THE INVESTMENT ASSOCIATION

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THE ROLE OF INVESTMENT MANAGERS IN ENSURING PENSION ADEQUACY

ADDRESSING PENSION ADEQUACY IN EUROPE

Given our ageing population, and the financial pressures exacerbated by the COVID-19 pandemic, pension adequacy is and will remain a major political and budgetary challenge across the EU for the foreseeable future. Where member states choose to develop their funded pension systems in response to these pressures, the investment management industry will help citizens save towards an adequate retirement income and a more sustainable future. By facilitating access to appropriate long term investment opportunities well-suited to the time horizon of pension saving, investment managers can support the future financial well-being of EU citizens, whose current preference for saving for the long term in cash leaves them seriously exposed to inflation risk and inadequate incomes in retirement.

Alongside the significant role that pension funds have played in the development of capital markets in the UK, Ireland and Northern Europe, a widespread growth in the European occupational pensions sector would also significantly deepen the pool of capital available for long term investment in European economies. This represents a unique opportunity to advance the EU's Capital Markets Union as well as support Europe's environmental and social ambitions.

The IA is strongly supportive of the Commission's renewed ambitions in developing a European approach to encourage complementary retirement savings in occupational and personal pensions. Given the UK industry's experience in developing and encouraging funded pension provisions, our industry has a wealth of expertise that could help deliver the best outcomes for savers and investors across Europe.

HIGH-LEVEL PRINCIPLES FOR ACHIEVING GOOD PENSION OUTCOMES

Investment is at the heart of delivering good outcomes for pension savers and the quality of the investment process should be prioritised by pension schemes. The IA and its members have developed a number of high-level principles that pension schemes can follow to ensure the investment process supports people's long-term aspirations in the most competitive, responsible, and transparent way:

- **Clear and consistent communication** should be further developed to support savers in understanding their likely retirement income requirements and the associated contribution rates
- **The investment strategy should start from a clearly defined investor objective** to lay the foundation for a robust delivery process
- **Pension schemes should have discretion over how they invest,** allowing them to construct diversified portfolios that can deliver the risk and return profiles their members seek
- **All costs should be fully transparent** to create an open and competitive market that delivers the best outcome for savers

About the Investment Association

The Investment Association (IA) represents the interests of more than 250 investment managers across Europe. Collectively, our members manage assets totalling more than €10.0trn, or 37% of the total assets managed in Europe, and do so through more than 640 offices. By allocating capital to businesses and projects in need of finance, our members help millions of individuals work towards their long-term financial goals and allow them to enjoy a more prosperous retirement.

KEY INDUSTRY PRIORITIES FOR THE DEVELOPMENT OF THE EUROPEAN PENSION MARKETS

Developing auto-enrolment practices to boost pension coverage

Auto-enrolment in occupational pension plans is the fastest and most effective way to support the development of European capital markets, while providing European citizens with a mean to save for their retirement. In the UK, auto-enrolment brought over ten million new savers into pension savings between 2012 and October 2020. As of the end of 2018 an estimated 18.7 million people, or 87% of the UK's total eligible workforce, were saving in a pension. It has also effectively increased the amount being saved into workplace DC pensions: by 2018, annual pension saving into qualifying schemes had risen by GBP 16.8 billion to reach GBP 90.4 billion, compared to GBP 73.6 billion in 2012. We agree with the Commission that the introduction of auto-enrolment should be supported across more EU Member States by developing a blueprint that provides principles for good occupational pension schemes, which Member States could then tailor to their pension landscape.

Ensuring the commercial viability of the PEPP

By laying the foundation for a European market for simple, efficient, and competitive personal pensions, the IA believes the Pan-European Personal Pension Product (PEPP) has the potential to offer citizens a transparent, good value product underpinned by high standards of governance and investment expertise. However, significant concerns remain regarding the commercial viability and level-playing field of the PEPP. The inclusion of the cost of personalised financial advice in the 1% fee cap will impose very high barriers of entry for investment managers. Evidence of the cost of personal pension products in Europe demonstrate a 1% cap will be too low to accommodate advice, leading the PEPP to become commercially unviable. Instead, the industry believes the fee cap should exclude advice until the first review of the cap and cover only the cost of manufacturing, administration, distribution, and portability. The industry also has concerns over the exclusion of the guarantees from the cap, as it discriminates against providers of life-cycle strategies in favour of insurers, undermining level-playing field for all participants.

Ensuring investors have meaningful and transparent disclosures about their investments

To boost the confidence and the protection of investors, we believe pre-sale disclosures should allow them to better understand and compare key features of all products they are investing in. The long-term nature of pension products, where the focus is usually to deliver an inflation-protected income and involves using an asset allocation that changes to reduce risk over time, means product disclosure in pensions starts from a different point in comparison to investment funds. The PEPP KID, with its focus on a range of performance projections and a risk and reward indicator that is focused on expected outcomes, offers a good starting point for product disclosure in pensions.

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For more information contact: **europe@theia.org**
Rond-point Robert Schuman 6, Bruxelles
Camomile Court, 23 Camomile Street, London, EC3A 7LL

www.theia.org **@InvAssoc**