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NETSPAR MAGAZINE

New types of administrators for a more future-proof pension system

Greater risk in benefits phase, but in moderation

GPF: godsend for insurers, employers and participants

Theme: The new dynamic in pension administration

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CONTENTS

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WORK IN PROGRESS

The Premium Schemes (Improvements) Act entered into force on September 1st 2016, preceded by the enactment of the General Pension Fund Act at the start of the year. This legislation paves the way for new types of pension administrators and new pension products. This magazine will provide you with a glimpse of this exciting new dynamic in the pensions landscape. We discuss the General Pension Fund (GPF) as a new pension vehicle, as well as pension products that can now be developed under the provisions of the Premium Schemes (Improvements) Act. What kind of impact will this have on the market and on individuals?

Netspar organized a meeting on July 5th to discuss the opportunities and challenges presented by the new Premium Schemes (Improvements) Act. During the lively discussion, we shared the latest financial and economic insights regarding the development and design of the new variable benefit products. Other topics included projected interest rates, buffering against shocks, sharing the longevity risk, important aspects of risk sharing in investment policy, communications and the duty of care.

Initial reactions from academia, regulators and the pension sector have been positive. It is expected that the new legislation will gradually bridge the gap between contribution plans and benefit plans. Furthermore, PPIs and GPFs, as new pension administrators, will likely improve the resilience of our pension system, helping to make it more future-proof. The ink on the new legislation is barely dry, however, and the market is just now exploring the new opportunities.

Plan participants are the focus of all this dynamism. It is they who will be faced with more options and possibilities, after all. It can even be said that individuals are now free to shop around on the pension market, which is transitioning to a retail model. There are risks involved in this shift. These risks should be addressed, but to what extent? Do we need to protect people from themselves? Pension administrators are facing a different duty of care, and they will have to think long and hard about how best to fulfill their obligation to their participants.
Pension advisors have a clear opportunity to expand their repertoire as they consult with employers on making the best possible choice between an insurer, PPI, GPF, or voluntary participation in an industry-wide pension fund. Employers, in turn, have a role to play in ensuring that individual participants receive transparent and clear information on the new options available.

Financial institutions are also facing a learning curve; you can't establish a GPF overnight, after all. As with so much in life, the devil is in the details: there are legal restrictions in place that can prevent an industry-wide pension fund from establishing a GPF, for example. The rapid pace of events is giving rise to myriad questions deserving of detailed answers. It really is work in progress. Netspar is fully engaged in this dynamic process. We are building a solid foundation of expertise on this complicated topic and we are providing a platform for dialogue and debate.

Casper van Ewijk, Director of Netspar

Jacqueline Lommen

'NEW TYPES OF ADMINISTRATORS FOR A MORE FUTURE-PROOF PENSION SYSTEM'

The advent of the General Pension Fund (GPF) is no threat to the Premium Pension Institution (PPI). Rather, they complement each other, states Robeco's Jacqueline Lommen. 'These new pension administrators will be instrumental in making our pension system even more future-proof.'

Jacqueline Lommen

'The GPF didn't simply come out of nowhere,' says Lommen, who is Robeco's executive director of European pensions. 'The General Pension Fund is a result of a policy that was initiated fifteen years ago, and that has been implemented step-by-step. At the time, a major impetus for developing this policy was the implementation of the IORP Directive that set forth European rules for pension institutions.'
The policy has been fairly consistent, according to Lommen. 'There was a great deal of debate about which ministry and which legislation should govern such an institution, but it all got settled in the end. As a result, we now have pension administrators in the Netherlands – PPIs and GPFs – that are owned by financial institutions. This is a typical operating model in many countries, including France and Germany.'

Initially, GPFs were going to be called GPIs (General Pension Institutions). 'People often said that the GPI was a no-brainer,' tells Lommen. In the end, however, the GPI assumed the form of the GPF. 'The arrival of these new administrators will change the market landscape.'

A great deal of effort went into discussing GPF regulations. 'The Netspar meetings brought a wide range of stakeholders together and helped to disseminate information and expertise about the GPF throughout the sector,' explains Lommen, 'which is easier for a research institute than for a private party or the government.'

PPIs came into existence in 2011, when insurers, banks and pension administrators established ten of them. 'The PPIs now manage approximately four billion euros in pension entitlements and capital, which is a fantastic result.'
It was expected that the PPIs would compete primarily with insurers. 'Some clients are indeed SMEs that have insured plans,' Lommen explains, 'but there is another, even more important group.' That group consists of major companies and pension funds that place their DC top-up plan with a PPI. In these plans, employees accrue individual pension entitlements over and above the maximum allowed by the basic plan. 'Or company pension funds that were placed in industry-wide pension funds. They often had a top-up plan that was placed with a PPI.'

Lommen says that the growth of the PPIs is proof that market forces can have a positive impact on the pension market. 'Competition has caused fees to drop, while service has improved thanks to increased automation. We expect to see similar developments among the GPFs.'

The advent of PPIs, which only administer DC plans, is fully in keeping with the gradual transition from DB to DC plans. However, this transition is not of the essence, according to Lommen. 'Who bears the risk? That's the crux of the matter. The pension administrators or the employers traditionally bore the risk. In recent decades, the participants themselves have gradually taken on more and more of the risk. These days there is hardly any difference between a DB/CDC or DC plan. Switching to DC results in lower cover ratio requirements. This is because the pension administrator no longer bears the risk. In addition, a switch to DC also means an end to the constant discussions about the actuarial interest rate. This rate no longer plays a significant role, because you're working with accrued capital and personal retirement accounts. It is essential, however, to make sure participants are aware that the risks have shifted to them, and to ensure that they are optimally protected against unnecessary risks.'

Improved contribution plan

Lommen feels that the Premium Schemes (Improvements) Act is a positive development in line with this trend. 'This improved contribution plan is a middle course between DB and DC plans.'

The introduction of this legislation means that PPIs can play a role in the benefits phase. Until now, at the end of the accrual phase a PPI had to transfer the capital to an insurer or pension fund because of the mandatory payment guarantee. This is no longer the case with variable benefits. 'As long as the PPI is not at risk, then it may also become active in the benefits phase. The PPI will place the macro longevity risk with the participants or with an insurer, just as pension funds and insurers do. The micro longevity risk will be shared mutually among the participants, with the caveat that the risk pool must be large enough for all pension administrators.

Personal and collective

The Premium Schemes (Improvements) Act allows for two types of variable benefits: a personal variant and a collective variant. 'We have calculated whether these variants affect the amount of the predicted benefit. The difference is in fact negligible. The choice between a collective or individual variant will largely be determined by individual company culture.

Life Cycle Investment

There is a great deal of expertise in the Netherlands in the field of life cycle investments for DC plans. In life cycle investment, the investment risk decreases as the participant ages. 'We have extensive experience when it comes to adjusting investments to liabilities. We have been doing so for years in ALM studies for DB plans. You can apply this expertise to DC plans and use it to protect individuals from risk.'

This has resulted in third-generation life cycle products. 'In the very first life cycle products, the participant could choose from a wide variety of investment funds. The second-generation life cycle products are made up of 'target date' funds. These are funds in which the investment mix and the risk reduction are adapted to the participant's retirement date. In third-generation life cycle funds, the participant only uses two funds: a return fund and a matching fund. The mix is adapted to the individual participant's age. 'Both underlying funds invest in accordance with the latest insights, and the investment strategy can be adjusted as needed. It is a simple concept with low costs, optimal risk management and the greatest possible return.'

According to Lommen, the Premium Schemes (Improvements) Act is a harbinger of a further shift toward retail thinking in the pension landscape: ordinary financial products that consumers can choose from. 'Participants have more freedom of choice, and greater latitude to shop around for the best deal for the benefits phase. This means that the second and third pension pillars will gradually merge. We are already seeing that pension funds in the UK tend to be responsible for the accrual phase, whereupon PPIs and insurers take over for the benefits phase. Net pensions are yet another example of this trend. I fully expect banks, investment houses and insurers to develop products on the retail market that are aimed specifically at paying out accrued pension assets.'

Premium Pension Institution (PPI)

- PPIs came into existence in 2011.
- They administer individual pension plans. The participant accrues capital. On retirement, the participant can convert the capital into a benefit payment.
- PPIs may not bear risks; they must place insurable risks such as longevity risk with an insurer.
- Insurers, banks and pension administrators have set up ten PPIs.
- These ten PPIs together manage about €4bn in assets.
- The introduction of the Premium Schemes (Improvements) Act means that PPIs can also play a role in the benefits phase. They may offer a variable benefit.


Karina Raaijmakers


Bart Bos

'THE HOUSE IS FINISHED, BUT WE STILL NEED TO FURNISH IT'

The Premium Schemes (Improvements) Act is new for regulators, too.

'We need to coordinate regulation to prevent duplication.'

The Premium Schemes (Improvements) Act gives DC participants greater choice. This means that administrators must help participants to make a sound decision. Asking participants to make these kinds of choices is new for administrators, especially for many pension funds.
The regulators, both of whom applaud the introduction of the Act, each have their own responsibility.
The Netherlands Authority for the Financial Markets AFM focuses on the provision of information and product development. The Netherlands Central Bank DNB keeps its eye on risk management, investment policy and feasibility. 'The legislation is brand new, but the details still have to be hammered out. As far as regulation goes, the house is finished, but we're still working on the furnishings,' says Bart Bos, Chief Examining Officer at DNB.

Participants with a contributory plan receive two opportunities to make a choice between a fixed or variable benefit starting on their retirement date.
The first opportunity is a provisional choice fifteen years prior to retirement. This choice affects the investment policy. If the participant opts for a variable benefit, then the administrator will reduce the risk less than in the case of a fixed benefit.

Karina Raaijmakers, head of the Insurance & Pensions domain at AFM, understands that it's difficult to get participants enthused about their pension at that time in their lives. 'We know that people tend to remain rather ambivalent about their retirement finances until much closer to the actual date. Nevertheless, the administrator will have to endeavor to get the participant to make an informed choice. It can do so by providing participants with information on the advantages and disadvantages of both variants, preferably tailoring the information to the participant's specific situation and needs. The administrator can also create a robust mechanism to help participants make sound choices. The point is to assist participants in making a choice; the administrator does not necessarily have an advisory role.'
The participant's second opportunity to make a choice comes on the day of retirement. 'At that point, the participant may decide to revisit his or her earlier decision,' explains Raaijmakers. 'However, the participant bears all risk for any adverse consequences relating to such a switch.' If a participant initially opts for a variable benefit and later rescinds that decision, then the participant may be putting his benefit at risk, because the interest risk towards the retirement date may not have been reduced.

According to Raaijmakers, employers have an important role to play when it comes to advising employees who need to make decisions regarding their pensions. 'The advantage is that the employer is closer to the employee. Providing this kind of advice can make an employer more appealing to potential employees. Some employers even offer their employees consultations with independent advisors to help them understand their financial situation better. This, too, can be a real benefit to the employer, because employees who do not have to worry about their finances tend to be more productive.'

An administrator is not required to offer participants a choice between a fixed and variable benefit. However, if participants do not have a choice, then they are entitled to shop around for another administrator that does offer fixed or variable benefits as options. 'It is as yet unclear whether all administrators will offer both.'

This is a new situation for AFM, too, so the regulator will be consulting with parties on the pension market. Raaijmakers explains: 'We need to look closely at the extent of the duty of care, for example, and that will require a dialogue with the sector.'

Pension administrators can learn from the insights on behavioral economics that AFM has compiled in its report on breaking down barriers ('Neem drempels weg'). If you know that your coworkers are seeking advice from financial professionals, then you will be more likely to seek advice for yourself. 'The golden formula has not yet been devised. We know why many methods do not work. On the other hand, our understanding of the methods that do work is still limited,' says Raaijmakers.

Product development

Under the auspices of the Financial Supervision Act, AFM is entitled to monitor product development at insurers and PPIs. The new Premium Schemes (Improvements) Act also paves the way for PPIs to become active in the benefits phase. 'We are monitoring a number of issues, including, of course, whether the client's interests are being properly served,' says Raaijmakers. 'We take a risk-based approach to reviewing new products. These products are new and complex, so it is important for us to monitor their development.'

AFM does not have this authority over pension funds and GPFs, which are covered by the provisions of the Pensions Act. 'Nevertheless, we are eager to monitor the development of products provided by pension funds and GPFs under the new legislation,' Raaijmakers explains.
Under the auspices of the Financial Supervision Act, DNB is authorized to exercise prudential supervision of insurers and PPIs, which includes scrutinizing their decision-making processes and risk management in product development.

The Pensions Act governs DNB's supervision of pension funds. Bos of DNB is resolute: 'Clearly, the two regulators should be cooperating.'

Life Cycle

The Premium Schemes (Improvements) Act involves more than just the introduction of variable benefits. 'The new legislation also applies to existing pension plans, which is highly relevant,' explains Bos. 'The Act explicitly states that a life cycle investment is the appropriate form of investment for DC plans. Other forms of investment must be submitted to DNB for approval. The administrator must tailor the investment risk to the various generations. Under the new legislation, the administrator must now also take account of the participant's choice for a fixed or variable benefit. This means that pension administrators must develop two life cycles that start to diverge starting at a certain age.

DNB will also closely monitor the practical feasibility of the Act. Bos explains: 'Some of the new rules may result in increased complexity during implementation. We will keep an eye on operations to ensure that the interests of the public come first.'
An example of a rule that can increase complexity is the provision that prohibits a PPI from including insurance risks on its balance sheet. 'The risk can be divided into a macro longevity risk and a micro longevity risk. At the macro level, we are all growing older on average. The risk at the micro level involves an individual growing older than average. An insurer can assume both risks from the collective, which can result in highly complicated constructions. Prior to the Premium Schemes (Improvements) Act, a PPI would transfer the participant's pension capital to an insurer to finance a fixed benefit. Under the new legislation, the PPI itself can now offer a variable benefit.'

Parliament and the regulators still have quite a few details to iron out. Bos explains: 'There's no point in trying to work out all the details while the ink is still wet. We will give shape to the regulatory procedures during the implementation phase. That's when the pension administrators will come to us with questions. We will use their questions and other input to develop more complete information for publication on our website, ensuring that our interpretation of the Act is transparent.'

Since September 1st 2016, contribution plan participants may also take risks in the benefits phase. Professors Theo Nijman and Bas Werker see this as a positive development that helps to bridge the gap between contribution and benefits plans.

GREATER RISK IN BENEFITS PHASE, BUT IN MODERATION

Theo Nijman, Professor of Pension Management and Econometrics at Tilburg University, and Bas Werker, Professor of Finance and Econometrics at the same institution, are positive about the Premium Schemes (Improvements) Act, which took effect on September 1st. 'We applaud this legislation, which is bringing contribution and benefits plans closer together. It goes without saying that we were very happy to work on reports for the Dutch Parliament on how the new law should be drafted. Furthermore, we are pointing out issues that insurers, pension funds and other parties should keep in mind as they develop their products,' says Nijman.

The researchers expect that the Premium Schemes (Improvements) Act, also known as extended investment, will affect more and more pension participants and administrators. 'The legislation applies to individual DC plans, so it also applies to Premium Pension Institutions (PPIs). The percentage of individual DC plans is still relatively low, but it is growing,' says Werker. Shell is a well-known example of a large company that has switched to an individual DC plan for new employees.

The new law is in keeping with the trend of providing fewer guarantees. 'As soon as you allow people to take on additional risk, you need to consider the potential consequences for the individual and for society,' says Nijman. 'You have to protect participants from themselves. You need to prevent them from burning through too much income in the early years of their retirement, and you need to make sure they understand the risks. There are people out there who say it's your own responsibility. We think it would be wise to incorporate some restrictions.'

You have to protect participants from themselves. You need to prevent them from burning through too much income in the early years of their retirement, and you need to make sure they understand the risks.

'There's a societal aspect to all of this too. If the income of a large group of retired people falls, they will make greater use of public income support such as housing or healthcare allowances. In that case, all taxpayers will end up footing the bill for the adverse effects of the additional risk. The trick is to develop products such that risks are mitigated,' according to Nijman.

The actuarial interest rate plays a crucial role in contribution plans, just as it does in DB plans. Setting this rate has therefore been a topic of hot debate. It is called a projected interest rate in contribution plans. In the end, though, both individual and collective DC plans must use the DNB risk-free rate. Werker: 'It is possible, however, to use the advantage of a variable benefit for a higher initial benefit payment, with lower payments as time goes on.'

Since September, participants have been able to choose between fixed and variable benefits. The standard benefit is the fixed benefit. Werker: 'If an administrator does not offer a choice, then participants can go to another administrator. In other words, they are entitled to shop around.'

There are basically two types of variable benefits. The first is a benefit that increases depending on investment yield. 'If we assume an average return on investment, then the benefit will gradually rise over time. This is a smart way to have your pension rise along with inflation,' says Werker.

Participants may also opt for higher initial benefit payments. This involves taking an advance on the expected additional yield. If that yield falls short, then later benefit payments will drop.

Nijman and Werker have calculated the range of outcomes based on a maximum of 35% of assets in marketable securities. Their calculations resulted in cigar-shaped line graphs. The outer lines represent the results of good and poor scenarios. Inside the cigar there is a straight


Theo Nijman


Bas Werker

line representing a fixed benefit, and above it there is a rising line showing the expected benefit. These graphs show that the results can vary considerably over a span of two decades. 'The difference after ten years is not that great at all, which is why we advise a horizon of twenty years. Participants can then get a better grasp of potential negative consequences,' says Nijman.

Warning

Although both professors are in favor of the Premium Schemes (Improvements) Act, Nijman warns about the proliferation of opportunities to tap into pension reserves early. 'These days people have at least four ways of tapping into their pension early,' he laments. The first is social security compensation for older workers who retire prior to their social security retirement date. They can use a portion from the second pension pillar to compensate for the lack of social security benefits. The second way involves moving up the second-pillar benefit, the third is the traditional high/low construction, and the fourth is the Premium Schemes (Improvements) Act. Nijman points out: 'We will have to wait and see whether this proliferation leads to undesirable situations. A complicating factor is that administrators that are responsible for only a part of an individual's pension will not be aware of the participant's full financial situation.'

Premium Schemes (Improvements) Act

- In effect since September 1st 2016, also known as 'extended investment'.
- Participants in a contribution plan (DC plan) may convert their pension capital to a variable benefit. Previously, participants were required to purchase a fixed benefit. Now they have a choice.
- In the case of a variable benefit, part of the capital remains invested. This may lead to additional returns, but also to greater fluctuations.
- PPIs, insurers, pension funds and GPFs may administer the variable contribution.
- Participants bear the financial risks of the variable benefit on an individual basis.
- They share the longevity risk with their fellow participants.
- Participants may opt for a variable benefit as of September 1st 2016. It will be mandatory as of January 1st 2018.

GPF: GODSEND FOR INSURERS, EMPLOYERS AND PARTICIPANTS

Starting this summer, employers can avail themselves of a General Pension Fund (GPF) for their pension plan. This applies both to insured plans and to funds that are being discontinued. How do GPFs complement the existing range?

The General Pension Fund is the up-and-comer in the pension sector. Since the summer of 2016, employers and employees can mutually decide to transfer their pension plan to the new type of administrator, rather than opting for an insurer or traditional pension fund. Insurance companies have been at the front of the line to set up GPFs.

Frits Bart, Director of Policy & Relationships at Aegon, says it is not at all surprising that all major insurers have established a GPF. 'A GPF is a logical step for an insurer. They want to offer employers an alternative to the high cost of the fixed-interest and longevity guarantees in insured defined-benefit pension plans, which insurers offer by default. Moreover, these insurers, working through subsidiaries, are often the administrators for these pension funds. A number of insurers, including Aegon, will continue to offer insured pension plans.'

> An insurer has an interest in setting up a GPF. The insurer gets the status of preferred supplier. It could theoretically lose that status at a later date.

A GPF is the odd one out in an insurer's portfolio. The insurer founds the GPF, but the foundation then goes its own way. The GPF is independent; it has no formal relationship with the insurer. The founder may not be a shareholder in the GPF, for example. 'An insurer has an interest in setting up a GPF. The insurer gets the status of preferred supplier. It could theoretically lose that status at a later date, although that would be a strange state of affairs. Such a schism could start with dissatisfied clients who, despite filing complaints, see no improvement over time. I really can't imagine that a GPF and an insurer would let things get that bad,' states Bart.

In the run-up to the introduction of GPFs, the Dutch parliament asked quite a few critical questions about insurers' profit targets combined with founding GPFs.

Bart puts things into perspective: 'I think it can be a healthy combination. Just look at the Premium Pension Institutions (PPIs). They are administered by commercial parties, which has had a positive impact on products, performance and pricing.'
According to Bart, the fact that employers and pension funds have a choice means that GPFs must continuously focus on aspects like price, quality of administration, investment policy and communication. 'There are market forces at play that benefit both employers and participants,' he says.

GPFs focus on two types of clients. The first group consists of company pension funds that can no longer survive on their own, or whose administrators wish to transfer them. This may be due to the relatively high demands placed on the administrators, or because the fund is no longer large enough to warrant the financial risk. After the fund is discontinued and the assets and liabilities are transferred to the GPF, the employers and participants, united in the stakeholders body, retain a say in the administration of the pension plan.
An employer from this group of clients and his employees may also agree to pursue a different pension accrual strategy following transfer to a GPF. In this case, there are three possibilities. First, a defined contribution plan with a PPI. The final pension is dependent on investment yields. Second, an insured plan in which the insurer guarantees the nominal benefit. Third, accrual in an industry-wide pension fund. Discounts in stormy weather scenarios are not excluded.
The other group of clients consists of employers with pension plans insured directly by an insurer who are seeking an alternative to an insured DB or DC plan.

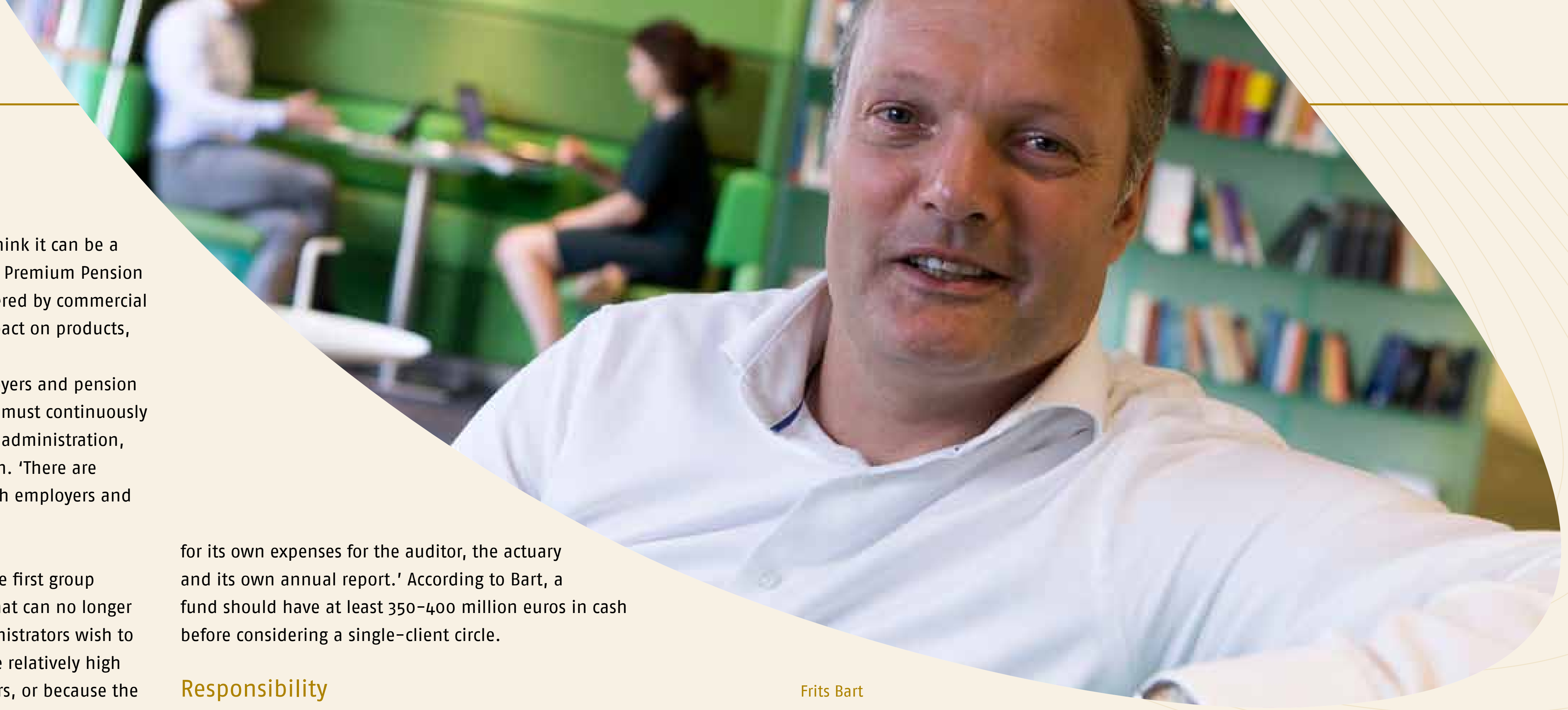
Separate circles

Employers and employees can take advantage of economies of scale by placing their pension plan in a multi-client circle together with the pension plans of other employers. 'That means you share costs with the other participants in the GPF. You can also keep your capital separate in your own single-client circle.
This is known as ring-fencing, and it involves sharing the board and the administration with the other GPF participants. You can even cooperate with other employers up to a point when it comes to asset management. However, a separate circle is responsible for its own expenses for the auditor, the actuary and its own annual report.' According to Bart, a fund should have at least 350-400 million euros in cash before considering a single-client circle.

Responsibility

Bart points out the heavy responsibility that rests on the shoulders of advisors who work with employers as they select a new administrator, especially now that employers can choose between an insurer, PPI, GPF or voluntary membership in an industry-wide pension fund. 'It's difficult to draw a comparison, because the pension administration systems are so very different. Furthermore, the providers all have their own system for setting the contribution and the accrual rate, and they all calculate their participants' degree of risk differently.'
As an example: STAP, the GPF founded by TKP/Aegon, applies an age-related cost-effective contribution and the DNB interest rate structure when setting contributions. 'A GPF does not necessarily have to work that way, but we do find it to be the most transparent method. It precludes intergenerational transfers, and returns with an excessive initial estimate will not result in redistribution later. Moreover, it becomes far more likely that you'll be able to make good on promises to your participants regarding supplements.'

Some industry-wide pension funds that welcome funds seeking discontinuation calculate the contribution differently. They use a system of averages with a cushioned contribution. 'The calculation of the contribution is based on the expected yield or the average interest rate instead of the market interest rate. This results in a higher accrual rate for the same contribution,' Bart explains.



Frits Bart

'An advisor should work with the employer to gain insight into these aspects to help him understand the implications of the differences in risks, returns and guarantees. A GPF that calculates returns based on market interest rates will have a lower accrual rate, but the likelihood of indexation will be greater. On the other hand, an industry-wide pension fund that uses an expected return will be able to offer a higher accrual rate for the same contribution. The likelihood of indexation will then be lower, and pension payments may be cut in the case of disappointing returns. It's a complicated decision because of the fundamental differences. It's not just about saving a few pennies here and there.'

General Pension Fund (GPF)

- GPFs are new in 2016. They are pension administrators that can run the pension plans of multiple employers.
- A GPF is an interesting additional option for company pension funds that cannot continue to operate independently, and that might otherwise seek transfer to an insurer or to an industry-wide pension fund.
- Insurers, pension administrators and companies can found a GPF, but the GPF is an independent organization. The founder is generally the preferred supplier.
- Most current GPFs have been established by major insurers.
- An employer may join other employers in a collective circle. Their investments are then also pooled in such a circle.
- An employer may also form an individual circle. The GPF can manage different circles separately (ring-fencing).
- United in the stakeholders body, employers and participants can influence GPF policy.


René Maatman

'COOPERATIVE GPF INTERESTING FOR LARGE COMPANIES'

Companies are not yet prepared to set up their own general pension fund (GPF). 'You can place an old and a new pension fund under the auspices of a single board in a GPF', explains pension lawyer René Maatman. 'This can be very advantageous for a company with both a closed fund and a DC fund,' he continues.

GPFs are new in 2016. There are basically two types: a commercial and a cooperative model. 'Each type has its own peculiarities,' says René Maatman, partner at De Brauw Blackstone Westbroek and Professor of Asset Management at Radboud University. 'Insurers are marketing GPFs specifically at company pension funds. These are commercial GPFs. Employers and company pension funds may jointly establish a cooperative GPF to administer the pension plans and funds.'

Maatman recognizes the appeal of a GPF for an insurer or pension administrator. 'A GPF beckons: come and join us. Sit back and let us take care of all the red tape.'

The pension lawyer, who previously worked at the Netherlands Authority for the Financial Markets AFM, knows from experience just how tricky it can be to merge funds. Maatman was closely involved in a project to establish a voluntary industry-wide pension fund for the financial sector on a cooperative basis. This merged pension fund never got off the ground.

Maatman says that it takes considerable perseverance to set up a cooperative GPF. 'It is not easy to set up a cooperative GPF together with other funds. It involves seemingly endless rounds of consultations on the structure of the fund. It really eats up time in the short term, even though you may be considering this option precisely because you want to devote less time to fund administration.'

Making it work is another matter. A number of financial institutions put forth a joint effort to establish a cooperative GPF, but their initiative came to nothing. Unilever hoped to establish a GPF for their own closed DB fund and a new DC fund. They indicated that the process was more complex than expected.

GPFs are subject to strict rules, which act as a barrier. 'Many of these rules are in place to ensure the GPF's autonomy and to prevent rake-off, which are aspects that are not really that relevant for a cooperative GPF.'

Maatman is convinced that a cooperative GPF can certainly be an interesting option for large enterprises. 'A GPF offers a wealth of opportunities for companies hoping to switch from DB to DC. A GPF can apply ring-fencing. This means that an old DB plan and a new DC plan can be merged in a GPF under a single board.'

Ring-fencing

Years before the phenomenon of ring-fencing became common in the pension sector, Maatman conducted research into this concept on behalf of Netspar. 'I worked with Sander Steneker, who is also affiliated with Radboud University. He is the pre-eminent expert in the Netherlands in the field of separated assets,' explains Maatman.

In conducting this research, the two specialists were able to combine know-how on the pension sector with expertise on ring-fencing. They have already published two Netspar papers on these topics. 'Separated assets have traditionally been a vexing problem in Dutch law. Separated capital is at odds with the rule that a debtor is liable for his debts with all of his assets. This rule is enshrined in law, and only new legislation can provide exceptions to it. So it's not enough to simply rescind the ban on ring-fencing. The law must expressly provide for the separation of specific assets.'

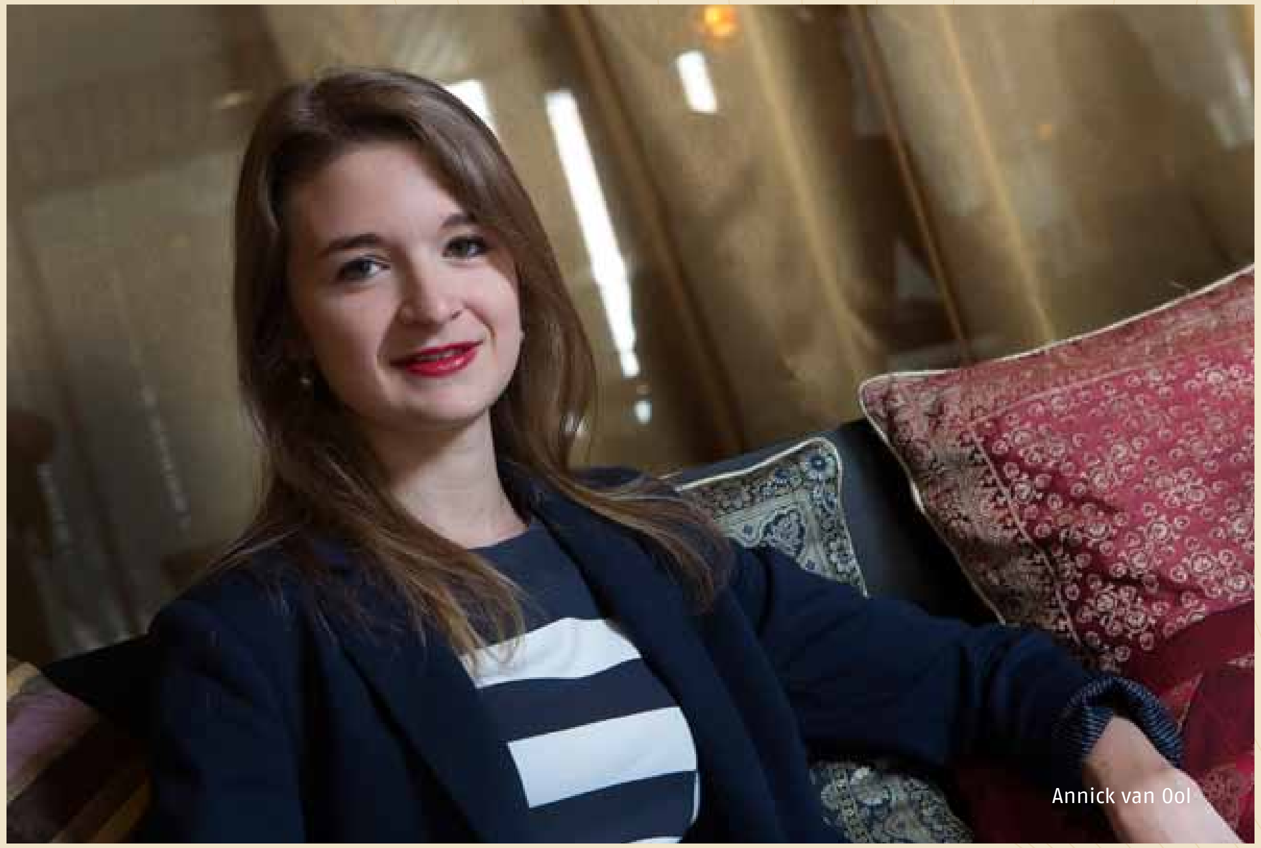
Industry-wide

Mandatory industry-wide pension funds may not establish GPFs, although this was the initial intention. 'This is a limiting factor. About 70 percent of managed assets are in industry-wide pension funds. These funds would have an easier time transitioning to a new pension system with personal retirement accounts if they could establish GPFs. An old DB fund and a new fund could then be merged in a GPF.

The Council of State is doubtful about the desirability of separated assets in mandatory industry-wide pension funds. 'The Council reasons that lifting the ban on ring-fencing will have a negative impact on solidarity within the fund. When ring-fencing is in place, funds can no longer flow between circles. According to the Council, this state of affairs will erode solidarity and endanger the requirement for industry-wide pension funds.' Maatman disagrees with the Council of State's reasoning. "The European Court of Justice approved the requirement in 1999. The Court found that the ban on ring-fencing was not essential for allowing the requirement, nor was lifting the ban. The Court will assess whether there is sufficient solidarity to retain the requirement. Sufficient solidarity can be mustered in separated assets too.' State Secretary Jetta Klijnsma of the Ministry of Social Affairs and Employment will look into this issue in greater detail.

STUDENT PROFILE ANNICK VAN OOL

Annick van Ool was initially a bit doubtful about her choice of a Netspar Track. Soon enough, though, it turned out to suit her interests and ambitions to a tee. "I really wanted to do something with the math skills I acquired during my Bachelor's in Econometrics, but I wanted to apply them in a practical way so that you can see right away what the effect will be on individuals. Pensions are a perfect topic in this regard."


Annick van Ool

Relevance

"While studying Econometrics as an undergrad, I really wasn't sure about where I wanted my future to take me. I did an internship at Willis Towers Watson to get a better idea of where my interests lie. That's where I got acquainted with the topic of pensions. I was sold immediately, because pensions are so socially relevant. Moreover, it's a dynamic field that's often in the news: pensions are a topic of lively debate. There's still much to explore and improve!"

Dynamism

Annick completed her Netspar track with an internship at De Nederlandsche Bank, where she researched extended investments following the retirement date, part of the new Premium Schemes (Improvements) Act. "There were two sides to my research. First, how much investment risk is a participant willing and able to take in view of his or her age? And secondly, how do you divide the pension capital over the entire retirement period on the date of retirement? This depends on the projected interest rate. The exact role of this interest rate became a topic of discussion while I was conducting my research, so I modified my research question slightly. That was a little nerve-racking, but it was also great to be part of that dynamism and to focus on topical matters. In other words, to be engaged in truly relevant research. As a bonus, I got to attend all sorts of interesting meetings and I even went to the Upper House Parliament! I'll never forget it!"

In 5 years...

All doubt has dissipated. Annick knows exactly what she'll be doing in the years to come: "I have a job at DNB, in the pensions department, where I'll be gaining work experience. Alongside my work, I'll be spending part of my time on a PhD at Maastricht University. Naturally, I hope to use my thesis as a basis for my doctoral research. In any case, my aim is to conduct policy-oriented research with practical relevance. That's what energizes me!"

Conducting research that is practical and relevant. That really energizes me!

RECENTLY PUBLISHED PAPERS

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Colophon

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Netspar, the Network for Studies on Pensions, Aging and Retirement, is a 'think tank' and knowledge network. Netspar is dedicated to promoting a wider understanding of the economic and social implications of pensions, aging and retirement. Expertise from scientific research is used to transfer knowledge through publications, events and education. With that, Netspar actively contributes to the social dialogue between policymakers, scientists and pension and insurance practitioners.

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