The staid world of Dutch pensions is evolving: ABP

By Editorial Staff *Thu, Nov 27, 2014*

Government, education and civil service pension ABP, which has 2.8 million participants in a country of less than 17 million, pointed to trends in the Netherlands that may sound familiar to American plan sponsors.

Life expectancy in Europe could eventually break through the “120-year ceiling,” and Dutch pension plans must be prepared for it, according to a report by the €334bn Dutch pension fund ABP, which covers government, education and public employees. ABP’s findings were summarized at IPE.com.

“Pension funds must look at ways of spreading the effects of longevity evenly across the generations,” the report said.

ABP, which has 2.8 million participants in a country of less than 17 million, pointed to pension trends in the Netherlands that may sound familiar to American plan sponsors: The need among participants for “clear and tailor-made” information, downward pressure on asset management fees, and demand for greater transparency.

“Pension funds are already divesting from high-cost asset classes, such as hedge funds and private equity,” low-cost pension vehicles are emerging, and pension arrangements are likely to be simpler and more uniform, the report said.

Increasing “individualization” in Dutch society, combined with an aging population, is apparently putting pressure on the traditions of collectivity and solidarity that underpin defined benefit pensions. Partly because Europeans are changing jobs more often and more are self-employed, and participants are demanding more flexibility in managing their own retirement accounts, the report said.

In defense of the collective retirement system, ABP argued that “a thorough explanation of the material advantages of collectivity and solidarity could help reverse this trend, and that improved management of individuals’ data could help produce tailor-made pension products.”

ABP said it expected the government to “decrease tax-facilitated pensions accrual” in defined benefit plans, causing Dutch workers to look for other ways to save for retirement. This, in turn, will accelerate the development of defined contribution products, it said.

ABP said population aging would require an increasingly defensive investment mix, with lower expected returns, and warned that the growing mobility of capital would weaken the benefits of diversification.

Consolidation among Dutch pension funds will also continue, particularly among employer-sponsored plans, while cost-cutting on pension arrangements and the increase in the official retirement age will increase the "uniformity" of pension plans, ABP said, predicting that "there could be no more than 100 pension funds left in 2020."