EUROPEAN COMMISSION

MEMO

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Capital Markets Union: Pan-European Personal Pension Product (PEPP)

The pan-European personal pension product (PEPP) is a voluntary personal pension scheme that will offer consumers a new pan-European option to save for retirement. This new type of product is designed to give savers more choice and provide them with more competitive products, while enjoying strong consumer protection. It could be offered by a broad range of financial providers such as insurance companies, asset managers, banks, certain investment firms and certain occupational pension funds.

The Regulation on the PEPP establishes the legal foundation for a pan-European personal pension market, by ensuring standardisation of the core product features, such as: transparency requirements, investment rules, switching right and type of investment options. It will ensure sufficient consumer protection while at the same time being flexible enough to enable different providers to tailor products to suit their business model.

2. What are the main objectives of this initiative?

PEPP aims to help addressing demographic challenges due to the aging of the population and close the pensions' gap in the EU. Currently, less than a third of Europeans between 25 and 59 years old have enrolled themselves in a pension product. PEPP will offer to all EU citizens an additional opportunity to save for their retirement.

Moreover, a more developed market for personal pensions in the EU will channel more savings into long-term investments and increase the depth, liquidity and efficiency of capital markets. This will ultimately promote growth and the creation of new jobs in the EU and contribute significantly to develop a Capital Markets Union.

3. Is the PEPP an alternative to state and occupational pensions?

No, PEPP is not an alternative to state and occupational pensions.

PEPP is a voluntary product, intended to offer citizens an additional option to save for retirement, when putting money aside for the old age. PEPP will complement existing public and occupational pension systems, as well as national private pension schemes and it will not replace or substitute them. PEPP was carefully designed to avoid any spill-over effects on existing public and occupational pension schemes.

4. What are the benefits of the new PEPP rules for savers?

PEPP will be a simple, flexible, modern and cost-effective product, accompanied by strong consumer protection rules. In particular, PEPP savers will benefit from:

- A simple and affordable default investment option (called the Basic PEPP) - with costs capped at 1% of the accumulated capital per annum. The Basic PEPP will offer a capital protection that can take the form either of a capital guarantee or of other risk mitigation techniques with the objective to ensure that savers recoup the capital invested.
- Full transparency on the product, including on costs and fees -Fees and costs will be transparent, disclosed via a simple Key Information Document (KID) supplied

before the purchase, as well by a standardised pension benefits statement during the product lifetime.

- Full mandatory advice - Consumers will also benefit of full mandatory advice, to enable them to make an informed decision before purchasing a product. They will also benefit of personalised advice before retirement in order to choose the most suitable form of out-payments to their needs.
- A flexible product - Standardisation of core features will be combined with flexibility to cater for national differences, so that savers can benefit of national incentives, where these exist.
- A competitive product - Savers will benefit from increased competition between PEPP providers. In addition, the possibility for savers to switch providers regularly, every five years, at capped costs will further stimulate competition on the market, ultimately resulting in better quality products.
- A more attractive product - PEPP will be a modern product that can be distributed and purchased online, which will make it more attractive for young Europeans.
- A more portable product - Providers will be able to offer PEPPs on a pan-European basis, allowing savers to continue saving in the same product, when they change residence across borders in the EU. In case portability is not available, consumers can switch provider free of charge or can continue to contribute to the PEPP of the previous country residence.

In other words, the PEPP will offer additional incentives for people to save for their pension, alongside the occupational and state-based pensions available today. With PEPP in place, the European market for personal pension products would grow significantly faster.

5. What are the benefits of the new PEPP rules for providers?

With the new Regulation, PEPP providers will benefit from a true single market for personal pensions and from facilitated cross-border distribution, including an EU passport. Furthermore, thanks to the standardisation of the core PEPP features, providers will also be able to sell PEPPs online and to distribute them in several Member States with one single product registration.

Insurers, which represent the bulk of the personal pension market today, will benefit from expanding their activities from mostly domestic to cross-border distribution in the EU, reaping the benefits of scale and of asset pooling.

New market entrants, such as asset managers, will be able to compete with more traditional providers (such as insurance companies). More generally, PEPP will offer new business opportunities to a variety of providers that could operate on a cross-border basis, in particular in those Member States where the supply of personal pension products is limited.

6. Will the PEPP benefit from tax incentives at national level?

Nowadays, taxation is still primarily in the Member States' hands. It is then up to Member States to decide whether PEPP can benefit from any tax incentives or not. Consequently, at this stage, the new PEPP Regulation does not cover such incentives.

However, in a Tax Recommendation issued in June 2017, the Commission already encouraged Member States to grant PEPPs the same tax treatment as similar existing national personal pension products, even if they do not match all national criteria for tax relief.

In practical terms, in order to create a level playing field for PEPPs towards existing personal pension products in the Member States, the Commission encourages the exchange of best practices between Member States on the taxation of their current personal pension products. This approach will ultimately bring Member States' tax rules on personal pension products closer to each other.

7. What are the next steps and when will the first PEPP come to the market?

The PEPP regulation started to apply on 22.2.2022. This means that PEPP providers and distributors can set up and get licensing for PEPPs as of that date. The first PEPPs are expected to come to the market any time soon.

Frequently asked questions by consumers

1. Who can save in a PEPP?

PEPPs will be available to all citizens who are keen to save for retirement no matter if they are employed, unemployed, self-employed/independent workers who are working or studying. PEPPs could be particularly attractive to both mobile citizens and self-employed individuals who are not participating in state-based or occupational pension provisions. Young people could also benefit from starting to save for retirement early: the longer the investment horizon, the more the PEPP can contribute to income in retirement.

2. Can a third country national subscribe to a PEPP?

Yes. Under the PEPP Regulation, PEPP is available to any individual having his/her residence in one of the EU Member States, irrespective of his/her nationality and whether employed or not.

3. How much does it cost to subscribe to a PEPP?

This will depend on the provider, the characteristics of the product and the type of investment option. All PEPP providers will need to offer an affordable default investment option (called the " Basic PEPP”) with costs and fees capped at 1 % of the accumulated capital per year.

4. Who can design a PEPP?

A PEPP can be designed by a wide range of providers, including insurance companies, banks, asset managers, certain investment firms and certain occupational pension funds (IORPS) - that fulfil the eligibility criteria provided by the PEPP Regulation.

5. Who can sell a PEPP?

A PEPP can be sold by any PEPP providers, any investment firms authorised to provide investment advice, or any insurance intermediaries.

To sell a PEPP, it is not mandatory for providers to be the designers of the product, as long as it is still compatible with the sectorial law applicable to the provider. This also applies to insurance intermediaries and investment firms authorised to provide investment advice.

6. How can I find a PEPP product and/or provider?

Citizens interested to buy a PEPP may contact a PEPP provider or PEPP distributor selling such products. To identify PEPP products available in their Member State and their corresponding PEPP provider and/or distributor, citizens can consult the central PEPP register identifying all PEPPs registered under the PEPP Regulation.

This is kept by the European Insurance and Occupational Pensions Authority (EIOPA) and is made publicly available in electronic format. Access to the Register is free of charge.

LINK PEPP REGISTRY

7. How can I choose a PEPP that suits my needs?

PEPP savers and PEPP distributors will need to provide prospective PEPP savers with comprehensive advice before the signature of the PEPP contract, in order to enable them to take a fully informed decision and choose the product that best suits their needs.

In particular, PEPP providers and PEPP distributors will need to do a full test to determine whether the product they propose is suitable to the prospective PEPP saver's needs or not. In addition, PEPP savers will benefit from personalised pension benefit projections.

8. Can I change investment options?

Yes. If the PEPP provider offers more than one investment option, a PEPP saver will be able to choose a different investment option after a minimum of five years from the conclusion of the PEPP contract and, in case of subsequent changes, after five years from the most recent change of investment option. PEPP providers may allow PEPP savers to change their investment option more frequently.

9. Can I get out of my PEPP if I am not satisfied with its performance?

Yes. The PEPP saver will be able to switch PEPP provider after a minimum of five years from the conclusion of the PEPP contract and in case of subsequent switching, after five years from the most recent switching. The PEPP provider may allow PEPP savers to switch PEPP providers more frequently.

10. Can I continue to contribute to my PEPP when I change residence in another EU Member State?

Yes. PEPP savers can continue to contribute to the same PEPP when they change residence in another EU Member State, either by opening a PEPP sub-account with the same PEPP provider in their new Member State of residence (in case such option is available with their PEPP provider) or continuing to contribute to their existing PEPP sub-account.

In case their PEPP provider does not provide for such an option in the new Member State of residence, PEPP savers have the right to switch PEPP provider immediately and free of charge.

11. Can I continue to save within my PEPP if I change residence outside of the European Union?

A PEPP can be offered only on the EU territory. However, a PEPP saver changing his or her residence outside of the European Union can continue in principle to save within his or her PEPP once he/she changes back his or her EU residence, without prejudice of the conditions for accumulation provided at national level.

PEPP savers intending to change their residence outside the EU should seek personalized advice on the consequences of such a move on their savings, in particular on the tax relief, given the diversity of Member States requirements for tax relief.

12. How will I get my retirement income and how can I identify the most suitable form of out-payments?

PEPP providers can offer PEPP savers one or several type of out-payments (annuities, lump sum, regular drawdown payments or a combination of these).

PEPP savers will be able to choose the form of out-payments for the decumulation phase when at the conclusion of a contract and when opening a new sub-account. The decumulation phase corresponds to the period of time when the saver starts receiving the savings accumulated under one of the forms indicated above.

PEPP savers with benefit of advice on the form of out-payments before the purchase of the product, as well as before the start of the decumulation phase. For instance, savers will be able to tailor the type of out-payment to match their personal needs, e.g. to protect against longevity risk. This means that:

- Before the purchase of the product, PEPP providers and distributors will have the obligation to check PEPP savers' retirement needs and in particular the choice of annuities.
- At the time of decumulation, PEPP providers and distributors will have to offer the PEPP saver personal retirement planning advice, including a personal recommendation to the PEPP saver on his or her optimal form of out-payments. If a lump-sum payment is not in line with the retirement- related needs of the PEPP saver, the advice will be accompanied by a warning to that end.

Member States may incentivise different form of out-payments. This flexibility will allow PEPP providers to adapt their product to national requirements for tax relief, so that PEPP savers are eligible for tax incentives, where such incentives exist.

13. Can I change my initial choice of form of out-payments?

If PEPP providers provide different forms of out-payments, savers will be allowed to modify the form of out-payments of each sub-account one year before the start of the decumulation phase, at the start of the decumulation phase and at the moment of switching.

Frequently asked questions for professionals

1. Who is in charge of granting the PEPP label?

The European Insurance and Occupational Pensions Authority (EIOPA) will maintain a central register in which it will register PEPPs, on the basis of the decision taken by national competent authorities.

LINK EIOPA REGISTRY

2. Who is in charge of supervising PEPP providers?

PEPP providers will be supervised by their national competent authorities. To achieve supervisory convergence, EIOPA will also monitor the evolution of the market.

In order to ensure the same standards of consumer protection across the EU, EIOPA will have also the power to issue a temporary ban or restriction of the marketing, distribution or sale of specific PEPPs within the whole European Union. This would happen in case there is a significant consumer protection concern or a threat to the orderly functioning and integrity of financial markets or to the stability of the whole or part of the financial system in the Union and subject to certain specific conditions.

3. What are the main characteristics of the Basic PEPP?

The Basic PEPP (i.e. the default investment option) can take the form either of a guarantee or of other risk mitigation techniques aiming at preserving the PEPP savers' capital. This flexibility will encourage competition between different categories of PEPP providers (including providers that cannot offer guarantees) and lead to a broader choice for PEPP savers that can opt for a product that is more adapted to their specific needs.

As regards costs and fees for the Basic PEPP, they will be capped at 1% of the accumulated capital per annum.

4. How will capital protection work for the Basic PEPP?

The nature of the capital protection will depend on the type of Basic PEPP.

For the Basic PEPP with a guarantee, PEPP savers will have a legal obligation to ensure that PEPP savers recoup at least the capital invested. The guarantee on the capital shall be due only at the start of the decumulation phase and during the decumulation phase. The Basic PEPP with other risk mitigation techniques shall be consistent with the objective to allow the PEPP saver to recoup the capital, but without any legal obligation to recoup the capital.

In both cases, the obligation to recoup the capital (for the Basic PEPP with guarantee) or the objective to recoup the capital (for the Basic PEPP with other risk mitigation techniques), covers the capital invested by the saver, without taking into account the impact of fees and inflation. The inclusion of inflation and fees in the capital to be protected was not feasible, given the existence of a 1% cap on fees for the Basic PEPP, as any increase in the level of capital protection will translate in an additional cost for the product.

The Regulation aims to strike a right balance between the objective to ensure a sufficient level of capital protection for the Basic PEPP and the need to have an affordable Basic PEPP.

5. What distribution regime applies to the PEPP?

The distribution regime of the PEPP follows a sectorial approach. Insurance companies and insurance intermediaries that distribute a PEPP will be subject to the Insurance Distribution Directive (IDD), while investment firms and other PEPP providers and distributors will have to apply the provisions of the Markets in Financial Instruments Directive (MiFID II).

6. What advice regime applies to the PEPP?

All PEPP providers and distributors will need to do a retirement-related demands and needs test which must also cover a specific check for a possible need of PEPP savers to acquire a PEPP offering annuities.

Full advice (with a suitability test for all PEPP savers) will be mandatory for all investment options, including the Basic PEPP. The advice must also cover the choice of investment option and personalised pension benefit projections.

To ensure a high degree of consumer protection, PEPP savers will not have any possibility to waive advice.

7. Will PEPP be a sustainable pension product?

Yes. PEPP will contribute to the EU sustainability agenda in the financial sector in multiple ways.

PEPP providers are encouraged to consider sustainability factors in their investment decisions and risk management systems, in particular taking into account the long-term nature of their investments. The Regulation prescribes that PEPP savings should be invested taking into account environmental, social and governance (ESG) factors such as those set out in the Union's climate and sustainability objectives as set out in the Paris Agreement on Climate Change (Paris Agreement), the United Nations Sustainable Development Goals, and the United Nations Guiding Principles on Business and Human Rights.

PEPP providers should also inform PEPP savers about how ESG factors are taken into account in the PEPP investment policy.

This is in line with the ambitious Commission agenda on sustainable finance.