



*Association Européenne des Institutions Paritaires*

European Association of Paritarian Institutions

# **AEIP Position paper on the Supplementary Pensions Package**

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# 1. Executive summary

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On 20 November 2025, the European Commission presented its Supplementary Pensions Package, composed of two legislative proposals on the review of the Institutions for Occupational Retirement Provision (IORP) II Directive, and the Pan-European Personal Pension Product (PEPP) Regulation, as well as a Recommendation for Member States on pension tracking systems (PTSs), pension dashboards and auto-enrolment. The package aims to address the existing challenges for European pension systems, represented by increased longevity, low fertility rates, and a decreasing working-age population, which impose dramatic pressure on public budgets and national pension systems.

The further development of occupational pensions can play an important role in addressing these challenges, while also helping to improve coverage of non-statutory retirement arrangements and enhancing the adequacy of pensions for EU citizens.

AEIP also supports the other objectives of the Supplementary Pensions Package: channelling the large amount of private retirement savings into EU capital markets, with a focus on financing EU growth and innovation, as well as boosting the competitiveness of the EU financial sector. While these objectives are important, they should remain secondary to the primary purpose of occupational pensions, which is to ensure adequate retirement income for members and beneficiaries. Enhancing occupational pensions should therefore be a key priority as these play a crucial role in supporting EU citizens in achieving better retirement income.

AEIP emphasises that the package should represent an opportunity to strengthen paritarian occupational pension schemes. Reinforcing industrial relations and the role of social partners in the design and governance of pension policies is key to fostering trust in occupational pensions and supporting higher participation in occupational pension plans.

This position paper illustrates AEIP's perspectives on the Package. In the following sections, we provide our views on the proposed measures in the context of the review of the IORP II Directive, as well as our position on the legislative proposal on the review of the PEPP Regulation and the Recommendations on PTS, pension dashboards and auto-enrolment.

## **Highlight: the Paritarian governance model – A distinctive institutional safeguard for occupational pensions**

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Paritarian social protection institutions, represented by AEIP, are founded on joint governance by employers and employees on an equal basis. This governance structure is not an operational detail, but a defining institutional feature that directly shapes the way occupational pensions are designed, managed and supervised.

### **Structural features of the Paritarian model**

The paritarian model is characterised by:

- Equal representation of employers and employees in governing bodies, ensuring balanced decision-making and embedded checks and balances;
- Collective bargaining as the foundation of pension scheme design, anchoring occupational pensions within national social and labour law frameworks;
- A not-for-profit social protection mandate, prioritising adequacy, long-term sustainability and solidarity over short-term financial performance;
- Collective risk-sharing mechanisms, often including solidarity components and sponsor involvement;
- Long-term investment horizons, aligned with retirement objectives rather than market cycles.

This institutional design embeds members' interests directly into governance, rather than relying primarily on external regulatory safeguards.

## Governance advantages and systemic benefits

The paritarian model delivers tangible governance and policy advantages:

- **Built-in fiduciary alignment**  
The equal presence of employee representatives ensures that decisions are inherently taken in the best interests of members and beneficiaries. The governance structure itself operationalises the duty of care.
- **Enhanced trust and participation**  
Active involvement of social partners strengthens legitimacy, transparency and confidence in occupational pension schemes, which is crucial for long-term participation and contribution stability.
- **Long-term investment approach**  
Paritarian institutions are structurally oriented toward long-term adequacy and intergenerational balance. This reduces incentives for short-term performance chasing and pro-cyclical investment behaviour.
- **Cost efficiency and economies of scale**  
Collective organisation of contributions and investments, combined with the absence of profit distribution, allows many paritarian IORPs to operate at comparatively low cost.
- **Integration of sustainability preferences**  
In paritarian schemes, sustainability considerations are channelled through social partner representation, allowing collective preferences to be translated into investment policies without requiring costly individualised preference collection mechanisms.

## Implications for the IORP II review

In the context of the review of the IORP II Directive, it is essential that EU legislators duly recognise the specific governance architecture of paritarian IORPs.

Several proposed amendments risk overlooking the institutional safeguards already embedded in paritarian governance:

- The introduction of an explicit duty of care duplicates obligations already structurally ensured through joint governance.
- Additional compliance and governance functions may create redundant administrative layers in institutions where checks and balances are inherently embedded.
- Requirements to individually assess sustainability preferences may fail to acknowledge that such preferences are already reflected collectively through employee representation.
- Underperformance benchmarks and short-term performance comparisons risk undermining the long-term and solidarity-based nature of paritarian schemes.
- Expanding EU-level supervisory intervention and delegated acts may weaken the minimum harmonisation principle, which is particularly important given the diversity of paritarian models across Member States.

## A model to be recognised and safeguarded

The paritarian governance model is not a market structure comparable to retail financial service providers. It is a social protection institution embedded in collective labour relations, combining prudential management with social objectives.

For this reason, the IORP II review should:

- Explicitly recognise the social and collective nature of paritarian IORPs;
- Ensure that proportionality fully reflects governance structure and collective safeguards;
- Avoid imposing redundant or retail-style conduct rules where structural governance already ensures member protection;
- Preserve Member States' discretion in supervising diverse occupational pension models under the minimum harmonisation framework.

Strengthening occupational pensions in Europe requires reinforcing trust, adequacy and long-term sustainability. The paritarian governance model has demonstrated its capacity to deliver on these objectives and should therefore be duly considered and safeguarded in the legislative review process.

## Key Recommendations

- **Support for the overall objectives**

AEIP welcomes the ambition of the Supplementary Pensions Package to expand coverage of occupational pensions and improve the adequacy of retirement income for EU citizens. These objectives are essential in light of Europe's demographic trends and increasing constraints on public pension systems.

- **Strengthening the proportionality principle in the application of the IORP II Directive**

The proposal on the review of the IORP II Directive does not sufficiently reflect the diversity of the IORPs' landscape across the EU. AEIP urges EU co-legislators to strengthen the application of an encompassing proportionality principle that includes size (of pension schemes and IORPs). Transparency, governance, and other reporting requirements should be calibrated in a more proportionate manner to avoid imposing higher administrative costs and burdens on small and medium-size IORPs.

AEIP recommends raising the threshold for small IORPs to 1000 members and beneficiaries and to EUR 50 million in assets. The review of the IORP II Directive should introduce a Member State option for a standstill clause applicable to IORPs that are jointly managed by employee and employer representatives with assets under management below EUR 500 million. Under this approach, Member States could continue to apply the requirements covered under the existing Directive for this category of IORPs. Communication rules would be excluded from this standstill provision to ensure consistency for participants within Member States. Moreover, we call for amendments to the Digital Operational Resilience Act (DORA) to extend the IORP exemption to both to small IORPs and to this new category of paritarian IORPs under this standstill clause.

- **Preservation of minimum harmonisation and national supervisory discretion**

We caution against the introduction of delegated acts and the extensive powers foreseen for EIOPA in several areas under the proposed review of the IORP II Directive. The minimum harmonisation approach must be preserved, as it remains appropriate given the heterogeneity of pension systems, labour markets, social protection frameworks, and other national arrangements across Member States. For instance, the proposed requirement for EIOPA to develop Regulatory Technical Standards (RTS) specifying the details of presentation of information and format of the Pension Benefit Statement (PBS) is a clear example of misalignment with the minimum harmonisation approach underpinning the Directive. Introducing an EU-level standardised format for the PBS would not adequately reflect the heterogeneity of pension schemes and the diverse needs of IORPs' members and beneficiaries across Member States.

- **Recognition of the social function of IORPs**

AEIP also draws attention to the fact that the proposed amendments to the IORP II Directive insufficiently reflect the social function of IORPs and the triangle of relationships between employer, employee and the IORP. These features distinguish IORPs from pure financial services providers, and should be safeguarded and supported in the context of the review the Directive. For instance, the legislative proposal introduces a regulatory approach on underperformance that is not suitable for IORPs, which perform a social role (with many pension schemes incorporating solidarity aspects) and operate as long-term investors.

- **Avoidance of redundant requirements for paritarian institutions**

Some of the requirements introduced under the proposed review of the IORP II Directive are redundant for paritarian institutions, which are jointly managed by both representatives of employers and employees on an equal basis. AEIP calls on EU co-legislators to avoid requiring additional safeguards, such as an explicit duty of care which are already ensured through the checks and balances typical of the paritarian model of governance.

- **Prioritising regulatory simplification and burden reduction for IORPs**

The proposed extensive new requirements for IORPs would result in additional administrative costs and burdens, particularly for small and medium-sized pension funds. This regulatory approach contrasts with the objectives of the Better Regulation agenda, under which the European Commission committed to reducing administrative burdens for all entities by at least 25%. AEIP therefore calls on EU co-legislators to place greater focus on simplifying rules for IORPs, in line with recent legislative initiatives aiming at reducing costs for businesses and strengthening EU competitiveness, such as the Omnibus Simplification Package, the Digital Omnibus and the Market Integration Package.

- **Support for a risk-based investment framework with flexibility to invest in alternatives**

The proposed amendments to Article 19 (prudent person principle) strengthen a genuinely risk-based investment framework for IORPs. By reaffirming that investment decisions should be assessed in light of the fund's overall risk profile, benefits and long-term objectives, the proposal provides pension funds with greater flexibility to diversify their portfolios. This creates more room to invest in alternative and illiquid asset classes, such as infrastructure, private equity and private debt, which are well-suited to the long investment horizons of occupational pension funds.

- **Support for temporary underfunding mechanisms**

AEIP supports the proposed measure allowing temporary underfunding. Permitting underfunding for a limited period could encourage pension funds to further diversify their investment portfolio and increasingly invest in illiquid assets, without requiring them to maintain a fully-funded position at all times.

- **Facilitation of cross-border transfers**

AEIP also welcomes the proposed changes to the mechanism for the approval of cross-border transfers. Including members' and beneficiaries' representatives in the calculation of a simple majority, subject to a participation threshold of 25%, could make cross-border transfers easier and support increasing consolidation of pension funds.

- **Caution regarding the expansion of PEPP within occupational settings**

AEIP acknowledges the proposal to allow IORPs to offer the PEPP (or other personal pension products) within workplace settings. While the PEPP could play a role in some Member States, introducing a one-size-fits-all product into diverse occupational pension markets could undermine well-functioning national models, and potentially disrupt established collective agreements between social partners, often based on solidarity. Therefore, AEIP recommends that Member States should always maintain full discretion to determine whether IORPs can offer PEPP, while safeguarding the role and autonomy of social partners in collective bargaining.

- **Strong support for Pension Tracking Systems**

We support the recommendation on Pension Tracking Systems (PTS). Encouraging the establishment and further development of national PTSs is key to providing individuals with effective tools to support informed financial planning for retirement, increase financial literacy and promote more long-term savings.

AEIP appreciates that the recommendations urge Member States to take measures ensuring connectivity of their PTS with the European Tracking Service on Pensions (ETS), and provide a legal basis for PTS-related data to be shared across borders, in the context of the ETS. Establishing a robust legal framework for data exchange is key to preventing delays in the connectivity between PTSs and the ETS.

However, AEIP cautions about the proposed provisions for IORPs under article 37a, which would require the reporting of information on pension entitlements and other requirements ensuring the structure and format of data to be used for the build-up of PTS. We believe that such requirements risk imposing high

administrative burdens and operational costs for IORPs. The harmonisation of the structure and format of PTS across the EU is not justified as the design of PTS falls within national competence, reflecting the specificities of national pension systems.

- **Recommendation on the promotion of auto-enrolment in supplementary pension schemes, with due regard to national social dialogue arrangements**

AEIP welcomes the recommendation for Member States to promote the use of auto-enrolment in supplementary pension schemes where mandatory, while preserving the role and autonomy of social partners. Given the significant differences in the role and strength of social partners across Member States, auto-enrolment mechanisms should ensure the active involvement of social partners in their design and implementation, where they are well-established and representative, while remaining adaptable to national institutional frameworks. Engagement with social partners is fundamental to ensuring trust and long-term stability in occupational pension markets.

## 2. Position on the review of the IORP II Directive

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The European Commission's proposal on the review of the IORP II Directive introduces a variety of measures aimed at enhancing the financial security of EU citizens during retirement, improving the sustainability of pension systems, and supporting the creation of a Savings and Investments Union by channelling individuals' private retirement savings to finance EU economic growth and competitiveness. Throughout this section, AEIP highlights the perspectives of European paritarian institutions on the main proposed measures in the context of this review.

### a. Encouraging Member States to make broader use of the IORP II Directive

Under the proposed article 4, Member States would have the opportunity to apply the IORP II Directive to funded pension institutions that are currently covered neither by this regulatory framework nor by other EU rules.

AEIP highlights that this optional expansion of the scope of the IORP II Directive contrasts with the minimum harmonisation principle, which is a cornerstone of the current framework. Supplementary pension systems are inherently diverse across EU Member States. Pension institutions differ significantly in structure, size, funding and governance. These differences, which arise from national social, labour markets, and legal frameworks, should be seen as a strength, ensuring that pension provisions reflect local needs and social dialogue mechanisms.

In this context, we view the potential inclusion of all supplementary pension institutions within the scope of the IORP II Directive as likely to give rise to regulatory overlaps and risk distorting well-functioning national pension systems

Moreover, the optional application of the Directive would also cover funded pension schemes that are currently subject under the EU Regulations (EC) No 883/2004 and No 987/2009. Such schemes are regulated and supervised at national level, and fulfil an essential social function, as they can provide old-age, disability and survivors' pension benefits, forming a core element of the first pension pillar in various member states. Applying the IORP II Directive to also these pension schemes is likely to result in significant and disproportionate financial and regulatory burdens. Social security institutions are also not compatible with the nature or internal-market rationale of the IORP Directive.

The envisaged extension of scope appears too broad and is likely to dilute the tailored regulatory framework designed for IORPs.

## b. Removal of references to size and AEIP proposed definition of small IORPs

The European Commission proposed removing any mention to “size” (and “internal organisation”) in the IORP II Directive when referencing to “size, nature, scale and complexity”. The rationale for this proposed amendment is that size is not considered an appropriate criterion for the application of the proportionality principle as prudential and governance requirements should reflect IORP’s risk profile rather than their absolute size.

AEIP cautions that this proposed amendment may weaken the proportionality principle, which is essential for the effective functioning of smaller and medium-size IORPs. Size remains the most relevant and least burdensome criterion for ensuring the proportionate application of regulatory requirements under the Directive. The relatively small number of member and beneficiaries, assets under management, number of workers, and simplicity of IORPs’ internal structures are easily traceable and reliable indicators to be assessed. Excluding “size” (and “internal organisation”) from the proportionality criteria is likely to make it challenging and costly for IORPs and National Competent Authorities (NCAs) to demonstrate the applicability of the proportionality principle.

Moreover, the removal of size from the current proportionality criteria could be incompatible with the European Commission’s goal of encouraging greater investments in alternative assets and more diversified investment strategies, aimed at achieving higher returns for pension fund members and beneficiaries. More disproportionate rules for smaller IORPs may discourage these institutions from taking higher risks and offering increasing and diversified exposure to a broad range of asset classes.

For these reasons, AEIP strongly opposes the removal of the size (and “internal organisation”) criterion from the application of the proportionality principle. Instead, this principle should be further enhanced to better reflect the diverse IORP landscape across the EU. Many small and medium-sized IORPs have limited resources and face high compliance costs. The implementation of more proportionate rules under the IORP II Directive would help alleviate the compliance burden, enabling these smaller IORPs to deliver more adequate and sustainable retirement income to their members and beneficiaries.

AEIP recommends increasing the threshold for small IORPs to 1000 members and beneficiaries and to EUR 50 million in assets.

The IORP II review proposal significantly raises the regulatory burden for IORPs and poses threats to their viability, including for those above the EUR 50 million asset threshold. Rather than achieving the desired consolidation within the IORP sector, many IORPs that cannot continue operating under this increased regulatory burden may opt for an insurance buy-out. This would lead to a decrease in European risk capital, rather than an increase, which is the opposite of the intended objective of the Supplementary Pensions Package.

In order to protect the viability of medium-sized IORPs, AEIP recommends introducing a Member State option for a standstill clause applicable to IORPs that are managed jointly by employee and employer representatives with assets under management below EUR 500 million. This means that Member States

could decide that, for this category of IORPs, the provisions of the current IORP II Directive would continue to apply, maintaining the level of protection provided by the existing framework in combination with the safeguards built into the paritarian governance model. To ensure consistency within Member States for participants, the communication rules would be excluded from the standstill provision. Furthermore, AEIP recommends amending DORA so that the IORP exemption applies both to small IORPs and to this new category of paritarian IORPs under the standstill clause.

### c. Multi-sponsor IORPs

The proposed article 9a proposes that IORPs should be allowed to operate different pension schemes, including those that have diversified investment policies. IORPs should also be able to accept sponsorship from multiple sponsoring companies within the same pension scheme.

AEIP expresses concern about the potential impact of this rule on those IORPs that run a single-sponsor scheme, sector-wide or profession-specific schemes, and on consolidation vehicles offering different ring-fenced schemes to multiple sponsors, which have already been established through collective agreements by social partners.

To safeguard paritarian occupational pension schemes, we recommend that this requirement could explicitly exclude those agreements on a single sponsorship basis that have been reached by social partners. AEIP suggests that the proposed requirement is amended by adding this sentence: “without prejudice to collective bargaining and social and labour law”.

### d. Cross-border procedures

To facilitate and support increasing cross-border procedures, the European Commission proposes streamlining cross-border procedures for IORPs, where members and beneficiaries fully bear the investment risk. A simplified notification procedure is also envisaged for adding sponsoring companies to a previously notified pension scheme, as well as for non-material changes to an existing scheme.

AEIP welcomes the introduction of these measures and supports any initiative aimed at reducing unnecessary administrative burden related to the notification of cross-border procedures for IORPs.

### e. Simplification of rules on transfers of pension schemes

AEIP welcomes the proposed article 12, which introduces an easier mechanism for the approval of cross-border transfers. Specifically, cross-border transfers should be subject to approval by:

- A simple majority of the members and beneficiaries concerned, or where this is applicable, a simple majority of their representatives. This simple majority should be calculated based on the received responses.
- The sponsoring company, where applicable.

To approve a transfer, a participation threshold of 25% of the members and beneficiaries must be reached.

AEIP supports this proposed uniform EU definition regulating the mechanism for the approval of cross-border transfers. This is aligned with the EIOPA recommendation in its 2023 Technical Advice for the Review of the IORP II Directive. Currently, the requirement for a high majority to approve cross-border transfers of IORPs has proven to be a key obstacle to their cross-border activity. The inclusion of members' and beneficiaries' representatives in the calculation of a simple majority is expected to facilitate the approval of cross-border transfers, and encourage greater consolidation of IORPs across the EU.

## f. Increasing role of EIOPA and introduction of delegated acts

The European Commission proposal introduces extensive powers for EIOPA in several aspects of the Directive. EIOPA would be empowered to issue guidelines on the assessment of the authorisation procedure, quantitative requirements and the conditions for governing activities for IORPs.

AEIP cautions that the introduction of delegated acts and greater regulatory powers for EIOPA would be inconsistent with the minimum harmonisation approach, reflected under the IORP II Directive. The heterogeneity of IORPs across the EU requires a national supervisory approach and NCAs should continue to independently determine how IORPs are assessed within their respective Member State. NCAs are best positioned to understand the specificities rooted in national social, labour market and legal frameworks.

Moreover, the proposed amendments to articles 38, 39 and 40, EIOPA would also be required to develop Regulatory Technical Standards (RTS) specifying the details of the presentation of information under the Pension Benefit Statement (PBS), taking into account the characteristics of different types of schemes and whether members and beneficiaries fully bear the investment risk.

With regard to the proposed RTS for an EU-standardised format for the PBS, AEIP emphasises that this would fail to reflect the diversity of pension schemes and the varying needs of IORPs' members and beneficiaries across Member States. Instead, we recommend that the IORP II Directive prioritise a principles-based approach allowing IORPs to determine the most appropriate format and communication strategies, tailored to the needs of their members and beneficiaries.

The proposed article 17 would confer the European Commission the power to adopt to amend numbers and percentage values for required solvency margins in order to adapt to evolving market developments. AEIP would like to draw attention that frequent and discretionary adjustments through the adoption of delegated acts could pose challenges in terms of limited planning certainty and predictability for IORPs. This approach could also disrupt the historical calibration of solvency margins and pose challenges in the interpretation of numbers and their development over time. Recurring changes in the numerical

thresholds and percentage values may also lead to uncertainty for the development of financial capital requirements. Adjustments to capital requirements from one year to the next would directly affect the level of available risk capital, and consequently the capacity for capital investments. In other words, frequent changes to capital requirements would require a matching adjustment of the investment risk profile.

Finally, similarly to the proposed measures expanding the powers for EIOPA, the introduction of delegated acts contrasts with the minimum harmonisation approach, which is a key principle of the current IORP II Directive.

### g. Underfunding

AEIP fully supports the proposed article 14 allowing NCAs to permit underfunding for a limited period, as determined by national law and not exceeding ten years. This measure provides greater flexibility for IORPs, enabling them to diversify their investment strategies (and take higher risks) without being required to remain fully funded at all times. The proposal also aligns with developments in some Member States, e.g. under the German law, IORPs may experience a temporary period of underfunding, that must not exceed ten years.

### h. Internal stress testing

The European Commission proposes that IORPs underwriting biometric risks or guarantees conduct an internal stress test at least every three years to assess their ability to meet their obligations under adverse market and demographic scenarios. If their assets are insufficient, IORPs should submit a convergence plan indicating measures to restore their assets.

AEIP considers the proposed principle of required stress tests appropriate but, given the country-specific characteristics of the IORP landscape, diverse pension systems, social and labour markets, we advocate for the design and execution of these stress tests to be conducted by national supervisory authorities. Risk-based requirements and procedures to assess IORPs' exposures to market, longevity and other risks are already implemented, tested, and well-established in several Member States. We express concern that introducing an EU wide one-size-fits-all approach could undermine existing processes designed at MS level, neglecting national specificities or causing unnecessary regulatory efforts for IORPs. This approach is inconsistent with the minimum harmonisation principle, underpinning the IORP II Directive.

Additionally, we would like to underline that the requirement for IORPs to provide projections over a ten-year horizon from the date of the most recent financial statements, of assets and liabilities, under a range of diverse scenarios can lead to excessive administrative costs and burdens for pension funds.

Moreover, AEIP urges the European Commission and EIOPA to provide legal clarification on the projections that IORPs would be required to provide under specific scenarios. In particular, we seek clarification

whether the 40% decrease in interest rates under the adverse scenario should be interpreted as a one-off reduction or as an annual decrease.

In terms of regulatory impact, we believe that proposed requirements on internal stress testing will have limited implications on Defined Contribution (DC) pension schemes as members and beneficiaries bear all the risks (except for the disability risk).

AEIP also expresses concern regarding the proposed article 17, which empowers the European Commission to adopt delegated acts to amend the numbers and percentage values for the required solvency margin to be held by IORPs in relation to their underwritten liabilities. We believe that changing these parameters could lead to unpredictability and disruptions in the historical development of the solvency margins. This could create challenges for NCAs in interpreting the solvency margins and their forward-looking projections in a timely manner. In addition, such amendments could cause uncertainty in the establishment of financial capital requirements and therefore, directly influence the availability of risk capital for IORPs' investments, as financial capital must be reserved to address potential losses. A year-to-year increase in capital requirements would, for instance, reduce available risk capital and, therefore, oblige IORPs to adapt their investment risk profiles.

AEIP advocates against the introduction of delegated acts in the context of the IORP II Directive as they are inconsistent with the minimum harmonisation principle and the diversity of IORPs and social and labour markets across the EU.

## i. Prudent Person Principle

AEIP welcomes the proposed amendments to article 19 on the prudent person principle, laying down that IORPs are allowed to invest in any type of assets, provided that they are able to properly identify, measure, monitor, manage and report the associated risks. In their investment strategy, IORPs should appropriately take into account their overall funding needs and assess the potential risks to members and beneficiaries regarding the paying out of their pension benefits.

AEIP believes that the new prudent person principle and the European Commission's clarification of its application in the context of the fiduciary duty owed by IORPs to their members and beneficiaries is likely to provide pension funds with greater flexibility in the diversification of their investment portfolios.

By encouraging Member States to remove, or refrain from introducing, quantitative requirements on investment in specific asset classes, and by clarifying that IORPs' investment decisions should be assessed on the basis of the fund's overall risk profile, the proposed text could facilitate increased investments in alternative assets, including private equity and infrastructure. These investments are consistent with the long-term perspectives typical of occupational pension funds.

The application of the prudent person principle could improve investment performance returns for IORPs' members and beneficiaries, and contribute to deepening the Savings and Investments Union by channelling EU citizens' savings into productive investments, while allowing IORPs to continue to act in the best interest of their members and beneficiaries.

The distinction between DB and DC schemes allowing more detailed investment rules only for the latter does not make sense under a comprehensive and consistent prudent person principle for all types of IORPs. Moreover, Member States and NCAs should remain able to provide detailed guidelines on allocations to be deemed prudent in any case. Such guidance could help particularly smaller IORPs and would strengthen the application of proportionality.

## j. Consideration of sustainability preferences

The European Commission also proposed that IORPs must take into account sustainability risks in IORPs' investment decisions. In addition, IORPs would be required to ensure that their investment decisions reflect sustainability preferences of members and beneficiaries.

AEIP acknowledges the importance of taking into account sustainability preferences from IORPs' members and beneficiaries, as IORPs invest on their behalf. However, it is essential that the rules consider the triangular relationship between the employee, employer (sponsor) and the IORP, that is typical of paritarian institutions. In such IORPs, the interests of members and beneficiaries are reflected through representatives of employers and employees. As a result, sustainability preferences of members and beneficiaries are already considered through the governance structure of paritarian institutions.

AEIP therefore calls for a clarification of article 19 to make sure that IORPs are allowed to gauge their members' and beneficiaries' sustainability preferences through the representation of employees in the paritarian model of governance.

Furthermore, AEIP would like to suggest improvements regarding the definition of sustainability preferences. Under the European Commission's proposal, a sustainability preference refers to a member's, beneficiary's, or prospective member's choice regarding investments in certain financial instruments. However, EU legislators should consider that IORPs in most pension markets typically have no investment choice as preferences must be translated to a collective investment policy. Both a requirement to ask individual members or survey samples of the membership to establish collective preferences would create significant costs. Adjustments to the proposed definition may therefore be necessary to include the different ways pension funds determine such sustainability preferences.

## k. Governance requirements

The proposed article 21 requires Member States to ensure that that IORPs establish and apply written policies on internal control and remuneration. IORPs are also required to have in place an effective internal control system, which should have a compliance function.

AEIP believes that an EU requirement to have a compliance function could have negative impact on IORPs, regardless of their size as this would impose higher administrative costs and burdens. In particular, although a compliance function is already required in some Member States, Member States should retain discretion over whether to introduce this requirement. AEIP does not consider it necessary to impose an EU-wide obligation for all IORPs to establish a compliance function.

With regard to remuneration policy, we would like to stress that this is typically determined through collective agreements between representatives of employers and employees within paritarian institutions. In this context, we recommend that paritarian IORPs should be exempt from the requirement to apply a written policy on remuneration.

The proposal also requires IORPs to specify how they take into account the integration of sustainability risks in their remuneration policy. AEIP would like to draw attention to the fact that such a provision contrasts with the recent European Commission's proposal on the review of the Sustainable Finance Disclosure Regulation (SFDR), which removed the current requirement for entity-level disclosures on remuneration policies. In addition, the proposed obligation for IORPs would be stricter than the current requirement under article 5 of the SFDR, which merely imposes IORPs (and all other financial market participants) to include information on how their remuneration policies are consistent with the integration of sustainability risks. In this context, we recommend that IORPs should be given discretion on whether to take sustainability risks into account in their remuneration policy.

The proposed article 21 of the European Commission's proposal would also require IORPs and their respective nomination committees to adopt a policy that promotes diversity and inclusion in the management or supervisory body. AEIP appreciates that the proposed requirement for a diversity and inclusion policy takes into account representatives of social partners and that this would be applied following the proportionality principle. We would like to remark that the promotion of diversity and inclusion policies in the governance of pension funds is already a regular market practice, conducted especially by large IORPs.

AEIP also welcomes the fact that the obligation to set individual quantitative objectives related to gender-balance does not apply to IORPs with three or fewer members of the management or supervisory body that are selected by the sponsor.

However, we call on the European Commission and the other EU co-legislators to clarify the meaning of "administrative body". The current article 6 (18) of the IORP II Directive indicating "key functions" has not been amended under the European Commission's proposal. AEIP questions on whether the proposed fits and proper requirements apply to governance roles that go beyond the current rules.

Moreover, AEIP believe that an assessment of the economies of scale and efficiency options, which is required under article 28 (2) should not be an element evaluated by IORPs in their own-risk assessment as decisions relating to upscaling are often not taken unilaterally by IORPs. Building economies of scale is a market-driven measure, which should be primarily taken by sponsoring undertakings, together with social partners.

The proposed article 30 revise the statement of investment policy principles, requiring the identification of clear investment objectives that are consistent with each scheme's retirement income goals, the overall performance objectives and the means of monitoring performance. IORPs are also expected to highlight

when deviations from the asset allocation strategy and performance objectives can be tolerated and to what extent.

AEIP cautions that the introduction of such detailed obligations would lead to a significant increase in the administrative costs borne by IORPs. In particular, the requirement to prepare a statement of investment policy for each pension scheme represents an unnecessary burden, given that IORPs typically adopt similar investment strategies across their pension schemes. Moreover, in some Member States, such statements are subject to the approval by the IORP's sponsoring undertaking. As result, this requirement would entail multiple approval procedures, which would further raise IORPs' administrative costs.

Furthermore, AEIP believes that the increased level of detail required in the statement of investment policy principles would deliver limited added value to IORPs' members and beneficiaries, as neither performance returns nor tactical developments can be reliably forecast. In addition, we understand that the obligation to specify when "deviations from the asset allocation strategy and performance objectives can be tolerated and to what extent" could prompt IORPs to adjust their asset allocation strategies immediately in response to negative capital markets developments. Such pro-cyclical behaviour could ultimately have negative implications in terms of investment performance returns for members and beneficiaries. In this context, AEIP recommends that IORPs should be given sufficient discretion to set and adapt their own investment objectives. Spurring IORPs' immediate adjustments to their asset allocation strategy in reaction to periods of market turbulence could also lead to disruptions in capital markets.

## 1. Reinforcing the safe-keeping of assets and oversight duties

The proposal on the review of the IORP II Directive also includes a requirement for IORPs, where members and beneficiaries fully bear the investment risk, to appoint only one depositary per pension scheme for the safe-keeping of assets and oversight duties. In addition, the IORP or the authorised entity responsible for operating them or on their behalf must not act as a depositary.

AEIP considers these requirements unnecessary and ineffective in providing added value to pension funds' members and beneficiaries. The current national frameworks already provide for custodial arrangements that comprehensively cover depositary tasks and functions, ensuring sufficient level of protection against possible conflicts of interest.

The proposed measures appear to be based on the depositary requirements laid down under the UCITS Regulation, which apply to completely different retail products, with daily in- and outflows and NAV calculations. We argue that the proposed rules on safe-keeping of assets and oversight duties could disrupt the current custodian model adopted by many IORPs and, as a result, could force numerous IORPs to re-negotiate their current depositary contracts, leading to high administrative burdens and implementation costs.

AEIP suggests that IORPs, including those offering pension schemes where members and beneficiaries fully bear the investment risk, should be allowed to appoint more than one depositary to benefit from risk diversification and specialised custodians. Several large pension funds typically use multiple custodians as they invest in a variety of asset classes. The proposed requirement of appointing only one depositary can therefore impose relevant costs to these institutions, which would be obliged to restructure all of their existing agreements with custodians and transfer agents.

### m. Communication requirements

The European Commission introduced a series of requirements concerning the information provided to members and beneficiaries during the accumulation and decumulation phases.

As explained in section 2.6., the proposal requires an EU-standardised format for the PBS, and empower EIOPA to issue RTS indicating the details of the presentation and content of information to be published in this document.

AEIP would like to emphasise that pension schemes and national system diverge on many elements that are important for the design of communication channels. In particular:

- The type of pension promise: defined-benefit versus defined-contribution, and guaranteed versus non-guaranteed, as well as many types of hybrid schemes.
- The prevalence of additional types of insurance such as disability or survivor pensions. These are important components of the pension scheme, but diverge greatly and are subject to national social and labour law.
- The tax treatment, which has a significant impact on the net value of pension accruals. In some countries, the tax facilitation in the second pillar and third pillar are linked (meaning unused fiscal space in the second pillar can be used in the third pillar, which is communicated through the PBS).
- The type of decumulation, which can be lump sum, fixed or variable annuities, or drawdown.
- The type of solidarity components incorporated, like temporary contribution holidays without benefit reductions for employees whose employer became bankrupt.

We are convinced that it is impossible to reflect all these specificities in a single format. The proposal would therefore lead to information that is less relevant to members and beneficiaries, making the PBS less suitable as a communication tool.

The proposal further requires IORPs to present the information contained in the PBS using a layered approach, and to follow the principles of good design. While AEIP acknowledges that the use of layered information can be an effective communication approach, it is recommended that it is left to IORPs to determine to what extent layering is appropriate in the context of the communication channels used to disseminate the PBS (e.g., email, physical letter, PTS). Moreover, the requirement for layering within the PBS seems at odds with the requirement for the PBS to be provided as a single document, or even in a single format prescribed by EIOPA.

The proposed article 38 (3) provides that IORPs must make the PBS available free of charge, either on paper or through electronic means, in accordance with members' preferences. AEIP would favour allowing IORPs to provide the PBS in a digital format as the default option, especially where members have already received the PBS electronically in the past and have not expressly requested a paper version. At least, in such cases, this should be considered as a tacit consensus to the electronic document, without requiring IORPs to actively gather members' preferences.

AEIP also expresses concern about the detailed content requirements for the PBS (e.g., information of all costs, past performance, estimation of the impact of costs on the capital accumulated, adding a favourable scenario) as the inclusion of such thorough information would make disclosures more complex, less understandable and accessible for IORPs' members. Average pension schemes' participants do not comprehend detailed data and benefit from high-level information. Therefore, requiring increased, detailed information would lead to confusion for members. Additionally, the allocation of costs to individual pension schemes' participants is a very complicated exercise for IORPs, as costs are often borne collectively.

The proposed amendments to article 42 would require IORPs to provide to their members, in due time before their retirement age (or upon request) detailed information on the beginning of the pay-out phase, benefit payout options, and costs and charges associated with each option and applicable tax treatment. AEIP believes that providing the suggested explanatory information during the pre-retirement phase would necessitate high efforts for IORPs. The circumstances and criteria for members assessing the suitability of different options for their individual situation can be very detailed and the IORP does not know the individual situation. The package would be very detailed which might be confusing for members but would also cause inappropriately high costs for the collective.

In the same vein, AEIP would like to stress that the proposed requirement for IORPs to provide detailed information to members each year during the pre-retirement and pay-out phases appears overly prescriptive and unlikely to deliver additional value for members. In particular, the requirement to provide annual information for beneficiaries during the retirement phase is unnecessary, particularly where no material changes have occurred. We recommend that the IORP II Directive should maintain principle-based requirements, leaving Member States the flexibility to introduce, where appropriate, any detailed communication rules to be provided by IORPs during the pre-retirement and pay-out phases.

## n. Underperformance

The European Commission's proposal includes specific information disclosures to be provided to IORPs' members and beneficiaries in the event of underperformance. In addition, if underperformance has continued for over three years, IORPs would be required to give reasons for this situation, explain how costs and charges are justified and proportionate, and take actions to improve results and enhance the value of members' accrued rights. IORPs' performance would need to be compared with benchmarks established by NCAs (following EIOPA's guidelines).

AEIP would like to stress that IORPs and their pension schemes significantly differ from investment funds and cannot be treated as such. There are significant differences, as IORPs mostly provide annuities, thus there is a phase of decumulation rather than just a one-off payment. In DB schemes, guarantees are relevant and many schemes provide solidarity elements. The proposal does not adequately take all these features into account.

Importantly, the proposal does not define what a benchmark is. It is possible to benchmark against market indices or peers. These approaches are fundamentally different, but equally problematic as they create an incentive not to deviate from averages. AEIP would like to underline that performance benchmarks are hard to establish as they need to account for all relevant idiosyncrasies, including the duration of liabilities, and the risk preferences of pension schemes' participants, and guarantees provided by the sponsor. The proposal disincentives allocations to asset classes with more volatility, i.e. alternative investments. Moreover, the short timeframe (three years) penalises investments with a long investment horizon, such as venture capital investments and infrastructure. The proposal therefore undermines the purported objective of the review of the Directive to increase allocations to these asset classes as well as the broader aim of the Savings and Investment Union.

Furthermore, AEIP believes that performance benchmarks are inherently complex to introduce as IORPs' costs and performances have no comparable benchmarks. In addition, IORPs' costs usually depend on the level of support provided by the sponsoring undertaking and their unique structures. Hence, we believe that allowing IORPs to determine their individual benchmarks would represent a fairer measure. This approach is already used, for instance, in the Netherlands, where a performance test for industry-wide pension funds is required.

Some of these requirements are not appropriate for those IORPs that have an obligation of means and where the ultimate liability (i.e. when assets are insufficient to pay the pensions) remains with the sponsor. In these cases, the proposed provisions on underperformance, and assessment of economies of scale and efficiency options would fall within the sponsor's responsibility rather than that of the IORP, and should therefore not be part of the legislative framework applicable of IORPs.

## **o. Explicit duty of care**

The proposed article 44a introduces a duty of care for IORPs. The latter would be required to act honestly, fairly and professionally, and in the best interests of their members and beneficiaries. Returns must be adequate, risk-adjusted and cost-effective over the long term.

AEIP argues that many aspects of IORPs' operations are already subject to the explicit requirement under the IORP II Directive to act in the best interests of their members and beneficiaries, such as communication to members and beneficiaries, choice guidance, governance, operational choices, and investment policies. An additional catch-all provision would therefore create duplication. This situation is exacerbated by the fact that the proposal blurs the lines between conduct supervision and prudential supervision, meaning that multiple supervisors may intervene on the same subject. This could create uncertainty for IORPs' boards, and would be likely to result in increasing supervisory monitoring and actions by NCAs and higher frequency of reporting by IORPs. As a consequence, compliance costs for pension funds and supervisory budgets are expected to significantly increase.

We would like to highlight that a duty of care is already ensured by the existing investment rules under the current IORP II Directive, and through the checks and balances that paritarian institutions provide for their members and beneficiaries. The proposed rules are, therefore, unlikely to provide added value to pension schemes' participants.

AEIP also warns that this regulatory approach may be appropriate for financial institutions that provide individual retail investment products, but is not compatible with paritarian pension funds, which offer collective products managed by social partners, i.e. occupational pension schemes designed within the framework of collective agreements. Under the proposal, IORPs are asked to introduce safeguards. However, mandatory schemes based on collective agreements do not provide options for (prospective) members and beneficiaries. Instead, the conditions are the findings of bargaining in the sector's best interest. Individual options are not envisaged.

#### p. Supervision and powers of the NCAs

The European Commission's proposal strengthens NCAs' supervisory powers regarding IORPs. In particular, the proposed article 49a introduces a mandatory regular supervisory dialogue, to be conducted at least every three years, between the supervisory authority and the IORP. Such a dialogue would focus on vulnerabilities, inefficiencies, and structural challenges as well as on the long-term adequacy, efficiency and sustainability of the IORP.

AEIP draws attention to the fact that the proposed measures go beyond the existing prudential supervisory framework and are not consistent with the minimum harmonisation principle. The aforementioned issues to be addressed within the regular supervisory dialogue are matters governed by national social and labour legislation. We believe that the current supervisory rules provide NCAs with adequate powers to conduct their supervisory activities and responsibilities. The mandatory regular audits would make it more challenging for NCAs to effectively continue to supervise IORPs with higher risk profiles, assuming NCAs' budgets and staff remain unchanged. If NCAs' funding needs to be increased, overall costs will rise.

Article 50 of the European Commission's proposal gives powers to NCAs for the direct supervision of outsourced functions and activities of IORPs. In this context, AEIP recommends that the new rules allow concrete arrangements and feedback from IORPs since the latter remain responsible for the outsourcing of their functions and activities.

Beyond these proposed measures on supervision, the text further requires NCAs to publish on their websites, clear, comparable, and easily accessible information on the total annual costs, past performance, and risk profile for all pension schemes operated by IORPs. AEIP does not expect that these disclosure rules would deliver meaningful added value to IORPs' members and beneficiaries as they typically do not take individual decisions on their retirement savings. Such disclosure requirements are more appropriate for financial market products where investors are able to make direct investment decisions. Moreover, we also consider that the level of detail required for these disclosures would be extremely cost-intensive for

IORPs. It is therefore essential that EU institutions carry out a comprehensive impact assessment to evaluate the expected amount of costs associated with these proposed supervisory rules.

### 3. Pan-European Personal Pension Product

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The European Commission amended a few articles of the IORP II Directive regarding the possibility for IORPs to provide personal pension products, including the PEPP. Member States should make sure that their prudential framework enables this possibility to promote coherence, sound organization, and effective supervision across all forms of retirement provision.

AEIP takes note of the proposal of allowing IORPs to offer the PEPP in the context of workplace arrangements. In our view, readapting PEPP for occupational settings is unlikely to deliver tangible improvements in terms of coverage, adequacy and efficiency. In addition, we caution that a workplace PEPP could result in a fragmentation of collective arrangements between social partners, undermine confidence in the governance of pension funds, and bring up increasing competition with paritarian institutions, which have already proven to be able to deliver adequate retirement income to their members and beneficiaries. Hence, AEIP would like to emphasise that Member States must retain the option to decide whether to enable IORPs to offer PEPP (or other personal pension products) in a workplace context, while preserving the role and autonomy of social partners in designing pension solutions through the framework of collective agreements.

We stress that, by introducing this initiative, the European Commission does not take into account the diversity of workplace pension arrangements across EU Member States as well as their unique structural, legal and social specificities. PEPP is a third-pillar, voluntary and individual product, and should therefore remain outside the scope of occupational pension arrangements.

In its Recommendation on pension tracking systems, pension dashboards and auto-enrolment, the European Commission encourages Member States to promote auto-enrolment in supplementary pension schemes, including the PEPP. AEIP underlines that the design and implementation of auto-enrolment mechanisms should not interfere with existing occupational pension schemes, or supplementary social protection schemes nor blur the distinction between second and third-pillar pensions arrangements.

Furthermore, AEIP would welcome further clarification on whether existing pension systems with mandatory participation could be considered a form of auto-enrolment, and whether employers' contributions to the PEPP would fulfil certain national requirements obliging employers to provide a pension scheme for their employees. If pension systems with quasi-mandatory participation do not qualify as auto-enrolment, these two models should be, at least, compared in terms of coexistence, taking into account that a pension system allowing employers contributing to PEPP would lead to an unlevel playing field among employers offering occupational pension schemes and those providing the PEPP.

## 4. Pension Tracking Systems

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In its recommendations, the European Commission encourages Member State to establish a PTS, providing information on individuals' accrued pension entitlements across the different schemes that they are, or have been, enrolled in. The recommendations explain that PTSs should encompass statutory pensions, occupational pension schemes, and personal pension products, and provide projections regarding potential future retirement income derived from all pension schemes.

The proposed article 37a on the review of the IORP II Directive also set out that IORPs should transmit to PTSs all the information necessary to contribute to ensuring that their members and beneficiaries receive a comprehensive, reliable and up-to-date overview of their occupational and personal pension entitlements.

AEIP fully supports the European Commission initiative of promoting the establishment and development of PTSs in EU Member States. PTSs can constitute a highly valuable source of information for EU citizens regarding their current and projected personal pension situation, which can be used to support individuals' financial planning for retirement. However, at the same time it is essential that IORPs are not required to additional reporting obligations as existing data flows can be reused and integrated into PTS.

Moreover, AEIP suggests that Member States with a well-established PTS should be given the discretion to determine whether comprehensive pension benefit information could be provided exclusively through their national PTS. In this case, IORPs operating within these Member States could be exempted from the requirement to prepare a separate PBS.

However, AEIP would like to draw attention to the significant costs and complexity that IORPs would incur from the obligations proposed under article 37a. Requirements such as "up-to-date overview", "standardised, machine-readable and interoperable format", "aggregate data on accrued rights, accumulated capital and projected benefits in a coherent and comparable manner" are cumbersome and affect management systems where these features are not included yet. We believe that technical details such as structure and format have to be oriented towards national regulation. Consistency in the design of national PTS across Member States should not be an objective as these tools reflect the specificities and characteristics of national pension systems.

The Recommendations also urge Member States to establish technical infrastructure and legal frameworks for their respective PTSs in a manner that these are compatible with a future connection with the European Tracking Service (ETS).

AEIP is a key partner on the [ETS project](#), which focuses on helping individuals, especially mobile workers, track their accumulated pension entitlements across multiple EU Members. We therefore strongly welcome the emphasis in the recommendations on the need for the interoperability and connectivity of PTSs with the ETS, as well as the focus on the establishment of a clear legal basis for exchange of data between PTSs, in the context of the ETS. Currently, not all EU Member States have a legal basis for PTS-related data sharing in place. Addressing this gap is essential to prevent obstacles or further delays in connecting well-developed PTSs with the ETS.

## 5. Pension Dashboards

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The European Commission recommendations also suggests that Member States should put in place comprehensive pension dashboards in a way to monitor the overall adequacy and sustainability of their multi-pillar pension systems and their pension gaps. Publicly available data on the contribution of both statutory and supplementary pension systems to the adequacy of retirement income and the sustainability of national pension systems could be used to feed such dashboards.

AEIP supports the development of national pension dashboards, which can serve as helpful tools to support policymakers, as long as they are only designed to assist and facilitate potential reforms at national level, and are not used as a basis for the development of EU-wide pension system rankings. It is key to preserve and respect the diversity of pension systems across the EU Member States, which reflect diverse policy goals and institutional arrangements.

We also appreciate that the recommendation explicitly refers to the use of existing publicly available data on national pension systems for the build-up of these dashboards, without requiring additional reporting burdens on pension providers. Data from the European Commission's Pension Adequacy Report and the Ageing Report could, for instance, be used for this purpose.

## 6. Auto-enrolment

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The European Commission recommendation encourages Member States to promote the use of auto-enrolment mechanisms, while safeguarding the role and autonomy of social partners.

AEIP would like to stress that the introduction auto-enrolment could lead to positive results in Member States where occupational pensions are underdeveloped and participation is mainly voluntary. It could increase coverage in occupational pensions, promote long-term investment approaches, and improve pension adequacy. At the same time, we urge caution in applying auto-enrolment in countries with advanced and effective occupational pension systems, with mandatory or quasi-mandatory participation. The implementation of auto-enrolment in such Member States may weaken well-established paritarian governance models, which have delivered adequate and sustainable retirement outcomes for IORPs' members and beneficiaries.

This tool should not disadvantage participants in existing occupational pension schemes, undermine established systems with mandatory participation in occupational schemes and supplementary social protection schemes or harm national solidarity mechanisms.

AEIP therefore appreciates that the recommendations acknowledge the need to preserve national solidarity mechanisms in the use of national auto-enrolment mechanisms, as well as the role of social

partners. Engagement with social partners is imperative in the design and application of these tools as this can improve trust and confidence in pension systems, ensure long-term stability as well as better align pension solutions with the needs of employers and workers. Active involvement of social partners is also necessary to prevent conflicts of interest or unfair competition practices between existing and newly created schemes, avoiding risks to the sustainability of current well-established systems.

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The European Association of Paritarian Institutions (AEIP), founded in 1996, is a Brussels-based advocacy organisation representing social protection institutions, established and managed by employers and trade unions on a joint (or paritarian) basis within the framework of collective agreements. The Association has 33 members from 13 European countries, representing more than 460 social protection providers with €2.8 trillion in assets under management and delivering social protection benefits to over 118 million people.

All AEIP associate and affiliate members are not-for-profit paritarian institutions. Through dedicated working groups, AEIP deals, in particular, with EU-coordinated pension schemes, occupational pension funds, healthcare, unemployment, provident schemes, and paid holiday, health, and safety at-work schemes in the construction sector. Complementary to their role as not-for-profit social protection providers, AEIP members are also long-term institutional investors.

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