


Netherlands

Netherlands: Pension system in 2012

The pension system has two main tiers, consisting of a flat-rate public scheme and earnings-related occupational plans. Although there is no statutory obligation for employers to offer a pension scheme to their employees, industrial-relations agreements mean that 91% of employees are covered. These schemes are therefore best thought of as quasi-mandatory.

Key indicators

| | | Netherlands | OECD |
|------------------------------|-----------------------------|-------------|--------|
| Average worker earnings (AW) | EUR | 46 400 | 32 400 |
| | USD | 61 200 | 42 700 |
| Public pension spending | % of GDP | 5.1 | 7.8 |
| Life expectancy | At birth | 80.9 | 79.9 |
| | At age 65 | 19.2 | 19.1 |
| Population over age 65 | % of working-age population | 27.3 | 25.5 |

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Qualifying conditions

The basic old-age pension is payable from age 65. All residents are eligible for this benefit. Normal retirement age is typically also 65 in occupational plans. With effect from 2013, the statutory pension age will gradually increase to 67 in 2023. Thereafter, this age will be adjusted to life expectancy. In 2013 a proposal is made to speed up the increase from 2015 on to the age of 67 in 2021.

Benefit calculation

Basic

For a single person, the gross pension benefit in 2012 was EUR 1 079.93 per month for the first half of the year and EUR 1 085.63 per month for the second half of the year. There was an additional holiday allowance of EUR 720.18 per year.

This gives an annual total of EUR 13 713.54, or 30% of average earnings. For a couple, the total yearly benefit was EUR 19 130.76. The benefit value is linked to the net minimum wage, which is uprated biannually.

The basic benefit accrues at 2% of the full value for each year a worker lives or works in the country. There is also a social-assistance scheme for older people. Its value is equal to the net basic pension.

Occupational schemes

The Netherlands also has a private pension system with broad coverage. The system consists of 4 544 pension funds at the beginning of 2012 and 414 at the end of the year. 74 of these funds concern industry-wide schemes at the end of 2012. Under certain conditions, Dutch companies may opt out of these plans if they offer their own scheme with equivalent benefits. Furthermore there are 327 single-employer plans. Another 40 818 (end of 2011) mainly smaller employers offer schemes operated by insurance companies.

Approximately 93.5% of the employees in pension funds at the beginning of 2012 are covered by a defined-benefit scheme. The remaining employees in pension funds are covered by a defined-contribution scheme.

For almost 98% of these participants in defined-benefit schemes the earnings measure is based on lifetime average earnings, and for less than 1% on the final salary. For the remainder it is either a combination of the two (1%) or a fixed amount (less than 1%).

Most final-salary schemes give 1.75% of those earnings for each year of service, implying a replacement rate of 70% after a complete 40-year career. In most average salary schemes the accrual rate varies from 1.75% to 2.25% per year of service. From 2014 the maximum allowed accrual rates will be lowered from 2% to 1.9% for final-salary schemes and from 2.25% to 2.15% for average salary schemes. Together with these lower accrual rates the retirement age for building up new pension rights is increased from 65 to 67.

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 rate of inflation is used. The modelling assumes an average salary scheme with valorisation to average earnings.

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 indexed to wage growth in the respective industry, while some 42% of the pensions are indexed to prices, 3% is a mixture of wage and price growth.

Pension rights are fully transferable when people 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.

There is no ceiling to pensionable earnings.

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.

Variant careers

Early retirement

The basic pension is not payable before age 65.

In 2005, the tax-favoured status of separate early retirement programmes (called VUT) and which led to pre-pension benefits between ages 60 and 65 was abolished to stimulate labour-market participation of older workers.

Late retirement

It is not possible to defer the basic old-age pension scheme after 65 (gradually increasing to 67 in 2023). It is possible to combine the basic pension receipt with work.

The rules on pension deferral vary between occupational plans. It is possible to combine the occupational pension scheme with work. Indeed, some schemes allow a member to draw a pension and continue to work with the same employer. There is no legislation regarding this issue.

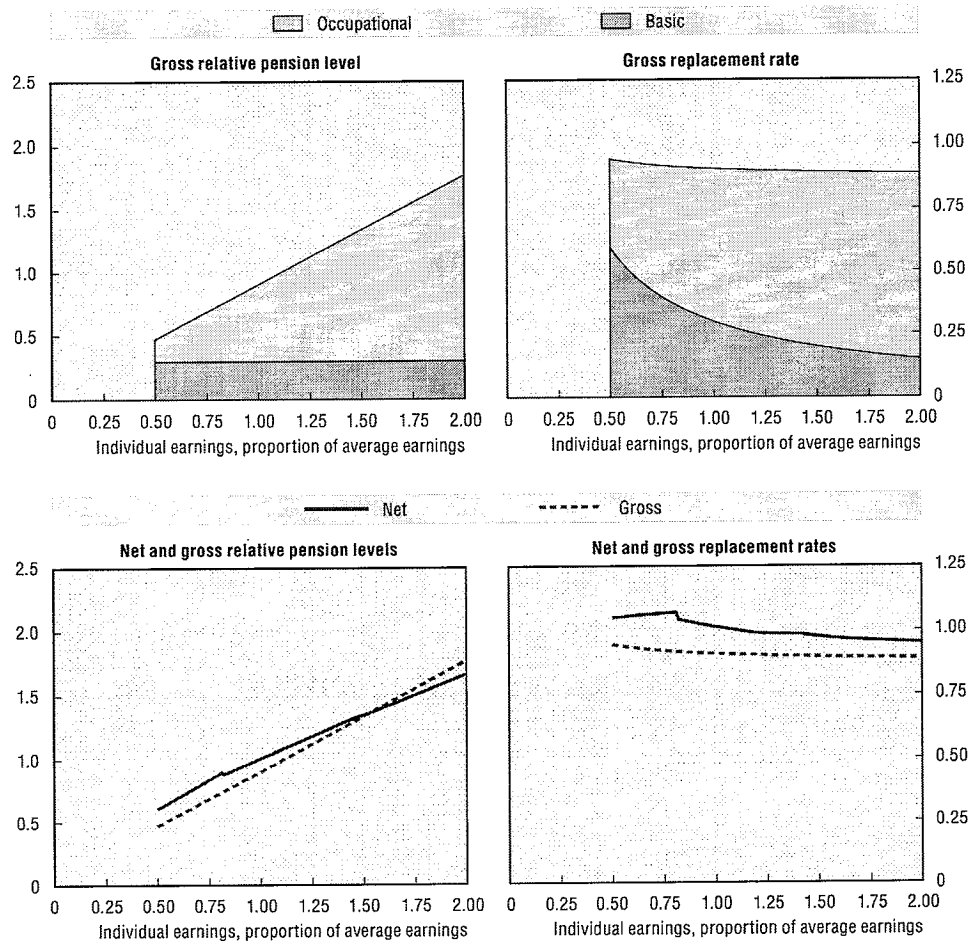
Childcare

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.

Pension modelling results: Netherlands



| Men Women (where different) | Median earner | Individual earnings, multiple of average | | | | |
|---|---------------|--|-------|-------|-------|-------|
| | | 0.5 | 0.75 | 1 | 1.5 | 2 |
| Gross relative pension level (% average gross earnings) | 76.8 | 47.2 | 68.9 | 90.7 | 134.1 | 177.6 |
| Net relative pension level (% net average earnings) | 89.9 | 60.6 | 84.2 | 101.1 | 135.1 | 166.9 |
| Gross replacement rate (% individual gross earnings) | 91.4 | 94.4 | 91.9 | 90.7 | 89.4 | 88.8 |
| Net replacement rate (% individual net earnings) | 103.8 | 104.8 | 106.6 | 101.1 | 97.2 | 94.9 |
| Gross pension wealth (multiple of individual gross earnings) | 17.8 | 18.4 | 17.9 | 17.6 | 17.4 | 17.3 |
| Net pension wealth (multiple of individual gross earnings) | 12.9 | 14.6 | 13.5 | 12.1 | 10.8 | 10.0 |
| | 14.8 | 16.7 | 15.5 | 14.0 | 12.4 | 11.5 |

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