IOPS COUNTRY PROFILE: THE NETHERLANDS

DEMOGRAPHICS AND MACROECONOMICS

GDP (Euro bn)	**773.37**
GDP per capita (USD)	**56 277.2**
Population (000s)[1]	**17 131.3**
Labour force (000s)	**9 148.4**
Employment rate[2]	**77.20**
Population over 65 (%)	
Dependency ratio[3] (%)	**28.7**

Data from 2018 or latest available year:
1.OECD 2017
2.Share of working age population in employment, OECD 2018
3. Demographic dependency ratio (65+/(15-64)), OECD 2017

Source: OECD.

THE NETHERLANDS: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The Dutch pension system has two main tiers.
- The first is consisting of a flat-rate pubic scheme. This tier is pay-as-you-go.

Private pensions: occupational (quasi mandatory)

- The second tier consists of private pensions, of which occupational pensions are the major part. Occupational pensions are fully funded and provided by:
- - Sector or industry wide pension funds
- - Company pension funds
- - Pension funds for special professions
- - Other pension funds and - in case of insured pension plans - also insurance companies

Private pensions: personal (voluntary)

- People can made own pension arrangements in case they are not covered by or in addition to occupational pensions. This they do with annuities.

Source: OECD Global Pension Statistic.

NETHERLANDS: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension system provides a flat-rate old-age pension (AOW) from age 66. The pension age is 66 in 2018 and further future increases are linked to life expectancy. All persons residing in the Netherlands are eligible, including civil servants and the self-employed. Insured persons contribute 17.9% of their salary towards their old-age pension benefits. Minimum annual earnings for contribution purposes are €13,160, maximum earnings are €29,543. Employers do not contribute to the public old-age pension scheme. The government provides subsidies to increase all benefits up to the social minimum.

The full pension is paid to those who have resided in the Netherlands for 50 years between age 16 and 66, while a reduced pension is paid if the qualifying conditions are not met in full. Two persons sharing a household can qualify for a couple's pension if both are older than 66. Retirement is not necessary for receiving pension benefits.

The gross pension benefit for a single person was €1181,36 per month in 2018. Couples aged 66 or older receive €814,74 a month each.

Partial pension benefits are reduced by 2% for each unexcused year of noncontribution. Pensioners also receive additional holiday allowances.

Benefits are adjusted twice a year according to changes in the minimum wage. Pension benefits are however subject to income tax.

The OECD estimates the gross replacement rate for average earners at 81.9% (96.8% net). This figure includes the replacement rate from the quasi-mandatory occupational scheme discussed below. The flat- rate public pension guarantees 70% of the net minimum wage, with social assistance available to those whose income is below that percentage.

OCCUPATIONAL QUASI-MANDATORY

Coverage

Employees are typically obliged to participate in the pension scheme their employer offers. Occupational pensions require the employer to make (part of the) contributions. On average, employers pay about two thirds of the contributions and employees the remaining one third.

Furthermore, employers may be obliged to participate in the pension scheme offered by the industry-wide pension fund, if there exists one for the relevant industry. Participation in an industry-wide pension plan becomes mandatory if the sector's employers request the Ministry of Social Affairs and Employment to declare membership obligatory, and if the employer organisations making the request represent at least 60% of employees in the sector. Employers may opt out of an industry-wide plan if they offer a pension arrangement of at least equal level of benefits.

With over 90% of the working population covered by occupational pension provision, the system can be described as quasi-mandatory.

Typical Plan Design

Occupational pension plans can be defined benefit or defined contribution. The vast majority of employees (over 90%) are covered by defined benefit plans, although collective defined contribution plans and hybrid schemes are gaining popularity.

Defined benefit plans can be final salary plans or lifetime-average earnings. The vast majority of defined benefit plans (>95%) is based on lifetime-average earnings. Of these, a small but rising number of plans combine the two or provide fixed amounts. Most plans were switched to career-average defined benefit schemes after 2003.

The annual accrual rate is linked to the pensionable age. From 2018 onwards, a lifetime-average defined benefit pension from age 68 onwards can apply a maximum annual accrual rate of 1.875% per year of service. For final salary defined benefit plans from age 68 onwards, the maximum annual accrual rate is 1.657% per year of service. This pertains to nominal accrual.

Inflation compensation (indexation) of pension benefits is typically conditional, being at the discretion of the funds themselves and depending, in practice, on funding levels. Pension funds are obliged to inform their members of their indexation expectations. As indexation goal, pension funds predominantly use the rate of consumer price inflation.

Occupational plans are fully funded. Contribution levels for employers and employees are determined by collective bargaining, though the employers' share generally represents two-thirds of total contributions.

Since 2015, a ceiling has been applied to pensionable earnings at a level of €100,000 in 2015, which is raised annually by the rate of consumer price inflation.

The official retirement age for men and women is 68. Early retirement is not fiscally facilitated. Hence 68 is the typical age at which people actually do retire. Benefits are paid out as for as long as retirees live. Beneficiaries can choose for a high-low construction, which allows them – within legal limits – to raise pension benefits during their first years in retirement at the expense of the benefit level during their later years of retirement.

Fees

Members do not pay fees to pension funds, whose estimated administrative costs are about 0.15% of total assets per year.

Taxation

Employer contributions to an occupational plan are tax-deductible and employee contributions are not considered taxable income. Assets and investment returns are tax-exempt, while benefits paid out as annuities are subject to ordinary taxation.

Plans must comply with the fiscal limitations on them. Taxation levels depend on benefit levels and the pension age in the plan. Career-average wage plans aiming at retirement at age 68 may apply a maximum accrual rate of 1.875% of the pensionable salary (max. €105075 [2018]) per year. Final pay plans aiming at retirement at age 68 may have an accrual rate of no more than 1.657% of the pensionable salary per year. If, on a member's retirement, his or her benefits exceed 100% of final pay (including public pension benefits), the surplus is taxed at a progressive rate.

PERSONAL VOLUNTARY

Coverage

Anyone may enter into a contract for any type of personal pension savings plan.

Contributions

Providers specify contribution levels in their contracts. Members may pay their contributions as a lump sum when they sign a contract, or at regular or flexible intervals thereafter.

Benefits

Benefits can be paid out as a fixed or unit-linked annuity and, in some circumstances, in a fixed number of withdrawals. If an insured person dies before taking his or her benefits, they generally revert to one or more beneficiaries.

Taxation

Annuity payments are tax-deductible under certain conditions. There needs to be a pension deficiency and the payment may not exceed 13,3% of the basis for social security contributions (max. € 92.946 [2018]) which can be reduced under certain conditions, depending on individual circumstances. The annuity benefits are subject to the regular income tax (maximum 51,95% [2018]).

MARKET INFORMATION

Occupational (quasi mandatory)

There are four types of pension providers (numbers apply to 2017):

- company pension funds (183)
- industry-wide pension funds (58)
- insurance providers, who administer about 40 000 group insurance contracts for separate companies
- pension funds for professionals such as dentists and doctors (9).

Some 85% of all occupational pension plan members are covered by sector-wide plans. Pension insurance providers supply around 1 000 000 employees with occupational pension coverage. Total pension investments in 2017 (ultimo) stood at over EUR 1450 billion, making the Dutch pension market one of the largest in the world. The civil servants' fund, known by the acronym ABP, and the medical sector fund PGGM are the largest industry-wide funds in the Netherlands. Ninety-one percent of occupational plans were defined benefit in nature.

Pension rights are transferable when members

change employers.

Personal voluntary

Personal pension savings policies are provided by insurance companies.

POTENTIAL REFORM

The Pensions Act, which entered into force in 2007, lays down the Financial Assessment Framework (FTK), which aims to guarantee a solid financial position for pension funds and promotes adequate risk management by pension funds themselves. Assets and liabilities are calculated according to their market values; pension funds must be fully funded. The average pension fund must establish a solvency buffer of 25% (depending on risk profile, investment strategy, interest rate, characteristics of its members, et cetera). Funds must also carry out a "feasibility test", i.e. analyse their financial setup and its associated risks with a forecasting horizon of 60 years, using a scenario set provided by the prudential supervisor. This must be done every year.

REFERENCE INFORMATION

KEY LEGISLATION

1956: *Algemene Ouderdoms Wet* (AOW), or Pensions Act, lays down the rules governing the public retirement pension system.

2007: the Pensions Act sets forth the rules governing occupational pensions, while the Income Tax Act and the Earnings Tax Act specify the tax rules governing pensions.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Ministry of Social Affairs and Employment: regulates and supervises the public pension system;

https://www.government.nl/ministries/ministry-of-social-affairs-and-employment.

De Nederlandsche Bank (DNB): responsible for prudential supervision, it is an integrated supervisory institution which carries out principle-based, risk-oriented supervision;

https://www.dnb.nl/en/home/index.jsp.

The *Autoriteit Financiële Markten* (AFM): the financial conduct authority;

https://www.afm.nl/en

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Statistics Netherlands

https://opendata.cbs.nl/statline/
#/CBS/en/

OECD, Global Pension Statistics project, http://www.oecd.org/daf/fin/private-pensions/globalpensionstatistics.htm

Pension funds data overview

	2010	2011	2012	2013	2014	2015	2016	2017
Assets								
Total investments (National currency millions)	774,388	831,280	947,558	983,404	1,164,143	1,175,913	1,290,793	1,360,152
Total investments, as a % of GDP	1.21	1.28	1.45	1.49	1.73	1.70	1.82	1.85
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	ND	ND	ND	ND	ND	ND	ND
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND	ND
By financing vehicle (as a % of Total investments)								
• Pension funds	100	100	100	100	100	100	100	100
• Book reserves	NA	NA	NA	NA	NA	NA	NA	NA
• Pension insurance contracts	ND	ND	ND	ND	ND	ND	ND	ND
• Other financing vehicule	NA	NA	NA	NA	NA	NA	NA	NA
By pension plan type								
• Occupational assets	774,388	831,280	947,558	983,404	1,164,143	1,175,913	1,290,793	1,360,152
• % of DB assets	ND	ND	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND	ND	ND
• Personal assets	ND	ND	ND	ND	ND	ND	ND	ND
Structure of Assets (as a % of Total investments)								
Cash and Deposits	1.42	0.81	4.21	5.08	4.11	3.24	2.51	3.33
Fixed Income	43.93	50.93	51.00	47.52	51.05	50.79	49.89	47.84
Of which:								
• Bills and Bonds issued by the public and private sector	38.41	46.61	47.67	44.17	48.07	47.90	46.65	44.28
• Loans	14.65	14.34	13.85	12.97	12.34	13.72	13.72	13.42
Shares	36.09	32.83	33.84	36.49	36.67	35.36	36.85	37.53
Land and Buildings	10.41	10.22	9.03	8.44	8.52	9.25	9.03	8.82
Other Investments	8.15	5.20	1.93	2.48	-0.35	1.36	1.72	2.47
Contributions and Benefits								
Total Contributions, as a % of GDP	3.79	3.86	3.97	4.01	4.04	4.05	4.07	4.05
• Employer Contributions, as a % of Total contributions	0.68	0.69	0.69	0.69	0.68	0.68	0.68	0.68
• Employee Contributions, as a % of Total contributions	0.32	0.31	0.31	0.31	0.32	0.32	0.32	0.32
Total Benefits, as a % of GDP	3.79	3.86	3.97	4.01	4.04	4.05	4.07	4.05
• % of benefits paid as a Lump sum	NA	NA	NA	NA	NA	NA	NA	NA
• % of benefits paid as a Pension	NA	NA	NA	NA	NA	NA	NA	NA
Membership (in thousands of persons) 1								
Total membership	17,480	17,744	17,637	17,659	17,834	18,122	18,365	18,693
• % of Active membership	0.84	0.84	0.83	0.83	0.82	0.82	0.82	0.82
Of which: % of Deferred membership	0.60	0.61	0.61	0.62	0.63	0.63	0.64	0.63
• % of Passive membership	0.16	0.16	0.17	0.17	0.18	0.18	0.18	0.18
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans								
Total number of funds	514	454	414	382	365	320	290	260
Total number of plans	790	672	603	540	429	382	356	342

Note: Data refer only to quasi-mandatory occupational pension funds.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics