

INCEPTION IMPACT ASSESSMENT			
TITLE OF THE INITIATIVE	Initiative for an EU Personal Pensions Framework		
LEAD DG – RESPONSIBLE UNIT – AP NUMBER	DG FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL MARKETS UNION	DATE OF ROADMAP	08/09/2016
LIKELY TYPE OF INITIATIVE	Legislative or non-legislative		
INDICATIVE PLANNING	Initiative to develop an EU framework for Personal Pensions to be adopted in the course of 2017		
ADDITIONAL INFORMATION	N/A		
<p>This Inception Impact Assessment is provided for information purposes only and can be subject to change. It does not prejudice the final decision of the Commission on whether this initiative will be pursued or on its final content and structure.</p>			

A. Context, Subsidiarity Check and Objectives
<p>Context</p> <p>Personal pensions are long-term savings products with a retirement objective which are subscribed voluntarily and are neither social security-based nor occupational. Personal pensions products exist in the EU today but their offer and take-up vary widely across the Member States.</p> <p>There is, currently, no legal framework governing personal pensions at EU level, but twenty-eight national laws.</p> <p>One of the priorities of the Commission is to establish the building blocks of a Capital Markets Union (CMU) by 2019. By building a stronger single market for capital, one of the main objectives of the CMU is to increase retail investment in capital markets by building savers' trust through transparency, easier access to a range of suitable and cost effective investment products and more attractive investment opportunities.</p> <p>The Commission announced in the Action Plan on Building a Capital Markets Union that one of its priority areas in building the CMU is to explore ways to increase choices for retirement saving and build an EU market for personal pensions which pensions providers could opt for when offering personal pensions across the EU. As part of that Action Plan, the Commission will assess the case for a policy framework to establish European personal pensions.</p> <p>Most respondents to the Commission consultation on Building a CMU considered that personal pension savings have an important role to play by channelling retail savings into capital markets and expressed support for the creation of a single market for personal pensions as one of the building blocks of a Capital Markets Union. Respondents believed that a new cost-effective and simple European personal pension product with high consumer protection standards could help shift savings to long-term and less liquid assets. In their responses to the CMU consultation, representatives of the asset management industry recommended putting in place a voluntary regime for private pensions.</p> <p>In July 2012, the Commission requested the European Insurance and Occupational Pensions Authority (EIOPA) to provide technical advice on possible ways to develop an EU Single Market for personal pension schemes. In February 2014, EIOPA delivered a preliminary report 'Towards an EU-single market for personal pensions: An EIOPA preliminary report to the Commission'. To complement the findings of the EIOPA preliminary report, the Commission asked for further advice from EIOPA in July 2014, in particular on the cross-border, prudential regulation and consumer protection measures required to develop an EU-wide framework for the activities and supervision of personal pension products. EIOPA delivered its final advice on the development of an EU Single Market for personal pension products in July 2016.</p> <p>To complement the exploratory work on personal pensions carried out by the Commission and EIOPA, further assessment will be done in this area, in particular to explore the possible demand for personal pensions across the EU and to look at the feasibility of an EU initiative from the taxation, social and labour law as well as contract law aspects, which are key elements for individuals to consider when investing in personal pension products.</p> <p>The building blocks of an EU Personal Pensions Framework will be developed taking into account the feedback</p>

received from individuals, stakeholders and Member States as a response to a **public consultation** complemented by a public hearing and an **external feasibility study on taxation aspects and implementation**:

- The **consultation**, which runs until 31 October 2016, complemented by a public hearing on 24 October 2016, will invite individuals to share their experiences with personal pensions and their interest in saving for retirement. It will also seek the views of professionals and their interest in offering simple, affordable and transparent personal pension products. The public hearing will focus on showcasing the benefits of the single market in financial services for the daily life of EU citizens. A more competitive market would also create new market opportunities for providers, supporting growth in the European economy and creating jobs.
- The **external study** will assess the feasibility of promoting the uptake of personal pension products within the EU, at both domestic level and cross-border and provide the groundwork for assessing the case for establishing a European market for simple, efficient and competitive personal pensions. The study will map the different national taxation regimes of personal pensions as this can be a potential obstacle for uptake, as well as survey the national social and labour law requirements relating to personal pensions. In addition, the study will analyse the feasibility of implementing various approaches to foster simple, efficient and competitive personal pension products within the EU.

Issue

Personal pension markets in the EU are **not as developed as they could be** and their **cross-border dimension is marginal**, both in terms of cross-border supply and of the possibility for savers to take their personal pension products across borders.

Personal pension markets are **unequally developed across the EU** due to problems both on the demand and the supply side. The relative importance of personal pension volumes across Member States depends on several factors including the maturity of the state and occupational pensions, the level of savings and the supply of pension products with attractive characteristics for the retail investor. Importantly, in some Member States in Central and Eastern Europe, both supply and demand are limited.

On the demand side, the main impediment to a wider take-up of personal pensions is the **lack of financial education towards saving more for retirement**, the complexity of personal pensions and the low saving capacity of households. In particular, savers are **not sufficiently encouraged** to invest in voluntary pension vehicles in order to reach an adequate income in retirement. In addition, due to the lack of competition and the persistent low interest-rate environment, personal pensions can be **expensive and the returns not sufficiently attractive**, in particular for low and middle-income households. Fees and charges can significantly reduce the performance of pension products. Furthermore, existing differences in contract law and the lack of pan-European pension products may hamper individual savers buying cross-border. Therefore, individual **savers are the first affected by the insufficient development of personal pensions**.

On the supply side, markets are predominantly national with local providers which are generally insurance companies (insurers represent more than 90% of personal pension assets under management). **Other potential suppliers, such as asset managers, occupational pension funds or banks are affected by the lack of development of personal pensions and might find it difficult to enter the market.**

Lack of supply for personal pension product providers and products results notably from the **different regulatory requirements across Member States**, which restrict market access to certain providers and hamper cross-border activity. Tax aspects are especially challenging. While tax advantages, along with other public incentives such as co-payments, are key to promoting the take-up of personal pensions, they may be applied in a way that reduces the potential for creating a single market for personal pension products by effectively creating entry barriers for certain providers benefiting from tax incentives and making cross-border activity complex due to sometimes conflicting requirements for tax incentives across Member States. Differences in national contract law may add further complexity.

As a consequence, **if no EU action is taken**, asset pools are likely to remain **small and limited to national borders, competition restricted** to domestic insurers and other providers are likely to be **blocked from entering the market**. In such a case, the potential efficiency gains and returns of large asset pools and potential innovation from enhanced competition that could be expected from a true Capital Markets Union would not materialise.

Subsidiarity check

The establishment of an EU framework on personal pensions would fall under the competence of the EU according to Art. 114 of the Treaty of Functioning of the European Union (TFEU). At this stage, the Commission services are gathering evidence whether Member State action is insufficient to address the problem and whether EU action is therefore justified.

Main policy objectives
<p>The EU framework on personal pensions will seek to deliver (and, therefore, be measured against) the following objectives:</p> <ul style="list-style-type: none"> - enabling individuals to obtain access to simple, affordable and transparent personal pension products through supporting the development of an EU single market in personal pensions; - creating better conditions for a larger category of providers to offer personal pension products in order to increase choice; - encouraging more cross-border provision of personal pension products so that consumers can access them from providers located in other Member States and potentially benefit from better prices; - enabling current personal pension providers to increase economies of scale by access to a larger retail market.
B. Option Mapping
Baseline scenario – no EU policy change
<p>No EU action: Encouraging further savings into personal pensions would continue to be a matter covered by national competence, including responsibility for the financial education of individuals. Channelling savings into capital markets would therefore continue to depend on national incentives for retirement planning. Market fragmentation would remain resulting in a lack of economies of scale. The offer of personal pension products would remain limited in some Member States and distinct across the EU. Technological developments such as Fintech could considerably change the personal pension product and/or provider landscape in the future.</p>
Options of improving implementation and enforcement of existing legislation or doing less/simplifying existing legislation
<p>The personal pension market is characterised by distinct national regulatory regimes and there is currently no European legal framework. Therefore, enforcement of existing EU legislation would not be relevant. In particular, it would not be effective to address the issues of contributing to improve cross-border activity and open access to new providers in the pensions market.</p>
Alternative policy approaches
<p>There could be several approaches, including, but not restricted to, the ones outlined below.</p> <ul style="list-style-type: none"> • Personal pension account: A personal pension account such as the Individual Retirement Account (IRA) offered in the United States would be determined at EU level. An IRA is a personal savings plan that gives individuals tax advantages for saving for retirement. It encompasses different types of plans, depending on income or employment status of an individual, tax advantages or investment options. An IRA can be opened with banks, credit unions, insurance companies, mutual fund companies and brokerage firms. Most IRA providers offer a broad variety of investment options, including stocks and bonds, money market funds and mutual funds. The features of personal pension account would be set out at EU level through a legislative act. • Personal pension product: A personal pension product could be developed based on a set of common and flexible features with a specific retirement objective. Such features might cover transparency and disclosure requirements, investment options, accumulation and decumulation phases, distribution models, consumer contractual rights, guarantees and fees and charges. This approach could take some inspiration from the Undertakings for Collective Investment in Transferable Securities (UCITS), European Long Term Investment Funds (ELTIF), the EuVECA and EuSEF funds, the European company statute or the EIOPA advice on the development of Pan European Personal Pensions Product. This would be set out at EU level through a legislative act; • Harmonisation of national personal pensions regimes: Under this approach, personal pension requirements would be harmonised across Member States in terms of prudential supervision, possible providers, maximum costs, contract law, distribution models etc. However, tax requirements applicable to personal pension products would still be determined at national level.
Alternative policy instruments
<ul style="list-style-type: none"> • Code of Conduct: with cooperation from stakeholders, this could include the development of a Code of Conduct for providers of personal pension products. This would be a voluntary set of rules which providers in the Member States could follow and it could help encourage the financial education of individuals.
Alternative/differentiated scope
<p>To be determined based on the outcome of the public consultation and study.</p>

Options that take account of new technological developments
All the above-mentioned policy approaches are meant to take into account new technological developments, in particular since personal pensions have a strong retail dimension. Elements such as online distribution and information to policyholders in various digital formats would play a role.
Preliminary proportionality check
The initiative would be designed to be proportionate taking into account the variety of potential providers and the differences in personal pension provision across EU markets.
C. Data Collection and Better Regulation Instruments
Data collection
More detailed data is needed in particular as regards taxation aspects for personal pensions in the Member States and the conditions under which personal pensions schemes benefit from tax incentives. Part of this data need will be met by the external feasibility study which will map tax regimes, completed by the results of the public consultation which will collect providers' and individuals' views. EIOPA also has a database of pension plans and products in the EEA, although its focus is not exclusively on personal pensions. Figures might also be relevant at a later stage on the impact that a possible initiative might have for capital markets.
Consultation approach
<p>The consultation on an EU personal pension framework aims at assessing the need for action to address these obstacles as well as different approaches that could be pursued and their potential impact. It gathers views on how to develop the personal pension market by improving choice, transparency and by reducing the cost of retirement saving to the benefit of European individuals in retirement. It also explores how the supply of personal pensions could be diversified through more competition between different types of providers.</p> <p>The consultation aims to test in particular the demand for personal pensions across the EU. It looks for input on ways to support the delivery of reliable and affordable personal pensions by seeking to identify the features which would be essential for creating an appropriate framework. The consultation also tests which key features should be part of an EU personal pension framework.</p> <p>Another aspect of the consultation is how to enable the portability of personal pensions, meaning how to enable savers to have their accumulated benefits recognised if they move from one Member State to another. In addition, the consultation aims at identifying how the cross-border provision of personal pensions could be facilitated so that savers could access products from providers situated in other Member States and thus potentially benefit from cheaper products.</p> <p>The consultation was launched on 27 July 2016 and will be open until 31 October 2016. The consultation is available at http://ec.europa.eu/finance/consultations/2016/personal-pension-framework/index_en.htm</p> <p>The consultation seeks the views of individuals about their interest in retirement savings and their experiences with personal pensions. The consultation is also targeted at stakeholders, in particular professionals working in the pension sector, about their interest in offering simple, affordable and transparent personal pension products which work towards providing better returns for future retirees.</p>
Will an Implementation plan be established?
<input type="checkbox"/> Yes <input type="checkbox"/> No
To be determined in the follow-up to the consultation paper.
D. Information on the Impact Assessment Process
An Impact Assessment will be carried out in due time.
E. Preliminary Assessment of Expected Impacts
The goal of the initiative is to increase savings for retirement within the EU especially in EU Member States with underdeveloped personal savings markets. Increasing savings for retirement being channelled to capital markets and the creation of the Capital Markets Union is expected to contribute to growth and jobs in the EU in the long term.
Likely economic impacts
To be determined in the follow-up to the public consultation and the external feasibility study.
Likely social impacts
Increased pension adequacy and sustainability for EU citizens in retirement.
Likely environmental impacts
None expected.

Likely impacts on simplification and/or administrative burden
It will depend on the policy approach chosen. The goal is to create a simple, affordable EU framework for personal pensions, with no negative impact on administrative burden expected.
Likely impacts on SMEs
SMEs are potential providers in this context. The initiative could create market opportunities for SMEs in so far as it leads to opening up the market in personal pension provision. SME employees, or the self-employed, could also benefit from the availability of new personal pension products, as they might not have access to an occupational pension.
Likely impacts on competitiveness and innovation
The creation of an EU personal pension framework could improve competitiveness and innovation with more choice in savings and retirement products.
Likely impacts on public administrations
None expected.
Likely impacts on third countries, international trade or investment
None expected.