

European Rates Watch

Dutch Pension Reform: close to the finish line...in theory

Senate debating the “Future Pensions Act”

We are nearing the end of the long-winding road towards reform of the Dutch Pension Fund (PF) system (from Defined Benefits – DB to Defined Contributions – DC). The lower house passed the draft legislation at the end of March. The senate is now debating it, with hundreds of questions and answers being exchanged between the senate and the government. Exhibit 1 shows the next key dates, the most important one being May 30th, when the final vote is expected to take place. In theory, May 30th is the last possible date on which the Senate can vote on the bill in its current composition. Senate elections will take place that same day, with the new members due to take office on 13 June.

A last-minute delay is still a risk

The current plan is for the reform to become law in time for the transition to the new system to start on July 1st. If the vote isn't held on May 30th, that date would look very challenging. Some (especially from BBB, set to be largest party in senate) are calling for the debate to be held by the new senate, which would likely require time and risks involving changes to the draft. On a delay, the next possible date for the start of the transition would be Jan 1st. PFs would then have to deal with the uncertainty on the timeline and the rules in place in the meantime (for eg. would the minimum funding ratio required for indexation be temporarily kept at 105% or will it be increased to the previous 110%?)

On current timeline, majority of funds to switch in 2026

In the latest survey conducted by the Dutch national central bank (DNB) and presented early April, out of 110 Pension Funds (PFs) planning to switch systems, 92 had set a date for the switch. Most intend to submit their implementation plan to the DNB in 2024 (Exhibit 2). However, an overall majority (54 in total) were targeting 2026 for the switch, with another 6 even planning for the last possible date (1-Jan-27) – see Exhibit 3.

Large duration buying from Dutch PFs end '22-early '23

In early December, we argued Dutch PFs would be large receivers in the long-end, mostly due to significant pension indexation in Jan-23 (see the report [Five considerations into 2023](#)). We saw signs of long-end swaps receiving in December, and PF buying of long-dated bonds in Jan-Feb (see the report [Global Rates Weekly 17-Feb](#), estimating that Dutch PFs participation in long-dated core EGB 2023 syndications had already amounted to €10mIn/01 of buying). Since March however, the long-end came under steepening pressure as rates rallied. The steepening, especially in 10s30s, has been more significant than implied by the long-end's historical relationship versus 2s10s and implied volatility (Exhibit 4 and Exhibit 5).

continued inside....

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Exhibit 1: Key dates for Dutch pension reform bill

A tight schedule to start transition on Jul 1st

date	event
16-May	Senate procedural meeting / committee meeting
22/23-May	Senate plenary debate of the bill
30-May	Senate (current) expected to vote the bill
30-May	Election of new senate
13-Jun	New senate takes office
01-Jul	Date targeted for start of the transition to new PF system
01-Jan-24	Next possible date for start of transition

Source: BofA Global Research

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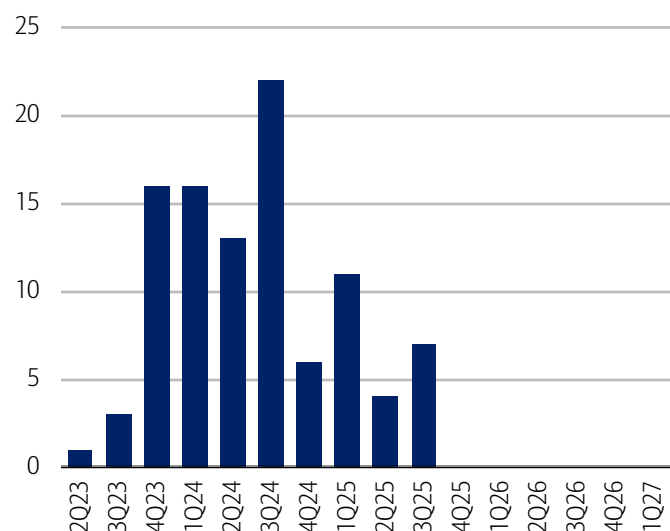
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Exhibit 2: When does your pension fund expect to submit the implementation plan to DNB?

Most funds target to submit their plans to the DNB in 2024

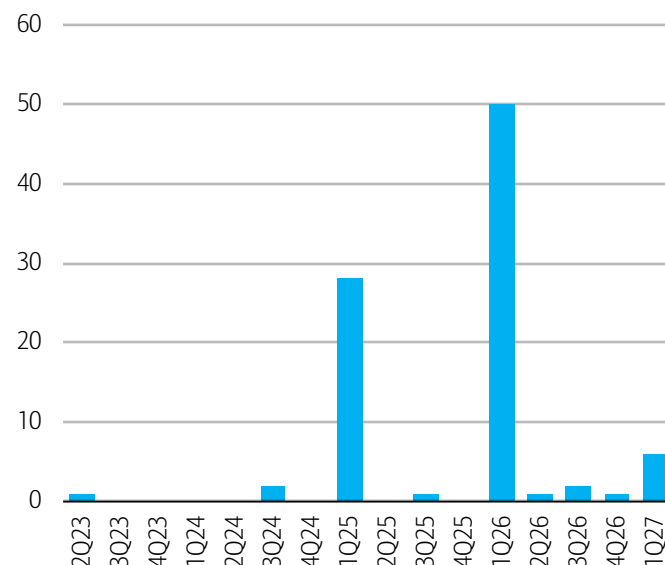


Source: DNB survey

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Exhibit 3: What is your pension fund's intended entry date?

The bulk of pension funds target 2026 for the switch to the new system



Source: DNB survey

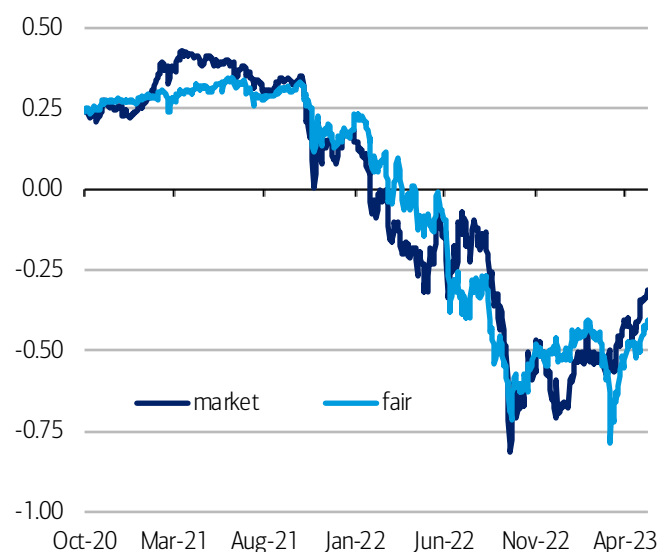
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Expect Dutch PFs activity to bias curve flatter near term

While the reform can cause steepening pressure as funds transition and reduce their (ultra) long-end receiving, we believe it is too early to trade this theme, at least in spot space. Besides the risks of a delay, we still expect Dutch PF activity to bias the curve flatter given potential for additional indexations in Jul-23 & Jan-24, and the relevance of locking in elevated funding ratios when the bullish rates narrative asserts itself.

Exhibit 4: 10s30s market curve vs fair value implied from historical relationship to 2s10s & 3M implied volatility

The steepening has been more significant than expected in Mar-Apr

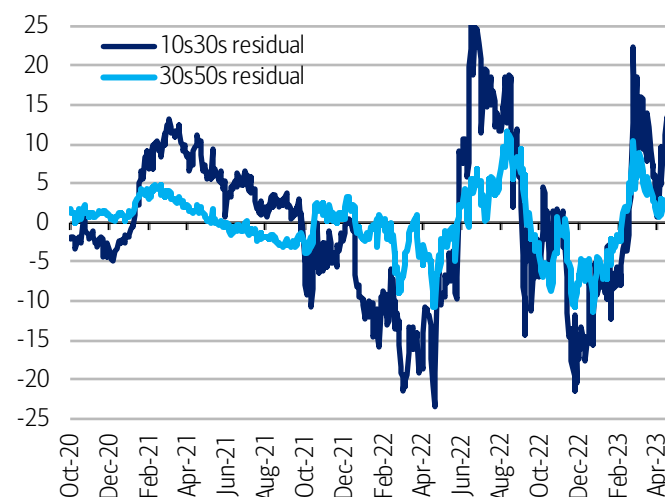


Source: BofA Global Research

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Exhibit 5: Residual of 10s30s and 30s50s vs fair value implied from their historical relationship to 2s10s & 3M implied volatility

Curves appeared too flat in Dec22-Feb23 as pension funds received in the long-end, but the large steepening in Mar-Apr, beyond what is implied vs 2s10s and vol, suggests that PF flows abated as rates rallied.



Source: BofA Global Research

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