

Saving for retirement is hard – but the EU can make it easier

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Summary

Europe's retirement savings gap is widening. While tax incentives remain the dominant policy lever, they often fall short – primarily benefiting higher earners and failing to engage younger, lower-income or passive savers. Fragmented national regimes, inflexible product rules and ineffective communication further undermine participation.

Automatic enrolment and employer-based defaults are more effective than voluntary incentives but their long-term impact depends on re-enrolment, contribution escalation and liquidity safeguards. At the same time, excessive illiquidity deters participation. Savers need flexible access during periods of hardship and well-calibrated conditional liquidity rules can support saving without compromising long-term goals.

Information alone is not enough. Traditional financial education has a limited impact, especially among disengaged populations. Engagement increases when digital tools make contributing simple, model retirement scenarios or help people visualise their future selves. Yet such behavioural innovations are rarely scaled and most financial advisors lack the training or tools to guide long-term decisions.

To close the gap, the EU should shift from fragmented, finance-heavy strategies to behavioural, inclusive ones. Tax incentives must be redesigned to target those who need them most. Defaults should be attractive and persistent. Access rules must balance flexibility with long-term goals. Prudential safeguards and effective redress mechanisms must protect savers against mis-selling, high costs and

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inadequate returns. Occupational pensions should be the backbone of retirement saving, with portable, workplace-based schemes reaching a far wider population than personal products alone. Digital tools and personalised advice should replace generic information campaigns. And minimum EU standards should support national strategies without imposing one-size-fits-all solutions.

In short, retirement saving must become easy, fair and resilient – by design. Yet the challenges do not stem from behaviour alone. They also reflect deeper structural, institutional and cultural differences across Member States, which shape both households' capacity and the willingness to accumulate private wealth.

The different drivers of household wealth in the EU

Understanding these broader drivers is essential because they condition how individuals respond to tax incentives, defaults and other policy tools. The scale and distribution of private wealth across EU Member States vary enormously and these differences cannot be explained by behavioural factors alone. Structural labour market conditions play a decisive role. Countries with higher wages, more stable employment and lower levels of informal work naturally enable more long-term saving. In Member States where labour markets are more fragmented or income volatility is high, households face stronger liquidity constraints and are less able to lock resources into retirement products.

Pension system design also influences private saving behaviour. In countries with generous and comprehensive pay-as-you-go (PAYG) systems, households often accumulate less private financial wealth as the expectation of an adequate state pension reduces the incentive to save more. Conversely, in systems where public pensions replace only a modest share of pre-retirement income, individuals are more likely to build up private savings through occupational or personal pensions. These institutional differences go a long way in explaining why levels of financial wealth are higher in northern and western Europe than in parts of southern and eastern Europe, even when controlling for income.

Another factor is the presence of implicit or explicit moral hazard. In some Member States, individuals expect the state to intervene to guarantee a minimum level of retirement income, even if private savings fall short. This expectation may reduce incentives to participate in voluntary schemes, particularly where fiscal deficits or political commitments suggest that public transfers will continue to play a stabilising role.

Finally, cultural attitudes and preferences shape how households allocate their savings. Trust in financial institutions and familiarity with capital markets vary markedly across the EU. In many southern European countries, households tend to prefer housing as a primary store of wealth, whereas in northern Europe there is a stronger tradition of financial saving and occupational pension participation. These divergences highlight that behavioural explanations such as inertia or present bias interact with deeper institutional and cultural factors. EU policy must therefore recognise both dimensions – designing more effective incentives and defaults, while also addressing structural barriers and trust deficits that limit private wealth accumulation.

Tax incentives – what works and for whom?

Undersaving for retirement is a growing concern across advanced economies. In the US, an estimated 39% of working-age households are [unlikely to maintain their standard of living](#) in retirement. In the EU, [almost 20% of people aged 65 and older](#) are at risk of poverty or social exclusion, with women disproportionately affected. Researchers have long characterised this as a [retirement savings crisis](#). In

response, governments have implemented a range of measures – including tax incentives, automatic enrolment and retirement education – to encourage private saving. However, these reforms have produced uneven results, prompting renewed debate over which policy tools are most effective and equitable.

Encouraging retirement savings is a strategic priority for the EU. As populations age and the sustainability of public pension systems comes under strain, tax incentives have become a widely used policy tool to promote voluntary private retirement saving. However, the design and effectiveness of these incentives vary significantly across Member States, raising questions about their efficiency, equity and ability to foster real behavioural change ([Beshears et al., 2017](#); [Horneff et al., 2022](#); [Szapiro, 2024](#)). Individuals often struggle to estimate future income needs, discount long-term benefits or postpone action, resulting in chronic under-saving. These behavioural frictions are compounded by complex product offerings, limited financial advice and disparities in income and job security.

With the Capital Markets Union (CMU) in mind, well-designed tax incentives can help mobilise long-term capital, improve financial inclusion and support the development of retail investment markets. Within the [Savings and Investments Union](#) (SIU), they also play a critical role in addressing the fragmentation of national frameworks and making individual savings products more attractive and accessible. Yet the current diversity of tax treatments, combined with uncertain behavioural responses, limits the EU's ability to scale up savings in a coherent and inclusive way.

Cross-country diversity in tax treatment

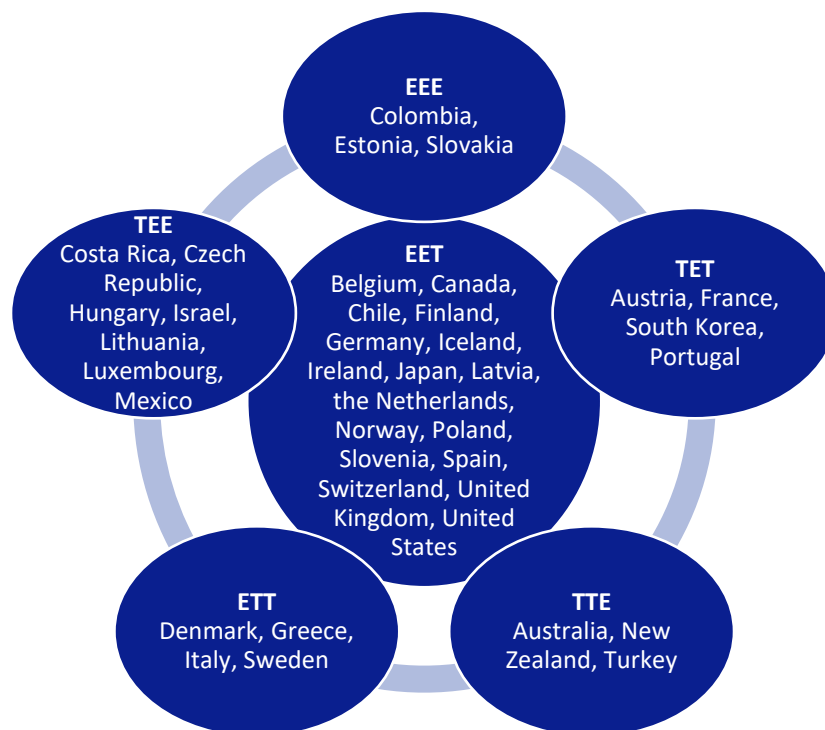
Countries differ substantially in how they tax retirement savings (see Figure 1). A common model is the EET system (Exempt-Exempt-Taxed), where contributions and investment income are tax-exempt, while withdrawals are taxed. Other systems reverse this sequence or apply mixed treatments, leading to variations in the overall tax advantage and behavioural impact. For example, in the US, 401(k) accounts or traditional IRAs (Individual Retirement Arrangements) follow the EET model, while Roth IRAs are based on a TEE model (Taxed-Exempt-Exempt), taxing contributions upfront but exempting withdrawals. These differences matter both for take-up rates and distributional outcomes.

Within the EU, Member States apply a wide spectrum of tax treatments to voluntary pension products, ranging from pure EET to TEE, ETE and other hybrid approaches. Even among countries applying the same nominal model, the generosity of tax relief, ceilings on deductible contributions and rules for taxing investment income or withdrawals markedly differ. Some countries apply full income tax rates to withdrawals (e.g. Germany and France, where pension payouts are generally taxed as regular income) while others tax only the capital gains component (e.g. Italy, where certain pension withdrawals are taxed only on the accrued returns) or apply reduced pensioner rates (e.g. Finland, which offers preferential tax treatment for retirement income). Investment income within pension accounts is fully exempt in countries like the Netherlands and Sweden, partially taxed in Austria and in a few cases subject to social contributions, as in Belgium, where pension assets may face solidarity contributions depending on their size.

This heterogeneity has two important implications. First, it creates substantial differences in the net-of-tax return on retirement savings, influencing participation and contribution levels in ways that are not always aligned with policy goals. Second, it undermines the portability and comparability of pension products across borders, complicating the EU's ambition to promote scalable, pan-European solutions such as the [Pan-European Personal Pension Product](#) (PEPP). Without some degree of tax coordination

or mutual recognition, such products (and PEPP is a great example) would face a ‘lowest common denominator’ problem, where its appeal is limited due to the least generous national tax regime it encounters.

Figure 1. Tax treatment of retirement savings in OECD countries in 2023



Notes: Contributions/investment income/withdrawals can be Taxed or Exempt. For example, an EET model implies that contributions are exempt, investment income is exempt, but withdrawals are taxed.

Source: Authors' own elaboration based on [OECD \(2023\)](#).

Evidence from France – the *Loi Pacte* reform

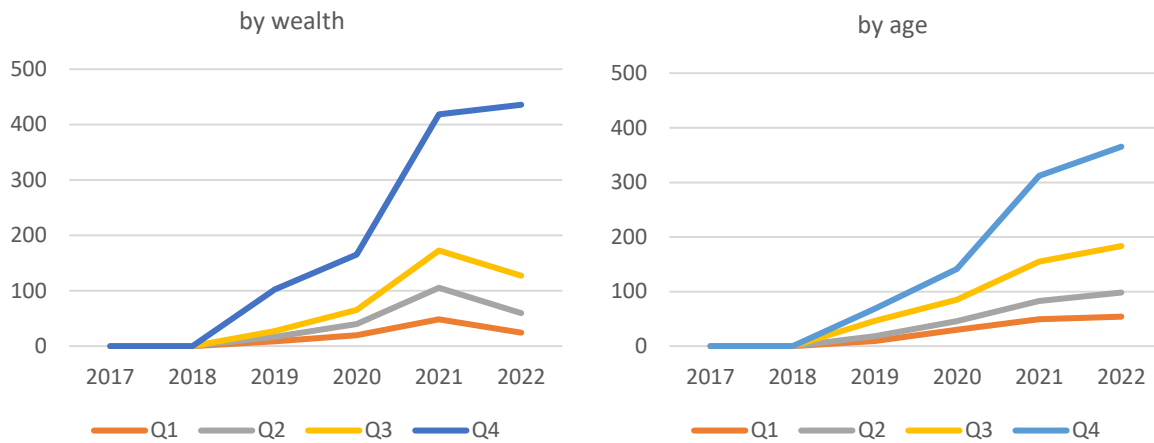
A recent natural experiment in France offers important insights into the behavioural effectiveness of tax incentives. The *Loi Pacte*, which came into effect in 2019, introduced a tax deduction for voluntary contributions to employer-sponsored retirement savings plans. Evidence from nearly 1.4 million workers across 2 679 firms shows that the reform led to a modest but [statistically significant increase in long-term contributions](#) – around EUR 150 more per individual per year on average – without reducing contributions to medium-term savings products. This suggests limited substitution and some net increase in retirement savings.

However, the response is not uniform. Workers with higher incomes, larger pre-existing balances or who were closer to retirement were significantly more likely to take advantage of the new option (see Figure 2). By contrast, the reform had limited impact on younger or lower-income savers. This pattern corroborates findings from other contexts: voluntary tax incentives tend to benefit those already inclined to save, while passive savers remain disengaged. Behavioural biases likely play a role – for instance, time-inconsistent savers¹, who tend to procrastinate or don't consider future costs, may

¹ Time-inconsistent savers is a behavioural economics concept, referring to people whose preferences or choices change over time in ways that are inconsistent with their earlier plans or long-term goals. In other words, what they intend to do 'tomorrow' often differs from what they actually do when tomorrow arrives.

prefer pre-tax contributions because they perceive the tax advantage immediately and [underestimate the taxes](#) they will pay upon withdrawal, and tax misperceptions may [dampen the effectiveness](#) of tax nudges.

Figure 2. Pre-tax voluntary contributions by wealth- and age-based quartiles



Notes: The figure illustrates the differences in the amounts invested in each type of voluntary savings by wealth quartiles (based on total assets in the employer-provided retirement plan) (left-hand side), and by age (right-hand side).

Source: [Brière et al. \(2025\)](#).

Firms vs. individuals: who should be encouraged?

The French reform included incentives for both employees and small firms, allowing for a comparative perspective. Employers with fewer than 250 employees were granted tax advantages for contributing directly to their workers' savings plans, on top of the new employee deduction.

This dual approach is particularly relevant when compared with international experiences. Evidence from Denmark illustrates how tax reforms can have very different effects on savers depending on whether they are active or passive. When changes were introduced to how pension savings were taxed around 1999-2000, most individuals (81%) remained passive savers, meaning they didn't adjust their contributions or savings behaviour. Only a minority (19%) responded actively, and largely by reallocating funds from other savings vehicles – a substitution effect that rendered the reform less effective in net terms. Later reforms in 2009, which capped tax deductibility for certain short-term products but preserved it for annuities, similarly shifted the composition of savings without raising overall contribution levels. Together, these episodes suggest that voluntary tax incentives tend to reshape portfolios among active savers rather than generate significant new saving across the population².

By contrast, automatic employer contributions – even without employee action – have been shown to significantly raise accumulated savings over time. Evidence shows that passive defaults through employer action [are far more powerful](#) than voluntary incentives alone. In other words, if tax incentives

² However, the key structural driver of Danish pension savings was the tripartite agreement in 1988-89 between unions, employers and the state, which established occupational pension funds for blue-collar workers. By embedding contributions directly into collective wage agreements, participation became automatic and contribution rates quickly rose above 10% of wages. This institutional shift explains much of Denmark's high pension coverage today, highlighting the transformative effect of collective defaults compared to voluntary incentives.

primarily reach ‘active’ savers who are already inclined to save, while passive savers remain disengaged, then the net policy effect may be limited and potentially regressive. This underscores the need to reconsider the focus of tax incentives and explore mechanisms that shift the behavioural burden away from individual action.

These findings raise broader questions about how to design tax incentives that are both effective and equitable across saver profiles. If most of the fiscal cost is absorbed by a small group of high-income, financially literate individuals who would have saved anyway, the cost-effectiveness of such incentives is called into question. This means that public resources need to be more strategically allocated, prioritising mechanisms that generate new savings and reach under-served groups. When designing future tax incentives, there should be a balance between behavioural targeting and fiscal efficiency, ensuring that public spending on incentives leads to tangible increases in long-term savings across a broader base.

The role of defaults – automatic enrolment and behavioural design

Even when tax incentives and savings products are available, many individuals fail to act on them. This often stems not from a lack of interest but from behavioural biases such as procrastination, wanting to avoid complexity and present bias. These psychological frictions are particularly pronounced for retirement saving, where the time horizon is long, the stakes are uncertain and decision-making is cognitively demanding.

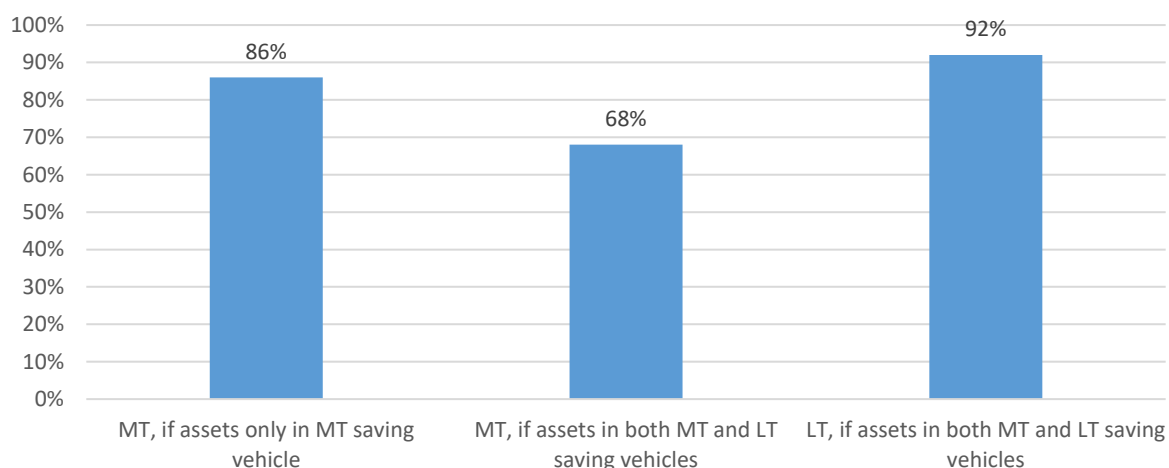
Automatic enrolment addresses these barriers by making participation the default. Instead of requiring individuals to opt in, they are enrolled by default into a savings plan, typically at a fixed contribution rate, unless they actively choose to opt out. This mechanism, widely tested in behavioural economics, has shown substantial success in raising participation – at least in the short term. From a policy perspective, default design represents one of the most cost-effective interventions to raise participation levels, particularly among passive or disengaged savers.

Numerous studies confirm the short-term success of automatic enrolment. In [the US](#) and [the UK](#), participation rates in retirement plans [nearly double](#) when enrolment switches from voluntary to automatic. These results have inspired widespread policy interest.

However, the long-term effects are more ambiguous and some of the initial increase in savings may be offset by later behaviour. In the US, for example, when workers leave their employer and their 401(k) balances are rolled over into more liquid IRA accounts, many withdraw part or all their accumulated savings. In the UK, automatic enrolment often ends when an employee changes jobs and are not re-enrolled by the new employer, causing participation to drop by 13%. After three years, cumulative contributions of auto-enrolled and voluntarily enrolled workers tend to converge.

In France, employee savings schemes include a partial default mechanism: 50% of the employer’s profit-sharing contribution (‘participation’) is automatically invested in a long-term retirement account unless the employee makes an active choice to stop it. While this nudges employees to save from the outset, it’s partially undone over the following years by withdrawals due to difficult financial situations and hardship. Data from Amundi show that when experiencing , employees withdraw on average 92% of their long-term (LT) balances, compared to 68% for medium-term (MT) accounts, which are locked for only five years (see Figure 3).

Figure 3. Share of account balance withdrawn from Medium-Term (MT) and Long-Term (LT) retirement accounts due to hardship, by participant's account composition



Source: [Brière et al. \(2022\)](#).

Similarly, in US 401(k) plans, early withdrawals and opt-outs from auto-escalation features are common. Many employees [liquidate their balances](#) before employer contributions fully vest, undermining the long-term accumulation of retirement wealth.

Liquidity vs. lock-in – designing flexible retirement saving plans

One of the core policy trade-offs in designing retirement savings is determining the right level of liquidity. While restricting access to savings until retirement helps ensure adequate long-term accumulation, excessive illiquidity can deter participation – especially among younger workers and individuals facing income volatility or challenging life events. This is particularly relevant to the EU's CMU and SIU agendas, which aim to mobilise long-term capital while broadening participation across income groups and age groups.

It's being increasingly recognised that liquidity shouldn't be treated as a binary feature – either fully locked or fully flexible – but rather as a continuum. Well-calibrated liquidity provisions can support behavioural engagement and participation, especially when paired with conditional access rules or incentives that reward long-term commitment.

Different jurisdictions have adopted contrasting approaches to the liquidity of retirement savings. Generally, withdrawals are not permitted unless there are health-related issues (e.g. disability, serious illness) or financial hardships (e.g. unemployment, over-indebtedness). Some countries/schemes allow withdrawals for purchasing a primary residence.

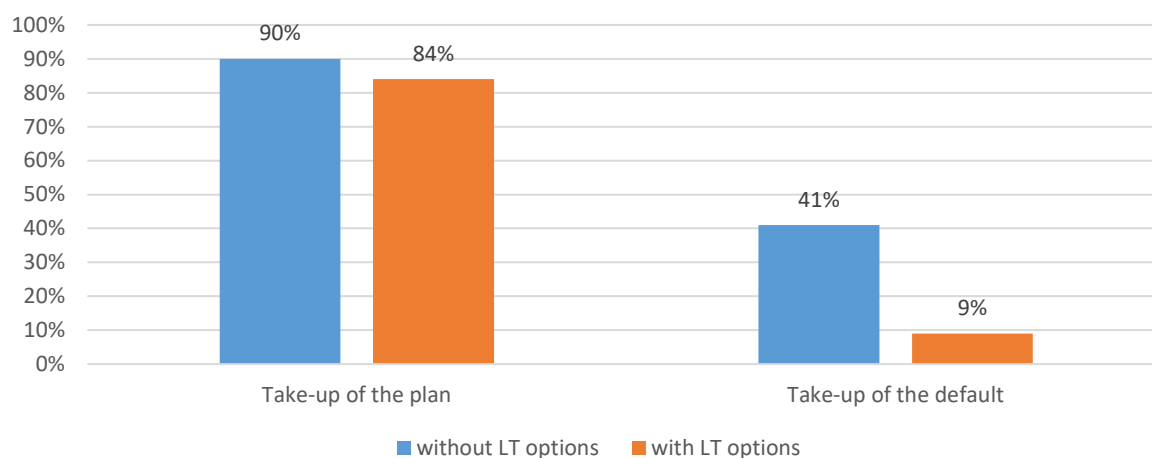
The US offers access when a saver leaves their job by enabling them to transfer their 401(k) balances into Individual Retirement Accounts (IRAs), which are more liquid – albeit with tax penalties for early withdrawals before the age of 59½. In France, while most public pensions remain in PAYG systems and are thus inherently illiquid, occupational saving schemes such as the PER (Plan d'Épargne Retraite) permit early withdrawals in a limited set of cases, such as purchasing a home, unemployment or being significantly in debt.

This diversity illustrates the lack of consensus and highlights the importance of matching liquidity design to savers' behavioural profiles and economic conditions. Where liquidity is overly restricted, participation may be low; where it's too accessible, accumulated savings may be depleted early.

Evidence from France – demand for liquidity is strong

Evidence from French employee savings schemes confirm a strong behavioural preference for liquidity. When employers allocate profit-sharing to long-term (LT) retirement options by default, only 9% of employees accept this default. However, when the default is a medium-term (MT) savings product locked for only five years, 41% of employees remain in the default option (see Figure 4). This suggests that how accessible various options are perceived to be plays a significant role in saver participation.

Figure 4. Share of workers taking up the saving plan and the default option, in firms with and without long-term (LT) retirement saving options



Source: [Brière et al. \(2022\)](#).

Employees are far more likely to allocate savings to the LT plan when these contributions are matched at a higher rate than those to MT plans³. When the LT match is lower or equal to the MT match, only 38% of workers take up the LT option. This figure rises to 63% when the LT match premium is positive but below 100%, and to 72% when the LT match is more than twice that of the MT match. This indicates that workers are willing to sacrifice liquidity in exchange for significantly higher incentives but otherwise remain cautious about locking in funds.

These findings are further confirmed through revealed preferences. Among a sample of 150 000 French employees who were offered both MT and LT savings vehicles and allowed to choose how to allocate their contributions, only 35% chose to invest in LT products when no matching was offered. This proportion nearly doubled to 69% when matched contributions were available. Still, even among these active savers, the average share allocated to LT savings remained modest (about 21%) – well below the 37% required by the default allocation. These patterns suggest a limited underlying demand for long-term commitment unless there is a strong financial incentive to make such a commitment.

This limited demand for illiquidity doesn't necessarily reflect short-termism or irresponsibility. Rather, it points to rational trade-offs made due to uncertainty, especially by younger or lower-income savers

³ A matching contribution is made by the employer to employees saving money in retirement plans offered by their employer. This amount is typically a percentage of the employee's contribution.

who may prioritise access to liquidity during periods of hardship or opportunity. That’s why policy efforts to encourage greater long-term saving must take this demand for flexibility seriously.

Conditional liquidity – a behavioural and policy bridge

A growing number of countries are experimenting with conditional forms of liquidity that strike a balance between commitment and access. In the US, for example, the SECURE 2.0 Act, adopted in 2022, introduced penalty-free emergency withdrawals for 401(k) plans. Preliminary research suggests that most participants who make such withdrawals continue to contribute afterwards, indicating that limited liquidity access doesn’t necessarily lead to permanent disengagement. Similarly, French savers tend to withdraw from long-term accounts when experiencing hardship but resume saving when incentives continue.

These findings support the idea that liquidity can be structured as a behavioural incentive rather than a threat to long-term goals. Allowing partial, conditional or delayed withdrawals – rather than imposing rigid lock-in rules – can accommodate the need for flexibility without compromising long-term objectives. Smart defaults, targeted matching schemes and behavioural friction (e.g. withdrawal delays or partial access) can further reinforce this balance.

Designing liquidity as a flexible policy tool, rather than a binary constraint, may be key to expanding participation, especially among savers facing income volatility, who have low trust in pension systems or have competing short-term priorities.

Prudential safeguards and consumer protection

While behavioural design can nudge individuals to participate and liquidity rules can shape commitment, neither is sufficient if retirement products fail to deliver fair, transparent and sustainable outcomes. Retirement saving is not merely about setting money aside, but about entrusting assets to intermediaries, often for decades. This raises critical questions about prudential oversight, redress mechanisms and the long-term adequacy of returns.

Supervision and oversight

Retirement products fall under a patchwork of EU and national rules. The Institutions for Occupational Retirement Provision ([IORP II](#)) Directive establishes prudential requirements for occupational pension funds, the Markets in Financial Instruments Directive ([MiFID II](#)) covers investment products and the pan-European Personal Pension Product ([PEPP](#)) Regulation introduced a portable personal pension framework⁴.

Yet important gaps remain, especially for cross-border providers and hybrid products. Fragmentation in supervisory practices risks inconsistent consumer protection and uneven levels of prudential control. Effective EU coordination, potentially through an expanded mandate for the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA),

⁴ Beyond these retirement-specific regimes, other EU frameworks such as the Undertakings for Collective Investment in Transferable Securities ([UCITS](#)), the European Long Term Investment Fund ([ELTIF](#)) and the Alternative Investment Fund Managers Directive ([AIFMD](#)) also govern long-term savings and investment vehicles, each with distinct rules on liquidity, asset allocation and oversight. While not primarily designed as retirement products, they form part of the broader ecosystem that can shape household saving behaviour and product design.

is essential to ensure that all retirement products are subject to rigorous oversight of governance, risk management and cost structures.

Redress and accountability

Market risk is ultimately borne by savers, but investors should have access to effective redress when losses stem from misconduct, excessive charges or unsuitable advice. Today, most Member States rely on national ombudsmen, Alternative Dispute Resolution (ADR) schemes or courts but no EU-level mechanism exists for cross-border cases. This creates a protection gap precisely where the SIU and PEPP seek to encourage cross-border provision. Establishing a framework for collective redress or mandatory participation in EU-level ADR schemes could enhance trust and address asymmetries in bargaining power.

Returns and adequacy

Prudential oversight is also crucial to safeguard returns. Excessively conservative investment rules, high fees or poorly designed liquidity provisions can erode long-term performance just as much as premature withdrawals. A retirement product that preserves nominal capital but consistently underperforms inflation is no less damaging than one exposed to volatility. Policymakers must therefore balance prudential safeguards with the need for investment in productive, long-term assets. This is central to the EU's broader capital markets agenda – channelling retirement savings into capital markets should benefit both individuals and the economy but only if risk and reward are prudently managed.

Improving engagement – financial advice, digital tools and literacy

The elusive impact of information and education

Efforts to raise retirement saving through information provision and financial education have a long history but their impact remains highly variable. While the assumption that more informed individuals will make better financial decisions underpins many national and EU initiatives, the empirical evidence paints a more complex picture.

Some interventions have demonstrated modest success. In Germany, for instance, a reform between 2002 and 2005 introduced systematic annual letters informing citizens about their projected pension entitlements. This relatively simple intervention [was associated with increased contributions](#) to voluntary pension schemes and even a rise in labour supply. In the US, it was found that providing income projections or financial incentives to attend seminars [modestly increased retirement plan participation](#) and contributions, particularly when peers were also exposed to the intervention.

However, these effects tend to be context-specific and short-lived. More recent experimental work suggests that peer comparisons or gamified incentives (e.g. lottery entries for checking one's pension information) can prompt short-term engagement [but don't necessarily lead to sustained changes in saving behaviour](#). But knowledge alone is not enough – while some people may become better informed, they may still defer action or fail to follow through on their original intentions.

More broadly, the impact of financial education on financial decisions remains limited. A [meta-analysis](#) found that interventions to improve financial literacy explain only around 0.1% of the variance in financial behaviours, with even weaker effects among lower-income individuals. Several behavioural mechanisms help explain this pattern: people often avoid information that may produce anxiety or uncertainty (the so-called [Ostrich effect](#)), [forget information over time](#) or revert to previous habits

when initial education isn't reinforced'. Additionally, psychological characteristics such as time preferences, optimism bias or numeracy levels often moderate and dilute the impact of financial education and information.

Taken together, these findings suggest that traditional information-based campaigns are unlikely to close retirement savings gaps, particularly among disengaged or vulnerable populations. A more nuanced approach is needed – one that addresses emotional salience, simplicity and ease of action, not just awareness or knowledge.

Innovation in engagement – digital tools, emotions and future selves

Given the limits of standard educational approaches, behavioural research has begun exploring more immersive and emotionally resonant tools to boost engagement. One of the most promising avenues is to use visual and interactive technologies. [Research has shown](#) that allowing individuals to interact with lifelike digital avatars of their future selves increases their willingness to allocate money to long-term savings. This reflects a deeper behavioural insight, namely that people are more likely to save when they can emotionally connect to their future selves, rather than treating retirement as a distant abstraction.

Easy-to-use digital tools are vital for encouraging participation in retirement savings and effective planning. Evidence indicates that introducing a digital pension app [can lead to a noticeable increase](#) in the number of people making voluntary retirement contributions – with uptake rising by 1.8 percentage points from a baseline of 2.8%. This is because the app simplified the contribution process and reduced the time required, rather than focusing on information about tax benefits⁵.

When combined with simulation-based pension calculators or robo-advisory interfaces, [such tools can enhance](#) the personal relevance of retirement planning and improve investment decisions. As part of broader digitalisation trends, these innovations could be integrated into existing EU initiatives – including PEPP, pension tracking systems or national financial literacy strategies. They also align with the ambitions of the [Retail Investment Strategy](#) (RIS), which promotes interactive disclosures and the use of digital tools to improve investor decision-making.

The role of financial advisors and intermediaries

While digital tools and immersive experiences offer new pathways, traditional financial advisors remain a critical – yet underutilised – lever for change. More than 80% of financial decisions are taken in the presence of some form of advice, yet advisors themselves are often poorly prepared to guide individuals on retirement planning. A striking illustration of this problem comes from the US, where nearly half of advisors (46%) [do not have a retirement plan](#) of their own.

This highlights an opportunity to improve both the quantity and quality of retirement-related advice. Training programmes for financial advisors, embedded pension planning tools and ongoing supervision could significantly improve the advice people receive. Empowering advisors with up-to-date planning software and personalised simulations may also help mitigate behavioural barriers, such as inertia and procrastination, by creating structured decision environments in which the saver is gently nudged towards long-term action.

⁵ The app's impact was stronger among men and higher-income individuals, indicating that digital tools may also inadvertently widen existing inequalities.

At the EU level, ESMA and EIOPA could play a larger role by issuing guidance on incorporating behavioural insights into advisory practices, including promoting default retirement products, standardised advice protocols or simplified decision trees for long-term savings.

Policy recommendations

As described above, boosting retirement savings in the EU requires more than financial incentives or information campaigns. It demands a policy architecture that is behaviourally informed, inclusive across income groups and life stages and aligned with the broader goals of the CMU and SIU. With this in mind, this in-depth analysis outlines **five strategic priorities**.

1. Aligning fiscal incentives with behavioural effectiveness and fairness

Tax incentives remain a cornerstone of national retirement saving strategies but their behavioural and distributional impacts are often limited. The French experience with the *Loi Pacte* reform shows that tax deductions can modestly increase contributions – yet mainly among older, higher-income and already-engaged savers. Similar patterns can be seen in other countries, raising concerns about both the efficiency and equity of current systems.

To improve impact and inclusion, **Member States should consider shifting from marginal-rate deductions to flat-rate tax credits or employer-based matching schemes**. These formats are more likely to reach passive or lower-income savers and to stimulate genuinely new savings, rather than mere reallocation across products. EU institutions could support such national reforms by issuing guidance on effective tax incentive design and promoting convergence.

Four strategic lessons emerge:

- *Leverage collective organisations, including employers and sectoral schemes* – behavioural responses are generally stronger when incentives operate at the organisational level rather than targeting individuals alone, with SMEs and smaller employers being particularly important for inclusion.
- *Prioritise equity* – tax incentives should not disproportionately benefit higher earners. For lower-income savers, incentives should be designed to be salient and immediate (e.g. employer matching contributions, automatic enrolment, flat-rate credits) since abstract tax deductions may have little behavioural impact.
- *Focus on net savings* – incentives should be evaluated based on whether they generate additional savings, not just product switching.
- *Reduce fragmentation* - inconsistencies in national tax treatments hinder comparability and scale, especially for cross-border pensions.

2. Rethinking the design and deployment of default mechanisms

Automatic enrolment and default contribution settings remain among the most effective tools for overcoming inertia. However, their long-term effectiveness depends on how well they interact with job mobility, liquidity needs and how products are designed. Nevertheless, the diversity of pension systems across EU Member States – ranging from fully funded occupational and personal schemes to collective pay-as-you-go public systems – limits the direct transferability of default designs.

As such, **defaults should be implemented flexibly, tailored to national systems, with safeguards such as vesting thresholds, automatic re-enrolment after job changes and the auto-escalation of contributions over time**. Liquidity conditions should be transparent and calibrated to prevent the early erosion of

savings. At EU level, guidance and best-practice templates could support Member States in adapting default features to local contexts, rather than imposing uniform solutions.

Policy actions should focus on three areas:

1. Develop adaptable default design templates for different saver profiles and national contexts;
2. Monitor long-term outcomes and behavioural decay; and
3. Facilitate coordination between Member States to ensure that defaults are not undermined by portability gaps or inconsistent access rules.

ESMA and EIOPA could jointly issue non-binding guidance on automatic enrolment, default fund design and contribution escalation, supporting behavioural effectiveness while respecting national diversity.

3. Introducing conditional liquidity to support participation without undermining commitment

One of the main behavioural deterrents to long-term saving is the perception of not being able to access funds. Liquidity concerns are particularly relevant for younger and lower-income individuals, who tend to feel much more uncertain about their future needs. Yet full flexibility risks undermining the entire purpose of retirement saving.

The solution lies in **conditional liquidity structures that allow partial or needs-based access under specific circumstances (e.g. hardship, unemployment, major life events) combined with behavioural frictions like waiting periods or withdrawal caps**. These mechanisms preserve the long-term nature of savings while lowering entry barriers for liquidity-sensitive savers.

The low take-up of products like PEPP is partly due to illiquidity fears. Making these products more attractive through calibrated access rules and liquidity-linked matching incentives (e.g. a ‘liquidity ladder’) could broaden participation and increase long-term commitment.

4. Supporting engagement through technology, personalisation and trusted advice

Traditional financial education campaigns often have short-lived effects, especially among disengaged or vulnerable populations. **However, newer tools based on behavioural science – such as pension simulators, robo-advisors, future-self visualisations and emotionally engaging digital platforms – have demonstrated their potential to boost participation.**

These innovations should be scaled across the EU. Providers could integrate interactive planning tools into their product interfaces. National pension dashboards should evolve from static information to interactive simulators that let users explore different contribution and retirement scenarios. The European Commission could fund cross-border pilots or behavioural experiments to test and refine such approaches.

Meanwhile, financial advisors remain underutilised. Many lack the training or tools to provide effective long-term savings advice. Regulatory frameworks like MiFID II and the RIS should be updated to:

1. require retirement-specific advisory protocols;
2. promote digital planning tools within advisory channels; and
3. encourage simplified decision trees for long-term savings advice.

ESMA and EIOPA could also develop joint guidance on incorporating behavioural insights into advisory practices and licensing standards.

5. Strengthening the second pillar: occupational pensions and mobility

While much of the policy debate on retirement savings in Europe has focused on voluntary third-pillar products such as PEPP, **the greatest potential for expanding coverage and adequacy lies in occupational pensions**. Second-pillar schemes, linked to employment, are where defaults, automatic enrolment and collective arrangements can be deployed most effectively. **They also offer the strongest leverage for EU-level action, given their close connection to labour mobility, portability and the single market in employment.**

The EU already plays a role in this area through the IORP II Directive, which sets prudential and governance standards for occupational pension funds. However, the degree of portability across borders remains limited, and sectoral coverage is uneven, particularly for workers in SMEs and non-standard forms of employment. Without improved coordination, mobile workers risk losing out on pension rights or accumulating fragmented entitlements, undermining both adequacy and trust in the system. **The SIU should therefore place occupational pensions at the centre of its strategy, complementing rather than substituting national social security systems.**

Policy efforts could focus on three areas. *First*, enhancing portability rights by ensuring that workers moving across Member States can transfer or consolidate occupational entitlements without excessive costs or administrative hurdles. *Second*, introducing minimum funding and prudential standards to safeguard long-term adequacy while allowing sufficient investment flexibility. And *third*, facilitating collective or sectoral funds that extend coverage to SMEs and non-standard workers, who are often excluded from employer-based arrangements. **By leveraging the economies of scale and risk pooling inherent in collective schemes, the EU can support more inclusive and resilient second-pillar coverage.**

Importantly, this shift doesn't diminish PEPP's relevance or other third-pillar initiatives. Instead, it recognises their structural limits – while PEPP can improve portability and choice for engaged savers, it will remain a niche product compared with occupational schemes embedded in the workplace. **A European SIU strategy must therefore build primarily on the second pillar, aligning pension policy with labour market integration, capital market development and financial inclusion.** In this way, occupational pensions can serve as the main vehicle for broadening retirement saving while ensuring coherence with the EU's broader economic and social objectives.

6. Moving towards a coherent and inclusive European retirement saving architecture

Fragmentation across Member States, either in tax regimes, liquidity rules, default settings and advice delivery, continues to undermine both participation and the cross-border uptake of pension products. **A coherent EU strategy is needed that respects national flexibility while introducing minimum behavioural and structural standards.**

PEPP's upcoming revision should place greater emphasis on behavioural design, fiscal attractiveness and product transparency. Without reforms in these areas, its uptake is likely to remain limited or risk disappearing altogether. The SIU's broader framework should serve as a vehicle for aligning national retirement saving strategies with EU-level goals: mobilising long-term capital, improving financial inclusion and strengthening individual financial resilience.

The aim is not harmonisation for its own sake, but the creation of an enabling ecosystem that empowers individuals to plan, save and invest for retirement – with confidence, flexibility and trust in the system.

Conclusions

The challenge of improving retirement savings in the EU cannot be met through fiscal incentives or educational efforts alone. While tax deductions, default settings and information campaigns each play a role, they often only reach the most financially engaged, leaving behind the passive majority for whom inertia, uncertainty and liquidity needs dominate decision-making. Evidence from France and other countries shows that even well-intentioned reforms have limited and uneven impact unless they are carefully aligned with savers' behavioural realities.

If Europe is serious about closing its retirement savings gap, it must go beyond technical fixes and design a policy architecture that matches how people actually make financial decisions – not how policymakers wish they would. This means shifting from opt-in incentives to opt-out defaults, from rigid lock-in to conditional liquidity and from abstract financial literacy to emotionally resonant, tech-enabled tools. It also means recognising that the burden of action shouldn't fall solely on individuals. Employers, intermediaries and public institutions must be mobilised to create environments in which long-term saving is the path of least resistance.

But behavioural design alone is insufficient without robust prudential safeguards. Savers must be able to trust that the products they invest in are well-governed, fairly priced and subject to effective oversight and redress mechanisms. Adequacy depends not only on participation but also on long-term returns, which requires balancing product safety with sustainable investment performance. In parallel, greater emphasis must be placed on occupational pensions. Second-pillar schemes, embedded in the workplace, remain the most powerful tool for expanding coverage, portability and adequacy across the EU. An SIU that prioritises occupational pensions, while making complementary use of PEPP and other third-pillar products, would better align retirement saving with labour mobility, capital market development and social inclusion.

PEPP's upcoming revision and the SIU's broader framework, offer a timely opportunity to move in this direction. But their success depends on addressing the core structural and behavioural frictions identified in this study – fragmented tax rules, poorly calibrated defaults, inflexible liquidity provisions and limited engagement infrastructure. Addressing these barriers will not only improve individual retirement outcomes but also advance the EU's wider objectives of capital market development, financial inclusion and economic resilience.

The goal isn't to impose uniformity but to build a common behavioural and institutional foundation that empowers all Europeans to save for their future – in a way that is fair, flexible and effective.

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