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PENSION REFORM PLANS MOVE FORWARD IN THE NETHERLANDS

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Long-awaited pension reform plans — based on a defined contribution (DC) system — were presented by the Dutch government and the social economic council. The reform plans (Dutch) are still provisional and must be approved by the membership of the largest trade union.

TWO OPTIONS

All pension plans would be based on a DC system, and two options would be offered:

- An individual DC plan with investments in the accrual phase and a fixed or variable pension in the retirement phase
- A DC plan with a conditional pension that would increase if the pension provider's assets were to exceed the liabilities and lowered if the liabilities exceed the assets

In both options, the provider would need to use a life cycle approach for investment risk. The defined contribution would be based on 80% average pay with an accrual phase of 42 years that would include an age-independent contribution calculated at a (mitigated) market interest rate.

The reforms present some significant transitional challenges because most current plans make the economic value of pension accrual age dependent, and legislation would be required to compensate for the change.

OTHER CHANGES

Other highlights include the following:

- The retirement age for state pension (AOW) would be frozen at 66 years and four months for the next two years before gradually increasing to 67 by 2024.
- Workers would have the option to choose a 10% maximum lump sum payment upon retirement.

- A temporary feature would allow early retirement in the three years before reaching the state retirement age of up to €19,000. Payments in excess of this amount and period would be taxed severely (as is currently the case with all early retirement plans). This feature is aimed at but not limited to demanding jobs.
- Self-employed people would be allowed to join industry-wide pension funds and would be required to participate in social insurance against disability.
- The reforms would temporarily ease the rules for required pension benefit cuts by reducing the minimum required funding ratio from 104.2% to 100%. Pension funds are currently facing possible benefit cuts because their assets have been below approximately 105% of liabilities for five years consecutively.

RELATED RESOURCES

- Letter on Reforms (Dutch) (Ministry of Social Affairs and Employment, 5 Jun 2019)
- Information on Reforms (Dutch) (SER, June 2019)