Netherlands

Netherlands: Pension system in 2014

The pension system has three main pillars: a flat-rate state pension (AOW) related to minimum wages and financed via payroll taxes, funded occupational pension schemes, and individual saving schemes. Although there is no statutory obligation for employers to offer a pension scheme to their employees, industrial-relation agreements mean that 91% of employees are covered. These schemes are therefore best thought of as quasi-mandatory.

Key indicators: Netherlands

		Netherlands	OECD
Average worker earnings (AW)	EUR	48 856	33 036
	USD	59 165	40 007
Public pension spending	% of GDP	5.5	7.9
Life expectancy	At birth	80.9	80.0
	At age 65	19.3	19.3
Population over age 65	% of population	18.1	16.2

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Qualifying conditions

The basic old-age pension was payable from age 65 and two months in 2014. All residents are eligible for this benefit. The normal retirement age is typically also 65 in occupational plans. The statutory pension age is gradually increasing to 66 in 2018 and 67 in 2021. Thereafter, the standard retirement age will be linked to gains in life expectancy.

Benefit calculation

Basic

The basic pension benefit for a single person equalled EUR 1 099.37 per month in 2014. There is an additional holiday allowance of EUR 50.11 per person in 2014. This gives a total of EUR 1 149.48 for singles and EUR 1 619.29 for couples. The benefit value is linked to changes in the net minimum wage which is uprated biannually.

The basic benefit accrues at 2% of the full value for each year an individual who resides or works in the Netherlands. For older people and/or households with less than 50 years of Dutch residency and with *no other means of support or no assets* there is also a means tested social-assistance scheme available. It supplements the available benefits from basic and occupational schemes to a maximum value equal to the net basic pension.

Occupational schemes

The Netherlands also has an occupational private pension system with broad coverage. The system consisted of 544 pension funds at the beginning of 2012 and 414 at the end of the year; 74 of these funds concern industry-wide schemes. Under certain conditions Dutch companies which are part of an industry with its own pension scheme may opt out of these plans if they offer their own scheme with equivalent benefits. Furthermore, there are 327 single-employer plans, and another 40 818 schemes (end of 2011) belonging to mainly smaller employers offer schemes operated by insurance companies.

Approximately 94% of covered employees (beginning of 2012) have a defined benefit scheme. The remaining employees are covered by a defined contribution scheme.

Almost 98% of participants in defined benefit schemes have an earnings measure for benefit calculation purposes based on lifetime average earnings whereas less than 1% use the final salary. The remainder it is either a combination of the two or a fixed amount.

Most final-salary schemes have an accrual rate of 1.75% of earnings for each year of service. This equals a target replacement rate of 70% after 40 years. In most average salary schemes the accrual rate varies from 1.75% to 2.25% per year of service. From 2014 the maximum allowed EET accrual rates (paid for with tax exempt contributions) will be lowered from 2.0% to 1.9% for final-salary schemes, and from 2.25% to 2.15% for average salary schemes. As of 2015 maximum average salary accrual rates have been reduced further to 1.875% and only cover earnings up to EUR 100 000. Pension contributions for higher earnings are now paid with taxable contributions. The retirement age is also increasing from 65 to 67 together with the lower accrual right for building up new pension rights.

There are no legal requirements for valorisation of earlier years' pay and practice varies between schemes according to rules agreed upon by the social partners. For approximately 90% of the participants in average wage schemes, past earnings are valorised in line with growth of average earnings while for 10% the aim is to follow prices. Although there is no legal uprating requirement, most pensions in payment are raised on an annual basis as well. Nearly 55% of the pensions in payment are aiming to follow wage growth in each respective industry, while some 42% of the pensions are indexed to prices and 3% aim for a mixture of wage and price growth.

Pension rights are fully transferable when individuals change jobs. There is a legal requirement to index pension rights of people leaving a scheme before retirement in exactly the same way as pensions in payment are indexed. Vesting periods are very short. Occupational pensions are integrated with the public pension system. The current tax rules allow a maximum benefit of 100% of final pay at 65 from both public and private systems. Most schemes have a target total replacement rate of 70% of final pay, so private benefits are reduced by a franchise amount equal to the basic state pension.

Variant careers

Early retirement

The basic pension is not payable before age 65. It is possible to withdraw the occupation pension earlier however the benefits are adjusted.

Late retirement

It is not possible to defer the basic old-age pension scheme after 65 (gradually increasing to 67 in 2021). It is possible to combine the basic pension benefit receipt and work.

The rules on pension deferral vary between occupational plans. It is possible to combine the occupational pension scheme and work. Indeed, some schemes allow a member to withdraw a pension and continue to work with the same employer.

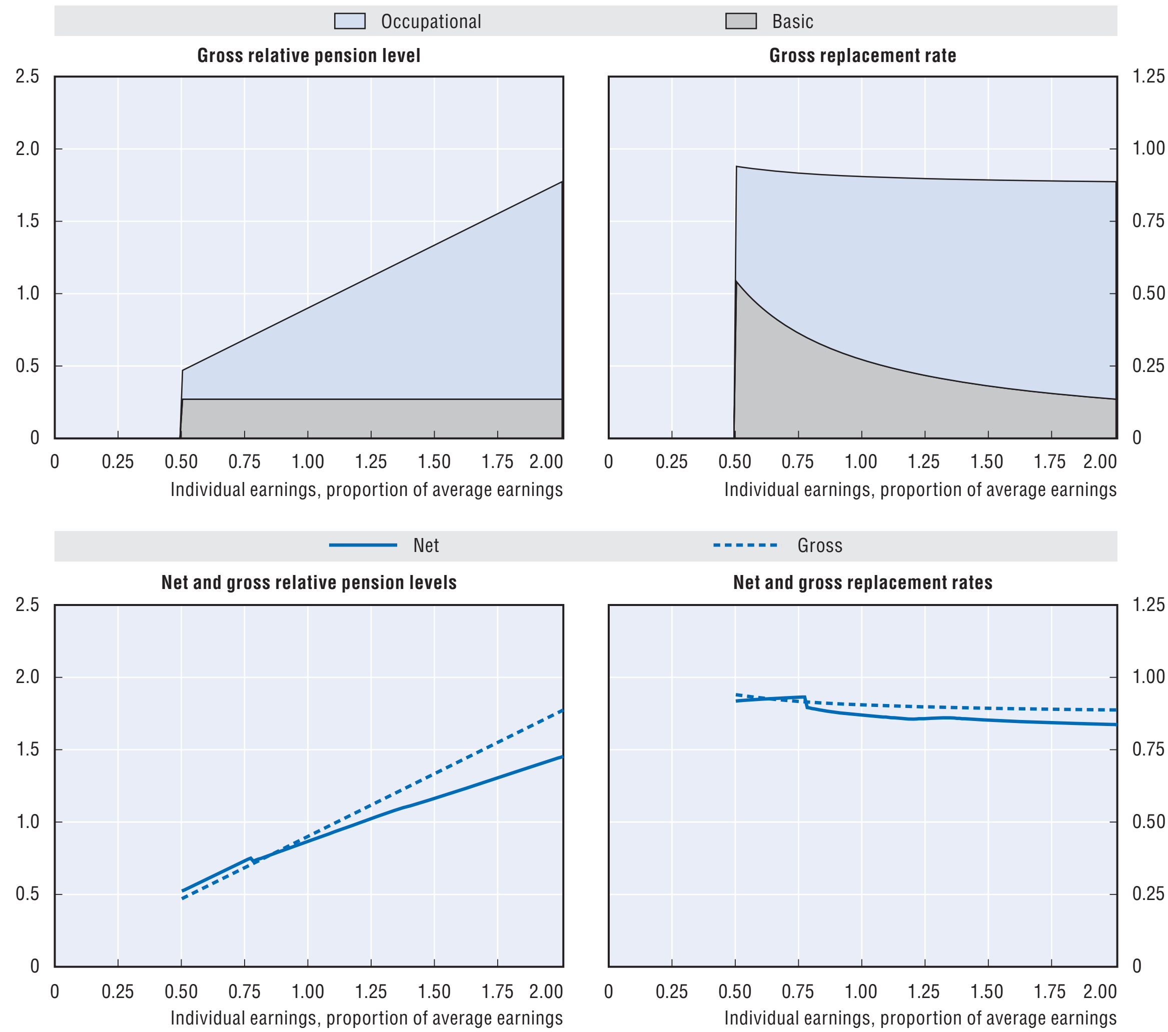
Childcare

In the basic old-age pension scheme, periods out of paid work are automatically covered. In the occupational schemes, there are no credits for childcare periods during which people are out of paid work but the accrual of pension rights continues over remaining working years. However, many schemes allow voluntary contributions to cover the aforementioned periods of absence.

Unemployment

There are no credits in the occupational plans for periods of unemployment. Again, the basic old-age scheme covers such periods automatically. In addition, the social partners administer a fund (FVP) which makes it possible for older workers to extend their pension accrual for a certain period during unemployment. The government has no formal relationship with this fund. The FVP fund is in liquidation now and does not take up any new cases.

Pension modelling results: Netherlands in 2061, retirement at age 67



Baseline scenario: Legislation scenario (wage indexation of basic scheme)

Men	*Individual earnings, multiple of average*					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	47.0	68.7	90.5	134.0	177.4	264.4
(% average gross earnings)						
Net relative pension level	57.6	80.9	95.7	128.4	160.1	223.5
(% net average earnings)						
Gross replacement rate	94.0	91.7	90.5	89.3	88.7	88.1
(% individual gross earnings)						
Net replacement rate	101.3	102.6	95.7	94.1	92.6	90.9
(% individual net earnings)						
Gross pension wealth	17.8	17.4	17.2	16.9	16.8	16.7
(multiple of individual gross earnings)	*20.4*	*19.9*	*19.6*	*19.4*	*19.2*	*19.1*
Net pension wealth	13.6	12.8	11.3	10.1	9.5	8.8
(multiple of individual gross earnings)	*15.6*	*14.6*	*12.9*	*11.6*	*10.8*	*10.1*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

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