Pension schemes are long-term purpose-driven savings products mainly devoted to cover retirement. There are three types in Spain: occupational, professional-association[1] and individual pension schemes. The first two are sponsored by firms, entities, trade unions or professional associations, and their beneficiaries are their employees or members, as appropriate. The third kind is sponsored by one or several financial institutions and their beneficiaries are individuals who make contributions. Pension funds are holding companies without legal status through which the savings generated by pension schemes are invested.

As Chart 1 shows, pension funds' total assets have trended upwards from 2012 after several years of stability, exceeding €111 billion at December 2017 (€74.4 billion relate to individual pension funds and €36.7 billion to the other two categories together). This figure accounts for 9.5% of GDP which, in comparison with other OECD economies, would place Spain among the countries with the lowest weight of these instruments (see Chart 2). The differences between countries arise from differences in the degree of coverage by state schemes, household savings preferences and the policies adopted by each State to encourage these private schemes. In the case of Spanish households, the weight of pension funds relative to other financial investment alternatives is low (accounting for only 5% of their financial wealth). Also, although the share of pension funds has increased recently with respect to bank deposits, it has decreased very significantly in comparison with assets managed by collective investment undertakings (CIUs), i.e. investment funds and companies, and foreign CIUs.[2]

1 Professional-association pension schemes are of scant importance, accounting for only 1% of the total, and have been grouped together with occupational pension schemes for analysis.

2 For further details on the changes in and characteristics of pension schemes and funds, see the article "Evolución reciente de los planes y fondos de pensiones en España", Boletín Económico, diciembre 2016, Banco de España.

Chart 1
TOTAL ASSETS OF PENSION FUNDS IN SPAIN

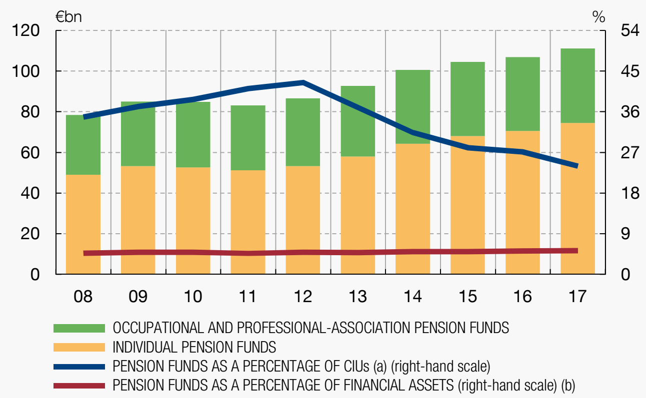


Chart 2
TOTAL ASSETS OF PENSION FUNDS. INTERNATIONAL COMPARISON. December 2016

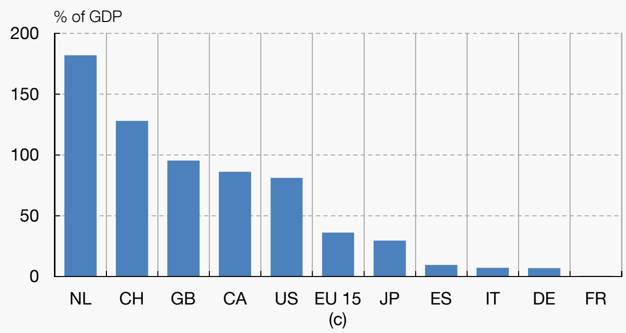


Chart 3
MANAGEMENT FEES

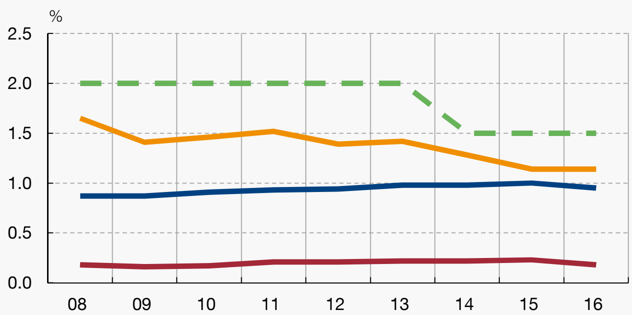
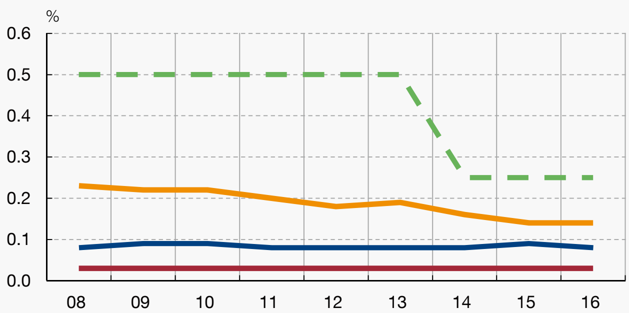


Chart 4
CUSTODIAN FEES



INVESTMENT FUNDS OCCUPATIONAL PENSION FUNDS INDIVIDUAL PENSION FUNDS MAXIMUM PENSION FUND FEES

SOURCES: Banco de España, OECD and Inverco.

a CIUs are Collective Investment Undertakings.
b Data on financial assets of households at September 2017.
c Weighted average. Greece and Luxembourg are not included.

RD 62/2018 amending the pension scheme and pension fund regulations was enacted on 9 February 2018 to enhance the appeal of pension schemes as a long-term investment alternative. In this connection, it includes changes in different areas. Specifically, it incorporates the new provision on liquidity introduced in the pension law reform of 2014. This permits early access (effective from 1 January 2025) to rights corresponding to contributions made at least ten years previously starting from January 2015. It also adapts the procedures for mobilisation of pension scheme members' rights in all cases of early withdrawal, and updates and relaxes the regime for assets eligible for pension fund investments, in line with the European regulations. Additionally, it reduces management costs by changing the maximum management and custodian fee limits applicable. Lastly, the maximum periods for the execution of orders relating to transfers between funds and for settlements in the event access is gained to vested rights are shortened, certain aspects relating to the valuation of contributions, rights and benefits are clarified, and the information requirements for members are extended, including those relating to the dates on which contributions are made and to possible future liquidity and taxation in the event of access to vested rights.

The possibility for members to gain access to rights corresponding to contributions made at least ten years before to individual and professional-association pension schemes was established by the RD without setting any additional quantitative limit or condition in order to encourage the arrangement of and contribution to pension schemes, since this improves the liquidity of these products. As regards occupational schemes, the RD maintains the possibility of incorporating this option provided the scheme's specifications allow it.

The other important change introduced by the RD is the reduction of the maximum management and custodian fees collected by pension fund management and custodian companies as remuneration. Also, a system is established under which the single management fee (1.5% from October 2014) is replaced by fees that are applied based on the scheme's focus and related risk levels. Thus, pension funds are classified into bond funds (no exposure to equities), mixed-income funds (less than 30% exposure to equities) and other (equity exposure of 30% or more of total assets), and the maximum fees are set at 0.85%, 1.3% and 1.5%, respectively. The maximum custodian fee, which is common to the three categories, is reduced by five basis points, to 0.2%. This new system aims to contribute to improving pension scheme profitability and, consequently, to encourage enrolment in such schemes. It also encourages a larger fee reduction for funds with more prudent investment criteria (those with a greater fixed-income component), which are predominant in Spain.

As shown in Charts 3 and 4, the management and custodian fees of pension funds linked to individual schemes are substantially higher than for occupational and professional-association schemes, which could be due to the greater negotiating power of the holders of the latter over fund managers. These fees are also higher than those applied to other savings instruments such as investment funds. However, these differences have declined in recent years, in line with the decrease in the legal ceilings applied to pension schemes. Against this background, it could be expected that the lowering of these limits in accordance with the RD will contribute to the narrowing of the distance between the fees applied to individual schemes and those applied to other financial products.

It is therefore foreseeable that the recent reform of pension schemes and funds will help to enhance the appeal of these instruments and will thus have a positive, albeit difficult to quantify, effect on the volume of schemes arranged, gaining importance as a supplement to the state pension scheme.