Being prepared

David Adams speaks to Eric Uijen, chairman of the executive board at Dutch pension fund PME, about the changes on the horizon

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Eric Uijen is chairman of the executive board at Pensioenfonds van de Metalektro (PME), the pension fund of the Metal and Electrical Engineering industry in the Netherlands, which was originally established over 60 years ago. The fund has 1,340 affiliated employers, including both some very large companies, such as Siemens, but also many smaller firms, with as few as 30 employees. There is a very wide range of types of engineering, manufacturing and technology companies within this mix, building everything from ships to microchips and working in every area from heavy industry to cutting edge electronics, IT and telecommunications. Other affiliated employers include Alcatel-Lucent, DAF, NXP, Stork, shipyard De Schedle and car manufacturer Nedcar.

PME looks after the retirement incomes of 146,000 active members, 307,000 deferred members and 167,000 pensioners. By the end of 2016 it was managing assets worth €44.5 billion and carrying liabilities of €46.2 billion. It delivered a return of 10.3 per cent on invested assets during 2016.

It is now one of the five biggest pension funds in the Netherlands, having grown significantly through

consolidation, which first began with deals signed in the 1980s with insurance companies that had bought out smaller pension funds belonging to employers in this sector, but which has gathered pace in recent years. This has included merging with the pension funds of major companies, including Siemens Netherlands in 2011 and Alcatel-Lucent in 2015.

Consolidation drive

"In the last 10 years we have consolidated many funds together, consolidating more than €8 billion in assets," says Uijen. "We are still actively looking to consolidate further and are looking for other pension funds in our sector that might join us."

This is still a defined benefit scheme, but contributions were fixed in 2015 until 2020. When that term comes to an end Uijen expects them to be fixed again. This control and predictability over employer costs makes the scheme in effect a collective DC arrangement, similar to many other Dutch pension schemes.

However, while this paints a picture of reassuring stability, PME's operational and investment strategies are as likely as any other pension fund in the Netherlands to be impacted by broader economic, political and demographic trends. "We have two challenges, like everyone else: low interest rates and increasing life expectancy," says Uijen. "Life expectancy is not increasing as fast as it was, but it is still increasing."

New versus old

He is also expecting to have to deal with further changes following the recent general election, as the new government is widely expected to implement changes that will begin to move occupational pensions in the Netherlands towards a hybrid DC model featuring 'personal pension accounts'.

Uijen anticipates the possibility that reforms will mean pension funds like PME are obliged to offer individual members a wider choice of pension fund options. "We don't yet know exactly what the new cabinet will decide," he says.

But he is not among those in the Netherland who are most eager to embrace these changes. Ultimately, he fears the changes will leave many members with a less generous pension than they might have expected in the past.

"I think *[the new system]* will end up offering a smaller pension," he says. "I think our system now is better." But he accepts that there seems to have been a cultural change that has changed the way many people in the Netherlands view pensions. "I think they want to see their own money and their individual pension rights that they have accrued," he explains.

He believes that the price many older people will pay for this change will come in the form of higher actuarial premiums. This means that scheme members who are now in their 40s and 50s will not receive pension benefits at the level they might otherwise have expected to receive in retirement. As this becomes clear, PME members affected in this way are as likely as any others in the Netherlands to ask for compensation for this change in some form. Whether or not that will happen and the means by which such compensation would be delivered are among the most concerning questions that remain unanswered. "The government will have to make the negotiations work," says Uijen. "But pensions are very expensive, so you must work longer and it will be more difficult to compensate people for inflation."

He and his colleagues are also braced for the IT and administrative changes that will be required when these changes are implemented. "We will have problems with our administration – how we will do what we need to do, whether we have enough IT capacity to deliver these changes. But these are challenges we will overcome."

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Sustainable investment

The other change that PME has made recently, and has been keen to publicise, is an announcement that it is going to increase the percentage of its investment portfolio invested in sustainable investments, including renewable energy and other sustainable technologies, from about 3 per cent at present to 10 per cent by 2021. The guiding principle behind the strategy will be to invest in sustainable developments as defined by the United Nations in its Sustainable Development Goals (SDGs) – without compromising the strategic aim of delivering strong investment returns while maintaining control of costs.

"We are the first industry fund to announce this goal, under the influence of the employers we work with and our members," says Uijen. "Most of our companies are working hard themselves to be in line with these development goals." It is also the case that some of the company's affiliated employers are themselves working with sustainable development technologies, as is the case with Siemens, for example. "So the companies wanted the pension fund to also have these goals."

PME has also announced that it will seek a 25 per cent reduction in carbon emissions from the companies in which it holds equity. In an announcement made in February the fund said it would seek to achieve these reductions through engagement and would consider ceasing investment in some companies if this engagement appeared to be yielding no significant results.

For now, the fund's most immediate priority is simply to continue to work towards meeting its liabilities and paying benefits to pensioners. Uijen feels that, like most other Dutch pension funds, PME had a lucky escape at the start of 2017 as a result of turmoil in the markets following the election of Donald Trump in the US. "Under the influence of the world economy and the Trump effect the value of investments and interest rates have been increasing," he says. "But we know there are many other problems that we will still need to overcome in 2017." ■