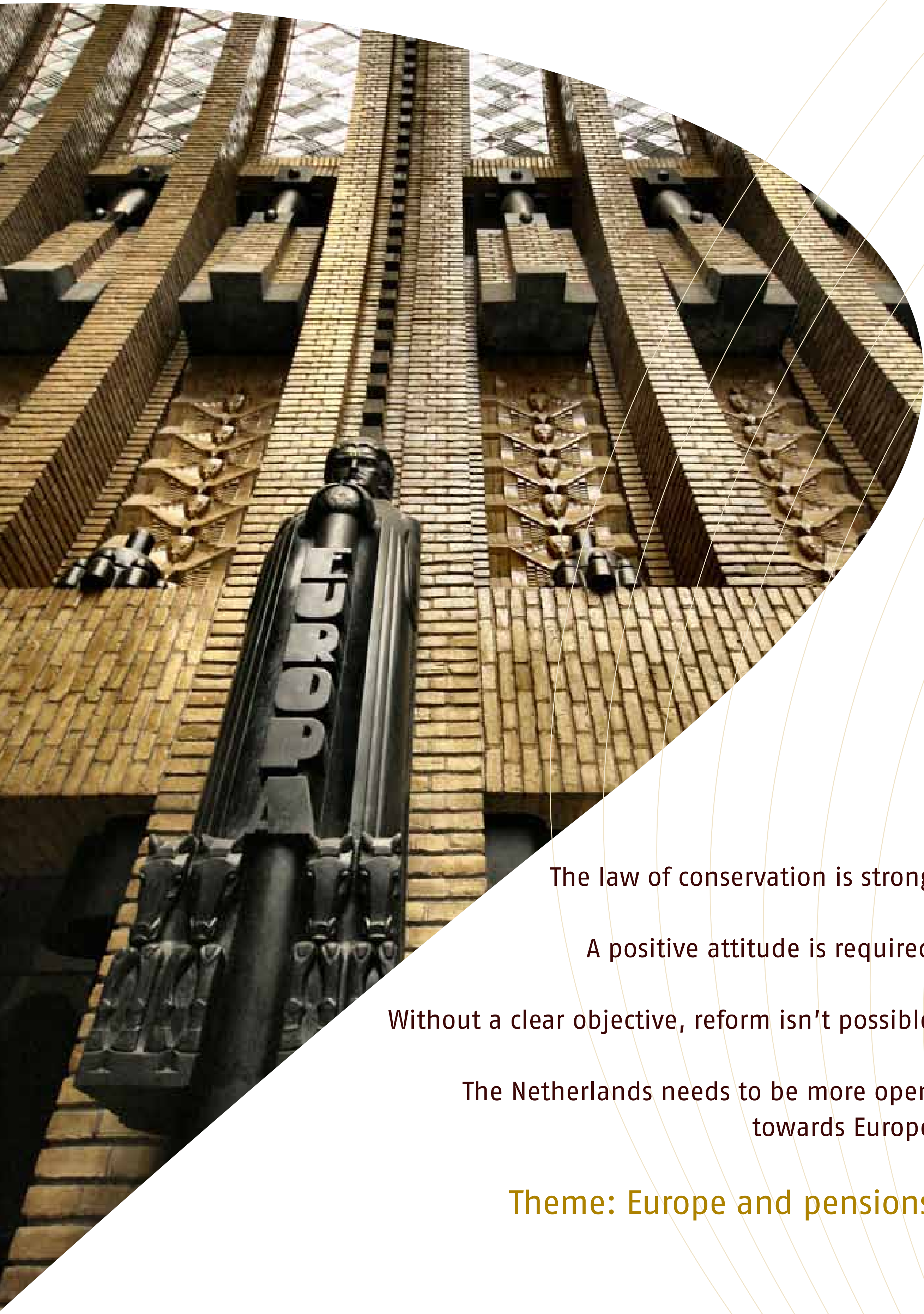
Netspar
Network for Studies on Pensions, Aging and Retirement

ISSUE 23
AUTUMN
2017

# NETSPAR MAGAZINE



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## Theme: Europe and pensions

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## Theme: Europe and pensions





# WHAT EFFECT WILL EUROPE HAVE ON THE DUTCH PENSION INDUSTRY?

A myriad of developments are underway in Europe at the moment in the area of pensions, making the question as to what the growing European influence could mean for the Dutch pension industry all the more important. New regulations and legislation are expected governing investments, information provision, and transparency. At the same time, new cross-border pension products are being developed and greater numbers of people are living and working in multiple countries for varying lengths of time. Moreover, the looming Brexit is already shifting political spheres of influence, given that an influential country that also has a funded pension system will no longer have a seat at the European table. All of these developments bring with them both threats and opportunities for the pension industry. Netspar partners have accordingly indicated that they are committed to the development of knowledge on the intricacies of the European policy discussion. A survey of the members of the Partner Research Council produced a concrete overview of the target areas for Netspar.

One of these focuses on the new pension products under the so-called third pillar (personal savings). The initial version of the regulations completely failed to take into account the life-long nature of pensions common in the Netherlands. Netspar naturally views it as part of its mission to use the knowledge acquired with regard to such matters as improved DC schemes and addressing longevity risk to achieve the best possible design of these Pan-European Pension Products (PEPPs) and ensure that they align with Dutch preferences and institutions. Other examples include improving the quality of second-pillar (or occupational) DC schemes in the EU, international rollovers, transparency, the role of pension funds in stimulating the economy, and socially responsible investing. These are matters on which Netspar has a great deal to contribute, with its in-depth knowledge and thorough methods.

At the time of writing this preface, that initial survey has been worked into a concrete, concise proposal for the PRC as part of the preparations for Netspar's 2019-2023 Action Plan. The new, fully executed action plan will be presented to the partners of Netspar in the spring of 2018

with the request that they renew their commitment to Netspar for another term. In this issue of the Magazine, we are pleased to report on some of the European dossiers and examine the basics: the role and influence of Europe, legislative initiatives, market developments, new products, and the (literal) movement of individuals across European borders. Of course, it would not be Netspar if we did not also consider what we might be able to learn from Europe. I wish you pleasant reading.

Theo Nijman,
Scientific Director of Netspar

Yves Stevens

Yves Stevens

# “THE LAW OF CONSERVATION IS STRONG”

The Netherlands has managed to block or weaken a number of new European regulations. Yves Stevens, Professor of Social Law at KU Leuven, watched it happen with admiration. “It takes a lot of hard work to make sure nothing changes,” he says.

Stevens has studied European social systems for decades, and this uncooperative response to regulations from the European Commission or the regulatory agency EIOPA does not surprise him. “It’s the law of conservation. As soon as regulations come from the outside, people see it as a threat to the status quo,” he explains. He understands the resistance to Brussels on the part of the Dutch pension industry and Dutch politicians. “The Netherlands has a robust second pillar (occupational pensions system),” he continues. “It’s only logical that you’d want as little interference as possible.”

The Dutch pension lobby has been very effective to date, in his estimation. “It managed to stave off application of the Solvency II insurance standards for pension funds,” he says. “The so-called holistic balance sheet thought up by EIOPA has also been shelved. The Netherlands is an absolute master at this game. They know the right people to influence. It has been a pleasure to watch. A lobbyist must work very hard to make sure nothing changes. The outside world may think you’re doing nothing, but the opposite is true.”

Stevens does advise against the Netherlands sitting back and resting on its laurels. “Some people assume that Solvency II and the holistic balance sheet are dead and buried, but that is not my conclusion based on discussions with the stakeholders. Solvency II and the holistic balance sheet will return to the agenda – possibly in modified forms,” he warns.

Some people likewise view the PEPP regulations for a standardized pan-European, third-pillar pension product as a threat. “To begin with, PEPPs are of little interest for the Netherlands because it already has third-pillar products (personal retirement savings plans). People of a suspicious nature might see them as a Trojan horse. Any pension provider can offer a PEPP product and PEPP providers will most likely fall under Solvency II. That could lead one to conclude that all pension providers will then fall under that regime. I do not believe, however, that the introduction of the PEPP is part of some hidden agenda,” he asserts.

## Advances

For the time being, the Netherlands continues to join forces with Britain, since the British have a comparable system and have traditionally been equally averse to too much European interference. “The Netherlands is already preparing for Brexit,” Stevens points out. “The Dutch are now making advances toward the Germans, French, and Finnish.”

This search for allies is necessitated by the fact that the Dutch system deviates in so many ways from those of other EU member states. “The Dutch system is atypical,” he continues. “Take Belgium, for example. Our basic assumptions are entirely different. A Dutch person views his second-pillar pension as a form of added social protection. For a Belgian, the supplemental pension is pure capital, wages that he has saved up over the years. He wants to have all that money at once and then he can spend it all at once on an apartment or a car. Supplemental pensions are perceived entirely differently.”

### Scientific Council Looks Forward

Yves Stevens is a member of the Scientific Council that advises Netspar. The council is chaired by Monika Bütler of the University of St. Gallen and comprises fourteen members from foreign universities. The advisory body has two tasks: to evaluate research proposals and to prioritize topics of interest for future research. “In selecting research projects, we consider such variables as feasibility, methodology, the relevance of the proposed project, the level of experience of the researchers, and the multidisciplinary nature of the project,” says Stevens. “We also look into whether the research will be performed in a research-focused environment.”

The Scientific Council regularly draws up a list of topics expected to grow in importance in the future. “We routinely see topics that we have suggested recur on the Netspar research agenda,” Stevens continues. He cites two topics as being of interest in the near future: the growing number of independent contractors without supplemental pensions and the return of the holistic balance sheet idea. He also expects that the debate about the aging population will become more heated. “Aging is no longer a future phenomenon, but something we are facing here and now,” he says.

One consequence of these differing views is that Belgians are more indifferent to the European regulatory zeal. “As long as they don’t have to suddenly pay additional taxes on the wages they’ve saved, they are not very interested. Things are different in the Netherlands because the regulations could impact people’s retirement income,” says Stevens.

The Dutch system is built on a sound first-pillar foundation (the state pension). “The Dutch social security system is well constructed. It has achieved its objective, preventing poverty among the elderly. Other countries are interested in the Dutch approach,” Stevens says. Most people receive life-long benefits from a pension fund on top of their social security. He does think the Netherlands is facing a problem, however. “The group of workers who are not saving any supplemental pension is growing as the number of independent contractors increases. They are not required to save for retirement,” he points out. “That group is growing more quickly in the Netherlands than elsewhere. One of the reasons for this is that online purchasing is more customary there. That has led to the disappearance of normal jobs, which are being replaced by people free-lancing, such as part-time delivery persons."

One of the great challenges Stevens foresees is bringing this group of workers on board. "I do not expect more permanent jobs to materialize," he says. "One cause of that is sick leave pay, which is a big risk for a small company. They worry about hiring people under con-tract." The Netherlands will have to tackle the problem itself, however. "Europe has no jurisdiction over social law. That is a national affair. It does have influence over financial and economic matters in the context of promoting the free exchange of people, goods, and services," he adds.

## Implosion

Stevens believes the three-pillar model of saving for retirement is silently imploding in some European countries. The second pillar (occupational pensions) is losing out against the first (state pensions) and third (personal savings) pillars. "Poland presents the most extreme example of this. There, the entire second pillar has been distributed over the other two pillars: one fourth was added to the first pillar; the rest went to personal accounts that fall under the third pillar. This is a form of cross-pillar reform that we are going to see occur more frequently throughout Europe," he predicts. "The measures instituted then impact the dynamics between the three pillars. A government might decide, for instance, to cut back on the second pillar in favor of the third."

The professor is not of the opinion, however, that the Dutch pillar system will similarly implode. "It is too deeply rooted in the general society for that. In addi-tion, the second pillar is so strong that you could not easily shove it aside," he says. In fact, Stevens foresees little meaningful change occurring in the Netherlands in the short term. "People have been mumbling about introducing a new system for years but little changes. Take, for example, the option of withdrawing a portion of your accrued pension all at once, as permitted almost everywhere else in Europe. The topic has been on the agenda in the Netherlands for a very long time, but I've seen very few concrete proposals," he says.

## Gerard Riemen, Director of the Federation of Dutch Pension Funds:

# "SOMETIMES WE NEED BRUSSELS"

Gerard Riemen

"We absolutely do not feel that the European Commission is out to compromise the Dutch system. That is not their intention," asserts Gerard Riemen, Director of the Federation of Dutch Pension Funds.

The way we respond to Europe's plans is crucial, he believes. "If you start out saying No, you are no longer part of the discussion. We say, 'We understand that you might want to regulate this or that, but we would like to point out some adverse effects for Dutch pension funds.' One example is the EMIR rule governing the central clearing of derivatives, such as swaps. Pension funds do not yet have to comply with those rules, but we cannot remain exempted forever. No simple solution exists for this issue, unfortunately. The pension industry and the Dutch central bank have been working on one for some time," he explains.

The Federation of Dutch Pension Funds and the European Commission have some shared concerns, according to Riemen. "The European Commission is concerned about the adequacy of pension systems in the EU. It also believes the Netherlands has its affairs in good order, for the most part. We are eager to help devise solutions. It is our belief that promoting second-pillar (occupa-tional) pensions, with a certain degree of mandatory participation and collective risk sharing, could lead to better pension arrangements in other countries. We are also very wary about using the term 'mandatory,' though. We try to avoid it, because it provokes such negative reactions in many countries. What's important is to get large numbers of workers to participate. You can also accomplish that through auto enrolment, such as in England," he says.

In the near future, the European Parliament will be taking up a proposal for the PEPP, a standard European form of personal pension savings in the third pillar. "This is not of great importance for the Netherlands, since we have had such products for a long time now. It could well be a remedy for other countries, though. We have no way of knowing that. Our focus is on making sure that the PEPP regulations do not interfere with the role demarcation between pension funds and insurers or mandatory participation. The present pro-posal would allow pension funds to offer PEPP products. That would threaten the demarcation between roles since the funds would then be operating in the insurers' field. A solution needs to be found for that. Not to mention, pension funds have no need to offer PEPP products," says Riemen.

"Brussels can sometimes also provide a helping hand to Dutch pension funds," he adds. "One of the European Commission's basic principles is that investors should not have restrictions imposed on them. That becomes important to us if The Hague starts wanting to mandate investment practices, such as the call by outgoing minister Kamp for more investment in the Netherlands."

The Federation of Dutch Pension Funds is concerned about the role EIOPA is taking on. "We have watched in consternation as EIOPA has expanded its mandate. One sign of that is the fact that this European regulator from Frankfurt is demanding more and more information. Moreover, we are the ones who must finance this European oversight. Finally, EIOPA is working on a proposal for a pension system to operate alongside the existing one, which is an intangible process," Riemen reports.

Dutch central banker Olaf Sleijpen has a foot planted in both the Netherlands and greater Europe, with his role as Director of Regulatory Policy at the DNB and a seat at the table with the European Insurance and Occupational Pensions Authority (EIOPA). He is aware of the resistance people have to rules emanating from Brussels but urges them to remain open-minded. "Europe is not aiming to undermine the Dutch system," he says.

Olaf Sleijpen

# "A POSITIVE ATTITUDE IS REQUIRED, BUT WE MUST ALSO REMAIN ALERT"

Olaf Sleijpen

Sleijpen realizes that the automatic reflex is to view European legislation as a threat to the Dutch pension system. Banks are under European regulatory oversight, and insurers, too, must contend with a growing number of European guidelines. "The fear people have that the second pillar (occupational pensions) is headed that same direction is unjustified," asserts Sleijpen, who has a front-row seat at the discussions. He joined the board of EIOPA this summer as the only Dutch person on it and attends at least fifteen EIOPA meetings in Frankfurt each year.

Pensions will always be a largely national affair, according to him. "Pensions in the second pillar are intertwined in a country's labor law and tax policies," he says. "Those are areas in which Europe does not make the rules, which means there is no need to take a defensive posture." Sleijpen, who is also an endowed professor of European Economic Policy at Maastricht University, is a proponent of adopting a more positive approach to the European regulations. "We have a system of which to be proud. We have managed to accrue a large amount of capital in both relative and absolute terms. Working in EIOPA with 28 other members states, I have noticed that people are very interested in the Dutch approach. The Netherlands is closely involved in EIOPA's activities and people tend to listen to us," he explains.

Because it is so highly developed, the Dutch pension system also opens up opportunities. "We can influence the regulations," he continues. "For one thing, we can help see to it that the level of regulatory supervision and of pension providers in other countries is elevated. A good example of this is sustainability. Large Dutch funds such as ABP and PFZW are light years ahead of other European funds on that front. We also pay closer attention to sustainability in terms of regulation. The Pensions Act requires that funds state what their sustainability policies are. This approach has been largely incorporated into EIOPA rules." Other countries also regard the Netherlands with envy for its communications procedures. "Dutch examples such as the Pensions 1-2-3 information program are often used in discussing best practices. The approach has not yet been applied elsewhere, but it has generated a great deal of interest," Sleijpen says.

Since the Netherlands has national legislation that is more comprehensive than the new European rules in many areas, any fear of becoming tangled up in those rules and regulations is unwarranted. "That is not to say that we don't have to keep a sharp eye on the European regulations," Sleijpen says. "They can sometimes have unintended consequences for the Dutch system." He cites the legislation pertaining to PEPPs, the European standard for personal pensions in the so-called third pillar (personal savings plans), as an example. "PEPPs have little to offer us," he continues. "We already have a mature system and third-pillar options. The PEPP is intended more for countries where there are still very few options for saving for retirement." The risk lies, according to him, in the fact that under the current structure, both insurers and pension funds can offer PEPP products. "Once the pension funds are able to start offering third-pillar products," he explains, "they are verging into insurers' territory. That could raise questions about the demarcation of services and mandatory participation. It's a sensitive issue. This could be an undesirable side effect of PEPPs. We need to be vigilant about that here in the Netherlands," Sleijpen concludes. He adds that he is referring to unintended side effects. "I have never gotten the impression that the idea is to undermine the Dutch system," he emphasizes.

Another matter that could affect the Dutch pension industry is the withdrawal of the United Kingdom from the EU. Since England has a pension system that resembles that of the Netherlands, that country has traditionally been seen as a natural ally in discussions involving pensions. "The British system definitely has some Dutch traits, but you could not call the two systems equivalent," Sleijpen points out. "The British system differs in some vital respects and is less well developed than the Dutch one. In DB schemes, for instance, the sponsor's guarantee still plays a critical role there. In the Netherlands, that guarantee has practically disappeared."

One consequence of the key position held by sponsors was that politicians assumed that the regulatory authority would also monitor the employers. "The regulators are not set up for that," Sleijpen continues. "Moreover, they lack the tools for truly monitoring companies. This led to some mistakes in the past for which the regulators were blamed, but they rightfully pointed out that the government had saddled them with an impossible mandate."

Another difference with the Netherlands, is that consolidation efforts in the UK continue to falter. "We are much further ahead on that. The quality of the administrators is also a problem. They have fewer requirements to meet in England than in the Netherlands. As a result, the consultants there have much more influence," Sleijpen explains. Because of these sizeable differences between England and the Netherlands, he does not expect Brexit to have a large adverse impact on the Netherlands in the European pensions arena. "Even though we are a small country, people listen to us," he says.

Despite the years-long talk of cross-border pension providers, little has come of it in practice. "It would be a great solution for multinationals. The differences in labor law and tax legislation are so great, however, that it is difficult to establish a pan-European fund," says Sleijpen. Nor does he expect the situation to change any time soon: "There are no initiatives on the agenda to harmonize that legislation, though one might be able to conceive of pragmatic solutions that would overcome the border issues. PEPPs could be a launching point for a standardized pension product that employers could introduce in multiple countries."

## EMIR

Certain rules that are not necessarily targeted at pension funds can still have a large impact on their role as institutional investors. This is true of EMIR, the body of legislation aimed at making capital markets more stable and transparent. "EMIR mandates central clearing for derivatives," Sleijpen explains. "This makes the market more transparent and reduces counterparty risk. One of the primary focuses, understandably, is that funds maintain greater levels of collateral. This can lead to them having to sell assets to generate liquidity reserves, which can in turn compromise their returns. Let me start by saying that EMIR is a step forward. It might make transactions more expensive, but that is the cost of greater transparency and stability. At the same time, pension funds are well served by deep, liquid capital markets. We at the DNB, together with the Dutch Ministry of Finance and members of the pension industry, have been searching for some time for a solution to the collateral problem, but it is no simple task. We still haven't figured it out."

## Fintech

"Some people have the idea that pension funds are trailing in terms of adopting fintech," Sleijpen says. "That has not been my experience. Even before the word 'fintech' came into wide use, the large funds were working on new systems and data processing. Remember all those personal portals? Participants still cannot usually directly access their data, but that will change. The cabinet wants to move toward a more personalized pension system. That presents a nice opportunity for making personal online environments more customized, even to the extent of allowing participants to change some things themselves."

### Egbert Bouwhuis, Adviser with the Dutch Association of Insurers

# "EIOPA SHOULD NOT BE GIVEN GREATER AUTHORITY"

For Dutch insurers, the deliberations concerning the Pan-European Pension Product (PEPP) are the most pressing policy dossier in Brussels touching on pensions. "We now have a proposal," says Egbert Bouwhuis, a Europe expert with the Dutch Association of Insurers. "We do not expect PEPPs to have much effect in the Dutch context. Banks and insurers here already offer such products and there is sufficient competition. In other countries, with less well-developed pension systems, PEPPs may well improve the offerings and stimulate competition. In that sense, they also provide opportunities for Dutch insurers operating in other EU countries.


Egbert Bouwhuis

"We would like to see modifications in three areas. First, under the present proposal, a PEPP must comply with the national tax regulations of 27 countries. We think very few providers will be able to meet that demand. As a result, you will not have any greater range of products or increased competition, which defeats the intended purpose. We think it should be possible to offer a PEPP designed for a more limited number of countries."

The second matter concerns the so-called right to shop. "It is unclear whether participants have a right to shop when they start taking their pension benefits. We would like to see this explicitly included in the PEPP regulations," Bouwhuis says. The third point of concern is one that has also been raised by the Federation of Dutch Pension Funds. "The proposal would allow IORPs (providers of occupational retirement plans) to also offer PEPP products. Pension funds and Premium Pension Institutions (PPIs) fall under this category. For industry pension funds, this raises the question of how this relates to mandatory participation. We believe that PPIs should be given that opportunity. A solution needs to be found for that," he asserts.

Insurers are also wary of the potential consequences of the communications provisions in the IORP directive, in terms of the methods they use for keeping their members in the Netherlands informed. "The Netherlands leads the way in this area," Bouwhuis says. "Participants take in the information better when not too much is offered all at once. In the Netherlands, we therefore provide information in layers. The directive should be incorporated into the Pensions Act in such a way that we can continue to do things our way."

The Association of Insurers shares the Federation of Dutch Pension Funds' criticism of EIOPA. "EIOPA should not be given greater authority", says Bouwhuis. "We believe that this European supervisory authority needs to provide leeway for differences in communication practices between countries. There is a good reason that no subsidiary legislation is included in the IORP directive."

With regard to the EMIR rules, the insurers point to the fact that they must maintain cash as collateral for interest rate derivatives. "That affects insurers because that is money that they then cannot invest. Moreover, they are being treated differently than the pension funds, which have received a reprieve for now. They do not yet have to comply with that rule," Bouwhuis points out.

Stefan Lundbergh

# “WITHOUT A CLEAR OBJECTIVE, REFORM ISN’T POSSIBLE”

Stefan Lundbergh shuttles literally and figuratively between the Dutch and the Swedish pension systems. He is director at Cardano and recently issued a recommendation on the Swedish state pension. One thing he finds missing in both countries is the political courage to make the tough decisions.

Stefan Lundbergh

Lundbergh spent this past summer writing his recommendations for the Swedish government pension. “It was a fairly traditional, conservative recommendation in my opinion. To my surprise, though, the leftist parties were enthusiastic about it and the right-wing parties weren’t. In the Swedish pension debate, left has become right and right left,” he exclaims.

The current Swedish system dates from the nineteen nineties, when a broad coalition of five political parties reached agreement on it. Those parties have veto power over any changes. “The good thing is that means the pension system cannot simply be changed if a few of the parties desire it. But the drawback is that any single party can obstruct necessary adaptations. That explains the current impasse,” Lundbergh says. Despite the lack of action, many people believe that the existing structure needs to be revamped. “The recommendation that I drafted is already the fourth. All the previous ones failed to produce any change. I have spoken with two of my predecessors. They had a more limited mandate but came up with similar recommendations as mine,” he recalls.

The recommendations covered DC pensions, the individual, funded portion of the state pension. Both contractual employees and independent contractors must set aside 2.5% of their income in mandatory plans under the care of the government. This first pillar in the Swedish system represents a compromise between the left and the right. The left is happy about the mandatory nature and egalitarianism of the so-called income pension (pay-as-you-go with a buffer). The right received options for participants and competition between portfolio managers working with DC pensions (individual DC plans).

Lundbergh warns that the present construction shifts the tail risk (disappointing returns) to taxpayers. “If first-pillar pension benefits – social security in the true sense of the word, a means of preventing poverty – are disappointing, many people will have to rely on other forms of social welfare, such as rent subsidies. That must all be paid for by taxpayers,” he explains. He contends that social welfare benefits, such as this portion of the state pension, need to be robust. “It is no great accomplishment for the social welfare system to function well when things are good,” he continues. “What’s important is for it to survive through the bad times. That is the ultimate test of social welfare.”

That is also the premise of the recommendations made by the Lundbergh Commission. “Our number one recommendation is that the purpose of a regulation must be clear,” says the head of the commission. “The governance needs to align with that. That is not currently the case. The objectives of the investment arm are left up to the pension fund, AP7, even though the government is ultimately responsible.”

## Propaganda

When the DC pension was introduced, much was made of the freedom of choice it offered. “It was generally suggested that the sensible thing was to take advantage of the possibilities for choosing for oneself. Participants could select from among 450 investment funds at the time,” says Lundbergh. “As a result of that propaganda, almost two thirds of participants chose their own funds, but that was where it ended. Many of them remained in the funds they had chosen at the very beginning. Among the young people who’ve joined in recent years, only a half percent have taken advantage of those options.”

In drafting the recommendations, he called on the help of Monika Böhnke and Lisa Brüggen of Maastricht University. Böhnke and Brüggen, who are also affiliated with Netspar, have studied the psychology of freedom of choice. “The findings from their survey of a representative sample of 3,000 respondents are surprising and instructive. Only 13% of those who chose for themselves felt sure about the choice they’d made. Participants who appreciate having options tend to be optimistic about their future income anyway. However, participants who made a choice within their DC pension plan were not any more optimistic about their financial future. Finally, the non-decision-makers are predominantly risk-averse. Those are the people who end up with the default option,” Lundbergh summarizes.

## Nobel Prize

Lundberg also called upon Richard Thaler, co-author of the book Nudge: Improving Decisions about Health, Wealth, and Happiness, among other accomplishments, for his study of the Swedish DC pensions. That was before Thaler received the Nobel Prize in Economics this October for his work in the field of choice architecture. His big breakthrough was the idea of designing choice architecture in such a way that the behavior of the largest group of users played a much greater role. “We know that the vast majority of people choose the default option,” Lundbergh says. “You need to additionally provide that group with a couple of other options: something less risky and something riskier. That is more than enough choices for most participants.

“Then you can create a small door for the small group of people who really want to compile their own investment portfolio and actively invest. That door only opens to you if you sign a document in your own blood, in a manner of speaking, stating that you are aware of the risks and can afford to take them.” Only after doing that can the participant access the environment in which he can select funds. "Such a form of choice architecture is much better suited to the behavior we observe," Lundbergh concludes.

## Selection

Interestingly, the study by Böhnke and Brüggen revealed that most participants are definitely aware of what they need to look out for in choosing an investment fund. "They mention such things as cost, expected returns, and risk. Providers were last on the list. Based on those answers, one might assume that participants are making decisions based on the right reasons. If you then ask them what they know about their fund, however, they are unable to answer many of the questions. Yet, more than half of respondents do know which portfolio manager operates the fund," Lundbergh recounts.

He concludes from this that competition in this domain is not functioning well. "Because participants are ill informed and fairly uninterested, their decisions tend to be determined by marketing and advisers. That is the wrong kind of competition and fails to lead to better products at lower prices," he says. The unshakeable belief some politicians have in the blessings of competition is one of the reasons the Swedish system has still not been modified. "Those who believe that competition automatically leads to better products and greater efficiency do not want to admit that it doesn't work," he continues. "The facts are on the table, but some people hold fast to their opinion."

The current system offers participants too many choices. As a result, they make no choice at all and end up with the default plan; or they take on an adviser. Those advisers have introduced funds into which they steer their clients. Selling these plans was not difficult, according to Lundbergh. "Practically every adult in the country is a participant," he points out. "Advisers tended to target somewhat older participants, because they've already saved a considerable sum. The funds being marketed, though, were primarily beneficial for the adviser."

He believes the system should be designed so that advisers do not earn money from the funds they recommend. "The system needs to eliminate this sort of behavior by breaking the link between the adviser and the fund," he asserts. He also believes the supply of funds should be limited. "Because it is an open platform onto which any provider can place an investment fund, it has become like the wild west. What I'm arguing is that we need a sheriff. Some agency needs to come in and maintain order. It can determine which funds should be offered based on a clear-cut set of criteria. No one benefits from a choice of 900 investment funds," he says.

Because it is an open platform onto which any provider can place an investment fund, it has become like the wild west.

## Parallels

Lundbergh sees a number of parallels with the Netherlands. "In the Netherlands, there is also a lot of talk but little change. That, too, is related to the lack of a clear objective and vested interests. The purpose of the pension system, in my opinion, is to have all workers build a pension. If that is true, then we must make it mandatory for everyone. In the Netherlands, however, you have a growing group of independent contractors who aren't saving any pension. You have to adapt pension systems in a timely manner to those kinds of social trends. If you don't, the system lags behind such changes and slowly erodes," he explains.

Lundbergh definitely does not believe that regulations coming out of Europe constitute a threat for the pension system. "Look at MiFID2, with the know-your-client principle. That's a good thing. It prohibits the sale of products that a client doesn't understand," he says. In that sense, he regrets that the Swedish DC pension does not fall under MiFID2; state pensions are not covered by the guideline. "That is curious, since in Sweden, it is much more comparable to a consumer financial product," he points out.



Anouk Bollen

Anouk Bollen

# "THE NETHERLANDS NEEDS TO BE MORE OPEN TOWARDS EUROPE"

European pension systems do not complement one another. This hampers labor mobility and is disadvantageous for the millions of Europeans who work across the border in other EU countries, warns Anouk Bollen. "Any new regulations must take into consideration the possible effects on these cross-border workers," she says.

Bollen, Professor of Cross-border Pension Tax Law at Maastricht University, has observed that while many politicians prioritize freedom of movement for people, they often fail to address the practical issues involved. "One good example is the increase in the social security entitlement age. That becomes a problem for a Dutch person working in Belgium, where you are dismissed when you become 65. The question then becomes how that employee is supposed to bridge the financial gap until they can receive social security," she illustrates.

This is merely one of the many examples of the mismatch between national pension systems. Tax rules and definitions vary widely, for example. Moreover, workers accruing pensions in more than one EU member state have nowhere to turn for a complete overview. There is no European equivalent to the Dutch personal pension summary website Mijnpensioenoverzicht.nl.

"The number of people confronted with such differences is growing," explains the professor. "Approximately eight million Europeans currently work somewhere other than their home country. That number is expected to rise even further, in part as a result of more mobile employment. Mobility will also be bolstered by future shortages in the labor market caused by an aging population. Such shortages can often only be met with workers from other countries."

Little is known about the demographics of cross-border workers. It is, however, evident that the differences between them are great. The heterogeneous group includes both financial experts working in Luxemburg and Belgian nurses working in a hospital in Maastricht, as well as expats and Polish and Romanian handymen. The exact breakdown in terms of industries and countries is unknown.

"That lack of good numerical data can be blamed on the manner in which the data is collected. Each national statistical institute uses its own country as the basis. Eurostat also examines topics according to country. As a result, it remains unclear how many people are being adversely affected and what the negative effects might be. That, in turn, makes it difficult to get this topic on the agenda. The first question is always: How many people are affected?" Bollen laments.

In an effort to open a window on this issue, the Institute for Transnational and Euregional Cross Border Cooperation and Mobility (ITEM), which Bollen directs, aims to improve data collection practices. "We are working together with Statistics Netherlands (CBS). This kind of data collection is currently viewed as a supernumerary task, something requiring additional budget. It should, however, fall under the fixed responsibilities of the CBS and be part of the regular budget. Limburg, as a border province, shouldn't have to be the only responsible party. It's an issue in other border provinces, as well," she points out.

## Meddling

The Netherlands tends to take issue with European regulations governing pensions. Dutch politicians and the country's pension industry consider any guidelines issued to be unnecessary meddling. "The pension system is a national matter. The cabinet rejects any additional European rules that encroach upon that authority," to cite the Rutte III coalition agreement. Bollen argues for being less defensive. "The Netherlands will only be harming itself if it continues to wear blinders and resist the European rules. When something is unavoidable, it's better to make the best of it. As it reforms its pension system, the country would be well advised to consider the long-term implications in terms of the applicability of Dutch rules in relation to the European rules and policy agendas," she points out.

Bollen believes the uncooperative stance stems from the uniqueness of the Dutch system. "We are the exception in Europe. In our system, the first and second pillars (state and occupational pensions) are equally important. Together, they constitute some 45% of pensions; the remainder derive from personal savings. In other countries, such as France and Germany, state pensions are much more dominant, and these are also linked to a person's work history. That first pillar is a national affair, something over which Brussels exerts absolutely no influence. The European regulations impact the second pillar, which causes us to have a greater problem with them," she summarizes.

Brexit will only make matters worse in Bollen's estimation. "The British system resembles ours more than any other," she says, "and in that sense, they have been our pension partner in the European Union. Once Brexit is a fait accompli, we will be left on our own, giving us little recourse against superpowers like Germany and France."

Bollen feels that, on many fronts, the Netherlands is holding out. "For one thing," she continues, "we are holding fast on our taxation rights over pension capital accrued here. That is logical, but it must be well substantiated and explained in the tax treaties. The existing situation sometimes involves convoluted regulations." The same phenomenon is at work with the mobility guidelines, she believes. Ideally, pensions should be portable to other countries. "The Netherlands has been digging in its heels on this, fearing that pension capital will flee the country," she says.

It is difficult, of course, to have everything arranged in the European context the way the Dutch do it. "Take pension commutation," she continues, "which is allowed just about everywhere under certain conditions, except in the Netherlands. We are seeing some give on that front. In cases of a rollover to a foreign pension fund, the tax authorities no longer impede the subsequent commutation of the pension."

## Simplified framework

One solution for these types of issues would be a simplified framework for everything related to pensions. "It would be a big step forward if everyone in Europe were to use the same principles for what qualifies as a pension. That is something different than harmonizing pensions. Such a simplified definition would be a tremendous improvement for transferring pensions from one country to another," Bollen points out.

Bollen argues for taking a less resistant stance. "We need to be more open towards Europe and not see everything as a threat," she mentions. "There is a danger of turning too far inward. We are going to have to deal with a range of European regulations no matter what. Look at the rules pertaining to the monetary union."

Bollen considers the PEPP (a European personal pension product) an example of something that should be viewed more as an opportunity than a threat. "If that concept takes off, multinationals could concentrate their pension schemes in a single country," she points out. The fact that it is a third pillar, or personal savings, option need not be a problem. "Multinationals don't think in terms of second and third pillars. They aim to provide their employees with a pension in the best, most cost-effective manner as part of their compensation and benefits package. It would be preferable if that could be accomplished in a single country. To that extent, the Netherlands must continue to also think in terms of European opportunities. You cannot assume that large corporations will retain their pension plans in the Netherlands. A multinational does not have any sense of loyalty toward a particular country; it will easily switch to a different one if things are better, more efficient, and less expensive there," she explains.

The notion of a unified Europe with pension systems that are not constrictive and work in other countries is still a dream – not to mention that the new Dutch cabinet hardly appears eager for greater European influence. Nevertheless, Bollen sees some hope on the horizon. "There is a greater propensity than previously to consider the consequences of new regulations and legislation for cross-border workers at an earlier stage. People are also working to develop a European pension register, which will be an arduous undertaking. It will start with just a few countries, but the very fact that people are working on it is a positive sign," she concludes.

# STUDENT PROFILE GÜLIN ÖYLÜ

Gülin Öylü studied Economics and the Netspar Track at Tilburg University. Her interest in the topic of aging was aroused when she attended a presentation about aging population worldwide. "A new and challenging topic", she explains, "however, I was not considering to continue my study in this area, until I attended Netspar's introduction meeting."


Gülin Öylü

"What attracts me the most about the subject of aging, is that it is a broad area and there are a lot of things to be done. I am especially interested in non-economic motives behind retirement decisions. For my thesis - Joint Retirement Decision of Couples in Europe - I analyzed the effect of a partner's partial and full retirement decision on the other partner's retirement. I found that there is indeed a correlation between the choices people make regarding their retirement and the retirement status of their partner. Women are more likely to retire after their husband's both partial and full retirement. On the contrary, men's likelihood of retirement increases only when their wives retire partially. They tend to postpone their retirement if their wives retire fully."

## Exiting

"The Netspar Track courses provided both theoretical and practical knowledge about pension systems and aging and were therefore a thorough preparation for the future. Since issues are viewed from different dimensions, I got acquainted with other disciplines as well, such as finance, health economics and behavioral economics. And events like company meetings are very helpful to find out different career opportunities. But for me, the most exciting part was the conference 'Pension Day'. Here, I learnt about new ideas from different perspectives and current debates about pensions and aging. Seeing these issues in different dimensions and hearing researchers' enthusiasm, made me more motivated and was a confirmation that choosing the Netspar Track was the right decision."

## Ambition

"Currently, I live back in my home country Turkey. The population here is relatively young compared to Europe, but there are aging problems as well. Although increasing slightly, the retirement age in Turkey is still lower than in Europe, as is the share of the private pensions. The government is currently working on solutions for these issues. I hope to contribute to the many developments, preferably from within the research department of a company or institution.
My ambition is to analyze implications of public policy reforms for current economic problems including aging, and propose solutions for them. In that sense, I believe that my experience in Netspar Track will be very helpful."

*I am especially interested in non-economic motives behind retirement decisions.*

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Colophon

**Netspar Magazine** is published by Netspar, the Network for Studies on Pensions, Aging and Retirement. Netspar Magazine is distributed digitally. To subscribe or unsubscribe, contact Netspar.

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