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Moving Europe's Largest DB System to DC

The Status and Challenges of the New Pension System in NL

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A quick introduction

Sprenkels

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Investment consultant and advising actuary

Consultant at Sprenkels

Focus on pension fund boards and investment committees

Member of the AAE Pensions Committee

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.

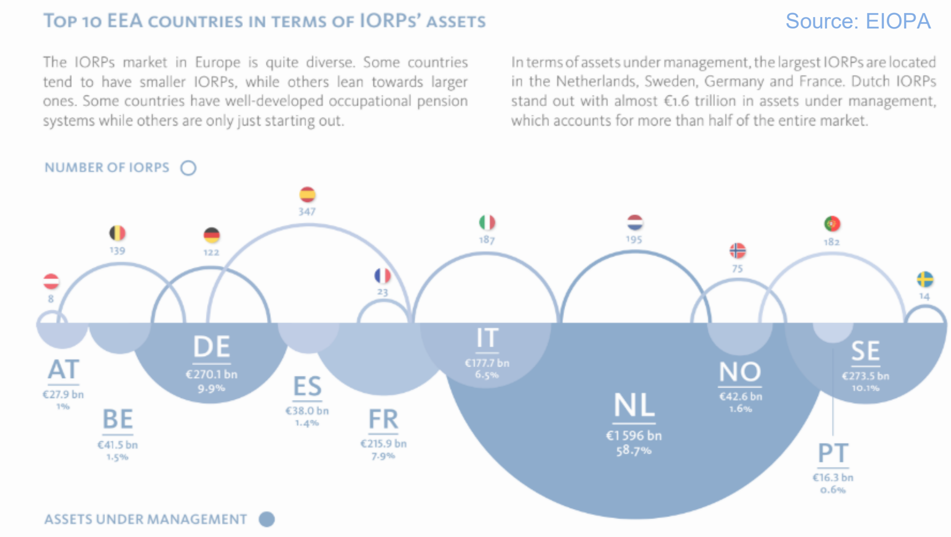
Goal of the new law:
To make the system **more transparent, personal, and resilient** for the future.

A quick introduction (2/2)

Key elements:

- Shift from **defined benefit (DB)** to **defined contribution (DC)** for all.
- Abolishes **average contribution** (doorsneesystematiek)
- **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**.



‘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**.

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Status (1/2)

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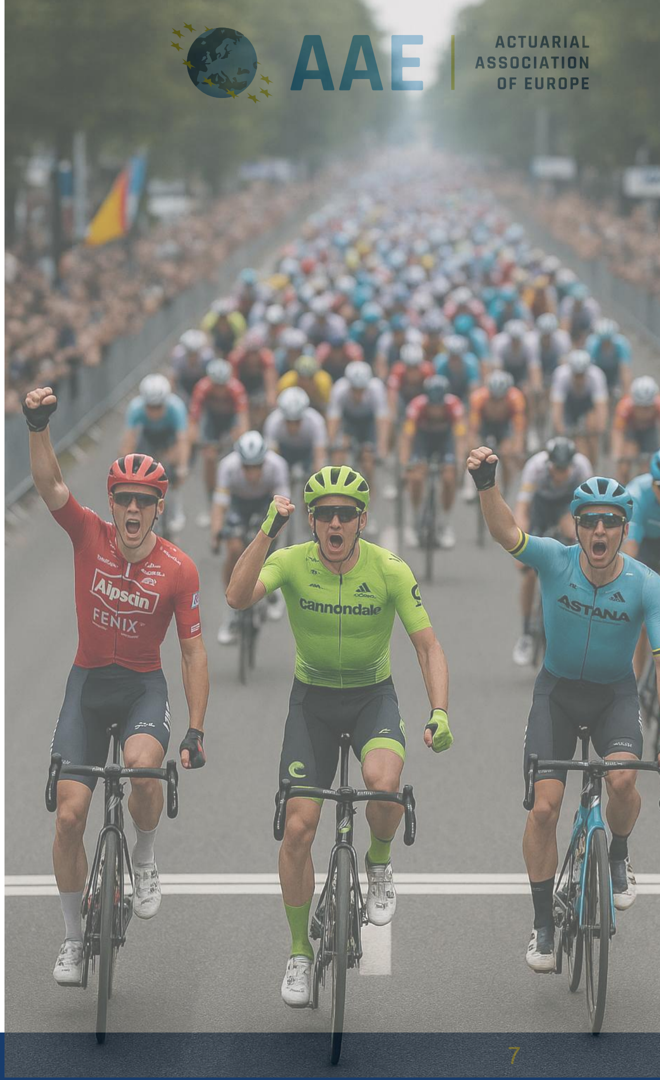
- The first three funds have ‘sailed in’ on January 1st, 2025. **Estimated size of assets: roughly 30B**
- A few others have followed during 2025.
- On **January 1st, 2026**, and **January 1st, 2027**, the majority of the funds is expected to move to the new system.

- 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



Status (2/2)

Amendment to the Pension Law by NSC:

- **Rationale:** Ensure participants have a **direct say** in the conversion of their accrued pension rights.
- **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**.
- **Voting in parlement**: **against,** by a very slight majority (73/72)

June '25: Fall of government, new elections will come up. NSC expected to get little to no votes. Pension specialist and actuary Agnes Joseph has moved to another party.

Lessons learned

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

Lessons learned - Fairness

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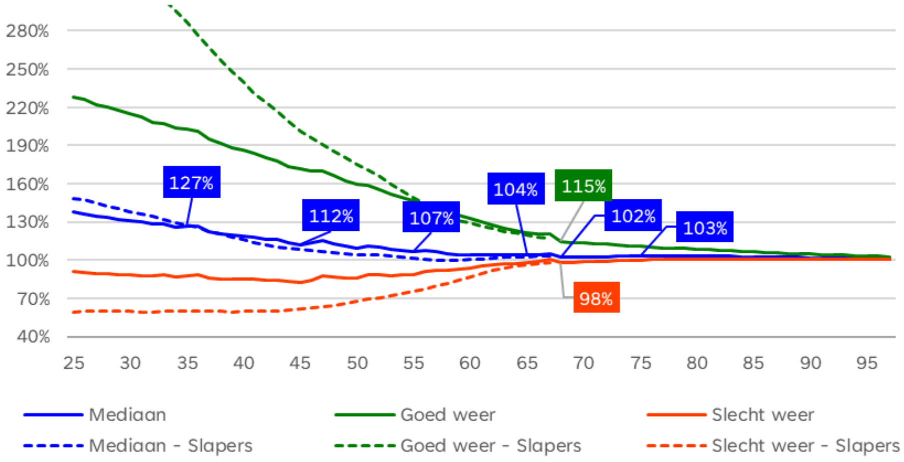
A big topic: Intergenerational fairness.

- Who does the buffer "belong to"? How do you divide the buffer?
- Reflex of sector was to make sure the pensioners are well off, but is that **fair to the younger generations**?
- New system has on average higher investment risk (during build-up fase) than the current system. Younger people should therefrore have a higher outcomes, due to higher risks?



Scenario analysis:

- All funds must show fairness through large simulations (10.000 scenario's, 100 years)
- Outcomes are very dependent on assumptions → hence potentially also the way you divide the buffer

Scenario analysis example.
Median, 5% and 95% percentile.
Dotted line are inactive participants
100% = new system same expected pension as current system
>100% new system better (expected)
<100% current system better (expected)

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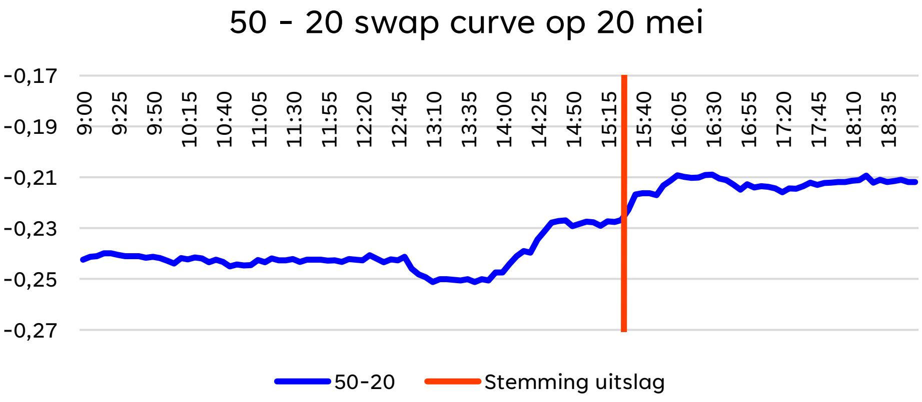
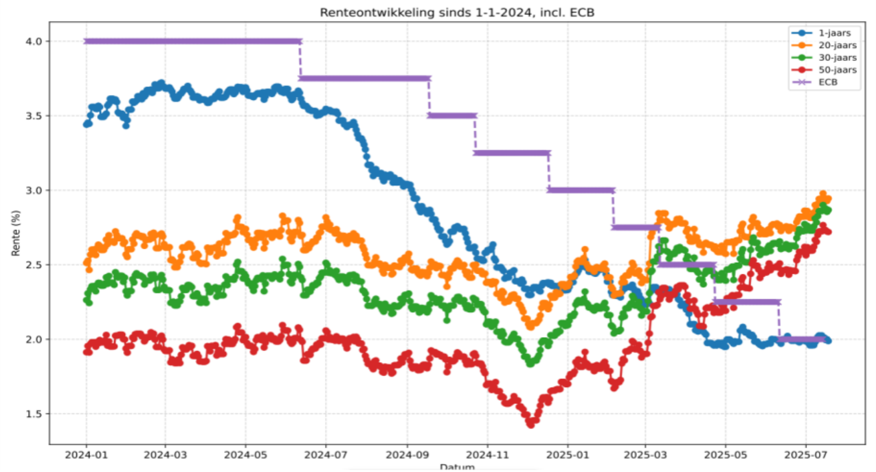
Can have a large impact on European swap market!

Lessons learned - Hedging





- The swap curve has shown steepening since the start of the year
- Especially at the end of the curve this is expected to be impacted by the Dutch pension funds a lot.
- Speculation by hedge funds large contributor.

Any questions?

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