Pension reforms in the Netherlands this millennium; from DB via CDC to CDC 2.0?

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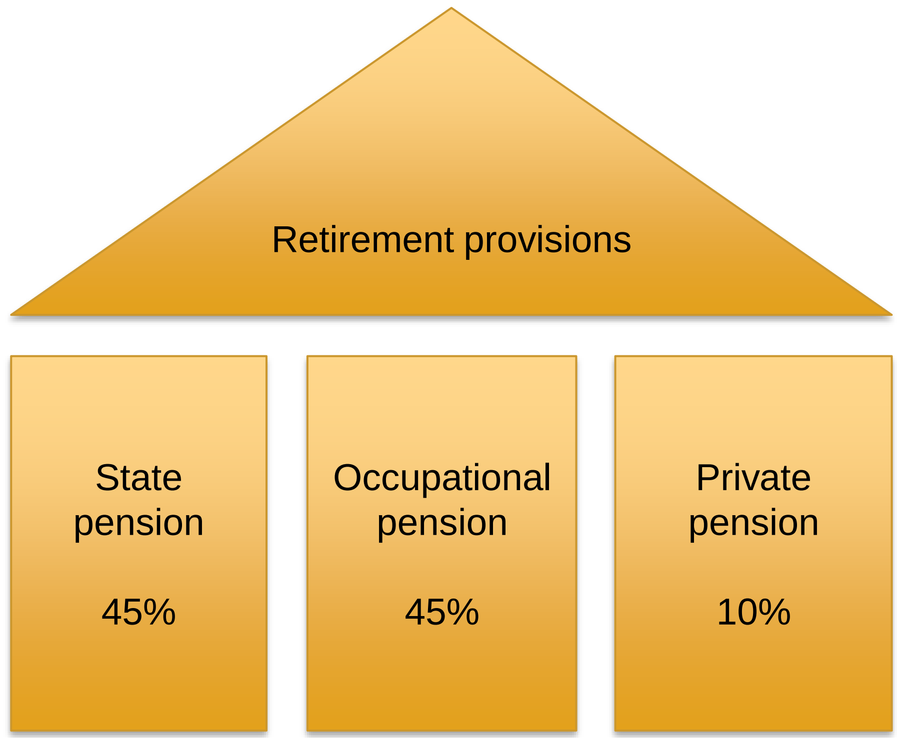
Topics of today

- Some typical characteristics of the Dutch pension system
- Evolution of the Dutch pension system from the start of this millennium until 2023
- Plans for reform as of 2023

The Dutch pension landscape

- Population 17.5 million
- Workforce: 9.5 million employees and 2 million entrepreneurs
- Three pillar system
  - State pension
  - Occupational pension
  - Private pensions



System is not so bad…

Melbourne Mercer Global Pension Index 2021

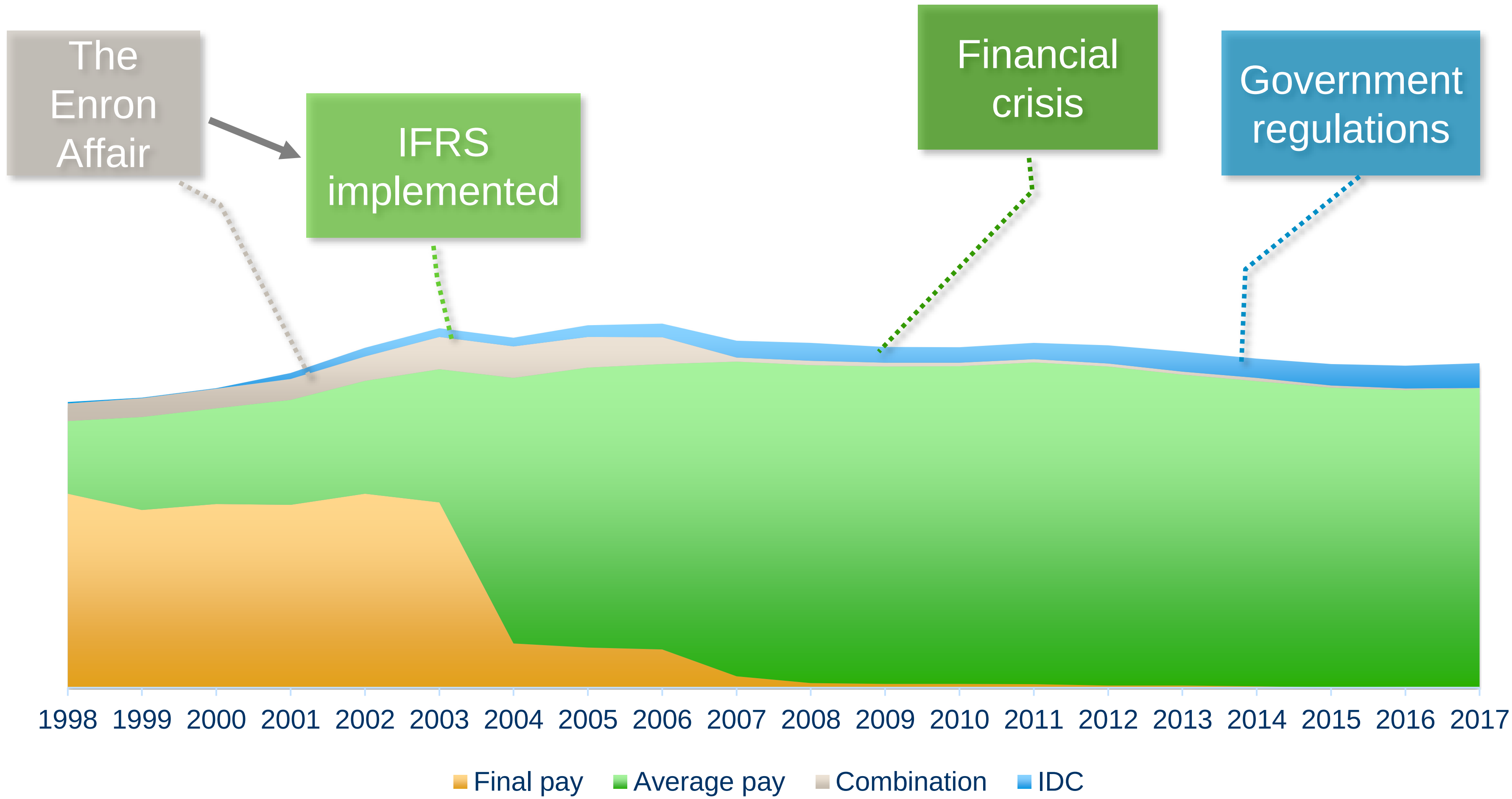
Table 1: Sumary of 2021 results

Grade	Index Value	Systems	Description
A	>80	Iceland Netherlands Denmark	A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.
B+	75-80	Israel Norway 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	Finland Sweden UK Singapore Switzerland Canada Ireland Germany New Zealand Chile	

2^{nd} pillar pension system

- Assets under Management € 1,750,000,000,000 (only in pension funds)
- over 200% of GDP
- 85% of employees participate (semi-mandatory)
- Number of pension funds (separate legal entities) declined from 1,000 (around year 2000) to below 200 currently
- Around 50 industry-wide funds
- Around 150 company funds
- Average retirement income (1^{st} and 2^{nd} pillar) € 20,000 per year
- EET-system
- Currently mainly average pay DB with conditional indexation and fixed premium (CDC)
- Gradual trend towards IDC and CDC 2.0

Evolution of Dutch pensions: main denominators



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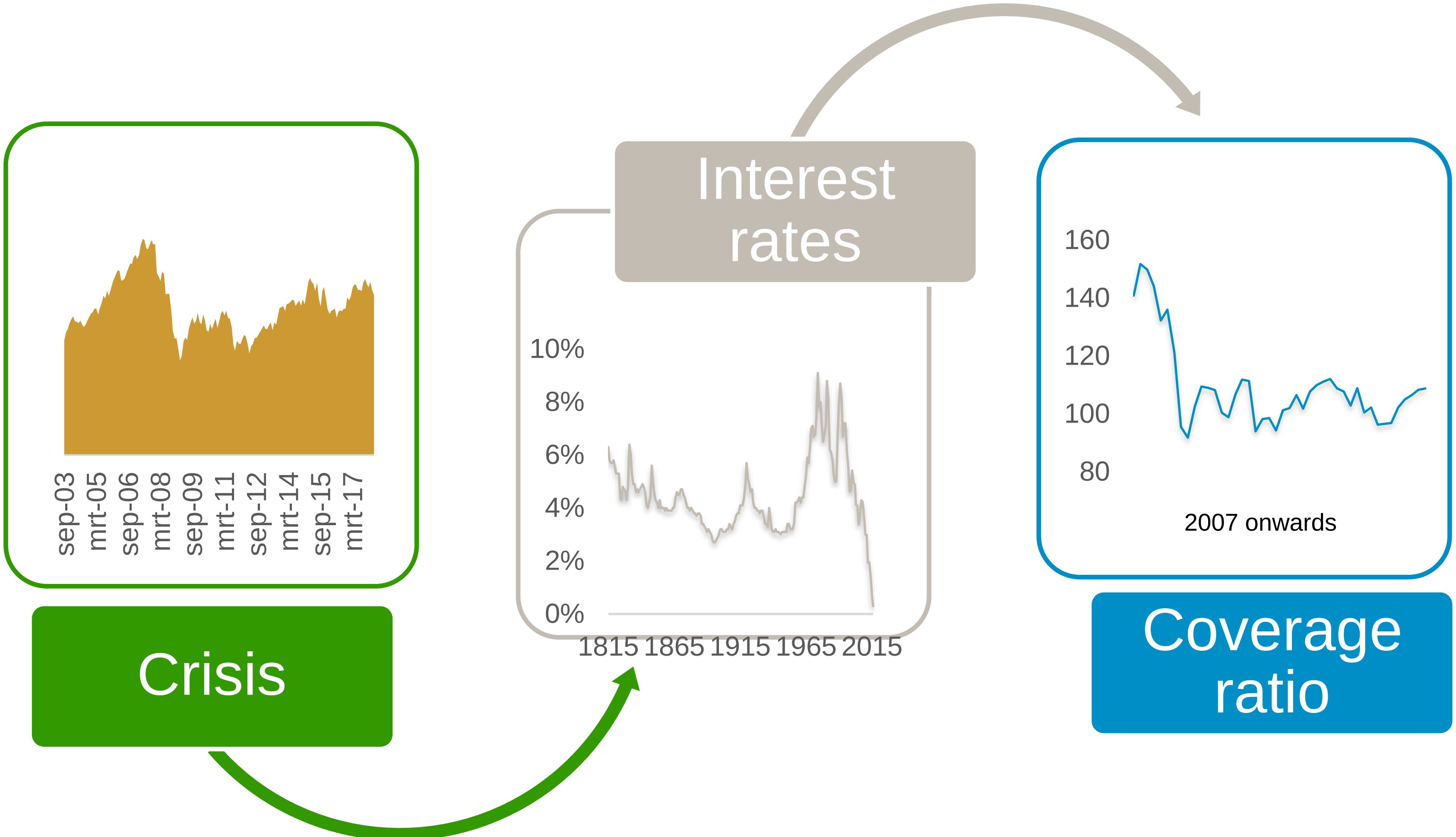
Result: CDC was 'invented'

CDC in the Netherlands:

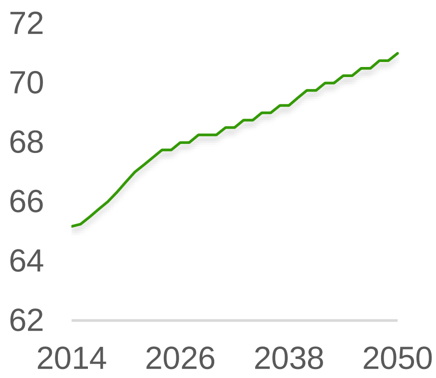
- A Defined Benefit average pay plan → DB from legal and comms point of view
- Total premium / contribution is fixed or capped as a percentage of total salary → DC for IFRS / IAS19
- Accrual can be adjusted when coming service cost changes
- Benefits can be cut when coverage ratio is below 105% for a longer period of time
- 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



Result: failures of untransparent system showed

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



Retirement age

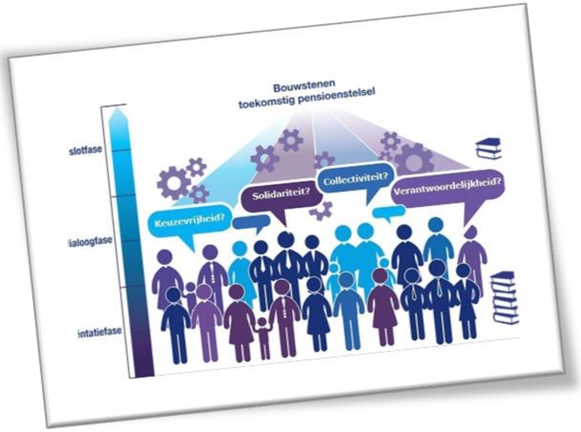
New rules 2015

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

2023 reforms

Goals:

- Simpler and more transparent system
- Accommodate changes in labour market
- More flexibility
- No more average premium system
- Defined Benefit (thus also *current* CDC) no longer allowed; only CDC 2.0 (with intergenerational fairness)



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Most important features Future Pensions Act

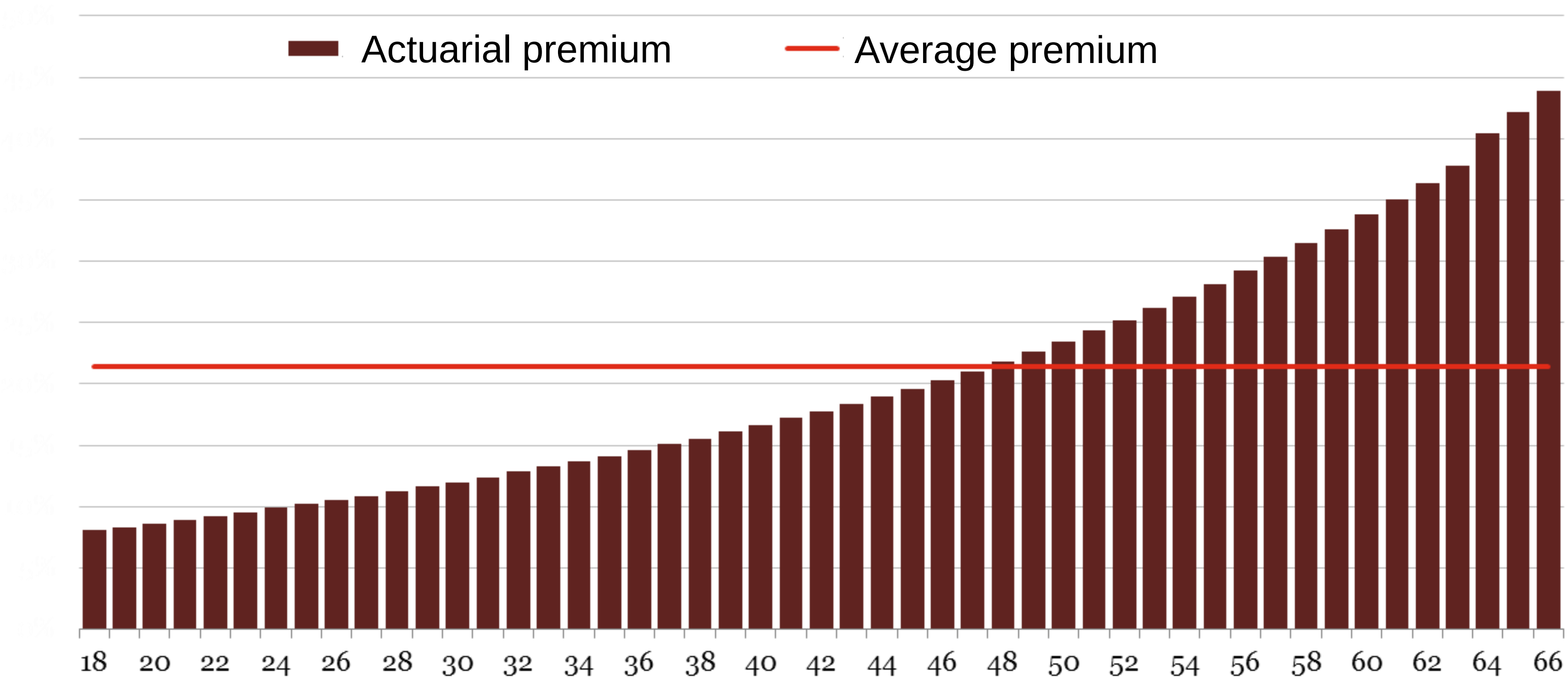
1. Defined Contribution plans mandatory, with collective investments and buffer for intergenerational risk sharing, including accrued benefits! Conversion big issue

2. Actuarial premium in stead off average premium;

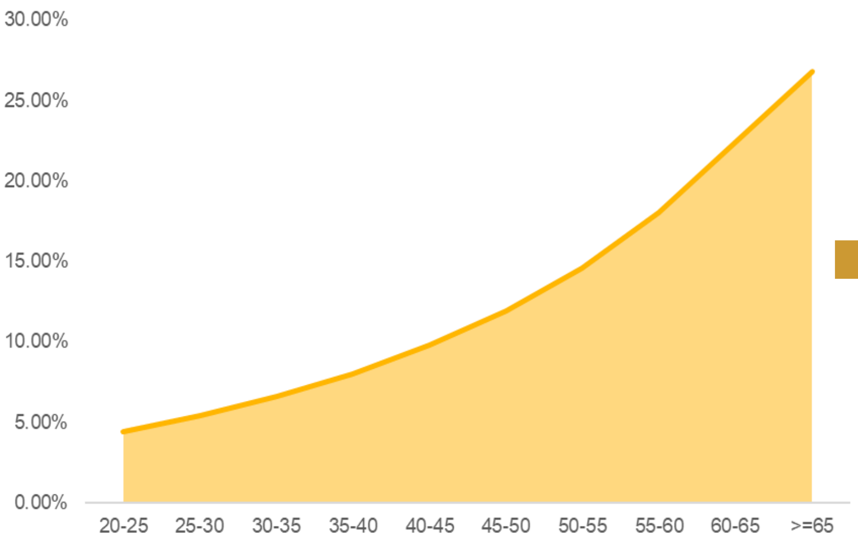
3. Age independent pension premium in stead off premium that increases with age. Compensation!

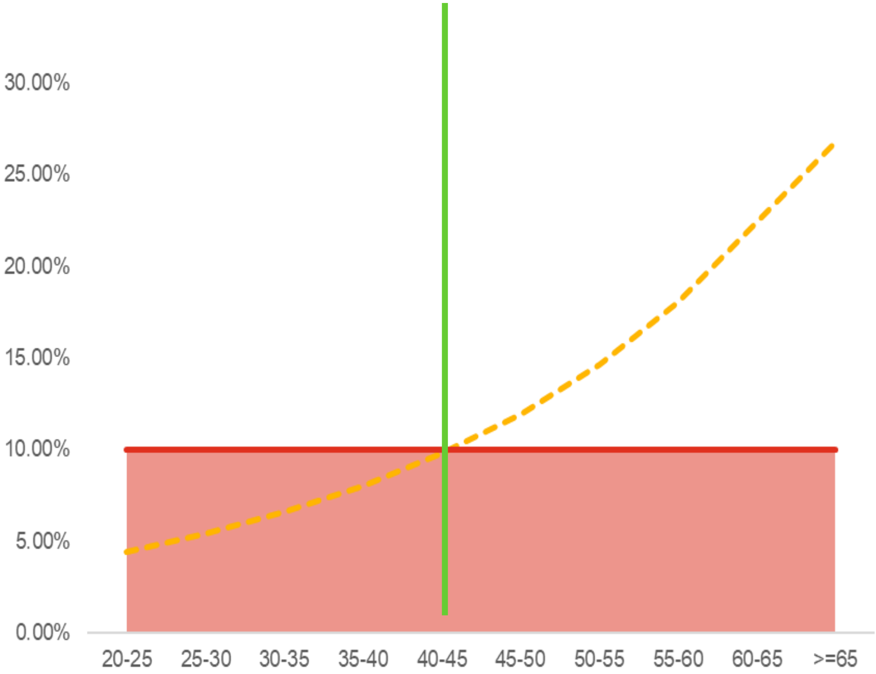
4. Lump sum payment of 10% at retirement age is allowed.

Current average premium system



Age independent pension premium





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Timeline

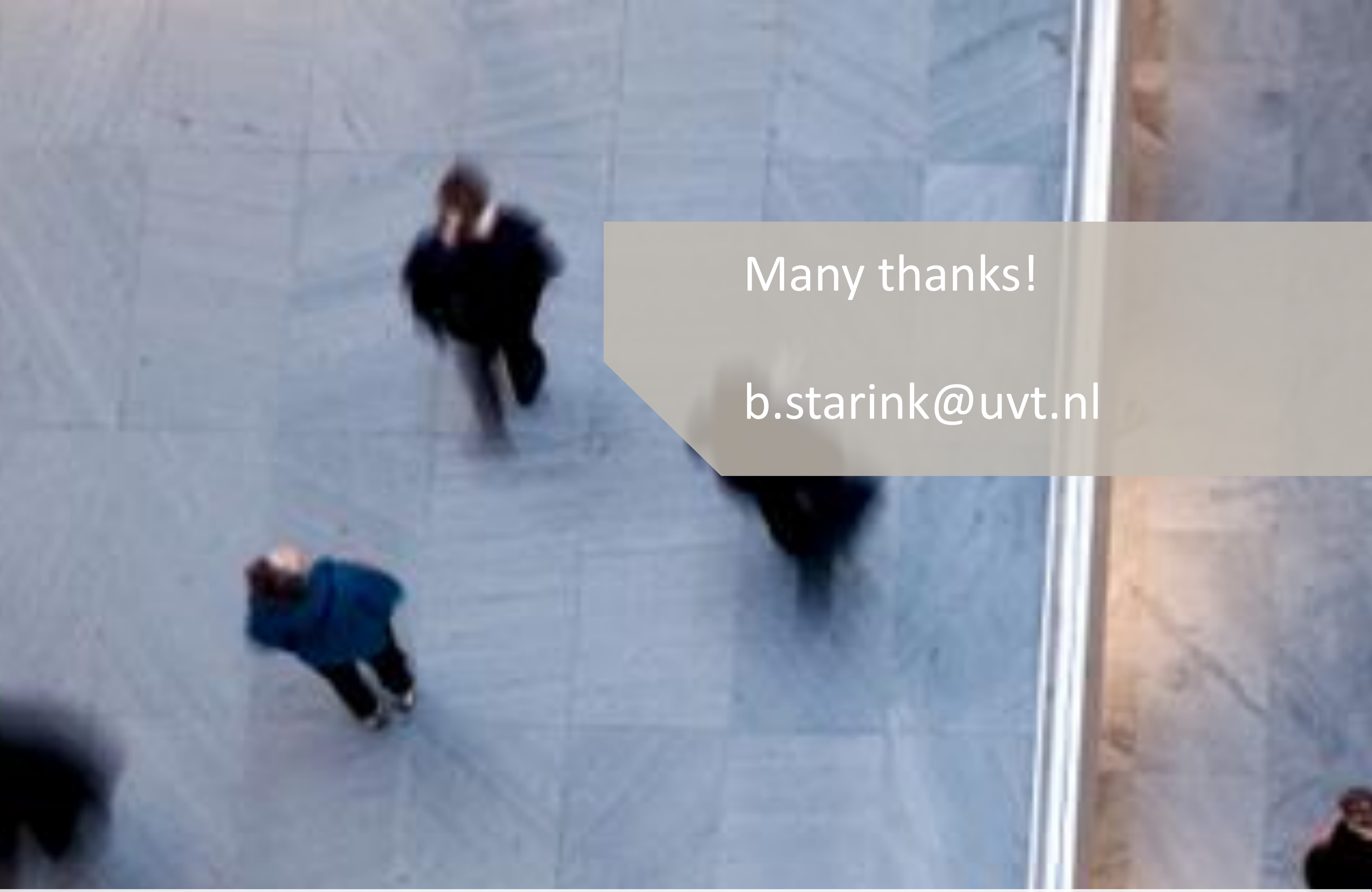
1-7-2023
New legislation final

1-1-2025
Deal between social partners on new pension plan final

1-1-2027
Implementation new pension plan

Wrap up

- After 15 years of debate, the biggest pensions reform in history will take place the coming years
- No more Defined Benefit systems allowed
- From age dependent to age independent premiums → pension accrual will shift during a life time and compensation needs to take place
- Accrued DB benefits have to be converted into DC → huge political and practical issues on conversion method
- Parliament is now dealing with the draft legislation. I sincerely hope they will approve



Many thanks!

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