PENSION AND LONG TERM SAVINGS GAP

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Building on past initiatives to address growing pension gaps

Europe is facing substantial pension gaps. These are expanding due to an ageing population and evolving labour markets characterized by more fragmented and dynamic career paths. The shift from defined benefit (DB) to defined contribution (DC) places greater risk and choice on individuals.

According to Eurobarometer data from July 2023, only 45 per cent of Europeans are financially confident in their retirement—37 per cent of women and 47 per cent of men—making the gender gap evident. Most EU citizens fully depend on statutory pensions for their future retirement income. Only 23 per cent participate in an occupational pension scheme and 19 per cent own a personal pension product. Citizens with a supplementary pension feel more financially confident in retirement than those without one (53 compared to 37 per cent).

The development of capital-funded pensions can contribute to reducing pension gaps, while increased pension savings support the Capital Markets Union. They are a source of capital to finance the long-term growth of the real economy and its green and digital transition.

The European Commission has taken steps to increase coverage of occupational and personal pensions. These include commissioning a study on best practices and performance of auto-enrolment systems, and requesting technical advice from EIOPA on pension tracking systems (PTS) and pension dashboards as well as on the review of the IORP II Directive. Additionally, the PEPP Regulation started to apply in March 2022, paving the way for the new voluntary EU-wide personal pension scheme for people to save for their retirement.

There is scope for these initiatives to be further developed during the next political cycle.

Firstly, transparent information on retirement income generated by national pension systems is essential. Requiring Member States to establish a PTS covering all three pension pillars would enhance citizens' awareness of their future retirement income. In addition, a pension dashboard at the European and Member State level is esstantial to support policymakers in monitoring the adequacy and sustainability of pension systems and in closing pension gaps. EIOPA is ready to support the Commission in its development.

Secondly, to increase coverage of supplementary pensions, the EU could consider requiring Member States to introduce a system of auto-enrolment, where occupational pension saving is not yet mandatory, as citizens do not save enough by themselves.

Thirdly, improving the effectiveness of existing EU pension regulation is important. This includes assessing whether the conditions for providing PEPPs (Pan-European Penion Products) are viable in this developing market. Broadening the scope of the PEPP regulation to include occupational pensions would constitute another improvement, as there may be a greater demand for occupational than personal pension solutions at a pan-European level. EIOPA's advice on the review of the IORP II Directive should be implemented as to better protect members and beneficiaries of IORPs.

Last year the Commission launched its Retail Investment Strategy (RIS), proposing to impose additional requirements on financial institutions to better protect retail investors. However, personal pension products tend to be excluded from the scope of retail investment products in EU regulation, such as the IDD and PRIIPs Regulation. While the RIS may strengthen existing requirements in the IDD for certain long-term savings products in the field of life insurance, in most Member States it does not ensure that personal pension products offer value for money. In addition, some types of private pension providers fall outside the scope of EU regulation. In some Member States the same financial institutions provide privately managed pensions across all pillars, including those in scope of the IORP II Directive.

More transparency and greater trust in supplementary pension saving is key to closing pension gaps.

A more balanced approach would increase trust in supplementary pensions. A first step would be to enhance EIOPA's remit beyond IORPs and PEPP, thus allowing it to make a supervisory assessment of all financial institutions that provide private pensions and of the value for money offered by all supplementary pension plans and products.