



# International Retirement Hot Topic Series: Netherlands Webinar

31 March 2020 / 1 April 2020

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International Retirement webinar – 31 March & 1 April 2020

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# Agenda

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- Introduction
- Overview of Netherlands pension system
- Trends and developments
  - COVID-19
  - Dutch pension reforms
  - Funding
- Summary
- Questions & Answers
- Aon Retirement Webinars



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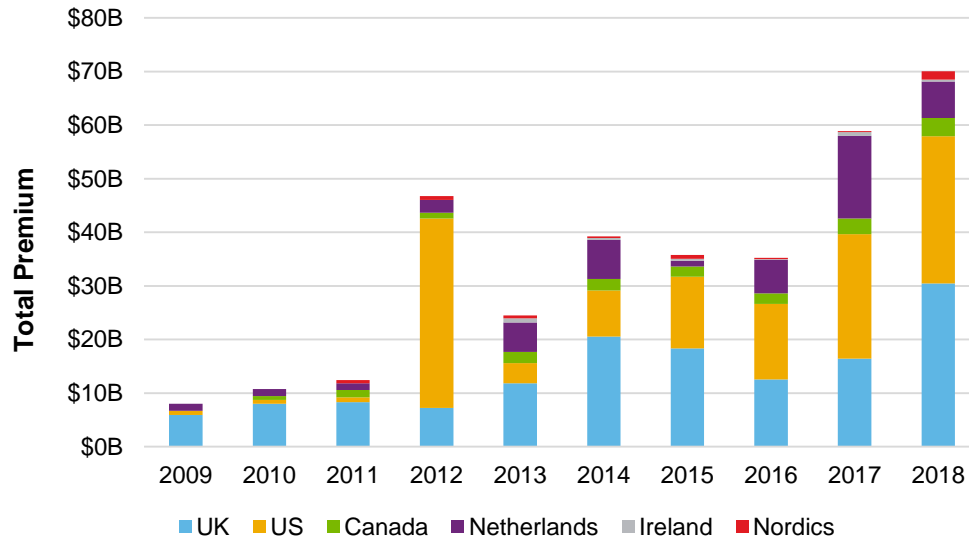


# Introduction

Colin Haines

# Global Buy-Out Market

Annuity plan settlement transactions



**SOURCES:**

**UK:** Aon Retirement Solutions - Risk Settlement market 2019

**US:** Year-end 2018, as reported in insurer responses to Aon Hewitt Investment Consulting's survey of the most significant U.S. insurers.

**Canada:** Sunlife - 2018 group annuity market infographic

**Netherlands:** DeNederlandscheBank

**Ireland:** Irish Life - 2018 bulk annuity market update

**Nordics:** Sweden - Alecta year-end report and accounts, Finland - IPE, Norway - Aon

**NOTES:**

- **Netherlands:** figures include risk transfers to all institutions (not just insurance companies)
- **Ireland:** figure for 2018 was estimated based on total settlement transactions to date
- **Nordics:** include risk transfers carried out in Sweden, Norway and Finland

**2018: \$70bn deals**

**2019: c\$90bn expected**

**Last 10 yrs: >\$400bn**

# Netherlands pension fund transfers since 2015 (by receiving institution)

Insurers	Industry-wide Plans	Multi-Employer APFs (General Pension Funds)	Own Company Vehicle		
<b>NN Group</b> <b>Chemours</b> (€820m) ENCI (€420m)	<b>Pensioenfond PGB</b> <i>(Multi-industry: Graphic, Publishing, Media and Communications, Paper &amp; Glass, Fishing, Flowers &amp; Plants)</i> Agriculture & Food Supply* (€1,400m) <b>Reed-Elsevier</b> (€800m) Archimedes (€567m) Urenco (€502m) Plastics & Rubber Industry* (€230m) <b>Linde Gas</b> (€220m) <b>Ardagh Glass</b> (€168m) Wholesale Flowers* Maritime Fishing*	<b>Detailhandel</b> <i>(Retail sector)</i> Peek & Cloppenburg (€125m) Shoemakers* (€330m) Wholesale Textile* (€260m) Furnishing*	<b>Stap (Aegon)</b> <b>Douwe Egberts</b> (€1,800m) Holland Casino (€1,500m) <b>Getronics</b> (€1,200m) Ballast Nedam (€1,000m) <b>Sanoma</b> (€550m) Invista (€209m) <b>E-way (Eastman Chemicals)</b> (€155m) Feresenius (€99m) Transavia ground	<b>hed Nederlandse (ASR)</b> <b>Randstad</b> (€1,200m) <b>Arcadis</b> (€1,100m) <b>Owase (Wavin)</b> (€900m)	<b>Cross-Border</b> <b>ExxonMobil</b> (€2,500m) <b>BP</b> (€1,200m) <b>DuPont</b> (€235m) <b>GE Artesia</b> (€215m) <b>Aon Hewitt</b> (€41m)
<b>ASR</b> <b>Chevron</b> (€370m) Goudse Have (€4m)					
<b>Aegon</b> Accountancy* (€327m) <b>Ford</b> (€251m) VNU (€630m)		<b>Vervoer</b> <i>(Private Road Transport)</i> SecurCash (€178m) ORSIMA* (€70m)		<b>De Nationale (NN Group)</b> <b>ANWB</b> (€1,700m) <b>Unisys</b> (€485m) AFM (€185m) AZL <b>McCain</b> TrueBlue* (€436m)	
<b>Zwitserleven</b> <b>SC Johnson</b> (€114m)		<b>PFZW</b> <i>(Healthcare sector)</i> Dental Technicians* (€762m)			<b>Company Pension Fund</b> <b>Smurfit</b> (€700m) <b>DHV</b> (€580m) Haskoning (€336m) Buizerdlaan (€200m)
<b>Integrale Luxemburg</b> Vitol Anker (€62m)	<b>BPL Pensionen</b> <i>(Agricultural sector)</i> <b>Heinz</b> <b>Givaudan</b> Dairy Trading Cigar Industry* (€198m) Fruit & Vegetable Workers*	<b>MITT</b> <i>(Fashion, Carpets &amp; Textiles)</i> Textile-Cleaning* (€490m)	<b>Centraal Beheer (Achmea)</b> <b>Equens</b> (€700m)** <b>RBS</b> (€700m) Sligro (€370m) Bavaria (€200m) Cindu (€173m) <b>L&amp;G (Scildon)</b> (€60m) Delta Lloyd APF Vredestein Banden	<b>Delta Lloyd</b> Afval Terminal Moerdijk Yarden <i>(Liquidated and transferred to Centraal Beheer APF in 2019)</i>	
<b>BeFrank (PPI)</b> Transavia Cabin		<b>PME</b> <i>(Metal &amp; Electrical Engineering)</i> <b>Hunter Douglas</b> (€323m)			
	<b>PNO Media</b> <i>(Non-mandatory sector fund)</i> TrueBlue (ICT)* (€26m) <i>(A planned merger with PGB was put on hold in 2014)</i>	<b>Bpfbouw (Building)</b> Brick-making* (€201m)		<b>Volo (PGGM)</b> <b>Jan Huysman (ADM)</b> (€265m) Ortec (€64m) <i>(Expected to be liquidated in 2020; and plans transferred to another provider)</i>	<b>Company APF</b> <b>Unilever Progress</b> (€4,700m)
		<b>Rial en Openbaar</b> <i>(Rail and public transport)</i> SPF (€18,000m) ** SPOV (€5,000m) **			
Reported to be considering options:		<b>Aon</b> (€800m), <b>ERIKS</b> (€212m), <b>Forbo</b> (€401m), <b>Ecolab</b> , <b>Nedlloyd</b>			

Source: Investment & Pensions Europe (other transfers may also have occurred that have not been reported and are not on this list). In some cases the transfers were announced, and verification is needed to check they completed

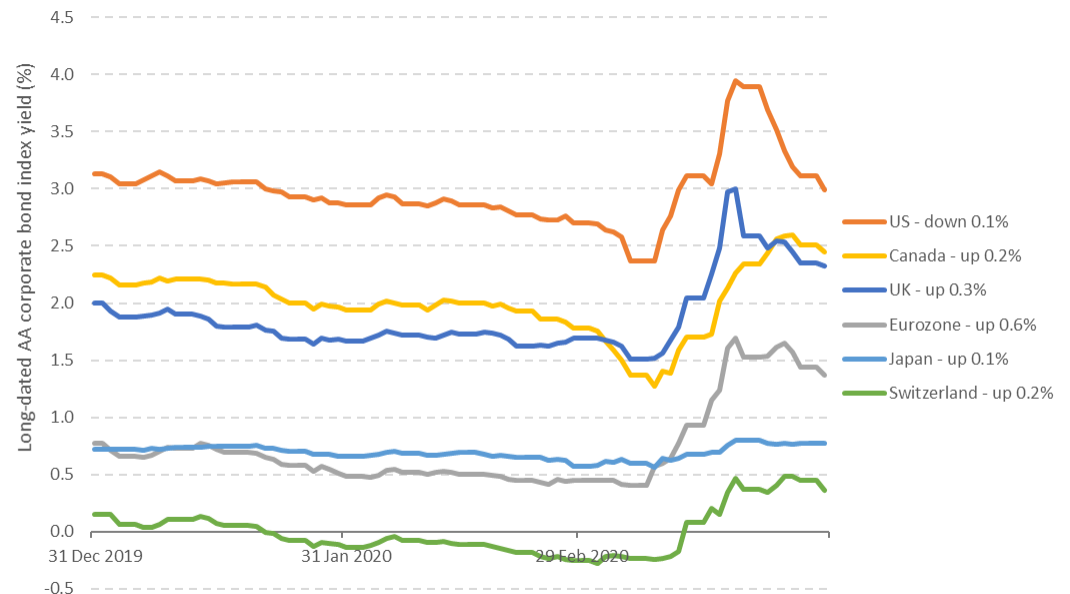
\* Industry-wide scheme

\*\* Expected to take place in 2020

Part of international group

# Discount rate volatility

- Market falls will have reduced most asset values
- Accounting defined benefit pension obligations may however have fallen too:
  - Significant increase in AA corporate bond yields in recent weeks – reduces IAS19 obligations
  - Market-derived inflation expectations have also reduced, especially in UK and Euro-zone (by up to 0.5% pa)
- Daily volatility – makes discount rate setting harder
- Risk of drops in discount rates again (and increase in obligations) if bonds in indices downgraded from high quality status



Source: Aon analysis of yields on long-dated high quality corporate bond indices up to 30 March

**Review discount rates & inflation assumptions for Q1 balance sheet updates**

# COVID-19 Retirement Plan Regulatory responses (so far)

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## General operational messages

- Implement Business Continuity Plans.
- Prioritise payments of benefits, retirement processing and bereavement services
- Ensure contributions continue to be paid on time by employers and employees (review contracts of employment and rules if considering suspension of contributions)
- Review funding & investment implications
- Review suitability of actuarial factors and transfer values
- Provide guidance & reassurance for members / protect members from scams
- Delay non-critical projects and services

## Country-specific regulatory activity

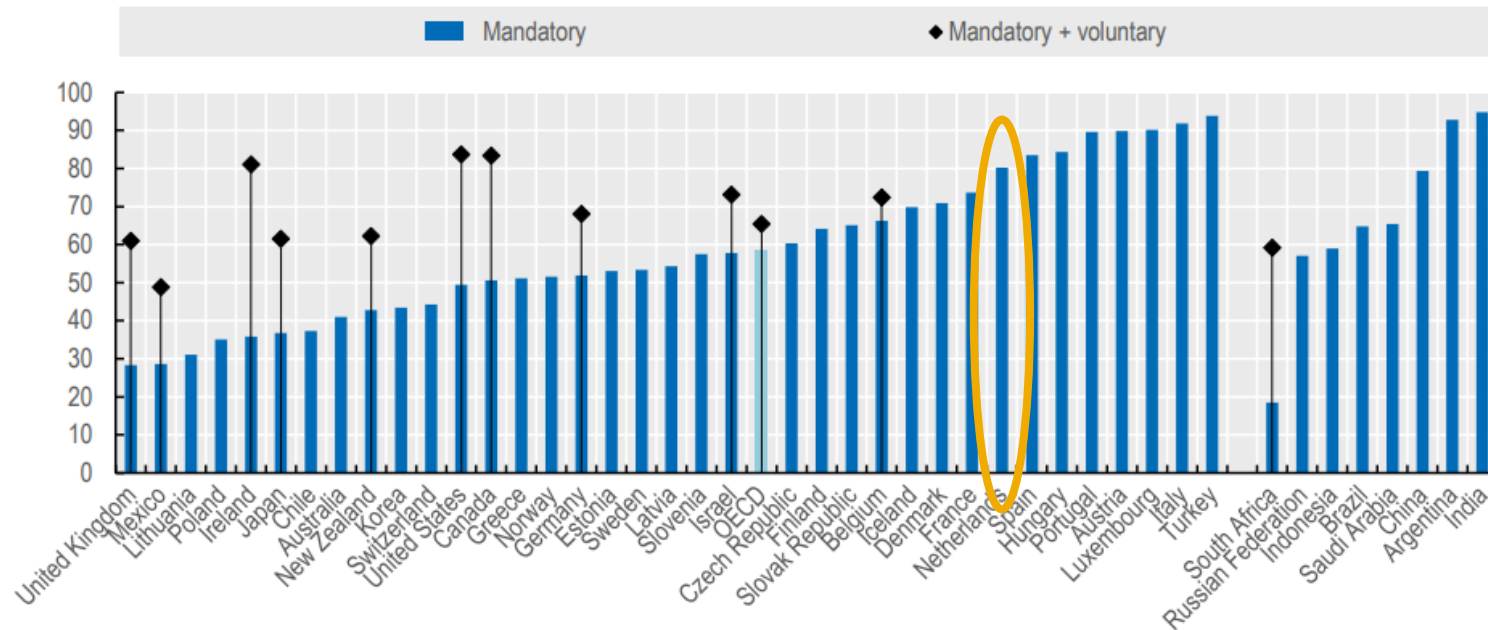
- USA: CARES Act Funding relief measures include option to defer 2020 contributions until 1.1.2021; Retirement distribution rules relaxed
- Canada: Allow triennial valuation to be brought forward to 1.1.2020?
- UK: TPR guidance on completion of funding valuations, and deferral of deficit recovery contributions.
- Netherlands: Deferral of contributions permitted by some funds
- Belgium: FSMA allowing some flexibility on deadlines, reporting and recovery plans
- Ireland: Pensions Authority guidance asks trustees to engage with advisers on funding
- Denmark: FSA requires weekly solvency reporting and stress tests
- Poland: 2020 PPK implementation may be deferred for employers with <250 employees
- Brazil: PREVIC allows 30 day extension to normal 31/3 deadline for local funding reports



# Market Overview

Paul Adams

# Typical pensions (as % of pay) relatively high in the Netherlands



Source: OECD Pensions at a Glance 2019

- Pension income includes both public and private pensions.
- The net replacement rate is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners.
- **This chart is based on national average earners with information provided by local governments.** For high paid individuals, the % will often reduce significantly.

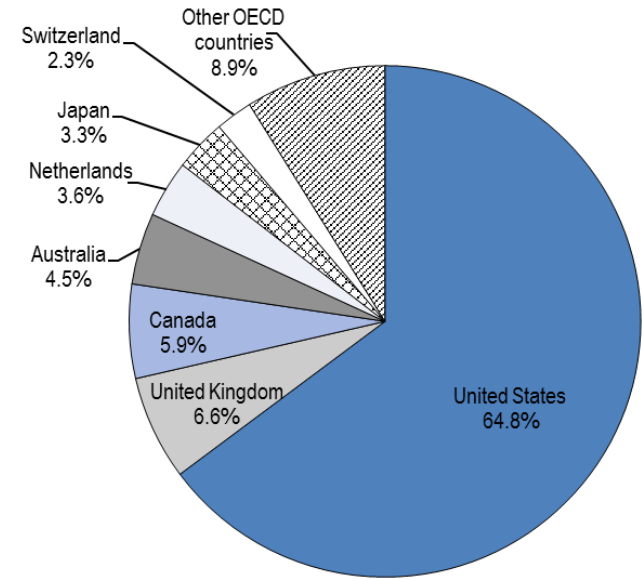
# Size of pension assets



Source: OECD Pension Markets in Focus 2019

**\$1.5Tr**

Total assets in Dutch funded DB/CDC plans at end of 2019



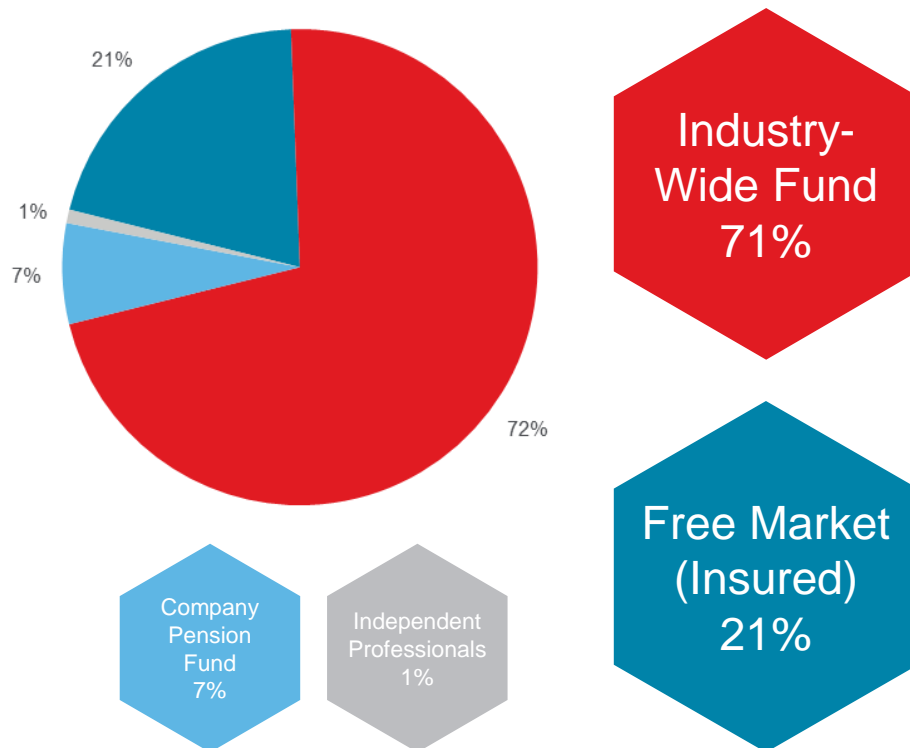
Combined with life expectancies being close to the top of the world rankings → **Retirement benefits are a big focus in the Netherlands**

# Netherlands - Background

Pillar I Social Security System		Pillar II Occupational Benefits	Pillar III Individual Provision
MANDATORY	<b>AOW system</b>	<ul style="list-style-type: none"> <li>- Old age pension and survivor's pension</li> <li>- Increasing retirement age, 66y4m in 2020 (but proposals to slow down increases)</li> <li>- Up to 70% of minimum wage (around €1,000 per month)</li> </ul>	N/A
	<b>WIA</b>	<ul style="list-style-type: none"> <li>- Disability benefits differ for full or partial disability</li> </ul>	
SUPPLEMENTARY	N/A	In industries where pension funds are not compulsory, employers usually offer their own corporate pension fund (DB or DC)	Not particularly common - mainly self-employed individuals or those in an industry without a collective fund

# Pension landscape in the Netherlands (1)

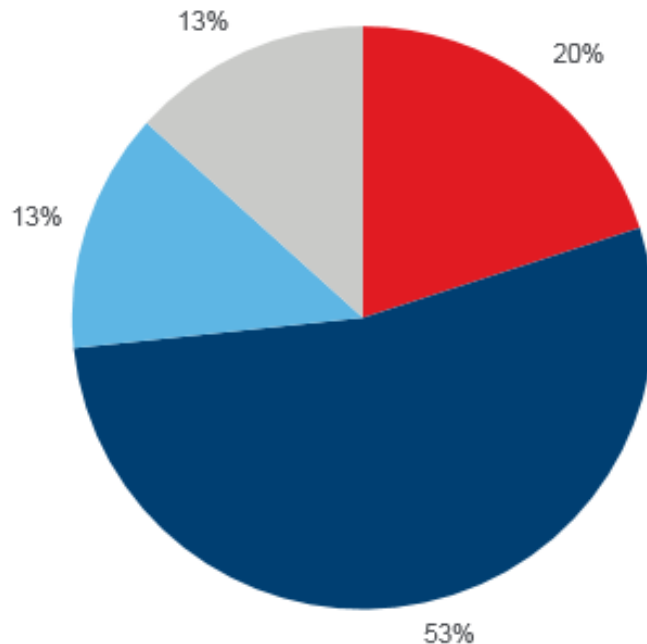
Almost 80% of employees accruing pension benefits do so via an industry-wide pension fund or company-specific pension fund



- Social partners are strongly involved in industry-wide pension funds (BPF)
- BPFs for the most part declared mandatory by the Ministry of Social Affairs and Employment
- Primary focus of pension agreement 'logically' on pension funds?
- No specific arrangements yet for insured pension schemes in the free market

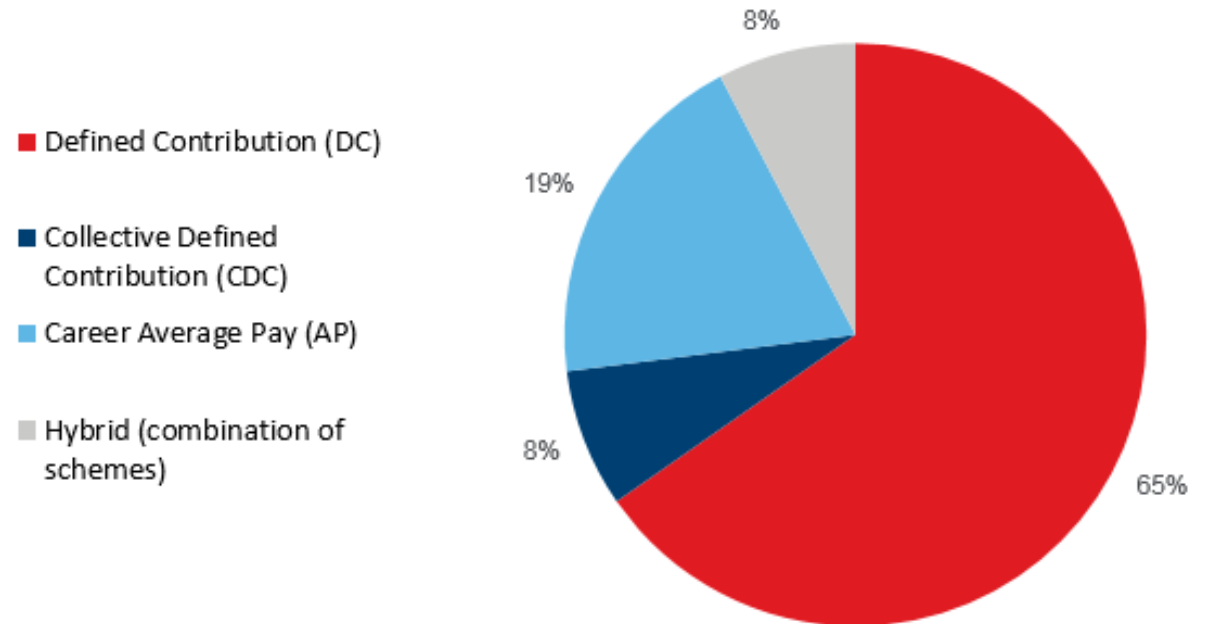
## Pension landscape in the Netherlands (2)

### ▪ AEX companies



% of companies in AEX top-30

### ▪ High Tech companies



% of companies, based on Aon data

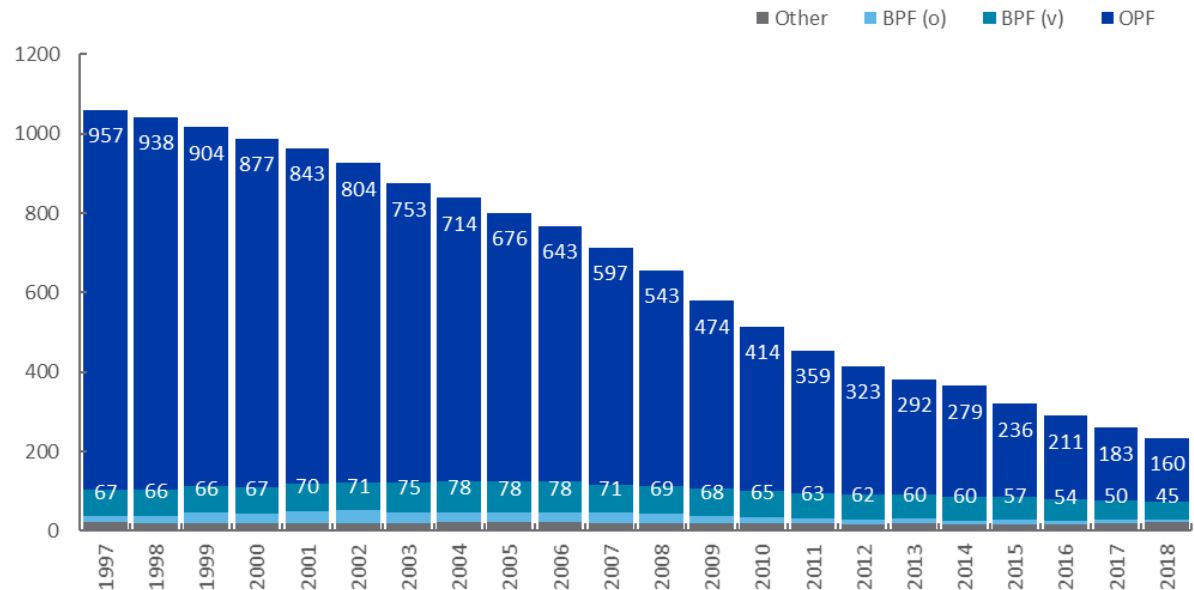
# Pension landscape in the Netherlands (3)

## ■ Ongoing consolidation in the market

- Number of single employer funds have dropped significantly from 957 in 1997 to only 160 in 2018 (a decrease of 83%!)
- Industry-wide Pension Funds trend to consolidation as well, from 67 to 45 (smaller ones join major funds)

## ■ Main reasons

- Relatively high costs of maintaining a pension fund
- High demands on compliance and supervision





# Local trends & developments

Heleen Vaandrager & Ronald Hagoort

# Recent developments: COVID-19 and Recent developments: financial markets

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Special COVID-19 measures presently under discussion:

Deferred payment of pension premiums

- Pension funds: Hospitality & Catering, Travel Sector, Retail, Confection, PME, PMT and others
- Special arrangements are made to pay premiums later

Accrual of pension rights continues

- At the same time pension accrual continues, this impacts the coverage ratio

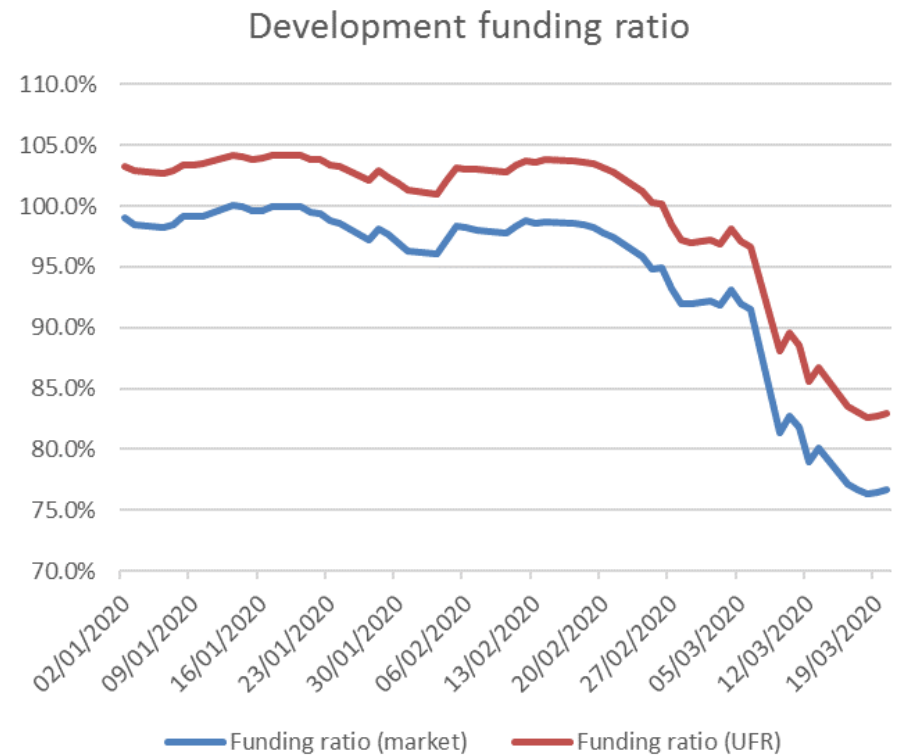
Emergency Law “Labour Continuity”

- Government supports employers for 3 months of salary payments
- Pension premium (both employer and employee contributions) are expected to be part of the emergency law.

Risk coverage: continues as usual, even if disability/death is due to COVID-19

# Recent developments: COVID-19 and Recent developments: financial markets

- The average funding ratio of the Dutch pension funds dropped from 103% (Jan 1st) to 86% (March 30th)
- Mid March the funding ratio reached a historical low of 84%
- Funding ratios hit critical levels, which means that benefit reductions as of year-end 2020 can be expected if funding ratios do not recover
- Pension funds are hit from two sides:
  - The interest rates dropped due to a flee to safe havens
  - The stock prices fell tremendously due to panic caused by the Corona virus
- Investors couldn't estimate the economic impact of the Corona virus which led to panic and big volatility
- Central governments launched programs to support the economy, which affected the interest rates



# Dutch pension reforms - Introduction

- Pension agreement June 2019 between government, labour unions and employer organisations
- A new and sustainable future pension system
- Arrangements have been made about:
  - Development of the retirement age of both the state pension (AOW) and employers' pensions
  - Early retirement solutions
  - Termination of 'average premium' system
  - Option to withdraw 10% of the pension value at retirement date
  - Spouse pensions
  - Disability pensions for self-employed workers (ZZP)



# A new and sustainable future pension system, why?

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- Current pension system unsustainable:
  - Historically low interest rates, high required buffers for pension funds
  - Reduction of pension entitlements currently looming for 7.5 million participants of industry-wide pension funds

## Wishes:

- Softer (less certain) pension entitlements
- Enhanced indexation possibilities
- No more subsidising of premiums from younger towards older employees
  - Has become unsustainable as labour market became more flexible
- Preserve current system of mandatory industry-wide pension funds

# New contract types

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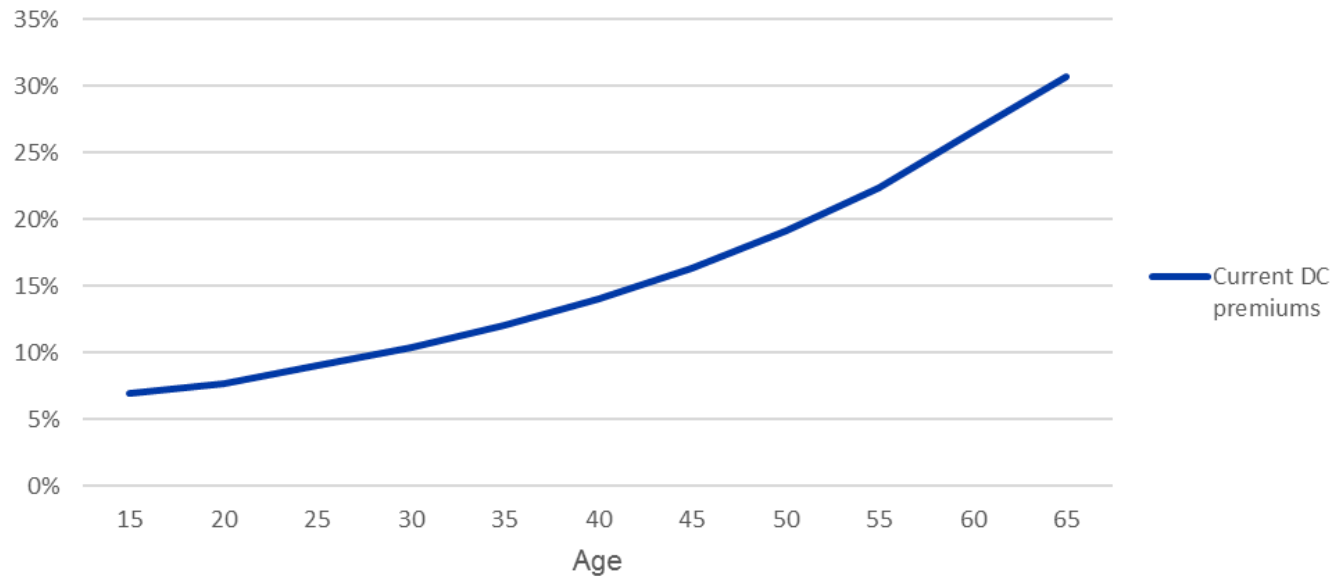
- New contract types:
  1. Enhanced risk sharing = **contract 1**
  2. Limited risk sharing, more like DC = **contract 2**
  3. Possibly 'Contract X'? No pension promise, further details unknown at this point of time



- For both new contract types:
  - Age independent premium (flat rate premium)
  - Fiscal limits on maximum premium (as % of pensionable salary)

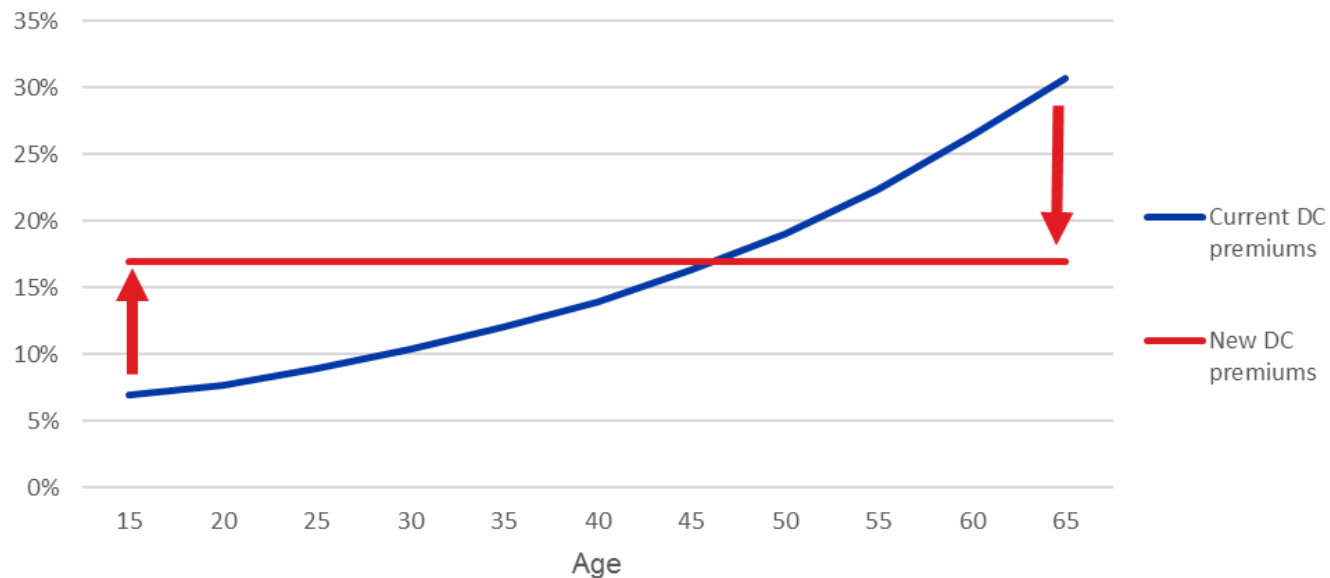
# Current DC

Premium (as % of pensionable salary): increasing by age



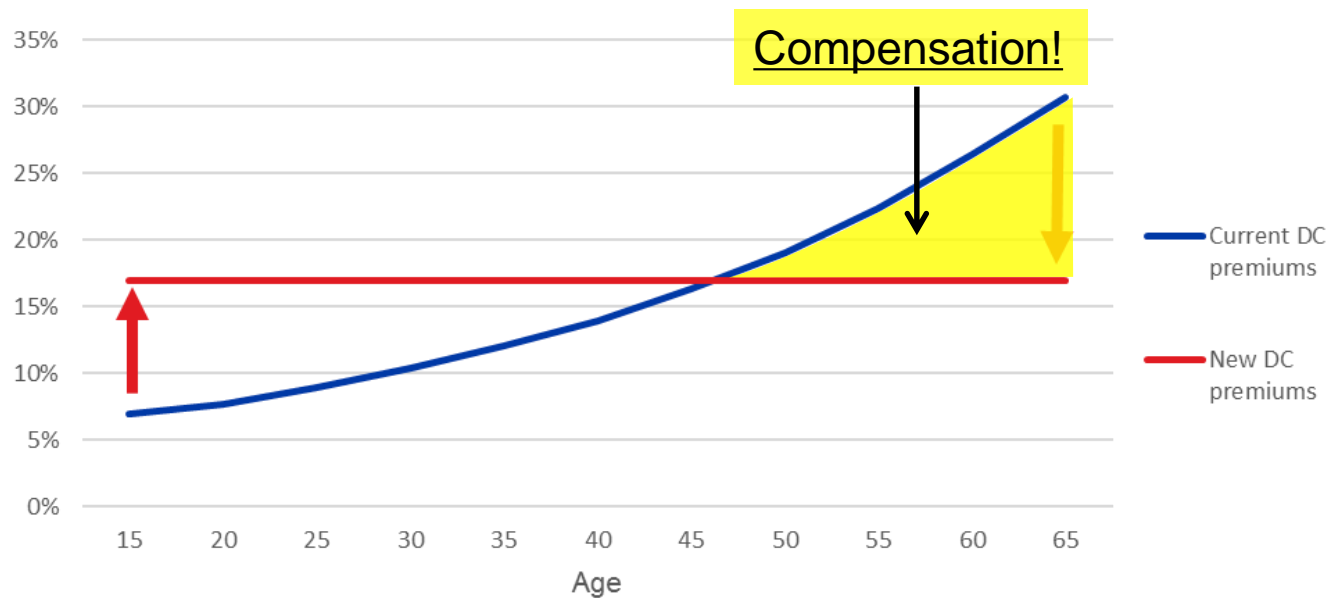
## Contract 2: “New DC”

Premium (as % of pensionable salary): age-independent



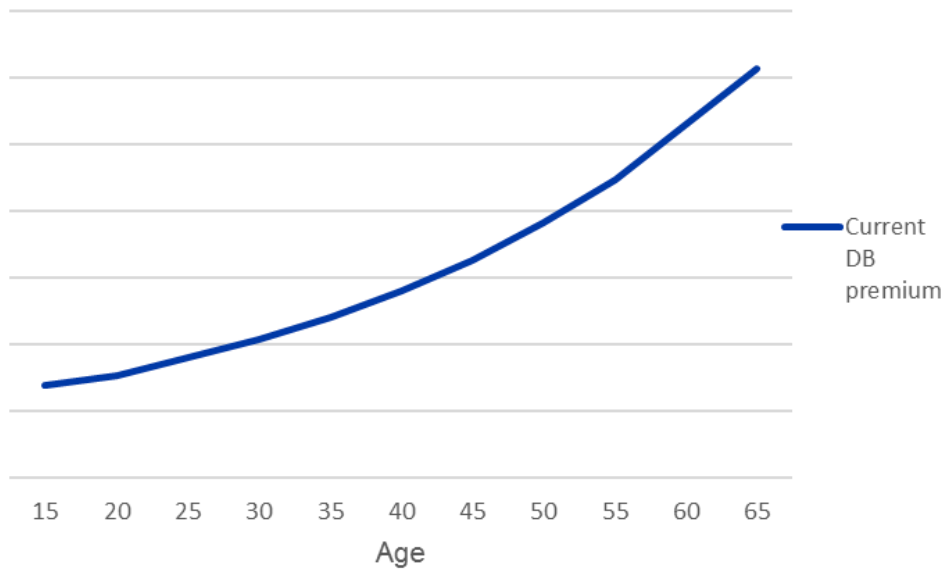
## Contract 2: “New DC”

Premium (as % of pensionable salary): age-independent

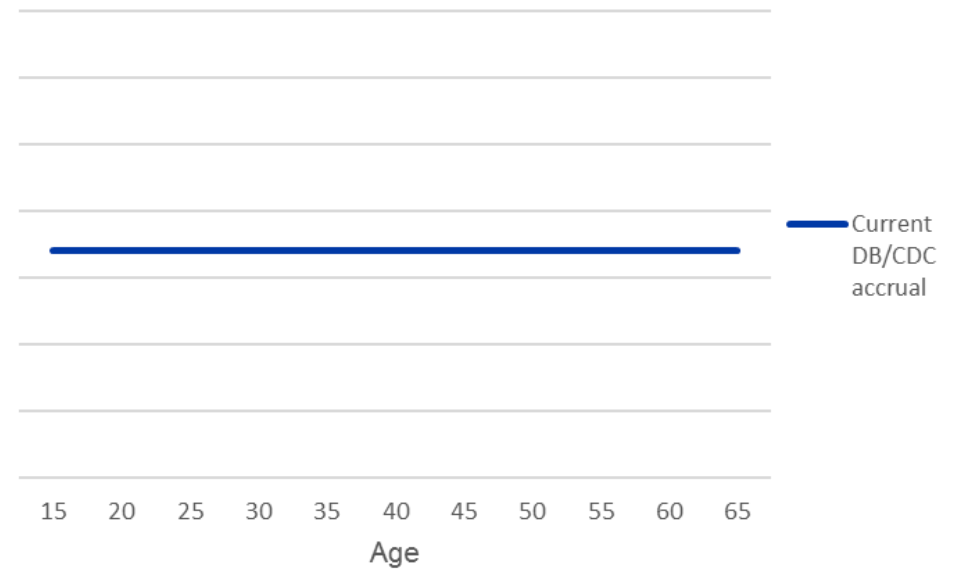


# Current DB/CDC

Premium increasing by age

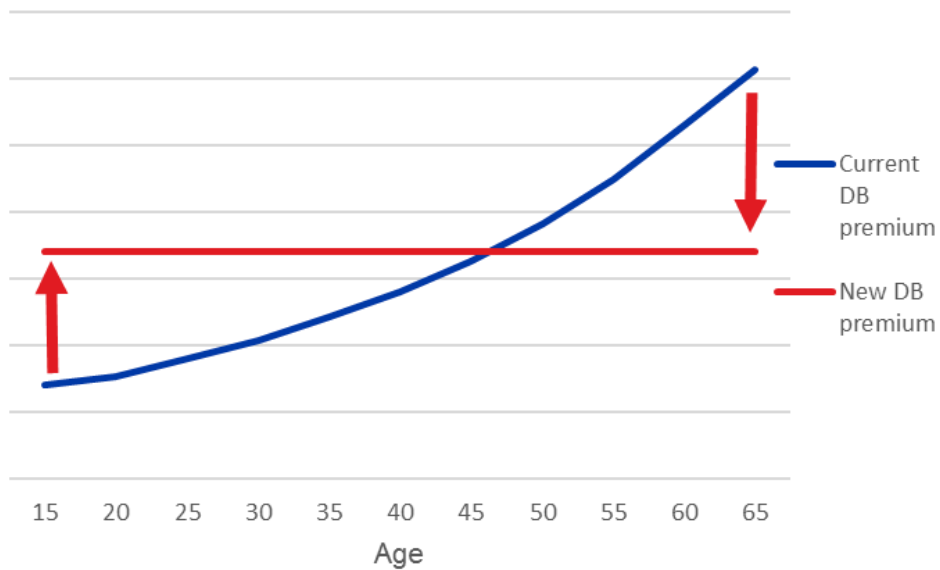


Accrual is age-independent

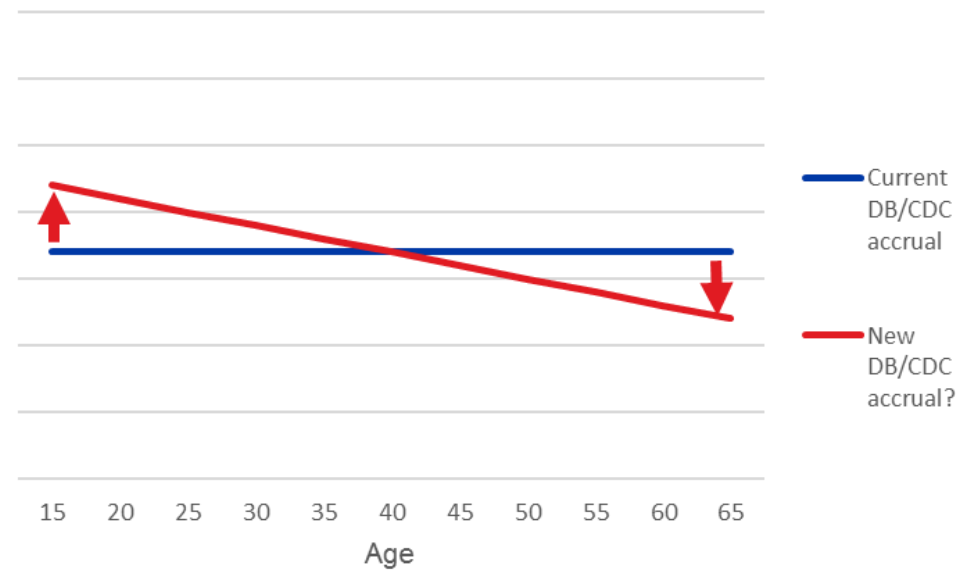


# Contract 1: “New DB/CDC”

Premium age-independent

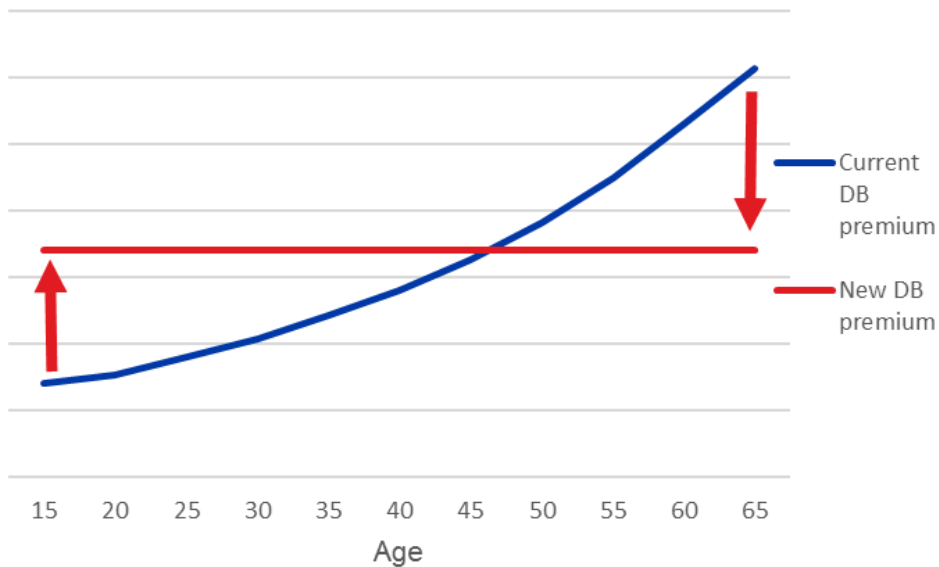


Accrual decreasing by age

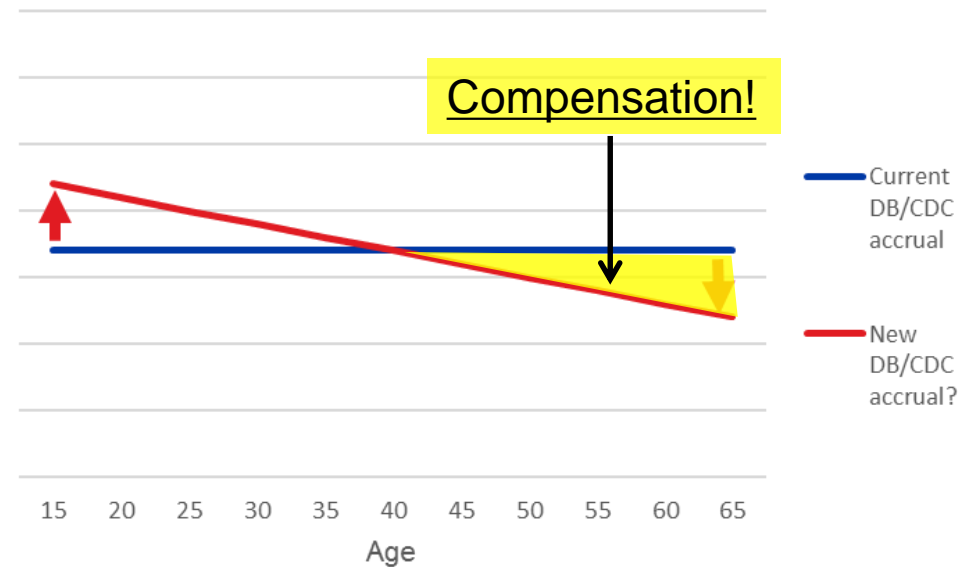


# Contract 1: “New DB/CDC”

Premium age-independent



Accrual decreasing by age



# Consequences pension funds – current contract typically DB or CDC

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- The current combination of the average premium and the average accrual percentage for all participants will end (ex.: 20% of pensionable salary (premium) for an accrual of 1,875% of pensionable salary each year of service)
- The premium becomes age-independent and the pension accrual depends (contract 1) on the age of the participant
  - Young people accrue more pension than average (their premium pays longer) and older people less.
- Social parties have to determine:
  - fiscal limited age-independent premium - based on current ambition level of 75% of the average pay during 40 years of service
  - transition to the new pension contract including compensation for the repeal of the 'average premium' system
- The board of the pension fund has to determine:
  - the consequences of the new premium policy for the funding level
  - the impact of the new pension system on investment policy
  - the impact of new pension system on pension fund risks

## Generational effects

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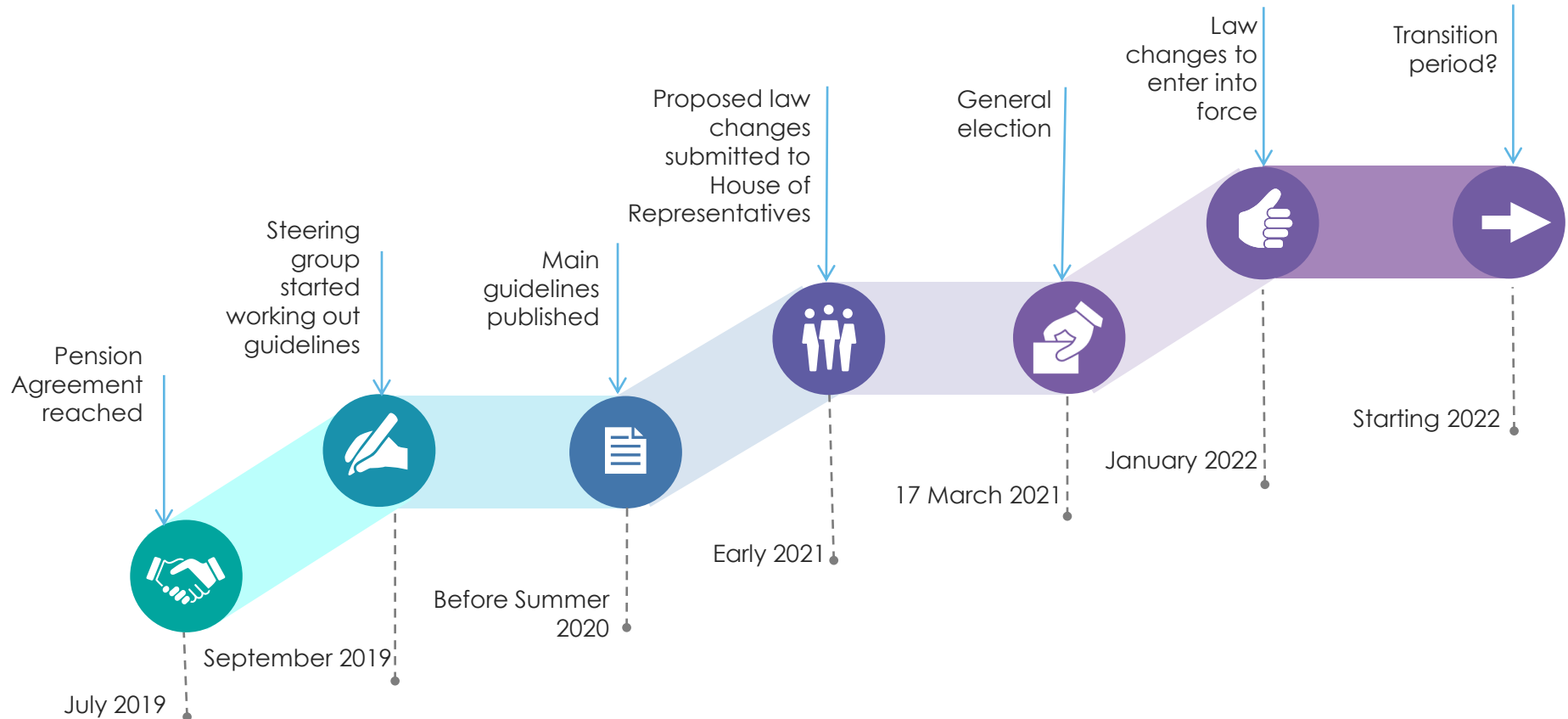
- Without compensation the employees' outlook on pension entitlements deteriorates
- Decrease of pension accrual is worst for participants around ages 40-45
  - they do not profit from the higher accrual at younger ages
  - are affected the most by the lowering of pension accrual in the future

## Next steps

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- A steering group of representatives from the social partners and the Cabinet supervises the further process
  - Teams of pension providers, supervisors and independent experts are involved in working out the details
- Questions to be answered:
  - Further detail needed on the two new pension contracts (and probably contract 'X')
  - Obligations regarding compensation for the repeal of the 'average premium' method including fiscal solutions (for both new contract types)
  - Limitation of legal risks (e.g. preservation of mandatory Industry Wide Pension Funds)
  - Commencing dates, transitional periods and growth paths
  - Transfer of accrued pensions to new pension contracts
  - Consequences for insured contracts?
- The main guidelines expected to be submitted to parliament before summer 2020

# Milestone planning and actions 2020 - 2022



# Market trends – impact of the pension agreement

		Current contract	New contract 1		New contract 2	
Dutch pension fund - DB/CDC	Funding/premium					
	Fiduciary governance					
	Pension outcome		Older employees	Older employees	Older employees	Older employees
			Younger employees	Younger employees	Younger employees	Younger employees
General pension fund (APF) – DB/CDC	Funding/premium					
	Fiduciary governance					
	Pension outcome		Older employees	Older employees	Older employees	Older employees
			Younger employees	Younger employees	Younger employees	Younger employees
Multi-employer industry-wide pension fund - CDC	Funding/premium					
	Fiduciary governance					
	Pension outcome		Older employees	Older employees	Older employees	Older employees
			Younger employees	Younger employees	Younger employees	Younger employees
Insured DB	Funding/premium		N/A			
	Fiduciary governance		N/A			
	Pension outcome		N/A	Older employees	Older employees	Older employees
			N/A	Younger employees	Younger employees	Younger employees
Buy-out/pensioner buy-out	Funding/premium		N/A			
	Fiduciary governance		N/A			
	Pension outcome		N/A	Older employees	Older employees	Older employees
			N/A	Younger employees	Younger employees	Younger employees
Insured DC/PPI	Funding/premium		N/A			
	Fiduciary governance		N/A			
	Pension outcome		N/A		Older employees	Older employees
					Younger employees	Younger employees
Cross border	Funding/premium		?		?	?
	Fiduciary governance		?		?	?
	Pension outcome		?		?	?

# How to prepare

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- Start thinking now about possible impact
  - Impact on employees
  - Financial cost and impact on budgets
- Stay informed
  - e.g. through Aon website with relevant information, seminar in September 2020
- After publication of more details: impact calculations
  - Calculating the impact of the pension agreement for employers and pension funds
  - Cost projections with and without compensation measures
  - Scenario analysis based on ALM-approach: expected pension outcome in 10,000 scenarios
- Proactive communication
  - Communication to the employees about the pension agreement and the impact
  - Communication to the Works Council about the pension agreement and the impact

Aon is ready to support you with all of the above!

# Summary

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Thank you. Questions?  
Contact Your Aon Consultant

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# A selection of other Aon Retirement webinars

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1

**Ireland: Coronavirus and implications for Irish Pension Schemes**

6 April 2020

2

**UK: COVID-19 De-Risking Implications**

2 April 2020

3

**Germany: COVID-19 Cost Control and Design Options for pension schemes**

24 & 25 March 2020

4

**Global: Managing Investments in a Volatile World**

17 March 2020

5

**UK: Pensions Regulator Funding Code Consultation**

12 March 2020

6

**US: SECURE Act & Opportunities for Retirement Plan sponsors**

22 January 2020

7

**France: Loi Pacte Pension Reforms**

4 December 2019

8

**Poland: New auto-enrolment legislation**

25 June 2019

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