PensionsEurope's contribution to High Level Report on the future of the Single Market

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1) Contribution of pension funds to the economy?

- Pension funds are key institutional investors, which represent the demand-side on the financial markets. Since their members usually save decades until they retire, pension funds invest with a long-term horizon.
- Pension funds are cross-border investors, with 2.468 trillion euros of assets for EEA institutions for occupational retirement provision (IORPs) at the end of Q3 2023.
- In several Member States. pension funds are forerunners in the endeavour to contribute to climate and UN sustainable development goals.

2) What role can pension funds play vis-à-vis participants?

- The Dutch pension system scores number one in the latest Mercer index, closely followed by the Danish system; on pension adequacy the Dutch pension system scores 2nd.
- The Netherlands has one of the lowest percentages of elderly at risk of poverty or social exclusion of all Member States of the EU, and pensions are high in terms of replacement rates.
- AFME reports in its 2022 report on CMU Key performance indicators that the Netherlands, Denmark, and Sweden are the countries with the deepest pools of capital relative to GDP.

3) How can pension funds be developed further in the EU?

- We should **increase pension savings by citizens** that do not yet have access to good pension systems; while more competition in mature markets sounds attractive, but it not deliver more savings and therefore also not more investments.

- **Procrastination** is the biggest limiting factor to increasing savings for pensions; most people associate pensions with complexity, illness, and death and it is extremely long-term; "*I will think about that later!*".

- **Funded pensions** need to overcome this procrastination; several approaches can work:
    - A. **Compulsory participation** is by far the most effective approach, but not easy to introduce politically.
    - B. **Auto-enrolment with opt-out** is a close second; The UK recreated a new pension system incrementally, starting with large companies and very low premiums; increasing both the scope of employers and the level of premiums; Ireland is quite far on this way as well; introducing auto-enrolment is easier. It is important that contribution levels are sufficient for adequate pensions.
    - C. Thirdly, as is provided by most funded national pension systems, it is necessary to provide attractive **tax incentives**; the lack of those is probably one of the most important factors impeding the uptake of the PEPP.
    - D. Fourthly, **financial literacy**; If citizens would both better understand why one should start saving for pensions early, *and* would have easy access to reliable, impartial, and non-commercial information about their personal pension situation, it becomes easier to overcome procrastination; national pension tracking systems in several Member States provide easy access to this kind of information.

- What **policy measures** could be taken?
    A. Collective labour agreements between social partners could be an appropriate vehicle to introduce compulsory participation.
    B. **The Commission** published in November 2021 a "report on Best practices and performance of auto-enrolment mechanisms for pension savings". Auto-enrolment has proven to be a viable policy option to increase pension coverage as shown in this report. Therefore, the latter could be part of country-specific recommendations, prepared by the Commission and endorsed by Member States within the European semester cycle.
    C. Tax law and social law are still very different between Member States which makes EU measures complicated, but **at the national level,** it should be possible to introduce effective tax incentives that fit the institutional set-up within the Member State concerned.
    D. EIOPA provided **the Commission in November 2021, an** advice on national pension tracking. This could be a basis for a recommendation and national pension tracking systems should be combined into a European pension tracking system.

- **Who should take measures?** An integrated or decentralised approach?
    A. The French-German roadmap for CMU mentions the potential of a *bottom-up approach* and the letter of the President of the Eurogroup to the President of the Euro Summit, adds to this *sharing of best practices* between Member States.
    B. Given the diversity of national pension, labour, and tax law, indeed a bottom-up approach starting at the national level may have a better chance for success;
    C. EIOPA has already provided **the Commission** advice on setting-up a "Pension Dashboard" for policymakers that should help the Commission and Member States, to have a more informed and objective way of comparing the success of different national pension systems.
    D. The 2017 **European Pillar of Social Rights** stipulates on old age income and pensions:

    > *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. Everyone in old age has the right to resources that ensure living in dignity.*

The EU has set a few specific targets to be achieved based on the European Pillar, but as yet not on better pensions, but "*What gets measured, gets done*".

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes. PensionsEurope has **25 member associations** in 18 EU Member States and 3 other European countries[1].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents **€ 7 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **18 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

What PensionsEurope stands for

- A regulatory environment encouraging workplace pension membership;
- Ensure that more and more Europeans can benefit from an adequate income in retirement;
- Policies which will enable sufficient contributions and good returns.

Our members offer

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often "not-for-profit" and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

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[1] EU Member States: Austria, Belgium, Bulgaria, Croatia, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden. Non-EU Member States: Iceland, Norway, Switzerland, UK.