

Dutch pension funds are prepping for big reforms

Dutch pension funds are preparing for significant reforms, and given their sheer size, swap markets will be impacted. Structurally, we see less need for longer-dated (30Y+) fixed receiver swaps, but a reduction in risk appetite to ensure a smooth transition could lead to heightened demand for shorter-dated (e.g. 20Y) fixed receiver swaps in 2025

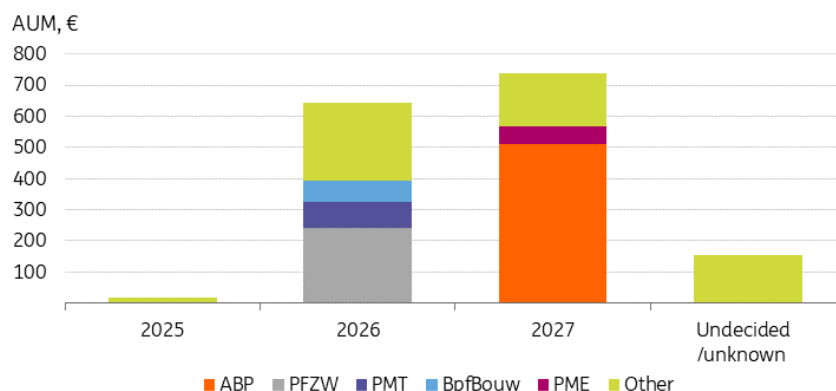


Going forward, we expect Dutch pension funds to remain risk-averse

Dutch pension reforms cannot be ignored by euro rates markets

Dutch pension funds are on the verge of significant reforms and 2025 will be all about preparing for that transition. The strong reliance on longer-dated fixed receiver swaps for managing interest rate risks means that swap markets will be impacted. In essence, the reforms are about shifting assets from Defined Benefits (DB) schemes to a Defined Contributions (DC) model. Around €600bn of assets are expected to transition in 2026, most on 1 January, making 2025 an important year.

Almost half of pension fund assets are scheduled to transition on 1 January 2026

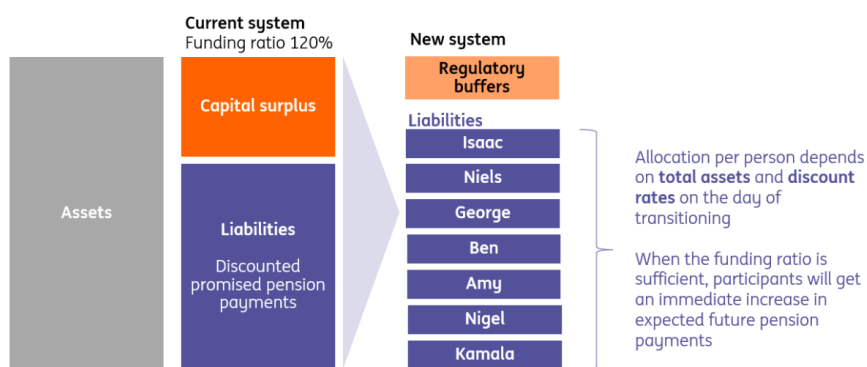


Source: ING estimates, PensioenPro, DNB

Even though [longer-dated swaps will be of less importance](#) under the new model, in 2025 we expect the demand for fixed receivers to remain elevated. To ensure a smooth transition process, pension funds have an incentive to reduce the volatility of their assets and liabilities.

On the day of transition (e.g. 1 January 2026), assets are allocated to the participants based on individual future liabilities and to fund-wide reserves. To prevent a situation where participants are forced to take pension cuts, funds are incentivised to [reduce market risk exposure](#) in the months leading to the date of transition.

Stylised example of the transition from a DB to DC model

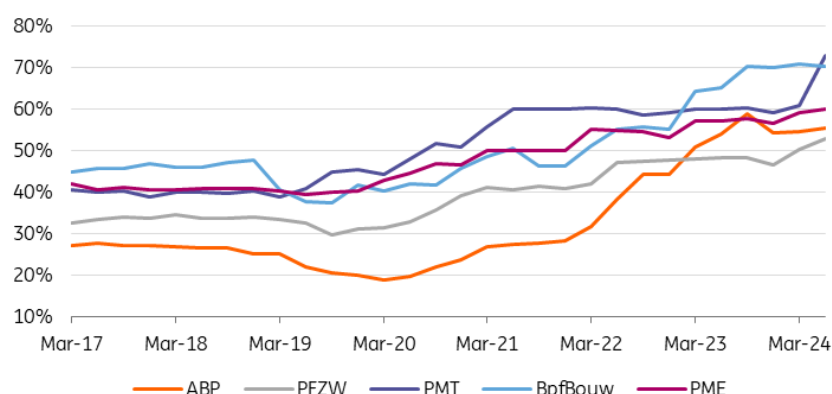


Source: ING Research

The uncertainty around Trump's presidency in 2025 forms a key risk to the transition in our view, since a scenario with falling equity prices and lower EUR rates would hurt funding ratios significantly. A reduced risk appetite can be expressed through increased interest rate hedges, which have already increased over the past years. We will be watching the funding ratios of some of the larger funds, and if these show sharp drops, then we foresee further demand for fixed receivers.

Major funds may still continue to add interest hedges in 2025

Interest coverage ratio



Source: DNB, ING Research

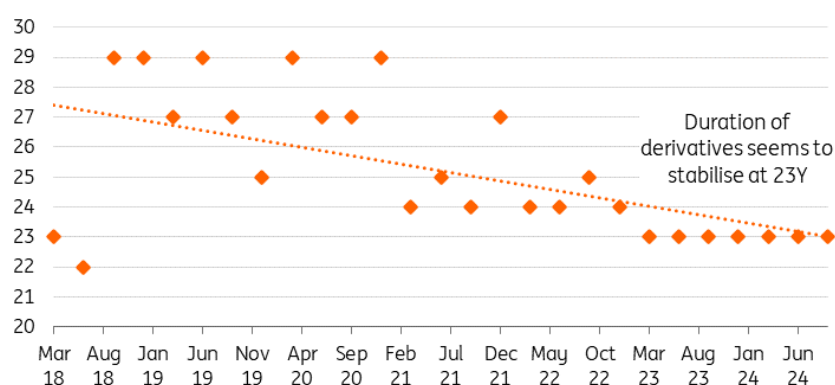
Most market impact expected on the long-end of the swap curve

The new Defined Contribution model reduces the need for fixed receiver swaps for 30 years and beyond. We, therefore, believe that [funds will already move to 20y tenors](#) to steer interest rate risks until the transition. Any shorter tenors will fail to cover the risks stemming from longer-dated liabilities, which will still need to be covered until the transition date. Longer tenors would fall obsolete after the transition date.

Our analysis suggests that funds have already reduced the duration of their derivatives portfolio from around 27 to 23 years, in line with our working hypothesis. After the reforms, Dutch pension funds will require fewer long-dated hedges, and thus we expect less demand for 30Y fixed receivers and more for 20Y swaps.

Hedging has already shifted to shorter durations

Highest correlated tenor with change in derivatives position (3Y rolling)



Source: DNB, ING Research

We stick to our view that the 20s30s EUR swap curve can steepen further. Our fair value model

suggests the currently inverted slope should revert to a positive slope again, potentially already in 2025, and the Dutch pension fund dynamics should support the broader steepening trend.

Going forward, we expect Dutch pension funds to remain risk-averse and any market moves against them could further increase interest rate hedges. Increased hedging demand may have even already played a role in accelerating the recent swap spread moves and will continue to have an impact.

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