Retirement Income
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European employers ponder ways to cut pension costs

By Editor Test *Thu, Jun 20, 2013*

The members of the General Employers' Association Netherlands met recently to discuss the transition from defined benefit to defined contribution plans and to explore pension-cost reduction. There was a tie-in to the US via Dimensional Fund Advisors' European chief.

Pension funds thinking to switch from defined benefit (DB) to defined contribution (DC) could get the best of both worlds by managing for income risk rather than investment risk, according to Jan Snippe, the pensions adviser at Dimensional Retirement Europe.

Speaking at a conference held by the employers' organization AWVN (General Employers' Association Netherlands), Snippe said that DC investment management could take into account possible future sources of income, including possible DB rights and "human capital."

Snippe runs the Dimensional Fund Advisors SmartNest business in Europe. He came to the firm from Royal Philips Electronics, where he was head of corporate pensions. (Philips pioneered SmartNest, which has ties to Nobelist C. Robert Merton.) In this role, he was responsible for developing a company-wide pension strategy and ensuring that pension risk exposures were consistent with the company's overall risk policies.

He said these additional sources of income might allow participants to take investment risk in DC plans, although he stressed that investment decisions should not be left to participants.

But he also recommended giving participants more influence over their mandatory minimum pensions by giving them more options on increased saving, later retirement or increased investment risk. The administration of such tailor-made DC plans would still be "relatively easy," Snippe said.

Also during the event, AWVN's Willem van de Rotte urged employers to use the pending changes in the pensions legislation to drop "expensive and complicated" transitional arrangements for early retirement.

These arrangements, he said, caused workers to be more "inflexible" and increased the cost of pension provision by as much as 30%. "These transitional schemes are hardly appreciated by workers," he said.

Leon Mooijman, head of AWVN's advisory team on pensions, said that at least 80% of workers in an early retirement plan had decided to keep on working, earning approximately 180% of their salary as a result.

He argued that employers should compensate their staff for the government plans to limit the tax-facilitated pensions accrual to a salary of €100,000 and decrease the yearly pensions accrual. He also suggested employers' pensions cost could be decreased by returning at least a part of the contribution to the employer.

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