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The Savings and Investment Union: An opportunity to close pension gaps

The European Commission's strategy for a Savings and Investment Union provides an opportunity to make progress on two compelling needs.

On the one hand, major initiatives, such as the green and digital transitions, as well as defence and infrastructure require significant funding.

On the other hand, Europe is facing a very large pensions gap, increasing the risk of old age poverty.

Can the SIU solve both these problems? It is a solid proposal with the potential to harness the power of retail investors to help drive competitiveness and investment, as well as closing the pensions gap.

In the EU, occupational pensions and supplementary (or personal) pensions play a crucial role in delivering future income to supplement statutory pensions provided by the state. While each complements the other, they have different dynamics.

Occupational pensions benefit from economies of scale and tend to deliver better outcomes as a result of greater scrutiny especially when sponsors and members are actively involved in the pension fund decision-making. Personal pensions complement occupational pensions offering flexibility and portability, as well an opportunity to take on more risk.

The IORP II and PEPP reviews are an opportunity to strengthen the European retirement framework. For the IORP II review, proposals to extend the scope to supplementary pensions could create scale and efficiency opportunities for providers to supplementary pensions, and to create a level playing field encouraging providers of supplementary pensions to focus on what they do best.

Participation in both should be encouraged since, for most people, an adequate retirement income is dependent on all three pension pillars, i.e. statutory, occupational and personal.

For defined contribution (DC) pensions, EIOPA is already working on a toolkit that will offer practical guidance on best practices in DC pensions, covering both occupational and personal pillars.

For personal pensions, one way to increase uptake is to widen the range of savings products on offer. More specifically, simple, reliable products that offer value for money and are suitable for long-term savings. Products designed with retirement in mind could offer tax advantages or restrict access until retirement, yet should still retain portability and some flexibility.

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In this regard, the fundamental thinking behind the Pan-European Pension Product, or PEPP, remains valid and its review is an opportunity to maintain some of its key principles, i.e. a safe, simple and portable product, whilst simplifying the framework to facilitate the offering and increase uptake.

Real success for the SIU however depends in (large) part on changing Europe's savings culture. Europe may be a continent of savers, but it is not yet a continent of investors. For example, EU households still hold around 70% of their savings in bank deposits with low to no yields.

Financial literacy initiatives are important here, but transparency, fair treatment and trust will also be key drivers in shifting this mindset.

First of all, savers need access to clear information on what their future retirement income might look like. Understanding the outlook for tomorrow is key to influencing savings and investment decisions today.

The SIU's renewed focus on pension tracking systems is welcome, since tracking systems are important tools in raising awareness among consumers. This is also one area where EIOPA has already provided advice on best practices for the set-up of national tracking systems to the European Commission in the context of the Capital Markets Union.

Second, fair treatment is needed around costs, so that people are better aware not just of costs they pay, but also what they are paying for. While a recent survey indicated that consumers value low costs and good returns when it comes to saving, the reality is more nuanced and a broader focus on value for money as a whole is needed.

EIOPA's work on IBIPs has shown that, for the most part, products do offer value for money. For the handful of providers with products that raise value for money concerns, it is essential that they improve their product oversight and governance processes. Supervision also plays a role and EIOPA's work on regulatory and supervisory efforts, such as benchmarking and mystery shopping, aim to raise overall standards in product design and distribution.

For the SIU to work, people must trust in the products that are offered and the providers that offer them. Only then will savers feel comfortable moving their money from bank deposits to longer-term retail investment products.