

Risk sharing in the Netherlands

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Same problem, different solutions

Common insight: Classical DB does not work

NL : Reforming DB

- (Quasi-)Mandatory participation
- High contribution rates
- Accumulation and decumulation phase in one product
- Social partner owned pension provision
- No marketing/distribution costs
- Industry wide pension funds

UK : Individual DC

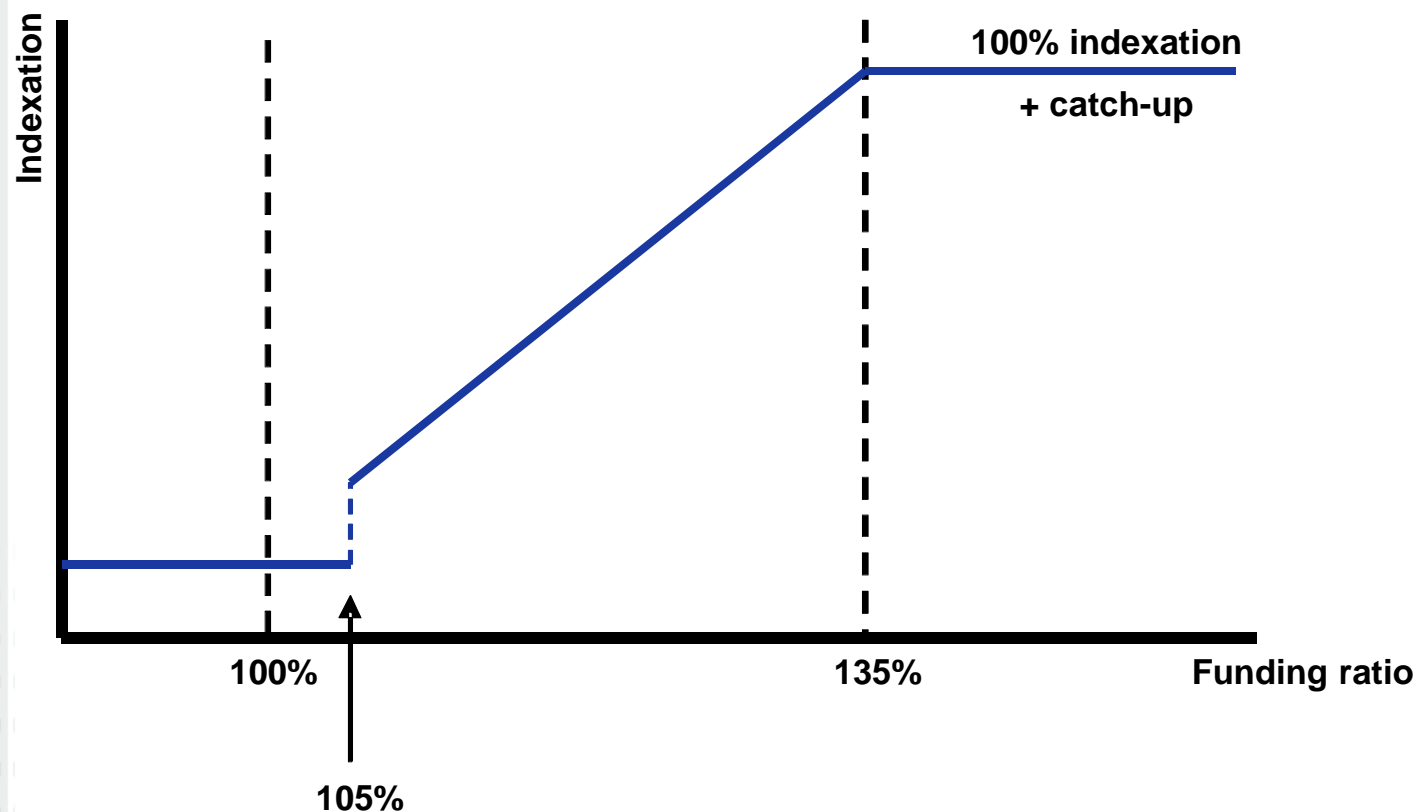
- Auto-enrolment (new!)
- Low contribution rates
- Accumulation and decumulation phase are separated
- Market forces provides pension provision
- High marketing/distribution costs
- Primarily company funds

Reforming DB

- Social partners (not service providers) took responsibility of pensions reforms
- Government stimulates efficient pension provision
- Deal renegotiated after crises in early 2000
 - From final wage to average wage
 - From full indexation to conditional indexation
- Current financial crises
 - Discussion on making deal conditional on longevity
 - Discussion on further risk sharing

The model of conditional indexation

- Funding ratio serves as shock mitigator

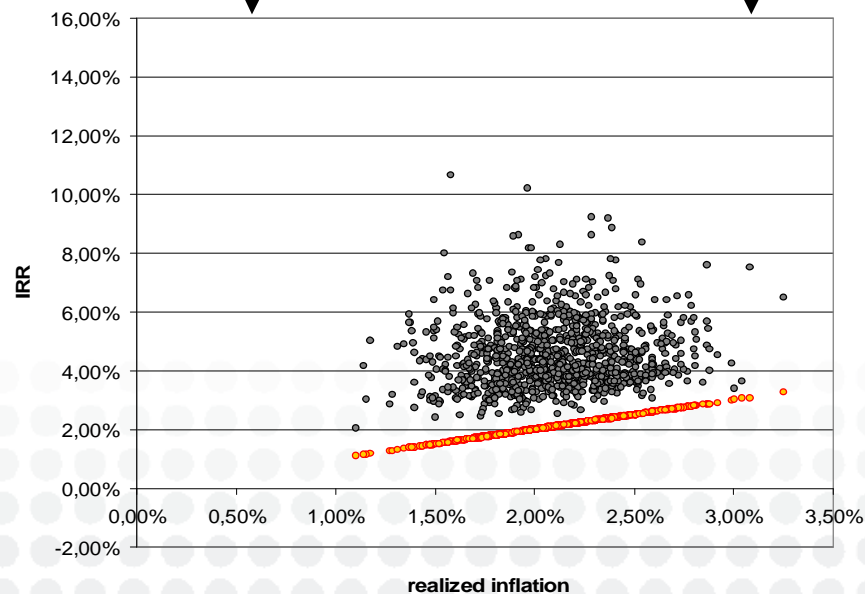
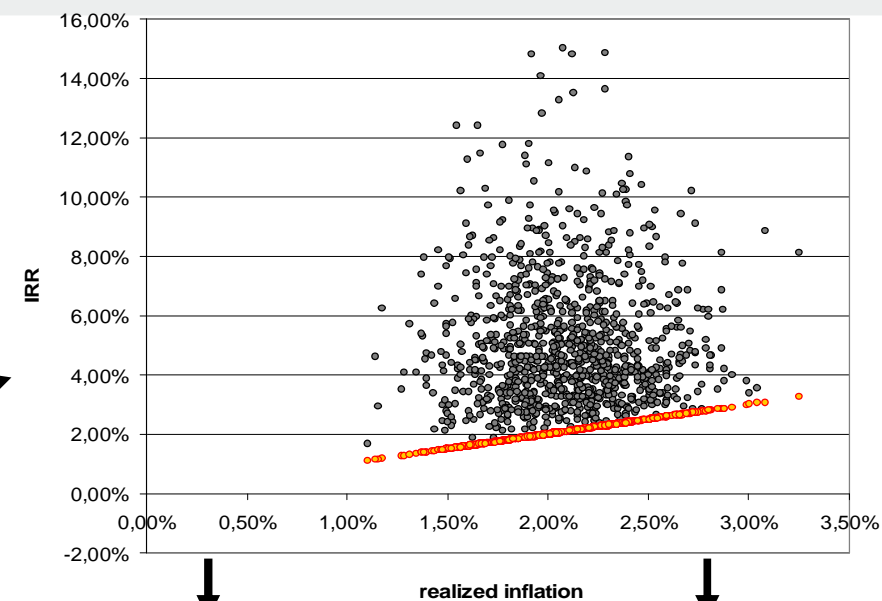
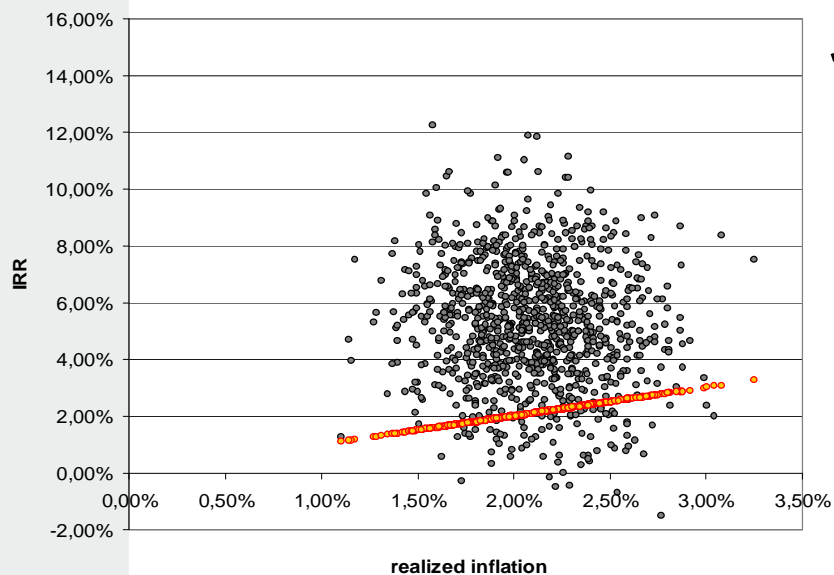


Main take-aways from the NL

New pension design should focus on:

- Good governance
- Role of social partners and government
- High contribution rates
- Strong participation incentives (compulsion?)
- Link accumulation and decumulation phase
- Smart risk sharing
 - Investment
 - Mortality
 - Inflation

Improving DC by risk sharing



1. Introduce a guarantee to remove the downside
2. Introduce a collar to lift the median result

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