

# Pension reforms in the Netherlands this millennium; from DB via CDC to DC?

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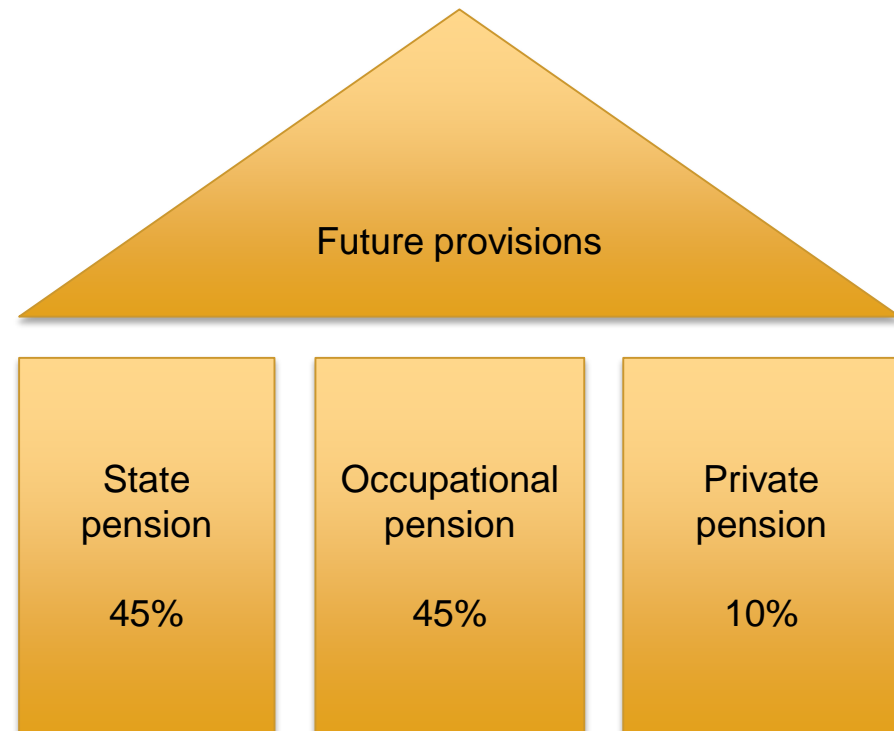
# Topics of today

- Some typical characteristics of the Dutch pension system
- Evolution of the Dutch pension system from the start of this millennium until 2020
- Plans for reform as of 2020



# The Dutch pension landscape

- Population 17 million
- Workforce: 7.5 million employees and 1.5 million entrepreneurs
- Three pillar system
  - State pension
  - Occupational pension
  - Private pensions



# System is not so bad...

## Melbourne Mercer Global Pension Index 2017

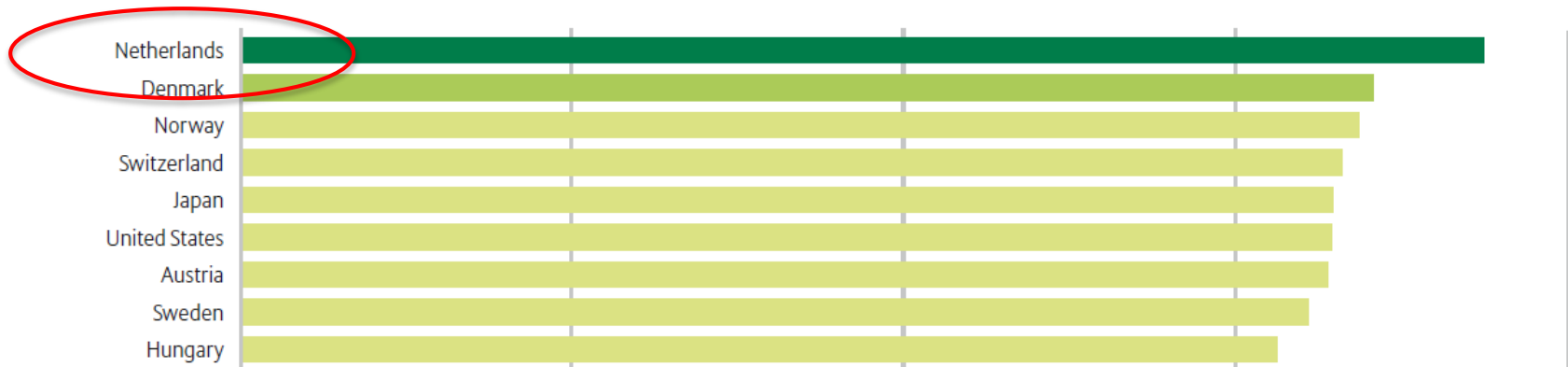
The following table summarises the results.

Grade	Index Value	Countries	Description
A	>80	Nil	A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.
B+	75-80	Denmark Netherlands Australia	A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system.
B	65-75	Norway Finland Sweden Singapore Switzerland New Zealand Chile Canada Ireland	

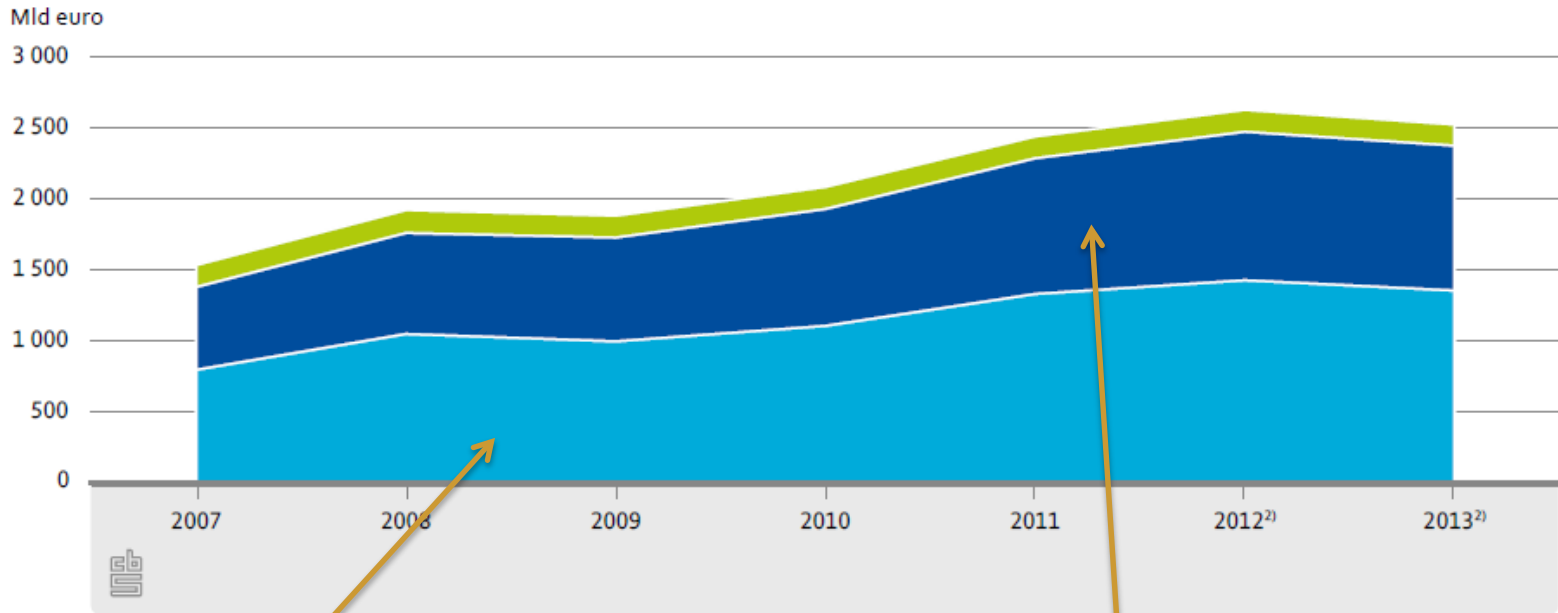
# System is not so bad...

## Allianz International Pension papers 2015/1

Figure 3: Retirement Income Adequacy (RIA) Ranking



€ 2,500,000,000,000



Source: CBS 2015/02, table 5.1.

**1st pillar, unfunded, mandatory**

**2nd pillar, funded, semi mandatory  
Over 200% of GDP**

# 1<sup>st</sup> pillar State pension

- Basic provision, not means tested
- State Old Age Pension Act:  
*“every resident and every foreigner which is employed and hasn’t reached the age of retirement, has the duty to pay contributions, and is insured”*
- Contribution 2018: 17.9% of € 33,994 = € 6,084 (max)
- Benefit ends with death or imprisonment
- Single pensioner: € 1,173 per month
- Married pensioner: € 808 per month

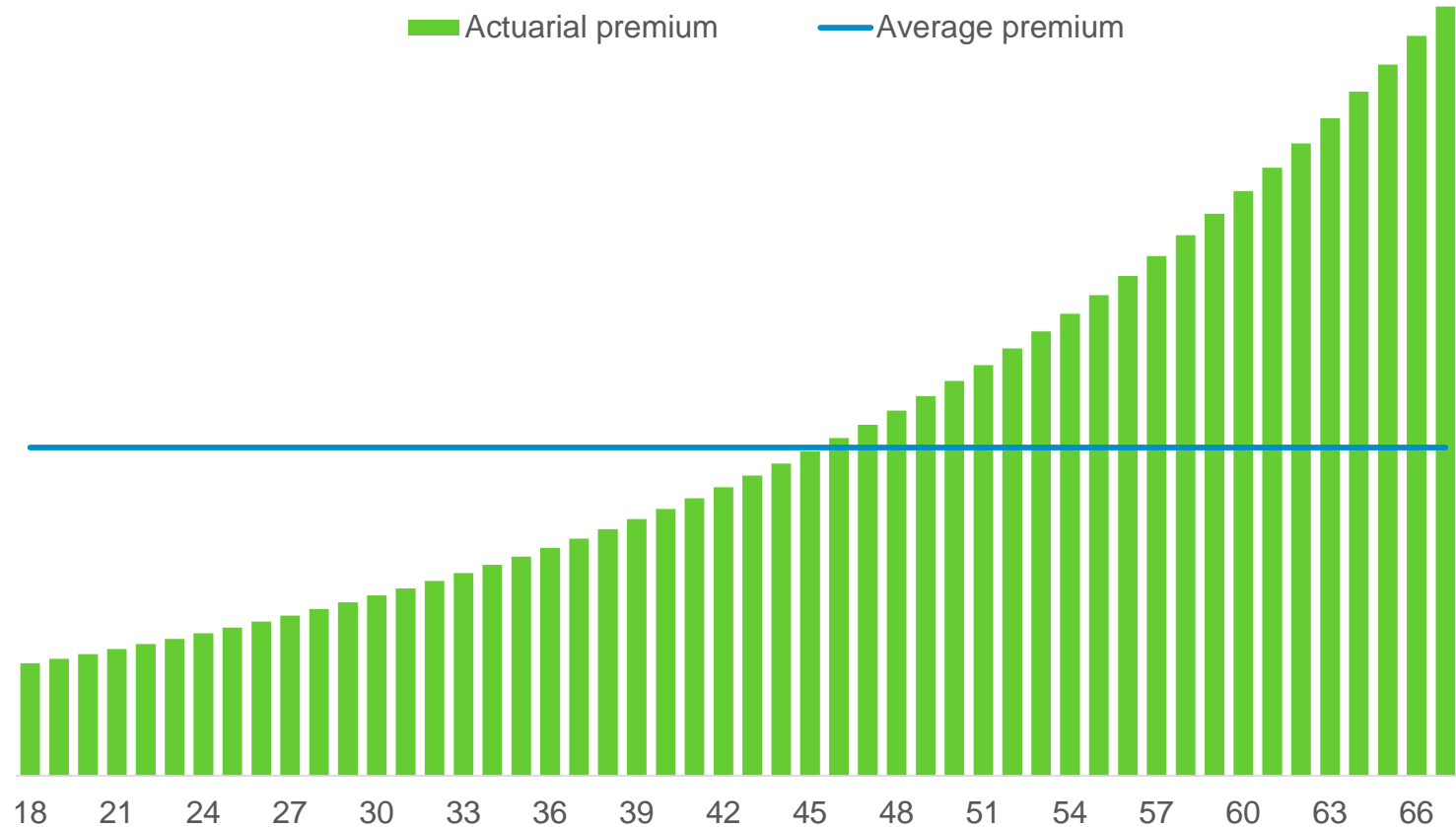


# 2<sup>nd</sup> pillar pension system in foundations

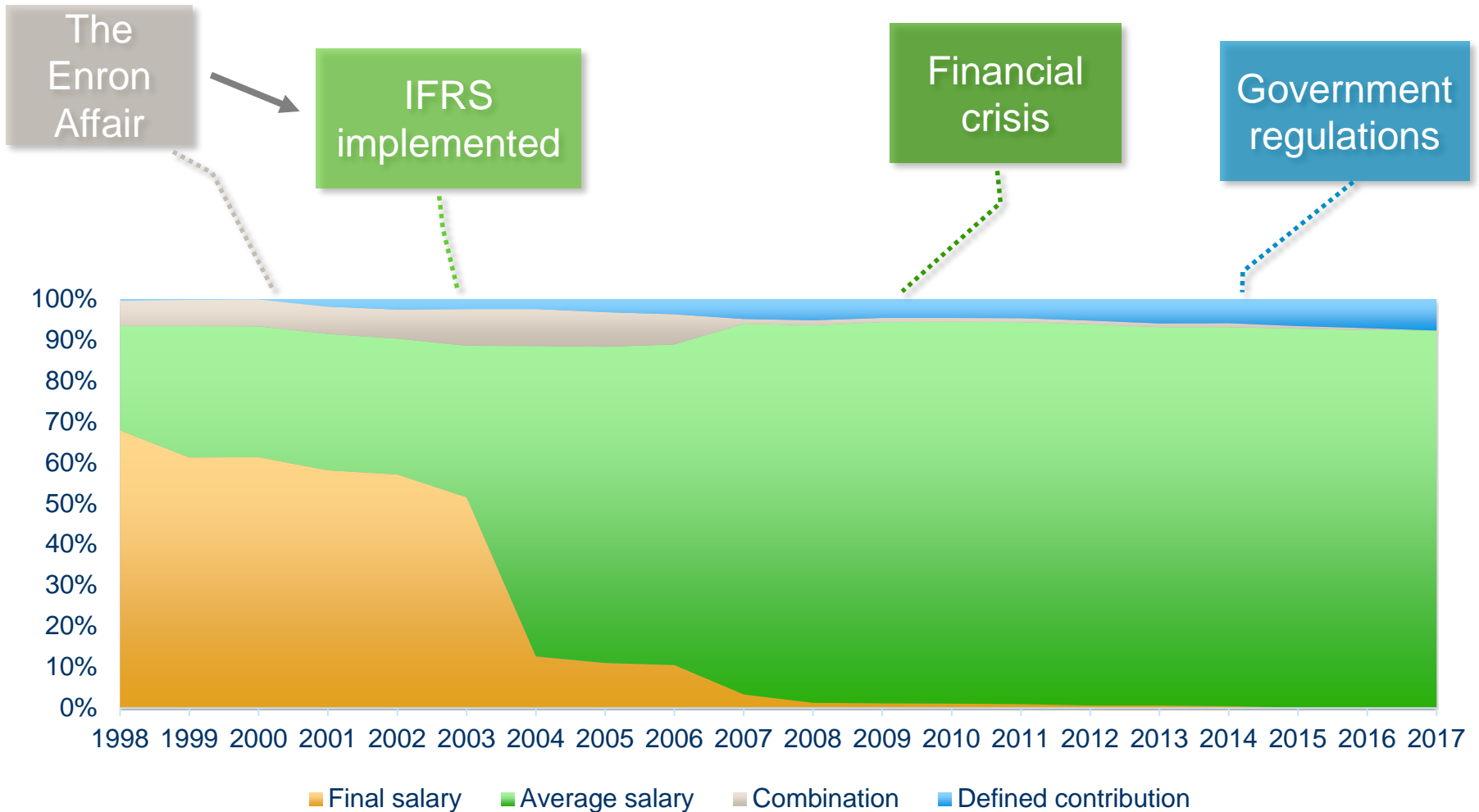
- Assets under Management in funds (excluding insurance companies) is over 200% of GDP
- 95% of employees participate (semi-mandatory)
- Number of pension funds (separate independent legal entities) declined from 1,000 (around year 2000) to around 300 currently
- Around 50 industry-wide funds
- Around 250 company funds
- Around 10 occupational funds
- Average retirement income (1<sup>st</sup> and 2<sup>nd</sup> pillar) € 19,800 per year
- EET-system
- Mainly average pay DB with conditional indexation and 'fixed' premium (CDC)
- Gradual trend towards iDC



# Current average premium system



# Evolution of Dutch pensions: main denominators



# The Enron Affair

Stock price Enron

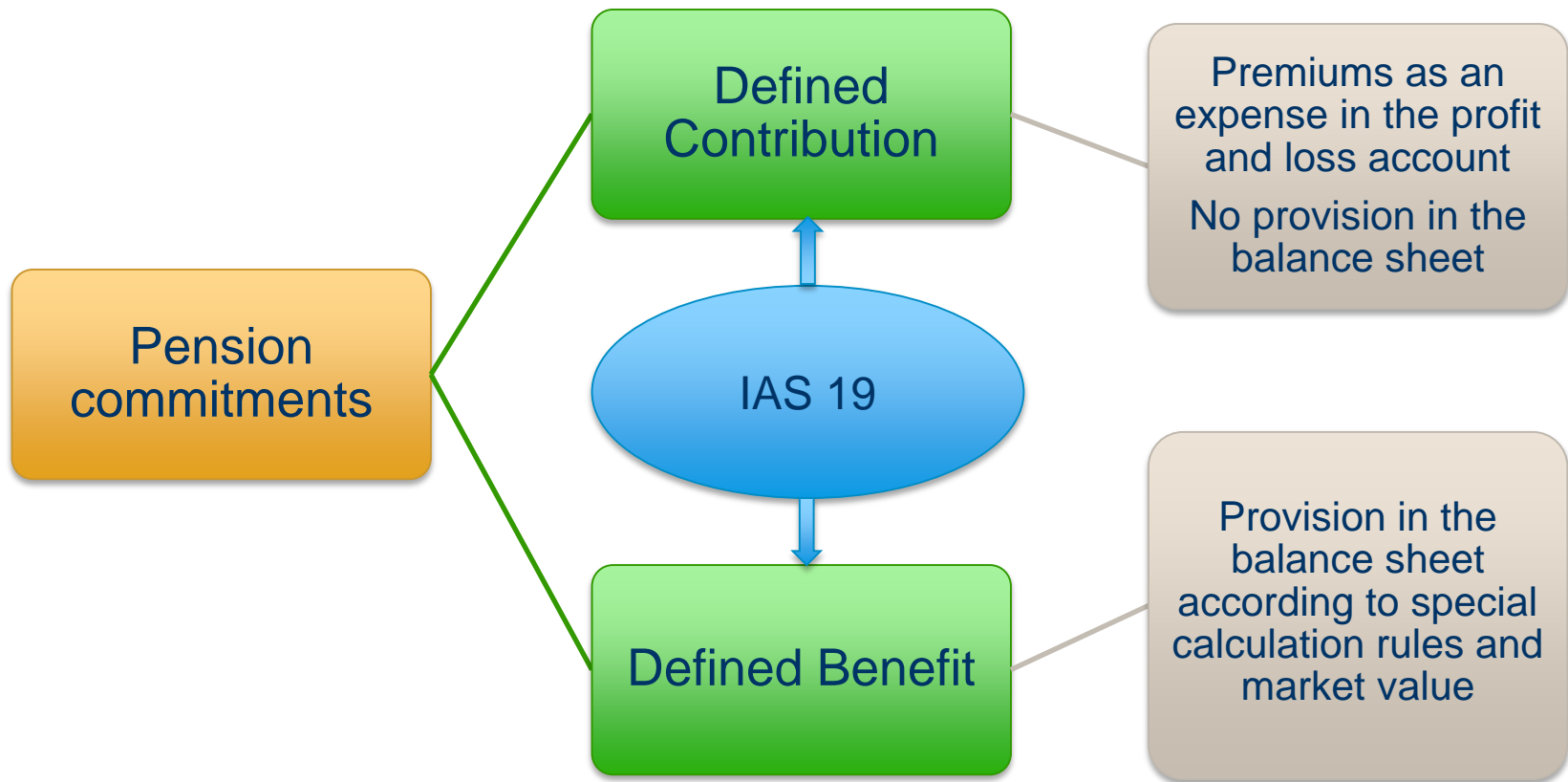


Stockprice

- Enron sponsored a retirement plan
- As of December 31, 2000, 62% of plan assets held in the corporation
- Shares of Enron were in January 2001 \$80/share and dropped to \$0,7/share
- The losses suffered by participants of the pension plan have prompted questions about the laws and regulations that govern these plans
- As a result IFRS / IAS19 was implemented. This had a huge impact on Dutch pension plans

Liabilities

# Introduction of IFRS / IAS19



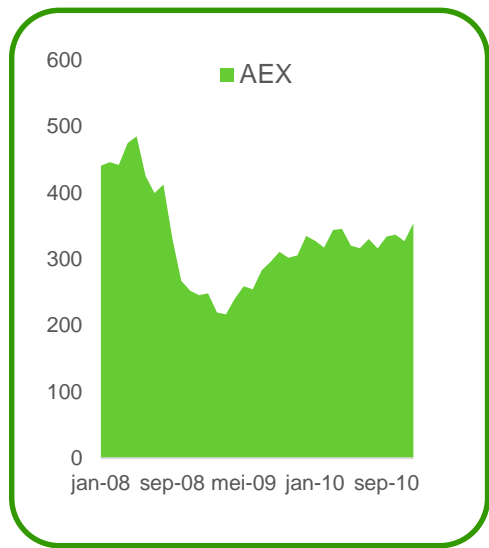
# Result: CDC was 'invented' to share risks

## CDC in the Netherlands:

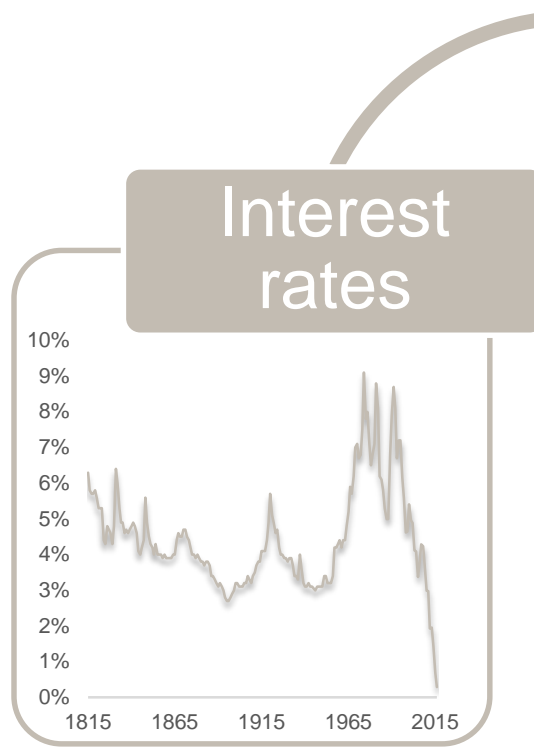
- A Defined Benefit average pay plan → DB from legal and communications point of view
- Total premium / contribution is fixed or capped as a percentage of total salary → DC for IFRS / IAS19
- Accrual rates can be adjusted when coming service cost changes
- Benefits must be cut when coverage ratio is below 105% for a longer period of time (and certain conditions are met)
- Indexation is always conditional (both for active participants and pensioners) and dependent on coverage ratio of the pension fund
- So why is it called CDC? → because Contribution for this DB plan is Defined on a Collective basis



# Financial crisis



**Crisis**



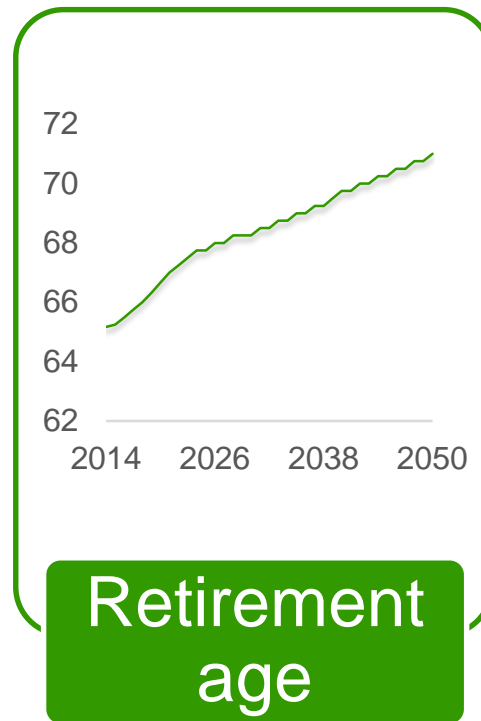
**Interest rates**



**Coverage ratio**

# Result: failures of intransparent system showed

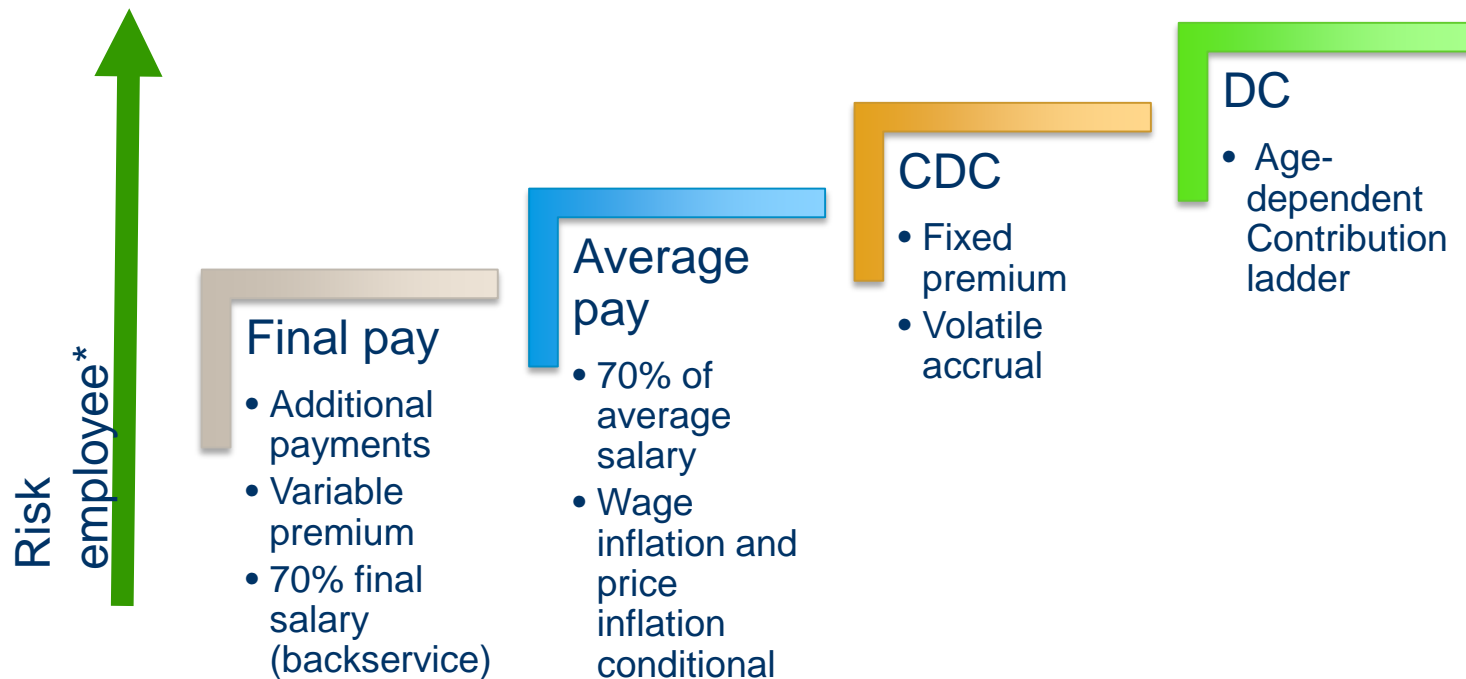
- No indexation and benefits were cut: plan members realized that guarantees were non-existent. DC-plans somewhat more popular
- Legislator took action:



## New rules

- Accrual rates from 2.25% to 1.875%
- Pensionable salary capped at € 100k
- Market interest rates used

# Risks moved towards plan members

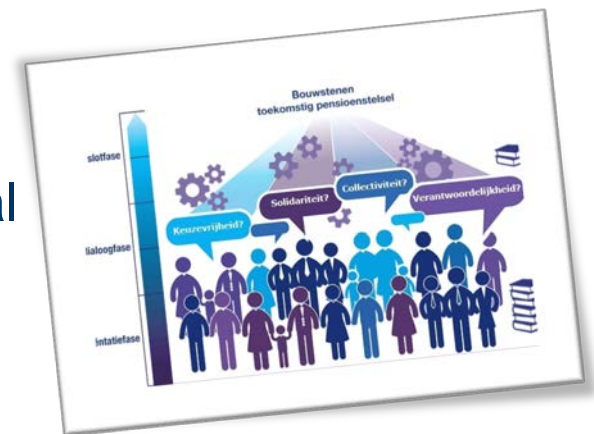


\* Interest, Return on investment and inflation

# 2020 reforms

## Goals:

- Simpler and more transparent system
- Accommodate changes in labour market
- More flexibility
- Less undesired risk sharing
- No more average premium system
- Defined Benefit (thus also current CDC) no longer allowed; only DC (with intergenerational fairness)
- Uncertain what will happen



# Summary

- IFRS, financial crisis and increasing life expectancy showed that the system is not perfect
- Risks shifted gradually to employees
- CDC was introduced in pension funds: a 'soft' DB plan
- Lack of transparency in ownership, little individual flexibility and unwanted redistribution between (groups) of plan members drive further changes as of 2020
- Is the end of the Dutch CDC system coming?





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