Pension fund reserves hard hit by economic crisis

van het Kaar, R.

Publication date
2009

Document Version
Final published version

Published in
EIROnline: European industrial relations observatory on-line

Pension fund reserves hard hit by economic crisis

Of all EU countries, the Netherlands has the most extensive occupational pension scheme. Almost all pension funds have suffered major losses due to the economic crisis and coverage ratios have fallen considerably. While the legislator is calling for coverage ratios to be swiftly rectified, the social partners assert that this will take more time. Coverage ratios can be raised in different ways, with varied effects for the parties involved.

Within the European Union (EU), the Netherlands has the most extensive occupational pension fund system. Funded pension schemes cover about 91% of the workforce, representing a total value of approximately €578 billion at an average of €80,000 a household.

Coverage ratios fall considerably

Practically all pension funds have suffered huge investment losses as a result of the current economic crisis. This applies to sectoral pension funds, company pension funds and pension funds placed with insurance companies. As a result, the coverage ratios – long-term pension capital against long-term pension commitments – of most pension funds have fallen below the critical limit of 105% to levels of 90% or lower. In fact, at the start of April 2009, the coverage ratio of the Dutch Public Servants Superannuation Fund (Algemeen Burgerlijk Pensioenfonds, ABP) had reached an alarming 83%. The coverage ratio at the second largest pension fund in the Netherlands, the Pension Fund for Care and Welfare (Stichting Pensioenfonds Zorg en Welzijn, PFZW – formerly PGGM), amounts to only 92%.

Pension funds with a coverage ratio of less than 105% are required by law to adopt measures that aim to reach or surpass a coverage ratio of 105% within a period of three years. Plans to this end must be submitted to the pension fund authorities. At the insistence of the social partners, the three-year period was extended to five years at the start of 2009.

Ways to raise coverage ratios

Coverage ratios can be raised in a number of different ways, including:

- increasing the premiums paid by employers and/or employees;
- supplementary payments by employers;
- refraining from indexing pension payments and/or the pension entitlements of retired employees, as well as current and former pension scheme members;
- lowering the nominal pensions of retired employees.

Negative consequences for parties involved

To a greater or lesser extent, these measures have unfavourable consequences for the various parties involved. In practice, a combination of different elements is generally chosen. To date, however, lowering pensions has not been an option because of the level of resistance among pension fund members. Measures taken by some pension funds are outlined below.

- The management of ABP – jointly comprising employer and employee representatives – will raise employer and employee premiums. Effective from 1 July 2009, the increase will amount to one percentage point, supplemented by a further increase of two percentage points effective from 2010. From 2010 onwards, employers will then be paying an average of €10 more a month. The government will also presumably be paying €420 million more a year from 2010 onwards. In additional, pensions and pension claims will be frozen at their current level for the next four years. Only in 2014 will partial indexation be applied on the basis of the economic recovery plan. Full indexation will only be possible in 2023.
- PFZW (which manages the pension fund's assets) and the Pension Fund for the Mechanical and Electrical Engineering Industries (Pensioenfonds van de Metalektro, PME) have decided to adapt their policy on indexation for the forthcoming period. In three years time, at an expected coverage ratio of 105%, pensions and pension claims will be indexed by half the actual wage increase in the sector. At a coverage ratio of 117.5%, indexation will again be raised. Current indexation percentages are somewhat higher. Nonetheless, average pension payments will eventually lag 25 percentage points behind what they would be each year if

About this document

ID: NL0905019I

Author: Robbert van het Kaar

Institution: Hugo Sinzheimer Institute (HSI)

Country: Netherlands

Language: EN

Publication date: 13-07-2009

Related Links

- Netherlands: country profile

full indexation were applied. Full indexation is only expected after 2020 (PME) or even after 2024 (PFZW).
- The telecommunications company KPN and printing group Océ have decided to stimulate supplementary payments into the cash reserves of their company pension funds. This amounts to €390 million at KPN until 2012. Once the coverage ratio reaches 105% again, the obligation to make supplementary payments will lapse. Indexation will be frozen until the coverage ratio reaches 105%. The energy and petrochemicals company Shell has expressed its intention to also make supplementary payments to its pension fund.

Employer and employee interests diverge

It should be clear from the above that the negative effects can be shared in different ways. In addition, it is evident that the different parties involved have conflicting interests.

- Incumbent staff are particularly opposed to raising the pension premium for employees. This would have a direct impact on their incomes. Furthermore, prospects of wage increases in the years ahead seem bleak. The Dutch cabinet is insisting on maintaining a 'zero round' as regards wage increases. Even so, employee representatives in sectoral pension funds are not in principle opposed to raising premiums as illustrated in the case of ABP.
- Retired staff consider full – or at the very least partial – indexation important. They point out that in periods when the coverage ratios far exceeded 105%, pension funds made significant payments from surplus pension fund reserves to affiliated or parent companies. After 2001, when pension funds were also facing challenges, representatives acting on behalf of retired employees approached the courts on several occasions to demand full indexation. Given the precarious situation of pension funds at the moment, it remains to be seen whether the situation will again escalate to such levels. Retired employees will certainly put up a fight against a nominal pension reduction.
- Many employers are facing financial difficulties as a result of the economic crisis. Nonetheless, they are in some cases obliged to make supplementary payments into their pension funds, in order to comply with contractual commitments or because the pension fund administrators have deemed this necessary – the latter was true in the case of ABP. In government circles, this has led to conflict between ABP and the Minister of Internal Affairs, Guusje ter Horst, who is responsible for such matters. The minister is opposed to supplementary national government payments into ABP and has threatened using forced civil servant redundancies to compensate for the increase.

Varied interests of different generations

The crisis affecting the Dutch pension system has raised several more fundamental issues. The first relates to whether the benefits and burdens of the pension system are evenly spread between the different generations. Youth representatives complain that they have to contribute disproportionately towards upholding the pension fund system, while it remains to be seen whether young people can be guaranteed an adequate pension in the long term. A second question is whether the interests of retired employees are sufficiently safeguarded in the present system. Although it is true that, between 2001and 2009, various steps have been taken within the pension funds to assign more weight to retired employees' views, special interest groups representing retired employees believe these steps are entirely inadequate. A legislative proposal has been put before the Dutch House of Representatives (*Tweede Kamer der Staten-Generaal*) aiming to increase the influence of retired employees. On 27 March 2009, the Dutch Association of Industry-wide Pension Funds (Vereniging van Bedrijfstakpensioenfondsen, VB*)* responded unfavourably to the proposal. Unlike the retired employees themselves, VB argues that the employee representatives in the pension fund administrations are more than capable of representing the interests of retired employees.

Commentary

The most fundamental question to consider is whether the Dutch system – based entirely on capital funding – is in fact as resilient as believed for many years. Many parties – including the European Commission – have for a long time praised the system as an outstanding example of how to safeguard the affordability of the pension system despite an ageing population. Two crises later, it appears that setting a good example has become much harder.

Robbert van het Kaar, Hugo Sinzheimer Institute (HSI)

Page last updated: 13 July, 2009

^Back to top of page