New rules on pension increases and decreases

Pension Fund APF expects to transition to the new pension system on 1 January 2026. To make sure the transition goes smoothly, we have the opportunity to apply adjusted legislative rules - referred to as the Transition FTK - until then. FTK is a Dutch abbreviation and stands for 'Financial Assessment Framework': it contains the 'rules' currently applicable to pension funds.

The adjusted legislative rules referred to above relate to potential increases and decreases to accrued pensions and payable pensions until the transition to the new pension rules. It is the legislator's intention to allow pensions to grow in line with inflation with effect from this year, even if the buffers required by the old rules are insufficient. At the same time, steps must be taken to ensure the fund has the assets necessary to avoid anyone losing out when we transition to the new pension scheme on 1 January 2026.

The new rules have advantages and disadvantages, which is why we have carefully checked the effect they will have on the pensions of our participants and pension beneficiaries. We have done this because we are under no obligation to follow the new, temporary rules.

Bridging plan
To be able to utilise the new rules, we had to submit a bridging plan to De Nederlandsche Bank. In this plan, we describe how we expect the fund's financial situation to develop in the period leading up to the transition and what this will mean for participants.
The following important observations were made about the funding ratio of our fund in the bridging plan:

- Under the old rules, an increase is possible from **110%** upwards;
- Under the old rules, a full increase is possible from **135%** upwards. A full increase is an increase that is equal to inflation. In the event of a funding ratio between 110% and 135%, the increase is proportional: if the funding ratio is 122.5%, the increase will be 50% of inflation;
- The minimum conversion funding ratio is **103.5%** according to the transition plans of employers and unions. This funding ratio is necessary to form the minimum reserves required during the transition to the new pension system. This definition of the funding ratio is new;
- The target funding ratio of **112%**; the board does not want the funding ratio to fall below this 112%. A target funding ratio of 112% is necessary to properly allow for the interests of all participants and pensioners when transitioning to the new pension system. This will make it possible to meet the most important goals. This definition of the funding ratio is new too.

The new rules now allow for the possibility of a full increase above the target funding ratio of 112%, provided the funding ratio is still more than 112% after the increase.

Please note: it is not certain that this increase will be granted. There may be circumstances that make the board decide otherwise. The board already has this administrative freedom.

For the purposes of transparency: our funding ratio was 124.1% on 31 May 2024.

Exactly what will this mean for increases?

In the example below, it is assumed that inflation will be 2% at the end of September 2024.

- Suppose that the funding ratio is 112%. Under the old rules, there would be an increase of 2% x (112%-110%)/(135%-110%) = 0.16%. Under the new rules, no increase will be possible;
- Suppose that the funding ratio is 113%. Under the old rules, there would be an increase of 2% x (113%-110%)/(135%-110%) = 0.24%. Under the new rules, a 1% increase is possible (because the funding ratio may not fall below the target funding ratio of 112%);
- Suppose that the funding ratio is 114%. Under the old rules, there would be an increase of 2% x (114%-110%)/(135%-110%) = 0.32%. Under the new rules, a full increase of 2% is now possible;
- Suppose that the funding ratio is 120%. Under the old rules, there would be an increase of 2% x (120%-110%)/(135%-110%) = 0.8%. Under the new rules, a full increase of 2% is now also possible (the increase may not be higher than inflation).

At the end of 2024 and 2025, the board will decide whether an increase is possible and, if so, how much the increase will be. When the board makes its decision at the end of 2024, price inflation from September 2023 to September 2024 and the funding ratio as of 30 September 2024 will be important. The board cannot grant an increase that is higher than the increase permitted according to the rules.

Exactly what will this mean for decreases?

- If the funding ratio at the end of 2024 is less than 103.5% but is expected to be more than 103.5% by the end of 2025, a decrease will not be necessary;
- If the funding ratio at the end of 2024 is less than 103.5% and is expected to be lower than 103.5% by the end of 2025, a decrease will be necessary. In this situation, the board will decide how big the decrease will be, subject to the rules prescribed by law. The funding ratio must be equal to or more than 103.5% at the end of 2025.

Under the old rules, we have to decrease pensions if the policy funding ratio has remained below the minimum funding ratio required for five consecutive years and the current funding ratio in the fifth year is below the minimum funding ratio required as well. This is not the case now; as explained above, the rules are different. However, the new, temporary rules do increase the probability of a decrease in the period before the transition to the new pension system.

A 'balanced' decision
As a pension fund, we are allowed to choose whether or not to apply the new rules. One advantage of the new rules: they enable us to give higher pension increases when the funding ratio is more than 112%. However, increases cost money and mean that less money will be available to distribute when we make the transition to the new system (the transition on 1 January 2026). This is one disadvantage of the new rules. Another disadvantage is the slightly higher probability of a decrease. Our decision to apply the new rules is not one that we have taken lightly. We started by evaluating whether our decision was a ‘balanced’ one. In other words, whether we were taking into account the interests of all our participants. Now and in the future. Because the new rules may affect participants and age groups differently. The differences in our fund are better than expected for a number of reasons, one of which is that we only expect to be using the new rules for a very short period of time.

What will this mean for each age group?
How much of an 'advantage' or 'disadvantage' will the new rules be for each group and age group? See the charts below. Note: this is what we expect. We will only know the exact advantages and disadvantages when we find out our funding ratio at the end of this year.
We have listed 10,000 scenarios (as required by De Nederlandsche Bank). The outcome is that the probability of a decrease before the transition to the new system is approximately 17%. The increase expected under the new rules as of 1 January 2025 is 2.3%. Under the old rules, this percentage is 1.1%.

In the charts below, the so-called 'net benefit method' has been used to calculate the effect of the new rules at each age, among pensioners, former participants and active participants.

Chart 1 Net benefit effect - pensioners

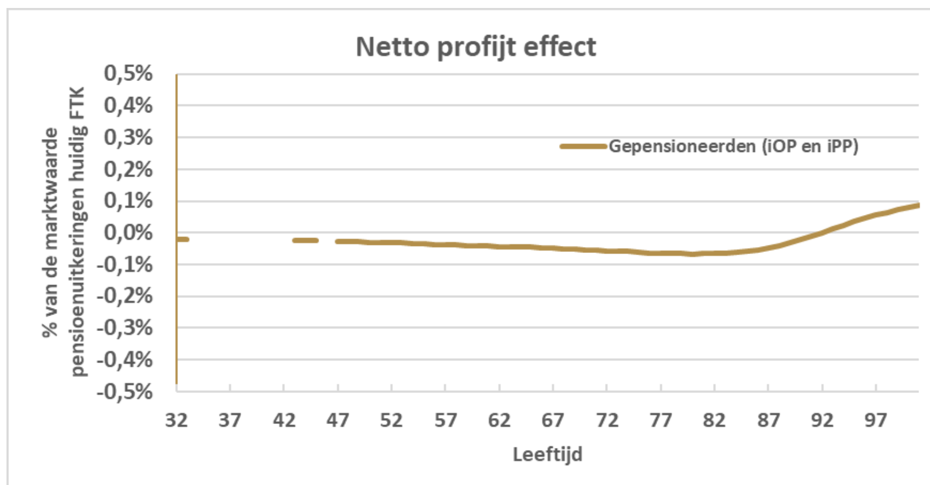


Chart 2 Net benefit effect - former participants

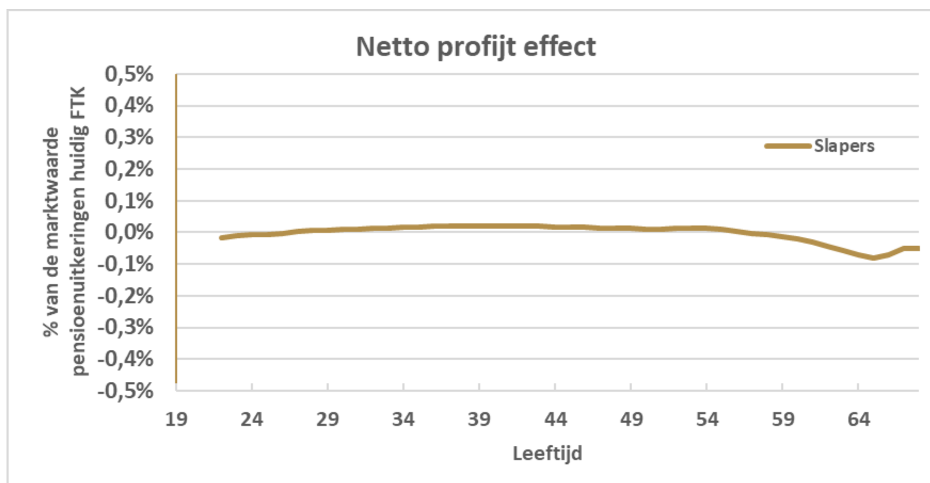
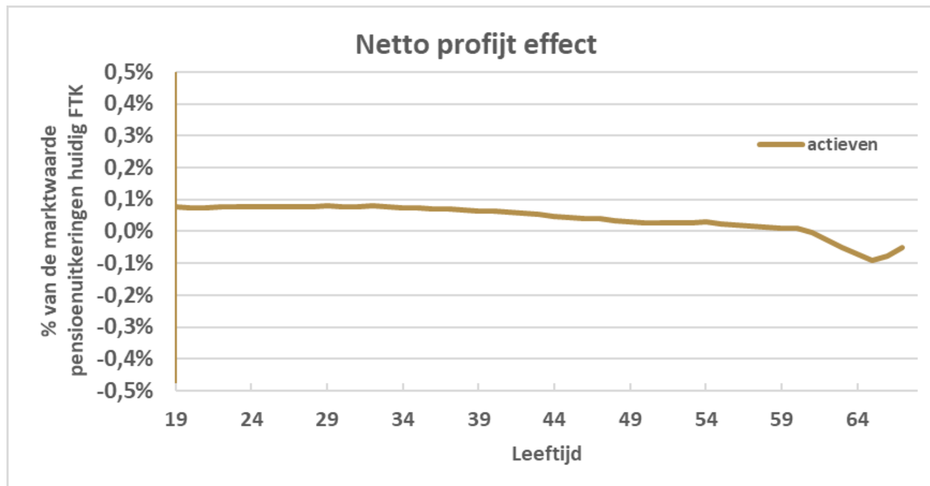


Chart 3 Net benefit effect - active participants



There will be just a limited negative effect for older active participants, former participants and pensioners (up to about 90 years of age). They will benefit immediately from the (higher) supplements but also immediately be affected by the decreases in scenarios where the funding ratio is lower than the minimum conversion funding ratio of 103.5% at the time of the transition.

Please note: the effects described here pertain to the next 20-30 years. This protracted period of time has to be taken into account in these calculations. As such, any adverse effect in this period will be very limited **according to these calculations**.

Conclusion

Our decision to make use of the new rules will affect your (expected) pension. However, as you can see in the chart, big differences are not expected in the very long term (between -0.1% and 0.1%). A bigger increase *can* be expected in 2024 and 2025. Hence why the board has decided that it would be prudent to have the opportunity to take advantage of the new rules on this basis.