National Strategy Report on Pensions
The Netherlands 2002

Ministry of Social Affairs and Employment

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part I

Executive summery

1 Background to the National Strategy Report on Pensions (NSRP)

The European Council meeting in Stockholm (spring 2001) placed the sustainability of pension systems in the face of an ageing population high on the European agenda. The European Council meeting in Gothenburg (June 2001) then set out three broad principles for guaranteeing the long-term sustainability of pension systems:
- Safeguard the capacity of pension systems to meet their social objectives.
- Maintain the financial sustainability of pension systems.
- Enhance the ability of pension systems to respond to the changing needs of society.

On the basis of these principles, the European Council meeting in Laeken (December 2001) drew up eleven common objectives for pensions. Each EU Member State is to write a national strategy report based on these common objectives. The national strategy reports will be evaluated by the European Commission using the open method of coordination. This means that the responsibility for pension provision remains with the Member States. The results presented by the Member States will be evaluated by the Commission and other Member States to identify and share good practice.

The importance of the open method of coordination
The Dutch government is fully in favour of the open method of coordination in the area of pension provision. Open coordination can make a positive contribution to the reform of European pension systems and to sharing good practice. In order for open coordination to be successful, it is important that this strategy will be implemented consistently over several years. It is vital that a solid but limited set of indicators shall be developed as soon as possible to ensure effective comparison of results.

Role of the government and social partners
Responsibility for drawing up the National Strategy Report on Pensions (NSRP) lies with the government. The social partners bear primary responsibility for supplementary pensions (second pillar) since they constitute the terms of employment. In view of this responsibility, this NSRP devotes considerable attention to the recommendations on pensions made by the social partners through their central forum, the Labour Foundation (*Stichting van de Arbeid*), to the decentralised negotiating representatives of employers and employees.

The creation of the NSRP
In view of their position in the system of pension provision, the government invited the social partners to play a role in drawing up the NSRP. The government has also consulted representatives of young people's and older people's umbrella organisations, the Pensions and Insurance Supervisory Authority (PVK) – the regulatory agency for pensions and insurance – and the umbrella organisations of the pension providers. A launch meeting was held on 9 March 2002, attended by representatives of the European Commission, social partners and other civil

society organisations. The NSRP is also based on written submissions of the organisations concerned. The social partners and the representatives of young people's and older people's organisations were asked to comment on a draft version of the report (see ANNEX III), following which the government drew up the final version.

The present government is outgoing
This report lists the policies embarked on and envisaged by the outgoing government. The EU Member States agreed in the Social Protection Committee (SPC) that if major policy changes arise in respect of the NSRP, the Committee will be notified. Should the new Dutch government make major policy changes in the field of pensions, it will notify the SPC as agreed.

2 The principles of the Dutch pension system

The Dutch pension system consists of three pillars:
- The first pillar is the basic state old age pension. All people living in the Netherlands qualify for this statutory pension which is based on a standard fixed benefit for people aged over 65 (governed by the General Old Age Pensions Act, or AOW). Anyone aged between 15 and 64 who is resident or working in the Netherlands builds up entitlements to AOW. The first pillar is financed by a pay-as-you-go system (PAYG).
- The second pillar consists of supplementary pensions which are built up as part of people's terms of employment. The primary responsibility for these pensions therefore lies with employers and employees. Representatives of employers and employees have made collective pension arrangements for almost all workers. The supplementary pension schemes (including those for civil servants and teachers) are funded systems. The second pillar consists mainly of defined benefit pension plans (this applied to at least 88 per cent of employees with a supplementary pension in 2001). Only 4 per cent of employees with a supplementary pension are members of a pure defined contributions scheme.
- The third pillar consists of supplementary personal pensions which anyone can buy from insurance companies.

The income of the aged over 65 consists mainly of the state old age pension (AOW, first pillar) and supplementary pensions (second pillar). The Dutch pension system comprises a mix of PAYG systems and funded systems.

3 Trends influencing the Dutch pension system

Ageing population
The population of the Netherlands and other Member States is ageing. It is expected that the population aged over 65 will almost double between 2000 and 2040. The ratio of retired people to the potential labour force (elderly dependence ratio) is expected to rise from 22.1 per cent in 2000 to 42.7 per cent in 2040. The ratio of retired people to the active population was 34.8 per cent in 2002. The Netherlands Bureau for Economic Policy Analysis (CPB) estimates that this figure will rise to 55 per cent in 2040.

Dutch women currently live to over 80 years and men to over 75 years. Statistics Netherlands (CBS) forecasts that life expectancy at birth in 2050 will be almost 83 years for women and almost 80 years for men.

The government has asked the Social and Economic Council (SER)[1] to draw up an advisory report on the European approach to the ageing population. In its report *Ageing population and the EU* (February 2002) the SER supports the European approach and stresses the importance of the open method of coordination in the area of pension provision. The SER has also issued policy recommendations for the modernisation of the pension system in its report on a *New Pensions Act.*

Changing lifestyle and working patterns
In the 1990s participation by women in the labour market rose substantially. The net participation rate for women rose from 39 per cent in 1990 to 53 per cent in 2001, and the expectation is that it will continue to rise. The increase in the number of working women is beneficial to the pension system because it means that more people are building up supplementary pension entitlements themselves, and because higher employment rates help to absorb the costs of the ageing population. The increase in the number of working women has caused a sharp rise in the number of double-income households. This means that the pension system must be geared to both single and double-income households.

A second important factor for the accrual of pension rights is labour mobility. Since supplementary pension rights are accrued under employment contracts and that supplementary pensions are mainly salary-related, it is important that pension entitlements are not affected when people change jobs. Even when pension entitlements are not transferred, the supplementary pension rights of former participants ('sleepers') must be safeguarded.

The number of people in part-time employment (working less than 35 hours a week) rose from 32 per cent of the total active population in 1990 to 39 per cent in 2000. The proportion of women working part-time was as high as 69 per cent in 2000. The rise in part-time employment has required adjustments to the pension system.

Internationalisation
Although pensions are mainly a matter for national governments, the pension systems in Europe are increasingly feeling the effects of international developments, such as the growing mobility of labour and capital. Countries in the euro zone also feel the effects of the interdependence of their public finance systems and, therefore, of pension provisions. Strict compliance with the Stability and Growth Pact is required to ensure stable pension provision

4 Focal points of the Dutch pension system

The Dutch pension system has met the main objectives set out by the European Council, namely adequacy, long-term financial sustainability and modernisation in response to the changing needs of the economy, society and individuals:

Adequacy of pensions
- Decent minimum standard of living (objective 1). The pension system guarantees that everyone aged over 65 in the Netherlands enjoys a decent standard of living and will conti-

1 An advisory body to the government on socioeconomic issues in which central organizations of employers and employees, as well as independent experts take part.

nue to do so in the future. Furthermore, the purchasing power of the over-65s on low incomes has improved substantially in the last eight years. Single old age pensioners living solely on a state old age pension saw their purchasing power rise by 13.8 per cent between 1994 and 2002.

- Accrual of supplementary pension entitlements in the second and third pillars (objective 2). In addition to statutory old age pension entitlements, at least 91 per cent of employees accrued pension rights in the second pillar in 2001, compared to only 82 per cent in 1985. In 2000 83 per cent of retired households received a supplementary pension, and this number is expected to rise further. In addition to the first and second pillars, anyone can build up a supplementary pension in the third pillar. The pension system has resulted in relatively high levels of income for pensioner households, at approximately 88 per cent of the household incomes of people aged between 25 and 64 in 1999 (see objective 2).

Long-term financial sustainability of pension systems

- Spreading risk by a balanced mix of pay-as-you-go systems and funded systems. The risks of inadequate or unaffordable pensions associated with PAYG systems (as a result, for example, of ageing populations) or funded systems (as a result of high inflation and low equity returns) are spread by such a mix. (objectives 6, 7, and 8)
- Accumulated pension capital in the second and third pillars (objective 8). At the end of 2001 the assets of pension funds and insurers were estimated at 108 per cent and 58 per cent of GDP respectively. The pension funds (accounting for 85 per cent of the participants in the second pillar) had average reserves (assets divided by the value of pension commitments with a discount factor of 4 per cent) estimated at 119 per cent of pension liabilities at the end of 2001. However, in 2001 some funds came very close to the minimum reserve required by law of 100 per cent, which may have implications for the level of pension contributions and the rate of conditional indexation applied.
- Controlling the costs of supplementary pensions (objective 8). Social partners and the government in 1997 agreed to control the costs of supplementary pensions. The central issue was that the rise in the structural costs resulting from the modernisation of supplementary pension schemes had to be compensated within the schemes themselves. An evaluation of these agreements in mid-2001 showed that the structural costs of supplementary pension schemes have fallen by 0.24 percentage points of the total wages bill. The social partners on a central level once again stressed the importance of continued cost control.
- Appropriate supervisory frameworks (objective 8). Supervision on pension providers is strict but is geared to the specific situation of each fund. This means that there is no need for quantitative investment restrictions, which penalise pension provider profits. In order to improve the supervisory framework, the PVK and the government are preparing to modernise the financial assessment criteria. The idea is that the Basic Principles for a Financial Testing Framework (FTK) should offer even better opportunities so that employers and employees can achieve the required security both affordably and efficiently.

Modernisation of pension systems in response to changing needs of the economy, society and individuals

- In the last ten years the Dutch pension system has undergone a process of modernisation so that it is better prepared to cater for the changing lifestyles and working patterns described in the previous section. For instance, equal treatment for men and women and for full-time and part-time employees has been enshrined in law. In addition transfer of capital value and pension sharing on divorce are now legally safeguarded. The vesting periods for accrual of pension entitlements have been substantially reduced. These measures are a response to the changing roles of men and women, rising labour mobility and labour market flexibility. Other envisaged policy measures to modernise the pension system include extension of the legislation on equal treatment for men and women to cover defined contribution schemes from 1 January 2005. (objectives 9 and 10)

5 Challenges for the Dutch pension system

Although the European Council objectives have been largely achieved, the Dutch pension system still faces a number of challenges related to adequacy, sustainability and modernisation, both now and in the long term. These include:

- **Accessibility of supplementary pension schemes**
  The social partners have set the goal that all employees should have access to a supplementary pension scheme. The government supports this goal. (see objective 2)
- **Sustainability of public finances**
  - → It has been calculated that the total rise in government expenditure because of ageing from 2001 to the peak point will be approximately 9 per cent of GDP. The costs of the basic state old age pension (AOW) are expected to rise by 4.3 per cent of GDP, and the costs of care by 3.6 per cent of GDP. On the other hand, the tax revenues from supplementary pensions will rise, given the growing number of over-65s with a supplementary pension. It is estimated that this extra tax revenue will be around 5 per cent of GDP in 2040.
  - → Until 2010 the rate of growth of the ageing population will be relatively moderate, but will then accelerate as the baby-boom generation starts to retire. The Netherlands will therefore have more difficulty in reducing its debt after 2010. In 2001 the Budget Margin Study Group reported that the incoming government should base its budget on an assumed annual budget surplus of 1.25 to 1.75 per cent in the coming years. In this respect it is important to broaden the tax base, mainly through higher employment rates.
  - → Analyses show that if the public debt is totally eliminated by around 2025, the costs of the ageing population in the Netherlands can be absorbed without the need to raise taxes or restrict benefit entitlements. (objective 6)
- **A stable socioeconomic policy**
  A healthy economic basis, both in the short and long term, is vital to the present and future financing of the pension system. Alongside the basic old age pension in the first pillar, the funded system in the second pillar also merits attention, in particular the sensitivity of the financing of supplementary pensions to inflation and wage increases. Inflation can adversely affect the capital held by pension funds and therefore the level of supplementary pensions. Successive large wage increases could lead to a situation in which the costs of maintaining supplementary pensions (most of which are final salary pension schemes) would be disproportionate. In addition, indexation of current pensions could come under pressure from substantial wage rises and/or high inflation.
- **Increasing employment rates among people aged between 55 and 64**
  Despite a sharp rise of 8 percentage points since 1995, the net participation rate of people aged between 55 and 64 was still only 34 per cent in 2001. The government has set a target of a 0.75 percentage point rise of the net participation rate annually. To this end it has announced the following measures/policy plans (see objective 5):

- → Favourable tax treatment for the early retirement schemes (VUT), which are a pay-as-you-go system, will be phased out from 2003.
- → In its standpoint on promoting labour participation amongst older people (March 2000) the government considers making it compulsory for unemployed people aged over 57½ to look for a job.

- **Reform of disability benefit schemes**
  A relatively high proportion of Dutch people claim disability benefit (WAO). At the end of 2001 966,000 people were classed as entirely or partially incapable of work. Older people (aged between 45 and 65) make up a substantial proportion of the influx into the disability benefit scheme. This leads to a higher tax and social security burden and lower employment rates among older people. In order to limit the influx into the scheme, the SER has proposed a major reform of the system. The outgoing government's standpoint supports, or views positively, most elements of the SER recommendations.
- **Fair intergenerational distribution of the costs of ageing**
  The Dutch pension system is characterised by a mix of PAYG in the first pillar and funded arrangements in the relatively large second pillar and smaller third pillar. This helps guarantee a balanced distribution of costs between the active and retired population. However, within the three pillar system certain elements of the second pillar are a point of special interest. Particularly the indexation of supplementary pensions currently being paid out, which are funded from investment returns or by working participants in the pension scheme, has a direct link to the issue of intergenerational fairness.
  Indexation is conditional in virtually all supplementary pension schemes. In other words, higher pension benefits are dependent on the financial position of the pension fund. If the fund managers consider the position to be inadequate, the contribution paid by the working participants can be kept in check by applying a lower indexation rate than inflation or wage increases, or by suspending indexation.
  In practice, pensions are nearly always indexed, despite the fact that, formally, indexation is conditional in most pension schemes. As a result, many members of pension schemes perceive indexation as their acquired right. This means that tensions may arise between the need to keep the scheme affordable for the working participants and the need to maintain the pensions of those people already in retirement. In the immediate future, the social partners, supported by the government, will have to find an effective balance between sustainability for the younger generations and sustainable adequate pensions for older generations. (objectives 3 and 7)
- **Improving information about and transparency of pension schemes**
  The growing complexity of pension products means steps must be taken to improve their transparency and comparability. In its Framework Memorandum on the New Pensions Act the government announced that the present regulations on information provision would be further specified in new pension legislation (see objective 11):
  - → Employers will have a statutory obligation to inform new employees in writing about membership of the pension scheme, accrual of pension rights and any associated risks within three months of the start of the employment contract.
  - → Pension providers will be obliged to inform members about the projected level of supplementary pensions. The government also intends to improve the provision of information to retirees.

Part II

In accordance with the agreed EU format, part II details the policies and policy plans associated with each objective. It also states to what extent the Netherlands has met or is likely to meet the common objectives.

Adequacy of pensions

Member states should safeguard the capacity of pension systems to meet their social objectives. To this end, against the background of their specific national circumstances they should:

OBJECTIVE 1

Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living; that they share in the economic well-being of their country and can accordingly participate actively in public, social and cultural life[2]

Policy:
- All citizens are guaranteed a certain minimum income.
- The basic old age pension is not means-tested in relation to income or assets. The net pension payable is linked to the net statutory minimum wage. Pensions are indexed annually under the Wage-Benefit Linkage and Exceptions Act (WKA).
- Rent charges, the cost of care and health insurance for the over-65s are covered by specific income support schemes.

Outcome:
- The proportion of the over-65s on incomes up to 105 per cent of the minimum is estimated to have fallen from 11.9 per cent in 1990 to 9.4 per cent in 2000.
- The purchasing power of a single person receiving only a state pension rose by 13.8 per cent between 1995 and 2002 and for a couple by 11.1 per cent.

Policy

Minimum income

The Netherlands has a comprehensive system of social security that guarantees a decent minimum income for its citizens. In addition to a minimum benefit, people are entitled to specific provisions to cover specific expenses, or to benefits administered by local authorities for costs not covered by other provisions. People who are reliant on these minimum provisions are not at risk of poverty. Poverty is not only dependent on income but also on other factors, which are

2 This is the result of a calculation using a microsimulation model. In order to obtain sufficient observations the calculation is based not on persons aged 64 but on persons aged 55 to 64. It has been assumed that no more changes in labour market participation take place up to age 65, in other words that people aged 55-64 who are working continue working until 65, and that they continue to accrue pension entitlement in the same way. The calculation of the supplementary pension is based on a number of different pension schemes and a simulated employment history for pension purposes.

examined in more detail in the National Action Plan to tackle poverty and social exclusion. The risks of poverty are discussed in Annex I.

Basic old age pension (AOW)
The minimum benefit for people aged 65 and over is the basic old age pension (AOW). Under the Wage-Benefit Linkage and Exceptions Act (WKA), the net amount of the basic old age pension is linked to the net statutory minimum wage. The WKA allows for this link to be suspended in certain economic circumstances. Assuming they have full entitlement to the state old age pension, at 1 July 2002 a married couple or cohabiting couple received a net pension of € 581.56 per person per month, a single person received € 825.35 and a single person with children under 18 received € 1048.18. The old age pension is not means-tested. Everyone living in the Netherlands builds up 2 per cent a year in entitlements, regardless of nationality. The pension benefit is reduced proportionately for people who have been insured for less than 50 years. In addition to the basic old age pension, these people may be entitled to additional social assistance up to the level of the minimum income (see Annex I).

Specific income support schemes for over-65s
- People on low incomes living in rented accommodation are entitled to housing benefit. The average housing benefit paid to the over-65s is € 1360 a year.
- People requiring long-term care or nursing can make use of home care services or move to a nursing home or care home. The individual contribution payable for these services is income-related.
- Older people who are members of a compulsory health insurance scheme pay a nominal contribution equal to the contribution for people aged under 65, despite the higher risk of them incurring medical expenses. The monthly premium in 2001 was € 157 per person. In addition, this group of over-65s pay a percentage compulsory health insurance premium and, on average, € 79 per month as a personal contribution towards medical expenses. This is deducted in advance from the net basic old age pension.
- Many local authorities exempt older people from local taxes and offer crisis payments for unexpected expenses. They also offer running schemes to increase pensioners' participation in society. Approximately 14 per cent of people over 65 on an income of up to 105 per cent of the minimum income receive an average of € 500 a year in crisis payments. An estimated 30 per cent are exempt from local taxes.

Annex I gives more detailed information on measures which affect the incomes of the over-65s.

Outcome

Fall in number of over-65s on minimum income
The sum of the above provisions constitutes pensioners' basic income. In 2000 an estimated 9.4 per cent of the population aged over 65 had a family income below 105 per cent of the minimum income, compared to an estimated 7.4 per cent of the population under 65 (table 1.1). The proportion of people aged 65 an d over on an income below 105 per cent of the minimum fell between 1990 and 2000. Important factors in this reduction are:
- Supplementary pensions: Employees can build up a supplementary pension in the second pillar as part of their terms of employment. A growing proportion of over-65s receive a supplementary pension (see objective 2).
- Other sources of income: Of the households without a supplementary pension, 91 per cent have income from other sources, such as savings or property. On average this income is 50 per cent higher than that of households receiving a supplementary pension.

Table 1.1 Proportion of persons and households with a family income of up to 105* per cent of the minimum income, 1990-2000 (%)

	1990	1995	2000**
total persons under 65	7.9	8.3	7.4
total persons over 65	11.9	10.1	9.4
of which: men	8.9	6.8	6.6
women 14.0	12.4	11.4	
total households under 65	9.8	9.9	8.9
total households over 65	13.7	11.9	11.1
of which: single man	15.4	11.6	11.4
single woman	20.7	19.0	17.6
cohabiting	7.4	5.6	5.3

* Given that measurement of the proportion with a family income at 100 per cent of the minimum has proved to have excessive statistical margins of error, it was decided to base the measurements shown in table 1.1 on a slightly larger group of 100-105 per cent of the minimum.

** Provisional figures

Over-65s in residential care are not included in table 1.1. Their share of the total number of pensioner households fell from 12.3 per cent in 1990 to 8.5 per cent in 1999. This is because more and more older people are living independently for longer. There is a minimum income provision in the form of spending and clothing allowances for people in residential care.

Source: Statistics Netherlands

As can be seen in table 1.1 single women have a relatively high chance of living on an income which is only just above the minimum once they reach 65. However, this is gradually reducing as younger generations of women are increasingly building up their own supplementary pensions, and single women without a supplementary pension are strongly over-represented in the older age cohorts (see objective 10).

Purchasing power of over-65s on low income

As with other benefits, the old age pension paid is linked to the statutory minimum wage. In turn, the statutory minimum wage is linked to average wage increases. This means that the old age pension is linked to the general level of prosperity. Only in exceptional circumstances, such as a sharp deterioration in the benefit ratio, can a decision be taken to raise the minimum wage by less than average wage increases. Since 1996 the linkage has been applied in full.

From 1996 the government introduced measures to reduce the tax burden on older people on a low income. Under the new income tax system introduced in 2001, these measures were converted into elderly people's tax credits, which are directly deducted from tax. In 2002 these tax credits were ¤289 for elderly people on an income up to ¤28,500 per person. Single elderly people on an income up to this level are also entitled to an additional credit of ¤256 per year.

The indexation of pensions and the tax measures taken improved the purchasing power of the over-65s on a low income by over 10 per cent between 1995 and 2002 (see table 1.2).

Table 1.2 Generic trends in purchasing power since 1994 (index 1994=100)

	1994	1995	2000	2001	2002
single, AOW only	100	100.5	108.7	112.4	113.8
single AOW+ ¤2500 pension	100	99.9	107.2	110.5	111.7
couple, AOW only	100	100.8	106.6	109.6	111.1
couple AOW + ¤2500 pension	100	100.4	105.7	108.5	109.8
single, entitled to benefit, under 65	100	99.6	103.5	106.6	107.5
couple entitled to benefit, under 65 with children	100	99.8	103.4	107.9	110.2
employee, sole breadwinner, modal income, with children	100	100.7	103.2	109.9	111.3

The figures shown in table 1.2 do not take account of the rise in housing benefit in 1997. For people in receipt of housing benefit this generated an average purchasing power improvement of $2^{1}/_{4}$ per cent. Local authority income support also increased during this period, generating an estimated average improved purchasing power of $7^{1}/_{2}$ per cent.
Source: Ministry of Social Affairs and Employment (SZW)

OBJECTIVE **2**

Provide access for all individuals to appropriate pension arrangements, public and/or private, which allow them to earn pension entitlements enabling them to maintain, to a reasonable degree, their living standard after retirement

Policy:

- The social partners have set the following goals:
  - ensure all employees have access to a supplementary pension scheme;
  - each supplementary pension scheme should include conditional indexation.
- The government supports these goals. At the same time the government safeguards the accrual of supplementary pension entitlements to which funds have committed themselves.
- The government offers tax relief on supplementary pension provision (in both the second and third pillars).

Outcome:

- At least 91 per cent of all employees are acquiring supplementary pension entitlements.
- From 1998 to 2000 the average cumulative indexation of supplementary pensions was 7.5 per cent compared to an inflation rate of 5.5 per cent.
- 83 per cent of pensioner households receive a supplementary pension.
- The income of pensioner households is 88 per cent of the income of households aged 25-65.

Policy

Increasing membership of supplementary pension schemes

Research by the SER shows that membership of supplementary pension schemes rose from 82 per cent of all employees in 1985 to at least 91 per cent in 2001. This is partly the consequence of the continuing efforts of the social partners (who are responsible for supplementary pensions) to make these pension schemes accessible to all employees. To this end, in spring 2001 social partners on a central level issued recommendations to be taken into account during the decentralised negotiations on terms of employment. In 2006 the agreements between the social partners will be reviewed. If they do not yield satisfactory results, the government will enact legislation which makes it impossible to exclude individuals or groups of employees from pension schemes.

In 2000 83 per cent of pensioner households were receiving a supplementary pension. This is expected to rise to 92 per cent by 2020 (see table 2.1).

Table 2.1 Number of households with income from supplementary pensions

	Single		Couple		Total
	man	woman	at least one partner retired	both partners retired	
2000	86%	78%	88%	20%	83%
2010	91%	82%	92%	35%	87%
2020	94%	87%	97%	57%	92%

Source: Ministry of Social Affairs and Employment (SZW)

Indexation of supplementary pensions
Indexation of supplementary pensions is arranged separately by each pension scheme. In 1999 6.2 per cent of active members of supplementary pension schemes had no indexation arrangement. The social partners consider it important that every supplementary pension has indexation rules and that the indexation is conditional. In the recommendations issued by the Labour Foundation in 2001 the social partners made agreements to this end.

From 1998 to the end of 2000 none of the biggest 100 pension funds (covering 87 per cent of all pensioners) failed to apply the agreed conditional indexation. In this period the cumulative indexation of supplementary pensions was 7.5 per cent, compared to a cumulative inflation rate for the same period of 5.5 per cent. It is expected that in 2002 the pensions of the majority of pensioners will be fully indexed.

Promote and safeguard the accrual of supplementary pensions
Although it does not bear primary responsibility for the accrual of supplementary pensions, the government does try to ensure that all citizens are able to build up adequate supplementary pensions and that their entitlements are safeguarded. The government uses a range of instruments for this purpose:

- Safeguarding pension entitlements:
  - → Supplementary pensions must be financed under the funded system and pension contributions must be placed outside the employer's company
  - → Surrendering of pension rights to the beneficiary is not allowed. One-off lump sum payment of supplementary pensions would undermine the purpose of accrual and safeguarding of pensions.
- Protective measures:
  - → Prohibition of medical examinations for supplementary pensions.
  - → Statutory right to transfer of capital value when changing jobs (see objective 9).
  - → When indexation applies to retirees, it must also apply to non-contributory pension entitlements acquired with previous employers (see objective 9).
  - → Statutory right to pension sharing on divorce.
  - → Equal treatment of men and women and of full-time and part-time employees (see objectives 9 and 10).

- Compulsory pension scheme membership. At the request of a representative delegation of employers and employees in a given sector, the Minister of Social Affairs and Employment can make it mandatory for employers to join a sector pension fund. This is a key instrument for reducing the number of employees without a supplementary pension.
- Tax incentives. Under Dutch tax legislation contributions to supplementary pension schemes made by employers and employees are tax deductible, capital gains of the pension fund are exempt as well and pension payments are taxed ('EET-system'). Tax deductions on contributions to final salary schemes are subject to a maximum accrual of 2 per cent per year, geared to a final result of 70 per cent of the final salary after 35 accrual years. For average earnings schemes the maximum accrual percentage is 2.25 per cent. The accrual of the supplementary pension takes account of the expected amount of basic old age pension payable.

Third pillar: Personal pension plans
The third pillar comprises personal pension plans which can be taken out to supplement the basic state old age pension and the employment-related supplementary pension schemes in the second pillar. The tax system encourages people to take out personal pension plans by making the contributions tax deductible under certain conditions. The principle is that everyone should have the opportunity to build up an adequate pension. This means that in 40 years' time people must be able to build up a pension provision of 70% of their final salary - including the basic old age pension and the supplementary pension in the second pillar. Until this level is reached, people can be said to have a pension savings and the annuity premiums can be deducted from income tax. The annuity is then taxed when it is paid out. The fiscal treatment of annuities is summarised briefly below:

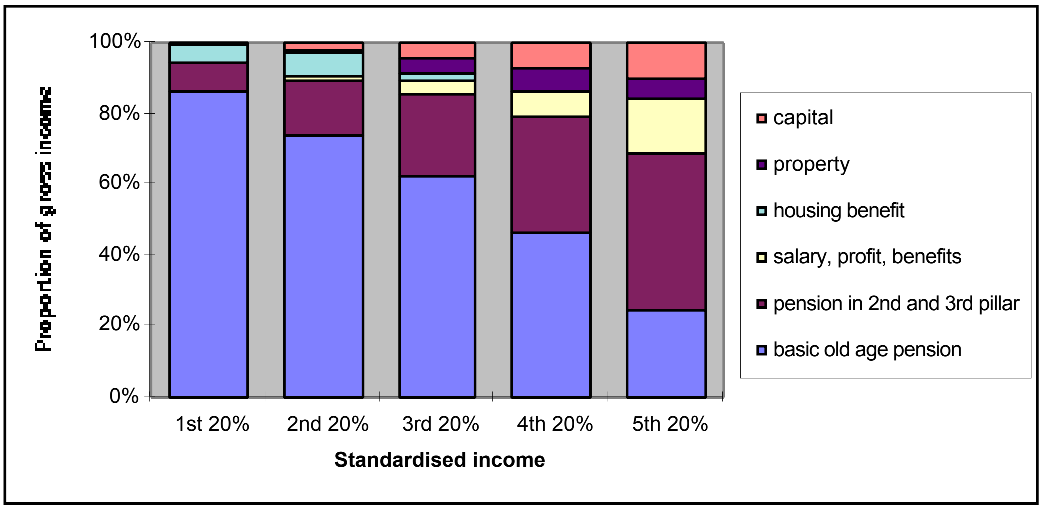
- Basic margin: This margin of €1069 can be used without the need to demonstrate a pension savings.
- Annual margin: If there is a pension savings in the second pillar, people aged under 65 can deduct annuity contributions from their income tax in the year that the savings is identified to a maximum of 17 per cent of the amount on which the premium is based (maximum €136,887), less an amount that takes account of the basic old age pension (contribution-free allowance of €10,203). The growth in the second pillar pension and the additions to the pension reserve (the reserve which can be accrued by the self-employed) are also deducted. If the result is positive, there is a pension savings and the individual in question may deduct contributions from income tax.
- Reserve margin: It is possible to compensate for a pension savings which arose in the past (as a result of failure to use the annual margin) over a period of seven years. The maximum amount that can be made up is €5,885 and €11,626 for taxpayers aged over 55.

Outcome

Actual income from pensions
The gross income of pensioner households is made up on average of 48 per cent from the basic old age pension (AOW) and 31 per cent from pensions in the second and third pillars. However, there is a great deal of variation. For the lowest income groups the old age pension is the major component of household income. More than 80 per cent of their gross income comes from the AOW. For the highest income groups this is just over 20 per cent. Many of the households in this income group include one partner aged under 65. In those cases salary, profit and other benefits are a major source of income. On average 11 per cent of the gross income of pensioner households comes from capital or home ownership (market rental value). Figure 2.1

shows the proportion of the different sources of income in the total gross income for a number of income groups.

Figure 2.1 Composition of gross income of over-65s* by income group, 1999



* Single people and cohabitees, excluding people living in institutions and old people's homes.
Source: Statistics Netherlands

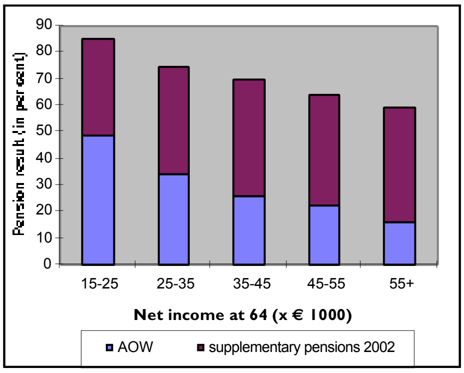
Figure 2.2 shows the estimated income from the basic old age pension and supplementary pensions employees and benefit claimants aged 55-64 can expect to receive when they reach 65, compared to their income from wages and benefits respectively when they are aged 64: the net pension result.[3] The higher the income earned at 64, the lower the share of the basic old age pension in the retirement income, as the supplementary pension accounts for a progressively greater propotion of total income. Since taxes and social insurance contributions for the over-65s are lower than for the under-65s, the net pension result of people with a net income up to approximately ¤30,000 is well above 70 per cent of the final salary.

In the case of benefit claimants (figure 2.2.b.), including people taking early retirement, the fall in income in relation to the period when they were still active starts earlier. For this group the reduction in income at 65 is less sharp than for people who were in work up to that point. People in low-income jobs may even receive a higher income in retirement. One factor is that during the benefit period the accrual of pension entitlements continues in some cases on a non-contributory basis (for disability benefit claimants, people over 40 on salary- related unemployment benefit and, to some degree, people taking early retirement).

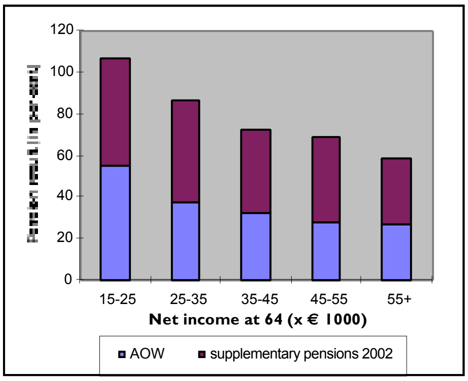
3 This is the result of a calculation using a microsimulation model. In order to obtain sufficient observations the calculation is based not on persons aged 64 but on persons aged 55 to 64. It has been assumed that no more changes in labour market participation take place up to age 65, in other words that people aged 55-64 who are working continue working until 65, and that they continue to accrue pension entitlement in the same way. The calculation of the supplementary pension is based on a number of different pension schemes and a simulated employment history for pension purposes.

Figure 2.2 Net median pension result from basic state old age pension (AOW) and supplementary pension, people aged 55-64, 1990-2002

2.2.a. Employees



2.2.a. Benefit claimants



33 per cent of the population aged between 55 and 65 work and 42 per cent claim benefits.
The self-employed and people who had no source of income in their own right in 2002 (25 per cent) are not included.
Source: Ministry of Social Affairs and Employment (SZW)

Finally table 2.2 illustrates the relationship between the standardised household income of older people compared to younger people. This includes income which is not pension-related. It shows that the household income of the over-65s as a proportion of the household income of people aged between 25 and 64 rose from 85 per cent in 1990 to 88 per cent in 1998. This is partly due to improvements in the pension result. People who retired in 1998 had spent longer on average as members of a supplementary pension scheme than the cohort from 1990. Another factor is improvements in the quality of supplementary pensions. This trend is expected to continue in the coming years. In addition, the improvement in the relative income status of the older age cohorts is the result of indexation of existing supplementary pensions and of tax measures. This is demonstrated by the trends in the purchasing power of older people compared to younger people (table 1.2).

Table 2.2 Standardised household income* of the over-65s as a percentage of the population under 65, 1990-1999

	1990	1995	1998	1999**
over-65s compared to 25-64	85	86	88	88
over-65s compared to 55-64	80	82	84	84
over-65s compared to 45-54	77	78	80	80
of which 65-70	82	84	85	84
70-75	79	79	83	82
75-80	75	76	78	78
80+	71	73	75	75

* The standardised household income indicates the net disposable household income. The household composition has been factored in.
** Provisional figures
Source: Statistics Netherlands

OBJECTIVE 3

Promote solidarity within and between generations

Policy:
- The collective nature of the first and second pillars ensures solidarity within generations
- Solidarity between generations is assured by:
  - the pay-as-you-go system that funds the basic state old age pension (AOW);
  - conditional indexation and longevity risks in supplementary pension schemes.

Outcome:
- There is a high level of solidarity within and between generations in the first and second pillars of the pension system.

Policy

Solidarity within generations
In the first pillar solidarity within generations lies in the fact that everyone entitled to the old age pension builds up the same percentage every year. In the second pillar, the members of a pension scheme generally pay a standard contribution. Neither the first nor the second pillar discriminates on the grounds of gender, health or nationality.

Solidarity between generations
- First pillar: In the pay-as-you-go system in the first pillar the active population pays for the old age pensions of the present group of pensioners through social security contributions. In addition, under the WKA the development of the state old age pension is linked to the minimum wage (see objective 1). Finally, the policy to eliminate the national debt entails an element of solidarity, because of its positive effect on the sustainability of the old age pensions of the present young generation and future generations (see objective 6).
- Second pillar: Elements which promote intergenerational solidarity are:
  - → Salary-related pensions: over 88 per cent of members in the second pillar have a salary-related (defined benefit) pension plan. In such a system, younger generations partially compensate for lower returns when investment results are disappointing by paying higher contributions. When returns are healthier, surpluses can be passed on to the next generation.
  - → Conditional indexation: pension funds (covering 85 per cent of the members in the second pillar) often finance indexation with higher contributions when investment returns are low.
  - → The presence of longevity risks: under defined benefit schemes longer life expectancy has no implications for the amount of pension paid.

The solidarity in the second pillar also delivers efficiency gains. In its report entitled *Generationally-aware Policy* (2000) the Advisory Council on Government Policy (WRR) compared defined benefit pension plans with intergenerational solidarity to defined contribution pension plans without this form of solidarity. The WRR calculated that in the latter schemes people have to pay 25 per cent more contributions to cover the same risk of a decline in the pension result. The WRR concluded that pension accrual on the basis of solidarity is more efficient than individual accrual, particularly if the pension fund attempts to maintain asset buffers and to pass on these buffers to the next age cohorts in the pension scheme.

Outcome

There is a high level of solidarity within and between generations in the first and second pillars of the pension system.

Income inequality
At European level income inequality is being developed as an indicator of solidarity within and between generations. Table 3.1 gives an overview of the standardised income distribution of the over-65s.

Table 3.1 Standardised income distribution among over-65s

	1st(lowest) 20% group	2nd 20% group	3rd 20% group	4th 20% group	5th(highest) 20% group	Ratio highest/ lowest 20%
				%		
1995	11.4	14.1	16.8	22.0	35.6	3.12
1999[1)]	11.3	14.5	17.3	22.3	34.7	3.07
difference	-0.1	0.4	0.5	0.3	-0.9	

1) Provisional figures
Source: Statistics Netherlands

Income inequalities between the over-65s are smaller than in the population as a whole. In the total population the income of the highest 20 per cent is 3.07 times that of the lowest 20 per cent.

Within the total population the over-65s are overrepresented in the lowest income group. In 1999 more than 30 per cent of the 20 per cent with the lowest incomes were aged over 65. Within the highest income group the figure was just over 13 per cent. Compared to 1995 the overrepresentation in the lowest income group has fallen. The improvement in the income status of over-65s with a low income as a result of tax measures (see objective 1) has contributed to this.

Table 3.2 Share of over-65s in the standardised income distribution of the total population

	1st(lowest) 20% group	2nd 20% group	3rd 20% group	4th 20% group	5th(highest) 20% group
			%		
1995	32.1	28	14.7	12.1	13.0
1999[1)]	30.4	28.2	15.4	12.8	13.3
difference	-1.7	0.2	0.7	0.7	0.3

1) Provisional figures
Source: Statistics Netherlands

Financial sustainability of pension systems

The Member States should follow a multi-faceted strategy to place pension systems on a sound financial footing, including a suitable combination of policies to:

OBJECTIVE **4**

> ***Achieve a high level of employment through, where necessary, comprehensive labour market reforms, as provided by the European Employment Strategy and in a way consistent with the BEPG***

Policy:
• The government aims to achieve the highest possible net participation rate.

Outcome:
• A net participation rate of 65 per cent.

Policy

A higher labour force participation rate will help pay the costs of ageing. In its *Ageing in the Netherlands* (2000) report the CPB outlines the implications of changing labour market participation for the costs of ageing. A 5 percentage point rise in the participation of older people (equivalent to a 1 percentage point rise in total participation) gives a budget margin of 0.3 per cent of GDP. A 5 percentage point rise in the labour force participation of women (2.5 percentage point rise in the total labour force participation) would create a budget margin of 0.6 per cent of GDP.

The government is focusing on the following policy tasks to achieve its objectives for raising labour force participation:

- Structural reduction of long-term benefit dependency.
- Promoting the employment of older people, women, ethnic minorities and the less well-educated.
- Structural improvements to the qualifications of the working-age population.
- Modernisation of labour relations and patterns of work.

In line with European agreements made under the European Employment Strategy the government has put this policy into practice through specific national objectives. See table 4.1.

Table 4.1 Government objectives for encouraging labour force participation and/or productivity

Target group	Objective
general labour force participation	be one of the EU frontrunners
labour force participation of people aged 55-64	increase employment by æ percentage point annually
labour force participation of women	• raise participation rate to 65 per cent by 2010 • entirely meet the demand for childcare
labour force participation of ethnic minorities	halve the differential unemployment rate between ethnic Dutch and ethnic minorities in 2002
unemployed (difficult to place)	comprehensive strategy achieved in 2002
potential labour force	• the share of the population aged 25-64 taking part in some form of adult or other education, whether related to their occupation or job or otherwise, to match as nearly as possible the performance of the top two Member States • to reduce poverty trap: in no circumstances should people suffer a reduction in their disposable income when accepting work

A complete overview of Dutch policy on employment can be found in the National Action Plans on Employment for 2001 and 2002. The key elements of these plans are shown in Annex II.

Outcome

The Dutch labour market is characterised by low unemployment and fairly high labour force participation (see table 4.2). Expressed in full-time equivalents, labour force participation in the Netherlands (57 per cent in 2000) is around the European average.

Table 4.2 Employment in the Netherlands (as % of the relevant population group)

	1990	1995	2000	2001
net participation rate total[1]	55	58	65	65
net participation rate for:				
men	71	72	77	77
women	39	44	52	53
older people (55-64)	26	26	34	34
unemployment	7.0	8.3	3.6	3.3
inactivity rate	-	78	66	65

Source: Statistics Netherlands, 2001; Eurostat, 2001; CPB 2002.

1) The net participation rate is defined as the active labour force (in persons) as a percentage of the population. In contrast to Eurostat, Statistics Netherlands does not include people working fewer than 12 hours a week in this definition. This means that on the basis of Dutch statistics the net participation rate is lower than on the basis of European statistics. In 2000 European statistics showed a general net participation rate of 73 per cent and a participation rate for older people (aged 55-64) of 39 per cent.

Whilst across the board unemployment is low, at the same time there is still a substantial unexploited supply of labour. This is proof of a qualitative mismatch between supply and demand on the labour market, giving rise to labour shortages in certain sectors. In 2001 there were approximately 164,000 unfilled job vacancies.[4]

Table 4.3 Indicators of unexploited labour supply in the Netherlands (x 1000 persons)

	1998	1999	2000	2001
registered unemployed[1]	287	221	188	146
unemployed labour force [2)]	348	292	270	248
people on social assistance or unemployment benefits[3)]	701	612	539	489[4)]
looking for paid employment ≥ 12 hours[5)]	914	805	687	661

Source: Statistics Netherlands, 2001, CPB 2002, Sociale Nota 2002

1) Registered unemployed are people who are registered as jobseekers with an employment office, who are immediately available to work at least 12 hours a week and who are not working fewer than 12 hours a week. The registered unemployment figures are based on random sample surveys of over 10,000 people conducted every month in the Netherlands.
2) As well as the registered unemployed Statistics Netherlands also surveys the unemployed labour force: persons working fewer than 12 hours a week or not working at all who are actively seeking work for 12 hours or more, irrespective of whether they are registered with an employment office.
3) Some unemployment benefit and social assistance claimants (WW and ABW) are exempt from the obligation to actively seek work, bringing the effective supply of labour from people receiving unemployment benefit and social assistance in 2000 to approximately 215,000 instead of approximately 539,000.
4) All persons working fewer than 12 hours a week, or not working at all, who would like to take paid employment for 12 hours or more, irrespective of whether they are immediately available to work, are looking for work etc.
5) Number of people claiming social assistance or unemployment benefit on 30 September 2001.
   A significant proportion of people receiving disability benefits can also be included as part of the potential labour supply. The National Action Plan on Employment estimates this at some 170,000 people.

OBJECTIVE 5

Ensure that, alongside labour market and economic policies, all relevant branches of social protection, in particular pension systems, offer effective incentives for the participation of older workers; that workers are not encouraged to take up early retirement and are not penalised for staying in the labour market beyond the standard retirement age; and that pension systems facilitate the option of gradual retirement

Policy:

- The government objective is a 0.75 percentage point annual increase in the net participation rate of people aged 55-64. The government uses the following instruments:
  - → Abolition of favourable tax treatment for early retirement schemes.
  - → Reduction in the number of older employees claiming unemployment benefit. One instrument being considered is to make it compulsory for unemployed persons aged 57Ω and over to look for work.
  - → Reduction in the number of people claiming disability benefit (WAO).
  - → The government and social partners are making work more attractive for the over-55s by: tax measures, prohibition on age discrimination, preventing problems with reduced pension accrual when people are demoted, and improving the quality of work life.

4 This figure does not include civil service and education vacancies. If these sectors are included, the total number of vacancies in 2000 was around 200,000.

Outcome:
• From 1995 to 2001 there was a cumulative rise of some 8 percentage points in the net participation rate of people aged 55-64.

Policy

Promote increased net participation of people aged 55-64
To raise the low net participation rate of people aged 55-64, the government has set the target of achieving an annual rise of 0.75 percentage points from 1999 onwards. Efforts are concentrated primarily on people from the 1945-1960 birth cohorts. This group is still largely active on the labour market. Keeping these people in work and preventing them leaving the labour market are key objectives, and the following basic principles have been set out:
- Make it easier and more attractive for people to stay in work for longer.
- Forced retirement to be avoided where possible.
- Voluntary retirement must remain an option, but the costs are to be borne individually rather than collectively.
- Encourage reintegration into the labour market.

The government has taken the following policy measures:

Abolition of favourable tax treatment for early retirement schemes
The favourable tax treatment for early retirement schemes is being phased out. The transition from pay-as-you-go early retirement schemes to funded pension and pre-pension schemes encourages higher labour force participation by older people. These schemes compel people to consider whether to retire earlier with a lower pension, or retire later with a higher pension. The government is working on the assumption that the transition from early retirement to flexible retirement schemes will mean that, on balance, older employees will continue to work longer. A survey of terms of employment conducted by the Labour Inspectorate in 2001 (*Arbeidsvoorwaarden onderzoek 2001)* showed that agreements have been made on reforms to early retirement schemes for 83 per cent of older employees.

Reduce the number of older employees claiming unemployment benefit
The percentage of older people claiming unemployment benefit has been falling since 1994. Nonetheless, 38 per cent of insured employees (according to the definition of employee insurance) aged 57½ and over receives unemployment benefit. To reduce the number of older people entering the unemployment benefit system and to increase the number of people leaving the system, measures are being prepared to:
→ prevent dismissal of employees aged 57½ and over by compelling employers to contribute to unemployment benefit from now on. The costs of unemployment benefits for people aged 57½ and over entering the unemployment benefit system will be higher than for younger employees.
→ reintroduce the obligation to seek work for people aged 57½ and over. The exemption from the obligation to look for a job was introduced for unemployed people aged 57½ to 65 in a period when there were very few opportunities for older unemployed people on the labour market. The labour market situation has now changed considerably. In its standpoint on encouraging older people to work (March 2000) the government considered making it compulsory for unemployed people aged over 57½ to look for a job. In this connection the government has commissioned research into the position of older people on the labour market.

Reform of disability benefit schemes
A relatively high proportion of Dutch people claim disability benefit (WAO). At the end of 2001 966,000 people were classed as entirely or partially incapable of work. Older people (aged between 45 and 65) make up a substantial proportion of the influx into the scheme. This leads to higher collective costs and lower employment rates among older people. In order to limit the influx into the WAO, the SER has proposed a major reform of the system. The outgoing government's standpoint supports, or views positively, most elements of the SER recommendations.

Tax measures
Alongside labour market and social security policy, tax measures also help to ensure that the labour market operates effectively. The following measures have been introduced under the 2002 tax plans:
→ A specific employment incentive for older employees (see table 5.1);
→ Employers receive a discount on the WAO premium of €712.43 for employees aged 58 and over to make it more attractive for them to retain or take on older people.

Table 5.1 Additional employment incentive for older people under the statutory retirement age

age on 1 January 2002	incentive in 2002 (annual amounts)
up to 57 (standard)	€ 949
57 to 59	€1119
60 to 61	€1289
62 to 64	€1460

Establishment of a Task Force on Older People and Work
In June 2001 the Minister of Social Affairs and Employment set up a task force on older people and work for a period of two years. The task force comprises academics and representatives of the social partners and civil society organisations. Its tasks are:
- to encourage a change of attitude amongst employers and employees, to positively influence the public perception of older people, to discourage the dismissal of older employees, to promote reintegration, promotion, and second and third careers;
- to identify best practice;
- to set up an information and advice desk for employers and employees;
- to support initiatives geared to increasing the labour force participation of older people

Introduction of a prohibition on age discrimination in work, professions and vocational education
Legislation is being drawn up to prohibit the use of age criteria for recruitment and selection purposes unless an objective justification can be given. The same applies to dismissal on the grounds of age. Entitlement to the old age pension at 65 is considered an objective justification, but entitlement to a supplementary pension under 65 is not. This Act could enter into force in early 2003.

Preventing reduced pension accrual on demotion
Supplementary pension schemes are often final salary schemes. This is beneficial for people who have made only upward career moves over the years. However, it can have major detrimental effects on people whose career takes a downturn at the end of their working life. In these cases, the higher pension entitlements accrued over the years are also affected. The

government has decided to introduce legislation in order to ensure that older people can take a step back in their careers without disproportionate penalisation of their pension entitlements.

***I*mproving the quality of work life**
Better jobs would encourage increased labour market participation by the over-55s. The responsibility for improving the quality of work life lies mainly with the social partners. In the Employment Guidelines more detailed information is given on measures to promote the quality of work life, such as lifelong learning and age awareness in human resources policies.

Outcome

Labour force participation among older people
The net participation rate of people aged 55-64 rose by 8 percentage points from 1995 to 2001. This increase came mainly from people aged 55 to 59, particularly women (see table 5.2).

Table 5.2 Net participation rate of older people in the Netherlands (as % of the relevant population group)

	1990	1995	2000	2001
participation rate 55-64	25	26	34	34
participation rate 55-59	37	39	49	51
Men	60	57	67	70
Women	14	20	31	31
participation rate 60-64	11	11	16	15
Men	19	18	25	22
Women	4	5	7	8

Source: Statistics Netherlands

The number of people in the 55-64 age group not working is still high. However, an examination of their background shows that a small proportion are available for work immediately. For men aged 55-64 the low net participation rate is mainly caused by the number of men taking early retirement or claiming disability benefit. A relatively high proportion of the women in this age group do not earn their own income. Given the increased labour force participation by women from younger generations, there will be a substantial fall in the number of women without an income.

Table 5.3 Older people and the labour market, as percentage of the population aged 55-64

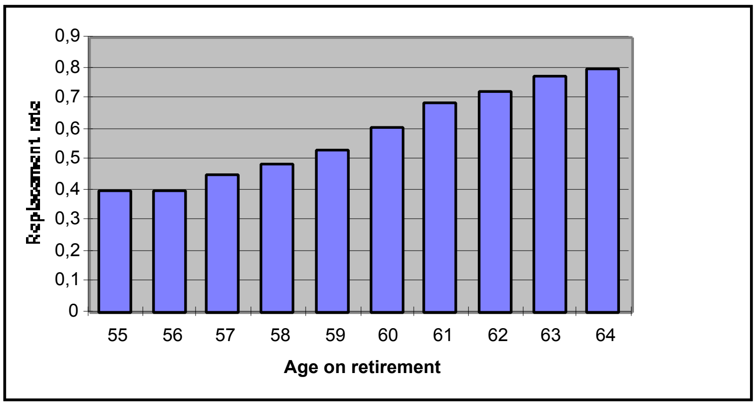
	1992	1995	1999
total group			
in work	25	26	31
willing to work	4	4	4
in retirement/early retirement	16	18	17
claiming disability benefit[1)]	-	21	17
other[2)]	55	30	31
Men			
in work	40	39	45
willing to work	4	4	4
in retirement/early retirement	29	32	28
claiming disability benefit[1)]	-	-	22
other[2)]	27	25	1
Women			
in work	11	13	18
willing to work	4	4	4
in retirement/early retirement	4	5	6
claiming disability benefit[1)]	-	-	12
other[2)]	81	78	61

Source: Statistics Netherlands and LISV (National Social Insurance Institute)
1) Persons with a level of disability of 45% or more.
2) Persons receiving benefit (social assistance, unemployment, disability benefit for less than 45% disability etc.) or persons without an income. For the years in which the number of disability benefit claimants is not known, they are included in "other".

Income effects of pre-pension schemes

Younger employees who are members of a pre-pension scheme receive substantially lower pre-pension payments than older employees (see figure 5.1). If they do not take up the pre-pension option, this gives them a higher supplementary pension from the age of 65. No more pension entitlements are accrued during the pre-pension period. This means that the later people take early retirement, the higher the supplementary pension at 65.

Figure 5.1 Average gross income from pre-pension compared to final gross salary, 2002



The data for figure 5.1 take account of the existing transition schemes whereby the pre-pension is higher than it would be on the basis of a completely actuarially neutral scheme. Third pillar annuity schemes to fund early retirement are not included.
Source: Ministry of Social Affairs and Employment (SZW)

OBJECTIVE 6

Reform pension systems in appropriate ways taking into account the overall objective: maintaining the sustainability of public finances. At the same time sustainability of pension systems needs to be accompanied by sound fiscal policies, including, where necessary, a reduction of debt.[5] Strategies adopted to meet this objective may also include setting up dedicated pension reserve funds

Policy:
- The government aims to reduce public debt even further. The old age pension savings fund reflects the fact that reduction of the public debt by freeing up interest charges makes a substantial contribution towards covering the costs of ageing.
- Income used to finance supplementary pensions is only taxed when the pension is paid out (‘EET-system’).

Outcome:
- The EMU debt fell from 81.2 per cent of GDP in 1993 to 52.9 per cent of GDP in 2001. From 2020 the old age pension savings fund will help to cover AOW-spending.
- As a result of the EET-system, the tax revenues from supplementary pensions will increase sharply up to 2040. These will partly serve to finance the costs of ageing.

Policy

Government spending is rising sharply as a result of the ageing population. Increased spending on old age pensions will be accompanied by more spending to cope with the increased need for health care. The CPB report *Ageing in the Netherlands* estimates this rise in spending at approximately 9 per cent of GDP at the peak of ageing in 2040.
The rising costs can be split into a number of categories: basic state old age pension (4.3 per cent of GDP), health care (3.6 per cent of GDP) disability benefit (0.7 per cent of GDP) and other (0.4 per cent of GDP).

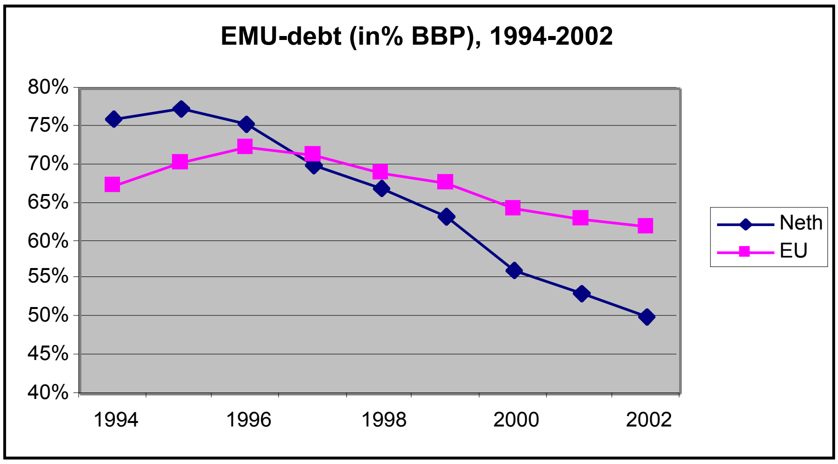
Set against these rising costs, the government envisages being able to realise additional income or lower expenditure by:
- paying off the public debt and thereby freeing up interest charges. A statutory amount which will thus become available is exclusively intended for future funding of the basic old age pension (old age pension savings fund).
- setting a ceiling for state old age pension contributions. This will broaden the financial base for spending on old age pensions after a certain point, as any amount in excess of this maximum will then have to be financed from public funds.
- taxing supplementary pensions only when they are paid out (‘EET-system’), meaning that tax revenues from supplementary pensions will rise sharply just at the time that spending on pensions reaches its peak.
- achieving further growth in labour force participation (see objective 4).

5 Member States’ strategies to ensure sound and sustainable public finances are reported on and assessed in the framework of - and must comply with - the BEPG and the Stability and Growth Pact.

Repayment of the public debt

In recent years the Netherlands has already taken major steps to reduce the EMU debt, from 81 per cent of GDP in 1993 to 53 per cent of GDP in 2001. Further reduction of this debt through the freeing up of interest charges would help absorb the costs of ageing. If the debt were eliminated entirely, this would represent a structural improvement of 3.4 per cent of GDP on 2001.

Figure 6.1



Source: Ministry of Finance, 2002

Old age pensions savings fund

The objective of the old age pensions savings fund is to safeguard the long-term sustainability of the basic state old age pension. From 2020 the old age pensions savings fund can be used to help pay the state old age pension. The old age pensions savings fund is not a fund in the true sense of the word, but rather a reserve from money freed up by the repayment of the EMU debt which is separatedd for future spending on old age pensions. Withdrawals from the savings fund after 2020 will therefore lead to a proportionate increase in the EMU debt. Nonetheless, the savings fund is a useful contribution to the financing of old age pensions. Earmarking funds in this way makes it clear that debt reduction is not an end in itself, but is necessary for the financial sustainability of the old age pension. Every year ¤113 million in savings on interest payments goes into the old age pensions savings fund. By the end of 2002 the fund will be worth around 12.7 billion euros. This is expected to rise to approximately ¤135 billion by 2020.

Ceiling on state old age pension contribution

The statutory maximum contribution to the state old age pension (AOW) is 18.25 per cent. 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, including pensioners who do not pay any AOW contribution. This broadens the tax base for the funding of the old age pension, thereby reinforcing its financial sustainability. It is expected that the AOW contribution will cease to cover costs in around 2010.

Increasing tax revenues from supplementary pensions

As the elderly population grows, the tax revenues from supplementary pensions will also grow. This is the result of the Dutch tax system, which only taxes supplementary pensions when they are paid out ('EET-system'). The investment returns of pension funds and pension contributions are not taxed. At the very time that ageing reaches its peak, the tax revenues on pensions will also peak. It is estimated that this will represent an extra tax revenue of some 5 per cent of GDP in 2040. In addition, once all the post-war baby boom generation have retired, tax-deductible contributions (pensions, annuities and endowments) will also fall.

Outcome

Table 6.1 Key figures on sustainability of public finances as percentage of GDP

	1990	2001	2020	2040
government debt*	79	53	-	-
interest payments	5.8	3.5	-	-
spending in first pillar	5.7	4.7	6.8	9.0
tax revenues from pensions	-	3.3	5.2	8.4

* EMU definition

Source: CPB, *Ageing in the Netherlands* (2000). CPB, *CEP 2002*. SZW

OBJECTIVE **7**

Ensure that pension provisions and reforms maintain a fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter

Policy:

- Maintain the mix of PAYG and the relatively large funded system, because this creates a balance bet ween the active and the retired.
- Overburdening of the active is avoided by setting a maximum state old age pension contribution, debt reduction, the conditional aspect of wage-benefit linkage and the indexation of supplementary pensions.
- Adequate and sustainable pension provision, both now and in the future (see objectives 1 and 2).

Outcome:

- The mix of PAYG in the first pillar and the funded system in the second and third pillars ensures a balanced distribution of the costs and benefits between generations.

Policy

Reasonable balance between the active and the retired

Because of the mix of PAYG and funded schemes in the Dutch pension system, the costs of future pension provision are distributed evenly across the generations. Pensions are paid for by both the active (through the PAYG system) and the retired who have built up a supplementary pension for themselves (through the funded system).

Prevent overburdening the active by:

- Setting a maximum statutory limit on state old age pension contributions of 18.25 per cent. The contribution is currently 17.9 per cent. If a contribution higher than the maximum of 18.25 per cent is required, the balance of the old age pension costs will be met from public funds. This is expected to happen around 2010. In addition the establishment of the old age pensions savings fund makes it clear that debt reduction is not an end in itself, but is necessary for the financial sustainability of old age pensions (see objective 6).
- Introducing temporary suspension of the linkage with the net statutory minimum income (under the WKA legislation), should the economic circumstances require.
- The conditional indexation of supplementary pensions. If a pension fund has insufficient assets, it need not necessarily introduce higher contributions as it can also decide not to apply indexation (see objective 2).
  It is important to bear in mind that, in practice, pensions are nearly always indexed by pension funds, and that indexation has therefore come to be considered an acquired right by many retirees, despite the fact that it is officially conditional. This entails a risk of a disproportionate burden on the active in periods of long-term low investment yields, since they have to fully fund the indexation of existing pensions (PAYG element in the second pillar). In this sense, the growing elderly population may create a conflict of interest between the adequacy and sustainability of supplementary pensions.
- The second pillar consists mainly of defined benefit pension plans (at least 88 per cent of employees with a supplementary pension in 2001). Only 4 per cent of employees with a supplementary pension have a pure defined contribution plan. The defined benefits pensions system includes final salary schemes, average earnings schemes or a combination of the two. The percentage of pure final salary schemes has fallen from 14 per cent of employees with a supplementary pension in 1995 to 7 per cent in 2001. Many final salary schemes have been moderated in the sense that salary increases in the last years before retirement are not taken into account for calculating the final pension result (52 per cent in 2001). In 2001 30 per cent of employees with a supplementary pension were members of average earnings schemes. The shift from pure final salary schemes to moderated final salary or average earnings schemes is a better guarantee for the sustainability of supplementary pension schemes. Because of this shift a fairer balance between generations can be maintained. The PAYG elements within the second pillar, for instance the “back service costs”, are reduced even further by these developments.

The government would like to see the social partners considering whether pension systems need to be adjusted for longevity risks. At the same time pension schemes will have to increasingly be capable of adjustment to changed institutional circumstances, both at national and at European level.

Outcome

The CPB estimates that the rising costs of the first pillar can be partly absorbed by the rising tax revenues from the second pillar (see objective 6), creating a better balance between the active and the retired.

It is expected that the incomes of present and future pensioners will be adequate, as they will be based on basic old age pension rights and supplementary pensions as outlined under objectives 1 and 2.

OBJECTIVE 8

Ensure, through appropriate regulatory frameworks and through sound management that private and public funded pension schemes can provide pensions with the required efficiency, affordability, portability and security

Policy:

- The Social Insurance Bank (SVB) must comply with the statutory requirements set out for the legitimate and efficient implementation of the state old age pension (AOW).
- The government and social partners are jointly and separately responsible for the continuing financial sustainability of the pension system.
- Supplementary pensions must be separated from company risks on the basis of a funded system.
- The financial and substantive regulation of supplementary pension schemes is the responsibility of the independent regulator, the Pensions and Insurance Supervisory Authority (PVK); Financial regulation is based on the 'prudent person principle'.
- The regulatory instruments available to the PVK were extended in 2000.

Outcome:

- Compliance with the statutory requirements for the legitimate and efficient implementation of the old age pension was more than satisfactory in 2001.
- The structural costs of supplementary pensions fell by 0.24 % of the total wages bill between 1997 and 2001.
- To date no pension fund has ever been terminated due to financial problems.
- The pension assets of pension funds at the end of 2001 were 108 per cent of GDP. Insurers' pension assets at the end of 2001 were 58 per cent of GDP.

Policy

Efficient implementation of pension schemes

Old age pensions in the first pillar (AOW) are administered by the SVB. Statutory requirements have been laid down for legitimate and efficient implementation.

Supplementary pensions are provided by pension funds for 85 per cent of participating employees and by insurance companies for the other 15 per cent. Both systems contain incentives for efficient administration:

- Insurers operate in a competitive market, which means it is in their commercial interest to work efficiently. The CPB report entitled *Solidariteit, keuzevrijheid en transparantie* ('Solidarity, choice and transparency') stressed the importance of adequate transparency in the pensions market. This is lacking in many instances.
- Pension funds also have incentives for efficient implementation because inefficiency leads to higher costs for employers and employees. In their own interest the social partners, as members of the executive boards of pension funds, will therefore advocate the highest possible level of efficiency. In addition, if a pension fund performs extremely badly, there is a risk that the pension scheme administration will be transferred to an insurer.
- The collective administration of pension schemes facilitates intra- and intergenerational solidarity. This solidarity makes it possible to achieve good investment returns at a relatively low risk for the participants because the risks can be borne collectively.

Sustainable supplementary pensions
Policy relating to the sustainability of the state old age pension was discussed under objective 6.

In respect of the second pillar, it is true to say that despite the sensitivity of funded systems to inflation and fluctuating investment returns on the one hand and to potential institutional changes on the other, supplementary pension schemes offer a high degree of security:

- There is a high participation rate: over 91 per cent of employees are members of a supplementary pension scheme.
- Most supplementary pensions are provided by pension funds with a high level of capitalisation. Pension fund assets at the end of 2001 were 108 per cent of GDP.
- In 1997 the social partners and the government entered into a voluntary agreement to control the costs of supplementary pensions. One of the things they agreed on was that the rise in structural costs resulting from the modernisation of supplementary pension schemes must be compensated for within the scheme itself. The voluntary agreement has now lapsed and was reviewed in summer 2001.
- In addition the social partners have further developed their primary responsibility for supplementary pensions by making recommendations to their decentralised members on how to achieve modern and sustainable pensions. The social partners issued these recommendations in May 1997, prior to the voluntary agreement on pensions, and updated and extended them in May 2001.

Pension portability
The pension rights accrued under the state old age pension system are not affected by people changing jobs, since eligibility is based on residence. Since 8 July 1994 employees changing jobs in the Netherlands have had a statutory right to transfer a capital value representing the supplementary pension rights they have acquired. This is discussed in more detail under objective 9.

Pension security
The old age pension in the first pillar is guaranteed by law. In addition the Pension and Savings Funds Guarantee Act (PSW) sets out rules to protect the pension entitlements acquired by employees in the second pillar. One of the key rules is that the employer must separate its pension commitments beyond the general risks of the business. Another requirement is that the funded system must be used to finance the pension commitments.

The PSW and the Insurance Supervision Act 1993 (WTV) contain provisions for the substantive and financial regulation of pension providers. This is carried out by an independent supervisor (PVK), and the aim is to ensure as far as possible that pension providers meet their commitments. The PVK supervises the pension providers to ensure that they comply with all the substantive statutory obligations set down in the PSW. They include those on the composition of the executive boards of pension funds and equal treatment for men and women. The PVK is also responsible for the financial supervision of pension providers. The key financial requirement is that pension providers must be able to meet their obligations at all times and in full.

In future regulation will still have to operate on the principle that supplementary pensions must be safeguarded at all times. However, the financial supervision on pension funds will be modernised. The “prudent person principle” will remain a key element of the regulatory framework after modernisation. This means that investment restrictions will be qualitative rather than quantitative. Qualitative investment restrictions assess pension providers on specific features such as the level of surplus, risk diversification and financial transparency. The advantage of the system is that only a minimum of restrictions are imposed on each pension provider, giving them greater freedom to invest and higher returns (customisation).

An additional requirement for company pension funds is that they may only invest limited amounts in bonds or shares in the company to which the fund is linked. A company pension fund is allowed to invest a maximum of 10 per cent of its assets in the company.

Regulatory instruments
The range of instruments for supervising pension funds and insurers was substantially extended with effect from 1 January 2000 when several new instruments were made available to the PVK:
- authority to issue an instruction;
- appointment of a secret receiver;
- a system of administrative fines and penalties.

This amended legislation also provides extra safeguards for supplementary pensions under the funded system. Deferred financing (temporary underhedging) of supplementary pension schemes is prohibited by law.

Outcome

Compliance with the statutory requirements for the legitimate and efficient implementation of the old age pension by the Social Insurance Bank was more than satisfactory in 2001.

The estimated average reserve of pension funds at the end of 2001 was 119 per cent of pension obligations. Despite economic slowdown and disappointing investment returns, at the end of 2001 the pension funds were still operating on an average safety margin of some 20 per cent. However, during 2001 some funds did come close to the minimum reserve required by law (100 per cent), which may have implications for the level of pension contributions and the rate of conditional indexation to be applied. The insurers who provide pensions in the second and third pillars have also accrued substantial assets. At the end of 2001 the pension assets of insurers (second and third pillars combined) was estimated at 58 per cent of GDP.

The structural costs of supplementary pension schemes fell by 0.24 percentage points of the total wages bill between 1997 and 2001.

Modernisation of pension systems in response to changing needs of the economy, society and individuals

OBJECTIVE 9

> ***Ensure that pension systems are compatible with the requirements of flexibility and security on the labour market; that, without prejudice to the coherence of Member States' tax systems, labour market mobility within Member States and across borders and non-standard employment forms do not penalise people's pension entitlements and that self-employment is not discouraged by pension systems***

Policy:
- The government aims to ensure that part-time work and temporary agency work does not penalise people's pension entitlements.
- In 1997 and 2001 the central social partners recommended that the employers and employees on a decentral level improve the accessibility of supplementary pension schemes.
- Government policy aims to minimise the negative implications of labour mobility within the Netherlands and across borders for the accrual of pension entitlements.
- The government and social partners have created special facilities to ensure that the self-employed can build up adequate pensions.

Policy

Acquisition of pension entitlements by part-time and temporary agency workers
The government aims to ensure that part-time work and temporary agency work does not penalise people's pension entitlements by the following means:
- Given that entitlement to the basic old age pension is based on residency, part-time work has no impact on the accrual of rights. In addition, it has been illegal to exclude part-time workers from supplementary pension schemes since legislation to this effect entered into force in 1994.
- Equal treatment of employees on temporary contracts. Legislation is currently being drawn up which will stipulate that employees working on temporary employment contracts should not be treated less favourably than comparable employees on fixed employment contracts in respect of terms of employment, which include supplementary pensions. Any differences in treatment are only justified if objective reasons can be given. It is prohibited to make either direct or indirect distinctions.
- Everyone acquires the same percentage of the basic old age pension entitlement each year, including temporary agency workers. In 1999 a sector pension fund for long-term temporary agency workers was established, known as STIPLU 83,000 temporary agency workers are now acquiring supplementary pension entitlements in this system. The pension fund is currently considering a request to make membership compulsory for the entire temporary agency sector.

Labour mobility in the Netherlands
Government policy aims to minimise the negative impact of labour mobility within the Netherlands on the accrual of pension entitlements:
- The pension rights accrued under the basic old age pension system are not affected by people changing jobs.

- In respect of supplementary pensions the following measures have been taken:
  - → Since 1994 employees have had the optional right to transfer a capital value representing the entitlements they have acquired if the pension scheme cannot be continued with the same pension provider. This involves transferring the pension entitlements acquired under the previous contract of employment into the new employer's pension scheme.
  - → If no transfer of capital value was possible in the past or employees have chosen not to take up their right to transfer, this does not mean that the pension entitlements acquired with the previous employer are lost. The pension accrual with the previous employer is simply suspended and the pension entitlements already acquired remain with the previous pension provider (the so-called "paid-up benefits"). These benefits are paid out when the employee retires.
  - → Since 1992 it has been compulsory to index these paid-up benefits in the same way as current pensions.

Over 70 per cent of employees in a supplementary pension scheme are members of a voluntary or mandatory sector pension fund. Given that most people change jobs within the same sector, accrual of pension entitlements will often be continued in the same pension scheme.

Cross-border labour mobility

Government policy aims to minimise the negative impact of labour mobility across borders on the accrual of pension entitlements:

- If employees move to another EU Member State, the basic state old age pension acquired in the Netherlands is paid out to them abroad when they reach retirement age. Employees also have the option of continuing to build up old age pension entitlements on a voluntary basis for a maximum of ten years. If employees change jobs within the EU, the entitlement to cover is coordinated under European legislation so that their acquisition of pension entitlements is not penalised.
- In respect of supplementary pensions, pension providers have the legal authority to transfer the pension entitlements abroad, under certain conditions. Persmission has to be obtained from the PVK for this purpose. In order to obtain permission the party applying for the capital transfer must demonstrate that the institution which is taking over the pension entitlements is in fact the pension scheme provider of the future employer. In addition the insurers must be supervised in some way and there must be complete separation between the financial administration of the pension provider and the future employer abroad.
- Although there is no legal maximum vesting period time for supplementary pension schemes, very few of these schemes apply one. Approximately 7% of the 6 million or more supplementary pensions held with pension funds and insurers are subject to vesting periods. Members of pension schemes with a vesting period usually have to wait for up to one year and the vesting period qualifies retroactively for pension accrual.

There are still some obstacles to transferring a capital value to pension funds abroad, even within the EU. The government plans measures to facilitate transfers to pension funds abroad through a Pensions Act, to succeed the Pension and Savings Funds Guarantee Act (PSW). The principle will still be that the legal safeguards for pension entitlements which are valid in the Netherlands must not be lost in any transfer abroad.

Under the present tax system, under certain conditions it is possible to transfer pension entitlements abroad without any detrimental fiscal effects. If the entitlements are transferred to a designated insurer, the transfer is not taxed. However, the insurer of the pension must supply information on the settlement of the pension and the insurer or taxpayer must guarantee that the tax owing will be collected. In this case, the accrued entitlements are not taxed (which is equivalent to the situation in the Netherlands). In the event of improper use, such as surrendering pension rights to the beneficiary, in principle the tax exemption on the entitlements is withdrawn and tax is levied on them. If, when someone accepts employment outside the Netherlands, the pension entitlement is to be transferred to a pension provider not represented in the Netherlands, the entitlement may be transferred to a non-designated insurer, in certain practical circumstances and under certain conditions. In this case a protective assessment is imposed. Once again, in the event of improper use, tax is levied on the entitlements.

When workers migrate to the Netherlands they have the option of continuing to accrue pension entitlements in their country of origin, under specific conditions. They also have the option of transferring the pension to the Netherlands.

Acquisition of adequate pension entitlements by people in non-standard employment and/or the self-employed
Every self-employed person resident in the Netherlands is entitled to the basic old age pension. They also have several options for building up a supplementary pension. The general rule is that they can utilise the tax allowances in the third pillar of the pension system. The self-employed have the right to build up a pension reserve, using a tax allowance designed to encourage self-employed people to save for a pension. Every year they can allocate a percentage of their profits to the pension reserve. The reserve can be used to buy tax-free retirement annuities.

Some self-employed people can choose to join a sector pension fund or are made members of a mandatory fund. Others are obliged to participate in existing occupational pension schemes. At the request of sufficient representative organisations of a profession the Minister of Social Affairs and Employment can make it compulsory for them to join an occupational pension scheme. Certain *liberal professions,* such as medical specialists, family doctors, pharmacists and midwives, are subject to a mandatory occupational pension scheme. The government is currently considering whether to amend the Occupational Pension Fund (Obligatory Participation) Act. Mandatory participation is only deemed justifiable if there is sufficient solidarity in such a scheme. In addition, the organisations requesting mandatory participation must represent an adequate proportion of the profession.

Transition from employee to self-employed
By law, employees who decide to become self-employed have the option of continuing their pension scheme in the second pillar on a voluntary basis for three years following the termination of their employment contract. After that they can use the pension accrual options described above.

As indicated earlier, the pension entitlements acquired in employment are not lost. These benefits are paid out when the person retires. By law, the pension entitlements remaining in the pension fund must be indexed in the same way as the pensions paid in the pension scheme in question. If a self-employed person decides to take up paid employment with a new employer at a later date, he or she is entitled to transfer the value of the pension entitlements acquired as an employee in the past to the supplementary pension scheme of the new employer.

OBJECTIVE **10**

Review pension provisions with a view to ensuring the principle of equal treatment between women and men, taking into account obligations under EU law

Policy:
• Gender has no bearing on basic state old age pension entitlement.
• The government is terminating the old age pension allowance for younger partners as of 2015.
• The government has made it compulsory for equal benefits to be paid under all supplementary pension schemes with effect from 1 January 2002. This statutory requirement will be extended to defined contribution plans as of 1 January 2005.

Outcome
• Increasing numbers of women are acquiring supplementary pension entitlements.
• Equal treatment for women and men has been achieved in full.

Policy

Basic state old age pension (AOW)
Gender has no bearing on entitlement to the basic old age pension. There are absolutely no differences in the other conditions for payment of the old age pension and the statutory retirement age for men and women. With effect from 2015 the partner allowance, which was awarded to pensioners married to or living with a partner aged under 65, will no longer apply to new claimants. This allowance is means-tested, and is capped at 50 per cent of the net minimum wage. The AOW-partner allowance is based on the breadwinner model: the idea that men are the main family breadwinners. From 2015 younger partners will be deemed capable of earning their own income until they reach the statutory retirement age.

Supplementary pensions
Younger generations of women in particular are increasingly acquiring supplementary pension entitlements on top of the old age pension, because of:
- their rising labour force participation. The employment rate among women rose by over a third (from 39 per cent to 53 per cent) between1990 and 2001.
- the general policy of government an d social partners aimed at reducing the number of employees who are not members of a supplementary pension scheme the prohibition of any distinctions between full-time and part-time employees (see objective 9).

Alongside the increasing number of women in supplementary pension schemes, completely equal treatment of men and women has been achieved in the second pillar. The Netherlands is one of the few EU Member States which makes equal pension payments for men and women a statutory requirement for:
- all pension systems, irrespective of the differences in life expectancy between women and men. In other words, not only in defined benefit schemes but also in defined contribution schemes;
- all the options available in a pension scheme.

There are two possible methods for achieving equal pension payments for men and women under defined contribution plans: a gender-specific employer's contribution or gender neutral rates.

- The first method means that for women an extra employer's contribution is calculated for the pension and, for men a possible extra employers' contribution for the surviving partner's pension. This employer's contribution has to be determined on the basis of the contributions and mortality rates applicable at that time.
- The second method involves pension payments for men and women being equalised at retirement age, despite the fact that, based on the separate life expectancy for men and women, they would not be able to buy the same pension with the same capital sum. This method requires gender neutral rates.

Supplementary pension and long-term leave
In 2000 a study looked at the options for continuing the accrual of supplementary pension entitlements and the risk cover under the surviving dependants' pension during long-term leave. The study showed that arrangements have been made to continue the accrual of pension entitlements and the risk cover under the surviving dependants' pension for at least 60 per cent of all employees who are members of a supplementary pension scheme.

Annuities (3rd pillar)
The Equal Treatment Act applies to pension provision in the third pillar. The act prohibits any discrimination between men and women, unless gender is an essential factor. This can be said to be the case when insuring a risk that depends on the life of one person for a premium which is based on that person's gender, to the extent that the difference in life expectancy between men and women reasonably entails a differentiated premium.

Outcome

Table 10.1 Net participation rate of women and percentage of female employees not acquiring supplementary pension entitlements

	1985	1996	2001
net participation rate	34	45	53
percentage of female employees not acquiring supplementary pension entitlements	37	16	-

Source: Ministry of Social Affairs and Employment (SZW), SER, *Witte vlekken op pensioengebied. Position at 1996 and comparison with 1985* (1997).

OBJECTIVE 11

Make pension systems more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. Develop reliable and easy-to-understand information on the long-term perspectives of pension systems, notably with regard to the likely evolution of benefit levels and contribution rates. Promote the broadest possible consensus regarding pension policies and reforms. Improve the methodological basis for efficient monitoring of pension reforms and policies

Policy:
- The government consults the relevant parties in society on key elements of envisaged policy.
- The government is reluctant to force through reforms in the second pillar with legislation.
- The social partners must meet their responsibilities for supplementary pensions by making recommendations for modern and sustainable pensions.
- The social partners must work towards giving retirees a greater say in pension schemes.
- The government will tighten up the legislation on the provision of information on pension schemes.

Outcome:
- Social partners take responsibility for reforms in the pension system.
- Eighty-eight per cent of retirees in sector pension funds are able to have a say in how it is run. This figure is 84 per cent for company pension funds.

Policy

Increase support for government policy on pensions by involving the relevant parties.
The government puts key elements of envisaged socioeconomic policy out to consultation with the parties concerned. This consultation takes place in a number of bodies[6], where major policy problems are submitted to the social partners for recommendations. The recommendations play an important part in shaping government policy. Timely announcement of government measures gives the social partners and the public sufficient time to adapt to changing circumstances.

One example of the close cooperation between the government and social partners is the policy to ensure that every employee can acquire supplementary pension rights. The social partners have taken the lead in this by emphatically recommending to the parties involved in pension schemes that the rate of participation be further improved. If the results of their efforts should prove unsatisfactory, the government retains the option to introduce legislation in 2006 (see objective 2 for more detail). Another example of the close involvement of the social partners in pensions issues is the SER advisory report on the new Pensions Act (*Nieuwe Pensioenwet)*, in which the social partners have made key recommendations to the government for modernising the legislation governing supplementary pensions.

6 Labour Foundation, the central consultative body representing employers' and employees' organisations, and the Social and Economic Council, which advises the government on socioeconomic issues, and is made up of representatives of employers' and employees' organisations and independent experts.

In 1997 and 2001 the social partners also made recommendations on a number of other issues relating to modern and sustainable pensions. Their recommendations for the decentralised pension consultations included:
- improve the standard and transparency of pension scheme administration;
- improve the information provided, in particular on the risks of defined contribution schemes;
- promote socially responsible investments;
- improve the transparency of pension providers' policies on pension indexation and the way in which pension funds deal with investment surpluses and deficits;
- give retirees more say in pension scheme implementation.

In addition to the government and the centralised bodies in which the social partners hold talks, interest groups representing the pension providers (sector pension funds, company pension funds and insurers) and older people/retirees play an important role. They are involved in evaluations of pension policy.

Voluntary agreements
The government uses voluntary agreements on pensions with the social partners as an alternative instrument to legislation, in cases where it considers legislation to be a last resort. If the results of such voluntary agreements prove to be unsatisfactory, the government still retains the option of introducing legislation. In 1997 a voluntary agreement was concluded with the Labour Foundation to modernise and control the costs of supplementary pensions. Following a review of the agreement it has been decided not to adjust the tax relief as set out in the agreement, since structural pension costs had fallen in any case in the meantime (see objective 8).

Representation
Pension funds are managed and funded by employers and employees. This is why, until recently, they were the only parties represented on the executive boards of pension funds. As a consequence of the maturation of pension funds, the number of retirees with a supplementary pension has risen sharply. Consequently the issue of whether retirees should have more say has also attracted more interest in recent years. The Pension and Savings Funds Guarantee Act (PSW) now stipulates that retirees in a pension fund can be represented in a participants' council or, in the case of a company pension fund, on the executive board of the fund. In addition, pension funds are obliged by law to set up a participants' council with advisory powers if this is requested by at least five per cent of the participants, including retirees and their dependants entitled to a pension.

In order to give retirees a greater say with pension funds and insurers, the Labour Foundation and interest groups representing older people drew up a voluntary agreement in 1998. The government supported this through a number of legislative measures. The recent review of the agreement showed that representation procedures have been or are due to be set up for the majority of retirees (see table 11.1). However insurers' pension schemes have taken far fewer measures to promote representation and there is considerable room for improvement. At the present time the Labour Foundation and interest groups representing older people are holding talks about a possible new voluntary agreement in which raising the standard of representation will be a central issue.

Table 11.1 Percentage of pension funds in which retirees are represented in councils/ executive boards as at 1 January 2001

	Sector pension funds	Company pension funds
in place	88	84
definite plans	4	8

Source: Review "representation of retirees", Regioplan, July 2001, Amsterdam

Information provision

Information provision to members of supplementary pension schemes is essential. The government plans to further develop the current rules on information provision in the new Pensions Act. The ever growing complexity of pension products means that the transparency and comparability of these products must be improved.

The government has indicated in the Framework Memorandum on the Pensions Act that

- The employer will be obliged by law to inform new employees in writing about membership of the pension scheme, the acquisition of pension entitlements and any associated risks within three months of them joining the company.
- Pension providers will be obliged to inform members about the forecast level of the supplementary pension. For defined benefit supplementary pension schemes, the pension providers will have to give examples of the pension to be expected from different levels of contribution. The government also intends to improve the provision of information to former participants. For instance, they must be informed about changes in pension providers' indexation policies and receive advice at least once every five years about developments in their pension entitlements.

Policy information

Since 1994 the PVK has been obliged by law to collect data on supplementary pensions every year. These data include the details of what the pension schemes offer and the number of people covered by them. This is an important source of information for the government and social partners when determining pension policy.

The importance of policy information has grown as a result of the intensified policy on pensions in recent years and the prospect of ageing in the future. It is expected that it will continue to grow in importance in the future. This is why analyses are currently being conducted into ways in which pensions research and data collection can be adapted to meet the changing information needs. It is particularly important that information on the level of pension contributions and the contribution-free allowance, and the indexation rates for supplementary pensions, are made available as soon as the pension providers have taken decisions on them.

Conducting macroeconomic analyses on the sustainability of pension systems.

- In 2000 the CPB issued a report entitled *Ageing in the Netherlands.* This economic analysis of the long-term impacts of the ageing population on government finances and sectors such as healthcare and pensions is a key input into government policy. The pensions analysis also examines the second pillar. In 2001 the Budget Margin Study Group recommended that these CPB analyses be updated every four years. An updated version of *Ageing in the Netherlands* will be published in 2004.
- The Ministry of Social Affairs and Employment and the Pension Studies Foundation have commissioned a study from the Financial and Economic Research Centre (Ocfeb) into the long-term impacts of the ageing population on supplementary pensions.

Annex I

Risks of poverty

The risk of poverty arises when people are faced with problems in respect of income, education, housing, care, participation in society or social cohesion. Given that the risks are discussed in more detail and for different generations in the National Action Plan to tackle poverty and social exclusion 2001, this NSRP considers only the income levels of the over-65s. To supplement the information in the body text, table a.1 gives data on the proportion of over-65s with a standardised income below 60 per cent of the median income. This percentage is accepted at European level as an indicator of the risk of financial poverty. It is a simple indicator which can be used for the whole of Europe. However, it should be noted that prices and other purchasing power data have not been incorporated in the indicator and that it is dependent on the level of the median income. It is not related to a minimum income.

Table a.1 Proportion of persons with a standardised income below 60 per cent of the median income of the relevant category (in percentages)

	1999
men	11
of which under 60	12
60-64	6
65-74	3
75 and over	2
women	11
of which under 60	14
60-64	4
65-74	2
75 and over	2

The data in table a.1 has been put together from a range of sources of administrative data, including the tax authorities. The definitions agreed on during the Laeken summit have been applied. The calculation of the median income does not include households with less than 52 weeks of income or students.
Source: Statistics Netherlands

The proportion of older people living on an income below the 60 per cent median is much smaller than in younger generations. For the population aged 60 or under the percentage of low income households is higher amongst women than amongst men. In the population aged 60 or over, women are slightly better off than men on average.

Measures with income effects on older people

Special provisions have been made for older people in a number of areas:

- ***Taxation and social security:***
  - → In the Netherlands the old age pension contribution is levied in the first two of the four brackets of the progressive income tax system. From the age of 65 older people are entitled to the basic old age pension and no longer have to pay contributions. Nor do the over-65s pay any contributions for unemployment benefit, other pensions and disability benefit. For example: in 2001 31% of a gross salary of €25,000 was deducted in social

security contributions and taxation. For a person aged over 65 with the same gross income this figure was 12 per cent.

- → The total tax rate in the first and second bracket is therefore 17.90 per cent (2002) lower than for people aged under 65.
- → People aged 65 or over with a taxable income under €28,563 are entitled to a tax credit. The tax credit for older cohabitees was €289 each in 2002, and for single older people €545. In 2001, as a result of this tax credit, the net basic old age pension for a married couple on a low income was 1.9 per cent higher than the net minimum income for households aged under 65. For a single person this was 5.4 per cent.
- → For older people who have not acquired any supplementary pension entitlements but who have saved for a pension over the years, and therefore have a low income, there is an extra tax allowance on income from capital of €24,020.

- ***Housing benefit***

  People living in rented accommodation in the Netherlands can apply for housing benefit. The amount for which they qualify is dependent on income, the amount of rent paid, household composition and age. Older people are entitled to more housing benefit than the under-65s:
  - → At rent levels of €427 or more housing benefit is capped for people aged under 65 (except for single households), whilst older people (65+) receive a subsidy to cover 50% of their rent even above that level.
  - → When determining the right to housing benefit, the capital exemption for the over-65s is some 65 per cent higher than for people under 65.

- ***Exceptional Medical Expenses Act (AWBZ)***

  The AWBZ insures residents of the Netherlands for expensive long-term care which cannot be covered by other insurance. The scheme is financed by a statutory contribution of 10.25 per cent of taxable earned income and income from residential property (box 1). People who require long-term care or nursing can use home care, residential care or nursing home services provided under the AWBZ. Individual contributions for such care are income-related. Because this insurance covers all residents of the Netherlands, it is not a special provision for older people. However, older people make tend to make more use of ABWZ-funded service such as home care, residential care and nursing homes.

  People who emigrate and cannot transfer their compulsory AWBZ insurance (i.e. people with private health insurance) can take out voluntary AWBZ insurance. They must however be receiving some Dutch social security benefit, such as the state old age pension (AOW). In addition, they must have paid AWBZ contributions for at least a year immediately prior to taking out the voluntary AWBZ insurance. The premium for the voluntary AWBZ insurance is the same as the compulsory AWBZ contribution.

- ***Health insurance***
  - → A relatively large number of older people are insured under the statutory scheme governed by the Health Insurance Act.[7] The relatively high costs incurred by older people are covered by a nominal and percentage health insurance fund contribution and from central government contributions from funds levied under the Act governing Joint Funding of Elderly Health Insurance Funds Patients (MOOZ). The MOOZ contribution is paid by members of private health insurance schemes. The MOOZ contribution for 2002 is €82 for people with private health insurance aged between 18 and 65 (half this amount for children) and €65 for people aged over 65.

7 Seventy-three per cent of older people (65+) compared to 62 per cent of the rest of the population.

→ Older people who have private health insurance when they reach the age of 65 have to remain in the private sector. Generally, health insurance providers offer standard packages to the over-65s. The maximum premium they can charge is €136 per person per month in 2002. The standard package is comparable to the cover offered in the compulsory health insurance scheme. The premium does not cover costs. The remaining costs are met from special contributions under the Medical Insurance (Access) Act of €234 per year (half this amount for children) which are paid by members of private insurance schemes aged under 65.
Older people with an annual taxable income (combined or otherwise) lower than €19,550 per year may opt to join the compulsory health insurance scheme.

Additional social assistance benefits for people without full state pension entitlement

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 entitlement may be entitled to additional social assistance benefits up to the level of the minimum income. Supplementary pensions are exempt up to a certain amount: €15.95 per month for single persons and €31.90 per month cohabiting couples. People in receipt of social assistance benefits also qualify for a capital exemption. In 2002 this is a maximum of €4,820 for single persons and €9,640 for married couples and single parents.

The majority of the over-65s who have not acquired sufficient old age pension entitlements are immigrants. This group is at a higher risk of falling into the lowest income groups. The proportion of households with more than 10 years' entitlement deficit is set to rise from 4.2 per cent in 2000 to 6.2 per cent in 2010.

In 1999 the House of Representatives asked the SER to produce an advisory report on policy instruments that might improve the income status of over-65s with an old age pension savings. The SER stressed the key importance of individual responsibility for ensuring an adequate pension. The government supports this view. In addition the SER urged for a limited increase in the standard pension exemption under the National Assistance Act mentioned above. In its response to the SER recommendations in 2000 the government noted that this option would do nothing to help the lowest income group. People who do not have a supplementary pension alongside their old age pension (with or without a savings) would not benefit from an increased exemption for supplementary pensions under the National Assistance Act.

Annex II

A complete overview of Dutch policy on employment can be found in the National Action Plans on Employment for 2001 and 2002. Key elements of the policy are:

- To make it pay for people to work (tackling the poverty trap) by giving tax credits to people who are in work or about to start work and adjusting means-tested schemes;
- To make it possible to combine work and family responsibilities by the introduction of care leave, the right to adjusted working hours and giving part-time employees the same rights as full-time employees;
- To extend childcare facilities;
- To make it less attractive to take early retirement;
- To reduce the salary costs to employers of low-paid employees through the Specific Tax Rebate (SPAK) and the tax reduction for taking on long-term unemployed people (VLW). The SPAK scheme targets employees earning less than 115% of the statutory minimum wage. The VLW entitles employers to reductions in taxation and social security contributions for taking on the long-term unemployed (on earnings of up to 130% of the statutory minimum wage, or 150% of the statutory minimum wage for employees aged over 50).
- Subsidised jobs, in particular for the long-term unemployed, which will allow them to gain some experience which will help them move on to a non-subsidised job.

In response to SER recommendations the government has proposed changes to the Disability Benefit Act (WAO). The new government will work out the details of these legislative changes.

Annex III

Responses of the social partners and young people's and older people's umbrella organisations to the draft NSRP of 31 May 2002

- Labour Foundation (Stichting van de Arbeid)
- Council for Public Sector Personnel Policy (ROP)
- Umbrella organisation of elderly people's interest groups (CSO)
- National Youth Council (NJR)

The Labour Foundation (Stichting van de Arbeid)

Ministry of Social Affairs and Employment
Director-General of Industrial and International Relations
Mr T.W. Langejan
Postbus 90801
2509 LV The Hague

The Hague	:	25 June 2002
Our Reference	:	S.A.02.055.29/K
Your Reference	:	AV/PB/2002/42097
Re	:	Response to draft text for National Strategy Report on Pensions (NSRP)

Dear Mr Langejan

The Labour Foundation (Stichting van de Arbeid) is pleased to accept the invitation in your letter of 3 June 2002 to comment on the draft National Strategy Report on Pensions (NSRP) enclosed with your letter.

The Labour Foundation welcomes the EU decision in favour of an open coordination method for the pension policies of the various Member States, which would explicitly leave space for the differences that exist in pension systems throughout the EU, and allow each EU Member State to continue to tackle the problem of demographic ageing with measures that best suit its own structures, including the country's own pension system.

The Labour Foundation understands that a 'Joint Pension Report' will be drawn up on the basis of the NSRPs of the member states, in which the pension policies of the different countries will be compared with each other. The Labour Foundation is keen to receive that report in due course, in order to consider whether the European overall picture and any policy conclusions by the European Commission give cause for a further response. In this context, The Labour Foundation will take into account the trends, risks and future challenges identified in that report.

The Labour Foundation wishes to respond broadly to the draft NSRP. The Labour Foundation recognises that this is a new initiative, and that it is therefore not yet known how broad or narrow in scope the NSRPs of the other Member States will be. Although The Labour Foundation largely agrees at this stage with the way the Ministry has dealt with the various aspects of our pension system in the draft NSRP, it would like to make some comments. The Labour Foundation wishes to emphasise that particularly the occupational pensions in the Netherlands are vulnerable to a relatively high level of inflation, such as we have seen in recent years. Long-term inflation at a high level is particularly threatening for the Dutch pension system with its substantial second pillar, of which the pensions are compulsorily financed on the basis of capital funding. It is The Labour Foundation's opinion that inflation control should be at the core of a stable long-term socio-economic policy, for which the government in particular should bear responsibility alongside the employers and employees. The Labour Foundation finds it regrettable that despite the obvious importance of inflation-curbing measures, no policy statements are made to that effect in the draft.

On the other hand, The Labour Foundation feels that the draft accords too great a role to the AOW pension savings fund. The major disadvantage of this savings fund is that when the time comes for the resources to be used, this will result in an automatic increase in the national debt. The Labour Foundation understands that the Social and Economic Council (SER) intends to issue advice on this on its own initiative, following its opinion "Social and Economic Policy 2002-2006".

As far as the limited possibilities of cross-border transfer of pension capital are concerned, it is striking that the draft makes no mention of the fact that this is primarily attributable to tax obstacles. The Labour Foundation therefore believes that the Dutch government should stress the importance of removing such impediments in the NSRP. Furthermore, in promoting the possibility of cross-border transfer of pension capital, the element of reciprocity is important. For instance, it should become possible to transfer accrued pension capital to the Netherlands from abroad.

Finally, The Labour Foundation feels that the NSRP ought to focus to a greater extent on the policy recommendations - as included in last year's SER advisory report regarding the New Pension Act - aimed at bringing about a more transparent division of responsibilities between the parties involved with the pension schemes and the implementing organisations (for this purpose an *opdrachtbrief* has been proposed, a document containing all agreements on pension arrangements between employers and employees and the pension funds).These policy recommendations should be viewed in relation to the updated recommendations by The Labour Foundation entitled *Moderne en betaalbare pensioenen voor all werknemers* (Modern and affordable pensions for all employees).

Yours sincerely,

Labour Foundation

[signature]

W. J. Kroes
Deputy Secretary

Raad voor het Overheidspersoneelsbeleid (ROP)
(Council of Public Sector Personnel Policy)

CAOP
(Centre for Labour Relations)

Ministry of Social Affairs and Employment
Director-General of Industrial and International Relations
Mr T.W. Langejan
Postbus 90801
2509 LV The Hague

Enc	*Contact*	ROP/02.00113	21 June 2002
	Ms T.I. van Galen	Z.1011.01	
	070 – 3765 807		
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National Strategy Report on Pensions (NSRP)

Dear Mr Langejan

In your letter of 26 April 2002, your reference AV/PB/2002/30939, you asked the Council of Public Sector Personnel Policy (ROP) to comment, in writing, on the draft NSRP that you had enclosed with your letter of 3 June, your reference AV/PB/2002/42097.

General points
The objective of comparing the policy results of the EU Member States and their best practices by means of an open coordination method, as expressed in the introduction to the draft, is subscribed to by the public sector employers and unions united in the ROP.

Although the draft sets out what has been achieved in the Dutch situation, the ROP thinks it advisable to emphasise at European level that this position must be safeguarded. European harmonisation should not be allowed to lead to any erosion or undermining of the Dutch system. The ROP believes that the Dutch pension system, with its mix of state, collective and individual responsibilities in combination with a mix of pay-as-you-go funding and capital funding, could serve as an example for the rest of Europe. The ROP therefore calls on you to actively promote this three-pillar system.

The ROP would like to advise you to opt for the same approach with regard to the European call to develop pension indicators. The NSRP ought to mention the indicators developed in the Netherlands (based on the Pension Agreement of December 1997). In the opinion of the ROP, this is an element that is missing in the draft at hand.

The objectives
The item "adequacy of pensions" and the subsequent propositions 1 to 3 make it clear that the social objectives mentioned here are not only safeguarded by the pension system. In the opinion of the ROP, however, it should also be indicated that changes in health care provisions, for example, should not be shifted onto the pension provisions for citizens, but that a solution should be found that is based on intergenerational solidarity. Although the employers and employees united in the ROP are, as we said, convinced of the good quality of the Dutch pension system, it has to be admitted that we cannot afford to be complacent. As far as the first proposition is concerned, there are still groups in society whose share in the economic prosperity is far smaller than the average. For example, the Wet Koppeling Aanspraken (Act on wage-benefit linkages) and the Minimum Wage Act incorporate policy that can be applied so that indexing does not take place fully in less favourable economic conditions. However, in practise, such arrears are not made up in later years. Single people who only receive an AOW old age pension are especially liable to end up with an insufficient pension. In this context, attention should also be drawn to the long AOW accrual period. This can cause problems for migrants in particular.

With regard to proposition 2 (access for everyone to a decent pension scheme), it should be said that the positive figures, which rightly feature in this report, must not be allowed to conceal the fact that full access is not achievable, not even in the Dutch system. Factors such as franchises, low incomes, and the termination of AOW supplementary allowance for partners under 65 are responsible for this.

As regards proposition 3 (the promotion of solidarity within and between the generations), the importance of the collective arrangements of the first and second pillars cannot be overemphasised. Only here can risks be better distributed over time and groups.

For the part on "long-term affordability of the pension schemes", the ROP recommends that the following should be included in the draft NSRP as a benchmark: the specific testing of changes in financial and fiscal policy with respect to the consequences for the financial solidity of the supplementary pensions financed through capital funding. The ROP considers that such a benchmark is missing, e.g. in section 8.

The ROP would like to comment that the objectives of propositions 4 and 5 are also the objectives of current labour market policy. It could perhaps be mentioned in the draft report that the European Commission and the Netherlands have the same aim.

The ROP has reservations about the passages about the AOW pension savings fund under proposition 6. As formulated here, it appears a matter of indifference whether there is a fund or not. The ROP believes that the objective and the purpose of this fund should be made clearer.

As far as the eleventh proposition is concerned, the ROP would like to say that transparency is an objective that deserves permanent attention, in the Netherlands, too. Also within the government, it is necessary to assess the pension schemes from time to time for readability and comprehensibility. An easily readable version should regularly be published.

The objective Ômore transparent and adaptable to changing circumstances, so that citizen's can continue to have confidence in them' deserves a carefully considered response. Naturally, a pension scheme should follow general socio-economic developments, such as individualisation and non-uniform courses of life, insofar as possible. However, pension plans are long-term plans. Particularly if these plans are based on capital funding (as applies in the Netherlands to most supplementary pensions), it is essential for the confidence of the citizens to keep adjustments as simple as possible and to avoid whole series of adjustments.

In connection with the eleventh objective (to make the systems more transparent and adaptable), the question arises of whether the draft report pays sufficient attention to the extent to which information on pensions is available to individuals. Although adjustments are at this moment already being made to the Pension and Savings Funds Guarantee Act (PSW), the ROP cannot help but get the impression that this aspect is not sufficiently expressed in practise by the pension funds. Communication with those concerned remains an important item and leaves room for improvement.

The ROP wonders whether there is any clarity in the Netherlands about the extent to which the various rules and regulations could be simplified.

The ROP also would like to draw attention to the distinction between pensions that beneficiaries have to claim themselves and pensions that are awarded without a claim having to be submitted. In the Netherlands, a large proportion of pensions are of the latter type. Within the framework of this eleventh proposition, it would seem desirable to raise this consumer-friendly approach to a European standard.

Yours sincerely,

[signature]

Th. H. Dragt,
Secretary

CSO (Umbrella organisation of elderly people's interest groups)

Ministry of Social Affairs and Employment
Director-General of Industrial and International Relations
Mr T.W. Langejan
Postbus 90801
2509 LV The Hague

Place and date	:	Utrecht, 18 June 2002
Reference	:	B 3600 Bst/AR/SR
Re	:	CSO response to NSRP

Dear Mr Langejan

Please find enclosed our response to the draft National Strategy Report on Pensions (NSRP). Our response focuses on the various objectives in the action plan; for the rest, please refer to our earlier response.

With regard to the draft, we would like to comment in general that the National Strategy Report paints a very positive picture indeed of a number of subjects. One example is the increase in spending power of single persons of 65 and older with only an AOW pension over the period of 1994 to 2002. The increase in spending power of the other groups of senior citizens over sixty-five is smaller. Moreover, the increase in spending power looks very different if the period before 1994 is taken into account.

We would therefore like to make it clear that we do not agree with the optimism of the picture you paint.

Yours sincerely,

[signature]

Koos Anderson,
Director.

N 5295 Bst/AR/SR/18 June 2002

Response to the draft National Strategy Report on Pensions (NSRP)

Part I

Section 4
With regard to the comments about pensioner participation at the end of section 4, please refer to our comments below for objective 11.

Part II

A. Regarding the adequacy of pensions

Objective 1 Adequate income
This objective is based on the assumption that the current minimum wage constitutes a sufficient income to allow the elderly to participate in public, social and cultural life. Whether the current amount of the AOW allows these things is disputable. The CSO is of the opinion that in establishing the minimum wage, the government wrongly assumes optimum use by the elderly of provisions of local poverty policy (targeted assistance, exemption from local taxes, tax deduction for exceptional medical expenses, old age and death, and rent rebates). It is well-known, however, that it is precisely the group of elderly that would require these provisions in order to arrive at a sufficient disposable income that makes insufficient or no use at all of them. These people are thus permanently condemned to an insufficient disposable income, which all too often goes hand in hand with social isolation; particularly in the case of a considerable group of older single women.

The CSO believes that income from AOW pensions can only be considered sufficient if elderly people without a supplementary pension do not need to resort to income-related provisions. Furthermore, the CSO believes that when the amount of a sufficient income is established for the elderly, account should be taken of their specific expenses. We cited the costs of health insurance as an example in our memorandum of 27 March 2002. A minimum wage that does not take these expenses into account is not sufficient. In the light of this, the CSO believes that the government should consider anew what would be a sufficient income for the elderly. The draft strategy report should pay attention to this.

The CSO believes that measures need to be taken to raise the income of elderly people who are not receiving a sufficient income to a sufficient level. If that cannot be done by adjusting the amount of the AOW pension or the old-age tax credit, then the government should at any rate impose a quantitative objective on itself where tackling the non-use of income support provisions is concerned.

Once it has been established what a sufficient income is, this income must be guaranteed, not only now but for the future, too. This means that there must at least be a retention of spending power for everybody, regardless of the level of income. This requirement can only be met if

everyone receives a pension (AOW pension and possibly supplementary pension), and a sufficient annual supplement for inflation on both the AOW pension and the supplementary pension.
The accrual of incomplete AOW pension rights by the elderly must be avoided. It must be investigated how this can be avoided. For the group of older people who still have an incomplete AOW insurance record, measures must be taken so that they have a minimum income available, whereby any accrued pension rights are either not affected or are affected only to a limited extent.
The CSO believes that government policy must be aimed at ensuring that older people do not accrue incomplete pension rights.

Objective 2 The indexation of pensions

The CSO believes that government policy must provide for a legal provision to take effect if the condition of an adequate inflation supplement cannot be met in the case of supplementary pensions (including the insured schemes) through the cooperation of all the parties concerned.

B. With regard to the long-term sustainability of the pension schemes

Objective 5 Abolishment of fiscal facilitation of the VUT early retirement schemes
The CSO agrees with the deputy minister that labour market participation of the elderly must increase. However, the CSO believes that account must be taken of existing agreements with older employees for earlier retirement, and that such agreements may only be altered in consultation with the employees concerned.

Obligation to apply for a job
Increased labour market participation among the elderly requires a whole package of measures. With regard to the obligation to apply for work, however, the deputy minister for Social Affairs and Employment has repeatedly said in the Lower House that the exemption for people of 57_ years and older from the obligation can only be removed if research shows that older people have real chances on the labour market.

In answer to the questions of the Permanent Parliamentary Committee for the Social Affairs and Employment on 9 November 2001 concerning the Social Policy Document (Sociale Nota) 2002, the government has said that reintroduction of the obligation to apply for a job for people of 57-years and older depends on the results of an investigation into the labour market chances of older people.

It says on page 20 that the labour market situation has meanwhile drastically changed. The CSO wonders whether the situation for people over 57_ years and older has really changed so drastically. The CSO is of the opinion that the results of the above-mentioned investigation should first be awaited. The CSO suggests that the National Strategy Report on Pensions should mention that an investigation is being conducted.

Objective 6 Sustainability of government funding
The CSO feels that it is essential for a National Strategy Report to explain how coverage of AOW expenditure in future is divided between income from contributions, general funds and growing national debt (after withdrawal from the AOW savings fund).

Objective 7 Reasonable balance between working people and pensioners
The policy aimed at preventing the overburdening of working people comprises three measures which have detrimental effects for pensioners. What we have here is therefore an overburdening of pensioners to the benefit of working people.

Under the heading Ôsufficient provisions for old age', an expectation is expressed. This expectation need not necessarily materialise, and there may be circumstances in which the elderly do not receive an adequate income. The linking of AOW pensions to the net statutory minimum wage can be abandoned, and indexation of pensions is conditional.

The CSO believes that it should be part of government policy to take measures to give pensioners more certainty of a sufficient income in the future.

Objective 8 Guaranteed pensions
The CSO considers that it should be a part of government policy to take measures as a result of which the supervision by the *Pensioen- & Verzekeringskamer* (Dutch pensions and insurance supervisory authority) is changed from formal supervision to more material supervision.

C. Regarding the modernisation of the pension systems with a view to changing needs of the economy, society and the individual

Objective 9 Transfer of supplementary pensions
The CSO is of the opinion that if accrued pension rights are transferred, either individually or collectively, government policy must be aimed at ensuring that a proportionate part of all reserves of pension funds should also be transferred.

Objective 11 Participation of pensioners
The results of the evaluation investigation are couched in what we see as overly positive terms. As far as the industrial pension funds are concerned, the evaluation report shows that 23 industrial pension funds (34%) have set up a participants' council (17) or a similar body (6). The remaining funds are intending to set up a participants' council (21) or have no pensioner representation (23). Among the funds with some form of participation, 88% of the pensioners are involved. It has to be pointed out that 55% of these belong to a fund with a comparable body. Although these bodies are equated in the framework of the agreement with participants' councils, they do not comply with the legal obligation of the Pension and Saving Funds Guarantee Act (PSW).

As far as the industrial pension funds are concerned, the response for the number of funds was 41% and for the number of pensioners 75%. For 84% of those 75% who responded, some form of participation is arranged. This applies to 57% of 41% of the funds, which is 115 funds.

With regard to pension plans with an insurer, the response was so low (79 out of 791 questionnaires completed) that no conclusions could be drawn: of the 17 companies that met the conditions of the agreement, the pensioners participate in four of the companies. The comment that there is Ômuch less participation' in these schemes than in the above funds is far too positive in our view. Arrangements made for participation are downright rare.

The assertion that there has been a considerable increase in the number of pensioners with a pension fund where a participation arrangement has been made since the agreement took effect is incorrect. Since the agreement took effect on 1 July 1998, 15 industrial pension funds have set up a participants' council and 25 funds included pensioner representatives on their board. The other funds with a form of participation either already had this before 1 July 1988 or whether they did or not is unknown. In the case of the industrial pensions, 16 funds set up the participant's council after the agreement took effect. The other 7 participants' councils already existed before 1 July 1998.

The CSO believes that, to truly reflect the outcome of the evaluation investigation, the text and diagram 11.1 should be extended to include these details.

The CSO is of the opinion that government policy should aim to ensure that the interests of pensioners are served in a balanced manner. To achieve this, pensioners must be represented as soon as possible in boards and participants' councils of pension funds. The number of representatives of working people and pensioners in these boards and councils must be established in proportion to the numbers involved with the fund.

National Youth Council (Nationale Jeugdraad)

Utrecht, 26 June 2002

Dear Mr Langejan

Response to National Strategy Report on Pensions

I would like to give a brief response on behalf of the National Youth Council to the draft NSRP we received at the beginning of June.

In this response, I would like to focus mainly on spearheads indicated previously by the National Youth Council in relation to the Plan of Action.

I would like to begin by underlining the importance of clear and adequate communication on the part of the Dutch government about pensions. I understand that making future scenarios and financial estimates on this subject in particular involves many reserves, many ifs and buts, many reservations and (because of the associated legislation) much jargon. However, for many young people who are about to start working or who will do so in the coming years, and who have to contribute to the pension system, a number of much simpler questions are relevant:

- How much can I expect to earn?
- How much of that will I get to keep?
- What will I be contributing in the form of the various taxes; what are they used for, and what about my own future pension plan?

The government will have to produce a clear account that shows that working people will not only be paying for current pensioners but will also be saving for their own future pensions. Clarity is vitally important here, especially when one realises that this is not only a matter of pensions but also of mutual understanding.

Reinforced by images in the media, much legislation and government policy is giving the current generation of young people the feeling that they cannot do anything right. Young people are not much use, they have many obligations and few rights. A heavy financial obligation in the sense of helping to pay for pensions for precisely the generation they feel is leaving them out in the cold will have to be formulated well and clearly. That is something the National Strategy Report does not do very well. On behalf of the National Youth Council I would like to strongly emphasise the importance of good communication by the government with young people in as many areas of policy as possible. It makes sense for young people to be involved in something for which they are required to make such a clear effort; in the years to come, the government and the employers and employees will also have to adopt a more open stance towards subjects regarding which young people are asking for a clear effort from them, and actually take on the responsibility asked of them. Young people are not only interested in policy on young people, they are interested in any policy that concerns them in any way.

More specifically, I wish to say that the open coordination method within Europe on the NSRP represents an excellent opportunity. Young people are advocates of an open manner of policy making and implementation and are keen to encourage the Dutch government to lead the way as regards the mutual openness that such an open coordination method requires. Identifying areas where there are possible problems or questions related to the NSRP and asking for advice from fellow Member States is part of that.

As far as part II of the NSRP is concerned, we would like to respond to points 2,3 and 7. In the combination of points 2 and 7, it is important to see where they contradict each other. On the one hand, we want to give working people the chance in the coming decades to accrue their own pensions, while on the other, we want them to contribute to the pensions of current pensioners. Apart from the figures and percentages mentioned here, I would like to repeat the need for clear communication with the people who have to contribute both to their own pension and that of the pensioners.

This should therefore be a spearhead of point 3: promoting solidarity between the generations. A dialogue must come about between old peoples' organisations and young peoples' organisations in which the mutual relationships and differences in lifestyle and ideas are brought to the fore. The Youth Council expects that young people will adopt an attitude of solidarity as regards contributing to the pensions of the elderly, but solidarity usually works two ways. The current NSRP does not evince mutual solidarity. Only the contribution made by young people and solidarity on their part is described. In what sense older people are to show solidarity with the young is not explained.

The Youth Council would like the government's attention in this matter. If an effort is expected of the younger generations, a satisfactory explanation will have to be given of the advantages of that effort for the young people themselves. The Youth Council would like to play an advisory role in relation to the required communication.

Yours sincerely

[signature]

Joost de Bruin
Chair Nationale Jeugdraad