Defined ambition: Een noodzakelijke stap in de evolutie van het pensioencontract naar een duurzaam evenwicht tussen "willen" en "kunnen"

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Summary

15.1 Defined benefit is no longer sustainable

Subject (case) of this case study is the (un)sustainability of the present pension contract in conjunction with the Financial Assessment Framework (FAF) for that contract. The regulatory framework established by the Minister of Social Affairs (the legislator) and enforced by the Dutch National Bank (the supervisor). The present contract is a defined benefit contract. It has the motto ‘a deal’s a deal’. The entitlements, accrued in the past (the nominal rights), are unconditional. A fixed pension age is a part of the deal, as well as the indexation to date. In addition, each participant has a conditional prospect of earnings or price uprating of the entitlements.

Hence, in defined benefit, the participant is insured against demographic risks and against risks in the financial markets. Therefore, when these risks manifest themselves, it is impossible to adjust the nominal rights: the accrued rights are not reduced and the pension age is not increased. This is inherent to the type of insurance. However, the risks are not insured within the group of insured persons, as for example is the case for fire insurances. In case of fire insurances, the majority of the insured persons is not affected by the risk, and for this reason it is possible to insure the risk within the group. Actually, the insurer acts only as an intermediary for gathering the group. However, in case of the defined benefit insurance, everybody in the group is affected at the same time by an increase in life expectancy, a decrease of interest rates, a decline in returns or inflation, and sometimes by a combination of these risks. Interception within the group is only possible by decreasing the right, accrued in the past, for all the insured persons. ‘Sharing the pain together in a fair way.’ But in case of the defined benefit contract, this right happens to be insured. And therefore, this means that the risk has to be insured outside the group of insured persons. And that is exactly what the defined benefit does. We make the current participants, the new participants and the employers act as the insurer of rights, accrued in the past. Officially, indexation in the future is not part of the insurance. But practice shows that cuts in indexation generate so much resistance that we prefer to think of indexation as part of the pension insurance. So, in defined benefit we rely heavily on the future. Intergenerational solidarity and the employer are the two pillars on which the defined benefit insurance rests. However, both pillars are on the brink of collapse, under the burden of the defined benefit contract.

In essence, the cause lies in structural demographic changes. The defined benefit contract emerged in the second half of the 19th century. The active population was young and there were few pensioners. The chance of reaching pension age was considerably smaller than nowadays and the remaining lifespan after retirement was shorter. Passing on the risks of longevity, interest and return represented only a fraction of the required premium, the risk was barely visible. But what was possible in those days, and which has lead to a widely accessible and high-quality pension for all the employees in the second half of the 20th century, is not possible any more. Different times require a new contract. The main cause lies in the ageing member pool within the pension funds: the ratio of pensioners compared to active employees has sharply deteriorated. Underlying causes are demographic ageing, declining birth rates and increased life expectancy. This evolution is
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structural and irreversible. The long period between 1980 and 2000, which was characterised by a great prosperity within the funds, has hidden this demographic evolution from view for a long period of time, but now that the prosperity is over, the demographic change is fully visible. The dotcom crisis, but even more the credit crunch, actually work as a catalyst of the underlying problem.

The contract has become unbalanced, the ‘demand’ (pension income and security) has exceeded the limits of the ‘supply’ (affordability, solidarity and labour market). The excessive pressure on the solidarity of future generations and on the affordability (employer and labour market) mean that we should stop structurally shifting these risks. From now on, the current generations will have to absorb the risks themselves. This brings us to a crossroad where a ‘left turn’ entails taking less risk and a ‘right turn’ entails incorporating more risk in the rights. The ‘left turn’ implies holding on to nominal security at the cost of lower returns. Potential for indexing will be (partly) sacrificed, which will result in a significantly lower real pension income. This is contrary to the objective of the pension deal, which consists of providing in the costs of living when human capital is depleted and maintaining the standard of living during retirement. The system should lead to economically and socially independent pensioners. The focus on nominal security has been heavily criticised for this reason. It promises is a false security in terms of real income and is, in particular for youngsters, a very costly security. The ‘right turn’ means that nominal security can be sacrificed in order to be able to realise a real pension income at affordable cost. In this study, I've come to the conclusion that we have to take the ‘right turn’. Defined benefit is not sustainable. The unconditional nature of entitlements and a fixed pension age should be discarded. The accrued rights have to become adaptable to exogenous developments and the pension age will have to fluctuate with increased longevity. ‘Leave (nominal) security behind.’ This is the logical conclusion, resulting from a critical analysis of developments. The system should ‘go with the flow’.

This is bad news: we cannot do what we’ve always done and would like to keep doing. We will have to balance what we ‘want’ (demand) with what we ‘can’ (supply) in a better way. The news has indeed been received badly, the message is being challenged. There is not a shared sense of necessity or urgency. The argumentation is misunderstood and the solution has not (yet) been accepted. Therefore, it is important to underpin the arguments for this conclusion to substantiate the message. The necessary steps will not be taken unless people understand and accept the reasoning. Parts I and II of this study examine the reasons why we should leave nominal security behind us.

But it is equally important to show what letting go of unconditional entitlements and a fixed pension age exactly looks like. How will a pension deal with adjustable rights and an uncertain pension age actually work? What degree of security will remain? The answers are provided in part III, in which the concept of defined ambition is described as an answer to the task of rebalancing the ‘supply’ and ‘demand’, with the objective of an income-related pension which can keep pace with inflation. What is it, how does it work and (what) security does it (still) offer? What does the contract look like as we ‘leave (nominal) security behind’?
15.2 Developments and criticism reveal unsustainability

Part I consists of a situational analysis of the prevailing contract in conjunction with the regulatory framework, FAF, the object of this case study (as described in chapter 2). Exogenous developments are elaborated and analysed as regards their impact on the contract (chapter 3). The same is done for the criticism on the contract (chapter 4).

15.2.1 The current contract and the FAF.

The current contract is a defined benefit contract, based on the average wages with explicit conditional indexation. As regards its capital funding, the contract is financed in a prorated way. The accrued entitlements and the credited indexation are unconditional; they can only be reduced in exceptional situations, i.e. if this is required for the continuity of the pension fund (ultimate remedy). The pension age is a fixed age, which is usually determined to be 65. The participant is entitled to determine his own retirement age, subject to an actuarial recalculation. An increase in life expectancy is compensated for by a higher premium for future accrual, while for the past it is charged to the assets. The FAF sets rules for the financial structure, for the cost-covering premium and for the assessment of the financial position. This position is assessed in view of discontinuity: the accrued entitlements have to be covered by sufficient equity at any moment in time. This (nominal) rate of coverage is calculated at market value, the liabilities at a risk-free yield curve. The legislation prescribes a minimal coverage ratio of 105% of the liabilities and requires a minimal solvency buffer that is dependent on the required level of security of 97.5% on one hand, and on the investment mix on the other hand. The larger the mismatch in comparison with the nominal liabilities, the higher the required solvency margin is. In case of disappointing investment returns and/or declining interest rates, the financial position may fall under the required level of solvency buffer. This so-called reserve deficit has to be remediated within a maximum of 15 years. The means of remediation consist of premium increase and reduction of indexation. To this end, most pension funds use sliding scales as a guideline. If the nominal coverage ratio falls under the limit of 100% (underfunding), a short-term recovery plan, with additional measures for restoring the coverage ratio at the level of the minimally required equity within a maximum period of three years, has to be submitted. Publicly traded companies with a defined benefit contract have to include the risks of the pension fund in the balance sheet of the company.

The current contract must serve two purposes. Firstly, the contract provides unconditional nominal rights and therefore has to offer the required legal security. Secondly, it aims to provide inflation-proof benefits through structural indexing. In an attempt to reconcile both objectives, the pension fund boards face an investment dichotomy. The contract treats everything uniformly and averagely. Each participant and each pensioner receive the same investment mix, the same nominal guarantee, in case of deficits the same increase in premium and the same (reduced) percentage of indexation. In the context of this contract, the pension accrual and the premium are also the same for everyone. Participation in industry-wide pension schemes (BPFs) is mandatory, at the request of the social partners within the industry. For these BPFs, the system of average accrual-average pre-
miums is mandatory. This system with its uniformity results in a large degree of subsidised solidarity. This contract is come under review, as a result of socioeconomic developments and mounting criticism.

15.2.2 Developments and criticism reveal unsustainability

We have assessed the (un-)sustainability of the contract by measuring the impact of developments and criticism on what we call the dimensions of the contract. Pension income and security are the ‘demand’ dimensions. The contract should provide an adequate income-related and inflation-based pension. This is the point of the pension deal. The contract should provide the highest possible security on which the participants and pensioners can rely. But the affordability (level and volatility of the premium), solidarity (sustainable balance between pensioners, current and future participants) and the labour market (no disruptions and no obstacles for the mobility) set limits to the ‘demand’. They are the ‘supply’ dimensions. Proper risk management (an adequate actuarial foundation, based on a fair cost-covering premium, in which the risks are prudently calculated and where the investment risk does not exceed the risk-bearing capacity of the stakeholders) and an adequately structured accountability (communication, participation and governance) have to bridge the gap between ‘demand and supply’. These are the ‘connecting’ dimensions.

Developments and their impact on the pension deal, as well as the criticism, reveal that there is a problem with the ‘supply’ dimension. The limits of affordability, solidarity and the labour market have been reached.

Affordability is becoming an ever bigger bottleneck

Pension contributions are becoming unreasonably high, due to ever increasing life expectancy and the fixed pension age. Structurally lower levels of expected returns and interest rates exacerbate this price spiral. Premiums are too high for employers and too great a burden for the economy and the labour market.

Aging pension funds with waning influx of younger employees mean that raising contributions is increasingly ineffective. On the other hand, the reliance on contribution hikes has been increased due to increased volatility of interest rates and investment returns, compounded by the short-term focus on market value within the FAF regulatory framework.

Due to the demographic developments the habit of shifting risks forward via the premium, which is inherent to a defined benefit contract, now leads to excessively high premium risks for employers, younger workers and future generations. This gives rise to a systemic risk that employers and younger generations will no longer accept the pension deal, which would undermine the whole system. This would mean that foundation of the system, collectivity, solidarity and the mandatory participation, cannot be used any more. Affordability requires the reversal of price spiral and the increase of the shock resistance.
**Solidarity between young and old is strained**

The habit of shifting risks to the future on the one hand, and shifted demographic proportions on the other hand, the solidarity of young people with older people has become too unbalanced and is therefore under pressure. What was possible at the time of the emergence of defined benefit, based on the demographics at that time, is not possible any more. The system of average accrual - average premiums compounds the strained solidarity of younger and older generations. The increased demand on solidarity puts the acceptance of younger generations at risk. If young people and future generations reject the notion of mandatory participation, the system will be undermined. The habit of transferring risks to younger generations has to be broken. The solidarity between pensioners, older employees, young employees and future generations must be rebalanced. If we require future generations to act as ‘shock absorbers’ this should be tightly regulated.

**Labour market distortions and hampered job mobility**

The contract has a distorting effect on the labour market. Due to the fixed pension age, human capital is written off too early and labour costs rise due to increased longevity. This is occurring while the labour market is tightening. Demographic ageing now requires higher employment participation, also from older people. This early retirement spiral should be reversed, so that it becomes possible to use the increasing value of human capital over a longer period of time. Moreover, as mentioned before, increasing pension related labour costs affect the economy and international competitiveness adversely.

Labour mobility increases continuously. This means that the elements in the pension system that impede mobility should be discarded. These include the outstanding deficits and the excessively large buffers on the books of pension funds, conditional rights that are linked to retaining one’s current job, unfunded transfer rights and prepaid premiums in the system of average accrual-average premium. It is also necessary to find a way to give self-employed professionals a place in the pension system.

Overreaching the limits of affordability, solidarity and labour market has gone unnoticed for a long time because risk management and accountability were deficient. Risk management and accountability are the ‘connecting’ dimension of the pension deal.

**Risk management is deficient**

Besides the criticism of the effects of the exogenous developments on the contract, there is much criticism of the risk management. The risks are insufficiently controlled. They are incorrectly measured and priced. This has been partly remedied by the transition to the market valuation of liabilities in 2006. But the risks of a mismatch between the assets and the unconditional (and hence guaranteed) liabilities are not sufficiently calculated into the contribution, partly due to ‘loopholes’ within the FAF. Moreover, the contract is not complete; there are no guidelines for dealing with the bottom (a deficit) or the top (a surplus). Moreover, ownership of the buffers is unclear. This results in underestimating risks, taking risks too easily, and

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889 For example, it is allowed to determine the cost-covering premium on the basis of the uncertain portfolio return, the risk increments in the solvency buffer are too low, the parameters of the Pension Act for return are too optimistic and it is allowed to implement an indexation before the solvency buffer has been filled.
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deferring risks to the future. The buffers are also subject to political risks. Moreover, the participants are not sufficiently aware of their risks and they don't know whether, or to which extent, they share in the risks.

The contract suffers from the dual objective of both nominal security and real ambition, which is legitimised by ‘loopholes’ within the FAF. But nominal security is a false and costly security, and the dual objective leads to a suboptimal investment policy and an unmanageable investment dichotomy.

The contract treats all the participants in a uniform way, while participants differ. In combination with the nominal security, the contract provides the wrong security to the wrong people. Pensioners do not have any human capital left and feel the risks directly financially. Young people, however, still have a lot of human capital as well as time to recover. Nevertheless, with this uniform investment policy, we take the same risk for both groups. This means: too much risk for pensioners, and in defined benefit, it is partially passed on to the future. We take too little risk for young people, so that they forego returns and income. If we continue to do so, the ageing pool of participants in the pension funds will lead to an increasingly defensive asset mix and the contract will become increasingly unattractive for young people. Combining the objective of nominal security with the system of average accrual-average premium is particularly disadvantageous for young people. They receive too little result for the premium they pay.

There has been criticism on subsidizing solidarity in the contract, because it covers up the price and the risks as well as the fact that risks are passed on. The contract ‘is full of it’, partly because of the system of average accrual-average premium.

The lack of proper risk management leads to an excessive ambition with an inadequate funding foundation and a suboptimal investment policy and it confronts the stakeholders with unpleasant surprises.

Accountability is deficient
The contract is neither complete, nor transparent. There is much to do about communication, participation, risk management and governance. Moreover, expectations have been badly managed. This undermines confidence. The time has come to bring bad news, i.e. less security and a lower pension, in order to address the bottlenecks on the ‘supply’ side. It is high time to address the arrears in accountability.

‘Demand’ has exceeded ‘supply’. Risk management and accountability are needed to restore the balance.

Wrong and unsustainable security
The contract provides the wrong type of security to the wrong group of people. Nominal security is provided, while the objective of the pension requires the aim to obtain an affordable real ambition. The same security for everybody, while participants and pensioners differ as regards their risk-bearing capacity.

In defined benefit, the security has been shaped by means of the unconditional nature of the accrued rights and the fixed pension age. Precisely this combination has become unsustainable, and come under review due to exogenous developments. Also this combination is strongly criticized. Defined benefit is not sustainable due to the bottlenecks in terms of affordability, solidarity and the labour market. The system is stuck.
False expectations of pension income
The expectations are too high, due to developments and poor information on risks, which are probably too high as well. The accrued entitlement and the pension income, that has been promised, are not sufficiently financially secured. The price cannot go up (much) more. Which means the pension income and/or security as well will have to be reduced; expectations have to be adjusted downwards. Furthermore, it is increasingly important that pension income can be tailored to the individual needs of the participants, with ever more varying living and working patterns.

15.2.3 Criteria for a sustainable contract

Working definition of sustainability
We derived sustainability criteria from the situation analyses and the assessment of the contract and the FAF. The contract concept, described in part III, has to meet these criteria. If a contract meets these criteria, it will be able to deal with the exogenous developments and stand up to criticism. It can supply a sufficient and real pension income with an adequate security assurance. It can remain within the boundaries of affordability, balanced solidarity and the labour market, and will incorporate appropriate risk management and a proper accountability.

But this does not automatically mean that all the stakeholders think that their interests will be properly served. They all have to be happy with the obtained balance of interests. Therefore, a so-called overarching basic criterion has been defined for sustainability in the Introduction, chapter 1. A contract is only sustainable if the interests of all the stakeholders are served in a sustainable and balanced way. This is an indispensable condition.

Additional sustainability criteria
Some additional sustainability criteria have been derived from the situational analysis and the assessment on the basis of the dimensions. The main criteria are:

- a sustainable contract has an income-related pension objective and is inflation-based. This results from the objective of a pension, which is an income-replacing benefit at the prosperity level at the retirement age, when the human capital is depleted, which afterwards at least retains the purchasing power. This is the unambiguous objective, which forms the basis of the financing and investment policy.

- a sustainable contract is adaptable as regards the pension rights, as well in respect of longevity as for the fluctuations in the financial markets. The ability to deal with exogenous developments so requires.

- a sustainable contract has a sound actuarial foundation, which is able to realise a set ambition without passing on the risks and burdens in a structural way and with a risk level that can be borne by the stakeholders and which is fairly incalculated into the cost-covering premium. In this foundation, the assets and liabilities are evaluated at market value. This is essential in order to be able to properly determine the risk of mismatches, and to incalculate it in the cost-covering premium and the pension prospect. Subsequently, the steering rules will determine in a transparent way in which way the balance sheet fluctuations will be steered.
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- a sustainable contract is *transparent and complete*. The guidelines on risk sharing ex-post have to be previously determined by the pension fund trustees. For the foreseeable risks (changes in demographics, changes in the structural financial-economic parameters and financial shocks), the guidelines will define how risks are approached and who will assume these risks. It is necessary to grant a discretionary authority to the pension fund board/trustees, as to allow for a deviation from the established guidelines in case of unforeseeable situations, provided the pension fund board is accountable to the stakeholders.

15.2.4 Necessary steps towards sustainability

The developments and criticism teach us, via the assessment by means of the contract dimensions and the derived sustainability criteria, which elements of the contract have to be changed in order to obtain future sustainability. It is necessary to take the following steps. ‘Let go in order to hold on’.

1. Let go of the unconditional nature of the pension entitlements.
2. Let go of the fixed pension age.
3. Let go of nominal security.
4. Improve risk management and accountability.
5. Improve the balance of solidarity between pensioners, older employees, younger employees and future generations. Letting go of the unconditional nature of the rights and the fixed pension age will create room for realising these objectives. But perhaps more is needed due to differentiation.
6. Therefore, explore the (im)possibilities of freedom of choice and differentiation. Mandatory participation must be held on to: it is a binder for the socially extremely important wide and efficient pension coverage.
7. Clear the contract of elements that hamper the labour mobility. In particular, the risk that self-employed professionals will not be able or will only be able to accrue an insufficient pension provision, has to be eliminated.
8. We have to look for a viable alternative for the system of average accrual-average premium without jeopardising the solidarity and the mandatory participation. We should examine whether adverse effects on labour mobility can be partially eliminated by allowing self-employed professionals to subscribe to this system.
9. Manage expectations better and adjust expectations downwards. This ‘bad news conversation’ should be conducted promptly and fairly.
10. Improve the accountability.

15.3 Retrospection unveils continuous tension between ‘demand’ and ‘supply’

Part II, contains a rational reconstruction (retrospection) on the development of the pension contract under the motto ‘previously chosen, currently assessed’. The steps in the contract, relevant for the development, have been shaped as a case, considered against its historic background -- because the decisions in the contract, as we have ascertained in Part I, cannot be considered in isolation from the situation of that time. Each case is described and subsequently assessed by means of the contract dimensions, within the
tension field of ‘demand’ and ‘supply’; it has been assessed whether and in which way there was a ‘connection’ by means of the risk management or whether there was a lack of risk management. This assessment has been performed, based on current insights, hence with the benefit of hindsight. Lessons have been inventoried and insights have been obtained as to where and how we ‘missed the boat’ during the development of the contract. This should help to understand the reason why the current contract, the defined benefit, is no longer sustainable.

Retrospection and the lessons learned show the continuous tension between ‘demand’ and ‘supply’ and the lack of proper risk management, due to which the connection between those two was deficient. The natural tendency to always want more than is possible is a recurring theme throughout the development of the contract. In retrospect constant tension between quality (pension income) and affordability, on one hand, and nominal security and an affordable real pension income, on the other hand is clearly seen. The tension between quality and security, on one hand, and solidarity on the other hand, became only visible in recent years. Due to the continuous demographic ageing, with the dotcom crisis and the credit crunch as catalysts, the rapidly increasing pressure on the solidarity of young people with older people becomes visible. Interim provisions made during the last round of austerity measures in the pension system, have increase the strain. Actually, it’s only now that the boundaries of the labour market have become visible. The upsurge of self-employed professionals opting out of the pension system and the exodus of the baby boom generation making the demographic squeeze on the labour market palpable.

15.3.1 What can we learn in retrospect?

The main lessons learned from retrospection can be applied to the sustainability as follows.

Sufficient and affordable results
Exogenous developments make both defined benefit (final wage and average wage) and defined contribution (contribution-dependent accrual) unsustainable. Neither of the contract concepts is able to deal with the exogenous developments. Due to exogenous developments, the defined benefit leads to problems of affordability (‘demand’ exceeds the limits of ‘supply’), of solidarity (the pressure on the solidarity from young people with older people becomes too high) and with the labour market (large premium shocks are detrimental to the economy). Employers and young people tend to quit, which undermines the continuity of the system. Due to exogenous developments, the defined contribution leads to problems with the pension objective, consisting of the economic and social independence of older people (the ‘offer’ is structured too rigorously, due to which it is not possible to sufficiently realise the ‘demand’). Employees and pensioners resort to their employer for adjustment and the employer responses to this pressure.

Watch out in times of economic prosperity and equity surpluses
We are not good at managing prosperity. We spend it instead of ‘filling the granaries for tough times’. Contributions should be reduced with extreme reluctance. The awareness of
risk and price fades and the way out usually requires an arduous climb that often has to be made at the wrong time. The improvement of (structural) rights, resulting from temporary prosperity, should also be dealt with very reluctantly. The demand is being increased ‘for free’, and the cost increase will only be visible afterwards. The lack of rules on equity surpluses makes the pension fund, and in particular the pensioners, vulnerable. In a situation of equity surpluses, it is recommendable to invest in the financing foundation by reducing the investment risk and by protecting the favourable equity position, by building buffers for harder times and to protect them by clear rules and by conservative budgeting.

**Financing backlog: omission, followed by a quick elimination**

Allowing financial deficit (resulting from arrears in premiums and postponed financing in the context of backservice and scheme improvements) to persist has contributed to current broad pension coverage at a high replacement rate. However, this is not good risk management. It is absolutely necessary to eliminate the deficits as soon as the financial position in the pension fund or in the company improves.

**The risks lie in the future**

The value of the assets and liabilities in the near future is crucial and a lot more important than their current value. Even in case of underfunding, the only thing that counts is the question whether there will be recovery in a foreseeable period of time. Proper risk management means in the first place that a pension contract cannot ‘start’ without a sound actuarial foundation. For that foundation, an ex-ante price is determined for the ambition, which is not only defined as regards its objective and expectation, but also as regards the risk of undershooting the expectation. This price is partly determined by the investment risk, which doesn’t exceed the risk appetite of the stakeholders. Therefore, in a transparent and complete contract, the investment risk can only be determined if it makes clear how risks will be approached and who will absorb (a part of) the risk. In this way, there is a balance between ambition, risk and price, and also a balance between risk profile of the investment mix, guidelines for risk sharing ex-post and risk appetite of the stakeholders. And both are accommodated. Nor the affordability potential, nor the risk potential will be exceeded. Proper risk management means in the second place a continuous check for new developments in the exogenous risks and for changes in the stakeholders risk preferences capacity, by means of the instrument of the continuity analysis (continuity test), using sensitivity analyses and stress tests. Furthermore, it needs to be monitored whether the level of the pension income (replacement rate) is still sufficient. This way, it will be possible to adjust the contract and the actuarial foundation in time, and it can be decided, in consultation with the parties to the collective agreement, to proceed to additional financing, if necessary. This prevents risks and price to drift out of view and ‘demand’ and ‘supply’ from getting unbalanced; it ensures that the objective of an income-related and an inflation-based pension can be met and that surprises and disappointments approaching retirement can be prevented.

**Choosing between either nominal security or an affordable real ambition**

It is necessary to make a clear choice as regards the objective of the contract. No longer: ...as well as..., but: either… or. In the context of the FAF, the choice for nominal security means that the investment policy will have to be down geared to this objective. The ‘loo-
pholes’ in the FAF have to be eliminated. This means that an affordable real pension ambition cannot be achieved, which is incompatible with the socially desirable pension objective. Therefore, the objective of the affordable real pension needs to be maintained and regulated within an alternate FAF framework that sanctions risks. The alternate FAF balances the pension deal in two ways. Firstly, the alternate FAF regulations focus on the consistency between promised indexing, projected benefits and chance of shortfall, within a complete contract with a cost-covering premium, geared to the ambition, and with an investment risk, geared to the risk capacity of the stakeholders. Secondly, the alternate FAF sets a clear limit for passing risks forward, in order to keep the solidarity between generations in balance.

The impact of the exogenous developments on the present contract, and the criticism it has taken indicates that the choice for (reduced) nominal security is certainly not the right direction to pursue. The guarantee is untenable, so it’s better to take a different direction. The economic and social independence of older people is essential, especially in an ageing society. If managing an income-related pension objective and an inflation-based pension is not the primary objective, we’ll pay the price later.

15.4 The contract concept of defined ambition

What we learned from the impact of developments and criticism and the lessons from in can be put this way. Ultimately, a contract will always have to (be able to) adapt to developments. Entitlements must be adaptable to prevent premiums and risks from becoming too high for the employer, to prevent economy and the labour market from becoming hampered and to prevent solidarity between younger and older generations from becoming overstrained. Likewise, an income-related pension that is monitored by the parties to the collective agreement, based on the common interests of employers and employees in a sufficient pension income (replacement rate), should prevent the pension from becoming so meager that the employer will be forced to furnish (large) additional payments. An adequate actuarial foundation, with a, for all the stakeholders, affordable balance between ambition, price, risk to be taken ex-ante and risk to be shared ex-post, should ensure a balance between ‘demand’ and ‘supply’.

In Part III, the pension contract based on this premise is further developed. We no longer define the benefit, but we define the ambition. Defined benefit is transformed into defined ambition.

15.4.1 Defined ambition: the essence of the contract concept

The core of defined ambition is the following.

(1) Starting point for defined ambition contracts is the income-related pension objective with permanent (but not guaranteed) price indexation after retirement age. Wage indexation is also possible. We have chosen price indexation, because the preservation of purchasing power fits better the ability to continue to meet the costs of living. Wage indexation is a better alignment of the solidarity between active employees and pensioners. Unless otherwise stated, the ambition for pensioners consists of aligning indexing to price inflation.

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based ambition. The first, the allocation in the current defined benefit contract, is no longer an allocation but rather an ambition as well. Both together constitute the ambition of defined ambition, the pension objective that is defined in consultation with partners to the collective agreement.

(2) Similar to defined benefit, the pension entitlement is accrued during each working year with an accrual percentage of salary minus an exemption related to the state pension base, with a set pension age. There is also a ‘provision’ balanced against the entitlements. The accrued ‘rights’ and the pension age are adaptable to exogenous developments. There are no longer unconditional rights (which is why ‘rights’ and ‘provision’ are parenthesized) and the pension age fluctuates with the increasing life expectancy.

(3) Defined ambition doesn’t offer a guarantee, but it does offer a security assurance.

(4) This assurance is mainly based on the extent of security, chosen by the pension fund board, in alignment with the risk appetite of the stakeholders, on one hand, and on the interconnectedness between the ambition and the contribution level, on the other hand. The ambition and the desired contribution level are determined in mutual consultation by the employer(s) and the employees in the context of the collective agreement. The real ambition is the starting point for the actuarial foundation. For the investment policy that is focused on this objective, the pension fund board establishes the risk profile in a transparent way, in consultation with the board of participants and the supervisory body. As regards the ex-post risk sharing, the risk profile, in combination with the guidelines for risk sharing to be established, should not exceed the risk-bearing capacity of the respective stakeholders. The employer(s) and the employees determine whether the resulting price is affordable. In this way, the investment policy is placed in a framework.

(5) In the second place, this assurance is based on proper risk management within a complete contract. The guidelines for risk sharing are established by the pension fund board. As mentioned before, they are, in combination with the investment risk to be taken, in alignment with the risk appetite of the participants and pensioners. The guidelines specify clearly when and how redistributions must be made. The guidelines cover situations of deficits and surpluses. In this way, eventual buffers are regulated and the extent of the intergenerational risk sharing, in case of deficits and surpluses, is defined as well. The pension fund board may deviate from these guidelines, but only if it provides a transparent justification and if it can count on the support of the stakeholders.

(6) In the third place, assurance is given by the financial regulatory framework, which has to ensure that each wage-based ambition, in particular, is clearly formulated in terms of expected rates of allocation and risk of undershooting the expectation and checks that the actuarial foundation is able to realise the communicated ambition. For this purpose, the assessment framework establishes rules for the cost-covering premium, the calculation of the coverage ratio, the allocation expectation and risk of undershooting thereof as well as for the accountability towards the board of participants or the supervisory body.891

(7) In the fourth place, the assurance results from the monitoring and surveillance of the ambition by the partners to the collective agreement. In that context, employer(s) and employees monitor the realisation of the ambition, based on the shared interests in a decent and real pension.

891 Defined ambition contains a coverage ratio as well, because it includes an ambition that has to be realised. This is inherent to 'defined' in defined ambition. The coverage ratio is determined as the quotient of the value of the assets and the value of the real liabilities that are not risk-free.
15.4.2 Why and how do we stay on track in defined ambition?

In defined ambition, tracking is not focussed on solvency. No unconditional commitments are made, so solvency is no longer an issue within the pension fund. And yet, we do keep on track. We do so because of affordability, economy and the labour market. And we redirect when solidarity gets out of balance. To this end, steering guidelines should restrict passing risk forward. In the near future, the current generations should no longer receive too much to the detriment of future generations, in the same way as pensioners should no longer receive too much to the detriment of young people. Furthermore, we redirect to ensure that the ambition doesn’t drift out of view. If this happens, the ambition has to be reduced or the financing has to be adapted. An important control criterion: deliver what you promise or redirect. There are three distinct causes for redirecting. In order to use the steering guidelines in an understandable and acceptable manner, they should be used in response to a distinct cause.

When life expectancy rises the pension age increases
When life expectancy rises, the pension age increases as much as needed, in order to neutralise the price increase, resulting from the increased life expectancy. The new pension age also becomes the new pension age under the accrued rights. Indeed, the past appears more to be expensive than apprehended. The ‘provision’ is converted to the higher pension age without actuarial interest accrual. The pension starts later, the level stays the same. The participant receives a clear message. We live longer than expected, so we will have to work longer. The participant may bring his retirement age back to the old level by settling for a lower pension.

In case of structural reduction of projected real return, the accrual percentage will be reduced
If the assumptions for interest rates and return are structurally reduced, or the assumptions for inflation are structurally raised, the costs of the pension ambition will rise. The continuity analysis will show that the cost-covering premium has to be increased in order to still achieve the ambition in case of lower returns and/or higher wage inflation. Premium neutrality\(^{892}\) is achieved by reducing the accrual percentage (the accrual ambition). The accrued rights will be reduced retroactively as well, to the extent this is needed to neutralise the increase of the ‘provision’. Here as well, the participant receives a clear message. The expected future (real) return on financial capital is less than expected, so you have to settle for a lower pension. You can compensate for this by relying on your human capital for a longer period of time, this means you'll have to work longer.

In case of a financial shock, the wage-based ambition (indexation) is curtailed
In case of a financial shock, the wage-based ambition is curtailed by means of a sliding scale, linked to the real coverage ratio. If things pick up afterwards, this reduction will be compensated for. The message is clear: return involves a risk, which is occurring now. You receive less or no indexation at all, in order to prevent the fund from disbursing too much to the detriment of future generations.

\(^{892}\) Based on the assumption that the premium cannot rise, because of the limits of affordability.
If a financial shock lasts too long or if it is too deep, the accrued rights will be reduced, there will be a negative indexation. The message is the following: the coverage ratio has dropped below the critical level. We have to take back some of the indexation, already credited, in order to prevent future generations from having to subsidise you to an excessive extent. Hence, each fund will have to establish a critical or minimum coverage ratio. Ideally, it will be determined by the limit of solidarity, set by the future generations for contributing to temporary deficits, on one hand, and by the recovery potential of the fund, on the other hand. This again is a combination of the fund demographics and the recovery potential, resulting from the investment policy. This recovery potential decreases when the average age in the member pool increases. Because that limit to solidarity is undetermined, the legislator will have to establish a limit in the form of a maximum recovery period.

The bottom (deficit) and the top (equity surplus) will be included in the steering guidelines. The pension fund board may deviate from these guidelines (discretionary authority), but only after this has been justified to the stakeholders.

**Differentiation or not?**

There is a lot of criticism of the uniformity in the contract. The stakeholders differ in risk-bearing capacity. This is particularly true for participants and pensioners. Pensioners have spent all their human capital and feel pension cuts directly in their pockets. Participants, however, still have human capital to invest and time to await recovery. This applies more to young people than to older people. The question of differentiation is independent from the concept of defined ambition. It is possible to work out the concept with or without differentiation. However, in defined ambition the present generations unmistakably have to bear their own risk. Therefore, the question of differentiation needs to be addressed. This applies in any case to the risk sharing between the active employees and pensioners. The balance of the solidarity requires that pensioners share in the risk as well, the differences in risk-bearing capacity require differentiation. This involves differentiation in taking investment risk (ex-ante) and in risk sharing (ex-post). Solidarity is an important justification for mandatory participation. And mandatory participation is important for an efficient organization of wide pension coverage. It is necessary to resolve the tension between differentiation and solidarity.

**15.4.3 (How) do we assure security in defined ambition?**

The motto of defined benefit: ‘a deal’s a deal’, has been discarded. There is no longer a guarantee that accrued entitlements will only be curtailed in a worst case scenario (ultimate remedy) and also the fixed pension age has been discarded. However, defined ambition still contains many security assurances. They are enumerated below.

(1) We continue to pursue a real pension income that is income-related and inflation-based. This objective is supported by an actuarial foundation, for which the legislator issues guidelines, within a financial assessment framework. Because of the fact that nominal security has been abandoned it is possible to focus the investment policy and the steering guidelines toward achieving this real ambition. There is no longer an investment dichotomy.
(2) We continue to save for our pension (capital funding). An insurance against ageing, an insurance against dependency and the collapse of the company. But it also provides security in case of labour mobility.

(3) We continue to save via the mandatory participation and the duty of care. Modern paternalism and mandatory participation ensure efficient widespread pension coverage.

(4) We continue to organize the pensions through the employer, he continues to participate. The fact that the employer has a mutual interest in a sufficient pension income constitutes a security assurance in itself.

(5) We continue to save the pension money outside the company. The money does not disappear via a bankruptcy, but it is put apart safely.

(6) We continue to withhold the authority of the employee and the pensioner to dispose of the pension money. In this context, paternalism protects against borrowing against future income and therefore, constitutes a security assurance for the future, as the pension will still be complete in the time to come.

(7) We continue to do so collectively and in solidarity. Solidarity within the collective ensures that 'the risk-sharing pie' grows bigger. This is beneficial both for the pension income and for the security of active employees and pensioners as well as current and future generations.

(8) We continue to do so under legal supervision. But what does it look like without a guarantee? We will elaborate this in the next paragraph.

(9) The partners to the collective agreement constitute the last resort. They have to discuss the question whether the pension benefit (replacement rate) becomes too low, and whether they should provide for extra resources out of the current wage level or if the wage level needs to be increased for this purpose. The partners to the collective agreement have a monitoring or an intervention function and form a vital link in the assurance chain.

15.4.4 No guarantee, but protection of the ambition under legal supervision

The posterior security of defined benefit, substantiated with the guarantee of 'a deal’s a deal' (the ultimate remedy) is replaced by anterior security at a chosen level. The security is encapsulated in an appropriate actuarial foundation, regulated by law. The affordability of the ambition has to be assured in advance (cost-covering premium). In the context of this ambition, it's not only necessary to formulate an allocation expectation but also a maximum shortfall thereof, which will serve as a steering guideline for management, based on prudent and realistic assumptions. So, both expectations and risk are transparent. In this way, risk is calculated fairly into the cost-covering premium ex-ante. The legislator will set a minimum level for projected benefits and a maximum for the risk of shortfall. The law also sets limits for parameters used in continuity analyses (long term stress tests) Furthermore, the following needs to be established: the investment risk, the guidelines for risk sharing, also in case of deficit and surplus, as well as a minimum coverage ratio. The risk profile, combined with the steering principles, must be agreed upon by the stakeholders and correspond to their risk-bearing capacity. Hence, a degree of security can be chosen, transparently for the trade-off between ambition, price and risk. The higher the degree of security, the lower the real pension income (replacement rate).
In this way, weighted against the objective of a real pension income, it is possible to obtain a greater level of security than with the limited guarantee of nominal security, a costly misleading security, which is not sustainable given demographic realities.

15.5 How sustainable is defined ambition?

15.5.1 Assessment based on the contract dimensions and sustainability criteria

Affordability
Discarding the unconditional nature of accrued rights and of the fixed pension age and linking this pension age to the evolution of the life expectancy are drastic changes, but they have become necessary to insure sustainability. Taking these steps is indeed a big step forward towards sustainability. The pension system can become affordable again, in terms of both price level and price volatility. For this reason, the employer continues to participate in the contract and this serves the continuity and the efficient organisation. Moreover, the sustainability criterion of adaptability is met.

Solidarity
By casting aside the unconditional nature of accrued rights, the unbalance in the solidarity can be reversed. This step allows us to find a new balance between active employees and pensioners as well as between present and future generations. Whether the new found balance will be sustainable, mainly depends on the question whether it is possible to find a satisfactory degree of differentiation, which is aligned to the differences in risk-bearing capacity, that is feasible considering the numerical ratio between pensioners and active employees, in view of the influx of new participants on one hand, leaving sufficient solidarity in order to continue to justify mandatory participation and membership, on the other hand. But most importantly: which makes it attractive for future generations to continue to participate and in this way ensures the continuity of the system.

Labour market
The contract becomes shock-resistant, because accrued rights will be adaptable to exogenous developments. This serves the economy as well as the labour market. Letting go of the fixed pension age should put an end to premature write-offs of human capital. This will benefit the labour market, which will tighten as the labour force continues to age. To realise this aim of keeping older employees in the workforce employers will have to make a concerted effort to put policies for ‘active aging’ in place.

Risk management
Discarding the posterior guarantees and the structural passing on of risk (made possible by letting go of the unconditional nature of the rights), make it possible to re-focus on risk management and risk pricing. This requires a new pension deal be transparent and complete as regards ambition, price, risk and risk sharing. The contract must be based on a sound actuarial foundation, which doesn’t exceed the limits of affordability or risk. The pension fund board cannot begin its work unless ambition (accrual ambition and indexing ambition in terms of both expected benefits and chance of shortfall) is fairly priced and price can be paid. The ‘unknown factor’, to be chosen by the pension fund board, is the
investment risk. The potential for risk to be taken in investment policy is determined by the combination of the steering guidelines (with or without differentiation) and the risk-bearing capacity of the stakeholders, in connection with the desired ambition and an acceptable price. In this way, the circle is complete ex-ante; subsequently the risk has to be accepted ex-post. In case pension income nonetheless falls too far under the expected ambition, social partners must be prepared to renegotiate the collective agreement, to respond in concrete situations to unforeseen levels of exogenous risk. Without this substantiation of risk management, it will not be possible to introduce defined ambition, because risk management must ensure compliance with the sustainability criteria: foundation, transparency and completeness.

Discarding nominal security will allow the actuarial foundation, investment policy and steering guidelines to be structured in an unambiguous way, in order to be able to realise an income-related and inflation-based pension. These sustainability criteria can be met. And an end will be put to the investment dichotomy.

Accountability
Defined ambition is transparent regarding risk and the feasibility of the ambition. Transparency and risk management are greatly improved. The contract concept is clear about what it does and about the way it assures that its objectives can be realised as best as possible. Therefore, it doesn’t do more or anything different than it actually says. Therefore, it constitutes a proper foundation for adequate accountability.

Security
Discarding the unconditional nature of rights and of nominal security makes room for the right kind of security (assurance of a real pension income) and makes room for differentiation and therefore security, which can be tailored to the differences in risk-bearing capacity. The guarantee (wrong type of security) expires and many security assurances remain. Security is primarily determined by the ambition and hence, intentionally chosen in connection with the price. In the second place, security is ultimately determined by extraneous developments, on one hand, and the risk level of the investment policy, on the other hand. The latter risk is determined by the pension fund board, on the basis of its responsibility for the actuarial foundation and weighted against the risk appetite and the risk-bearing capacity of the stakeholders. This balance of security can be established ex-ante. Moreover, the trade-off in the complete contact between security, price and the pension income is explicit for all the parties and therefore, this balance is a conscious choice. This offers a better security than the stipulated guarantee of nominal security, a costly and misleading security, which is unsustainable given demographic realities.

Pension income
Affordability limits may lead to a lower ambition level and thus income. This can be remedied by discarding the fixed pension age and by working longer, which is possible given increased longevity and greater demand for labour in a tightening market. Condition is that the employers put more effort into policy to support older employees. The unambiguous focus and the starting point of an income-related and inflation-based pension, supported by many security assurances and a proper risk management, leads to a
far better pension income than if we insist on retaining nominal security with unconditional rights.

The introduction of defined ambition should not take place without first bringing bad news. The bad news is that expectations have been too high. Nominal security has always been perceived as real security; risk is not accepted because it has never been communicated realistically.

15.5.2 Lessons learned

Two most important lessons have been learned.

Neither defined benefit nor defined contribution are able to deal with exogenous developments. Defined ambition is a contract concept in which the exogenous developments are ‘all-in’ and therefore ‘managed’, via the adaptability of accrued rights. However, the social partners play in monitoring and backing up the pension deal is essential for adequate pension benefits. This role must be taken seriously by both employers and employees. The employer must voice an earnest interest in an adequate pension benefit and prove it to the employees. And the employees assume their own responsibility for the quality of the pension. This was, after all, Van Marken’s intention. 893 In defined benefit, they wrongly didn't have to do so and this has lead to much misunderstanding and opposition. The value of pension in the terms of employment has been underestimated for a too long time. Employers and employees share a joint responsibility for pensioners. This is particularly in the interest of the employees, because they will eventually become pensioners themselves.

The fact that present generations will have to bear risks themselves constitutes the best guarantee for good risk management. Transparent steering guidelines for risk sharing ex-post will demand discipline. The stakeholders are aware of their risk and are able to set the limits of their risk-bearing capacity on this basis. The pension fund board has the task of keeping the investment policy risk profile within the stakeholders risk potential. This risk profile is factored in to balance the equation of ambition, price and risk. This results in a pension ambition which can be paid for. By explicitly determining (wage-based) indexing as part of the pension ambition, in terms of expectation but also in terms of shortfall, this risk is also fairly calculated ex-ante in the cost-covering premium. The monitoring and interception function of the partners to the collective agreement complete the risk framework.

15.6 Will a sustainable balance between the stakeholders be achieved?

A contract is only sustainable if the interests of all the stakeholders are served in a sustainable and balanced way. This is an indispensable condition. Does defined ambition meet this criterion?

893 J.C. van Marken (1845-1906), former director of the yeast and alcohol plant in Delft and leading social entrepreneur in his time, is generally regarded as the founder of the current second pillar pension system in the Netherlands.
The alignment of ‘demand’ and ‘supply’ restores the ill-served interests of the employers (affordability), young people and future generations (solidarity) and the government (affordability, passing on too much to future generations, economy and labour market). However, it is detrimental to the interests of the pensioners and the employees. They have to make sacrifices. Does the concept of defined ambition lead to a sustainable balance between the stakeholders and their interests?

The substantiation of the risk management with an adequate actuarial foundation, in a transparent form, complete with risk and risk sharing, bringing the bad news and lowering expectations, as well as the organisation of an adequate accountability, will benefit all the stakeholders. However, there is a lot of bad news to be absorbed, which will mean a setback for pensioners and older employees in terms of nominal security and pension income, because proper risk management means passing on less. But the sustainability of the system is enhanced and that is in everyone's interest.

Letting go of the unconditional nature of entitlements and the fixed pension age mean a significant improvement for the government, from the viewpoint of demographic ageing, economy and labour market. For this reason, the decrease in security has to be accepted. In return, the government will have an unambiguous focus on a real pension income that serves the interest of economically and socially independent pensioners. The development of a new regulatory framework (FAF), that is suited to contracts with real conditional commitments, is an important task of the government in this process.

The situation of employers in particular and, to a lesser extent, the younger employees and future generations, will have improved by letting go of the unconditional nature of the rights and of the fixed pension age. The wish is honoured in order to control affordability and manage risks in a better way. The solidarity from young people with older people will be rebalanced. Differentiation may contribute to this purpose. For young people and future generations, discarding the nominal security is also an advantage, because the returns on their entitlements will be optimised.

(Older) employees and pensioners will experience a setback, certainly from the perspective of their current entitlements, both as regards nominal security and pension income. However, developments and criticism show that they have been allocated more than what the contract can provide. This has to be repaired and be prevented from happening again. However, in turn, they will receive a better focus on a real pension income, secured by the FAF. This interest is just as important, although they are yet to be convinced. Differentiation may contribute to this purpose.

The preparedness of pensioners and employees to accept defined ambition, independently of the demographic necessity, depends on their perception of the loss of the nominal guarantee in exchange for a permanent real pension income, backed by many assurances. From this perspective, the employers play a key role. In the first place, they must convince the employees by putting serious effort into improving the position of older employees in the labour market and by showing, also in the collective agreement, the intention to seriously monitor a sufficient and real pension income, which will keep pace with the cost of living throughout retirement.

And the pensioners play a key role as well. Are they willing to look beyond their one-sided interests? Will they go for the ratio of a real pension income rather than the emotion
of nominal security? Will they make the effort to understand what they will receive in return in terms of quality, security and especially sustainability? Employees can help by agreeing to differentiation in the risk sharing. And actually, future generations should provide a guarantee of continued participation, since passing on risks has been restricted. The employer and the pension fund will have to ‘validate’ this guarantee with a ‘certificate of good pension fund governance’.

The government may act as an intermediary, based on its related interests, if it sticks to the policy of cost control and the desired shock-resistance, on one hand and a real pension income for economically and socially independent pensioners, on the other hand. Defined ambition provides both.

Risk management has to guide the process of finding a new balance in the contract between ‘demand’ and ‘supply’ and gain the trust of the participant and the pensioner, who have to go through the pain of a setback in terms of ‘demand’ in exchange for ‘supply’, by reassuring them that their interests in the new pension deal are safeguarded with real, albeit conditional, commitments.

15.7 Major steps are taken

15.7.1 The Minister and the social partners have taken major steps in 2010

The credit crunch of 2008 prompted the former Minister to commission a wide-scale sustainability study. To this end, he put the commissions Don (Evaluation parameters Pension Act), Goudswaard (Sustainability of Supplementary Private Pension Schemes) and Frijns (Investment and Risk Management) at work and evaluated the regulatory FAF himself together with the supervisor, the Dutch National Bank. In April 2010, the Cabinet determined its commitment to a sustainable pension system, on the basis of the opinions of the commissions and the evaluation of the FAF. The Minister is prepared to discard the fixed pension age, also in regard with the rights, accrued in the past. From now on, the pension age can follow the upward life expectancy trend. The Minister favours a real pension income and accepts in return contracts with conditional rights. There can’t be an affordable real pension without an investment risk. A huge step, considering the tradition of ‘nominal security above all’. The Pension Act and the FAF will be amended in order to facilitate these contracts. In addition, contracts with unconditional commitments remain a possibility, but the security requirements for these contracts will increase. Some ‘loopholes’ in the FAF will be sealed off (more stringent parameters and buffers).

In June 2010, the social partners in the Labour Foundation (StAr) enter into an agreement covering both the state pension and the supplementary private pension schemes (the first and second pillars). Basically, they are in line with the commitment of the Minister. Premium stabilization is the guiding theme. Premium steering will be elaborated within the pension fund. However, the partners to the collective agreement are explicitly required to intervene if projected pension income (replacement rate) falls too short of expectations. In the context of the agreement, the fixed AOW and pension age will be replaced with an adaptable pension age which can fluctuate with upward trends in life expectancy. It has also been agreed to absorb financial shocks within the pension rights. The accrued rights will either be partially conditional (so-called combi-contracts with a split of the existing
regime into a lower unconditional part and a larger conditional part) or fully conditional (so-called ‘complete’ flexible (real) contracts). 894

15.7.2 Defined ambition plays a role but encounters a lot of scepticism as well

Since its first publication in 2009, defined ambition has played a role in the pension debate. The evaluation of the regulatory framework confirms the ‘loopholes’ in the FAF. This results in insufficient security for unconditional commitments. This security should be reinforced, but that means a reduction of the actual pension income. The choice of the Minister for a conditional but real pension means that the necessary legal room for defined ambition will be available. And that there will be an appropriate financial assessment framework. 895 The Labour Foundation (StAr) chooses for contracts with a higher level of conditionality, because of premium stability as well as solidarity. The route to substantiate this, designated by the StAr as: the route of fully (‘complete’) flexible (real) contracts, is in line with the concept of defined ambition: real and conditional. Both the Minister and the StAr favour adapting with the pension age when the life expectancy continues to rise, just like in defined ambition.

Yet, defined ambition encounters a lot of scepticism in the field, as does the aforementioned route of the StAr. This concerns in particular the difficulty to fully discard the unconditional nature of the rights, thereby shifting the entire risk from the employer to the employee. The transition to a contract with only ‘soft rights’ is understood as necessary, based on the sustainability analysis, but the step towards ‘complete uncertainty’ is considered to be a bridge too far, in the context of the current discussions on the uncertainty because of the low coverage ratios, or it is considered to be unnecessary. 896 There is a lot of opposition against ‘complete uncertainty’ (which is perceived as ‘no longer being able to count on anything’) and the fact that the full extent of fluctuating returns will be reflected in pension rights. The opponents are of the opinion that the incorporation of life expectancy and the establishment of a recovery plan with an explicit risk allocation, in case of underfunding, is sufficient and sufficiently radical. For them, the motto ‘a deal’s a deal’ is emotionally very important, even if they realise that it provides a false security in real terms. They want the current FAF to provide room for steering more in line with the trend, and find that the reinforcement of regulatory framework is unnecessary or even undesirable. The recovery of the financial markets and thus of the coverage ratios, first in 2009, and again at the end of 2010, contributes to this attitude. This reasoning is adopted both by employers and by employees, but by the latter much more emphatically. After all, the risk will be incorporated in their rights. Moreover, the employees are of the opinion that the employers shirk their responsibility for a proper pension and ‘get away with it too easily’. Especially in times, characterised by an unfavourable financial situation. They are of the opinion that the employers have to contribute to the recovery.

894 Discussion is ongoing within the StAr, as to whether the StAr will recommend both routes or only the route of full conditionality.
895 It is not yet clear how that will look and whether and to which extent it will look like the proposal, provided in this study.
896 They then comment that it probably would be different, if the pension system would start today.