

# Income effects at and after the transition to the new Dutch pension contract

“The new pension contract affords the flexibility to tailor pension incomes to participants’ preferences”

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**How will the collective investment strategy, allocation of total returns, assumed interest rate, and smoothing term affect pension incomes under the new Dutch pension contract? We examined the income effects at both the time of transition to this new scheme and in the longer run. We also compared the income generated under the current scheme (FTK) to that under the new scheme (SPO).**

Probabilities for yearly pension income	Year after transition				
	0	5	10	15	20
SPO exceeds FTK	100%	73%	87%	89%	83%
SPO more than 2.5% higher than FTK	0%	43%	64%	72%	71%
SPO more than 5% higher than FTK	0%	8%	37%	51%	53%
SPO more than 2.5% lower than FTK	0%	0%	2%	5%	12%
SPO more than 5% lower than FTK	0%	0	1%	4%	9%

Figure: Sample comparison of pension income under the current pension scheme (FTK) and the new Dutch pension scheme (SPO), for different years after the transition.

### Principal Findings

- With commonly assumed settings, there is a 50% chance every year of an income increase of more than 1%.
- If the transition occurs at a funding rate of less than 100%, a cut in benefits upon implementation of the new contract can be avoided by using an assumed interest rate that exceeds the risk-free rate.
- That comes, it must be noted, at the expense of the benefits for those same participants in later years.
- Because of the state pension in place, any percentage change in total pension income (i.e., including the state pension) will be much smaller for people with low incomes than those with high incomes.

### Key Takeaways for the Industry

- Under the new system, income profiles can be adjusted to the preferences of the participants and other parties involved according to the collective investment policy, allocation of total returns, assumed interest rate, and smoothing term used.
- A dashboard is presented for comparing income profiles based on the different choices used.



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**'Inkomenseffecten bij en na invaren in het nieuwe pensioencontract'**