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European Commission
DG-FISMA
Banking, Insurance and Financial Crime; Insurance and Pensions (D.4)
Submitted electronically via online questionnaire

RE: Targeted consultation on supplementary pensions

SECTION 4. REVIEW OF THE PEPP REGULATION

12) In your view, does the current structure of the Basic PEPP allow for wide uptake by savers across the European Union, helping to ensure adequate income in retirement while also contributing meaningfully to the objectives of the Savings and Investments Union? a. Yes b. No c. No opinion Please elaborate your answer.

What changes, if any, would be necessary to enhance the attractiveness of the Basic PEPP for both providers and savers?

RESPONSE: No

The Pan-European Personal Pension Product (PEPP) was introduced to enhance retirement savings opportunities for individuals across the EU. It has yet to achieve its intended impact, and the need for inclusive and accessible retirement savings options remains as pressing as ever. The Investment Company Institute (ICI) sees value in aligning the PEPP with the broader goals of the Savings and Investments Union (SIU). We recommend that the Commission draw lessons from the regulatory and operational obstacles that have limited the success of the PEPP and adopt a revamped approach that complements existing personal and workplace pension systems.

As a first step, the PEPP regulatory requirements should be simplified and streamlined to ensure that it is a commercially viable product that can be easily understood and accessed by retail investors. Digital accessibility is critical to the success of the PEPP, and it will need to be complemented with a comprehensive and forward-looking investor education campaign.

Specifically, ICI recommends the Commission improve the PEPP framework through the following actions:

- **Replace individual suitability tests for the Basic PEPP with lifecycle investment strategies** that embed suitability directly into product design, eliminating the need for costly, time-consuming individual suitability assessments.
- **Permit the Basic PEPP to be offered on an execution-only basis**, and explore how a simplified advice regime could promote digital accessibility and easy onboarding for alternative PEPP options.
- **Remove the requirement to offer subaccounts for at least two Member States** in order to incentivise providers to set up and scale up PEPP offerings.
- Rather than relying on a rigid fee cap to control pricing, **focus the review of the PEPP on streamlining regulation and lowering structural expenses** that create barriers to entry.
- **Open up the Basic PEPP to use in a workplace context** to promote long-term savings habits and significantly increase participation in personal pension products.
- **Consider conducting annual assessments of Member State tax treatment of PEPP** as they compare to various national products to provide valuable market transparency, highlight inconsistencies, and encourage informed dialogue among Member States.

The excessive complexity and overengineering of the PEPP ultimately undermined its effectiveness. Policymakers should refrain from engaging in product design and instead focus on facilitating a smooth investment pathway. Aligning the PEPP with the broader goals of the SIU, and learning from the product's early challenges, can help deliver a more effective, scalable, and saver-friendly retirement solution.

13) Do you consider that the Basic PEPP should necessarily be designed with a built-in lifecycle investment strategy, as a standard feature of the product? Please consider whether other risk mitigation techniques should also be considered as a standard feature of the Basic PEPP and why.

RESPONSE: Yes

ICI recommends that the Basic PEPP include a lifecycle investment strategy – which embeds suitability directly into the product's design -- as a standard feature of the product, and that, consequently, the individual suitability test be removed because it is no longer necessary. Lifecycleing is a robust risk-mitigation practice that could be built into the framework of the PEPP to eliminate the need for individual advice while boosting investor accessibility and investment opportunities.

Lifecycle investment strategy funds are professionally managed funds designed to align investments with the retirement date of the investor. A well-designed lifecycle strategy would

enable younger PEPP savers to invest in long-term, higher-risk assets, such as those with illiquid characteristics and greater return potential. As savers near retirement, their portfolios gradually shift toward low-risk and more liquid assets with stable returns. This gradual transition is known as the investment glidepath. By aligning key factors such as risk and time horizon within the investment glidepath, suitability is maintained over time. This approach would streamline access to the PEPP and eliminate the need for costly, time-consuming individual suitability assessments.

Replacing individual suitability assessments with embedded lifecycling would also open the doors to beneficial investment opportunities within the PEPP, especially for younger savers. Given the long-term investment horizon of a PEPP investor in the early stage of the glidepath, lifecycling strategies for the PEPP could facilitate investment in long-term opportunities, such as European Long Term Investment Funds (ELTIF) or equivalent national retail AIFs. Due to their ability to facilitate appropriate risk-taking by younger investors, and to mitigate those risks over time, lifecycling strategies are well suited to be a default investment option for occupational schemes, especially for employees who do not wish to make an investment decision.

Eliminating the requirement for individualised advice and suitability tests for the Basic PEPP would significantly lower costs and ease administrative burdens. These costs, when combined with the one percent fee cap, have proven to be a barrier to market participants who would otherwise be interested in developing PEPP offerings. The Basic PEPP could be effectively offered through digital platforms and workplace savings schemes as a default investment product available on an execution-only basis.

14) Do you consider that the Basic PEPP should be designed in a way that it can be offered also on an execution-only basis (i.e. without requiring investment advice)?

If yes, what additional design features could support or facilitate the distribution of the Basic PEPP on an execution-only basis? Additionally, do you consider that there would be value in linking such distribution to a condition that contributions remain within the nationally applicable tax-deductible limits?

RESPONSE: Yes

ICI recommends that the Basic PEPP include a lifecycle investment strategy – which embeds suitability directly into the product’s design -- as a standard feature of the product, and that, consequently, the individual suitability test be removed because it is no longer necessary. Lifecycling is a robust risk-mitigation practice that could be built into the framework of the PEPP to eliminate the need for individual advice while boosting investor accessibility and investment opportunities.

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15) Do you consider it is useful to maintain the availability of alternative investment options, in addition to the Basic PEPP?

If yes, should such options be defined and if yes, what should be such additional investment options and what should their purpose be (e.g., making the PEPP more aligned with an employer matching scheme, offering a broader PEPP investment portfolio, etc.), while ensuring they remain consistent with the PEPP's objectives?

RESPONSE: Yes

Yes, it is essential to maintain and expand the availability of alternative investment options beyond the Basic PEPP. Investors have bespoke needs – different financial goals, time horizons, and risk appetites. For this reason, the success of the PEPP hinges on the availability

of a broad range of diversified investment options, ranging from the Basic PEPP with lifecycling strategies, to alternative PEPP options with a wider variety of asset classes. It is also critical to ensure investor choice by allowing alternative PEPP options to cover a broad variety of risk portfolios, including those that incorporate alternative asset classes.

However, maintaining the availability of alternative investment options in the PEPP will not, on its own, ensure success. The Commission must also remove the one percent fee cap. Without the removal of the fee cap, the PEPP is almost certain to yet again fall short of its goals. The current fee cap is prohibitively low, making many strategies unworkable, effectively closing the door on innovation and products that could genuinely serve savers' interests over time.

While ICI strongly recommends eliminating the need for individual advice from the Basic PEPP by moving to a "suitable by design" lifecycling approach, we acknowledge that investors interested in alternative investment options may benefit from some basic advice. We strongly encourage the Commission to explore the permissibility and use of simplified advice for alternative option PEPPs, as this would provide investors with the guidance they are seeking in a less burdensome manner that facilitates digital accessibility. User-friendly onboarding procedures are critical to PEPP's success: execution-only accessibility for the Basic PEPP and simplified advice for alternative options serve this goal by minimising friction in the account opening process.

17) Do you consider the requirement for PEPP providers to offer sub-accounts for at least two Member States is necessary to foster cross-border provision of PEPPs?

RESPONSE: No

ICI recommends that the Commission remove the requirement to offer subaccounts for at least two Member States. Doing so will incentivise providers to set up and scale up PEPP offerings. While the intention of promoting cross-border products is valid, in practice, this obligation has created an unnecessary barrier to market entry, particularly for smaller providers or those operating primarily within one Member State.

Cross-border expansion should be encouraged through incentives and flexibility, and not by mandate. Providers should be allowed to enter the market at a national level and expand cross-border organically. Requiring providers to build infrastructure across multiple jurisdictions before launching discourages participation and limits the overall uptake of PEPP. Moreover, the market segment that truly values portability, a key feature of PEPP, is relatively small. Designing an entire pan-European product around this feature, while layering on rigid requirements, limits its broader relevance and appeal. Instead of attempting to create a one-

size-fits-all product, the PEPP should operate more so as a flexible framework that allows adaptation across Member States.

ICI members that have considered manufacturing PEPP report that, due to the nature of the novel regime, it is often unclear at the outset how to assess the viability of offering PEPP in each Member State. Considerations include Member State tax treatment, NCA supervisory approach and substance requirements, the existence of any gold-plating, availability of third-party distribution partners, and consumer interest.

The cross-border nature of the PEPP will ultimately be driven by market demand rather than regulation or provider initiatives. Scalability could be achieved through greater uptake in the workplace context, evolving organically in line with the structure and needs of businesses operating across the EU.

Removing this requirement would improve the ability of market providers to begin manufacturing PEPP, incentivise scaling up, and improve the ability to assess expanding into multiple Member States over time.

18) Do you consider that the Basic PEPP should continue to be subject to a 1% fee cap?

If no, what alternative measures would you propose to keep the cost of the Basic PEPP at affordable levels?

RESPONSE: No

There is clear interest among market participants in a product, such as PEPP, that has the potential to expand retirement savings opportunities across the EU. Yet, despite this demand, only two PEPP providers are currently operating in the EU, a striking indicator of the challenges facing the initiative. The limited uptake stems from a combination of factors, and there is no single solution that will guarantee the PEPP's future success. However, the one percent fee cap is widely recognised as a key barrier to entry for prospective providers.

As the Commission undertakes the PEPP review, it must aim to strike the right balance between safeguarding investors and ensuring the product's viability in the market. To meaningfully address cost concerns, the focus should shift toward streamlining regulation and lowering structural expenses, rather than relying on a rigid fee cap to control pricing.

In ICI's view, one way to reduce unnecessary costs is to replace individual suitability tests for the Basic PEPP with lifecycle investment strategies. These strategies integrate suitability into the product design itself, aligning investment risk with the saver's time horizon through

automated glidepaths. This “suitability by design” approach eliminates the need for individualised assessments and helps make the PEPP more cost-effective and scalable.

However, the cost of advice is only part of the broader challenge of navigating market dynamics. Market participants report that manufacturing costs, distribution costs and national tax regimes can also present substantial barriers to entry, prohibiting market participants from taking on an initial project to develop a PEPP. To improve accessibility and adoption, the Commission should also prioritise measures that support digital distribution and encourage equal tax treatment and tax incentives.

21) Do you consider that the Basic PEPP should be explicitly open to use in a workplace context?

RESPONSE: Yes

In ICI’s view, the Basic PEPP should be open to use in a workplace context. Leveraging the workplace is one of the most effective and scalable ways to promote long-term savings habits and increase participation in personal pension products. Integrating PEPP into employment-based schemes, through mechanisms such as automatic enrolment and payroll deductions, can help overcome common barriers such as inertia, low financial literacy, and lack of engagement with retirement planning. Workplace integration has proven successful in encouraging first-time savers and broadening participation in capital markets. By enabling employers to offer PEPP as part of workplace benefit packages, supported by simple enrolment processes and investor education, the PEPP can serve as a meaningful tool to address pension adequacy across Member States.

For this to be viable in practice, however, the regulatory framework must adapt to the operational realities of employer-based schemes. In particular, the requirement for individual suitability assessments at enrolment should be reconsidered. These assessments can create friction in onboarding large groups of employees and may discourage employers from offering the product. Removing or adapting this requirement would significantly improve feasibility and scalability in the workplace context. As mentioned above, ICI recommends replacing the requirement for individual suitability tests with lifecycle investment strategies that embed suitability directly into product design.

In addition, the PEPP should feature easy onboarding and smooth distribution channels, leveraging established systems for employer contributions and tax incentives tailored to workplace saving, and default investment structures that do not require individualised advice. The Basic PEPP is intended to be suitable by design, especially through lifecycle strategies, eliminating the need for costly, time-consuming individual suitability assessments. Mandatory

advice is impractical in a workplace setting where employees should be empowered to choose from a limited set of employer-selected options that align with an employee's retirement timeline. These elements are essential to ensure accessibility, scalability, and relevance in workplace settings.

25) Do you consider that PEPP's limited uptake is due to the existence of competing personal pension products across the Member States?

RESPONSE: Yes

There is clear interest among market participants in a product, such as PEPP, that has the potential to expand retirement savings opportunities across the EU. Yet, despite this demand, only two PEPP providers are currently operating in the EU, a striking indicator of the challenges facing the initiative. The limited uptake stems from a combination of factors, and there is no single solution that will guarantee the PEPP's future success. Potential PEPP providers often cite multiple reasons for the lack of PEPP uptake, including the fee cap, the initial manufacturing and distribution costs that are compounded by requirements to offer in multiple Member States, and the absence of tax incentives when compared to national pension and other insurance products.

National pension products and other insurance products benefit from favorable tax treatment, flexible design, and alignment with local distribution models. In contrast, PEPP faces significant constraints. Rigid regulatory layers reduce flexibility and increase implementation costs, putting PEPP at a disadvantage. National products continue to benefit from preferential tax incentives, while the PEPP's tax status remains unclear or inferior in many Member States. The delay in national transposition and inconsistent application of tax incentives across the EU have also contributed to the PEPP's limited uptake. Without equal or comparable tax treatment, the PEPP cannot effectively compete with domestic retirement products.

Enabling tax benefits through national channels, and allowing more room for market-based solutions would increase the product's viability and uptake. Simplifying its structure and removing unnecessary constraints would make it easier for providers to scale across borders and offer meaningful choice to consumers.

26) To your knowledge, does the existing framework create any obstacles or barriers to the distribution of PEPP, including across providers and Member States?

RESPONSE: Yes

The existing PEPP framework contains several practical barriers that limit effective distribution. These include the mandatory provision of individual advice, the requirement to launch in multiple jurisdictions at once, the fee cap, and complexity in client onboarding. These factors render the PEPP both costly and inflexible, making it difficult for traditional advisory networks to incorporate it into their offerings, especially when compared to national products or simpler long-term savings solutions. In addition, the obligatory advice model makes it difficult for providers to develop digital PEPP offerings, as it demands a level of personalisation that is difficult to deliver efficiently through digital platforms. This challenge is further compounded by a lack of clear regulatory guidance.

Distribution could be enhanced significantly by streamlining regulation, allowing execution-only models for the Basic PEPP, and exploring how a simplified advice regime could promote accessibility for alternative PEPP options. Simplifying the onboarding process to better align with digital and workplace platforms is also crucial, as is removing the requirement to offer subaccounts for at least two Member States to incentivise providers to set up and scale up PEPP offerings. Moreover, focus should be placed less on a rigid fee cap and more on reducing structural and regulatory costs, recognising that distribution expenses are a significant and currently prohibitive factor.

31) To your knowledge, has the Commission Recommendation of 29 June 2017 led to the PEPP and other personal pension products being placed on a level playing field in terms of tax treatment?

RESPONSE: No

The 2017 Recommendation did not succeed in establishing a level playing field for PEPPs in terms of tax treatment. National products continue to benefit from preferential tax incentives, while the PEPP's tax status remains unclear or inferior in many Member States. The delay in national transposition and inconsistent application of tax incentives across the EU has also contributed to the PEPP's limited uptake. Without equal or comparable tax treatment, the PEPP cannot effectively compete with domestic retirement and insurance products.

While the Commission does not have direct competence over national tax regimes, it could consider conducting an annual assessment of national tax treatments across various pension products. Publishing a comparative report would provide valuable market transparency, highlight inconsistencies, and encourage informed dialogue among Member States. In ICI's view, such a process would support more consistent treatment of the PEPP, promote best practices, and increase pressure for voluntary convergence on tax incentives.

While the European Commission can take important steps to improve the regulatory framework and promote transparency, the success of the PEPP depends on Member States offering

meaningful tax incentives and creating a level playing field with national pension and insurance products. If successful, the PEPP has the potential to foster a stronger culture of investing across the European Union.

32) Would further action at the level of the European Union be necessary to ensure a level playing field in terms of tax treatment between the pan-European Personal Pension Product and other competing personal pension products?

If yes, what type of action would you consider most appropriate?

RESPONSE: No opinion

The 2017 Recommendation did not succeed in establishing a level playing field for PEPPs in terms of tax treatment. National products continue to benefit from preferential tax incentives, while the PEPP's tax status remains unclear or inferior in many Member States. The delay in national transposition and inconsistent application of tax incentives across the EU has also contributed to the PEPP's limited uptake. Without equal or comparable tax treatment, the PEPP cannot effectively compete with domestic retirement and insurance products.

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While the European Commission can take important steps to improve the regulatory framework and promote transparency, the success of the PEPP depends on Member States offering meaningful tax incentives and creating a level playing field with national pension and insurance products. If successful, the PEPP has the potential to foster a stronger culture of investing across the European Union.

SECTION 5. REVIEW OF THE IORP II DIRECTIVE

54) Are there any additional issues that you believe should be considered in the review of the IORP II Directive? a. Yes b. No c. No opinion Please elaborate your answer. If yes, please describe these issues and explain why and how they should be addressed.

RESPONSE: Yes

ICI strongly supports the European Commission's initiative to promote long-term savings and investment opportunities for EU citizens. Our mission is to strengthen the foundation of the asset management industry for the ultimate benefit of long-term individual investors. ICI members serve over 100 million investors worldwide, including in the EU. These investors rely on regulated funds to meet financial goals such as retirement, education, and wealth preservation. Regulated funds support financial wellbeing and play a key role in capital formation and economic resilience.

We welcome the Commission's attention to the broader policy landscape needed to support long-term investing. In particular, the focus on both creating a successful savings and investment account blueprint and improving the design and uptake of occupational pension schemes reflects a timely and necessary agenda.

Informed by global experience with occupational pension frameworks, ICI recommends that EU-level guidance prioritise four essential elements in improving the regulatory framework:

- **Auto-enrolment** into occupational pension schemes as the foundation for widespread participation.
- **Adequate, sustainable contributions**, shared between employers and employees, paired with meaningful tax incentives.
- **Qualified default investment options**, such as life-cycle strategies, to deliver appropriate long-term outcomes.
- **Clear fiduciary guidance** for plan sponsors, including liability protections when selecting defaults.

Auto-enrolment is the most effective driver of participation in defined contribution (DC) plans. It simplifies access to retirement savings and overcomes inertia and low financial literacy. Employees benefit from a ready-made solution delivered by their employer, with minimal effort and cost. Opt-out provisions respect individual choice while prompting more people to consider retirement options. Where implemented, auto-enrolment has significantly increased engagement and savings.

Equally important is the design of default investment strategies. Most individuals do not make active investment choices, making the quality of defaults critical. Life-cycle strategies offering diversified, age-based portfolios that adjust risk over time are effective, cost-efficient solutions. They protect long-term investors from short-term volatility near retirement and are recognised by the OECD and others as appropriate defaults in DC schemes. When qualified as such, these strategies support better outcomes across income levels and demographics.

Incentivising appropriate contribution levels is key to sustaining momentum. Commission recommendations could encourage gradual contribution increases, while allowing flexibility for employees to align contributions with income and needs. Shared employer-employee contributions enhance adequacy and reinforce scheme value.

To encourage take-up, especially among smaller companies, the Commission could provide guidance clarifying fiduciary responsibilities and offering safe harbor provisions for default option selection. This can mitigate perceived complexity and risk, making it easier for employers to support their workforce's financial future. Guidance on adequate defaults could include dynamic equity exposure tailored for retirement horizons and areas of fiduciary relief when selecting qualified default options.

In the U.S., designating Target Date Funds (TDFs), a type of life-cycle strategy, as qualified default options in retirement plans has positively impacted investors. TDFs have grown significantly in 401(k) plans since their 2007 designation as a Qualified Default Investment Alternative (QDIA). This allowed fiduciaries to automatically invest contributions in TDFs when employees made no active choice, especially in auto-enrolment plans. Regulatory requirements ensure employees are informed and can change allocations at any time.

The QDIA framework has been central to TDF success, offering a professionally managed, diversified, and rebalanced option. This has particularly benefited younger savers. At year-end 2022, 85 percent of 401(k) plans included TDFs in their investment lineup, and by 2023, 86 percent of 401(k) plans using auto-enrolment had designated TDFs as the default for new participants. Due to these changes and the growing popularity of TDFs, at year-end 2022 nearly 40 percent of 401(k) plan assets were invested in TDFs and TDFs were used by nearly 70 percent of participants. The result: steady inflows (\$372 billion over the past decade) and asset growth (\$1.8 trillion by end-2023), illustrating how regulatory framework and guidance for defaults can drive adoption and improve retirement readiness.

While implementation of occupational pension systems lies with Member States, the Commission can play a powerful role by setting guidance that promotes consistency, innovation, and a culture of long-term investing across the EU.