Retirement Income
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Allianz, Aegon et al Inject New 'Variable' into Dutch DC Biz

By Editorial Staff   *Thu, Sep 21, 2017*

In the Netherlands, American-style drawdowns of variable payments from defined contribution plans is a novel idea.

The €10bn pension fund of Dutch telecom giant KPN disclosed this week that it would allow its plan participants to choose a new kind of distribution option for their defined contributions to the plan: Payouts that fluctuate with the performance of the underlying investments.

That's a relatively new development in the Netherland's retirement system. It was only a year ago that the Dutch parliament passed legislation enabling defined contribution (DC) pension fund participants to opt for variable benefits after retirement—also known as drawdown plans—instead of a fixed annuity.

As IPE.com reported, most Dutch plans have not introduced a variable benefit option. Only a handful of retirees has opted for them. The fund for the postal workers (Pensioenfonds PostNL) and the fund for construction workers (BpfBouw), have said they won't. Participants in such plans must turn to insurers like Aegon, Nationale Nederlanden, Delta Lloyd and Allianz if they want variable payout arrangements instead of fixed annuities at retirement.

The four providers have designed products that differ considerably, with Aegon offering the highest risk profile, investing 66% of the available pension capital in risky assets during retirement. For Aegon, the high equity allocation is deliberate. "Participants often have additional DB pension entitlements of at least as much as their DC capital," said Frits Bart, director of policy.

"We consider these to be a risk-free investment. In addition, people have benefits from the state pension, which often represents an equivalent value and can also be seen as risk-free. In our opinion, people need the 66% risk assets in their investment mix as part of their variable payment plan in order to benefit from continued investing."

The three other providers choose to emphasize the security aspect of their plans. At Delta Lloyd, the risky asset allocation is linked to a participant's risk tolerance and can be 15%, 30% or 45%. The variation in benefits solely depends on the risk asset holdings. Participants purchase fixed annuities with the remainder of their pension assets.

Delta Lloyd says it will calibrate the risk profile once every five years, and subsequently adjust benefits if necessary. Participants can also indicate if they want their risk profile reviewed, but the provider will adjust the ratio between fixed and variable payments only once a year.

Nationale Nederlanden's variable benefit product invests 35% in a multi-asset fund with an allocation of almost 20% to fixed income and other liquid assets.

Participants bear longevity risk in some plans but not others. The variable benefits of the Aegon and Allianz products will decrease if life expectancy continues to rise, but the Delta Lloyd and Nationale Nederlanden plans insure against this.

Allianz offers a combination of fixed (75%) and variable (25%) benefits, with a risk assets allocation of 7.7%. Allianz’s riskiest investment variant has purely variable payments and the maximum risky asset allocation is 31%. After 20 years of variable benefits, Allianz customers will no longer be exposed to investment risk.

“At that time, the assets available for variable payments would have shrunk so far that investing no longer adds value for them,” says Bram Overbeek, head of products and markets for life and income at Allianz Benelux. “That’s why we will set the benefits at a fixed level by then. We want the man in the street with DC benefits to relax after he has retired. We don’t want people running unacceptable risks and therefore we have aimed at shock-proof and gradual changes without too much risk.”

Nationale Nederlanden customers will receive fixed benefits from age 85. Delta Lloyd says it will gradually reduce the investable part of the assets to zero over a nine-year period after age 85. Delta Lloyd is the only provider that will smooth both positive and negative income shocks over a standardized period of five years.

Jeroen Koopmans, managing director at the consultancy LCP Netherlands, said variable benefits could be attractive for many. “A comparison of quotes for fixed and variable benefits shows that the variable benefits will be considerably higher in the first year. The difference could be 20%, or even 35%,” he said.

“If you start at 35% plus, you could afford negative returns for some years. But it could also turn seriously wrong, with benefits ending up lower than fixed payments. If equity markets were to drop 25%, a participant with Aegon would lose more than 16% of their pension assets,” he said. Aegon said it discloses the risks of its product in its literature.

One hurdle for wider practice of the new variable option in the Netherlands is that existing DC funds are geared towards de-risking ahead of retirement, thus reducing the level of risky assets on the assumption that retirees will buy an annuity. This is set to change, however. Aegon, for example, says it will come up with a solution for that inconsistency later this year.

The insurer ASR says the lifecycle options in its DC plans will be adapted for continued investing from 2018, and is developing a product for this purpose.

Allianz has recorded the greatest interest for variable drawdown products, with a take-up rate of one in five. At €300,000 against €95,000, the average purchase price for variable benefits is much higher than for fixed annuities. Similarly, Aegon reported a purchase price of twice as much on average. However, its take-up for variable benefits is lower at just 10%. For Nationale Nederlanden the figure is 5-10%. Delta Lloyd declined to provide details.

Overbeek noted that the variable option could lose its attraction if interest rates and annuity payout rates rose in the future. “Taking risks must pay off. If interest rates rose to 7% or 8%, few would opt for continued investing,” he said.

The KPN plan said it decided to offer the variable option because 8,000 of its participants accrued pension rights under defined contribution arrangements when they worked for Getronics, an information and communications technology firm whose pension KPN acquired in 2007.