

The impact of the crisis on Dutch pension funds

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Agenda



1. The Dutch Pension System
2. The Impact of the Crisis
3. Responses
4. Evaluation Financial Assessment Framework
5. Other Issues

The Dutch Pension system



Three pillar approach

2nd pillar: Occupational pensions

- Mostly Defined Benefit
- ~85% career average pay schemes
- DC-element: conditional indexation

... and in perspective

Dutch pension system is large

Assets (bln USD)

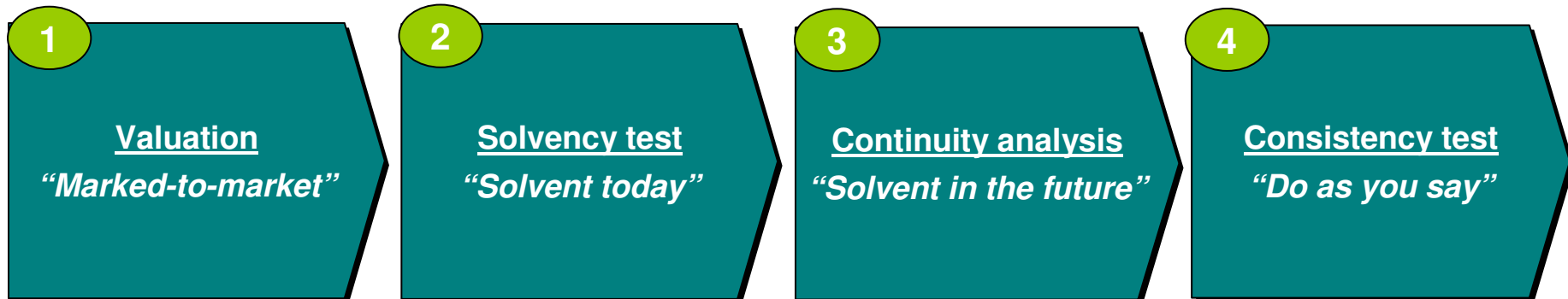
1. United States	13,196
2. Japan	3,152
3. United Kingdom	1,791
4. Canada	1,213
5. Australia	996
6. Netherlands	990

Assets (by GDP)

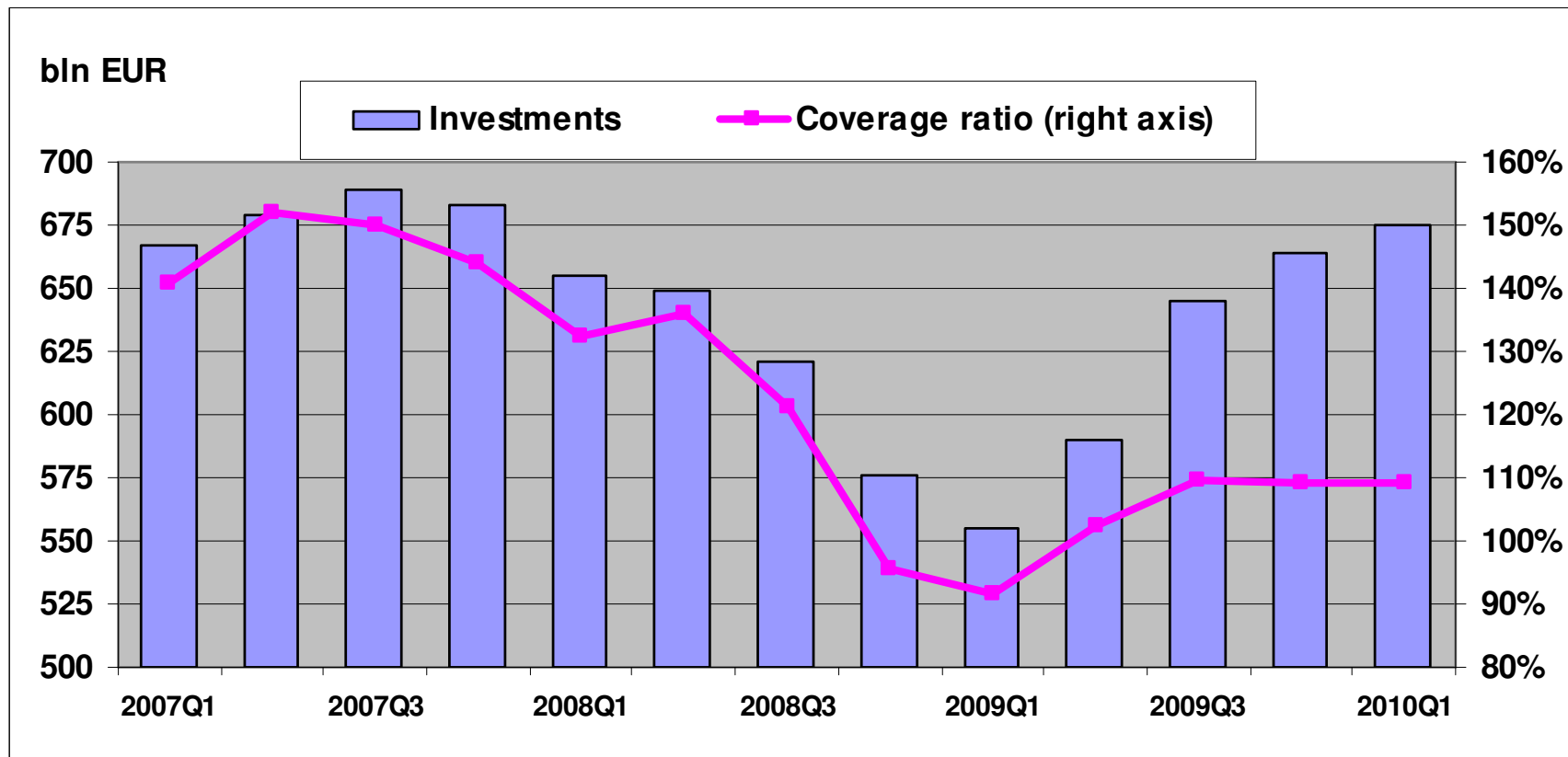
1. Netherlands	120%
2. Switzerland	113%
3. Australia	93%
4. United States	93%
5. Canada	84%
6. United Kingdom	80%

Data for private pension funds in selected countries, end 2009. Source: Towers Watson

The Dutch Financial Assessment Framework (FTK)



The impact of the crisis



Responses to the crisis



Response by Government and DNB in co-operation with social partners and representative organisations

- Increased recovery period (5 years) for underfunding (= below ~105%)
- Flexibility regarding recovery measures
- Waiting periods for reductions of accrued benefits that seem necessary

Measures aimed to preventing unnecessary reductions of accrued benefits

Evaluation FTK



- FTK has, in general, performed well;
- However; certain deficiencies were found:
 1. Tension between FTK's nominal aim and pension fund's real ambition
 2. Lack of a balance between risk and return
 3. Coverage ratio's volatile
 4. Design of solvency test insufficient for required probability

... and recommendations

Challenge	Recommendations
Tension between nominal security and real ambition	1. Communicate coverage ratio in real terms
	2. Information on purchasing power in prescribed 'bad weather' scenario
	3. Restitution only if real coverage ratio > 100%
(Im)balance between risk and return	4. Extend continuity analysis with stress tests
	5. Develop financial emergency scenario
	6. Premium no longer on expected returns

Recommendations FTK (continued)



Challenge	Recommendations
Volatility of the coverage ratio	7. Introduce waiting period for recovery plans
	8. Possible adjustment in interest curve in case of serious distortions
Solvency test insufficient for probability	9. Amend standardised method to comply with required probability
	10. Require partial internal model for fund-specific risks

Investment policy



DNB investigation + Frijns Commission

- Large not always better than small
 - Smaller funds admit their limitations earlier and take less risk
- Active investors vulnerable to market volatility
- Lack of professionalism in pension fund boards
 - Risks taken that were not fully understood
 - Structurally insufficient attention for risk management and execution of investment policy
- Characteristics insufficiently translated into investment policy
 - Example: no correlation between investment policy and participation
- Incentive structures advisors / asset managers

Remaining issues

1. Increase in life expectancy
2. Parameters
3. New contract types / Goudswaard

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