

PRESS RELEASE

Actuarial Association of Europe's opinion on the PEPP Regulation

Brussels, 31 August 2018: On Monday 3 September, the ECON Committee of the European Parliament will vote on their position on the draft Regulation introducing the Pan-European Personal Pension Product (PEPP). The Actuarial Association of Europe issued a [discussion paper "PEPP Regulation"](#) in March 2018 setting out an objective, professional view on the draft Regulation.

One key issue on which differing views have been expressed is the proposal that all PEPPs should have a default investment option which carries capital protection. The views of the AAE, as outlined in the discussion paper, can be summarised as follows:

- Long term savers should normally invest primarily in real assets such as equities which are expected to provide long term growth, with a transition to assets which match the individual's chosen decumulation option as he/she approaches retirement age, using a life cycling approach.
- Products with capital guarantees might be offered as an option which may be appropriate for savers who are very risk averse or who have a short period to retirement where the guarantee would have greater value.
- If the PEPP offers capital protection, we recommend that this guarantee applies only at the point of decumulation in order to limit the costs of such protection.
- It is not necessary or desirable that a "one-size-fits all" default option be specified in the Regulation.
- The Regulation should set out high-level principles regarding the selection of the default option, with the selection of the actual default option left to the provider, subject to approval of the national supervisor.
- If it is considered necessary to specify a default in the Regulation, this should not require protection of capital because:
 - Protection of capital does not provide any protection against inflation, which is a major risk to long-term savers
 - Protection of capital may not protect the consumer against the possibility of a reduction in retirement income i.e. if he/she intends or is required to purchase an annuity at retirement, the level of annuity which can be purchased by this capital sum at retirement will reduce if interest rates fall before retirement.
 - Protection of capital is unlikely to be in the best interests of the consumer, because the value of such a guarantee is very small for a PEPP saver saving over a period of 30 to 40 years i.e. it is very unlikely that this minimum amount will apply.
 - The cost to PEPP providers of providing this guarantee is high, and this cost will be passed on to the consumers

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Notes for editors

1. For further information please contact Ad Kok, Chief Executive (tel. +32 2 201 60 21), aamkok@actuary.eu
2. Copies of all AAE press releases are available on the AAE website (www.actuary.eu)
3. The Actuarial Association of Europe (AAE) was established in 1978 under the name Groupe Consultatif to represent actuarial associations in Europe. Its primary purpose is to provide advice and opinions to the various organisations of the European Union - the Commission, the Council of Ministers, the European Parliament, the European Supervisors and their committees – on actuarial issues in European legislation. The AAE currently has 36 member associations in 35 European countries, representing over 23,000 actuaries. Advice and comments provided by the AAE on behalf of the European actuarial profession are totally independent of industry interests. The Actuarial Association of Europe is registered in the EU Transparency Register under number 550855911144-54