

Fostering sustainable pensions

Speech by Fausto Parente at the 2nd Occupational Retirement Provision Forum, organised by the Hellenic Union of Institutions for Occupational Retirement Provision

Delivered virtually, 11 February 2021

SPEECH

DATE:

11 Feb 2021

Ladies and gentlemen

Introduction

Thank you for inviting me here to talk about fostering sustainable pensions. This is an important topic and we need to give it our attention.

Last week, during our 10th anniversary conference we asked the audience about protection gaps. We asked them which protection gap we should try to close first. The audience overwhelmingly picked pensions.

They were right. Close to 20% of EU citizens are at risk of poverty or social exclusion in older age. Without action, this figure will get worse.

And yet, pensions make an unpopular topic for discussion.

Nobody wants to hear that they will have to wait longer to receive a pension from their national system. Nobody wants to hear that their workplace pension, which they have been paying into for many years, might not provide them with the retirement income that they expect, or even require. Nobody wants to be told that they must save more, when – especially at times like these – saving is a luxury for many.

But while it may be a difficult conversation, it is one worth having.

One that you have been having here in Greece. Here I want to acknowledge the progress that has been made over the past year in strengthening second pillar pensions and the supervision of pensions.

And today, I want to add to the conversation by sharing with you some of the initiatives that we are working on at EIOPA to foster sustainable pensions.

We have an ambitious agenda to make sure that pensions remain top of mind for policy-makers, employers and savers.

Without action, the pensions gap will grow, but through our work, we aim to make it easier for governments and for citizens to engage with and better prepare for retirement.

Developing a pensions dashboard

However we choose to tackle the pensions gap, information will be at the heart of our action.

And it's true that the pensions landscape varies considerably across Europe. Different models, different levels of participation, different types of contribution.

But better information on gaps in sustainability and adequacy will help every country identify the emerging gaps in its system.

Governments already put together projections for public pensions, but not many are ever done for retirement income non-public sources. To close the pension gap effectively, we have to consider all three pension pillars.

By the end of this year, we – EIOPA – will provide advice on the development of pensions dashboards that will help strengthen the monitoring of pension developments in Member States.

Our advice will include the data required – and how to source it – to provide a picture of both occupational and personal pensions.

This information will mean that governments could have an up-to-date view of the progress made towards adequate and sustainable pensions.

A pensions tracking system

Information will not just help governments in their decision-making. With the right information, people will also be able to make better decisions on how to save for retirement.

If we can provide people with a simple, easy-to-understand overview of their expected retirement income from all sources, it will make it easier for people to plan for their retirement.

And that's the important part – we want to make it easy for people to find the information they need. Because for many people, the idea of searching out figures and making calculations related to retirement is either too complex or too difficult. So, in many cases, people don't even try.

This year we will work on advice on the development of a digital pension tracking system that provides clear, concise and complete information to people.

With the help of a network of experts, and making use of existing best practice, we will map the functional feature of a tracking tool, including how best to present information. We will also provide advice on how to communicate and launch the service.

The success of the tracking tool will depend in part on its accuracy, so we will identify the data points that will be needed and the relevant sources.

We also want national tracking systems to work with the European Tracking System. Moving countries for work is a fact of life for many people. We should make sure that they can keep track of all their retirement products, no matter where they are.

If we can create an attractive, easy-to-use tracking system that provides people with comprehensive information – in other words, a system that meets the needs of savers – then we will be able to engage people with their retirement planning and encourage them to take action if they see shortfalls in their pensions adequacy.

Strengthening the role of IORPs

Occupational pensions can play a vital role in helping people save for their retirement.

These days, the trend is for defined contribution occupational pensions schemes, with more of the risk shifted to pension scheme members. It's important that people have confidence in the entities managing their pensions.

This is one of the objectives of the IORP II Directive i.e. to strengthen pension funds' governance and risk management and to improve transparency to scheme members and beneficiaries.

The Directive therefore provides a good framework for governments who want to close their pension gap through the development of occupational pensions.

Alongside the development of pension dashboards and tracking systems, we can also make further improvements to the IORP II Directive. This year, EIOPA plans to carry out preparatory work to explore the scope of improvement for the scheduled review of the IORP II Directive.

Finally, it's not enough simply to offer an occupational pension scheme. People have to participate in the scheme. Confidence in the way the scheme is run will help participation.

But we need to find more ways to encourage people to become enrolled in good quality defined contribution pensions. And next year, EIOPA will initiate work to provide guidance on good practices for the design of adequate and sustainable defined contribution pensions, also taking the lessons learned from the design of pan-European Personal Pensions.

Pan-European Pension Product

And here, I want to update you on the progress we have made with the PEPP.

Last summer, we submitted our set of draft standards on PEPP, and these were approved by the European Commission at the end of last year.

The Basic PEPP will tick many boxes for consumers. The default investment option has built-in risk mitigation techniques to outperform inflation. It comes with an all-inclusive cost cap, making it a cost effective product.

And, importantly, it comes with engaging information documents that – like the product itself – are designed for the digital age.

The PEPP has the potential to be a game changer, providing consumers with an alternative sustainable way to save for retirement. We are therefore encouraging governments throughout Europe and I encourage the Greek government to consider an appropriate tax treatment to support the development of PEPPs in Greece.

In conclusion

Simple, transparent, engaging. These three factors underpin all the initiatives that I have outlined here.

Because, as I said at the beginning, talk on pensions is often hard to hear.

The truth is that the pensions are complex, but it's our job to make the conversation easier.

By using modern communication tools, by making the effort to understand how consumers want to receive their information and, above all, by being transparent, we can start to make the conversation if not exactly enjoyable, then at least less threatening.

So we must use every tool we can to encourage people to engage with their retirement savings.

We made a start with the introduction of pension benefit statements, including our own model benefit statements. And now we are building on them with the key information document and annual statement for the PEPP.

National tracking systems, too, will need to be clear and user-friendly if they are to be successful.

It is a long journey before we achieve sustainable pensions across Europe, but the positive news is that we have started and that we are on the right track.

Thank you very much.