

AF

Advisors



Operational models and the Dutch pension system restructuring

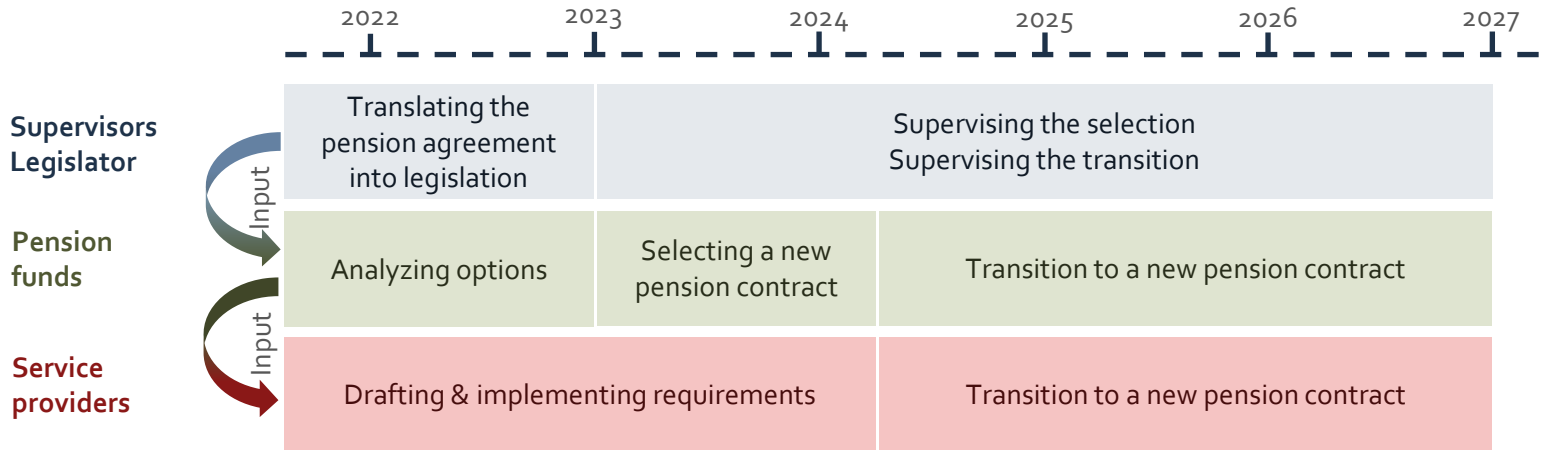
Support by AF Advisors

— 2022

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Restructuring of the Dutch pension system

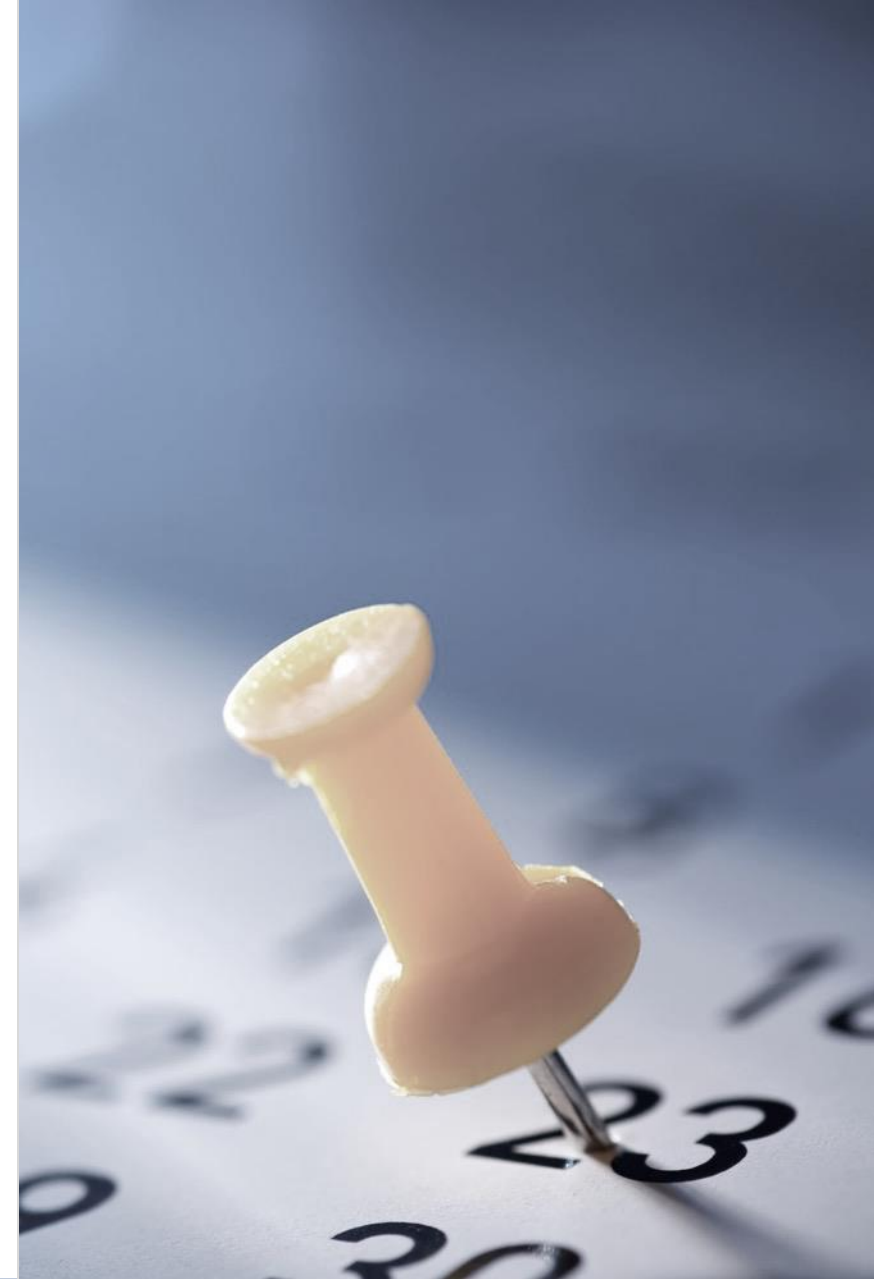


Provisional planning

Q2 2022:	Publication of the final legislative proposal
Medio 2022:	Treatment of the proposal in parliament
Ultimo 2022:	New pension legislation approved by parliament
Beginning of 2023:	Start transition period
End of 2027	Finalization transition period

Insecurity surrounding the restructuring

- Individual right of refusal
- Maintaining the mandatory participation in sectoral pension funds



Selecting a new pension contract

Option 1: new pension contracts | consequences operational model for informational purposes

- The new pension system will offer the choice between two new contracts
 - The Solidarity Contract (SC)
 - The Flexible Contract (FC)
- For this selection the operational model design will serve as input, the design shall not determine the selection.

Option2: exact design of the pension contract | consequences regarding operational models is part of the impact analysis

- For the SC as well as for the FC there are important options in the design to be considered

SC/ Solidarity Contract

Leverage (letting go of the borrowing restriction)
Method for the hedging return
Application of the solidarity reserve
Design of age groups - cohorts

FC / Flexible Contract

Design of the benefit pay out phase
Risk profiles and life cycles
Application of the optional risk sharing reserve
Smoothing

Option 3: Investment specific design | consequences regarding operational model is part of the impact analysis

- On the basis of the exact pension contract design, a new desired investment policy will be formulated. This needs to take into account the operational aspects, such as the frequency of premium cashflows and valuation frequencies, and with investment aspects such as the use of illiquid investment categories, which have significant impact on the operational model.

Option 4: Desired operational model

- The operational model will be determined by the whole of decisions made. We start by making an impact analysis on all related service providers: pension administrator, investment organization and administration, and the fiduciary manager.

Operational models



What is an operational model and what is it used for?

An operational model provides an overview of the organizational design of the processes through the use of employees, the infrastructure, data and service providers.

An operational model documents how the organization has been set-up. The services provided by a pension fund are designed by defining and detailing a number of processes.

These processes can be executed by the pension fund itself or by external service providers. If processes are executed internally, a number of employees, an infrastructure and a set of data will be required.

The operational model will document which process is executed by whom, with the use of which infrastructure and which required data.



Operational model for a new pension contract?

A new pension contract leads to a new way of servicing that poses different demands on the organization. In that case it is advisable to design and implement a new operational model.

The current operational models are designed on the basis of the FTK regime. A new pension contract (SC or FC) no longer has to adhere to this regime and therefore requires a new operational model.

Dependent on the choices within the new pension contract there will be more or less impact on the pension funds operating model.

It will be important to determine in which way tasks and responsibilities are split between the pension fund and its service providers.



How does an operating model help in making choices?

The new pension contract together with operational and investment specific choices determine partly the operating model set-up. While developing the set-up, important choices are still to be made.

The choice between an internal- or external set-up of processes can have a major impact on the efficiency of the operational model. Outsourcing services can be desired dependent on the flexibility and functional possibilities of the set-up and design.

An internal set-up can lead to the selection of new applications and outsourcing to the selection of a new service provider.

New roles and responsibilities also demand an adaption of the monitoring function of the service provider. This often remains underexposed in working out a new operating model.

Experience from current projects

There is not one new pension contract and there is no market practice yet

- Next to the main selection between one of the two pension contracts, there are many variants conceivable. These different pension variants all pose certain demands on the operational model. A number of choices in relation to investments and operations will also have a substantial impact on the operational set-up and design.
- All market parties are still struggling with the most efficient operational set-up and design. A lot of discussion is taking place between pension funds but also with pension administrators, fiduciary managers and investment administrators/custodians. The insights still vary strongly between pension funds.
- AF Advisors has designed many different operational set-ups for both SC and FC arrangements based on the services provided to our clients. The expectation is that a few of these operational set-ups will become market practice.

Despite the fact that 2023 and 2027 still seem far away, waiting with thinking about the operational set-up and design is not an option

- A pension fund is waiting on clarity from the legislator and supervisor as well as social partners. The service providers are waiting on clarity from the pension fund. Within organizations this dynamic is also perceivable. Investors wait on the legal specialists and the administrators wait on the investors.
- As a consequence of these perceived dependencies and the time needed, it is not an option to wait on each other. Despite the fact that 2027 seems still far away, and is often not seen as a hard deadline, it will take substantial time for a number of decisions to be made. To determine a new pension arrangement, a new investment policy and a new operational model takes time. The implementation and transition towards the new pension contract and arrangement also takes a lot of time.
- The change capacity of a pension organization, but also that of its service providers, has certain natural limits. At the same time there are other challenges for pension funds that also need to be addressed. In the end, the pension restructuring will require substantial changes with all pension funds (and their service providers). Between 2023 and 2027 all these funds will have to implement changes at the same time. We expect this will lead to a strong demand for resources to accommodate these changes. The ones that will take the first concrete steps will be able to claim the necessary resources. The ones that start late run the risk that there are only limited or no resources available left.

The interplay between the pension legislation, investment policy and operational set-up and design is very complex

- As a consultant we are used to handle complex issues. To review an investment policy is complex, certainly in the current market environment. To review an operational model is complex, certainly in the current digitalization age. The combination of both and in addition a change in the legal framework and the transition to new pension contracts which affects all stakeholders, is making the combination a big challenge.
- Because we as a consultant can commit specialists from various business lines, we can deliver all the knowledge and experience required in the various fields of expertise.

Pension system restructuring team

An experienced team that works on pension restructuring issues and projects



Peter Dom (team lead)

Partner

Specialist operational models



Saskia Leonard

Partner

Specialist asset transfers / investment administration



Jasper Haak

Partner

Specialist individual DC (FPR)



Sef Laschek

Director

Specialist collective DC (SPR)



Caroline Hartog

Director

Specialist outsourcing & oversight



Arun Dihal

Consultant

Specialist pensions / asset transfers



Casper Valkenburg

Analyst

Organizational consultancy analyst

Support by other teams

Regulatory consultancy

- Impact on current licenses (for example AIFMD and MiFID)
- Impact on contractual relations between funds and service providers
- Set-up of the compliance function

Structuring consultancy

- Analysis of the impact on investment structures
- Set-up of administrative investment funds (unitization)
- Execution of asset transfer projects

Investment consultancy







- Liquidity and valuation aspects concerning illiquid investments
- Drafting the investment policy for SC and FC funds
- 7 years of experience in assessing DC pension schemes

Partnership with Equitem



- Experienced IT professionals with expertise on application- and data architecture, system selection and - implementation
- Extensive expertise on the way that application architectures will be affected by the new pension contracts
- Detailed knowledge of the set-up of systems like SimpCorp Dimension for the new pension contracts
- Effective collaboration between Equitem and AF Advisors within complex change projects, providing support from advice to implementation

Support by AF Advisors

Workshop	Impact analysis	Operational model	Asset transfer	Project management
No costs	€10.000 - €25.000	To be determined	To be determined	To be determined
Current state of affairs 	Selection of pension contract 	Current operational model 	Impact analysis asset transfer 	Project planning and -plan 
Presentation of design options	Overview of set-up options	Determine the model set-up	Transition plan	Project mobilization
Overview of choices to be made	Support for decision making	Impact service providers	Project management transition	Directing decision making
Next steps 	Impact analysis report 	Operational model report 	Successful transition 	Successful implementation 
Teams meeting 1,5 hour	Consultancy 2 months	Consultancy 6 months	Project 6 months	Project 6 - 12 months

AF Advisors supports pension funds in the various stages of decision making. Various analyses can contribute to support decision making. As project manager we can support pension fund boards with the substantiation of important decisions that need to be taken in the coming years. By means of our current projects, AF Advisors has acquired a lot of knowledge about the pension contracts and the corresponding operational model set-up, which allows us to provide an efficient advice and to manage and execute projects efficiently.