facilitated cross-border distribution, allowing for the pooling of assets and creation of economies of scale.

However, the current version of the PEPP saw limited success, hindered by structural – rather than circumstantial – factors, affecting both its supply and demand. Nevertheless, EIOPA is of the view that a revised version of the PEPP could be instrumental to an increase in retirement savings.

2. WHY THE PEPP SAW LIMITED SUCCESS

Supply side

The costs and fees cap of 1% of the accumulated capital per year[7] has been put forward as a reason for the lack of interest by providers. Some stakeholders also pointed to the implicit expenses of offering PEPPs.

EIOPA does not find the PEPP's 1% fee cap of the accumulated capital per year to be particularly low in the long-term; however, in the short-term, the fee cap may limit providers' ability to offer PEPP given initial expenses and lack of scale. The 1% fee cap only applies to the 'Basic' investment option of a PEPP, not to other investment options. Moreover, when comparing the PEPP with pension products beyond Europe, such as the 401K in the US, Superannuation products in Australia, or pension products in the UK, the PEPP's 1% fee cap of the accumulated capital per year is not particularly low. However, the latter products benefit from economies of scale, resulting in lower costs, whereas the PEPP has so far not benefitted from it. It's important to note that these products have developed in countries where the first pillar[8] of pension provision is minimal, often only providing basic retirement benefits and sometimes functioning as an anti-poverty measure.

The inherent expenses of offering PEPPs need to be recognised. These include mandatory advice, the cost of guarantees, and the use of risk-mitigation techniques involving complex investment strategies. Additionally, the PEPP requires specific administration, particularly in managing sub-accounts across various Member States with differing accumulation and decumulation rules and heterogeneous tax regimes. The requirement for PEPP providers to offer national sub-accounts for at least two Member States from March 2025 may further exacerbate the situation.

[7] Article 45 (2) of the PEPP Regulation.

[8] The three-pillar model of retirement provision consists of three pillars: state pensions, occupational pensions, and private pension schemes.

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It may be difficult for potential PEPP providers to develop a viable business case given its limited target market size. Although the PEPP enables mobile workers to transfer their savings when seeking employment in another EU Member State, considering exclusively the market for mobile workers diminishes the potential PEPP market. This would imply that the PEPP would, in essence, be targeted at the 3.3%[9] (approx. 14,8 Million) of EU citizens of working-age (20-64) residing in a Member State other than that of their citizenship. However, the PEPP was not solely designed for them. **The higher costs of products considered 'competitors' to PEPP may diminish its appeal to potential providers.** EIOPA's 2023 Cost and Past Performance Report indicates that the average reduction in yield of Personal Pension Products other than PEPP stood at 1.5% whereas unit-linked and hybrid products stood at 2.1%. Therefore, potential PEPP providers, when deciding whether to offer PEPPs, may consider how it would compare to and impact their current product offerings. Offering a cheaper 'competitor' product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products**.**

Demand side factors

The low pension participation and awareness, including when considering retirement solutions other than the PEPP, as well as the current cost of living crisis are possible causes for low PEPP demand. According to EIOPA's 2024 Eurobarometer survey only 20 percent of EU citizens participated in an occupational pension scheme and 18 percent owned a personal pension product. Consumers are unaware of EU alternatives, as 76% of Europeans have not heard about the PEPP. Therefore, as the cost-of-living crisis eases and the economy environment improves, the expectation of increased interest in the PEPP remains uncertain. Even in Member States with high pension participation and awareness, it is uncertain whether there would be significant demand for the current PEPP if it were to be offered.

Limited actions by Member States

Several Member States published their PEPP national provisions late, with two Member States still pending, making it *de facto* impossible to sell PEPPs in those markets. The PEPP Regulation was published in June 2019 and applied as of March 2022. According to the PEPP Regulation, Member States must have published national laws, regulations and administrative provisions governing the conditions related to the accumulation and decumulation phases and any incentives, before the March 2022 application date. However, various Member States only published PEPP national provisions in 2023 and 2024, and two Member States have still not published their national provisions.

The existence of heterogeneous tax regimes across the EU contributed to the PEPP's limited success. Tax incentives are often major drivers of pensions uptake. Given the difficulties in finding a solution that could balance both EU-wide and national needs, a 28th regime would have led to greater integration and harmonization. This would also facilitate cross-border provisions allowing providers to reach the economies of scale required to keep costs low. However, the objective of having a 28th regime for taxation applicable to the PEPP was never achieved.

[9] Source: Eurostat; available at: Link.

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In many Member States the PEPP does not have the same tax treatment as other personal pension products[10]. This is despite the Recommendation by the European Commission on the tax treatment of personal pension products[11], including the PEPP, encouraging Member States to grant to the PEPP the same tax relief as the one granted to national personal pension products, even in those cases where the PEPP features do not match all the national criteria required by the Member State to grant a tax relief. As it stands, the PEPP may not overcome the tax disadvantage in certain Member States.

3. POSSIBLE SOLUTIONS TO ENHANCE THE PEPP

The key characteristics and principles of the current PEPP should serve as a foundation for a revised version by building on its positives and addressing its flaws and limitations. The paper outlines below possible supply side measures, demand side measures and national and EU-wide measures. These measures are considerations which would need to be further explored, detailed and evaluated to assess their effectiveness and workability.

Possible supply side measures

To make the PEPP attractive to providers, the potential market must be significantly expanded, the design adjusted, and the product simplified for broader market applicability. This could be achieved through a combination of different measures such as the ones outlined below:

- **Combine occupational and personal PEPP in a single pension product:** Allowing tax-efficient employer contributions alongside personal contributions would make the PEPP a second and third pillar pension product. A single product may ensure scale and attract more providers, thus increasing offer for consumers**.** Indeed, there may be a greater demand for occupational than personal pension solutions. Moreover, products combining second and third pillar pension are a way to ensure flexibility, while also being able to deal with the different tax treatments applicable to individual and employer contributions. Therefore, EIOPA favours a second and third pillar PEPP, rather than a new EU-wide occupational pension product alongside a third pillar-only PEPP. This approach has significantly contributed to the success of various pension products, such as the Plan d'Epargne Retraite (PER) in France and the KiwiSaver in New Zealand.

- **Focus the PEPP conversation on value for money:** It is difficult to determine a costs cap that would suit both providers and savers. The industry wants a higher costs and fees cap while EIOPA holds the view that the focus should not be on the absolute level of costs, *per se*, but rather on whether a PEPP offers value for money, taking into account the needs, objectives and characteristics of savers. Moreover, in the short-term, to aid the supply of PEPPs and to reflect the initial expenses of introducing PEPPs to the market, PEPP fees may be temporarily higher than in the medium to long-term. The overall approach to PEPP costs and fees could mirror the rationale behind EIOPA's

[10] The imposition of taxes and tax-beneficial treatment of personal pension products are solely within the remits of each Member State.
[11] Commission Recommendation of 29 June 2019 on the tax treatment of personal pension products, including the pan-European Personal Pension Product; available at: https://finance.ec.europa.eu/system/files/2017-07/170629-personal-pensions-recommendation_en.pdf.

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work on value for money in the unit-linked market. Alternatively, if a fee cap were to be retained, differing from EIOPA's value for money approach, it should be introduced gradually.

- **Create a PEPP label for national products:** The PEPP would gain from allowing each Member State to develop local PEPPs and market them domestically as PEPP-labelled products. Aside from accumulation and decumulation provisions, 'national PEPPs' would need to adhere to a set of EU-wide common rules under EIOPA's oversight. These rules would ensure simplicity, security, cost-effectiveness, and transparency. Additionally, there may be merit in having an 'opt-in' option for providers of cross-border PEPPs, where they would only need to register the PEPP with EIOPA and be subject to EIOPA's direct supervision when they intend to start operating on a cross-border basis, thereby reducing administrative and supervisory burden.

- **Reduce administrative burden:** From March 2025, PEPP providers must offer national sub-accounts for at least two Member States. Allowing PEPP providers to voluntarily offer national sub-accounts for a given PEPP, rather than making it compulsory, could attract more providers. This would make the cross-border feature of the PEPP optional.

- **Ensure PEPP's adoption:** Allowing the transfer of accumulated amounts from other personal pension products into the PEPP could help achieve mass adoption. This requires reconsidering the PEPP's structure and design, its interaction with existing products, and ensuring tax efficiency.

Possible demand side measures

On the demand side, measures should aim at tackling the overall low pension participation, rather than focusing on increasing the PEPP's appeal to consumers. These measures cannot be considered in isolation but need to consider the interaction with other competing pension products, the 3-pillar model of old age provision and their economic impact. Bold proposals are needed to increase pension participation, and relatedly PEPP participation. This could be in the form of an auto-enrolment system, also impacting supply issues, or via a round-up savings app[12] allowing for small contributions. These measures are outlined more in detail below:

- **Introduce auto-enrolment in the PEPP:** Introducing a system of auto-enrolment in a personal pension scheme at EU level, such as the PEPP would be bold and innovative. This could be implemented, for instance, by opening a PEPP for every EU citizen when they reach the age of 18 or enter the workforce, allowing for regular or intermittent contributions. Despite the challenges, implementation is feasible from technological, administrative, legal, and fiscal perspectives. The PEPP's occupational component – i.e., opening a PEPP for every employee – could potentially serve as a qualifying scheme in new auto-enrolment systems. This measure would drastically increase PEPP participation and be conducive to the development of a genuine EU internal market for

[12] A Round-up savings app allows consumers to round up transactions and deposit the difference into an account. The proceeds would be transferred to the PEPP at regular intervals.

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personal and occupational pensions. There are various examples across the globe confirming the positive impact of this measure (e.g., Superannuation in Australia, the UK auto-enrolment system).

- **Leverage pension tracking systems for PEPP adoption:** EU savers often have a variety of retirement entitlements coming from different sources – state, occupational and personal. Providing savers with transparent and easily accessible information on all retirement entitlements can support long-term savings as savers are able to better plan for retirement, thus contributing to closing the pension gap. Pension monitoring tools such as Pension Tracking Systems (PTSs) are essential in achieving this. The subsequent challenge is to encourage citizens to consult a Pension Tracking System, where available.

Possible national and EU-wide measures

For the PEPP to succeed, more ambition at EU and national level is required. Besides changes to the design and framework of the PEPP, it is key to see how, in each Member State, the features of the PEPP system could fit into the current pensions systems and help people save for retirement. Moreover, EU citizens have limited visibility of their pension entitlements. Implementing pension dashboards at the national or EU level could increase pension participation and boost the uptake of the PEPP.

- **Grant the PEPP the same tax treatment as national personal pension products:** The European Commission recommended Member States to grant to the PEPP the same tax relief as the one granted to national personal pension products. The same principle should apply to a revised PEPP. In particular, if the PEPP also funds occupational pensions, it should receive the same tax treatment as other occupational pension products available in each market. The imposition of taxes and tax-beneficial treatment of pension products are solely within the remit of Member States. In this regard, Member States can either contribute to the PEPP's success or jeopardise it through a differentiated and discriminatory tax treatment. For the PEPP, similarly to other EU-wide initiatives such as the Pan-European Savings Account, an effective 'second regime' that exists side-by-side with national social and labour law could be considered. This would contribute to developing a genuine EU internal market for occupational and personal pensions.

- **Implement national or EU-wide pension dashboards:** A pension dashboard provides an overview of pension entitlements at the EU, national, and individual levels, covering all three pension pillars (i.e., state pensions, occupational pensions, and private pension schemes). These dashboards enhance the monitoring of pension developments within Member States and improve transparency regarding the adequacy and sustainability of national pension systems. They allow public authorities to identify emerging gaps and develop appropriate policy responses to address future pressures on public finances, risks of old age poverty, and pension gaps. Already today public authorities use public finance to support pensions, having a pension dashboard including all three pillars would better inform a decision on where to put the incentives to ensure more pension savings. Pension dashboards enhance transparency, leading to greater incentives for pensions

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savings and an increased supply of capital, which can boost long-term economic growth and support the green and digital transitions, contributing to the goals of the CMU. The project of an EU-wide pension dashboard or of pension dashboards at the national level is ambitious. It involves gathering available data from various sources, bringing them together, including labour and social information, and developing relevant indicators. The necessary technological infrastructure and data already exists. Despite the challenges faced by governments and policymakers, measuring the pension gap is essential to closing it and raising the required awareness. EIOPA has extensively assessed the feasibility of a pension dashboard and provided to the European Commission technical advice on the development of a visual pensions dashboard to strengthen the monitoring of pension developments in Member States by presenting a set of user-friendly indicators that allow easy analysis and comparisons[13].

4. FUTURE WORK ON THE PEPP

EIOPA believes that a revised PEPP is a sound option for the future as it would help EU citizens save for retirement while complementing other EU savings products. The fundamentals of the PEPP and its objectives remain valid. Moreover, the PEPP serve a specific purpose by helping EU citizens save for retirement and should retain a leading role in fulfilling this objective by co-existing alongside other EU savings products. Indeed, the PEPP offers advantages over a non-retirement-focused EU savings product. The PEPP is tailored for long-term retirement savings, focusing on preserving and growing capital for the future, whereas traditional savings products tend to cater to short to medium-term needs, offering higher liquidity but, sometimes, at the expense of long-term higher returns. The PEPP features transparent fee structures ensuring clarity for consumers, while other savings products vary in cost transparency. Additionally, the PEPP accommodates various payout forms such as annuities, lump sums, or a combination, ensuring flexibility to meet diverse retirement needs across the EU, while savings products may lack these options, leaving consumers vulnerable to longevity risks. These are all key elements to be taken into account when developing a product to close pensions and savings gaps.

EIOPA intends to make an impactful contribution to the evaluation of the PEPP Regulation by the European Commission, scheduled for 2027. Article 73(1) of the PEPP Regulation requires the European Commission to carry out an evaluation of the PEPP Regulation in 2027, and if appropriate, propose legislative amendments. This is a significant opportunity to introduce necessary changes to the current PEPP framework. As a European Supervisory Authority, EIOPA's role is to advise the European Commission on technical aspects related to the PEPP and to oversee the PEPP market (e.g., monitor the market, register new PEPPs, where necessary protect PEPP savers by intervening in the market).

To do so, EIOPA will be carrying out diagnostic work by gathering inputs and views from stakeholders and develop specific proposals ahead of the evaluation. The work leading to the evaluation of the PEPP is also an opportunity to acquire more information on domestic supplementary pension markets, which could be useful for the development of an EU-wide pensions dashboard.

[13] Technical advice on the development of pension dashboards and the collection of pension data (EIOPA-BoS-21/540 of 1 December 2021; available at: Link.

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