FECIF European Pensions Institute

Retirement Planning in Europe

Executive Summary

After many years of discussion and debate, European governments and financial practitioners are fully engaged in exploring a new generation of retirement finance solutions embracing defined-benefit (DB) funded pensions, defined-contribution (DC) workplace retirement savings plans and the reform of traditional pay-as-you-go (PAYG) government pension plans.

According to “Retirement Planning in Europe”, a recent survey of consumer preferences and products in 12 major European countries from the FECIF European Pensions Institute (FEPI) and Paris-based consultants CMI, Europeans understand the financial stresses on traditional pay-as-you-go (PAYG) government pensions and are updating strategies for existing financial assets as well as discussing new funded solutions – at the level of the European Union, and in individual countries.

Based on a survey of consumer preferences and products in 12 major European countries, the report states that while Europe is not rich in funded pensions or workplace savings plans, European workers own several trillion Euros’ worth of other “assets for retirement” – insurance products, annuities, real estate, bank accounts and other non-pension assets that are used to supplement government pensions.

“Europeans are focused on pension reform. Demographic, economic and financial stress has concentrated the minds of policymakers and financial practitioners alike”, stated Simon Colboc, Secretary-General of FEPI. “The European Union is a wealthy region, with robust government pension provision and many trillions of dollars’ worth of assets that are used to support citizens in retirement. New funded pensions and savings plans are being added to the mix.”

According to the report, many of these investments are sub-optimally allocated, creating opportunities for financial advisors and asset managers. At the same time, new forms of funded retirement assets are rising across the continent.

The FEPI/CMI study reveals that many global analysts seriously underestimate the depth and scale of European non-pension financial assets that are used to fund retirement. Because many of the assets are invested through “pensions”, official statistics tend to understate the opportunity for financial service providers to help optimise and transform existing European financial assets into retirement-focused savings vehicles.

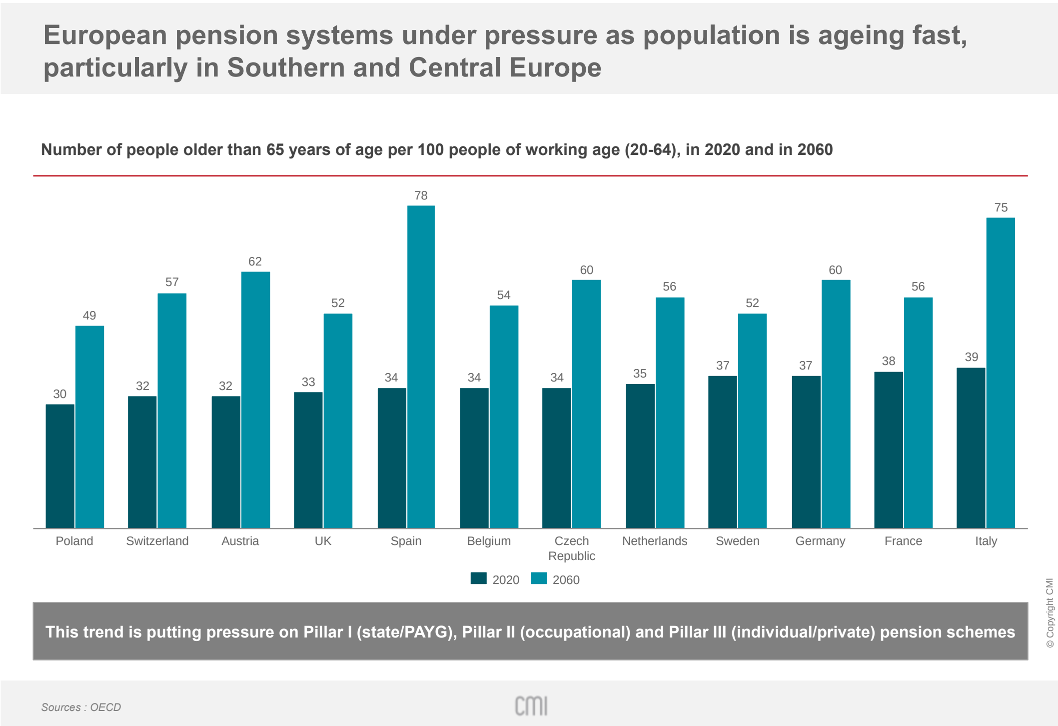
According to the report, industry practitioners can optimise existing financial allocations, such as investment in insurance products, annuities and real estate, while at the same time embracing emerging workplace savings plans analogous to systems such as Australian Superannuation or U.S. 401(k) savings plans. Rationalisation of traditional PAYG pensions, adjusting for extended life expectancy and ensuring equity across professional categories is also very much part of the conversation, the report states.

fecif the European Federation of Financial Advisers and Financial Intermediaries

CMI THE ART OF UNTANGLING COMPLEX ISSUES

Demographic Pressure on PAYG systems

Increasing longevity and declining birth rates are driving “global ageing” in countries all over the world. This trend is pronounced in Europe, particularly in southern and eastern Europe, with a rising “dependency ratio” of citizens over-65 to those of working-age. For example, this ratio will almost double in Spain between 2020 and 2060. This demographic pressure is inspiring exploration of creative solutions for all parts of the



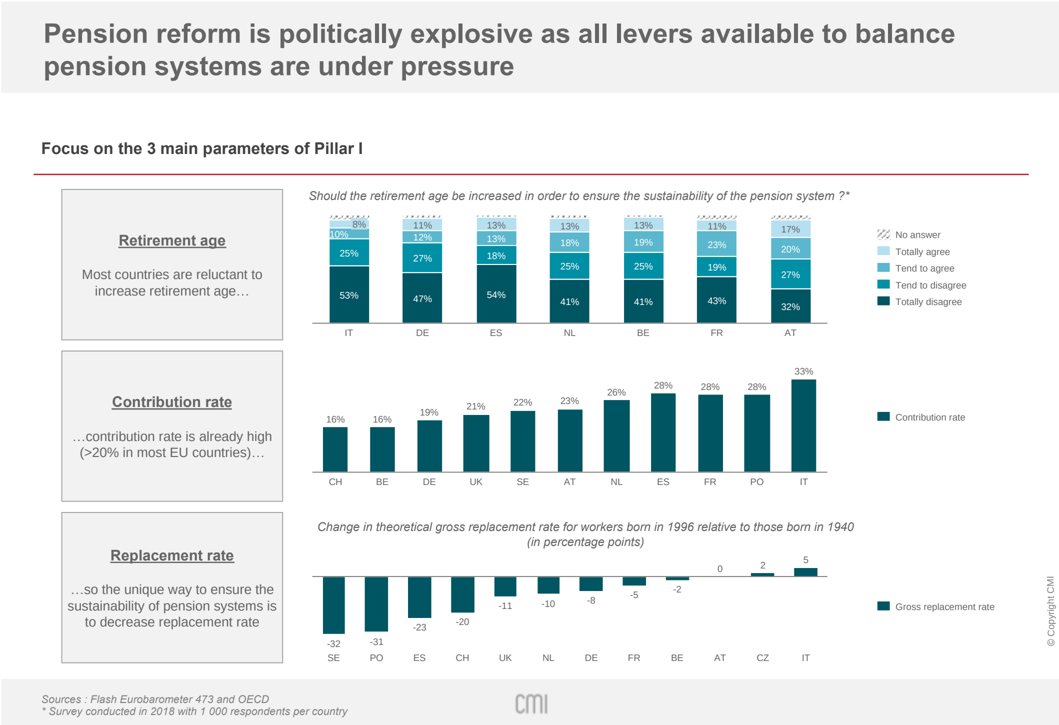
retirement system – state-run PAYG systems, employer-sponsored pension funds and individual long-term savings.

European Governments Taking Action

For decades, Governments across Europe have made limited ‘technical’ adjustments to PAYG pension systems – adjusting target retirement dates, contribution levels and long-range assumptions around inflation, interest rates and investment returns. But these “tweaks” have mostly left in place the existing architecture.

This is no longer an option, as all levers to balance the existing systems are very tight: contribution rates are very high, replacement ratios (retirement income as a proportion of working income) are diminishing and efforts to raise the retirement age have been met with robust political resistance.

In response, European governments have begun moving beyond technical adjustments



to consider fundamental structural reforms. Bearing in mind the diversity of demographic, economic and financial systems in Europe, these reforms will take a completely different shape in different places:

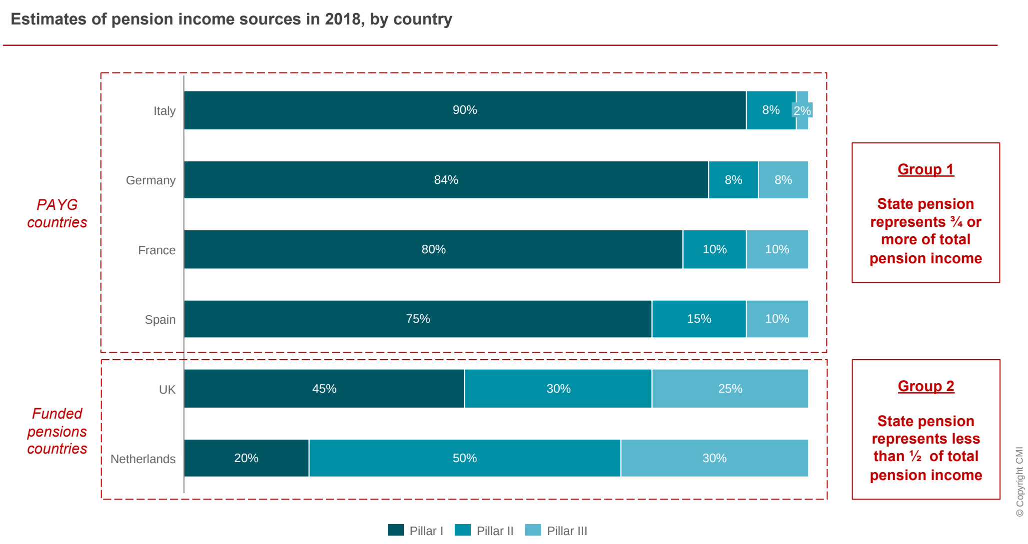
PAYG Countries

In 'Pay As You Go countries', where retirees derive the vast majority of their income from state-run, "Pillar I" PAYG systems, the main priority is to balance the system, ensuring that treatment is fair and aligned for different categories of population. At the same time, PAYG countries are opening the door to supplemental private resources – both "Pillar II" workplace pension funds and savings plans, and "Pillar III" individual savings accounts.

Funded Pension Countries

In 'Funded Pensions countries', where retirement income is more evenly balanced between PAYG public pensions, employer-sponsored pension schemes and private savings, the priority is to extend funded pensions to all segments of the population. Policies also seek to adapt public systems to a more mobile workforce, in which workers move from employer-to-employer, to self-employment and back again many times over the course of their career, and to ensure that schemes remain balanced over the long-term.

Europe is divided in PAYG Countries and Funded Pensions countries

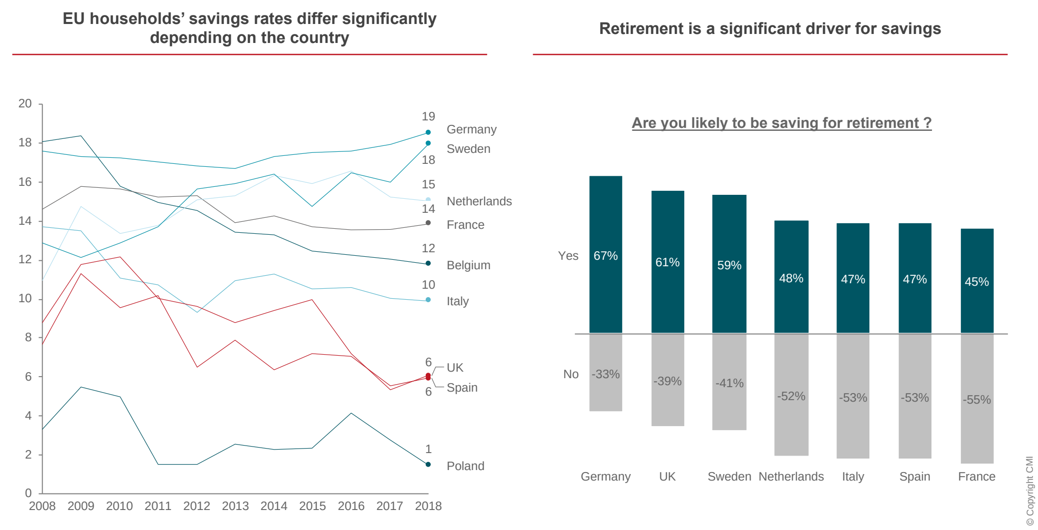


Sources : Better Finance, UK Department for Work & Pensions and CMI analysis

Opportunity for Financial Product Providers

The transformation of European retirement financial systems directly impacts several trillion Euros' worth of financial assets. Providers of financial products and services will be at the heart of this shift as the European Union increasingly looks to private resources as a new centre-of-gravity for retirement finance. But these opportunities will not arise

European households are saving significantly towards retirement, even if these savings are not necessarily labelled as 'Pensions'



Sources : Eurostat and BlackRock

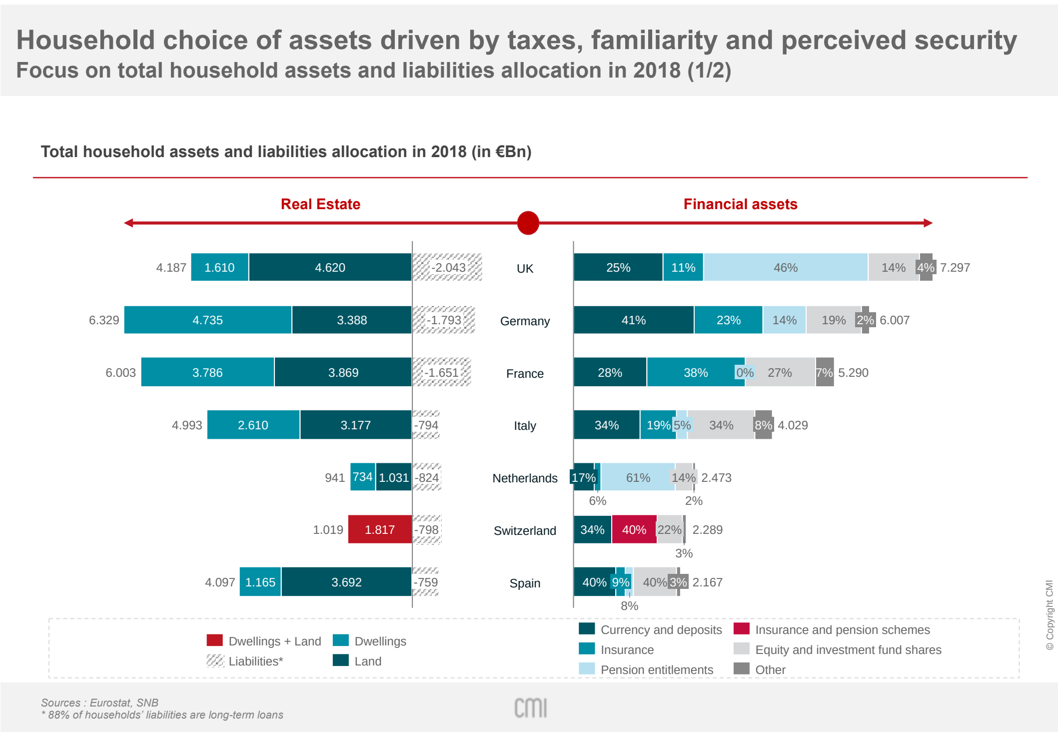
overnight, nor uniformly, according to the survey. They will emerge in different countries over different timelines and over different pathways. The transformation of existing products and practices will be just as impactful as the elaboration of new products and systems.

Several Hundred Billion Euros Worth of Savings in Europe

Savings rates are consistently high across Europe, especially in countries in which savers are concerned over the solvency and stability of their public pension systems. European consumers clearly state that a significant part of their personal savings are in fact intended to be a “nest egg” for retirement.

But because retirement savings products for individual consumers are underdeveloped in most countries, these savings are often not considered to be “pensions” for purposes of government statistics. This gives the misleading impression that there are minimal assets-for-retirement in most European countries.

The FEPI/CMI study, by engaging with financial advisors and intermediaries throughout the European Union, provides a more nuanced picture of consumer investment behaviour. The study illuminates the steps individual savers are taking to prepare for retirement and provides a product development “road map” for financial services firms seeking to meet their future needs.



According to the FEPI/CMI survey, several hundred billion Euros’ worth of investments provide an opportunity for the right financial product providers:

- Pension assets that need adapting to changes in markets and consumer preferences, in both the accumulation and post-retirement drawdown phases (e.g. Collective Defined Contribution in the Netherlands)
- The accumulation of new financial assets – in both collective and individual savings schemes (e.g. PER in France)

- The transformation of assets “stranded” in life insurance policies. Many of these structures, focused on providing ‘capital guarantees’, are sub-optimal for all concerned – stressing profit margins for European insurers and delivering consumers investment returns that are too low, for far-too-long
- Cash dormant on current accounts for lack of alternatives
- An unbalanced, over-reliance on real estate funds for consumers investing for retirement

The evolving retirement system in Europe represents a vast opportunity for providers of financial products and services – in both the optimisation of existing financial asset allocations and in the creation of new savings vehicles. Given the heterogeneity of European financial markets, providers should carefully consider which individual opportunities best match their unique expertise and strategies.

About FECIF and FEPI

FECIF (The European Federation of Financial Intermediaries and Financial Advisers) is a Brussels-based non-profit organization, chartered in June 1999 for the support and promotion of the role of financial advisers and intermediaries in Europe. FECIF has also added the protection of consumers as one of its main objectives.

FECIF represents in excess of 30 trade bodies or industry organisations; via these it acts on behalf of over 300,000 advisors and intermediaries in Europe - and around 640,000 individuals in total.

FECIF has established the FEPI to support the development of pension solutions and most specifically those that address the pension gap in Europe and promote the development of personal pension offerings that are consumer-oriented. In addition, it will look to ensure that personal pension solutions allow financial advisers to fulfil their role in support of savers and investors, wherever relevant.

CMI is a strategy consulting boutique, headquartered in Paris. It has been supporting Public and Private sector corporate clients for over 30 years in designing and implementing growth and transformation strategies.

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