

The Dutch pension system on the move



Melbourne, March 2011
Else Bos (PGGM)



PGGM



- Background as pension fund for the health care sector

- Now 5 institutional clients



995 FTE




AUM > EUR 100 billion



2.3 million pension scheme participants





Pension system in The Netherlands

Dutch Pension System

Three pillar model



Private life insurance/savings arrangements
funding



Supplementary (occupational) pensions
(supplements state pension)
funding



State pensions
€ 17,000 (couples)
€ 12,000 (singles)
pay-as-you-go

Supplementary (occupational) pensions in more detail

1 of 2

- 600 pension funds
- AUM: EUR 750 billion \approx AUD 1000 billion
- 90% employees participate on a compulsory basis

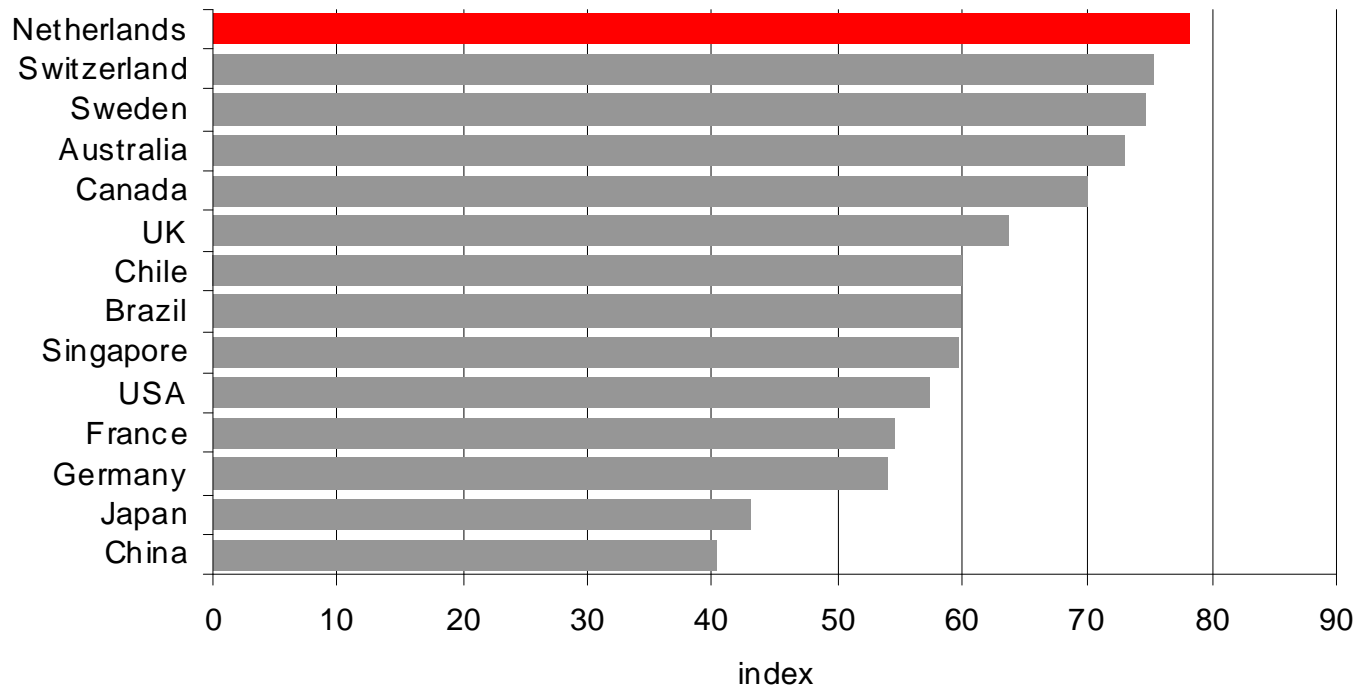
Supplementary (occupational) pensions in more detail

2 of 2

- Typical dutch pension deal:
 - Average pay (DB)
 - Replacement rate: 80% of average pay
 - Ambition to provide compensation for inflation
 - Retirement age is 65
 - Average retirement age is now 62-63
 - Contribution nearly 20% of salary
 - Asset mix 50% equities / 50% bonds

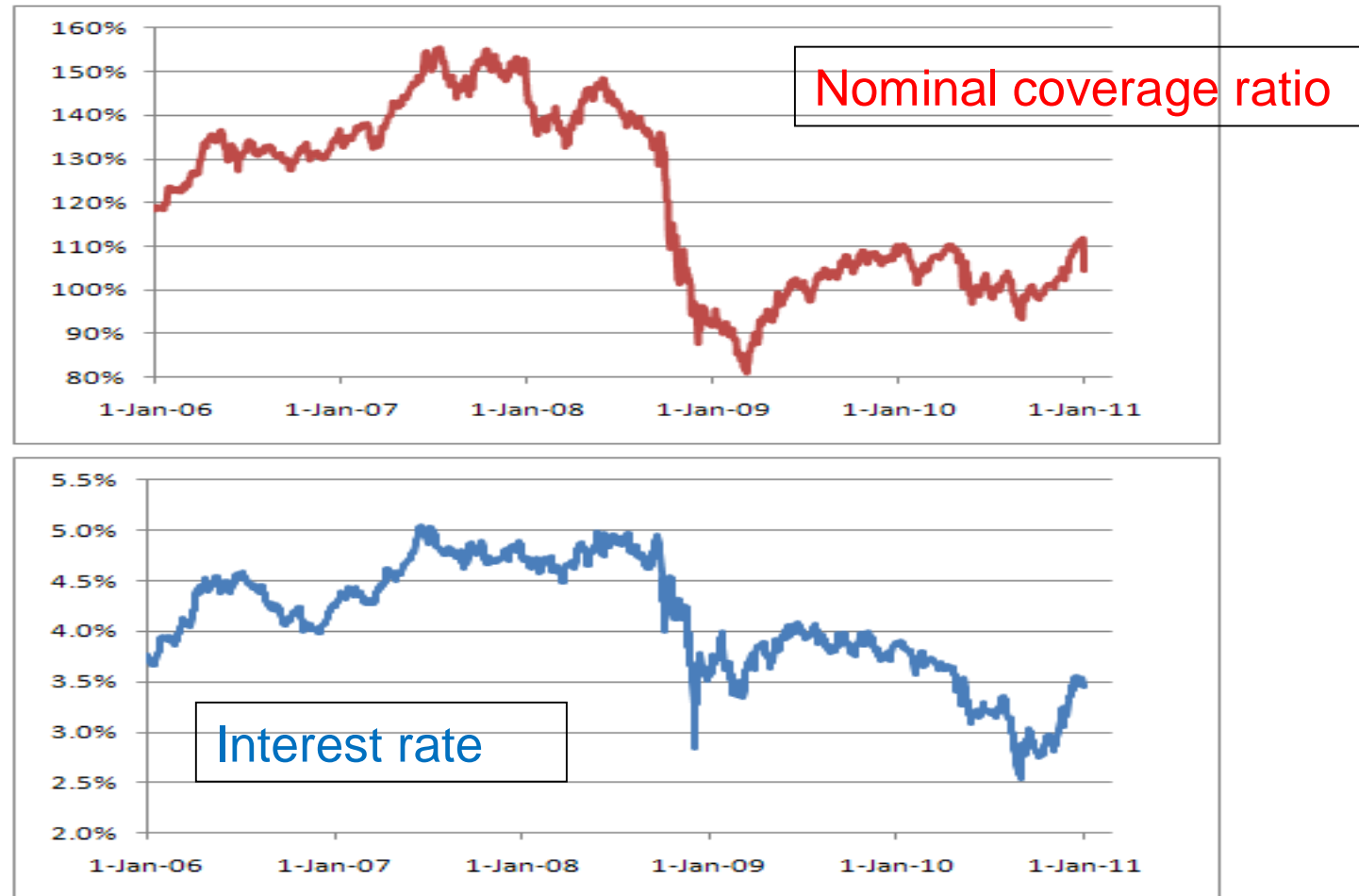
Mercer: 'Netherlands best pension system'

Melbourne Mercer Global Pension Index 2010



Source: Australian Centre for Financial Studies / Mercer (October 2010)

Funding ratio volatility highly dependent on interest rates



Dutch system unique in the world, but facing dilemmas

1. Nominal guarantee vs Indexation ambition
2. Longevity
3. Ageing
4. Communication
5. Does mandatory system still fit?

1. Nominal guarantee vs Indexation ambition

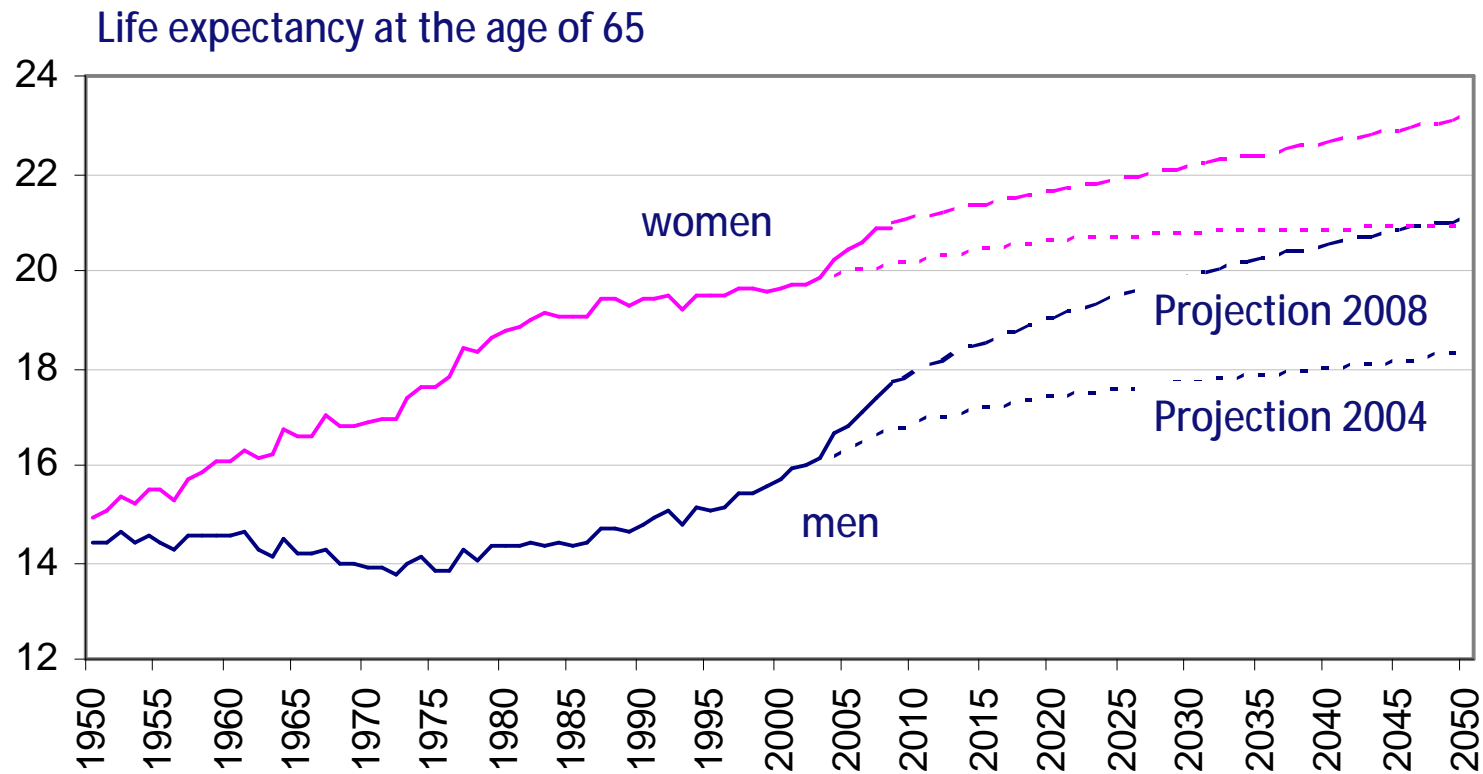
- Nominal guarantee
 - Regulation based on nominal framework
 - Nominal coverage ratio is key indicator
- Wage inflation
 - Ambition to provide compensation for wage inflation

à Creates:

- à inconsistent messages for investment policy
- à nominal guarantee (risk free), bonds
- à objective inflation compensation (total return), real assets
- à Discussion about valuation of pension liabilities (discount rate)

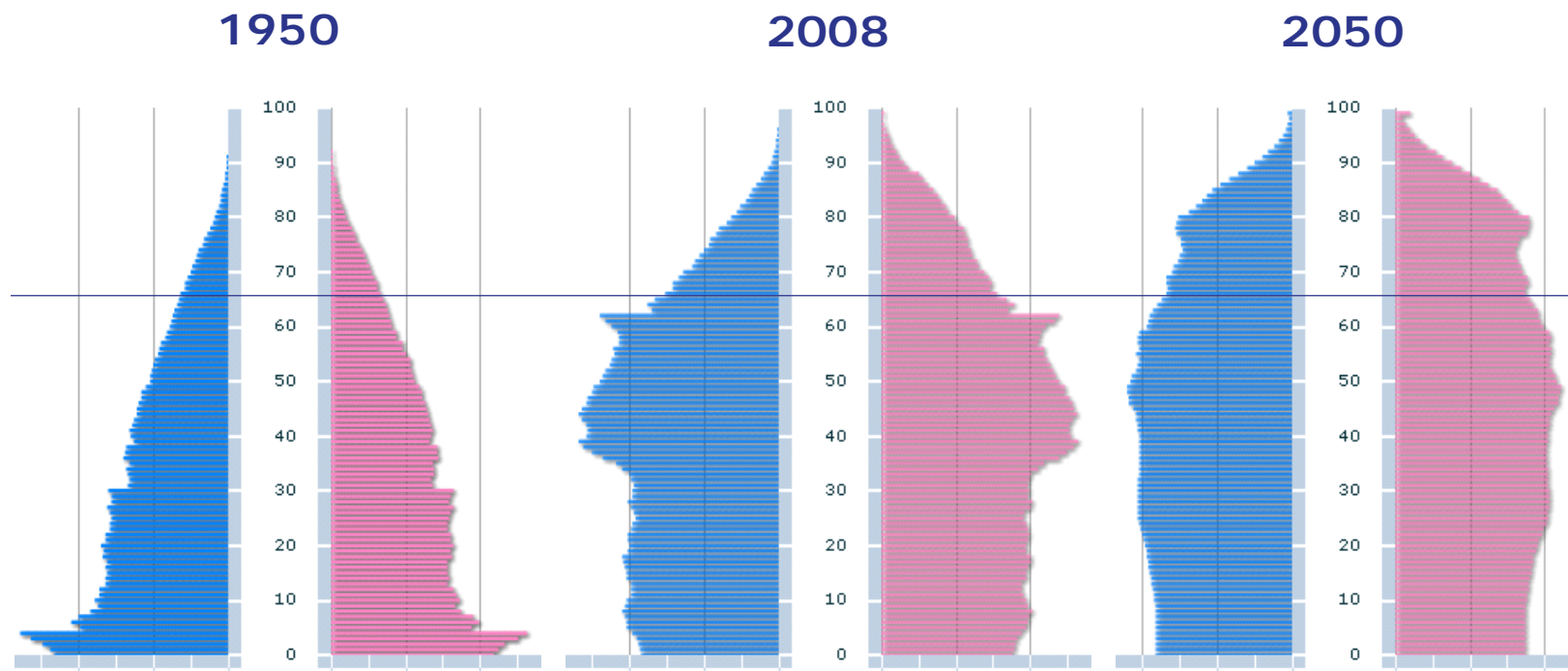
2. Longevity risk: We grow older

EUR 40 billion increase in liabilities in 2010



3. Ageing: Who will pay the bill?

Ageing of society makes us develop from a pyramid to a column



- Premium contribution has less effect
- How to share 'sweets and bitters' of the investment risk

4. Communication

Complexity

- Pension contract is becoming (too?) complex
- Difficult to understand for participants
- People think in nominal terms and don't see inflation as a risk

Money illusion

Price inflation 5%

Indexation 1%

Purchasing Power decreases by 4%

Price inflation 1%

Cut in pension 1%

Purchasing Power decreases by 2%

5. Does mandatory system still fit

- It is mandatory to join the system
- It is mandatory to use a specific pension fund
- Has proven it has significant added value
 - Wide pension coverage
 - (Cost) Efficient
 - Condition to intergenerational risk sharing and continuity

à Lack of choice may create unease with members

Possible solutions, Thoughts in discussion

1. Longevity

- à Increase retirement age

- à Longevity bonds?

2. Ageing

- à Less investment risk

- à Split fund for different generations (workers / pensioners)

Communication

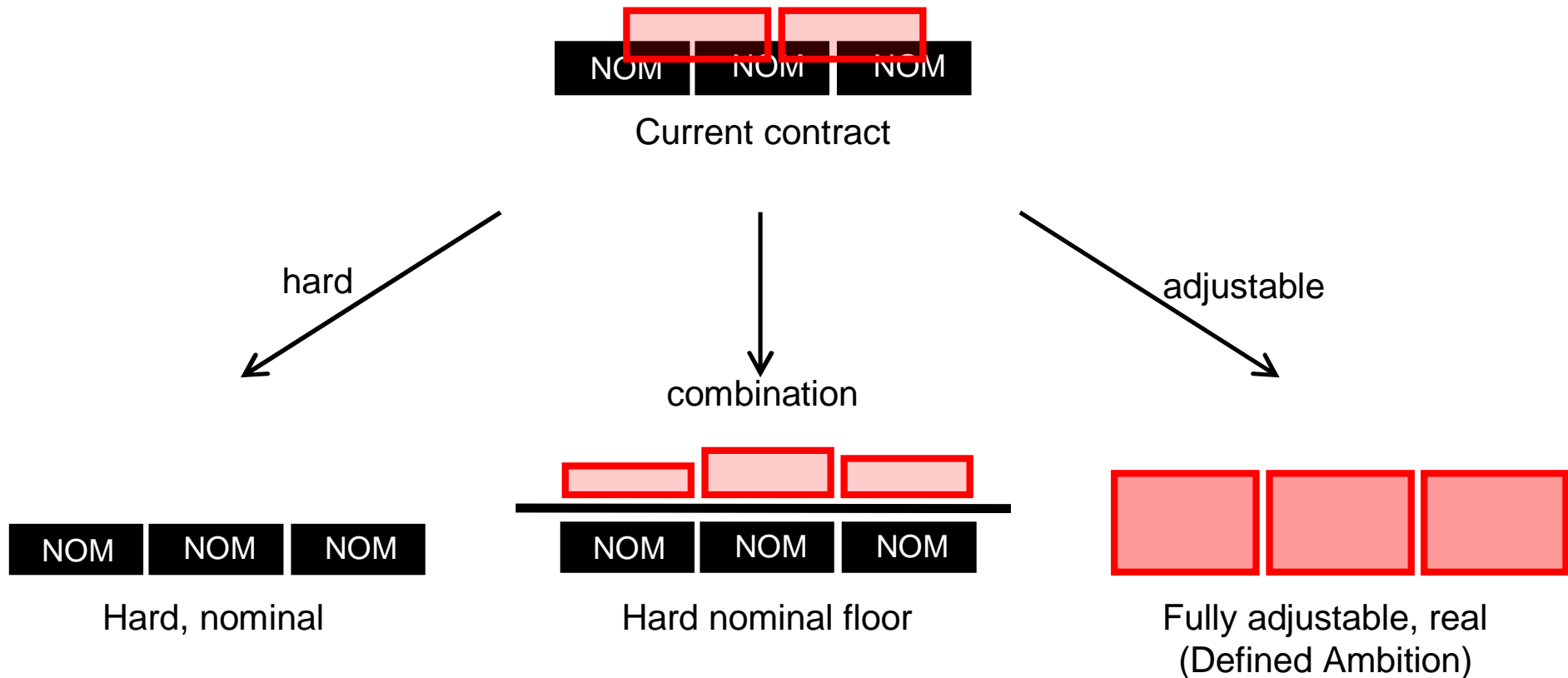
- à Increase awareness and insights

3. Mandatory system

- à Choose your own pension fund currently a step too far

- à Can we introduce more choice in risk profile in accumulation period

Most difficult dilemma: solve tension between guarantee and ambition



Conclusions

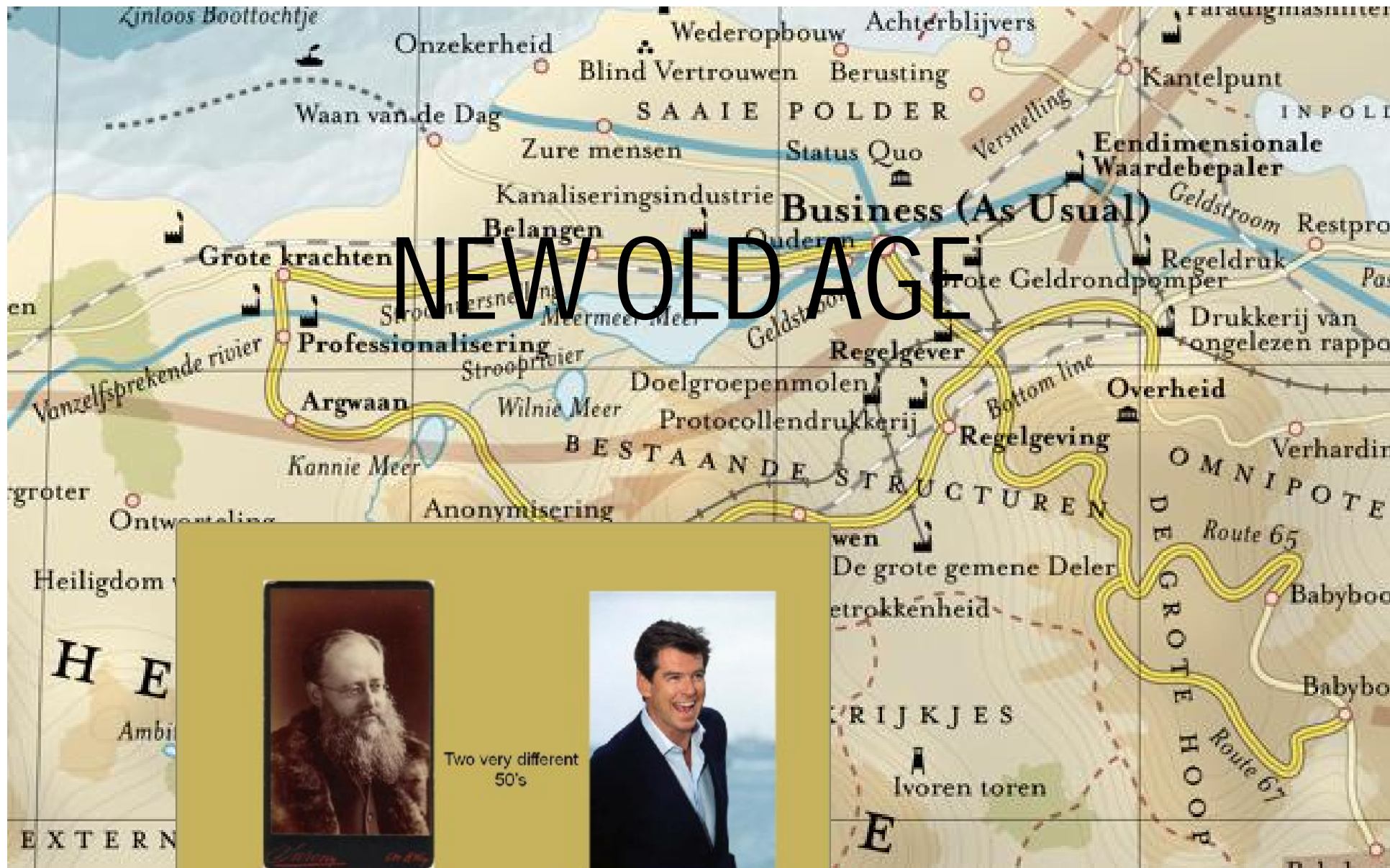
1 of 2

- We still have one of the best pension systems in the world, however maintenance is required to ensure sustainability
- Key issues are:
 - Nominal or real framework
 - Treatment of longevity
 - Age differentiation
 - Transparency and Communication

Conclusions

2 of 2

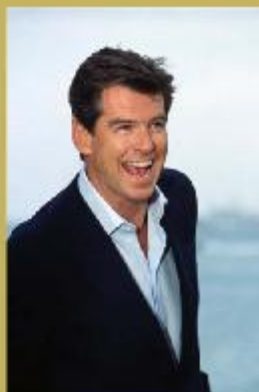
- A number of possible solutions are under discussion
- Difficult and time consuming process as it impacts the core of our pension system



NEW OLD AGE



Anno 1874



Anno 2002

Two very different
50's

