Will You Afford to Retire?
The Real Return on Long-Term and Pension Savings
2024 Edition
BF BETTER FINANCE
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Will You Afford to Retire?

The Real Return of Long-term and Pension Savings

2024 Edition — Netherlands (the)

A research report by BETTER FINANCE

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Executive Summary

Was 2023 the year when European retail investors finally obtain the "fairer deal" that the outgoing European Commissioner Mairead McGuiness wished for them (McGuinness, 2023)? As far as long-term and pension products are concerned, this report presents mixed results. While European capital markets performed strongly in 2023, helping many pension funds and life insurance companies to rebound after a calamitous 2022, we find that many of the products we analyse failed to pass on the benefits of this renewed performance to pension savers. One or even two years of past performance, however, do not tell us much about the long-term performance of saving products. What matters for individuals who invest part of their income into those products is how much income they will be able draw from them in the distant future, in particular for retirement purposes. The objective of this report therefore is to provide readers with a long-term perspective on performance that aligns with the extended investment horizon. We analyse the costs and performance of a broad range of products across various holding periods, spanning up to 24 years. Over this longer period good years supposedly make up for bad ones. Nevertheless, we observe that many of the product categories do not offer sufficient nominal returns in the long run to compensate for inflation, even with the moderate inflation rates of the of the 2000s and 2010s. This weak performance then results in a loss of purchasing power for many European savers and investors.

The real net return of European long-term and pension savings

The object of this report is to assess the ability of long-term and pension savings products to at least preserve the purchasing power of European retail investors' savings over more than two decades, and at best increase the real value of these savings, increasing the capital on which European pension savers may rely on to maintain their living standard in retirement. That is why we focus our analysis on time-weighted returns.

The risk of financial losses is inherent in any investment in capital markets: capital markets are volatile—as their performance over the last two years clearly shows (see Figure XS.4). Nevertheless, we share European Insurance and Occupational Pensions Authority (EIOPA)'s view that

> the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently "aggressive" to reach higher investment returns to compensate for potentially low contribution levels (European Insurance and Occupational Pensions Authority [EIOPA], 2020, p. 3),

and generalise it to any long-term and pension savings product. Short-term volatility—the alternance of good and bad years—is of little consequence for most pension savers; what matters is the cumulated performance over the life of the contract, the holding period, which often spans more than two decades. Over such long periods, the crucial risks are those arising from cumulated costs—which divert a portion of the accumulated capital towards financial intermediaries profit and loss accounts—and inflation—which progressively erodes the purchasing power of savings. The *real net rate of return* is therefore the main metric of interest for pension savers.

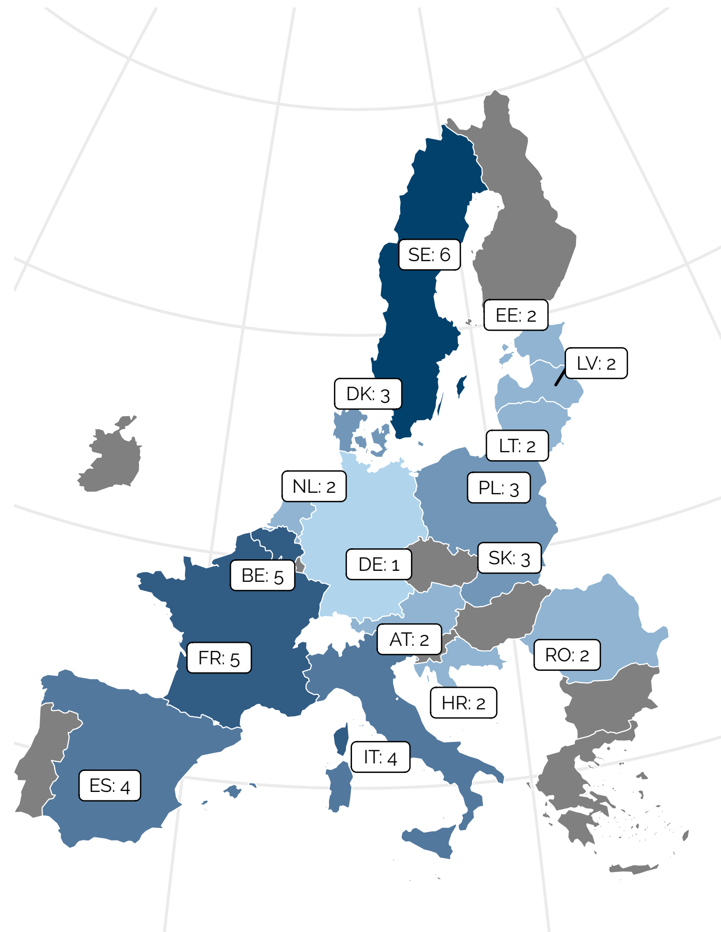
This research report by BETTER FINANCE covers 16 of the 27 European Union (EU) Member States. In each of these countries the team of contributors analyses the costs and performance of up to 6 product categories. Our goal is to calculate, based on publicly available data about these product categories, the *real net return* that long-term and pension savers may expect to obtain from their investments, going back as far as the year 2000. When we refer to real net return, we are indicating the rate of return on an investment after deducting all costs and charges levied by the product provider. This calculation also accounts for inflation, which reduces the purchasing power of both the invested capital and returns. The map in Figure XS.1 shows the countries included in this study, and the total number of product categories analysed in each country.

Assessing the real net return of a category of pensions products requires three classes of information about these products: (a) reliable data about the nominal, gross return of investments made on behalf of pension savers in relation to the total amount of accumulated capital; (b) total costs being levied for the management of these investments (administrative costs of managing the investor's contract, cost of management of investment fund "units", entry fees, exit fees, etc.) and; (c) the rate of inflation in one's country for each year of the investment period.

These are but typical examples of the data availability issues that our team of expert contributors face across countries and product categories. While data about average inflation is easy to come by—thanks, inter alia, to the work of Eurostat—, we can hardly say the same for data about returns and costs. The availability of such data often limits the scope of our study. Reliable information about the average performance of a product category may be unavailable, as is the case of most German long-term and pension saving products, or not fully appropriate for an assessment of what the client actually get, as is the case with Belgium's *Assurance Groupe* products. Costs data are even more difficult to obtain: for many of the product categories we analyse, cost information is too scarce to assess the impact of costs on performance.

Long-time followers of BETTER FINANCE's work on pensions might remember that past editions of the report also included Bulgarian pensions products and may be surprised to see that we analyse no product category in Bulgaria in this report. In the case of Bulgaria, despite BETTER FINANCE's multiple calls to the relevant authorities, essential data necessary to calculate the real net returns of Bulgarian pension savings remain unavailable, forcing us to renounce including any Bulgarian long-term or pension savings product category in our study.

Figure XS.1 – **Countries and number of product categories included in the report**

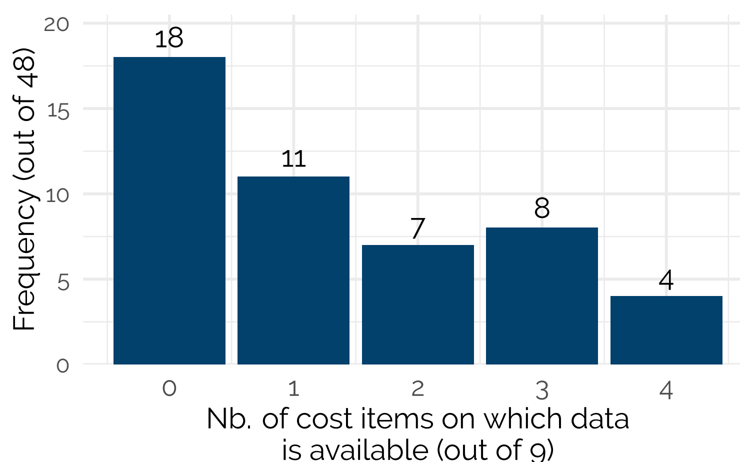


Besides performance data, information on costs is very often patchy and displayed in a way that makes it impossible for investors to compare cost levels across product providers, and for our contributors to aggregate this information at the level of product categories. The reader can appreciate this reality in Figure XS.2: for none of the 48 product categories included in our study could our contributors find data for more than 4 out of the 9 cost items defined in our methodology. Additionally, for more than a third of the product categories in our study, there is simply no cost information available.

For the 18 product categories for which no cost data is available, the lack of information on costs and charges prevents us from evaluating the average effect of charges on investors' returns. Consequently, we are forced to start our analysis with disclosed nominal *net* returns, whereas providers' marketing communications usually communicate on the basis of nominal *gross* returns.

Given the challenges in obtaining fundamental data on the average costs and performance of long-term and pension savings products, which capture a large share

Figure XS.2 – **Availability of cost and charges data for 2023**



of the wealth of European households, we advocate for EU and national authorities to urgently enact and implement the proposed rules on product oversight, governance, and information to investors, as outlined in the recent Retail Investment Strategy (RIS) proposals made by the European Commission (see our policy recommendations on Page xiii). Costs and performance disclosures are key to properly assess the functioning of the European market for pension savings products.

While opacity on cost and charges presents a challenge for many of the product categories we study, it is only fair to acknowledge the few cases in which industry and supervisors made significant efforts to define and implement coherent reporting frameworks, such as that of the Dutch pension funds or the Italian *Commissione di Vigilanza sui Fondi Pensione* (COVIP)'s annual report on pension funds and *Piani Individuali Pensionistici* (PIP).

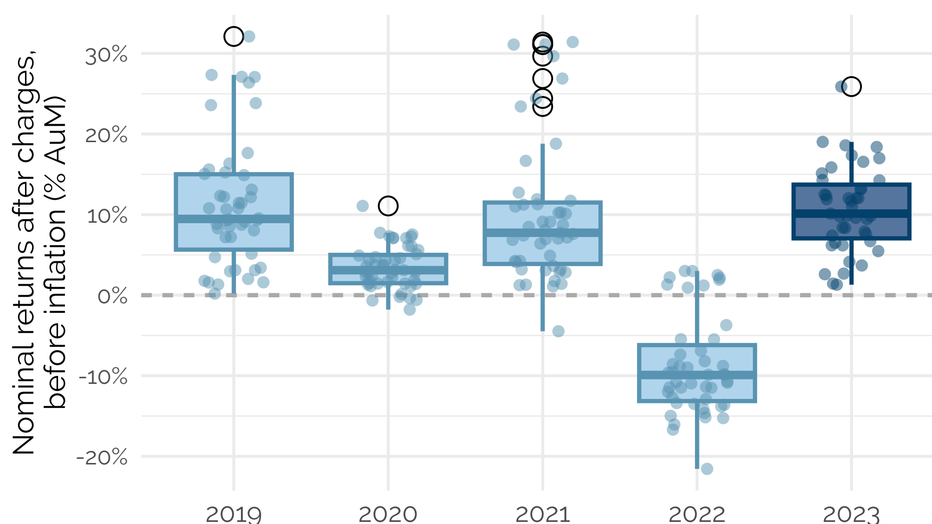
2023: Recovering from the slump

The product categories included in our study generally performed strongly in 2023. All of the 43 product categories for which we could obtain performance data for 2023 had a positive nominal net return. As can be appreciated in Figure XS.3, this performance is in sharp contrast with the previous year, when out of 47 product categories, 38 returned a loss in nominal terms, after charges.[1]

These good results reflect the good performance of, in particular, equity markets between January and December 2023, which recovered strongly after the slump of 2022. Figure XS.4 shows the performance of European capital markets. Using two pan-European market indices as proxies—one for equities and one for bonds, we calculate the cumulative return of a hypothetical portfolio composed of European equity and bonds in equal proportion, with annual rebalancing. The cumulated return, in nominal terms, of this portfolio dropped by 44.8 percentage points between

[1] In box plots such as Figure XS.3, the central box represents the interquartile range (i.e., 50% of the data), the thick central line is the median, the whiskers (vertical lines) indicate where roughly 99% of the data points are located, and the black circles at each end of the whiskers represent outliers.

Figure XS.3 – **Average 1-year return rates of analysed product categories (2019–2023)**



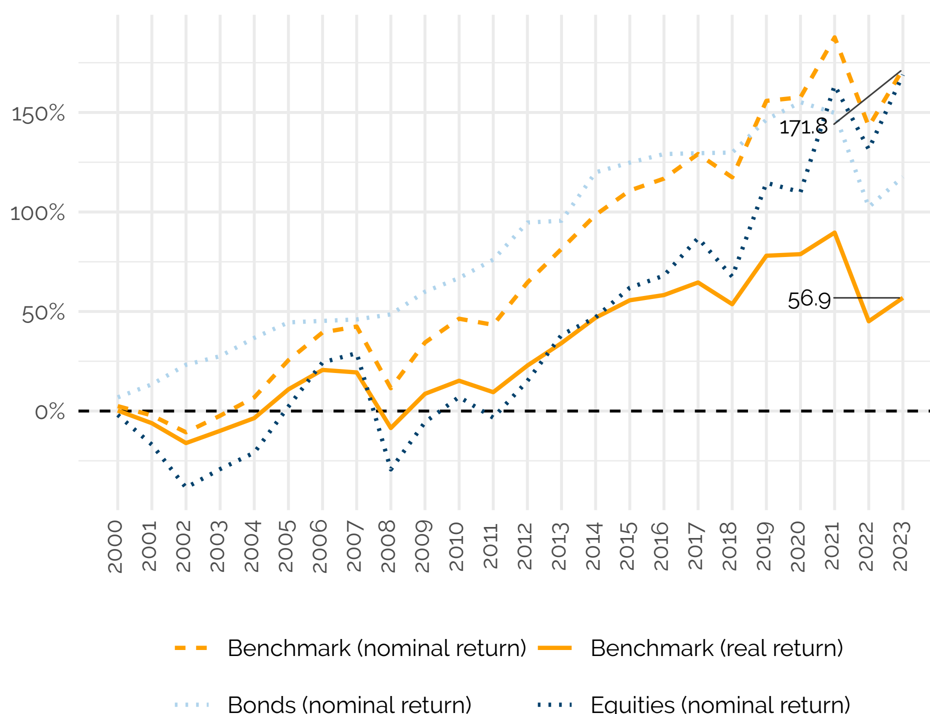
Data: NCAs and sectoral associations (see Country Cases); *Calculations:* BETTER FINANC

end-2021 and end-2022 before rebounding to 171.8% by the end of 2023. After adjusting for the average inflation across the EU, we obtain a 56.9% real net return, +11.8 percentage points (p.p.) from end-2022.

Inflation, in turn, slowed down in most EU countries in 2023, after the peak of 2022. In 8 of the 16 countries of our study, inflation in 2023 was below the annual average over the period 2000–2003. Nevertheless, for most of our sample, inflation remained high, as can be observed in Figure XS.5. Inflation across the Euro Area, stood at 2.93%, still significantly above the close-to-but-below-2% target of the European Central Bank (ECB).

The result of this combination of strong capital market performance and slowing inflation is a reduced gap between nominal net returns and real net returns for 2023: With a median net return standing at 10.1% in nominal terms and 7.4% after inflation, the gap is reduced to 2.8 p.p. (see Figure XS.6), down from 8.6 p.p. in 2022, when the already severly negative median nominal returns (-9.9%) where further depressed by the strongest inflation seen in Europe is decades, yielding a median real net return of -18.5%. These median values, it should be noted, hide markedly contrasting differences: The maximum performance for 2023, in nominal terms and after deduction of charges, stands at +25.9% (Poland's Employee Capital Plans), while the poorest performance with +1.3% (ironically, that of Italian PIP "with profits" contracts) narrowly avoids returning a loss in real terms thanks to the low level of inflation in Italy (+0.46%).

Figure XS.4 – Cumulated performance of European capital markets (2000–2023)



Pan-European Pension Product (PEPP): First full year of return data

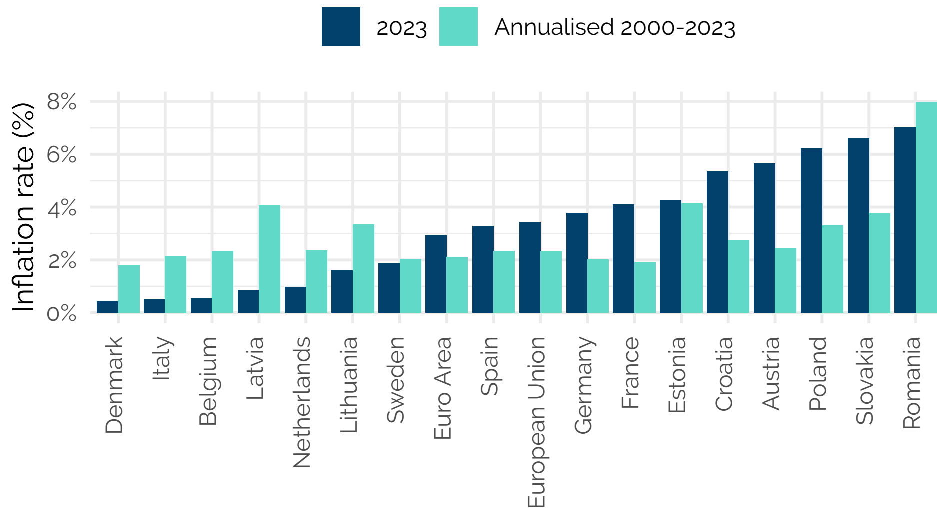
We wish to highlight the good performance of the first PEPP to be included in our study: with a nominal return before charges and inflation standing at +15% and charges amounting to 0.72% of assets under management (AuM), the Slovak PEPP yielded a net return of +14.3% in nominal terms and 7.2% in real terms, largely outperforming its capital markets benchmard (11.8% and 4.9% in nominal and real terms, respectively). Find more information in the Slovak country case in part II of this report.

These data show that the PEPP is indeed a promising personal pension product. The Slovak case shows that it is indeed possible to offer a PEPP under the conditions set by the current PEPP regulation, including the “1% fee cap”, that is, the limiting of fees to 1% of accumulated capital per annuum for the Basic PEPP.

BETTER FINANCE will keep monitoring its development not only in Slovakia, but also in Poland—another of the country cases of this report, where PEPP was introduced in the course of the year 2023—and other countries.

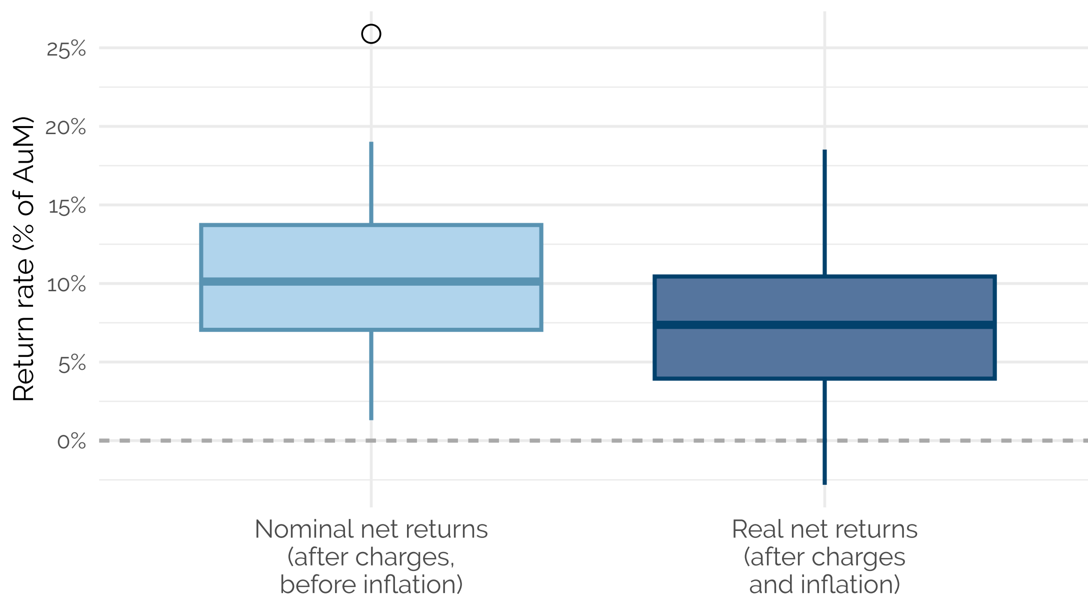
In the meantime, we urge Member State governments to offer the PEPP the same treatment, as regards taxation, subsidies and transferability of accrued pension benefits, that existing national personal pension products enjoy (see our policy recommendation on this topic on Page xvii).

Figure XS.5 – **Inflation 2023 vs. 2000–2023 annual average**



Data: Eurostat (HICP monthly index); *Calculations:* BETTER FINANCE.

Figure XS.6 – **Average 1-year nominal vs. real return in 2023 (after charges, % of AuM)**

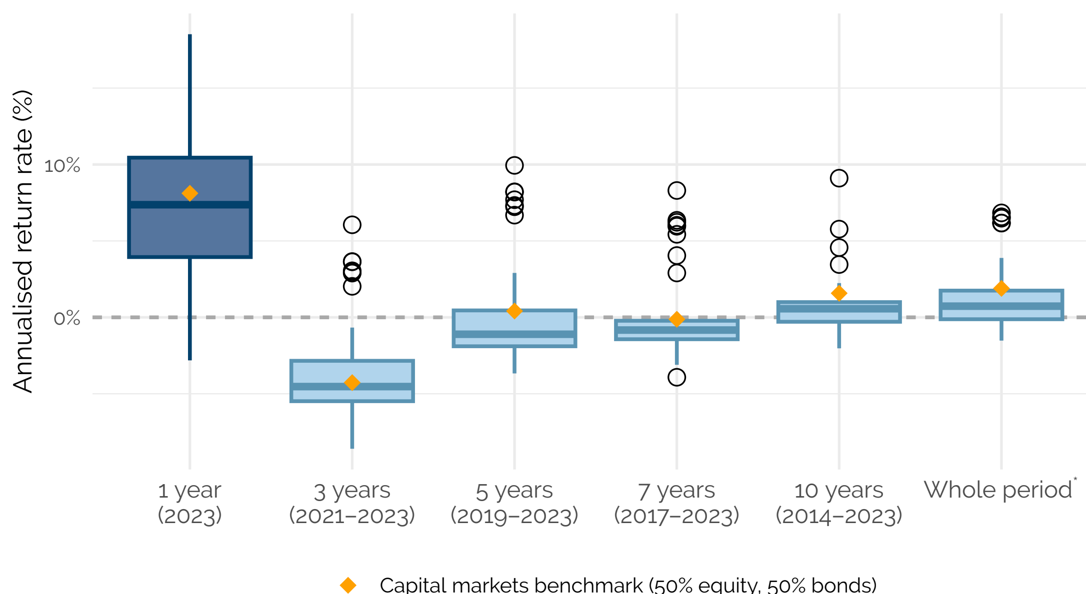


Calculations: BETTER FINANCE

The long-term view on long-term savings

Naturally, one should not assess the performance of long-term and pension savings products based on the results obtained in one bad year but rather take a long-term view. That is why our ambition in this report is to gather data about costs and performance for a period of up to 24 years (2000–2023).

Figure XS.7 – Average annualised real net returns over varying holding periods



Calculations: BETTER FINANCE; * Up to 24 years, the reporting period varies across products

Figure XS.7 displays the distribution of average performances after charges and inflation of the long-term and pension saving products analysed in our report, over varying holding periods from 1 year (2023) to the whole period for which data could be found ("whole period", up to 24 years). We immediately observe that the capital markets slump of 2022 still weighs down on performance over shorter periods (3, 5 and even 7 years), with annualised rates after charges and inflation negative for a large majority of product categories. Over 7 years (2017–2023), the negative performance of 2022 comes atop that of the year 2018, with the result that only a few outliers manage to yield a positive real net return over that period.

Market volatility, whether upwards or downwards, is cancelled out over longer periods (the standard devaition falls from 4.9 p.p. for 1 year to 2 p.p. for 10 years, see Table XS.1), allowing us to more accurately assess the returns offered by the various product categories. Over 10 years and over whole reporting periods (up to 24 years), we see that the most of the interquartile range (the boxes in Figure XS.7) lies in positive territory. This may seem reassuring, until one notes that over 7 years, 10 years and whole periods, the annualised real performance of our capital markets benchmark (50% equity–50% bonds, rebalanced annually), shown with a yellow diamond in the figure, lies in the top quartile of the returns of product categories (above the

upper bound of the box), meaning that 75% of the product categories fail to beat the benchmark.

Table XS.1 – Summary statistics of real performance over varying holding periods

Holding period	Nb. of product cat.	Median	Mean	Standard Deviation	Best performance	Worst performance
1 year	43	7.4%	7.3%	4.9pp.	18.5%	-2.8%
3 years	47	-4.5%	-3.6%	3.4pp.	6.1%	-8.6%
5 years	46	-1.1%	0.2%	3.5pp.	9.9%	-3.7%
7 years	46	-0.8%	0.0%	2.8pp.	8.3%	-3.9%
10 years	40	0.6%	0.7%	2.0pp.	9.1%	-2.0%
Whole period*	48	0.8%	1.3%	2.3pp.	7.2%	-1.5%

Calculations: BETTER FINANCE

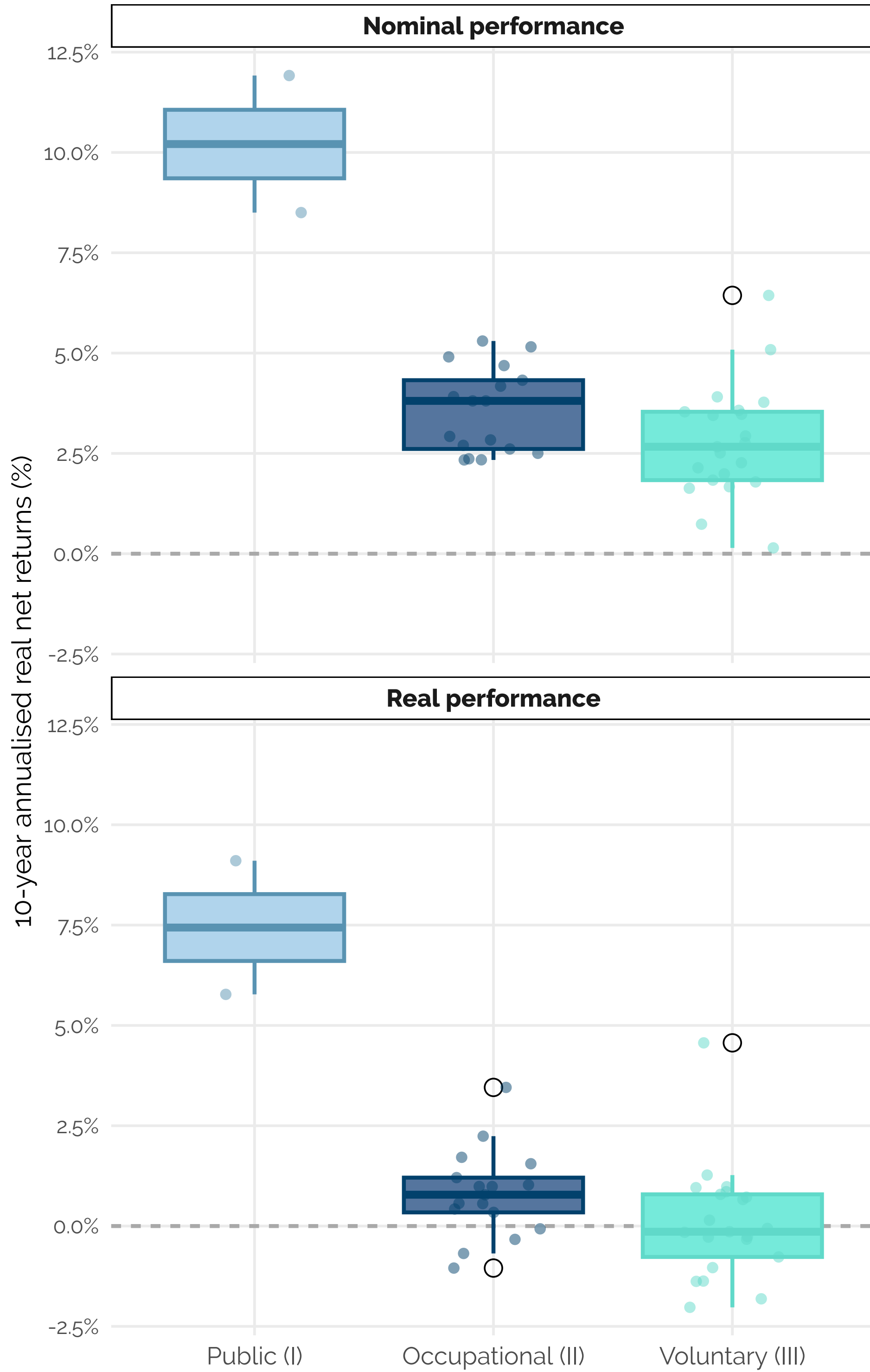
* Whole period varies across products (up to 24 years).

Observing the distribution of performance levels across pension system pillars, we also note that occupational pension schemes in Pillar II generally outperform voluntary products within Pillar III. Figure XS.8 illustrates the distribution of 10-year performance per pillar.

Swedish Premium pensions, which show very strong performance compared to the rest of the analysed product categories, are classified as Pillar I but although they are funded, earnings-based pensions that bear strong resemblance to occupational pension schemes (Pillar II). Leaving these extreme positive outliers aside, we observe that median 10-year performance of Pillar II products (central line of the middle box) is above the upper limit of the interquartile range of Pillar III performances (upper bound of the right-hand box), meaning that 75% of Pillar III products have a performance below the median performance of Pillar II products.

It is beyond the scope of this report to explore the significance of the trend, although future research should investigate the factors that may explain it, including differences in asset allocation, management costs, distribution costs, and the potential effect of auto-enrolment schemes. Additional cost data would be particularly valuable to consistently analyse whether the observed divergence in performance might arise from higher costs associated with Pillar III products. We hope that such data becomes available if the EU legislator follows the much-welcomed proposals regarding cost disclosures under the Markets in Financial Instruments Directive (MiFID) and Insurance Distribution Directive (IDD), crucial elements of the European Commission's proposals for the Retail Investment Strategy (RIS).

Figure XS.8 – **Average 10-year annualised performance per Pillar**



Calculations: BETTER FINANCE, returns are shown after charges and inflation.

Policy recommendations

Policy recommendation 1 — Supervisory reporting and statistics

Step up efforts to collect and disclose data on long-term and pension savings products, both at the national and EU level (ESAs's cost and past performance reports) to empower European citizens as retail investors.

The contributors to this report can testify of the difficult to obtain even basic, aggregated data about long-term and pension products in many EU countries. If a team of expert contributors, with knowledge and experience in the field, find it challenging, how can we expect EU citizens to make any use of these data to assess the performance of their own pension products in relation to the market? Making available full historical data sets of both aggregated and provider-level data would enable non-profit organisations like BETTER FINANCE to provide an independent, consumer-friendly analysis of this market. But national competent authorities (NCAs) could also step up their efforts to create consumer-friendly reports and comparison tools.

Harmonised frameworks for reporting from product providers to NCAs and pension scheme participants already exist for various of the product categories we analyse in this report. These commendable efforts should be assessed through a peer-review process to be organised by the European supervisory agencies (ESAs) in order to identify best practices, but also discard misleading disclosure practices that prevent retail investors to obtain a clear picture of the cost and performance of the products on offer. As part of these efforts to better report on the costs and performance of retail investment products, BETTER FINANCE calls on the ESAs to keep improving their annual costs and performance reports. Currently, the data and coverage of these reports are incomplete and based on commercial databases or surveys. The European Securities Markets Authority (ESMA), the EIOPA and—in the future—the European Banking Authority (EBA) should be able to rely on regular reporting of supervisory data from NCAs, which themselves should have the necessary powers to require regular reporting of data on the costs and performance of saving and investment products in their respective areas of competence.

Going further, the EU legislator should draw inspiration from these examples and incorporate into EU law - specifically, theMiFID and IDD legislation for Pillar III products, currently under review as part of the Retail Investment Strategy (RIS), or the next revision of the IORP II directive on occupational pensions - requirements for NCAs to adequately report figures on a quarterly or monthly basis. This should include the constant updating and public reporting of AuM and net AuM, unit value, asset allocation, as well as the number of participants for all supervised vehicles in the area of long-term and pension savings.

Policy recommendation 2 — Conflicts of interest in scheme management and product distribution

Harmonise and reinforce rules to curb the conflicts of interests in the distribution of long-term and pension saving products, and improve the governance of collective long-term pension schemes.

Conflicts of interest plague the management and distribution of long-term and pension saving products in Europe. The sales commissions-based distribution system of voluntary long-term and pension saving products (Pillar III) directs retail investors towards fee-laden and often underperforming products. Our report showcases various product categories with high average fees and poor long-term returns that so-called "advisors" are paid to recommend to consumers, against the best interest of the latter.

BETTER FINANCE has consistently opposed this system, and strongly supported the European Commission's proposal to partially ban so-called "inducements" as part of the RIS. We believe that the inducements-based distribution system hurts retail investors through higher charges, the illusion of "free" investment advice and a selection bias in distributors' recommendations, all of which result in lower returns and inadequate retirement income for European citizens (BETTER FINANCE, 2023b, pp. 4–13). The financial industry failure to acknowledge the problem and its intense lobbying efforts to maintain a damaging status quo resulted in the utterly disappointing provisional positions of the Council and, especially, the European Parliament (BETTER FINANCE et al., 2024), which should not be expected to improve outcomes for consumers in any meaningful way. Nevertheless, ignoring the problem will hardly make it disappear, and so we urge all involved policy-makers, supervisors, but also willing representatives of the indsutry, to keep working towards the generalisation of high-quality bias-free financial advice that EU citizens can rely for their retail investments.

In occupational pension schemes (Pillar II), the issue of conflicts of interest takes on a different form. In those schemes, it is crucial that the board, which takes decisions on behalf of the scheme's members, includes independent members representing the interests of beneficial owners.

Policy recommendation 3 — Information to (prospective) investors

Provide simple, intelligible, and comparable information on cost and performance of long-term and pension saving products.

Obtaining information on long-term and pension vehicles, as well as monitoring them, should not be difficult for non-professional savers. This implies also reinstating standardised actual cost and past performance disclosure, and in real terms alongside the less relevant nominal ones.

The proposed revisions to the EU's MiFID and IDD legislation, along with the amendments to the PRIIPs regulation, offer the opportunity to finally provide investors with

the information they actually need to compare the costs of products. BETTER FINANCE strongly supports, in particular, the provision of annual statements to holders of investment funds' shares distributed under MiFID and to life insurance policyholders distributed under IDD, including the provision of information on the cost of distribution and the possibility to obtain a detailed breakdown of all charges.

Although we welcome the innovations introduced to the format of Key Information Documents (KIDs) by the proposed amendments to the PRIIPs regulation, we still call for a thorough review of this legislation to drastically improve the understandability and comparability of the information provided in the KID. We strongly believe that providers of packaged retail and insurance-based investment products (PRIIPs) should include the actual most recent costs of their products in the KID.

PRIIPs providers should also be required to provide 10 years of past performance data together with the benchmark that is used as investment objective by the product provider. While past performance is not indicative of future performance, it is a good indicator of whether a PRIIP has ever made money or not for the investor, and of an asset manager or insurance company's ability to meet its investment objectives, and to generate returns for the client. Furthermore, it is comparable across product providers and timelines, as it does not rely on assumptions and hypothetical scenarios. The past performance of various products shows how their respective providers navigated through a similar set of real-world circumstances. Finally, displaying past performance in comparison with the product's stated benchmark enables the prospective investor to clearly see whether the provider has been able to make good on their commitment to meet its target.

While we are generally disappointed with the current state of the legislative negotiations on the EU's RIS, we urge the co-legislators to adopt these proposals on disclosures. For more information about our recommendations regarding information to investors and prospective investors, see BETTER FINANCE (2023b, pp. 17–22).

Readers may also refer to BETTER FINANCE's response to the consultation conducted by EIOPA on the review of the Directive on institutions for occupational retirement provision (IORPs) (BETTER FINANCE, 2023a). In occupational pension schemes too, managers should provide pension scheme participants with the information necessary to keep track of their pension benefits and effectively plan their savings and investments to ensure adequate levels of retirement income.

Finally, we urge EU and member state authorities to step up efforts towards the implementation of comprehensive individual pension tracking systems, following the recommendation of the High-Level Forum on the Future of the Capital Markets Union (HLF CMU). These constitute crucial empowering tools, enabling individuals to keep track of their accumulated pension rights across employers and across borders.

Policy recommendation 4 — Sustainability

Provide clear, intelligible information on the sustainability of European long-term and pension savings and investments.

An increasing number of retail investors expresses a desire to invest in financial products that consider sustainability criteria and pursue environmental, social and governance (ESG) objectives (2° Investing Initiative [2DII], 2020). Despite significant progress in recent years, much remains to be done to provide retail investors with an investing environment that accommodates both their financial and sustainability preferences.

First, EU policymakers should increase their efforts to develop a clear, precise, and standardised taxonomy of economic activities. This taxonomy should be grounded in scientific analyses and address all three major aspects of sustainability: environmental, social and governance (ESG). These efforts should also include the development of a well-designed EU-wide Ecolabel for retail investment products that avoids the pitfalls of existing national labels.

EU policy-makers should also address the short-termism of the financial industry by reinforcing the consistent linkage between sustainability and long-term value creation. It must be clearly emphasised that exemplarity with regard to investor protection rules first and ensuring decent returns for individual investors is compatible with investing in a way that respects environment and society. To this end, clear and intelligible ESG disclosures should be combined with financial disclosures, preferably integrated into one document providing savers and investors with a holistic picture of the products they buy.

Finally, EU and national policymakers should require sustainability and ESG knowledge and training for board members in long-term and pension savings vehicles, as well as for financial advisors and sales personnel distributing such products. Regarding the latter, BETTER FINANCE supports the European Parliament's proposal, within the framework of the RIS to impose on financial advisors and sales personnel a yearly training requirement on sustainable investing (see BETTER FINANCE, 2023b, pp. 12–13).

Policy recommendation 5 — Asset allocation

End the fixed-income bias in the asset allocation of long-term savings.

Prudential rules, designed to protect investors against the risk of excessive risk-taking leading to financial losses, require pension fund managers and life insurance providers to allocate a significant portion of participants' and policyholders' funds into fixed-income assets, particularly sovereign debt from EU Member States.

However, in doing so, these rules excessively restrict the possibility for long-term and pension savers to take advantage of investment opportunities in equity markets, which, while more volatile, also offer higher yields in the long term.

Regulations governing long-term and pension savings should not discriminate against long-term equity investments. Specifically, life-cycling strategies that adjust risk to the investment horizon of the saver should enable managers to invest a substantial portion of younger investors' contributions or premiums in equity market instruments (as is the case of Sweden's Premium pensions, in particular the AP7 Såfa fund).

Policy recommendation 6 — Taxation

Stop penalising taxation of long-term and pension products.

Taxation on pensions, whether on contributions, returns, or payouts, should be based on real values rather than nominal ones. Taxes should be applied to values adjusted for inflation, using the harmonised index of consumer prices (HICP). To recoup the value of pension pots, at least occupational schemes (Pillar II) should apply an "EEE" regime. Pillar II contributions should be deductible from the income base tax.

Policy recommendation 7 — Pan-European Pension Product (PEPP)

Create a friendly environment for the PEPP

This year's report, for the first time, includes cost and performance data on PEPP, as implemented in Slovakia. As previously mentioned, these data are encouraging. Nevertheless, we note that the current environment is not conducive to the take up of this product, despite its intrinsic qualities from the point of view of retail investors:

- As noted by EIOPA:

  > [t]he higher costs of products considered "competitors" to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper enquotecompetitor product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products4 (EIOPA, 2024).

  Shielded from competition by the opacity of costs and performance disclosures, and the dominant inducements-based distribution system that biases "enquote" towards high-fee products, incumbent providers have little incentives to add a low-cost product to their range of personal pension products.

- Member State governments have generally failed to ensure that PEPP competes on a level playing field with existing personal pension products: rules on tax rebates and subsidies applicable to equivalent personal pension products have only in a few cases been extended to the PEPP, and transferability of accrued personal pension benefits from existing products to PEPP is only possible in a handful of Member States (EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024).

BETTER FINANCE urges policy-makers not to give in to industry pressures to delete

the 1% fee cap for the Basic PEPP. Instead,

- Member States should amend their respective legislations to ensure that PEPP receives the same treatment as any other personal pension product marketed in their jurisdiction.
- EU and Member State authorities must further explore the suggestions put forward by EIOPA in its recent paper to expand the target market for PEPP with a view to offer potential PEPP providers the perspective of greater economies of scale.

Policy recommendation 8 — Auto-enrolment

Introduce auto-enrolment in occupational pensions.

The active labour force should be automatically enrolled in a default pension fund, with the option to withdraw or switch provider at no additional cost. Romania, Sweden, Slovakia and other serve as best practice examples: This auto-enrolment ensures that working individuals start saving early and consistently for their retirement, reducing the risk of insufficient income in retirement. This was also a recommendation of the HLF CMU.

In this regard, we consider with interest EIOPA's suggestion, in its paper from September 11, 2024 to enable the use of PEPP as an occupational pension product, in which employers could then automatically enrol their workforce (EIOPA, 2024).

Policy recommendation 9 — Suspensions

Allow savers to defer contributions to pensions without penalties.

Savers should be allowed to suspend payments into a pension savings or life insurance plan without incurring a penalty. In an era characterised by uncertainty, it can never be assumed that an individual will always have an income sufficient to cover their immediate needs as well as pay their premium or set contribution towards their pension plan.

When an individual, for whatever reason, cannot, for a short period of time, contribute to their pension product, they should not be faced with the choice between foregoing their pension plan or paying a penalty. Instead, they should be able to suspend payments and resume as soon as they have a new income stream.

Policy recommendation 10 — Insurance guarantee schemes

Urgently establish harmonised insurance guarantee schemes in the EU.

EU citizens are partially covered against the default of product manufacturers through

Directive 2014/49/EU on deposit guarantee schemes (DGSs) and Directive 97/9/EC on investor compensation schemes (ICSs). However, many pension savers across the EU lack an appropriate protection for insurance-based investment products (IBIPs), a shortcoming of the EU's protection regime that is particularly problematic as IBIPs (such as life insurance) are predominant in some pensions systems in the EU (e.g., in France).

BETTER FINANCE calls on the EU legislator to revamp the project for a Regulation on insurance guarantee schemes (IGSs), which should mimic the rules of the DGS Directive, and urgently harmonise protection against defaults at a minimum level across the EU.

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Country Case 10

The Netherlands

Samenvatting

Het Nederlandse particuliere pensioenstelsel is sterk afhankelijk van bedrijfspensioenfondsen, die bijna de hele actieve bevolking in het land dekken als gevolg van de verplichte inschrijvingsregel die in de meeste economische sectoren geldt. De sector ondergaat momenteel een grote transformatie na de inwerkingtreding van een nieuwe wet in juli 2023. Deze grote Pijler II wordt aangevuld met een veel kleinere reeks Pijler III-producten, zoals levensverzekeringscontracten, die Nederlandse ingezetenen onder beperkte voorwaarden kunnen gebruiken als pensioenspaarinstrument. In 2023 waren de beleggingsrendementen in de pijler bedrijfspensioenen sterk positief, met name dankzij het herstel van de aandelenmarkten. Het gemiddelde rendement van het pensioenfonds in 2023 bedroeg 8,7% voor lasten en inflatie, 7,3% na lasten en inflatie. We kunnen de rendementen van levensverzekeringscontracten dit jaar helaas niet analyseren, omdat de rendementsgegevens voor deze producten niet openbaar worden gemaakt.

Summary

The Dutch private pension system relies heavily on occupational pension funds, which cover nearly all the active population in the country due to the mandatory enrolment rule that applies in most economic sectors. The sector is currently undergoing a major transformation, following the entry into force of a new law in July 2023. This large Pillar II is supplemented by a much smaller set of Pillar III products, such as life insurance contracts, which Dutch residents can use as pension savings vehicles under limited conditions. In 2023, investment returns in the occupational pensions pillar were strongly positive, owing in particular to the recovery of equity markets. The average return of pension fund in 2023 amounted to 8.7% before charges and inflation, 7.3% after charges and inflation. We can unfortunately not analyse returns of life insurance contract this year, owing to the non-disclosure of return data for these products.

Introduction: The Dutch pension system

Among the countries in our sample, the Netherlands features as the champion of occupational pensions, with an occupational pension funds sectors worth EUR 1 480 billion at the end of 2023. In the prevous edition of this report, we reported on the *Wet Toekomst Pensioenen* (WTP), the “law on the future pensions”, which entered into force on July 1, 2023, opening a transition phase that will last several years (BETTER FINANCE, 2023, p. 291). We have now firmly entered this transition phase, and the country's pension fund management teams are busy preparing their transformation plans.

In this chapter, we analyse two main types of pension savings vehicles: the occupational pension funds (Pillar II), which absorb the lion's share of Dutch workers' retirement savings, and the smaller segment of unit-linked and index-linked life insurance, belonging the third pillar of voluntary retirement savings (see Table NL.1). For pension funds, like in previous years, we analyse returns of pension funds from the year 2000, based on data from *De Nederlandsche Bank* (DNB), the Dutch central bank, which makes publicly available long and relatively coherent series about the number of members, AuM and costs of the pension fund sector. For the life insurance sector, however, no return data are made public, either by DNB or the Dutch Association of Insurers; we therefore could not update the return data obtain for the years 2016–2022.

Table NL.1 – **Long-term and pension savings vehicles analysed in the Netherlands**

Product	Pillar	Reporting period	
		Earliest data	*Latest data*
Pension funds	Occupational (II)	2000	2023
Life insurance - Unit/index-linked	Voluntary (III)	2016	2022

Like many products analysed in our report, the Dutch pension funds fared rather well in 2023, with their performance driven by the rebound of equity markets after the 2022 slump and inflation receding (1% in 2023 vs. 11% in 2022). Just like the disappointing results of the Netherlands main long-term and pension saving vehicles in 2022 reflected their exposition to world markets, so does their strongly positive performance in 2023. As the longer-term return in Table NL.2 shows the Dutch pension funds perform generally rather well compared to other countries in our study. Despite the blow of 2022, they manage to offer a positive return after inflation for as short as a 7-year holding period.

In the remainder of this introduction, we will briefly present the Dutch pension system, including the Pillar I State pension. The next section will present in more detail the two main pension savings vehicles analysed in this chapter—occupational pension funds and unit/index-linked life insurance policies . We will then look more closely at the data available on costs and charges and at the taxation regime applicable to those long-term and pension saving vehicles, before analysing their returns

Table NL.2 – Annualised real net returns of Dutch long-term and pension savings vehicles (before tax, % of AuM)

	Pension funds
1 year (2023)	7.3%
3 years (2021–2023)	-8.6%
5 years (2019–2023)	-1.7%
7 years (2017–2023)	-1.2%
10 years (2014–2023)	1.6%
Whole period	1.5%

Data: De Nederlandse Bank, Eurostat; *Calculations:* BETTER FINANCE. *Note:* Return data for life insurance products is not available for 2023.

after charges and inflation from a long-term perspective.

Pension system in the Netherlands: An overview

Like most of the country analysed in this report, the Netherlands have a classic three-pillar pension system whereby:

- Pillar I is a contributory, state pension scheme organised as a social insurance system under the pay-as-you-go (PAYG) principle;
- Pillar II is made of fully funded, mostly tax-exempt and—until now—comprising mostly defined contribution (DC) schemes;
- The much smaller Pillar III pillar is made of life insurance policies.

Pillar I: The *Algemene Ouderdowswet* (AOW)

The *Algemene Ouderdowswet* (AOW), the basic, universal pension paid by the Dutch State borrows its name from the 1956 law that established a lifelong pension for all elderly inhabitants of the Netherlands, regardless of their nationality and employment history (Algemene Ouderdomswet, 1956). The amount of this primary pension depends on the number of years an individual has contributed to the Dutch health insurance. The AOW is financed by social contributions and taxes. Each resident in the Netherlands between 16 and 66 years that is either employed, self-employed or on benefits contributes to the financing of the AOW—among other social security services—via a deduction from wages or benefits. A contribution from the State's general budget covers the gap between these social contributions and pension commitments. Every inhabitant of the Netherlands is automatically enrolled in the AOW system and is entitled to 2% of the maximum monthly allowance for each year lived in the country between the ages of 16 and 66.[1] Due to the gender pay gap that

[1] That is, an individual who has lived in the Netherlands during the whole period—66-16 = 50 years—would be entitled to $50 \times 2\% = 100\ \%$ of the maximum monthly allowance.

results in lower average occupational pension rights for women than for men, the former tend to be more depend more heavily on AOW pensions for their retirement income.

The AOW is a PAYG scheme—a redistributive system whereby social security contributions from the current workforce are used to pay the current pensions—and is therefore sensitive to the ageing of the population. With an old-age dependency ratio (the ratio of number of pensioners to the active population) of 34.7% in 2022, the Netherlands is in a rather better position than most of the other countries in our study. That is partly due to the decision taken in the mid-1990s to raise the retirement age—the *AOW-leeftijd*— continually on a par with life-expectancy, tempered by a 1999 agreement between government, employers and trade unions to limit the increase of the retirement (Wet temporisering verhoging AOW-leeftijd, 2019). For a transition period from 2020 to 2025, the *pension agreement* reduced the previously agreed retirement age by 8 months. From 2025, the retirement age will increase by 8 months for each additional year of average life expectancy. Thus, the retirement age in 2023 is 66 years and 10 months, vs. 67 years and 3 months under the previous increase system, for people born between June 1, 1956 and February 28, 1957. For people born after September 30, 1962, the retirement age is not yet known: Because the system relies on life expectancy projections, which are bound to be corrected over time, an individual's precise retirement age is only set five years before the end of their career.[2] The AOW pension is not payable before the AOW age (no early retirement) and cannot be deferred beyond that age, although it is possible to combine the pension and work (Organisation for Economic Co-operation and Development [OECD], 2021).

Pillar II: Occupational pensions

The second pillar of the Dutch pension system is a system of collective pension schemes, operated by pension funds which are legally independent from their (often corporate) sponsors, or by insurance companies. Over the past two decades, the sector went through an important phase of concentration: From 1 060 funds active in 1997, the number fell to 170 in 2023.[3]

Pillar II pensions are fully funded. Each individual enrolled in a pension fund and their employer contributes directly or indirectly to it.The employer provides the major part of the contributions (usually between 50% and 70%), which are invested in order to fund retirement payouts.

Enrolment in a Pillar II scheme is in many cases compulsory: When trade unions and employers decide to set up an occupational pension scheme for a company or economic sector, the government has the possibility to make enrolment in that fund compulsory for all employees. This results into a near universal coverage of the Dutch active population by Pillar II pension schemes. Compulsory enrolment aims at increasing coverage of the working population, reduce costs per member

[2] A table of indicative retirement ages exist, based on current life expectancy projections up to 1960: https://www.rijksoverheid.nl/onderwerpen/pensioen/documenten/publicaties/2019/06/05/tabel-aow-leeftijden-obv-principeakkoord.

[3] *Source:* DNB statistics, *Supervised pension funds (Year)* (table 8.17).

through economies of scale, but also avoid a "race to the bottom" in the level of paid pension premiums. An employee can participate in more than one occupational pension fund if they change employer during their career and the two employers do not contribute to the same pension scheme: The employee only actively contribute to the pension scheme of their current employer, while capital accumulated with the first employer's scheme remains there until reaching retirement age or, subject to specific scheme rules, is transferred to the new employer's scheme.

The Dutch and social partners in 2019 agreed a major reform of the Dutch pension system, the main measure of which is the transformation of occupational pensions from the currently dominating classic defined benefit (DB) model to a DC model with some collective risk-sharing . The agreed solution, which was legally enacted by with the *Wet Toekomst Pensioenen* (WTP) in July 2023, implies the conversion of all current DB pension entitlements into individual, DC capital accounts. Members' contributions will accumulate on their accounts, where pension funds will also credit returns obtained from their investments. Pension payouts will then depend on how much an individual will have contributed to the fund, and on the returns that the asset manager will have managed to obtain by investing these contributions in capital market instruments. The new system is then supposed to link more directly pension benefits to investment and returns, and would offer the possibility to differentiate investment decisions based on age (life-cycling approach) and individual risk preferences (Ministerie van Sociale Zaken en Werkgelegenheid, 2023).

Under the WTP, three types of DC scheme arrangements will be available for pension schemes to choose from, the main two being the "solidarity contribution scheme" (*solidaire premieovereenkomst*) and the "flexible contribution system" (*flexibele premieovereenkomst*). The former retains an important collective dimension, with a single, collective investment policy for the whole scheme and a risk-sharing buffer to protect members against potential benefit cuts due to various financial risks. The latter, "flexible", arrangement resemble more the "classic" individual DC model, with the possibility to implement life-cycling approaches and a risk-sharing buffer being optional.[4]

Pillar III: Life insurance

Pillar III is composed of individual pension products sold by insurance companies, including life insurance and *pensioensparen*—a special-purpose savings account intended for retirement savings. Pillar III products are offered to anyone in the Netherlands to save for retirement, either in complement or in lieu of retirement savings in Pillar II pension funds.[5] Tax benefits applicable to Pillar III products make them attractive savings vehicles.

[4] social partners and the Dutch Ministry for Social Affairs and Employment created an information website to inform pension scheme participants about the changes, accessible at https://www.pensioenduidelijkheid.nl/.

[5] There are rare cases of individuals in the Netherlands whose professions or companies do not entail enrolment into an occupational pension scheme, e.g., entrepreneurs.

Table NL.3 – Overview of the Dutch pension system

Pillar I	Pillar II	Pillar III
State Pension	Occupational pension	Voluntary pension
Algemene Ouderdowswet (AOW)	Pension funds	Life insurance, *pensioensparen*, etc.
Mandatory	Mandatory	Voluntary
PAYG	Funded DB/DC[a]	Funded DC
Public	Private	Private
Social contributions and taxes	Employee/employer contributions (variable according to social partners' agreement)	Individual payments
Universal coverage	Quasi-universal	n.a.

[a] The WTP will transform occupational pensions from mostly a mostly DB system to a mostly DC one.

Long-term and pension savings vehicles in the Netherlands

Pension savings in the Netherlands are mostly accumulated in occupational pension funds (Pillar II), and to a much lesser extent into life insurance contracts (Pillar III, see Figure NL.1). Total AuM in Dutch pension funds reached an all-time high at the end of 2021, with EUR 1 746 billion, an amount that has since decreased to EUR 1 480 billion by end-2023.

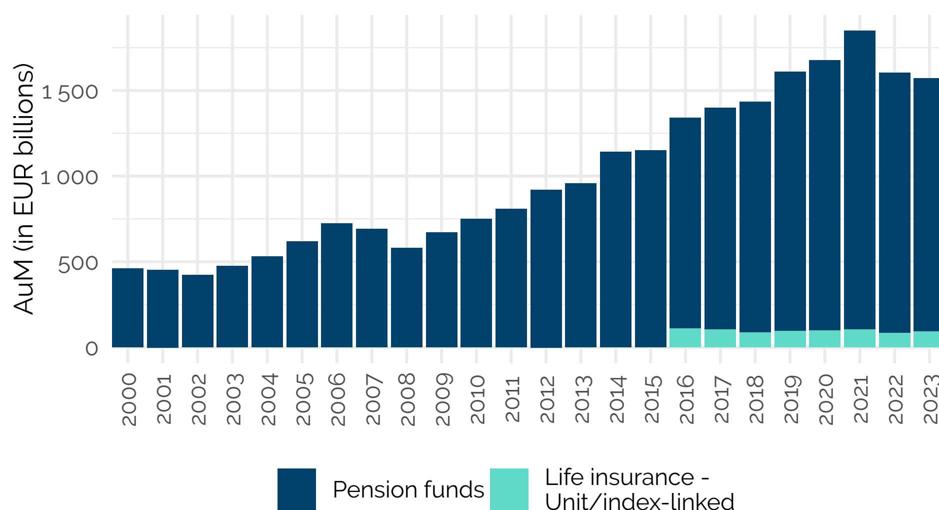
Pillar II: Pension funds

The Dutch occupational pension fund sector went through an important concentration phase over the past two decades, which resulted in generally fewer but bigger pension funds. Table NL.4 shows this trend for the second half of the 2010s: the average size of pension funds increased both in terms of AuM and of members as the number of funds decreased.

With EUR 1 479.93 billion in AuM at the end of 2023, the Netherlands boasts the second largest occupational pension system in the EU, exceeded only by Denmark. Average values hide great disparities: while the 2023 average size in AuM was a mere EUR 8.04 billion, the largest two funds per AuM—ABP and Zorg en Welzijn—had AuM well above EUR 100 billion. Logically, those same two funds also are the ones with most members (see Tables NL.5 and NL.6).

There are four main types of pension funds in the Netherlands. First, the industry-wide pension funds administer and operate the pensions for an entire sector, such as food companies or civil service. ABP, the pension fund of civil servants, is not only the largest in the Netherlands, it is also the second largest pension fund in Europe.

Figure NL.1 – AuM of Dutch long-term and pension savings vehicles



Data: De Nederlandse Bank; *Calculations:* BETTER FINANCE.

Table NL.4 – AuM and members of Dutch pension funds 2015–2023

		AuM (EUR bln.)		Nb. of members (thousands)	
Year	Nb. of funds	Total	Average	Total	Average
2015	250	1 116.37	6.24	17 900.37	71.60
2016	245	1 195.50	6.46	18 242.67	77.63
2017	231	1 276.02	6.38	18 653.18	80.75
2018	224	1 328.55	6.36	19 175.28	87.16
2019	212	1 511.13	7.30	19 137.84	90.70
2020	201	1 571.01	7.86	19 192.00	95.48
2021	192	1 740.12	9.11	19 152.08	99.75
2022	185	1 518.85	8.25	19 063.07	103.04
2023	185	1 479.93	8.04	18 635.98	100.74

Data: DNB

Table NL.5 – Largest Dutch pension funds per AuM

Fund	AuM	Nb. of members (thousands)
ABP	474.7	3 074.9
Zorg en Welzijn	225.2	2 876.6
Metaal en Techniek	78.0	1 211.5
Bouwnijverheid	61.9	750.6
Metalektro, bedrijfstakpensioenfonds	51.4	623.9

Data: DNB

Table NL.6 – Largest Dutch pension funds per number of members

Fund	Nb. of members (thousands)	AuM
ABP	3 074.9	474.7
Zorg en Welzijn	2 876.6	225.2
Detailhandel	1 350.3	28.5
Personeelsdiensten	1 306.1	2.6
Metaal en Techniek	1 211.5	78.0

Data: DNB

Second, corporate pension funds administer and operate pension schemes for individual corporations, usually major ones. Third, there exist several pension funds for independent professionals, such as medical specialists. Fourth, and final, General Pension Funds have been created to achieve economies of scale and improve governance, being allowed to ring-fence and incorpoate several (former) corporate pension funds under a single administrative umbrella.

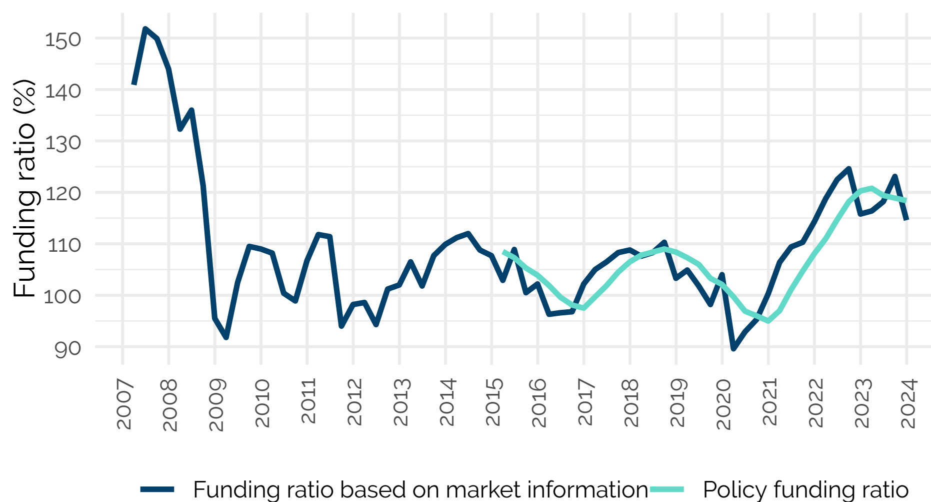
Pension funds are independent from their sponsors, that is, they are strictly separated from the company (or any other organisation) on whose behalf they administer and run the pension scheme. This strict separation is intended to protect employees' savings in case of bankruptcy of the sponsor company.

By law, pension funds are currently required to maintain a funding ratio of at least 105% (approximately) to protect members against benefit cuts. Even larger reserves are required before a pension fund is allowed to increase pensions in line with inflation. However, the WTP cancels these obligations general funding ratio requirements, in line with the switch to a DC system, and replaced them with more flexible prudential requirements.

Maintaining the current system's "coverage ratio"—(*dekkingsgraad*), the regulatory funding ratio, calculated by discounting the future pension liabilities (i.e. future nominal retirement outflows) using a mandatory interest rate curve regularly updated by DNB—proved difficult throughout the "low for long" interest rate environment of the 2010s (see Figure NL.2). Indeed, the lower the interest rates on financial markets, the greater the value of future liabilities, and the greater the chances that the funding ratio would fall below 105%. This was one of the major motivations for the switch to a DC system (Hoekstra, 2023). Although it might seem counter-intuitive, 2022 was a year in which pension funds were able to *increase* pension benefits: with the concomitant rise of inflation and interest rate, future pension liabilities are discounted at a lower rate, resulting in better funding ratios for pension funds, which remained high until now.

Collectively, the Dutch pension funds sector invest more than half of its AuM into fixed-income securities (mostly bills and bonds), which can be explained by the prevalence of the DB model—which requires funds to offer guarantees against ben-

Figure NL.2 – Average funding ratio of Dutch pension funds



Data: DNB.

efit cuts to their members—and the absence of life-cycling approaches whereby younger members' contributions could be mainly or even fully invested in equity markets, which are riskier, more volatile, but also better performing in the long run.

Pillar III: Life insurance

The third pillar is not mandatory and is run by private insurance companies offering various long-term, pension-like, saving products. Every individual can subscribe to such products, although for some products the law sets eligibility criteria.

The most important condition is that one must have a shortfall in their pension (*pensioentekort*). The Dutch tax authority determines an annual maximum amount that any inhabitant of the Netherlands can pay towards their pension savings; this maximum amount is supposed to ensure an acceptable retirement income. If, for any reason, an individual's annual contributions fall below the maximum amount allowed, then they are considered to a pension shortfall and can make a deposit into a savings account for requirement income that is equal to the difference between the maximum allowed amount and the amount already paid towards other pension saving vehicles. Amounts thus deposited cannot, however, be withdrawn before retirement. A tax benefit applies: contributions can be deducted from the taxable income, effectively reducing the amount of income tax that one has to pay. Moreover, payouts upon retirement are taxed at a lower rate than current income.

As already mentioned, the share of those third-pillar products in the retirement mix of Dutch households is relatively low (see Figure NL.1). The universal and near-universal coverage of Pillars I and II partly explains that Dutch savers see little need to add a third-pillar product to their portfolio.

Charges

For a long time, data regading costs and charges of Dutch pension saving vehicles were difficult to obtain and, where available, tend to only partially reflect the burden of these costs on investors' returns. Following calls from Dutch NCAs—the DNB and the *Autoriteit van Financiële Markten* (AFM), the financial markets authority—to improve transparency, pension fund management companies agreed to work on a harmonised cost reporting framework. The self-regulation initiative became law in 2015, with the adoption of the *Wet Pensioencommunicatie* ("Pensions Communication Act"), which applies to data from 2015 onwards. The Federation of the Dutch Pension Funds consequently revised its "recommendations on administrative costs" to implement the new law (PensieonFederatie, 2016).

Dutch pension funds today constitute one of the few cases where data on costs and performance is relatively plentiful (compared to other product categories in our study, see Figure XS.2 on Page vi), and, crucially, comparable across funds. The AFM nevertheless called on pension funds to do better: in a report published in 2021, it found that 54% of the funds' annual reports either missed or reported incorrectly at least one cost metric (Autoriteit Financiële Markten [AFM], 2021). The AFM also signalled the need for better explanations of costs, beyond aggregate figures. With the switch to a DC system, cost consideration will become increasing important:

> Because of the transition costs that pension funds will have to deal with in the coming period, and the more prominent role that costs will have in participant communication in the new pension system, the AFM believes it is important to pay extra attention to accountability and transparency of costs now, on the eve of that transition. (AFM, 2021, p. 5)

As regards costs, the reporting framework mandates the disclosure of three main metrics: asset management costs, transaction costs (both in percentage of total AuM) and costs of pension administration per member (in EUR per member). As Table NL.7 shows, data before the *Wet Pensioencommunicatie* is essentially limited to costs of asset management.

The sudden jump in these asset management costs from 2014 to 2015 should not be understood as an increase in the actual costs of Dutch pension funds: Instead what these figures reveal is that asset management cost figures until 2014 probably underestimate actual costs, and that the new reporting framework better captures the actual extent of these costs. Furthermore, over the past decade, pension funds have largely eliminated the payment of performance fees from their contracts with asset managers, leading to a reduction in costs. One should also note that the figures published by DNB for pension funds' nominal returns are net of transaction costs, which are notoriously ambiguous and difficult to account for. In recent years, Dutch pension funds and regulators have made significant progress to more fully and transparently account for these costs, but we should assume that the actual transaction costs before 2015 were actually higher than the figures deducted from the gross returns reported to DNB, meaning that nominal returns may be overestimated. Naturally, since our computation of net returns relies on these figures,

Table NL.7 – Costs and charges of Dutch pension funds (% of assets)

Year	Admin. and mgt. fees	Contract mgt. fees	Other ongoing fees
2007	0.21%	—	—
2008	0.25%	—	—
2009	0.19%	—	—
2010	0.15%	—	—
2011	0.20%	—	—
2012	0.22%	—	—
2013	0.25%	—	—
2014	0.19%	—	—
2015	0.46%	EUR 113.63	0.09%
2016	0.45%	EUR 111.72	0.08%
2017	0.47%	EUR 112.11	0.10%
2018	0.45%	EUR 101.20	0.09%
2019	0.45%	EUR 104.10	0.09%
2020	0.47%	EUR 107.85	0.11%
2021	0.69%	EUR 107.60	0.09%
2022	0.43%	EUR 112.02	0.11%
2023	0.39%	EUR 123.26	0.10%

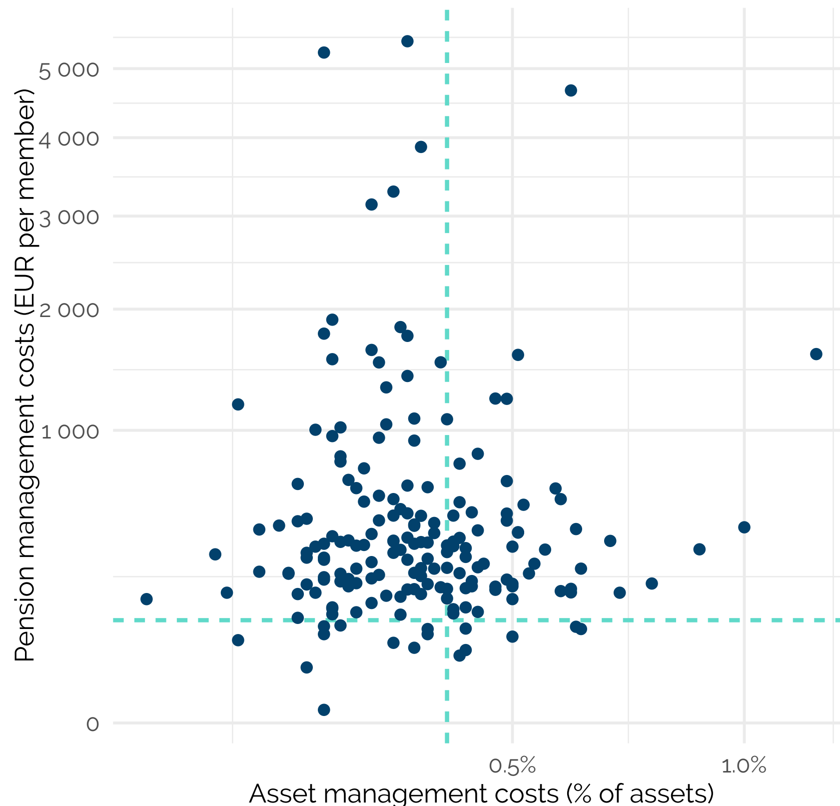
Data: De Nederlandse Bank; *Calculations:* BF; *Note:* "Other ongoing fees" represent the transaction costs, which are reported separately only since 2014; asset management costs and transaction costs: average of individual pension funds' cost-to-AuM reported to DNB; contract management fees: average pension management costs per member weighted by number of members.

this implies that our calculations of nominal and real net returns before 2015 are—potentially considerably—*overestimated* (see Figure NL.6).

The asset-weighted average cost figures in Table NL.7 paint picture of relative stability. After oscillating around 0.45% of AuM per annuum from 2015 to 2020 asset management costs rose to 0.69% in 2021, before falling again, to 0.43% in 2022 and 0.39% in 2023. Similarly, transaction costs have remained stable, around 0.10% since they were first reported in 2015. By contrast, administrative costs, which has fallen slightly by the end of the 2010s have risen from EUR 112.02 per member, on average, to 123.26 in 2023.

Nevertheless, the fund-level data reported funds to DNB reveals important differences across funds: As can be appreciated in Figure NL.3, most funds have pension management costs—the costs of administering the contract—well above the asset-weighted average of EUR 123.26 (dashed horizontal line), with some funds charging above a thousand euros (up to EUR 5 427 per member in 2023). By contrast, we see that most funds have asset management fees below the asset-weighted average of 0.39% (vertical dashed line), and none, except for one outlier, charges more than 1% per year for that service.

Figure NL.3 – Pension and asset management costs of Dutch pension funds, 2023

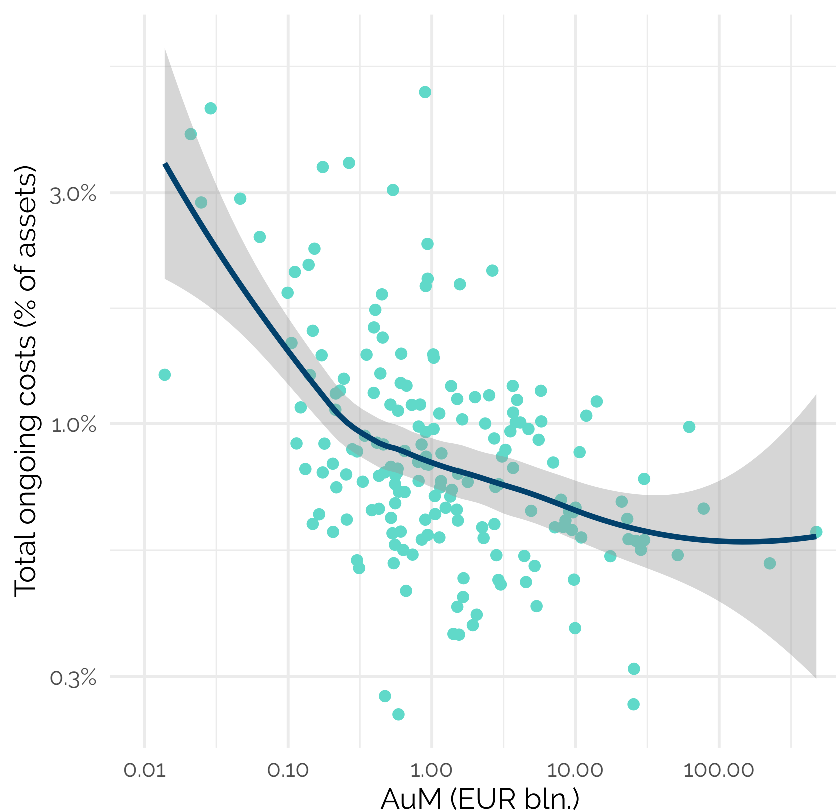


Data: DNB

Generally, when including all costs, there seems to be a tendency for smaller funds to levy more annual charges off their members' assets. The fit line in Figure NL.4 shows this relation: the level of costs drops rapidly until approximately EUR 500 million in AuM; the reduction then slows until EUR 100 billion, before increasing marginally again for the largest two funds.

We unfortunately could not obtain cost data related to life insurance contracts in the Netherlands. Data available about life insurance arises from prudential reporting mandated by Directive 2009/138/EC ("Solvency II") and focuses on the balance sheet of life insurance companies rather than on cost and performance of the products they distribute.

Figure NL.4 – Total costs per size of Dutch pension funds, 2023



Data: DNB; Smoothed nonparametric fit line with a 95% confidence interval

Taxation

Pension funds are exempt from company taxes in the Netherlands. The money that Dutch employees pay into their pension funds during their working like is deducted from their gross income and therefore exempt from income tax. The returns on the investments made by pension funds on behalf of pension scheme participants are not taxed either. Pension payouts—the amounts paid to pension scheme participants upon reaching retirement age—are subject to the personal income tax. However, this so-called "deferred taxing" of pensions may also entail a further tax benefit, as, for incomes in the EUR0–EUR 35 473, the tax rate is lower for pensioners than for younger taxpayers (between 19.17% and 35.58% instead of 37.10%). The taxation regime of Dutch pension funds is therefore the classic "EET" model.

As already mentioned, contributions to voluntary, Pillar III products are similarly tax exempt, as are returns on those investments. Payouts are, like payouts of pension funds, taxed at the personal income tax rate; the tax regime is therefore also an "eet" model.

Table NL.8 – Taxation of pension savings in the Netherlands

Product	Phase			Regime
	Contributions	*Investment returns*	*Payouts*	
Pension funds	Exempted	Exempted	Exempted	EEE
Life insurance - Unit/index-linked	Exempted	Exempted	Taxed	EET

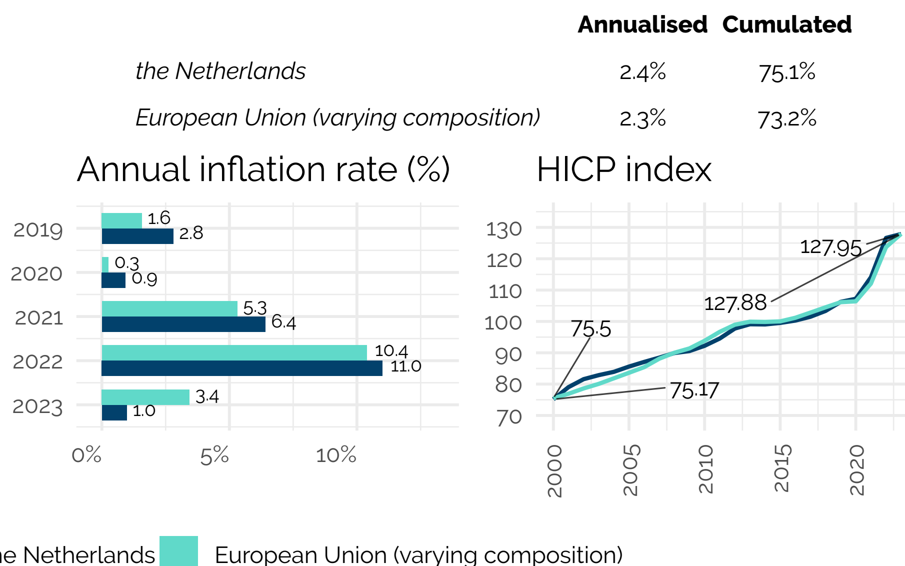
Source: Dutch tax administration.

Performance of Dutch long-term and pension savings

Real net returns of Dutch long-term and pension savings

After presenting the Dutch pension system and its main pension saving vehicles, discussing the evolution of pension funds' costs and summarising the tax regime applicable to pension savings, we now turn to the analysis of returns. 2023 was a rather positive years for Dutch pension savings, driven by a strong performance of capital markets and a receding inflation (see Figure NL.5), which fell back to 1%, down from the double-digit level reached in 2022, and below the EU average.

Figure NL.5 – Inflation in the Netherlands



Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

Over the longer term, the Netherlands may be said to have a moderate inflation, with a 2.4% average annual inflation over the period 2000-2023, but that moderate inflation, together with the peak of 2021–2022, still entails a 75.1% loss of purchasing power for Dutch pension savings.

In the remainder of this section, we will report annualised and cumulated returns of Dutch pension funds. We base this analysis on the data made available by the DNB, which enables us to calculate aggregate returns for pension funds since 2000. For this country case, we follow the methodology presented in the introductory chapter of this report. As already mentioned, we are, unfortunately unable to update the return data for life insurance contracts in 2023: DNB indeed informed us that such data, although reported by life insurers to the NCA as part of the Solvency II requirement, is not made available to the public. We kindly refer the reader to the previous edition of this report for data on life insurance returns over the period 2016–2022 (BETTER FINANCE, 2023)

Returns of occupational pension funds

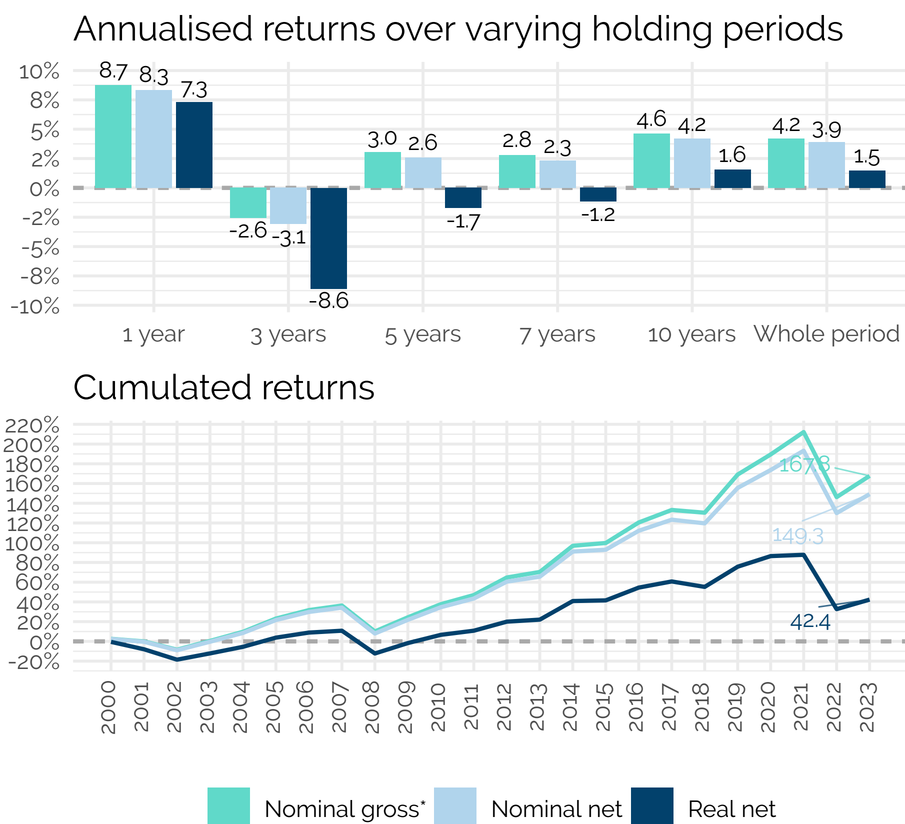
Until the WTP is fully implemented, the pensions that Dutch occupational pension scheme members receive upon retirement age depends on their pension fund achieving sufficient returns on its investment to pay the agreed pension benefits (a DB system). Higher returns imply the possibility for the fund to increase benefits, while insufficient returns may entail benefit cuts. After the switch to a DC system, the relation between investment returns and benefits will be more direct and more individual: an member's pension will be paid from the amounts they have contributed to the fund plus the returns generated by investments made by the fund on their behalf; if those returns are positive, the pension benefits will increase, if the returns are negative, benefits decrease. The Dutch reform foresees a number of solidarity mechanisms that funds can adopt to soften the potential impact of negative performance on individual performance, but whether and how specific funds will implement such solidarity "buffers" remains to be seen.

Figure NL.6 presents the returns of Dutch pension funds before charges (except transaction costs) and inflation, returns after deducting asset management charges and before inflation, and finally returns after charges and inflation. The upper panel shows annualised returns over varying holding periods, while the lower panel displays cumulated returns from the year 2000.

The data used for these calculations are those made publicly available by DNB. Annual returns are taken at year end, calculated on the basis of quarterly returns data disclosed by individual funds. The aggregate nominal gross return figure is then calculated as the asset-weighted average of funds' annual returns.

The positive 1-year performance in nominal terms (+8.7%) reflects the generally good performance of capital markets in 2023. The effect of the very negative 2022 performance, however, still weighs down heavily on the 3-year performance (-2.6% in nominal terms), which was further compounded by the peaking inflation of 2021–2022. *Real net* performance, as a result, remains negative for holding periods up to 7 years, before turning positive again for 10 and 24 years (+1.6% and +1.5%, respectively)

Figure NL.6 – **Returns of Dutch occupational pension funds (before tax, % of AuM)**



Data: DNB, Eurostat, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023; *Note:* * Net of transaction costs.

The cumulated returns show a steady course of capital accumulation until 2021, followed, as expected, by an abrupt fall in 2022, which reduced the average nominal cumulated returns by 66 percentage points. Cumulated returns partially recovered in 2023, by 22 p.p. in nominal terms before charges and 9.7 p.p. after deducting charges and adjusting for inflation.

We can see by the proximity of the nominal gross and nominal net returns that the long-term impact of costs appears moderate, reducing returns by "only" 19 p.p. after 24 years. However, we should note again that this difference only represents asset management costs: transaction costs are already deducted from nominal "gross" returns and we do not deduct the pension administration costs per member.[6]

[6] Since data for this cost item is only available since 2015, we do not have sufficient data to extrapolate for early years.

Do Dutch savings products beat capital markets?

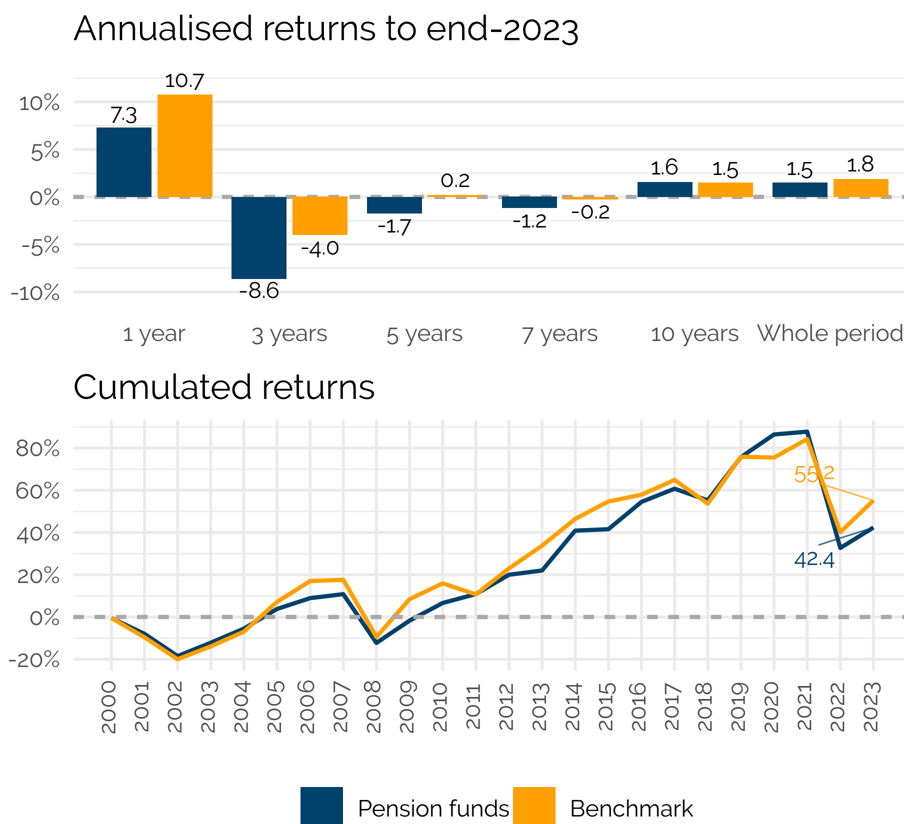
As a last step in this analysis of Dutch pension funds' returns, we compare their performance with that of a hypothetical portfolio invested in European capital markets. The portfolio used here is the "default" 50% equity–50% bond portfolio, annually rebalanced.

The nominal returns of this benchmark portfolio are adjusted—like the returns of the products—using the inflation rates calculated based on Eurostat's HICP monthly index for the Netherlands. For each product category, we calculate the returns of the benchmark over the same period as the average returns of the product category.

Pension funds's average real net returns, though they do not beat the benchmark (except for a 7-year holding period), reach levels that are close (Figure NL.7). However, the reader must bear in mind the fact that the limited data availability up to 2015 mean that our calculations most probably overestimate the long-term returns of Dutch pension funds. The gap between pension funds and the benchmark may be somewhat wider than Figure NL.7 shows.

The similarity of pension funds' cumulated real net returns with those of the benchmark show that the investment policies of pension funds generally correspond to a balanced investment mix, which may in the future include more investments into equity, once the WTP enables those choosing the "flexible" arrangement to implement life-cycle approaches.

Figure NL.7 – Performance of Dutch pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)



Data: De Nederlandse Bank, Eurostat; *Calculations:* BETTER FINANCE, holding periods end-2023.

Conclusions

Dutch pension funds' performance reflect their exposure to global capital markets: the turbulence of 2022 has been followed by the brighter days of 2023. This short-term volatility enables them to generate, over the long-term, higher returns for their members than what many Europeans may expect from theirs.

In this chapter, we have devoted much more space to occupational pension funds than to voluntary pension savings in Pillar III products. This partly reflects their respective share of Dutch households' pension savings, but also the different extent to which data is available for us to analyse.

The efforts that Dutch pension funds have made to account for costs and report these costs in a uniform manner enable us to testify of a trend towards lower costs for members of occupational pension schemes. These efforts are welcome, as clear and comparable cost and performance information is essential—even where enrol-

ment is mandatory and choices available to the investor limited—to assess the management of pension funds and ensure the accountability of managers. By contrast, the absence of any data on costs and performance of life insurance policies make it impossible to assess the extent to which these products offer a “fair deal” to investors.

With the transition phase of the *Wet Toekomst Pensioenen* (WTP), Dutch pension funds are undergoing a profound transformation. The challenge for the next decade will be to ensure that the new system works effectively to that what may be lost in guarantees is made up for in performance.

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