DEVELOPING SUPPLEMENTARY PENSIONS

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From patchwork to progress: the future of EU pension systems

Europe is entering a critical phase in preventing old-age poverty. The share of people aged 65 and over is expected to rise from 21.6% in 2024 to nearly 29% by 2050. This will place further pressure on pay-as-you-go systems and increase the importance of supplementary pensions in preserving retirement adequacy. EIOPA's Eurobarometer shows that confidence in retirement adequacy is uneven across age groups – with the group 40 to 54 being the least confident – underlining the need for both short- to medium-term measures to close the gap for those who will retire in the 2050 onwards and longer-term structural reforms to ensure pensions adequacy for younger generations.

In practice, this means addressing Europe's patchwork of pension systems, which still creates barriers to scale, efficiency, and adequacy. The most effective path is likely to combine common European solutions with national measures closely aligned with labour, social and tax law. This can help achieve the scale needed for stronger returns while preserving national flexibility.

Member States need to modernize fragmented pension systems while expanding access for groups that remain underserved. Those Member States developing new systems have a unique opportunity to establish more integrated and coherent frameworks from the outset.

This in practice needs a set of national reforms – with EU coordination – such as:

- **Majority-rule participation models like auto-enrolment with opt-out options** – a smart way to boost participation while preserving individual choice, ensuring more people benefit from pension savings;
- **Gradual transition to funded systems** – a balanced approach that partially shifts social security contributions from pay-as-you-go models to funded pensions, preventing unfair financial burdens on current generations;
- **Portable and flexible arrangements for part-time workers**, the self-employed and those with interrupted careers, so that supplementary pensions reflect today's labour market rather than yesterday's.

At the same time, EU-level initiatives are needed to ensure savers have credible options to supplement Pillar I pensions and to help Member States free public resources for those unable to save. The EU role is especially important where scale, portability and consumer trust cannot be achieved efficiently at national level alone. EIOPA's Eurobarometer survey shows that limited confidence in retirement reflects broader concerns about the sustainability of public pensions, the erosion of savings through inflation and uncertainty about future needs. Importantly, distrust in private savings and pensions has also risen, showing that expanding supplementary systems will require not only wider access but also better returns and lower costs.

Adaptable pension frameworks should allow employer contributions into personal pensions, continued saving after employment, and flexible participation for part-time workers, career breakers and the self-employed. The Pan-European Personal Pension Product (PEPP), or a stronger "EuroPension" model as proposed by EIOPA, could help fill gaps where occupational coverage remains limited and could use its European scale to improve outcomes.

The shift to defined contribution (DC) pensions also requires careful design of both accumulation and decumulation defaults. Investment defaults should align with time horizons and risk tolerances, while decumulation pathways must provide clear income projections and withdrawal options to ensure financial security in retirement.

Transparency tools – such as pension dashboards, tracking systems, and cost and performance benchmarking – are critical for measuring reform impact, closing pension gaps, and empowering citizens. With digitalisation making complex information more accessible, transparency tools will enhance public awareness on pension matters while enabling regulators and supervisors spot problems more promptly.

Successful implementations will create unified frameworks such as improved design of DC schemes or the PEPP which can immediately address the issues of ensuring good returns for consumers who will retire 'tomorrow'. These approaches can ensure that scale is reached with costs being controlled and good returns being achieved. These European solutions should be coupled with solutions allowing for national flexibility particularly to address the gap in the longer term.

As the debate moves from EU proposals to national implementation, these choices will determine which Member States succeed in expanding coverage and improving adequacy. EIOPA's forthcoming DC toolkit should help policymakers navigate design choices and trade-offs, while a well-implemented PEPP could help successful national third pillar products scale across borders under a credible EU registration framework.

Ultimately, true success will be measured not by institutional mandates or jurisdictional boundaries, but by our collective ability to bring everyone along – especially supporting those who need it most now and, in the future.

ANNA JEGNELL
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Sweden's pension model: lessons learned

The Savings and Investment Union (SIU) seeks to mobilise long-term household savings to help finance the investment needs while strengthening supplementary pensions and addressing the growing pension gap across Europe. Sweden already demonstrates the effectiveness of this approach, combining long-term, return-oriented investment strategies with a pension framework that supports both adequate retirement incomes and the system's long-term sustainability.

Sweden's occupational pension system combines near-universal coverage, strong social partner governance, and solid long-term returns. Its success is underpinned by public trust and legitimacy, consumer protection, cost-efficient administration, and low fees. These features have enabled occupational pensions to play a central role in retirement provision while channelling long-term capital into productive investments. Looking ahead, the domestic reform most likely to expand supplementary pension coverage across Europe is automatic enrolment into workplace pension schemes. Evidence from Sweden shows that making pension saving the default option significantly increases coverage, particularly among younger and lower-income workers. The auto-enrolment as identified by the Commission is a key policy tool for Member States seeking to strengthen occupational pension participation.

A second priority is improving pension transparency through dashboards and tracking systems. Giving citizens an overview of their pension entitlements can improve financial awareness, encourage saving and support retirement planning. Member States that combine transparency with tax incentives, broad coverage for self-employed and platform workers, and efficient pension institutions are likely to see the greatest improvements in retirement adequacy over the coming years. Ultimately, while the EU can provide the regulatory framework, national implementation choices will determine whether supplementary pensions become a stronger pillar of retirement security and a larger source of long-term investment capital for Europe's economy.

Sweden's pension reform succeeded because it combined long-term sustainability with broad political consensus. The reform linked lifetime earnings to pension benefits and introduced automatic balancing mechanisms. Another key factor was the combination of public and occupational pensions. Near-universal occupational pension coverage, strong governance, low administrative costs and professional asset management have helped deliver both adequate pensions, relatively fair replacement rate and solid long-term returns.

Occupational pensions: stronger retirement incomes and long-term investment.

Several elements of the Swedish model are transferable: clear and stable governance rules with involvement of the social partners; scale and consolidation, which enable lower costs and professional investment management; and transparent pension tracking systems. Retail participation in equity markets takes time to develop, but it is possible for other countries to replicate with the right policies and incentives. Other elements, however, depend heavily on Sweden's unique institutional and social context and are therefore more difficult to replicate. These include the high density of collective bargaining and the strong trust between employer and employee organisations, which are the result of long-standing social partner structures. Cultural acceptance of high equity exposure and long term funded savings also support strong returns, which enjoys broad support in Sweden but may encounter resistance elsewhere. And Sweden's governance model, which relies on mutual principles institutions with responsible owners and decades of accumulated credibility—something that cannot easily be recreated through legislation. Finally, it is important to recognise that a well-developed capital market infrastructure takes time to build.

Despite its overall success, the Swedish pension system faces some challenges. Pension adequacy remains a concern for people with low lifetime earnings or interrupted careers, while rising life expectancy means that longer working lives will often be needed to secure adequate pensions. Improving public understanding of the interaction between public, occupational and private pensions also remain important. Sweden shows that even successful pension systems require continuous adaptation.

PHILIPPE BLANCHOT

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Complementary pensions: strengthening retirement security and Europe's investment capacity

Europe's ageing population is making pension sustainability one of the defining economic and social challenges of the coming decades. By 2050, one European in four will be over 65 years old, while the ratio of active workers to retirees will continue to decline.

Public pay-as-you-go pension systems will remain the backbone of European social protection, but demographic trends inevitably increase pressure on their long-term sustainability and on the adequacy of retirement incomes.

As the French public financial institution, entrusted by the French State with managing approximately seventy mandatory complementary public-sector pension schemes, Caisse des Dépôts has a unique vantage point on Europe's pension challenges. Our longstanding experience in administering complementary retirement schemes and investing over long horizons gives us a practical perspective on the contribution that supplementary pensions can make both to citizens' retirement security and to Europe's long-term financing needs.

Strengthening complementary pension savings

Across Europe, funded complementary pension schemes remain relatively underdeveloped compared with other major economies. They represent only a limited share of available long-term savings, and their investment portfolios often maintain a cautious allocation, with relatively modest exposure to equities and venture capital.

Developing complementary pension savings alongside basic public pension schemes is therefore an important component of sustainable pension systems. Complementary schemes help diversify retirement income, reduce dependence on public pay-as-you-go systems and contribute to maintaining an adequate standard of living for future retirees. Properly designed funding mechanisms and long-term asset management also allow these schemes to deliver sustainable returns while managing demographic and financial risks.

> Complementary pension savings can reinforce retirement adequacy while supporting long-term investment in Europe.

Mobilising long-term savings for productive investment

Complementary pension funds also represent an important source of patient capital for the European economy. By investing over long horizons, they can contribute to financing innovation, infrastructure, industrial transformation and the ecological transition while seeking appropriate long-term returns for future pensioners.

Better channelling household savings towards complementary pension products and other long-term investment vehicles should therefore become a shared objective. This requires strengthening financial education so that citizens better understand the benefits of long-term retirement saving, while creating attractive investment solutions capable of delivering competitive long-term performance.

Building attractive and efficient supplementary pension products

The development of supplementary pensions also depends on creating products that meet citizens' expectations while remaining efficient for providers. This requires greater portability of pension rights, increased cross-border attractiveness and coordinated tax incentives that encourage long-term saving.

In France, the Retirement Savings Plan (PER) has become an important supplementary retirement savings vehicle based on capitalisation. The evolution of the Pan-European Personal Pension Product (PEPP) offers an opportunity to build on successful national experiences. Better alignment between European and domestic frameworks would help create products that are attractive both for savers and providers while supporting greater labour mobility across the European Union.

Drawing on its expertise in managing complementary pension schemes such as Ircantec and RAFP, Caisse des Dépôts could contribute to the development of future cross-border supplementary pension solutions, including for civil servants pursuing careers in several Member States.

The contribution of long-term public investors

Long-term institutional investors have a central role to play in developing Europe's capital markets. Larger and more diversified collective pension funds can reduce costs, improve long-term investment performance and increase the resources available to finance productive investment.

National Promotional Banks and Institutions such as Caisse des Dépôts combine a public policy mandate with recognised expertise in long-term investment. They are therefore well placed to support the development of complementary pension solutions that reinforce retirement security while mobilising additional capital to finance Europe's sustainable growth, innovation and competitiveness.

Strengthening complementary pensions is therefore not only about preparing for demographic change. It is also an opportunity to reinforce Europe's long-term investment capacity by connecting citizens' savings with the financing needs of tomorrow's economy.

JOSÉ ANTONIO ÁLVAREZ
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Europe has the savings. Now it needs the right incentives

A famous quote, often attributed to Albert Einstein, describes compound interest as "the eighth wonder of the world". Whether or not he said it, the principle remains true. Time is the greatest driver of long-term wealth creation. Yet Europe still underuses one of its greatest assets: its citizens' savings.

Europe does not suffer from a shortage of savings but from a shortage of long-term investment. It faces unprecedented investment needs for the green transition, digitalisation, defence and strategic autonomy. Yet European households already save substantial sums. The challenge is not generating more savings but ensuring a larger share is channelled into productive long-term investment. Supplementary pensions should be viewed not only as retirement policy but also as investment policy.

Better pension systems improve retirement adequacy while providing the patient capital needed to finance innovation, infrastructure and Europe's future growth. Pension assets represent around 32% of EU GDP, compared with 142% in the United States and 100% in the United Kingdom. More revealing, 62% of EU private pension assets are concentrated in just three Member States: the Netherlands, Denmark and Sweden. Though they represent only a small share of the EU population, they have built highly successful supplementary pension systems. The lesson is clear: the challenge is not European; it is primarily national. Rather than inventing new models, Europe should replicate what already works.

Retirement savings are well suited to financing long-term assets because their investment horizon is measured in decades, not months. Long-term liabilities naturally match long-term assets, while Europe's future investment needs increasingly lie in infrastructure, innovation, energy and defence. These investments need patient capital.

Promoting them requires the right incentives. Behavioural economics shows that people tend to procrastinate, avoid complexity and postpone decisions whose benefits lie years ahead. Europe often focuses on designing better financial products, but the design of the choices people face may matter even more.

Automatic enrolment schemes show participation can increase dramatically without restricting choice. Stable tax incentives are equally important. Long-term retirement saving benefits society by reducing future fiscal pressures while increasing the pool of long-term capital available for productive investment. Employers also have a crucial role to play. Expanding occupational pension schemes should remain a European priority.

The challenge is no longer encouraging Europeans to save more but helping them invest better.

Financial literacy is another essential ingredient. Improving financial capability is not simply about teaching financial concepts but helping citizens make better long-term decisions. Making future retirement outcomes more visible would help turn an abstract challenge into a concrete financial decision. Santander's global study, "The Currency of Learning", based on almost 20,000 interviews across ten countries, revealed a striking gap between confidence and knowledge. Most respondents considered themselves financially knowledgeable, yet only a minority answered basic questions on inflation, diversification and compound interest. Behavioural economists would recognise the Dunning-Kruger effect: people who overestimate their financial knowledge are often the least likely to seek information or professional advice. Improving financial literacy should help citizens recognise the limits of their understanding and make better long-term financial decisions.

This is where banks play a particularly important role. They already enjoy trusted relationships with millions of European households and are well placed to combine financial education, personalised advice and access to long-term savings products. Together with appropriate tax incentives and simpler products, this trusted distribution network can become a key driver of Europe's Savings and Investments Union.

Against this background, the Commission's proposals to develop the supplementary pension sector are welcome. A simpler and more attractive Pan-European Personal Pension Product, together with auto-enrollment, pension tracking systems and pension dashboards can foster a genuine European market for supplementary pensions. However, no pan-European product will succeed alone. Its long-term success will depend on complementary national reforms, particularly tax incentives, stronger occupational pension systems and behavioural policies that make long-term saving the easy and natural choice.

Europe already possesses one of its greatest strategic assets: its citizens' savings. The challenge is no longer encouraging Europeans to save more but helping them save and invest better. If Europe creates the right incentives, institutions and confidence, time itself will become one of its greatest allies. The power of compound returns has transformed retirement systems elsewhere. There is no reason it cannot do the same for Europe.

AGATHI PAFILI

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Turning Europe's savings into retirement security and growth

Europe's retirement challenge is about more than pensions. The most visible pressure is on pay-as-you-go (PAYG) public pension systems, where ageing populations leave fewer workers supporting a growing number of retirees. But this challenge is linked to broader gaps: too much household wealth remains in low-yield bank deposits, financial literacy and confidence in long-term investing remain limited, and insufficient investment is weighing on productivity and competitiveness. Therefore, pension reform is not only about retirement adequacy, but also about growth, capital formation and stronger, more integrated European markets.

Closing these gaps requires a coordinated approach: expanding long-term investment opportunities, creating incentives for participation, and developing capital markets with the scale to deliver access, affordability and value. No single reform will be sufficient. To complement PAYG systems already under demographic strain, Europe needs additional retirement savings solutions built around long-term goals, diversification and strong retirement outcomes. Global experience points to three essentials:

- **Well-designed default investment options built around life-cycle strategies.** Regulation should give providers the certainty to offer fit-for-purpose defaults supported by strong fiduciary standards and, where appropriate, safe-harbour guidance. Professionally managed life-cycle or target-date strategies can gradually reduce risk over time, shifting from higher equity allocations in early years to more conservative fixed income approaches nearer retirement. Importantly, these solutions should support investors throughout retirement, not simply up to retirement.

- **A broad investment universe that enables genuine diversification.** Delivering stronger long-term outcomes requires the flexibility to invest across global markets and asset classes. Avoiding excessive geographic or sector concentration can reduce volatility, improve returns and help build citizens' confidence in EU capital markets.

- **Measured access to private assets.** An EU-wide passport for retail investment strategies that combines limited private-asset exposure with a core allocation to liquid assets, supported by strong liquidity, investor protection and risk-management safeguards, could broaden investment opportunities for citizens. Well-designed products could also fit within savings and investment accounts.

Well-designed schemes are necessary, but not sufficient. Building a stronger savings and investment culture also requires **targeted incentives** that make long-term investing easier and more attractive.

- **Auto-enrolment in occupational pension schemes can be transformational.** When saving requires an active choice, many people delay or never participate. Auto-enrolment changes the default by automatically enrolling workers while preserving the right to opt out. Auto-escalation can then gradually increase contributions over time, helping savers build meaningful retirement balances without creating a sudden affordability burden.

- **Pension tracking systems and dashboards are equally important.** Citizens need a single, clear view of their public, occupational and personal pension entitlements to understand whether they are on track and act early if gaps emerge. Greater transparency would also help policymakers identify weaknesses in coverage, adequacy and sustainability across Member States.

- **Tax policy is critical.** Effective tax incentives for personal savings and investment products are needed to encourage households to move assets from idle bank deposits into productive capital markets. The PEPP experience demonstrates that a pan-European framework alone is insufficient if national tax regimes remain fragmented or provide less favourable treatment than domestic pension products.

Finally, Europe needs greater scale in personal savings products to improve outcomes for citizens and realise the full potential of the single market. Recent PEPP reforms appropriately shift the focus away from restrictive fee caps toward net returns, diversification and quality advice. But scale will not come from an EU label alone. Products must be simple, easy to distribute, digitally accessible and genuinely portable across borders.

Pension reform is not only about retirement adequacy, but also about growth and capital formation.

The Savings and Investment Union provides a timely opportunity to place pension reform at the centre of Europe's competitiveness agenda. The EU pension package rightly focuses on strengthening supplementary pensions, improving private savings products and promoting savings and investment accounts across Member States. Done well, these reforms can achieve two urgent objectives at once: helping citizens build more secure retirements while directing long-term savings into productive investment that supports economic growth.

ALEKSANDRA MACZYNSKA

Managing Director – BETTER FINANCE

Europe's pension challenge is outcomes, value and trust

Europe's supplementary pension reforms should be judged by a simple test: will they improve retirement income for future pensioners? That is the objective of the European Commission's Supplementary Pensions Package, and one that BETTER FINANCE strongly supports. Achieving it, however, requires focusing not simply on expanding participation or assets under management, but on ensuring that supplementary pension schemes consistently deliver higher long-term net real returns after costs and inflation.

What remains the main obstacle to scaling long-term retail savings products in Europe? The answer is neither regulation alone nor consumer behaviour in isolation. From BETTER FINANCE's perspective, the greatest barriers are poor product quality, insufficient transparency, excessive costs and the weak investor trust that inevitably follows when pension products fail to deliver value for money over the long term. Concerns about financial literacy and participation matter, but they cannot be addressed sustainably unless pension products themselves consistently produce attractive outcomes for savers. And better pension outcomes require better products.

This challenge has become increasingly pressing. Europe's ageing population places growing pressure on public pension systems while households are expected to save more for retirement and provide long-term capital to finance Europe's economic priorities. Supplementary pensions therefore have a critical role to play, but success should be measured by pension adequacy.

Occupational pensions are central to achieving this objective. Institutions for Occupational Retirement Provision (IORPs) already manage around €2.7 trillion in assets across Europe. Yet EIOPA statistics show that only around 33% of those assets were invested in equities in 2024, while approximately 43% were invested in investment funds and debt securities, much of it in government debt. While such allocations may reduce short-term volatility, they can also limit the long-term capital growth needed to generate sustainable positive real returns for pension savers.

For this reason, reform of the IORP framework is the cornerstone of the Commission's package. BETTER FINANCE strongly supports introducing an explicit duty of care requiring pension managers to pursue adequate, risk-adjusted and cost-efficient long-term returns for members. Equally important is replacing prescriptive investment restrictions with a genuine Prudent Person Principle, allowing pension managers greater flexibility to diversify investments while remaining fully accountable for the outcomes delivered to participants.

> **And better pension outcomes require better products.**

Greater flexibility must, however, be accompanied by stronger governance and supervision. BETTER FINANCE therefore supports enhanced supervisory powers, value-for-money assessments combining costs and returns, greater transparency on long-term performance, stronger participant rights and more effective mechanisms for complaints and redress. Pension savers should be treated as active stakeholders whose long-term interests shape investment decisions, not merely passive beneficiaries.

The same principle applies to automatic enrolment. BETTER FINANCE supports automatic enrolment in principle, but only where eligible occupational pension schemes have demonstrated their capacity to generate substantially positive real returns after costs and inflation, are subject to robust supervision and preserve meaningful opt-out rights. Expanding participation before improving product quality risks locking more savers into underperforming schemes rather than improving retirement outcomes.

Where does this leave the proposed PEPP reform? Simplifying PEPP and improving its investment framework are welcome steps, but reforming PEPP alone will not create a genuine pan-European pension market if comparable national pension products continue to receive preferable (tax) treatment across Member States (see the 2024 EIOPA's Occupational Pensions Stakeholder Group's Position Paper on PEPP). Comparable products should compete on long-term performance, costs and service quality, not on fiscal and other advantages created by national tax regimes.

The short-term priorities are therefore clear. Europe should first improve the value delivered by supplementary pensions through stronger governance, better supervision, greater transparency and investment frameworks capable of generating higher long-term net real returns. At the same time, Member States should ensure tax neutrality across comparable pension products so that competition rewards efficiency and performance rather than regulatory fragmentation. By improving VfM and rebuilding investor trust will broader participation translate into stronger retirement income for European citizens.