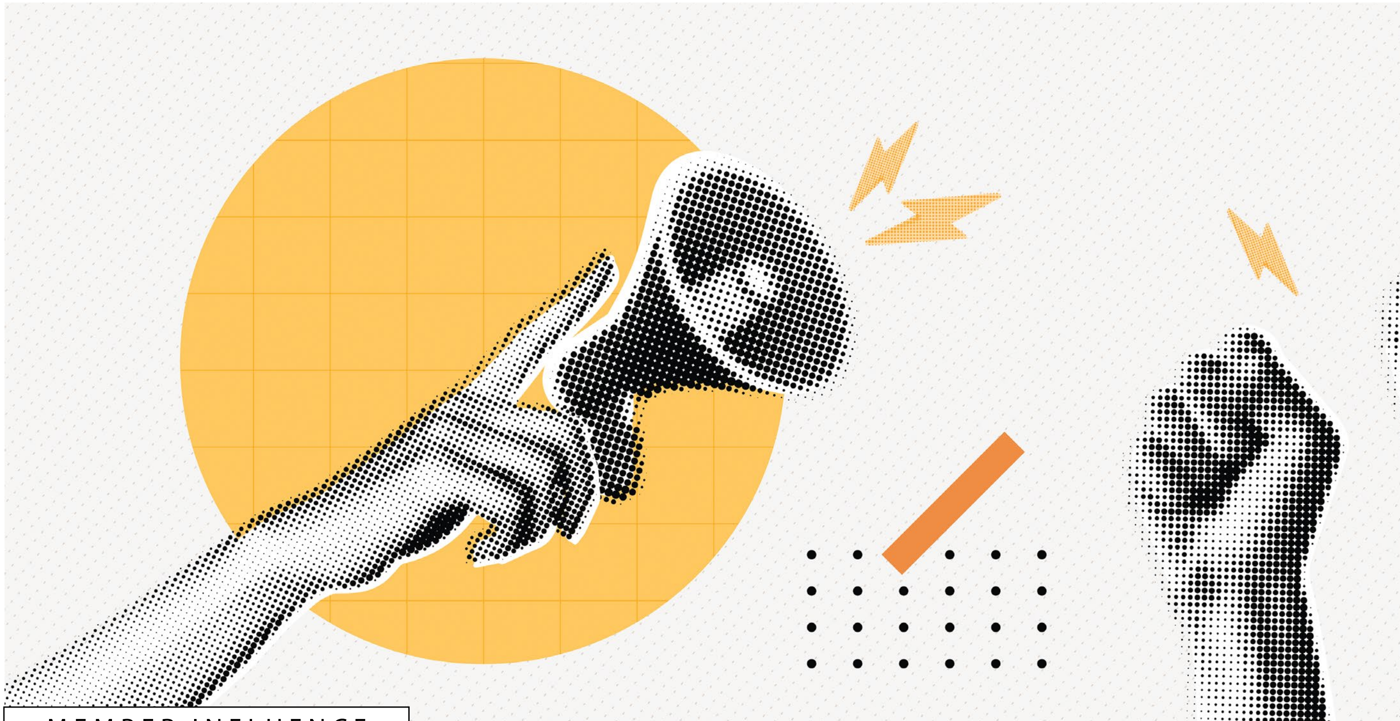

MEMBER INFLUENCE

Raised voices

Although many different forms of occupational pension schemes are used across Europe, all face one common issue – the need to decide how much influence scheme members can, or should, have over scheme or fund governance and operations. David Adams **reports**

Every form of pension is based on compromises, but this is particularly true for the different approaches used to run second pillar pensions in countries across Europe. While members may have some say in the decisions that affect their pension rights or savings, any hint of autonomy is always trumped by the potential benefits offered by the scale of second pillar schemes: Primarily greater cost efficiency and access to expert stewardship.

In both DB and DC second pillar schemes, the voice of the individual member – whether active, deferred or a pensioner – is often heard indirectly. They may be represented by trade unions or other representative bodies involved in the governance of the scheme, by paternalistic employers, or by member representatives in the governance body, such as trustees.

This issue is becoming more pertinent in countries where the use of DC is growing in the second pillar, at the expense of DB, because in DC arrangements individuals bear more risks. The voice of the individual member needs to be heard: The European Insurance and Occupational Pensions Authority's (EIOPA) 2023 *Technical Advice* compiled for the review of the IORP II Directive sought to increase engagement with individual members.

The European Association of Paritarian Institutions (AEIP) is a membership organisation for

secretary general and CEO, Matti Leppälä.

"Trade unions represent current members; and when they negotiate sectoral agreements, which include pensions it's as part of a larger package discussed with employers," he explains.

Following reforms introduced in 2023, most second pillar pensions in the Netherlands will now be either 'solidarity' or 'flexibility' DC schemes. Solidarity schemes use collective investments and risk sharing, but members have no direct say on how their pension savings are invested. Flexible schemes offer individual investment choices, but individuals bear the risks alone.

It seems likely that a majority of the new schemes will follow the solidarity model. This means members will again have a less direct role in governance or choosing investments, but the trade unions and other social partners supporting the scheme will be working in the members' interests within governance bodies. Leppälä says the situation in the Netherlands exemplifies the need for compromise between individual members being able to make their voices heard and the advantages offered by the collective approach.

paritarian social protection institutions, including pension schemes and funds established and managed jointly by employers' representatives and trade unions. In its response to EIOPA's *Technical Advice* on the directive, AEIP noted that paritarian pension funds should ensure representation of "diverse perspectives and interests" within management boards to help promote good governance.

The AEIP sees this form of governance as being in members' interests, although individuals effectively delegate governance to the social partners that helped to create these schemes. "When you have a strong social partners model like this, they are accountable to members," says AEIP policy adviser, Panayiotis Elia.

In the Netherlands, historically, occupational pensions were usually collectively-negotiated, often industry-wide DB schemes. While members had a role in governance through representation on trustee or supervisory boards and the unions, with which the schemes might be linked to also represented members' interests, this was always "diluted", says PensionsEurope

"WHEN YOU HAVE A STRONG SOCIAL PARTNERS MODEL LIKE THIS, THEY ARE ACCOUNTABLE TO MEMBERS"

Collective power

Of course, there are other ways to be heard. In a number of countries members have joined campaigning activity to influence schemes' investment strategies, particularly in relation to ESG issues. In the UK, the Make My Money Matter campaign has sought to force pension schemes to commit to more environmentally sustainable and ethically defensible investment strategies.

Elsewhere, employee campaigns linked to pensions may have different goals. One such example is Verenigning Onze Opbouwe Rechten op Pensioen (VOOROP), founded in 2024, which represents former employees of Shell Netherlands when dealing with the Shell Pension Fund Foundation (SSPF), as they seek to force SSPF to continue to honour previous commitments to pensioners.

In Germany, December 2024 saw current Volkswagen employees begin industrial action in protest against the company's plans to reduce their occupational pensions. One reason why this form of action may have seemed necessary – and may have been relatively straightforward to organise – is that many German second pillar pensions are created through agreements with trade unions. Again, this shows the advantages of using collective strength.

However, members of some occupational schemes in Austria seem to have the worst of both worlds.

"In Austria, we have a very unbalanced situation," says Federation of Occupational Pension Fund Participants (PEKABE) vice-chair, Gertrude Pils. "All rights and no risks are with the pension funds; and no rights and all risks are with the pension fund participants."

The underlying problem is that many of these funds have struggled to grow since being established during the 1990s, meaning members have lost significant proportions of their pensions. This situation led to the formation of PEKABE in 2005. Today its membership consists of about 6,000 associations and groups, which in turn represent the more than 1 million second pillar pension fund members – about 25 per cent of the country's workforce.

In many cases, member representation within governance bodies for these schemes is minimal. Trade unions may have some nominal representation, "but… have no say in important decisions like appointments of the managers," says Pils. "Those who bear the risk should have their say."

PEKABE exists to lobby for members to have more influence over their pensions. "We are completely independent of the pension fund industry and our goal is to change the pension fund law, to improve the rights of the pension fund members and strengthen duties for pension funds," says Pils.

The association's work includes public campaigns, and lobbying political parties and trade unions. Pils admits that both tend to focus more efforts on the ongoing effort to reform the first pillar of the Austrian pension system, but she believes one of PEKABE's most important achievements has been to bring reform of the second pillar onto the political agenda.

Trust issues

Even in countries where member representation within governance bodies is a fundamental feature of the pension system, the situation may not be satisfactory. In the UK, a shift to the use of DC in the second pillar has accelerated following the introduction of auto-enrolment for most workers. Many are now automatically enrolled into large multi-employer master trust schemes.

Trust-based occupational schemes are required to include some member representation on trustee boards. But trusteeship is becoming more complex and time-consuming as regulators add to trustees' responsibilities and duties. It may be difficult for some schemes to find current employees willing to become member-nominated trustees (MNTs), partly for this reason, but also because some schemes no longer have any active members among current employees of the employer that supports the scheme.

"HAVING MEMBER-NOMINATED TRUSTEES MAKES A HUGE DIFFERENCE"

The Association of Member-Nominated Trustees (AMNT) offers support and training to trustees. "Having member-nominated trustees makes a huge difference," says AMNT co-chair Maggie Rodger. "These are people who are outside the pensions industry, who come up with different questions and break up groupthink."

However, where DB schemes have very few active members left, sponsoring employers may seek to replace the trustee board with a sole, corporate trustee. This may mean the scheme benefits from the capabilities of a well-resourced professional trustee firm, but inevitably the member's voice is much less prominent, whether by accident, or, in some cases, design.

"Some employers may think they have more control [*over the scheme*] if they put a corporate sole trustee in," says Rodger. "I have also heard stories from sole trustees about employers asking them not to listen to members."

But members themselves may not be very interested in engaging with the scheme or fund. Low levels of engagement with pensions and of financial literacy in general are common across Europe.

"If people are given an opportunity to engage, most people don't," says Leppälä bluntly. "Even in the Netherlands, where pension reform is discussed all the time in the media, surveys show that the majority of people are not aware of the system as it is, or of the reforms. That means it's really important that there are good defaults and that you provide information to members or beneficiaries in an understandable way. If you offer that, there is an opportunity for people to act."

One way or another, harnessing that collective will is essential, says Rodger.

"If members get together then they have a very loud voice," she says.

It may well be worth using that voice.