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The PEPP Proposal

Background

The European Commission yesterday released a long-awaited proposal on a pan-European personal pension product (“**PEPP**”). The PEPP is a voluntary regulated personal pension scheme which will be available to consumers on a pan-European basis. The PEPP will be available to any individual wishing to save for retirement, regardless of whether they are employed, self-employed, unemployed or in education.

Rather than replacing existing state-based pension arrangements, occupational or personal pension arrangements, it is expected that PEPPs will be used by savers to supplement other pensions which may be inadequate to meet their retirement needs. By ensuring sufficient consumer protection with regard to the key features of the PEPP product, the European Commission intends to create a quality label for EU personal pension products.

Key characteristics of a PEPP

Under the proposal, the key characteristics of the PEPP include the following:

(i) **Pan-European Passport:** The PEPP framework provides an EU harmonised framework allowing PEPP which are established in one Member State be sold throughout Europe without any further authorisation requirements. This will enable PEPP providers to move from mostly domestic distribution under the current pensions market

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to the wider EU market, benefitting from greater economies of scale as a result of larger asset pools. Cross-border distribution should also result in increased competition, reduced costs and greater product choice for EU savers.

(ii) **Transparency:** Investors will receive a pre-contractual key information document which must set out the risks and likely performance of the PEPP. Costs and charges will have to be displayed in a way which will allow consumers to compare the costs and charges of different PEPPS easily. Savers will also be kept informed on accrued savings and likely retirement income through standardised PEPP benefit statements.

(iii) **Investment Options:** PEPP providers may offer up to five investment options to PEPP savers. This must include a default investment option which ensures that the PEPP saver recoups at least the capital invested. However, alternative investment options with different risk-return profiles may also offered in order to allow providers to tailor their PEPP to suit their particular business model or to suit those savers who have a higher risk tolerance. PEPP savers will be able to switch investment options every 5 years free of charge.

(iv) **Switching:** The PEPP product will also allow consumers to switch PEPP providers once every five years at capped costs.

(v) **Portability:** In recognition of the changing nature of employment of EU citizens, PEPP savers will be able to continue to contribute to their PEPP when they move employers or and will also be able to transfer accumulated pension savings when moving to another Member State without incurring any tax liability.

(vi) **Investment Rules:** The categories of asset classes eligible for investment by a PEPP are likely to be wider than those applicable to UCITS on the basis that PEPP may include longer-term less liquid investments such as investments in property, infrastructure or SME which are not permitted investments in the UCITS sphere. PEPP providers will be required to respect the “prudent person principle” and must invest the assets in the best long-term interests of PEPP consumers. Use of derivatives will only be permitted where it is beneficial to efficient portfolio management.

(vii) **Taxation**: The Commission has recommended that PEPP to be subject to the same tax treatment as afforded to existing national private pension arrangements.

(viii) **Different pay-out options**: PEPP providers will be able to offer different types of pay-out options, including annuities, lump sums, a combination of both or regular withdrawals

Who will be able to offer a PEPP?

The PEPP framework facilitates a wide range of providers being able to offer the PEPP product, including insurance companies, banks, certain investment firms and asset managers (including AIFM and UCITS management companies).

While the PEPP product itself will be authorised by EIOPA, PEPP providers will remain regulated by national competent authorities in accordance with existing EU rules in their respective sectors

Next Steps

The PEPP proposal will now be considered by the European Parliament and the Council with the European Commission currently expecting that it will enter into application in the course of 2019.

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