Insights
Defined Contribution

October 2019

Global Retirement Reality Report

The Netherlands Snapshot

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Set against the backdrop of sweeping reforms, we've asked employers in the Netherlands for their insights on the retirement saver experience and the opportunities for enhancement to workplace plans.

Our 2019 Global Retirement Reality Report (GR3) focuses on pension plan sponsors. We define "plan sponsors" as the employers who engage with retirement savings plan design, management and communication to savers. In the different countries surveyed, employers have different levels of plan sponsor responsibility, with some employers being wholly focused on plan management and others taking a less tactical role. However, all employers, or plan sponsors for the purpose of this paper, are invested in positive employee retirement savings outcomes.

In 2018, State Street Global Advisors conducted an online survey, in conjunction with YouGov, which focused on the hopes, fears and expectations of individual plan members and their experiences surrounding retirement. We interviewed 9,451 people at every stage of the retirement spectrum, spanning those still working with no plans to retire within five years, to those in later retirement (defined by being in retirement for more than five years). This survey covered eight countries (Australia, Germany, Ireland, Italy, the Netherlands, Sweden, the United Kingdom and the United States), and culminated in the creation of a formula to rate how confident members were about their prospects in retirement. We called this the Happiness Formula, which had three key elements:

- **Trust** in the systems that provide and govern the savings experience
- **Ownership** of the individuals who participate in retirement saving
- **Preparedness** as expressed by individuals' confidence regarding their level of retirement readiness

Despite having one of the most well-established retirement systems globally (in terms of benefit levels, benefit security and coverage rate), the survey showed that plan members in the Netherlands were some of the least optimistic about their future retirement. The underperforming defined benefit (DB) plans, pending reforms of the Dutch pensions market, low level of pension awareness and overriding feeling of being unprepared for retirement were key drivers of this more dismal outlook.

Figure 1
Mapping 2018 Happiness Scores

	Netherlands	UK	Ireland	Australia	US
Average Happiness Score	2.1	2.4	2.6	3.9	4.1
Trust in Savings Systems	1.7	2.0	2.3	3.3	3.3
Ownership of Retirement Role	1.9	2.3	3.8	4.7	4.9
Preparedness of Retirement Saving and Spending Strategies	2.8	3.0	1.8	3.8	4.0

Source: State Street Global Advisors. Scores calculated based on a weighting of 2018 GR3 survey responses, ranked OECD and Melbourne Mercer Global Pension Index data and the volume of policy change by country.

Since the publication of the 2018 GR3, profound change has taken place in the Dutch pensions market, with political agreements being achieved in June 2019 to create a new sustainable and flexible pension framework allowing for variable benefits and (optional) personal accounts. It is anticipated that these changes will address several concerns for plan members and contribute to an increase in retirement happiness in future.

In 2019, we conducted interviews with 195 plan sponsors in five key markets: Australia, Ireland, the Netherlands, the UK and the US. The survey, conducted in conjunction with YouGov, covered employers with responsibility for approximately 1.5 million members in total. By interviewing plan sponsors, we sought to increase our understanding of the changing plan member needs, how plan sponsors are catering for these needs and what challenges the plan sponsors face in trying to meet these needs.

This report focuses on the results from our Dutch respondents specifically and identifies the key findings for plan sponsors, providers, asset managers and the government. In places, we have made comparisons with the results from our 2018 Global Retirement Reality Report, which surveyed 9,451 individual DC savers, including 1,027 from the Netherlands.

Key Findings

1 **Simplicity Is Key** Ease and simplicity are what plan sponsors are looking for when selecting providers.

2 **Members to Take the Reins** Plan members are increasingly seen as responsible for ensuring an adequate retirement income.

3 **Advice Is Valued** Access to advice and paying for the costs — arranged by plan sponsors — is required to enable members to take greater control.

4 **Doing Good and Doing Well** ESG isn't expected to harm returns and increases member engagement.

5 **Changes Ahead** Plan sponsors expect change to come from various sources over the next three to five years, namely regulatory changes.

6 **Don't Forget the Gig** Self-employed workers are not yet being looked after in pension plans and a solution is needed.

Survey Methodology

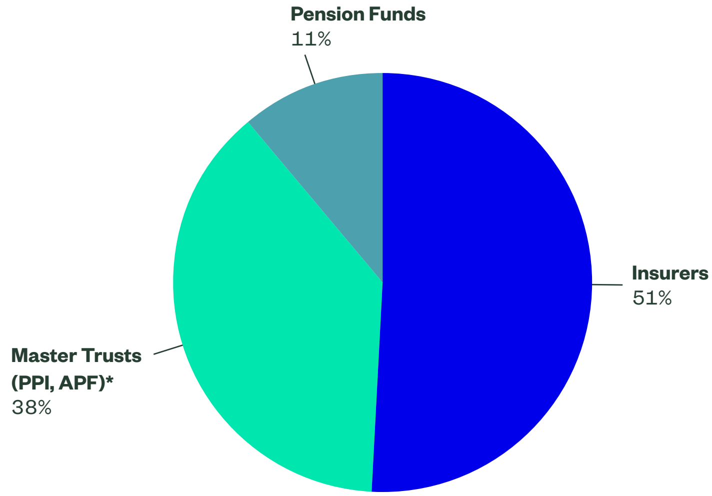
In the first half of 2019, State Street commissioned YouGov to conduct interviews across five countries representing a range of retirement systems. We interviewed 195 DC plan sponsors.

Region	Number Surveyed
Australia	41
Ireland	30
The Netherlands	37
United Kingdom	45
United States	42

Our Netherlands sample covered the range of governance structures that are present in the market:

Which type of pension plan does your organisation offer?

Figure 2
Survey Respondents' Retirement Role



* Master trusts, unlike pension trusts, can be founded and run by financial service providers. Two kinds of Dutch master trusts exists: 1) a lean PPI (Premium Pension Institutions) which focus on DC plans only and 2) a more strictly regulated APF (General Pension Fund) which could offer guaranteed DB and DC plans.

Source: State Street Global Advisors. n= 37.

The majority of respondents (73%) oversee plans with 3,000 to 5,000 members, while respondents in the next meaningful tranche (16%) manage plans with more than 30,000 members.

Sixty-five percent of the Dutch plan sponsors surveyed represent DC plans and 35% represent Dutch collective defined contribution (CDC) plans, which generally qualify as DC plans for accounting purposes.

Results

Guided by our responder insights, our Dutch report focuses on six key findings specific to plan sponsors, savers and policy makers.

1

Simplicity Is Key Ease and Simplicity are What Plan Sponsors are Looking for When Selecting Providers

Ease and simplicity were top of the agenda for Dutch plan sponsors when asked what they consider key when selecting a plan provider. This consideration covered ease/simplicity for both the employee and the employer, and aligned with trends and developments within the industry. Providers should offer ease in implementation, maintenance and monitoring for the employer and ease in understanding and use for the employees. As such, those pension providers who are able to meet these plan sponsor needs are best positioned. Premium contribution costs and administration and asset management fees came in much lower in the equation.

The importance of this ease and simplicity selection criterion cannot be underestimated. Our 2018 survey highlighted that Dutch plan participants showed a lack of trust in the retirement industry, driven by low levels of understanding and transparency. The complexity in CDC schemes and their “over promise, but under deliver” reputation has exacerbated this mistrust. It is exactly this tension that the recent pension reforms are looking to address — to rebuild members’ trust in the system via increased transparency and insight and more choice, while maintaining the collective risk sharing and economies of scale that underpin the success of the Dutch system. This drive for simplicity will also increase ownership, and ultimately boost participants’ retirement happiness.

It is interesting to note that Dutch plan sponsors viewed minimizing costs/fees as a less important consideration when selecting a provider (13% ranked this as a primary consideration). Our respondents indicated that cost was a consideration in their selection process, but as part of a wider assessment including investment returns, flexibility, provider reputation and provider market expertise.

When you think about selecting a provider for your retirement plan, what are the key goals/objectives?

Figure 3
Key Criteria for Selecting a Provider
% Ranking First

Making sure it is easy for employees to use and understand	35%
Making sure that the plan is easy for the employers to implement, maintain and monitor	22%
Ensuring that the plan offers an appropriate range of investment options	22%
Minimising cost and/or fees charged	13%
Member communication and engagement (availability of web portal/app/website/ service desk)	8%

Source: State Street Global Retirement Reality Report 2019. n=37.

2

Members to Take the Reins Plan Members are Increasingly Seen as Responsible for Ensuring an Adequate Retirement Income

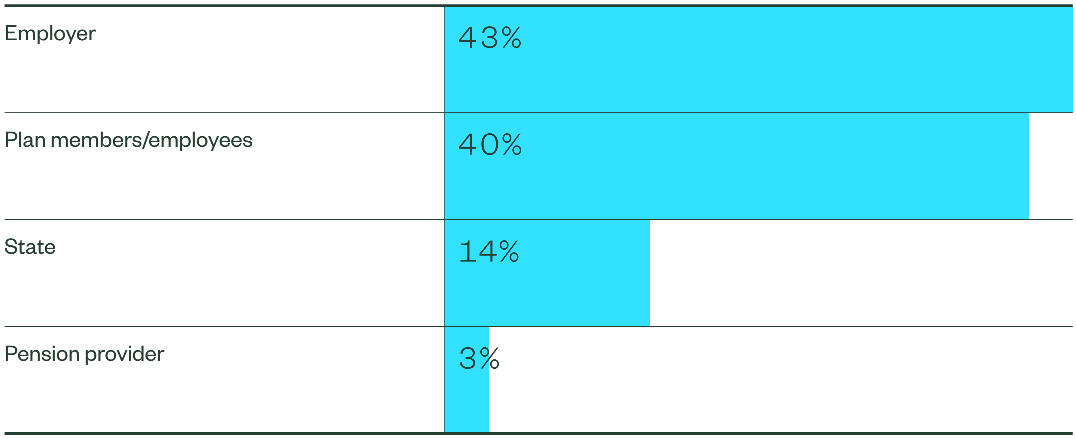
When asked to rank who is most responsible for ensuring that members have an adequate income in retirement, the majority of those surveyed in the Netherlands thought this lay with the employer (43%). This percentage is substantially higher than the global average. It shows that Dutch plan sponsors are not stepping away from the pension arrangements even if it is of a CDC or DC nature and financial risks shift to the plan members.

This may also be explained by the fact that in the Netherlands premium contributions are largely paid by the plan sponsor (in DB, CDC and DC plans) and participation is mandatory for a large number (around 95%) of employees. Moreover, in the Netherlands the pension arrangement is seen as an integral — and substantial — part of the employee benefit package.

However, a large portion of plan sponsors do recognize that, under a DC arrangement, responsibility for income in retirement lies solely with the individual (40%). There is alignment on this point with our 2018 survey, where we found that 54% of members who were still in work saw themselves as primarily responsible for their retirement income.

Who is most responsible for making sure members/employees have adequate income in retirement?

Figure 4
Assigning Responsibility for Retirement Readiness



Source: State Street Global Retirement Reality Report 2019. n=37.

Although these percentages are below the global averages, the results show there is increasing awareness in the Netherlands that it should be plan members who take the lead. This trend has some clear explanations. The existing DB and CDC plans are not meeting members' expectations. Inflation indexation and accrual percentages have been under pressure for many years. Even so, DB and CDC vested rights and benefits in payment might be lowered in the near future as a result of persistent underfunding. Following the foreseen reforms, increased transparency and insights and better communications will increase the percentage of sponsors and members who recognize that ownership ultimately lies with the scheme member.

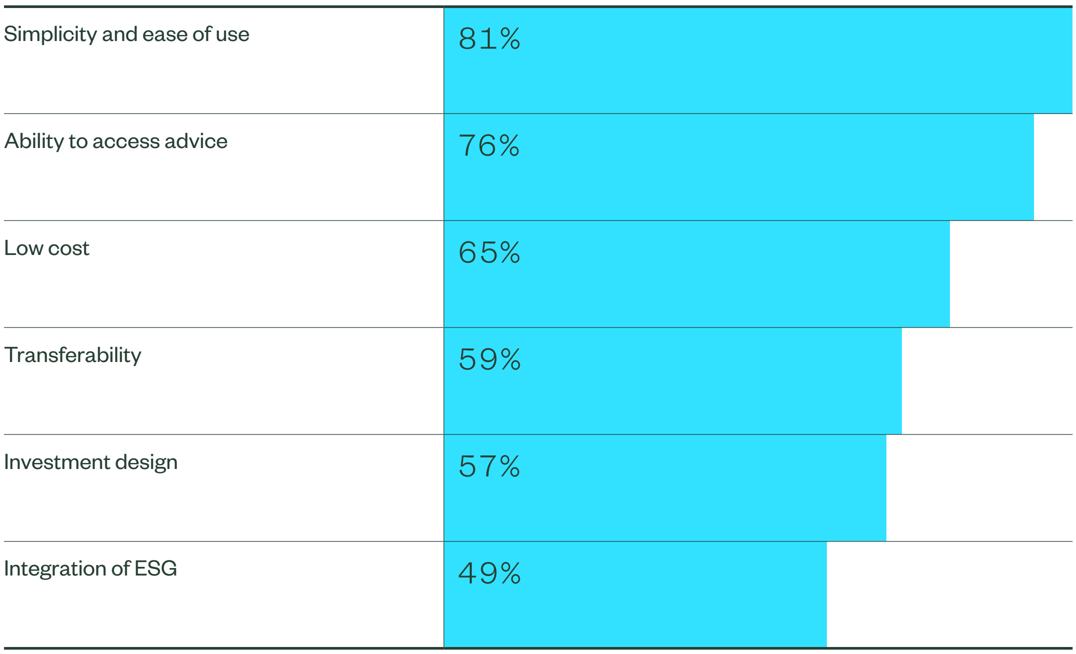
3

Advice Is Valued Access to Advice is Required to Enable Members to Take Greater Control, Paid for By Employers

We investigated what, according to our respondents, would be the most important features of a retirement plan for its members.

How much do you think that employees/members value the following in a retirement plan?

Figure 5
Respondents' Perceptions of the Plan Features Savers Value Most



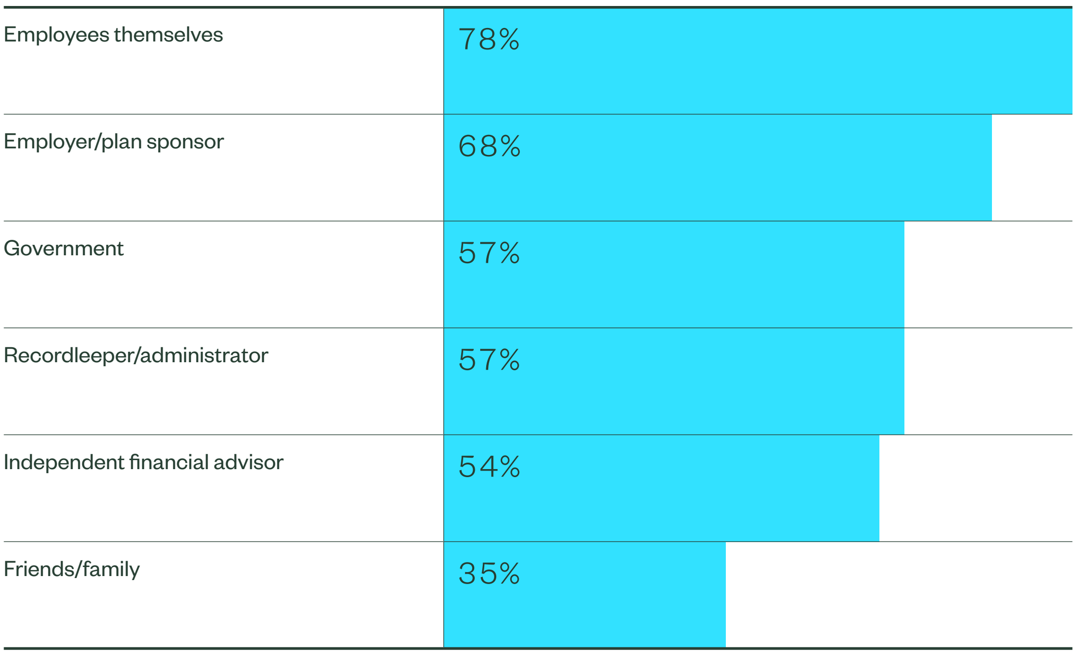
Source: State Street Global Retirement Reality Report 2019. n=37.

Again, we see that simplicity and ease of use are top of mind with our Dutch respondents (81%). In a clear second spot, according to plan sponsors, the ability to access advice is highly valued, with 76% of people surveyed stating that this is likely to be either extremely or very important to their members.

We also asked our respondents the extent to which the responsibility of providing members with advice sits with various groups. Over three quarters (78%) of Dutch plan sponsors believe that the responsibility to obtain financial direction sits with the employees themselves — a finding that is aligned with our 2018 GR3 in which 60% of savers agreed that they were the most responsible for ensuring sufficient funds in retirement. A smaller role is seen here for the government, the pension fund (provider, recordkeeper, administrator) and financial advisors. The outcomes for the Netherlands are in line with the other four surveyed countries, though employee responsibility is at the lower edge of the spectrum.

How much responsibility do you think each of these parties has for providing employees/members advice with regards to their retirement savings?

Figure 6
Assigning Responsibility for Retirement Advice
% Scoring "Full Responsibility" or "Significant Responsibility"

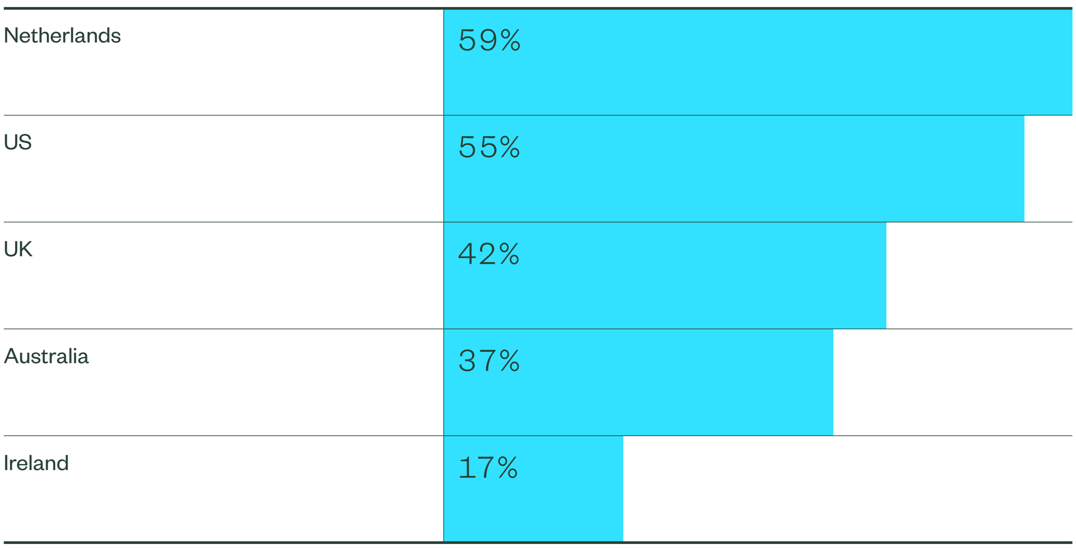


Source: State Street Global Retirement Reality Report 2019. n=37.

Dutch plan sponsors also noted that the employer should play an important role: 68% of plan sponsors surveyed this year felt that the employer had full or significant responsibility for providing members advice. Additionally, when asked about who should cover the cost of this advice, Dutch plan sponsors responded remarkably differently than employers in other countries: 59% considered themselves as being responsible for covering the cost of advice, while the average number was 43%. Respondents in other countries generally said that employees themselves should pay the cost of advice.

Thinking about the provision of advice to employees/members, who should cover the cost of the advice?

Figure 7
By-Country Assessment of Employer Responsibility for Covering the Cost of Advice
% Selecting "Employer"



Source: State Street Global Retirement Reality Report 2019. n=195.

These results align positively with findings from our 2018 report: 58% of Dutch plan members wanted the employer to provide help and advice with regards to their retirement planning. Furthermore, 75% of Dutch members were either unwilling to pay for advice or expected it for free.

There seems to be a vacuum in the Netherlands regarding member advice. Plan providers, including Dutch pension funds, insurers and master trusts, have gradually stepped away from providing pension advice as a result of cost efficiency and duty of care issues. Independent financial advisors no longer are allowed to include advice as an integral part in the solution but — following regulatory changes — have to price advice separately at market rates. The Dutch government has no key role in occupational pensions. Members are increasingly in need of advice as the existing DB/CDC pension plans are complex and underperforming and more frequent job changes occur, but they are not willing to pay for it. The way forward in the Netherlands seems to sit in providing educational sessions/seminars on the different retirement options available to members, paid for, initiated and hosted by plan sponsors and/or social partners (i.e., trade unions, employers' associations). Consultants and service providers such as asset managers should look at how they could best support plan sponsors in these initiatives.

Doing Good *and* Doing Well ESG Isn't Expected to Harm Returns

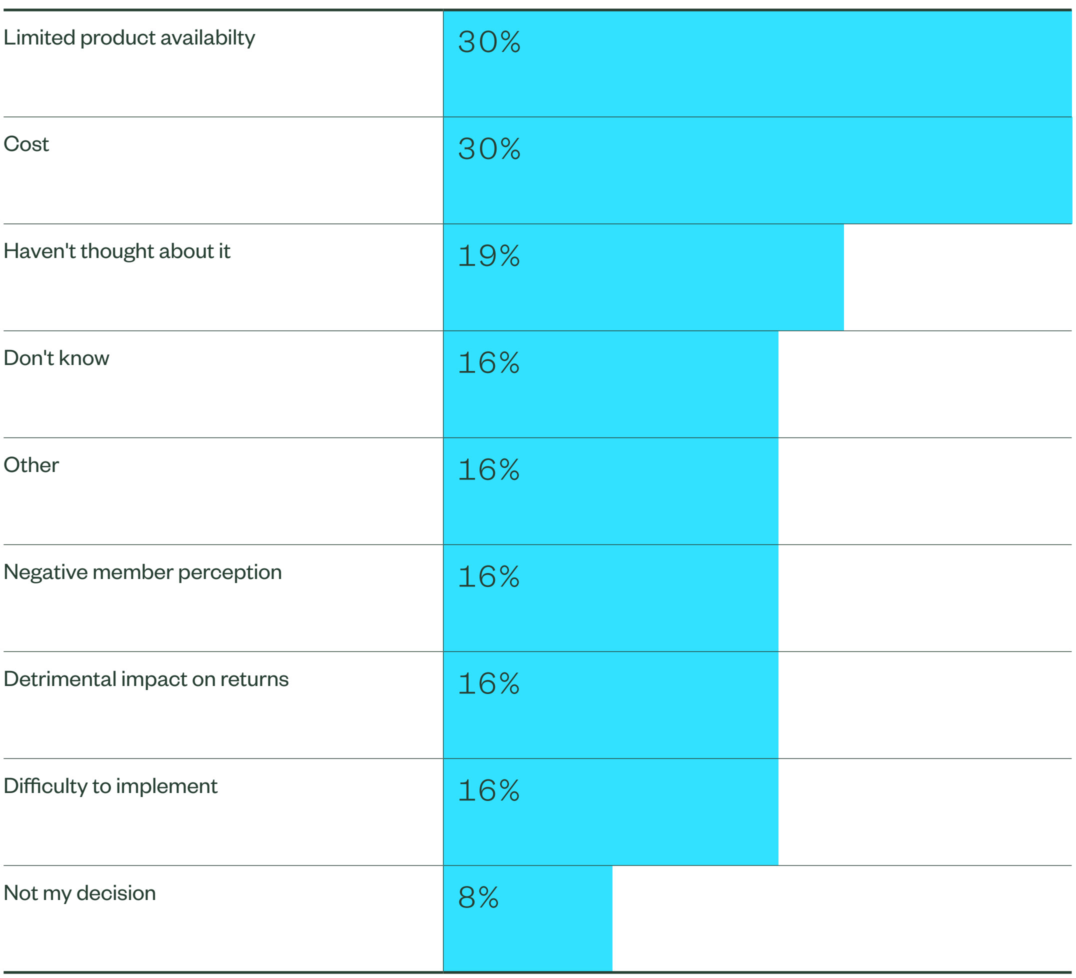
In support of the growing interest in environmental, social and corporate governance (ESG) investments that we have observed in the Netherlands, 73% of plan sponsors said they felt that it was important to incorporate ESG considerations into their plan's investments, compared with a 70% average across all other countries surveyed.

When asked whether they think plan members value ESG investing, again 73% of Dutch plan sponsors answered positively. This is somewhat higher than in other countries (64%). This fits with the Dutch view that ESG is a method to engage members. It should be noted that the ESG focus in the Netherlands arose early. Public debate about responsible investing by pension funds started nearly twenty years ago, and has been in the public eye ever since. Nowadays large pension funds in the Netherlands embrace ESG as a topic to engage plan members more with their pension arrangement.

Despite widespread appetite for ESG, it is not necessarily incorporated fully into pension plans. We asked Dutch respondents what the reason for not incorporating ESG so far was.

If you don't incorporate or plan to incorporate ESG in the coming years, what are the main reasons for this?

Figure 8
Reasons Why Sponsors Are Not Incorporating ESG into Retirement Investment Menus
Selected All Responses that Applied



Source: State Street Global Retirement Reality Report 2019. n=37.

Cost and limited product availability were the two main reasons for lack of adoption. We believe that as more products become available, the positive attitude towards ESG will result in an even more rapid adoption within Dutch pension funds and master trusts.

Significantly, only 16% of Dutch respondents ranked diminishing returns as the reason for not yet incorporating ESG into their plans. This represents a marked change from the early days of ESG investing, when it was commonly believed that ESG investing could not match the returns of traditional investments. Respondents from the Netherlands also ranked diminishing returns lower than the global average (16% vs. 31%).

The outcomes for the Netherlands positively differed from the other countries in terms of embracing ESG investing. The Dutch answers on “I believe my members/employees would view this change negatively” (16% vs. 28% average) and “Haven’t thought about it” (19% vs. 30% average) are considerably lower than in the other countries surveyed.

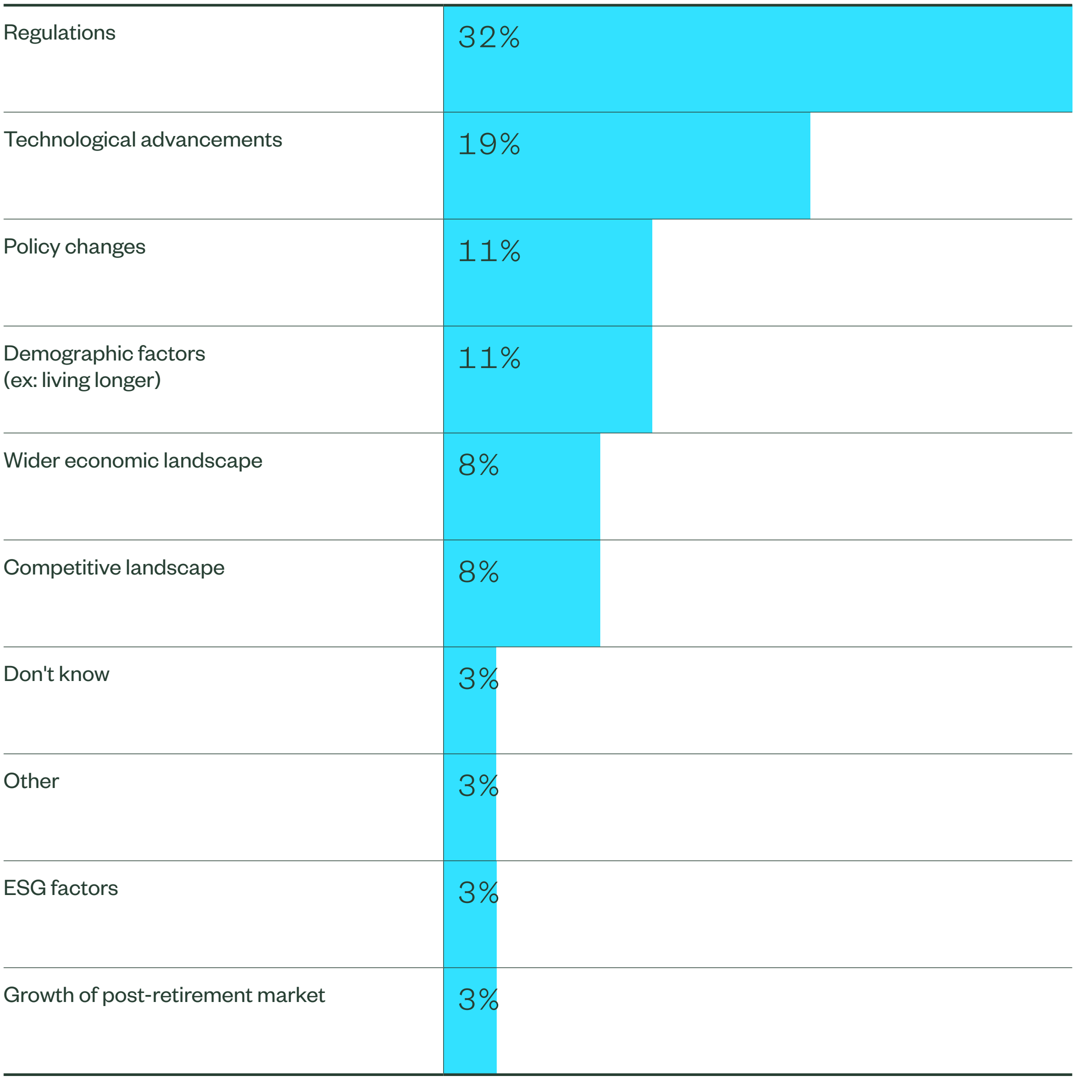
5

Changes Ahead Plan Sponsors Expect Change to Come from Various Sources Over the Next Three to Five Years

The pension landscape in the Netherlands has faced waves of change including increasing retirement ages, DB funding requirements, the emergence of master trusts and the launch of DC plans. We wanted to get the plan sponsors’ perspective on how they see both their plans and the industry changing over the next three to five years.

What do you think will be the main source of change for your plan over the next 3–5 years?

Figure 9
Areas of Expected Retirement Industry Change in the Coming Years



Source: State Street Global Retirement Reality Report 2019. n=37.

By far the largest anticipated source for change in the Netherlands is regulation (32%). This percentage is higher (average 23%) and stands out more than in the other countries surveyed. This is fully in line with the major pension reforms debated for many years and agreed amongst trade unions, employers' associations and the government in June 2019. The profound changes aim at a nationwide transition from DB/CDC pension plans to DC plans, including a transfer of past DB/CDC services and compensation measures for those members affected.

Dutch respondents also ranked technological advancements (19%) higher than the survey average (12%). Longevity is seen by the Dutch as somewhat less important and is potentially explained by the fact that lifelong benefits are standard practice and mandatory, with all plan members covered. A gradual increase in retirement age in state and occupational pensions is already catered for in regulation.

6

Don't Forget the Gig Self-employed Workers are Not Yet Being Looked After in Pension Plans

We asked Dutch plan sponsors whether they would like to offer a pension arrangement to self-employed people working for their companies.

Although the majority of plan sponsors have indicated an unwillingness to incorporate self-employed workers into their plans (51% of responders), over a third *are* willing to do this.

In order to offer a more inclusive saving alternative to the self-employed, the Dutch government is actively working towards pension reforms. The move away from DB towards DC and personal accounts will help these efforts, as this will enable pension providers to offer more flexibility to members in terms of timing and level of paid-in premium contributions and take up of pension benefits. For these reasons, it will be easier for self-employed workers to receive a more tailored saving experience and have the flexibility to join or stay in an existing pension plan.

Conclusion

As pension financial risks are shifting more towards the plan members, away from the plan sponsor and pension providers, the DC market in the Netherlands is on the horizon, underpinned by foreseen major reforms. We are seeing a greater acceptance that responsibility for retirement provision sits with the individual saver. Amid this trend, plan sponsors are not stepping away. They feel continued co-responsibility and are willing to facilitate access to and pay for the cost of advice. This may facilitate the closure of the current advice vacuum and ensure that plan members are better equipped to take the reins.

Our survey identified a number of areas where the industry can support plan sponsors to further the retirement happiness of plan members in the Netherlands:

- Offer solutions that are easy for plan sponsors to implement and easy for plan members to understand and use
- Support plan sponsors in offering member workshops to help improve understanding of retirement options and build a sense of ownership
- Continue to innovate low-cost ESG investment products and consider these as a tool for engaging members
- Policy makers to consider pension solutions for the self-employed and gig economy, as the majority of plan sponsors do not plan to cater for these groups

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