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Funded Pension Provision with PEPP

The Potentials and Pitfalls of EU Reforms
to Strengthen Private Pension Provision

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Executive Summary

With the “Altersvorsorgereformgesetz”, the “Frühstart-Rente” and the “Gesetzliche Kapitalrente”, the German government has, in recent months, taken a number of steps to strengthen funded pension provision in Germany. However, it is not only the German government that is aiming to make funded pensions a key pillar of the pension system; the European Commission, too, wants to make real progress in this area, because so far supplementary pensions based on the funded model have – with a few exceptions – played only a minor role in the EU Member States. Not even a fifth of EU citizens have a private pension scheme. Over 80% of pensioners derive their retirement income solely from the statutory first pillar. And yet, not only could the expansion of funded pension schemes counteract excessively risk-averse investment behaviour on the part of private households but also contribute to the financing of Europe’s numerous capital-intensive transformation challenges and ensure a more equitable distribution of the burdens of demographic adjustment over time. At the end of 2025, the Commission therefore presented ground-breaking non-legislative and legislative proposals relating to private pension provision. These include, in particular, a recommendation on supplementary pensions and a proposal to revise the Regulation on pan-European personal pension products (PEPP).

This **cepStudy**, which was commissioned by the Friedrich Naumann Foundation Europe, takes a look at the various proposals, with a focus on the European level. The Study concludes that the reforms are likely to enable funded private pension schemes to make a greater contribution to old-age provision in the future. It sees as particularly appropriate and promising measures, the partial move away from guaranteed products – as announced as part of the PEPP reform – as well as the focus on life-cycle strategies and higher-yield investment forms, and the removal of fixed cost caps. Nevertheless, there is still some room for improvement.

In markets that are, in principle, functioning properly – such as those for pension products – restrictive price or cost regulation should be avoided. Also, with regard to advisory standards, the guidelines should be as uniform as possible, and rules that distort the market for individual product types – for example, preferential treatment for standard products – should be avoided. Furthermore, discrimination against individual remuneration models, such as the PEPP reform’s requirement for “independent” advice on standard products, should be omitted. Measures which amount to (implicit) regulatory favouritism towards standard products must also be avoided. The existence of these products is sufficient. Instead, the legislator should empower citizens to make independent decisions about their private pension provision and to choose the products best suited to their needs – which are frequently likely to include non-standard options. The EU Commission’s proposal to expand models providing for automatic enrolment into private pension schemes, whilst allowing savers the right to opt out, represents a good compromise between voluntary participation and compulsion. When designing such schemes, however, the aim must be to avoid unduly restricting savers’ freedom of choice and to prevent them from being steered towards less favourable products. Nor should anyone be (unwittingly) pressured into taking out additional cover which they cannot afford. The proposed mandatory tax parity between pan-European pension products and purely national private pension products is understandable, as it ensures that PEPPs are not put at a competitive disadvantage from the outset. However, fiscal and legal considerations militate against this approach. The current method, which is based on a recommendation and relies on voluntary participation, should be retained.

1. Introduction

In 2022, the average state pension amounted to 43.8% of wages in the EU. Forecasts suggest that this level will fall significantly in the coming years and decades, particularly as a result of demographic changes. According to a report by the European Commission, it will fall by more than 8 percentage points to just 35.5% of the average gross wage by 2070. These are average figures. In Germany, for example, the decline in benefit levels is expected to be slightly lower, at just over 6 percentage points.¹ Nevertheless, such forecasts raise doubts about the level of benefit promised by the first pillar of the pension system.² Whether this pillar, which has been so central up to now, will be able to play an equally important role in the future is increasingly being called into question.³ At the same time, with the exception of just a few Member States, only a small proportion of the population in the EU has a supplementary pension. According to Eurostat, in 2023 over 80% of pensioners in the EU received nothing other than the state pension. And according to a survey conducted in 2024, only 18% of EU citizens have a private pension and only 20% are members of an occupational pension scheme.⁴

It is therefore hardly surprising that many citizens are not very optimistic about the income that they are going to receive in retirement. For example, in a survey conducted by EIOPA, over 50% of EU citizens who were questioned said they were sceptical as to whether they would have sufficient financial resources to enjoy a comfortable retirement. Alongside concerns about high inflation and uncertainty about their future needs, they attribute this primarily to a lack of confidence in the effectiveness of state pension schemes.⁵ According to surveys, even in Germany only 37% of people in employment believe they can expect an adequate standard of living in old age⁶ whilst nearly 44% feel they are poorly provided for when considering their retirement savings (well: 30.3%, moderately: 35.7 %).⁷ The surveys reveal yet another finding that is worth noting: people who

have supplementary pensions – i.e. occupational and/or private pension schemes – in addition to their state pension are noticeably more optimistic. They are much more confident about having sufficient retirement income. According to the EIOPA survey, 52% of those surveyed who do not have a supplementary pension are not very confident or not confident at all. By contrast, only 33% of participants with additional cover, both occupational and private, fall into this category.^{8,9}

Supplementary pensions are therefore proving to be a real “boost to confidence and optimism”. Why, then, have the second and third pillars of pension provision often played only a secondary role in many Member States thus far? And what steps are being taken, particularly at EU level and in Germany, to change this situation? Are these steps appropriate and compatible with one another, and do they complement each other effectively? These are the questions which this study aims to examine.

Section 2 serves as an overview following on from this introduction, the aim of which is to provide a summary of the role and significance of funded pension schemes in the EU and in Germany, with the focus on the European level. Section 3 focuses on the specific regulatory measures designed to strengthen private pension provision – primarily at European level and, to a lesser extent, at German level. The focus is on three projects. Firstly, the European Commission’s proposals for revising the existing EU legal framework for so-called pan-European personal pension products (PEPP reform). Secondly, a Commission recommendation on support for funded supplementary pensions. Thirdly, the reform of private pension provision in Germany under the Pension Reform Act. All these measures are examined in more detail and extensively evaluated in Section 4. Based on this analysis, Section 5 concludes by setting out specific recommendations for the optimum design of reforms at EU level and for improving the German regulatory framework for private pension provision.

2. Funded Pension Schemes in the EU and in Germany

European Union

Supplementary pensions based on the funded model have so far played only a minor role in many EU Member States. Although the uptake of supplementary pension products is rising, surveys show that they are still not being widely used. For example, a survey conducted by EIOPA in 2025 found that not even a fifth of EU citizens (19%) had a private pension scheme. In the case of occupational pension schemes, the proportion is only slightly higher at 21%. In Germany, the take-up rate – 30% (private pension schemes) and 27% (occupational pension schemes) – is higher than the EU average.^{10,11,12} A further survey from 2025 revealed that more than 40% of EU citizens make no contributions to supplementary pension schemes¹³ – although there are significant differences between the Member States in this regard.¹⁴ Only 30% of EU citizens contribute to a private pension scheme and 21% to an occupational pension scheme (see Figure 1).¹⁵

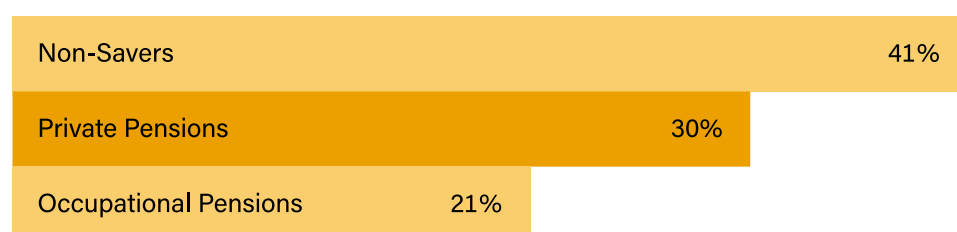


Figure 1 The prevalence of private and occupational pension schemes in the EU. Source: Insurance Europe (2025).

The limited role played by the second and third pillars of the pension system is also reflected in the average annual expenditure on statutory pension benefits¹⁶ which, in 2022, accounted for 12.5% of EU GDP

(80% of which was attributable to old-age pensions).¹⁷ By comparison, annual expenditure on private pension provision was generally less than 1% of GDP. Only the Netherlands (5.3%), Sweden (2.9%) and Denmark (2.4%) recorded higher figures (as of: 2019).¹⁸

Nevertheless, participation in workplace and individual pension schemes has been on an upward trajectory for several years. According to the European Commission, all Member States now have private pension schemes available on a voluntary basis. Twenty-two of the 27 EU Member States have occupational pension schemes, with participation being at least partially compulsory in eight of these countries (for example, in Denmark, Sweden, the Netherlands and Cyprus). In ten countries, there are also compulsory or de facto compulsory private pension schemes (for example, in Belgium and Sweden).¹⁹

The statutory pension remains of great importance. More than four in five pensioners in the EU (83%) derive their retirement income solely from the first pillar. Only 15% receive pension benefits from the other two pillars, which are based on the funded model.^{20,21} However, there are also significant differences between Member States in this regard. In Romania, Bulgaria, Hungary, Latvia, Cyprus and Croatia, for example, over 95% of citizens in each country derive their retirement income almost exclusively from the first pillar. At the other end of the spectrum are countries such as Sweden, the Netherlands, Denmark and Ireland where the importance of private and occupational pension schemes is significantly greater. Thus, for example, in Sweden and the Netherlands, over 85% of pensioners receive benefits from the second and third pillars in addition to their state pension (see Figure 2).²² Consequently, the proportion contributed by these two pillars to total pension benefits is only truly significant in a small number of Member States: the Netherlands (44%), Denmark (28%) and Sweden (21%) with other countries lagging behind, in some cases by a considerable margin.²³ The significant contributions in the aforesaid countries are due, in particular, to the fact that a large section of their workforce is covered by an occupational pension scheme for which expenditure is high and set to rise further in the coming decades.²⁴

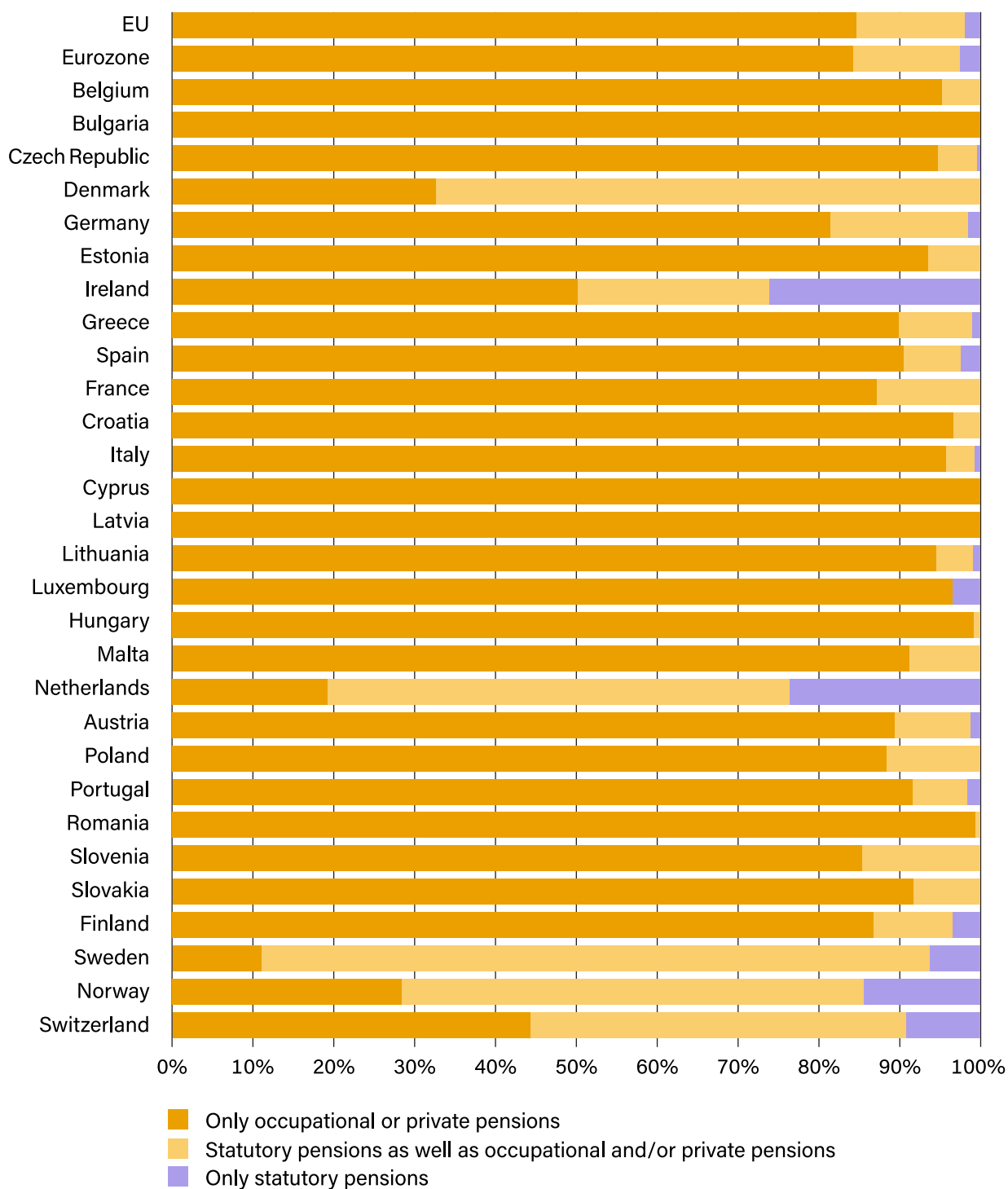


Figure 2 Importance of the three pillars of retirement provision. Source: Eurostat (2024).

The following figures show that supplementary pensions will become more important in the future: In most EU Member States, a significant decline in the benefit ratio for earnings-related state pensions is expected by 2070, averaging 8.3 percentage points. According to forecasts, supplementary

pensions can at least partially cushion this decline and counteract it. This applies in particular to those EU Member States that have well-developed supplementary pension schemes. Pensioners living in those countries can expect above-average benefit ratios thanks to private and occupational pension schemes.^{25,26} Figures from the OECD also illustrate this additional protective effect. Thus, taking account of state schemes alone, the gross benefit ratio stands at 43% on average across the OECD, whilst supplementary pension schemes increase this figure by 13.6 percentage points to 56.6%. Within the EU, this difference is only 8.4 percentage points (57.6% compared with 49.2%) but is still clearly discernible (see Figure 3).²⁷

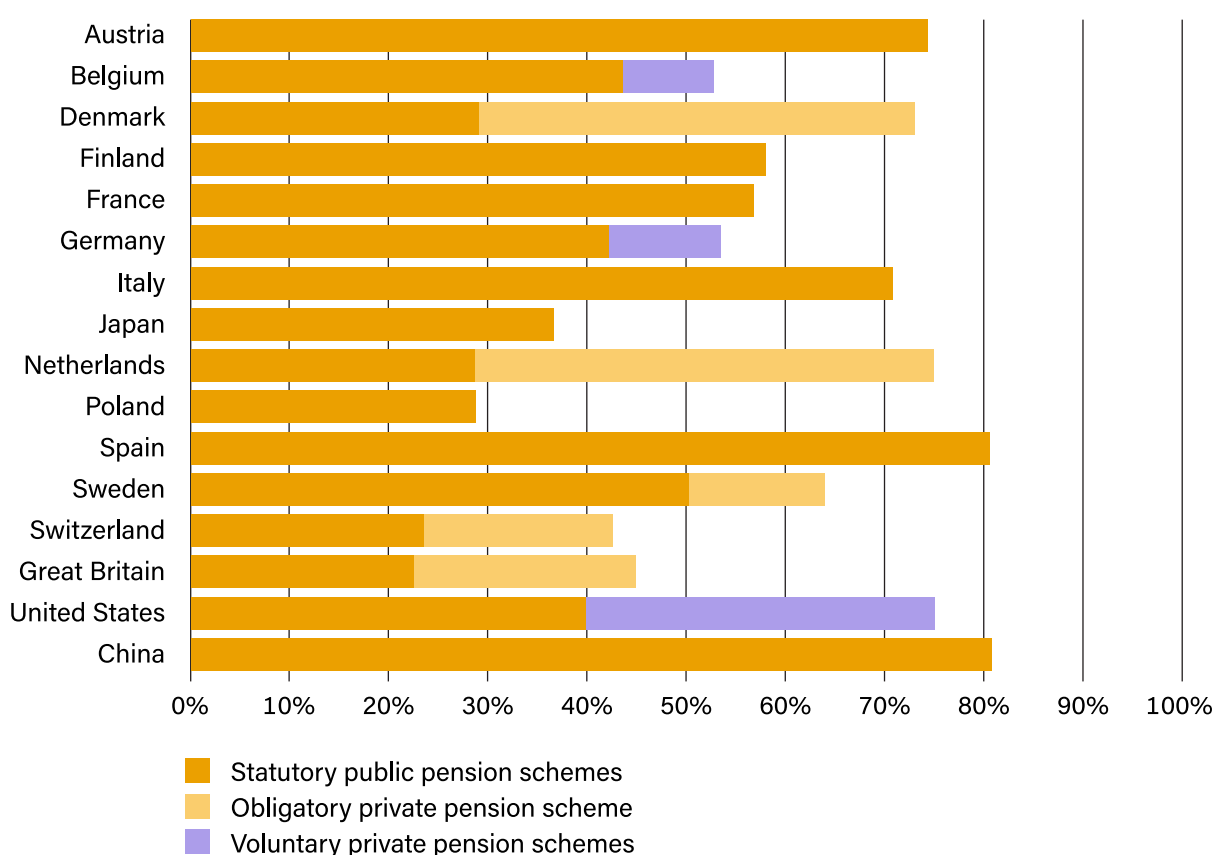


Figure 3 Gross pension replacement rates. Source: OECD (2025).

The consequences of highly developed supplementary pension schemes in individual Member States can also be seen from the assets held under funded schemes. In all those countries with traditionally well-developed second and third pillars, the assets under management significantly exceed the respective

gross domestic product (GDP). Within the EU, this applies in particular to Denmark (192%), the Netherlands (151%) and Sweden (128%), whilst countries such as Germany (12%) and France (14%) lag far behind in this respect (see Figure 4).²⁸ Although the first three countries are not among the most populous in the EU, they account for almost two-thirds of total EU pension assets (62%). In 2022, EU pension assets accounted for 32% of EU GDP, which was significantly lower than in the US (142% of GDP) and the United Kingdom (100% of GDP).^{29,30} Conversely, in continental Europe, where assets in funded pension schemes average 33% of GDP, there is also significant potential for catching up in many countries (e.g. Italy, Spain and Germany).³¹

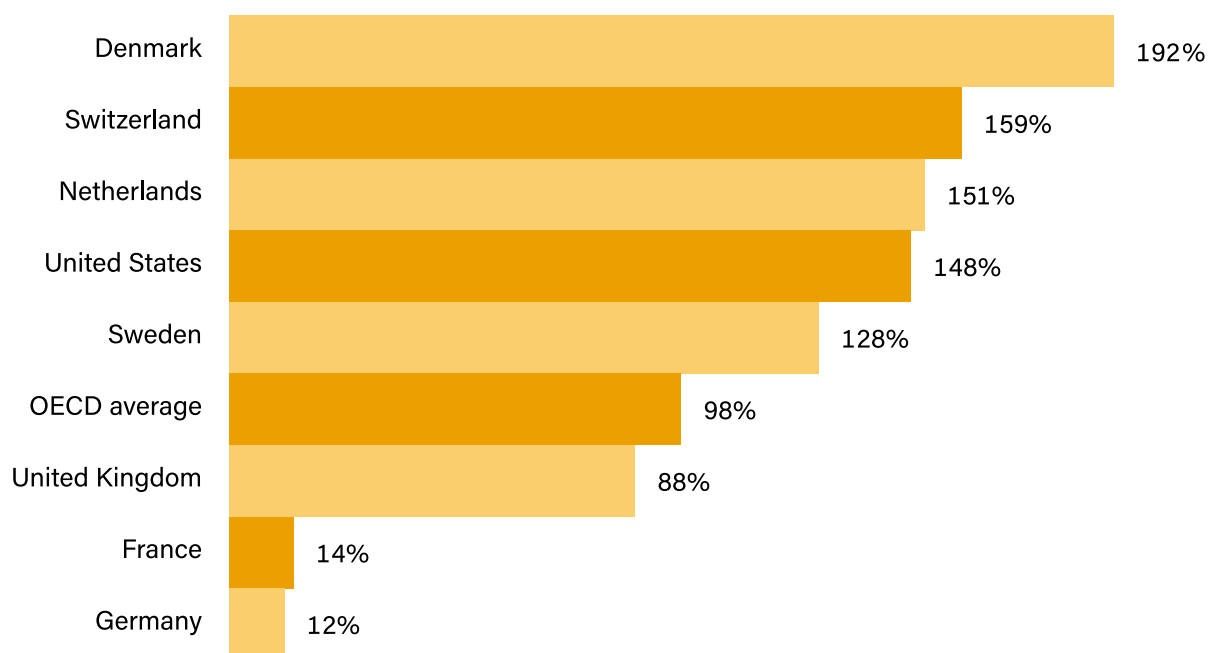


Figure 4 Assets in funded pension schemes. Source: Deutsches Aktieninstitut (DAI) (2025).

Germany

If we look exclusively at Germany, the picture that emerges is as follows: The latest Pension Security Report from the Federal Ministry of Labour and Social Affairs, published in 2024, shows that there are approximately 15.5 million Riester pension schemes and approximately 21 million active occupational pension entitlements in Germany. This means that just over

60% of employees subject to social security contributions aged between 25 and 67 are entitled to a supplementary pension in at least one of these forms.³² Conversely, however, just under 40% are not covered by the second or third pillar, and 16% have no other additional cover either^{33, 34, 35} As Figure 5 shows, 10% of employees subject to compulsory social insurance have a Riester pension, 36% have an occupational pension, and 16% have both forms of provision.³⁶ Whilst the number of these contracts stood at around 16.6 million as recently as 2017, the latest figures show that it has fallen to around 15 million. In around a quarter of the contracts, no active savings are currently being made; in other words, they have been (temporarily) suspended.^{37, 38}



Figure 5 The prevalence of private and occupational pension schemes in Germany. Source: Federal Ministry for Employment and Social Affairs 2025.

Therefore, only a small proportion of the total gross income of people aged 65 and over is derived from private (6%) and occupational (7%) pension schemes, i.e. 13% in total. The lion's share comes from the statutory pension scheme (53%).³⁹ More than half of today's senior citizens receive an income from occupational or private pension schemes. Just under 30%

have a pension from an occupational pension scheme.⁴⁰ A representative survey carried out by the German Banking Association in June 2025 also reveals that supplementary pensions play a minor, albeit growing, role. According to the survey, statutory pension insurance and state pensions account for 73% of pensioners' retirement income, whilst occupational and private pension schemes cover only 7% and 4% respectively. For non-pensioners who have reached the age of 50 or over, the second and third pillars – each accounting for 9% – are already playing an increasingly important role. This therefore points to a “greater diversification of retirement income” for future pensioners. However, the state pension remains the main source of income for the time being, accounting for 63% (see Figure 6).⁴¹

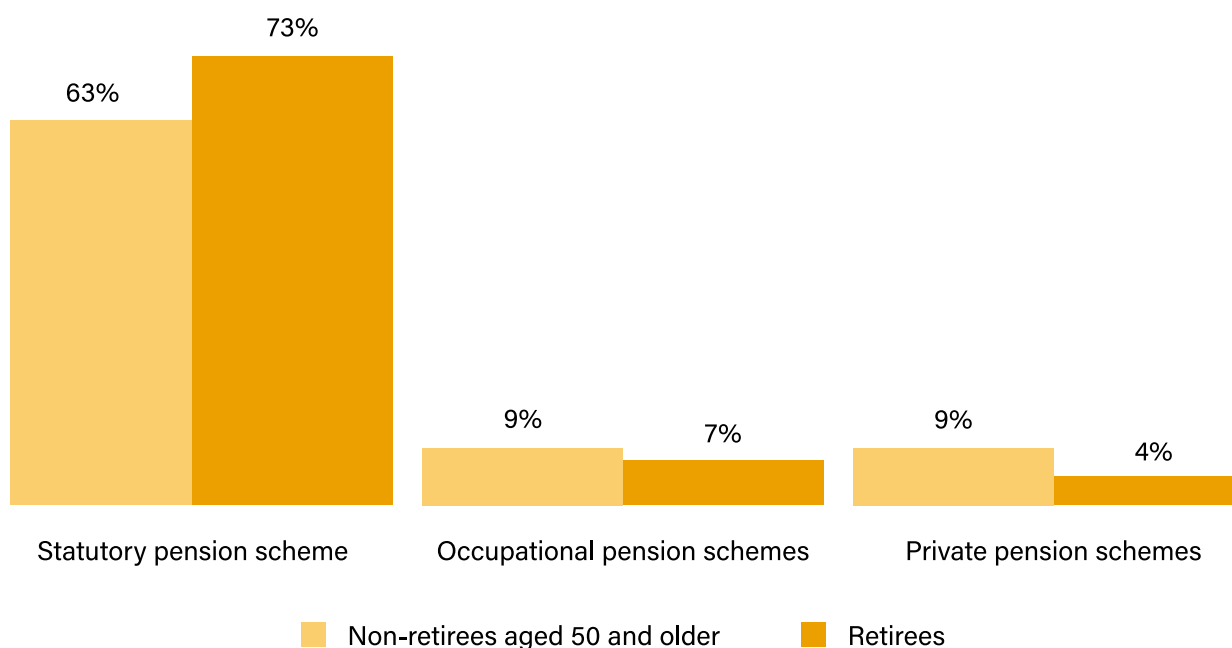


Figure 6 Proportion of retirement income accounted for by the three pillars. Source: Federal Association of German Banks (2025)

Pay-as-you-go financing is therefore the cornerstone of pension provision in Germany, whilst the funded components of the pension system have on the whole hardly achieved any “comparable systemic sustainability”. This is also reflected in the low level of pension reserves in the second and third pillars, which amount to just 8% of GDP and are therefore far lower than the OECD average (105% of GDP).⁴²

Box 1: Benefits of strengthening funded pension schemes

There are several arguments which support the expansion of funded pension schemes in Europe. These include, for example, the fact that the saving behaviour of many private households in the EU is not seen as particularly effective. Many EU citizens opt for safe forms of investment (e.g. savings accounts, deposits) and thus forego higher returns. Funded schemes that allow for higher-yielding financial investments could counteract this. Furthermore, such an expansion could mobilise additional funds to finance Europe's numerous and capital-intensive transformation challenges and counteract its failure to channel sufficient financial capital into productive investment. Strong, fully funded pillars can also help to mitigate the risks faced by pay-as-you-go pension schemes, such as demographic and productivity-related risks.⁴³ Although funded schemes are also "vulnerable to demographic trends" – higher life expectancy may well require higher savings contributions –⁴⁴ and the financial markets cannot prevent demographic ageing or resolve the associated pension security problems,⁴⁵ as a supplementary element of old-age provision, funded schemes can enable further risk diversification^{46,47} and thus allow for a reduction in the level of benefits provided by pay-as-you-go pension schemes.⁴⁸ This can be achieved, in particular, through global investment linked to a "broader, more international, value-added base"^{49,50} with international diversification offering a certain degree of protection against local ageing trends.⁵¹ Supplementary funded schemes also offer the opportunity to spread the burden of demography-related adjustments more evenly over time. This will give rise to potential benefits, particularly in the medium to long term.^{52,53,54} Finally, the investment activities involving fully funded pension schemes can act as drivers of innovation and growth. This is the case, for example, when they are used to channel investment into venture capital, private equity or private debt.⁵⁵

3. Steps towards Strengthening Private Pensions in the EU and Germany

As explained on page 12 in Box 1, the expansion of funded pension schemes and the strengthening of their relative weight within the three-pillar system of old-age provision brings with it a number of advantages. Even if they cannot resolve the current financial problems of the first pillar – i.e. the statutory pension system⁵⁶ – they can, particularly in the long term, make an important contribution to an overall more sustainable system. To ensure that the “transition process” towards greater capital coverage is successful, that transition costs⁵⁷ are kept as low as possible and that missteps are promptly avoided, the right adjustments must be made at an early stage thereby securing the “intended financial relief for Pillar I” from the outset.⁵⁸ Before we look in Section 4 at whether the European Commission and the German legislature are already taking the right steps, Section 3 will outline the latest initiatives from the Commission (Section 3.1) and the German legislature (Section 3.2). The focus here is on measures to strengthen private pension provision, i.e. the 3rd Pillar.

EU Level: PEPP Reform and Recommendation on Supplementary Pensions

The European Commission has recognised that supplementary pension schemes in many EU Member States are underdeveloped and should be expanded in order to address the challenges posed by demographic trends, pension sustainability and the adequacy of retirement income. It sees that strengthening these schemes offers the potential to increase

real net returns on pension assets and to boost retirement income, which in turn would help to ensure the sustainability of pension systems. Furthermore, it regards the two market-based pillars as a means of boosting economic growth and competitiveness, and as a tool for generating savings for long-term investment and deepening the EU's capital markets. Against this background, the Commission announced as early as March 2025 its intention to present a package of measures aimed at strengthening occupational and private pension provision and encouraging more EU citizens to opt for funded pension schemes.⁵⁹

The package was presented on 20 November 2025. In addition to an explanatory memorandum, it consists of a non-binding recommendation and two legislative proposals and sets out measures to strengthen the supply of and demand for supplementary pensions.⁶⁰ The following section will focus specifically on the legislative proposal relating to private pensions and on the said recommendation.⁶¹

PEPP Reform

Private pension markets in the EU are fragmented. There are, for example, around 200 different national pension products and schemes.⁶² Furthermore, as explained above, they are at very different stages of development. To counteract this and provide EU citizens with an additional option for private pension provision – to complement statutory and occupational pension schemes, as well as any national private products already available – a legal framework for the establishment of “Pan-European Personal Pension Products (PEPPs)”⁶³ was created.⁶⁴ PEPP schemes are voluntary, long-term savings products designed for private pension provision. They can be offered, for example, by banks and insurance companies in all EU Member States.⁶⁵ The aim was to make it easier, particularly for mobile EU citizens who live in several Member States, to arrange private pensions as well as increasing their choice and reducing costs through greater competition. PEPP providers would, in turn, find it easier to tap into new markets, achieve economies of scale and spread their risks more widely. The expectation, from an economic perspective, was, amongst other things, was that PEPPs would contribute towards deeper and more liquid EU capital markets, as

well as greater participation by retail investors in these markets.⁶⁶ So far, however, PEPPs have proved to be a flop and are still far from realising their full potential. To date, there are only two PEPP providers across the EU (as at: November 2025). PEPPs have not therefore established themselves as an attractive alternative or addition.⁶⁷ The reasons cited include, amongst others, the mandatory duty to provide advice,⁶⁸ the 1% cap on costs and fees for the Basic PEPP,^{69,70} the requirement to set up multiple national sub-accounts,⁷¹ the strict rules on investment strategies and risk mitigation,⁷² and the varying and, in some cases, unfavourable tax treatment of PEPPs.⁷³ In many cases, no added value was seen in offering such products – which were regarded as complex – alongside domestic products (“cannibalisation effect”).^{74,75} Consequently, there has been a lack of success in developing cross-border private pension schemes, and thus economies of scale are virtually impossible. The EU single market for pension products therefore remains underdeveloped.⁷⁶

In light of the weaknesses identified in the current PEPP regulatory framework, the European Commission presented a proposal to revise the PEPP Regulation in November 2025. The aim is to improve the functioning and practical effectiveness of PEPPs so that they can serve as “safe, efficient, transparent and high-performing pension products”.⁷⁷ The reform is intended to support Member States, particularly in tackling challenges in the area of pensions.⁷⁸ In addition, it aims to promote competition amongst providers of private pension products and to make a wider range of products available to retail investors and savers, which are tailored to their needs. Greater participation in the capital markets is also intended to help achieve the objectives of the “Savings and Investment Union”.^{79,80}

Ten key changes introduced by the reform are briefly outlined below:

- 1. No obligation to provide advice but any advice on the Basic PEPP must be independent:** The Commission intends to abolish the current duty to provide pre-contractual advice on the sale of a Basic PEPP as this reduces the profitability of sales and makes selling via digital channels more difficult. Furthermore, the Commission points to the relatively simple nature of the standard

product. If a saver nevertheless wishes to receive advice, this may only be provided at their request and must be “independent”. Independent advice means that PEPP providers or distributors must consider a sufficient number of private pension products available on the market and must not limit themselves to products published or offered by companies closely associated with them. Furthermore, the providers or distributors must not accept or deduct any fees, commissions or monetary or non-monetary benefits from third parties. When giving independent advice, providers or distributors are not required to assess the saver’s knowledge or expertise.⁸¹ In the case of the sale of non-Basic PEPPs, however, the duty to provide advice is to remain in force.⁸²

2. **Characteristics of a Basic PEPP:** The Commission intends to relax various restrictions relating to Basic PEPPs. Firstly, PEPP providers will no longer be obliged to offer this type of standard product if they also wish to offer non-standard products. The aim is to lower the barriers to offering PEPP products in the first place. Secondly, the restriction on the sale of no more than five non-Basic PEPPs is to be lifted. The aim is to give providers greater scope to offer tailored products. Thirdly, as a risk mitigation technique, a Basic PEPP must in future be based on a life-cycle investment strategy.⁸³ “Hard” guarantees are no longer permitted.⁸⁴
3. **Abandonment of the cap on costs and fees for the Basic PEPP:** The Commission intends to remove the 1% cap on costs and fees for the Basic PEPP. The aim is to improve the commercial viability of PEPP schemes, boost acceptance of PEPPs and ensure a sustainable, high-quality range of products.⁸⁵
4. **Cost-benefit ratio or “value for money”:** In line and consistent with the EU Retail Investment Strategy,⁸⁶ the Commission wishes to establish a structured framework to ensure that PEPPs offer good value for money. This means that the costs and performance of the products must be proportionate to their characteristics, objectives and risk-return profile. This approach can also be regarded as a substitute for the cap on costs and fees and is

intended to be embedded within the broader product oversight and governance framework, in particular the product approval process. PEPP providers therefore have to demonstrate, prior to such approval, that the total costs and charges are justified and proportionate in view of the expected benefits and performance. If this is not the case, providers cannot authorise, manufacture or distribute them. The competent supervisory authorities are to monitor compliance with the requirements by referring to supervisory benchmarks and may also require providers to take remedial action in the event of non-compliance.⁸⁷

5. Abolition of the obligation to open national sub-accounts:

In order to simplify account management, the Commission wants to remove the obligation currently laid down in the PEPP Regulation⁸⁸ requiring PEPP providers to offer national sub-accounts for at least two Member States. It thus aims to address the complexities involved in the development and production of PEPPs and release PEPPs from their niche status.^{89,90}

6. The prudent person principle: The Commission wishes to transform the “prudent person rule” into the “prudent person principle”.⁹¹ Accordingly, there is to be a shift away from the prescriptive approach, which specifies the types of assets in which investments may be made, in favour of a more flexible approach based on certain principles. This approach is based on the idea that, in principle, all types of assets may be eligible for investment as long as the PEPP provider applies appropriate risk management practices, and the objectives and interests of PEPP savers are safeguarded. The change in approach is primarily intended to create greater incentive for investment in alternative assets and, in particular, in shares (“listed and private equity”). Such investments will not be regarded as “imprudent” per se.⁹² Whilst upholding the prudent person principle, PEPP providers must in future explicitly consider the risks and the potential long-term impact of investment decisions on ESG factors. Furthermore,

they must invest the assets predominantly on regulated markets, multilateral trading facilities (MTFs) and organised trading facilities (OTFs).^{93,94}

7. **Focus on life-cycle-based investment strategies:** As mentioned in point 1, the Commission advocates that the Basic PEPP should be designed as a simple retirement savings product that incorporates a life-cycle-based investment strategy. The prudent person principle also applies to the Basic PEPP. Nevertheless, the Commission expressly wishes that – apart from liquid assets – at least 95% of the assets of the Basic PEPP be invested in listed and non-complex assets.⁹⁵ No more than 5% will be invested in other assets.⁹⁶
8. **PEPP as a workplace pension scheme:** The Commission also wants PEPPs to be included in occupational pension schemes in order to enhance their visibility, relevance and acceptance. In future, Member States will not be permitted to prevent employers from making voluntary contributions to a PEPP on behalf of their employees, provided the employees consent to this. Member States can also allow workers to receive PEPPs under a workplace auto-enrolment scheme. At the same time, PEPP savers will have the right to opt out of membership. The introduction of PEPPs as a private pension product for occupational pension schemes must not interfere with existing national occupational pension schemes and must comply with national social and labour law provisions.^{97,98}
9. **Right to transfer savings and to switch providers:** The Commission would like savers to be able to transfer their savings from private pension schemes into a PEPP in a straightforward manner. Member States will not be able to prevent this in future. They must also ensure that transfers from a non-PEPP pension product to a PEPP are no more expensive than transfers between two non-PEPP pension products. In this regard, PEPPs will not be subject to discriminatory treatment. Furthermore, in the event that a PEPP is removed from the register, PEPP savers and beneficiaries will be able to switch to another provider, immediately and free of charge, and transfer their accumulated capital to another private pension product or PEPP.⁹⁹

- 10. Tax treatment:** Tax incentives are an important factor for increasing the uptake of private pension products. So far, Member States have been called upon, on the basis of a non-binding recommendation,¹⁰⁰ to grant PEPPs, in principle, the same tax advantages as those granted to national private pension products. Where there are several such products in a Member State to which different tax rules apply, the most favourable tax treatment will apply to PEPPs. The Commission is now moving away from the non-binding nature of this requirement. In future, Member States must ensure that this requirement applies.¹⁰¹

Recommendation on Supplementary Pensions¹⁰²

In a non-binding recommendation to the Member States, the Commission emphasises the Member States' sovereignty when it comes to organising their pension systems and sets out three specific measures¹⁰³ which the Member States should take to promote private and occupational pension provision.

- 1. Pension tracking systems:** The Commission is calling on all Member States to introduce so-called pension tracking systems. These are intended to serve as digital "information tools" facilitating financial planning for retirement and providing citizens with an overview of the pension entitlements they have already accrued and, ideally, their projected pension entitlements as well. The tracking systems should cover not only entitlements under state pension schemes, but also those under supplementary pension schemes. In addition, the Commission intends to support the establishment of an EU-wide platform (European Tracking Service, ETS) that will link up the national tracking systems. The ETS is intended as a tool for mobile workers in particular.¹⁰⁴
- 2. Overviews of pension provision:** The Commission aims to ensure that all Member States introduce comprehensive national overviews of pension provision ("pension dashboards"). These dashboards are designed to enable Member States to systematically monitor

the adequacy and sustainability of their pension systems – across all pillars and over time. The dashboards are particularly intended to support Member States when it comes to designing long-term pension reforms by providing accurate and trustworthy data, on the basis of which targeted policy decisions can then be taken.¹⁰⁵

3. **Auto-enrolment into supplementary pension schemes:** The Commission wants Member States to establish the necessary legal framework for auto-enrolment into supplementary pension schemes¹⁰⁶ which means that citizens automatically become members of such a scheme from the outset. Those who do not wish to take part must actively opt out (“opt-out approach”¹⁰⁷). In this regard, the Commission is taking up an idea put forward by Enrico Letta in spring 2024 in his report on deepening the single market. In this report, he called for the “simplification and improvement” of PEPPs, as well as the introduction of an auto-enrolment clause.¹⁰⁸ The Commission sees this as a means, on the one hand, of increasing the low participation in voluntary supplementary pension schemes¹⁰⁹ and, on the other, of mobilising more funds for long-term investment. Member States are to draw on best practice when implementing auto-enrolment. Thus, auto-enrolment for example would be made available to as many people as possible from different sections of the population, different sectors of employment and with different types of employment contracts. A phased introduction – for example, by gradually expanding the categories of employers covered or gradually increasing contribution rates in order to boost acceptance – is also considered beneficial. The Commission also considers targeted tax incentives or subsidies for low-wage earners and younger workers to be of key importance in order to increase their participation rates and ensure that the schemes are affordable for these groups. Furthermore, the Commission urges Member States to offer default solutions along with a limited number of options for contribution rates, eligible investment plans or products, investment strategies and payout arrangements.

The aim is to ensure that people with limited financial knowledge are not overwhelmed and to make it easier for them to get started. The Commission also emphasises the benefits of life-cycle-based investment strategies¹¹⁰ and advocates making them the default plans. Such standard schemes are to be available to all employees and self-employed people¹¹¹ in order to achieve “maximum cover”. If tax incentives and subsidies are granted, they should be the same for all comparable products. Last but not least, the Commission sees great potential for boosting participation by establishing public bodies to manage and invest pension funds.¹¹²

Germany: Altersvorsorgereformgesetz

On 27 March 2026, the German Bundestag passed a reform of private pension provision, thereby approving the draft bill “on the reform of tax-advantaged private pension provision” (Altersvorsorgereformgesetz) tabled by the Federal Government in December 2025.^{113,114,115} The Federal Government justifies the reform in particular on the grounds that the total number of private pension contracts under the Riester scheme (“Riester pensions”) has been declining for several years for a variety of reasons.¹¹⁶ However, it also considers supplementary pension provision to be important so that citizens can maintain their personal standard of living in old age. The reform is intended to revitalise and restructure voluntary¹¹⁷ private pension provision in Germany. To this end, the Riester pension is to be replaced by “new, more flexible, higher-yielding and more cost-effective products”¹¹⁸ in order to increase the appeal and uptake of private pension schemes. The aim is to establish an efficient scheme to safeguard living standards after retirement for broad sections of the population. This is to be achieved through greater standardisation, a reduction in red tape and competition between providers, as well as lower costs. The new products are expected to be available from the start of 2027.¹¹⁹

The revitalisation of the market for private pension products is to be achieved, in particular, by way of the following measures:¹²⁰

1. Flexibility with regard to guaranteed pension products:

Regarding pension commitments, the approach to be adopted in future will be based on two product categories. Until now, the only tax-advantaged products available were those offering a 100% guarantee, which meant that the provider had to undertake to ensure that at least the contributions paid in would be available at the start of the payout phase. In future, products with a lower guaranteed level of 80% will also be available. The aim is to offer savers, who are less risk-averse, the opportunity to invest in products with potentially higher returns, without preventing those with a focus on security in their retirement planning from having access to products that guarantee to preserve their contributions. Available products will have either a 100% or an 80% guarantee.

2. Pension investment accounts: In addition to the two guaranteed products for savers who prioritise security, there will also be pension investment accounts with no guarantee. The existing Riester subsidy scheme did not cover such non-guaranteed investment accounts, but they will be eligible for subsidies in future. These pension investment accounts are designed to enable savers to benefit from investments offering higher potential returns. At the same time, providers or the savers themselves can also invest in riskier forms of investment. A positive list definitively sets out which assets are permitted for investment within a pension investment account. As with the guaranteed products, there will be two types of investment account - a standard option and a non-standard option:

→ **Standard option:** The standard pension investment account is a simple, accessible product designed particularly for inexperienced savers with little knowledge of the capital markets. It is also aimed at savers who do not pay much attention to their retirement provision but would like to make the necessary decisions. The features of this option are to be designed in such a way that they "meet the needs of

many people saving for retirement". It will also be possible to subscribe without prior consultation. In addition, providers will be given the opportunity¹²¹ to offer the standard product exclusively via digital channels. Where prospective investors opt for this type of portfolio, therefore, no individual decisions will be necessary (unless those saving for retirement wish to deviate from the default selection). The simply structured standard portfolio must be funded with two open-ended, diversified and liquid investment funds (UCITS). In the first fund, only UCITS with the lowest risk profiles (risk classes 1–2) are permitted; in the second fund, UCITS up to risk class 3–5 are allowed.¹²² Furthermore, as of at least five years before the start of the payout phase, no more than 50% of the accumulated capital may be invested in higher-risk assets. Two years before the start of the payout phase, and during that phase, no more than 30% may be invested in such assets. It may therefore be necessary to reallocate funds to lower-risk investment funds in good time (life-cycle strategy). A cost cap also applies to the standard version. The average annual reduction in returns due to costs over the term of the contract is capped. The effective costs of the pension scheme must not exceed 1%. Every provider of tax-advantaged pension products is also obliged to offer a standard pension investment account.¹²³ In addition to private-sector companies, a public body will also provide a standard investment facility, so that there will also be a publicly organised service.¹²⁴ This must meet the same criteria as those offered by the private sector and will, for example, set a benchmark with regard to costs.

- **Non-standard option:** This option is potentially the riskiest as it offers the greatest flexibility. There is no cost cap, digital distribution is not compulsory, and the provider is not required to pursue a lifecycle strategy. Nor is there a state service for this option. Given its more personalised nature,

the need for advice is likely to be greater. Furthermore, purely private providers have greater scope when investing capital. Although they must adhere to a positive list of eligible assets, they are otherwise free to determine the structure themselves. The positive list only contains investments that can be purchased by the pension savers themselves. These include – up to risk class 5 – shares in UCITS sub-funds,¹²⁵ open-ended public AIFs¹²⁶ and European Long-Term Investment Funds (ELTIFs).¹²⁷ In addition, investments in debt securities issued by, amongst others, the Federal Government, the Länder, local authorities or other public-law bodies are permitted, provided they are denominated in euros.

3. Spreading the costs over the entire term of the contract:

In future, all providers of pension products must spread the estimated arrangement and distribution costs evenly across the agreed savings period. This is intended to make it easier to switch providers and boost competition. The aim is also to prevent high set-up fees from being incurred again in the event of such a transfer. Providers may however charge a transfer fee, subject to a cap, where a transfer takes place within the first five years.

4. Greater flexibility during the payout phase: In future, people saving for retirement will, in addition to the option of a life-time annuity, also be able to opt for a fixed-term payment plan at the start of the payout phase which must run until the person reaches the age of 85 at the very least but may also extend beyond that. The measure is intended to broaden the options available to savers and foster more competition. In addition, under both options, it will be possible to receive a partial capital payout of up to 30% upon retirement. Furthermore, people saving for retirement will be able to switch providers at the start of the payout phase and thereby choose a different payout option. They will thus be able to switch from a policy without a pension option to one with a life-time annuity option, and vice versa.

5. **Raising the age limit to 65:** The reform is intended to encourage long-term saving. The savings will therefore, as a rule, only become available upon reaching retirement age. The earliest possible payout is to be available only upon reaching the age of 65, rather than at 62 as has been the case to date. The latest possible start date is set at 70. Providers and pension savers can agree on the point within this time frame at which the payout phase will begin.
6. **Taxes and subsidies:** Like the Riester pension, private pension provision will receive tax incentives. The aim is to retain the existing funding structure: no taxation of contributions during the accumulation phase and deferred taxation during the payout phase. However, the subsidy scheme is being overhauled and, in future, will be based on, among other things, a contribution-based system.¹²⁸

4. Analysis of the Proposals to Strengthen Funded Pension Schemes

As indicated in previous sections, despite its numerous advantages – such as ensuring an adequate income in old age and promoting the integration of EU capital markets – funded pension provision remains underdeveloped in many Member States. Both the EU and Germany have recently proposed or adopted measures to give new impetus to private pension provision and to address the shortcomings of the existing schemes – PEPP and Riester. The following provides an analysis of the extent to which the proposed measures are moving in the right or wrong direction and will examine in greater depth the individual reform proposals put forward by the European Commission and the German Government. This makes sense as in their efforts to reform and expand the third pillar of pension provision, they are, in some cases, pursuing approaches that point in a similar direction; for example, a (partial) move away from guaranteed products, a focus on standard products, greater flexibility in product options, an openness to riskier forms of investment, and a focus on life-cycle strategies. However, there are also approaches in which a different – and therefore divergent – strategy is evident, for example in relation to cost limits, freedom of choice, advisory requirements, links to occupational pension schemes, and the state's role as an active market participant.

Dealing with Costs

When it comes to dealing with the costs of private pension products, Germany and the European Commission take different approaches. Germany is setting a cost cap of 1% for standard pension investment accounts whereas the Commission intends to abolish this cap – which already exists for the Basic PEPP – and replace it with a “value-for-money” approach, as established under the EU Retail Investment Strategy. However, neither approach is particularly convincing. Regulatory measures aimed at capping costs and ensuring adequate returns for pension savers now appear reasonable on the grounds of consumer protection, not least in the light of past experience. Nevertheless, the instruments envisaged for this purpose are ineffective and constitute unnecessary market intervention. Although a 1% cap is often not an insurmountable hurdle, as international comparisons also show,¹²⁹ in market-based economies, it is not the role of policy makers to set a maximum price for private pension products. This applies in particular to well-functioning markets characterised by intense competition. Fixed upper limits may also have the side effect of making it more difficult to differentiate the range on the basis of product features other than cost. They can also make it impossible to invest in assets which, whilst involving high initial costs, also offer high potential returns in the medium to long term. In the case of the Basic PEPP, it has become apparent that a simple cap on costs and fees acts as a genuine barrier to market entry. It deters companies from submitting bids and has played a significant part in the PEPP market’s failure to develop.¹³⁰ The proposed move away from this fixed upper limit for the Basic PEPP may therefore help to boost supply by making viable business models possible in the first place and increasing the incentive for providers to enter the market. With its standard pension investment account and a fee cap of 1%, Germany does not appear to be drawing the right conclusions from its experience with the Basic PEPP but is in fact repeating the Basic PEPP’s “mistake”.

Against this backdrop, the move away from a fixed cost cap for the Basic PEPP is groundbreaking. However, the proposed alternative solution –

the adoption of the less drastic “value for money” approach¹³¹ – is not without its risks either. Admittedly, this solution is preferable to strict cost caps. Depending on its final form, however, the approach of having the costs of pension products examined and monitored by the supervisory authorities could also prove to be very bureaucratic and prone to errors. For example, it is questionable whether it is possible to assess, before a PEPP¹³² is actually offered, whether its total costs and fees are justified and proportionate in relation to the expected benefits and performance. An ex-ante assessment of expected performance is generally impossible. Instead, it has to be observed over the course of a PEPP’s lifecycle. The regulatory benchmarks against which supervisors are expected to compare the overall performance of PEPPs are also likely to prove prone to error and subject to distortions. After all, in this still fledgling and barely developed market, there are ultimately very few comparable products available for such comparisons. Reliance on other pension products that are not PEPPs would be out of line with the “value for money” approach. Finally, there is a risk that the mechanism will tie up enormous resources and create new administrative burdens for both the supervisory authorities and the providers.¹³³ Implementation of the “value for money” approach could therefore prove counterproductive and undermine the benefits of moving away from a strict cost cap. An existing barrier to market entry would then simply be replaced by a new one. This should be avoided. The approach should, at most, serve as an oversight tool, but not as a means of intervening in the market.¹³⁴

Advice Requirements

As part of their reform efforts, both Germany and the European Commission are aiming to ensure that their respective pension products – the Basic PEPP and the standard pension investment account – can, in their standard forms, be sold via digital channels with as little need for advice as possible. In both cases, the products and investment portfolios are intended to be suitable for a wide range of savers and to meet their needs. The aim is to lower the barriers to market entry for both providers

and potential savers. The latter will be encouraged to enter into standard form contracts (“nudging approach”) with the aim of making it easier for inexperienced members of the public with little knowledge of investment to get involved in private pension provision. For non-standard options, however, advice is still considered necessary.

The aim of this regulatory approach – to remove barriers to funded pension provision on both the supply and demand sides – is understandable and, in principle, to be welcomed. However, the approach has some structural weaknesses because it generally assumes that the need for advice is lower for those citizens primarily being targeted with the standard options. However, it is precisely this group for whom the need is likely to be at least as great as for those with an affinity for investment, who are also considered capable of entering into non-standard contracts. And, more generally, the need for advice is likely to be particularly high when it comes to individual private pension provision – where savers forgo liquid financial resources and spending opportunities over a long period – unlike, for example, short-term investments in current or fixed-term deposit accounts. Furthermore, this approach gives undue preference to the standard options and distorts market processes in favour of these options. The regulator assumes that these options are generally the best solution for prospective savers, but it is doubtful whether the regulator possesses this knowledge, especially given that potential savers often find themselves in different circumstances and the extent of the “necessary” supplementary private pension provision can vary considerably and depends on a person’s current life situation. It should not therefore be generally assumed that the standard solution is always “in the best interests” of the saver, although this is a principle that is generally upheld in other areas of investment advice regulation.¹³⁵ There is a risk that savers will regularly be steered towards (standard) products that are, in fact, unsuitable for them, and that they will avoid products that might actually be better for them – simply to increase the take-up of voluntary private pension schemes. However, that does not mean that there should be no low-threshold standard options. It simply means that policymakers should not favour or disadvantage any particular products or investment

portfolios. Conversely, this means that, in principle, the same advisory and distribution requirements should apply to all private pension products and portfolios, and any variants thereof – whether at EU level or in Germany. As such requirements are already largely harmonised at European level, these should form the basis. This will also ensure that (potential) savers and those making provision for retirement, as well as providers of investment products, do not have to grapple with provisions that diverge from one another and therefore require explanation.

Under the PEPP reform, the move away from the obligation to provide advice on the Basic PEPP is also linked to the requirement that advice on this standard product may only be provided at the request of the pension saver and in the form of “independent advice”. This is also questionable. Firstly, it unnecessarily restricts access to advice for those citizens who require guidance on the supposedly straightforward Basic PEPP. Not every provider will be willing to offer “independent” advice, particularly if they have previously relied on a “dependent” form of advice. However, if there is no adequate and sufficient range of advisory services available to citizens who need support in making decisions regarding their retirement provision, they may, in turn, reject the Basic PEPP. This would undermine the actual political objective of promoting private pension provision, particularly since, in the case of the non-Basic PEPP, there are no restrictions regarding the advisory model.¹³⁶ Secondly, by adopting this approach, the Commission is favouring one advisory and remuneration model over others. It believes that fee-based advice is always preferable to commission-based advice, but this overlooks the fact that both options have their pros and cons. The claim that only independent advice can ensure the quality of advice and protect the interests of potential PEPP savers¹³⁷ is, in any case, open to question. Ultimately, competition should determine which distribution model prevails in the market. By imposing one-sided bans, the Commission is forcing those saving for retirement to accept the shortcomings of the distribution channels that are still permitted. However, such shortcomings are also found in fee-based advisory services described as “independent”.¹³⁸ It is also surprising that the Commission makes independent advice a requirement only for

Basic PEPPs but not for non-Basic PEPPs or for investment products outside the PEPP regulatory framework. It is difficult to understand why, of all product categories, and of all standard versions, this one requires special treatment.

Rather than prescribing different advisory standards for standard and non-standard products and promoting independent advice at EU level, the barriers to funded pension provision should be reduced holistically on both the supply and demand sides. Care should be taken to avoid discriminating against any particular form of advice. The aim should be to examine how the harmonised European requirements, which were recently updated as part of the EU Retail Investment Strategy,¹³⁹ could be made less stringent and less bureaucratic. On the other hand, there should be no coexistence of different advisory frameworks. The regulatory model should aim to ensure that citizens and providers are subject to a single advisory framework, regardless of the pension product or account in question, and regardless of whether a standard option or an alternative option is offered. This is particularly important in order to prevent distortions of competition and to ensure that savers have the widest possible choice.

Freedom to Choose Which Products to Offer

Providers wishing to operate as participants in the PEPP market under the PEPP Regulation, or in the market for guaranteed products or pension investment accounts under the Pension Reform Act, are in some respects subject to different requirements with regard to the products they offer. Thus, in future, PEPP providers will be able to choose not to offer a Basic PEPP at all. They can also decide to offer only tailored PEPPs, and in unlimited numbers.¹⁴⁰ Under the Pension Reform Act, however, all companies wishing to offer tax-advantaged pension products must also provide a standard pension investment account.¹⁴¹ The EU level therefore provides maximum flexibility. The aim is clearly to increase the willingness to distribute PEPPs. In contrast, the German legislature is committed to ensuring the widest possible range of standard pension

investment accounts and wants, in particular, to promote their market penetration. When considering these two regulatory approaches, the EU's is clearly preferable because it promotes the freedom to choose retirement savings products, increases the likelihood of tailored, target-group-specific offerings, reduces barriers to market entry and does not unduly restrict entrepreneurial freedom. It also allows providers to focus on those services which they consider to be viable. The implicit pressure to offer standard products, which may not fit within the product portfolio or may run counter to one's own business model, is removed. In contrast, the German approach involves a "nudging" strategy which pushes both providers and savers towards standardised solutions, interferes with market processes and unduly restricts the providers' scope for action. Ultimately, providers should be allowed to decide for themselves which product forms they consider preferable, without the state imposing any requirements on them in this regard.

Nudging people towards standard options ultimately stems from a desire to accommodate observations based on behavioural economics. One example of this is the reluctance of many citizens to look more closely at issues relating to retirement provision and the tendency to put off making decisions in this regard. However, rather than correcting these behaviours, the nudging strategy will actually reinforce them. There is a risk that citizens will become accustomed to not having to engage independently, responsibly and in depth with these issues thereby becoming subject to a form of "disempowerment" which also runs counter to numerous initiatives at national and European level committed to improving financial literacy.

The State as a Participant in the Market for Private Pension Products

Under the Pension Reform Act, the German legislature has decided that offering standard pension investment accounts will not be reserved exclusively to private providers (e.g. banks and insurance companies) but has already provided a basis to ensure that such a facility can also

be provided by a public body. The aim is to create a flagship product that will serve as a benchmark, for example in terms of costs. It has not yet been decided which body will take on this role.¹⁴² The Bundesrat is in favour of transferring asset management to the Deutsche Bundesbank.¹⁴³ Although the state-run service will be required to meet the same standards as that of the private sector, the idea of installing a public body as the state-run provider in the private pension sector is misguided. It is questionable whether the state, as an additional competitor in the market for (standardised) pension products, can or will in fact act in a neutral manner. It will be taking on several different roles all at the same time, a market player, a regulator and a supervisory authority. Conflicts of interest and distortions of competition to the detriment of the private sector are therefore inevitable. Much still depends on the precise details of the government's proposal. In this regard, the Federal Government must, for example, comply with European competition and state aid law.¹⁴⁴ In practice – and thus in terms of competition –, however, there is a risk that the state-run service will receive preferential treatment because it is the political choice and is intended to set a benchmark in terms of costs. Furthermore, the introduction of a standard state-run pension scheme creates scope for private pension provision to become intertwined with the pursuit of political objectives other than safeguarding people's standard of living in old age.¹⁴⁵ This is demonstrated not least by the Bundesrat's call for state-run standard products that also take sustainability criteria into account.¹⁴⁶ Whilst such product variants may well be in the best interests of some investors, they can also be provided by the private sector. It would therefore be advisable to refrain from introducing a standard product offered by a public body, or, at least, to ensure competition-neutral implementation.¹⁴⁷

A Shift Away from Guaranteed Products and a Focus on Life-Cycle Strategies

Both the European Commission and the German legislature are tending to move away from guaranteed-return products towards riskier pension products. Whilst there are plans at European level to phase out Basic PEPPs entirely and only permit products featuring an integrated life-cycle strategy,¹⁴⁸ guaranteed products in Germany will continue to be available in two variants – 100% and 80%. Even here, however, the legislator's preference clearly lies with (standard) pension investment accounts with no guarantee. This shift away from guarantees – which appeal particularly to risk-averse savers but offer little in the way of returns and therefore make only a limited effective contribution to retirement provision – is long overdue. Guarantees are generally both expensive – as they require the creation of substantial capital reserves – and unnecessary, as the risk of loss is very low over the long investment horizon of pension products.¹⁴⁹ Guarantees should still exist as an option as this is the only way to safeguard savers' freedom of choice, and the only way to ensure that voluntary wealth accumulation takes place in their best interests.¹⁵⁰ However, guarantees should no longer be the central element of tax-advantaged pension products – whether under the PEPP framework or the Pension Reform Act. This is because life-cycle strategies enable growth, particularly in the early years, protect against volatility in the equity markets in the run-up to retirement, and tend to offer higher returns than conservative investments in the form of guaranteed products. Furthermore, they create the conditions for additional financial capital from EU citizens to be channelled into long-term, productivity-enhancing investments. This will help to further the Capital Markets Union and achieve a range of policy objectives (e.g. the sustainable transformation of European economies).

Life-cycle strategies which focus on riskier investments during the early years of saving – i.e. generally while people are young – and shift towards lower-risk investments over time, particularly in the years leading up to retirement, have already proved to be a suitable investment strategy

in some Member States. This can be seen, for example, in France, the Netherlands and Sweden. The publicly managed AP7 S fa standard fund in Sweden, which follows such an investment strategy, has, for example, achieved an average annual return of 9.2% since 2001 (6.8% after deducting costs and inflation). No other long-term pension products have achieved such high figures.¹⁵¹ The OECD also emphasises that life-cycle strategies can mitigate the risks that savers may face as a result of sharp falls in stock markets immediately prior to retirement. Replacement rates for equity portfolios are generally higher – in over 75% of cases – than for life-cycle strategies, but in cases where there is a market crash shortly before retirement, replacement rates for life-cycle strategies are often higher.^{152,153}

However, it is important to emphasise that life-cycle strategies are more complex and less easy to understand than guarantees. With that in mind, the removal of the duty to provide advice in relation to Basic PEPPs and standard pension investment accounts – where these strategies are intended to be applied – appears misguided. The shift towards life-cycle strategies is likely, in fact, to increase the need for explanations and tailored advice amongst those making provision for their retirement. In any case, it is unclear why savers are only required to be informed about, or advised on, the opportunities and risks associated with these strategies if they avoid the standard options and choose bespoke, alternative pension products. As explained in Section 4.2, this situation militates against any divergences in the advice requirements between standard and non-standard products.

Regardless of the product variant, it is important to avoid rigid guidelines as far as possible when designing life-cycle strategies and to allow suppliers flexibility and scope in this regard. It is particularly worth referencing in this respect the reallocation rules for standard pension investment accounts,¹⁵⁴ as set out in the Pension Reform Act. The reallocation process should in fact be tailored to the needs, interests and individual circumstances of each saver and take account of the terms for accessing the pension. After all, a key factor in a sound life-cycle strategy is how the “draw-down process” – for example, payment

of a pension versus capital withdrawals – will or should unfold in old age. Rather than adopting a “one-size-fits-all” approach, the legislator should at least refrain from making alternative approaches impossible, provided that the principles of sound risk management are observed and adequate protection for savers is guaranteed. In principle, the scope that exists in this regard for non-standard products should also apply to standard variants.¹⁵⁵

Relaxation of the Prudent Person Rule

PEPP providers are currently required to act in accordance with the prudent person rule. This principle serves as a key cornerstone in European regulatory frameworks for the investment activities of numerous financial market participants. A reckless and wholesale departure from this important risk management principle – which is intended to ensure that assets are invested only in such a way as to safeguard the security, quality, liquidity and profitability of the portfolio as a whole – must be avoided. However, the modest relaxations now envisaged – which are intended to allow for greater flexibility in investment and to make it easier for PEPP providers to invest in generally less liquid asset classes or equities – are justifiable, even if they do allow for additional risks to be taken within certain limits, because they offer PEPP providers, as key institutional investors, the opportunity to focus more on equity investments and illiquid assets (e.g. property, venture capital, infrastructure) – and thus on sectors that have hitherto been largely off-limits to them. In practice, this is evident, for example, from the fact that pension funds in the US have invested a far higher proportion of their managed assets in venture capital than those in the EU (0.03% versus 0.01%). The reason cited for this is the relaxation of the “prudent person rule” in the USA, which happened as far back as the 1970s.¹⁵⁶ Given the long-term nature of saving for private retirement provision, investment forms that are structured over a long period may also be suitable. Broadening the range of investment options

may result in diversification benefits. Furthermore, it may increase the chances of long-term growth for those saving for retirement and make it easier for (young) companies in the EU to tap into new sources of funding.

PEPPs as Occupational Pension Products

At present, PEPPs are designed as purely private third-pillar pension products. There is no direct link to the second pillar, i.e. the occupational pension system. The latter is often more cost-effective, as, amongst other things, economies of scale can be achieved more easily, and distribution costs are lower. Furthermore, occupational pensions can more easily overcome the reluctance or inability of many citizens to make provision for their retirement. The Commission therefore regards the linking of PEPPs to the second pillar as a means of establishing them as a vehicle for strengthening funded pension provision, particularly given that their uptake has so far been negligible. This will implicitly allow PEPPs to gain from the efficiency benefits of the second pillar.¹⁵⁷ Integration of the two pillars is an ambitious approach, particularly since it also involves “auto-enrolment” elements.¹⁵⁸ Given the potential increase in demand, it may create incentives for new entrants to the PEPP markets and increase the range of products and choice available to people saving for retirement in the EU. It may also lead to greater competition in the markets for private pension products.

However, the idea of establishing ‘Workplace PEPPs’ – which is fundamentally sensible – also has its pitfalls. For example, there is a risk of cannibalisation.¹⁵⁹ This is particularly true if Workplace-PEPPs were to significantly undermine the importance of national occupational pension schemes that are already well-established and widely used, rather than merely serving as a vehicle in cases where occupational pension schemes are lacking. Consequently, Member States should each be free to decide whether or not they wish to allow ‘Workplace PEPPs’ within their jurisdiction and, where applicable, for which groups of undertakings or which categories of persons. Most notably in Member States in which the

second pillar is (as yet) underdeveloped or does not exist at all, Workplace-PEPPs could represent an opportunity to drive forward the development of this pillar, as well as a welcome first step towards its establishment. It could reduce the need for these countries to establish their own, separate national systems. However, this will not apply to the same extent in all the other Member States. The need to add another element to their systems, one that may be perceived as complex, is potentially lower. Member States should therefore – in order to prevent their own, possibly highly efficient systems from being undermined – be permitted to prevent employers from making contributions to a PEPP on behalf of their employees.¹⁶⁰ In addition to the risk of potential cannibalisation, it should also be borne in mind that the interlinking of the two pillars could, amongst other things, result in additional complexity, be difficult to explain to some participants in the second pillar, and also raise questions regarding tax treatment. All these pitfalls must therefore be thoroughly examined before the PEPP reform is adopted in order to prevent any potentially negative consequences.

Auto-enrolment into Pension Schemes

By way of the Pension Reform Act and the PEPP reform, Germany and the EU are aiming to strengthen private pension provision. In doing so, they are relying – first and foremost – on the principle of voluntary participation. No one will be obliged to save under a funded scheme via the third pillar. Nevertheless, a model is now being pursued that could be regarded as a middle ground between voluntary and compulsory participation. This approach is known as “auto-enrolment” and encompasses schemes that provide for automatic participation or membership in private pension schemes along with the right to opt out. Germany is trialling this type of model as part of the introduction of the “early-start pension”. Under this scheme, funds will be automatically invested collectively in the capital market for children aged six and over (a “back-up solution” via the Bundesbank) provided their parents do not open a standard pension investment account for them.¹⁶¹ At EU level, the European Commission is calling on Member States to put in place the legal framework for

“auto-enrolment” schemes within their supplementary pension systems. Employees will also be given access to PEPPs under an employer agreement featuring “auto-enrolment” and a right to opt-out.

By promoting auto-enrolment schemes, both the European Commission and the German Government are, at least to some extent, challenging a fundamental principle of private law: private autonomy. This is a problem because auto-enrolment calls into question the principle that individuals should be able to manage their own lives freely, on their own terms and without external influence. It in fact relies on an approach known in behavioural economics as “nudging”, which is designed to encourage or nudge individuals into making certain decisions. Auto-enrolment schemes always therefore involve a certain degree of paternalism towards the individual. With regard to old-age provision, the state is also assuming that, without “nudging”, citizens will tend to make insufficient provision for their old age. Although auto-enrolment, as a mechanism, exhibits paternalistic traits and calls into question the ideal of the responsible citizen, this approach may under certain conditions, be justifiable as a compromise between freedom of choice and obligation. Behavioural economics has clearly shown that people struggle when it comes to making decisions about their retirement savings. Consequently, due to their limited financial knowledge and the high level of complexity involved, they often fail to make a decision at all, or make a decision belatedly or purely by chance and thus fail to act in a considered manner.^{162,163} A common aversion to incurring losses or a feeling of overwhelm also play a role.¹⁶⁴ Demographic factors such as income and level of education are also key and result in significant differences in the uptake of private pension schemes.¹⁶⁵ Households with low levels of education and low incomes, in particular, have little or no private provision for retirement, which leads to pension gaps in these households.¹⁶⁶ Thus, in Germany, for example, only 9% of those receiving private pensions come from the lowest-income quintile of the population. By contrast, the top income quintile alone accounts for 37%.¹⁶⁷

Auto-enrolment with an opt-out option can serve as a means of tackling these behavioural patterns and structural disparities without completely

depriving citizens of their freedom of choice.¹⁶⁸ As opting-in becomes the default option, the take-up of private pension schemes is generally significantly increased. Many studies point to this^{169,170,171} which is why numerous countries are already adopting this model, particularly in order to enable previously underserved sections of the population to benefit from capital market returns.^{172,173}

As already indicated, use of the “opt-out auto-enrolment model” for private pension provision is subject to certain conditions because the model is inherently based on the assumption that it generally represents the best solution for all (potential) savers even though such a blanket assumption is not usually possible. Thus, for example, it is doubtful that the pension product selected as the standard option – such as a Basic PEPP – will always in fact be the most suitable choice for the individual saver. If it is not and the person making pension provision nevertheless relies on the pre-selection, they may not be saving in the most effective way. Consequently, in addition to the standard choice, that person should always have the right to choose a different option and should also have access to advice on various ways of saving.

Furthermore, this model may also pose risks in that it often results in people saving more than they can actually afford.¹⁷⁴ The target groups who quickly reach the “limits of their ability to save” are precisely those who have so far been underserved.¹⁷⁵ This approach often reaches members of the public with cash-flow difficulties. In the case of these individuals, auto-enrolment is not necessarily beneficial. Moreover, it is often precisely these citizens who are unaware that they will be registered automatically. As a result, they unwittingly find themselves in financial difficulties.¹⁷⁶ This observation means that the introduction of such schemes must be announced as early as possible and that savers must be made fully aware of the opportunities and risks involved. Thus, savers will not feel that registration is being forced upon them and are at the same time able to fully consider the potential consequences. They should, in any case, be aware that they can opt out of auto-enrolment, for example if they have already exhausted their capacity for saving. Furthermore, the opt-out is

also necessary so as not to place an undue burden on citizens who are already making adequate provision in other ways – for example, through a workplace pension or home ownership.¹⁷⁷

In order to build acceptance for the “auto-enrolment with opt-out model”, it would be advisable to introduce it gradually. In particular, savers should be able to start with small contributions, for example when they are young or have limited financial means.¹⁷⁸ Measures are also needed to support the aforementioned groups of savers, and in particular low-income households. On the one hand, they should not be placed under undue financial strain; on the other, they should be encouraged to adopt a more capital-funded approach to private pension provision, so as to give them the opportunity to benefit from the potential returns offered by the capital markets. Support should be targeted in order to limit the impact on the public purse and ensure a high level of participation in private pension schemes.¹⁷⁹

If Member States wish to use works agreements to give workers access to PEPPs with auto-enrolment and an opt-out option, or to embed auto-enrolment models more widely within their national contexts, due account must be taken of these aspects.

Moving Away from National Sub-accounts

In 2024, the number of EU citizens of working age (20–64 years) who relocated within the EU, or exercised their right to free movement, stood at approximately 10.1 million. This represents 3.9% of the total working-age population and the (percentage) figure has hardly changed in recent years.¹⁸⁰ Against this backdrop, the number of potential customers for a pan-European pension product appears to be low, and entering this market seems to be unattractive to providers. Among other things, economies of scale are virtually impossible. This was not given sufficient consideration when the PEPP legal framework was being established. A requirement obliging PEPP providers to offer sub-accounts in at least

two Member States, in order to highlight the cross-border nature of PEPPs, further hampered the market potential of PEPPs. To begin with, interested providers had to grapple with the sometimes complicated circumstances and (legal) framework conditions in these—at least two—Member States. Furthermore, there was always a risk that PEPP providers would set up sub-accounts which their customers would then not use at all. And even if the sub-accounts were used, it was likely to be by so few customers that setting them up could hardly be justified or made economically viable.¹⁸¹ It is appropriate that the Commission now intends to address this issue by moving away from the obligation to set up national sub-accounts. This step is crucial because, even though it results in PEPPs becoming somewhat more similar to national pension products, thereby increasing competition, it will make it easier for PEPP providers to enter the market and relieve them of bureaucratic requirements that are often counterproductive and ultimately unnecessary. If PEPP providers notice an increased demand for sub-accounts in certain countries, they are likely to have a vested interest in making these available to (potential) customers on a voluntary basis. No explicit obligation is required for this. And where savers take out a PEPP product which does not offer a sub-account for a Member State of interest to them, they have an adequate alternative available by switching to a PEPP provider in the destination country and transferring their accumulated assets to that provider.

Right to Transfer Savings and to Switch Providers

Making it possible to transfer funds from an existing national private pension scheme into a PEPP is, in principle, a sensible move. It enables savings to be pooled within a single product, fosters competition between PEPPs and national products, and creates additional incentives for PEPP providers to make their offerings attractive. Savers may benefit from lower costs and higher-quality products as a result. So far, transferring to a PEPP has only been possible in a few Member States. Crucially, though, the rule does not apply on a reciprocal basis. There is no right to (re-)transfer PEPP savings into national non-PEPP pension products. A reciprocal

requirement is the only way to signal that PEPPs and national products are not, in themselves, preferable to one another, and would ensure fair competition in the private pension market. Furthermore, it should be borne in mind that, in the context of saving under private pension schemes, the investments are made on a long-term basis, and there is a political desire to specifically open up the market to less liquid forms of investment, which gives rise to a certain amount of conflict with the idea of granting low-threshold transfer rights to savers. This situation requires a balanced approach which, on the one hand, frees savers from unnecessary transfer barriers and, on the other, does not unduly hinder providers' long-term investment (which, in line with the aim of achieving reasonable returns, is likely to be in the interests of many savers as well). Measures are therefore required to prevent transfers that are too frequent or regular, or to prevent explicit incentive mechanisms that encourage such transfers. By contrast, the right to switch providers when a PEPP is deregistered makes sense even without strict safeguards and may be considered necessary in order to maintain the confidence of PEPP savers.

Taxes and Allowances

Whether and to what extent people make private provision for their retirement depends largely on whether and in what form this is encouraged through tax incentives, and whether allowances are granted. Under the Pension Reform Act, Germany's approach is, for example, to refrain from taxing contributions during the accumulation phase and to provide for deferred taxation during the payout phase. In addition, a contribution-based allowance scheme was introduced. Against this background, it is understandable and well-justified that, as part of the PEPP reform, the European Commission does not want PEPPs to be treated less favourably than national pension products for tax purposes. Without similar tax incentives, it would be difficult for PEPPs to compete with national products on the market. Member States should therefore, in principle, comply with the call – which has so far taken the form of a

recommendation – and grant PEPPs the same tax relief as that afforded to national private pension products. Failure to do so would put PEPPs at a disadvantage from the outset and reduce their appeal to potential savers.

Attractive tax rules are, in principle, to be welcomed. However, the approach now being pursued – whereby taxation issues are no longer regulated by means of a recommendation but are laid down in a legally binding regulation – is questionable. Such a move undermines the Member States' fiscal sovereignty, encroaches on their powers in tax matters and is also open to legal challenge. Although direct taxes can be harmonised within the EU, by means of a unanimous decision of the Council (Article 115 TFEU), in this context, harmonisation will take place on the basis of Article 114 TFEU, which provides the legal basis for the PEPP reform. This legal basis cannot however be used for the tax treatment of PEPPs.

In addition to the legal requirement to grant the same tax relief, the requirement that the most favourable treatment must always apply to PEPPs is also problematic. In practice, this would mean that PEPPs would be in a more favourable tax position than certain national pension products. In order to ensure that the latter are not at a competitive disadvantage, Member States may find themselves having to refine what until now have been efficient taxation systems which would entail additional fiscal risks. In this regard, too, it is therefore essential to allow Member States some discretion.

5. Conclusions and Recommendations

In many EU Member States, funded private pension schemes still play only a minor role and are often underdeveloped. One of the reasons for this is that many citizens regard the state as responsible for providing for old age, and only a “small minority” make individual provision for their retirement.¹⁸² At the same time, 65.2% of citizens want to take on more personal responsibility. They are aware that, without making additional pension provision, they will not be able to achieve their desired “target replacement rates”¹⁸³ and that pension gaps are more likely to arise.¹⁸⁴

With the measures presented in this study, the European Commission and the German legislature have taken the first important and bold steps towards the urgently needed expansion of private pension provision. These measures lay the foundations for ensuring that funded private pension schemes will make a greater contribution to old-age provision in the future than they do today. Against this backdrop, the partial move away from guaranteed products, the focus on life-cycle strategies and higher-yield investment forms, as well as further deregulation – such as the removal of the obligation to provide sub-accounts or fixed cost caps as part of the PEPP reform – are appropriate and promising measures.

However, to ensure that this foundation – which represents a significant improvement on the current situation – is sound and actually stimulates private pension provision, some of the reforms that have been initiated still need some fine-tuning. In particular, they should be aligned even more closely with the fundamental principles of a market economy. They should give both providers and those saving for retirement greater freedom and place even greater emphasis on the personal responsibility

of those saving for retirement. Improvements appear to be necessary from both an economic and a legal perspective, particularly in view of the following considerations:

1. **No regulation of prices or costs:** In market economies, intervention in free pricing should be avoided as far as possible. This can only be justified in exceptional circumstances, such as where monopoly-like structures exist. In principle, however, there is effective competition in the markets for pension products. Strict regulatory approaches that aim to cap the costs of pension products (as in Germany) and less stringent approaches that rely on cost benchmarks and comparisons (as at EU level) should therefore be avoided.
2. **Uniform rules on advice about pension products:** When advising on pension products, the standards should be consistent across all products. Special rules or concessions for individual products have a distorting effect and may result in savers being steered towards products that are not in their best interests. When it comes to advice on retirement savings products, the rules – which are already largely harmonised across the EU – should be applied as consistently as possible, both for PEPPs and for national products.
3. **No unilateral discrimination against remuneration models:** Both commission-based and fee-based advisory services have their advantages and disadvantages and should be allowed to co-exist as sales models on an equal footing. No remuneration model should be subject to undue preference or discrimination. With regard to the PEPP reform, which envisages allowing only “independent” advice (usually fee-based advice) for Basic PEPPs, further adjustments are required.
4. **Freedom to choose which products to offer:** Both Germany and the European Commission are committed to ensuring greater choice in the range of services on offer. On the one hand, this strengthens entrepreneurial freedom and, on the other, gives

savers more choice. However, this positive reorientation is overshadowed by the obligation enshrined in German law, under which the majority of providers must also, in every case, offer a standard pension investment account (the European Commission, meanwhile, has distanced itself from such a requirement).

5. **No nudging towards standard products:** As a matter of principle, standard products should not receive implicit regulatory preferential treatment. The existence of these products is sufficient. German and European legislators should neither pressure (potential) savers into using these schemes nor create special incentives for their use. Such “nudging” constitutes an undue presumption of knowledge by suggesting that these products are generally the most suitable for savers, which is in fact a bit of a stretch. Instead, the state should focus on empowering citizens – for example, through additional efforts in the area of financial education – to make independent decisions about their private pensions and to choose the products best suited to their needs.
6. **Opting out of standard state pension schemes:** Rather than establishing a standard state-run pension investment account – and thereby potentially distorting competition by competing with the private sector – the German legislature should set the (statutory) framework for private pension provision in such a way that healthy competition can flourish even without products offered by public bodies. This should be possible. If the German legislature nevertheless presses ahead with the introduction of a state-run standard scheme, it is essential that this be designed in a manner that is neutral from a competition perspective, whilst complying with European competition and state aid law.
7. **Be careful when linking a PEPP to an occupational pension scheme:** In Member States where the funded pension pillar is underdeveloped or non-existent, incorporating PEPPs into occupational pension schemes (“Workplace PEPPs”) may be a good option. Otherwise though, there is a risk of cannibalising

existing funded guarantee schemes. Member States should therefore be able to decide for themselves whether or not to allow “Workplace PEPPs”.

8. **Striking the right balance by way of “auto-enrolment with opt-out” models:** Schemes that provide for automatic enrolment into private pension schemes, whilst allowing savers the right to opt out, may be effective in strengthening private pension provision. They represent a good balance between free choice and compulsion. When designing these schemes, however, care must be taken to ensure that savers’ freedom of choice is not unduly restricted and that they are not steered towards “inappropriate” products. It is also important to ensure that citizens who cannot afford supplementary pension provision per se are not (unwittingly) pressured into taking it out. These people therefore require additional support.
9. **No binding tax equality:** The Commission’s desire to make the tax treatment of PEPPs more comparable to that of purely national private pension products is understandable, otherwise, PEPPs could be at a disadvantage from the outset, even though they might well prove successful in competition with national products. Nevertheless, from a legal and fiscal perspective, there should be no obligation to treat PEPPs equally for tax purposes, let alone grant them preferential treatment. Instead, the current voluntary approach, which is based on a recommendation, should continue.

Endnotes

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- 9 The figures for Germany were very similar, at 48% (people without a supplementary pension) and 29% (people with a supplementary pension) [EIOPA (2025)]. The BlackRock survey, which focuses on Germany, concludes that only 26% of the working population who rely solely on the statutory pension scheme (GRV) are confident about their future. For people in employment who make provision across all three pillars, this proportion stands at 57%. [BlackRock (2025)]
- 10 By contrast, the pension system in the USA relies much more heavily on funded pension schemes. For example, around 56% of employees have a workplace pension scheme, and around 44% of all households have individual pension accounts. [Kukies, J. and Noyer, C. (2026), Financing Innovative Ventures in Europe – FIVE, Final report of the FIVE task force, 19 January 2026, <https://www.bundesfinanzministerium.de/Content/EN/Downloads/Europe/report-five-taskforce.html>].
- 11 European Insurance and Occupational Pensions Authority (EIOPA) (2025).

- 12 However, 17% of EU citizens still hold investment or savings products with an insurance company, and 23% have life insurance. In Germany, these figures stand at 15% and 16% respectively. [European Insurance and Occupational Pensions Authority (EIOPA) (2025)]
- 13 The non-savers explain their inactivity as follows: 29% have no interest in making private or occupational pension provision. 28% would like to make provision for the future but cannot afford to. 15% would be interested but lack information. 11% plan to save more in future. 10% already have sufficient financial resources. [Insurance Europe (2025), 2025 Pension Survey, November 2025, <https://www.insuranceeurope.eu/news/3473/2025-pension-survey-europe-s-pension-gap-persists-as-new-survey-shows-four-in-ten-still>]
- 14 The national rates range from 16% to 65%.
- 15 Insurance Europe (2025).
- 16 "Pension benefits" include benefits in the four categories of old age, disability, survivors' benefits and unemployment [Eurostat (2025), Social protection statistics – pension expenditure and pension beneficiaries, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Social_protection_statistics_-_pension_expenditure_and_pension_beneficiaries].
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- 20 The remaining just under 2% had an occupational or private pension, but no state pension [Eurostat (2024), Pensions and labour market participation – main characteristics; see also Figure 6, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Pensions_and_labour_market_participation_-_main_characteristics#Most_people_received_only_the_statutory_old-age_pension].
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- 22 Eurostat (2024), see also Figure 7.
- 23 European Commission (2024), 2024 Ageing Report, Economic & Budgetary Projections for the EU Member States (2022–2070), Institutional Paper 279, April 2024, https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en.
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- 25 Excluding supplementary pensions, benefit ratios are relatively low in Denmark (26.7%), the Netherlands (35.4%) and Sweden (23.1%). However, when supplementary pensions are taken into account, the three countries achieve benefit ratios of 57.6% in Denmark, 66.3% in the Netherlands and 43.3% in Sweden. [EU-Commission (2024)]
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- 64 For further information on the PEPP Regulation, see also <https://www.cep.eu/de/eu-themen/details/europaweites-privates-altersvorsorgeprodukt-pepp-verordnung.html>.
- 65 Art. 2 Nos. 1 and 2 Regulation (EU) 2019/1238.
- 66 European Commission (2025), COM(2025) 840, Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2019/1238 on a Pan-European Personal Pension Product (PEPP), 20 November 2025, p. 3.
- 67 SWD(2025) 367.
- 68 At present, the sale of a PEPP is subject to a requirement for advice or an individual suitability assessment in all cases [see Article 34 PEPP Regulation].
- 69 The Basic PEPP is the standard investment option and a particularly secure product. It is based either on a capital guarantee, which becomes payable at the start of the payout period and, where applicable, during that period, or on a risk-mitigation technique that enables the saver to recover their capital. [see Article 45 PEPP Regulation]
- 70 The costs and fees for the Basic PEPP are currently capped and may not exceed 1% of the capital saved each year [see Article 45 of the PEPP Regulation].
- 71 PEPP providers are currently required to ensure that sub-accounts for at least two Member States become operational within three years of the PEPP Regulation coming into force [see, in particular, Article 19 PEPP Regulation].
- 72 Under the Basic PEPP, for example, various risk-mitigation techniques can currently be used, such as providing a guarantee on the invested capital or employing life-cycle strategies. PEPP providers are free to choose the technique themselves. They can offer PEPP savers a choice of up to six investment options. [see Article 42 and 46 PEPP Regulation]
- 73 In a recommendation, the Commission has advocated that PEPPs should be subject to tax rules similar to those applicable to national private pension products [European Commission (2017), C(2017) 4393, Commission Recommendation on the tax treatment of private pension products and, in particular, the pan-European personal pension product, 29 June 2017]. This objective was only partially achieved (see Annex 5, SWD(2025) 367).
- 74 SWD(2025) 367.
- 75 European Commission (2025), Supplementary pensions – Review of the regulatory framework and other measures to strengthen the sector, Call for evidence, Ref. Ares(2025)4994415 – 23 June 2025.
- 76 SWD(2025) 367.
- 77 COM(2025) 840, p. 2 and 3.
- 78 In this context, the Commission emphasises its commitment to respecting the Member States’ power to shape their multi-pillar pension systems, for example when granting tax incentives [SWD(2025) 367].
- 79 The “Savings and Investment Union” aims to mobilise household savings for productive investment, improve financing opportunities for the EU economy, support financial institutions in generating

economies of scale, and strengthen global competitiveness [For further details, see cepDossier No. 1/2025, <https://www.cep.eu/de/cep-dossier-archiv/artikel/spar-und-investitionsunion.html>].

- 80 COM(2025) 840, p. 5.
- 81 COM(2025) 840, p. 12, Recital 20 and Articles 2, 34 and 43.
- 82 COM(2025) 840, p. 12, Recital 20 and Articles 2, 34 and 43.
- 83 This strategy is defined as “an investment strategy that adjusts the level of risk attached to investments according to a predetermined glide path directed at mitigating investment risk and providing a reasonable degree of long-term appreciation, taking into account the individual's age or retirement date, and where relevant, the pay-out profile of the product, to minimise the risk of large losses.” [COM(2025) 840, Article 2(1)].
- 84 COM(2025) 840, p. 13, Recitals 18 and 19 and Articles, 42 and 46.
- 85 COM(2025) 840, p. 13, Recital 19 and Article 45.
- 86 COM(2025) 840, p. 11. The Retail Investment Strategy is a package of legislative proposals presented by the Commission in May 2023. As part of the package, the Regulation on Packaged Retail and Insurance-based Investment Products (PRIIPs) is to be revised. In addition, the Commission presented a proposal for an omnibus directive amending several directives, including the Markets in Financial Instruments Directive (MiFID) and the Insurance Distribution Directive (IDD). For further details, see Eckhardt, P. (2023), cepStudie: Die neue EU-Kleinanlegerstrategie – Viel Schatten, wenig Licht, 26 October 2023, <https://www.cep.eu/de/eu-themen/details/die-neue-eu-kleinanlegerstrategie-cepstudie.html>.
- 87 COM(2025) 840 Recitals 14– 16 and Article 25.
- 88 See Art. 18 (3) Regulation (EU) 2019/1238.
- 89 Citizens who do not require a cross-border pension product – and therefore do not need multiple sub-accounts either – are effectively excluded from PEPP by this requirement.
- 90 COM(2025) 840 Recital 13.
- 91 The Commission sets out its understanding of the prudent person principle in a non-binding guide. This represents a flexible yet rigorous fiduciary standard that does not prescribe any specific asset mix. Instead, PEPP providers are responsible for the asset allocation but must act in the long-term interests of the beneficiaries and take into account both the returns and the risks associated with the respective assets. (For more detail see COM(2025) 840, p. 14 et seq.)
- 92 See also COM(2025) 840, p. 14 et seq.
- 93 Until now, this priority applied only to regulated markets.
- 94 COM(2025) 840 Recital 21 and Article 41.
- 95 This refers to financial instruments within the meaning of Article 25(4)(a)(i) to (iv) of Directive 2014/65/EU.
- 96 COM(2025) 840 Recital 19 and Article 45 (2).
- 97 This also includes compatibility with the structure of pension schemes and with collective agreements.
- 98 COM(2025) 840 Recital 22 and Articles 33, 39a, 47 and 57.
- 99 COM(2025) 840 Recitals 23 and 24, Articles 56a and 56b.

- 100 European Commission (2027), C (2017) 4393, Commission Recommendation of 29 June 2017 on the tax treatment of personal pension products, including the pan-European personal pension product.
- 101 COM(2025) 840 Recitals 9 and 23 and Article 3.
- 102 European Commission (2025), C(2025) 9300, Recommendation on pension tracking systems, pension dashboards and auto-enrolment, 20 November 2025, <https://eur-lex.europa.eu/legal-content/DE/TXT/?uri=CELEX%3A32025H2384&qid=1776680209546>.
- 103 In addition to these three recommendations, the Commission also regards the strengthening of financial literacy and skills as a key factor. It has already addressed these issues as part of an EU strategy to promote financial literacy [see COM(2025) 681, <https://eur-lex.europa.eu/legal-content/DE/TXT/?uri=CELEX%3A52025DC0681>].
- 104 COM(2025) 9300, paras. 13– 15 and Article 4-6.
- 105 COM(2025) 9300, paras. 20– 23 and Article 7-9.
- 106 The auto-enrolment mechanisms will not undermine automatic participation in existing, well-functioning state and non-state pension schemes [C(2025) 9300, paragraph 27 and Article 10(1) and (2)].
- 107 The alternative model – i.e. the “opt-in” approach – would mean that citizens have to actively consent to taking part.
- 108 Letta, E. (2024), Much More Than a Market – Speed, Security, Solidarity: Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens, <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>.
- 109 “Auto-enrolment” has typically been used in occupational pension schemes so far.
- 110 Under these strategies, the investment portfolio is reallocated from higher-risk to more conservative investment forms as the member gets closer to retirement.
- 111 This applies even if they are not actually covered by occupational pension schemes.
- 112 C(2025) 9300, paras. 24–40 and Art. 10–13.
- 113 Deutscher Bundestag (2026), Bundestag beschließt das Altersvorsorgedepot, 27 March 2026, <https://www.bundestag.de/dokumente/textarchiv/2026/kw13-de-altersvorsorge-1156798>.
- 114 The Bundesrat approved the Act at its meeting on 8 May 2026; <https://www.bundesrat.de/DE/plenum/bundesrat-kompakt/26/1065/1065-pk.html?nn=4352766#top-5>.
- 115 Bundesregierung (2025), Gesetzentwurf der Bundesregierung, Entwurf eines Gesetzes zur Reform der steuerlich geförderten privaten Altersvorsorge (Altersvorsorgereformgesetz), https://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_IV/21_Legislaturperiode/2025-12-01-Altersvorsorgereformgesetz/0-Gesetz.html
- 116 Among other things, it cites the prolonged period of low interest rates, cost-driving and yield-reducing requirements, high-cost low-yield contracts, a complex subsidy scheme, and a lack of flexibility over the product lifecycle.
- 117 The Federal Government emphasises that tax-advantaged private pension provision is a “non-mandatory offer to citizens” and is not intended to be an auto-enrolment model [Deutscher Bundestag (2026), Ausgestaltung und Zielerreichung der geplanten Reform der steuerlich geförderten privaten Altersvorsorge (“Pension Reform Act”), the Federal Government’s response to a minor parliamentary question, Parliamentary Paper 21/4898, 22 April 2026, <https://dserver.bundestag.de/btd/21/055/2105524.pdf>].

- 118 Bundesregierung (2026), Im Bundestag beschlossen – Private Altersvorsorge wird attraktiver, 27 March 2026, <https://www.bundesregierung.de/breg-de/aktuelles/reform-private-altersvorsorge-2400072>.
- 119 Bundesregierung (2025).
- 120 The sources for the following information are (1) Federal Government (2026), (2) Federal Government (2025), (3) Federal Ministry of Finance (2026), FAQs on the Reform of Tax-Favoured Private Pension Schemes, <https://www.bundesfinanzministerium.de/Content/DE/FAQ/reform-der-privaten-altersvorsorge.html> and (4) German Bundestag (2026), Act on the Reform of Tax-Advantaged Private Pension Schemes (Pension Reform Act), legislative resolution of the German Bundestag, 17 April 2026, <https://dserver.bundestag.de/brd/2026/0206-26.pdf>.
- 121 Providers may also choose not to use online channels, but to offer the service in person.
- 122 Risk class 7 is the highest risk profile.
- 123 However, this does not apply to providers who offer only the home-ownership pension subsidy. Providers may also choose not to offer their own standard investment account, but instead to offer one from a partner provider.
- 124 To this end, the Federal Government was authorised to enact a statutory order implementing a standard investment account agreement to be offered by public bodies. Consent of the Bundesrat is not required for the enactment of this legislation.
- 125 UCITS are open-ended, diversified and liquid investment funds.
- 126 Similar requirements apply to open-ended AIFs as to UCITS but, being mixed investment funds, the investment spectrum is broader.
- 127 ELTIFs are a specialised type of alternative investment fund (AIF) regulated at EU level, which invest in alternative assets, such as tangible assets, infrastructure projects and unlisted companies, on a long-term basis.
- 128 The details of taxation and subsidy schemes will not be considered here.
- 129 EIOPA (2024), "A simple and long-term European savings product: the future Pan-European Pension Product", EIOPA staff paper, Consumer Protection Department, 11 September 2024, https://www.eiopa.europa.eu/document/download/53a75b6e-fc6b-46ce-9818-02badf20f515_en?filename=EIOPA%20Staff%20Paper%20on%20the%20future%20Pan-European%20Pension%20Product.pdf.
- 130 Even EIOPA acknowledges that the fee cap of 1% of the accumulated capital per year restricts providers' ability to offer PEPPs in the short term, "as there are initial costs and a lack of economies of scale" [EIOPA (2024), p. 3].
- 131 See also Eckhardt, P. (2023), Die neue EU-Kleinanlegerstrategie – Viel Schatten, wenig Licht, cepStudie, 26 October 2023, Section 3.3, <https://www.cep.eu/de/eu-themen/details/die-neue-eu-kleinanlegerstrategie-cepstudie.html>.
- 132 The rule applies to both Basic and non-Basic PEPPs.
- 133 The introduction of the "value for money" approach also runs counter to the European Commission's efforts to simplify European regulation (for more on this, https://commission.europa.eu/law/law-making-process/better-regulation/simplification-implementation-and-enforcement/simplification_en).

- 134 Were this approach nevertheless to be pursued, it is important to align it as far as possible with the approaches adopted under the Retail Investment Strategy. Thus, providers would not need to set up separate procedures and processes for the authorisation of pension and other investment products.
- 135 It can be found, for example, in the Markets in Financial Instruments Directive (2014/65/EU, MiFID) and the Insurance Distribution Directive ((EU) 2016/97, IDD).
- 136 As PEPP providers will no longer be required to offer a Basic PEPP in future, they could switch to offering only alternative PEPPs.
- 137 See COM(2025) 840, Recital 20.
- 138 One drawback of the “independent” distribution model is that clients with limited financial means are often unwilling or unable to pay fees in advance to cover the adviser’s costs for providing high-quality advice.
- 139 See also Eckhardt, P. (2023), cepStudie Die neue EU-Kleinanlegerstrategie – Viel Schatten, wenig Licht, 26 October 2023, <https://www.cep.eu/de/eu-themen/details/die-neue-eu-kleinanlegerstrategie-cepstudie.html>.
- 140 So far, a maximum of five non-Basic PEPPs may be marketed in addition to the Basic PEPP.
- 141 One exception is the option of using a partner supplier to distribute a standard product.
- 142 The Federal Government still needs to clarify this in a statutory instrument.
- 143 Bundesrat (2026), Entschließung zum Gesetz zur Reform der steuerlich geförderten privaten Altersvorsorge (Altersvorsorgereformgesetz), Beschluss des Bundesrates, Drucksache 206/26, 8 May 2026.
- 144 See also Schwark, P. (2026), Das staatliche Standarddepot auf dem Prüfstand, Standpunkt, Deutsches Institut für Altersvorsorge, 7 May 2026.
- 145 Bundesregierung (2025).
- 146 Bundesrat (2026).
- 147 A detailed analysis of the establishment of a standard public pension scheme in the third pillar can also be found in a cepInput from August 2026; see Eckhardt, P. (2026), Kapitalgedeckte Altersvorsorge in Deutschland – Bleibt die Marktwirtschaft bei den Reformen auf der Strecke?, cepInput No. 10/2026, 11 August 2026, <https://www.cep.eu/de/eu-themen/details/kapitalgedeckte-altersvorsorge-in-deutschland.html>.
- 148 Guarantees remain permitted for non-Basic PEPPs.
- 149 Malmendier, U., Schaffranka, C., Schwarz, M., & Werding, M. (2025).
- 150 Completely ruling out guaranteed products would imply that they are in no way in a saver’s best interests. However, this fails to recognise that there are also savers with a very low risk tolerance or high loss aversion, for whom such products may be suitable in certain cases.
- 151 Better Finance (2024), Will You Afford to Retire?, 2024 Edition, 6 November 2024, <https://betterfinance.eu/publication/will-you-afford-to-retire-2024/>.
- 152 OECD (2024), OECD Pensions Outlook 2024: Improving Asset-backed Pensions for Better Retirement Outcomes and More Resilient Pension Systems, OECD Publishing, Paris, https://www.oecd.org/en/publications/oecd-pensions-outlook-2024_51510909-en.html.
- 153 Life-cycle strategies are not without potential drawbacks. For example, opportunity costs may arise when the markets perform well – particularly during those periods leading up to retirement

when investors are reducing their exposure to risk. On the other hand, reallocating the investment portfolio may result in additional costs. [EIOPA (2024)]

- 154 This refers to the rule stipulating that, five years before the payout phase, only a maximum of 50% of the accumulated capital can be invested in riskier assets, and two years before and at the start of the payout phase, a maximum of 30%.
- 155 The OECD, too, emphasises the value of flexibility and “innovations” with regard to the “glide path”. By way of example, it cites ten years before retirement as a possible starting point for reducing the proportion of shares in a person’s portfolio. However, this fixed deadline might not be the best solution for regular withdrawals in which case a later and smaller reduction in the proportion might be more sensible. [OECD (2024)]
- 156 EZB (2026).
- 157 EIOPA (2024).
- 158 The topic of “auto-enrolment” is discussed in more detail in Section 4.8.
- 159 This refers to the risk that functioning pension systems may be replaced by new systems that are not necessarily any better.
- 160 Even though Member States can therefore exclude Workplace PEPPs, this does not mean that they are obliged to do so. They should instead – even if they already have a well-developed second pillar – consider whether opening up their systems to PEPPs would offer added value.
- 161 For further details on the early-start retirement pension see Federal Ministry of Finance (2026), Entwurf eines Gesetzes zur Einführung einer Frühstartrente, Referentenentwurf, https://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_IV/21_Legislaturperiode/2026-07-21-FruehStRG/1-Referentenentwurf.pdf?__blob=publicationFile&v=2.
- 162 Haupt, M. (2026).
- 163 Malmendier, U., Schaffranka, C., Schwarz, M., & Werding, M. (2025).
- 164 Roth, M. (2019).
- 165 Haupt, M. (2026).
- 166 Malmendier, U. (2026), Statement on the Finance Committee’s public hearing on the Pension Reform Act on 16 March 2026.
- 167 Borlinghaus, M., Geyer, J., & Haan, P. (2026), Private und betriebliche Altersvorsorge ist zwischen den Einkommensgruppen ungleich verbreitet, DIW Wochenbericht, 93(16/17), 247-253.
- 168 Haupt, M. (2026).
- 169 Malmendier, U. (2026).
- 170 Malmendier, U., Schaffranka, C., Schwarz, M., & Werding, M. (2025).
- 171 Bucher-Koenen, T., Wallossek, L., & Winter, J. K. (2026), Opt-in or opt-out? The power of defaults in pension enrolment choices.
- 172 OECD (2024).
- 173 Federal Ministry of Finance (2023), Final Report of the Focus Group on Private Pension Provision, 18 July 2023.
- 174 Bucher-Koenen, T., Wallossek, L., & Winter, J. K. (2026).

- 175 Federal Ministry of Finance (2023).
- 176 Bucher-Koenen, T., Wallossek, L., & Winter, J. K. (2026).
- 177 Fasshauer, S. und Rieckhoff, C. (2024), Ein neuer Zugang zur zusätzlichen kapitalgedeckten Alterssicherung? Proposal by the Council of Economic Experts for a publicly managed equity fund, Deutsche Rentenversicherung magazine, Issue 1/2024.
- 178 EIOPA (2024).
- 179 Deutsche Bundesbank (2026).
- 180 European Commission: Directorate-General for Employment, Social Affairs and Inclusion, Network of Experts on the Free Movement of Workers and Social Security Coordination, Petracco, C., Carletti, G., Gasperini, M. et al., Annual report on intra-EU labour mobility – 2025 edition, Publications Office of the European Union, 2026, <https://op.europa.eu/en/publication-detail/-/publication/a4b32739-0bb0-11f1-8870-01aa75ed71a1/language-en>.
- 181 A mobile worker may also face the problem that, whilst their PEPP provider offers national sub-accounts in several Member States, it does not offer the very one that the worker actually needs in practice. As a result, the requested PEPP may subsequently prove to be “useless”.
- 182 Borlinghaus, M., Geyer, J., & Haan, P. (2026).
- 183 According to a recent survey of just over 4,200 employees in Germany, aged between 40 and 67 and subject to social insurance contributions, the “average preferred target replacement rate” stands at around 78% of current net household income [Geyer, J., Haan, P., Krause, K., & Schmacker, R (2026), Zielersatzraten in der Alterssicherung, Gutachten für den Gesamtverband der Versicherungswirtschaft, DIW Berlin, DIW Berlin, 21 April 2026].
- 184 Geyer, J., Haan, P., Krause, K., & Schmacker, R (2026).

