BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

BETTER FINANCE responds to

European Commission Call for Evidence on Supplementary Pensions

21 July 2025

Executive Summary

BETTER FINANCE, warmly welcomes the European Commission's stated intention to review the EU framework on supplementary pensions.

Year after year, our research on the real return of long-term and pension savings highlights the dramatic underperformance of too many pension saving solutions across the EU. We therefore strongly support the Commission's efforts to identify the changes to the EU and national frameworks that have the potential to unlock better returns for pension scheme participants.

More equity investments by occupational pension schemes, lower fees of personal pension products, better information and enhanced investor empowerment, those are issues on which BETTER FINANCE supports decisive action, so that EU citizens take control of their financial future, for their own benefit and that of the EU as a whole, as targeted by the "Savings and Investments Union" agenda.

In this response to the Commission's call for evidence on supplementary pensions, we develop our views towards the EU framework on occupational and personal pensions, including the review of the IORP II Directive and PEPP Regulation, the development of auto-enrolment schemes in occupational pensions, better key information on personal pensions and pension tracking systems.

Keywords : occupational pensions, IORPs, personal pensions, PEPP, auto-enrolment, pension tracking systems, pension dashboards

Rue d'Arenberg 44, 1000 Bruxelles

+32 2 514 37 77

betterfinance.eu

About BETTER FINANCE

BETTER FINANCE — the European Federation of Investors and Financial Services Users — is the voice of European citizens as savers, investors, and financial users at the EU level. Working independently from the industry, BETTER FINANCE serves as an independent hub of financial expertise for the direct benefit of individual shareholders, investors, savers, life insurance policyholders, pension fund participants, and mortgage borrowers across Europe. Their work aims to promote research, information, and training on investments, savings, and personal finances to lawmakers and the public. BETTER FINANCE counts 40 independent, national, and international member organisations, sharing similar objectives from the EU Member States as well as Iceland, Norway, Turkey, Lebanon, and Cameroon.

Contact

Sebastien Commain | Senior Research & Policy Officer

policy@betterfinance.eu

General comments

BETTER FINANCE welcomes the European Commission's intention to review the **EU framework on supplementary pensions**. Ensuring an **adequate retirement income** is one of the key motivations for EU citizens to save and invest, especially as they become aware of the demographic challenges to the sustainability of pay-as-you-go pension schemes.

The diversity of the European supplementary pension landscape shows the creativity of private pension product providers to respond to this concern of EU citizens. Nevertheless, as BETTER FINANCE annual research on supplementary pensions shows, too many of these "solutions" in fact make the problem worse due to **insufficient long-term financial performance**.[1] Out of 40 product categories, the median 10 year annualised performance after costs and inflation is a meagre 0.6% (0.8% for occupational pensions, 0.1% for personal pensions), with some personal pension products returning a loss of up to 2% of the actual value of savings. **What is the point of saving your whole life if the money men cannot even protect the real value of your savings?** In many cases, pension savers would in fact be better off investing directly into the capital markets: comparing returns of pension products with those of a hypothetical, rather conservative investment portfolio of European equity and bonds, we find that 34 out of 48 product categories we analyse fail to beat that simple benchmark. Among those 34 product categories, the average distance to the performance of the hypothetical portfolio amounts to 37.1 percentage points of cumulated performance[2]. These figures are, by themselves, a powerful call for action: **the status quo is clearly detrimental to pension savers and promises a high risk of old-age poverty**.

BETTER FINANCE then urges the Commission to **take decisive action to reform the supplementary pensions framework** to ensure that, first, EU citizens, as pension savers receive **appropriate information to draw adequate financial plans** for their retirement and select the pension saving products that are most likely to generate an improvement of their purchasing power at retirement. Second but crucial, to ensure they are **empowered to take the decisions necessary** to improve their retirement plans.

Clear, comparable, reliable information about one's pension savings across all pillars is a necessity for accurate retirement planning and pension product selection. We strongly believe that **basic information about accrued benefits, costs and performance are the core pieces of information that a pension saver should receive from its supplementary pension scheme managers**, whatever the specific form (occupational vs. personal, insurance-based or else) of those supplementary pension schemes. A thoroughly revised PRIIPS Key Information Document should apply to Personal Pension Products (PPPs). A standardised set of fundamental information about supplementary pensions across all pillars would, furthermore, facilitate the development of comprehensive **pension tracking systems** (PTS) and long-term investment product comparison tools, overall empowering pension savers. We also stress that **pension dashboards** can be more than a tool for policy-makers and should be publicly accessible: an aggregate view of the pension

[1] BETTER FINANCE, *Will You Afford To Retire? Edition 2024*, 26–27.

[2] Cumulated returns of the product categories and their respective benchmarks are alculated over the maximum period for which performance data is available for each of the product categories, ranging from 4 to 24 years of data (average length of time series is 18.5 years).

Rue d'Arenberg 44, 1000 Bruxelles

+32 2 514 37 77

betterfinance.eu

landscape in their country can help individuals assess their situation in comparison to the rest of the population and the performance of their pension products in comparison to the market.

Beyond information, however, pension savers must be able to act when they believe that they are not on track with their pension plans: the possibility to save more is not enough, one **should have the possibility to saver better, the right to take their savings out of an underperforming plan and place them into a pension scheme that will provide them with a better solution** with the right balance of performance and safety.

Review of the IORP II Directive

BETTER FINANCE welcomes the Commission's intention to review the IORP II Directive. We strongly believe that high-performing occupational pensions could greatly help diffuse the pensions time bomb. Unfortunately, occupational pensions in many EU countries are nowadays too often underperforming, offering returns to participants that are too low to compensate for fees, which are often high, and inflation, even when low.

While several measures are necessary to remedy this situation, we believe that the introduction of an **explicit duty of care** as overarching principle of IORP managers conduct is necessary, together with equipping NCAs (and EIOPA) with the necessary powers to oversee and intervene to help ensure adequate returns for IORP participants. The management of occupational pensions by for-profit financial intermediaries inevitably introduces conflicts between the interests of the pension scheme participants and that of the intermediary's management and shareholders; **stating explicitly that the first duty of all intermediaries in the management of an IORP is to protect the interests of the participants** not only **clarifies the incentives structure** for those intermediaries, it also provides a **powerful lever for supervisors to address issues of mismanagement and for participants to seek redress** when they suffer a detriment.

As regards **investment policies**, we urge the Commission to **address the fixed-income bias in IORPs' investment policies**: we note that investment policies of most EU-based pension funds, including IORPs, are characterised by very large investments in (government) bonds[3] and a rather small share of contributions invested in equity markets (contrary, for example, to US pension funds).[4] Such investment policies offer stability in the short term but at the expense of long-term performance; in so doing, they ignore the fact that the main risk of any pension saving product, from the investor perspective, is

> *its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently "aggressive" to reach higher investment returns to compensate for potentially low contribution levels.*[5]

Having a single investment portfolio for an entire IORP is probably still the dominant business model in EU Member States, even though there is a slow but constant change from defined-benefit (DB) to defined-contribution (DC) schemes. Since the risk tolerance

[3] Or even money market funds, which amount to 20% of French corporate DC Plans' assets.
[4] Ibid., 29–30.
[5] European Insurance and Occupational Pensions Authority, *Pan-European Personal Pension Product (PEPP): EIOPA's Stochastic Model for a Holistic Assessment of the Risk Profile and Potential Performance*, 3.

Rue d'Arenberg 44, 1000 Bruxelles
+32 2 514 37 77
betterfinance.eu

of an individual evolves with the number of years remaining before retirement, the optimal investment mix for a given scheme member is dependent on their age cohort. Therefore, **individualising investment portfolios and introducing a life-cycle approach** to each individual portfolio appears as one solution to improve the risk-return profile of IORPs. Then younger scheme participants, whose risk tolerance should be higher, can be invested into high yield-high volatility asset classes and older members, who needs assurances of a stable income in retirement, can be mostly invested in fixed-income securities.[6]

Nevertheless, IORPs designs vary greatly—starting with the defined-benefit vs. defined contribution divide—making it impossible to single the particular investment policy that would offer the best possible mix of performance and safety to the scheme participants. There are indications that risk-based capital requirements and mark-to-market valuation rules, when applied to defined-benefit funds have a positive effect on funds' financial stability and their ability to meet pension liabilities, but also have a negative effect on their allocation of assets to more risky but higher yielding asset classes, starting with equity.[7] Therefore, while we see merit in examining which elements of the prudential requirements for banks and insurance could usefully be applied to pension funds in general and IORPs in particular, we urge caution that **these prudential measures must not unduly curb the investment horizon of these institutional investors and their natural tolerance for short-term market volatility**. Setting reasonably calibrated liquidity buffers might, for instance, help ensure that defined-benefit IORPs remain able to face their liabilities even when a market downturn temporarily reduces the net asset value of the fund (a reform already introduced in Germany).

BETTER FINANCE believes that **a requirement for IORPs to invest primarily in listed securities is a good starting point to foster both transparency and safety** for scheme participants: listed securities, with all the disclosure requirements that come with them and their daily valuation by the market generally make it easier for IORPs to manage their investments, even for those with a limited risk management capacity.

Nevertheless, the boundary between listed and unlisted securities, in terms of transparency and liquidity, is not always a clear cut: there are illiquid listed securities just as there are unlisted securities for which valuation and liquidity is not an issue. We are, therefore, **in favour of allowing *some* space for unlisted securities** and alternative asset classes in the investment policies of IORPs, **subject to a limit** (e.g. a maximum of 10% of the IORP's assets, as applies to UCITS[8]) and **to the extent that the IORP manager has a proven track record, appropriate policies and capabilities to manage the specific risks** associated with specific alternative asset classes. This last point may be the really problematic issue: There are notified examples that some IORP managers lack the risk

[6] That is, essentially, because human capital is essentially a bond-like asset to individuals—it provides a regular, fixed income in the form of wages or equivalent work-related income). Early career individuals have small financial assets compared to their human capital and for them a diversified portfolio means investing in equity; but as they grow old, financial assets become the main element of their wealth and need to integrate more fixed-income assets to compensate the declining weight of human capital. See, e.g. Cocco, Gomes, and Maenhout, "Consumption and Portfolio Choice over the Life Cycle"; Bagliano, Fugazza, and Nicodano, "Life-Cycle Portfolios, Unemployment and Human Capital Loss"; Berardi, Tebaldi, and Trojani, *Consumer Protection and the Design of the Default Option of a Pan-European Pension Product*.
[7] Boon, Brière, and Rigot, "Regulation and Pension Fund Risk-Taking".
[8] BETTER FINANCE, *Review of the UCITS Eligible Assets Directive*.

Rue d'Arenberg 44, 1000 Bruxelles
+32 2 514 37 77
betterfinance.eu

management capability to manage efficiently a diversified portfolio; the result of unchecked diversification might therefore turn to be either poor investment decisions and losses for the scheme participants, or an increase use of outsourced management services, which comes with additional performance-eating costs, reduced transparency and heightened agency issues.[9]

BETTER FINANCE believes that the development of cross-border provision of occupational pension is in the interest of pension savers. Especially in smaller Member States with few domestic IORP managers, bringing in new providers increase competition for workplace pension savings, with the potential to improve the value-for-money profile of the various offers. Therefore, we believe it would be beneficial to review the IORP II provisions on collective transfers and cross-border operations to facilitate the development of pan-European market for occupational pensions, on the basis of harmonised investor protection standards and the respect of legitimate specificities of national pension systems.

Personal pensions and the PEPP

BETTER FINANCE remains a strong supporter of the PEPP. We believe that the national markets for personal pension products, while each different, are generally characterised by low value for money—pension savers pay high fees for a low performance—as BETTER FINANCE research shows[10]. In this context, **making the PEPP available to all EU citizens would greatly improve competition for the benefit of consumers**.

Nevertheless, for the PEPP to realise this potential, we believe that **a substantial simplification of the product is necessary**.[11] We believe that the "Basic PEPP", currently the default investment option of the PEPP, should be **simplified to the extent that it becomes possible to distribute it without advice**. A product that is simple enough for sales without advice means a product that is **simple enough for new investors to understand**, that is **standardised**, and the **costs of which are necessary low** since it will come with only a handful of core features and low distribution costs. Removing the requirement for at least two sub-accounts in two Member States would, for instance, greatly reduce complexity for investors and providers alike.

This simplified Basic PEPP would then be in a position to be the basic, affordable solution for any early career worker seeking a standard product to start saving for their pension. It **could be distributed by all types of financial intermediaries** serving individual investors, thereby adapting to the variegated preferences of the target market. **Onboarding would be simplified**—fewer features to explain, fewer choices to make. It would be **portable across providers and across borders**—that is one of the great assets of the PEPP. And crucially, it **could remain low-cost**, with the possibility to switch to a more complex (and more expensive) PEPP option if necessary to meet the evolving needs and objectives of the pension saver.

[9] Andonov, "Pension Fund Asset Allocation and Performance".
[10] BETTER FINANCE, *Will You Afford To Retire? Edition 2024*, 32–36.
[11] A point that we developped in our previous publication on the PEPP: BETTER FINANCE, *The Future Pan-European Pension Product*.

Rue d'Arenberg 44, 1000 Bruxelles
+32 2 514 37 77
betterfinance.eu

We believe that such a **simplified Basic PEPP should remain subject to a fee cap**. In the absence of a convincing alternative (the "Value-for-Money discussion" looking very much compromised by the absence of progress in the Retail Investment Strategy negotiation), we find that a fee cap is the only way to prevent the PEPP from becoming just yet another costly personal pension products; as our research shows, EU citizens already have too many of those as it is.[12] Nevertheless, we acknowledge the difficulties that the 1% fee cap may pose to providers and would see value in redefining the fee cap so that it gives more flexibility to providers while **ensuring that the Basic PEPP remains a highly cost-efficient pension savings solution**. Whatever solution can be found, it will need to be sufficiently demanding so that the PEPP challenges the status quo of the personal pension product market, not fit into that highly detrimental status quo. We shall develop this point further in our upcoming response to the targeted consultation of supplementary pensions.[13]

To ensure EU citizens have an effective access to the PEPP, allowing **full transferability** of accumulated pension savings from existing products to PEPP is essential, yet too few Member States allow such transfers.[14] Similarly, the **tax treatment of savings in PEPP** should be the same as that of national personal pension products, so that tax incentives do not unduly distort competition on the market.[15]

These reforms of the PEPP itself and its tax-treatment should also come with a thorough **review of the PRIIPs Key Information Document (KID)** provided to all prospective buyers of retail investment products, including personal pension products. The information contained in KIDs should be **simplified for better intelligibility**, and **made comparable**, with the display of **10 years of past performance** figures of the product and of an appropriate benchmark (in nominal net and real net terms), as well as **actual cost data**. A KID providing clear, comparable and reliable information on each personal pension product including the PEPP would improve transparency and empower pension savers to choose the product that is most cost-efficient considering their specific needs and objectives.

BETTER FINANCE strongly supports **opening the PEPP for use as an occupational pension product**. As previously stated,[16] BETTER FINANCE considers that the PEPP could be a solution for both large, cross-border employers looking for a standard, portable solution to offer pensions to their large workforce, but also a solution for SMEs looking for a cost-efficient and simple way to contribute to the pensions of their (few) employees.

We believe that the upcoming review of the PEPP Regulation should **explicitly allow employers' contributions to employees' PEPP** and should allow employers to offer PEPP as an individual employee benefit, a change that would not require any major change to the Regulation. In parallel, the review of the Regulation should also **introduce the possibility for providers to develop PEPPs that function as an occupational pension scheme**; we consider the plan for a **Pan-European Occupational Pension** (PEOP) product

[12] BETTER FINANCE, *Will You Afford To Retire? Edition 2024*.
[13] European Commission, *Supplementary Pensions Consultation*.
[14] Full transferability of pension savings across all personal pension savings (as is the case in France, for instance, since 2019) should actually be the norm, as this is the most effective way to ensure that investors are not "trapped" in an underperforming product when there is a better product available.
[15] EIOPA Occupational Pensions Stakeholder Group, *PEPP Market Development*.
[16] BETTER FINANCE, *The Future Pan-European Pension Product*.

put forward by EIOPA's Occupational Pension Stakeholder Group (OPSG) to be a good basis for discussion.[17]

Auto-enrolment

BETTER FINANCE strongly believes that **auto-enrolment into occupational funded pension schemes**[18] can be a powerful tool to enhance the adequacy of future pensions **if and only if certain conditions are met**.

The first of these conditions is that the **default pension plan** in which citizens or workers are enrolled to **offers high performance to its participants**. Considering the inertia of individual decisions regarding pensions, establishing auto-enrolment in a country before ensuring that there exists in that country a pension saving product that can serve as a satisfactory default option would possibly make governments the accomplices of a scam of massive proportions.

First, we believe that a collective pension saving scheme is a good candidate for the default pension scheme if it is **cost-efficient**, shows a **convincing performance track record** and has the **capacity to absorb a massive flow of new savings**. Second, the default scheme should include a **life-cycle asset allocation**, which has been proven to be in most cases the best solution to ensure an appropriately evolutive balance of risk and performance.[19]

The second necessary precondition is the existence of **opt-out options and possibilities to switch pension saving plan after the auto-enrolment**. Because even a good default pension scheme is unlikely to meet the specific requirements of *all* individual situations, enrolled workers should always retain the possibility either to exit the scheme or to switch to another scheme or plan that they deem better suited to their own situation. Such opportunity should be available at regular intervals and be proactively offered by the organisation administering the auto-enrolment scheme (which should either be a public administration or an organisation co-managed by social partners).

We advise **against setting up auto-enrolment systems in the third pillar** of pension systems. The choice of a personal pension product must remain a voluntary one, based on each individual's assessment of their needs and specific situations.

Pension tracking systems and pension dashboards

BETTER FINANCE strongly supports efforts towards the development of adequate national **Pension Tracking Systems (PTS)** and their interconnection within a European PTS.

[17] EIOPA Occupational Pensions Stakeholder Group, *Introducing the PEOP*.
[18] We focus on auto-enrolment in occupational pensions (Pillar II), considering that most public pension schemes, be these funded or pay-as-you-go, are mandatory, which renders the question of whether workers should be automatically enrolled somewhat irrelevant.
[19] Note that these conditions should also apply to any mandatory or quasi-mandatory public funded pension scheme (Pillar I-bis, e.g., Sweden's Premium Pensions).

Rue d'Arenberg 44, 1000 Bruxelles
+32 2 514 37 77
betterfinance.eu

PTS should cover all long-term investment products used for the purpose of retirement savings, and offer the user with information that is most relevant for retirement planning: net nominal (i.e., after costs) and real (after inflation) returns of accumulated pension savings, all fees levied for the management of these pension products, warnings from providers when they take decisions that might negatively affect future returns, etc.

Clear and effective information about accrued benefits into an occupational pension scheme as well as about the cost and performance of that scheme is essential for accurate pension planning. Unfortunately, in many cases, obtaining that basic information is virtually impossible for participants; many workers in the EU who have a workplace pension are barely aware of its existence, let alone of how much they have saved in it or how much they can expect from it. The **Pension Benefit Statement (PBS)**, introduced in the IORP II Directive, has been a powerful awareness-raising tool for IORP participants, but it remains under-exploited, particularly in the absence of a mandatory template that would standardise the information received by workers about all their occupational pensions. The inclusion of IORPs in PTS is a necessity to ensure these systems provide an accurate overview of one's accrued pension benefits (but is no substitute for the provision of a PBS) and can steer efforts to harmonise information disclosures across IORPs and across Member States.

Efforts towards developing PTS should be made under the **premise that such systems cover *all* pillars of the pension system**, including third pillar personal pension products and long-term investment products that, without formally being pension products, are effectively used for the primary purpose of retirement savings (e.g. life insurance in France). Rather than relying on the formal denomination of a product as a "pension" product, PTS could for instance include, like the German PTS, all long-term investment plans where the drawdown plan cannot start before the investor reaches or nears the statutory retirement age. Only then can PTS truly serve the purpose of retirement planning.

Rue d'Arenberg 44, 1000 Bruxelles

+32 2 514 37 77

betterfinance.eu

References

Andonov, A., "Pension Fund Asset Allocation and Performance", [PhD dissertation, Maastricht university, 2014. https://cris.maastrichtuniversity.nl/en/publications/a0f6b950-ee62-41cb-961a-447dde2c821b.

Bagliano, Fabio C., Carolina Fugazza, and Giovanna Nicodano, "Life-Cycle Portfolios, Unemployment and Human Capital Loss", *Journal of Macroeconomics*, Vol. 60, June 1, 2019, pp. 325–340. https://doi.org/10.1016/j.jmacro.2019.03.006.

Berardi, Andrea, Claudio Tebaldi, and Fabio Trojani, *Consumer Protection and the Design of the Default Option of a Pan-European Pension Product*, Swiss finance institute research paper, Geneva, February 1, 2018. https://papers.ssrn.com/abstract=3142243.

BETTER FINANCE, *Response to ESMA's Consultation on the Review of the UCITS Eligible Assets Directive*, Brussels, August 9, 2024. https://betterfinance.eu/publication/better-finances-response-to-esmas-consultation-on-the-review-of-the-ucits-eligible-assets-directive/.

———, *The Future Pan-European Pension Product: Realising PEPP's Potential for Pension Adequacy*, Position paper, Brussels, January 9, 2025. https://betterfinance.eu/publication/position-paper-pepp-potential-pension-adequacy-eu-retirement-savings/.

———, *Will You Afford To Retire? The Real Return of Long-Termn and Pension Savings 2024 Edition*, Brussels, November 6, 2024. https://betterfinance.eu/publication/will-you-afford-to-retire-2024/.

Boon, L. N., M. Brière, and S. Rigot, "Regulation and Pension Fund Risk-Taking", *Journal of International Money and Finance*, Vol. 84, June 1, 2018, pp. 23–41. https://www.sciencedirect.com/science/article/pii/S0261560618300561.

Cocco, João F., Francisco J. Gomes, and Pascal J. Maenhout, "Consumption and Portfolio Choice over the Life Cycle", *The Review of Financial Studies*, Vol. 18, No. 2, July 1, 2005, pp. 491–533. https://doi.org/10.1093/rfs/hhi017.

EIOPA Occupational Pensions Stakeholder Group, *Discussion Paper on Introducing the Pan-European Occupational Pension Product (PEOP)*, European Insurance and Occupational Pensions Authority, Frankfurt-am-Main, May 16, 2024. https://www.eiopa.europa.eu/document/download/38214c41-e924-40ec-87c0-94b3315a2d26_en?filename=OPSG-24-10_Discussion%20Paper%20on%20Introducing%20the%20Pan-European%20Occupational%20Pension%20Product.pdf.

———, *Pan-European Pension Product: Market Development, Challenges, Obstacles, Solution*, Own-initiative OPSG Discussion Paper, European Insurance and Occupational Pensions Authority, Frankfurt-am-Main, July 31, 2024. https://www.eiopa.europa.eu/document/download/88c75466-65ac-422c-a0bd-0c0b178db8fb_en?filename=OPSG-2024-21%20OPSG_Own-initiative%20Discussion%20Paper%20on%20Pan-European%20Pension%20Product%20-%20Market%20development%2C%20Challenges%2C%20Obstacles%2C%20Solutions.pdf.

European Commission, *Targeted Consultation on Supplementary Pensions 2025*, Consultation paper, Brussels, June 13, 2025. https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-supplementary-pensions-2025_en.

European Insurance and Occupational Pensions Authority, *Pan-European Personal Pension Product (PEPP): EIOPA's Stochastic Model for a Holistic Assessment of the Risk Profile*

and Potential Performance, Frankfurt-am-Main, August 14, 2020. https://www.eiopa.europa.eu/system/files/2020-08/eiopa-20-505_pepp_stochastic_model.pdf.

Rue d'Arenberg 44, 1000 Bruxelles

+32 2 514 37 77

betterfinance.eu