BlackRock Spotlight

Learning from the Pan-European Personal Pension Product (PEPP)

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Introduction

Building workplace and personal retirement savings has become increasingly important for millions of citizens in the European Union (EU), due to declining income from state pensions combined with longer lifespans. The availability and coverage rates of workplace pensions vary significantly within the EU, and each member state must determine the balance of state, occupational, and personal retirement options based on their unique circumstances. Studies indicate that there is potential in many countries to improve workplace savings, through strategies like auto-enrolment, default investment design, and promoting well-structured personal pensions.

The Pan-European Personal Pension Product (PEPP) was developed to broaden the retirement savings options available to citizens across the EU. While it has not yet met this expectation, the objective of broadening accessible retirement savings options remains as important as ever. We believe that the PEPP should be considered in the context of the Savings and Investment Union (SIU) objectives. Instead of starting anew, we recommend that policymakers learn from the scale-up and efficiency challenges that the PEPP faced, and relaunch it in a way that complements existing personal pension and workplace schemes.

This paper seeks to support ongoing research by key stakeholders in pension reform, including the European Insurance and Occupational Pensions Authority (EIOPA)[1], its Occupational Pensions Stakeholder Group (OPSG)[2], and Better Finance[3], by offering targeted recommendations to improve the PEPP's scalability and accessibility.

Our policy recommendations

1. **Build suitability requirements into product design, rather than at point of sale**

   Building suitability requirements into product design through the combination of effective lifecycling structure and clear de-risking glidepaths enhances efficiency.

2. **Replace individualised advice for default retirement products with lifecycling strategies**

   Treating accounts such as the Basic PEPP as a true default investment solution will allow roll out at scale, reducing costs and providing greater choice to investors.

3. **Simplify the take on process, and diversify distribution channels**

   Reduce the number of clicks to open an account, to enable a user-friendly take-on procedure that will ensure higher engagement and adoption rates.

4. **Ensure best available tax treatment**

   Where a government has not already incentivized investment into a domestic retirement savings product, consider giving the PEPP appropriate national tax treatment to facilitate real scale and appeal to a broad range of investor cohorts.

5. **Revisit portability and flexibility**

   Recognise that providers are likely to build scale in a single launch country, before moving cross-border.

6. **Rebrand the PEPP**

   Capture investor imagination with a snappier name.

The PEPP's goal of creating a portable, complementary means of boosting pension savings was ambitious, but uptake has been limited. This is mainly due to complexities in the client onboarding process, and regulatory divergences in the set-up process. In addition, the costs for providers significantly discourage them from offering the PEPP. As a result, only two PEPP providers, based in Slovakia and Cyprus, operate within the EU[4], even though several other providers have considered offering a PEPP.

We believe regulatory requirements should be streamlined, and personal pensions should evolve to integrate more user-friendly and scalable solutions that leverage digital platforms, in order to boost investor participation. In this Spotlight, we discuss the differing levels of need for personal pension products across EU member states and emphasize that the PEPP should complement —rather than replace— well-run personal pension and collective workplace schemes. We recognize the successes of similar pension products such as France's Plan d'Épargne Retraite (PER) and highlight the potential for personal pension products to become a robust pillar of retirement planning in Europe.

We make actionable recommendations so that personal pension solutions such as the PEPP meet the diverse needs of European savers and providers, achieve significant traction and provide a robust, portable, and user-friendly solution to retirement planning. These include simplifying the investor journey; reframing suitability requirements; enhancing the product portability; the elimination of mandatory advice; and the promotion of tax-efficient employer contributions.

Observations on the PEPP

BlackRock does not offer a PEPP, but we partner with several financial institutions that have considered launching a PEPP. We have drawn the following conclusions based on our conversations with them.

Pension provision differs significantly across EU countries

The need for personal pension products, such as the PEPP, varies significantly across European countries, largely due to differences in the coverage and replacement rates of national state and collective pension systems. In some regions, state and occupational pensions offer substantial coverage, reducing the immediate necessity for supplementary pension products.

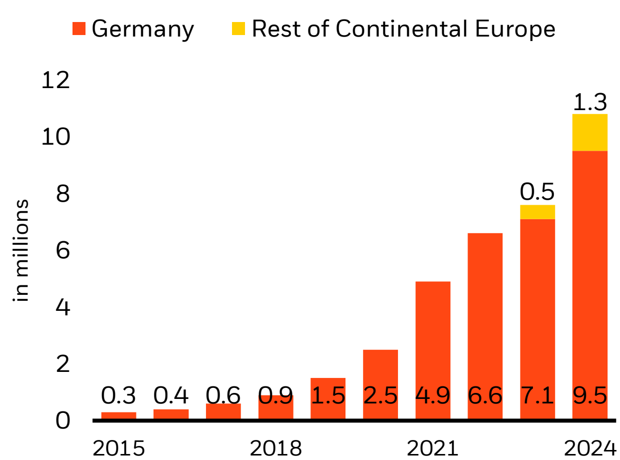
Conversely, the PEPP could play a much bigger role in securing a sufficient income in retirement for individuals in countries with less comprehensive state and occupational pension schemes. We believe the PEPP should be designed to complement, not replace, well-managed occupational pension schemes that already provide robust retirement solutions.

Existing retirement and savings success stories

France's PER has successfully encouraged long-term savings through tax incentives and employer contributions. Distributed on both a collective and individual basis, there are now over 10 million PER plans in place since their initial launch in France in 2019[5]. The PER has successfully built-in life-cycling into default product design and can be distributed through the workplace or directly to individuals, in both cases with attractive tax incentives. The simplicity of access has been a major contributor to the PER's success.

In contrast, ETF savings plans do not benefit from tax incentives or employer contributions, but – though they are not retirement-specific products – are seen by many investors as a helpful tool to build up capital for the future. The success of these plans demonstrates the potential benefits of simplifying regulatory requirements and enhancing user experience, providing a blueprint for the PEPP's evolution. In Continental Europe, there are currently c. 10.8 million trades executed on ETF savings plans each month with average investment amounts of c. €136 a month[6].

Number of monthly executed ETF savings plans in Continental Europe[6]



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These plans are cheap, flexible and simple. They leverage fractional dealing arrangements, which allow investors to hold higher-priced stocks or ETFs with smaller amounts of money, making it easier for retail investors to diversify their portfolios. They are also typically offered on an execution-only basis without tailored advice.

Complex client onboarding process

One of the primary barriers to the PEPP's wider adoption is the complexity of its client onboarding process. Currently, the PEPP mandates the provision of individualized advice prior to the conclusion of a contract, involving a 'demand and needs' test and a MiFID-style suitability assessment. These measures are intended to ensure the product meets the individual's retirement needs, but they inadvertently deter both investors and providers due to their time-consuming nature and associated costs. Simplifying this process by integrating suitability measures, such as lifecycle investment strategies (see box overleaf), within the product design could enhance accessibility and reduce friction for potential investors by making expensive additional layers of investor protection unnecessary. In particular, removing the individual suitability test would facilitate the distribution of the PEPP through workplace pensions solutions as seen with the success of the PER in France.

Cost challenges in traditional distribution channels

Traditional advisory networks are struggling to include the PEPP in their offerings as the regulation requires individualised advice – which is costly to provide – and simultaneously introduced fee caps. In addition, robo-advisory services, which in practice provide discretionary portfolio management services, while innovative, remain niche with high client acquisition costs, limiting their scalability. Scale is more likely to be achieved with a focus on encouraging access: either by positioning the PEPP in a broader range of distribution channels including workplace savings platforms; the fast-growing market of execution-only platforms; or as part of a simplified advice[7] offering by traditional distribution channels.

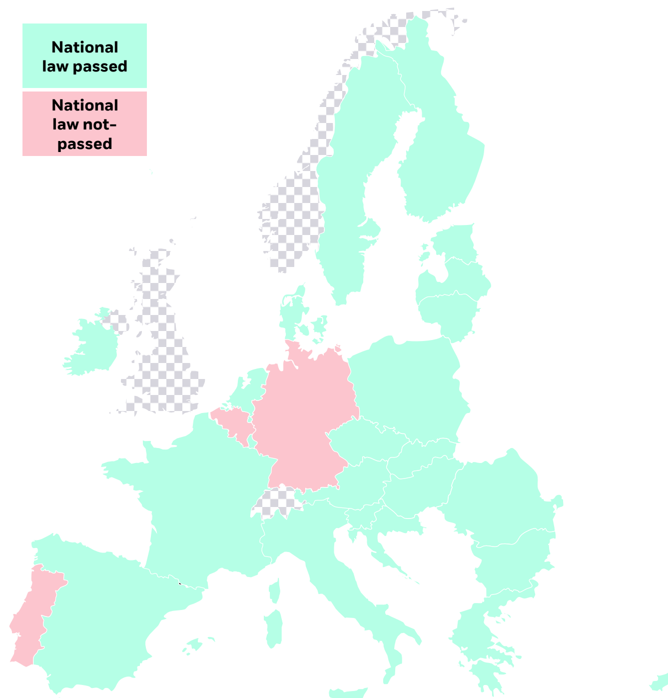
Barriers in building a PEPP offering

Providers face numerous challenges when attempting to offer the PEPP. The requirement to launch the product in at least two member states presents significant logistical hurdles, particularly for smaller companies which usually only scale up cross-border once successful in their home member state. Furthermore, the obligatory advice model complicates the development of a digital offering, as it requires a level of personalisation that digital platforms find difficult to provide effectively. The absence of clear regulatory guidance for providers further exacerbates this, making it especially hard for small digital platforms to advance a fully digital PEPP offering.

Delayed adoption of EU legislation by Member States

Despite the March 2022 transposition deadline, the Occupational Pensions Stakeholder Group report noted delays in adopting the necessary supporting legislation, and in particular, in confirming the tax treatment of the PEPP. These delays have also contributed to a perception of regulatory uncertainty and hence limited PEPP uptake.

Adoption of national legislature regulating PEPP products[8] (as of March 2025)



Recommendations to scale up the PEPP

Building upon the insights gathered from our observations, we believe the following measures are needed to overcome the current barriers to adoption and to enhance the scalability of the PEPP.

1. Build suitability requirements into product design rather than at point of sale

We recommend replacing the requirement for individual suitability tests for the Basic PEPP with lifecycling investment strategies where suitability requirements are built into product design rather than being performed at point of sale. Effective lifecycle product design inherently builds core suitability considerations such as risk and time horizon into the product design process, and designing and monitoring the glide paths so that they remain suitable for the relevant investor cohort over time. Recognising the process of suitability by design in the product process would allow savers to sign up to the PEPP without expensive and time-consuming individual suitability tests.

2. Replace individualised advice for default retirement products with lifecycling strategies

Removing the requirement for individualized advice and suitability tests for the Basic PEPP would significantly reduce costs and administrative burdens. The PEPP, as a default investment product available without individualised advice, could be positioned more effectively on digital execution platforms and workplace savings platforms. We also believe that a revamped PEPP could sit within a simplified advice offering from traditional distribution channels. This change would also help address concerns around the investment constraints created by the 1% fee cap by removing an unnecessary component of the cost structure.

3. Simplify the take on process, and diversify distribution channels

Accessibility is key to the success of the PEPP. The consumer journey to the product should be easy, with minimal clicks. This would help to position the product as part of default workplace, execution-only or simplified advice options designed to minimize friction in account opening. A user-friendly onboarding procedure will ensure higher engagement rates and broader adoption just as we have seen with ETF savings plans.

4. Ensure best available tax treatment

To encourage adoption, viewing the PEPP as a retirement savings product also available in the workplace could open the door to tax-efficient employer contributions, alongside personal contributions. We recommend that Member States consider giving the PEPP the same tax treatment as comparable national retirement solutions. Identifying under-served cohorts, such as the self-employed or lower-income workers, who would benefit most from appropriately targeted tax incentives could help further boost the coverage and broader appeal of the PEPP.

Lifecycling strategies

Lifecycling is defined as a risk-mitigation technique which adapts the investment allocation of the product to reflect the remaining duration until retirement. In the case of the PEPP, the provider must specify average exposures to equity and debt instruments whilst ensuring compliance with the prudent person principle set out in Article 41 of the PEPP Regulation.

Lifecycling design should ensure that the PEPP savers furthest away from retirement invest in long-term investments which benefit from higher investment returns due to their specific higher risk and reward characteristics, including illiquid or equity-type characteristics. For the PEPP savers closest to retirement, the PEPP provider should ensure that the investments are predominantly liquid, of high quality and exhibiting fixed investment returns. The gradual reallocation from higher risk to lower risk investments as the investor approaches their retirement date is known as the investment glidepath.

Given the long- term investment horizon of a PEPP investor, we consider that asset allocation models would benefit from the inclusion of long- term investment vehicles such as the ELTIF or equivalent national retail AIFs, especially in the early stage of the glidepath.

5. Revisit portability and flexibility

The minimum requirement to offer the PEPP in two jurisdictions is still complex for many providers. Allowing providers to start in one jurisdiction and subsequently expand across borders would mitigate the challenges posed by varying national regulations. Linking portability to personal life events, such as international relocations, rather than arbitrary rules, would offer a more practical solution for those saving for retirement. Ensuring PEPP savers can switch providers using a standard transfer process would also help to build competition into the market.

6. Rebrand the PEPP

Consideration should be given to rebranding the PEPP to enhance its appeal. The 'Pan-European' label may no longer resonate as effectively; a new, snappier name could attract more attention and interest from potential investors and encourage member states to include the PEPP as part of marketing campaigns encouraging regular long-term investment.

Endnotes

1. EIOPA, Staff Paper on the future Pan-European Pension Product (PEPP), September 2024.
2. EIOPA, Own-initiative OPSG discussion paper on the Pan-European Pension Product: market development, challenges, obstacles, solution, August 2024.
3. Better Finance: The Future Pan-European Pension Product: Realising PEPP's Potential for Pension Adequacy
4. See the EIOPA central register of PEPPs.
5. French Treasury, Le succès du plan épargne retraite, plus de 95 milliards d'euros d'encours par près de 10 millions de Français, February 2024. Déploiement du Plan épargne retraite (PER) : plus de 10 millions de titulaires et de 100 milliards d'euros d'encours à la fin de l'année 2023 | Direction générale du Trésor - see updated figures
6. For further discussion, see Extra ETF, The ETF Savings Plan Market in Continental Europe, November 2024.
7. For further analysis of the benefits of simplified advice see our Spotlight "Simplified advice: Opening the door to financial planning advice for retail investors".
8. See Own-initiative OPSG discussion paper on the Pan-European Pension Product: market development, challenges, obstacles, solution, and the EIOPA Register of national laws, regulations and administrative provisions regarding PEPP.

Appendix: Specific drafting recommendations

<table>
<tr><th>BlackRock recommendation</th><th>Proposed regulatory change</th></tr>
<tr><td>Build suitability requirements into product design rather than at point of sale</td><td rowspan="2">• Remove the need for individual ‘demands and needs tests’ for the Basic PEPP with lifecycling options set out in Art. 34 and Art. 60 Regulation (EU) 2019/1238
• Simplification of requirements on advice set in Art. 34 and Art. 60 Regulation (EU) 2019/1238 would decrease pressure on the cost structure of the PEPP providers and distributors and could pave the way to position the PEPP on already successful execution-only digital platforms
• Clarify the application of the prudent person regime: Confirm that long term investment vehicles such as ELTIFs or retail AIFs are eligible for inclusion in lifecycling asset allocation models by amending Article 41 of Regulation (EU) 2019/1238</td></tr>
<tr><td>Replace individualised advice for default retirement products with lifecycling strategies</td></tr>
<tr><td>Simplify the take on process, and diversify distribution channels</td><td>• Streamline the definition of 'PEPP distribution’ set out in Art. 2 (8) Regulation (EU) 2019/1238 to position the PEPP on already successful execution-only digital platforms
• Reduce the number of steps required to conclude a PEPP contract by integrating advising, proposing, and contract conclusion into a cohesive process that minimises redundancy</td></tr>
<tr><td>Ensure best available tax treatment</td><td>• Encourage Member States to ensure that PEPP receives the same tax treatment as a comparable national retirement solution
• Make the PEPP a second and third pillar pension product by permitting tax-efficient employer contributions, combined with personal ones by amending the description of objectives set out in Recital 19, Regulation (EU) 2019/1238</td></tr>
<tr><td>Revisit portability and flexibility</td><td>• Remove the need to offer national sub-accounts in at least two Member States set out in Art. 18 (3) Regulation (EU) 2019/1238 to allow providers to scale up their offering from time to time
• Remove the option to exit a PEPP every five years set out in Art. 44 (1) Regulation (EU) 2019/1238 and instead, introduce a similar option in the event of predefined 'life events.' One such life event could include relocating to another Member State.</td></tr>
<tr><td>Rebrand the PEPP</td><td>• It is worth thinking through whether to brand the PEPP as product, as a discretionary managed service or a label. Is the ‘Pan European’ label still a selling point or would a name such as a ‘Euro saver’ be snappier which can bring people in.</td></tr>
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