Brussels, 31 August 2018: On Monday 3 September, the ECON Committee of the European Parliament will vote on their position on the draft Regulation introducing the Pan-European Personal Pension Product (PEPP). The Actuarial Association of Europe issued a discussion paper “PEPP Regulation” in March 2018 setting out an objective, professional view on the draft Regulation.

One key issue on which differing views have been expressed is the proposal that all PEPPs should have a default investment option which carries capital protection. The views of the AAE, as outlined in the discussion paper, can be summarised as follows:

- Long term savers should normally invest primarily in real assets such as equities which are expected to provide long term growth, with a transition to assets which match the individual’s chosen decumulation option as he/she approaches retirement age, using a life cycling approach.
- Products with capital guarantees might be offered as an option which may be appropriate for savers who are very risk averse or who have a short period to retirement where the guarantee would have greater value.
- If the PEPP offers capital protection, we recommend that this guarantee applies only at the point of decumulation in order to limit the costs of such protection.
- It is not necessary or desirable that a “one-size-fits all” default option be specified in the Regulation.
- The Regulation should set out high-level principles regarding the selection of the default option, with the selection of the actual default option left to the provider, subject to approval of the national supervisor.
- If it is considered necessary to specify a default in the Regulation, this should not require protection of capital because:
  - Protection of capital is unlikely to be in the best interests of the consumer, because the value of such a guarantee is very small for a PEPP saver saving over a period of 30 to 40 years i.e. it is very unlikely that this minimum amount will apply.
  - The cost to PEPP providers of providing this guarantee is high, and this cost will be passed on to the consumers

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