

## **Note on modernising the Dutch pension system**

10 February 2020

This note and the accompanying notes are for the purpose of the informal meetings with the European Commission (DGs JUST, EMPL and COMP) on 3 March 2020. This note gives a general update on the progress of the negotiations on modernising the pension system; the accompanying notes go into more detail on the subjects of equal treatment and mandatory participation in pension funds and schemes.

### **Pension system**

- The Dutch pension system is built on three pillars: (1) a basic old-age statutory pension (2) a supplementary occupational pension and (3) a private individual pension. This note and the accompanying notes concern the proposed changes to the second pillar.
- Employee and employer organisations (social partners) negotiate the contents of an occupational pension scheme: replacement ratios, contribution rates, etc. Although there is no general, national obligation for all employers to provide a pension scheme, 96% of employees are covered by a pension scheme. Schemes are typically organised at industry or company level and contribution rates average around 20% of gross earnings. The Minister of Social Affairs and Employment can make participation in these schemes mandatory for an industry or company if requested by social partners and they sufficiently represent the employers and employees in that industry or for that company.
- Coverage and replacement rates are high, poverty among the elderly is low, and the funding of the three-pillar-system through a mix of pay-as-you-go and capital funding is relatively secure.

### **The framework agreement**

- Although it is generally accepted the Netherlands has one of the best pension systems in the world (IMF, OECD, Mercer), it is not well equipped to deal with an aging population, the emergence of non-standard forms of work, economic uncertainty and persistently low interest rates. In order to maintain the stability of the system in the long run, adapting to these changed social and economic circumstances is inevitable. Also, an EU Country Specific Recommendation for the Netherlands is to ensure that the second pillar of the pension system is more transparent, inter-generationally fairer and more resilient to shocks.
- After long discussions with all stakeholders, in early June 2019 a framework agreement was concluded by social partners and the government. One of its main goals is modernizing the structure of the occupational pensions contracts to make the second pillar inter-generationally fairer, more transparent and more resilient to shocks (e.g. economic and or demographic):
  - Transitioning from the current uniform premium system to a more actuarially fair system;
  - Tighter links between economic developments and benefit increases and decreases in two new defined contribution contracts;
  - It will be investigated how to make it easier for self-employed persons to join existing occupational pension schemes.
- How these elements are linked to the topics discussed on 3 March is explained in the accompanying notes.
- Social partners and the government also agreed to create a steering group to define these elements in more detail, so that the entire agreement can be implemented properly. This process is expected to finish before the summer of 2020, after which the legislative process will start. The new system is expected to enter into force from 2022.

### **Accompanying notes**

1. Equal treatment
2. Mandatory participation and competition law