NATIONAL REPORT FOR THE NETHERLANDS

1. CONSULTING ACTUARIES

Nearly all partners, working for firms of consulting actuaries, participate in the Dutch Association of Consulting Actuaries, which at the end of 1989 will have 31 members. During 1989 the code of conduct has been altered, in order to allow members to market their services under certain restrictions. Subject of discussion is the growing competition in the field of actuarial advice and pension consultancy by auditing firms and pension consultants. The association wants to develop more public relation activities.

All actuarial firms are growing quite fast, because of

* growing interest for pensions with the public

* many mergers of companies and splitting up of same, under the influence of EC 1992

* topics like anti-discrimination between male and female workers (see 3.3.1 and 4.3.1), comeback of defined contribution plans (see 4.3.2.), wishes to make pension plans more flexible (see 4.3.3.), and new taxation rules (see 7.2).

* expanding the consulting field in developing actuarial pension software, the compensation area, the selection of investment managers and internationally.

2. THE ECONOMY

During the last few years the following statistics were recorded in The Netherlands:

	1989 *)	1985-1989 Average last 5 years
Price inflation	1.5 %	0.6 %
Wage increases	1.4 %	0.75%
Yield pension funds	7.0	7.4 *)
Yield government bonds	7.0 %	6.7 %

*) estimated

Exchange rate as of September 1, 1989 :

Dfl 1 = USD 0.450 = UKP 0.288

In 1989 the average wage of a worker in industry was Dfl 41,000.

The economy is growing very fast, but unemployment rates are still very high (12 to 14%, depending on the criteria).

3. SOCIAL SECURITY

3.1. Benefits

Dutch social security provides the following benefits as per January 1, 1989.

Flat-rate old age pension (AOW)	: Dfl. 20,698	for a married couple 1)
	Dfl. 14,344	for a single person.
Flat-rate widow's pension (AWW)	: Dfl. 20,698	if caring for a child
	Dfl. 14,344	if not If the widow is under age 40 she receives a temporary widow's pension.
Disability pension for employees (ZW/WAO/AAW)	: 70% of the salary up to a maximum of Dfl. 68,510, if 80% or more incapacity for work. Lower benefits if the degree of incapacity is lower.	

Medical expenses are covered by the contributory sickness fund (ZFW) for all employees having an income under Dfl. 50,150; special expenses (hospital treatment for more than one year among other things) for all residents are covered by the AWBZ.

Higher incomes are not covered by the ZFW, but most companies provide coverage by group medical insurance contracts, for which the employer generally pays half of the premium.

1) Basically every married person of 65 years or older that is entitled to a pension receives a basic benefit of 50% of the formerly applicable AOW-benefit for married couples, increased by an allowance dependent on income if the married partner is not yet 65 years old.

3.2. Contributions

Type of benefit	Contribution rate % of gross salary employer	employee	Maximum earnings subject to contribution p.a.
			Dfl.
AOW/AWW		12.0	65,900
AWBZ/AAW	11.4		65,900
ZW/WAO/ WW 1)	5.9	8.7 2)	68,380
ZFW (medicare)	5.0	3.2 3)	42,640
	22.3	23.9	

Social security contributions in the Netherlands are extremely high. The employer pays 22% of the salary of the average worker and the employee pays nearly 24%.

The government has assumed the full cost of family allowances since January 1, 1989.

1) unemployment benefits.
2) on an average and based on an income of Dfl. 41,000 (average industrial wage); the ZW-premium differs per type of industry; the WAO premium rate differs according to income due to a contribution exception of Dfl. 91 per day.
3) on an average; the premium is 3.15% of salary + Dfl. 156 for adults and Dfl. 78 for up to 2 dependent children.

3.3. Recent developments

3.3.1 The government has published a plan to restructure the A.W.W.; the statutory widow's and orphan's pension.
Based on the principle that in future women will be fully capable to enter the labour market so far the plans consist of decreasing the widows pension for widows with children over age 12.
Transitional measures would be in force for present widows and for females born before 1972.
Furthermore a limited widower's pension may be introduced. Orphan's pension would be abolished.
Reactions from the Social Economic Council (Board of employers' and employees' organizations and independent members) were quite negative.

3.3.2 Starting from January 1, 1988 coverage in pension plans can be continued (temporarily) for the unemployed.

- Employees whose employment was terminated involuntarily after December 31, 1987, who are older than 40 years and immediately prior to dismissal participated in their employer's pension plan, will take part in this plan.
  This will not apply to unemployed persons who receive benefits under social security due to sickness or disability.

- As long as the unemployed receives an unemployment benefit based on former wages, contributions for old age and survivors' pensions will be provided by FVP *). If the person concerned is older than 57½ years, the coverage is continued until this person is 65 years old.

- The contributions to the insurance company or pension fund responsible for the pension coverage of the employee will be paid by the Dutch Social Insurance Bank.

*) The FVP (Fonds Voorheffing Pensioenverzekering) is a fund, set up by the government, which executes this plan.

4. OCCUPATIONAL PENSION PLANS

4.1. Industry-wide pension schemes

Approximately 1.5 million Dutch employees are mandatorily covered by industry-wide multi-employer pension schemes. Some companies have contracted out on the condition that their pension plans will remain as good as or better than the industry-wide schemes. These schemes vary from relatively low flat-rate old age pensions of, say Dfl. 2,500 to Dfl. 4,500 p.a. to generous pension plans such as the one for the Metal Industry. The latter plan provides for an old age pension of 70% of final annual salary (ceiling Dfl. 79,568), after deduction of Dfl. 29,083 (full AOW pension offset). Furthermore, this plan is based on the so-called rear balcony system. At entrance only the future years of service are taken into account at a rate of 1 3/4% per year; after that each salary increase leads to a pension increase of 70%.

4.2. Corporate pension schemes

One can hardly speak of customary pension plans for all companies in the Netherlands. The kind and level of the pension plan depends on the size of the company, the financial strength, the branch of industry, etc.

The smaller companies often have pension plans based on career average or final salary until age 55 or 60.

The larger companies (approx. 200 or more employees) often have self-administered pension funds (death risks reinsured) with very good pension plans. Such funds cover about 400,000 employees. With these companies a pension of 70% of final pay (full AOW pension offset, mostly the amount for married couples) after 40 years of service is quite normal, with a written intention for cost-of-living increases after retirement. For the rest the same widow's pension etc. as mentioned above.

For approximately 1 million employees a pension plan has been effected by insurance policies. In general these pension plans are more modest than those of pension funds.

4.3. Recent developments

4.3.1. Equal treatment male and female employees

An E.C.-directive urges the government to introduce new legislation on equal treatment of male and female employees in pension plans.
During the last years many company plans have already removed differences in eligibility conditions and retirement age and have introduced survivor's pensions for the dependents of female participants.

More and more pension plans are also providing survivor's pensions for unmarried couples, mostly under the conditions that :

- a notarial contract between the partners exists
- couples have been living together for more than half a year.

4.3.2. Come-back of defined contribution plans

Due to the high inflation during the period 1960-1980 most pension plans were changed into the defined benefit type. Recently we have seen defined contribution plans gaining back popularity, especially in smaller companies in the high tech industry and for additional pensions for executives.

4.3.3. More flexibility in pension plans

Slowly but surely there is a trend towards more flexible pension plans. With several pension plans additional pensions can be built up from voluntary extra participant's contributions up to a fiscally acceptable maximum. Other plans provide early retirement pensions on a financially attractive basis.

4.3.4. More influence retirees and early leavers on the board of pension funds

In September 1989 new legislation was enacted urging pension funds to establish a council of representatives of participants and retirees (in multi-employer pension funds also early leavers; in company pension funds the board of the fund may decide to include them), if at least 5% of total insured participants (multi-employer funds: associations having at least as many members) wish so.

This council may give advice on decisions of the board of the fund.

The council of participants can also send a complaint to the Insurance Chamber. The new law urges the board of a pension fund to take into account the interest of all categories.

5. VOLUNTARY EARLY RETIREMENT PLANS (VUT)

These plans (the so-called VUT-plans) have been very common in the Netherlands for the last 10 years. Labour unions felt these plans would reduce the high unemployment. Actually the vacant positions have not usually been taken over by younger employees. VUT plans are in force for about 50% of all employees.
The division is as follows:

Company size in number of employees	% covered
over 100	84
10 - 100	68
0 - 10	39

Employees are free either to retire early or to wait until normal retirement; more than 85% choose to retire early.

The earliest retirement age varies from 59 to 63, the average age being about 60.
The level of VUT income is mostly 80% of the last gross salary (usually with a maximum of approx. Dfl. 70,000) or 90% of the last net salary.

During the VUT years participation in pension plans and sickness funds is usually continued.

It is not sure whether or not the VUT will be abolished in the next 10 or 15 years.

The costs have increased up to a level of 3 or 6% of salary cost. VUT plans usually are funded on a pay as you go base. The number of retirees has tripled since 1984.
Most VUT plans have been laid down in collective labour agreements, which expire after one or two years.

Negotiations with AKZO and the Bank and Metal Industry have shown that labour unions are inclined to accept that VUT plans are somewhat reduced or replaced by flexible retirement plans.

6. FUNDING OF PENSION PLANS

Following the Pension and Savings Act generally each pension promise has to be funded in pension funds or by insurance contracts.
In the Netherlands, allocated systems of funding are used, generally based on deferred annuities. With the industry-wide pension funds and the larger corporate pension funds the premiums are usually expressed in uniform amounts or uniform rates of the pension bases. The tariffs of these funds and of insurance companies are based on an interest yield of 4% p.a.
Normally no future salary increases or turnover rates are taken into account.

Profits of the funds and insurance companies (mostly profits on interest) are often used to improve (or to provide for future improvements of) pensions in course

of payment or to reduce the contributions. With smaller insurance contracts in most cases an interest rebate replaces further interest profit sharing. 1)
Deposit administration contracts are not obtainable although some insurance companies have systems for bigger contracts which approach these quite closely.

The individual allocation systems available are :

- level premium system
- the so-called 65-x (= age) system, meaning that each pension increase is equally credited in each of the following years
- past service pension purchase system. In this system each past service pension increase is funded immediately.

Many companies that use the level premium or 65 - x system will present the present value of future past service premiums on their balance sheet (backservice).

1) Since 1986 Dutch insurance companies offer a so-called TL-B-rebate. That is a second profit share on interest for the period after the first interest rebate (TL-rebate) has been amortized.

7. TAXATION

7.1. Contributions by employers and employees to a pension plan are in general tax-deductible.
The employer may even put a tax-deductible liability on his fiscal balance-sheet being the present value of future contributions as far as it concerns past service pensions. In that case future salary increases cannot be taken into account. Contributions based on projected maximum 4% salary increase p.a. are tax-deductible if and as soon as they are paid.

Pensions are taxed as income after receival.

The employee can also deduct up to Dfl. 16,863.00 premium, paid to an insurance company, if it is used to buy additional annuities, separated from the collective insurance contract or included in it.

7.2. In 1987 the Ministry of Finance presented a study for general discussion, called "Brede Herwaardering". If these proposals would be effected - probably January 1, 1991 - it would mean that :

- tax limits for pension levels and for additional annuities will completely disappear, but tax deduction will be restricted to premiums for pure pensions respectively annuities (in the past tax rules allowed more flexibility);

- tax facilities for capital insurances are limited in order to prevent capital growth.
  Capital sums payable at death are not taxable, while in principle the interest-part of capital sums payable in the event of survival is taxable.

However, under certain conditions capital sums up to a maximum of Dfl. 130,000 are exempt from taxation.

- Excessive surplus reserves of pension funds will be taxed.
  Pension funds are allowed to keep an extra reserve of 15% of the pension reserves (the present value of the accrued benefits at a frozen salary level, using 4% compounded interest).
  Furthermore, when fixing the provisions for pension obligations, they are allowed to take into account a future adaptation of pensions due to salary increases by promotion.

  If the assets of the pension fund become higher than allowed according to forementioned standards, the surplus amount will be taxed.
  After introduction of the law a sufficient transitional period will be applicable during which the fund can reduce its reserves.

- Tax facilities for insurance companies will be reduced.
  The equalization reserves to be maintained, should be reduced to 45% by a certain date to be determined later on. The surplus amount of 55% should be divided into 8 equal annual parts, which have to be added to the fiscal profit.