Rates: Dutch pension reforms face risk of multi-year delays

On Wednesday, the Dutch parliament debated a legal change that could potentially push Dutch pension reforms back years. With €1.5tr assets, the implications for markets could be material, especially for longer swaps. The vote is scheduled for 13 May, and finding a majority will be difficult – but not impossible. The bigger hurdle will be the Senate

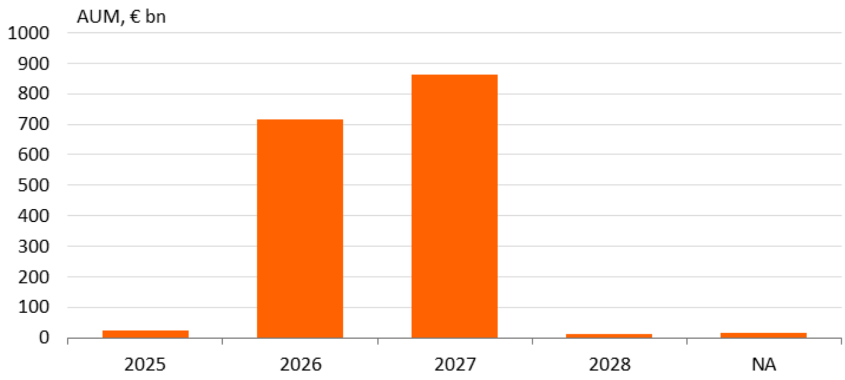
The Binnenhof, NL. Parliament debated the proposal earlier this week and appears to be close to obtaining a majority – but it isn't quite there yet

Legal change would push expected swap flows back

Dutch pension funds are on the verge of transitioning to a Defined Contribution (DC) system, but yesterday, politicians debated a legal change that could trigger significant delays. With around €1.5tr assets under management, moving assets to a DC system will leave a material mark on longer-dated swap and bond markets. The key transition dates are currently 1 January 2026 and 2027, around which pension funds will also recalibrate their interest rate hedges. If, however, the proposed legal changes make it through parliament and the Senate, then we may have to push these dates back by two years.

The proposal would require each pension fund to offer an opt-out clause to participants, which means his or her assets would not transition to the new system. While the share of people choosing to opt out may be limited eventually, the added complexity of the process is immense. For instance, no framework currently exists on how to distribute a fund's financial buffers between two systems in the case of an opt-out clause. This is no easy feat. Keep in mind that the political negotiations leading to these reforms spanned more than 10 years.

Over €500bn of AUM is still planned to transition on 1 January 2026

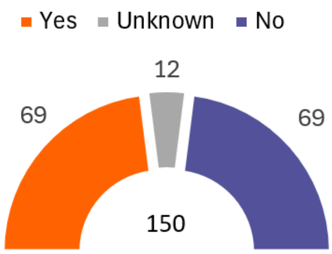


Source: ING estimates

A total of 69 out of 150 seats in parliament have expressed support

On Wednesday, parliament debated the proposal and seems to be close to obtaining a majority, but it is not there yet. The Dutch parliament consists of 150 seats, and a 76-seat majority would be needed. As of yet, parties totalling 69 seats have expressed support for the amendment, while 69 seats opposed it. That leaves 12 seats undecided. These seats are distributed across Denk (3), PvdD (3), FvD (3), Volt (2) and Ja21 (1). We don't expect Volt to support the proposal, while Denk is still deciding.

The proposal is close to obtaining a majority in parliament ...

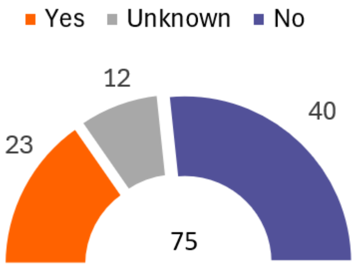


Source: ING estimates

The vote should take place on 13 May, and before then, the minister will provide additional information on the implications of the amendment. Even if the law makes it through parliament, the Senate will pose a significant hurdle; it comprises 75 members, and a majority does not seem achievable if parties vote the same as in parliament. The Senate cannot make adjustments to the proposal, but can reject the law on the grounds of poor quality. Then it's up to parliament again to reformulate the proposal in a more acceptable format.

Given the harsh conclusions from many stakeholders on the current form, the law is unlikely to pass the Senate, even if adjustments are made. Having an opt-out feature has redistributional effects on different age cohorts, which is difficult to justify or correct. Working out a law in detail can take many months, if not years. Given that some smaller pension funds have already transitioned, and around half of the assets are scheduled to transition in January 2026, time is running out for such a long process.

... but finding a majority in the Senate is more difficult



Source: ING estimates

If the law makes it through parliament, we nevertheless think pension funds will be more careful to prepare for a transition date on 1 January 2026. We've previously written about the demand for interest rate hedges in the period before the transition date to reduce the volatility of the funding ratio on the transition day. Especially around a maturity of 20Y we would expect increased demand for fixed receivers. With the potential for multiple-year delays, derisking now seems premature.

In the meantime, we'll be watching the developments of global markets, since these are directly linked to the health of the Dutch pension systems. A sharp decline in equities paired with lower rates can hit funding ratios hard, something already visible in the aftermath of Liberation Day. Given that pensions are a politically sensitive topic in the Netherlands, a decline in funding ratios could prompt public opinion – and consequently, politicians – to challenge the current shape of the reforms.

Author

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com