Network for Studies on Pensions, Aging and Retirement

The Effect of the Dutch Financial Assessment Framework on the Mortgage Investments of Pension Funds

"Mortgage investments help to boost pension funds' performance"

Yeorim Kim and Mauro Mastrogiacomo – VU Amsterdam and DNB

Following the financial crisis of 2008-2012, the Netherlands published the new Financial Framework (FTK) in 2014 to make Dutch occupational pensions more sustainable, stable and resilient. Since the framework's publication, mortgage holding under pension funds has soared as they have sought to recover from the crisis and improve their financial performance. Low interest rates have contributed to this trend but only to a modest extent.

Principal Findings

- Recovery modes after the 2008-2012 financial crisis combined with the new FTK have led to a 36% rise in mortgage holding by pension funds.
- Funds that experienced larger reductions in the funding ratio during the 2008-2012 financial crisis have invested more in mortgages since 2014.
- Funds with a relatively safer portfolio allocation that underwent recovery plans have invested more in mortgages too.
- Pension funds that underwent recovery plans have supplied more mortgages since 2014 than funds without those recovery modes, but this mainly applies to funds closer to the target funding ratio.
- Worse-performing pension funds tried to improve their financial position and sustainability by investing in safer mortgages and further hedging interest rate risks on mortgages held.

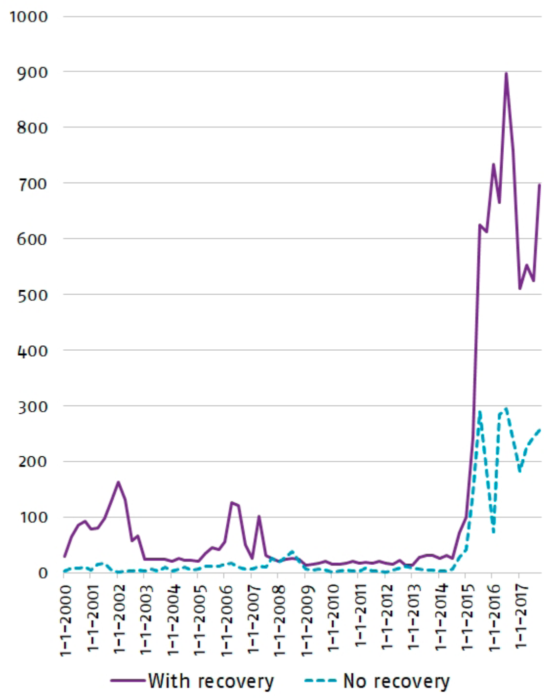

Figure: Total mortgage investment of two types of pension funds (€ million per quarter)

Key Takeaways for the Industry

- Pension funds have invested more in mortgages since the financial crisis to reduce their risks and improve their financial performance.
- However, mortgage investments remain a relatively small component of overall pension fund investments.

Want to know more? Read the paper **'The Effect of the Dutch Financial Assessment Framework on the Mortgage Investments of Pension Funds'**

As a knowledge network, Netspar facilitates independent, academic research on pensions and aging; www.netspar.nl