# NATIONAL REPORT FOR THE NETHERLANDS

## 1. ASSOCIATION OF CONSULTING ACTUARIES

Since the last report the number of active members of the dutch association of consulting actuaries increased to 33. According to the constitution members of the association have to be equity partners in a firm of consulting actuaries. The number of actuaries employed by the firms of consulting actuaries amounts to about 50, so the total number of actuaries working for consultancy firms is around 80, which is about equal to 25 % of the number of actuaries in the Netherlands.

All actuarial firms are growing fast during the last years. The most important reason is the fact that the government is publicing all kind of papers on relevant issues so many companies need expert advice on these issues. Besides the range of services provided by actuarial firms is expanding.

Members of the association meet regularly to discuss topical matters and through committees review developments affecting the work of consulting actuaries and make submissions to the government and other bodies as appropriate.

During 1992 the code of conduct will be altered in order to allow members to market their services more freely. Subject of this discussion is the general environment in which marketing services has to be free and the fact that auditing firms and pensionconsultants are also offering actuarial advice.

Another interesting item is the fact that all actuarial firms have an international association to offer international services to clients.

## 2. ECONOMIC BACKGROUND

The following table shows inflation, average salary increase and average yield of a selected portfolio of government bonds in the past few years:

| year | inflation | salaryincrease | yield on statebonds |
|---|---|---|---|
| | % | % | % |
| 1987 | (1.6) | 0.5 | 6.3 |
| 1988 | 0.6 | 0.8 | 6.4 |
| 1989 | 2.1 | 1.5 | 7.0 |
| 1990 | 2.3 | 3.1 | 8.7 |
| 1991 | 3.2 | 3.4 | 8.8 |

The exchange rate as of January 1, 1992 :
DFl 1 = USD 0.584 = UKP 0.313

## 3. SOCIAL SECURITY

### 3.1. Benefits

Dutch social security provides the following benefits as of January 1, 1992.

The legal minimum wages for an adult equals to DFl 27,647 per annum.

The flat rate old age pension (AOW) for a couple (married or living together) where both are above age 65 amounts to DFl 24,655 p/a and for a single DFl 17,752 p/a.

If in a couple one person is younger than 65 year part of the pension is dependent on the income of the younger person. On a net basis the AOW-benefit for a couple is equal to the net legal minimum wages.

The flat rate pension (AWW) for a widow or widower with the care for a child amounts to DFl 30,646 p/a. If there is no child the pension amounts to DFl 22,220 p/a, on the understanding that if the widow(er) is under age 40 only a temporary pension is granted. On a net basis the AWW-benefit for a widow(er) with a child is equal to the net legal minimum wages.

The state disability pension for an employee (ZW/AAW/WAO) amounts to 70 % of the salary up to a maximum salary of DFl 73,602, if 80 % or more incapacity for work. Lower benefits are granted if the degree of disability is lower. The pension will last up to age 65 if still disabled.

Medical expenses for employees having an income under DFl 54,400 p/a 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 via group insurance of the same benefits.

The unemployment benefit is equal to 70 % of income up to an income of DFl 73,602 p/a. This benefit is payable for a period of 6 months up to 4.5 years depending on age. For older unemployed there are some additional provisions up to age 65.

## 3.2 Contributions

| type of benefit | contribution rates % gross salary | | earnings subject to contribution | |
|---|---|---|---|---|
| | employer | employee | franchise DFl | contribution DFl |
| AOW/AWW | - | 15.5 | 5,225 | 42,966 |
| AWBZ/AAW | | 10.05 | 5,225 | 42,966 |
| ZW/WW/WAO | 5.40 | 8.45 | | 73,602 |
| ZFW | 5.15 | 1.2 | | 54,400 |

Social security contributions in the Netherlands are extremely high. The employer pays over 10 % of the salary of an average worker and the employee pays over 30 %, while the employer besides has to compensate 11.5 % of the salary to the employee to allow the employee to pay the required contributions.

The ZW contribution differ per branch of industry. The WAO contributionrate differs according to income due to a contribution exception of DFl 25,578 p/a.

## 3.3 Recent developments

### 3.3.1.Survivors pension

The government has proposed a bill to restructure the AWW: the statutory widow's and orphan's pension.
The idea is to make the bill effective during 1992.

The basic principle is the fact that each individual has the capacity to enter the labour market and be capable to earn an income.
The basic pension will last for one year; if there is no child the pension stops and if there is a child part of the remaining pension is dependent on income.

This bill will also be applicable for persons living together (partners-not married).
A pension in payment will stop as soon as someone is not single anymore.

### 3.3.2. Disability pension

The government has proposed a bill to restructure the WAO: the statutory disability pension.

The major change in this bill is the fact that the level of a disability pension will in general be dependent on age at disability. The pension will vary between 70 % of income to 70 % of the legal minimum wages depending on age at disability after a period of 0.5 to 5 years. For older employees the pension will last up to age 65.
In discussion is still the question what will happen to the pension of a person who has no working capacity left.

The main reason for this dramatic change is the fact that the number of disabled persons has increased during the last years up to around 900,000 at this moment. The cost of these provisions have also increased.

### 3.3.3. Medical care

In 1991 a plan to restructure the funds who take care of the medical plans has partly been approved. The basic idea is to introduce a national health via the extension of the AWBZ fund to a fund responsible for all the compulsary medical provisions. Besides voluntary additional insurance is possible for non compulsary medical benefits.

Because at this moment insurance companies administer and execute a part of the medical plans, in the new national health insurance companies can do the administration of the national health for the persons insured there.

On January 1, 1992 a first step to reach this aim has been taken. All medicine products (and other elements) are covered through the AWBZ-fund.
For each new step new discussions in parliament have to take place. Because of this proposed changes many medical care insurers and administrators have merged during the last two years. It is expected that these merges will go on in the next years if the medical care system will change as planned

## 4. OCCUPATIONAL PENSION PLANS

### 4.1. Industry wide pension schemes

Approximately 2.5 million Dutch employees ( including 1.0 million civil servants) are mandatorily covered by industry wide multi employer pension schemes. Some companies have contracted out on the condition that their pensionplans will remain as good as or better than the industry wide scheme.

These schemes vary from relatively low flat rate old age pensions of say DFl 3,000 p/a after full service to generous pensionplans such as the one in the metal industry. The latter plan provides after full service an old age pension of 70 % of final annual salary (ceiling DFl 86,003, 1992) after deduction of the full AOW pensionoffset of DFl 31,502.

## 4.2. Corporate pension schemes

For almost all employees in the Netherlands not covered by industry wide pensionschemes the company provides for a corperate pensionplan. One can hardly say that all pensionplans are about the same in the Netherlands. The kind and level of the pensionscheme depends on the seize of the company, the financial strength, the branch of industry, etc.

The smaller companies often have a pension plan based on average or final salary up to age 55 or 60. These plans are almost always insured via an insurance company.

The larger companies have the choice to insure the pensionplan via an insurance company or to set up a self administered pensionfund. Many larger companies (over about 200 employees) have self administered pensionfunds (death risks reinsured) with good pensionplans. These funds cover about 400,000 employees. These funds often provide after full service an old age pension of about 70 % of final salary including the full AOW pension for a couple; besides a written intention to increase pensions is often part of the plan.

For approximately 1 million employees the pension plan has been effected via insurance policies. In general - mainly smaller companies - these plans are more modest than the plans of the self administered funds.

## 4.3. Recent developments

### 4.3.1. Indexation early leavers

In June 1991 a bill passed parliament which states that if in a pensionplan the pension of a certain group of retirees will be indexed, the same indexation will be applicable on the pensions of the applicable early leavers in the same plan. This bill is effective as of January 1, 1992.
The general idea is that pensionplans will be divided in two groups namely those who grant indexation and those who do not grant indexation. Before 1992 many plans did give an indexation to the retirees but not to the early leavers. In general all good pensionplans will have some form of indexation.

In the law is stated that the funded pensions of the early leavers have to be indexed. If for some reason the funded pension is lower than the accrued pension, the funded pension has to be increased and thus the costs to fund the accrued pension relatively decreases.

### 4.3.2. Portability

At the end of 1990 the social economic council (government advisory body) adviced that each individual should have the right to transfer his pensionrights to the pensionplan of his new employer when changing employment .

In the white paper on pension submitted by government in June 1991 is stated the same. This will probably lead to a change in the pension act in a few years that portability of pensions is a right for each individual.

It is the intention that if pensionrights will be transferred a transfervalue in cash will be paid from the old pensionplan to the new plan and that the new pensionplan will grant additional years of service in the new plan, so that at the moment of the transfer the amount of the pensions for the participant remains the same. This leads to an additional pension following future salary increases.
Not yet clear is how the transfer value will be calculated. Discussions on this item might mean that the proposed law will be postponed.

At this moment portability occurs on a voluntary basis through a circuit for portability. About 2/3 of all employees with a pensionplan are covered through this circuit. In this circuit the method to calculate the transfer value is dictated; on the other hand only finalpay plans and plans with indexation can enter the circuit.

### 4.3.3. Equal treatment

Because of EC directives and lately EC decisions (Maastricht December 1991) equal treatment for male and female is required in all pensionplans now.
During the last years almost all pensionplans have changed the rules so that direct discrimination such as pensionable age and spouse pension does not occur anymore.

Another issue is equal treatment of married and unmarried persons. Many pensionplans have introduced a survivors pension for unmarried couples often under the condition that there is a notarial contract between partners and the partners have been living together for at least six months.
Because the state old age pension differs between couples and singles the question whether a pensionplan should provide an additional old age pension for a single is again in discussion. At this moment it is assumed to be acceptable but that might change in the near future.

### 4.3.4. More influence of retirees and early leavers on the board of pensionfunds

On March 1, 1990 a change in the pensionfund act relating to the representation of the retirees and early leavers became effective. The three main changes are:

a. The board has to take the interest of retirees and early leavers into consideration when decisions are made.

b. It has to be possible for former participants (early leavers and retirees) to become a member in the board of a pensionfund.

c. If at least 5 % of the insured persons in a fund want a council of representatives of participants and retirees (in industry wide funds also early leavers), the fund has to establish such a council. This council has to give 'advice' on all major decisions of the board of the fund.

Furthermore to sub b there is no rule to how boardmembers have to be chosen. So in almost all funds the employer and the participants choose the board members. According to the new law they can also choose former participants.

### 4.3.5. Early retirement

During the last decades very many early retirement plans (vut-plans) have been established.

More than half of all employees and of the larger employers a much larger portion has a right to 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 pensionplan). The costs of the plans vary between 3 and 6 % of gross salary depending on age structure and plan.

Most vutplans are described in the collective labour agreements which last for one or two years. Many employer's organizations have a problem to continu the current plans because the costs are increasing. In some cases a reduction in vut benefits or a replacement with fexible retirement plans was acceptable.

## 5. TAXATION

Contributions by an employer or employee to a pensionplan are in general tax deductible.
Pensions on the other end are taxed as income after receival.

The employer may put a tax deductible liability in his fiscal balance sheet if the funded pensions are less than the accrued pension, calculated on present salary. Contributions based on projected maximum 4 % salary increases p/a are tax deductible if and as soon as they are paid.

In 1987 the ministry of finance presented a study for general discussion called 'brede herwaardering' (see also previous reports). The study covers three area's namely a) tax position for equalization reserves for insurance companies b) tax position for excessive reserves of pensionfunds and c) tax position for private annnuity and capital insurances.
Part a) became effective on January 1,1991 and led to a taxwise less advantageous way for insurance companies to build up an equalization reserve.
Part b) is still in study and will not become effective before 1993. Pensionfunds will be allowed to have some additional reserves, but if the assets exceed the value of liabilities according to described standards the surplus amount will be taxed. After introduction of the law sufficient time will be applicable during which a fund can reduce its reserves. Even the fact that the tax position would change has already led to a reduction in reserves.

Part c) became effective on January 1,1992 and will lead to less tax-facilities for private annuity and capital insurances.

Amsterdam, January 8, 1992
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