Article | 28 July 2025 RATES

Dutch pension reforms : 4 things to watch

Dutch pension reforms are underway, adding to the upward pressure on longer-dated euro rates. The eventual flows are hard to estimate, but the DV01 impact from unwinding interest rate hedges could be €500m. We may also see a broader rebalancing of the fixed income portfolio, whereby government bonds will be reduced. But delays are still a risk

A major reform of the Dutch pensions system is currently underway

1 The steepening pressures on the back end of euro curves

As the need for longer-dated interest rate hedges will decrease, the transition pushes up rates of 30-year maturities and longer. The demand for shorter-dated hedges, those up to 20 years, will remain strong and could in some cases even increase. In effect, this should translate to a steepening of the 20s30s curve.

With 30Y bonds trading at higher yields than swaps, we foresee that pension funds prefer to unwind longer-dated swaps before bonds. This means the unwinding of hedges should see the swap curve steepen more than the Bund curve. This move was observed over the past few months, with the swap curve steepening some 15bp more than for Bunds. Only about a third of this break can be explained by spillovers from global macro uncertainty and price action in UST or JGB markets. Dutch pension funds may therefore be the driving force behind the remaining 10bp.

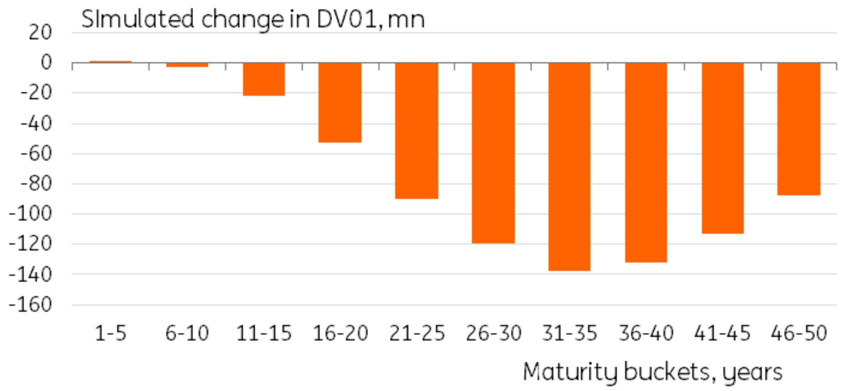
The 10s30s swap curve steepened more than the Bund curve recently

Source: Macrobond, ING

2 The hedging behaviour going into the transition

The flows from interest rate hedges depend on the degree to which pension funds pre-position themselves for the new hedging approach. The current average interest coverage ratio is 68%, but this could move to 40% after the reforms. Our simulations – relying on such strong assumptions – suggest that the total DV01 impact would then be around €500m, with the majority in the 30Y+ bucket (DV01 is a measure of the interest rate sensitivity).

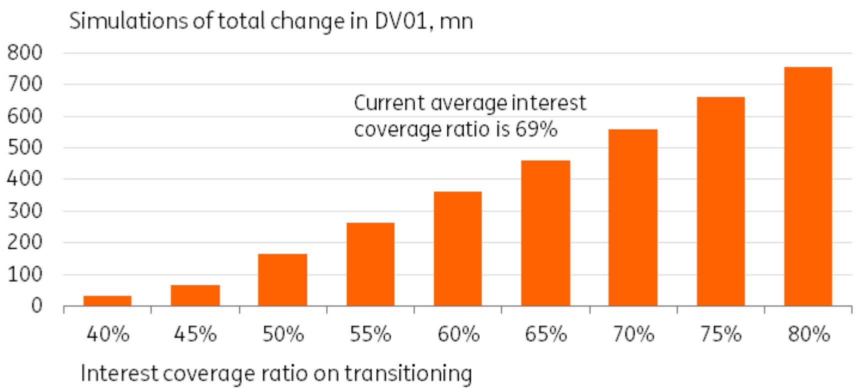
Hedging needs in longer buckets will fall most



Source: ING estimates

These flow estimates could increase if pension funds continue to add interest rate hedges going into the reforms. The derisking is part of the strategy to ensure the funding ratio remains at healthy levels on the transition date. These added hedges will most likely be made with maturities of 20Y and shorter.

Flow expectations are sensitive to the hedges before transition



Source: ING estimates

Since the beginning of this year, Dutch pension funds have added to their hedging, with the average interest coverage ratio now around 68%. Any further increases would also have to be unwound again post-transition. We estimate that a 1pp higher interest coverage ratio increases the DV01 flows on transition by around €20m. The Dutch central bank will release new data on the interest coverage ratios on 18 September.

3 The new allocation of fixed income portfolios

Besides an unwind of longer-dated hedges, we also see a broader rebalancing of funds' fixed income portfolio. First of all, government bonds no longer benefit from preferential treatment in terms of risk weighting, which should give other asset classes a bigger role. Secondly, the disappearance of a funding ratio gives more freedom to deviate from targeting the EURIBOR swap curve for their matching portfolio. Thirdly, a higher allocation towards risk assets could also see more demand for high-yield credits.

ABP has already published an updated strategic asset allocation and shows a shift from government bonds to other credits. The shift would imply a reduction of around €25bn in government bonds. When extrapolating this number to the broader sector (while accounting for the fact that ABP is a relatively old fund), we can see that the demand for European government bonds is expected to fall by €100bn. Of course, the relative value perspective is important here. If yields on longer-dated government bonds are attractive enough from a risk-reward perspective, pension funds will still show interest.

Strategic allocation ABP (€500bn AUM)

(%)	Share of illiquid	2023	2027	2030	Change	
Matching						
Government	0	23	23	18	-5	-25bn
Credit	0	11	10	12	1	5bn
Mortgages	100	1	2	3	2	10bn
Cash	0	0	1	2	2	10bn
Matching total		**35**	**36**	**35**		
Return						
Equities	0	33	31	30	-3	-15bn
Real estate	70	10	10	10		
Private equity	100	6	6	8	2	10bn
Infrastructure	100	4	7	10	6	30bn
Agriculture	100	1	1	1		
Commodities	0	5	3	0	-5	-25bn
Emerging markets debt	0	6	4	4	-2	-10bn
High yield	0	0	1	1	1	5bn
Private debt	100	0	1	1	1	5bn
Hedge funds	0	0	0	0		
Return total		**65**	**64**	**65**		
Total						
Illiquid		20	24	30	10	50bn
Liquid		80	76	70	-10	-50bn

Source: ABP

The opportunities for credit assets are difficult to quantify, partly because funds are not always open about their intended rebalancing plans and partly because the review process is still ongoing. We do know that Dutch mortgage portfolios will get an increasing role because these provide attractive risk and return characteristics for Dutch pension funds.

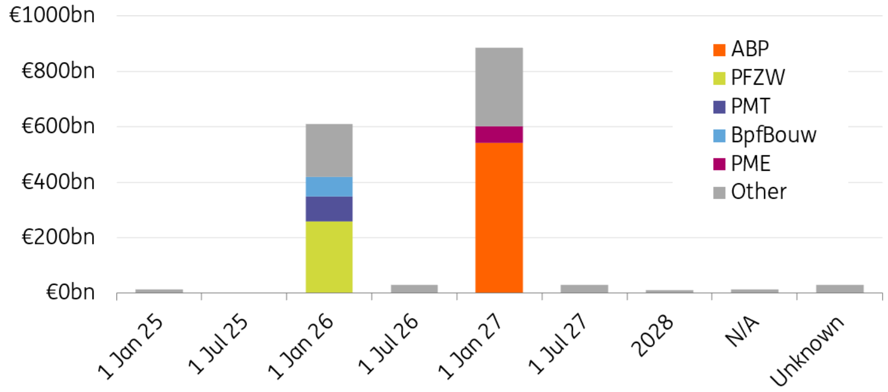
4 The risk of more delays

We don't expect pensions to be an important topic in the upcoming elections on 29 October, but this could still change. Whilst politicians almost forced a multi-year delay earlier this year, the political risk has diminished significantly since. The political party behind the proposed rule changes is bound to lose significantly according to recent polls.

If, however, funding ratios fall significantly from current levels, then the topic of pensions would grab a lot more political attention again. Funding ratios below 100% would force pension cuts on transitioning, which would be politically sensitive. But higher interest rates and decent equity performance mitigates this risk for now.

Around half the assets under management still plan to transition on 1 January 2026, but plans can still change. Just recently we had two smaller pension funds postponing their intended transition of the 1st of July 2025. The announcement was made just two weeks before the transition date, which highlights the operational challenges funds face. If the largest fund scheduled for 2026, PFZW with €250bn AUM, would announce a delay we would expect some flattening pressures at the long end of the curve.

Over €500bn AUM plans to transition in 2026



Source: DNB, Pensioenpro, ING

Author

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

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