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## How addressing pensions gaps could help further develop Europe's capital markets

The ageing EU population and declining number of people of working age are exerting pressure on the sustainability of pay-as-you-go (PAYG) pensions. However, reforms to cut PAYG pension spending alone would increase future pensioner poverty, as statutory pensions constitute the primary source of retirement income for individuals.

Pension reforms should address the pension gaps by providing minimum social protection for all existing and future retirees and complementary retirement income sources in the form of private pensions. Privately managed pensions adapted to national circumstances can be designed to complement statutory pensions. Whether they are occupational, personal or statutory funded, these pensions all share the characteristic of being long-term investment instruments and important contributors to building Europe's internal capital market.

Recent reforms have aimed at reducing poverty (e.g. maintaining pensioners' purchasing power, increasing pension entitlements for specific groups), promoting longer working lives (e.g. limiting early retirement, increasing the pension age) and developing statutory funded schemes. Reforms to improve private pension coverage remain rare, representing a missed opportunity three-fold.

Increasing pension participation through compulsory or auto-enrolment can prove effective in reducing pension gaps. Moreover, it can contribute to the development of capital markets, which require broad coverage and scale. Well-developed capital markets can, in turn, provide new investment opportunities that benefit retirement savers and the wider EU economy.

For those reasons, addressing the pension gaps should be a priority for the next European political cycle. To achieve this, Member States should develop comprehensive and robust multi-pillar pension systems that promote secure long-term retirement savings. To ensure private pensions are accepted and trusted over time, Member States will need to foster transparent pensions systems, raise public awareness and develop simple, flexible, appealing and trustworthy private pensions.

**Fostering adequate private pensions should be a priority for the new European political cycle.**

Pensions dashboards can promote transparency by providing information on existing pension gaps and the adequacy and sustainability of pension systems. Additionally, they can support informed policy decision on how to allocate public funding to close the gap, whether through increased support for PAYG systems, support for auto-enrolment, or tax incentives for simple savings product in pillar 3. EIOPA has offered advice to the European Commission on both of these transparency tools and stands ready to provide additional support.

Private pensions should be flexible and portable to reflect the new labour market realities. As people change jobs, sectors, regions, and sometimes countries, and experience periods of (in)voluntary inactivity, it is essential to avoid situations where savers accrue multiple private pensions that do not contribute to ensuring pensions adequacy.

Private pensions should be simple by design, recognising that individuals often have limited understanding and may procrastinate when faced with complex decisions such as pensions. Policy makers should carefully consider the use of defaults as well as limit and frame choices to simplify pension decisions. Providing low-cost standardised solutions can cater to the needs of the majority of savers. EIOPA believes that product design needs to improve to ensure that products provide value to consumers.

Private pensions should be appealing by offering tax advantages, taking into account people's tendency to prioritise present needs. They should also be genuine in offering a real opportunity to secure a meaningful retirement income over time. However, full annuitisation may not be the best answer for all and may be disliked due to its irreversible nature and impact on inheritance intentions. Innovation seeking to extend savers' investment horizon beyond retirement age could provide opportunities to better match the pattern of people's retirement income needs and further help develop capital markets.

EIOPA has contributed to strengthening EU pensions regulation, namely IORP II and PEPP. While the PEPP is lagging behind expectations, it has many positive features that go beyond its portability: it is flexible, affordable, digital, and consumer-centric. It remains a valid option for the future, benefiting both consumers and providers. Additionally, it addresses pension gaps and demographic challenges while supporting long-term growth of the real economy and the green and digital transitions. However, for the PEPP to realize its full potential, it needs to be simplified, fine-tuned and upgraded to meet today's and tomorrow's challenges.

EIOPA's remit could be extended to assist Member States in implementing private pension reforms as well as explore the potential for an EU label or quality mark. This would foster consumer protection and sound supervision and build trust and confidence in private pensions for the future.