
German DC plans may 'go Dutch'

By Editorial Staff Thu, Jan 29, 2015

With companies trying to molt their pension obligations, Germany is thinking about allowing whole industries to set up collectively-managed, Dutch-style defined contribution plans, but with guarantees backed by a PBGC-like insurer.

The German government has presented a revised proposal to introduce “Dutch-style” pension plans covering whole industries that are part of collective agreements, IPE.com reported.

Under the new draft law, individual companies would be allowed to relinquish their pensions liabilities. The banking, metal and building industries are some of the few in Germany covered by single industry-wide schemes.

However, minimum guarantees, like those required in the Netherlands, would have to be offered by the pension plan, which would be protected under the existing pension protection scheme, or Pensionssicherungsverein (PSV), which is similar to the U.S. Pension Benefit Guaranty Corp.

In the autumn of 2014, the government published its first proposal, but the Germany's pension industry, wary of the inclusion of yet another vehicle in the second pillar (defined contribution plans), was critical.

The government's most recent proposal states that any new vehicle to cover entire industries must be set up as either a Pensionskasse or a Pensionsfonds.

But, as an exception, companies that are part of collective-bargaining agreements will be allowed to offer defined contribution plans. However, in this case, the pension provider will then have to offer minimum guarantees.

To ensure these guarantees, the new vehicles – be they Pensionsfonds or Pensionskassen – must be covered by the PSV lifeboat scheme.

Currently, companies that set up a Pensionskasse don't have to make contributions to the PSV, as Pensionskassen themselves are insurance-like organizations.

Pensionskassen set up as collective industry-wide vehicles, however, would not have to pay as much into the PSV as Pensionsfonds, the government said.

With the new pension plan, the government aims to increase the introduction of occupational pension plans in Germany, particularly among smaller companies that have so far been unable to take on additional liabilities.

The government has also mentioned the possibility of allowing companies that are not part of collective-bargaining agreements to join such industry-wide pension plans. It added that industry-wide pension plans would also “mostly solve the persisting problem of portability” in the German job market.

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