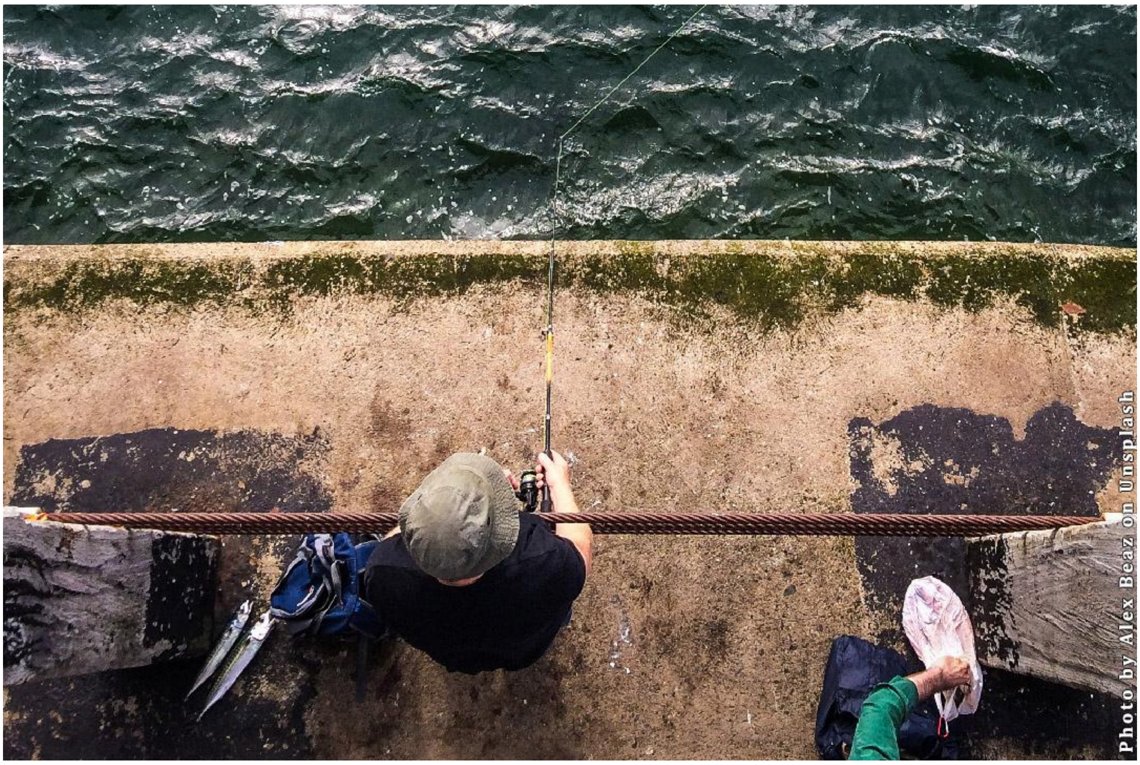
Article

04-04-2019 - 13:06
Reference No: 20180830STO11343

European Parliament

Personal pension saving: EU alternative to offer more flexibility



A personal pension can prove a useful additional source of income when retirement comes. Photo by Alex Beaz on Unsplash

A simple pan-European personal pension product will allow savers across the EU to keep putting money into the same scheme even if they move to another EU country.

On 4 April MEPs voted in favour of rules introducing personal pension products with standard features all across the EU. They will compete with national products in the field and thus provide more choice to people wishing to save for retirement.

Dutch ALDE member Sophie in 't Veld, who drafted Parliament's position, said: "We have delivered what we promised: a truly pan-European product that would be simple, safe and good for consumers." She noted it was a complementary option that in no way replaces state pensions and added: "It will further contribute to a social Europe that cares for people."

What are personal pension products?

Personal pension products give people the option to set aside retirement money. They are voluntary and complementary to whatever you are entitled to receive from the public pension system and from contributions made by your employer(s).

While you are not obliged to have a personal pension, it can provide a useful additional source of income when retirement comes. Money that you put in is invested in financial instruments.

EU alternative

There are many personal pension products on the market in EU countries, but they vary significantly. The pan-European personal pension product (PEPP) aims to provide a simple alternative with standard features and transparent costs that can be sold across borders.

In 't Veld pointed out that the rules lay out extensive rights for consumers, including pan-European oversight by the European Insurance and Occupational Pensions Authority, a clear set of information to be handed out to savers, as well as mandatory advice to make sure savers know what they are buying and what they may expect.

Savers would also benefit from increased portability, as they can work in another member state and still save for retirement with the same provider. Meanwhile PEPP providers can sell their products to a larger market and achieve economies of scale.

A study quoted by the European Commission says that the assets under management in the personal pension market could rise threefold to €2.1 trillion by 2030 as a result of the introduction of the PEPPs.

Savers will be able to choose between different investment options, thus indicating the level of risk they are comfortable with. There will also be a basic option with a fee cap of 1% of the accumulated capital per year. In addition, savers will be able to switch to other providers of such products at a capped cost.

Tax treatment

Tax incentives may be crucial to whether people take up personal pension products. In a separate recommendation to the Council, MEPs argue that PEPPs should benefit from preferential tax treatment by countries to attract savers.

Options include each country giving PEPPs the same preferential tax treatment as other national products, or all EU countries agreeing together on specific tax relief.

Next steps

Once the Council approves the new rules, the PEPPs regulation will be published in the EU's official journal and enter into force 20 days later. It will apply 12 months after the publication in the official journal of the related delegated acts.

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