

## DEVELOPING SUPPLEMENTARY PENSIONS AND LONG TERM RETAIL INVESTMENT



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### Moving towards a more participant-centric occupational pension system

#### Introduction

Across Europe, demographic change and geopolitical uncertainty collide with barriers to cross-border capital and investment flows, as highlighted in the Savings and Investment Union initiative. Together, these trends underline the urgency of building deeper and better-integrated financial markets that preserve prosperity and remain resilient in an increasingly uncertain world. European supplementary pensions play an important role in this respect. Not only by supporting long-term European growth, but by sustaining the social foundations that make our market economies work.

This raises the question of how occupational pension systems can deliver long-term value for participants. Insights from established occupational pension systems provide useful guidance. But as the Netherlands moves

towards DC-based arrangements, where participants bear more responsibility and risk, governance must put the participant at the centre of financial, operational and behavioural decision-making. Supervision must constantly reinforce this focus.

#### What established pension systems teach us

Experiences from pension systems show elements that build resilient systems. Auto-enrolment or mandatory membership ensures early saving and access to long-term collective investment. Collective investing pools risks, creates scale and enables broader diversification, stabilising outcomes and supporting long-term sustainability. Low costs achieved through economies of scale prevent contributions from being eroded by high fees and support adequate pension outcomes.

Maintaining trust and social legitimacy requires strong governance and independence. Pension funds must operate at arm's length from both sponsoring undertakings and the state, with governance structures that ensure collective investment decisions are taken solely in participants' interests. Trust is hard won and easily lost, and is sustained through transparency: clear, timely information that doesn't over-promise and enables participants to form realistic expectations about their pension.

#### Strengthening governance and supervision through a participant focus

In DC arrangements, more decisions and risks shift directly to participants. This makes participant-centric governance and supervision more important than ever. Participants must be the top priority in the boardroom, with decisions guided by what truly serves their interests rather than mere compliance. Boards should not risk losing participants' trust by overlooking the impact of their choices on real individuals. Therefore, they should assess the impact of choices on different participants and ensure that implications are clearly substantiated and explained. This requires the right expertise at the table, from actuarial specialists to communications experts, so that decisions reflect an understanding of the outcomes for individuals rather than averages, and impact is assessed through concrete scenarios rather than long-term abstractions.

Similarly, supervisors should place the participant at the heart of their work, protecting their interests and driving behavioural change needed to keep them central. Accordingly, the AFM's strategy for the transition to DC arrangements rests on three pillars:

1. **Suitable pension products** that are understandable and demonstrably match participants' characteristics, needs and risk preferences.
2. **Information that enables realistic expectations**, allowing participants to understand risks and take appropriate action when needed.
3. **Adequate guidance and sound choice architecture** recognising the influence of defaults, framing and complexity.

#### The Commission's Pension Package

The proposed revision of IORP II introduces improvements such as strengthened fit-and-proper requirements, enhanced transparency and a duty of care. These are important steps to ensure providers consistently act in participants' interests.

However, participants would benefit from embedding participant-centric thinking more explicitly in the framework. Greater emphasis on the suitability of pension products through a structured product development and review process focused on participants' characteristics, needs and preferences, would help achieve this.

#### Conclusion

Long-term value can be achieved when pension systems are governed and supervised from the participant's perspective. When boards put participants at the centre of decision-making and supervisors reinforce this focus, trust deepens, engagement grows and collective outcomes improve. By strengthening financial security and providing stable long-term capital, pension systems also contribute to the ambitions of the Savings and Investment Union. A more participant-centric pension system is therefore not an ambition, but a precondition for resilient, fair and future-proof pension systems across Europe.