STATE STREET GLOBAL ADVISORS

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State Street Global Advisors
20 Churchill Place
Canary Wharf, London
E14 5HJ

T +44 20 3395 6000

ssga.com

European Insurance and Occupational Pensions Authority
Westhafenplatz 1,
60327 Frankfurt am Main,
Germany

Submitted via email: CP-19-007@eiopa.europa.eu

Dear Sir / Madam

Re: Consultation on proposed approaches and considerations for EIOPA's Technical Advice, Implementing and Technical Standards under the Regulation for a Pan-European Personal Pension Product

State Street Global Advisors (SSGA) welcomes the opportunity to comment on the European Insurance and Occupational Pensions Authority (EIOPA) consultation paper on the proposed approaches and considerations for EIOPA's technical advice, implementing and regulatory technical standards under the Regulation on a Pan-European Personal Pension Product (PEPP).

SSGA is the world's third largest asset manager with over $3.1 trillion of assets under our care.[1] For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors.

SSGA welcomes the progress achieved to date on the creation of the PEPP. There is clear value in the PEPP in pursuing the strategic goals of the Capital Markets Union (CMU), in both growing the EU capital market and facilitating access for savers to long term savings. SSGA welcomes the proposals by EIOPA in the consultation paper and in particular the incorporation of rules in relation to presenting key information in digital form, facilitating life-cycle de-risking investment strategies, and embracing stochastic modelling.

We broadly endorse the response to the consultation submitted by the European Fund and Asset Management Association (EFAMA). However, we believe it may be helpful to provide further details on specific questions, which we have set out below. Should you wish to discuss any aspect of our response further, please do not hesitate to contact us.

Yours sincerely,

Alistair Byrne, CFA

[1] *This figure is presented as of December 31, 2019 and includes approximately $45 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.*

Head of Pensions and Retirement Strategy, EMEA

Detailed comments on specific questions

Q4. To ensure consistency in the application and comparability of the information on past performance, performance scenarios, pension projections, summary risk indicator and to assess the effectiveness of the applied risk-mitigation techniques - do you agree for EIOPA to set the key assumptions and inputs used for the necessary stochastic modelling?

We are supportive of EIOPA setting the parameters to be used for the purposes of the stochastic modelling. We agree that a single institution should set the scenarios on which the stochastic modelling should be based, to ensure consistency and comparability for savers and believe EIOPA is well placed to do this. We note there is already precedent within EU Member States, of such parameters being set by the competent authority, and specifically refer to the example of the Netherlands, which we outline below.

Notwithstanding our above position, we would strongly encourage EIOPA to adopt an appropriate governance framework for the creating and maintenance of the parameters, which ensures sufficient transparency and independent oversight and challenge.

We would refer EIOPA to the common practice in the occupational DC market in the Netherlands, where there is a mandatory standard methodology for pension projections of DC and DB pension plans. This mandatory methodology has been in place since 2018/19 and allows projections to be compared effectively across providers. It offers expected returns and risk margins for various asset classes. It also includes inflation projections. The standard methodology is called the Uniform Calculation Method (Uniforme Rekenmethodiek – URM) which is based on a stochastic model and is provided by the DeNederlandscheBank (DNB). The DNB sets the scenarios (2,000 scenarios were calculated at launch, but this has been increased to 10,000 as of January 2020) that are to be included in the stochastic model, which is updated quarterly.

We would also like to note EIOPA's involvement in developing projection and forecasting methodology in the 2nd pillar occupational DC pensions market, and we believe the development of the PEPP could benefit from this experience. This includes both the work done as part of the DC stress test and the DC prototype plans. We believe that sharing of best practices between this work and the work on the PEPP would be beneficial, particularly regarding the stochastic modelling, life-cycling de-risking strategies, performance benchmarks, and communication to savers.

Q7. Which criteria should be added to foster the application and development of superior risk-mitigation techniques? Which research and learnings should EIOPA consider in its further work?

Life-cycling as a risk mitigation technique

SSGA is pleased that life-cycling is specifically included in the Level 1 Regulation as an appropriate Risk Mitigation Technique under the PEPP. We are fully supportive of EIOPA's conclusions in the Impact Assessment that setting out strict regulatory criteria on investment allocation for the risk mitigation techniques would not be beneficial.

Under the risk-mitigation techniques proposal in the consultation paper, there is much focus on return of capital. We acknowledge that safety is one of the key aims of the PEPP regulation. We would however encourage EIOPA to consider that whilst recouping capital is important to the saver's confidence, it is also important for the saver to get real growth of capital to help them achieve their retirement goals. We would therefore recommend EIOPA proposes to highlight these features and benefits to savers, particularly in PEPPs that utilise life-cycling as a risk mitigation technique.

Probability levels of savers recouping the capital

Whilst we recognise EIOPA's objective of ensuring that the investment process is consistent with the risk profile of the investment option, we have specific comments on the probability values of recouping the capital invested proposed by EIOPA.

On the basis of evidence in the OECD paper entitled 'An illustration to assess the risk profile of investment strategies', we are supportive of EFAMA's proposal to:

- Reduce the probability of recouping the capital at the beginning of the decumulation period, for the Basic PEPP, to around 95%. If the remaining accumulation phase is less than ten years when taking up the PEPP, a probability of around 90% could be used.
- Set the probability at around 90% for all other investment options under the PEPP

These levels should be achievable based on the evidence of the OECD modelling, while being high enough to give some comfort to investors as to the level of confidence they can have in the outcomes of saving. We would stress that ensuring savers are appropriately informed, in the supporting documentation of the probability levels and what they mean for them practically, is crucial.

We also note that at this stage, as the calculation parameters and inputs (e.g. expected returns, risk margins, inflation expectations) are not available for the proposed stochastic modelling, it would be difficult to determine whether the probability levels are possible or achievable under a life-cycling risk mitigation technique. Hence, further consistency checks will be required once the work is more developed.

Stochastic Modelling

We would be pleased to share further insights and our knowledge and practical experience in stochastic modelling for DC pension plans with EIOPA once the EIOPA model is available later in 2020.

Variable benefits in decumulation phase

We have specific comments on EIOPA's interpretation of life-cycling, as set out on page 30 of the consultation paper. We think that the proposals in the consultation are too focused on a fixed retirement date and fixed benefits at the end of the accumulation period, rather than variable benefits that are becoming more commonplace in decumulation, such as drawdown or variable annuities. We see these decumulation options as being the norm in the future due to trends that savers typically are working longer, and/or transitioning from employment to retirement in a phased manner; for example, by either retiring gradually or undertaking a part-time retirement and receiving partial benefits.

We support the proposal to extend the life-cycling beyond the limits of accumulation, in the case of adverse economic development. However, we encourage EIOPA to consider how to introduce continued investment and the ability to switch target date in its proposed approaches and considerations.

We would also draw EIOPA's attention to the PensionsEurope paper on 'Good Decumulation of Defined Contribution Pension Plans'.[2] This paper provides an overview of the diversity of the decumulation phase throughout Europe, and provides examples of decumulation options in different Member States. Whilst the focus is occupational DC plans, there are commonalities between occupational DC and the PEPP, and we would encourage EIOPA to consider the combination of accumulation and decumulation when drafting its proposals.

[2] *PensionsEurope, "Good Decumulation of Defined Contribution Pension Plans throughout Europe" 10 December 2019.*