Bijlage Gegevens Nederland

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The Netherlands (NL)

Highlights

- The Dutch multi-pillar pension system protects the elderly population from poverty and social exclusion and provides robust income replacement in retirement. The Netherlands has one of the lowest AROPE rates in the EU.
- The 2015 reform raises the pensionable age from 65 to 67 between 2013 and 2021 and links the pensionable age to life expectancy starting in 2015.
- Pensioners sustained income losses between 2009 and 2016 because of the effects of the financial crisis on occupational pensions.
- Future pension adequacy is likely to be good, despite recent freezes and cuts in many occupational pension schemes. The government should consider ways to speed up the reform of the occupational pension sector to improve risk-sharing and strengthen public confidence in the system.

1. General description of the national pension system

First pillar

The Dutch pension system is a true multi-pillar system in the sense that retirees draw pension benefits from all three pillars. The first pillar, the flat-rate state pension (AOW), provides a generous cash benefit to all persons older than 65 and 3 months who have lived in the Netherlands for 50 years between the ages of 15 and 65 (the pension is reduced by 2% for each year of non-residence). In 2016, 80.8 percent of AOW pensioners received a full pension. The AOW provided 53.7 percent of the income of those 65 and older in 2014. Early retirement is not possible. The statutory retirement age will increase gradually to 67 in 2021 (see discussion below), but pensioners are allowed to combine AOW benefits with employment.

AOW pensions are pay-as-you-go (PAYG) financed: the contribution rate has been fixed at 17.90 percent since 1997 (the statutory maximum is 18.25%) and is integrated into the first and second bracket of the personal income tax system for those below the retirement age (the contribution is paid on personal taxable income below the taxable income ceiling of EUR 33,791 (2017 figure).

In 2017, single pensioners received EUR 1231.95 per month (gross), including the vacation supplement of EUR 70.26 (paid in May each year), which is 70 percent of the minimum wage for a single person. Married and cohabiting pensioners receive EUR 851.23 each, including the vacation supplement of EUR 50.18, which is 50 percent of the minimum wage. Singles pay a monthly health insurance contribution of EUR 62.73 per month, whereas married/cohabiting pensioners pay EUR 43.25. Pensioners with a spouse/partner younger than the statutory retirement age with little or no income or a child younger than 18 also receive supplements. AOW benefits are indexed to the net minimum wage twice per year.

Pensioners who do not qualify for a full AOW pension and have little or no other income are eligible for an AIO (*aanvullende inkomensvoorziening ouderen*) supplement that brings the monthly net benefit up to the minimum income determined by government.[221]

Second pillar

[221] The amount varies according to family status: those with a child under 18 receive a higher amount; those who cohabit receive a lower amount.

The second pillar is comprised of occupational pension schemes operated by not-for-profit pension funds (268 in 2017) that cover 5.315 million current employees and 3.244 million occupational pensioners.[222] Schemes are collectively organised, quasi-mandatory, and solidaristic. Another 0.9 million employees have insurance companies run their second pillar pension schemes. Pension schemes may be organised at the firm, sectoral, or professional level. Occupational pension schemes (except for schemes for the free professions) are negotiated and managed by employers and unions as part of collective agreements. Legislation on the extension of collective agreements to entire sectors and the wide coverage (88% of the population aged 15-64) of such agreements ensure very high participation. The self-employed without personnel (*zzp'ers*) and those who work few hours per week at part-time jobs are less likely to be covered by occupational schemes.

Second-pillar pensions are closely integrated with the AOW and specific pension targets vary but generally aim to pay a defined benefit bringing the total pension (including a full AOW) up to 70 percent of average wages (including a full AOW) for 40 years of service. Employers typically pay two thirds of the pension contribution, and employees the rest. All participants in the same scheme pay the same contribution rate (the 'average premium'; see appendix for details). Contribution rates usually range from 15 percent to 25 percent of qualifying income above the AOW offset (there is wide variation across schemes concerning the level of the income ceiling for contributions and benefit accrual). The contribution rate and pension accrual are calculated on the basis of an AOW offset (*franchise*) that varies across schemes, but typically equals the individual AOW benefit. Participants may accrue up to 1.875 percent of their eligible salary below EUR 100,000. Most schemes base their standard pension age on the standard pensionable age under the first-pillar scheme.

Occupational pension schemes are fully funded: the regulatory framework (*financieel toetsingskader, FTK*) requires pension funds to have assets equal to at least 105 percent of all current and future liabilities. If the coverage ratio falls below 90 percent, pension funds are required to implement rights cuts. At the end of October 2017, pension fund assets totalled EUR 1,302 billion, and the coverage rate (*beleidsdekkingsgraad*) was 104.5 percent. 29 percent of pension funds were below the required minimum coverage ratio, affecting 3.7 million active participants (employees) and 2.1 million occupational pensioners (see discussion below).[223] These statistics reflect a significant improvement in the financial performance of pension funds in the past year, largely because of rising equity prices. At the end of December 2016, the average coverage rate was 97.5 percent, with 61 percent of funds below the minimum.[224]

Occupational pension schemes are nominally defined-benefit (DB) in that they typically promise a specific nominal benefit to participants. In reality, however, most schemes are hybrid DB and defined-contribution in the sense that the administrative boards of pension schemes may choose among several levers, including benefit cuts, to restore solvency if assets fall below the legally required level of 105 percent of liabilities. Pension funds are not legally required to index pension accrual and pay-outs to inflation and/or wages. Instead, the indexation of both accrual and benefits is conditional on pension fund solvency.

Most second-pillar pension schemes have phased out early retirement. Because the statutory pension scheme does not allow early retirement, workers with arduous jobs rely on the occupational pension provisions if they cannot work until the statutory retirement age. Many collectively negotiated occupational pensions offer flexibility concerning partial or full early

[222] 2016 figures, www.dnb.nl. There are also 9.617 million people who have accumulated pension rights, but are not currently active pension fund members and do not receive occupational pension benefits.
[223] https://www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/statistisch-nieuws-2017/dnb364880.jsp. The coverage rate referred to here is the 'policy funding ratio', which is the 12-month average funding ratio based on daily market information.
[224] https://www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/statistisch-nieuws-2017/index.jsp.

retirement, but there is wide variation across collective agreements. The social partners have introduced measures in most pension schemes that allow flexible retirement, mainly by combining part-time work with a part-time pension. Because the statutory pension scheme does not allow early retirement, workers in arduous and/or hazardous jobs can only retire early (either fully or partially) if their occupational pension scheme includes special provisions for older workers or allows flexible retirement. The sectors typically considered to include arduous and/or hazardous jobs (for example, the construction sector) include such provisions.[225]

Third pillar

Because of the size of the first and second pillar, personal pension savings arrangements are not very extensive, except for the self-employed and those wishing to supplement their first- and second-pillar pension benefits. According to a recent survey, about 75 percent of the solo self-employed have pension coverage. The proportion is smaller for the female solo self-employed, at about two thirds.[226] In the second half of the 2000s, the size of the third pillar was about 5 percent of all pension savings.

2. Reform trends

The AOW pension has been a target of reform for three decades because of rising expenditures. In 2000, AOW expenditure was EUR 19.1 billion, and it has risen to about EUR 37 billion in 2017.[227] A 2012 law, revised in 2015, raises the statutory retirement age from 65 to 67 between 2013 and 2021 and links the retirement age to changes in life expectancy starting in 2015.[228]

Reform of the occupational pension sector has been a priority for two decades. Debate about how to reform the second pillar continued in 2017 as stakeholders continued to discuss how to adapt to changes in the demographic and financial environment. Two thirds of all DB schemes were underfunded in July 2015, requiring the submission of recovery plans to the pensions regulator. The situation improved in 2016 and 2017 because of interest rate decreases and higher returns on equity markets. Many pension funds have frozen pension accrual and/or pay-outs. The situation of ABP, the largest pension fund (for public sector workers) illustrates the effect of this type of policy: between 2008 and 2016, pension accrual and pay-outs were 11.9 percent lower than they would have been if indexation had been granted.[229] Many pension schemes have also raised contributions to help restore solvency. For example, ABP raised contributions from 18.8 percent to 21.1 percent in 2017.

The March 2017 national elections have led to a pause in the occupational pension reform process. The four centre-right parties that have formed the new government have delegated the task of reforming second-pillar pensions to the social partners. This shifts the initiative for reform back to the Social and Economic Council of the Netherlands (*Sociaal-Economische Raad, SER*), which has been discussing second-pillar reform for several years. The SER is discussing a new type of pension contract in which individual pensions accrual is combined with collective risk sharing. This design is intended to address some of the problems associated with the current system of average premiums and should make the system less vulnerable to financial and demographic shocks. It is unlikely that the SER's proposals can be implemented before 2020.

The slowdown in the process of reforming second-pillar pensions increases the probability that many wage-earners and pensioners will face pension rights cuts in 2020 and 2021. As noted,

[225] *ESPN Thematic Report on Retirement regimes for workers in arduous or hazardous jobs.* The Netherlands. May 2016.
[226] https://www.cbs.nl/nl-nl/nieuws/2017/28/kwart-zzp-ers-heeft-geen-pensioenvoorziening.
[227] Figures are from the State Budget (*Rijksbegroting*) 2002 and 2018.
[228] *Wet verhoging AOW- en pensioenrichtleeftijd (Wet VAP).*
[229] https://www.abp.nl/over-abp/financiele-situatie/indexatie.aspx.

the regulatory framework (FTK) requires pension funds to have assets equal to at least 104.5 percent of liabilities. The largest pension funds (the public sector ABP; the metalworkers' funds PMT and PME) are unlikely to meet the 104.5 percent target in 2020 and 2021.

3. Assessment of adequacy

3.1. Current adequacy

3.1.1. General assessment of current adequacy

The Netherlands has a very strong record concerning pension adequacy. Only 1.2 percent of those aged 65 and older were severely materially deprived in 2016 (an increase of 0.8 percentage points (p.p.) since 2008). The rate was the same for those aged 75 or older. 9.1 percent of those aged 65 and older were at risk of poverty (AROP) in 2016, a decrease of 0.3 p.p. since 2008. Dutch women were more likely to be at risk of poverty than men, although the difference was not dramatic (9.5% for women and 8.6% for men). The AROP rate for those aged 75 and older was 10.5 percent, which reflects a decrease of 0.6 p.p. compared with 2008. The intensity of poverty for those aged 65 and older was also fairly low: the relative poverty gap for this group was 12.3 percent. 4.9 percent of this group experienced material and social deprivation.

The Netherlands' good performance concerning adequacy is a direct consequence of the universal coverage of the AOW pension and the AOW's link to the net minimum wage. Although close to 20 percent of pensioners do not receive a full AOW, the widespread coverage of occupational pensions helps to compensate for this, as do various income supplements for pensioners with insufficient income.

57 percent of the elderly live in owner-occupied housing, which is lower than most other EU Member States. This reflects the wide availability of social housing. The proportion of the elderly living in owner-occupied housing is likely to rise, because of the increase in home-ownership among the working population (aged 16-64).

Pensioners in the Netherlands also fare well in comparison with the rest of the population. The AROP rate for those aged 65 and older and 75 and older is noticeably lower than it is for the rest of the population. Pensioner incomes also remain stable, despite the financial difficulties of many occupational pension schemes. The relative median income ratio of those aged 65 years and older is 0.83, which reflects a very slight decrease since 2008. The income quintile share ratio (S80/S20) for those aged 65 and older is 3.3, which is slightly higher (by 0.1 p.p.) compared with 2008. Finally, the aggregate replacement ratio for older people is 0.50.

The gender gap created by the state pension is mild because of the universal, flat-rate character of benefits. However, occupational pensions pay benefits based on lifetime earnings from employment, and because these have been (and still are) lower for women it is here that the gender gap in the overall pension package emerges. Female labour force participation is high, but most women tend to work part time. In 2001, 87 percent of men aged 65 and over had occupational pension income compared with 52 percent of women. The corresponding figures for 2014 were 92 and 61.3 percent (www.cbs.nl). The gender gap in pension income for those aged 65-79 was 45.42 percent in 2016. The relatively large gender gap reflects lower overall earnings due to the comparatively late entrance of women into the paid labour market compared with other EU Member States, as well as women's tendency to work part time. These trends do not affect statutory pension income, but they have a significant influence on occupational pension income.

3.1.2. Redistributive elements of public pension schemes

There are strong redistributive elements in both the statutory pension scheme and occupational pensions. The AOW's financing structure (contributions finance about 70% of AOW expenditure; general revenues finance the rest) and flat-rate benefit construction are strongly redistributive and provide strong protection from poverty (as discussed above). Residents build pension rights based on the number of years they have lived in the Netherlands between the ages of 16 and 65, rather than on income from previous employment. Those with insufficient AOW pension accumulation receive supplements that bring their benefits up to the level of a full AOW pension. This means that those with income from work finance benefits for all pensioners regardless of previous income from employment. The AOW's flat-rate benefit structure reinforces this redistribution, because it further weakens the link between contributions and benefits.

The structure of the AOW can be disadvantageous for those with arduous jobs and others who are forced to leave the labour market early. Early retirement is not possible in the AOW scheme, so early leavers must rely on statutory and occupational disability schemes to bridge the period between early labour market exit and statutory retirement.

3.2. Retirement conditions for the self-employed and for people in non-standard employment

The relative generosity of the statutory basic pension ensures that all pensioners receive an adequate income in retirement, regardless of their previous labour market status. The AOW is therefore particularly important to the self-employed and to non-standard workers, because both groups are not adequately covered by the obligatory, collectively organised pension arrangements in the second pillar. This means that the self-employed and non-standard workers are sufficiently protected against poverty after they leave the labour market, but many are unable to supplement their first-pillar pension with additional retirement savings.

The inadequacy of second- and third-pillar pension coverage for the self-employed and non-standard workers has been an important political issue for several decades. Efforts to improve second-pillar coverage for part-time work began in 1996 when the government passed legislation guaranteeing the equal treatment of full-time and part-time work, including occupational pension accrual. Part-time workers now earn occupational pension rights on a proportional basis and cannot be excluded from occupational schemes. The Flexibility and Security Act (*Wet flexibiliteit en zekerheid*) adopted in 1998 improves the social security provisions of non-standard workers. Despite these improvements, however, some categories of agency and on-call workers are not adequately covered in the second pillar. There is a binding collective agreement for the temporary sector.

Efforts to improve second- and third-pillar coverage for the self-employed have been less successful. One of the fastest growing categories of worker is the solo self-employed, yet occupational pension coverage remains insufficient. About one half of the self-employed have insufficient retirement savings in the second and third pillar, and 25 percent have insufficient savings in the third pillar (Ministry of Social Affairs and Employment, 8 July 2016). Coverage is expensive, and the self-employed often forego coverage or only buy partial coverage on the personal pension insurance market. The number of self-employed people without personnel has increased substantially during the past decade, from 400,000 in 1996 to 956,000 in 2009. Recent reform debates consider the position of *zzp'ers*, but no action has been taken.

3.3. Future adequacy and challenges

The Dutch pension system is likely to continue to perform well in terms of future pension adequacy, despite the recent freezes and cuts in some occupational pension schemes. There is a very strong political consensus to maintain the structure of the statutory pension. However, financial sustainability remains a concern. AOW expenditures have risen by about 25 percent since 2008, and projected increases in life expectancy will create additional pressure on pension financing. Current life expectancy at age 65 is 19.8 years, and this is forecast to increase to 23.8 by 2056. Recent reforms aim to reduce current and future spending by raising the statutory retirement age but these are unlikely to counteract all of the future financial effects of rising longevity. Additional increases in the statutory retirement age and/or increases in the general revenue financing of the AOW are therefore likely in the medium to long term. Continued efforts to increase the labour market participation of older people will be important elements in these reform strategies.

The slowdown in the occupational pension reform process is also cause for concern. As discussed above, many pension funds have suspended indexation for several years, resulting in some loss of purchasing power for current pensioners and lower pension accumulation for future pensioners. Agreement on a new type of occupational pension contract has been difficult, and is likely to require several years of negotiation between the social partners.

4. Main opportunities for addressing pension-related challenges

The statutory pension provides very strong protection against poverty in old age, and the wide coverage of occupational pension schemes results in strong income replacement during retirement for most pensioners. The key challenge for the Netherlands is thus to ensure the financial sustainability of both the statutory and collectively organised occupational pensions. Recent governments have taken important steps to ensure the financial sustainability of the statutory pension by raising the statutory retirement age and linking it to life expectancy. Rising life expectancy and projected increases in the old-age dependency ratio will require additional sources of financing. One option is for the government to consider gradually increasing the share of general revenue financing, thereby relieving pressure on employment-based sources of revenue.

The ongoing reform of second-pillar pensions is a priority. Several years of pension rights freezes and cuts because of the 2008 financial crisis and historically low interest rates are jeopardising the legitimacy of the system. The government and social partners should consider switching from a DB formula to a collective DB formula that is less vulnerable to financial market shocks.

5. Background statistics – the Netherlands

1. Relative incomes of older people

Indicator	2016			Change 2008-2016		
	Total	Men	Women	Total	Men	Women
Relative median income ratio, 65+	0.83	0.85	0.82	-0.01	0	-0.02
Income quintile share ratio (S80/S20), 65+	3.3	3.5	3.1	0.1	0.1	0
Aggregate replacement ratio (ARR)	0.50	0.55	0.48	0.07	0.06	-0.03

2. Poverty and material deprivation

Indicator	2016			Change 2008-2016		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE), 65+ (%)	10.1	9.8	10.4	0.4	-0.3	0.9
At-risk-of-poverty (AROP), 65+ (%)	9.1	8.6	9.5	-0.3	-1	0.3
Severe material deprivation (SMD), 65+ (%)	1.2	1.4	1.1	0.8	0.8	0.8
At-risk-of-poverty or social exclusion (AROPE), 75+ (%)	11.6	11.2	11.8	0.3	-2.1	1.7
At-risk-of-poverty (AROP), 75+ (%)	10.5	9.5	11.3	-0.6	-3.4	1.2
Severe material deprivation (SMD), 75+ (%)	1.2	2.2	0.5	1.0	1.7	0.5
Relative poverty gap, 65+ (%)	12.3	13.5	11.3	-2.2	2.0	-6.0
At-risk-of-poverty (AROP), 65+: 50% threshold (%)	3.3	3.4	3.2	-1.0	-0.5	-1.4
At-risk-of-poverty (AROP), 65+: 70% threshold (%)	22.7	21.4	23.9	1.1	1.8	0.8
				Change 2014-2016		
Material and social deprivation, age 65+ (%)	5.1	4.1	5.9	0.6	0.2	0.9

3. Gender differences

Indicator	2016	Change 2008-2016
	Total	Total
Gender gap in pension income (65-79) (%)	45.42	2.97
Gender gap in non-coverage (W-M in p.p.) (65-79)	0	0.2

4. Housing and health situation of older people

Indicator	2016			Change 2008-2016		
	Total	Men	Women	Total	Men	Women
Population 65+ living in overcrowded households (%)	0.5	0.6	0.3	0.4	0.5	0.2
Tenure status among people 65+: share of owners (%)	57.1	62.8	52.2	10.5	10.4	10.1
Housing cost overburden, 65+ (%)	13.6	10.5	16.2	-2.2	-0.3	-3.5
Self-reported unmet need for medical care 65+ (%)	0.2	0.2	0.1	0.0	-0.1	0.0
Healthy life years at age 65 (years) *		10.5	9.4		0.6	-0.3

5. Pension duration

Indicator	2016			Projections for 2056		
	Total	Men	Women	Total	Men	Women
Pension payment duration (2012) (years)		19.4	22.6			
Retirement duration (AWG) (years)		18.3	22.8		18.8	23.3

Data source: (1) (2) (3) (4) Eurostat, Sept-Oct 2017 (5) European Commission

*Notes: * - 2015 data*

6. Theoretical Replacement Rates (TRRs)

	TRR case	Net (%)				Gross (%)			
		2016		*2056*		*2016*		*2056*	
		Men	Women	Men	Women	Men	Women	Men	Women
Average Earnings	Variant: old base case: 40 years up to 65	97.2		53.1		85.3		44.5	
	New base case: 40 years up to the SPA	101.8		96.1		89.9		86.4	
	Increased SPA: from age 25 to SPA	101.8		101.7		89.9		92.0	
	AWG career length case	108.4	106.1	61.5	59.1	96.4	94.2	52.3	50.0
	Longer career: 42 years to SPA			98.3				88.6	
	Shorter career: 38 years to SPA			93.9				84.2	
	Deferred exit: 42 years to SPA +2			105.8				96.1	
	Earlier exit: 38 years to SPA -2			97.3				87.5	
	Career break – unemployment: 3 years			92.4				83.1	
	Career break due to childcare: 3 years			92.4				83.1	
	Career break caring for family dependant: 3 years			92.4				83.1	
	Short career (20-year career)			59.0				53.1	
	Work 35 years, disabled 5 years prior to SPA			89.9				80.8	
	Early entry in the LM: from age 20 to SPA			108.5				97.6	
	Index: 10 years after retirement @ SPA			96.1				86.4	
	Extended part-time period for childcare			85.8				77.1	
	Pension rights of surviving spouses								69.2
Low (66%)	Variant: old base case: 40 years up to 65	91.8		27.6		85.3		28.3	
	New base case: 40 years up to the SPA	96.4		98.0		89.9		91.8	
	AWG career length case	101.0	99.4	34.1	32.3	96.5	94.3	33.3	31.9
	Career break – unemployment: 3 years			95.8				89.7	
	Career break due to childcare: 3 years			95.8				89.7	
	Short career (20-year career)			75.4				YES	
High	New base case: 40 years up to the SPA	98.4		64.0		89.9		70.6	
	Average replacement rate across retirees								

7. Sustainability and context

Indicator	2016			Projections for 2056		
	Total	Men	Women	Total	Men	Women
Life expectancy at 65 (years)	19.8	18.4	21.1	23.8	22.3	25.2
Old-age dependancy ratio (20-64) (%)	30.6	27.8	33.5	47.4	43.0	52.0
Economic old-age dependancy ratio (15-64) (%)	35.3	29.1	42.6	48.7	41.1	57.0
Employment rate, age group 55-64 (%)	63.5	72.8	54.2	72.9		
Pension expenditure as % of GDP (ESSPROS)	12.3*					
AWG projections	2016			2055		
Coverage ratio (% of pop aged 65+)						

Data source: (6) Member State and OECD; (7) European Commission, DG ECFIN

*Notes: * - 2015*

Abbreviations

AROP	At-risk-of-poverty
AROPE	At-risk-of-poverty or social exclusion
ARR	Aggregate replacement ratio
AWG	Ageing Working Group (of the EPC)
BR	Benefit ratio
DB	Defined benefits
DC	Defined contributions
DG ECFIN	Directorate-General for Economic and Financial Affairs
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
EC	European Commission
EPC	Economic Policy Committee
ESPN	European Social Policy Network
EUROPOP	Eurostat demographic projections
EU-SILC	European Union Statistics on Income and Living Conditions
GDP	Gross Domestic Product
ISG	Indicators Sub-group of the Social Protection Committee (SPC)
NDC	Notionally defined contributions
OECD	Organisation for Economic Co-operation and Development
PAR	Pension Adequacy Report
p.p.	Percentage points
PAYG	Pay-as-you-go pension scheme
SMD	Severe material deprivation
SPA	Standard pensionable age
SPC	Social Protection Committee
TRR	Theoretical replacement rate
WG-AGE	Working Group on Ageing Issues (of the SPC)

Member States

BE	Belgium
BG	Bulgaria
CZ	Czech Republic
DK	Denmark
DE	Germany
EE	Estonia
IE	Ireland
EL	Greece
ES	Spain
FR	France
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IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	The Netherlands
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PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom
EU	European Union
EU-28	European Union, 28 Member States