OPSG

OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

OPSG PAPER ON TYPOLOGY OF MULTI-PILLAR PENSION SYSTEMS IN EUROPE

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1) INTRODUCTION

Pension systems across Europe are structured around different "pillars," each serving a specific function in providing retirement income. These frameworks reflect the diverse economic models, cultural contexts, and systems of industrial relations found across European countries. While some rely predominantly on pay-as-you-go (PAYG) public pensions, others have incorporated funded components in various forms — including public reserve funds, occupational schemes, and voluntary personal pensions — to supplement or complement retirement income.

Understanding these layers is essential for assessing the strengths and weaknesses of national pension systems. However, this task is far from straightforward, given the wide range of pension products, institutional setups, and regulatory approaches across the EU.

As a result, establishing a single, universally EU accepted definition of what constitutes the first, second, and third pillars remains nearly impossible. This complexity is further underscored by the fact that different international organizations — such as the World Bank and the OECD — have each developed their own classification systems for pension pillars, based on varying assumptions and objectives[1].

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[1] The World Bank and the Organization for Economic Co-operation and Development (OECD) have developed frameworks to classify pension systems into multiple pillars, each serving distinct purposes in providing retirement income.

World Bank's Five-Pillar Framework:
1. Zero Pillar: A non-contributory social pension aimed at alleviating poverty among the elderly, providing a minimal level of income security for all individuals in old age.
2. First Pillar: A mandatory, publicly managed system designed to replace a portion of pre-retirement income, typically financed on a pay-as-you-go basis with contributions linked to earnings.
3. Second Pillar: A mandatory, privately managed, fully funded system, often involving individual savings accounts that establish a direct link between contributions, investment performance, and benefits.
4. Third Pillar: Voluntary, fully funded arrangements, which can include occupational or personal pension plans, offering additional retirement savings options beyond the mandatory systems.
5. Fourth Pillar: Non-financial supports, such as access to informal family support, social programs like healthcare and housing, and other individual assets, including homeownership.

This framework is detailed in the World Bank's report "Old-Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform."
https://www.researchgate.net/publication/31770345_Old-Age_Income_Support_in_the_21st_Century_An_International_Perspective_on_Pension_Systems_and_Reform_R_Holzmann_RP_Hinz/link/0c96052579a361524d000000/download?_tp=eyJjb250ZXh0Ijp7ImZpcnN0UGFnZSI6InB1YmxpY2F0aW9uIiwicGFnZSI6InB1YmxpY2F0aW9uIn19

The OECD typically categorizes pension systems into three pillars:

1. First Pillar: Public, mandatory, and tax-financed schemes aimed at preventing poverty in old age and ensuring a basic level of income.
2. Second Pillar: Occupational, mandatory, or quasi-mandatory schemes, often funded and related to earnings, designed to provide income replacement for retirees.
3. Third Pillar: Personal, voluntary savings and insurance arrangements, offering individuals the opportunity to supplement their retirement income.

This classification is elaborated in the OECD's "Pensions at a Glance" reports. https://www.oecd.org/en/publications/2023/12/pensions-at-a-glance-2023_4757bf20.html

Therefore, this paper seeks to present a sufficiently detailed and nuanced analysis to reflect these complexities, while ensuring clarity in the use of terminology and concepts throughout the discussion.

2) THE PENSION "PILLARS" ACCORDING TO THE EU TERMINOLOGY AND THEIR LEGAL TREATMENT

2.1 THE FIRST PILLAR AND THE ENLARGEMENT OF ITS SCOPE OVER THE YEARS

Until the beginning of the nineties, it was quite easy to define and delimit the scope of the three pillars, considering that:
- first pillar was exclusively managed by public/statutory institutions (state-managed) and financed on a PAYG basis.
- Second pillar was identified with occupational pensions[2]. Supplementing the first one, it was financed on a funded basis, mainly DB (at those times), sometimes voluntary and some others mandatory.
- Finally, third pillar was basically a personal, individual and voluntary pension saving product, financed on a funded basis, sometimes purely DC, or with guarantees.

It will be crucial to recall that public/statutory pension schemes have been immediately subject to the EU Regulations on the Coordination of Social Security Systems, which have practically existed—albeit under different names—since the creation of the first European Economic Communities. The objective of these Regulations—which, moreover, did not cover only pensions but also all other social benefits provided by the Member States (healthcare, disability, invalidity, unemployment, etc.)—was clearly evident: to ensure that all workers in the then European Communities could freely move and settle in any other Member State while maintaining their social rights in the new host country.

However, it is also worth recalling that the European coordination of social security systems never aimed to harmonize or regulate the different national social security systems—of which the Member States remained fully and exclusively responsible.

[2] In both American and British English, such pension schemes are also commonly referred to as "workplace pensions." While the terms "occupational" and "workplace" are often used interchangeably, it should be noted that "workplace pension" is a broader term. Strictly speaking, occupational pensions is the more formal and technical term, commonly used in EU legislation and academic literature. It refers specifically to pension schemes linked to an employment relationship, typically established by an employer or through collective bargaining, and often subject to sectoral or national labour agreements. These schemes may be either mandatory or voluntary and can take the form of defined benefit (DB) or defined contribution (DC) plans.
By contrast, workplace pensions is a broader and more informal term, frequently used in the UK, which refers to any pension arrangement provided through the workplace. This includes not only traditional occupational schemes but also group personal pensions or contract-based arrangements offered by employers. These schemes are not always considered "occupational" in the legal sense, especially under EU definitions.

Given that the term "occupational" is the one predominantly used within the European regulatory and policy context, this paper will exclusively adopt the term "occupational pension."

It is also important to recall here, for the purpose of the following reasoning, that even the legal basis of the Regulations concerning the protection of social security rights for mobile workers in the EU (Article 48 of the Treaty on the Functioning of the European Union: TFEU) is different from the legal basis used for similar purposes when it comes to occupational pensions (Article 46 TFEU).

In particular, unlike Article 46 TFEU—which is much more straightforward—Article 48 TFEU places strong emphasis on the sensitivity of public social security systems, granting Member States the ability to limit or even block certain legislative measures based on that article[3] (the so called "emergency brake"). In fact, this article previously required unanimity (removed by the Lisbon Treaty of 2009) for the adoption of such measures.

Currently, the main legal framework governing the coordination of social security systems are the Regulation (EC) 883/04 and Regulation (EC) No 987/2009.

From the mid-1990s onwards, particularly with Finland's accession to the European Union, the EU encountered, for the first time, a first-pillar pension system that exhibited distinctive peculiarities compared to traditional first-pillar schemes.
The most significant part of the Finnish pension system, although considered a first-pillar scheme by Finland, is managed by external operators (TEL), competing with one another, and not entirely working on a PAYG basis, as it includes also funded elements (about 30%).
This system was ultimately fully included under the scope of the EU Regulations on Social Security Coordination, thus being recognized as a first-pillar scheme.
In 1999, another case further expanded and diversified the concept of the traditional first pillar when France requested that the AGIRC-ARRCO complementary pension schemes be included in the EU coordination system[4].

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[3] Article 48 TFEU

(ex Article 42 TEC)

The European Parliament and the Council shall, acting in accordance with the ordinary legislative procedure, adopt such measures in the field of social security as are necessary to provide freedom of movement for workers; to this end, they shall make arrangements to secure for employed and self- employed migrant workers and their dependants:

1. (a) aggregation, for the purpose of acquiring and retaining the right to benefit and of calculating the amount of benefit, of all periods taken into account under the laws of the several countries;
2. (b) payment of benefits to persons resident in the territories of Member States.

Where a member of the Council declares that a draft legislative act referred to in the first subparagraph would affect important aspects of its social security system, including its scope, cost or financial structure, or would affect the financial balance of that system, it may request that the matter be referred to the European Council. In that case, the ordinary legislative procedure shall be suspended. After discussion, the European Council shall, within four months of this suspension, either:

1. (a) refer the draft back to the Council, which shall terminate the suspension of the ordinary legislative procedure; or
2. (b) take no action or request the Commission to submit a new proposal; in that case, the act originally proposed shall be deemed not to have been adopted.

[4] The inclusion of the French complementary pension schemes AGIRC and ARRCO within the scope of Regulation (EEC) No. 1408/71 (today: Regulation (EC) 883/04) was the result of a negotiation process between the French government and

Although these schemes operate on a PAYG basis, they are complementary to the public social security system and are entirely managed by social partners (employers and trade union representatives).

From the 2000s onwards, the scope of Regulation 883/04 on social security coordination expanded further with the inclusion of fully funded pension funds/products managed by private entities rather than by state institutions.

In particular:

- Denmark and Sweden included their funded pension schemes into their first-pillar systems. Danish ATP, created in 1964, was included in the EU Regulation in 2007; Swedish Premium pension was introduced in 2000 (after the reform of 1998) and is part of the overall social security public pension. From 2022, also Greece created a funded scheme (TEKA) in addition to its PAYG system. TEKA is managed by public entity, controlled by the under the Ministry of Labor.
- Many new Central and Eastern European Member States (which joined the EU from the 2004 enlargements onwards) implemented systems (starting from 1998) in which the legal mandatory pension contributions were split between public social security institutions (operating on a PAYG basis), and private pension fund managers, who handled these contributions as individual, fully capitalized defined-contribution (DC) accounts. A peculiar case seems to be then the Lithuanian one[5].

In practice, some countries in Northern, Central, and Eastern Europe (plus Greece) progressively integrated funded elements into their statutory pension systems, combining PAYG financing with capitalization mechanisms to ensure long-term sustainability. Notably, in Central and Eastern Europe these funded schemes are referred to as the "second pillar" of their pension systems. However, they are evidently very different from the occupational second-pillar schemes mentioned earlier.

So, absolute freedom for Member States to include their pension schemes within their national social security systems? Not really. Actually, some EU case law, and in particular the “Podesta” case[6] listed the key requirements to qualify them as a social security scheme coordinated at the European level subject to Regulation 883/04.

For the sake of terminological clarity, what is important to note here is that those mentioned pension schemes falling within the scope of EU Regulation 883/04 but different from the traditional

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the European Union. Formal inclusion followed negotiations between France and the European institutions, culminating in an official notification to the European Commission and the subsequent publication in the Official Journal of the European Communities on July 28, 1999.

[5] In Lithuania, additional contributions from employees (3% of the salary) can be done to private pension providers competing between each other (and with a 1,5% contribution paid by the State) on the top of the mandatory PAYG pension contributions, which are not split. These accounts, even if not considered as part of the Lithuanian social security system (contributions are additional and voluntary) seem to not be covered by any internal market European legislation.

[6] Judgment of the European Court of Justice in Case C-50/99, Jean-Marie Podesta v. Caisse de retraite par répartition des ingénieurs cadres & assimilés (CRICA) and Others, on 25 May 2000.

state managed PAYG schemes, are commonly referred to in EU terminology as “first-pillar bis” schemes.

2.2 FEW PRELIMINARY REMARKS ABOUT PRIVATE (SUPPLEMENTARY) PENSIONS AND THE EU APPLICABLE LEGISLATION

Once the issue of defining and determining the scope of the first pillar (and first-pillar bis) has been addressed, pensions falling within the scope of EU internal market Directives (i.e., occupational pensions and individual pension products) should, according to EU legal terminology, be classified as second or third-pillar pensions.

First, these pensions are private in nature (i.e., managed by private legal entities, regardless of their profit-making purpose, legal structure, or whether they are established by employer and trade union associations);

Second, those pensions are meant to supplement the state pension, so the first pillar (including the first pillar bis) by providing additional income in retirement.
Of course, what they supplement and how essential they are varies greatly depending on the country’s pension structure. In some cases (e.g., the Netherlands or the UK), supplementary pensions are practically the primary pension, while in others (e.g., Germany or Italy), they truly act as an "extra" to the public pension.

Even though EU legislation, has historically referred to occupational pensions when mentioning supplementary pensions[7], if we consider that these private pensions aim to supplement the state pension[8], it could be argued that individual pensions also qualify as supplementary pensions. After all, also the paragraph of the recent Commission’s Communication on Savings and Investments Union (SIU) published the 19th of March[9], dedicated to the issues of occupational and personal pensions uses the title "supplementary pensions" to refer to both.
Granted that occupational pensions and personal pensions differ (even if a clear distinction between the those remain somewhat problematic in certain EU member states), what it matters here is that they both fall under the scope of the EU internal market, and so the responsibilities and powers of EU institutions over them are more significant.

[7] Directive (EU) 2016/2341 on Institutions for Occupational Retirement Provision (IORP II); Directive 2014/50/EU (on minimum requirements for enhancing worker mobility between Member States by improving the acquisition and preservation of supplementary pension rights); Directive 98/49/EC on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community.

[8] *“ (a) ‘supplementary pension’ means retirement pensions and, where provided for by the rules of a supplementary pension scheme scheme established in conformity with national legislation and practice, invalidity and survivors' benefits, intended to supplement or replace those provided in respect of the same contingencies by statutory social security schemes;”*
Article 3 (Definitions) of Directive 98/49/EC on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community.

[9] COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Savings and Investments Union A Strategy to Foster Citizens’ Wealth and Economic Competitiveness in the EU, 19.3.2025 COM(2025) 124 final

In particular, from the 1990s onwards, the European Union started discussing—and subsequently legislating—on financial products, including banks, insurance, and funded pensions, with the objective of fostering and strengthening the development of such products and creating a market for them within the Union.
As a result, while the Insurance and Pension funds Directives are applicable to occupational pensions, personal pensions, in addition to being subject to Insurance Directives, are also covered by various other EU regulations (MiFID, PEPP Regulation), including those applicable to financial operators authorized to set up and sell such products.

2.3 POSSIBLE DEFINITION OF THE SECOND PILLAR UNDER EU LAW

In the EU terminology, second pillar pensions have been always historically identified as the occupational pensions.
Assuming that the IORP Directives apply to occupational institutions, one could use the definition provided in Article 6 (Paragraph 1) of the same Directive to define this type of pensions[10]:

"(1) 'Institution for occupational retirement provision,' or 'IORP,' means an institution, irrespective of its legal form, operating on a funded basis, established separately from any sponsoring undertaking or trade for the purpose of providing retirement benefits in the context of an occupational activity on the basis of an agreement or a contract agreed:
(a) individually or collectively between the employer(s) and the employee(s) or their respective representatives, or
(b) with self-employed persons, individually or collectively, in compliance with the law of the home and host Member States,

and which carries out activities directly arising therefrom."

From this, it can be inferred that occupational pensions are those whose benefits are offered in the context of an employment relationship, based on a professional contract between employer and employee, or through self-employment.

At present, this seems rather comprehensive in defining occupational pensions, although it may simultaneously be too restrictive in distinguishing them completely from certain new first-pillar bis schemes, while also being too broad to clearly differentiate them from some third-pillar schemes in certain Member States[11].
A more robust criterion for defining second-pillar occupational pensions is the long-established definition given by EU case law since the 1980s, namely that these pensions should be considered

[10] Directive (EU) 2016/2341 on Institutions for Occupational Retirement Provision (IORP II)
[11] It should be stated that the list of entities to which this Directive applies (and the corresponding exclusions) as outlined in Article 2 (Scope of Application) could not really help to further define what constitutes an "occupational pension", instead, because its primary purpose is to avoid its application to some other retirement benefits (such as the book reserves), or to avoid overlaps with other EU laws that could theoretically apply to other (occupational) pensions, such as those subject to EU Insurance Directives.

as "deferred wages." In other words, occupational pensions represent benefits that a worker could already receive today as part of their employment activity but will instead receive in the future upon reaching retirement age.
This criterion, supplementary to the IORP Directive's definition, should inextricably link, to some extent, the notion of these pensions—particularly the contributions paid into them—to a professional activity from which these contributions directly arise.

2.3.1 EU COMPETITION LAW AND THE SECOND PILLAR:

It is here essential to clarify the situation of certain second-pillar schemes, which are established through sectoral collective agreements, later extended to the entire sector (*erga omnes* application), and managed in a monopolistic manner by pension funds (or insurance entities) often co-managed by the same social partners who concluded the founding agreement of the occupational pension scheme.
This issue is relevant because second-pillar pension funds, although subject to EU internal market rules—and therefore also to EU competition law—have been exempted from competition rules by EU case law in various cases brought before the Court of Justice of the European Union (CJEU)[12].

First of all, it is important to clarify that, according to the CJEU's reasoning, social protection institutions responsible for managing such schemes are undoubtedly considered "undertakings" and therefore, in principle, fall under the scope of EU competition law.
Specifically, these entities—even if they are non-profit—have been classified as "undertakings" by the Court not only because, unlike public social security institutions (which are not considered undertakings and are therefore not subject to competition law), they exercise some discretion in determining the level of contributions paid by their members. Additionally, these entities, not being created by the state and not managing social protection schemes directly controlled by the state, are subject to the same supervisory rules and regulatory frameworks (both national and EU) as all other private market operators (such as insurance companies, other pension funds, and mutual organizations), thus operating within the same market, the Court stated.

Making short the rest of the other legal reasoning, the Court finally ruled that those social protection entities are allowed to keep a monopolistic position in managing such social schemes because these undertakings were entrusted with a *mission of general economic interest* under Article 106 TFEU. Therefore, even if undertakings entrusted with such missions are in principle subject to EU competition law, under Article 106(2) TFEU competition rules apply "*only in so far as the application of such rules does not obstruct the performance [...] of the particular tasks assigned to them.*"

2.3.2 THE ROLE OF SOCIAL AND LABOR LAW IN OCCUPATIONAL/WORKPLACE PENSIONS (INCLUDING CONDITIONS SET BY COLLECTIVE AGREEMENTS):

Another factor that makes occupational pensions unique is the role recognized by European legislators and EU case law in applying national social and labor law to regulate the functioning of these pensions.

[12] By way of example, the most well-known cases related to the topic under discussion are recalled here:
Judgment of the Court of Justice of the European Union (CJEU), 21 September 1999, Joined Cases C-67/96 Albany International; C-115/97, C-116/97, C-117/97 Brentjens; and Case C-219/97 Drijvende Bokken. Judgment of the CJEU, 21 September 2000, Case C-222/98 Van der Woude. Judgment of the CJEU, 3 March 2011, Case C-437/09 AG2R Prévoyance..

Notably, IORP 2 Directive, when regulating the cross-border activities of pension funds, states in Article 11:
"Without prejudice to national social and labour law on the organisation of pension systems, including compulsory membership and the outcomes of collective bargaining agreements…."

The issue of compulsory membership and the resulting exemptions from EU competition law has already been discussed above. Here, it is worth adding that, ultimately—and only when—these pensions are primarily regulated by national labor, social, or collective bargaining's rules and they function as public social policy instruments fully integrated into the general pension system of certain Member States, a clear debate between Member States and EU institutions could be desirable on whether those typology of pensions should be really subject to the EU internal market rules.

2.3.3 CASES WHERE SECOND PILLAR PENSIONS CAN BE EASILY INCLUDED IN THE EU INTERNAL MARKET RULES:

Naturally, it would be much easier to categorize as part of the EU internal market framework those occupational pensions operating in open national markets—meaning those offered on the initiative of employers or negotiated at the company, sectoral, or even regional level between employer and employee representatives, but still operating in a predominantly competitive market, open to other pension providers, without mandatory participation requirements or monopolistic management structures. Even more straightforward would be the classification under EU internal market rules of open multi-employer funds, meaning those offered to multiple employers who are not connected by industry affiliation or collective agreements. Similarly, countries with auto-enrolment systems for their occupational pensions appear to be competitive market-based systems and therefore, in principle, compatible with the full application of EU internal market rules.

2.3.4 CONCLUDING POSSIBLE DEFINITION OF SECOND-PILLAR PENSIONS (EU TERMINOLOGY):

In conclusion, it can be stated that second-pillar pensions—as defined under EU terminology—are those pensions offered or structured within the framework of an employment relationship, or otherwise within a professional activity (including self-employment), whose pension benefits are predominantly considered deferred wages. Those pensions are managed by institutions classified as undertakings, subject to supervision by regulatory authorities, and therefore governed by the same rules as all other private operators that may potentially compete with them, operating within the same market. The pension schemes they manage are heavily influenced by national labor and social regulations, sometimes placing them in an almost hybrid or uncertain position, especially when, even if in principle still subject to EU internal market rules, they are exempted by the EU competition law.

2.4 THE PERSONAL PENSIONS (THIRD PILLAR) AND THEIR AMBIGUOUS DISTINCTION -IN SOME CASES- FROM THE OCCUPATIONAL ONES

Individual pension products, offered by various financial entities, including insurers (likely predominant), but also banking or asset managers, are almost either defined contribution or with guarantees, and based on strictly individual accounts. Operating in a fully competitive market, they are subject to the relevant and sectoral EU Directives applicable to their providers, in addition to all other general EU Internal Market rules.

However, some uncertainties about whether they should be classified as third or second pillar pensions may arise in certain national legal systems. While some Member States maintain a clear distinction between these two types of pensions—by offering different tax treatments, prohibiting employer contributions to third-pillar pensions, requiring a bilateral (paritarian) or joint governance system with employer and trade union representatives in occupational or corporate pension entities, and establishing collective portfolio management structures—others not only allow employer contributions to such pensions but even incentivize them fiscally, just as they typically do for occupational pensions[13].

So, what would distinguish an individual pension from an occupational/corporate pension in this context?
One could argue that the classification of a pension as second (occupational) or personal third pillar does not necessarily depend on the entity/provider offering it, considering that in some jurisdictions, second-pillar pension institutions could also offer third-pillar products, just as an asset manager—traditionally more oriented toward individual products—could also manage occupational pensions. As is well known, insurance companies are equally recognized as providers of both second- and third-pillar pensions.
Finally, in most EU Member States, PEPPs (Pan-European Personal Pension Products) can also be created and offered by pension institutions regulated under the IORP Directive.

[13] For example, in Ireland, employer-sponsored Personal Retirement Savings Accounts (PRSAs) allow employer contributions that benefit from the same tax treatment as occupational pensions, with contributions being tax-deductible and not considered a benefit-in-kind when within prescribed limits. Similarly, in the UK, Group Personal Pensions (GPPs) are individual contracts set up through the employer and fully qualify as workplace pensions under the auto-enrolment system. Comparable arrangements exist in several Central and Eastern European countries—such as Latvia, Bulgaria, Poland, and others—where individual pension products can be promoted and co-financed by employers, often receiving tax advantages comparable to second-pillar schemes. The potential for confusion arises precisely because these very same pension products can also be accessed independently by individuals, without any involvement of the employer, in which case they clearly fall under the third pillar. This dual possibility contributes to the blurring of boundaries between occupational and personal pensions in these national systems.

What may seem somewhat disorienting, however, is that EIOPA itself, in its latest Staff Paper on the potential future of PEPP[14], has suggested a form of auto-enrolment in PEPP, not only at an individual level but also with employer contributions, thereby giving it the function of an occupational pension.
EIOPA first proposes to "*Combine occupational and personal PEPP in a single pension product*", arguing that "*tax-efficient employer contributions alongside personal contributions would make the PEPP a second and third pillar pension product*"—as if, apart from making employer contributions tax-deductible, no further action would be needed to make the PEPP a second-pillar product, like PER in France and KiwiSaver in New Zealand.

Certainly, regardless of the nature of the pension provider, some differences in treatment between occupational pensions and individual pensions may also arise due to other applicable EU legislation. For instance, occupational pensions may have vesting periods specifically established due to their occupational nature. Notably, Directive 2014/50/EU on minimum requirements for enhancing worker mobility between Member States by improving the acquisition and preservation of supplementary pension rights applies "only" to workers and to those enrolled in *"supplementary pension schemes linked to an employment relationship"* (Article 1 of the Directive).

2.5 CONCLUSIONS ON PENSION PILLARS' CLASSIFICATION IN EUROPE

Considering the points discussed above, it would seem overly ambitious to classify and define the three pension pillars at the EU level based on uniform criteria.
At this stage, it is evident that the classification of pension schemes into the first, second, and third pillars will mainly remain a national prerogative, shaped by the EU legislative framework under which Member States define their respective systems.
The OPSG recommends maintaining the EU's current approach—recognizing national classifications and, accordingly, applying the appropriate EU legislation, whether on social security coordination (Regulation 883/04) or the internal market (such as the Insurance and Pension Funds Directives).

That being said, nothing would prevent from listing -for pure practical reasons- those pensions under a given pillar, but specifying that this is made "according to the EU terminology":

- Social security pensions (first pillar and first pillar "bis"): pension schemes falling within the scope of EU Regulation 883/04. Includes:
    - First pillar: Traditional state managed PAYG schemes.
    - First pillar-bis schemes: others.
- Occupational pensions (second pillar), mainly governed by Directive 2016/2341 (IORP II) and Directive 2009/138/EC (Solvency II): those pensions offered or structured within the framework of an employment relationship, or otherwise within a professional activity

[14] EIOPA STAFF PAPER: A simple and long-term European savings product (September 11, 2024)

(including self-employment), whose pension benefits are predominantly considered deferred wages.

Individual pensions (third pillar), governed by a range of EU legislative instruments, including Directive 2009/138/EC (Solvency II), Directive (EU) 2016/97 (Insurance Distribution Directive – IDD), Regulation (EU) 1286/2014 (on Packaged Retail Investment and Insurance Products – PRIIPs), and, where applicable, also by Regulation (EU) 2019/1238 establishing the Pan-European Personal Pension Product (PEPP): are those pensions that are directly contracted by individuals, regardless of their employment status and without any involvement from their employer. As noted above, however, in some Member States these individual pension products may also be offered or facilitated by employers, and in such a case they could be regarded as occupational pensions.

3) MAIN CHALLENGES AND RISKS SPECIFIC TO EACH PENSION “PILLAR” AND ACROSS THE PILLARS

3.1 MAIN CHALLENGES AND RISKS OF SOCIAL SECURITY PENSIONS (FIRST PILLAR AND FIRST PILLAR BIS)

- First pillar (PAYG systems): The risks are related to three sources: first, demography and second, labor market inefficiencies and productivity changes and third, political decisions. In addition to deficit risks linked to demographic changes,[15]some systems remain overly generous and not fully adjusted to rising life expectancy.

Certain Member States have yet to significantly raise the retirement age, or have done so only on paper, leaving too many exceptions that result in a substantial gap between statutory and actual retirement ages, which remains too low.
Automatic retirement age adjustments, introduced in various countries, are not always effectively implemented.
Moreover, incentives to remain in the workforce beyond retirement age are lacking in some states and could be improved in others.
Converting PAYG defined benefit schemes into notional defined contribution (NDC) systems could be a viable solution, but special attention must be paid to low-income and precarious workers, who face contribution gaps due to unstable employment. More generally, while notional defined contribution (NDC) schemes can certainly offer a solution to address the sustainability of pension systems, they do not necessarily tackle – and may in some cases might even significantly worsen – the issue of pension adequacy in terms of retirement income. In such a scenario, the public social security system may risk losing its role in ensuring a guaranteed minimum income for the most vulnerable segments of the population.

- First pillar bis pension schemes: in some member states, those pensions seem to work remarkably well. In other Countries, those have been limited, reduced, or even nationalized. Also, their supervision, design, solvency and funding remain a pure national responsibility.

Like for the traditional PAYG first pillar, those schemes might be then subject to wrong government decisions (political risk, for example) and the EU might not have a say, aside from the various non-binding EU instruments aimed at encouraging reforms or improvements, such as the Open Method of Coordination or the Country-Specific Recommendations.

3.2 MAIN CHALLENGES AND RISKS OF OCCUPATIONAL PENSIONS (“SECOND PILLAR”, ACCORDING TO THE EU TERMINOLOGY)

[15] Here meant as both, low natality and so increasing demographic dependency ratio combined with longer life expectancy of pensioners

First of all, it is necessary to recall that from the perspective of a supervisory authority, the solvency of a financial institution is naturally the top priority—not only for the protection of consumers, but also to prevent systemic risks that could spread throughout the entire economy. After all, the three European Supervisory Authorities (ESAs: ESMA, EBA, and EIOPA) were created precisely in the aftermath of the catastrophic 2007–2008 financial crisis, with the aim of preventing such an event from happening again. As for the current situation of European pension funds, the OPSG does not believe that there are any significant risks of pension funds failing, let alone causing systemic crises originating from this sector.
Other challenges seem to be faced by occupational pensions, instead, and mainly related to still insufficient coverage of workers in a dramatic aging society such as the European one. This issue will be largely discussed below.
Moreover, many atypical workers remain excluded from sectoral collective agreements.
The gender gap remains an open issue, particularly as it often stems from inequalities experienced during working life — that is, during the accumulation phase of pension entitlements.
The way payout phase in DC Pension Plans is regulated bring additional risks that have two possible extremes: payout in Lump Sum that easily disappears without fulfilling the objective of contributing for an additional source of regular income during the long duration of retirement or being mandatory the acquisition of a long life annuity that besides the fact that provides an income for life, normally provides inflexible low levels of income not mitigating the risk of inflation neither the transmission of a legacy.
Some systems allow early withdrawals for non-essential reasons, effectively turning pensions into short-term investment vehicles, undermining their long-term retirement purpose. In several countries, investment returns are too low, not necessarily due to regulatory constraints but rather because of risk-averse affiliates choosing excessively conservative investment strategies, making these pensions function almost like bank deposits. The management costs of pension funds must be closely monitored, as they could significantly reduce final pension benefits. However, occupational pension costs are generally lower than those of personal pensions, due to their collective nature and the oversight of employers and social partners, who can negotiate more favorable cost structures.
Moreover, in the payout phase there are also relevant risks, mainly in DC Plans. In same case the risks of fast erosion for payments in lump sum; in others the risk of low level of inflexible pensions when is mandatory the acquisition of a long-life annuity.
Regarding governance and transparency requirements, the OPSG acknowledges that existing EU legislation (in particular the IORP Directive) and EIOPA have already made significant progress in improving oversight and regulatory standards.

3.3 MAIN CHALLENGES AND RISKS OF INDIVIDUALL PENSIONS ("THIRD PILLAR", ACCORDING TO THE EU TERMINOLOGY)

These pensions tend to be more expensive, and they are less protected by national social and labor laws. The EU could further enhance transparency requirements for consumers, including mandatory costs' and performances' comparisons with other individual locally available pension products, allowing users to make better-informed decisions based on financial performance and overall suitability. In some countries, such as Spain, there is a limit to the contributions that the individual can make to third pillar products, which limits the usefulness of these products. Another challenge stems from the inclusion of the possibility, mentioned earlier also in the second pillar of withdrawing accumulated funds without specific reason, before retirement, which undermines this third pillar and again limits its usefulness in providing income after retirement.

4) CONSIDERATIONS ON THE NEED TO PROMOTE MULTI-LAYER APPROACH IN A PENSION SYSTEM

Apart from the specific classification into pension pillars, no doubts that a pension system made up of a combination of PAYG and funded schemes is the most recommendable. Given the complexities in clearly defining pension "pillars" in Europe, this paragraph will instead favor the term "multi-layer" (or "mixed"), over "multi-pillar" pension system, particularly because it is of little relevance here whether the funded component is considered a true second pillar, a first-pillar bis, or even a third pillar.
Several considerations about the importance to promote mixed (PAYG + funded)/multi-layer pension systems were already done in a OPSG paper from May 2022[16].
Some Member States, instead of diversifying their systems by significantly incorporating funded pension layers, have opted to increase contributions to their PAYG schemes over the years, which has then reduced their ability to expand funded pensions due to the high financial burden on employers and workers. This dynamic might limit the development of mandatory funded pensions (whether first-pillar bis, or second and/or third-pillar schemes), leaving them mostly optional and supported only by tax incentives, which often prove insufficient to increase their coverage. So, it is important policy makers when considering increasing contributions to PAYG schemes to apply proportional approach – also to increase the financing of the first-pillar bis or second pillar schemes in order to preserve the balance in the whole pension system.
Conversely, countries that have integrated mandatory or quasi-mandatory funded components into their pension systems (such as the Netherlands and Scandinavian Countries) now enjoy greater sustainability and adequacy. Here again, the difference lies not so much in the classification under a specific pension pillar, but in the existence of a mixed system that combines PAYG and funded mechanisms.
In the Netherlands, funded pensions are part of the second-pillar occupational system, whereas in Denmark and Sweden, a significant portion is already included within the first-pillar bis. Finland, with its first pillar TEL scheme has built a mixed system that has not required additional levels or pillars, partly due to the absence of a maximum contribution threshold for that pension regime.
Following the World Bank pension model, several Central and Eastern European countries introduced a funded pension component from the late 1990s and early 2000s, by diverting part of workers' contributions from the PAYG system to individual, defined contribution accounts managed by financial firms. However, this first-pillar bis faced challenges, as the sudden reduction in PAYG funding led to significant deficits. The 2007–2008 financial crisis, which caused major losses in these funded accounts, made it easier for some governments to nationalize or scale back this system, redirecting legal contributions back into the general PAYG regime. Moreover, it is well known that in those countries, occupationalpensions (second pillar, according to the EU terminology) are not

[16] OPSG Advice on funded pensions contribution to income in later life, growth and employment, 22 May 2022

really spread, and so only personal pensions (third pillar) might complement the existing first pillar (and first pillar bis, when existing).

All in all, the real and primary challenge for many European countries is likely their insufficiently diversified pension systems, still overly dependent on costly and burdensome PAYG schemes, with low participation in funded pensions.

4.1 WHAT COULD BE DONE TO PROMOTE MULTI-LAYER APPROACH AT THE NATIONAL LEVEL

Many observations, suggestions, and recommendations have already been made on how to introduce multi-layer pension systems — particularly on how to promote funded pensions in countries still overly reliant on pay-as-you-go systems. For the sake of brevity, we recall here some of the most common recommendations: tax incentives, awareness campaigns, auto-enrolment mechanisms, sectoral collective agreements between social partners, and the creation of new funded tiers within the public pension system (the case of Greece is particularly interesting in this regard).

What has perhaps received less attention, however, is the need for greater interoperability between the different pension layers, which in many countries still operate in relatively siloed compartments.

The world of work has changed rapidly in recent years, and the traditional concept of a "job for life" has increasingly been replaced by more dynamic career paths. Workers — particularly younger ones — now frequently change not only jobs but also employment status, shifting between salaried employment and self-employment.

In jurisdictions where access to occupational pensions depends on having a traditional employment contract, such workers may find themselves exiting an occupational scheme when changing status, only to join a personal pension plan as self-employed — or vice versa.

There is therefore a need to reflect on mechanisms to improve the efficiency between pension layers, to avoid excessive fragmentation of retirement savings across too many products. This could include facilitating portability between occupational and personal pension vehicles (and vice versa), or enabling pension providers to offer both occupational and personal pension products — thereby reducing complexity, cost, and bureaucracy for the worker/saver.

5) CONCLUSIONS

As discussed in depth throughout this paper, any attempt to establish a uniform classification of pension pillars across the European Union would prove to be a nearly impossible task — at least if such classification were based on objective and harmonized criteria defined at EU level. National classifications of pension pillars vary significantly among Member States, particularly following the EU's enlargement to the North, Central, and Eastern Europe.

A more practical — and likely more effective — approach would be to base such classification on the applicable EU legal framework.
First-pillar schemes (including what is often referred to as the "first-pillar bis") are subject to the EU Regulations on the coordination of social security systems and remain largely under the responsibility and supervision of national authorities.
By contrast, occupational pensions and personal pensions are typically referred to, in EU terminology, as second-pillar and third-pillar schemes, respectively.
Both are private, fall within the category of supplementary pensions and are therefore subject to EU internal market rules.

Of course, the distinction between occupational and individual pensions — as reflected in EU legislation and case law — has been addressed.
Yet in practice, not all Member States draw a clear line between the two. In some cases, employer contributions and tax incentives may be granted to pension products that blur the boundary between personal and occupational pensions.
Ultimately, it remains up to each Member State to decide whether such a distinction should be strictly enforced or applied more flexibly.

Beyond these definitional issues and the specific challenges of each pillar (also explored in this paper), one key concern stands out: many national pension systems lack sufficient diversification between pay-as-you-go and funded arrangements — in other words, they are not truly "mixed" systems. In too many Member States, funded pensions still play a marginal role compared to public, PAYG-based pensions.

Moreover, since some countries have already integrated funded elements into their first pillar — forming what is known as the "first-pillar bis" — this paper adopts the broader term "multi-layer pension system" rather than "multi-pillar system" when addressing the lack of funded coverage.
After all, it is not so relevant whether the funded component belongs to the first, second, or third pillar; what matters is that it exists and complements the rest of the system.

Given that the EU Treaties do not, as currently drafted, allow for a direct role in shaping the design of national pension systems, EU efforts to promote the development of funded pensions must rely on other instruments.

For example, although the EU has encouraged the introduction of automatic enrolment mechanisms, such recommendations are not binding under the Treaties.

In addition to those recommendations, the main legal tool available to the EU in this area remains the internal market..
In this regard, the OPSG believes the Union and its member states should do more: not only by improving existing legislation, but also by proposing new rules and policies to support citizens and savers, making participation in funded pensions easier and more attractive. In other words, new initiatives should really develop more effective multi-pillar pension systems.

After all, there is broad recognition — including in the Letta and Draghi reports, as well as in the Commission's recent Communication on the Savings and Investments Union — that the EU internal market is not functioning properly, including in the field of supplementary pensions.

Ultimately, if the goal is to build truly resilient and inclusive multi-layer pension systems across Europe, both the European Union and its Member States must assume their respective responsibilities.
And at such a critical time — economically, socially, and demographically — meeting the pension challenges of tomorrow will only be possible if the European Union and its Member States truly move forward together.

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