DUFAS

Dutch Fund and
Asset Management
Association

info@dufas.nl
www.dufas.nl

## DUFAS reaction on the Supplementary Pension Package

*The Dutch Fund and Asset Management Association (DUFAS) welcomes the European Commission's proposal of 20 November 2024 to boost supplementary pensions and help ensure adequate retirement incomes across the EU. This comprehensive package includes non-binding recommendations for Member States on pension tracking systems, pension dashboards, and auto-enrolment, as well as two legislative proposals to amend the IORP II Directive (occupational pensions) and the PEPP Regulation (personal pensions). DUFAS believes that these initiatives have the potential to strengthen the EU framework so that Member States can expand pension coverage, improve outcomes for savers, and channel more long-term capital into the European economy. These proposals aim to contribute to the objectives of the Savings and Investment Union by encouraging the mobilisation of long-term savings and seeking to improve access to capital markets for European citizens. DUFAS supports this strategic ambition and underlines that the success of such reforms depends not only on the policy goals, but also on their practical feasibility. It is therefore essential that the proposals remain workable in practice for asset managers and other providers who will be implementing them.*

### Proposal for Occupational Pensions (IORP)

The proposal to amend the IORP II Directive marks an important update to the regulatory framework for workplace pensions. The Commission's aim is to "strengthen and modernise" this framework to support greater efficiency, scale, and trust in occupational pensions. DUFAS broadly agrees with the thrust of the proposals, strengthening member protection and promoting better outcomes, but urges careful calibration to avoid unintended consequences that could undermine the effective execution of asset managers' investment mandates. Overall, the EU should focus on setting rules that raise standards where necessary, while preserving successful elements of national systems and avoiding unnecessary costs for well-run pension funds.

<u>Prudent Person and Long-Term Investing</u>
DUFAS welcomes the Commission's clarification of the Prudent Person Principle (PPP) as it applies to IORPs. The PPP is a cornerstone of pension investment regulation, requiring that pension assets be invested prudently, but historically it has been interpreted with varying strictness across Member States. In some cases, overly restrictive interpretations have limited pension funds' ability to invest in equities or alternative assets, potentially influencing returns for members. The Commission's communication, as part of this package, explicitly aims to encourage more investment in equity – both public and private markets – to boost long-term returns for savers and provide financing for the EU economy. In the Netherlands, funds have a history of significant equity investment and increasingly allocation to illiquid assets (like infrastructure, real estate, private equity) to capture illiquidity premiums. Therefore, prudent diversification including growth assets is in the best interest of young participants especially, as it improves expected outcomes. Clarifying the PPP at EU level to reinforce that message (and dispel any misconceptions that, for example, high equity allocations are imprudent by default) is welcome. It will help pension funds across Europe feel more confident to diversify and not stick excessively to low-yield bonds.

DUFAS urges here to keep this provision in place through the legislative process. Additionally, any guidance or recitals can emphasize the importance of risk management tools (like life-cycle investment approaches, which reduce risk as members age) so that increasing equity exposure goes hand-in-hand with prudent management of risks relative to liabilities.

Cost Transparency
Article 39 prescribes the information to be included in the pension benefit statement. Where members bear investment risk or can take investment decisions, information on the costs imposed and their impact of these costs needs to be disclosed. While Dufas agrees that pension funds need to disclose costs, we have reservations regarding the proposals.

Our first reservation concerns the practical difficulty for disclosing costs in collective pension arrangements, in particular pension schemes with extensive risk sharing such as the 2023 introduced Solidarity Pension Arrangement (SPR) in which the large majority of Dutch citizens accumulate occupational pensions. Asset management costs are incurred and deducted at a collective level from the overall investment return. Only after this deduction, the collective return is allocated to individual pension capitals based on predefined allocation rules (an implicit lifecycle). As a result, it is not possible to present these costs at an individual level as a percentage of the paid premium in a manner that accurately reflects economic reality. Any allocation of asset management costs to individuals would necessarily rely on assumptions or allocation keys that deviate from the actual collective cost structure.

Our second reservation concerns the risk of misunderstanding and unintended consequences of the proposed cost transparency. There is a significant risk that participants will not understand the disclosed cost information, particularly when costs are presented as absolute amounts. These figures are difficult to interpret without sufficient context regarding long-term investment horizons, collective risk-sharing mechanisms, and the economic rationale for certain investment strategies. This lack of understanding may lead to the perception that pension funds incur excessive or unnecessary costs, even where those costs are economically justified and contribute to better long-term outcomes. One potential unintended consequence is that pension funds may feel pressured to favour lower-cost investments over investments that are expected to deliver higher long-term returns, such as illiquid assets. Such behavioural effects would be detrimental not only to individual pension outcomes but also to broader EU policy objectives, including the mobilisation of long-term capital, efficient capital markets, and sustainable economic growth. Over time, persistent misinterpretation of cost disclosures may even erode trust in the pension system, if participants come to believe that their pension assets are being managed inefficiently despite sound economic justification.

Therefore, DUFAS calls for a more proportionate and principles-based approach to cost transparency, allowing pension funds to provide meaningful information that reflects the collective nature of pension arrangements and supports informed decision-making, without undermining long-term investment strategies and pension outcomes.

Performance Monitoring and Underperformance Notifications
One of the proposed new articles would require IORPs to monitor their investment performance against a benchmark periodically and, if they significantly underperform, to inform both members

and the supervisor of this underperformance. The intent is to enhance accountability and pressure underperforming schemes to improve or consolidate.

While DUFAS agrees that pension funds should be transparent about performance and costs, we have reservations about the practical effects of this rule. In the Dutch system, participants typically cannot switch pension provider. If their fund “underperforms” a benchmark, notifying the members does not empower them to take corrective action. It may instead sow confusion or unnecessary alarm. At the same time funds, in fear of the reputational damage of an “underperformance notice”, might manage to the benchmark in a way that undermines long-term strategy, avoiding any contrarian or innovative investments, hugging indices, or reducing allocation to private markets (which can lag in short-term performance reporting). More fundamentally, assessing IORP performance against supervisory benchmarks risks oversimplifying the prudent person principle. Investment outcomes are the result of scheme-specific choices, including the chosen investment policy, the risk appetite of the membership, sustainability preferences and the demographic profile of participants and beneficiaries. These factors cannot be meaningfully reflected in a uniform benchmark. As a result, deviations from a benchmark do not necessarily signal poor governance or suboptimal decision-making, but may simply reflect legitimate strategic choices aligned with members’ long-term interests.

DUFAS therefore recommends that if this provision is adopted, it should at least be refined. If retained, IORPs should be allowed to determine their own benchmarks in line with their investment strategy and clearly define key concepts. Also, a suggestion could be to extend the assessment horizon and to calibrate the trigger for underperformance alerts in a way that is would be a persistent, significant underperformance over a longer horizon, for example of five years, as short terms can cause unnecessary uncertainty, rather than short-term fluctuations. And any communication to members should be couched in appropriate terms, focusing on the long-term nature of pension investing. In this respect, care should be taken to avoid a mechanistic benchmarking approach that could incentivise excessive risk aversion.

In sum, transparency is good, but it must be meaningful. Members need to have insight, but not to receive raw data devoid of context or agency which will result in the wrong investment choices.

Duty of care

A notable change is the introduction of a new general “duty of care” for IORP managers to act honestly, fairly, professionally, and in the best interests of members. While this principle sounds intuitive, there are potential downsides of codifying such a broad duty in the directive, as this can add a blanket fiduciary duty on top of existing specific obligations; the proposed duty of care would duplicate the safeguards provided by the social partner governance model, leading to unnecessary supervisory requirements and additional costs  This broad, general clause therefore risks becoming a catch-all provision to which virtually any requirement could be attached, thereby creating superfluous regulatory burden and uncertainty. At the same time, pension fund boards can become overly cautious to avoid any ex-post allegation of breaching this duty, what eventually will influence the investing choices. This could reduce their risk appetite, pushing them away from investments that, while perhaps higher risk or less traditional, could benefit members in the long run. For example, funds might shy away from investing in illiquid asset classes like infrastructure or private equity, if they fear those choices might be second-guessed under a duty of care clause.

Therefore, DUFAS suggests that the final wording of the directive on this duty should be more precise and limited regarding its scope. It should only complement, not duplicate, the many existing protective norms (on investments, governance, communication, etc.).

In this context, DUFAS also takes note of the introduction of a new conduct-of-business requirement focusing on the appropriate structure and implementation of pension schemes. In principle, this aligns with existing duties of care and appropriately applies at the level of the pension scheme as a whole, rather than introducing an individual appropriateness assessment.

However, concerns arise where the requirement implies that appropriateness must be "regularly reviewed" and adjusted in response to "material changes", without further clarification. This may create interpretative uncertainty and unrealistic expectations, given the long-term nature and governance structures of occupational pension schemes. Greater clarity on the scope and added value of this requirement would therefore be welcome, to avoid duplication with existing obligations and to ensure a proportionate and workable application.

<u>Depositary</u>

One specific governance change proposed is the introduction of a depositary for pension funds (similar to the requirement for investment funds). Mandating an independent depositary for all IORPs adds unnecessary red tape, at least in countries where existing safeguards already fulfil the objectives of a depositary, such as the Netherlands. Dutch pension funds typically hold their assets with reputable banks and are subject to strict auditing and oversight regimes. The functions a depositary would perform (safe-keeping assets, monitoring transactions, checking valuations) are largely covered by the combination of custodian arrangements, external auditors, and regulatory oversight by DNB. Requiring every pension fund to appoint a formal depositary could thus be a costly administrative exercise.

If this requirement is included in the final proposal, DUFAS recommends that the co-legislators consider granting an exemption or flexibility for countries with already existing equivalent safeguards. At the very least, if a depositary requirement is upheld, the rules should allow practical flexibility, for example, permitting the appointment of more than one depositary or a shared arrangement, which could help spread risk and tap specialized expertise. Imposing a monolithic model in a diverse European pension landscape is not an optimal solution.

<u>SFDR</u>

The proposal integrates double materiality by consideration of ESG risks and impact on sustainability factors of investment decision making. In addition, the proposal introduces sustainability preferences into IORP duties. In general, this aligns with what for example Dutch funds are already doing; integrating ESG risks, assessing impact of investments on ESG factors and surveying member views where feasible.

DUFAS agrees that pension funds should account for sustainability, but sufficient flexibility must remain in how this is done. The Dutch experience shows that assessing individual members' sustainability preferences is complex in collective schemes and can result in products that are not fit for purpose. We also note that the proposal defines the concept of sustainability preferences (art 19, sub 1d) by referring to concepts in the SFDR that may soon become obsolete as a result of the

SFDR review. For that reason, we feel that sustainability preferences should not be defined in IORP, or at least not until SFDR 2.0 becomes final.

DUFAS urges the EU to ensure that IORPs can comply with any new requirements in a pragmatic way. For instance, by engaging representative bodies or using sample surveys instead of conducting a literal preference check with each individual member. The goal should be to embed ESG considerations meaningfully, without forcing pension funds into a one-size-fits-all approach.

Risk management and stress testing

DUFAS acknowledges the proposal's requirement for robust internal oversight and risk management, including performing internal stress tests and having plans for adverse scenarios. Dutch funds already conduct scenario analyses and have recovery plans under national law. Sharing best practices in risk management can be beneficial. At the same time, DUFAS emphasises that the design and implementation of stress tests should remain primarily the responsibility of national supervisors, in order to reflect country-specific characteristics of pension systems and existing supervisory frameworks.

Consolidation

DUFAS notes that the proposal appears to implicitly encourage further consolidation within the pension fund landscape. While larger pension institutions may benefit from economies of scale, enhanced operational efficiency and broader diversification opportunities, consolidation should not be pursued as an objective in itself. Any consolidation process should be driven by the long-term interests of members and beneficiaries and must not be guided solely by cost considerations. In particular, efficiency gains should not come at the expense of adequate governance, tailored pension arrangements, or the quality of member outcomes. DUFAS therefore emphasises that decisions on consolidation should remain proportionate, risk-based and firmly anchored in the best interests of participants.

**Proposal for Pan-European Personal Pension Products (PEPP)**

The Pan-European Personal Pension Product (PEPP) was launched in 2019 with high hopes of providing a simple and portable retirement savings plan across the EU. However, since PEPPs became available in 2022, uptake has been disappointingly low, by the end of 2025, only two providers had launched a PEPP across the entire EU. DUFAS therefore welcomes the European Commission's decision to revise the PEPP Regulation to make the product more attractive and practical for both providers and savers. We see the PEPP review as an opportunity for a *"strategic reset"* to transform PEPP into a viable part of Europe's pension landscape. In particular, DUFAS supports reforms that increase flexibility for providers, improve consumer access (including streamlined advice and distribution), and ensure a level playing field through fair tax treatment and consistent regulation. This can help more people across the EU build up supplementary pension savings, especially those currently underserved by existing national systems, such as the self-employed and individuals without access to workplace pensions.

Tax Treatment: The Critical Enabler

DUFAS strongly endorses the Commission's call for Member States to grant PEPPs equal tax treatment. Without this, the PEPP cannot succeed. Tax incentives drive pension savings decisions, and if PEPP is at a disadvantage, uptake will remain low.

Basic vs Tailored PEPPs

A key change is that providers will no longer be required to offer a "Basic PEPP" alongside more tailored PEPP variants. This mandatory dual-offering model was a major barrier for many potential providers, particularly asset managers, as the Basic PEPP's cost and design constraints were not always compatible with commercial viability or product strategy. DUFAS welcomes the move to allow providers greater flexibility, offering only a tailored PEPP, only a Basic PEPP, or both. This opens the door for more market-driven innovation and better alignment with provider capabilities.

Mandatory life-cycle investment strategy

The proposal mandates that all Basic PEPPs follow a life-cycle investment strategy, replacing the earlier option for capital guarantees. This change aims to improve long-term returns while reducing risk near retirement. DUFAS broadly supports life-cycle investing as a modern and effective default. It enables providers to allocate more to growth assets for younger savers and reduce risk as retirement nears, leading to better expected outcomes than static conservative portfolios.

However, DUFAS cautions against treating life-cycle design as a one-size-fits-all requirement. Some flexibility in shaping glide paths is necessary to account for differing saver profiles and entry ages. In third-pillar products, like PEPP, where savers opt in voluntarily, a rigid life-cycle mandate may reduce relevance or suitability for certain groups. DUFAS recommends preserving room for providers to tailor life-cycle strategies to the needs of pension savers within clear principles, rather than through prescriptive asset allocation formulas.

Execution-only Distribution and Advice Requirements

The revised PEPP framework allows the Basic PEPP to be offered on an execution-only basis, without mandatory financial advice or a suitability assessment. DUFAS supports this change as a step to lower access barriers, reduce distribution costs, and enable broader digital distribution. It enables direct-to-consumer sales via online platforms, lowers compliance burdens for providers, and aligns PEPP distribution with other non-complex investment products under MiFID II and IDD. It recognises the Basic PEPP as a standardised, low-risk product that can be made "suitable by design" for typical savers, similar to basic retail investment products. At the same time, DUFAS underlines that removing advice requirements carries risks that always need to be addressed. These risks include the possibility that some savers may misunderstand product features or fail to properly assess whether a Basic PEPP aligns with their personal financial situation and long-term retirement objectives.

The proposal also introduces that if advice is provided for the Basic PEPP, it must be both independent and initiated by the client. DUFAS supports this safeguard for consumer protection, as it ensures any advisory service serves the saver's interest. However, the strict independence requirement may reduce the availability of advice in practice, as not all existing advisory models, including those used by banks and insurers, would qualify. It is therefore crucial that execution-only distribution remains the main channel, supported by strong information provision.

Removal of the 1% Fee Cap and Introduction of Value-for-Money

The proposal removes the fixed 1% annual cost cap for the Basic PEPP. This cap, while originally intended to protect consumers, proved unworkable in practice. Lifting the cap allows providers to design sustainable PEPP offerings that reflect actual costs and service levels. It also aligns PEPP with national third-pillar products, which typically face no such absolute fee ceiling. In DUFAS's view, this change is essential to making PEPP commercially viable and to broadening participation among asset managers.

To replace the fee cap, the Commission introduces a Value-for-Money (VfM) supervisory framework. Under this approach, regulators, including EIOPA, will assess whether a PEPP offers reasonable value, taking into account its costs, features, and outcomes. If a product is found to be consistently poor value, supervisory intervention would be possible. DUFAS supports the VfM principle as a more flexible alternative to rigid price caps. However, we raise concerns about its timing, methodology, and possible market effects.

The VfM approach proposed for PEPP is closely linked to EIOPA cost benchmarks developed under the Insurance Distribution Directive and to concepts currently being debated in the Retail Investment Strategy (RIS). Embedding such benchmarks into the PEPP framework before the RIS is final risks fragmentation and regulatory overlap. It also introduces uncertainty for providers, who may not yet know how "value" will be defined or enforced. DUFAS therefore advises sequencing VfM implementation with final RIS, as the technical trilogue outcomes are still pending, outcomes and ensuring alignment between the two.

More fundamentally, we caution against turning VfM into a quasi-price control. If benchmarks are used too rigidly, especially if tied to product approval processes, they may hinder innovation or create pressure to standardise pricing, even where product design or investment strategy differs. This could ultimately reduce diversity in the PEPP market. In particular, providers may hesitate to offer higher-risk or active strategies, fearing they will fail VfM screens if short-term outcomes lag passive benchmarks. Such an approach would undermine long-term value creation and penalise providers that invest in product quality, advice, or risk mitigation.

DUFAS recommends that VfM assessments focus on overall outcomes, not isolated metrics. In addition, any supervisory powers under the VfM regime should be applied transparently and in close cooperation with national regulators, with clear criteria and a robust feedback loop for providers.

Sub-Accounts

The revised proposal removes the obligation for PEPP providers to offer national sub-accounts in at least two Member States. Instead, cross-border portability becomes voluntary: providers may still choose to support multiple countries, but are no longer required to do so. DUFAS strongly supports this change. The sub-account obligation was a major entry barrier, especially for smaller providers without pan-European infrastructure. By making cross-border compartments optional, the PEPP becomes more accessible and scalable. Providers can offer the product in a single market first, then expand if demand justifies it. This is a realistic improvement that aligns with how most firms operate. For savers, portability remains possible, through transfers to another provider or voluntary multi-country coverage, but without over-engineering from the outset.

Workplace PEPPs and Auto-Enrolment

The proposal allows PEPPs, including the Basic variant, to be used in workplace pension arrangements. Employers may auto-enrol staff into a PEPP with opt-out rights and contribute to the plan. DUFAS supports this expansion of PEPP into second-pillar contexts, as it can boost pension coverage in Member States where occupational pensions are underdeveloped. It offers a cost-efficient, scalable solution, especially for SMEs and mobile workers.

In the Netherlands, where the second pillar is already well-established through mandatory sectoral schemes, DUFAS stresses that workplace PEPPs should complement, not replace, existing arrangements. There is, however, a clear role for PEPP in reaching groups currently outside the collective system, such as self-employed workers. DUFAS therefore recommends that implementation must respect national frameworks. Employers must not be incentivized to opt out of existing sectoral schemes in favour of PEPPs, as this will damage the solidarity, risk-sharing, and scale advantages of the current system, which are essential to delivering cost-effective and adequate pensions. A complementary role for PEPP ensures that it fills genuine coverage gaps without undermining well-functioning national arrangements.

Transfer Rights and Deregistration Safeguards

The proposal strengthens saver protection by ensuring that PEPP savers can transfer their pension capital freely and at no cost in the event of provider deregistration. It also guarantees the right to transfer into a PEPP from other personal pension products without discriminatory fees or obstacles. DUFAS supports these measures as vital consumer safeguards. Clear rights to exit a PEPP if a provider withdraws increase trust in the product, especially for new entrants. Facilitating inbound transfers will also help savers consolidate fragmented pension pots, improving oversight and efficiency. We stress the importance of maintaining tax neutrality during transfers to ensure fair treatment compared to national pension products.

While DUFAS agrees with the targeted nature of these rights, we caution against overly frequent switching that could undermine long-term investment strategies. Preserving rules like the five-year switch limit (for non-deregistration cases) remains sensible. DUFAS recommends developing clear, standardised processes for transfers and provider exits to ensure a smooth saver experience.

**Recommendation on Pension Tracking Systems, Dashboards and Auto-Enrolment**
**Pension Tracking Systems (PTS)**

DUFAS strongly supports the Commission's recommendations on PTS, dashboards, and auto-enrolment as part of the Supplementary Pensions Package. Implemented thoughtfully, these measures will enhance transparency and coverage. At the same time it is important that authorities adopt a pragmatic approach, building on proven solutions (such as the Dutch pension register), minimising unnecessary administrative burdens, and ensuring that auto-enrolment is aligned with effective incentives and existing frameworks.

Pension Tracking Systems

DUFAS strongly supports the Commission's recommendation that all Member States establish pension tracking systems that cover pension entitlements from all pillars (state, occupational, and personal pensions). Such platforms empower citizens to easily track their accrued pension rights and projected retirement income in one place, improving awareness and engagement. The Netherlands has significant experience in this area; the national pension register (Mijnpensioenoverzicht.nl) already provides individuals with an integrated overview of their public and private pension entitlements. It is crucial that national tracking systems can connect smoothly to the planned European Tracking Service (ETS) without imposing undue burdens.

Pension Dashboards for Policymakers
DUFAS also supports the development of national pension dashboards that aggregate data to assess the coverage, adequacy, and sustainability of pension systems. Such dashboards, feeding into an EU-level overview, can provide valuable insights for policymakers. In fact, enhancing transparency at the system level may create healthy peer pressure for reform, shining a light on shortcomings can spur Member States to strengthen their pension arrangements.

At the same time, DUFAS cautions against overly burdensome data collection requirements. Increasing the volume of data requests could drive up costs for pension providers and ultimately for members. The focus should be on smart indicators that truly help monitor resilience and inform policy, rather than on sheer quantity of data. In this context, supervisors should primarily make use of data that are already part of the regular business processes of pension providers.

Auto-Enrolment in Supplementary Pensions
The Commission's recommendation for Member States to consider auto-enrolment (with opt-out) into supplementary pension schemes is a significant step. Evidence from countries that have implemented auto-enrolment, such as the UK, shows it is one of the most effective ways to increase participation in workplace pension plans and raise overall savings rates. Automatically enrolling employees (especially those at firms that do not currently offer a pension) can nudge many more people to start saving for retirement, improving future pension adequacy. DUFAS appreciates that the Commission frames auto-enrolment as a measure to be adopted in line with national circumstances, respecting social partner arrangements. In the Netherlands, the context is somewhat unique: there already is a quasi-mandatory second-pillar coverage through collective labour agreements in most sectors, resulting in a high participation rate. Therefore, the "coverage gap" here mainly affects specific groups, such as self-employed workers and those in flexible employment. With that said, any auto-enrolment design should complement existing systems rather than disrupt it. It is more suitable to apply auto-enrolment to new arrangements or personal pension products in workplaces that fall outside existing collective schemes.

Tax Incentives to Spur Participation.
DUFAS wishes to stress that auto-enrolment and tracking tools will achieve their full effect only if accompanied by attractive tax incentives for supplementary pensions. The Commission's package rightly highlights the importance of tax treatment: Member States are encouraged to ensure that contributions to supplementary pensions receive favourable tax treatment comparable to existing national schemes. From DUFAS' perspective, tax incentives are essential to lower the perceived cost of saving, reward individuals who commit money for the long term, and encourage employers (especially SMEs) to contribute on their workers' behalf.