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The guessing game behind Dutch pension flows

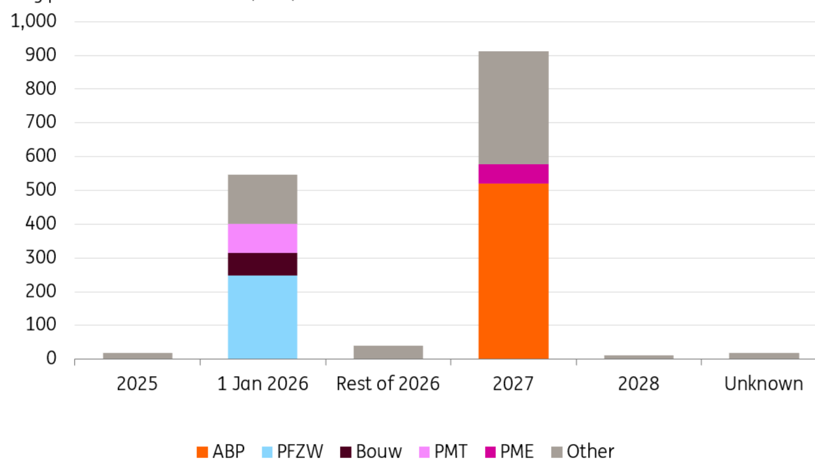
Around €550bn in Dutch pension assets have now transitioned and almost double that is still in the pipeline. Speculation will likely keep moving the long end. The unknown prepositioning by pension funds and other financial players adds to the complexity

Thus far, about one-third of Dutch pension assets have transitioned from a defined benefits to a defined contributions system

The big reforms have begun, but are far from finished

The ongoing Dutch pension fund reforms are an important driver of volatility in euro rates and should continue to do so in 2026. The signature market impact should be a steepening of the 10s30s due to the lesser need for longer-dated interest rate hedging needs. We've now had around c.€550bn of assets transitioning from a defined benefits to a defined contributions system, but that still leaves almost €1tn left for 2027 and 2028.

Only around one-third of pension assets have transitioned thus far

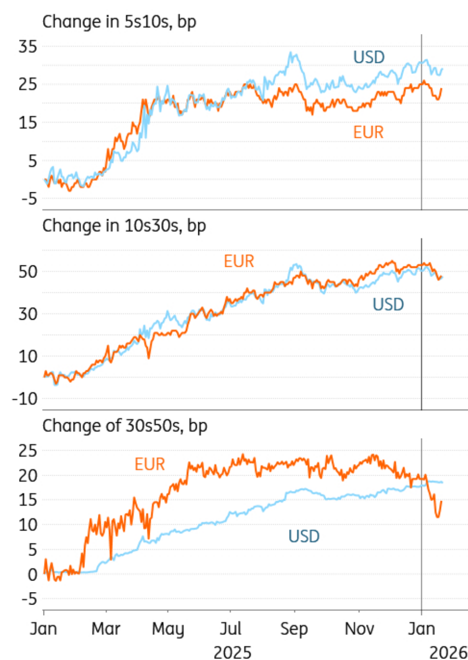


Source: ING, PensioenPro, DNB

Speculation about pension flows has been pushing around the long end

Since 1 January, we've seen a material flattening of the 10s30s, which runs against the expectation of pension flows. Part of the flattening can be attributed to outside factors, including a flattening of the US curve, but Dutch pension headlines have also played a role. The biggest event was PFZW's new rulebook, which included significantly higher hedging ratios than the market likely anticipated.

Curves are flatter since 1 January, partly driven by Dutch pension news



Source: ING, Macrobond

In short, PFZW's hedging tables suggest that their hedging ratios will remain much higher after the reforms than previously anticipated. As such, the need to unwind fixed receiver swaps is reduced. Meanwhile, demand for shorter fixed receivers (e.g. 10Y) could actually increase. What makes things complicated is that we don't know how much pension funds have already prepositioned for the rotation in hedges.

The sharp market moves in reaction to this publication suggest speculative flows are still a big driver at the long end. During most of last year, we had market players discussing 10s30s steepener trades to position for the upcoming flows. We can imagine that those positions are being tested now (also by macro-driven market moves), which does raise the question whether some pension trades will be forced out. In that case, we could still see even more flattening.

Why estimating flows is so difficult

Clients ask us almost daily about the expected flow from the transition, but giving a satisfying answer remains challenging. And pension funds like it that way, as less transparency means less frontrunning of trades.

Small changes in modelling the pension fund reforms can have a big impact on the actual flows. Here are some important unknowns:

- The underlying age structure and associated cash flows of each fund, which requires full actuarial tables of each fund
- The hedging strategies going into the transition (e.g. some funds do not hedge beyond 30Y)
- The total assets on the day of transition, because this determines the new liabilities

- The extent to which funds have already rebalanced their hedges in anticipation of the reforms

With a simple model and some very strong assumptions, we can try and get some feel for the potential flows from the funds that transitioned in 2026. In our model we only assume two age cohorts, those who are young (duration of 25Y) and those who are older (duration of 15Y). Under these assumptions we would estimate €110mn DV01 of paying flows with a duration of 25Y and €132mn DV01 of receiver flows with a duration of 15Y. This results in a modest net receiving bias of €22mn in DV01 terms.

Even if these numbers are accurate, that still leaves us with questions about how much has been done already and how much the market is positioned for. We know from PMT, for example, that they aim to rebalance their interest rate hedges in a linear fashion over the next six months. But other funds may take a more flexible approach and trade when market conditions are deemed favourable. Meanwhile, funds have likely already adjusted maturities of their hedges in the months leading to the transition date, which reduces the flows post-transition.

What to watch in 2026

The market dynamics can get quite complicated this year as some pension funds are rebalancing their hedges post-transition whilst many others are still in the preparation phase. Those preparing for the transition will want to protect their healthy funding ratios by keeping interest rate hedges active across the curve. They may already shorten the maturities of their hedges, but they are limited by the risk of falling rates before the actual transition date. As such, we still expect a rotation from 30Y hedges towards 10Y hedges, reaching a peak around January 2027. In our forecasts we therefore pencil in 10bp of further steepening of the 10s30s.

The largest fund, ABP, is preparing to transition in 2027 and throughout this year we expect more updates on their approach, potentially triggering market moves. Quarterly data from the Dutch regulator allows us to track moves in hedging changes this year and the transition plan on the website should shed more light on the hedging strategy post-reform. The hedging ratio by age cohort is not set in stone and at 15% hedging for young participants and 80% hedging for older participants, there is a clear gap with PFZW now. We know that a higher rates environment has historically encouraged increased interest rate hedging, which therefore also opens the possibility that those ratios will be reviewed.

Meanwhile, we also still see risks of further delays, because the operational burden for 2027 is significantly higher. Many funds rely on the same third parties to transition to the new system and, with more than 50 funds scheduled in 2027, that ups the operational pressure. To put that in perspective, only 24 funds transitioned on 1 January 2026.

Author

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

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