

SPECIAL REPORT

PEPP

longer has tax benefits for income deduction,” Duarte says, only retaining tax deductability in the saving phase.

This still makes PPR an excellent medium and long-term product, “but it lost its attractiveness in mobilising reform”, he adds.

Duarte notes that in Portugal the PEPP could become a catalyst for pensions reform, giving the industry the opportunity to adopt a product that “has very strong governance rules, rules for consumers in terms of protecting capital and limiting costs”.

Duarte sees the PEPP as a simple, transparent and flexible savings solution, with low costs and innovative features, created with retirement in mind, “not as the moment when we retire, but as a process of being retired with quality of life”.

Options

The PEPP’s ability to help boost employment mobility in Europe, and its digital focus, should also help younger workers discover saving for retirement.

The product can take the form of a life insurance policy, a pension fund, or an investment fund, similar to the PPR. However, in time, savers should have the possibility of selecting from a range of providers – insurers, occupational pension funds, asset managers and banks. This will provide them with more choice and more competitive products, and they will also enjoy strong consumer protection.

The expected return on this particular product should be better than the average of other financial products available owing to its long-term quality and reduced liquidity, which makes it possible to carry out investments in less-liquid

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Valdemar Duarte

securities, Duarte says.

PEPP providers must offer savers up to six investment options, depending on their risk appetite, with the basic PEPP as the default investment option.

In the case of the basic PEPP the annual cost will be limited to 1% of the saver’s accumulated capital at the end of each year. The 1% fee cap is intended to include all costs for administration, asset management and distribution, as well as providing full cost transparency.

According to EIOPA, the basic PEPP has been specifically regulated to offer a relatively high level of capital protection, which can be further extended to a capital guarantee.

By limiting total costs to 1%, Duarte says, higher returns should be achieved compared with products with higher total costs.

Additionally, as ESG factors are also included within the PEPP’s creation process, the sustainability of investments will contribute to higher returns potential, he adds.

For the saver, there will be the possibility of product transfer, free of charge, at least every five years. The same product can have several ‘segments’, allowing for someone working in several European member states to have a single product within the EU.

Regulators

EIOPA, the European regulator for insurance and pension funds, has naturally been instrumental in the evolution of the PEPP. The first stage was to prepare the product’s regulation, which culminated in its approval in 2019 by the European Commission. The following year, EIOPA was in charge of preparing the second level of regulation which was completed in the summer 2020.

As the product is rolled out from 22 March this year, PEPPs will have to be registered with EIOPA, which will approve products and market providers.

National regulators – Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF), Comissão do Mercado de Valores Mobiliários (CMVM), and Banco de Portugal – are, in turn, preparing national regulation that will approve and decide on the early repayment as well as a tax framework.

Readying PEPP for launch

IMPLEMENTATION

DEJAN MALESIC AND MARTINO BRAICO

The EU’s PEPP is like a shuttle aircraft, with the potential to carry individual savers across Europe. But its flight plan is detailed and complex, and admin providers play a key role in preparing PEPP for launch

A cross-border administration model for collective schemes, including IORPs, individual pension plans (IPPs) or group insurance arrangements, has been successfully implemented by several providers. But from 22 March, flying cross-border will also be possible for individual savers thanks to the PEPP shuttle.

As part of a deep transformation that is taking place in our societies, savers are increasingly becoming users of digital technology. They are now accustomed to the most widespread technologies and play an active role in their digital lives.

However, ensuring that their PEPP shuttle safely carries individual savers across European borders, PEPP providers and their administrators must study the details of their flight plan with great care.

Within each flight plan, the following items should be clearly defined prior to take off, and monitored during the flight.

- **Sub-accounts structure and admin ring-fencing:** each PEPP will have to offer national sub-accounts for at least two EU countries within three



Dejan Malesic



Martino Braico

years of the date of application of the new rules. Savers can continue to contribute to the same PEPP when they change residence in another EU member state, either by opening a PEPP sub-account with the same provider in their new Member State of residence, if such an option is available with their PEPP provider, or continuing to contribute to their existing PEPP sub-account. Due to the different tax regimes across member states, savers will necessarily hold a sub-account per country. All the information managed at sub-account level is segregated according to ring-fencing requirements of the cross-border model.

The figure outlines an example of a cross-border multi sub-account structure.

- **Multi-account web portal:** PEPP providers may offer a multi-lingual, multi-country and multi-account website to savers, allowing them to access information within a single web portal. A customisable set of functionalities can be made available in accordance with PEPP rules and country regulations.

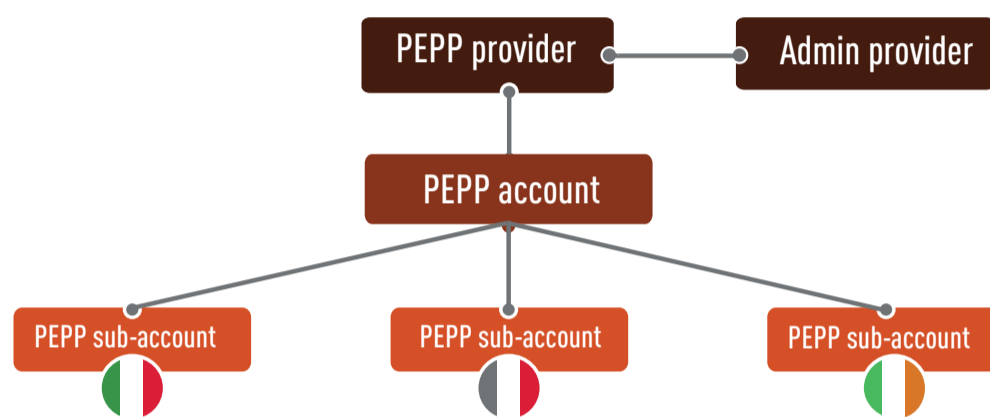
Offering a wide set of self-service tools is a must have. Savers expect to be able to carry out operations such as switching holdings within each single sub-account, changing contribution rates, running pension projections, updating contact details and signing up for news and alerts in just a few clicks. The information has to be layered, with a first layer containing key information and a global overview, a second layer consisting of sub-account information and a third layer providing details on single transactions and links to external sources.

- **Country compliance across Europe:** it is crucial to guarantee that, from an admin perspective, the PEPP complies with local regulations and requirements, including tax, social and labour law.

- **Rule-based engine:** local requirements must be translated into rules and set up in layers that are customisable in accordance to plan rules and local regulations.

- **Open investment platform:** within the same PEPP, the available investment options may be different from one jurisdiction to another. At the same time, savers should be able to choose their preferred investment strategy and decide whether to

Example of a cross-border multi sub-account structure



Source: Previnet

reallocate existing assets through their secure web portal.

- **Automated advice, risk profiling and benefit modelling:** the PEPP regulation explicitly allows full digital disclosure and foresees automated advice without any human intervention. This can translate into significant cost-efficiency, as long as the PEPP provider can guarantee a fully automated or semi-automated advice function that includes a retirement-related demands-and-needs assessment, a suitability assessment and personalised pension benefit projections.

At the start of a PEPP journey, service admin providers should advise about the investment options and the level of capital protection, while the pay-out phase should begin with advice on the type of pay-out schemes available.

Today, improving savers' financial education and engagement is essential in pension arrangements with a DC component. Therefore, a risk profiler tool helps savers understand their investment goals and their risk appetite through a series of questions, easy-readable charts and alerts.

Previnet's Benefit Modeller is based on an actuarial engine that is capable of projecting future benefits (whether a lump sum or an annuity) according to various assumptions and parameters that include retirement age, contribution rates, pay-in and pay-out currency and investment strategy. Savers can also customise their projections according to their attitudes, preferences and expected market conditions.

- **Tailored communication and new disclosure formats:** communication has to comply with local legislation and drafted according to local best practice. Emphasis is given on personalised communication to savers, rather than generic messages, and on providing them with the right tools and learning modules that can help them make informed decisions and act accordingly. Service admin providers need to adopt new disclosure formats such as audio, video or mobile applications. This could make the information more appealing and easier to understand for consumers. Additionally, these new formats can deliver more timely, convenient and reliable information in a cost-efficient fashion. The goal is

to meet savers' expectations and to facilitate their understanding and engagement with the PEPP.

- **KID and benefit statement:** the PEPP KID and the PEPP benefit statement must provide relevant, simple and understandable information that engages consumers to actively plan their retirement savings. These two documents should be delivered with a 'digital first' approach.

- **Central reporting and business intelligence capabilities:** governance and monitoring at cross-border level is enhanced through innovative business intelligence tools. Easily readable charts, customisable dashboards, and interactive layers should allow users to monitor trends, understand statistics and create ad-hoc reports. The regular reporting package contains all the information that is necessary for supervision purposes, both from a home and host perspective. The regular reporting package needs to be submitted by the PEPP provider to the national competent authority.

In conclusion, innovative admin solutions for PEPPs that help providers embrace the opportunities of digitalisation are crucial to the operation of the PEPP shuttle and can future-proof the provision of retirement benefits to EU citizens.

Dejan Malesic and Martino Braico are senior managers and co-leaders of the international business unit of Previnet Outsourcing Solutions

“Innovative admin solutions for PEPPs that help providers embrace the opportunities of digitalisation are crucial to the operation of the PEPP S shuttle”