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Perspectives on Defined Contribution Pensions in the EU

Lessons learned from the system change in the Netherlands

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Important Notes

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A quick introduction (1/2)

The Netherlands has a large second pillar system:

→ One of the most comprehensive and robust systems in the world.

Challenges of the current system:

- Lack of transparency.
- Demographic pressure.
- Labour market mobility and more flexible careers.

Goal of the new law:

To make the system **more transparent, personal, and resilient** for the future.



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A quick introduction (2/2)



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Key elements:

- Shift from **defined benefit (DB)** to **defined contribution (DC)** for all.
 - Abolishes **average contribution** (doorsneesytematiek)
 - **Personal pension pots** with clearer individual ownership.
 - **Solidarity buffer** or **risk-sharing reserve** allowed in collective schemes.
-
- Law in effect since 1 July **2023**.
 - Transition must be completed by **1 January 2028**.

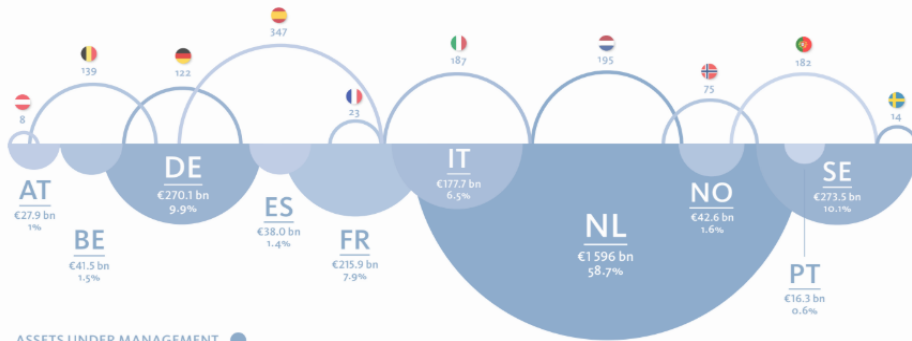
TOP 10 EEA COUNTRIES IN TERMS OF IORPs' ASSETS

Source: EIOPA

The IORPs market in Europe is quite diverse. Some countries tend to have smaller IORPs, while others lean towards larger ones. Some countries have well-developed occupational pension systems while others are only just starting out.

In terms of assets under management, the largest IORPs are located in the Netherlands, Sweden, Germany and France. Dutch IORPs stand out with almost €1.6 trillion in assets under management, which accounts for more than half of the entire market.

NUMBER OF IORPS ○



ASSETS UNDER MANAGEMENT ●

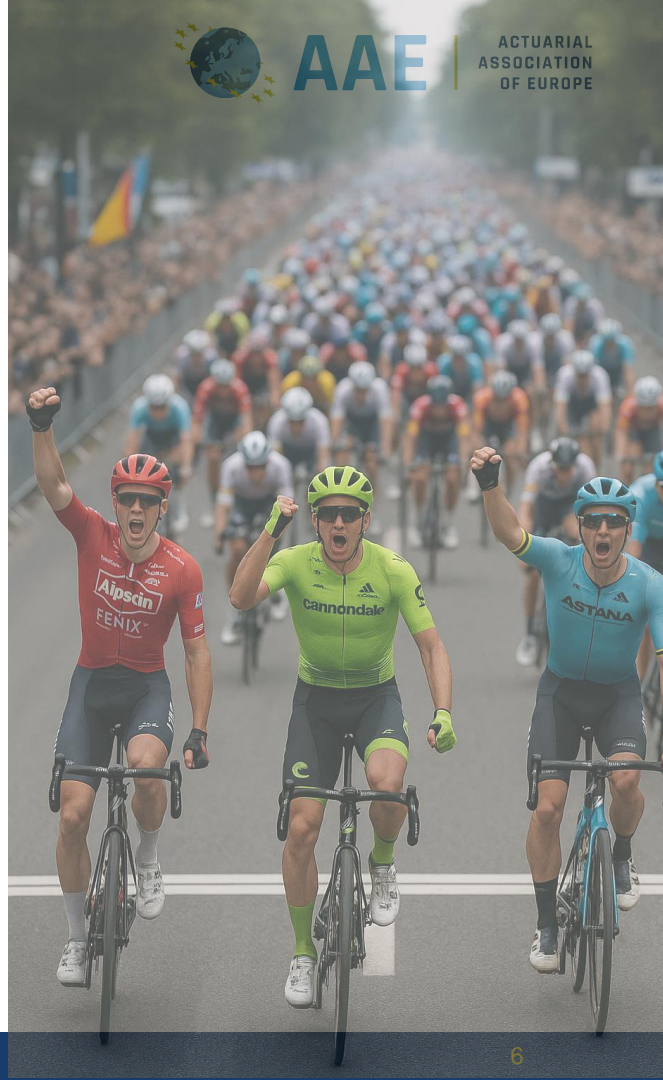
‘Sailing in’

- The default in the new law is that the current DB capital is moved to the new system: ‘**invaren**’ or ‘**sailing in**’.
- Opting not to transfer capital requires justification (e.g. a buy-out by insurer or certain rights in current DB-plan)
- **Buffers can be much lower** in new system, hence funds with a comfortable funding ratio can increase pensions when they move to the new system.
- Roughly 1.5 trillion in assets will be moved from one system to another.
- ‘Sailing in’ continues to be the **most debated and divisive issue**.



Status (1/2)

- The first three funds have 'sailed in' on January 1st, 2025.
Estimated size of assets: roughly 30B
- During this year, a few other funds are expected to move to the new system as well.
- On **January 1st, 2026**, and **January 1st, 2027**, the majority of the funds is expected to move to the new system.
- A lot of funds **experience delays** with sailing in, due to:
 - Pension administrators **not ready** for transition
 - Funds do **not get approval** by the Dutch National Bank (yet)
 - Regulatory questions regarding large simulation **calculations** take too much time



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Amendment to the Pension Law by NSC:

- **Rationale:** Ensure participants have a **direct say** in the conversion of their accrued pension rights.
- **Initial proposal January '25:** Require each pension fund to hold a **referendum** before transitioning to the new pension system, at least 30% turnout
- **Revised proposal April '25:** Participants can **individually opt-out** of the transition; referendums become optional if individual objection rights are provided.
- **Criticism:** Deemed **unworkable** and **potentially chaotic** by the Council of State and pension sector due to administrative complexity and potential **delays** in the transition process. Maintaining dual systems increases **complexity and costs**.





Complexity

New system was supposed to be simpler

Transition more complex than initially thought



Fairness

What is a fair distribution of the reserves among participants?

Crucial for green light by DNB



Communication

Trust in the pension sector is important

Communicating complex transition to participants is important but difficult



Hedging

Funds increase their interest rate hedge up to transition moment

After transition large decrease of interest rate hedges expected, especially long duration



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Can have a large impact on European swap market!



Any questions?

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