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Enhancing the capacity of the EU supplementary pension sector to improve retirement income and supply long-term capital to the EU economy

{SWD(2025) 367 final}

1. Introduction

Europe's broad-based social and economic progress over the past few decades has enabled people across Europe to live longer and healthier lives. However, population ageing and a shrinking working-age population are increasing pressure on public budgets and pension systems. These changes require pension systems to adapt, in order to ensure that individuals can maintain a good standard of living in their retirement.

Pensions are a cornerstone of social protection, ensuring income security and dignity in old age. Principle 15 of the European Pillar of Social Rights ([1]) stipulates that 'workers and the self-employed in retirement have the right to a pension commensurate to their contributions and ensuring an adequate income. Women and men shall have equal opportunities to acquire pension rights.'

Across the EU, demographic changes and shifting labour market dynamics are challenging the long-term sustainability and adequacy of pension systems. These include: an ageing population, low fertility rates, new labour market realities (from the spread of non-standard forms of work to automation-driven restructuring and higher job turnover), shrinking workforces and longer retirement periods.

National pension systems provide old-age income through different types of pensions. Public pensions are typically financed from current revenue. Supplementary – occupational and personal – pension schemes are additional retirement savings typically funded by individuals and/or their employers to provide income beyond their public pension.

Pension systems fulfil various social functions, in particular poverty prevention and income replacement. Poverty prevention, i.e. keeping older people out of poverty, including those with short careers or low earnings, is ensured by public pensions (including minimum pensions) and other social benefits. Income replacement, i.e. making sure that workers' previous income level is reasonably protected when they retire, can be enhanced by a combination of public and supplementary pensions, as demonstrated by certain national systems.

Occupational pensions are often based on collective bargaining and have been key to ensuring adequate income replacement in many Member States, in particular those where they are mandatory for most jobholders. The role of personal pensions as individual saving products contributing to retirement income is becoming ever more important, because of increased job flexibility and mobility ([2]). However, supplementary pensions have remained underdeveloped in many Member States. In light of the role that supplementary pensions may play in addressing the current challenges linked to demographic and labour market developments, efforts should be made to increase coverage and transparency of supplementary pensions to the benefit of future pensioners and to increase net real returns on pension assets.

[1] Interinstitutional Proclamation on the European Pillar of Social Rights (2017/C 428/09).

[2] European Insurance and Occupational Pensions Authority, 'Unlocking the potential of pensions in Europe', Speech by Petra Hielkema at the Netspar anniversary conference, The Hague, 1 April 2025, https://www.eiopa.europa.eu/unlocking-potential-pensions-europe-2025-04-01_en.

It is therefore urgent that Member States act now by strengthening supplementary pensions and take a comprehensive approach to make it easier for people to access such pensions. Such reforms will increase retirement income and help ensure the sustainability of pension systems for future generations.

Recent high-level political statements and reports also underscored the urgent need to mobilise private savings for long-term investment. These include the March 2024 statement of the Eurogroup in inclusive format ([3]), the European Council conclusions of both April 2024 ([4]) and March 2025 ([5]), the European Parliament's September 2025 competitiveness report ([6]) and the Letta ([7]) and Draghi ([8]) reports. The long-term nature of pension liabilities makes the supplementary sector a key potential supplier of long-term capital for investment. In the Competitiveness Compass ([9]) and the Savings and Investments Union (SIU) strategy ([10]), the Commission committed to put forward measures to unlock that potential.

The SIU strategy aims to increase wealth and boost the EU's economic growth and competitiveness, giving more choice to savers wishing to grow their household wealth and allowing businesses across Europe to grow. Supplementary pensions, in particular, can help achieve greater financial security and stability in retirement, complementing the benefits of statutory pensions, which in many cases will not be sufficient to maintain living standards.

As well as ensuring adequate income after retirement, pension schemes that are funded and supported by a pool of assets can also support the EU's economic growth and competitiveness, both directly by mobilising long-term savings for investments and indirectly by increasing the depth and liquidity of EU capital markets.

With this package, the European Commission is adopting measures to deliver on those commitments. The package builds on and supplements the other SIU initiatives, including the financial literacy strategy ([11]) and the recommendation on savings and investment accounts ([12]) increase retail investor participation across the EU. Financial literacy is essential for boosting supplementary pensions, as it enables people, including new entrants to the labour market, to

[3] Council of the European Union, 'Statement of the Eurogroup in inclusive format on the future of Capital Markets Union', press release, 11 March 2024, https://www.consilium.europa.eu/en/press/press-releases/2024/03/11/statement-of-the-eurogroup-in-inclusive-format-on-the-future-of-capital-markets-union/.

[4] Council of the European Union, 'EUCO Conclusions 17–18 April 2024', https://www.consilium.europa.eu/media/m5jlwe0p/euco-conclusions-20240417-18-en.pdf.

[5] Council of the European Union, 'European Council Conclusions 20 March 2025', https://www.consilium.europa.eu/media/viyhc2m4/20250320-european-council-conclusions-en.pdf.

[6] European Parliament, 'Resolution of 10 September 2025 on investments and reforms for European competitiveness and the creation of a Capital Markets Union (facilitating the financing of investments and reforms) (TA-10-2025-0185)' [online], 10 September 2025, https://www.europarl.europa.eu/doceo/document/TA-10-2025-0185_EN.html.

[7] Council of the European Union, 'Much More Than a Market – report by Enrico Letta', https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf.

[8] https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en#paragraph_47059.

[9] European Commission, A Competitiveness Compass for the EU (COM(2025) 30 final), Brussels, 29 January 2025, https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en.

[10] European Commission, Communication from the Commission, Savings and Investments Union – A Strategy to Foster Citizens' Wealth and Economic Competitiveness in the EU (COM(2025) 124 final), https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0124.

[11] European Commission (2025), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Financial Literacy Strategy for the EU, COM(2025) 681 final, Brussels, 30 September 2025, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52025DC0681.

[12] European Commission (2025), Commission Recommendation on Increasing the Availability of Savings and Investment Accounts with Simplified and Advantageous Tax Treatment, C(2025) 6800 final, Brussels, 30 September 2025, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM%3AC(2025)6800.

understand, plan and make informed decisions about saving and investing for their retirement. Savings and investment accounts can be a valuable means of developing saving habits for different purposes, including for more short- to medium-term goals. These can carry over into more long-term investments such as supplementary pensions.

The package launched alongside this communication contains a Commission recommendation to Member States on pension tracking systems, pension dashboards and auto-enrolment an amending directive (IORP II) ([13]) and an amending regulation (PEPP) ([14]). The need and rationale for this package of measures, as well as a summary of each, are outlined below.

2. Supplementary pension landscape in the EU

The EU pension landscape is very diverse, with Member States at different stages of development in their multilayered pension systems. Some rely mostly on statutory pensions for income replacement, while in others occupational or personal schemes play a large role. As a result, tailored policy actions must be taken to address each country's specific gaps and challenges and ensure integration into the country's social and economic context. The present package has been drawn up following extensive consultation and on the basis of best practices identified in the Member States with more developed supplementary pension schemes.

Although pension systems are primarily a matter of national competence and a core component of Member States' social protection policy, the EU can contribute significantly to strengthening supplementary pensions, including occupational (sometimes called 'second-pillar') and personal ('third-pillar') schemes. While pension systems fall largely under national law, EU frameworks such as the Institutions for Occupational Retirement Provision (IORP) II Directive ([15]), the Pan-European Personal Pension Product (PEPP) Regulation ([16]), the Directives on the safeguarding of supplementary pension rights([17]) and on the acquisition and preservation of supplementary pension rights([18]) lay down important common standards across the single market and facilitate the free movement of workers. Targeted reforms to some of these frameworks can help raise participation in supplementary pension schemes, improve investment performance, increase trust and foster more integrated and efficient pension markets across the EU while contributing to the sustainability and adequacy of pension systems and allowing for more effective investment of savings.

[13] Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (COM/2025/XXX).
[14] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP) (COM/2025/XXX).
[15] Directive (EU) 2016/2341 on the activities and supervision of institutions for occupational retirement provision (IORPs) (recast), Directive (EU) 2016/2341 – EN – EUR-Lex.
[16] Regulation (EU) 2019/1238 on a pan-European Personal Pension Product (PEPP), Regulation (EU) 2019/1238 – EN – EUR-Lex.
[17] Council Directive 98/49/EC on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community, Directive 98/49/EC – EN – EUR-Lex.
[18] Directive 2014/50/EU on minimum requirements for enhancing worker mobility between Member States by improving the acquisition and preservation of supplementary pension rights, Directive 2014/50/EU – EN – EUR-Lex.

3. Current challenges

The main challenges and issues facing Member States are summarised below, with further details available in the accompanying staff working document.

If not addressed appropriately, the challenges described below – coupled with economic uncertainty and other factors such as inflation – can threaten the financial well-being of future retirees. This would undermine individual financial security, reduce living standards in old age and increase reliance on social assistance and public budgets, thereby putting additional pressure on Member State's fiscal sustainability and public finances.

Demographic challenges

Demographic changes linked to ageing populations and shrinking workforces challenge the future adequacy and sustainability of pension systems across the EU. The decline in the working-age population is exerting downward pressure on revenue from personal income taxes and social security contributions. The shrinking workforce also means that future economic growth will increasingly depend on productivity gains and investment in the EU's strategic priorities, innovation and infrastructure projects.

Conversely, as the population grows older, expenditure on healthcare, long-term care and pensions is forecast to rise, putting more pressure on public budgets. According to Eurostat, between 2024 and 2100, the share of the population that is of working age is expected to decline, while older people will probably account for a larger share of the total population: those aged 65 and above will account for 30.5% of the EU's population by 2070, compared with 21.6% in 2024 ([19]). These trends put a strain on public finances and are forecast to lead to lower pension replacement rates in most Member States ([20]), rising inequality and intergenerational imbalances. As the share of retirees in the population continues to grow, supplementary pensions can help maintain adequacy while easing budgetary pressures.

Sustainability challenges

Europe's ageing population, coupled with low productivity growth, presents a major threat to pension sustainability. The old-age dependency ratio ([21]) rose from 29% in 2010 to 37% in 2024 ([22]) and is forecast to exceed 59% by 2070. This means that each retiree will be supported by fewer than two people of working age, compared to nearly 3.5 working-age people supporting each retiree today. Furthermore, the labour force is forecast to shrink by 14% (25 million people) between 2024 and 2070 ([23]). This demographic shift threatens the sustainability

[19] Eurostat, 'Population structure and ageing', Statistics Explained, European Commission, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Population_structure_and_ageing.
[20] The pension replacement rate measures the percentage of an individual's pre-retirement income that is maintained after retirement through pension benefits.
[21] The old-age dependency ratio measures the number of older people (typically aged 65 and over) relative to the working-age population, indicating the potential economic burden on workers to support retirees. It indicates how many older dependents there are for every 100 working-age people.
[22] Eurostat, 'Old-age dependency growing across EU regions', Eurostat news article, 1 October 2025, European Commission, https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20251001-2.
[23] European Commission, '2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070)', Institutional Paper 279, 18 April 2024, https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en.

of public 'pay-as-you-go' (PAYG) schemes in particular ([24]), with fewer contributors relative to beneficiaries, making it harder to finance current and future pensions. Even accounting for higher labour market participation and longer working lives, future pension levels are forecast to decrease. This puts additional pressure on supplementary pensions to deliver adequate income over longer retirements.

Adequacy challenges

According to the 2024 Pension Adequacy Report ([25]), 'pension adequacy' describes the extent to which pension systems ensure a retirement income preventing old-age poverty and maintain the income of men and women for the duration of their retirement, both currently and in the future([26]). As highlighted in the European Commission's 2024 Ageing Report, public pension income is projected to decline relative to wages, with the average benefit ratio ([27]) expected to fall by seven percentage points by 2070 compared to 2022 ([28]). Similarly, according to the 2024 Pension Adequacy Report ([29]), pension replacement rates for a given career are forecast to decrease over the next four decades in 20 Member States.

Although EU households are diligent savers, they save predominantly in liquid assets, such as bank deposits, rather than by investing in long-term financial instruments that would yield higher returns and could better support innovation, industrial adjustment and the diffusion of new technologies. Moreover, many supplementary pension schemes are guided by very conservative investment policies that limit the share of long-term assets, in particular equities, in pension funds' portfolios despite the potential for higher revenue associated with such long-term investments. In addition, pension funds and life insurers active in offering pension products often face tax barriers in the Single market. This has implications for the adequacy of the schemes.

Furthermore, low contributions and high costs in smaller schemes limit the adequacy of supplementary pensions, particularly in defined-contribution schemes ([30]). Smaller funds often incur higher costs, resulting in higher fees that reduce net gains for savers. Prolonged low interest rates and recent market volatility have eroded returns for defined-benefit schemes and annuities. Improvements in investment performance, participation and cost-efficiency are needed to ensure adequacy of income in old age.

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[24] Note that not all first pillar schemes are purely 'PAYG', and some combine elements of traditional statutory pensions with individual savings, where part of workers' mandatory contributions is invested in financial markets rather than being used to pay current retirees. Within the EU, such schemes can be found in Latvia, Poland and Sweden.

[25] '2024 Pension Adequacy Report: Current and future income adequacy in old age in the EU', joint report prepared by the Social Protection Committee (SPC) and the European Commission (DG EMPL), https://op.europa.eu/en/publication-detail/-/publication/c854e35f-2eb1-11ef-a61b-01aa75ed71a1/language-en.

[26] This report shows that women are particularly affected by inadequate pensions.

[27] The benefit ratio measures the average pension benefit as a percentage of the average wage, indicating how pension income compares to earnings from work.

[28] European Commission, '2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070)', Institutional Paper 279, 18 April 2024, https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en, pp. 3, 6 and 7.

[29] '2024 Pension Adequacy Report: Current and future income adequacy in old age in the EU', joint report prepared by the Social Protection Committee (SPC) and the European Commission (DG EMPL), https://op.europa.eu/en/publication-detail/-/publication/c854e35f-2eb1-11ef-a61b-01aa75ed71a1/language-en, Figure 37, p78

[30] Institute for Fiscal Studies, 'Summary – The Pensions Review: Final Recommendations', July 2025, https://ifs.org.uk/sites/default/files/2025-07/Summary%20The%%20Pensions%20Review_1.pdf.

Coverage gaps in supplementary pensions

Public pension schemes form the foundation of pension systems in all Member States and provide (almost) universal coverage. Tackling challenges arising from demographic and labour market transformations requires a broad policy mix, including strengthening supplementary pensions to provide additional income in old age for retirees. Another key challenge to address is the 24.5% gender pension gap.[31]

Despite this, EIOPA's Consumer Trend Report 2024 ([32]) shows that only 20% of Europeans participate in an occupational pension scheme, and just 18% own a personal pension product. Coverage is particularly low among younger workers, women, part-time and lower-paid employees and the self-employed. As non-standard employment becomes more common, there is a risk that gaps in access will exacerbate inequalities and increase reliance on statutory pensions. The supplementary pensions market, which is underdeveloped in most Member States, therefore requires urgent expansion to ensure better pension adequacy and coverage for future retirees.

Fragmentation and lack of scale in supplementary pension schemes and interpretation of the prudent person principle

The EU supplementary pension sector is relatively small compared to other advanced economies, the United States in particular, with notable exceptions in some Member States. Furthermore, approximately 80% of EU institutions for occupational retirement provision (IORPs) have less than EUR 1 billion in assets under management (AuM), while one third of them have less than EUR 25 million ([33]). Many of these schemes lack the scale to invest efficiently or to diversify risk, prompting some supervisors to encourage consolidation into larger master trusts or industry-wide funds ([34]).

In addition, supplementary pension provision in the EU is highly fragmented across providers, schemes and products – both within Member States, where access and coverage vary according to employment type, and across borders, where differing national regulations and tax regimes hinder portability and comparability. Occupational pension schemes, which are well established in some Member States, are often tied to individual employers or industrial sectors.

Large, scaled-up pension funds can achieve significant cost-efficiencies and better investment outcomes ([35]). Research shows that an increase in assets under management is associated with a reduction in annual costs ([36])([37]). This suggests that consolidation among small and medium-

[31] Eurostat, gender gap by age group, https://ec.europa.eu/eurostat/databrowser/view/ilc_pnp13$defaultview/default/table?lang=en

[32] European Insurance and Occupational Pensions Authority, 'Consumer Trends Report 2024', 15 January 2025, https://www.eiopa.europa.eu/publications/consumer-trends-report-2024_en.

[33] European Insurance and Occupational Pensions Authority, 'IORPs in Focus: IORPs Report 2024', EIOPA-BoS-25/016, 11 February 2025, https://www.eiopa.europa.eu/document/download/4de6b580-521d-4ad0-af83-2ecf133abdf4_en.

[34] European Insurance and Occupational Pensions Authority, 'EIOPA market report on occupational pension funds shows more consolidation and rebound in assets under management', 11 February 2025, https://www.eiopa.europa.eu/eiopa-market-report-occupational-pension-funds-shows-more-consolidation-and-rebound-assets-under-2025-02-11_en.

[35] OECD, *OECD Pensions Outlook 2018*, OECD Publishing, Paris, 2018, pp. 89-90, 2018, https://doi.org/10.1787/pens_outlook-2018-en.

[36] De Nederlandsche Bank, 'Scale economies in pension fund investments: A dissection of investment costs across asset classes', Working paper No 474, 3 June 2015, https://www.dnb.nl/publicaties/publicaties-onderzoek/working-paper-2015/474-scale-economies-in-pension-fund-investments-a-dissection-of-investment-costs-across-asset-classes/.

[37] EIOPA Statistics Annex on IORPS data, EIOPA-BoS 2025-420.

sized funds could be one way to decrease cost ([38]), particularly administrative and management fees. Without scale, many funds suffer from inefficiencies which reduce net returns ([39]).

Scale is critical for lowering costs for future pensioners, obtaining higher returns (including those generated by investing in less liquid asset classes), improving diversification and governance and enabling pension funds to contribute more effectively to productive investment, including Europe's strategic investment priorities.

In addition, a conservative interpretation of the prudent person principle by competent authorities or pension providers has often restricted the ability of larger-scale pension schemes to diversify investments and to allocate them to equities, which over the long term have a proven positive return potential.

4. Policy measures

The envisaged measures aim mainly to increase the financial security of people after retirement, while contributing to the long-term sustainability and resilience of pension systems, in light of pressing demographic challenges as well as the persistent gender pension and coverage gaps.[40] Another objective of the initiative is to bolster capital market development and investment in EU growth and innovation, an objective that is also being addressed through several other actions under the SIU. As pension policies fall primarily within the competence of the Member States, their effective implementation at national level will be critical to achieve the desired outcomes.

To support these objectives, the Commission is proposing a set of initiatives, including a recommendation on pension tracking systems, pension dashboards and auto-enrolment, and two legislative proposals covering areas already subject to EU financial market regulation – an amending directive (IORP II) and an amending regulation (PEPP). They aim to strengthen both the demand and the supply side of the supplementary pension sector.

Measures on the demand side address the low take-up of voluntary pension savings due to a behavioural bias causing parts of the population to postpone decisions on retirement savings ([41])([42])([43]). The lack of awareness and financial literacy that affects how people plan for retirement and the lack of attractive pension products that discourages part of the population from saving in such products result in low participation rates.

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[38] De Nederlandsche Bank, 'Is there an optimal pension fund size? A scale-economy analysis of administrative and investment costs', Working paper No 376, Jacob A. Bikker, 18 April 2013, https://www.dnb.nl/en/publications/research-publications/working-paper-2013/376-is-there-an-optimal-pension-fund-size-a-scale-economy-analysis-of-administrative-and-investment-costs/.

[39] De Nederlandsche Bank, 'X-efficiency and economies of scale in pension fund administration and investment', Working paper No 547, Gosse A. G. Alserda, Jaap A. Bikker and Fieke S. G. van der Lecq, 23 February 2017, https://www.dnb.nl/en/publications/research-publications/working-paper-2017/x-efficiency-and-economies-of-scale-in-pension-fund-administration-and-investment.

[40] The gender pension gap measures the difference in average gross pensions between men and women. The gender pensions coverage gap is defined as the difference between the proportions of older men and women receiving any pension benefit.

[41] Brigitte C. Madrian and Dennis F. Shea, 'The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior', *Quarterly Journal of Economics*, Vol. 116, No 4 (2001), pp. 1149-1187.

[42] Gabriel D. Carroll, James J. Choi, David Laibson, Brigitte C. Madrian and Andrew Metrick, 'Optimal Defaults and Active Decisions', *Quarterly Journal of Economics*, Vol. 124, No 4 (2009), pp. 1639-1674.

[43] R. H. Thaler and S. Benartzi, 'Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving', *Journal of Political Economy*, Vol. 112, No S1, Papers in Honor of Sherwin Rosen: A Supplement to Volume 112 (2004), pp. 164-187.

Measures on the supply side seek to increase the availability of cost-efficient pension products that aim to deliver higher returns. This requires both scaling-up strategies in the supplementary pension sector and greater competition between providers.

Lower costs and higher returns can make it more attractive for households to participate in supplementary pension schemes. This increased demand can then generate a positive feedback loop as pension providers grow and can reduce costs due to economies of scale. This requires two things: providers must accept clear fiduciary (duty of care) obligations, and their risk-taking and profit generation must be monitored effectively, so that households can be confident that their retirement savings are being managed properly.

Pension tracking systems

The low participation in supplementary pensions is due partly to the fact that people have limited awareness and information about their future pension. In an EIOPA survey, 25% of respondents did not know where to access information about their entitlements ([44]), and 19% said that they had 'not thought about' personal pensions ([45]).

Pension tracking systems can offer individuals a consolidated overview of their pension rights and projected benefits across different pension schemes and providers. By increasing transparency and pension awareness, these systems encourage informed savings and retirement decisions.

However, existing pension information services in most Member States remain fragmented across different pension pillars and offer incomplete coverage, in particular on entitlements from supplementary pension schemes. Drawing on positive experience gained at national level, EIOPA has developed a set of good practices ([46]) for national tracking systems. In parallel, the Commission supports the roll-out of a European tracking service (ETS) on pensions that can link existing national tracking systems to provide mobile workers with an overview of their pension entitlements across the EU ([47]).

The Commission therefore puts forward, in its recommendation that Member States set up or expand national pension tracking systems, covering pension entitlements from all pension schemes, at no cost to individuals. It further recommends that their national tracking systems can support future connectivity with the ETS.

Pension dashboards

Pension dashboards provide policymakers and other key stakeholders with an overview of national pension systems ([48]), consolidating key indicators such as coverage, contributions,

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[44] European Insurance and Occupational Pensions Authority, 'Presentation – Eurobarometer: Consumer trends 2024 (IPSOS)', https://www.eiopa.europa.eu/document/download/dd67f6de-f4ed-4bde-b221-8b1ec075b520_en?filename=Presentation%20-%20Eurobarometer.%20Consumer%20trends%202024%20-%20IPSOS.pdf.

[45] European Insurance and Occupational Pensions Authority, 'Eurobarometer 2024: Consumer trends in insurance and pension services – Private pension products section', https://www.eiopa.europa.eu/tools-and-data/eurobarometer-2024-consumer-trends-insurance-and-pension-services_en#private-pension-products.

[46] European Insurance and Occupational Pensions Authority (EIOPA) (n.d.), 'Technical advice on a pensions dashboard, EIOPA', https://www.eiopa.europa.eu/publications/technical-advice-pensions-dashboard_en.

[47] Two Member States (Belgium and France) are already connected, others are in the pipeline.

[48] European Insurance and Occupational Pensions Authority (EIOPA) (n.d.), 'Technical Advice on a Pensions Dashboard, EIOPA', https://www.eiopa.europa.eu/publications/technical-advice-pensions-dashboard_en.

retirement income and fiscal costs. This supports evidence-based policy design, helping to build public trust in pension systems and to guide reforms.

The Commission therefore puts forward in its recommendation that Member States develop or adapt national dashboards, using existing data where available, and expand coverage over time, benefitting from synergies with pension tracking systems. Once implemented, national dashboards could feed into an EU pension dashboard to be built in a time-horizon of about five years. This EU dashboard would promote cross-country comparisons, mutual learning and better-informed reform strategies.

Auto-enrolment

'Auto-enrolment' is when employees are automatically included in supplementary pension schemes, with the possibility of opting out. The widespread use of this tool can significantly boost participation rates in supplementary pensions, as evidence shows that individuals, once enrolled, tend to remain in the schemes ([49]). Experience gained within and outside the EU shows that well-designed auto-enrolment schemes – with affordable contributions, low fees, efficient administration and flexible opt-out options – help workers, particularly younger and lower-income earners, build adequate retirement savings over time. These good practices ([50]) support long-term pension system adequacy and sustainability by making auto-enrolment an effective tool to mitigate the risk of future pension gaps.

The Commission therefore puts forward in its recommendation that Member States without mandatory occupational pension schemes adopt auto-enrolment by following existing good practices and lessons learnt to broaden coverage and improve pension adequacy and sustainability. With its recommendation, the Commission encourages Member States to enable and incentivise employers or professional associations to use auto-enrolment, and to consider whether an obligation for employers to enrol their workers would be suitable for their national context.

IORP II Directive

The review of the IORP II Directive ([51]) aims to build a stronger and more efficient occupational pension landscape in the EU. The Directive sets out key common standards to ensure sound management and safeguard the interests of scheme members, while respecting national social and labour law on the organisation of pension systems and without impinging on the role of social partners. However, many schemes remain too small and fragmented to derive the full benefits of diversified investments and deliver optimal outcomes for savers.

[49] Department for Work & Pensions, 'Workplace pension participation and savings trends of eligible employees, 2009 to 2024', updated 5 August 2025, https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2024/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2024; Inland Revenue (New Zealand), 'Statistics on KiwiSaver opt-out rates', https://www.ird.govt.nz/about-us/tax-statistics/kiwisaver/joining/kiwisaver-opt-out-rates; Central Statistics Office (Ireland), 'Awareness of Auto Enrolment, Pension Coverage 2024' (statistical release, 19 December 2024), https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2024/awarenessofautoenrolment/.

[50] European Commission (2021), 'Best practices and performance of auto-enrolment mechanisms for pension savings', https://op.europa.eu/en/publication-detail/-/publication/6f40c27b-5193-11ec-91ac-01aa75ed71a1/language-en.

[51] Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs).

To unlock the potential of occupational pensions, the Commission proposes to modernise the framework in order better to support efficiency and scale. This includes: (i) increasing supervisory focus on costs, returns and scale, as one of the triggers for lowering costs and increasing returns; (ii) increasing transparency on underperformance; and (iii) removing barriers to market-driven consolidation or other ways of promoting economies of scale.

The competent authorities will play an important role in fostering more robust and professional management of pension assets and creating trust in supplementary pension schemes. At the same time, the costs, fees and returns of pension funds will be made more transparent.

A more efficient occupational pension sector should help ensure that savers benefit from higher returns, enabling long-term capital to be mobilised more effectively to support EU growth.

Although the IORP II Directive sets out strong standards for sound management and member protection in occupational pensions, it does not cover the entire landscape of supplementary pension providers and schemes, some of which remain governed solely by national law. Many of these institutions also operate on a limited scale, which restricts their ability to achieve diversification, realise economies of scale and deliver strong returns to members and beneficiaries.

To help address these challenges and build on the positive experience gained in some Member States, all Member States are encouraged to make broader use of the IORP II framework. This includes institutions currently outside the scope of the framework. The Directive offers a flexible structure that can be adapted to national systems and the particular characteristics of their institutional set-up. Broader alignment would make pension institutions stronger and more efficient, enabling them to pool resources, diversify investments and reduce participant costs. Greater scale would also support market-driven consolidation where appropriate, promoting stronger governance, professional management and more transparent supervision.

By making fuller use of the IORP II framework, Member States could make supplementary pensions more resilient and efficient, helping members and beneficiaries achieve better outcomes. At the same time, they could mobilise long-term savings more effectively to finance the EU's green, digital and strategic inclusive growth priorities. Broader adoption of IORPs is not just a technical choice. It is a strategic opportunity to modernise Europe's supplementary pension systems, build trust and maximise the contribution of long-term savings to the EU's economic future, while fully respecting national competence and the role and autonomy of social partners.

PEPP Regulation

The review of the PEPP Regulation ([52]) seeks to make the pan-European Personal Pension Product (PEPP) a more attractive and accessible option for both savers and providers. Despite its sound design principles, aimed at transparency, investor protection and digital accessibility, uptake has been very limited.

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[52] Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP).

Experience has shown that the strict 1% fee cap and the requirement for national subaccounts under the current PEPP framework have not led to the intended commercial success. Rather than resulting in widespread uptake, the requirements have discouraged providers from offering PEPPs and restricted saver choices.

The Commission's proposal therefore includes alternative ways to ensure that PEPPs deliver value for money while maintaining a robust protective framework for retail investors. By combining greater flexibility for providers with clear standards on transparency, cost disclosure and investor protection, and by making PEPPs suited to workplace arrangements or auto-enrolment, the revised framework aims to create a more dynamic market where savers can access affordable, high-quality pension solutions that meet their individual needs.

The changes will reduce barriers to provision and distribution, broadening savers' choice and ensuring consistent favourable tax treatment between PEPP and other personal pension products. The PEPP will be suitable for various types of providers, including asset managers and insurers, and adaptable to different investor preferences. Changes to the PEPP Regulation will therefore streamline procedures and promote competition between the basic PEPP and the PEPP with options.

This legislative proposal is an opportunity to turn the PEPP into a genuinely European long-term savings product – one which reflects investors' preferences (simple or with options) and is transparent and cost-effective for investors and sufficiently flexible to attract providers.

5. Prudent person principle

The **prudent person rule** currently governs how IORPs and PEPP providers should invest and manage their asset portfolios. However, the rule has been interpreted and implemented very differently by the Member States. This has often constrained pension schemes in their ability to diversify investments and to allocate them to equities. In line with the SIU strategy, the proposals amending IORP II and PEPP replace the prudent person **rule** by a prudent person **principle**, clarifying that pension providers should have freedom to invest in any type of assets, provided that they can properly identify, measure, monitor, manage and report the associated risks. The SIU strategy aims to promote increasing investment in both private and listed equity in order to provide new sources of financing for the EU economy. As institutional investors with a long-term horizon, pension funds are well placed to provide some of this financing, with benefits arising for their members as a result both of increased returns on investment and of the broader positive economic impact.

With this section, the Commission wants to (i) outline how it sees the prudent person principle as a key fiduciary duty, (ii) summarise what the EU rules require and (iii) provide non-binding guidance to support the effective and consistent implementation of the prudent person principle. It builds on the feedback received by the Commission as part of the targeted consultation on supplementary pensions. It is intended to assist competent authorities in their supervisory activities and to provide clarity to institutions. Although this non-binding guidance is rooted in existing legislation, it is intended to have broader relevance, guiding all pension funds, including those beyond the formal scope of the IORP II Directive and the PEPP Regulation. This reflects the view that the principles of prudence and sound governance are fundamental to the entire pension landscape, not confined to specific legal frameworks.

What is the prudent person principle?

The prudent person principle is a flexible but demanding fiduciary standard. It does not prescribe a specific asset mix. Instead, it highlights responsibilities and duties of pension providers to act in the long-term interest of the beneficiaries of pension schemes, accounting for both returns and risks inherent in the pension assets. The principle lays down an investment decision-making framework for pension providers based on diversification, risk management and suitability. Equity investments, including listed and private equity, are not inherently imprudent. On the contrary, they can be an essential component of a well-diversified, long term-oriented pension portfolio provided that their risks are clearly understood, and their market value can be reliably estimated and aligned with the objectives of the scheme. What matters is whether managers can identify, measure and control the associated risks and ensure that the investments fit in with the overall risk tolerance and liquidity needs of the scheme. Managers should also avoid conflicts of interest or excessive concentration, particularly in the sponsoring company or its sector.

Although the prudent person principle applies to both defined-benefit (DB) and defined-contribution (DC) schemes, there are slight differences in how it is applied. For DB schemes, the focus is on matching assets and liabilities (liability-driven investing), making prudent use of equities and alternative assets to close funding gaps. For DC plans, where the investment risks are born by the beneficiaries, the focus is on prudent selection and allocation and ongoing monitoring of investment options. Default DC funds, such as target-date funds, should be designed both to match the typical saver's risk profile and to offer diversified exposure to a broad range of asset classes. In mixed schemes, in light of the ongoing shift from DB to DC plans, the prudent person principle ensures that both the DB and DC components are managed prudently, balancing risk, return and diversification, and that the scheme as a whole both protects members' interests and allows for long-term growth.

What do EU rules provide in relation to the prudent person principle?

As set out in Article 19 of the IORP II Directive and Article 41 of the PEPP Regulation, the prudent person principle means that assets must serve the long-term interests of savers, balancing return with security, quality and liquidity. Portfolios should be adequately diversified to avoid excessive reliance on any single asset, issuer, region or sector. Investments in assets outside regulated markets, such as infrastructure, private equity or venture capital, are allowed but must remain at prudent levels. Those responsible for managing the schemes must possess the necessary expertise and maintain robust risk management systems.

Currently, many Member States prohibit or restrict investment in certain assets. This may prevent members and beneficiaries from accessing potentially higher returns or more diversified investment strategies. Smaller providers, although generally more conservative in their investment approach, are more exposed to deliver lower returns to members and beneficiaries, as their size and limited risk absorption capacity and expertise restrict their ability to explore alternative, higher-yielding assets. Encouraging pension providers to consider a wider range of investment opportunities, where prudently feasible, can help unlock the advantages of scale, improved diversification and increased risk-adjusted returns. Over time, this can also stimulate fund growth, enabling more members and beneficiaries to benefit from the efficiencies and investment possibilities associated with larger, well-managed pension schemes.

Guidance on the implementation of the prudent person principle.

Although not all pension providers, in particular smaller providers that may lack the relevant expertise or scale, may be able to afford to invest in alternative assets, it is nonetheless important that all pension providers benefit from diversification and consider including equity in their portfolios. Larger funds, with sufficient scale and risk-absorption capacity, can access a wider range of investment opportunities. Larger funds, with sufficient scale and risk absorption capacity should also consider private equity, venture capital and growth equity funds as part of a well-diversified investment strategy. Such larger providers can more likely obtain attractive terms that smaller funds cannot easily achieve. If such providers failed to consider suitable equity or alternative assets capable of increasing returns within acceptable risk limits, they would be neglecting their duty to ensure the profitability of investments and the need to broadly diversify assets.

It is a good practice to document compliance with the prudent person principle in the statement of investment policy principles for schemes falling within the scope of the IORP II Directive or the PEPP Regulation, or in an equivalent document governing schemes outside the scope of Union legislation. Where such practice is followed, providers should consider indicating investment objectives, diversification targets and exposure limits, while aligning their portfolio with the liabilities and demographics of the plan. The documents would also be expected to set out oversight, monitoring and reporting mechanisms and detailed rules on managing liquidity, quality and conflicts of interest. National competent authorities have an important role in overseeing whether providers' investments align with such statements of investment policy principles or equivalent documents.

6. Conclusion

Strengthening supplementary pension systems is key to addressing the mounting pressure from demographic shifts and economic and labour trends. However, although these challenges are significant, they also present major opportunities. By making changes to supplementary pension frameworks, at both EU and Member State level, there is great potential to increase coverage and improve returns. Such carefully designed reforms would ensure that people receive adequate income during retirement and alleviate the pressure on statutory pension schemes. This, in turn, would increase investment in the EU economy. That approach will secure a more stable and prosperous future for everyone, irrespective of their age, and contribute to intergenerational fairness.

The Commission will closely monitor the implementation of its recommendations, including through the European Semester, and promote the exchange of best practices between Member States. It is also ready to work with the co-legislators to achieve swift political agreement on the legislative reforms.