Pension saving? The best time to start was yesterday, the second-best is today.

The European Commission should urge member states to introduce measures to increase participation in pension schemes. Auto-enrolment (with opt-out) addresses behavioural biases and has the potential to increase the pool of risk-bearing capital and decrease the pension gap. Pension funds can provide this capital to the Capital Markets Union, financing the green, defence and digital transitions.

The EU faces a worrying pension gap as its citizens age and fewer workers have to support increasing numbers of retirees. Most citizens rely on pillar one or government pensions, which are typically Pay-As-You-Go. Demographic changes make these unsustainable. Policy makers will need to choose between raising contributions for workers or decreasing benefits for retirees.

Moreover, few citizens have additional savings in the second or third pillar. Only 23% save through an occupational retirement scheme and 19% own a personal pension product. The European Commission has found that 22.9% of women and 16.7% of men were at risk of old age poverty or social exclusion in 2022.[1] Fewer than half of EU citizens are confident that they have enough saved for retirement.[2]

The Netherlands has one of the lowest rates of old-age poverty globally. This is in large part a result of our highly developed occupational pension sector. Some 85% of Dutch workers mandatorily save for their pension through their employer. Dutch pension funds manage approximately EUR 1,400, nearly 150% of the size of Dutch GDP and almost two-thirds of all IORP assets in the EU.

We certainly have our problems. We are undergoing difficult but necessary pensions reforms to make our pension system future proof and adapt to demographic realities and a modern, more flexible labour market. People outside of this system, however, such as the self-employed, often save far too little for a comfortable pension. People are all too often unaware of an inadequate pension, until it is too late to do something about it.

Nevertheless, the Dutch pension sector may provide valuable insights for European policy makers. The first is that you must start somewhere. The road to pension adequacy is long. If you wait to act before the entire route is clear and planned, you will never reach your destination. The perfect is the enemy of the good. The sooner people start to save and invest, the better their retirement will be.

The second is to minimise behavioural biases like presentism and nudge people in the right direction. People are not interested in their pensions and would rather go to the dentist than read pension information. They value current consumption more than future benefits. Short of a general obligation for both workers and employers, one option to achieve this is to install a system that automatically enrols people while giving them an opt-out. In the UK, this has substantially increased pension saving rates. If people have to take action themselves, they tend to postpone until it is too late.

Short of such measures, policy makers can harness the power of behavioural finance in other ways. Where choices are available, it must be as easy as possible to take action and make the most suitable decision. Information should be personal, clear, and timely. When people do fail to act (which they will), pension providers need to think about suitable default options.

Third, cost and trust are key. Investing is a long-term game and even slightly higher costs significantly hurt long-term returns. To most people, one percent in annual costs may not seem like much, but it will make a world of difference in terms of pension benefits. Ordinary people have better stuff to do than actively look after their pensions and will leave it to professional money managers and pension administrators. They need to be able to trust the professionals will do the right thing and keep their interest front and centre.

In conclusion, the twin problem of insufficient funding for European companies and inadequate pensions for systems persists. The longer we wait, the less likely we are to bridge the pension gap. The most effective policy options are often the most politically difficult. The retail investment package has failed to deliver on its ambitions. The next

Commission should look at how pension funds can play a role. As with investing for later, the best time to start was yesterday. The second-best time is today.

[1] European Commission, Directorate-General for Employment, Social Affairs and Inclusion, The 2024 pension adequacy report – Current and future income adequacy in old age in the EU. Volume I, Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2767/909323

[2] EIOPA, The EU should build on past initiatives to address growing pension gaps, Eurofi Magazine, February 2024, https://www.eiopa.europa.eu/publications/eu-should-build-past-initiatives-address-growing-pension-gaps_en#_ftn1

Key phrase: *Demographic changes mean Pay-As-You-Go government pensions become unsustainable.*

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