Dutch gov’t to drop forced DC annuitization—but not this year

By Editorial Staff *Thu, May 7, 2015*

The Dutch Parliament and the pensions industry urged the state secretary to introduce legislation soon, because low interest rates are leading to low pension incomes for retiring workers as they convert to an annuity.

While life insurers in the U.S. promote the idea of defaulting 401(k) participants into an annuity, the Dutch government is moving in the other direction—preparing to follow the UK’s lead by lifting its annuitization requirements for defined contribution (DC) plan participants.

But the Dutch aren’t going to relax their rules right away. Legal proposals to allow Dutch DC plan participants to postpone the purchase of an annuity have been put on hold, *IPE.com* reported this week. Today, the Dutch must convert their entire DC savings to a life annuity when they reach the official state pension age.

The Dutch government was expected to allow savings to remain invested beyond the pension age. But Jetta Klijnsma, state secretary for the Social Affairs Ministry, said the government needed more time to work out the responsibilities of pensions providers towards DC members who opted for such arrangements.

Both Parliament and the pensions industry urged the state secretary to introduce legislation as soon as possible, as low interest rates are leading to low pension incomes for retiring workers as they convert to an annuity.

But adjusting the framework for DC plans raised complicated questions about the implementation of some legal aspects, including asset managers’ scope of duty towards members, and who would be responsible for investments, Klijnsma said

She added that standardization would be needed to prevent volatility in pension outcomes, and that the government would focus on elaborating DC contracts that allowed for variable benefits, in order to limit complexity and speed up implementation.

However, she did not specify whether the new alternatives would or wouldn’t feature “collective risk sharing” for pensioners. The planned introduction of new legislation would be postponed by six months to July 1, 2016, she said, and another round of consultation was a possibility.

The UK recently removed restrictions on DC savers, scrapping the need to force an annuity purchase entirely. Before April 6, 2015, UK DC savers had to purchase an annuity if their savings fell between £18,000 (€24,000) and £310,000, with the average size around £25,000, or about $38,111 at current rats.

However, unlike the Netherlands, Britain allowed savers to postpone an annuity purchase with the balance of their DC assets until they reached age 75; they could remain invested until then.

Since April, UK savers have been able to access their DC savings in a variety of ways including drawing down cash or investing in income drawdown products.