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Memorandum of Reply on the Amending Act

The Memorandum of Reply on the Amending Act was published on 19 May. In the Memorandum of Reply, the Minister of Social Affairs and Employment responds to questions put forward by the members of the Upper House of Parliament.

The Minister addresses such matters as predefined increases in the rights of non-contributing members of insured schemes, the introduction of a ministerial regulation about the concept of 'consistency' (which has since been published), the Minimum Required Equity for partially reinsured funds and the ownership of the supplementary benefits deposits.

An extensive summary of the Memorandum is available at www.watsonwyatt.nl/update.

First legislative proposal for APIs published

On 15 May 2008, the Ministries of Finance and of Social Affairs and Employment published the consultation version of the initial phase of the legislative proposal for General Pension Institutions (*Algemene Pensioeninstellingen*, 'APIs'). That publication indicates that the authorities have opted for a phased introduction of the API regulations. First, the premium pension institution format (*premiëpensioeninstelling*, 'PPI') is going to be introduced into the Dutch Financial Supervision Act (*Wet op het financieel toezicht*, 'Wft') as a new vehicle for implementing DC schemes. In the second phase, a study will be launched into amending the Dutch Pensions Act (*Pensioenwet*) to allow company pension funds to cooperate. Finally, in the third phase, the extent to which APIs can be introduced in the Pensions Act will be considered, to enable the implementation of DB schemes in the same manner.

A consideration of the propositions set out in the consultation document for designing the PPI format is available at www.watsonwyatt.nl/update.

FNV Bondgenoten sounds the alarm about pension commutation

On 22 May 2008, trade union FNV Bondgenoten indicated that several pension funds have plans to carry out a wholesale commutation of the small pensions of former employees. By doing so, they hope to avoid the high administrative charges for maintaining those small pensions. According to Chairman Willem Noordman, this is a clear example of the pension funds being primarily concerned with the costs, rather than the workers' interests.

FNV Bondgenoten maintains that commutation is extremely disadvantageous for younger workers, who switch jobs - and therefore pension schemes - several times early on in their careers. According to FNV Bondgenoten, if a worker has small pensions with 5 different funds, and those funds wish to commute the rights, the consequence will be that that worker will receive approximately € 1,500 to € 2,000 less income annually from the age of 65 onward. FNV Bondgenoten estimates that there are a total of 5 million small pensions.

FNV Bondgenoten has urged pension administrators not to commute small pensions. The union feels that these plans are based purely on cost-cutting considerations, and are definitely not in the interests of the former employees. FNV Bondgenoten argues that pension administrators should put more effort into transferring pensions. However, that ignores the fact that informing former members and encouraging and facilitating the transfer of accrued benefits also entails major administrative expenses for the pension administrator. Moreover, most former employees are already aware of their right to transfer their accrued benefits.

A more detailed version of this article is available at www.watsonwyatt.nl/update.

Purchase of old-age pension rights for prior years of service

Reports have appeared in various media about the position adopted by the Ministry of Finance with regard to tax restrictions on purchasing pensions for prior years of service for workers born on or after 1 January 1950. Since we feel that those reports are not always accurate, this Update once again addresses what the tax system does and does not permit with regard to purchases of pension rights over elapsed years of service.

A discussion of the matter is available at www.watsonwyatt.nl/update.

Formation of the Pensions Register Foundation and update on the Uniform Pension Overview

On 7 May 2008, Stichting Pensioenregister (the Pensions Register Foundation) was formed. The Foundation is a cooperative venture between the Dutch Association of Industry-Wide Pension Funds, the Dutch Association of Company Pension Funds, the Dutch Union of Occupational Pension Funds, the Dutch Association of Insurers (referred to below as the umbrella organisations) and the Dutch Social Insurance Council. Those parties will together supervise the development of the Pensions Register. The Pensions Register, which will be accessible via Internet and will list all Dutch pension schemes in such a format that any one logging into the Register can access an overview of all his or her pension rights and rights under the Dutch General Old Age Pensions Act (*Algemene ouderdomswet*, 'AOW'). It will also show where the pension rights have been accrued and details on who to contact for more information. The design of the Pensions Register is to be divided into two phases. In the first phase, it will only be possible to view the AOW and the collective pension schemes. Later, individual schemes will also be included. Pursuant to the Pensions Act, the Pensions Register must be operational by 1 January 2011.

The information included in the Pensions Register as of 1 January 2011 is currently already provided separately by the various pension administrators, using the Uniform Pension Overview (*Uniform Pensioenoverzicht*, 'UPO'). The umbrella organisations in the pensions sector have developed a new format for the claims that their members accrued until year-end 2007. That format has changed in several respects compared with last year. The new format, known as the 2008 model, is obligatory for purposes of uniformity. The UPO model was not yet obligatory for claims from before year-end 2006. In addition, among other changes, the order in which the contents are presented has also been made obligatory for the 2008 model. The government has decided that the UPO is the most appropriate tool for ensuring the uniform communication of pension claims of active members and has formalised that decision in the Pensions Act (Section 38(2)). As far as the pension administrators are concerned that were already using the UPO (2007 model) for claims dating from before the end of 2006, this means that the format will have to be updated for the claims from before year-end 2007. As such, any changes to the format of the UPO are to be considered as amendments to the 'regulations' governing that format. The obligation to use the new format therefore stems from the fact that the Pensions Act now prescribes the UPO. Obligations laid down in the instructions for using the UPO must therefore be observed on penalty of a fine of up to € 24,000 multiplied by the pension administrator's resources factor.

Besides a format for the claims of active members, the umbrella organisations have also published two models for the claims of former members: a UPO for the situation upon termination of the membership (non-obligatory) and a UPO for the claims of former members (also non-obligatory). The first UPO sets out the information that must be provided upon termination of the membership pursuant to the Pensions Act. The non-obligatory UPO for former members may be used for the information that will

have to be provided to former members at least every five years on the grounds of the Pensions Act. Although neither of these UPOs is obligatory, the umbrella organisations recommend that these best practice models be used.

ConFirm

Pension funds are having to deal with an increasing number of stakeholders and, as a result, the risks are becoming more diverse, more complex and presumably greater in scope. Consequently, proper risk management is becoming more and more important for pension funds. Risk management is an important issue for pension funds, a situation that will only increase in the immediate future. In time, there will have to be a continual focus on comprehensive risk management. In order to be able to monitor financial institutions, including pension funds, the Dutch Central Bank DNB has developed a method (known as FIRM) for continually assessing pension funds in terms of the level of their risk management. Using the inherent risk and the degree to which that risk is controlled, the method calculates a FIRM score which determines the severity of the monitoring profile.

Based on FIRM, Watson Wyatt has developed a comprehensive risk analysis method called ConFirm. An explanation of that risk analysis method is available at www.watsonwyatt.nl/update.

The information about the comprehensive risk management that is generated using ConFirm provides a solid basis on which to identify risks and the degree to which they are present and to determine where the risks are insufficiently controlled. Problem areas can be resolved by reducing the risks on the one hand and increasing the control of those risks on the other. The pension fund can use this information to decide whether to implement improvements that benefit the pension fund's risk management.

OneWorld Seminar

Watson Wyatt organises OneWorld Seminars in Europe which focus on the international aspects of Human Resources and benefits. These seminars are aimed primarily at Human Resources professionals with international responsibilities.

Watson Wyatt's next OneWorld Seminar is scheduled to be held in Nieuw-Loosdrecht in the Netherlands on Wednesday 24 September. The theme for that seminar is 'Controlling risks and costs associated with pension schemes in Western Europe.'

For further information about this seminar, and to register, please visit our website at www.watsonwyatt.nl.

Further information

If you would like further information about the matters addressed in this issue of the Watson Wyatt Update, please contact Marijke Biewinga (Memorandum of Reply on the Amending Act), Rick Crauwels (First legislative proposal for APIs published), Eric Heemskerck (Purchase of old-age pensions for prior years of service), Jetty Lahoye (FNV Bondgenoten sounds the alarm about pension commutation), Ingeborg Agema (Formation of Pensions Register Foundation and update on the Uniform Pension Overview), Fenne Helmich (ConFirm) or Saskia van Daalen (OneWorld Seminar).