

THE NETHERLANDS

Key characteristics of the pension funds market



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1 Introduction

1.1 General

In The Netherlands, there are two main types of occupational pension schemes (i.e. Pensioenfondsen and Premiepensioeninstelling) falling under the scope of the IORP Directive (Directive 2008/41/EC). A Pensioenfondsen can offer both defined benefit plans (DB) and defined contributions plans (DC), while the latter offer hybrid plans (HY). Both types of occupational pension schemes have full risk investment exposure for their members. Although DB, DC and HY pension plans are provided, the Dutch occupational pension funds are almost entirely focused on DB, which account for 99.6% of the total assets.

At the end of 2017 (2017 Q4), 230 Institutions for Occupational Retirement Provision (IORPs) and 352 occupational retirement schemes submitted their reporting package to the Dutch National Supervisory Authority (NSA). These institutions accounted for about 15,4% of the IORPs and 0,8% of the occupational retirement schemes within the European Union (EU).

The table below illustrates the submissions in The Netherlands by insurance activities and the importance of the country within the EU, based on total assets.

Table 1 - Occupational pension funds by type

In Mio EUR	Amount	%
Defined Benefit schemes (DB)	1 353 240	99,49%
Defined Contributions schemes (DC)	6 913	0,51%
Hybrid schemes (HY)	0	0,00%
Total	1 360 153	100,00%
Total assets NL / Total assets EU		36,83%
Ranking NL based on Total assets EU		2

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), The Netherlands is ranked second in the EU pension funds market in terms of assets held, with an amount of 1 360 billion EUR reported.

Regarding investments, The Netherlands is also ranked second in terms of absolute amount with 1 345 billion EUR. The reinsured technical provisions and other assets accounted for 0,5% and 0,6% respectively, representing a minor part of the assets. In particular, the share of other assets is well below the EU average of 4,2%.

90,7% of liabilities relate to technical provisions for pensions, while 0,5% represent other liabilities. The excess of assets over liabilities, at 119 billion EUR, is about 8,8% of the balance sheet total. The excess is the largest of all EU countries.

Table 2– Balance sheet and EU comparison of occupational pension funds

in Mio EUR	NL			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Total investments	1 345 515	2	98,92%	92,32%	89,43%	0,00%	100,00%	21,25%
Reinsured technical provisions	6 955	3	0,51%	1,60%	3,11%	0,00%	26,78%	7,68%
Other assets	7 683	3	0,56%	6,08%	4,21%	0,46%	18,90%	5,00%
Total assets	1 360 153	2	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%
Technical provision for pensions	1 233 108	2	90,66%	99,26%	80,16%	0,42%	150,71%	38,15%
Other liabilities	7 332	2	0,54%	0,66%	7,67%	0,34%	70,91%	18,13%
Total liabilities	1 240 440	2	91,20%	99,93%	67,74%	0,00%	151,82%	48,56%
Excess of assets over liabilities	119 713	1	8,80%	0,07%	32,26%	-51,82%	100,00%	48,56%
Total liabilities + Excess of assets over liabilities	1 360 153	2	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

2 Investments

2.1 Asset exposure

From an asset exposure perspective, the pension funds market in The Netherlands is mostly invested in bonds (debt and other fixed income securities account for 47,7% of total investments), followed by equities and other variable-yield securities that also constitute a substantial part of the investments (37,2%).

Within the bond categories, the pension funds market was primarily exposed to sovereign securities (29,9%), for which The Netherlands is ranked second in the EU, and other debt (17,8%). The other debt include, for instance, corporate debt. According to the statistics of EIOPA, the Dutch pension funds do not hold debt securities of financials.

Loans, real estate investments and other investments form the remainder of the investments portfolio. The share of these investment categories is relatively modest. Loans are responsible for 1,3% of total investments, real estate for 9,0% and other investments for 4,6%.

Table 3 – Total investments of occupational pension funds

in Mio EUR	NL			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Debt and other fixed income securities	641 949	2	47,71%	53,75%	49,23%	12,51%	74,75%	17,30%
Sovereign	402 041	2	29,88%	34,52%	35,19%	4,38%	66,07%	18,72%
Financial	n/a	n/a	n/a	10,37%	10,66%	1,45%	26,19%	7,89%
Other	239 908	1	17,83%	8,86%	13,27%	0,11%	68,50%	15,52%
Equity and other variable-yield securities (excl. UCITS)	501 524	2	37,27%	31,75%	21,78%	0,40%	68,00%	18,34%
Equity - listed	430 678	2	32,01%	27,94%	18,43%	0,26%	47,44%	14,27%
Equity - other	70 846	1	5,27%	3,78%	8,42%	0,14%	68,00%	21,01%
UCITS	n/a	n/a	n/a	4,65%	30,43%	1,58%	77,59%	22,99%
Debt securities	n/a	n/a	n/a	1,88%	13,21%	0,43%	37,05%	12,36%
Equity securities	n/a	n/a	n/a	0,98%	15,63%	3,14%	33,48%	12,24%
Real estate	n/a	n/a	n/a	0,30%	2,16%	0,43%	3,92%	1,45%
Other	n/a	n/a	n/a	1,48%	13,33%	2,55%	40,07%	13,07%
Derivative instruments	n/a	n/a	n/a	0,00%	0,13%	-0,04%	0,64%	0,22%
Loans	18 560	2	1,38%	1,21%	1,78%	0,00%	9,82%	3,16%
Real estate investments	122 144	1	9,08%	5,96%	3,81%	0,05%	11,37%	3,56%
Other investments	61 338	1	4,56%	2,68%	9,23%	0,72%	23,20%	6,41%
Total investments	1 345 515	2	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

2.2 Equity exposure

The equity exposures of pension funds can be calculated and presented in different ways. The list below includes the following equity exposure views:

- Equity exposure as the sum of direct investments in equity: listed, unlisted and other equity.
- Equity exposure as the sum of both direct and indirect investments in equity. The indirect investments in equity include the holdings of equity by investment funds. The required look through to identify the equity held by the investment funds is only provided for the holdings of the pension funds in Dutch investment funds.
- Equity exposure as the sum of the direct and indirect investments in equity as well as the investment funds. The longer time-series available include both direct investments in equity and investment funds. The later includes both investments in equity as well as non-equity investments.

Overall, the listed and unlisted equity amounts are considered and integrated as an equity exposure indicator. Due to the limitations in the reporting for some part (approximately 13,5% of the investments), it is unknown whether it concerns equity or other types of investment.

Table 4 – Equity exposures of pension funds

in Mio EUR		
	Amount	%
Equity	189 981	13,1%
Equity - listed	169 529	11,7%
Equity - unlisted	18 987	1,3%
Equity - other	1 465	0,1%
Investment funds (1)	743 781	51,4%
Equity - listed	281 744	19,5%
Equity - unlisted	10 197	0,7%
Equity - other	554	0,0%
Other investments	256 034	17,7%
Undefined	195 252	13,5%
Total investments	1 446 259	100,0%
Total equity exposure		
Total equity - listed	451 273	31,2%
Total equity - unlisted	29 184	2,0%
Total equity - other	2 019	0,1%
Total equity exposure	482 476	33,4%

(1) The information on the share of the investment funds invested in equity is only available for the Dutch investment funds, which formed almost 90% of the total investments in investment funds. Moreover, the equity exposures of investment funds are only available when these are direct. About 10% of the total investments are invested in investment funds that invest in other investment funds (less than 10%). The liabilities of the investment funds are netted out in the other investments.

Source: DNB Pension funds statistics and Deloitte-CEPS analysis

In The Netherlands, we note that equity exposures coming from Dutch investment funds amount to 22,2% and are higher than the listed and unlisted equity exposures which amount to 13,0% in total. In 2017 Q4, the pension funds in The Netherlands invested twice as much in indirect equity (60,8% of total equity) than in direct equity (39,2% of total equity).

Within the direct equity category, listed equity constitute the bulk of investments with 11,7% of total equity, almost 9 times the amount invested in unlisted equity. Looking at the indirect equity category, listed equity constitutes one the largest amount of the investments with 19,5% of total equity, more than 27,5 times the amount invested in unlisted equity.

2.3 Equity by location

Table 5 – Equity exposure by location

in Mio EUR	NL				
	EU home	Other EA	Other	Undefined	Total
Equity	9 924	25 754	154 303	0	189 981
Equity - listed	4 666	24 478	140 385	0	169 529
Equity - unlisted	3 793	1 276	13 918	0	18 987
Equity - other	1 465	0	0	0	1 465
Investment funds (1)	665 951	35 957	41 873	0	743 781
Equity - listed	5 640	29 540	246 563	0	281 743
Equity - unlisted	2 296	717	7 185	0	10 198
Equity - other	62	139	353	0	554
Other investments	48 882	68 442	104 190	34 520	256 034
Undefined	0	0	0	195 252	195 252
Total equity exposure	17 922	56 150	408 404	0	482 476
Total investments	821 113	260 807	325 545	38 795	1 446 260

in %	NL				
	EU home	Other EA	Other	Undefined	Total
Equity	5,2%	13,6%	81,2%	0,0%	100,0%
Equity - listed	2,8%	14,4%	82,8%	0,0%	100,0%
Equity - unlisted	20,0%	6,7%	73,3%	0,0%	100,0%
Equity - other	100,0%	0,0%	0,0%	0,0%	100,0%
Investment funds (1)	89,5%	4,8%	5,6%	0,0%	100,0%
Equity - listed	2,0%	10,5%	87,5%	0,0%	100,0%
Equity - unlisted	22,5%	7,0%	70,5%	0,0%	100,0%
Equity - other	11,2%	25,1%	63,7%	0,0%	100,0%
Other investments	19,1%	26,7%	40,7%	13,5%	100,0%
Undefined	0,0%	0,0%	0,0%	100,0%	100,0%
Total equity exposure	3,7%	11,6%	84,6%	0,0%	100,0%
Total investments	56,8%	18,0%	22,5%	2,7%	100,0%

(1) The information on the share of the investment funds invested in equity is only available for the Dutch investment funds, which formed almost 90% of the total investments in investment funds. Moreover, the equity exposures of investment funds are only available when these are direct. About 10% of the total investments invested in investment funds are passed through to other investment funds (less than 10%). The liabilities of the investment funds aren't netted out in the other investments.

Source: DNB Pension funds statistics and Deloitte-CEPS analysis

Based upon the 2017 Q4 reporting, with regards to the location of equity investments, pension funds in The Netherlands had a very international portfolio, with only 5,2% of their direct equity investments, and 2,8% of their indirect investments, in domestic equity.

The table also showed substantial investments in listed and unlisted equity in other Euro area Member States. About 13,6% of the direct equity investments and 10,8% of the indirect equity investments is invested in other Euro area Member States.

However, the largest share of the equity investments is outside the Euro area. Around 81,2% of the direct investments are in non-Euro area shares, while 90,2% of the indirect investments are in equity.

3 Occupational pension schemes

The cash flow of pension funds is important for the investment strategy. Indeed, depending on the investment horizon as well as the liquidity provided, the pension funds are incentivised to take more or less risk and hold more or less liquid funds. In general, the longer the period in which the pension is due the more risk (higher share of equity investments) the pension fund can take, benefiting from the equity risk premium. Moreover, when the pension funds have a short-term payment commitment, they need to hold more funds that are more liquid as well as more stable in value.

For cash flows, The Netherlands ranks relatively high in terms of total gross contributions receivable and gross benefits payable, reported at 32 300 million EUR and 30 100 million EUR respectively. This ranked the Dutch pension funds market second in the EU for these two categories. In turn, in net cash flow terms, the Dutch pension funds market is ranked first.

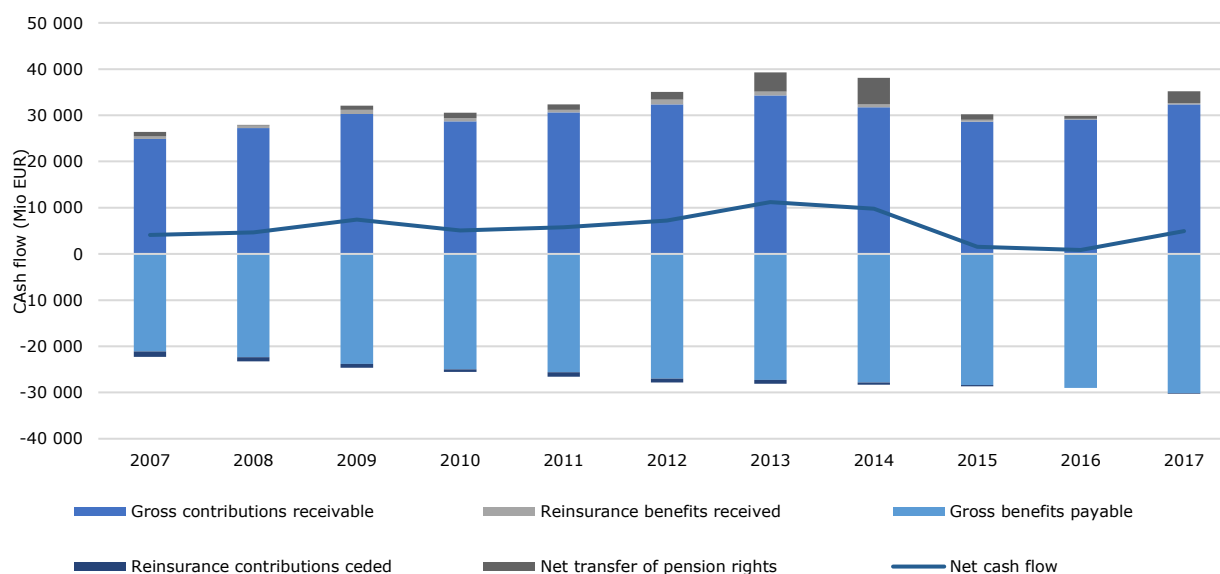
Table 6 – Cash flows of occupational pension funds

in Mio EUR / % of total investments	NL			EU				
	Amount	Rank	%	%	Avg	Min	Max	Std
Total gross contributions receivable	32 383	2	2,41%	8,01%	0,19%	17,86%	5,00%	0,00%
Reinsurance contributions ceded	140	4	0,01%	0,88%	-0,01%	4,69%	1,52%	0,00%
Total net contributions receivable	32 243	2	2,40%	7,59%	0,19%	17,86%	5,03%	0,00%
Total gross benefits payable	30 118	2	2,24%	4,19%	-3,98%	10,99%	3,36%	0,00%
Reinsurance benefits received	263	4	0,02%	0,63%	0,00%	3,02%	1,09%	0,00%
Total net benefits payable	29 855	2	2,22%	3,83%	-4,02%	10,99%	3,05%	0,00%
Transfer of pension rights (entrants)	4 290	2	0,32%	5,81%	0,00%	56,47%	15,00%	0,00%
Transfer of pension rights (leavers)	1 736	3	0,13%	1,37%	-0,09%	5,51%	1,70%	0,00%
Net cash flow	4 942	1	0,37%	6,34%	-6,20%	57,54%	12,69%	0,00%

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

The chart below presents the evolution of the cash flows of the occupational pension funds in The Netherlands.

Graph 1 – Evolution occupational pension funds cash flows



Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis



4 Prudential regime, accounting & tax framework

4.1 Accounting framework

Typically, Dutch pension funds produce their financial accounts in accordance to the Dutch GAAP. Yet, in accordance with the EU Accounting Regulation (Regulation 1606/2002/EC) all domestic publicly traded companies are required to produce their financial account following the IFRS standards. IFRS Standards are permitted for unlisted companies but their use is not mandatory. Hence, the large majority of Dutch pension funds apply Dutch GAAP for their financial reporting.¹

4.2 Prudential regime

There are no specific legal restrictions on the equity exposures of Dutch pension funds. However, there are restrictions on investments in single issuers and issuers. The pension funds may not acquire more than 10% in a single issue or from a single issuer. This applies to all asset classes, including equity exposures. The restrictions are with a maximum holding of 5% even more stringent for investments in issues of the employer that sponsoring employer.²

4.3 Tax framework

Pension Funds in The Netherlands are subject to a special tax regime: the so-called "Exempt-Exempt-Taxed" (EET) where beneficiary's contributions and funds' returns on the investments (including equity and dividends) are exempt, while withdrawals are subject to taxation (or partial exemption).³

Regarding dividends in details, dividend tax is in The Netherlands withheld at source and charged on the receiver. The Dutch pension funds have thus to ask for a refund of their dividend tax to indeed have a zero tax rate on their dividends from Dutch corporations. This possibility is also available for foreign pension funds that are at par with the Dutch pension schemes. Turning to dividends from non-Dutch companies, most other countries have similar systems as The Netherlands for dividend tax. It thus depends on the country, whether the Dutch pension funds are able to obtain a refund of the dividend tax, or not. In practice, tax paid on dividends received from foreign equity is usually a cost for the pension funds.

¹ Source: Deloitte-CEPS analysis of annual reports of Dutch pension funds and IFRS country profiles.

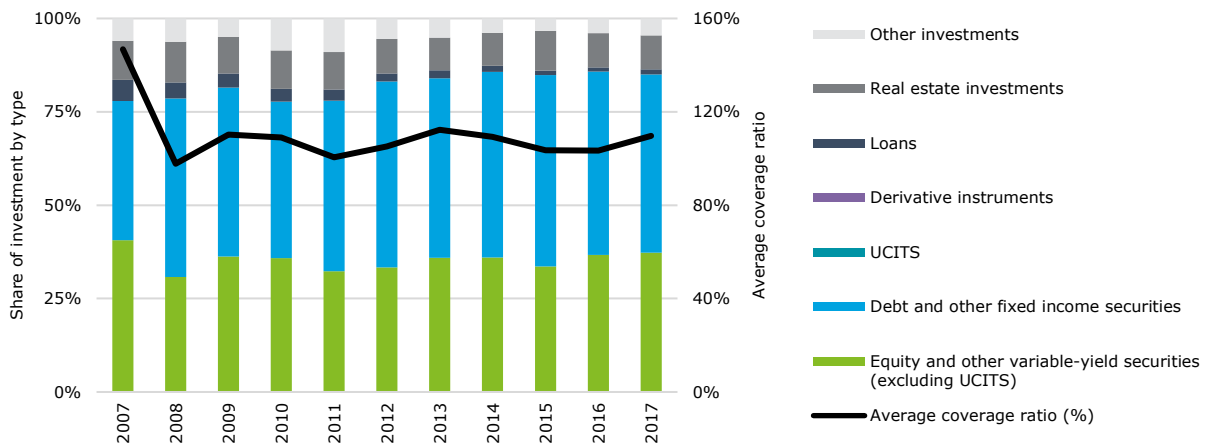
² Source: Deloitte-CEPS analysis of the OECD Annual Survey of Investment Regulation of Pension Funds

³ Source: OECD (2015) Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries

5 Historical data

The evolution of the different asset categories is depicted in the graph below, based upon the annual pension statistics from 2007 until 2017. Furthermore, the evolution of the coverage ratio is shown over the same period.

Graph 2 – Evolution investments and average coverage ratio

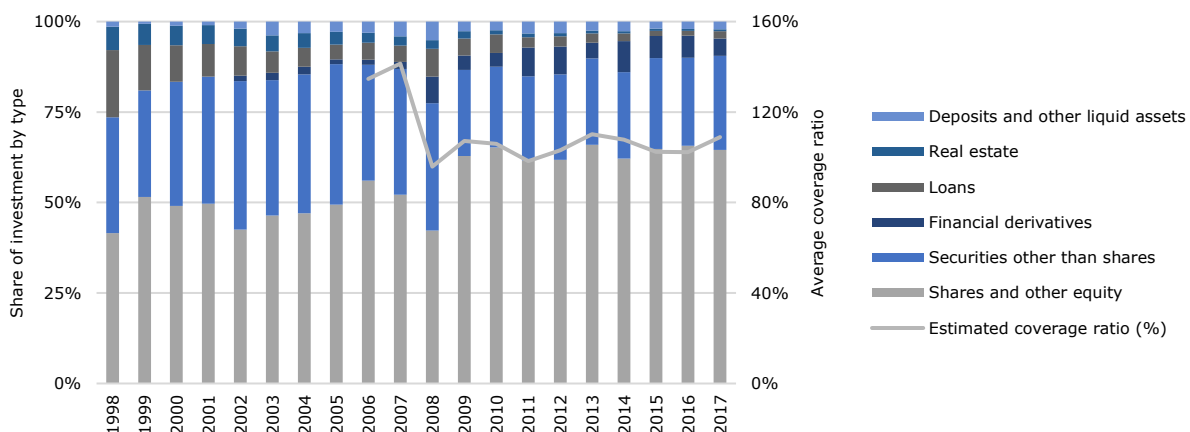


Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

For The Netherlands, the coverage ratio has decreased substantially around the time of the financial crisis in 2008. The coverage ratio decreased from 147% in 2007 to 98% in 2008. It has recovered somewhat afterwards, varying between 100% and 112%.

The composition of the Dutch pension balance sheet has remained reasonably stable over the years. Debt and other fixed income securities have increased from 37% in 2007 to 48% in 2008 and remained quite stable afterward. The increase was primarily due to sovereign debt that increased from 19% in 2007 to 34% in 2014. The investments in other types of debt instruments as well as loans, real estate and other investments have decreased.

Graph 3– Evolution pension funds' investments



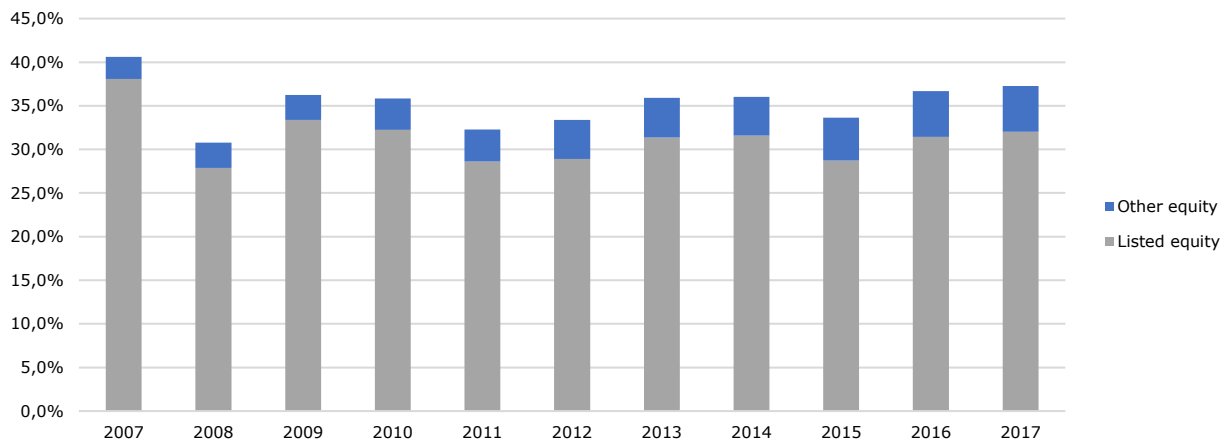
Note: Valuations before 2001 are in line with those used in the annual report, afterwards the values represent market values. The shares and other equity includes also investments in investment funds.

Source: DNB Pension funds statistics and Deloitte-CEPS analysis

From the graph above, which relates to the evolution of the main investment exposures since 1998, it is clear that the proportions of investments in shares and other equity (direct and indirect equity and investment funds) have increased substantially. In particular, after the financial crisis of 2008 the shares and other equity initially decreased from 56% in 2006 to 42% in 2008, but later on more than recovered from 42% in 2008 to 63% in 2009 of total investments. The share of investments allocated to shares and other equity have remained rather stable since.

Looking at the more narrow definition (excl. non-equity exposures of investment funds) as applied by EIOPA, the investments in equity have decreased from 41% in 2007 to 37% in 2017. The listed equity has decreased from 38% in 2007 to 32% in 2017. In turn, the other equity increased from 3% in 2007 to 5% in 2017. The listed equity primarily decreased around the financial crisis in 2008, whereas the investment in other equity gradually increased during this period.

Graph 4 – Evolution of investments by equity type



Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis