

Risk Sharing Pension Plans: The Dutch Experience

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PPI work programme on DA and CDC

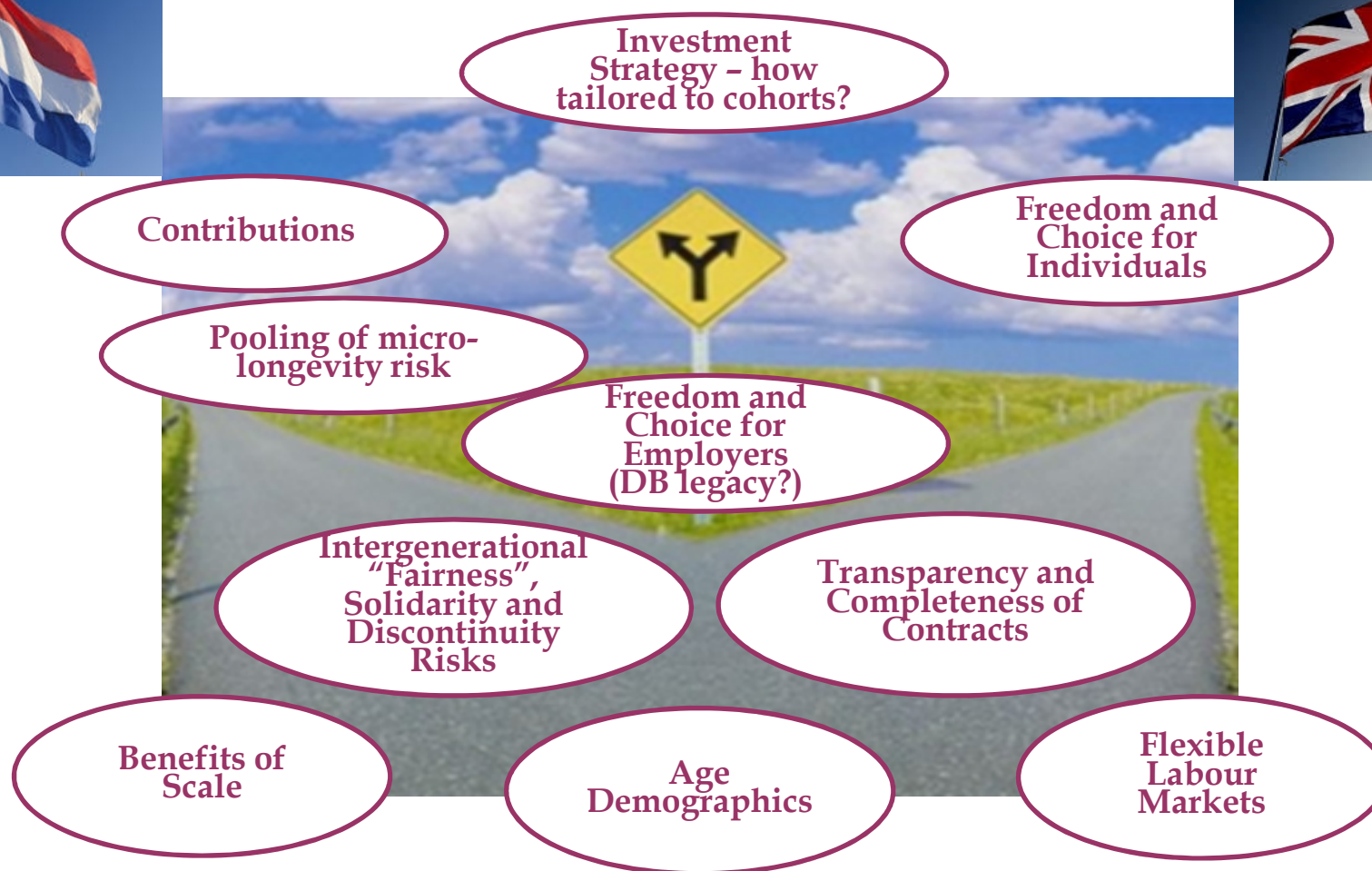


- Briefing Notes: Canadian and Dutch experiences of risk sharing plans
- Study trip to the Netherlands: meetings with CPB, Ministry, DNB, Netspar; pension funds and insurers
- Development of new PPI “CDC” model
- Testing of different design features in future (e.g. funding gates, investment strategies, DC counterfactuals)?

Dutch and UK policy debate - similarities and differences

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PPI CDC model – structure



- Career average structure (10% contribution rate and targets 1% CARE benefits, revalued at CPI)
- Individuals aged 40-65 (model runs from 1958 to 2060 to start with a mature population – so by 2014 individuals from 65 to 96 are being paid pensions). 1,000 new entrants per year.
- Uses an Asset-Liability Model to evaluate liabilities from 2014 onwards and perform a funding check against assets. Model being tested using fixed assumptions for earnings, CPI, asset returns and discount rates but will use outputs from an Economic Scenario Generator (King's College).

PPI CDC model – structure



- The assets and liabilities are evaluated each year and the funding level is required to be between 90% and 140% (these can be reset).
- If the funding level is too low, a lower revaluation target is solved for until the funding level is met. If the revaluation target falls down to 0 then the base benefits can also be cut.
- If the funding level is too high then the revaluation target is increased but base benefits never rise.
- CDC outcomes (replacement rates at, 5 and 10 years into retirement, and number of scenarios where revaluation reduced or base benefit cuts) then compared to benchmark individual DC.

PPI CDC model – outputs and next steps



- Key variables to be explored:
 - Altering the asset allocation (equity: bonds mix);
 - Altering the targets and/or funding gates;
 - Altering the DC counter-factual (e.g. retaining some risky in the early years of retirement);
 - Introducing recovery periods (rather than immediate cuts);
- Next steps:
 - Results generation – 19/12 to 5/1
 - Prepare and publish core outputs – 5/1 to 16/1