

Pensions are becoming a dominant social issue

By Mario Freis



All pension systems in Europe are faced with a demographic system that is similar to that of Germany. An ideal solution has not been found yet and funded systems in particular are also under pressure. Private pensions often fail because of psychological hurdles, not least because citizens are unsettled by the toing and froing in pension policies. This is why Mario Freis is calling on politicians to provide more stable pension policies and send the clear message that statutory pensions cannot be anything more than just an element of provisions for old age. Furthermore, the contribution made by allfinanz financial consulting should be acknowledged, especially since this is not provided by government bodies. **Editors**

European pension systems are in dire straits: a dwindling working population must provide the funds for an increasing number of pensioners.

This is a trend that cannot be stopped: On the contrary, the average life expectancy of Europeans is steadily increasing by two to three months every year, while the birth rate is stagnating at approximately 1.6 children for every woman. The payments provided by statutory pension systems will not be enough for future generations of pensioners.

Based on this, many EU countries have already decreased pension levels, extended working lives and removed incentives to early retirement. The share of older workers on the job market is on the rise. Another reform trend in many OECD countries is the introduction of regulated adjustments to the pension system, such as the sustainability factor in the pension formula in Germany.

Higher taxes on pension payments and higher health insurance contributions for pensioners are also helping to ease the burden on public finances in some EU countries.

Funded systems are also facing problems

Nobody has found the “philosopher’s stone” yet – i.e. a perfect model for necessary reforms. This is why reforms in most EU countries are focusing on adjusting existing models rather than radically restructuring them. This is logical since every country is operating its own social security concept developed over decades.

In the meantime, not only unfunded, but

also funded systems, which are a key part of the statutory pension system in Switzerland, for instance, are facing problems. Demographics are not the main cause of this. In fact, extremely low interest rates and weak returns on old-age pension savings are having a negative impact. This is counteracted with an increase in compulsory contributions, mandatory contribution periods and the discontinuation of guarantees.

Hungary and Poland changed their pension systems in the 1990s from completely unfunded public models to mixed systems with an unfunded component and private bond funds. However, they reversed their pension systems due to high national debt and the often disappointing results of private bond funds.

A number of countries are supplementing their statutory pension systems, which are financed with taxes and social security contributions, with additional funded pension schemes. In recent years, a number of governments have considered opt-out models to be the best way forward in order to increase the coverage and reach of voluntary private pensions. These involve a private pension scheme that automatically becomes effective if the individual does not opt out.

Opting-out models can give individuals a push in the right direction in order to make regular and consistent provisions for

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old age. However, models like these bear the risk that low-income workers, younger employees and women – i.e. low-income households which thus have a low budget for pensions – choose to opt out of pension contributions since these further decrease their level of consumption which is already low, and are thus considered to have a particularly strong impact.

Pension policy continuity in demand

There is no doubt that statutory pensions form the basis of provisions for old age in Europe. In future, they will also be a significant source of income in old age. Statutory pensions in Europe should focus precisely on providing reliable basic coverage in old age – nothing more, but also nothing less. Anything else would be misleading citizens.

Pension policies need to be considered in the long term. Europe's population needs reliable conditions, transparency and plausible information on which people can base their decisions to make provisions for old age in the best possible way.

Going back and forth, as with the reversal of the Riester pension scheme which was discussed by German politicians in 2016 instead of creating bold reforms in order to make this more attractive and simple with regard to the bonus procedure, for instance, is significantly contributing towards the feeling of uncertainty among citizens. The same applies to promises financed at the cost of younger generations and debates that give the impression that the statutory system has been repaired and that a supplementary private pension is therefore unnecessary.

We are calling on pension policymakers to honestly recognise that statutory systems across Europe are just one element of

pension schemes in addition to private and occupational pension schemes. It is therefore necessary to show a clear commitment to these two other important pillars and strengthen these pillars.

Proposing a European pension plan

On behalf of the European Commission, the European Insurance and Occupational Pensions Authority (EIOPA) proposed to introduce a pan-European pension plan (Pan European Personal Pension, PEPP for short) aimed at improving private pensions throughout Europe.

The EIOPA's key requirements for PEPP alone seem like an almost impossible task:

- Products need to be comprehensible without much explanation. In addition, they need to be transparent, affordable, secure and offer attractive potential returns.
- Transnational solutions need to be offered in order to ensure that EU citizens who move to another EU country will not have to terminate their European pension plan.
- A wide range of providers need to ensure a variety of products.
- The pan-European pension plan needs to be competitive compared to all currently available solutions, such as occupational pension schemes or private pension solutions.
- Distribution costs need to be reduced to virtually zero via online distribution.

Our experience in Europe shows that pension products cannot be provided without individual and personal advice. Personal one-stop financial consulting services are important, which is why there is reason to

be sceptical and a number of unanswered questions need to be clarified.

It is worth welcoming the fact that it has been clearly recognised that there is a growing demand for private pensions across Europe since the unfunded system is under pressure due to demographic shifts, and that the promotion of certain pension products and the development rate of each country in the area of social and pension systems vary greatly in EU countries.

Advice to overcome psychological barriers

Whichever model a European country chooses, the end goal is to advise people, set things straight and find the right individual solution for them in order to enjoy a comfortable retirement. There are no government bodies for this purpose in any European country. As a result, this issue can and must be resolved in the private sector. One-stop financial consultants in particular play a key role here due to their advisory approach geared towards the needs and risk profiles of their customers, regardless of the individual product provider. With consulting services alone, it is possible to overcome the obstacles that stand in the way of necessary provisions for old age, which are often entirely psychological.

- At first, many people feel out of depth with financial matters, which is why they do not want to deal with this topic.
- In addition, topics like old age, illness and long-term care are associated with negative things.

Advice can overcome these obstacles. It shows people the options they have in order to enjoy a comfortable retirement and explains how to be adequately insured

against biometric risks along the way, such as serious illnesses, the loss of basic abilities, occupational incapacity, long-term care or disabilities. At the moment, the population is adopting the attitude, both false and dangerous, that private pensions are no longer worthwhile due to the ongoing phase of low-interest rates. The reality seen across Europe shows that most people do not initiate discussions about pensions

even if they are interested and follow coverage of this topic in the media.

Need to encourage people to save

Allfinanz financial consultants need to give incentives to encourage people to save. When we discuss this topic, customers consider holistic advice to be highly valuable and are open to suggested solutions even

if these involve a decrease in consumption, which is not particularly popular. Many customers then ask how they can best make provisions for old age.

There is no single answer to this question. But one thing is for sure: not saving is not an alternative. Each year in which the client saves money is valuable. And this knowledge also needs to be conveyed to people first during a face-to-face discussion.

Consumer advocates are calling for non-profit products

Pensions need to be simpler. This is the main demand of the Federation of German Consumer Organisations (Verbraucherzentrale Bundesverband (vzbv) e.V., Berlin) in the area of pensions. According to the consumer advocates, this goal will not be achieved, even with the initial draft law on the German Occupational Pension Reinforcement Act (Betriebsrentenstärkungsgesetz) of the Federal Ministry of Labour and Social Affairs (Bundesministerium für Arbeit und Soziales – BMAS).

Main area of criticism: This draft aims to strengthen the parties to a collective agreement, especially trade unions, but at the expense of minimum product quality standards. According to the VZBV, pensions should be protected with a simple and affordable non-profit pension product organised by the government, and pursue a rather passive and broadly diversified investment strategy. This is why the consumer advocates consider product quality to be one of the key weaknesses of the draft law because employers are no longer financially liable for

their choice of product with the introduction of a defined contribution plan. As a result, they no longer have the same interest as employees in finding efficient products. In light of this, there is a demand that consumers become direct contractual partners of the provider in the case of occupational deferred compensation schemes, which has proved to be successful in the case of building loan contracts or fund saving plans for asset-building benefits. This would solve the issue of contract portability at the same time, which has caused employees to lose existing conditions, such as a high guaranteed interest rate or the ongoing coverage of distribution costs and policy fees.

The consumer advocates are also critical of the federal government's plans to increase funding for the Riester pension scheme as long as it is not also certain that consumers are investing in efficient products. Based on this, it is worth considering the idea of a basic or standard product as a non-profit alternative, as proposed with the Deutschland-Rente pension scheme. **Editors**

This is why we support our customers over many years with needs-based insurance and pension provision plans that are adapted to the relevant stage of life. Thanks to a sufficiently large, diversified and quality-assured range of partners and products, OVB is excellently positioned to offer the right solution for different market situations and various customer needs.

Pension advice focuses on various forms of investment that offer real value, i.e. fund-based life insurance, pensions and investment funds – and this has not only been the case since the financial market crisis. Home ownership plays an essential role as a component of private pensions at OVB. Here, customers are currently benefiting from low interest rates in the area of construction financing.

The conclusion of our experience across Europe as allfinanz financial consultants is that statutory systems across Europe are the core element of pensions. This needs to be strengthened with pragmatic measures that are geared towards demographic trends, and protected from politically motivated interference. At the same time, there needs to be a clear commitment to private and occupational pension schemes with the acknowledgement of the important social contribution that allfinanz financial consulting makes since this is not provided by government bodies. ■■■