



NETHERLANDS



I. Overview of Current Pension Environment

Social Security [JANUARY 2001]

Social insurance benefits provide general old age pension, survivor and disability benefits, as well as insurance against the risk of special sickness costs.

	Average income (eg, secretary)	Middle-high income (eg, middle manager)	High income (eg, sales director with 10 – 60 employees)
Income 1999 – 2000, euros	28,000	73,000	106,000
Replacement ratio for full social security (age 65 and 44 years)	30%	12%	8%
Replacement ratio for early social security	n/a	n/a	n/a
Effective tax rate for social insurance benefits (tax as a percentage of total cash income)			
Employer	27%	13%	9%
Employee	31%	13%	9%

The Benefits shown are for single persons

- Social security benefits are low at all pay levels and there is a substantial market for employer provided supplemental plans.
- Social security is financed by payroll taxes on a pay-as-you-go basis.
- Social security pensions in payment are indexed to increases in the minimum wage.

Voluntary Employer Schemes

- Most companies supplement mandatory benefits through national industry funds or their own plan, usually a defined benefit plan.
 - Plans are usually contributory.
- A customary DB plan in general provides 70% of final salary after 40 years on the pension age 65, fully integrated with mandatory benefits.
 - It's allowed within the tax-regulation to build up a pension of 70% of final salary after 35 years on a pension age of minimal 60. As a consequence of this one can build up a pension of more than 70%, with a maximum of 100%, on a pension age after 60 but before 70.
- Cost-of-living increases for employees currently retiring from the company must also be applied to participants already receiving pensions and to early leavers who have not yet begun to receive pension payments.



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- Pensions must be funded through an industry wide fund, a company pension fund or an insurance contract.

Trends in Voluntary Employer Schemes

- The last years there was a tendency to DB plans based on so called indexed average-wage plans. In these plans the past service years pension rights will be indexed by price- index or general wage-index in the industry.
- DC plans are gaining in popularity due to flexibility and because they give employers greater control over pension costs.
- There is a growing trend toward non-contributory plans. In some sectors this is accompanied by a reduction in benefits (in some not).
- VUT-schemes, which are early-retirement-schemes on a pay-as-you-go basis, are being changed into true early pension schemes with in general an early pension age of 62.

II. Legislative Outlook

Effect of Recent Legislation [JANUARY 2001]

- New rules have been published regarding the demarcation between pension funds and insurers. Consideration of these rules had been seen as an attack on pension funds, but it appears that the pension funds do not have much to fear from parliament.
- The question of demarcation between pension funds and insurance companies has been settled, which will have significant impact in determining which types of pension products may be administered by pension funds and which types are not permitted. This is especially important for the possibility for employee's to contribute for an additional pension in the case of a pension-gap.

Pending Legislation [APRIL 2001]

- The Dutch parliament has decided on an important change in pension legislation. As of January 2002, in every pension system that includes a survivors pension, exchange of survivors pension for old age pension has been made possible. This also applies to employees who don't have a partner.
- The Pension- and Savings fund Act is due to be wholly revised.

III. Supervisory Requirements

The supervisory board requires the following financial statements of a pension fund:

- A so called ABTN (Actuariële en Bedrijfstechnische Nota). This is an actuarial and business technical report in which the following items have to be worked out:
 - a summary of the pension scheme
 - the actuarial risks
 - the financial design
 - the means of adjusting
 - the investment policy and the execution of this policy



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- the main lines of the internal governing system

An important condition is that the past years pension rights must be fully funded.

- As part of the so called actuarial principles has to include in his actuarial report a passage on the adequacy of the provision pensions obligations. Besides he has to indicate the ratio between the actual value of the investments and the value of the pension obligations.
The pension obligations regard the past service years pension rights. The interest rate for the valuation of the pension obligations is 4% minus a correction in connection with the measure of (conditional) indexing.

The ratio must be in principal at least 1.

IV. Retirement Consulting Market

- The consulting market is growing rapidly.
- The major consultancy firms are Mercer, AON, Towers Perrin, Watson Wyatt Brans&Co and Hewitt.
- There are a couple of accounting firms with their own actuarial department.
- Insurance company activities do not have a direct influence on the consulting market, but their activities aimed at diminishing the scope of pension funds might in the long run be disadvantageous to it.

V. Asset Management

- Market potential is large. Ultimo 1999 total assets amounts € 710 billion; of which:
 - . 21% ABP (pension fund for public workers)
 - . 16% insured pension schemes
 - . 43% pension fund for branches of industry
 - . 18% company pension funds
 - . 2% pension funds for professionals
- Expect pension assets to be € 990 billion by the end of 2004.
- Market is highly concentrated and competitive. Foreign management represents 18% of total pension assets. Foreign managers have been successful in the DB market, controlling 45%. State Street and Barclays, using indexing, are the two leading foreign firms

VI. Conclusion

The Dutch pension market is a very attractive market with a high potential growth. Not at the very least by the wage increases, partly based on the inflatory situation, we expect for the coming years.



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ANW (Survivor's Insurance Act) – Social security law generally providing survivors insurance.

AOW (General Old Age Pensions Act) – Social security law that provides benefits for everyone reaching age 65.

AWBZ (General Special Sickness Costs Act) – Law that insures every Netherlands resident against special sickness costs.

Defined contribution plan (DC) – A defined contribution pension plan is generally one in which each employee's pension is based solely on the amount contributed for the employee, and earnings on that amount. The exact definition of defined contribution plan varies from country to country. In the Netherlands, "beschikbare premiereregeling" covers a wide range of schemes. In some of these the premium being paid is directly used to buy pensions, in others a capital is formed, possibly invested in a way chosen by the member of the scheme, with which pensions are bought at pensionable age.

FVP – A fund that helps to finance the pension accrual for those people who have become unemployed involuntarily.

Psw – The Pension-and-savings-fund Act that defines the rules for pension fund management.

PVK (Pension and Insurance Chamber) – The "Pensioen- & Verzekeringskamer" is the supervisor for pension funds and insurance companies.

Social Insurance Bank (Sociale Verzekeringsbank) – Administrative agency for AOW (old age pensions) and ANW (survivors benefits).

Social Management Organizations – Administrative agency for WAZ (disability benefits).

VUT – Employer provided early retirement schemes, separate from the employer pension plan.

WAZ (Invalidity Benefits Act) – Disability benefits law applying to self-employed person, partners and spouses who work in family businesses, professional practitioners and directors/majority shareholders.



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Wet Bpf – A law that permits the Minister of Social Affairs to declare the membership in an industry wide pension fund compulsory for a certain branch of industry (note there is no general obligation for an employer to have a pension scheme).

Witteveen Committee – Report that is the basis for pension reforms enacted in 1999 with the aim of removing fiscal obstacles surrounding flexible pensions.

Ziekenfondsen – Compulsory health insurance funds that administer AWBZ (general sickness cost insurance).

Ziekttekostenverzekeraars – Private health insurers that administer AWBS (general sickness cost insurance)