

# Dutch pension funds' feared storm is unfolding

An equity sell-off and lower rates are the perfect storm for Dutch pension funds. We estimate the turmoil has already shaved off 4% from the average funding ratio. With major reforms coming, funds will want to hedge the risk of funding ratios falling too low. As major players in swaps, 20yr fixed-rate receivers swaps can force the 20-30yr curve steeper



The current market turmoil is the perfect storm for Dutch pension funds

## Equity sell-off and lower rates hits Dutch pension funds hard

With [major reforms](#) just around the corner, Dutch pension funds are anxiously watching equity prices collapse and global rates tumble lower. On 1 January 2026, more than €600bn of assets are planned to transition from a defined benefits system to a defined contribution system, which can significantly impact swap markets. Meanwhile, pension funds are [carefully managing their risk](#) to assure a smooth transition, but the current market turmoil puts portfolio managers in a difficult position.

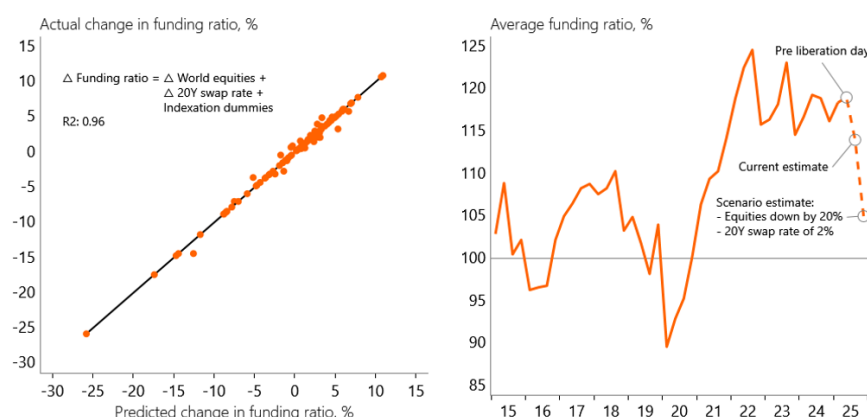
Dutch pension funds measure their health through their funding ratio, which is calculated as total assets over liabilities. The sell-off in equities lowers the funds' assets, whilst lower interest rates

increase liabilities. The current environment is the perfect storm, reminiscent of early Covid-19 and the years after 2008 when many funding ratios dropped below 100%.

## A continued sell-off would drive the average funding ratio towards 100%

Our modelling suggests that the impact so far on the average funding ratio is around -4%, which would bring the ratio down to 114%. The regression is run against changes in the world MSCI index and 20Y swap rates (whilst accounting for indexation effects), achieving an explainability of 96% of the variance in quarterly funding ratios. Under a stressed scenario (but not an unrealistic one) of a total 20% correction of the MSCI world index and 20Y swap rates declining to 2%, the average funding ratio would fall to 105%.

## A continuation of the decline in equities and rates could bring funding ratios close to 100%

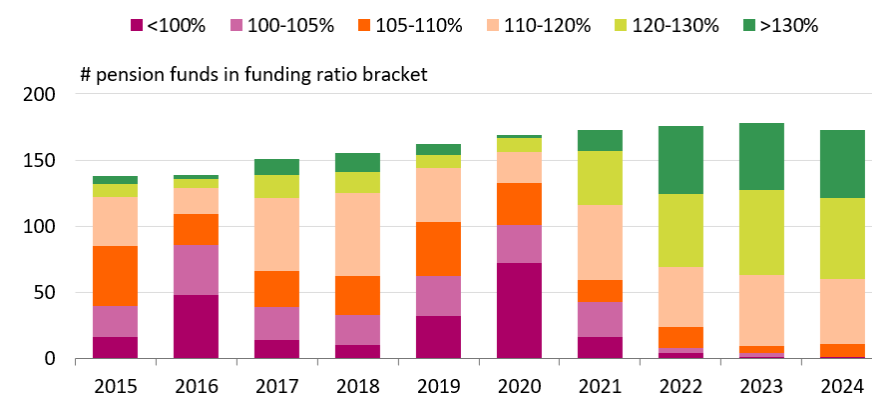


Source: ING, DNB, Macrobond

Several large funds, including the largest ABP (€500bn+ AUM), have a lower funding ratio than the average, and thus risk seeing their funding ratio fall too close to 100% for comfort. If the funding ratio for a pension fund falls below 100%, [a smooth transition cannot be guaranteed](#).

Participants may have to accept cuts to their pension payments, or a fund may even decide to postpone the transition entirely. Cutting pensions is a taboo topic in the Netherlands and will be avoided at all costs, whilst a delay would bring its own operational challenges.

## A continuation of the turmoil may wipe out the funding headroom of some funds



Source: ING, DNB

## More demand for fixed receivers helps 20s30s steepener

The added headwinds and volatility therefore incentivises funds to hedge risk, either through fixed receiver swaps, equity puts or swaptions. As we have [written before](#), the period leading to the transition dates could see increased demand for fixed receiver swaps, particularly in the 20y space. The 30y tenor is less attractive given that longer-dated hedges will become obsolete after transitioning to defined contributions. As such, the steepening of the 20s30s curve could run longer, helped by Dutch pension fund demand.

### Author

**Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security

discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).