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POLICY INSIGHT

Europe wants more investment:

Start with pensions and avoid past mistakes

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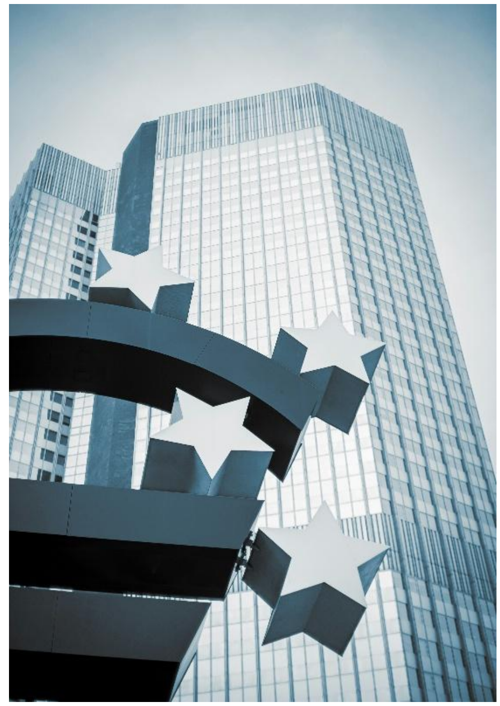
Introduction

The EU's Savings and Investment Union (SIU) aims to boost long-term investment, but risks underdelivering by neglecting the role of funded pensions. For Central and Eastern Europe (CEE), this matters because past reforms show that stable, trusted pension systems are essential to building both retirement adequacy and capital markets. Without prioritising pensions and avoiding policy reversals, the SIU may fail to mobilise sustainable long-term capital.

The EU's Savings and Investment Union (SIU) is built on a simple premise: Europe needs more long-term capital invested in growth assets for its economic future. The risk is that policymakers focus on market architecture while overlooking the most important source of that capital — pension systems. If Europe gets pensions wrong, the SIU will fall short before it even begins.



From a Central and Eastern Europe (CEE) perspective, the lesson is already clear. Where pension reforms have created stable, funded systems, they have strengthened both retirement outcomes and capital markets. Where policy has been inconsistent or politically driven, trust has eroded and long-term investment has suffered.

Reform works when it is consistent

Poland's Employee Capital Plans (PPK) offer a good example of how to build a funded system in practice. By combining automatic enrolment with employer contributions and clear governance structures, PPK has expanded participation and assets. It demonstrates that even in a market with a recent history of pension reversal, it is possible to rebuild trust through pragmatic design and predictable rules.

Lithuania introduced in 2019 an autoenrolment system leading to over 70 % of the workforce joining funded pensions. This reform was a success and it was done without overcomplicating the system or placing unrealistic demands on individual financial literacy. It is very unfortunate that the present Lithuanian government is abolishing autoenrolment and dismantling the pension system by opening it for early withdrawals.

Estonia's pension reform 2021 allowing individuals to withdraw assets, should have been a warning for the Lithuanian government. While framed as increasing individual choice, the reform has led to substantial outflows from long-term savings and raised concerns about future adequacy and market stability.

Hungary's effective nationalisation of private pension assets in the early 2010s remains one of the clearest examples of how quickly long-term savings can be undermined by short-term political decisions. The immediate fiscal gains came at the cost of dismantling a funded system, weakening capital markets, and damaging confidence in pension policy. Hopefully the new government in Hungary will adopt a long-term view on pensions and support funded pensions.

Pension systems are not just financial structures, but trust-based institutions. Once trust is weakened, rebuilding it is slow and uncertain. For the SIU, this is not a side issue. It is central.

Funded pensions are the key lever

The SIU rightly focuses on improving market infrastructure, reducing fragmentation, and enhancing supervisory convergence. These are necessary steps. But they are not sufficient.

Capital markets do not deepen on technical reforms alone. They need a steady supply of long-term capital and pension funds can play an important part. Yet the SIU so far has little to say about how to strengthen occupational pensions in practice. There is recognition that supplementary pensions matter, but no clear strategy to expand them. On the contrary, the proposal to change the European pension fund directive, IORP II, aims to increase the administrative burden on pension funds and this may well lead to less, not more, funded pensions.

Integration still stops where it matters most

Even where pension assets exist, barriers to cross-border investment remain. Taxation differences, complex withholding tax procedures, and fragmented insolvency regimes continue to limit the ability of pension funds to allocate capital efficiently across Europe. For CEE countries, the domestic markets are often small and less liquid. Cross-border investment is essential for diversification and return generation.

If the SIU does not tackle structural obstacles, it will deliver integration on paper but not in practice.

A dangerous temptation: steering pension investments

There is also a growing temptation in Brussels to view pension funds as instruments of public policy. The logic is straightforward: if Europe needs investment in strategic sectors, why not encourage pension funds to provide it? The answer is equally straightforward. Pension funds do not exist to serve industrial or other important policies. They exist to deliver retirement income and investment decisions have to be made in the best interests of beneficiaries. Undermining it, even indirectly, risks distorting asset allocation and weakening trust.

CEE experience reinforces this point. Where pension systems are perceived as politically influenced, participation declines and long-term outcomes suffer.

What success should look like

First, the development of funded occupational pensions must be at the heart of strategy. Not as a supporting element, but as a precondition for deeper capital markets.

Second, the structural barriers that continue to fragment investment across Member States must be tackled. Without progress on taxation and legal frameworks, integration will remain incomplete.

Third, SIU must resist the urge to over-centralise or over-regulate. Pension systems are deeply rooted in national social and labour frameworks. Respect for subsidiarity and proportionality is not a constraint, but a condition for effective policy.

Finally, trust is the most valuable asset in any pension system. Once lost, it is difficult to restore.

Europe has the tools if it uses them wisely

The SIU is an opportunity to align Europe’s savings with its investment needs. But it will only deliver if policymakers understand where long-term capital comes from.

CEE countries have already tested different approaches. Poland and Lithuania show that well-designed systems can expand coverage and build assets. Hungary and Estonia and unfortunately now also Lithuania, demonstrate how quickly that progress can be reversed.

The lesson for Brussels is simple. Build pension systems that are stable, predictable, and trusted. Remove the barriers that prevent them from investing efficiently. And leave investment decisions to those who bear the responsibility for them.

If Europe gets this right, pension funds will help deliver the SIU's ambitions. If it does not, the Union risks building an investment strategy without investors.

ABOUT THE AUTHOR

Matti Leppälä is the Secretary General/CEO of PensionsEurope, a leading organization representing the interests of the pensions sector in Europe. With a wealth of experience in pension policy and financial regulation, Leppälä has played a pivotal role in shaping the pension landscape across Europe. Throughout his career, he has been instrumental in advocating for pension reform and has been a key figure in discussions on the future of pension provision in the European Union. His leadership at PensionsEurope has seen the organization grow in influence and has helped to promote best practices and policy development in the pensions sector.