

Self Adjusting Mechanisms: From Vision to Reality

Dutch Industry Wide Pension Funds



Retirement 20/20

Wim Koeleman

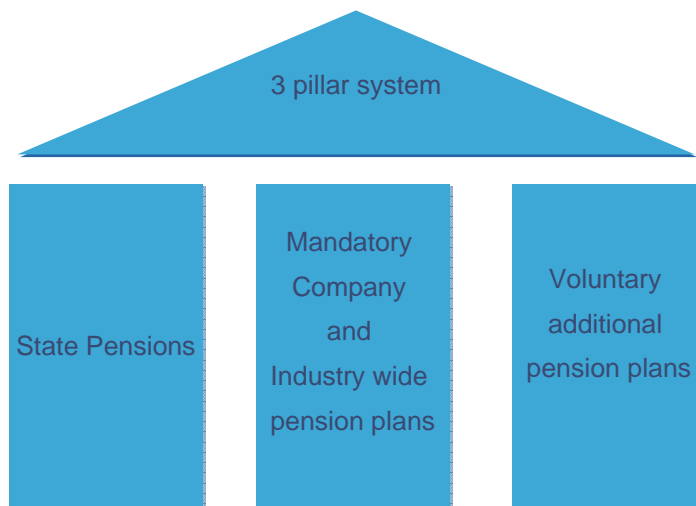
Washington, DC November 17-18, 2008

%

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Dutch Pension System

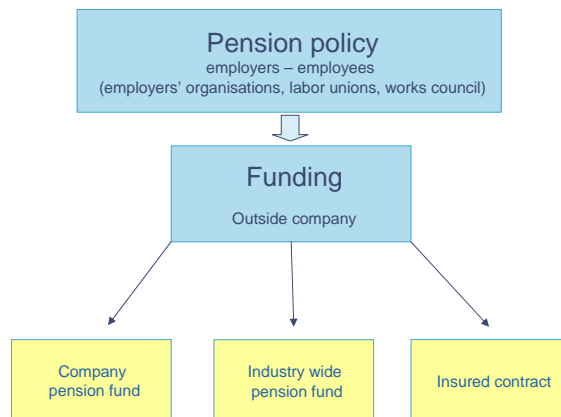


State pensions



- Old age pension (AOW)
 - Applicable for all Dutch citizens
 - Pay-as-you-go scheme
 - Accrual: 50 years of 2%
 - Retirement age: 65
 - Annual benefit married couple: € 17.093 (\$ 21.880)
 - Annual benefit single: € 12.463 (\$ 15.953)
- Death benefit (Anw)
- Disability benefit (WIA, WAZ)

Pensions for employees



Company and Industry wide pension plans



Possible pension contracts for employees	Number of employees NL	%
Industry wide pension fund (approx 80)	4.700.000	75
Company pension fund (approx 600)	900.000	14
Insured contract (approx 15.000)	700.000	11
Total	6.300.000	100

Approx 95% of Dutch employees have a pension plan from their employer

Industry wide pension fund: pension plan



Average industry wide pension scheme

Defined benefit scheme:

- Average pay pension plan with conditional indexation of the accrued benefits
- Retirement age 65
- Pension base = annual pension salary -/- pension offset
- Annual pension salary = annual salary with a maximum of € 45.000
- Pension offset = € 14.000
- Retirement benefit: For each year of service: 2.25% of pension base

Industry wide pension fund: funding



- Pension liability: fair value of the accrued benefits at the valuation date
- Future salary increases and expected conditional future indexations are not taken into account
- Pension assets: fair value of the assets at the valuation date
- Funding level: pension assets divided by pension assets

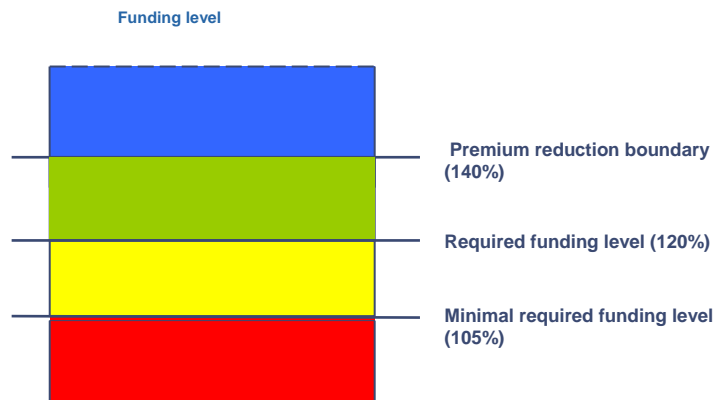
Pension fund: funding requirements



Funding requirements of the Dutch supervisory board

Minimal required funding level = 100% + reserve for general risks

Required funding level = 100% + reserve for investment (asset) risk



Industry wide pension fund: means of control



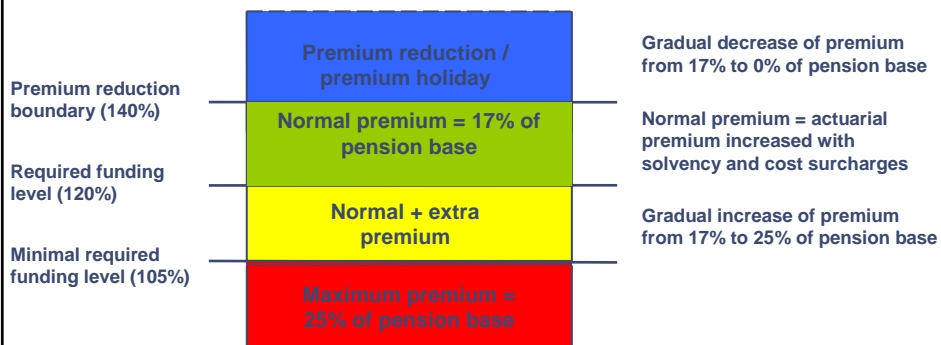
- Premium level
- Indexation level
- Change of asset mix
- Reduction of accrued benefits
- Change of pension plan

Industry wide pension fund: premium level



Premium depends on funding level

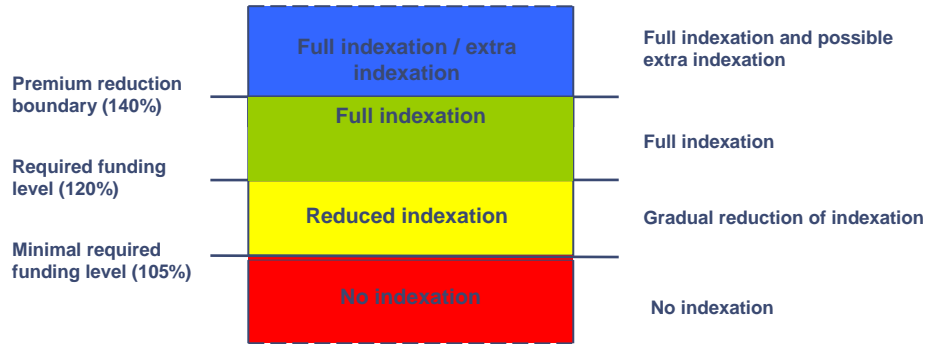
There is an average premium (constant percentage of the pension base); for all employees => complete solidarity



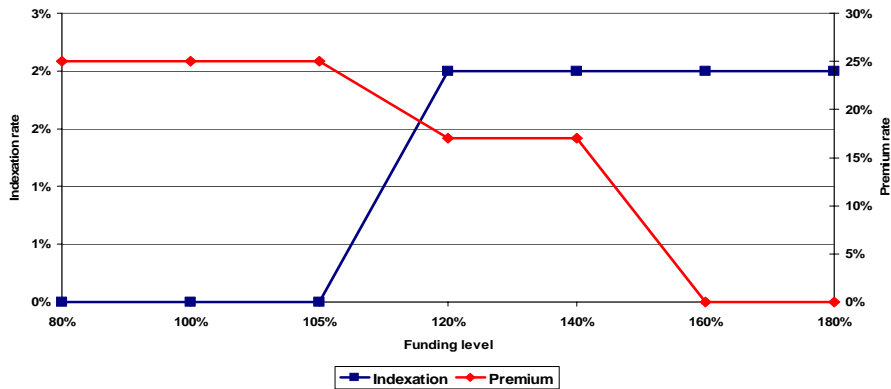
Industry wide pension fund: indexation level



Annual indexation for active participants, deferred participants and pensioners is based on inflation and depends on funding level



Self-adjusting system: Premium & Indexation



Advantages of Dutch pension funds

- Risk sharing

- Combination of defined benefit and flexibility
- Employers don't have to absorb the risk
- Members of the schemes are the risk bearers
- Solidarity and collectivity lead to risk sharing, even over generations

- Governance

- Pension funds are owned and governed by the members

- High level of pensions

- Default provided by pension funds leads to adequate pensions
- Occupational character leads to high percentage of employees with pension schemes

- Efficiency

- Low cost (no marketing or transaction costs due to compulsory character)
- Economies of scale, strong buying power

Thank you for your attention!

