
Furor in Netherlands over cause of pension losses

By Editor Test *Wed, Feb 9, 2011*

A Dutch TV program accuses the country's pension fund managers of over-weighting equities for the past two decades.

Dutch pension funds have missed out on more than €145bn (\$198bn) in unrealized returns over a 20-year period due to over-investment in risky assets and “lack of expertise,” according to Zembla, a Dutch current affairs TV program.

Christian Democrat MP Pieter Omtzigt has called for a hearing and debate on the matter in Parliament.

Bureau Bosch, the consulting firm hired by Zembla to analyze Dutch pension fund investment results for the 20-year period ending in 2009, found that Dutch pension funds have allocated ever more to equities since the 1990s, resulting in excessive risk.

As a result, Bosch reported, the two crashes of 2002 and 2008 wouldn't have had such a devastating impact on the funds if pension funds had stuck with the safer investment strategies of the past.

Bureau Bosch found that over the period in question Dutch pension funds underperformed the MSCI Europe index, saying that “This underperformance cost nearly €80bn, which amounts to €145bn today if one takes interest and investment returns into account.”

That's an average loss of €20,000 (\$27,300) for each of the Netherlands' 7.5 million plan participants, Zembla said.

But consultant Frits Bosch said he never meant to say pension funds should not invest in equities. “In the past, strategic allocations to equities were too high, but this is a tactical game. There are times, such as the present, when fixed income might be riskier than equities. In the short term, it may well be better to invest more in equities.”

On average, Dutch pension funds now allocate 61% to equities, Zembla said. During the 2002 dotcom crisis, Dutch funds lost some €50bn. Their funding ratios dropped from 200% in 1989 to 124% in 2002. The credit crunch of 2008 causes the schemes to lose another €112bn, and the average coverage ratio dropped to just 95%.

Dutch central bank director Joanne Kellermann agreed that the funds “take too much risk.”

According to Zembla, the pension fund industry is wrong in arguing that risky investments keep pensions affordable. Under the more risk-averse asset mix of 1989 (which on average consisted of 10% property, 75% fixed income and just 15% equities) Dutch pension funds would have been €36bn richer today and would have a coverage ratio of 115%, the Bosch report said.