Ministerie van Sociale Zaken en Werkgelegenheid

The old age pension system in the Netherlands

Index

Introduction

The Dutch pension system has three main pillars: a flat-rate state pension (AOW) related to minimum wages and financed via payroll taxes, occupational pension schemes which are capital-funded, and individual saving schemes.

The present outline focuses in particular on the second pillar that is the supplementary pension as an element of labour compensation, and the laws relevant to it. It also provides a brief outline of the state old-age pension.

More information on current developments in the area of pensions in the Netherlands can be found on the international website of the Dutch Ministry of Social Affairs and Employment: www.english.szw.nl (benefits/old-age pension).

1. Principles of the Dutch pension system

The Dutch pension system may be characterised in terms of three pillars, namely:
- basic state old-age pension under a statutory insurance scheme (first pillar);
- supplementary pension schemes by virtue of the employer (second pillar);
- private savings for retirement (third pillar).

The Dutch General Old Age Pensions Act (AOW) provides for basic state pensions for people aged 65 and over. In addition, the AOW scheme includes a supplementary allowance for partners and beneficiaries who are under 65 and have either no income or an income below a certain level. The Dutch Surviving Dependants Act (ANW) provides for state benefits for people whose partner has died and for children younger than 16 who have lost one or both parents.

Supplementary to the state pensions and the largest pillar in terms of the overall Dutch pension system are the occupational non-statutory pension schemes. The employer usually pays more than fifty percent of the pension contributions. This system of supplementary pension schemes has a rich history and is the backbone of the old-age pension system in the Netherlands. In per capita terms, the Netherlands has one of the largest pension reserves in the world.

The third pillar includes the personal annuities offered by insurance providers, supplementary to the AOW and/or the occupational pensions.

Various types of pension provisions
In the Netherlands there is a mixed system of public and private provisions. Public means that the provisions are regulated by law, private means that the provisions are regulated by the employer or that people, individually, make pension arrangements with an insurance provider by buying an annuity insurance or endowment insurance. The Dutch pension system guarantees that everyone aged 65 and over enjoys a decent standard of living and will continue to do so in the future.

	Character	Who exercises control?	What is it?
1st pillar	Public	Regulated by law	Basic state pension: AOW
2nd pillar	Private	Regulated by law	Supplementary pension (collective schemes)
3rd pillar	Private	Individual action	Supplementary pension (individual): annuities, endowment

In comparison with other countries, the basic old-age pensions account for a minor part of the total provisions for old age. The joint capital of all pension providers is much higher, namely EUR 725 billion (source: 2007 Annual Report, Dutch Central Bank). More than 8.5 million people receive a pension benefit or have acquired vested pension rights.

It is possible that people do not receive a supplementary pension from their employer because there is no obligation for employers to make pension commitments to their employees. Alternatively, it may be because people have not been engaged in paid labour or were self-employed. Those people can opt to supplement their AOW benefit by arranging individual pension provisions, such as life insurances, a fiscal old-age reserve for entrepreneurs, and endowments.

Although there is no statutory obligation for employers to offer a pension scheme to their employees, more than 95% of employees are covered. These second pillar schemes are therefore best thought of as quasi-mandatory.

Funding

State old-age pensions are financed according to the pay-as-you-go (PAYG) system: today's contributors finance the pension payments made to the retirees of today.

Second and third-pillar pensions are primarily financed by means of funding. Pension benefits are financed by pension contributions paid in the past and accumulated by investment yields.

2. First pillar: the state old-age pension (AOW)

The first pillar includes state regulations that provide for an income for people aged 65 and over or after decease. Two forms of old-age provisions are involved:

- General Old Age Pensions Act (AOW). This statutory social security (state) old-age pension provides all residents of the Netherlands aged 65 and over with a flat-rate pension benefit that in principle guarantees 70 percent of the net minimum wage;
- Surviving Dependants Act (ANW). A surviving dependant's pension is a flat-rate benefit payable to the surviving partner after the other partner passes away and after the decease of parents.

Vesting of pension rights

Since the introduction of the AOW in 1957, the intention has always been to entitle all people aged 65 and over to full AOW old-age pension rights. In principle, all residents of the Netherlands between the ages of 15 and 65 are insured. Entitlement to AOW pension is accumulated at a rate of 2% for each year of insurance. This leads to a 100% entitlement to the relevant pension benefit upon reaching the age of 65, provided there are no gaps in the period of insurance. If one has lived outside the Netherlands for any length of time, one will not accrue any AOW pension rights during this period unless someone has paid a contribution for voluntary insurance. At 65 people receive a lifelong AOW benefit. At the end of 2008, 2.7 million people were receiving AOW pension benefits amounting in total to EUR 27 billion.

AOW benefit: domestic situation

The AOW benefit is a flat-rate one based on the net statutory minimum wage. The amount of the benefit does not depend on any former income or on contributions paid in the past. Housewives who have never paid contributions are also entitled to an AOW benefit when they reach the age of 65. The amount of the AOW benefit depends on the domestic situation of the retiree. There are different benefits for single people, single parents and married couples.

Assuming they have full entitlement to the state old-age pension, on 1 January 2009 the gross pension rates for singles is 70 percent of the statutory minimum wage per month (EUR 1001), while both partners in a couple (either married or living together officially) are each entitled to a pension benefit amounting to 50 percent of the statutory minimum wage (EUR 686).

Reduced AOW pension: supplementary national assistance

The old age pension entitlement of people who have been insured for less than 50 years is reduced proportionately. People who have not acquired the full AOW pension rights may be entitled to supplementary national assistance. There is a separate national assistance standard for persons with a reduced AOW pension, enabling them to receive as much as people with a full AOW pension. Municipal authorities decide whether a person is entitled to an additional allowance. In addition, supplementary national assistance qualifies for a capital exemption.

Supplementary allowance for a partner under 65

A person aged 65 with a partner under 65 may be entitled to a supplementary allowance if the partner's income is limited. The amount of the supplementary allowance depends, among other things, on the partner's income and ends when the partner reaches the retirement age of 65. Single parents will receive 90 percent of the net minimum wage (EUR 1271). This supplementary allowance will be abolished in 2015.

Funding
In the pay-as-you-go system in the first pillar, the AOW is financed by contributions levied on earnings at a rate that is statutorily limited to a maximum of 18.25 percent. Once this contribution is no longer adequate to cover costs as a result of the ageing population, the deficit will be met from the public purse. All taxpayers contribute to this system, including retirees who do not pay any AOW contribution.

Administration and supervision
The tax authorities collect the AOW contributions through income tax. The administrative body for the AOW is the Social Insurance Bank (SVB). For a number of municipal authorities, SVB administers the supplementary national assistance for people aged 65 and over who have not acquired the full AOW pension rights. In order to prevent these older people from running into financial difficulties, all retirees that are entitled to supplementary national assistance will be paid by SVB in the near future.

The members of the Boards of Directors and Advisors of SVB are appointed by the Minister of Social Affairs and Employment. The minister is politically responsible for social security, such as the AOW and ANW, and its adequate implementation. In connection with this responsibility, SVB is obliged to submit its annual plan and budget to the minister for approval. In addition, SVB periodically reports to the minister about its performance and activities. SVB is subject to supervision of the Work and Income Inspectorate (IWI), a section of the Ministry of Social Affairs and Employment. Among other things, IWI supervises the administration of the statutory employee insurance schemes carried out by a number of other administrative bodies.

3. Second pillar: occupational pensions

The main characteristics of the second pillar of the Dutch pension system are mandatory participation, collective risk sharing and the system of transfer of pension value. Annually, employees accrue equal pension rights for each year of service, in most pension schemes amounting to about 2% of their salary. Each employee pays an equal fixed percentage of his salary for his future pension entitlements. This average contribution rate does not depend on age, sex or income. Annually, accrued pension rights of all members are conditionally adjusted in the same way by wage indexation or price indexation. Finally, each pension fund has an investment policy that treats all members and retirees in the same way.

Occupational schemes are highly developed in the Netherlands due to collective sector agreements that ensure the quasi-mandatory coverage of more than 95 percent of the employed population. Occupational schemes cover private and public-sector employees including civil servants. Mandatory industry-wide pension schemes cover all employees in the respective industry, including private and public-sector employees. In the case of all other schemes – voluntary industry-wide and company-specific pension schemes – coverage is regulated by the applicable scheme regulations. Members of a profession may establish profession-wide pension schemes that are implemented through profession-wide pension funds. The Minister of Social Affairs and Employment may make participation in a profession-wide pension scheme mandatory for the profession as a whole upon request of an organisation or organisations representing the majority of the profession concerned.

The second pillar serves to supplement the first. As a member in the pension scheme, a person accrues entitlements to a retirement pension, partner's pension and orphan's pension, and the person is usually insured for a disability pension which supplements the public disability benefit. The employer usually pays the major part of the contribution for the supplementary pension. The future pension benefit is in fact deferred salary for the employee. The employer has to deduct pension contributions from the salary and transfer these contributions to a pension provider.

Pension providers

Capital funding is necessary in order to achieve a solid supplement to the PAYG first pillar. In the Netherlands, the money intended for supplementary pension schemes may therefore not be included in the company's risk capital in order to protect the beneficiaries' rights. Funding must take place through a legal entity which may be a pension fund or an insurance company. A pension fund can exploit the potential of intergenerational risk sharing, whereas insurance companies cannot. The basis for this solidarity is constituted by mandatory participation in pension schemes.

Social partners may decide which coverage level they prefer, company-specific or industry-wide, and also which institution will administer the accrued pension assets.

1. *Company-specific pension funds (12% of the members)*: they may be linked to one or more companies e.g. Philips, AHOLD, and Heineken.
2. *Industry-wide pension funds (76% of the members)*: they may be linked to more than one branch of industry. There are non-mandatory funds e.g. for employees in the public transport sector, Dutch Railways, and there

are mandatory funds e.g. ABP for civil servants, for employees in the metal and electrotechnical industry and the building industry.
3. Insurance providers who have to deal with approximately 30,000 group life insurance contracts for separate companies.

An employer may also opt to have the pension scheme administered by an institution for occupational retirement provisions (IORP) with its seat abroad.

Social partners appoint their own representatives to the board of a pension fund. These representatives must protect the interests of the fund's members in a balanced way.

The bulk of the accrued assets are administered by pension funds. The Dutch pension system consists of 651 pension funds (end of 2008); 543 of these funds are single-employer funds, 95 concern industry-wide funds (of which 69 mandatory) and funds are for professional groups. Together, these schemes cover approximately 6 million members. The amount of assets held by pension funds in 2008 was approximately EUR 445 million.

A limited proportion of the pension assets under the second pillar (approximately EUR 70 million) are accounted for by so-called direct schemes. Instead of being administered by pension funds, they have been outsourced by 22,000 mainly smaller employers to insurance companies for more than 800,000 employees.

The number of pension funds is gradually decreasing. Among other things, the decrease in the number of single-employer schemes is due to cost-influencing factors, such as scale, pension fund type, scheme type, outsourcing and reinsurance.

Members of a given profession may opt for a *pension fund for professional groups (0.5% of the members)*. These funds concern groups of self-employed people who exercise the same profession (i.e. only active members and retirees and no employer), such as general practitioners and civil-law notaries.

Characteristics of occupational pension schemes

Types of pension schemes
A pension scheme may include three elements: *old-age pension, partner's pension and disability pension*. Not every occupational pension scheme includes all these elements. Trade unions and employer organisations jointly decide on the contents of a pension scheme.

The occupational *old-age* pension benefit is paid from the retirement age (usually 65) until the date of death.

A *partner's pension* is paid out to one's next of kin after one's death. Sometimes, the benefit is linked to the state old-age pension and depends on the salary and maximum attainable number of years of service (accrual basis). An increasing number of pension funds are offering a partner's pension on a 'risk basis'. In the event of death while still in paid employment, the partner will receive an allowance comparable to a 'normal' pension scheme. However, if the employment relationship is terminated, the partner's pension is cancelled too.

It is possible to swap pension rights. Swapping pension rights means that at the time of retirement, one converts claims to a partner's pension into a higher old-age pension. One can also convert the claims to retire earlier. Swapping is not possible with all pensions. It is only possible with pension schemes that include a compulsory partner's pension and in which the partner's pension is guaranteed on an 'accrual basis'. Swapping is not possible with a partner's pension on a 'risk basis'.
There are pension schemes that arrange for one's pension accrual to continue when an employee becomes occupationally disabled in full or in part. For the part that one is still able to work, one will pay pension contributions himself. For the part that one is unable to work, one does not need to pay contributions. Disability pension is supplementary to occupational disability benefits (Work and Income according to Labour Capacity Act).

Pension agreements

The nature of the pension arrangements agreed between the employer and the employee must be established explicitly in the pension agreement. Pension risks arise when the financing of a pension scheme offers insufficient guarantees for achieving the planned benefits. These risks may be linked to the pension commitment. Due to demographic changes (longevity and return) a different approach to risk sharing has been introduced. Pension arrangements are made in many different ways. In the Netherlands, the basic agreement should be either a *defined benefit* (DB) scheme, an agreement for the payment of a capital sum or a *defined contribution* (DC) scheme. *Collective Defined Contribution* (CDC) schemes – that is, schemes which combine a defined benefit promise to the participant and a fixed premium for the employer – will have to qualify as one of these agreements. Only if buffers are high enough will they qualify as DB schemes.

The majority of Dutch employees are in DB occupational pension schemes in which the financial or longevity risks are borne by the scheme sponsor. Benefits to the members are based on a formula linked to the members' wages or salaries and length of employment. A DC scheme is a pension scheme by which benefits to members are based solely on the amount contributed to the scheme by the sponsor or member and any return on that investment. The investment risks during the accrual stage are borne entirely by the individual. Ultimately, when the retirement age is reached, the total amount accrued will be converted into benefits or an annuity.

A shift is taking place from pension schemes based on final pay to pension schemes based on average earnings over the accrual period in order to create a more balanced distribution of risks between employers and employees. In 2000, 59 percent of the active members had a final pay pension scheme, whereas in 2008 the corresponding figure was 1 percent and, for members of a career-average scheme, 87 percent (31 percent in 2000), respectively.

Types of pension scheme, 2000-2007 (expressed as a percentage of active members)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Defined benefit									
Final pay scheme	59	56	54	49	12	11	10	3	1
Career-average scheme	31	32	32	35	73	74	77	85	87
Other	8	8	8	10	10	9	9	1	0.5
Defined contribution	1	3	3	3	3	4	4	5	5
Other	2	1	3	3	3	2	0,5	3	2

Source: DNB Statistics Bulletin, December 2008

In DB agreements, the benefits are linked to the earnings in the accrual period. If pension benefits are based on income before retirement, then the pension scheme is a *final pay* scheme. With every career step, the pension entitlements will be raised to the level of the actual basic value of the pension benefit. If pension benefits are related to lifetime average earnings, then the pension scheme is a *career-average* scheme. In a career-average scheme, the pension rights are linked to the income in a specific year and are indexed to the general level of consumer prices in a subsequent year. Periodic indexation is generally not guaranteed and is a discretionary power of the pension fund board.

Another possibility is a pension scheme with a combination of final pay and career-average elements. The basic principle is a benefit based on final pay but which, once a certain age is reached, no longer includes increases in income in the build-up of the future benefit. This levelling is called a *moderated final pay scheme*.

Average contribution amount

In the Dutch system of occupational pensions, the contibution is a fixed percentage of earnings (about 16 percent of the gross income). Solidarity is achieved by levying an average contribution: all members pay an equal percentage of their salary or an equal contribution to the pension provider, which will invest this contribution until the retirement date. The average contribution amount is divided among all affiliated employers and is based on average earnings or on another criterion.

There is therefore no direct link between the annual contribution payments and the employee's pension accrual in a certain year. In addition, the determination of the contribution rate does not depend on age, sex, health and income.

Basic value of the pension contribution

Occupational pension schemes are considered supplementary to the old-age state pension. This AOW benefit is therefore included when calculating the occupational pension benefit. AOW and occupational pension benefit together usually amount to 70 percent of the final pay. The part of the income over which no additional pension entitlements are accrued, because the part is expected to be covered by the AOW, is known as the *offset* (franchise). The gross income less the offset is the basic value of pensionable earnings.

4. Third pillar: private pension provisions

The Dutch pension system also includes individual pension provisions, either through annuity insurance or endowment insurance (providing a lump sum), encouraged by tax reliefs up to certain limits. This third pillar of the Dutch pension system is relatively small. Employees can opt to supplement their pension to compensate for a pension deficit due to gaps in pension accrual.

For most employees, participation in a pension scheme is automatically linked to the contract of employment. Self-employed persons are not linked to an employer and cannot participate in a supplementary pension scheme. In many cases, they must ensure that their AOW state pension is supplemented by individual pension provisions. Self-employed persons can also add a percentage of their company's profit to the special tax allowance on an annual basis. The tax authorities will take that amount into account in the tax return and tax payment over that amount will be deferred.

Life-course savings scheme
With the life-course savings scheme, the Dutch government gives financial support to every employee who wants a period of leave during his or her working life for parental leave, education, partial early retirement or old-age pension. People can save 12% of their annual pay up to 210% of the gross annual salary. Being a savings scheme, it guarantees the personal contribution of the employee.

5. Occupational pensions and legislation

Safeguarding the affordability of the pension system in the long term

The legal framework of occupational pensions consists of the Pensions Act (PW), the 2000 Mandatory Participation in an Industry-Wide Fund Act (Bpf 2000), the Mandatory Pension Act for Professional Groups (WVB) and the Equalisation of Pension Rights in the Event of a Divorce Act (WVPS).

Pensions Act

The vast majority of those employed in the Netherlands participate in an occupational pension scheme. Occupational pensions are subject to negotiations between employer associations and trade unions. The government's role with respect to supplementary pensions is to ensure that pension entitlements are actually fulfilled. Once an employer has made a pension commitment to his employees, this commitment must be implemented in the way prescribed in the Pensions Act. The commitment is therefore subject to the protection of the Pensions Act.

The Pensions Act came into effect on 1 January 2007. The basic principle of this Act is to safeguard the financial security of pension entitlements, individual security and protection of participants and security in the pension institution's operational management. To this end, this Act constitutes a technical revision and modernisation of pension regulations. For instance, a clear and transparent division of responsibilities between the employer, the employee and the pension provider is arranged. Major policy changes relate to the surrender of small old-age pensions upon the end of participation, transfer of pension value if the employment relationship or participation is terminated, transparency regarding the information provided to members and financial supervision. The Pensions Act also has provisions to improve the access to pension schemes.

Responsibility triangle

In the old-age pension system of the Netherlands, the employer, employee and pension provider are in a triangular relationship. The Pensions Act specifies a number of mandatory legal documents between the three parties involved. The basic principle of the Pensions Act is that social partners are primarily responsible for the occupational pension provisions. They jointly decide on the contents of the pension agreement. The employer is responsible for placing the pension contributions outside the company by joining an industry-wide fund, establishing a single-company fund or outsourcing the accrued pension assets to an insurance company. Finally, the pension provider is responsible for drawing up pension scheme regulations in accordance with the pension agreement and which comply with legal requirements. The pension provider is also responsible for the provision of information to members and beneficiaries.

Equality of rights

An important aspect of collective pension schemes is the gender equality in contribution and accrual system. This is tailored to the average participant, both with respect to the contribution rate and to the retirement benefit. Other protective measures to safeguard the pension rights are equality in treatment of full-time and part-time workers, of workers with a temporary appointment and a permanent position, and of pension rights of retired persons and early leavers (people with non-contributory entitlements that remain with previous employers). Since 2005, pension benefits based on DC pension schemes have been the same for men and women. Anyone who feels that they have been subject to unequal treatment may go to court or approach the Dutch Equal Treatment Commission, which can launch an investigation into any complaint. The Commission is an independent body of experts. Contrary to court rulings, decisions of the Commission are not binding.

Under the Dutch Pensions Act, the accrual of old-age pension rights under a pension agreement begins no later than the date on which an employee reaches the age of 21.

Surrender of small old-age pension upon the end of participation
Pension rights of a deferred beneficiary may not be exchanged for a lump sum (surrender) unless, on the basis of the right to old-age pension accrued up to the moment of end of the participation, the old-age benefit will amount to less than EUR 417.74 (in 2009) per year on the regular retirement date. The costs of administering small old-age pension entitlements are relatively higher than the benefits expected.

Transfer of pension value if the employment relationship or participation is terminated
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 (generally two months).

If the employment relationship or participation on an individual level is terminated, the person in question may transfer the pension value to the pension provider of the new employer. However, that person is not obliged to transfer pension entitlements to the pension provider of the new employer. If the pension value is left behind by the pension provider of the previous employer (deferred pension rights), this provider will pay out later.

Information
The information-related provisions of the Pensions Act became effective on 1 January 2008. These provisions are expected to boost pension awareness. This may be significant if people expect a deficit in their old-age income, wish to leave the labour market before the age of 65 or want to live abroad. They may then consciously buy additional pension products to compensate for insufficient old-age income.

On joining the pension scheme, members must be adequately informed about the contents as well as the implementation of the pension scheme. These documents must clearly and understandably state the objectives of the pension fund and the rights of the scheme's members and beneficiaries. Material changes in these objectives or rights must be reported to them in a timely manner. For instance, within three months after the accrual of pension entitlements has started, the employee is entitled to information about the contents of the pension scheme ('starting letter') from his employer. The employee must be informed by the pension provider about the development of the pension entitlements. This information must also show whether the pension scheme qualifies as a DB agreement, a DC agreement or a capital agreement. The implementation agreement to be formed must also include the information provided by the employer to the pension provider.

In addition, from 1 January 2009 onwards, the so-called indexation label will be included in the annual pension statement that is provided by the pension provider. This label offers insight into the quality of the indexing (adjustment to price development) of the pension scheme. It represents both the expected indexing for the coming 15 years as well as its certainty by also representing the indexing in a 'bad case' scenario. The label will also help the individual changing jobs to make a choice about whether or not to transfer pension value to a new pension provider.

The pension portal, which is an initiative of the pension sector, must also be mentioned. This portal will come into effect in 2011. With the introduction of the pension portal, people will be able to view their accrued pension rights online, including the benefit under the General Old Age Pensions Act (AOW).
It is also important for objective and non-commercial information about pensions to be available. That is why the Dutch government supports projects of the *Pensioenkijker.nl* foundation, in which the main stakeholders in the pension sector are participating. The pension awareness of Dutch people is monitored annually in March by Pensioenkijker.nl.

Pension fund governance and participation councils
The board of a pension fund normally consists of an equal number of employee and employer representatives. The board is supposed to take into account the interests of all active members, deferred members and retirees of the fund and ensure that each of these groups feels equally represented. Furthermore, a pension fund must organise itself in such a way as to ensure proper governance. In short, a governing body must clearly understand its responsibilities, how those responsibilities must be borne, how internal supervision is arranged, and how and to whom the governing body must report.

The Guidelines for Pension Fund Governance were developed by the Labour Foundation. This foundation formulated a number of basic premises. A governing body must periodically account for its policy to all stakeholders (or their representatives), namely active members, deferred members, retirees and the employers who are financially involved. There must therefore be an accountability body. In addition, there must be effective and transparent internal supervision of the governing body's own performance. It is up to the individual pension funds to determine the way in which these guidelines are implemented. Since they are part of the Pensions Act, the guidelines are legally binding.

The guidelines also apply to pension insurance companies. In this case, the insurance company must account to the employer for the results achieved, to the extent that this is relevant to the pension and administration agreement. The employer must inform his Works Council and representatives of retirees of the above-mentioned results. In addition, the insurance company must ensure effective and transparent internal supervision of its own performance.

In addition to the guidelines, there are also rules regarding the representation of retirees. Industry-wide pension funds are obliged to establish a council of participants. A single-company fund may have a council of participants or admit retirees to be a member of the pension fund's board. There are some single-company pension funds that have both forms of representation. The council of participants has the right to prior consultation on a large number of issues. Furthermore, by law the ratio between employees and retirees (or their representatives) in the council of participants must be equal to the ratio between active members and retirees.

Financial supervision

There is a financial regulatory framework to ensure that a pension fund has sufficient assets to pay out pension benefits. The Financial Assessment Framework (FTK) is the part of the Pensions Act that lays down the statutory financial requirements for pension funds. The main principle of the FTK is that pension funds must decide on cost-effective contributions and must build up regulatory funds of their own to ensure additional reserves of 25 to 30 percent in order to guarantee their members a pension benefit. A fund whose own assets have fallen below its basic limits must draw up a recovery plan, outlining how it will eliminate the reserve deficit and/or funding shortfall.

According to the FTK, pension funds must state in a clear way whether or not they will index the pension rights and under what conditions they intend to do so. If prices are going up the pension rights will follow later. This indexation is virtually always conditional. In the Netherlands, there is an element of risk sharing through discretionary indexation and increases in contributions. It is not required for pension funds to have additional reserves to cope with future indexation. On the other hand, each pension fund must report to the supervisory authority that the level of financing achieved and the degree to which claims are awarded to members meet the expectations raised. Their indexation label indicates the degree to which their commitments keep up with inflation under normal conditions and what happens in a bad case scenario.

Supervisory structure

Pension schemes and pension providers are professionally monitored and supervised by two regulatory authorities, namely the Dutch Central Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM). Under the Pensions Act, the Minister of Social Affairs and Employment is politically responsible for the Dutch old-age pension system. In addition, he must ensure that the supervision exercised is legitimate, effective and efficient.

DNB monitors the financial position of pension providers and assesses whether they are financially sound and able to fulfil their future obligations. DNB is also responsible for the material supervision, i.e. for the requirements imposed on pension providers.

The most important issues dealt with by AFM are better provision of information to members, current and former, and beneficiaries, and the maintenance of the duty of care when pensions are being accrued through investments. This means, in particular, that pension providers must properly inform their customers and must act according to particular standards when applicable. The intention is to improve members' and current retirees' understanding of the pension-related information provided so that this information can be used in personal choices about the accrual and use of pensions.

Mandatory Participation in an Industry-wide Pension Fund Act (Wet Bpf 2000)

Under the 2000 Mandatory Participation in an Industry-wide Pension Fund Act, when social partners make a collective pension agreement in a specific industrial sector for all of their members, and if the representatives of organised businesses in this sector file a request, then the Minister of Social Affairs and Employment can declare the collective pension agreement binding for all other employers in that particular sector. In this way, agreements between social partners are made binding for everyone in the sector and internal solidarity is optimal, for example in the graphics and media industry or the metal industry. Employees can easily change jobs within the sector without consequences for their pension accrual. For participation in a pension fund to be declared mandatory, however, the employer organisations supporting the request must employ at least 60% of the employees in their sector. No corresponding figure is prescribed for employee organisations.

In certain defined cases, employers can be exempted from participation in a mandatory pension scheme, for example if a company already has a pension scheme that is at least equivalent.

Mandatory Pensions for Professional Groups Act (WVB)

The Mandatory Pensions for Professional Groups Act came into effect on 1 January 2006. The Minister of Social Affairs and Employment can declare the collective pension agreement binding for all professional members in a particular sector. This occurs at the request of more than 60 percent of the professionals affiliated with a union of professionals. The agreement consists of regulations concerning information, supervision, solidarity, representativeness and so on. As pension schemes for professional groups are not based on pension commitments made by employers, such schemes are only partially subject to the Pensions Act. A pension scheme for professional groups is based on an agreement between self-employed professionals in a particular profession. At present, there are 13 pension funds for professional groups, e.g. for pilots, civil-law notaries and medical specialists. A pension fund or insurance company may administer the pension assets.

Equalisation of Pension Rights in the Event of a Divorce Act *(Wet verevening pensioenrechten bij scheiding, WVPS)*

Pursuant to the Dutch Equalisation of Pension Rights in the Event of a Divorce Act, in the case of a divorce or ending of a partnership, both former spouses or former partners are entitled to 50 percent of the old-age pension accrued during the marriage or registered partnership. The pension provider pays out a share of the accrued pension entitlements to each of the former partners individually from the pension date of the partner that has accrued pension rights.

Pension sharing will always be applicable, unless it is excluded in advance or in a divorce agreement, so there is no need for intervention by a judge. The benefits will be paid out as long as both former partners are alive. When the ex-partner passes away the person liable for pension sharing will receive a full old-age pension again. If the person liable for pension sharing passes away, the payment of pension benefits will stop, but the surviving individual can have a right to a special partner’s pension.

Partner's pension
Not every occupational pension scheme includes a partner's pension. If there is an arrangement for a partner's pension, however, this benefit will be paid out to the next of kin. Sometimes, the benefit is linked to the state old-age pension and depends on the salary and maximum attainable number of years of service (accrual basis). Not all pension schemes link the amount of a partner's pension to the old-age pension, however. There is an important distinction between partner's pension on an accrual basis and one on a risk basis. Many pension schemes feature a partner's pension on a risk basis. This means that no capital is accrued for the surviving individual.

6. Tax legislation and pensions

Tax reliefs play an important role in ensuring an adequate standard of living during retirement. Contributions to pension products are tax-deductible and taxed in the pay-out period (EET system). In addition, marginal tax rates will be lower during retirement than employment, offering further benefits. Tax legislation is therefore very influential in the Dutch pension system. The pension facilities encourage members of the public to make financial arrangements during their active lives to ensure adequate old-age provisions.

In general, supplementary pension schemes are subject to the following fiscal limitations. Pension accrual is maximised to 100 percent fiscal pay at the age of 65, at least. The yearly accrual of final pay systems is maximised to 2 percent. The accrual rate of career-average systems varies from 2 percent to 2.25 percent per year.

Contributions to voluntary early retirement schemes and pre-funded flexible pension schemes are no longer deductible from taxable income. A transition period applies. It is still possible to leave the labour market before reaching the age of 65, but only at one's own expense:

- if an employee wishes to receive his old-age pension before the age of 65, then the pension benefit will be lower because the accrued pension capital has to be paid out for a longer period;
- the life cycle savings scheme – a tax facility that makes it possible for workers to reserve salary and days off in order to take up paid leave later – is a savings arrangement that guarantees the personal contribution of the employee and can also be used for early retirement.

Financial incentives to retire later

It is also possible to work beyond the age of 65 (i.e. to retire later). This is only possible, however, with the approval of the employer and if the pension scheme supports longer working lives and active ageing. By completing more years of service, one accrues more pension rights. The pension benefit can be paid out later and will therefore be higher. Broadly speaking, every year of postponement yields a pension accrual of about 9 percent. Deferring the retirement date therefore yields a considerable increase in pension benefits and might be an attractive way of compensating for a possible pension deficit.

It is possible to combine receipt of the state old-age pension benefit with work. The after-tax earnings of employees aged 65 and over are higher than those of employees under 65. This is a consequence of the fact that people aged 65 and over are no longer compulsorily insured under insurance schemes for employees and no longer pay a contribution for the state old-age pension.

Under tax legislation, payment of pension benefits must start when an entitled person reaches the age of 70 at the latest. If people aged 70 and over are still in paid employment, there is no more pension accrual.

Partial retirement
The rules on pension deferral vary between occupational schemes. 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. For the working part, the employee can still accrue pension rights.

If the employee decides to work part-time during the ten years preceding his retirement, he continues to accrue full pension rights if the part-time job is equal to at least 50% of his original terms of employment. In this way, the combination operates as an incentive to retire later.

Link with individual pension provisions
In the case of a pension deficit, people can buy annuity insurance which is encouraged by tax reliefs. The contribution is deductible from income tax; the future benefit will be taxed. The Bank Savings Act came into effect on 1 January 2008. The aim of this Act is to encourage saving for one's old age by means of a savings account or an investment right with a bank.

In addition, employees are able to save money from their gross income in a fiscally favourable way by means of the salary savings scheme or the life-course savings scheme. The basic principle of the salary savings scheme (*spaarloonregeling*) is that employees pay less income tax and less contribution for national insurance. On the basis of the salary savings scheme, an employee may save EUR 613 (2009) of his earnings annually. These savings may be used for buying annuity insurance or as a self-imposed contribution for additional third-pillar pension products.

The life-course savings scheme (*levensloopregeling*) has a similar operating procedure. This savings arrangement enables employees to reserve a part of their salary to be used during periods of unpaid leave in the future. Fiscally attractive, employees can reserve 12% of their salary up to 210% of their gross annual pay.
Payment of taxes over the reserves is deferred to the moment the savings are used. The arrangement requires the cooperation of the employer, who has to offer the scheme to his employees. The arrangement increases the possibilities for employees to adapt the time spent on work, care, education and leisure. Furthermore, being a savings scheme, it guarantees the personal contribution of the employee.

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