

II

(Non-legislative acts)

REGULATIONS

COMMISSION DELEGATED REGULATION (EU) 2021/473

of 18 December 2020

supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements on information documents, on the costs and fees included in the cost cap and on risk-mitigation techniques for the pan-European Personal Pension Product

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP) ⁽¹⁾, and in particular Article 28(5), fourth subparagraph, Article 30(2), third subparagraph, Article 33(3), third subparagraph, Article 36(2), second subparagraph, Article 37(2), third subparagraph, Article 45(3), third subparagraph, and Article 46(3), third subparagraph, thereof,

Whereas:

- (1) Regulation (EU) 2019/1238 lays down uniform rules on the registration, manufacturing, distribution and supervision of personal pension products that are distributed in the Union under the designation pan-European Personal Pension Product (PEPP).
- (2) The PEPP information documents are crucial components of the PEPP framework. Those documents allow for relevant information to be provided to consumers in a way that facilitates understanding and comparability of the PEPPs and of different investment options.
- (3) To achieve comparability of PEPPs and packaged retail investment and insurance products (PRIIPs), the information requirements, where appropriate and relevant, should be aligned with Commission Delegated Regulation (EU) 2017/653 ⁽²⁾ concerning the key information document for PRIIPs. In a few areas, it is necessary to tailor the requirements to a long-term pension savings product, which can be kept throughout an individual's career and life, with a particular focus on pension-specific risks, such as inflation and risks to maintaining contributions.
- (4) Given that online distribution is an important feature of PEPPs, it is particularly critical that consumers can easily access, understand and use the information presented in a digital environment. The design of the information documents should, therefore, be further developed to present the information in an effective and transparent way when provided using digital means such as website, mobile application, audio or video. Those designs should facilitate provision of information by digital means in an appealing and comprehensible way. Layering of information should ensure sufficient flexibility in adapting the presentation to different types of digital means and to the evolving digital environment.

⁽¹⁾ OJ L 198, 25.7.2019, p. 1.

⁽²⁾ Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents (OJ L 100, 12.4.2017, p. 1).

- (5) To provide consumers with key information of the PEPP that is easy to read and to understand, and to allow for comparability between PEPPs, it is necessary to have a high degree of standardisation. It is therefore necessary to establish mandatory templates for the information documents. To facilitate consumers' understanding of the PEPP as a long-term retirement savings product, the information requirements should be tailored to the pension objective of the PEPP, to deliver decision-useful information in an attractive and clear way for the potential PEPP saver and at the same time enabling the use of digital means of distribution of the information by the PEPP provider.
- (6) The classification of the risk-rewards profiles and the 'summary risk indicator' of the PEPP should follow the identified pension-specific risks and the objective to reach appropriate and stable retirement income. The design of the summary risk indicator should provide for a consistent and comparable risk categorisation and should be complemented by consistently derived supplementary information to distinguish 'superior' investment strategies and risk mitigation techniques from 'inferior' ones in order to provide consumers with relevant information about whether a riskier investment option indeed provides for the potential of relatively higher rewards.
- (7) Projections of future retirement income are important to the consumers' understanding of the PEPP and its suitability for the individual retirement objectives. The PEPP key information document (KID) should therefore display the results of the inflation-adjusted retirement outcomes of generic PEPP savers with defined accumulation periods and standardised contributions.
- (8) Key indicators for risks and costs should be designed to be applied to different potential PEPP investment options in a coherent and consistent manner. The disclosure of costs should focus on tangible, monetary amounts and should ensure comparability to the Basic PEPP's capped level of cost and fees.
- (9) A template is necessary for the PEPP KID. That template should be easily understandable and focus on information that is useful for consumers when taking decisions on saving in a PEPP and mitigate any potential behavioural biases.
- (10) In accordance with Article 26(2) of Regulation (EU) 2019/1238 PEPP providers are to ensure that PEPP KIDs are accurate, fair, clear and not misleading, at all times, so that the prospective PEPP saver is able to rely on the standardised information contained in the document when deciding on the long-term savings for retirement. Rules should therefore be laid down to ensure regular and appropriate review of the PEPP KID and, where necessary, timely revision of the PEPP KID.
- (11) Taking a decision on long-term savings for retirement is challenging, as future retirement needs may not be fully known and personal circumstances and careers may change. Therefore, even if the PEPP KID is designed to provide information useful for taking decision on saving in a PEPP in a comprehensible and reliable way, the prospective PEPP savers should have sufficient time – taking into account their needs, experience and knowledge – to understand and consider the relevant information before taking a decision on whether to save in a particular PEPP.
- (12) The PEPP Benefit Statement should be presented in a way that enables the PEPP savers to easily track and monitor the development of own PEPP savings. Whilst the PEPP Benefit Statement is by its nature personalised, it should be consistent with pre-contractual information and should allow for constant comparison amongst PEPPs in order to enable the PEPP savers to take informed decisions on changing the investment option, switching PEPP provider or adapting the contribution levels to achieve the PEPP saver's retirement objective.
- (13) In order to ensure the cost-efficiency of the Basic PEPP it is necessary to ensure that all costs and fees are included in the cost cap, except where it is necessary to ensure that Basic PEPPs that provide the additional product feature of the capital guarantee are not disadvantaged compared to Basic PEPPs which do not offer that product feature so as to ensure a level playing field.

- (14) The PEPP's risk-mitigation techniques are essential to foster appropriate investment strategies that are capable of achieving better pension benefit outcomes. For this purpose, clear and enforceable criteria are needed to enable the assessment of the effectiveness of the chosen risk-mitigation technique in a consistent way. Those criteria should therefore apply to the three main types of risk-mitigation techniques of life-cycling, setting reserves and guarantees, and take into account the specificities of those types. Those criteria should also apply to any new, innovative risk-mitigation technique in order to foster better retirement outcomes through innovation.
- (15) The long-term nature and the retirement income objective of the PEPPs require stochastic modelling which is a tool to forecast the probability of various outcomes under different conditions, so as to project future PEPP benefits in a reasonable manner. It is therefore necessary to ensure that stochastic modelling is used when assessing the risk profile and the potential performance of the investment strategies offered by PEPP providers, reproducing the range of possible PEPP benefit outcomes that could be observed in real life due to uncertain asset returns and contribution levels. Stochastic modelling should also be used when determining the appropriate levels of ambition in terms of risks, when building the performance scenarios for the PEPP KID and the pension benefit projections for the PEPP Benefit Statement as well when implementing the methodology for the summary risk indicator effectively. For this purpose, it is appropriate to establish certain references for the stochastic modelling to be used by the PEPP provider. The PEPP provider should remain free to adapt the stochastic modelling to reach the required objective and to integrate the models elaborated by the PEPP providers for other, similar products.
- (16) The provisions of this Regulation are closely linked. They deal with requirements concerning the information documents, the costs and fees for the Basic PEPP, as well as the risk-mitigation techniques. Due to substantive interlinkages between provisions in this Regulation and to enhance the consistency between different regulatory areas covered by this Regulation, it is appropriate to further specify the rules in those areas in a comprehensive and holistic manner. This is necessary in order to ensure a high level of consistency between the rules on high-quality product features and rules on the effective communication of those features to consumers. The rules for specific product features of the PEPP are necessary in order to achieve a holistic assessment of the balance of risks and rewards for the PEPP saver, whilst ensuring better pension outcomes through innovation and cost efficiencies through digitalisation. It is important to communicate these innovative approaches to consumers in a consistent and comparable way. To ensure coherence between the provisions, they should be included in a single Regulation.
- (17) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Insurance and Occupational Pensions Authority (EIOPA).
- (18) EIOPA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Insurance and Reinsurance Stakeholder Group and the Occupational Pension Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council ⁽³⁾,

⁽³⁾ Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

HAS ADOPTED THIS REGULATION:

CHAPTER I

INFORMATION DOCUMENTS IN AN ELECTRONIC FORMAT

Article 1

Presentation of information documents in an online environment

Where the content of the pan-European Personal Pension (PEPP) key information document (KID) or PEPP Benefit Statement is presented using a durable medium other than paper, the presentation shall comply with the following requirements:

- (a) the information shall be presented in a way that is adapted to the PEPP saver's device used for accessing the PEPP KID or PEPP Benefit Statement;
- (b) where the size of the components in the layout is changed, the layout, headings and sequence of the standardised presentation format, as well as the relative prominence and size of the different elements, shall be retained;
- (c) font and font size shall be such that the information is noticeable, understandable and presented in a clearly legible format;
- (d) if audio or video is used, such speed of speaking and volume of sound shall be used which, given ordinary attention, makes the information noticeable, understandable and presented in a clearly audible format;
- (e) the information presented shall be identical to the information provided in the paper version of the PEPP KID or PEPP Benefit Statement respectively.

Article 2

Layering of information

The layering of information in the PEPP KID or PEPP Benefit Statement respectively in accordance with Articles 28(3), 35(1) and (2), 36(1) and 37(1) of Regulation (EU) 2019/1238 shall have a design that does not distract the customer's attention from the content of the document or obscure any key information. In case of layering of the information, it shall be possible to print the PEPP Benefit Statement as one single document.

CHAPTER II

CONTENT AND PRESENTATION OF THE PEPP KID

Article 3

Section titled 'What is this product?'

1. Information stating the long-term retirement objectives of the PEPP and the means for achieving those objectives in the section titled 'What is this product?' of the PEPP KID shall be summarised in a brief, clear and easily understandable manner. That information shall identify the main factors upon which investment return and pension outcomes depend, the underlying investment assets or reference values and how the return is determined, as well as the impact of contribution levels and the expected savings period until retirement. The principles of the applied risk-mitigation techniques, in particular the allocation of returns within a portfolio to the individual PEPP contract, shall be explained. It shall also refer to the type of the PEPP provider and to the resulting specific features of the PEPP contract.

2. The description of the type of PEPP savers to whom the PEPP is intended to be marketed in the section titled ‘What is this product?’ of the PEPP KID shall include information on the target PEPP savers identified by the PEPP provider. The determination of the type of PEPP savers to whom the PEPP is intended shall be based upon the ability of PEPP savers to bear investment loss and their investment horizon preferences, their theoretical knowledge of, and past experience with PEPPs and the financial markets in general, as well as the needs, characteristics and objectives of potential PEPP savers.

3. The details of PEPP retirement benefits in the section titled ‘What is this product?’ of the PEPP KID shall include in a general summary the key features of the PEPP contract. Those details shall in particular include the following:

- (a) possible forms of out-payments as referred to in Article 58(1) of Regulation (EU) 2019/1238, and the right to modify the form of out-payments as referred to in Article 59(1) of that Regulation;
- (b) a specification of each PEPP retirement benefit included, with an explanatory statement indicating that the value of those benefits is shown in the section titled ‘What are the risks and what I could get in return?’.

4. Where the PEPP contract covers biometric risk, information shall be included in the section titled ‘What is this product?’ of the PEPP KID on details of that coverage, including a list of risks covered and the circumstances that would trigger the cover and the insurance benefits. The biometric risk premium, as described in point 54 of Annex VI to Regulation (EU) 2017/653, shall be presented in percentage terms of the annual contribution or in the form of the impact of the biometric risk premium on the investment return at the end of the accumulation phase, based on the generic holding periods used for the projected PEPP benefits. Where the premium is paid in the form of a single lump sum, the details shall include the amount invested. Where the premium is paid periodically, the number of periodic payments and an estimation of the average biometric risk premium as a percentage of the annual contribution shall be included in the information.

5. The section titled ‘What is this product?’ of the PEPP KID shall include the following information on the portability service:

- (a) information that PEPP savers have, upon request, the right to use a portability service referred to in Article 17(1) of Regulation (EU) 2019/1238;
- (b) information on which sub-accounts are immediately available;
- (c) a reference to the EIOPA central public register referred to in Article 13 of Regulation (EU) 2019/1238, where information for the conditions for the accumulation phase and the decumulation phase of the national sub-accounts determined by Member States are contained;
- (d) information on the choice provided for in Article 20(5) of Regulation (EU) 2019/1238 where the PEPP provider is not able to ensure the opening of a new sub-account corresponding to the PEPP saver’s new Member State of residence.

6. The section titled ‘What is this product?’ of the PEPP KID shall include information on the provision of the switching service, and in particular, information about switching possibilities provided for in Article 52(3) of Regulation (EU) 2019/1238. If the PEPP provider, in accordance with that Article, allows the PEPP saver to switch PEPP provider more frequently, the frequency shall be indicated in the PEPP KID. The PEPP KID shall specify whether the switching is free of charge. Where it is not free of charge, the PEPP KID shall disclose the associated costs.

The information on the provision of the switching service shall also include information about the right to receive additional information about the switching service as referred to in Article 56(2) of Regulation (EU) 2019/1238. This information shall be made available on the PEPP provider’s website and upon request by PEPP savers in accordance with Article 24 of Regulation (EU) 2019/1238.

7. The section titled ‘What is this product?’ of the PEPP KID shall include information on the conditions for modification of the chosen investment option. In particular, where relevant, information on any alternative investment options offered that the PEPP saver can switch to in accordance with Article 44 of Regulation (EU) 2019/1238. If the PEPP provider allows the PEPP saver to modify the chosen investment option more frequently than the minimum requirement, the frequency of possible modification shall be indicated and the disclosure shall specify that this modification is free of charge or disclose the associated costs.

8. The information related to the performance of the PEPP provider’s investments in terms of environmental, social and governance factors (‘ESG factors’) in the section titled ‘What is this product?’ of the PEPP KID shall include narrative explanations and quantitative information, where available, on how the integration of ESG factors affects the actual and expected performance of the PEPP provider’s investments.

9. The section titled ‘What is this product?’ of the PEPP KID shall include information, where applicable, on whether there is a cooling-off period or cancellation period for the PEPP saver, and the consequences thereof, including all applicable fees and penalties for using the cooling-off period or cancelling the contract.

10. The information in the section entitled ‘What is this product?’ of the PEPP KID shall include a reference to the information on past performance of the PEPP’s investment options, as allocated to the PEPP savers. The information on past performance shall be made available on the PEPP provider’s website.

11. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the following information:

- (a) information referred to in paragraphs 1, 2 and 3;
- (b) information on whether the PEPP contract covers biometric risk;
- (c) information on either of the following:
 - (i) whether the Basic PEPP provides a guarantee on the capital or takes the form of a risk-mitigation technique consistent with the objective to allow the PEPP saver to recoup the capital;
 - (ii) whether and to what extent any alternative investment option, if applicable, provides a guarantee or a risk-mitigation technique.

Other information may be provided in the additional layers of detail.

Article 4

Section titled ‘What are the risks and what could I get in return?’

1. The information on the risk-reward profile of a PEPP, including the narrative explanations of the summary risk indicator in the section titled ‘What are the risks and what could I get in return?’ of the PEPP KID, shall be provided in a brief, clear and easily understandable manner. The information shall explain the objective and the results of the summary risk indicator to identify, in a standardised and comparable manner, different risk and reward profiles and that the summary risk indicator shall be regarded as a reference point when comparing different PEPPs’ risk-reward profiles. The PEPP provider shall clearly state that the PEPP summary risk indicator is different from and not comparable with the summary risk indicator of products falling under Regulation (EU) No 1286/2014 of the European Parliament and of the Council ⁽⁴⁾.

The information shall explain that a low risk-reward profile implies that the PEPP saver is more likely to receive a moderate retirement income, whilst a high risk-reward profile implies that the PEPP saver is more likely to receive a relatively higher or lower retirement income than lower risk-reward profiles. Narrative explanations shall identify the limitations of the summary risk indicator, including where relevant, the dependence of the risk-reward profile on the actual development of the investments, the saving period and the effectiveness of the applied risk-mitigation technique.

⁽⁴⁾ Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) (OJ L 352, 9.12.2014, p. 1).

2. The required information, according to point (ii) of Article 28(3)(d) of Regulation (EU) 2019/1238 of the possible maximum loss of the invested capital in the section titled ‘What are the risks and what could I get in return?’, of the PEPP KID shall be complemented by information on the standardised, stochastically determined, accumulated capital at decumulation under a stressed scenario, equal to the fifth percentile of the distribution.
3. In the section titled ‘What are the risks and what could I get in return?’ of the PEPP KID, information on the standardised performance scenarios of favourable, best estimate and unfavourable, shall be presented in relation to the projected PEPP retirement benefits based on the following elements:
 - (a) the projections shall include four generic PEPP savers with 40, 30, 20 and 10 years until the end of the accumulation phase and be based on a standardised contribution level;
 - (b) the favourable scenario shall refer to the 85th percentile of the distribution, the best estimate scenario to the median and the unfavourable scenario to the 15th percentile of the distribution;
 - (c) the projected accumulated capital at the end of the accumulation period and the projected monthly retirement benefits shall be adjusted for the effects of inflation;
 - (d) the information shall contain narrative explanation, including nominal amounts, of the translation in today’s values due to the changes in purchasing powers over time.
4. Where applicable, the information on the conditions for returns to PEPP savers or built-in performance caps in the section titled ‘What is this product?’ of the PEPP KID shall make reference to the design and the allocation mechanisms of the applied risk-mitigation techniques.
5. The inputs, assumptions and methodologies for the information referred to in paragraphs 1, 2 and 3 shall be in line with Annex III.
6. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the summary risk indicator and the projected PEPP retirement benefits of four generic PEPP savers, whereas the nominal projected benefits may be provided in the additional layers of detail. Other information may be provided in the additional layers of detail.

Article 5

Section titled ‘What are the costs?’

1. The information in the section titled ‘What are the costs?’ of the PEPP KID shall be provided in a brief, clear and easily understandable manner. Any costs and fees identified in the section ‘What are the costs?’ shall refer to actual incurred costs, incurred directly at the level of the provider or at the level of an outsourced activity or investment fund, including all related overhead costs. If applicable, costs and fees charged to the prospective PEPP saver, before saving in the PEPP, shall be separately disclosed as ‘initial costs’. Costs and fees, both one-off and recurring, shall be presented as ‘total costs per annum’ in monetary terms and as a percentage of the accumulated capital, as defined by Article 2(24) of Regulation (EU) 2019/1238. The compound effect of the costs shall be presented based on a standardised monthly contribution by the PEPP saver in monetary terms, as specified in Part III of Annex III to this Regulation.
2. The section titled ‘What are the costs?’ of the PEPP KID shall contain the following information:
 - (a) information on the administrative costs arising from the PEPP provider’s activities when administering PEPP accounts, collecting contributions, providing information to members and executing payments;
 - (b) information on the following investment costs:
 - (i) costs of safekeeping of assets, including fees paid to the custodian for keeping assets safe and collecting dividends and interest income;
 - (ii) portfolio transaction costs, including actual payments by the PEPP provider to third parties to meet costs incurred in connection with the acquisition or disposal of any asset in the PEPP account;
 - (iii) other costs relating to the management of the investments;

- (c) information on the distribution costs arising from marketing and selling the PEPP product, including the costs and fees related to providing advice;
- (d) information on costs of guarantees charged to the PEPP saver for the financial guarantee to pay back at least the accumulated capital at decumulation and of any other financial guarantee provided under the PEPP contract.

3. Where a PEPP provider charges fees to recoup the incurred costs for initial advice during the initial term of the PEPP contract, before the PEPP saver has the right to switch the PEPP provider according to Article 52(3) of Regulation (EU) 2019/1238, the PEPP provider shall inform prospective PEPP savers about the total amount of those fees, the time period during which, and the frequency with which, such fees shall apply.

4. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the following information:

- (a) the information on total costs per annum in monetary terms and as a percentage of the accumulated capital at the end of the year, as specified in paragraph 1;
- (b) if applicable, information on any initial costs.

Other information may be provided in the additional layers of detail.

Article 6

Standard layout of the PEPP KID

PEPP providers shall present the PEPP KID in accordance with Annex I. Where information is presented in an electronic format, the presentation by means of the template set out in that Annex may only be adapted to allow for layering of information.

CHAPTER III

REVIEW, REVISION AND PROVISION OF THE PEPP KID

Article 7

Review of the PEPP KID

1. PEPP providers shall, review the information contained in the PEPP KID in accordance with Article 30(1) of Regulation (EU) 2019/1238, every time there is a change that significantly affects or is likely to affect significantly the information contained in the PEPP KID and, at least, every 12 months following the date of the initial publication of the PEPP KID.

2. When carrying out the review referred to in paragraph 1, PEPP providers shall verify whether the information contained in the PEPP KID is accurate, fair, clear, and not misleading. In particular, it shall verify compliance with the following criteria:

- (a) whether the information contained in the PEPP KID is compliant with the general form and content requirements under Articles 26, 27 and 28 of Regulation (EU) 2019/1238, and with the specific form and content requirements laid down in Article 6 of this Regulation;
- (b) whether the PEPP's risks and rewards have changed, where such a change has the effect of that necessitating the PEPP's move to a different class of the summary risk indicator from that attributed in the PEPP KID subject to review.

3. For the purposes of paragraph 1, PEPP providers shall establish and maintain adequate processes throughout the life of the PEPP so as to enable the PEPP savers to identify at all times and without undue delay, any circumstances which might result in a change that affects or is likely to affect the accuracy, fairness or clarity of the information contained in the PEPP KID.

*Article 8***Revision of the PEPP KID**

1. PEPP providers shall promptly revise the PEPP KID where a review pursuant to Article 7 concludes that changes to the PEPP KID need to be made. PEPP providers shall ensure that all sections of the PEPP KID affected by those changes are updated.
2. The PEPP provider shall publish the revised PEPP KID on its website and inform the PEPP savers promptly in accordance with Article 7(3).

*Article 9***Provision of the PEPP KID**

1. The person advising on or selling a PEPP shall provide the PEPP KID sufficiently early so as to allow a prospective or current PEPP saver enough time to consider the document before being bound by a contract or an offer relating to that PEPP, regardless of whether or not the prospective or current PEPP saver is provided with a cooling off period.
2. For the purposes of paragraph 1, the person advising on or selling a PEPP shall assess the time needed by each prospective or current PEPP saver to consider the PEPP KID, taking into account the following criteria:
 - (a) the knowledge and experience of the prospective or current PEPP saver with the PEPP or with PEPPs of a similar nature or with risks similar to those arising from the PEPP;
 - (b) the complexity, long-term nature and limited redeemability of the PEPP;
 - (c) where the advice or sale is at the initiative of the prospective or current PEPP saver, the urgency explicitly expressed by the prospective or current PEPP saver of concluding the proposed contract or offer.
3. For the purposes of paragraph 1, if the PEPP KID is provided online, it shall comply with the following conditions:
 - (a) it shall be located in an area of the website or a mobile application where it can be easily found and accessed;
 - (b) it shall be provided in a stage of the purchase process where the prospective or current PEPP saver is allowed enough time to consider the document before being bound by a PEPP contract or an offer relating to that PEPP contract.

CHAPTER IV

PRESENTATION AND LAYOUT OF THE PEPP BENEFIT STATEMENT*Article 10***Presentation of the PEPP Benefit Statement**

1. The information in the PEPP Benefit Statement shall be provided in a brief, clear and easily understandable manner. The information shall be presented in the following sequence, for each existing sub-account:
 - (a) information referred to in Article 35(1) and (2) of Regulation (EU) 2019/1238;
 - (b) in the section titled 'Product name', information referred to in points (a), (b) and (c) of Article 36(1) of Regulation (EU) 2019/1238;
 - (c) in the section titled 'How much have I saved in my PEPP?', the following information:
 - (i) information referred to in point (i) of Article 36(1) of Regulation (EU) 2019/1238;
 - (ii) information on the total amount of the PEPP account, broken down by paid-in contributions and accumulated investment returns net of costs and charges since the PEPP saver started saving into the PEPP;
 - (iii) information on biometric risk premiums;

- (d) in the section titled 'What will I receive when I retire?', the following information:
- (i) information referred to in point (d) of Article 36(1) and point (d) of Article 37(1) of Regulation (EU) 2019/1238 and Article 4(3) of this Regulation, where the actual contributions, expected contribution levels and individual terms and conditions are applied;
 - (ii) where applicable, information on additional pension benefit projections based on national rules in accordance with Article 37(3) of Regulation (EU) 2019/1238;
- (e) information on the projected accumulated capital at the end of the accumulation period and the projected monthly retirement benefits;
- (f) in the section titled 'How has my PEPP changed in the last 12 months?', information referred to in points (e), (f) and (h) of Article 36(1) of Regulation (EU) 2019/1238 about the evolution of the PEPP account in the previous 12 months, reconciling the starting balance to the end balance by presenting contributions paid in, investment returns allocated to the PEPP account and costs and fees referred to in Article 5(2) of this Regulation;
- (g) in the section titled 'Key factors affecting the performance of my PEPP', information, where relevant, referred to in points (g), (j) and (l) of Article 36(1) of Regulation (EU) 2019/1238 and Article 3(10) of this Regulation;
- (h) in the section titled 'Important information', the following information:
- (i) information about any material changes to the PEPP terms and conditions referred to in Article 35(5) and (6) of Regulation (EU) 2019/1238;
 - (ii) indication where and how to obtain supplementary information referred to in points (a), (b), (c) and (e) of Article 37(1) of Regulation (EU) 2019/1238;
 - (iii) if applicable, a reference to the statement of investment policies considering ESG factors according to point (c) of Article 37(1) of Regulation (EU) 2019/1238.

Information referred to in point (c)(iii) of the first subparagraph shall be presented separately in accordance with Article 3(4).

Information referred to in point (e) of the first subparagraph shall be presented adjusted for the effects of inflation. The information shall be complemented by a narrative explanation of the translation in current values due to the changes in purchasing powers over time.

For the purposes of point (f) of the first subparagraph the compound effect of the costs on the projected accumulated capital at decumulation according to point (f) of Article 36(1) of Regulation (EU) 2019/1238 shall be presented as 'Reduction in Wealth' as specified in Part III of Annex III to this Regulation.

The information referred to in point (g) of the first subparagraph shall refer to the past performance of the PEPP saver's investment option, as allocated to the PEPP savers, and shall be provided for the previous 10 years, if possible. If it is not possible to provide the information for the previous 10 years, the information shall be provided for the longest period the PEPP saver has been saving into the PEPP. That information shall be presented as the average investment returns, net of investment costs, for the periods of the previous year, the three previous years, the five previous years and the ten previous years, as a percentage of the accumulated capital.

2. The assumptions for the information referred to in paragraph 1 shall be in line with Annex III.

3. Where information is presented in an electronic format with layering of information, the first layer shall contain at least the information covered in points (a), (b), (d) and (e) of paragraph 1. Other information may be provided in the additional layers of detail.

Article 11

Standard layout of the PEPP Benefit Statement

PEPP providers shall present the PEPP Benefit Statement in accordance with Annex II. Where information is presented in an electronic format, the template set out in that Annex may only be adapted to allow for layering of information.

CHAPTER V

THE COSTS AND FEES FOR THE BASIC PEPP*Article 12***Types of costs and fees for the Basic PEPP**

1. The costs and fees referred to in Article 45(2) of Regulation (EU) 2019/1238, in relation to the Basic PEPP saver's accumulated capital at the end of the respective year, shall comprise all actual incurred costs and fees, incurred directly at the level of the provider or at the level of an outsourced activity, including appropriate overhead costs and fees in relation to the saving in the Basic PEPP and distribution of the Basic PEPP. Those costs and fees shall include in particular the following costs:

- (a) administrative costs;
- (b) investment costs;
- (c) distribution costs.

2. Any costs and fees linked to additional elements or features of the Basic PEPP, that are not required by Article 45 of Regulation (EU) 2019/1238, and any costs and fees linked to the switching services as set out in Article 54 of Regulation (EU) 2019/1238, shall not be included in the costs referred to in Article 45(2) of Regulation (EU) 2019/1238.

*Article 13***Costs and fees for guarantees the Basic PEPP**

1. If the Basic PEPP provides for a guarantee on the capital, which is to be due at the start of the decumulation phase and during the decumulation phase as provided for in Article 45(1) of Regulation (EU) 2019/1238, the costs directly linked to that capital guarantee shall not be included in the costs referred to in Article 45(2) of Regulation (EU) 2019/1238.

2. The PEPP provider shall explicitly and separately disclose the costs charged for the capital guarantee under the section titled 'What are the costs?' in the PEPP KID and under the section titled 'How has my PEPP changed in the last year?' in the PEPP Benefit Statement.

3. Where relevant, the PEPP provider shall be able to provide evidence that the respective costs are directly linked to the capital guarantee at the request of the national competent authority or EIOPA.

CHAPTER VI

RISK-MITIGATION TECHNIQUES*Article 14***Objective of the risk-mitigation techniques**

1. When using the risk-mitigation techniques for the investment strategy of the PEPP, PEPP providers shall set up an objective in line with the specific retirement objective of the PEPP saver or a group of PEPP savers, in accordance with the conditions referred to in Article 47(2) of Regulation (EU) 2019/1238.

2. The PEPP provider shall design the risk-mitigation technique in a way to achieve the objective of providing for stable and adequate individual future retirement income from the PEPP, taking into consideration the expected remaining duration of the PEPP saver's or group of PEPP savers' individual accumulation phase and the PEPP saver's chosen decumulation option. To implement that objective, the risk-mitigation technique shall be designed in the following manner:

- (a) ensure that the expected loss, defined as the shortfall between the projected sum of the contributions and the projected accumulated capital at the end of the accumulation phase, is not higher than 20 % under the stressed scenario, which equals the fifth percentile of the distribution;
 - (b) aim at outperforming the annual rate of inflation with a probability of at least 80 % over a 40 year accumulation phase;
 - (c) take into consideration the results of stochastic modelling.
3. For the Basic PEPP, when the PEPP provider does not offer a capital guarantee as referred to in Article 13, the PEPP provider shall employ an investment strategy that ensures, taking into consideration the results of stochastic modelling, recouping the capital at the start of the decumulation phase and during the decumulation phase with a probability of at least 92,5 %. However, where the remaining accumulation phase is equal to or less than 10 years when taking up the Basic PEPP, a probability of at least 80 % may be used when employing the investment strategy.
4. When designing a risk-mitigation technique for a group of PEPP savers, the PEPP provider shall design the risk-mitigation technique in such a way as to ensure a fair and equal protection of each individual PEPP saver within the group and shall disincentivise opportunistic behaviour of individual PEPP savers within the group.
5. PEPP providers shall ensure that any performance-linked remuneration of individuals acting on behalf of the PEPP provider and implementing the risk-mitigation techniques is conducive to the objective of the risk-mitigation techniques.
6. PEPP providers shall safeguard the appropriateness, efficiency and effectiveness of the risk-mitigation technique through a dedicated process and provisions within the product oversight and governance framework, as required by Article 25 of Regulation (EU) 2019/1238. That framework shall be subject to a supervisory review and to supervisory reporting.
7. Where a PEPP saver chooses a different investment option according to Article 44 of Regulation (EU) 2019/1238 or switches the PEPP provider according to Article 20(5) or Article 52 of that Regulation, the PEPP provider shall fairly contribute the allocated reserves, if any, and the investment returns to the leaving PEPP saver. The PEPP provider shall ensure that the allocation is equally fair towards the leaving PEPP saver and towards the remaining PEPP savers.
8. In the case of adverse economic developments within three years leading up to the expected end of the remaining duration of the PEPP saver's accumulation phase, the PEPP provider shall extend the last phase of the life-cycle or the applied risk-mitigation technique by an appropriate additional time of up to three years after the initially expected end of the accumulation phase. Such extension shall be subject to the PEPP saver's explicit consent and shall be done in accordance with the conditions referred to in Article 47 of Regulation (EU) 2019/1238.

Article 15

Life-cycling

1. When using a risk-mitigation technique that adapts the investment allocation to mitigate the financial risks of investments corresponding to the remaining duration, the PEPP provider shall specify average exposures to equity and debt instruments whilst ensuring compliance with Article 41 of Regulation (EU) 2019/1238 for all potential sub-portfolios corresponding to the phases of the life-cycling.
2. The PEPP provider shall design the life-cycling in such a way as to ensure that the PEPP savers furthest away from the expected end of the accumulation phase invest, to a contractually specified extent, in long-term investments which benefit from higher investment returns due to their specific higher risks and rewards characteristics, including illiquid or equity-type characteristics. For the PEPP savers closest to the expected end of the accumulation phase, the PEPP provider shall ensure that the investments are predominantly liquid, of high quality and exhibiting fixed investment returns.

*Article 16***Establishing reserves**

1. When using a risk-mitigation technique that establishes reserves from PEPP savers' contributions or investment returns, the PEPP providers shall set out in the PEPP contract, in a transparent and comprehensible manner, the allocation rules of the accumulated capital and the investment returns to the individual PEPP saver's account, to and from the reserves, and, if applicable, to the corresponding group of PEPP savers.
2. The PEPP provider shall allocate contributions and investment returns of the earmarked assets to the reserves in a transparent and comprehensible manner, with the objective of building adequate reserves in times of positive investment returns. Equally, the PEPP provider shall allocate from the reserves to the individual PEPP saver's account and, if applicable, to the corresponding group of PEPP savers, in a fair and transparent manner, in times of negative investment returns.
3. The PEPP provider shall clearly identify and earmark the assets invested for the PEPP savers. The PEPP provider shall not be able to trade assets on its own account with the assets earmarked for the PEPP savers.
4. In the first 10 years of the establishment of a new PEPP, the PEPP provider may contribute to the establishment of the reserves by providing a loan or an equity investment to the PEPP savers' assets. In that case, the PEPP provider shall specify and present in a transparent and comprehensible manner in the PEPP contract the terms and conditions of its contribution and profit sharing, as well as the pattern of the gradual dis-investment over the maximum period of 10 years.

*Article 17***Minimum-return guarantees**

1. When the PEPP provider offers minimum-return guarantees, the PEPP provider shall clearly describe the features, including limits and thresholds, of the guarantee and specify whether the guarantee applies to inflation-adjusted returns or to nominal returns.
2. The PEPP provider shall explicitly disclose in the PEPP KID and subsequently in the PEPP Benefit Statement whether the level of the guarantee is or is not adjusted for the annual rate of inflation.

*Article 18***Holistic assessment of the PEPP's risks and rewards**

For the purposes of Articles 3, 4, 5, 10 and 14, PEPP providers shall apply the methodologies laid down in Annex III.

*Article 19***Entry into force**

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 18 December 2020.

For the Commission
The President
Ursula VON DER LEYEN

ANNEX I

TEMPLATE FOR THE PEPP KEY INFORMATION DOCUMENT

Part I. Instructions for filling in the template for the PEPP Key Information Document

1. PEPP providers shall comply with the section order, titles, presentation tools and icons set out in the template for the PEPP Key Information Document under Part II of this Annex, which however does not fix parameters regarding the length of individual sections and the placing of page breaks, and is subject to an overall maximum of five sides of A4-sized paper when printed.
2. Under the prominent title 'PEPP Key Information Document', the following statement shall be added: 'This document provides you with key information about this pan-European Personal Pension Product (PEPP). It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this personal pension product and to help you compare it with other PEPPs.'
3. In the template, PEPP providers may include a QR code linking to the electronic version of the PEPP KID.
4. At the top of the template, under the section titled 'PEPP at a glance', PEPP providers shall set out the following information:
 - (a) the projected accumulated capital for a monthly contribution of EUR 100 for a period of 40 years, under the unfavourable and favourable scenario;
 - (b) the total costs per annum as a percentage of the accumulated capital on the basis of monthly contributions of EUR 100;
 - (c) the classification of the summary risk indicator; and
 - (d) a statement whether the product provides for a guarantee.
5. The PEPP provider shall add the following statement: 'The retirement product described in this document is a long-term product with limited redeemability which cannot be terminated at any time.'
6. In the following section, the PEPP provider may add its corporate branding or logo and shall provide the following information:
 - (a) the identity and contact details of the PEPP provider;
 - (b) the competent authorities of the PEPP provider;
 - (c) the name of the PEPP and the registration number of the PEPP in the central public register;
 - (d) under 'product type', whether it is a Basic PEPP or not; if not, whether the PEPP KID refers to a specific alternative investment option or provides generic information for a range of alternative investment options; and
 - (e) the date of the document.
7. Under the title 'How is my money invested?', the PEPP provider shall present the information according to Article 3(1). PEPP providers may use the right-hand side column or the main area to provide information according to Article 3(10) of this Regulation.
8. Under the title 'Who is this for?', the PEPP provider shall present the information according to Article 3(2) of this Regulation.

9. Under the title 'Are my savings guaranteed?', the PEPP provider shall indicate:
 - (a) whether the Basic PEPP provides a guarantee on the capital or takes the form of a risk-mitigation technique consistent with the objective to allow the PEPP saver to recoup the capital; or
 - (b) whether and to what extent any alternative investment option, if applicable, provides a guarantee or a risk-mitigation technique.
10. Under the title 'What happens when I retire?', the PEPP provider shall present the information according to Article 3(3) of this Regulation.
11. Under the title 'What happens to my PEPP savings if I die/become disabled/live longer than assumed in my PEPP contract?', the PEPP provider shall present the information according to Article 3(4) of this Regulation.
12. Under the title 'What happens if I move countries?', the PEPP provider shall present the information according to Article 3(5) of this Regulation. PEPP providers may use the right-hand side column or the main area to indicate where to retrieve further information.
13. Under the title 'Can I withdraw from the product early?', the PEPP provider shall include a statement on the consequences for the PEPP saver:
 - (a) of early withdrawal from the PEPP, including all applicable fees, penalties, and possible loss of capital protection and possible loss of other advantages and incentives; and
 - (b) if the PEPP saver stops contributing to the PEPP, including all applicable fees, penalties, and possible loss of capital protection and possible loss of other advantages and incentives.
14. Under the title 'Can I switch my provider?', the PEPP provider shall present the information according to Article 3(6) of this Regulation. PEPP providers may use the right-hand side column or the main area to indicate where to retrieve further information.
15. Under the title 'Can I change my investment option?', the PEPP provider shall present the information according to Article 3(7) of this Regulation.
16. Under the title 'Will my money be invested sustainably?', the PEPP provider shall present the information according to Article 3(8) of this Regulation. PEPP providers may use the right-hand side column or the main area to indicate where to retrieve further information.
17. Under the title 'Is this governed by [Member State] law?', the PEPP provider shall present information about the law applicable to the PEPP contract where the parties do not have a free choice of law or, where the parties are free to choose the applicable law, the law that the PEPP provider proposes to choose.
18. Under the title 'Can I cancel or change my mind?', the PEPP provider shall present the information according to Article 3(9) of this Regulation.
19. Under the title 'What is the risk profile of this product?', the PEPP provider shall present the information according to Article 4(1) of this Regulation. PEPP providers may use the right-hand side column or the main area to indicate where to retrieve further information, in particular on the applied methodologies for the summary risk indicator.
20. Under the title 'Is there a risk that I will lose all my invested capital?', the PEPP provider shall present the information according to Article 4(2) of this Regulation.

21. Under the title 'What can I expect at retirement?', the PEPP provider shall, when presenting the information in Article 4(3) and 4(4), set out the information according to Article 4(3)(a) to (c) as follows:
 - (a) the unfavourable scenario under the category 'if your investments perform poorly';
 - (b) the best estimate scenario under the category 'if your investments have medium success';
 - (c) the favourable scenario under the category 'if your investments perform very well';
 - (d) the projections of the 40 years accumulation period to 'your current age is 25', of the 30 years accumulation period to '35', of the 20 years accumulation period to '45' and of the 10 years accumulation period to '55' respectively.
22. Under the title 'What can I expect at retirement?', the PEPP provider shall present a statement that the tax law of the PEPP saver's Member State of residence may have an impact on the actual pay-out.
23. Under the section titled 'What happens if [the name of the PEPP provider] is unable to pay out?', the PEPP provider shall add a short description of whether the related loss is covered by an investor compensation or guarantee scheme and if so, which scheme it is, the name of the guarantor and which risks are covered by the scheme and which are not.
24. Under the title 'One-off costs', the PEPP provider shall present the costs for signing up to the contract and the one-off fees if the contract is terminated within five years.
25. Under the title 'Annual costs', the PEPP provider shall present the information according to Article 5(1) and (3). PEPP providers may use the right-hand side column or the main area to explain any additional costs that the PEPP provider or PEPP distributor charges and provide information detailing any cost of distribution that is not already included in the costs specified under the previous titles, so as to enable the PEPP saver to understand the cumulative effect that those aggregate costs have on the return of the investment.
26. Under the section titled 'What are the specific requirements for the sub-account corresponding to [my Member State of residence]?' and under the sub-section titled 'Requirements for the pay-in phase', the PEPP provider shall describe the conditions for the accumulation phase, as determined by the Member State of residence of the PEPP saver. Under the sub-section titled: 'Requirements for the pay-out phase', the PEPP provider shall describe the conditions for the decumulation phase, as determined by the Member State of residence of the PEPP saver.
27. Under the section titled 'How can I complain?', the PEPP provider shall present information about how and to whom a PEPP saver can make a complaint about the PEPP or the conduct of the PEPP provider or PEPP distributor.

Part II. Template



Pan-European Personal Pension Product (PEPP)
Key Information Document

This document provides you with key information about this Pan-European Personal Pension Product (PEPP). It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this personal pension product and to help you compare it with other PEPPs.

QR code, which navigates consumers to the electronic version of this KID

PEPP at a glance

If you contribute: **€*100/month**
for a period of: **40 years**
you could receive: **€xx,xxx to €xx,xxx**
...depending on how the markets and your investments perform

Annual costs: **xx% of your accumulated savings**

1 **2** **3** **4**

Lower risk **Higher risk**
More stable But a greater chance of higher rewards

This pension product has been classified as **1/2/3/4** out of 4

This PEPP does not/ provides a guarantee
(see information below)

The retirement product described in this document is a long-term product with limited redeemability which cannot be terminated at any time.

Product name: [Name of the PEPP]

Provider:	Registration number: xxx xxx	Product type: xxx
	Competent authority: xxx	Date: DD Month YYYY

1 WHAT IS THIS PRODUCT?



How is my money invested?

Information on how this product has performed in the past can be found here:



Who is this for?



Are my savings guaranteed?

To protect your money, PEPPs can either provide a guarantee or take steps to minimise the risk of you losing your money. This PEPP:

- Provides a guarantee: At retirement you will at least be able to recoup all the money you put in over time (minus any costs and charges)
- Does not provide a guarantee, but takes the form of a risk-mitigation technique consistent with the objective to allow the PEPP saver to recoup the capital

* monetary units in currency corresponding to the sub-account

1 WHAT IS THIS PRODUCT? (continued...)



What happens when I retire?

PEPPs give you a choice of different forms of retirement income. This PEPP offers you the choice of:



Annuity and life-long pay-out



Lump sum



Drawn down payments



A combination of these

Please see section 2 for what you can receive at retirement.



What happens to my PEPP savings if I die/become disabled/live longer than assumed in my PEPP contract?

If you die before you retire

If you are unable to continue to pay into the PEPP

If you choose to receive monthly payments after retirement, but live longer than assumed in your PEPP contract



What happens if I move countries?



More information on portability is available at:



Can I withdraw from the product early?



Can I switch my provider?



Can I change my investment option?

1

WHAT IS THIS PRODUCT? (continued...)



Will my money be invested sustainably?



Is this governed by [Member State] law?



Can I cancel or change my mind?



More information
on our investment
Policy principles is
available at:

2

WHAT ARE THE RISKS AND WHAT COULD I GET IN RETURN?

What is the risk profile of this product?



This pension product has been
classified as **1/2/3/4** out of 4



Is there a risk that I will lose all my invested capital?

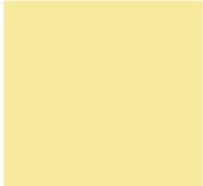
More information
on the
methodology
used for the PEPP
risk indicator is
available at:

2 WHAT ARE THE RISKS AND WHAT COULD I GET IN RETURN? *(continued...)*



What can I expect at retirement?

It's impossible to predict exactly how your savings will evolve over time, but to help you know what to expect, here are three possible scenarios. Your final retirement income will depend in part on your age now (because the younger you are now, the longer you will save for), and in part on how the investment market performs.



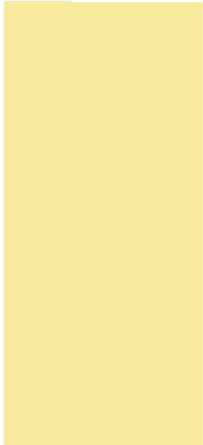
Assuming you invest €100 each month until retirement in this PEPP:

Your current age	If your investments perform poorly , you could receive:		If your investments have medium success , you could receive:		If your investments perform very well , you could receive:	
	lump sum	or monthly	lump sum	or monthly	lump sum	or monthly
25 years old	€xx,xxx	€xxx	€xx,xxx	€xxx	€xx,xxx	€xxx
35	€xx,xxx	€xxx	€xx,xxx	€xxx	€xx,xxx	€xxx
45	€xx,xxx	€xxx	€xx,xxx	€xxx	€xx,xxx	€xxx
55	€xx,xxx	€xxx	€xx,xxx	€xxx	€xx,xxx	€xxx

These figures are adjusted to take account of inflation, as an increase in the general price level can have an impact on savings in any form.

If you want to understand better how the scenarios are built, please visit:

3 WHAT HAPPENS IF [THE NAME OF THE PEPP PROVIDER] IS UNABLE TO PAY OUT?



4

WHAT ARE THE COSTS?



One-off costs

Total one-off costs for signing up for the product

€x

You will pay a one-off fee of €xxx if you exit the account within five years of opening



€ € €

Annual costs

Total annual costs

x%

€xxx

*These costs are a percentage of your savings paid in**This would be the expected annual costs*

5

WHAT ARE THE SPECIFIC REQUIREMENTS FOR THE SUB-ACCOUNT CORRESPONDING TO [MEMBER STATE]?



Requirements for the pay-in phase



Requirements for the pay-out phase

6

HOW CAN I COMPLAIN?

ANNEX II

TEMPLATE FOR THE PEPP BENEFIT STATEMENT**Part I. Instructions for filling in the template for the PEPP Benefit Statement**

1. PEPP providers shall comply with the section order, titles and presentation tools or charts and icons set out in the template, which however does not fix parameters regarding the length of individual sections and the placing of page breaks.
2. In the template, PEPP providers may include a QR code linking to the electronic version of the PEPP Benefit Statement and may add the PEPP provider's corporate branding or logo.
3. Under the title 'What will I receive when I retire?', the PEPP provider shall present the outcomes of the following scenarios:
 - (a) the unfavourable scenario under the category 'if the investments perform poorly';
 - (b) the best estimate scenario under the category 'if the investments have medium success';
 - (c) the favourable scenario under the category 'if the investments perform very well'.

Part II. Template



Pan-European Personal Pension Product (PEPP)

PEPP Benefit Statement

Date:

provider
logo

QR code, which
navigates
consumers to
the electronic
version of this
BS

Name:	PEPP contract ID/NR:
Contact details:	Company:
Address:	Contact address:
Date you started saving into the PEPP:	Country of registration/authorisation of the PEPP provider
Earliest possible date of retirement:	Competent authority:

1

HOW MUCH HAVE I SAVED IN MY PEPP?

From DD Month YYYY until DD Month YYYY

€*X,XXX



You have paid in

€X,XXX

Total return allocated to your account minus costs

+/-€XX

In total your PEPP savings are worth

€X,XXX

2

WHAT WILL I RECEIVE WHEN I RETIRE?

Your future retirement income depends on how much you are contributing in the pay-in phase and on how your investments perform. The performance of your investments is linked to how markets develop – which is presented here in three possible scenarios:



If the investments perform poorly, you could receive:

€X,XXX

as a lump sum
or €XXX per month



If the investments have medium success, you could receive:

€X,XXX

as a lump sum
or €XXX per month



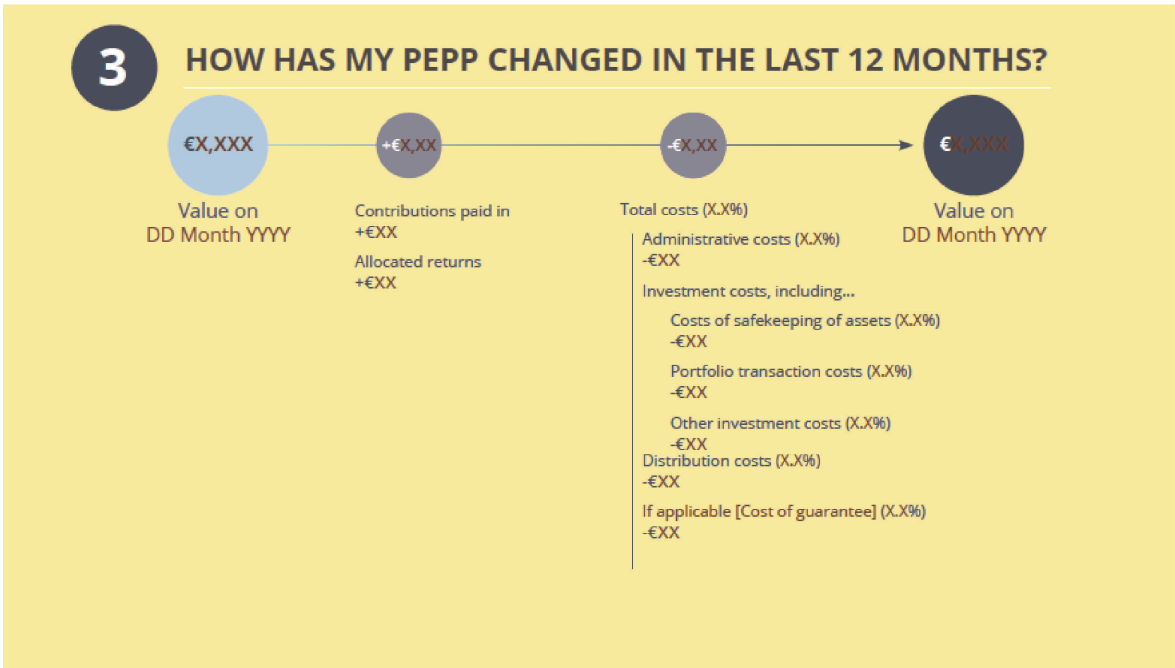
If the investments perform very well, you could receive:

€X,XXX

as a lump sum
or €XXX per month



* monetary units in currency corresponding to the sub-account



KEY FACTORS AFFECTING THE PERFORMANCE OF YOUR PEPP

- Risk-mitigation technique
- Sustainability
- How has my investment option performed in the past?

Past performance is not indicative of future performance.

Period	Performance (%)
Last year	x.x%
Last 3 years	x.x%
Last 5 years	x.x%
Last 10 years	x.x%

5**IMPORTANT INFORMATION**

Have the terms of my PEPP changed in the last year?

Please contact us for any clarifications you may need.



Find out more about your rights and options as regards to:



Where can I get more information?

ANNEX III

INPUTS, ASSUMPTIONS AND METHODOLOGIES

Part I. Methodology underpinning the presentation of risk and reward

Summary risk indicator

1. PEPP providers shall allocate the Basic PEPP and the individual alternative investment options to four different categories: '1', '2', '3' and '4'. The allocation shall be based on:
 - (a) the risk of not recouping the inflation-adjusted contributions;
 - (b) the expected shortfall; and
 - (c) shall be compared to the expected rewards in terms of reaching a certain level of PEPP benefits, as appropriate, at the start of, or during the decumulation phase.
2. To calculate the risk of not recouping the inflation-adjusted contributions, PEPP providers shall stochastically determine the range of the expected accumulated capital at the end of the accumulation period for generic PEPP savers, generic lengths of accumulation periods and standardised contribution levels. Following a stochastic simulation, the risk shall be expressed as the probability in percentage points, which is translated from the number of observations where the sum of the inflation-adjusted contributions are higher than the expected value of the accumulated capital at the end of the accumulation period, compared to the number of all observations.
3. The individual investment option's risk of not recouping the inflation-adjusted contributions shall be allocated to the different categories as follows:

Categories	Accumulation periods			
	40 years	30 years	20 years	10 years
1	up to 13,75 %	up to 17 %	up to 27 %	up to 36 %
2	13,8 to 16,55 %	17 to 19,75 %	27 to 29,25 %	36 to 43,25 %
3	16,6 to 19,35 %	19,8 to 22,55 %	29,3 to 31,55 %	43,3 to 50,55 %
4	above 19,4 %	above 22,6 %	above 31,6 %	above 50,6 %

Where the risk category of the investment option diverges between the different accumulation periods, the highest risk category shall be used.

4. To calculate the expected shortfall, PEPP providers shall stochastically determine the range of the expected accumulated capital at the end of the accumulation period for generic PEPP savers, generic lengths of accumulation periods and standardised contribution levels. Following a stochastic simulation, the risk shall be expressed as the percentage of the expected shortfall in relation to the sum of the inflation-adjusted contributions. The expected shortfall is determined by the observations where the inflation-adjusted contributions are higher than the expected value of the accumulated capital at the end of the accumulation period and the average losses of these observations.
5. The individual investment option's risk in terms of expected shortfall shall be allocated to the different categories as follows:

Categories	Accumulation periods			
	40 years	30 years	20 years	10 years
1	up to -20 %	up to -17 %	up to -13 %	up to -8 %
2	-20 to -23 %	-17 to -20,25 %	-13 to -16,5 %	-8 to -11,25 %
3	-23,5 to -26,5 %	-20,3 to -23,55 %	-16,6 to -20,1 %	-11,3 to -14,55 %
4	above -26,5 %	above -23,6 %	above -20,1 %	above -14,6 %

Where the risk category of the investment option diverges between the different accumulation periods, the highest risk category shall be used.

6. To calculate the expected rewards to reach a certain level of PEPP benefits, PEPP providers shall stochastically determine the range of the expected accumulated capital at the end of the accumulation period for generic PEPP savers, generic lengths of accumulation periods and standardised contribution levels. PEPP providers shall express the rewards in terms of the median accumulated capital at the end of the accumulation period as a multiple of the sum of the inflation-adjusted contributions.
7. The individual investment option's rewards to reach a certain level of PEPP benefits shall be allocated to the different categories as follows:

Categories	Accumulation periods			
	40 years	30 years	20 years	10 years
1	up to 1,7	up to 1,3	up to 1,08	up to 0,93
2	1,7 to 2,03	1,3 to 1,45	1,08 to 1,165	0,93 to 0,985
3	2,035 to 2,36	1,455 to 1,61	1,17 to 1,255	0,99 to 1,045
4	above 2,365	above 1,615	above 1,26	above 1,05

Where the rewards category of the investment option diverges between the different accumulation periods, the lowest rewards category shall be used.

8. To aggregate the outcomes of the categorisation of the individual investment options to the summary risk indicator, PEPP providers shall:
 - (a) compare the two risk categories and where the value of the category diverges, choose the higher one;
 - (b) compare the resulting risk category to the value of the rewards category for the PEPP provider to complement the information according to Article 4(1) of this Regulation, comparing the investment option's rewards relative to its riskiness.

Performance scenarios

9. PEPP providers shall stochastically determine the expected PEPP benefits, as appropriate, at the start of, or during the decumulation phase, taking into consideration:
 - (a) the standardised or personalised contribution levels;
 - (b) the length of the accumulation phase;
 - (c) the life expectancy of the average PEPP saver, where relevant;
 - (d) the trends in wage growth, where applicable;
 - (e) the expected nominal investment returns, following the investment strategy, the strategic investment allocation;
 - (f) the annual rate of inflation; and
 - (g) the cost levels.
10. The scenario values of the expected PEPP benefits under the different performance scenarios shall be determined in line with the stochastic dispersion of the expected PEPP benefits:
 - (a) the favourable scenario shall be the value of the PEPP benefits at the 85th percentile of the distribution;
 - (b) the best estimate scenario shall be the value of the PEPP benefits at the 50th percentile of the distribution;

- (c) the unfavourable scenario shall be the value of the PEPP benefits at the 15th percentile of the distribution;
- (d) the stressed scenario shall be the value of the PEPP benefits at the 5th percentile of the distribution.

Part II. Rules to determine the assumptions on pension benefit projections

Annual rate of nominal investment returns

11. PEPP providers shall determine the Basic PEPP's and alternative investment options' expected nominal investment returns in an appropriate stochastic approach, mirroring the corresponding investment strategy, the strategic investment allocation and the risk-mitigation technique applied for the individual investment option.
12. When determining the different elements of the stochastic model, PEPP providers shall use the annual rate of inflation and may consider to take a modular approach for the stochastic calculation of, at least:
 - (a) the nominal interest rates;
 - (b) the credit spreads, including migration and default; and
 - (c) the equity returns.
13. For the determination of the nominal interest rates, the PEPP provider may use the G2++ short-rate model, as described by Brigo et al. (2006) ⁽¹⁾, which is equivalent to the two-factor Hull-White model and allows for negative interest rates. Its behaviour is driven by five parameters, two per factor and one for the correlation. The components of the two-dimensional Wiener process are correlated and a deterministic shift factor allows for a perfect fit of the initial term structure to market rates.

The stochastic differential equations for the two factors $x(t)$ and $y(t)$ are

$$dx(t) = -ax(t)dt + \sigma dW_1^{\mathbb{Q}}(t), x(0) = 0$$

and

$$dy(t) = -by(t)dt + \eta dW_2^{\mathbb{Q}}(t), y(0) = 0,$$

where a , b , σ and η are positive parameters and $W_1^{\mathbb{Q}}$ and $W_2^{\mathbb{Q}}$ correlated Wiener processes under the risk-neutral measure \mathbb{Q} . The correlation parameter ρ is defined through

$$dW_1^{\mathbb{Q}}(t)dW_2^{\mathbb{Q}}(t) = \rho dt.$$

14. The risk-neutral valuation using the risk-neutral measure \mathbb{Q} requires adaptation to the real-world measure \mathbb{P} , which may be chosen as a constant, time-independent market price of risk.
15. Using the Girsanov's theorem, the calculation follows

$$dW_i^{\mathbb{P}} = -\lambda_i dt + dW_i^{\mathbb{Q}}, i = 1, 2$$

with λ_i being the market price of risk. The dynamics under the \mathbb{P} -measure can then be described as

$$dx(t) = (\lambda_1 \sigma - ax(t))dt + \sigma dW_1^{\mathbb{P}}(t), x(0) = 0$$

and

$$dy(t) = (\lambda_2 \eta - by(t))dt + \eta dW_2^{\mathbb{P}}(t), y(0) = 0.$$

⁽¹⁾ Brigo, D., Mercurio, F.: Interest Rate Models – Theory and Practice, Second Edition, Springer-Verlag Berlin Heidelberg, 2001, 2006.

The short-rate process $r(t)$ is the sum of the two factors and the deterministic shift, i.e.

$$r(t) = x(t) + y(t) + \varphi(t),$$

where for the deterministic shift factor $\varphi(t)$

$$\varphi(T) = f^M(0, T) + \frac{\sigma^2}{2a^2} (1 - e^{-aT})^2 + \frac{\eta^2}{2b^2} (1 - e^{-bT})^2 + \rho \frac{\sigma\eta}{ab} (1 - e^{-aT})(1 - e^{-bT})$$

holds. In this equation, $f^M(0, T)$ denotes the market instantaneous forward rate at initial time 0 with the horizon T .

16. Following the G2++ model, analytical solutions of the price of a zero coupon bond exist by defining

$$V(t, T) := \frac{\sigma^2}{a^2} \left[T - t + \frac{2}{a} e^{-a(T-t)} - \frac{1}{2a} e^{-2a(T-t)} - \frac{3}{2a} \right] + \frac{\eta^2}{b^2} \left[T - t + \frac{2}{b} e^{-b(T-t)} - \frac{1}{2b} e^{-2b(T-t)} - \frac{3}{2b} \right] + 2\rho \frac{\sigma\eta}{ab} \left[T - t + \frac{e^{-(T-t)} - 1}{a} + \frac{e^{-b(T-t)} - 1}{b} - \frac{e^{-(a+b)(T-t)} - 1}{a+b} \right],$$

$$A(t, T) := \frac{P^M(0, T)}{P^M(0, t)} e^{\frac{1}{2}[V(t, T) - V(0, T) + V(0, t)]},$$

and

$$B(z, t, T) := \frac{1 - e^{-z(T-t)}}{z}$$

For which the price of a zero coupon bond in the G2++ model is

$$P(t, T) = A(t, T) e^{-B(a, t, T)x(t) - B(b, t, T)y(t)}.$$

$P^M(t, T)$ denotes here the market price of a zero coupon bond at time t for maturity T .

17. The PEPP provider may use the model prices for determining the returns of risk-free investments in bonds. Further, the short-rate may be used as an input to the modelling of the equity returns and potentially for property returns.
18. For the determination of credit spreads, the PEPP provider may use the simulation of credit spreads as to combine the risk-free zero coupon bond term structure to yield a credit-risky zero coupon bond term structure. The hazard rates of bonds of different rating classes may be modelled through the use of Cox-Ingersoll-Ross (CIR) processes. The hazard rate π_i develops in the risk-neutral measure according to the stochastic differential equation:

$$d\pi_i(t) = k(\theta - \pi_i(t))dt + \sigma\sqrt{\pi_i(t)}dW_t^{\mathbb{Q}}, \pi_i(0) = \pi_{i,0}$$

together with the condition $2k\theta > \sigma^2$ in order to keep $\pi(t)$ positive for all t . Assuming a market price of risk of the form

$$\lambda(t) = \lambda\sqrt{\pi_i(t)},$$

the real-world dynamics are given by

$$d\pi_i(t) = (k\theta - (k + \lambda\sigma)\pi_i(t))dt + \sigma\sqrt{\pi_i(t)}dW_t^{\mathbb{P}}, \pi_i(0) = \pi_{i,0}$$

19. PEPP providers may model hazard rates for the rating classes AAA ($i = 1$), AA, A, BBB and BB ($i = 5$), potentially differentiated for corporate, covered and other bonds. The default probabilities $p_i(t, T)$ are then calculated as the product of the CIR-prices $P_i(t, T)$ at time t for maturity T , i.e.

$$p_i(t, T) = \prod_{j=1}^t P_i(t, T) = \prod_{j=1}^t A_j(t, T) e^{-B_j(t, T) \pi_j(t)},$$

where

$$A_i(t, T) = \left[\frac{2 h_i e^{\frac{(k_i + h_i)(T-t)}{2}}}{2h_i + (k_i + h_i)(e^{(T-t)h_i} - 1)} \right]^{2k_i \theta_i / \sigma_i^2},$$

$$B_i(t, T) = \frac{2(e^{(T-t)h_i} - 1)}{2h_i + (k_i + h_i)(e^{(T-t)h_i} - 1)} \text{ and}$$

$$h_i = \sqrt{k_i^2 + 2\sigma^2}.$$

The spreads $s_i(t, T)$ are then determined through

$$s_i(t, T) = (\delta + (1 - \delta) \cdot p_i(t, T))^{-\frac{1}{T}} - 1.$$

with δ being the recovery rate.

20. For the determination of equity returns, the PEPP provider may use a model for the development of one stock market index through the use of geometric Brownian motion. This model has two parameters: the volatility and the equity risk premium. The nominal interest rate model provides the applicable risk-free rate and the output of the model are yearly annualized returns for investments in the market index.

$$dS_i = (r(t) + \lambda) S_i dt + \sigma S_i dW_t$$

21. To determine the yearly volatility, PEPP providers may use the standard deviation of the monthly returns of an appropriate equity index for an appropriate, representative time period to annualise the result.
22. PEPP providers may apply the equity risk premium λ_{eq} as an implied measure following Damodaran (2020) ^(*), but calculating it directly on the appropriate equity index without further country risk premia. It is defined as

$$\lambda_{eq} := E[R_m] - R_f,$$

where $E[R_m]$ is the expected market return and the risk-free rate R_f may be chosen as the 10Y spot rate of the ECB's or National Central Bank's curve.

23. For the growth rate g , the PEPP provider may use the long-term growth EPS forecast, whereas γ is the sum of the dividend yield and the buyback yield. Cash flows may be determined using the constant growth rate for five years, after which the final cash flow is a perpetuity with the risk-free rate as the growth rate.

$$PV_{index} = \frac{\gamma P_0}{(1 + E[R_m])} + \frac{\gamma(1 + g)P_0}{(1 + E[R_m])^2} + \frac{\gamma(1 + g)^2 P_0}{(1 + E[R_m])^3} + \frac{\gamma(1 + g)^3 P_0}{(1 + E[R_m])^4}$$

$$+ \frac{\gamma(1 + g)^4 P_0}{(1 + E[R_m])^5} + \frac{\frac{\gamma(1 + g)^4 (1 + R_f) P_0}{E[R_m] - R_f}}{(1 + E[R_m])^5},$$

in which PV_{index} is the present value of the index in this discount dividend model and P_0 is the price of the index at time $t = 0$.

By demanding

$$P_0 = PV_{index}$$

the expected market return can be solved and the equity risk premium can be calculated.

^(*) Damodaran, Aswath, Equity Risk Premiums: Determinants, Estimation and Implications – The 2020 Edition (5 March 2020). NYU Stern School of Business.

Annual rate of inflation

24. To calculate the annual rate of inflation, the PEPP provider shall use a one factor Vasicek process. The mean-reverting dynamics of the model are driven by three parameters. The stochastic differential equation of the model is

$$di(t) = k(\vartheta - i(t))dt + \sigma dW(t), i(0)=i_0,$$

in which $i(t)$ is the inflation rate at time t , k refers to the speed of mean reversion, ϑ to the level of mean-reversion and σ to the volatility.

25. The modelling shall target the inflation rate target level of the European Central Bank for the Euro area or, where applicable, of the corresponding central banks for countries outside the Euro area in the medium term, together with the observed standard deviation of the inflation rates. The speed of the mean reversion, together with the current inflation rate, shall be used to fit the model to the current environment and short-term inflation rate forecasts.
26. The calibration of the inflation rate shall use for the Euro area the European Central Bank's or, for Member States outside the Euro area, the central bank's inflation target for the ϑ -parameter. The monthly Year-on-Year-inflation rate time series of the Member State's Harmonised Index of Consumer Prices (HICP) shall be used for deriving the standard deviation of the inflation rate in the long-term, which shall be assumed as 100 years. From the same time series, the initial value of the inflation rate at the reference date shall be used. The PEPP provider shall use the inflation projections for the Member State's HICP, published as the Eurosystem staff macroeconomic bi-annual projections for the Euro area countries, or of the European Commission's economic forecast for the countries outside the Euro area, unless the corresponding central bank provides for projections. Those inflation projections shall be used for fitting the speed of the mean reversion.

Trend of future wages

27. To take into account the trends of future wages, where applicable, PEPP providers shall consider the real wage growth in the different Member States, considering Eurostat data and taking into account that real wages increase significantly during the early part of a PEPP saver's career and experience significantly lower growth or losses in the later parts. The PEPP provider may consider a pattern in the PEPP savers' real-wage paths partly to reach a plateau closer to the end of the accumulation phase and partly to reach the plateau earlier, which means 20 years from retirement and fall thereafter.
28. To reflect a large range of possible paths, the PEPP provider may use a real wage index following a quadratic equation with age: $\text{wage} = a(\text{max} - \text{age})^2 + b$. The coefficient 'a' is taken from a uniform distribution between -0,15 and 0,011; max is taken from a uniform distribution between 47 and 64 and corresponds to the age when real wages are at their maximum value; and the coefficient b is solved so that the wage index starts at 100 at age 25.

Part III. Methodology for the calculation of costs, including the specification of summary indicators

29. In the PEPP KID, the PEPP provider shall present the total annual costs, comprising all costs incurred and chargeable within 12 months in monetary terms and as a percentage of the projected accumulated capital after 12 months. Where necessary, these amounts may be calculated as the average total annual costs over the term of the PEPP contract. The calculation of the compound effect of the costs shall be based on a 40 years' accumulation period, based on monthly contributions of EUR 100 and on the projected accumulated capital in the best estimate scenario.

30. In the PEPP Benefit Statement, the PEPP provider shall present the estimated impact of costs on the final PEPP benefits by using the 'Reduction in Wealth' approach. The 'Reduction in Wealth' shall be calculated as the difference between the projected accumulated savings at the end of the accumulation and the projected accumulated savings at the end of the accumulation period in a cost free scenario. The difference shall be disclosed in monetary and percentage terms relative to the projected accumulated savings. The calculation shall be based on the personalised contribution level of the individual PEPP saver and based on the best estimate scenario of point 10.
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