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"UK should not look to replicate the Dutch pension plans but can learn lessons from collective benefits of scale and risk pooling" says Pensions Policy Institute

The PPI is today publishing Briefing Note 71, *Risk Sharing Pension Plans: The Dutch Experience.* The briefing note draws on the experience of running "defined ambition" style pension plans in the Netherlands, and highlights the potential lessons for the UK, to help inform the debate around the Government's proposals in the Pension Schemes Bill 2014.

Since the early 2000s, the Dutch pension system has seen a shift away from Defined Benefit (DB) pension plans based on a final salary structure in favour of career average structures where indexation is subject to the levels of funding within the plan, and where benefits may even be cut if necessary. However, since the Global Financial Crisis in 2008, and the low interest rates and funding deficits that arose, there has been a lively national debate in the Netherlands around the long-term sustainability of these collective plans.

Mel Duffield, Deputy Director of the Pensions Policy Institute said, "The mandatory participation in workplace pensions in the Netherlands, along with a highly unionised collective bargaining environment, create some important differences between the pensions landscape in the Netherlands and the UK."

Mel added, "The Dutch system has evolved from Defined Benefit (DB) pensions and has been built on principles of collectivism and solidarity, while the UK system has been rapidly moving towards greater individualisation, particularly with the rising popularity of Defined Contribution (DC) pensions and, more recently, with the Budget freedoms allowing access to pension savings from age 55 onwards. This presents a significant challenge for employers and providers looking to establish collective arrangements within the UK where a strong emphasis has been placed on the principles of freedom and choice for members."

The Briefing Note suggests a number of lessons for the UK when considering setting up pension plans with elements of risk-sharing or collective benefits. For example, members' expectations should be fully aligned with the contractual agreements that are in place from the outset, and there should be clear communications about the levels of risk within these plans. Similarly, with the strong emphasis on freedom and choice, members should have well-defined individual rights within the plans so that they have freedom to transfer in and out.

Mel concluded, "The Dutch collective plans do offer some specific advantages which could be of benefit to the UK, including the ability to drive economies of scale in administration and investment, and the potential to pool longevity risk between retiring members at lower costs than could be achieved through the insurance market. Some of the more innovative solutions that are now being explored by employers and providers in the Netherlands as their system evolves may be of particular interest to the UK once the new legislation has been introduced."

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Notes for editors

1. The Pensions Policy Institute (PPI) is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.

2. The Department for Work and Pensions (DWP) Pension Schemes Bill 2014 was introduced to Parliament on 26 June 2014. For further information about the Bill, including explanatory notes, and to track the progress of the Bill please view the Parliament website
http://services.parliament.uk/bills/2014-15/pensionschemes.html

3. PPI Briefing Note 71, Risk Sharing Pension Plans: The Dutch Experience is available on the website www.pensionspolicyinstitute.org.uk. The note explores the risk sharing pension plans operating in the Netherlands and concludes that there are a number of specific considerations and challenges for the UK. These include:
   - The need for contractual agreements and members' expectations to be fully aligned from the outset, and for there to be explicit communications about the potential risks to members future indexation and benefits and the measures that will be taken by trustees (or by other decision makers) to address any changes in the funding position;
   - The need for clearly-defined individual property rights at fair market prices in a pensions landscape without mandation and with freedoms for members to stop their contributions, withdraw at retirement, or exit the plan altogether;
   - The collective 'benefits' of scale that can also be delivered through DB and DC schemes, even in the absence of collective risk sharing or pooling;
   - The potential for innovative ways of pooling individual longevity risk for the in-retirement benefits for plans, either in a fully collective plan, or in a plan which is DC in the accumulation phase but has collective elements in retirement.

4. PPI Briefing Note 71 is the second of two technical briefing notes linked to the Pension Schemes Bill 2014. PPI Briefing Note 69, also on the PPI's website, focused on the experience of running risk sharing pension plans in Canada.