PensionsEurope Report 2024 – Trends and developments in funded pensions

May 2025

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Foreword from the Chair

As Chair of PensionsEurope, the leading voice on workplace pensions in Europe, I am pleased to present the *PensionsEurope Report 2024 – Trends and Developments in Funded Pensions*. This report analyses recent developments across Europe in occupational pensions, reflecting significant changes since our previous edition.

The ECB started in June 2024 a new cycle of interest rate decrease given the disinflation process[1], but this soon could change because of the reconfiguration of the global and European economic environment.

The current geopolitical context, with the increase in defence spending, might push up European interest rates and inflation in the context of a loosening of European fiscal rules[2]. The new US administration and its related protectionism are also negatively impacting global stock markets and darkening the economic growth projection.

Pension funds must navigate through this very high uncertainty to mitigate potential negative effects to ensure the financial security of their members and beneficiaries.

European pension systems remain diverse, shaped by unique cultural, historical, and political factors, and are deeply rooted in national social, labour, and tax laws. Across EU member States, retirement benefits typically consist of state pensions, occupational pensions, and personal pension products, with the 1st pillar pay-as-you-go system still representing a major source of income for pensioners in the majority of EU member States.

However, demographic pressures, particularly the increasing old-age dependency ratio[3], continue to challenge public pension systems. Pay-as-you-go systems are facing challenges in maintaining financial sustainability while economic growth and employment in the EU are slowing down.

Therefore, we believe that occupational and personal pensions should play a bigger role in providing decent and stable retirement benefits for pensioners. Against that background, we note the EC focuses[4] on developing supplementary pensions that can foster potential positive changes through EU Member States, but also needs to properly consider national contexts. Given the diversity of IORPs and other types of pension funds across Europe, any "*one size fits all*" approach would not work.

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[1] On 6 March 2025, the ECB cuts its interest rates for the sixth time in nine months, this time by 25 basis points for the three key ECB rates.

[2] On 19 March 2025, the EC published a communication about the activation of the national escape for the Stability and Growth Pact to avoid triggering the Excessive Deficit Procedure (EDP) for defence spending. This is aligned with demands expressed by MSs such as Germany.

[3] See annex 2 on geographical challenges

[4] On 19 March 2025, the EC published a communication on a Savings and Investment Union.

I extend my warmest thanks to Thibault Paulet for his dedicated work on this report. I trust that you will find the insights within both informative and beneficial.

Klaus, Former interim Chair of PensionsEurope 

13 May 2025

Executive summary

Through our member associations, PensionsEurope represents around €6,1 trillion of assets managed for future pension payments in Europe. In 2020, when the ECB and EIOPA started collecting granular quarterly data from pension funds, PensionsEurope stopped gathering portfolio data from its members to avoid increasing pension funds' already high reporting burden.

The ECB statistics provide a lot of relevant information, addressing autonomous pension funds as defined by the European System of National Accounts (ESA 2010). It covers financial entities separated from the units that created them. Non-autonomous pension funds, pension plans offered by insurance companies, and social security schemes are not captured by the ECB regulation on Pension Funds[5].

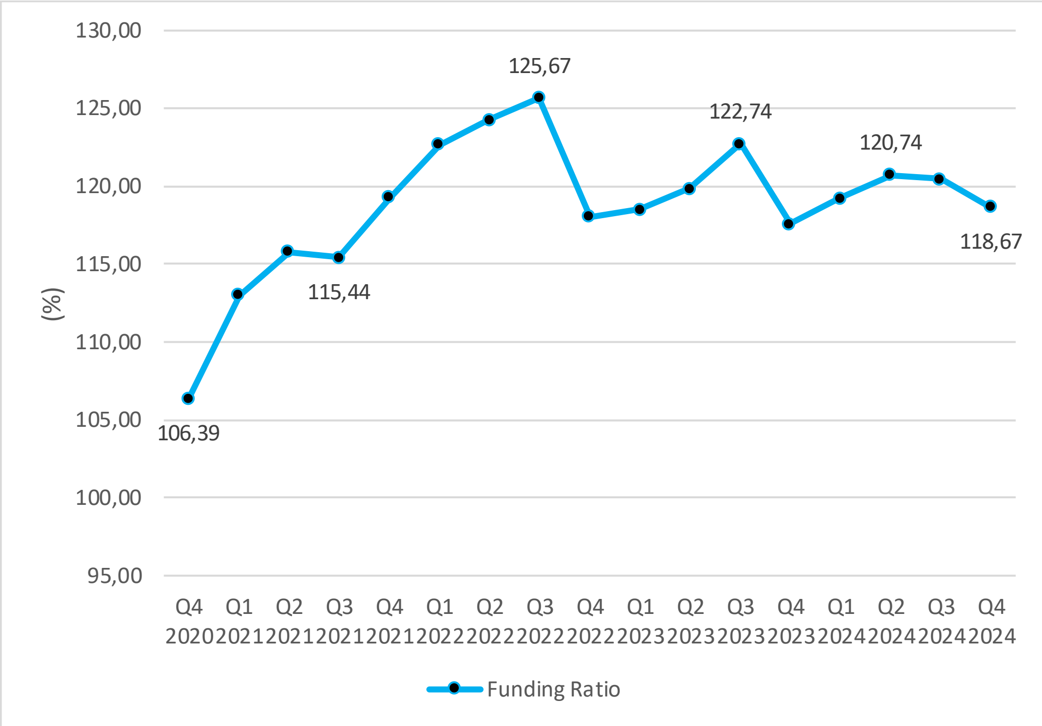
This 2024 PensionsEurope report mainly uses the ECB quarterly data on the developments of assets and liabilities of euro area pension funds, as our members have acknowledged that they provide a good picture of the trends of our sector. Therefore, similarly to our last report, we are using mainly ECB data and relying on them to assess the evolution of pension funds' assets and liabilities. However, we use EIOPA data to report on the funding ratio trends to distinguish between DB and DC assets.

Since the end of Q4 2020, the aggregate funding Ratio for European Economic Area (EEA) DB IORPs has consistently been above 100%. The lowest ratio was 106,39% in Q4 2020, and the highest ratio was 125,67% in Q3 2022 (see Figure 1). The respective evolution of assets and liabilities explains those developments. For instance, with the increase in interest rates that occurred in early 2022 in a post-pandemic environment, the liabilities of pension funds have decreased more than their assets[6] to reach the highest funding ratio mentioned above.

[5] See the FAQ on the ECB regulation on Pension Funds

[6] This is the consequence if risk-free interest rates are used as discount rates.

Figure 1: Aggregate Funding Ratio for EEA DB IORPs[7] Q4.2020-Q4.2024



Data by EIOPA and Chart by PensionsEurope

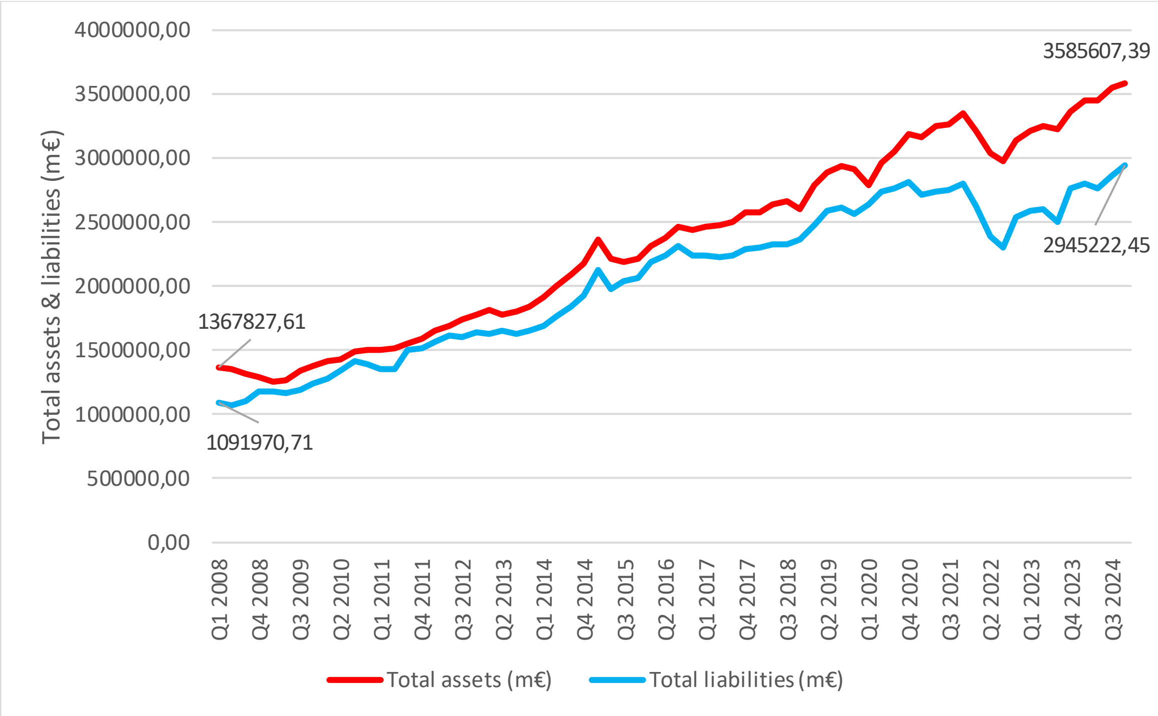
At the end of 2024, the total assets of euro area pension funds amounted to €3,586 trillion, while the liabilities amounted to €2,945 trillion (see Figure 2). The biggest asset category for pension funds was the holdings of investment fund shares, with €1400,265 bn, followed by the holdings of debt securities, with €1040,240 bn.

Therefore, compared to Q1 2008, pension funds' assets increased by 162,2% (or an increase of €2,218 trillion in assets) explained by several market developments in the stocks and bond markets and an increase of members but also additional assets that were previously categorised under the insurance data ECB category[8].

One major trend is the substantial increase in equity holdings. Between the end of Q4 2020 and the end of Q4 2024, equity holdings increased by 114,78% (€264 bn) from €230 bn to €494 bn, reflecting first and foremost the positive price changes driven by booming stock markets in the US.

[7] See EIOPA, Occupational pensions statistics
[8] For France for instance, see Annex 3.

Figure 2: Assets and liabilities of euro area pension funds Q1.2008-Q4.2024



Data by the ECB and Chart by PensionsEurope

PensionsEurope will publish its next report in early 2027.

1. PensionsEurope statistics

In 2020, when the ECB and EIOPA started collecting granular quarterly data from pension funds, PensionsEurope decided to stop gathering portfolio data from its members in order not to increase pension funds' already high reporting burden. However, we continue to collect some basic information from our members on a higher level.

Pension funds manage significant assets in Europe and globally. While the global pension fund assets are over US$56 trillion[9], through our member associations PensionsEurope represents[10] close to €6,1 trillion of assets managed for future pension payments in Europe.

PensionsEurope Member Associations represent:

PENSION PLANS (Only the 2nd pillar)	
Total assets:	€ 4428,18 bn
Number of Members[11]:	55 862 578
Number of Beneficiaries[12]:	56 197 540
BOOK RESERVES	
Total assets:	€ 925,82 bn
Number of people covered:	14 529 523
GROUP INSURANCE	
Total assets:	€ 341,82 bn
Number of people covered:	12 472 014
THE 3RD PILLAR PERSONAL PENSIONS	
Total assets:	€ 407,89 bn
Number of people covered:	39 485 415
ALL PENSION ARRANGEMENTS	
Total assets:	**€ 6103,71 bn**

The Annex 1 of this report contains information on various occupational pension statistics.

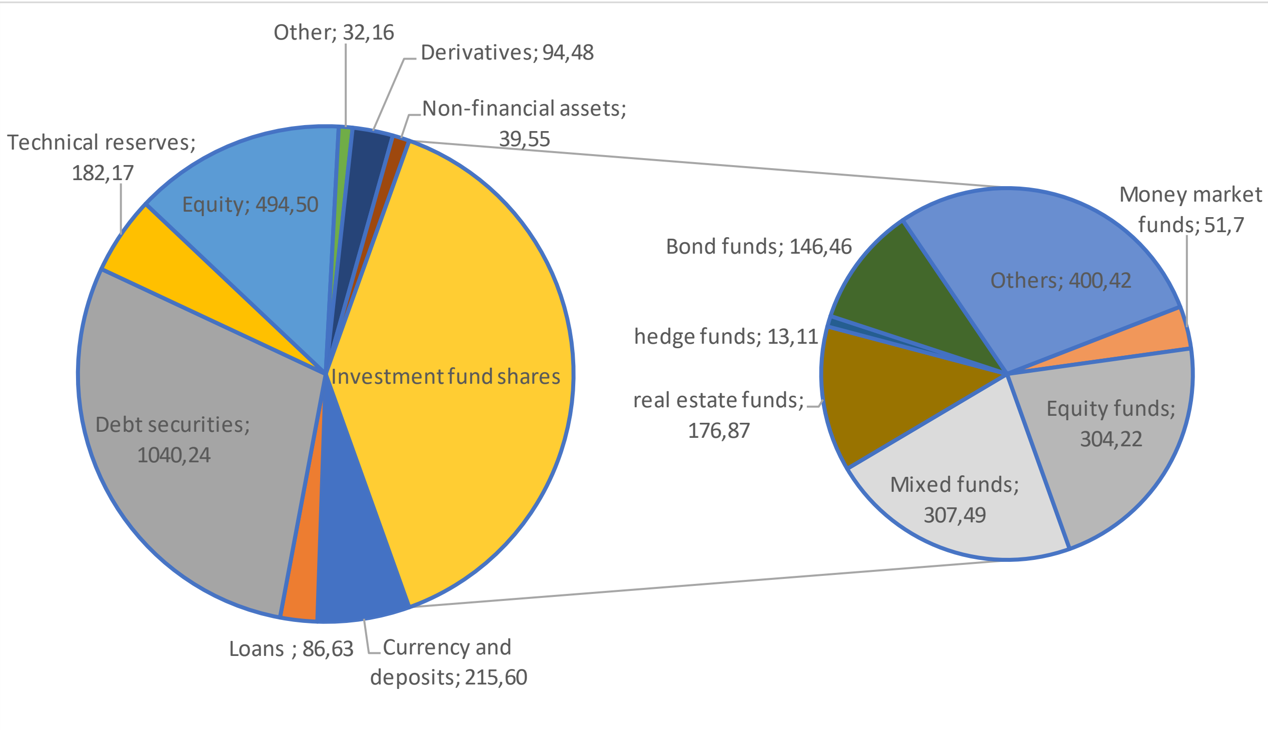
[9] See OECD Pensions Outlook 2024, December 2024
[10] The reference date is at the end of Q3 2024, but some data comes from different quarters
[11] The number of Members might contain some double counting.
[12] The number of Beneficiaries might contain some double-counting.

2. Pension funds' assets

When assessing the development of pension funds' assets, particularly the ECB statistics give a lot of valuable information. In 2022, PensionsEurope's members analysed the ECB data, and they confirmed that the ECB statistics give a good picture of the developments across Europe[13]. That is the reason why in the assessment below, we mainly use the ECB quarterly data on the developments of assets of euro area pension funds, even though not all of our members are included in the ECB data[14].

At the end of Q4 2024, the total assets of euro area pension funds were €3,586 trillion[15]. Investment fund shares accounted for 39% of the total assets, while the second largest category of holdings was debt securities (29%), followed by equity (14%). According to a very rough estimation, all the direct and indirect holdings of public and private equity by euro area pension funds are around 42% of their all assets, including investments in: equity fund shares (€304,22bn; 8%), equity (€494,50 bn; 14% of all assets), and mixed, hedge, and 'other' funds.

Figure 3: Assets of euro area pension funds (bn euro), Q4 2024



Data by the ECB and Chart by PensionsEurope

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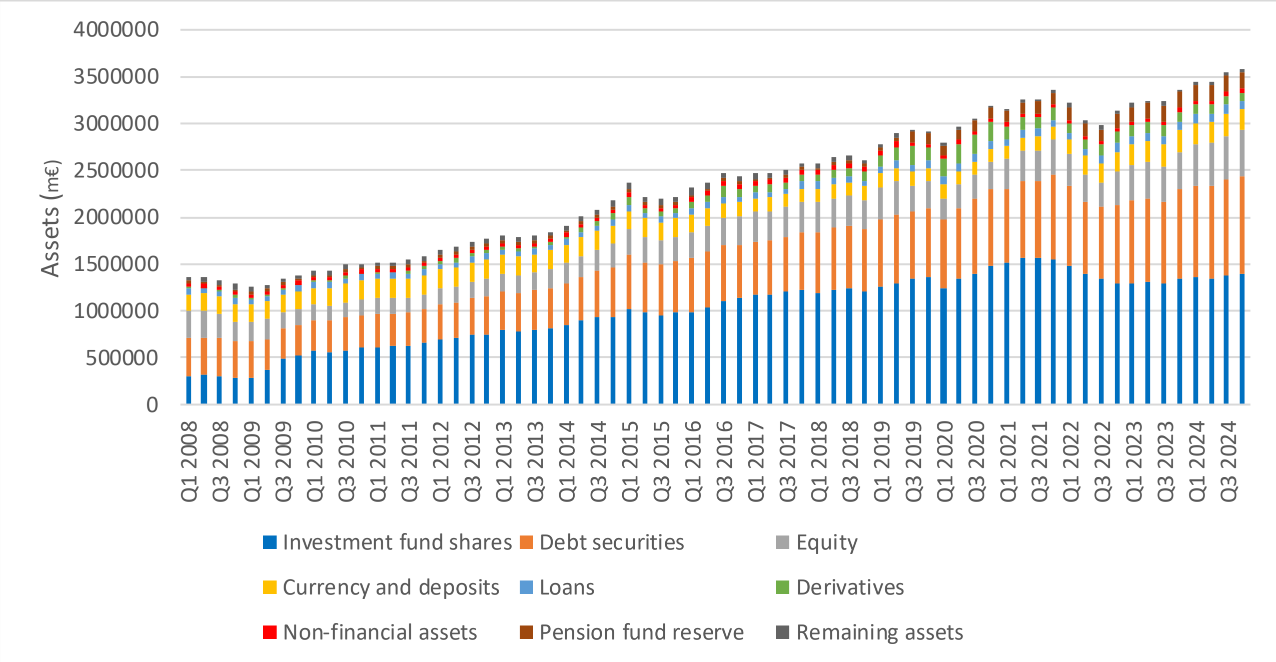
13 PensionsEurope Report 2022, November 2022
14 We have members from non-Euro EU (Sweden), EEA countries (Norway, Iceland), and from Switzerland.
15 If we use EIOPA IORP reporting data as a proxy for the assets of Swedish pension funds (EIOPA data only provides data on IORPs), the total of assets for the euro area and Sweden would be €3,87 trillion, as Swedish IORPs represent €282,78 bn in assets at the end of Q4 2024.

Between the end of Q1 2008 and the end of Q4 2024, the holdings of investment fund shares by pension funds have increased from 23% of their total assets to 39,05%. At the same time, pension funds have relatively decreased their direct investments in equities from 21% to 13,79% of all assets (Figure 4).

Figure 4: Assets of euro area pension funds, Q1 2008- Q4 2024



Data by the ECB and Chart by PensionsEurope

Euro area pension funds' holdings of debt securities have varied from 22,77% (at the end of Q1 2013) to 32,02% of all assets (at the end of Q1 2009), being 29,33% at the end of Q1 2008 and 29,01% at the end of Q4 2024. Defined benefit (DB) pension plans have been obliged to invest a certain amount of their assets in 'safe assets', such as sovereign bonds. The end of the low interest rates environment in the second half of 2022 made government bonds more attractive for pension funds and other institutional investors which can explain why pension funds increased their exposure to debt securities in their portfolio from 25,41% (at the end of Q2 2022) to 29% (at the of Q4 2024).

The transition from DB to Defined Contribution (DC) in the Netherlands, which represents a substantial portion of the assets of the whole euro area (53,37% at the end of Q4 2024) is also likely to impact the future asset allocation of pensions funds with more investment in equity and less demand for long duration interest rate swaps[16]. Based on the Dutch Future on Pensions Act, the transition from DB to DC will be completed by 1 January 2028[17].

[16] See The structural impact of the shift from defined benefits to defined contributions, April 2021
[17] See the Dutch Future on Pensions Act, 3 June 2023

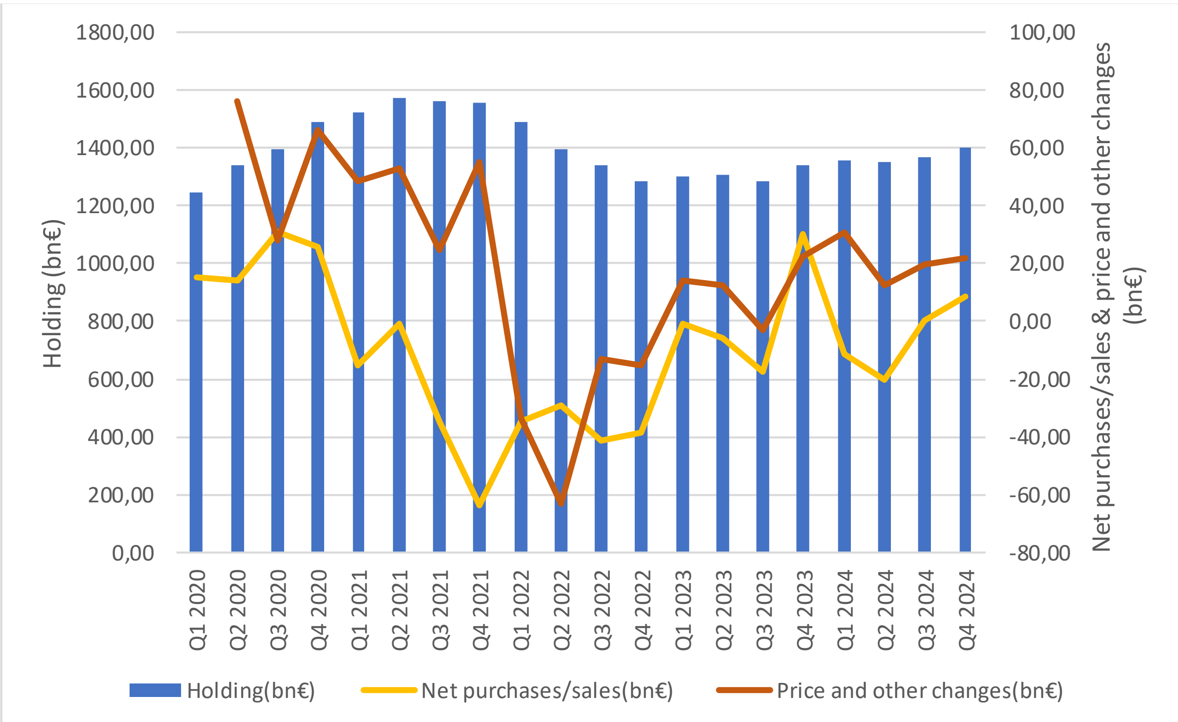
Euro area pension funds' holdings in derivatives have changed from 0,21% (at the end of Q2 2008) to 2,63% (at the end of Q4 2024) of the total of all assets, being below or close to 2% between 2009-2014, after which their share of pension funds' holdings started increasing, reaching a maximum of 5,73% (at the end of Q2 2020).

Please find the following subsections for a deeper analysis of the developments of pension funds' investments in derivatives, investment funds, debt securities, equities, and other asset classes.

2.1 Investment funds

Between the end of Q1 2008 to the end of Q4 2024, the holdings of investment fund shares increased by 354.55 % from €308 bn to €1400 bn. From the end of Q2 2021 to the end of Q3 2023, holdings of investment funds decreased by €287 bn with a combination of net sales, negative prices, and other changes. In 2024, positive price gains and other changes offset net sales or close-to-balance sales to reach a moderate increase of €42 bn between the end of Q1 2024 and the end of Q4 2024. In 2024, increased holdings can be explained by the good performance of the stock market, especially the US stock market, and because equity funds are one of the largest shares of the pension funds´ holdings within investment funds (see below).

Figure 5: Assets of euro area pension funds, investment fund shares Q1 2020- Q4 2024



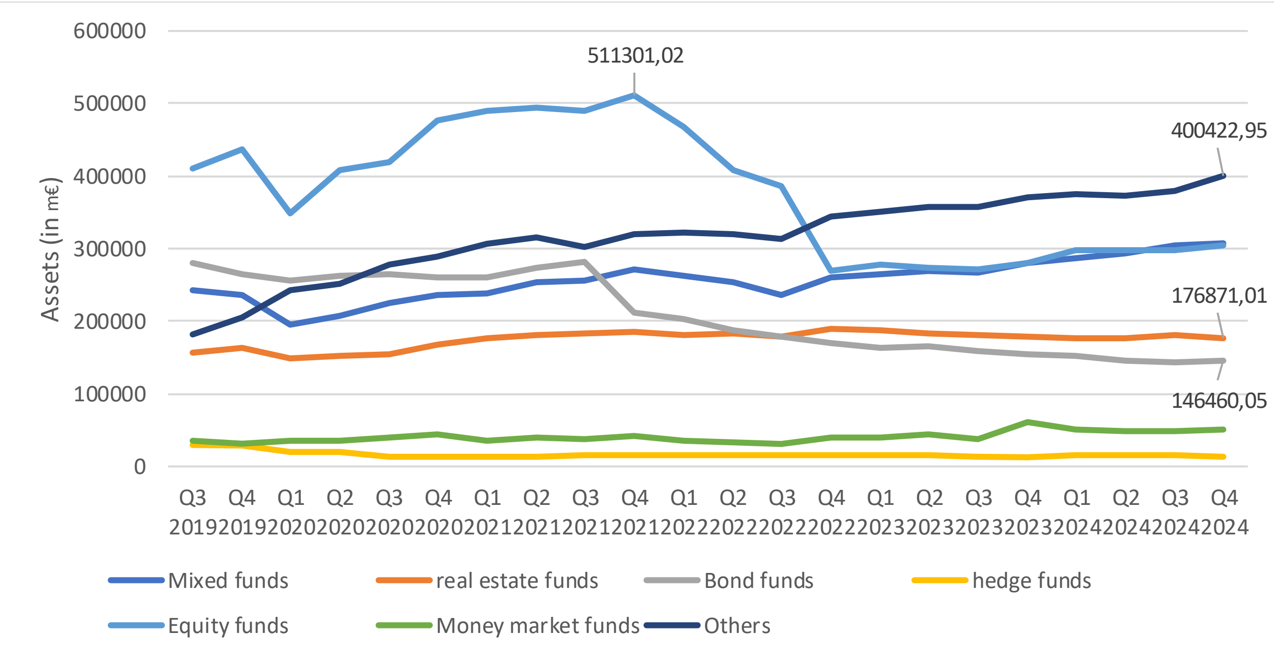
Data by the ECB and Chart by PensionsEurope

Pension funds invest in investment funds to benefit from geographical diversification with low fees. It allows them to have indirect economics of scale when it is not possible to have in-house investment solutions.

Over the past years, one of the largest shares of the pension funds´ holdings within investment funds has been equity funds, which accounted for 21,7% (€304 bn) at the end of Q4 2024. However, equity shares of the pension funds´ holdings within investment funds decreased substantially during 2022, with a figure at the end of Q4 2022 (€269,60bn) that was close to the figure for mixed funds (€259,63bn) (see figure 6).

Mixed funds accounted for 22% (€307 bn) pension funds´ holdings within investment funds at the end of Q4 2024. Such funds can be invested in equities but also in combination with other asset classes such as bonds, real estate, and cash. They offer higher diversification compared to investment funds focusing on a single class of assets, such as investment funds in bonds, equities, or real estate.

Figure 6: Assets of euro area pension funds, investment fund shares, Q3 2019- Q4 2024



Data by the ECB and Chart by PensionsEurope

'Other' funds represent the first largest share, 28,6% (€400,4 bn) at the end of Q4 2024, which has been significantly growing (relatively and absolutely) during the last years. they consist of investments in different types of assets that include some alternative assets:

- Private equity funds;
- Mortgage funds;
- Infrastructure;
- Commodity funds;
- Loan funds.

Most private equity funds, including venture capital funds, are classified as equity funds, if they primarily invest in equity, or as other funds, if they largely invest in unlisted companies, e.g. via loans or participations[18].

At the end of Q4 2022, the holdings in real estate funds (€190 bn) began to exceed the holdings in bond funds (€170 bn), becoming the fourth largest share of investment fund. The holdings in real estate amounted to €177bn at the end of 2024 or 12,6% of the total pension assets in investment funds. Especially for DB schemes, it can contribute to a good ALM strategy while providing good returns.

Between the end of Q3 2021 and the end of Q4 2024, the holdings of bond funds have dropped by 51,5% from €301 bn to €146 bn (see the reasons in the following section on debt securities) and also their relative share in investment fund shares has slightly dropped (from 11,65% to 10,45%).

Furthermore, pension funds' second smallest share within investment funds remains in money market funds (3,7% / €52 bn) at the end of 2024. They are fixed-income mutual funds that invest in highly liquid assets with a low level of risk like cash, cash equivalents, and high-rated debt-based securities characterized by short maturities. When inflation is rising, the benefit of money market funds is that they enable pension funds to benefit more quickly from higher yields when rates rise.

Hedge funds still represent the smallest share of pension funds' shares in investment funds, 0,9% (€13 bn). Their share in pension funds' portfolios has been continuously decreasing between the end of Q3 2019 and the end of Q4 2024 both in relative and absolute terms. One explanation could be the performance of hedge funds and the high fees charged by hedge funds[19].

2.2 Debt securities

Euro area pension funds holding in debt securities reached €1,040 bn at the end of Q4 2024, which is a substantial increase from €723 bn (+43,85%) compared to the end of Q1 2020 (see figure 7).

Government bonds with long maturities are a standard asset category for pension funds, especially DB pension funds, given that they are liability-driven businesses with long maturities. For instance, at the end of Q2 2020, of the total of debt securities held by euro area pension funds, 96% had original maturities of over one year[20].

This is why EU bonds that the EC is issuing under its recovery programme (Next Generation EU) are a type of asset in which DB pension funds are interested, especially given their good credit ratings[21].

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[18] See subsection 4.2 of the report for a picture of Dutch pension funds' assets in private equity.

[19] See Hedge Funds: A Poor Choice for Most Long-Term Investors?, Richard M. Ennis, CFA, June 2024

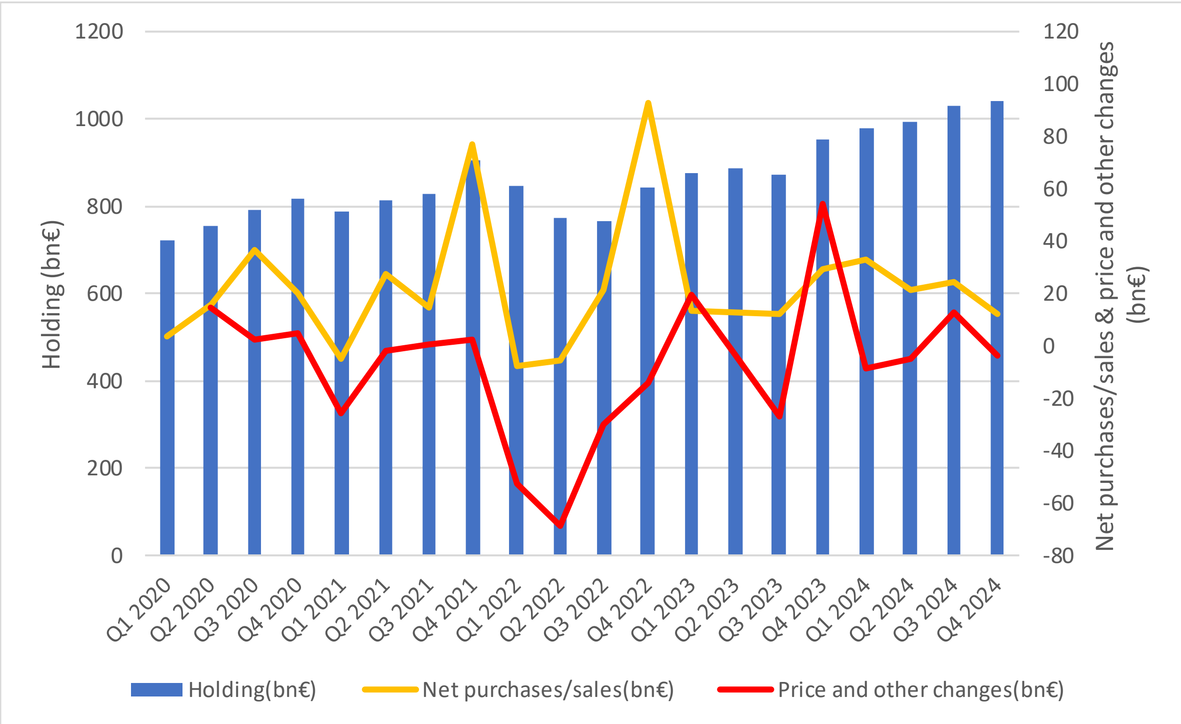
[20] See Economic Bulletin Issue 7, ECB, 12 November 2020

[21] See EU bonds ideally suited for pension funds, PGGM, 22 January 2021

Debt securities can be categorised into two categories as corporate or government bonds. Broadly speaking, market conditions such as the changes regarding interest rates and some reallocation of assets can explain the different variations between the end of Q1 2021 and the end of Q4 2024. For instance, there are notable peaks in net purchases at the end of Q4 2021 (+€77 bn) and Q4 2022, (+€93 bn) which correspond to periods of favourable market conditions or strategic reallocation of assets. However, prices and other changes impacted differently the two periods with a positive impact at the end of Q4 2021 of €2,4 bn and a negative impact of €14 bn at the end of Q4 2022.

After the end of 2022, the post-pandemic environment and the end of the low or negative interest rates environment in the EU showed an almost constant increase of debt securities holding from €764 bn at the end of Q3 2022 to €1,040 bn at the end of Q4 2024, with many net purchases of debt holding such as €32,9 bn at the end of Q1 2024.

Figure 7: Assets of euro area pension funds, debt securities Q1 2020- Q4 2024



Data by the ECB and Chart by PensionsEurope

The high inflation environment that started at the end of 2021 in the EU, resulting from exogenous factors such as high energy prices and endogenous ones such as the accommodative monetary policy of the ECB and supply chain disruptions, has had various impacts on DB and DC schemes.

To mitigate the potential negative impacts of inflation, DB pension funds can purchase index-linked bonds, but this exposes them to other types of risks, such as liquidity and market risks,[22] because those bonds have lower liquidity risk than fixed-rate bonds. The supply of index-linked bonds is also limited.

[22] See Own-initiative OPSG Advice, Low Interest rates & low expected returns, May 2024

For these reasons, these obligations are marginal and, as an example, account for €12,6bn at the end of Q4 2024 for the Dutch pension funds, down from €20,2bn at the end of Q1 2022[23].

For DC schemes, a similar strategy can be used. In addition, during the decumulation phase, the inflation risk can be addressed with inflation-adjusted annuities or with the optimisation of the retirement withdrawal strategy to reduce or increase withdrawals at certain times.

Inflation began to decline in November 2022, partly because of a stricter ECB monetary policy that started to be implemented in July 2022 by raising key interest rates. Then, in June 2024, the ECB started to ease its monetary policy by lowering the key interest rates, with the decision of the ECB Governing Council taken on 6 March 2025, given that the "*disinflation process is well on track*"[24]. On 19 March 2025, this trend was confirmed as Eurostat published its last figures for the annual inflation. Indeed, the statistical office of the European Union announced that '*the euro area annual inflation was 2,3% in February 2025, down from 2,5% in January 2025*'[25].

2.3 Equities

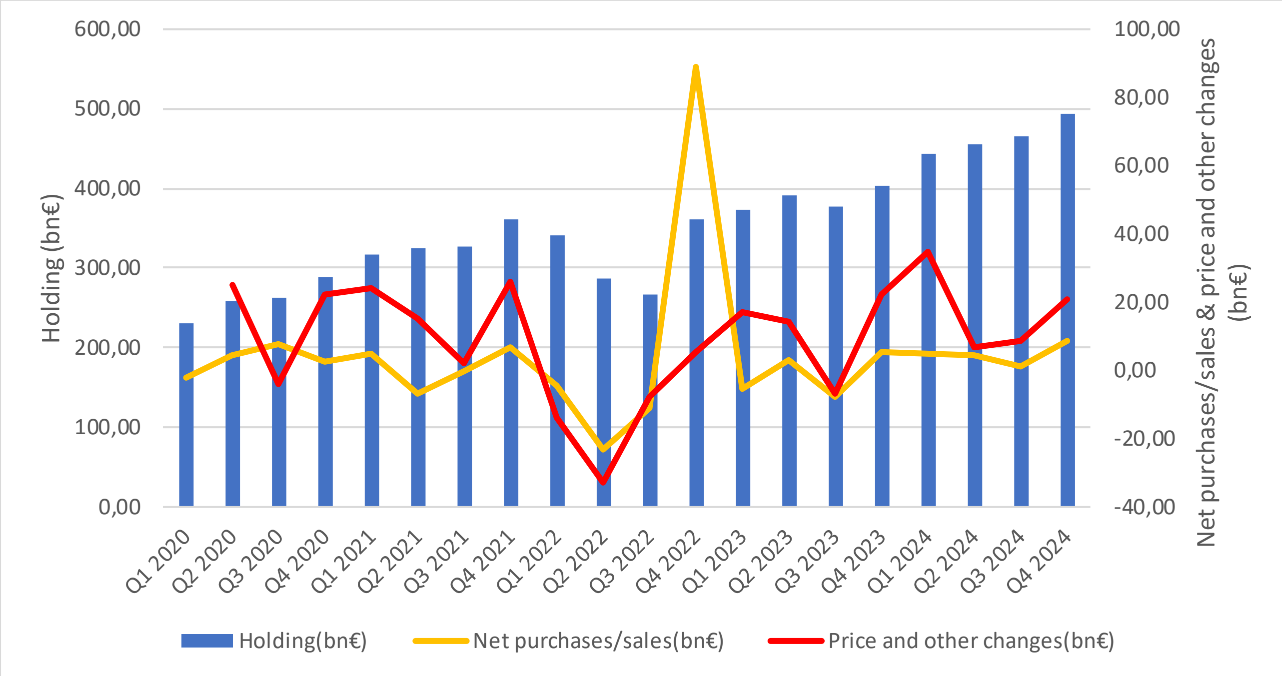
Until the end of 2024, the stock markets provided good returns for pension funds, especially in the US, with the S&P 500 having an average return of 25% in 2024, the second year in a row with a return above 20%[26]. Between the end of Q4 2020 and the end of Q4 2024, the holdings of equity increased by 114,78% (€264 bn) from €230 bn to €494 bn, and also the net purchases (€83 bn) and mainly price and other changes (€179,47 bn) of equity were positive.

The principle of diversification also applies to equity investments of pension funds, and this is why equity exposure of pension funds to dynamic regions such as the US is high, also because the market capitalisation of US businesses grew substantially in the past years, with the rise of tech companies. As a result, Dutch pension funds hold €254 billion in US-listed equity at the end of Q4 2024[27].

In 2023 and 2024, most major stock markets have been in the bull market territory, with the STOXX Europe 600 index having a 15,8% return in 2023 and 8,8% in 2024, while the NASDAQ index had a return of 49,3% in 2023 and 33,6% in 2024. Between the end of Q4 2022 and the end of Q4 2024, the holdings of equity increased by 36,46% (€132 bn) from €362 bn to €494 bn, and also the net purchases (€104,01bn) and price and other changes (€123,13 bn) of equity were positive.

[23] Data from the Dutch National Bank (DNB), Assets invested at pension funds' own risk
[24] See ECB, Monetary policy decisions, ,6 March 2025
[25] See Eurostat, Euro indicators, 19 March 2025
[26] See RBC, US equity returns in 2024: Premium performance, 9 January 2025
[27] See De Nederlandsche Bank, Dutch pension funds invest heavily in US companies | ,11 March 2025

Figure 8: Assets of euro area pension funds, equities Q1 2020- Q4 2022



Data by the ECB and Chart by PensionsEurope

Before and during the Covid-19 crisis, unconventional monetary policy measures with large-scale asset purchases strongly supported the stock market[28] as the different quantitative easing programmes implemented by the ECB and the FED were reflected in stock market prices.

The end of the asset purchase programmes by the ECB and the FED at the beginning of 2022 did not stop the stock markets' boom in 2023 and 2024, but rather the opposite, as explained above.

The stock market correction since early 2025, due to large economic and political uncertainty, derived from the new US administration policy measures, has halted the stock market boom.

2.4 Derivatives

For pension funds, an integral part of their risk management approach is to use financial derivatives to manage their financial solvency risk, as their liabilities have long maturities and thus are sensitive to interest rate risk when liabilities are discounted using swap rates. They do not use derivatives for speculative purposes but to reduce the risk of retirees receiving a lower pension income, aligning with the prudent person principle.

In their strategic investment strategy, pension funds also invest in long-maturity government bonds to hedge their liability risks (see the debt securities section above), but their ability to hedge such risks sufficiently with these bonds is limited as the market is not deep enough to match long-dated

[28] See Aapo Salmela, Stock market effects of unconventional monetary policy, 2023

liabilities. Derivatives have the advantage of being available, and for longer maturities. Moreover, they can also be structured to match the dates of pension funds' liabilities more precisely, which is usually not possible with government bonds[29]. Furthermore, pension funds also manage their currency risk through derivatives.

As for the rest of the report, which mainly uses ECB pension funds statistics, we present derivatives developments with those data. However, ECB statistics only present the book value of derivatives, not the notional value, and thus the magnitude of risks that are hedged.

In the ECB pension funds statistics, transactions regarding derivatives are almost always negative. When a derivative has a positive value, it is reported on the asset side, while when a contract has a negative value, it is reported on the liability side. Furthermore, when a contract is terminated or sold, there is a negative transaction. And when a derivatives contract is acquired, it usually has zero or very low value[30].

In the euro area, at the end of Q4 2024, Dutch pension assets in financial derivatives account for 99,42% of the euro area pension funds' assets in financial derivatives (€93,93bn out of the total €94,48 bn). Spanish pension fund assets in derivatives accounted for €282m in the same period, German pension fund assets in derivatives for €41 m, while Irish pension fund assets in financial derivatives accounted for €38,57m.

Beyond the euro area (and within Pensions Europe's membership), pension funds in Norway (IORPs by €58,30m at the end of Q3 2024), Sweden (IORPs by €2,28bn at the end of Q3 2024) also use derivatives[31].

Since the end of Q3 2020, pension funds' assets in derivatives have significantly decreased by 46,13% from €204,8 bn to €94,48 bn (Figure 8). This drop has been driven by changes in interest rates, as most of the derivatives are interest rate swaps and forward rate agreements. When interest rates increase, the value of interest rate derivatives decreases. On the contrary, when the value of interest rate derivatives increases, it partly compensates for the higher present value of future pension liabilities.

Looking at some detailed derivative data from EIOPA on IORPs, it is challenging to get information on the type of derivative contract, notional amounts, and the underlying assets[32]. Available data for those is scarce. EIOPA surveyed the national competent authorities of the EEA and indicates that "*often CAs responded that IORPs do not use a certain type of derivative or that an indication is not available*" and "*CAs also frequently indicated that the notional value of the derivatives is below 5% of IORPs' assets*".

However, EIOPA also highlights that the Dutch Central Bank reports that notional values of derivatives exceed 20% of IORP's assets as regards foreign exchange and interest rate derivatives. The Italian

[29] See Jansen-Klinger-Ranaldo-Duijm, Pension Liquidity Risk, 21 March 2024

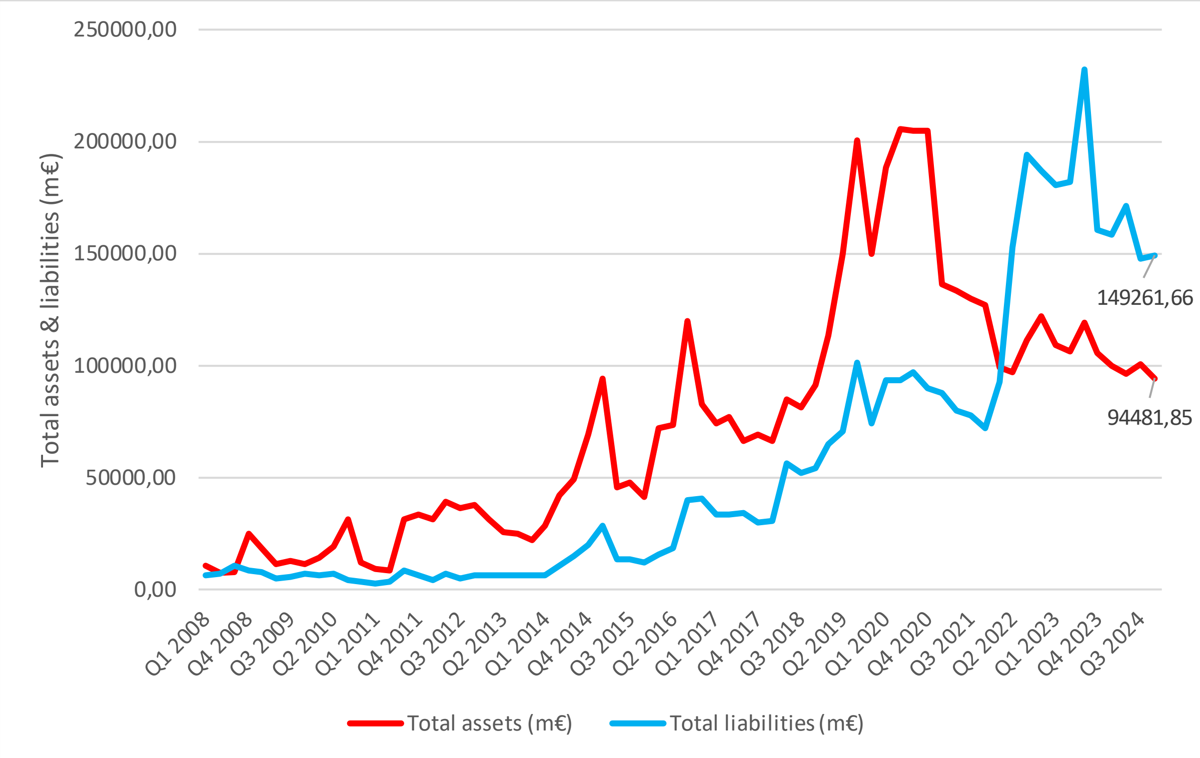
[30] See PensionsEurope, PensionsEurope Report 2022- Trends and developments in funded pensions, November 2022

[31] See EIOPA Occupational pension statistics

[32] See EIOPA, consultation paper on the draft Opinion on the supervision of liquidity risk management of IORPs, September 2024.

competent authorities (COVIP) report that notional values of derivatives exceed 20% of IORP's assets as regards foreign exchange derivatives.

Figure 9: Assets and liabilities of euro area pension funds, financial derivatives (million euro) Q1 2008-Q2 2022



Data by the ECB and Chart by PensionsEurope

Most pension funds in the Netherlands, including the large industry-wide pension funds that manage the majority of assets, hedge somewhere between 30% and 70% of interest rate risk. Moreover, as the Dutch pension system is currently moving from DB to DC plans, the level of interest rate hedge is expected to decrease, particularly in the longer maturities, which are more sensitive and less often hedged with bonds.

PensionsEurope has found that the best way forward would be that, in times of stress, a second line of defence is needed – involving central banks as the only reliable provider of liquidity. Central banks of the United Kingdom, the United States, and Canada have recognised this issue. They implemented, or are in the process of doing so, liquidity facilities to strengthen the resilience of repo markets or to provide a backstop repo facility directly to pension funds and insurance companies, as is the case in the UK[33].

[33] See PensionsEurope answer to the EC's consultation on assessing the adequacy of macroprudential policies for NBFIs, December 2024

3. Funding ratio

The funding ratio, i.e., the ratio between available assets and liabilities, shows a pension fund's solvency position. It is expressed as a percentage, and it aims to show whether a pension fund has enough assets to pay out pension benefits to its current and future members.

This is relevant for DB or hybrid schemes with guarantees but not for "pure" DC schemes. Indeed, in the DB scheme, the pension fund (and the sponsor) bears the risk while for a "pure"/ traditional DC scheme, the risk is borne by the participant. At the end of Q4 of 2024, DB schemes accounted for 74,5% of pension entitlements while DC schemes represented 25,5% of pension entitlements[34].

In most countries, EEA pension funds use the market values of assets on their balance sheets. However, national prudential regulations in funding are heterogeneous as for the liability valuation standards. Different discount rates are being used to value the liabilities of EEA pension funds[35]. For instance, Dutch pension funds use a risk-free term structure with UFR, which is based on moving average forward rate, while in Germany, pensionsfonds uses expected return, and pensionskassen use a contractually agreed discount rate.

Pension funds' liabilities are also shaped, and to some extent impacted, by national social and labour law, the role of the sponsor giving the pension promise, and the availability of its support.

To value their liabilities, pension funds must use risk-free interest rates in the Netherlands as indicated above, but also in Danmark and Sweden. In those countries, the use of risk-free interest rates increases the value of pension funds' liabilities in the low or negative interest rate environment that the euro area experienced, broadly speaking, from 2008 to 2022.

When the ECB decided in July 2022 to start raising its interest rates in an economic context of higher inflation, it implied the end of the low or negative interest rate environment[36]. Following this change in the economic environment, the present value of the liabilities of pension funds using risk-free rates started to decrease to some extent, faster than the decrease in the asset values of such pension funds (see figure 10).

Pension funds often invest in fixed-income securities such as government bonds to match their long-term liabilities, thereby ensuring a stable funding ratio. However, considering that bonds have lower returns than equities and the use of leverage is only allowed for a temporary liquidity facility under the IORPII Directive, pension funds also use interest-rate swaps to hedge interest rate risk[37].

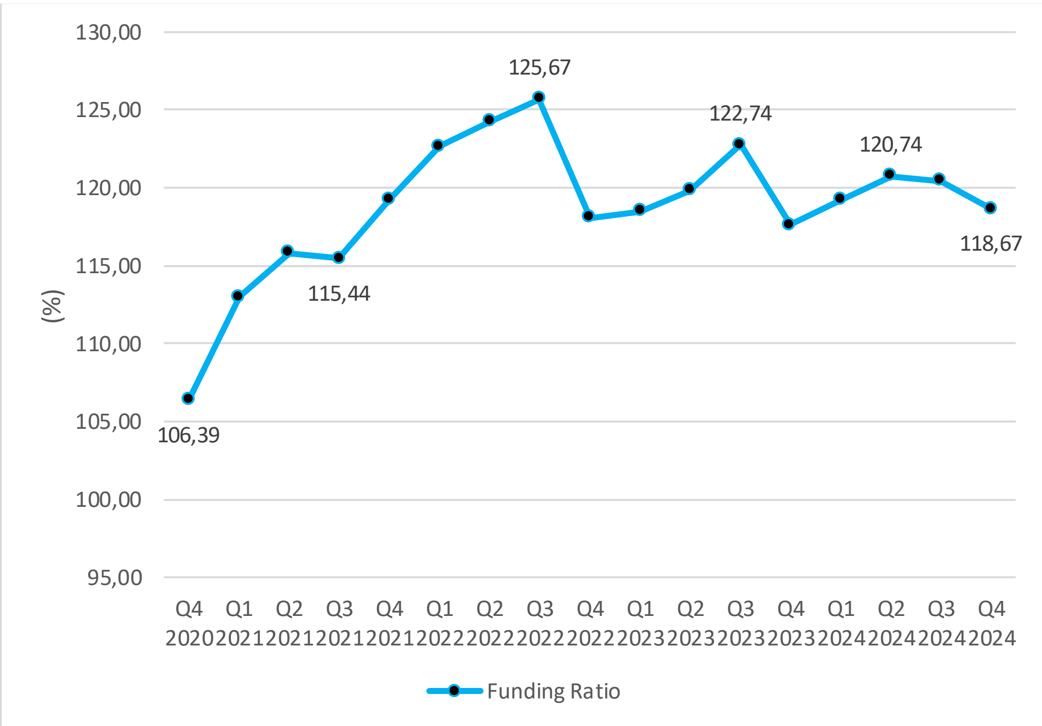
[34] ECB Pension fund statistics
[35] ECB, Pension fund statistics- Compilation guide, October 2020
[36] ECB monetary decision, July 2022
[37] Jansen-Klinger-Ranaldo-Duijm, Pension Liquidity Risk, 21 March 2024

We use the EIOPA occupational pension statistics database to get the aggregate funding ratio for EEA DB IORPs[38], to be consistent with the methodology of EIOPA[39]. Compared to ECB statistics, EIOPA data only cover IORPs, with fewer types of pension funds being covered but with certain non-euro area countries that are covered such as Sweden (see Annex 1 for further details).

Since the end of Q4 2020, the aggregate funding Ratio for EEA DB IORPs has always above 100%, meaning that the assets have always covered the liabilities, with a margin. The lowest ratio was 106,39% in Q4 2020, and the highest ratio was 125,67% in Q3 2022.

A continuous increase in the funding ratio can be observed from the end of Q3 2021 to the end of Q3 2022, from a funding ratio of 115,44% to a funding ratio of 125,67%. Afterward, the funding ratio started to decrease slowly to reach 118,67% at the end of Q4 2024, despite a temporary peak of 122,74% at the end of Q3 2023.

Figure 10: Aggregate Funding Ratio for EEA DB IORPs Q4.2020-Q4.2024



Data by EIOPA and Chart by PensionsEurope

[38] EIOPA, Occupational pensions statistics,
[39] See EIOPA, Financial Stability Report, December 2024

4. Trends in investments

4.1. Investments in private equity and venture capital

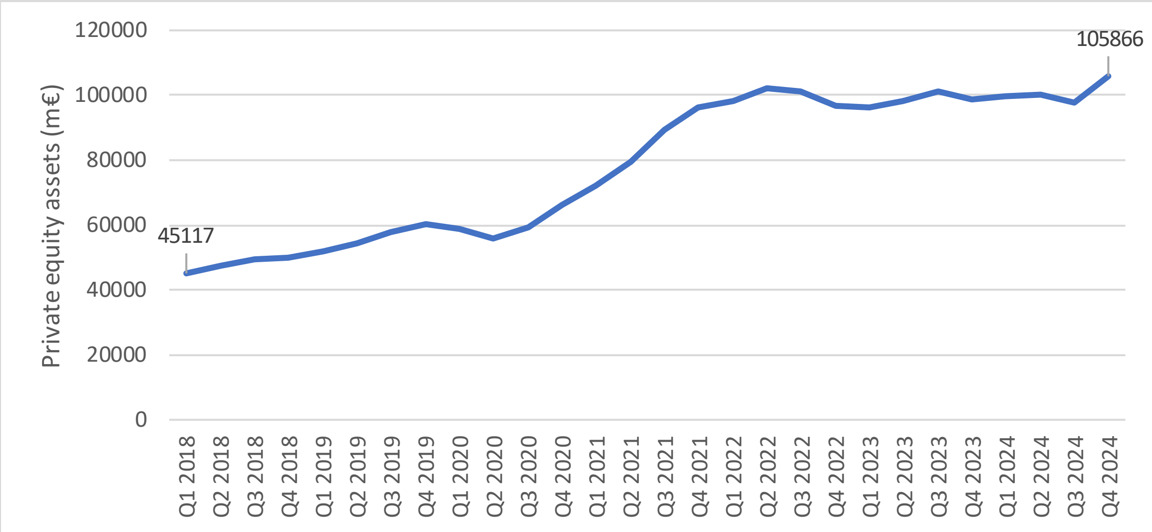
Pension funds' private equity and venture capital investments are increasingly a matter of discussion as reflected by the ongoing agenda from the EC and several Member States to increase competitiveness, also by investing more in innovation. Both investments refer to long-term investments in private, unlisted companies with growth potential, while venture capital is about investing in a company at an early stage. Private equity also refers to investments in a more developed and mature company[40]. Thus, venture capital is a form of private equity. In the context of this report, we will only use the term private equity for simplicity purposes hereinafter. As institutional investors, pension funds play an important role in the long-term financing of the EU's economy, including through investment in private equity. It is not a coincidence that countries with a substantially funded pension sector tend to have more developed capital markets[41].

According to InvestEurope[42], the total fundraising of private equity funds in Europe during 2023 amounted to €132,9bn, with pension funds (including, among others, US and EU pension funds) accounting for 24% (€31,90bn) of the total of funds raised. This is a 3% decline compared to 2022 (€136,89bn). The location of the investors in private equity funds is also interesting. North American investors, including US pension funds, are leading investors in private equity funds in Europe, with 23,4% of the funds raised, France and Benelux investors being second with 22% of the funds raised.

Dutch pension funds which are the largest euro-area pension funds (53,37% of the total of euro-area pension funds at the end of Q4 2024) substantially increased their investment in private equity from €45bn at the end of Q1 2018 to €106bn at the end of Q4 2024, providing them good returns (see Figure 11). It represents an increase of more than double of assets in private equity in the span of 6 years.

[40] See Invest Europe, Guide to Private Equity and Venture Capital for Pension Funds, October 2016
[41] See World Bank Group, Pension Funds, Capital Markets, and the Power of Diversification, July 2017
[42] See InvestEurope, Investing in Europe, private equity activity 2023, May 2024

Figure 11: Private equity assets invested at pension funds' own risk - Dutch pension funds, Q2.2018-Q4.2024



Data by the Dutch National Bank and Chart by PensionsEurope

European pension funds invest following the prudent person principle and according to national regulatory investment requirements, which can impose some portfolio limits based on the asset class[43]. Such limits do not exist in the European IORP II Directive, which is a minimum harmonisation framework. Our members have found that the prudent person principle in IORP II does not prevent them from investing in PE. Still, pension funds should abide by the primary fiduciary duty, which is first and foremost to act in the best interest of the members and beneficiaries and to deliver adequate pensions to them[44].

Pension funds' investment strategies must balance risk, return, and costs. That also applies to investment in private equity. The main drivers of pension funds' asset allocation include asset and liability management, risk management, hedging against inflation, return on investments, hedging liability risks, and diversification. In addition, tax and accounting frameworks also play a role. Several drivers can prompt a market shift in pension asset allocations, and they should not be considered independently, but rather in relationship with the others.[45]

The long duration of liabilities, especially for DB pension schemes, is also an important factor for an asset allocation strategy since pension funds must match their assets with their liabilities. Therefore, investing in private equity for pension funds can provide higher returns compared to listed equities and debt securities. However, such investments are also riskier and less liquid compared to listed equities and debt securities. The macroeconomic environment also plays an important role, as the low interest rate environment that lasted around a decade, mostly in the 2010s and early 2020s, led pension funds to search for yields with corporate bonds and alternative investments such as private equity investments.

[43] See OECD, Annual Survey of Investment Regulation of Pension Providers, , 2024
[44] See PensionsEurope's answer to the call for evidence on the Savings and Investments Union, March 2024
[45] See PensionsEurope Report 2022- Trends and developments in funded pensions, November 2022

With higher rates since the second half of 2022, the macroeconomic environment changed, and it also impacted the asset allocation choices of institutional investors, including European pension funds.

European and national initiatives to foster pension funds' investment in venture capital and private equity

Escalar, or the European Scale-up Action for Risk Capital, was launched in April 2020. It is an investment programme launched by the European Investment Bank (EIB) in collaboration with the European Commission. It aims to support high-growth companies by increasing venture capital and growth financing access through a risk-sharing mechanism with a fund-of-funds model. Initially, it has been designed to mobilise up to €1,2 billion and it has been integrated into the InvestEU programme following the publication in March 2021 of the regulation establishing such programme.

As part of the discussions on the EC's Savings and Investment Union (SIU), one key aspect is how to strengthen the EU's innovation ecosystem to better compete with the US and other third countries. The communication on the SIU, which the EC published on 19 March 2025, highlights the importance of increasing investments in venture capital and private equity by institutional investors, including pension funds. The EC intends to do this by clarifying how such investments can be in line with the prudent person principle enshrined in the current IORPII directive.

Several MSs have implemented measures aimed at boosting private investments in PE. In Italy, a new law—the Scaleup Act—was passed in December 2024. As of this year, 2025, to qualify for a capital gains tax exemption on "qualified investments," at least 5% of a pension fund's qualified investment portfolio must be allocated to venture capital in Italy and in the European Union, or in the European Economic Area.

In Germany, efforts are also underway to establish a second Growth Fund—*Wachstumsfonds II*—by 2026, providing an additional investment vehicle for institutional investors, including pension funds, interested in financing start-ups.

In France, a new law – the Green Industry Act- entered into application in October 2024 that requires fund managers to allocate a minimum proportion of non-listed assets (private equity, private debt, etc.) in Retirement Savings Products (*PER* in French) standard management mandates (*gestion pilotée*) subscribed after this date.

In the Netherlands, the public investment bank Invest-NL is developing ideas on public-private financing of Dutch and European innovative companies. This could lead to the creation of a Dutch Impact Growth Fund, a public-private fund (of funds). Several Dutch pension funds are in conversation about potential collaboration, including on possibilities for risk-absorption by Invest-NL.

Outside the EU, in the UK, the 2023 Mansion House Compact, which is an industry-led pledge to invest 5%, was an agreement between the largest DC pension schemes to allocate at least 5% of their default funds to unlisted entities by 2030. The Mansion House Compact members are Smart Pension, M&G, Aviva, Scottish Widows, L&G, Aegon, Phoenix, Nest, and Mercer. Political pressure in the UK on pension funds to invest more in UK-listed and non-listed equities is becoming increasingly significant[46].

4.2. Investments in defence

Since February 2022 and the invasion of Ukraine by Russia, the topic of investing in defence has returned high on the agenda of European policymakers. The difficult geopolitical context surrounding the EU, particularly in the Near East, in addition to the new Trump administration and its declining commitment to the transatlantic alliance, undermines the traditional security certainties of NATO countries.

Therefore, European public investment in defence is soaring,[47] including in the context of a loosening of European fiscal rules[48]. European private investments, including through institutional investors such as pension funds, are also under scrutiny.

For instance, in the Netherlands, since 2022, pension funds have been asked by the Dutch defence minister to increase their investments in defence. This is also the case in Denmark, where public authorities are asking private investors, including pension funds, to ramp up their investments in defence. Insurance and Pension Denmark, the Danish trade association for insurance and pensions already indicated on several occasions its support for pension funds investing in the defence sector and requests the government to issue specific defence and security bonds.

As for investment into private equity, pension funds must follow the fiduciary duty to provide good returns to the beneficiaries. Jeopardising this objective with other political objectives must be avoided. In addition, from an environment, social, and governance (ESG) perspective, and in relationship to the complex sustainability regulatory framework that the EU put in place (see box below), the problem remains present. Due diligence checks about legal and the investment policy can also be hard on defense companies, considering the importance of secrecy in the industry. This comes in addition to the reputational issue that pension funds can face if they invest in some aspects of defence, especially in controversial weapons. On the other hand, attitudes towards investing in defence amongst pension fund members and beneficiaries are also shifting.

For instance, the largest European pension fund, Stichting Pensioenfonds ABP (ABP), the pension fund for government and education employees in the Netherlands, managing approximately €552 billion in

[46] See the analysis from the UK Department for Work & Pensions, November 2021

[47] Many European countries, including Germany, France, Poland, and Denmark committed to increase defense spending

[48] On 19 March 2025, the EC published a communication about the activation of the national escape for the Stability and Growth Pact to avoid triggering the Excessive Deficit Procedure (EDP) for defence spending

assets at the end of November 2024 has as of 1 December 2024 a list of excluded companies that produce controversial weapons such as cluster bombs and nuclear weapons[49]. It does invest in companies that do not produce controversial weapons.

Exclusion policies for pension funds as regards investment in defence have therefore to be carefully considered, to align with the sustainability and other preferences of members and beneficiaries.

European and national initiatives to foster private investment in defence

On 19 March 2025, the European Commission published its White Paper on European Defence – Readiness 2030, outlining the EU's plan to enhance European defence capacities and increase investments in the sector.

In both the Letta and Draghi reports, published respectively in April and September 2024, there was a strong call to leverage more private investments in sectors critical to the EU, including the security and defence industry. For instance, Letta emphasised the need to develop this sector, and, like the other EU policy objectives tied to competitiveness, private investments must be directed towards defence. This approach is now a central element of the Savings and Investment Union vision, which aims to better channel investments into the EU economy.

The white paper indicates that the EIB will play a central role in mobilising private capital, with some changes aimed at increasing investment in projects related to military capacity. This includes revisions to its operational framework, to develop ''ambitious'' financial and capital allocation strategies. It also highlights that SFDR does not prevent investments in the defence sector. However, it is also outlined that further clarification on the relationship between defence and investments under the EU sustainability framework will be provided.

At the national level, in France, on 20 March 2025, the Ministry of Finance met with institutional investors to exchange on defence investment. Before that, on 18 March 2025, French banks reaffirmed their support for funding the defence industry[50]

In the UK, in March 2025, a group of more than 100 Labour MPs and peers wrote a letter to encourage private investors such as banks and fund managers to invest more into defence and for the removal of ESG requirements that ''*often wrongly exclude all defence investment as unethical*". The British government is also having preliminary thinking on encouraging largest pension funds to investor further in defence through the voluntary "Mansion House Compact".

On 17 December 2024, a group of German trade associations, including the German fund industry association (BVI), the German Structured Securities Association (Bundesverband für strukturierte

[49] See ABP, Companies and countries excluded by ABP, As of 1st December 2024
[50] See FBF, press release, 18 March 2025

Wertpapiere, BSW), and the German Banking Industry Committee (Die Deutsche Kreditwirtschaft) changed their exclusion criteria to facilitate investments in defence.

5. Upcoming statistics and statistical developments

The ECB will publish its next quarterly pension funds statistics (2025 Q1) on 12 June 2025 and on 9 September 2025 (2025 Q2). The ECB is planning to have a review of the reporting requirements for pension funds in 2026. The February 2018 ECB reporting requirements for pension funds became applicable for Q1 2019.

In February 2023, EIOPA published its BOS decision to review reporting requirements for IORPs. Among different changes, the new reporting involves data requirements on the quarterly reporting of derivatives and high-level, look-through data on all investments in investment funds (including UCITs). Those new reporting requirements have been applicable since the 1st of January 2025. Thus, the first reporting under the new requirements, for Q1 2025, has been published in early April 2025.

In December 2025, the OECD will publish the next version of its annual statistical report '*Pension Markets in Focus 2025*'.

PensionsEurope will publish its next report in early 2027. Meanwhile, we will use the pension data (provided by various sources mentioned in this report), particularly in our internal analysis.

Annex 1: Occupational pensions statistics

Data on European pensions is available through different sources. The diversity of the pension systems also reflects in the different statistics that exist, depending on the scope of countries, the institution providing the data, or the type of pension provider that is assessed.

The short overview below focuses on the main European pension statistics (Figure 13), but you can also find a lot of sources at the national level for pension data. Besides them, there are also many other sources of pensions related data (for instance SHARE), and pension systems are benchmarked (with various indicators) for instance by Mercer CFA Institute Global Pension Index, the World Economic Forum, Allianz, and Willis Towers Watson.

Figure 12: Overview of the European pension statistics

Statistics provider	Countries covered	Pensions covered	Currency
ECB	Euro area	ESA 2010 pension funds	€
Eurostat	EU Member States	Pensions in national accounts	€
OECD	OECD countries	Retirement savings vehicles	US$
IPE	Europe	Various pension arrangements	€
EIOPA	EEA	IORPs	€

OECD (the Organisation for Economic Co-operation and Development) pension statistics provide thorough and valuable information for measuring and monitoring the pension industry. They permit inter-country comparisons of statistics and indicators on key aspects of retirement systems across the OECD. They include all types of pension schemes (occupational/personal, mandatory/voluntary) and include information on investments, liabilities, contributions, benefits paid, expenses, and member data. Data from all OECD countries (and some additional non-OECD countries) are included, but not Bulgaria, Croatia, and Romania, which are the EU Member States that are not members of the OECD. The OECD uses the terminology asset-backed pension to distinguish between funded and non-funded pensions as some first-pillar pensions can have a funded dimension (Finland and Sweden) and second-pillar pensions can also rely on a pay-as-you-go dimension (e.g. Agirc-Arrco in France).

The Pension Markets in Focus 2024 published on 2 December 2024, showed that at the end of 2023, the total assets earmarked for retirement in OECD countries amounted to $56 trillion, an increase of 10% in one year. US assets represent 67,3% of those assets with $40 trillion.

Eurostat (the Statistical Office of the European Union) covers data from all EU Member States, and it collects pensions-related information in three of its databases: ESSPROS, Pensions in National Accounts, and EU-SILC. They also contain statistics on public pensions, and various reports of the European Commission have benefited from the Eurostat pensions data, including:

- Ageing Report 2024, which explores the long-run economic and fiscal implications of Europe's ageing population.

- Pension adequacy report 2024, which analyses how current and future pensions help prevent old-age poverty and maintain the income of men and women for the duration of their retirement.
- The Debt Sustainability Monitor 2024, which provides an overview of the challenges to public finance sustainability faced by Member States in the short, medium, and long term.

IPE publishes annual survey reports on the top 1,000 European pension funds. The objective is to give as broad an overview as possible of pension assets in Europe. Traditional workplace second-pillar pensions make up the largest portion of assets measured, but the report also includes funded first-pillar (bis) pensions in Finland and Sweden (AP funds), monoline pension insurance entities (such as Rothesay Life in the UK), and several sovereign funds. Among these are, for instance, the Norwegian Sovereign Wealth Fund and France's "*Fonds de reserve pour les retraites*" (FRR).

EIOPA statistics cover only Institutions for Occupational Retirement Provision (IORPs) in the European Economic Area (EEA). At the end of 2023, IORPs had 35,4 million active members, 25,1 million deferred members, and 11,1 million beneficiaries. At the end of Q4 2024, total IORPs' assets were €2868 bn compared to total liabilities of €2,444 bn for the same quarter. EIOPA statistics at the end of 2024 do not include data from Greece and Ireland as those countries do not comply with the January 2023 EIOPA Decision of the Board of Supervisors on the collection of information as regards IORPs[51]. Small IORPs are also exempted from the full reporting requirements. Thus, for some countries, data may not represent 100% of the total national IORPs sector.

ECB statistics cover autonomous pension funds, as defined by the European System of National and Regional Accounts (ESA 2010). Thus, the ECB receives data from all euro area pension funds, whether or not they fall under the scope of the IORP II Directive. For example, some pension funds regulated by national regulation only, are reporting to the ECB but not to EIOPA. This explains why ECB figures for assets in Q3 2024 with €3457bn are higher than the above-mentioned figures for EIOPA, despite that ECB does not include non-euro area countries such as Sweden and Denmark which are big pension fund countries[52].

ECB pension fund statistics consist only of those pension funds that are institutional units separate from the units that create them; non-autonomous pension funds set up, for example, by credit institutions or non-financial corporations are therefore not covered. All pension funds that fit the definition of social insurance are included unless they are included in other statistics, such as those on insurance corporations or investment funds. Social security schemes, pension schemes that are provided through governments, and individual pension plans offered by insurance corporations or other institutions are also excluded[53].

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[51] See EIOPA IORPS in focus report 2024, February 2025
[52] However, Danish pension funds would be considered as insurance corporations as they are operating under Solvency II
[53] See ECB, Pension fund statistics- Compilation guide, October 2020

The analysis in this report mainly uses the ECB quarterly data on the developments of assets and liabilities of euro area pension funds, given that are reliable, granular and cover a broader range of pension funds compared to the scope captured by EIOPA in its statistics. Our membership also confirmed in 2022 that ECB gives a good picture of the landscape.

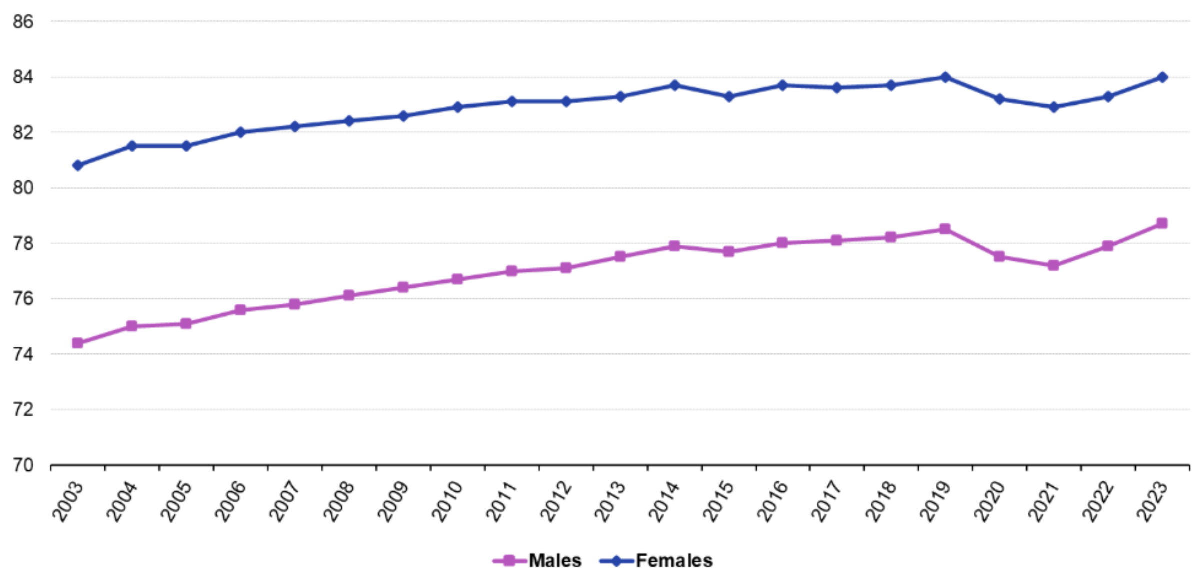
Annex 2: Demographic challenges

Over the last 20 years, the life expectancy at birth in the EU has continued to increase, both for males and females. While in 2003, life expectancy at birth for men was 74,4 years, in 2023 it went up to 78,7. For females, it increased from 80,8 years in 2003 to 84 years in 2023 (see Figure 12). Over a longer period, the increase is even higher as life expectancy for males was 66,8 in 1960 and 68,9 in 1980, while for females it was 72,2 in 1960 and 75,8 in 1980[54].

Enhanced healthcare systems, progress in medicine, improved sanitation, widespread immunizations, access to clean running water, superior nutrition, healthier lifestyles, and higher-quality education led to an increase in life expectancy at birth. However, the excess mortality caused by the COVID-19 crisis led to a decrease in life expectancy in 2020 and 2021. Indeed, in March 2020, the pandemic led to an additional 52,800 deaths in the EU compared to the same month in the 2016-2019 years, while there were an additional 111,818 deaths in the EU in April 2020, using the same methodology[55] . The excess mortality also continued in 2021, but to a lower extent.

We can observe that the life expectancy in 2022 and 2023 increased to catch up in 2023 with the pre-pandemic life expectancy as excess deaths from COVID-19 fell, reaching, for that year, 84 years for women and 78,7 years for men. We can expect life expectancy to continue to increase to a level of 86,1 years for men in 2070 and 90,4 years for women[56] in 2070.

Figure 12: EU – Life expectancy at birth for males and females in the EU, 2003-2023 (in years)

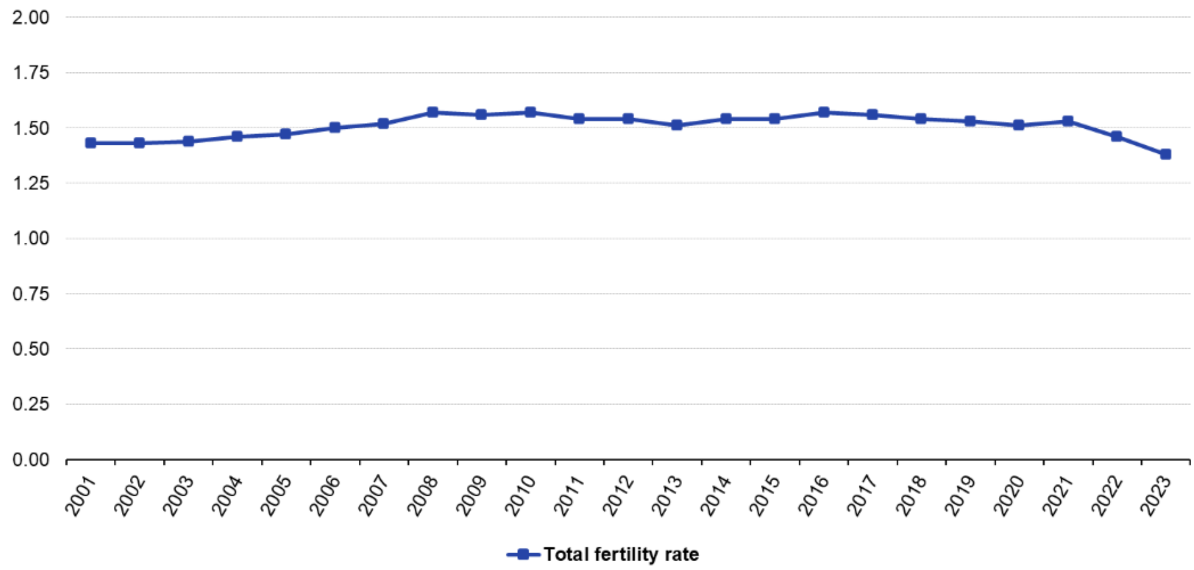


Source: Eurostat

[54] See DG ECFIN, 2021 Ageing report , May 2021
[55] See Eurostat data
[56] See DG ECFIN, 2024 Ageing report , April 2024

At the same time, fertility rates in the EU are dropping to reach 1.38 live births per woman in 2023. The EU's total fertility rate increased from a low of 1.43 in 2001 and 2002 to a peak of 1.57 in 2008 and 2010. It then slightly declined to 1.51 in 2013 before experiencing modest recoveries until 2017, after which it began to decline again (See Figure 13). The decline has been exacerbated by the Pandemic.

Figure 13: EU – Total average fertility rates in the EU, 2001-2023



Source: Eurostat

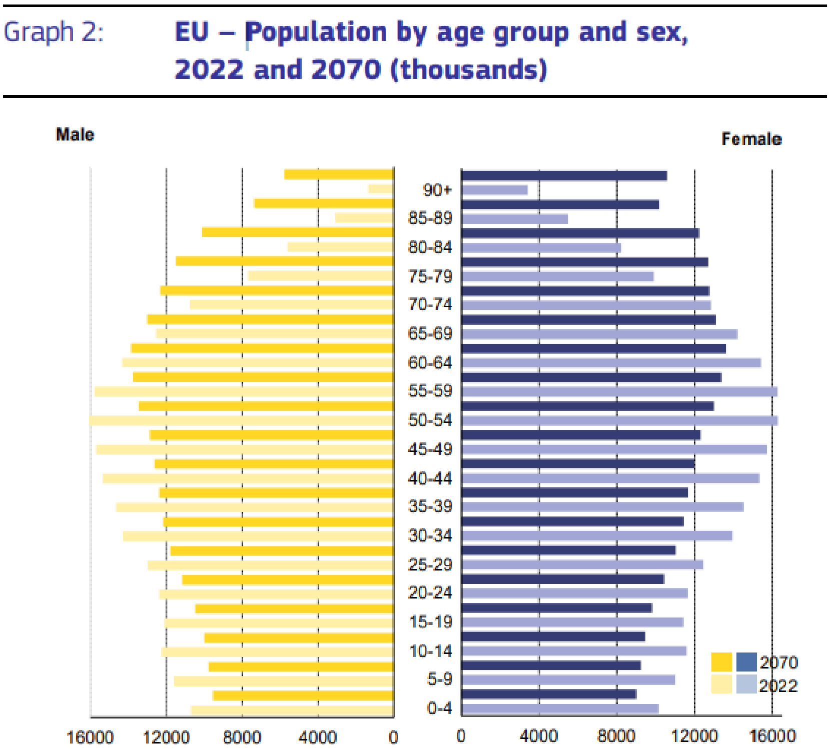
The continuous increasing longevity and declining fertility in the 21st century have led to an increasing number of people aged 65+ and a growing share of elderly people in the European population. Together with the shrinking overall population, they are causing significant changes in the age structure of the European population given the migration assumption made with a net migration projected to be positive in nearly all European countries, at an annual average of 0.3% of the EU population in 2022-2070[57].

According to Eurostat, the overall European population is set to shrink by 4% between 2022 (449 million) and 2070 (432 million), while the working-age population (20-64) will decrease even more, by 12% (25 million less working-age people), reflecting fertility rates, life expectancy, and migration flow dynamics (Figure 14), meaning that the labour force would decline by more than a quarter by 2070.

The trend is quite clear; however, we can observe that the projections are underpinned by certain migration and fertility assumptions, which can explain why the 2021 Ageing report assumed more conservative numbers with a 5% decrease in the European population between 2022 and 2070 and 18% decrease of the working-age population.

[57] See DG ECFIN, 2024 Ageing report , April 2024

Figure 14: EU – Population by age groups and gender, 2022 and 2070 (thousands)



Source: The 2024 Ageing Report / European Commission, EPC

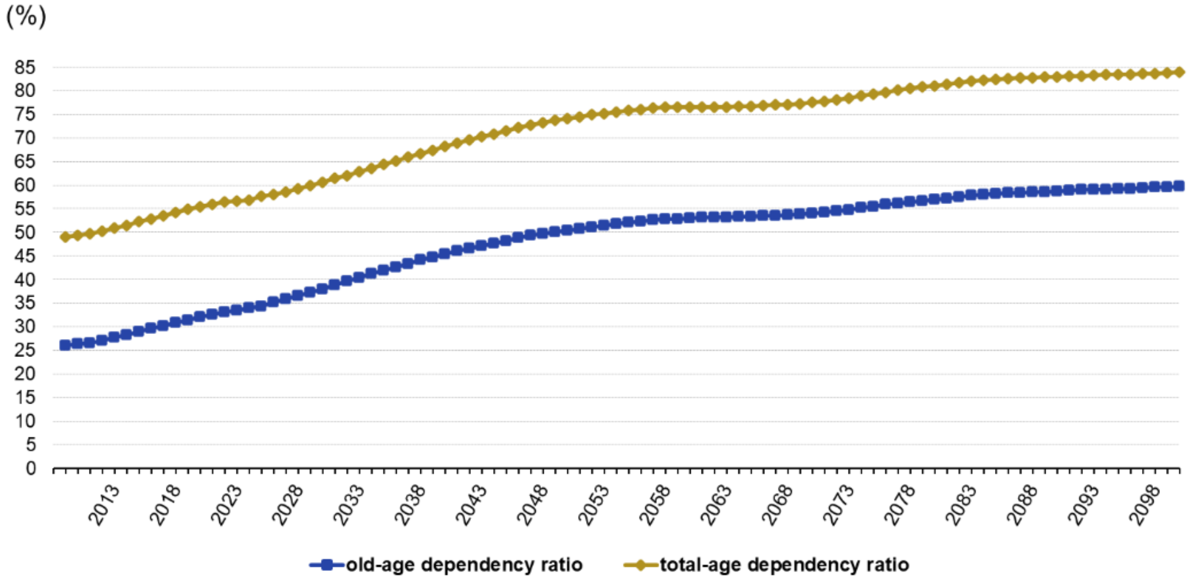
Given the decline of the working-age population in the EU, older individuals will make up a bigger share of the total population. By 2100, those aged 65 and over are projected to represent 32.5% of the EU's population, a substantial increase from 21.6% in 2024[58]. As a result of this demographic change, the EU's old-age dependency ratio is expected to nearly double, rising from 33.9% in 2024 to 59.7% in 2100, while the total age dependency ratio is expected to increase from 56.8% to 83.9% over the same period (Figure 15).

The ageing population in Europe also hurts the potential productivity and growth,[59] which makes the situation even more complicated for Member States as they need to increase spending on pensions while the tax base is decreasing.

Therefore, pay-as-you-go systems are increasingly under strain as their financial sustainability is questioned, as well as their capacity to ensure a good replacement rate for pensioners. The high economic uncertainty and limited public fiscal space are not helping to solve the problem. This makes it all more important to set up funded components in the pension systems through solid pillars 2 and 3.

[58] See Eurostat
[59] See ESM: Population ageing and productivity: The innovation channel

Figure 15: Observed and projected total-age and old-age dependency ratio, EU[60]



Source: Eurostat

[60] Old age dependency ratio=(Population aged 65+/Population aged 15-64)×100 while Total age dependency ratio =((Population aged 0-14) + (population aged 65+))/(Population aged 15-64)×100

Annex 3: Geographical Allocation of Pension Fund Investments

Political momentum at the European and national levels focuses on mobilising private capital to enhance Europe's competitiveness. Enrico Letta's[61] and Mario Draghi's[62] reports highlighted this aim to different extents. The Commission's communication on SIU[63] builds on those two reports to establish a strategy aiming to "*contribute to invest European savings into the European economy*" by tackling the "*growing mismatch between savings and investment needs*".

Given that European pension funds are one of the biggest institutional investors in the EU, the political debate on pension fund investment in the EU is increasingly relevant in the public policy debate.

Pension funds have a certain 'home bias' towards their home country and their 'home currency'. First, pension funds are more familiar with investing in their own country and the EU. This is especially important when it comes to investing in private markets. Second, their liabilities are denominated in their home currency, which means investments in other currencies create currency risk.

Pension funds abide by their fiduciary duty, which is first and foremost to act in the best interest of the members and beneficiaries and to deliver adequate pensions to them[64]. The principle of diversification, which is the cornerstone of good risk management, provides a better understanding of the investment strategy of pension funds. Pension funds diversify risks over different asset classes and geographical regions to improve portfolio performance and manage risks. The need to diversify internationally is particularly pronounced for pension funds with large asset pools from smaller economies. Insufficient international diversification may impact pension results. In this respect, policymakers looking to attract investments to the EU should improve the investment climate in the EU through, for example through a proportional regulatory climate, public-private partnerships, and stronger investor protection, rather than inducing suboptimal home market investments. The latter would ultimately lead to lower pensions for Europeans.

There is data available on the geographical allocation of pension fund investments, particularly for direct investment. The two biggest types of direct investments for pension funds are debt securities and equities. They represent respectively 29% and 14% of the total assets of euro area pension funds at the end of Q4 2024. Regarding the geographical distribution of debt securities held by euro area pension funds, at the end of Q4 2024, 19% (€198,40 bn) are domestic debt securities, while 44% (€461,73 bn) are euro area debt securities out of a total of €1,040,24 bn debt security holdings.

Data on the geographical allocation of indirect investments by pension funds is not always available, as the data available for pension funds' investment in investment funds can show the country of residence of the fund manager, not the investment location of the underlying asset. At the end of Q4 2024, euro area pension funds invested 39% of their total assets through investment funds. Those are

61 Letta Enrico, Much More than a Market, April 2024
62 Draghi Mario, The future of European competitiveness, September 2024
63 European Commission, Savings and Investments Union communication, 19 March 2025
64 See PensionsEurope's answer to the call for evidence on the Savings and Investments Union, March 2024

typical indirect investments for pension funds and provide good diversification for them (see section 2.1).

The Dutch National Bank provides data on the geographical allocation of Dutch pension funds, [65]. That data shows that at the end of 2024, Dutch pension funds invested more in the EU (€679 bn) than in the US (€499 bn). This is mostly explained by the large investments in EU sovereign bonds, worth €294 bn. Next, the Dutch National Bank registers €211 bn in investments in European financial institutions, most of which represent indirect investments in other companies.

When it comes to listed equity, Dutch pension funds invest €293 bn in the US, versus €97bn in the EU. The Dutch National Bank concludes: "*pension funds' investments in European companies are actually comparatively high: where European companies combined are worth less than a quarter of their US counterparts, pension funds invest in them only a third of what they invest in US companies. Larger absolute investments in US equities have paid off handsomely for pension funds: the return on these investments averaged 14% over the past five years, compared with 7% on European equities. This is partly due to well-performing US tech funds and the strong dollar. These healthy returns have further widened the gap between European and US equity investments.*"

Broadly speaking, in many European countries like the Netherlands or Italy, pension funds hold most of their fixed-income securities and private market investments in the EU, while their listed equity investment are invested in a more geographically diverse way.

[65] Dutch National Bank, Dutch pension funds invest more in US companies than in European companies, 11 March 2025

Annex 4: The development of IORPs in France

Besides Sweden, which became the second most important IORP country following the November 2019 reform that implemented the IORPII Directive, France is now the fourth country regarding the size of its IORP sector among EEA countries[66]. While both countries saw a shift of their assets from the Solvency II capital-intensive framework to a new regime better tailored for retirement activities, **the success of the individual *Produit d'Epargne Retraite* (PER- Retirement Savings Product) boosted the balance sheet of French IORPs.**

To better understand French IORPs, we must come back to the political and legislative inception of the framework. In November 2015, Emmanuel Macron, who was then Finance Minister outlined his willingness to create pension funds "*à la francaise*" with an ad-hoc prudential treatment that would allow consistent asset allocation with the characteristics of their liabilities[67].

To translate this political ambition into a legislative text, the *loi Sapin 2* of December 10, 2016*,* and the related implementing act *(ordonnance du 6 avril 2017)* created the *Organismes de retraite professionelle* (ORPS), which are the French declination of the IORPs.

As the IORP II Directive has only been published in the OJEU on December 23, 2016, the most significant elements of the directive had been anticipated when this new framework was introduced into French law by the *ordonnance*. Afterward, the French government transposed the remaining provisions of the IORP II directive by the *loi PACTE* of 22 May 2019 *and the related implementing act (ordonnance du 12 juin 2019).* By this *ordonnance* of 2019, France transposed the rules for the European market for services offered by IORPs, and the framework applicable to subscription and information during the life of the contracts.

It was foreseen from the outset that dedicated entities would have a governance framework, risk management process, and public information on their financial situation (reporting requirements) like that provided for under pillars 2 and 3 of the Solvency II framework, but tailored for IORPs.

However, for the first pillar, the capital requirements for the French IORPs are broadly speaking similar to the requirements under the Solvency I framework, with a balance sheet presented under French accounting standards, i.e. at amortised cost and historical cost rather than at market value, which limits solvency volatility. Some additional requirements have been added to the first pillar, adding stress tests over ten years, with scenarios involving a fall in interest rates, a fall in financial returns, and a fall in mortality.

Under Solvency I, the solvency margin is calculated using a fixed percentage of technical provisions, while under Solvency II, the Solvency Capital Requirements (SCR) is risk-based and determined using either a standard formula or an internal model to reflect the insurer's risk profile. For instance, the capital charge for standard equities investment under the Solvency II standard formula is 39% or 49% (whether they are EEA/OECD equities or not).

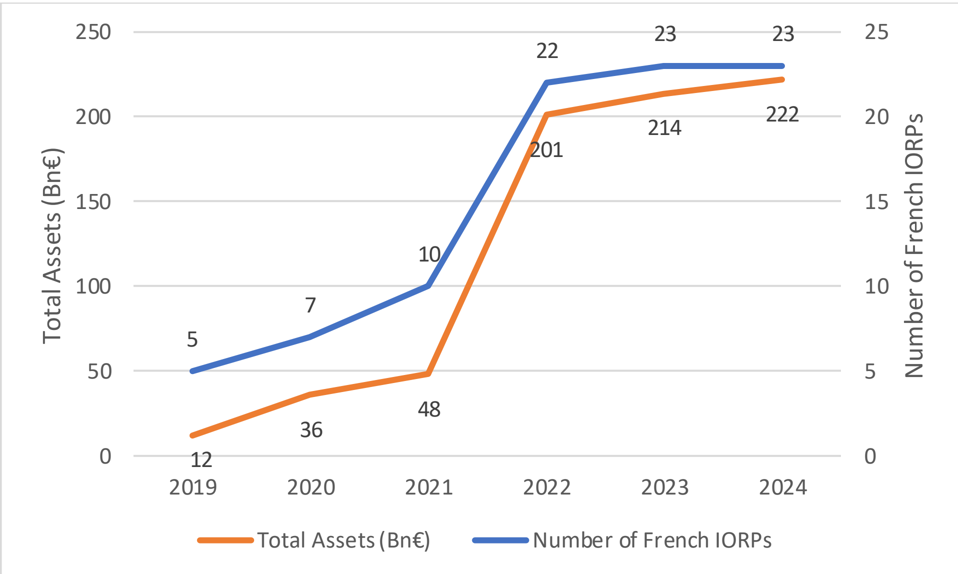
[66] At the end of 2023, French IORPs represented 7,9% of the assets (215,9 bn EUR) of the IORP-sector while Swedish IORPs represented 10,1% (273,5 bn EUR) of the assets of the IORP-sector
[67] See Emmanuel Macron 's speech, 27 November 2015

Given this dedicated prudential treatment and the end of the transitioning period that expired on 31 December 2022, which previously allowed insurers under Solvency II to carry occupational pension plans under IORP rules[68] the number of the size of the IORP sector in France is increasing substantially.

Considering that regulatory changes, most of the IORPs in France are subsidiaries of insurance companies, against the background that those subsidiaries can also be part of a banking holding. IORPs in France can be part of a financial conglomerate (for instance, the IORP *Cardiff retraite* is a subsidiary of BNP Paribas Cardiff, which itself is a subsidiary of the BNP Paribas group).

Thus, the creation of IORPs in France has been driven by the possibility of benefiting from lower capital requirements and a more stable prudential framework compared to the Solvency II framework. However, the compulsory ring-fencing of the IORP assets and liabilities that were previously mutualised by other types of insurance activities led to some sort of demutualisation of risks and may explain why some insurers hesitated for a long time to provide IORPs.

Figure 16: Growth of French IORPs and total assets (2019-2024)



Data from the French Central Bank (ACPR) and EIOPA

Chart by PensionsEurope

The specificity of French IORPs is that they can manage *PER, including individual PER*[69]*.* This new personal pension product was created by the *loi PACTE,* which created a new single retirement savings product, designed to unify, simplify, and make these products more attractive to direct long-term savings in France. This product benefits from a set of favorable rules, including tax incentives, portability rules with old products, and exit rules (possibility for lump sum payment and/or annuities).

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[68] *Retraite professionnelle supplémentaire* (RPS) under Article 4 of the directive 2003/41/EC (IORP I directive)

[69] While in France, IORPs are the main type of financial entity managing individual PER, asset management companies are managing the underlying assets of PER collectifs . Contrary to the individual PERs, the collective PERs are part of the company's social policy, managed by asset management companies (UCITS & AIFs) and are not under IORPs balance sheets.

The individual PER is a long-term savings product. It is funded entirely by the contributions of the person taking the contract, without any help from the employer.

However, PERs are not the only products that can be managed by IORPs, as various other products can be managed by IORPs[70].

At the end of March 2025, Insurance-based PER had 7,2 million policyholders and an outstanding amount of 97.4 billion euros[71]. However, it must be compared to the €2,025 bn in life insurance products that French citizens have on the same date and often use for pension purposes.

[70] French IORPs can manage articles 39 and 83 products of the French tax code, article L441 of the French insurance code, end-of-career indemnity contracts, Popular retirement savings plan (PERP) Madelin, article 82 of the French tax code

[71] See press release from France Assureurs, 30 April 2025

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