Press release

BVI: Government has to act on pensions

- **Old-age provision: Implement recommendations of the focus group**
- **Infrastructure: Exploit the potential of funds**
- **Sustainability: Introduce product classification at EU level**
- **Distribution: Ensure retail investors' access to capital market**

Frankfurt – 13 February 2024. The German Investment Funds Association BVI calls on the German government to implement the recommendations of the focus group for the reform of private old-age provision. Additionally, funds should be able to participate more in financing infrastructure. Both initiatives should be realized in 2024.

Permitting funds to compete in old-age provision
'The government has to act now. It would be fatal if another legislative period were to pass without reforming private old-age provision,' says Thomas Richter, BVI's CEO. In the summer of 2023, the focus group set up by the German government voted by a large majority in favour of greater return opportunities and freedom of choice, rejecting the compulsory guarantee and annuitisation imposed on Riester pension products. Without guarantees, it is possible to invest more in equities. Additionally, if savers have various options for the withdrawal phase, they can adjust the payouts to their individual needs. The focus group's recommendations should also be applied to the Riester pension. This can be implemented swiftly and with minimal effort.

State-managed fund belongs in the first pillar
BVI and the vast majority of the focus group reject a state standard fund in the third pillar. This fund, primarily supported by the Greens and consumer advocates, is intended to serve as a fallback solution for those who do not make their own investment decisions within the discussed automatic inclusion in private old-age provision. However, with the state's trust and cost advantage, the state product would have an unbeatable competitive advantage over the other funds in the private market. 'It is incomprehensible that even parts of the CDU, the party of social market economy, are also pursuing this idea and want distortions of competition in the private pension market,' says Richter. Furthermore, supporters of a state-organized solution in the third pillar underestimate the responsibility that the state bears in view of the trust placed in it by consumers. Richter: 'If the markets collapse, many savers would expect the state to offset losses. It is questionable whether politics would withstand public pressure and refrain from intervening at the taxpayer's expense. After all, the investor in the state fund is also a voter.'

Therefore, BVI demands that mandatory contribution payments and state-prescribed solutions remain in the first pillar. Even in Sweden, which is often cited as a model for Germany, the funded supplementary pension is part of the statutory pension scheme. In addition, the German government is already planning a state-organized funded component in the statutory pension insurance scheme with the ‘Generationenkapital’ (generation capital).

Enabling funds the financing of infrastructure

Funds could make a significant contribution to the expansion of infrastructure. However, infrastructure and open-ended property funds are still not allowed to invest sufficiently in renewable energies. The draft for the ‘Zukunftsfinanzierungsgesetz’ (Future Financing Act) provided the possibility for these funds to invest in or to build photo voltaic systems in open spaces, for example. However, the coalition parties have removed this provision and postponed it to the ‘Jahressteuergesetz 2024’ (2024 Annual Tax Act) to implement the necessary tax support. Richter: ‘The coalition should now use the 2024 Annual Tax Act to adopt the necessary measures so that funds can participate more in the financing of infrastructure.’

In addition, tax regulations are required for Spezial-Investmentfonds, which are primarily held by institutional investors. These funds must also be able to exploit their potential, for example for investments in rooftop solar systems. The ‘Wachstumschancengesetz’ (Growth Opportunities Act) provides for an increase in the limit for revenue from electricity generation from 10 to 20 per cent for Spezial-Investmentfonds. However, the law passed by the ‘traffic light coalition’ in November was stopped by the Bundesrat. Negotiations were broken off in the mediation committee in December with no result. However, doubling the limit for income from electricity generation to 20 per cent would not have been sufficient in many cases. Richter: ‘This limit must be removed. This is the only way funds can fully utilize the potential of their buildings for renewable energy installations.’ Local authorities would also benefit: They would receive higher tax revenues, as funds pay tax on income from electricity generation.

Introducing a fund category for the sustainable transformation

The BVI supports the European Commission’s considerations to introduce a classification system for sustainable products. This could mean fundamental changes for products under Articles 8 and 9 of the Sustainable Finance Disclosure Regulation. Among others, a product category for sustainable transformation is being discussed. This would enable investors to distinguish funds investing in green assets from those supporting the transition from brown to green business models. ‘This would be a crucial step in recognizing the promotion of transformation as a sustainable investment strategy and thus boosting the financing of the sustainable transition,’ says Richter. This could also curb discussions about greenwashing. According to the BVI, two more categories should be considered: One for products aiming to make a measurable contribution to an environmental or social goal, and another for

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funds adhering to credible sustainability standards or investing in sustainability issues. Richter: ‘It is important that the product categories take into account the sustainability needs of retail investors and are easily understandable.’ They should also be broadly formulated enough to work for all asset classes and multi-asset strategies.

EU undermines its own goals with a commission ban

The BVI rejects the partial commission ban and cost benchmark planned by the European Commission as part of the Retail Investment Strategy. The Commission aims to reduce product costs with a ban, expecting it to increase returns for investors. However, a BVI study, analysing data from the European Central Bank and the UK’s Office for National Statistics, shows that a ban on commission-based advice does not lead to higher returns and even prevents retail investors from participating more in the capital markets.

Although the EU Commission has refrained from a complete ban on commission for the time being, it is not off the table. As a first step, it is planning a ban on commission in non-advisory sales. However, like a complete ban, this will not lead to the result the European Commission is aiming for. Instead of commissions, distribution costs would be charged separately. This would keep retail investors away from the capital markets and prevent attractive offers. Richter: ‘The European Commission is undermining its own goals by proposing a commission ban.’ The planned benchmarking also promotes the one-sided focus on product costs at the expense of product quality and innovation.

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