

# Will You Afford to Retire?

The Real Return on Long-Term and Pension Savings

2025 Edition



**BE BETTER FINANCE**

The European Federation of Investors and Financial Services Users  
Fédération Européenne des Épargnants et Usagers des Services Financiers



# Will You Afford to Retire?

## The Real Return of Long-term and Pension Savings

**2025 Edition**

A research report by BETTER FINANCE

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# Executive summary

*This report was first published on 2025-12-16 and last modified on 2026-05-20 (see Appendix A for an overview of changes).*

*All the previous editions of this report series are available on the website of BETTER FINANCE*

It is sometimes frustrating to report, every year, on something as unfailingly disappointing as the real return of European supplementary pensions. It is a feeling akin to that of a preacher in the desert. Then, someday, you read something from the European Commission which makes you hopeful:

People need to be able to access safe, efficient, transparent and high-performing pension products in order to build up sufficient retirement savings.

(European Commission, 2025g, p. 1)

In the early days of 2025, the European Commission issued a programmatic document—a *Competitiveness Compass* (European Commission, 2025a)—to state how it intends to meet the challenge of the competitiveness of the European economy highlighted by a series of high-level reports published in 2024 (Draghi, 2024; Letta, 2024; Noyer et al., 2024). Considering the centrality of capital markets in European economies, but also their underdevelopment compared to other regions of the world, this policy activism was sure to touch financial services regulation: The Commission then adopted a communication on a Savings and Investments Union (SIU), listing a number of measures it intends to adopt or propose to European Parliament and the Council—the co-legislator of the European Union (EU)—including measures to “support further uptake of supplementary pension schemes” (European Commission, 2025b, p. 7).

After a public consultation over the summer, to which BETTER FINANCE responded on behalf of individual investors and pension savers (BETTER FINANCE, 2025b), the Commission adopted a “Supplementary pensions package” on November 20th, 2025, displaying a welcome concern for improving the outcome to pension savers.<sup>1</sup> 2026 will then be a busy year on the pensions front for BETTER FINANCE, as the co-legislators will examine these new proposals.

In the meantime, we deliver today a new edition of our annual “Will You Afford To Retire?” report, where we examine the *real net return* of a occupational and personal

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<sup>1</sup>The “Supplementary pension package” includes a legislative proposal to amend the Directive on Institutions for Occupational Retirement Provisions (IORP II) (European Commission, 2025g), a legislative proposal to amend the Pan-European Personal Pension (PEPP) Regulation (European Commission, 2025f) as well as a recommendation to the Member States on pension tracking systems (PTSs), pension dashboards and auto-enrolment (European Commission, 2025d).

supplementary pensions across the EU.

## What we do in this report

In this report,

- We analyse 47 categories of long-term and pension savings products across 16 Member States: 2 public funded (Pillar I-bis), 20 occupational (Pillar II), 24 personal voluntary (Pillar III) and one category that mixes occupational and personal schemes.
- We adopt an investor-centric approach to measure the *real net return* of savings invested in long-term and pension savings products; the question we seek to answer is: "what is the current purchasing power of investments made up to 25 years ago in long-term investment and pension schemes?"
- We calculate *net returns*, i.e. the financial performance of investment after deducting all costs and charges levied by pension product managers on contributions and, annually, on accumulated assets.
- We then adjust these net returns for *inflation*, which erodes a little more of our savings with each year that passes, in order to determine the *evolution of the purchasing power or real net return* of long-term investments and pension savings.

## Main findings

2024 was a rather good year overall for pension savers:

- The median return before charges and inflation (*nominal gross return*) across the 36 categories of products we analyse reached 9.3% last year; the median return after charges but before inflation (*nominal net return*) across the 44 product categories for which we could collect 2024 performance data reached 8.1%.
- Receding inflation across the EU—2.7% on average, down from 10.4% in 2022—means a receding gap between nominal net and real net return. The median *real net return* in 2024 stands at 4.8%.
- Sweden's AP7 Såfa, the default option for the country's Pillar I-bis *Premium pensions* once again tops the performance ranking in our report this year, with a 27.3% *nominal gross return*, which translates into a 25.2% *real net return*. At the other end of the spectrum, Polish voluntary pension funds yield a modest 2.2% *nominal net return*, which becomes a 2.7% loss of purchasing power after we deduct costs and adjust for inflation.

Over the long-term, however, the situation of European supplementary pensions remain mostly unchanged by this second year in a row of good returns:

- The median 10 year *real net return* of the 39 product categories for which we have a decade of performance data stands at a meagre 0.3%, with 5 categories of pension schemes returning a loss of purchasing power for their participants.

- Although returns are much higher than the average interest banks serve on deposits, 15 of the 47 product categories we analyse fail to beat even a simple, conservative capital market benchmark made of 50% European equity and 50% European bonds.

We observe a continued performance gap between pension system pillars:

- The median *nominal net* 10-year performance of Pillar II products in our data set stands at 3.5%, vs. 2.9% for Pillar III products. *Real net returns* of Pillar II and Pillar III over the same period amount to 0.4% and -0.4%, respectively.
- This performance gap reflects a structural cost differential between the two pillars: Over the period 2000-2025, the median ongoing cost of Pillar III products have been, on average, 1.1% higher than the median ongoing cost of Pillar II products.
- Despite the decreasing costs of Pillar III products, these remain significantly higher than those of occupational pensions, a fact that must be taken into account in the design of pension systems.

## Policy recommendations

- Review the packaged retail and insurance-based investment products (PRI-IPs) Regulation to simplify the Key Information Document (KID) and make its contents clearer, more comparable and more reliable, to empower individual investors.
- Integrate an ambitious approach to "value for money supervision" in the Retail Investment Strategy (RIS), which is being discussed by the EU co-legislator, including a comparison of performance to inflation and to a capital market benchmark. Without such an ambitious approach to ensure the cost-efficiency of PRIIPs in general, the removal of the fee cap on the Basic PEPP might be difficult to accept for individual investors.
- Develop comprehensive PTSs across the EU that provide individuals with an easy access to their accumulated pension rights and assets, the cost and performance track record, risk-return profile and fundamental features of *all* their supplementary pension schemes.
- Develop a common framework for the reporting of fundamental information on retail investment products, including pension savings vehicles, to feed reviewed KIDs, PTSs and pensions dashboard.
- Adopt the European Commission's proposals that seek to simplify the design of the Basic PEPP, which enable a reduction of its management cost as well as an easier understanding of its features for prospective investors.
- Adopt a risk-based approach to the prudent person principle in the management of institutions for occupational retirement provision (IORPs) that enables pension funds to invest more of their members' assets into equity markets, while ensuring that the appropriate safeguards are in place—in particular

sufficient oversight and corrective powers for national competent authorities (NCAs)

- Limit the scope of the recommendation to set up auto-enrolment schemes to occupational pensions only, and ensure that the necessary pre-conditions are in place before setting up such auto-enrolment. In particular, ensure that cost-efficient occupational pension schemes, with a strongly positive long-term financial performance, are available to be selected as eligible options for the auto-enrolment scheme, and that individual investors have access to collective redress mechanisms at national and European level.

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## **Part I**

# **General report**

## Chapter 1

# Introduction

Much has changed since we published the 2024 edition of this report; so much in fact, that it is at times hard to recognise the world we live in. But two solid anchors remain: the generally disappointing long-term performance of European supplementary pensions, and our commitment to report it.

True, as financial years go, 2024 was fine: The STOXX All Europe Total Market equity index went up 8.76%, and Bloomberg's Pan-European Aggregate bonds index increased, though more modestly, by 2.46%. It is a far cry from 2023's performance (+16.18% for equity, + 7.49% for bonds), but should help investors' portfolios recover from 2022, when both equity and bond markets fell by 12.17% and 18.93%, respectively. Equally true, there are pension schemes in Europe that manage to pass on the good performance of capital markets to their participants—the case of Sweden's *Premium pensions* and the good first results of the PEPP in Slovakia and Poland are, in this sense, encouraging—but these constitute a minority of the products we keep monitoring in this report, year in, year out.

One swallow does not make a summer, as they say: The overall good performance of European supplementary pensions over the past two years should not make us forget that, over the long-term (a decade or more), many products fail to beat the performance of even a conservative portfolio of 50% European equity and 50% European bonds (based on the two aforementioned indices, see Section 1.2.4 below). Worse, of the 35 product categories for which we have at least 10 years of data, 5 fail to beat inflation: the savings of participants in those schemes actually lost purchasing power. Where is the *value for money* in that?

At BETTER FINANCE, we see it as our mission to provide research to support our advocacy efforts towards simple, transparent and performing investment and savings opportunities across Europe; our vision is one of a Europe where individuals can confidently and safely access simple, long-term, efficient financial services.<sup>1</sup> On January 1st, 2024, more than a quarter of European households' financial assets were invested in life insurance and supplementary pension schemes in January 2024 (see Figure 1.1). Monitoring the performance of these long-term savings and investments vehicles and reporting on their shortcomings is, therefore, a crucial part of our mission. This is why, for the past thirteen years, we gathered a motivated team of policy experts, academics and consumer right advocates to bring evidence of the global inadequacy of Europe's supplementary pensions and other long-term investment products and to testify of how unprepared they are to compensate for the expected

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<sup>1</sup>See [betterfinance.eu](https://betterfinance.eu), "About us"

decline in public pension benefits and ensure a decent income in retirement for Europeans.

Europeans invest little of their savings, as we can see from Figure 1.1, a large part of European's savings sleep quietly in the form of deposits with banks. In spite of the low interest they get on these deposits, which, once we account for the fees banks and the inflation that slowly but surely erodes the value of monetary assets, a third of households' financial wealth is kept as deposits.

What is this a sign of? Lack of foresight? Certainly not: Europeans may not be great investors but they definitely are great savers. After hearing for decades of population ageing and the strain it is sure to put on public pensions, we can assume that most of our fellow citizens have at least some notion that there is trouble down the road with pensions. This is confirmed by the responses to the Eurobarometer flash survey the European Insurance and Occupational Pensions Authority (EIOPA) commissioned in 2024 about consumer trends in insurance and pension services (European Insurance and Occupational Pensions Authority, 2024), where, asked whether they will have enough money to live comfortably through their retirement years, 53% replied negatively (57% amongst women, 48% amongst men), and only 8% of those who indicated not having a personal pension product said this is because the state pension is enough, and 8% responded this is because their occupational pension is enough. These responses do not exactly convey the image of a population living in blissful ignorance of the grim future that awaits it.

By contrast, 28% of those who do not have a personal pension product said it is because they cannot afford it. Asked, in another question of the survey, whether they believe insurance-based investment products (IBIPs) and private personal pensions provide value for money, 36% and 29%, respectively, of those who expressed an opinion disagreed.<sup>2</sup> 41% said they "tend not to trust" or "do not trust" at all insurers to "ensure a good consumer outcome, as well as an adequate retirement outcome" of private pension plans, 32% distrust pension funds (excluding state pension funds, which may be warranted when considering Sweden's AP7 S fa, maybe less so when considering Denmark's ATP, see Chapter 18 and Chapter 6 in the second part of this report).

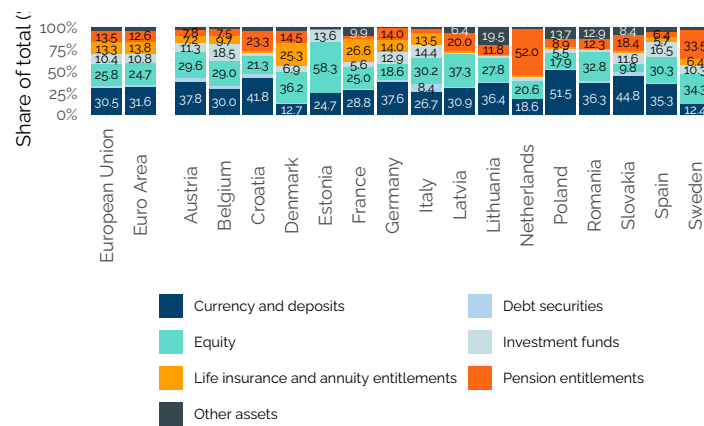
In a recent study, European Financial Planning Association (EFPA, 2025) highlighted the knowledge gaps and confidence discrepancies that Europeans (lack of) financial planning habits reveal. These, in turn, limit the feeling of control that Europeans have over their personal finances, especially as regards the opportunity for them to invest in complex financial products, including life insurances and personal pension schemes. In short Europeans know they know little about long-term financial planning, but they are increasingly aware that they need to do something about it.

A lost of worries and mistrust, then, compounded by a cruel lack of financial literacy. The ambition of this report is to contribute to raise awareness about the importance of financial planning where this remains necessary, but also to dispel the cloud of ignorance about the various elements of the pension systems of European countries—

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<sup>2</sup>For IBIPs, 50% "tend to agree", 13% "strongly agree" ; for private personal pensions 52% "tend to agree", 18% "strongly agree". On what this agreement is based is unclear, considering how little information on costs and performance holders of these products receive (but more on that later).

**Figure 1.1 – Composition of households' financial assets (2024)**



Data: Eurostat; Calculations: BETTER FINANCE.

the various “Pillars” and their respective institutions—and the factors affecting the performance of long-term savings, inter alia, asset allocation, costs, taxation and inflation.

This report should be an empowering tool in pension savers' toolbox. It should equip them with the necessary information to navigate their own pension system, to understand who does what and to assess the performance of the supplementary pension providers.

We do not see long-term and pension savers as passive consumers; instead, as member-based organisations representing the voice of retail investors in European and national political and policy debates, BETTER FINANCE and its member organisations see investors in pension and other long-term retail investment products as active citizens who express their preferences through their investment choices and through engagement with policymakers. This report is also a tool for that: We take the perspective of the pension scheme participants—What are the costs they bear? What is the return they can expect?—to balance the provider perspective on supplementary pensions with an investor-centric approach. Over the years and the iterations of reports in this series, we have seen a growing interest of policymakers for our analyses and conclusions and we are both proud and happy to see that investor-centric approach at the core of several recent publications from the European supervisory agencies (ESAs), including EIOPA's work on Value for Money supervision, the European Securities and Markets Authority (ESMA)'s report on “the total cost of investing in funds” (European Securities and Markets Authority [ESMA], 2025) and, crucially, the “Supplementary pensions package”<sup>3</sup> that the European Commission submitted to the co-legislators of the EU as part of its SIU agenda (European Commission, 2025b).

Pensions have been the focus of regular—and heated—debates across EU Member States and the cause of mass social movements over the past three decades with every reform that national governments enacted (or attempted to enact). Most of these reforms (and related debates) have so far focused on the first pillar of pension systems, the public, statutory pay-as-you-go (PAYG) systems that, in one form or another, form part of the social security system of most European countries. Faced with the perspective of an ageing population and the strain that it is sure to put on any system where the contributions of the current active population pay for the pension benefits of the current retirees, the goal of the reforms have usually (if not always) been to ensure the financial *sustainability* of these public pensions by reducing and/or delaying the payment of pension benefits.

Supplementary pensions have entered this picture as a potential solution to the following conundrum: if delaying the retirement age to the extent that would be necessary to ensure the sustainability of public pensions is politically unacceptable to (at least some) populations, then pension benefits must be reduced (openly or silently through lack of indexation on inflation); but if public pension benefits are re-

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<sup>3</sup>The “Supplementary pension package” includes a legislative proposal to amend the IORP II (European Commission, 2025g), a legislative proposal to amend the PEPP Regulation (European Commission, 2025f) as well as a recommendation to the Member States on PTSs, pension dashboards and auto-enrolment (European Commission, 2025d).

duced, how can we ensure that citizens still obtain a sufficient income to maintain their lifestyle in retirement.

In short, then, supplementary pensions are usually considered as a solution to the trade-off between *pension sustainability* and *pension adequacy*: make the active population save and invest a part of its current income to grow a capital to draw from in retirement. In the general context of open trade and free flow of capital in which most of the world's economies evolve, fostering private pension savings, at least theoretically, kills two birds with one stone: not only does it provide an supplementary source of retirement income for citizens reaching retirement age, partially replacing reduced public pension benefits without sacrificing their living standards; it also constitutes a powerful way to direct households' savings towards capital markets. This effectiveness of this solution, however, relies on the double assumption that individuals will effectively invest for their retirement and that these investments will yield a sufficient return to at least maintain—or, even better, multiply—the value of the initial contributions.

Therein lies the problem.

First, however large the *savings* of Europeans, retirement is not necessarily their immediate purpose. Affording to buy a house or to pay for the education of one's children often seems more immediate concerns than the seemingly far away perspective of retirement, which may in part explain why Europeans keep their savings where they remain available at short notice rather than locked away for decades in a pension scheme. Yet, it may well take a lifetime to build a capital that can meaningfully provide a substantial retirement income; saving early and regularly is essential to benefit from compound returns.

Second, even for those Europeans who took to heart the "save early, save enough" mantra, the ability of supplementary pensions to deliver a substantial complement to their retirement income hinges crucially on their ability to deliver positive long-term real net returns, i.e., to increase the value of one's pension savings, even after we deduct the costs of managing these savings and after we adjust for the eroding effect of inflation. If EU citizens' pension savings are invested in underperforming assets, the great shift of households' savings towards capital markets that recent high-level reports have called for (Draghi, 2024; Letta, 2024) and that the European Union is trying to operate with its SIU agenda (European Commission, 2025b) could turn into a dickensian nightmare within only a couple of decades.

The present report focuses on the second of this second part of the double assumption and, unfortunately, shows that it often does not hold. Insufficiently "aggressive" products—investing only or mostly in low risk-low yield instruments—are unlikely to generate sufficient nominal gross returns able to offset the costs of managing assets and administering pensions, compensate for the income reduction induced by the taxation of pension payouts, and compensate for inflation that in the long run, even at moderate levels, significantly reduces the purchasing power of savings.

Across the 47 categories of long-term investment and pension schemes we analyse in 16 EU Member States (see , many barely manage to *preserve* the purchasing power of their participants over the long term, some even destroy value. Thankfully, though,

there are notable exceptions that show that it is possible to provide supplementary pensions individuals can effectively rely on.

Those, BETTER FINANCE and its expert contributors believe, are issues that EU citizens must be made aware of. Building an adequate pension not only requires starting saving early and saving a lot, it also requires asking the right questions to the professionals in charge of collecting and administering one's occupational pension, and to those distributing voluntary long-term saving products. Generous redistributive pension systems have been an essential part of the European social model in the 20<sup>th</sup> century, drastically reducing old-age poverty. Now that this model is under the strain of an ageing population, Europeans need to have an informed democratic debate about the management of the funded private pensions if those are to play an effective role in ensuring pension adequacy.

## 1.1 Our approach

For each of the product category that we analyse, our goal is to determine whether, in fine, the average product in that category is able to *increase the purchasing power* of one's savings. In other word, we analyse whether the *real net return* of that average product is positive. We start with assessing, whenever possible, how the **costs** charged by pension funds and life insurance providers impact performance: to be blunt, every cent paid in costs is a cent that goes into a financial intermediary's pocket instead of being reinvested for the final benefit of the investor.

The level of costs in long-term and pension savings products, especially voluntary ones (Pillar III) has attracted some attention from European regulators and supervisors in recent times. Supervisors have issued a number of documents on "value for money supervision", i.e., detecting retail investment products on the market the performance of which is too low for their level of costs and the product intervention measures that should be taken when such "value for money issues" are detected. (Bundesanstalt für Finanzdienstleistungsaufsicht [BaFin], 2023b; European Commission [EC], 2023a; European Insurance and Occupational Pensions Authority [EIOPA], 2021, 2022b; Financial Conduct Authority [FCA], 2023), a much welcome development that is—unfortunately—only partially feeding into the ongoing triologue negotiation on the RIS (BETTER FINANCE et al., 2024).<sup>4</sup>

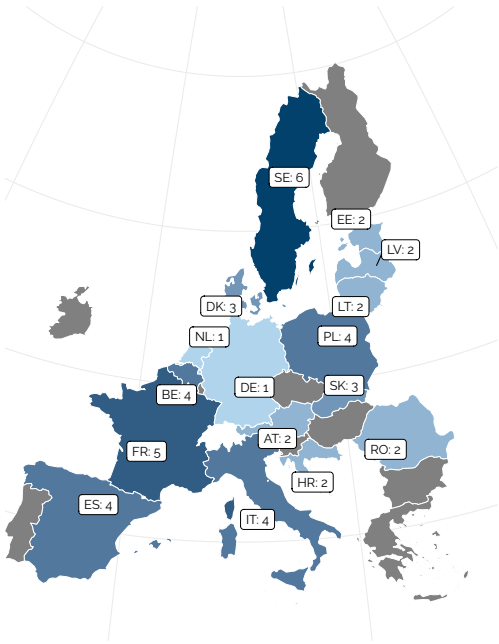
In line with our investor-centric approach, we seek to calculate the net return investors obtain from the amount they contribute to the different long-term and pension savings products. To that end, we must account for the effect of *entry fees*, which are levied on contributions or premia, as well as the effects of product management costs paid annually for the management of the invested assets and administration of the contract.

Entry fees reduce the amount that is effectively invested but are one-off fees, a good performance of the invested assets can compensate even relatively high entry fees.

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<sup>4</sup>Triologue negotiations are a part of the EU's ordinary legislative procedure (OLP)—the normal legislative process for EU legislation on issues pertaining to the Single Market—where representatives of the European Commission, European Parliament and Council meet to try to align their respective versions of a legislative text and arrive at a common position.

**Figure 1.2** – Countries and number of product categories included in the report



**Figure 1.3** – Countries and number of product categories included in the report by Pillar

Annual costs are paid every year for the duration of the contract: they accumulate and continually erode the financial return on the invested assets, potentially resulting in negative net returns on years when the return is lower than the annual cost.

In this report, we calculate returns over 1, 3, 5, 7 and 10 years to end-2024, as well as since 2000 or the earliest year for which performance data is available. We assume a single contribution at the beginning of the period, that is, where entry fees apply and data on the level of these entry fees is available, we consider entry fees only on the first year, not on subsequent years of the period. Annual fees, by contrast, are deducted from the nominal gross return for each year of the period.

The second aspect we look at is the effect of **inflation**. As EIOPA (2020) notes,

the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently "aggressive" to reach higher investment returns to compensate for potentially low contribution levels

While you save, the average level of prices rises, each year reducing a little more the value of your savings. That is why, throughout this report, we focus on returns *after adjusting for inflation*, which must be positive if the vehicle one uses to accumulate one's retirement capital is to at least preserve the purchasing power of one's savings.

ESMA and EIOPA began reporting on the cost and performance of long-term retail investment and pension products in 2018, answering a request made by the European Commission in its mid-term review of the Capital Markets Union (CMU) action plan (European Commission, 2017a, p. 20). The Organisation for Economic Co-operation and Development (OECD) also reports on the returns of pension savings, but limits its analysis to occupational pensions (Pillar II). Although we are proud to say that the Commission's request to the ESAs directly followed up on BETTER FINANCE's call to policy-makers (BETTER FINANCE, 2015, p. 27), we believe that our report remains unique and necessary. Our report indeed differs markedly from ESMA and EIOPA's: Rather than a sample, we assess the average returns across all providers of a product and we do it both for products falling in the real of occupational pensions (Pillar II) and voluntary personal pensions (Pillar III); to the extent possible we calculate average returns before charges and inflation (nominal gross), after charges and before inflation (nominal net) and, of course, after charges and inflation (real net) for backward periods of up to 24 years, thereby enabling savers to consider the evolution of the purchasing power of their pension savings beyond the "money illusion" (Shafir et al., 1997). Another notable difference with ESMA and EIOPA's "cost and past performance" reports is that, while these reports focus on "product costs", i.e., the ongoing costs of the product themselves, our investor-centric perspective leads us to consider the *total* cost of investing in the long-term and pension savings products we analyse, including, to the extent possible, all distribution costs such as entry and exit fees.

Contrary to ESMA and EIOPA's reports, we also provide, to the extent this information is available, information about the average allocation of assets within a product category and a description of the national pension systems, including Pillar I State pensions. Finally, because we base our research on publicly available data, our re-

port reveals the strikingly different levels of transparency on costs and performance across countries and product categories. Figure 1.2 and Figure 1.3 display the countries included in our report and the number of analysed product categories in each of them and, in passing, illustrate the structural diversity of EU countries when it comes to supplementary pensions, with countries relying mostly, if not only, on occupational pensions (e.g., Sweden), while others know virtually no other products than voluntary personal pensions (e.g., France).

#### **Total cost of investing: New research from ESMA**

Acting upon a mandate that the co-legislators introduced in the latest review of the Directive on Alternative Investment Fund Managers (AIFMD), ESMA recently published a ground-breaking report on the “total cost of investing in funds” (ESMA, 2025) which, for the first time, analysed together distribution and product costs. ESMA’s researchers find that distribution costs account for 48%, on average, of the total cost of investing in funds distributed by credit institutions, investment firms or neobrokers. They also find that “inducements”—kick backs paid by fund managers to distributors to promote their funds—account, on average, for 45% of the product (ongoing) costs of the funds that pay them. ESMA’s findings confirms previous findings from BETTER FINANCE on the detrimental effect of inducements (BETTER FINANCE, 2022a), even though their data set covers only a handful of life insurance products. We can only wish for EIOPA to take up this research where ESMA left it and produce a complementary report on the “total cost of investing through life insurance and pensions”.<sup>5</sup>

### **1.1.1 Cost and charges: Getting value for your money**

Collecting pension savings, investing them in capital markets and administering pension benefits as well as advising the most appropriate the most suitable long-term or pension savings product on the market are services that pension scheme providers render to their participants. Those services have costs that must be paid for in one way or another; charging fees for them is, therefore, legitimate but *if and only if* the fees charged are in line with the services rendered. In other words, supplementary pension schemes should be *cost-efficient*.

For this report, the contributors seek information on nominal returns, of course, but also information on the average costs and charges levied by the managers of pension savings products. Obtaining these data enable us to assess the extent to which asset management, administrative and other costs reduce the amount of interests and dividends that are being credited to investors’ accounts and reinvested on their behalf. Unfortunately, data on costs and charges are scarce and difficult to compare for many of the product categories analysed in our report, sometimes simply impossible to obtain.

The issue of costs and charges of PRIIPs (among which personal pension products) have been the subject of heated debates in EU policy circles over the past two years. These debates have been sparked by the European Commission (EC)’s legislative

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<sup>5</sup>Let’s note that the co-legislator could introduce in the RIS a mandate for EIOPA to conduct this research; that window of opportunity is still open.

proposals for a RIS, including new proposed rules on the identification and quantification of costs, how these must be disclosed to retail investors, and the assessment of their proportionality to the expected benefits (European Commission, 2023). BETTER FINANCE has strongly supported these proposals, which we saw as an important step towards empowerment of retail investors (BETTER FINANCE, 2023a), and expressed its disappointment with the provisional outcome of the ensuing legislative work of the European Parliament and Council (BETTER FINANCE et al., 2023, @BF2024JointStatementRIScompromiseECON).

### 1.1.2 Inflation: The silent performance killer

Inflation came back to haunt European savers with a series of commodity price shocks and supply chain disruptions which affected, primarily, energy and food prices globally from the beginning of 2021, further compounded by the Russian military aggression of Ukraine (Aldama et al., 2024). Average inflation in the EU—which had been below the 2% threshold that is the European Central Bank (ECB)'s operational definition of price stability (European Central Bank [ECB], 2024)—rose to 5.31% in 2021 and peaked at 10.4% in 2022, prompting the ESAs to produce a fact sheet alerting savers and investors that “inflation may impact your financial situation and reduce your purchasing power now and in the long term” (European Supervisory Agencies [ESAs], 2023).

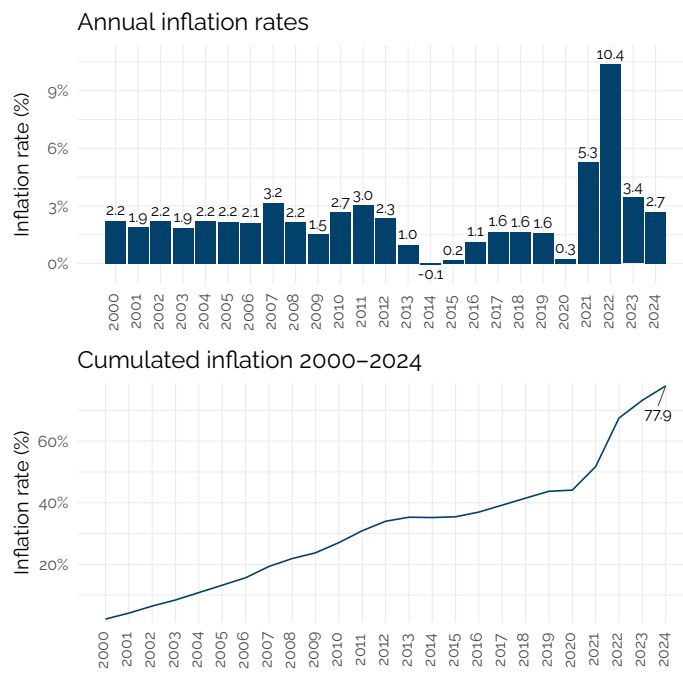
Inflation receded in 2023 and 2024, stabilising to a level similar to that of the early 2010s. Nevertheless, the ESAs' warning about the effect of inflation on the purchasing power of long-term savings remain as valid in times of “stable” prices as in times of high inflation. As can be seen in the lower pane of Figure 1.4, cumulated inflation over the period 2000–2020 (an extended period of relative “price stability” by the ECB's definition) already amounted to over 40%; the 2021–2022 inflation fever merely aggravated an existing issue for long-term and pension investors.

Average inflation in the EU over the period 2000–2020 was actually “only” 1.75% per year—leading the ECB to implement an accommodating monetary policy, maintaining ultra-low interest rates—amounting to a 44.1% reduction in purchasing power of each euro over two decades. Then, even without considering the “anomaly” that the years 2021–2022 may constitute in a trajectory of otherwise low inflation, any long-term or pension saving product would have to have returns over 1.75% per year (i.e. cumulated returns above 44.07%) over the period 2000–2020 for the investor *not* to have lost any money, in real terms, on their investment. As the remainder of this report will show, that is already a benchmark that a preoccupying number of long-term and pension saving products failed to beat.

## 1.2 Our methodology

In this section, we briefly present the methodology that BETTER FINANCE and its expert contributors follow to analyse the real return of long-term and pension saving products. Despite the great diversity of the European pension saving landscape, we strive to follow a common approach in order to make our results as sound and comparable as possible.

**Figure 1.4 – Average EU annual and cumulated inflation 2000–2024**



Data: Eurostat (HICP monthly index); Calculations: BETTER FINANCE. Note: annual inflation is calculated fi

## 1.2.1 Scope

The objective of this research is to report on the real costs and performances of *all* financial products used by EU citizens for long-term and pension savings purposes. Beyond pension schemes and the related “pension vehicles” they rely on—IORPs or pension insurance—, this potentially also includes financial products not specifically dedicated to pension savings but which are often used for this purpose—such as life insurance in France—or particular bank savings accounts in several countries.

The analysis, computation and presentation of costs and performances—the *real net* returns—is done at the product-category level. Where the computation is not possible at the product-category level, then it is at least done at the Pillar level. Each product category analysed in the report is classified as either an *occupational* (Pillar II) or *voluntary* (Pillar III) pension product following the conceptual framework progressively defined by the World Bank since the mid 1980s (World Bank, 2008). There are only two exceptions to this approach in the report: Sweden's Premium pensions (AP7 Såfa and other funds), which, though funded and earnings-based are classified as State pensions (Pillar I, or “Pillar I bis”), and; France's insurance-based pension saving products (IBPPs) a category that, although mostly composed of voluntary products, also includes some occupational pension products and is therefore classified here as *Mixed (II/III)*. State redistributive, PAYG pension systems are briefly presented for information purposes in the introduction of each country case in the second part of the report but are not analysed in terms of cost and performance.

## 1.2.2 Data sources

To establish the report, the contributors have relied on data that is publicly available, either published in aggregated form by NCAs and trade associations representing pension funds, life insurance and other providers of long-term and pension saving products.

Neither BETTER FINANCE nor its expert contributors produce any of the data or information presented in the report. The report is entirely based on publicly available information, and no private data sources or licences—that are not available for any reader—are used in elaborating this report.

Elaborating the report on the basis of publicly available data alone pursues a three-fold purpose:

1. First, we wish to demonstrate to public authorities, especially to regulatory and supervisory authorities, that such computations can be done without access to commercial databases, licences or non-public information, where and when product providers adopt a coherent and comprehensive information disclosure framework. By contrast, we also highlight the need to improve disclosure of information in the countries and for the product categories where data is not fully available.
2. Second, we wish to enable non-professional savers to understand how and where they can find all necessary information on the real returns of their pension savings in order to engage more and make informed decisions.

3. Third, and last, we wish to make our results as transparent as possible and facilitate external reviews of the report. To this end, BETTER FINANCE maintains a record of all “raw” data, computations, and results for the entire report, including the individual country cases.

Producing our report on that basis constitutes a particularly tough challenge considering the scarcity of such publicly available data, as already noted above. Comprehensive historical data is often missing, breaks in time series sometimes force our contributors to extrapolate missing data, and incomplete cost data often lead to overestimated net returns calculations.

### 1.2.3 Calculating the *real* return

Throughout this report, we follow the hypothetical scenario of an investor making a single initial payment into a long-term or pension scheme, without any subsequent contribution. The calculation of the *real net* returns of long-term and pension saving products is done in several steps based on the above-mentioned data.

First, all amounts in currencies other than the euro are converted to euros using the ECB's euro foreign exchange reference rates taken on the last working day of each year.<sup>6</sup>

Second, we consider the available cost data and performance data in order to compute *nominal gross* and *nominal net* returns on the basis of the data disclosed by NCAs, trade associations or other institutions. We list nine common cost metrics that we believe should—as a minimum—be reported by all long-term and pension saving vehicles at individual and aggregate level:

- Entry fees (either contribution fees or acquisition) as a percentage of contributions;
- Ongoing investment administration and management fees (related to the cost of investing assets on capital markets) as percentage of total assets;
- Ongoing flat fees charged for the management of the contract or pension;
- Other ongoing fees not already included in the administration and management fees;
- Performance fees or success fees, in relation with overperformance of the product compared to its benchmark;
- Exit fees, i.e. fees charged on amounts withdrawn from the account;
- Other non-recurrent;
- Total expense ratio (TER); and
- Reduction-in-yield (RiY).

In each country and for each category of pension saving products, the contributors seek information on these metrics at aggregate level in order to obtain, for each year, the average level of costs and charges by which nominal gross returns are reduced.

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<sup>6</sup>The euro foreign exchange rates are available on the ECB's website.

Where sufficient data on the average annual costs of products in the category are available, we calculate the nominal gross and nominal net return on invested assets: where the performance figures disclosed by the NCA, trade association or other institutional source are *gross* of costs and charges, we deduct the total annual cost figure—expressed, like the performance figures, as a percentage of assets under management (AuM)—from the disclosed rate of return to obtain the *nominal net return*; where the disclosed performance figures are *net* of costs and charges, we conversely add the annual costs figure to compute the *nominal gross return*. Considering the scarcity of costs and charges data, and the variety of ways in which those available are presented, this step varies from one product category to the next. Contributors to the report first check whether any cost item is already deducted from the return figures disclosed by NCAs or industry bodies and, if so, which, in order not to double-count any cost item. They then calculate the total of the remaining ongoing charges as a percentage of assets and subtract this figure from or add it to, as appropriate, the disclosed return.

To obtain the rate of return not merely on invested assets but on contributions—the amount actually paid into the scheme by participants—we consider whether entry fees apply. If not, the return on contributions is equal to the return on invested assets: without entry fees (or acquisition costs), the paid-in amount is entirely invested. If entry fees apply and if we have sufficient data about the level of these entry fees, we adjust the nominal gross return by a factor  $1 - fee_{entry}$  where  $fee_{entry}$  is the entry fee expressed as a percentage of contributions or premia. This reflects the fact that where entry fees apply, only a part of the contributions are invested and generate financial returns. The formula for the annual return on contributions  $r_{contribution}$  on any given year, where the annual return on invested assets is  $r_{invest}$  is therefore:

$$r_{contribution} = (1 - fee_{entry}) \times (1 + r_{invest}) - 1$$

Third, annual returns net of charge are adjusted for inflation—\*real net\* returns—in order to evaluate the actual evolution of the purchasing power of the investment. Annual inflation rates are calculated for each country in the report based on Eurostat's monthly harmonised index of consumer prices (HICP), taking for each year the December value of the HICP for the corresponding country. Annual inflation rates are calculated as:

$$i = \frac{HICP_{y^n}^{m12} - HICP_{y^{n-1}}^{m12}}{HICP_{y^{n-1}}^{m12}}$$

where, for any given country,  $i$  is the annual inflation rate in year  $n$ , and  $HICP_{y^n}^{m12}$  represents the monthly HICP published by Eurostat in December of year  $n$ .<sup>7</sup>

Nominal net returns are then adjusted for inflation to obtain the evolution of the purchasing power of the investment. To obtain the annual *real* net return rate, the annual nominal net return rates are adjusted using the following formula:

<sup>7</sup>The reference HICP values used throughout the report are available at: [https://ec.europa.eu/eurostat/databrowser/view/PRC\\_HICP\\_MIDX\\_\\_custom\\_4\\_523\\_281/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_MIDX__custom_4_523_281/default/table?lang=en)

$$r_{real} = (1 + r_{net}) \times (1 + i) - 1$$

where  $r_{real}$  is the product's annual real net return for a given year,  $r_{net}$  is the nominal net return of the product for the same year, and  $i$  is the annual inflation rate for that same year.

Once annual nominal gross, nominal net and real net return figures are obtained, we calculate cumulated and annualised return rates on investment and on contributions over varying periods. Cumulated returns on invested assets over a period of  $n$  years are calculated based on the following formula:

$$r_{invest\_cumulated}^n = (1 + r_{invest}^{y^1}) \times (1 + r_{invest}^{y^1}) \times \dots \times (1 + r_{invest}^{y^n}) - 1$$

where  $r_{invest\_cumulated}^n$  represents the cumulated return on invested assets and  $r_{invest}^{y^n}$  represents the annual return on invested asset in year  $n$ .

In line with our scenario of a single initial contribution to the scheme, to compute cumulated returns on contributions over a period of  $n$  years— $r_{contribution\_cumulated}^n$ , we use the same formula, but replacing  $r_{invest}^{y^1}$  with the value of the return on contributions on the first year of the period, noted  $r_{contribution}^{y^1}$ . The formula is then as follows:

$$r_{contribution\_cumulated}^n = (1 + r_{contribution}^{y^1}) \times (1 + r_{invest}^{y^1}) \times \dots \times (1 + r_{invest}^{y^n}) - 1$$

The annualised return on invested assets over a holding period of  $n$  years, noted  $r_{invest\_annualised}^n$ , is calculated as:

$$r_{invest\_annualised}^n = \sqrt[n]{(1 + r_{invest}^{y^1}) \times (1 + r_{invest}^{y^1}) \times \dots \times (1 + r_{invest}^{y^n})} - 1$$

And the annualised return on contributions over a holding period of  $n$  years, noted  $r_{contribution\_annualised}^n$ , is calculated as:

$$r_{contribution\_annualised}^n = \sqrt[n]{(1 + r_{contribution}^{y^1}) \times (1 + r_{invest}^{y^1}) \times \dots \times (1 + r_{invest}^{y^n})} - 1$$

In each country case, we then present jointly the average nominal gross (where available), nominal net and real net annualised and cumulated returns of products within the product category over holding periods from 1 year up to 23 years, depending on the earliest year for which data is available.

## 1.2.4 Benchmarking

The nominal gross, nominal net and real net returns calculated following the methodological steps presented above are compared to a capital markets benchmark. To conduct this benchmarking exercise, we calculate the returns of a hypothetical capital markets portfolio based on diversified equity and bond market indices.

By default, we compare performance with a 50% equity–50% bond portfolio, rebalanced annually, based on the STOXX All Europe Total Market index for equity,<sup>8</sup> and Bloomberg Pan-European Aggregate Index for bonds.<sup>9</sup> The two indices have been chosen due to their scope matching in most cases the investment universe of the analysed products: they are limited to European equity and to fixed-income, investment grade securities in European currencies. The 50% equity-50% bond balance is neither aggressive nor conservative and matches the asset allocation of many product categories in our study. The cumulated and annualised returns of the default benchmark (nominal and corrected by the average EU inflation rate) are presented in Figure 2.3 in Chapter 2 of this report.

Where the composition of this benchmark portfolio may not be appropriate to assess the performance of a specific product—e.g., because of regulatory constraints that may limit certain investment decisions—this composition has been adapted by modifying the balance between equity and bonds in the portfolio. In most cases, the contributors to the report have found the default benchmark appropriate to assess the performance of long-term and pension saving products. The returns of the benchmark capital market portfolio—default or modified—are in each case adjusted for inflation in the country of the analysed product category before being compared with the real net returns of the product.

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<sup>8</sup>A description and recent values of the STOXX All Europe Total Market index are available at: <https://www.stoxx.com/data-index-details?symbol=TE1GR>. The index values are taken *gross*, that is, before withholding tax.

<sup>9</sup>A description and recent values of the Bloomberg Pan-European Aggregate Total Return Index are available at: <https://www.bloomberg.com/quote/LPo6TREU:IND>.

## Chapter 2

# Will you afford to retire?

“Will you afford to retire?” Here comes a question most people do not think about before it might be too late to do something about it (EFPA, 2025). Although personal finances might be a near constant source of worry for many of our fellow citizens, retirement planning often takes the back seat, with so many more immediate financial needs to be satisfied: “Will I afford to buy a house?”, “Will I afford to pay the school tuition fee for the children?”, “Will I afford to pay the bills this month?”, etc. That retirement planning seems a rather remote concern is understandable, but, as the analysis presented in this chapter will show, there is a lot to be done *now* to make sure that we will be able to live comfortably in our old age.

It should be noted that this chapter, because it aggregates data about a great number of long-term and pension savings schemes—each of them characterised by specific features—might not do justice to the beautiful diversity of the Union's pensions landscape. Nevertheless, we sincerely believe that there is nothing like a good benchmarking exercise to ascertain whether a category of long-term investment or pension savings products truly delivers value for money. Our benchmarking exercise is composed of two aspects:

1. A comparison of the costs-and-performance profile of each of the analysed product categories to their peers; and
2. A comparison to two external performance yardsticks: first, whether that performance beats inflation, i.e., whether the *real net return* of the average product is positive and, second, whether the average products' performance beats that of European capital markets.

## 2.1 Transparency: The quest for data

“Unity in diversity” might be the motto of the EU, when it comes to collecting and comparing data about pension systems and schemes across the its Member States, this diversity is a considerable challenge, but one that our dedicated team of expert contributors have been taking up for more than a decade now, progressively collecting a considerable data set. This chapter of the report builds on this data set to present an EU-level overview and comparative perspective of the performance of supplementary pensions.

Comparisons are rendered particularly complex by the lack of a fully harmonised set of concepts and reporting frameworks across countries and products. Broad categories such as “occupational” vs. “voluntary”, “pension fund” vs. “life insurance”,

or “asset management costs” vs. “administrative costs” are interpreted in different ways. Nevertheless, our expert contributors have, to the greatest extent possible, ensured that the categorisations and calculations hereafter presented are accurate and faithfully account for the performance of long-term and pension saving instruments in the countries we analyse.

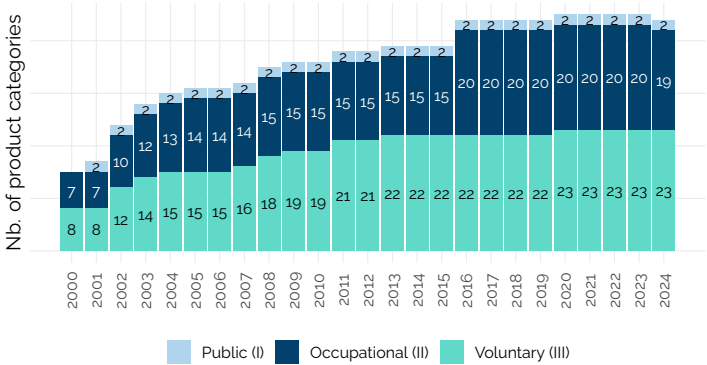
Obtaining reliable data about the cost and performance of the entire market for any given product category too often remains a challenge. Each year, we manage to scrap some more data about this or that product category, but obtaining consistent time series of performance figures or costs data, with the specifications necessary to assess whether and how we can use them in our calculations and comparisons remains, in some countries and for some product categories, a herculean task.

As Figure 2.1 shows, we strive to collect data about performance for the longest period possible, starting, whenever possible in the year 2000. Only for a few product categories do we have such long—a quarter of a century—time series. For the others, the short reporting period is often due to the fact that the product category was created later than 2000—the latest entrants in our data set being the two offers of PEPP in Slovakia since 2022 and Poland since 2024—but in some cases this shorter perspective is due to the absence of (reliable) data for the early years of the 21<sup>st</sup> century.

Data about cost is particularly hard to come by, especially when we try to obtain a breakdown of these costs by cost item. As Figure 2.2 shows, for 16 of the 47 product categories we analyse (34% of our sample), we cannot get any reliable data about the average costs of products. For these product categories, performance data is disclosed net of costs and charges by NCAs or trade associations; we are then still able to compute the real net return over varying holding periods, but we cannot ascertain the importance of fees as a performance (or, rather, underperformance) driver.

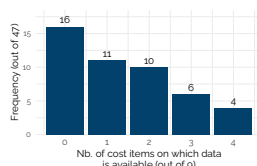
For the remaining 29 product categories, the data we can obtain usually aggregates cost items into one or, at best, a handful of cost metrics. Where these aggregate cost metrics are carefully constructed to account for the *total* cost of the product and information about the construction of the metric is communicated, we can be certain that our calculations of nominal *gross* and *net* returns effectively reflect the costs borne by individual scheme participants. In that regard, initiatives such as the Dutch pension funds’ harmonised cost reporting, which was agreed between the industry’s representative body and the Dutch central bank in 2015, make our lives easy: cost item definitions are uniformly defined and applied by all providers and clearly communicated by the Dutch central bank, who also centralise the reported cost and performance data and make fund-level data available on its website. Another helpful approach is that of the Italian *.na.character* (COVIP), which supervises pension funds and personal pension schemes and computes annually a “synthetic cost indicator” — *Indicatore Sintetico dei Costi (ISC)* covering the total cost of investing in these schemes for varying holding periods up to 25 years. COVIP reports the average but also maximum and minimum ISC for each holding period, which then provide a good view of the overall market; if such a metric were to be communicated to scheme participants—the ISC of their own plan together with the average, mini-

**Figure 2.1 – Number of product categories with available net performance data 2000–2024**



Note: Sweden's *Premium pensions*, although they are funded pensions, are considered as part of Pillar I

**Figure 2.2 – Availability of cost and charges data for 2024**



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mum and maximum ISC of products in the same category, it would greatly ease the comparison of costs across products on offer. On the negative side, however, such a synthetic indicator hides which cost item or items might be driving high costs: an itemised breakdown should still be reported (making a clever use of information layering, when reporting to scheme participants).

Too often, however, cost data is either poorly specified or incomplete, affecting the reliability of our gross vs. net return calculations. Incomplete cost data—i.e., cost data that only cover *some* but not *all* cost items—mean that our computations underestimate the effect of costs on performance, something readers should keep in mind when reading (most of) the country cases in the remainder of this report. Poorly specified data—i.e., data that is provided without a clear explanation of what cost items are being measured—create a margin of error, since we sometimes need to guess (like scheme participants need to guess) what, e.g., “administrative cost” effectively refers to.

Finally, our contributors collect data about the allocation of pension assets into a series of large asset classes. There again, it often is a challenge to obtain reliable data about what providers of a specific category of products invest in, data that would enable us to readily measure the average risk-return profile of the product category. Besides NCA or trade association reports at the national level, asset allocation data is published by the ECB for pension funds and the OECD, but with definitions that do not fully match, and definitely do not match the definition of IORPs, for which EIOPA maintains a detailed asset allocation data set, as well as a data set about the asset allocation of life insurance companies. Besides having different perimeters, these

EU or international level data sets refer to types of providers as their basis unit, not to types of products. This may seem trivial, but there is a not-insignificant number of cases in this report of products that may be offered by more than one type of provider and of particular types of providers managing different categories of products.

## 2.2 Operating context

We already mentioned the two performance “yardsticks” which we consider in this report’s analysis of the performance of long-term and pension savings products: capital market performance and inflation. Together they form the basic macroeconomic and financial context in which product managers operate, the raw “facts” that enable or constrain their performance. In this section we review the latest development of that context.

Equally important for pension savers is the tax regime applicable to their savings in each of the categories of products we analyse. Although we do not compute after-tax returns in this report—specific tax rates often depend on the income bracket of individuals, making computations near impossible—we review the European landscape in terms of the fiscal regimes applied to long-term and pension savings vehicles.

### 2.2.1 Capital market performance

As already mentioned in the previous chapter, European capital markets has a rather good 2024. In spite of the geopolitical instability, European listed equity markets (as measured by the STOXX All Europe Total Market index), grew 8.76% last year, while the bonds market (as measured by Bloomberg’s Pan-European Aggregate index) has a modest but definite 2.46% increase. Both fall short of their 2023 performance—+16.12% for equity, +7.48% for bonds—but is a second year in a row of substantial capital gains.

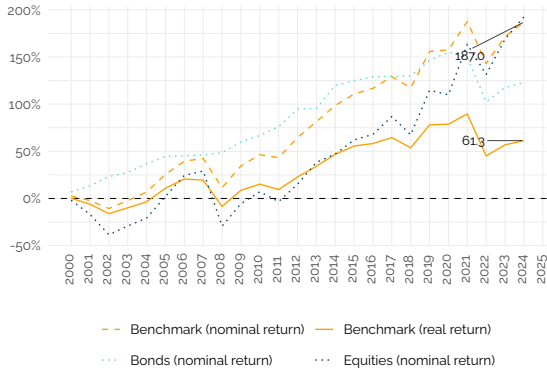
Though European markets may be less dynamic than those of other world regions—the United States (US) in particular—their track record displayed in Figure 2.3 shows that there is performance in the assets underlying pension savers’ investments in long-term and pension savings vehicles.

### 2.2.2 Inflation

As already shown in the previous chapter with Figure 1.4, inflation has, on average across the EU, receded to close to where it used to be until the early 2010s. That is good news, especially for those amongst us living—and saving—in countries where inflation peaked at lower levels and/or fell back to lower levels, e.g. Italy, Sweden and France (see Figure 2.4).

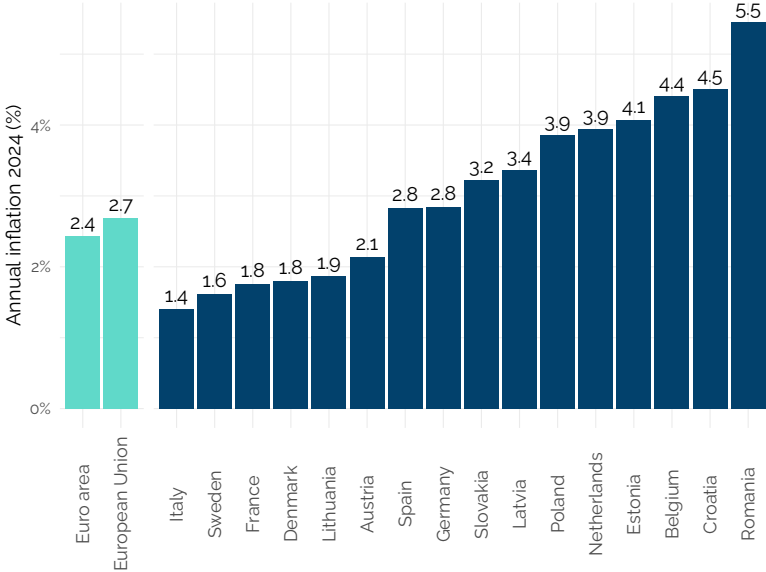
Looking back to the first quarter of this 21st century in Figure 2.5, we observe structurally higher inflation in the Eastern Member States, with Romania standing out with a 7.9% average annual inflation. This higher inflation, of course, means that nominal gross financial performance of Central and Eastern Europe (CEE)’s pension savings need to be substantially higher for participants in those plans to obtain a positive real net return.

**Figure 2.3 – Cumulated performance of European capital markets 2000–2024**



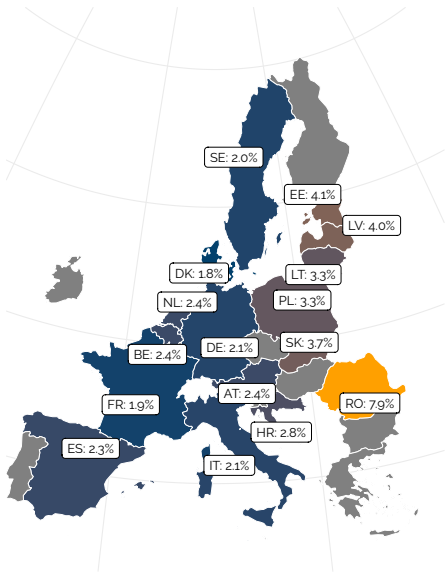
*Data:* STOXX, Bloomberg, Eurostat. *Calculations:* BETTER FINANCE (benchmark portfolio composed of 50% equity (STOXX All Europe Total Market) and 50% bonds (Barclays Pan-European Aggregate Index), rebalanced annually).

**Figure 2.4 – 2024 annual inflation in the EU and member states**



*Data: Eurostat (HICP monthly index); Calculations: BETTER FINANCE. Note: annual inflation is calculated from December to December.*

**Figure 2.5** – Annualised inflation across country cases 2000–2024



Data: Eurostat (HICP monthly index); Calculations: BETTER FINANCE. Note: annual

### 2.2.3 Taxation

Taxation is the third of the main factors impacting the net return one can expect from their long-term and pension savings that is out of product manufacturers' reach: In the EU like in most of the world, tax rules on these savings are decided by national parliaments and governments. Taxes on pension savings may be applied at three different stages: on contributions, on investment returns, and on payouts. Tax regimes may vary across product categories within a same country. The multiple shades of taxation regimes are schematically summarised in the country cases under tax regime "types" defined by whether taxes are applied at each of the three stages.

In its conceptual framework on pensions, the World Bank highlights the important role that tax incentives can play in fostering private pension savings (World Bank, 1994, @worldbank2008WorldBankPension). In line with the Bank's recommendations, a large majority of the long-term and pension saving products analysed in this report (39 out of 48) are subject to a "deferred taxation" model, whereby contributions are exempt from tax while pension payouts are taxed to various extents and in various ways. While lump-sum withdrawals at retirement age may be tax exempt, the amounts that can be withdrawn are also often limited; annuities, by contrast, are often subject to personal income tax.

The Exempt Exempt Taxed (EET) regime is the most common in our study (25 out of 44 product categories, see Figure 2.6). The EET regime is "a form of taxation of pension plans, whereby contributions are exempt, investment income and capital gains of the pension fund are also exempt, and benefits are taxed from personal income taxation" (World Bank, 1994).

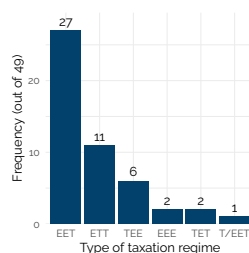
The second most common regime, the Exempt Taxed Taxed (ETT) regime, differs from the former only in that investment returns are subject to tax. Three countries fully exempt—Exempt Exempt Exempt (EEE) regime—mandatory occupational pension savings (Pillar II) from tax: Lithuania, Romania and Slovakia.

Deferred taxation regimes work well with regard to incentivising savings. Many of the most popular pension saving products across Europe owe their popularity to the fact that people can deduct from their taxable income the amounts paid into their pension savings. And since retirement income is lower than working life income, the applicable income tax rate is often lower. The tax advantage is often the first argument put forward by distributors of these products to convince consumers, while they usually remain silent on the costs and performance.

However, deferred taxation applies to nominal pension payout amounts, which may work at the disadvantage of savers: between the time of contribution and the time of payout, inflation has significantly reduced the actual purchasing power of those contributions (cumulated inflation reached 77.9%, on average in the EU between 2000 and 2024). Taxing the nominal value of pension payouts therefore implies an effective tax rate that is potentially much higher than the nominal tax rate.

Taking the reverse approach—taxing contributions—is much less common: Only 7 product categories are subject to either a Taxed Exempt Exempt (TEE) regime (French life insurance and Polish pension funds and PPKs), or a Taxed Taxed Exempt (TTE) one (Denmark's *Aldersopsparing*). Savings in French corporate Defined con-

**Figure 2.6 – Distribution of product categories per types of tax regime**



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tributions (DC) plans are subject to either a Taxed Exempt Taxed (TET) or an EET regime, depending on whether contributions are made by the employer or not.

#### Equal tax treatment for PEPP?

Our report now includes data about the existing offers of PEPP in two countries: Poland and Slovakia. The Polish authorities seem to have heard the call from the European Commission (2017b) to apply to this new product the tax treatment applied to existing national personal pension products (PPPs): The ogólnoeuropejski indywidualny produkt emerytalny (OIPE), as the PEPP is known in the Polish market, is subject to the same TEE regime as the national indywidualne konta emerytalne (IKE), or "individual retirement account".

By contrast, the Slovak government, while it exempts contributions to its third pillar supplementary pension funds from tax (EET regime), does not extend this exemption to contributions to PEPP products.

While there is much discussion of the opportunity to lift the 1% fee cap on the Basic PEPP to convince more providers to offer this new product, Mem-

ber States' failure to grant the PEPP an equal tax treatment is rarely stressed (with some exceptions, e.g., EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024; see also BETTER FINANCE, 2025a). With tax incentives often being the first—when not the only—argument of financial advisors to convince savers to choose a product over alternatives, unequal tax treatment of similar products constitutes a distortion of competition on the PPP market: while the choice of a PPP should be based on the quality of the product itself (performance, costs, risk profile, additional features), different tax rules may lead individuals to buy an underperforming product on the sole basis that it offers a better tax incentive.

The European Commission acknowledges the importance of this equal treatment and reiterates its call for an equal tax treatment of PEPP products in its recent legislative proposal for a review of the PEPP Regulation (European Commission, 2025f), which proposes to add within the body of the Regulation that:

Member States shall ensure that PEPPs receive a tax treatment that is not less favourable than that granted to other personal pension products. Where a Member State applies different types or levels of tax relief with regard to such other personal pension products, PEPP shall be eligible for the most favourable treatment available under the law of that Member State.

We sincerely hope it will be heard, this time.

## 2.3 Performance review: Looking back at 2024 and beyond

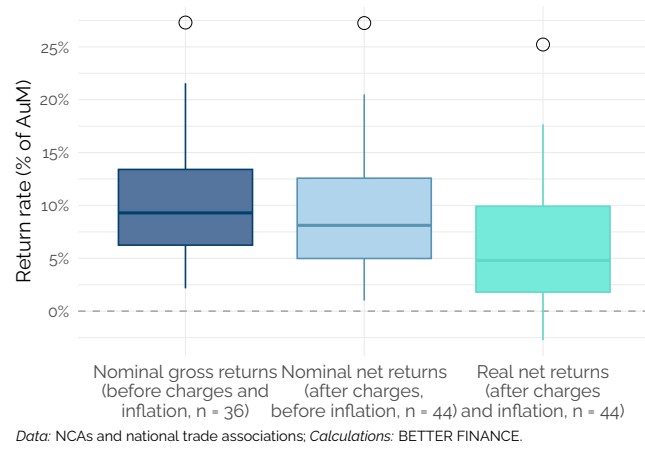
From the rather good performance of European capital markets and the receding inflation, pension savers could expect to have had a good year in 2024, which our data confirms (see Figure 2.7).<sup>1</sup> The median return before charges and inflation (*nominal gross return*) across the 36 categories of products we analyse reached 9.3% last year. Across the 44 categories for which we can compute returns net of charges in 2024, the median return was still 8.1%. Inflation, through receding, still significantly affected returns: the median *real net return* was only 4.8%.

Of course, the median hides great disparities. Participants in Sweden's AP7 Såfa are likely to rejoice at the 27.3% increase in the value of the plan's assets, in nominal terms and before charges, which, even after cost and inflation leaves them with a solid +25.2% real net return. By contrast, participants in Polish voluntary pension funds will have had a certain disappointment at the mere 2.2% nominal gross return of their pension savings, which costs and inflation turned into a 2.7 *loss* of purchasing power.

We can see in Figure 2.8 the nominal returns of European supplementary pensions in 2024 rather favourably compare to their performance in recent years, especially to the calamitous performance of 2022, when the median nominal net return plunged

<sup>1</sup>In box plots of the kind presented in Figure 2.7, the boundaries of the box represent the interquartile range of the distribution, i.e., where 75% of the data is located, while the range covered by the box plus the whiskers cover roughly 99% of the data, remaining outliers are displayed with a black circle. The thick line in the middle of the box corresponds to the median value of the distribution.

**Figure 2.7 – Average 1-year nominal vs. real return in 2024 (after charges, % of AuM)**



**Table 2.1 – Summary statistics of real performance over varying holding periods**

Holding period	Nb. of product cat.	Median	Mean	Standard Deviation	Best performance	Worst performance
1 year	47	4.5%	5.4%	6.9pp.	25.2%	-11.8%
3 years	45	-3.2%	-3.1%	2.5pp.	5.9%	-7.7%
5 years	45	-1.3%	-0.4%	2.9pp.	9.1%	-4.2%
7 years	44	-0.5%	0.3%	3.0pp.	9.7%	-4.9%
10 years	39	0.3%	0.7%	2.3pp.	11.0%	-2.4%
Whole period	47	0.9%	1.8%	2.9pp.	11.4%	-1.4%

*Calculations:* BETTER FINANCE

Whole period varies across products (up to 25 years).

into negative territory at -10.4% with a minimum performance as low as -21.5%. But it does not reach the heights reached in 2021 (median and maximum nominal net return of +7.8% and +31.4%, respectively) and 2023 (median nominal net return of +9.8%).

There ends the good news. "One swallow does not a summer make", one good year—or even a few good years—do not make good long-term returns, as we can readily appreciate in Figure 2.9, which shows in the blue boxes the distribution of the annualised *real net returns* of the products in our data set over increasing holding periods, as well as the performance of our capital market benchmark over the same period. Here we obviously see the depressing effect of the 2022 "perfect storm"—when both equity and bond markets took a plunge while inflation spiked—dragging the short- to medium-term performance of most of the analysed products into negative territory.

More preoccupying, though, are the low returns observed over 10 years and "whole periods", that is, for each product category, the whole period for which we have performance data, up to 25 years: not only do most products fail to beat the benchmark—the yellow diamond is on the upper bound of the interquartile range for the 10 years period—but a good number even fail to offer a positive real net return. Table 2.1 details the figures for the whole set of analysed product categories.

Managers of long-term and pension savings schemes that do offer good returns, beating inflation and capital markets, might feel more than a little aggrieved by our comments on the generally disappointing yield of the sector. Understandably: as much as our results disprove the idea that "value-for-money issues" are limited to a handful of black sheep, there thankfully are providers whose long-term investment and pension savings scheme do offer good—even great—performance.

Figure 2.10 and Figure 2.11 show, with an annual average real net return of 7.5% over the past 25 years, the return of Sweden's AP7 Såfa, the default scheme for the country's Pillar I-bis *Premium pensions* (more details in Chapter 18) clearly stands out of the crowd of those product categories for which we have 10 years of data or more. In cumulated terms, this amounts to a +472.9% return, i.e., a purchasing power of savings

multiplied by more than 5. With 3.8% per year over 24 years for the other *premium pensions* and above 6% annualised return over the past 9 years, the other public and occupational Swedish pensions also show strong performance, compared to the rest of our sample of product categories: “We all want to live in Sweden now”, as one well-informed official from the European Commission said at a recent BETTER FINANCE event on supplementary pensions.<sup>2</sup>

The contrast is stark with those products that display a negative cumulated real net return, like French unit-linked life insurance (-21.7% over 25 years) or French public employee pension schemes (-27% over 22 years)—*Liberté, égalité, fraternité* but in poverty—or Spanish “mostly bonds” individual pension plans (-29.5% over 25 years).

### 2.3.1 Costs

Costs of long-term and pension savings products analysed in this report remained stable, overall, in 2024, with the median ongoing and entry fees remaining at 0.5% and 0.6% respectively, while the *average* ongoing fees remained at 0.8%, with a maximum value of 3.4% (down from 4% in 2023) and a standard deviation falling to 0.78 percentage point (p.p.), which indicates a narrowing of the price range towards somewhat lower values. As regards the 8 categories of products for which we could obtain entry fee data, however, the average entry fee still amounts to 2.3% of contributions or premia, driven by a maximum entry fee of 12.1%.<sup>3</sup>

As we can appreciate in Figure 2.12, ongoing costs of long-term and pension savings products, which rose progressively from 2002 to 2012—when the median value of average ongoing costs reach its peak at 1%—subsequently decreased until 2022, when the median value fell to its minimum value over our period of observation with 0.4%.

Beyond the median value of average ongoing costs, however, we should remark the compression that seems to have occurred in the higher end of the distribution (shown by the reduced size of the right-hand part of the boxes and the right-hand whiskers in Figure 2.12). It looks like, with the exception of a few outliers, most of the most egregiously expensive schemes have either lowered their fees or been driven out of the market. From the point of view of participants, this is a most welcome evolution, which we hope will continue with the development of supervisory work on Value-for-Money supervision (BaFin, 2023b, @acpr2023communiquéVfM, @EIOPA2022VfMMethodology), the adoption of the RIS by the EU co-legislator, and, hopefully, more transparency on costs and charges to put pressure on managers to increase the cost-efficiency of their pension schemes.

### 2.3.2 Returns compared to banks and capital markets

These disappointing results may lead one to believe that investing one's savings is a recipe for disaster. Nevertheless, if we compare the return of these long-term and

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<sup>2</sup>“Mind the Pension Gap: Delivering Adequate, Inclusive and Portable Pensions in the Current EU Cycle”, December 2nd, 2025, European Parliament, Brussels.

<sup>3</sup>In Austrian life insurance: these entry fees are spread over the first few years of the contract and not paid-in entirely in the first year, which somewhat softens the blow (see Chapter 3). But still...

**Table 2.2 – Comparison of cumulated performance to capital markets benchmarks**

	Nb. of product categories	Median distance to benchmark (p.p.)	Median performance (% of AuM)	Max. performance (% of AuM)	Min. performance (% of AuM)
Above benchmark	15	43.5	76.5%	472.9%	3.4%
Below benchmark	32	-33.8	11.3%	47.7%	-29.5%

*Calculations:* BETTER FINANCE; *emphNote:* returns of products and of benchmark are calculated over the whole period for which data about the performance of the product is available (up to 25 years)

pension savings product categories to the interest rates served on bank savings accounts across the 16 countries that our report covers, it is immediately obvious that one should not let their savings sleep on a bank account. As Figure 2.13 shows, based on the collected data on the performance of pension savings products and on ECB data about the interest rates on households' deposits with banks, over the past ten years, even the most underperforming of the product categories in our report beat the highest-performing of bank savings accounts.

Note that here we compare the interest rates on deposits to the *gross* return on assets invested in pension funds, life insurances and other pension savings products: since the interest rate data from the ECB does not consider the fees that bank charge their clients for their services, it would be inappropriate to compare these to the *net* return—i.e., after costs and charges—return of the products we analyse. Nevertheless, with such low interest rates on bank deposits, even with small fees and relatively small inflation, it is certain that savings that are kept as deposits with banks will return a loss in terms of purchasing power.

However, comparing the cumulated returns of the analysed products to the returns the the hypothetical portfolio of European equity and bonds that we use as our capital market benchmark, we measure the extend of the pervasive underperformance: out of the 47 analysed product categories, only 15 have managed to offer returns superior to those of our capital market benchmark.

It could be said that our benchmark portfolio, being based as it is merely on the calculation of the performance of capital market indices, has the somewhat unfair and quite unrealistic advantage of not entailing any cost for our hypothetical investor, something that no real-life investment product could offer. True enough. But let us consider the cheapest way for an investor to invest in our benchmark portfolio. They would do that through a hypothetical equity exchange-traded fund (ETF) tracking the STOXX All Europe Total Market index and a equally hypothetical bond ETF tracking the Bloomberg Pan-European Aggregate index, which we shall assume to have a TER equal to the average TER of European ETFs in their categories—0.352% for eq-

uity and 0.221% for bonds in 2024 (Glow, 2025), setting the overall ongoing costs of our portfolio at 0.287% for that year. We shall also assume that they would have looked for the investment platform offering the lowest transaction costs to buy their ETFs and would have found offers at a 1% cost for a single transaction (in line with the scenario we adopt in this report) or even free of charge if they had set up an “ETF savings plan” to make regular investments. Considering the level of costs of the products we analyse (see Section 2.3.1), it can safely be assumed that the performance of most of the 32 product that fail to beat our “unrealistic” benchmark—by a median margin of 33.8 p.p.s, cumulated over their respective entire reporting periods—would still fail to beat it.

It is not a little ironic, as representatives of the Financial Independence Retire Early (FIRE) movement might argue, that the best way to obtain a high return on one’s pension savings might be, for many Europeans, to stay away from “pension” products.

### 2.3.3 A structural performance gap between pillars?

A quick look at the data shows that there seems to be a structural performance gap between occupational (Pillar II) and personal, voluntary private pensions (Pillar III). Looking at Figure 2.14, we see that performance is, overall, better in Pillar II than in Pillar III: in nominal terms, the median 10-year performance of Pillar II schemes (3.55%, thick line in the middle of the box) is higher than the upper quartile of the distribution of performance of Pillar III schemes (3.3%, upper bound of the box), and the median value performance in Pillar III (2.9%) is only slightly above the lower quartile of Pillar II performance (2.8%). In other words, before adjusting for inflation, at least, 75% of Pillar II product categories perform better than the median Pillar II product.

This observation is confirmed by the figures in Table 2.3, where we see that the median and average return of occupational products (Pillar II) in our data set is consistently higher than the median and average return of personal, voluntary products (Pillar III).

We plan to further analyse the effect of a potentially different asset allocation profile across pillars to identify whether this may, at least partly, explain the cross-pillar performance gap. In the meantime, looking at Figure 2.15, we can certainly confirm that there is a structural cost differential between Pillar II and Pillar III which is sure to play a role in the observed relative underperformance of personal pensions. The figure shows, for each pillar, the median value across the average ongoing costs of product categories in that pillar: The median value of Pillar III average ongoing costs has been 1.5% over the period 2000-2025, and even though there is a clear decline in Pillar III costs since 2016, these remain above 1% when the median value of the average costs of occupational pensions (0.4% on average since 2000) has fallen to around 0.25% since 2019.

Overall, since 2000, the cost differential between Pillar II and Pillar III products amounted to 1.1 p.p. on average. Considering the cumulative effect of ongoing costs, the result on long-term performance is more than substantial: the cumulated ongoing cost of the median Pillar II product over the past 25 years amount to 9.9% of assets, but the cumulated ongoing cost of the median Pillar III product eats 43.3% of assets. When thinking about which is the best way to design the pension systems

**Table 2.3 – Summary statistics of real performance over varying holding periods by pillar**

Holding period	Nb. of product cat.	Median	Mean	Standard Deviation	Best performance	Worst performance
<b>Pillar I (Public pensions)*</b>						
1 year	2	13.4%	13.4%	16.7pp.	25.2%	1.6%
3 years	2	1.0%	1.0%	6.9pp.	5.9%	-3.9%
5 years	2	6.0%	6.0%	4.4pp.	9.1%	2.9%
7 years	2	7.1%	7.1%	3.7pp.	9.7%	4.5%
10 years	2	8.1%	8.1%	4.0pp.	11.0%	5.3%
Whole period <sup>†</sup>	2	5.7%	5.7%	2.7pp.	7.5%	3.8%
<b>Pillar II (Occupational pensions)</b>						
1 year	20	5.3%	6.4%	4.1pp.	14.9%	-0.5%
3 years	20	-2.9%	-3.0%	1.9pp.	-0.4%	-7.7%
5 years	20	-0.9%	0.1%	2.7pp.	5.6%	-3.4%
7 years	20	0.0%	1.1%	2.8pp.	6.5%	-1.2%
10 years	15	0.3%	0.8%	1.0pp.	3.3%	-0.5%
Whole period <sup>†</sup>	20	1.3%	2.1%	2.5pp.	7.0%	-0.4%
<b>Pillar III (Voluntary pensions)</b>						
1 year	25	2.5%	4.0%	7.7pp.	17.1%	-11.8%
3 years	23	-3.4%	-3.5%	2.3pp.	3.3%	-7.5%
5 years	23	-2.1%	-1.5%	2.1pp.	5.7%	-4.2%
7 years	22	-1.4%	-1.0%	1.9pp.	5.3%	-4.9%
10 years	22	-0.3%	0.0%	1.6pp.	5.3%	-2.4%
Whole period <sup>†</sup>	25	0.6%	1.4%	3.1pp.	11.4%	-1.4%

*Calculations:* BETTER FINANCE

\* Swedish *Premium Pensions* are public pensions (Pillar I bis)

<sup>†</sup> Whole period varies across products (up to 25 years).

of tomorrow, this is the kind of findings policy-makers should bear in mind.

We also note that 1% of assets per annum (p.a.) is the cap on total fees applied to the “Basic” PEPP—that is, until the co-legislators decide whether or not to heed the European Commission’s call to replace that cap with a “Value for Money approach” the contours of which are still highly uncertain. Looking at Figure 2.15, we might be tempted to say that the personal pension product market is slowly but surely moving towards the cost-efficiency embodied by the Basic PEPP. That would be terrific news, but there are two caveats to that conclusion:

- first, as we noted in Section 2.1, the cost data that we are able to collect is often inconsistent and incomplete, which is more than likely to entail an underestimation of the costs of many product categories;
- second, the figures shown here only reflect the median value of average *on-going* costs levied on assets, but many products, especially personal products, entail fees on contributions or premia (entry fees, acquisition fees), which can indeed be quite hefty.

By contrast, the 1% fee cap on the Basic PEPP is “all inclusive”, covering distribution as well as product costs.

## 2.4 Policy recommendations

The purpose of this report is not to lament our fate, but rather to suggest potential courses of action. Such is the focus of this last section of the first part of our report.

With its “Supplementary pensions package”,<sup>4</sup> the European Commission tabled a number of highly relevant proposals that appear to translate into the EU legislative framework a number of the initiatives that BETTER FINANCE has been calling for. Although we are still, at the time of writing, analysing the precise content of those proposals (“the devil is in the details”, as the saying goes), we warmly welcome the European Commission’s decisive orientation in favour of a better outcome for long-term individual investors and pension savers and the wording of its proposals, which stresses that:

The envisaged measures aim mainly to increase the financial security of people after retirement, while contributing to the long-term sustainability and resilience of pension systems, in light of pressing demographic challenges as well as the persistent gender pension and coverage gaps.

(European Commission, 2025e, p. 7)

Nevertheless, BETTER FINANCE calls for caution with the second objective of the proposed package, which, as stated by the Commission, is “to bolster capital market development and investment in EU growth and innovation, an objective that is also

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<sup>4</sup>The “Supplementary pension package” includes a legislative proposal to amend the IORP II (European Commission, 2025g), a legislative proposal to amend the PEPP Regulation (European Commission, 2025f) as well as a recommendation to the Member States on PTSs, pension dashboards and auto-enrolment (European Commission, 2025d).

being addressed through several other actions under the SIU" (European Commission, 2025e, p. 7). While we support SIU initiatives to develop and integrate European capital markets into a genuine single market for savings and investment products, we warn against forcing retail investments into insufficiently diversified investments or markets that may lack the transparency that is necessary to properly assess and monitor the risk for investors. We maintain that investment decisions should be based, first and foremost, on the risk-return profile of the investment and not on whether that investment is considered a priority by political authorities.

### 2.4.1 More reliable, intelligible and comparable information

The lack of reliable, intelligible and comparable information on long-term and pension savings products has been a recurring theme in this report series since its first edition more than decade ago.

At the level of individual products, some progress was made, for instance with the creation of the Key Investor Information Document (KIID) for investment funds under the UCITS Directive (UCITSD), and then with the extension of the principle of a KID to all PRIIPs. Unfortunately, the PRIIPs KID remain too long and complex for the average individual to understand what risk they take and what return to expect by investing in a given product. The RIS negotiations may still, hopefully, deliver some positive change with the introduction of information layering into the layout of the KID and, crucially, the possibility to display past performance data to inform prospective investors of the performance track record of a product in a simple, comparable way (with the ever-necessary warning that past performance is no guarantee of future performance). Nevertheless, we sincerely believe that a more thorough review of the PRIIPs KID is necessary to simplify its presentation and content and turn it into a truly empowering tool for individual investors. We believe that, in order to properly inform investors about the *real* long-term performance of pension products, the KID should include, to the extent possible, ten years of past performance figures, together with inflation and the performance of the capital market index of any other benchmark used by the fund or product manager to measure their performance.

We welcome the Commission's recommendation to the Member States to establish PTSs, or enhance them where they already exist. As the Commission notes, "existing pension information services in most Member States remain fragmented across different pension pillars and offer incomplete coverage, in particular on entitlements from supplementary pension schemes" (European Commission, 2025e, p. 8). If they are to serve as tools for proper retirement planning, PTSs must offer individuals a comprehensive view of their accrued pension rights and accumulated pension savings across *all* of the pension schemes they participate to, including Pillar III PPPs that are, at the moment, mostly missing. In terms of the information to be displayed, we argue that, at least for funded pensions (i.e., excluding PAYG schemes), a proper PTS should display the total amount contributed and the total amount credited to the individual's account (i.e., contributions plus financial gains, which, preferably, should be positive), a track record of financial performance, in nominal gross, nominal net and real net terms (as we show in this report), a track record of the total costs borne by the pension saver—with access to an itemized breakdown—and their overall effect on performance since the beginning of the contract/participation to the scheme,

and a summary of the main features of the product or scheme which the participant may consider relevant in their assessment of the *value for money* the scheme offers.

The development of these PTSs across the EU should ideally be coordinated, with national authorities and stakeholders defining **a common framework for the reporting of fundamental information on retail investment products**. Establishing a common dictionary of terms of reference to be used by all managers of long-term and pension savings products would ensure the comparability of data across schemes and products—which could be used to greatly improve the KID—and simplify their aggregation into PTSs, for the benefit of pension scheme participants, as well as pension dashboards to be used by policy-makers and supervisors.

We also consider that **pensions dashboards should be made public**, this for two main reasons. First, we believe that making public an overview of the performance of the whole market for a given category of product enables individual to compare the benchmark the schemes they contribute to to that market. Second, since most pension saving products are granted tax incentives, which have a fiscal cost, borne by the collectivity, citizens should be able to ascertain that these public expenditure are indeed put to good use, that they indeed achieve the policy objective of ensuring an adequate retirement income to the population.

Finally, product information about individual products and schemes should be aggregated into publicly accessible comparison portals, such as the “Finansportalen” maintained by Norway’s Forbrukerrådet.<sup>5</sup> Such tools available on a national but also European basis would facilitate benchmarking exercises for product manufacturers, make advisors’ research of suitable products easier and empower investors by providing them with an easy, straightforward way to access and compare information on products.

We urge the Commission to make proposals in that sense to complement those already tabled as part of its “Supplementary pensions package”, the Member States to take up the Commission’s recommendation on PTSs and pension dashboards, and the industry to come together with representative of individual investors and supervisors to lay the groundwork for a truly harmonised and cost-efficient product data reporting framework that ensures the seamless flow of relevant information from providers to supervisors and investors.

## 2.4.2 Simple and cost-efficient supplementary pensions

The data we have presented in this report reflect a supplementary pensions landscape where too many pension schemes offer a return that is not proportionate to the costs they impose to their members. Cost-efficiency does not necessary mean “low-cost”, nevertheless with many Europeans doubting that their pension products offer good value for money, it seems unlikely that the EU will be able to turn its great savers into great investors unless it acts decisively in favour of pension products that show a better cost-performance profile.

Simplification is the name of the game: Many pension products today offer guaran-

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<sup>5</sup>See [www.forbrukerradet.no](http://www.forbrukerradet.no), “Finansportalen”, which provide comparison tools for bank services, investment funds and pension products.

tees (guarantees of the capital, guarantees of a certain minimum return) which are costly to implement for pension scheme managers, who in addition, use these additional services as an argument to inflate costs and charges when, in truth, such guarantees are usually unnecessary. A life-cycle approach to asset allocation has been shown to be more effective than capital guarantees to provide high performance over the accumulation period as well as safety in retirement (see, e.g., Berardi et al., 2018). The insolent performance of Sweden's AP7 Såfa, which we reported on above and implements a simple life-cycle glide path, testifies of this superior performance: it maintains a full exposure of its participants to the world equity market for most of their active life, before progressively reducing that exposure to one third of their assets over the last decade before retirement. This is both simple to manage, entailing limited costs, and simple to explain to participants.

The condition for such an approach to deliver the best outcome for investors is, however, that their assets remain locked until retirement, with very limited possibilities to make early withdrawals: because equity markets are volatile, investors have no guarantee to recoup their capital before the glide path has significantly reduced their exposure to equity. This necessary patience implies that there must be a clear distinction between pension products—made for patient investment—and investment products intended to serve shorter-term goals. Products designed and marketed to serve both as both pension savings vehicle and short-term investment—or, worse, as rainy-day funds—must offer stability at all time, which leads the managers of these products to over-invest in fixed-income assets offering stable returns but a lower long-term performance.

We therefore strongly support the Commission's proposal, for the simplification of the Basic PEPP, to set a simple life-cycling approach with a glide path as the default risk mitigation technique. We would also encourage Member States to review the legal framework governing their respective national PPPs to clarify their long-term orientation while in parallel developing simple and cost-efficient savings and investment accounts (SIAs), following the Commission's recommendation on SIAs (European Commission, 2025c).

Nevertheless, we view with concern the removal of the fee cap on the Basic PEPP and its replacement with a "value for money approach", supposed to ensure that offers of Basic PEPPs remain cost-efficient while enabling providers to levy higher annual costs on PEPP holders. In the absence of a strong and credible value for money supervision system—on that account, the RIS negotiation does not seem set on delivering rules capable of ensuring a strong protection of investors' interests—the fee cap remains the best guarantee that the Basic PEPP plays its role of affordable, low-cost option to spur competition in markets where such affordable low-cost options do not exist.

### 2.4.3 Resolutely turn to a long-term approach, for better returns

In the previous editions of this report, BETTER FINANCE consistently called on policymakers to fix the fixed-income bias in the investment policies of pension fund, PPP and other long-term investment managers. Therefore, we strongly support the

Commission's initiatives under the SIU to identify and adopt "measures to stimulate equity investments by institutional investors" (European Commission, 2025b, p. 11), including amendments to the Solvency II delegated acts as regard long-term equity investments.

As regards IORPs, we welcome the Commission's proposal to introduce "a more principles-based prudent person principle" and to restrict possibilities for Member States to impose uniform quantitative rules on investment policies of IORPs. A risk-based approach whereby pension funds managers are mandated to determine the asset allocation that best serves the interest of its members and to ensure that they have the sufficient expertise to manage these investments, coupled with an empowerment of NCAs to question this management and, where necessary require changes seems appears more likely to enable flexible and effective long-term management of pension investments. We urge the co-legislator to adopt such a risk-based approach, refraining from imposing fixed limits on investment strategies but ensuring that supervisors are sufficiently equipped—in terms of legal powers and staff—to effectively oversee pension funds' activity.

Besides prudential rules applying to life insurance undertakings and pension funds, tax rules on corporate investments that favour investments in debt securities over investments in equity add an institutional investor's fixed-income bias to the individual investor's risk aversion. Or, as the Commission puts it: "[t]he debt bias which characterises taxation systems in many Member States gives undue fiscal incentives to debt financing at the expense of equity financing (European Commission, 2025b, p. 10).

Considering the superior long-term financial performance of equity investments, institutional investors should be incentivised to direct more of their client's assets towards equity markets, if only to counter the natural risk-aversion of individuals. Therefore, we urge Member States to resume works on the debt-equity bias reduction allowance (DEBRA) initiative submitted to them by the Commission in 2022 , and amend their respective tax regimes in a way that makes them either neutral to the nature of the investment—equity or debt—or, even better, favour equity investments.

#### 2.4.4 Appropriate conditions to set auto-enrolment

BETTER FINANCE is, generally, supportive of auto-enrolment, but only into *occupational* pension schemes and provided the right pre-conditions are in place. The Commission, in its communication, rightly notes about auto-enrolment that:

[t]he widespread use of this tool can significantly boost participation rates in supplementary pensions, as evidence shows that individuals, once enrolled, tend to remain in the schemes

(European Commission, 2025e, p. 9)

Precisely because "individuals, once enrolled, tend to remain in the schemes" we must ensure that these schemes offer adequate long-term returns. A strongly positive long-term track record and a design that is conducive to the right balance between high-performance and financial security in old age is, therefore, the primary condition to make auto-enrolment in pension schemes acceptable to EU

citizens. If anything this report has shown, it is that such pension schemes are, for now at least, the exception and not the rule.

We strongly welcome the announcement that:

To unlock the potential of occupational pensions, the Commission proposes to modernise the framework in order better to support efficiency and scale. This includes: (i) increasing supervisory focus on costs, returns and scale, as one of the triggers for lowering costs and increasing returns; (ii) increasing transparency on underperformance; and (iii) removing barriers to market-driven consolidation or other ways of promoting economies of scale.

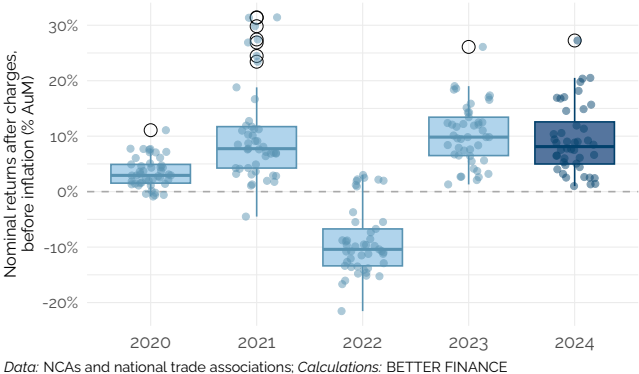
(European Commission, 2025e, p. 10)

and argue that adopting, effectively implementing such measures and measuring their effects on IORP performance should come first, and setting up auto-enrolment schemes, while desirable, should be considered a medium to long-term policy measure, conditional upon the existence of a set of high-performing occupational pension schemes that could be eligible for automatic enrolment.

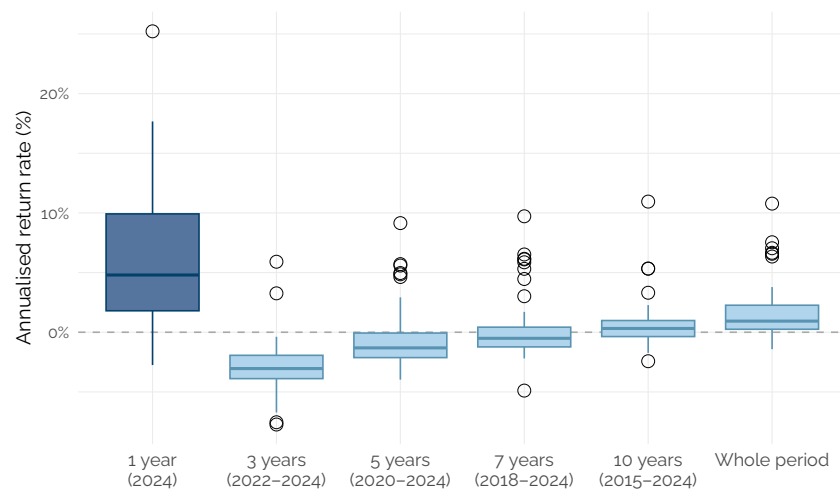
Even then, individuals should remain free to choose among a range of options to be enrolled to, and, should they find that none of the options is suitable to their objectives and needs, be free to opt out. For this to be effective, proper information needs to be provided about the scheme, the contribution rate and its evolution in time, as well as about the various investment options available. Crucially, sufficient time should be left to individuals between the time they receive the information and the time their enrolment becomes effective for them to review the information and communicate their decision to select a non-default setting or to opt-out.

BETTER FINANCE is also a long-standing advocate of **including individual investors in collective redress mechanisms** at EU and national level. Collective redresses mechanisms are a tested way to empower individuals who may have suffered damages from large companies. Individual investors who may have suffered due to the poor design or mismanagement of a long-term investment or pension saving scheme should be able to have their interests collectively represented in an easy and costless manner. This becomes all the more important if we consider the introduction of auto-enrolment schemes across the EU. With such systems in place, participation into occupational pensions is indeed likely to increase drastically, mismanagement of a pension scheme to which potentially millions of individuals might be enrolled automatically would entail detriment on a massive scale. The likelihood of massive damages to be paid in case of such mismanagement would greatly contribute to ensuring that pension funds indeed manage their members' assets according to the prudent person principle.

**Figure 2.8 – Average 1-year return rates of analysed product categories (2020–2024)**

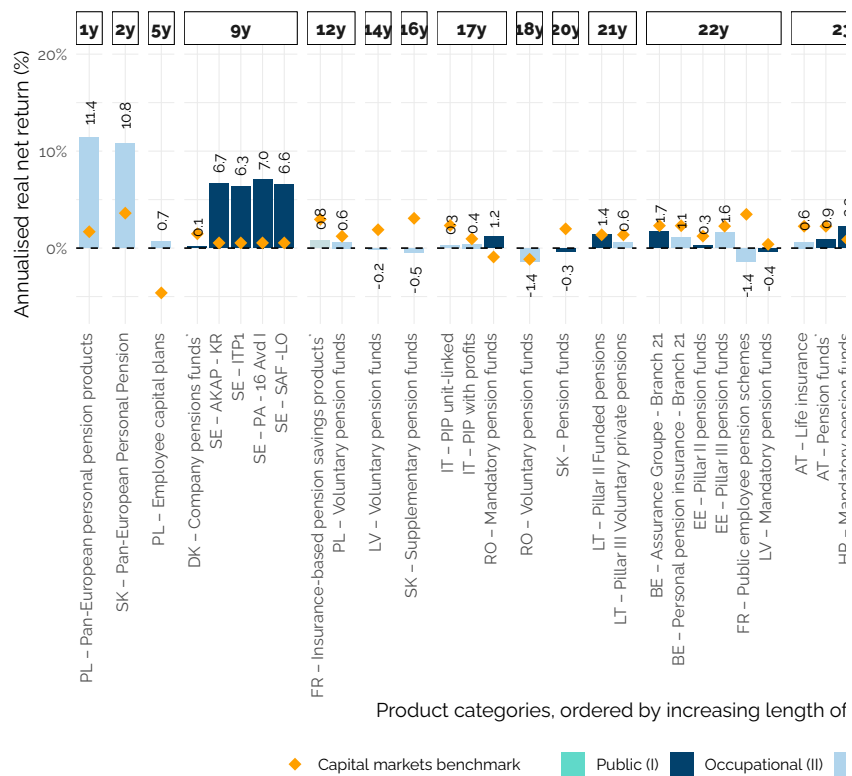


**Figure 2.9 – Average annualised real net returns over varying holding periods**



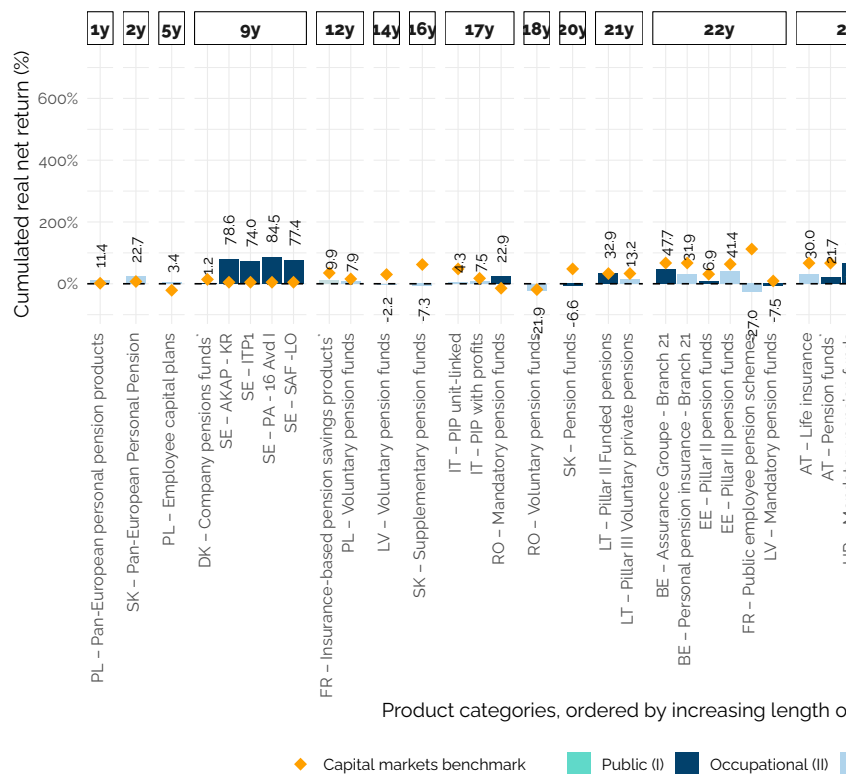
Calculations: BETTER FINANCE; Note: 'Whole period' up to 25 years, the reporting period varies across products; Capital market benchmark is composed of 50% equity (STOXX All Europe Total Market) and 50% bonds (Barclays Pan-European Aggregate Index), rebalanced annually

**Figure 2.10 – Annualised real net return of long-term and pension saving products over the whole reporting period (before tax, % of AuM)**



Data: NCAs and national trade associations, Eurostat, STOXX, Bloomberg; Calculations: BETTER FINANCE; textsuperscript\* Entry fees apply but data is not available, return is calculated on the invested part of contributions only.

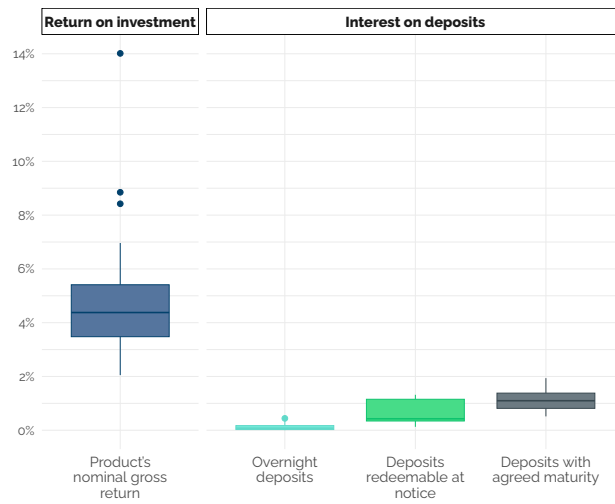
**Figure 2.11 – Cumulated real net return of long-term and pension saving products over the whole reporting period (before tax, % of AuM)**



Data: NCAs and national trade associations, Eurostat, STOXX, Bloomberg; Calculations: BETTER FINANCE; text<sup>superscript</sup> Entry fees apply but data is not available, return is calculated on the invested part of contributions only.

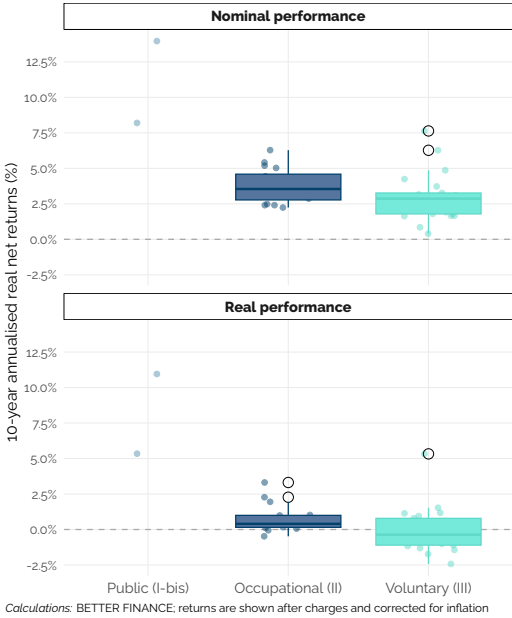
**Figure 2.12** – Average annual costs of analysed product categories 2000–2024

**Figure 2.13 – 10-year performance of analysed products compared to interest rates on bank deposits (before charges and inflation)**

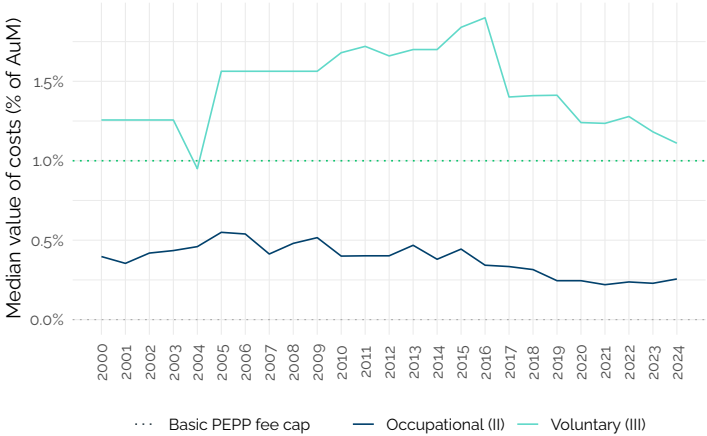


Data: ECB, *MIR Interest Rate Statistics* data set, deposits from households and non-profit institutions serving households with deposit-taking corporations except central banks. Calculations: BETTER FINANCE, annualised interest rates calculated on the basis of monthly observations.

**Figure 2.14 – Average 10-year annualised performance per Pillar**



**Figure 2.15 – Median of the average costs of Pillar II vs. Pillar III products (2000–2024)**



Data: NCAs and national trade associations; Calculations: BETTER FINANCE.  
 Note: One-off distribution costs (e.g. entry fees) are not taken into account.

## **Part II**

# **Country cases**

## Chapter 3

# Austria

### Zusammenfassung

Rund 90% des durchschnittlichen Alterseinkommens in Österreich stammen aus dem öffentlichen Pensionssystem. Damit ist die Altersvorsorge sehr stark auf die erste Säule konzentriert. Die betriebliche Altersvorsorge ist freiwillig und wird in erster Linie von Pensionskassen und Versicherungsunternehmen getragen. Direktzusagen sind ein alternatives Instrument deren Nutzung seit Jahren stagniert. Die Möglichkeit für beitragsorientierte Pensionspläne in Pensionskassen und über Versicherungen hat die Verbreitung der betrieblichen Altersversorgung in Österreich gestärkt. Während betriebliche Formen der Altersvorsorge im Laufe der Zeit beliebter wurden, dämpften niedrige Zinssätze und die hohe Liquiditätspräferenz die Nachfrage nach individuellen Lebensversicherungsverträgen. In den Jahren 2002 bis 2024 war die Performance der Pensionskassen real und nach Abzug der Verwaltungskosten positiv; die annualisierte Durchschnittsrendite lag bei 0,9% vor Steuern. Die Lebensversicherungsbranche verfolgt eine deutlich konservativere Anlagepolitik und erzielte nach Berücksichtigung von Vertriebskosten eine durchschnittliche reale Nettorendite vor Steuern von 0,6% pro Jahr.

### Summary

With around 90% of the average retirement income received from public pension entitlements, the Austrian pension system is very reliant on the first pillar. Occupational pensions are voluntary and primarily offered through pension funds and insurance companies. Direct commitments are an alternative vehicle, but their usage stagnates. The option for DC plans with favourable tax treatment offered either by pension funds or insurance companies boosted the prevalence of occupational pensions in Austria. While occupational pensions have become more popular over time, low interest rates and a high liquidity preference dampened demand for individual life insurance contracts. Over the years 2002 through 2024, the performance of pension funds in real net terms has been positive, with an annualised average return of 0.9% before tax. The life insurance industry followed a distinctly more conservative investment policy and achieved after subtracting distribution fees an average annual net real return before tax of 0.6%.

## 3.1 Introduction: The Austrian pension system

The main vehicles for old age provision within the second and third pillar are insurance companies and pension funds. The performance of pension funds in real terms

**Table 3.1 – Product categories analysed in Austria**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Pension funds	Occupational (II)	2002	2024
Life insurance	Voluntary (III)	2002	2024

**Table 3.2 – Annualised net return of Austrian pension funds and life insurances (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period	to...
Pension funds <sup>a</sup>	5.5%	-4.6%	-1.8%	-1.0%	0.1%	0.9%	end 2024
Life insurance	-11.8%	-7.1%	-4.2%	-2.7%	-1.4%	0.6%	end 2024

*Data:* Fachverband Pensionskassen, Financial Market Authority, OECD Pension indicators, Eurostat; *Calculations:* BETTER FINANCE *Note:* Entry fees on pension funds are paid by sponsors (employer companies), not by individual scheme members <sup>a</sup> Entry fees apply to this product category but data are unavailable; returns are calculated on the invested part of contributions only

remains positive over the whole period from 2002-2024, with an annualised average real return of 0.9% after service charges and before taxation. Especially the difficult years in 2002, 2007, 2008, 2011, 2018 and 2022 dampened the investment performance considerably. High inflation abated in 2024 and the good nominal return on investment made it possible to build back the fluctuation reserves which were almost depleted in 2022.

The average real rate of return on investments by insurance companies benefits from the conservative asset allocation with strong holdings of government bonds. This allowed insurers to avoid large losses in years with a financial market crisis and to reach an average real rate of return of 0.6% annually after distribution fees, service charges and before taxation. Low nominal yields on government bond investments in combination with the rate hiking cycle and unexpectedly high inflation rates depressed net real rates of return after 2015, in particular over the last four years.

Table 12.1 shows the categories of products for which real net returns are calculated in this chapter. The annualised nominal, net and real net rates of returns for the Austrian retirement provision vehicles are summarised in Table 12.2: They are based on different holding periods: 1 year, 3 years, 5 years, 7 years, 10 years and since inception (2002).

### 3.1.1 Pension system in Austria: An overview

The Austrian pension system consists of three pillars:

- Pillar I: Mandatory Public Pension Insurance
- Pillar II: Voluntary Occupational Pensions
- Pillar III: Voluntary Individual Pensions

The mandatory public pension insurance covers most of private sector employees (Pillar I). Civil servants have their own pension system which will gradually converge towards the public pension insurance system. The self-employed belong to a separate mandatory system. The public pension system works as a PAYG scheme and was founded in 1945. The system covers 4.4 million people or 98.3% of the gainfully employed (2024). In 2024, all employees—except civil servants—were subject to a contribution payment of 22.8% of their income before taxes, with contributions shared between the employer (12.55%) and the employee (10.25%). If insured persons continue to work after their mandatory retirement age, the contribution rates will be halved. Civil servants pay a contribution of 12.55% of their gross wage and the self-employed pay 18.5% of their profit before taxes into the pension system. The Austrian pension system will be fully harmonized across all insured persons by 2050. The public pension system has an income ceiling (maximum contribution basis) up to which contributions apply, income above this level is exempted from contributions but the ceiling also limits the pension benefit level. In 2024 the ceiling was between EUR 6060 and EUR 7070, depending on the employment status. About 5% of the gainfully employed achieve an income above these ceilings. The theoretical gross pension replacement rate at the median income level for persons entering the labour market at age 22 corresponds to 74.1% of the average lifetime income while the net pension replacement rate is at 87.4% (Organisation for Economic Co-operation and Development, 2023). Both theoretical replacement rates will be reached after 43 years of uninterrupted employment with earnings always at the average income level. Effective replacement rates are likely to be lower because careers are not continuous and life-time income profiles are not flat. Due to pension reforms gradually taking effect, the effective replacement rates are expected to fall for future pensioners. Nevertheless, high replacement rates for many of the gainfully employed limit the demand for occupational as well as private pension plans.

Accompanying a series of public pension reforms between 2003 and 2006 which implemented reductions in the expected benefit level, the Austrian government introduced the premium subsidised pension plan to make private old-age provision more attractive. This scheme became very popular until 2012 with 1.64 million contracts signed but it lost attraction after the government halved the premium subsidy in 2012 (to 4.25% of the premium paid) and after investment yields collapsed during the financial crisis in 2007. Expiring contracts are rarely renewed and by 2024, only 0.8 million contracts were still active.

## 3.2 Long-term and pension savings vehicles in Austria

Private pensions are divided into voluntary occupational and voluntary personal pensions. About 6.5% of today's retirees receive regular benefits from an occupational or personal pension. This figure is made up by 4% of retirees receiving benefits from an occupational pension and 2.5% of retirees receiving annuities from a personal pension plan (Url & Pekanov, 2017). Given today's number of active plan members these shares can be expected to have increased substantially over time.

**Table 3.3 – Overview of the Austrian pension system**

<b>Pillar I</b>	<b>Pillar II</b>	<b>Pillar III</b>
Mandatory Public Pension Insurance	Voluntary Occupational Pensions	Voluntary Personal Pensions
Practically all gainfully employed persons are subject to pension contributions of 22.8% of income before taxes	Employers can establish an occupational pension system of their preference	Supplement particularly for high earners
Means tested minimum Pension level depends on life time income (various kinds of supplementary insurance months are accounted, cf. motherhood, unemployment, military service)	Direct commitments, pension funds, occupational life insurance. 44% of employees are entitled	Life insurance with a coverage of about 41% of private households. The state-aided old-age insurance features 0.8 mln. contracts
Mandatory PAYG	Voluntary DB or DC	Voluntary DC

**Quick facts**

Statutory retirement age is 61 (women) and 65 (men)

The average effective age of retirement was 60.4 for women and 62.4 for men (2024, including invalidity pensions and early retirement schemes but excluding rehabilitation benefits).<sup>1</sup>

At 87.4% the theoretical net replacement rate in 2021 was considerably higher than the OECD average (61.4%).<sup>2</sup>

The mandatory public pension system covers 4.4 mln. insured persons and pays pensions to 2.57 mln. beneficiaries<sup>3</sup>

The voluntary occupational pension system covers 1.74 mln. entitled persons and pays pensions to 0.34 mln. beneficiaries<sup>3</sup>

Voluntary personal pension plans cover 3.38 mln. entitled persons and pay pensions to 0.18 mln. beneficiaries<sup>3</sup>

The average pensioner receives 90% of his retirement income from public pensions

The average pensioner receives 4% of his retirement income from an occupational pension

The average pensioner receives 6% of his retirement income from a personal pension

Source: Own composition.

<sup>1</sup> Hauptverband der österreichischen Sozialversicherungsträger, Statistische Daten aus der Sozialversicherung, Pensionsversicherung, SV in Zahlen 3/2024.

<sup>2</sup> OECD data.

<sup>3</sup> Macrobond, Hauptverband der Sozialversicherungsträger: Die österr. SV in Zahlen 2025/3, WIFO.

### 3.2.1 Occupational pension vehicles (Pillar II):

At the beginning of 2003, the system of severance payments was replaced by mandatory contributions towards occupational severance and retirement funds (*Betriebliche Vorsorgekassen*). While the old severance payment regulations continue to apply to existing employment relations, employment contracts established after the end of 2002 feature mandatory contributions of 1.53% of gross wages to these funds. The main characteristics of severance payments have been transferred to the new system, i.e. in case of dismissal the fund will pay out the accumulated amount. Beneficiaries, however, may voluntarily opt to use this instrument as a tax-preferred vehicle for old-age provision. Less than one percent of the beneficiaries use this option. We, therefore, do not count occupational severance and retirement funds as pension vehicles in the following.

### 3.2.2 Life insurance and pension insurance contracts:

Life insurance policies are signed by private persons who pay contributions over an agreed period into their own pension account. The insurance company administers the account and manages the accumulated assets. At the end of the contribution period, either a lump-sum amount is paid out to the insured person or alternatively, the insurer converts the accumulated capital into an annuity.

### 3.2.3 Second pillar: Direct Commitments, pension funds and collective life insurance

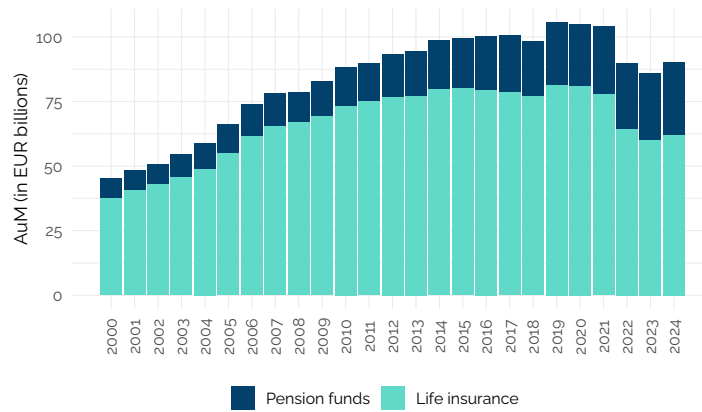
Occupational pension plans are typically provided on a voluntary basis by firms, only a few collective bargaining agreements include an obligation for member firms of the respective sector. Employers can also choose the coverage and the vehicle of their pension plan. There are three types of occupational retirement schemes:

- direct commitments funded by book reserves;
- pension funds, and;
- several types of life insurance schemes.

Each of these schemes has advantages and drawbacks. While direct commitments create a stronger link between employees and the firm, the future pension payments are subject to bankruptcy risk and, during the accumulation phase, the firm must either manage the assets backing the book reserves or seek some sort of reinsurance. External vehicles like pension funds or life insurance contracts imply less bonding because the vesting period is much shorter, but they also outsource the effort of investment choice and annuity payments to a financial intermediary. The design of a voluntary pension plan is at the full discretion of the employer, but usually an arrangement with the firm's workers council is necessary.

Over the last decades many firms switched from direct commitment schemes to pension funds. On the one hand, this was a strategy to reduce the cost of existing defined benefit pension schemes by switching to DC plans, and on the other hand, these efforts made balance sheets shorter and cleaned them from items unknown to international investors.

**Figure 3.1 – AuM of Austrian pension funds and life insurances (in bln EUR)**



Data: Financial Market Authority; Calculations: BETTER FINANCE.

### **Direct commitments (*Direktzusage*)**

Direct commitments are pension promises by the employer to the employee that are administrated within a firm. These types of arrangements dominated until the 1980s, when several large bankruptcies or near bankruptcies revealed their fragility. The main two characteristics of this arrangement are direct administration of the pension obligation within the firm and a defined benefit type of the pension plan: the pension level is related to the wage level of employees. The plan administration comprises the computation of individual pension obligations and the respective book reserves, their coverage by invested assets, as well as the annuity payment. Nevertheless, many activities can be outsourced to actuaries, investment funds, and insurance companies. Pension claims based on direct commitments are not subject to any reinsurance requirement, but the reserve funds dedicated to back book reserves are protected from creditors. Besides outsourcing, the *Insolvenz-Entgelt-Fonds* provides a further safeguard for entitled employees and pensioners to bankruptcy risk. This fund is a public fund covering wage entitlements by employees in case of bankruptcy. Currently, the *Insolvenz-Entgelt-Fonds* covers a maximum of 2 years of benefit payments or accrued entitlements (*Insolvenz-Entgeltsicherungsgesetz*, § 3d). Due to their voluntary character and a lack of supervision the incidence of direct commitments is hardly documented.

### **Pensions funds (*Pensionskassen*)**

Pension funds are specialised financial intermediaries providing only services related to occupational pensions, i.e. they collect contributions, manage individual accounts, invest the accumulated capital, and they pay out an annuity to beneficiaries. Pension funds were introduced in 1990 with the Occupational Pension Law and the Pension Fund Law (*Betriebspensions- und Pensionskassengesetz*) which established a general legal basis for occupational pension schemes including pension funds. These laws facilitated the outsourcing of asset management and accounts administration from direct commitment systems into pension funds. This made individual pension entitlements transferable between companies, it made possible additional contributions by employees, but it also enabled firms to switch from defined benefit to DC pension plans. By now, most pension plans are of the DC type and beneficiaries are directly exposed to investment risk as well as to changes in mortality risk. For example, plan members whose entitlement was converted from a direct commitment into an entitlement vis-a-vis a pension fund still suffer from investment losses shortly after transferring the assets into pension funds around the year 2000 because the imputed interest rates used at that time were overly optimistic (Url [ThomasUrl], 2003).

Pension funds may be either multi-employer pension funds, i.e. they are open to all firms, or alternatively, they may be firm-specific pension funds (single-employer pension funds) administrating the pension plan for a single firm or a holding group. Over the last couple of years, many firm-specific pension funds have been merged into multi-employer pension funds by constructing independent risk and investment pools like Undertaking for Collective Investment in Transferable Securities (UCITS). Pension funds are subject to supervision by the Austrian Financial Market Authority and they feature investment advisory boards, where representatives of workers and

employers can advance their opinion on the investment strategy. Nevertheless, the results from asset-liability management strategies dominate the portfolio choice of pension funds.

Pension funds offer primarily annuities because lump-sum payments are restricted to accounts with very small accumulated assets. Pension funds have to offer accounts with guaranteed long-term yields on investment linked to the market yield of Austrian government bonds, although this option lost attractiveness due to the high costs of guarantees and a substantial weakening of the extent of the guarantee. The guarantee is backed by the own capital of the pension fund and by a minimum return reserve fund financed by contributions from beneficiaries (*Mindestertragsrücklage*). In case of bankruptcy of the pension fund, all entitlements are protected by separate ownership of the assets associated to each account (*Deckungsstock*).

### **Direct insurance**

Firms can alternatively sign a contract with a life insurance company. This contract is either subject to the regulation covering occupational pensions (*Betriebliche Kollektivversicherung*) or it is designed as a life insurance policy and is subject to the regulation for life insurance products. Insurance companies also underwrite risks embedded in direct commitments. Direct insurance of occupational pension plans implies that the sponsoring firm will pay contributions into a life insurance contract with employees as beneficiaries. In this case, the firm outsources the management of personal accounts and assets, as well as the annuity payments to an insurance company.

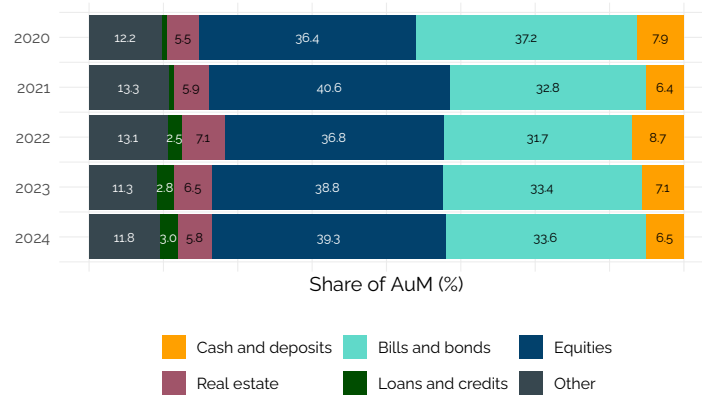
The number of working and retired persons holding a life insurance policy is almost double the number of members in occupational pension plans. Despite high public pension levels and the voluntary character of occupational pensions, their use is comparatively widespread in Austria. There are two reasons for this: (1) the public sector offers an occupational pension scheme, and (2) occupational life insurance policies benefit from a tax loophole. Contributions up to EUR 300 annually are tax-exempt—as per § 3/1/15 of the Einkommensteuergesetz (EStG), the Income Tax Act—and as a result around 636 000 contracts have been signed until 2024. Given the small pension wealth accumulated in these accounts, one cannot expect reasonable annuity payments resulting from this vehicle.

The *Betriebliche Kollektivversicherung*, on the other hand, provides occupational pensions with a favourable tax treatment up to 10% of individual gross wages. It is regulated according to the Occupational Pension Law, but this vehicle allows for more substantial long-term guarantees usually offered by classic life insurance contracts. Insurers also freeze mortality tables at the date of joining the pension plan.

### **3.2.4 Third pillar: Classic and Unit-linked life insurance**

There are two types of insurance contracts available which can be distinguished according to who bears the investment risks. Insured persons with a unit-linked policy assume the investment risk and must choose their investment portfolio. Classic life insurance products, on the other hand, offer a minimum return guarantee but investment decisions are delegated to the insurance company. The maximum possi-

**Figure 3.2 – Allocation of assets invested in Austrian pension funds**



*Data:* Financial Market Authority; *Calculations:* BETTER FINANCE.

ble guaranteed rate of return is regulated by the Austrian supervisory authority; currently, this rate is fixed at 0% per annum (since July 1st, 2022; BGBl. II Nr. 354/2021). Investment returns in excess of the guaranteed level are distributed across insured persons as variable profit participation.

The major public pension reforms between 2003 and 2006 left many private employees, employers, and civil servants with a lower expected public pension payment. As a compensation the Austrian government introduced the premium subsidised pension plan (*Prämienbegünstigte Zukunftsvorsorge*). Originally the premium was fixed at 9.5% of the annual contribution, but in 2012, fiscal consolidation measures resulted in a halving of the subsidy rate; it is currently fixed at 4.25%. Additionally, the yield on investment is fully tax-exempt. Premium subsidised pension plans have a minimum contract length of 10 years. The portfolio choice for the assets of subsidised pension plans is restricted by law. A minimum share of the assets must be held in equities listed on underdeveloped stock exchanges. This measure was targeted to foster investment at the Vienna stock exchange, but it resulted in highly concentrated investment risk. The strict regulation of investments has been weakened over the past years allowing for example life cycle portfolios with a reduction of the equity exposure when the retirement date of entitled persons comes closer.

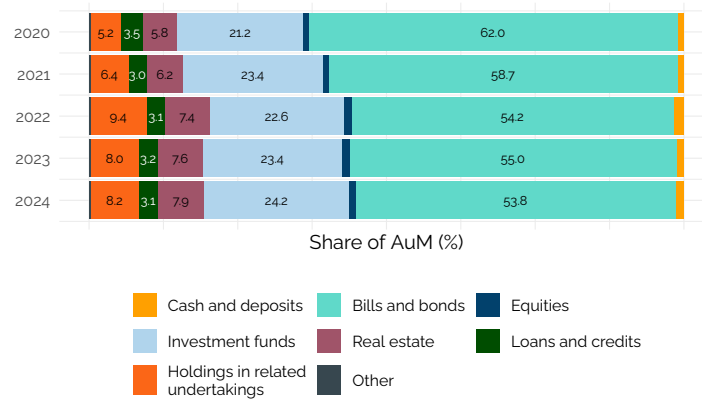
The halving of the subsidy premium in 2012 and substantial losses on stock exchanges during the years 2008 and 2022 reduced the demand for this pension saving vehicle. The number of contracts is falling and contracts with the shortest possible duration of ten years have been mostly terminated with a lump-sum payment. This triggers an exit from the annuity phase with a mandatory repayment of the subsidy. In 2024 the number of new contracts was 8077; with 65 000 contracts expiring in that year, the number of active contributors declined to 0.8 million persons.

## 3.3 Charges

### 3.3.1 Charges of pension funds

Information on all types of charges for occupational and private pension products are hard to obtain. Within direct commitment systems, pensions are of the defined benefit type and firms cover all expenses. The remaining vehicles for occupational pensions are subject to some degree of competition between financial intermediaries, although most pension funds are owned by alliances of banks and insurance companies. Because occupational pension plans are always group products, the individual entitled person has only limited or even no choice during the savings and annuity phases, thus these products have a cost advantage over individual pension plans. Large firms also receive quantity discounts or customised tariffs with lower administrative charges. In Table 3.4, administrative charges and investment expenses for pension funds are expressed as a percentage of the funds' total invested assets. Employers pay any costs of establishing the contract with a pension fund or an insurance company and the consultants used; there are no data published on this type of costs. From the perspective of a beneficiary there are no acquisition costs associated with payments into pension funds. Except the opportunity of voluntary additional payments to the employer based payment, there are no possibilities to customise

**Figure 3.3 – Allocation of assets invested in Austrian life insurance**



Data: Financial Market Authority; Calculations: BETTER FINANCE.

**Table 3.4 – Costs and charges of Austrian pension funds**

Year	Admin. and mgt. fees
2003	0.18%
2004	0.12%
2005	0.14%
2006	0.15%
2007	0.15%
2008	0.16%
2009	0.17%
2010	0.17%
2013	0.16%
2014	0.17%
2015	0.18%
2016	0.18%
2017	0.18%
2018	0.19%
2019	0.12%
2020	0.10%
2021	0.11%
2022	0.12%
2023	0.12%
2024	0.12%

*Data:* OECD Pension indicators; *Calculations:* BETTER FINANCE.

the contract terms to personal preferences. In the year 2019, a substantial reduction in charges has been recorded by the OECD.

### 3.3.2 Charges of life insurance products

The costs of acquisition and administration for life insurance products are published by the Financial Market Authority. Acquisition costs amount to roughly one tenth of total premium income (see Table 3.5). Since January 1st, 2007, the Insurance Contract Law includes a provision that acquisition fees have to be distributed over at least the first five years of the contract length. Before 2007 it was possible to charge the full acquisition fee in the first year, making the cancellation of a life insurance contract extremely costly. Administration costs are presented as a ratio to the mean of the invested assets.

Since January 1st, 2017, every consumer receives a piece of short product information—the KID—before signing an insurance contract. These information sheets are standardised and contain details of individual charges and investment fees allowing a better comparison of offers.

**Table 3.5 – Costs and charges of Austrian life insurance**

Year	Acquisition fees	Admin. and mgt. fees
2005	11.28%	0.43%
2006	11.49%	0.38%
2007	11.10%	0.38%
2008	10.66%	0.38%
2009	9.97%	0.37%
2010	10.75%	0.36%
2011	11.01%	0.39%
2012	11.68%	0.33%
2013	11.37%	0.32%
2014	10.67%	0.33%
2015	10.80%	0.33%
2016	11.49%	0.35%
2017	10.44%	0.36%
2018	10.27%	0.37%
2019	10.57%	0.37%
2020	10.85%	0.38%
2021	10.91%	0.37%
2022	11.01%	0.40%
2023	11.73%	0.44%
2024	12.09%	0.46%

*Data:* Financial Market Authority; *Calculations:* BETTER FINANCE.

**Table 3.6 – Taxation of pension savings in Austria**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Pension funds	Exempted	Exempted	Taxed	EET
Life insurance	Taxed	Exempted	Taxed	TET

Source: BETTER FINANCE own elaboration based on EStG.

### 3.4 Taxation

The taxation of old-age provision varies over different vehicles and depends mainly on the history associated to the vehicle. For example, the taxation of occupational pensions is very much oriented towards the treatment of direct commitments, which were the first vehicle used for occupational pensions. Direct commitments work like a deferred compensation and therefore they are only taxed in the year of the payment. This corresponds to a system with tax-exempt contributions, tax-exempt capital accumulation, and (income) taxed benefits (EET system). This philosophy carries over to contributions paid by the employer into a pension fund or a group insurance product following the pension fund regulation (*Betriebliche Kollektivversicherung*). Contributions to pension funds and group insurance products (*Betriebliche Kollektivversicherung*) are subject to a reduced insurance tax of 2.5%. Contributions by employees are fully taxed but the resulting annuity is subject to reduced income taxation.

Contributions to classic life insurance products are not tax deductible and are subject to an insurance tax of 4%. During the capital accumulation phase all investment returns are tax-exempt, and the taxation of benefits depends on the pay-out mode. Lump-sum payments are tax-free while annuities are subject to (reduced) income taxation. Additionally, premium subsidised products carry a premium based on the contribution, the capital accumulation phase is tax-exempt, and benefits are also tax free if they are converted into an annuity. Url and Pekanov (2017) provide a survey of the tax treatment of all vehicles for old-age provision using the present value approach as suggested by the OECD (Organisation for Economic Co-operation and Development [OECD], 2015, 2016). This approach compares the tax treatment of each vehicle to the tax treatment of a standard savings account. Expressed as a ratio to the present value of contributions, the tax advantage of employer payments into pension funds amounts to 20%, i.e. the value of the tax subsidy corresponds to one fifth of life-time contributions. The lowest tax advantage results for life insurance products with an annuity payment. In this case, the tax subsidy makes up for 7% of life-time contributions. The maximum tax advantage is associated with occupational life insurance policies subject to § 3/1/15 EStG. In this case, the subsidy amounts to 60% of lifetime contributions, however, payments into this vehicle are restricted to a negligible EUR 300 per year.

## 3.5 Performance of Austrian long-term and pension savings

### 3.5.1 Real net returns of Austrian long-term and pension savings

Due to the defined benefit character of pensions derived from direct commitments and because accumulated assets for direct commitments have the narrow purpose of protecting individual pension claims in case of a firm bankruptcy, we do not compute pension returns for this vehicle. Furthermore, the asset class in which firms can invest are restricted to government bonds issued by OECD member countries.

The way of taxing contributions, investment returns, and pension payments varies according to the vehicle chosen, the party paying the contribution, i.e. employers or employees, and the personal income tax break of the retiree (see Section 3.4). For this reason, we cannot compute a general after-tax return for Austria. Instead, we present the:

- nominal returns before charges, inflation, and tax;
- nominal returns after charges but before inflation and tax;
- real returns after charges and inflation but before tax

for the two most important vehicles, i.e. pension funds and classic life insurance policies. For life insurance products an entry fee corresponding to the column showing the acquisition costs in Table 3.5 is subtracted in the first year of each holding period. The returns on classic life insurance policies are also representative for occupational pension plans using life insurance products under the occupational pension law (*Betriebliche Kollektivversicherung*) but in this case no acquisition costs are subtracted because employers pay all costs associated with setting up a contract with an insurance company and related consultancy work.

Inflation in Austria reached its peak early in 2023. The disinflation process in Austria continued throughout 2024 ending at 2.1% in December. Compared to 2023 the inflation differential to the EU reversed. Throughout the year government support measures to alleviate the burden of energy costs on private households lowered energy prices relative to the EU, while prices for services put pressure on Austria's HICP. On average this resulted in an inflation differential towards the EU of 0.6 p.p.

#### **Pension funds**

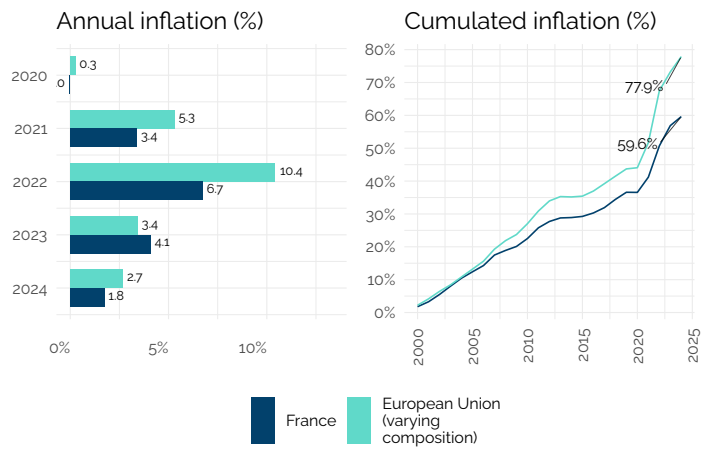
Figure 3.5 shows the returns on assets held by pension funds. In the case of a defined benefit pension plan, investment returns are important for the sponsoring firm because if the return falls short of the imputed interest rate used for the computation of the expected pension level, the firm will have to provide additional contributions covering the shortfall. On the other hand, if a DC pension plan has been established, the beneficiaries bear the risk of a shortfall in the realised return on investment, and consequently, the realised pension level falls below its expected value.

Information on the net performance of pension funds is published continuously by

**Figure 3.4 – Inflation in Austria**

Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>France</i>	59.6%	1.9%



*Data:* Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE;  
*Note:* Annual inflation is calculated as the december-on-december variation of HICP.

an independent third party, the *Oesterreichische Kontrollbank*,<sup>1</sup> following a standardised procedure. Aggregate returns are available for pension funds and for multi- and single-employer pension funds. The long-term performance of firm-specific pension funds is about 0.3 p.p. higher as compared to multi-employer pension funds. The difference results probably from a less risk-oriented investment style implemented by multi-employer pension funds, due to the wider usage of return guarantees in multi-employer pension funds. Nominal investment returns before charges result from adding administrative charges and investment charges of pension funds as presented in the section on charges to the net returns. Real returns are computed by adjusting for the HICP inflation rate in Austria.

The Financial Market Authority publishes the asset allocation of pension funds as of year-end (Österreichische Finanzmarktaufsicht [FMA], 2024). Due to the good performance of share prices over the last two years, the portfolio in 2024 continues to be dominated by equity investments (39.3%) with debt securities ranking second (33.6%). After the tumultuous year 2022, yields on risky assets became calmer again and fund managers reduced their cash holdings further (6.5%). Real estate investment (5.8%), on the other hand, took a hit from the ongoing decline in commercial property valuations. Pension funds still diversify their portfolio into the banking business by issuing loans and credits (3.0%). The remainder was mixed throughout smaller asset categories (see Figure 3.2). Given the strong exposure to equity, we find several years with negative returns, i.e. investment losses. Specifically, during the years after the bursting of the dot-com bubble (2000), the international financial market crisis (2007), and the public debt crisis in the euro area (2011), but also in 2018 and 2022, when both bond and equity markets lost value. Nominal returns slightly increased in 2024 and due to the successful disinflation real returns rose sharply. Nevertheless, between 2002 and 2024 pension funds achieved an annual average net real yield on investment of 0.9%. The nominal return before charges of 3.7% corresponds to a nominal average excess return over Austrian government bonds of 1.8 p.p.

### **Life insurance contracts**

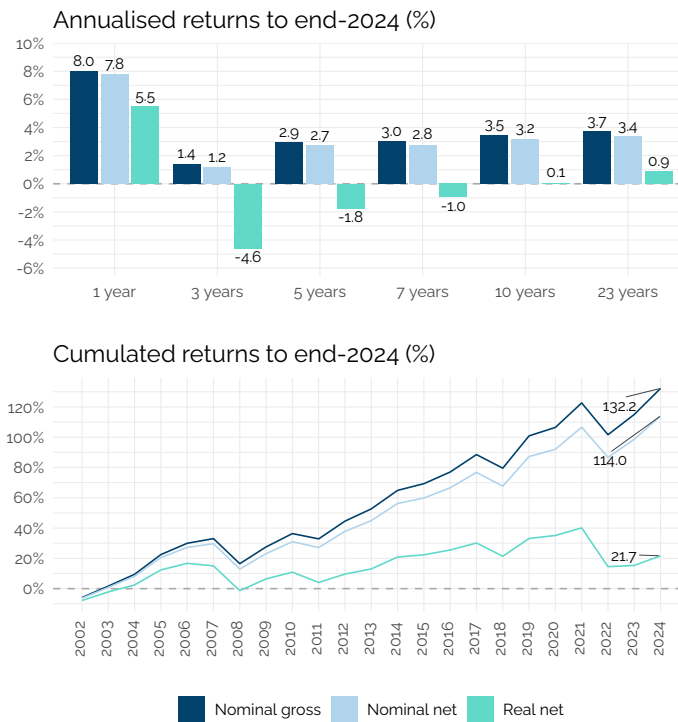
The return on investment in the classic life insurance industry is regularly computed by the Austrian Institute of Economic Research (WIFO). This computation excludes unit-linked contracts because the investment risk is borne by the insured and returns are usually retained within mutual funds and reinvested. The calculation of investment returns is based on investment revenues of the insurance industry and the related stock of invested assets in classic life insurance as provided by the Financial Market Authority. The method uses the mean amount of invested capital over the year as the basis for the computation and is documented in ThomasUrl (1996). The charges used to correct the yield for acquisition costs on the initial payment and the running administrative expenses are based on Table 3.5. Real returns result from the adjustment of nominal returns using the HICP inflation rate for Austria (Figure 8.2). Figure 3.6 shows the nominal gross, nominal net and real net returns of Austrian life insurance policies.

Obviously, nominal gross returns in the insurance industry are less volatile than in

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<sup>1</sup>Oesterreichische Kontrollbank, *Veranlagungsentwicklung der Pensionskassen*

**Figure 3.5 – Returns of Austrian pension funds (before tax, % of AuM)**



*Data:* Fachverband Pensionskassen, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated only on the invested part of the amount paid-in by the investor; entry fees apply to this product category but data on those fees are insufficient to calculate returns on the full contribution.

the pension fund industry. The main reason for this divergence is the more conservative asset allocation of life insurance companies, i.e. they invest heavily in bonds (54%) and the share of collective investments in their portfolio (24%) is also concentrated in bonds-oriented investment funds, creating a high exposure to fixed-interest securities (FMA, 2024). Another important asset class in the insurance industry are shareholdings in related undertakings (8%), which are usually not listed on a stock exchange. Property investments sum up to 8% of the assets, while equity holdings form just 1.2% of the portfolio (Figure 3.3). This gives insurance companies small exposure to volatile asset categories and consequently their investment performance is steadier.

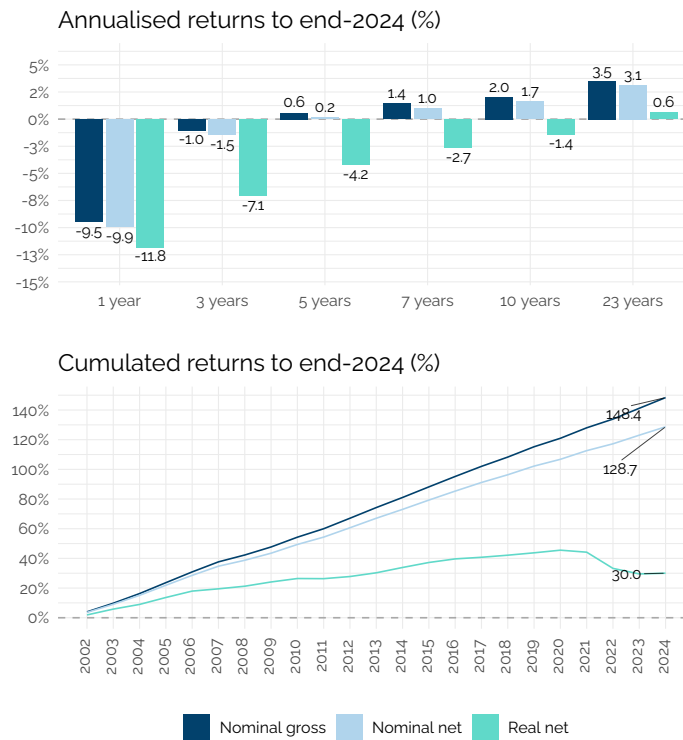
The particular way of distributing investment returns in classic insurance policies makes their performance even more steady for beneficiaries. Insurance companies separate their investment income into two parts. The first part serves to cover underwritten minimum return guarantees and it is immediately booked towards the individual account. Any excess return will be distributed over a couple of years through the build-up and reduction of profit reserves. By transferring accumulated profit reserves smoothly into individual accounts, insurance companies make the individual accrual of investments returns less dependent on current capital market developments although asset values are marked to market.

By summer 2024, the yields on 10-year German government bonds (benchmark) had risen by 30 basis points, but in the course of lowering the ECB key interest rates, bond yields went back to their levels from the start of the year. Consequently, the negative yield curve flattened. In comparison to 2023, European bond markets calmed down and spreads vis-a-vis the German benchmark bond narrowed for most countries. Insurance companies managed to keep their nominal return almost constant in 2024. For the first time since 2020 real returns on invested assets climbed back into positive territory, at 0.4%, because the inflation rate was so low. Acquisition costs are subtracted fully from the initial premium payment, therefore short-run nominal yields after accounting for entry fees and administrative charges are negative. This illustrates the cost effects of consumer marketing, regulatory information duties, financial advice, and the individual adjustment of contracts. The negative effects of entry fees on short-term returns (see Table 3.7) render life insurance a long-term investment product. Including acquisition costs, the long-run net real return (2002-2024) on insurance investments remained constant at 0.6%. The nominal return before charges of 4.0% corresponds to a nominal average excess return over Austrian government bonds of 2.1 pp. The long-term investment performance before acquisition costs and charges continues to exceed that of pension funds.

### 3.5.2 Do Austrian savings products beat capital markets?

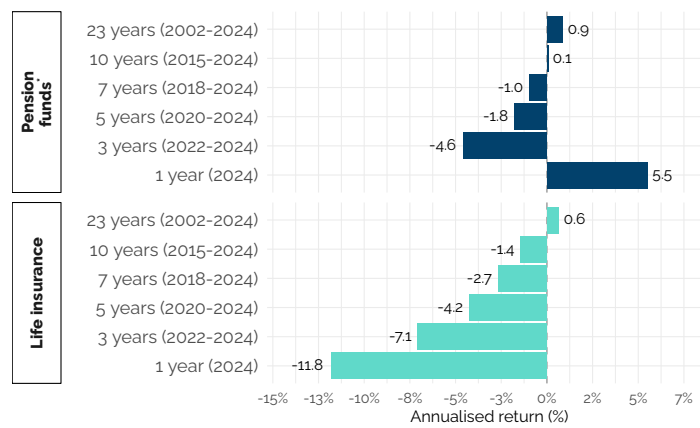
In the long run, pension funds and life insurance products reached excess returns over the yield of Austrian government bonds in the size of 1.8 and 2.1 pp., respectively. Another possible yardstick are yields from benchmark portfolios with equal holdings of equity and bonds (see Table 6.7). The net real return of pension funds in 2024 was beating the benchmark portfolio by 2.1 pp. The real excess return of pension funds over the benchmark portfolio between 2002-2024 was still negative at -2.0 pp., i.e. the long-term performance of pension funds was lagging the benchmark

**Figure 3.6 – Returns of Austrian life insurances (before tax, % of AuM)**



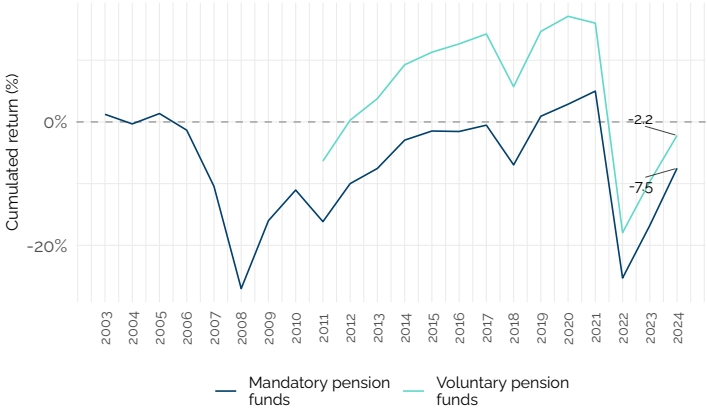
*Data:* Financial Market Authority, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 3.7 – Annualised returns of Austrian pension funds and life insurances over varying holding periods**



Data: Fachverband Pensionskassen, Financial Market Authority, Eurostat. Calculations: BETTER FINANCE; A

**Figure 3.8 – Cumulated returns of Austrian pension funds and life insurances**



Data: Manapensija, Eurostat. Calculations: BETTER FINANCE.

**Table 3.7 – Impact of acquisition costs on the return of Austrian life insurance**

Holding period	Return on full contribution (paid-in amount)		Return on invested assets (contribution r	
	Annua- alised	Cumu- lated	Annua- alised	Cumu- lated
1 year (2024)	-11.8%	-11.8%	0.4%	0.4%
3 years (2022-2024)	-7.1%	-19.8%	-3.4%	-9.8%
5 years (2020-2024)	-4.2%	-19.4%	-2.0%	-9.6%
7 years (2018-2024)	-2.7%	-17.2%	-1.1%	-7.6%
10 years (2015-2024)	-1.4%	-13.4%	-0.3%	-2.9%
23 years (2002-2024)	0.6%	15.6%	1.1%	30.0%

Data: Financial Market Authority.

**Table 3.8 – Capital market benchmarks to assess the performance of Austrian long-term and pension savings**

Product category	Equity index	Bonds index	Start year	Allocation
Pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2002	50%–50%
Life insurance	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2002	50%–50%

Source: STOXX, Bloomberg; Note: Benchmark portfolios are rebalanced annually.

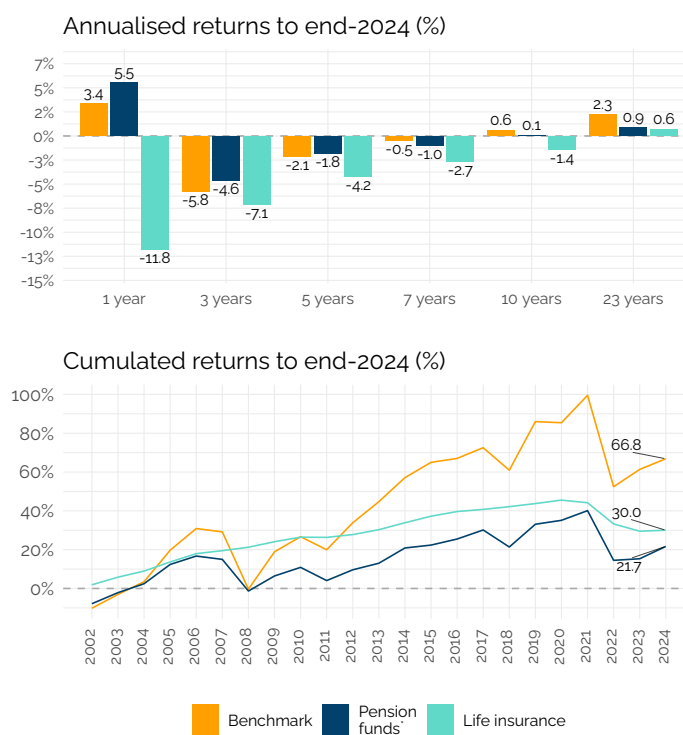
portfolio (Figure 3.9).

Acquisition costs and the more cautious investment strategy of the insurance industry go along with a real net return of life insurance products of -11.8% in 2024, which was substantially below the benchmark portfolio's performance in 2024 of 3.4%. In the long run, the performance of life insurance products is catching up, but still falls behind the benchmark portfolio. From 2002–2024, the real excess return of life insurance products was -2.2 pp., i.e. when accounting for acquisition costs, classic life insurance products carrying a minimum return guarantee showed a lower real net return than the benchmark portfolio.

## 3.6 Conclusions

The performance of pension funds in real terms remains positive over the whole period from 2002–2024, with an annualised average real return of 0.9% after service charges and before taxation. Especially the difficult years in 2002, 2007, 2008, 2011, 2018 and 2022 dampened the investment performance considerably. The favourable nominal result in 2024 allowed pension funds to replenish exhausted fluctuation reserves and to recover the purchasing power of retirees, lost over the inflationary period 2022–2023. All major stock exchanges have seen their valuation increase until mid-August of 2025 while volatility has come down, offering a good earnings outlook

**Figure 3.9 – Performance of Austrian pension funds and life insurance against a capital market benchmark (returns before tax, after inflation, % of AuM)**



*Data:* Fachverband Pensionskassen, Financial Market Authority, Eurostat. *Calculations:* BETTER FINANCE. Returns for this product are calculated only on the invested part of the amount paid-in by the investor; entry fees apply to this product category but data on those fees are insufficient to calculate returns on the full contribution.

for pension funds.

The average real rate of return on investments by insurance companies benefits from a conservative asset allocation with strong government bond holdings. This allowed insurers to avoid large losses in years with a financial market crisis and to reach an average real rate of return of 0.6% annually after acquisition costs, service charges and before taxation. Low nominal yields on government bond investments in combination with unexpectedly high inflation pushed net real returns into negative territory between 2021 and 2023 but rapid disinflation throughout 2024 brought the real return on invested assets back into positive territory. From the perspective of pension savers, life insurance policies carry an acquisition fee which reduces the amount of invested capital upfront. This creates negative net returns over short investment horizons. Insurance companies benefit from the long duration of their investment portfolio, i.e. they still own bonds featuring high interest coupons. With the ECB unwinding its Asset Purchase Programme (APP) since July 2023 and its Pandemic Emergency Purchasing Program (PEPP) since the beginning of 2025, newly issued bonds can be expected to yield higher returns over the next years. Meanwhile the flat yield curve creates an incentive to extend the duration of bond portfolios, thus adding demand for longer-dated bonds. Furthermore, demographic trends can be expected to exert downward pressure on real rates over the coming years (Carvalho et al. [CarlosCarvalho], 2025). Given weak survey data on consumer confidence, private households will retain their high liquidity preference and reduce their demand for classic life insurance. Premium subsidised pension insurance is also in low demand because subsidies were halved in 2012.

By now, the forecasted economic upturn for 2025 has proved to be overly optimistic. High wage settlements in previous years did not raise private household consumption, rather households preferred to reduce their indebtedness and increase their term deposits in banks. In 2024 most new jobs had been created in the public sector (public administration, health, and education), where occupational pensions are part of the pay package. Given that Austria entered a EU—excessive deficit procedure the public sector will not be able to continue on this recruitment path and private firms will be reluctant to offer additional voluntary occupational pension contracts, so the number of beneficiaries is likely to stagnate in 2025, while private demand for life insurance products will remain low. Furthermore, the minimum age to enter a public pension will be lifted and requirements for early retirement stiffened, thus labour market tightness will decrease. In the medium term, large cohorts will pass the mandatory retirement age. Given the shortages of qualified labour, firms may consider extending payment packages with immediate impact on their employees, like voluntarily overpaying collective wage contracts or providing fringe benefits in terms of more flexible working hours.

The opportunity to offer DC plans has certainly boosted the spread of occupational pensions in Austria. Within pension funds 98% of the entitlements are now DC plans, while occupational pensions based on insurance contracts are exclusively of the DC type. In summer 2025, social partners in Austria agreed on a common proposal to introduce a general pension funds contract, which would enable employees of firms not offering an occupational pension plan to transfer their severance payment (up to one year's gross wage) into a pension fund for annuitization. Furthermore, the pre-

mium subsidy for voluntary payments by employees according to § 108a EStG, the Income Tax Act, should be converted from a percentage of the premium to a fixed amount. This increases the attractiveness to top-up the employer-based payment for low-income earners. Other components of the proposal include improving the transparency of account information and allowing contribution rates to vary with operational key figures. Austria's financial services industry still does not offer products according to the Pan-European Personal Pension regulation.

## Chapter 4

# Belgium

### Résumé

Le système de retraite belge est constitué de trois piliers. Le premier pilier par répartition reste le plus important des trois piliers. Les retraités bénéficient d'un taux de remplacement moyen de 60.9% en 2022. Les piliers 2 et 3 constituent les pensions complémentaires professionnelles et individuelles basées sur les cotisations volontaires des individus. Le nombre d'individus couverts par les véhicules de placements dans ces deux piliers continue de croître (respectivement 85% et 68% de la population active couverte). Les véhicules de placements du pilier 2 sont gérés par des IRP ou des sociétés d'assurance. Les Belges ont accès à fonds d'investissement et à des produits d'assurance dans le cadre du pilier 3.

Sur une période de 25 ans (2000-2024), les fonds de pension gérés par les IRP (pilier 2) et les fonds d'épargne retraite (pilier 3) ont un rendement annualisé réel après charges de 1.4% et 0.9% respectivement.

Depuis 2016, le rendement garanti offert sur les nouvelles cotisations versées sur les contrats d'assurance groupe Branche 21 du pilier 2 ont été revus à la baisse et sont devenus en moyenne inférieurs à 3%. Le taux légal de rendement minimum garanti, calculé par Financial Services and Markets Authority (FSMA), s'élevait à 1,75% de 2016 à 2024. Ce taux a été relevé à 2,5% en 2025. En raison, du manque d'informations, il est plus difficile de fournir des informations détaillées et précises sur les rendements des contrats d'assurance vie groupe et assurance vie individuelle.

### Summary

The Belgian pension system is divided into three pillars. The first PAYG pillar is still important among the three pillar and provides on average a replacement rate of 60.9% in 2022. Pillar II and Pillar III are both based on voluntary contributions. Numbers of individuals covered by pillar II and pillar III pension schemes continue to grow rapidly. Respectively 85% and 68% of the active population is covered by these pillars. In both pillar II and pillar III, pension scheme can take the form of a pension fund (managed by an IORP in pillar II and by asset management companies in pillar III) or can be an insurance contract (*Assurance Groupe* contracts in pillar II and individual life-insurance contracts in pillar III).

Over a 25-year period (2000-2024), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) have an annualised real performance after charges of 1.4% and 0.9% respectively.

**Table 4.1 – Product categories analysed in Belgique**

Name	Product category	Pillar	Reporting period	
			Earliest data	Latest data
IORP		Occupational (II)	2000	2024
Assurance Groupe - Branch 21		Occupational (II)	2002	2023
Pension savings funds		Voluntary (III)	2000	2024
Personal pension insurance - Branch 21		Voluntary (III)	2002	2023

Since 2016, the average guaranteed return on *Assurance Groupe* Branch 21 contracts decreased and became on average slightly under 3%. The legal minimum guaranteed rate of return, calculated by FSMA, was 1.75% from 2016 to 2024. This rate has been risen to 2.5% from January 1st, 2025. Due to a lack of information, it is more difficult to provide return information on *Assurance Groupe* contracts and on individual life-insurance contracts subscribed in the framework of pillar III.

## 4.1 Introduction: The Belgian pension system

There are four types of vehicles for old age provision within the second and third Belgium pillars: pension funds managed by IORPs, *Assurance groupe* contracts within the second pillar and pension savings plans and long-term insurance products within the third pillar.

In the second pillar, pension savings plans managed by IORPs and those managed by asset management companies have similarities, notably in terms of returns. Their performance remains positive over the whole period from 2000 to 2024, with an annualised real return (after charges and before tax) of 1.55% and 0.9% respectively. These pension vehicles experienced 7 years of negative returns during the whole period (2000, 2001, 2022, 2008, 2011, 2018 and 2022).

There is little information regarding *Assurance Groupe* contracts and long-term insurance products within the third pillar. For the whole period (2002-2023) for which the data is available, *Assurance Groupe* Branch 21 offered an annualised net return of 4.17%. Individual life-insurance Branch 21 contracts offered an annualised net return of 3.63%. It is more difficult to obtain detailed information on return of Branch 23 contracts within the pillar II and III.

The annualised nominal, net, and real net rates of returns for the Belgium retirement provision vehicles are summarised in Table 4.1 are based on different holding periods: 1 year, 3 years, 5 years, 7 years, 10 years and since inception (2000 for pension funds and 2002 for insurance products).

### 4.1.1 Pension system in Belgium: An overview

#### **Pillar I – State pension**

The Belgian Pillar I is organised as a PAYG pension system consisting of three regimes: a regime for employees in the private sector, one for the self-employed

**Table 4.2 – Annualised net return of Belgian pension savings vehicles (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	W repo p
IORP	4.2%	-4.3%	-1.3%	0.2%	1.0%	
Assurance Groupe - Branch 21	1.4%	-2.9%	-0.7%	-0.1%	1.0%	
Pension savings funds	-1.7%	-6.5%	-2.7%	-1.6%	0.0%	
Personal pension insurance - Branch 21	-5.1%	-5.4%	-2.1%	-1.2%	0.1%	

*Data:* PensioPlus, National Bank of Belgium, BeAma, Funds' annual reports, Assuralia, Eurostat; *Calculations:* B

individuals and one for civil servants. The legal retirement age is 65 for both women and men. It used to be 60 for women until 1993 but was progressively increased to reach 65 in 2010. The Act of August 10th, 2015 increases the retirement age imposed by law to the age of 66 by 2025 and 67 by 2030. Pillar I pensions are PAYG systems based on career duration and income earned. A complete career equals to 45 working-years. The calculation of the retirement pension depends on the individual's status, his/her career and his/her salary earned throughout his/her career. The amounts can therefore vary greatly from person to person. In 2022, the net replacement rate from the PAYG system for both men and women (with an average working wage) was 60.9%.

During the summer of 2025, the government has announced new measures that will gradually come into force as part of the pension reform, known as the 'Arizona' reform. Two main measures will be enter in force :

1. A Bonus–Malus System :

- From January 1st, 2026, each year worked beyond the legal retirement age will earn a bonus, while early retirement leads to a penalty (malus).
- Bonus rates:
  - 2% per year after legal retirement age.
  - 4% per year between 2030 and 2035.
  - 5% per year from 2035 onward.
- A malus applies if you retire early without meeting strict career requirements (e.g. 42 years of work with at least 35 years of 156 effective workdays per year, totalling at least 7020 days).

2. A stricter definition of a “Year of Career” and limitations on assimilated periods

- A year of career now requires 156 days of actual work (up from 104 days)
- “Assimilated periods” (such as illness, parental leave, or unemployment) will be considered only up to a certain threshold in pension calculations:
  - starting in 2027, only up to 40% of one's career can be assimilated periods.
  - this threshold will decrease by 5% annually, reaching 20% by 2031.

## Pillar II — Funded pensions

Occupational pension plans are private and voluntary. This pillar exists for both employees and self-employed individuals. Employees can subscribe to occupational pension plans provided either by their employer (company pension plans) or by their sector of activity (sector pension plans). Company pension plans are traditionally dominant in the second pillar in comparison to sector pension plans. Self-employed individuals can decide for themselves to take part in supplementary pension plans.

An employer can set up a company pension plan for all its employees, for a group of employees or even for a single employee. In the case of sector pension plans, collective bargaining agreements (CBAs) set up the terms and conditions of pension coverage. Employers must join sector pension plans, unless labour agreements allow them to opt out. Employers who decide to opt out have the obligation to implement another plan providing benefits at least equal to those offered by the sector.

Company and sector pension plans can be considered as social pension plans when they offer a clause with solidarity benefits that provides employees with additional coverage for periods of inactivity (e.g. unemployment, maternity leave, illness). "Social pension plans" are becoming less and less prevalent, possibly because of the relatively high charges associated with these plans in comparison to pension plans without a solidarity clause.

Occupational pension plans are managed either by an IORP or by an insurance company. Insurance companies predominantly manage them.

The Supplementary Pensions Act reform entered into force as of January 1st, 2016. It amended the Act of August 10th, 2015, 2015 by introducing the alignment of the supplementary pension age and the legal pension age (respectively 65, 66 in 2025 and 67 in 2030). Supplementary pension benefits will be paid at the same time as the legal pension's effective start. Previously, some occupational pension plans allowed early liquidation: lump sum payments or annuities from supplementary pension could be paid from the age of 60. Conversely, employees who decide to postpone their effective retirement when having reached the legal pension age, have the possibility to claim their supplementary pension or to continue to be affiliated to the pension scheme until their effective retirement.

Moreover, many supplementary pension plans provided financial compensations to offset the income loss employees may encounter when they end prematurely their career. As of January 1st, 2016, all these existing beneficial anticipation measures were abolished. Affiliates who reached the age of 55 years on December 31st, 2016 or before can still benefit from these existing measures.

At January 1st, 2023, approximately 4470 million Belgians (85% of the active population) were covered by occupational pension plans (Autorité des Services et Marchés Financiers [FSMA], 2024a): <sup>1</sup>

- 3830 million employees were covered either by their company or by their sector

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<sup>1</sup>Data presented in this publication were provided by the DB2P who manages the supplementary pensions database. It collects data related to supplementary pension plans such as individualised acquired pension rights of employees, self-employed individuals, and civil servants.

**Table 4.3 – Overview of the Belgian pension system**

- of activity;
- 338 082 self-employed individuals were covered by supplementary pension plans:
- 302 228 individuals were covered both by their company or by their sector of activity and by a supplementary pension plan dedicated to self-employed.

The number of Belgian citizens covered by occupational pension plans increased by 3% between 2023 and 2024.

### **Pillar III – Voluntary pension**

The third pillar regroups individual private and voluntary pension products, which allow individuals to have tax reliefs from their contributions. There are two types of available products for subscription: pension savings funds managed either by banks or asset management companies and long-term savings products managed by insurance companies. This pillar is significant in Belgium when compared to other EU member states. The tax rate applied to accrued benefits from pension savings products (funds or insurance) was lowered from 10% to 8% in 2015, in order to encourage savings in third pillar products.<sup>2</sup> The third pillar covered more than two thirds of the active population of Belgium, with 34% of workers subscribing to a life insurance retirement savings product (1.7 million Belgians) and 35.4% being covered by pension savings funds (1.8 million Belgians).

## **4.2 Long-term and pension savings vehicles in Belgium**

AuM in Belgium pension savings vehicles amounted to EUR 179.1 billion in 2023. Figure 4.1 represents the breakdown of assets under management of the different pension vehicles in Belgium from 2004 to 2023.

In 2023, 68.8% of AuM were managed in the framework of the second pillar (EUR billion). Assurance Groupe contracts remained predominant within the second pillar and represented 65.5% of outstanding amounts managed (EUR 81 billion). AuM in IORPs amounted to EUR 42.2 billion.

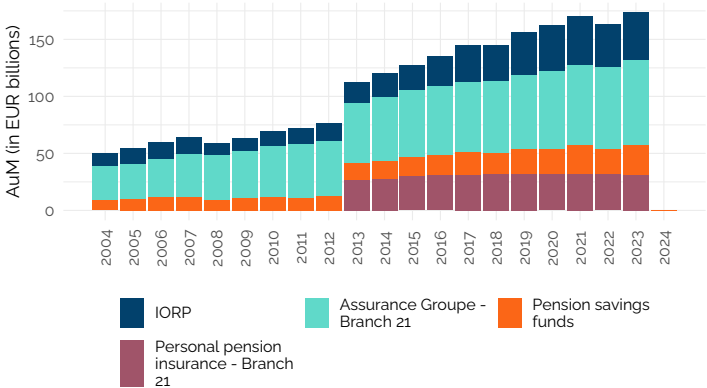
In the third pillar, pension vehicles are also managed either by a pension fund or by an insurance company. The share of pension savings funds represented 44.2% of asset under management within the third pillar in 2023.

Outstanding amounts of long-term pension savings, managed by insurance companies, amounted EUR 31.2 billion and represented 20% of individual life insurance outstanding amounts in 2023.

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<sup>2</sup>Data presented in this publication were provided by the DB2P who manages the supplementary pensions database. It collects data related to supplementary pension plans such as individualised acquired pension rights of employees, self-employed individuals, and civil servants.

**Figure 4.1 – AuM of Belgian pension savings vehicles (in bln EUR)**



Data: FSMA, National Bank of Belgium, BeAma, Assuralia; Calculations: BETTER FINANCE.

## 4.2.1 Second pillar: Occupational pension funds

The second pillar refers to occupational pension plans designed to raise the replacement rate. Savings in these plans are encouraged by tax incentives. This is based on the capitalisation principle: pension amounts result from the capitalisation of contributions paid by the employer and/or employee or by self-employed individuals in a pension vehicle. There are four types of occupational pension plans, managed by two kinds of financial intermediaries (IORPs and insurance companies):

- Company pension plans;
- Sector pension plans (CBAs);
- Pension Libre Complémentaire pour Indépendants (PLCI), Pension Libre Complémentaire pour Directeurs d'Entreprises (PLCDE) and Pension Libre Complémentaire pour les Indépendants Personnes Physiques (PLCIPP), that is, supplementary pension plans for self-employed individuals, company directors and an additional pension agreement for self-employed as individuals;
- Pension Libre Complémentaire pour Salariés (PLCS), that is, supplementary pension plan for employees.

The FSMA annually reports detailed information on institutions for occupational retirement provisions (IORPs, the EU law term for non-insurance regulated occupational pension products provider)<sup>3</sup>. Every two years, the FSMA also reports detailed information for all the other existing pension products within the second pillar.

### Management of occupational pension plans

The management of occupational pension plans can be entrusted to an IORP or to an insurance company for Branch 21 and Branch 23 contracts.

**Institutions for Occupational Retirement Provision (IORPs)** IORPs are asset management companies set up with the sole purpose of providing occupational retirement savings products under the form of investment funds, which can either be directly invested, through tailor-made portfolios, or which can be linked to other funds' units (unit-linked).

FSMA reported the following data on IORPs in 2023 (as of January 1st, 2024):

- 145 occupational pension plans were managed by an IORP.
- Number of affiliates to IORPs increased to 2 514 661 against 2 409 231 in 2022.
- Based on the amount of reserves managed out of the total in Pillar II, IORPs had a market share of 34%, the rest being managed by insurance companies through Branch 21 and Branch 23 contracts.

**Assurance Groupe (Branch 21 and Branch 23 contracts):** Occupational pension plans are predominantly managed by insurance companies. Such pension plans are called *Assurance Groupe* contracts and can be divided into two different types of contracts.

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<sup>3</sup>Article 6(1) of Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (recast), O.J. L354/37.

First, *Branch 21* contracts are occupational plans, offering a guaranteed return on contributions made by employers and employees. From 2016, FSMA calculates and publishes each year, the rate applicable to the calculation of the minimum return guaranteed. Since 2016, this rate was set at 1.75% and remained unchanged. From January 1st, 2025, it increased to 2.50% (for more information see Section 4.5.1). The insurance companies who provide these contracts bear the risk and pay the guaranteed return in addition to a profit-sharing. All sector pension plans and all supplementary pension plans for self-employed individuals managed by insurance companies take the form of *Branch 21* contracts. Most of company pension plans are also managed through *Branch 21* contracts rather than *Branch 23* contracts.

Second, *Branch 23* contracts are unit-linked contracts and are invested mainly in investment funds and equity markets. Insurance companies do not offer a guaranteed return on contributions made into the plan. Their total returns depend on their portfolio composition. However, affiliates to Branch 23 contracts benefits from the legal minimum guaranteed return, which is the same to that of Branch 21 contracts (1.75% from 2016 and 2.50% from 2025). In case of a shortfall on the individual account when paying a benefit or a transfer of reserves, the employer must pay the difference. This kind of occupational plans are riskier for employers who bear the risk and are generally costlier.

In the second pillar, some company pension plans and some PLCI are managed through Branch 23 contracts. Reserves managed in Branch 23 contracts amounted EUR 7 billion in 2023, representing 9.5% of the total outstanding amounts managed within Assurance Groupe contracts (see Table 4.4).

### **Description of occupational pension plans**

The following sub-sections has be updated this year, thanks to FSMA's bi-annual publications which include detailed information on the different types of occupational plans. The following information and figures reported were provided as of January 1st, 2024, and were extracted from FSMA's bi-annual reports published in 2025. (FSMA, 2025b) The different occupational pension plans are described by increasing market share in terms of individuals' accrued reserves.

**Company pension plans (EUR 65.6 billion)** Company pension plans are prevalent within the second pillar:

- The total individuals' accrued reserves amounted to EUR 65.6 billion against 59.5 at end-2021 and 53 billion at end-2019 75% of these reserves were managed by 18 insurance companies through Assurance Groupe Branch 21 or 23 contract (EUR 49.1 billion) and 25% were managed by 107 IORPs (EUR 16.5 billion).
- 2 327 442 employees were affiliated to a company pension plan. This is an increase of 9.5% from January 1st, 2022. The total number of employers that had set up one or more pension plans under a company pension scheme stood at 63 010 (4% more than on January 1st, 2022).
- The total number of employers who implemented a collective pension commitment for the benefit of their workers was 63 010. This is an increase of

**Table 4.4 – Total balance sheet managed in pillar II (in EUR bln.)**

Year	IORP (1)	Assurance Groupe - Branch 21 (2)	Assurance Groupe - Branch 23 (3)	Total Assurance Groupe (2+3)	Total Pillar 2 (1+2+3)
2004	11.7	29.9	—	—	41.6
2005	13.4	30.6	1.6	32.2	45.6
2006	14.3	33.5	1.7	35.2	49.5
2007	14.9	37.3	1.7	39.0	53.9
2008	11.1	39.0	1.4	40.5	51.6
2009	11.2	41.1	1.8	42.9	54.1
2010	13.9	44.1	1.8	45.9	59.8
2011	14.0	46.7	1.6	48.3	62.3
2012	16.4	47.9	1.7	49.6	66.0
2013	18.0	52.7	1.9	54.6	72.6
2014	20.7	55.8	2.1	57.9	78.6
2015	21.9	58.9	2.1	61.1	83.0
2016	26.8	60.2	2.4	62.6	89.4
2017	32.0	62.0	3.2	65.2	97.2
2018	31.4	63.7	3.7	67.4	98.8
2019	36.9	65.7	4.7	70.4	107.3
2020	39.7	68.4	5.2	73.6	113.3
2021	43.2	69.3	6.0	75.4	118.6
2022	37.0	72.3	5.5	77.8	114.8
2023	42.2	74.0	7.0	81.0	123.2

*Data: FSMA, National Bank of Belgium (NBB).*

4.7% compared to January 1st, 2022, when 60 160 employers set up a pension scheme (with one or more pension commitments). The number of company pension plans increased to 130 436, against 123 454 in 2021, representing an increase of 4.9% in two years.

### **Private Supplementary Pensions for Company Director (PLCDE) (EUR 21.3 billion)**

The Private Supplementary Pension for Company Director is a tripartite relation between the company (the organizer), who can implement a pension commitment for the benefit of its director(s) and the commitment is managed by a pension organisation (either insurance companies or IORPs). FSMA provides the following data on PLCDE at January 1st, 2024 (FSMA, 2025a):

- 251 762 directors were affiliated to a PLCDE, against 246 227 in 2021. This is an increase of 2.2% from January 1st, 2022.
- The total number of organisers who implemented an individual or collective pension commitment for the benefit of its director(s) was 232 137, against 223 913 at end-2021. This represented an increase of 3.7% from January 1st, 2022.
- The total number of commitments dedicated to Director increased and reached 350 698, against 343 487. Most of commitments were DC (95%) and were dedicated for only one affiliate (98%).
- The management of the pension commitments were managed quasi-exclusively by insurance companies (99.8%).
- Total individuals' accrued reserves amounted to EUR 21.3 billion and the contributions amounted to 1.05 billion euros. These reserves decreased by 0.4% when compared to January 1st, 2022.

### **Private Supplementary Pensions for self-employed individuals (PLCI) (EUR 11 billion)**

In 2004, PLCIs—Private Supplementary Pensions for self-employed individuals—were integrated into the Supplementary Pensions Act. PLCIs enable self-employed individuals to get a supplementary and/or a survival pension at their retirement. Since 2004, self-employed individuals have the choice to contribute to supplementary pension plans. Moreover, they can henceforth choose the pension provider, either an IORP or an insurance company. They can switch from one provider to another during the accumulation period. Self-employed individuals can save up to 8.17% of their income, without exceeding a maximum annually indexed amount (EUR 4000.44 in 2025). These ceilings can be increased up to 9.40% and EUR 4602.71 when a social convention is subscribed. FSMA provided the following information at January 1st, 2024:

- 551 962 self-employed individuals were covered by supplementary pension plans (PLCI convention).
- Total individuals' accrued reserves amounted to EUR 11.1 billion, which increased by 12.5% since January 1st, 2022. 94.1% of PLCI conventions were managed by insurance companies, predominantly by Branch 21 contracts.

Self-employed individuals can also supplement their PLCI with several solidarity benefits, called social conventions (Institut National d'Assurance Maladie-Invalidité (INAMI) convention). Around a third of self-employed individuals who were affiliated to PLCI convention, were affiliated to a social convention at January 1st, 2024. These conventions offer benefits such as the funding of the PLCI in the case of inactivity and/or the payment of an annuity in the case of income loss.

**Sector pension plans (EUR 6 billion) [^cc\_belgium-4]** Sector pension plans are supplementary pension commitments set up on collective bargaining agreements and concluded by a joint committee or sub joint committee. In the joint committee/sub-committee, a sectoral organiser responsible for the pension commitment is appointed. At January 1st, 2024, FSMA provides the following information:

- 55 joint or sub joint committees offered occupational pension schemes to employees. No new pension schemes came into effect since 2022. In certain sector groups, such as distribution, textiles, and business services, sector pension schemes had still been introduced to a limited extent or not at all in 2023. The number of employees covered by a sector pension plan reached 2 570 149, which represents an increase of 10% when compared to January 1st, 2022.
- There are 52 sector pension schemes available for subscription. The total individuals' accrued reserves amounted to EUR 6billion. It represents an increase of around 30% over the last six years. More than half (58%)of these reserves were managed by 10 IORPs (EUR 3.5 billion) and a third by 7 insurance companies through Assurance Groupe Branch 21 or 23 contracts (EUR 2.5billion).

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**Convention for self-employed as individuals (PLCIPP) (EUR 208 million)** Since July 1st, 2018, self-employed individuals without a company, can subscribe a pension agreement for self-employed individual PLCIPP, whether combined or not with a PLCI. FSMA provides information on this new type of pension agreement at January 1st, 2024:

- There were 7134 pension agreements which covered 6994 self-employed individuals. The number of individuals covered by a PLCIPP increased by 6% when compared to January 1st, 2022.
- The total individuals' accrued reserves amounted to 208 million euros. 54.2% of reserves are managed by Branch 21 contracts, 32.7% by combined Branch 21 / Branch 23 contracts, 6.3% by Branch 23 contracts and 6.8% by IORPs
- The total amount of contributions amounted to 34.7 million euros in 2023. Contributions decreased by 26% compared to 2021.

**Supplementary pension for employees (PLCS) (EUR 2.1 million)** Until March 2019, an employee could constitute an additional pension only if there is a pension plan within the company or the sector of activity which employs him/her. The legislator introduced a new form of pension constitution for employees on March 27th, 2019. If

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<sup>4</sup>All data provided comes from plans for which information is available.

the employee does not constitute a supplementary pension with his/her employer or within his/her sector of activity, or if it is low, the employee can take the initiative to constitute an additional pension (PLCS). This supplementary pension has a limited success in terms of covered population, even if the total reserves increased significantly. FSMA published data as of January 1st, 2024:

- There were 1354 pension agreements which covered 1340 employees. The number of employees covered by a PLCS increased by 20% by two years. Most employees constituting pension rights under the PLCS signed only one agreement.
- The total accrued reserves amounted to EUR 4.3 million (against EUR 2.1 million as of January 1st, 2022).
- These pension agreements are managed by three insurance companies. 78% of reserves are managed by combined Branch 21/Branch 23 contracts and 13% by Branch 21 contracts and 9% by Branch 23 contracts.

#### 4.2.2 Third pillar: pension savings products and long-term savings products (individual life insurance products)

The third pillar provides Belgians with individual private and voluntary pension products, which allow them to have tax reliefs from their contributions. Two types of products are available for subscription:

- Pension saving funds managed by asset management companies,
- Pension savings insurance (Branch 21 contracts) and long-term savings products (combined Branch 21 and Branch 23 contracts or only Branch 23 contracts) managed by insurance companies.

The third pillar is significant in Belgium when compared to other European Union member states. The tax rate applied to accrued benefits from pension savings products (funds or insurance) was lowered from 10% to 8% in 2015, in order to encourage savings in the framework of this pillar.<sup>5</sup> The third pillar covered more than two thirds of the active population of Belgium, with 34% of workers subscribing to a life insurance retirement savings product (1.7 million Belgians) and 35.4% being covered by pension savings funds (1.8 million Belgians).

The Belgian pension savings funds market remains relatively concentrated since the launch of the first funds in 1987. The market grew significantly in the past few years. 21 products (18 UCITSs and 3 Alternative Investment Funds (AIFs) were available for subscription at end-2024. The net assets under management reached EUR 26.2 billion (+6% over a year). The net sales remained high and amounted to EUR 47 million in 2024.

### 4.3 Charges

Information regarding costs applied to occupational pension funds in Belgium is only provided by FSMA in its biannual reports on the various products available for employees and self-employed individuals. FSMA provides information on management

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<sup>5</sup>The lowering of the tax rate does not apply to long-term savings products.

**Table 4.5 – AuM in Belgian Pillar III pension savings products  
(in EUR bln.)**

Year	Net AuM in pension savings funds	Reserves managed in long-term pension products
2003	7.4	—
2004	8.7	—
2005	10.3	—
2006	11.5	—
2007	11.8	—
2008	9.0	—
2009	11.1	—
2010	12.0	—
2011	11.2	—
2012	12.6	—
2013	14.4	27.0
2014	15.6	27.9
2015	16.9	29.8
2016	18.0	30.6
2017	19.6	31.3
2018	18.2	31.7
2019	21.3	32.0
2020	22.3	31.5
2021	25.6	31.8
2022	22.1	31.5
2023	24.7	31.2
2024	26.1	—

*Data: BEAMA, Assuralia.*

**Table 4.6 – Costs of Belgian IORPs**

Year	Admin. and mgt. fees
2010	0.16%
2011	0.17%
2012	0.19%
2013	0.16%
2014	0.14%
2015	0.15%
2016	0.15%
2017	0.13%
2018	0.15%
2019	0.14%
2020	0.18%
2021	0.15%
2022	0.21%
2023	0.21%

*Data:* Funds' annual reports; *Calculations:* BETTER FINANCE; *Note:* Average fees of sectoral plans managed by IORPs.

fees. There is no information regarding other costs and charges like entry fees. Asuralia provides some information on the administration and management fees and fees on commissions.

For the first time, FSMA published a report on the costs within the second and the third pillars (see FSMA, 2024b) in 2024. All data in this publication was reported for the whole year 2020. FSMA has published the update of this study for the whole year 2022.

### 4.3.1 Charges of Pillar II products: Few data available

#### **Charges in IORPs**

There is no general data or available information on IORP charges. The only available information was for sector pension funds managed by IORPs (FSMA, 2025b): Total operating expenses reached 0.21% of reserves in 2023 (see Table 4.6)

In the reporting for the year 2022, the breakdown between management fees and financial expenses is no longer available. Average weighted total fees of total provisions was 0.51%, with disparities depending on the type of pension Fees ranged between 0.45% for company pension funds and 1.29% for convention for self-employed as individuals (PLCIPP).

**Table 4.7 – Costs of Belgian assurance Groupe - Branch 21**

Year	Acquisition fees <sup>*</sup>	Admin. and mgt. fees
2002	1.20%	1.21%
2003	1.30%	0.98%
2004	1.20%	0.84%
2005	1.40%	0.93%
2006	1.20%	0.90%
2007	1.40%	0.80%
2008	1.50%	0.83%
2009	1.30%	0.79%
2010	1.50%	0.72%
2011	1.50%	0.71%
2012	1.50%	0.71%
2013	1.50%	0.69%
2014	1.60%	0.68%
2015	1.60%	0.62%
2016	1.60%	0.60%
2017	1.80%	0.59%
2018	1.40%	0.59%
2019	1.50%	0.57%
2020	1.50%	0.57%
2021	1.30%	0.57%
2022	1.20%	0.59%
2023	1.20%	0.65%

*Data:* Assuralia; *Calculations:* BETTER FINANCE.

### **Charges in “Assurance Groupe” (Branch 21 contracts)**

The only historical information on administration and management costs as well as commissions on a yearly basis is for Assurance Groupe contracts (Branch 21), reported by Assuralia (see Table 4.7).

In 2022, FSMA reported average weighted entry fees were 2.95% for Branch 21 contracts and 1.98% for Branch 23 contracts and the weighted average current costs were respectively 0.05% and 2.02%. In Branch 23 Group Insurances (Assurance Groupe), charges can be higher: in addition to contract fees other fees related to underlying “units” (typically investment funds) may apply.

### **4.3.2 Charges of Pillar III products: More transparent than Pillar II products**

#### **Pension savings funds**

Historical data on charges for pension savings funds is difficult to obtain for investors. KIDs must provide investors with information on all charges related to the funds on a yearly basis, but for UCITSs only, not for other investment funds.

**Table 4.8 – Costs of Belgian pension savings funds**

Year	Entry fees	Admin. and mgt. fees	Total Expense Ratio
2013	2.20%	1.00%	1.23%
2014	2.20%	1.00%	1.24%
2015	2.20%	1.00%	1.29%
2016	2.81%	0.93%	1.26%
2017	2.21%	0.94%	1.26%
2018	2.32%	0.93%	1.24%
2019	2.37%	0.95%	1.28%
2020	2.38%	0.95%	1.28%
2021	2.29%	0.95%	1.29%
2022	2.24%	1.02%	1.38%
2023	2.24%	1.04%	1.37%
2024	2.30%	1.06%	1.35%

*Data:* Funds' annual reports; *Calculations:* BETTER FINANCE.

Using the prospectus of the 23<sup>6</sup> available pension savings funds for subscription in the Belgian market, the following average yearly charges were calculated in 2024:

- Entry fees: 2.30% of initial investment;
- Management fees: 1.06% of AuM;
- Total Expenses Ratio represented on average 1.35% of AuM;
- No exit fees.

Table 4.8 summarises the TER of 23 available funds for subscription in the Belgium market since 2013. Charges remained quite stable in 2024 when compared to previous years. One could notice that information regarding costs were more detailed in KIDs or factsheets available on providers' website, with more information on how the different costs impact the return of investments depending on duration. There is much information on the different type of costs.

#### **Pension savings insurance (Branch 21 contracts) / Long-term savings products (Branch 21 and Branch 23 contracts combined)**

Assuralia provides us with historical data on administration and management costs as well as entry fees and other commissions paid for individual life insurance contracts. Data, for Branch 23 individual life insurance contracts, most likely do not include fees charged on the underlying units (investment funds).

FSMA reported average weighted entry fees of 6.05% for Branch 21 and of 2.78% for Branch 23 contracts in 2022. Average weighted current costs were lower than entry fees and represented 0.07% of provisions for Branch 21 contracts and 2.28% of provisions for Branch 23 contracts.

<sup>6</sup>Two new savings pension funds were launched in 2024 and available for subscription.

**Table 4.9 – Costs of Belgian personal pension insurance - Branch 21**

Year	Acquisition fees <sup>*</sup>	Admin. and mgt. fees
2002	3.65%	1.20%
2003	3.35%	1.80%
2004	3.15%	1.40%
2005	2.65%	0.50%
2006	4.05%	0.50%
2007	4.40%	0.45%
2008	5.40%	0.55%
2009	5.70%	0.45%
2010	5.25%	0.40%
2011	5.30%	0.40%
2012	4.75%	0.40%
2013	6.80%	0.45%
2014	6.50%	0.50%
2015	7.00%	0.45%
2016	6.85%	0.45%
2017	7.10%	0.50%
2018	6.90%	0.50%
2019	6.85%	0.45%
2020	7.50%	0.45%
2021	7.80%	0.50%
2022	7.60%	0.54%
2023	7.10%	0.61%

*Data:* Assuralia; *Calculations:* BETTER FINANCE.

**Table 4.10 – Taxation of benefits from occupational pension plans**

## 4.4 Taxation

### 4.4.1 Taxation of occupational pension plans (pillar II)

Regarding the second pillar in Belgium, the tax regime for the whole saving period is an EET model. Employees are not taxed during the first two phases that constitute the process of savings via a pension scheme: contribution and accrued interests are not taxed. Employees are taxed during the third phase on the benefits' payment.

Employees pay two taxes on their benefits:

- A solidarity contribution varying up to a maximum of 2% of the benefits depending on the retiree's income;
- INAMI contribution of 3.55% of the benefits.

In addition, benefits from occupational pension plans are taxed depending on how they are paid out:

- A lump sum payment;
- Periodic annuities;
- A life annuity issued from invested benefits.

#### **Lump sum payment**

In the case of a lump sum payment, the taxation of benefits depends on the beneficiary's age and who contributed to the plans (employer or employee). Since July 2013, the rules detailed in Table 4.10 are applied to taxation on benefits from occupational pension plans. Before July 2013, benefits from employer's contributions were taxed at the flat rate of 16.5% regardless the beneficiary's age at the time of the payment of the benefits. The local tax can vary from 0% to 10%, with an average of 7%.

#### **Periodic annuities**

Periodic annuities are considered as an income and are taxed at the applicable progressive personal income tax rate.

#### **Converting the accumulated capital into a life annuity**

An employee can convert the lump sum payment into a life annuity. In this case, the INAMI contribution and the solidarity contribution must be paid according to the rules applied to the lump sum payment. Then the retiree must pay a withholding tax of 15% on the annuity each year.

**Table 4.11 – Taxation of pension savings products (funds and insurance)**

#### 4.4.2 Taxation of Personal pension savings products (pillar III)

Regarding the third pillar in Belgium, the tax regime for the whole saving period is an EET model with a limited ceiling on contributions during the first phase for pension savings products and with a limited ceiling on the maximum tax benefit depending on the level of the saver's yearly earnings for long-term savings products (see below and Table 4.11).

##### **Tax relief on contributions during the accumulation phase:**

From 2012 to 2018, a tax relief rate equal to 30% of the contributions was applied, regardless of the taxpayer's income. In 2018, to further promote contributions into pension savings products (fund or life-insurance contracts), a two - tax relief system was introduced. The amount of the individual contribution determines the tax relief, depending on two annual ceilings. Despite high inflation, the two ceilings on contributions to benefit from tax relief was frozen from 2020 to 2023. They increased in 2024 and 2025. Individuals can make contributions into pension savings products up to these two annual ceilings in 2025:

- For any contribution less or equal to EUR 1050, individuals can still benefit from a 30% tax relief rate. This may result in a maximum tax relief of EUR 315 per year.
- If the individual chooses to save above EUR 1050 and informs the provider of the product, he/she can benefit from a tax relief rate equal to 25%. The maximum contribution cannot exceed EUR 1350, with a maximum tax-relief of EUR 337.5. This tax relief rate is more advantageous only if the individual saves at least EUR 1260. Otherwise, the individual will benefit from a smaller tax advantage than if he/she opts for the first ceiling.

The tax relief of pension savings products is "stand-alone." Taxpayers can claim tax relief for only one contract even if they make contributions to several products.

#### 4.4.3 Final taxation on the accumulated pension rights:

Since January 1st, 2015, the final taxation on the accumulated capital was lowered from 10% to 8% and still depends on the beneficiary's age at the time of the subscription. From 2015 onwards, a part of the taxation is levied in advance (except in case of early retirement before the age of 60). From 2015 to 2019, the pension reserves (per December 31st, 2014) were subject to a tax of 1% each year, which constituted an advance on the final tax due.

As of January 1st, 2026, Belgium will introduce a 10% tax on capital gains from financial assets. The tax will apply to realised gains only, with the value of assets as of December 31st, 2025 serving as the reference point. An annual exemption of EUR 10 000 will apply, with limited carry-forward options available. Retirement savings products within pillars 2 and 3 will be exempt from this tax.

## 4.5 Performance of Belgian long-term and pension savings

### 4.5.1 Real net returns of Belgian long-term and pension savings

The evolution of inflation in Belgium used to follow the evolution of inflation in the EU. As in all European countries, the inflation started to increase in 2021 in Belgium, with the outbreak of the war between Ukraine and Russia and the increase in energy prices. The inflation continued to rise and sky-rocketed and became higher than the average EU inflation in 2021 (6.59% against 5.31%). It reached a similar level in 2022 (10.21% against 10.39%). In 2023, the inflation rate declined to reach 0.5%, thanks to a decrease in energy prices. In 2024, rising energy prices fuelled inflation in Belgium, which was higher than inflation in EU.

#### **Pillar II: IORPs and Assurances Groupe contracts**

The returns of occupational pension plans depend on how they are managed, either by an IORP or by an insurance company. From 2004 to 2015, all DC plans managed either by IORPs or insurance companies through Branch 21 contracts were required to provide an annual minimum return of 3.75% on employees' contributions and 3.25% on employers' contributions. The Supplementary Pensions Act reform entered into force as of January 1st, 2016, to ensure the sustainability and social character of the supplementary pensions. The level of the minimum guaranteed return for both employer and employee contribution is set each year according to economic rules considering the evolution of government bond yields in the future:

- the new guaranteed return must be within the range of 1.75% to 3.75%;
- the new guaranteed return represents 65% of the average of 10-year government bonds rates over 24 months, rounded to the nearest 25 basis points to prevent it from fluctuating too frequently.

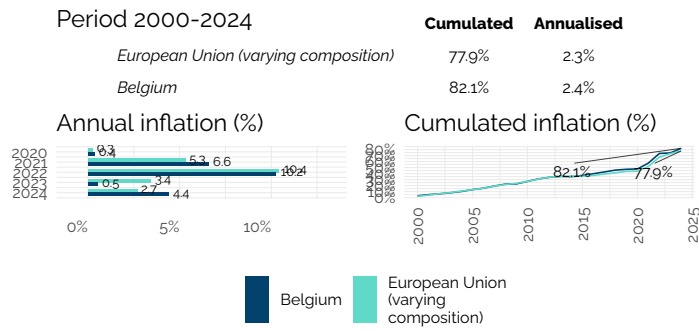
In addition, the alignment of the supplementary pension age and the legal pension age (respectively 65, 66 in 2025 and 67 in 2030) may affect negatively the minimum guaranteed return offered to employees. When the affiliate reaches the age of 60, his/her occupational pension plan is extended until he/she reaches the age of 65. During the extension period, employers and pension product providers have to agree on the rules to apply in terms of the minimum guaranteed return.

**Occupational pension plans managed by IORPs** In 2023, among the 150 pension plans managed by an IORP<sup>7</sup>, 126 had a promise of returns (Defined benefits (DB)) or were hybrid plans (Cash Balance, DC+ rate), 24 were DC plans. While newly opened plans are always DC plans, a large part of assets are still managed in plans offering promises of returns.

PensioPlus, the Belgium's occupational pension plans association reported an average return of 8.79% in 2024. This represents the gross average weighted returns after

<sup>7</sup>The 150 pension plans include both IORPs for the first and second pillars

**Figure 4.2 – Inflation in Belgium**



Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

charges of occupational pension plans that participated in the annual financial and economic survey of PensioPlus in 2024.<sup>8</sup> PensioPlus reported the nominal and real net returns of IORP since 1985. These funds experienced 9 years of negative returns over 39 years.

Over a 25-year period (2000-2024), occupational pension plans managed by IORPs experienced negative nominal returns before charges five times: in 2001, 2002, 2008, 2018 and in 2022. Over this time-period, their annualised nominal and real net returns are positive, respectively 3.9% and 1.4%.

PensioPlus reported the average asset allocation of IORP at end-2024, as follows: 49.5% in fixed-income 35.9% in equities, , 4% in asset allocation funds, , 2.6% in cash, 2.2% in real estate and 5.8% in other asset classes. The proportion of fixed income assets still represented the largest part of assets and remained stable while the proportion of equities increased slightly. (see Figure 4.4).

In the second pillar, most of pension products are managed by insurance companies through Assurance Groupe Branch 21 contracts.

Assuralia used to reports net returns after charges in percentage of the total reserves of Assurance Groupe Branch 21 contracts in its annual report this report, until 2014.<sup>9</sup>

In 2025, FSMA reported some information on returns in its bi-annual report on sector pension, company pension and PLCS. It reported an average net return of 1.87% for sector pension funds managed through Assurance Groupe contracts in 2023 as in 2022 against 1.96 in 2021, 2.02% in 2020, 2.18 in 2019. [see@fsma2025pensioncomplementairesalaries]. The downward trend that has been observed for several years is confirmed. The same assessment is observed for PLCI conventions.

The minimum guaranteed return of PLCI varied between 0% and 4.75%. Some conventions subscribed before July 1st, 1999, offer a guaranteed return of 4.75% on past and future premiums. A self-employed individual who subscribes to a PLCI convention had on average a return of 2.2% on his/her contracts in 2023 (against 1.68% in 2022, 2.36% in 2021, 2.5% in 2019, 2.64% in 2017 and 2.75% in 2015). It corresponded to an average guaranteed return of 1.36% and a participation to benefits equal to 0.59%.

With the decline in the return on the Belgian 10-year government bonds since 2011, insurance companies were forced to decrease the guaranteed minimum return offered to new contributions on Assurance Groupe Branch 21 contracts. However, insurance companies continue to guarantee the previous returns on the past contributions until the retirement. Past reserves continue to have guaranteed returns range from 3.25% to 4.75%.

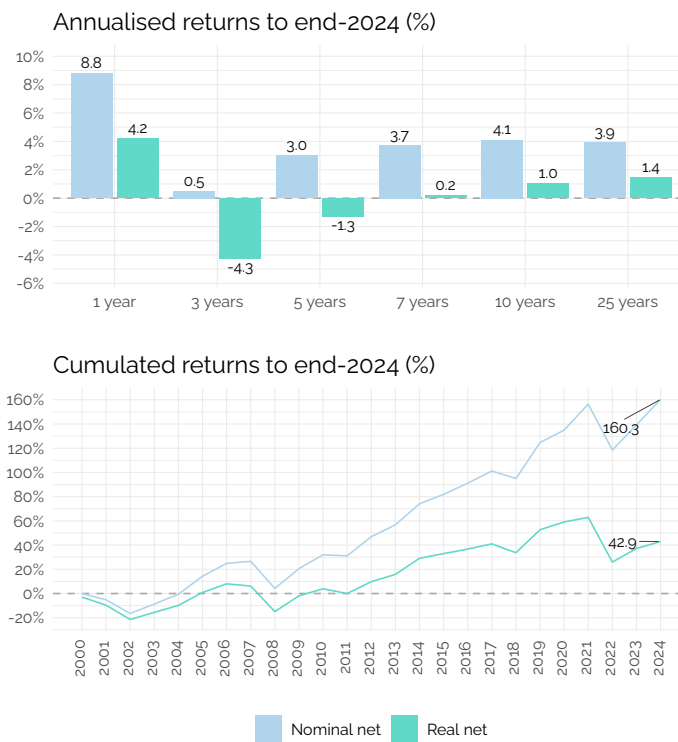
Since last year, we tried to compute returns of Assurance Groupe Branch 21 by using data provided by the National Bank of Belgium, who publishes statistics of direct life insurance operations in Belgium each year. We compute the ratio of financial remuneration received on investments made by insurance companies over their pro-

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<sup>8</sup>The participants to the annual Pensio's Plus survey represented 88% of the market share in terms of asset under management in 2024.

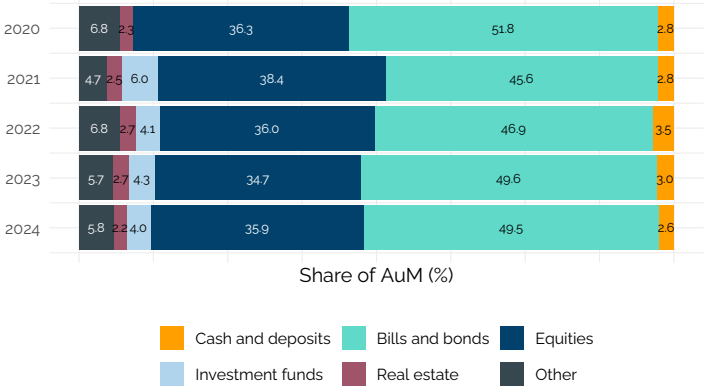
<sup>9</sup>In November 2024, Assuralia published its annual report including Statistics for the whole year 2023.

**Figure 4.3 – Returns of Belgian IORPs (before tax, % of AuM)**



*Data:* PensioPlus, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

**Figure 4.4 – Allocation of Belgian IORPs' assets**



Data: FSMA; Calculations: BETTER FINANCE.

visions. For the period 2007-2014, our results were very close to Assuralia's data. It gives an insight of how Assurance Groupe Branch 21 evolved over 2002-2023. (see Figure 4.5)

Over the period 2002-2023, the annualised net and real returns of Assurance Groupe Branch 21 contracts are positive, respectively 4.17% and 1.79%.

**Occupational pension plans managed by insurance companies (Branch 23 contracts)** Returns on Assurance Groupe Branch 23 contracts are variable and depend on the performance of underlying assets. These contracts experienced negative returns in 2011, 2018 and probably in 2022. Their net average returns are very close to those of occupational funds managed by IORP (around -4% in 2018). Since 2015, Assuralia no longer provides information on the returns of Assurance Groupe Branch 23 contracts.

Insurance companies do not offer guaranteed return on these contracts. However, affiliates benefit from the legal guaranteed minimum return on their contributions, which is currently equal to 1.75% since 2016 and until the end of 2024. From 2025, this rate increased to 2.5%. When the affiliate claims for its pension rights, if the final payment is less than the amount including the minimum guaranteed return, the employer must pay the difference.

### **Pillar III: Personal pension savings products (pension savings plans and long-term insurance products)**

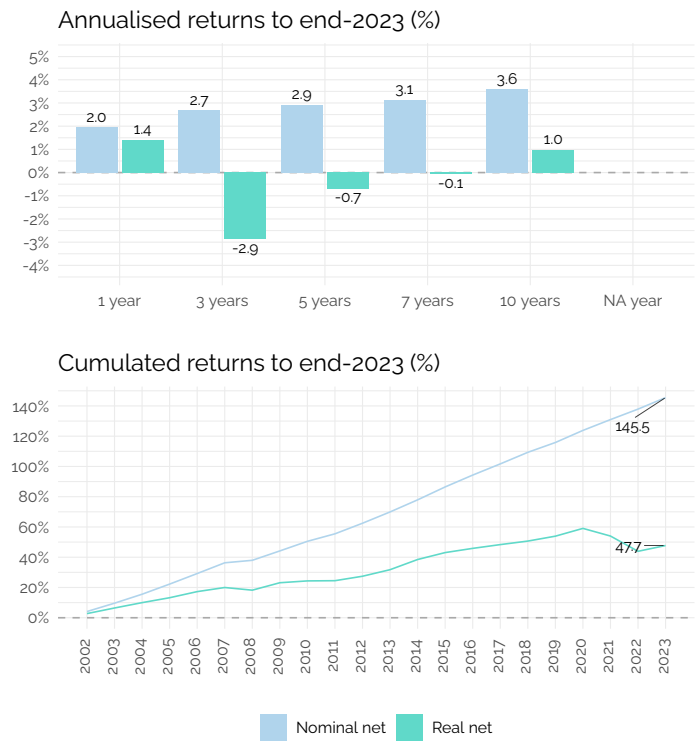
**Pension savings funds managed by asset management companies** The Belgian Asset Managers Association (BEAMA) provides quarterly data on pension savings funds. The most recent data regarding their returns was on an annual basis at end-2024. These average returns were calculated based on the average returns of all available funds in the market, after expenses but before taxation and inflation.

Annual returns are also available in the prospectus of each pension savings fund provided by the asset management company that commercialises the fund. In general, there is no available information on returns before 2002 in the fund prospectuses. The following figures (see Figure 4.6) show the average returns of all available funds for subscription in the Belgian market from 2000 to 2024. Pension savings plans and pension plans managed by IORPs have a performance that evolved similarly. In 2024, pension savings funds performed less than pension plans managed by IORPs (5.03% against 8.79%).

Pension savings plans experienced negative performance in the same years (2002, 2008, 2011, 2018 and 2022). High inflation impacted negatively the annualised real net returns. Unlike occupational pension plans, these pension savings funds are not obliged to pay a guaranteed return to retirees. Over the 25-year period (2000-2024), they delivered relatively similar annualised nominal and real returns to that of occupational pension plans managed by IORPs, respectively 3.4% and 0.9%.

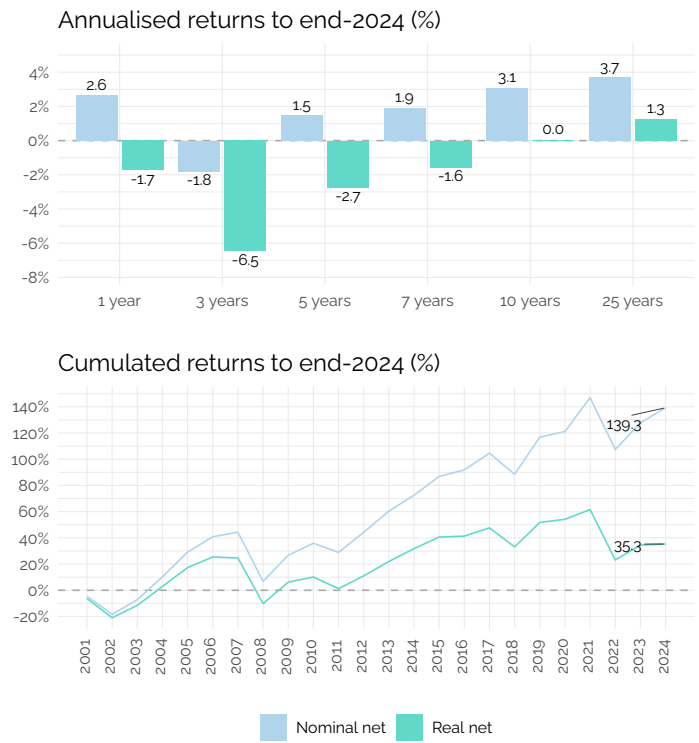
**Pension savings insurance (Branch 21 contracts)** To prepare their retirement, Belgian can also subscribe voluntarily pension savings insurance or long-term savings products. Pension savings insurance consists in investing in individual life-insurance

**Figure 4.5 – Returns of Belgian Assurance Groupe - Branch 21 contracts (before tax, % of AuM)**



*Data:* National Bank of Belgium, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 4.6 – Returns of Belgian pension savings funds (before tax, % of AuM)**



*Data:* BeAma, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

Branch 21 contracts with a guaranteed capital. Long-term savings products combine Branch 21 contracts and unit-linked Branch 23 contracts, which are called Branch 44 contracts. Assuralia used to report net returns after charges in percentage of the total reserves managed through Branch 21 and Branch 23 contracts, until 2014. This information gave an insight into returns of reserves invested within the third pillar.

However, since 2015 Assuralia no longer provides on pension savings insurance and long-term savings products in its annual publication. For individual life-insurance Branch 21 contracts, as for Assurance Groupe Branch 21 contracts, we used statistics of direct life insurance operations in Belgium to compute the ratio of financial remuneration received on investments made by insurance companies over their provisions (see Section 4.5.1).

Over the whole period from 2002-2023, the net annualised return is positive to 3.63% for Branch 21 contracts. The high inflation in 2021 and 2022 impacted negatively the annualised real return, which is 1.27% over 22-year period.

Figure 4.7 represents the returns of Belgian insurance products (Branch 21 and 23) dedicated to prepared retirement. It is the average nominal and real net returns of Branch 21 and Branch 23 contracts from 2002 to 2014.

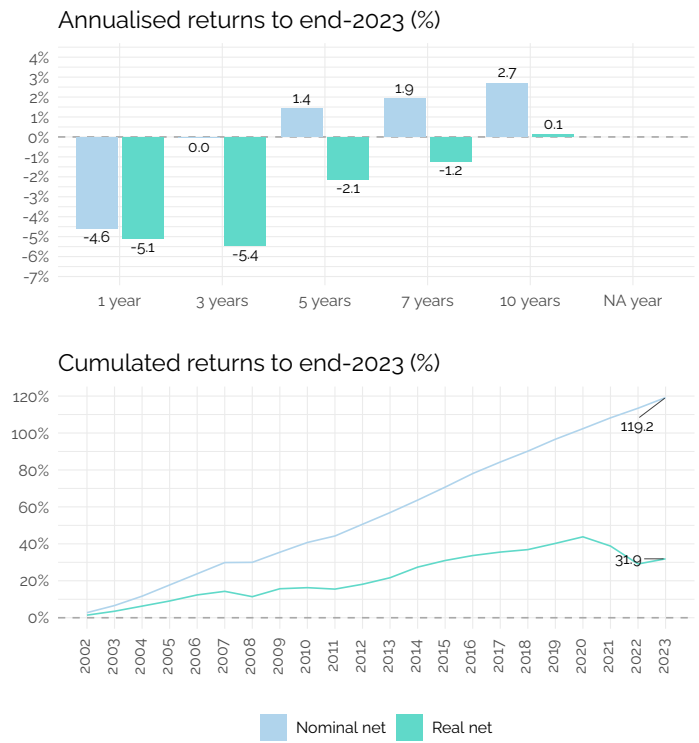
Figure 4.8 and Figure 4.9 summarise the annualised returns of Belgian long-term and pension vehicles over varying holding periods and show their cumulated returns. Performance of IORPs and pension savings funds within the third pillar evolved similarly over the time. Despite some years with negative performance, these products offered a positive real net return in a long-term period (25 years) which are quite low, respectively 1.55% and 0.9%.

Information on returns of insurance products within the second and third pillar are fragmented. It is more difficult to see their real performance in the long run. It is interesting to remind that Assurance Groupe products offered a guaranteed minimum return (see above).

## 4.5.2 Do Belgian savings products beat capital markets?

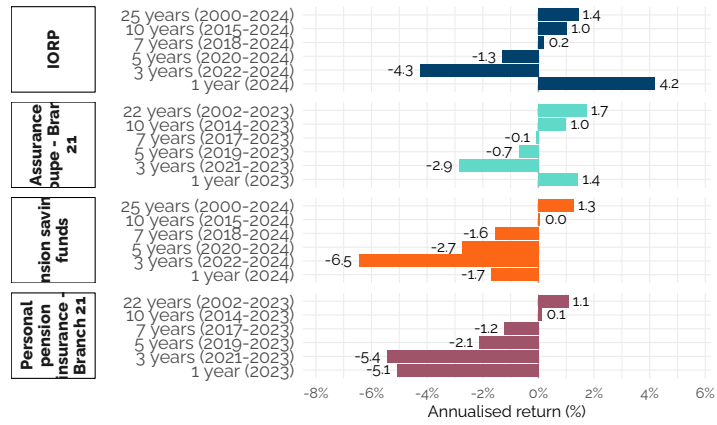
In the long run IORPs (pillar II) and pension savings plans (pillar III) evolved in the same way. Large parts of their assets are invested in equities and in bonds, it is interesting to compare their evolution with a benchmark portfolio with equal holdings of equity and bonds (see Table 4.12 and methodology in the introductory chapter of this report). Both IORPs and pension savings funds have the same trend as the benchmark over the period 2000-2024. Nevertheless, the benchmark and pension savings plans had almost the same performances from 2003 to 2007 (see Figure 4.10). Then, the gap of cumulative performance increased. From 2018 onwards the gap widened, as the benchmark's performance increased faster. The gap of cumulative performance between the IORPs and the benchmark is less important. Thus, the annualised returns of IORPs are higher than that of the benchmark over varying periods, except over the whole period. Over the period 2002-2024, the annualised return of IORPs is lower of 0.29 percentage point. While the annualised return of pension savings plans is lower of 0.9 percentage point.

**Figure 4.7 – Returns of Belgian personal pension insurance - Branch 21 (before tax, % of AuM)**



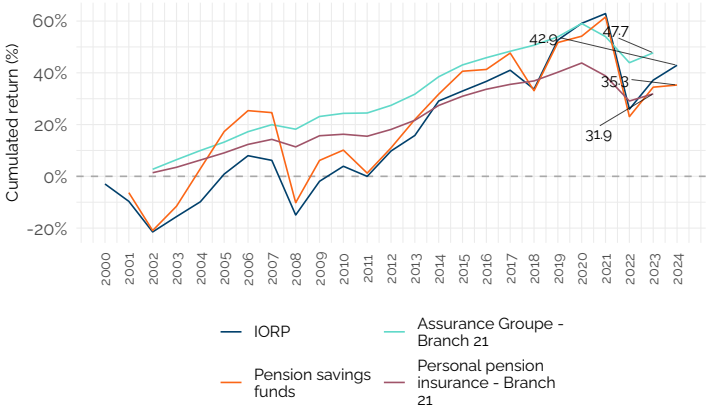
*Data:* National Bank of Belgium, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 4.8 – Annualised returns of Belgian long-term and pension savings products over varying holding periods**



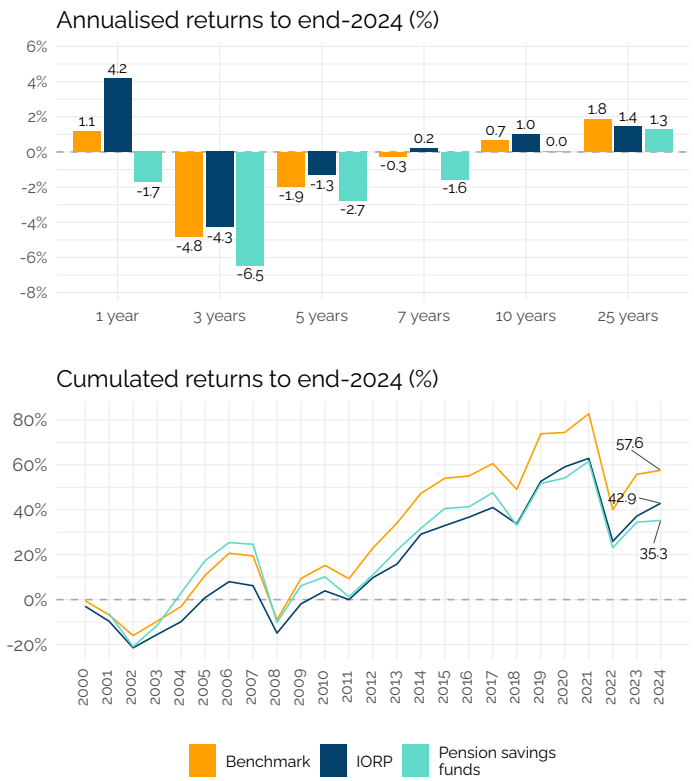
Data: PensioPlus, National Bank of Belgium, BeAma, Eurostat. Calculations: BETTER FINANCE.

**Figure 4.9 – Cumulated returns of Belgian long-term and pension savings products**



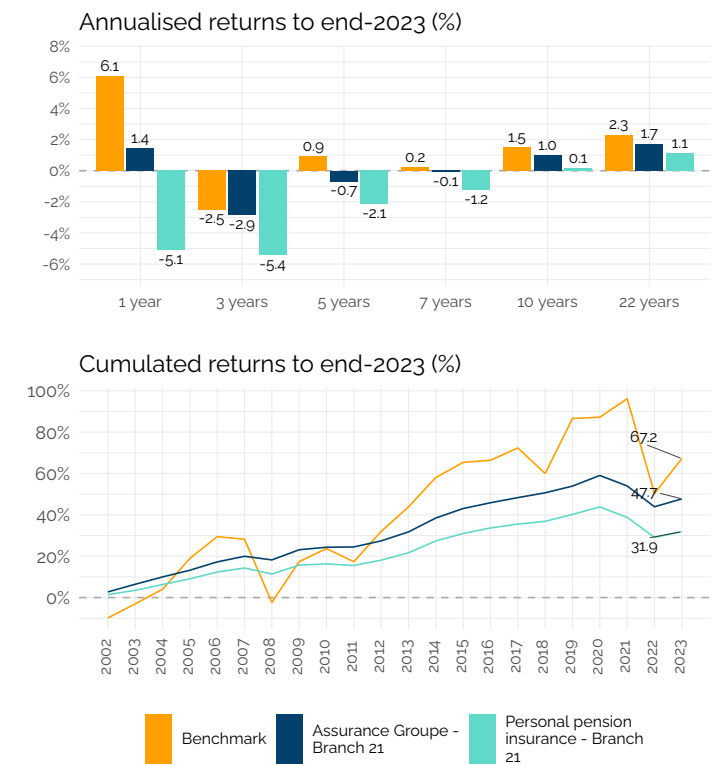
Data: PensioPlus, National Bank of Belgium, BeAma, Eurostat. Calculations: BETTER FINANCE.

**Figure 4.10 – Performance of Belgian IORPs and pension saving funds (returns before tax, after inflation, % of AuM)**



Data: PensioPlus, BeAma, Eurostat; Calculations: BETTER FINANCE.

**Figure 4.11 – Performance of Belgian Branch 21 Assurance Groupe and personal pension insurance contracts (returns before tax, after inflation, % of AuM)**



Data: National Bank of Belgium, National Bank of Belgium, Eurostat; Calculations: BETTER FINANCE.

**Table 4.12 – Capital market benchmarks to assess the performance of Belgian long-term and pension savings**

Product category	Equity index	Bonds index	Start year	Allocation
IORP	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	50%–50%
Assurance Groupe - Branch 21	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2002	50%–50%
Pension savings funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	50%–50%
Personal pension insurance - Branch 21	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2002	50%–50%

Source: STOXX, Bloomberg; Note: Benchmark portfolios are rebalanced annually.

## 4.6 Conclusions

Belgians are encouraged to save for their retirement in private pension vehicles. In 2003, the implementation of the Supplementary Pensions Act defined the framework of the second pillar for sector pension plans and supplementary pension plans for self-employed individuals. The number of employees covered by occupational pension plans keeps rising as well as the number of self-employed individuals covered by supplementary pension plans.

Measures to guarantee the sustainability and social character of the supplementary pensions were enforced in January 2016:

- The guaranteed minimum return on contribution was lowered to 1.75% for both employee and employer contributions. According to an economic formula considering the evolution of government bond yields in the future, this return has been risen to 2.5% from January 1st, 2025,
- The supplementary pension age and the legal pension age were aligned;

Over a 25-year period (2000–2025), occupational pension funds managed by IORPs (pillar II) and pension savings funds (pillar III) have a real annualised return before taxation of 1.55% and 0.9% respectively. A benchmark composed of 50% of equities and 50% of bonds overperformed both IORPs and pension savings funds over the whole period. High inflation impacted negatively the performance of both products.

It is quite difficult to find information on returns of pension vehicles managed by insurance companies. Neither FSMA, nor Assuralia provide regularly information on these pension products. For a Belgian it is difficult to obtain clear information on returns of his/her pension products even on his/her personal on-line account at mypension.be. The final remuneration can vary from one provider to another depending on

the agreement made with employers, notably regarding the guaranteed minimum return.

## Chapter 5

# Croatia

### Sažetak

Hrvatska je stvorila tipičan mirovinski sustav s 3 stupa, gdje se državno organizirani mirovinski stup temeljen na PAYG-u (preraspodjela doprinosa od radno sposobnog stanovništva starijem stanovništvu) nadopunjuje obveznim kapitaliziranim mirovinskim sustavom (II. stup) i subvencioniranim (izravno i neizravno) dobrovoljnim mirovinskim štednim sustavom (III. stup).

Rastući omjer pokrivenosti radno sposobnog stanovništva drugim stupom kompenzira se niskim obuhvatom unutar trećeg stupa. To bi u budućnosti moglo dovesti do sve većeg problema niskog životnog standarda za umirovljeničko stanovništvo jer prvi stup osigurava samo 30% stope zamjene, a preostala dva stupa neće moći dodati značajne izvore za pojedince tijekom mirovine. Čak i ako su performanse oba kapitalizirana stupa prilično solidne, prilično mali doprinosi i niska stopa pokrivenosti trećeg stupa dovode u pitanje adekvatnost mirovinskog sustava u Hrvatskoj.

Općenito, realni neto prinosi mirovinskih fondova bili su pozitivni u 2024. Ako se uzme u obzir cijelo analizirano razdoblje, godišnji prinosi su u pozitivnom teritoriju i za proizvode II. i III. stupa, posebno zbog pozitivnih prinosa tijekom posljednjih godina.

### Summary

Croatia has created typical 3-pillar pension system, where the state organized pension pillar based on PAYG (redistribution of contributions from working to elderly population) is supplemented by mandatory funded pension scheme (pillar II) and by subsidized (directly as well as indirectly) voluntary pension saving scheme (pillar III).

Increasing coverage ratio of working population by the second pillar is offset by low coverage within the third pillar. This might bring up the increasing problem of low living standard for retiring population in future as the first pillar provides only 30% replacement rate and remaining two pillars will not be able to add significant sources for individuals during retirement. Even if the performance of both funded pillars is quite solid, rather small contributions and low coverage ratio of the third pillar raises questions about the adequacy of the pension system in Croatia.

Overall, the real net returns of pension vehicles was positive in 2024. If the entire analysed period is considered, the annualized returns are in positive territory both for Pillar II as well as Pillar III products especially due to the positive returns during

**Table 5.1 – Product categories analysed in Croatia**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Mandatory pension funds	Occupational (II)	2002	2024
Voluntary pension funds	Voluntary (III)	2002	2024

**Table 5.2 – Annualised net return of Croatian pension funds (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period	to..
Mandatory pension funds	3.8%	-3.2%	-1.5%	0.1%	2.3%	2.3%	end 2024
Voluntary pension funds	2.9%	-3.9%	-2.2%	-0.4%	1.1%	2.5%	end 2024

*Data:* HANFA, SeeCapitalMarkets, Mandatory Pension funds statutes, Voluntary Pension Funds statutes, Euros. *Calculations:* BETTER FINANCE.

last years.

## 5.1 Introduction: The Croatian pension system

There have been no major changes in the pension system in Croatia in 2024. However, pension system is a subject of national Recovery and Resilience Plan where the overarching objective of the reform is to improve pension adequacy and sustainability by incentivising longer working lives, strengthening the second pension pillar and increasing the lowest pensions (Council of the European Union, 2021). In 2024, state pensions have increased due to the high inflation in the past year.

The performance of private pensions (mandatory as well as voluntary) was positive in 2024 both in nominal and real terms mainly due to the pick-up of the world markets and decreasing inflation.

### 5.1.1 Pension system in Croatia: An overview

Croatian pension system is since 2002 designed on conventional World bank 3-pillar model. Croatian pension system was as of January 1st, 1999 reformed by introducing a mixed public-private pension system consisting of three pillars of pension insurance:

- First pillar — compulsory pension insurance based on generational solidarity;
- Second pillar — compulsory pension insurance based on individual capitalized savings;
- Third pillar — voluntary pension insurance based on individual capitalized savings.

Key facts on the design of the Croatian Pension system are presented in Table 5.3.

**Table 5.3 – Overview of the Croatian pension system**

<b>Pillar I</b>	<b>Pillar II</b>	<b>Pillar III</b>
Mandatory state pension	Mandatory funded pensions	Voluntary fully funded DC pensions
PAYG principle	Individual accounts	Individual accounts
Coverage: 89.6%	Coverage: 89.63%	Coverage: 22.02%
Managed by the Social Insurance Company	Managed by Pension Asset Management Companies (PAMCs)	
<b>Quick facts</b>		
Retirement age: 65 years for men; 63 years for woman (2023)		
A relatively high old-age dependency ratio of 35.6% in 2022		
Average gross replacement ratio = 30.45% / Average net replacement ratio = 42.10%		
Working population: 1.67 mln.		
Number of old-age beneficiaries: 700 723		
Gross average monthly salary: EUR 1821		
Net average monthly salary: EUR 1318		
Net average pension: EUR 615		
Number of pension companies:	4	4
Number of pension funds:	12	29
Number of members (savers):	2 333 992	446 792

*Data:* Own elaboration based on Mirovinsko data, 2025.

## **First pillar: PAYG scheme**

The first pillar of pension insurance is called a pillar of generational solidarity based on PAYG redistributive principle, as persons who work pay contributions for pension insurance, whereas such contributions serve for giving pensions to current pension beneficiaries. In addition to contributions collected from insured persons, the first pillar is also funded from the state budget. According to the Pension Insurance Act, insured persons are compulsorily insured in accordance with principles of reciprocity and solidarity for the event of ageing, reduction of working capacity with remaining working capacity and partial or total loss of working capacity, and the members of their families in the event of insured person's or pension beneficiary's death (right to an old-age pension, early retirement pension, disability pension, temporary disability pension, survivors' pension, minimum pension, basic pension).

Funding: the system of generational solidarity is a defined benefits system. The Contribution Act<sup>1</sup> prescribes the obligation to pay contributions for funding of compulsory insurance, including contributions for pension insurance. Contributions are collected by the Tax Administration and the contribution rate for insured persons who are insured only in the first pillar amounts to 20% of gross salary, while the contribution rate for first pillar for insured persons who are insured in both compulsory pillars (first and second pillar) amounts to 15%.

The implementation of pension insurance based on generational solidarity falls within the competence of the Croatian Pension Insurance Institute (HZMO), the Croatian Pension Insurance Institute. The HZMO is the competent institution for exercising the right exclusively from pension insurance based on generational solidarity (first pillar).

The right to an old-age pension payable from the first pillar is acquired by an insured person who has reached 65 years of age, if he/she has completed 15 years of qualifying periods. Insured persons – women in the period from 2014 to 2029 are entitled to an old-age pension at a lower age. In 2024, they could retire at the age of 63 years and 6 months (under the condition of 15 years of service), where the age requirement for each calendar year increases by 3 months until 2029. As of January 1st, 2030, women and men can exercise the right to old-age pension benefit under the same conditions, having reached the age of 65 and 15 years of pensionable service, irrespective of the gender of the insured person.

The amount of old-age pension is calculated by multiplying personal points, pension factor and the actual value of pension. The pension factor is determined by the type of pension to be realized, and the actual value of the pension is determined by the Governing Board of the HZMO, based on the data of the Croatian Bureau of Statistics, no later than two months after the end of each half-year. Personal points are calculated by multiplying the average value point with achieved qualifying periods and the initial factor. The initial factor affects the amount of pension in case of old-age pensions and early retirement pensions, so that:

- An old-age pension is increased to insured persons who are granted pension for the first time after the age of 65, and have 35 years of qualifying periods, by

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<sup>1</sup><https://zakon.hr/z/365/Zakon-o-doprinosima>

0.34% for each month after reaching the prescribed age for acquiring the right to an old-age pension, but no longer than 5 years,

- An early retirement pension is reduced for the insured persons by 0.2% for each month of early retirement before reaching the statutory retirement age of the insured person for the acquisition of the right to an old-age pension.

The average value point is calculated based on salaries earned over the entire working life in relation to the average annual salary in the Republic of Croatia.

The right to an early retirement pension is acquired by an insured person who has reached 60 years of age and completed 35 years of qualifying periods. There are again some exceptions for women. The amount of the old-age pension is permanently reduced for each calendar month of the earlier exercise of entitlement, up to the completed years of life of the insurer prescribed for the acquisition of the right to an old-age pension, linearly by 0.2% for each month of early retirement, i.e. 2.4% per year up to a maximum of 12% for a maximum of 5 years prior to retirement.

Paid old-age pensions are adjusted twice a year in relation to economic trends in the Republic of Croatia. The adjustment rate, applied starting from January 1st, 2015, is determined by the variable ratio of the consumer price index and gross salaries of all employees in the Republic of Croatia in the previous year, compared to the year preceding it (70:30, 50: 50 or 30:70, whichever is preferred). From July 1st, 2019, it is aligned as follows: from January 1 to July 1 each calendar year according to the 70:30 or 30:70 model.

### **Second pillar: Mandatory pension funds**

The second pillar has been effectively introduced starting January 2002. The second pillar represents individual capitalized savings. Individual savings refer to personal assets of insured persons and the fact that paid funds are recorded in personal accounts, while capitalized savings refer to return on investment achieved upon payment to the selected compulsory pension fund. This form of pension insurance was introduced to expand the source of funding in relation to compulsory pension insurance based on generational solidarity, which sought to achieve greater individual responsibility for the safety of the elderly.

The second pillar includes compulsory insured persons of up to 40 years of age. The rate of contributions for persons insured in the second pillar amounts to 5 % of the gross salary, whereby insured persons may themselves choose a compulsory pension fund and compulsory pension fund category to which they will contribute the said amount. Persons compulsory insured in the first and the second pillar and insured persons who voluntarily chose the second pillar have the right in the process of exercising the right to a pension to choose in which system the pension will be realized, that is, the system which is more favourable for them (opt-out system). Insured persons can:

- Leave the second pillar and get the pension exclusively from the first pillar;
- Stay in the second pillar and get the pension from both pillars (in this case, the pension from the first pillar is determined for the years of service completed by December 31st, 2001, with a supplement of 27% and for the years of service

completed from January 1st, 2002, with a supplement of 20.25 %, determined by the factor of basic pension (0.75%).

Management of savings within the second pillar is carried out through compulsory pension management companies offering pension funds, while the payout phase is carried out exclusively through pension insurance companies. The pension system based on capitalized savings is regulated by two statutory regulations, depending on whether they refer to the phase of accumulation and capitalization of contributions regulated by the Act on Compulsory Pension Funds<sup>2</sup> or the phase of pension payouts regulated by the Act on Pension Insurance Companies.<sup>3</sup> The Central Register of Insured Persons (REGOS) is the competent institution for insurance based on individual capitalized savings (second pillar).

Compulsory pension fund is established by a pension company that manages such fund on its behalf and for the joint account of pension fund members. Pension fund may fall under categories A, B or C, and are managed by the same pension company. Pension funds of different categories have different investment strategies and vary according to membership limitations (considering life expectancy of savers/members), investment strategy and investment limitations. The assumed risk should be the lowest in category C funds, and the largest in category A pension funds.

The right to pension and based on individual capitalized savings — second pillar is realized based on the Decision on Retirement Benefits issued by the HZMO. From January 1st, 2019, all insured persons who are insured in both pension pillars can, when they apply for old-age or early old-age pension, select whether they want to receive pension only from the first pillar or pension from both pillars through a personal statement to the REGOS.

For a member of the fund to choose a more favourable pension, REGOS will collect informative pension calculations from the HZMO and the pension insurance company (MOD) and submit them to the home address. If a member of the fund opts for pension only from the compulsory pension insurance based on generational solidarity (first pillar), the HZMO will determine the pension as if the insured was only insured in the I pillar. The selection of this pension means that a member of the fund wants to leave the second pillar, i.e. compulsory pension insurance of individual capitalized savings, and the total capitalized funds from the personal account of the member of the fund are transferred to the state budget. If a member of the fund opts for a combined pension from the first and second pillars, HZMO will determine the basic pension from compulsory pension insurance for generational solidarity and submit to REGOS the data from the Decision. Upon receipt of the Decision, which is provided to REGOS by HZMO, REGOS checks the data from the Decision regarding the status of the future pension beneficiary. It is checked whether the personal account of the future pension beneficiary is opened and whether he or she has exited from the II pillar. After selecting the pension insurance company, REGOS will close the personal account of the member of the fund and transfer the overall funds to the pension insurance company which will contact than the beneficiary for the conclusion of the pension agreement. The compulsory pension company that manages the compul-

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<sup>2</sup><https://www.zakon.hr/z/708/Zakon-o-obveznim-mirovinskim-fondovima>

<sup>3</sup><https://www.zakon.hr/z/712/Zakon-o-mirovinskim-osiguravaju%C4%87im-dru%C5%A1tvima>

sory pension fund has a deadline of five working days from the date of initiating the closing of the personal account to allocate funds to the payment account for second pillar contributions. Upon settlement of the obligation by the custodian bank, the following working day it is verified whether the funds have been transferred to the account of the legal recipient of funds — the Raiffeisen Pension Insurance Company (currently the only MOD) that will pay the pension on the basis of individual capitalized savings. REGOS informs the Pension Insurance Company electronically on the data from R-POD form and the amount of transferred funds. Upon receipt of the aforementioned information, the pension insurance company will contact the future pension beneficiary regarding the conclusion of the Contract on pension based on individual capitalized savings.

If the old-age pension from the first pillar is higher than 15% of the minimum pension from the first pillar according to the Pension Insurance Act, the future pension beneficiary from the second pillar can decide on a partial, one-time cash payment of 15% in the gross amount of the total capitalized funds allocated to MOD.

### **Third pillar: Voluntary fully funded pensions**

Voluntary pension funds were also introduced in 2002 and completed the three-pillar system. The third pillar is a voluntary pension savings DC-based scheme. Voluntary pension schemes are either offered by voluntary pension funds or can be set up by trade unions and employers, making open and closed funds possible. Open-ended pension funds are open for membership to any natural person interested in becoming a member of an open-ended pension fund, whereas closed-ended pension funds form their membership out of natural persons who are either employed with an employer, or are trade union members, members of associations of self-employed persons or self-employed persons. Voluntary pension funds need to have at least 2000 members two years after being established.

The payment of retirement benefits within the framework of mandatory pension insurance based on individual capitalized savings of members of mandatory pension funds is made by pension insurance companies only. The payment of retirement benefits within the framework of voluntary pension insurance based on individual capitalized savings of members of voluntary pension funds is made by pension insurance companies, but exceptionally, the payment of retirement benefits on a temporary basis may be made by voluntary pension funds under the conditions laid down in the Act on Voluntary Pension Funds.

The collection of funds within the framework of third pillar of pension insurance is carried out through voluntary pension funds, while payouts of pensions are made by pension insurance companies, and, exceptionally, pension companies, that may carry out temporary pension payouts from voluntary pension funds. Pension reform, which entered into force on , has also introduced the possibility of pension payments by the life insurance companies.

There are no limitations on membership. Also, there are no time restrictions on the duration of membership. A member may choose the amount, duration, and dynamics of payments to the fund. Payments are not compulsory and depend solely on payer's current capabilities. The membership in the fund is not terminated by termi-

nation of payments or irregular payments. All paid funds are personally owned by a member, no matter who their payer is, and they can be inherited in full. The only condition for using the funds is reaching 50 years of age.

The Act on Voluntary Pension Funds <sup>4</sup> regulates the establishment and operation of voluntary pension funds, while the Act on Pension Insurance Companies regulates the establishment and operation of pension insurance companies, pension schemes and pensions and their distribution. The Croatian Financial Services Supervisory Agency (HANFA) provides supervision over the business of pension insurance companies.

## 5.2 Long-term and pension savings vehicles in Croatia

Croatian pension vehicle in Pillar II and Pillar III are very similar what is considering the design and operation. The differences are in the strictness of the regulation, while the Pillar III pension funds have more liberate regulation.

Figure 5.1 presents the amount of savings under management for both pillars, in billion euros.

When inspecting the assets under management, Pillar II pension funds are clearly dominating the market as the contributions flow directly from the mandatory social insurance contributions and cover basically entire working population. Pillar III pension funds are significantly smaller than Pillar II peers, while covering only 20% of working population contributing smaller amounts regularly.

### 5.2.1 Mandatory pension funds

There have been 4 mandatory pension asset management companies operating in Croatia in 2024:<sup>5</sup>

1. Allianz ZB d.o.o. društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima
2. ERSTE d.o.o. - društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima
3. PBZ CROATIA OSIGURANJE d.d. za upravljanje obveznim mirovinskim fondovima
4. Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima dioničko društvo

There are 12 mandatory pension funds offered to savers, while each mandatory pension company manages 3 pension funds with different investment strategy:

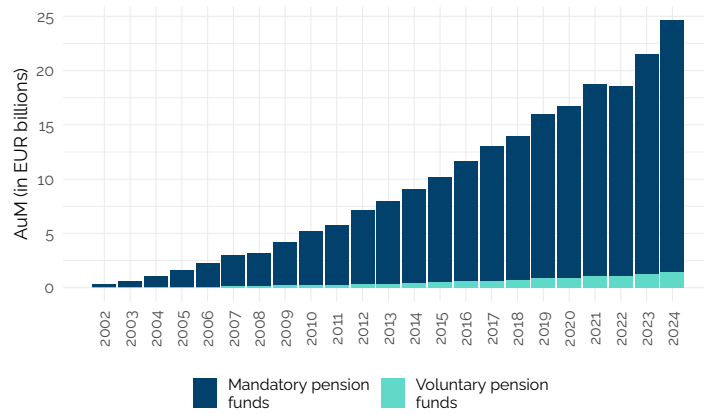
1. Type "A" mandatory pension fund with riskier investing strategy. Members of this fund can be persons who are at least 10 years old until the age requirements for acquiring the right to an old-age pension are met. At least 30% of the fund's net assets are invested in bonds of the Republic of Croatia, EU or

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<sup>4</sup><https://www.zakon.hr/z/709/Zakon-o-dobrovoljnim-mirovinskim-fondovima>

<sup>5</sup>Source: HANFA, 2025.

**Figure 5.1 – AuM of Croatian pension funds (in bln EUR)**



Data: HANFA, SeeCapitalMarkets; Calculations: BETTER FINANCE.

OECD countries. Maximum 55% of the fund's net assets are allocated in shares of issuers from the Republic of Croatia, EU member states or OECD countries and at least 40% of the fund's net assets are denominated in kuna.

2. Type "B" mandatory pension fund — balanced investment strategy. Initially, all members will be members of this fund, unless they choose Fund A or C themselves. At least 50% of the fund's net assets are invested in bonds of the Republic of Croatia, EU or OECD countries. Maximum 35% of the fund's net assets are invested in shares of issuers from the Republic of Croatia, EU member states or OECD countries and at least 60% of the fund's net assets are denominated in kuna.
3. Type "C" mandatory pension fund — conservative investment strategy. It is suitable for older members of the fund who have less than 5 years left to meet the age requirements for acquiring the right to an old-age pension. According to this condition, REGOS will automatically transfer policyholders from the category B fund to the category C fund. At least 70% of the fund's net assets should be allocated in bonds of the Republic of Croatia, EU member states or OECD countries. Investment in shares is not allowed, and exposure to investment funds is limited to 10%. At least 90% of the fund's net assets are denominated in kuna.

Portfolio structure of the mandatory pension funds is presented in Figure 5.2.

Considering the portfolio structure of all mandatory pension fund, most of the investments (almost 64%) are allocated in government and municipal bonds with increasing share of equities. This could also explain positive nominal returns in 2024.

### 5.2.2 Third pillar: Voluntary pension funds

Voluntary pension savings scheme offers more flexibility for providers. There are 4 voluntary pension asset management companies in Croatia:

1. Allianz ZB d.o.o. društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima
2. CROATIA osiguranje mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondom d.o.o.
3. ERSTE d.o.o. – društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima
4. Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima dioničko društvo

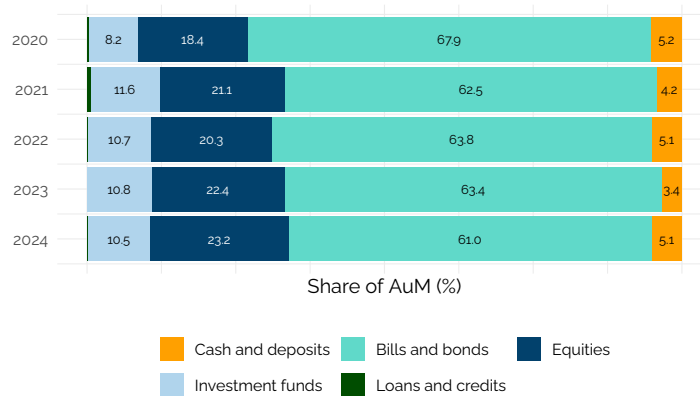
These companies manage mandatory as well as voluntary pension funds. Within the third pillar, the companies can offer open-ended funds to any member as well as closed-ended funds to predefined range of members. Currently (as of December 31st, 2024), there have been available data for 16 closed-ended funds and 6 open-ended voluntary pension funds offered to savers<sup>6</sup>. However, open-ended funds manage more than 80% of all pillar III assets.

The portfolio structure of Pillar III pension funds is presented in Figure 5.3.

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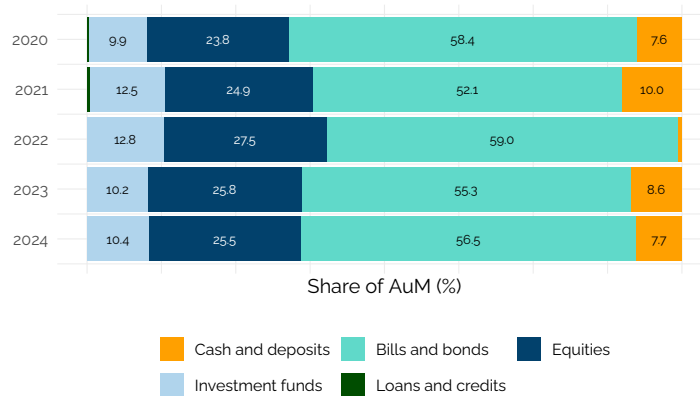
<sup>6</sup>Source: HANFA, 2025.

**Figure 5.2 – Allocation of assets invested in Croatian mandatory pension funds**



Data: HANFA; Calculations: BETTER FINANCE.

**Figure 5.3 – Allocation of assets invested in Croatian voluntary pension funds**



Data: HANFA; Calculations: BETTER FINANCE.

**Table 5.4 – Costs and charges of Croatian mandatory pension funds**

Year	Total ongoing charges	Entry fees <sup>1</sup>	Admin. and mgt. fees	Other ongoing fees	Exit fees <sup>‡</sup>	Total Expense Ratio
2002	0.92%	NA	NA	NA	NA	NA
2003	0.92%	NA	NA	NA	NA	NA
2004	0.92%	NA	NA	NA	NA	NA
2005	0.98%	NA	NA	NA	NA	NA
2006	0.99%	NA	NA	NA	NA	NA
2007	1.12%	NA	NA	NA	NA	NA
2008	0.89%	NA	NA	NA	NA	NA
2009	0.82%	NA	NA	NA	NA	NA
2010	0.79%	NA	NA	NA	NA	NA
2011	0.69%	NA	NA	NA	NA	NA
2012	0.57%	NA	NA	NA	NA	NA
2013	0.57%	NA	NA	NA	NA	NA
2014	0.57%	NA	NA	NA	NA	NA
2015	0.57%	NA	NA	NA	NA	NA
2016	0.51%	NA	NA	NA	NA	NA
2017	0.44%	NA	NA	NA	NA	NA
2018	0.41%	NA	NA	NA	NA	NA
2019	0.38%	NA	NA	NA	NA	NA
2020	0.35%	NA	NA	NA	NA	NA
2021	0.32%	NA	NA	NA	NA	NA
2022	0.31%	0.50%	0.27%	0.02%	0.80%	0.29%
2023	0.30%	0.50%	0.25%	0.02%	NA	NA
2024	0.29%	0.00%	0.24%	0.02%	NA	NA

*Data:* Mandatory Pension funds statutes; *Calculations:* BETTER FINANCE.

Voluntary pension funds can be considered more riskier compared to the mandatory pension funds. Almost 20% of assets is allocated into equities and equity based UCITS funds and 60% in government bonds.

## 5.3 Charges

### 5.3.1 Charges of mandatory pension funds

Croatian pillar II pension funds managed by 4 companies do exhibit regulated fee policy ensuring relatively low level of fees. Detailed structure of fees of mandatory pension funds offered within the second pillar is presented in Table 5.4.

Pillar II mandatory pension funds do exhibit rather complex fee structure, however the total cost indicator is presented in annual financial report of each pension fund. In 2024, mandatory pension fund providers charge management fee of 0.25% p.a., depository fee on average of 0.015% p.a. of total assets under management, but

the entry fee of 0.5% of contributed amount has been abolished<sup>7</sup>. The exit fee is determined based on the duration of the agreement between the saver and provider. If the duration of the saving agreement is less than 1 year, usually the exit fee of 0.8% of savings is charged. If the duration of the agreement is more than 3 years, no exit fee can be charged.

The year 2024 brought further reduction and diversification of fees based on the fund's strategy. Introduction of low-cost passively managed pension funds has spurred price battle after 2018, however divergence between the fees started to emerge in 2021 with an average fee level of 0.54% p.a. Lower total expense ratio in 2024 could be explained by higher positive returns as well as further legislative decrease in fund fees.

### 5.3.2 Charges of voluntary pension funds

Compared to the mandatory pension funds' level of fees, voluntary pension funds fees are significantly higher and amount on average more than 1.8% p.a. on assets under management.

Obtaining data for voluntary pension funds is quite challenging and only average cost ratio for all voluntary pension funds is available. The fee structure suggests that the total costs are quite dependent on the overall performance and thus the performance-tied fees play key role in the fee structure of voluntary pension funds in Croatia. The average cost ratio has been calculated using the voluntary pension funds' financial statements.

Pillar III costs and charges are significantly higher compared to the mandatory pension funds offered in Pillar II, when the fee structure is regulated and capped. Higher overall costs do negatively impact the overall performance of Pillar III pension funds.

## 5.4 Taxation

Taxation of the mandatory pension scheme (Pillar II) is of the EET type. Contributions and investment income are tax-exempt, whereas benefits are taxed. The tax allowance for pensioners is 1.7 times higher than for employees, meaning that pensions are only modestly taxed.

At each pension payment, as well as a one-time payment of 15% of the total capitalized funds allocated to mandatory pension funds, the pension insurance company calculates and pays income tax and surtax on income tax in accordance with the Income Tax Act and pays the net amount to the pension beneficiary. Tax rates for pensioners are reduced and are 12% and 18%, depending on tax brackets. Based on the final income tax calculation that is done by the Tax Administration, the pension beneficiary may be required to pay a tax or may be entitled to a refund of overpaid income tax, depending on the received receipts and the personal deductions used in that year.

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<sup>7</sup>Source: <https://regos.hr/en/news-regarding-the-application-of-legal-regulations-from-1-january-2024/>, 2025

**Table 5.5 – Costs and charges of Croatian voluntary pension funds**

Year	Total ongoing charges
2002	7.69%
2003	7.69%
2004	3.18%
2005	2.05%
2006	1.89%
2007	1.82%
2008	1.96%
2009	2.01%
2010	2.04%
2011	2.05%
2012	1.97%
2013	1.96%
2014	1.98%
2015	2.01%
2016	2.04%
2017	2.05%
2018	2.05%
2019	2.04%
2020	2.04%
2021	2.03%
2022	2.04%
2023	1.74%
2024	1.87%

*Data:* Voluntary Pension Funds statutes; *Calculations:* BETTER FINANCE.

**Table 5.6 – Taxation of pension savings in Croatia**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Mandatory pension funds	Exempted	Exempted	Taxed	EET
Voluntary pension funds	Exempted	Exempted	Taxed	EET

Source: BETTER FINANCE own elaboration based on Own elaboration, 2024.

Voluntary pension savings (Pillar III) are the only form of saving which includes two types of state incentives: state incentive funds and tax incentives for employers. Croatia encourages pension savings and approves the incentive to all members of the third pillar in the amount of 15% of the annual payment, up to a maximum of HRK 5000.00 (EUR 672), that is, the highest state incentive can amount to HRK 750.00 (EUR 100). Every resident can exercise the right to receive incentives only during the period that they pay compulsory pension insurance. The membership in a voluntary pension fund offers its member the option of voluntary pension savings being paid by his employer. All payments made by the employer in Pillar III of pension insurance up to the monthly amount of HRK 500 (EUR 67.2), that is, up to HRK 6000 (EUR 806.5) a year, are not considered a salary. That amount is considered a tax-recognized expense or employer's expense. During the pay-out phase, pension benefits are subject to personal income tax. Therefore, we can say that the taxation scheme for Pillar III pension savings is EET with exceptions.

## 5.5 Performance of Croatian long-term and pension savings

### 5.5.1 Real net returns of Croatian long-term and pension savings

The ability of the pension vehicle to maintain the buying power is the key feature for savers. Especially in countries, where the historical inflation is higher, the pension providers must adjust the portfolio structure to be able to keep up with local inflationary pressures.

Croatian mandatory pension funds have been able to beat the inflation over the analysed period of 2002–2024. This is not the fact for the voluntary pension funds, where the overall cumulative performance after the inflation was negative.

Performance of mandatory and voluntary pension funds before fees and inflation is quite similar. However, when the charges and inflation is applied, the differences occur where the voluntary pension funds record lower returns.

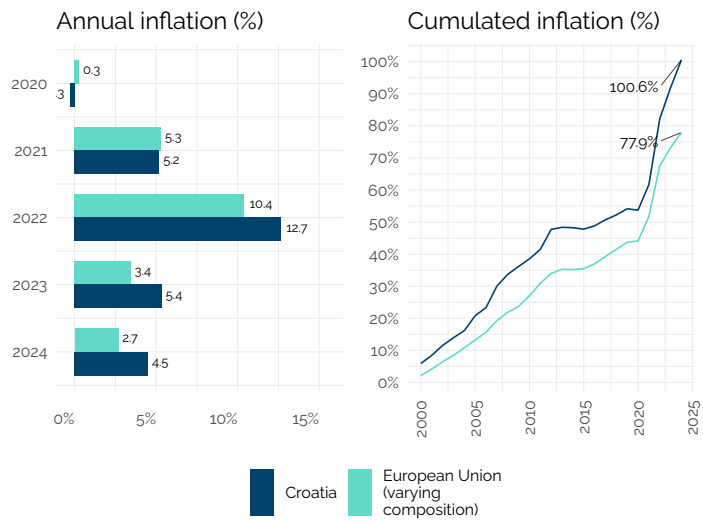
### 5.5.2 Do Croatian savings products beat capital markets?

In this section, we compare the performance of the mandatory and voluntary pension funds in Croatia to the performance of relevant capital market benchmarks.

**Figure 5.4 – Inflation in Croatia**

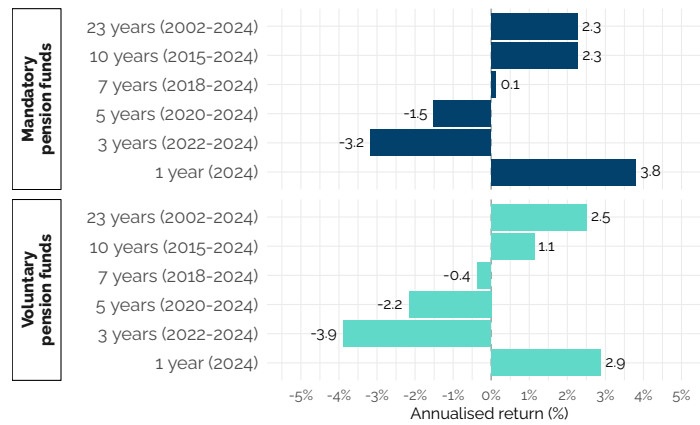
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
European Union (varying composition)	77.9%	2.3%
Croatia	100.6%	2.8%



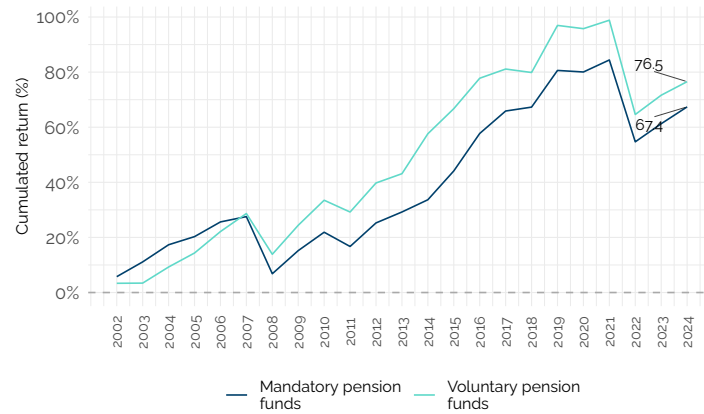
Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 5.5 – Annualised returns of Croatian pension funds over varying holding periods**



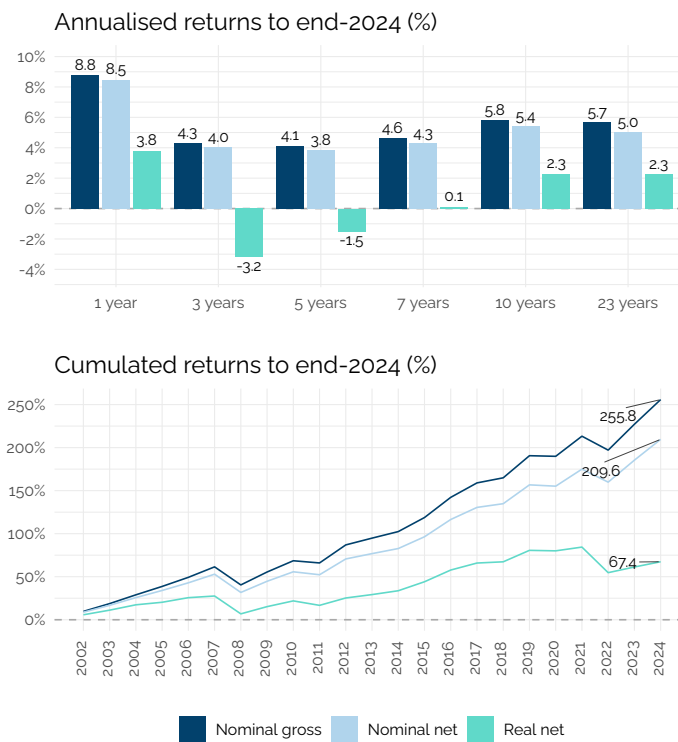
Data: HANFA, SeeCapitalMarkets, Eurostat. Calculations: BETTER FINANCE.

**Figure 5.6 – Cumulated returns of Croatian pension funds**



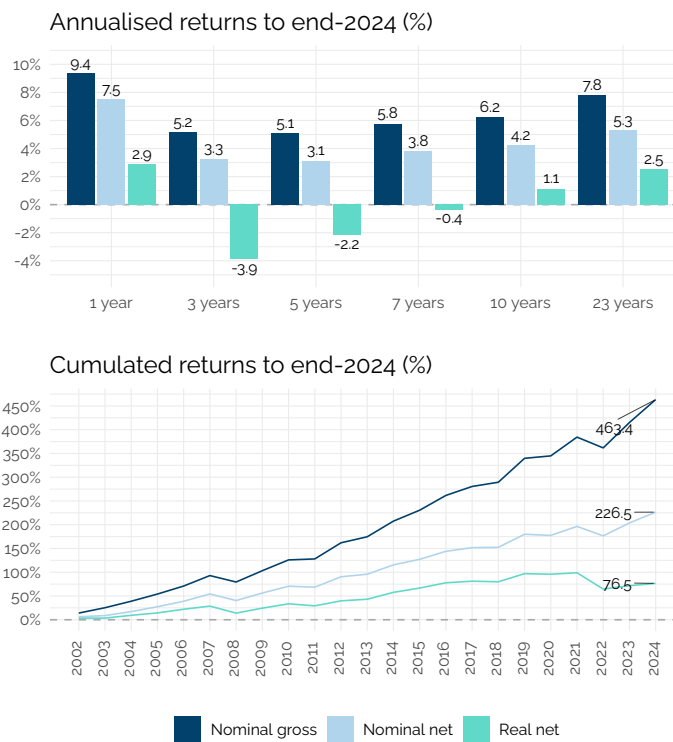
Data: HANFA, SeeCapitalMarkets, Eurostat. Calculations: BETTER FINANCE.

**Figure 5.7 – Returns of Croatian mandatory pension funds (before tax, % of AuM)**



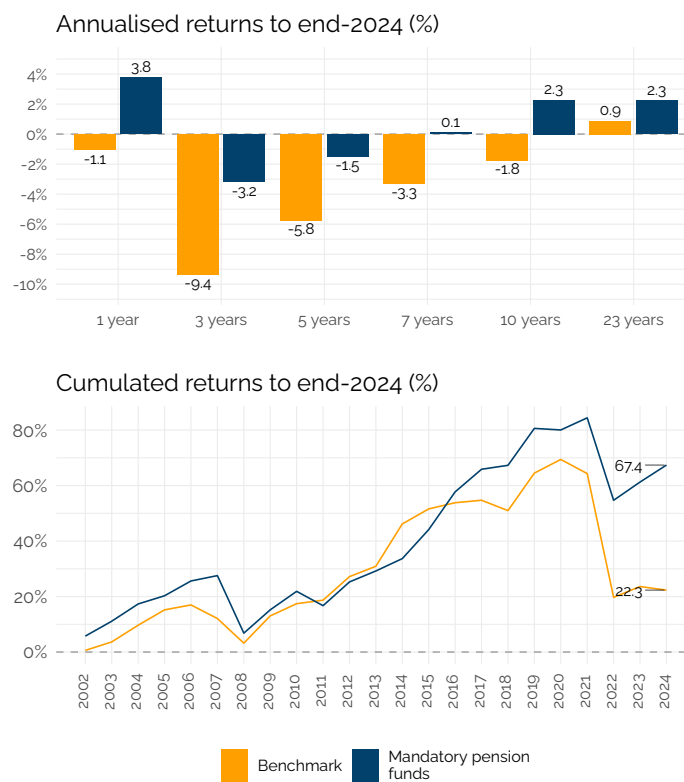
Data: HANFA, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 5.8 – Returns of Croatian voluntary pension funds (before tax, % of AuM)**



*Data:* SeeCapitalMarkets, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 5.9 – Performance of Croatian mandatory pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: HANFA, Eurostat; Calculations: BETTER FINANCE.

**Table 5.7 – Capital market benchmarks to assess the performance of Croatian pension funds**

Product category	Equity index	Bonds index	Start year	Allocation
Mandatory pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2002	15%–85%
Voluntary pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2002	25%–75%

*Source:* STOXX, Bloomberg; *Note:* Benchmark portfolios are rebalanced annually.

Croatian mandatory pension funds have been able to maintain the buying power of savings and beat the respective market benchmark. This is quite visible after the year 2015, when the charges started to drop below 0.5% p.a. and the portfolio structure of the funds became more stable and passively oriented. The opposite is true for the voluntary pension funds, which have not been able to keep up with the market benchmark and on top of it, they were below the inflation index. The main reason can be found in the quite conservative portfolio structure and really high fees compared to other pension vehicles.

## 5.6 Conclusions

Croatian pension system offers rather low replacement rates from the state-organized first pillar. This leaves the working population to rely on individual savings and thus the importance of mandatory as well as voluntary pension savings will rise over time and will play a significant role of one's income during the retirement.

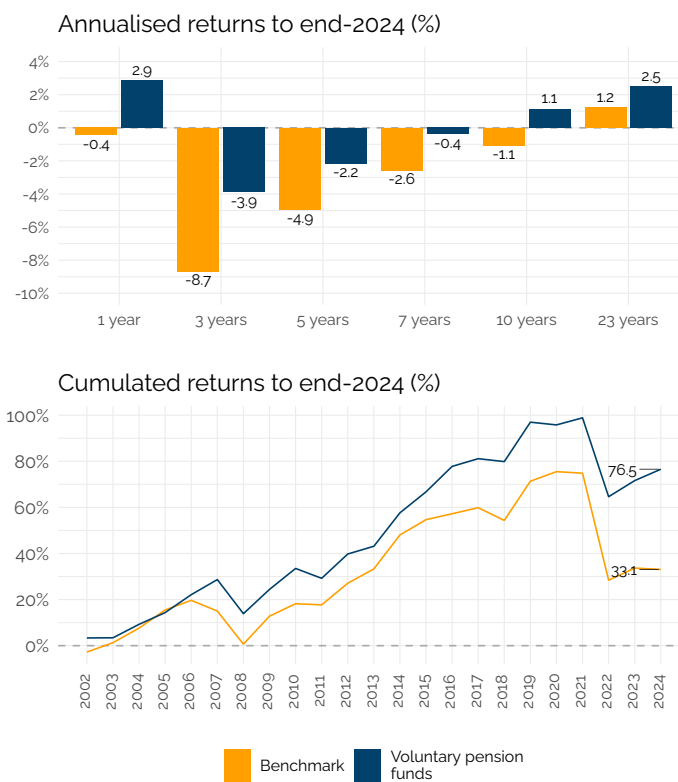
Mandatory as well as voluntary pension funds have provided the savers with solid returns over the last 22 years.

Pillar II scheme is compulsory for the working population and thus the coverage ratio as well as benefit ratio will be expected to rise in future. The problem could be seen in rather low coverage ratio within the III. pillar, where only 20% of working population saves for retirement and the pension vehicle do not offer cost-effective way of securing the future income.

Understating the weak points of Croatian pension system (low coverage ratio and relatively low contribution rates for funded schemes), the pension system could be improved by:

- allowing for additional voluntary contributions for mandatory pension pillar on top of 5% contribution rate envisaged by the current law as the II. pillar offers quite solid performance with low cost ratio;
- increase indirect state support and further enhance the tax exemption for III. pillar contributions in order to increase the coverage ratio;
- allow more open competition for voluntary pension funds from the side of PEPP that would offer cost-effective and transparent products.

**Figure 5.10 – Performance of Croatian voluntary pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: SeeCapitalMarkets, Eurostat; Calculations: BETTER FINANCE.

Overall, the performance of Croatian pension funds could be considered solid, compared to other peers in other countries. However the performance is driven mostly by bond yields of domestic issuers, which would not hold for the longer period.

## Chapter 6

# Denmark

### Resumé

Danmark har et stærkt og internationalt anerkendt pensionssystem, der skal sikre ældre en stabil levestandard. Systemet bygger på tre søjler: de offentlige pensioner (folkepension og ATP), arbejdsmarkedspensionerne og private pensionsordninger. Gennem de seneste årtier er de to sidstnævnte søjler blevet stadig vigtigere, og ni ud af ti danskere har i dag en arbejdsmarkedspension, og hovedparten af arbejdsgiverne har enten via overenskomster eller firmaaftaler forpligtet sig til at indbetale til medarbejdernes pensionsordninger. Systemet har medført, at kun få pensionister lever i økonomisk fattigdom, og dækningsgraderne er høje. Danmark står dermed relativt godt nu, hvor de rigtigt store årgange når pensionsalderen.

I 2024 blev der gennemført en væsentlig ændring i pensionssystemet, idet arbejdsindtægt ikke længere modregnes i folkepensionen. Pensionssatserne blev samtidig reguleret op med 3,3 %.

Den samlede pensionsformue udgør nu omkring 200 % af BNP, og pensionssektoren står for ca. 40 % af Danmarks udenlandske investeringer. Branchen bidrager dermed væsentligt til betalingsbalanceoverskuddet, der i 2024 svarede til 12 % af BNP.

Systemet står således solidt, men der er fortsat debat om, hvorvidt man skal bibeholde den gældende aftale om, at pensionsalderen stiger i takt med levetidssalderen. Det kan give problemer, hvis den debat resulterer i større afvigelser. Den stigende opsparing og robuste investeringsresultater viser dog, at det danske pensionssystem fortsat er både økonomisk og samfundsmæssigt bæredygtigt.

**Summary** Denmark has a strong and internationally recognised pension system designed to ensure a stable standard of living for older citizens. The system is built on three pillars: public pensions (Folkepension and ATP), occupational pensions, and private pension schemes. Over the past decades, the latter two pillars have become increasingly important, and today nine out of ten Danes have an occupational pension. Most employers are obliged, either through collective agreements or company arrangements, to contribute to their employees' pension schemes. The system has resulted in only a small share of pensioners living in economic poverty, and replacement rates are high. Denmark is therefore in a favourable position as the large post-war generations reach retirement age.

In 2024, a significant reform was implemented as employment income is no longer set off against the state pension (Folkepension). At the same time, pension benefits were increased by 3.3%. Total Danish pension assets now amount to around

200% of GDP, and the pension sector accounts for about 40% of Denmark's foreign investments. The sector thus contributes substantially to the current account surplus, which in 2024 equalled 12% of GDP.

The system therefore remains robust, although there still is an ongoing debate about whether to maintain the existing agreement linking the statutory retirement age to life expectancy. Significant deviations from this principle could pose challenges. Nevertheless, rising savings and solid investment results demonstrate that the Danish pension system remains both financially and socially sustainable.

## 6.1 Introduction: The Danish pension system

The Danish pension funds administer investments worth more than EUR 670 billion. The main aim of these investments is to give the pension savers the best possible rate of return. 2022 was challenging and the worst year since the 2008 financial crisis. The insurance and pension sector lost a total of 92-93 billion euro—primarily due to losses on bonds and interest rate derivatives from rising interest rates. In 2023 the trend reversed with large increases and is now back on track.

The average real net return of industry-wide pensions funds was 7.1% in 2024, -0.5% for company pension funds, and 16.5.0% for life insurance, compared to -31.1% in 2022 for pensions funds (industry- and company-wide) and -20.33% for life insurance (in 2022 the real return was weaker than the nominal return as inflation pushed the losses further into negative territory).

Despite the huge losses in 2022, the annual real net returns since 2017 until now have been 3.0% for industry-wide pension funds, 0.6% in company pension funds and -1.1% in life insurance funds.

The Danish ATP, in particular, suffered and experienced large investment losses in especially the first half of 2022. The real return of ATP, whose investment portfolio consisted mainly of long-term interest-bearing securities, was nearly -38% (EUR -8,6 billion). The crash of Arbejdsmarkedets Tillægspension (ATP) stands out and generated significant debate, given that it is a mandatory pension saving scheme. Even though all of the country's pension companies had to report significant losses on their investments in 2022 the situation in ATP was called catastrophic due to the fact that the loss in ATP's case was several times larger than that of the others.

In 2023, many pension companies regained what they lost the previous year, but for ATP, with a loss of EUR 8.6 billion in 2022 and a result of EUR 0.76 billion, this was certainly not the case. Again in 2024 ATP pension fund reported a negative investment return (-0.6%) compared to +5.5 % (EUR 0.76 billion) in 2023. Due to the weak result, ATP's investment strategy has been a recurring topic of public and expert debate. Some economists and commentators argue that ATP's conservative portfolio structure — with a relatively low equity exposure — may have limited potential returns for members, particularly during periods of strong market growth. Critics suggest that the fund could deliver higher long-term returns if it accepted greater risk, while supporters emphasize the importance of security, predictability, and fairness in a mandatory national pension scheme.

**Table 6.1 – Product categories analysed in Denmark**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Industry-wide pension funds	Occupational (Pillar II)	2000	2024
Life Insurance funds	Voluntary (Pillar III)	2000	2024
Company pensions funds	Occupational (Pillar II)	2016	2024

**Table 6.2 – Annualised net return of Danish pension funds and life insurances (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	Whole reporting period	10 years	
Industry-wide pension funds	7.1%	-0.8%	2.1%	3.0%	2.7%	3.3%	en
Life Insurance funds	16.8%	-2.4%	-0.6%	0.6%	2.7%	1.2%	en
Company pensions funds <sup>a</sup>	-0.5%	-6.7%	-2.7%	-1.1%	0.1%	NA	en

*Data:* Danske Finanstilsynet, FaktaOmPension.dk, Danske Finanstilsynet, Eurostat; *Calculations:* BETTER FINA

<sup>a</sup> Entry fees apply to this product category but data are unavailable; returns are calculated on the invested p contributions only

Historically, the returns have been high, on average close to a real return of 5% after tax over the past 10-15 years (if we disregard 2022). The pension sector has been able to weather major crises such as the financial crisis, the period with low interest rates and the corona crisis. Although we have periodically seen declines, for example in connection with the corona crisis, the political situation with the trade war between the USA and China, Brexit (and currently with the war in Ukraine, where we do not yet know the effects), even significant losses have proven to be more than compensated. The largest investment losses are typically observed within the market interest-based pension schemes, while the guaranteed pension schemes typically achieved a result of just below zero. This illustrates a more cautious investment policy for the guaranteed products.

### 6.1.1 Pension system in Denmark: An overview

The Danish pension system is a three-pillar system:

- The aim of the first pillar (Pillar I) is to prevent poverty in old age. Pillar I provides all Danish pensioners with a minimum pension throughout life, and the size of the pension depends on the individual pensioner's income and assets. In addition to the national pension, pillar I consists of ATP (labour market supplementary pension). ATP is legally binding for all wage earners. The contribution is the same for everyone and therefore not dependent on salary but dependent on one's working hours. The employer pays 2/3 and the employee 1/3. The pension benefit is a guaranteed annuity.
- The second pillar (Pillar II) is based on collective agreements in the labour market or employment contracts ensuring that the individual contributes to a de-

financed contribution, funded pension scheme. Collective agreements determine the contribution rates, and the pension therefore depends on income earned throughout the working career. Pillar II aims to secure a standard of living reflecting the level of income before retirement.

- The third pillar (Pillar III) provides individuals with opportunities for supplementary saving based on their needs, both in explicit pension saving schemes with special tax treatment and in general voluntary savings.

Statutory ages in the pension system (for public pensions, for early retirement, and age limits for payment of funds from pension schemes) are established by law and thus regulated at the political level. The effective retirement age has been gradually increasing over the years, and it is currently set at 67 years old. A sequence of reforms has tightened the possibilities for early retirement and increased the statutory pension age (and early retirement age). The statutory pension age has increased in steps from 65 years old to reach 67 years old in 2022. Thereafter the statutory retirement age is indexed to the evolution of life expectancy. There is a "speed limit" stipulating that the statutory retirement age can be increased by more than one year every fifth year. In accordance with the indexation rules, parliament decided in 2015 to raise the statutory retirement to 68 years old in 2030, and in 2020 it was increased to 69 years old in 2035. In May 2025 the statutory retirement age was according to the evolution of life expectancy, increased to 70 years but the leading party in the government (the Social Democrats) announced that it was the last time they've voted for the automatic increase and that they would no longer follow the current agreement on retirement ages increasing alongside increased life expectancy. Politically, this has led to an intense debate which will continue up to the next parliamentary election, as the ongoing debate regarding work versus leisure requires attention.

The sustainability of the system depends critically on this development in retirement ages (increasing alongside increases in life expectancy). For the time being, the indexation scheme is being debated, and it is questioned whether it is too harsh, especially when implying a statutory pension age above 70 years. This can be a challenge, as many want to retire much earlier as they become wealthier due to the occupational pensions, and debates have arisen about more flexible exit routes from the labour market in order to encourage people to work longer.

The higher statutory pension age has also prompted a discussion of early exit options from the labour market for those who have reduced work capability, but not to the extent that they are eligible for a disability pension. In 2020, the so-called senior pension was introduced, giving the option to retire six years prior to reaching the statutory retirement age, provided work capability is reduced (unable to work at least 15 hours per week) and there is a sufficiently strong work record. A new scheme "early pension" (*tidlig* pension) was introduced in January 2022, available to individuals who, at the age of 61, have worked at least 42 years in the labour market.

For the moment it is unclear whether the government still wants to keep the senior and the early pension.

Finally, early retirement (*efterløn*) remains an option to retire within a window (reduced from five to three years after reforms) before reaching the statutory pension age for individuals who have contributed to the scheme for at least 30 years. The

number of individuals eligible for early retirement is decreasing.

## **Pillar I**

Pillar I essentially consists of two pension plans: the tax-financed public pension (*Folkepension*) and the ATP, a mandatory pension scheme that covers the majority of the population. Both schemes are regulated by law. The state pension (*Folkepension*) includes a basic amount (flat-rate pension) and means-tested supplements — I: supplementary pension (*pensionstillægget*) and II: supplementary pension benefit (*ældrecheck*). In addition, there are needs-based supplement, e.g., housing, medical expenses. The supplements are means-tested on a family basis.

Everyone is entitled to the public pension upon reaching the statutory retirement age, provided they meet the residence requirement and their earned income is below a certain threshold. Public pensions are indexed to wages. The state pension consists of a basic pension and a personal supplementary pension. For 2024 the base pension is DKK 83 136 per year (EUR 11 129), and the maximum supplement (for a single person) is DKK 96 192 per year (EUR 12 877). The means-testing is relatively complicated, depending on family circumstances and other sources of income.

## **ATP (The Labour Market Supplementary Pension Scheme)**

ATP (*Arbejdsmarkedets Tillægspension*) is Denmark's largest pension fund and one of the largest pension funds in Europe. ATP manages assets of approximately EUR 147 billion, placing it among the top funds in Europe, alongside major players like ABP in the Netherlands and Alecta in Sweden. ATP is part of the Danish welfare system for old-age pensioners (introduced in 1964). By law, all wage earners and recipients of transfer income contribute to the supplementary labour market pension. It is a contribution-funded scheme to which everyone pays the same fixed amount, depending on working hours. In 2024, the annual contribution amounts to DKK 3564 (EUR 475), a rate that has remained unchanged in nominal terms since 2016. For employees, the contribution is shared between employer and employee, with employers paying two-thirds and employees one-third through their salary. Self-employed persons pay the full annual contribution of DKK 3,564 themselves. The pension benefit takes the form of a guaranteed life annuity, and for a person in full-time employment, the ATP pension corresponds to roughly one-third of the basic public pension.

As of 2020, a mandatory pension scheme has been introduced for recipients of public transfers. The contribution rate, paid by the state, starts at 0.3% and increases in steps to 3.3% in 2030. The contributions are part of the ATP-pension.

## **Pillar II**

Occupational pensions are the result of collective bargaining. Before 1990, Pillar II schemes were almost exclusively for civil servants and white-collar workers in the private sector. A tripartite agreement between the government and the social partners in the late 1980s resulted in occupational pension schemes being available to the larger part of the labour market.

**Pillar II DB schemes:** Previously, it was common for civil servants in both the state and local governments to be entitled to a tax-financed DB pension (*Tjenestemandspension*). These schemes are being phased out.

### **Pillar III**

In principle, Pillar III pension schemes provide the same opportunities for the individual citizen as occupational schemes. The products available and tax rules are approximately identical. Individual schemes are offered by banks, insurance companies, and most pension funds, but only if the saver is already enrolled through their job. The strong growth of Pillar II schemes has, to some extent, diminished interest in individual savings in explicit pension schemes. Also, changes in tax regulation have negatively affected the demand for Pillar III schemes. Moreover, many households hold assets outside the pension scheme, primarily in the form of real estate and shares.

### **Transition from Pillar I to Pillars II and III**

The Danish pension system is transitioning from being largely based on defined-benefit, tax-financed pensions to a greater role for defined-contribution, funded occupational pensions. The latter were expanded to most of the labour market in the 1990s and will mature over the two decades. It is expected that by 2040, pension payments will correspond to contributions and we will see the first large cohorts of pensioners who have saved for their pension throughout their working lives. However, payments from the labour market pension are expected to overtake the national pension as early as 2030.

The arrangement serves both to ensure decent pensions for all pensioners, and to maintain pension adequacy in terms of high replacement rates. It is essential to have a robust pension system to ensure the confidence of the financial markets in the long-term sustainability of the economy.

The system is financially robust and prepared for an ageing population, which is absolutely essential to maintain confidence of financial markets in the long-term sustainability of the economy. In international comparisons, the Danish pension system stands out for its low poverty rates among the elderly and high replacement rates. Financial viability, against the backdrop of large demographic shifts, is ensured. This position is reflected by its consistent ranking in the top A-tier, after the Netherlands and Iceland, in the Melbourne Mercer Global Pension Index 2024 (Mercer et al. [Mercer], 2024).

The challenges for the system include how to ensure an incentive structure that supports saving and later retirement. The sustainability of the system depends critically on retirement ages increasing in line with rising life expectancy, as mentioned earlier. The heterogeneity in work careers and health has prompted debates on introducing more flexible exit routes from the labour market to encourage people to work for longer.

In 2024, a significant step was taken in this direction, as working pensioners no longer experience income deductions in their basic state pension (*Folkepension*). This re-

form strengthens the incentive for older individuals to remain in the labour market while receiving their pension. At the same time, state pension benefits were increased by 3.3%.

In addition, Denmark has since 2019 offers a tax-free senior premium (*seniorpræmie*) for individuals born in 1954 or later who continue working after reaching the statutory retirement age. Eligible persons who remain in employment for at least 1560 hours within the first year after reaching the pension age receive a tax-free lump sum of DKK 48 555 (2025), and those who continue for a second year receive DKK 28 902 (2025). The premium is adjusted annually and can be earned independently for each year of work after pension age. Together with the removal of the pension offset for employment income, this measure has further strengthened incentives for older workers to remain in the labour market.

Politically, the debate over the Danish pension system is expected to intensify in the run-up to the next parliamentary election, which is less than a year away. Discussions are likely to focus on how to adjust and secure the long-term sustainability of the pension system, while maintaining a fair balance between work and leisure. Moreover, it remains a challenge that not all groups are yet covered by occupational pension arrangements.

## 6.2 Long-term and pension savings vehicles in Denmark

Private pension schemes are administered by pension funds, insurance companies, or banks. This applies to both Pillar II and Pillar III.

A Danish industry-wide pension fund (*pensionskasse*) is a legal entity owned and governed by its members. A *pensionskasse* can offer the same kind of products as a life insurance company and is subject to the same regulations as a life insurance company - specifically, the Solvency II Directive.

The first occupational schemes for civil servants were established in *pensionskasser*, which provided pension schemes for specific professions, e.g. nurses, whereas occupational pension schemes in the private sector originally covered employees with different professional backgrounds working within the same company. Such schemes used a life insurance company as a vehicle.

Today, the differences between the legal forms have lost importance. Many occupational pension schemes in the private sector are now industry-wide and administered by life insurance companies. But still, a distinction is often made between industry-wide schemes and company schemes.

Industry-wide schemes are typically more standardised, offering limited freedom of choice to individual members, as all decisions are made collectively. The pension provider is only indirectly exposed to competition since customer mobility is low. These characteristics generally make these schemes relatively affordable.

Insurance companies administering company schemes are more exposed to competition, as company schemes more frequently switch pension providers. In general,

company schemes offer more individual options, e.g., regarding insurance coverage and the choice between a guaranteed or non-guaranteed scheme. Therefore — overall — the insurance companies have higher costs, particularly related to acquisition and individual counselling.

An occupational pension scheme typically provides coverage for old age, disability, and early death. Coverage for critical illness and even healthcare are other insurance benefits that have become common. Typically, 15%–25% of contributions are allocated to cover social risks other than old age, a trend that appears to be increasing.

The supply of pension products is regulated partly by tax law and partly by general regulations for insurance and banking. The regulation is the same for both Pillar II and Pillar III. This means that insurance companies and pension funds, on the one hand, and banks, on the other, provide competing products to the market. Products offered by life insurance companies and pension funds may accumulate savings but must also cover some kind of insurance risk — such as longevity, death, or disability — whereas banks can only act as intermediaries of insurance coverage supplementary to a saving product.

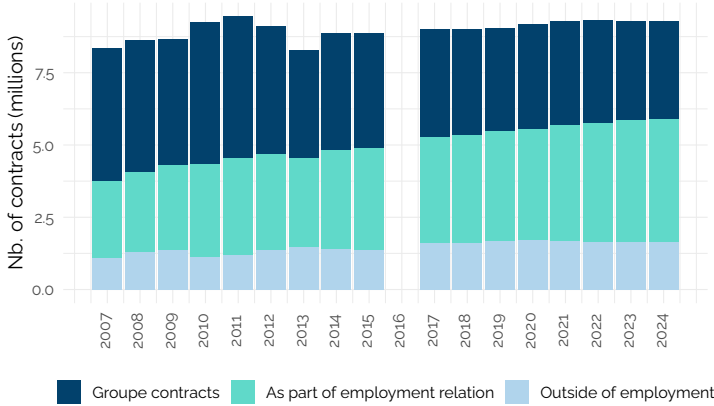
The number of contracts outside employment relationships has risen from around 15% to 22% of all contracts from 2007 to the present. Meanwhile, employment-based contracts have gained ground, increasing from about one-third of total contracts 15 years ago to nearly half today. Group contracts, however, have moved in the opposite direction: once comprising 50–60% of all contracts, they have now dropped to less than 40%.

As shown in Figure 6.2, life insurance has grown quite significantly over the past 20 years and today holds by far the largest assets under management, largely because many occupational pension schemes are administered by life insurance companies. Banks are managing a progressively smaller share, though they have maintained their position in the past two years, with only a marginal decrease of 0.1% from 2021 to 2022, followed by a slight increase to 8.1% in 2023. Industry-wide pensions remain more or less stable. Pension companies have consistently held the smallest share, and today only manage around 1%.

ATP is not included in the figure due to its special role, as it was established by law with statutory pensions and is considered a Pillar I pension. Until recently, ATP was the largest pension and administration company in Denmark, but according to Børsen (October 2025), PFA Pension has now overtaken ATP, with total assets under management rising to DKK 732 billion, compared to ATP's DKK 701 billion reported in its 2024 financial statement. The difference, however, is largely due to ATP's sensitivity to interest-rate developments: as interest rates fall, ATP's bond portfolio typically gains in value, which would increase its total assets again.

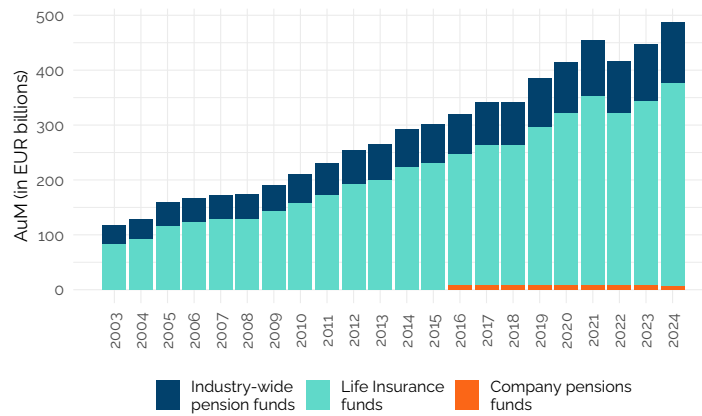
Figure 6.3 and Figure 6.4 display the breakdown of AuM by type of products in life insurance and industry-wide pension funds. As we can see, unit-linked contracts ("market rate products"), which were non-existent until 2001, now represent two thirds of all AuM in life insurance (EUR 230.3 billion). By contrast, capital-guaranteed life insurance ("average interest rate products") seems to have reached a ceiling

**Figure 6.1 – Life insurance contracts by type of contract (thousands)**



Data: Finanstilsynet.

**Figure 6.2 – AuM of Danish life insurance and pension funds (in bln EUR)**



Data: Danske Finanstilsynet; Calculations: BETTER FINANCE.

slightly above EUR 100 billion since 2006-2007 (EUR 106.5 billion in 2023). Conversely, in industry-wide pension funds, capital-guaranteed products still by far constitute the largest share of AuM, with a much more limited growth of unit-linked products.

## 6.2.1 Pillar II: Occupational pension funds

Occupational pensions are an outcome of collective bargaining.<sup>1</sup> Before 1990, Pillar II schemes were almost exclusively for civil servants and white-collar workers in the private sector. A tripartite agreement between the government and social partners in the late 1980s resulted in occupational pension schemes for the larger part of the labour market.

Contribution rates were gradually increased during the 1990s and 2000s and have for most sectors remained broadly stable since around 2010. However, rates vary across occupational groups and collective agreements. The typical contribution for private-sector workers is still around 12% of earnings (with the employer paying two-thirds and the employee one-third), although some agreements — for example in retail and administrative sectors — have increased to 13% as of 2025. In the public sector, contribution rates are generally higher, often between 15% and 18%. As the occupational pension schemes were only fully phased in from the 1990s onward, most pension funds are still in a net accumulation phase, with contributions exceeding pay-outs. Contribution structures continue to evolve through collective bargaining and, occasionally, tripartite agreements — such as the 2023 accord granting extraordinary wage increases for nurses — reflecting the adaptability of the Danish labour market model.

Total contributions to occupational pension schemes amounted to DKK 141 billion (EUR 18.8 billion) in 2024, setting another new record. We also saw a record in 2023 that more than doubling the amount contributed 20 years ago (Forsikrig & Pension [Pension], 2024). The increase in 2024 is linked to continuously rising employment and rising wages, which has driven up occupational pension contributions. Payments to privately subscribed pension schemes have also grown after almost stagnation in 2023, rising from DKK 17.1 billion in 2022 to 17.2 billion in 2023 and further to DKK 18.3 billion (EUR 2.4) in 2024.

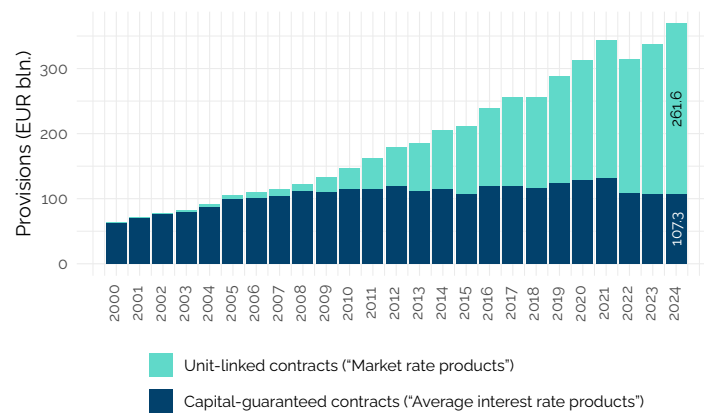
In 2024, Danes contributed DKK 159 billion (EUR 21.2 billion) to pension savings, marking an increase of 4.7% compared to 3.3% in 2023, which was already the highest recorded amount since these statistics began in 2002. At the same time, the insurance and pension sector generated a return of EUR 46 billion.

All private pension schemes are fully funded, with the vast majority being DC schemes. Even in the very few DB schemes, where the employer guarantees a pension proportional to the salary, the guarantee must be funded in a pension fund

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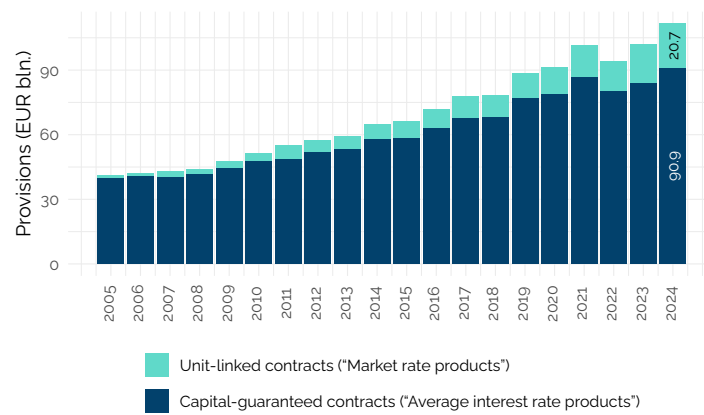
<sup>1</sup>Collective agreements cover a large part of the labour market. There is a long-standing tradition of tripartite consultations between the government, unions and employers' organisations, with labour market issues generally settled by collective agreement rather than by law. The establishment of occupational pensions is an example of this. An agreement of the three parties was made in 1987, marking the beginning of the gradual introduction of occupational pension schemes to large parts of the private labour market (most public employees were already covered)

**Figure 6.3 – Life insurance provisions by type of management (EUR bln.)**



Data: Danske Finanstilsynet; Calculations: BETTER FINANCE.

**Figure 6.4 – Industry-wide pension fund provisions by type of management (EUR bln.)**



Data: Danske Finanstilsynet; Calculations: BETTER FINANCE.

or a life insurance company.

Between 80% and 90% of all working people contribute to a Pillar II scheme within a year. However, there is a so-called residual group comprising (i) persons not covered by an occupational pension, (ii) persons with interrupted working careers (e.g., due to unemployment, sickness, or parental leave), who may not contribute consistently throughout their working years, and (iii) self-employed individuals. Ongoing discussions aim to address this issue, with the recently introduced mandatory pension (see above) representing a partial solution. Pillar II schemes are typically established in life insurance companies, pension funds (*pensionskasser*) or—less commonly—in banks (around 3.5-4%).

**Pillar DC:** Today, only about 30 000 civil servants in the state are still entitled to this type of pension upon retirement and is continuously falling. Civil servants in local governments now enrol in DC schemes, and the very few remaining DB schemes are typically funded through insurance companies. A small number of private companies still offer DB schemes for some of their employees. These schemes are funded in dedicated pension funds—Pensions company funds *firmapensionskasser*. Their importance has been decreasing for many years, along with their total assets and the number of people insured. Today, only four *firmapensionskasser* hold assets exceeding DKK 1000 million (EUR 134 million), constituting around 1% of the total market, and most of these funds no longer enrol new members.

## 6.2.2 Pillar III

In principle, Pillar III pension schemes offer the same opportunities for individual citizen as occupational schemes. The products available and tax rules are approximately identical. Individual schemes are provided by banks, insurance companies and most pension funds.

As mentioned earlier, the strong growth of Pillar II schemes has reduced the interest in individual savings in specific pension schemes. While the number of occupational schemes increased by 34% from 2000 till 2022 individual schemes fell by 36%.

In 2000, around 1064 thousand people contributed to one or more individually subscribed pension schemes. The number declined steadily until 2013 (to about 571 thousand), before increasing again to around 676 thousand in 2021. The sharp fall in 2013 mainly reflects the transition from kapitalpension to alderopsparing. It likely took time for savers to familiarise themselves with the new scheme, and the introduction of a contribution cap on ratepension in 2012 also contributed to the decline. Since then, participation has fluctuated somewhat. A notable drop between 2018 and 2019 appears mainly linked to tax-related changes, including the introduction of a contribution ceiling for ratepension and the conversion of some contracts into alderopsparing, rather than a real decline in interest in individual saving. By 2024, the number of contributors had returned to roughly the same level as in 2018.

In 2024, contributions to individual schemes were nominally DKK 18 301 million. (EUR 2446 million). As already mentioned, tax rules have changed, especially for periodic instalments and lump sum pensions, which may have had an impact on the demand for Pillar III schemes. In Pillar II schemes, regulatory changes have led to growing

contributions to lifelong annuities, but the same substitution has not been observed in Pillar III. Savings in banks used to play a more important role for individual schemes than for occupational schemes. Until 2013, when the tax regulation for lump sum pensions was changed, individual pension saving schemes were predominantly held in banks rather than in insurance companies or pension funds. Today (in 2024), about 45% of contributions were held in insurance companies or pension funds, just under 30% in banks, and the remaining 25% were uncategorised in the available statistics.

## 6.3 Charges

The level of costs has received increasing attention in recent years, partly due to the low rate of interest in the market until mid-2022.

Analysis from The Money and Pension Panel—an ad hoc council under the Ministry of Industry, Business and Financial Affairs— indicate that even minor increases in Annual Percentage Rate (APR) can significantly impact pension savings. The panel calculated that a 0.5 percentage point rise in APR could necessitate delaying retirement by approximately two years to maintain expected living standards in old age, according to a 2018 report.

The Danish FSA has analysed the development of administration costs, including costs related to acquisitions and sales, but excluding investment costs. Administration costs have declined over the last 10 years to 0.19% of total provisions in 2017, before rising slightly again. The FSA distinguishes between market-oriented insurance companies (mainly running company pension schemes) and non-market-oriented insurance companies/pension funds (mainly running industry-wide pension schemes). Since industry-wide pension schemes are typically governed by customer representatives, and since their schemes are often very standardised, they are generally cheaper to administer than company schemes.

Transparency of costs has increased. Since 2011, life insurance companies and pension funds have agreed to inform all their customers of their total charges in DKK (ÅOK) and their total charges as a percentage of the value of their pension savings (ÅOP) calculated on the basis of the total value of their savings at year-end.

These key figures include direct and indirect administration costs, direct and indirect investment costs, charges to the company for any guarantees and other kinds of risks, as well as any charges paid by the life insurance company to intermediaries. How total costs are allocated to individual customers is decided by each insurance company or pension fund, but the key for distribution is controlled by the external auditor to ensure consistency between the figures in the annual report and total distributed charges (ÅOK/ÅOP).

For market comparisons between life-insurance companies and pension funds, key figures for several standardised examples are published on the website [faktaompension.dk](http://faktaompension.dk). While higher administration costs always lead to lower pension benefits, it is difficult to evaluate investment costs. Investing in government bonds is very cheap, but it may not be the most profitable investment. On the other hand, investing in foreign equities is more expensive, but may offer a higher expected re-

**Table 6.3 – Comparative examples of charges between different pension products and types**

	Pension Danmark			Danica Pension			PFA		
	I	II	III	I	II	III	I	II	III
Total costs %	1.7	0.6	0.6	4.7	1.2	1	2.3	0.9	0.7
Total costs EUR	66.0	492.0	1 623.0	177.0	933.0	2 793	77.0	682.0	2 096.0
Total costs DKK	489.0	3 668.0	12 104.0	1 317.0	6 957.0	20 831	571.0	5 088.0	15 632.0
Of which Administration	320.0	320.0	320.0	984.0	984.0	1 098	414.0	690.0	1 104.0
Of which Investment	169.0	3 348.0	11 784.0	333.0	5 973.0	19 733	225.0	4 512.0	14 914.0

Data: faktaompension.dk, 2025.

turn. Therefore, the relationship between investment costs, investment risks, and expected investment return is not straightforward. Furthermore, pension companies' investment management must take their liabilities into consideration. Some investments are made to hedge risks against, for example, changes in interest rates. When comparing investment costs, one must also consider the existence of guarantees.

The website faktaompension.dk offers the possibility to compare total charges of various pension companies for various types of customers. All figures are calculated and reported by the pension companies, and the website is run by the Danish Insurance Association. Additionally, the website pensionsinfo.dk provides individuals with access to information on all pension entitlements—public and private—and thus essential information to assess the adequacy of pension savings. The website also includes tools to assess the impact of retirement age on pension benefits. To increase transparency and facilitate comparisons, projections of future pension levels are also presented using common return expectations determined by the Council for Return Expectations.<sup>2</sup>

Table 6.3 illustrates cost levels and costs structures for three typical different persons at different positions in the life-cycle (average for the 5 biggest companies).<sup>3</sup> Costs in percent (ÅOP) are relative higher for young than older contributors, reflecting their lower level of accumulated assets. Administrative costs are relatively constant across types and hence matter relatively less - although purely occupational pension providers, such as PensionDanmark (which has included coverage for loss of earning capacity and critical illness in some of its plans) have lower administration costs than others. Investment costs, on the other hand, are higher for older contributors with larger accumulated assets. In general, charges are lower in the industry-wide schemes (Pillar II companies) which have the highest degree of standardisation and no acquisition costs. Charges in Life-Insurance (Pillar III) are about double those in Pension companies; see Table 6.4 and Table 6.5].

As seen in Table 6.4 and Table 6.5 charges in life insurance (Pillar III) are about double

<sup>2</sup>afkastforventninger.dk

<sup>3</sup>Type I: Age below 40, annual contribution DKK 30 000, assets= 0, Type II: Age 40-55, annual contribution DKK 30-80000, assets DKK 500 000, Type III: Age above 55, annual contribution at least DKK 80 000, Assets DKK 2. mio.

**Table 6.4 – Costs and charges of Danish industry-wide pension funds**

Year	Admin. and mgt. fees	Contract mgt. fees	Total Expense Ratio
2000	NA	NA	0.40%
2001	NA	NA	0.35%
2002	NA	NA	0.34%
2003	NA	NA	0.33%
2004	NA	NA	0.35%
2005	NA	NA	0.17%
2006	NA	NA	0.16%
2007	0.06%	EUR 49.92	0.14%
2008	0.07%	EUR 51.96	0.13%
2009	0.06%	EUR 53.82	0.13%
2010	0.05%	EUR 46.89	0.13%
2011	0.05%	EUR 51.96	0.14%
2012	0.05%	EUR 53.71	0.12%
2013	0.04%	EUR 56.37	0.11%
2014	0.04%	EUR 54.16	0.10%
2015	0.05%	EUR 48.04	0.10%
2016	NA	NA	0.10%
2017	0.03%	EUR 53.67	0.10%
2018	0.04%	EUR 54.17	0.11%
2019	0.04%	EUR 61.31	0.10%
2020	0.04%	EUR 61.92	0.11%
2021	0.04%	EUR 61.18	0.12%
2022	0.05%	EUR 57.66	0.22%
2023	0.06%	EUR 64.13	0.16%
2024	0.06%	EUR 67.28	0.24%

*Data:* FaktaOmPension.dk, Danske Finanstilsynet; *Calculations:* BETTER FINANCE.

**Table 6.5 – Costs and charges of Danish industry-wide pension funds**

Year	Acquisition fees <sup>1</sup>	Admin. and mgt. fees	Contract mgt. fees	Total Expense Ratio
2000	NA	NA	NA	0.68%
2001	NA	NA	NA	0.65%
2002	NA	NA	NA	10.86%
2003	NA	NA	NA	0.77%
2004	NA	NA	NA	0.64%
2005	NA	NA	NA	0.60%
2006	NA	NA	NA	0.56%
2007	1.88%	0.17%	EUR 49.92	0.55%
2008	1.73%	0.18%	EUR 51.96	0.55%
2009	1.87%	0.17%	EUR 53.82	0.54%
2010	1.34%	0.17%	EUR 46.89	0.41%
2011	1.24%	0.16%	EUR 51.96	0.43%
2012	1.15%	0.15%	EUR 53.71	0.40%
2013	1.08%	0.16%	EUR 56.37	0.35%
2014	0.99%	0.16%	EUR 54.16	0.34%
2015	0.95%	0.20%	EUR 48.04	0.31%
2016	NA	NA	NA	0.25%
2017	0.80%	0.20%	EUR 53.67	0.27%
2018	0.84%	0.21%	EUR 54.17	0.27%
2019	0.74%	0.21%	EUR 61.31	0.26%
2020	0.61%	0.20%	EUR 61.92	0.23%
2021	0.71%	0.21%	EUR 61.18	0.22%
2022	0.91%	0.24%	EUR 57.66	0.23%
2023	0.86%	0.23%	EUR 64.13	0.25%
2024	0.76%	0.24%	EUR 67.28	0.46%

*Data:* FaktaOmPension.dk, Danske Finanstilsynet; *Calculations:* BETTER FINANCE.

those in pension companies. There are several reasons for this. Generally, costs in life insurance companies and pension funds differ in terms of investment and administration expenses, influenced by factors such as the size of the institution, regulatory requirements, and the types of investment products offered. Life insurance companies often use complex financial products to support their guaranteed benefits, which typically require conservative investments and can be costly to administer. In contrast, pension funds without guaranteed returns may use lower-cost structures with higher exposure to equities and other more volatile assets, which can reduce expenses. Also, larger pension funds, such as PensionDanmark, may benefit from economies of scale, allowing them to maintain lower costs per member compared to smaller life insurance companies. For example, PensionDanmark has relatively low costs per member due to their substantial capital base, which enables them to negotiate better terms on investment products. It is worth mentioning, however, that these differences have been significantly reduced, likely due to increased focus on charges.

## 6.4 Taxation

Numerous changes in taxation have affected pension savings. The general trend has been to decrease marginal income taxes and broaden tax bases. Under the ETT scheme, the tax value of the deduction for a marginal increase in contributions depends on the marginal tax rate when contributions are made, while the taxation of the resulting pension depends on the marginal tax rate in retirement. In a progressive tax system, this marginal tax rate in retirement tends to be lower than during the contribution period (especially for middle-income groups), effectively creating an implicit tax subsidy for pension savings. Tax reforms that have reduced the progressivity of the tax system have therefore reduced this subsidy.

Taxation of returns was introduced as early as 1984. From that year, all interest earnings in pension schemes were taxed at a variable tax rate aimed at taxing all real interest above 3.5%. In 1998, this real interest rate tax was replaced by a proportional tax rate on all yields from pension assets. The tax rate is currently 15.3%, which is lower than the general taxation of capital income. For example, personal income tax rates on dividends and capital gains are 42% for income above EUR 8166 (2024) and 27% for income up to EUR 8166. The Danish Parliament had originally announced a significant increase in the upper threshold for the lower capital gains tax to the limit EUR 10 704 from 2025. However, it has been postponed to 2026 (as part of the financing of the Entrepreneurship Package (*Iværksætterpakken*), which includes the abolition of the so-called "tax from hell" (*lagerbeskatningen*) on unlisted shares. The delay means that the threshold for the 27% tax rate on capital income will be DKK 61 000 (EUR 8,166) in 2024 and DKK 67 500 in 2025, before increasing to the planned higher level in 2026. This change affects the timing of tax relief for investors and slightly prolongs the period during which capital income, including some pension-related investments held outside tax-advantaged schemes, will be taxed at the higher marginal rate.

Looking at the top rate of 42%, Denmark has the third-highest rate among OECD countries for dividend taxation, significantly higher than, for example, Norway (37.8%),

Sweden (30%), and Germany (26.4%).

Even the 27% rate is well above the OECD average of around 24%, although there are substantial differences between member countries.

A challenging design issue is how to align public and private pensions. The former are means-tested to target the least well-off pensioners. This distributional approach creates a disincentive for individuals affected by means-testing, as increasing private pension savings may reduce public pensions through means-testing. This acts as an implicit tax, which increases the effective tax beyond those applying under the ETT scheme, especially for contributions made close to retirement. Hence, higher savings or later retirement (resulting in larger contributions via occupational schemes) can lead to high effective tax rates—in some cases even exceeding 100%. This is counter-productive to the objectives of strengthening savings incentives and encouraging later retirement, a dilemma that has prompted several reforms.

There have been numerous changes to the tax rules for contributions to lump-sum and periodic instalment schemes, especially in terms of caps on contributions. For individuals—such as the self-employed—with variable incomes and the capacity to make pension contributions, there is a case for allowing large contributions in a single year. However, this can also enable high-income groups to lower effective taxation. These two concerns have influenced policies in this area.

As discussed above, the lump-sum pension scheme was closed to new contributions in 2013 and was replaced by the *aldersopsparing*. This scheme follows a TTE principle, and pension payments are excluded from means-testing of public pension. This scheme was introduced primarily to reduce high effective tax rates on pension savings made close to retirement. Contribution caps depend on an individual's age in relation to the statutory retirement age (see above), with a low cap for contributions made between 15 and 10 years prior to reaching the statutory retirement age, and a higher cap for contribution made 5 years or less prior to reaching the statutory retirement age. In addition, age-based tax reliefs for pension contributions have been introduced to reduce the effective taxation of pension savings. These reliefs involve a two-step, age-dependent tax rebate for pension contributions : 12% for contributions made between 15 and 5 years before reaching the statutory retirement age, and 32% for contributions made within 5 years of the statutory retirement age.

All these changes have added extra layers of complexity to an already complex system, meaning that taxation principles now involve a hybrid approach that combines both ETT and TTE schemes. Table 6.6 summarises this information.

## 6.5 Performance of Danish long-term and pension savings

**Table 6.6 – Taxation of pension savings in Denmark**

Product categories	<i>Contributions</i>	Phase <i>Investment returns</i>	<i>Payouts</i>	Fiscal Regime
Industry-wide pension funds	Exempted	Taxed	Taxed	ETT
Company pensions funds	Exempted	Taxed	Taxed	ETT
Life Insurance funds	Exempted	Taxed	Taxed	ETT

*Source:* BETTER FINANCE own elaboration based on Danish Tax Authority.

### 6.5.1 Real net returns of Danish long-term and pension savings

In this section, we analyse the returns obtained by the members and policyholders of Danish industry-wide pension funds (since 2005) and life insurance (since 2003). Using firm-level nominal gross return data and costs from the Danish FSA, we first calculate nominal net returns, that is, annual returns after deducting the average annual costs and charges. Returns are aggregated for each year at the level of the product category by computing the simple average of returns reported by individual firms for the year. While an asset-weighted average would, of course, better reflect the aggregate performance, firm-level data on AuM is unfortunately not available. For industry-wide pension funds, we deduct the average value of costs as a percentage of AuM reported by individual pension funds for each year. For life insurance companies, extreme outliers make the average an unreliable measure, so we instead use the median value of costs reported by life insurance companies.

Second, we adjust these nominal net returns for inflation, thereby obtaining real net returns. The inflation rates we use for this are based on Eurostat's HICP index for Denmark, as per the methodology explained in the introductory chapter. As can be observed in Figure 6.5, Denmark ranks below the EU average in terms of inflation, with an annualised inflation rate of 1.8% over the period 2000-2023, which amounts to a cumulative inflation of 53.34% over the same period, compared to 73.23% for the EU.

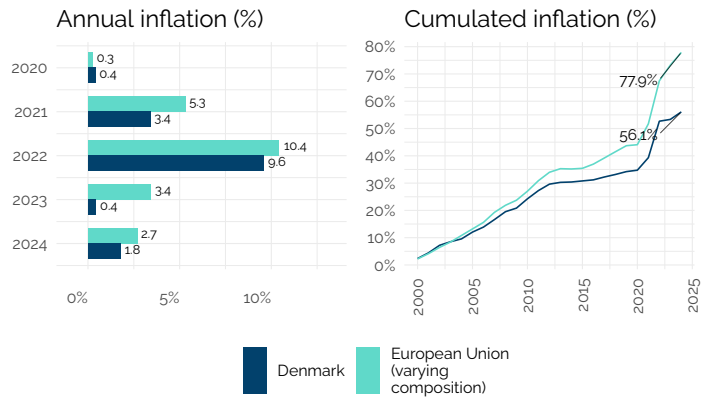
Figure 6.6 displays the returns of industry-wide pension funds over the period 2000-2024. As we can see, despite the market downturn in 2022, which resulted in losses in nominal terms (-7.6%), the recovery in 2023 (+10.3%) and the strong results of the previous years mean that for a holding period as short as 3 years, nominal annualised results are positive (+3.9%). The generally low fees levied by pension funds translate into nominal net returns that are very close to the nominal gross returns: As we can see, fees only reduce the annualised performance over 24 years by 0.2 p.p.s, and the cumulated performance over the same period by only 11.8 p.p.s.

Inflation is the factor that most affect pension funds' performance, as we can see in the annualised returns over all holding periods as well as in the cumulated returns in the lower pane of Figure 6.6. Inflation alone reduces the cumulated 24-year returns by 97.7 p.p., more than half of the cumulated nominal net returns.

**Figure 6.5 – Inflation in Denmark**

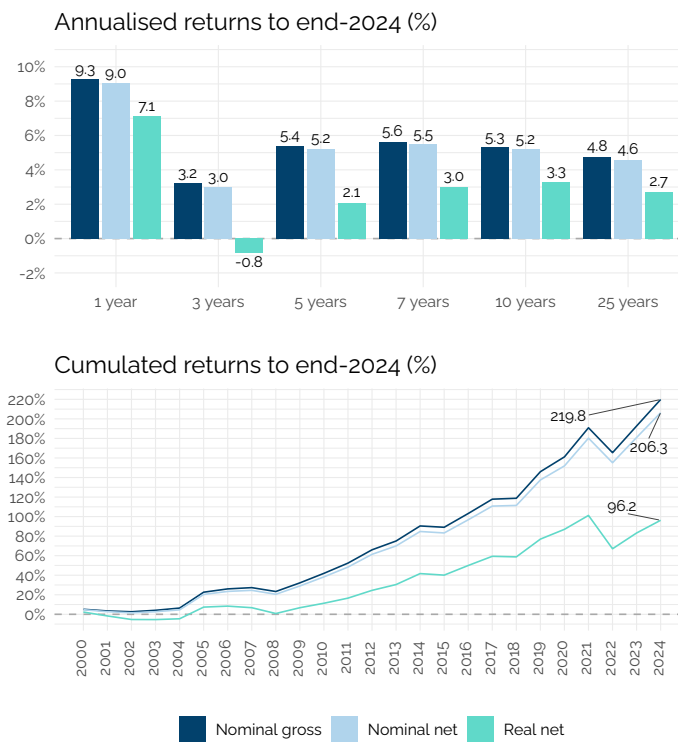
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>Denmark</i>	56.1%	1.8%



Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 6.6 – Returns of Danish industry-wide pension funds (before tax, % of AuM)**



*Data:* Danske Finanstilsynet, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Table 6.7 – Capital market benchmarks to assess the performance of Austrian long-term and pension savings**

Product category	Equity index	Bonds index	Start year	Allocation
Industry-wide pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	50%–50%
Life Insurance funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	50%–50%
Company pensions funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2016	50%–50%

*Source:* STOXX, Bloomberg; *Note:* Benchmark portfolios are rebalanced annually.

Figure 6.7 illustrates the returns obtained by life insurance policyholders over the period 2000-2024. The generally higher fees of life insurance policies translate into a slightly larger disparity between nominal returns before and after charges. Over the 24-year reporting period, charges reduce average annual performance by 0.6 p.p.s, which, in cumulative terms amounts to a 35.2 p.p.s reduction in returns. Once again, inflation is the main factor that depresses long-term returns: over the 24-year holding period, it reduces the nominal net annual average of 4% to just 2.2%, resulting in a 89 p.p.s reduction in performance over the period.

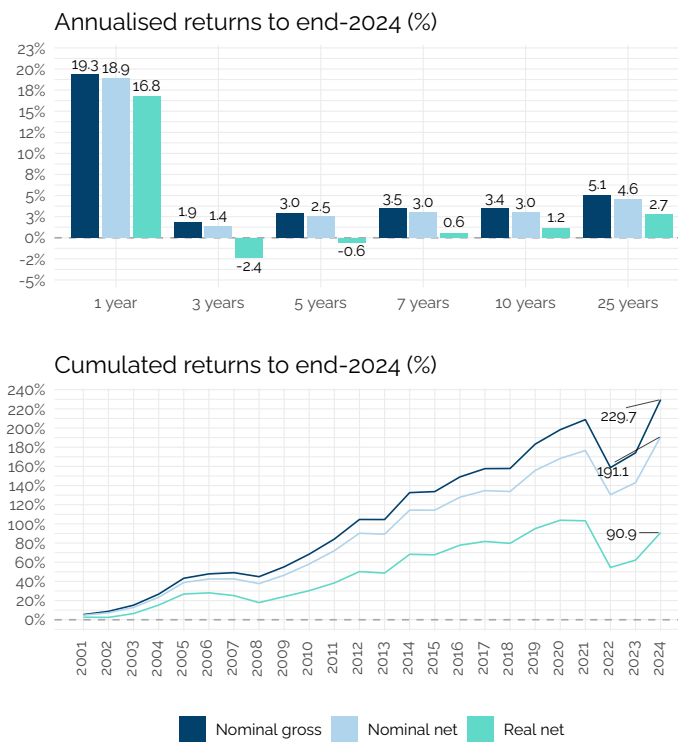
Finally, and although they represent a mere 1% of total Danish pension savings, we compute the returns of company pension funds, displayed in Figure 6.8. Even though more data is available, for this edition, we could only compile the data for the years 2016-2024, which show a pattern similar to those of industry-wide pension funds and life insurance: over the eight years, costs have a limited impact on performance (-0.2 p.p. annually, -2.1 p.p.s), while inflation virtually wipes away all performance (-2 p.p.s annually, -17.5 p.p.s cumulated), leaving members of those funds with a meagre +1.7% real net return.

Figure 6.9 and Figure 6.10 compare the annualised and cumulated returns of the three product categories. The comparison shows how similar the performance of industry-wide funds and life insurance, with very close annualised real net returns over 24 years (+2.6% and +2.2%, respectively), and generally similar evolution of cumulated returns from 2004 to 2021. The losses of industry-wide funds in the early 2000s left them behind life insurance for most of the period, until 2022, when the greater exposure of life insurance to capital markets led to greater losses that wiped away the superior returns of those contracts.

The various pension and life insurance companies generally employ slightly different investment strategies and asset compositions, as shown in Figure 6.11, Figure 6.12 and Figure 6.13.

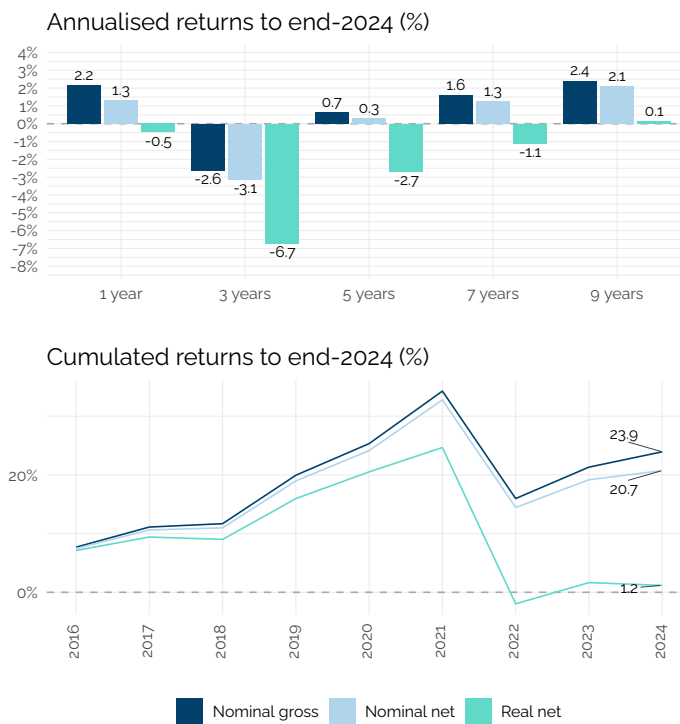
Industry-based pension funds typically focus on achieving high returns with the lowest possible risk, and they have succeeded in this approach. This group includes

**Figure 6.7 – Returns of Danish life insurance (before tax, % of AuM)**



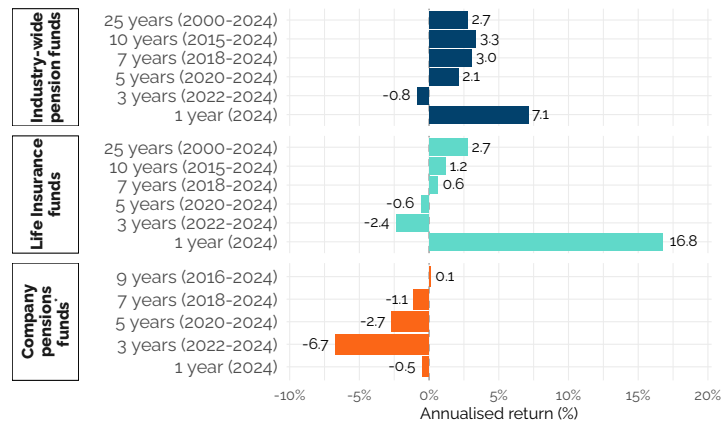
*Data:* Danske Finanstilsynet, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 6.8 – Returns of Danish company pension funds (before tax, % of AuM)**



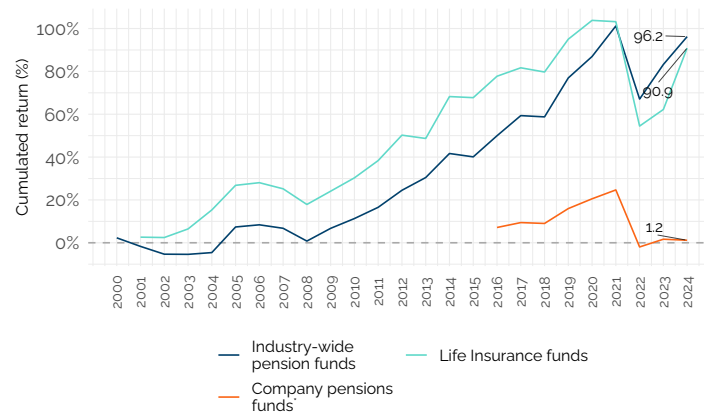
*Data:* Danske Finanstilsynet, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated only on the invested part of the amount paid-in by the investor; entry fees apply to this product category but data on those fees are insufficient to calculate returns on the full contribution.

**Figure 6.9 – Annualised returns of Danish pension funds and life insurance over varying holding periods**



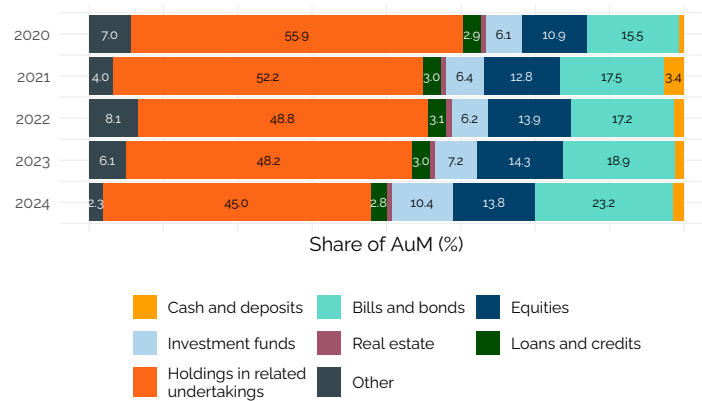
Data: Danske Finanstilsynet, Eurostat. Calculations: BETTER FINANCE; \* Returns on paid-in contributions ca

**Figure 6.10 – Cumulated returns of Danish pension funds and life insurance over varying holding periods**



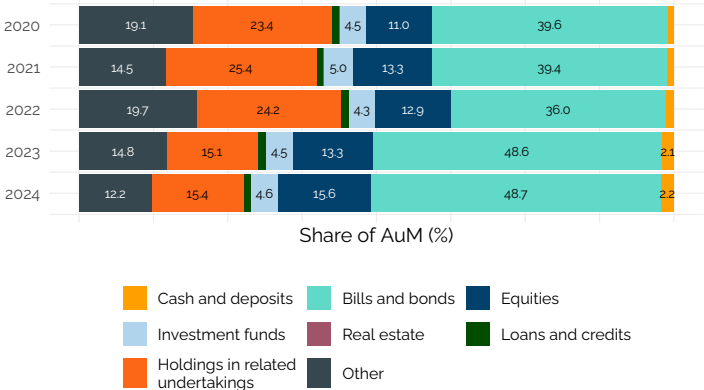
Data: Danske Finanstillsynet, Eurostat. Calculations: BETTER FINANCE; \* Returns on paid-in contributions ca

**Figure 6.11 – Allocation of assets invested in industry-wide pension funds**



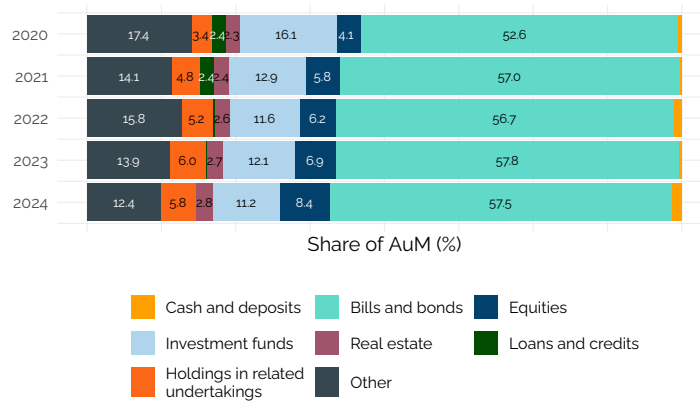
Data: Danske Finanstilsynet; Calculations: BETTER FINANCE.

**Figure 6.12 – Allocation of assets invested in life insurance**



Data: Danske Finanstilsynet; Calculations: BETTER FINANCE.

**Figure 6.13 – Allocation of assets invested in company pension funds**



Data: Danske Finanstilsynet; Calculations: BETTER FINANCE.

PensionDanmark and Industriens Pension, both ranked among the top 10 by market share. Industriens Pension has, for many years, achieved some of the industry's highest long-term returns.

Many of these funds — notably the largest, PensionDanmark — are making a significant effort for the climate, driven both by a desire to ensure long-term returns for their members and a responsibility to contribute to the green transition. They have been pioneers in the Danish pension sector, making large, direct investments in renewable energy and green infrastructure, often delivering strong and stable returns. PFA, as Denmark's largest commercial pension company, has also intensified its sustainability efforts, although its customer-owned structure distinguishes it from the purely industry-based funds.

In general, PensionDanmark maintains a low-risk and stable investment strategy, well suited to the broader labour market. The fund holds a high proportion of "related undertakings" and only around 15–18% of its assets in bonds.

In recent years, however, Danish pension funds — including PensionDanmark and Industriens Pension — have reduced their holdings of Danish equities and increasingly directed their green and alternative investments towards international markets, seeking broader diversification and stronger, risk-adjusted returns.

The Company pensions funds, which represent a very small share of the total pension market (approximately 0.9%) have steadily declined over many years. They are often closed to new members, and existing members are typically transferred to other corporate schemes. As a result, many company pension funds now primarily consist of members receiving pension benefits, which naturally influences their asset allocation. As shown in the figure, they typically hold the majority of their assets in secure bonds and investment funds.

Life insurance companies also hold a significant amount of bonds to meet their insurance obligations, with listed equities playing an important role. Their investment strategy strongly prioritises safeguarding customers' best interests. Notably, most life insurance companies also offer standard pension schemes, a category that includes the four largest pension companies in Denmark.

## 6.5.2 Do Danish savings products beat capital markets?

In this last section, we compare the computed returns to the "default" 50% equity–50% bond benchmark portfolio presented in the introductory chapter of the report.

The comparison is favourable for industry wide pension funds (Figure 6.14): With the exception of the 1-year period, these funds consistently outperform the benchmark. Over 24 years, they deliver a cumulative real net terms that exceeds the capital market benchmark by 6 p.p.s.

The comparison is slightly less flattering for life insurance funds, that fail to beat the benchmark over all holding periods, although by a short margin: -0.2 p.p. in average annual real net performance over 24 years, amounting to a 10.4 p.p.s difference in cumulated terms.

Recent analysis by Danmarks Nationalbank (2025) confirms that Danish pension

schemes—particularly unit-linked and collective funds without guarantees—have generated average annual nominal returns of around 6 % since 2016, broadly in line with or slightly above a 50/50 equity-bond benchmark. Over the long term, their risk-adjusted performance remains highly competitive with capital-market returns, thanks to diversification across global equities, infrastructure, and alternative assets.

## 6.6 Conclusions

The Danish pension system remains one of the strongest and most sustainable globally, consistently ranked in the A-tier of the Melbourne Mercer Global Pension Index 2024. This reflects both financial stability and a broad political consensus that has enabled continuous adaptation to demographic and market developments.

The three-pillar system combines tax-financed public pensions with funded occupational and private schemes, ensuring high coverage and replacement rates. Nine out of ten Danes now have an occupational pension, and most employers contribute through collective or company agreements. By 2030–2040, labour market pension payments are expected to exceed those from the national pension.

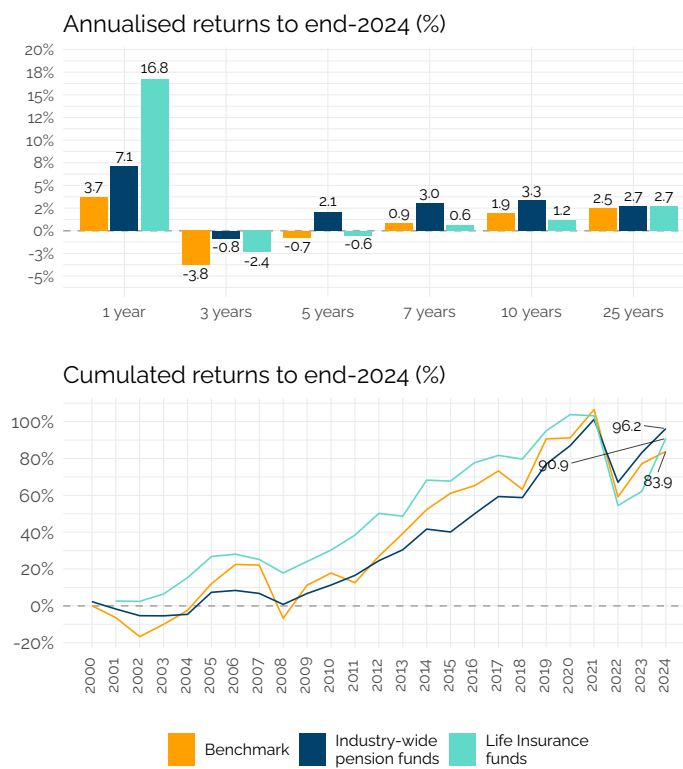
Public finances meet long-term sustainability criteria, and no major reforms are currently needed. However, challenges persist — particularly maintaining incentives to save and work longer, addressing groups still outside occupational pension coverage, and adapting to longer life expectancy.

A central issue concerns whether the statutory retirement age should continue to rise in line with life expectancy. In May 2025, the governing Social Democrats announced they would no longer support further automatic increases, breaking with a long-standing consensus. The other coalition parties—Venstre and the Moderates—wish to maintain the link, seeing it as vital for fiscal sustainability, though they also advocate a more flexible, socially balanced approach. This debate is expected to dominate the political agenda ahead of the next parliamentary election.

To support longer working lives, several reforms have strengthened economic incentives. Since 2024, employment income is no longer offset against the public pension (Folkepension), and a tax-free senior premium introduced in 2019 rewards continued employment after pension age. Eligible workers born in 1954 or later receive lump sums after one and two years of post-retirement work (DKK 48 555 and 28 902 in 2025), with planned increases from 2026. Together, these measures have significantly improved incentives to remain in the labour market. According to the Danish Agency for Labour Market and Recruitment, the number of Danes working beyond pension age has risen by 22 % since 2022, underscoring their effectiveness.

Total Danish pension assets exceed 200% of gross domestic product (GDP). After the downturn in 2022, markets rebounded in 2023–2024: Danes contributed DKK 159 billion (EUR 21.2 billion) in 2024—a 4.7 % increase—and the sector generated EUR 46 billion in returns. Historically high returns and strong funding have reinforced public confidence, though a “new normal” of lower real returns may require greater risk-taking. Danish pension funds have already expanded their global equity, infrastructure, and alternative investments while keeping costs low. Ensuring sound gov-

**Figure 6.14 – Performance of Danish industry-wide pension funds and life insurance against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: Danske Finanstilsynet, Danske Finanstilsynet, Eurostat. Calculations: BETTER FINANCE.

ernance and transparency remains essential to safeguard members' interests in a mandatory, highly funded system.

## Chapter 7

# Estonia

### Kokkuvõte

Eesti pensionisüsteem on tüüpiline Maailmapanga mitme sambaga süsteem, mis põhineb isiklikel pensionikontodel. Aastat 2024 iseloomustasid erakordsed tootlused mõlema pensionisamba vahendite puhul. Isegi kui võtta arvesse endiselt kõrget (kuid langevat) inflatsiooni, olid reaaltootlused peaaegu kõikide pensionifondide puhul positiivsed. Teise samba fondide kaalutud keskmine tootlus oli 16,93%, võrreldes kolmanda samba positiivse tootlusega 20,51% (mõlemad nominaalsed tootlused). Endiselt kõrge inflatsiooni tõttu oli teise samba fondide inflatsiooniga korrigeeritud reaalne tootlus 12,36%. Kolmanda samba reaalne tootlus oli 15,80%. Aasta 2024 oli üldiselt positiivne ja tootlus aitas pensionisäästudel taastuda 2022. aasta kahjumist nii nominaalselt kui ka reaalset. Teise samba fondide pikaajaline kaalutud keskmine reaalne tootlus ajavahemikul 2003–2024 oli 0,3% aastas. Kolmanda samba fondide puhul oli sama perioodi näitaja 1,6% aastas. 2020. aastal jõustunud vastuoluline pensionireform muutis varem kohustuslikud II samba pensionifondid vabatahtlikuks ja võimaldas pensionisäästjatel enne pensionile jäämist oma II samba säästud likvideerida. Paljud säästjad on siiski kasutanud võimalust suurendada pensionimakseid üle kohustusliku 2% piiri, et kompenseerida riikliku PAYG-süsteemi eeldatavat madalat asendusmäära pensionile jäämisel.

### Summary

The Estonian pension system is a typical World Bank multi-pillar system based on personal pension accounts. The year 2024 was characterised by exceptional returns for both pension pillar vehicles. Even if the still higher (but falling) inflation was taken into account, the real returns were positive for almost all pension funds. The weighted average return of second pillar funds was 16.93% compared to a positive return of 20.51% in the third pillar, both in nominal returns. Due to the still elevated inflation, the inflation-adjusted real return on second pillar funds was 12.36%. The third pillar's real return was 15.80%. Year 2024 was overall positive and the returns helped pension savings to recover from the 2022 losses both in nominal as well as in real terms. The long-term weighted average real return for second pillar funds over the period 2003–2024 was 0.3% per annum. For third pillar funds, the figure was 1.6% per annum over the same period. The controversial pension reform, which came into force in 2020, made the formerly mandatory Pillar II pension funds voluntary and allowed pension savers to liquidate their Pillar II savings before retirement. However, many savers have adopted possibility to increase pension contributions above mandatory 2% in order to tackle expected low replacement rate at retirement from

**Table 7.1 – Product categories analysed in Estonia**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Pillar II pension funds	Occupational (II)	2003	2024
Pillar III pension funds	Voluntary (III)	2003	2024

**Table 7.2 – Annualised net return of Estonian pension funds (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period	to...
Pillar II pension funds	12.4%	-2.2%	-0.3%	0.0%	0.3%	0.3%	end 2024
Pillar III pension funds	15.8%	-1.8%	1.0%	1.1%	1.5%	1.6%	end 2024

*Data:* Pensionikeskus, Supplementary pension funds reports, Eurostat; *Calculations:* BETTER FINANCE.

the state PAYG scheme.

## 7.1 Introduction: The Estonian pension system

This country case aims to present an overview of the Estonian pension system, with a particular emphasis on savings-based pensions products, especially pension funds that are part of the auto-enrolled (formerly mandatory) Pillar II pension funds and the voluntary Pillar III pension funds.

The year 2024 brought quite exceptional positive returns for Estonian pension savings. Pillar II pension funds returned almost 17% nominal returns on average (12.36% when adjusted for purchasing power), while savings invested in Pillar III funds increased by almost 21% on average (almost 16% when adjusted for inflation).

As can be seen in Table 7.1 the positive real returns in 2024 have been able to deliver the positive long-term real returns. While 0.3% does not sound like a lot, then it is important to consider that pension savings are a very long-term investment. The period before first starting to work (and auto-enrolling in the Pillar II pension) and the first pension payment may be as long as 45 years.<sup>1</sup>

Since the introduction of the current pension system in the early 2000s, successive governments have made various changes to the laws governing the pension system in general and Pillar II pension funds in particular. Many of these changes have been to add additional flexibility and fix issues in the early conservative design in the system with the aim of helping achieve better returns in the long run. However, the most recent reform which took place in 2021, proved also to be the most controversial.

<sup>1</sup>For example, this would be the case for someone starting work at 20 years of age in 2003 and retiring at 65—which according to current regulation would be the minimum pension age for someone of that cohort.

The previously mandatory Pillar II, in effect, was changed into a voluntary pension fund with auto-enrolment. Pension savers who had been enrolled in the Pillar II could now take out any accumulated savings at any age and opt out of the Pillar II entirely. About 30% of people with an Pillar II pension savings account had liquidated their assets between 2021 and end of August 2023. The amounts withdrawn equal approximately 4% of Estonia's GDP.<sup>2</sup>

### 7.1.1 Pension system in Estonia: An overview {sec-ee-intro-overview}

The Estonian old-age pension system is based on the World Bank multi-pillar approach. This is the result of a fundamental pension reform which began in 1998 and became fully operational by 2003. Accordingly, this report analyses the returns from the first full year of operation (2003) until the last full year of data availability (2024).

The state pension (Pillar I) should guarantee the minimum income necessary for subsistence after retirement. It is based on the PAYG principle of redistribution, i.e. the social taxes paid by today's employees cover the pensions of today's pensioners.

For those, who qualify for the old-age pension by reaching the pensionable age and minimum of 15 years of service, the old-age pension consisting of various components individual to each pensioner, related to the years of pensionable service and the social security deductions during that pensionable service, which in turn depend on the salary of the person (Sotsiaalkindlustusamet, n.d.).

The old-age pension consists of four parts:

- The main or basic part;
- The pensionable service period component, which is calculated for employment until December 31st, 1998;
- The insurance component– the personally calculated additional payment;
- The joint part consists of:
  - an insurance component of 50%. The size of the insurance component is calculated based on the received social tax. It is calculated in the same manner as the currently accumulated insurance component. For example, the size of the insurance component of a person earning average wages in Estonia is 1.0.
  - a solidary component of 50%. The solidary component is 1.0, if the social tax has been paid for the person on at least 12 times the minimum wages during the year. If the social tax paid for the person is less than the minimum annual wages, the solidary component shall be calculated proportionally.

The amount of the pensionable service period component depends on the length of employment, or the working years of the pensioner. Additional pension is calculated for the years deemed equal to employment, e.g. raising of children, compulsory military, studies at a university or vocational education institution, but also for the time the employee was temporarily incapable for work. The specific list is available in the

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<sup>2</sup>BETTER FINANCE calculation based on Pensionikeskus and Statistikaamet data.

**Table 7.3 – Overview of the Estonian pension system**

Pillar I	Pillar II	Pillar III
State Pension	Funded pension	Supplementary pension
Mandatory	Formerly mandatory, voluntary with auto-enrollment from 2021	Voluntary
PAYG	Funded	
Defined benefit	Defined contribution – Individual pension accounts	
Publicly managed by Social Insurance Board (government entity)	Self-managed or investment fund	Investment fund or insurance contract
Retirement is possible up to 5 years earlier than the statutory retirement age, provided minimum requirements in terms of pensionable service are fulfilled. Early retirement will however reduce future pension payments. It's also possible to retire later than the statutory pension age, which will result in higher future pension payments. It's also possible to retire later than the statutory pension age. Early or late retirement respectively lowers or increases later pension payments.	Funded by a combination of a formerly mandatory contribution (2% of gross salary) and a part of the person's Social Security deduction (4% of gross salary). Since 2023, individuals can decide to contribute 4% or 6% of their salary. Since 2021 early withdrawal is possible at fixed dates several times a year, regardless of the age of the person. <sup>a</sup>	The supplementary Pillar III has always been purely flexible and voluntary. The contribution amount can be freely chosen and is subject to a tax deduction up to certain limits. <sup>b</sup> Savings can be taken out at any time, but payouts other than post-retirement annuities will be subject to income tax.
<b>Quick facts</b>		
Number of old-age pensioners: 0.3102 mln. (active population: 0.697 mln.)	Administrators: 5	Administrators: 5 investment fund providers and 5 providers of unit-linked pension insurance <sup>c</sup>
Average old-age pension: EUR 698.68 <sup>d</sup>	Funds: 26	Funds: 17
Average salary (gross): EUR 1981 <sup>d</sup>	AuM: EUR 5967 mln.	AuM: EUR 890 mln.
Average replacement ratio (Pillar I): 35.27% gross (38% including all pillars)	Participants: 0.501 mln.	Participants: 0.198 mln.

<sup>a</sup> subject to 20% income tax payment if the person is more than 5 years from retirement age and a 10% income tax if the person is within 5 years of the applicable retirement age.

<sup>b</sup> A full income tax deduction is applicable to the annual total III pillar pay-in, up to 15% of the person's annual gross income or 6000 EUR per year, whichever is lower.

<sup>c</sup> Two entities, SEB and Swedbank, offer both III pillar investment funds and insurance contracts.

<sup>d</sup> Data: Statistikaamet.

State Pension Insurance Act. There are also pension supplements for parents for each child raised.

The average I pillar old-age pension in Estonia was EUR 698.68 in 2024, which guaranteed a replacement ratio of 35% compared to the average gross salary (Statistikaamet, n.d.). Due to the progressive nature of the tax-free allowances, the replacement ratio would be 49.4% in net terms, assuming no additional annual income or deductions apply to the average pension and salary respectively.<sup>3</sup> A person needs to have had at least 15 years of pensionable service to qualify for a old-age pension. However, those who have reached retirement age, but do not qualify for old-age pension are eligible for a minimum “national pension”, provided they had legally resided in Estonia at least 5 years before applying and do not receive a pension from any other jurisdiction (Sotsiaalkindlustusamet, n.d.). As of April 2024, this minimum national pension is EUR 372.05 per month and EUR 393.26 per month as of April 2025. This amount is also indexed annually along with old-age pensions (Sotsiaalkindlustusamet, n.d.).

The statutory retirement age in Estonia was 64 years and 6 months in 2024 (for those born in 1958) and is set to rise to 65 years by 2026. From 2027 onward, the retirement age will be increased in line with increases in life expectancy, but not more than 3 months of increase in any calendar year (Sotsiaalkindlustusamet, n.d.).

## 7.2 Long-term and pension savings vehicles in Estonia

### 7.2.1 Second pillar: Formerly mandatory pension funds and personal Pension Investment Accounts

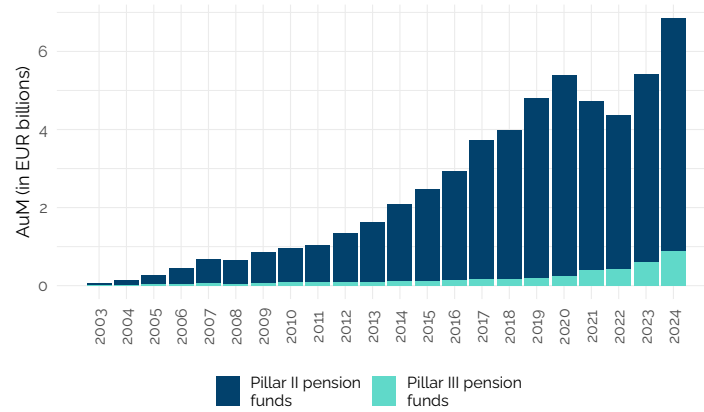
As can be seen from Figure 7.1, the vast majority of Estonian pension savings are collected in Pillar II pension funds.

The funded Pillar II pension is based on the accumulation of assets (savings) – a working person saves for their pension, paying 2% of the gross salary to the selected pension fund. In addition to the 2% that is paid by the individual, the state adds 4% out of the current social tax that is paid by the employee and retains 29% (out of 33%). The salary linked “insurance element” of the I pillar state pension of a person who has subscribed to the funded pension is also lower respectively (for the years in which one receives 16% for the state pension instead of 20%).

Subscription to the funded pension was compulsory for those born in 1983 or later, but it has become voluntary starting January 1st, 2021. The funded pension has always been voluntary for those born between 1942 and 1983. For these people, subscription was possible in seven years; from May 1st, 2001, until October 31st, 2010. From January 1st, 2021, all persons born in 1970 or later, who are not already subscribed to the Pillar II pensions, will be able to apply to subscribe to pillar II pensions. Persons who have previously unsubscribed may re-apply after at least ten years from the date when they were unsubscribed.

<sup>3</sup>Own calculation, based on Statistikaamet data.

**Figure 7.1 – AuM of Estonian pension funds (in bln EUR)**



Data: Pensionikeskus; Calculations: BETTER FINANCE.

From 2021, it became possible to opt-out of the second pillar pension and to liquidate any previous savings held under it. This has led to a large number of savers taking out their accrued savings before their statutory retirement age and significantly decreasing the coverage of the second pillar. At the time of writing of this report, about 491 000 people had assets in their second pillar pension account, while over 210 000 people had taken out their savings, totalling close to EUR 1.5 billion.

This was the reason for the significant reduction in AuM of Pillar II pension funds in 2021 and 2022, which can be seen in Figure 7.1. The withdrawals were largest in 2021. However, the impact was somewhat mitigated by high nominal returns on investment that year. In 2022, while the amounts being withdrawn early from the system decreased, the AuM still declined significantly from the combination of both early withdrawals and negative nominal performance of investments.

From 2021 onwards, it became possible for savers to manage their Pillar II pension assets themselves through personal Pension Investment Accounts. However, the penetration of this new form of pension savings remained insignificant in 2024, with only approx. 1% of Pillar II participants actively use this option in 2022–2024 (Pensionikeskuse Statistika, n.d.).

## 7.2.2 Third pillar: Supplementary Pension Funds and Pension Insurance accounts

The supplementary funded pensions scheme, or Pillar III, is a part of the Estonian pension system and is governed by the same act that governs Pillar II, the Funded Pension Act.

This scheme has been introduced with the aim of helping to maintain the same standard of living and adding more flexibility in securing a higher and/or stable stream of income after one reaches the age of 55. Therefore, the supplementary pension has been designed to help achieve a recommended level of 65% gross replacement ratio of an individual's previous income in order to maintain the established standard of living.

Supplementary pension participation is voluntary for all persons who can decide to save either by contributing to a voluntary pension fund or by entering a respective supplementary pension insurance contract with a life insurance company. The amount of the contributions is determined solely by the free choice of an individual and can be changed during the duration of the accumulation phase. There is also a possibility to discontinue contributions (as well as to finish the contract).

The supplementary funded pension contracts can be made with life insurers as pension insurance or by acquiring pension fund units from fund managers. As there is unfortunately very little transparency regarding the charges and return of Pillar III pension insurance contracts, this report focuses only on supplementary pension funds as third pillar savings products.

## 7.3 Charges

### 7.3.1 Charges of Pillar II funds

Starting from the data year 2017, Estonian Pillar II investment funds are obliged to report the TER for a given year. This ratio is designed to present investors with a transparent and easily comparable summary of the annual costs and fees deducted from their pension savings, expressed as a percentage of invested assets.

The TER includes:

- the fee paid to the fund manager for the management of the fund or the fees, charges and expenses directly related to the management of a public limited fund (management fee);
- the fee paid to the depositary for the services provided (depositary's charge);
- the transfer fees and service charges directly related to transactions performed for the account of the fund and other fees, charges and expenses related to the management of the fund and specified in the basic documents of the fund;
- success fees.

In addition to the above fees, it is also possible for the pension funds to charge unit redemption fees, however these are capped by law at just 0.05% for conservative pension funds and 0.1% for all other Pillar II funds and in practice no redemption fees are usually charged by Pillar II investment funds on the Estonian market.

The option of applying a success fee became possible as of January 1st, 2019 and intended to better align the interests of the investors and asset managers. The success fee for a given year is limited by law to a maximum of 20% of the excess of the increase in net asset values over the reference index and to 2% of the asset value of this pension fund, whichever limit is lower. Conservative pension funds do not have the right to apply a success fee.

As of September 2nd, 2019, the management fees of Pillar II pension funds were legally capped at 1.2% for conservative pension funds and 2% for all other Pillar II funds. These funds are also legally required to reduce their management fees in line with the growth of assets of the fund. Namely, after a Pillar II pension fund reaches EUR 100 million of AuM, the fund manager is obliged by law to reduce the base management fee for each additional EUR 100 million of AuM by at least 15 per cent compared to the rate of the base management fee applicable to the previous EUR 100 million. Funds are no longer required to enforce this reduction when the yearly base management fee reaches 0.4% of AuM.

The idea of the obligatory reduction of management fees was to bring down the overall level of fees and charges when economies of scale are achieved, while allowing for higher initial fees to ensure sufficient competition between fund providers and more choice for consumers in Estonia's relatively small pension market.

As can be seen from Table 7.4, this decrease in charges was initially slow to materialise. This was likely due to a combination of factors:

- The fragmentation of the small market between relatively many investment funds — average fees even increased at times, due to the entrance of new funds with higher fees into the market;

**Table 7.4 – Costs and charges of Estonian Pillar II pension funds**

Year	Admin. and mgt. fees	Total Expense Ratio
2003	1.53%	NA
2004	1.54%	NA
2005	1.55%	NA
2006	1.55%	NA
2007	1.55%	NA
2008	1.56%	NA
2009	1.56%	NA
2010	1.48%	NA
2011	1.49%	NA
2012	1.47%	NA
2013	1.46%	NA
2014	1.45%	NA
2015	1.25%	NA
2016	1.22%	NA
2017	1.08%	1.19%
2018	1.01%	1.18%
2019	0.70%	0.86%
2020	0.60%	0.87%
2021	0.58%	0.97%
2022	0.57%	1.06%
2023	0.54%	0.77%
2024	NA	0.73%

*Data: Pensionikeskus; Calculations: BETTER FINANCE.*

- Relatively slow initial asset accumulations — since the Pillar II was mandatory only to people who were at the beginning of their working life. As we saw in figure 1 in the previous section, only in 2014, more than a decade after the launch of the system, did total AuM reach EUR 2 billion, whereas already by the end of 2018 the EUR 4 billion limit was in sight.

However, between 2013 and 2020 a very significant decline in average management fees can be observed, with management fees falling from 1.5% to just 0.6%. Again, there were likely several contributing factors, including:

- Accelerating increases in AuM during those years;
- Consolidation in the market, with Danske Bank's Pillar II funds sold to LHV in 2016.

The entrance into the market of low-cost index funds from 2016 onwards, first by LHV and Tuleva (a new entrant offering only passively managed mutual funds), but eventually followed by all Pillar II market participants

While data regarding the TER is available only starting from 2017, it's likely this fol-

**Table 7.5 – Costs and charges of Estonian Pillar II pension funds**

Year	Admin. and mgt. fees	Total Expense Ratio
2021	0.80%	0.96%
2022	0.72%	0.87%
2023	0.65%	0.76%
2024	NA	0.76%

*Data:* Supplementary pension funds reports;  
*Calculations:* BETTER FINANCE.

lowed a similar trend overall. However, in 2023-2024 the TER of funds decreased slightly compared to 2021-2022, likely at least in part due to success fees associated with high market returns in the 2020-2021 period. Here it's important to note that success fees, which are inherently backward-looking, are charged based on the previous year's results and figure in the TER of the year following the one where the "success" was achieved.

Other than success fees, the remaining difference between the TER and the management fees can mostly be explained by many pension funds themselves investing into other funds. The management fees of such underlying funds are included in the TER, but not in the management fee of the fund itself.

### 7.3.2 Charges of Pillar III supplementary pension funds

The structure of charges that can be applied to Pillar III pension funds is similar to Pillar II funds, with the biggest difference being that caps on the various types of fees and charges (such as management fees or redemption fees) are higher in many instances. This combined with much smaller assets under management and the associated lack of economies of scale meant that the average fees were often higher in the third pillar compared to the second pillar.

However, in the last years, the proliferation of new index funds in the supplementary pension fund market — from 2021 onward every fund provider offered at least one index fund — and the relative success of these funds in attracting savings has led to the TER of Pillar III funds dropping slightly lower than Pillar II funds on average.

Unfortunately, due to changes in the way data on the charges of supplementary pension funds is presented in public databases, it was not possible to retrieve long-term comparable data series on the charges of Pillar III funds, but overall, the dynamic has been fairly similar to that of Pillar II funds.

## 7.4 Taxation

Now that both second and third pillar pension funds are effectively voluntary savings products, their tax treatment remains perhaps the biggest attraction of saving under either or both Pillar II and III pension vehicles compared to other potential savings and investment products

**Table 7.6 – Taxation of pension savings in Estonia**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Pillar II pension funds	Exempted	Exempted	Taxed	EET
Pillar III pension funds	Exempted	Exempted	Taxed	EET

*Source:* BETTER FINANCE own elaboration based on Pensionikeskus; *Note:* Taxation of payouts depends on the timing and method of payout.

As can be seen from Table 7.6, contributions to II and III pillar pension funds are exempted from all taxes, although in the case of the III pillar, the annual tax deductibility is limited to a maximum of 15% of the savers' annual income or to EUR 6000, whichever is lower. The investment returns/capital gains of both II and III pillar pension products are also entirely exempted from tax in the accumulation phase. In the payout phase, the taxation depends on the pillar and specific circumstances. The Pillar I pension is subject to income tax. As of January 1st, 2025, the income tax rate is 22%. However, basic exemptions (non-taxable amounts) apply to both the working population as well as pensioners.

There has long been a tacit political agreement under successive governments, regardless of their composition, that the amount of annual income tax exemption applying to pensioners be at least as high as the average state (Pillar I) old-age pension.

For the Pillar II and Pillar III savings-based pension, the taxation regime depends on when and how the payout of savings is settled. For both Pillars, when a saver has less than 5 years left until pensionable age, it's possible to sign an agreement with a life insurance company for a lifetime annuity pension. Under this option, the pension payments are exempted from taxes (Pensionikeskus, n.d.). Alternatively, it's possible to make a fixed duration agreement, either with an insurance company or directly with the pension fund—what is called a “fund pension”. As long as the fixed duration at the moment of the agreement is as long or longer as the average life expectancy of the person and the payments are monthly or quarterly, the payouts are also exempted from taxation.

For both Pillars II and III, in the case of either a one-time payout or a fixed-term pension contract that is shorter than the “recommended” duration, calculated based on life expectancy, a 10% tax rate applies, as long as the payout starts at less than 5 years before pensionable age. However, if the pension savings are paid out more than 5 years before reaching the pensionable age, the full income tax rate is applied. Units of Pillar II and III pension funds are also inheritable. Payments to successors are taxable with the income tax rate established by law. However, successors may also choose to transfer the inherited pension fund units to their own pension account, which would not be taxable.

## 7.5 Performance of Estonian long-term and pension savings

### 7.5.1 Real net returns of Estonian long-term and pension savings

For the pension saver, the most important metric of the performance of a savings or investment product is how it helps to conserve and ideally increase the purchasing power of their savings over the long term to allow a more economically comfortable retirement. For this, the net investment returns of pension savings should exceed inflation.

As can be seen from Figure 7.2, inflation surged to very high levels in 2021 and 2022 in the European Union, but especially in Estonia. The main drivers of inflation in 2021–2024 are well-known and much discussed: post-pandemic savings and supply chain issues, the invasion of Ukraine by the Russian Federation and the energy crisis this caused. The fact that inflation reached much higher levels in Estonia than in the EU on average can be attributed to both the comparatively small and open economy of Estonia as well as to the relatively closer proximity and stronger economic and social ties to Ukraine and Russia. The extraordinarily high inflation was mirrored in other Eastern European countries.

As can be seen from Figure 7.3 and Figure 7.4, positive nominal returns in 2024 helped to offset the impact of high inflation on the purchasing power of pension savings. Overall positive returns in 2024 were able to offset the 2022 “perfect” storm of high inflation and sharply negative nominal returns that led to massive losses in the purchasing power of pension savings, with Pillar II funds declining approximately 22% on an inflation-adjusted basis while losses in the Pillar III exceeded 25%. After 2023 and 2024 positive nominal as well as real returns, both pillars are delivering positive annualised real returns and thus increasing the real value of savings.

Of course, what matters most in pension savings is the long term. As can be seen from the figures in Figure 7.5, the underwhelming past real returns combined with the disastrous results of 2022 led to the average (asset-weighted) annual returns of Pillar II pension savings to be negative across that turns positive in 2024, with a 0.3% positive return over 10 years and 0.3% since the launch of pension investment funds in 2003.

In the case of the supplementary Pillar III pension funds, 10-year returns are still in positive territory of 1.5%, with returns for shorter periods being close to 0 and the long-term return since the introduction of the supplementary pension system being slightly positive at 1.6% on an annualised basis (see Figure 7.6) especially due to the positive return during the period 2023–2024.

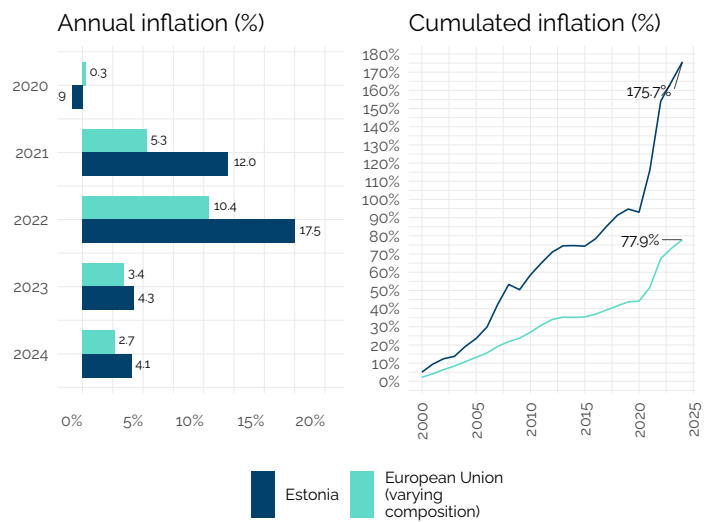
### 7.5.2 Do Estonian savings products beat capital markets?

To put the performance of Estonian Pillar II and III investment funds into context and draw conclusions, it is important to compare the performance with capital-market benchmarks. Table 7.7 shows the chosen benchmark. Two benchmark indexes are

**Figure 7.2 – Inflation in Austria**

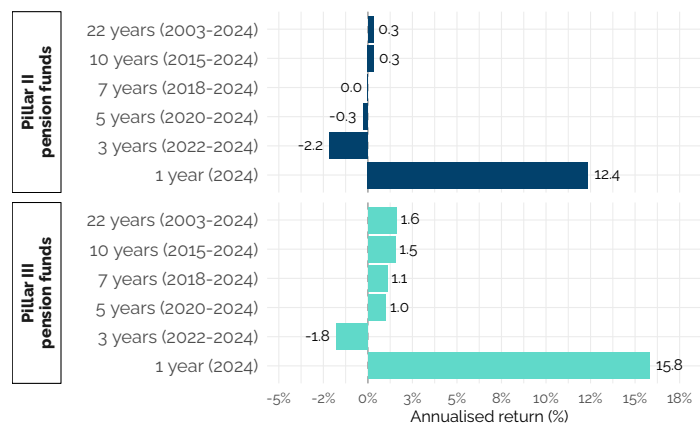
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>Estonia</i>	175.7%	4.1%



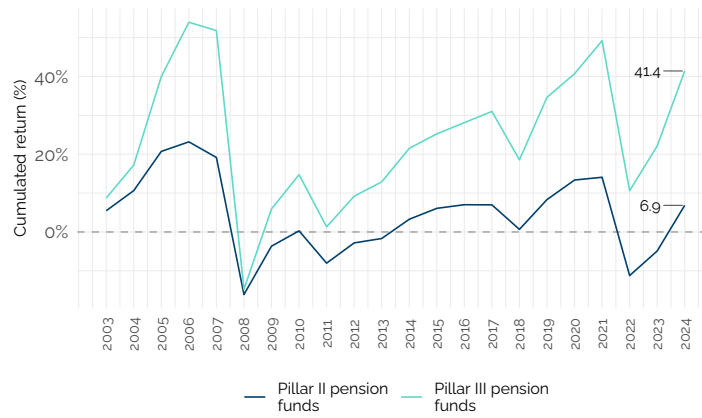
Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 7.3 – Annualised returns of Estonian pension funds and life insurances over varying holding periods**



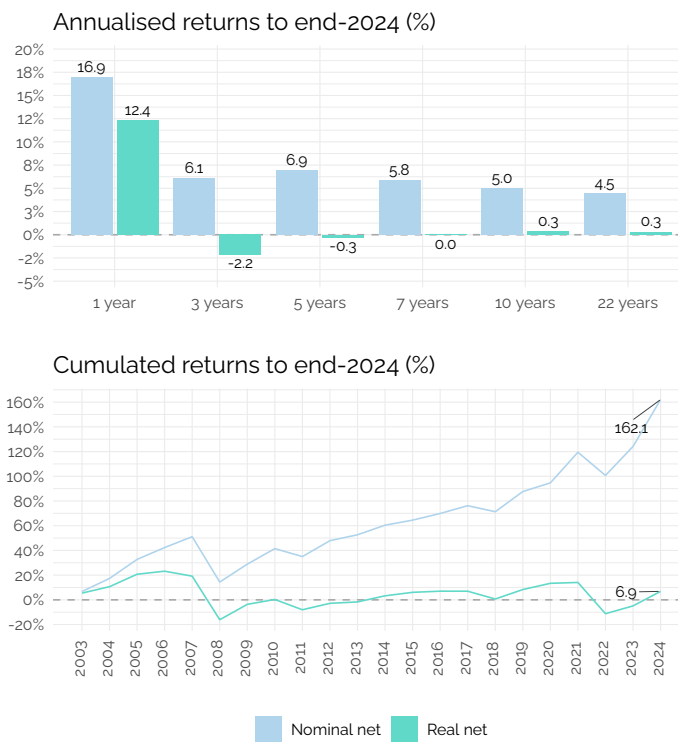
Data: Pensionikeskus, Eurostat. Calculations: BETTER FINANCE.

**Figure 7.4 – Cumulated returns of Estonian pension funds**



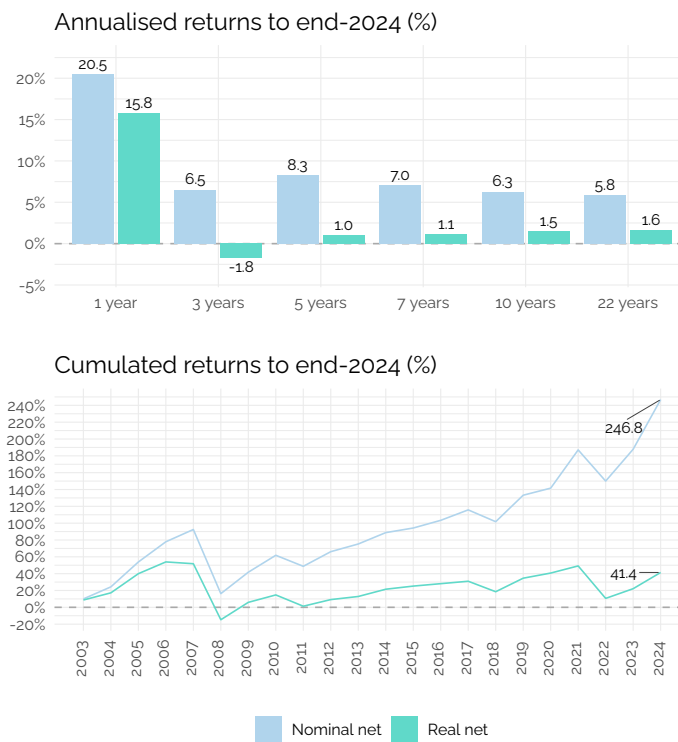
Data: Pensionikeskus, Eurostat. Calculations: BETTER FINANCE.

**Figure 7.5 – Returns of Estonian Pillar II pension funds (before tax, % of AuM)**



*Data:* Pensionikeskus, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 7.6 – Returns of Estonian Pillar III pension funds (before tax, % of AuM)**



*Data:* Pensionikeskus, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Table 7.7 – Capital market benchmarks to assess the performance of Austrian long-term and pension savings**

Product category	Equity index	Bonds index	Start year	Allocation
Pillar II pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2003	50%–50%
Pillar III pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2003	75%–25%

*Source:* STOXX, Bloomberg; *Note:* Benchmark portfolios are rebalanced annually.

used as a basis, of which the first is a broad European equities index and the second is a similarly broad European bond index.

For Pillar II funds, the benchmark is a 50-50 split between the two indexes, while for Pillar III a more “aggressive” allocation, with the bond index counting for 25% and the equity index counting for 75% of the Pillar II benchmark.

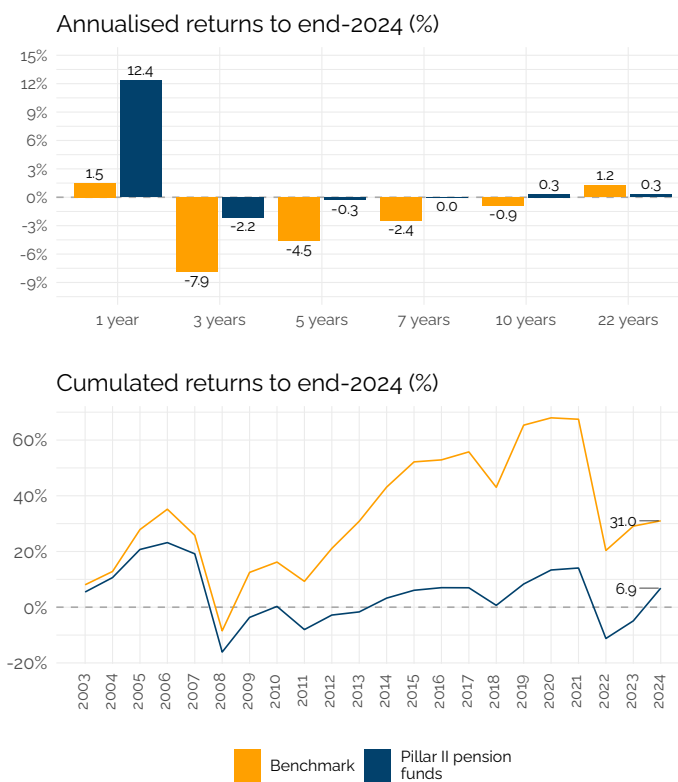
The equity exposure of the chosen benchmarks (50% and 75% respectively) were chosen because they roughly reflect the equity exposure of Estonian Pillar II and Pillar III investment funds in the last 3 years, based on Finantsintspektsioon data. For both pillars, the equity exposure was lower on average historically compared to recent years.<sup>4</sup> However, the Author considers the more recent allocation the best benchmark since it reflects the direction of travel of the Estonian pension system where successive reforms have allowed for and encouraged higher equity allocations, with the objective of increasing long-term returns.

As can be seen in Figure 7.7 and Figure 7.8, when discounted for the Estonian inflation rate, the real performance of the benchmarks correlates significantly with the performances of both Pillars II and III. However, in the long term, both pillars significantly underperform their benchmarks.

There are two likely causes for this significant underperformance: fees and asset allocation. The benchmarks show the change in the value of the underlying assets, assuming all dividends and interest payments are reinvested in the same index with no fees or charges deducted. This contrasts with the investment funds, which incur various expenses, including management fees charged by the company managing the funds. As explained in the charges section of this report, while average expenses in both pillars have fallen to relatively low levels in recent years, relatively high administration and management fees were charged for most of the period since the inception of the system, with fees starting to significantly decline only after 2013.

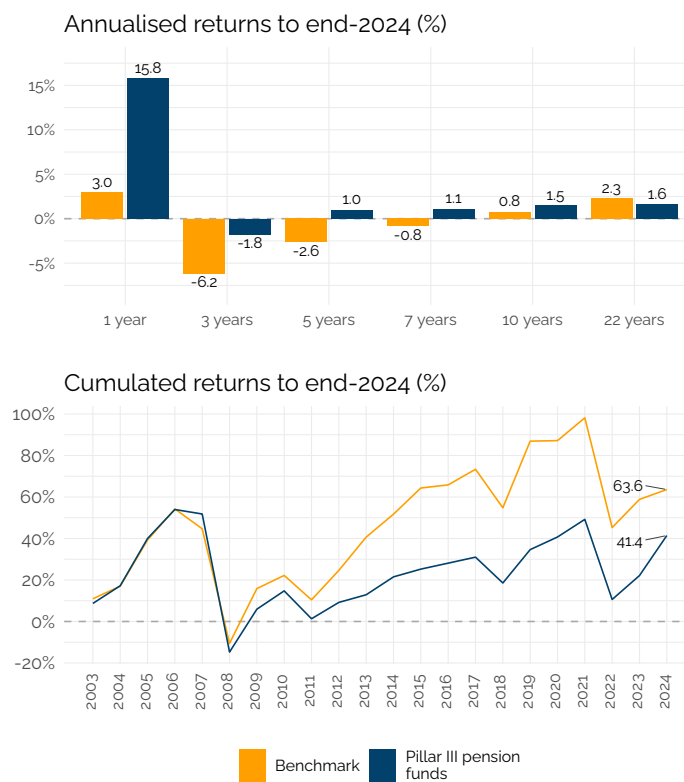
<sup>4</sup>Estonian pension funds invest a large proportion of their Assets in other investment funds and while the available data does provide a breakdown between “equity funds” and “other investment funds”, there is no data for exactly how much equity exposure these two types of funds have. I.e. if “equity funds” might have 100%, 90% or 75% invested in equities while “other investment funds” may also have some degree of equity exposure. References to the current or historic equity exposure of Estonian pension funds reflect the Author’s best estimate given the limitations in data, but have a large and uncertain margin of error.

**Figure 7.7 – Performance of Estonian Pillar II pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: Pensionikeskus, Eurostat; Calculations: BETTER FINANCE.

**Figure 7.8 – Performance of Estonian Pillar III pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: Pensionikeskus, Eurostat; Calculations: BETTER FINANCE.

Thus it can be assumed that eliminating the effect of charges would eliminate most of the difference between the benchmark and actual returns. In addition, as referenced before, it seems to be the case that the asset allocation for most of the period in both pillars included less equity and more exposure to bonds and other asset classes such as cash deposits and money market funds, which generally yield less in the long-term compared to equities.

## 7.6 Conclusions

Estonia is an early pension system reformer among the formerly communist countries of Central and Eastern Europe. The system which came fully into effect in 2003, is a typical multi-pillar pension system that combines an unfunded, defined contribution state pension (Pillar I), as well as an auto-enrolled second pillar and voluntary pillars, the latter two of which are fully funded. Different types of pension vehicles in Pillars II & III allow savers to choose from a wide variety of investment strategies. Lower transparency in fee history contrasts with the high transparency of performance disclosed on a daily basis. The exception is Pillar III insurance contracts, where no information about performance or fees is publicly disclosed, which is why this relatively least used pension vehicle was not examined in this report.

The performance volatility of most pension vehicles is relatively high. However, Estonian savers tend to accept higher risk with regard to their savings. Pillar III vehicles are a typical example of highly volatile pension vehicles. A new trend emerged in 2016 and continued into 2021—the introduction of low-cost indexed pension funds for both funded pension pillars, which could deliver higher value to savers due to lower charges compared to peers. The competitive pressure from these new low-cost funds has led to an overall decrease in fees for both Pillar II and Pillar III funds, which should increase the ability of the funds to deliver performances closer to capital-market benchmarks in future years. The increasing tendency for larger equity exposure on average in both pillars should also boost real returns in the long term.

Overall, achieving an adequate gross salary replacement ratio in retirement remains a challenge in Estonia, especially due to high inflation, which led to Pillar II real (purchasing power adjusted) returns turning negative over all time horizons until 2023 and turned slightly positive in 2024. The challenge has only become greater since 2021 after about 30% of all Pillar II pension savers withdrew their savings before retirement. This was enabled by a controversial change to the Pension system, which BETTER FINANCE strongly criticised in the past. It is a sad irony that this partial dismantling of the formerly mandatory II pension pillar was undertaken just as a combination of successive reforms and market tendencies had well-positioned Pillar II investment funds to achieve significantly higher long-term investment returns in the future.

## Chapter 8

# France

**Résumé** Le système de retraite français continue de reposer largement sur les flux de cotisations obligatoires du pilier I (par répartition) et du pilier II, avec un taux de remplacement global des retraites de 48 % et une valeur totale des actifs de retraite représentant 11,1 % du PIB français en 2021 (hors assurance-vie et immobilier). Les produits d'assurance-vie, qui sont de loin les produits d'épargne financière individuels les plus utilisés à des fins de retraite par les épargnants français, ont enregistré des rendements réels cumulés avant impôts très contrastés sur le long terme : +30 % au cours des 25 dernières années pour les produits à capital garanti, qui restent dominants, mais -22 % pour les produits en unités de compte, plus promus et à croissance plus rapide, malgré les rendements positifs des actions et des obligations cotées. Les régimes de retraite d'entreprise ont enregistré un rendement net réel positif de +13 % pour les 25 années comprises entre 2000 et 2025. Les produits individuels spécifiquement dédiés à la retraite — Plan Epargne Retraite (PER), régimes des fonctionnaires, etc. — sont en croissance, mais restent encore modestes, et leurs performances sont beaucoup moins transparentes. Les années 2021 à 2023 ont été terribles pour les petits épargnants, et plus généralement pour tous les épargnants qui ont principalement investi dans des produits à revenu fixe (comptes d'épargne bancaires, fonds obligataires et mixtes, assurances-vie à capital garanti), dont les rendements nets nominaux n'ont pas suivi la hausse de l'inflation, entraînant des pertes massives de pouvoir d'achat. De plus, la plupart de leurs revenus nominaux ont été imposés, ce qui a aggravé les pertes déjà importantes du pouvoir d'achat des épargnants français. L'année 2024 a été bien meilleure grâce à une baisse plus importante de l'inflation que des taux d'intérêt, mettant ainsi fin, pour l'instant, à la « répression financière ».

### Summary

The French pension system continues to rely heavily on the mandatory PAYG Pillar I and mandatory Pillar II income streams, with an aggregate replacement ratio for pensions of 48%, and a total value of retirement assets of 11.1% of the French GDP in 2021 (excluding life insurance and real estate). Life insurance products—by far the most widely used personal financial product for pension purposes by French savers—had very contrasted long-term pre-tax real returns: +30% over the last 25 years for the still dominant capital guaranteed ones, but -22% for the more promoted and faster growing unit-linked ones, despite positive listed stocks and bonds returns. Corporate pension plans had a positive real net return of +12.7% for the 25 years between 2000 and 2025. The personal products specifically dedicated to pensions—PER, Public employee schemes, etc.—are growing but are still much smaller, and their perfor-

**Table 8.1 – Product categories analysed in France**

Name	Product category	Pillar	Reporting period	
			Earliest data	Latest data
Life insurance - CG		Voluntary (III)	2000	2024
Life insurance - UL		Voluntary (III)	2000	2024
Insurance-based pension savings products		Mixed (II/III)	2011	2022
Public employee pension schemes		Voluntary (III)	2003	2024
Corporate DC plans		Occupational (II)	2000	2024

**Table 8.2 – Annualised net return of French long-term and pension savings products (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years
Life insurance - CG	0.3%	-1.9%	-1.4%	-1.0%	-0.4%
Life insurance - UL	1.7%	-5.3%	-1.9%	-1.5%	-0.2%
Insurance-based pension savings products <sup>a</sup>	-4.2%	-1.3%	-0.6%	0.0%	0.7%
Public employee pension schemes	0.8%	-1.7%	-2.6%	-2.2%	-1.7%
Corporate DC plans	3.5%	-3.0%	-0.7%	-0.5%	0.3%

*Data:* ACPR, France Assureurs, ACPR, France assureurs, Prefon, UMR, AFG, NA, Eurostat; *Calculations:* BETTE  
<sup>a</sup> Entry fees apply to this product category but data are unavailable; returns are calculated on the invested par

mances are much less transparent. Years 2021 to 2023 have been terrible to the smaller pension savers, and beyond to all savers who are mostly invested in packaged fixed income products (bank savings accounts, bond and mixed funds, capital guaranteed life insurance), for which nominal net returns did not match the upsurging inflation, resulting in massive losses in purchasing power. In addition, most of their nominal investment income was taxed, adding to the already heavy losses of purchasing power of French savers. 2024 was much better thanks to a bigger drop of inflation than of interest rates, thus ending – for now – the “financial repression”.

## 8.1 Introduction: The French pension system

Over a 25-year period, from the end of 1999 to the end of 2024, capital-guaranteed life-insurance contracts show on average a positive yearly real pre-tax performance of +1.1% in real terms, while the unit-linked contracts show a negative yearly real return of -1.0%. The worst performing schemes over the long term seem to be the Public Employee ones. Corporate DC plans delivered +0.5% on an annual basis before tax. After-tax returns for corporate DC plans would typically be close for the latter due to a favourable tax treatment.

Pension savings have been a political issue in 2018-2019 with the *PACTE* reform which created a new Pillar II/Pillar III pension product called PER (pension savings plan). Since 2022, the reform of Pillar I pensions has been a much hotter political

**Table 8.3 – Overview of the French pension system**

Pillar I	Pillar II	Pillar III
Mandatory State Pension	Private Occupational Pension	Voluntary Personal Pension <sup>a</sup>
Basic pension insurance	Supplement of the 50% pre-retirement income target of Pillar I	Divided into different financial retirement savings products
Divided into multiple sub-categories of pensions regimes for private sector, private service and special professions.	The complementary component contributions are collected by different designated paritarian institutions, depending on the sector.	Voluntary pension products are tax-incentivised in order to support participation in the third pillar and are mostly DC
DB PAYG	DB PAYG/DC	DC
<b>Quick facts</b>		
A relatively high old-age dependency ratio of 34.3% (2021) <sup>b</sup>		
An average pre-retirement income replacement ratio of 48% (2020) <sup>b</sup>		

<sup>a</sup> Including life insurance contracts that are not pension products *per se* but are mostly used in France for retirement purposes;

<sup>b</sup> OECD data.

issue with a very strong opposition of trade unions. The project has been adopted in a watered-down version in May 2023 with the minimum legal age to get full pension rights increased from 62 to 64.

### 8.1.1 Pension system in France: An overview

Using the World Bank multi-pillar structure, the French pension system mainly relies on:

- **Pillar I** – the public pension, a DB PAYG scheme, which is managed by the State and comprises the basic pension insurance;
- **Pillar II** – the occupational retirement provision (complementary component), including DB, privately managed and funded by both employer and employee contributions, to which participation and contribution rates are often mandatory, but also corporate DC plans that are not mandatory;
- **Pillar III** – composed of voluntary retirement savings plan, also privately managed, to which participation is optional, set up by providers for the pension saver on his own (voluntary personal plans), *but via saver associations*.
- **But also life insurance (its main purpose is retirement) and real estate.**

#### Pillar I – Mandatory State pensions

The French state pension system (Pillar I) is divided into several sub-categories of pension regimes for:

- Private sector employees;
- Public service; and
- Special professions (such as the army or hospital workers).

Each pension regime is further organised into two sub-components: (1) The base pension insurance, which incorporates both the non-contributory Pillar 0 and DB Pillar I to which all employees and self-employed individuals must contribute; and (2) The *complementary pension insurance*, which supplements the basic state pension allowance (Pillar II).

To benefit from the basic pension allowance (*assurance vieillesse*) of the French social insurance system, a person must reach the standard retirement age, which is currently not the same for all cohorts, thus birth-date dependent.<sup>1</sup> The 2023 pension reform was very difficult to achieve politically and increased the legal retirement age from 62 to 64, although it is still politically challenged.

The full pension entitlement from Pillar I is calculated by multiplying the mean annual gross income, by the correction coefficient,<sup>2</sup> and by the insurance coefficient, the latter being calculated by dividing the total insured period (limited by a set ceiling in the form of a maximum insurable period) by the maximum insurable period (thus, it cannot be higher than 1, see Caisse Nationale d'Assurance Vieillesse [CNAV], n.d.) .

## **Pillar II – Mandatory occupational pensions**

Most of the French Pillar II is a mandatory DB, PAYG and privately managed pension scheme, designed to supplement the 50% pre-retirement income target of Pillar I.<sup>3</sup>

The mandatory complementary component contributions are collected by different designated paritarian institutions, depending on the sector. The largest part of complementary mandatory contributions, those for private sector employees, are collected and redistributed by AGIRC-ARRCO (employees' pension regimes association). Employer and employee participation in Pillar II is mandatory and usually set up through collective agreements.

In France, Pillar I and Pillar II should cover 100% of all employees receiving a salary.

There is also a small but growing voluntary occupational DC Pillar II (see next sections).

## **Pillar II/III – Voluntary occupational and personal plans**

The third pillar of the French pension system is composed of the voluntary pension plans. It was reformed in 2019, with the *PACTE* Law creating the PER or "Pension

<sup>1</sup>"Fonpel", "Carel-Mudel" and "RMC" are pension vehicles dedicated to very specific occupational categories and not covered by this report.

<sup>2</sup>The correction coefficient, in fact, referred to as a rate which can represent a maximum of 50% of the social security income limit.

<sup>3</sup>This is because, as indicated above, the full Pillar I pension entitlement at retirement is calculated by multiplying the average annual gross income and the insurance coefficient (which should be 1 in normal conditions) with a correction coefficient, which in normal conditions is set at 50% for private sector workers.

Savings Plan" divided into:

1. Occupational PERs, which are:
  - Collective corporate PERs (voluntary corporate plans, for private sector employees at large), which are set up by employers either through DC pension funds, which are progressively replacing the existing Plans d'Epargne Retraite Collective (PERCOs); employee participation is voluntary;
  - "Mandatory" collective corporate PERs are insurance-regulated PERs which are mandatory for employees, or categories of employees, once the employer has set it up. They are replacing the existing PER Entreprise (PEREs), also called "Article 83".
  - Existing professional or sector-specific personal plans, such as the *Contrats Madelin* (for self-employed), *Madelin Agricole* (for the agricultural sector) or the Complémentaire Retraite des Hospitaliers (CRH) for Public Health sector workers, and Préfon (mainly accessible to public employees) have or will be converted into individual PERs.<sup>[^cc\_france-40]</sup> Contributions are voluntary.
2. Personal PERs, unrelated to occupation:
  - Individual PERs ("People's Retirement Savings Plans"), sub-divided into insurance-regulated contracts with capital guarantee (including Préfon and Corem, see below) or linked to units in UCITSs or AIFs, and into securities accounts. The insurance regulated individual PERs are progressively replacing the Plans d'Epargne Retraite Populaire (PERPs) "People pension savings plan" and *Contrats Madelin* for self-employed workers: the existing balances can be transferred to PERs, and no such new plans can be opened since October 1st, 2020.

The PER can be offered both by insurers and by banks/asset management companies, and beneficiaries are free to choose between the two pay-out options: annuities or capital withdrawals. By law, individual PERs must be subscribed and governed by independent representative saver associations. All PERs are freely transferable to other PERs. However, the 2019 law lifted the 15-year ban on inducements for unit-linked personal pensions in order to try to boost their promotion. The French saver organisation Fédération des Associations Indépendantes d'Epargnants pour la Retraite (FAIDER) estimates that this will cost pension savers at the very least EUR 20 billion over the average life of the PER contract.<sup>4</sup>

In 2024, the French Government issued a mandatory minimum allocation of contributions to the majority<sup>5</sup> of Individual PERs into private assets (for example 8% for the default option for a decumulation time horizon of 20 years or above). One reason for this constraint mentioned in the new French Law is that private equity offers to savers a higher risk/return "couple" than other asset classes. Based on a recent report from the French trade association France Invest, the largest French saver representative organization FAIDER warned that this statement is not validated by the facts: for the last 9 years to 2023, private asset products sold to individuals would have returned

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<sup>4</sup><faider.org>, June 6th, 2019.

<sup>5</sup>For the default option of the PER and for all other delegated management options.

**Table 8.4 – Financial assets of French households at the end of 2024**

	% of total	2024/2023
Currency and bank deposits	33.4%	-1.4%
Investment funds*	5.4%	9.8%
Life insurance & pension funds	33.2%	3.3%
Direct investments (direct holdings of bonds and stocks )	28.0%	-3.7%
<i>Total</i>	<i>100.0%</i>	

*Data:* Banque de France  
13.9

much less than listed equity products.<sup>6</sup> In January 2025, a research report of the French financial supervisor AMF confirmed the low or negative performance of “re-tail” private asset products.

## 8.2 Long-term and pension savings vehicles in France

Figure 8.1 details the AuM for life insurance (mostly used for retirement) and public employee pension schemes.<sup>7</sup>

### 8.2.1 Second pillar

Collective occupational pension savings (voluntary) products are still limited in size in France, despite the recent development of the DC long term and pension corporate plans.

#### **Collective occupational insurance-based personal pension products**

In total, mathematical reserves stood at EUR 113.8 billion end of 2023 (France Assureurs, 2025b). For insurance-regulated corporate DC plans under “Article 83” of the French tax code (PERE), mathematical reserves stood at EUR 62 billion at the end of 2024. For insurance-regulated DB plans (“Article 39” of the French tax code), mathematical reserves stood at EUR 31 billion at the end of 2024.

#### **Corporate long-term and pension savings plans**

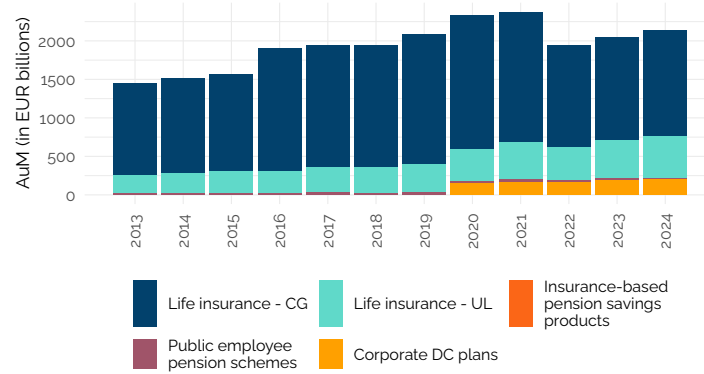
The total assets of French DC corporate savings plans (Plan d'Epargne Entreprise (PEE) + PERCO + collective PER)<sup>8</sup> increased by 6.5% in 2024 to EUR 200 billion. The number of members in those plans increased to 12.8 million people in 2024.

<sup>6</sup><faider.org>, 22 June 2024.

<sup>7</sup>As of yet, data are not available for corporate DC plans and insurance-based pension savings products.

<sup>8</sup>PEE is a corporate long term savings plan where savings are typically blocked for a minimum of five years.

**Figure 8.1 – AuM of French long-term and pension savings (in bln EUR)**



*Data:* ACPR, France Assureurs, Préfon, UMR; *Calculations:* BETTER FINANCE;  
*Note:* AuM of Corporate long-term and pension savings plans are not shown in the graph due to lack of historical data.

**Table 8.5 – Mathematical provisions of French life insurance (EUR bln.)**

	Unit-linked contracts	Capital-guaranteed contracts	All life contracts
2016	284	1 586	1 871
2017	328	1 590	1 919
2018	328	1 589	1 917
2019	372	1 684	2 056
2020	416	1 747	2 163
2021	488	1 694	2 182
2022	437	1 318	1 755
2023	494	1 337	1 831
2024	545	1 370	1 915
Change 2024/2023	10.3%	2.4%	4.6%

*Data: ACPR; Calculations: BETTER FINANCE.*

The PERCO, exclusively dedicated to pension investments, is still less “mature” than other pension plans, since it started in 2004, but continues to grow quite rapidly. Since October 2019, PERCO have begun to be converted into the new “collective PER”. Assets under management amounted to EUR 34 billion at the end of 2024 (+15% over 2023). 240 700 companies propose this type of plans to their employees.

PERCO and collective corporate PER are quite similar to the US Corporate pension plans (“401k”) in their design. However, they are generally not invested in general purpose mutual funds like UCITSs, but mostly in specifically dedicated French-domiciled AIFs called Fonds Communs de Placement d’Entreprise (FCPEs).

## 8.2.2 Third pillar

### Life insurance contracts

Ordinary life insurance contracts are not specifically designed for pension purposes. However, retirement is the main objective of French savers who subscribe to these insurance contracts, and they are by far the main long-term financial savings products used in France.

From 2014 to 2023, contributions to unit-linked contracts rose more than those to *contrats en euros* —i.e., capital guaranteed contracts, misleadingly called “with profit policies” in the United Kingdom (UK)— and their share in total mathematical reserves increased from 17% to 29% (see Table 8.5).<sup>9</sup> This increase can be mostly attributed to net inflows (contributions minus benefits). Unit-linked contracts accounted for 13% of premiums to life insurance in France in 2012 and 43% in 2023.[^cc\_france-10]

[^cc\_france-10] Source: ACPR, 2024.

<sup>9</sup>Source: Autorité de Contrôle Prudentiel et de Résolution (ACPR).

In 2014 a new life insurance contract, the *Eurocroissance*, was created. The contract does not guarantee the invested capital in case of withdrawal until eight years following subscription. This new type of contract is intended to encourage savers to accept a higher level of risk in the short-term for potential better long-term returns, for example by investing more on equity markets. By the end of 2023, those contracts amounted to only EUR 11.1 billion of mathematical provisions,<sup>10</sup> probably at least partly due to the ultra-low interest rates until recently, making it challenging to generate a decent return. Since 2016, insurers are allowed to transfer unrealised capital gains from their general assets covering capital guaranteed contracts to the *Eurocroissance* contracts to boost returns.

### **Insurance-based pensions saving products (IBPP)**

**Plan Epargne Retraite (PER)** Launched in October 2019, individual PERs reached EUR 70 billion in assets by end of 2024 (+25.5% versus 2022, see France Assureurs, 2025b).

**Plan d'Epargne Retraite Populaire (PERP)** PERPs were launched in 2004 as insurance-regulated personal pension plans. Thanks to higher contributions and paid benefits remaining low, mathematical provisions in PERP personal pension plans increased from EUR 7.5 billion in 2011 to EUR 20.9 billion in 2020. New PERP contracts are not allowed since October 2020, and PERP provisions were down to EUR 17 billion in 2024 (France Assureurs, 2025b). Many PERPs have collectively transferred into PERs since 2019, and some individual participants have transferred their rights to PERs as well.

**Contrats Madelin (for self-employed individuals)** Mathematical provisions related to *contrats retraite Madelin* decreased to EUR 28 billion in 2024.<sup>[^cc\_france-12]</sup> There were 1.363 million outstanding contracts at the end of 2019 (+2.0%). The *contrats Madelin* were widely used by self-employed individuals because the PAYG system is less generous (and contributions lower) than for employees. New Madelin contracts are not allowed since October 2020. Self-employed turn to PERs since then. <sup>[^cc\_france-12]</sup>: Source: France Assureurs, 2025.

**Contrats Madelin agricole** Mathematical provisions of *contrats Madelin agricole* (plans for persons working in the agricultural sector) decreased in 2024 to EUR 3 billion. 326 000 farmers had an open contract at the end of 2018.

### **Public employee pension savings products**

These schemes have all adopted the new (2019) legal framework of the individual PERs, but they have very specific features:

- They are mostly (*Corem*) or entirely dedicated to public employees (*Préfon* and *CRH*);

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<sup>10</sup>Source: France Assureurs, 2025.

- Préfon and CRH are not subscribed and governed by independent associations representing the pension savers (a legal exception to the governance rules of all other individual PERs);<sup>11</sup>
- Their pension rights are accounted for in "points", not in euros or in units;
- The annual evolution of the value of these "points" has been lower or much lower than inflation for many years;

All personal pension products in France have to be subscribed by independent savers associations in which the participating pension savers are members of the general assembly, have the right to vote at the general assembly, and have the right to propose resolutions to the general assembly. However French Law still exempts two of the biggest ones (*Préfon* and *CRH*) from all these governance rules protecting pension savers' rights. They could also transform themselves into PERs as soon as 2019 without requiring the approval of their participants as they would for any other pension savings product.

**Préfon** *Préfon* is a deferred annuity plan open to all current and former public employees and their spouses that had 373 000 participants at the end of 2023. It had EUR 13.9 billion in AuM (market value) at the end of 2024, down from EUR 14.2 billion at the end of 2023 (*Préfon*, 2025).

**Corem** *Corem* is also a deferred annuity plan open to everyone but so far mainly subscribed to by civil servants. It had 321 165 participants at the end of 2024 (down from 397 515 in 2016). Its assets under management went from EUR 10.6 billion (market value) at the end of 2021 to EUR 10.9 billion at the end of 2024.<sup>12</sup>

**Complémentaire Retraite des Hospitaliers (CRH)** CRH, a deferred annuity plan<sup>13</sup> open to all public employees from the public health sector and their partners, had about 340 000 participants in 2024. Its AuM (market value) amount to EUR 3.3 billion in 2024.<sup>14</sup> We could not find more precise publicly available information.

## 8.3 Charges: Often opaque, high and rising

Available data on average annual charges for savings products are scarce and often inconsistent in France, including from Public Authorities.

### 8.3.1 Investment funds

According to the Autorité des Marchés Financiers (AMF, 2025), overall annual fees for equity funds were 1.40% on assets, 1.45% for mixed funds, and 0.86% in 2023, and they would have gone down slightly from previous years. However, these averages are not size-weighted, which introduces a severe bias. For example, the mere increase in

<sup>11</sup>*Corem* eventually set up an independent subscribing and governing saver association in 2022, but there is no mention at all about it in the governance section of its annual reports.]

<sup>12</sup>Combined assets of *Corem* (EUR 9.1 billion) and other products managed by the same provider, UMR.

<sup>13</sup>Rights acquired before mid-2008 do not provide annuities guaranteed for life, but only for 10 to 15 years.

<sup>14</sup>Guide d'information CRH CGOS 2025

the number of low-cost index funds (ETFs) would lower the average cost, although they are very little sold to individuals (see *infra*). Moreover, they only include French-domiciled funds and leave out other UCITSs funds sold to French individuals. Many funds domiciled in other EU Member States, in particular in Luxembourg, are also sold to French individual investors. Also, they do not include the impact of entry/exit costs.

Even more important is the fact that the Autorité des Marchés Financiers (AMF) data do not take into account the fact that about two thirds of investment funds offered to French retail investors are sold via insurance contracts' "units".

- For equity funds sold via those, annual size-weighted total charges of the funds themselves (French -domiciled and other funds) reached 1.85% on average in 2023, 1.22% for bond funds, and 1.62% overall according to the French trade organization France Assureurs<sup>15</sup>: much more expensive than the equity and overall retail fund markets estimated by AMF;
- But the full "units" cost was even higher: respectively 2.73% and 2.50%, when including the annual overall average contract wrapper charge of 0.88% paid by investors in funds held via insurance contract, i.e. the reality is that two thirds of French savers pay about double the weight of charges communicated by AMF.

These charges are very high: the average ongoing fund charge for all UK-domiciled "active" funds (both equity funds and all other funds) was only 0.78%, and 0.14% for index funds in 2023. In the US, they are even much lower in 2024 according to the US trade organization ICI: TERs are lower still at 0.40% for equity funds (0.14% for equity ETFs) on average, and 0.38% for bond funds (0.10% for bond ETFs). (Investment Company Institute IICI, n.d.).

### 8.3.2 Capital-guaranteed insurance contracts (*fonds en euros*)

Since 2018, the national supervisor ACPR publishes their annual average ongoing charge on assets, based on a sample of 122 insurers. The published average charge increased from 0.59% in 2023 to 0.62% in 2024,<sup>16</sup> but doesn't include:

- the profit sharing taken by insurers (0.31% in 2019),<sup>17</sup>
- the underlying fund fees;
- and the impact of any entry and exit fees.

And according to the French trade organization, the overall average ongoing charge on assets is higher at 0.66% (France Assureurs, 2025a).

Disclosures of average actual entry fees are very scarce. Les dossiers de l'Epargne computed an average of 3.24% of premiums for 2020, but that is probably using maximum entry fees disclosed by insurers. The French supervisor ACPR disclosed an estimate of the average actually charged entry fee 0.55% for 2023. This is the figure we use for computing returns over the recent years. It is the same for capital guaranteed – and for unit linked contracts.

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<sup>15</sup>Source: France Assureurs, 2025; of which 1.44% of ongoing costs and 0.23% of transaction costs. France Assureurs does not provide this breakdown by asset class.

<sup>16</sup>Source: ACPR, 2025

<sup>17</sup>Source: ACPR, 2020 (did not publish more recent data).

### 8.3.3 Unit-linked insurance contracts

ACPR does not disclose any information on the total charges of unit-linked insurance (and the Trade Association publishes data only since 2022), which cumulates at least two annual asset-based fees: the units' (investment funds) charges plus those of the wrapper contract itself. In relation to the "value for money" exercise initiated in 2023 between the supervisor ACPR and the Trade organization/ France Assureurs, the latter has started to publish data on performance and costs of unit-linked insurance. Contract fees alone account for 0.88% in fees on average per annum on assets.<sup>18</sup> Overall, for unit-linked insurance contracts invested in equity funds, the total average fees are estimated at 2.73% per annum using more granular data of the trade organization for 2024.<sup>19</sup> About two thirds of investment funds economically held by French households are through these unit-linked insurance contracts. These actual total annual charges are too rarely clearly disclosed to prospects and retail clients either.

These fees include the "delegated management" fees which are growing as more and more savers are directed by insurers and distributors to this "delegated management" in unit-linked contracts. According to France Assureurs, when these delegated management fees are charged, they add an average 0.36% charge per annum. These total average fees of close to 3% per year do not seem to have gone down, although ACPR has recently (2023) asked insurers to eradicate the most egregious cases via a "Value for money" exercise. For example, the biggest life insurance subscribing association announced an increase of its unit-linked contract annual fees by 35 basis points in 2019.<sup>20</sup>

### 8.3.4 Personal and occupational pension plans

There are very few data available on their charges as well as for corporate DC plans. When available, the data tell us that they are on average rather high. For example, Préfon charges 0.60% on assets plus 2% on net investment income for asset management plus a 3.90% entry fee in 2020; lowered to 2.05% in 2022. This does not include the underlying investment fund fees. For unit-linked personal pension products, the French government has lifted the 15-year ban on commissions in 2019, when deciding to end PERP for PERs (see above, previous sections). This significantly increases net charges to pension savers. FAIDER estimates the cost impact for French pension savers to represent a minimum of EUR 20 billion over the life of these personal pension plans.<sup>21</sup> A recent study of the Conseil Consultatif du Secteur Financier (CCSF), the national public advisory financial committee, estimates that the annual ongoing costs of the new equity "units" alone are close to 3%, of which close to 0.90% result from commissions ("inducements", see consultatif du secteur financier (CCSF) [CCSF], 2021). This represents an increase of more than 40% in annual charges for the new PER compared to its PERP predecessor, for which commissions on "units", if any, have to be credited back to the PERP itself, i.e., to its participants.

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<sup>18</sup>Source: France Assureurs, 2024.

<sup>19</sup>With a serious limitation, both for cost and for performance data: France Assureurs excludes the index ETFs from these asset classes.

<sup>20</sup><afer.fr>, 2019.

<sup>21</sup><faider.org>, June 2019.

This average annual fee close to 3% compares unfavourably with the annual total charges of US individual retirement accounts (IRAs), which are very often below 1%.

The CCSF report also points to the opacity of these total annual charges and recommends the public disclosure of total annual charges of unit-linked PERs, i.e., the sum of the underlying "units' costs and the wrapper fee". This was obtained by FAIDER back in 2005, but this disclosure rule was repealed two years later by the French Authorities. The French Government then reinstated the mandatory disclosure of the total annual charges in February 2022 but only on a per unit basis, not at the insurance contract level, and provided only as a pre-contractual information, so , in practice, it is very difficult for the pension saver to access and compare the overall cost of unit-linked contracts, even only per unit.<sup>22</sup> This also applies to non-pension specific unit-linked life insurance contracts.

From 2018 to 2022, the ACPR estimated the average annual charges for the capital guaranteed funds in the personal and occupational insurance regulated pension products : 0.39% for 2022. But like for life insurance, this does not include the profit sharing for the provider (0.24% on average in 2018), the underlying fund fees or the impact of entry and exit fees. Exit fees can be very heavy on annuities, typically 1 to 3% of their amounts.

To our knowledge, neither ACPR nor the national trade association publicly disclose any data on the costs of unit-linked personal and occupational pension products, although they are now a major part of the PERs.

## 8.4 Taxation

For PERs, PERPs and public employee schemes (Préfon, Corem, CRH, which are now PERs as well), contributions are deductible from taxable income with a minimum of EUR 4637 and up to 10% of total professional income with a tax deduction ceiling (EUR 37 094 in 2025). For non-salaried workers (former Madelin contracts), the ceiling is higher at EUR 87 135. Withdrawals are fully taxed. Annuities are taxable like pensions with a 10% fixed haircut (with a global ceiling on all pension income of EUR 4321 in 2025). They are also subject to "social contributions", currently standing at 9.10% (7.4% in 2017).

Since August 2012, the taxation of employers' contributions to corporate savings plans (PEE and PERCO) and DB plans ("Article 83") increased from 8% to 20% (with some exceptions).

The general rise in taxation of savings also impacted life insurance. In 2012 the rate of "social contributions" increased from 13.5% to 15.5%, and again in 2018 to 17.2% on nominal income.

The overall taxation of all long-term financial savings was again globally increased from 2018 onwards, with the creation of the "PFU" or "flat tax". It amounts to 30% for most nominal investment income except for life insurance contracts after eight years (24.7%, or 17.2% for annual divestments below EUR 4600 for an individual, and

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<sup>22</sup> Arrêté du 24 février 2022 portant renforcement de la transparence sur les frais du plan d'épargne retraite et de l'assurance-vie.

**Table 8.6 – Taxation of pension savings in France**

Product categories	<i>Contributions</i>	<i>Phase Investment returns</i>	<i>Payouts</i>	Fiscal Regime
Life insurance - CG	Taxed	Exempted	Exempted	TEE
Life insurance - UL	Taxed	Exempted	Exempted	TEE
Corporate DC plans	Taxed/Exempted	Exempted	Taxed/Exempted	Variable
Public employee pension schemes	Exempted	Exempted	Taxed	EET
Insurance-based pension savings products	Exempted	Exempted	Taxed	EET

*Source:* BETTER FINANCE own elaboration based on French tax code.

below EUR 9200 for a couple). And direct long-term investments in equities are no longer taxed at a lower rate than short term ones: the exponential negative impact of inflation on long-term investment values and income is no longer taken into account except for real estate investments.

On the other hand, the wealth tax on all financial assets was abrogated from 2018 on (but not on real estate).

## 8.5 Performance of French long-term and pension savings

### 8.5.1 Real net returns of French long-term and pension savings

#### **Equities and bonds**

In 2024, the European equity market (dividends reinvested) returned +9% after +16% in 2023 (see Figure 2.3). Over the last 25 years (end 1999 to end 2024), it returned a total of +192%. French inflation over the same period was +78%. So, despite two sharp downturns (2000-2002 and 2007-2008) plus other drops in 2011, 2018, 2020 and 2022, European equities delivered positive nominal and real returns over the whole period.

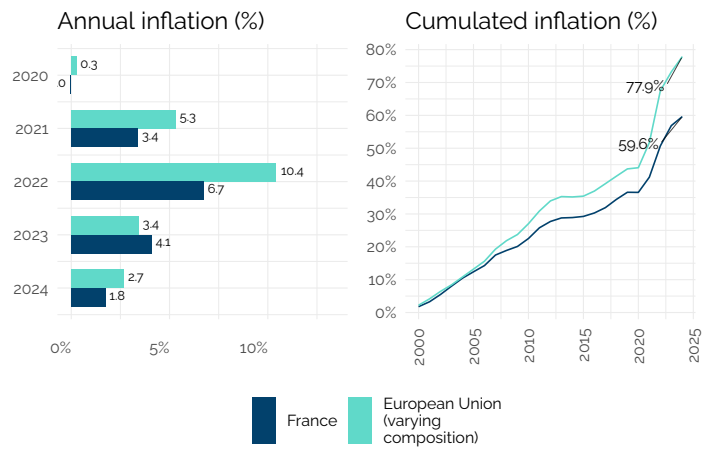
Packaged long-term and pension products in France are also invested in non-French European equities. Therefore, the European equity universe can be considered an appropriate benchmark for their equity returns, although it is quite conservative, as US equities performed much better over the period, and now represent more than 60% of the World's total equity markets' capitalization .

The same applies to bond where the most appropriate general benchmark can be considered European bonds.

**Figure 8.2 – Inflation in France**

Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>France</i>	59.6%	1.9%



*Data:* Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE;  
*Note:* Annual inflation is calculated as the december-on-december variation of HICP.

## Life insurance

**Life insurance – Capital-guaranteed contracts** The *after-tax* real returns of guaranteed life insurance contracts have plunged back deeply into negative territory from 2021 (-2.4%) to 2023 (-1.9%). With lower inflation, and higher bond interest rates, net real returns were back to positive in 2024 (+0.4%). Such returns should be assessed from a long-term perspective: the last data available from the industry trade body indicate that outstanding life insurance contracts were open for 12 years on average. These contracts — although of a long-term nature — are invested only 9% in equities.<sup>23</sup>

Over a 25-year period, cumulated pre-tax real returns of guaranteed life-insurance contracts were +30%, and varied from a maximum annual performance of +3.8% in 2001 to a negative performance of -4.5% in 2022 (see Figure 8.3).

After-tax real returns are presented in Table 8.7. In the most favourable case, where savers who —after a minimum of 8 years after the first subscription— do not redeem more than EUR 4600 per annum (see section on taxation), real returns after tax are slightly better.

These returns do not take into account the net accruals to the insurers' reserves for profit sharing (*Provisions de participation aux bénéfices* or PPB), which are legally required. They must be returned to the life insured within 8 years of their inception. They are then included in the annual return. French regulators allowed insurers to book most of these profit-sharing reserves into their shareholders' funds for prudential purposes from 2019 fiscal year. This is not an incentive for insurers to use these on average large profit-sharing reserves to offset low or negative annual returns, as pointed out by the French supervisor.<sup>24</sup> Indeed, the outstanding amounts of these reserves stood at 1.9% of total mathematical reserves at the end of 2013 and — despite recent drops — stand at 4.3% of total provisions in 2024.<sup>25</sup>

Following capital-guaranteed life insurance reporting rules, capital gains or losses are not accounted for in the disclosed returns in Table 8.7.

In 2012, taxation increased by 200 basis points, because of the rise in social contributions from 13.5% to 15.5%. In 2018, social contributions rose again to 17.2%. As taxation is applied to nominal returns, any rise in inflation increases the tax rate on real returns (increase in purchasing power) which reached 76% in 2017, as shown in the table below. For 2018, 2019, and from 2021 to 2023, as the real income before tax was negative (loss of purchasing power), taxing nominal income had the effect of deepening the real loss for life insurance savers further, i.e. taxing real losses. In 2024 the tax rate on capital guaranteed life insurance real income was above 75%.

These average returns have masked important differences depending on distribution networks and governance up to 2022: for standard contracts distributed by banks, the 2020 average nominal return was less than 1.08%, whereas the return

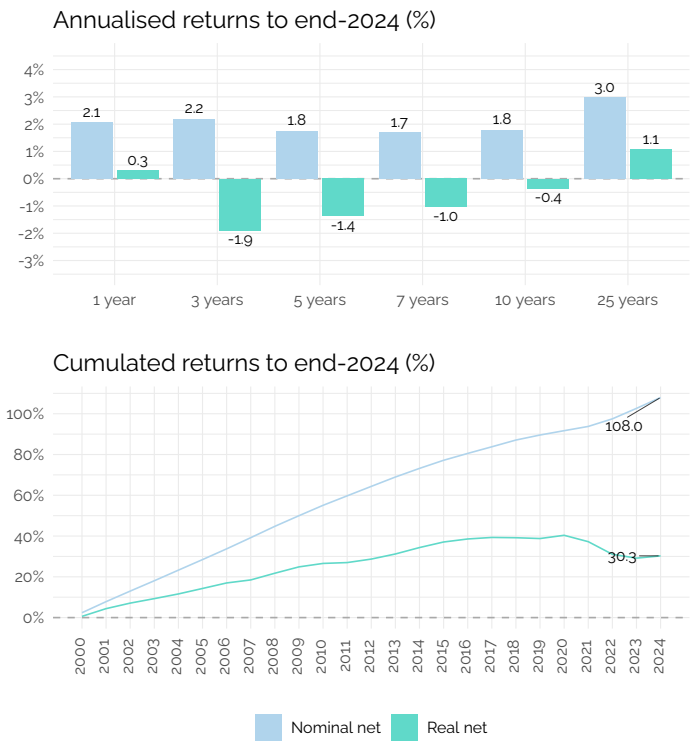
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<sup>23</sup>GoodValueforMoney.eu, 2021.

<sup>24</sup>"The persisting accruals to the PPB could be also helped by the evolution of rules, which allow insurers since 2019 to include part of it in the computation of own funds eligible to cover capital requirements", ACPR.

<sup>25</sup>Source: ACPR, 2024.

**Figure 8.3 – Returns of French capital-guaranteed life insurance (before tax, % of AuM)**



*Data:* ACPR, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Table 8.7 – Returns of French life insurance contracts - capital guaranteed (% of AuM)**

Year	Disclosed return	Real return before tax	Real return after tax	Real return after tax*
2000	2.4%	0.6%	0.3%	0.5%
2001	5.3%	3.8%	3.1%	3.5%
2002	4.8%	2.6%	2.0%	2.3%
2003	4.5%	2.1%	1.4%	1.8%
2004	4.4%	2.1%	1.5%	1.8%
2005	4.2%	2.4%	1.6%	1.9%
2006	4.1%	2.4%	1.6%	1.9%
2007	4.1%	1.3%	0.5%	0.8%
2008	4.0%	2.8%	2.0%	2.3%
2009	3.6%	2.6%	1.8%	2.1%
2010	3.4%	1.4%	0.7%	1.0%
2011	3.0%	0.3%	-0.3%	-0.1%
2012	2.9%	1.3%	0.7%	0.9%
2013	2.8%	1.9%	1.3%	1.5%
2014	2.5%	2.4%	1.8%	2.0%
2015	2.3%	2.0%	1.5%	1.7%
2016	1.9%	1.1%	0.6%	0.8%
2017	1.8%	0.5%	0.1%	0.3%
2018	1.8%	-0.1%	-0.5%	-0.4%
2019	1.3%	-0.3%	-0.6%	-0.5%
2020	1.1%	1.1%	0.9%	1.0%
2021	1.1%	-2.2%	-2.5%	-2.4%
2022	1.9%	-4.5%	-5.0%	-4.8%
2023	2.6%	-1.4%	-2.1%	-1.9%
2024	2.6%	0.9%	0.2%	0.4%

*Data:* ACPR, France Assureurs, Good Value for Money, French tax code, Eurostat; *Calculations:* BETTER FINANCE for redemptions below EUR 4600 per annum.

for contracts subscribed by independent associations was 1.56%.<sup>26</sup> Higher annual average fees for bank insurers (0.65% versus 0.58% for traditional insurers in 2020) and higher profit-sharing reserves are part of the explanation. Considering that contracts distributed by banks represent about 60% of the French capital guaranteed life insurance market, this returns gap constituted an opportunity cost of about EUR 6 billion for 2020 alone for savers getting their capital-guaranteed life insurance contracts from their bank instead of from independent savers' associations. In 2023, this long term trend stopped as bank insurers eventually made some use of their profit sharing reserve, and many insurers offered boosted returns on new premia to better capture the upswing in bond interest rates. In the recent years, many insurers have also offered higher returns to savers investing a minimum part in units instead of in capital-guaranteed options.

**Life insurance – Unit-linked contracts** Nominal returns were pushed upwards by the rise in European stock prices from 2009 to 2024, with few negative years (2011, 2018, 2020 and 2022) and by the overall very positive performance of the European bond markets. Despite the long period of positive European equity returns, unit-linked contracts still have a very negative cumulative return net of inflation since the end of 1999 of -22% (see next section and Figure 8.5).

Over a 25-year period, real returns before tax of unit-linked life-insurance contracts were volatile. The worst performance was recorded in 2008 (-23.9%) and the best one in the following year (+12.2% in 2009).

**Life insurance – All contracts** In order to compute the real return achieved by an investor who would have subscribed to a life insurance contract at the end of 1999 and who would have withdrawn his funds 25 years later, one has to subtract the entry costs paid in the year of subscription, as these fees are not taken into account in the disclosed returns. We estimate that entry costs in 2000 represented 2.76% on average of the investment,<sup>27</sup> to be deducted from real returns that year. For more recent time horizons, we used the only other and much lower disclosed average figures we could find: 0.75% for capital guaranteed contracts and 0.55% for UL contracts for 2023 (CCSF, 2025). Also, annual contract fees on assets are already taken into account for capital guaranteed contracts by the insurance industry body (France Assureurs), but not for unit-linked ones in its annual "key figures" until 2021. Contract fees have therefore been added back whenever they were not taken into account.

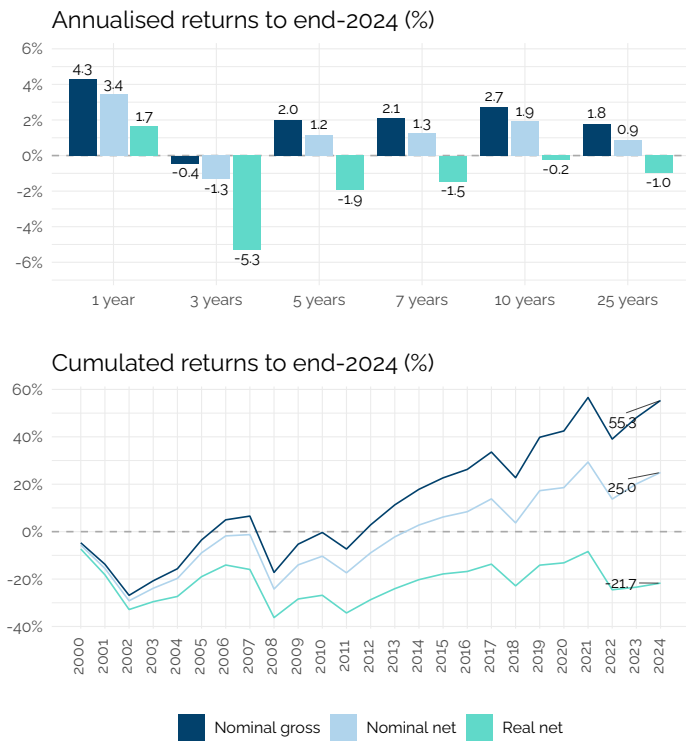
An average saver has thus received a cumulated net real pre-tax return of 30% for this 25-year period of investment on guaranteed contracts, and a negative one of -22% on unit-linked contracts. On a yearly basis, the rates of returns would be +1.1% and -1.0% respectively. It is worth noting that, although unit-linked contracts are riskier for subscribers, they nevertheless provided cumulated returns that were much lower than those of the guaranteed contracts over the last 5 years. Such a lower—and negative—real performance over 25 years is primarily due to:

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<sup>26</sup>Source: FAIDER. Independent associations representing life insurance contracts holders included AGIPI, AMIREP, ANCRE, ASAC-FAPES and GAIPARE in 2020 FAIDER is a member organisation of BETTER FINANCE.

<sup>27</sup>Source: OEE.

**Figure 8.4 – Returns of French unit-linked life insurance (before tax, % of AuM)**



Data: France Assureurs, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

- much higher fees (see the fees and charges section above): about four to five times higher for the dominant equity and mixed asset *units*,
- and to the fact that mostly expensive actively managed funds' retail share classes are offered and promoted, while few low-cost funds such as index ETFs (less than 4% of total unit-linked assets in 2024 according to the Trade body), or institutional, or *clean* share classes of actively managed funds are.<sup>28</sup> Independent research determined that over the mid and long-term, high charges hurt net performance of equity investment funds on average. This in turn may be due to the mostly higher sales commissions ("inducements") for highly charged funds.

Capital markets as a whole (European bonds and equities) provided a strong positive real performance over the same period.

Figure 8.5 shows that the pre-tax real performance evolution of unit-linked contracts is well correlated to that of capital markets, but massively below those over time, making unit-linked a high-risk and low-return offer over the last 25 years. Given the volatility of UL insurance annual real returns before tax, they were not as low for all time horizons shorter than 25 years, but they were also negative for shorter holding periods (for example for 2 to 10 years holding periods to 2024).

### **Insurance-based pension saving products (IBPPs)**

It was impossible to find any public consolidated average data on the performances of insurance-based pension products: neither the French public supervisor ACPR, the French trade body France Assureurs and the recently created "Observatory of financial savings products" provide any figures, despite the development of the PER since their launch in 2019.

This contrast between the increased transparency of performance and costs of life insurance at the aggregate – average – level, and its absence for insurance-based pension savings, despite their importance for the wellbeing of citizens, is worrying. The NCA should fix this.

### **Individual PER (PERin)**

According to GoodValueforMoney.eu, aggregate nominal performance for the new PERs' *fonds en euros* (capital guaranteed investment option) launched at the end of 2019 has been better than for ordinary life insurance contracts between 2019 and 2021 but was similar in 2022 (1.89% versus 1.92%) and very much below inflation. We could find no overall performance data for unit-linked PERs (the vast majority).

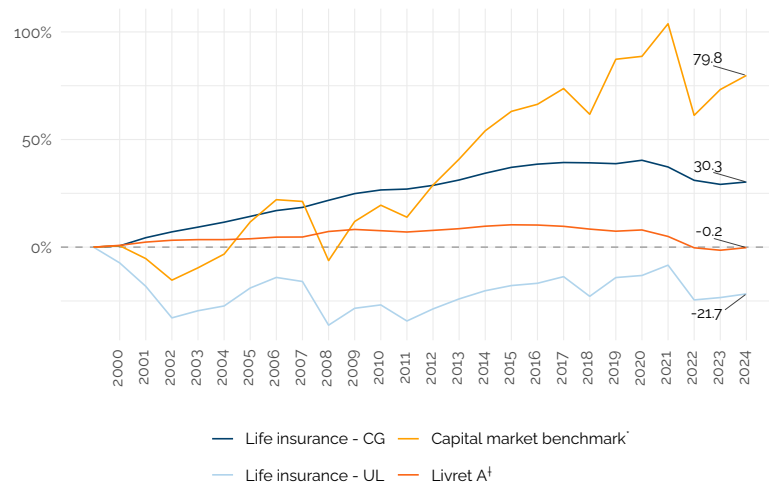
### **Plan d'Epargne Retraite Populaire (PERP)**

A majority of PERPs are structured like ordinary life insurance contracts in the accumulation phase: a combination of capital guaranteed funds (*fonds en euros*) and

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<sup>28</sup>The institutional share class of an investment fund bears lower annual fees than the retail share class but requires a higher minimum initial investment. The "clean" share class of an investment fund bears no sales commissions and therefore also enjoys lower overall annual fees.

**Figure 8.5 – Real performance of French life insurance vs. capital markets and Livret A**



Data: ACPR, France Assureurs, STOXX, Bloomberg, Eurostat; Calculations: BETTER FINANCE; <sup>1</sup> 50% equity + 50% bonds, see introductory chapter of this report for details on the calculation; <sup>1</sup> most common, State regulated, bank savings account in France.

"units" representing investment funds. A minority of PERPs are structured like deferred annuities, similar to the main pension savings products for public employees (see next section).

It was impossible to find global long-term return data on PERPs before 2011 and after 2021. The insurance industry body publishes the average return of ordinary capital guaranteed (*fonds en euros*) and unit-linked life insurance contracts (see previous sections), but not that of insurance-regulated personal pension products such as PERPs and PERs. Based on the disclosed nominal returns of a majority of PERPs collected by the French Supervisor ACPR only from 2011 to 2021, the weighted average nominal return of the capital guaranteed PERPs (*fonds en euros*) was 1.08% in 2021, similar to the average return of ordinary capital guaranteed life insurance contracts.

This can be surprising, since PERPs enjoy a much longer duration of their liabilities, which should allow for a higher allocation to equities which have performed much better than bonds since 2011. The returns of PERPs should also be boosted by the rule unique to PERPs according to which the commissions (inducements) on units (funds) must be credited to the PERP, and, in practice they are credited to the capital guaranteed fund. On the other hand, PERPs are on average more recent than ordinary life insurance contracts and therefore so is their bond portfolio, which generates lower returns than older bond portfolios. In 2021, pre-tax real returns of French personal pensions (PERP) became very negative; on average -2.2%.

### **Occupational deferred annuities (Madelin, PERE and Article 39)**

The nominal returns of occupational deferred annuities were higher (1.81% in 2021) and did not decline as much as for PERPs. This could be explained by older fixed income portfolios yielding higher rates, and by higher discount rates (*taux techniques*) forcing insurers to deliver higher returns. Charges may also be lower than for PERPs, but cost data are missing specifically for these pension products. Since 2018, the French supervisor ACPR publishes the average annual cost (0.39% in 2022) but that is for the capital-guaranteed option of all IBPPs combined. Again, no cost and performance data on unit-linked and schemes in "points" are disclosed by the French NCA.

Unfortunately, it also did not identify separately the historical returns and costs of the pension products for self-employed individuals ("Madelin", many of which are subscribed and supervised by independent pension saver associations), from the employer-sponsored DC plans (PERE) or DB plans ("article 39"). And ACPR stopped disclosing their average return in 2022. Following the European Commission's request to the ESAs to improve the transparency of past performances and fees, it is urgent to collect, analyse and disclose these data.

### **Public employee pension schemes**

It is challenging to evaluate the real returns of these deferred annuity plans to the participants. To start with, up to 2010, it was not mandatory for those plans to disclose investment returns. Following action by BETTER FINANCE's French member

organisations, a 2010 Law made this a legal requirement from 2011 onward.<sup>29</sup> Préfon has also started to give an indication of its economic returns (taking into account the annual evolution of the market value of all assets in the portfolio) in its annual report.

Then, these schemes disclose the pension rights in "points", not in euros or in units. The evolution of the value of the points does not permit to compute the annual return to participants on their pension savings, which is very different from the investment returns of the product's portfolio. This data can only help compute the real evolution of the pension rights over time, or, in other words, the evolution of the purchasing power of the annuities paid to the participants. BETTER FINANCE had to do this computation, as it is not a disclosed —though essential— information from the product providers.

**Préfon** Préfon had not published its 2024 report as of end August 2025. It published an accounting return (net of fees) on its investment portfolio of +2.18% (excluding real estate and private equity) in 2023 versus +3.05% in 2022. However, as mentioned above, the accounting return does not take into account the changes in the market value of assets (the market value of the bonds-laden portfolio dropped by 20.6% in 2022, and recovered partially in 2023). Préfon's investment portfolio is still heavily tilted towards fixed income (80% of total in 2024, and equity weighing only 13%, in accounting, not market value terms). This seems an inadequate asset allocation for the long-time horizon of the pension plan, and an improvable reporting as the accounting value has little relevance to assess its performance. The portfolio return in 2023 was +9% according to Préfon, but it does not specify if it was gross or net of charges.

Part of the investment return has been set aside in the past in order to replenish reserves. In 2010, the French Supervisor ACPR decided that Préfon reserves were not sufficient and forced Préfon's insurers to contribute EUR 290 million of their own funds (as of 2013-12-31) to help Préfon balance its assets and liabilities.<sup>30</sup> At the end of 2016, this contribution from the insurers amounted to EUR 333 million (Préfon, 2017) despite the massive cuts in pension rights for those who retire after age 60 decided in 2014 and 2017 (see Figure 8.6).

In 2017, in relation to the entry into force of the Solvency II Directive, French law was modified to move to use the market value of assets instead of their historical cost (accounting value). This enabled Préfon to show at last sufficient reserves and solvency ratio, but—up to now—not enough to allow for reducing or even capping the loss of purchasing power of its pensions since 2002. Thanks to this change in solvency rules, the ratio of assets to liabilities of Préfon increased from 97.5% in 2016 to 133.2% in 2024, allowing it for the first times in many years to increase the nominal value of its annuities from 2017 on. But from to the end of 2024, despite these increases, the real value (purchasing power) of its participants pensions rights (for those who retire at the age of 60) shrank again by 12% (+8% nominal increase versus a +23% inflation).

In addition, only since 2012 is the value of the participants' accumulated savings com-

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<sup>29</sup>Law n° 2010-737 of July 1st, 2010 — art. 35 (V), which modified Article L441-3 of the French Insurance Code.

<sup>30</sup>Les Echos, 27 December 2010. This information was not disclosed by Préfon to the participants.

municated individually to them, and unfortunately with more than a one-year delay (this essential information should be released sooner), and just as an “estimate”. It was therefore impossible to compute a real rate of return individually and for all participants with the data made available by the Plan up to 2019 (see below the new approach).

Another difficulty for deferred annuity products is to translate the impact of portfolio returns (and other factors such as the capital conversion rate into annuities, the discount rate and the evolution of annuities paid) on the actual long-term return for the pension saver. One proxy return indicator is the annual rate of pension rights' and annuities' increases before tax for several years (see Figure 8.6).<sup>31</sup> Préfon participants who contributed in 2002 and who will retire at the age of 60 in 2025 will have lost 23% of the real value of their pensions (before tax)<sup>[^cc\_france-35]</sup>. The advertised objective of Préfon to maintain the purchasing power of pensions has not been fulfilled since 2002 and Préfon remains silent on the perspectives to reduce this loss of the real value of pensions in the future. This key performance information is not publicly disclosed,<sup>32</sup> except for the first time in 2023, but only in the annual report in a section called “technical aspects”.

<sup>[^cc\_france-35]</sup> Savings into Préfon (like into PERs and into Corem) are income tax deductible, but the annuities are fully taxable. Both savings and annuities bear social levies (*prélèvements sociaux*).

This return indicator, however, does not include the discount rate embedded in the conversion ratio of accumulated savings to annuities. But this discount rate varies from one year to another, and also varies according to the actual retirement age—which is not disclosed.

Also, this indicator is only valid if one exercises his liquidation rights at age 60. But very few people can now retire at age 60 due to the postponement of the legal age to retire with full Pillar I pension rights to between 62 and 67. For example, if one exercises these rights at the age of 65, starting from the year 2026 on, the initial annuities have been reduced by 17.3% in nominal terms from 2013 to 2017), even though Préfon always guaranteed its participants at subscription that its pension annuities could never be reduced in nominal terms. In real terms it is much worse (-36% lost since 2002 to 2024), as shown by the lower plot in Figure 8.6.

It is difficult to compute the evolution of the Préfon annuities paid after tax, since they are taxed at the marginal income tax rate on pensions and salaries (plus social levies) and since contributions have been deducted from the taxable income for income tax purposes (but not for social levies).

An alternative approach mentioned by Préfon since its 2023 annual report, is to use the new valuation of transfers or redemptions of accumulated pension rights in capital. But these redemptions in capital are allowed only in limited cases since 2010, and are very rare. For valuations done since 2019, those are based on annual revaluation coefficients computed on contributions. But they are computed on contri-

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<sup>31</sup>This key datum is very difficult to find, but recently Préfon has been making significant efforts to improve its transparency and disclosures.

<sup>32</sup>ARCAF, 2019.

**Figure 8.6** – Compounded evolution of Préfon annuities' real value

butions net of the 3.9% commissions charged until 2021. Nevertheless, Préfon now acknowledges the value of pension rights does not keep up at all with inflation despite this being its stated objective. And they are on average below the historical returns of other capital-guaranteed long-term products such as capital-guaranteed life insurance (see Figure 8.3), and far below the returns achieved by Préfon itself on contributions invested (e.g., for 2023 + 1.98% revaluation versus + 9% for the portfolio return).

**Corem** UMR, the provider of Corem publishes the annual accounting return on its investments but does not specify whether these are gross or net of fees. The accounting return for 2024 was +3.62% versus +5.01% in 2023. Its asset allocation is less inadequate than Préfon's for a long duration pension plan: 24% in equities including close to 6% in private equity). However, this accounting return does not take into account the changes in the market value of assets either. In addition, and more importantly, all the investment return of the Corem assets has been set aside to replenish reserves. It is therefore impossible to compute a collective real rate of return.

The deferred annuity mechanisms of Corem are similar to those of Préfon, with the same difficulties in estimating the real return for the pension saver. Therefore, we also use the evolution of the annuities' values as a proxy return indicator here (Figure 8.7). Corem has been in deficit for a very long time; the main—undisclosed—tool of its recovery plan in place since 2002 is not to increase the nominal value of annuities served. As a result, the annuities served by Corem will have lost a whopping 34% of their real value before tax (purchasing power) over the last 22 years, since Corem has not increased them for many years, pocketing the return on its portfolio for other purposes, and has announced in April 2021 to its participants that the nominal value of their pension rights as of January 1st, 2022 will be reduced by 12.6%. These figures are before tax. This key and catastrophic performance information was not clearly disclosed to the public and to new participants.

The reality is even worse since, in November 2014, Corem announced new measures to reduce its reserve gap by further reducing the returns for participants: they now need to be 62 years of age to get the full pension rights instead of 60 years of age (thus losing 2 years of pensions), and the minimum guaranteed return on pension contributions was lowered from 2.3% to 1.5% from 2015 on.

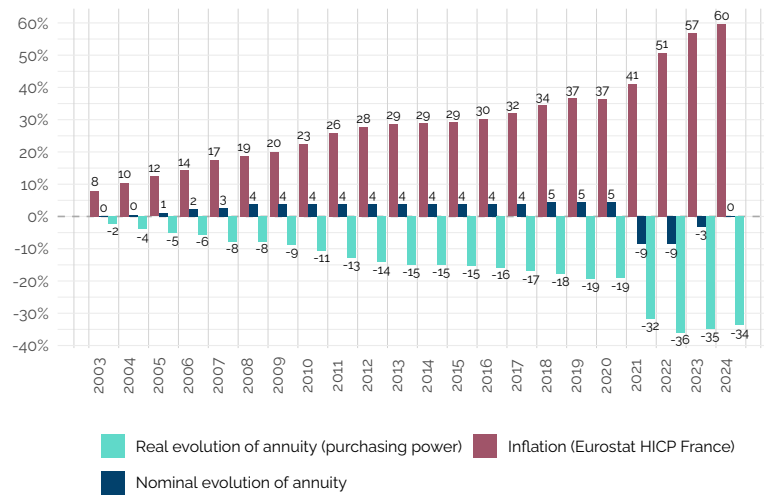
The financial situation has been very difficult as its reserve gap (difference between its assets and the present value of its pension liabilities) reached EUR 2.9 billion at the end of 2014, as measured using French common prudential rules at that time.<sup>33</sup> At the end of 2015, Corem obtained permission from the French Government to use a minimum discount rate of 1.50% (instead of 0.59% according to the previous rule) to compute the present value of its liabilities, helping it to reduce its reserve gap to EUR 1.3 billion at the end of 2016.

In 2017, the French Government allowed deferred annuity schemes such as Corem

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<sup>33</sup>Until 2017, Corem's recovery plan allowed it to exceptionally use a discount rate of 3% and an older mortality table to compute the present value of its pension liabilities instead of the regulatory 0.78% at the end of 2014 and 1.5% end of 2015. Using the 3% discount rate, Corem assets covered 107.5% of its liabilities at the end of 2015.

**Figure 8.7 – Compounded evolution of COREM annuities' real value**



Data: UMR, Eurostat; Calculations: BETTER FINANCE.

to use the market value of assets instead of the accounting (acquisition cost mostly) one, to compute its assets/liabilities coverage ratio. This new rule improved its coverage ratio to 98.2% at the end of 2018, but it went down again in 2019 and in 2020 to 91.8%. Otherwise Corem would have been in breach of its Recovery Plan which required it to cover at least 90% of its liabilities. Since 2016, the Corem rules also allow it to reduce the nominal value of annuities under certain conditions, contrary to the commitment that was provided to participants when they joined. Thanks to the massive cut in pension rights as of January 1st, 2022, the coverage ratio has jumped to +143%, end of 2024 at the expense of participants.

The distribution of new Corem contracts has resumed in 2019, despite the continuously escalating losses inflicted to its participants. In 2023, despite complaints to the ACPR, the product is still actively distributed and without any visible and intelligible warning about its catastrophic performances and about its massive recent cut in its pension rights. End of 2023, pension rights were revalued nominally by 6% and another +3.5% end of 2024, but that has only stabilized the real loss to participants since its inception in 2022, still amounting to 34% end of 2024.

**CRH** BETTER FINANCE could not access any publicly disclosed annual report on CRH. Even its pre-contractual publications do not disclose past performance. Because of an ongoing restructuring that started in 2008, the real returns of this plan are probably low and below inflation. For the last eight years (beginning 2018 to beginning 2025), CRH annuities' nominal value has increased only by 5.3% overall, against an inflation of 23.6%; representing a loss in the real value of the pension rights of participants of 15% (10% loss for Préfon participants and 11 loss for those of Corem over the same time). This crucial warning on historical real returns is not disclosed to prospects. In 2023, its assets were 86% in fixed income, and 14% in equity.

Overall, BETTER FINANCE estimates the loss of purchasing power over the last twenty two years (2002-2024) of participants to the French Public Employee Pension Schemes (Préfon + Corem) to be at -27.0% (-1.4% per annum, see Figure 8.8), based on the relative asset portfolio size of Préfon and Corem, and assuming optimistically that Préfon participants retire as early as age 60 and not later.

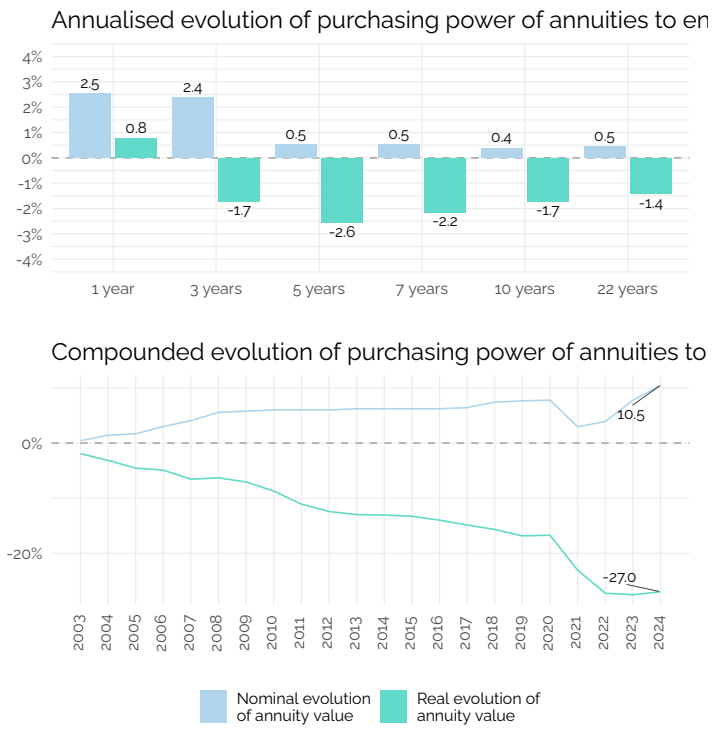
### **Corporate DC plans**

With the precious help of Association Française de la Gestion Financière (AFG), the French asset management industry association AFG, we combine information provided by SIX on the performance of each category of funds (FCPEs) with data on their total outstanding relative weight to estimate the overall returns of corporate savings (PEEs, PERCOs and the new collective PERs).<sup>34</sup>

Real returns of corporate DC-based plans before tax over a 25-year period, from the end of 1999 to the end of 2024, were overall positive: the yearly average real perfor-

<sup>34</sup>Data published by AFG relate to "FCPE L214-164". These funds are diversified funds which do not invest in the own shares of the concerned company ("company stock"). There is another category of corporate savings' funds, the "FCPE L214-165" dedicated funds which can invest without limit in the own shares of the concerned company but there are no data available on the returns of these "FCPE L214-165" funds. The "FCPE L214-164" and other diversified assets represented 62% of all FCPE assets at the end of 2023.

**Figure 8.8 – Returns of French unit-linked life insurance (before tax, % of AuM)**



*Data:* Préfon, UMR, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period. Purchasing power of annuities is adopted as a proxy for returns; Figures represent the asset-weighted average evolution of Préfon and COREM pension annuities

**Table 8.8 – Performance of French DC corporate plans – PEE (% of AuM, before tax), 25 years to 2024**

	Equity	Bond	Money market	Diversified	All funds
Cumulated nominal	91.0%	72.3%	39.3%	81.6%	80.0%
Annualised nominal	2.6%	2.2%	1.3%	2.4%	2.5%
Cumulated real	19.7%	7.9%	-12.8%	13.8%	12.7%
Annualised real	0.7%	0.3%	-0.5%	0.5%	0.5%

*Data:* AFG/Europerformance, Eurostat; *Calculations:* BETTER FINANCE

mance before tax of the aggregate of all funds was +0.5%, which makes French DC plans the second-best performing pension savings product after capital-guaranteed life insurance contracts (before tax). This regards PEEs (EUR 166 billion of assets) and PERCOs and collective PERs (EUR 34 billion).

The overall real returns of PEEs before tax are:

- positively influenced by the positive real return of DC equity funds (with a positive cumulated real return of +19.7%). However, equity funds, which account for about 26% of total outstanding assets (excluding company stock), underperformed equity markets by more than half over the last 25 years: +91% in nominal terms versus +192% for European equities; [^cc\_france-39]
- negatively influenced predominantly by the negative return and surprisingly heavy weight of money market funds (-12.8% cumulated real return and 26% of assets, as much as equities, but it is decreasing to 22% for the PER – pure pension savings – part of the corporate DC plans).
- Also, DC bond funds (around 16% of total assets) returned +72% in nominal terms over the period versus +123% for the European bond market (see Figure 2.3).

[^cc\_france-39] STOXX All Europe Total Market TR index in euros.

A factor for this underperformance of DC equity and bond funds relative to capital markets could be the level of fees charged. Unlike corporate DC pension plans (“401k”) in the US, the French ones do not invest in general purpose mutual funds, but in special purpose AIFs called FCPEs, specifically dedicated to these plans. Consequently, French savers are faced with an additional offering of investment funds (about 1100 FCPEs in addition to the about 3500 UCITSs funds already domiciled in France), the average size of these AIFs is quite small, and several FCPEs are merely wrappers of other general purpose funds, adding a layer of fees. Another factor is that equity FCPEs are not 100% invested in equities.

However, the French supervisor, AMF, found that the ongoing annual charges of multi-sponsor FCPEs are on average lower than those of French-domiciled general-purpose funds: 1.31% in 2019 for the 178 diversified (multi-asset) FCPEs analysed versus 1.53% for the general-purpose diversified funds; and 1.46% for the 145 European equity FCPEs analysed versus 1.53% for the general-purpose European equity funds

(AMF, 2021).

As mentioned above in the costs and charges section of this chapter, these estimates are unfortunately not asset weighted. Still, that is about half the cost of the comparable funds held via unit-linked insurance contracts. In addition, a part of the FCPE fees can sometimes be paid by the employers, not by the employees.. This large difference in the level of ongoing charges seems due to the distribution modes—more “wholesale” for corporate plans, and more “retail” for life insurance (implying commissions paid out of fund charges to distributors).

A limitation of such computations is that performance indices provided by SIX only relate to diversified funds inside the corporate savings plans. They do not take into account the part of corporate long-term savings which is invested in shares of the plan sponsor companies (“company stock”), accounting for 35% (EUR 58 billion end of 2024) of all corporate savings plans.

#### **Return of regular identical investments over 25 years**

Also—same rule whenever possible for the whole research report—the computed returns relate to a one-time investment at the end of 1999 and kept to the end of 2024. Many pension savers will tend to invest regularly every year or every month. AFG computed the annualised returns from 2000 to 2024 for the same amount invested every year over the last 25 years. This generated a somewhat lower before-tax real return of 9.9% instead of 12.7%. This return becomes less volatile with time, as it is spread over many years instead of only one.

#### **After-tax returns are often higher**

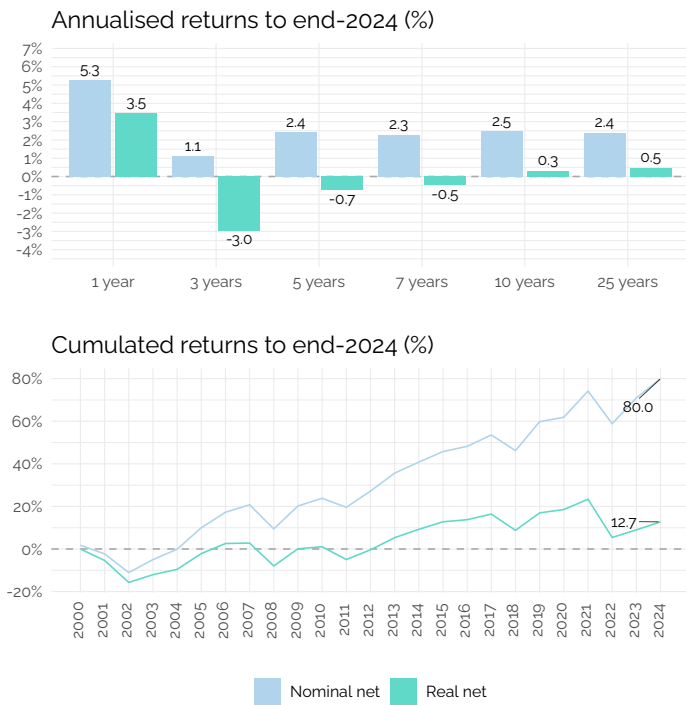
Finally, after-tax returns of French corporate long-term savings plans are difficult to compute globally, but they can often be very close to—or higher than—before-tax ones since their taxation is the most favourable of all long-term and pension savings products in France (redemptions are exempt from income tax and are only subject to “social” levies of 17.2% of net gains). Also, a majority of these savings come from non-taxable profit-sharing income contributed by employees (*intéressement* and *participation*) and by employers’ matching contributions.

## 8.6 Conclusions

Unsurprisingly all packaged long term and pension saving products have rebounded in 2023 and 2024 from the severe real losses in 2022, as both stock and bond markets also rebounded. And “financial repression” (as simply measured by the positive difference between inflation and money policy interest rates) as eventually disappeared in 2024 with as large drop in inflation. Over the long term though, charges and selection biases, taxation of nominal long term investment income, but also an asset allocation very tilted towards fixed income) are most to blame for the real cumulated losses in unit linked insurance, in personal pension products, and in Public Employee schemes.

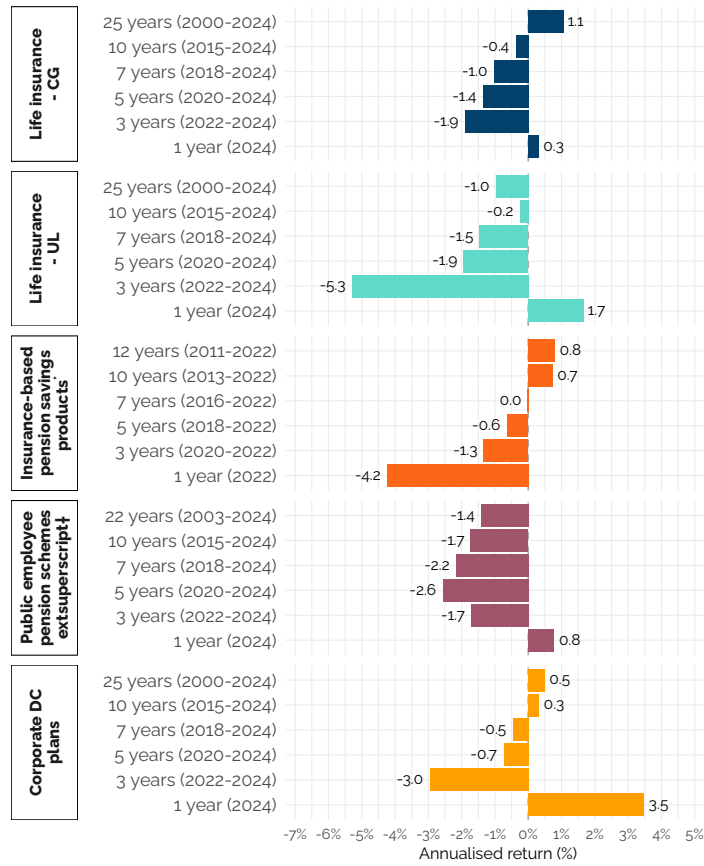
The outlook for 2025 and beyond is not as gloomy as for 2022, but unfortunately still

**Figure 8.9 – Returns of French corporate DC plans (before tax, % of AuM)**



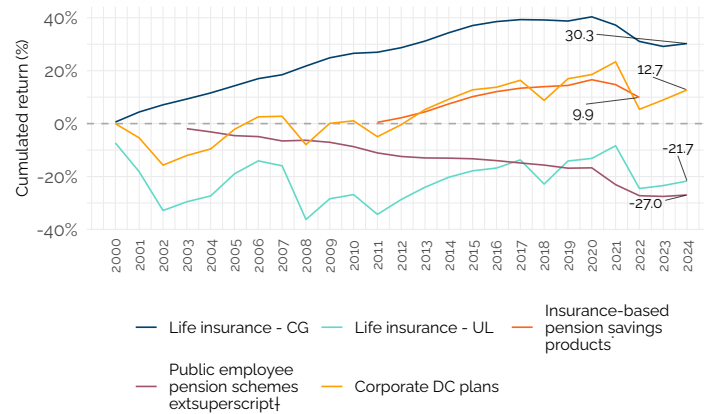
*Data: AFG, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.*

**Figure 8.10 – Annualised returns of French long-term and pension savings vehicles over varying holding periods**



Data: ACPR, France Assureurs, ACPR, France assureurs, Prefon, UMR, AFG, Eurostat. Calculations: BETTER I

**Figure 8.11 – Cumulated returns of French long-term and pension savings vehicles**



Data: ACPR, France Assureurs, ACPR, France assureurs, Prefon, UMR, AFG, Eurostat. Calculations: BETTER |

not positive in real terms. Indeed, national tax policies (which most often use the largely fictitious nominal investment income as a tax basis, resulting in taxing very heavily the purchasing power gains and even sometimes losses of pension savers) are unlikely to get better in front of the massive public debt accumulated since the Covid-19 epidemics. And recent statistics as well as public policies do not point to a reduction in overall charges borne by European long term and pension savers.

Worse, the transparency and clarity on the performances of personal pension savings — of the PER in particular — is not improving. Let's hope the new the Observatoire des Produits d'Epargne Financière (OPEF), Observatory of returns and costs of financial savings, by the French Government and the continuation of the "Value for Money" process between the NCA and the insurance industry will help to change this.

## Chapter 9

# Germany

### Zusammenfassung

In Deutschland verfügen die Lebensversicherer bei der privaten und betrieblichen Altersvorsorge über eine dominante Position. Pensionskassen und Pensionsfonds als Einrichtungen betrieblicher Altersvorsorge (EbAv) spielen eine weniger wichtige Rolle im Vergleich zu anderen EU-Mitgliedsstaaten. Durch die Niedrigzinsphase der 2010er Jahre hat ein tiefgreifender Wandel von Garantieprodukten zu Kapitalmarkt näheren Produkten stattgefunden. Dieser Trend dürfte auch durch die Zinswende seit 2021/22 nicht wieder rückgängig gemacht werden.

Nachdem über Jahre die Inflation in Deutschland häufig unter dem EU-Durchschnitt gelegen hatte, wird die nun höhere Inflation für die Altersvorsorgesparer für einen dramatischen Verlust an langfristiger Kaufkraft sorgen, falls sie nicht eingedämmt werden kann. Als besonders problematisch müssen die hohen Kostenbelastungen der Lebensversicherer, insbesondere durch die Vertriebsvergütungen, angesehen werden.

In den letzten Jahren hat es intensive öffentliche Debatten über die Reform der staatlich geförderten Altersvorsorge, namentlich der Riester-Rente, gegeben. Deren Neugeschäft ist seit einigen Jahren praktisch zusammengebrochen, ihr Bestand nimmt sogar ab. Nach dem vorzeitigen Scheitern der „Ampel“-Koalition gibt es bisher nur unvollständige Informationen über die Reformvorhaben der neuen Bundesregierung (seit Mai 2021 im Amt) hinsichtlich Rente und Altersvorsorge.

In der Gesetzlichen Rentenversicherung besteht ein massives Problem der langfristigen Finanzierbarkeit auf Grund des fortschreitenden demographischen Wandels und sozialpolitisch motivierter Rentenerhöhungen der letzten Jahre. Der Zielkonflikt zwischen Schuldenbegrenzung der öffentlichen Finanzen und sozialpolitischen Ambitionen dürfte sich in Zukunft immer weiter verschärfen...

### Summary

In Germany life insurers play a dominant role in the private and occupational retirement provision sectors. Amongst occupational pensions, *Pensionskassen* and *Pensionsfonds* (IORPs) are less prominent compared to other EU member states. Due to the low interest rate environment of the 2010s, a significant shift occurred from pension products with guarantees to those with reduced guarantees or hybrid investments. The reversal of the Euro key interest rates in 2021/22 is unlikely to reverse this trend.

For years, inflation in Germany was lower than the EU average. However, the current higher inflation rate will result in a dramatic loss of long-term purchasing power for policyholders if inflation cannot be reduced. It is particularly concerning to consider the impact of distribution costs of life insurers on the real return.

In recent years, there have been intensive public debates, especially regarding the *Riester* Pension, which is a state-subsidised private pension product. Their new business has significantly declined, and their portfolio has even decreased. Following the premature collapse of the 'traffic light' coalition, there is currently only incomplete information available about the reform plans of the new federal government (in office since May 2025) with regard to pensions and retirement provision.

The mandatory First Pillar Pension System faces a significant challenge in maintaining its long-term financial balance due to demographic change and socially favourable increase of payouts. The conflict of objectives between limiting public debt and generous welfare policies will become increasingly pronounced in the future...

## 9.1 Introduction: The German pension system

German life-insurers publish rather detailed figures on new business and their portfolios, both in terms of the number of contracts and the gross written premia (GWPs) for various sub-categories of life and pension products. Their association, Gesamtverband der Versicherer (GDV), only publishes aggregate figures on costs and net returns of their assets under management. Average figures for gross returns of life-insurance products are published by the NCA, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). Therefore, calculations following the methodology of this report can only be done in aggregate for life-insurers. However, more detailed figures on other occupational pension product providers—mainly IORPs—will be outlined based on additional sources.

At the product level, policyholders have access to detailed information on costs and performance scenarios. This information is provided through various pre-contractual information documents based on EU regulation—for IBIPs—and/or national law—for occupational and state-subsidised pension products.

With the end of the low-interest-rate phase, primarily in the 2010s, the following main developments can be confirmed for the German life insurance and pension products market:

- Continuously growing GWP, but decreasing in 2022 and 2023;
- Continuously growing market share of products with reduced guarantees, hybrid or unit-linked products (instead of classical guarantees during the accumulation phase);
- Continuously growing market share of pension products replacing traditional life-insurance. However, at the same time, we need to consider these two additional assessments:
- Ongoing high level of costs (especially for distribution channels);
- Slow increase of gross average returns (*Gesamtverzinsung*) since 2023 after a

**Table 9.1 – Product categories analysed in Germany**

Name	Product category		Reporting period	
	Pillar		Earliest data	Latest data
Life insurances	Voluntary (III)		2000	2024

**Table 9.2 – Annualised net return of German life insurance (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period	to...
Life insurances	-4.8%	-4.6%	-2.9%	-1.9%	-0.9%	1.2%	end 2024

Data: GDV, Eurostat; Calculations: BETTER FINANCE.

very long period of constant decrease for nearly 20 years.<sup>1</sup>

The basis for these statements will be outlined in the following paragraphs and tables.

One of the major issues in the public debate on the reform of the pension system as a whole was the rise and subsequent stagnation of new business of the so-called *Riester* Pension. This particular state-subsidised private pension product was introduced in 2001 by the Federal Minister of Labour at the time to equalize some restrictions in the First Pension Pillar System established by the Federal Government. After a modest start, the *Riester* Pension experienced significant growth starting in 2005, primarily due to increased state allocations and changes in distribution remuneration rules. Another boost occurred in 2008 when not only annuity insurances, investment funds, and bank saving plans were admitted as pension products, but also a form of home loan savings plan known as *Wohn-Riester*.

By 2013, the threshold of 16 million contracts for all four categories of the *Riester* Pension had been reached, with approximately half of eligible employees participating and over 10 million insurance contracts issued. However, it soon became evident that there was no further growth in new business.

On the one hand, the increasingly persistent low-interest-rate environment of the 2010s was undoubtedly a major factor contributing to this stagnation, because the *Riester* Pension included a 100% minimum return guarantee on the gross premiums paid until the start of the payout phase. As a result, all product providers had to allocate a significant portion of their investments to fixed-income securities during the contribution phase, limiting their ability to fully capitalise on the booming stock markets during that period. On the other hand, there was an ongoing discussion on high costs, particularly concerning commissions for distributors, which did not stop.

All in all, it is fair to conclude that the *Riester* Pension was successful in terms of

<sup>1</sup>Total bonus of life insurances in Germany in 2024 - private annuities: 2.46%; capital life: 2.61% (Statista, 2025a)

its social policy objectives. Low-income earners and families with children mostly benefited from direct state allocations, while high-income earners could profit from tax returns. However, neither the state authorities nor the different product providers and their distributors could dispel the widespread public scepticism regarding the real returns, with low benefits and high distribution costs during the accumulation phase, and lower amounts in the payout phase.<sup>2</sup>

The result of these various contradictory developments was clear: the peak was reached in 2017 with 16.6 million contracts concluded, and from that year onwards, not only did new business stagnate, but there was a real loss in GWP and contracts (see the exact figures in Section 9.2). The proportion of contracts with premium exemptions increased to nearly 20%, and by 2024, the total number of contracts had now fallen even below the threshold of 15 million (exactly 14.97 million contracts). The public debate was increasingly dominated by the question “reform or abolishment” of the *Riester* Pension, and below, we will explore possible solutions that could be implemented.

## 9.2 Pension system in Germany: An overview

Germany belongs to those EU member states where the mandatory first pillar state pension system Gesetzliche Rentenversicherung (GRV) constitutes the most important part of the retirement provision. Therefore, occupational and private pension products primarily serve as additional retirement income sources. Besides these explicit pension products, for decades, home ownership (*Immobilienbesitz*) and asset allocation in securities, bank deposits, and so on (*Vermögensbildung*), have constituted the other non-insurance-based pillars of retirement provision (*Altersvorsorge*).

The GRV is supplemented by other pension regimes designed for specific professional groups (mostly self-employed) and employees of public administrations at the local, regional, and federal levels (first pillar bis pension systems). In 2005, through the reforms of the so-called *Rürup-Kommission* (see Section 9.6 on taxation) certain mechanism for adjusting the levels of mandatory contributions and payouts were introduced in order to cope with the impending long-term demographic changes.

But in the following years—regardless of the party collation in power at the federal level—additional social welfare legislation (including pension “add-ons” for mothers, the low-income sector, individuals with lengthy contribution histories, etc.) has led to nearly 25% of necessary contributions for first pillar pensions being funded by tax payers, amounting to nearly EUR 90 billion annually. The overall expenditure of the First Pillar Pension Scheme reached approximately EUR 381 billion in 2023. This places a significant financial burden on all taxpayers, and a financially sustainable solution has yet to be found, as the main demographic challenges are expected to have an increasingly significant impact from the mid-2020s onwards (for a detailed anal-

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<sup>2</sup>In April 2024 for the first time the Federal Ministry of Finance published statistics on the pay-outs of Riester Pensions. In 2022 the average of the monthly pay-outs amounted to EUR 132. The ministry stressed that this low figure is mainly due to short contribution periods up to now and in the long run pay-outs will increase. Consumer protectors criticized these figures by stressing the low “return on investment” and over-calculated life-expectancies by life-insurers (see [BMF], 2024, @VERSMONITOR20 240 422Only132EuroRiester; for updated figures see der Finanzen [BdF], n.d.)

ysis of the reforms and counter-reforms of the GRV see Rentenversicherung [DR], 2025; German Council of Economic Experts [GCEE], n.d., especially in 2016, chapter 7 and 2020, chapter 6).

With over 16 million occupational pension contracts, more than 18 million contracts for state-subsidised private pensions (*Riester* and *Rürup* pensions) and over 20 million private annuities in 2023 (for a total population of more than 80 million inhabitants) it is obvious that the insurance and pension sectors play a dominant role in voluntary retirement provision in Germany. This will be analysed more in detail in the following paragraphs, especially taking into consideration the strongly negative impacts of the low-interest-rate phase, mainly in the 2010s, and the risks of inflation from 2021/22 onward for the real returns of the future retirees and beneficiaries (see Deutsche Rentenversicherung, 2021, for a general overview of state-subsidized and private pension plans; and Deutsches Institut für Altersvorsorge [DifA], n.d., for current analysis of private retirement provision, asset allocation and retail investor behaviour).

In November 2024 the "traffic light" coalition collapsed and after the general elections the new Federal Government based on a coalition of Christian and Social Democrats was established in May 2025. Related to the inevitable reform of pensions and retirement provision only slowly probable amendments were published (Tauber [Versicherungsmonitor], 2025). Related to Pillar I, the innovation of the former government, the so-called *Generationenkapital* ("Generational Capital") will be reevaluated before any possible ongoing implementation. This new concept basically consists in a transfer of 10 bn Euro per year from 2024/25 on for at least 10 years by the federal budget to a newly founded public foundation. This foundation has to invest its capital in the global financial markets and to retransfer its gains to the First Pillar Pension System. The objective is to stabilize the obligatory pension contributions by employees and employers in the long term. <sup>3</sup> But no final decision has yet been taken by the new federal government.

In contrast to this, related to occupational pensions, the new government will probably adopt the proposals by the former government. Only minor legal changes were proposed in spring 2024 (like enlarged possibilities for companies to participate at a "pure DC" pension scheme even if they are not part of the initial collective agreement). (see, e.g., FondsProfessionell [FondsProfessionell], 2024; and the analysis of the draft law in "Zwischen Stärkung, Wurf und Abwarten," 2024).

Additionally a committee of experts from the government and external stakeholder groups, including insurers, investment companies, state consumer representatives and academics, was finally established in December 2022. The final report of this expert committee was published in July 2023 (see BMF, 2023).

One of major recommendations from this expert committee is not to abolish the *Riester* Pension, but to reform it through several measures, some of which include the following: - Extension of eligibility to include self-employed individuals. - Greater flexibility for product providers and policyholders during the contribution phase, by

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<sup>3</sup>Not surprisingly this legislative proposal provoked huge public discussions on its credibility (see, for instance Deutsche Aktuarvereinigung e.V. [DAV], 2024)

### Table 9.3 – Overview of the German pension system

reducing the impact of the minimum return guarantee. - Authorization of not only lifelong annuities but also temporary annuities during the payout phase. - Every citizen should have the possibility to establish a "private retirement account" into which they can consolidate all pension contracts eligible for state subsidies. - Independent comparison websites should be created to provide pre-contractual information on aspects such as risk diversification, guarantee models, costs, real returns, etc. In September 2024 a draft legislative act containing most of these proposals was published, but it was not adopted anymore due to the early general elections in February 2025.<sup>4</sup>

Crucial part of the new coalition treaty of April 2025 is the introduction of the so-called "Early Start Pension" (*Frühstartrente*) and the "Active Pension" (*Aktivrente*), requested by the Christian Democrats. The "Early Start Pensions" mainly consists in a kind of individual retirement account for children in the age of 6 to 18 years (under the condition they go to school), for which the state transfers an allocation of 10 Euro per month. Life-insurances as well as ETFs may be chosen for this account, no pay-outs before the retirement age shall be possible, any other details are not yet fixed. The "Active Pension" shall be a strong tax incentive for those employees who reached the regular retirement age of 67 years and would like to continue to work. They shall benefit from a full tax relief up to 2000 Euro per month related to their ongoing regular income as employees in addition to the start of their payouts from the Pillar I pension which are taxed following to the EET principle. By giving this strong tax incentive to continue to work beyond the age of 67, the public debates on increasing the regular retirement age shall be made obsolete.

Additionally, in February 2021, the law for the new national digital PTS—*Digitale Rentenübersicht*—entered into force. This innovation aligns with similar initiatives in other EU member states that aim to provide citizens with an overview of all entitlements in the three basic pension pillars. After an initial trial phase, the PTS officially launched in June 2023 with a reduced number of participating institutions and companies, with plans for further continuous expansion.<sup>5</sup>

Only in subsequent editions of this "Will You Afford to Retire?" report will it be possible to analyse which of the recommendations from the expert committee for the reform of the *Riester* and other pension plans will be adopted, and to what extent the new digital pension tracking system is welcomed and used by the future retirees and current beneficiaries.

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<sup>4</sup>A comprehensive overlook over the legislative acts for the reform of Pillars I, II and III in 2024 and the opposite of positions of insurers, investment companies and consumer representatives can be found in FMA (2025).

<sup>5</sup>Cf. Website of the national Digital Pension Tracking System, DR (2024)

## 9.3 Long-term and pension savings vehicles in Germany

With regard to occupational and private pension products, life-insurers are the most important institutional investors when compared to IORPs and investment funds companies. For 2024, the following total AuM figures for these institutional investors had been published (see BaFin, 2025; and Döring & Dungs [BVI], 2025):

- Life-insurers: EUR 1012.4 bn;
- *Pensionskassen* (IORPs): EUR 211.0 bn;
- *Pensionsfonds* (IORPs): EUR 58.9 bn;
- Open Retail Investment Funds: EUR 1564 bn (without ETFs and real estate funds, December 2024).

The figure for life insurers includes “direct insurances” (pillar II), state subsidised private pension plans (*Riester* and *Rürup* pensions), and private annuities (pillar III). The main reason for this particularity is that German life insurers are not only authorised to consolidate all their assets under one common investment portfolio, notwithstanding the source of capital (premiums from policyholders, loans, credits, bonds, dividends, etc.) to build their technical reserves. Additionally separate compartments for technical reserves are obligatory only for partially or fully unit-linked products, one-off contribution products or purely biometrical products.<sup>6</sup> Figure 9.1 illustrate the development of total AuM for life-insurers from 2000 to 2022:

These figures clearly show that despite two global financial market crises (in 2008/09 and in 2020), life insurers have been able to slowly but consistently grow their assets under management. This is partly due to the fact that many retail investors or policyholders still equate “security” with “guarantees”. In times of significant stock market downturns this may be an “experienced” attitude. However, it is also true that the “low for long” interest rate phase in the 2010s had a significant impact on the life insurers as well, as Table 9.4 shows.

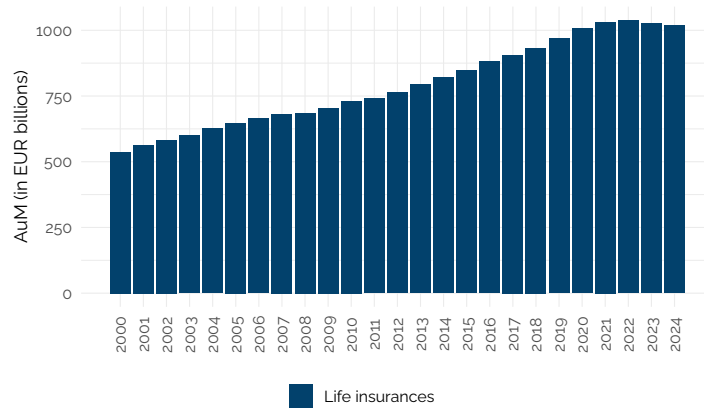
These tables show a strong ambiguity. On the one hand, life insurers achieved a constant growth of their AuM for many years which can be interpreted as a success of their reputation as institutional investors among retail investors and policyholders. Despite the gradual decline in net returns on their AuM, they have managed to maintain positive returns. From a consumer’s perspective, this may not seem highly detrimental, as long as inflation rates remained lower, but such a purely “nominal” view neglects the danger of “missed opportunities” for returns compared to stock markets.

This ambiguity has not gone unnoticed by an increasing part of retail policyholders, as evidenced by the fact that traditional life-insurance products based on guarantees lost their dominant position. Instead hybrid and unit-linked products, as well as products with reduced capital guarantees, have become more prominently important in new business. Of course, this shift was driven by life insurers themselves, because during the very low-interest-rate phase, especially in the second half of the

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<sup>6</sup>For more details on the specific legislation on investments (*Kapitalanlagen*) and technical reserves (*Sicherungsvermögen*), see BaFin (n.d.).

**Figure 9.1 – AuM of German life insurance (in bln EUR)**



Data: GDV; Calculations: BETTER FINANCE.

**Table 9.4 – Net interest rates of German life-insurers' AuM (2000–2024)**

Year	Net interest rate
2000	7.51%
2005	5.18%
2010	4.27%
2011	4.13%
2012	4.59%
2013	4.68%
2014	4.63%
2015	4.52%
2016	4.36%
2017	4.49%
2018	3.59%
2019	3.92%
2020	3.74%
2021	3.57%
2022	2.16%
2023	2.27%
2024	2.37%

*Data:* GDV – Die deutsche Lebensversicherung in Zahlen 2025, S. 28 („Nettoverzinsung der Kapitalanlagen“).

**Table 9.5 – Total numbers of occupational pensions in Germany (million contracts, 2002–2024)**

Year	Direct insurances	Reinsured occ. pensions	<i>Pension-skassen</i>	<i>Pensions-fonds</i>	Total
2002	5.83	1.80	0.45	0.02	8.10
2005	5.85	2.27	2.67	0.08	10.87
2010	6.75	2.76	3.38	0.32	13.21
2015	7.74	3.28	3.75	0.53	15.30
2016	7.89	3.34	3.74	0.47	15.44
2017	8.11	3.47	3.71	0.49	15.78
2018	8.37	3.52	3.69	0.52	16.10
2019	8.49	3.52	3.68	0.56	16.25
2020	8.57	3.58	3.63	0.60	16.38
2021	8.69	3.63	3.57	0.56	16.45
2022	8.80	3.65	3.48	0.61	16.54
2023	8.78	3.71	3.41	0.65	16.55
2024	8.81	3.72	3.33	0.68	16.55

*Data:* Gesamtverband der Deutschen Versicherungswirtschaft e. V. (GDV) - Die deutsche Lebensversicherung in Zahlen 2025, S. 33, and previous years.

2010s, they sought to reduce the obligatory capital requirements linked to guarantees. This will be outlined more in detail in the next paragraph.

### 9.3.1 Second pillar: Implementation Types of Occupational Pension Plans

The main distinction of the German occupational pension system, in contrast to that of most other EU member states, is that the so-called IORPs do not play a dominant role. In the Netherlands, for example, IORPs like pension funds command a market share in occupational pensions of at least 70%, while the German IORPs (*Pension-skassen* and *Pensionsfonds*) together only reach a market share of about 25% in this pillar of retirement provision.

The reason for this difference is that three other "implementation types" of occupational pension plans have been dominant in the past and continue to play a significant role today: "book reserves" (or "direct pension commitments" / *Direktzusagen*) offered by employers, "support funds" (the oldest type of occupational pension saving institutions like mutual companies, often founded by the employers / *Unterstützungskassen*) and so-called "direct insurances" (*Direktversicherungen*) offered by life insurers and supported by a special tax regime for both employers and employees. IORPs such as Pensionskassen (PKs) and Pensionsfonds (PFs) only began to gain momentum from 2002 onward, following favourable changes to the tax regime. "Book Reserves" and "Support Funds" are not subject to the supervision of BaFin, but most of them reinsure their pension savings, and reinsurers are supervised by the NCA (for more details on the five "implementation types" of occupational pensions, see BaFin, 2012).

**Table 9.6 – Gross Written Premiums (GWP) of Pensionskassen and Pensionsfonds (EUR mln, 2015–2024)**

Year	<i>Pensionskassen</i>	<i>Pensionsfonds</i>
2015	2 818.7	1 836.5
2016	2 724.3	1 367.6
2017	2 623.0	1 515.5
2018	2 495.2	756.4
2019	2 406.4	1 329.3
2020	2 294.5	1 038.3
2021	2 237.9	1 296.6
2022	2 024.9	2 231.1
2023	1 923.1	1 039.3
2024	1 819.9	974.7

*Data:* Gesamtverband der Deutschen Versicherungswirtschaft e. V. (GDV) - Die deutsche Lebensversicherung in Zahlen 2025, S. 34, and previous years. GWP of Direct Insurances are not disclosed separately.; *Note:* Figures are sometimes rectified in the following year.

A little more than 30% of all employed persons in Germany are members of an occupational pension scheme (for more details, see Bundesministerium für Arbeit und Soziales [BMAS], 2020, 2022).

To some extent, the five different financing methods compete with each other,<sup>7</sup> although it is also possible to combine two or more types. Both employers' and employee's contributions to occupational pensions are usually voluntary, mostly through a mechanism known as "salary conversion" or *Entgeltumwandlung*. However, employers have to offer at least a direct insurance pension contract, so that employees may benefit from tax advantages (deferred taxation) and savings on social security contributions if they choose to contribute. When there is a binding labour agreement, occupational pensions are generally organised for entire industrial sectors, and employees do not have the right to demand different occupational pension provisions. Many collective agreements also oblige employers to participate financially in occupational pension plans and restrict the employer's ability to choose a different scheme. Occupational pensions are structured as deferred compensation, and contributions are subsequently exempt from taxation and social security contributions up to certain limits. This, in turn, reduces claims on the statutory first pillar pension system.

*Pensionskassen* and *Pensionsfonds* fall under the category of and are regulated under Directive EU/2016/2341 (the "IORP Directive"). However, there is a unique aspect

<sup>7</sup>Just one example: surprisingly in October 2020 Allianz announced that its "Pensionskasse" will go into run-off and will offer only "Direct Insurances" from 2022 on. It was the second biggest PK in Germany with more than 838 000 future beneficiaries and more than 27 500 current beneficiaries (balance sheet: EUR 12.8 billion) in 2018. The main reason for this decision was the ongoing low interest rate phase and the problem of guarantees given. If one of the biggest players in the national market takes such a step, it was interpreted as a sign that other smaller IORPs could follow (see comment in Bazzazi [PascalBazzazi], 2020).

**Table 9.7 – Assets under Management by Pensionskassen and Pensionsfonds (EUR bln, 2005–2024)**

Year	<i>Pensionskassen</i> <sup>1</sup>	<i>Pensionsfonds</i> <sup>2</sup>
2005	86.2	—
2006	92.6	—
2007	98.9	13.4
2008	104.2	12.7
2009	107.9	16.3
2010	109.6	24.0
2011	115.8	25.0
2012	123.3	26.5
2013	131.0	26.6
2014	139.1	29.5
2015	147.7	29.4
2016	154.1	31.7
2017	162.2	32.4
2018	168.5	40.8
2019	176.9	45.5
2020	184.5	51.1
2021	192.9	54.0
2022	200.2	54.7
2023	206.1	58.7
2024	211.0	58.9

<sup>1</sup> Pensionskassen: Mostly the rectified figures in the Annual Report of BaFin of the following year were taken.

<sup>2</sup> Pensionsfonds: AuM on behalf of employees and employers.

**Table 9.8 – Amounts of net pay-outs (after obligatory social contributions, before taxes) of occupational pensions in Germany in 2019**

Amount (EUR)	Men (%)	Women (%)
1000>	17	3
500-1000	17	11
200-500	25	23
<200	41	63

*Data: ABA, 2021; Calculations: BETTER FINANCE.*

in the national supervisory insurance law: *Pensionskassen* (PKs) have the option to choose a different purely national supervisory regime, a choice mainly exercised by those PKs considered competitive IORPs (*Wettbewerbs-Pensionskassen*). This allows them to offer their pension plans to an unlimited number of employers, similar to specialised occupational pension insurers. Somewhat misleadingly, this option is called “deregulated” IORPs.

These figures show that for nearly half of men and nearly two thirds of women, pay-outs from occupational pensions do not represent more than a small “add-on” to their first pillar pensions. Unfortunately, it is the national legislator itself that plays a significantly negative role in determining the effective payout amounts (cf. Section 9.5 on charges).

Similar to private annuities offered by life-insurers, occupational pensions, too, were largely dominated by pension schemes based on guarantees,<sup>8</sup> and only the “low for long” interest rate phase of the 2010s could break this dogma at least partly. From 2018 onwards, a new law authorised so-called “Pure Defined-Contribution” pension schemes (*Reine Beitragszusage*), but it took another five years for collective agreements to be reached to implement at least three of these new pension plans, which can be offered by PKs, PFs or “direct insurances”.<sup>9</sup>

The persistent challenge of shifting away from the traditional mindset of equating “security” with “guarantees”, both among employers and trade unions as well as employees, remains a crucial task for broader financial education efforts aimed at promoting an “investment” or “shareholder culture” (*Aktienkultur*).

## 9.4 Third pillar: Private life-long annuities with and without state subsidies

In contrast to private lifelong annuities offered by life insurers, there are two categories of private pension products that are “certified” as eligible for specific state

<sup>8</sup>For more details on the different options to offer occupational pensions (*Versorgungszusagen*) with and without certain minimum payouts or guarantees (similar to life-insurers) and the importance of the sponsors, see Arbeitsgemeinschaft für betriebliche Altersversorgung (AfBA, n.d.).

<sup>9</sup>For more details on the “Law strengthening occupational pensions”, cf. BaFin (2012) and Arbeitsgemeinschaft für betriebliche Altersversorgung (aba, 2017).

**Table 9.9 – Number of Rürup pension (or “Basisrente”) contracts (in millions)**

Year	Nb. of contracts
2005	0.1480
2010	1.2770
2015	1.9750
2020	2.3860
2021	2.4770
2022	2.5740
2023	2.7027
2024	2.8169

*Data:* GDV – Die deutsche Lebensversicherung in Zahlen 2025, S. 14.

subsidies and which are therefore classified differently from a purely legal point of view:

- *Rürup* Pensions (which can be offered by life insurers and investment companies): Pillar I.
- *Riester* Pensions (which can be offered by life insurers, investment companies, banks and real estate loan and savings institutions): Pillar II.

For the sake of simplicity, we have included them in the chapter on the third pillar private pensions, which can be justified because the main contributors are retail investors and policyholders.

The main reason *Rürup* Pensions are legally classified as belonging to Pillar I pensions is the stringent framework they operate within, especially with regard to the payouts. Contributions are allocated for monthly life-long annuities, starting with the retirement phase at the age of 62 (or at the age of 60 for contracts concluded before 2012), and there is no possibility of lump-sum payments. The benefits are personal, thus non-transferable, and cannot be disposed of or converted into capital.

*Rürup* pensions, specifically designed for self-employed individuals and freelancers who were not eligible for state-supported pension savings before its establishment, are advantageous for those with higher revenues because of the high tax-exempt savings amount. They take the form of annuity contracts that are, in contrast with *Riester*, non-redeemable. It is also possible to subscribe to *Rürup* pension contracts that invest in investment funds through savings plans. Such contracts can be designed with or without capital guarantees.

*Rürup* Pensions were introduced in 2005. Table 9.9 shows the number of concluded contracts from inception to the present day.

*Rürup* pensions receive subsidies from the state exclusively through broad tax exemptions during the contribution phase. For more details on these particular provisions, please refer to the chapter on taxation below.

In contrast to *Rürup* Pensions subscribers of *Riester* pension plans receive state subsidies through both direct allocations and tax reimbursements when certain thresholds are met. The amount received depends on personally invested contributions. Allocations are at their maximised when the total contributions to a *Riester* product (that is, personally invested contributions plus allocations) reach at least 4% of the individual's previous year's income, up to a maximum of EUR 2100.

The allocations add up to EUR 175 per adult (according to the pension law of summer 2017), plus EUR 300 for each child born since 2008 and EUR 185 for those born before 2008. Subscribers that are younger than 25 receive a bonus of up to EUR 200 at the moment of subscription to a *Riester* product. The minimum contribution to receive the full allocations is EUR 60 per year. If the calculated minimum contribution for a low-income earner is less than EUR 60, this minimum contribution of 60 euros must nevertheless be paid in order to receive full support. If an individual contributes less than their minimum requirement (4% of the previous year's income, with a maximum of EUR 2100, minus any applicable allocation, but at least EUR 60 per year), their subsidies are reduced proportionately.

*Riester* pension benefits can be paid out starting at the age of 62, or at the age of 60 for contracts concluded before 2012. Subscribers have the option to convert the invested capital into a life annuity, or choose a programmed withdrawal, where up to 30% of the accumulated savings can be paid out as a lump-sum. Furthermore, at least one fifth of the accumulated savings is reserved for life annuities starting at the age of 85. For more details on all these specific provisions, please refer to the chapter on taxation below, with additional references.

As already pointed out in the Introduction, four types of pension products are allowed for *Riester* pension plans:

- Bank savings plan (*Banksparrplan*): These contracts are typical long-term bank savings plans with fixed or variable interest rates.
- Annuity contract (*Rentenversicherung*): These *Riester* plans, offered by insurance companies, come in three forms. There are traditional annuity contracts with guaranteed returns and additional bonuses. Additionally, there are hybrid contracts where a part of the retirement savings is invested in investment funds. They consist of both a guaranteed part and a unit-linked part that depends on the performance of the investment funds.
- Investment fund savings plan (*Fondssparplan*): Savings are unit-linked and invested in investment funds chosen by the subscriber from a pool of funds proposed by a financial intermediary or the investment company. The intermediary or the investment company has to at least guarantee that the invested money, along with the state's subsidies, are available at the time of retirement. In the case of premature withdrawals, a loss of capital is possible.
- Home loan and savings contract (*Wohn-Riester/Eigenheimrente*): These contracts take the form of real estate savings agreements. This is the most recent type of *Riester* scheme and is based on the notion that rent-free housing at old age is a sort of individual retirement provision comparable to regular monetary payments.

*Riester* pension plans were introduced in 2001. Table 9.10 shows the number of con-

**Table 9.10 – Number of Riester pension contracts (millions)**

Year	Annuity contracts	Bank savings plans	Investment fund savings plans	Home loan and savings contracts	Total
2001	1 400	—	—	—	1 400
2002	2 998	150	174	—	3 322
2003	3 451	197	241	—	3 889
2004	3 557	213	316	—	4 086
2005	4 524	260	574	—	5 358
2006	6 388	351	1 231	—	7 970
2007	8 194	480	1 922	—	10 596
2008	9 285	554	2 386	22	12 247
2009	9 995	634	2 629	197	13 455
2010	10 484	703	2 815	460	14 462
2011	10 998	750	2 953	724	15 425
2012	11 023	781	2 989	953	15 746
2013	11 013	805	3 027	1 154	15 999
2014	11 030	814	3 071	1 377	16 292
2015	10 996	804	3 125	1 564	16 489
2016	10 931	774	3 174	1 691	16 570
2017	10 881	726	3 233	1 767	16 607
2018	10 827	676	3 288	1 810	16 601
2019	10 773	627	3 313	1 818	16 531
2020	10 687	592	3 297	1 793	16 369
2021	10 672	546	3 263	1 730	16 211
2022	10 514	529	3 200	1 650	15 893
2023	10 254	511	3 153	1 593	15 511
2024	9 898	499	3 062	1 515	14 974

Data: Federal Ministry of Labour and Social Affairs (BMAS website).

cluded contracts from inception to the present day.

These figures clearly demonstrate what was already outlined in the Introduction: the most important "breakthrough" in *Riester* pension plans took place from 2005 to 2011, when allocations had reached their final highest levels, and additional real estate savings plans were introduced. Subsequently, the public debate on costs and low returns intensified,<sup>10</sup> resulting in a decline in new business, which nearly came to a complete stop from 2018 onwards. The future of *Riester* pension plans will hinge on the implementation of innovations recommended by the new expert commission of the Federal Ministry of Finance in July 2023.

Besides these state subsidised private pension plans, there is a substantial market for life insurances and private annuities that have benefited from special tax regimes established for decades. In the following chapter on taxation, we will delve into the

<sup>10</sup>One of the first criticisms was published by German Institute for Economic Research (DIW Berlin) in 2012, see Deutsches Institut für Wirtschaftsforschung (DIW, 2012).

significant impacts of the fundamental change in the tax regime to deferred taxation for all pension pillars since 2005. First, however, we will focus on the quantitative changes amongst the various categories, differentiating between traditional life insurance and life-long annuities, as already indicated in the Introduction.

In Germany the main distinction between life insurances and “annuity insurance” (*Rentenversicherungen*) lies in their coverage of different biometric risks: Life insurance covers the death risk (with a fixed insured sum) while annuities cover the risk of longevity (through a life-long pension). Of course, it is possible to combine the two biometric risks: life insurances usually offer (at the end of the accumulation phase) the choice between a lump sum payout or a life-long pension (*Kapitalwahlrecht*), and the same applies to deferred annuity contracts, that include the accumulation phase (in contrast to “immediate annuities” *Sofortrenten* based on a lump sum contribution).

When a policyholder of an annuity chooses the life-long pension option, it is mostly possible to include a period during which the pension will be paid to another person fixed in the contract, in case the policyholders dies shortly after the beginning of pension payouts (usually this period is limited to ten years: *Rentengarantiezeit*).<sup>11</sup> As the inclusion of a *Rentengarantiezeit* will increase the calculated costs of the biometric risk coverage, in consequence the payouts for the annuity will be reduced proportionately.

Additionally, there are pure risk or term life insurances (*Risiko-Lebensversicherungen*) that solely cover the risk of death without including an investment component in the premium. Usually these contracts are concluded for a fixed period, and if the insured loss (i.e. the death risk) does not occur, there are no payouts either during the term or at the end of the contract period.

Table 9.11 displays, based on statistics from GDV, long-term trends in the number of contracts among life insurances, annuities, and term life insurances.

The most notable change that can be observed is the slow, but constant loss of market share of traditional “capital life-insurance”. Their market share of new business (in terms of the number of contracts) was only 7.0% in 2022, the lowest figure ever recorded (due to the rise of interest rates this market share increased to 7.4% in 2023, but in 2024 fell back again to 7.0%). This is in stark contrast to annuities which grew up to represent 47.9 % of all life-insurance categories (in 2024). Within the annuities category, unit-linked products had a market share of 15.0%, hybrid products or those with reduced guarantees accounted for 27.2% and products with classical guarantees constituted 5.7 %. In contrast to these growing figures, pure unit-linked life-insurances reached a market share of only 2.0 % in 2024. These figures clearly show that German policyholders shifted away from traditional 100% capital guarantees whilst also avoiding full capital market risks without any guarantees (Gesamtverband der Versicherer [GDV], 2025, pp. 10–11).

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<sup>11</sup>For more details on these basic differences, go to the Information Sheet of the German Association of Insured (BdV) (der Versicherten e. V. [BdVeV], n.d.).

**Table 9.11 – Number of life insurance, annuities and term life insurance contracts**

Year	Life-insurances (%)	Annuities (%)	Term life-insurances (%)	Total number of contracts (mln.)
2000	72.0	12.0	16.0	87.6
2005	58.6	26.1	15.3	94.2
2010	47.5	38.9	13.6	90.5
2015	38.1	46.7	15.2	86.7
2020	28.2	55.1	16.7	83.4
2021	26.7	56.8	16.5	82.7
2022	25.2	58.4	16.4	81.8
2023	24.0	59.1	16.9	81.4
2024	22.8	60.4	16.8	80.3

*Data:* GDV – Die Deutsche Lebensversicherung in Zahlen 2025, S. 16 (Tabelle: Lebensversicherung – Bestand an Hauptversicherungen, Anzahl der Verträge).

## 9.5 Charges

Germany belongs to those EU member states in which the commission-based distribution channels for life-insurances as well as for all other insurance classes are the most important ones. Unfortunately the publicly available figures do not show the real impact of these charges on pensions on the level of the product category in a transparent way. Prospective policyholders or beneficiaries are, of course, informed about the total distribution costs through various pre-contractual information documents when they have selected a particular pension product from pillar II or III.

### 9.5.1 Charges of occupational pensions

Related to occupational pensions acquisition fees are mainly relevant for “direct insurances” and so-called “competitive” IORPs. Since “direct insurances” are offered by life-insurers, costs are usually lower than the average figures for life-insurers outlined in this paragraph below (mainly due to collective contracts with the employer, which differ in each particular case). In contrast to most *Pensionskassen*, so-called “competitive” IORPs (*Wettbewerbs-Pensionskassen*) may offer their contracts to an unlimited number of employers or sponsors. According to BaFin in 2021, there were about 20 “competitive” out of a total of 134 *Pensionskassen*.

While the lack of comparability at the level of product categories is a concern,<sup>12</sup> this does not mean that prospective and ongoing members and beneficiaries of these IORPs are not informed about acquisition and administration costs by the product

<sup>12</sup>BaFin regularly publishes figures on distribution and administration costs of *Pensionskassen* as well in total for all PK as for particular PK via special Excel tables (tables 240 and 260 included in the “Statistics on Insurers – section: *Pensionskassen*”), but these tables can only be found and interpreted by very experienced policyholders with a highly advanced level of financial education, [https://www.bafin.de/SharedDocs/Downloads/DE/Statistik/Erstversicherer/dl\\_st\\_22\\_erstv\\_pk\\_va.html](https://www.bafin.de/SharedDocs/Downloads/DE/Statistik/Erstversicherer/dl_st_22_erstv_pk_va.html).

providers. The national legislator has established strict provisions regarding the disclosure of costs based on EU regulations (IORP II Directive) and additional national supervisory laws (as well in the pre-contractual information documents as during the contribution and/or pay-out phases by the Pension Benefit Statements, and in the annual business reports).

## 9.5.2 Charges of life insurances: The burden of commissions

Unfortunately, the most important burden on beneficiaries of occupational pensions is imposed by the national legislator: in 2004, the Social Democrat Minister of Health introduced mandatory contributions from beneficiaries of occupational pensions to public health insurance. These mandatory contributions reduce the payouts by about 15% (only monthly payouts up to EUR 187.25 in 2025 are exempted). Many actions have been taken against this law, but no federal government, regardless of the party coalition in power, has revised this law until now. This conflict can be considered a fundamental conflict between two pillars of the social security system (health versus pensions), with health as the “winner” over pensions.

Table 9.12 shows that there seems to be—in total—a slow, but constant decrease of the burden of acquisition and administration fees over the last 20 years

But this impression of a slow but constant decrease in the total sum of charges is somewhat misleading from a consumer perspective, because, unlike retail investment funds, life insurers do not rely solely on the ongoing premiums of policy holders. As shown in Figure 9.2, life insurers have access to a wide range of diverse sources of income (for example, life insurers are issuers of their own corporate bonds), which are all included in the total amount of AuM.

Therefore, usually, acquisition fees of life insurers are calculated in relation to the GWP for new business each year, while ongoing administrative fees are determined based on the total premiums earned each year. These percentage figures are shown in Table 9.12. But these percentage figures do not disclose the real cost problem of life-insurers. By looking at the absolute amounts of these costs, displayed in Table 9.13, it becomes obvious that over the last 20 years, acquisition fees have consistently been three to four times higher than administration fees.

The conclusion is clear: the commission-based distribution channels are the real cost drivers for life-insurers. In 2022 and 2023, the reduction of the total amount of acquisition costs (in absolute figures) is simply due to the fact that new business sharply declined (compared to 2021; measured as a percentage of GWP of new business the figures are stable). In 2024 the absolute total amount of acquisition costs increased again (even beyond the threshold of 8bn Euro), whilst the percentage figure dropped by only one basic point - so again, no substantial change.

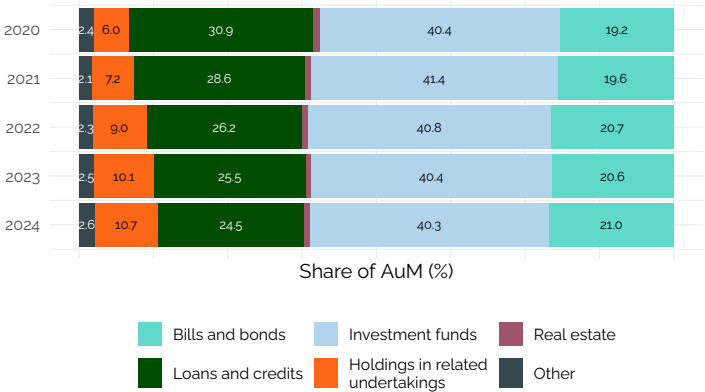
Additionally, it is worth noting that GDV only discloses the total sums for these costs, rather than detailed figures for the various product categories such as occupational direct insurances, state-subsidised *Riester* and *Rürup* pensions, or private classical, unit-linked and hybrid annuities. While there are many costs and returns analyses conducted by scientific institutes, private rating agencies, economic and financial magazines, and BaFin (2022a), these figures are not regularly published. To compare

**Table 9.12 – Costs and charges of German life insurance**

Year	Acquisition fees	Admin. and mgt. fees
2000	5.60%	0.40%
2001	5.50%	0.39%
2002	5.40%	0.38%
2003	5.00%	0.37%
2004	4.50%	0.35%
2005	5.60%	0.35%
2006	4.90%	0.33%
2007	5.20%	0.31%
2008	4.90%	0.30%
2009	5.20%	0.29%
2010	5.10%	0.27%
2011	5.00%	0.25%
2012	5.00%	0.25%
2013	5.10%	0.24%
2014	5.00%	0.23%
2015	4.90%	0.22%
2016	4.80%	0.21%
2017	4.70%	0.20%
2018	4.60%	0.20%
2019	4.40%	0.19%
2020	4.50%	0.18%
2021	4.50%	0.18%
2022	4.70%	0.18%
2023	4.50%	0.18%
2024	4.40%	0.18%

*Data:* GDV; *Calculations:* BETTER FINANCE;  
*Note:* Acquisition fee figures are taken from GDV, but we should note that GDV's calculation departs from the standard APE calculation and most likely underestimate actual acquisition costs borne by policyholders..

**Figure 9.2 – Allocation of assets invested in German life insurance**



Data: GDV; Calculations: BETTER FINANCE.

**Table 9.13 – Absolute amounts of acquisition and administration costs of life-insurers**

Year	Acquisition costs (EUR bln.)	Administration costs (EUR bln.)
2000	6.696	2.143
2005	7.323	2.305
2010	7.987	2.100
2011	8.392	2.016
2012	8.140	2.032
2013	7.427	2.012
2014	7.643	2.014
2015	7.162	2.040
2016	7.055	1.989
2017	6.840	1.995
2018	7.037	2.027
2019	7.540	2.035
2020	7.720	2.075
2021	8.349	2.107
2022	7.986	2.223
2023	7.893	2.220
2024	8.039	2.190

*Data:*GDV – Die deutsche Lebensversicherung in Zahlen 2025, S. 29 (and previous editions) (Tabelle: „Kostenquoten der Lebensversicherung“)..

**Table 9.14 – Taxation of pension savings in Germany**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Life insurances	Exempted	Exempted	Taxed	EET

Source: BETTER FINANCE own elaboration based on German tax authority.

calculated costs, one must rely on pre-contractual KIDs (based on EU regulations for private life insurances and annuities), or the Produktinformationsblatt (PIB), pre-contractual based on national legislation, for *Riester* and *Rürup* pension contracts, similar to occupational pensions.

## 9.6 Taxation

In 2002, the Federal Constitutional Court (*Bundesverfassungsgericht*) took the fundamental decision to force the legislator to introduce "deferred taxation" as the new system for pension taxation. This new system exempts contributions from taxation and taxes only the pay-outs, changing the system from TEE (*vorgelagerte Besteuerung*) to EET (*nachgelagerte Besteuerung*). This fundamental change had to be applied to all three pillars of the pension system. As a result, the federal government established a scientific committee under the leadership of Finance Professor Bert Rürup (*Rürup-Kommission*). This commission worked out the details and presented its report in 2003. Due to this crucial reform, which entered into force in 2005, life insurances lost their unique privilege of non-taxed lump sum payouts, which constituted one of the major reasons for their overwhelming success in distribution practices up to that year.

### 9.6.1 First pillar pensions

Following the proposals of the *Rürup-Kommission*, a transitional period of 35 years began in 2005 to implement the shift from the TEE to the EET regime. In 2005, for all pensions which started that year, 50% of the total payout amount was taxed at the individual tax rate. This percentage of the total payout amount subject to taxation increased by 2% each year until 2020, and from 2020 onwards by 1% per year, in order to reach 100% of the payouts in 2040 for new pension recipients each year. For reasons of social justice, there is a downward cap to exempt low pensions from any taxation (*Rentenfreibetrag*). At the same time there is an algorithm to reduce the taxation of mandatory contributions to the pensions system over time (for more details on the taxation system, see DR, n.d.).

### 9.6.2 Occupational pensions (Pillar II)

Payouts from *Pensionskassen* and Direct Insurances which started before 2005 typically remain exempt from any taxation (at least five years of contributions and a twelve-year contract duration). Payouts from any kind of implementation type of occupational pension plans that started in 2005 or later are fully taxed based on the

individual tax rate.

Contributions to all five "implementation types" of occupational pensions are exempt from mandatory contributions to the social security system up to a certain limit (in 2025, this limit is set at EUR 3864 as *Beitragsbemessungsgrenze*: this limit represents 4% of the income up to which employees have to pay mandatory contributions to the First Pillar Pension System). The double of this amount, which in 2025 is EUR 7728, is exempt from taxes when making contributions to PK, PF and Direct Insurances. Additionally, there is even a full exemption from taxes without any limit for contributions, if these are made for book reserves or support funds (for more information, see DR, n.d.).

### 9.6.3 Private Pension Plans state subsidised (*Riester* and *Rürup* Pensions)

Following the principle of deferred taxation (EET) contributions are exempt from taxes up to certain limits. For *Riester* pension plans, the maximum limit is EUR 2100 per year (or 4% of the personal gross income per year for lower incomes). For *Rürup* pension plans this maximum limit is much higher (in 2025 up to EUR 29 343, which is linked to a special regulation of the first pillar pension system).

In the payout phase both types of these state subsidised private pension plans are fully subject to the individual taxation rate (for more information see Bund der Versicherten [BdV], n.d.).

### 9.6.4 Life-insurances and private annuities

Contributions are no longer tax-deductible as special expenses and have to be made from taxed income. The benefits of life insurances (i.e. the difference between contributions and total pay-outs) are taxed during the retirement phase at the general tax rate of 25% (like for all investment returns), but there are some limited possibilities to recover a portion of these taxes through the individual yearly tax declaration.

Furthermore, it is important to differentiate between whether the insurance benefit is provided as a one-time lump-sum payment or if a lifetime annuity payment is chosen. In the case of lump-sum payouts, if the contract has been in force for at least 12 years and the insured is older than 60 years, or 62 years (for contracts subscribed to after 31 December 2011), only 50% of the earnings are subject to taxation (*Halbeinkünfteverfahren*). If these conditions are not met, the full earnings are taxed.

In the case of private life-long annuities, additional tax relief is possible, depending on the age of the first retirement payout, as outlined in the tax table. For instance, if the retiree is 60 years old, 22% of the earnings are subject to taxation, and at the age of 65 only 18% (*Ertragsanteilbesteuerung*, for more information on the tax regime for life insurance and private annuities, see Leine, 2023).

## 9.7 Performance of German long-term and pension savings

## 9.7.1 Real net returns of German long-term and pension savings

When examining the inflation figures in Germany (see Figure 9.3), it is obvious that for a very long time—especially during the first decade after 2000—inflation rates were at most as high as the EU average, often even lower. However, a dramatic change started in 2021. Germany does not belong to those EU member states most severely affected by the sudden and sharp rise in inflation rates (like the Baltic countries for example), but there were specific national reasons for the inflation increase exceeding the EU average. In 2021/22, the main reason was the full impact of the rise of energy prices caused by the strong dependency on petrol and gas from Russia, which had to be replaced after the onset of the Russian war against Ukraine in February 2022. In response, the Federal Government decided to help private households with substantial additional allocations in order to mitigate the direct impacts of this sudden price “attack” on family finances. In 2023 inflation strongly decreased in comparison to 2022, and the main driver of inflation shifted to food costs. In second place, the increasing salaries of employees in certain industry and artisan sectors, partly supported by trade union demands, are additional drivers of inflation. In 2024 the inflation rate fell again to 2.8% and was even a little bit below the average inflation rate of the EU (2.7%) and of Euro-Zone (2.4%). (Siedenbiedel, 2023; Statistisches Bundesamt [DESTATIS], n.d.).

Regarding life insurances and pensions, the opposing effects of inflation and rising interest rates on assets are clear: with regard to fixed-income securities, “hidden reserves” may diminish or even reach negative market values, while new investments will yield higher returns but only in the very long run. This perspective was clearly outlined by Frank Grund, the BaFin Executive Director for Insurances, in a public speech in November 2022 (BaFin, 2022b). However, by December 2022, it became obvious that some of the major life insurers reversed their approach and began increasing the bonuses for their products for the first time since the early 2010s (Assekurata Ratings [Ratings], 2022, 2024; VersicherungsJournal Deutschland, 2022).

Looking at the annual performance of the life insurances displayed in Figure 9.4, it is clear that charges alone have consistently reduced the nominal return by a quarter to a third over the last twenty years. This fact can only be described as having a severe detrimental impact on the policyholders' stakes. It supports the conclusions already outlined in the chapter on charges, especially distribution charges, above.

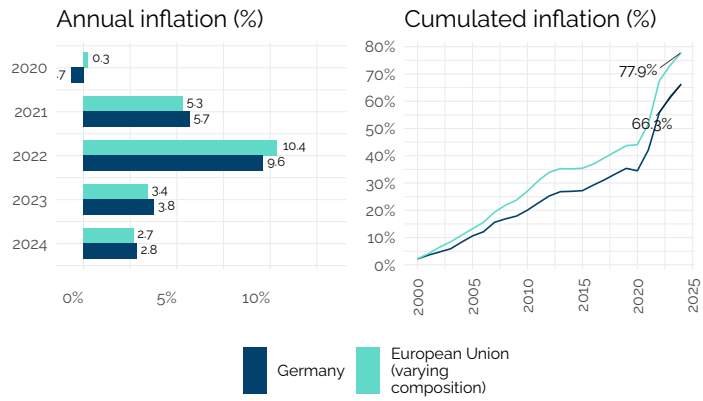
Table 9.15 shows the specific of acquisition costs over varying holding periods, based on our scenario of a single initial investment at the beginning of the period. The negative effect on returns is felt particularly strongly on shorter periods (-1.5 p.p. for the 3-year period 2022-2024) but progressively fades with each passing year of positive financial return, falling to -0.2 p.p. over the period 2000-2024.

Additionally, in contrast to former periods of inflation (for ex. in the 1970s), in 2022 and 2023 there was now an ongoing strongly negative difference between the level of inflation in Germany and the level of the ECB Key Interest Rate, even though the latter has been raised up to 4.5% in September 2023. Some economists referred to this situation as “financial repression” (on this topic, see, e.g., BETTER FINANCE,

**Figure 9.3 – Inflation in Germany**

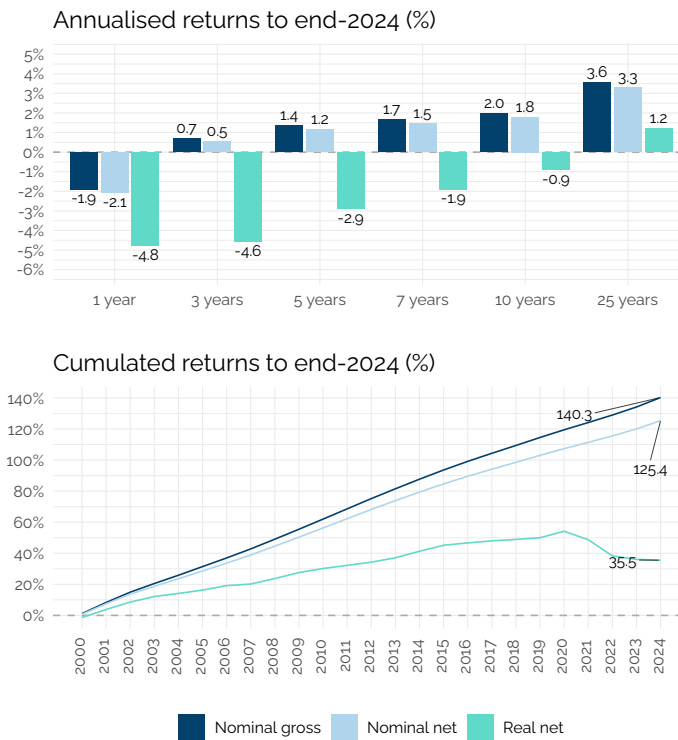
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
European Union (varying composition)	77.9%	2.3%
Germany	66.3%	2.1%



Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 9.4 – Returns of German life insurances (before tax, % of AuM)**



*Data:* GDV, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Table 9.15 – Impact of acquisition costs on the return of German life insurances**

Holding period	Return on full contribution (paid-in amount)		Return on invested assets (contribution r	
	Annu- alised	Cumu- lated	Annu- alised	Cumu- lated
1 year (2024)	-4.8%	-4.8%	-0.4%	-0.4%
3 years (2022-2024)	-4.6%	-13.1%	-3.0%	-8.9%
5 years (2020-2024)	-2.9%	-13.7%	-2.0%	-9.6%
7 years (2018-2024)	-1.9%	-12.6%	-1.2%	-8.4%
10 years (2015-2024)	-0.9%	-8.8%	-0.4%	-4.1%
25 years (2000-2024)	1.2%	35.5%	1.5%	43.6%

Data: GDV.

**Table 9.16 – Capital market benchmarks to assess the performance of German life insurance**

Product category	Equity index	Bonds index	Start year	Allocation
Life insurances	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	30%–70%

Source: STOXX, Bloomberg; Note: Benchmark portfolios are rebalanced annually.

2022b). Fortunately this overall picture has considerably improved since mainly due to the sharply decreasing inflation and stabilized, even somewhat – at the same time - reduced key interest rates (the latter down to 2% in June 2025 by the ECB).

As a consequence, as long as fixed-income securities remain a major part of the asset allocation for life insurers and pension funds, there is a substantial risk of a substantial loss of purchasing power for policyholders over the long term, even though some life insurers have made minor increases in bonuses. This long-term erosion of purchasing power will persist, even if inflation does not remain at its current very high levels.

The negative effects of inflation may be mitigated for certain beneficiaries of occupational pensions provided by *Pensionskassen* and *Pensionsfonds*. Some of these pensions scheme include a clause that obliges sponsors to increase their contributions in response to the ongoing inflation rate. Unfortunately, BaFin does not publish any figures regarding the number of IORPs that offer this contractual clause.

## 9.7.2 Do German savings products beat capital markets?

Figure 9.5 shows the comparison of the performance of life insurers with a balanced benchmark portfolio, the composition of which is presented in Table 9.16. Since capital guarantees during the accumulation phase play a dominant role in the German life-insurance market, we have selected a benchmark portfolio comprising 30% equities and 70% bonds.

If this portion is changed by increasing the proportion of equities, the results are less

favourable for the life insurers due to the higher “risk benefit” of the benchmark:

- 30/70: Cumulated returns of the benchmark 2000-2024: 59.96% (i.e., 12.63 p.p. below the 50/50 benchmark), 24.42 p.p. above the cumulated returns of life insurance contracts.
- 40/60: Cumulated returns of the benchmark 2000-2024: 66.88% (i.e., 6.92 p.p. below the 50/50 benchmark), 31.34 p.p. above returns of life insurance contracts.
- 50/50: Cumulated returns of the benchmark 2000-2024: 72.59%, 37.05 p.p. above the cumulated returns of life insurance contracts.

When assessing the return comparison, it's important to consider not only guarantees but also other specific insurance factors. We will outline some fundamental aspects such as life insurance as a “complex” product in itself, the emerging trade-off between “guarantees” and “security”, and the necessary combination of the accumulation phase and decumulation phase for payouts.

When stating that life insurances are “complex” products in themselves, this implies that the “complexity” is not only linked to the mechanisms of the investment part of the premium but also with the “insurance wrapper” (EIOPA, 2022a, pp. 90–106). In terms of costs that reduce the investment component of the total gross premium, it is essential to consider not only distribution and administration costs, but also biometric costs (for example, whether death risk is included or not).

The death risk can be covered both during the accumulation phase and the decumulation phase, whereas coverage for the risk of longevity is relevant only for the decumulation phase. We will come back on this second point later.

It is important to emphasize that any comparison of returns for life insurances can only be related to the investment part of the premium, not to the gross premium paid by the policyholder.<sup>13</sup> Therefore the transparent disclosure of the investment part of the gross premium by life insurers constitutes one of the fundamental “classical” demands by German consumer protectors (*Prämientrennung*—differentiation of gross premium into three parts: investment part, distribution and administration costs, and costs of biometric risk coverage).

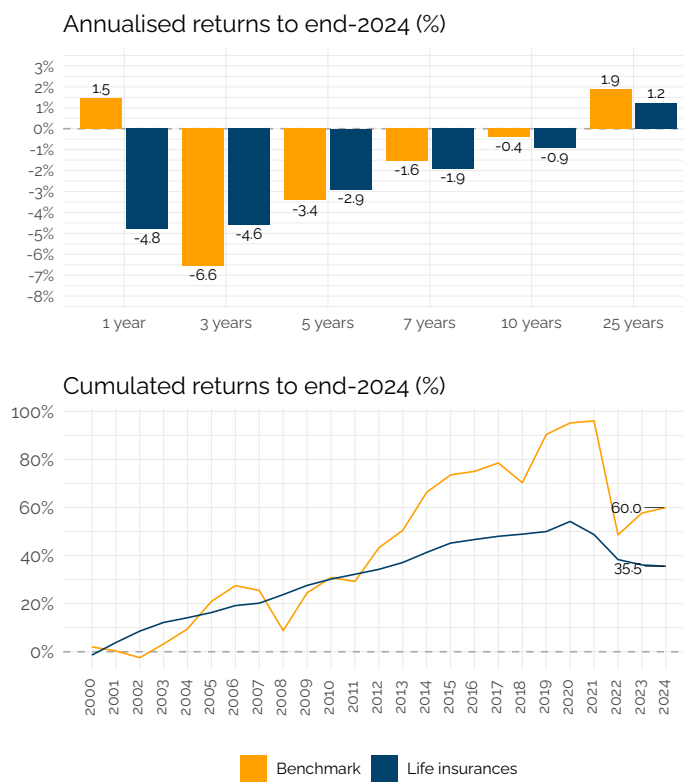
The issue of a potential conflict between the “guaranteed interest rate” (*Garantiezins*) included in a life insurance contract and the general promise of “security”, especially during the accumulation phase, only emerged during the “low for long” interest rate phase. As long as the “guaranteed interest rates” were between 4% (in 2000) and 2.25% (in 2010) in the first decade after 2000, and the total benefits (*Gesamtverzinsung* including capital guarantees and bonuses) averaged around 7% in 2000 and 4% in 2010, life insurance could be considered as a “security” against the turbulences of global capital markets (especially during the two global financial crises in 2000/01 and in 2008/09).

However, this perception changed dramatically during the “low for long” interest rate phase throughout the 2010s, when the authorised maximum “guaranteed interest rate” dropped to 0.9% in 2017 and further to only 0.25% in 2022 (and the average total

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<sup>13</sup>For more details on biometric risk coverage, cf. BaFin website on life-insurances.

**Figure 9.5 – Performance of German life insurance against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: GDV, Eurostat; Calculations: BETTER FINANCE.

benefits of life insurers to 2.23% in 2020 (see DAV, 2023; Walz, 2020)). Following a recommendation of the Deutsche Aktuarsvereinigung (DAV), the German association of actuaries, the Federal Ministry of Finance decided in April 2024 that this interest rate shall had again to be increased up to 1% from January 2025 onwards (see GDV, 2024, "Increase of maximum interest rate is an appropriate reaction...").

As already outlined in the previous chapter the consequences were clear: life insurers as well as policyholders broadly said "good-bye" to guarantees and accepted the fundamental change to products with more or less strongly reduced guarantees during to accumulation phase. It was shown by actuarial studies that reduced guarantees could help to increase at least nominal returns, even though the real results were and are still rather modest.

Even though it is a statistically proven general factor that life-expectancy and in consequence longevity are increasing slowly but constantly, in Germany there is the particular constellation that neither the average life-expectancy of the total population nor even the mortality tables of the association of actuaries are legally binding for the payouts of annuities, but only the particular calculation of longevity based on the actual annuity portfolio of each life insurer. This judicial condition explains why life-insurers make intense public relation work with regard to a possible underestimation of life-expectancy by the "average" policyholders (GDV, 2023).

Right now German policyholders cannot do much more than having "thrust" in the ongoing work of the supervisory authorities and their control of the actuarial calculations of longevity by each life-insurer separately (including the legal obligation to transfer any possible gains due to an over-calculation of biometric risks—be it death or longevity—back to the policyholders).

Admitted that a pure real return observation might not be sufficient for the total evaluation of the "suitability" especially of a pension product due to the longevity aspect, it should have become evident that German life insurers have a lot of legal discretion for "adjusting" the returns and benefits of their products by using factors like administration and distribution costs, reduced guarantees, longevity, etc. The situation becomes even more complex when taking into account the "turn-around" of key interest rates (*Zinswende*) in the Eurozone since 2021/22.

## 9.8 Conclusions

Like policyholders and insurers in other EU member states, German policyholders and insurers were also confronted with a phenomenon from mid-2022 onwards that they hadn't experienced for 14 years: within a little more than one year key interest rates set by the European Central Bank rose from 0.0% in July 2022 to 4.5% in September 2023 (but back to 2.0% in June 2025). From March 2016 to July 2022, this key interest rate was fixed at 0,0% ("low for long" period), and only in July 2008, the rate had reached 4,25% before, after which a gradual but constant decline began. The crucial question is whether this short-term increase in the key interest rate in 2022/23 will lead to a revival of the classical life insurance with strong guarantees or not. Still it is too early for any definitive answer, nevertheless some assessments can be made.

- Life-insurers: most of them are increasing their bonuses but have not yet raised the “guaranteed interest rate” (only possible with authorization of BaFin). Given the ongoing high volatility in stock and real estate markets on the one hand and the Solvency II rules on the other, it does not seem very likely that they will make a significant shift in their distribution practices. So, as product providers, they will surely continue to focus on products with hybrid or reduced guarantees.
- Policyholders: The transition for German policyholders from full guarantees to hybrid or reduced guarantees represented a profound “learning process” that reshaped long-held attitudes. As a result, it’s less likely that they will undergo another major change, especially considering that the younger generation, on average, is more inclined to act as retail investors using digital tools
- NCA, BaFin: it appears to be too early to make any announcements regarding a possible “turn-around” of the “guaranteed interest rate” authorised for life-insurers, because former “hidden reserves” have now turned into “hidden losses”. However, there is at least some relief in the form of refunds from the obligatory “additional capital reserve” (*Zinszusatzreserve*) introduced in 2011 to secure the long-term payment obligations of the life insurers which started in 2023. Additionally, BaFin is closely monitoring whether the total number of early cancellations is rising due to the competition from new saving offers by banks, but as of now, this does not seem to be the case on a significant scale (with the exception of one-off contribution products).

As a result, as of 2024/25, the only assessments that can be made are that the “turn-around” of the key interest rates (*Zinswende*) has not (yet) led to a noticeable resurgence of classical life insurance contracts with full “minimum guarantees”. The short period of financial repression seems have come to an end.

Life insurers (like banks) are not increasing the interest rates for their savings products in the line with the rise in key interest rates (and even if they did, this would not be enough to stop the long-term loss of purchasing power). So long-term “real” protection against inflation does not seem to be in place—a bitter truth just for German consumers.

Taking into consideration the inevitable conflict between long-term loss of purchasing power primarily associated with insurance-based pension products like annuities on one hand, and the desire and necessity for coverage of the biometric risk of longevity by many consumers on the other hand, there appears to be only one reasonable compromise: depending on the risk awareness or “risk appetite” policyholders should allocate only a proportionate part of their total retirement savings into an annuity (either deferred or immediate) and invest the larger part in various other financial products such as bank saving plans, investment funds, shares, bonds, etc. By doing so, the best solution should consist of a diversified portfolio of financial products designed to strike a balance between “free” asset allocation and long-term retirement provision that aligns with the individual’s risk tolerance. A long-standing principle of consumer protection in Germany related to retirement provision has always been the clear separation of the “saving process” (by capital accumulation) and of the “risk coverage” (by insurance).

This kind of solution requires “best advice”, which can only be developed and imple-

mented for each individual case by genuinely “independent” financial advisors. The enforcement of “independent advice” for both retail investors and policyholders is part of the proposal outlined in the EU Commission’s Retail Investment Package of (EC, 2023b). From the perspective of German consumers, this initiative should be strongly supported.

In particular, “independent” advice needs full pre-contractual and ongoing information on costs, performance scenarios, and real returns. In the occupational pensions’ sector this can only partly be achieved, since, for example, distribution costs of “direction insurances” and “competitive” IORPs are only disclosed at the product level, with no average figures available. The NCA should take the necessary steps to provide this data separately. Nevertheless, it is obvious that the final real return of any “implementation type” of occupational pension largely depends on the actual contributions from the sponsor company, which can vary widely.

With regard to third pillar private pensions—state subsidised or not—publicly available data indicates that two major factors influence the final real return of these products: costs, especially distribution costs, during the accumulation phase, and biometric costs of longevity during the decumulation phase.

Given the current situation, where no additional legal amendments are expected at least until the forthcoming implementation of the EU Retail Investor Package of May 2023, German consumers have little choice but to rely on the NCA, BaFin. BaFin has announced its intention to strengthen its supervision of the conduct of business by life-insurers. In May 2023, BaFin (2023a) published an “Information Sheet” (*Merkblatt*) aimed at enhancing the supervision of the “appropriate benefit for clients”, which must be secured mainly by enforcing the product approval process already stipulated by the Insurance Distribution Directive (IDD). Particularly relevant are the precise determination of target markets, realistic performance scenarios, disclosure of returns in nominal and real figures (the latter after accounting for costs and inflation), prohibition of possible conflicts of interest due to inducements, and BaFin’s focus on distributors with particularly high commissions.

In fact, it can be said that nearly all the relevant factors that could have a significantly detrimental impact on the real return of private life and annuity insurances (“value for money”) are included in this supervisory approach. Additionally, we emphasize the importance of controlling annuity factors and their correlation with the assumed life expectancy, which should not deviate significantly from general statistics. Consequently, it is up to the BaFin itself to prove to the German consumers that it will effectively implement its own supervisory objectives and should not be considered as a “toothless tiger” in the long run.<sup>14</sup> An exciting story that will be followed as closely as possible.

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<sup>14</sup>In August 2024, in July and in August 2025 BaFin published the results of supervisory activities linked to pension products, unit-linked and hybrid products, and so-called “net of costs” life-insurances (“Netto-Policen”). BaFin stressed that mainly transparency related to costs, granularity of target markets, portfolio shiftings and performance scenarios were not sufficient in many cases. But as no “naming and shaming” was published, the effective practical value of these conclusions was quite restricted for consumers.

## Chapter 10

# Italy

**Sintesi** Il sistema pensionistico italiano rimane essenzialmente organizzato attorno al suo pilastro pubblico: la pensione statale costituisce il reddito pensionistico primario e spesso l'unico; i fondi pensione complementari coprono solo una minoranza della forza lavoro italiana. Tuttavia, l'invecchiamento della popolazione e i livelli strutturalmente elevati di debito e deficit pubblico mettono a dura prova il sistema pensionistico pubblico: Una serie di riforme ha cercato di limitare l'aumento delle passività pensionistiche dello Stato e di sviluppare schemi pensionistici professionali e individuali a capitalizzazione come alternativa credibile. Queste riforme, tuttavia, non sembrano convincere gli italiani, che investono ancora relativamente poco dei loro risparmi nei fondi pensione contrattuali o aperti, o nei PIP "nuovi", i principali strumenti di risparmio previdenziale che analizziamo in questo capitolo. L'analisi della performance di lungo periodo di questi prodotti sembra dar loro ragione: Su un periodo di 25 anni (2000–2024), i fondi pensione contrattuali riescono a offrire solo un rendimento reale netto dello +0,7%, quello dei fondi pensione aperti è negativo, pari a -0,1%, mentre le due principali categorie di PIP, i piani con "gestione separata" e i piani *unit-linked*, mostrano un rendimento reale netto rispettivamente dello 0,4% e dello -0,3% per cento su 17 anni (2008–2024). Un'allocation eccessivamente conservativa degli asset e—con la relativa eccezione dei fondi pensione contrattuali—costi elevati appaiono come i principali fattori di sottoperformance in termini nominali. L'inflazione, che ha avuto un'impennata nel 2021-2022, dopo quasi un decennio di virtuale assenza, ha divorato ciò che restava dei risparmi pensionistici degli italiani.

**Summary** The Italian pension system remains essentially organised around its public pillar: the state pension constitutes the primary and often the only pension income; complementary pension funds cover only a minority of the Italian labour force. However, an ageing population and structurally high levels of public debt and deficit put the public pension system under strain: a series of reforms have attempted to limit the increase in state pension liabilities and to develop funded occupational and individual pension schemes as a credible alternative. These reforms, however, do not seem to convince Italians, who still invest relatively little of their savings in Contractual or open-ended pension funds, or in Piani Individuali Pensionistici (PIPs), the main retirement savings instruments that we analyse in this chapter. The analysis of the long-term performance of these products seems to prove them right: over a period of 25 years (2000–2024), Contractual pension funds manage to offer only a net real return of +0.7%, open pension funds a negative -0.1%, while the two main categories of PIPs, "with profits" plans and unit-linked plans, show a net real return of 0.4% and 0.3% respectively over 17 years (2008–2024). Overly conservative asset allocation

**Table 10.1 – Product categories analysed in Italy**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Contractual pension funds	Occupational (II)	2000	2024
Open pension funds	Occupational (II)	2000	2024
PIP with profits	Voluntary (III)	2008	2024
PIP unit-linked	Voluntary (III)	2008	2024

**Table 10.2 – Annualised net return of Italian pension funds and plans (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period	to
Contractual pension funds	4.5%	-3.8%	-1.5%	-0.7%	0.2%	0.7%	end 2
Open pension funds	5.0%	-3.6%	-1.1%	-0.6%	0.3%	-0.1%	end 2
PIP with profits	0.0%	-3.2%	-2.1%	-1.3%	-0.4%	0.4%	end 2
PIP unit-linked	7.5%	-3.0%	-0.5%	0.1%	0.8%	0.3%	end 2

*Data:* COVIP, Eurostat; *Calculations:* BETTER FINANCE.

and—with the relative exception of Contractual pension funds—high costs appear as the main drivers of underperformance in nominal terms. Inflation, which surged in 2021-2022 after almost a decade of virtual absence, devoured what was left of Italians' pension savings.

## 10.1 Introduction: The Italian pension system

In this chapter about Italian private pensions, we will analyse the four product categories listed in Table 10.1. Within the occupational pillar, we will analyse separately the returns obtained by Contractual pension funds and open pension funds over 24 years (2000–2024). Our reporting period will be shorter for PIPs, the individual pension plans constituting the third pillar of the Italian pension system: we will analyse performance since 2008, distinguishing between PIPs “with profits” and “unit-linked” PIP. Whenever possible, we will also analyse available cost and performance data for sub-categories within these four products.

2024 was a contrasted year for Italian pension savings: As shown in Table 12.2, the 1-year returns after charges and inflation of contractual and open pension funds reached 4.5% and 5% respectively, while PIPs *unit-linked* returned a 7.5% gain for their participants; in the meantime, the purchasing power of savings in PIPs “with profits”—a poor name, as it turns—stagnated.

The pluriannual real performance, however, offers a sobering perspective: over the past 25 years, Contractual pension funds barely manage to beat inflation (+0.7% real net return). Open pension funds fail to beat it (-0.1%), and since 2008 (first full year of data after inception in 2007), PIPs returned a meagre +0.4% for the “with profits”

branch, while savers in PIPs unit-linked products gained a even smaller 0.3%.

In the remainder of this section, we will briefly present the Italian pension system, including its Pillar I State pension, before delving into our analysis of the four private pension categories. We will then report on the costs and charges levied on savings accumulated in these products, the fiscal regime applicable to them, before analysing their performance over the reporting period.

### 10.1.1 Pension system in Italy: An overview

The Italian pension system is organised around the classic three-pillar World Bank model:

- Pillar I is a public pension scheme managed by the Italian State;
- Pillar II is composed of occupational pension arrangements, to which enrolment is mandatory;
- Pillar III is composed of individual pension saving products, subscribed on a voluntary basis.

Both Pillar II and Pillar III pension funds and plans are supervised by COVIP, whose data constitutes the basis of our analysis of costs and performance.

#### **Pillar I: The State pension**

The first pillar remains the main pension vehicle in Italy. It is composed of two tiers: zero and first. The zero tier consists of a social pension ensuring a minimum level of income for the elderly. The first tier covers employed individuals and for those who entered the labour market before 1995, functions as a DB system. The "Dini reform" of 1995 however changed the nature of the first tier for all those who entered the labour market after 1995: the system is now organised as a notional defined contribution (NDC) system and pension entitlements are no longer computed according to an earnings-related system (Riforma del sistema pensionistico obbligatorio e complementare (legge 335/1995), 1995).

Further reforms and adjustments of the Italian public pension system were adopted in the 2010s, in order to restore sustainability, in the context of an ageing population and massive pension expenditure. In 2011, Elsa Fornero, minister for Welfare and Social Policy under Mario Monti's "technical" government, implemented a reform intended to bring the system close to equilibrium. The main eligibility criterion became the number of years worked rather than one's age, with early retirement legally possible but subject to penalties. Nevertheless, the Italian Constitutional Court stated in April 2015 that the suppression of indexation of pensions on inflation included in the "Fornero law" was unconstitutional: the indexation of pensions on inflation was estimated to add EUR 500 millions to the costs of the State pension.

This judicial reversal was succeeded by the adoption of measures facilitating early retirement, such as the "Ape Sociale", "Opzione Donna" and, most notably, the "Quota 100" measure, effective from January 1st, 2019. This measure enables employees with a minimum of 38 years of service to retire early if the combined total of their age and years of service reaches 100. The "Quota 100" has since been reviewed,

becoming “Quota 102” in 2022 and “Quota 103” as per the budget law for 2024: Italians can now retire as early as 62 years old, provided they have at least 41 years of contributions. Under “Quota 103”, however, the anticipated state pension is calculated entirely based on the amounts of contributions effectively paid, and does not include any redistributive element, which could represent a substantial reduction of beneficiaries’ income (Acquaviva, 2023). The 2024 budget law generally tightened the conditions of access to anticipated pensions, with, for instance, early retirement windows (amount of time which one must wait to receive their first payment) extend from 3 to 7 months for private sector workers and from 6 to 9 months for public servants.

### **Pillar II: Occupational pensions**

The second pillar of Italian pensions is composed of collective complementary pension plans. These can be “Contractual pension funds (*Fondi pensione negoziali*)—occupational funds managed by social partners under CBAs—or “open” pension funds (“*Fondi pensione aperti*”) constituted by various types of financial institutions, which welcome members on an individual or collective basis Commissione di Vigilanza sui Fondi Pensione [COVIP], 2022.

Besides pension funds, the *Trattamento di Fine Rapporto* (TFR) is also part of the second pillar. The TFR is a deferred indemnity: each year the employer is required to set aside a portion of the employee’s salary, to be accumulated and returned to the employee upon termination of the employment contract.

### **10.1.2 Pillar III: Voluntary individual pensions**

The third pillar is composed of voluntary contributions to individual complementary pension schemes, PIP. Individuals can also make contributions to open funds in the case of individual affiliations. Given the strong component of mandatory contributions within the state pension system, both collective and individual complementary pension funds play a small role in the financing of future retirees’ income. While the savings in collective complementary pension funds are rather small, private savings are still consistent. If all pension contributions and home ownership were transformed into an annuity, the corresponding stream of generated income at retirement would be very high.

To summarise the information of the pension system set-up and to obtain a basic overview of the pension system in Italy, the table below presents key data on the multi-pillar pension system.

## **10.2 Pension savings vehicles in Italy**

At the end of 2023, 9.953 million Italians were enrolled into at least one collective or individual pension plan (Pillar II or III), a 4% increase compared to end-2023 which brings the coverage ratio of Italian supplementary pensions to 38.3%, a modest though growing number. Especially if we deduct the members who have not made a contribution in 2024: the coverage ratio in term of *active* participants is then only 27.6%. Pension assets managed by the sector grew 8.5% in 2024, reaching EUR 243.3

billion, i.e., 11% of the Italian GDP and 4% of the financial assets of Italian households (COVIP, 2025).

Figure 10.1 displays the total amounts of savings in the four product categories here analysed. As we can see from this figure, Contractual pension funds within Pillar II and PIPs with profits within Pillar III are the two categories of products which increased fastest, in terms of accumulated capital. With EUR 74.6 billion in AuM at end-2024 stand as the main retirement savings vehicle in Italy. Open funds and PIP with profits still see a steady growth of AuM to EUR 37.3 billion and EUR 37.7 bln. PIP unit-linked seem less popular, though in constant growth, with EUR 17 billion in AuM at end 2023.

Over the twenty-five years covered in our report, the number of pension funds and plans on offer in Italy was reduced dramatically: From 739 funds and plans in operation in 1999, only 291 remained active at the end of 2024 (down from 302 at end-2023). As the supervisor, COVIP explains:

The number of pension schemes has been steadily declining for over twenty years: in 1999, there were 739 schemes operating within the system. In particular, the number of pre-existing funds fell by 467, including ten in the last year. These funds continue to be affected by reorganisation and consolidation in the financial sector, with the formation of banking and insurance groups within which various supplementary pension schemes for employees of individual banks and insurance companies coexisted. These schemes have often been merged into one or two group funds.

(COVIP, 2025, p. 16)

The concentration trend particularly affected the “pre-existing” funds, and to a lesser extent Contractual and open pension funds. The number of PIP *nuovi*, individual pension plans introduced in 2007, remained relatively stable

#### **Management types: COVIP's methodology**

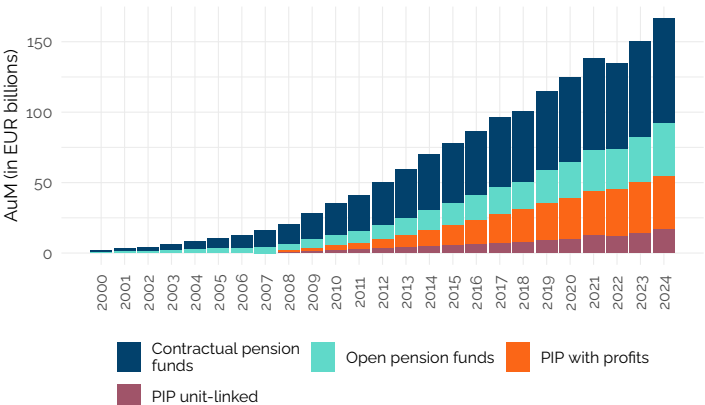
Within the broad categories of Contractual pension funds, Open pension funds, and PIPs, COVIP distinguishes four main types of “management” (COVIP, 2022):

- *Gestione garantita* (“guaranteed management”): Funds “which offer a guarantee of a minimum return or return of the paid-up capital upon the occurrence of certain events (e.g. upon retirement)”;
- *Gestione obbligazionaria* (“bond management”): Funds “that invest exclusively or primarily in bonds”; for Contractual and Open pension funds, a further distinction is made between *obbligazionaria pura* (pure bond management) and *obbligazionaria mista* (mixed bond management);
- *Gestione bilanciata* (“balanced management”): Funds “which in principle invest in shares and bonds in the same percentage”; and
- *Gestione azionaria* (“equity management”): Funds “that invest only or mainly in equity”.

In the remainder of this chapter, we follow this typology to report data on product sub-categories.

Complementary pension funds were introduced in 1993 and are composed of Con-

**Figure 10.1 – AuM of Italian pension funds plans (in bln EUR)**



Data: COVIP; Calculations: BETTER FINANCE.

tractual funds, open funds and individual pension plans provided by life insurance companies. The main features of complementary pension plans are:

- Membership is voluntary;
- Pensions are funded;
- Schemes are managed by banks, insurance companies or specialised financial institutions;
- Their supervision is ensured by COVIP.

Following the signature of a CBA, all complementary pension funds are managed by an external financial institution that can only be an insurance company, a bank or a registered asset management company (Legislative Decree 252/2005). All complementary pension funds now operate on a DC basis, as this is the only permitted type of pension plan.

DB plans are restricted to older funds, that existed before the transition to the DC model ("Pre-existing" funds). The budget law of December 11th, 2016 allows members of complementary defined contribution pension funds, who are close to retirement age, to receive early retirement income from their accumulated savings in whole or in part; the scheme is called Rendita Integrativa Temporanea Anticipata (RITA). Eligible employees are those who benefit from a similar provision in the first pillar, the *APE Sociale*. To be eligible for RITA, an individual must:

- cease their professional activity;
- reach the requirements necessary to receive the old-age pension in their mandatory regime within the next five years or to be unemployed for more than 24 months;
- have contributed at least 20 complete years to the mandatory regime; or / and have completed five years in the pension scheme.

The individual determines the amount of the accrued capital to use until their official retirement. The RITA is also offered to people who have been unemployed for at least two years before their request for withdrawal and are within ten years of the statutory retirement age.

## 10.2.1 Second pillar: Contractual and open pension funds

Three types of funds exist within the occupational pillar:

- "Contractual", also called "closed" funds, membership in which is restricted to specific groups of workers;
- "Open" funds, which are open to all;
- "Pre-existing" funds—that is, funds that existed before the Italian legislator regulated the form of Italian private pensions—are still operating and can accept as new members the employees of the firm(s) or economic sector for which they have been established, although no new such fund can be created.

**Contractual funds** are also called **closed funds** due to their restrictive membership criteria: only firms from the economic sector for which the fund was established can join in. Generally, Contractual funds are established for employees whose contract is regulated by a CBA; for the self-employed, Contractual funds are usually provided

by professional associations, and consequently reserved to their members. At the end of 2024, Contractual funds had 4.108 million members.

Contractual funds' assets are legally separated from those of the sponsor company or association, being therefore protected from creditors' claims in case of bankruptcy of the employer. A Contractual fund must place its assets under the custody of an authorised depository (bank or investment firm). The fund's Board of Directors is responsible for defining the investment strategy and choosing the investment manager, the depository bank and the entity designated to administer the pensions. The fund must report at least on an annual basis. Managers' mandates usually last five years or more, in line with the long-term orientation of funds.

**Open funds**, by contrast, do not restrict membership: they are set up by banks, insurance companies, asset management companies and stock brokerage firms for anyone to join on a collective or individual basis. Employees of the public sector, as well as self-employed and liberal professions can only join on an individual basis; other employees can join individually, but collective membership is also possible where provided for by a company or sectoral agreement. At the end of 2024, open funds had a little over 2 million members, 36 024 of which were also members of at least one other open fund and 121 092 had a PIP *nuovo*.

The assets of open pension funds are legally separated from those of the financial companies that set them up and are thus protected, in case of the company's bankruptcy, from the claims of any creditors. Like Contractual pension funds, open funds must have an authorised depository bank and can outsource administration.

Italians benefit since 1982 from the TFR, a severance payment system whereby the employer pays a portion of the employee's annual salary into a specific vehicle for asset accumulation, the TFR. If an employee decides to opt-out of complementary pension funds and belongs to a company with more than 50 employees, their accumulated amount of severance payments is transferred to Istituto Nazionale Previdenza Sociale (INPS), the national social security institute, which, by law, manages the severance payment. For an employee who works in a firm with less than 50 employees and who does not opt for complementary pension funds, their TFR remains with the firm they work at and represents a debt for the company.

The accumulated amounts are mandatorily saved and can only be paid upon termination of the work contract (whatever the reason of the termination). In exceptional cases (health issues, first-house purchases, parental leave), the TFR can be partially drawn, up to 70% of the accumulated amount. The TFR is revalued annually at a rate of 1.5% plus a variable part indexed on the national inflation rate calculated by the national statistics office (Istat). In 2022, as a positive side effect of soaring inflation, the TFR's rate rose to 8.3%,

As an alternative, since 2007 and entry into force of Legislative Decree 252/2005, each employee can individually opt to have their TFR paid into a complementary pension fund. For specific sectors where a Contractual pension fund exists, tacit consent applies for the TFR to be transferred to the fund instead of remaining with the company.

The introduction of Contractual and open funds, and the possibility to place one's

TFR with them was a significant novelty in the Italian pension landscape, which had been thus far almost exclusively organised around the State pension. Workers now had to make decisions regarding where and how to invest the portion of their income they wish—or, rather, must—save for future retirement income.

The coverage of public employees by specific retirement products is very limited, as the law introducing pension funds excluded them. Contractual pension funds are only possible for individuals working in National Education (Espero), in the National Health system and in a regional or local authority (Perseo and Sirio). These Contractual pension funds were implemented in 1993.

In terms of allocation of pension savers' assets, both Contractual and open pension funds implement conservative investment policies, as shown in Figure 10.2 and Figure 10.3. Contractual pension funds typically invest less than a quarter of their assets into equity vs. close to 60% in debt securities. Open pension funds are less conservative, with *only* half of their AuM invested either in cash or bonds, but their direct equity exposure, amounting to 25.1% of assets in 2024, remains low.

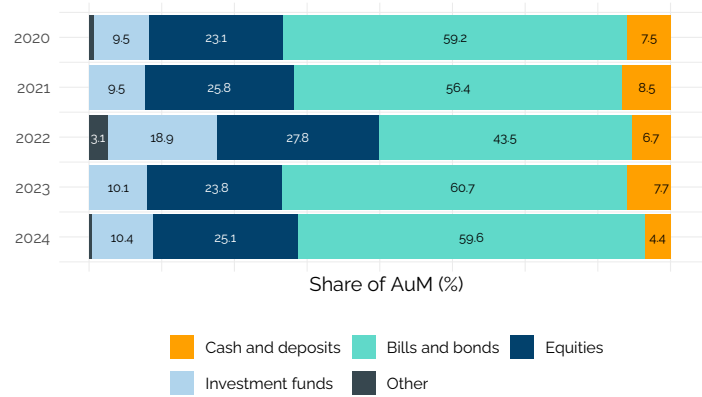
We should, however, refine this broadbrush picture: Investors in both Contractual and Open pension funds can indeed choose among different types of “management” (*gestione*, see above), each of these types of management offering a different degree of equity exposure. Figure 10.4 and Figure 10.5 show the distribution of total AuM of Contractual and Open pension funds, respectively, in the five types of management on offer to Italian pension savers, from the most conservative *gestione obbligazionaria pura* and *gestione garantita*, which invest none or little of their assets into equity, to the most “aggressive” *gestione azionaria*, where assets are mainly invested in equity. We can see that the most popular option in both categories of funds is the *gestione bilanciata*, which supposedly invests equally in equity and bonds, which nuances to some extent the initial impression of conservatism of Italian pension savers.

The total—direct plus indirect through investments in funds—equity exposures of the *gestione azionaria* was 60.3% in Contractual pension funds in 2024, down 0.2p.p.s from 2023, and 78.7% in Open pension funds, up 0.2p.p.s. At the opposite end of the spectrum, the *gestione garantita* compartments in Contractual funds and Open funds had a 5.6% and 5.5% total equity exposure, respectively. The equity exposure the *gestione bilanciata*—the middle ground option—was 33.7% in Contractual funds (+2.9 p.p.) and 41.5% in Open funds (+0.3 p.p.). The choice of a management option, therefore, induces substantial differences in terms of financial returns for investors in Contractual and Open pension funds (see Section 10.5.1).

### 10.2.2 Third pillar

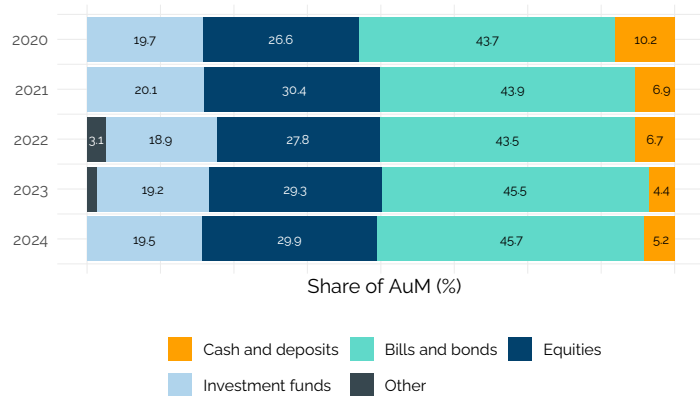
PIP are individual pension plans offered by insurance companies. Their main purpose, according to the Italian committee for financial education includes but is not limited to pension savings: they can also be used to accumulate savings for major projects or unforeseen events. Anticipated withdrawals are therefore possible in case to pay for extraordinary health expenses, for first-home purchase and renovation, or for “personal and family motives”, the latter two only after an 8-year holding period (Comitato per la programmazione e il coordinamento delle attività di edu-

**Figure 10.2 – Allocation of assets invested in Italian contractual pension funds**



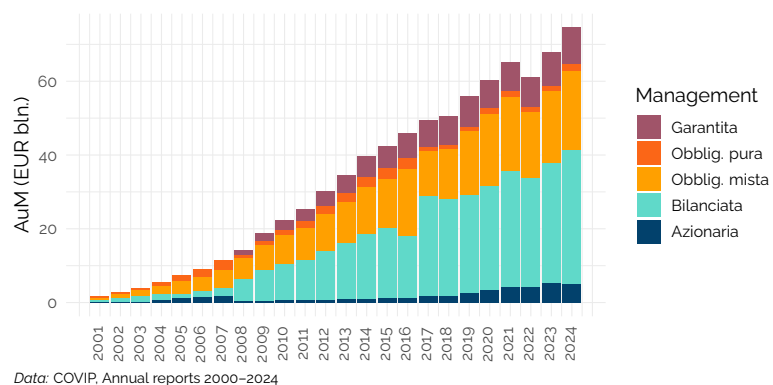
Data: COVIP; Calculations: BETTER FINANCE.

**Figure 10.3 – Allocation of assets invested in Italian open pension funds**

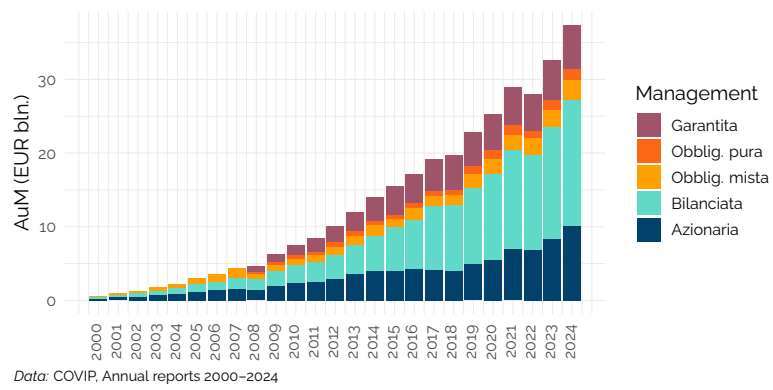


Data: COVIP; Calculations: BETTER FINANCE.

**Figure 10.4 – AuM of Contractual funds by type of management (EUR bln.)**



**Figure 10.5 – AuM of open pension funds by type of management (EUR bln.)**



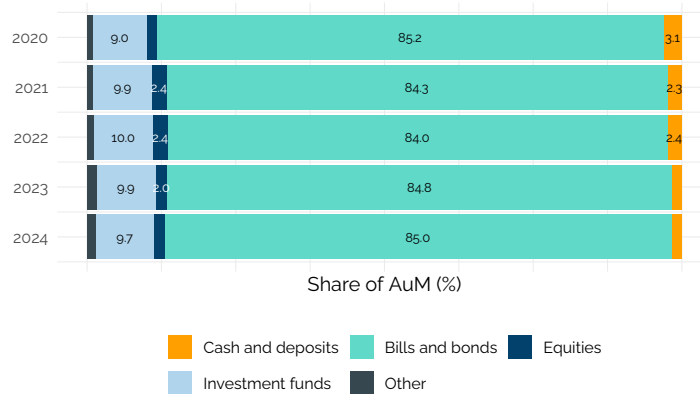
cazione finanziaria, 2023). An anticipated pension may also be requested as per the RITA framework. Full withdrawals are also possible in case of permanent invalidity, unemployment longer than 48 months, resignation or dismissal and, of course, death of the investor.

Two main types of contracts are offered: *gestione separata* ("with profit", 69% of AuM in PIP *nuovi* in 2024 (down from 74.6% in 2022) or unit-linked (31%, up from 25.1% in 2022). The with-profits policies guarantee a minimum rate of return (guaranteed and consolidated in the company's accounts) which is added to a quota related to the financial performance. The unit-linked policies do not have a guarantee. Their performance depends on the value of the units in which contributions are invested.

Assets are allocated very differently under the two types of PIP *nuovi*, as shown in Figure 10.6 and fig-it-pipul-alloc. PIP with profits are massively invested in debt securities (85% in 2024, of which 31.3% in Italian government bonds) and virtually do not invest in equities (1.9% in 2024, down from 2.4% in 2022). By contrast, in PIP *nuovi* unit-linked, equity represents 39% of investments on average, while debt securities only account for 22.5% of AuM. We note that investment funds

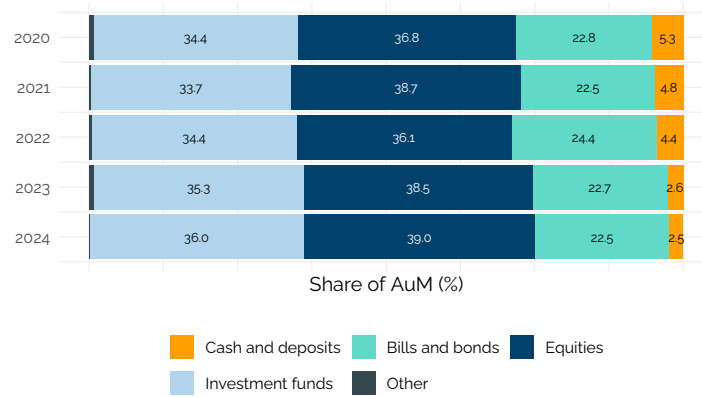
We should further note that the allocation of assets varies within the unit-linked category, where there exists three main sub-types: the already described *gestione obbligazionaria*, *gestione bilanciata* and *gestione azionaria*. In the *obbligazionaria* 73.7% of assets are invested in government bonds (72.4% in 2023) and nothing in equity. By contrast, in the *gestione azionaria*, assets are invested for more than 70% in direct equity holdings (72.5% in 2024) and only a tiny fraction of assets are invested in debt securities (3.5% in 2024). As we can see in Figure 10.8, *gestione azionaria* is the most popular of the three options in PIP *nuovi* unit-linked: Though it represents less than half of the smallest of the four product categories analysed in this chapter, we can see here a decidedly equity-oriented segment of Italian pension savers.

**Figure 10.6 – Allocation of assets invested in Italian open pension funds**



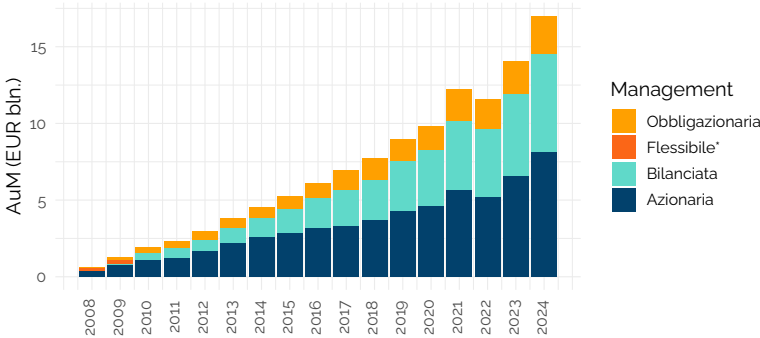
Data: COVIP; Calculations: BETTER FINANCE.

**Figure 10.7 – Allocation of assets invested in Italian open pension funds**



Data: COVIP; Calculations: BETTER FINANCE.

**Figure 10.8 – AuM of PIP nuovi unit-linked by type of management (EUR bln.)**



Data: COVIP, Annual reports 2000–2024, textsuperscript\* *Gestione flessibile*, similar to *bilanciata* was withdrawn from 2010.

## 10.3 Charges

COVIP calculates a synthetic indicator of costs—ISC—for a member who contributes EUR 2500 every year with a theoretical annual return of 4%, over increasing periods of 2 to 35 years. The calculation methodology of the indicator was revised by COVIP in order to eliminate distortions between the categories of funds. Since 2014, the tax rates on investment revenues depend on the underlying assets of the funds. Since March 2015, the cost indicator is no longer calculated net but gross of the tax paid by pension funds on their revenues. Table 10.3 shows the average, maximum and minimum values of this ISC in 2024 for Contractual and Open pension funds, as well as for all PIPs *nuovi*.

As we can see, there is a great variation among pension funds in terms of costs, both between and within categories of funds. Savers should therefore be very attentive to the cost information provided by fund managers before making investment decisions. The cost indicator decreases significantly with the membership period, as initial fixed costs are progressively amortised: the drop in average costs between 2 years and 35 years is 0.76 p.p. for Contractual funds, 1.09 p.p. for open funds, and even 1.91 p.p. for PIP *nuovi*.

There are significant differences between each category of funds and plans, depending on the distribution channels of the products and the fees paid to distributors. Economies of scale lead to lower costs for closed funds while no such impact can be observed on new PIP and open funds, according to a review of individual figures by COVIP.

For the long-term returns calculations in this report, we retain the 10-year ISC as the cost figure to calculate the nominal net returns of each of our product categories.

COVIP also shows ISC figures for management compartments within each category of product. Figure 10.9 thus shows not only the structurally higher costs of PIPs *nuovi* over both Open and Contractual funds, it also shows that for both Open funds and PIP, equity-oriented management is significantly more expensive than bond-oriented management. Interestingly, though, the pattern is reversed for Contractual funds: in those funds, which have generally much lower cost figures, the cost of equity compartments has remained low (around 0.4% since 2016), and lower than the cost of guaranteed management, which has soared.<sup>1</sup>

## 10.4 Taxation

The taxation regime of pension savings in Italy is essentially an ETT regime (exempt, taxed, taxed), corresponding to the following three stages over time: contribution, accumulation and payment. In the first phase, employee contributions to private pension funds benefit from a favourable tax treatment. Employees can deduct their own contributions from their taxable income up to a ceiling of EUR 5164.57 per year. Employer contributions are considered as employment income and are thus subject

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<sup>1</sup>There is unfortunately no data available for the *gestione obbligazionaria* in Contractual pension funds.

**Figure 10.9** – Synthetic cost indicators by type of management

1

**Table 10.3 – COVIP's Synthetic Cost Indicator**

Statistic	Synthetic Cost Indicator			
	2 years	5 years	10 years	35 years
<b>Contractual pension fund</b>				
Maximum	2.98%	1.45%	1.21%	1.09%
Average	1.12%	0.65%	0.49%	0.36%
Minimum	0.34%	0.22%	0.14%	0.06%
<b>Open pension funds</b>				
Maximum	4.73%	3.20%	2.58%	2.31%
Average	2.32%	1.56%	1.35%	1.23%
Minimum	0.55%	0.55%	0.55%	0.55%
<b>PIP nuovi</b>				
Maximum	6.44%	4.82%	4.07%	3.44%
Average	3.73%	2.60%	2.17%	1.82%
Minimum	1.04%	0.85%	0.58%	0.38%

*Data: COVIP, Annual report 2024.*

to tax and social security contributions.

Until 2014, in the second phase a tax rate of 11.5% was applied on the accrued capital gains paid by complementary pension funds. Since January 1st, 2015, this tax rate increased to 20%, except for accrued capital gains generated by investments in Government Bonds which are taxed at a rate of 12.5%. The difference in taxation rates of bonds and equities is an incentive to change the asset allocation towards the former, a trend that is likely to lower the returns of pension products in the future. The budget law of December 31st, 2016 foresaw that assets invested in European equities or European investment funds (up to 5% of the fund's total assets) were exempted from income tax.

In order to avoid double taxation, benefits are taxed only on the corresponding shares that were not taxed during the accumulation phase. Contributions that were not deducted, and thus already taxed, won't be taxed again.

In the third phase the corresponding benefits are taxed at a rate ranging between 9% and 15%, depending on the length of membership in the private pension funds. Income received before retirement age in the framework of the RITA scheme is taxed at 15%, reduced by 0.3% for each year over the fifteenth year of participation in supplementary pension schemes, with a maximum reduction limit of six percentage points. If years of enrolment in the supplementary pension scheme are prior to 2007, those years can be considered up to a maximum of 15 years. The tax rate of pension benefits that come from TFR varies between 9% and 15%, depending on the length of enrolment in the complementary pension funds.

**Table 10.4 – Taxation of pension savings in Italy**

Product categories	<i>Contributions</i>	Phase <i>Investment returns</i>	<i>Payouts</i>	Fiscal Regime
Contractual pension funds	Exempted	Taxed	Taxed	ETT
Open pension funds	Exempted	Taxed	Taxed	ETT
PIP with profits	Exempted	Taxed	Taxed	ETT
PIP unit-linked	Exempted	Taxed	Taxed	ETT

*Source:* BETTER FINANCE own elaboration based on Comitato per la programmazione e il coordinamento delle attività di educazione finanziaria, 2023.

## 10.5 Performance of Italian long-term and pension savings

### 10.5.1 Real net returns of Contractual and Open pension funds and PIP *nuovi*

In this section, based on data from COVIP (2025) and previous years, we analyse the nominal returns obtained by Contractual pension funds and open pension funds since 2000 and the two main types of PIP *nuovi* since 2008 (the first full year of operation for these products), and compute *real net returns*, that is, after charges and inflation, over these periods.

As already mentioned, in order to calculate the long-term net returns, we deduct annual costs from each year's nominal gross return figure. For that operation in the Italian case, we take for each year and each product category the average value of COVIP's synthetic cost indicator for a 35 year period (see Table 10.3).

In order to correct the nominal net returns for inflation, we calculated the annual inflation rate in Italy since 2000, based on Eurostat's HICP (see methodology in Section 1.2). As can be seen from Figure 10.10, in terms of inflation, Italy was below the EU average over the period 2000-2024, with a 2.1% annual average and a 68.8% cumulated. In 2022 inflation climbed to 12.3%, 1.9 p.p. above the EU average (10.4%) but fell to a mere 0.5% in 2023, 2.9 p.p.s below the EU average for that year. With 1.4% in 2024, Italy seems to be back to its normal, low-inflation situation.

#### **Performance of Contractual and Open pension funds**

Figure 10.11 and Figure 10.12 show the nominal gross, nominal net and real net returns of Contractual and Open pension funds. Even before the inflation hike of 2021-2022, the long-term real performance of these products attests to the eroding effect of inflation on investment returns: over 25 years, inflation reduced the cumulated performance of Contractual pension funds by 81.2 p.p., and that of Open pension funds by 67.5 p.p., turning the later negative at -1.9%. Therefore, Italian workers who may be under the illusion that the value of their pension savings almost doubled over the past two decades have actually gained very little purchasing power if investing in Contractual funds, and actually lost purchasing power if investing in Open pension funds.

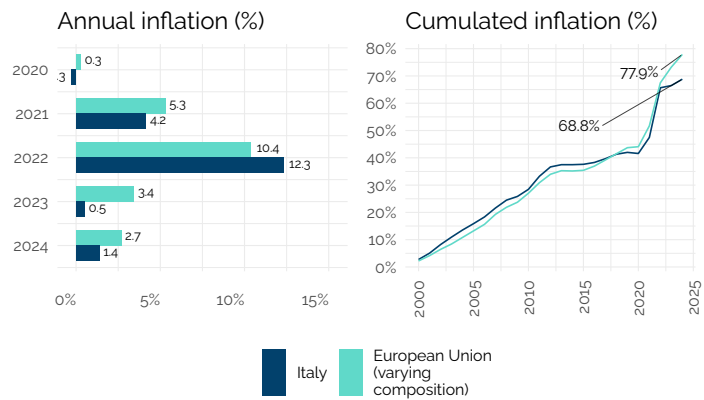
The results of Open pension funds furthermore show the long-term impact of costs: While nominal returns before charges are similar and even superior to those of Contractual pension funds (128% vs. 121.6% over the period 2000-2025), the higher average 10-year synthetic cost indicator of Open pension funds results in a nominal net performance 33.6 p.p.s lower than that of Contractual funds.

Disaggregating these return figures in Figure 10.13 and Figure 10.14, we can see that the nominal performance of the *gestione azionaria* is, over the period, widely superior to that of the conservative options in both Contractual and Open pension funds, and that despite the higher costs attached to equity management in Open funds (see above).

**Figure 10.10 – Inflation in Italy**

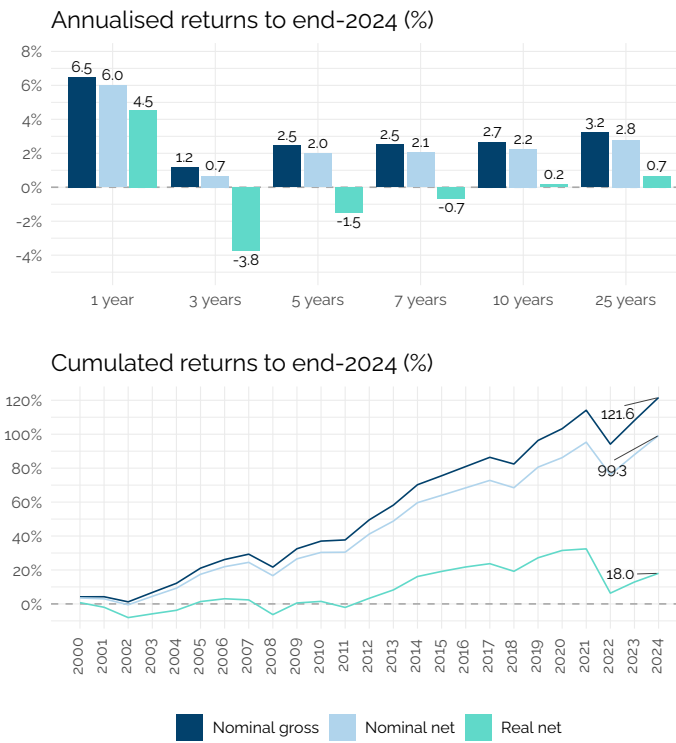
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>Italy</i>	68.8%	2.1%



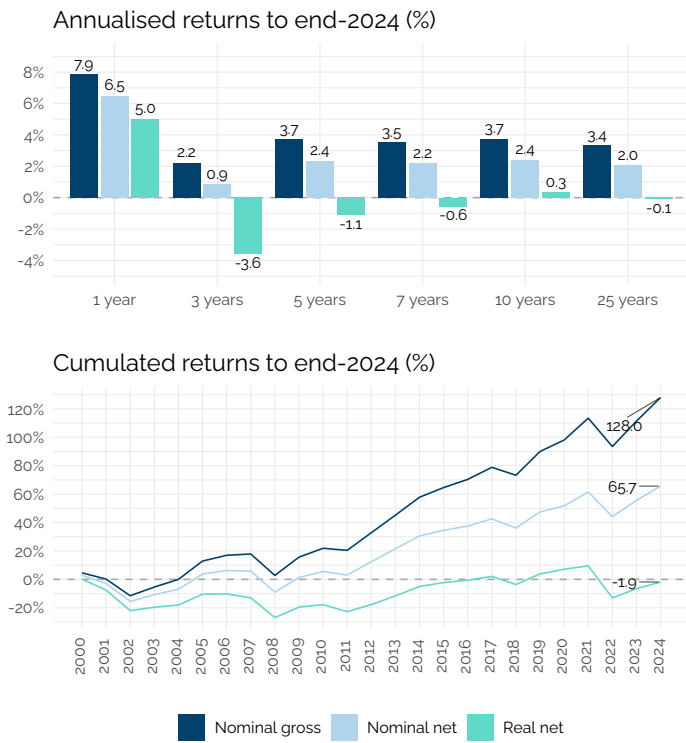
Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 10.11 – Returns of Italian contractual pension funds (before tax, % of AuM)**



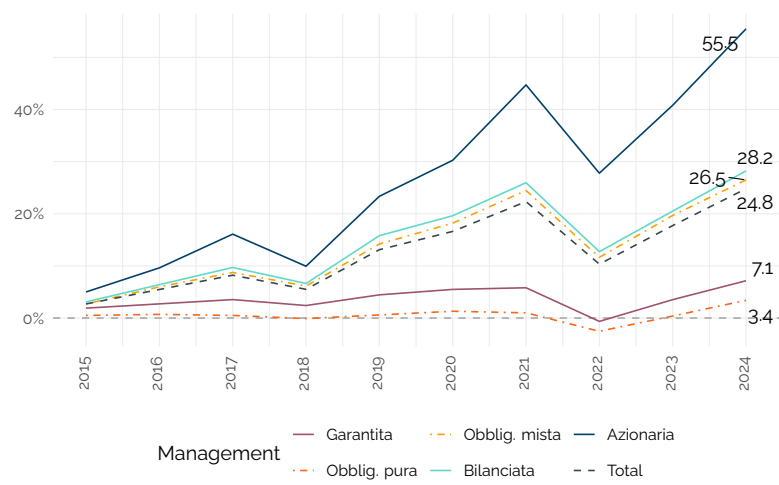
*Data:* COVIP, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 10.12 – Returns of Italian open pension funds (before tax, % of AuM)**



*Data:* COVIP, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 10.13** – Cumulated performance of Contractual funds after charges, before inflation by type of management 2015–2024 (% of AuM)



Data: COVIP, Annual reports 2015 to 2024

[1] 2052.9

Over the ten years of data available for Contractual funds' compartments (2015–2024), with a 55.5% cumulated nominal net return *gestione azionaria* outperforms the second best-performing option, *gestione bilanciata*, by more than 20 p.p.s and the most conservative *obbligazionaria pura*, which barely returns a positive performance, by 52.1 p.p.s. Over 23 years, the *gestione azionaria* of Open funds outperforms the average of compartments by 30.3 p.p.s and the most conservative option *obbligazionaria pura* by 52.7 p.p., respectively. Here is a perfect illustration of the higher returns that investors may expect from a higher degree of equity exposure.

### **Performance of PIP *nuovi***

We can appreciate in Figure 10.15 and Figure 10.16 the major impact of fees on the performance of Italian PIPs. Costs eat away approximately half of the long-term performance of PIPs with profit and unit-linked. Inflation, modest as it may be in Italy, swipes away the rest of the performance, for a *real net return* that hardly turns positive after 7 years for the unit-linked version, and after more than 10 years for PIPs with profit. It is particularly striking that, in a year—2024—that has been rather good for capital markets, with a +7% performance for bonds, PIP “with profits” yielded a null return after costs and inflation.

For the unit-linked PIPs, however, the breakdown of performance (after charges, before inflation) by type of management reveals, here again, highly diverging trajectories across the different types of “compartments”.<sup>2</sup> As we can see from Figure 10.17, there is a world between the +68.9 nominal net return of the *gestione azionaria*, the version with the greatest equity exposure, cumulated over 17 years, and the paltry +18.3% nominal return of the *gestione obbligazionaria* over the same period.

The difference in long-term performance is even more striking when considering where both types of compartments started from. With a greater exposure to equity markets, the *azionaria* started off in 2008—the year of the Global Financial Crisis—with a major slump, yielding a frightful -36.5%, from which it recovered strongly: from this 2008 low, its cumulated nominal net performance is thus 105.4%, despite strongly negative returns in 2011, 2018 and 2022. By contrast, the apparent safety of the *obbligazionaria*—it offered a positive return every year except for a slightly negative performance in 2018 and a somewhat bigger fall in 2022—hides the ugly truth that a +18.3 nominal net performance is certain to translate into a loss of purchasing power once inflation is accounted for.

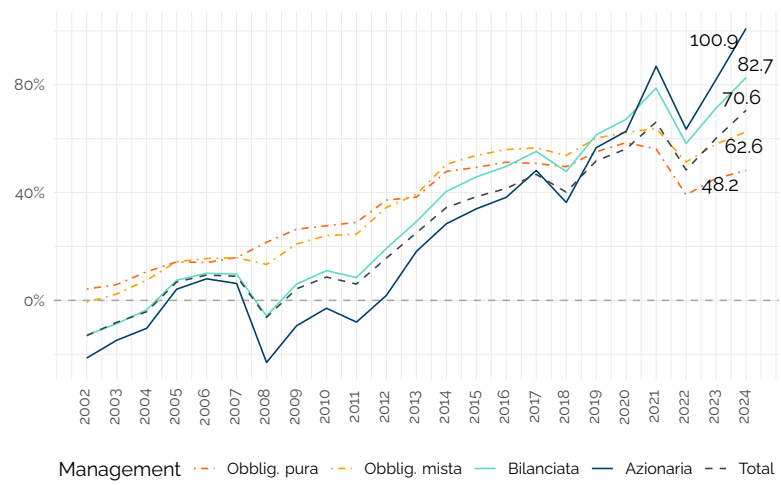
### **Returns in comparison**

In the face of it, Italians do not seem very well served by their supplementary pensions. No wonder only a minority of them entrust their savings to Pillar II and III and rely on alternative savings channels instead (not that this is necessarily a good idea either...). Bringing together the return figures of the four main categories of products

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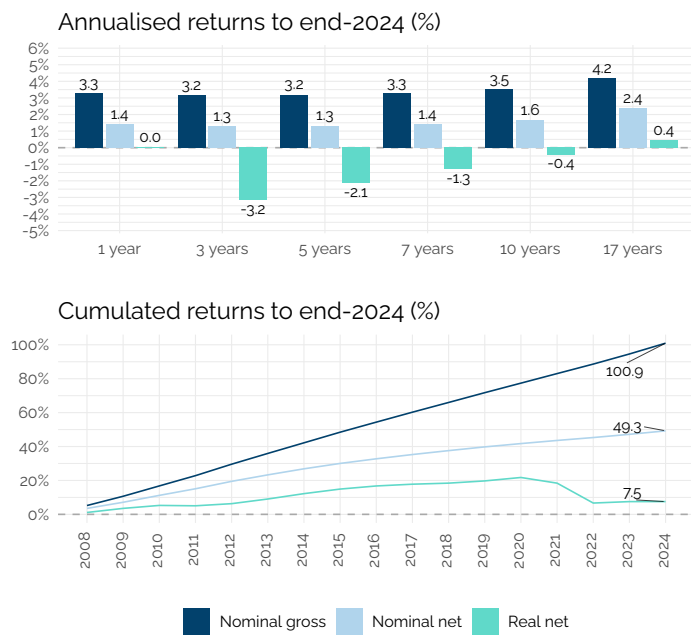
<sup>2</sup>“With profit” PIP—profile I - *Gestione separata* do not have compartments; there is, therefore, no breakdown of performance to analyse.

**Figure 10.14 – Cumulated performance of Open funds after charges, before inflation by type of management 2015–2024 (% of AuM)**



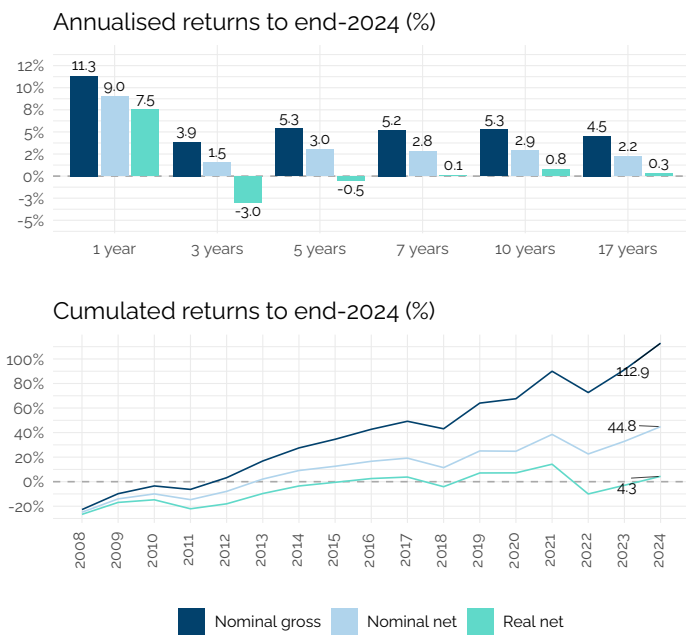
Data: COVIP, Annual reports 2002 to 2024

Figure 10.15



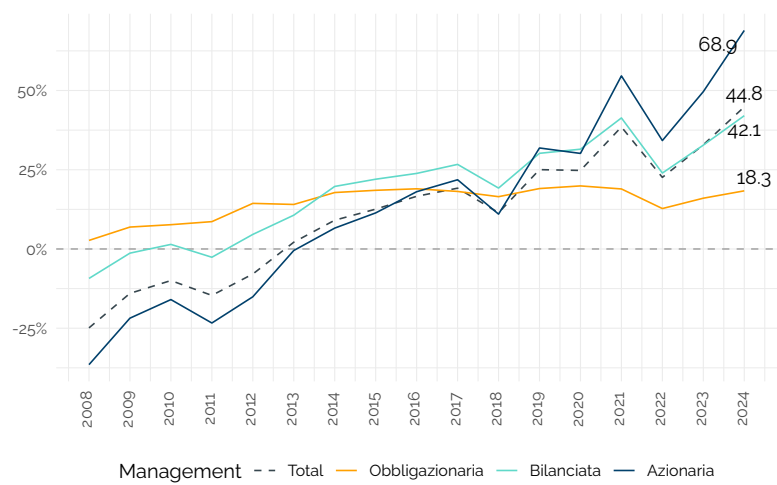
Data: COVIP, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

Figure 10.16



Data: COVIP, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 10.17** – Cumulated performance of PIP *nuovi* unit-linked after charges, before inflation by type of management 2008–2024 (% of AuM)



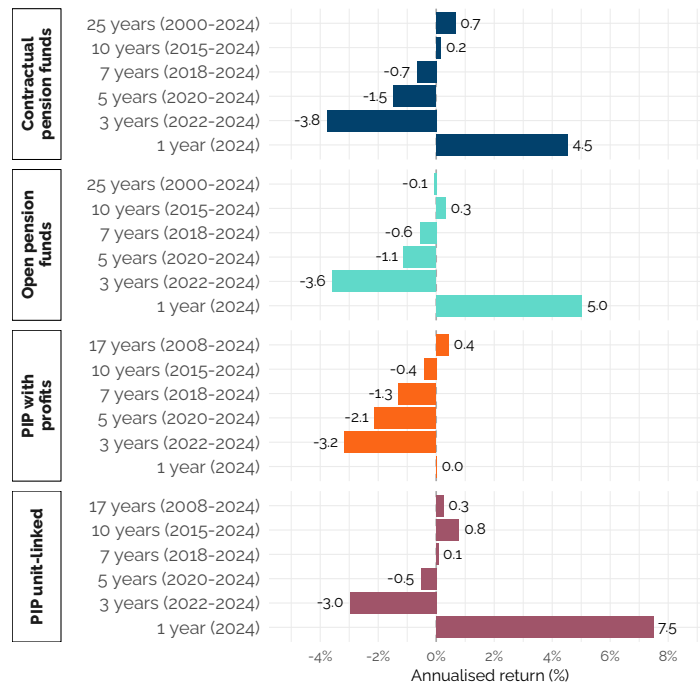
Data: COVIP, Annual reports 2008 to 2024

we analysed in this chapter, we see in Figure 10.18 that the annualised long-term real net returns (over 25 years for Contractual and Open pension funds, over 17 years for PIPs) are all below 1%, even negative for Open funds.

The story told by Figure 10.19 is the same: were Italian pension savigns vehicles offering good returns—the kind of returns on which one can rely on for one's retirement income—the curves on this graphs should slope upwards. They clearly do not. Ups and downs, and a good dose of stagnation, with a deep dive in 2022 which we hope will be followed by a rapid recovery.

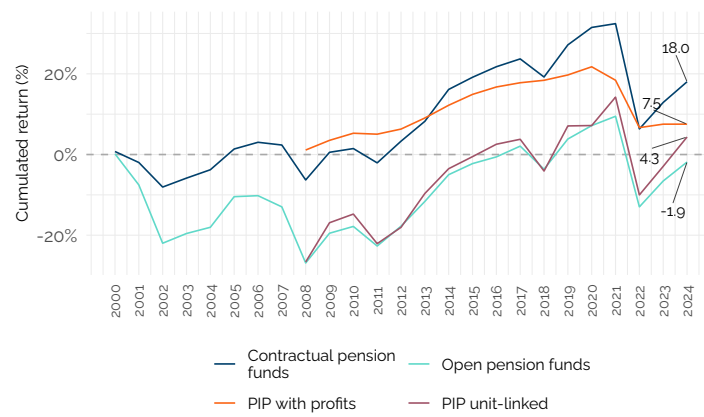
Nevertheless, there is hope for Italian supplementary pensions. As we have seen in Figure 10.13, Figure 10.14 and Figure 10.17, the compartments of these products with a greater exposure to equity markets have had a strong performance over the past two decades, managing to pass on to investors the good performance of the underlying equity markets.

**Figure 10.18 – Annualised returns of Italian pension funds and PIP over varying holding periods**



Data: COVIP, Eurostat. Calculations: BETTER FINANCE.

**Figure 10.19 – Cumulated returns of Italian pension funds and PIP**



Data: COVIP, Eurostat. Calculations: BETTER FINANCE.

## 10.5.2 Do Italian pension savings products beat capital markets?

To compare the performance of Italian private pensions with that of European capital markets, we adapt the *default* benchmark portfolio presented in the introductory chapter of this report (see Section 1.2.4). We keep the pan-European equity and bond indices as underlying values, but adapt the weight of equity in the mix in line with the average asset allocation of each product category. The parameters are summarised in Table 10.5

Admittedly, that makes the benchmark more difficult to beat for Open pension funds and PIPs unit-linked than for Contractual pension funds and PIPs with profits. Nevertheless, we believe that these asset allocations at least in part reflect external constraints on product managers' investment decisions—starting with the risk aversion of sponsors and customers—and modulating the composition of the benchmark enables us to assess how they manage these constraints.

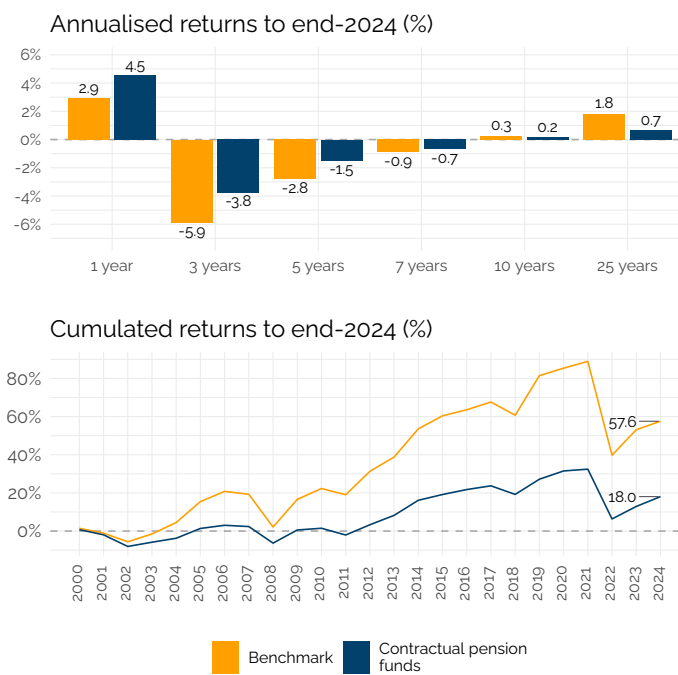
We then calculate the real net returns of the benchmark portfolios based on these parameters. Annualised and cumulated returns are calculated since 2000 for occupational and Open pension funds, since 2008 for PIP *nuovi*.

As Figure 10.20 show, neither Contractual nor Open pension funds manage to beat benchmark portfolio corresponding to their respective equity exposures. The annual average real return of the benchmark over 25 years is 1.1 p.p. superior to that of Contractual pension funds, and 2.1 p.p. superior to that of Open pension funds. In cumulated terms, this underperformance amounts to a 39.6 p.p. for the average Contractual fund investor, and 66.9 p.p. in Open funds.

We use two different benchmark compositions to assess the performance of the two variants of PIP *nuovi* in Figure 10.22 and Figure 10.23. The sluggish though consistent return of PIP with profits do not enable it to beat the extremely prudent 10% equity–90% bond benchmark portfolio, despite the significantly worse performance of the benchmark in 2022: Although falling close to the level of the with-profit PIPs that year, the performance of the benchmark portfolio remained superior, and started a recovery in 2023 (+7.8% in real terms), while the return of with-profit PIP stagnated (+0.8% in real terms, after charges).

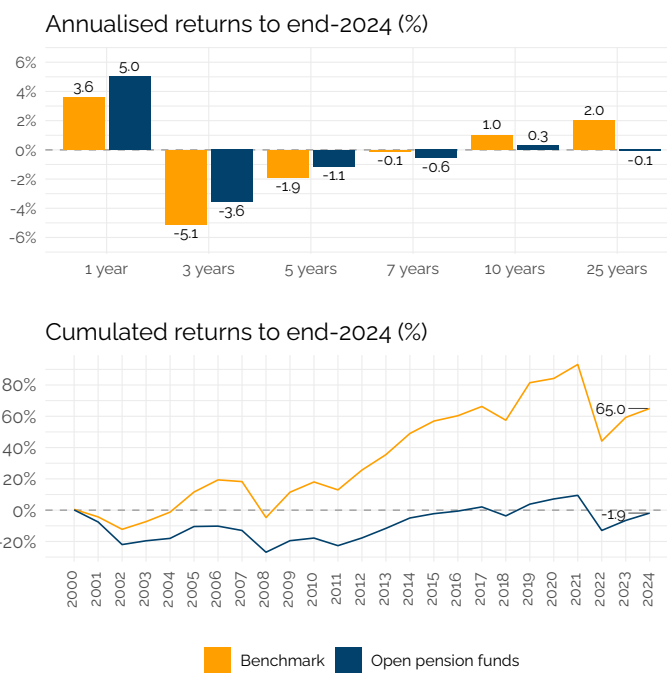
The superior performance of PIP unit-linked equally pales when compared to a 65% equity–35% bonds benchmark portfolio. On average, PIP unit-linked fail to beat the annual average performance of the benchmark by 2 p.p.s and by 44 p.p.s in cumulated performance since inception (17 years).

**Figure 10.20 – Performance of Italian Contractual pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



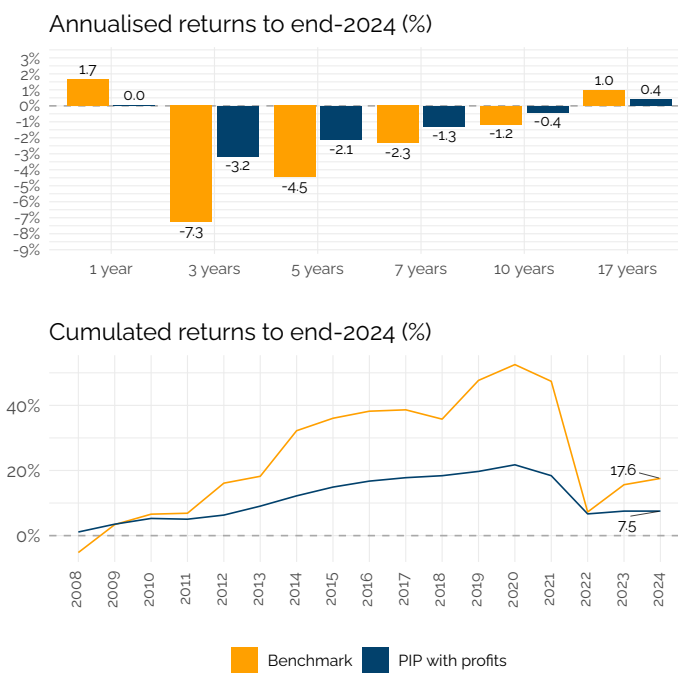
Data: COVIP, Eurostat; Calculations: BETTER FINANCE.

**Figure 10.21 – Performance of Italian Open pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



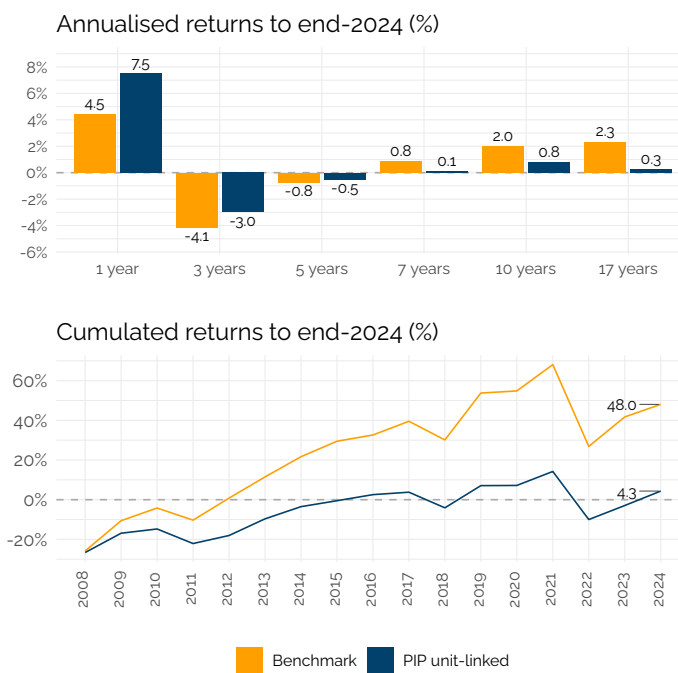
Data: COVIP, Eurostat; Calculations: BETTER FINANCE.

**Figure 10.22** – Performance of Italian PIP with profit against a capital market benchmark (returns before tax, after inflation, % of AuM)



Data: COVIP, Eurostat; Calculations: BETTER FINANCE.

**Figure 10.23 – Performance of Italian PIP unit-linked against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: COVIP, Eurostat; Calculations: BETTER FINANCE.

**Table 10.5 – Capital market benchmarks to assess the performance of Italian long-term and pension savings**

Product category	Equity index	Bonds index	Start year	Allocation
Contractual pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	30%–70%
Open pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	41%–59%
PIP with profits	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2008	10%–90%
PIP unit-linked	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2008	55%–45%

Source: STOXX, Bloomberg; Note: Benchmark portfolios are rebalanced annually.

## 10.6 Conclusions

Italians may be right not to rely too much on their supplementary pensions. Considering the low real net returns shown in this chapter, it seems *a priori* reasonable to stay away from such paltry performance. Nevertheless, in Italy maybe more than in any other EU country, demographic pressures on the PAYG state pension in mounting fast and scaling up supplementary pensions is urgent. Staying away might not be an option; Italians need to engage with their supplementary pensions and question the drivers of their (under)performance.

Pension savers' own risk aversion—and the incapacity of Italian supplementary pension providers to counter it—is sure to explain to a large extent the overly conservative asset allocation of occupational funds and the popularity of PIP with profits over their unit-linked counterpart. Reassuring sponsors and customers should, however, not lead to replace one risk with another: little equity exposure, as we have shown, means little volatility and saves investors the frights of the equity market roller-coaster, but it also means too little financial returns to preserve—let alone increase—the purchasing power of their savings.

Disaggregating the performance of Italian long-term and pension savings products by type of management—degrees of equity exposures—we have seen that the most “aggressive” of the *gestioni* offered to Italian pension savers do offer significantly higher returns than the average, even after deducting the often higher costs of management. That this equity-orientation remain the choice of only a minority of Italian investors bears testimony to the great need for more financial education and, crucially, more transparent, intelligible information for pension scheme participants regarding the costs and long-term performance.

Within the context of the ongoing policy discussion on the best design for pension

systems, and, in particular, the revision of the rules governing supplementary pensions (see Section 2.4). Italy typically appears as a case where the introduction of automatic enrolment is premature—unless more detailed data on the performance of occupational funds reveal the existence of particular schemes with an outstanding performance track record—and where the introduction of a life-cycle approach could easily build on the existing offer of products to offer an optimal balance between the high long-term performance of *gestione azionaria* during the accumulation phase and the stability of returns from *gestione obbligazionaria* over the later years of working life and in retirement.

## Chapter 11

# Latvia

### Kopsavilkums

Fondēto pensiju shēmas savas pastāvēšanas laikā ir piedzīvojušas negatīvu vidējo ienesīgumu pat tad, ja pensiju fondu portfelis obligāto pensiju pīlārā ir bijis konservatīvi orientēts. II pīlāra pensiju fondi 2022. gadā uzrādīja vidēji negatīvu nominālo ienesīgumu -14,13% apmērā, savukārt III pīlāra fondi arī uzrādīja vidēji negatīvu nominālo ienesīgumu -14,63% apmērā. Kopumā pozitīva attīstība bija vērojama II pīlāra tirgū, kur pasīvi pārvaldīto fondu ieviešana veicināja turpmāku komisijas maksu samazināšanos. Maksa ir samazinājusies arī III pīlārā, tomēr III pīlāra pensiju fondu sarežģītā maksu struktūra un joprojām augstākas maksas būtiski ietekmē gaidāmos uzkrātos ieguvumus.

### Summary

Funded pension schemes have experienced negative average annualized returns during their existence even when the portfolio of pension funds in mandatory pension pillar has been conservatively oriented. Pillar II pension funds recorded on average positive real returns of 11.14% in year 2024, while Pillar III funds delivered also on average positive real return of 8.27%. Overall positive development could have been seen on the Pillar II market, where the introduction of passively managed funds contributed to decrease of fees during last 5 years to an average of 0.48% p.a.. The fees have further decreased also in the Pillar III, but still preserve complex fee structure. Higher fees of around 1.0% p.a. in Pillar III pension funds play a significant role on the expected accumulated benefits.

## 11.1 Introduction: The Latvian pension system

There have been no major changes in the pension system in Latvia announced in 2024. Since July 1st, 2024, the SSIA provides 2nd pension pillar fund managers with information about the members whose assets they manage, so that the fund managers can provide personalised advice to fund members in relation to whether they have chosen the best investment plan for their age and needs. The performance of private pensions (mandatory as well as voluntary) was overall positive in 2024 both in nominal and real terms mainly due to the pick-up of the world markets despite still elevated inflation in Latvia compared to the EU average.

Latvia has improved significantly its mandatory part of funded pension system. Together with its NDC scheme for PAYG pillar, mandatory funded part as well as NDC part form a well-designed pension system that motivates individuals to contribute as

**Table 11.1 – Product categories analysed in Latvia**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Mandatory pension funds	Occupational (II)	2003	2024
Voluntary pension funds	Voluntary (III)	2011	2024

**Table 11.2 – Annualised net return of Latvian pension funds (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period	to..
Mandatory pension funds	11.1%	-4.1%	-1.7%	-1.0%	-0.5%	-0.4%	end 20..
Voluntary pension funds	8.3%	-5.5%	-3.1%	-2.2%	-1.1%	-0.2%	end 20..

*Data:* Manapensija, Eurostat; *Calculations:* BETTER FINANCE.

there is a clear connection between paid contributions and expected pension benefits. However, voluntary part of the pension system still suffers from very complicated fee structure, high fees and low transparency.

### 11.1.1 Pension system in Latvia: An overview {sub:LV\_intro\_overview}

Latvia is currently operating a multi-pillar pension system based on three pension pillars. The reform followed World Bank recommendations on creating a pension system with unfunded PAYG and funded pension pillars. Since 2001, the Latvian multi-pillar pension system includes:

- Pillar I (state compulsory PAYG pension scheme);
- Pillar II (mandatory state funded pension scheme) which is financed by a part of the social insurance contributions diverted from Pillar I;
- Pillar III (voluntary private pension scheme).

The introduction of the multi-pillar pension system has aimed its overall functionality on a different approach to each pension pillar operation, but with the overall objective of ensuring an adequate pension for individuals under the demographic risks of an aging society, as well as the pension system's overall future financial stability.

The reform of the Latvian pensions system started in 1995, when it was decided to implement the three-pillar pension system. Firstly, the shift from the old Soviet-styled PAYG pension system to the notional defined contribution pension scheme (NDC PAYG Pillar I) was carried out. The new law on state pensions was adopted by the Parliament in November 1995 and came into force on January 1st, 1996. The state mandatory-funded pension scheme (Pillar II) started operating in July 2001. The private pension funds (Pillar III) have been operating since 1998.

From the point of view of individual savers, the Latvian pension system combines

**Table 11.3 – Overview of the Latvian pension system**

two aspects: personal interest in building wealth (based on a level of contributions and the length of the saving period) and intergenerational solidarity.

The Latvian NDC PAYG-based pension Pillar I has been effectively introduced by a partial reform in January 1996 and represents a mandatory scheme for all economically active persons who make social insurance contributions calculated from a monthly gross salary (income). Paid contributions are used for the payment of old age pensions to the existing generation of pensioners. Pillar I is organized as a NDC scheme, where the notional value of career contributions is recorded on each contributor's personal account. Prior to claiming pension benefits, the pension capital recorded on individual NDC account is recalculated in accordance with the laws and regulations at the time when the individual accesses his/her pension.

Pension Pillar II is in fact a state-organized Pillar I-bis, meaning that part of the individually paid social contributions are channelled to Pillar II and recorded on individual pension accounts. Monthly contributions are invested into individually chosen investment plans (pension funds) managed by private pension fund management companies. Pillar II was launched in July 2001 and completed the multi-pillar-based pension reform in Latvia.

Pillar III was launched in July 1998 and is organized as a private voluntary pension scheme. It accumulates individual contributions, as well as employer contributions made on the behalf of individual employees, to the selected voluntary pension fund.

State old-age pension (Pillar I) should guarantee the minimum income necessary for subsistence. It is based on an NDC PAYG principle of redistribution, i.e. the social tax paid by today's employees covers the pensions of today's pensioners. However, the amount of paid contributions for each saver are recorded on individual accounts.

The **statutory retirement age** in Latvia in 2024 is 64 years and 9 months both for men and women.<sup>1</sup> However, the law stipulates a gradual increase of the retirement age by three months every year until the general retirement age of 65 years is reached in 2025. Early pension is possible in Latvia if two conditions are met: (1) an individual in 2024 reaches the age of at least 62 years and 9 months (gradually rising by three months a year until 2025) and (2) an individual contributed for a period of at least 30 years.

**Old-age pension** is based on the insured's contributions, annual capital growth adjusted according to changes in the earnings index, and average life expectancy. Old age pension is calculated by considering two parameters:

1.  $K$  — accumulated life-time notional pension capital, which is an accrued amount of paid contributions since the introduction of NDC system (January 1st, 1996) until the pension granting month. However, during the transition period to a full the NDC system, these two aspects are also taken into account:
  - average insurance contribution wage from 1996 until 1999 (inclusive);
  - insurance period until January 1st, 1996;

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<sup>1</sup><https://latvija.lv/en/PPK/socialie-pakalpojumi/sociala-apdrosinasana/p311/ProcesaApraksts>

2.  $G$  – cohort unisex life-expectancy at the time of retirement.

Annual old-age pension ( $P$ ) is calculated as follows:

$$P = \frac{K}{G}$$

It can be said that the Latvian NDC PAYG Pillar I has shifted in a direction where the average gross replacement ratio is lower than 35%. The average income replacement ratios for old-age pension in Latvia are shown in Table 11.4.

A **Minimum old-age pension** mechanism is effective in Latvia. The minimum amount of the monthly old-age pension cannot be less than the state social security benefits with an applied coefficient tied to the years of service (insurance period):

1. persons with insurance period up to 15 years: 1.1;
2. persons with insurance period from 21 to 30 years: 1.3;
3. persons with insurance period from 31 to 40 years: 1.5;
4. persons with insurance period starting from 41 years: 1.7.

Minimum amount of old-age pension is determined by applying a coefficient of 1.1 to the calculation base of the minimum old-age pension and increasing the amount by 2 % of the calculation base of the minimum old-age pension for each additional year beyond the insurance period required for the old-age pension (currently 15 years).

The minimum old-age pension is calculated using the basic state social security benefit multiplied by the respective coefficient that is tied to the number of service (working) years (see Table 11.5).

Starting from July 1st, 2024, the amount of the minimum old-age pension shall be determined by applying a coefficient of 1.1 to the minimum old-age pension calculation base of EUR 171 (EUR 206 for persons with disabilities from childhood) and EUR 3.42 for each subsequent year over 15 years of service. If the person's insurance period in Latvia is:

- at least 15 years, the amount of the minimum old-age pension cannot be less than EUR 188.10 (EUR 171 x 1.1) and for persons with disabilities since childhood EUR 226.60 (206 x 1.1);
- 16 years and more, the amount of the minimum old-age pension is determined by raising it by EUR 3.42 for each year of insurance; for persons with disability from childhood – by EUR 4.12 for each year of insurance.

The amount of the minimum old-age pension is determined on the day of granting (recalculation) the pension, as well as by reviewing the calculation basis of the minimum old-age pension.

Pillar II pension scheme was launched on July 1st, 2001. As of that date, a portion of every individual's social contributions are invested into the financial market and accumulated on their Pillar II personal account. Everyone who is socially insured is entitled to be a participant of the Pillar II scheme as long as the person was not older than 50 years of age on July 1st, 2001. Participation in the second tier is compulsory

**Table 11.4 – Latvian NDC Pillar 1 statistics**

Indicator / Year	Average Old-age pensions	Average Gross Monthly Wages and Salaries	Gross Replacement Ratio	Average Net Monthly Wages and Salaries	Net Replacement Ratio
2003	EUR 92	EUR 274	33.6%	EUR 196	46.9%
2004	EUR 101	EUR 300	33.7%	EUR 214	47.2%
2005	EUR 115	EUR 350	32.9%	EUR 250	46.0%
2006	EUR 137	EUR 430	31.9%	EUR 308	44.5%
2007	EUR 158	EUR 566	27.9%	EUR 407	38.8%
2008	EUR 200	EUR 682	29.3%	EUR 498	40.2%
2009	EUR 233	EUR 655	35.6%	EUR 486	47.9%
2010	EUR 250	EUR 633	39.5%	EUR 450	55.6%
2011	EUR 254	EUR 660	38.5%	EUR 470	54.0%
2012	EUR 257	EUR 685	37.5%	EUR 488	52.7%
2013	EUR 259	EUR 716	36.2%	EUR 516	50.2%
2014	EUR 266	EUR 765	34.8%	EUR 560	47.5%
2015	EUR 273	EUR 818	33.4%	EUR 603	45.3%
2016	EUR 280	EUR 859	32.6%	EUR 631	44.4%
2017	EUR 289	EUR 926	31.2%	EUR 676	42.8%
2018	EUR 314	EUR 1 004	31.2%	EUR 742	42.3%
2019	EUR 340	EUR 1 076	31.6%	EUR 793	42.8%
2020	EUR 367	EUR 1 143	32.1%	EUR 841	43.6%
2021	EUR 432	EUR 1 277	33.8%	EUR 939	46.0%
2022	EUR 528	EUR 1 373	38.4%	EUR 1 006	52.4%
2023	EUR 514	EUR 1 536	33.4%	EUR 1 119	45.9%

*Data:* Central Statistical Bureau of Latvia, 2024.

**Table 11.5 – Amount of the minimum old-age pension according to the year of each insurance period in Latvia**

Years of service (insurance period)	Min. old-age pension since Jan. 2022
Insurance length 15 years	EUR 172.70
Insurance length 30 years	EUR 219.80
Insurance length 40 years	EUR 251.20
Insurance length 50 years	EUR 282.60

*Data:* Ministry of Welfare, 2025.

**Table 11.6 – Redistribution of the old-age pension contributions between pillar I and pillar II**

Years	Pillar I (NDC)	Pillar II (FDC)
2001-2006	18%	2%
2007	16%	4%
2008	12%	8%
2009-2012	18%	2%
2013-2014	16%	4%
2015	15%	5%
2016 and ongoing	14%	6%

*Data:* Manapensija and State Social Insurance Agency, 2024.

for those who had not reached the age of 30 on July 1st, 2001 (born after July 1st, 1971).

Gradually all employees will participate in Pillar II. Persons who were between the ages of 30 and 49 (born between and ) at the time when the scheme was launched could and still can join the system voluntarily. Administration of Pillar II contributions are made by the State Social Insurance Agency, which collects and redirects 20% old-age pension insurance contributions between the NDC and FDC pillar pension scheme individual accounts. According to the Law on State Funded Pension, the State Social Insurance Agency also performs additional tasks connected to the Pillar II administration.

The Ministry of Welfare, according to the Law on State Funded Pension, performs the supervision of the funded pension scheme and has the right to request and receive an annual account from the State Social Insurance Agency regarding the operation of the funded pension scheme. Total redistribution of old-age pension contributions between Pillar I and Pillar II of the pension scheme are shown in Table 11.6.

Contributions into Pillar II were raised continuously with the adopted reforms. However, during the financial crisis, the contributions into Pillar II were reduced to 2% with gradual growth since 2012. It should be mentioned that the largest part of contributions (8% of salary) had flown into the pension fund in 2008, right at the top and before the crash of financial markets. This has significantly influenced the performance of funds, which is analysed in the sub-section dedicated to pension returns. Investing is performed by a third party: licensed fund managers.

Upon retiring, Pillar II participants will be able to make a choice: either add the accumulated pension capital to Pillar I and receive both pensions together or to entrust the capital accumulated in Pillar II to the insurance company of their choice and buy a single annuity.

Several changes have been made in the management of accumulated savings on personal accounts of Pillar II participants. Private fund managers are involved in managing Pillar II contributions and assets and today participants of Pillar II are in the position to choose their fund manager themselves. The private fund managers offer

to invest the pension capital and into corporate bonds, shares and foreign securities. Participants of the system are entitled to change their fund manager once a year and, in addition, investment plans within the frame of one fund manager can be changed twice a year. Operation of private fund managers is supervised by the Finance and Capital Market Commission.

In 2019, the Parliament has adopted changes in Pillar II, where since January 2020, a saver could define any person, to which the accumulated capital on personal account can be inherited directly.

Voluntary private pension scheme, or pension Pillar III, was launched in July 1998, and it gives the opportunity to create additional voluntary savings in addition to the state organized Pillar I and II. Contributions that individuals and/or the employer regularly pay into the pension fund are invested in different securities, depending on the chosen investment strategy.

The Law on Private Pension Funds foresees that Latvian commercial banks, insurance companies and legal persons have the right to establish a private fund. Assets are invested by private pension funds with the aim not only to maintain the value of savings, but to increase it over a long-time period. There are generally two types of voluntary private pension funds in Latvia divided based on their investment risk level:

1. open voluntary pension funds (34 operational in Pillar II and 16 in Pillar III in 2024)  
– high, medium and low risk level
2. closed voluntary pension funds (only one operating in Latvia in 2024).

Pension scheme participants can subscribe to a pension scheme by entering directly into a contract with an open pension fund or via their employer. Pension scheme participants can participate in a pension scheme through the intermediation of their employer if the employer has entered into a collective contract with an open or closed pension fund. A collective contract with a closed pension fund may be entered into only in such cases when the relevant employer is also one of the founders (stockholders) of the same closed pension fund. Acknowledging the fact that employers might enter into collective agreement with employees and establish the pension scheme, voluntary private pension funds might be recognized as a collective pension scheme.

According to the Law on Private Pension Funds, accumulated pension capital in private pension funds can be accessed by individuals when they reach the age of 55. In order to receive the Pillar III accrued pension, an individual must submit an application to the respective pension fund. The supervisory authority for all voluntary private pension funds in Latvia is the Financial and Capital Markets Commission.

## 11.2 Long-term and pension savings vehicles in Latvia

Mandatory pension funds are the only pension vehicles allowed for the Pillar II funded pension scheme. Funded pension scheme is a state-organized set of

measures for making contributions, administration of funds contributed and payments of pensions which (without increasing the total amount of contributions for old age pensions) - provides an opportunity to acquire additional pension capital by investing part of the pensions' contributions in financial instruments and other assets.

On the other hand, voluntary pension funds for the Pillar III private pension scheme are less strictly regulated. The law on Private Pension Funds provides a wide range of possibilities to organize and manage private voluntary pension funds. The law prescribes the accumulation of pension benefits (both in the specified contribution scheme and in the specified pay-out scheme), the types of private pension funds, the basis for activities thereof, the types of pension schemes, the rights and duties of pension scheme participants, the management of funds, the competence of holders of funds, and state supervision of such activities. There are two types of private pension funds in the Latvian voluntary private pension pillar:

1. closed, for fund founders' (corporate) staff;
2. open, of which any individual may become a participant, either directly or through an employer.

This distinction between private pension funds is rather significant, as closed private pension funds (only one operating in Latvia in 2024) could be recognized as a typical occupational pension fund. However, open private voluntary pension funds are more personal ones. Pillar III pension vehicles (voluntary pension funds) can be created only by limited types of entities, namely:

1. employers entering into a collective agreement with a pension fund, technically become founders of a closed pension fund;
2. for an open pension fund, two types of institutions can establish a fund:
  - banks (licensed credit institutions);
  - life insurance companies.

These founders usually hire a management company, who creates a different pension plan managed under one pension fund and manages the investment activities. Pension scheme assets can be managed only by the following commercial companies:

- a credit institution, which is entitled to provide investment services and non-core investment services in Latvia;
- an insurance company, which is entitled to engage in life insurance in Latvia;
- an investment brokerage company, which is entitled to provide investment services in Latvia;
- an investment management company, which is entitled to provide management services in Latvia.

The level of transparency in providing publicly available data for private pension funds before the year 2011 is rather low. Therefore, the analysis of the market and main pension vehicles has been performed with publicly available data starting from December 31st, 2011. Currently (as of December 31st, 2024), 34 pension funds in Pillar II and 21 open private voluntary pension funds in Pillar III and one closed private

pension fund have existed on the market.

### 11.2.1 Second pillar: Mandatory pension funds

Currently (as of December 31st, 2024), 34 mandatory pension funds have been operational on the Pillar II market. There were 3 new high risk funds entering the market during 2023 and 1 new medium risk (balance) pension fund (VAIRO) for older cohorts of savers in 2024, which signals market attractiveness for fund providers and slightly changing risk appetite of savers. New funds focus on active management and can be characterized as target date funds. There is no specific legal recognition of types of pension funds based on their investment strategy, nor any legal requirement to provide a specific investment strategy for pension funds. It is up to a pension fund manager to provide an in-demand type of pension fund in order to succeed on the market. However, every fund manager is required to develop a systematic set of provisions, according to which funds are managed. They are presented in a prospectus of the relevant pension fund and in a KIID — a KID specific to UCITS funds, with particular features — for participants of the scheme. The prospectus of a pension fund and the key information document for participants are an integral part of the contract entered into between the Agency and the manager of pension funds. Pension fund prospectus must clearly define the risk-reward profile and indicate proposed investment strategy of the respective expected portfolio structure.

Although there is no legal recognition of types of pension funds, they can be divided into three types based on their risk/return profiles:

1. Conservative funds, with no equity exposure and a 100% share of bonds and money market instruments;
2. Balanced funds with bonds and money market instrument share of at least 50%; in addition, a maximum of 15% of the funds' balances can be invested in equities;
3. Active funds with an equity share (resp. investments in capital securities, alternative investment funds or such investment funds that may make investments in capital securities or other financial instruments of equivalent risk) of up to 100% (since 2021) and no limits on investments in bonds and money market instruments.

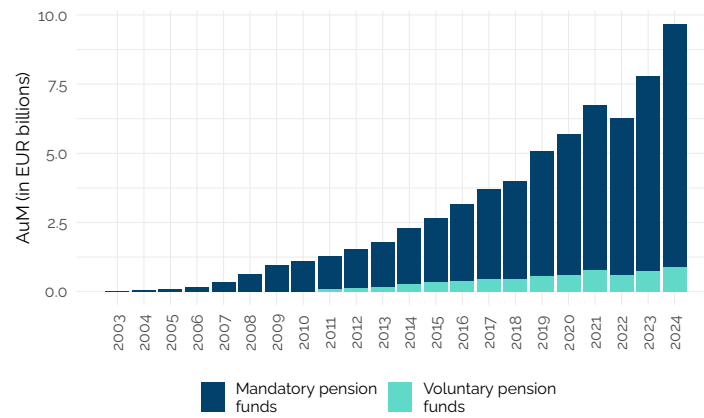
The legislation sets relatively strict quantitative investment limits for pension funds, trying to supplement the prudent principle.

Overall asset allocation in Latvia is fairly conservative despite the possibility of choosing a plan according to risk preference. The chart below presents the amount of Assets under Management for types of pension funds according to their investment strategy.

Contrary to many other CEE countries running mandatory pension systems, there is no requirement for pension funds to guarantee a certain minimum return. On the contrary, doing so is explicitly forbidden.

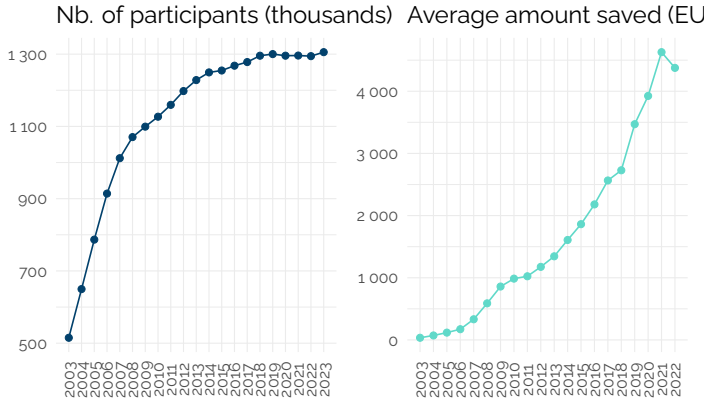
As the State Funded Pension scheme is mandatory for all economically active individuals in Latvia, the number of savers (as well as the average amount of accumulated assets on individual accounts) is rising.

**Figure 11.1 – AuM of Latvian pension funds (in bln EUR)**



Data: Manapensija; Calculations: BETTER FINANCE.

**Figure 11.2 – Number of participants and average size of individual accounts in Latvian Pillar II**



Data: Manapensija, 2024

The number of Pillar II participants has almost encompassed the entire working population. Further growth of Pillar II savings will therefore be driven by the amount of contributions and mandatory pension funds' performance.

The portfolio structure of Pillar II pension funds (Figure 11.3) shows that debt and other fixed income securities as well as investment funds (UCITS funds) remain the dominant investments. There is only limited direct investment into equities.

Investment funds are gaining the dominant share on the Pillar II pension funds' portfolio structure, while the bonds and deposits portions are lowered. This increases the short-term volatility and potential performance of pension funds.

### 11.2.2 Third pillar: Voluntary pension funds

Voluntary private pension scheme, or pension Pillar III, was launched in July 1998, and it gives the opportunity to create additional voluntary savings in addition to the state organized Pillar I and II. Contributions that individuals and/or the employer regularly pay into the pension fund are invested in different securities, depending on the chosen investment strategy.

Compared to the mandatory pension funds scheme, the voluntary pension scheme covers significantly less economically active individuals with smaller amount of savings per saver in Pillar III.

The Law on Private Pension Funds foresees that Latvian commercial banks, insurance companies and legal persons have the right to establish a private fund. Assets are invested by private pension funds with the aim not only to maintain the value of savings, but to increase it over a long-time period. There are generally two types of voluntary private pension funds in Latvia:

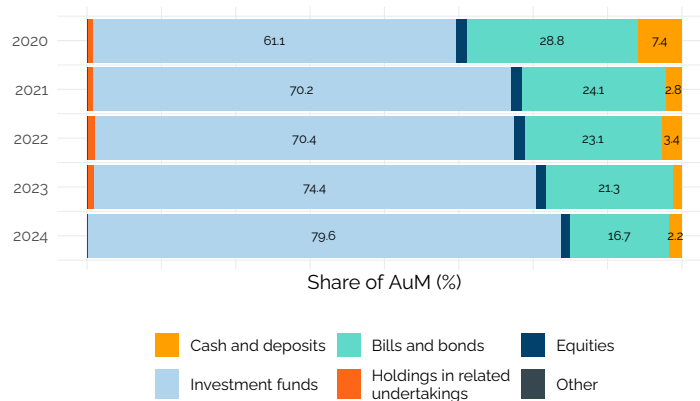
1. open pension funds (21 operational in Latvia in 2024);
2. closed pension funds (only one operating in Latvia in 2024).

Pension scheme participants can subscribe to a pension scheme by entering directly into a contract with an open pension fund or via their employer. Pension scheme participants can participate in a pension scheme through the intermediation of their employer if the employer has entered into a collective contract with an open or closed pension fund. A collective contract with a closed pension fund may be entered into only in such cases when the relevant employer is also one of the founders (stockholders) of the same closed pension fund. Acknowledging the fact that employers might enter into collective agreement with employees and establish the pension scheme, voluntary private pension funds might be recognized as a collective pension scheme.

According to the Law on Private Pension Funds, accumulated pension capital in private pension funds can be accessed by individuals when they reach the age of 55. In order to receive the Pillar III accrued pension, an individual must submit an application to the respective pension fund. The supervisory authority for all voluntary private pension funds in Latvia is the Financial and Capital Markets Commission.

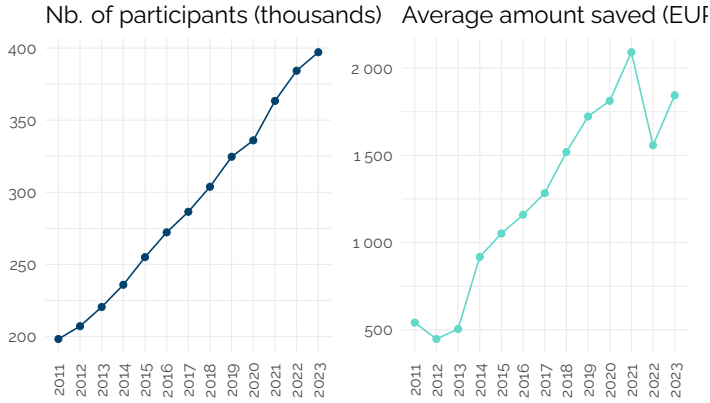
The portfolio structure of Pillar III pension funds is presented in Figure 11.5.

**Figure 11.3 – Allocation of assets invested in Latvian mandatory pension funds**



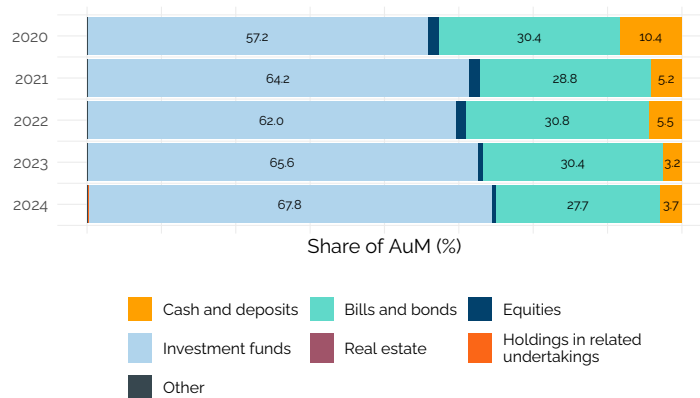
Data: Manapensija; Calculations: BETTER FINANCE.

**Figure 11.4 – Number of participants and average size of individual accounts in Latvian Pillar III**



Data: Manapensija, 2024.

**Figure 11.5 – Allocation of assets invested in Latvian voluntary pension funds**



Data: Manapensija; Calculations: BETTER FINANCE.

Generally, Pillar III pension funds invest predominantly into debt securities, bank deposits and UCITS funds. Direct investment into equities, real estate or other long-term riskier investment constitute for less than 1% of total portfolio.

## 11.3 Charges

### 11.3.1 Charges of mandatory pension funds

Latvia has adopted the cap on fees within Pillar II, which forces that the maximum amount of payment for the management of investment plan (including the fixed and variable parts of payment, calculating for the last 12-month period) to not exceed:

1. 1.50% of the average value of investment plan assets to the investment plans, where the investment plan prospectuses do not provide for any investments in the shares of commercial companies, other capital securities and other equivalent securities;
2. 2.00% of the average value of investment plan assets of all other investment plans.

Fees that can be charged to pension funds by fund managers are recognized by law as having a fixed and variable part. The law stipulates that payment for the management of an investment plan shall include:

1. fixed component of payment, which is 1% of the average value of investment plan assets per year and includes payments to the manager of the funds, custodian, as well as payments to third persons, which are performed from the funds of the investment plans (except expenses which have arisen upon performing transactions by selling the assets of the investment plan with repurchase);
2. variable component of payment, which is remuneration to the manager of funds of the funded pension scheme for performance of investment plan, with its amount depends on the return of the pension plan.

The year 2024 brought stabilization of fees based on the fund's strategy. Introduction of low-cost passively managed pension funds has spurred price battle after 2018, however divergence between the fees started to emerge in 2021 with an average fee level of 0.48% in 2024.

### 11.3.2 Charges of voluntary pension funds

Compared to the mandatory pension funds' level of fees, voluntary pension funds fees are higher. Complex fee structure and high fees preserve in Latvian Pillar III even if slight decrease in custodian fees can be observed in Pillar III.

Voluntary private pension funds have typically lower level of transparency when it comes to fee policy. In most cases, only current fees and charges are disclosed. Historical data is almost impossible to track via publicly accessible sources. Charges of voluntary private pension funds for the last 5 years are presented in Table 11.8. Administration cost, Fund Manager's Commission, and Custodian bank's commission are based on the assets under management. Funds managed by Nordea and Swedbank use mixed Administration costs, which are a combination of entry fees (fees on

**Table 11.7 – Costs and charges of Latvian mandatory pension funds**

Year	Total ongoing charges	Total Expense Ratio
2003	1.18%	1.38%
2004	1.26%	1.46%
2005	1.30%	1.50%
2006	1.42%	1.62%
2007	1.40%	1.60%
2008	1.42%	1.62%
2009	1.39%	1.59%
2010	1.50%	1.70%
2011	1.51%	1.71%
2012	1.50%	1.70%
2013	1.50%	1.70%
2014	1.51%	1.71%
2015	1.52%	1.72%
2016	1.52%	1.72%
2017	1.64%	1.84%
2018	0.99%	1.19%
2019	0.80%	1.00%
2020	0.51%	0.71%
2021	0.47%	0.67%
2022	0.41%	0.61%
2023	0.45%	0.45%
2024	0.48%	0.48%

*Data:* Manapensija; *Calculations:* BETTER FINANCE.

**Table 11.8 – Costs and charges of Latvian voluntary pension funds**

Year	Total ongoing charges	Admin. and mgt. fees	Other ongoing fees	Other fees	Total Expense Ratio
2011	2.83%	NA	NA	NA	2.83%
2012	2.83%	NA	NA	NA	2.83%
2013	2.83%	NA	NA	NA	2.83%
2014	2.83%	NA	NA	NA	2.83%
2015	2.83%	1.50%	1.07%	0.24%	2.83%
2016	2.67%	1.50%	0.94%	0.21%	2.67%
2017	1.90%	0.95%	0.82%	0.12%	1.90%
2018	1.77%	0.91%	0.73%	0.12%	1.77%
2019	1.64%	0.84%	0.69%	0.10%	1.64%
2020	1.32%	0.75%	0.49%	0.08%	1.32%
2021	1.32%	0.75%	0.49%	0.08%	1.32%
2022	1.12%	0.61%	0.42%	0.08%	1.12%
2023	1.17%	0.60%	0.43%	0.15%	1.17%
2024	0.95%	0.50%	0.38%	0.07%	0.95%

*Data: Manapensija; Calculations: BETTER FINANCE.*

contributions paid) and ongoing charges (AuM-based). CBL funds also use a performance fee if the fund returns outperform the benchmark (12-month RIGIBID).

When comparing the charges applied to the voluntary private pension funds and to state-funded pension funds, the level of charges in Pillar III pension funds are significantly higher and the structure of fees is more complex. This limits the overall understanding of the impact of fees on the pension savings for an average saver. The total cost ratio of Pillar III funds starts at 0.8% p.a. and can reach as high as 3% p.a. on managed assets.

There are neither limitations nor caps on fees in the law. The legislative provisions only indicate that at least the following should be disclosed: general information on maximum fees and charges applied, procedures for covering the expenses of the scheme, information regarding maximum payments to the management of the pension scheme and to the manager of funds, and the amount of remuneration to be paid out to the holder of funds, as well as the procedures by which pension scheme participants shall be informed regarding such pay-outs of the scheme.

## 11.4 Taxation

Latvia is applying an EET taxation regime for Pillar II with some specifications (deductions) to the payout regime taxation, where generally the "T" regime is applied for the pay-out phase in retirement.

Latvian tax legislation stipulates the use of the EET regime (like Pillar II) for voluntary private pension schemes as well.

**Table 11.9 – Taxation of pension savings in Latvia**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Mandatory pension funds	Exempted	Exempted	Taxed	EET
Voluntary pension funds	Exempted	Exempted	Taxed	EET

*Source:* BETTER FINANCE own elaboration based on Own elaboration.

In Pillar II, contributions paid to the state funded pension scheme are made via social insurance contributions redirection. As such, these contributions are personal income tax deductible items, so the contributions are not subject to additional personal taxation.

The Corporate Income tax rate in Latvia is 15%. However, income or profits of the fund (investment fund as a legal entity) are not subject to Latvian corporate income tax at the fund level. Latvia applies a general principle for all investment and savings-based schemes to levy the income taxation on the final beneficiaries and not on the investment vehicles.

Latvia has one of the lowest levels of income redistribution among EU countries. Personal income tax rate is 23% and the pension benefits paid from the NDC PAYG scheme (Pillar I) and state-funded pension scheme (Pillar II) are considered taxable income. As such, pension benefits are subject to personal income tax. Latvia applies a non-taxable minimum, which is recalculated and announced every year by Cabinet regulation.

For Pillar III, the EET regime for voluntary private pension schemes is also applied. The contribution by individuals is treated in a slightly different way compared to the Pillar II social insurance contributions. Payments made to private pension funds established in accordance with the Republic of Latvia Law on Private Pension Funds or to pension funds registered in another Member State of the European Union or the European Economic Area State shall be deducted from the amount of annual taxable income, provided that such payments do not exceed 10% of the person's annual taxable income. However, there is a limit on total income tax base deductible payments. The total of donations and gifts, payments into private pension funds, insurance premium payments and purchase costs of investment certificates of investment funds may not exceed 20% of the amount of the payer's taxable income.

## 11.5 Performance of Latvian long-term and pension savings

### 11.5.1 Real net returns of Latvian long-term and pension savings

Mandatory pension funds' performance in Pillar II is closely tied to the portfolio structure defined by an investment strategy (as well as investment restrictions and reg-

ulations) applied by a fund manager. Investment regulations differ, depending on whether pension plans are managed by the State Treasury or by private companies. The State Treasury is only allowed to invest in Latvian government securities, bank deposits, mortgage bonds and deposit certificates. Moreover, it can only invest in financial instruments denominated in the national currency. In contrast, private managers are allowed to invest in a much broader range of financial instruments. The main investment limits include the following:

- 35% for securities guaranteed by a state or international financial institution;
- 5% for securities issued or guaranteed by a local government;
- 10% for securities of a single issuer, except government securities; for deposits at one credit institution (investments in debt and capital securities of the same credit institution and derivative financial instruments may not exceed 15%); and for securities issued by one commercial company (or group of commercial companies);
- 20% for investments in non-listed securities;
- 5% for investments in a single fund (10% of the net assets of the investment fund).

There is no maximum limit for international investments so long as pension funds invest in securities listed on stock exchanges in the Baltics, other EU member states, or the European Free Trade Association (EFTA). However, the law stipulates a 70% currency matching rule. There is also a 10% limit for each non-matching currency. Investments in real estate, loans, and self-investment are not permitted.

Pillar III voluntary pension funds investment rules are similar to those for state-funded schemes but are more flexible. For example, investment in real estate is permitted (with a limit of 15%), the currency matching rule is only 30%, and limits for some asset classes are higher. Considering the structure of voluntary pension funds' portfolios in Latvia, a larger proportion is invested in structured financial products (mainly equity based UCITS funds) and direct investment in equities and bonds is decreasing.

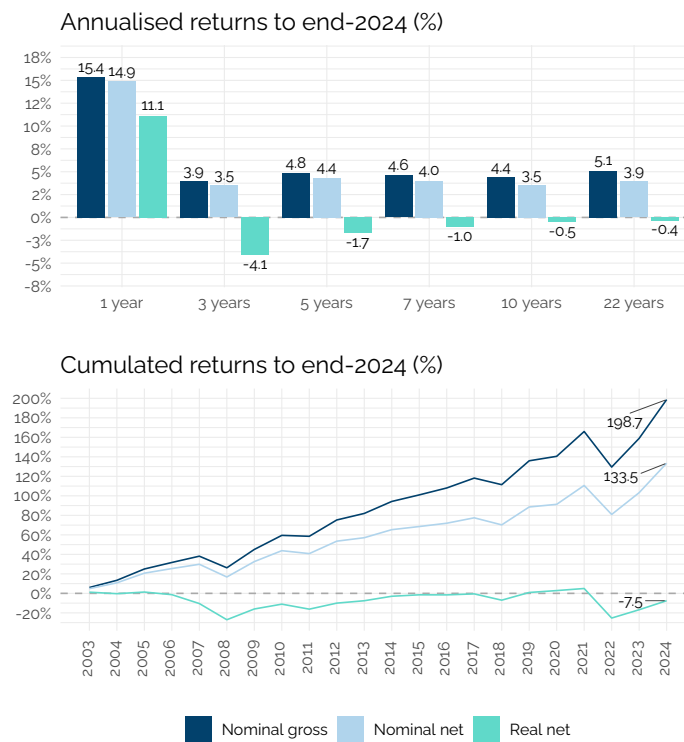
Due to the lack of publicly available data before 2011, the performance of voluntary pension funds is calculated from the year 2011.

It should be noted that during the year 2021 several fully equity voluntary pension funds emerged (Luminor indeksu ieguldījumu plāns Ilgtspējīgā nākotne *Active 100*) has started its operation in June 2021, Swedbank ieguldījumu plāns *Dinamika Indeks Active 100* in August 2021). Some of existing *Active 75* increased their equity share are assigned as *Active 100* showing rising risk appetite of savers. Additional 3 new funds (high risk oriented) entered the market in 2023 and one medium risk target date fund in 2024.

### 11.5.2 Do Latvian savings products beat capital markets?

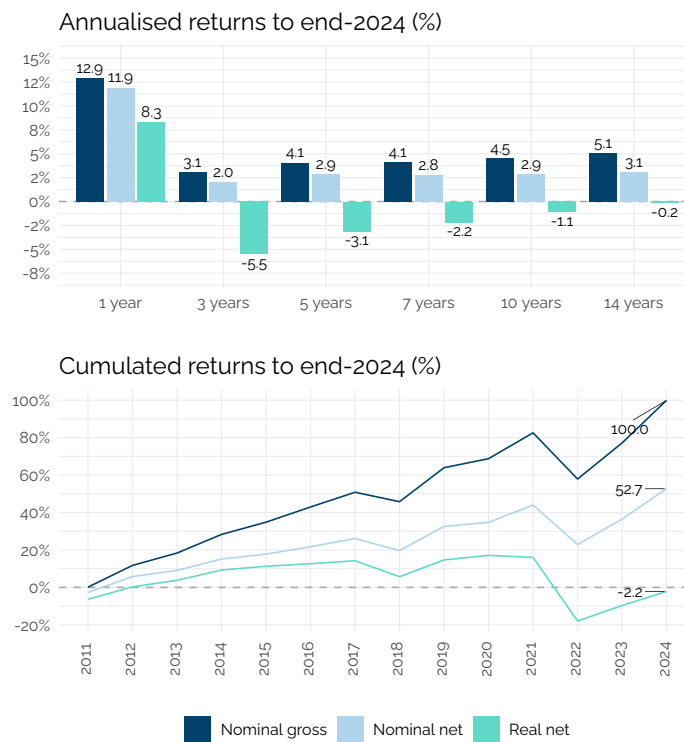
In this section, we compare the performance of the mandatory and voluntary pension funds in Latvia to the performance of relevant capital market benchmarks. By analysing the portfolio structure of pension funds, we have selected a rather conservative benchmark portfolio (35% equity–65% bonds) for mandatory pension funds,

**Figure 11.6 – Returns of Latvian mandatory pension funds (before tax, % of AuM)**



Data: Manapensija, Eurostat. Calculations: BETTER FINANCE. Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

**Figure 11.7 – Returns of Latvian voluntary pension funds (before tax, % of AuM)**

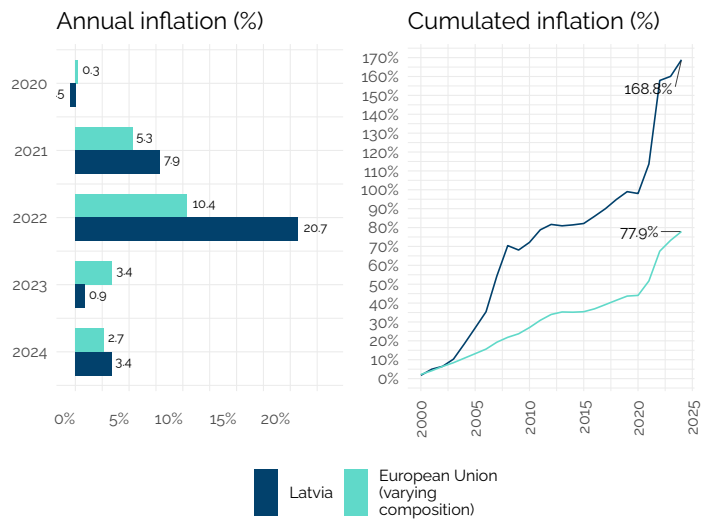


*Data:* Manapensija, Eurostat. *Calculations:* BETTER FINANCE. *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

**Figure 11.8 – Inflation in Latvia**

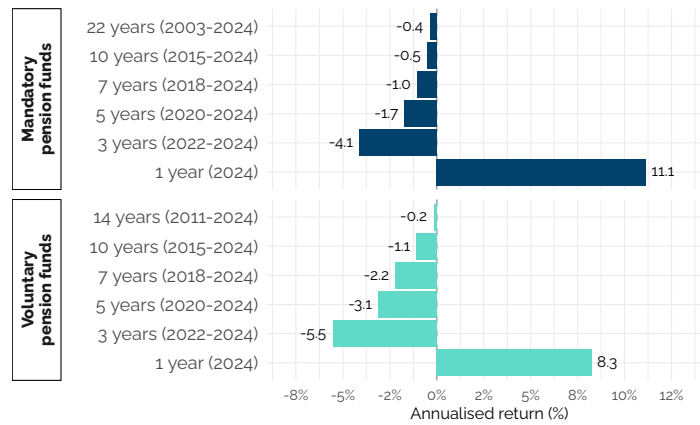
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
European Union (varying composition)	77.9%	2.3%
Latvia	168.8%	4.0%



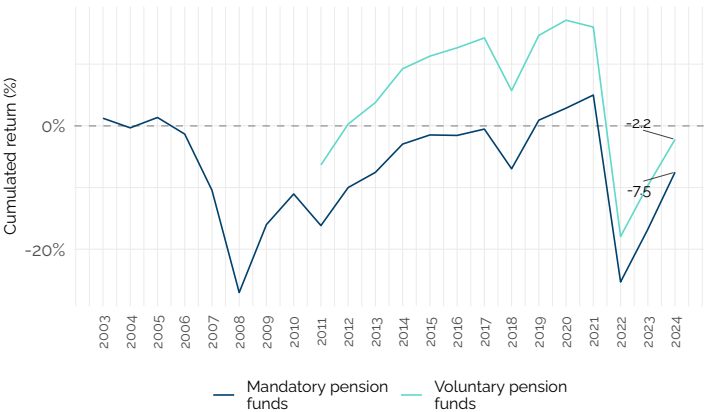
Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 11.9 – Annualised returns of Latvian pension funds over varying holding periods**



Data: Manapensija, Eurostat. Calculations: BETTER FINANCE.

**Figure 11.10 – Cumulated returns of Latvian pension funds**



Data: Manapensija, Eurostat. Calculations: BETTER FINANCE.

**Table 11.10 – Capital market benchmarks to assess the performance of Latvian pension funds**

Product category	Equity index	Bonds index	Start year	Allocation
Mandatory pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2003	35%–65%
Voluntary pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2011	55%–45%

*Source:* STOXX, Bloomberg; *Note:* Benchmark portfolios are rebalanced annually.

and a more aggressive one (55% equity–45% equity) for voluntary pension funds, both based on two pan-European indices.

In both cases, we conclude that Latvian pension vehicles are not able to beat the market benchmark. However, detailed analysis of the particular pension funds' performance could show that more aggressive pension funds are able to stay in positive real returns over the analysed period.

## 11.6 Conclusions

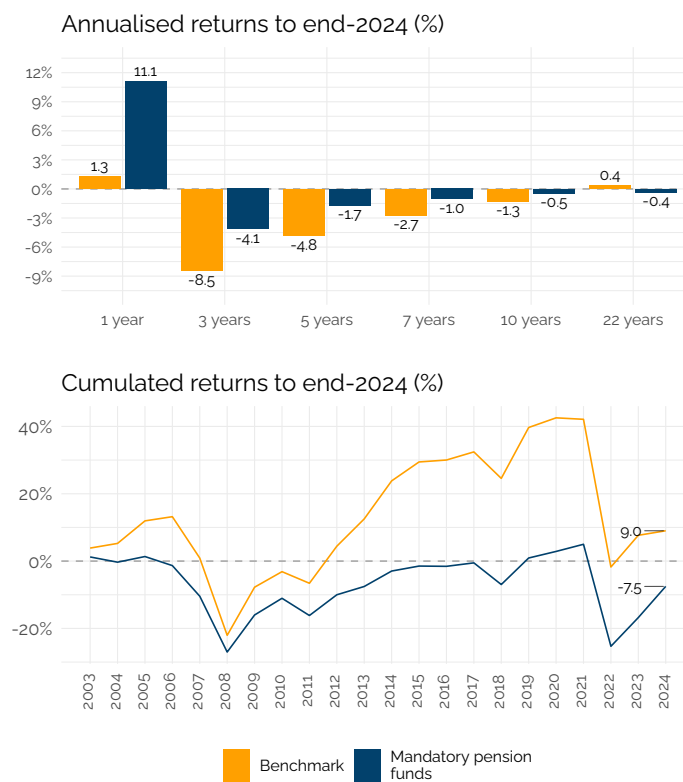
Latvia has managed to build a sustainable pension system over the last decade with impressive growth in Pillar II funds. Acceptance of voluntary pension savings in Pillar III is still weak, but this trend has changed after the financial crisis. Pillar III pension funds have enjoyed high inflow of new contributions despite rather weak performance and high fees.

Latvian Pillar II experienced drop in charges starting from 2019 and diversification of fees as well as funds' investment strategies in 2021 driven by a competition from low-cost passively managed funds and ability to charge the fees based on the riskiness of the strategy. Pillar III funds managers enjoy smaller decrease in charges, but Pillar III charges remain relatively high. Delivered real returns on the other hand are negative. Most of the Pillar II pension funds were not able to beat the inflation. One of the reasons is also the relatively conservative risk/return profile of most funds. Pillar III vehicles in Latvia suffer not only from significantly high fees charged by fund managers, but also from low transparency.

Pension fund managers of both pillars have started to prefer packaged investment products (investment funds) and limit their engagement in direct investments. Thus, the question of potential future returns (when using financial intermediaries multiplied by high fee policy) in both schemes should be raised.

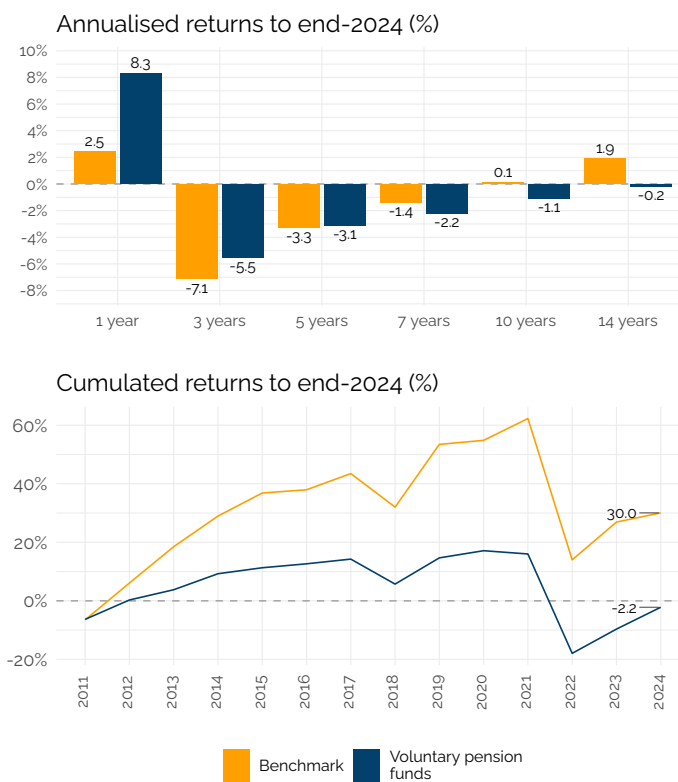
Latvia has improved significantly its mandatory part of funded pension system. Together with its NDC scheme for PAYG pillar, mandatory funded part as well as NDC part form a well-designed pension system that motivates individuals to contribute as there is a clear connection between paid contributions and expected pension benefits. However, voluntary part of the pension system still suffers from very complicated

**Figure 11.11** – Performance of Latvian mandatory pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)



Data: Manapensija, Eurostat; Calculations: BETTER FINANCE.

**Figure 11.12 – Performance of Latvian voluntary pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: Manapensija, Eurostat; Calculations: BETTER FINANCE.

fee structure, high fees and low transparency.

These limits, despite a generous fiscal stimulus, larger participation in voluntary pension scheme. Regulators should seek for modern fee policies that would on one hand decrease the fee structure and on the other hand introduce success fee tied to the market benchmark. Applying high-water mark principle could limit the risk appetite of asset managers as they will start to prefer low-risk investments where constant fee revenue could be expected. If the benchmarking principle is applied, where the asset manager is rewarded by higher fee when the market benchmark has been outperformed and penalized by lower fees if the fund performance is lower than the market benchmark, savers could benefit more and start trusting the voluntary pension providers on a larger scale.

## Chapter 12

# Lithuania

### Santrauka

Lietuva priėmė tipišką Pasaulio banko daugiapakopę sistemą, kurioje PAYG pakopa (valstybinė pensija, I pakopa) vis dar atlieka dominuojantį vaidmenį užtikrinant senatvės pensininkų pajamas. Nuo 2019 m. pradėtos kaupti santaupos II pakopoje kaupiamos per gyvenimo ciklo pensijų fondus, kuriuose investavimo rizika keičiama keičiant portfelio struktūrą pagal dalyvių amžių. Nuo 2019 m. valdymo mokestis už kaupimą II pakopos gyvavimo ciklo fonduose palaipsniui mažinamas nuo 0,8 proc. 2019 m. iki 0,42 proc. 2024 m. Turto išsaugojimo fonde valdymo mokestis bus tik 0,2 %. Apskritai 2023 m. pensijų fondų veiklos rezultatai abiejose pakopose buvo iš esmės teigiami visose turto klasėse. Teigiama 2023 m. grąža bendrą privalomosios II pakopos pensijų fondų veiklos rezultata vėl perkėlė į teigiamos realiosios grąžos teritoriją per analizuojamą laikotarpį. Savanoriškoji III pakopa išlieka neigiamos realiosios grąžos teritorijoje daugiausia dėl didesnių mokesčių.

### Summary

Lithuania adopted the typical World-Bank multi-pillar system, where the PAYG pillar (state pension, Pillar I) still plays the dominant role in ensuring the income for old-age pensioners. Started in 2019, accumulating savings in Pillar II takes place via life-cycle pension funds, which change investment risk via changes in the portfolio structure on the basis of participants' age. Since 2019, management fee for accumulating in Pillar II life-cycle funds is being gradually reduced from 0.8% in 2019 down to 0.42% in 2024. For the asset preservation fund, the management fee will be just 0.2%. Overall, pension funds' performance in both pillars was broadly positive in 2024 across all asset classes. Positive returns in 2024 have moved the overall performance of mandatory Pillar II further into the positive real returns territory over the analysed period. Voluntary Pillar III switched from negative real returns territory into the positive one mainly due to the exceptional returns in 2024.

## 12.1 Introduction: The Lithuanian pension system

There were no major changes in the pension system in Lithuania in 2024. However, in 2025 the parliament approved major changes in Pillar II following the move from Estonia in 2021. Announced changes include an opt-out from second pillar, possibility to withdraw savings accumulated in the second pillar, the possibility to suspend contributions indefinitely, the possibility to increase individual contributions on top of 3% (with state contributions of 1,5%) and the abolishment of auto-enrolment. This

**Table 12.1 – Product categories analysed in Latvia**

Name	Product category	Pillar	Reporting period	
			Earliest data	Latest data
Pillar II Funded pensions		Occupational (II)	2004	2024
Pillar III Voluntary private pensions		Voluntary (III)	2004	2024

**Table 12.2 – Annualised net return of XX pension funds and life insurances (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period
Pillar II Funded pensions	14.9%	-2.3%	0.7%	1.7%	2.0%	1.4%
Pillar III Voluntary private pensions	14.6%	-2.9%	-0.7%	-0.2%	0.6%	0.6%

*Data:* Bank of Bank of Lithuania, Official Statistics Portal, Eurostat; *Calculations:* BETTER FINANCE.

would decrease the participation rate and significance of the Pillar II system for future generations and increasing the pressure on the state PAYG pillar.

In 2024, pensions were further increased by 11%. The average old-age pension increased to EUR 598.1 (SoDra, 2025).

The performance of private pensions (mandatory as well as voluntary) was positive in 2024 both in nominal and real terms mainly due to broad positive market returns.

Lithuania has undertaken a pension reform in 2004, which was renewed in 2013. This was the reason to establish private pension funds.

### 12.1.1 Pension system in Lithuania: An overview

Currently, the Lithuanian pension system provides three distinct sources of accumulation for retirement funds – so-called pension pillars (Bitinas, 2011):

- 1st pillar (Pillar I) – State social insurance funds organized as a PAYG pension scheme. State social pension is financed from social insurance contributions paid by people who are currently working.
- 2nd pension pillar (Pillar II) – funded pension scheme mandatory for all economically active citizens under the age 40 with opt-out operated by the private pension accumulation companies offering life-cycle pension funds in form of personal savings scheme. The part of State social insurance fund is redirected from the PAYG scheme (until 2019). On top of social insurance contributions, savers are obliged to co-finance the individual retirement accounts with additional contributions tied to their salary.
- 3rd pension pillar (Pillar III) – voluntary private funded pension scheme. Accumulation can be managed by private funds or life-insurance companies.

Lithuania's statutory social insurance pension system is financed at a general rate of 39.5% (without Social insurance for accidents at work and occupational diseases

**Table 12.3 – Overview of the Lithuanian pension system**

<b>Pillar I</b>	<b>Pillar II</b>	<b>Pillar III</b>
State Pension	Funded pension	Voluntary pension
Law on State Social Insurance Pensions	Law on the Reform of the Pension System; Law on Pension Accumulation	Law on the Supplementary Voluntary Pension Accumulation
State Social Insurance Fund institutions	pension accumulation companies (PACs)	
Mandatory	Quasi-mandatory	Voluntary
Publicly managed	Privately managed pension funds	
PAYG	Funded	
Pointing System (DB scheme based on salary)	DC	
	Individual personal pension accounts	
<b>Quick facts</b>		
Nb. of old-age pensioners: 630 700	Administrators: 6	Administrators: 4
Average old-age pension: EUR 598.1	Funds: 48	Funds: 21
Average income (gross): EUR 1906.7	AuM: EUR 9123.8 mln.	AuM: EUR 407.98 mln.
Average replacement ratio: 31.37%	Participants: 1 428 438	Participants: 118 066
Nb. of insured persons: 1 532 200	Coverage ratio: 93.23%	Coverage ratio: 7.71%

*Data:* Own compilation based on SoDra, Bank of Lithuania and Official Statistics Portal, 2025.

insurance), while 25.3 percentage points (22.3 p.p.s + 3 p.p.s employee) is paid towards the Social insurance for pensions (Pillar I).

The State social insurance pension system was reformed in 1995 introducing the insurance principle, extending the requirement for contributory years, abolishing early retirement provisions and increasing the retirement age. However, Pillar II was introduced by law in 2002 and started functioning effectively in 2004 when the first contributions of participating individuals started to flow into the pension funds. Supplementary voluntary pension provision (Pillar III) is possible through either pension insurance or special voluntary pension funds (these started operating in 2004, although the law was adopted in 1999). The voluntary pillar can take two different forms: DC, if supplemental contributions are invested into pension funds or unit-linked life insurance or DB when purchasing a classic life insurance product. Contributions to the system may be made by the individual or his employer.

The overall coverage of Pillar II, measured as a ratio between the number of participants and the economically active population (number of insured persons in Pillar I), was more than 93% in 2024, while Pillar III covered only 7% of the economically active population. Thus, we can expect that future pension income stream will be influenced mostly by Pillar II pensions, while Pillar III will generate an insignificant part of individuals' income during retirement.

### **First pillar: State pensions**

The first pillar of the Lithuanian pension system is organized on the pay-as-you-go (PAYG) principle of redistribution, being funded on an ongoing basis, functioning on the pointing system, and taking into account the duration of the vesting period and the level of salary (insurable income) from which the contributions are paid.

The old-age pension is the main type of state social security in old age. Individuals who meet the requirements for age and for the pension social insurance record are entitled to the old-age pension, i.e.:

- the person has reached the established old-age pension age (64 years and 8 months for men and 64 years and 4 months for women in 2024). Since 2012, the retirement age has been rising gradually by 2 months a year for men and 4 months a year for women until reaching the statutory retirement age of 65 for both men and women by 2026;
- has the minimum record of pension social insurance established for old-age pension (has paid the pension social insurance contributions for at least 15 years).

The pension social insurance record is the period in which the obligatory pension social insurance payments are made or must be made either by the person themselves or on his/her behalf. Starting from 2018, the obligatory pension social insurance record requirement increased. In 2024, the mandatory record is at least 33 years and 6 months and will be increased by 6 months every subsequent year until it reaches 35 years in 2027.

A new version of the Law on Social Insurance Pensions came into force on 1 January 2018. The pension system was reformed by changing the pension calculation structure, introducing pension points and setting the indexation rules. A social insurance pension will consist of the general (*GP*) and individual parts (*IP*). The old-age pension is equal to the sum of the general and the individual parts of pension.

The general part (*GP*) of the old-age pension takes into account only the duration of insured period. The general part (*GP*) of pension is calculated according to the formula:

$$GP = \beta \times B$$

where:

- $\beta$  represents the ratio of the insurance record of the person and the obligatory insurance record effective in the year of the pension entitlement (for example, if the obligatory insurance record at year of retirement is 35 years and the person's insurance record is 40 years, then the value of  $\beta$  is  $40/35 = 1.1429$ ); and

- $B$  represents the basic pension (in EUR).

The individual part of pension is based on pension point system. Pension points system for the determination of the individual part of pension was introduced on 1 January 2018. Each insured person will receive a certain number of pension points for the amount of pension social insurance contributions paid during the year. If the amount of pension social insurance contributions deducted from the person's income during the year for the individual part of pension is equal to the amount of the annual pension contribution determined on the basis of the average pay (salary) during the year, the person will acquire one pension point. A larger or a smaller amount paid will result, accordingly, in a larger or smaller number of pension points. However, the total number of pension points acquired during one year may not exceed 5. The pension points acquired will be summed up and multiplied by the pension point value. The individual part of pension is calculated according to the formula:

$$IP = V \times p$$

where:

- $V$  is the number of pension points accumulated by the person during the entire working career;
- $p$  is the pension point value (in EUR).

For example, if a person's salary during the whole career (40 years) was equal to the average salary in the economy (1 point), then the person can acquire  $40 \times 1$  point = 40 points. If the value of one pension point at moment of retirement is, for example, EUR 10, then the individual part of old-age pension is:  $40 \times 10 =$  EUR 400.

Old-age pensions are indexed every year. Starting from 1 January every year, the values of the basic pension, the value of pension points and the basic amount of widows'/widowers' pensions, used for the granting and determining social insurance pensions, will be indexed based on the average 7-year wage fund growth rate.

The indexing coefficient (IC) is calculated on the basis of the change in the wage fund during the past three years, the year for which the IC is being calculated, and three prospective years. The IC is applied provided that, upon its application, the pension social insurance costs in the year of indexation do not exceed social insurance revenues and the projected pension social insurance costs for the next year do not start exceeding the social insurance revenues projected. If, without indexation, the pension social insurance revenues in the year of indexation exceed the pension social insurance costs, the IC is calculated in such a way that the pension social insurance expenses for pension indexing would not exceed 75% of the pension social insurance contribution surplus planned for the year of indexation in case if no indexation is performed.

Indexation of pensions will not be performed if the determined IC is smaller than 1.01 and/or if the change in the gross domestic product at comparative prices and/or in the wage funds, expressed in percentage terms, is negative in the year for which the IC is being calculated and/or for next calendar year. If no indexation is performed, the values of December of previous year are applied.

In general, we can say that the Pillar I pensions will be subject to the automatic adjustment mechanism ensuring the balance of the State Social Insurance fund over the longer period.

SoDra has launched the indicative retirement calculator,<sup>1</sup> where an individual can assess his projected old-age pension including the expected (projected) Pillar II savings.

## **Second pillar: Funded pensions**

Lithuania's private pensions system (Pillar II) is based on the World Bank's multi-pillar model. Pillar II pension scheme can be characterized as an accumulation of a redirected part of social insurance contributions towards individual retirement accounts managed by private pension accumulation companies offering and managing private pension funds. All persons with income, from which state social insurance contributions are calculated on a mandatory basis to receive pension, and yet to reach retirement age may become fund participants. The contribution to Pillar II pension funds consists of three parts: a social-security contribution (currently paid to SoDra), salary contribution and an additional pension contribution from the State Budget.

Pillar II can be characterized as a fully funded scheme, with quasi-mandatory participation, distinct and private management of funds, based on personal accounts and on the DC philosophy with no minimum return guarantees.

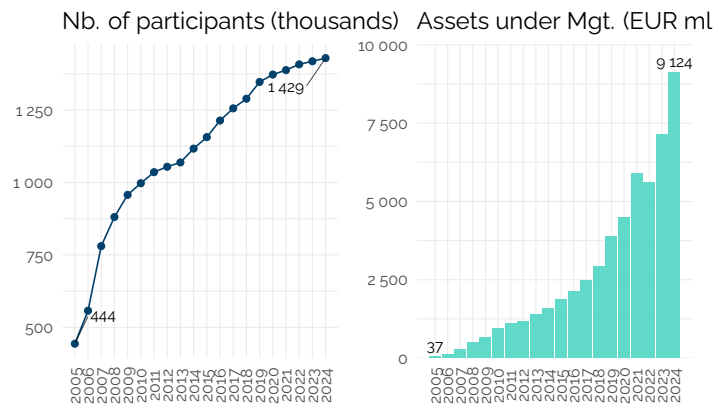
Since 2004, when the Pillar II was effectively launched, the number of participants as well as AuM has grown rapidly and currently, more almost 94% of working population is covered by the scheme and more than 9 billion € are managed by 6 pension accumulation companies (PACs) (see Figure 12.1).

The pension contributions towards the Pillar II are part of the participant's state social insurance contribution rate. Originally, the level of contributions ("base rate") was set at final level of 5.5% of insurable income. This level should have been reached in 2007. The base rate in 2004 was 2.5%, in 2005 3.5%, in 2006 it was 4.5%, and since 2007 5.5% of the participants' income, from which the state social insurance contributions are calculated. However, it should be noted that there have been significant changes to the Pillar II set-up because of the financial crisis and the following public finance deficits. As a result, the mechanism and level of paid contributions have changed. Since 2014, the level of contributions has remained stable, while participants have been required to match redirected contributions from the social insurance with additional individual contributions and the state must match the individual contributions of savers from the state budget. Under the new system, the "base rate" for Pillar II contributions is 2%, and existing savers can make a further 1% in contributions, matched by a state subsidy of 1% of gross average wages. These both additional contribution rates rose to 2% a piece since 2016. Under Lithuania's current "maximum accumulation" scenario, Pillar II savings during the years of 2016 till 2019 are funded by the so-called "2+2+2" system: 2% of social security system contributions, with an additional 2% of additional payment from a salary of a saver, matched by a state contribution based on the previous year's average state wages.

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<sup>1</sup>[http://www.sodra.lt/lt/skaiciuokles/prognozuojamos\\_pensijos\\_skaiciuokle](http://www.sodra.lt/lt/skaiciuokles/prognozuojamos_pensijos_skaiciuokle)

**Figure 12.1 – Pillar II – Number of participants and AuM**



Data: Bank of Lithuania, 2025.

Since 2019 reform, the new contribution system has been established. The formula for Pillar II pension accumulation in pension funds has changed. As of 2024, all Pillar II participants will accumulate according to the formula "3% + 1.5%" (a contribution by the participant of 3 per cent of their gross wage plus a contribution by the state of 1.5 per cent of the average wage in the country the year before last). Those who accumulated maximally will move to the new formula as of 2019 automatically, while those who accumulated minimally will in 2021 accumulate according to the formula "1.8% + 0.3%" (a participant contribution of 1.8 per cent of one's gross wage plus a state contribution of 0.3% of the average wage in the country the year before last) and then their contributions will increase gradually, by 0.3 percentage points each year, until their accumulation formula reaches "3% + 1.5%". New changes in the Pillar II contributions have been announced in 2025, effective from 2026, that allow to suspend or increase the contributions above 3%.

The contributions to Pillar II are recorded on individual personal pension account at selected providers — PACs. Contributions and accumulated savings are invested by the companies into managed pension funds. PACs can manage multiple pension fund based on a "life-cycle" approach. PACs must obtain licenses from market regulator and supervisory body, which is the Bank of Lithuania.

### **Third pillar: Voluntary private pensions**

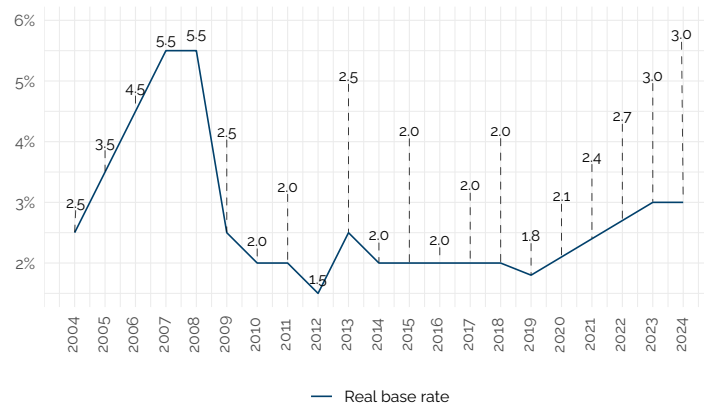
Lithuania's voluntary supplementary private pensions system (Pillar III) is also based on the World Bank's multi-pillar model and effectively started in 2005. It is also a fully funded system, based on personal accounts and on the DC philosophy. Pillar III pension funds refer to supplementary voluntary pension accumulation. Funds are transferred by participants themselves or by their employers.

Even if the set-up of the pillar is very similar to the Pillar II set-up, the attractiveness of the financial products offered by supplementary pension asset managers is very low. Number of participants (savers) and assets under management in Pillar III providers are presented in Figure 12.3.

Pillar III is organized in a way that pension providers (Voluntary Supplementary Pension Accumulation Management Companies) offer pension funds on a basis of typical mutual funds. At the end of 2024, 21 supplementary voluntary pension accumulation funds operated in Lithuania were managed by 4 managing companies as Swedbank has entered the market in 2019 by offering 3 new supplementary voluntary pension funds (2 mixed and 1 equity based) and SEB introduced one mixed fund (SEB pensija 50+) in 2020. In 2022, new equity funds SEB index were introduced. In 2024, assets managed by funds have increased to EUR 408 million. Number of participants accumulating their pension in Pillar III pension funds amounted to 118 066.

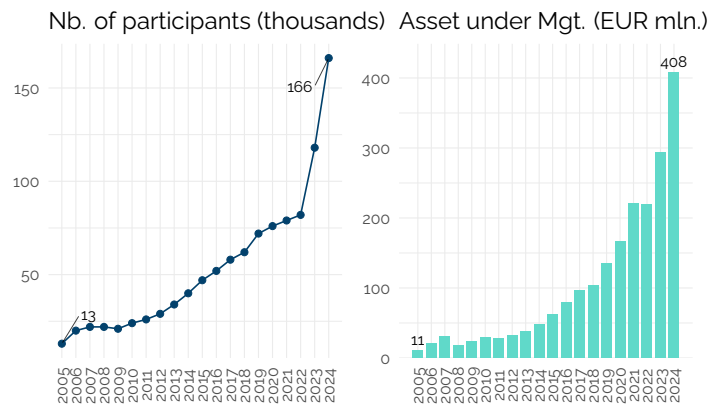
## **12.2 Long-term and pension savings vehicles in Lithuania**

**Figure 12.2 – Level of 'base rate' contributions towards Pillar II**



Source: Own elaboration based on the Law on Reform of the Pension System and SoDra data.

**Figure 12.3 – Pillar III – Number of participants and AuM**



Data: Bank of Lithuania, 2025.

## 12.2.1 Second pillar: Funded pensions

As indicated above, each provider (PAC) has to offer 7 life-cycle funds and 1 capital preservation fund. Currently, 48 pension funds are offered by 6 management companies.

**Table 12.4 – List of Pillar II pension funds**

Fund name	Inception date
<b>Life-cycle pension funds, 1996-2002</b>	
Luminor 1996–2002 tikslinēs grupēs pensiju fondas	02.01.2019
INVL pensija 1996–2002	02.01.2019
SEB 1996–2002 metų tikslinēs grupēs pensiju kaupimo fondas	28.12.2018
Swedbank pensija 1996–2002	01.03.2018
Allianz Y3 1996–2002 tikslinēs grupēs pensiju fondas	02.01.2019
<b>Life-cycle pension funds, 1989-1995</b>	
Luminor 1989–1995 tikslinēs grupēs pensiju fondas	02.01.2019
INVL pensija 1989–1995	02.01.2019
SEB 1989–1995 metų tikslinēs grupēs pensiju kaupimo fondas	28.12.2018
Swedbank pensija 1989–1995	01.03.2018
Allianz Y2 1989–1995 tikslinēs grupēs pensiju fondas	02.01.2019
<b>Life-cycle pension funds, 1982-1988</b>	
Luminor 1982–1988 tikslinēs grupēs pensiju fondas	02.01.2019
INVL pensija 1982–1988	02.01.2019
SEB 1982–1988 metų tikslinēs grupēs pensiju kaupimo fondas	28.12.2018
Swedbank pensija 1982–1988	01.03.2018
Allianz Y1 1982–1988 tikslinēs grupēs pensiju fondas	02.01.2019
<b>Life-cycle pension funds, 1975-1981</b>	
Luminor 1975–1981 tikslinēs grupēs pensiju fondas	02.01.2019
INVL pensija 1975–1981	02.01.2019
SEB 1975–1981 metų tikslinēs grupēs pensiju kaupimo fondas	28.12.2018
Swedbank pensija 1975–1981	01.03.2018
Allianz X3 1975–1981 tikslinēs grupēs pensiju fondas	02.01.2019
<b>Life-cycle pension funds, 1968-1974</b>	
Luminor 1968–1974 tikslinēs grupēs pensiju fondas	02.01.2019
INVL pensija 1968–1974	02.01.2019
SEB 1968–1974 metų tikslinēs grupēs pensiju kaupimo fondas	28.12.2018
Swedbank pensija 1968–1974	01.03.2018
Allianz X2 1968–1974 tikslinēs grupēs pensiju fondas	02.01.2019
<b>Life-cycle pension funds, 1961-1967</b>	
Luminor 1961–1967 tikslinēs grupēs pensiju fondas	02.01.2019
INVL pensija 1961–1967	02.01.2019
SEB 1961–1967 metų tikslinēs grupēs pensiju kaupimo fondas	28.12.2018

**Table 12.5 – Pillar II market share based on AuM and number of participants**

Investment strategy	AuM (EUR mln.)	Market share (% of total AuM)	Nb. of participants (thousands)	Market share (% of total participants)
Life-cycle pension funds, 1996-2002	230.81	3.24%	119	8.37%
Life-cycle pension funds, 1989-1995	801.51	11.25%	235	16.60%
Life-cycle pension funds, 1982-1988	1372.61	19.26%	309	21.79%
Life-cycle pension funds, 1975-1981	1627.19	22.84%	250	17.60%
Life-cycle pension funds, 1968-1974	1553.91	21.81%	231	16.29%
Life-cycle pension funds, 1961-1967	1197.52	16.81%	203	14.31%
Life-cycle pension funds, 1954-1960	211.58	2.97%	36	2.54%
Asset preservation pension funds	130.56	1.83%	23	1.60%
<b>TOTAL</b>	<b>7125.72</b>	<b>100.00%</b>	<b>1418</b>	<b>100.00%</b>

*Data:* Bank of Lithuania, 2025.

*(continued)*

Fund name	Inception date
Swedbank pensija 1961–1967	01.03.2018
Allianz X1 1961–1967 tikslinės grupės pensijų fondas	02.01.2019
<b>Life-cycle pension funds, 1954-1960</b>	
Luminor 1954–1960 tikslinės grupės pensijų fondas	02.01.2019
INVL pensija 1954–1960	02.01.2019
SEB 1954–1960 metų tikslinės grupės pensijų kaupimo fondas	28.12.2018
Swedbank pensija 1954–1960	01.03.2018
Allianz B 1954–1960 tikslinės grupės pensijų fondas	02.01.2019
<b>Asset preservation pension funds</b>	
Luminor turto išsaugojimo fondas	02.01.2019
INVL pensijų turto išsaugojimo fondas	02.01.2019
SEB turto išsaugojimo pensijų kaupimo fondas	28.12.2018
Swedbank turto išsaugojimo pensijų fondas	01.03.2018
Allianz S turto išsaugojimo pensijų fondas	02.01.2019

*Source:* Bank of Lithuania, 2023.

The structure of savers, assets under management and market share of four group of pension funds according their investment strategy is presented in Table 12.5.

**Table 12.6 – Pillar III market share based on AuM and number of participants**

Investment strategy	AuM (EUR mln.)	Market share (% of total AuM)	Nb. of participants (thousands)	Market share (% of total participants)
Bond Pension Fund	32.34	11%	9	13.9%
Mixed Investment Pension Fund	87.43	30%	43	65.8%
Equity Pension Fund	173.95	59%	40	61.0%
TOTAL	293.71	100%	66	100.0%

*Data:* Bank of Lithuania, 2025.

There are no strict quantitative limitations on financial instruments. However, the management company has to ensure risk management principles and avoid concentration risk. Introduction of life-cycle pension funds since 2019 was accompanied by the presentation of asset allocation that follows the age of participants. Almost all pension asset management companies has introduced the same life-cycle investment strategy (see Figure 12.4).

The portfolio structure of Pillar II pension funds is presented in Figure 12.5. The reform in 2019 delivered significant increase of equities in pension funds' portfolios due to the introduction of "life-cycle" strategies via target-date funds.

It can be seen that dominant financial instruments in Pillar II pension funds' portfolios are the equities and government bonds. The 2019 reform aimed at balancing the remaining saving horizon with the asset allocation has brought significant rise in equity based allocations (from 44% in 2019 to 78% of all assets in 2024) and this adjusted portfolio structure should preserve rather large portion of equities in pension funds' portfolios.

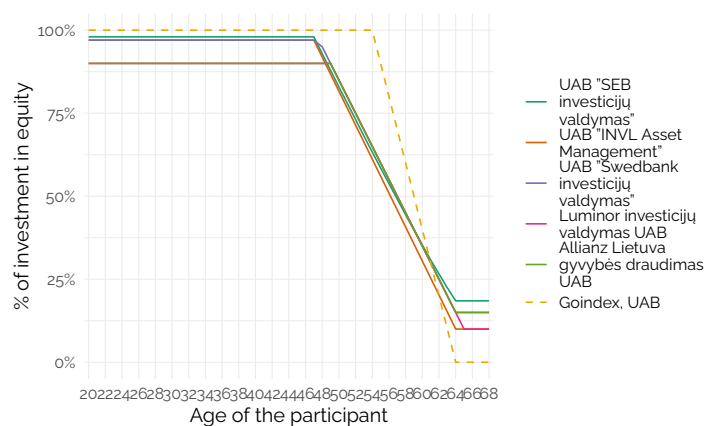
### 12.2.2 Third pillar: Voluntary private pensions

The Lithuanian Pillar III allows licensed asset management companies (licensing process similar to typical UCITSs providers) to offer as many voluntary pension funds as they prefer. At its inception, there were only 5 pension funds offered by 3 providers. Currently (at the end of 2024), there are 6 providers offering 21 voluntary pension funds.

The market share according to the AuM and number of participants is presented in Table 12.6.

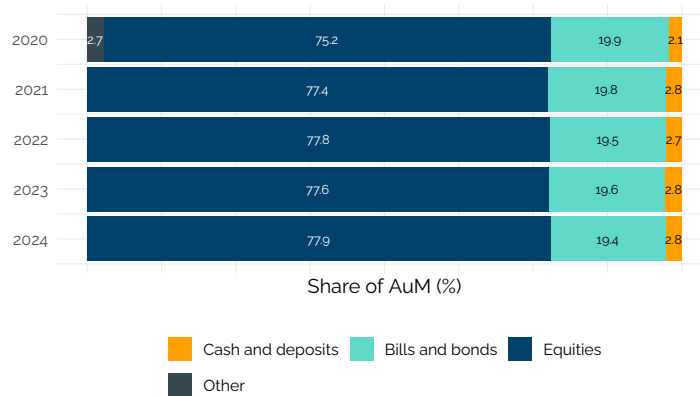
There are no specific quantitative limitations on financial classes or instruments. However, the investment strategy of the pension fund must include the procedure and areas for investment of pension assets, risk assessment methods, risk management principles, risk management procedures and methods used, and the strategic distribution of pension assets according to the duration and origin of the obligations relating to pension accumulation contracts. The management

Figure 12.4



Data: Bank of Lithuania, 2023.

**Figure 12.5 – Allocation of assets invested in Lithuanian Pillar II funded pensions**



Data: Bank of Bank of Lithuania; Calculations: BETTER FINANCE.

**Table 12.7 – Costs and charges of Lithuanian Pillar II funded pensions**

Year	Total ongoing charges	Total Expense Ratio
2004	3.35%	3.35%
2005	2.31%	2.31%
2006	1.63%	1.63%
2007	0.97%	0.97%
2008	1.18%	1.18%
2009	1.08%	1.08%
2010	0.11%	0.11%
2011	1.10%	1.10%
2012	0.99%	0.99%
2013	0.97%	0.97%
2014	1.02%	1.02%
2015	1.00%	1.00%
2016	1.00%	1.00%
2017	0.91%	0.91%
2018	0.86%	0.86%
2019	0.72%	0.72%
2020	0.65%	0.65%
2021	0.52%	0.52%
2022	0.52%	0.52%
2023	0.45%	0.45%
2024	0.42%	0.42%

*Data:* Official Statistics Portal; *Calculations:* BET-TER FINANCE.

company must review the investment strategy of the pension fund at least every 3 years. Pillar III pension funds' portfolio structure is presented in Figure 12.6 (data available since 2013). Unfortunately, the Lithuanian national bank do not provide data on individual Pillar III pension funds' portfolio structure since 2021, just share of investment in stocks. The data on the portfolio structure of the Pillar III pension funds as a whole have been extracted from the financial statements of the pension funds on an aggregate basis provided by the State data agency, Statistics Lithuania.

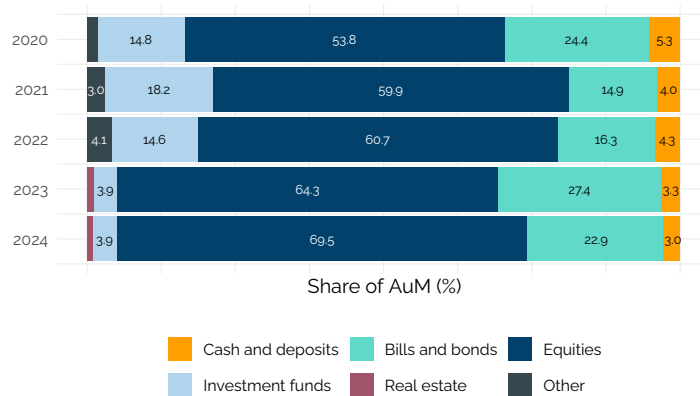
Equities and equity based UCITSs account for 64% of the Pillar III pension funds' portfolios, while the government bonds account for 27%. Pillar III pension funds can be therefore characterized as a fund-of-funds.

## 12.3 Charges

### 12.3.1 Charges of Pillar II funded pensions

Major reform introduced in 2018 brought significant drop in Pillar II charges. The reform introduced instant cut in fees and gradual decrease from 1% in 2018 to 0.5% in 2020 with further slight decrease in the following years.

**Figure 12.6 – Allocation of assets invested in Lithuanian Pillar III private pensions**



Data: Bank of Bank of Lithuania; Calculations: BETTER FINANCE.

**Table 12.8 – Costs and charges of Pillar III voluntary private pensions**

Year	Total ongoing charges	Total Expense Ratio
2004	0.39%	0.39%
2005	12.37%	12.37%
2006	6.38%	6.38%
2007	5.01%	5.01%
2008	2.73%	2.73%
2009	2.50%	2.50%
2010	2.99%	2.99%
2011	2.07%	2.07%
2012	1.83%	1.83%
2013	2.10%	2.10%
2014	1.89%	1.89%
2015	2.06%	2.06%
2016	2.01%	2.01%
2017	1.40%	1.40%
2018	1.63%	1.63%
2019	1.94%	1.94%
2020	1.42%	1.42%
2021	1.44%	1.44%
2022	1.27%	1.27%
2023	1.05%	1.05%
2024	1.03%	1.03%

*Data:* Official Statistics Portal; *Calculations:* BETTER FINANCE.

The year 2024 brought further decrease in the fees and charges for Pillar II pension funds. Introduction of low-cost passively managed target date funds and entry of new player Goindex may spur new pressure on the fees and the year 2024 did bring further downward trend in costs and charges, but at a lower pace.

### 12.3.2 Charges of Pillar III voluntary private pensions

The fee structure of the Pillar III pension funds is more complex. Management companies charge various entry fees, in which case the calculation of the overall impact of fees on accumulated assets is harder to obtain. Table 12.8 compares fees of Pillar III pension funds in Lithuania.

In most cases, additional costs, that are charged on the pension fund's account and not directly visible to the savers are the audit fees and custodian (depository) fees. On average, they account for 0.25%, and 0.055% respectively.

Comparing the Pillar II and Pillar III pension funds' fees, it is obvious, that even if the management and investment strategies are very similar, the fee structure and overall level of fees in Pillar III is more than double the fees in Pillar II.

**Table 12.9 – Taxation of pension savings in Lithuania**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Pillar II Funded pensions	Exempted	Exempted	Exempted	EEE
Pillar III Voluntary private pensions	Exempted	Exempted	Taxed	EET

Source: BETTER FINANCE own elaboration based on INSERT NAME.

## 12.4 Taxation

Lithuania applies an EEE regime for the taxation of Pillar II pension accounts. Employee contributions are tax-deductible even if they are higher than required (3% + 1.5%). Investment income on the level of the pension fund is tax-exempt. Pension benefits paid out during retirement are tax-exempt from a personal income tax as the old-age income is considered as a part of social system.

A similar tax regime is applied on the Pillar III savings, but there are some ceilings on contributions and withdrawals.

Regarding the contribution phase, there is a tax-refund policy, which means that the contributions of up to 25% of gross earnings, the income tax (15%) is returned. Therefore, we can conclude that the contribution phase is a “E” regime.

Positive returns on accumulated savings are tax-exempt, so the investment phase is an “E” regime.

Regarding the withdrawal (pay-out) phase, pension benefits paid from Pillar III voluntary funds can be received at any age and are levied with 15% income tax, but become tax-free if a person:

1. holds savings in a Pillar III pension fund for at least 5 years and reaches the age of 55 at the time of payment of the benefit (and the pension savings agreement was concluded before ); or
2. holds savings in a Pillar III pension fund for at least 5 years and reaches the age which is five years earlier than the threshold for the old-age pension at the time of payment of the benefit (if the pension savings agreement was concluded after ).

Under the optimum set-up, the EEE tax regime can be achieved on Pillar III savings.

## 12.5 Performance of Lithuanian long-term and pension savings

**Table 12.10 – Capital market benchmarks to assess the performance of Lithuanian Pillar II and Pillar III pensions**

Product category	Equity index	Bonds index	Start year	Allocation
Pillar II Funded pensions	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2004	50%–50%
Pillar III Voluntary private pensions	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2004	50%–50%

Source: STOXX, Bloomberg; Note: Benchmark portfolios are rebalanced annually.

### 12.5.1 Real net returns of Lithuanian long-term and pension savings

Before inspecting the real net returns of Lithuanian pension funds, the inflation for the last 25 years is presented in Figure 12.7. The inflation has doubled the price level during the last 25 years and considering the small financial market where most of the savings are invested globally, the real returns might be negatively influenced by higher inflation in Lithuania during the analysed period.

Pension returns of Pillar II pension funds differ according to the life-cycle investment strategy applied. When comparing the returns, it should be noted that the major changes in Pillar II regarding the introduction of the target date funds and reallocation of savers into these funds based on the birth year in 2019 could influence the direct comparison of pre-2019 returns and the returns of the funds beyond the year 2019.

When inspecting particular pension funds within each group, only minor changes in performance were observed between the years 2019 and 2024.

Pillar III pension funds' performance is presented according to their investment strategy, where 3 groups are formed.

Real annual and cumulative returns of pension vehicles in Lithuania are presented in Figure 12.8 and Figure 12.9.

Performance of Pillar II and Pillar III pension funds is quite similar, while the higher fees of Pillar III pension funds drag the after fees returns lower and into negative territory in real terms.

### 12.5.2 Do Lithuanian savings products beat capital markets?

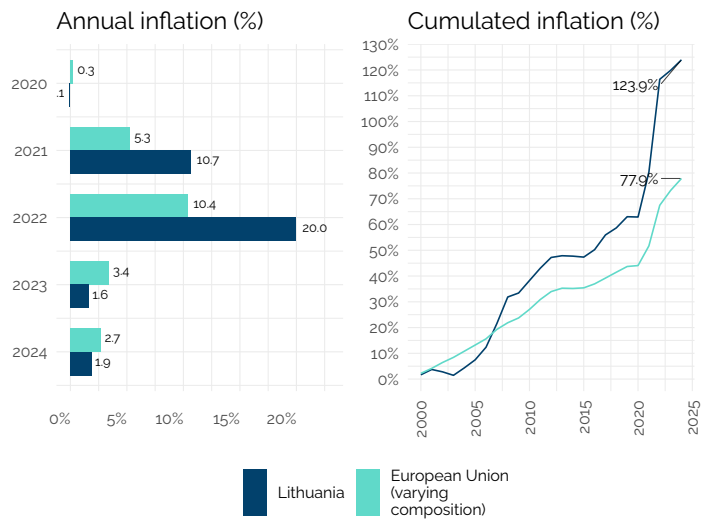
In this section, we compare the performance of the mandatory and voluntary pension funds in Lithuania to the performance of relevant capital market benchmarks. By analysing the portfolio structure of pension funds, we have selected the a balanced benchmark portfolio (50% equity–50% bonds) based on two pan-European indices.

We can conclude that Lithuanian pension vehicles are not able to beat the market benchmark, even though Pillar II funded pensions are getting very close other the

**Figure 12.7 – Inflation in Austria**

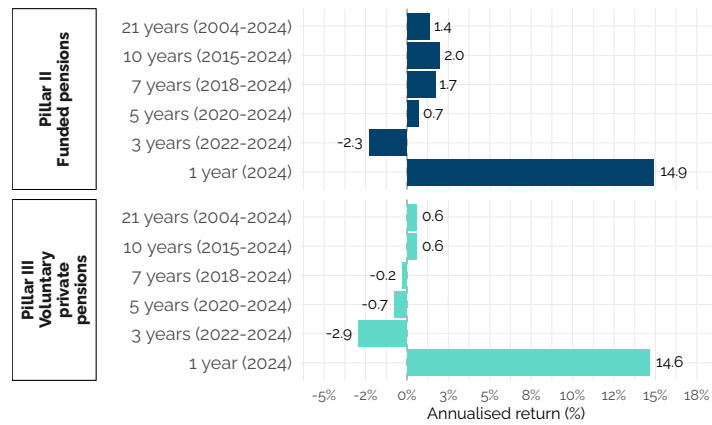
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>Lithuania</i>	123.9%	3.3%



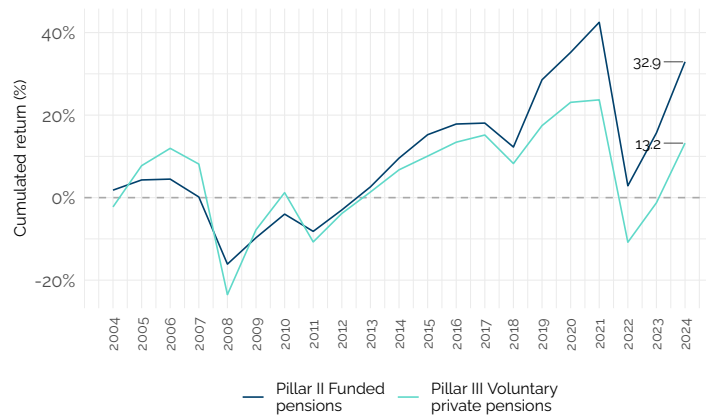
Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 12.8 – Annualised returns of Lithuanian Pillar II and Pillar III pensions over varying holding periods**



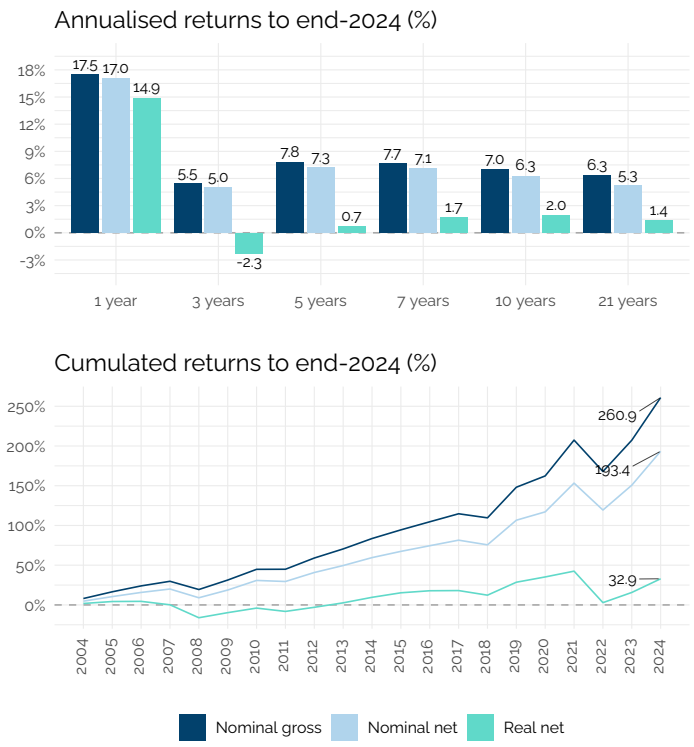
Data: Bank of Lithuania, Eurostat. Calculations: BETTER FINANCE.

**Figure 12.9 – Cumulated returns of Lithuanian Pillar II and Pillar III pensions**



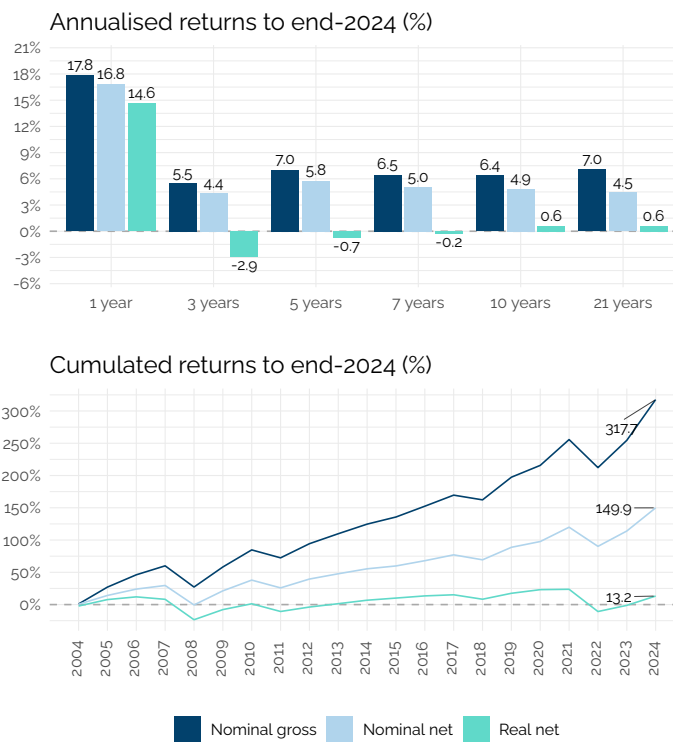
Data: Bank of Lithuania, Eurostat. Calculations: BETTER FINANCE.

**Figure 12.10 – Returns of Lithuanian Pillar II funded pensions (before tax, % of AuM)**



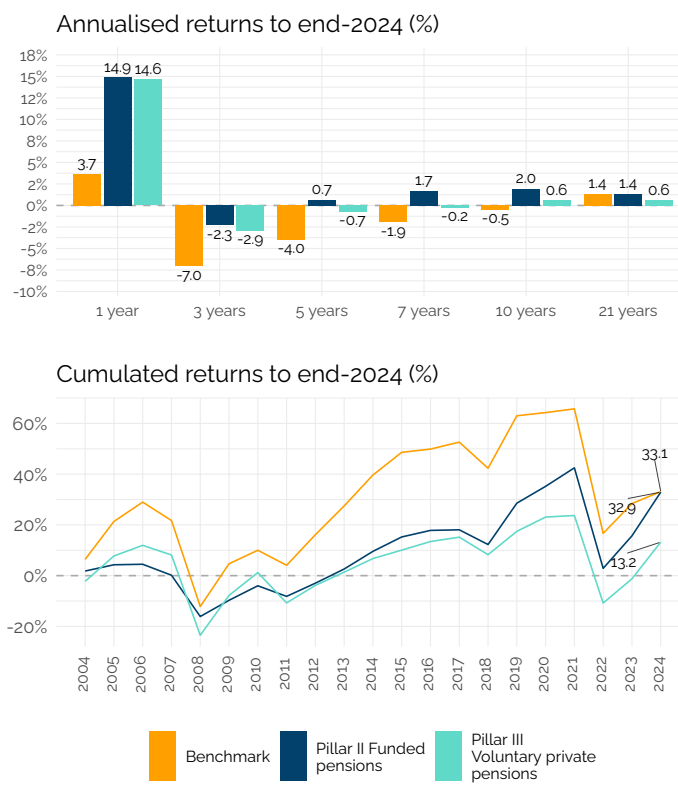
*Data:* Bank of Bank of Lithuania, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 12.11 – Returns of Lithuanian Pillar III (before tax, % of AuM)**



*Data:* Bank of Bank of Lithuania, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 12.12 – Performance of Austrian pension funds and life insurance against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: Bank of Lithuania, Eurostat; Calculations: BETTER FINANCE.

21 years of our period of analysis. Detailed analysis of the particular pension funds' performance could show that more aggressive pension funds are able to stay in positive real returns over the analysed period.

## 12.6 Conclusions

Considering the wider factors, it is safe to say that the decreasing labour force and the implementation of the automatic balancing mechanism within the PAYG pillar will lead to a lower replacement ratio generated from Pillar I pensions. Therefore, Lithuania can be seen as a strong advocate of private pension savings where the pillars will grow on importance.

Reforms in the area of PAYG scheme supported with the funded pension schemes that have been adopted in 2018 and effective since 2019 are started shifting the preferences of the Lithuanian savers to rely more on their private funded pension schemes.

Real net performance of the Pillar II as well as Pillar III pension funds after the negative returns in 2022 were overall positive in 2023 and 2024. Pillar II stayed in positive real return territory over the entire analysed period. Pillar III scheme, which cannot compete to the similar and cheaper peers in Pillar II, moved from a negative territory to a positive one over the analysed period especially due to positive returns in 2024.

The latest changes in the contributory mechanism, where additional individual contributions towards Pillar II are promoted and tax deductible, puts more pressure on Pillar III fund managers due to the growing crowding-out effect.

Introduction of life-cycle investment style into the Pillar II since 2019 created significant differences between the portfolio structure of pension funds within both pillars, which leads to the conclusion that Pillar III with more conservative approach will need to find its competitiveness against promoted Pillar II funds.

Lithuania has a favourable tax treatment of private pension savings, where in both cases an EEE tax regime is applied.

Latest changes in the Pillar II, adopted in 2025, however spur some doubts on the future significance of Pillar II for future pensioners.

## Chapter 13

# The Netherlands

### Samenvatting

Het Nederlandse pensioenstelsel staat de laatste tijd volop in de belangstelling, nu er in EU-beleids kringen wordt gediscussieerd over manieren om de aanvullende pensioenen op het continent te versterken. Door de sterke afhankelijkheid van bedrijfspensioenfondsen in plaats van overheidspensioenen voor het waarborgen van een toereikend pensioeninkomen, vormt het Nederlandse stelsel inderdaad een buitenbeentje in Europa, dat velen waarschijnlijk graag zouden willen navolgen. Hoe de Nederlandse pensioenfondsen de ingrijpende hervorming van hun model aanpakken, is daarom van cruciaal belang voor heel Europa. De hervorming, die in juli 2023 van kracht werd, heeft tot doel het overwegend DB-model van de Nederlandse pensioenfondsen om te vormen tot een CDC-model dat de kernfilosofie van DC-pensioenregelingen combineert met sterke solidariteitselementen. Hoe dit de prestatiegeschiedenis en de tot nu toe dalende gemiddelde kosten van de bedrijfspensioenuitvoerders in het land beïnvloedt, valt nog te bezien: de overgangperiode naar het nieuwe systeem loopt af in 2027. Ondertussen zien we in 2024 een vrij positieve prestatie, met een activagewogen gemiddeld reëel nettorendement van +3,6%, wat de goede resultaten van 2023 versterkt en helpt om de langetermijnrendementen te laten herstellen van de schok van 2022. Over de 25 jaar van observatie blijven de prestaties van Nederlandse pensioenfondsen enigszins gematigd (+1,6%), deels als gevolg van het langdurig lage renteklimaat van de jaren 2010.

### Summary

The Netherlands' pension system has drawn a lot of attention lately, as EU policy circles debate ways to beef up the continent's supplementary pensions. With its heavy reliance on occupational pension funds rather than public pensions for the provision of adequate retirement income, the Dutch system is indeed somewhat of an outlier in Europe, which many probably dream to emulate. How Dutch pension fund manage the far-reaching reform of their model is therefore of crucial interest for all of Europe. Enacted in July 2023, the reform aim to transform the predominantly DB model of Dutch pension funds into a CDC model that combines the core philosophy of DC pensions schemes with strong solidarity elements. How that affects the performance track record and hitherto declining average costs of the country's occupational pension providers remains to be seen: the transition period to the new system ends in 2027. In the meantime, we observe a rather positive performance in 2024, with an asset-weighted average real net return of +3.6%, which compounds the good results of 2023 and helps longer-term returns recover from the shock of 2022.

**Table 13.1 – Product categories analysed in the Netherlands**

Name	Product category		Reporting period	
		Pillar	Earliest data	Latest data
Pension funds		Occupational (II)	2000	2024

Over the 25 years of observation, the performance of Dutch pension funds remain somewhat tamed (+1.6%), due in part to the low-for-long interest rate environment of the 2010s.

## 13.1 Introduction: The Dutch pension system

The Netherlands supplementary pensions sector features amongst the largest in the worlds, relative to the size of the country's economy. Amongst the countries we study in this report, the Netherlands particularly stands out by the size of its occupational pensions sector, with EUR 1.6 trillion in AuM. In this chapter, we focus our analysis on these occupational pension funds, which are currently in the midst of a major reform: the *Wet Toekomst Pensioenen* (WTP)—“law on the future of pensions”—which entered into force on July 1st, 2023, will transition this vast and predominantly DB occupational pensions sector to a new collective defined contribution (CDC) model that will combine a DC philosophy with solidarity features to limit the risk shifted onto the shoulders of individual pension fund participants.

In addition to the occupational pension funds, the Netherlands has a sizeable life insurance industry, which offers PPPs, even though that third pillar of the Dutch pension system is much more limited. Unfortunately, due to lack of publicly available data, we are unable to conduct a full analysis of the returns of those PPPs, or even a broad-brush analysis of the returns of the life insurance industry. Therefore, as shown in Table 13.1, in this chapter, we only analyse the performance track record of pension funds, from 2000 to 2024.

The strong performance of capital markets in 2024 reflected in a good nominal performance for Dutch pension funds—+8.1%—keeping them on the recovery path after the 2022 slump of global equity and bond markets. However, inflation, which had receded in 2023, shot up again in 2024, eating away close to half of the nominal performance of pension funds. As a result, the average *real net return* of Dutch pension funds in 2024 stood at +3.6%. The depressing effect of the 2022 negative returns and inflation peak is felt on annualised returns across holding periods from 3 years to 7 years; only the computed returns over 10 and 25 years are positive, as can be seen in Table 13.2.

In the remainder of this introduction, we will briefly present the Dutch pension system, including the Pillar I State pension. The next section will present in more detail the two main pension savings vehicles in use in the Netherlands: occupational pension funds and unit/index-linked life insurance policies. We will then look more closely at the data available on costs and charges and at the taxation regime applicable to those long-term and pension saving vehicles, before analysing their returns

**Table 13.2 – Annualised net return of Dutch pension funds  
(before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period	to...
Pension funds	3.6%	-7.7%	-3.4%	-1.2%	0.5%	1.6%	end 2024

*Data:* De Nederlandse Bank, Eurostat; *Calculations:* BETTER FINANCE.

after charges and inflation from a long-term perspective.

### 13.1.1 Pension system in the Netherlands: An overview {sec-nl-intro-overview}

Like most of the country analysed in this report, the Netherlands have a classic three-pillar pension system whereby: - Pillar I is a contributory, state pension scheme organised as a social insurance system under the PAYG principle; - Pillar II is made of fully funded, mostly tax-exempt and—until now—comprising mostly DC schemes; - The much smaller Pillar III pillar is made of life insurance policies.

#### **Pillar I: The AOW**

The Algemene Ouderdomswet (AOW), the basic, universal pension paid by the Dutch State borrows its name from the 1956 law that established a lifelong pension for all elderly inhabitants of the Netherlands, regardless of their nationality and employment history (Algemene Ouderdomswet, 1956). The amounts AOW pension benefits depend on the number of years an individual contributed to the Dutch social security system, but the system offers universal coverage (all residents are entitled). Each resident in the Netherlands between 16 and 66 years that is either employed, self-employed or on benefits contributes to the financing of the AOW—among other social security services—via a deduction from wages or benefits. A contribution from the State's general budget covers the gap between these social contributions and pension commitments. Every inhabitant of the Netherlands is automatically enrolled in the AOW system and is entitled to 2% of the maximum monthly allowance for each year lived in the country between the ages of 16 and 66.<sup>1</sup>

The AOW is a PAYG scheme—a redistributive system whereby social security contributions from the current workforce are used to pay the current pensions—and is therefore sensitive to the ageing of the population. With an old-age dependency ratio of 32.5% in 2025 and a projected rate of 42.3% by 2050,<sup>2</sup> the Netherlands is in a rather better position than most of the other countries in our study. This is in part due to the decision taken in the mid-1990s to raise the retirement age (*AOW-leeftijd*) continually on par with life-expectancy increases. That decision was tempered by a 1999 agreement between the government and social partners to limit the increase of the retirement age (Wet temporiserend verhogen AOW-leeftijd, 2019): After a transition period of five years, from 2020 to 2024, when the previously agreed retirement age for each year was reduced by 8 months, from 2025, the retirement age is set to increase by 8 months with every additional year of average life expectancy. Thus, based on current life expectancy expectations, Dutch residents born between October 1st, 1964 and September 30th, 1966 can enjoy AOW benefits when reaching 67 years and 3 months; those born between October 1st, 1999 and December 31st, 2000 will not receive them before they are 70 years old.<sup>3</sup> The AOW pension is not

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<sup>1</sup>That is, an individual who has lived in the Netherlands during the whole period—66-16 = 50 years—would be entitled to  $50 \times 2\% = 100\%$  of the maximum monthly allowance.

<sup>2</sup>Eurostat data, the old-age dependency ratio is the ratio of number of pensioners to the active population. The EU-27 average was 34.4% in 2025 and is projected to rise to 50.4% by 2050.

<sup>3</sup>The Sociale Verzekeringsbank (SVB), the institutions that pays-out social benefits in the Netherlands, provides a table with retirement ages by age cohort, for birth dates between June 1st, 1956 and December 31st, 2000. These projections are bound to be indicative only, as life-expectancy projections are to be refined over time.

payable before the AOW age (no early retirement) and cannot be deferred beyond that age, although it is possible to combine the pension and work (OECD, 2021).

## **Pillar II: Occupational pensions**

The second pillar of the Dutch pension system is a system of collective pension schemes, organised on a per-company or per-sector basis. Occupational pensions in the Netherlands are fully funded, organised into pension funds which are legally independent from their sponsoring companies or groups of companies.

Each individual enrolled in a pension funds and their employer contribute directly or indirectly to it. The employer provides the major part of the contributions (usually between 50% and 70%), which are invested in order to fund retirement benefits.

Enrolment in an occupational scheme is, in many cases, compulsory: When trade unions and employers decide to set up an occupational pension scheme for a company or economic sector, the government has the possibility to make enrolment in that fund compulsory for all employees. This results into a near universal coverage of the Dutch active population by Pillar II pension schemes. Compulsory enrolment aims at increasing coverage of the working population, reduce costs per member through economies of scale, but also avoid a "race to the bottom" in the level of paid pension premiums. Enrolment is, then, automatic and mandatory, without possibility for an employee to opt-out from the pension scheme of their current employer.

An employee can participate in more than one occupational pension fund if they change employer during their career and the two employers do not contribute to the same pension scheme: The employee only actively contribute to the pension scheme of their current employer, while capital accumulated with the first employer's scheme remains there until reaching retirement age or, subject to specific scheme rules, is transferred to the new employer's scheme.

The Dutch and social partners in 2019 agreed a major reform of the Dutch pension system—the WTP—, the main measure of which is the transformation of occupational pensions from the currently dominating classic DB model to a CDC model, intended to ensure the long-term financial sustainability of Dutch pension funds. This CDC model shifts the financial risk previously borne by plan sponsors (employers, typically) to participants by making pay-outs variable and dependent upon the financial performance of the pension fund like in a classic DC plan. In this new Dutch system, pay-outs are thus adjusted annually to follow the performance of the fund.

What differentiates the Netherlands' new CDC model from a pure DC model is that it retains important collective features intended to limit the potential impact of financial market volatility on participants. - First, **longevity risk is pooled**. Somewhat similar to an annuity, the funds must offer a lifetime income to retired participants, the amount of which is determined by the financial performance of the fund and average life expectancy. For a member who live a longer life, payments do not stop when benefits already paid-out exceed the contributions the individual paid-in. Conversely, if a member dies early the excess contributions (relative to the pay-outs they have received until their untimely demise) remain within the fund. These "mortality credits" then contribute to the funds' ability to pay lifelong income even to mem-

**Table 13.3 – Overview of the Dutch pension system**

Pillar I	Pillar II	Pillar III
State Pension AOW	Occupational pension Pension funds	Voluntary pension Life insurance, <i>pensioensparen</i> , etc.
Mandatory PAYG Public	Mandatory Funded DB/DC <sup>a</sup> Private	Voluntary Funded DC Private
Social contributions and taxes	Employee/employer contributions (variable according to social partners' agreement)	Individual payments
Universal coverage	Quasi-universal	—

<sup>a</sup> The WTP will transform occupational pensions from mostly a mostly DB system to a mostly DC one.

bers living until a biblical age. - Second, funds are to constitute a **solidarity buffer**, funded by contributions and returns on the funds' investments. That buffer is to be used to smooth out the variations of benefits pay-outs (excess returns in good years augment the reserve, and the fund taps it to limit pay-out reduction in downturns).

The new CDC model implemented in the Netherlands comes in two flavours. By the end of the transition phase, on January 1st, 2028, for each pension fund, social partners will need to have chosen between the *solidarity scheme* and the *flexible scheme*. The solidarity scheme, which appears to be the most popular amongst pension funds, includes a collective investment strategy (i.e., the same investment strategy for the whole group) and a sizeable collective buffer to share risk across participants. The flexible scheme is closer to a traditional DC model, with smaller collective elements and more space for individual choice to be made by each participant.

### **Pillar III: Life insurance contracts**

Pillar III is composed of individual pension products sold by insurance companies, including life insurance and *pensioensparen*—a special-purpose savings account intended for retirement savings. Pillar III products are offered to anyone in the Netherlands to save for retirement, either in complement or in lieu of retirement savings in Pillar II pension funds.<sup>4</sup> Tax benefits applicable to Pillar III products make them attractive savings vehicles.

## 13.2 Pension savings vehicles in the Netherlands

<sup>4</sup>There are rare cases of individuals in the Netherlands whose professions or companies do not entail enrolment into an occupational pension scheme, e.g., entrepreneurs.)

**Table 13.4 – Members and AuM of Dutch pension funds**

Year	Nb. of funds	AuM (EUR bln.)		Nb. of members (thousands)	
		Total	Average	Total	Average
2015	250	1 116.37	6.24	17 900.37	71.60
2016	245	1 195.50	6.46	18 242.67	77.63
2017	231	1 276.02	6.38	18 653.18	80.75
2018	224	1 328.55	6.36	19 175.28	87.16
2019	212	1 511.13	7.30	19 137.84	90.70
2020	201	1 571.01	7.86	19 192.00	95.48
2021	192	1 740.12	9.11	19 152.08	99.75
2022	185	1 518.85	8.25	19 063.07	103.04
2023	185	1 479.93	8.04	18 635.98	100.74
2024	178	1 627.02	9.19	19 332.34	108.61

Data: De Nederlandse Bank.

**Table 13.5 – Largest Dutch pension funds per AuM**

Fund	AuM	Nb. of members (thousands)
ABP	523.9	3 139.7
Zorg en Welzijn	249.0	2 949.6
Metaal en Techniek	86.7	1 240.7
Bouwnijverheid	67.4	749.1
Metalektro, bedrijfstakpensioenfond	57.3	629.5

Data: De Nederlandse Bank.

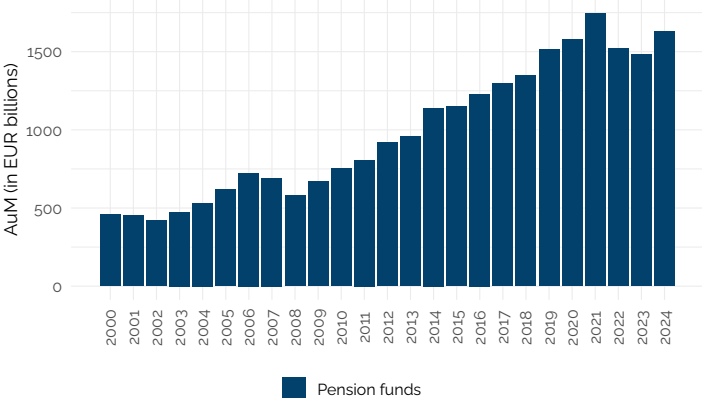
### 13.2.1 Occupational pension funds: The crown jewel

With EUR 1.6 trillion in AuM, the Dutch occupational pension fund sector is by far the largest in Europe. Its growth has been steady over the past quarter of a century, as can be appraised from Figure 13.1.

The average occupational fund holds EUR 9.11 billion in AuM on behalf of a hundred thousand participants (see Table 13.4). That average size that has increased significantly in recent years, in part due to the consolidation trend that has characterised the sector: the number of pension funds decreased from 250 in 2015 to only 178 in 2024. But this average hides great disparity: as can be seen in Table 13.5 and Table 13.6, the largest of the Dutch pension funds—notably ABP and Zorg en Welzijn—are much larger than that.

Four main types of occupational pension funds exist in the Netherlands. - First, the industry-wide pension funds administer and operate the pensions for an entire sector, such as food companies or civil service. ABP, the pension fund of civil servants, is not only the largest in the Netherlands, it is also the second largest pension fund in Europe. - Second, corporate pension funds administer and operate pension schemes for individual corporations, usually major ones. - Third, there exist several pension funds for independent professionals, such as medical specialists. - Fourth,

Figure 13.1 – AuM of Dutch pension funds (in EUR bln.)



Data: De Nederlandse Bank; Calculations: BETTER FINANCE.

**Table 13.6 – Largest Dutch pension funds per number of members**

Fund	Nb. of members (thousands)	AuM
ABP	3 139.7	523.9
Zorg en Welzijn	2 949.6	249.0
Personeelsdiensten	1 477.2	3.5
Detailhandel	1 287.7	32.0
Horecabedrijf	1 284.5	13.8

*Data:* De Nederlandse Bank.

**Table 13.7**

Year	AuM in DB plans	AuM in DC plans
2015	1 144 999	4 618
2016	1 224 679	5 007
2017	1 289 499	5 736
2018	1 341 755	6 010
2019	1 506 816	6 500
2020	1 571 161	6 711
2021	1 738 194	7 757
2022	1 514 112	7 166
2023	1 471 794	8 564
2024	1 616 676	11 454

*Data:* De Nederlandse Bank.

Assets of DB vs. DC plans in Dutch pension funds, 2015–2024 (EUR mln.)

and final, general Pension Funds have been created to achieve economies of scale and improve governance, being allowed to ring-fence and incorporate several (former) corporate pension funds under a single administrative umbrella.

In line with the EU's IORP II Directive (Official Journal of the European Union [OJEU], 2016), the assets of a Dutch occupational pension fund are strictly separated from the company (or any other organisation) that sponsors it. They are governed by social partners who delegate management to a professional manager.

As can be appreciated from Table 13.7, DB is by far the dominant structure of Dutch pension funds: in 2024, over 99% of Dutch pension assets were still invested "for the pension funds' risk".

Under the still predominant DB system that the WTP is phasing out, pension funds are required to maintain reserves sufficient to cover all current and future pension benefits they will have to pay. This requirement is operationalised as a funding ratio that must remain above 104%. That funding ratio is calculated as the current value of assets divided by the current value of liabilities, where the current value of liabilities is calculated the actuarial interest rate determined by the De Nederlandse Bank (DNB),

the country's central bank, which supervises the sector. A fund can only index its benefits to inflation if its funding ratio exceeds 110%. Where a fund's funding ratio falls below 104%, the fund manager is required to take measures to restore it. A funding ratio between 104% and 110% does not require action but forbids indexation of benefits.<sup>5</sup>

Figure 13.2 displays the average funding ratio of Dutch occupational pension funds published by the DNB. The "policy funding ratio" is calculated only since 2015, but the DNB also uses market data to compute the average funding ratio since 2007. It is obvious from these two lines that the mostly-DB pension funds had troubles navigating the long decade of extremely low interest rates between the global financial crisis of 2008-2009 and the interest rate hike of 2021-2022.

A cursory look at the sector's asset allocation can provide a hint at one potential source of these difficulties: for most of the period, more than half of AuM in Dutch pension funds were invested in debt securities, the return on which was muted by persisting low interest rates. Equity investments, in the meantime, consistently remained below one-third of total investments. Reliance on debt securities seems to be abating in recent years, with their share in total assets down from 58.1% of total assets in 2020 to 47.7% at the end of 2024 (see Figure 13.3). That turn away from debt securities does not seem to be to the benefit of equity investments, however, which appear to fall even further in recent years, closer to one-fourth of total assets.

By contrast, the relative share of alternative asset classes in the investment mix increased significantly over the past three years, reaching 12.2% of total assets in 2023 before falling back to a 8.3% that remains high compared to the historically small investments of Dutch investment funds in that category. Whether that greater exposure to alternative assets overall is a general trend in the sector or whether it is attributable to specific funds, we cannot say: the DNB only publishes data on asset allocation aggregated at the sector level, not for individual funds.<sup>6</sup> Nevertheless, we venture that it would be worth investigating whether the consolidation trend that characterised the Dutch pension funds industry in the past decade might have enabled larger funds to dedicate human resources to the management of more complex, less transparent investments in search for high returns. Similarly, asset pooling and outsourcing arrangements whereby smaller funds mutualise resources may have contributed to this new orientation of investment strategies.

### 13.2.2 Pillar III: Life insurance

Besides its large occupational pension sector, the Netherlands boast a sizeable life insurance sector, which include PPPs as well as long-term investment products that, although not formally pension products, are used by individuals to constitute a capital that can be earmarked for retirement.<sup>7</sup> The sector's EUR 308 billion AuM at the

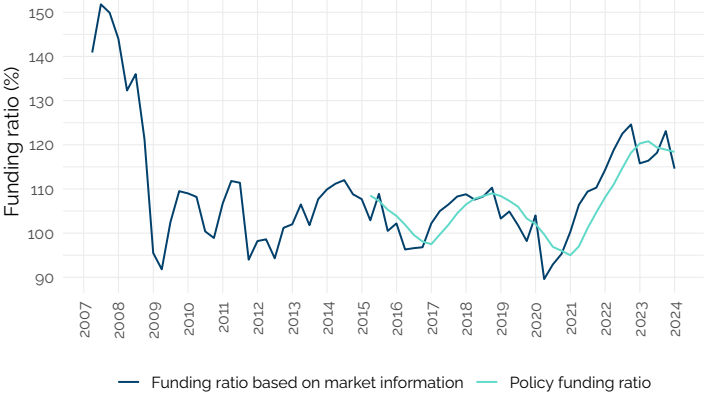
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<sup>5</sup>The system is explained in the DNB's website

<sup>6</sup>In all fairness, we must say that this information would be available in the annual report of each pension fund, but collecting information from so many and varied sources is beyond our possibilities.

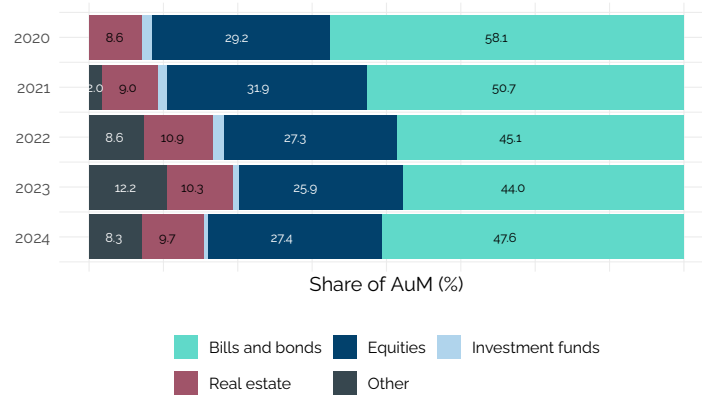
<sup>7</sup>In the World Bank's conceptual framework on pensions, that would be the "fourth pillar" of a pension system (World Bank, 2008). However, that "fourth pillar" is a somewhat of a catch-all category for assets that *can* be accumulated for the purpose of providing income in retirement, including but not limited to financial assets. Admittedly, many life insurance contracts are closer to PPPs than to many

Figure 13.2 – Average funding ratio of Dutch pension funds



Data: De Nederlandse Bank.

**Figure 13.3 – Allocation of assets invested in Dutch pension funds**



Data: De Nederlandse Bank; Calculations: BETTER FINANCE.

end of 2024, is divided into three main categories:

- Life insurance “with profit participation” (EUR 63.4 billion)
- Unit- or index-linked life insurance (EUR 99.7 billion), and;
- Other life insurance (EUR 141.9 billion).

What part of these life insurance savings is effectively earmarked for retirement is unclear, but it is generally admitted that the bulk of retirement savings in the Netherlands rests in occupational pensions, not personal pensions. Residents in the Netherlands are largely free to contribute any amount they want to a PPP every year, and the banking and life insurance industry reminds them regularly that most of them probably have a “pension deficit” or “pension hole” (*pensioengat* or *pensioentekort*, usually defined as a projected retirement income below 70% of the last salary before retirement) as the main argument to constitute voluntarily a supplementary pension capital on top of what they may have saved within Pillar II schemes.

Nevertheless, the *tax incentive* to save in a PPP is limited: - In any given year, one can only deduct contributions to such products from their taxable income if they have a “pension deficit” in that year. If there is no pension deficit, no deductibility is allowed. - The amount that can be invested *and* deducted from taxable income is then limited to the “annual space” (*jaarruimte*), calculated on the basis of (a) one’s salary or other work-related income (for, e.g., the self-employed) and the amount by which one’s pension accruals have increased over the past year: there is annual space where accruals have been insufficient relative to one’s salary. Unused annual space in a given year is not lost: the unused annual space of the past 10 years constitutes an individual’s “reservation space” (*reserveringsruimte*), which can be used to increase the amount of contributions that can be deducted in a later year.<sup>8</sup>

As already mentioned, the share of those third-pillar products in the retirement mix of Dutch households is relatively low. The universal and near-universal coverage of Pillars I and II partly explains that Dutch savers see little need to add a third-pillar product to their portfolio.

### 13.3 Charges

Regarding transparency on costs, the Dutch pension savings landscape is quite contrasted: while the pension fund sector implements a rather clear and transparent reporting framework, there is no aggregate data of the costs of Pillar III products.

For a long time, data regarding costs and charges of Dutch pension saving vehicles were difficult to obtain and, where available, tend to only partially reflect the burden of these costs on investors’ returns. Following calls from Dutch NCAs—the DNB and the Autoriteit van Financiële Markten (AFM), the financial markets authority—to improve transparency, pension fund management companies agreed to work on a harmonised cost reporting framework. The self-regulation initiative became law in 2015, with the adoption of the “Pensions Communication Act” (*Wet Pensioencommunicatie*), which applies to data from 2015 onwards. The Federation of the Dutch

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assets that would be categorised as “Pillar IV”.

<sup>8</sup>See more information on the site of the Dutch tax administration, [belastingdienst.nl](http://belastingdienst.nl).

Pension Funds consequently revised its "recommendations on administrative costs" to implement the new law (PensioenFederatie, 2016).

Dutch pension funds today constitute one of the few cases where data on costs and performance is relatively plentiful (compared to other product categories in our study, see Figure 2.2), and, crucially, comparable across funds. The AFM nevertheless called on pension funds to do better: in a report published in 2021, it found that 54% of the funds' annual reports either missed or reported incorrectly at least one cost metric (Autoriteit Financiële Markten [AFM], 2021). The AFM also signalled the need for better explanations of costs, beyond aggregate figures. With the switch to a DC system, cost consideration will become increasingly important:

Because of the transition costs that pension funds will have to deal with in the coming period, and the more prominent role that costs will have in participant communication in the new pension system, the AFM believes it is important to pay extra attention to accountability and transparency of costs now, on the eve of that transition.

(AFM, 2021, p. 5)

As regards costs, the reporting framework mandates the disclosure of three main metrics: asset management costs, transaction costs (both in percentage of total AuM) and costs of pension administration per member (in EUR per member). As Table 13.8 shows, data before the *Wet Pensioencommunicatie* is essentially limited to costs of asset management.

The sudden jump in these asset management costs from 2014 to 2015 should not be understood as an increase in the actual costs of Dutch pension funds: Instead what these figures reveal is that asset management cost figures until 2014 probably underestimate actual costs, and that the new reporting framework better captures the actual extent of these costs. Furthermore, over the past decade, pension funds have largely eliminated the payment of performance fees from their contracts with asset managers, leading to a reduction in costs. One should also note that the figures published by DNB for pension funds' nominal returns are net of transaction costs, which are notoriously ambiguous and difficult to account for. In recent years, Dutch pension funds and regulators have made significant progress to more fully and transparently account for these costs, but we should assume that the actual transaction costs before 2015 were higher than the figures deducted from the gross returns reported to DNB, meaning that nominal returns may be overestimated. Naturally, since our computation of net returns relies on these figures, this implies that our calculations are likely to overestimate nominal and real net returns before from 2000 to 2015 (see Figure 13.7).

The asset-weighted average figures in Table 13.8 show the relative stability of the sector's costs and charges. Except for a peak at 0.69% of AuM in 2021, the asset management charges have been oscillating in the area of 0.45% to 0.47% of AuM for the past decade, while the transaction costs remained below remain between 0.9% and 0.11% of AuM. The same stability characterised the contract management fees (in EUR per member) until 2021; since 2022 however, these fees are increasing significantly, which could be due to the WTP reform. Whether these higher administration

**Table 13.8 – Costs and charges of Dutch pension funds**

Year	Admin. and mgt. fees	Contract mgt. fees	Other ongoing fees
2007	0.21%	NA	NA
2008	0.25%	NA	NA
2009	0.19%	NA	NA
2010	0.15%	NA	NA
2011	0.20%	NA	NA
2012	0.22%	NA	NA
2013	0.25%	NA	NA
2014	0.19%	NA	NA
2015	0.46%	EUR 113.63	0.09%
2016	0.45%	EUR 111.72	0.08%
2017	0.47%	EUR 112.11	0.10%
2018	0.45%	EUR 101.20	0.09%
2019	0.45%	EUR 104.10	0.09%
2020	0.47%	EUR 107.85	0.11%
2021	0.69%	EUR 107.60	0.09%
2022	0.43%	EUR 112.02	0.11%
2023	0.39%	EUR 123.26	0.10%
2024	0.40%	EUR 136.83	0.09%

*Data:* De Nederlandse Bank; *Calculations:* BETTER FINANCE; *Note:* 'Other ongoing fees' represent the transaction costs, which are reported separately only since 2014; asset management costs and transaction costs: average of individual pension funds' cost-to-AuM reported to DNB; contract management fees: average pension management costs per member weighted by number of members.

costs are temporary (we are now in the middle of the transition phase) or whether they constitute the new normal remains to be seen: with the new CDC model involving the creation of individual accounts for pension fund participants, it is possible quite possible that administering pensions become more expensive.

The fund-level data published by the DNB reveals important differences across funds. Figure 13.4 shows the distribution of Dutch pension funds across levels of asset management costs (horizontal axis, shown as a percentage of AuM per annum) and levels of pension management costs (administrative charges for managing an participant's pension, vertical axis, in EUR per member) in 2024, with the size of the dot representing the number of members. As regards asset management costs, there is no clear indication that the size of a fund matters: small and large funds can be found below and above the asset-weighted average of 0.4% in roughly equal measures. By contrast, as regards pension management costs, the largest funds concentrate in the lower part of the scale—driving the asset-weighted average administrative fee down to EUR 137 per member in 2024—but many smaller funds charge much higher fee levels, including above EUR 1000 per member per year. This seems to indicate that economies of scale play an important role.

Generally, when including all costs, there seems to be a tendency for smaller funds to levy more annual charges off their members' assets. The fit line in Figure 13.5 shows this relation: the level of costs drops rapidly until approximately EUR 500 million in AuM; the reduction then slows until EUR 100 billion, before increasing marginally again for the largest two funds.

We unfortunately could not obtain cost data related to life insurance contracts in the Netherlands. Data available about life insurance arises from prudential reporting mandated by Directive 2009/138/EC ("Solvency II") and focuses on the balance sheet of life insurance companies rather than on cost and performance of the products they distribute.

## 13.4 Taxation

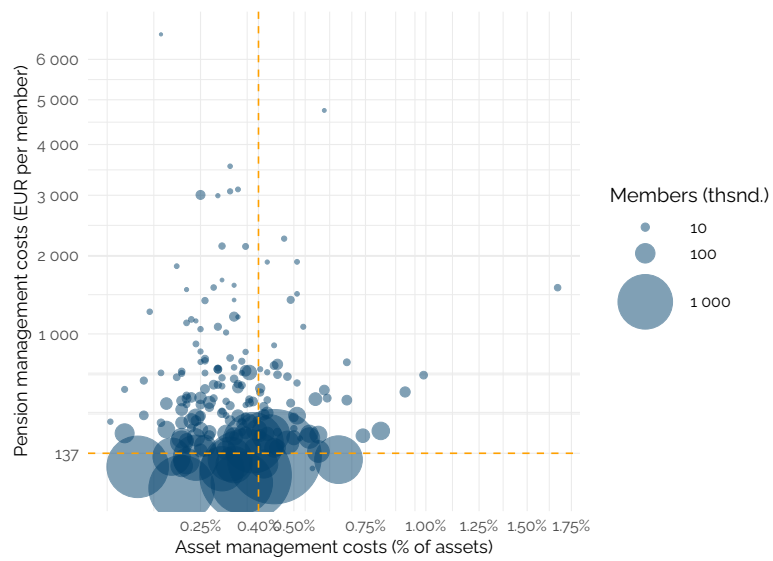
Pension funds are exempt from company taxes in the Netherlands. The money that Dutch employees pay into their pension funds during their working life is deducted from their gross income and therefore exempt from income tax. The returns on the investments made by pension funds on behalf of pension scheme participants are not taxed either.

Pension pay-outs—the amounts paid monthly to pension scheme participants from the moment they reach retirement age—are subject to personal income tax. The personal income tax rate applicable to the first income bracket is, however, much lower for pensioners than for the active population: in 2025, Dutch residents over 67 years only pay 17.85% on their income up to EUR {41 123}, while those 66 years old or younger pay 35.75% in taxes for income up to EUR {38 883}.<sup>9</sup>

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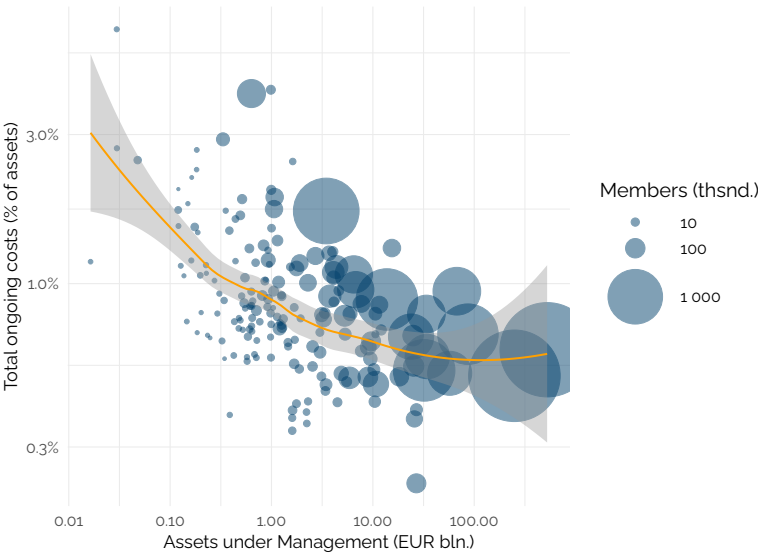
<sup>9</sup>The difference only applies to the first income tax bracket: beyond EUR {41 123}, tax rates are the same for younger and older taxpayers. Income tax rates and bracket are available on the website of the Dutch Tax Authority.

**Figure 13.4 – Pension and asset management costs of Dutch pension funds, 2024**



Data: De Nederlandse Bank.

Figure 13.5 – AuM vs. costs of Dutch pension funds, 2024



**Table 13.9 – Taxation of pension savings in the Netherlands**

Product categories	<i>Contributions</i>	Phase <i>Investment returns</i>	<i>Payouts</i>	Fiscal Regime
Pension funds	Exempted	Exempted	Taxed	EET
Life insurance	Exempted	Exempted	Taxed	EET

*Source:* BETTER FINANCE own elaboration based on Belastingdienst.

As already mentioned, contributions to voluntary, Pillar III products are similarly tax exempt (within the limit of an individual's *jaarruimte*, see Section 13.2.2) as are returns on those investments. Payouts are, like payouts of pension funds, taxed at the personal income tax rate.

The Dutch tax system for pension savings therefore follows the dominant EET model, as summarised in Table 13.9.

## 13.5 Performance of Dutch pension funds

### 13.5.1 Real net returns of Dutch pension funds

After presenting the Dutch pension system and its main pension saving vehicles, discussing the evolution of pension funds' costs and summarising the tax regime applicable to pension savings, we now turn to the analysis of returns. 2024, like 2023 was a rather positive years for Dutch pension savings, driven by a strong performance of capital markets. Inflation, however, rose up again in 2024 to 3.9%, above the EU average (see Figure 13.6). Viewed in a long-term perspective, the Netherlands has a relatively moderate inflation—2.4% annualised over the period 2000–2024, just 0.1 p.p. above the EU average—but even that moderate annual inflation entails an 82% loss of purchasing power for Dutch pension savers of the past 25 years.

In the remainder of this section, we will report annualised and cumulated returns of Dutch pension funds. We base this analysis on the data made available by the DNB, which enables us to calculate aggregate returns for pension funds since 2000. For this country case, we follow the methodology presented in the introductory chapter of this report.

#### No data on life insurance

As already mentioned, we are, unfortunately unable to update the return data for life insurance contracts in 2023: DNB indeed informed us that such data, although reported by life insurers to the NCA as part of the Solvency II requirement, is not made available to the public. We kindly refer the reader to the 2023 edition of this report for data on life insurance returns over the period 2016–2022 (BETTER FINANCE, 2023b).

Two successive years of strong nominal gross performance—+8.7% in 2023, +8.1% in 2024—largely made up for the heavy losses that Dutch pension funds suffered in 2022 (–21.1%): the annualised gross return is still negative over the past 3 years (–2.5%) but positive for all periods longer than 4 years, as shown in Figure 13.7. Cumulated from 2000 to end-2024, nominal returns reached 189.3%, which is still below their peak of 212.1% reached at the end of 2021, but shows evidence of a solid recovery.

We can see by the proximity of the nominal gross and nominal net returns that the long-term impact of costs is moderate, reducing returns by *only* 21 p.p. after 25 years. We should note that this difference only represents asset management costs: transaction costs are already deducted from nominal “gross” returns and we do not deduct the pension administration costs per member.<sup>10</sup>

*Real net* returns, however, remain low: the 2021-2022 inflation peak affected the Netherlands like most other EU countries (+11% in 2022), which compounded the losses on invested assets. The +3.9% inflation rate in 2024 severely reduced the positive nominal returns on investments.

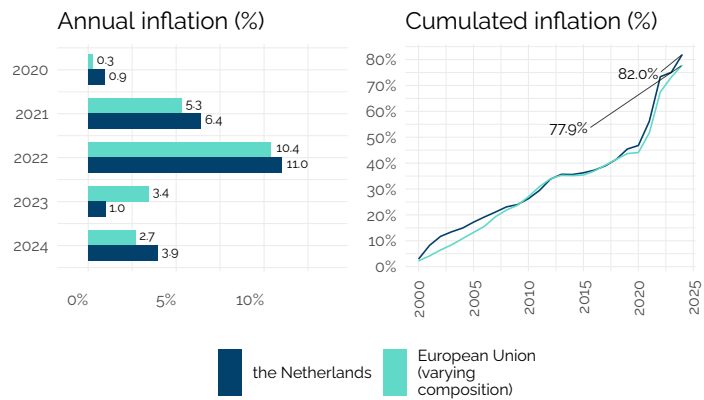
Overall, Dutch pension funds' performance track record shows a steady course of

<sup>10</sup>Since data for this cost item is only available since 2015, we do not have sufficient data to extrapolate for early years.

**Figure 13.6 – Inflation in the Netherlands**

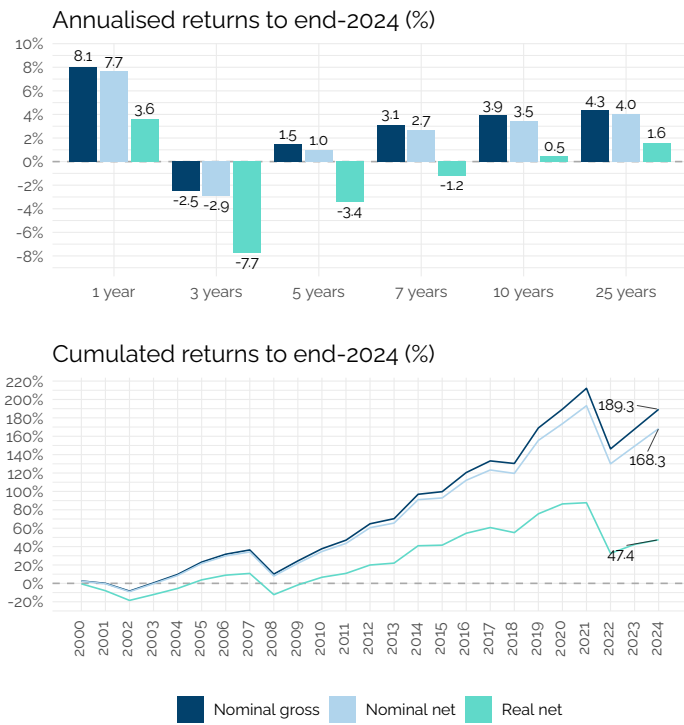
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>the Netherlands</i>	82.0%	2.4%



Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 13.7 – Returns of Dutch pension funds (before tax, % of AuM)**



*Data:* De Nederlandse Bank, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period. 'Nominal gross' returns are net of transaction costs, as reported by pension funds to the DNB

capital accumulation, with setbacks in 2001-2002, 2008, 2018 and, as already mentioned, 2022. The relatively high allocation of the sector's assets to fixed income investments made for limited volatility. However, once we adjust for inflation, that asset allocation leads to limited real generation of additional capital for the members of Dutch pension funds.

The WTP reform is still ongoing and it is, as a result, hard to say the effect the new CDC model will have on asset allocation, costs and, in fine, returns. Under the current DB model, those limited returns—consistent as they may be—have often resulting in funding ratios that were too low for pension funds to index pension benefits to prices. We must hope that the new model will enable Dutch pension funds to generate higher returns for participants.

### 13.5.2 Do Dutch pension funds beat capital markets?

As a last step in our analysis of Dutch pension funds' returns, we compare their performance with that of a hypothetical portfolio invested in European capital markets. The portfolio used here is our "default" 50% equity–50% bond portfolio, annually rebalanced, presented in Section 1.2.4. The composition of the benchmark portfolio is summarised in Table 13.10.

The nominal returns of this benchmark portfolio are adjusted—like the returns of the products—using the inflation rates calculated based on Eurostat's HICP monthly index for the Netherlands. For each product category, we calculate the returns of the benchmark over the same period as the average returns of the product category.

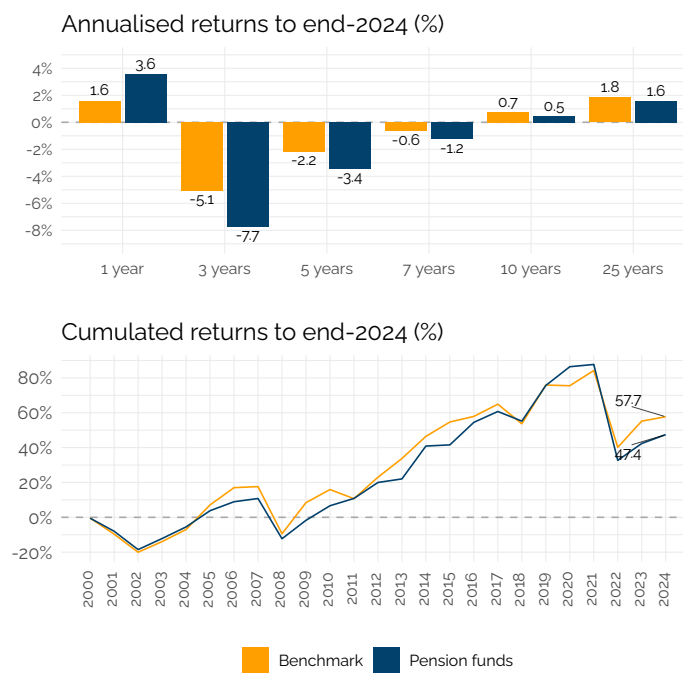
As shown in Figure 13.8, pension funds' average real net returns fail to beat the benchmark's returns for all holding periods except the year 2024, where pension funds' outperform our benchmark by 2 p.p.s. Over 25 years, the difference is a 0.2 p.p. *underperformance* for pension funds. However, the reader must bear in mind the fact that the limited data availability up to 2015 mean that our calculations most probably overestimate the long-term returns of Dutch pension funds. The gap between pension funds and the benchmark may be somewhat wider than Figure 13.8 shows. Regardless of the extent of overestimation, we can safely say that Dutch pension funds' returns fail to beat a rather conservative capital market benchmark.

**Table 13.10 – Capital market benchmarks to assess the performance of Dutch pension funds**

Product category	Equity index	Bonds index	Start year	Allocation
Pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	50%–50%

*Source:* STOXX, Bloomberg; *Note:* Benchmark portfolios are rebalanced annually.

**Figure 13.8 – Performance of Dutch pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: De Nederlandse Bank, Eurostat; Calculations: BETTER FINANCE.

## 13.6 Conclusions

Dutch pension funds' average performance reflects a relatively conservative investment mix that makes for a steady path of capital accumulation. However, after accounting for costs and, crucially, inflation, the additional retirement capital generated by pension funds' investment remains limited.

The efforts that Dutch pension funds have made to account for costs and report these costs in a uniform manner enable us to testify of a trend towards lower costs of managing Dutch occupational pensions. These efforts are welcome, as clear and comparable cost and performance information is essential to assess the management of pension funds and ensure the accountability of managers. That is the case even where enrolment is mandatory and choices available to the investor limited as in the current Dutch DB model, but becomes even more crucial where the risk of underperformance is borne by the members, in a DC model.

The DB model offered Dutch pension savers the guarantee of a given level of benefits, but insufficient returns still prevented the indexation of pension benefits, effectively letting participants exposed to the risk that inflation slowly eat away the purchasing power of these guaranteed benefits.

Moving to a DC model does shift the financial risk onto participants' shoulders, but the ongoing WTP reform and the CDC model it will generalise across the Netherlands will be different from a pure DC model, as it will mutualise a large part of the risk across members. If that model enables pension fund managers to implement more aggressive investment strategies and generate higher returns for their participants collectively, it might actually result in more financial security for Dutch pension savers.

Like many observers across Europe, we will continue to follow the implementation of the Dutch reform with great interest over the coming years, in the hope of seeing increased returns for participants.

## Chapter 14

# Poland

### Streszczenie

Dodatkowy system emerytalny w Polsce składa się aktualnie z pięciu elementów: pracowniczych programów emerytalnych (PPE), indywidualnych kont emerytalnych (IKE), indywidualnych kont zabezpieczenia emerytalnego (IKZE), pracowniczych planów kapitałowych (PPK) oraz ogólnoeuropejskiego indywidualnego produktu emerytalnego (OIPE) wprowadzonego we wrześniu 2023 r. Na koniec 2024 roku zgromadzono w nich odpowiednio 29,4 mld PLN (6,9 mld EUR), 22,8 mld PLN (5,3 mld EUR), 12,1 mld PLN (2,8 mld EUR), 30,3 mld PLN (7,1 mld EUR) oraz 0,11 mld PLN (0,03 mld EUR).

W analizowanym okresie (2002-2024) pracownicze fundusze emerytalne (PFE), będące jedną z form PPE, wypracowały nominalne stopy zwrotu równe 5,64% w skali roku. Średnia realna stopa zwrotu za cały analizowany okres wyniosła natomiast 2,44%.

Dobrowolne fundusze emerytalne (DFE), będące jedną z form IKE i IKZE, osiągnęły nadzwyczajne wyniki inwestycyjne w początkowym okresie funkcjonowania, które nie zostały jednak powtórzone w kolejnych latach. Średnia nominalna stopa zwrotu z uwzględnieniem opłat za lata 2013-2024 wyniosła 4,13%, a realna 0,78%.

Wprowadzone tuż przed pandemią pracownicze plany kapitałowe (PPK) oferowane w formie funduszy zdefiniowanej daty osiągnęły natomiast w okresie 2020-2024 nominalną stopę zwrotu równą 7,82% rocznie i realną na poziomie 0,25%.

### Summary

The supplementary pension system in Poland currently consists of five components: employee pension plans (PPE), individual retirement accounts (IKE), individual retirement security accounts (IKZE), and employee capital plans (PPK) and pan-european personal pension products (OIPE introduced in September 2023). At the end of 2024, they have accumulated PLN 9.4 billion (EUR 6.9 billion), PLN 22.8 billion (EUR 5.3 billion), PLN 12.1 billion (EUR 2.8 billion), PLN 30.3 billion (EUR 7.1 billion), and PLN 0.11 billion (EUR 0.03 billion) respectively.

During the period under review (2002-2024), employee pension funds (PFEs), which are one form of PPEs, generated nominal rates of return of 5.64% per year. In contrast, the average real rate of return for the entire period analyzed was 2.44%.

Voluntary pension funds (DFEs), which are a form of IKEs and IKZEs, achieved extraordinary investment results in their initial period of operation, but these were not

**Table 14.1 – Product categories analysed in Poland**

Name	Product category	Pillar	Reporting period	
			Earliest data	Latest data
Employee pension funds		Voluntary (III)	2002	2024
Voluntary pension funds		Voluntary (III)	2013	2024
Employee capital plans		Voluntary (III)	2020	2024
Pan-European personal pension products		Voluntary (III)	2024	2024

**Table 14.2 – Annualised net return of analysed Polish long-term and pension savings (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years
Employee pension funds	2.5%	-3.5%	-2.1%	-1.6%	-0.5%
Voluntary pension funds	-2.7%	-7.5%	-4.0%	-4.9%	-2.4%
Employee capital plans	2.7%	-1.9%	0.7%	NA	NA
Pan-European personal pension products	11.4%	NA	NA	NA	NA

*Data:* UKNF, Eurostat; *Calculations:* BETTER FINANCE.

repeated in subsequent years. The average nominal rate of return including fees for 2013-2024 was 4.13%, and the real rate was 0.78%.

Introduced just before the pandemic, employee capital plans (PPKs) offered in the form of target-date funds achieved a nominal rate of return of 7.82% and 0.25% in real terms annually for the 2020-2024 period.

## 14.1 Introduction: The Polish pension system

- All forms of supplementary pension savings in Poland are offered in funded DC formula, which means high investment risk exposure for individual participants.
- The schemes are generally offered in few forms: a contract with an asset management company (investment fund); a contract with a life insurance company (group unit-linked life insurance); an employee pension fund run by the employer—*pracowniczy fundusz emerytalny (PFE)*—, an account in a brokerage house; a bank account (savings account) or a voluntary pension fund—*dobrowolny fundusz emerytalny (DFE)*.
- At the end of 2024, PLN 94.66 bln (EUR 22.14 billion) assets were collected in Poland's supplementary pension system.
- In 2022 due to turbulent times caused by the war in Ukraine all the schemes reported negative returns but they were compensated with good investment results in 2023, and moderate ones in 2024. Hence, average rates of return for longer periods both nominal and real stayed positive for all plans.

**Table 14.3 – Overview of the Polish pension system**

Pillar I	Pillar II	Pillar III
Mandatory	Mandatory <sup>a</sup>	Voluntary
PAYG	PAYG/Funded (opt-out)	Funded
NDC	NDC/DC (opt-out)	DC
Basic benefit	Basic benefit	Complementary benefit
Publicly managed	Publicly/Private managed	Privately managed
Social insurance institution (ZUS)	Social insurance institution (ZUS) / Open Pension Funds in opt-out element	Pension savings managed by different financial institutions depending on the product form, organised by employers or individual

<sup>a</sup> The II tier is still mandatory although open pension funds (OFE) have been made voluntary since 2014 (partial opt-out for funded system).  
*Source:* Own elaboration.

### 14.1.1 Pension system in Poland: An overview

The old-age pension system in Poland is a multi-tier structure consisting of three main elements:

- Tier I – a mandatory, NDC system;
- Tier II – a mandatory NDC system with a partial opt-out for funded open pension funds—*otwarte fundusze emerytalnes (OFEs)*—; and
- Tier III – voluntary or quasi-obligatory, occupational and individual DC pension plans.

The first part of the system is contributory and is based on a NDC formula. The total pension contribution rate amounts to 19.52 % of gross wage (Tier I + Tier II) and the premium is financed equally by employer and employee. Out of the total pension contribution rate, 12.22 pp. are transferred to Tier I (underwritten on individual accounts of the insured), and 7.3 p.p. to Tier II. If a person has not opted out for open pension funds—OFE—, the total of 7.3 p.p. is recorded on a sub-account administered by the Social Insurance Institution (NDC system). If he/she has opted out for the funded element (OFE), 4.38 pp. are recorded on a sub-account and 2.92 pp. are allocated to an account in a chosen open pension fund.<sup>1</sup>

Tier I is managed by the Social Insurance Institution—Social Insurance Institution (ZUS)—, which records quotas of contributions paid for every member on individual insurance accounts. The accounts are indexed every year by the inflation rate and by the real growth of the social insurance contribution base. The balance of the

<sup>1</sup>Two years after the change in 2014 that made OFE's voluntary the insured could again decide about opt-out. After 2016 "the transfer window" is open every four years.

account (pension rights) is switched into pension benefits when an insured person retires.

Tier II of the Polish pension system consists of sub-accounts administered by the Social Insurance Institution—ZUS—and possible partial opt-out for open pension funds—OFEs, funded system. Polish OFEs are just a mechanism of temporarily investing public pension system resources in financial markets (financial vehicles for the accumulation phase). An insured person who enters the labour market has the right to choose whether to join an OFE or to remain solely in the PAYG system. When the insured chooses to contribute to the OFE, 2.92% of his/her gross salary will be invested in financial markets. If no such decision is taken, his/her total old-age pension contribution will automatically be transferred to the ZUS. This default option resulted in a huge decrease in OFEs' active participation in 2014.

The pension law establishes the contribution level and guarantees minimum pension benefits paid together from the whole basic system (tier I + II) by the public institution ZUS. The statutory retirement age is 60 for women and 65 for men.<sup>2</sup> Before retirement the member's assets gathered in an OFE (if one opted out for funded element) are transferred to a sub-account administered by ZUS.<sup>3</sup> Pension benefits from the basic system are calculated following a DC rule and are paid in the form of an annuity by the ZUS.

The old-age pension from the basic system (tier I+II) depends solely on two components: 1) the insured person's total pension entitlements accumulated during his/her entire career (balance of an NDC account and a sub-account), and 2) the average life expectancy upon retirement.

Tier III supplements the basic, mandatory pension system and represents voluntary and quasi-obligatory, additional pension savings. It consists of four different vehicles:

- employee (occupational) pension programmes: *pracownicze programy emerytalnes* (PPEs);
- individual retirement accounts: *IKEs*;
- individual retirement security accounts: *indywidualne konta zabezpieczenia emerytalnegos* (IKZEs);
- employee capital plans: *pracownicze plany kapitałowes* (PPKs);
- pan-european personal pension products: *OIPEs*.

Employee pension programmes—PPE—are plans organised by employers for their employees. PPE settlement happens after an employer agrees with the representatives of the employees on the plan's operational conditions, signs the contract on asset management with a financial institution (or decides to manage assets himself), and registers a programme with the Financial Supervisory Commission—*Komisja Nadzoru Finansowego* (KNF). The basic contribution (up to 7% of an employee's salary) is financed by the employer, but an employee must pay personal income

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<sup>2</sup>It started to increase in 2013 and was planned to reach 67 for both men and women (in 2020 for men and 2040 for women), but this reform was canceled three years later. Hence, since October 2017, the statutory retirement age in Poland is again 60 for women and 65 for men. It may result in a situation where a significant proportion of women will get a minimum pension when retiring at the age of 60.

<sup>3</sup>Money gathered on individual accounts in an OFE is systematically transferred to the ZUS during 10 years prior to retirement (before reaching the statutory retirement age).

tax. Participants in the programme can pay additional contributions deducted from their net (after-tax) salaries. There is a yearly quota limit for additional contributions amounting to 4.5 times the average wage (PLN 35 208— EUR 8235.79 — in 2024). PPE' returns are exempt from capital gains tax. Benefits are not taxable and can be paid as a lump sum or as a programmed withdrawal after the saver reaches 60 years. At the end of 2024 PPE covered 695 thousand employees representing only 3.92% of the working population in Poland.<sup>4</sup>

Employee capital plans—PPKs—are also organized by employers but use auto-enrolment and matching defined contribution mechanisms. They started to operate in 2019 and their full implementation was staggered in accordance with the given below dates and depending on the company size:

- since July 1st, 2019—companies employing at least 250 people;
- since January 1st, 2020—companies with at least 50 employees,
- since July 1st, 2020—companies having at least 20 employees,
- since January 1st, 2021 — remaining companies, including the entities financed from the state budget.

The employee contribution amounts to 2-4% of the gross salary. The minimum matching contribution financed by the employer is 1.5% of the gross salary but can be higher voluntarily (up to 4%). People earning 120% or less of the average income can save less, namely a minimum of 0.5% of the gross salary. To encourage individuals to save in PPKs, the state budget offers a PLN 250 kick-start payment (EUR 58.48) and a regular annual state subsidy of PLN 240 ( EUR 56.14). The employee and employer contributions are taxed while the state subsidies remain exempt from taxation at the accumulation and decumulation stages. PPKs' returns are exempt from capital gains tax. Benefits can be paid as a lump sum (max. 25% of the accumulated capital) and programmed withdrawal when a saver reaches 60 years. Savings can be partially withdrawn (25% of the capital) in the case of the serious disease of the saver, his/her spouse, or a child. The accumulated money can be also borrowed from the account (100% of the capital) to finance an individual commitment when taking a mortgage. PPKs covered 4.3 million employees at the end of 2024, which represents ca. 24.5% of the working population.

Individual retirement accounts—IKEs—were introduced in 2004, allowing people to save individually for retirement. Financial institutions such as asset management companies, life insurers, brokerage houses, banks, and pension societies offer them. An individual can only gather money on one retirement account at a time but can change the form and the institution during the accumulation phase. Contributions are paid from the net salary with a ceiling of 3 times the average wage (PLN 23 472 — EUR 5490.53 — in 2024). Returns are exempt from capital gains tax and the benefits are not subject to taxation. When a saver reaches 60 (or 55 years, if he/she is entitled by law to retire early), money is paid as a lump sum or a programmed withdrawal. At the end of 2024, only 965 thousand Polish citizens had an individual retirement account (IKE) representing 5.44% of the working population.

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<sup>4</sup>The coverage was calculated according to Statistics Poland (GUS) data on the number of economically active people at the end of 2024.

Individual retirement security accounts—IKZEs—started to operate in 2012 and are offered in the same forms as individual retirement accounts (IKEs) but have other contribution ceilings and offer a different form of tax relief. Premiums paid to the account can be deducted from the personal income tax base. Contributions and returns are exempt from taxation, but the benefits are subject to taxation at a reduced rate. Savings accumulated in IKZE are paid to the individual as a lump sum or as a programmed withdrawal after the saver reaches the age of 65. The limit for IKZE contributions is 120% of the average wage (PLN 9388.8<sup>5</sup> — EUR 2196.21 in 2024). Only about 3.34% of the Polish working population (2024) is covered by this type of supplementary old-age provision.

In September 2023, the options for supplementary old-age pension saving were expanded to include the PEPP—OIPE. This product is based on IKE regulations with the same contribution limit and tax regime. Its only provider is Slovak Finax who offers OIPE in a form of ETFs with two investment strategies: active (100/0) and moderate (80/20).

## 14.2 Long-term and pension savings vehicles in Poland

The most popular forms of supplementary pension plans are the collective ones, namely PPEs and PPKs which represent 63% of assets under management. Regarding the type of financial vehicle used, investment funds attracted the great majority of savers — 84.6% in PPE, 84.3% in PPK, 51% in IKE and 42% in IKZE.

### 14.2.1 Third pillar

#### **Employee Pension Programmes**

PPEs can be offered in four forms:

- as a contract with an asset management company (an investment fund);
- as a contract with a life insurance company (a group unit-linked insurance);
- as an employee pension fund run by the employer; or
- through external management.

Employee pension programs started to operate in 1999. The market development was very weak during the first five years of operation. After that, due to changes in PPE law, many group life insurance contracts were transformed into PPEs at the end of 2004 and in 2005. In 2023, the number of programs reached 2082, mainly due to a significant increase in 2019 and 2020 being the direct response to the new law that allowed employers to be exempt from the obligation to create PPK when they offer PPE.

The most popular forms of PPE are investment funds that represent 77.1% of PPEs (see Table 14.5) and manage 77.8% of total PPE assets. Their share is even higher when taking into consideration the number of participants (84.6%).

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<sup>5</sup>Since 2021 there is also a special limit of IKZE contributions for self-employed that amounts to 180% of the average wage (PLN 14 083.2 — EUR 3294.32 in 2024).

**Table 14.4 – Voluntary pension products in Poland (pillar III) at the end of 2024**

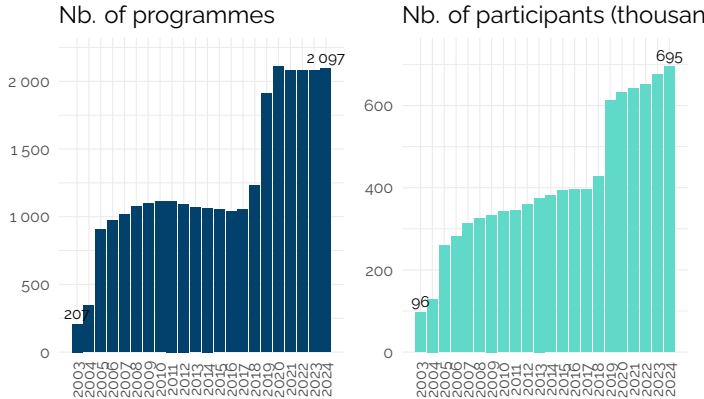
Employee Pension Programmes (PPE)	Employee capital plans (PPK) <sup>a</sup>	Individual Retirement Accounts (IKE)	Individual Retirement Security Accounts (IKZE)	Pan-European Pension Products (OIPE) <sup>b</sup>
<b>Type of pension vehicles</b>				
<ul style="list-style-type: none"> <li>• Unit-linked life insurance</li> <li>• Investment fund</li> <li>• Employee pension fund</li> </ul>	<ul style="list-style-type: none"> <li>• Unit-linked life insurance</li> <li>• Investment fund</li> <li>• Pension fund</li> </ul>	<ul style="list-style-type: none"> <li>• Unit-linked life insurance</li> <li>• Investment fund</li> <li>• Account in the brokerage house</li> <li>• Voluntary pension fund</li> <li>• Bank account</li> </ul>	<ul style="list-style-type: none"> <li>• Unit-linked life insurance</li> <li>• Investment fund</li> <li>• Account in the brokerage house</li> <li>• Voluntary pension fund</li> <li>• Bank account</li> </ul>	Various forms (e.g., ETFs)
<b>Assets under Management</b>				
PLN 29.36 bln. EUR 6.87 bln. 31.02% of Pillar III assets	PLN 30.27 bln. EUR 7.08 bln. 31.98% of Pillar III assets	PLN 22.80 bln. EUR 5.33 bln. 24.09% of Pillar III assets	PLN 12.11 bln. EUR 2.83 bln. 12.79% of Pillar III assets	PLN 0.11 bln. EUR 0.03 bln. 0.12% of Pillar III assets

<sup>a</sup> This vehicle started operating in 2019.

<sup>b</sup> This vehicle started operating on September 26<sup>th</sup>, 2023.

Source: Own composition based on KNF (2025).

**Figure 14.1 – Number of Employee Pension Programmes and number of participants**



Data: UKNF, 2025.

**Table 14.5 – Number and assets of Employee Pension Programmes (PPEs) by form of the programme**

	Unit-linked life insurance	Investment fund	Employee Pension Fund	Total 2024
Nb. of PPE	459	1 616	22	2 097
<i>Market share (% of of PPE nb.)</i>	21.9%	77.1%	1.0%	—
Nb. of participants (thousands)	79.1	588.2	27.7	695.1
<i>Market share (% of participants)</i>	11.4%	84.6%	4.0%	—
Assets (PLN mln.)	4 042.7	22 847.5	2 469.4	29 359.6
Assets (EUR mln.)	945.7	5 344.5	577.6	6 867.8
<i>Market share (% of total assets)</i>	13.8%	77.8%	8.4%	—

Data: UKNF, 2025

PPE assets amounted to PLN 29.36 bln (EUR 6.87 bln) and the average account balance equalled PLN 42 240 (EUR 9880.7) at the end of 2024. The highest balance was observed in employee pension funds while the lowest in investment funds.

### Employee Capital Plans (PPK)

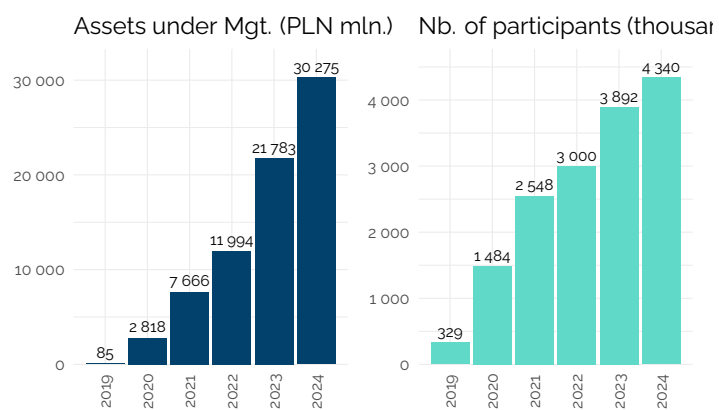
Employee capital plans —PPKs— can be offered by life insurance companies, investment companies —towarzystwo funduszy inwestycyjnych (TFIs)— general pension societies —powszechnie towarzystwo emerytalnes (PTEs)— and employee pension societies —pracownicze towarzystwo emerytalnes (PrTEs)— in a form of target-date funds (TDFs), i.e., life-cycle funds. All employees aged 18-55 are automatically enrolled in a plan but can opt out by signing a declaration.

A plan member should be assigned, and his/her contributions should be allocated to the fund with a date that is the nearest to the date when he/she reaches 60. Every provider has to offer many TDFs with target dates every 5 years. The limits of portfolio structure depend on a target date and are as follows:

- if the target date is more than 20 years before the date when the participants reach 60: 60-80% shares and 20-40% bonds,
- 10-20 years prior the age of 60: 40-70% shares and 30-60% bonds,
- 5-10 years before 60: 25-50% shares and 50-75% bonds,
- 0-5 years before reaching 60: 10-30% shares, 70-90% bonds,
- since reaching 60: 0-15% shares and 85-100% bonds.

At the end of 2024 34.34 million participants gathered PLN 30.27 billion (EUR 7.08 billion) in PPK.

**Figure 14.2 – Number of Employee Capital Plans (PPK) and number of participants**



Data: UKNF.

**Table 14.6 – Number and assets of Employee Capital Plans (PPK) by form of the programme**

	Life insurers	Asset management companies	General Pension Societies	Total 2024
Nb. of participants (thousands)	74.0	3 657.0	608.0	4 339.0
<i>Market share (% of participants)</i>	<i>1.7%</i>	<i>84.3%</i>	<i>14.0%</i>	—
Assets (PLN mln.)	300.5	26 457.6	3 516.6	30 274.7
Assets (EUR mln.)	70.3	6 188.9	822.6	7 081.8
<i>Market share (% of total assets)</i>	<i>1.0%</i>	<i>87.4%</i>	<i>11.6%</i>	—

Data: UKNF, 2025.

### Individual Retirement Accounts (IKE)

According to the Polish pensions law (the Individual Pension Accounts Act of 20 April 2004), individual retirement accounts —IKEs— can operate in a form of:

- a unit-linked life insurance contract;
- an investment fund;
- an account in a brokerage house;
- a bank account (savings account); or
- a voluntary pension fund.

Pension accounts are offered by life insurance companies, investment companies (asset management companies), brokerage houses, banks and pension societies. The most recent pension vehicles are voluntary pension funds that were introduced in 2012 at a time of significant changes in the statutory old-age pension system.

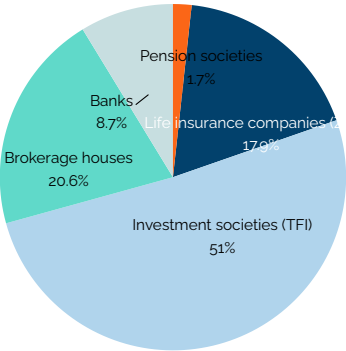
A voluntary pension fund is an entity established with the sole aim of gathering savings of IKE (or IKZE) holders. Pension assets are managed by a pension society—PTE— that also manages one of the open pension funds (OFEs in Tier II of the public pension system) in Poland. Assets of the funds are separated to guarantee the safety of the system, as well as due to stricter OFEs' investment regulations.

The design of IKE products usually does not vary significantly from the standard offer on financial markets. The difference relates to the tax treatment of capital gains (exclusion from capital gains tax) and contribution limits. Moreover, financial institutions cannot charge any cancellation fee when an individual transfers money or resigns after a year from opening an account.

The most popular IKE products take the form of investment funds and accounts in brokerage houses. According to official data (UKNF [UKNF], 2025), these two forms of plans represent 71.6% of all IKE accounts.

IKE holders do not fully use the contribution limit. The average contribution from 2004 to 2024 remains permanently below the statutory limit (3 times the average

**Figure 14.3 – Structure of IKE market by number of accounts and type of provider as of December 31st, 2024**



Source: KNF (2025)

**Table 14.7 – Number of Individual Retirement Accounts (IKE)  
by type of product**

Year	Unit-linked life insurance	Invest- ment fund	Account in the brokerage house	Bank account	Voluntary pension fund	Total
2004	110 728	50 899	6 279	757	—	168 663
2005	267 529	103 624	7 492	4 922	—	383 567
2006	634 577	144 322	8 156	53 208	—	840 263
2007	671 984	192 206	8 782	42 520	—	915 492
2008	633 665	173 776	9 985	36 406	—	853 832
2009	592 973	172 532	11 732	31 982	—	809 219
2010	579 090	168 664	14 564	30 148	—	792 466
2011	568 085	200 244	17 025	29 095	—	814 449
2012	557 595	188 102	20 079	47 037	479	813 292
2013	562 289	182 807	21 712	49 370	1 473	817 651
2014	573 515	174 515	22 884	51 625	1 946	824 485
2015	573 092	201 989	25 220	53 371	2 548	856 220
2016	571 111	236 278	27 615	64 031	358	899 393
2017	568 518	275 796	30 418	71 922	4 922	951 576
2018	562 476	316 996	32 584	78 288	5 307	995 651
2019	462 171	355 031	39 030	88 460	6 075	950 767
2020	199 929	393 010	55 821	85 678	7 188	741 626
2021	195 179	432 756	79 906	79 002	9 646	796 489
2022	182 715	420 356	104 136	82 035	10 901	800 143
2023	176 158	455 695	134 045	81 198	12 835	859 931
2024	173 057	492 353	198 352	84 181	16 647	964 590

Source: KNF, 2025.

wage). The total amount of IKE assets amounted to PLN 22.8 bln (EUR 5.33 bln) as of December 31st, 2024. There were PLN 23 642 (EUR 5530.3) gathered on an IKE account on average.

### **Individual Retirement Security Accounts (IKZE)**

Exactly like IKEs, the group of IKZE products consists of unit-linked life insurance; investment funds; bank accounts; accounts in brokerage houses; and voluntary pension funds.

At the end of 2024 around 593 thousand Poles had individual retirement security accounts. As shown on Figure 14.4, the biggest share of the IKZE market have asset management companies that manage 42% of IKZE accounts.

The savings pot of IKZE is small compared to other elements of the Polish supplementary pension system. At the end of 2024, financial institutions managed funds amounting to PLN 12.11 bln (EUR 2.83 bln). It is worth noting that this capital was raised through contributions in just thirteen years. There were PLN 20 417 (EUR 4775.9) gathered on an IKZE account on average.

### **Pan-European Personal Pension Products (OIPE)**

The newest element of supplementary pension system that was introduced in September 2023 are PEPPs (pol. Ogólnoeuropejski Indywidualny Produkt Emerytalny, OIPE). They are offered only by one provider (Slovak Finax) in a form of ETFs in two portfolio versions: active (100% equity, 0% bonds, the "basic PEPP) and moderate (80% equity, 20% bonds). By the end of 2024, 6752 individuals opened OIPE accounts and gathered PLN 113 mln (EUR 26.5 mln) in these products.

## 14.3 Charges

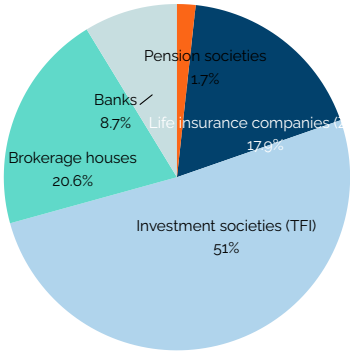
### 14.3.1 Employee Pension Programmes (PPE)

Data on PPE charges is hardly available. The KNF does not provide any official statistics on value or the percentage of deductions on assets of employee pension programmes. Some information can be found in the statutes of PPEs, but they describe rather the types of costs charged than the level of deductions. Employers must cover many administrative costs connected with PPE organisation (disclosure of information, collecting employees' declarations, transfer of contributions, etc.). The savings of participants are usually reduced by a management fee that varied from 0.5% pa. to 2% pa. of AuM and depend on the investment profile of funds chosen.

The lowest charges are applied to employee pension funds —PFEs—, which are set up by employers (in-house management of PPEs) and managed by employee pension societies. For this type of pension fund, no up-front fee is deducted and a rather low management fee—0.5% - 1% p.a.—applies to assets gathered.

Since 2019 there is a cap on a management fee charged by asset management companies. It could not exceed 3.5% in 2019, 3% in 2020, 2.5% in 2021 and 2% since 2022.

**Figure 14.4 – Structure of IKZE market by number of accounts and type of provider as of December 31st, 2024**



Source: KNF (2025)

**Table 14.8 – Average rates of management fee in PPK  
2020–2024**

Target date	2020	2021	2022	2023	2024
2020	0.24%	0.19%	0.15%	0.14%	0.13%
2025	0.28%	0.27%	0.27%	0.26%	0.26%
2030	0.31%	0.31%	0.31%	0.30%	0.30%
2035	0.33%	0.33%	0.32%	0.31%	0.31%
2040	0.34%	0.34%	0.33%	0.32%	0.32%
2045	0.36%	0.35%	0.35%	0.34%	0.34%
2050	0.38%	0.37%	0.36%	0.35%	0.35%
2055	0.39%	0.38%	0.38%	0.36%	0.36%
2060	0.41%	0.40%	0.39%	0.37%	0.37%
2065	0.41%	0.40%	0.40%	0.38%	0.38%
Average for all funds	0.35%	0.35%	0.35%	0.33%	0.33%

Source: PFR Portal 2021–2024.

### 14.3.2 Employee Capital Plans (PPK)

Financial institutions offering PPKs can charge management fee (max. 0.5% AuM) and success fee (max. 0.1% AuM and only if the return is both positive and above the benchmark). The total management fee level depends on the risk profile of the fund and amounts from 0.112% to 0.465% with 0.33% being the average for the whole PPK market (Pracownicze Plany Kapitałowe [PPK], 2025).

### 14.3.3 Individual Retirement Accounts (IKE) and Individual Retirement Security Accounts (IKZE)

The type and level of charges depend on the type of product. There is a management fee for investment funds, voluntary pension funds and unit-linked insurance. In addition, for a unit-linked life insurance, a financial institution can charge an up-front fee, use different “buy and sell” prices for investment units (spread) and deduct other administrative fees from the pension savings accounts, e.g. conversion fees and fees for changes in premium allocation in case changes occur more frequently than stipulated in the terms of the contract. Charges that are not connected with asset management and the administration of savings accounts cannot be deducted from IKZE (i.e. life insurance companies cannot deduct the cost of insurance from the retirement account).<sup>6</sup> The accumulation of pension savings through direct investments (accounts in brokerage houses) is subject to fees which depend on the type of transaction and the level of activity on financial markets (trading fees and charges). Banks do not charge any fees for the IKZEs they offer (apart from a cancellation fee).

All financial institutions offering individual retirement accounts (IKE) can charge a

<sup>6</sup>In the unit-linked insurance product, the contribution is divided into two parts: insurance part and savings part. Only the latter is treated as IKE/IKZE, so the insurance cost has to be clearly stated and covered from the former.

**Table 14.9 – Charges in IKE and IKZE by type of provider**

Type of financial institution	Up-front fee	Management fee (% of AuM)	
life insurance companies	0-8%	0-2.0	10-50%
Asset management companies	0-5.5%	0.8-2.0; success fee 0-30% of the return above the benchmark	
pension societies	0-53.4%; quota limit may be applicable	0.6-2.0; success fee 0-20.0 of the return above the benchmark	

*Source:* Own composition based on Rutecka-Góra et al. 2020 and taking into account a statutory limit of management fee since 2022).

cancellation fee (also called a transfer fee) when a member decides to transfer savings to a programme offered by another financial entity during the first year of the contract. No cancellation fee can be deducted from the account when a saver resigns from the services of a given institution after 12 months and transfers money to another plan provider.

There are no official data on fees in IKEs and IKZEs for 2024. The most recent data is published in the study by Rutecka-Góra et al. (2020) and it reflects fees charged in 2017.

### 14.3.4 Pan-European Personal Pension Products (OIPE)

In OIPE savers do not incur any upfront fees and do not pay for opening or closing an account. The provider (Finax) charges only a portfolio management fee of 0.6% annually plus value added tax (VAT), i.e. a total of 0.72%. The ETFs that make up the portfolios also include fees for their providers. These amount to approximately 0.16%-0.18% on annual basis.

## 14.4 Taxation

### 14.4.1 Employee pension programmes (PPE)

Basic contributions financed by employers are subject to personal income tax, which is deducted from the employee's salary. Additional contributions paid by the employer from the net salary are treated the same way (contributions paid from after-tax wage). Returns and benefits are not taxed—TEE regime.

### 14.4.2 Employee Capital Plans (PPK)

In PPK both an employee and an employer contributions are taxed. A state kick-off payment and regular annual subsidies as well as investment returns and benefits are exempt from taxation. Therefore, it is a TEE regime with a state subsidy.

**Table 14.10 – Taxation of pension savings in Austria**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Employee pension funds	Taxed	Exempted	Exempted	TEE
Voluntary pension funds as IKE	Taxed	Exempted	Exempted	TEE
Voluntary pension funds as IKZE	Exempted	Exempted	Taxed	EET
Employee capital plans	Taxed	Exempted	Exempted	TEE
Pan-European personal pension products	Taxed	Exempted	Exempted	TEE

Source: BETTER FINANCE own elaboration based on Own elaboration.

### 14.4.3 Individual Retirement Accounts (IKE) and Pan-European Personal Pension Products (OIPE)

Contribution is taxed as it is paid by a saver from his/her net income. An individual can pay up to three times the average wage annually. There is a tax relief for capital gains. Benefits are not taxable —TEE regime.

### 14.4.4 Individual Retirement Security Accounts (IKZE)

Contributions to IKZE are deductible from the income tax base. Every individual can pay up to 120% of the average salary into an IKZE account. Since 2021 there is a higher limit of contribution for self-employed that amounts to 180% of the average salary in the economy. Returns are not subject to taxation, but benefits are taxed with a reduced flat-rate income tax (10%). This part of the supplementary pension system is the only one that follows the EET tax regime.

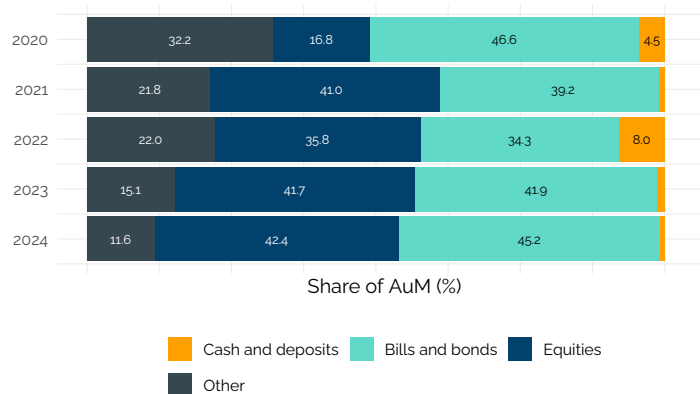
## 14.5 Performance of Polish long-term and pension savings

### 14.5.1 Asset allocation

Polish law does not impose any strict investment limits on voluntary pension savings accounts (IKE, IKZE, OIPE, most forms of PPE, PPK) except for occupational pension programmes offered in the form of employees' pension fund (types of asset classes are described by law). Every financial institution that offers IKE or IKZE provides information on investment policy in the statute of the fund. Since many existing plans offer PPE participants the possibility to invest in funds from a broad group of investment funds operating in the market (not only the funds dedicated exclusively to pension savings), it is impossible to indicate what the portfolios of most PPEs look like.

Figure 14.5 presents the investment portfolio of employee pension funds (PFEs), which are the only types of occupational pension products with official and separate statistics on asset allocation.

**Figure 14.5 – Allocation of AuM in Polish employe pension funds**



Data: UKNF; Calculations: BETTER FINANCE.

PPKs are target-date funds, which means that the general asset allocation (bonds vs shares) depends on the target date of the fund as described in Section 14.2.

There are no available statistics that allow for the identification of the asset allocation within IKE and IKZE offered as insurance contracts, investment funds and accounts in brokerage houses. It is because an individual can buy units of many investment funds (or financial instruments) that are also offered as non-IKE and non-IKZE products. Since no separate statistics for pension and non-pension assets of a given fund are disclosed, it is impossible to indicate neither which funds create the portfolios of IKE and IKZE holders nor what the rates of returns obtained by this group of savers are.

The only form of IKE and IKZE that is strictly separated from other funds and is dedicated solely to pension savings is a voluntary pension fund (DFE). These vehicles started operating in 2012.

### 14.5.2 Real net returns of Polish long-term and pension savings

The investment efficiency of supplementary pension products is almost impossible to assess due to the lack of necessary data published by financial institutions. In Poland in many retirement plans there is no obligation to disclose rates of return to pension accounts holders. Generally, owners of savings accounts are informed about contributions paid, the value of investment units and the balance of their accounts at the end of the reporting period. But they are not informed neither about their pension accounts real efficiency nor the total cost ratio deducted from their individual retirement accounts. No comprehensive data concerning the investment efficiency of supplementary pension products, especially individual plans, is published in official statistics.

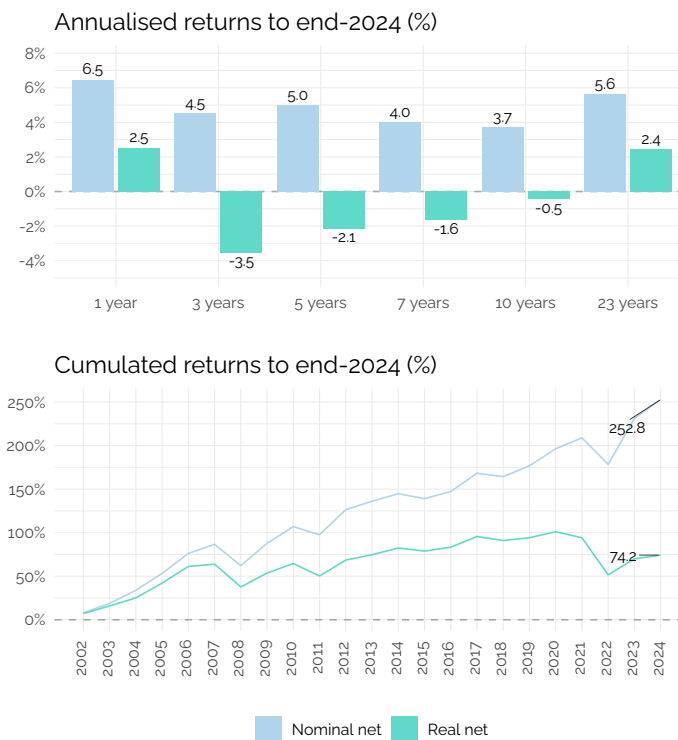
Due to the shortage of detailed statistics, the assessment of the efficiency of pension product investments is possible only for the selected vehicles, namely employee pension funds (PFE), capital pension plans (PPK), and voluntary pension funds (DFE). There are also first statistics for OIPEs, which reported 17.1% and 14.1% nominal returns in 2024 for active and moderate ETF portfolios, respectively.

As the management fee is deducted from fund assets on a regular basis and the value of a fund unit is calculated based on net assets, the nominal rates of return indicated below take into account the level of the management fee. The only fee that must be included (if applicable) when calculating after-charges returns is the upfront fee deducted from contributions paid into accounts.

From 2002 to 2024 employee pension funds (PFEs) showed rather positive returns up to 19.95% annually (see Figure 14.6). After-charges real returns observed in 17 of 23 years and the average return in this period is positive as well. These satisfactory results were obtained due to proper portfolio construction, high quality of management and low costs. Although in 2022 PFEs reported negative returns both in nominal and real terms, mainly due to the war in Ukraine, they were more than compensated with positive returns in 2023.

Voluntary pension funds (DFEs) have obtained extraordinary investment results from

**Figure 14.6 – Returns of Polish employee pension funds (before tax, % of AuM)**



*Data:* UKNF, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

their start in 2012 (see Figure 14.7). The first years of their operation coincided with the time of the Polish financial market recovery and allowed the funds to maximise rates of return from the equity portfolios. The best DFEs reported more than 50% nominal return in 2013. But such returns were impossible to achieve in the next years. In 2014, some of DFEs even experienced slightly negative returns that were covered by returns in the following years. The worst investment returns were achieved in 2018 and 2022 when all DFEs made losses. Fortunately, 2023 brought high profits. The average nominal rate of return after charges in the years 2013-2024 amounted to 4.13%.

Employee capital plans (PPKs) that started to operate in the second half of 2019 reported positive nominal returns in the first two years of their operation (see Figure 14.8). Later, in 2022, they reported losses after the outbreak of war in Ukraine. However the losses did not fully erase the profits they generated in the first two years. Moreover, in 2023 they experienced the highest returns in their short history and continued to report positive real returns in 2024. The investment efficiency of PPKs since 2020 is presented in Figure 14.8.

Inflation in Poland limited the profitability of pension plans significantly (see Figure 14.9). In the majority of years under analysis, it was much higher than the EU average and has rocketed to much higher levels since 2019, mostly due to the COVID-19 pandemic and the war in Ukraine.

The annual real net returns of PFEs were reported to be much lower than nominal values, especially due to inflation in the last three years, and amounted to 2.4% for the period 2002-2024. The real returns of DFEs turned to be even lower, namely 0.6% annually. Similarly, PPKs showed only a 0.7% real profit on annual basis for the period 2020-2024 (see Figure 14.10 and Figure 14.11).

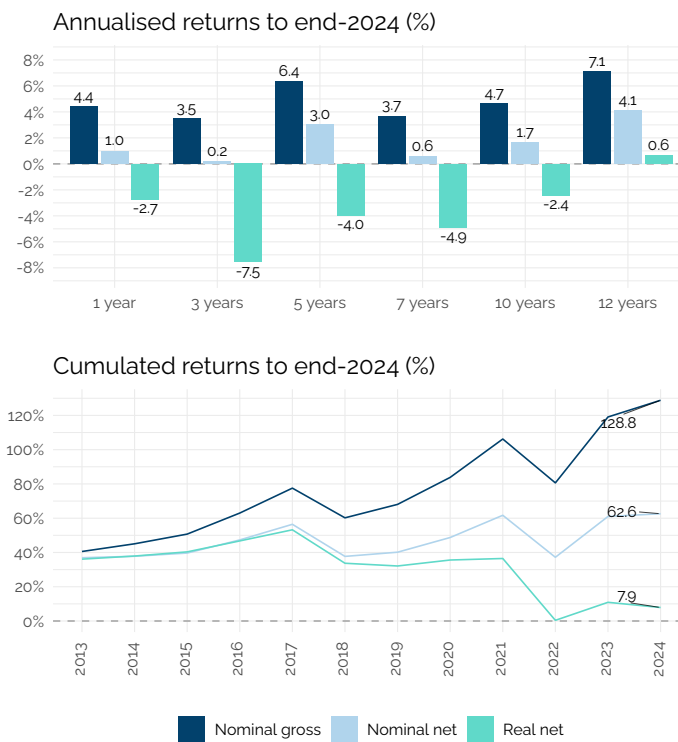
## 14.6 Conclusions

Starting in 1999, with next supplementary elements introduced in 2004, 2012, 2019, and 2023 the Polish supplementary pension market is still in its early stage of operation. The coverage ratios (3.92%, 24.46%, 5.44% and 3.34% for PPE, PPK, IKE and IKZE respectively), show that only a small part of Poles decided to secure their future in old age by joining the occupational pension plan or purchasing individual pension products. This could be due to low financial awareness, insufficient level of wealth or just the lack of information and low transparency of pension products.

The official information concerning supplementary pension products in Poland is limited. In the majority of pension plans financial institutions do not have any obligation to disclose rates of return, either nominal or real, nor after-charges. Published data includes generally the total number of programmes or accounts by types of financial institution and total assets invested in pension products. The Financial Supervisory Commission (KNF) collects additional detailed data about the market (the number of accounts and pension assets managed by every financial institution) but does not disclose the data even for research purposes.

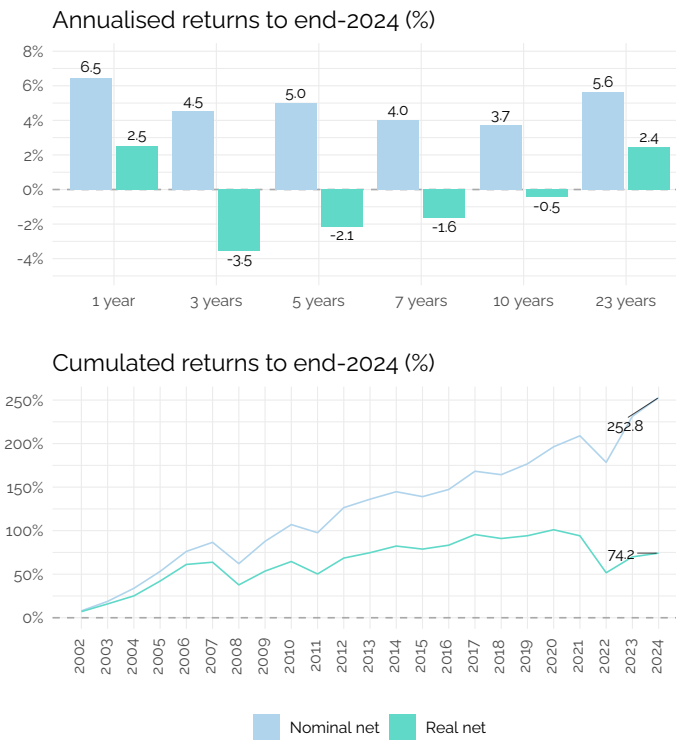
Moreover, no comparable tables on charges, investment portfolios and rates of re-

**Figure 14.7 – Returns of Polish voluntary pension funds (before tax, % of AuM)**



*Data:* UKNF, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 14.8 – Returns of Polish employee capital plans (before tax, % of AuM)**

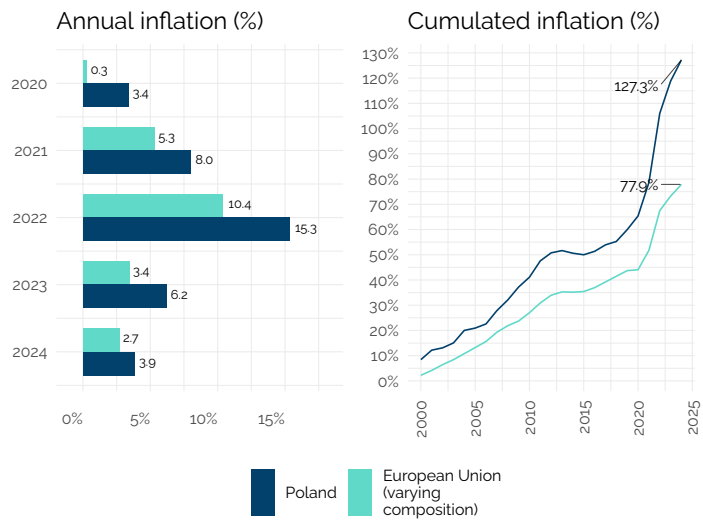


*Data:* UKNF, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 14.9 – Inflation in Austria**

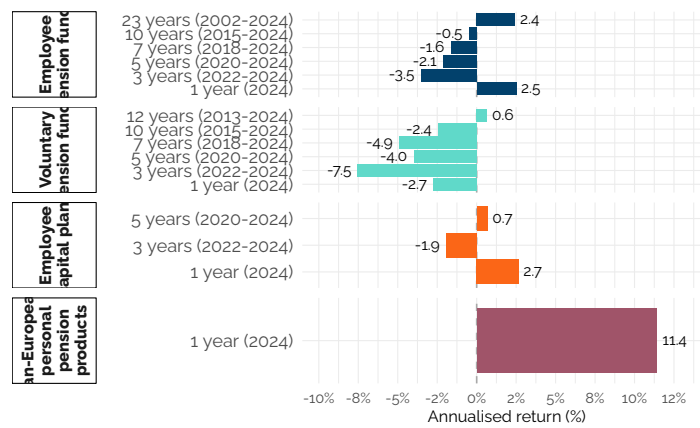
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>Poland</i>	127.3%	3.3%



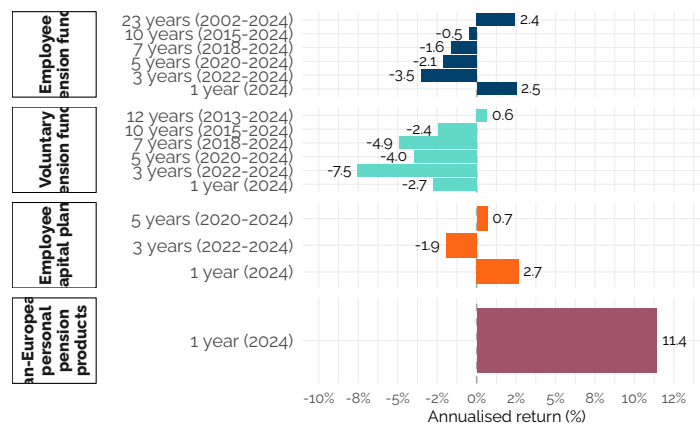
Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 14.10 – Annualised returns of Polish long-term and pension savings over varying holding periods**



Data: UKNF, Eurostat. Calculations: BETTER FINANCE.

**Figure 14.11 – Cumulated returns of Austrian pension funds and life insurances over varying holding periods**



Data: UKNF, Eurostat. Calculations: BETTER FINANCE; Note: Acquisition fees in pension funds are borne by

turn are prepared or made accessible to the public on a regular basis. Certain product details must be put in the fund statutes or in the terms of a contract, but they are hardly comparable between providers. The Polish supplementary pension market is highly opaque, especially regarding costs and returns.

Among a wide variety of pension vehicles, there are only a few products with sufficient official statistics to assess their investment efficiency: employee pension funds (PFE) managed by employees' pension societies, voluntary pension funds (DFE) managed by general pension societies (PTE) and employee capital plans (PPK). Other products are more complex because supplementary pension savings are reported together with non-pension pots. That makes it impossible to analyse the portfolio allocations and rates of return for individual pension products separately.

After-charges returns of employee capital plans (PPK), voluntary pension funds (DFE), and employee pension funds (PFE) were positive for the whole period of their operation, both in nominal and real terms, and offered the average annual real rate of return amounting to 0.7%, 0.6% and 2.4% respectively. The first year of OIPE's operation ended with very positive nominal and real results, which also gives cause for hope. But other pension vehicles may turn out not to be so beneficial, especially when a wide variety of fees and charges are deducted from contributions that are paid to the accounts.

To sum up, the information policy and the disclosure policy in the supplementary pension system in Poland are not saver-oriented. Individuals are entrusting their money to the institutions, but are not getting clear information on charges and investment returns. Keeping in mind the pure DC character of pension vehicles and the lack of any guarantees, this is a huge risk for savers. All this may lead to significant failures in the pension market in its very early stages of development. In the future, some changes in the law should be introduced, such as imposing an obligation on financial institutions to disclose rates of return to pension account holders. Moreover, there is an urgent need for a full list or even ranking of supplementary pension products, both occupational and individual ones, published by independent bodies. This would help individuals make well-informed decisions and avoid buying inappropriate retirement products.

## Chapter 15

# Croatia

### Rezumat

Populația României scade rapid, îmbătrânește și migrează, ceea ce pune o presiune considerabilă asupra sistemului public de pensii. În 2019, au fost adoptate noi modificări privind calcularea pensiilor pentru limită de vârstă din pilonul de plată, în vigoare din septembrie 2021 și modificate în continuare în 2023 pentru a aduce mai multă stabilitate fiscală sistemului de pensii.

Deși pensiile ocupaționale sunt obligatorii indiferent de forma de muncă (salariați și liber-profesioniști), gospodăriile din România trebuie să fie mai mult stimulate să economisească în planuri de pensii facultative (Pilonul III). Planurile de pensii private din România au înregistrat un randament nominal pozitiv excepțional în 2023. În medie, randamentele nominale pentru 2023 au fost de 17,2% pentru fondurile din Pilonul II și de 17,8% pentru fondurile din Pilonul III. Cu toate acestea, inflația încă ridicată a redus randamentele la jumătate în 2023.

Ambele sisteme (ocupațional și privat) au structuri de portofoliu aproape identice și generează astfel randamente brute similare. Cu toate acestea, performanța netă a Pilonului III este influențată în mod semnificativ de structura comisioanelor ridicate (de aproape 4 ori mai mari în comparație cu fondurile Pilonului II) și, pe termen lung, va genera randamente mai mici decât cele ale fondurilor similare Pilonului II. În general, randamentul real al fondurilor de pensii din Pilonul II este încă ușor pozitiv pentru întreaga istorie, cu toate acestea, fondurile din Pilonul III rămân în teritoriu negativ pentru întreaga istorie, chiar și după randamentele solide din 2023.

### Summary

Romania's population is rapidly decreasing, ageing, and migrating, which puts considerable pressure on the State pension system. In 2019, new changes on calculating old-age pensions from PAYG pillar have been adopted effective since September 2021 and further amended in 2023 to bring more fiscal stability to the pension system.

Although occupational pensions are mandatory regardless of the work form (employees and self-employed), the Romanian households must be incentivised more to save in voluntary pension plans (Pillar III). Private pension schemes in Romania recorded an exceptional positive nominal returns in 2023. On average, nominal returns for 2023 were 17.2% for Pillar II funds and 17.8% for Pillar III funds. However, the still elevated inflation cut the returns by half in 2023.

Both schemes (occupational and private) have almost identical portfolio structures

**Table 15.1 – Product categories analysed in Romania**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Mandatory pension funds	Occupational (II)	2008	2024
Voluntary pension funds	Voluntary (III)	2007	2024

**Table 15.2 – Annualised net return of XX pension funds and life insurances (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	Whole reporting period	to..
Mandatory pension funds	0.6%	-2.5%	-1.5%	-0.7%	0.1%	1.2%	end 2023
Voluntary pension funds	-1.0%	-3.9%	-2.7%	-2.0%	-1.0%	-1.4%	end 2023

Data: ASF Romania, Eurostat; Calculations: BETTER FINANCE.

and thus generate similar gross returns. However, Pillar III net performance is significantly influenced by the high fee structure (almost 4-times higher compared to Pillar II funds) and will, in the long-run, deliver lower returns than Pillar II peers. Overall, the real return of pension funds in Pillar II are still mildly positive for the entire history, however, Pillar III funds stay in the negative territory for the entire history even after solid returns in 2023.

## 15.1 Introduction: The Romanian pension system

- Private pension schemes in Romania recorded an exceptional positive nominal performance in 2023. On average, nominal returns for 2022 were 17.22% for Pillar II funds and 17.77% for Pillar III funds. It should be noted, that the portfolio structure of almost all pension funds in Pillar II and Pillar III is similar and the savers are of limited choice regarding the investment strategy.
- Real returns of all funds in both pillar were significantly affected by elevated inflation in 2023. Real returns for both pillars were cut by the inflation to 9.34% for mandatory pension funds (Pillar II) and 8.27% for voluntary pension funds (Pillar III) in 2023.
- Romania has committed to reforming the first pillar of its pension system under the recovery plan financed by the EU by the end of 2023.
- The reforming plans include gradual increase of the retirement age to 65 years (a move pertaining to the public pension system, but also the employees subject to special pensions) and calculating the pension based on the entire working period and not allowing pension benefits highest than the net wages received by same recipients.
- The reform should be focused on fair treatment of so-called special service pensions. These are pensions granted to certain professional categories such as judges, prosecutors, military, police and secret service employees, some

of which are even ten times higher than the average pension in the country. These special pensions are still not based on the contributory principle and are considered a burden on the state budget.

### 15.1.1 Pension system in Romania: An overview

The Romanian old-age pension system is based on the World Bank's multi-pillar model, which consists of three main pillars:

- Pillar I — State pension organized as a mandatory PAYG scheme;
- Pillar II — Organised as a mandatory, funded and defined contribution pension scheme,
- Pillar III — A supplementary pension scheme, based on the principle of voluntary participation with the defined-contribution characteristic.

Romania's multi-pillar pension reform began in 2007, when Pillar III was added into the pension system (collecting the first contributions) and became voluntary for all persons earning any type of income. Pillar II was put into place in 2008 (collecting the first contributions) and became mandatory for all employees aged under 35.

Table 15.3 and text provide an overview of the Romania's pension system. It contains information on main characteristics of each pillar, main pension savings vehicles, respective coverage of each pillar.

The overall coverage of Pillar II was almost entire working population, while Pillar III covered only 10% of the economically active population. Thus, we can expect that future pension income stream will be influenced mostly by Pillar II pensions, while Pillar III will generate an insignificant part of individuals income during retirement.

The first pillar of the Romanian pension system is organized on the PAYG principle of redistribution, being funded on an ongoing basis and functioning on the defined-benefit rule.

The state (through the National House of Public Pensions, a public institution constituted for this purpose in particular ) collects the social pension contribution from the contributors and immediately pays the pensions to the current retirees. State pension in Romania is also based on the principle of solidarity between generations and gives the right to pension entitlement upon retirement age, following a minimum contribution period (15 years), as provided by law. This compulsory system is closely connected to the economic activity and income of citizens. It is 88% financed from social security contributions made by both employers and by employees, while generally consuming the biggest part (or entirety) of the social security budget.

According to Romania's legislation until 2023, the standard retirement age is 63 years for women and 65 years for men. These levels were to be gradually reached as follow:

- between January 2011 and January 2015, the standard age for the pensioning of women will grow from 59 years to 60 years and for men from 62 years to 65 years;
- at the end of 2015 period retirement age will gradually increase only for women from 60 years to 63 years until 2030.

**Table 15.3 – Overview of the Romanian pension system**

<b>Pillar I</b>	<b>Pillar II</b>	<b>Pillar III</b>
State Pension	Funded pension	Voluntary pension
Law no. 263/2010 on the unitary public pension system	Law no. 411/2004 on the privately managed pension funds, republished, including subsequent amendments and additions	Law no.204/2006 on the voluntary pensions, including subsequent amendments and additions
Mandatory	Mandatory	Voluntary
Publicly managed	Privately managed pension funds	
PAYG	Funded	
DB scheme	DC schemes	
	Individual personal pension accounts	
The possibility of early and partially early retirement, contingent upon the fulfillment of the age conditions and the contribution stage provided by the law and the accumulated points.	Withdrawal from the system is only allowed through retirement at standard retirement age.	The participant can, at any time, suspend or stop the contribution payment (they remain members in the system until 60 years old).
<b>Quick facts</b>		
Nb. of old-age pensioners: 4.59 mln.	Administrators: 7	Administrators: 8
Nb. of insured: 6.305 mln.	Funds: 7	Funds: 10
Avg. old-age pension: EUR 582	Custodians: 3	Custodians: 3
Average salary (gross): EUR 1465	Brokers: 14	Brokers: 21
Gross replacement ratio (state pension): 31.29%	AuM EUR 30.32 bln.	AuM: EUR 1.14 bln.
	Participants: 8.287 mln.	Participants: 0.83 mln.

*Source:* Own elaboration based on CNPP, ASF and INSSE, 2025;

*Note:* data on average old-age pension and gross salary and data on the number of old-age pensioner are as of December 2024; data on number of participants and assets under management as of December 2024.

Early retirement: According to Law no. 263/2010 regarding the public pension schemes (in force since 1 January 2011) claiming early pension is possible as of a maximum 5 years before the standard retirement age, provided the worker has at least eight or more contribution years. The deduction made on early pension payment is fixed at 0.75% for each month (9% per year), which might bring a maximum deduction of 45% from the standard pension. The deduction is applied until the standard age limit is reached.

Year 2023 introduced new legislature (No. 360/2023) that was part of the Recovery plan pension reform. The new legislation:

- introduces a new calculation formula for new pensions and pensions in payment. The parameters of the formula shall be carefully chosen in line with the target for pension expenditure as percentage of GDP. Moreover, they shall not allow for ad hoc increases on pension levels;
- introduces a new pension indexation rule in line with the pension expenditure as percentage of GDP target and mechanisms against ad hoc indexation;
- significantly reduces possibilities for early retirement, introduce incentives to expand the working life and to voluntary increase standard retirement age up to 70 years in line with the increases of life expectancy, and equalize the statutory retirement age for men and women at 65 years by 2035;
- starts gradually lift the retirement age also for woman to 65. However, the new law introduces the deduction from the statutory retirement age based on the number of raised children, more specifically 6 months per child; introduces incentives for postponing retirement;
- revises special pensions to bring them in line with the contributory principle;
- strengthen the contributory principle of the system;
- increases the adequacy of minimum and lower pensions, in particular for those below the poverty threshold;
- ensures financial viability of the Pillar II of the pension system by increasing contributions to this pension pillar.

Romania's mandatory private pensions system (Pillar II) is a fully funded scheme, with mandatory participation and private management of funds based on personal accounts and on the DC philosophy with minimum return guarantees. The minimum return guarantee means that participants will receive at least the sum of contributions, net of fees, at retirement. Each fund has to comply, during the accumulation phase, with a minimum return mechanism that is set quarterly by national regulation and based on average market performance of all funds. Pillar II represents the privately managed mandatory pensions funds or schemes.

Pillar II has been mandatory since its inception for all employees paying social security contributions under the age of 35 and voluntary (optional) for employees aged 35 to 45.

Contribution collection is centralized by the Casa Națională de Pensii Publice (CNPP), the Romanian national house of public pensions, which collects and directs the contributions towards the mandatory pension funds.

A participant contributes during his active life and will get a pension when reaching

the retirement age. The starting level of contribution was at 2% of the participant's total gross salary and it should go up by 0.5 percentage points a year, to reach 6% of total gross revenues in 2017. However, these values were never reached and the value for 2019 3.75 pp. The contribution level is fixed, with no possibility to contribute less or more based on individual preferences.

The contributions to a pension fund are recorded in individual personal pension account. The savings are invested by the pension fund administrator, according to the rules and quantitative limits generally set by the law regulating Pillar II vehicles. Participants can choose only one pension fund. Withdrawal from the Pillar II is only allowed at the standard retirement age of participants in the private pension system.

Mandatory pension funds are managed by their administrators, pension management companies (PMCs). Each PMC can manage only one mandatory pension fund. Mandatory pension funds operations are similar to the investment funds. PMCs must obtain several licenses from Romania's pension market regulatory and supervisory body, which is the Autoritatea de Supraveghere Financiară (ASF), the Financial Supervisory Authority.

The ASF is in charge of control, regulation, supervision and information about private pensions as an independent administrative authority and legal entity under the control of the Romanian Parliament.

Romania's voluntary private pensions system Pillar III is also based on the World Bank's multi-pillar model. It is also a fully funded system, based on personal accounts and on the DC philosophy. Pillar III represents privately managed supplementary, voluntary pensions.

In Pillar III, participation is open to everybody earning an income, either employees or the self-employed. Contributions are generally made through the employers in case of employees. In case of self-employed, the contributions are sent directly on the accounts managed by pension management companies. The contributions are made by the employee, with the possibility for employers to contribute a share.

Pillar III is fully voluntary and the contributions are invested via voluntary pension funds as a special purpose vehicle that are managed by their administrators - PMCs, life insurance companies (LICs) or asset management companies (AMCs). Each administrator is obliged to establish and operate at least one voluntary pension fund. However, in contrast to Pillar II, administrators can manage as many funds as they wish. A voluntary pension fund operates on a similar basis as investment fund. Pension fund administrators must get several licenses from Romania's ASF.

Participants to a voluntary pension fund contribute during their active life and will get a pension at the age of 60 (both woman and men) if he had accumulated at least 90 contributions. The contribution is limited up to 15% of the participant's total gross income. The contribution level is flexible: it can be decided upon, changed, and even interrupted and resumed.

## 15.2 Long-term and pension savings vehicles in Romania

Pension saving vehicle for both pillars in Romania are based on a saving principle with investment strategies and realized via pension funds. The transparency of information regarding the pension funds is really high in Romania, where all key information on performance, fees, risk and portfolio structure are well presented to the public.

AuM for pension funds offered under both pillars (in million EUR) are presented in Figure 15.1. Pillar II plays dominant role and represents more than 97% of pension savings in Romania.

In Pillar II, seven asset managers offer seven mandatory pension funds in Romania. Performance analysis reveals similarities in their investment strategy, implying similarity in the pension funds' portfolio structure.

In Pillar III, eight asset managers offer 10 voluntary pension funds in Romania. AZT and NN are the only providers which offer two voluntary pension funds. The performance of all pension funds shows the same finding as for the Pillar II mandatory pension funds—there is similarity in voluntary pension funds' investment strategy. Performance results also imply a similarity in pension funds' portfolio structure.

### 15.2.1 Second pillar: Mandatory pension funds

As indicated above, each PMC specifically authorized to provide Pillar II savings products in Romania is allowed to manage only one mandatory pension fund. At the introduction of the Pillar II, the total number of authorized administrators (funds) was 18. Consolidation started as early as 2009 and 2010.

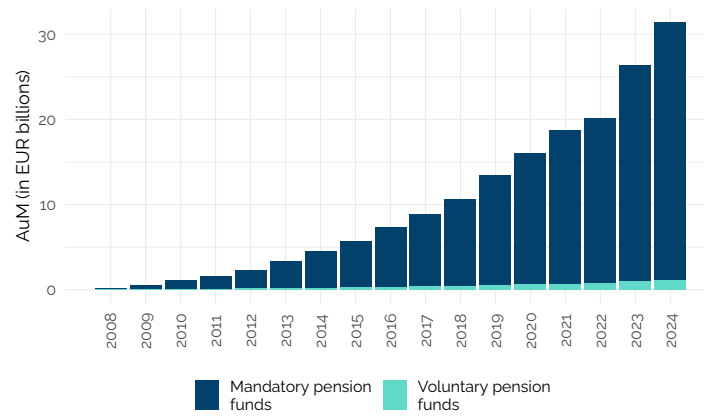
Currently (end of 2023), there are 7 administrators offering 7 pension funds. The two biggest mandatory pension funds (AZT and NN) dominant the market with cumulative market share above 50%.

Each PMC is authorized and supervised by ASF. One of the most important conditions imposed on PMCs is to attract at least 50 000 participants. ASF withdraws the fund's authorization if the number of participants drops below 50 000 for a quarter.

Mandatory pension funds' investment strategy is very strictly regulated. The law imposes percentage limits for different asset classes. Mandatory pension funds can invest:

- up to 20% in money market instruments;
- up to 70% in State bonds of Romania, the EU or European Economic Area (EEA);
- up to 30% in bonds and other transferable securities issued by the local public administrations in Romania, the EU or EEA, traded on a regulated market in Romania, EU or EEA;
- up to 50% in securities traded on a regulated market in Romania, the EU or EEA;
- up to 15% in bonds issued by third-party states, traded on a regulated market in Romania, the EU or EEA;
- up to 10% in bonds and other transferable securities issued by the local public

**Figure 15.1 – AuM of Romanian pension funds (in bln EUR)**



Data: CSSPP; Calculations: BETTER FINANCE.

administration in third-party states, traded on a regulated market in Romania, the EU or EEA;

- up to 15% in bonds issued by the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), traded on a regulated market in Romania, the EU or EEA;
- up to 5% in bonds issued by Non-governmental Foreign Bodies, traded on a regulated market in Romania, the EU or EEA;
- up to 5% in units issued by UCITs, including ETFs in Romania, the EU or EEA;
- up to 3% in exchange-traded commodities (ETCs) and equity securities issued by non UCITs set up as closed investment funds, traded on a regulated market in Romania, the EU or EEA;
- up to 10% in private equity—only for voluntary pension funds.

There is no explicitly defined general quantitative limit on equity investments.

Aside from the quantitative restrictions by asset class, fund managers have quantitative limits by type of issuer:

- 10% of the total number of shares issued by one issuer;
- 10% of the preferential shares issued by one issuer;
- 25% of the equity securities issued by an UCITS, ETF, non-UCITS closed investment fund or ETC;
- 10% of an issuer's bonds, with the exception of the state bonds.

Mandatory pension funds can invest all their assets abroad. There are no explicit restrictions regarding investments made abroad.

Pension funds can have one of three possible risk profiles, which are calculated on a daily basis according to a formula established by ASF regulations:

1. low risk (risk level up to and including 10%),
2. medium risk (risk level between 10%, exclusively, and 25%, inclusively),
3. high risk (risk level between 25%, exclusively, and 50%, inclusively).

Pillar II mandatory pension funds portfolio structure is presented in Figure 15.2

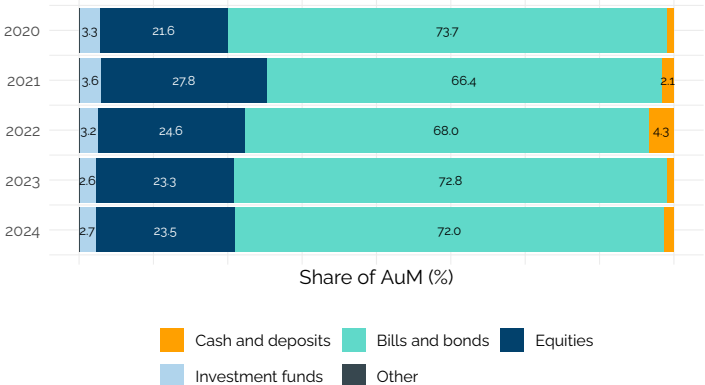
[1] "Mandatory pension funds" "Voluntary pension funds"

Romanian mandatory pension funds invest mostly in government securities and bonds asset classes. The second most important asset class (from the portfolio structure point of view) are equities and the third most important are bank deposits. Three other classes have minimal impact on pension fund's performance. The portfolio structure of the Romanian Pillar II is presented below. According to the data available, currently almost 73% of all investments in Pillar II pension funds are bond investments and less than 23% is invested in equities despite relatively young age structure of savers.

### 15.2.2 Third pillar: Voluntary pension funds

The Romanian Pillar III allows each administrator (PMC, LIC or AMC) to manage as many voluntary pension funds as they prefer. At its inception, there were only four providers and six voluntary pension funds. Currently (at the end of 2021), there was 8

**Figure 15.2 – Allocation of assets invested in Romanian mandatory pension funds**



Data: ASF Romania; Calculations: BETTER FINANCE.

providers offering 10 voluntary pension funds. Only two administrators (NN and AZT) are currently offering more than one voluntary pension fund.

Each administrator in Pillar III (PMC, LIC or AMC) is authorized by ASF and must get several licenses from ASF. ASF withdraws the fund's authorization if the number of participants drops below 100 for a quarter.

Voluntary pension funds are also constituted by civil contract and authorized by ASF. Accounting of the voluntary pension fund is separated from the administrator.

Investment rules in the voluntary private pension pillar are the same as in the mandatory pillar (see quantitative and restriction limits for different asset classes in the text above), with less strict limits on private equity (5%) and commodities (5%).

Analysing the portfolio structure of voluntary pension funds based on Comisia de Supraveghere a Sistemului de Pensii Private (CSSPP) data, we can conclude that most of the performance is tied to the Government Securities and Bonds asset classes. The second most important asset class (from the portfolio structure point of view) are the equities and the third most important part of the portfolio are the bank deposits. Other asset classes have minimal impact on pension fund's performance results.

Portfolio structure of Romanian Pillar III voluntary pension funds is presented in Figure 15.3.

According to the data for 2023, around 72% of all investments in Pillar III pension funds are bond investments and about 25% is invested in stocks and collective investment vehicles (UCITSs funds). Overall, Pillar III portfolio structure is very similar to that of Pillar II over the whole analysed period. The difference in the performance could therefore be devoted to the negative impact of fees, which are significantly higher in Pillar III.

## 15.3 Charges

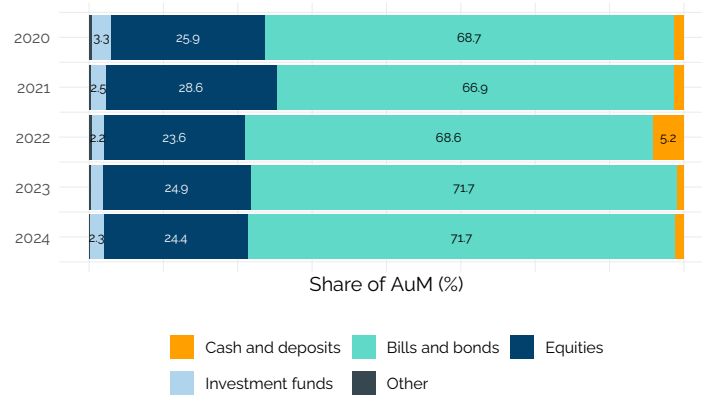
Charges in both pillars are regulated differently. As the Pillar II is more regulated and represents the dominant role for the future pension income stream, the regulation of fees and charges pushes the overall costs down for Pillar II pension funds compared to the Pillar III peers.

### 15.3.1 Charges of Pillar II products: Mandatory pension funds

According to the Mandatory Pensions Law, the fund manager's income resulted from the administration of privately administrated pension funds are composed of:

1. Entry fee — maximum 1% of the contributions paid (entry fee is paid before the conversion of contributions into fund units, of which 0.5% is transferred to the CNPP, the organization that administers the social insurance program)
2. Management fee — from 0.02% to 0.07% monthly of net assets under management, depending on the fund's rate of return relative to the inflation rate. Before 2019, the maximum monthly management fee was 0.05 percent.

**Figure 15.3 – Allocation of assets invested in Romanian voluntary pension funds**



Data: ASF Romania; Calculations: BETTER FINANCE.

3. Transfer penalties (covered from personal assets, in case of moving to another fund/PFC earlier than in 2 years — between 3.5% and 5%);
4. Tariffs for additional information services, in particular:
  - Depository commission (depository fee);
  - Transaction costs (trading fees);
  - Bank commissions (banking fees);
  - Fund auditing taxes (pension fund auditing fees).

The transfer penalty represents the amount paid by the participant in the event of a transfer to another administrator, occurring within two years of the subscription date to the private pension fund, with the maximum ceiling of this penalty being established by ASF and set at maximum 5% of assets (Norm CSSPP 12/2009 for Pillar II and Norm 14/2006 for Pillar III).

The fund also pays for the annual auditing fee (Fund auditing taxes) and the rest of the fund's expenses (custody, depository, transaction/trading expenses) must be supported by the pension company (the administrator). The next table compares effective charges of mandatory pension funds in Pillar II over time, calculated via total and net asset value (NAV).

The year 2023 brought further decrease in fees for pension administrators in Pillar II, while the effective charges dropped down to 0.22% annually.

Table 15.4 presents the effective annual charges for mandatory pension funds (in percentage of NAV).

### 15.3.2 Charges of Pillar III products: Voluntary pension funds

According to the Voluntary Pensions Law, the administrator shall charge a fee from participants and beneficiaries for the management of a pension fund.

- The levels of fees shall be established in the pension scheme prospectus and shall be the same for all participants and beneficiaries;
- Participants shall be notified of any change to the fees at least 6 months before it is applied.

The administrator's revenue will come from:

- entry fee - management commission charged as a percentage from contributions paid by participants; this percentage cannot be higher than 5% and must be made before contributions are converted into fund units (Management commission);
- management fee — charged as a percentage from the net assets of the voluntary pension fund; this percentage cannot be higher than 0.2% per month and shall be mentioned in the pension scheme prospectus;
- transfer penalties (covered from personal assets, in case of moving to another fund/PFC earlier than in 2 years — 5%);
- fees for services requested by participants:
  - Depository commission (depository fee);
  - Transaction costs (trading fees);
  - Bank commissions (banking fees);

**Table 15.4 – Costs and charges of Romanian mandatory pension funds**

Year	Total ongoing charges
2008	0.77%
2009	0.70%
2010	0.66%
2011	0.61%
2012	0.62%
2013	0.61%
2014	0.60%
2015	0.60%
2016	0.58%
2017	0.56%
2018	0.61%
2019	0.51%
2020	0.51%
2021	0.48%
2022	0.24%
2023	0.22%
2024	0.24%

*Data:* ASF Romania; *Calculations:* BETTER FINANCE.

**Table 15.5 – Costs and charges of Romanian voluntary pension funds**

Year	Total ongoing charges
2007	4.72%
2008	1.91%
2009	2.12%
2010	2.30%
2011	2.09%
2012	2.10%
2013	1.99%
2014	1.99%
2015	2.01%
2016	1.92%
2017	1.83%
2018	1.99%
2019	1.99%
2020	1.98%
2021	1.96%
2022	1.94%
2023	1.84%
2024	2.04%

*Data:* ASF Romania; *Calculations:* BETTER FINANCE.

- Fund auditing taxes (pension fund auditing fees).

A transfer penalty is applicable (paid by the participant) in the event of a transfer to another fund within two years of having joined the previous fund; its upper limit is established by Commission norms. Table 15.5 compares effective charges of voluntary pension funds in pillar III over time (calculated via total and net NAV).

The analysis confirms that despite the almost same portfolio structure and same performance, Pillar III pension funds are almost seven times more expensive than Pillar II funds, charging almost 1.84% annually in 2023. The decrease in Pillar III charges is recorded in 2023, but only on a small scale.

## 15.4 Taxation

Romania applies an EET system for the taxation of future mandatory accounts. Employee contributions are tax-deductible and investment income on the level of the pension fund is tax-exempt. Pension benefits paid out during retirement will be subject to a personal income tax (10% tax rate) above a certain level.

The amount of contributions to voluntary pension funds is fiscally deductible from each subscriber's gross monthly wage or any other assimilated revenue if the total amount is not greater than the equivalent in Romanian Leu (RON) of EUR 400 in a

**Table 15.6 – Taxation of pension savings in Romania**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Mandatory pension funds	Exempted	Exempted	Taxed	EET
Voluntary pension funds	Exempted	Exempted	Taxed	EET

Source: BETTER FINANCE own elaboration based on Own elaboration.

fiscal year. The same rule applies to the employer, meaning that the employer can deduct the amount paid to the employee's voluntary pension account up to EUR 400 annually. The investment returns achieved by the third pillar fund are tax exempt until the moment of payments toward subscribers' start. The pension benefits paid from Pillar III are subject to personal income tax, thus representing an EET regime.

## 15.5 Performance of Romanian long-term and pension savings

### 15.5.1 Real net returns of Romanian long-term and pension savings

Romania is a high inflation country. The average annual inflation rate between years 2001 and 2023 was 9.28%, while for the rest of the EU, the annual inflation rate was 6.38%. Thus, we can expect that the inflation will have a significant effect on the real returns of pension vehicles.

Figure 8.2 shows two charts presenting the development of the inflation in Romania.

The performance of pension funds for both pillars in Romania are presented in Figure 15.5, Figure 15.6.

When inspecting the development of the performance of pension products within each pillar, the inflation do play a key role in maintaining the buying power of the savings for the retirement age.

For pillar III voluntary pension funds performance, the fees and charges are the second factor influencing the real value of savings.

Figure 15.7 and Figure 15.8 show the nominal and real net performance of pension funds for both pillars.

For voluntary pension funds, the fees and charges decrease the performance of funds by almost half, indicating more room for cost-effectiveness.

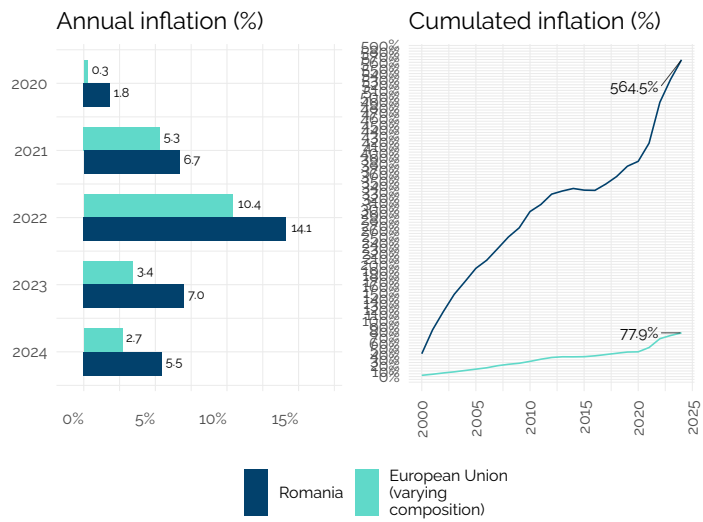
### 15.5.2 Do Romanian savings products beat capital markets?

In this section, we compare the performance of the Romanian Pillar II and Pillar III pension funds to the performance of relevant capital market benchmarks. In order

**Figure 15.4 – Inflation in Romania**

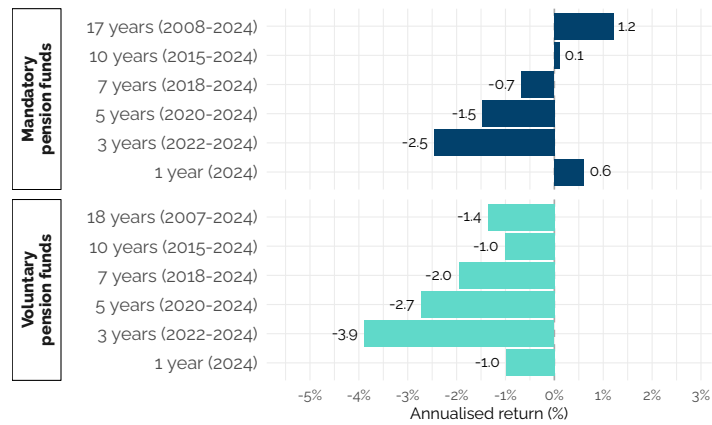
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>Romania</i>	564.5%	7.9%



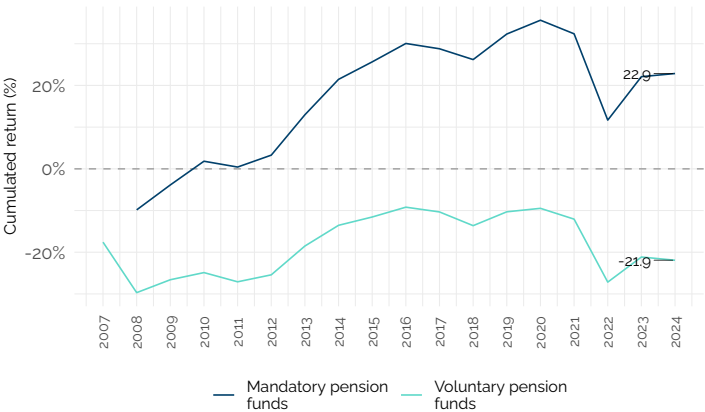
Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 15.5 – Annualised returns of Romanian pension funds over varying holding periods**



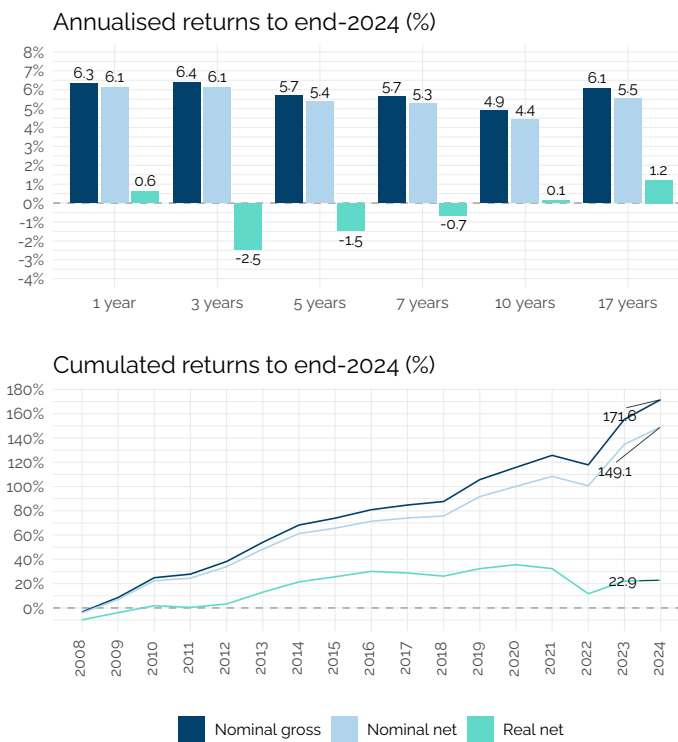
Data: ASF Romania, Eurostat. Calculations: BETTER FINANCE.

Figure 15.6 – Cumulated returns of Romanian pension funds



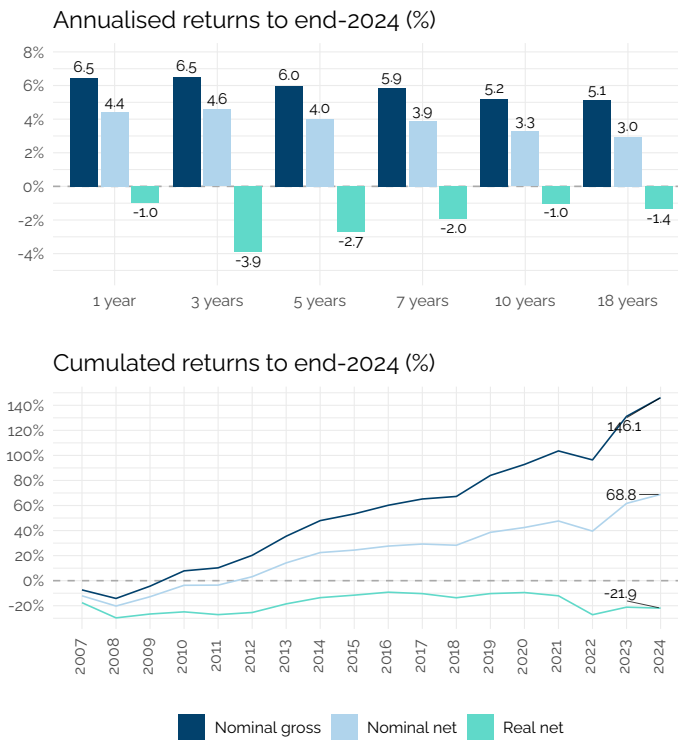
Data: ASF Romania, Eurostat. Calculations: BETTER FINANCE.

**Figure 15.7 – Returns of Romanian mandatory pension funds (before tax, % of AuM)**



*Data:* ASF Romania, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

**Figure 15.8 – Returns of Romanian voluntary pension funds (before tax, % of AuM)**



*Data:* ASF Romania, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

**Table 15.7 – Capital market benchmarks to assess the performance of Romanian pension funds**

Product category	Equity index	Bonds index	Start year	Allocation
Mandatory pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2008	20%–80%
Voluntary pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2007	20%–80%

*Source:* STOXX, Bloomberg; *Note:* Benchmark portfolios are rebalanced annually.

to do so, we have analysed the portfolio structure of pension funds and set the weight of asset classes for the benchmark portfolio creation.

We have set the weight of the equities at 20% of the benchmark portfolio.

Pillar II Mandatory pension funds do perform quite strongly compared to the capital market benchmark. Detailed evolution of the performance of pension funds are presented in Figure 15.9 and Figure 15.10

While the respective market benchmark has been negative on the analysed time-frame 2008–2023, Romanian mandatory pension funds were able to beat the benchmark and keep the real value of savings of the analysed period.

The different story is being seen when comparing the performance of Romanian voluntary pension funds with the respective market benchmark.

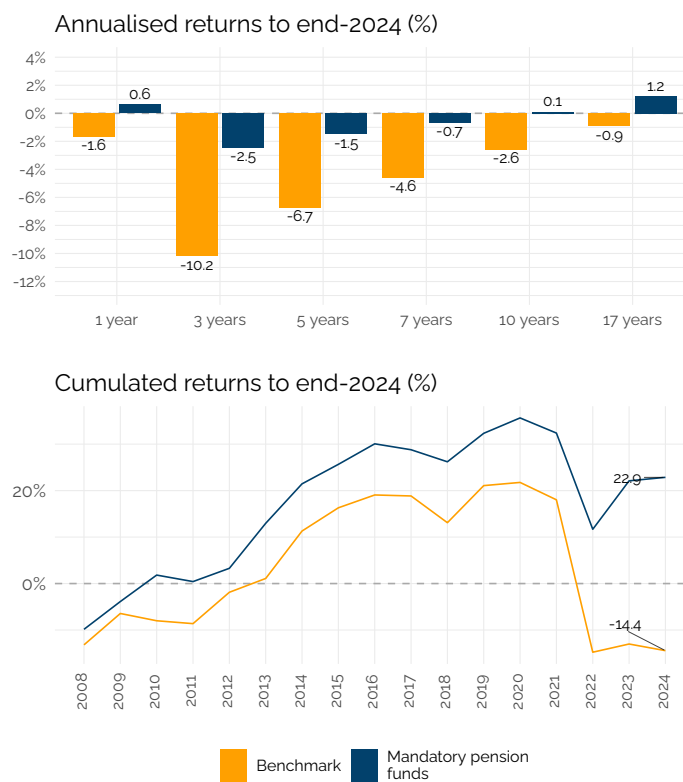
Over the analysed period of 2007–2023, the cumulative performance of the Pillar III pension funds was below its market benchmark and also negative. The key element explaining the results seems to be the high level of charges as the portfolio composition is quite similar to Pillar II funds.

## 15.6 Conclusions

Romania's population is rapidly decreasing and ageing, which—unless they adopt the necessary reforms—will lead to the explosion of the demographic bomb in a few decades. In the public PAYG pensions system, the state collects contributions from employees and redistributes the money among existing pensioners. Demographics show that this redistribution logic is no longer viable, as contributors' numbers will fall, and the number of pensioners is already going up. The departure from this dilemma takes the form of the private pensions system, allowing each active person to save for their own future retirement.

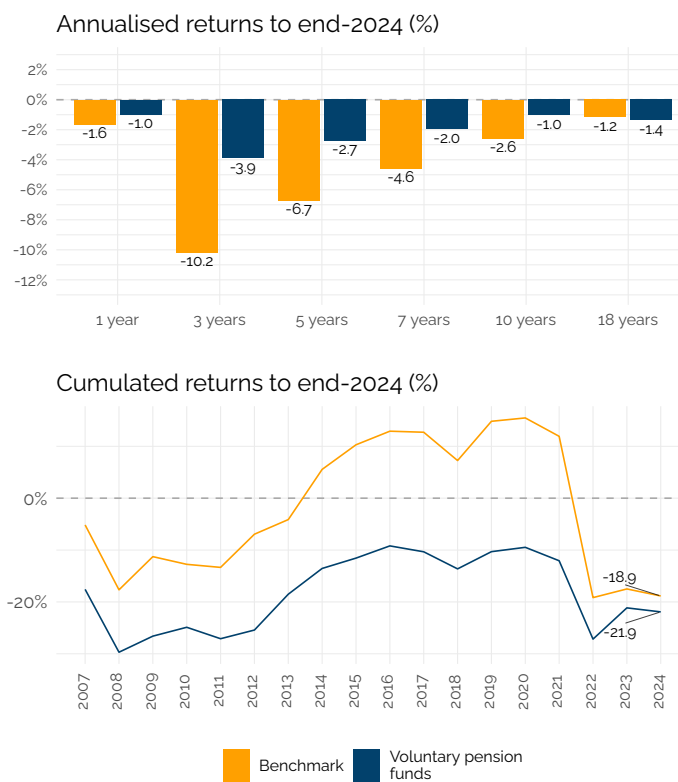
Romanian pillar II is a fully funded system based on personal accounts and on the DC philosophy. Pillar II is mandatory for all employees aged under 35 years and voluntary (optional) for employees aged 35 to 45. The starting level of contribution was set at 2% of the participant's total gross income and increases by 0.5 percentage points annually until it reaches 6 of total gross income in 2017. However, this level has not

**Figure 15.9 – Performance of Romanian mandatory pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: ASF Romania, Eurostat; Calculations: BETTER FINANCE.

**Figure 15.10 – Performance of Romanian voluntary pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: ASF Romania, Eurostat; Calculations: BETTER FINANCE.

been reached, and the contribution system has reversed.

Mandatory pension funds are managed by their administrators—PMCs. Each PMC is obliged by respective law to administrate and manage just one mandatory pension fund. Currently, there are seven PMCs managing seven mandatory funds on the Romanian Pillar II market. The market is dominated by two PMCs (AZT and NN) and as the portfolio structure of pension funds are quite similar, there is no real competition among providers and no viable life-cycle investment strategy is applied.

Romanian pillar III is also a fully funded system based on personal accounts and on the DC philosophy. Pillar III represents privately managed supplementary pensions. This system is opened to all income cohorts. Voluntary pension funds in Pillar III are managed by their administrators—PMCs, LICs or AMCs. Each administrator is obliged to establish and operate at least one voluntary pension fund. Currently, there are eight providers offering 10 voluntary pension funds. Pillar III market is fairly concentrated, where three dominant players cover almost 90 of the market.

Mandatory as well as voluntary pension funds' investment strategy is strictly regulated. The law imposes percentage limits and restrictions for different asset classes. It must be noted that investment rules in mandatory and voluntary system are very similar. This fact logically causes implications on portfolio structure, thus also on performance of mandatory and voluntary pension funds in Romania. Currently about 73% of all investments in Pillar II as well as Pillar III pension funds are bond investments (Romanian Government Money market instruments and Bonds) and only about 22 is invested in equities, which could raise a question about suitability of portfolio structure with regard to the age structure of savers.

Overall, the real return of pension funds in Pillar II is positive, however high charges weight on the performance of Pillar III pension funds. Combining the effect of high fees and low participation, the Pillar III needs a serious reform in order to play an important role in securing adequate pension income for savers in a future.

## Chapter 16

# Slovakia

### Zhrnutie

Slovenský dôchodkový systém je typickým modelom Svetovej banky založenom na viac-pilierovom (troj-pilierovom) systéme s individuálnymi (osobnými) účtami sporiteľov. V roku 2024 sa aplikovali zásadné kroky reformy z roku 2022, najmä však povinný vstup do II. piliera, aplikácia predvolenej investičnej stratégie v II. pilieri, nové pravidlá predčasného dôchodku po 40 odpracovaných rokoch, zníženie poplatkov v II. a III. Pilieri a negatívne opatrenie zníženia príspevkov do II. piliera na 4% natrvalo, čo bolo odrazom konsolidácie verejných financií.

### Summary

The Slovak pension system is a typical World Bank model based on a multi-pillar (three-pillar) system with individual (personal) pension accounts. In 2024, the essential steps of the 2022 reform were applied, in particular the mandatory entry into the Pillar II, the application of the default investment strategy in Pillar II, new rules for early retirement after 40 years of service, reduction of fees in both Pillar II and Pillar III and negative measure of decreasing Pillar II contributions from 5.5% to 4% permanently as a consequence of public finance consolidation measures.

## 16.1 Introduction: The Slovakian pension system

- The year 2024 brought implementation of major pension reform from 2022 influencing all pension pillars;
- The reform removed retirement age ceiling and tied the retirement age back to the life expectancy;
- For Pillar II, starting May 2022, participation in Pillar II became mandatory for all new workers younger than 40 years with the opt-out options;
- Starting July 2023, application of predefined saving strategy took place with automatic portfolio rebalance for non-active savers in Pillar II with re-allocation of savings into the passively managed index pension funds (100% until the age of 50 years and then adopting the glide path of 4% annually from index funds into bond pension funds);
- after the government changes in October 2023, the contribution rate toward Pillar II was permanently decreased to 4% of insurable income starting January 2024;
- For Pillar III, the reform has decreased the fees to the level competitive to the PEPP products (1% of AuM);

**Table 16.1 – Product categories analysed in Slovakia**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Pension funds	Occupational (II)	2005	2024
Supplementary pension funds	Voluntary (III)	2009	2024
Pan-European Personal Pension	Voluntary (III)	2023	2024

**Table 16.2 – Annualised net return of Slovakian pension funds and PEPP (before tax, % of AuM)**

	1 year	Whole reporting period	3 years	5 years	7 years	10 years
Pension funds	11.0%	-0.3%	-3.3%	-1.3%	-0.7%	-0.1%
Supplementary pension funds	6.0%	-0.5%	-5.5%	-2.7%	-2.1%	-1.2%
Pan-European Personal Pension	14.5%	10.8%	NA	NA	NA	NA

*Data:* National Bank of Slovakia, Pension Asset Management Companies, Supplementary Pension Asset Management Companies, PEPP providers, Eurostat; *Calculations:* BETTER FINANCE.

- The year 2024 brought further increase in the number of savers in PEPP products.
- The pension reform adopted in 2022 as part of the Recovery and Resilience Plan (Component 18) has had some positive features on the overall performance of Pillar II as well as Pillar III pension products.
- Positive returns of most of the pension vehicles is tied to the overall positive market returns in 2024.
- Positive effects on overall performance of Pillar II products could be tied to the implementation of predefined saving strategy for non-active savers and reallocation of pension savings towards passively managed index pension funds (equity-based).

### 16.1.1 Pension system in Slovakia: An overview

The Slovak old-age pension system is based on the multi-pillar approach, which consists of three main pillars:

- Pillar I – State pension organized as a mandatory PAYG scheme;
- Pillar II – Funded pension organized as voluntary funded DC-based scheme; and
- Pillar III – Supplementary pension organized as a voluntary individual pension DC-based scheme including PEPP products.

#### Pillar I - State pensions

The Slovakian pension reform started in 1996 with the introduction of Pillar III, which at that time (and until 2009) was organized as voluntary pension pillar offering life

insurance contracts and as an occupational pillar as well. Since July 2009, the system was changed to funded saving schemes and voluntary Pillar III pension funds are offered to the savers (members). The organization of Pillar III started to become more personal with the financial support of employers.

The World Bank's approach has been fully implemented by introducing Pillar II at the beginning of 2005, and, from a terminological point of view, it should be called the "Pillar I-bis", as individual retirement accounts are funded via partial redirection of social security contributions on individual pension savings accounts. For a person who works a full career (42 years) and retires in 2024, the main income stream derives from the PAYG (Pillar I) pension scheme. On average, the individual replacement ratio of such a person could reach 49% of their gross salary. If the person would have participated since 1996 in Pillar III and contributed on average 3% of their salary into a Pillar III pension scheme, having also entered Pillar II (1bis pillar) in 2005, their income stream during retirement would have been slightly different and their replacement ratio would have been a little higher than 60%. However, still more than 90% of the retirement income stream is provided via the PAYG scheme (Pillar I), around 5% from Pillar II (1bis pillar) and 5% from Pillar III.

Pillar I is a state organized PAYG pension scheme, managed by the State Social Insurance Company. Pensions are funded on an ongoing basis and benefits are calculated based on the number of insured years and paid contributions. The PAYG principle of financing is supplemented by the redistribution principle, where the lowest income groups receive higher replacement ratios and higher income groups (due to the solidarity mechanisms) receive lower replacement ratios.

Pillar I is closely connected to the economic activity and income of the citizens. This pillar is financed by contributions of economically active individuals, amounting to 18% of their base income (gross salary) under the condition, that an individual is not participating in Pillar II). These contributions are directed to the Social Insurance Company, which distributes the allowance to the beneficiaries (current pensioners).

An individual is entitled to an old-age pension after the statutory retirement age is reached. There are two options for early retirement: 40 years of insurance period or 2 year before retirement age. In both cases, the minimum level of pension ( $1.6 \times$  living minimum) should be reached.

Pension insurance is mandatory; statutory insurance and participation in this scheme is a legal obligation for all eligible persons. However, the Act on Social Insurance also enables voluntary pension insurance participation.

Pillar I is a typical PAYG point scheme (defined benefit – DB) with a certain income solidarity element. The old-age pension of the insured person depends on three parameters:

1. The insurance period, that is, the number of insured years with active contribution;
2. The average personal wage point (APWP), determined as the ratio of the sum of personal wage points calculated for each calendar year of the reference period and the period of pension insurance in the relevant period; and

3. The value of the pension point, that is, the monetary value of one personal wage point. The pension value is adjusted on 1 of January each year through indexation, which is determined as the ratio of the average wage calculated in the third quarter of the previous calendar year and the average wage calculated in the third quarter of the calendar year two years preceding the calendar year on which the pension value is calculated. The value is automatically revalued on an annual basis with the objective to mimic the increase in the average salary in Slovakia.

Statutory retirement age is 63 years and 4 months in 2024, valid for both men and women. For women, the retirement age might be lowered depending on the number of raised children. For each raised child the retirement age is lowered by 6 months up to three children. For the birth years 1968 and younger, a new pension reform in 2022 re-introduced the retirement age tied to the life expectancy.

To illustrate the calculation of an old-age pension, let us assume an individual who reached the statutory retirement age of 63 years and 4 months in 2024 and has following characteristics:

1. Number of insured years (N) = 42 (full working career);
2. APWP = 1 (for the entire working career, an individual has been earning on average 100% of average salary in Slovakia);
3. value of pension unit (VPU) = EUR 17.7688 (for persons retiring in the year 2024).

The old-age pension is then calculated using the following formula:  $N \times APWP \times VPU$ . Therefore, considering the above-mentioned individual parameters of a person claiming old-age pension, he/she will be entitled to a monthly pension equal to:  $42 \times 1 \times \text{EUR } 17,7688 = \text{EUR } 746$ . If an individual has earned on average 100% of an average salary during their entire working career and the average salary in 2024 was EUR 1524, then the gross individual replacement ratio of such an individual would be:  $\text{EUR } 692 / \text{EUR } 1524 = 48.95\%$ .

## **Pillar II - Funded pensions**

The Slovak Pillar II was established as a DC pension saving scheme in 2005. The principle of funded pension is based on the accumulation of savings during employment and investing savings in financial markets via special purpose vehicles—pension funds, which are managed and administrated by pension assets management companys (PAMCs), licensed by the National Bank of Slovakia.

During the period from September 2012 until May 2022, the enrolment was voluntary and eligible for persons up to 35 years of age. Since May 2022, the automatic enrolment with opt-out option is applied for all workers under the 40 years entering the labour market for the first time. In general, pension fund members (Pillar II savers) are free to choose pension funds provided by the same PAMC. Each saver has an IRA. Their contributions (savings) are redirected from the Social Insurance Company to the chosen supplementary pension assets management company (supplementary pension assets management company (SPAMC)) on their IRA at a rate of 5.5% of gross salary in 2023. In December 2023, the contribution rate has been permanently cut down to 4% of gross salary starting 2024.

With the possibility to save in one or two pension funds at the same time, it is completely up to a saver how much of their own savings would be invested in one pension fund or another. They can invest, for example, 70% in a bond guaranteed pension fund and another part (30%) in an index non-guaranteed pension fund. There is no fee or charge to change their allocation ratio or switch pension funds managed by the same PAMC—even on a daily basis. Switching providers (PAMCs) for free is possible for savers if the change is made after one year, otherwise a fee of EUR 16 is applied.

### **Pillar III - Supplementary pensions**

The Supplementary pension is a voluntary funded DC-based pension saving scheme in which the funds of the participants are administered by SPAMCs. The SPAMCs are private joint stock companies established under the Slovak law and able to only provide services tied to the management of supplementary pension funds. SPAMCs and their supplementary pension funds are supervised and regulated by the National Bank of Slovakia.

The purpose of supplementary pension saving is to allow participants to obtain supplementary pension income in old-age and the whole Pillar is mostly oriented towards employers and their employees. However, the coverage ratio is rather low (32% in 2024).

Both employers and employees can contribute to the individual retirement account with no limits. The following benefits are paid from the supplementary pension saving upon the completion of the saving period:

- supplementary old-age pension in the form of lifelong or temporary supplementary annuity;
- supplementary pension in the form of programmed withdrawal;
- lump-sum settlement;
- redundancy pay.

The year 2024 was a year of major 2022 pension reform impacts. The reform adopted in 2022 has brought major changes in Pillar I with support of the funded pension schemes — Pillar II and Pillar III. The summary of key reform changes in the Slovak pension system from 2022 included:

#### 1. Pillar I. (state pensions)

- Flexible statutory retirement age tied to life expectancy (longer working career) for people born after 1967;
- Early retirement (2 years before statutory retirement age or after 40 working years regardless the age) = risk of losing employees (lowered fine for early retirement 3,6% annually) effective since January 2023;
- Reduced pension point increase ( $0,95 \times$  average wage increase) = lower replacement rates in future, effective since January 2023;
- Introduction of parental bonus (1,5% of child's wage, maximum  $1,2 \times$  average wage) effective since January 2023 – the parental bonus have been removed in 2024 and replaced with 13th pension for all pensioners in the amount of average monthly pension from the last year;

**Table 16.3 – Overview of the Slovakian pension system**

Social Insurance Company		National Bank of Slovakia	
<b>Pillar I</b>	<b>Pillar II</b>	<b>Pillar III</b>	PEPP
State pension	Funded pension	Voluntary pension	
Mandatory	Mandatory	Voluntary	Voluntary
State management	PAMCs	SPAMCs	PEPP provider
PAYG		Funded	
DB		DC	
Point scheme	Individual personal pension accounts	Individual personal pension accounts	Individual PEPP account
Retirement Age: 63 years and tied to the increase in life expectancy; Early retirement possible after 40 years of service or 2 years before retirement age; Contributions: 18% (if participating only in Pillar I) or 14% (if participating in Pillar I and Pillar II)	Withdrawal allowed if Pillar I pension is granted; Withdrawal options: phased withdrawal for the first half of life expectancy + single annuity for the second half (since 2025); lump-sum if the Pillar I pension is higher than average pension; Contributions: 5.5% in 2022 - 2024; 4% afterwards (derived from the paid social insurance contributions)	Individual as well as employer can contribute with no limits (indirect fiscal support provided for the individual as well as employer); Withdrawal options: lifetime annuity; phased withdrawal for minimum of 10 years; lump-sum if the value of savings is less than 4-times the average wage; combination of phased withdrawal and annuity	Individual as well as employer can contribute with no limits (indirect fiscal support provided only for the individual); Withdrawal options: phased withdrawal for minimum of 5 years; lump-sum at the age of statutory retirement age + 5 years
<b>Quick facts</b>			
Number of old-age pensioners: 1.135 mil.	Administrators: 5	Administrators: 4	Administrators: 1
Coverage (active population): 2.74 mil.			
Average old-age pension: EUR 683	Funds: 16	Funds: 21	PEPP products: 2
Average salary (gross): EUR 1524	AuM: EUR 17.045 bln.	AuM: EUR 4.139 bln.	AuM: EUR 0.3 bln.
Average replacement ratio: 44.82%	Participants: 1.921 mil.	Participants: 1.32 mil.	Participants: 0.028 mil.

Source: Social Insurance Company, 2025; Data for Pillars II and III: employment.gov.sk.

## 2. Pillar II. (funded DC scheme)

- Decreased fees (removing the performance fee 10% of new highs and 0.4% p.a. of accumulated savings + 1.25% of new contributions), effective since January 2023;
- Predefined saving strategy (life-cycle strategy with glide path starting at 50 years, 4% annually equity share decrease), effective since May 2023;
- Automatic enrolment for the new workers entering labour market, effective since May 2023;
- Major changes in payout phase (programmed withdrawal for the first half of life expectancy and annuity for the remaining life expectancy)—one-off withdrawal possible for above average earners, effective since January 2025;

## 3. Pillar III. and PEPP (voluntary occupational and personal pensions)

- Introduction of PEPP legislature in 2022 (tax benefits for employee contributions similar to the third pillar, no tax benefits for employer's contributions, more relaxed payout phase compared to the III. pillar, 5 years of programmed withdrawal or up to statutory age + 5 years) with first PEPP products starting from 2023;
- Decreased fees for III. pillar (max 1% p.a. of accumulated savings), effective since January 2023.

## 16.2 Long-term and pension savings vehicles in Slovakia

There are five providers—PAMCs—operating on the Pillar II (funded pension) market. According to the AuM measure, the two biggest providers, Allianz and UNIQA, represent nearly 51.16% of the market in 2024, but continually decreasing over the last 5 years.

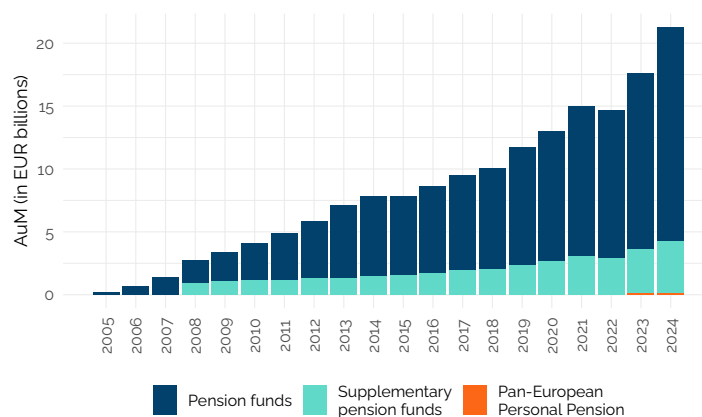
There are four providers—SPAMCs—operating on the Pillar III market. According to Assets under management, the two biggest, NN and DDS Tatra banky, represent nearly 71.79% of the whole market (slight increase over the last year).

It should be noted that the majority of pension savings are accumulated in Pillar II pension funds that is financed via redirected mandatory pension insurance contributions. Additional voluntary contributions towards Pillar III pension funds are driven mainly by employers' contributions and not individual contributions of savers.

### 16.2.1 Second pillar: Pension funds

The Pillar II market is fairly concentrated. Each saver can choose one out of six currently existing providers (PAMCs) on the Slovak market. The PAMCs are private joint-stock companies with a minimum capital requirement of EUR 10 million and established in the territory of the Slovak Republic. Their exclusive business is the creation and administration of pension funds. As a further condition, they must attain at least 50 000 members within a period of 18 months from the establishment of the pension fund.

**Figure 16.1 – AuM of Slovakian pension funds and PEPP (in bln EUR)**



Data: National Bank of Slovakia; Calculations: BETTER FINANCE.

According to the applicable law (the Act on Old-Age Saving), each PAMC is obligated to operate at least two pension funds (bond and index funds). However, provider on top of 2 mandatory pension fund types that are used for pre-defined savings strategy also provide other types of funds::

1. Bond guaranteed pension fund (Guaranteed scheme);
2. Index non-guaranteed pension fund (Non-guaranteed scheme) applying passive investment management style
3. actively managed equity or mixed non-guaranteed pension funds.

Each PAMC is free to choose (mostly based on their business model) whether it operates additional pension funds, which are optional. These legislative changes entered into force on April 30th, 2013. Before that date, each PAMC had to operate three (respectively four) obligatory pension funds:

1. Bond (Conservative) pension fund (since March 2005);
2. Mixed (Balanced) pension fund (since March 2005);
3. Equity (Growth) pension fund (since March 2005);
4. Index pension fund (since April 2012).

After the legislative changes became effective since major pension reform in 2022, index pension funds with passive investment strategy became the key pension vehicle for all savers younger than 50 years. Changes in the fee policy (strictly regulated) forced providers to change the investment strategy of pension funds towards being passively managed using mostly ETFs as main financial instruments.

PAMCs are subject to a variety of regulations. The Old-age Pension Savings Act defines the range of allowed investment instruments and sets maximum limits for portfolio allocations (quantitative limits). Investment procedures and valuation of investments (daily at market prices) are also regulated. Thus, each category of pension funds has their own investment strategy, as well as general or special quantitative limits and operating conditions. PAMCs and managed pension funds are supervised by the National Bank of Slovakia.

The year 2019 brought an introduction of Pension Benefit Statement with pension benefits projections also into the II. pillar. The providers are obliged to send the pension benefit statements to all savers since January 2021.

The reform of the pay-out phase, introduced in 2022 and effective from 2029, stipulates the following pay-out phase rules:

1. Half of the savings have to be used to buy programmed withdrawals lasting half of the life expectancy of the retiring person;
2. The second half of the savings is invested using the predefined investment strategy and used to buy the single nominal annuity once the retired person survives to the age expected in the first point.
3. Programmed withdrawal (phased withdrawal) with no limitations if the retired persons benefits are higher than the average pension benefits;
4. Perpetuity (withdrawal of only annual returns).

Products 1, 2 and 3 are provided by insurance companies, products 4 and 5 by PAMCs.

**Table 16.4 – Market shares of pension asset management companies (Pillar II)**

PAMC	AuM (EUR mln.)	Market share based on AuM
Allianz – Slovenska	4 569.8554	26.66%
UNIQA (AXA before 2021)	4 200.3448	24.50%
Kooperativa (DSS Postovej banky unitl 2023)	782.2508	4.56%
NN (ING before 2015)	4 131.7395	24.10%
VUB - Generali	3 457.1411	20.17%
<b>TOTAL</b>	<b>17 141.3316</b>	<b>100.00%</b>

Source: Own calculations based on oranzovaobalka.sk data, 2026 (data as of December 31st, 2025)

**Table 16.5 – Pillar II market share by group of pension funds**

Scheme	Type of voluntary pension fund	AuM (EUR mln.)	Market share based on AuM
Guaranteed PFs	Bond guaranteed pension funds (5) - obligatory	4 863.1325	28.37%
Nonguaranteed PFs	Mixed nonguaranteed pension funds (2) - optional	225.1474	1.31%
	Equity nonguaranteed pension funds (2) - optional	3 960.7715	23.11%
	Index nonguaranteed pension funds (7) - obligatory	8 092.2803	47.21%
<b>TOTAL</b>	<b>16 Pension funds</b>	<b>17 141.3316</b>	<b>100.00%</b>

Source: Own calculations based on oranzovaobalka.sk data, 2026 (data as of December 31st, 2025)

Market structure of providers and pension funds shows the almost equal market share of 3 players.

Table 16.5 presents the market share of Pillar II pension funds according to their dominant investment strategy and asset allocation. The dominant part of savings is allocated into bond pension funds that invest conservatively. However, the allocation has started to change from bond pension funds towards index pension funds due to the implementation of 2022 pension reform applying predefined saving strategy.

The reform in 2022 introduced the predefined investment strategy for all non-active savers who made no active choice during May 2013 and January 2023. Starting July 2023, the portfolio of these savers should be gradually re-allocated to the index pension funds (100% until the age of 50 years and then adopting the glide path of 4% annually from index funds into bond pension funds). The 2022 reform stipulates that the pension provider has to align the saver's portfolio with the predefined saving strategy within 2 years (until the end of 2025). The increase in AuM was caused mainly by

the stabilization of the market and higher returns of Index pension funds. We see increased number of savers, who mix two funds on their individual retirement savings accounts, one of which is the index pension fund.

Asset allocation of Pillar II pension funds is regulated by law (Act on Old-Age Saving), laying down the general quantitative investment limits on all pension funds — for example:

- max. 3% of AuM into one financial instrument (does not apply on bond investments or in case of passively managed pension funds);
- max. 10% of AuM into one UCITS fund;
- max. 15% of the whole pension fund portfolio into one issuer (does not apply on bond investments or in case of passive managed pension funds);
- bond investments must have investment grade rating (does not apply in case of passively managed pension funds).

Pillar II savers can choose from two main types of obligatory and two types of optional voluntary pension funds.

Obligatory — Bond guaranteed pension funds are actively managed pension funds and are obliged to invest 100% of the assets into bonds, money market instruments, deposits, investment funds in which assets must be invested in the above securities and deposits and other similar assets. Bond guaranteed pension funds are not allowed to invest in equities and real estate, nor respective investment funds. This conservative strategy focuses on bonds, and its objective is the preservation of capital and moderate growth primarily on shorter horizons. Bond guaranteed pension funds are obliged to hedge at least 95% of the whole portfolio against currency exposure. That means that if the pension fund allocates the assets into the financial instruments that are denominated in a currency other than Euro, fund managers must open the position (usually swaps or other hedging instrument) that fixes the value of such investment in Euro.

Obligatory — Index non-guaranteed pension funds, introduced in April 2012, are the only passively managed pension funds in Slovak pillar II. There are no general nor specific quantitative limits, because of the nature of investing. Slovak Index non-guaranteed pension funds track respective stock market benchmarks (such as MSCI World, EuroSTOXX 50, MSCI ACWI, MSCI Euro).

### 16.2.2 Third pillar: Supplementary pension funds

Currently, there are four providers (SPAMCs) operating on the market, which could be considered concentrated. Each SPAMC is obliged by law to operate at least one contributory and one “pay-out” supplementary pension fund. The legislation does not determine specific types of contributory pension funds; however, we can divide all existing contributory pension funds according to the portfolio structure into three main groups:

- Conservative supplementary pension funds (no equity investments);
- Balanced supplementary pension funds (small portions of equity investments);
- Growth supplementary pension funds (highest portions of equity investments).

**Table 16.6 – Market shares of supplementary pension asset management companies (Pillar III)**

Supplementary pension company	AuM (EUR mln.)	Market share based on AuM
DDS Tatra banky	1 322.1301	31.86%
UNIQA (AXA before 2021)	640.7190	15.44%
NN	1 656.7366	39.93%
STABILITA	529.6975	12.77%
<b>TOTAL</b>	<b>4 149.2832</b>	<b>100.00%</b>

*Source:* Own calculations based on oranzovaobalka.sk data, 2026 (data as of December 31st, 2025)

Company "NN" and later on "AXA" ("UNIQA" since January 2021) have launched the first passively managed equity fund within the Pillar III. Most of the competitors followed this move and introduced passively managed index (equity) pension funds as well. There are no specific investment restrictions regarding asset classes in supplementary pension funds, but there are some general quantitative limits to restrict the concentration risk of the fund.

DDS Tatra banky has introduced TDFs in 2015, with the aim to provide age specific investment strategy for its members saving for retirement.

For supplementary pension funds, there are no special investment restrictions regarding asset classes, but there are some general quantitative limits, i.e. no more than:

- max. 5% of AuM in one financial instrument;
- max. 30% of AuM in securities and money market financial instruments from one issuer (does not apply to instruments issued by the EU Member States);
- max. 35% of AuM in securities and money market financial instruments issued by the EU Member State, the EU, ECB, International Monetary Fund (IMF) or World bank;
- max. 20% of AuM in one standard mutual fund (-compliant);
- max. 10% of AuM in one AIF;
- max. 40% of AuM in mutual funds.

In general, the Pillar III scheme covers less than 32% of economically active population, while only 70% of them actively contribute to the scheme. At the same, most of the retirement savings are directed into balanced supplementary pension funds, which apply rather conservative investment strategy with limited long-term investments.

## 16.3 Charges

Pension products for both pillars have seen continual decrease in costs and charges over the period of their existence. However, it is obvious that both pillars do have

**Table 16.7 – Supplementary vehicles' market share by group of pension funds**

Type	Supplementary pension vehicles	AuM (EUR mln.)	Market shares based on AuM
Contributory	Conservative supplementary pension funds (4)	863.9848	20.82%
	Balanced supplementary pension funds (2)	1 174.9018	28.32%
	Growth supplementary pension funds (9)	1 919.2296	46.25%
PAY-OUT	Pay-out supplementary pension funds (4)	191.1669	4.61%
<i>TOTAL</i>	<i>19 Pension funds</i>	<i>4 149.2832</i>	<i>100.00%</i>

*Source:* Own calculations based on oranzovaobalka.sk data, 2026 (data as of December 31st, 2025)

different fee structures that reflects the features of the pillars and duties of the asset managers and administrators.

The year 2024 has brought no significant changes in fee structure for Pillar II products. Main changes were applied in 2022 when two fees has been abandoned (entry fee as well as performance fee) and the administration fee has been slightly increased. The only remaining entry fee is charged by the Social Insurance Company, who transfers part of the social insurance contributions toward Pillar II and charges 0,25% of contributions sent. Pillar III products have also seen some changes in fee policy as the law required the providers to continually decrease the asset management fee towards the 1% cap within 4 years.

### 16.3.1 Charges of pension funds (Pillar II)

Charges are highly regulated and capped in the Pillar II scheme by the Old-Age Pension Saving Act. In 2024, PAMCs can apply only one type of fee, i.e., management fees (as percentage of in respective pension fund).

However, the law allows to charge additional charges that cover the costs incurred, namely:

- Depository fee (as percentage of in the respective pension fund); and
- Other charges (mostly trading charges).

It must be mentioned that on top of these charges, each saver in Slovak Pillar II also has to pay an Administration fee to the Social Insurance Company that administers the central collection system, central information, and offering system for annuities. The Social Insurance Company collects the social security contributions and transfers part of savers' contributions to their personal pension account managed by the PAMC.

**Table 16.8 – Costs and charges of Slovakian Pillar II pension funds**

Year	Total ongoing charges	Entry fees	Admin. and mgt. fees	Other ongoing fees	Performance fees <sup>†</sup>
2005	1.03%	1.50%	0.80%	0.04%	5.60%
2006	1.09%	1.50%	0.80%	0.04%	5.60%
2007	1.05%	1.50%	0.80%	0.04%	5.60%
2008	0.84%	1.50%	0.80%	0.04%	5.60%
2009	0.89%	1.50%	0.80%	0.04%	5.60%
2010	0.91%	1.50%	0.80%	0.04%	5.60%
2011	0.92%	1.50%	0.80%	0.04%	5.60%
2012	1.01%	1.50%	0.80%	0.04%	5.60%
2013	0.47%	1.25%	0.30%	0.04%	10.00%
2014	0.74%	1.25%	0.30%	0.04%	10.00%
2015	0.44%	1.25%	0.30%	0.04%	10.00%
2016	0.62%	1.25%	0.30%	0.04%	10.00%
2017	0.56%	1.25%	0.30%	0.04%	10.00%
2018	0.34%	1.25%	0.30%	0.04%	10.00%
2019	1.19%	1.25%	0.30%	0.04%	10.00%
2020	0.57%	1.25%	0.30%	0.04%	10.00%
2021	1.19%	1.25%	0.30%	0.04%	10.00%
2022	0.34%	1.25%	0.30%	0.04%	10.00%
2023	0.49%	0.25%	0.45%	0.04%	0.00%
2024	0.46%	0.25%	0.42%	0.04%	0.00%

*Data:* Pension Asset Management Companies; *Calculations:* BETTER FINANCE.

Table 16.8 compares applied charges for Pillar II pension funds and the evolution of fee policy over the analysed period.

### 16.3.2 Charges of supplementary pension funds (Pillar III)

Charges in Pillar III are capped by law. Supplementary Pension Fund Management Companies are (since January 1st, 2014) allowed to apply the following types of charges:

- Management fee, as percentage of AuM in a respective supplementary pension fund;
- Performance fee, as percentage of new highs reached in performance of a respective supplementary pension fund — high-water mark (HWM);
- Depository fee (as percentage of AuM in a respective pension fund);
- Other charges (Switching fee).

Table 16.9 compares charges applied in the Pillar III.

It should be noted that the pension reform in 2022 has changed the fee structure and reduced the overall cost ratio starting the year 2023.

**Table 16.9 – Costs and charges of Slovakian supplementary pension funds**

Year	Total ongoing charges	Admin. and mgt. fees	Other ongoing fees	Performance fees <sup>†</sup>
2009	2.76%	2.50%	0.04%	10.00%
2010	2.73%	2.50%	0.04%	10.00%
2011	2.54%	2.50%	0.04%	10.00%
2012	3.35%	2.50%	0.04%	11.00%
2013	2.63%	2.40%	0.04%	12.00%
2014	2.82%	2.30%	0.04%	13.00%
2015	1.84%	1.80%	0.04%	10.00%
2016	2.01%	1.70%	0.04%	10.00%
2017	2.04%	1.60%	0.04%	10.00%
2018	1.54%	1.50%	0.04%	10.00%
2019	2.32%	1.40%	0.04%	10.00%
2020	1.65%	1.30%	0.04%	10.00%
2021	1.94%	1.20%	0.04%	10.00%
2022	1.24%	1.20%	0.04%	10.00%
2023	2.38%	1.15%	0.04%	10.00%
2024	2.04%	1.05%	0.05%	10.00%

*Data:* Supplementary Pension Asset Management Companies;  
*Calculations:* BETTER FINANCE.

## 16.4 Taxation

The Act on Income Tax recognizes two different of income tax rates in Slovakia that apply to pension saving schemes.

Personal income tax rate has been set at 19% since 2005. Since 2013, there is higher tax rate of 25% for higher earners, whose monthly income in 2024 was higher than EUR 3961.50.

Corporate income tax rate for 2024 was 21%.

**Table 16.10 – Taxation of pension savings in Slovakia**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Pension funds	Exempted	Exempted	Exempted	EEE
Supplementary pension funds	Exempted	Exempted	Taxed	EET
Pan-European Personal Pension	Taxed	Exempted	Taxed	TET

*Source:* BETTER FINANCE own elaboration based on Own elaboration.

### 16.4.1 Pillar II

Pillar II should be viewed as a 1bis pension pillar that is basically a derivative of the basic old-age security scheme, as a part (4% in 2024) of the overall (18%) old-age social insurance contributions are diverted from a PAYG pillar into funded DC scheme. Understanding this principle, Pillar II taxation is similar to the PAYG pillar, meaning that an EEE taxation regime is applied.

#### **Taxation of contributions**

Contributions paid to Pillar II are tax deductible. However, a saver can add voluntary contributions on top of the 4% contributions redirected from PAYG pillar. Since 2017, voluntary contributions on top of redirected social insurance contributions are subject to the personal income tax (19%) as well as social and health insurance. Thus, the "T" regime applies for voluntary contributions.

#### **Taxation of the Fund**

Fund returns are not subject to Slovak income taxes at the fund level.

#### **Taxation of pay-out phase income**

Income generated via purchased pillar II pay-out phase products (annuity, perpetuity, programmed withdrawal) are not subject to personal income tax. In case of heritage, the amount the successor receives as inherited (accumulated) savings is not subject to personal income tax.

Thus, we can say that for Pillar II the EEE taxation regime applies in general. However, for voluntary contributions, the TEE regime applies.

### 16.4.2 Pillar III

Taxation of Pillar III differs from the Pillar II taxation approach significantly. There are different taxation treatments of contributions as well as different treatments of the pay-out phase. It is rather difficult to generalize the regime. However, the EET regime can be used with several exceptions and specifications.

#### **Taxation of contributions**

When considering the taxation treatment of contributions, a slightly different regime is used for savers' (employees') contributions and a different regime for employer's contributions.

Generally, both contributions are income-tax deductible; however, for employees (savers) there is a ceiling of EUR 180 per year. This means that the monthly contributions to the Pillar III supplementary pension fund up to EUR 15 are income tax base deductible. Above this amount, the contributions made to the individual saving account are subject to personal income tax. Considering that the average salary (EUR 1524 in 2024), employee contributions up to 0.99% of the gross average salary can be deducted from the personal income tax base.

Employer contributions are treated in a slightly different way. Contributions are tied to the monthly salary of employees. Employer's contributions up to 6% of monthly salary are treated as tax expenses. Therefore, employers are motivated to contribute on behalf of employees up to this tax favourable ceiling. Taking into account the average salary in Slovakia, contributions up to EUR 91.44 per employee per month are considered as tax expenses for contributing employers in 2024. Taking into account the poor supplementary pension funds' performance and the relatively high level of charges, favourable tax treatment of employer's contributions are the key drivers for the participants. At the same time, this favourable treatment of employer's contributions paid on behalf of its employees exclusively in the Pillar III scheme creates an administrative monopoly in form of preferred supplementary retirement product in Slovakia.

### **Taxation of the Fund returns**

Fund returns are exempt from income taxes at the fund level.

### **Taxation of pay-out phase**

There are three different types of products used for the Pillar III pay-out phase (according to the Act on Supplementary Pension Saving):

1. Lump-sum — paid out through SPAMC at maximum of 50% of accumulated savings;
2. Annuities — paid out through insurance company in form of a single annuity;
3. Phased (Programmed) withdrawal — paid out through SPAMC for at least 5 years.

There are 3 general conditions, where at least one should be met when entering the pay-out phase in order to achieve more favourable tax treatment of income stream from Pillar III savings. They concern the member's age, the entitlement for state retirement pension benefits or the entitlement for early state retirement pension benefits.

When considering the tax treatment of the pay-out phase income stream from the saver's point of view, there is a possible way to adjust the personal income tax base. The Act on Income Tax stipulates that the deduction from income tax base will be applied to the income stream from Pillar III benefits and life insurance contracts. Personal income tax base shall be lowered by the paid contributions (Pillar III) or paid premiums (life insurance contract). The Act on Income Tax also defines the income tax base adjustments in case of paid monthly benefits according to the following formulas:

- In the case of temporary annuity, the income tax base is calculated as positive balance between sum of already received benefits and sum of paid contributions;
- In the case of single annuity, the income tax base is calculated as paid monthly benefits and total paid contributions (or premium) divided by the number of remaining years calculated as life expectancy and the age of the taxpayer (beneficiary) at the moment of the first paid benefit.

Therefore, we can conclude that the income tax treatment of pay-out phase is, in fact, a deferred taxation of investment returns applied not to the supplementary pension fund, but directly to the saver during the pay-out phase. In general, we can say, that the tax regime for Pillar III is EET.

## 16.5 Performance of Slovakian long-term and pension savings

### 16.5.1 Real net returns of Slovakian long-term and pension savings

The year 2024 brought overall exceptional positive returns for equity based pension vehicles and rather poorer, but still positive returns for bond based pension vehicles. Higher positive returns were recorded for equity based funds. On the other hand, higher inflation negatively influenced the performance of all pension funds.

The performance (returns and respective volatility) differs in all types of pension funds. This is caused by the portfolio structure and different investment strategies. Bond guaranteed pension funds do not invest in equity investments. Mixed non-guaranteed pension funds invest a small portion in equity investments (currently less than 40% of AuM on average) and equity non-guaranteed pension funds invest higher portion in equity investments (currently more than 50% of AuM on average). Optional Index non-guaranteed pension funds possess the highest level of equity investments (nearly 100% of AuM), because their fully passive investment strategy focusing on the replication of benchmark (various equity market index) performance. The following figure presents the performance of Pillar II Pension Funds over various holding periods.

### 16.5.2 Do Slovakian savings products beat capital markets?

Before comparing the performance of savings products against relevant market benchmarks, portfolio structure of pension products should be understood.

For pillar II pension funds, most of the savings have been invested into money market instruments and later in bond investments due to the legislative ruling and started to invest more into equities starting 2015 (see Figure 16.7). Portfolio structure changes has started in 2023 by applying predefined saving strategy allocating all savings into passively managed index pension funds until the age of 50.

Pillar III products have allocated savings into the equities and bonds, so the performance of the vehicles has been more volatile compared to the Pillar II pension funds. The portfolio structure of Pillar III Supplementary Pension funds is presented below.

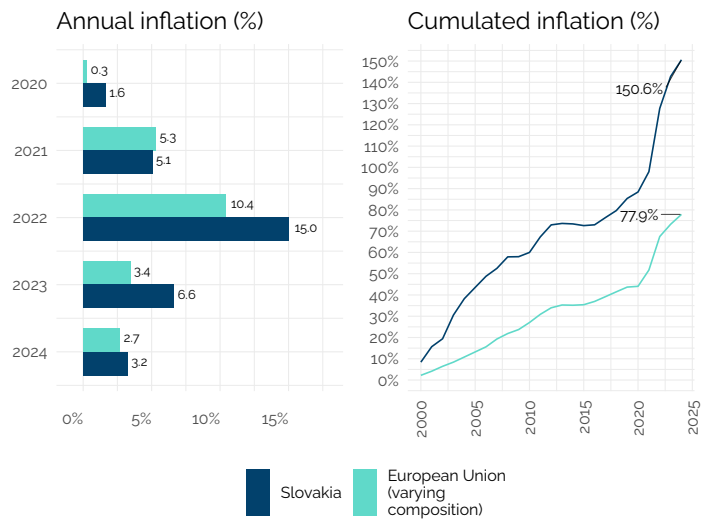
In order to compare the performance, we set the weight for two key classes (equities and bonds) based on the respective portfolio structures of pension vehicles in both pillars (see Table 16.11).

The new PEPP products introduced in 2023 came on the market with clear, transparent and efficient passive management style delivering high performance combined

**Figure 16.2 – Inflation in Slovakia**

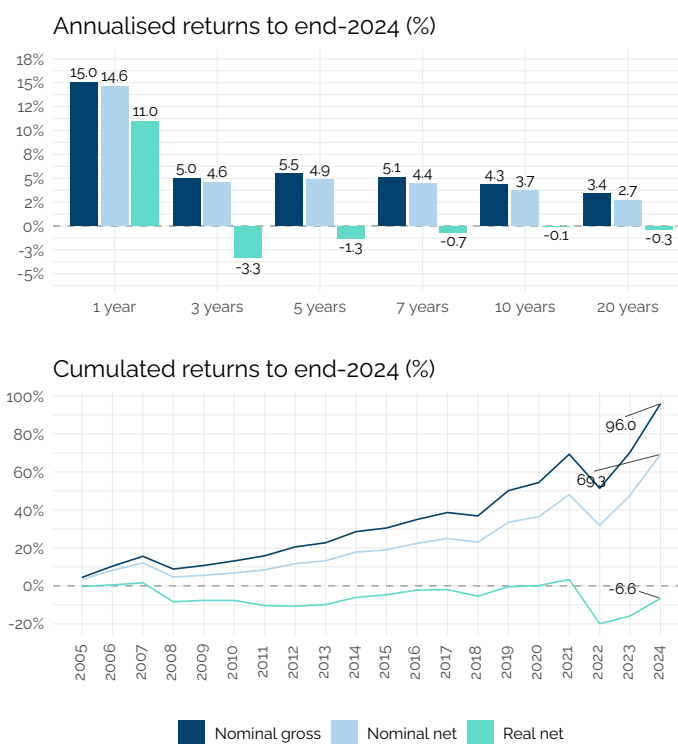
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>Slovakia</i>	150.6%	3.7%



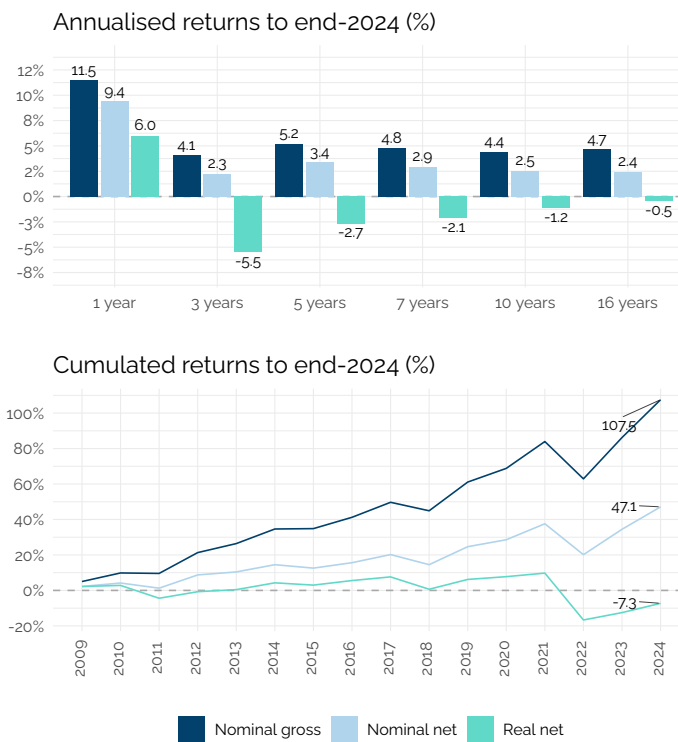
Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 16.3 – Returns of Slovakian Pillar II pension funds (before tax, % of AuM)**



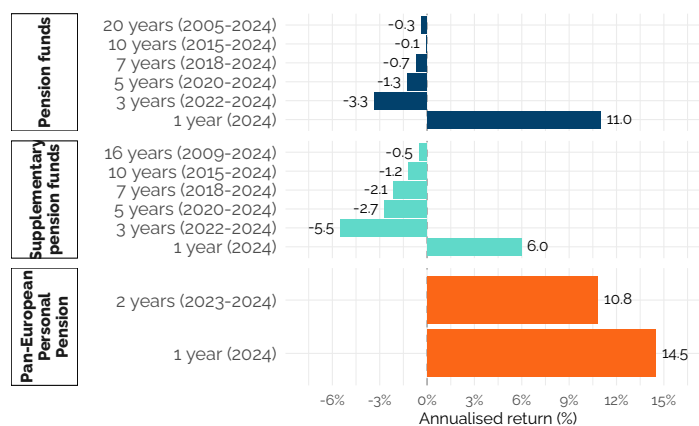
*Data:* National Bank of Slovakia, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 16.4 – Returns of Slovakian supplementary pension funds (before tax, % of AuM)**



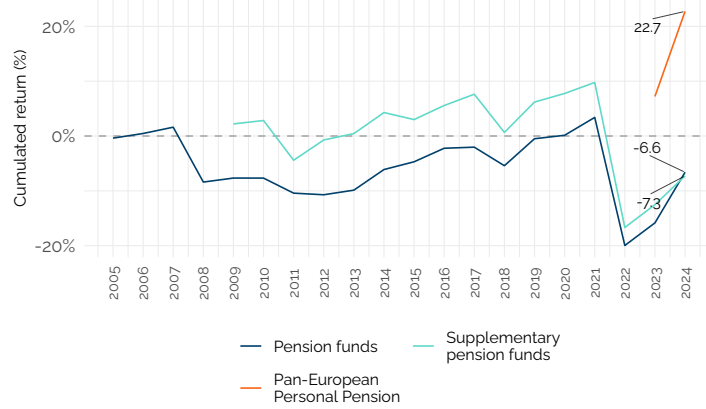
*Data:* National Bank of Slovakia, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 16.5 – Annualised returns of Slovakian pension funds and PEPP over varying holding periods**



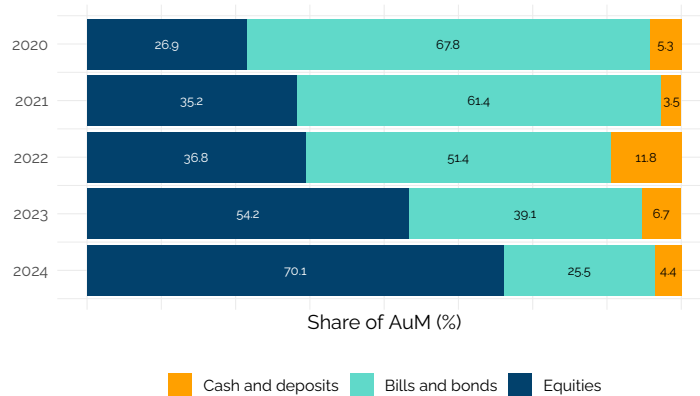
Data: National Bank of Slovakia, Eurostat. Calculations: BETTER FINANCE.

**Figure 16.6 – Cumulated returns of Slovakian pension funds and PEPP**



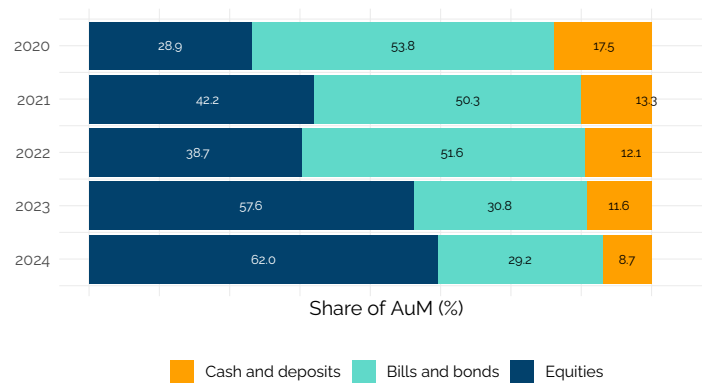
Data: National Bank of Slovakia, Eurostat. Calculations: BETTER FINANCE.

**Figure 16.7 – Allocation of assets invested in Slovakian Pillar II pension funds**



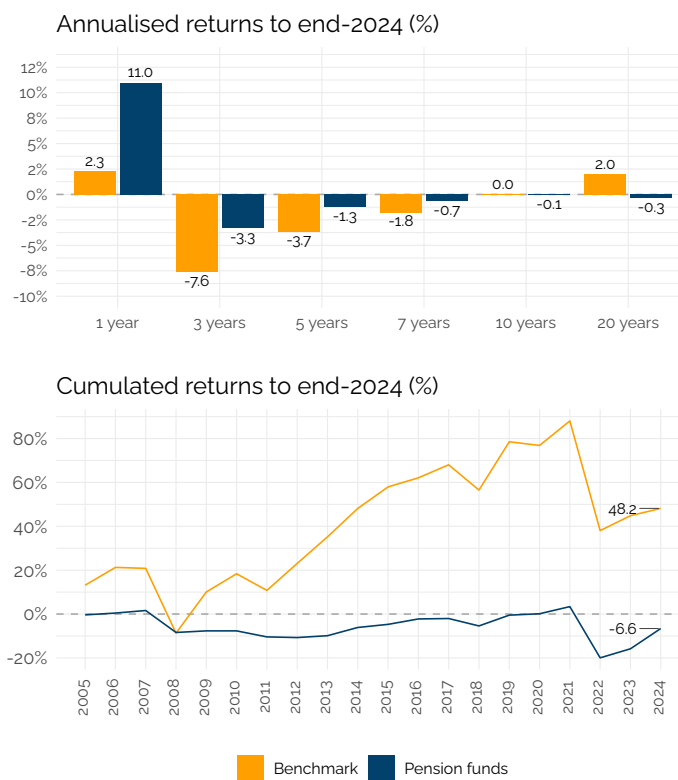
Data: Pension Asset Management Companies; Calculations: BETTER FINANCE.

**Figure 16.8 – Allocation of assets invested in Slovakian supplementary pension funds**



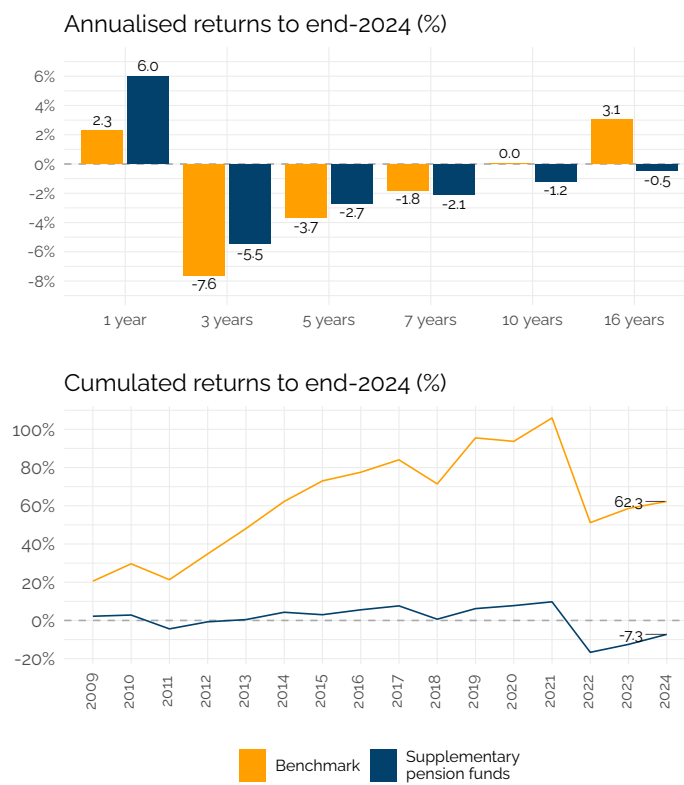
Data: Supplementary Pension Asset Management Companies; Calculations: BETTER FINANCE.

**Figure 16.9 – Performance of Slovakian Pillar II pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: National Bank of Slovakia, Eurostat; Calculations: BETTER FINANCE.

**Figure 16.10 – Performance of Slovakian supplementary pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: National Bank of Slovakia, Eurostat; Calculations: BETTER FINANCE.

**Table 16.11 – Capital market benchmarks to assess the performance of Slovakian long-term and pension savings**

Product category	Equity index	Bonds index	Start year	Allocation
Pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2005	50%–50%
Supplementary pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2009	50%–50%
Pan-European Personal Pension	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2023	50%–50%

*Source:* STOXX, Bloomberg; *Note:* Benchmark portfolios are rebalanced annually.

with low fees well below 1% of AuM. However, unfair tax regime and inability to switch from Pillar III products towards PEPP products limit the increased value-for-money for savers.

## 16.6 Conclusions

The Slovak multi-pillar pension system is not quite favourable for savers. Pillar II still suffers from constant changes and significant political risk therefore not only arises from diverging political opinions on the pension system. The new phenomena in Slovak pension system is the pension populism, where political parties reverted stabilization features and decreased the financial stability and trustworthiness of the PAYG scheme. The year 2022 brought major reform changes in Slovak pension pillar. However, it combines recommended positive changes (retirement age tied to the life expectancy, lowering fees for pension funds, introduction of predefined investment strategy) with the populist features (new parental bonus, new early retirement rules, low state support for private savings). The new government in late 2023 decreased permanently the contributions towards the Pillar II scheme to 4% of contribution base, which will have significant detrimental impact on young savers due the fiscal imbalance of Pillar I on long-term.

The unprofessional move of transferring savers' assets from equity-based pension funds into bond ones in 2013 had detrimental effect on savings, which could lead to low pension pots and further political pressures on decreasing importance of private pension savings in Slovakia. The reform in 2022 with the introduction of predefined investment strategy for all inactive savers could improve the situation and expected pension benefits in future.

Pillar III pension vehicles are generally poorly performing, costly and without significant tax benefits for employees' contributions; Pillar III would never survive competition from Pillar II pension funds and typical investment funds. The debate on finding an appropriate regime for the Pillar III scheme is still ongoing, while there are several different views on how to make Pillar III more favourable for savers.

PEPP products introduced in 2023 suffers from uneven conditions compared to Pillar III products, however they have brought significantly lower level of fees.

## Chapter 17

# Spain

### Resumen

El sector de las pensiones complementarias en España sigue teniendo un tamaño limitado. Incluyendo los instrumentos de ahorro a largo plazo que no son formalmente planes de pensión, como los seguros de vida, sus activos solo representan el equivalente al 21 % del PIB español. Los ciudadanos españoles, al igual que muchos europeos (occidentales), siguen disfrutando de prestaciones de la Seguridad Social que sustituyen a más del 80 % del último salario, y las inversiones inmobiliarias —«ladrillo y cemento»— siguen considerándose en gran medida como la mejor inversión que puede realizar un hogar, incluso (o especialmente) para la jubilación. En consecuencia, las pensiones complementarias en España siguen siendo, en relación con el tamaño del país y su economía, esencialmente un asunto de pequeña escala, lo que se ve agravado por la fragmentación del ahorro a largo plazo y de jubilación en una amplia y variada gama de productos financieros, tanto de empleo como personales: los españoles tienen muchas cuentas de ahorro para la jubilación, pero poco dinero en cada una de ellas. Además, la aversión al riesgo generalizada (aunque en declive) conlleva grandes inversiones en activos de renta fija de menor rendimiento. A pesar de un año 2024 muy bueno, con una rentabilidad neta real a un año que oscila entre el +1,9 % para los planes de pensiones de “renta fija mixta” del sistema individual y el +17,1 % para los planes de “renta variable”, todo esto se traduce en un historial de rentabilidad a largo plazo decepcionante para los fondos de pensiones españoles: los planes de empleo y los planes individuales de renta variable muestran una rentabilidad neta real anualizada del 0,5 % y el 0,6 %, respectivamente, en los últimos 25 años, mientras que los planes individuales de renta fija mixta y renta variable mixta muestran una rentabilidad negativa, tras costes e inflación, del -1,4 % y el -0,7 %, respectivamente, en el mismo periodo. El Gobierno parece decidido a poner orden en el sector de las pensiones complementarias, con una reforma y mayores incentivos fiscales para los fondos de pensiones de empleo, al tiempo que recorta el apoyo fiscal al ahorro en planes de pensiones individuales. Queda por ver qué efectos tendrá esto en la rentabilidad de las pensiones complementarias españolas.

### Summary

The Spanish supplementary pensions sector remains limited in size. Even including long-term savings vehicles that are not formally retirement-purpose investments, like life insurance, its assets only represent the equivalent of 21% of the Spanish GDP. Spanish citizens, like many (Western) Europeans, still enjoy Social Security pension

benefits that replace over 80% of the last salary, and real estate investments—“brick and mortar”—are still largely considered as the best investment a household can make, even (or especially) for retirement. Supplementary pensions in Spain remain as a result, in relation to the size of the country and its economy, essentially a small-scale affair, which is further compounded by the fragmentation of long-term and pension savings into a wide and varied array of financial products, both occupational and personal: Spaniards have many different pots of pension savings, but little money in each of those. Furthermore, widespread (though declining) risk aversion entails large investments into lower-yield fixed income assets. Despite a very good year 2024, with 1-year real net performance ranging from +1.9% for the most conservative individual “mostly bonds” pension plans to +17.1% for individual “equity” plans, all this translates into a disappointing long-term performance track record for Spanish pension funds: occupational pension plans and individual “equity” plans show an annualised real net return of 0.5% and 0.6%, respectively, over the past 25 years, while individual “mostly bonds” and “mostly equity” plans show a negative return after cost and inflation of -1.4% and -0.7%, respectively, over the same period. The government seems keen on putting the supplementary pensions’ house in order, with a reform of and increased tax incentives for occupational pension funds, while cutting fiscal support for savings into individual pension plans. What effects this will have on the cost-efficiency of Spanish supplementary pensions remains to be seen.

## 17.1 Introduction: The Spanish pension system

The Spanish population is one of the fastest ageing population across the EU. Like many Europeans, Spaniards rely mostly on benefits from the PAYG public pensions managed by the Instituto Nacional del Seguro Social (INSS), the national social security agency, which, like most public, Pillar I pensions across the continent, is under increasing strain due to the growing ratio of retirees to working population.

In the wake of the euro and sovereign debt crisis, which particularly affected Spain in the years 2011-2013, the country enacted a wave of reforms of the public pension system with the aim to ensure its long-term financial sustainability. These reforms, however, were found to have a disproportionate negative effect on the pension benefits that younger generations of Spanish workers might expect. Considering how the country’s other economic challenges—*inter alia* housing prices (Pérez, 2026), youth unemployment (Statista, 2025b)—particularly affect younger generations, several major new reforms were enacted since 2020 that complement and partly reverse, the orientation of the 2011-2013 reforms. In a sense, Spain constitutes a typical case in our study, with its ageing population, public pensions under strain and underdeveloped occupational and personal supplementary pensions. Nevertheless, what may set Spain apart from the other countries in this report, is that the recent reforms of both the public and supplementary pensions seem to show the government’s faith in the capacity of public pensions to overcome the strain from the ageing population while maintaining high ambitions in terms of intergenerational solidarity and redistribution. Whether these reforms are likely to succeed is the subject of heated debates in Spain, and a matter of great interest for the rest of Europe.

In this chapter, we have decided to offer the reader a comprehensive overview of

**Table 17.1 – Product categories analysed in Spain**

Name	Product category	Pillar	Reporting period	
			Earliest data	Latest data
Conventional Occupational Pension Plans	Occupational (II)		2000	2024
Mostly Bonds Pension Plans	Voluntary (III)		2000	2024
Mostly Equity Pension Plans	Voluntary (III)		2000	2024
Equity Pension Plans	Voluntary (III)		2000	2024

**Table 17.2 – Annualised net return of Spanish pension plans (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	10 years	re
Conventional Occupational Pension Plans	4.6%	-2.0%	-0.5%	0.1%	0.7%	
Mostly Bonds Pension Plans	1.9%	-3.4%	-2.5%	-1.9%	-1.3%	
Mostly Equity Pension Plans	5.9%	-1.7%	-0.1%	0.3%	0.9%	
Equity Pension Plans	17.1%	3.3%	5.7%	5.3%	5.3%	

*Data:* INVERCO, DGFSP, Eurostat; *Calculations:* BETTER FINANCE.

the Spanish pension system, including convention pension plans and insured pension products. However, due to data limitations, our analysis of real net performance is limited to conventional pension plans: performance data for insured pensions are not available. As shown in Table 17.1, we compute real net returns for four categories of conventional pension plans from 2000 to end-2024: occupational pension plans, first, that belong to Pillar II of the pension system; and three categories of individual pension plans in Pillar III, which differ from each other with regard to the allocation of assets into equity vs. bonds. Data used for this analysis are extracted primarily from annual reports from INVERCO, the trade association of investment and pension funds (INVERCO, 2025, and previous editions) as well as from the Dirección General de Seguros y Fondos de Pensiones (DGSFP), the department of the Spanish Ministry of the Economy in charge of insurance and pension funds (Dirección General de Seguros y Fondos de Pensiones [DGFSP], 2025, and previous years).

The computed real net returns of these four categories of products is presented in details in the penultimate section of this chapter (Section 17.5). Table 17.2 already provides an overview of the situation of Spanish private pensions over the long term: The good performance of capital markets in 2023 was passed on unequally to Spanish pension savers, with the real net performance of equity pension plans over the past year reaching 17.% close to three times that of mostly equity pension plans, the second best performance in Pillar III. This higher performance of equity Pillar III plans can be observed for periods up to 10 years in the past; however, the 25-year return of these plans is largely disappointing, broadly in line with that of the three other categories.

### 17.1.1 Pension system in Spain: An overview

The Spanish pension system, considered in the narrow sense of schemes dedicated to providing pension income, is a classic three-pillar system, with a large Pillar I, PAYG public pension scheme—pension benefits paid by INSS replace 80.4% of the average salary<sup>1</sup>—complemented by more limited and mostly voluntary occupational and personal funded pension schemes (Pillar II and III) managed by pension funds and life insurance companies (DGFSP, 2025, p. 226). To get a more accurate view of Spaniard's retirement savings, however, one should also keep in mind the large amounts that they invest in other financial vehicles and, importantly, in real estate.

#### Pillar I

Amongst the measures enacted since 2021 features the indexation of public pensions on inflation: For the year 2026, the government thus announced an increase of 2.7% of social security pensions from their amount on December 31st, 2025, with a maximum monthly benefit set at EUR 3359.60.

The Factor de Sostenibilidad (FS)—or “sustainability factor”—was a correction factor introduced as part of the 2011–2013 reforms to account for changes in life expectancy. It was first suspended then definitely discarded by the 2021 reform of public pensions—due to its alleged disproportionate impact on younger generations—and was replaced by the Mecanismo de Equidad Intergeneracional (MEI)—which can translate as “intergenerational fairness mechanism”.<sup>2</sup> This temporary mechanism seeks to diffuse the impact of population ageing—in particular the retirement of the “baby boom” generation—by front-loading today part of the social contributions that are to fund public pension liabilities from 2050, thus distributing the financial effort across generations of Spanish workers. As the Spanish legislator puts it:

An automatic mechanism for cutting the initial amount of pensions, the sustainability factor, is being replaced by an instrument that responds to a diametrically different logic and which, instead of condemning younger people to more modest pensions, guarantees that the system we know today will be maintained in the coming decades through the recovery of the Reserve Fund. (Jefatura del Estado, 2023)

Concretely, the MEI consists in a temporary mandatory increase in social contributions from companies and employees, initially for a duration of ten years—from 2023 to 2032—subsequently extended to 2050 by the 2023 reform (Jefatura del Estado, 2023). Initially set at 0.60%, the extra contribution was raised to 1.2% by the 2023 reform, of which 1% borne by the employer and 0.2% by the employee. The produce of this extra contribution is meant to feed into the *Fondo de Reserva de la Seguridad Social* (social security reserve fund), for a total amount that the Spanish government

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<sup>1</sup>According to OECD (2005); This sets Spain as the OECD country with the most generous public pension system, above Greece and Luxembourg, and far from the 17.4% replacement rate offered by Lithuanian public pensions, or even the 28.6% of Poland and the Netherlands, or the 29% of Danish public pensions.

<sup>2</sup>Enacted by the Law 21/2021 of December 28th, 2021 on the “purchasing power of pensions and other measures reinforcing the financial and social sustainability of the public pension system” (Jefatura del Estado, 2021).

initially expected to reach EUR 50 millions by the end of 2032.<sup>3</sup> From 2033 on, every three years, the forecast of expenditures for 2050 will be reassessed: if the new forecast surpasses the initial forecast, the INSS will be able to tap into the reserve fund. The 2023 law rewrites Art. 121 of the general law on social security (*Ley General de la Seguridad Social*), setting variable annual limits to the amounts that can be drawn from the fund: the maximum drawdown starts at 0.10% of the Spanish GDP in 2033, increases incrementally to a maximum of 0.91% of GDP in 2047, before receding to 0.50% by 2053.

With a view to increase revenues for the public pension system, the 2023 reform enacted by the *Real Decreto-ley 2/2023*—titled “urgent measures to extend pensioners’ rights, reduce the gender gap and establish a new framework for the sustainability of the public pension system”—introduced an incremental increase of the contribution rate

The 2023 reform also created an “additional solidarity contribution” on high salaries, which does not grant any additional pension benefits. The contribution applies progressively: On the part of the salary comprised between the maximum normal contribution rate and that maximum normal contribution rate plus 10%, the solidarity contribution is set at 5.5%, 6% on the part of the salary comprised between the maximum rate plus 10% and the maximum rate plus 50%, and 7% beyond the maximum normal contribution rate plus 50%.

In parallel, The *Real Decreto-ley 13/2022* reformed the social contribution system for the self-employed, introducing a new mechanism to calculate contributions, which entered into force on January 1st, 2023, with a transition period of 10 years. The reform sought to address the lack of revenues of the social security regime for the self-employed, rooted, according to the legislator, in the choice of too many self-employed to contribute only the minimum rate instead of contributing in relation to their actual revenues. The reform then creates a scale of contribution rates proportional to the economic revenues from self-employed’s activities (*Jefatura del Estado*, 2022b).

To these measures, the 2021-2025 reforms add new measures designed to maintain older workers in employment until or even beyond the retirement age. The 2021 reform thus included measures to bring the effective retirement age closer to the statutory retirement age by, *inter alia*, making the calculation of anticipated pension benefits less advantageous while providing incentives, in the form of a bonus, to postpone retirement; it also banned forced retirement before the age of 68. The 2025 reform further reduced the amounts of partial pension benefits that those in situation of *jubilación activa*—workers having passed the statutory retirement age but without a complete work career (36.5 years of contributions, in 2025)—can receive. By contrast, for workers who delay their retirement (*jubilación demorada*), the additional benefit is now calculated for each quarter worked beyond retirement age instead of each year.

But the Spanish reforms of public pensions are not all about increasing revenues

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<sup>3</sup>The subsequent increases to the contribution rate enacted in 2023, as well as the somewhat better-than-expected economic performance of the Spanish economy may have significantly changed that number.

and postponing retirement. They also introduced several important measures to revalue the lowest pensions so that they remain at least equal to the poverty line, to revalue widow's pensions and, importantly to reduce the gender pension gap that results, usually for women, from caring for children. In 2025, the *Decreto-ley 402/2025* also introduced criteria to authorise early retirement in professions considered as dangerous due to a higher mortality rate or higher risk of suffering from occupational disease.

## Pillar II

Pillar II, the sector of employer-sponsored retirement savings plans, was in Spain historically limited in its coverage and accumulated assets. As already mentioned, Social Security old-age benefits in Spain replace pre-retirement wages with one of the highest rates in the world and against a rather high pay-roll tax mostly paid by employers.<sup>4</sup> So, there is little margin left for occupational and individual retirement accounts to step substantially into the retirement arena. Indeed, what we observe in Spain is a very limited landscape for marketed retirement solutions even though the modern regulation for these products was enacted around 1987.

There are three main types of retirement vehicles that employers may offer to their employees: Planes de Pensiones de Empleo (PPEs), Seguros Colectivos (SCs) and Planes de Previsión Social Empresarial (PPSEs).<sup>5</sup> These plans all are capitalisation retirement accounts, of either DB or DC type, to which employers contribute a percentage of employees' wages. Workers can also contribute. According to the DGSFP, there were at the end of 2024 over 12 million accounts open within these three types of occupational plans, for total AuM of above EUR 64 billion. Even though the sector is growing—with a 8.29% increase in number of participants in 2024, and contributions in excess of benefit payments by EUR 509 millions—the accrued amounts per participant remain low, with an average of EUR 5175 across the whole Pillar II, receding from 5423 at the end of 2023 (DGFSP, 2025, p. 229).

The Spanish government enacted a reform of PPEs in June 2022 to promote these occupational pension plans and extend their coverage amongst Small and Medium-sized Enterprises (SMEs), public employees, self-employed and temporary workers. The government thus decided to enable the creation of "simplified" occupational pension plans (*planes de empleo simplificados*) with simpler and faster administrative processing, with a view to facilitating the offer of occupational pensions by smaller enterprises, at a lower cost. The reform also entailed the creation of 15 Fondos de Pensiones de Empleo de Promoción Pública (FPEPPs)—collectively nicknamed the "macrofondo"—where existing and newly created DC PPEs and Planes de Pensiones de Empleo Simplificados (PPESs) could be integrated, with the goal of benefitting from economies of scale and reducing management costs—with fees comprised between 0.1% and 0.25% of AuM per annum. As the Spanish legislator explains:

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<sup>4</sup>This being said, we should remark that pay-roll taxes to Social Security or other welfare programs are deferred wages and, were they to be entirely supported by employees, for a same level of retirement income, gross wages should be accordingly updated to accommodate this wedge.

<sup>5</sup>"Associated pension plans", a very minor category used by cooperatives' members are classified as "other personal pensions" together with individual pensions within Pillar III vehicles by the regulator.

one of the main objectives of this law is to promote the existence of publicly promoted occupational pension funds of sufficient size to ensure lower management costs, allow for diversified investment distribution and, thereby, improve profitability levels, bringing them in line with those of other collective investment institutions.

*Ley 12/2022* (Jefatura del Estado, 2022a).

The 15 FPEPPs were created in December 2023: five "management entities" were selected through public competition by the *Comisión Promotora y de Seguimiento* (Promotion and Monitoring Committee), in charge of defining the standards and criteria to be met by the management of the FPEPPs and a common investment strategy which is to take into account financial return and risk but also the social and environmental impact of the investments made by the funds. A *Comisión de Control Especial* ("Special Control Committee") is furthermore tasked with the supervision of these funds.

In parallel, the 2022 Budget law increased the tax deductibility of contributions to occupational pensions from EUR 8500 to EUR 10 000, a stark contrast with the situation of Pillar III, individual pension plans which clearly shows in what direction Spain intends to develop its pension system in the coming decades.

### **Pillar III**

Individual supplementary pensions of the third Pillar include Planes de Pensiones Personales (PPPs), Planes de Previsión Asegurados (PPAs), Planes de Previsión Social (MPSs) and Seguros de Dependencia (SDs). By end 2024, Pillar III pension plans altogether had 8.3 million accounts open, for a total of EUR 113.8 billion under management. Albeit higher than in Pillar II, accrued amounts per participant remain rather low at EUR 13 623 on average (EUR 36 480 in MPSs). Like most Pillar II plans, these Pillar III plans are voluntary, but they are "personal" in the sense that each individual can choose their own plan amongst those on offer on the market. One salient feature within this category is that contributions by participants are delayed until the end of the year using balances left in their income–expenditure flows at that point in time to profit from tax deductibility.

Contributions to Pillar III pension schemes have been falling quickly after the 2021 budget law—*Ley 11/2020 de Presupuestos Generales del Estado par el año 2021*—reduced the ceiling of tax deductibility of contributions from EUR 8000 in 2020 to EUR 2000 per year in 2021, doubling down with a further reduction to EUR 1500 in the 2022 budget law. Contributions to Pillar III plans fell to EUR 2841 millions in 2024, down 10.78% from the previous year and a cumulated 44% decrease since their end-2020 level at EUR 5106 millions. Of all types of Pillar III instruments, PPPs are the most affected by the measure, with a 57% fall in contributions from 2020 to 2024. While this development constitutes a testament to the power of tax levers to incentivise retirement savings, it also raises an important question: was tax deductibility the only argument Spanish personal pension had going in their favour or were they so poorly marketed by financial advisors that Spanish citizens could not see their other merits? We shall return to this question in Section 17.5.1.

## 17.2 Long-term and pension savings vehicles in Spain

Even if, due in part to the high replacement rate of the public pension, the role played by Pillars II and III supplementary pensions is not a very large one in Spain, there is a significant variety of marketed retirement products. The most standard retirement vehicles, as said above, are pension plans (PPEs in Pillar II and PPP in Pillar III) and pension insurance (particularly SCs in the occupational realm). Most retirement vehicles in Pillar III are provided by financial institutions and insurers that also act as managers and depositories of Pillar II occupational pension plans, which are sponsored by employers. Also, several professional associations have since long created MPSs (welfare mutual funds) that offer complementary (mostly Pillar III) coverage to *mutualistas* (members), with some of those mutual funds also operating as regulated alternative schemes to social security schemes for the self-employed (Pillar I).

Pillar II and III pension schemes were introduced in Spain in the years 1987–1988. Occupational pensions, which used to be managed and provided directly by employing firms were progressively transferred to newly created pension funds (*fondos de pensiones*), entities with a legal personality distinct from that of employing firms and whose mission was to provide pension plans (*planes de pensiones*). The Spanish Parliament passed in 2022 law 12/2022, which reforms occupational pension funds with the creation of public occupational pension funds and “simplified occupational pension plans”, extending the coverage of occupational pensions in Spain to civil servants and self-employed workers, two categories that had until then been excluded from Pillar II.

Personal pension products come in a variety of shapes in Spain, as can be seen from Table 17.3. Pensions funds and insurance companies both offer occupational and personal pension savings products. We note that, while pension funds have more participants, the lion's share of retirement savings is managed by insurance companies; this makes all the more regrettable that cost and performance data is not available for insurance-based pension products in Spain. There is also a noticeable imbalance between occupational pensions and personal pensions, the latter having many more participants and much larger amounts under management than the former, despite the generally higher fees of personal pension products (see Section 17.3).

### 17.2.1 Pension plans

Pension Plans (*planes de Pensiones*) are the standard retirement saving vehicles in Spain, albeit only one of many different retirement vehicles that are currently being marketed in the country. They can be promoted by employers on behalf of their employees, by professional associations on behalf of their members or by financial institutions for the general public (workers included).<sup>6</sup>

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<sup>6</sup>Insurance companies also promote PPA (“Insured Retirement Plans”) for the general public and PPSE (“Insured Employer Retirement Plans”). These insurance-based vehicles are essentially equivalent to their fund-based counterparts and share the same regulatory standards with them.

**Table 17.3 – Long-term and pension savings vehicles in Spain**

	AuM (EUR mln.)	Participants (thousands)	Avg. savings per participant (EUR)
<b>Pension funds<sup>a</sup></b>	<b>131 832.76</b>	<b>10 193.31</b>	<b>12 933.26</b>
Pillar II	38 818.50	2 832.41	13 705.10
<i>Occupational pension plans</i>	<i>38 818.50</i>	<i>2 832.41</i>	<i>13 705.10</i>
Pillar III	93 014.25	7 360.90	12 636.26
<i>Individual pension plans</i>	<i>92 242.36</i>	<i>7 311.54</i>	<i>12 616.00</i>
<i>Associated pension plans<sup>b</sup></i>	<i>771.89</i>	<i>49.37</i>	<i>15 636.38</i>
<b>Insurance-based pension vehicles<sup>c</sup></b>	<b>211 313.80</b>	<b>8 964.18</b>	<b>23 573.13</b>
Pillar II	34 626.87	1 207.20	28 683.69
<i>Company Social Welfare Plans</i>	<i>450.10</i>	<i>41.79</i>	<i>10 770.46</i>
<i>Pension commitment instrumentations</i>	<i>25 905.71</i>	<i>757.51</i>	<i>34 198.32</i>
<i>Other collective life insurance</i>	<i>8 271.06</i>	<i>407.89</i>	<i>20 277.53</i>
Pillar III	176 686.94	7 756.98	22 777.79
<i>Insurance pension plans</i>	<i>10 118.82</i>	<i>686.37</i>	<i>14 742.56</i>
<i>Deferred capital</i>	<i>46 805.01</i>	<i>2 133.90</i>	<i>21 934.04</i>
<i>Annuities</i>	<i>76 073.34</i>	<i>1 703.31</i>	<i>44 662.09</i>
<i>PIAS<sup>d</sup></i>	<i>15 710.99</i>	<i>1 481.76</i>	<i>10 602.93</i>
<i>SIALP<sup>e</sup></i>	<i>3 567.22</i>	<i>297.57</i>	<i>11 987.89</i>
<i>Unit-linked life insurance</i>	<i>24 411.56</i>	<i>1 454.08</i>	<i>16 788.33</i>
<b>Total</b>	<b>343 146.56</b>	<b>19 157.49</b>	<b>17 911.87</b>
Pillar II	73 445.37	4 039.61	18 181.30
Pillar III	269 701.19	15 117.88	17 839.88

Data: INVERCO, UNESPA; Calculations: BETTER FINANCE.

<sup>a</sup> Data as of December, 31<sup>st</sup> 2024

<sup>b</sup> Retirement savings vehicles sponsored by labour associations and regulated as Pillar III products.

<sup>c</sup> Data as of September, 30<sup>th</sup> 2025

<sup>d</sup> Plan Individual de Ahorro Sistemático (Systematic Individual Savings Plans)

<sup>e</sup> Seguro Individual de Ahorro a Largo Plazo (Long Term Individual Savings Insurance)

**Table 17.4 – Number of participants to Pension Plans 2010–2024**

	Dec. 2010		Dec. 2024		Change 2010–2024
	Accounts	% total	Accounts	% total	
Employer sponsored	2 149 334	19.8%	2 832 414	27.8%	31.8%
Associate	78 072	0.7%	49 365	0.5%	-36.8%
Individual	8 601 775	79.4%	7 311 535	71.7%	-15.0%
Total	10 829 181	100.0%	10 193 314	100.0%	-5.9%

Data: INVERCO.

Pension Plans are voluntary and complementary to Social Security pensions. Their benefits are not integrated in any way with Social Security benefits. Plans created after 1987 legislation are DC plans, but many previously existing occupational plans that had to be later segregated from their parent companies and transferred to Pension Funds continue to be DB plans, accounting for roughly half the volume (but decreasing) of assets managed into the occupational subclass.

Pension plans fall into three categories (or “systems”, as they are known in Spain):

- *Sistema de empleo*: Employer-sponsored pension plans, they are the standard form of pension fund-based occupational pensions in Spain (in the remainder of this chapter, we will use the terms “employer-sponsored” and “occupational” interchangeably);
- *Sistema asociado*: A small and fading type of plans sponsored by labour associations, which are not occupational in the sense that there is usually no contribution from the employer;
- *Sistema individual*: Personal pension plans, which individuals can freely subscribe and contribute to on their own.

As the reader can appreciate from Table 17.4, in terms of number of accounts, the only “system” that has increased in the past decade and a half has been that of employer-sponsored plans, with over 30% more participants on December 31st, 2024 than on December 31st, 2010: after decreasing steadily for over a decade, the number of accounts started picking up quickly from 2022. “Associate” plans, in the meantime, lost over a third of their members. “Individual” plans, while losing over one million participants, still remain by far the largest of the three systems.

Correspondingly, as Table 17.5 shows, the number of pension plans has shown an almost regular decrease throughout the present decade. The number of plans totalled 2964 in 2010 and 2274 at the end of 2023, a fairly regularly distributed 23.3% decrease though time, averaging over sub-schemes, most relevant again (in absolute terms) for the individual plans sub-scheme. This overall reduction in the number of plans aligns with a concentration trend observed within the same order of magnitude in other European countries: considering the continued growth of assets, this implies an increase in the size of the average plan, which may translate into economies of scale.

**Table 17.5 – Number of Pension Plans by type of scheme  
2010–2024**

	Employer sponsored	Associated	Individual	Total
2010	1 484	209	1 271	2 964
2011	1 442	198	1 342	2 982
2012	1 398	191	1 385	2 974
2013	1 350	187	1 384	2 921
2014	1 330	178	1 320	2 828
2015	1 312	172	1 257	2 741
2016	1 305	164	1 189	2 658
2017	1 291	156	1 109	2 556
2018	1 293	151	1 075	2 519
2019	1 284	146	1 036	2 457
2020	1 282	141	976	2 399
2021	1 286	136	903	2 325
2022	1 295	131	856	2 282
2023	1 335	124	823	2 282
2024	1 354	109	811	2 274
<b>Change 2010–2024</b>	<b>-8.8%</b>	<b>-47.8%</b>	<b>-36.2%</b>	<b>-23.3%</b>

Data: INVERCO.

Employer-sponsored pension plans represented, as of December 31st, 2024 27.8% of all pension funds accounts (Table 17.4) but close to 60% of the number of plans (Table 17.5). In terms of number of accounts, then, the average employer-sponsored pension plan is much smaller (2092 accounts) than its individual counterpart (9015 accounts), a dispersion that may limit economies of scale in Pillar II without further consolidation. The gap in average savings between employer-sponsored plans and individual plans has also been closing fast, with the average savings in *sistema de empleo* falling from EUR 18 656 per account in 2021 to EUR 13 753 on December 31st, 2024, less than a thousand euros above the average amount in individual pension plans (EUR 12 854). The increase in the number of employer-sponsored accounts in recent years accounts for much of this reduction in average savings in Pillar II, as these new participants are only starting their accumulation phase.

Pension Plans integrate for the sake of management and by law into Pension Funds (*Fondos de Pensiones*) to reach scale and financial synergy. This is the case of small Pillar II, occupational plans and of virtually all Pillar III, or individual retirement plans and associated plans. Pension Funds are legal entities, linked or not to financial institutions, obliged by law to contract out their managing and depositary functions with specialized, licensed agents.

2024 was a second positive year in a row for pension fund savers, with a net yield of over EUR 10 billion, which takes the end-of-year value of pension funds' overall AuM to a new high, with over EUR 131 billion, completing pension funds' recovery from the 2022 slump (see Table 17.7). Net investments (i.e., the balance between

**Table 17.6 – Evolution of Pension Plans' Assets under Management by type scheme 2010–2024**

	Employer sponsored		Associated		Individual		Total
	AuM (EUR mln.)	% of total	AuM (EUR mln.)	% of total	AuM (EUR mln.)	% of total	AuM (EUR mln.)
2010	31 272	36.9%	926	1.1%	52 552	62.0%	84 750
2011	31 170	37.5%	835	1.0%	51 142	61.5%	83 148
2012	32 572	37.6%	795	0.9%	53 160	61.4%	86 528
2013	33 815	36.5%	1 001	1.1%	57 954	62.5%	92 770
2014	35 262	35.1%	940	0.9%	64 254	64.0%	100 457
2015	35 548	34.0%	958	0.9%	68 012	65.1%	104 518
2016	35 437	33.2%	921	0.9%	70 487	66.0%	106 845
2017	35 683	32.2%	903	0.8%	74 378	67.0%	110 963
2018	33 810	31.6%	829	0.8%	72 247	67.6%	106 886
2019	35 710	31.0%	859	0.7%	79 850	69.4%	115 035
2020	35 681	30.5%	827	0.7%	82 014	70.1%	117 027
2021	37 792	29.9%	883	0.7%	89 323	70.8%	126 246
2022	34 634	30.4%	779	0.7%	78 579	68.9%	113 994
2023	36 670	30.0%	792	0.6%	84 923	69.4%	122 385
2024	38 819	29.4%	772	0.6%	92 242	70.0%	131 833

Data: INVERCO.

contributions and payouts) remain negative for the fourth year in a row, albeit by a much smaller margin: they "only" contracted by EUR 615 million in 2024, down from EUR 1133 million in 2023. This is in part due to the stabilization of contributions into individual pension plans—which had been falling dramatically in 2021 and 2022—and in part due to contributions into occupational pension plans picking up (EUR +314 million).

Individual pension plans typically offer a variety of risk profiles participants can choose from, depending on their risk preferences. This enables participants to switch across plans with different levels of exposure to equity markets as they advance in age, in a sort of life cycle approach. Those alternate plans range from plans with a third-party guarantee of return (*sistema individual garantizado*) to plans almost entirely invested in equity markets (*sistema individual de renta variable*). INVERCO, the trade association of Spanish investment and pension funds, classifies individual pension plans as follows:

- *Garantizados* ("guaranteed"): Plans that come with a minimum return guarantee offered by a third party;
- *Renta fija* ("fixed income"): Plans that invest fully in fixed-income securities or derivatives with fixed-income securities as underlying, with a maturity of maximum one year; this category is subdivided into *renta fija a corto plazo* ("short-term fixed income", securities in the portfolio have a maturity of maximum one year) and *renta fija a largo plazo* ("long-term fixed income", maturities over one year);

**Table 17.7 – Flows of funds for Spanish pension funds 2012–2024 (EUR mln.)**

	BoY assets	Net invest- ments	Net yields	EoY assets
2012	83 148	70	3 310	86 528
2013	86 528	239	6 003	92 770
2014	92 770	898	6 789	100 457
2015	100 457	526	3 535	104 518
2016	104 518	264	2 063	106 845
2017	106 845	451	3 667	110 963
2018	110 963	-170	-3 907	106 886
2019	106 886	799	8 734	116 419
2020	116 419	1 176	928	118 523
2021	118 523	-305	9 745	127 998
2022	127 998	-928	-13 076	113 994
2023	113 994	-1 133	9 524	122 385
2024	122 385	-615	10 063	131 833

*Data:* INVERCO; *Calculations:* BETTER FINANCE; BoY: Beginning of Year; EoY: End of Year.

- *Renta fija mixta* ("mostly bonds"): Plans that invest at most 30% of contributions in equity;
- *Renta variable mixta* ("mostly equity"): Plans with 30% to 75% invested in equity;
- *Renta variable* ("equity"): Plans with at least 75% of assets invested in equity.

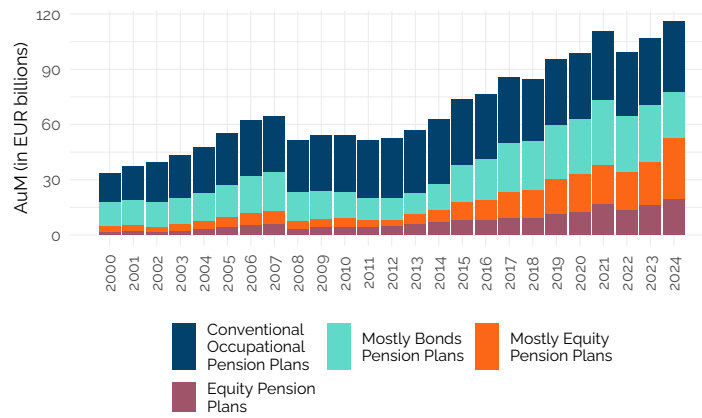
Occupational schemes, by contrast, are set with the risk profile established by their sponsors and fund managers (or control boards, where employers and workers' representatives sit). They typically have a certain freedom to change the risk profile of the fund according to market conditions.

In this report, we will focus our analysis of costs and performance on occupational pension plans, for Pillar II, and, for Pillar III, on the three largest (per AuM) varieties of individual plans: the "mostly bonds", "mostly equity" and "equity" pension plans. Altogether, these four categories total close to EUR 120 billion in AuM, the lion's share of pension fund assets (see Figure 17.1).

Figure 17.2 shows the striking evolution of Spanish pension savers' choice of plans within the *sistema individual*. Guaranteed (*garantizados*) and bonds-only pension plans (*renta fija*), which together used to account for over half of all individual plans' assets, have shrunked to a mere 16.3%. At the other extreme, full equity-based plans (*renta variable*) more than doubled its share of total assets. But the largest increase is that of the "mixed" categories (*renta fija mixta* and *renta variable mixta*) from 35.5% of total Pillar III assets in 2010 to 63% by the end of 2024.

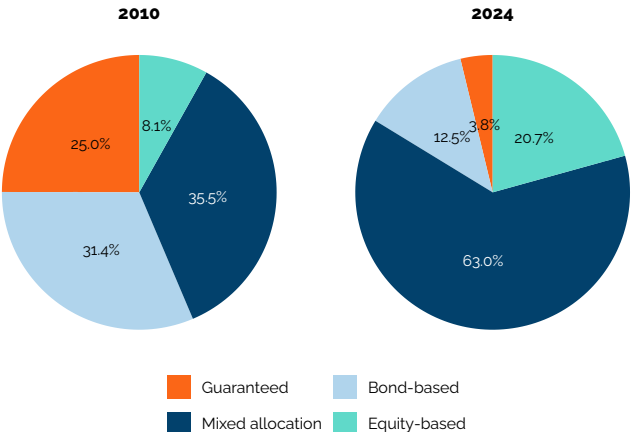
This may be indicative of a wider "search for yield" on the part of Spanish pension savers, especially as the "low-for-long" interest rate environment of the 2010s but also the continued pressure that markets and international institutions maintained

**Figure 17.1 – AuM of Spanish pension funds (in bln EUR)**



Data: INVERCO; Calculations: BETTER FINANCE.

**Figure 17.2 – Investments by asset class (Pillar III schemes)  
2010 vs. 2024**



Data: INVERCO.

**Table 17.8 – Pension funds' asset allocation 2016–2024**

	Equity	Investment funds	Gvt. bonds	Corporate bonds	Deposits	Other	Total
2016	12.8%	19.2%	37.0%	17.6%	—	13.4%	100.0%
2017	15.0%	23.5%	31.3%	17.7%	—	12.4%	100.0%
2018	15.3%	24.2%	31.3%	17.7%	—	11.4%	100.0%
2019	17.0%	27.4%	28.9%	17.9%	—	8.7%	100.0%
2020	16.3%	28.8%	26.5%	18.7%	—	9.6%	100.0%
2021	15.8%	29.5%	22.3%	16.8%	6.7%	8.8%	100.0%
2022	15.8%	26.6%	25.1%	16.7%	5.8%	10.0%	100.0%
2023	16.6%	26.9%	24.1%	16.3%	5.8%	10.3%	100.0%
2024	18.2%	28.8%	22.6%	14.8%	4.6%	15.5%	100.0%

*Data:* DGSFP; *Calculations:* BETTER FINANCE.

over Spain's public finances—including its public pension system—and the inevitable doubts about the adequacy of future public pensions that these pressures are sure to have triggered in many Spaniards' minds.

Altogether, this relative less risk-averse orientation appears reflected into the broad asset allocation of the pension fund sector, which saw a decrease of the shares of corporate and, especially, government bonds, while allocation to equity and alternative asset classes increased (see Table 17.8).

The reduction of the exposure to sovereign bonds, in particular, appears structural: even though their share of total assets increased again in 2022—the year Russia invaded Ukraine, sparking capital market turmoil—the mid-term trend since 2019 clearly shows a decline, that largely benefits allocation to investment funds. The breakdown of pension funds' investments into investment funds is, unfortunately, not disclosed by INVERCO, which prevents us to look through this item at the actual asset classes the pension funds are exposed to.

Pension Plans in Spain, like in most countries, are tax-qualified (EET) retirement vehicles (see Section 17.4). All payments by participants (or on their behalf) are tax-exempt up to a limit so that compounded interest may play its full magic over larger savings over many years. Benefits are taxed (see below). In exchange for this tax treatment, funds cannot be cashed before retirement unless some major contingencies happen (redundancy, sickness, or long-term unemployment), albeit some extra flexibility has been added recently. Accrued rights, however, can be switched by participants to different plan promoters at no cost within the individual plans scheme.

### 17.2.2 Insurance-based pension savings

Measured by its AuM, the insurance industry is a major provider of retirement income products in Spain, both for Pillar II and, especially, Pillar III. Insurers also manage a substantial part of standard Pension Funds' assets. A salient feature of this trade is the large variety of retirement and quasi-retirement vehicles that the industry markets in Spain and everywhere.

Some of these vehicles are indistinguishable from genuine retirement or pension plans, and quite a few are genuine life insurance solutions marketed since very old times by the industry and turned into retirement vehicles through progressive assimilation with the standard vehicle (Pension Plans) firstly regulated in Spain in 1987/1988. This assimilation has been fuelled by converging fiscal treatments for all these products, even if some of them continue to have distinctive features of their own.

Market practitioners often distinguish “fund-based” from “insurance” solutions when describing the nature of a given retirement solution. Many retirement savings vehicles, even those offered by pension funds and other non-insurance undertakings, contain insurance DNA in their composition, either because they cover biometric risk to some extent or offer pay-outs in the form of annuities. Insurance-based retirement products distributed by insurance undertakings offer higher protection against capital market volatility, often in the form of a guarantee to recoup one's capital or to reach a minimum guaranteed level of return. Thus deemed safer, these products are nevertheless also costlier for the buyer than products without guarantees.

The great diversity of risks covered and of forms the guarantees can take result in a wide and variegated array of insurance-based retirement savings products. This variety may warranted by the variety of needs of Spanish savers (or not); what is certain is that it does not make things easier for individuals looking for the right product.

According to UNESPA, the trade association representing Spanish insurers, the total technical reserves of insurance-based pension savings in Spain amounts to over EUR 211 billion at the end of 2024 (see Table 17.3), spread over 8.9 million accounts, which sets the average savings in those products at EUR 23 573.13 per account, over ten thousands euros above the average savings in pension funds. Pillar III products make up the bulk of these savings, with EUR 176.7 billion (versus “just” EUR 34 billions in insurance-based Pillar II vehicles).

### **Insured retirement plans (PPA)**

The PPAs or “insured retirement plans”, are the insured counterpart of standard pension plans that were previously discussed. Among all insured retirement (or retirement-like) vehicles, PPAs are the most proper for this purpose. Their features concerning taxes, redeemability, or other factors are thoroughly the same as those of pension plans, but the fact is that interest and principal risks are taken by the insurer at a cost naturally. In particular, a known and certain interest rate is attached to this product. Once retirement happens, the insured person gets a life annuity (a lump-sum is also a popular option). In a way, technically, at least, a PPA is basically a pure deferred annuity. By Sept. 2025, 687 thousand PPAs were opened, for a total of EUR 10 billion, figures that have been declining substantially in recent years.

### **Company retirement plans (PPSE)**

PPSE are employer-sponsored (Pillar II) group insurance contracts intended to provide a complementary retirement benefit, usually in the form of a deferred capital. They are the insurance-based counterpart to the *sistema de empleo* pension funds

(occupational pension plans), but are often deemed more adapted to SMEs due to their greater flexibility. Their coverage is, however, relatively limited, with a mere 41 thousand workers enrolled in Sept. 2025 for a total of EUR 450 million in AuM.

### **Individual regular savings plans (PIAS)**

Planes Individuales de Ahorro Sistemático (PIASs) are more flexible than conventional pension plans and PPAs. They are not, strictly speaking, pension savings products, as savings are not formally locked-in until retirement (withdrawals are allowed after only one year). Nevertheless, the design of their accumulation phase (regular contributions under a ceiling) and, even more, the tax treatment of those products clearly shows the legislator's intention to make PIASs one of the most tax-advantaged option for pension savings (see Section 17.4.4).

Contributions are capped at EUR 8000 per year—fully deductible from the contributor's taxable income, which makes them much more attractive than the other personal pension products. The total of contributions cannot exceed the limit of EUR 240 000 per contract (but the total principal plus capital gain can exceed that ceiling) and each Spanish resident can only own one PIAS contract.

Payout options include lump sum withdrawals and annuities, with significantly different tax treatments that clearly intend to steer savers' choice towards annuitization (see Section 17.4.4).

### **Long-term individual saving plans (SIALP)**

Introduced by the 2014 tax reform, Seguros Individuales de Ahorro a Largo Plazo (SIALPs) and their bank-based equivalent Cuentas Individuales de Ahorro a Largo Plazo (CIALPs) constitute what is known as *Planes de Ahorro 5* ("Savings plans 5"), after the number of years savings must remain in the plan in order to benefit from the favourable tax treatment. SIALPs are IBIPs similar to life insurance, whereby:

- capital can be withdrawn at any time (no lock-in, but no partial withdrawal either);
- contributions cannot exceed EUR 5000 annually;
- a guarantee to recoup at least 85% of the value of the capital at the term of the contract applies (insurers can offer guarantees up to 100% of capital);
- a guaranteed technical interest rate is applied to net contributions (i.e., amounts invested after deduction of all costs).

Like PIASs, SIALPs come with tax advantages intended to incentivise savers to leave their money on the plan for at least 5 years (see Section 17.4.5)<sup>7</sup>.

There are two main differences with PIASs:

- The first difference is the risk profile: SIALPs, with their guarantees on capital and technical interest rates offer great stability and target savers with high risk aversion;

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<sup>7</sup>Five years seems more "medium term" than "long term" to the authors of this report, but to each their own.

- The second difference is that SIALPs do not allow regular withdrawals, let alone annuitization: the capital must be withdrawn as one lump sum (which the holder could, of course, still use to buy an annuity).

## 17.3 Charges

Since its inception in 1987/1988, the Pension Plans market in Spain has been characterized by high average charges. There are three key aspects to consider from the outset: (i) the Spanish retirement solutions market has historically been very small, which negatively impacts scale and efficiency, (ii) Pillar II schemes offer internationally competitive low fees, but due to the limited market size, these must be subsidized by the significantly higher fees charged in Pillar III markets, and (iii) fees have been decreasing in recent years due to intense regulatory pressure on companies.

The data discussed below clearly illustrates the consequences for savers arising from current market conditions. Over the past decade, average fees have steadily decreased to around 1% of AuM. Using this figure as a proxy for TER (or total cost ratio for investors), it can be inferred that typical investors may endure a lifelong reduction in their RiY retirement savings—amounting to approximately 13% of their final labour life savings due to these charges.

In the insurance sector of the retirement market, there is limited knowledge regarding data that can be used for harmonized comparisons. While regulators and the industry provide relevant data in raw form, the wide variety of retirement and pension products—each with its unique features—complicates the process of producing directly comparable data. This chapter cannot cover the extensive work required to achieve that goal, but any initiative aimed at this would be greatly welcomed.

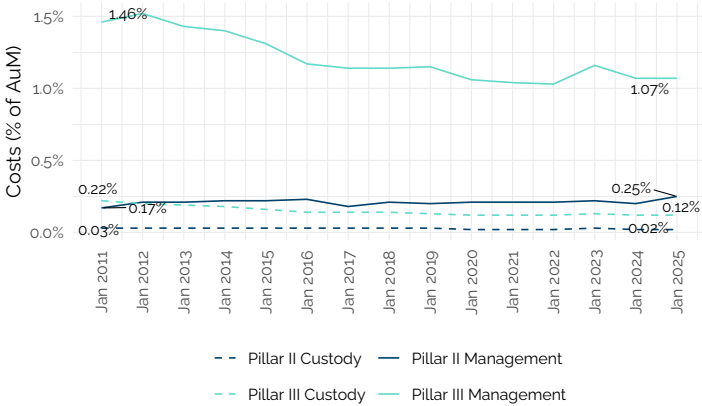
Even though regulations contribute to the additional burden of management and depositary fees for consumers, the presence of too many intermediaries—such as managers, brokers, and retailers—exacerbates the overall costs for participants or insured individuals. Recently, management and depositary fees have been regulated to prevent excessive charges. However, these regulations permit variable fees to be established based on specific yields, within certain limits.

Figure 17.3 and Table 17.9 show the evolution of effective average fees charged to plan participants by both managers and depositories on Pillars II and III Pension Funds. Note that, as said before, some distribution fees (for which data are unavailable) may also be added to management fees.

The most notable aspect of the data in the graph is that Pillar II assets, which include employer-sponsored pension plans, are significantly more cost-effective to manage—up to nearly six times less expensive in recent years. Furthermore, depositary fees, which are already relatively low in both pillars, remain five times cheaper in Pillar II compared to Pillar III. This raises the question of whether the substantial difference in fees is solely attributable to market scale (Table 17.9).

In this context, industry transparency requirements at the international scale are starting to provide a framework for generating a comprehensive understanding and common ground for comparison about the cost and advantages of complementary

**Figure 17.3 – Effective charges in Pension Funds (% of AuM), 2010–2024**



Data: INVERCO.

**Table 17.9 – Charges in Pension Funds 2018–2024**

	Pillar II			Pillar III		
	Management	Custody	Total	Management	Custody	Total
2010	0.17%	0.03%	0.20%	1.46%	0.22%	1.68%
2011	0.21%	0.03%	0.24%	1.52%	0.20%	1.72%
2012	0.21%	0.03%	0.24%	1.43%	0.19%	1.62%
2013	0.22%	0.03%	0.25%	1.40%	0.18%	1.58%
2014	0.22%	0.03%	0.25%	1.31%	0.16%	1.47%
2015	0.23%	0.03%	0.26%	1.17%	0.14%	1.31%
2016	0.18%	0.03%	0.21%	1.14%	0.14%	1.28%
2017	0.21%	0.03%	0.24%	1.14%	0.14%	1.28%
2018	0.20%	0.03%	0.23%	1.15%	0.13%	1.28%
2019	0.21%	0.02%	0.23%	1.06%	0.12%	1.18%
2020	0.21%	0.02%	0.23%	1.04%	0.12%	1.16%
2021	0.21%	0.02%	0.23%	1.03%	0.12%	1.15%
2022	0.22%	0.03%	0.25%	1.16%	0.13%	1.29%
2023	0.20%	0.02%	0.22%	1.07%	0.12%	1.19%
2024	0.25%	0.02%	0.27%	1.07%	0.12%	1.19%

Data: INVERCO.

retirement vehicles, as these solutions become increasingly necessary to help cushion the hard landing of Social Security benefits everywhere.

All Pillar III vehicle providers are obliged to advance a KID to their customers. These KIDs are firmly rooted in the PRIIPs regulation, which is not binding for pension products. Pillar II products are not obliged to advance a KID to their customers, albeit they must, of course, provide information akin to this package regularly.

## 17.4 Taxation

Spain's *Impuesto de la Renta de la Personas Físicas* (IPRF), the personal income tax, is made of a dual system, whereby income from labour and income from savings are treated separately. Taxable income is split into two separate tax bases, each with its own applicable tax schedule: one, the "general" tax base for income from labour (wages, self-employment income, etc.) and pensions (assimilated to deferred labour income); the other, the "savings" tax base, for all income accrued from financial assets (interests, dividends, capital gains, annuities from IBIPs, etc.)

As regards the tax schedule for labour income, the tax bill may vary depending on the Spanish region where a retiree has their fiscal residence. Indeed, Spain's personal income tax system is divided between the Central Government and its seventeen Autonomous Regions, along with the autonomous cities of Ceuta and Melilla. While the Central Government's tax scheme is consistent across the country, except for the two *foral* (historical) regions of Navarre and the Basque Country, the regional tax schemes feature different income brackets and marginal tax rates, as shown in Table 17.10 and Table 17.11, with significant disparity in both tax rates and taxable

**Table 17.10 – General personal income tax scale and rates  
– Central government**

Tax base from...	...to	Nominal marginal rates
EUR 0	EUR 12 450	9.50%
EUR 12 450	EUR 20 200	12.00%
EUR 20 200	EUR 35 200	15.00%
EUR 35 200	EUR 60 000	18.50%
EUR 60 000	EUR 300 000	22.50%
EUR 300 000	—	24.50%

*Data:* Agencia tributaria.; Spain has several government levels and PIT is roughly split in half between Central and Regional Governments

Only Central Government, only labor income; Interests and dividends are thoroughly taxed at 19

income brackets.

As regards savings and investments, Spain taxes income resulting from payments of interests, dividends or annuities, as well as financial gains resulting from the sale of financial securities or real estate. The progressive tax schedule for that income, known as *tarifa del ahorro*, is as follows:

- For gains until EUR 6000, a 19% tax rate applies;
- From EUR 6000.01 to EUR 50 000, 21%;
- From EUR 50 000.01 to EUR 200 000, 23%;
- From EUR 200 000.01 to EUR 300 000, 27%
- Gains above EUR 300 000 are taxed at a 30% rate.

### 17.4.1 Conventional pension plans

Contributions into conventional pension plans are deductible from an individual's taxable income, up to a ceiling:

- EUR 10 000 per year in occupational pension plans (*sistema de empleo*), and;
- EUR 1500 per year in individual pension plans (*sistema individual*).

The differentiated ceilings result from a policy decision made by the Spanish government to favour savings into occupational pensions while drastically reducing the public subsidy to Pillar III pension plans. Enacted in two steps—in the State's budget laws for 2021 and 2022—the tax deductibility of contributions into *planes de empleo* was raised by EUR 2000, while the ceiling for contributions into plans of the *sistema individual* was dropped from EUR 8000 to EUR EUR 2000 in 2021, then EUR 1500 a year later. While no increase in number of participants can be attributed for certain to the increased ceiling for Pillar II contributions (other measures to expand coverage are more likely to have played a role here), the reduced ceiling on the deductibility of Pillar III contributions had a more-than-substantial impact on the popularity of these pension savings vehicles.<sup>8</sup> We note that, formally, personal contributions made by

<sup>8</sup>Which can be seen either as evidence of the power of tax incentives as tools to overcome "procras-

**Table 17.11 – General personal income tax – Autonomous regions, 2024**

Region	Top income bracket (ordered)	Top marginal tax rate beyond top income bracket
Castilla y León	EUR 53 407	21.50%
Comunidad de Madrid	EUR 57 320	20.50%
Andalucía, Castilla-La Mancha, Galicia, Región de Murcia, Ceuta y Melilla	EUR 60 000	22.50%
Cantabria	EUR 90 000	24.50%
La Rioja	EUR 120 000	27.00%
Extremadura	EUR 120 200	25.00%
Canarias	EUR 121 200	26.00%
Aragón	EUR 130 000	25.50%
Illes Balears	EUR 175 000	24.75%
Principado de Asturias, Cataluña	EUR 175 000	25.50%
Comunitat Valenciana	EUR 200 000	29.50%

*Data:* Agencia tributaria.

Two historical Autonomous Regions (Navarra and The Basque Country) are exempted from the common tax regime and therefore not mentioned here, while two Autonomous Towns are included (Ceuta and Melilla)

the individual participant are only deductible up to EUR 1500 in both pillars, but employees can deduct an additional EUR 8500 into occupational funds if these are fully or partially employer contributions.

Since 2022, the self-employed and business owners can join occupational pension plans corresponding to their activity or one of the *planes de pensiones de empleo simplificados* (simplified occupational pension plans) created by the reform of 2022. In that case they can deduct up to EUR 4250 of contributions to these plans per year from their taxable income, on top of up to EUR 1500 in contributions to Pillar III plans.

When the participant reaches retirement age and starts withdrawing funds from their pension plan, three scenarios are possible: - The accumulated capital is withdrawn as a lump-sum: 40% of the sum is exempt from tax, the rest (both principal and capital gains) is considered as labour income (despite the fact that Spain has a specific tax law provisions for income from savings and investments that could have been applied to capital gains) and taxed accordingly, depending on the income bracket of the participant; - The accumulated capital is converted into a life or term annuity: the annuity is then taxed as labour income (again without distinction between principal and capital gains); - The accumulate capital is partly withdrawn as a lump sum and partly converted into an annuity: each part is taxed applying the corresponding tax treatment.

ination" in pension savings and the importance of providing important tax incentives, or as evidence of the fact that, beyond the tax incentive, Spanish individuals hardly see the value of investing in such plans (which can, in turn, result from their poor performance or from the poor quality of the investment advice Spanish pension savers receive). We leave it to better informed analysts to find out which explanation is most likely.

## 17.4.2 Life insurance

Since 1999, Spanish tax law no longer enables individuals to deduct life insurance premia from taxable income. Interests and capital gains from life insurance policies are taxed according to the *tarifa del ahorro* (see above) at the time of payout. No tax applies to payouts of the capital itself.

In case of withdrawals in the form of a lump sum, the whole amount of interests and capital gains is subject to the savings personal income tax.

If the life insurance policy is converted to a life or term annuity, the whole annuity payment is, each year, considered as savings and investments income (thus subject to the *tarifa del ahorro* in its entirety). However, part of the annuity payment is exempted from tax, depending, for lifelong annuities, on the age of the holder at the time when the life insurance policy is converted into an annuity:

- Younger than 40 years old: 60% of annual payments;
- 40 to 49 years old: 65%;
- 50 to 59 years old: 72%;
- 60 to 65 years old: 76%;
- 66 to 69 years old: 80%;
- 70 years old and older: 92%.

There is, therefore, a strong incentive for life insurance policy holders to delay the choose conversion to a lifelong annuity as the payout option, and to delay that conversion as much as possible (interests and capital gains keep accumulating for longer, and most of the resulting annual income is then tax free). Note that these rules apply to all annuities except those acquired through inheritance or donations (i.e., they apply to, e.g., conversions of PIASs to annuity, see Section 17.4.4).

## 17.4.3 Insured retirement plans (PPA)

This vehicle has a similar tax treatment as standard Pension Plans, Contributions to these plans are tax exempted up to an annual limit of EUR 10 000 and benefits are taxed as labour income considering the recipients age at retirement. Capital gains are subject to a dual income tax scheme. The tax regime of this vehicle thus can be said to be of the EET kind.

## 17.4.4 Individual Regular Savings Plans (PIAS)

Contributions to PIASs are fully deductible from the holder's taxable income: contributions are limited to EUR 8000 a year, every cent of which can be deducted.

Capital gains and payouts are taxed differently depending on the chosen payout option, the age of the holder and the duration of the contract since the first premium was paid in:

- If the holder withdraws from their PIAS before 5 years have passed since the first premium was paid, taxes are due on all interests accrued and capital gains obtained until the date of the withdrawal.
- If more than 5 years have passed *and* the payout takes the **form of a lump sum**, that lump sum counts towards the taxable income from savings and invest-

ments for the year when the withdrawal takes place and the *tarifa del ahorro* (see above) is applied.

- If the payout takes the **form of an annuity** and more than 5 years have passed since the holder paid the first premium, capital gains are, once again exempt from tax and the annuity payment is taxed *but* (a) is subject to the savings tax rate and (b) is partially exempt from this tax, with the extent of the exemption depending on the age of the PIAS holder at the age of converting their accumulated capital into annuity, applying the same rules as applies to annuities from the conversion of life insurance contracts (see Section 17.4.2).

### 17.4.5 Long-term individual saving plans (SIALP)

The tax treatment applicable to SIALPs is very simple: - annual contributions up to EUR 5000 are deductible from taxable income; - if the accumulated capital is left on the SIALP for at least five years, the full amount of capital and interests is exempt from tax; - if the capital is withdrawn before five years, the whole amount is subject to the tax on income from savings and investments (the *tarifa del ahorro* applies)

## 17.5 Performance of Spanish conventional pension plans

In this last section of the chapter, we look at the performance of the four largest categories of conventional pension plans, namely the occupational plans (Pillar II) and the personal plans (Pillar III) of the "mostly bonds" (*renta fija mixta*), "mostly equity" (*renta variable mixta*) and "equity" (*renta variable*) profiles. Beyond the costs of managing these pensions, which we analysed earlier (see Section 17.3), the long-term real net return of these plans is mostly driven by the performance of capital markets and inflation.

As regards equity markets, Spanish pension funds appear to diversify their investment worldwide: detailed data on all categories are not available, but INVERCO data for 2024 shows that only 4.2% of assets in "equity" individual plans are in the national market, 9.4% in the rest of Europe and 86.4% in the rest of the world. The performance of the equity investments of Spanish pension funds is, therefore, likely to reflect the performance of world stock markets. Fixed income investments appear to be more concentrated: INVERCO data on the geographical composition of fully long-term fixed-income individual plans show investments in Europe represent above 78% of the total AuM of these plans. The breakdown between Spain and the rest of Europe is not available, but we can safely assume that Spanish sovereign debt still constitutes a large part of the fixed-income investments in pension plans, meaning that this part of pension funds' portfolios will have suffered heavily during the 2012-2015 period, when Spanish 10-year bond yields reached critical levels, amid the broader "sovereign debt crisis" which shook the foundations of the European Economic and Monetary Union (EMU).

Turning to inflation, Spain displays a long-term evolution of prices that is generally in line with the EU's average (see Figure 17.4). However, when looking at the annual data, we notice that Spanish inflation has been superior to EU average inflation for

most of the period 2000–2012 (the gap between the blue and green lines in the right-hand side panel in Figure 17.4 widens), but generally inferior since (the gap narrows). In the latest inflation peak the EU suffered in 2021–2022, Spain suffered much less than the rest of Europe, with inflation peaking at 6.6% in 2021, versus a 10.4% peak in 2022 for the EU average.

### 17.5.1 Real net return of Spanish conventional pension plans

All the evidence produced in this section belongs to the conventional pension plans system (i.e., pension funds): due to data limitations, we cannot extend our analysis to insured retirement savings. All cost and performance data comes from the website of INVERCO, the Spanish body representing Mutual Investment Institutions and Pension Funds, while inflation data is taken from Eurostat (HICP monthly index for Spain). The returns of Pillars II and III Pension Funds are displayed under in Figure 17.5, Figure 17.6, Figure 17.7 and Figure 17.8. The returns are classified as “gross”, “net” and “real”. “Gross” refers to returns before deducting management fees, depositary fees, and commissions (any retailing and other transaction costs are not explicitly shown). “Net” indicates the returns after these costs have been deducted. Both gross and net returns are nominal figures. In contrast, “real” returns are adjusted for inflation.

Since 2009, there has been a predominance of positive net nominal returns (exceptions being 2018 and 2022), with several years showing particularly strong returns on invested assets. 2024 was such a year, with nominal returns before costs ranging from +6% for the most conservative “mostly bonds” plans (under 30% of AuM invested in equity) to 21% for “equity” pension plans (over 75% of AuM invested in equity), which translates into strongly positive real net returns, despite inflation still higher than its historic average of the past two decades. This performance follows strong results recorded already in 2023, which completes Spanish pension funds’ recovery from the 2022 market crash. Those strong results were driven mainly by the dynamism of stock markets, which transpires from the particularly strong result of individual “equity” pension plans (see Figure 17.8).

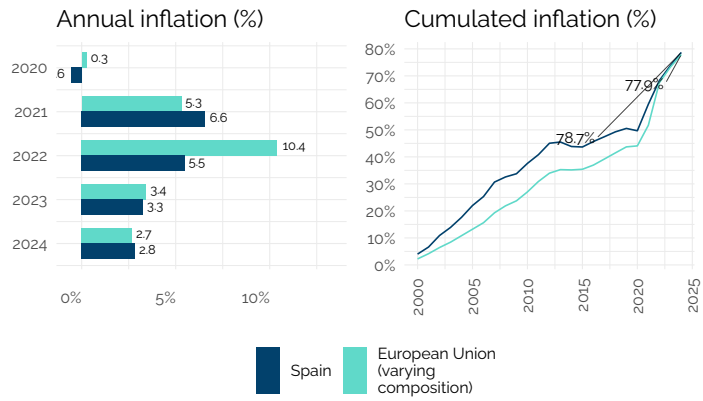
The performance of occupational pension funds, as displayed in Figure 17.5, show the dramatic impact of inflation over the long-term. While the limited costs of Pillar II funds (see Section 17.3) translate into a small gap between nominal gross and nominal net returns (12.1 p.p.s. cumulated over 25 years, 0.2 p.p. on an annualised basis), the rather higher-than-average inflation in Spain over the first decade of the period prevented any significant increase in the purchasing power of these investments. The real net return thus only turned positive in 2014 and still has not recovered from the “perfect storm” of 2022. Overall, a Spanish worker participating in an average-performance occupational pension fund would see a +115.3% performance since 2000, but the quantity of goods and services that these pension savings would be able to buy would only be 13.7% higher at the end of 2024 than they were at the end of 1999.

Inflation had a similar impact on the purchasing power of pension savings in Pillar III funds, of course. However, for these funds, that depressing effect compounds the effect of the higher ongoing charges that pension fund managers generally levy on these plans. Over 25 years, the gap between nominal gross and nominal net returns

**Figure 17.4 – Inflation in Spain**

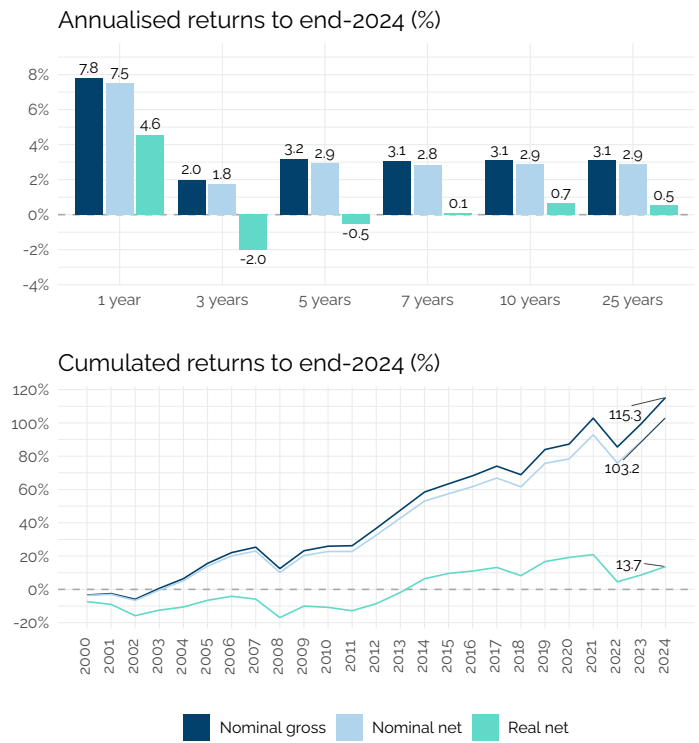
Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
European Union (varying composition)	77.9%	2.3%
Spain	78.7%	2.3%



Data: Eurostat, HICP monthly index (2015 = 100); Calculations: BETTER FINANCE;  
 Note: Annual inflation is calculated as the december-on-december variation of HICP.

**Figure 17.5 – Returns of Spanish occupational conventional pension plans (before tax, % of AuM)**



Data: INVERCO, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

reaches 53.6 p.p.s for "mostly bond" plans (Figure 17.6), 63.3 p.p.s for "mostly equity" plans (Figure 17.7) and 89.1 p.p.s for "equity" plans (Figure 17.8).<sup>9</sup>

Adding to that the depressing effect of cumulated inflation, "mostly bonds" and "mostly equity" plans, both return a loss of purchasing power for their investors over 25 years, with annualised real net returns of -1.4% and -0.7%, respectively. Cumulated over the same period, this amounts to a loss of -29.5% for "mostly bonds" plans and -16.8% for "mostly equity" plans.

The only category of Pillar III plans that managed to yield a positive real net return after 25 years is that of "equity" pension plans, and that return only amounts to +0.6% on an annualised basis, which translate into a paltry +16.9% cumulated increase in purchasing power over the last quarter of a century. And then again, as can be seen in the lower panel of Figure 17.8, it took 22 years of reasonably high financial performance for an investment made in 2000 in those plans to just recover its original purchasing power (severely affected by the 2001-2002 and 2008 market crashes, which is reflected in the big gap between the 10-year and 25-year annualised return).

Figure 17.9 and Figure 17.10 display the real net performance of the various categories of conventional pension plans side by side. Being much cheaper to manage, occupational pension funds manage to yield a significant real net return comparable to that of individual "equity" plans over 25 years, even though their gross performance is not better. Among Pillar III funds, we observe that, for the same level of costs, the "best" performance is obtained by those funds that are mostly invested in equity, although they were, for a long period of time, the worst performing of the three categories of funds.

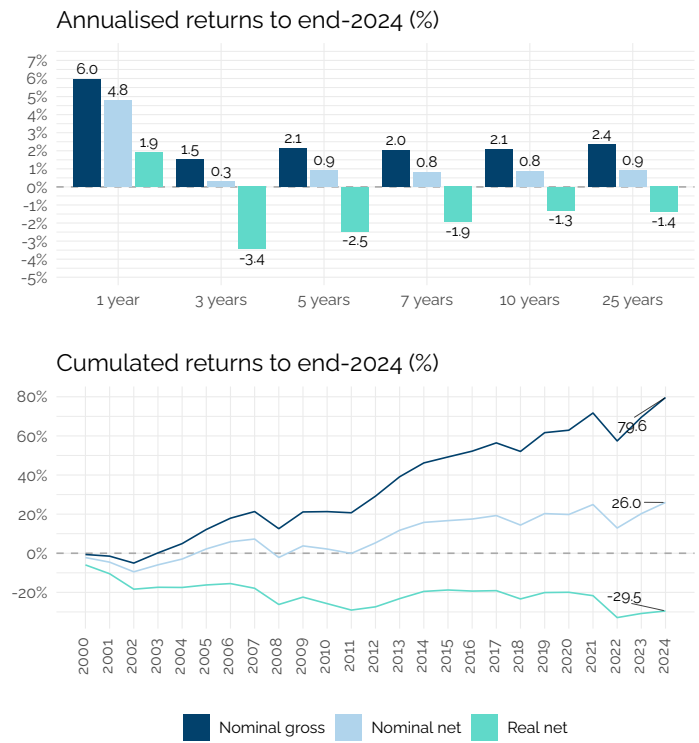
We shall see what the future holds. Should pension fund manage to sustain the trajectory of individual "equity" plans, which has been strongly positive over the past 10 years, these plans might turn to be a good option for Spanish pension savers with a long time horizon. Should they manage to reduce the management cost of these plans, the performance could even become strong enough to offset the desincentivising effect of the limited tax deductibility of contributions to those plans.

The analysis of the cost-and-performance data of occupational plans makes the government decision to extend the coverage of those plans and support contributions to them understandable: if not stellar, gross performance has been comparable to that of individual plans of the "mostly bonds" category, for a much more limited cost. The recent reforms of occupational funds, which increase coverage and triggered a concentration of funds into a limited number of "megafunds" may yet result in the sector reaching a scale that enables lower management costs per account and the ability to further diversify investment portfolios in search for higher yields. Supervision will be key to ensure that such is the result of that transition.

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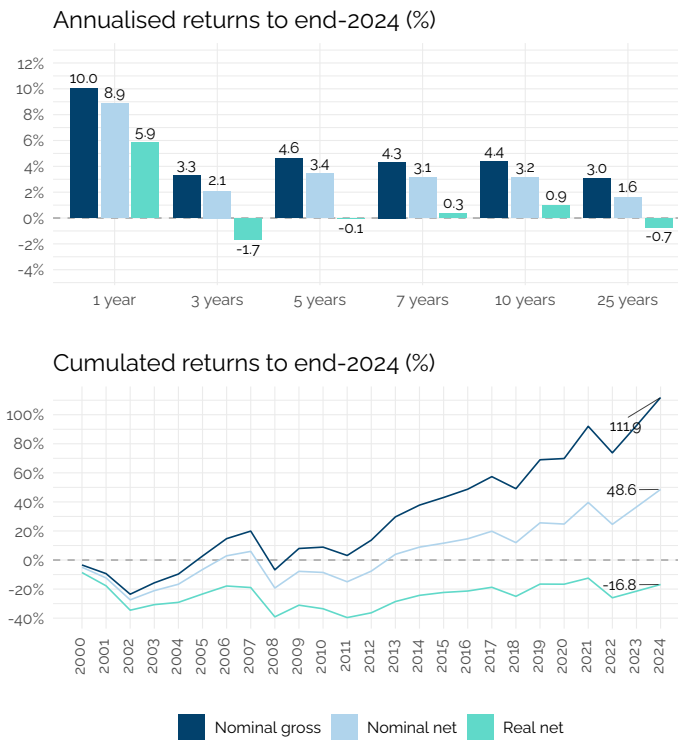
<sup>9</sup>Note that the only cost data available to us on the costs of Pillar III pension plans do not differentiate between profiles within the *sistema individual*, therefore we compute nominal net returns with the same cost figure for all three profiles. That most likely underestimate the nominal return of "mostly bonds" plans and overestimate that of "equity plans", as the cost of managing equity investments is generally higher.

**Figure 17.6 – Returns of Spanish individual monthly bonds pension plans (before tax, % of AuM)**



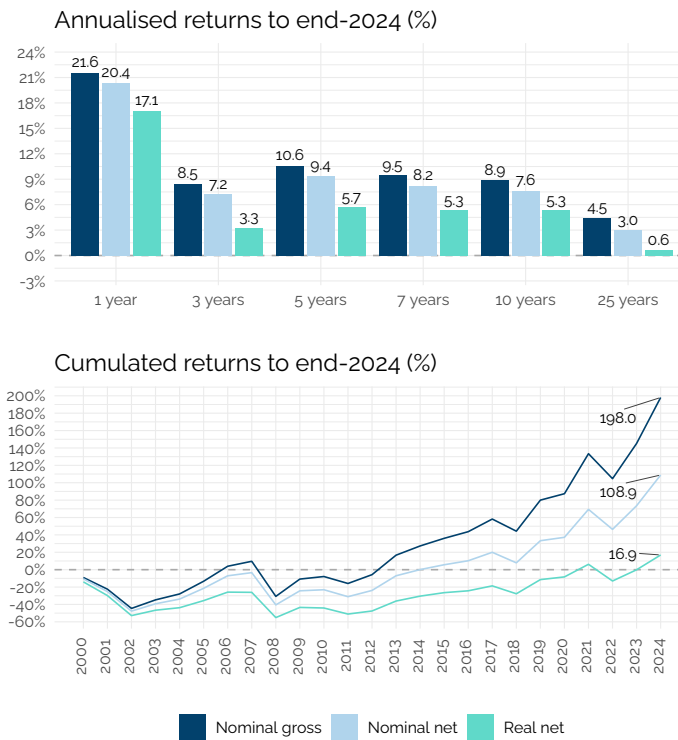
Data: INVERCO, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

**Figure 17.7 – Returns of Spanish individual mostly equity pension plans (before tax, % of AuM)**



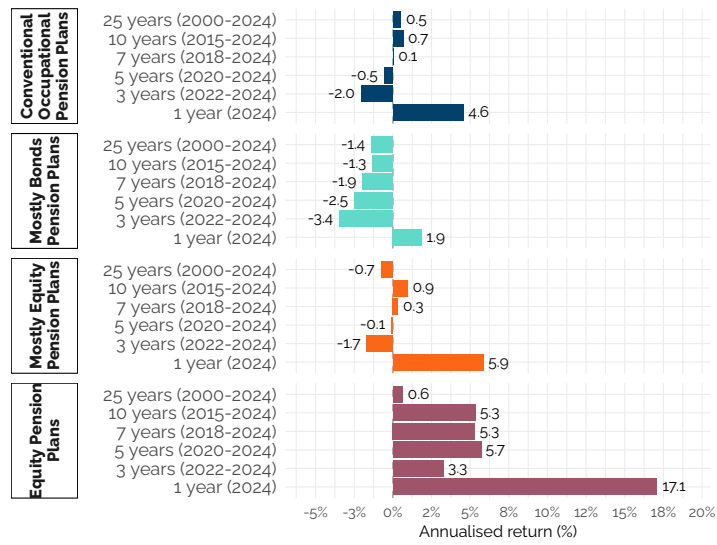
Data: INVERCO, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

**Figure 17.8 – Returns of Spanish individual equity pension plans (before tax, % of AuM)**



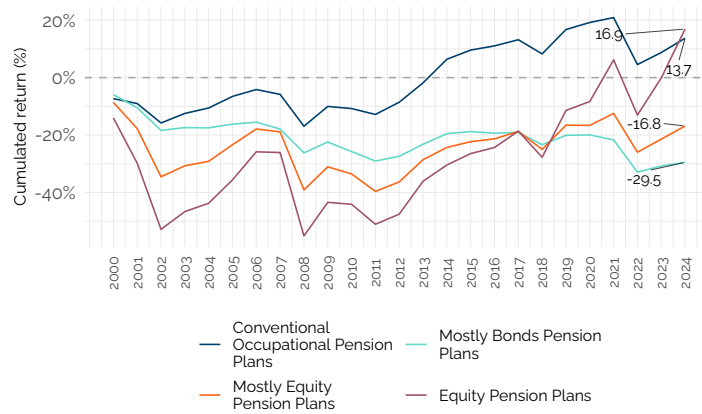
Data: INVERCO, Eurostat; Calculations: BETTER FINANCE; Note: Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of holding period.

**Figure 17.9 – Annualised returns of Spanish conventional pension plans over varying holding periods**



Data: INVERCO, Eurostat. Calculations: BETTER FINANCE.

**Figure 17.10 – Cumulated returns of Spanish conventional pension plans**



Data: INVERCO, Eurostat. Calculations: BETTER FINANCE.

**Table 17.12 – Capital market benchmarks to assess the performance of Spanish conventional pension plans**

Product category	Equity index	Bonds index	Start year	Allocation
Conventional Occupational Pension Plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	50%–50%
Mostly Bonds Pension Plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	30%–70%
Mostly Equity Pension Plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	50%–50%
Equity Pension Plans	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2000	75%–25%

Source: STOXX, Bloomberg; Note: Benchmark portfolios are rebalanced annually.

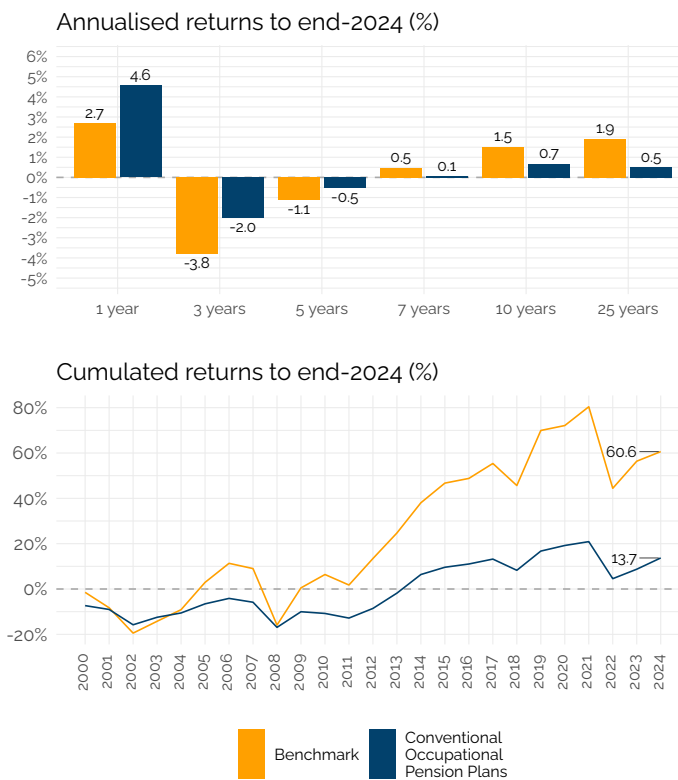
## 17.5.2 Do Spanish pension plans beat capital markets?

In this section, we compare the performance of the four categories of pension funds analysed in this chapter with the real returns of four hypothetical capital market portfolios over the period 2000–2023. Acknowledging the different asset allocations of the four types of funds, we have set the equity-bond balance of each benchmark portfolio at different levels; however the underlying indices are the two pan-European indices of the “default” benchmark (see introductory chapter). The composition of the benchmark portfolios is summarized in Table 17.12

In truth, our benchmark portfolios for individual “mostly bonds” and “equity” plans respectively overestimate and underestimate the weight of equity in these plans. Equity represents 30% of the benchmark portfolio against which we compare the performance of “mostly bonds” plans, which are defined as being composed of *at most* 30% of equity; the actual average weight of equity in those plans is probably lower than 30%. Similarly, “equity” plans must be invested in equity markets to the tune of *at least* 75% of AuM, meaning that the average weight of equity in those plans is probably higher than the 75% equity of our benchmark portfolio. Nevertheless, we do not have sufficient data to ascertain what the respective weights of equity and fixed-income assets are in each of the categories.

The substantially higher-than-benchmark return of occupational pension funds, on an annual average basis, over the past 1 to 5 years (see Figure 17.11) must not make us forget that, in the longer run, occupational pension plans have been widely underperforming compared to European capital markets (and remember that we are using here a rather conservative benchmark, based on European capital markets which have themselves been less dynamic than world markets). Over 25 years, the gap in performance, compared to our benchmark amounts to 1.4 p.p. per year on average, which translates into a 46.9 p.p.s cumulated.

**Figure 17.11 – Performance of Spanish occupational conventional pension plans against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: INVERCO, Eurostat; Calculations: BETTER FINANCE.

Over the past quarter of a century, individual pension plans have all underperformed their respective benchmark portfolios. “Mostly bonds” plans returned an annual average loss of purchasing power of -1.4%, to be compared to the +1.6% annualised real net return of a 30% equity–70% bonds benchmark portfolio (a 78.4 p.p.s gap in cumulated terms, see Figure 17.12). The comparison of “mostly bonds” individual plans to the 50% equity–50% bonds benchmark portfolio (Figure 17.13) is hardly more flattering, with annualised performance gap of 2.6 p.p.s, or 77.4 p.p.s in cumulated terms. The superior performance of the plans in recent years is an encouraging sign that things may be moving in the right direction for these plans, but pension savers who have been invested in these plans for the past decades have clearly been missing out.

Comparing the performance of “equity” individual plans to that of a 75% equity–25% bond benchmark portfolio delivers a more nuanced picture. Looking at performance over the 25 years of data we have (December 1999 to December 2024, see the “25 years” bars in the upper pane of Figure 17.14 as well as the cumulated returns on the lower pane), we clearly see the underperformance of then plans: with an annualised real net return of +0.6%, the evolution of purchasing power of those savings is positive (a welcome exception in the Spanish landscape) but still far from the +2.1% of the benchmark portfolio. Cumulated over the whole period, the performance gap amounts to 50.8 p.p.s, less than that of the other individual plans but still substantial and more than occupational plans.

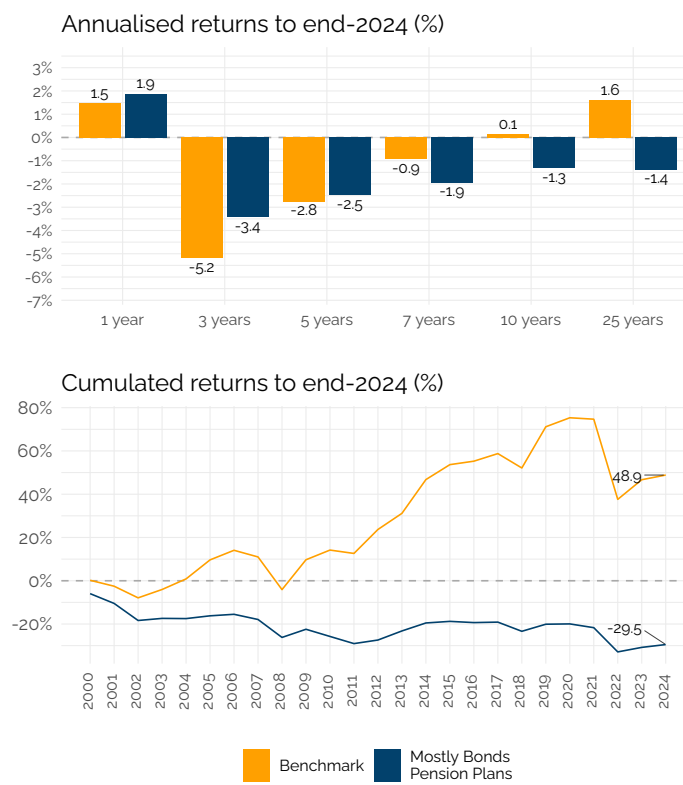
However, if we look at performance over holding periods or up to 10 years (upper pane of Figure 17.14), we see real net returns that are substantially higher than those of the benchmark portfolio, despite the bad performance of years like 2018 and 2022. Indeed, if we compute the cumulated return of the plans and of the benchmark since end-2015 (i.e., over the past 10 years), they amount to +68% and +37%, respectively: a 31 p.p.s *overperformance* of the average “equity” individual plans, *nada mal*.

## 17.6 Conclusions

Compared to other supplementary pensions sector analysed in this report, the Spanish one remains limited in size: the AuM in conventional pension plans offered by pension funds amount to 8.3% of GDP and the AuM in all categories of insurance-based pension products account for a further 13.3%, for a total amount of pension savings of 21.5% of GDP. That is not to say, of course, that Spaniards are improvident: many of them hold large buckets of financial and, crucially, real estate assets that they earmark for retirement. The issue is: what is the long-term performance of *those* assets?

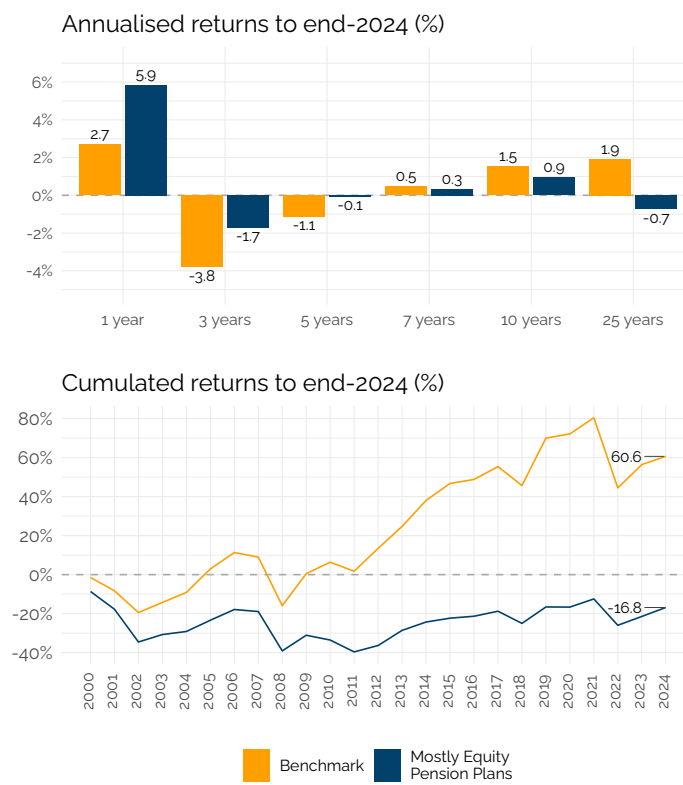
For the conventional pension plans, we now have a clearer picture of what return they can offer. Of course, our analysis shows the *average* return of the those plans, and we must acknowledge, in all fairness, that many providers would offer better returns (just as many would offer worse). If anything this chapter has shown is the importance for Spanish pension savers to look beyond the various tax incentive they are granted to support their contributions to any of these plans: the level of fees levied annually for the management of one's plan and the composition of the investment portfolio have,

**Figure 17.12 – Performance of Spanish individual mostly bond pension plans against a capital market benchmark (returns before tax, after inflation, % of AuM)**



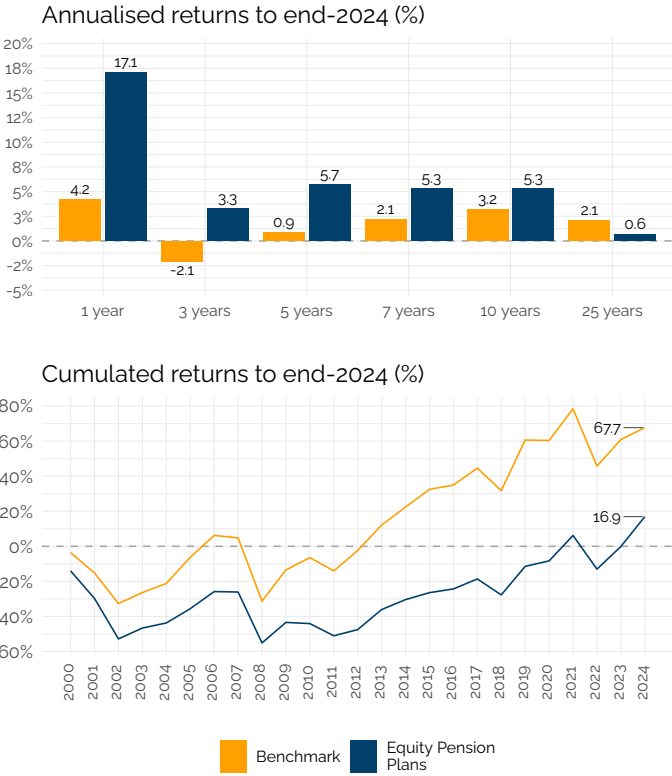
Data: INVERCO, Eurostat; Calculations: BETTER FINANCE.

**Figure 17.13 – Performance of Spanish individual mostly bond pension plans against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: INVERCO, Eurostat; Calculations: BETTER FINANCE.

**Figure 17.14 – Performance of Spanish individual mostly bond pension plans against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: INVERCO, Eurostat; Calculations: BETTER FINANCE.

in the long run, a far larger impact on one's wealth accumulation.

The second main teaching we can retain from the Spanish case is that supposedly "safe" pension savings plans—*planes de renta fija*, *renta fija mixta* or even *renta variable mixta*, which place a large share of savings into fixed-income assets to limit market volatility—actually constitute the safest road to a certain loss of purchasing power of one's savings. The track record of "equity" pension plans may not be great for those pension savers that started investing in the early 2000s, but performance picked up since, and for more recent investors in those plans, those who started since the mid-2010s, the future might turn out to be brighter.

What next for Spain's supplementary pensions? The government's move to increase the coverage of occupational pensions and reform the sector sounds promising; time will tell whether it enables the sector to bring costs down and performance up for most—ideally *all of*—Spanish workers.

Cutting tax incentives on Pillar III plans was an unusual decision, considering the consensus in policy circles that tax incentives are necessary to make individuals save for retirement. *Unusual* does not necessarily entail entirely *mistaken*, however: after all, tax incentives constitute a fiscal expense, and why should taxpayers subsidize products that destroy the value of pension savings? Especially in a country whose population was forced into years of hardship after the mismanagement of its banks caused a financial and sovereign debt crisis. We can intuitively understand why Spaniards would say *¡basta ya!* Yet, we should be careful not to throw the baby with the bathwater: not all individual pension plans are underperforming, as we have shown, and some—*renta variable*—do indeed enable a real wealth generation that could benefit younger generations of Spanish citizens while at the same time *could* increase the amount of funding available to develop the real economy.<sup>10</sup> A drastic cut in tax incentives to *these* plans effectively signals the lack of support from policy-makers to them, which could put a hard stop to their further scaling up and to the potential economies of scale that it could bring. Many individuals would not look further than that signal, regardless of the actual performance.

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<sup>10</sup>We should always be sceptical of claims that more pension savings will automatically translate into a more dynamic and jobs-rich economy for Europe: many conditions must be met for that to happen, and getting people to save for their pensions might be one of the easiest on the list to meet.

## Chapter 18

# Sweden

### Sammanfattning

Det svenska pensionssystemet består till stor del av avgiftsbestämda/fonderade pensioner. Totalt förvaltas över 8100 miljarder SEK (EUR 730 miljarder) i pensionsskapital. I det allmänna pensionssystemet sätts 2.5% av lönen av till den så kallade premiepensionen. I premiepensionen har förvalsalternativet, AP7 Såfa, haft en genomsnittlig realavkastning på 6.8% sedan 2001, jämfört med 3.9% för alla andra valbara fonder. Tjänstepensionssystemet domineras av fyra stora avtal som täcker över 90% av alla arbetstagare. Tjänstepensionerna har till största del gått från att vara PAYG till fonderade pensionssystem.

### Summary

The Swedish pension system contains a great variety of different retirement savings products with over SEK 8.1 trillion (EUR 730 billion) in AuM. There are funded components in each of the three pillars. In the public pension system, 2.5% of earnings are allocated to the premium pension, whereas the default fund, AP7 Såfa, has had an average real rate of return of 6.8% compared to the 3.9% of all other funds over the last 22 years. The second pillar is dominated by four large agreement-based pension plans, covering more than 90% of the workforce. These have largely transitioned from a PAYG system to a funded system.

## 18.1 Introduction: The Swedish pension system

The Swedish pension system is a combination of mandatory and voluntary components. The system comprises three distinct pillars:

- Pillar 1 — The national pension
- Pillar 2 — Occupational pension plans
- Pillar 3 — Private pension

In 2022, the total pension capital was estimated at SEK 8,100 billion (EUR 730 billion), which corresponds to sixteen times the size of outgoing pension payments.<sup>1</sup> The occupational pension system constitutes 48% of this capital. Within the first pillar, the fully funded segment of the public pension system, known as the premium pension, comprises 52% of the pension capital. In comparison, the remaining 48% is managed by the buffer funds. Table 18.1 shows an overview of the pension system in Sweden and offer valuable insights into the system's diversity of retirement savings vehicles.

<sup>1</sup>Outflow payments totalled SEK 603 billion (EUR 54.3 billion) in 2022.

**Table 18.1 – Overview of the Swedish pension system**

<b>Pillar I</b>	<b>Pillar II</b>	<b>Pillar III</b>
State pension	Occupational pension	Voluntary pension
Mandatory	Mandatory <sup>a</sup>	Voluntary
PAYG/funded	Funded	Funded
DC/NDC	DC/DB <sup>b</sup>	DC
Flexible retirement age 63-69	ERA of 55 or 63, usually paid out at 65 or 67	Tax rebate abolished in 2016 <sup>c</sup>
No earnings test	Normally a restriction on working hours	
<b>Quick facts</b>		
Number of old-age pensioners: 2.3 millions		
Coverage (active population): Universal	Coverage: >90%	Share contributing (2015): 24.2%
	Pension plans: 4 major (agreement-based)	Funds: >30
Average monthly pension: EUR 1979	Average monthly pension: EUR 568	Average monthly pension: EUR 88.92
Average monthly salary (gross, age 60-64): EUR 3100	AuM: EUR 850 bln.	
Average replacement rate: 58% <sup>d</sup>		

<sup>a</sup> Occupational pension coverage is organized by the employer;

<sup>b</sup> The defined benefit components are being phased out;

<sup>c</sup> Self-employed and employees without occupational pension still eligible; (note: tax rebate abolished in 2016)

<sup>d</sup> OECD estimate 56%.

The average pension in Sweden was EUR 1955 (SEK 21 694) per month before taxes in 2023; whereof EUR 1323 (SEK 14 632) came from the national pension, EUR 543 (SEK 6026) from occupational pensions and EUR 88 (SEK 985) derived from private pension savings. The outcome furthermore differed quite significantly between genders. For women, the average total pension was EUR 1672 (SEK 18 558) per month before taxes and for men EUR 2273 (SEK 25 211) per month before taxes.<sup>2</sup> Although a lot of money is locked in the pension system in Sweden, the Swedish household's savings rate is quite high.

In Sweden, there is no mandated retirement age, allowing individuals to personally determine both their retirement timing and the age at which they access their pension, either in part or in whole. However, individuals can claim their national pension from 63 onwards (raised from 62 in 2022). Additionally, there is no upper age limit for working, and everyone is entitled to work until the age of 69 (raised from 68 in 2022). As for occupational and private pensions, these can be withdrawn starting from the age of 65 onwards. The national pension in Sweden is administered by the Swedish Pensions Agency, which is responsible for managing the national pension and related pension benefits while providing crucial information to the public. The Swedish Social Insurance Inspectorate safeguards that the operations of the Swedish Pensions Agency are executed in a manner that adheres to proper procedures and efficiency standards.

The Swedish national pension system underwent a significant transformation in 1999, marking a pivotal shift from a defined benefit system to a defined contribution system. In the pre-reform era, pensions were regarded as a social entitlement, guaranteeing individuals a specific percentage of their pre-retirement earnings. However, post-reform, pensions are primarily determined by the accumulated pension savings amassed during one's active working years. This change aligns pensions with economic and financial developments, resulting in a more uncertain pension outcome, as retirees can no longer anticipate the exact amount of their pension. Consequently, there is a heightened need for comprehensive pension information in this new system. This shift has also influenced the occupational pension system, with most occupational pension plans adopting defined contribution structures or hybrids that combine defined contribution and defined benefit elements.<sup>3</sup>

Table 18.2 offers an overview of the products examined in this report. These products span various pillars of the pension system and focus significantly on public and occupational options, which is good coverage of pension commitments. Table 18.3 presents the returns after charges and inflation (real net returns) of these products over varying holding periods.

## 18.2 Long-term and pension savings vehicles in Sweden

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<sup>2</sup>Based on information retrieved from: <https://www.pensionsmyndigheten.se/statistik/pensionsstatistik/>. Note that the average pension must be weighted with the number of people receiving a pension from a particular pillar.

<sup>3</sup>See Hagen (2017) for a more detailed description of the Swedish Pension System.

**Table 18.2 – Product categories analysed in Sweden**

Name	Product category Pillar	Reporting period	
		Earliest data	Latest data
Premium pension - AP7 Såfa	Public (I)	2001	2024
Premium pension - Other funds	Public (I)	2001	2024
ITP1	Occupational (Pillar II)	2016	2024
SAF -LO	Occupational (Pillar II)	2016	2024
PA - 16 Avd I	Occupational (Pillar II)	2016	2024
AKAP - KR	Occupational (Pillar II)	2016	2024

**Table 18.3 – Annualised net return of Swedish pension funds (before tax, % of AuM)**

	1 year	3 years	5 years	7 years	Whole reporting period	10 years
Premium pension - AP7 Såfa	25.2%	5.9%	9.1%	9.7%	7.5%	11.0%
Premium pension - Other funds	1.6%	-3.9%	2.9%	4.5%	3.8%	5.3%
ITP1	7.5%	-0.4%	4.6%	5.9%	6.3%	NA
SAF -LO	8.6%	-1.4%	5.0%	6.2%	6.6%	NA
PA - 16 Avd I	9.6%	-0.8%	5.6%	6.5%	7.0%	NA
AKAP - KR	8.8%	-1.0%	4.9%	6.1%	6.7%	NA

*Data:* The Swedish Pensions Agency, The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Cal* BETTER FINANCE.

### 18.2.1 First pillar: The national pension

The national pension consists of an income-based pension, a premium pension and a guarantee pension. A share of 18.5% of the salary and other taxable benefits up to a maximum level of 8.07 income-base amount<sup>4</sup> per year is set aside for the national retirement pension. A share of 16% is set-aside for the income pension, where the value of the pension follows earnings trends in Sweden. The income-based pension is financed on a PAYG basis, which means that pension contributions paid in are used to pay retirees the same year. The remaining 2.5% of the salary and other taxable benefits are set-aside for the premium pension, for which the capital is placed in funds. The individual can either choose what fund or funds to place their savings with or, if no choice is made, contributions will be made in the default alternative fund. This system is unique to Sweden and the first individual choices (allocations) were made in 2000. The aim was to achieve a spread of risk in the pension system by placing a part of the national pension on the capital market, enhance the return on capital and enable individual choices in the national pension system.<sup>5</sup> The Swedish pensions Agency calculates that by 2030 the premium pension will constitute 20% of the total pension.

The capital for the income-based system is deposited in five buffer funds: the first, second, third, fourth and sixth national pension funds. The result of the income-based pension system is affected by several key economic and demographic factors. In the short-term, the development of employment is the most important factor, but the effect of the stock and bond markets is also of significance, particularly in case of major changes. In the long-term, demographic factors are most relevant.

Accumulated pension rights and current benefits in the income-based system grow with the increase in the level of earnings per capita. If the rate of growth of one salary would be slower than that of the average salary, for instance as a result of a fall in the size of the work force, total benefits would grow faster than the contributions financing them, which could induce financial instability. If the ratio of assets to liabilities in the income-based system falls below a certain threshold, the automatic balancing mechanism is activated and abandons the indexation by the level of average salaries.

In 2020, the parliament approved a new pension supplement in the national pension. The supplement will be paid out to pensioners with an income-based national pension of SEK 9200–17 400 (EUR 900–1700) and amounts to maximum SEK 600 per month. The purpose of the supplement is to increase the living standard for low-income workers during retirement. The supplement has been criticized for deviating from the so-called life-income principle and the fact that it is financed from the state budget (as opposed to the income pension which is financed from pension fees).

The third element of the national pension is the guarantee pension. It is a pension for those who have had little or no income from employment in their life. It is linked to the price base amount calculated annually by Statistics Sweden. The size of the guarantee pension depends on how long a person has lived in Sweden. Residents

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<sup>4</sup>EUR 54 037 EUR (SEK 599 601) for 2023.

<sup>5</sup>Vägval för premiepensionen, Ds 2013:35.

of Sweden qualify for a guaranteed pension from the age of 66. To receive a full guaranteed pension, an individual must in principle have resided in Sweden for 40 years after the age of 16. Residence in another EU/EEA country is also credited toward a guaranteed pension. In addition to the national pension, pensioners with low pensions may be entitled to a housing supplement and maintenance support. In June 2022, the parliament passed a historically large increase of the minimum guarantee equal to SEK 1000. This implies that the maximum benefit for singles is raised from SEK 8779 to SEK 9781 and from 7853 to SEK 8855 for married individuals, i.e. increases of more than 10%.

There is an agreement in the Swedish Parliament to raise the different statutory retirement ages in the public pension system (Pillar I). First, the earliest eligibility age was raised from 61 to 62 in 2020 to 63 in 2023 and is expected to increase to 64 in 2026. Second, the eligibility age for the minimum guarantee has been raised from 65 in 2022 to 66 in 2023 and is then expected to increase to 67 in 2026. Those who have worked for 44 years or longer will be exempt from these changes. Third, the mandatory retirement age was raised from 67 to 68 in 2020 and then to 69 in 2023. A plan is also to index these retirement ages to a so-called "target age". The target age will be based on remaining life expectancy, although the details are yet to be laid out.

For administering the income-based pension system, a fee is deducted annually from pension balances by multiplying these balances by an administrative cost factor. In 2023, the fee amounted to 0.03%.<sup>6</sup> The deduction is made only until the insured begins to withdraw a pension. At the current level of cost, the deduction will decrease the income-based pension by approximately 1% compared to what it would have been without the deduction.

The premium pension system is a funded system for which the pension savers themselves choose the funds in which to invest their premium pension savings. The premium pension can be withdrawn, in whole or in part, from the age of 63 (62 in 2022). The pension is paid out from selling off the accumulated capital. The individual choice in the premium pension system furthermore results in a spread on return on the pension capital depending on the choice of fund or funds. Figure 18.1 shows the accumulated savings in the premium pension.

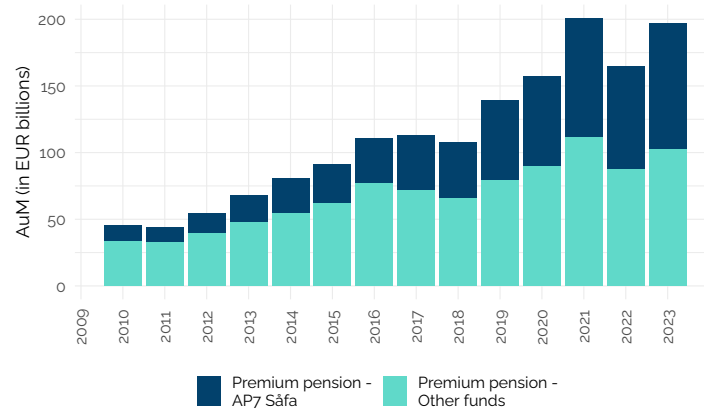
The choices made by individuals within the premium pension system can significantly impact the returns on their pension capital, as it depends on their chosen fund or funds. The premium pension system has faced criticism due to the abundance of available funds and the wide variation in pension outcomes. In response to these concerns, the government announced in December 2017 that it would implement changes proposed by the Pensions Agency to improve the quality and oversight of participating companies.<sup>7</sup> These new regulations went into effect on , and include requirements such as fund companies managing a minimum of SEK 500 million outside the Premium Pension, having a three-year operating history, acting in the best interests of retirement savers, meeting minimum sustainability criteria, and establishing one contract per fund with the Pensions Agency instead of one contract per

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<sup>6</sup>The Swedish Pensions Agency, Orange report p34.

<sup>7</sup>The Swedish Pensions Agency, Stärkt konsumentskydd inom premiepensionen.

**Figure 18.1 – AuM of Swedish pension funds (in bln EUR)**



Data: The Swedish Pensions Agency; Calculations: BETTER FINANCE.

company.<sup>8</sup>

Under the new regulations, companies seeking participation in the Premium Pension system were required to (re)submit applications to the Pensions Agency. In early 2019, 70 companies submitted applications, which covered 553 funds, representing a decrease from the prior count of over 800 funds recorded by the end of 2018. The primary objective of these new rules is to prevent the involvement of unscrupulous and fraudulent companies in the system. Concerns about such fraudulent practices were raised following incidents involving fund companies like Falcon Funds, Fondeum and Global Financial Group (GFG) in 2016, Allra and Advisor in 2017, and Solidar in 2018.

In efforts to reform the premium pension, the Swedish government, through the parliament decision, established a new independent agency called the Swedish Fund Selection Agency in 2022, tasked with selecting investment funds available within the premium pension system.<sup>9</sup> This initiative aims to provide savers with a choice of funds managed by reputable and high-quality fund managers who adhere to stringent sustainability standards. The selected funds will undergo periodic evaluations, and those that fail to meet the specified quality standards may be replaced. The primary objective is to ensure that the chosen funds yield favourable investment returns, ultimately securing higher pensions for savers. Additionally, this approach is expected to attract and retain top fund managers at a cost-effective rate. Some actors, including the Swedish Investment Fund Association, argue that the proposed changes may lead to lower pensions, decrease competition among fund providers and limit the freedom of choice for individual investors.<sup>10</sup> For now, all applicants who have met the criteria have been permitted to offer investment funds on the platform, where, as of March 2023, there were 478 eligible funds registered in the Premium Pension.

## 18.2.2 Second pillar: Occupational pensions

The Swedish occupational pension system is primarily governed by collective agreements. While Swedish companies are not legally obligated to provide pensions to their employees, the presence of a collective agreement at the workplace necessitates the establishment of an occupational pension plan. This system extends coverage to more than 90% of the workforce. It's important to note that self-employed individuals are not included in occupational pension plans, and this primarily affects smaller companies in emerging business sectors that lack collective agreements.<sup>11</sup>

There are four primary collective agreements corresponding to different sectors, each with its dedicated pension plan. These four agreements encompass a significant membership base: the SAF-LO Collective Pension, tailored for blue-collar

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<sup>8</sup><https://www.pensionsmyndigheten.se/nyheter-och-press/pressrum/nytt-avtal-klart-for-premiepensionens-fondtorg>

<sup>9</sup>Socialdepartementet, Ett bättre premiepensionssystem, Prop. 2021/22:179.[https://www.riksdagen.se/sv/dokument-och-lagar/dokument/proposition/ett-battre-premiepensionssystem\\_h903179/](https://www.riksdagen.se/sv/dokument-och-lagar/dokument/proposition/ett-battre-premiepensionssystem_h903179/)

<sup>10</sup><https://www.fondbolagen.se/aktuellt/pressrum/pressmeddelanden/forslagen-i-utredningen-ett-battre-premiepensionssystem-gar-emot-malen-med-premiepensionen/>

<sup>11</sup>AMF, "Tjänstepensionerna i framtiden — betydelse, omfattning och trender", p. 17: ISF Rapport 2018:15, "Vem får avsättningar till tjänstepension".

workers with 2.8 million members; the Supplementary Pension Scheme for Salaried Employees in Industry and Commerce (ITP), designed for white-collar employees, boasting 2 million members; the Collectively Negotiated Local Government Pension Scheme (KAP-KL), with 1 million members; and the Government Sector Collective Agreement on Pensions (PA-03/PA-16), which counts 500 000 members among its participants.<sup>12</sup>

In each of the four collectively negotiated pension schemes, employees can select a fund manager for a portion of their pension. To maximize the occupational pension for employees, a dedicated "choice centre" exists for each collective pension plan. The role of these "choice centre" is to secure reputable managers for employees' occupational pensions. Employees can make choices between various forms of traditional insurance and/or unit-linked insurance. The extent of this individual portion depends on factors such as the employer's annual pension provision contributions, the duration of these contributions, and the investment management strategies employed. In the case of two of the collective pension schemes, KAP-KL and SAF-LO, employees can opt to choose a fund manager for the entire pension amount. However, if an individual does not select, their pension capital will be automatically placed in the default alternative. Across all four agreements, this default option consists of traditional insurance from the choice centre affiliated with the occupational pension plan.

Where no collective agreement is in place at the workplace, a company can establish an individual occupational pension plan for its employees. Among those companies operating without a collective agreement, some opt for such an occupational pension plan, while others choose not to provide any pension benefits to their employees. These individual pension plans can differ in their structure and benefits. Nevertheless, a common feature is that they often offer less favourable terms and entail higher costs when compared to collectively negotiated pension schemes.

In 2017, the Ministry of Finance proposed measures to simplify and reduce the cost of transferring occupational pension funds between providers.<sup>13</sup> Currently, the ability to transfer pension capital is generally limited to funds accrued after 2007 that have yet to be paid out, with associated fees, particularly in individual occupational pension plans. Critics argue that this restricts competition, reduces retirement savings returns, and creates lock-in effects.

In April 2019, the government presented a report advocating lower transfer fees and a specified maximum fee in Swedish Kronor (SEK).<sup>14</sup> The parliament approved these recommendations in November 2019 and urged further exploration. In March 2020, the Ministry of Finance suggested a maximum fee of 0.0127 times the price base amount (600 SEK or EUR 59.8 for 2020).<sup>15</sup> These new regulations came into effect in April 2021. In May 2022, it was decided that the portability right should also apply to pension capital accumulated before 2007.

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<sup>12</sup><https://www.pensionsmyndigheten.se/forsta-din-pension/tjanstepension/det-har-ar-tjanstepension>

<sup>13</sup>Konkurrensverket, Flyttavgifter på livförsäkringsmarknaden – potentiella inläsningseffekter bland pensionsförsäkringar, Rapport 2016:12.

<sup>14</sup>Ministry of Finance, "En effektivare flytträtt av försäkringssparande".

<sup>15</sup>Ministry of Finance, "Avgifter vid återköp och flytt av fond- och depåförsäkringar".

In December 2016, Sweden adopted the IORP II Directive, aimed at ensuring the financial stability of occupational pensions and enhancing member protection through stricter capital solvency requirements. This directive also clarifies the legal framework for occupational pension businesses. However, critics contend that these rules create competitive imbalances, as they only affect companies exclusively offering occupational pension insurance, not those providing other insurance services. In November 2019, the government supplemented the EU Directive with additional national legislation.<sup>16</sup>

## **ITP**

The ITP agreement consists of two parts: defined contribution pension ITP 1 and defined benefit pension ITP 2. Employees born in 1979 or later are covered by the defined contribution pension ITP 1. In ITP 1 the employer makes contributions of 4.5% of the salary per year, up to a maximum of 7.5 income base amounts. If the salary exceeds this level, the amount of the contribution is also 30% of the salary above 7.5-income base amount. There is also an additional contribution that the employer organizations can choose to include, the so-called partial pension contribution. This contribution currently varies between 0.2% – 1.5%.

Half of the ITP 1 pension must be invested in traditional pension insurance, but the individual can choose how to invest the remaining half. It can be placed in traditional insurance and/or unit-linked insurance. The premiums of those who do not specify a choice are invested in traditional pension insurance with Alecta. The eligible insurance companies for traditional insurance are Alecta, AMF, Folksam, Skandia and SEB and for unit-linked insurance they are Futur Pension (previously Danica pension), SPP, Handelsbanken, Movestic and Swedbank.

## **SAF-LO**

The SAF-LO occupational pension plan is a defined contribution plan by definition. The terms of the plan were improved in 2007, mostly in response to perceived unfairness in the terms of the pension provisions for blue-collar and white-collar workers. Like for ITP 1 the employer now makes contributions of 4.5 percent of the salary, up to a maximum of 7.5 income base amounts. If the salary exceeds this level, the amount of the contribution is also 30 percent. SAF-LO also contains a partial pension contribution that the employer can choose to add. The additional contribution is currently ranging between 0.7. and 1.7 percent.

The individual can choose how to invest the pension capital and it can be placed in traditional insurance and/or unit-linked insurance. The eligible insurance companies for traditional insurance are Alecta, AMF, Folksam and SEB and for unit-linked insurance they are AMF, Futur Pension, Folksam, Handelsbanken, Länsförsäkringar, Movestic, Nordea, SEB, SPP and Swedbank.

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<sup>16</sup>Finansutskottets betänkande, "En ny reglering för tjänstepensionsföretag". See [https://www.riksdagen.se/sv/dokument-och-lagar/dokument/betankande/en-ny-reglering-for-tjanstepensionsforetag\\_H701FiU12/](https://www.riksdagen.se/sv/dokument-och-lagar/dokument/betankande/en-ny-reglering-for-tjanstepensionsforetag_H701FiU12/) for more information on IORP II.

## **PA 03**

The pension plan for central government employees, PA 16 — Avd II (formerly PA 03), is a hybrid of defined contribution and defined benefit. The defined contribution component in PA 03 consists of two parts: individual old age pension and supplementary old age pension. The total premium amounts to 4.5% of the pensionable income up to a ceiling of 30 income base amounts. Of the total premium, 2.5% and 2% is allocated to the individual pension and the supplementary pension respectively. The individual can choose how the contribution of the individual retirement pension should be placed and managed. Contributions to the supplementary pension cannot be invested by the employee and are instead automatically invested in a traditional low-risk pension insurance fund.

The defined-benefit pension applies to those who earn more than 7.5 income base amounts. If the individual earns between 7.5 and 20 income-base amounts, the defined-benefit pension comprises 60% of the pensionable salary on the component of pay that exceeds 7.5 income base amounts. If the individual earns between 20 and 30 income-base amounts, the defined-benefit pension comprises 30% of the pensionable salary on the component of pay that exceeds 20 income base amounts. There is also a defined benefit pension on income less than 7.5 income base amounts in accordance with transitional provisions due to the implementation of PA 16 — Avd I (see below).

In 2016, a new pension plan, PA 16 — Avd I, for central government employees was implemented. PA 16 covers those born in 1988 or later. Just like PA 16 — Avd II, PA 16 — Avd I has two defined contribution components. The individual pension (2.5% of income up to 7.5 income base amounts) can be invested by the employee, whereas the supplementary pension (2% of income up to 7.5 income base amounts) is invested in a low-risk pension insurance fund. The contribution for earnings above the ceiling amounts to 20% and 10%, respectively. PA 16 also contains a mandatory partial pension contribution amounting to 1.5%. These contributions are invested in a low-risk pension insurance fund. The eligible insurance companies providing individual retirement pension in the shape of traditional insurance are Alecta, AMF, Kåpan, and as unit-linked insurance they are AMF, Futur Pension, Handelsbanken, Länsförsäkringar, SEB and Swedbank.

## **KAP-KL**

The KAP-KL agreement consists of two parts: the defined contribution pension AKAP-KL and defined benefit pension KAP-KL. Employees born in 1986 or later are covered by the defined contribution pension AKAP-KL. In AKAP-KL, the employer pays in an amount of 4.5% of the salary towards the occupational pension. If the salary exceeds 7.5 income base amounts, the amount is increasing with 30% of the salary that exceeds 7.5 income base amounts up to a maximum of 30 income base amounts. Employees covered by KAP-KL get 4.5% of the salary contributed to their occupational pension. For a salary over 30 income base amounts, no premium is paid. Instead, there is a defined benefit old age pension that guarantees a pension equivalent to a certain percentage of the final salary at the age of retirement. A new agreement for local government employees, AKAP-KR, was passed in December

2021 and will be phased in from 2023. The new agreement comes with raised contribution rates; 6% and 31.5% for earnings below and above 7.5 income base amounts, respectively. The individual can choose how to invest the pension capital and it can be placed in traditional insurance and/or unit-linked insurance. The eligible insurance companies for traditional insurance in AKAP-KL are Alecta, AMF, KPA and Skandia and for the unit-linked insurance in AKAP-KL they are AMF, Futur Pension, Folksam, Handelsbanken, KPA, Länsförsäkringar, Lärarfonder, Nordea, SEB and Swedbank.

### 18.2.3 Third pillar: Private pensions

Private pension saving is voluntary, but it is subsidized via tax deductions. In 2014, 34.5% of those aged 20 to 64 made contributions to a private pension account. The tax deduction for private pension savings is only profitable for high-income earners.

Private pension savings can be placed in an individual pension savings account (IPS) or in private pension insurance. Money placed in an IPS and in private pension insurance is locked until the age of 55. After that the individual can choose over how many years the pension should be paid out. The minimum payout is 5 years in both IPS and private pension insurance. However, only money in private pension insurance can be paid out for life (annuity).

Unlike the national pension plan and the occupational pension plans, private pension plans are individual. This results in less transparency both when it comes to offered products within the private pension plans and the charges on these products. The deduction for private pension savings has been reduced over the years. From January 1st, 2015 it was reduced from EUR 1195 to EUR 179 (SEK 12 000 to SEK 1800) per year, equivalent to EUR 15 (SEK 150) in monthly savings. On (MISSING DATE), the deduction was abolished. The motive for this is that the deduction favours high-income earners. In 2015, the share of private pension savers dropped to 24.2%. Those who still contribute to private pension accounts are thus subject to double taxation.

Several actors in the pension industry advocate the need for new incentives for people to save privately for retirement. One suggestion is that the government match private contributions, like what is already in place in Germany, matching benefits for low- and medium-income earners as opposed to tax subsidies which tend to favour the rich. The problem is of course that the government must bear the costs of matching in the future when the contributors retire. In addition, the redistributive outcome of government-subsidized savings may be different than the intended if low- and medium-income earners are less likely to contribute. The effect on total savings may also be limited if there are substitution effects across different saving forms.

With the abolishment of tax-deductible pension accounts, retirement savers need to find new ways to save for retirement that are not directly related to the pension. The most popular savings vehicle today is called *Investeringssparkontot* (ISK), an investment and savings account that was introduced in January 2012. The purpose of the new account is to make it easier to trade in financial instruments. Unlike an ordinary securities account, there is no capital gains tax on the transactions. Capital gains tax has been replaced by an annual standardised tax (more on this in the

**Table 18.4 – Household fund assets, 2024**

Fund type	Fund assets		Net saving (%)	Share of assets (%)
	SEK mln.	EUR mln.		
Direct fund investments	537 167	46 877	-9.1%	6.7%
ISK	708 396	61 820	21.8%	8.9%
IPS	171 181	14 939	-3.2%	2.2%
Private pension insurance	1 842 739	160 812	24.6%	23.2%
Premium Pension (1st pillar)	2 540 328	221 688	-14.3%	31.9%
Trustee-registered funds	933 778	81 489	42.5%	11.7%
NGOs	146 321	12 769	0.6%	1.8%
Swedish companies	908 015	79 240	25.2%	11.4%
Others	170 490	14 878	11.9%	2.1%
<b>Total</b>	<b>7 958 415</b>	<b>694 512</b>	<b>100.0%</b>	<b>100.0%</b>

Data: Fondbolagen.se.

Taxation section).

After the lowering of the deduction for private pension savings, ISK is now regarded as a low tax alternative to private pension savings. ISK has enjoyed widespread popularity and the number of ISK accounts has increased dramatically. In 2019, the number of unique account holders exceeded 2.6 million. In 2023 ISK funds accounted for 9% of the households' total fund assets as compared to 23% for private pension insurance. The relative importance of ISK is however likely to increase in the future; 22% of net savings in funds in 2023 was allocated to ISK accounts.

The costs associated with the administration and management of the funds affect the size of outgoing pension payments. To reduce the costs in the premium pension system, the capital managers associated with the premium pension system are obliged to grant a rebate on the ordinary management fee of the funds. In 2021, the rebates to pension savers were equivalent to a discount in fund management fees of about 0.35 percentage points. The rebates on the ordinary management fees in the premium pension system are of great importance; without them pensions would be approximately 11% lower. Furthermore, the pension savers are in a position to influence the costs of their premium pensions by choosing funds with lower management fees. The net charges (after rebates) in the premium pension system are reported in the upper part of Table 18.5.<sup>17</sup>

## 18.3 Charges

<sup>17</sup>The Swedish Pensions Agency, Orange report 2022, page 33.

**Table 18.5 – Net charges of 1st pillar**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Premium pension	0.36%	0.33%	0.30%	0.28%	0.27%	0.25%	0.23%	0.20%	0.15%	0.14%	0.15%
Administrative fee	0.10%	0.09%	0.07%	0.07%	0.06%	0.07%	0.04%	0.04%	0.04%	0.03%	0.02%
Income pension	0.20%	0.20%	0.21%	0.19%	0.18%	0.16%	0.16%	0.15%	0.13%	0.11%	0.10%
Administrative fee	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%

*Data:* Orange report.

### 18.3.1 Charges of Pillar I

The costs associated with the administration and management of the funds affect the size of outgoing pension payments. To reduce the costs in the premium pension system, the capital managers associated with the premium pension system are obliged to grant a rebate on the ordinary management fee of the funds. In 2021, the rebates to pension savers were equivalent to a discount in fund management fees of about 0.35 percentage points. The rebates on the ordinary management fees in the premium pension system are of great importance; without them pensions would be approximately 11% lower. Furthermore, the pension savers are in a position to influence the costs of their premium pensions by choosing funds with lower management fees. The net charges (after rebates) in the premium pension system are reported in upper part of Table 18.5.<sup>18</sup>

The costs in the income pension are shown in the lower part of Table 18.5. Management fees in the income pension cover the costs of the buffer funds. The capital managed by the buffer funds marginally exceed the capital managed in the premium pension (SEK 1826 billion in 2022). However, returns to scale in the buffer funds imply lower costs than in the premium pension.

To meet the new need of information in the new pension system, the orange envelope was introduced in 1999. It contains information about contributions paid, an account statement, a fund report for the funded part and a forecast of the future pension. The purpose of the orange envelope is to get more people interested in their pension and get more attention with the help of the special design, the orange colour and a concentrated distribution once a year. The orange envelope has now become a brand, a trademark for pensions. Banks and insurance companies use it in their sales campaign and in media the orange envelope is used to illustrate pensions.

### 18.3.2 Pillar II

Legislation from 2007 implies that individuals can choose which company should manage their occupational pension capital. The so-called portability right accrues to capital earned after July 1st, 2007. Capital earned before this date can be moved

<sup>18</sup>The Swedish Pensions Agency, Orange report 2023, page 33.

if the default managing company itself has agreed to give their investors this right. It is estimated that around 44 percent of the occupational pension capital today is covered by the portability right.<sup>19</sup> Thus, the share of pension capital that can be moved will increase over time, which will further strengthen the competition and keep the fees low. As discussed in the background section, there are also policy proposals to extend the portability rights and reducing the associated moving costs. In May 2022, the parliament decided to extend the portability rights also to pension capital accumulated before 2007.

The selectable companies within each pension plan are included through a procurement procedure which, especially in the last years, have kept the fees down. The disclosure of charges in the occupational pension system is quite good, although it can be difficult for the average citizen to understand the information that is available. In the occupational pension system, there is typically a yearly fixed fee and a percentage fee on the capital (i.e. management fee). The fixed fee is usually low and covers administrative costs of the pension company.

### 18.3.3 Pillar III

For the private pension system, however, it is difficult to get a good overview of the available pension products and hence the charges on these products. There are two tax-favoured (pre-2016) private pension vehicles: IPS and private pension insurance. The majority of pension providers of IPS and private pension insurance charge a fixed fee. These typically range between EUR 10 and EUR 40 per year and are hence higher than in the occupational pension system. In IPS, only two out of eleven providers charge a management fee. Instead, the individual is subject to fund fees which vary substantially by fund type and pension provider. It is also relatively expensive to move the IPS capital to another company. This fee typically amounts to EUR 50, which in relation to the invested capital can be sizeable.

In private pension insurance accounts, the fee structure depends on whether the capital is unit-linked or traditional. Traditional insurance only imposes a management fee whereas unit-linked insurance both contains management and fund fees. In some cases, investors also pay a deposit fee of 1% - 2%. The savings invested in these products will decrease since the deduction for private pension savings was abolished in January 2016.

In many private pension products (including individual occupational pension plans), there is a cost to move the capital to another company (not reported here). These fees typically range between 0%-3%, reaching 0% after a specific number of years of investment. These fees have been criticized for causing serious lock-in effects. For many it is simply not worth moving the capital, despite high management fees.

## 18.4 Taxation

Taxation during the accumulation phase looks different in the different pillars. In the public pension, individual contributions are deductible from the tax base and there is

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<sup>19</sup>SOU 2012:64, page 466

**Table 18.6 – Charges 2nd pillar**

Fund type	Name	Fixed costs (SEK)	Management fees (%)
<b>ITP 1</b>			
	Alecta (default)	0	0.05
Traditional insurance			
	AMF	40	0.15
Traditional insurance			
	Folksam	0	0.12
Traditional insurance			
	Handelsbanken	0	0.07 - 0.13
Unit-linked insurance			
	SPP	0	0
Unit-linked insurance			
	Swedbank	0	0
Unit-linked insurance			
<b>SAF LO</b>			
	Alecta	50	0.15
Traditional insurance			
	AMF	40	0.1
Traditional insurance			
	Folksam	50	0.15
Traditional insurance			
	AMF (default)	50	0
Traditional insurance			
	SEB	50	0.09
Traditional insurance			
	AMF	50	0
Unit-linked insurance			
	Folksam LO	0	0
Unit-linked insurance			
	Futur Pension	0	0
Unit-linked insurance			
	Handelsbanken	0	0
Unit-linked insurance			
	Länsförsäkringar	40	0
Unit-linked insurance			
	Movestic	50	0
Unit-linked insurance			
	Nordea	45	0.18 - 0.22
Unit-linked insurance			
	SEB	45	0.1 - 0.25
Unit-linked			

**Table 18.7 – Taxation of pension savings in Sweden**

Product categories	Contributions	Phase Investment returns	Payouts	Fiscal Regime
Premium pension - AP7 S�fa	Exempted	Exempted	Taxed	EET
Premium pension - Other funds	Exempted	Exempted	Taxed	EET
ITP1	Exempted	Taxed	Taxed	ETT
SAF -LO	Exempted	Taxed	Taxed	ETT
PA - 16 Avd I	Exempted	Taxed	Taxed	ETT
AKAP - KR	Exempted	Taxed	Taxed	ETT

*Source:* BETTER FINANCE own elaboration based on The Swedish Pensions Agency. *Source:* BETTER FINANCE own elaboration based on The Swedish Consumers' Banking and Finance Bureau.

no tax on returns. Employers can partially deduct contributions to the second pillar.<sup>20</sup> When it comes to private pension savings, there was a tax deduction of SEK 1800 (EUR 179) per year available, but it was abolished in January 2016. There is no tax on returns in the first pillar. In contrast, returns in the occupational pension system and in the private pension vehicles are subject to an annual standard rate tax based on the value of the account and the government-borrowing rate. Specifically, the value of the account on January 1<sup>st</sup> multiplied by the government borrowing-rate gives the standard earnings which are then subject to a 15% tax rate.

During the decumulation phase, all pension income in Sweden is taxed as earned income. The rate varies depending on the size of the pension payment due to the progressive income taxation in Sweden. The Swedish income tax is even higher for pensioners than workers because of the earned income tax credit.<sup>21</sup> The Swedish tax system works as follows. A proportional local tax rate applies to all earned income, including pension income. Furthermore, for income above a certain threshold, the taxpayer also has to pay central government income tax. The marginal tax rate is 20% for incomes above EUR 50 756 (SEK 509 300) and 25% for incomes there-above.<sup>22</sup>

From a phase taxation point of view as shown in Table 18.7, Pillar I can be described as EET and Pillars II and III ETT.

## ISK

On ISK there is an annual standard rate tax, based on the value of the account as well as the government-borrowing rate. The financial institutions report the standard rate earnings to the tax authorities and there is no need to declare any profit or loss made within the account.

<sup>20</sup>Deductible contributions amount to maximum 35% of the wage of the employee. However, the deduction cannot exceed 10 price base amounts.

<sup>21</sup>The Swedish earned income tax credit is a refundable tax credit for all individuals aged below 65.

<sup>22</sup>Financial year 2021: [https://www.skatteverket.se/privat/skatter/beloppochprocent/2022.4.339cd9fe17d1714c0\\_774\\_742.html](https://www.skatteverket.se/privat/skatter/beloppochprocent/2022.4.339cd9fe17d1714c0_774_742.html)

The calculation of the standard rate earnings is based on the average value of the account as well as the government-borrowing rate. The average value of the account is calculated by the account value of the first day of each quarter added together, divided by four, and the sum of all deposits during the year divided by four. The average value of the account multiplied with the government borrowing rate as of 30 November the previous year, plus 1 percentage point (0.75 percentage points before January 1st, 2018), gives the standard earnings. The standard earnings cannot fall below 1.25%, however. The standard earnings are reported to the tax authority by the financial institutions. The standard earnings are taxed at 30%.

In 2021, the government borrowing rate was 0.23%, which means that the calculated average value of an account is taxed with 0.375% ( $0.3 \times 0.0125 = 0.00375$ ).

In contrast to individual pension savings accounts, the investment and savings accounts are free from management fees. The taxation of the accounts is very favourable, and the Swedish Pensions Agency considers the investment and savings account a great alternative to the individual pension savings account. There is no binding period, and withdrawals can be made free of charge at any given time. The taxation of the account is more favourable during periods with low borrowing rates, as the standard rate earnings are based partially on the government-borrowing rate. The taxation is also more favourable during periods of stock market rise than stock market decline, compared to saving vehicles with standard capital gains taxation.

Since ISK was introduced in 2012, the economy has been characterized by low interest rates and a positive stock market development. This, in combination with the abolishment of the deduction for private pension savings, has contributed to the rapid spread of ISK accounts. Some argue that ISK will replace the old tax-favoured private pension savings accounts. However, critics argue that ISK is more of a regular savings vehicle; ISK capital cannot be withdrawn as a life annuity, and it does not mandate the account holder to save long-term.

## 18.5 Performance of Swedish long-term and pension savings

### 18.5.1 Real net returns of Swedish long-term and pension savings

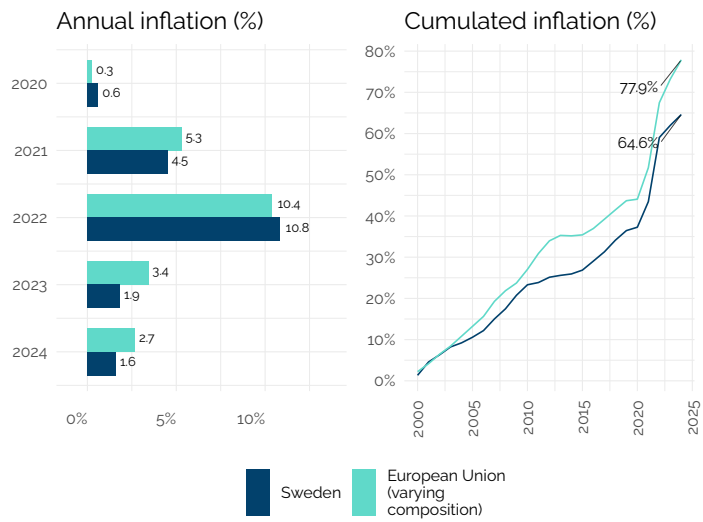
This section reports on returns on pension capital in the first and second pillars. There are no readily available data on returns in the private pension system (Pillar III) — one would have to turn to the homepage of each pension provider for this information.

Figure 18.3 and Figure 18.4 show average annual returns for default investors and those who opted out of the default respectively. Each figure displays the nominal return, the nominal return net of charges, and the real return (net of charges and inflation) for year 2023 and in different horizons and compares the cumulated returns of the various products over their respective reporting periods. It is worth to note that the average fee for the default fund and for "active" investors in 2023 is 0.05% and 0.20%, respectively. The inflation rate (measured by HICP) in 2023 was 1.86%

**Figure 18.2 – Inflation in Sweden**

Period 2000-2024

	<b>Cumulated</b>	<b>Annualised</b>
<i>European Union (varying composition)</i>	77.9%	2.3%
<i>Sweden</i>	64.6%	2.0%



*Data:* Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE;  
*Note:* Annual inflation is calculated as the december-on-december variation of HICP.

(see Figure 18.2), slightly lower than the European average of 3.4%, which marked a notable decrease from 10.8% in the preceding year.<sup>23</sup>

Since the start of the premium pension in 2000, the default fund has on average performed better than the average “active” investor. The average annual real return for the default fund and “active” investors amounts to 6.8% and 3.9% respectively. It is important to remember that the “active” investors also include inert investors, i.e. investors that at some point made active contributions but then remained passive. The average returns for the “truly” active investors are therefore underestimated. In fact, Dahlquist et al. (2017) find that investors who are actively involved in managing their pension accounts earn significantly higher returns than passive (inert) investors.

Figure 18.5, Figure 18.6, Figure 18.7, and Figure 18.8 illustrate returns within the occupational pension system. These figures present the average return, nominal return, nominal return net of charges, and real return (net of charges and inflation) for various occupational pension vehicles across different time horizons.

We can observe that, although the different categories of vehicles under the Swedish occupational pensions pillar have different pension products (in sizes and numbers), the returns are very similar from one year to another, as such the average on the last five years are almost the same.

Figure 18.9 summarises the annualized averages in the Swedish Premium Pension System and occupational pensions based on standardised holding periods (1 year, 3 years, 7 years, 10 years and since inception or the latest data available for this report). The figure (which reiterates data from the summary returns table at the beginning) is meant to provide better comparability with other pension vehicles in the countries analysed in this report. Figure 18.10, similarly, offers a comparative perspective of the cumulated performance of Swedish pension products.

### 18.5.2 Do Swedish savings products beat capital markets?

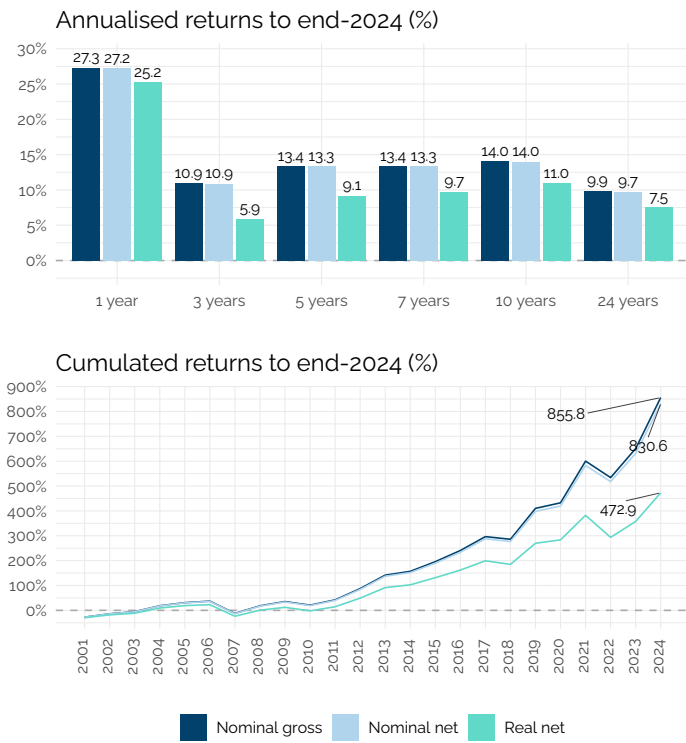
This section presents a comparative analysis of the real net returns for selected pension products in Sweden, specifically focusing on premium pension funds within Pillar I and ITP1 funds within Pillar II. The comparison is made against a “balanced” portfolio, comprised of 50% equity and 50% bonds, based on two Europe-wide indices, STOXX All Europe and Barclays Pan-European Aggregate Index. The assessment is based on annualized returns across various holding periods and cumulative real net returns.

Figure 18.11, Figure 18.12 and Figure 18.13 illustrate the performance of premium pension and occupational funds relative to the benchmark portfolio. Overall, the figures show that the real returns for the pension products in Sweden track the development of the capital markets and have been following a predominantly favourable trend over time. In addition, the results reveal a consistent overperformance of the savings products compared to their respective benchmarks since 2001 and across different investment horizons. For instance, over the 2001–2021 period, the annualized returns of AP7 Såfa and other funds (in Figure 18.11) were 3.1 and 1.7 times higher, respectively, than the benchmark fund. Over a similar period, the cumulative returns

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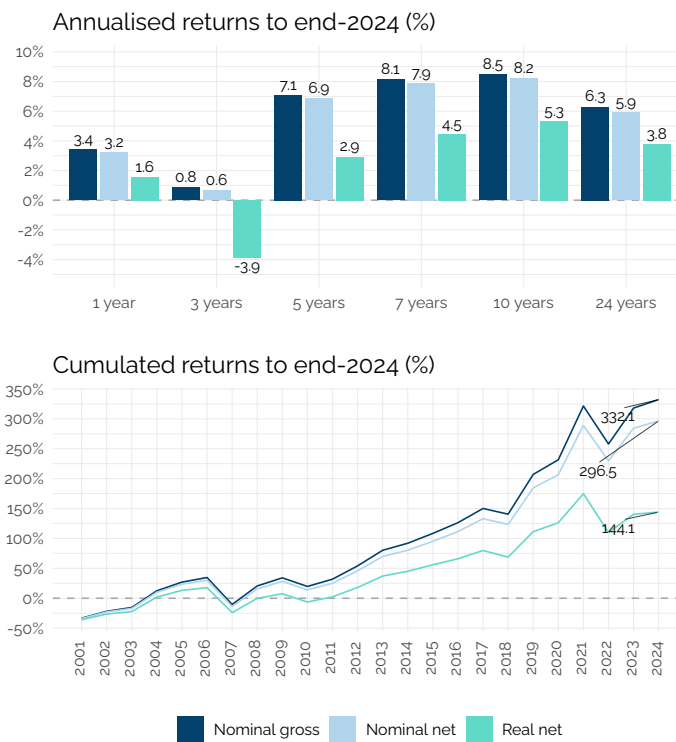
<sup>23</sup>Source: Eurostat

**Figure 18.3 – Returns of Sweden's AP7 Såfa premium pensions (before tax, % of AuM)**



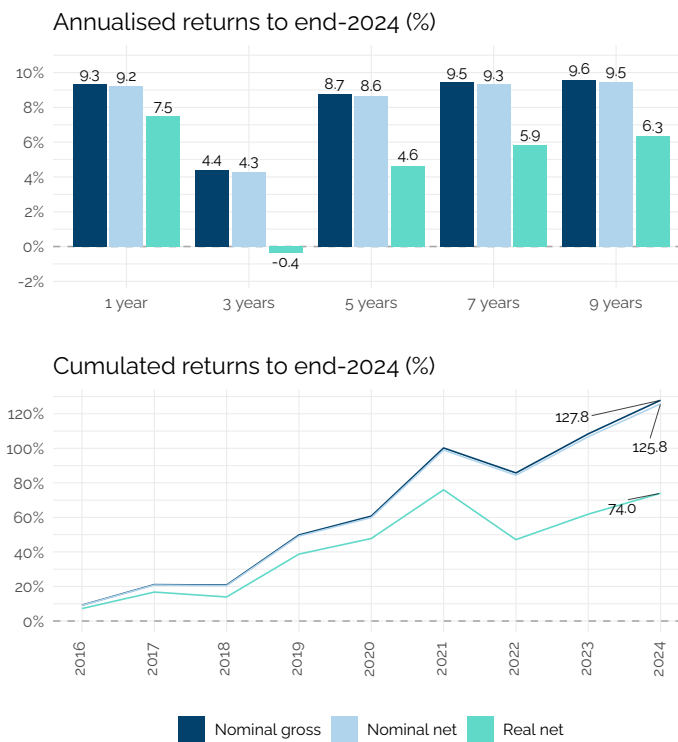
*Data:* The Swedish Pensions Agency, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 18.4 – Returns of Swedish premium pensions managed by other funds (before tax, % of AuM)**



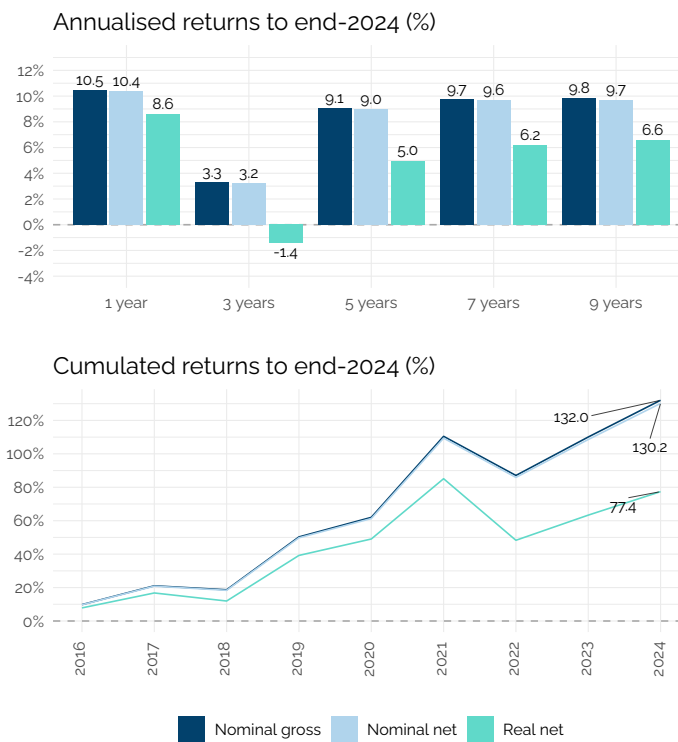
*Data:* The Swedish Pensions Agency, Eurostat; *Calculations:* BETTER FINANCE;  
*Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 18.5 – Returns of Swedish ITP1 pensions (before tax, % of AuM)**



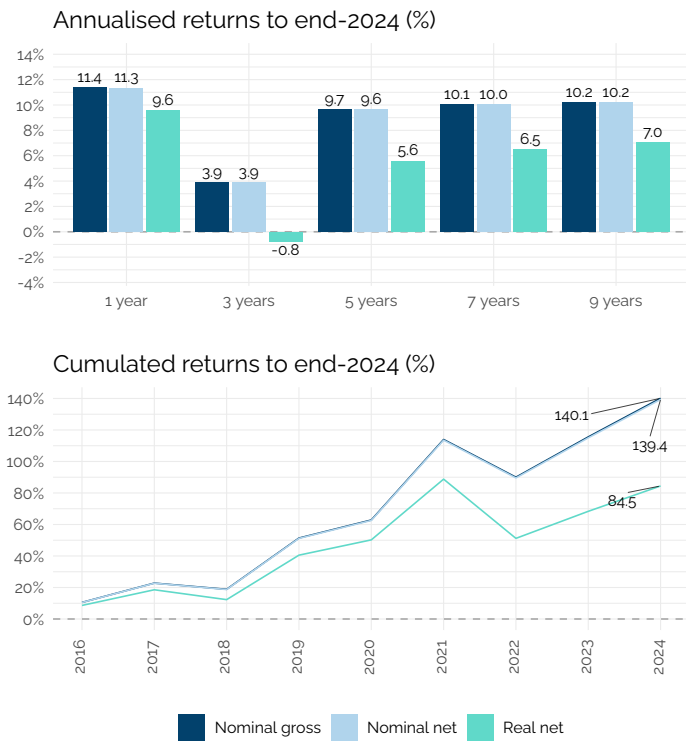
*Data:* The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 18.6 – Returns of Swedish SAF-LO pensions (before tax, % of AuM)**



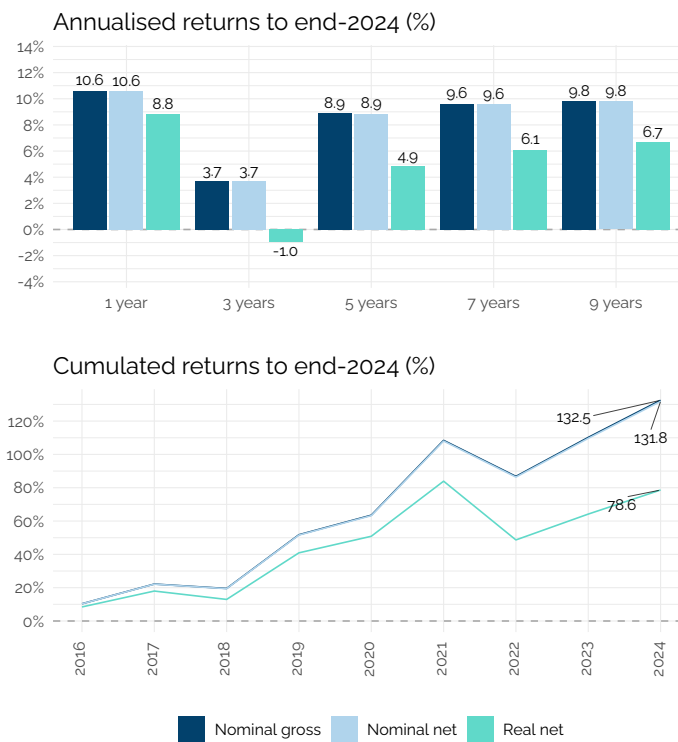
*Data:* The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 18.7 – Returns of Swedish PA - 16 Avd I pensions (before tax, % of AuM)**



*Data:* The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

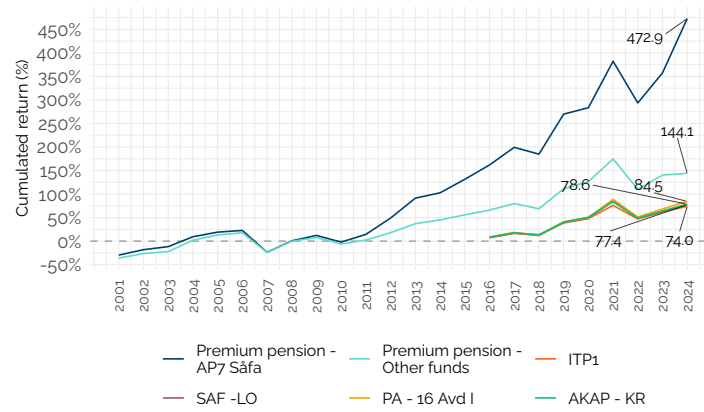
**Figure 18.8 – Returns of Swedish AKAP-KR pensions (before tax, % of AuM)**



*Data:* The Swedish Consumers' Banking and Finance Bureau, Eurostat; *Calculations:* BETTER FINANCE; *Note:* Returns are calculated on the full amount paid-in by the investor as one investment at the beginning of the holding period.

**Figure 18.9** – Annualised returns of Swedish pension funds over varying holding periods

**Figure 18.10 – Cumulated returns of Swedish pension funds**



Data: The Swedish Pensions Agency, The Swedish Consumers' Banking and Finance Bureau, Eurostat. Calc

**Table 18.8 – Capital market benchmarks to assess the performance of Swedish pensions**

Product category	Equity index	Bonds index	Start year	Allocation
Premium pension - AP7 Såfa	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2001	50%–50%
Premium pension - Other funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2001	50%–50%
ITP1	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2016	50%–50%
SAF -LO	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2016	50%–50%
PA - 16 Avd I	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2016	50%–50%
AKAP - KR	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	2016	50%–50%

*Source:* STOXX, Bloomberg; *Note:* Benchmark portfolios are rebalanced annually.

(second panel in Figure 18.11) for the default and other funds within the premium pensions exceeded the benchmark by 237% and 50%, respectively.

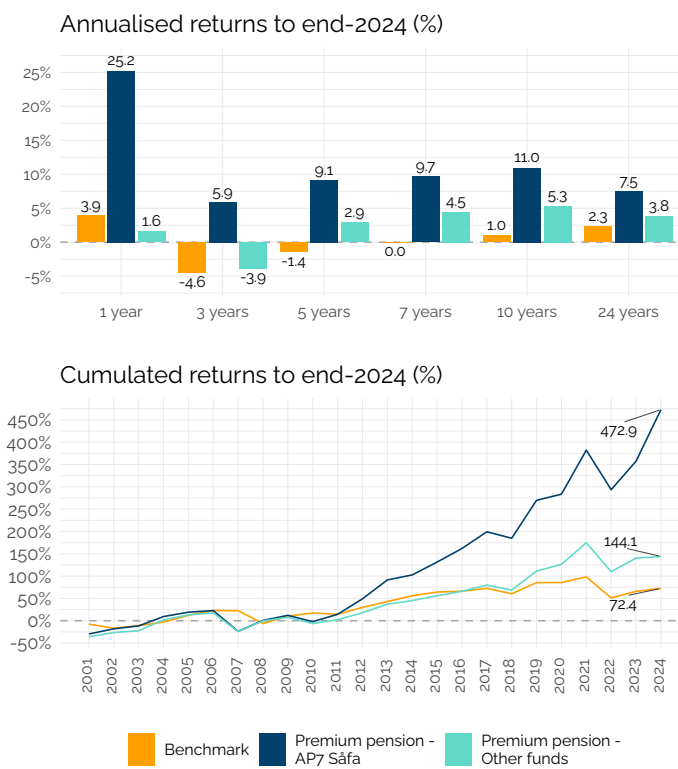
This trend extends to various asset classes, including occupational pensions, as shown in Figure 18.12 and Figure 18.13. It's worth noting that the performance of other Pillar II funds closely mirrors that of ITP1 funds. During the same period, ITP funds delivered an annualized return of 10% , surpassing the benchmark fund, which recorded a return of 0.9%. For ITP1 (dark blue in Figure 18.12), the cumulative return during this period was 61.39%, while the benchmark returned 0.97%.

The strengthening of the financial position of the pension products can be attributed to the fact that the products contain a well-balanced portfolio across different products and exposure to the global and Swedish markets, making them positioned to benefit from the prevailing market situation.

## 18.6 Conclusions

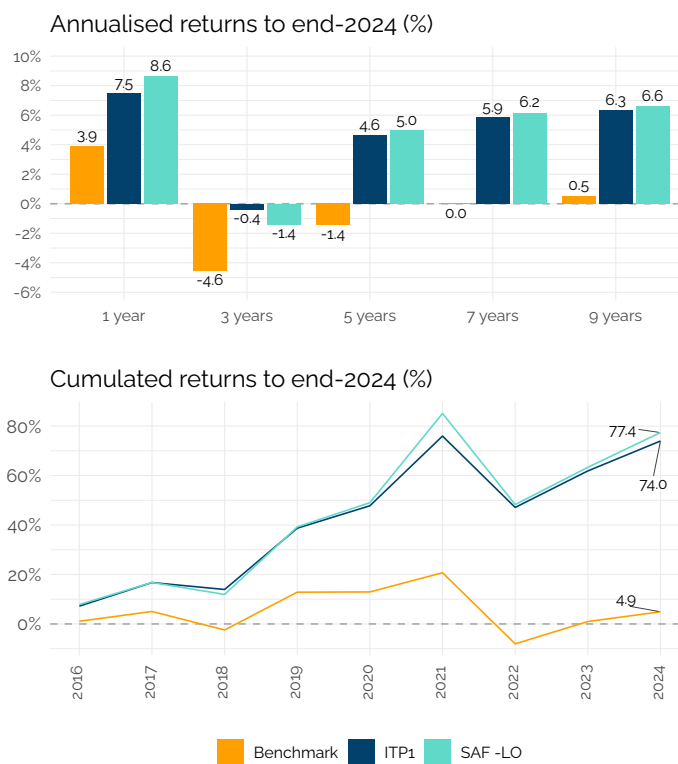
The Swedish pension system is considered robust and sustainable. The balancing of the income-based system contributes to preserving the system's debt balance and secures the long-term nature of the system. The premium pension, which is a system unique to Sweden, also contributes towards spreading the risk in the system and enhancing the return on capital by enabling people to place part of their national pension capital on the stock market. As a result of the change in the Swedish pen-

**Figure 18.11 – Performance of Swedish premium pensions against a capital market benchmark (returns before tax, after inflation, % of AuM)**



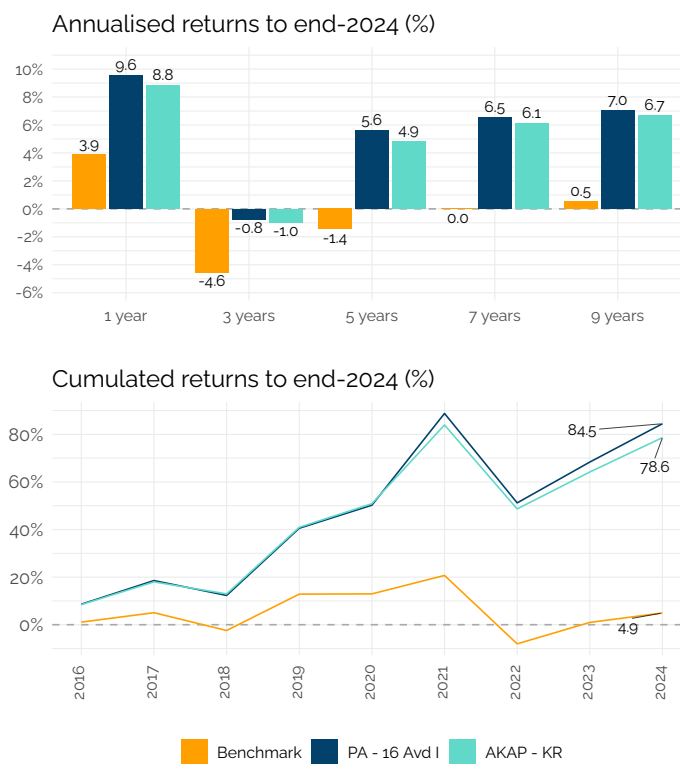
Data: The Swedish Pensions Agency, The Swedish Pensions Agency, Eurostat;  
 Calculations: BETTER FINANCE.

**Figure 18.12 – Performance of Swedish ITP1 and SAF-LO pensions against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: The Swedish Consumers' Banking and Finance Bureau, The Swedish Consumers' Banking and Finance Bureau, Eurostat; Calculations: BETTER FINANCE.

**Figure 18.13 – Performance of Swedish PA-16 Avd I and AKAP-KR pensions against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: The Swedish Consumers' Banking and Finance Bureau, The Swedish Consumers' Banking and Finance Bureau, Eurostat; Calculations: BETTER FINANCE.

sion system, individual responsibility will increase, and the occupational pension will constitute a bigger part of the total pension in the future.

The occupational pension system in Sweden covers more than 90 percent of the working population. The collectively negotiated pension schemes are procured for a large number of workers, which leads to lower costs, and more transparent pension plans. Individual occupational pension plans and third-pillar pension accounts are, however, often characterized by higher management fees, deposit fees and less transparency.

The statistics on net returns in the second and third pillar pension plans are quite cumbersome to collect. The Swedish Consumers' Insurance Bureau reports fees and returns in most pension plans, but there is no immediately available information on net returns. It is also difficult to calculate historical returns in the second pillar because the set of funds that the retirement savers can choose from might change, for example due to procurement.

A source of concern is that the pension system is becoming increasingly complex. The number of occupational pension plans per individual is increasing both because job switches across sectors become more common and because pension capital can be moved between companies. The ongoing transitions between old and new occupational pension plans also contribute to the increased complexity of the second pillar. All three pillars also contain many elements of individual choice both during accumulation and decumulation phase.

Pension systems that are too complex risk leading to inertia and distrust, which in turn could lead to worse saving and retirement outcomes. Well-designed default fund options with low fees and appropriate risk exposure as well as comprehensive, user-friendly information/choice centers are necessary features in a complex pension system.

Although the Swedish pension system is considered robust and sustainable there is reason to be concerned. As life expectancy increases, the gap between wages and pensions will increase. The average exit age from the labour force has been increasing ever since the new public pension system was implemented in the late 1990s and is currently 64. However, the average claiming age has been constant.<sup>24</sup> The combination of constant claiming age, later labour force entry among youths, and indexation of pension benefits to life expectancy unavoidably means lower pension benefits.

The concern of decreasing replacement rates in the public pension system has spurred an intense political debate about raising the public pension. In June 2022, the parliament passed a historically large increase of the minimum guarantee equal to SEK 1000 that will be implemented just prior to the national election of 2022. In addition to raising the minimum guarantee (and the means-tested housing allowance), the pension bill of 2022 also stipulates that a "pension gas" should

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<sup>24</sup>This is mainly due to reduced disability pension rates (through stricter eligibility rules), which affects the exit age but not necessarily the claiming age if people claim their pension instead. Another explanation is that individuals who work past the age of 65 do not postpone the withdrawal of their pension.

be introduced in the income pension. The pension gas is the equivalent of the automatic balancing mechanism in the sense that it distributes excess capital to pension savers and retirees when system assets exceed system liabilities by a certain amount.

As calls for pension reforms have intensified, there are also recent reports that give a more nuanced picture of pensioners' finances. A report by the Swedish Fiscal Policy Council<sup>25</sup> which was published on 6 May 2022 found that relative to the income development of the working population, the income of pensioners has also risen throughout the distribution since the reformation of the public pension system in the early 90s. Compared to the 34–64 age group, pensioners' disposable income has developed favourably at both the bottom and top of the income distribution — while the development of those in the median income part of the distribution has been similar to the compared age group. According to the report, new pensioners have been able to sustain relatively high replacement rates mainly due to increased labour income and occupational pensions. Occupational pensions constitute 29% of outgoing pension payments and play a relatively more important role for high-income earners.

Since the retirement age has not increased in relation to life expectancy, the accrued pension entitlements have had to suffice for more and more years in retirement. One way to raise pension levels is to increase the pension contribution. But it should be remembered that fee increases reduce the salary space for those who work and are also not a viable path in the long run. The most important thing for pensions is a high level of employment and that working life is extended when we live longer. In particular, the Swedish Fiscal Policy Council points to the low employment rate of low-skilled and foreign-born people as a problem in the future. Also, certain groups on the labour market that are already at risk of receiving a low pension (such as gig workers, self-employed and immigrants) are often not eligible for an occupational pension.

To encourage later retirement, policy makers have agreed to raise various retirement ages in a stepwise manner. By 2026, the minimum claiming age, the eligibility age for the minimum guarantee, and the mandatory retirement are expected to have increased to 64, 67 and 69, respectively (currently at 63, 65 and 68, respectively). The 65-norm is still strong in the second pillar, however. In the private sector, pensions are usually paid out automatically at this age, and pension rights are in most cases not earned after this age. As replacement rates fall, individuals also need to take more responsibility for their private pension savings. This makes accessible good pension savings products with low fees even more important.

### 18.6.1 Policy recommendations

- Expand the portability right of second pillar pension capital.
- Improve information on historical net returns and other fund characteristics in second and third pillar pension plans.
- The digital pension tool [www.minpension.se](http://www.minpension.se) makes it possible for individual

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<sup>25</sup>The main results and conclusions are reported by the Swedish Fiscal Policy Council (2022) while Hagen et al. (2022) contain the complete set of empirical analyses.

retirement savers to collect information on their total pension savings. Since 2019, there is a related tool for planning pension withdrawals. A useful extension would be to allow users to execute their pension fund choices from this site.

- Replace automatic payment of occupational pensions at a certain age with a claiming requirement (as in the public pension system).

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## Appendix A

# Publication log

- December 16th, 2025: 2025 Edition first release;
- December 17th, 2025: Addition of chapter on the Italian country case.<sup>1</sup>
- May 20th, 2026: Addition of chapter on the Dutch and Spanish country cases <sup>2</sup>

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<sup>1</sup>The data about the Italian long-term and pension savings vehicles were already included in the data set at the time of first release; the later publication of the chapters do not change the figures published with the first release of Chapter 2.

<sup>2</sup>The data about the Dutch and Spanish long-term and pension savings vehicles were already included in the data set at the time of first release; the later publication of the chapters do not change the figures published with the first release of Chapter 2.

# Acronyms

<b>ACPR</b>	Autorité de Contrôle Prudentiel et de Résolution
<b>AFG</b>	Association Française de la Gestion Financière
<b>AFM</b>	Autoriteit van Financiële Markten
<b>AIF</b>	Alternative Investment Fund
<b>AIFMD</b>	Directive on Alternative Investment Fund Managers
<b>AMC</b>	asset management company
<b>AMF</b>	Autorité des Marchés Financiers
<b>AOW</b>	Algemene Ouderdomswet
<b>APP</b>	Asset Purchase Programme
<b>APWP</b>	average personal wage point
<b>ASF</b>	Autoritatea de Supraveghere Financiară
<b>ATP</b>	Arbejdsmarkedets Tillægspension
<b>AuM</b>	assets under management
<b>BEAMA</b>	Belgian Asset Managers Association
<b>BaFin</b>	Bundesanstalt für Finanzdienstleistungsaufsicht
<b>CBA</b>	collective bargaining agreement
<b>CCSF</b>	Conseil Consultatif du Secteur Financier
<b>CDC</b>	collective defined contribution
<b>CEE</b>	Central and Eastern Europe
<b>CIALP</b>	Cuenta Individual de Ahorro a Largo Plazo
<b>CMU</b>	Capital Markets Union
<b>CNPP</b>	Casa Națională de Pensii Publice
<b>COVIP</b>	.na.character
<b>CRH</b>	Complémentaire Retraite des Hospitaliers
<b>CSSPP</b>	Comisia de Supraveghere a Sistemului de Pensii Private
<b>DAV</b>	Deutsche Aktuarsvereinigung
<b>DB</b>	Defined benefits
<b>DC</b>	Defined contributions
<b>DEBRA</b>	debt-equity bias reduction allowance
<b>DFE</b>	dobrowolny fundusz emerytalny
<b>DGSFP</b>	Dirección General de Seguros y Fondos de Pensiones
<b>DNB</b>	De Nederlandse Bank
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EC</b>	European Commission
<b>ECB</b>	European Central Bank
<b>EEA</b>	European Economic Area
<b>EEE</b>	Exempt Exempt Exempt
<b>EET</b>	Exempt Exempt Taxed
<b>EFTA</b>	European Free Trade Association
<b>EIB</b>	European Investment Bank
<b>EIOPA</b>	European Insurance and Occupational Pensions Authority

**EMU** Economic and Monetary Union  
**ESA** European supervisory agency  
**ESMA** European Securities and Markets Authority  
**EstG** Einkommensteuergesetz  
**ETC** exchange-traded commodity  
**ETF** exchange-traded fund  
**ETT** Exempt Taxed Taxed  
**EU** European Union  
**FAIDER** Fédération des Associations Indépendantes d'Epargnants pour la Retraite  
**FCPE** Fonds Commun de Placement d'Entreprise  
**FIRE** Financial Independence Retire Early  
**FPEPP** Fondo de Pensiones de Empleo de Promoción Pública  
**FS** Factor de Sostenibilidad  
**FSMA** Financial Services and Markets Authority  
**GDP** gross domestic product  
**GDV** Gesamtverband der Versicherer  
**GRV** Gesetzliche Rentenversicherung  
**GWP** gross written premium  
**HANFA** Croatian Financial Services Supervisory Agency  
**HICP** harmonised index of consumer prices  
**HWM** high-water mark  
**HZMO** Croatian Pension Insurance Institute  
**IBIP** insurance-based investment product  
**IBPP** insurance-based pension saving product  
**IC** indexing coefficient  
**IDD** Insurance Distribution Directive  
**IKE** indywidualne konta emerytalne  
**IKZE** indywidualne konta zabezpieczenia emerytalnego  
**IMF** International Monetary Fund  
**INAMI** Institut National d'Assurance Maladie-Invalidité  
**INPS** Istituto Nazionale Previdenza Sociale  
**INSS** Instituto Nacional del Seguro Social  
**IORP** institution for occupational retirement provision  
**IORP II** Directive on Institutions for Occupational Retirement Provisions  
**IPS** individual pension savings account  
**IRA** individual retirement account  
**ISC** Indicatore Sintetico dei Costi  
**ISK** Investeringssparkontot  
**KID** Key Information Document  
**KIID** Key Investor Information Document  
**KNF** Komisja Nadzoru Finansowego  
**LIC** life insurance company  
**MEI** Mecanismo de Equidad Intergeneracional  
**MOD** pension insurance company  
**MPS** Mutualidad de Previsión Social  
**NAV** net asset value  
**NCA** national competent authority

**NDC** notional defined contribution  
**OECD** Organisation for Economic Co-operation and Development  
**OFE** otwarte fundusze emerytalne  
**OIPE** ogólnoeuropejski indywidualny produkt emerytalny  
**OLP** ordinary legislative procedure  
**OPEF** Observatoire des Produits d'Epargne Financière  
**PAC** pension accumulation company  
**PAMC** pension assets management company  
**PAYG** pay-as-you-go  
**PEE** Plan d'Epargne Entreprise  
**PEPP** Pandemic Emergency Purchasing Program  
**PEPP** Pan-European Personal Pension  
**PER** Plan Epargne Retraite  
**PERCO** Plan d'Epargne Retraite Collectif  
**PERE** PER Entreprise  
**PERP** Plan d'Epargne Retraite Populaire  
**PF** Pensionsfonds  
**PFE** pracowniczy fundusz emerytalny  
**PIAS** Plan Individual de Ahorro Sistemático  
**PIB** Produktinformationsblatt  
**PIP** Piano Individuale Pensionistico  
**PK** Pensionskasse  
**PLCDE** Pension Libre Complémentaire pour Directeurs d'Entreprises  
**PLCI** Pension Libre Complémentaire pour Indépendants  
**PLCIPP** Pension Libre Complémentaire pour les Indépendants Personnes Physiques  
**PLCS** Pension Libre Complémentaire pour Salariés  
**PMC** pension management company  
**PPA** Plan de Previsión Asegurado  
**PPE** Plan de Pensiones de Empleo  
**PPE** pracownicze programy emerytalne  
**PPES** Plan des Pension de Empleo Simplificado  
**PPK** pracownicze plany kapitałowe  
**PPP** Plan de Pensión Personal  
**PPP** personal pension product  
**PPSE** Plan de Previsión Social Empresarial  
**PRIIP** packaged retail or insurance-based investment product  
**PTE** powszechne towarzystwo emerytalne  
**PTS** pension tracking system  
**PrTE** pracownicze towarzystwo emerytalne  
**REGOS** Central Register of Insured Persons  
**RIS** Retail Investment Strategy  
**RITA** Rendita Integrativa Temporanea Anticipata  
**RiY** reduction-in-yield  
**SC** Seguro Colectivo  
**SD** Seguro de Dependencia  
**SIA** savings and investment account  
**SIALP** Seguro Individual de Ahorro a Largo Plazo

**SIU** Savings and Investments Union  
**SME** Small and Medium-sized Enterprise  
**SPAMC** supplementary pension assets management company  
**SVB** Sociale Verzekeringsbank  
**TDF** target-date fund  
**TEE** Taxed Exempt Exempt  
**TER** total expense ratio  
**TET** Taxed Exempt Taxed  
**TFI** towarzystwo funduszy inwestycyjnych  
**TFR** Trattamento di Fine Rapporto  
**TTE** Taxed Taxed Exempt  
**UCITS** Undertaking for Collective Investment in Transferable Securities  
**UCITSD** UCITS Directive  
**UK** United Kingdom  
**US** United States  
**VAT** value added tax  
**VPU** value of pension unit  
**WTP** Wet Toekomst Pensioenen  
**ZUS** Social Insurance Institution  
**p.a.** per annum  
**p.p.** percentage point





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