finax

Finax own-initiative opinion paper on
Pan-European Pension Product:

BUILDING A BRIGHTER PENSION FUTURE FOR EUROPE

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CONTENT

SUMMARY

Europe needs deep structural changes that will bring enough capital to European companies to drive the future of European growth. Savings and Investment Union is Europe's initiative to enhance our financial systems capability to connect savings with productive capital.

Pension savings are the largest portion of financial wealth, where European citizens are holding more than 6 trillion euros. Yet not all savings are invested in productive capital. Legacy pension systems, often based on defined-benefit principles, and many defined-contribution pension systems are investing most of its capital into conservative products. Therefore, less capital is being invested in European equity resulting in a possible pension gap for savers due to low inflation adjusted returns.

PEPP regulation was supposed to be an answer, designed to bring savers crème de la crème pension product. The intention was good, but its implementation unfortunately reflected a common challenge in EU policymaking: over-regulation. Yet, we believe, that all major obstacles can be addressed, and PEPP 2.0 would become the future of pension savings in Europe.

As Finax has been the only player with practical PEPP experience in Europe, it is our obligation to share our view on the future PEPP development and these are the key areas where we propose changes:

Design PEPP to invest effectively in European capital. We believe that private equity capital investing into Europe's infrastructure and ELTIF 2.0 funds should be part of PEPP products, however, the stochastic modelling is not addressing this. Underlying costs needs to be considered outside of the 1% fee cap, as investing in Europe's equity, private equity and ELTIF 2.0 funds are typically more costly solutions, than S&P500 index funds. Lastly, we need to increase the limit on PEPP alternatives to make country-specific PEPP products, to invest pension savings in local economy or hedged in local currency.

Allowing employers to contribute to PEPP is a key driver for PEPP to assert itself among EU citizens. This shall be done through the following measures:

a) Introduce the option for employers to negotiate PEPP terms with providers on behalf of their employees directly within the regulation,
b) enable auto-enrolment,
c) abandoning advice for basic PEPP,
d) simplified AML and KYC measures, and
e) allowing companies/employers to contribute to a PEPP account with the same incentives.

PEPP is aimed to be provided at a lower cost compared to current alternatives of personal pension products. Thus, **providers need to be able to distribute PEPP effectively using modern online marketing strategies as well as developed distribution networks**. Strict marketing regulation needs to be revised and should allow for client and business referrals as well as affiliate marketing. For mass distributions it is crucial to enable IDD and investment distributors to distribute PEPP products on equal footing. Lastly, EU shall consider investing in PEPP promotion to make a broader awareness of the product among EU citizens as well as business professionals.

We believe that PEPP can be provided within the 1% fee cap range in the long run, provided the regulation will change in three key areas:

a) allowing one-time distribution fees that would not count towards the 1% fee cap,
b) make PEPP a VAT exempt product,
c) consider the cost of underlying instruments outside of fee cap.

We support that tax and levy incentives, and subsidies for PEPP should be on par with local Personal Pension Products (PPP) to ensure equal treatment across all EU countries. In countries where tax incentives align with national PPPs, PEPP adoption is 9x higher. We strongly advocate for allowing asset transferability between PEPP and PPP, which would improve competition leading to better prices, higher quality, innovation, and a broader consumer choice.

Finax welcomes European Commission initiative to improve PEPP regulation. Our own initiative should be seen as our contribution in building a brighter pension future for Europe.

INTRODUCTION

Finax is a leading wealth management firm in Central Europe, focused on helping individuals secure their financial future through transparent, low-cost investment solutions. Finax has built its brand with extensive financial education content addressing answers to clients´ needs through blogs, podcast videos and webinars it offers.

At Finax, we use discretionary portfolio management services to build client portfolios with an emphasis on passive investing. Our portfolios are constructed using index exchange-traded funds (ETFs), which are designed to track the performance of a broad market index. This approach offers several key advantages: a) lower costs, b) diversification, c) consistent performance.

When the Pan-European Personal Pension Product (PEPP) was introduced in 2019 by PEPP Regulation[1], at Finax we immediately recognized the potential of this product. We were enthusiastic about the opportunity it presented to individuals across Europe to enhance their retirement savings. As a result, we began preparing ourselves to become licensed to offer the PEPP as early as possible. This effort culminated in our successful launch of the product in 2022. Finax became the first European entity to provide PEPP. Currently Finax is providing PEPP to clients in Poland, Czech Republic, Slovakia and Croatia with the aim to make the product accessible in all 27 European markets in the future.

The biggest advantages of the PEPP include its flexibility, portability across EU member states, and its potential to offer a higher return compared to traditional pension schemes due to its investment options. It also allows savers to make their pension contributions on a voluntary basis and provides various tax incentives, offering a more personalized and adaptable approach to retirement savings. Finax is currently offering the product at 0,6% p.a. base management fee (VAT and TER on top), making it a very affordable low-cost pension product in all the markets where the product is offered.

Despite its advantages, we believe there are significant inefficiencies that have hindered the PEPP's success across Europe. While the product is promising, it has not yet realized its full potential due to issues such as incentive level playing field, openness to employers, marketing, distribution, fee regulations and other. At Finax, we remain optimistic about the PEPP, but we believe that these inefficiencies need to be addressed to ensure that it can truly serve the needs of European citizens. To address these concerns, we have created this opinion paper to explore the challenges and propose solutions for making the PEPP a more efficient and accessible product.

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[1] *Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP)*

1. INVESTING IN EUROPEAN EQUITY

Purpose: PEPP as a long-term product is a great tool to boost the investments in the European economy. We believe that **Private Equity** should be an integral part of the equity mix within PEPP products. Currently, most of our clients' funds are invested in US, European, and emerging market index funds, providing access to the 7,500 largest companies across large, mid, and small-cap segments. However, we believe that private equity should make up 10-20% of the equity mix. This would enable clients to invest in the local economy, especially in regions like Central and Eastern Europe (CEE), where capital markets are still underdeveloped.

ELTIF 2.0 could serve as a valuable tool in this regard. Given the long-term nature of PEPP investments, typically spanning about 50 years (35 years of accumulation and 15 years of withdrawal), we believe that client funds should be directed towards supporting local economies through private equity too. This would contribute to the broader objective of the Savings and Investment Union.

However, under the current PEPP Regulation and its PEPP RTS[2] there is a very limited room to utilize these investments within PEPP effectively.

We have identified several obstacles that are impeding the achievement of this goal:

- **Investment rules for Private Equity and stochastic modelling.** Recitals 48-49 and Article 41 (1) of the PEPP Regulation suggest that such investments may be permissible, provided they are kept at a prudent level. However, the PEPP related regulations should be more specific on this matter. In particular, there are no clear guidelines on how to model the performance of private equity investments within the stochastic modelling for client portfolios. Clarifying this in the regulation would help ensure that private equity can be effectively integrated into PEPP products while maintaining prudent investment practices.

  We also recommend reconsidering the requirement for stochastic modelling as such. The development and technical implementation of the stochastic modelling requires a considerable amount of resources and testing of the strategies also requires numerous iterations. These factors may discourage providers from engaging with the product. Moreover, given the unpredictable market situations in 2020, 2022 and 2025, stochastic

[2] Commission Delegated Regulation (EU) 2021/473 of 18 December 2020 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements on information documents, on the costs and fees included in the cost cap and on risk-mitigation techniques for the pan-European Personal Pension Product

modelling may not be robust enough to account for these factors, and it may be more appropriate to allow for greater flexibility when designing PEPP.

Impact on legislation: PEPP Regulation and PEPP RTS. Redesigning the investment rules and methodologies for pension benefits projections.

- **Underlying costs of the funds to be considered outside of the 1% fee cap.** According to EIOPA Q&A ID 3117, the 1% fee cap must include TER of the underlying instruments. As a result, if a provider is an investment firm using UCITS ETFs, the maximum fee they are able to charge is around 0.6%, as the remaining 0.4% is absorbed by VAT (see **FEES AND COSTS**) and TER costs.

  Stakeholders should assess whether such a low revenue potential will be enough to attract sufficient market players to develop and offer PEPP products under these constraints.

  Having TER as a part of the 1% fee cap pressures providers to use lowest costs underlying instruments (ETFs) to leave enough room for their own fees. Traditionally, S&P500 funds are the cheapest index ETF funds with costs below 0,1%, while European large cap ETF funds tend to cost around 0,2% and European small/mid cap funds costs are above 0,3%.

  Moreover, European private equity funds and ELTIFs, tend to cost more than 2%, as they are very difficult to create and manage. Thus Europe's 1% fee cap limit, that must include TER of the underlying instruments in a sense prefers US equity over the European.

  To address this, we suggest allowing TER and fund costs of the financial instruments up to e.g. 0.50% of the total costs to be excluded from the 1% fee cap and allowing special treatment for European private equity funds. This adjustment would enable providers to offer more competitive and sustainable products, based on European equity, while ensuring that PEPP remains accessible and lucrative to customers.

  Impact on legislation: PEPP Regulation and PEPP RTS. We suggest to directly rule out TER and fund cost within financial instruments out of the definition of costs or exclude their portion from the 1% fee cap.

  Alternatively, in conjunction with a Comenius University pension expert doc. JUDr. Ing. Ján Šebo, PhD. we suggest European Commission to use a different approach to a 1% fee cap based on CEPR.

  Instead of considering TER costs outside of 1% fee cap, a more balanced alternative is to introduce a Cost-Effectiveness Performance Ratio (CEPR). This metric could objectively measure the justification of higher management fees through corresponding performance, linking cost directly to value creation for the saver.

Structure of the CEPR:

CEPR = Annualized Net Performance / Total Expense Ratio (TER)

Annualized Net Performance: Calculated over a standardized rolling period (e.g., 5-10 years), reflecting the return net of all fees and costs.

Total Expense Ratio (TER): Includes all fees and costs, such as management fees, administration, custody, depositary, and distribution charges.

Threshold for Inclusion:

A clear minimum CEPR threshold should be set by regulation. Products exceeding this threshold would qualify for inclusion, even if their TER exceeds the original 1% cap. For example, regulators could set a minimum threshold such as:

CEPR ≥ 5: For every 1% of costs, the product must generate at least a 5% annualized net return. A higher threshold would demand even greater accountability and efficiency.

Expected Benefits of Introducing CEPR:

- Consumer Protection and Value-for-Money: directly connects higher fees to superior performance outcomes.
- Investment Diversification: allows inclusion of ELTIFs and similar investment vehicles, which enhances diversification, potentially boosting long-term retirement returns.
- Market Competition: encourages providers to deliver stronger net returns or face competitive disadvantages, ultimately incentivizing innovation and efficiency in pension provision.

<u>Impact on legislation:</u> PEPP Regulation and PEPP RTS. Introduce a provision allowing for exceptions from the 1% fee cap when products demonstrate sustained compliance with a regulatory-defined CEPR. Introduce a dedicated new article outlining the methodology, calculation, and oversight.

- **Set a higher limit for PEPP alternatives and create PEPP label for national products.** Currently, each player is restricted to offering only six PEPP options—one basic PEPP and five alternatives. For instance, immediately after the launch of our PEPP product in Poland we registered a demand for a localized PEPP solution that would include more domestic bonds and equity within the product or demands to hedge portfolio in local

PLN currency. To accommodate this, we would need to use one or eventually two of our five alternatives for such products.

With 27 European countries, we cannot accommodate patriotic needs of EU citizens to invest a large-enough portion of their pension assets in the local economy. Additionally, there are 7 EU countries operating in local currencies that might require country-specific solutions, which we currently cannot offer due to the existing limitations.

Furthermore, PEPP can be offered through partnerships. For example, a large insurance company may provide PEPP in six major EU countries and wish to collaborate with Finax to cover the remaining countries. However, the insurance company would want the partner to offer PEPP products that align with their investment strategy, not necessarily the partner's. The limitation on the number of PEPPs makes it difficult to meet such requests. The same issue arises if Finax partners with a fund provider, who may request a PEPP solution based on their products.

Considering these challenges, we recommend increasing the limit for PEPP alternatives to better accommodate market demands, partnerships, and country-specific requirements.

Impact on legislation: PEPP Regulation.

2. EMPLOYERS AS A KEY DRIVER

Purpose: We see a significant potential for large-scale distribution of the basic PEPP through employers. The initiative for PEOP could also serve the purpose, however even the current PEPP Regulation already in Article 2 (2) allows for the associations to negotiate terms for wider groups of savers and to subscribe to a PEPP on their behalf. However, due to the mandatory advice and KYC/AML procedures, PEPP providers are still required to actively engage with individual savers. If these requirements are abandoned and followed with an auto-enrolment, it could offer a more effective way to secure the future of pensions for European citizens. Implementing some changes in the PEPP regime could significantly enhance its ability to meet its original objectives.

A Slovak factory of a DAX 30 company Continental has been the Europe's first employer to start contributing (co-sponsor) to PEPP on individual accounts of their employees as part of their pension benefit program. With help of the local university, they have analysed available pension schemes and have opted for PEPP, as they believed, that each euro contributed on their behalf to PEPP would bring the highest pension benefit to their employees once retired.

On each of the mentioned improvements, we are able to demonstrate, how they could potentially contribute towards reaching a better scale of PEPP among EU citizens.

- **Employers to negotiate PEPP terms with providers on behalf of their employees.** Finax fee for PEPP is 0.6%+VAT. Making a tender on pension benefit program, Continental has been able to negotiate better terms for their employees in terms of price, should the program reach bigger scale, and more Continental factories would participate in the PEPP schemes. On top of that, we are providing their employees with free financial education. In the interest of clarity, we suggest clarifying the definition of association in Article 2 (2) of the PEPP Regulation, by mentioning also employers among others to negotiate on behalf of their employees.

  Impact on legislation: PEPP Regulation (Article 2 (2)).

- **Auto – Enrolment.** Despite the fact, that Continentals' pension benefit program is one of the most lucrative in Slovakia, only 71% of their employees, has opted to participate in the program. Given the fact that 80% of the workforce are blue collar workers, we consider this a success anyway. To be able to participate, one needs to set up a PEPP account with Finax, which takes around 20 minutes. Despite the fact, that such benefit is often considered as free money by the employer, that only „needs to be picked up from the ground ", 29% of employees have not enrolled. They feel, a) they do not understand it, b) they will not live as long to reach retirement level, c) or simply retirement is nothing they care about.

  These employees are usually the lowest financially educated people and thus are the most vulnerable and least prepared for their pension. In fact, their need to enrol in the pension benefit program is the highest.

  An auto-enrolment system represents one of the most efficient approaches to securing an individuals' financial well-being in the context of aging population, as it ensures participation without requiring active engagement from individuals. The employers could introduce an auto-enrolment option to their employees when the terms are negotiated by the employer and the employee has not yet opened their own PEPP. These contracts negotiated by the employer and auto-enrolment option can be concluded as "contracts for the benefit of a third person" with the right to opt out (passive consent) by the employee.

  In addition, for the contributions by employees, strategies rooted in behavioural economics can be highly effective with pension product schemes. For example, prescriptive programs such as „Save More Tomorrow®" (Thaler and Benartzi's) where people commit in advance to allocating a proportion of their future salary increases towards retirement savings. This approach can help make retirement planning more appealing, particularly for younger generations. (*source Rory Sutherland, Alchemy p. 328-329*). Young people often lack the initiative to purchase pension products, but this generation would benefit greatly from such products, as they have the biggest potential to increase their pension savings.

Impact on legislation: PEPP Regulation (Article 2 (2)), national laws.

- **Abandoning advice for basic PEPP.** Employers' negotiations and auto-enrolment could be pursued only if no advice is required for basic PEPP option. We fully support this OPSG initiative to make the basic PEPP an advice-free product. The basic PEPP should be offered without the need for advice or a suitability test, as it is a simple, long-term pension product. It's a product approved and tested by national regulators and any changes in the product must be reported as such.

  This approach would help lower the costs for providers and reduce barriers for consumers, as suitability tests often complicate the process for them.

  Abandoning advice itself, it would make PEPP more accessible to a wider audience.

  Impact on legislation: PEPP Regulation.

- **Simplified AML and KYC measures.** Hand in hand with abandoning advice to basic PEPP, lowering AML and KYC measures are a must to enable auto-enrolment. We propose simplifying Anti-Money Laundering (AML) and Know Your Customer (KYC) measures for the PEPP product. Since the PEPP is a long-term product and with strict rules on withdrawals and, in many cases, on deposits, the majority of clients make lower monthly deposits and have limited options for early withdrawals. This makes the PEPP a low-risk product in terms of AML concerns.

  Building on the measures already implemented in Slovakia in 2025, we suggest that PEPPs should be granted a simplified AML status across all EU countries. We understand that under the adopted AML regulations, pension products could be classified under a lower risk factor. However, if verification of PEPP savers is still required, it could create significant barriers for efficient auto-enrolment in voluntary pension schemes (as previously discussed in our regulatory suggestions).

  Furthermore, it should be clarified that employers contributing to PEPP should not be considered clients for the purposes of AML regulation. As such, PEPP providers should not be required to conduct due diligence on employers who are funding (co-sponsoring) employees' accounts as a part of occupational pension benefit schemes.

In line with this, we propose that no identity verification for either the saver or the employer should be necessary. This would greatly facilitate the adoption of PEPP distribution, particularly when employers negotiate the terms on behalf of their employees.

Impact on legislation: National regulations, AML Regulation.

- **Allowing companies/employers to contribute to a PEPP account with the same incentives.** Slovakia has currently one pension scheme allowing individuals as well as companies to contribute to it. In fact, predominantly most contributions to this scheme are occupational based while most private contributions are done only when employers contributions are conditional to individual contributions (e.g. employer's contributions match the private contributions 1:1).

  Should Continental decide to contribute to local pension benefit scheme, employees would get higher initial contributions, as contributions to PEPP are subject to 25% social security levies. As mentioned earlier, Continental has ordered an independent university study, that has shown, that PEPP has a higher probability to bring employees higher pension benefit through lower fees and higher returns during both savings and withdrawal phase. However, not many companies are so conscious in their pension benefit spendings, and an extra 25% social security levy is an impassable barrier.

  Many countries have implemented PEPP regulations to a point where employers can contribute to PEPP, benefiting from the same tax, social security, and subsidy incentives available to local occupational schemes. It is evident that, in many countries, employers make the largest contributions to an individual's pension. Therefore, in order for PEPP to succeed, it is essential to enable employers across all countries to contribute to PEPP under the same conditions as they do for local occupational pension schemes.

  In many countries, occupational and private pension schemes operate under different frameworks and are often offered by different type of companies. Aligning these schemes will further unify the pension product, allowing customers to choose a single pension product suitable for both private and employer contributions in all EU states.

  Impact on legislation: National regulations.

3. DISTRIBUTION AND MARKETING

Purpose: The PEPP initiative has not been successful, as the regulation has significantly hindered its marketing potential. The regulatory framework has made it challenging for providers to effectively promote the product, limiting its reach and adoption. This has ultimately impacted the success of PEPP, as marketing plays a crucial role in driving awareness and customer engagement. It is also clear from recital (71)[3] of the PEPP Regulation that there is concern about the product not being distributed properly, and that regulators may need to intervene.

In the case of Finax, 25-30% of new clients are directly referred by other clients, around 10% of new clients are brought by investment distributors and around 20% of clients come thanks to cooperation with financial influencers and affiliates. However, we have a very limited use of such channels with PEPP, as regulatory constraints are limiting 3rd party marketing of such products.

If marketing is overly restricted, the adoption of the product could be severely limited. It is essential to ensure that general marketing rules are significantly less strict than they currently are. Since all PEPP products are approved by regulators and the basic PEPP could be provided without advice, the risk of selling an inappropriate product to customers is minimal.

Moreover, we have experienced divergent views among the national regulators as regards to the licensed distributors of PEPP and sectorial regime, which have created obstacles to the PEPP distributions.

- **Allowing referrals, business referrals, and affiliate marketing for basic PEPP is crucial.** Since the basic PEPP is a product approved by the national regulator and designed as a long-term pension product, there seems to be no valid reason for the strong general marketing restrictions placed on PEPP products. We believe that affiliate programs and client referral programs should be permitted, as they would help reduce client acquisition costs for PEPP providers. E.g. in Poland, the local regulator KNF has banned giving benefits to clients wishing to refer another client to PEPP.

  In particular, if there are caps on fees, affiliate and referral marketing could pose efficient tools for acquiring new customers at a lower cost.

  <u>*Impact on legislation*</u>*: PEPP Regulation – introducing exemptions to distribution, including excluding employers from the distribution regime.*

[3] *In view of the pan-European character of the PEPP, there is a need to ensure a consistent high level of PEPP saver protection throughout the internal market. This requires adequate tools to effectively combat infringements and prevent consumer detriment. Therefore, the powers of EIOPA and the competent authorities should be complemented by an explicit mechanism for prohibiting or restricting the marketing, distribution or sale of any PEPP giving rise to serious concerns regarding PEPP saver protection, including with respect to the long-term retirement nature of the product, the orderly functioning and integrity of financial markets, or the stability of the whole or part of the financial system, together with appropriate coordination and contingency powers for EIOPA.*

- **Allowing IDD and investment distributors to distribute PEPP products on equal footing.** Currently, many countries restrict IDD distributors to distribute only insurance-based PEPPs or those created by insurance companies, which does not create a level playing field for other participants. Not only do we fail to see the rationale behind this restricted interpretation, but there is no legal basis in the PEPP Regulation to support it. According to the rules for distribution, PEPP needs to be distributed in accordance with the provisions governing investment products. However, some national regulators assert that IDD distributors can only distribute PEPPs created by insurance companies or those with insurance-based elements. This interpretation raises practical issues, particularly regarding when a PEPP product becomes insurance-based.

  We have also seen different approach by local regulators in allowing IDD distributors to distribute non-insurance-based PEPP. While in Croatia this has not been a problem yet, in Poland, Czech Republic or Slovakia, this was not allowed.

  Under the PEPP Regulation, investment firms can create PEPPs with insurance components, such as biometric risk or guarantees. For these products, the investment firm must collaborate with insurance companies. This begs the question: can IDD intermediaries distribute products with insurance features, created by investment firms?

  This situation raises concerns about whether such an interpretation of distribution best serves the interests of the client. In our case, a young individual who is saving for retirement could be denied access to a cheaper, basic PEPP, and instead being pushed toward a more expensive product with unnecessary insurance features. To promote pension products among young people, who typically do not require biometric risk coverage, we need to ensure that distribution interpretations do not create uncertainty or unnecessarily limit access to the most suitable products.

  Furthermore, this interpretation could create barriers for other PEPP providers, such as IORPs, in distributing their products. If the current interpretation is followed, it raises the question of who can distribute PEPPs from other providers. The sectorial approach has created confusion in the market and is inhibiting the potential of the PEPP. Therefore, we believe the sectorial approach should be clarified in the PEPP Regulation to ensure more effective distribution.

  In this regard, we propose that IDD distributors should be allowed to distribute PEPPs from all types of providers. Additionally, we suggest that investment distributors, including fund distributors and those authorized to offer investment advice under the MiFID II exceptions, should also be allowed to distribute PEPPs from all market players in a consistent and equitable manner.

Impact on legislation: EIOPA QnA for clarification of distributors, PEPP Regulation – (i) more prominent information that regardless of the PEPP features or PEPP provider, PEPP can be distributed by all the PEPP distributors, (ii) introducing new players as PEPP distributors -such as investment intermediaries under MIFID II.

- **EU investment in marketing.** It seems that the EU has not taken significant steps to promote PEPP among its citizens. Likely, only one in a thousand people has ever heard of PEPP. Finax is pioneering PEPP in four countries, and with the current limitations on marketing capabilities, it is extremely challenging to raise awareness and spread the word effectively. Furthermore, we even see, that there is very low knowledge of the product even among business professionals. The EU should consider taking appropriate measures to invest in promoting PEPP more efficiently among financial institutions and end customers. A concentrated marketing effort would significantly increase awareness of PEPP and help drive its adoption across the EU.

  Impact on legislation: N/A.

4. FEES AND COSTS

Purpose: We believe that the 1% fee cap for a basic PEPP is acceptable in the long term, as it aligns with the long-term incentives for consumers. However, as a PEPP provider, we face significant challenges in covering the distribution costs associated with promoting the product. Our current client acquisition cost (CAC) in 2024 was on average €141 per customer, which includes both direct marketing and personnel costs. Assuming an average monthly client contribution of €150 and a 0.6% per annum management fee, we are able to earn only €78 on management fees within the first five years after client acquisition. It takes us astonishing 80 months (almost seven years) to recover just the CAC costs. If we take into consideration the retention cost too, we need 10 years to become breakeven on the customer. Such a long period is simply unacceptable. There is no venture capital that would fund such business and existing large pension companies will have hard times to persuade their investors on such a long-term investment with an uncertain outcome.

The product may also be distributed through tied agents or IDD distributors, but we struggle to pay agents a one-time acquisition costs, as agents are reluctant to work with shared inducements, which would result in minimal earnings over the initial 10-year period.

- **We propose allowing one-time distribution fees that would not count towards the 1% fee cap**, making the product more attractive for agent distribution or for companies that wish to market their products through direct channels. We suggest the following potential solutions:

- A hard limit, such as €500, or a limit that could be adjusted annually by EIOPA or tied to a percentage of the national average wage.
- A percentage of client deposits over an initial period.
- The distribution costs could be recouped during the initial term of the contract (e.g. 5 years), similar to how costs for advice are currently handled under Article 5 (3) of PEPP RTS, with an increased 10% fee cap during the initial five years.

Impact on legislation: PEPP Regulation, PEPP RTS.

- **Make PEPP a VAT exempt product.** We believe there should be equal VAT treatment among all providers of the PEPP product. Currently, multiple types of providers, including credit institutions, investment firms, insurance companies, IORPs, asset managers, and AIFs, are eligible to offer a VAT-exempt PEPP solution. However, investment firms are required to charge VAT for portfolio management. During our PEPP registration process, we were instructed to include VAT in our total costs, meaning we must fit our costs within the 1% fee cap, including VAT.

  This discrepancy not only results in uneven VAT treatment among different financial undertakings according to Article 6 of PEPP Regulation but also forces investment firms to provide services much below the 1% fee cap. VAT also makes the PEPP product more expensive for the saver investing through investment firms. On top of that, Luxembourg based investment firms will be able to provide PEPP with lower 17% VAT, while Hungarian investment firms must charge 27% VAT, that still needs to be part of the 1% fee cap. Addressing this issue would create a level playing field among providers and help reduce the cost burden on PEPP savers.

  Impact on legislation: VAT Directive.

5. NATIONAL RULES

Purpose: We advocate that PEPP shall not be subject to additional extensive local regulations. All local regulations should be kept to a minimum to attract cross-border players. Imposing more national regulations could result in more complex and costly products for PEPP providers, as they would need to develop them in compliance with varying national rules. National incentives play a crucial role for the success of PEPP.

- **The tax incentives, levies and subsidies for PEPP should ensure a level playing field with local PPP.** Ensuring equal treatment of PEPP with local Personal Pension Products (PPP) for all tax and levy incentives and subsidies on both personal and employer contributions across all EU countries is crucial for the successful implementation of

PEPP. We have observed that in countries where savers' incentives are aligned with national PPPs, there is a significantly higher adoption of the product compared to countries where such an alignment does not exist.

For example, PEPP has become one of our core products in Croatia and Poland, where tax incentives are nearly on par with local PPPs (though state subsidies in Croatia are not identical). The assertion of PEPP among our customers is 43% in Poland and 45% in Croatia, while in Slovakia, where the incentives are lower, the assertion is only 5%.

Impact on legislation: National legislation.

- **Asset transferability between PEPP and PPP.** We fully support the view of EIOPA. Allowing the transfer of accumulated amounts from other personal pension products into PEPP would significantly contribute to achieving mass adoption. We believe this approach benefits both the clients and the providers, as it offers providers the opportunity to scale and expand their market potential, thereby making adoption more attractive for them.

  Should the new regulation directly involve employers to contribute/co-sponsor PEPP, or in countries where contributions from the employers are already possible, it shall be enabled to transfer the savings in these occupational pension funds into PEPP as well. According to the OPSG paper, already 6 EU countries has made this transferability possible.

  This proposal is particularly important in countries where the majority of pension assets are held within defined benefit pension schemes. On top of that, this will directly improve competition on the market, that will lead to better prices, higher product quality, increased innovation and consumer choice.

  Impact on legislation: National legislation.

- **Allowing PEPP savings to be used as collateral for the 1st mortgage.** Allowing PEPP savings to be used as collateral for the first mortgage would make pension savings more lucrative and could help make housing more affordable for the younger generation. This measure was introduced in Poland this year, but unfortunately, banks are not yet fully prepared to implement it. Enabling this option would not only encourage long-term savings but also provide greater financial flexibility to younger individuals seeking to purchase their first home.

  Impact on legislation: National legislation.

- **Debt-Enforcement (Execution of Judgement) level playing field.** The PEPP should have the same conditions for exemption from debt enforcement as national Personal

Pension Products (PPPs). Currently, this is not the case (e.g. in Slovakia), and we believe that PEPP should be treated equally in this regard. Ensuring that PEPP is exempt from debt enforcement would provide consistency and fairness across the various pension products available in the market, offering the same protection to PEPP holders as is provided for holders of national PPPs.

<u>Impact on legislation</u>: National legislation.

6. REGULATORY

- **Speed up EIOPA Q&A.** It has taken more than 6-9 months to receive answers to crucial questions, and in some cases, the questions remain unanswered. This delay is particularly problematic when launching new products, as many companies face uncertainties regarding legislation and the adoption of their products. The slow response time from EIOPA complicates the adoption of PEPP, which is already struggling to gain traction, and makes it more difficult for companies to navigate the regulatory landscape. A more efficient and timely response process would help improve the adoption and implementation of PEPP.

  <u>Impact on legislation</u>: N/A.

- **Central registry of information.** The PEPP possesses a unique, product-based regulation in the EU financial services sector. The rules for the product are same across all EU countries, with exceptions for

  a) who and when can enter the PEPP scheme,
  b) when and where they can withdraw,
  c) what tax and subsidies incentives are available in the given country.

  To scale the distribution of the product across the 27 EU countries, it is extremely challenging for the potential PEPP providers to familiarize themselves with national adoption and specific regulations regarding PEPP. To address this, we suggest the creation of a central registry that consolidates all national nuances, including tax incentive schemes, for both PEPP and PPP products. This registry would not only simplify the process for providers but also ensure easier comparison of differences for retail customers, promoting greater transparency and understanding of the product.

  <u>Impact on legislation</u>: PEPP Regulation.

7. OTHER PRACTICAL CHANGES TO THE PEPP REGULATION

- **Definition of a residence and non-EU account.** We fully agree with OPSG view on the need for clarification regarding the definition of "residence" in the PEPP Regulation. A clear definition of "residence" should be included directly in the PEPP Regulation to distinguish between permanent, temporary, and current residence. This clarification is crucial for determining which sub-accounts the clients are allowed to open.
  Additionally, one of the key objectives of PEPP was to enable cross-border workers to save within the product. However, in practice, the "residence" criterion is often difficult to meet when a person lives in one country but works in another, where their employer would like to contribute to a local PEPP account. To address this, we suggest that the term "residence" for the purposes of PEPP should also encompass the place of employment, as has been proposed for PEOP. This adjustment would make it easier for cross-border workers to access the benefits of PEPP, improving its effectiveness and inclusivity.

  Impact on legislation: PEPP Regulation.

- **Earliest withdrawal date.** The current PEPP Regulation specifies the "earliest date on which the decumulation phase may start" for the pension benefit projections in the PEPP benefit statements.

  However, for example, in Croatia, the earliest withdrawal date is set at age 55, while the statutory pension age is between 63 and 65 years, depending on gender. Presenting prediction scenarios based on the age of 55 could be more detrimental to Croatian clients, as it presents an investment horizon that is more than 10 years earlier than the statutory retirement age. It would neither be in the interest of the client to model cycling phase around this earliest withdrawal date.

  We suggest deleting any references to the “earliest withdrawal date” in the PEPP Regulation and PEPP RTS and replacing it with the "statutory pension date." Most clients would not choose to retire at such a young age, and using the "earliest withdrawal date" in personalized pension projections could create a misleading impression for the client. Referring to the statutory pension date would provide a more accurate and realistic projection of when clients can expect to access their benefits.

  Impact on legislation: PEPP Regulation.

- **Contributions to sub-accounts.** We understand that the sub-accounts may be justified, particularly considering tax and incentives introduced by the national legislation. But at the same time, they seem to create some confusion and can be costly to implement.

We advocate for the idea to completely remove sub-accounts from the legislation, should the EU 27 align with this idea. However, should the subaccounts be maintained, a more simplified national rules would be required, so there is a minimal impact from the national perspective.

Another thing would be to change the provisions on portability of PEPP. When a client moves to a country where the PEPP provider does not offer a specific sub-account, the client should still be able to contribute to their latest opened sub-account. We suggest implementing the possibility for the clients to choose any of their previously opened sub-accounts to contribute to. This flexibility would ensure that the client can continue saving according to their preferences.

Similarly, if a client leaves the EU, they should still be able to contribute to any of their previously opened sub-accounts. Or alternatively, the PEPP provider could offer the option to open a Non-EU sub-account for the client, the conditions for which would be defined in the PEPP Regulation (provided there are no regulatory obstacles in the new place of residence of the PEPP saver). This approach would help maintain the continuity of the client's savings plan and ensure they can continue contributing to their PEPP, regardless of changes in their location.

Impact on legislation: PEPP Regulation.

- **Switching of PEPP Providers.** In the PEPP Regulation (Article 52 (1)), it states that the switching of the PEPP providers must be effective to the same sub-accounts with the new provider. However, not all providers may offer the same set of sub-accounts. For example, if a German provider offers only German and Austrian sub-accounts, he can accept transfers only if the client has either German, Austrian or both accounts. Only then can the entire PEPP account be transferred.

  This begs an important question: What happens if the client has German and French sub-accounts? Should the German provider refuse the transfer entirely, or could they allow the client to transfer only the German sub-account, leaving the French sub-account with the current PEPP provider?

  This situation highlights a potential gap in the regulation, as it does not explicitly address how to handle cases where a new provider cannot offer all the sub-accounts of the previous provider. A more flexible approach could be to allow partial transfers or to enable clients to keep certain sub-accounts with their current provider while transferring others, thereby offering a more practical solution to clients in such situations.

  Impact on legislation: PEPP Regulation.

- **Lower obligations for the PEPP Provider.** The current PEPP Regulation imposes many obligations on PEPP Providers that do not yield tangible benefits. For example:
    - **Suitability test** – As mentioned above we think that suitability test could be abandoned for the basic PEPP. However, for alternative PEPPs, we suggest that only the suitability test outlined in the PEPP Regulation should be applicable to all PEPP providers and distributors. From our experience, different sectorial regimes do not seem to offer any added value. Under the current regulation, the regime is different for an investment firm acting as a PEPP provider selling its own PEPP (subject to the PEPP Regulation suitability test) versus when it sells a PEPP from another provider (which falls under the MiFID II suitability test). This distinction creates unnecessary complexity without providing additional benefits. A unified approach to suitability testing would simplify the process and ensure consistency across all providers.
    - The introduction of the **Reduction in Wealth** approach to present the estimated impact of costs on the final PEPP benefits was made with good intentions.

      However, we believe this indicator is not useful to savers and may have a deterring effect on investing in PEPP. It is the only investment and pension product where the saver is shown the actual nominal amount of how much the costs might impact their long-term returns. This figure shows the saver how much more they could have potentially had if these costs had not been present, based on the anticipated future investment.

      From a behavioural perspective, when the saver sees this information, they might perceive it as a loss, as though they are rather becoming "poorer" with PEPP as a pension product. Displaying these costs distracts the client from the potential value that the investment could bring. If this practice were standard across all pension or investment products, it would be more acceptable, as it would be a common market practice. However, since it is unique to PEPP, it only generates more questions and doubts on the customer side, potentially discouraging them from engaging with the product.
    - The **notification of the upcoming payout date** is required 14 months before the payout phase, and again 2 months before the payout phase (Article 38 of the PEPP Regulation). We believe that a single, comprehensive notification should be sufficient, especially since the client is already informed about the earliest possible date for withdrawal in the PEPP benefit statement. This would streamline the process and reduce unnecessary administrative burdens for both providers and client.

- As part of the **notification process for new subaccounts**, the PEPP provider is required to submit several documents (contractual documentation, KID and the PEPP benefit statement) to the national regulator (Article 21 of the PEPP Regulation). Additionally, any changes to the information or documents provided during the registration must be notified to the regulator before their implementation by the PEPP provider. The contractual documents and KIDs are then further forwarded to EIOPA for the purposes of the central registry publications.

  However, regarding the PEPP benefit statement, which serves as an ex-post report, we do not see any practical benefits in submitting it during the notification process of a new sub-account as this PEPP benefit statement is not even required during the registration of the PEPP itself. The requirement to submit this reporting document is just in case of new sub-accounts and any changes to this report. Therefore, we view this as an unnecessary administrative measure. Simplifying this process would reduce administrative burdens without compromising the effectiveness of the regulation.

- According to Article 60 of the PEPP Regulation, at the start of the payout phase, the PEPP provider is required to offer **personal retirement planning**, including a personal recommendation on the optimal form of out-payments. However, this obligation is only applied to the basic PEPP, and it is unclear why this requirement is not extended to alternative PEPPs. Since this information is not universally provided to all pension savers, there is no significant added benefit for the average saver. As the basic PEPP should be advice-free, we suggest removing the personal retirement planning obligation too.

Impact on legislation: PEPP Regulation, PEPP RTS.

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