insurance europe

Position Paper

Response to the EC consultation on the green paper on ageing

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8. How can the EU support vulnerable older persons who are not in a position to protect their own financial and personal interests, in particular in cross-border situations?

- The European Union can play a role by supporting and promoting the efforts of member states to boost the financial (and digital) literacy of vulnerable persons. This includes raising awareness of the need to prepare for retirement and of the benefits of long-term saving.
    - Increased awareness is crucial to ensure that individuals can make the most appropriate decisions for their own circumstances. To contribute to this objective, Insurance Europe intends to join forces with other European associations to organise the first edition of a European Retirement Week in the autumn of 2021.
- As regards cross-border situations, the EU could play a coordinating role.
- The EU could furthermore play a role by supporting member state actions to facilitate older people working longer to increase their retirement savings.

9. How can the EU support Member States' efforts to ensure more fairness in the social protection systems across generations, gender, age and income groups, ensuring that they remain fiscally sound?

- By encouraging governments to introduce (or enhance) funded pension pillars (ie, occupational and personal pensions) alongside the traditional pay as you go (PAYG) statutory pension systems, as this would help to improve the sustainability of pension systems and the adequacy of retirement incomes. The design of the multi-pillar system is key: to be successful, pension pillars must be mutually reinforcing and have clear roles and objectives (eg poverty prevention, income replacement).
    - Multi-pillar pension systems allow for risk diversification, since the different pillars (PAYG and funded pension systems) are exposed to different risks: while PAYG pension systems are highly dependent on the labour market and are exposed to demographic developments,

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fully funded pension systems are highly sensitive to developments on the stock and capital markets. Working in conjunction, these systems can produce positive outcomes.

    - In this context, it is important to note that member states can address concerns around fairness and social protection through their second- and third-pillar pension systems by providing incentives or advantages (for instance tax deductibility of contributions) to certain groups of citizens when they acquire supplementary pension products (according to age, income group, etc.).

- Furthermore, the EU can support member states by facilitating the exchange of best practices between countries.The EU could also promote discussions about how countries can best address demographic challenges and the effects these have on statutory pension schemes and societies at large.
- The COVID-19 pandemic demonstrates that there are significant protection gaps (in terms of social security) often affecting vulnerable groups of people, such as the self-employed and non-traditional workers). As part of the recovery process, a comprehensive gap analysis should be undertaken and, based on the outcome, a societal discussion should be facilitated to ensure that public pensions, also in the future, form a predictable and reliable base and no-one falls through gaps in coverage.

10. How can the risks of poverty in old age be reduced and addressed?

- Insurers believe that one of the key initiatives for reducing poverty in old age would be to ensure that all individuals can benefit from an adequate retirement income.
- As the future adequacy of pensions savings depends on multiple factors, there is no silver bullet to address all the issues, although there are some steps that could be taken to improve the situation.
- Policymakers should stress the importance of saving enough by:
    - Raising awareness of the need to save enough — informing citizens about their expected future pension entitlements and needs.
    - Stimulating the uptake of supplementary pension arrangements, tailored to local circumstances.
    - Providing adequate incentives to buy third-pillar pension products (including tax incentives).
    - Easing online access to pensions, as digital distribution can increase private pension coverage and should not be hindered.
- Future pension adequacy also depends on investing in the right asset mix to achieve one's investment goals:
    - Savers should have access to the types of pension products that suit them best.
    - Policymakers and the insurance industry should work together to facilitate the availability of well-designed, collective, mutualised investment products for those savers that need them.
    - Solvency II's treatment of long-term investments should move from a trading to a long-term approach, so that solvency capital charges are appropriate and not unnecessarily excessive.
    - Against the background of increasing longevity risk, policymakers must ensure that consumers can access decumulation products that best suit their needs, while reflecting national practices (eg life-long annuities, drawdowns, lump sums).
- High-quality financial education and pre-contractual product information are essential and complementary in ensuring that people save for retirement:
    - Policymakers must promote financial education so that individuals can plan and manage their financial future.
    - Citizens must have access to information about the products and services available to them.
    - Pension and savings information must be clear and consumer-friendly, which can be achieved through the use of digital solutions.
    - Pension savers must be empowered to make well-informed choices. This implies the need to ensure that transparent, understandable and comprehensive information is provided during the accrual phase, in addition to just before retirement.

- Finally, in light of the growing importance of digitalisation, policymakers could step up efforts to reduce growing (digital) skills gaps, address mental health issues and adequately take into account the rise of non-traditional forms of employment (eg platform work). Addressing these challenges will contribute to improving people's employability, and, in consequence, to strengthening possibilities for people to earn a reliable income and save for retirement.

11. How can we ensure adequate pensions for those (mainly women) who spend large periods of their working life in unremunerated work (often care provision)?

- Insurance Europe supports the EU's objective of ensuring that everyone can benefit from an adequate retirement income. However, in most EU member states, the accumulation of statutory pension entitlements is directly linked to the workplace and contributions to social security. Therefore, answers will have to be found outside the structures of pension systems to avoid creating new redistribution challenges and inequities.
- One way to tackle this challenge is to encourage and enable women to build up their own professional career and pension provisions. Ensuring gender equality and granting women the same opportunities as men is key to addressing the gender pension gap. In this regard, it would be important to ensure that women are in a position to combine their jobs and family lives, for instance by introducing flexible working conditions and securing the availability of childcare services.
- While many companies put in place gender equality policies and are taking steps to ensure equal opportunities, there is little evidence of how effective these policies are. There is an opportunity here for the European Commission to prepare a study on the effectiveness of gender equality measures.
    - To foster a climate of equal opportunities, it is important to boost the transparency of gender equality measures. Taking into account this objective, the European supervisory authorities' proposals on the regulatory technical standards of the Sustainable Finance Disclosures Regulation (SFDR) contain two indicators on gender inequality in companies: unadjusted gender pay gap and board gender diversity.
    - Compliance with these new disclosure obligations introduced by the SFDR requires financial market participants to have access to comparable, robust and reliable ESG data at the level of companies. Unfortunately, the availability of high-quality, comparable, reliable and public ESG data represents a significant challenge for financial market participants who are under an obligation to comply with the new regulatory requirements.
    - The current lack of transparency should be considered also within the Commission's ongoing work to direct finance towards the European Green Deal, including work related to the new Corporate Sustainability Reporting Directive (CSRD) and to revising the existing reporting rules that were introduced by the Non-Financial Reporting Directive.
- Furthermore, private pension savings could help to boost the retirement savings of people spending large periods of their working life in unremunerated work because private pensions are not linked to labour market participation. Available data on the uptake of third-pillar supplementary pension products shows a large uptake by women and, in some countries, evidence demonstrates that private pension products have had a positive effect on narrowing the gender pension gap (OECD, 2021 and German Federal Government, 2020).
- Finally, it is important to point out that, as the situation varies between EU countries, and as pensions come in various forms, influenced by a broad range of factors, there is no one-size-fits-all approach that tackles all the challenges.

12. What role could supplementary pensions play in ensuring adequate retirement incomes? How could they be extended throughout the EU and what would be the EU's role in this process?

- Insurance Europe welcomes efforts by the European Commission to enhance adequacy in retirement income across Europe, especially as changes in demographic structures are increasingly putting statutory pension systems and public budgets under pressure. The ongoing COVID-19 crisis is making this challenge even greater. PAYG pension systems will thus not be able to bear the growing financial burden without putting more pressure on the shrinking working-age population.

- Multi-pillar pension systems are widely seen as the most effective way to ensure the sustainability and adequacy of retirement provision. Moreover, supplementary pensions enable pension providers to invest in the economy with a long-term perspective, which could play a key role in economic recovery from the COVID-19 pandemic. In addition, supplementary pensions, with well-balanced guarantees, can provide a lifelong stream of income, which helps to significantly reduce the probability of being exposed to poverty at an older age. As major providers of a wide variety of occupational and personal pensions, insurers are a key part of any multi-pillar system.
- Private pension products offer tailored solutions to individuals, depending on their needs. They also offer the opportunity to top up retirement income from pensions under pillars one and two, which could be particularly helpful in reducing coverage gaps and in the context of the emergence of non-traditional employment.
- According to European insurers, the development of pension tracking services can facilitate better access to pension information and make people more aware of what their future retirement income will look like. A good starting point for evaluating the adequacy of pensions systems would be to introduce indicator-based pension dashboards. To ensure the support of the different players involved in setting up such services and dashboards, it is crucial to avoid introducing any new information disclosure rules for providers and to take into account data protection rules.
- Regarding the introduction of auto-enrolment (AE) in occupational pension systems, Insurance Europe keenly awaits the outcome of Action 9 under the Capital Markets Union 2020 Action Plan and the development of best practices in the area of pensions.
    - The potential of AE to stimulate coverage notwithstanding, it remains vital to take sufficient account of existing systems and structures around the provision of pension products. In any event, the introduction of enrolment mechanisms should be carefully weighed in each country, as one size cannot fit all across Europe.
    - AE in occupational pensions should not result in a single and/or limited number of options: individuals should be able to opt for a pension product that best suits their needs and preferences. Policy decisions should be taken with this objective in mind and build on the progress already made at EU level (ie, the PEPP Regulation). Furthermore, policy decisions should take account of existing third-pillar pension products at national level, as these substantially contribute to mobilising long-term capital and to boosting the sustainability of pension provision.
    - Finally, to boost coverage, insurers believe it would be most important to ensure the provision of adequate incentives for second- and third-pillar pension products in order to be able to fully capitalise on the CMU.
- Moving forward, the European Commission has a role to play in promoting multi-pillar pension systems by monitoring member states' progress and by coordinating the exchange of best practices. Launching an EU-wide policy dialogue could contribute to national efforts to design well-functioning pension systems. In this regard, the Commission should also take account of the efforts of the OECD.
- The Solvency II framework was designed to ensure a high level of protection for consumers' long-term savings and pension products. However, it overstates the long-term liabilities and exaggerates balance-sheet volatility, resulting in capital charges that are too high. Consequently, it unnecessarily and adversely affects the cost of offering long-term products.
- The current Solvency II review is an opportunity to refine the regulatory framework to help insurers play an even bigger role in the provision of safe, long-term savings products, including pan-European personal pension products (PEPPs). In this context, it will be important to avoid potential mismatches between encouraging long-term investments (through PEPPs, for instance) and the often prohibitive requirements around making such investments and the liabilities under the current Solvency II framework.
- Traditional insurance pension products play a key role in building up a retirement income: they can provide a long-term saving, minimum return guarantee, a life-long payout and biometric risk coverage, which means they offer peace of mind and incentivise risk-averse individuals to save for their retirement.

- The insurance industry acknowledges the adoption of the regulatory technical standards (RTS) for the implementation of the PEPP Regulation and the steps taken towards creating a regulatory environment that recognises the importance of personal pensions and the key role they can play in our society.
- While in principle PEPPs could play a key role in tackling demographic challenges and promoting retirement savings, insurers strongly believe that there is a risk that the ambitious PEPP project could fail. This would be a regrettable missed opportunity given the current demographic and economic context.
- Insurers believe that it is important to ensure that the PEPP legislation allows providers to bring innovative solutions to the market. Unfortunately, based on the recently adopted RTS, this is not a given. In particular, it will be important to ensure that:
    - PEPP information requirements — both the key information document (KID) and benefit statement — provide savers with meaningful, easily understandable information. They should also be able to embrace upcoming developments in the field of digitalisation or in relation to the sustainable finance agenda.
    - The items included within the cap on costs do not deter providers from offering PEPPs with protection features or certain providers from offering PEPPs at all.
    - The criteria applied to the risk mitigation techniques protect individual savings but do not hinder innovation
- Policymakers should ensure that European citizens are informed about their expected future statutory pension entitlements. National pension tracking systems are helpful tools to identify early gaps and ensure that citizens can access up-to-date information on their pensions savings.

13. How can the EU support Member States' efforts to reconcile adequate and affordable healthcare and long-term care coverage with fiscal and financial sustainability?

- Against the backdrop of the demographic challenges faced by most member states, Insurance Europe welcomes the European Commission's initiative to support member states in their efforts to reconcile adequate and affordable healthcare and long-term care coverage with fiscal and financial sustainability. Even though life expectancy seems to be stalling in many countries, the average population age is still increasing, and will continue to do so for years to come, which means it is vital to ensure that an increasing number of people will in the future have access to affordable healthcare throughout their old age.
- The European Commission could also explore ways to support member states in making insurance cover more affordable at the time people are interested in buying long-term care cover (ie, aged 55+) or encourage access through employers at an earlier age.
- In light of the demographic changes across the EU, it is important for the EU to promote approaches likely to decrease the pressure on health systems. This includes, notably, contributing to prevention and the promotion of healthy lifestyles in parallel to encouraging digitalisation and the uptake of digital solutions in healthcare.
- European insurers have extensive experience with the provision of long-term care services and remain committed to continuing to provide these services and support governments where possible. In the view of insurers, it will, however, be vital for member states to ensure that the right conditions are in place to enable insurers to play their role. Tax incentives could, for instance, play a role in ensuring that insurance products remain affordable and attractive.
- To allow insurers to offer relatively stable lifetime premiums to customers, "ageing reserves" are increasingly used for some private health insurance and long-term care insurance products. This is in spite of the fact that the claims costs typically rise with age. Relatively younger customers pay more than their expected claims cost, with the excess being used to build up an ageing reserve that then helps to fund insurance in later life.
- In addition, there is an opportunity for insurers to go beyond providing simple cash pay-outs, so that they can also act as gateways to services — especially services that encourage prevention and adaptation — as these are areas where the interests of insurers and consumers align.

- Insurers also play a role in promoting preventive measures. For instance, private insurance companies in Austria and Germany promote and support preventive measures through their offers and the information they provide to increase awareness of the long-term benefits of a healthy lifestyle.

14. How could the EU support Member States in addressing common long-term care challenges? What objectives and measures should be pursued through an EU policy framework addressing challenges such as accessibility, quality, affordability or working conditions? What are the considerations to be made for areas with low population density?

- Public private partnerships (PPPs) and, in particular, the exchange of information and good practices between stakeholders could contribute to addressing long-term care challenges. The EU could support member states by promoting the value of and supporting the set-up of PPPs.
- Another element to consider is the importance of clear information to citizens. Citizens should have clear information about what the public sector covers them for in terms of health and social services, so that they can take responsibility for any gaps in their coverage.