ExxonMobil scheme cites Dutch rigidity for plan to decamp to Belgium

31 March 2016By Maarten van Wijk

Oil company ExxonMobil has said increasing financial-buffer requirements in the Netherlands fail to recognise the company's "unique" funding agreement with its €2.5bn Dutch pension fund.

The company cited this as one of several reasons why it wishes to relocate the scheme to Belgium.

Under the agreement, ExxonMobil is to plug any funding gap if the scheme's coverage ratio falls below 125%.

If funding exceeds 125%, the scheme is to return the surplus back to the company.

The pension fund said it would aim for financial reserves of 20% in Belgium, as opposed to 25%.

It pointed out that the reduced buffer would match its current asset mix of 60% fixed income and 40% equity, and that the 25% reserve had been drawn on the asset allocation of 2006, when equity exposure stood at 70%.

According to ExxonMobil, however, Belgium will provide more certainty for the scheme, as rights cuts would be ruled out and additional payments by the sponsor would become mandatory.

It added that, at the Belgian scheme, "Dutch" assets would remain separate and unaffected if one of the sponsors went bust.

As another motive for the planned move, ExxonMobil cited its desire to avoid the imposition of a supervisory board (RvT), which will become compulsory for company schemes in the Netherlands from next year.

It said the requirement to have independent experts on the RvT was at odds with its desire to have a pension fund exclusively "run by and operating for" ExxonMobil.

It also claimed that governance at the Belgian OFP would be "as similar as possible" to that in the Netherlands.

Under the new set-up, it said, the IORP's board would comprise five company representatives, while a "pensions council" of equally represented workers, employers and pensioners would have the right to a binding advice on the discount rate for liabilities, financial buffers and applied longevity tables.

It said the right of say of its Dutch works council (OR) would be extended to adjustments to the pension fund's regulation, as well as the cancellation of the pensions-provision contract.

ExxonMobil also cited increased efficiency and lower costs as expected benefits from the relocation, referring to "ever-increasing" regulation and requirements for trustee expertise in the Netherlands.

The pension fund, known as Protector, said it expected a decision about a collective value transfer to the Belgian OFP to be made after a general meeting for its 5,000 participants and pensioners, scheduled for June.

Pensions In Belgium: Limited by size constraints

March 2016 (Magazine)By Gail Moss

*Belgian pension funds are well funded, but their small size restricts their opportunities to diversify, according to **Gail Moss***

At a glance

• Belgian funds returned 4% in 2015, according to PensioPlus.
• Recent years have seen an increase in risk appetite.
• Funds face domestic and European regulation.

Two recent surveys showed Belgian second pillar pension funds keeping abreast of their own discount rates, with 2015 returns well over 4%.

Figures from PensioPlus, Belgium's occupational pension scheme association, showed an average return of 4.4% for the 2015 calendar year, while the Mercer's Pension Investment Performance Survey (PIPS), cited an annual median return of 4.9%, with 8.8% coming from equities and 0.5% from bonds.

However, in both cases, the funds underperformed 2014 – which saw double-digit returns recorded – and showed little innovation or shift in the main asset allocation categories.

According to PensioPlus, 45% was invested in bonds and 34% in equities, while the Mercer survey shows a split of 45.7% and 43.8% between bonds and equities respectively. Both surveys are based on 40 pension funds, but the samples are not identical.

"At present, we do not see a big shift in the general asset allocation of pension funds," says Patrik Geldermans, senior officer, business development, at KBC Asset Management.

However, he says that the weighting towards bonds has been diminishing, in favour of cash and alternatives.

"The reason for this is clear," he says. "The continuous fall in fixed-income yields makes bonds very expensive. Also, there is an expectation that this trend might reverse and cause losses. However, although reducing bond allocations is easy, it is far more difficult to justify increasing the weight in equities, as these are considered more risky."

"The main trend for several years has been a shift towards riskier assets in general because of the very low yields from fixed income," says Kristof Wouters, global head of investment solutions and financial engineering, Candriam. "Regulated discount rates for liabilities are about 3.5% to 4%, so they have been forced to move towards the riskier end of the spectrum to grow their assets by that amount, to avoid going into deficit."

Within the equity space, Wouters says the main demand has been for European investments. "We are more positive on Europe than on international equities, as the US is further ahead in the economic cycle, so is slightly more expensive in price/earnings terms," he remarks. "There is gradually increasing demand for emerging markets, but in the short term, the slowdown in these economies is discouraging investment."

In fixed income, Wouters sees a shift along the spectrum from government bonds to investment grade corporate bonds, then towards high yield and emerging debt. "At the start of 2016, as markets reversed, there was a retreat into core holdings such as Germany and the US, but the long-term allocation to core bonds has decreased," he says.

Geldermans agrees that investors are looking for higher yields, but remarks: "As these asset classes represent a substantially higher issuer risk, that is credit quality dropping below investment grade, the amount allocated to high-yield bonds is rather small. This is the case for most Belgian pension funds, given their small size."

The Mercer figures support these observations. Government bonds slipped from an allocation of 25.7% to 21.8% between 2014 and end-2015, while corporate bonds rose from 17.6% to 19.2%. High-yield bonds made up 0.6% and 1.0% respectively.

Geographically, Woutters sees a short-term aversion to US corporate bonds because yields are still rising in response to the interest rate hike – unlike in Europe, where they have yet to start rising. "Furthermore, the US bond sector, especially high-yield, has been very much affected by the crisis in the energy sector as many high-yield bonds are exposed to the alternative energy sector. With oil prices going down, those companies are suffering a lot."

But he continues: "This is just temporary, however. Those companies will deliver high returns later, giving a nice entry point for our clients. So we'll see a shift from European to US high yield."

Lack of alternatives

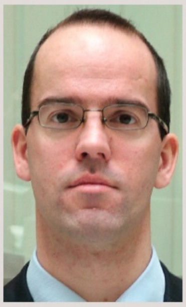
Unlike others, Belgium pension funds are not using alternatives to achieve yield.

Mathias Coumert, an investment consultant at Aon Hewitt, says: "There is an aversion to alternatives because people are very concerned that there is less transparency about their management than with traditional asset classes. They are also concerned about compliance with regulations. And there's no appetite for derivatives among smaller pension funds, because they associate them with more risk."

This highlights one of the problems with Belgium's occupational pension fund sector: the small size of many funds means they are unlikely to possess the capabilities to give them confidence in venturing into alternative asset classes.

Only half of the funds in the PensioPlus sample have assets of more than €125m, for instance, with an average of €591m. But 14 others have assets in the €25m-125m range, while the remainder have portfolios worth less than €25m.

"Regulated discount rates for liabilities are about 3.5% to 4%, so they have been forced to move towards the riskier end of the spectrum to grow their assets by that amount"
Kristof Woutters



Coumert says: "There are a lot of small pension funds with limited internal resources involved in day-to-day management. So there's no desire to change asset allocation, because it takes time to analyse the pros and cons for changing asset class or strategy."

He adds: "Furthermore, there is often a need to improve the knowledge of financial markets within investment committees or the conseils d'administration [pension fund boards] which means they avoid implementing a sophisticated approach."

Loans, however, are a potential growth area because capital adequacy rules for the banks have led to stricter lending requirements, and companies are looking elsewhere for finance.

"Loans are interesting for long-term investors because they are illiquid, and therefore, less volatile," says Woutters. "The big pension funds are really looking at this asset class, but it hasn't been adopted yet on a large scale because it is much more complex than other assets and requires a longer learning curve. The extra yield is currently also not sufficient for the additional level of complexity."

However, according to Geldermans, some pension funds are willing to adopt new investment techniques.

"Sponsors have to guarantee a minimum return of 1.75% on the premium, and that is why dynamic asset allocation is gaining momentum," he says. "We expect this momentum to increase further, so long as fixed-income yields remain low. At KBC, we have witnessed additional inflows in this investment processes, such as constant proportion portfolio insurance (CPPI)."

Regulation not funding fears

One area relatively free from controversy at present is the issue of funding levels.

"Funding levels were 120% for 2014, the latest year for which data is available," says Geldermans. "So the debate isn't about funding levels, but regulation. We have an ambitious minister of pensions who is promoting many reforms in areas which affect pension funds."

In the coming year or two, regulation will be the key influence on pension funds, he predicts. And it will not involve just domestic changes.

"European regulation will have an increasingly important impact on how pension funds are organised and invested," Geldermans says. "Certainly, smaller pension funds are already seeing an increase in time spent on regulatory inquiries, which is putting pressure on internal processes and personnel."

The future is a concern to Coumert, particularly on the investment front. "We're expecting lower bond returns, while equity markets have become more volatile than in the past," he says. "And while a number of pension funds are trying to diversify away the risk, for instance into international equities or credit bonds, some are not prepared for negative market returns and their impact on short-term minimum funding requirements."

Coumert says the next step for pension funds will be to implement techniques relying on alpha in addition to beta, although he warns this will take time. "Alpha is a means that helps to protect against downside risk, but there are burdens in changing, because of transparency, regulatory compliance, internal resources and the financial background, and also confidence in the asset manager's ability to generate consistent alpha."

Meanwhile, Geldermans says that as the minimum guarantee, which also applies to insurance contracts, is low, pension funds might gain a competitive advantage as their asset allocation implies a higher expected return than the expected return from insurance contracts.

Belgium gears up for cross-border beauty parade

Gail Moss

Last November, Belgium's pensions minister, Daniel Bacquelaine, outlined reforms he intended to enhance Belgium's appeal as a domicile for cross-border pension funds.

Belgium, along with Luxembourg and the Netherlands, is competing to attract the pension schemes – and the assets – of multinational companies that have decided to exploit the administrative efficiencies of a pan-European scheme.

Despite high-profile moves such as ExxonMobil, figures show that only a dozen cross-border funds are domiciled in Belgium, out of the total of 75 known to the European Insurance and Occupational Pensions Authority (EIOPA). Ireland and the UK combined are home to about 50.

However, while Belgian-domiciled cross-border schemes attract pension plans from different countries – sometimes with different pension regimes – many UK/Irish structures are merely 'across-the-border' funds.

In spite of the enthusiasm, convincing non-Belgian plan sponsors to come to Belgium and set up a cross-border OFP remains a challenge.

Kristof Woutters, global head of investment solutions and financial engineering, Candriam, agrees that Belgium's cross-border vehicle, the OFP, has an attractive legal structure, but says: "When, for example, Dutch plan sponsors are considering moving their pension fund to Belgium, it is a very difficult decision, because they have to liquidate their Dutch structure. It is nothing to do with incentives on the Belgian side, it is more of a question of culture."

He adds: "Furthermore, setting up a cross-border pension fund is a very complex exercise which takes a lot of time and effort. So only a handful of big multinationals are looking at it."

A technical issue that applies to all cross-border IORPs is raised by Thierry Verkest, leader of AonHewitt's international retirement practice in Brussels. "Until now," Verkest says, "cross-border funds in Europe have had to be fully funded. So cross-border schemes in Belgium have to be fully funded in the same way as standard Belgian pension funds, but many companies can't afford to put that level of cash into a pension fund as a single premium. We are working with a number of companies who have put potential transfers to Belgian on hold because of this."

Verkest says AonHewitt has been lobbying the European Commission to allow pension funds to apply recovery plans for domestic funds (OFPs), instead. "We are expecting changes to the requirement that they have to be fully funded," Verkest says. "That will really galvanise the cross-border market."

He says one advantage Belgium has is that its pensions regulator is working to help sponsor companies put an OFP in place: "In other countries, regulators are not necessarily very interested in moving foreign pension arrangements there."

Verkest concludes: "Cross-border pension schemes are a reality. They have worked perfectly well for a number of years, and that is why multi-nationals continue to expand their schemes to other countries."

Belgium expects to attract €5bn in Dutch cross-border pension assets

3 March 2016By Maarten van Wijk

Dutch pension assets in Belgium-based IORPs are set to increase by several billions of euros over the next year if Dutch companies' current plans are realised, according to the Belgian regulator (FSMA).

Speaking at Amsterdam's Free University, Luk Behets, an adviser on the prudential supervision of pension funds at the FSMA, said the assets of Dutch schemes considering relocation currently represented one-quarter of pension fund assets in Belgium, worth approximately €23bn.

Behets said Belgian IORPs were now implementing seven Dutch pension plans, with combined assets of €550m, adding that this equated with 60% of assets in cross-border arrangements.

While he said the FSMA expected "firm decisions" to be taken this year, he did not provide a figure for the number of schemes considering a cross-border move or the names of their sponsors.

It has recently come to light that multinational companies DuPont, ExxonMobil, BP, General Electric and Aon are planning to place their Dutch pension funds into a Belgium-based IORP.

Also speaking at the congress, Rick Hoogendoorn, a pensions policy expert at the Dutch regulator (DNB), said DNB was satisfied with the security of pension rights in Belgium.

He cited the use of a similar discount rate for Dutch pension rights, the application of Dutch social and labour legislation and "strong, friendly ties" with the FSMA.

Hoogendoorn also noted that, in Belgium, the risk of rights cuts depends largely on the risk of non-payment by the sponsor as a consequence of the usual sponsor's guarantee.

He said the regulator did not consider this a problem from a supervisory point of view.

A couple of years ago, Johnson & Johnson lost a lawsuit against DNB, which rejected the company's request to allocate 60% of its portfolio to equities, with an interest hedge of no more than 10%.

The pharmaceutical's Belgian scheme has now adopted just such a strategy.

Responding to the case, Hoogendoorn pointed out that, in the Netherlands, the regulator is prohibited from taking a sponsor's guarantee into account when assessing the prudence of a scheme's investment policy.

He also observed that no Dutch pension funds, low-cost DC vehicles or insurers were currently carrying out cross-border pension arrangements for foreign schemes.

Unilever pension funds buck trend to launch Dutch APF

1 April 2016 By Olaf Boschman, Leen Preesman

Progress and Forward, Unilever's company pension funds in the Netherlands, have said they will join the company's new general pension fund (APF) from 1 July.

According to a spokeswoman, the APF's main purpose is to reduce board costs at the €6bn defined benefit scheme Progress, which closed to new participants at the end of 2014, and its new collective defined contribution plan Forward.

She said it was "unlikely" the Unilever APF would also provide pension arrangements for other employers.

To date, the Unilever schemes are the only pension funds to endeavour to set up an APF in the Netherlands.

The pension funds of three financial sector firms, including the scheme of KAS Bank, recently put plans to launch a joint APF on hold after they concluded that insurers' APFs were likely to charge much less.

Although the APF was designed as a solution for pension funds seeking to cut costs and increase board expertise, applications for a license to operate an APF have been almost exclusively submitted by insurers.

Insurers Aegon, ASR, Centraal Beheer, Delta Lloyd and Nationale Nederlanden (NN) have all unveiled plans for APFs.

Aegon, Centraal Beheer and NN said their APF would co-operate with their respective providers: TKP, Syntrus Achmea and AZL.

Last month, PGGM, the €182bn asset manager and pensions provider for the healthcare scheme PFZW, also submitted an application.

On its website, it said it intended to target small company pension funds.

The Dutch financial regulator is expected to issue the first APF licences within a few weeks.