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Summary

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The Netherlands: Retirement Management Centre

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Aging populations have led to lower pension contributions and higher pension benefits, creating problems for funded pension schemes. These schemes are vital since state pensions are declining. The Institutions for Occupational Retirement Provision Directive (IORP) has opened up European pension markets to Dutch service providers, enabling multinationals and pension plan sponsors to manage pan-European pension funds from a central location. The jurisdiction they choose will largely depend on the regulatory regimes and services on offer.

The Dutch pension industry excels at running funded schemes. It is one of the largest, most sophisticated and innovative pension fund systems in the world, with highly experienced fund managers supported by a large secondary industry of professional service providers. The Netherlands offers two appealing options for managing pension funds across borders under IORP – asset pooling, and pension pooling – and is governed by a highly effective pension regulatory system.

Global Challenges

Populations are ageing. A natural consequence is that pension contributions are declining and pension benefits are increasing. This problem is urgent for funded pension schemes backed by corporate plan sponsors, but it is also relevant for funded public sector schemes and pay-as-you-go systems. Although pension provision in all European countries rests on some mixture of state, occupational and individual provisions, and there are marked differences between countries, reform means that the average State pension will decline gradually to a quarter of total pension provision in Europe by 2050.¹ This makes funded provision more important than ever. And it is in running funded schemes successfully that the Dutch pension industry excels. To increase funding levels, member-states of the European Union between 2003 and 2007 adopted and implemented the Institutions for Occupational Retirement Provision Directive (IORP). Its principal goals were to increase the efficiency with which funded pension schemes were managed and regulated across borders, as a step towards a genuine single market in retirement provision in Europe. This has not only opened European pension markets to service providers from other countries, but addressed a longstanding complaint by multinational companies that offering pension

provisions to employees in multiple countries necessitated separate schemes in each.

Running separate schemes in multiple jurisdictions was obviously inefficient, since it duplicated costs, and made it impossible for corporate pension plan sponsors to reap economies of scale. IORP makes it possible for pension plan sponsors to choose a single jurisdiction as the central location for pan-European pension fund management and administration. Their choice will depend to a great extent on the advantages and disadvantages of the pension fund vehicles and the flexibility of the regulatory regimes in different jurisdictions.

However, the choice of location cannot depend on legal and regulatory constructs alone. Any plan sponsor looking to centralise pension fund management and administration in Europe will be mindful of the need for efficient and innovative support services. Beyond selecting high performing fund managers, the collection, investment and administration of pension contributions generates a complex series of managerial and administrative challenges. Plan sponsors have to choose not only between legal jurisdictions, but appoint administrators, comply with fiduciary obligations and adopt appropriate risk management policies.

The Dutch pension industry is one of the largest, most sophisticated and innovative pension fund systems in the world



Dutch Solutions

For pension fund managers looking to centralise the management and administration of funds in multiple jurisdictions, lower administrative costs and improve investment returns, the Netherlands is an attractive location. It has one of the oldest, largest and most sophisticated pension fund systems in the world. The first recognisably modern occupational pension fund was actually founded in the Netherlands in 1881, and over the next century its example was widely imitated in both the private and the public sectors. Despite its relatively small population, the Dutch pension fund industry is now the second largest in Europe, with 636 funds managing assets worth nearly €700 billion at the beginning of 2009.² This massive sum, which is equivalent to roughly five times the national income, partly reflects the statutory requirement for Dutch pension funds to maintain a high coverage ratio, of up to 130 percent of outstanding liabilities. One Dutch pension fund is now among the largest in the world in terms of assets under management. Naturally, opportunities of this scale have spawned a large secondary industry of fund managers, investment and actuarial consultants, administrators and custodian banks. Servicing domestic pension funds means that Dutch fund managers have considerable experience of long term investment in

a wide variety of equity and fixed income markets, private equity and hedge funds, but also in infrastructure and property rights. They have mastered investment in alternatives as various as copyrights, infrastructure and music rights, which they have developed as effective hedges against inflation. They also have an excellent record of innovation, which is being further encouraged by pension fund contributions to funds run by start-up asset managers.

The industry has proved technically innovative as well. The obligation to maintain a relatively high coverage ratio has given Dutch pension fund managers particular expertise in liability-driven asset management and lifecycle funds. The better alignment of assets with liabilities means that plan sponsors can maintain or enhance benefits without punitive increases in contributions, even without substantial improvements in investment returns. Dutch pension funds have also pioneered so-called “fiduciary management,” in which a fund entrusts the supervision of its entire asset management process to a third party fund manager. Like their equivalents around the world, most Dutch pension funds have appointed third party fund managers for many years, but fiduciary management has obliged them to develop both in-house and outsourced fiduciary capabilities. The first outsourced fiduciary arrangement in the Netherlands closed in 2002, and the market for fiduciary management is now growing rapidly. However, the expertise in the Netherlands extends beyond portfolio modelling, investment strategies and fiduciary management. Dutch regulators have long attached importance to the quality of pension fund administration. To contain costs, it is essential that pension funds collect contributions promptly, pay the correct benefits on time,

value portfolios accurately, measure performance against appropriate benchmarks, monitor and collect entitlements on their due date, and comply with all regulatory requirements. The Netherlands has since the 1950s developed a wide variety of pension fund administrators and custodian banks for both large and small schemes. The size of the domestic pension fund industry, and particularly its appetite for investing abroad, has also brought to the Netherlands a number of major international custodian banks. So any pension plan sponsor considering the opportunity to manage pension funds in multiple jurisdictions more efficiently from one location rather than several, will find in the Netherlands the full range of advice and support services required. Since the passage of IORP, sponsors are also able to choose between legal forms. Essentially, there are two solutions to the problem of managing pension funds across borders, and the Netherlands has since January 2009 offered attractive versions of both. The first solution is asset pooling, which enables funds to be managed as a single pool while preserving differences in the structure of pension contributions and benefits between countries. To facilitate asset pooling, the Netherlands has developed the Fonds voor de Gemene Rekening (FGR), a form of

Fiduciary
management
is invented
in the
Netherlands

Exporting Pension Fund Services to Italy

mutual trust fund. A number of pension funds run by multinationals, including Shell, have already adopted the FGR as their chosen vehicle for managing cross-border asset pooling. The second solution to cross-border pension fund management is pension pooling, where differences between schemes in the various countries are less important. For these, the Netherlands offers the API and the PPI, which allow plan sponsors to bring several pension funds under a single umbrella, lowering administrative costs, improving fund management returns through economies of scale, and facilitating corporate mergers through the centralised pooling of assets. IORP nevertheless leaves a considerable measure of supervisory discretion to member-states, and there is no shortage of jurisdictions promising plan sponsors minimal regulatory and solvency requirements. In making their choice, plan sponsors, their investors and their pension fund beneficiaries should bear an important consideration in mind. Unlike any other major pension fund jurisdiction, in over 400 years of practice, no Dutch pension scheme has ever suffered from financial failure.

In October 2008 APG Group, a Dutch pension fund asset management and administration organization that looks after €220 billion on behalf of one in three collective pensions in the Netherlands, formed a collaborative venture with Italian pension fund service provider PensPlan. In the first stage of their collaboration, APG Group is managing assets worth €100 million on behalf of PensPlan clients. As the venture develops, PensPlan clients will also be able to access the expertise of APG Group in IORP structures, asset pooling, asset-liability modelling, risk management, strategic asset allocation and fiduciary management. The arrangement offers PensPlan and its clients rapid access to European best practices in pension fund management and administration, while securing APG Group the opportunity to export its services to the Italian market. Italy is a market with large potential for growth in funded pension provision because of the determination of the Italian government to reduce the dependence of Italian pensioners on pay as you go provision. In choosing a partner, PensPlan was impressed by the long history of pension funds in the Netherlands and the track record of APG Group, which was formed through the combination of three Dutch pension fund specialists: APG Algemene Pensioen Groep (APG), Cordares Holding and Loyalis.

Dutch Multinationals Pioneer Cross-Border Pension Fund Pooling

Dutch multinationals have pioneered cross-border asset pooling, which allows companies with operations in different countries to pool their pension fund assets across borders. Anglo-Dutch multinational Unilever became the first multinational to establish a cross-border asset pooling vehicle (Uninvest) in 2005. A year later Shell became the first multinational to establish an asset pooling structure using the Fonds voor Gemene Rekening (FGR) structure in the Netherlands. It has given Shell a clear overview of its pension assets and liabilities, and given the funds the scale to cut the costs of fund management, administration and custody. Pooling has also facilitated compliance with new accounting rules in the United States (FAS 158) and in Europe (IAS 19), made operational and administrative costs more visible, facilitated pension fund governance, and enabled the company to improve its risk management. Dutch insurer Aegon is now offering multinational companies that lack the capability to establish their own asset pooling structures an outsourcing service that enables them to pool assets from funds in multiple countries. The assets are invested in a series of multi-manager funds, for which Aegon provides consolidated reporting and full tax transparency. The asset pooling outsourcing service, also uses the Dutch FGR structure as its cross-border pooling vehicle.

The Institutions for Occupational Retirement Provision Directive (IORP) has opened up European pension markets to Dutch service providers



- ¹ European Federation for Retirement Provision, IORP Directive - securing workplace pensions, ERP paper on funding and solvency principles for IORPs, May 2008, Figure 1, page 8.
- ² De Nederlandsche Bank, Table T.8.1, Balance sheet of pension funds and Table T.8.17., Register of pension funds.

