

Direction of travel

➤ **There has been a push on the continent for pension reform, moving from first pillar-based systems to ones centred around second- and third-pillar provision. What are the implications for UK trustees?**

➤ Summary

- Europe is reforming pensions due to ageing populations and fewer workers supporting retirees, with a growing shift from state-funded pensions toward private and workplace savings schemes.
- The European Commission's new proposals aim to expand supplementary pensions through measures such as auto-enrolment, pension dashboards, and reforms to the Pan-European Pension Product (PEPP).
- Experts say UK schemes may still feel indirect effects through international regulation, DC reforms, and stricter cross-border data-sharing requirements.

If there has been a direction of travel in the European pensions landscape in recent years, it has been towards some land where the continent's sluggish economies and ageing demographics are still able to provide the same level of retirement benefits as of today. The idea behind many pension schemes here has been that of first-pillar systems guaranteeing comfortable and long retirements. Unfortunately, those halcyon days appear to be drawing to an end.

As Indefi partner, Clémence Droin, says: "Demographics are the primary force driving the push towards second and third-pillar pension schemes. The EU's ratio of working-age to pension-age individuals is projected to fall from 2.7 workers per pensioner in 2024 to just 1.7 by 2070, making pay-as-you-go state pensions increasingly unsustainable."

It is a situation that has received official endorsement. In November, the European Commission (EC) said in a statement: "Public pension schemes form the backbone of retirement systems across all member states. However, with populations ageing rapidly, workforces shrinking, and non-standard

employment becoming more common, it is increasingly important to foster opportunities that enable citizens to achieve more adequate and diversified retirement incomes."

What comes next, if current reforms succeed, will be countries moving en masse towards second- and third-pillar schemes, where pension savings become increasingly the remit not of the states themselves, but of the citizens. On the investment side, *Pensions Age* was told, there has also been a strong tendency to apply risk-based methods instead of enforcing hard limits on certain asset classes.

"Key developments," says Eversheds Sutherland partner and head of pensions for the Netherlands, Eric Bergamin, "include the consolidation and professionalisation of DC schemes, firmer governance and value for money expectations under the Institutions for Occupational Retirement Provision (IORP) II Directive, and a clear regulatory focus on pay, cost and fee transparency, ESG disclosure and comparability. At the EU level, there is also increasing focus on deploying pension capital productively



while maintaining strong member protections."

The EC proposals

That EC's statement accompanied the supplementary pensions package that it unveiled in November, which was built upon the back of the Savings and Investments Union (SIU) strategy first unveiled in March 2025. One of the key measures of the package was to develop the supplementary pension sector, under which recommendations were made on auto-enrolment, pension tracking systems, and pension dashboards. It also saw to review the IORP Directive and the Pan-European Pension Product (PEPP) Regulation. (This is a voluntary cross-border personal pension scheme that can complement existing public and occupational pension systems, as well as national private pension schemes).

It was through all this that the EC made a series of recommendations for member states that included auto-enrolment for occupational pensions; pension tracking systems and dashboards; tax incentives; and an attempt to reform the PEPP through the removal of fee caps, the instigation of mandatory advice for the basic PEPP; making that sure that the basic PEPP relied on a lifecycle investment strategy; and introducing what it called value for money provisions.

As the EC wrote at the time: "The revised framework therefore introduces greater flexibility for providers, while maintaining strong standards on transparency, cost disclosure, and investor

protection. It will make PEPPs better suited to workplace and auto-enrolment schemes, ensure consistent tax treatment between PEPP and other personal pensions offered at national level, and encourage competition and innovation.”

Linklaters managing associate, Pascal Mildahn, offers this assessment, looking at the potential expansion of PEPPs.

Pointing to PEPP, he says: “At the moment, the PEPP providers must offer national sub-accounts for at least two members states. Now, the EC wants to strike that requirement in order to reduce administrative burden, while portability remains a feature of the PEPP. They also want to ensure a more equal tax treatment because that’s one of the main factors for differences in the various EU jurisdictions. They are proposing that the PEPP should be treated as beneficial as traditional national products.”

The package also sought to make IORP’s more efficient and at scale, while lifting what it called ‘undue’ restraints on investments.

As the EC said at the time: “The review will remove barriers to market-based consolidation of IORPs, by simplifying cross-border procedures and transfer rules. The proposal will also reinforce supervisory cooperation between authorities, as well as strengthen supervisory oversight through a regular supervisory dialogue between authorities and IORPs on structural challenges, risk management, efficiency and long-term sustainability.”

The implications for UK trustees

Since the UK officially left the European Union (EU) in February 2020, it has not been bound to obey rules or regulations from Brussels within its own borders.

That means, so far, that there are no direct implications or impacts for trustees rising from the EC’s actions and recommendations.

As Linklaters partner for pension funds, John Sheppard, says: “The changes are not that important right now to

UK trustees. Pre-Brexit, UK pensions legislation needed to comply with relevant parts of the IORP directives. That includes developments such as the Pensions Act 2004. Post-Brexit, there’s no requirement to comply with anything out of Europe. From that perspective, there’s no direct impact on trustees and we’re not expecting any changes to UK law that will further reflect the work being done in Europe.”

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There will be some impacts, however, says Droin. While UK schemes are no longer bound by IORP II, she says that there will be a group-level restructuring that is driven by EU reform. These will include consolidation, revised cross-border transfer rules, and investment policy changes. It is these that she says will flow through to UK trustee relationships and covenant assessments.

Others, such as Eversheds Sutherland partner for pensions, Vanessa Wells, say that there is still a direction of travel within the UK that parallels much of the work being done in Europe.

“There are similar developments in the UK with the DC reforms set out in the Pension Schemes Act that will impact all UK DC and hybrid schemes,” she says. “Although the UK has left the EU, we expect that much pensions policy will continue to align in broad terms, not least because both The Pensions Regulator and the Financial Conduct Authority continue to collaborate with EU policymakers.”

She adds: “For schemes with

international parent sponsors/schemes, they may also be affected where those parent sponsors want to harmonise benefits across jurisdictions or where they need to extract member data to meet their disclosure requirements under pay transparency for example.”

The UK may even be a step forwards in comparison to its continental brethren, says Cologne-based firm Huebeck senior manager, Michael Metzger. Asked whether the EU’s new policies and recommendations will impact the UK, he says that it is very much the other way around, with the UK providing nudges in the right direction when it comes to developments in Europe.

He adds: “The UK’s a role model in some sense, especially if we look at de-risking and what has already been established over there. As a result, we see more buyouts and a shift away from DB to DC schemes, with fewer guarantees and more focus on value for money. Here, there’s a growing demand for help when it comes to all aspects of de-risking: funding, investment consulting driven by cashflow matching, and liquidity requirements of the liabilities. There’s also a lot of consulting being done on buyouts.”

The data

If there is something for trustees to consider, it may be something as prosaic as the data collected, stored, and used. Sharing sensitive data across borders may trigger enhanced data privacy requirements. Failure to comply may result in significant fines and even criminal penalties.

This, says Wells, is something that trustees should look at. “In relation to data sharing,” she says, “schemes should have a documented data sharing agreement in place with their sponsors as evidence in the event of a data breach and ICO report.”

 **Written by Pete Carvill, a freelance journalist**