

Update

February 2010

The latest developments in the world of pensions

Latest developments in relation to life expectancy tables

In January, AG and DNB published reports indicating that the use of the Prognosetafels 2005-2050 is generally no longer considered prudent. This is partly based on the publication of life expectancy tables, which themselves are based on the mortality rate observed between 2003 and 2008.

Last year, we informed you of the guidelines for certifying actuaries of the Actuarial Association [Actuariel Genootschap, AG] on how to apply the forecast mortality rate in the coming year-end reports.

On 27 January 2010, the most recent population tables (GBM/V 2003-2008) were published. These show that the actual mortality rate once again fell last year and, consequently, that the difference between the forecast and actual mortality rate increased further. For this reason, AG has decided

to issue a second set of guidelines, which state that certifying actuaries must, where necessary, take account of a material change to the foreseeable trend in life expectancy.

A day later, De Nederlandsche Bank (DNB) published a Q&A section on its website, in which the supervisory body stated that pension funds are in fact expected to apply the adapted tables, where necessary, when determining their obligations at the end of 2009.

Alternatively, DNB cited making an additional provision in anticipation of the new AG forecast tables. The forecast of Statistics Netherlands [Centraal Bureau voor de Statistiek, CBS] was also specifically cited as an example in this regard.

01

Please contact Richard Meijer for further information.

richard.meijer@towerswatson.com

Pension Fund Delineation Issues

The Goudswaard Commission has called for pension contracts to be revised. We believe the nature of the responsibilities associated with those contracts should also be made more transparent. Duties and responsibilities must be defined more effectively.

In its report entitled 'A strong second pillar' (Een sterke tweede pijler), the Goudswaard Commission asserts that stakeholders will have to agree once more which costs, risks and ambitions are desirable and how the risks are to be distributed among them. Towers Watson shares this view. In addition, it also feels that responsibilities related to pension contracts are currently not always well defined. The problem is not limited to the sometimes incomplete or even vague nature of the pension contract itself, the same can be said of the responsibilities involved.

In order to properly revise a pension contract and implement it in an optimal manner, the issues regarding the definition of duties and responsibilities should be resolved first.

In their article entitled 'Pension Fund Delineation Issues' (Afbakeningsvraagstukken bij pensioenfondsen), Hans Breuker (TKP) and Arjan van de Griend (Towers Watson) examine these delineation issues in greater detail. The article was completed before the Commissions identified published their reports. One

of their conclusions is that social partners, in consultation with the pension fund board, could by more concretely defining the pension agreement make provisions for a great many matters that could subsequently be used by pension fund management as a starting point to further define the policy. In their view, it is worth drawing the dividing line between pension policy and implementation in a more well-defined manner, whereby the pension fund board in principle implements the policy of social partners. With depoliticised pension fund boards, professionals can subsequently fulfil a variety of roles, which represents one of the recommendations of such bodies as the Frijns Commission. This is not an obvious solution in the current structure, in view of the fact that trustees first and foremost represent their members. Their role as experts is an additional one. Breuker and Van de Griend also argue that increasing legal certainty, for the purpose of ensuring that the pension fund board is less easily influenced by politically motivated discussions, merits attention.

The entire article can be found on our website: towerswatson.nl

02

Please contact Arjan van de Griend for further information.

arjan.van.de.griend@towerswatson.com

AFM Study:

Large number of pensioners found to be disappointed

A study by AFM [Netherlands Authority for the Financial Markets] has shown that many Dutch citizens are inadequately informed of the amount of their future pension. More specifically, they overestimate the amount of their pension and are disappointed as a result.

AFM recently published the results of a study of Dutch pension holders' expectations as far as their pensions are concerned. Apparently, their expectations are too – perhaps excessively – high, assuming they have any expectations at all. A quarter of the study participants had absolutely no idea how much they could expect in terms of pension. In addition to participants' knowledge of their own pension and pensions in general, AFM studied which groups are particularly at risk of a – particularly excessive – pension deficit. AFM also suggests a number of possible solutions.

Participants' knowledge of their own pension and pensions in general is limited

Nearly half (47%) of those questioned believe that their knowledge of pensions is limited. Results of other studies seem to corroborate this. Many people still believe in the notion that pension (including state old age benefit) equals 70% of your final salary, for example. More than half (59%) of those questioned believe this, while only 12% feel their pension will be under the 'mythical' 70% level.

A third of recent retirees were disappointed with the amount of pension they received, and AFM expects this group will only continue to grow.

At-risk groups

While most participants will receive a reasonable pension, it is often less than expected. According to AFM, however, the following groups are at risk of an excessively large pension deficit (e.g. very basic pension):

- *Self-employed persons with no staff [ZZP'ers]*
Unless they have arranged supplementary pension.
- *First generation citizens of foreign heritage*
Missing part of state old age benefit (38% on average).
- *Participants with a high offset and/or low pension accrual*
The pension is, on average, 10% lower than a person with 'modal' offset and accrual.
- *Participants with a defined contribution scheme*
The pension actually received is particularly uncertain and depends on the return on investment.

- *Participants with a fast-track career*
Compared with the final salary, pensions are up to 40% less than that of someone with a 'regular' career.
- *Divorced participants*
Pensions are smaller (upwards of tens of percent).
- *Participants with an interest-only mortgage*
Living costs are doubled, as mortgage interest tax relief stops after 30 years.

AFM points out that a person may fall into more than one of the aforementioned groups.

“Two websites (Pensioenkijsker.nl and Wijzeringelddzaken.nl) are developing effective initiatives, but AFM expects the pension sector to provide further solutions.”

Solutions

No one benefits from dissatisfied pensioners. After all, it adversely affects pension funds and people's confidence in pension funds, employers and the financial world as a whole. AFM asserts first and foremost that everyone has their own responsibility and that everyone – from participants to the pension scheme itself – may be expected to make some effort, including, for instance, making the additional effort to understand one's own pension/pension scheme. Participants receive a Uniform Pension Overview (UPO) every year. That is the time to take action. Unfortunately, the UPO continues to be insufficiently clear for many participants.

It seems the current UPO provides little information to go on. The data must be clearly presented in an – even – more comprehensible manner; in short, more effective communication. The Pension Register (Pensioenregister) can play a key role in this regard. Two websites (Pensioenkijsker.nl and Wijzeringelddzaken.nl) are developing effective initiatives, but AFM expects the pension sector to provide further solutions. The supervisory body has stated that it, too, intends to continue to make a contribution in this regard.

03

Please contact
Mylène Caris for
further information.

mylene.caris@towerswatson.com

DNB publishes its issues for 2010

04

Please contact
Ingeborg Agema for
further information.

ingeborg.agema@towerswatson.com

De Nederlandsche Bank (DNB) published the details of the areas of focus which will be subject to supervision in 2010. As far as the supervision of pension funds is concerned, conduct, culture and investment policy in particular will form a key area of attention.

On 8 February 2010, DNB published the new 'Issues for DNB Supervision in 2010' (Thema's DNB toezicht 2010) on its website. It identifies conduct, culture and investment policy as areas for attention in supervising financial institutions in the Netherlands. In addition, DNB will focus its activities more on strategy and business models, outsourcing and the accuracy of reports.

With regard to pension funds, the emphasis has been placed on the following five specific topics:

- *Assessment of the Financial Assessment Framework (FTK):*
Issues include whether the buffers used by pension funds are sufficient in relation to the risk profile.
- *Recovery plans:*
At the start of 2010, DNB will assess whether the recovery plan is being implemented sufficiently, how far recovery has progressed and whether additional measures are necessary.
- *Financial structure of pension funds:*
The amount of the promised pensions must be in line with the contributions, surcharges and investment policy. With regard to surcharge policy in particular, DNB will look at how the statutory requirement of consistency between the expectations created, financing and the actual payments given is managed.
- *Risk management:*
Investment outsourcing and the values of financial products.
- *Pension Fund Governance:*
This was already a key area of attention in 2009 and will continue to be a DNB focus in 2010. Decision-making is a special area for attention: How does pension fund management (or company compliance officer) take a decision, and what takes place prior to that?

Pension Administrator Watch

Pension funds have difficulty finding an effective means of managing the risk associated with outsourcing, and actual practice does not always go in accordance with legislation and regulations. In its document entitled 'Issues for DNB Supervision in 2010' (Thema's DNB toezicht 2010), DNB states that it will focus particular attention on this issue.

Legislation and regulations

Section 14 of the Pensions Act Implementation Decree [Besluit uitvoering Pensioenwet] states that pension funds "must take responsibility for a systematic analysis of the risks associated with outsourcing" and that they must make a record of this analysis.

In practice

There is growing interest in outsourcing. In a letter to the Lower House of Dutch Parliament dated 25 May 2009, Minister Donner stated that both large and small pension funds have increasingly outsourced their activities in recent years. As a result, the pension funds' scope is often limited, while the scope of the outsourcing organisations is rather sizeable. According to Minister Donner, the issue is whether fund management is always fully aware of the risks they face and whether they are able to fulfil their responsibility for the policy.

The Frijns Commission's report entitled 'Pensions: Uncertain Uncertainty' (Pensioen: Onzekere Onzekerheid; published on 19 January 2010) states that pension funds are paying too little attention to the risk associated with outsourcing and

outsourcing management. In this regard, the report examines the outsourcing risk in asset management in particular. Towers Watson believes this is also the case as far as the risk associated with outsourcing of management support and accounting is concerned.

Towers Watson can provide support to pension fund administrations or company boards in conducting a systematic analysis of the outsourcing risk. It has developed a new product for this purpose: Pension Administrator Watch. This is a qualitative analysis of administration agencies and insurers in the field of accounting, service provision (e.g. management support and account management), organisation (e.g. product range and professionalism) and communication (with participants, supervisory bodies and management).

The Pension Administrator Watch is based on the following:

- An extensive survey completed every year by the organisation.
- An annual meeting between consultants from Towers Watson and the organisation.
- A general impression of the organisation held by 64 of our consultants/actuaries.

The Pension Administrator Watch assists pension fund management in evaluating the risk associated with outsourcing.

05

Please contact
Mirjam van Wulften for
further information.

mirjam.van.wulften@towerswatson.com



Insurer waiting periods largely abolished

At the start of 2009, the Dutch government assessed the Medical Examinations Act [Wet op de medische keuringen]. This assessment revealed that many insurers still employ waiting periods.

During these waiting periods (e.g. qualifying periods), the insured party is not entitled to any payment or exemption from contributions. As a result, an insured party or next of kin is often refused any payment during the initial period of insurance cover, which can last three to four years. The Dutch government feels this is undesirable and has instructed the sector to remove these types of restrictions. The Dutch government has warned that legislation will be imposed if self-regulation proves unfeasible.

The Dutch Association of Insurers [Verbond van Verzekeraars] and consumer and patient organisations have since responded and concluded the Van Leeuwen Covenant, in which they have agreed that qualifying periods are no longer permitted in work-related insurance policies (including insurance for state old age pensions, survivor's pensions or incapacity for work pensions).

Insurance companies can prevent the abuse of incapacity for work schemes by introducing an anti-abuse provision. This means that a payment or exemption from payment of contributions (in whole or in part and permanently or temporarily) can be refused, provided the insurer examines whether this is necessary in light of the employee's state of

health when the insurance cover started or when the insured began employment. This must be expressly communicated to the insured parties and stated clearly on the website, as well as in the terms and conditions. The duration of the period that is subject to this provision varies from insurer to insurer, but it is restricted to no more than one year. A similar exclusion clause may also be used for life insurance policies.

The insurer itself does not determine whether the insurance policy has been abused. This is a matter for the independent Health Data Assessment Commission [Toetsingscommissie Gezondheidsgegevens] to decide. This body provides a binding judgement regarding the entitlement to payment.

Furthermore, the mobility of labour of partially disabled employees improves if they are covered by an incapacity for work insurance policy not covered by the Pensions Act. This includes shortfall insurance policies under the Resumption of Work (Partially Fit Persons) Scheme [Regeling werkhervatting gedeeltelijk arbeidsgeschikten, WGA]. The Covenant states that these insured parties receive standard extended coverage if they change their job or if the employer changes its insurer.

Binding for insurers that are members of the Dutch Association of Insurers, the Covenant came into force on 1 January 2010. Furthermore, the agreements apply to both new and existing contracts.

The Covenant does not apply to pension funds, but Minister Donner has already announced the intention for this to be the case in due course.

06

Please contact
Jan Ubachs **or**
Jeroen Röder **for**
further information.

jan.ubachs@towerswatson.com
jeroen.roeder@towerswatson.com

Do you want to receive the Towers Watson Update monthly on your e-mail?
Send a message to: eu.subscribe@towerswatson.com

Towers Watson

Prof. E.M. Meijerslaan 5 | 1183 AV Amstelveen, the Netherlands
Tel: 020 543 30 00
Fax: 020 543 39 90

Copyright © 2010 Towers Watson. All rights reserved.
TW-NL-2010-17635

towerswatson.nl



TOWERS WATSON