PENSIONS

Watch this space

New research by the Global Federation of Insurance Associations brings home the need to focus on the pension gap

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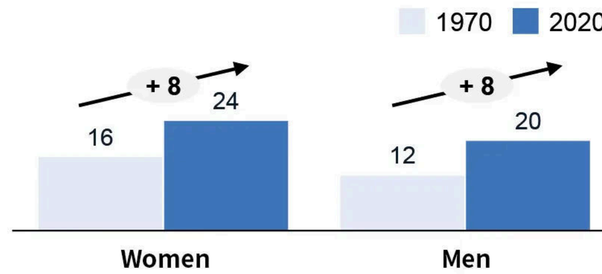
If anyone were still in doubt about the extent of the crisis in global pension saving, recent research by the Global Federation of Insurance Associations (GFIA) — to which Insurance Europe contributed — should convince them; the global pension gap is estimated at US$1trn (€0.95trn) a year and is expected to keep growing.

Demographic changes are putting unprecedented pressure on pension systems, requiring them to sustain more people as the numbers entering the systems and their expected lifespan after retirement both increase. The number of people over 65 is expected to double from 0.78 billion to 1.55 billion over the next 30 years[1], while life expectancy at labour market exit has grown from 16 years for women and 12 years for men in 1970 to 24 years and 20 years respectively in 2020[2].

Even more pressure on public pension schemes comes from the fact that fewer people in the workforce support the inflow of funds, as fertility rates are going down across the world. Increasing living standards, with a burgeoning middle class in growing economies worldwide, are also driving the need for pensions. And a precarious economic environment exacerbated by the COVID-19 pandemic, geopolitical conflicts such as the war in Ukraine, the various effects of the changing climate and inflationary pressures all increase the burdens on governments and further limit their room for manoeuvre in areas such as pension provision.

Expected life years after labour markets exit (OECD countries)



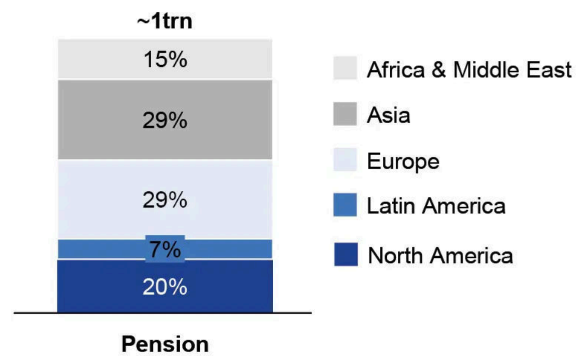
Source: OECD

Estimated aggregate pension gap is US$51trn

GFIA calculated the difference between the present value of the funds needed to cover 65–70% of pre-retirement income and currently projected disbursements of pension funds. The estimated aggregate global pension gap, after deducting disbursements covered by pay-as-you-go government schemes, is US$51trn, which would require additional annuity payments of around US$1trn a year, assuming an interest rate of 1% and a period of 40 years. 29% of that gap is estimated to be in Europe.

Find out more aboutthe European pension gap

Annual pension protection gap (US$bn) and geographic split



Source: GFIA

Finding solutions

The peculiarity of the pension gap is that even drastic and unpopular legislative measures — such as significantly increasing the retirement age — would reduce but not fully close it. Tackling the problem requires the involvement of a wide range of stakeholders, both public and private, and making use of a wide variety of levers. These include offering innovative and flexible products, creating awareness of the need to save for retirement, encouraging automatic enrolment in pension schemes and introducing tax and non-tax financial incentives. The suitability of possible levers depends, of course, on each country's existing pension structure, culture and level of wealth.

To meet evolving customer needs, insurers have developed a variety of innovative and flexible products, including:

- Products providing a customisable balance between variable and fixed returns
- Products that give access to new types of investment (eg, in renewable forms of energy)
- Offers that enable customers to turn illiquid wealth into liquid assets, such as reverse mortgage/equity release schemes on homes).

Pan-European personal pension products fail to take off

To give just two European examples, in Switzerland an insurance product allows customers to divide their investment into both a property fund and a more secure asset class or investment vehicle, while in Germany and other countries alternative investment opportunities are available for private individuals, such as in roads, wind farms or shopping centres, which are often designed to generate recurring income.

Pension needs and options are often difficult to understand, so improving financial literacy and promoting pension saving can be effective in boosting retirement saving. A long-running campaign by the Irish government, for instance, increased pension awareness from 60% in 2003 to 87% in 2007. And Sweden and the UK are among countries that have introduced ways to give savers a better overview of their pension savings and likely retirement income.

The UK has also had significant success with its auto-enrolment scheme, which was introduced in several phases between 2012 and 2018. In 2020, 78% of employees were participating in a pension scheme compared with 47% before auto-enrolment began, and women's participation rose from 40% in 2012 to 73% in 2016.

Insurance Europe contributed to GFIA's recommendations to policymakers of the most effective ways to have an impact on the pension savings gap and these are summarised in the box below.

European Retirement Week

Raising pension awareness: European Retirement Week

GFIA's recommendations to policymakers to reduce the pension protection gap

- Promote pension saving and educate individuals, especially the young, on the value of continuous saving from the beginning of their working life.
- Ensure that pension policy is based on a long-term, holistic strategy connected to other policy areas, such as employment, housing, taxation and healthcare.
- Incentivise employers to offer pension arrangements.
- Enable part-time workers, self-employed workers and "gig economy" workers to join retirement saving schemes.
- Ensure regulation that allows product innovation and digital-friendly delivery and formats, as well as enabling providers to meet the evolving needs and expectations of consumers, especially new generations.
- Aim for a pension policy that covers accumulation and decumulation with the flexibility to meet consumer needs and circumstances throughout retirement, enhancing the objective of maximising retirement income.
- Do not have regulations that create unnecessary barriers or costs preventing insurers from providing effective and efficient pension solutions.
- Do not impose policy measures that inhibit access to financial advice for consumers with limited disposable income.
- Do not implement policy measures that would result in the defunding of private pension schemes, such as retroactive changes to contract terms.

Further reading:

- *Pension extract of the GFIA report "Global protection gaps and recommendations for bridging them", March 2023*
- *GFIA president Susan Neely's article on the GFIA report*

1. Population by broad age group projected to 2100, world, 1950-2100, Our World in Data
2. OECD

Raising pension awareness: European Retirement Week

Insurance Europe is a driving force behind European Retirement Week, which provides a platform to debate the future of pensions in Europe and to raise citizens' awareness of the need to save — and save enough — for their retirement.

In 2022, the launch event featured EU Commissioners Mairead McGuinness and Nicolas Schmit and EIOPA Chairperson Petra Hielkema, while Insurance Europe's own event put the spotlight on the gender gap in pensions.

European Retirement Week 2023 will run from 27 November. Watch out for more details on the Insurance Europe website or the European Retirement Week website.

Pan-European personal pension products fail to take off

For just over a year, providers have had the possibility to register pan-European personal pension products (PEPPs) following the introduction of a new EU legal framework for portable, EU-labelled personal pensions. To date, the high hopes some policymakers had for the PEPP have not materialised, as just a handful of products from a single provider have been registered.

To insurers, this does not come as a surprise, as the sector has repeatedly expressed reservations about a number of aspects of the regulation, which, in practice, make it close to impossible to offer attractive products. One such issue is the much-debated cap on the fees charged, which will be subject to a review in 2024. But there are other practical problems, such as a requirement to outperform inflation with a probability of at least 80% over a 40-year accumulation phase. For providers, guaranteeing such an outcome is not possible, as future inflation is not known and, in any event, such a goal is practically impossible to attain in the current macro-economic environment. Another source of concerns — perhaps the most important — is the fact that how products are taxed is decided at national level in the EU.

Without significant changes to the Regulation, Insurance Europe does not expect insurers to offer PEPPs any time soon.