

Ask the industry:

After several years of strong investment performance and improved funding across Europe, *European Pensions* asks whether positive results risk hiding deeper structural and long-term challenges – and how schemes, sponsors and policymakers can turn short-term gains into sustainable retirement outcomes?

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Pension systems across Europe face deep-rooted structural headwinds, alongside the pressures created by rapid innovation and regulatory reform that are reshaping the market. Even amid strong investment performance, the ability of our existing retirement frameworks to deliver good outcomes for savers remains in question.

Legacy technology and fragmented operating models remain a significant barrier to delivering adequacy, efficiency and fairness for savers. These weaknesses directly affect governance, data quality, member engagement and schemes' ability to respond to regulatory change. They are evident across the industry, including the challenges of becoming 'data ready' and meeting increasing operational complexity.

There is growing recognition among scheme managers and trustees that sustained investment in administration and technology is key to future-proofing pension schemes and delivering genuine value for members, particularly as systems evolve towards more sophisticated retirement income solutions.

Combined with issues such as regulatory inflation, weak member engagement and underdeveloped risk-sharing mechanisms, it is clear that the European life and pensions market is entering a period of unavoidable transformation.

PETER ROOS
Lumera chief commercial officer

Recent market strength is a welcome tailwind, but it can also lull systems into thinking the hard work is done. Strong returns can improve headlines and relieve short-term pressure, yet they do not resolve the underlying question many European pension systems still face: are they structurally financeable over the long run, given ageing populations, shifting labour markets and public finance constraints?

From an administrator's perspective, resilience is less about predicting the next market cycle and more about clarity around risk-sharing, governance and the system's ability to deliver outcomes that remain credible and understandable for participants.

The Netherlands is a case in point. We are moving to a more future-proof pension framework that anchors financing on a defined contribution basis, while retaining collective and solidarity elements to share risks and smooth outcomes.

The bottom line is that good investment years help, but they should not hide structural challenges. Sustainable pensions require durable financing, clear risk sharing and the operational capability to execute.

ROGIER POTTER VAN LOON
TKP head economist

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Recent annualised returns were indeed relatively strong in parts of the continent, though there were regional variations, as many European pension funds still allocate a large share of assets to low-yielding government bonds. Increased allocation to global equity and private market assets has contributed to improving performance, but European pensions still lag behind their Australian, Canadian and US peers, which tend to be larger, more cost-efficient and more exposed to non-listed assets.

The temptation to emulate other models, the retreat from globalisation, and the growing focus on domestic investment are all transforming how pension investors allocate capital.

But there is no silver bullet. Higher financial returns may not last forever, while demographic and actuarial pressures remain acute. European employers and employees may both have to accept higher contributions at a time when few appear willing to make sacrifices today to secure long-term prosperity.

Strong investment returns are warmly welcomed, but they do not mask the structural challenges facing European pension systems. Recent years of strong performance have undoubtedly improved the financial position of many European pension funds. Higher asset values have strengthened funding ratios and eased possible short-term contribution pressure. Yet pension investors operate with investment horizons spanning several decades, over which financial markets inevitably experience both upswings and downturns. Even during periods of strong returns, the central objective remains securing future pensions rather than focusing on short-term performance.

Investment returns affect European pension systems to very different degrees. In most European countries, pensions are still based primarily on statutory pay-as-you-go financing, where long-term sustainability depends far more on demographic developments than on market performance. In this context, ageing populations, rising life expectancy and a weakening contributor-to-beneficiary ratio represent structural challenges that strong investment returns simply cannot mask.

Where funded pensions play a larger role, the link between returns and pension outcomes is more direct but still constrained. Even in funded pension systems, strong returns do not automatically translate into adequate pensions, as outcomes remain highly dependent on coverage, contribution histories, career length, and retirement timing.

MIKA VIDLUND

Finnish Centre for Pensions liaison manager

NICOLAS FIRZLI

**World Pensions Council executive director and
Global Infrastructure Facility co-founder**

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The strong investment performance of recent years should not be seen as a distraction from Europe's long-term pension challenges, but rather as an opportunity to address them from a position of strength. Many countries still rely heavily on pay-as-you-go systems, yet the current environment provides breathing room to accelerate the shift toward more resilient, savings-based models.

Progress around harmonisation and supervisory cooperation is gradually addressing long-standing structural hurdles, while there is growing recognition that pension adequacy depends on real income security rather than nominal promises. This is pushing schemes towards more inflation-aware and outcome-oriented benefit design.

Strong market performance has also helped reinforce a shift from a narrow focus on cost to a broader value-for-money mindset. What ultimately matters is not the cheapest pension, but the best retirement outcome.

JULIEN HALFON

**BNP Paribas Asset Management head of
pensions and corporate solutions**

SERGEY PERGAMENTSEV

Head of structured management Europe