

International Workshop on the Reform of Public Pension Systems

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AGENDA

1. Opening and welcome
2. Introduction APG
3. Dutch pension system
4. Recent policy reforms and challenges

Introduction APG



APG'S MISSION ...



'Deliver good and affordable pensions at reasonable cost to as many people as possible'



MAIN CHARACTERISTICS APG

- **All Pensions Group N.V., established on March 1, 2008**
- **Merger with Cordares as per 1 September 2008**
- **One of the largest independent pension providers in the Netherlands and one of the largest specialized managers of pension funds worldwide (AUM > €350bn)**
- **Represents the interests of over 4 million participants, active in the education, government, construction, (public) housing, energy and utility sectors**
- **Offices in Amsterdam, Heerlen, Brussels, New York and Hong Kong**

PRODUCTS AND SERVICES

- **Pension administration**
 - Collection, administration and payment
- **Communication**
 - Internet (pension planner), social media
- **Asset management**
 - Portfolio construction based on liability structure
- **Board support and advise**
 - Actuarial, legal, technical, organizational
- **Supplementary products**
 - Loyalis (insurance)

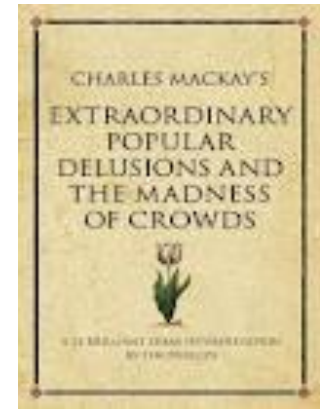
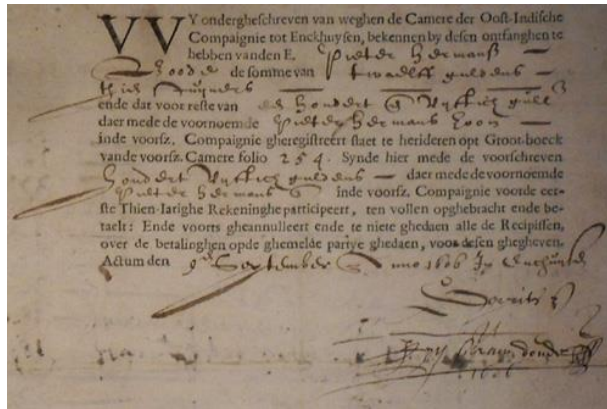
APG'S RESPONSIBLE INVESTMENT POLICY

1. Responsible investment is an integral part of the investment process at APG.
2. APG enters into dialogue with companies in order to achieve sustainability and good corporate governance.
3. APG expects companies to act with respect for the principles of the UN Global Compact, and we will sell the shares we hold if the dialogue does not lead to improvement. Moreover, APG does not invest in products which are banned under Dutch law or international regulations.
4. APG does not invest in sovereign bonds issued by countries that are subject to an arms embargo by the UN Security Council.
5. APG actively exercises our rights as shareholder.
6. APG strongly advocates robust Dutch and international laws and regulations aimed at promoting sustainability and good corporate governance.
7. APG actively looks for attractive investments that promote sustainability.
8. APG actively propagates our responsible investment policy in order to promote sustainability and corporate governance.

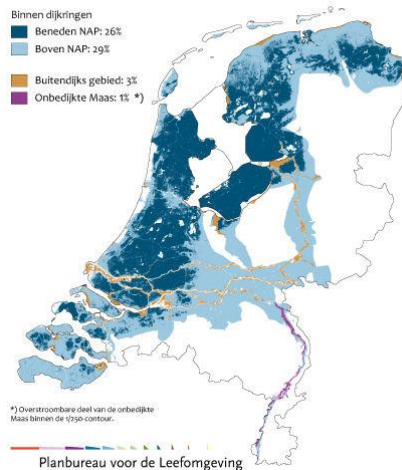
DUTCH PENSION SYSTEM



HISTORY OF MANAGING RISK IN HOLLAND



Overstromingsgevoelig gebied



BALANCE BETWEEN PAY-AS-YOU-GO AND FUNDED PENSIONS

Third pillar: individual (10%)

- voluntary pension products

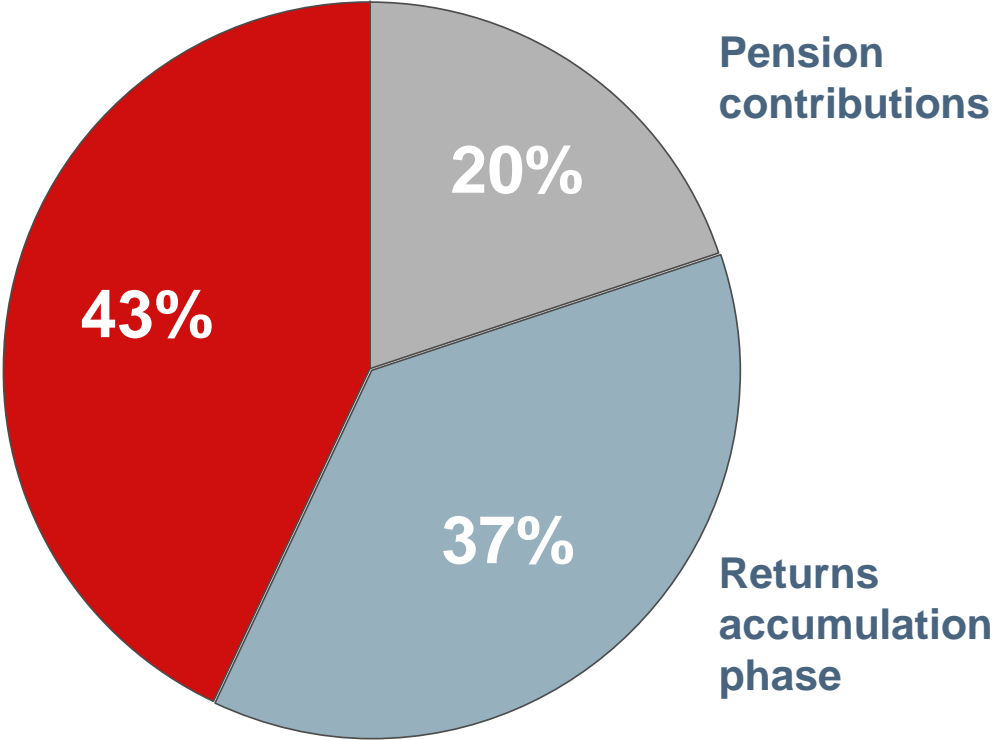
**Second pillar:
occupational pensions
(40%)**

- mandatory via employer
- funded: > EUR 900 billion
- earnings-related pension schemes
- not-for-profit pension funds governed by social partners

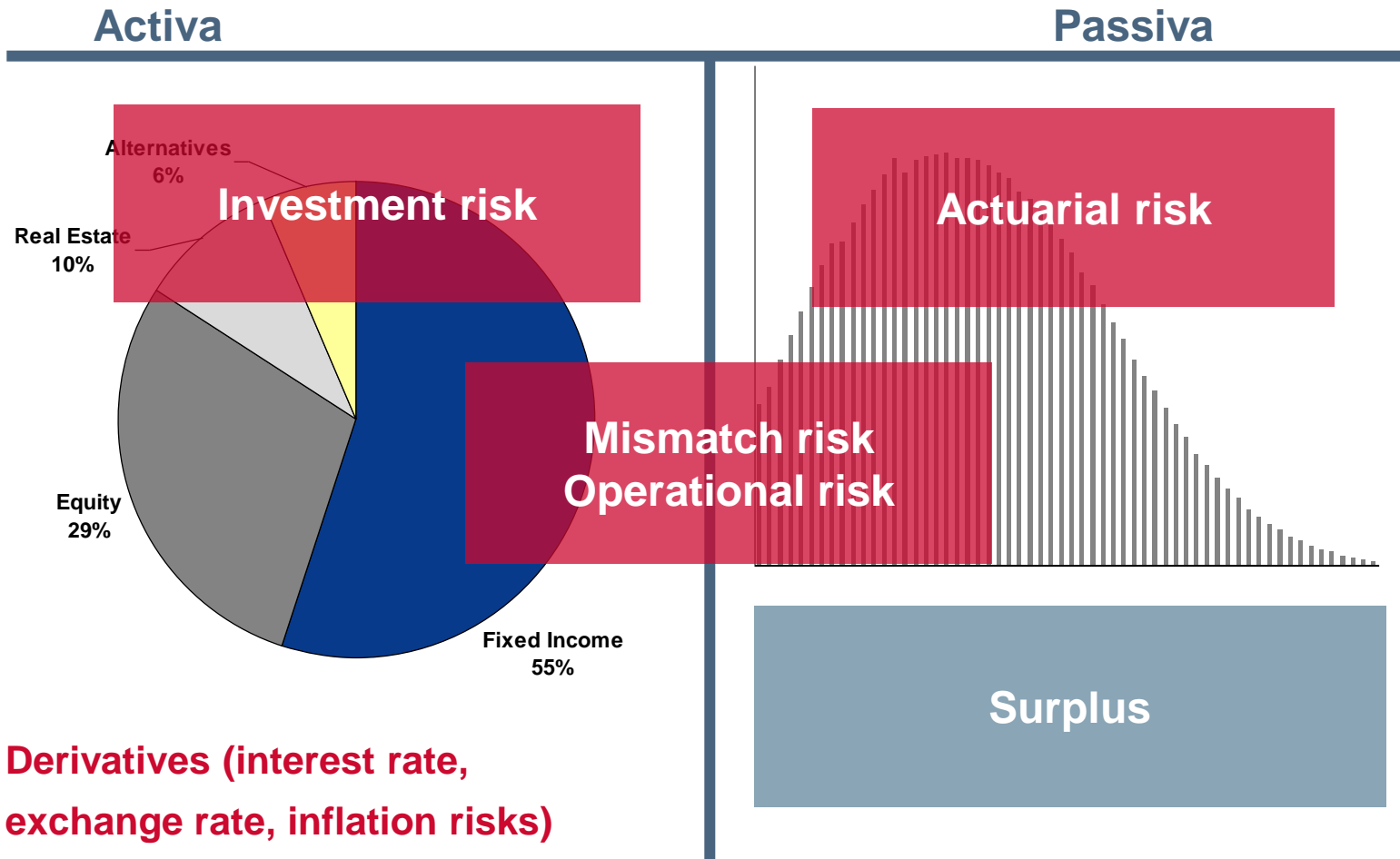
**First pillar: state pensions
(50%)**

- mandatory
- pay-as-you-go financing
- flat rate pensions: EUR 1,107 (single) or EUR 1,523 (couple) per month

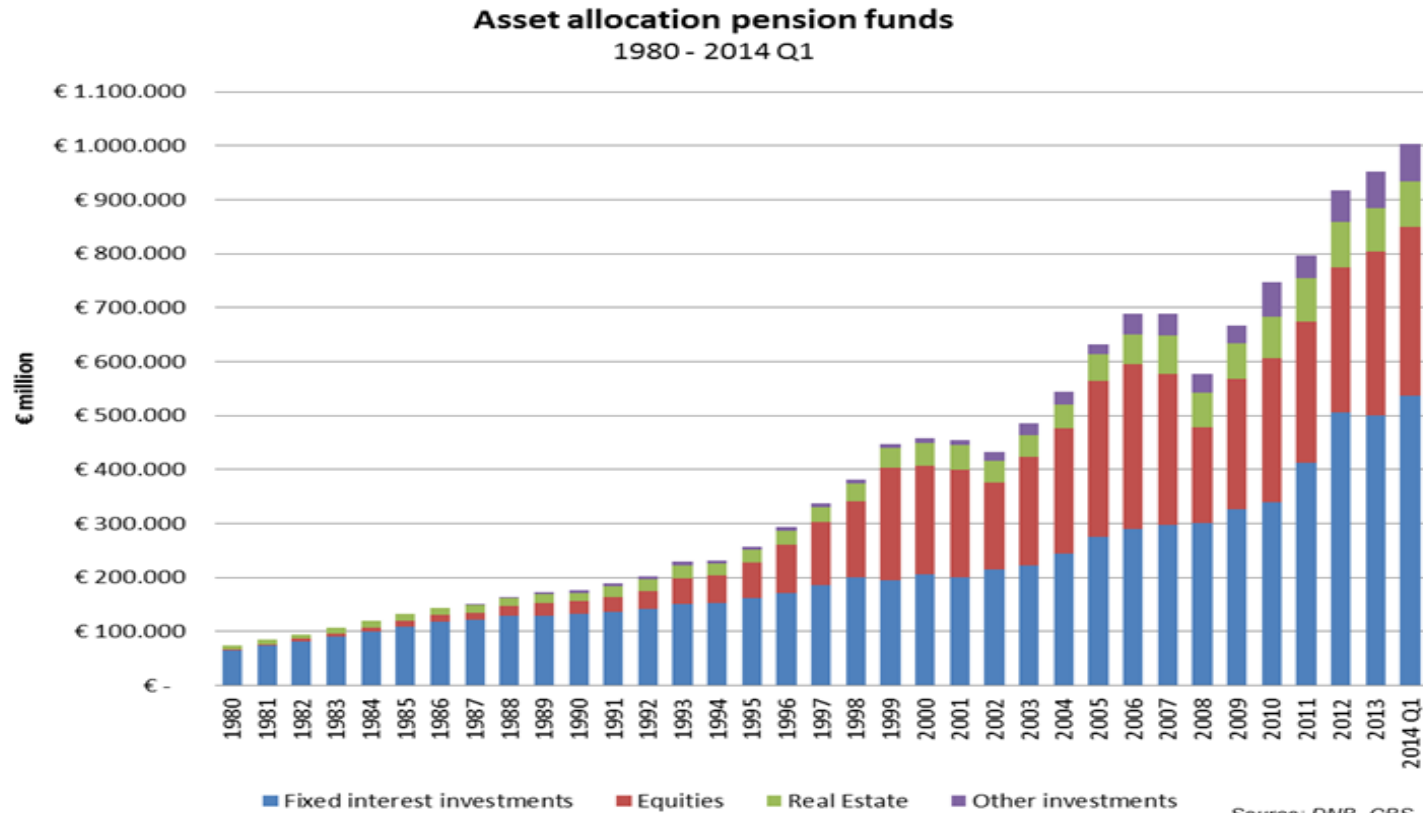
HOW TO DELIVER ADEQUATE PENSIONS?



PENSION FUND BALANCE SHEET MNGT



INVESTMENT RETURNS → BETTER PENSIONS



BETTER PENSION DESIGN

- **Define and implement adequate risk budget**
 - Accumulation phase
 - Decumulation phase
 - Diversification
 - Target income approach
- **Set up low cost pension delivery**
 - Use benefits of scale and scope
 - Avoid distribution costs
- **Communication to participant**

RECENT POLICY REFORMS AND CHALLENGES

Dutch defend Queen's UK pension plan

By Madison Marriage



The move to introduce Dutch-style collective pension plans was announced by Queen Elizabeth in her annual speech to the UK parliament

An angry debate has erupted in the UK investment market after plans to adopt a Dutch pooled pension model were unveiled by the British government last week.

The move to introduce Dutch-style collective pension plans, which proponents hope will provide enhanced investment performance and economies of scale, was announced by Queen Elizabeth in her annual speech to parliament.

Many in the UK pension industry have been quick to point out flaws in the Dutch system, much to the bemusement of their peers in the Netherlands.

Alwin Oerlemans, managing director of institutional business development at APG, the largest Dutch pension fund, which has €340bn of assets, says he is "surprised" to see so much hostility from the UK market towards his country's model.

TRENDS: WHO WANTS WHAT?

- **Society at large**
 - Less solidarity and less collectivity
 - More freedom of choice
- **Dutch government**
 - Adequate level of pensions
 - Stable macro-economics and efficient labour market (mobility)
- **Supervisors**
 - Central bank: capital adequacy (high funding ratios)
 - Conduct supervisor: transparency
- **European Commission**
 - Harmonization
 - Shift towards pensions as financial product

RECENT CHANGES

- **Strengthened governance framework**
 - More room for professional managers
 - More influence for stakeholders (pensioners)
- **Stricter financial supervision framework**
 - Higher financial buffers (130%)
 - Smoothing of premiums and pension reductions
 - (very) strong requirements for indexation
- **Lower tax benefits**
 - 1,875% and €100K
 - Reason is government budget

FUTURE CHANGES

- **Fundamental discussion on pension system**
 - How much solidarity do we want? (young/old, average premium)
 - Individual or collective? (pension duty not really in discussion)
 - How to increase freedom of choice?
 - Choose your own pension fund or insurer
 - Choose your own level of premium (beyond certain minimum)
 - More flexibility in payout phase, e.g., get more early and less later, or use part of your pension for housing or care
 - More influence on specific topics, e.g., level of risk taking, or ESG
 - Etc.
- **Ongoing discussions on investing in the Netherlands**
 - Pension funds acknowledge their social responsibility, BUT:
 - risk-return tradeoff is key
 - ABP already invests more than 10% in the Netherlands
 - Scalability is an issue

SOME CHALLENGES AND TRADEOFFS

- **Freedom of choice is good and should be supported where possible, BUT:**
 - Less collectivity means less economies of scale, less risk sharing and higher administrative burden
 - Participants often lack time, will or knowledge to make proper choices
- **Certainty has a price**
 - and today's financial markets show that full certainty does not exist
- **LT investing and short term politics do not always match**
 - Budgetary responsibility of government sometime interferes with its role as regulator