

# Designing occupational pensions

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## Key messages

- Occupational DB pension systems face important funding and sustainability challenges
- The Dutch 'negotiation model' offers a trust-based, proactive stance towards dealing with these issues
- Sustainable pensions combine the best features of DB and DC plans

## Occupational DB pension systems face important challenges

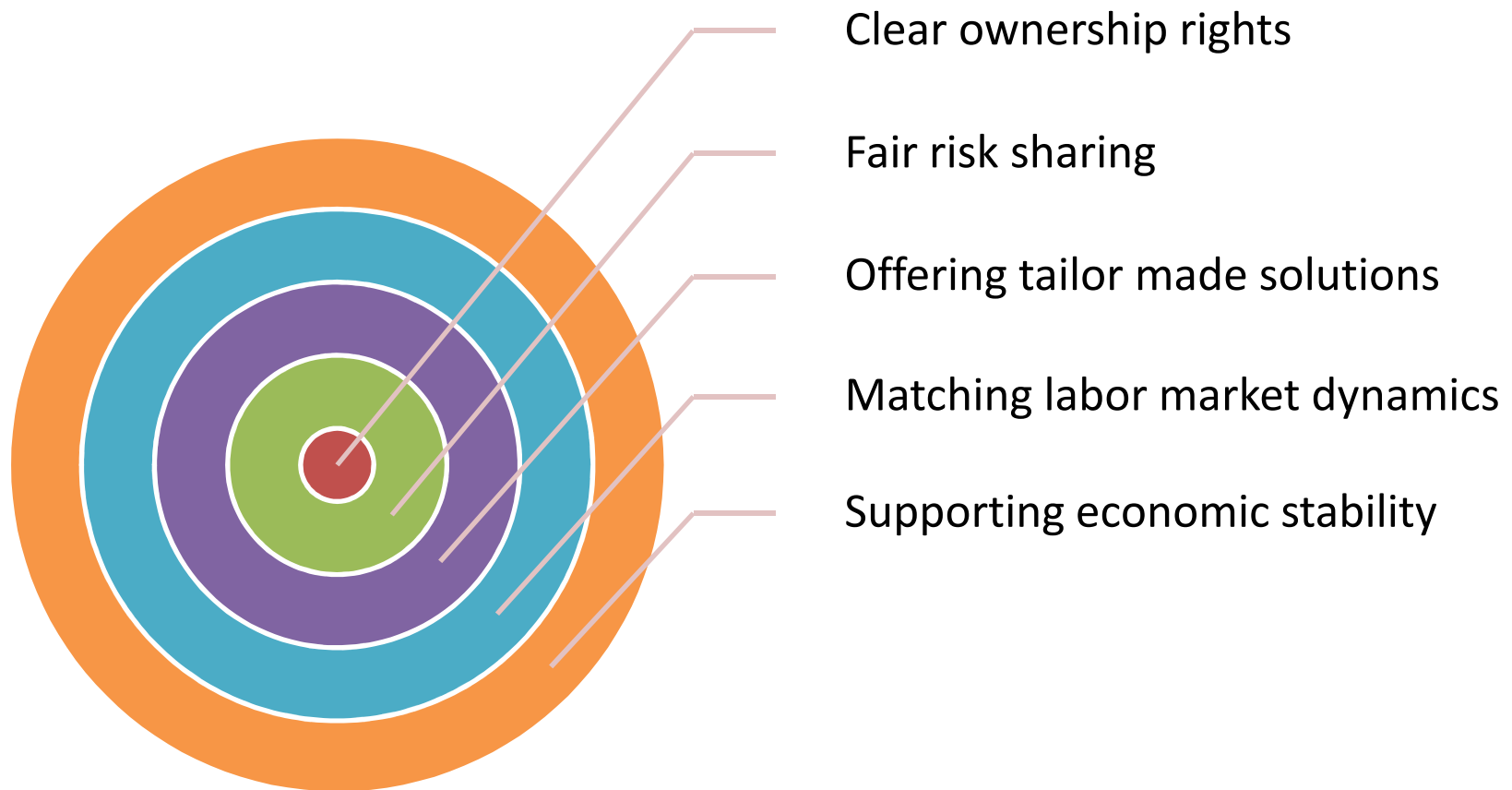
### Funding issues

- Risks too large for plan sponsors
- Pro-cyclical effects on economy
- Inverted population pyramid
- Increasing longevity

### Sustainability issues

- Intransparent redistributions
- One-size-fits-all policy
- Labor market flexibility
- Exposed to political risks

## A sustainable occupational pension system is characterized by



## Take a functional approach towards pensions

1

### Saving

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Setting retirement income goal and wealth accumulation

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### Investing

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Managing shortfall risk of not achieving retirement income goal and minimize costs

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### Dissaving

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Optimal draw down strategy based on best estimates for longevity, returns and inflation

4

### Risk pooling

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Pooling of mortality risk to lower costs and improve welfare

## Combine the best of both worlds

DB



- Retirement income goal
- Managing shortfall risk
- Large collective pools
- Low costs

DC



- Clear ownership rights
- Life-cycle customization
- Transparency
- Flexibility