The AMBACHTSHEER Letter
Sustainable Pension Design • Effective Pension Management

July 2011

WHAT IS MOTIVATING THE NEW DUTCH *PENSION ACCORD*: 'SOLIDARITY' OR SOMETHING ELSE?

"Von Neuman's approach to game theory had been co-operative, involving collaboration and win-win situations. John Nash came from the opposite direction. To him, collaborative games were a mere convenience. Players co-operate with each other for their own gain, but are liable to break off their arrangement when it is to their advantage to do so…".

Paul Strathern from his book
'Dr. Strangelove's Game', 2001

Two Questions about the New Dutch *Pension Accord*

One of the most interesting pieces of Summer reading we have encountered thus far has the rather dull title "Memorandum Detailing the Pension Accord" dated 9 June, 2011. The Memorandum was issued by the *Stichting van de Arbeid* (the umbrella organization representing both employers and employees in the Netherlands, called 'the social partners'). The Memorandum is of major international significance for two reasons:

1. The Melbourne-Mercer Global Pension Index ranks the Dutch pension system as #1 in the world. When the Dutch decide to make major changes to their pension system, the rest of the world should pay attention.
2. The *Accord* embodies a series of specific measures intended to enhance the efficiency, sustainability, fairness, and transparency of its vaunted occupational hybrid DC/DB pension plans. Any such initiative is worth studying to see whether it is indeed likely to achieve the stated goals, and if so, should be emulated by pension reformers outside the Netherlands.

To summarize, the *Accord* raises questions about Dutch thought-leadership in pensions in general, and whether the proposed measures will indeed achieve the stated pension reform goals. The goal of this *Letter* is to address both of these questions.

***Pension Accord* Goals and Stated Action Implications**

According to the Memorandum, the 'social partners' and the government agree that the *Accord* is intended to achieve the following five goals for employment-related pension plans:

1. Create a "future-proof system" that can adapt to changing circumstances in financial markets, inflation, and life-expectancy.
2. Maintain contribution rates at current levels.
3. Achieve a better balance between target pensions in real terms, certainty, and costs.
4. Maintain intergenerational fairness and share risks fairly.
5. Make pension contracts "as complete and transparent as possible".

How are these goals to be achieved? Through the following eight specific measures:

1. Set target pensions using "realistic, prudent parameters regarding expected returns" as well as other factors such as expected inflation.
2. Establish "a transparent link between the risk profile of the collective participants", their risk tolerance, and investment policy. The resulting "collective risk profile" is expressed in the composition of the investment portfolio and in allowing "a sufficient amount of time [up to 10 years] to absorb shocks from financial markets".

KPA ADVISORY SERVICES LTD