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# Employee Benefits in the Netherlands

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*(This paper is essentially the paper for the 1984 Conference brought up to date (to 1.1.86) and I have printed the sections on recent developments – JMH)*

## 1. Statistical and financial information

Some general data

Inhabitants: 14.5 million  
National product : in 1984 approx. Dfl. 349.2 billion (\$133 billion).\*

Average industrial wage : approx. Dfl. 40 000 (\$15 000).

|                           | Last 5 years | Last year |
|---------------------------|--------------|-----------|
| Wage inflation            | 1.9%         | 0.9%      |
| Price inflation           | 4.0%         | 1.9%      |
| Yield on government bonds | 9.2%         | 7.3%      |

\*exchange rate as of April 1, 1986  
(Dfl. 1 = \$0.3798 = £0.2593)

## 2. Social security – recent developments

In 1985 the government passed an amendment of a bill to obtain the same rights for men and women for social security old age benefits (AOW).

Since April 1, 1985 married women have the same independent right for AOW benefit.

Now every married person of 65 years and older that is entitled to a pension gets a basic benefit of 50% of the formerly applicable AOW benefit for married couples, increased with an allowance dependent on income if the married partner is not yet 65 years old.

Due to transitional measures persons who are 57 years or older on April 1, 1987 will not notice any changes.

In theory, this change might mean offsetting only the employee's part of the state old age benefit from the company's pension. However, because in 99% of the situations family income for people over 65 has not changed, the offset in most company pension plans has not been changed

As per April 1, 1986 the medical expenses insurance system has been changed.

The insurance for the aged and the voluntary insurance in compliance with the contributory sickness fund act (ZFW) have been abolished. The insurance for the aged is integrated in the compulsory insurance in compliance with the ZFW, in connection herewith as per April 1, 1986 also the AOW and AWW amounts have been slightly adjusted. As from April 1, 1986 a large part of the voluntary insured are dependent on the private medical expenses insurance insurers, which is income-dependent.

As early as 1984 the government took steps to diminish state disability benefits (WAO).

This has been done by decreasing the basic salary and maintaining the pension percentage at 80%.

On January 1, 1985 the state disability benefit was further reduced from 80% to 70% of salary.

## 3. Occupational pension plans – recent developments

A topic in corporate pension schemes in the Netherlands is the fact that the targeted level of pay replacement at retirement is being considered.

During the 1970s, the standard for a "good" pension plan in the Netherlands was an old age pension of 70% of (gross) final salary. The 70% of gross was equivalent to a net pension of 80% or 85% of net salary.

As a result of rising levels of the social security contributions and the greater share borne by employees, there has been a significant shift in the actual replacement percentages.

In this way it can occur that the targeted net pay replacement of 80 to 85% is considerably surpassed, with net pay replacement close to 100%!

This rising proportion of net pension to net pay has attracted considerable attention. In many cases, there have already been reductions in gross pension percentages, especially for plans which provided more than 70%.

Another solution to meet the influence of the pressure of the social premiums on the net-net level is to change the design of the plan to determine the pension by using the salary after deduction of the social security contributions and the pension premium. At the same time the pension formula has been adjusted to reach the desired level.

A development which many large corporate pension funds are making use of, is to make the automatic joining of the AOW benefit to the pension plan less fixed. The motive for this is the development in the last few years regarding the AOW (not following the average national wage index) and the recently changed design of the AOW (see 2.).

A further trend is that gradually the difference in age of retirement for men and women is disappearing. This is connected with the aim to synchronize the working conditions for men and women. A lower age of retirement for women, namely 60 years instead of 65 years, is still applicable in some cases.

Equal treatment of couples, whether married or unmarried, would also mean that a survivor's pension should be provided for in both situations. Gradually more pension funds are adopting the scheme for a survivor's pension for unmarried couples.

Another topic is the problem of early leavers. The Ministry of Social Affairs proposed a number of measures, including a solution for the problem of loss of pension in case of changes of employer. Information on this subject has been obtained from the Social Economic Council (SER).

The SER advice implies:

1. To stipulate by law that on termination of the employment in a final pay plan a

proportional part should be vested and funded (instead of the paid-up pension which actually is the case).

2. To stipulate by law that henceforth for the indexation of current pension everyone will be treated equally; no discrimination of early leavers.
3. Simplifying tax and other regulations for making transfers of reserves for former employees easier.
4. To enable by law that, under certain conditions, money is made available to a special fund for partial continuation of the pension funding for employees who are unwillingly made redundant.

It looks as though the SER -advice will be realized by the Ministry.

As of June 1, 1985 civil servants also have to pay AOW/AWW permiums. Before this date they

were exempt from this.

As compensation the salaries of civil servants have been increased by 10%.

In connection with this measure, probably as of January 1, 1986, the pension scheme for civil servants will be adjusted.

The intention is that in the new scheme the AOW will be built in for 100% (this was 80%). The old scheme (as mentioned in the appendix) will still apply for the years of service up to January 1, 1986. Then in fact there will be a double civil servants scheme.

#### **4. Taxation**

1. Recently 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.