Recent Pension Developments in the Netherlands

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Key pension elements in the Netherlands (in 2000)

- 2nd pillar (occupational pensions) very large: ± 125% gdp
- Mostly defined benefit
- Corporate and industry wide pension funds, separate legal entities
- Liabilities discounted at fixed rate of 4%

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Relevant trends/developments

- Financial markets: steady fall interest rates, stock market bubble
- Dramatic fall in pension coverage ratios
- Aging of population and of pension funds
- Change in accounting rules

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Supervisory actions

- Recovery plans requested
- Financial assessment framework (in force January 2007):
  - Market valuation
  - Risk based solvency requirement
  - Contributions based on costs of new pensions
  - Disclosure towards participants
  - Short term vs long term

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Results (so far)

- Changes in pension contracts
  - final to average wage
  - indexation conditional (optionality)
- Risk transfer from sponsor to participants, but collectivety remained
- Funds more aware of interest rate risk
- Increased search for yield: alfa, alternative investments