

November

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Istanbul

The European Personal Pension Account

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Agenda

- Introduction
- The EPPA concept explained
- Challenges

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Introduction

Introduction

The European pension landscape

- Low penetration of pillar II savings: only between 25% and 30% of the active population of the European Union (EU-15) is covered
- Pension systems are moving from DB to DC schemes across the world but flexible/portable solutions remain unusual in Europe
- Pension markets in Europe are characterized by high fragmentation, limited access, weak innovation, limited product choice, etc.
- This situation hampers job mobility and economic growth in Europe

Introduction

The EPPA concept in a nutshell

- The EPPA concept is a flexible and portable pension vehicle
- ... based on individual retirement accounts (one account per person) and personal ownership of pension assets
- ... that offers investment options for individual choices
- ... that allows for proper information, advice and sound safekeeping arrangements
- ... that can be offered as in pillar II and III

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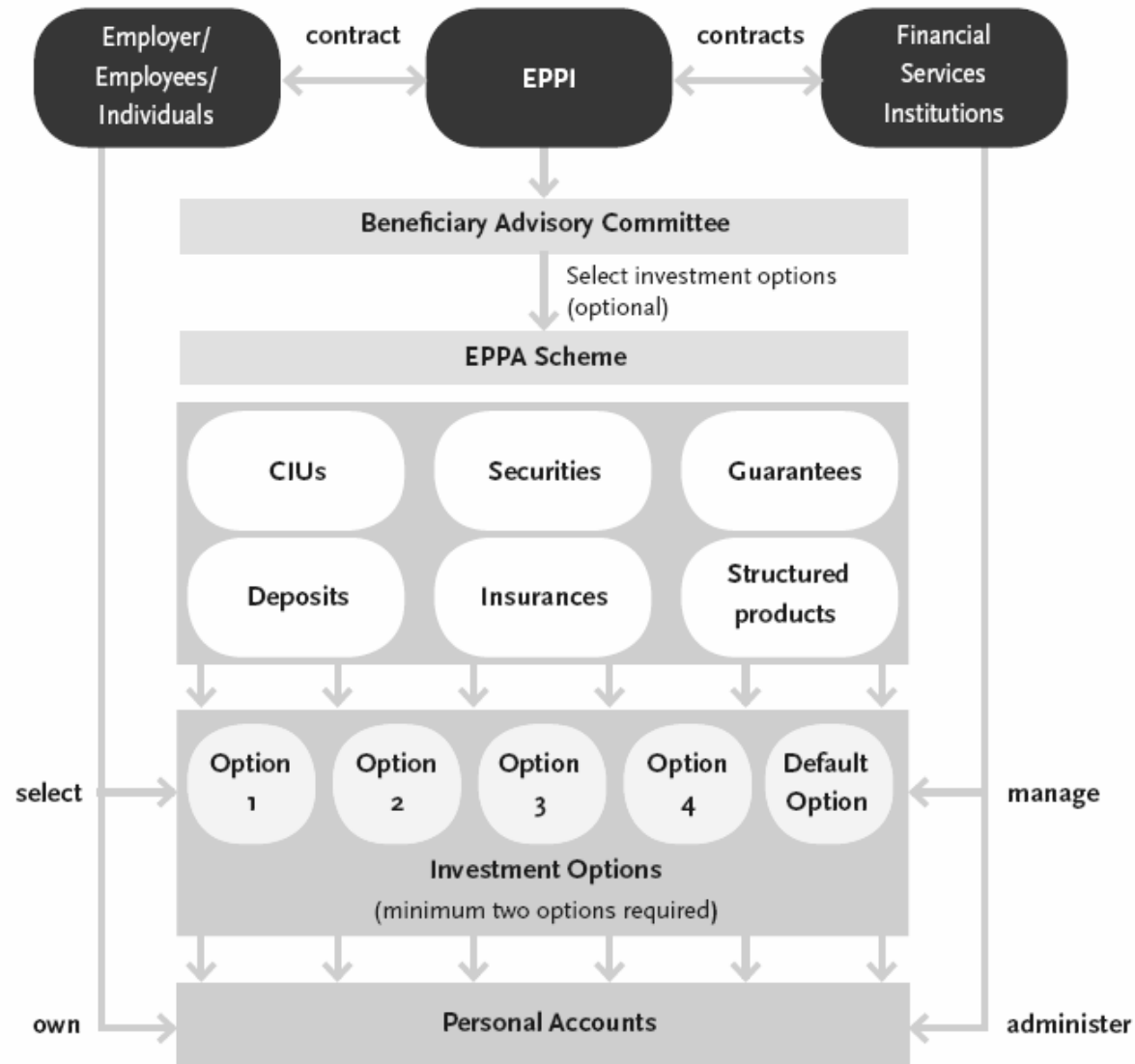
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The EPPA concept explained

The EPPA concept explained

Key elements



The EPPA concept explained

Investment options

- Individuals should be offered the choice to invest in different investment options
- Investment options should allow employees to save in a wide range of savings instruments (deposits, stocks, bonds, structured products, investment funds, etc.)
- Investment options can include protecting solutions such as guarantees and insurances, as well as life-cycle allocation

The EPPA concept explained

Investment advice

- A Beneficiary Advisory Committee should be established to oversee investment options and ensure that beneficiaries get « suitable advice »
- The provision of advice should be determined by the extent of choice given to individuals
- A default option should be offered for the investors who do not want to choose among investment options

The EPPA concept explained

Key benefits

- Portability between providers and 2nd and 3rd pillars
- Investment options for individual choices
- Personal ownership of pension assets
- Adaptability to national social–security & pension systems
- Compliance with strict prudential rules
- High level of protection of assets
- Transparency of fees
- Efficiency

The EPPA concept explained

A win-win proposal

■ Win for individuals & employers

- ◆ Portability → greater job opportunities
- ◆ Investment options → better match with risk profile & preferences
- ◆ Transparency & level playing field between providers → lower costs & higher benefits

■ Win for the economy

- ◆ Portability → higher job mobility & economic growth
- ◆ Investment options → better savings allocation
- ◆ Better use of existing infrastructure & economies of scale → greater efficiency

The EPPA concept explained

Pension vehicles similar to the EPPA concept

- France: the PERCO (Plan d'Épargne Retraite Collectif) is a 2nd pillar EPPA-like pension scheme introduced in 2003. Each employee can choose between at least 3 investment funds.
- Ireland: the PRSA (Personal Retirement Savings Account) is a pension scheme launched in 2003. Individuals can invest in CIUs and so-called internal linked funds in separate accounts.
- Sweden: the IPS (Individual Pension Savings) is a 3rd pillar scheme introduced in 1994. Individuals can invest in CIUs and transferable securities in individual accounts.
- Poland: the IRA (Individual Retirement Account) is a retirement saving vehicle launched in April 2004. Individuals can hold an account with an investment fund, a broker, an insurance company or a bank.

The EPPA concept explained

Pension vehicles similar to the EPPA concept

- **Germany:** the Riester Pension, which were introduced in 2002, is a 3rd pillar pension vehicle taking the form of an insurance product, a bank savings plan or an investment savings plan.
- **Estonia:** the 2nd pillar pension scheme introduced in 2002 is based on individual pension accounts.
- **Belgium:** The PSF (Pension Saving Funds) is a 3rd pillar pension scheme. Individuals have personal accounts into which the assets of pension holdings are held.

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Challenges

Challenges Principle of subsidiarity

- There is a gap in Europe between the EU regulation of pension institutions (IORP Directive) and the national regulation of pension products
- The development of pan-European pension products would close this gap and allow to generate the benefits in terms of portability and efficiency.
- This requires an agreement at EU level on a set of EU-wide prudential rules to be set out in a EU directive/regulation or in a 26th regime as proposed by the EFR.

Challenges Perceived risks of individual pension accounts

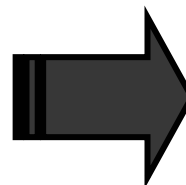
Criticisms

Return too dependent on the capital markets

All the risks are borne by individuals

Collective arrangements are more cost-efficient

Choice between investment option is difficult



Responses

Investment options should be properly diversified

EPPAs can offer risk coverage

Individual accounts can be offered on a collective basis

Individual accounts should offer a default option

Perceived advantages of individual accounts are underestimated

Challenges Pay-out phase

- Individuals should be offered efficient solutions for the pay-out phase, in particular to cover longevity risk
- Individual accounts can offer efficient solutions, e.g. annuities, phased withdrawal plans, mixed strategy involving both a limited annuity and a withdrawal plan, etc.
- Because of rising life expectancy, regulation should allow investors to keep balanced asset allocation, at least in the first part of the pay out phase

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Thank you for your attention

***The EPPA Report can be downloaded from the
EFAMA website (www.efama.org)***

***For further information, please contact me at
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