

## **2005/02 E: Advisory report on the medium- and long-term senior citizens' policy in the Netherlands**

### **Summary**

#### *Request for advice*

On 21 January 2005, the Social and Economic Council issued an advisory report on the medium- and long-term senior citizens' policy in the Netherlands. The report was drawn up for the House of Representatives' (*Tweede Kamer*) Committee on Senior Citizens' Policy, which aims to formulate 'a comprehensive vision for the senior citizens' policy to be implemented in the medium term (within up to ten years) and long term (within up to 30 years)'.

The House of Representatives has requested the Council's advice on future policy for senior citizens with regard to work and income. In particular, it has asked for the Council's view on future developments in four areas of policy:

- The participation of senior citizens in the labour process and in voluntary work;
- The income level of senior citizens;
- The sustainability of pension provisions;
- The extent to which current care and welfare provisions can be maintained.

The House of Representatives has asked the Council to indicate which particular policy instruments can be used by the government and social partners to take account of these developments. The House of Representatives has examined earlier SER advisory reports on this topic, and has asked the Council to assess whether the policy recommendations in those reports still apply. Finally, the House of Representatives has asked the Council to take account of the Cabinet memorandum entitled 'Vision on the Greying Population and the Total Senior Citizens' Policy' that is currently being prepared.

#### *Approach*

Using the latest data and forecasts, the Council has made an analysis of the expected developments relevant to the future socio-economic status of senior citizens, future problem areas and policy challenges. On the basis of this analysis, the Council has updated and added to its recommendations in earlier advisory reports for the four policy areas listed above.

The Council does not go into, or only superficially goes into, some topics relevant to senior citizens' policy, i.e., the sustainability of the Unemployment Insurance Act, the impediments (or potential impediments) to continuing work after the current official retirement age, and several issues that will be submitted to the Council as a result of the Social Agreement (*Social Akkoord*) of 5 November 2004 between the Cabinet and the central employers' and employees' organisations. The Council will issue advice on these issues separately in the near future, upon request from the Cabinet.

#### *The Council's opinion*

The Council believes that a senior citizens' policy that targets senior citizens exclusively is 'too little, too late'. The position of older workers in the labour market and the income of retired senior citizens are in fact largely determined by the choices

that these people have made earlier in life and during the course of their career. This long-term or lifelong perspective suggests that a future-oriented senior citizens' policy should not exclusively target senior citizens as a separate group, but also the younger generation of today – and therefore, in fact, all generations.

The number of people aged 65 and above in the Netherlands will rise sharply in the coming decades, from 2.3 million in 2005 to 4 million in 2040. As a percentage of those aged 20-64 (the old-age dependency ratio), this age group will rise from 23% to over 40% in 2040.<sup>1</sup> This rise in the actual number and relative proportion of senior citizens in the coming decades, together with other social developments, presents society with significant challenges.

The policy-related challenges concern, amongst other things, the development and maintenance of human capital, with a view to further increasing workforce participation in general, and that of older workers in particular. Another challenge concerns the expected strong rise in the costs of collective provisions for senior citizens, in particular the costs of basic state retirement pensions (*AOW*) and care provisions. Studies show that some of the mounting burden of *AOW* and care costs can be accounted for by the government's 'greying'-related income streams, particularly as a result of applying the deferred taxation rule (*omkeerregel*).

The greying of the population also brings with it a number of chances and opportunities. It is expected that, as future senior citizens enjoy a longer, healthier old age, they will remain able to participate in and make an active contribution to society even after the official retirement age.

Above all, the Council believes that the challenges outlined above can be well managed, provided that they are foreseen in good time. First, this means further broadening the economic basis for the provisions that are relevant to senior citizens by further increasing workforce participation and productivity. Second, it involves evenly allocating the costs of these provisions within and between the generations. This is essential to preserve solidarity within and between the generations and therefore for social support for these provisions.

Future young (working) generations are expected to make a significant contribution to the economic basis for collective provisions relevant to senior citizens. In light of this, the Council believes that a greater call for solidarity within and between the generations (including those with adequate financial means) is justified. The expected future increase in the income level of senior citizens is also expected to play a role.

Significant steps have already been taken, or are being taken, as shown by the existing policy of the Cabinet and social partners with regard to the workforce participation of

---

<sup>1</sup> The Netherlands is still one of the least 'grey' countries in the European Union, although the rate of ageing in the coming decades will be higher here than the average in other European Union countries.

senior citizens, the pensions system, social security and the care system. Further efforts are required in a number of areas.

#### *Further increase in workforce participation*

The workforce participation of older workers (aged 55-64) in the Netherlands has risen considerably in the ten years from 1993 to 2003, growing from 29% to 45%, which means it is now higher than the average EU workforce participation of 42%. However, the participation of senior citizens in the workforce is still lagging behind the EU's 'Lisbon Objective', whereby the workforce participation of older workers should reach 50% by 2010.

The Council believes that the necessary reinforcement of the basis for the provisions relevant to senior citizens requires further investment in the human capital of the working population. In principle, workers must be equipped to play a fulfilling and productive role in the labour process up to the official retirement age. To achieve this, attention must be given to raising the average level of qualifications, fostering lifelong learning, training and reintegrating those seeking work (including those returning to the workplace) and removing the obstacles to greater female participation in the workforce (such as increasing the number of hours women work per week). The Cabinet's announced request for advice with regard to social and economic policy in the medium term provides the Council with a suitable opportunity to deliberate on these issues.

To increase the workforce participation of *older workers*, the Council believes two lines of action are necessary. Line 1 involves improving incentives to work in terms of employment conditions and retirement schemes. Line 2 involves further developing and embedding an age-conscious personnel policy within companies.

With regard to Line 1, both the government and the social partners have taken a large number of measures to financially encourage employees to extend their working life. With regard to Line 2, an age-conscious personnel policy within companies constitutes an important condition for the success of the current policy to make continuing to work more attractive financially. This line of action is primarily the responsibility of the social partners, employers and employees, with the government playing a supporting role. The Council makes a number of recommendations at a decentralised level, including with regard to the participation of older workers in training, the career development of older workers, employment schemes (e.g., the special provisions for older workers known as the *ontzietmaatregelen*), and the possibility of part-time retirement before and after the official retirement age. The Council is also formulating proposals to increase the participation of senior citizens in society, including in voluntary work and informal care work.

#### *A sustainable pensions system*

The Dutch pensions system is a combination of a 'pay as you go' system and a full-funding system, and is based on three pillars. The first pillar is the basic state retirement or AOW pension, which consists of a flat-rate benefit to those aged 65 and above. This pillar is financed on a 'pay as you go' basis. The second pillar is made up of

occupational pension schemes that are supplementary to the state pension. The primary responsibility for these schemes lies with employers and employees. These occupational pension schemes are financed on a full-funding basis. The third pillar comprises individual pension provisions available to anyone on the insurance market.

A sustainable pensions system is of great importance to the future income level of senior citizens. The greatest challenge is the expected sharp increase in state pension (AOW) costs. The Council believes that in order to cope with this, it is necessary to systematically broaden the way that state pensions are financed. In addition to further broadening the economic basis for pensions, the Council proposes that the future increase in state pension costs as a result of the ageing population should be borne by society as a whole. In this, one should aim for a more even distribution of net income in all income groups and a more even level of affluence within and between the various generations. The Council therefore proposes that state pension financing from the general public funds should gradually be increased. This implies that affluent senior citizens will be taxed more heavily in order to finance rising future state pension costs.

One member of the Council<sup>2</sup> is not in favour of this proposal and is of the opinion that there are enough other tax instruments available to attune the net income development of the working population to that of those entitled to the state pension.

The Council believes that its proposals regarding the financing of the state pension mean that the current state pension system can be preserved.

In view of the current labour market conditions and the still-low participation of older workers in the workforce, the Council considers a general increase of the official AOW retirement age to be unnecessary. Such a general increase may be considered again at any time, based on new insights into demographic trends, the social, financial and economic situation, and labour market conditions. The Council is also interested in the findings of the announced research to be conducted at the request of the Lower House into the consequences of introducing a degree of flexibility into the official AOW retirement age.

The Council observes that occupational pensions have been fundamentally changed in the past few years. The transition made by many pension funds in the past years from a pension scheme based on final pay to one based on a conditional, indexed average pay has contributed to a more manageable and affordable pensions system. However, in the Council's view, this does not alter the fact that further reform and cost control might be required. The Council therefore draws attention to some of the still-current proposals and recommendations made by the Labour Foundation.<sup>3</sup> These are designed to bring the content and form of the pension regulations more in line with changes in the workforce, as well as better management of pension costs.

---

<sup>2</sup> The employees' representative appointed by the MHP (Federation of Managerial and Professional Staff Unions).

<sup>3</sup> The Labour Foundation is a private, bipartite consultative body made up of the central employers' and employees' organisations.

### *Sustainable care and welfare provisions*

The Council believes that a sustainable system of care and welfare provisions is one in which the affordability, accessibility, quality and availability of the provisions is safeguarded.

In the coming decades, demographic, technological and social developments will lead to a significant increase in the call upon care and welfare provisions that are also relevant to senior citizens, and therefore to rising costs.

In its advisory report *Towards a Sound System of Medical Insurance (Naar een gezond stelsel van ziektekostenverzekeringen, 2000)*, the Council stated that the current system of medical insurance and healthcare is not sufficiently capable of withstanding future developments. The Council considers its recommendations for changes to the system to be the most important means of prolonging the lifespan of these provisions.<sup>4</sup>

In the Council's view, more efficient execution, making better use of the opportunities to replace heavier forms of care with lighter ones, and a more demand-driven system and market mechanism will all contribute to a more sustainable care system. In this connection, the Council is considering some aspects of the proposed Social Support Act (*Wet maatschappelijke ondersteuning, WMO*). Finally, the Council is formulating several proposals to ensure care personnel are adequately trained and to support informal care given by family, friends or volunteers.

### *Income level of senior citizens*

The income level of senior citizens is expected to improve or significantly improve in the future, including for those under the age of 65. This will partly be as a result of better pension coverage and of increased contributions to pensions. The Council also assumes the (ideally ongoing) linking of basic state pension payments to salary developments. However, differences in income levels between senior citizens are expected to increase in the future.

The Council's recommendations regarding participation in the labour process, a sustainable pensions system and affordable care are also relevant in view of the income level of future senior citizens. In addition, the Council calls attention to the disappearance of what is known as the AOW partner supplement in 2015, insufficient AOW accrual (this primarily applies to non-Western migrants) and insufficient accrual of supplementary pensions due to the failure of employers to offer supplementary pension schemes.

The Council assumes that its proposals for the financing of state pensions and care provisions will contribute to a reasonable distribution of income and therefore a more

---

<sup>4</sup> SER advisory report *Towards a Sound System of Medical Insurance (Naar een gezond stelsel van ziektekostenverzekeringen)*. The Hague 2000, publication no. 00/12. An abstract in English is available (publication no. 00/12E).

even level of affluence within all income groups and within and between the different generations.