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de nederlandse
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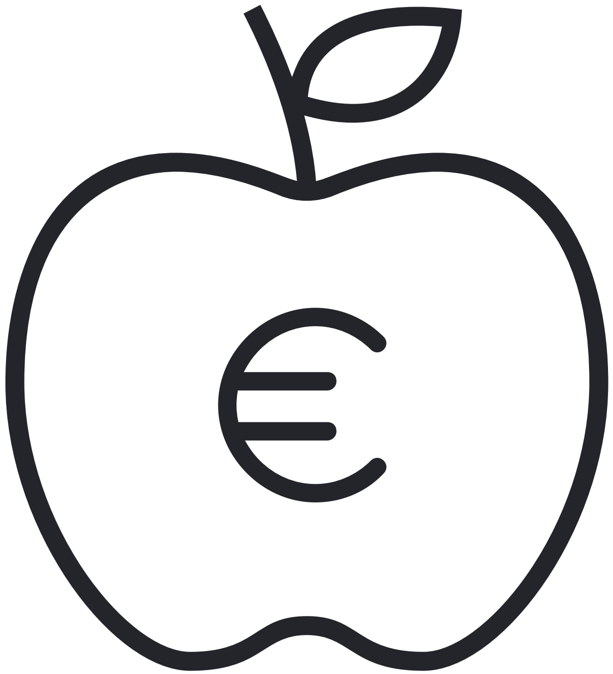

# Grip on pension: how can your employees get the best out of their pension scheme?

Defined Contribution (Improved Flexibility) Act (Wvp) explained in more detail

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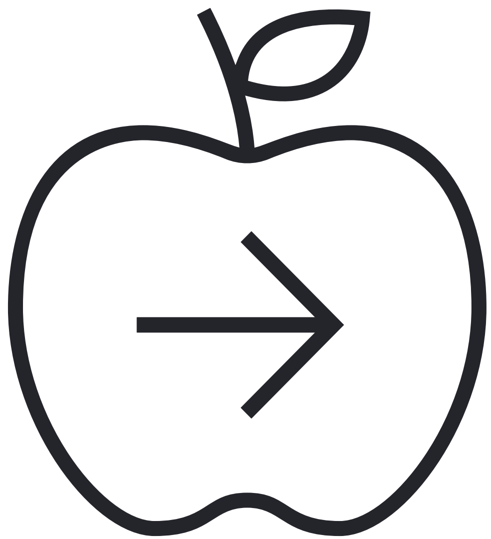
# For employers with an investment-based defined contribution scheme. Today's choices are important for tomorrow's pension. Employees have more and more choice.

Do your employees have a grip on their pension accrual? Many employees have little clue about their pension position. In consequence, they have no desire to be confronted with difficult decisions about their pension, not even if this can affect the ultimate pension accrual. This is despite the fact that pension schemes often provide the possibility to make a more prudent or offensive investment choice than the default option. Investment choices are personal and have a direct impact on the return produced by the pension contributions and the level of the accrued investment capital. That's why they also affect the level of the pension benefits on the retirement date. As a consequence of the Defined Contribution (Improved Flexibility) Act, your employees will now have even more choices that affect the level of their pension benefits. What pension choices do your employees have? How can your employees get 'the best' out of their pension scheme?

# What is the Defined Contribution (Improved Flexibility) Act?

Your employees have a defined contribution scheme. Until recently, when employees in a pension scheme reached their retirement date, they had to convert their pension capital all at once into lifelong defined pension benefits. One of the determining factors for the level of the fixed pension benefits is the interest rate. High interest rates on the retirement date have a positive effect on the level of the pension benefits. But if interest rates are low at the time of purchase, the pension benefits, which the employee receives, will also be low.



The Defined Contribution (Improved Flexibility) Act, which came into force on September 1, 2016, enables employees to purchase variable pension benefits. The pension benefits are fixed for one year at a time. In the meantime, the remainder of the pension capital is still invested. Your employees can now also choose to reduce the investment risk more gradually during the pension accrual. This may result in increased or reduced pension benefits. These new options give employees more possibilities to align their pension with their personal situation.

# Why has the Defined Contribution (Improved Flexibility) Act been introduced?

More and more often we see that employers are switching to a defined contribution scheme. Usually, the employees' pension contributions are invested in investment funds. The closer employees get to their retirement date though, the less time there is to recover from shocks in the financial markets. In this phase, greater emphasis is put on investing the pension contributions in safer investments, thereby hedging the interest rate risk. On their retirement date, employees are obliged to use the accrued pension capital as a lump sum to purchase fixed, lifelong pension benefits at the interest rate obtaining at that time. To minimize the risk of sharp price fluctuations around the retirement date, the investment risks are reduced more and more. This prevents large fluctuations in the pension benefits, upon which the employees will be dependent for the rest of their life. There are two objections to obliging employees to purchase fixed pension benefits on their retirement date:

## Objection 1

As the retirement date gets closer, the pension administrator must reduce the investment risk. But less risk also means a lower expected return on the invested contributions. And this in turn influences the level of pension capital.

## Objection 2

Interest rates are important in determining the fixed pension benefits. If interest rates are low on the retirement date, the fixed pension benefits will also be proportionately low. In a period of low interest rates, as is now the case, this can be of disadvantage for the employee .

# Continued investing can be a solution: the introduction of variable pension benefits

The legislator has made it possible to offer variable pension benefits as an extra choice. A part of the investment capital remains invested even after the retirement date. In this case, the employees do not need to purchase fixed pension benefits. This can be beneficial for the employees.

## Advantage 1

A longer investment horizon is possible in the case of variable pension benefits. This means that the invested risk can be reduced more gradually. This increases the chance of a higher investment return for employees. Moreover, employees are no longer dependent on interest rates on their retirement date.

## Advantage 2

Employees can opt for a combination on their retirement date of both fixed and variable pension benefits.

But accepting greater investment risks or anticipating higher interest rates can also have a downside: the return on investments can be disappointing and interest rates may fall even after the retirement date. Moreover, average life expectancy may increase in the meantime. If this happens, pension administrators will have to pay pension for a longer period and the annual pension benefits will decrease. Opting for continued investing therefore increases the uncertainty about the pension benefits. It is up to employees to make a careful assessment of the risk in the light of the potential return.

If they opt for variable pension benefits in the accrual stage, the pension administrator invests the pension capital for longer and to a greater extent in marketable securities than would be the case where the employee opts for fixed pension benefits. If the employee does not make a choice, the pension continues to accrue automatically in a life cycle designed to provide fixed pension benefits. The final choice between fixed and variable benefits is made by employees on their retirement date. The choice can no longer be changed after the retirement date. Advantages and disadvantages of variable pension benefits:

## Advantage

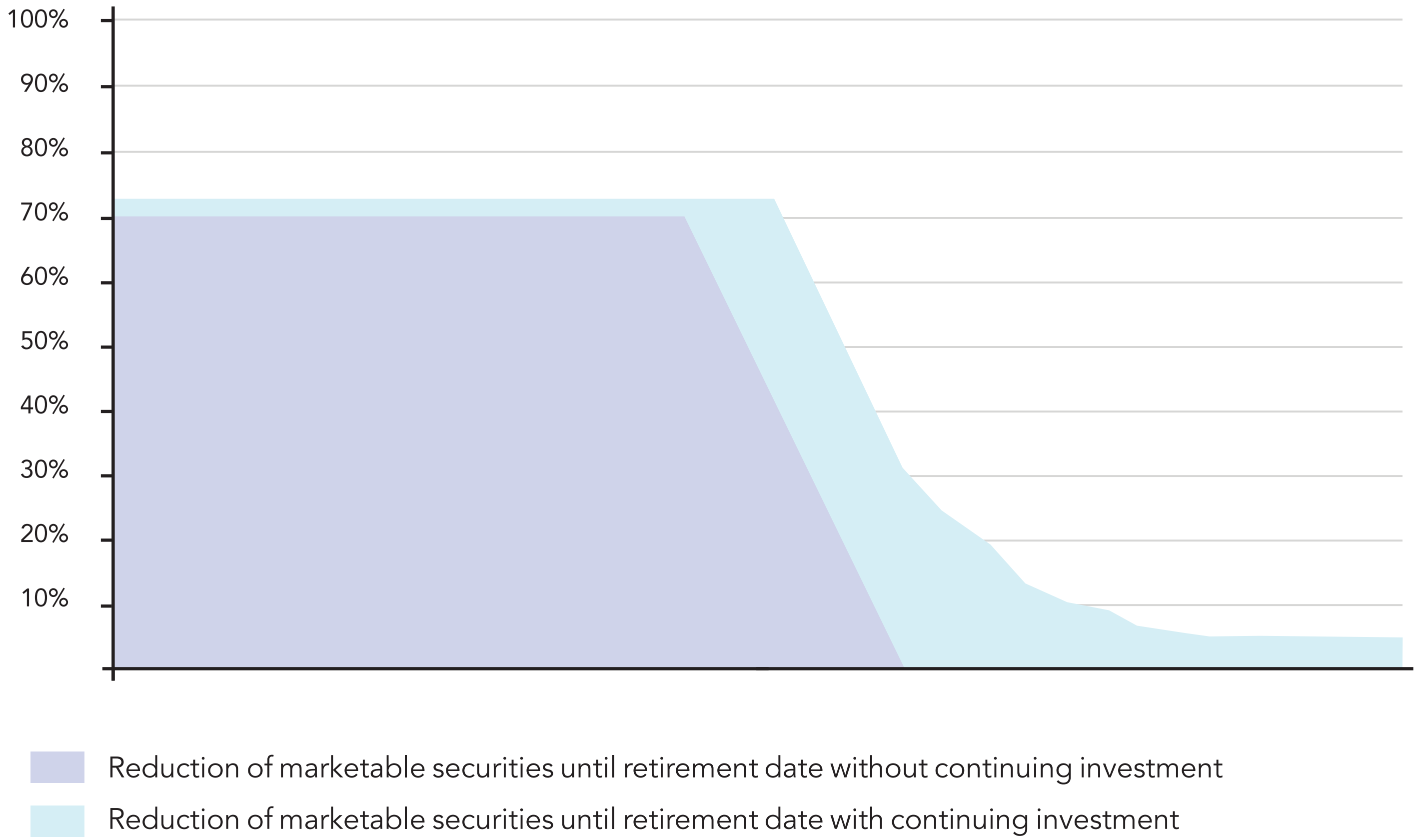
Employees are no longer entirely dependent on whatever the market interest rates happen to be on their retirement date. They can thus maximize their chance of receiving a higher pension since the market interest rates or the value of the investments can rise.

## Disadvantage

Pension benefits can also decrease. Employees run greater risks. This is because market interest rates or the value of the investments can also decrease. Moreover, average life expectancy may increase in the future. If this is the case, pension administrators must continue paying pensions for a longer period and the level of the annual pension decrease.

# Difference between pension accrual with and without continued investing

Chances of extra return through longer investment in marketable securities



# What is the importance of return on investment in a defined contribution agreement?

So what is the point of investing pension capital if it involves taking risks? The answer is simple: by just paying contributions and putting them into low-yield and largely risk-free deposits (savings), employees will not accrue sufficient capital. Investing the money offers the chance of a higher return on investment, which will allow employees to accrue more pension capital and thus achieve higher pension benefits. To limit the investment risk, the pension scheme invests in a mix of marketable securities such as equities (more risk/higher expected yield) and fixed-income securities such as bonds (less risk/lower expected yield). A pension scheme invests in accordance with the life cycle principle, as a result of which the investment is lowered as the retirement date approaches.

## What does investing in life cycles involve?

Investing always means that the employee incurs risks. Investing pension capital in life cycles means that the investment risk is gradually reduced as the retirement date approaches. This is because there is less and less time left to rectify any disappointing investments. In small steps, an ever larger part of the pension capital is invested in fixed-income securities. These are risk-averse investments with a smaller risk than marketable securities.

The graph shows how continued investing can contribute to the level of the pension benefits. For instance, approximately half of the pension benefits result from the contributions. The return on the fixed-income securities accounts for almost 20% and the return on marketable securities almost 30%.

The possibility of continued investing after the retirement date has two effects which can result in higher pension benefits:

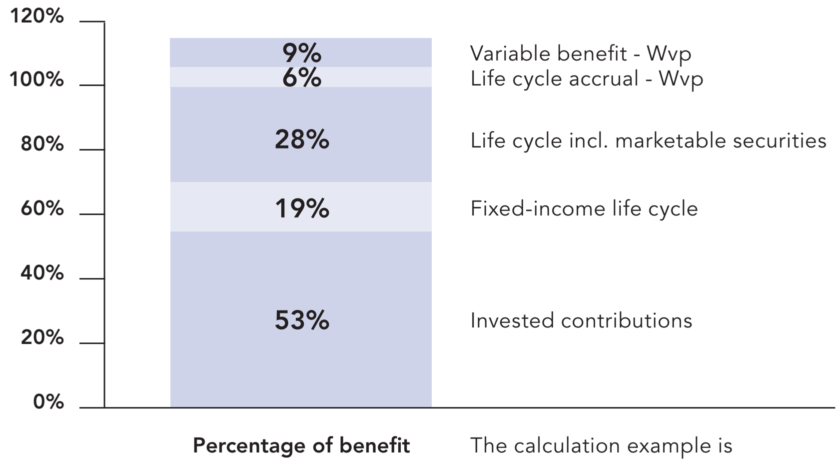
Continued investing therefore has the potential to produce pension benefits that are 15% higher than would be the case in the old situation. So should everyone opt for continued investing? No, this remains a personal choice.

The results in the table have been derived from past yields and provide no guarantees for future results. As there is always a trade-off between return and risks, it comes down to the willingness of the employee to take such risks.

Expected effect on the return due to a higher-risk lifecycle during the accrual stage. **+6%**

A longer investment horizon after the retirement date. **+9%**

**Importance of return in defined contribution scheme**



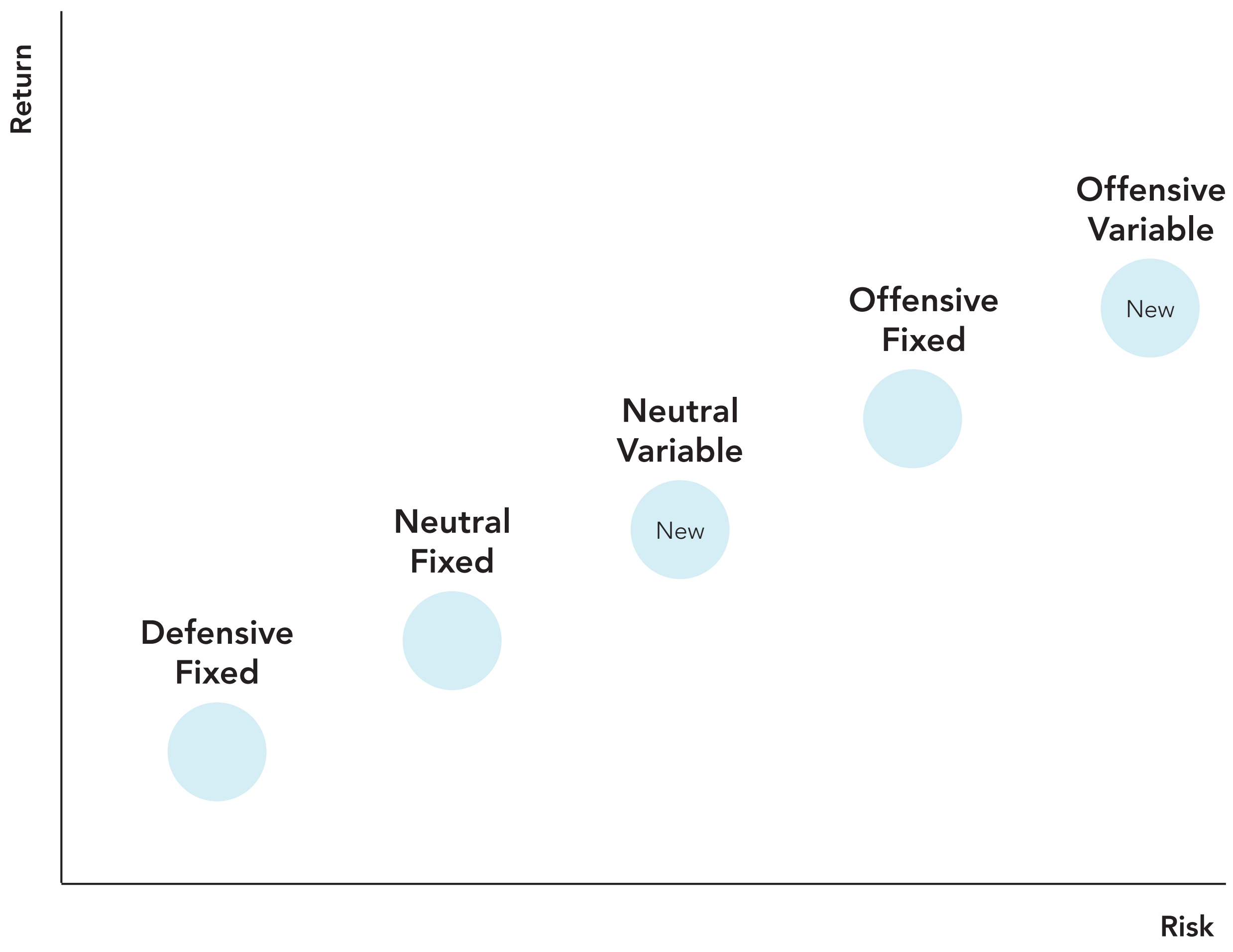

The calculation example is based on assumptions.

# The life cycle product range

Prompted by statutory obligations and market forces, pension administrators have developed various products for the accrual of pension capital in investments. The range of products usually consists of various life cycles, which can be subdivided by yield and risk. The less risk an employee wishes to take, the more cautiously the pension contributions are invested. This also means that the return is expected to be lower in the case of a cautious life cycle. Employees complete a questionnaire to determine their risk appetite. This is known as an investment profile. Employees can then choose the life cycle that best fits their profile. Someone with a defensive investment profile invests less in marketable securities than someone with a neutral or aggressive profile.

The new variable benefits-oriented life cycles occupy a logical place in the overall range of life cycles. Until their retirement date, employees can switch between life cycles designed to produce fixed or variable pension benefits. On their retirement date, the accrued capital becomes available for the purchase of pension benefits. On this date, employees must finally choose either fixed or variable pension benefits. Or possibly a combination of the two. Your employees can consult an adviser for this purpose.

## Life cycle range with and without continued investing



# Help your employees with their choices

The pension scheme is an important part of the employee benefits package and as such it is good to help your employees as much as possible with their pension. Variable pension benefits are a new option for them. An option which requires them to make an initial decision many years before their retirement date. So be sure to regularly inform your employees about the possibilities provided by the pension scheme, the options available for them and the action they can take. For instance, you can organize pension meetings and post messages on your intranet. This will enable you to increase the pension awareness of your employees and help them make a well-informed choice. If you find this task difficult, you can ask your adviser for assistance. Your adviser can help you communicate with your employees about your pension scheme.

# What does a.s.r. offer?

a.s.r. offers two new variable benefits-oriented life cycles: the Neutral and Aggressive life cycles. a.s.r. will introduce an individual pension benefits pay-out product at a later stage. This will make it possible to choose between fixed and variable pension benefits.
Or possibly a combination of the two.

From 16 years before reaching the retirement age, employees can choose a life cycle designed to produce fixed or variable pension benefits. From then on, a.s.r. asks them annually whether their situation has changed. The employee may change their choice in the meantime. Their final decision on whether to take fixed or variable benefits must be made no later than on their retirement date.

If employees opt for variable pension benefits on their retirement date, they purchase pension benefits for one year at a time. In the meantime, the remainder of the pension capital remains invested. The level of the future annual benefits depends on interest rate fluctuations and investment results.

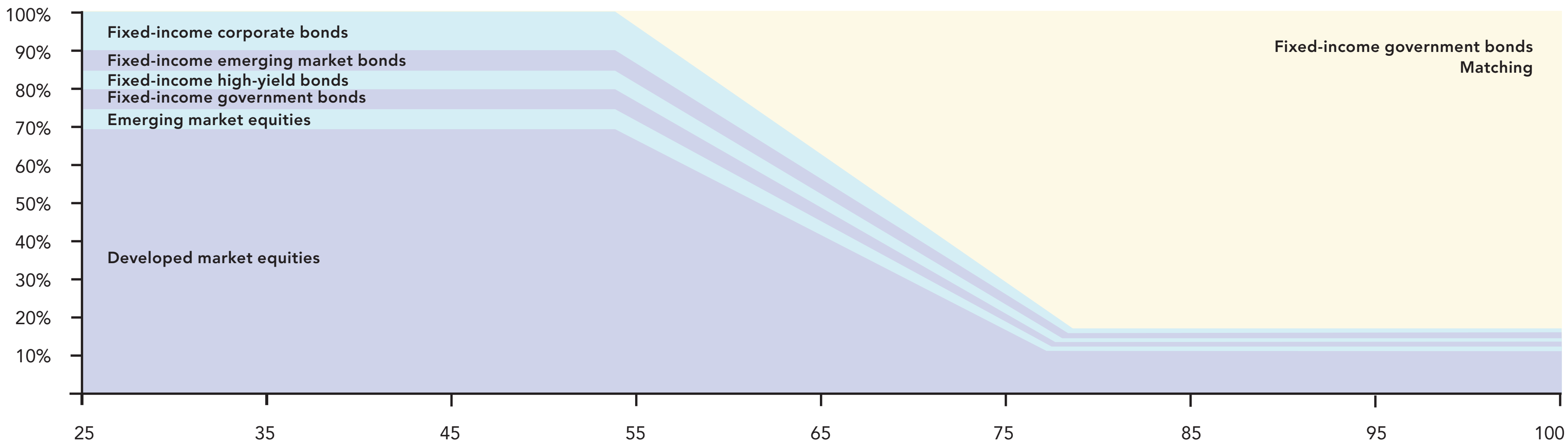
To provide employees with information about their pension position and help them choose, a.s.r. has introduced 'Mijn Pensioenplein'. This is an informative and personal portal that enables employees to access information about all important moments in their life which can affect their pension.

# A single customer journey before and after retirement date

The creation of a single customer journey is crucial to developing a solution based on variable pension benefits. Employees' choices in the accrual stage have a major impact on the extent to which their post-retirement pension ambitions can be met.

The digital and other communications are designed to assist employees in making these choices. The variable benefits-oriented life cycles too have a pre-retirement investment mix geared to the post-retirement investment mix.

A single customer journey before and after retirement



# 'Mijn Pensioenplein' portal helps your employees to get the most out of their pension scheme

We think it is important that your employees should not be confronted with surprises later on. This is why we are offering the 'Mijn Pensioenplein' portal for the Employee's Pension. This provides them with information about their pension wherever and whenever they want. Naturally, they do not study their pension on a daily basis. We understand that. But there are times when it is wise to take a look. At these times, we will send them a message. They can then use the 'Pensioncheck' to find out if their pension prospects are still in line with their situation. They can calculate what effect a different investment choice has on their pension, for instance, if they opt for defined pension benefits or if they save more on a monthly basis. In short, we provide easy-to-understand information that allows your employees to see how their decisions may cause their pension to increase or decrease. And once they have made a choice, they can record it immediately.
The 'Mijn Pensioenplein' portal is part of a.s.r.'s Werknemers Pensioen. For more information about this pension scheme, please visit asr.nl/werknemerspensioen.

Your employees can also find information at 'Mijn Pensioenplein' about the impact of significant events in their life. For instance, what happens when they retire, or if they start or cease cohabiting. They can also see what happens if something changes in their employment status, for instance if they start working fewer hours or leave the service of their employer. All important choices are also explained, including whether or not small pensions from previous employment should be combined. This way, they can decide on their own or with an adviser what course of action best suits their circumstances. 'Mijn Pensioenplein' enables your employees to get a grip on their pension. And to get the best out of their pension scheme.

The 'Mijn Pensioenplein' portal is part of a.s.r.'s Employee's Pension. For more information about this pension scheme, please visit **asr.nl/werknemerspensioen**

# a.s.r. is glad to help you

a.s.r. would be glad to offer you more information. However a.s.r. is not allowed to provide you with advice. For advice on all possible choices within the context of the pension scheme, your employees should contact a pension adviser. The adviser can assess the financial situation of the employee concerned and give appropriate advice.

We have an extensive network of professional and independent advisers. Your employees can find an adviser near them at asr.nl

You can find more information about variable pension benefits at **asr.nl/pensioen/variabele-pensioenuitkering**