Association Européenne des Institutions Paritaires

European Association of Paritarian Institutions

# DC Pensions Toolkit

## AEIP response to EIOPA call for evidence To inform the development of a DC Pensions Toolkit

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**Topic 1: Coverage and contributions**

1. What financial incentives (e.g. tax advantages) and non-financial incentives (e.g. auto-enrolment) should the design of the supplementary DC pension system contain to ensure high participation? How can young people be incentivised to save in DC pension systems as early as possible and with sufficient contributions?

Financial incentives, such as tax advantages for employers and employees, can play an important role in promoting participation in supplementary DC pensions. They are particularly relevant in the context of occupational pension plans, where both sponsors and members typically contribute throughout an individual's whole career, and benefits are only realised when members reach their retirement age.

Financial incentives can make early participation in DC pension plans more attractive, particularly for younger workers, and encourage them to start contributing as early as possible in their career.

Given the long-term investment horizon of pension plans, the stability of regulatory frameworks, including rules on tax incentives, is essential to building and maintaining individuals' trust in supplementary DC pension systems. Specifically, provisions on benefit payouts (withdrawals), taxation of benefits, and payments of social security contributions should remain predictable over the course of pension savers' careers. If any regulatory changes are introduced, they should only apply to future contributions and accruals, in a way to preserve the expectations of existing members and not impact on existing accumulated rights.

Auto-enrolment, designed through social dialogue between employers and employees, can represent a valuable tool for increasing participation in supplementary pensions in those countries where occupational pension coverage is underdeveloped, and participation remains largely voluntary. Achieving its intended outcomes requires active and meaningful involvement of social partners in the design of national auto-enrolment frameworks. This is essential to protect existing mandatory pension schemes and to avoid conflicts of interest or unfair competition between established and newly created schemes, which could compromise the sustainability of the current systems. Social partners' engagement is key to enhance trust and ensure long-term stability.

AEIP would like to stress that any auto-enrolment mechanism should be calibrated to deliver adequate replacement rates and to provide secure and decent pensions throughout retirement. Regarding the decumulation phase, it is essential that benefit-payout options are designed to ensure lifelong and adequate retirement income. Early withdrawals should be avoided as far as possible and, if introduced, should be limited to clearly defined hardship situations, such as severe illness or financial distress.

Ideally, employees should be enrolled at an early stage in their careers (e.g. during their vocational training) to benefit from behavioural inertia that discourages opting out. However, at the same time, this inertia may also result in limited proactive actions to increase contribution levels. Hence, designing mechanisms focusing on adequate early contributions can help support higher employees' participation and lead to adequate income at retirement. Tax incentives could therefore be considered to encourage employees' enrolment in occupational pension schemes. Hence, regulators play a key role in establishing the necessary preconditions for employers' and employees' enrolment, and in shaping the overall design of auto-enrolment mechanisms.

2. How can the design of supplementary DC pension systems ensure that contributions are sufficiently high to ensure that DC members receive adequate retirement income?

The DC Toolkit on Pensions should emphasise the key role of social partners in the design and governance of supplementary DC pension systems. Their active involvement can contribute to ensuring adequate retirement income for EU individuals.
Currently, most pension savers find it difficult to determine appropriate contribution levels needed to accumulate sufficient income through personal pension plans. Although these plans often enjoy the same tax and/or social security contribution treatments, their design is often opaque and their benefits are restricted by design features, such as sales costs or capital guarantees.
**Occupational pension schemes with mandatory affiliation, established through collective agreements with social partners, have proven effective in providing adequate pensions for EU citizens. Hence, the development of supplementary DC pensions should prioritise strengthening the role of social partners, with EU Member States offering targeted incentives to support their active participation and engagement in the design of such pension schemes.**

3. What role should respectively occupational pensions and personal pensions play in the design of supplementary DC pension systems in order to provide a stable and secure retirement income? What should be the role of employers and/or the social partners?

While statutory pensions should provide a baseline income that guarantees protection against poverty and ensures dignity in old age, occupational pensions should provide income adequacy, enabling individuals to maintain their pre-retirement living standards. Personal pension plans, instead, represent voluntary saving vehicles that would allow individuals to accumulate additional retirement income on top of statutory and occupational pensions, or to address the retirement income needs of employees without occupational pensions or the of self-employed.

Social partners (employers and trade unions) play a key role in strengthening occupational pension frameworks through collective agreements and social dialogue. In particular, employers should provide the majority of pension funding for individuals' contributions and benefits and, together with representatives of employees, they co-design benefit structures of occupational pension schemes.
Paritarian institutions, which are jointly managed by employers and employees' representatives on an equal basis, embody the principle of solidarity and shape guarantees offered by the sponsor. Paritarian pension funds can address the pension gap by ensuring better pension coverage and adequacy to EU citizens.

**Topic 2: Participation and contribution persistency of specific groups**

4. How can supplementary DC pensions be designed to encourage pension participation and contribution persistency of specific groups of workers that often do not have access to occupational pensions, particularly the self-employed and workers with non-standard contracts? How can financial and non-financial incentives be adapted to non-standard workers and the self-employed?

The active involvement of social partners is crucial for the design of supplementary DC pension schemes that could effectively target groups of employees with non-standard forms of work or those that are employed in specific sectors, such as ICT, and in small companies, where occupational pension coverage is limited. People in temporary jobs with frequent employer changes, e. g. due to project-based work, can be covered in sector-wide schemes established by the social partners. Because these workers often remain within the same industrial sector throughout their career (e.g., construction), they are able to accumulate a single pension pot despite regularly changing employers.
Conversely, incentivising participation among the self-employed presents greater challenges. Targeted financial incentives may be necessary to enhance supplementary pension coverage for this group.

5. Should there be strategies in place to encourage pension participation and contribution persistency of people of working age, and most notably women, who take a career break or are otherwise inactive (e.g. carers), in unpaid work or unemployed and, if so, what strategies?

Funded pensions schemes, in general, need to finance their liabilities, which reflect the benefits paid and entitlements accrued, by a constant stream of contributions. This holds true even more for DC pensions schemes. Often, occupational pension plans managed by paritarian institutions are able to include strong solidarity mechanisms that extend protection to pension savers. Such safeguards ensure that pension contributions and entitlements either continue being provided during key life events, such as periods of unemployment, inactive or unpaid work, or are collectively financed. This approach reflects the social purpose of the paritarian model, making sure that pension adequacy is preserved throughout workers' life, including temporary interruptions during employment. Social partners are able to design appropriate and tailor-made solutions, but addressing general inequalities or disadvantages, such as the gender pay gap and the resulting gender pension gap, should be a societal task, which cannot be resolved through occupational pensions alone.

6. Are there other specific groups, such as individuals from ethnic minority backgrounds and those with disabilities at risk of accruing no or insufficient statutory pension rights over their working life and, if so, what strategies could encourage pension participation and contributions persistency in supplementary DC pensions for these people in particular?

In well-designed industry-wide paritarian pension funds, such as the ones described in our response to question 5, discrimination based on ethnicity or disability should not represent an obstacle from accruing occupational pension rights. However, these groups may face challenges in finding jobs in industries that offer such pensions. Therefore, funded occupational pension schemes, like those managed by governments, could be established for voluntary charitable work of public utility.

**Topic 3: Scale and portability**

7. Should economies of scale be considered in the design of supplementary DC pensions, most notably to enhance efficiency and raise retirement benefits of DC pension savers? If so, how and through which area(s) of the supplementary DC pension system (or value chain) can its design effectively generate scale? Is there a trade-off between the promotion of scale and competition?

In terms of scale, industry-wide pension schemes run by social partners outperform company-level schemes and especially individual private pension schemes. Furthermore, occupational pension funds achieve significant economies of scale in investment management through a variety of approaches, such as the fiduciary management model, collective investment pools for multiple IORPs, and outsourced CIO structure. Generating scale in the design of supplementary DC pensions would not necessarily deliver additional benefits or enhance investment performance. Conversely, excessive consolidation of pension funds could negatively impact on the institutional diversity that forms the cornerstone of the paritarian governance model in finding specific pension solutions for industrial specific pension needs. Moreover, economies of scale in investment management could give rise to concerted practices or behaviours that can distort competition, especially if proper risk diversification

and risk management actions are lacking. Examples of such practices include cartel-like arrangements or hidden commission structures.
Finally, we would like to emphasise that the consolidation of pension funds represents an ongoing trend in some Member States, such as the Netherlands. Scaling is increasingly seen as a natural process to address burdensome governance requirements, growing regulatory compliance costs, and the overall complexity associated with running pension schemes.

8. Should the design of supplementary DC pensions allow for switching between providers within national systems and, e.g. to facilitate labour mobility across Member States, portability across borders in the EU and, if so, how?

We would like to emphasise that there is a fundamental trade-off between portability and the long-term saving objective in pension schemes.
If switching between providers were to be allowed at any times within national frameworks, occupational pension plans would no longer represent genuine long-term saving instruments for pension savers.
Switching entitlements in the context of occupational pension plans should therefore only be permitted when members leave their pension sponsor. However, in this case, pension savers would also lose any future guarantees and benefits offered by the original sponsor employer.

9. How can switching and portability be balanced with the need for long-term investments(e.g. illiquid assets) and the need for scale in supplementary DC pensions? Are there specific considerations on switching and portability within the second pillar, within the third pillar and between the second and third pillars?

**Topic 4: Design of the accumulation and decumulation phase**

10. What are the key features that should be covered in the design of the accumulation phase of DC pensions? Should the design prescribe measures, or provide DC members the choice of options, to mitigate investment risk, such as life cycling, guarantees and collective risk-sharing arrangements to smooth returns? Should DC members be provided with choice, i.e. investment options possibly combined with a default option, or will one investment strategy suffice for all members?

National social and labour legislation should set the parameters covering the key features on the design of accumulation and decumulation phases of supplementary pension schemes. These should reflect national labour market specificities, social protection systems, and other

national contexts. Within this framework, paritarian occupational pension plans run by social partners reflect, by design, the decisions that were made about the objectives for members and beneficiaries.
These could include poverty prevention, consumption smoothing, receiving a lump sum at retirement age, or the provision of complementary income in addition to first pillar pensions. Individual choices do not fit with the suggested design context and would incur significant costs, ultimately reducing pension benefits. They should be avoided altogether.

11. What are the key elements that should be considered in the design of the decumulation phase of DC pensions? Should the design prescribe a specific payout strategy or should DC members have a choice between different types of pay-out solutions, such as annuities, programmed withdrawals and lump sums, possibly combined with a default strategy? What payout strategies can effectively help DC pension savers secure adequate retirement income? Should DC members be allowed to withdraw pension savings before the retirement age for specific purposes, like buying a house, and, if so, under what conditions?

Similarly to our response to question 10, the design of the decumulation phase of DC pension schemes should be determined by clearly defined objectives for members and beneficiaries, ideally set by social partners.
With regard to the payout solutions, early withdrawals should be limited only to clearly defined hardship situations, such as severe illness or financial distress. Withdrawing pension savings before the retirement age may result in distorted outcomes, such as overvaluing current objectives and insufficiently considering the importance of accumulating adequate retirement income to preserve current life standards in old age. Lifelong annuities are generally preferable to lump sum payments as they prevent beneficiaries from miscalculating their longevity and facilitate asset management strategies during the decumulation phase.

12. Are there interdependencies that should be considered in the design of the accumulation and decumulation phase? If so, what are these interdependencies and how should they impact on the design of the accumulation and decumulation phase to ensure that DC pension savers secure adequate retirement income?

Yes, AEIP believes that the accumulation and decumulation phases are interdependent and should not be regarded as separate features in the design of supplementary DC pensions. The conclusion of the accumulation phase should not be considered as hard endpoint, but rather as a transition into the decumulation phase.
This implies implementing life-cycle investment strategies that gradually reduce financial risks as individuals approach retirement and, in general, ensure more stable and predictable retirement income as members are near retirement age. However, in large industry-wide

occupational pension plans, even life-cycling strategies can be established on a collective basis, maximising individual returns by remaining invested longer in higher-return assets during the decumulation phase.
Trust in supplementary DC pension systems is a fundamental prerequisite for the design of both the accumulation and decumulation phases. Given that contributions made by individuals are usually realised only after retirement, trust in the pension system is essential. Therefore, policymakers and governments bear responsibility for ensuring the stability, coherence and credibility of pension policies and taxation framework.

**Topic 5: Value for Money**

13. How can Value for Money be measured and assessed effectively and consistently across supplementary DC pensions and what quantitative and qualitative criteria (or indicators) should be used for assessing value for money, distinguishing between the strategies offered for the accumulation and decumulation phase? How can supervisors create and publish composite benchmarks for DC pension plans on the basis of such criteria to improve transparency and competition?

AEIP would like to emphasise the importance of Value for Money in delivering good pensions for EU citizens. It is key that occupational pension schemes provide adequate retirement outcomes and operate in a manner that protect their members' and beneficiaries' interests. However, at the same time, we would like to stress that paritarian pension funds are already inherently structured to operate in the best interests of their members and beneficiaries. IORPs governed under the paritarian model, which have equal representation of employers and employees on their board, already have a strong fiduciary duty to act in the best interests of their members and beneficiaries.
Additionally, investment decisions within paritarian IORPs are made by the board in accordance with the prudent person rule, as already required under the IORP II Directive.
As a result, paritarian institutions have proven that they can already ensure the necessary conditions for delivering Value for Money to their members and beneficiaries, such as:

- Low costs and fees;
- Full alignment of interests with their members and beneficiaries;
- Strong and accountable paritarian governance standards.

Introducing explicit Value for Money rules would therefore constitute a duplication of existing safeguards, which are already provided through the checks and balances of the paritarian governance model. Paritarian IORPs have consistently shown their capacity to ensure sustainable and long-term retirement outcomes for their members. Moreover, excessive reporting rules risk undermining the sustainability of smaller pension funds and discouraging the establishment of new IORPs. Such regulatory burdens may ultimately have negative consequences on members and beneficiaries in terms of lower pension adequacy.

14. Are there any specific scheme design features or innovations that could improve value for money in supplementary DC pensions, distinguishing between occupational and personal DC pensions and the accumulation and decumulation phase?

We consider that well-designed mandatory mechanisms, if designed by social partners in a way to ensure adequate default contribution levels, have the potential to significantly enhance value for money for EU citizens. However, it is essential that mandatory frameworks are calibrated to ensure that contribution rates are sufficient to cover meaningful replacement rates, and help deliver adequate and sustainable retirement income to individuals.

Regarding innovations, greater automation within pension administration could drastically reduce the operational and administrative costs of running pension schemes. Significantly cutting these costs could enable pension funds to deliver greater value for money and support more adequate retirement outcomes for their members and beneficiaries.

Additionally, avoiding costly individual choice options regarding asset management strategies, contribution schemes, and payout designs, and refraining from unnecessary regulatory burdens that do not reflect the not-for-profit nature of most IORPs can help to achieve the ultimate goal of providing sustainable pension benefits for retirees.

15. To what extent do governance and oversight models impact on value for money in supplementary DC pensions and overall DC outcomes, distinguishing between occupational and personal DC pensions and the accumulation and decumulation phase?

As outlined in our response to question 13, the paritarian model of governance ensures that pension funds are inherently structured to act in the best interests of their members and beneficiaries. Paritarian pension funds' boards, which are composed on an equal basis of employers' and trade unions' representatives, apply their fiduciary duty in line with prudent person rule, and adopt investment strategies that are aligned with their members' long-term investment objectives, in terms of risk-taking and projected retirement income.

As mentioned in our response to question 7, paritarian occupational funds can also benefit from significant economies of scale in investment management. These can be achieved by using fiduciary management models, collective investment pools for multiple IORP, and outsourced CIO structures. Such approaches allow paritarian occupational funds to broadly diversify their investment portfolio, which also includes allocations in alternative assets, and deliver high cost-effective value for money outcomes to their members and beneficiaries.

We caution against setting a very limited and strict supervisory framework that could result in increasing operating costs and, as a consequence, lead to a reduction of occupational pension schemes and their benefits.

**Topic 6: Information provision and transparency**

16. What are the main elements on which DC pension savers should be informed before being enrolled in a DC plan and after their enrolment? How can information provision to DC members and beneficiaries benefit from digitalisation and insights from behavioural research?

AEIP advocates for the following key elements to be communicated to DC pension savers both before and after their enrolment in a DC scheme:

- A clear explanation of the risk-return trade-off, communicated in terms of projected retirement income.
- If there are investment options, they should be clearly explained, including their risk-return trade-offs and respective costs for each option. This is key to allow DC pension savers to clearly understand the implications of different investment choices;
- Information on the diverse actions that members can take, the timing of such actions, and their outcomes (e.g., in terms of applicable taxation or social contributions, if any);
- An overview of all costs (covering both one-off fees and annual costs) borne by members.

We argue that regulation must not prescribe any particular medium of communication. Instead, greater focus should be placed on a principle-based approach allowing IORPs sufficient flexibility to tailor their communication strategies to needs and preferences of their members or representatives. Such an approach could include the use of layered information in a digital format, whereby basic key content is provided in a clear manner upfront, and additional details can be accessible through links or expandable sections. This structure prevents information overload and ensures clarity and effective communication. This also enables pension savers to easily access updated information about their DC plan, download and consult it whenever they like.

17. How can communication and behavioural insights, and particularly pension tracking systems, support citizens to make informed decisions for their retirement income? Are there other good practices in communications to reach out to people and make them aware of insufficient pension savings?

Both Pension Tracking Systems (PTSs) and online portals represent useful tools to raise pension savers' awareness of their old-age income and help them better plan for retirement. PTSs can successfully support EU citizens to make informed decisions about their future retirement income, provided that they offer a clear, comprehensive and easily understandable overview of accrued pension rights.
In particular, PTSs should disclose projected pension benefits from different schemes, and across all pension pillars. This would enable pension savers to clearly understand their

accumulated pension entitlements and projected income at retirement, and make informed financial decisions to secure adequate pension income.
Online portals can serve as an important communication channel for pension savers as they can provide personalised communication tailored to members' needs and preferences, as well as personal guidance. However, a key limitation is that such tools typically only show pension benefits accumulated with a single provider. This prevents pension savers from having a comprehensive overview of their overall future retirement income.
AEIP supports regulatory efforts aimed at establishing and further developing PTSs and online portals. Facilitating data exchanges between such tools could give rise to significant benefits, such as enhancing pension portals through increased data access for IORPs to the information available within PTSs.

18. What practical tools are already in place to understand and identify the drivers and barriers to DC pension adequacy for the design of supplementary DC pensions? What practical tools could be developed to help Member States design and enhance supplementary DC pensions?

Direct and active engagement with social partners is crucial for the design of supplementary DC pension schemes that deliver adequate retirement income to EU citizens. This approach is embedded in the governance model of paritarian pension funds, where employers' and employees' representatives participate on an equal basis within the governing board. Encouraging social dialogue can enhance trust and confidence in supplementary DC pensions and, in turn, result in increased participation among pension savers.
Meaningful involvement of social partners is equally important in the design of auto-enrolment mechanisms that should prioritise establishing high contribution levels to achieve adequate replacement rates, and ensure appropriate retirement income for EU citizens.

**Topic 7: Emerging trends, regulation and supervision**

19. How will emerging trends (e.g. market) and innovations (e.g. AI) positively and/or negatively impact supplementary DC pensions in the future?

20. To what extent should prudential regulation and supervision evolve in an environment where occupational and personal DC pensions are expected to increasingly contribute toward securing an adequate and secure retirement income?

In light of the growing development of supplementary DC pensions across the EU, prudential regulators and supervisors should increasingly prioritise assessing the alignment of supplementary DC schemes' investment policies and members' risk objectives, tolerances, and preferences across age cohorts, as already required under the prudent person principle.

Supervisory authorities are expected to conduct regular assessments on whether pension funds' strategic asset allocations and shock-absorption mechanisms remain consistent with the risk profiles of their members.

21. To what extent should conduct regulation and supervision evolve in an environment where occupational and personal DC pensions are expected to increasingly contribute toward securing an adequate and secure retirement income?

**Other comments**

22. Do you have any other comments and suggestions which EIOPA should consider for the future DC toolkit to help foster the development of adequate supplementary DC pensions? If yes, please provide these other comments and suggestions.

*For further information please contact:* Roberto Silvestri, Policy Advisor on Pension & Financial Affairs

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