

## **Make the revised PEPP and IORP a success story**

**Avoid unnecessary administrative burden**

## Administrative burden should not complicate supplementary pensions

The introduction of high-yield, share-based, and simple supplementary pensions is crucial to achieving the goals of the Savings and Investments Union. These pensions enable people to participate in the success of the European economy and increase their retirement income. At the same time, funds flow through the pension system into the European economy to finance growth, innovation, and employment.

We therefore generally welcome the European Commission's proposals on Pan-European Personal Pension Product (PEPP) and Institutions for Occupational Retirement Provision (IORP). However, to make these proposals a success story, legislator should avoid unnecessary administrative burden.

### Deutsches Aktieninstitut therefore recommends

- allowing the sale of a basic PEPP through commission-based advice. The proposal to limit sales exclusively to independent advice would hinder the widespread adoption of the basic PEPP in countries where independent advice have not yet become widespread.
- removing the restrictive stress test that assume short-term market fluctuations, as these are inconsistent with the long-term investment horizon of IORPs. Furthermore, these tests do not take into account additional safety nets, such as the employer's obligation to cover deficits.

## 1 Don't complicate the PEPP offer

We welcome the PEPP proposal released by the European Commission. It is largely in line with international practice in retirement savings accounts, which we analysed in a 2024 study ([Savings and Retirement accounts as part of the Capital Markets Union](#)). Nevertheless, the sound concept should not be undermined by unnecessary administrative burden that complicates the PEPP offer.

The PEPP is not restricted by guarantee requirements and can therefore invest a large amount of the savings in high-yielding shares. The basic PEPP is a simple standard product that will be the instrument of choice for most savers who do not want to take care of putting together retirement savings for their own. There will no longer be a fee cap for the basic PEPP, which was a major reason why the PEPP failed to gain acceptance. The payout phase offers all commonly available options or a combination of these options: an annuity, a withdrawal plan and/or a lump sum payment. The requirement that the PEPP should receive the same tax treatment as comparable national pension products will achieve tax equality for all pension products offered in a Member State. Finally, it is helpful that the PEPP is available for occupational pension schemes, which would make it easier for employers to provide a workplace pension.

**In order to make PEPP a success story, we suggest avoiding unnecessary administrative burden for PEPP providers:**

- It is incomprehensible why the basic PEPP may only be provided within the framework of independent advice (Art. 34). For example, independent advice has not yet become established in Germany, with financial institutions predominantly providing commission-based advice. These financial institutions are unable to offer a basic PEPP, which unnecessarily restricts the distribution of this extremely useful product.
- Similarly, the 'value for money' approach adopted in the Retail Investment Strategy must not result in the PEPP not being offered due to excessive administrative burden (Art. 25). This approach involves difficult data provision and complex methods. In any case, it is questionable what added value value for money calculation offers, particularly in the case of mutual fund investments, which will form the basis of pension provision in the basic PEPP. Funds that replicate passively common stock indices or use them as a benchmark for active management are transparent, easy to understand, diversified and cost-effective. The complex calculation of 'value for money' especially for these instruments is not necessary. Legislator should delete the value for money restriction.

To make matters worse, the value for money application is associated with ambiguities, as Art. 25 of the proposal refers exclusively to the Insurance Distribution Directive (IDD). Insurance products differ significantly from other financial products such as mutual funds. In addition, work is already underway on the regulatory method for calculating value for money for insurance products, while no details on the calculation of value for money for mutual funds are yet available. At least, legislator should delete the inappropriate reference to the IDD.

## 2 Delete the stress test in Art. 18a

The revision of the IORP Directive provides improvements, such as the option that underfunding shall be allowed for a certain period of time (Art. 14), which will make investments that are volatile in short-term, like shares, easier.

Nevertheless, Art. 18a inappropriately restricts the provision of existing occupational pension schemes. According to Art. 18a IORPs which are not subject to risk-based regulatory own funds requirements, and which underwrite biometric risks or provide guarantees (typically defined benefit schemes) must carry out an inappropriate stress test at least every three years.

The stress test, which assumes, amongst other things, a permanent relative decrease in interest rates of 40 per cent, is much too strict. In addition, simulation of a decrease in investment returns on non-depreciable assets like shares by 30 per cent make share investments considerably more difficult. As a result of a failed stress test, IORPs must draw up a convergence plan including measures to restore the asset gap or an extension of the available solvency margin. The costs associated with that convergence plan would make the IORPs affected significantly more expensive, although the respective IORP may in fact not be in any financial difficulty at all.

We do not consider it necessary from a regulatory perspective to use stress tests that focus on short-term market volatility to assess the resilience of occupational pension schemes that pursue a long-term investment policy. Furthermore, given the existence of other safety nets, such as the employer's obligation to meet the promised pension provision, such strict requirements are unnecessary. Ultimately, Article 18a undermines employees' ability to build up a workplace pension scheme through their employer and damages the existing landscape of occupational pensions. We recommend that the legislator deletes the provision.

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