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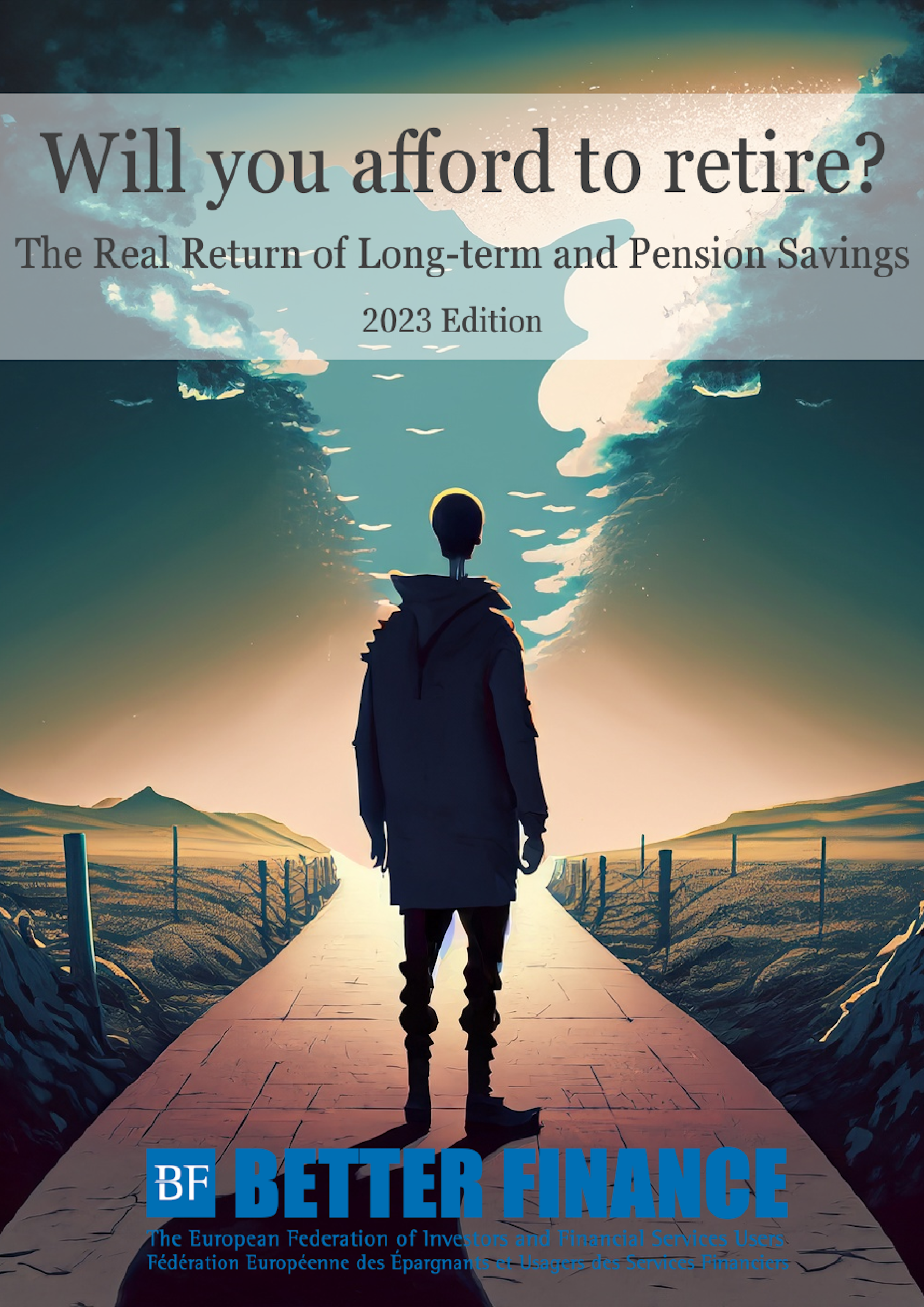
The Real Return of Long-term and Pension Savings

2023 Edition



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Country Case 12

The Netherlands

Samenvatting

Het Nederlandse particuliere pensioenstelsel steunt in grote mate op bedrijfspensioenfondsen, die bijna de hele actieve bevolking in het land dekken als gevolg van de verplichte inschrijvingsregel die geldt in de meeste economische sectoren. Een nieuwe wet die in juli 2023 wordt aangenomen, zal leiden tot een grote transformatie van deze pensioenfondsen van de tweede pijler, die alle bestaande en toekomstige pensioenuitkeringen zullen omzetten van een DB naar een DC model. 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 2022 werden de beleggingsrendementen in beide pijlers ernstig beïnvloed door de macro-economische en financiële marktomstandigheden: sombere prestaties op de kapitaalmarkt in combinatie met een oplopende inflatie leidden tot zware verliezen voor zowel pensioenfondsen als polishouders van levensverzekeringen. Het gemiddelde rendement van pensioenfondsen in 2022 bereikte een dieptepunt van -21,1% voor lasten en inflatie, -29,3% na lasten en inflatie. Ondertussen behaalden unit-linked en index-linked levensverzekeringen een gemiddeld rendement van -8,2% na kosten en voor inflatie, en -17,3% na kosten en inflatie. Dit slechte jaar komt na een jaar 2021 waarin sterke resultaten op de aandelenmarkten de resultaten in beide productcategorieën stimuleerden, een opeenvolging die illustratief is voor de volatiliteit van Nederlandse langetermijn- en pensioenspaarproducten, die desondanks op de lange termijn een positief reëel nettorendement weten te behalen.

Real returns 2022
Life insurance - Unit/index-linked: -17.3%
Pension funds: -29.28%

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. A new law adopted in July 2023 will lead to a major transformation of these Pillar II pension funds, who will switch all existing and future pension benefits from a DB to a DC model. 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 2022, investment returns in both pillars were severely affected by macroeconomic and financial market conditions: dismal capital market performance combined with peaking inflation led to heavy losses for both pension funds and life insurance policyholders. The average return of pension fund in 2022 reached the depths of -21.1% before charges and inflation, -29.3% after charges and inflation. In the meantime, unit-linked and index-linked life insurance policies returned on average -8.2% after charges and before inflation, and -17.3% after charges and inflation. This bad year comes after a year 2021 that had seen strong equity market results boost the results in both product categories, a succession illustrative of the volatility of Dutch long-term and pension savings products, which nevertheless manage to provide positive real net returns in the long run.

Introduction: The Dutch pension system

A wind of change is blowing over the Dutch pension system after the *Wet Toekomst Pensioenen* (WTP), the "law for future pensions" entered into force on July 1, 2023, opening a transition phase that will last several years. The WTP introduces fundamental changes to the large Dutch occupational pensions sector (€ 1432.4 billion, or 149.4% of GDP in 2022, according to Eurostat), switching from a largely defined benefit (DB) to a mostly defined contribution (DC) system. The "low for long" interest rate environment of the 2010s, which made it particularly difficult for pension funds to meet their regulatory funding ratio requirements, ranked among the main motivations for the reforms. Even though the rise of interest rates—concomitant of the return of inflation—eased these difficulties, the switch to a DC system is still considered as necessary to modernise the Dutch occupational pension system.

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. 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 relatively long and coherent series about the number of members, AuM and costs of the pension fund sector. We carefully reviewed the data available and corrected some of the time series used in previous editions of this report, leading to corrections in the long-term assessment of pension fund returns. Reviewing the data for the much smaller life insurance sector, however, we realised that there was no sufficient information available about returns and costs to conduct a robust analysis. We decided to start afresh, using data going back only to 2016 and focusing only on unit/index linked insurance policies, data that was kindly provided by DNB upon our request but is not publicly available.

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	2022
Life insurance - Unit/index-linked	Voluntary (III)	2016	2022

The Netherlands was not immune to the global turmoil that resulted in high inflation and poor capital market returns across the Europe. The results of its main long-term and pension saving vehicles in 2022 reflect their exposition to world markets, and inflation—reaching 11% at the end of the year—was was in line with the EU average (10.39%). As the longer-term returns in Table NL.2 show, however, the Dutch pension vehicles perform generally rather well compared to other countries in our study. They manage to offer a positive return after inflation—for a 10-year holding period for pension funds, and a 7-year period for life insurance—despite the strongly negative despite the strongly negative results of the last year dragging their annual average returns.

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

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

	Pension funds	Life insurance - Unit/index-linked
Reporting period	2000-2022	2016-2022
1 year (2022)	-29.3%	-17.3%
3 years (2020–2022)	-8.8%	-3.6%
5 years (2018–2022)	-3.6%	-0.9%
7 years (2016–2022)	-0.8%	0.4%
10 years (2013–2022)	1.1%	n.a.
Whole period	1.3%	0.4%

Data: DNB, Eurostat; *Calculations:* BETTER FINANCE.

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 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 PAYG principle;
- Pillar II is made of fully funded, mostly tax-exempt and—until now—comprising mostly 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, selfemplyed 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—from July 1, 2023, € 1 458.15, gross amount, for a single person;

people who are married or, more generally live in couple receive up to € 843.78[1]—for each year lived in the country between the ages of 16 and 66.[2] Due to the gender pay gap that 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.[3]

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 31.1% in 2022 and projected to reach 42.3% in 2050, 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.[4] 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 (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 174 in 2022.[5]

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.

[1] From which a social security contribution of 5.43% and a payroll tax if the individual does not claim payroll tax credit on their AOW (up to € 277.42 for a single person), and 8% of the monthly allowance is set aside to be paid out as a holiday allowance in May.

[2] 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.

[3] According to Bettio et al. (2013), the overall gender pension gap in the Netherlands was 40.4% in 2013, but was actually negative for Pillar I: -3.1%.

[4] 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.

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

Compulsory enrolment aims at increasing coverage of the working population, reduce costs per member 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 defined contribution (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.[6]

Dutch pension funds have until July 2027 to transition to the new system; most have already been making plans for some time. The switch indeed requires creating or updating DC arrangements, setting up individual pension accounts and collecting members' individual risk preferences. Nevertheless, the reform however still raises many questions, not the least as regards information of members, property rights and intergenerational aspects (Meerten & Vlastuin, 2022; Metselaar et al., 2022). Some critics warn that the forcible conversion of existing DB rights will lead to an "avalanche of legal cases" (Hoekstra, 2023a).

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

[6] 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/.

complement or in lieu of retirement savings in Pillar II pension funds.[7] Tax benefits applicable to Pillar III products make them attractive savings vehicles.

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). As shown in Figure NL.1, Dutch pension savings reached a peak € 1 943 billion by the end of 2021, with € 1 746 billion invested in pension funds, and € 197 in life insurance contracts (of which € 103 billion in unit/index-linked contracts). The heavy losses suffered on capital market exposed products in 2022 reduced these amounts to a total of € 1 671 billion, of which € 1 521 billion in pension funds (91% of the total) and € 151 billion in life insurance (9%, of which € 83 billion in unit/index-linked).

Pillar II: Pension funds

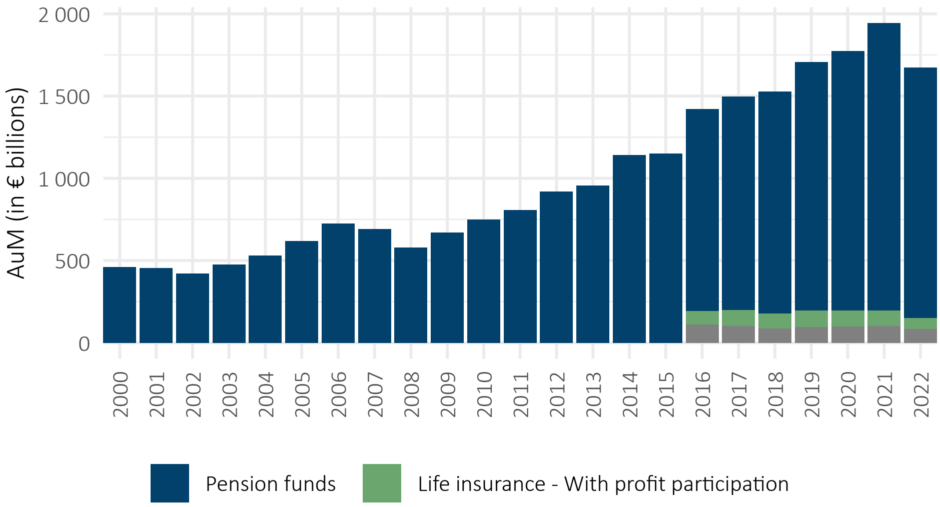
Dutch pension funds had 6.2 million contributing members and 3.8 million pension beneficiaries in 2022. Total contributions amounted to € 40 875 million, 65% of which were paid in by employers and 35% by employees.

The Dutch occupational pension fund sector when 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 € 1 518.85 billion in AuM and despite the heavy losses suffered in 2022, the Netherlands still boasts the second largest occupational pension system in the EU, exceeded only by Denmark (see Chapter 5).

[7]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.

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



Data: DNB; *Calculations:* BETTER FINANCE.

Table NL.4 – AuM and members of Dutch pension funds 2015–2022

		AuM (€ 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

Data: DNB

Average values hide great disparities: while the 2022 average size in AuM was a mere € 8.25 billion, the largest two funds per AuM—ABP and Zorg en Welzijn—had AuM well above € 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. 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.

Table NL.5 – Largest Dutch pension funds per AuM

Fund	AuM	Nb. of members (thousands)
ABP	483.5	3 013.5
Zorg en Welzijn	230.5	3 048.3
Metaal en Techniek	80.3	1 214.0
Bouwnijverheid	65.3	743.1
Metalektro, bedrijfstakpensioenfonds	52.2	612.6

Data: DNB

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

Fund	Nb. of members (thousands)	AuM
Zorg en Welzijn	3 048.3	230.5
ABP	3 013.5	483.5
Detailhandel	1 467.8	29.4
Horecabedrijf	1 363.3	12.2
Metaal en Techniek	1 214.0	80.3

Data: DNB

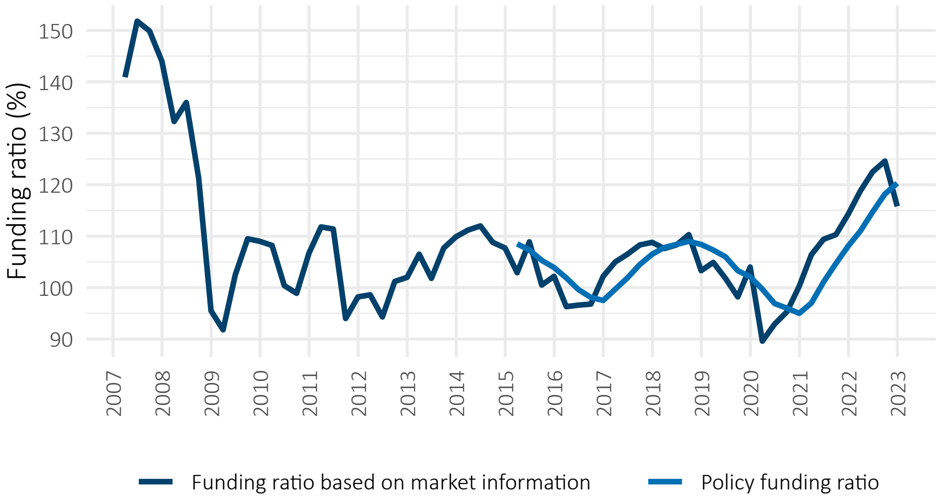
Pension funds are independent from their sponsors, that is, they are strictly separated from the company (or any other organisation) on whose behalf they administer and run the pension scheme. This strict separation is intended to protect employees' savings in case of bankruptcy of the sponsor company.

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, 2023b). 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.

Collectively, the Dutch pension funds sector invest more than half of its AuM into fixed-income securities (mostly bills and bonds, see Figure NL.3), which can be explained by the prevalence of the DB model—which requires funds to offer guarantees against benefit cuts to their members—and the absence of life-cycling approaches whereby younger members' contributions could be

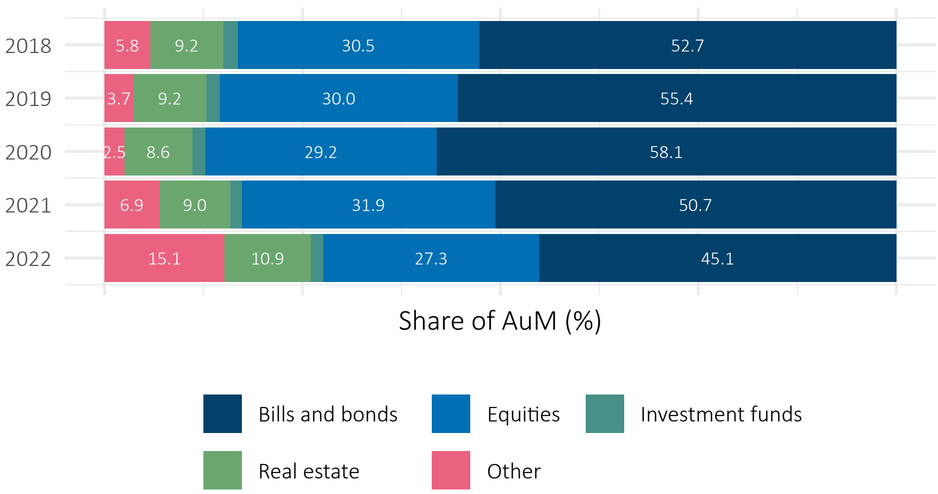
Figure NL.2 – Average funding ratio of Dutch pension funds



Data: DNB.

mainly or even fully invested in equity markets, which are riskier, more volatile, but also better performing in the long run.

Figure NL.3 – Allocation of Dutch pension funds' assets



Data: DNB; *Calculations:* BETTER FINANCE.

Premiepensioeninstellingen (PPI)

Premiepensioeninstellingen (PPI), or "Premium Pension Institutions" are not analysed in this report owing to their very small size as much as to the relative scarcity of data. PPIs are only offered to those few whose firms that do not have their own or sectoral pension arrangement. At the end of 2022, according to DNB statistics, PPI managed € 20.9 billion in assets on behalf of 1.34 million members, of which 700 151 active members. Nevertheless, PPIs have been growing fast since 2014 and may play a bigger role in the future.

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 iv), and 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 € per member). As Table NL.7 shows, data before the *Wet Pensioencommunicatie* is essentially limited to costs of asset management.

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%	n.a.	n.a.
2008	0.25%	n.a.	n.a.
2009	0.19%	n.a.	n.a.
2010	0.15%	n.a.	n.a.
2011	0.20%	n.a.	n.a.
2012	0.22%	n.a.	n.a.
2013	0.25%	n.a.	n.a.
2014	0.19%	n.a.	n.a.
2015	0.39%	€113.63	0.10%
2016	0.38%	€111.72	0.09%
2017	0.39%	€112.11	0.10%
2018	0.37%	€101.20	0.10%
2019	0.36%	€104.10	0.10%
2020	0.35%	€107.85	0.10%
2021	0.37%	€107.60	0.08%
2022	0.37%	€112.02	0.10%

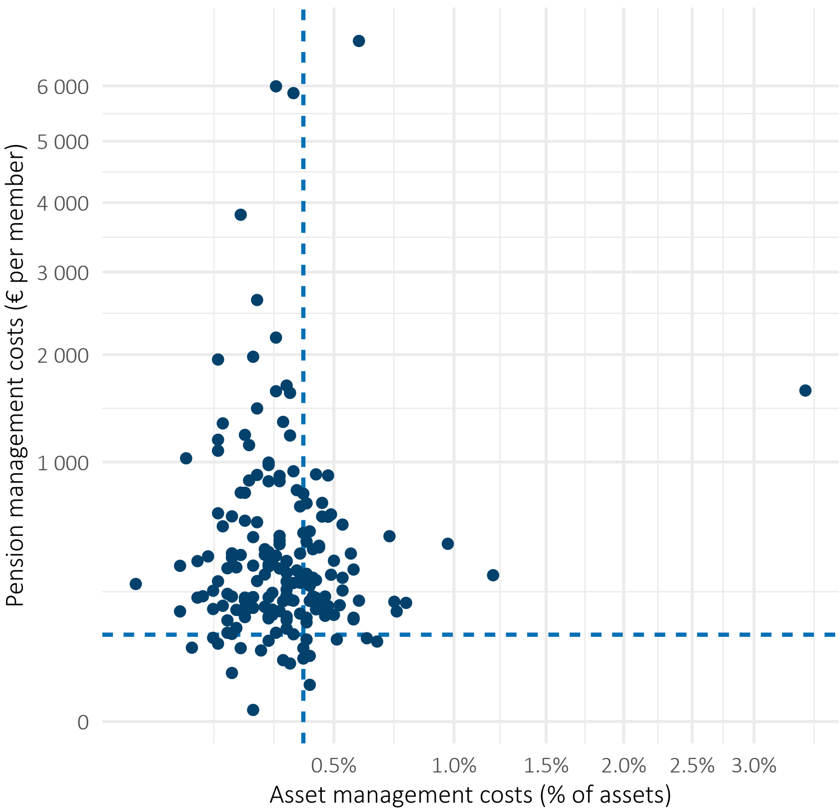
Data: DNB; *Note:* "Other ongoing fees" represent the transaction costs, which are reported separately only since 2014; asset management costs and transaction costs: average of individual pension funds' cost-to-AuM reported to DNB; contract management fees: average pension management costs per member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

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, this implies that our calculations of nominal and real net returns before 2015 are—potentially considerably—*overestimated* (see Figure NL.7).

The asset-weighted average cost figures in Table NL.7 paint a picture of great stability and relatively moderate fees: Asset management costs remained at 0.37%, while transaction costs increased from 0.08% in 2021 to 0.10% in 2022; pension administration costs increased from € 107.60 in 2021 to € 112.02 in 2022.

Nevertheless, the fund-level data reported funds to DNB reveals important differences across funds: As can be appreciated in Figure NL.4, most funds have pension management costs—the costs of administering the contract—well above the asset-weighted average of € 112 (dashed horizontal line), with some funds charging above a thousand euros (up to € 6 878 per member and per year). By contrast, we see that most funds have asset management fees below the asset-weighted average of 0.4% (vertical dashed line), and none, except for one outlier, charges more than 1.25% per year for that service.

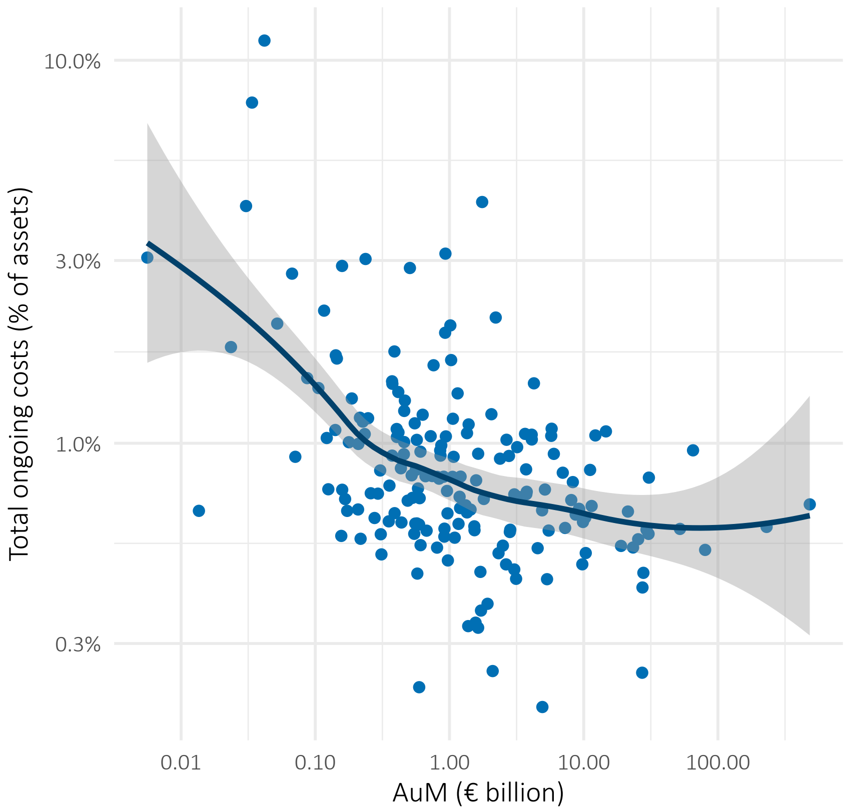
Figure NL.4 – Pension and asset management costs of Dutch pension funds, 2022



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.5 shows this relation: the level of costs drops rapidly until approximately € 500 million in AuM; the reduction then slows until € 100 billion, before increasing marginally again for the largest two funds.

Figure NL.5 – Total costs per size of Dutch pension funds, 2022



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

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.

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 €0–€ 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 *Contributions*	 *Investment returns*	 *Payouts*	Regime
Pension funds	Exempted	Exempted	Taxed	EET
Life insurance - Unit/index-linked	Exempted	Exempted	Taxed	EET

Data: 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.

2022 was a bad year for Dutch pension savings as it was for savers and investors across Europe and beyond due to the poor performance of capital markets (see, notably, Figure GR.6 on Page 18 of this report). Inflation—the other important performance factor for long-term and pension savings—reached 11% in the Netherlands in 2022, slightly higher than the EU average (10.4%, see Figure NL.6), up from 0.9% only in 2020.

Over the longer term, the Netherlands may be said to have a moderate inflation, with a 2.4% average annual inflation over the period 2000-2022, but that moderate inflation, together with the peak of the last two years, still entails a 73.4% 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 and unit/index-linked life insurance policies. We base this analysis on the data made available by the DNB, which enables us to calculate aggregate returns for pension funds since 2000 and for unit/index-linked life insurance since 2016. For this country case, we follow the methodology presented in the introductory chapter of this report.

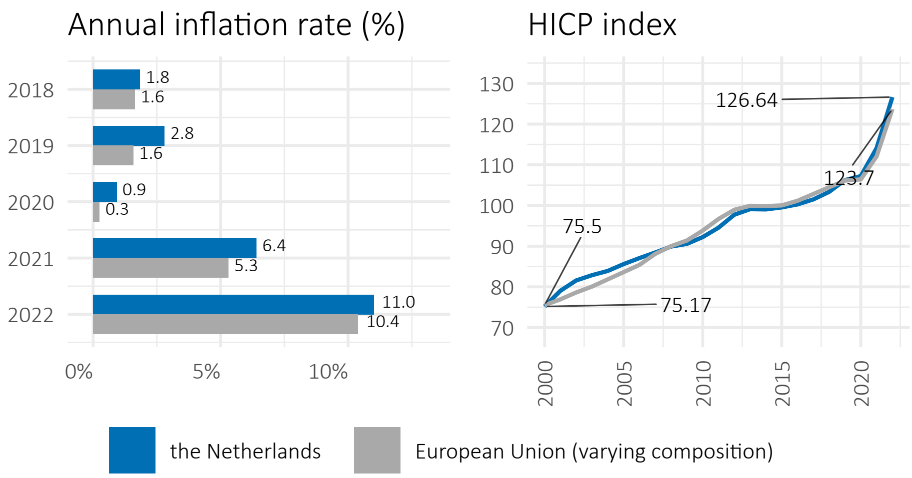
Returns of occupational pension funds

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

Figure NL.6 – Inflation in the Netherlands

Period 2000–2022

	Annualised	Compounded
the Netherlands	2.4%	73.4%
European Union (varying composition)	2.3%	67.5%



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

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.

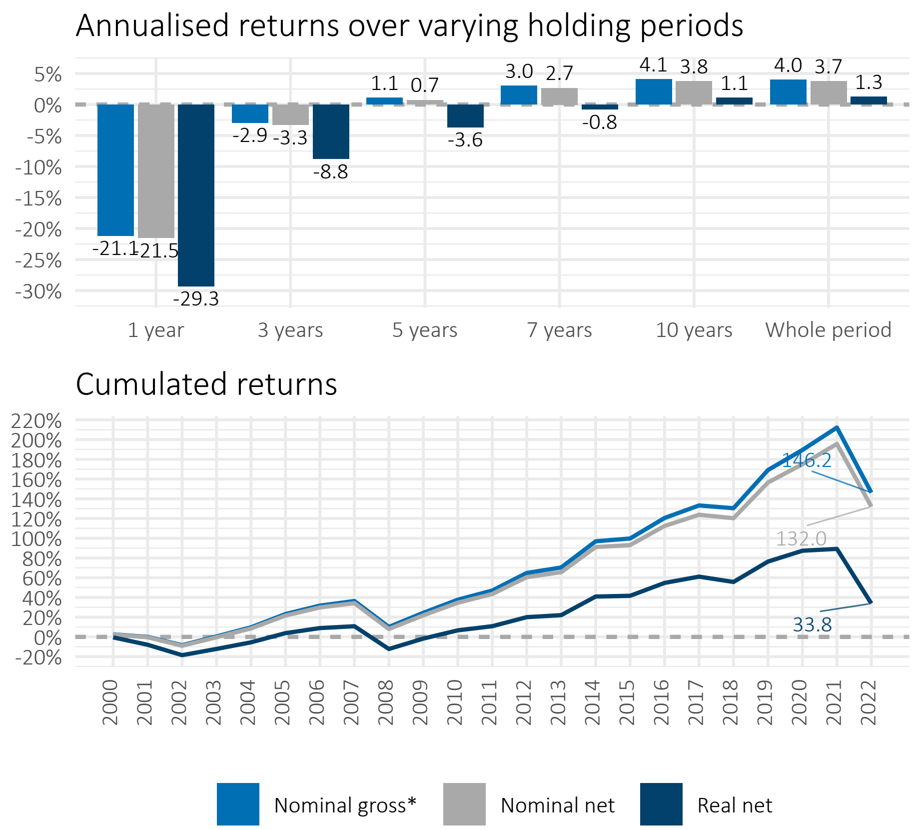
Figure NL.7 presents the returns of Dutch pension funds before charges (except transaction costs) and inflation, returns after deducting asset management charges and before inflation, and finally returns after charges and inflation. The upper panel shows annualised returns over varying holding periods, 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 very negative 1-year results (-21.1%) reflect the generally poor performance of capital markets in 2022, which is still felt over the 3-year holding period, despite a strong performance in 2021 (+7.85%). For the whole reporting period, the bad 2022 performance reduced the average annual nominal gross returns of Dutch pension funds by 1.3 percentage points, from 5.3% over the period 2000-2021 to 4.0% over 2000-2022. 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.

We can see by the proximity of the nominal gross and nominal net returns that the long-term

Figure NL.7 – Returns of Dutch occupational pension funds (before tax, % of AuM)



Data: DNB, Eurostat; *Calculations:* BETTER FINANCE; *Note:* * Net of transaction costs.

impact of costs appears moderate, reducing returns by "only" 14.2 percentage points after 23 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.[8]

We then factor the annual Dutch inflation rate in the calculations—as per the methodology stated in the introductory chapter—to obtain the real net returns. Annualised nominal gross and net returns turn positive for holding periods of 5 years or more but inflation still entails negative real net returns for holding periods of 5 and 7 years; real net returns only become for holding periods of 10 years or more. The average annual real return of Dutch pension fund over the whole reporting period decreased by 1.6 percentage points, at 1.3% over 2000–2022, down from 2.9% over the period 2000–2021.

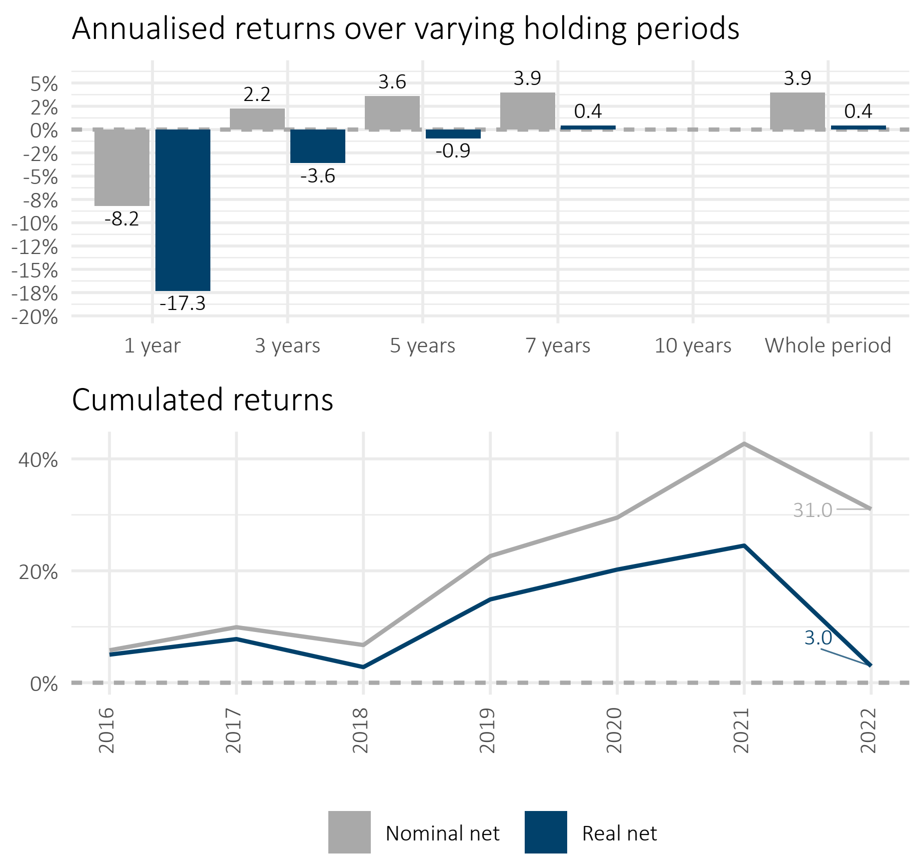
[8] Since data for this cost item is only available since 2015, we do not have sufficient data to extrapolate for early years.

Unit-linked and index-linked life insurance

In previous editions of this report, we analysed the returns of all Dutch life insurance contracts. However, the data that was used did not relate specifically to returns of life insurance *policies*; instead, it indicated the general return of life insurance companies' investments.

We then decided to re-examine the data available on life insurance policies, with a particular focus on those among such policies that enable individuals to invest their savings on capital markets: unit-linked and index-linked life insurance contracts. Although data to compute the real return of those contracts is not publicly available, the Dutch central bank, DNB, kindly provided us with aggregated nominal net returns figures for the period 2016–2022. Figure NL.8 presents these data as well as our computation of real net returns, after correcting for inflation.

Figure NL.8 – Returns of Dutch unit/index-linked life insurance (before tax, % of AuM)

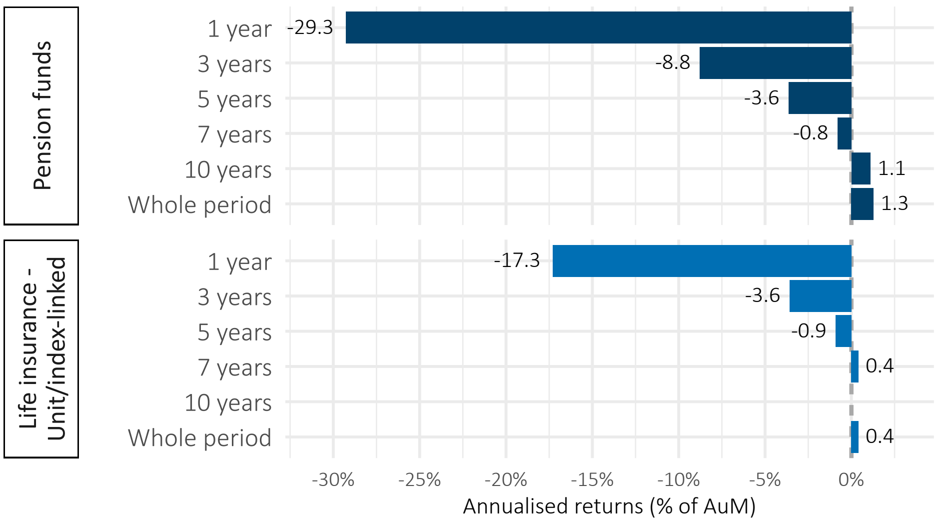


Data: DNB, Eurostat; *Calculations:* BETTER FINANCE.

Returns in comparison

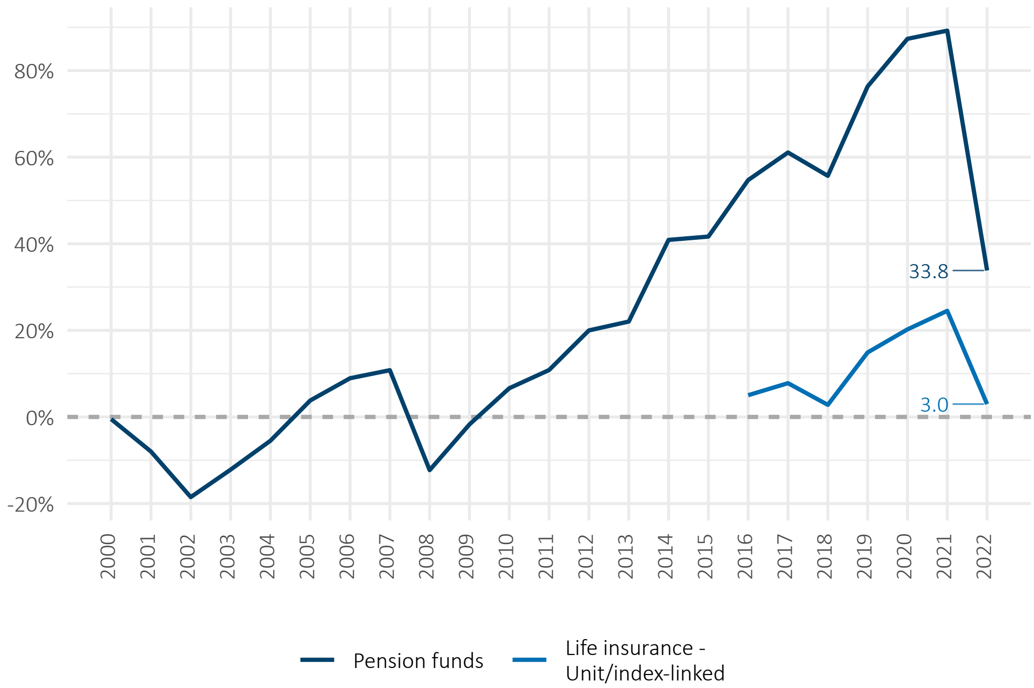
Comparing the two product categories covered by this chapter about Dutch long-term and pension savings vehicles is difficult, considering the differences in size of the two sectors, the different legal frameworks in which they operate, and the different set of data available on which to build our analysis. Nevertheless, we observe that both pension funds and unit/index-linked life insurance manage to yield positive returns after charges and inflation in the medium to long-term, despite the calamitous results of 2022. Figures NL.9 and NL.10 present a comparison of the real net returns of both product categories.

Figure NL.9 – Annualised real net returns of Dutch long-term and pension vehicles over varying holding periods (before tax, % of AuM)



Data: DNB, Eurostat; *Calculations:* BETTER FINANCE.

Figure NL.10 – Cumulated real net returns of Dutch long-term and pension savings vehicles (2002–2022, before tax, % of AuM)



Data: DNB, Eurostat; *Calculations:* BETTER FINANCE.

Do Dutch savings products beat capital markets?

As a last step in this analysis of Dutch pension saving products' 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, as presented in Table NL.9.

Table NL.9 – Capital market benchmarks to assess the performance of Dutch pension vehicles

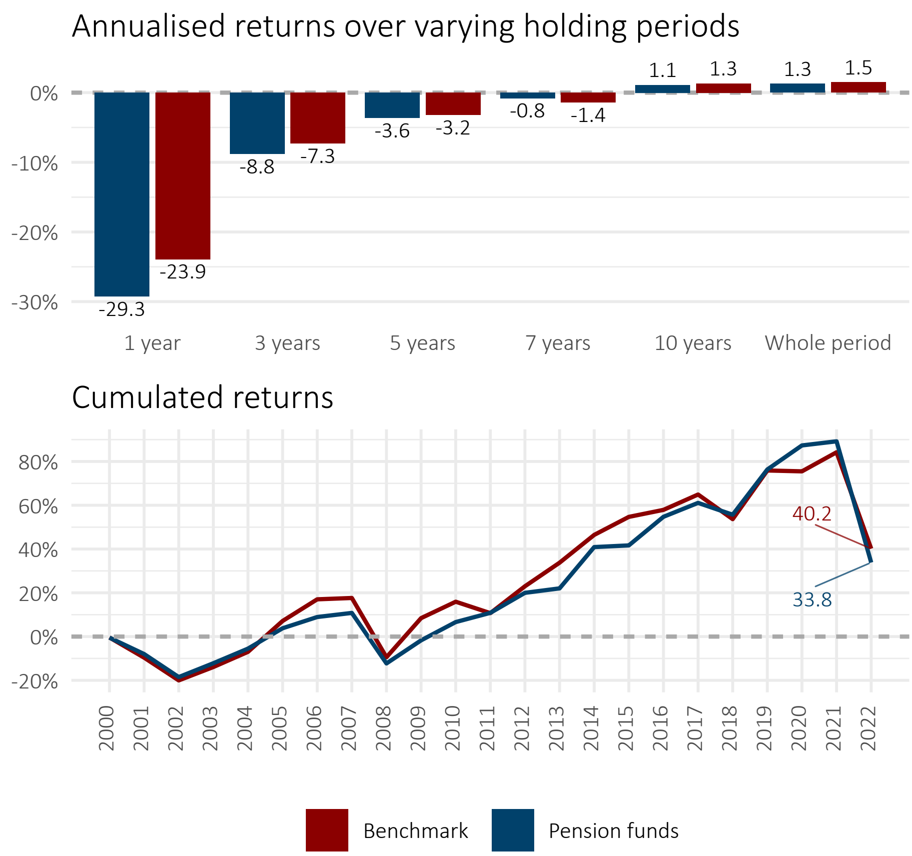
Product	Equity index	Bonds index	Allocation
Pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%
Life insurance - Unit/index-linked	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	50.0%–50.0%

Note: Benchmark porfolios are rebalanced annually.

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.11). 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.11 shows.

Figure NL.11 – Performance of Dutch pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)

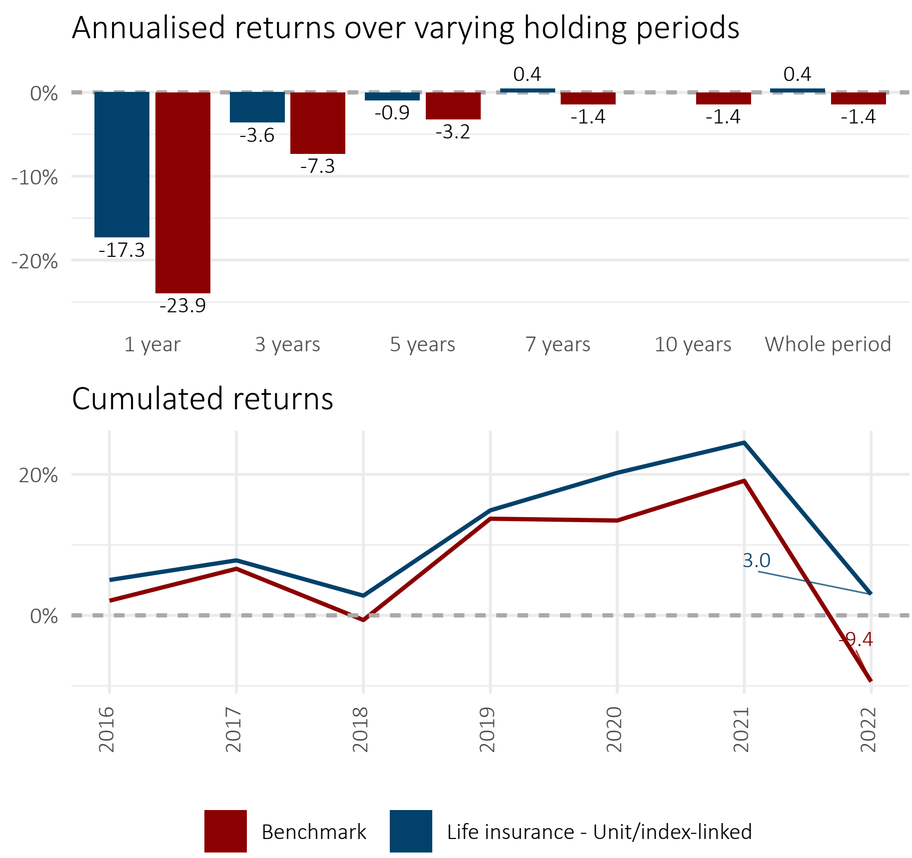


Data: DNB, Eurostat; *Calculations:* BETTER FINANCE.

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.

Over the much shorter reporting period for unit/index-linked life insurance, those contracts managed to beat the benchmark, as shown in Figure NL.12, with cumulated returns 12.4 percentage points higher than the benchmark. Time (and additional data) will tell whether this good performance remains consistent over longer periods.

Figure NL.12 – Performance of Dutch unit-linked and index-linked life insurance against a capital market benchmark (returns before tax, after inflation, % of AuM)



Data: DNB, Eurostat; *Calculations:* BETTER FINANCE.

Conclusions

Dutch long-term and pension savings were not immune to the geopolitical turmoil caused by the Russian attack on Ukraine in 2022 and the ripple effects these events had on macroeconomic and financial market conditions all over the world. Their exposure to the volatility of capital markets nevertheless enables them to generate positive returns in the long-term.

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 enrolment 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 very limited data available on life insurance policies performance, and the absence of any data on costs, make it impossible to assess by how much said costs reduce investment returns.

With the adoption of the *Wet Toekomst Pensioenen* (WTP), the Dutch pension system is on the eve of a major upheaval. The transformation of the predominantly DB occupational pillar into a DC system constitutes a challenge that pension fund managers will have to meet with great caution.

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