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Sustainable Pensions for European Citizens: How to close the gap?

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- The challenge
- Complementary private pensions
 - Flexible, adaptive solutions
 - Standardisation of quality features
- Concluding remarks

- Demographic and labour market changes
 - o Increasing life expectancy and low birth rates
 - o High unemployment, in particular youth unemployment
 - o New forms of labour
 - o Mobile workforce
 - o Gender gap
- Challenges for work-based pension systems
- Low disposable income for private savings

- Stressed economic environment
 - o Long-term effects of financial crisis
 - o Weak growth and persistently low interest rates
 - o Underfunded DB schemes
 - o Corporate failures
- Shift from DB to DC promises
- Lowering of guaranteed rates
- Counter-cyclical role as institutional investor in sustainable investments?

- The human side – learnings from behavioural economics
 - o Procrastination/ inertia
 - o Loss aversion
 - o Rule of thumb
 - o Role of financial literacy
- Solutions need to address 'cognitive barriers'
- Simplification, transparency of the solutions
- Enable taking 'good' decisions

- At European level:
 - 15% of working population members of IORPs
 - 27% of Europeans between 25 and 59 are saving in personal pension products
- Promote private pensions
- Make pension solutions attractive to the consumer:
 - safe, simple, cost-efficient and valuable throughout one's life

- Adaptable to variable, discontinued career paths:
 - Mobility: prudential, tax and social/labour law
 - Unconventional career path: adaptable contributions
- Nudging:
 - Automatic enrolment
 - Automatic adaptation of contribution levels
- Adapting to personal needs in accumulation and decumulation

→ Financial innovation, using digitalisation

→ Mandatory/ semi-compulsory regimes

→ Attentive to false sense of security

→ Discourage unintended consequences

Standardisation – quality features

- Designing 'defaults' and standardised elements:
 - o Safeguard good pension outcomes
 - o Transparency, comparability for consumers
 - o Benchmarking
 - o Efficiency gains and cost savings to providers
- Powerful tool to:
 - overcome behavioural biases
 - provide for cost-effective solutions
- Role of pre-contractual and regular disclosure
- Attentive to regulate in a 'smart manner', leaving room for innovation

Standardisation – investment strategy

- Prudent person principle:
 - Best interest of the saver, focusing on retirement income objective
 - Security, quality, diversification, liquidity and profitability
 - Sustainability
 - Life cycling/ reserves, buffers/ guarantees
 - Linking accumulation to decumulation
- Innovative decumulation solutions
- Enforcing quality features

- Need to save (more) privately to ensure adequate retirement income
- Design transparent, well governed and cost-efficient products and schemes
- ‘Smart’ default options leaving room for innovation and adaptable to personal needs
- Empowering consumers to take informed decisions
- Effective regulation and supervision



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Thank you

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