

Abstract 00/PK

Pension Survey of the Netherlands

SEER

**Pension Survey
of the Netherlands**
Situation in 1999 and
comparison to situation of 1987

This is an abstract of the SER-advisory report:

Pensioenkaart Nederland

2000, 244 pp., ISBN 90-6587-744-4, f 25,00

Translated by: Balance, Maastricht/Amsterdam

Order no. 00/PK

ISBN 90-6587-754-1 / CIP

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Preface

Under the authority of the Dutch Social and Economic Council ("SER", Sociaal-Economische Raad), Research voor Beleid consultants have conducted a survey of the quality of supplementary pension schemes in the Netherlands entitled "Pension Survey of the Netherlands". The survey also compares the situation today to the state of affairs in the area of pensions in 1987. This summary reviews the most important findings of the survey.

The survey was sponsored by the Continued Pension Insurance Financing Foundation (stichting Financiering Voortzetting Pensioenverzekering).

1. Pension in the Netherlands

Within the Dutch pension system, in addition to the statutory right to a basic state pension under the Dutch General Old Age Pensions Act (“AOW”, Algemene ouderdomswet), supplementary pension schemes take up an important place. Supplementary pensions are based on commitments made by employers to their employees within the framework of employment contracts. Hence, supplementary pensions form an integral part of terms and conditions of employment. Most of these schemes apply to groups of employees and are, therefore, collective in nature.

The Dutch pension system is basically made up of three pillars: state benefits (under the AOW), supplementary group pension schemes (the subject of this survey), and private pension plans. The legal rules governing supplementary pensions are set forth in the Dutch Pension and Savings Funds Act (“PSW”, Pensioen- en spaarfondsenwet).

State pension

The Dutch General Old Age Pensions Act (“AOW”, Algemene Ouderdomswet), which came into force in 1957, provides for a basic state pension. All persons insured under the AOW are entitled to an old-age pension upon reaching the age of 65. Every resident of the Netherlands between the ages of 15 and 65 is insured. Insurance under the AOW is compulsory. The amount of the state pension is linked to the net minimum wage. The AOW “individualised” in 1985, when married persons or unmarried cohabitants became individually entitled to a state pension of 50% of the net minimum wage.

Supplementary pension schemes

Supplementary pension schemes provided for within employer/employee relationships form the second pillar. These pensions supplement the state pension. As a rule, a supplementary pension is structured so that the final payout, including the state pension, will amount to at least 70% of the (final) salary based on a maximum period of membership. In calculating the ultimate pension, the state pension is taken into account (as a deduction). This deduction is termed the “franchise”. The amount of this

franchise has traditionally been linked to the amount of the state pension. No supplementary pension is accrued for this part of the income.

The heart of the PSW may be found in Article 2: the guarantee rule. Employers making pension commitments to their employees must choose one of a number of options to fulfil these commitments (see the box).

Options, one of which employers must choose to satisfy the guarantee rule of Article 2 of the PSW

Industry pension funds: Industry pension funds are usually established on the initiative of employers' associations and trades unions that are active in one or more trades or branches of industry. The Minister of Social Affairs and Employment may determine that membership of a specific industry pension fund is compulsory.

Company pension funds: Company pension funds are established for one or more companies. As a result of mergers and acquisitions, one and the same company pension fund may have more than one member company.

Directly insured schemes: It is possible for employers to conclude a contract of insurance with an insurer licensed under the Dutch Insurance Industry Supervision Act (Wet Toezicht Verzekeringsbedrijf). Such schemes are usually simply termed direct schemes, because they are taken out directly by employers to cover their pension obligations.

Insurance taken out by employees: In this option, employers enable employees, in whole or in part, to conclude a contract of insurance. (This option has not been investigated and will not be discussed in this report.)

Occupational pension funds: Occupational pension funds have been established for independent professionals, but some occupational pension funds also allow employees to join.

The "Pensioenmonitor" (pension monitor) of the Verzekeringkamer, the supervisory body for insurance companies in the Netherlands¹, reveals that 89% of pension funds in the Netherlands are company pension funds. Compared to industry pension funds, company pension funds usually have

¹ "Pensioenmonitor", non-financial data on group pension schemes. Situation as at 1 January 1999, "vk studies" 19, Verzekeringkamer, Apeldoorn, the Netherlands, 2000.

fewer members. The latest Verzekeringskamer publication reveals that 16% of pension fund members have joined company pension funds. Compulsory industry pension funds make up approximately 7% of all pension funds in the Netherlands, but approximately 77% of all active members are members of these funds (see Table 1).

Table 1 – Pension funds divided into different categories, in %

	Funds	Active members
Company pension funds	89.4	15.9
Compulsory industry pension funds	6.9	77.3
Non-compulsory industry pension funds	1.8	5.9
Occupational pension funds	1.2	0.8
Company savings funds	0.6	0.0
Pension funds provided for by law	0.1	0.1
Total	100.0	100.0
Total number (in absolute terms)	947	4,842,320

Source: “Pensioenmonitor” of the Verzekeringskamer, situation as at 1 January 1999.

The “Pensioenmonitor” also reveals that approximately 15% of all pension scheme members in the Netherlands have directly insured schemes. They represent approximately 861,000 active members, although in 1995 their number was still as low as 525,000.

The third pillar

The third pillar of the Dutch old-age pension system comprises provisions made by employees without employer involvement. Employees can make their own provisions in the form of, for instance, annuities if they foresee that they will not achieve a final payout of 70% of their final salary due to job changes or for other reasons. Self-employed persons cannot accrue supplementary pensions and have to depend on provisions from this third pillar (unless they come under a compulsory industry or occupational pension fund). Private individuals who wish to retire early or to enjoy a higher pension can also arrange this by means of provisions from the third pillar. This report pertains to employees in the Netherlands who have supplementary group pension schemes.

2. Objective and structure of the survey

The objective of this survey is to gain an understanding of the current status of supplementary pension schemes for employees in the private and public sectors. In addition, an overview is presented of the relevant developments of the past 10 years. This should make it possible to assess the quality of various types of pension schemes. This quality is determined not only by the pension results to be achieved as a maximum, but also by the contents of the schemes. On the basis of the findings, the relevant parties can identify areas for improvement. The objective stated above has been divided into a number of core research questions (see the box).

Core research questions

- How many employees have what types of old-age pension schemes in the Netherlands? What are the employees' and companies' characteristic features for each type of scheme?
- What is the final outcome of their old-age pension if membership is continued for the maximum number of years of service?
- To what extent do supplementary pension schemes provide for survivors' pensions and what is their final outcome? Can members choose to convert survivors' pensions into old-age pensions?
- To what extent are rights to pension benefits revised under the various types of pension schemes? This involves the indexation of accrued rights of active members, of paid-up rights of former members (referred to as "early leavers") and of the pensions paid to retired members.
- What pension rights apply when employees enter an employer's service at a later age? What rights do members have who are (fully) disabled or have become unemployed? Can fully disabled members continue accruing a pension on a non-contributory basis in whole or in part? Are unemployed members eligible for pension accrual continued on a temporary basis?
- How are pension schemes funded?
- To what extent do schemes contain provisions reflecting recent developments in the area of pensions? These are:
 - a. options to individualise pension schemes and make them flexible;
 - b. adjustments (in particular reductions) of the applicable franchise;
 - c. options in the area of pre-pension schemes;
 - d. options to continue accruing a pension during periods of leave (parental leave or carer's leave).

- What differences become apparent in respect of these issues between groups of employees and groups of companies?
 - What developments have there been in respect of these aspects over the past 10 years?
-

A questionnaire completed by employers in the Netherlands has formed the basis for the survey. Through these employers, information has been obtained about their employees. The collected data were then linked to information about pension schemes and salaries. Subsequently, the research data were weighed statistically, so that they are representative of the total number of employees on supplementary pension schemes in the Netherlands. Appendix 1 contains a list of the most-used definitions and describes the research structure.

3. Types of supplementary pension schemes

Moderate final salary schemes form the basic scheme for 51% of all members. A moderate final salary scheme is a final salary scheme which does not take salary increases (fully) into account in acquiring a pension. It could also be a final salary scheme which similarly restricts the pension base. This type of pension scheme is slightly more predominant among women, members earning more than NLG 35,000 per year, public servants and members working in the non-profit sector, members working for companies or institutions employing more than 100 employees, as well as industry pension fund members.

Twenty-five per cent of all members have average salary schemes. Each year, a percentage of the pension base for that year is accrued in pension. The total pension is the sum of all pensions accrued. A characteristic difference between average and final salary schemes is that salary increases do not have retro-active effect in average salary schemes, whereas they do in final salary schemes, which means they are included for pension accrual. Increasing the pension for the preceding years is referred to as "past service". Average salary schemes were found relatively often among members below the age of 25, members earning less than NLG 45,000, members who have been employed by their current company for a relatively short time, members working in the services sector, members working in companies employing fewer than 25 employees, members working for relatively young companies, as well as industry pension fund members.

Genuine final salary schemes were found among 12% of all members. Under a genuine final salary scheme, the pension is fixed as a percentage of the last pension base, multiplied by the total number of years of membership of the scheme. Only genuine final salary schemes are truly final salary schemes. Other types of final salary schemes are moderate final salary schemes or hybrid schemes. Genuine final salary schemes are slightly more predominant among members earning more than NLG 68,000, members working in the services sector, members working in companies employing more than 100 employees, as well as directly insured or company pension fund members.

Ten per cent of all members have hybrid schemes (pension schemes combining two or more forms of the other types). Hybrid schemes are slightly more predominant among men, full-timers, members earning more than NLG 68,000, members who have been employed by their current employer for a relatively long time, members in the manufacturing industry and agricultural sector, members working in companies employing more than 100 employees, members working in well-established companies, as well as company pension fund members.

Finally, defined-contribution schemes and flat-amount schemes are relatively uncommon (both types were found among 1% of all members). Under defined-contribution schemes, a specific contribution, usually directly related to the member's salary, is paid annually. However, the pension is not contingent upon the salary, but exclusively upon the amount – whether or not linked to earned income – made available annually. Under flat-amount schemes, the pension is a flat amount for each year of membership, without there being any direct relation to the member's salary. The ultimate pension is not derived from the member's earned income, but is contingent upon the number of his or her years of membership.

4. Level of availability

The Pension Survey is based on a calculated number of supplementary pension scheme members of over five million (of a working population in the Netherlands of 6.9 million)². Compared to a few years ago, the scope of the "blank spot" has remained unchanged. Nine per cent of all employees in the Netherlands do not have supplementary group pension schemes³.

Approximately 50% of all members join schemes that set an admission age of, usually, 25. No admission age applies to 43% of members. Directly insured members are the most likely to be confronted with admission ages (for 76% of insured scheme members the admission age is 25).

Approximately 110,000 of the said total of five million members have joined schemes with a waiting period. They represent 2% of the total number of members. For 100,000, the waiting period is taken into account for purposes of pension accrual.

In general, the pensionable age applied by pension funds and direct schemes is the same as the statutory pensionable age of 65, when state pension payments begin. However, pension rules may set a different age. For the large majority of members (90%), the pensionable age is set at 65.

Finally, information has been gathered for purposes of this survey about a few forms of exclusion of employees from group pension schemes taken out by the companies or institutions where they are employed. Employees may be excluded from pension scheme membership, for example because they are temporary employees or on-call workers, or because they work for a very low part-time percentage only. The survey reveals that 90% of members have joined pension schemes that do not contain any grounds for exclusion.

2 The difference between over five million members and a working population of 6.9 million people can be explained by the fact that some groups of workers do not have group pension schemes. In addition to the "blank spot" of 9%, there are over 800,000 workers under the age of 25, an unknown number of whom are excluded from membership, as well as over 700,000 self-employed people, who have strictly individual pension schemes.

3 "Witte vlekken op pensioengebied" (Blank spots in the area of pensions). Situation in 1996 and comparison to that of 1985. Social and Economic Council and Ministry of Social Affairs and Employment, The Hague, the Netherlands, 1997.

5. Characteristic features of members

The Table below shows the most important background features of members, according to type of scheme.

Table 2 – Basic scheme members. For each feature, % of members with that feature.

	Sex		Type of employment		Age		Annual salary			Total
	m	f	full-time	part-time	< 40	≥40	≤35,000	35,001-68,000	> 68,001	
Final salary	12	11	12	10	12	12	5	11	18	12
Moderate final salary	48	55	49	56	47	56	40	55	53	51
Average salary	25	2	24	28	29	21	53	24	12	25
Defined contribution	1	1	1	1	1	1	1	1	1	1
Flat amounts	1	*	1	*	1	1	1	1	1	1
Hybrid schemes	12	6	13	5	11	10	2	9	16	10
Total	100	100	100	100	100	100	100	100	100	100
% of all members	64	36	67	33	54	46	9	68	23	100
Unweighted N	9,322	3,731	8,944	3,547	6,466	6,367	720	8,641	2,971	13,186
Calculated N (x 1,000)	3,225	1,783	3,235	1,624	2,639	2,275	416	3,152	1,090	5,056

Type of scheme	Trade or branch of industry			Insured with/under			Number of employees		Total
	Mnft. & agr.	Services	Gvt. & non-profit	lpf	Cpf	Insured scheme	≤ 100	> 100	
Final salary	10	17	8	1	29	31	5	18	12
Moderate final salary	50	22	87	62	34	32	43	60	51
Average salary	21	45	5	34	7	24	48	6	25
Defined contribution	*	2	*	–	*	8	2	*	1
Flat amounts	1	2	*	2	–	–	1	1	1
Hybrid schemes	18	12	*	2	30	6	2	15	10
Total	100	100	100	100	100	100	100	100	100
% of all members	29	39	32	62	28	10	42	58	100
Unweighted N	6,056	3,798	3,332	7,699	4,164	1,323	9,854	3,332	13,186
Calculated N (x 1,000)	1,445	1,988	1,623	3,145	1,423	489	2,101	2,955	5,056,373

6. Old-age pension results

One of the most important quality aspects of pension schemes is the final outcome of the old-age pension. The pension results described in this report explicitly do not represent forecasts of the actual results which pension scheme members will achieve upon reaching the age of 65, as actual pensions may well be lower than the pension results presented in this report due to individual job and career patterns. For example, many members will not be able to join for the maximum period because of part-time employment, changing jobs or interruptions in their careers.

The results presented in this report are intended to enable comparison of the different pension schemes.

In assessing results, we should bear in mind that they were calculated on the basis of the state pension as at 1 January 1999. Accordingly, any changes or adjustments to the state pension since have not been taken into account. Due to the procedure used to report pension results (as a percentage of final salary, including the state pension), the impact of the state pension on total pension results will be greater for lower salaries and a lower franchise than for higher salaries and a higher franchise. This may mean that members who earn relatively high salaries and have joined schemes to which a low franchise applies will achieve relatively lower pension results than members on low salaries (and that members earning low salaries will hence achieve relatively high pension results). Generally speaking, all members of schemes with a low franchise obviously achieve relatively high pension results, but this effect will be greater for members earning low salaries. Therefore, the relative level of the pension result as a percentage of final salary is not the only way to assess pension scheme quality. This is why the survey also looks at the contents of the pension schemes.

The pension results are summarised in Table 3 and expressed as percentages of earned income just prior to retirement for three situations: payment of an (individualised) state pension to one married person (1 January 1999: NLG 14,743), payment of a state pension to single persons (1 January 1999: NLG 21,331) and payment of a state pension to a married couple (1 January 1999: NLG 29,487).

Table 3 – Old-age pension results for three state-pension levels (based on maximum membership and ordinary salary developments on the basis of current data) expressed as percentages of members for whom results have been calculated

Gross pension results	Gross pension results		
	Including state pension for one married person	Including state pension for single persons	Including state pension for a married couple
< 50%	6	–	–
50 to 60%	36	2	*
60 to 70%	52	29	1
70 to 80%	7	54	19
80 to 90%	–	15	46
90 to 100%	–	*	25
≥ 100%	–	–	9
Total	100	100	100
Unweighted N	9,711	9,711	9,711
Calculated N ⁴	3,465,813	3,465,813	3,465,813

* Percentage is too small.

Pension results have been calculated for 3.4 million members, approximately two-thirds of whom are male and one-third female.

Members of (moderate) final salary schemes on average achieve higher pension results than members of average salary schemes.

Company pension fund members on average achieve higher pension results than insured scheme members or industry pension fund members. One important explanation for this is that company pension fund members usually have final rather than average salary schemes.

In general, the pension results to be achieved (i.e. the pension result expressed as a percentage of earned income just prior to retirement) by women and part-timers are higher than those to be achieved by men and full-timers. This is largely because the salaries earned by women and part-timers are relatively lower than those earned by men and full-timers,

⁴ The number of final or average salary scheme members calculated on the grounds of the survey who are able to achieve specific gross pension results.

resulting in higher pension results. Other than that, women and part-timers tend to join pension schemes with a lower franchise on average than the pension schemes commonly joined by men and full-timers. Hence, the present survey offers few grounds for concluding that women have better schemes than men because women achieve relatively higher pension results than men. However, the findings do indicate that the pension schemes of many women and part-timers are not at all inferior to the schemes of many men and full-timers where pension results are concerned.

Young persons (under the age of 25) on average achieve relatively higher pension results than older people. This is because young persons have lower incomes and a lower franchise (the same effect was found for women and part-timers).

It is also noteworthy that members working in smaller companies or institutions achieve lower results than members working in larger companies or institutions.

Public servants and members working in the non-profit sector on average achieve higher pension results. These members also tend to have (moderate) final salary schemes. Members in the manufacturing industry and the agricultural and services sectors on average achieve lower pension results, which can be explained by the fact that most average salary schemes are found in these sectors.

7. Survivors' pension results

In addition to an old-age pension, pension schemes also commonly provide for a survivors' pension in the event of the member's death. This survey, like the previous Pension Survey, has looked at widows' and widowers' pensions (currently termed survivors' pensions). It has not considered orphans' pensions. All participants in the survey have joined basic schemes, which provide for a survivors' pension, either on a voluntary or compulsory basis, in addition to an old-age pension. Schemes in which the accrual of a survivors' pension is voluntary have relatively more female members.

Pension results

For purposes of this survey, survivors' pension results ("SP results") are defined as the survivors' pension, consisting of benefits paid under the Dutch General Survivors Act ("ANW", Algemene nabestaandenwet) not exceeding NLG 23,385, if any, as well as a survivors' pension on the grounds of supplementary pension payments, expressed as a percentage of the member's earned income. The relevant calculations are based on the member dying at the age of 45. Since the introduction of the ANW, some survivors have been excluded from entitlement to a state survivors' pension (formerly available under the Dutch General Widows and Orphans Act ("AWW", Algemene weduwen- en wezenwet). Therefore, the pension results for survivors have been calculated with and without consideration of ANW benefits. SP results have been computed for all members (both men and women) in survivors' pension schemes that form part of final or average salary schemes pursuant to which survivors' pensions are linked to the old-age pension, the salary or the pension base.

The following Table shows the pension results to be achieved including and excluding ANW benefits.

Table 4 – Gross survivors' pension of male and female members, including and excluding ANW benefits, in %

Gross survivors' pension results	Including ANW benefits			Excluding ANW benefits		
	Male	Female	Total	Male	Female	Total
0 to 10%	–	–	–	5	5	5
10 to 20%	–	–	–	23	32	25
20 to 30%	–	–	–	41	38	40
30 to 40%	–	–	–	28	18	26
40 to 50%	*	*	*	3	1	2
50 to 60%	21	13	19	1	6	2
60 to 70%	60	59	60	–	–	–
70 to 80%	17	19	17	–	–	–
80 to 90%	3	4	3	–	–	–
90% and up	*	5	1	–	–	–
Total	100	100	100	100	100	100
Row total	77	23	100	77	23	100
Unweighted N	6,567	1,861	8,428	6,567	1,861	8,428
Calculated N (x 1,000)	1,964	594	2,558	1,964	594	2,558

* Percentage is too small.

The gross survivors' pension results, expressed as a percentage of the member's earned income at the age of 45, amount to 60% of this income or more for 81% of members if full entitlement to ANW benefits for the survivor is taken as a basis. If the survivors are not entitled to benefits under the ANW, 70% of members will achieve results of no more than 30% of their income. Accordingly, ANW benefits have a major impact on survivors' pensions.

As to the amount of survivors' pensions, differences between male and female members are minor.

Employees who are not entitled to ANW benefits may take out additional insurance to cover what is termed the ANW hiatus. According to the Verzekeringkamer, 92% of active members of the 100 largest pension funds have taken out such cover⁵.

5 Letter from the Verzekeringkamer to the State Secretary of Social Affairs and Employment dated 18 October 1999 regarding data from the "Pensioenmonitor" on the ANW hiatus.

Over a third of members have joined schemes that restrict the survivors' pension in the event of a large age difference, usually 10 years or more, between the member and his or her partner.

8. Adjustment of accrued rights

Accrued rights are the pension rights which members have accrued in the course of time. These rights are decisive for the ultimate pension results. To achieve pension results equal to 70% of a member's final salary (usually the target percentage in genuine final salary schemes), the rights need to be adjusted for inflation and salary increases on a regular basis. However, this adjustment is not the same for each type of scheme.

The pension rights of active members of average salary and flat-amount schemes are not automatically adjusted to reflect salary increases. However, the idea underlying average salary schemes is that, ultimately, the pension will amount to 70% of average earnings. This survey reveals that the accrued rights of active members of average salary schemes are increased under the pension rules mainly on the grounds of a resolution adopted by the employer or the administrative board of the pension fund (45%) or on the grounds of wage developments (41%). For 6%, the pension rules do not provide for such increases. The remaining 8% have a different basis for increasing accrued rights.

In general, pension funds and insurers have actually increased accrued rights in the past three years. In addition, a small percentage of members have been awarded a supplementary increase by their employers in the past three years in excess of that provided for in the applicable pension rules, in some cases on top of the increase laid down in the pension schemes.

Regardless of the type of pension scheme, the pension rules provide for an adjustment to accrued rights for almost all pensioners and early leavers. This increase is mainly effected on the basis of an adjustment to reflect wage developments (56%). For 23% of members, the resolution of the employer or the pension fund's administrative board constitutes the basis for an increase in accrued rights. The remaining 21% of members have a different basis for increasing their accrued rights. Here too, pension funds and insurers have in general actually increased accrued rights in the past three years and a small percentage of members have been awarded a supplementary increase by their employers in excess of that provided for in the applicable pension rules.

Dutch statute law prescribes that increases under the pension rules in payable old-age and survivors' pensions must be the same. This survey reveals that such increases in payable survivors' and disability pensions are basically provided for in a similar manner. The actual adjustment of disability pensions by pension funds and insurers or the supplementary increase by employers in excess of that provided for in the applicable pension rules is also basically the same as for payable old-age pensions.

9. Rights in special circumstances

Apart from adjustments to accrued rights, other aspects play a role where pension scheme quality is concerned. They are:

- the extent to which pension rights are affected by the fact that members join schemes later in life;
- rights in the event of full disability; and
- rights in the event of unemployment.

By far most members have pension schemes that do not contain any restrictive provisions concerning the survivors' pension of members who joined at a later age (93%). Restrictive provisions do apply to the remaining 7%, usually starting from an admission age of 50 or above.

The years of life system, pursuant to which pension right increases occasioned by salary increases for members who joined at a later age are also calculated for years spent with another employer, has become very unusual (3% of members). A years of service system applies to 77% of members, with the remaining 20% being covered by yet another system, moderate final salary schemes predominantly almost to the exclusion of all other systems.

In the event that an employee becomes disabled, his or her old-age pension accrual (99%) and the risk cover for the survivors' pension (96%) are virtually always continued. For the most part, continuation is compulsory. In addition, almost two-thirds of members would be exempted from paying premiums during full disability.

Slightly more than two-thirds of employees have joined schemes that provide for compulsory risk cover for both survivors' and disability pensions in the event of unemployment. For the rest of the members, such risk cover is provided for through the Continued Pension Insurance Financing Foundation (stichting Financiering Voortzetting Pensioenverzekering, "FVP"). The various types of pension scheme show clear differences. Especially members of final salary and defined-contribution schemes have compulsory risk cover for survivors' and disability pensions in fewer cases than on average. The majority of final

salary scheme members do not have risk cover. Defined-contribution scheme members often do not have risk cover or have voluntary risk cover.

10. Current issues

The members' options in the areas of individualisation, flexibilisation and pension accrual during unpaid leave are discussed below. Franchise levels as well as pension scheme funding are also addressed.

Individualisation and flexibilisation

Employees increasingly want a pension that is tailored to their needs. This survey reveals that many members have (or will soon have) the option of a flexible pensionable age. In anticipation of Article 2b of the PSW taking effect, approximately a third of members have the option of converting their survivors' pension into an old-age pension. This option is expected to be available for another third of members in the near future. Conversion of temporary old-age pensions into survivors' pensions and vice versa is quite rare (10%). It currently does not seem as if pension funds and insurers intend to introduce these options on a larger scale.

The possibility of purchasing pension and years of service is already available for approximately a quarter of members. This option will soon become available for another quarter.

Amount of franchise

Since the state pension is based on the first portion of the salary, a franchise is often deducted from the pensionable salary. The franchise has traditionally been linked to the amount of the state pension (usually 10/7 of the state pension for single persons, approx. NLG 30,000).

The level of the franchise is decisive for the eventual level of the old-age pension. Members earning a low income⁶ as compared to the franchise accrue little or no supplementary pension. Accordingly, this survey also looks at the amount of franchise applied. Table 5 shows the percentage of members to whom a specific franchise applies.

⁶ In other words, an income which is barely higher than the franchise applicable to these members.

Table 5 – Franchise levels as at 1 January 1999 (in %)

Franchise level as at 1 January 1999	Total
No franchise	13
Franchise lower than NLG 23,000	11
NLG 23,001 to NLG 26,000	20
NLG 26,001 to NLG 29,000	8
NLG 29,001 to NLG 32,000	27
NLG 32,001 to NLG 35,000	11
NLG 35,001 to NLG 38,000	10
NLG 38,001 and above	1
Total	100
Row total	100
Unweighted N	12,871
Calculated N	4,875,186

A franchise of between NLG 29,001 and NLG 32,000 (in other words, approximately 10/7 x the after-Oort state pension for single persons or the state pension for married persons) applies to over a quarter of members (27%). A franchise of above NLG 32,001 applies to some 22% of members. A franchise of between NLG 23,001 and NLG 29,000 applies to 28%. Finally, a franchise of less than NLG 23,000 applies to 11%, with no franchise applying at all to 13% of members⁷.

Women, part-timers and members under the age of 25 have been relatively more likely to join pension schemes with a low franchise (which explains the relatively high pension results for these groups).

In the periods 1997 - 1998 and 1998 - 1999, the franchise of most members stayed the same or increased. The past two years have not seen any changes in non-franchise pension schemes. The franchise was reduced for only 1% of members during the period 1997 - 1998. In the period 1998 - 1999, the franchise was reduced for 2% of members.

⁷ Members to whom no franchise applies are mainly active in the retail sector (hotels & restaurants, bakers, window-cleaners, pharmacists, etc.).

The franchise is not expected to undergo any structural change in the future on the grounds of policy considerations for three-quarters of members. If pension funds or insurers expect a change at all, it would be a decrease rather than an increase. There is no connection between the changes in franchise in the period from 1997 to 1999 and the expected structural changes in franchise for policy reasons in the future.

Pension accrual during leave

To facilitate combining work and duties of care, and to allow employees "time" to attend additional training, various forms of leave have been introduced during the past decade. However, these forms of leave are not always compatible yet with the system underlying disability and survivors' pensions. This survey has investigated the extent to which members have cover for the risks of disability and death under the pension rules during unpaid leave (parental leave, carer's leave and sabbatical leave have been considered), as well as the extent to which old-age pension accrual may be continued. It should be borne in mind that collective bargaining agreements may also provide for these matters.

On the basis of the survey, it can be stated that risk cover for survivors' pensions during unpaid parental leave has been taken care of for the majority of members. Compulsory risk cover for survivors' pensions has been taken out for a little less than half of the members (48%) and voluntary risk cover for 19%. In other words, there is no risk cover for survivors' pensions during unpaid parental leave for a third of members (33%). Risk cover for disability pensions during unpaid parental leave is compulsory for 42% of members and voluntary for 7%. Fewer arrangements are in place for carer's leave and for sabbatical leave than for parental leave.

Old-age pension accrual continuation has been better arranged, but must be funded by the member in question more often. Fewer arrangements are in place for carer's leave and in particular for sabbatical leave than for parental leave. Despite this fact, 25% of members have compulsory risk cover for survivors' and disability pensions during carer's leave.

Pension scheme funding

The supplementary pensions considered in this survey are funded on the basis of the full-funding method. This method in itself distinguishes between several funding methods, depending on how the total contribution to be paid to the fund or insurer is fixed. Flat-rate premiums (43% of members) and variable premiums (36%) are the most common types of contributory scheme. In variable premium systems, forecasts (such as about wage movements, changes in age categories within the member base and investment performance developments) are used to help define the contribution. The (65-x) premium, which is about to be abolished, still applies to only 1% of members.

Most Government schemes apply variable premiums⁸, while flat-rate premiums are mostly applied in the manufacturing industry and the agricultural and services sectors.

⁸ In the public service sector, variable premiums tend to apply to all members, but since the public service sector has been involved in this survey in a broader sense than merely the purely governmental institutions (ABP members), variable premiums do not apply to all members.

11. Differences between groups of employees

Officially, the application of different pension scheme provisions to different categories of members (men v. women, younger v. older people, full-time v. part-time workers) is prohibited. It is possible, however, that differences occur in practice in schemes which, for instance, have a predominantly male or female membership base. The differences between groups of employees are addressed briefly below.

Men v. women

Thirty-six per cent of members of group pension schemes are female and 64% are male. The "blank spot" is relatively larger for women than it is for men. Women basically achieve higher old-age and survivors' pension results including ANW benefits. However, male members achieve relatively higher survivors' pension results excluding ANW benefits. The franchise applicable to women, which is lower on average, in part explains their higher pension results. Women are able to continue accruing their old-age pensions during unpaid leave (the most common type of leave) slightly more often. As to risk cover for survivors' and disability pensions, however, women do not join schemes offering these options as often as men. Finally, women do not join pension schemes which apply an admission age as often as men. Men are more likely than women to join pension schemes under which the pensionable age is lower than 65.

Older v. younger members

Almost half of the members are between the ages of 25 and 39. Only a small group are younger than 25. This may be explained by the 25-year admission threshold imposed by many pension schemes.

Pension result differences between age categories are due to other factors, such as the amount of the member's final salary and the franchise applied. However, in relative terms members under the age of 25 tend to join schemes with a low franchise. Accordingly, policy-related structural decreases are expected more among older members, to whom a higher franchise usually applies. Younger members are able to continue accruing their old-age pensions during unpaid parental leave slightly more often. As to risk cover for survivors' and disability pensions during unpaid parental

leave, however, younger members do not join schemes offering these options as often as older members.

Full-time v. part-time workers

The majority of pension scheme members are employed full-time. The "blank spot" is slightly larger for part-timers than it is for full-timers. Part-timers generally achieve higher relative pension results than full-timers, because part-timers are more likely to have lower final salaries and a lower franchise. Survivors' pension results excluding ANW benefits of full-timers and part-timers are quite similar. Part-timers on average achieve higher survivors' pension results including ANW benefits than full-timers. Other than that, risk covers for survivors' and disability pensions differ in the event of unemployment. Part-timers are more often able to take out cover for the risks of disability and death during unemployment. The option to take out cover for the risks of death and disability during unpaid parental leave is more common in schemes which have a relatively large full-time membership.

12. Differences between trades and branches of industry

The trade or branch of industry, or the company, has a major impact on the contents and, hence, the quality of pension schemes. The most important differences between the various trades and branches of industry are addressed below.

Most members have joined (moderate) final salary schemes. This type of scheme is particularly common in the public service, non-profit and other government sectors. Average salary schemes are very common in the trade, hotel & restaurant and repair business sectors, in which the percentage of workers participating in (moderate) final salary schemes is rather low. Hybrid schemes are relatively common in the manufacturing industry and the financial services sector. Genuine final salary schemes are relatively common in the financial services sector.

Old-age pension results

In the case of a state pension for one married person, members working in the financial services, non-profit and other government sectors do considerably better than average. Average results are achieved by members working in the trade, hotel & restaurant, repair business and public service sectors. Members working in the agricultural, mining, construction and sundry commercial services sectors and the manufacturing industry achieve lower relative pension results than average.

In the case of a state pension for single persons, members working in the financial services, public service, non-profit and other government sectors do better than average. Members working in the trade, hotel & restaurant, repair business and sundry commercial services sectors achieve average pension results. Members working in the agricultural, mining and construction sectors and the manufacturing industry achieve lower relative pension results than average.

In the case of a state pension for married couples, members working in the financial services, non-profit and other government sectors do better than average. Members working in the agricultural and mining sectors and the manufacturing industry continue to achieve relatively poorer pension

results than average. Members working in the trade, hotel & restaurant, repair business, sundry commercial services and public service sectors achieve average pension results.

The above clearly shows the relationship between franchise and pension results. Members to whom a low franchise applies (in the financial services, non-profit and other government sectors) achieve favourable pension results in the case of a state pension for one married person, contrary to scheme members working in other trades or branches of industry. Members working in the public service sector, to whom a relatively low franchise applies as well, achieve favourable pension results in the case of a state pension for single persons, as do members working in the financial services, non-profit and other government sectors. The lowest pension results are achieved by members to whom the highest franchise applies (in the agricultural, mining, construction and sundry commercial services sectors and the manufacturing industry). The franchise level thus clearly affects pension results.

Individualisation and flexibilisation

The pension schemes in the various trades or branches of industry differ considerably in terms of their flexibility. In particular the agricultural, mining, construction and financial services sectors currently offer members greater flexibility than average. The manufacturing industry also offers a reasonable - approximately average - number of options. The sundry commercial services, public service, non-profit and other government sectors are below average where pension scheme flexibility is concerned. Members working in the trade, hotel & restaurant and repair business sectors occupy a sort of middle position.

Level of franchise

On average, the highest franchise (in excess of NLG 31,000) applies to members working in the agricultural, mining and construction sectors and the manufacturing industry. A slightly lower franchise (of between NLG 28,000 and NLG 31,000) applies to members working in the sundry commercial services and public service sectors. A relatively low franchise of around NLG 25,000 applies to members working in the financial services, non-profit and other government sectors. No franchise (in combination with average salary schemes and rather low accrual

percentages) applies to 58% of members in the trade, hotel & restaurant and repair business sectors. Accordingly, the average franchise in these sectors is low.

For sectors with a high franchise on average, the social security institutions are considering decreasing the franchise permanently for policy reasons.

13. Developments in the period 1987 - 1999

General developments

Since the publication of the previous Pension Survey in 1987, various changes have occurred in the field of pension schemes, both in the statutory rules and regulations and in the arrangements made between employers and employees. The Dutch Government is responsible for the (level of the) state pension and pursues a pension policy which, in turn, affects supplementary pensions in the Netherlands. Employers' associations and trades unions have also made new pension arrangements during the past 10 years, for instance the Labour Pensions Covenant (Convenant inzake de arbeidspensioenen) dated 9 December 1997. Social trends have also had an impact on supplementary pensions in the Netherlands. For example, more employees have started working part-time, and women have entered the labour market in large numbers in recent years. This translates into a higher number of pension scheme members from these groups.

To gain an understanding of the effects of statutory and social changes on pension results and the contents of pension schemes, the findings of this survey have been compared with the previous Pension Survey.

One important difference in the pension schemes themselves is the drop in the percentage of (moderate) final salary scheme members and the increase in the percentage of average salary and hybrid scheme members. The percentage of flat-amount scheme members has fallen rather sharply. As in 1987, defined-contribution schemes were not very common in 1999.

Pension result movements

When comparing the relative pension results of 1987 and 1999, the 1999 results are strikingly higher than those of 1987. This can be explained by:

- changes to the franchise system between 1987 and 1999;
- the adjustments to the state pension between 1987 and 1999; and
- the increased number of women and part-timers working in 1999 as compared to 1987.

The improvement in pension results can largely be ascribed to the reduction in the franchise⁹. The lower franchise applied in 1999 by pension scheme administrators reflects changes on the labour market and in society in general, with single earners becoming less and less common. The pension results show that current pension schemes are increasingly better suited to the situation of single persons. Compared to 1987, in 1999 it was possible for a larger number of single persons to achieve a pension result of 70%, based on a maximum period of membership. Although the reduction in the franchise has also led to pension result improvements for double-income households, in general this group cannot achieve a pension result of 70% of their final salary based on a maximum period of membership.

Differences in pension results which have been identified between the various trades or branches of industry only partly overlap with differences noted in the previous Pension Survey.

For various reasons, including amended rules of law, it is not an easy matter to compare survivors' pension results in 1987 and in 1999.

Admission age and pensionable age

The current survey reveals that 57% of members have joined pension schemes which apply an admission age. The previous Pension Survey did not report on any admission age. As it is clear that the number of young people in the total working population has dropped and the number of young people on pension schemes has stayed about the same, it may be concluded that pension scheme membership of people under the age of 25 has risen.

In 1987, a pensionable age of 65 applied to 95% of members. In 1999, this is still the case for the vast majority of members, but a lower pensionable age applies to 10%. Moreover, pre-pension options as well as options to set a flexible pensionable age have increased in recent years.

⁹ Regression analysis shows that in 1999 98% of the variation in pension results can be explained by the franchise and final salary. Accordingly, the pension results are almost entirely determined by the franchise level and final salary. This means that a very good forecast of relative pension results can be given on the basis of the franchise and final salary.

Adjustment of accrued rights

In the past 12 years, there have also been changes in the options available to adjust accrued rights. For instance, new legal rules have been enacted which have largely removed the difference between early leavers and pensioners in terms of the indexation of their accrued rights. A difference still exists between the fixed indexation of active members on the one hand, and of early leavers and pensioners on the other. However, in actual fact, the rights of active members, early leavers and pensioners are increased with the same frequency by pension scheme administrators. This adjustment applies to virtually all members (98%).

The fixed indexation of payable survivors' pensions has also improved. In 1987, fixed indexation of payable survivors' pensions was the rule for 86% of members, while in 1999 it applied to all members. In 1999, 95% of members saw fixed indexation of their payable disability pensions. Data on fixed indexation of payable disability pensions in 1987 are not available.

Rights in special circumstances

In 1987, 86% of members had joined schemes pursuant to which old-age pension accrual would be continued in the event of full disability. For 13%, the pension base or the fixed amount of accrual would be fixed if the member in question became disabled. In 1999, 99% of members participated in pension schemes pursuant to which old-age pension accrual would be continued in the event of full disability. However, the amount of accrual was not yet known in 1999. What is known is that 64% of members would be exempted from premium payments if they became fully disabled.

Current issues

Many pension schemes were adjusted between 1987 and 1999 to better meet the members' individual situations. For example, developments are underway in the fields of individualisation and flexibilisation, which will result in approximately two-thirds of members having the option of electing their pensionable age themselves. In 1987, this was not yet an option, or scarcely so. Other options, such as the possibility of purchasing early pension, converting survivors' pensions into old-age pensions and vice versa, and accruing pension during periods of leave, have also been introduced for about a quarter to half of members. Moreover, pension

scheme administrators expect these options to become available for more members at a later date.

Appendix 1

Definitions and terms used

Old-age pension schemes

The survey focuses on supplementary pensions in the second pillar, more specifically old-age pensions which supplement the state pension and survivors' schemes, which may or may not supplement ANW benefits. Pension schemes taken out by individual employees are not considered. Old-age pension schemes are taken out by employers and include (compulsory) membership of industry pension funds. They do not include the state pension, survivors' pension schemes, pension schemes for orphans or children who have lost one parent, early retirement (VUT) or pre-pension schemes.

Employees

Employees are defined as all those for whom employers are obliged to withhold and pay wage tax and/or social insurance contributions. Temporary employees are involved in the survey through temporary employment agencies. The groups that were excluded in the previous Pension Survey of 1987, such as Embassy staff and persons employed by private households, are also excluded from this survey.

Old-age pension results (OAP results)

Old-age pension results, "OAP results" in this report, are defined as the old-age income of employees at the age of 65, expressed as a percentage of earned income before retirement. Old-age income consists of the state pension as well as supplementary benefits on the grounds of supplementary pension schemes of which such employees were members on 28 February 1999. Income from other sources (profits, capital) is not considered.

Survivors' pension results (SP results)

For purposes of this report, survivors' pension results, or "SP results", are defined as the survivors' income, expressed as the member's earned income based on the member dying at the age of 45.

The survivors' income consists of ANW benefits, if any, and the survivors' pension under the supplementary pension scheme which the employee in question had joined. Both the rights derived from the ANW and the supplementary pension scheme pertain to the situation as at 28 February 1999. Section 2 explains how SP results have been calculated and describes the underlying assumptions.

Basic and top-hat schemes

Supplementary pension schemes may provide that the pension in question will be accrued up to a specific maximum pensionable salary or pension base. For members who exceed this maximum, a separate, supplementary pension scheme may have been taken out. The same may be the case for low-level schemes. Such additional schemes are often taken out by companies that come under an industry pension fund, to serve as a supplement to the industry pension fund scheme. These schemes are termed top-hat schemes. The scheme for which the top-hat schemes serve as a supplement is termed "basic scheme" in this report. This term is also used if only one supplementary pension scheme is in place.

Active members, early leavers and pensioners

Active scheme members are those for whom (a contribution towards the) pension premiums are paid. The survey has only gathered data on members who actually worked for an employer during the survey. Those who retired early (under VUT schemes) are also counted as active members. Disabled members may also be active scheme members. Employees who are no longer scheme members but do not yet draw a pension from the scheme have acquired paid-up rights on the grounds of their earlier membership. They are also termed "early leavers". Those drawing pensions are pensioners.

Indexation, surcharges

Pension schemes may provide that the level of pension rights, payable pensions or both will (or may) be adjusted, for instance on the grounds of the price index (index-linked), wage index (inflation-proof), a combination of both or otherwise. Employers may also resolve to pay a surcharge, without this having been provided for in the pension rules. The survey has enquired into indexation or surcharges provided for under pension rules, as well as those furnished by employers of their own accord. This pertains

to the indexation of, or surcharge on, the accrued rights of active members, the paid-up rights of early leavers and the payable pensions of pensioners and widows.

Portability of accrued pension rights

Portability of accrued pension rights allows employees joining later (on certain conditions) to have their rights accrued with another employer converted into extra years of pension and enables early leavers (on certain conditions) to take along their accrued rights to their new employer, who will grant them extra years of pension on that basis. Until 1987, an exemption from the withholding obligation had to be applied for from the Inspector of Direct Taxes and an exemption from the commutation prohibition under the PSW from the Ministry of Social Affairs and Employment for each and every transfer. In 1986, the Co-operation Services Foundation (Stichting Dienstverlening Samenwerkingsverband, "SDS") was formed, followed in 1988 by the Years of Life Pension Funds Services Foundation (Stichting Dienstverlening Levensjarenpensioenfondsen), which was dissolved with effect from 1 January 1994 because most years of life schemes were abolished in 1992, in the wake of the Nypels/Groenman Act (Wet Nypels/Groenman). Furthermore, there are ties with other pension funds. Within these "circuits", it is relatively simple to transfer the value of accrued pension rights without having to apply for an exemption from the withholding obligation. Outside these circuits, an official application for exemption still needs to be submitted.

Franchise

The franchise is defined as that portion of the member's salary which is not considered in accruing the pension. A member's total income upon retirement consists of the state pension as well as the supplementary old-age pension. In calculating the old-age pension, the pension base is taken as a basis. This pension base is equal to the member's salary less the franchise.

Pensionable salary

The pensionable salary is that portion of the member's annually earned income with the employer in question which counts in calculating that member's pension under the scheme. For example, the pensionable salary may include the holiday allowance or any 13th-month payment.

Pension base

As it is presumed that a state pension or ANW benefits provide for a pension with respect to the first portion of a member's salary, a franchise is usually deducted from the pensionable salary.

The pension base is the pensionable salary less the franchise. It is used to calculate the supplementary pension. If no franchise is applied, the pension base will equal the pensionable salary.

Pension percentage

The pension percentage is the percentage by which the pension base is accrued for each year of membership. In average salary schemes, the amount of pension accrued for the pension base applicable in the relevant year is calculated for each year of membership. The eventual supplementary pension is made up of the sum of all pension amounts accrued during the individual years of membership. Contrary to average salary schemes, all salary increases in final salary schemes have retro-active effect with respect to the pension for preceding years. The pension is calculated over the last pension base applicable prior to retirement. For example, final salary schemes based on 70% give members the right to a pension of 70% of their last pension base in the event of full membership. Such schemes are often based on 40 years of membership and an accrual percentage of 1.75%.

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Published by: Social and Economic Council
Bezuidenhoutseweg 60
P.O. Box 90405
2509 LK The Hague

ISBN 90-6587-754-1