

Let eleven years of pension debates be enough

The pension industry is facing essential questions: how do we build a new pension scheme that continues to be the best in the world, but is also trusted by the people, the young and the old? It is high time for a breakthrough in the debate, pleads Gerard van Olphen, CEO of pension provider APG. The negotiators have to come out of their trenches: let eleven years of pension debates be enough.

As a market leader - we work for the financial future of 4.5 million people - APG senses the insecurity as to the failure of establishing a new pension system. It is our goal to realize maximum pension value for participants in our pension funds. We are a social enterprise, not driven by pure profit maximization. We have to be financially healthy but are not chased by shareholders. We are successfully committed to lowering our costs and increasingly more satisfied participants. We do so in a scheme that was declared this past October as the best pension scheme in the world (Mercer's Global Pensions Index): a scheme that scores high internationally in terms of fairness, adequacy and reliability.

But those scores are contrary to the waning confidence domestically. This is partly caused by insecurity and that is understandable: the composition of the population has changed, we live longer, we work, care and save money differently and therefore also have a different view on pension. We had to deal with an economic crisis, funds have disappeared, indexations were missed and the interest seems to remain low for now. The way things are going now is no longer sustainable. We, as an industry, are not delivering what the people may expect from us.

This means the house must be renovated, but the sustaining walls of obligation and solidarity have to be maintained. At the same time, the house should be providing space for the necessary flexibility for the younger generations. The pension agreement last year (and the postponement of cuts by the minister) gave us the space to build. That was sensible. Whether it was also wise, depends on the result in the months to come. And simultaneously, we also sense little public trust during this renovation. To be honest, this is also quite understandable: it is mandatory for people to deposit a part of their income without knowing exactly what they receive in return - neither in the current, nor in a new system. That fuels insecurity. And so, it is our obligation to provide clarity to millions of people regarding their old-age pension.

A careful outline has been prepared for a new system in which the guarantee of a fixed end pension disappears and which only gives more or less security. In any case, the people are getting more responsibilities when it comes to their own pension accrual. Next, choices must be introduced as to the honest and balanced allocation of equities and risks - also in the transition period between two schemes. And this is where it gets tricky, if only because minister Koolmees has set the deadline in April. This means we, as an industry, have a bit more than hundred days left in a debate that in fact has been ongoing for eleven years. Years in which we, as an industry, did very well in postponing the pain and uncomfortable choices. We have put the issues on the backburner for a long time, maybe too long.

That again constitutes a significant risk. If we don't make the deadline of April, we leave millions of people with a false sense of security for even longer. And that feeling damages

the shaky confidence even more. Especially since many people are already confronted with a lack of “pension guarantees”. The minister recently postponed the pension cuts. However, this postponement has to be settled at one point, even without the perspective of a new pension house. If the postponement is renewed, we are forced to drastically increase the premiums and/or to lower the accrual of pension and possibly cut it.

As an industry we then have to thoroughly account for the choices we make: in balance for all generations, in a faltering system and without the perspective of anything new. More delay shouldn't be a real option. Not for ourselves, but particularly not for the millions of people, young and old, working and retired, who are at least eager to be given a clear direction.

That building of trust starts with clarity. Also on the design of the new pension contract. There will probably be two designs: a collective contract with individual characteristics and an individual contract with collective characteristics. Both based on premiums and with more risk for the people. Facing that reality, a lot more is demanded from us, as an industry, than just a good return. First of all, we have to take an honest look in the mirror: are we doing enough for our employers and participants? Or are we also showing flight behavior when it comes to making difficult choices? Do we always help our participants in the best possible way, with clear communication and plain language, so we can help them feel more financially secure? Imposing the responsibility more on participants means our responsibilities as funds and providers grow along and even increase exponentially.

Let 2020 become the tipping point towards new trust. But that will only succeed if we take decisive action on the difficult issues. If the negotiators stop admiring the trenches they built for themselves. After eleven years of debate, the Netherlands deserves an honest, realistic new pension system. A system that is driven again by solidarity. The sound of that word has become increasingly stuffy in those eleven years. And that's a crying shame as APG truly believes in that solidarity. It really is the only way to build a sustainable financial future together, for the young and the old, for everyone.