
NATIONAL REPORT FOR THE NETHERLANDS

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Recent developments

Due to a budget deficit, the Dutch government is forced to reconsider the state expenditures.

Consequently the government is altering the Dutch social security system. The changes in the social security system will be discussed briefly in this report.

Furthermore developments are expected in the area of the occupational pension funds and insurance companies. These developments will also be set out in the report.

Changes in the social security system

The additional allowance to the Old Age Pensions Act (AOW) for a pensioner with a partner younger than 65, has decreased to a maximum of 50% of the legal minimum wage. Last year the maximum of the additional allowance was 70%.

For some time the government is working at a new bill for the survivors' benefits (AWW). In the new bill (ANW), which also provides the coverage of unmarried, cohabiting partners, the survivors' benefit is dependent on the earnings of the survivor. This new bill implicates that in the future less people will receive a survivors' benefit allowance. The ANW will get into force 1 July 1996.

For the coming years major alterations are planned for the Sickness Benefits Act (ZW and WAO). At present in case of sickness of an employee, the employer has to pay the employee's wages for a period of 2 to 6 weeks, depending on the total amount of employees working in his firm. After this period the employee's wages are paid for by the industrial insurance board for a period of 1 year.

Recently the Ministry of Public Health has introduced a bill (Wulbz) into the Upper House. In this bill she proposes to lengthen the period of 2 to 6 weeks to a period of 1 year.

Also a change in the Disability Act (WAO) has been announced.

Lately a discussion started about the financing of the general social insurances (AOW, AWW, AAW and AWBZ). Because the overall age of Dutch inhabitants increases, the financing of these general social insurances seems not feasible. The general social insurances are financed by a "Pay-as-you-go" system. This implicates that if the development is extrapolated, a lack in the financing can be foreseen.

The suggestion is made to switch to a capital funding system or to introduce contributions for pensioners. (Since 1994 pensioners pay a small contribution for the AWW/AWBZ.)

Until recently the division of the retirement pension after divorce was ruled by Court Law. Since May 1995 the division of the retirement pension is covered by the law "**Wet verevening pensioenrechten bij scheiding**". This law entitles the former spouse to a direct claim against her of his ex-husband's/ex-wife's pension fund or insurance company. It is also possible to convert the part of the old age pension and the part of the survivors' pension, to which the former spouse is entitled, in a retirement pension on her or his life.

In September 1995 a working party on the fiscal treatment of occupational pensions (Commissie Witteveen) published a long list of recommendations for changes in the legislation. These suggestions will all be adopted by the government.

One of the recommendations pleads for a minimum pension age of 55 and a maximum pension age of 70. The maximum pension accrual will be 2% of final salary per year. The "normal" pension age must be between 60 and 65. The maximum accrual of the pension is 100% of the final salary (including AOW).

In 1994 the insurance controlling board (De Verzekeringskamer) published actuarial principles (Actuariële Principes) for insurance companies. The actuarial principles state that for each insurance policy sold, the premium reserve must be calculated on safe actuarial assumptions. One of the most important new rules obligates insurance companies to test the sufficiency of the investment returns, cost loadings and mortality assumptions.

These actuarial principles also prescribe the use of a (profit) test for new insurance products. Before a new product can be brought on the market, the insurance company has to prove that the underlying assumptions are sufficient.

On 1 January 1996 the largest occupational pension fund, the pension fund for civil servants (het Algemeen Burgerlijk Pensioenfonds), in the Netherlands and Europe will be privatised.

The organisation of pension schemes in the Netherlands

In the Netherlands a three pillar system is developed to provide retirement benefits. The first pillar is the AOW/AWW. AOW/AWW is part of the social security system and gives protection against poverty. The second pillar is formed by the occupational plan in the public and private sector. The last pillar are the private plans.

1. Social security (AOW/AWW)

All residents are insured according the "Pay-as-you-go" principle. The contributions are paid by all residents, regardless of their employment state. The AOW is a flat rate system and is paid monthly. The pension rate is linked to the minimum wage on net-base. You can read more about this in the section called "*Social security*".

2. Occupational plans

About 80% of employed persons between the age of 25 of 65 (4,1 million persons) are covered under occupational pension schemes. In the *public sector* 95% is covered through the Algemeen Burgerlijk Pensioenfonds (ABP). In the *private sector* 75% of the employees is covered. This coverage is one of the most elaborate in any industrial or commercial country.

In the private sector half of the employees is covered by *industry-wide plans*, the other half is covered under *company plans*.

3. *Private plans*

The coverage through private plans is not well known. The administration system of the insurance companies is not capable to give the exact information needed to calculate the coverage through these plans. Because this form of pension schemes is strictly private without any concern from government or employer it will not be discussed in this survey. The pensions provided through these personal plans are only meant to maintain the standard of living, acquired during the working life, during retirement.

The last 10 to 15 years special plans, providing benefits for those retiring before age 65, have become popular. The plans were introduced as a partial solution for the unemployment but nowadays everyone agrees that this goal has not been achieved. The plans, known as VUT-plans, pay a portion of the individual's salary (usually 80%) from the time he/she takes "early retirement" (usually from age 60 or 62). The plans are fully separated from the occupational pension plan.

Because of the growing costs of the VUT-plan, there is a discussion about how to alter it. More and more the idea raises to replace the VUT-plan by a plan in which the age of retirement is more flexible (e.g. from the age of 55 up to 70). This must be seen in the light of the recommendations of the Commissie Witteveen. (See paragraph "*Recent developments*".)

Pensions in figures

The next tables shows the reader some statistics of pension plans and the composition of the labour force in the Netherlands.

The first table shows the divisions of the pension funds and of the active member, non-contributory members and the pensioners in 1994.

	Pension funds in numbers	Number of active members	Number of non-contributory members	Number of pensioners
(Source: "Verzekeringskamer")				
Company plan	847	730,885	506,181	353,411
Industry wide plans	77	2,374,249	3,998,407	774,364
ABP	1	967,786	590,815	481,169
Other	13	71,275	24,377	36,257
Total	938	4,144,195	5,119,780	1,645,201

The pension funds insure the following type of pensions:

- a. Retirement pension
- b. Survivors' pension for spouses
- c. Survivors' pension for unmarried spouses
- d. Survivors' pension for orphans
- e. Disability pension
- f. Retirement pension for singles
- g. Temporary retirement pension
- h. Temporary survivors' pension for spouses
- i. Other pension

The next table shows the percentages of pension funds which insure different types of pension and the percentage of active members for who the pension is insured.

Types of pension		
	<i>Number of funds</i>	<i>Number of active members</i>
a. Retirement pension	97,1	99,8
b. Survivors' pension for spouses	97,4	99,9
c. Survivor's pension for unmarried spouses	47,6	91,4
d. Survivor's pension for orphans	95,0	99,7
e. Disability pension	33,8	72,8
f. Retirement pension for singles	18,3	13,2
g. Temporary retirement pension	18,2	8,7
h. Temporary survivor's pension for spouses	28,4	18,6
i. Other pension	3,5	16,8

The next table shows that the investment portfolio of the insurance companies, the pension funds and the ABP is changing a lot.

Investment portfolio							
(Source: Het Financieele Dagblad)							
	Total investments (in billions)	Shares %	Bonds %	Real estate %	Private loans %	Mortgage %	Total %
1986							
Ins. companies	112	11	8	10	46	25	100
Pension funds	173	14	20	12	50	4	100
ABP	132	2	22	6	32	4	100
1987							
Ins. companies	220	20	22	6	32	20	100
Pension funds	301	31	22	6	32	20	100
ABP	186	10	19	6	55	10	100

General information

All figures at the end of the year in thousands
(Source: Centraal Bureau voor de Statistiek)

	1994	1993	1992	1991	1990
Population	15,423	15,342	15,239	15,129	15,000
Labour force (working over 12 hours per week; 15-64 years)	6,466	6,406	6,296	6,189	6,063
Registered unemployed	486	415	336	334	358
Disabled	909	917	908	894	861
Early retirement	153	146	142	135	131

The last table shows some statistics to give an idea of the population, the labour force etc. over the last five years.

Social security

In this paragraph a brief outline is given of the social security system in the Netherlands.

The Dutch social security system includes the following legislation:

- Old Age Pensions Act: AOW
- Survivors' Benefits Act: AWW (to be replaced by the ANW in 1996)
- (Long term) Disability act: AAW and WAO
- Sickness Benefits Act: ZW
- Unemployment Act: WW and IOAW
- National Health Insurance Act: ZFW and AWBZ
- Family Allowances Act: AKW

In 1995 the legal gross minimum wage for an adult adds up to f 28,035.

Old Age Pensions Act (AOW)

The retirement age is 65 for both men and women. Early or late retirement is not possible. The full benefit is paid to all residents who have paid contributions over their income between age 15 and 65. For each year of non-residency the benefit is reduced by two percent, unless contributions were paid on a voluntary basis.

The AOW provides a flat rate pension that equals 50% to 100% of legal minimum wage on a net basis. The level depends on marital status. Both partners (married or living together) receive a net pension of 50% of the legal minimum wage. If one of the partners is still younger than 65, the pensioner can receive additional allowance up to 50%. The additional allowance depends on the income of the younger partner.

Survivors' Benefits Act (AWW)

All residents are covered for survivors' benefits, it should be noted that, unlike under the new ANW, under the AWW the spouse's pension is only paid to married partners.

Currently a spouse's pension is paid to a widow or widower who fulfils one of the following conditions:

- is over age 40 on the date of the partner's death;
- has an unmarried child born before the death of the partner;
- is disabled for at least 45%;
- is pregnant on the date of the partner's death (only women).

If the spouse does not fulfil one of these conditions, a temporary pension is paid. The duration of the temporary pension depends on the age. It equals six months if the spouse is 26 years or younger on the date of the partner's death; for each year over age 26 the duration is extended with one month.

Like the retirement pension the spouse's pension is a flat rate amount, the level of which is linked to the legal minimum wage on a net basis. A spouse with the care for a child under age 18 receives a net pension that equals the full net minimum wage. Without a child, the benefit equals 70% of the minimum wage. The spouse's pension ceases on remarriage or at age 65 when the retirement pension becomes effective.

When both parents are deceased, a child gets an orphans' pension. This pension is paid up to the age of 16 or in case of disability to the age of 18, and for fulltime students up to the age of 27. The height of the benefit depends on the age of the orphan.

The tables on the next page show a summary of the retirement benefits and spouses' benefits for the last couple of years.

Social security		
Gross annual retirement pensions		
<i>Date</i>	<i>AOW for couple (DFL)</i>	<i>AOW for single (DFL)</i>
01-01-1993	25,145	18,158
01-01-1994	24,760	17,807
01-01-1995	25,285	18,156
Social Security		
Gross annual spouses' pensions		
<i>Date</i>	<i>AWW for widow with child under 18 (DFL)</i>	<i>AWW for widow without child under 18 (DFL)</i>
01-01-1993	30,950	22,534
01-01-1994	30,936	22,533
01-01-1995	30,753	22,399

(Long term) Disability Act and Sickness Benefits Act (AAW, WAO and ZW)

The ZW provides a sickness benefit to employees that amounts to 70% of earnings up to a ceiling of f 74,360 a year. Since 1 January 1994 the employer has to take care of the payment during the first six weeks of sickness (two weeks for companies with less than 15 employees); this period is no longer covered under the ZW. Also the Civil Code changed to ensure that employers will pay at least 70% of earnings or the legal minimum wage.

In 1993 the Dutch parliament has approved significant changes to the long-term disability structure. After one year of sickness the WAO provides a disability pension to employees. This pension adds up to 70% of earnings in case of full disability (maximum salary f 74,360). The benefit varies according to the degree of disability. From 1 January 1993 new claims for State disability benefits will only be payable for a maximum period of 1 to 3 years, depending on the employee's age. After the maximum period the disabled employee will be entitled to a benefit of 70% of the legal minimum wage, increased by an allowance related to age and former salary.

The AAW provides a minimum disability pension to all residents.

Unemployment Act (WW, IOAW)

The unemployment benefit is equal to 70% of earnings up to f 74,360 a year. The benefit is payable for a period of six months to 4.5 years depending on age. For older people there are some additional provisions up to the age of 65.

National Health Insurance Act (ZFW, AWBZ)

Medical expenses, for employees having an income under f 58,950 a year are covered through the state sickness fund (ZFW); special expenses (hospital among other things) for all residents are covered through a special fund (AWBZ). Higher-paid employees are not covered by the ZFW, but many insurance companies provide coverage through group insurance for the same benefits.

Contributions

The contributions for "all residents insurances" (AOW, AWW, AAW and AWBZ) are paid by the employee. Before 1990 the employer paid a part of these contributions too. Since the change in contribution system the employer has to compensate the employee by a special transfer allowance (overhevelingstoeslag). The transfer allowance equals 11.75% of salary up to f 76,350. Following proposals of the government the transfer allowance will be replaced as much as possible and legally be integrated in the gross-salary from 1998.

The social security contribution rates for 1995 are shown below.

Social security Contributions 1995				
<i>Description</i>	<i>Employer</i>	<i>Employee</i>	<i>Offset</i>	<i>Ceiling</i>
	%	%	<i>(DFL)</i>	<i>(DFL)</i>
AOW		14.55	6.074	49,192
AWW		1.80	6,074	49,192
AAW		6.30	6.074	49,192
AWBZ		8.85	6,074	49,192
ZW	0.95	1.00		74,360
WW	2.20	2.20		74,360
WAO		9.40	25,740	74,360
ZFW*	7.25	1.10	14,040	58,950
Transfer allowance	11.75			76,350

* Offset ZFW only for the employer.

Occupational pension plans

In general benefits under the Dutch social security system are flat rated and based on a social minimum level. Therefore most companies provide supplementary pensions. In many cases the occupational pension plan is achieved by negotiations between employer and employees (collectively or individually).

An employer who makes a pension promise to his employees has three options to realize this promise. The Pension and Savings Fund Act (PSW) requires that the promise will be executed by:

- joining an industry-wide pension fund;
- establishing a company-sponsored pension fund;
- insurance policies.

However, the employer is not completely free in choice. If an industry-wide pension fund in the industry of the company exists, joining this fund is in most cases mandatory. Sometimes the concerning company has contracted out on the condition that its pension plan is at least as good as the industry-wide scheme (only possible under very strict conditions). In case there is no industry-wide pension fund, the employer can choose one of the remaining possibilities to execute his pension promise.

These days many employers are redesigning their pension plans because of legal and social developments. It is, however, still possible to give a typical benefit structure. Below some main elements of a Dutch pension plan are discussed.

Pension system

Although there is a trend towards more defined contribution it cannot be denied that by far the most pension schemes are of the defined benefit type. Particularly with the large companies, the final pay system (or average of the last three to five years) is still in favour of both employer and employees. But the career average system by which the accrued benefits are revalued annually is gaining popularity. Pretty common is a combined system: final pay for normal salary and career average for shift allowance.

Pensionable earnings

Pensionable earnings usually include annual base salary and holiday allowance. The state pension is integrated by applying a salary offset. It is quite common to calculate an extra pension over earned shift allowances, if applicable.

Retirement age

Normal retirement age is 65 for both men and women. Early retirement provisions can be part of the pension plan. Separate schemes, the so-called VUT-schemes are abolished more and more. Very rarely late retirement is an option.

During the last decades many VUT-schemes have been established. More than half of all employees is granted a VUT-benefit. Up till 1990 the benefits were improved on a regular basis (average early retirement age 60, average benefits about 80% of gross last salary, continuation pension plan). The costs of the plans vary between 3% and 6% of gross salary depending on age structure and level. Most VUT-plans are described in the collective labour agreements which last for one or two years. Many employers' organizations have a problem in continuing the current plans because of the increasing costs. In some cases a reduction in VUT-benefits or a replacement with flexible retirement plans was acceptable.

Retirement benefit

The annual retirement pension typically equals 1.75% of pensionable earnings for each year of service between age 25 and age 65. A cash option is never provided because it is not tax-efficient.

Survivors' benefits

The spouse's pension typically equals 70% of retirement pension. In case of death during active service the retirement pension is based on current salary level and projected service. The orphan's pension mostly equals 14% of the retirement pension.

Because it is not tax efficient, lump sum benefits on death before retirement are rarely provided by the pension plan. Some companies have separate arrangements. When a lump sum is provided it often amounts to one year's salary. Lump sums on accidental death are more common because they receive a preferential tax treatment.

Disability benefits

Until 1993 supplemental disability benefits were only provided for higher paid employees, for the social security benefit was relatively high. Regarding the salary in excess of the social security ceiling (1995: f 74,360) the supplemental benefit still amounts to 70% or 80% of earnings in case of full disability; so the level does not depend on the number of service years. The benefit is payable up to the age of 65, normal retirement age.

Since the cut of the state pension in 1993, new disabled employees who are younger than 58 will have a gap in their income. The younger the employee, the bigger the gap. Many companies have established arrangements to cover the disability gap. This is mainly done by insurance companies. Only some larger companies have covered the gap in their own pension funds. Remarkable is the fact that the costs of the insurance of the disability gap are mainly paid by the employees.

Vesting

Since 1987 employees who leave the company after one or more years of service are entitled to a proportional deferred retirement and spouse's pension according to the plan's formula. If the employee concerned has earned extra service years because of a transfer of pensions from a former employer, the legal requirement of at least one year of service to vest benefits will be lapsed.

Taxation

Pensions are taxable income to the employee. Employers' and employees' contributions to social security and occupational pension plans are tax-deductible. Contributions for lump sum benefits are not, but on the other hand lump sum benefits are tax free. Employers' contributions to pension plans are not taxable to the employee.

Economic background

The following table (source: Centraal Bureau voor de Statistiek) shows some statistics which reflect the economic background in the Netherlands.

Economic statistics					
<i>Year</i>	<i>GDP*</i>	<i>Price inflation</i>	<i>Wage inflation</i>	<i>Yield on government bond</i>	<i>Total return on shares</i>
	%	%	%	%	%
1990	4.1	2.3	3.2	9.0	-13.1
1991	2.3	3.2	3.4	8.8	18.7
1992	1.3	3.0	4.1	8.2	7.9
1993	0.3	2.6	3.2	6.3	47.2
1994	3.0	2.7	1.7	6.7	1.0

* Gross Domestic Product