

# Savings and Investments Union Meets Retirement Policy: The IORP II and PEPP Reset

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In a bold move to bolster financial security for future retirees and boosting financial markets, the European Commission has proposed a new package of measures aimed at strengthening supplementary pensions across the bloc. In this article, we explore the proposed measures of the EU and the reason for interfering in the area of pensions.

In November 2025, the European Commission published<sup>2</sup> a review package of the Occupational Retirement Provision (IORP II) and Pan-European Personal Pension Product (PEPP) frameworks. It was published alongside a recommendation encouraging Member States to adopt systems of automatic enrolment into pension plans, similar to those in place in, for example, the UK. The package aims to modernise the framework, promote market-driven consolidation into larger structures such as master trusts, PPI's or industry-wide schemes, reduce administrative and management expenses, and enhance outcomes for pension plan members. All while preserving national competences, the autonomy of social partners, and the diversity of pension systems across the EU.

As pensions remain, to a large extent, a Member State competence, the proposed changes are formulated primarily as guidance rather than as binding, rule-based measures. The package forms

part of the Savings and Investments Union strategy and seeks to channel long-term savings toward the real economy, including equity and alternative investments, to support growth, innovation, and the green transition.

## WHAT PROBLEM DOES THE EUROPEAN COMMISSION SEEK TO SOLVE?

The overarching objectives of the European Union are extensive, interconnected, and at times paradoxical. The EU is mandated to shield its citizenry from systemic threats, ranging from climate volatility to geopolitical instability, while simultaneously fostering the free movement of services and bolstering economic competitiveness against global superpowers.<sup>3</sup> This tension between social protectionism and market liberalization creates a complex policy landscape. One area in which this becomes apparent is that of pension regulations.

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The recent proposals to review the Institutions for the IORP II directive and the PEPP regulation must be viewed through this prism of competing priorities. These regulatory updates are not merely administrative housekeeping, but can be viewed as strategic maneuvers designed to address two looming structural crises: a demographic cliff and a capital allocation inefficiency.

First and foremost, European policymakers are grappling with the fiscal sustainability and adequacy of pension systems in the face of a “double-aging” population. This demographic shift is characterized by two concurrent trends. Increasing longevity and declining fertility: Life expectancy continues to rise, extending the payout period for pension liabilities, while birth rates remain below replacement levels in many member states, shrinking the future workforce (Milijić, 2025). This results in a deteriorating dependency ratio, where the fiscal burden of economic production and social transfer payments shifts from a broad base of active workers to a contracting cohort.

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### THE TENSION BETWEEN SOCIAL PROTECTIONISM AND MARKET LIBERALIZATION CREATES A COMPLEX POLICY LANDSCAPE, AS BECOMES APPARENT IN PENSION REGULATIONS

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Furthermore, the European Union currently is currently facing a structural inefficiency in capital allocation (Draghi, 2024 and Letta, 2024). Culturally, European households exhibit higher savings rates than their transatlantic counterparts. This implies that a disproportionate volume of this wealth is held in low-yielding bank deposits and cash equivalents rather than being deployed into productive assets (ESB, 2025). This creates a “paradox of thrift”: ample household liquidity but a scarcity of risk capital (European Commission 2024).

The review of the IORP and PEPP can be seen as having both a social and financial character. Pension policy is traditionally a Member State competence, with Union involvement primarily at the coordinative level. The EU has a broad range of legislative instruments for the internal market, of which pensions are a part. Both the IORP and the PEPP are based on Article 114 of the Treaty on the Functioning of the European Union, which grants the EU competence to regulate the internal market (Van Meerten, 2012).

### WHY ARE CURRENT POLICIES INSUFFICIENT?

The current IORP II Directive<sup>4</sup> stems from 2016. A review of the occupational pension strategy was needed as was demonstrated by the European Court of Auditors in a 2025 audit, which provided a sobering post-mortem of the directive’s effectiveness (ECA, 2025).

The audit assessed the effectiveness of actions by the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) in promoting supplementary pensions. The report highlights several key shortcomings in the development of occupational pensions across the EU, mainly the participation gap and the sub-optimal scale. The participation gap means that the coverage of occupational pensions is stalled at 20%, exacerbated by a demographic “perfect storm.” With the old-age dependency ratio projected to hit 59% by 2070 and the labour force shrinking by 14%, current replacement rates (often via pay-as-you-go mechanisms) are unsustainable. The sub-optimal scale comes, in part, from a highly fragmented supply side; 80% of IORPs manage less than 1 billion EUR.

As noted earlier, in addition to the issue of pension adequacy, the IORP framework was also intended to address access to capital markets. However, the market for occupational pensions remains largely dominated by a few countries, including the Netherlands and Denmark. When comparing European saving rates with those in the United States, a persistent gap is evident (ESB, 2025) as Americans invest much more per capita than Europeans. This gap cannot be attributed to limited access to capital markets as such, but rather to a combination of cultural factors and the availability of suitable savings vehicles, including occupational pensions.

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### THE REVIEW MUST BE SEEN AS BOTH A SOCIAL AND FINANCIAL PLAY

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In the United States, a significant share of capital market depth is derived from retirement-related savings, notably through occupational and individual arrangements such as 401(k) plans and (Roth) IRA structures, accounting to a whopping 48.1 trillion in USD at the end of 2025 (ICI, 2026). In comparison to the entire capital markets of the EU, which stand at 33 trillion EUR, retirement investments alone are 45% higher in the US (EFAMA 2025) while the European Union has more inhabitants than the US.

The European occupational pension sector remains small and fragmented. A consequence of a more developed occupational pension sector in Europe would be increased and more stable long-term investment flows, contributing to deeper liquidity in European capital markets. This linkage between pension system design and capital market development is acknowledged by senior European policymakers, although with some caution not to mix up regulatory objectives.

## HOW DOES THE EUROPEAN COMMISSION SEEK TO SOLVE THE PROBLEM UNDER THE REVIEW?

The European Commission has included several measures in its review to address both affordability and to activate & mobilise capital towards the financial markets.

First, the proposal aims to address market integration and modernization. In parallel, timelines are streamlined to reduce the regulatory friction currently stifling cross-border operations. The Netherlands has been one of the few countries to actively increase the requirements for cross-border value transfers over national transfers which hampers the ability to, for example, make use of the so called ‘Belgium route’, in which a Belgian IORP administers a Dutch scheme. These transfers are subject to scheme member approval. The Netherlands currently requires a 2/3<sup>rd</sup> approval rate, but under the proposed review only a simple majority is allowed. Of course, it remains doubtful that removing such barriers will have a large impact on cross-border value transfers, as even with for example the Belgium route a new pension scheme can be set up without the movement of assets.

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### THE IORP II DIRECTIVE HAS NOT LED TO ITS GOALS

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Second, article 19 of the proposed IORP directive shifts the prudent person principle toward a more principles-based approach. It limits the use of detailed investment rules to schemes where members and beneficiaries bear investment risk, and prevents blanket restrictions on asset classes, while preserving the ability of competent authorities to impose proportionate restrictions in such cases. This means that countries have less room to quantitatively restrict investments, which may lead to more suitable and complex investment solutions. Furthermore, it may allow for easier access to illiquid asset classes such as infrastructure, private equity and private debt (Pensioenfederatie, 2026).

Third, the EC introduces a proposal to make the depositary a mandatory part of the operating governance of defined contribution IORP’s, responsible for both safekeeping and oversight. As such, the EC seeks to grant the consumer a level of protection comparable to that provided in the case of investment funds.

#### PERFORMANCE BENCHMARKS

Article 41a of the proposal requires national competent authorities to set performance benchmarks for IORPs, but it does not define what constitutes a benchmark. This could imply comparison either to market indices or to peer performance. The use of peer benchmarks has been successful in the Australian context, where the Australian Prudential Regulation Authority (APRA) benchmarks each pension fund and makes the comparison

available on its website.<sup>5</sup> The Pensioenfederatie (Dutch Pension Federation) remains opposed to the use of such benchmarks, arguing that differences in the composition of age cohorts may affect the credibility of comparisons. Although this concern may be valid to some extent, performance remains highly relevant in pension schemes where the risks and benefits of pension assets translate directly into the pension accounts of individual participants. The proposal by the Pensioenfederatie that schemes should establish their own benchmark would therefore create a situation in which “the butcher would rate its own meat.”

#### AUTO-ENROLMENT

Alongside the IORP II Review, the Commission issued a Recommendation on pension tracking systems, pension dashboards and auto-enrolment. Auto-enrolment is the system that automatically enrolls individuals into a supplementary pension scheme, typically occupational or personal, while allowing them the personal choice to opt out. It aims to increase participation where voluntary uptake is limited. Evidence from (former) EU Member States, with the UK being the most prominent case, shows that participation rises significantly under such systems, as many individuals remain enrolled by default.

Despite being regarded as a developed pension system, the Netherlands has a coverage gap of around 10 percent of employees. Participation in occupational pensions is organised through sectoral schemes with compulsory participation at sector level, but employees outside these sectors are not covered, and employers are not required to offer a pension provision. Although policymakers have expressed the intention to increase coverage, no formal measures have yet been introduced.

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### THE BASIC PEPP WILL BECOME SUITABLE BY DESIGN

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The recommendation to introduce auto-enrolment may thus have more impact than one might think at first glance, especially when combined with the last part of the review, the PEPP. Admittedly, introducing a requirement to offer a pension by all employers and for all employees may prove to be an administrative burden, especially for very small companies. But one could learn from the Belgian or UK example, namely the Individual Pension, which is offered *via* the employer instead of *by* the employer. In essence, it comprises a personal pension product held with a provider of choice, with the requirement for employers to direct a certain percentage of income towards that account.

#### PEPP

The Proposal for a Regulation COM/2025/840 final<sup>6</sup> represents a targeted, yet substantial, legislative intervention predicated on the diagnosis that the initial PEPP framework failed to achieve its envisaged market penetration and cross-border commercial success.

As Van Meerten and Hulshoff [2022] have explored in depth, the PEPP offers considerable structural opportunities on the supply side. It draws a deliberate distinction between the PEPP Provider and the PEPP Product itself, enables a cross-border license from a single Home State, imposes standardized communication requirements, and allows for collective distribution through mechanisms such as the PEPP Savings Association. These features effectively grant PEPP Providers – ranging from investment firms and credit institutions to insurers and certain IORPs – EU-wide access to the pension market. At the same time, the framework embeds robust consumer protection measures, including mandatory transparency, risk mitigation rules, member suitability testing, and, most notably, a strict fee cap of 1% of assets per annum for the Basic PEPP. The PEPP is structured as a personal pension product, but its implementation is designed to allow for implementation as a corporate pension scheme. As such it offers corporate employers policy freedom to embed pension in the total remuneration framework, as contribution to the PEPP is voluntary. For employees, it offers a quality-stamped pension product with freedom to choose contribution and the decumulation phase.

Despite this, and despite the interest in PEPP from the demand side (mostly multinational corporations and cross border collectives), the uptake from the supply side has been lacklustre. Part of the reason is the current lack of EU wide operational platforms, and the divergence in labour and tax law across the various EU member states. But one of the main, and more vocal reasons, is the fee cap of 1%. Where The Netherlands demonstrates in the Personal Pension Product (PPP) market that a fee of 0.5% is commonplace (and far lower prices are charged for larger collectives and higher AUM), this is not the case in other EU member states. The Netherlands stands out in the EU, following its ban on commission and the resulting incentive for providers to fiercely compete on fees. In contrast, many other Member States continue to rely on commission-based distribution models that require greater fee headroom to accommodate intermediary remuneration.

The European Commission tackles these challenges in its proposed review. It relaxes certain rules and accommodates the supply side offering PEPP products more easily, while maintaining the core principles and maintaining the intended market dynamics of cross-border competition in an EU wide pension market.

Key adjustments in the 2025 review include the complete removal of the 1% fee cap. In its place, the Commission introduces a more principles-based Value for Money framework, which will be fleshed out through forthcoming supervisory guidance from EIOPA and appropriate national oversight mechanisms. This shift is designed to restore commercial breathing space for providers – allowing them to invest in product quality and distribution infrastructure, and to compete without risking the existing book of business.

The Advanced PEPP is restructured and rebranded as the Tailored PEPP, which continues to function as an optional, higher-flexibility add-on to the core Basic PEPP. A significant relaxation occurs here: the previously mandatory risk-mitigation techniques (including lifecycle de-risking) are lifted for the Tailored variant, giving providers greater freedom to re-use existing products as a tailored PEPP.

On the default investment side, the proposal now expressly endorses lifecycle investment strategies as the appropriate default option, thereby removing all doubt for providers in markets that have not been familiar with this investment approach.

Advice obligations have been carefully streamlined to strike a more pragmatic balance. For the Basic PEPP – constructed with standardised features and investment safeguards – the product is now deemed suitable by design; individual member-specific advice is no longer required. By contrast, the Tailored PEPP, with its greater degree of customisation, retains the obligation to provide appropriate advice, ensuring that more complex choices remain accompanied by suitable guidance (which may, importantly, also be delivered digitally).

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## EU APPROACH IS COINED AS "RULES FIRST, MARKETS WILL FOLLOW"

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Distribution rules are meaningfully widened: the proposal explicitly authorises the use of PEPP in workplace settings and signals its potential role as a compliant vehicle within auto-enrolment schemes. This change opens the door for employers to facilitate supplementary retirement saving without the need to establish bespoke occupational arrangements and without the restrictions that apply to participants in occupation pension schemes. An example of the latter is noticeable in The Netherlands, where in the occupational pension system, the pension contribution is mandatory for every consumer, and consumers are required to purchase a lifelong annuity at retirement, while fiscal boundaries remain equal for occupational and personal pensions alike.

Finally, although direct tax competence remains firmly at national level, Member States are placed under a clear obligation to grant PEPPs tax treatment that is at least comparable to that accorded to equivalent domestic personal pension products. This requirement is intended to dismantle one of the most persistent structural barriers to genuine cross-border portability.

Taken together, these carefully calibrated refinements represent a pragmatic recalibration of the PEPP regime. By easing supply-side constraints, sharpening competitive incentives, and reinforcing the product's practical usability, especially in workplace and auto-enrolment contexts, the proposal seeks to revive the PEPP as a genuine, scalable cornerstone of the Savings and Investments

Union. The ultimate ambition remains unchanged: to mobilise more long-term household savings into productive capital market channels while delivering measurably improved retirement outcomes for European citizens across the Union.

### DOES THE PROPOSAL ADDRESS THE PROBLEM?

Where the Anglo-Saxon approach is often best described as “markets first, rules later”, the EU approach is characterised as “rules first, markets will follow”. The proposal for the pension revision takes exactly this route. Proposed measures are focused on unlocking the demand that underlies the pension gap and the ageing population via transparency for the consumer (pension register) and auto enrolment. At the same time the proposal introduces measures to stimulate supply, including simplified prudent person rules and boost competition through performance testing and mandatory depositary rules. All of this is accompanied by strong consumer protection via duty of care regulation.

If EU law were a chess game, the Commission is executing a calculated middlegame manoeuvre – deliberately positioning its regulatory pieces for the endgame. That endgame is clear: a true single market in which every European citizen can shop for a suitable pension product from any authorised provider across the Union, and every provider, regardless of its home Member State, can offer its solutions to every citizen without artificial barriers.

Reasoning backwards from that vision, the package constructs the necessary conditions for this: a balanced equilibrium between supply and demand – more supply unlocked through a revitalised PEPP with relaxed constraints, workplace usability, and stronger sell-side incentives; more demand mobilised via pension registers to ensure full transparency, auto-enrolment to overcome inertia, and other measures that widen the participant base.

Genuine accountability to participants is embedded, alongside robust consumer protection and – crucially – performance as a non-negotiable necessity. Transparency will drive informed choices: consumers empowered to select the best product, and Member States better equipped to close the pension gap through auto-enrolment or equivalent mechanisms. The PEPP, in this construct, emerges as the UCITS of pensions, a standardised, portable, EU-wide vehicle capable of scaling rapidly once barriers fall. The result is a set of incentives that effectively replicate those of an open market: perform or disappear.

We expect that consolidation will follow naturally, as will new value-adding business models for advisors, shifting from pure distribution to genuine advice around total remuneration, pension budgeting and intelligent nudging. Pensions will remain a basic provision, yet become far more: an open-finance gateway to long-term wealth building.

Will it be successful? The vision is highly feasible; the speed of realisation will depend on the pace at which local markets shift entrenched practices. Auto-enrolment will likely act as the decisive accelerator. What is deliberately not imposed is a hard ban on commissions. Instead, the proposal trusts the new rules, radical transparency and the anticipated influx of foreign asset managers and providers to deliver genuine fee competition and higher consumer protection. The knee-jerk reaction in parts of the Dutch market, namely that greater transparency and commercial EU-wide competition somehow threatens the mandatory nature of Dutch IORPs, misses the point: it is far more likely to raise the quality bar for everyone.

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### IF THERE EVER WAS A TIME FOR THE DUTCH PENSIONS AND ASSET-MANAGEMENT SECTOR TO GROW CONFIDENTLY BEYOND ITS OWN BORDERS, THAT TIME IS NOW

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For the industry and for asset management the message is equally stark: pension provision is asset management. Solvency metrics and annual contribution matter far less than scale, AUM growth and sustainable margins. Size and scale will dominate. The PEPP, once fully operational, will be the UCITS of the pension world. In practice the 2025 changes are largely clarifications rather than revolutionary breakthroughs, yet the perceptual shift is enormous: explicit workplace distribution, Basic PEPP suitable by design without the need for individual advice, and a clear signal that sell-side innovation is not only welcome but expected.

The Netherlands, remarkably, already lives many of these principles. It has a fully functioning pension register with >90% usage in its target population. It has proven asset-separation regimes with commercial providers, similar to the depositary. It runs principle-based prudent-person rule that permits broad, sophisticated portfolios. It has a market with PPP products that serve as the natural blueprint for the modernised PEPP and are as close a fit to PEPP as it gets. The PPI vehicle, introduced in 2011, has delivered an unprecedented cost compression, from 1.2% to 0.4% and below within a year, and created a vibrant market for corporate schemes outside sectoral mandatory funds.

The devil, as always, will be in the details – the precise calibration of “Value for Money”, the granularity of cost transparency, the practical interplay with national tax and labour rules. Yet the direction of travel is unmistakable and in line with the Dutch market practice. If there ever was a time for the Dutch pensions and asset-management sector to grow confidently beyond its own borders, that time is now.

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## Notes

- 1 Both authors publish on personal account.
- 2 European Commission (2025).
- 3 See Article 3 of the Treaty on European Union.
- 4 Directive (EU) 2016/2341.
- 5 <https://www.ato.gov.au/single-page-applications/yoursuper-comparison-tool>.
- 6 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52025PC0840>.