

2005 National Strategy Report on Adequate and Sustainable Pensions; The Netherlands

The Hague, July 2005

PART 1 GENERAL CONSIDERATIONS

1.1 Introduction

In this second round of National Strategy Reports on Adequate and Sustainable Pensions (NSR-P), the ten new Member States will also have to submit their reports to the European Commission. The eleven common objectives endorsed by the Laeken European Council in December 2001 remain unchanged, and substantial alterations to the structure of the NSR-P have not proved necessary. The NSR-P 2005 is therefore an update of the NSR-P 2002. In accordance with the Netherlands' wishes, progress has been made in the past few years with a range of indicators to promote transparency and comparability between the Member States. In Part 2, each objective is examined in terms of current policy, and a forecast is made. The Appendix contains tables of indicators per objective, insofar as these have not been included in Part 2.

The organizations involved

As with the first NSR-P, employers' organizations and trade unions were involved in its realization. These two sides of industry, do, after all, have primary responsibility for the supplementary pensions (second pillar). In addition to the employers' organizations and trade unions, umbrella organizations for senior citizens' and young people's associations, De Nederlandsche Bank (The Dutch National Bank, as supervisor of the pension providers), and the organizations for pension providers were also asked to comment on a draft NSR-P. The 2005 National Strategy Report on Adequate and Sustainable Pensions which you now have before you was subsequently ratified by the government.

The influence of the NSR-P 2002

The Netherlands had taken prior steps in this direction in December 1997, in the form of a pension agreement between employers' organizations, trade unions and the government aimed at achieving a pension system that is high-quality, modern, flexible, and also affordable. This proved to be entirely in line with the main European objectives.

Open coordination in the field of pensions

The open method of coordination could make a positive contribution towards improving pension systems in Europe. This method guarantees that each Member State can choose the policy mix best suited to its own pension system and its own specific problems, while learning as much as possible from experience gained in other Member States. For the Netherlands, it is vital that the primary responsibility of employers' organizations and trade unions for occupational pensions is recognized, and that the coherence between social adequacy and financial sustainability is safeguarded. In spite of the European dimension, the way the pension system is organized is pre-eminently a national matter. In addition, the differences between the various pension systems as regards institutions, structure and design are so great that any attempt to harmonize pension systems on a European level would be bound to come up against almost insurmountable practical problems. The government is of the opinion that European policy can be shaped by means of benchmarking and peer pressure without affecting subsidiarity.

As from Autumn 2005, every Member State must submit a national Lisbon Action Plan. This report must reflect the efforts made by the Member States towards a series of common objectives that should lead to more growth and higher levels of employment. With regard to pension systems, the social and the financial aspects as well as modernization of the systems have been incorporated into the objectives as established in the integrated global guidelines for economic policy and employment. This would appear to safeguard the current coherence between financial sustainability and social adequacy for the future.

1.2 A brief description of the Dutch pension system

The Dutch pension system consists of three pillars:

1. The *first pillar* is the basic state pension based on residence and consisting of a standard, fixed amount paid to people of 65 and over. (AOW National Old Age Pensions Act). Everyone who is a resident of or who works and pays tax in the Netherlands accrues rights to an AOW pension

between his or her 15th and 65th birthdays. Full accrual of pension rights entitles a person to an AOW pension based on 70% of the net minimum wage for single persons (as from 1 April 2005, € 869.52 net incl. holiday allowance) and 50% of the net minimum wage for people sharing a household (as from 1 April 2005, € 610.51 net incl. holiday allowance). The first pillar is funded by a pay-as-you-go (PAYG) system.

2. The *second pillar* consists of occupational pensions accrued as fringe benefits of employment. Primary responsibility for this type of pension therefore lies with employers and employees. Supplementary pension arrangements are made for nearly all employees, often in the form of a collective pension scheme. The supplementary pension schemes (including the supplementary pensions for staff in government and education) are funded by means of a capital funding system. It is prescribed by law that occupational pensions must be implemented by a pension fund or an insurance company whereby the reserves are kept outside the company. The second pillar consists mainly of arrangements related to salary and periods of service (for at least 88% of employees with a supplementary pension in 2001). Only 4% of employees with a supplementary pension have a pure defined contribution scheme. Pension savings in the second pillar are tax-effective: entitlements to pension payments up to a certain maximum accrued amount are not taxed, the contributions paid towards these are deductible from the taxable income, no tax is levied on capital or capital gains, and tax is paid on the accumulated fund when paid out as a benefit (deferred taxation rule/EET system).
3. The *third pillar* consists of supplementary individual retirement provisions, entirely separate from employment relationships, which anyone can take out on the insurance market. These individual provisions can be made tax-effective.

1.3 The most important changes since 2002

Financial position of pension funds

Since 2001, the situation on the financial markets has changed substantially. The interest rate level was already low. In addition, after 2001, the financial world faced low returns on shares. This had unfavourable consequences for the Dutch pension funds, because the required coverage ratios came under pressure. To raise the reserves to the desired level again, in many schemes, pension contributions were increased, indexing was limited, and pension scheme parameters were adapted.

Financial Assessment Framework

The fall in market prices, resulting in a worsened financial position, was partly what prompted the introduction of a new Financial Assessment Framework (FTK), on the basis of which the supervisor, De Nederlandsche Bank (hereinafter DNB), supervises the financial position of the pension funds.

The traditional actuarial and accounting techniques rendered the actual financial position of pension funds insufficiently transparent. Pension funds valued their stock market investments against current prices, while the obligations were valued against a fixed actuarial interest rate of 4%. An important aspect of the FTK is the fact that the obligations of pension funds are valued at market value. This creates consistency between the valuation of the obligations and the valuation of the investments. At the same time, movements in these actual values become visible more quickly, and can be more quickly incorporated into the policy followed by the pension funds.

To prevent future financial problems from occurring as a consequence of economic adversity, and to avoid the concomitant inflation and investment risks, the new FTK sets conditions for the size of the reserves. A guideline for the reserve requirement is that, starting with a situation of equilibrium, there is at least a 97.5% chance that a fund will have fully covered the unconditional commitments a year later. The chance of lack of coverage is therefore 2.5% maximum. For a standard pension fund with 50% investments in fixed asset investments and 50% in fixed-interest securities, this means a required coverage level of 130%. If a pension fund finds itself below this 130%, the fund must submit a recovery plan to DNB with a recovery period of 15 years maximum. In addition, with a coverage level under 105%, recovery up to 105% must take place within one year.

The new Financial Assessment Framework also sets requirements for the break-even contribution rate and consistency between commitment regarding indexation, financing and related communications. Contributions policy must be aimed at a coverage level for a pension fund that is structurally on or

above the equilibrium situation. Account is taken here of possible investment risks a fund may face on the basis of the chosen investment policy. If the situation involves conditional indexation, there has to be consistency between the expectations raised, the funding and the actual pension awarded. If conditional indexation is to be paid for out of the social security contributions, it can be taken into account in the break-even contribution rates.

This Financial Assessment Framework is set down in the Pension Act, but had already been accepted in outline by the Lower House of Parliament through a memorandum on 11 March 2004.

Encouraging people to continue working longer by adjusting the favourable tax conditions of early-retirement schemes and introducing a life course arrangement

The tax facilities of schemes providing for retirement before the age of 65 are being adjusted through the VUT (PAYG funded schemes), pre-funded early retirement schemes, a life course arrangement (hereinafter: VPL Act). This involves a further tightening of previously announced policy to no longer allow contributions for early retirement schemes to be tax deductible as from 2022.

With early retirement schemes (capital funding, although the transitional arrangements in the transition from VUT to early retirement pension still partly have a PAYG basis), from now on, the claim (right to payments) is taxed with the capital funded part. Unlike with the VUT schemes, the payments are, in that case, tax-free. Pension contributions of employees are no longer deductible. The contributions paid by employers for VUT/early retirement schemes and the PAYG-funded part of the early retirement schemes will no longer be exempt from taxation as from 1 January 2006, but will be taxed with a final levy of 52%. For existing schemes, a final levy of 26% will apply until 2011. Contributions paid by employees will no longer be deductible. For existing schemes, the contributions paid by employees until 2011 will still be 50% deductible.

Currently, as regards existing schemes, the contributions paid for VUT/early retirement pension are still deductible and the accrued entitlements remain tax-exempt. When the time comes for the VUT/early retirement pension to be paid out, it will be designated as taxable income (deferred taxation rule/EET system). Because the levy on the payment is generally lower as a consequence of the progressive tax rate than the tax advantage during accrual, this is financially favourable.

Employees who are 55 or older before 1 January 2005 keep the tax advantages when saving for early retirement pension if the payment is adjusted on an actuarial basis in the event it takes effect after the first possible date and the possibility of part-time pension is included in the scheme. The VUT schemes for this age-group continue to fall under the current tax systems if it has at least been arranged that the entitlement to VUT benefit will not be cancelled if the individual continues to work past the early retirement age, as is currently frequently the case. As with early retirement pension, the VUT payment will then be adjusted actuarially. The VUT payment is "saved" over the years the individual continues to work. The beneficiary therefore receives a higher payment for each year that he or she continues to work ("savings VUT"). Eventually, through this system of added interest on an actuarial basis, even more than 100% of the last wages can be paid out. This end-of-career bonus will encourage people to continue working longer.

It remains possible to stop working before the age of 65. The tax limitations in the second pillar are based on an old age pension that takes effect at the age of 65, but which can be actuarially adjusted to take effect earlier. For people who have participated in a pension system for at least 40 years, there is the possibility of supplementing the pension on a tax-effective basis to 70% of the last-earned salary on reaching the age of 63.

The VPL Act has an effect on all the existing VUT/early retirement schemes, and also on most old age pension schemes with a pensionable age under 65. Employers' organizations, trade unions and pension providers are currently debating the consequences of the VPL Act on pension schemes, and the choices that must be made about the place that should be given to transitional arrangements and guaranteed pension schemes. For existing schemes, the measures included in the Act take effect on 1 January 2006. During the plenary discussions in the Dutch Upper House, doubts were voiced about the introduction date. It was subsequently promised that it will be considered in September 2005 whether it is necessary to adjust the law on this point and to postpone the introduction date.

Introduction of a life course arrangement

On 1 January 2006, a life course arrangement will be introduced which will enable better attunement of work with, for instance, care and education. Through this life course arrangement, 12% of wages can be saved tax-free each year for wage replacement during a period of unpaid leave. No wage tax is levied on accrual in the life course arrangement. Tax only has to be paid if the saved deposits are withdrawn. When the saved amount is taken out, the employee receives a tax credit of € 183.00 for each year in which amounts were saved. Contributions into a life course arrangement do not lead to a reduction in the tax base for the industrial insurance contributions. As a result, saving through the life course arrangement does not affect the amount of any future pension based on industrial insurance schemes, such as WW unemployment or WAO incapacity benefit, as, when the amount of the payment is calculated, the wage is considered without deduction for the life course arrangement. The tax-facilitated amount saved can both be used for leave in the 'rush hour' of a working life (e.g. parental or study leave), and for early retirement at the end of a working life. This is an individual arrangement within which people, young and old, make their own choices.

There is a transitional arrangement in place for older employees who were between 50 and 55 on 1 January 2005. These people are not subject to the condition that no more than 12% of the wages can be saved during the year within the life course arrangement. Through this extra savings possibility, these employees can accumulate the maximum allowed amount in a shorter period. The maximum amount that can be saved is 210% of the last earned salary, which corresponds to 3 years' leave at 70% of the last earned salary.

Employers are contemplating whether to contribute towards the life course arrangement of their employees. Under the tax rules, this co-financing is only permitted if the employer does not set conditions when an employee goes on leave, and the employer contribution is also paid to employees who do not participate in a life course arrangement and to the same degree.

The effect of these measures on the retirement behaviour of employees is not yet known. The effect cannot be established until after a year, and will depend partly on the results of the consultations between the employers' organizations and trade unions about the pension and life course arrangements that are currently taking place in the labour agreement negotiations.

Legislative proposal for mandatory participation in a pension scheme

In addition to the 2000 Mandatory Participation in a Branch Pension Fund Act (hereinafter BPF), which applies to employees, the Netherlands also has a law that arranges mandatory participation for self-employed persons. After many years of debate, the Lower House accepted a legislative proposal on 12 April 2005 modernizing the current law on Mandatory Participation in a Pension Scheme for Professional Groups, and incorporating additional requirements regarding solidarity and assessment of the basis of support among professionals in the branch.

With the new law, the Dutch value transfer system also becomes applicable to self-employed persons. Thus, the pension rights of self-employed persons are better protected, and mobility between employment and self-employment better facilitated. If a self-employed person starts carrying out another profession or becomes employed, he or she can, in future, transfer his or her pension rights to another pension provider. At the same time as the right to value transfer, the prohibition to cash-in pension entitlements is introduced. This prevents the value of pension entitlements from being spent otherwise than on pensions.

Transition from final to average pay

In the past few years, many pension funds have made the transition from a (mitigated) final pay arrangement to a conditionally indexed average pay arrangement. This means that the pension is based on the average income from work during the working life, and not on the last earned income. A direct advantage of this is that employees whose career developed steeply are not favoured above those with a relatively stable income during their working life. Moreover, the indexation instrument for the average wage system can be applied to all accrued rights, both of pensioners and employees. This increases the influence of decisions on the level of indexation. Discomfort from the limitation of indexation is distributed between working people and pensioners. An effective indexation instrument is all the more important now that ageing of the population is worsening the ratio between employees and pensioners, making the contribution instrument less effective in solving any capital deficiencies that pension funds may suffer.

1.4 Challenges for the future

The future will see demographic ageing on a large scale. Up to 2010, the rate of demographic ageing will still be relatively moderate, but it is subsequently set to accelerate when the baby-boom generation retires. The Netherlands will therefore more easily be able to acquit itself of debts in the period running up to 2010 than after. The dependency ratio of people of 65 and over in relation to the working population of 15-64 will increase from 21.6% in 2004 to 36.4% in 2030. The ratio of the number of people over 60 in relation to 15-59 year olds will increase from 29.8% in 2004 to 53.5% in 2030.

Further to this NSR-P 2005, under each objective, policy and the challenges for the future are discussed:

- In the Netherlands, the gross costs of population ageing are going to increase more than the European average. This is largely due to the cost-of-living indexation of AOW pensions (which is taken into account in the Dutch calculations). The cost-of-living indexation helps ensure a good income position for senior citizens. In the future, an individual supplementary pension will contribute significantly towards the income position of an increasingly large group of elderly people (objectives 1 and 2).
- Through a mix of PAYG funding in the first pillar and capital funding in the second and third pillars, the Dutch pension system contributes to a balanced distribution of the financial burden between people in work and pensioners (objectives 3 and 7).
- A higher labour participation helps accommodate the burden of ageing. Not only more people working, but in particular, people continuing to work longer can contribute significantly to the necessary increase in workforce participation (objectives 4 and 5).
- Between the euro countries, there is mutual dependency regarding public finances, and thus also of old age provisions (objective 6).
- Although the content and organization of pension systems is mainly arranged on a national level – in line with the agreements on subsidiarity – the Netherlands is finding itself increasingly affected by international developments. The EU then provides rules, e.g. the guideline on the tasks of and the supervision of occupational pension institutions, and the impending “portability guideline.” These EU guidelines can have extremely diverse (and perhaps not always intended) effects on a national level due to the considerable diversity of pension systems. The IAS 19 guideline is one such international guideline with a far-reaching effect on the Dutch system (objectives 8 and 9).
- The number of two-income households and the number of part-time workers is increasing. This means that the pension system must be geared towards single-income, one and a half income and two-income households, and also towards both full-time and part-time workers. And considering the accrual of supplementary pension entitlements is realized within the work relationships, it is important that pension rights are not affected by labour mobility (objectives 9 and 10).
- Most Dutch employees are currently not able to assess on the basis of the pension information they receive whether supplementary measures are desirable. It is therefore very important to increase citizens’ awareness about pensions (objective 11).

PART 2 THE OBJECTIVES

In June 2001, the European Council of Gothenburg formulated the three main principles which must guarantee the sustainability of old-age pensions in the long term. These main principles, social adequacy, financial sustainability, and modernization, were further worked out during the European Top of Laeken in December 2001 via eleven common objectives.

2.1 Adequacy of pensions

OBJECTIVE 1

Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living; that they share in the economic well-being of their country and can accordingly participate actively in public, social and cultural life.

OBJECTIVE 2

Provide access for all individuals to appropriate pension arrangements, public and/or private, which allow them to earn pension entitlements enabling them to maintain, to a reasonable degree, their living standard after retirement.

Policy objectives

- A minimum income for all citizens
- A safety net for older people who nevertheless end up with a pension under the minimum wage level.
- A pension system that offers each employee the possibility of keeping his or her quality of living up to a reasonable level after retiring.
- Second-pillar pension accrual for all employees.

Policy

Minimum wage level

The Netherlands has a comprehensive social security system that guarantees citizens an adequate minimum income.

The amount of the net minimum payments is based on the net minimum wage for employees. The amount of the gross minimum wage is in turn linked to developments in wages in collective labour agreements. In this way, the minimum income groups benefit from the development of prosperity. This link between wages and benefits is set down in the Wage Benefit Linkage and Exceptions Act (WKA). This Act is based on linkage, but also provides for possibilities to make exceptions if required by economic circumstances. The minimum income is not the same for everyone (table 1). The amount depends on age and family composition. In addition, means-tested provisions are available for children and residence. In the case of senior citizens, specific tax benefits apply.

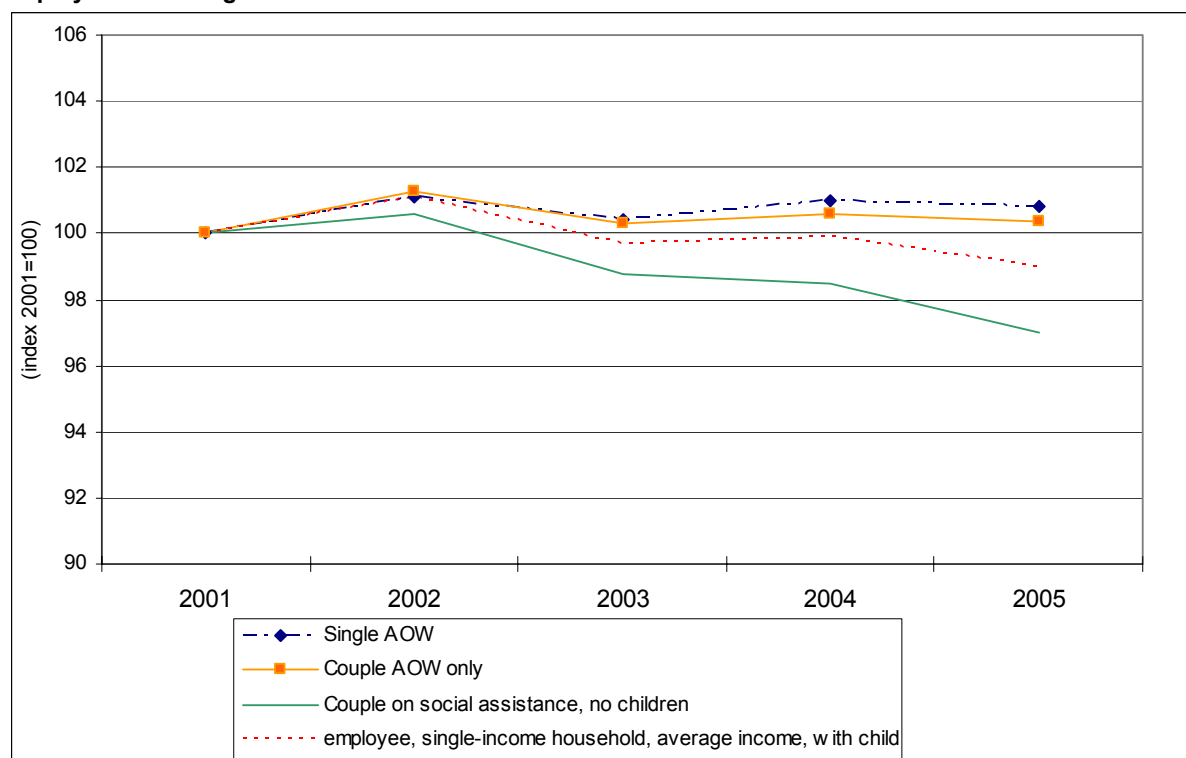
Table1 Minimum income 2005 1)

	Disposable household income after deduction of medical expenses (in €)
Single person under 65	9375
Person sharing household, no children, under 65	13245
Single person of 65 and over	10320
Person sharing household, 65 and over	14520
Minimum wage, sharing household, no children	14380

1) Excluding benefits payable under means-tested schemes

Figure 1 shows the development of the disposable income as from 2001, with correction for inflation. This shows that the purchasing power for elderly with a minimum income has developed relatively favourably.

Figure 1 Development in purchasing power for AOW old age pension, social assistance recipients and employees with single-income household with child



Old age pension provision

First pillar: AOW

People of 65 and older receive a basic state pension under the National Old Age Pensions Act. The AOW pension is not tested against capital or other sources of income. All residents of the Netherlands are entitled to an AOW pension, and accrue 2% of the full amount each year from their 15th year of age (first pillar pension). Nationality is not taken into account. People of 65 and older who are not entitled to a full AOW pension because they have been insured under the AOW scheme for less than 50 years and who have insufficient income or capital, can receive a supplement bringing the pension up to the minimum wage level. As a result, they receive the same net amount as pensioners who receive a full AOW pension only.

Second pillar: supplementary pension

Around 91% of employees accrue a supplementary pension in the second pillar in addition to an AOW pension. Although the government is not primarily responsible for the supplementary pensions, it does aim to ensure that everyone can build up a supplementary pension. The supplementary pension must, in combination with the AOW pension, be sufficient to keep the quality of life up to a reasonable level.

Once accrued, the pension rights must be safeguarded. To this end, the following arrangements have been made:

- Safeguarding of pension entitlements by means of: the requirement of capital funding; invested pension capital must be placed outside the company; prohibition to cash-in; no lump-sum payments.
- Protective measures, including: prohibition on medical examinations; legal right to value transfer; legal right to pension equalization after divorce; equal treatment of men and women, of full-time and part-time workers and of pension rights of retired persons and early leavers (people with non-contributory pension entitlements that remained with previous employers).
- Mandatory participation. Mandatory participation in a branch pension fund imposed by the Ministry of Social Affairs and Employment (after a request thereto from the branch) for all employers and employees in the branch is an important instrument for reducing the number of employees without a supplementary pension.
- Tax benefits. For supplementary pensions, the so-called deferred taxation rule/EET system (entitlement not taxed, payment taxed) applies. In addition, the pension capital accrued is free of

capital gains tax. Before tax deduction of the contribution for a final pay scheme, in principle, a maximum accrual rate applies of 2% per year. For schemes based on average wage earned, a maximum accrual rate of 2.25% is applied. In the accrual of supplementary old age pension, account is taken on a flat-rate basis of the AOW pension that is to be received. The lower the wage, the more important the first pillar pension for the total pension income (first and second pillar together).

- For unemployed persons who are 40 years or older on the first day of unemployment, pension accrual during unemployment can be taken care of by the FVP foundation (Supplementary Pension Insurance Foundation).

Third pillar: individual supplementary provisions

Without intervention by the employer, anyone can arrange (extra) provisions for old age:

- Self-employed persons who cannot participate in a supplementary pension scheme will, in many cases, have to see that their AOW pension is supplemented via the third pillar.
- Employees can opt to supplement their pension, e.g. if they have a pension deficit due to insurance gaps.

Annuity contributions to compensate for gaps in pension accrual in a certain calendar year are, in principle, deductible and the payments taxed.

Income position of pensioners

The significance of the pension system for maintaining the quality of living after retirement can be seen from the relationship between the net pension and the net wage in the year before retirement. Table 2 gives an impression of these so-called theoretical replacement rates for a number of example situations. These are based on the presupposition that a single person has worked 40 years. A final wage system is presupposed for the past 40 years.

Table 2 Theoretical replacement rates for single persons 2005 ¹⁾

Replacement rate (pension as in % of last wage)	40 years pension accrual		Career with gaps (30 years accrued, with average wage)
	Career from 75% to 105% average wage	Carreer from 80 to 120% average wage	
1 ^a pillar gross (AOW)	28	25	30
2 ^a pillar gross	43	46	31
Gross total	71	71	61
Net total	94	92	81

1) Calculated on the basis of the harmonized EU presuppositions of 24 May 2005.

As the first pillar pension is not dependent on the last earned wage, the replacement rate of this pension is smaller the higher the wage preceding the pensionable age. The supplementary pension, on the other hand, becomes more important as the wage increases. In total, with a pension accrual of 40 years, a replacement rate of approximately 70% is realized. As pensioners no longer pay contributions for pension accrual in the first or second pillar, the net income of pensioners is relatively high in relation to people under 65. This makes the net replacement rate considerably higher than the gross replacement rate.

The share of persons with an income under 60% of the standardized median income of the whole population is lower for pensioners than for people under 65.

The purchasing power of pensioners is not only determined by the amount of the old age pension. Pensioners with a house of their own have often paid off their mortgage, and therefore no longer have housing costs. In 2004, 38% of people of 65 and over owned their own house, and in 19% of cases, the house is unencumbered with mortgage. In addition, many pensioners have income from capital, or entitlement to provisions such as housing benefit.

Figure 2 Composition of gross household income of pensioners, 2002



As figure 2 shows, the gross income of pensioners on a household level largely consists of AOW pension. For 20% of persons with the lowest income, the income consists for nearly 80% of AOW, whereas for the highest income group, this is less than 20%. In the highest income group, there are many people with a partner who works or is entitled to a benefit and is under 65. As a result, a large part of the income consists of wages, profit or benefit. In addition, the lowest incomes mainly benefit from housing benefit, while the income from capital (interest, rental value of own house minus mortgage costs) are more important for the higher income groups.

If the disposable household income is adjusted for differences in household composition (standardized), the income of pensioners can be related to that of the population under 65 (table 3).

Table 3 Median standardized income of pensioners in relation to young people, 2002

	Ratio
65+ /65-	89%
65+/45-54	80%
75+/75-	87%
75+/45-54	77%

Source: CBS, provisional figures

Outlook

82% of people of 65 and older have a supplementary pension in addition to an AOW pension. Because current employees often accrue a supplementary pension, the number of people with a supplementary pension is expected to continue to increase. Moreover, the increase in home ownership will improve the financial position of pensioners. The new influx of people of 65 and older will, in addition, more often have a partner with their own supplementary pension, partly because more women are carrying out paid work. It should be noted, however, that women in the Netherlands often work part-time, and also still in smaller part-time jobs. The income of a limited group of people of 65 and older will come under

pressure in the future due to the abolition of the AOW supplementary allowance, and incomplete AOW pension accrual.

First pillar

Despite the positive development in the financial position of pensioners, the expected considerable increase in expenses constitutes a major challenge in relation to the AOW. Partly depending on the assumptions made, it is estimated that in the long term, AOW expenses will almost double as a percentage of the GDP. For instance, the Netherlands Bureau for Economic Policy and Analysis (CPB) predicts in its 2000 study *Ageing in the Netherlands*¹, that the AOW quota will increase from 4.7% in 2001 to 9% in 2040, and that this increase will almost entirely be determined by the increase in the number of AOW beneficiaries, with increased life expectancy also contributing towards the increase in AOW expenditure. When the AOW was introduced in 1957, the average life expectancy for women of 65 was 14.6 years, and for men, 13.8 years. This has since risen to 19.3 years and 15.6 years respectively (Eurostat New Cronos, 2002).

According to current understanding, if policy is timely, there is no direct cause to review the first pillar pensions due to the demographic pressure. This policy is three-pronged: increasing participation in the labour market, adjustment of collective arrangements other than the AOW and a sustainable budgetary policy aimed at debt repayment. The attention is focussed on keeping the working population up to 65 in work or getting them into work. The current government has no plans to raise the pensionable age.

Second pillar

For the employers' organizations and trade unions, the supplementary pensions constitute a challenge. For instance, not every employee accrues a supplementary pension. To ensure that every employee has a supplementary old age pension, the employers' organizations and trade unions want to tackle these so-called "white spots" through self-regulation. If this approach should not lead to a reduction of the "white spot" from 7% to 3.5%, it will have to be made mandatory for an employer, who offers pensions, to offer the possibility to take part in a pension scheme to all his employees.

OBJECTIVE 3

Promote solidarity within and between generations.

Policy objective

A balanced distribution of the financial burden of ageing, which helps maintain the basis of support for solidarity.

Policy

Solidarity within and between generations is assessed in an EU-context on the basis of the income differences between the various age groups. In 2002 the standardized income of the 20% of people of 65 and over with the highest (standardized) income was 3 times as high as the income of the lowest 20%. Under 65 years of age, the income differences are bigger. Here, the ratio is 3.9. After retirement, the income differences are reduced. This is partly due to the income-independent first pillar pension that constitutes the biggest part of income among the lowest income group (figure 2).

¹ CPB, *Ageing in the Netherlands* (2000), CPB, CEP 2002.

Table 4 Income disparity (S80/S20), 2002

Age	total	man	woman
60+	3.3	3.5	3.2
65+	3.0	3.1	2.9
75+	3.0	3.0	3.0
<60	3.9	3.9	3.8
<65	3.9	4.0	3.8
<75	3.8	3.9	3.7

Income standardised on the basis of the adjusted OECD scale, S80/S20 = average standardised income highest 20% compared with lowest 20%. Source: CBS, provisional figures

First pillar

Solidarity within and between generations in the first pillar lies in the fact that each future AOW pensioner accrues the same percentage of AOW each year. No distinction is made according to sex, age, health or nationality. Moreover, in 1998, the AOW contribution was subjected to an upper limit of 18.25%. This means that if the AOW expenditure increases in the future, an ever larger part of these expenses will have to be financed from general funds. As these funds are also provided by people of 65 and over with income above the AOW benefit, this implies de facto an increased intra- and intergenerational solidarity.

Intergenerational redistribution is also found in the PAYG system of the first pillar. The active part of the population pays for the AOW pension of people of 65 and older by means of contributions. Moreover, development of the AOW pension is linked to the minimum wage on the basis of the Wage Benefit Linkage and Exceptions Act (WKA).

Second pillar

Although the second pillar concerns capital funding, here too, there is solidarity within and between generations. In the second pillar, solidarity within generations can be found in the average contribution. Applying an average contribution is legally obligatory for mandatory branch pension funds. In the case of an average contribution, no distinction is made on the basis of age in the contribution to be paid by employer and employee. Neither is any distinction permitted according to sex, health or nationality. In the second pillar, there is also a redistribution of risk sharing between generations. The degree of risk sharing between generations depends on the nature of the pension scheme and within that, of the contribution and indexation policy, as determined by the social partners.

From final wage to average wage

In many pension schemes, the transition has been made from a (mitigated) final wage system to a conditionally indexed average wage scheme. In 2000, 60% of pension funds were final wage and 32% average wage (expressed as a percentage of active pension scheme members.) In 2004 this ratio was 13% final wage and 77% average wage. The transition to average wage schemes leads to a more manageable distribution of the demographic and financial risks linked to a supplementary pension scheme (life expectancy, inflation, and investment results).

Conditional indexation

Most pension funds involve conditional indexation. In the case of pension funds (about 85% of pension scheme members in the 2nd pillar) indexation is often funded by higher contributions if returns are less than satisfactory. So the economically active foot the bill. The indexation can also be limited in the event of less than satisfactory returns. That has happened more often in recent years after falls in stock market prices. Depending on the pension scheme, either the pensioners only or the pensioners and the active persons are affected. Recently, various pension funds have made the transition to average wage arrangements with conditional indexation. As a result, indexation decisions have a greater bearing on the financial position of the pension funds. After all, not only the indexation of pension payments but also the indexation of pension entitlements can be limited. The risk is distributed more across the various generations.

Outlook

Increasingly fewer working people have to earn money for more and more elderly people. This situation draws heavily on the solidarity between generations. Currently, there are 3.2 working people for every person of 65 and older. In 2030, this ratio in CPB long-term scenarios will have dropped to 2.4 - 2.8. This worsening situation underlines the need to consolidate the basis of support for the financing of old age pensions through increased participation on the labour market. There is room for this, as there is currently a potential active working population of 4.5 persons for every person of 65 and older.

Effect of conditional indexation

By extending conditional indexation to the accrued entitlements of pension scheme members and linking this indexation to the financial situation of the pension fund, the risks are deposited more than before with the pension outcome for the individual. Table 5 illustrates this for a number of situations. Here, for the AOW, the point of departure is full linkage with wage developments. In the case of the supplementary pensions, the introduction is assumed in 2004 of an average wage system, with the rights from the final wage system being maintained. The point of departure in the average pay system is that with an average career, a pension of 70% of the final pay can be achieved by increasing the annual pension accrual or by lowering the AOW franchise. Here, the second possibility has been taken as point of departure. With regard to indexation of the supplementary pension, two variants are used: one where employers' organizations and trade unions opt for a financing structure for pension funds through which the accrued rights are indexed with 80% of the wage increases, and a variant with full indexation.

Table 5 Theoretical net replacement rates average pay, single persons 2005-2050 1)

Net replacement rate (net pension as in % of net final wage for person retiring in 2005, 2030 or 2050)	40 years accrual		Interrupted career (30 years accrual, with average pay)
	Career of 75% to 105% average pay	Career of 80 to 120% average pay	
Full indexation			
2005	94	92	81
2030	95	85	84
2050	94	85	84
Indexation of 80%			
2005	93	91	80
2030	88	80	79
2050	87	79	79

1) Calculated on the basis of the harmonized EU assumptions of 24 May 2005.

With an average career, (of 75% to 105% of the average pay) the net replacement rate also remains the same in the future with full indexation. Through the introduction of the average pay system, the replacement rate with a steeper career pattern lessens in the course of time. Through the wage remaining the same, the replacement rate increases in the situation of an interrupted career. Limitation of indexation to 80% by the employers' organizations and the trade unions ensues in a drop in the net replacement rate of slightly more than 5% in 2050.

Break-even contribution rate

The new Financial Assessment Framework sets requirements for the break-even contribution rate. The funding of the pension scheme as committed must correspond with the costs charged. By prescribing a break-even contribution rate, the intention is partly to avoid the necessity of recourse to intergenerational solidarity for foreseeable risks.

Adjustment of favourable tax conditions of early retirement schemes and introduction of a life course arrangement

Demographic ageing necessitates increasing the effective pensionable age. The government does not consider it wise to continue giving the impression that early retirement is normal by continuing to support such arrangements through favourable fiscal conditions. For this reason, the fiscal facilities of VUT/early retirement schemes must be adjusted. At the same time, the life course arrangement is introduced, offering possibilities for young and old. (See section 1.3 for further details on this subject).

2.2 Financial sustainability of pension systems

The Member States should follow a multi-faceted strategy to give pension systems a sound financial basis, including a suitable mix of policies in order to:

OBJECTIVE 4

Achieve a high level of employment through, where necessary, comprehensive labour market reforms, as provided by the European Employment Strategy and in a way consistent with the Broad Economic Policy Guidelines (BEPG).

OBJECTIVE 5

Ensure that, alongside labour market and economic policies, all relevant branches of social protection, in particular pension systems, offer effective incentives for the participation of older workers; that workers are not encouraged to take up early retirement, and are not penalised for staying in the labour market beyond the standard retirement age; and that pension systems facilitate the option of gradual retirement.

Policy objectives

Increasing labour market participation, and making all early retirement schemes unattractive:

- Reducing long-term unemployment and incapacity benefit dependency.
- Introducing an obligation to apply for jobs for everyone of 57.5 and older with recent work experience and who is currently unemployed, as well as the new influx.
- Combating age discrimination.
- Abolishing tax facilities associated with VUT/early retirement schemes.
- Introduction of a life course arrangement.
- Encouraging an “age-conscious” staff policy with consideration for the course of people’s lives.
- Creating more possibilities for people to continue working after the age of 65.

Policy

The further increasing of labour market participation is a major commitment of policy. Important aspects here are the labour market participation of senior citizens and women (where attention must also be paid to the combination of work and care), recipients of benefits (here, an important consideration is making social security and income systems “activating”) and people with little education (in particular, those without a starting qualification).

Level of Participation

With a view to broadening the basis of support regarding the approaching costs of ageing, the government is aiming for the highest possible degree of labour market participation. Within the framework of the Lisbon strategy, the government is aiming to achieve the participation objectives agreed at a European level (see table 6). This would mean achieving, by 2010, a degree of participation of 70% for the working population as a whole, with the following secondary objectives: a degree of participation of women of 60%, and a degree of participation of 50% for older people (55-64 years). In addition, intermediate goals have been agreed for total participation in the labour market (67% in 2005) and the participation of women (57% in 2005). These objectives are based on European definitions (which, unlike the national statistics, include jobs of less than 12 hours a week). Particularly for the Netherlands, which has a high percentage of part-time workers in comparison with the EU25, this presents a distorted picture. This is because these ‘small jobs’ count fully towards the degree of participation, although they only have limited economic significance because of the small number of hours.

Table 6 Progress with the Lisbon objectives (net levels of participation)

	EU objective 2010	1999	2000	2001	2002	2003
Participation level, total	70%	71.7	72.9	74.1	74.4	73.5
Women	60%	62.3	63.5	65.2	66.2	65.8
Older people (55-64)	50%	36.4	38.2	39.6	42.3	44.8

Source: European Commission

In addition to the objectives within the framework of the Lisbon strategy, the government has also formulated national objectives for the degree of participation of women, older people and ethnic minorities (see table 7). These objectives have been formulated in accordance with the national definitions so that only 'bigger jobs' count (≥ 12 hours). Tables 6 and 7 show that the degrees of participation have fallen slightly in the past few years due to the unfavourable economic situation. This does not apply to the participation of older people, which continues to rise.

Table 7 Progress regarding national objectives (net levels of participation)

	Objective	2000	2001	2002	2003	2004
Participation rate: women	65% (2010)	52	53.5	54.3	54.7	54.4
Older people (55-64)	40% (2007)	33.6	34.9	37.9	38.6	39.8
Minorities	54% (2005)	47.6	50.1	49.9	48.6	47.5

Source: CBS

As regards the (future) economic basis of support for collective provisions, it is not only important to look at the number of people in work, but also at the number of hours actually worked per person. In the Netherlands, the per capita number of hours worked by the potential working population (997 hours) is less than the EU average (1034 hours). A major explanation for this is the popularity of part-time jobs. Approximately 35% of Dutch people work part-time (< 30 hours a week) and that is twice as many as the EU average. As many as 60% of Dutch women work part-time. In principle, there is therefore scope for raising the total number of hours worked in the Netherlands to the European average.

There is also scope for increasing the net participation on the labour market. Although the Dutch participation of older people has increased in the past few years, this increase is strongly concentrated in the age group 55-60. In the age category of 60-65, participation remains low, with three out of ten men working and only one and a half out of every ten women. In 2003 the average Dutch older person left the labour market around their 61st year. To safeguard the basis of support for the extra expenditure for the AOW, for instance, it is necessary for the workforce participation of people of 55-65 to increase.

The need to take measures now is also apparent from the remarkable change in the ratio of unemployed people of 55 and older in relation to available employment. The drop in this ratio in the second half of the nineties has meanwhile been reversed into an increase that in 2003 reached a full 1%, while the pressure from the number of people over 65 in relation to the potential working population only increased in 2003 by 0.2 %.

Employment for 15-64 year olds was 73.5% in 2004; for 55-64 year olds, it was 45.6% (men 56.8% and women 34.1%). The net labour market participation of people aged 25-64 was 78.2% in 2004 (with 77.4% of men working and 79.4% of women) and for 55-64 year-olds the net labour market participation was 39.8% (with 53.5% of men working and 25.9% of women).

Social security adjustments

- To reduce claims for a WAO incapacity benefit, the current group of people under 50 who is disabled for work are being reassessed as from 1 October 2004 against the adjusted Incapacity Assessment Decree (*Schattingsbesluit*).
- It will be made more attractive for employers to employ and retain older people. Employers do not pay WAO basic contribution. This applies to employees of 55 years or older who are already employed, and for employees of 50 years and older who are taken on.
- If a worker who is disabled for work is reappointed, the employer gets a maximum of one year's reduction in WW (Unemployment Insurance Act) and WAO contributions. If an employer takes on a person who is disabled for work, the reduction is for 3 years.
- The WW follow-up benefit, which always used to follow the salary-based WW benefit, has been abolished for those who entered the WW scheme on or after 11 August 2003. In the past, (in the event of continuing unemployment) people could be eligible for a maximum of 2 years for a follow-up benefit of at most 70% of the minimum wage. Older workers were even entitled to a follow-up benefit of 3.5 years.
- Since 1 January 2004, the obligation to apply for jobs was reintroduced for WW benefit recipients of 57.5 and older with a realistic chance of finding work. At the request of the Lower House, a

temporary arrangement will be made so that a certain group of older unemployed people who do voluntary work and/or care work can be exempted.

- Everyone with a social assistance benefit must try to find work as fast as possible and is obliged to apply for jobs. On the basis of the 2004 Reformed Social Assistance Act local authorities have been given more freedom and responsibility for the administration and for the budget of the local social assistance and have a greater role in effectively integrating benefit recipients into the labour market.

Fiscal measures

- If an employee changes to a part-time job or a lower-skilled job with lower pay than the current job in the last ten years before reaching pensionable age, it is allowed to still include the wages that are forgone as a result of accepting this part-time job or lower-level job in the pension accrual, making pension accrual possible on the basis of the old (higher) salary.
- Since 2002, it has been more attractive for older people to continue working, with the introduction of the increase in the employed person's tax deduction for older people. The higher the age, the higher the increase in the tax deductions.

Part-time pension

Part-time pensions are provided for in Dutch legislation. The employers' organizations and the trade unions determine the scope of the supplementary pension scheme and therefore also determine whether the possibility of part-time pension is part of the supplementary pension scheme. In the case of a part-time pension, pension payments can be received while the employment is partly continued, and pension can still be accrued over that part.

Dutch Equal Treatment Act on the basis of Age in Employment (WGBL)

Since 1 May 2004 it has been forbidden to discriminate on the grounds of age in areas including recruitment and selection, terms of employment, training and dismissal. Only if there are objective grounds for justification is distinguishing on the basis of age allowed.

Encouraging older workers to continue working longer

This is emphatically a responsibility of the employers' organizations and trade unions, with the government playing a supporting role. Until the end of the cabinet period, € 21 million is available for projects to encourage age-conscious policy in companies. Companies must make efforts to keep older people in their employ, e.g. by offering supplementary training or by adapting jobs. In the coming two years, € 2 million will be reserved for experiments with (inter)sectoral labour mobility, while older people who work for a long time in sectors where they carry out physically demanding or monotonous work can (either temporarily or permanently) transfer to other branches of industry.

Child care

The new Child Care Act introduced on 1 January 2005 aims at guaranteeing affordable and accessible child care. The possibility of both parents participating in the workforce is thus increased, and they can both accrue a supplementary pension.

Outlook

The government is working on an ambitious agenda for reform in order to realize its objectives for increasing the labour market participation.

Adjustment of favourable tax conditions of early retirement schemes

To be able to accommodate the financial consequences of demographic ageing, it is important that older people continue to work longer. The government has therefore decided to adjust the tax facilities of schemes geared towards stopping working before the age of 65 (for more information, see section 1.3)

Continuing to work after the age of 65

Even though the Netherlands has no legal restrictions regarding working beyond the age of 65, the government will provide a response in the autumn of 2005 to advice from the SER (Social and Economic Council), the Labour Foundation (STAR) and relevant interest groups about removing obstacles to continuing to work after the age of 65. In the response, the results of the project of the Expertise Centre LEEFtijd, formerly known as the National Office against Age Discrimination, will be included, which investigates what the effect is of the 65-year boundary on the carrying out and

combination of various activities such as paid work, education, care and social life/leisure activities. An answer will also be given to the question of what adjustments are desirable and necessary to remove obstacles to continuing to work longer.

Demotion in the Pension Act

Through the transition from final to average pay schemes, the adverse consequences of demotion for pension rights to be accrued are partly countered. In addition, there are plans to include a provision in the Pension Act stipulating that pension rights already accrued cannot be reduced through a change in a pension scheme, whether collective or individual. Even in the event the pension scheme is not changed, but there is a reduction in income, (e.g. as a consequence of demotion or a reduction in the number of hours worked), this must not affect the rights already accrued. It is thus legally set down that demotion and part-time work should not have adverse consequences for rights already accrued. The extent to which demotion and part-time work have consequences for rights still to be accrued (also important in the case of average pay schemes) depends on the agreements to be made by the employers' organizations and trade unions.

Changes in incapacity benefits

A relatively large number of people claim incapacity benefits in the Netherlands. If no measures are taken, the increase in the number of older employees and the number of working women will result in an increased number of people who are incapacitated for work in the future. The government feels that it is important that people who are partially incapacitated for work keep working insofar as possible. The Disability Insurance Act (WAO) is therefore due to be replaced by the Work and Income according to Labour Capacity Act (WIA) on 1 January 2006. The core of the WIA is that employers and employees are financially stimulated to reintegrate people who are partially incapacitated for work as much as possible. People who are fully and permanently incapacitated for work receive a benefit amounting to 70% of their former wage. People who are partially incapacitated for work who do not find work receive a benefit based on the minimum wage. If they do find work, they receive, in addition to their work, a supplement of their income to 70% of the difference between the former and new wage. (For further information see www.employment.gov.nl/social-protection/occupational-disability).

Change in the Unemployment Insurance Act (WW)

This scheme is going to be cut back, following consultations between the employers' organizations and the trade unions, partly to prevent the WW from being used as a route to early retirement.

(For further information concerning employment policy, see the National Action Plan (NAP) on Employment 2004).

OBJECTIVE 6

Reform pension systems in appropriate ways, taking into account the overall objective: maintaining the sustainability of public finances. At the same time, sustainability of pension systems needs to be accompanied by sound fiscal policies, including, where necessary, a reduction of debt. Strategies adopted to meet this objective may also include setting up dedicated pension reserve funds.

Policy objectives

- Timely measures so that the burden of ageing can be accommodated in the coming decades without the collective claims having to be limited or the expenses increased.
- To aim to pay off the public debt in a way that is compatible with sustainable public funds.

Policy

At the time of the previous NSR-P, the Netherlands Bureau for Economic Policy Analysis (CPB) estimated economic growth at 1.5% for 2002 and 2.5% for 2003. Ultimately, growth was realized of 0.6% in 2002 and -0.9% in 2003. The worsened economic situation was also visible in the public funds. EMU surpluses turned into deficits, with the deficit in 2003 reaching 3.2% of the GDP. The steady drop in the EMU debt turned into an increase of up to 54.3% of the GDP in 2003.

In 2002, expenditure on social protection in the Netherlands made up 28.5% of the GDP. This was an increase compared to 2000 (when it was 27.4%), but a drop compared to 1995 (when it was 30.9%).

Table 8 AOW pensions in % GDP

	2000	2001	2002	2003	2004	2005	2006
AOW pensions	4.75	4.72	4.80	4.94	4.92	4.95	4.93

Source: CBS, CPB

The worsened budgetary situation has put the sustainability of the public funds under pressure. For that reason, the Dutch government has taken supplementary measures to prevent another transgression in 2005 of the EMU deficit limit of 3% of the GDP. General increases in the tax and contributions burdens and measures that stand in the way of economic recovery were avoided as much as possible. A slight recovery has since become discernible. For 2005 the CPB estimates an economic growth of 1%, following a growth of 1.4% in 2004. It is expected that the growth in 2006 will accelerate to 2.25%. At the same time, the EMU deficit in the CPB estimates will fall from 2.5% of the GDP in 2005 to 2.0% in 2006. For 2006, an EMU deficit of 1.7% is projected.

Like most other European countries, the Netherlands faces a surge in population ageing in the next few decades. The consequences of this development for the AOW old age benefit scheme, the WAO incapacity benefit scheme and health care will be far-reaching. Without adequate policy, public funds could, as a consequence of the higher AOW and health care expenditure, end up on an unsustainable course leading ultimately to an explosive growth of public debt.

By taking prompt action, the government wants to make sure that paying off the public debt – which is necessary to be able to accommodate the consequences of demographic ageing – is not neglected.

To this end, it has formulated a three-pronged policy:

- Sustainable budgetary policy aimed at debt repayment, allowing savings on interest expenditure and accommodation of the higher burdens of ageing;
- Increase in labour market participation, thereby extending the financial basis of support for maintaining collective provisions (see objectives 4 and 5);
- Adjustment of collective schemes other than the AOW (see objectives 4 and 5).

Outlook

The previous NSR-P was based on *'Ageing in the Netherlands'*. These calculations have resulted in the aim to settle the public debt by around 2025. From the discussion on the update of *'Ageing in the Netherlands'* in the 2004 Budget Memorandum, it appears that the government's policy efforts were sufficient at the time to achieve sustainable public funds. On the grounds of this update, it could again be concluded that the burden of ageing could be dealt with without the collective rights having to be limited further or the burden increased. In the course of 2005 another update of *'Ageing in the Netherlands'* will become available, which could lead to new insights. The new CPB projections will make it clear whether the three-pronged policy that has been initiated is sufficient to ensure that the government provisions can keep in step with prosperity development, after the necessary adjustments, without an increase in the financial burden or an ultimate explosive growth of public debt.

OBJECTIVE 7

Ensure that pension provisions and reforms maintain a fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter.

Policy objective

Maintaining a "fair balance" between the active and the retired as regards the distribution of costs and benefits of collective schemes.

Policy

The demographic structure of the Dutch population is set to change drastically in the coming decades, with major consequences for the funding of collective provisions.

Table 9 Gross pension payments and yield of income tax on pensions

	2001	2020	2040
Gross pension payments (to beneficiaries)			
First pillar (% GDP)	4.7	6.8	9.0
Second pillar (% GDP)	4.1	7.3	12.9
Total pension payments (% GDP)	8.8	14.1	21.9
Tax income from pensions			
Direct taxation on pension payments (% GDP)	1.8	2.9	4.9
Indirect taxation on pension payments (% GDP)	1.5	2.3	3.5
Total taxation on pension payments (% GDP)	3.3	5.2	8.4
Pension fund capital			
Pension fund capital (% GDP)	121	172	195

Source: CPB 2000. An update is expected in late 2005.

First pillar

People under 65 (whether in or out of work) pay 17.9% in AOW contributions. This contribution is not sufficient to accommodate the rising costs of the AOW scheme. When applying the policy of linkage to the Dutch minimum wage, AOW expenditure will rise from around 5% GDP at present to around 9% when population ageing peaks. To make sure not only people under 65 pay for the costs of ageing, the amount of the AOW contribution has been maximized to 18.25%. Any deficits will be filled from the tax revenues. As older people also pay tax, they therefore contribute towards the extra costs of the AOW which cannot be covered by the contributions.

Second pillar

In the event of increasing population ageing, tension could arise between the adequacy and sustainability of supplementary pensions. Full indexation of pensions that have taken effect puts a heavy burden on the active pension scheme members in a long period of low returns on investment because they then fully finance the indexation within the pension funds. (In the case of pension schemes implemented by an insurer, this depends on the contract). The Netherlands currently has over two million pensioners, but this number is going to double in the coming decades. Through the shift from pure final pay schemes to mitigated final pay or average pay schemes and the use of the conditionality of indexation, the PAYG elements within the second pillar (e.g. the back-service costs) have become smaller.

Outlook

Through the mix of PAYG funding in the first pillar and capital funding in the second and third pillars, the costs of the (future) provisions for old age are distributed as evenly as possible between the various generations.

OBJECTIVE 8

Ensure, through appropriate regulatory frameworks and through sound management that private and public funded pension schemes can provide pensions with the required efficiency, affordability, portability and security.

Policy objectives

- Effective implementation of the first and second pillars.
- Optimal guarantee of pensions in the second pillar, including through the FTK assessment framework.

Policy

Effectiveness

The first pillar old age provisions (AOW) are implemented by the Sociale Verzekeringsbank (SVB). Legal norms have been established to ensure legitimate and efficient implementation.

Implementation of the second pillar, the supplementary pensions, is taken care of by a pension fund for 85% of participating workers, and by an insurer for 15%. Collective implementation by pension funds makes it possible to achieve a good investment result against a relatively small risk for the pension scheme members, because these risks can be borne together and across several generations. In the case of pension schemes implemented by insurers, this risk is borne by the insurers. Both for the insurers and the pension funds, there are incentives for efficient implementation:

- Insurers operate in a competitive market in which they are open to incentives for efficient operations.
- Pension funds have an incentive for efficient implementation because inefficient implementation leads to higher costs for employers and employees. Employers' organizations and trade unions represented in the board of a pension fund will therefore aim for the highest possible level of efficiency in their own interests.

Guaranteed pensions

Because of its PAYG funding, the first pillar is sensitive to the impending surge in population ageing, which constitutes a risk for the stability of public finances.

Levels of wage movements, inflation and interest, and profitability are factors that have a significant impact on (the costs of) the *second pillar* because of capital funding. The second pillar is affected to a lesser degree by ageing, though ageing does ensue in a strong increase in pension capital in relation to total amount of wages, limiting possibilities for countering any future shocks that may occur by means of contribution increases. The combination of a defined benefit basic pension in the first pillar which is PAYG-funded, and a defined-benefit or defined contribution supplementary pension in the second pillar which is capital funded, and on top of that the possibility of an individual third pillar provision, offers the best guarantee under the current circumstances for maintaining a decent living standard in old age.

The basic pension in the first pillar is guaranteed by law.

The Pension and Savings Funds Act (PSW) lays down rules for protecting the accrued pension rights of workers in the *second pillar*. One of the most important statutory guarantees is that the employer must make sure a pension commitment remains outside the scope of risk of the company. Moreover, pension obligations must be funded on the basis of capital funding. Supplementary pensions are often managed by pension funds. At the end of 2004, the total capital of the pension funds amounted to an estimated € 539 billion (which is 115.8% of GDP).

As well as the pension funds, the insurers, who implement second and third pillar pensions, have also amassed a large capital. At the end of 2004, the pension capital of insurers (second and third pillars together) amounted to an estimated € 327 billion (or 70.3% of GDP).

Transferability

In the Netherlands, value transfer is a statutory entitlement (see objective 9). Even if this entitlement is not used, and pension rights are therefore not transferred to a new pension provider, the supplementary pension rights of past pension scheme members ('early leavers') are guaranteed. In the Netherlands, the rights of these 'early leavers' are treated in the same way as the rights of pensioners. This is particularly relevant regarding indexation.

Outlook

Financial Assessment Framework

The falls in share prices in 2001 and 2002, in combination with the simultaneous low interest rate, have shown that the effect of these factors on the capital funded second pillar must not be underestimated. This is partly what prompted the creation of a new Financial Assessment Framework (see also section 1.3).

Financial supervision of pension funds is based on a "prudent person principle". This means that investment restrictions are not quantitative but qualitative. Qualitative investment restrictions test pension providers according to specific characteristics, such as a good match between assets and commitments, aiming at an optimum risk-return profile for the fund. The advantage of this is that no more restrictions are imposed on each pension provider than necessary, which results in more investment freedom and also higher returns (tailoring).

Defined benefit schemes under pressure

In the defined benefit schemes, there are the costs of current pension accrual as well as backservice costs and indexation to deal with. These have to be funded through the contributions, and the returns. The returns have been lower in recent years due to the low interest rate and the falls in share prices. As a result, the coverage levels of the pension funds have dropped, and the contributions for employer and employee alike have, in many cases, increased.

The Dutch defined benefit schemes are also coming under pressure from the new accounting standards. As from financial year 2005, listed companies within the EU must account for pension commitments in their annual report in accordance with IAS 19, just one of the International Financial Reporting Standards. Guideline 271 of the Council for Annual Reporting in the Netherlands (*Raad voor de Jaarverslaggeving*) (based on IAS 19), aims to provide practical guidance regarding the circumstances in which pension schemes can be considered either as defined benefit or defined contribution schemes. Guideline 271 indicates that the distinction should be made on the basis of the financial risks the company runs. Here, not only what has been formally agreed and what is legally enforceable is relevant, but also the customary line of conduct followed by the company. Although guideline 271 takes account in a careful and balanced way of the specific characteristics of the old age pension system in the Netherlands within the possibilities offered by the IAS 19, this guideline acts as an incentive for some employers to convert their scheme from a defined benefit to a collective defined contribution scheme. (As far as the pension scheme member is concerned, it remains a defined benefit scheme with regard to the nominal entitlements, but the indexation is determined by surplus interest on the contribution. This means that investment risks are borne to a greater extent than before by the pension scheme members).

2.3 Modernisation of the pension system in response to changing needs of the economy, society and individuals

OBJECTIVE 9

Ensure that pension systems are compatible with the requirements of flexibility and security on the labour market; that, without prejudice to the coherence of Member States' tax systems, labour market mobility within Member States and across borders, and non-standard employment forms do not penalise people's pension entitlements and that self-employment is not discouraged by pension systems.

Policy objectives

- Accessibility of a pension scheme must not be affected by part-time or temporary work, and non-standard employment forms must not adversely affect the accrual of pension rights.
- Labour market mobility within the Netherlands and within the EU must have as few negative consequences as possible for pension accrual.
- Self-employment must not be discouraged by the pension system.

Policy

Flexible employment

Equal treatment

In the first pillar, length of service or career pattern is not relevant for the accrual of AOW pension, as this pension is based on residence. As regards supplementary pensions in the second pillar, it has been provided for by law since 1994 that part-time workers may not be excluded from participation in a pension scheme. In November 2002, it was provided by law that no distinction, either direct or indirect, can be made between workers with a contract for specific period of time and workers with a contract for an indefinite period as regards employment conditions (including supplementary pensions). Such a distinction can only be justified for objective reasons.

Temporary workers

In 1999, a branch pension fund (STIPLU) was set up for long-term temporary workers. Participation in this fund was made mandatory on 13 December 2003 on the basis of the 2000 BPF Act. This means that all temporary workers who both have been working at least 26 weeks at one and the same employment agency and are 21 or older, accrue a pension.

Labour mobility

Waiting periods

Although no maximum limit has been set in Dutch legislation for waiting periods in supplementary pension schemes, the vast majority of supplementary pension schemes have no waiting period at all. Of the total of more than 6 million members of pension schemes and insurers, approximately 7% have a supplementary pension scheme with a waiting period. Of members of a pension scheme with a waiting period, the vast majority have a waiting period of one year or less, and this waiting period counts with retroactive effect towards pension accrual.

Labour mobility within the Netherlands

With regard to the first pillar, changes of job have no effect in the Netherlands on the accrual of old age pension, as the basic state AOW pension is accrued on the basis of residence. In the second pillar, over 70% of employees with a supplementary pension participate in a branch pension fund, which may or may not be mandatory. Considering that people usually change jobs within the same sector, pension accrual can often be continued within the same pension scheme and pension provider.

In cases where a change of pension provider is necessary, value transfer has been a legal right since 8 July 1994 (an option for the employee). Value transfer entails that the pension rights accrued during the employment that has been terminated are transferred to the new employer's pension scheme. In the case of pension rights accrued before 8 July 1994 (before value transfer was a legal right), or if employees do not make use of their legal right to value transfer, the accrued pension rights stay behind with the pension provider of the former employer in the form of a so-called 'non-contributory pension entitlement'. These entitlements are payable when the individual reaches pensionable age. Since 1992, non-contributory entitlements have to be indexed in the same way as pensions that have taken effect.

Cross-border labour mobility

Government policy is aimed at minimizing the negative consequences of cross-border labour mobility for pension accrual. In the first pillar, if the individual moves abroad, the AOW pension accrued in the Netherlands is paid out abroad when the individual reaches pensionable age. Moreover, it is possible to continue AOW pension accrual for a maximum of 10 years on a voluntary basis from abroad. If job changes take place within the EU, the accrual of pension entitlements is coordinated by European legislation. In the case of supplementary pensions in the second pillar, pension providers, under certain conditions, have the legal authority to transfer the pension entitlements abroad. Exemption is required for this from DNB. To obtain this exemption, the requester of the value transfer must demonstrate that the institution taking over the pension rights will actually implement the pension scheme of the future employer. In addition, there has to be some form of supervision of the pension provider, and the financial management of the institution implementing the pension scheme must be completely independent of the future foreign employer.

Workers migrating to the Netherlands can, under further conditions, continue their pension accrual in the country of origin. In addition, pensions can be transferred to the Netherlands.

Tax considerations of cross-border value transfer

Transfer of pension rights to a foreign pension provider need not have fiscal consequences. The entitlements will then remain untaxed, as in the domestic situation. However, they are subject to a 'protective assessment' (*conserverende aanslag*). On request, deferral of payment is granted. This is on condition, however, that the pension provider undertakes to provide information about the settlement of the pension, and that the pension provider – or the tax subject him or herself – furnishes security for the tax liability which can be converted to cash in the Netherlands. Since 11 July 2004, deferral of payment has been granted automatically for transfers within the EU (so a request is no longer necessary) and the requirement that the foreign pension provider must provide security is replaced by the requirement of a (civil) acceptance of liability for the amount of tax owed as stated in the protective assessment. If any improper acts occur within ten years after the protective assessment is imposed, for example, commutation and alienation of the pension benefits, the deferral of payment is discontinued and the tax referred to in the assessment collected.

Mandatory pension schemes for professional groups also have right to value transfer and prohibition to cash-in entitlements

On 12 April 2005, the Lower House agreed to a legislative proposal to modernise the Mandatory Participation in a Pension Scheme for Professional Groups Act (Bpr) and further facilitate mobility between employment and self-employment. This legislative proposal also entitles the self-employed to value transfer, and introduces a prohibition to cash-in these pension benefits, preventing the value of pension benefits from being spent on something other than pension (see also section 1.3).

Entrepreneurship

Self-employed people can provide for their old age pension in various ways:

- As residents of the Netherlands, the self-employed also accrue rights to an AOW pension.
- Another possibility is to create a reserve for old age, in the form of a tax reserve that makes it possible to keep the provision for old age within the company; the maximum annual addition to the reserve is linked to the amount of the operating profit. The pension contribution paid, if applicable, is deducted from this maximum addition (see below).
- Some self-employed people can take out voluntary insurance with a branch pension fund, while some are compelled to participate in one.
- Some groups of self-employed people, such as medical specialists, GPs, pharmacists and vets are subject to the Mandatory Participation in a Pension Scheme for Professional Groups Act (Bpr). They are compelled to participate in a pension scheme and accrue a pension in this way.
- In addition, the self-employed can also choose to purchase an annuity in order to accrue a supplementary pension with tax facilities.

From employment to self-employment and back

Employees who switch to working on a self-employed basis are allowed by law to continue their second pillar pension scheme on a voluntary basis for a further three years after terminating their employment. After that, they have the possibilities mentioned above for accruing a pension. As stated earlier, the pension entitlements the individual accrued as an employee are not lost. These entitlements are payable when the person reaches the pensionable age, and, under law, must be indexed in the same way as pensions that have taken effect in the pension scheme concerned. If a self-employed person becomes employed again at a later point in time, he or she will be entitled to transfer the value of the pension rights accrued in the past as an employee to the supplementary pension scheme of the new employer.

Outlook

Further refinement of legislation on value transfer within the Netherlands

The Pension Act (which replaces the Pension and Savings Funds Act, PSW), provides that the employee must be informed if the new employer's pension scheme is underfunded. This is important because the pension rights could be affected. When employees change to a new job, they can opt to waive their right to value transfer and leave the pension they have accrued with the pension provider of the former employer.

International value transfer also possible under certain conditions

There are still some obstacles as regards value transfer to foreign pension providers, even in the EU. There are plans to broaden the possibilities in the Pension Act for the transfer of value to foreign pension providers. The principle remains that pension rights may not be lost as a result of transfer abroad.

Portability guideline

With a view to enhancing mobility on the EU labour market, the European Commission has announced that it will be providing a guideline aimed at promoting the transferability of pensions. In the Netherlands, this development is being followed with interest by all the parties involved. After all, the Netherlands does have a mature value transfer system. European legislation on the transferability of pensions must not have a negative effect on (the development of) capital-funded second pillar pensions.

OBJECTIVE 10

Review pension provisions with a view to ensuring the principle of equal treatment between women and men, taking into account obligations under EU law.

Policy objective

Equal treatment in the pension system of:

- Men and women, and
- Married couples/cohabitantes and single people.

Policy

Equal treatment in the first pillar

A person's sex plays no role at all in the accrual of the AOW pension. The other conditions for payment and pensionable age in the first pillar are also the same for men and women.

Equal treatment in the second pillar

More access for women to supplementary pension schemes

In the second pillar, there is a steady increase in the numbers of younger generations of women accruing a supplementary pension of their own, on top of the AOW pension.

This is due to:

- An increase in labour market participation by women. Between 1990 and 2003, the employment ratio rose from 39% in 1990 to 55% in 2003.
- The equal treatment of full-time and part-time workers and of people with a contract for a specific period and those with a contract for an indefinite period (see objective 9).
- The general policy aimed at reducing the number of employees not accruing a supplementary pension (reducing 'white spots').
- Lowering of the AOW franchise. In the reform of the pension schemes, the franchise is being lowered further and further. With a lower franchise, people can accrue a supplementary pension with a lower income.

Equal payments for men and women

In the second pillar, fully equal treatment of men and women has been realized. The Netherlands is one of the few EU Member States that has legislation requiring equal treatment of men and women regarding all second pillar pension schemes. There must be an equal employee contribution and an equal payment regardless of the difference in life expectancy between men and women – this holds not only for final pay and average pay schemes (as from 1 January 2002), but also for the available contribution schemes (as from 1 January 2005) as well as all options offered in pension schemes.

Right to exchange survivor's benefit for old age pension

On 1 January 2002, a legal right was introduced for people accruing a survivor's benefit to make a one-off choice to exchange the survivor's benefit for extra pension or pension that takes effect earlier. This allows single persons as well as two-income households with both partners having a supplementary pension to waive their right to a survivor's benefit. This exchange must take place in the same way for both sexes, i.e. a woman may not receive less pension in the exchange than a man.

Pension equalization after divorce

When people get divorced, the matter of pensions has to be dealt with. Problems occur in particular if only one of the two partners has accrued a pension. The Netherlands has applied legal rules to equalize pension rights built up during the marriage or registered partnership, after divorce. All pension rights that have been accrued, both for old-age and partner pension, have to be taken into account.

Equal treatment in the third pillar

The old age provisions of the third pillar are subject to the Equal Treatment Act (AWGB), which prohibits treating men and women differently. However, in the event of insurance of a risk that depends on a person's life (e.g. an annuity), a contribution may be calculated that takes into account the person's sex, insofar as the difference in life expectancy between men and women can be objectively demonstrated.

Prospects

Removal of breadwinner model from first pillar

As from 2015, the AOW supplementary allowance (a supplementary allowance for recipients of an AOW pension who are married to or sharing a household with a partner under 65) will no longer be available for new beneficiaries. The supplementary allowance is income-tested and amounts to a maximum of 50% of the net minimum wage. The AOW supplementary allowance is based on the breadwinner model, according to which it is mainly men who bring home the family income. As from 2015, younger partners will be expected to support themselves until reaching the pensionable age under the AOW scheme.

Further increase in women's access to pension schemes

In the future, women will be accruing a supplementary pension, and being able to achieve a full pension, with increasing frequency. However, account does have to be taken of the part-time factor. 60% of Dutch women works part-time, often in the smaller part-time jobs. It is therefore important to promote economic independence of women during their working life. If economic independence is achieved, the pension will also be at an acceptable level when it becomes payable.

Right to exchange old age pension for survivor's benefit

Following the right to exchange a survivor's benefit for an old age pension, the Pension Act will also introduce a legal right to a reverse exchange. Again, the exchange must be the same for both sexes. A man may therefore not receive less survivor's benefit than a woman from the exchange.

Equal treatment in the third pillar

The Netherlands already meets the arrangements that should be made under guideline 2004/113/EG concerning the principle of equal treatment of men and women regarding access to and availability of goods and services for individual insurance products in the third pillar.

OBJECTIVE 11

Make pension systems more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. Develop reliable and easy-to-understand information on the long-term perspectives of pension systems, notably with regard to the likely evolution of benefit levels and contribution rates. Promote the broadest possible consensus regarding pension policies and reforms. Improve the methodological basis for efficient monitoring of pension reforms and policies.

Policy objectives

- To get pension scheme members more involved
- To increase the possibilities for participation
- To increase transparency through more and better information and Pension Fund Governance
- To improve supervision

Policy

To improve the involvement of pension scheme members in their pension scheme

The Dutch working population has little or no affinity with pension matters. For instance, as a recent survey among the Dutch working population shows, a majority of Dutch workers is unable to determine on the basis of the pension information they receive whether supplementary measures ought to be taken. To prevent the nature and scope of the old age pension from coming as a surprise when the individual turns 65, awareness about pensions must be increased among citizens. The government is promoting this by subsidizing projects such as the website www.Pensioenkijs.nl and by making agreements with pension providers, employers' organizations, trade unions and senior citizens' organizations. In line with their own responsibility, pension providers strive to provide an improved and harmonized annual pension overview. Particularly if someone switches to a different pension provider as a result of changing jobs, it is important that every citizen of the Netherlands understands the consequences for his or her future pension.

Pensioner participation

The government considers it important that if choices have to be made regarding the implementation of

pension schemes, those who will be at the receiving end of such a choice have the opportunity to influence decision making on the choice as well as the possibility to object. On 28 February 2003, an agreement was concluded between the Labour Foundation (STAR) and the umbrella organization of elderly people's interest groups (CSO). This agreement prescribes that pensioners should, through representatives, have a voice in member councils or in the management of the pension funds. The government has created the preconditions to promote implementation of the agreement.

Supervision of the pension providers and of communication regarding pensions

DNB is responsible for supervising the pension providers. DNB carries out the primary supervision known as 'prudential supervision'. The main objective of prudential supervision is to see that the institutions under supervision are robust and solvent and can meet their obligations both now and in the future. A large part of this supervision is focused on whether institutions may be taking overly large financial risks. Another part concerns integrity. Here, the focus is on protecting and promoting the integrity of the financial system in the Netherlands, sound operations by the institutions under supervision, and on seeing that the specific rules and regulations in this field are being adhered to. In addition, DNB supervises the expertise and integrity of policymakers. Finally, the substantive supervision ensures that the provisions in the articles of association and the rules and regulations of pension funds do not conflict with the stipulations of pension legislation. It is laid down in law that DNB must intervene if a fund is not performing adequately. For this purpose, the supervisor has means for sanctions and specific measures. In addition, there is the secondary supervision, which is carried out by the Minister of Social Affairs and Employment on DNB. The minister can use the budget to put emphasis on particular aspects of DNB's supervisory policy.

Outlook

The Pension Act: better information, more transparency and supervision

Increasing transparency in the implementation of pension schemes enhances confidence in the existing pension system. The government therefore wants to improve the information furnished by pension providers about indexation, investment policy, capital position, setting of contributions, etc. The information about individual entitlements of active pension scheme members and early leavers alike must also meet the required conditions. To this end, statutory provisions will be included in the Pension Act.

With the introduction of this new legislation on information and transparency, a second supervisor has also been introduced: the Netherlands Authority For the Financial Markets (AFM). In this new situation, DNB will focus on the prudential and substantive supervision, while the AFM will carry out supervision of market conduct. The supervision of market conduct focuses on the question of whether the participants in the financial markets are handled properly and whether they have accurate information. Prudential supervision addresses the question of whether participants in the financial markets can rely on their contracting parties being able to meet their financial obligations.

Pensioner participation

If, by 1 July 2005, less than 65% of the pension funds meet the requirements for pensioner participation (see above, under policy), the parties to the agreement will make an urgent request to the government for a statutory regulation concerning pensioner participation. If the requirements are met, the process of self-regulation will be continued.

Information policy: pensions database

Apart from the interests of the individual pension scheme member in being informed about his or her pension, the employers' organizations and trade unions, organizations of pension providers, pension providers, CBS, CPB and various ministries (Social Affairs and Employment, Finance and Internal Affairs) all need information about supplementary pensions to be able to substantiate their tasks and responsibilities. The provision of information and the collection of data on supplementary pensions are currently strongly linked to the supervisory function, and take place on a fragmentary and ad hoc basis. The Pension Act will establish a legal basis for setting up and maintaining a pensions database which will be under the responsibility of DNB. The pension database will be set up, built and maintained in consultation between the Ministry of Social Affairs and Employment and the supervisory authority.

Pension Fund Governance (PFG)

As the implementation of pension schemes has become increasingly complex, Pension Fund Governance has been placed prominently on the agendas of the employers' organizations and trade unions, pensioners, and pension providers. In the course of 2005, the Labour Foundation (STAR) will be delivering a statement on this. Pension Fund Governance is aimed at providing answers to questions such as what responsibilities can be distinguished in the implementation of the pension scheme and the management of the pension fund, who is responsible, and to whom. The object is to contribute further towards transparency by means of self-regulation.

SECTION 3 CONCLUSION

The government is of the opinion that the Netherlands, in as far as it is currently possible to review and assess the situation, is on the right road to protect Dutch society from the negative effects of an ageing population while keeping its unique system of provisions for old age. The Dutch old age pension system is reasonably well-prepared. Where it is clear that there is a problem, measures are either waiting to be implemented or have already been implemented.

The government's far-reaching agenda of reform is making it increasingly difficult to take early retirement. Together with the adjustment of tax facilities for early retirement schemes, the changes to the incapacity benefit (WAO) and unemployment benefit (WW) schemes play an important role here. The use of these schemes is expected to decline, and older people are being encouraged to remain in employment longer.

Working for longer also has a positive effect on the sustainability of the AOW scheme. It is easier to finance the AOW if more people carry on working longer. Further debt reduction by the government will lead to future savings which can be used to help keep the AOW sustainable in the long term. To make the situation clearer, the AOW Pension Savings Fund was set up in 1998. This Pension Savings Fund shows how repayment of government debt - by freeing up money that was previously paid in interest charges - makes an important contribution to the future funding of the population ageing. The volume of the capital is expected to be about € 125 billion in 2020.

The sustainability of the supplementary pensions will be increased by the replacement of the Pension and Savings Funds Act of 1952 by the Pension Act. The Financial Assessment Framework (FTK), a clear division of responsibility between the employer, the pension scheme member and the pension provider, and the improvement in transparency by setting requirements for providing information are all subjects included in the Pension Act.

In addition to this new legislation, the way in which supplementary pensions are organized in the Netherlands contributes to the management of the pension burden. The link with decentralized employment conditions increases cost-consciousness. Because employers' organizations and trade unions are responsible for the supplementary pensions, pension schemes can be adapted more quickly to developments on the labour market, or tailor-made where necessary.

In the next fifteen years there will be extra income from taxes because many more people will receive a supplementary pension. The Netherlands has an advantage here compared with many other countries because this will reduce the pressure of ageing on public finances.

Because of the changing relationship between pension capital and the total amount of wages as a result of ageing, any future shock will have much greater consequences for the necessary rise in insurance contributions. In this regard, there are a number of future uncertainties facing the Dutch pension system:

- Future (worldwide) economic development. The Dutch pension system works best in a stable economic climate (economic growth, low inflation, stable rate of interest). Moreover, such conditions also exert a positive influence on the confidence the Dutch citizen has in the pension system.
- Life expectancy may increase faster than predicted. A rise in life expectancy makes occupational pensions more expensive. Given the age of retirement, the number of years that a pension is received is still rising, both in an absolute sense as well as related to the number of contribution years. If the birth rate falls, rising pension costs will have to be paid by an increasingly smaller group of people.
- Future regulations from the European Union. The Dutch system has a first pillar providing a basic pension and a second, very extensive, pillar of private insurance which is nonetheless characterized by collectivity and solidarity. This combination is fairly unique within the EU, with the result that the Dutch system is affected by regulations to encourage a free market. The effect on the Dutch pension system of this legislation, in particular, is uncertain.

To a large extent, the Netherlands meets the eleven common objectives.

Appendix: Statistical information

Preliminary comment with regard to the tables

Figures taken from tax records comprise the main source of the data. These are supplemented by administrative data concerning personal housing benefits and student grants. Child benefit and various social security contributions have been calculated. Households which comprise students only, or where none of the household members has a full annual income, have not been included.

Figures relating to population forecasts, household composition, employment and general socio-economic information come from CBS Statistics Netherlands.

Other sources of information are mentioned below the tables concerned.

Demographic information

Population size and population forecast

Sex	Total men and women				men				women			
Year	2004	2010	2030	2050	2004	2010	2030	2050	2004	2010	2030	2050
Age	Absolute numbers											
0-5 years	1021216	931100	956101	928513	522795	476529	489475	475146	498421	454572	466627	453368
5-10 years	986489	1005680	945505	934444	504698	514223	483505	477557	481791	491458	462001	456886
10-15 years	1007999	986362	922112	954901	515523	504745	471576	487901	492476	481618	450534	467001
15-20 years	971853	1015492	919151	982997	497718	519020	469663	501909	474135	496472	449487	481089
20-25 years	968863	1001876	988004	1025503	489597	507020	500112	519097	479266	494856	487892	506406
25-30 years	1009201	982784	1097511	1058836	507286	491949	551465	531936	501915	490835	546047	526900
30-35 years	1253764	990460	1086648	1056192	632725	492357	541958	527857	621039	498105	544689	528335
35-40 years	1316738	1175878	1093714	1048949	670121	584780	540959	521152	646617	591098	552756	527798
40-45 years	1293468	1290236	1035015	1065642	655320	649080	507988	527330	638148	641156	527028	538312
45-50 years	1183325	1281075	975897	1110285	596899	644848	476883	548261	586426	636228	499015	562023
50-55 years	1113623	1174344	958149	1062229	563512	588967	468837	523090	550111	585378	489311	539138
55-60 years	1084753	1080225	1094476	1034435	549006	542954	536459	507518	535747	537272	558017	526918
60-65 years	795586	1065514	1159871	946584	398401	534617	572856	461219	397185	530898	587016	485365
65-70 years	663208	771081	1101558	852807	320531	381320	540504	411504	342677	389763	561055	441301
70-75 years	573641	610137	942038	780632	259916	288144	452952	371566	313725	321991	489087	409064
75-80 years	456007	483894	761599	785619	185985	209289	353308	361152	270022	274606	408290	424467
80-85 years	325193	336604	590679	659892	114741	125821	255425	287894	210452	210783	335252	371998
85-90 years	158439	195753	272103	405948	45095	58484	102203	157652	113344	137270	169899	248295
90-95 years	60967	66356	97789	165834	13675	14953	27946	51900	47292	51402	69845	113935
95 and over	13699	17608	23958	45673	2370	2862	4346	10081	11329	14746	19614	35594
Total	16258032	16462459	17021878	16905915	8045914	8131962	8348420	8261722	8212118	8330507	8673462	8644193

Life expectancy at birth and at ages 60 and 65, by sex

Period	Men					Women				
	1995	2004	2010	2030	2050	1995	2004	2010	2030	2050
Age										
0 years	74.59	76.41	77.54	78.82	79.56	80.36	81.09	81.53	82.42	82.62
59.5 years	18.85	20.16	20.93	21.85	22.5	23.66	24.09	24.4	25.02	25.13
64.5 years	15.08	16.17	16.84	17.68	18.3	19.47	19.88	20.17	20.75	20.86

Present and future ageing burden (65+/15-64)

Year	2004	2010	2030	2050
	% (ageing burden)			
65+/15-64	21.6	22.4	36.4	18.6

Information on households

Proportion of home ownership among housing occupants, 18-60 years compared with 60+

	18 to 59 years	60+	Total population
own home	58,4	43,7	54,2
rented accommodation	41,6	56,3	45,8
Total	100	100	100

Source: WBO2002

*Numbers are in percentages, selected from housing occupants aged 18 jaar and older

Number of mortgages among own-home occupants, 18-60 years compared with 60+

	18 to 59 years	60+	total population
At least 1 mortgage	95,1	57,7	86,5
No mortgage	4,9	42,3	13,5
Total	100	100	100

Source: WBO2002

*Numbers are in percentages, selected from housing occupants aged 18 and older

Household composition for 65+ in 2001 (% of relevant age group)

Living with children		65+ living with another person 65+	Single person 65+
Single parent 65+	All households		
1	48	9	6

Source: Eurostat December 2004

General socio-economic information

(Growth) GDP per capita

Periods	GDP per head of the population (in €)	growth
1990	16270	
1995	19550	120.2
1996	20290	103.8
1997	21380	105.4
1998	22560	105.5
1999	23660	104.9
2000	25270	106.8
2001	26760	105.9
2002	27570	103.0
2003	28000	101.6

GDP per head of the population in purchasing power parity and growth in 2002-2004

	GDP per head in purchasing power parity			GDP growth (%)		
	EU25=100					
2002*	2003*	2004*	2002	2003	2004*	
121.9	119.9	117.7	0.6	-0.9	1.4	

* forecast

Source: Eurostat, European Commission, Nov. 2004

Number of persons in institutions, by age and sex (in absolute numbers), 2003

Age	Men and women	Men	Women
60-65	5068	2740	2328
65-70	6224	2988	3236
70-75	9954	3732	6222
75-80	18470	5275	13195
80-85	31658	7270	24388
85-90	37956	7423	30533
90-95	23799	4068	19731
95 and older	7402	1034	6368
Total	214800	79907	134893

Expenditure on social protection and pensions 1995-2000-2002

Expenditure on social protection (% of GDP)			Expenditure on pensions (% of GDP)		
1995	2000	2002	1995	2000	2002
30.9	27.4	28.5	14.1	13	13.1

Source: ESSPROS, Eurostat, Feb 2005

Social protection expenditure comprises: social benefits, administrative and other expenditure for sickness/health, incapacity for work, old age and survivors.

Pension expenditure comprises: old age, early retirement, survivors and incapacity for work.

Employment and unemployment figures by age in 2003 (%)

Employment						Unemployment					
25-64			55-64			25-54			55-64		
Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women
82.4	90.4	74.2	44.8	57.3	32.1	3.3	3.2	3.5	2.5	2.6	2.4*

* unreliable figure

Source: Eurostat, Labour Force Survey – Year averages, Jan. 2005

Public finance situation: debt and deficits

		EMU balance in percentage GDP	EMU balance in absolute value	EMU debt in percentage GDP	EMU debt in absolute value					
					Total EMU debt	Notes and coins	Short-term securities	Bonds	Short-term loans	Long-term loans
	Periods	in % of GDP	In mil. euro	in % of GDP	In mil. euro					
Total government	1996	-1.8	-5 745	75.2	237 019	1 197	7 031	150 950	7 607	70 234
	1997	-1.1	-3 714	69.9	233 322	1 219	6 043	157 918	5 329	62 813
	1998	-0.8	-2 705	66.8	236 464	1 244	6 971	165 912	5 140	57 197
	1999	0.7	2 476	63.1	236 021	1 250	5 145	176 021	5 032	48 573
	2000	2.2	8 866	55.9	224 729	1 274	5 507	170 966	5 709	41 273
	2001	-0.1	-322	52.9	227 075	1 233	5 708	174 088	8 489	37 557
	2002*	-1.9	-8 561	52.6	234 208	671	15 923	172 013	8 972	36 629
	2003*	-3.2	-14 464	54.1	245 688	695	20 169	182 041	6 344	36 439

* estimate

Objective 1 Poverty Risk

Persons with income below 60% of the median per household type and sex for various age groups, 2002

	Age groups					
	<60	<65	<75	60+	65+	75+
	in %					
men						
<i>single</i>	10.3	10.1	9.4	3.5	.	.
<i>couple without children</i>	3.6	4.7	4.5	4.8	3.7	2.9
<i>couple with children</i>	9.9	9.9	9.8	5.8	.	.
<i>single parent family</i>	20.1	19.9	19.7	.	.	.
<i>other households</i>	8.2	8.3	8.1	6.2	.	.
<i>total</i>	9.7	9.6	9.2	4.8	3.5	2.7
women						
<i>single</i>	9.7	9.4	8.2	4.1	3.6	2.9
<i>couple without children</i>	4.5	4.9	4.5	4.0	3.0	.
<i>couple with children</i>	10.3	10.3	10.3	.	.	.
<i>single parent family</i>	23.6	23.3	22.7	.	.	.
<i>other households</i>	8.2	8.1	7.9	5.1	.	.
<i>total</i>	10.5	10.2	9.7	4.2	3.4	3.0
total						
<i>single</i>	10.0	9.8	8.8	4.0	3.3	2.6
<i>couple without children</i>	4.1	4.8	4.5	4.5	3.4	2.8
<i>couple with children</i>	10.1	10.1	10.0	5.1	.	.
<i>single parent family</i>	22.1	21.9	21.5	.	.	.
<i>other households</i>	8.2	8.2	8.0	5.6	4.2	.
<i>total</i>	10.1	9.9	9.4	4.4	3.5	2.9

Income: standardized disposable household income, standardization on the basis of modified OECD scale.

Source: CBS, Incomes Panel Research (IPO) 2002, provisional

. Numbers < 5000.

Percentage of persons with income below and above 60% of the median for 60+, 65+ and 75+, 2002

Age group	income limit		
	< 40 % median	< 50 % median	< 70 % median
	in %		
60+	0.8	1.7	14.4
65+	0.5	1.4	13.7
75+	.	1.2	14.6

Income: standardized disposable household income, standardization on the basis of modified OECD scale.

Source: CBS, Incomes Panel Research (IPO) 2002, provisional

. Numbers < 5000.

Proportion of persons with income <60% of the median for 60+ and 65+ compared with the complementary age groups by sex, 2002

	total	men	women
60+/60-	0.4	0.5	0.4
65+/65-	0.3	0.4	0.3

Income: standardized disposable household income, standardization on the basis of modified OECD scale.
Source: CBS, Incomes Panel Research (IPO) 2002, provisional

Poverty risk for pensioners with an income < 60% related to the total median income, in 2001 (%)

Pensioners			Working population 15-64 years		
Total	Men	Women	Total	Men	Women
3	4	*	8	8	7

* unreliable figure

Source: Eurostat (2004), ECHP UBD version December 2003

Objective 2 Income

Proportion of income for persons in the age groups 60+, 65+ and 75+ compared with the complementary age groups <60, <65, <75 and 45-54 years, 2002

	All households		
	men	women	total
	in %		
60+ / <60	93.6	90.7	91.6
65+ / <65	90.3	88.9	89.0
75+ / <75	88.1	87.8	87.2
60+ / 45-54	85.3	79.1	81.7
65+ / 45-54	82.5	77.5	79.5
75+ / 45-54	80.0	75.7	77.2

Income: standardized disposable household income, standardization on the basis of modified OECD scale.
Source: CBS, Incomes Panel Research (IPO) 2002, provisional

Composition of components of gross household income for persons by age group and per quintile, 2002

Age	20%-part of gross income	AOW and any other pension	National assistance, unemployment and incapacity benefit	Earnings and profit	Own home, other capital, housing benefit and other income
Total	total	8.8	5.5	84.2	1.5
	1st 20%	42.5	26.0	26.1	5.4
	2nd 20%	18.3	10.7	69.5	1.6
	3rd 20%	8.0	5.6	87.1	-0.7
	4th 20%	5.0	3.5	92.6	-1.1
	5th 20%	3.2	1.9	91.6	3.3
60+	total	59.2	7.9	23.9	9.0
	1st 20%	81.1	10.5	-0.5	8.9
	2nd 20%	81.9	8.6	1.9	7.5
	3rd 20%	78.3	10.8	4.9	6.0
	4th 20%	68.7	10.1	15.5	5.7
	5th 20%	38.8	5.4	43.9	11.9
65+	total	72.8	3.2	13.5	10.5
	1st 20%	89.0	2.5	-0.9	9.4
	2nd 20%	89.4	1.9	0.4	8.2
	3rd 20%	88.5	2.9	1.7	6.9
	4th 20%	82.3	4.5	5.7	7.5
	5th 20%	54.8	3.2	28.0	14.0
75+	total	73.5	2.5	10.4	13.6
	1st 20%	89.1	1.1	-1.1	10.8
	2nd 20%	88.7	1.0	0.1	10.2
	3rd 20%	89.7	1.1	0.6	8.6
	4th 20%	84.3	3.5	2.2	10.0
	5th 20%	55.8	3.3	22.6	18.3
< 60	total	2.1	5.2	92.2	0.5
	1st 20%	4.4	28.7	64.3	2.6
	2nd 20%	2.9	7.7	90.0	-0.5
	3rd 20%	2.3	4.6	94.8	-1.7
	4th 20%	2.0	3.0	96.6	-1.6
	5th 20%	1.5	1.7	94.1	2.7
< 65	total	3.6	5.7	89.9	0.7
	1st 20%	9.6	31.8	55.5	3.0
	2nd 20%	5.8	8.8	85.7	-0.2
	3rd 20%	3.8	5.1	92.6	-1.5
	4th 20%	2.9	3.2	95.3	-1.5
	5th 20%	2.1	1.8	93.1	3.0
< 75	total	6.9	5.6	86.4	1.1
	1st 20%	30.2	28.9	36.5	4.4
	2nd 20%	12.9	9.9	76.6	0.6
	3rd 20%	6.3	5.3	89.5	-1.1
	4th 20%	4.3	3.4	93.6	-1.3
	5th 20%	2.8	1.9	92.2	3.1

Gross household income: includes national insurance contributions and pension contributions paid by employers and employees.

Income quintile: a 20%-part of the gross household income, calculated by age group.

Source: CBS, Incomes Panel Research (IPO) 2002, provisional

Objective 3

Relatively unequal income distribution (S80/S20) in 2001

65+/0-64			75+/0-74		
Total	Men	Women	Total	Men	Women
0.82	0.87	0.84	0.79	0.87*	0.74

* unreliable figure

Source: Eurostat (2004), ECHP UBD version December 2003

Objective 4

Net labour participation of the working population (in %)

Age	Sex	1995	2000	2001	2002	2003	2004
15-64 years	m + w	64.2	73.8	74.4	74.5	73.0	73.5
	men	75.0	82.9	82.9	82.2	80.5	80.7
	women	53.2	64.4	65.6	66.7	65.4	66.2
30-54 years	m + w			82.5		82.0	82.4
	men			93.0		90.4	90.8
	women			71.7		73.3	73.7
55-59 years	m + w	42.8	55.7	57.8	60.3	59.7	61.0
	men	57.7	71.0	74.0	75.4	75.0	75.0
	women	27.7	40.0	41.2	44.8	44.0	46.7
60-64 years	m + w	13.6	19.8	19.8	23.2	23.1	24.6
	men	19.8	27.2	26.4	32.3	30.8	32.0
	women	7.6	12.4	13.3	14.2	15.4	17.1
55-64 years	m + w	28.8	39.4	40.3	43.2	44.8	45.6
	men	39.9	51.4	52.3	55.7	57.1	56.8
	women	18.0	27.4	28.2	30.5	32.2	34.1
65-69 years	m + w	5.6	3.6	7.1	7.1	8.6	7.4
	men	9.4	5.6	11.1	11.9	13.3	10.9
	women	2.2 *	1.8 *	3.3	3.0	4.2	4.1

* unreliable figure

Working population in employment, by sex, 2004

	<u>Working population</u>		<u>Working population (15-64 years)</u>				
	<u>Working population</u>	<u>Net labour participation</u>	<u>Employment position</u>		<u>Working hours</u>		
			<u>Total employees</u>	<u>Self-employed</u>	<u>12-19 hours per week</u>	<u>20-34 hours per week</u>	<u>35 hours or more per week</u>
	x 1000	%	x 1000				
Total men and women	7 037	64,2	6 219	818	654	1 889	4 494
aged 15-24	772	39.9	748	23	120	210	442
aged 25-34	1 791	80.5	1 651	140	112	426	1 253
aged 35-44	2 024	77.6	1 753	271	197	550	1 277
aged 45-54	1 693	73.8	1 463	231	147	492	1 054
aged 55-64	757	39.8	604	153	78	211	468
Total men	4 088	73.7	3 522	566	108	462	3 517
aged 15-24	410	41.6	392	17	56	83	271
aged 25-34	987	88.1	888	99	12	84	891
aged 35-44	1 180	89.2	997	183	8	107	1 065
aged 45-54	999	86.3	842	156	11	108	880
aged 55-64	512	53.5	403	110	22	80	410
Total women	2 949	54.4	2 697	252	545	1 427	977
aged 15-24	362	38.1	356	6	64	127	171
aged 25-34	804	72.9	763	40	100	342	362
aged 35-44	844	65.8	756	88	189	443	212
aged 45-54	694	61.1	620	74	136	384	174
aged 55-64	245	25.9	202	43	56	131	58

Objective 5

Early retirement from the labour market 2001-2003 (average effective retirement age)

2001			2002			2003		
Total	Men	Women	Total	Men	Women	Total	Men	Women
60.9	60.8	61.1	62.2	61.6	62.9	60.4p	59.9p	61.0p

p: provisional figure.

Source: Eurostat, LFS

Persons with VUT or pre-funded early retirement pension, 1996 and 2000

	Persons with VUT/pre-funded early retirement pension		Persons with VUT		Persons with pre-funded early retirement pension	
	younger than 60 years	61-64 years	younger than 60 years	61-64 years	younger than 60 years	61-64 years
Year	Absolute numbers					
1996	47180	123930	36580	111730	10600	12200
2000	47990	130910	24270	88810	23720	42100

Source: CBS, Statline

Objective 10 Sex differences in cases of poverty and relative income

Sex differences in the percentages of persons with income below 60% of the median per age group for all households and single persons, 2002

Age	Total households	Single persons
< 60	-0.8	0.6
< 65	-0.6	0.7
< 75	-5.7	1.2
60+	0.6	-0.6
65+	0.1	-1.6
75+	-0.3	-0.9

Income: standardized disposable household income, standardization on the basis of modified OECD scale.

Sex differences: percentage men – percentage women

Source: CBS, Incomes Panel Research (IPO) 2002, provisional

Sex differences in the proportion of income of persons per age group compared with the complementary age groups and 45-55 years, for all households and single persons, in terms of percentage, 2002

	men -/- women	
	Total households in percentages	Single persons
60+ / <60	2.8	1.8
65+ / <65	1.4	-0.5
75+ / <75	0.4	-1.3
60+ / 45-54	6.3	3.1
65+ / 45-54	5.0	2.2
75+ / 45-54	4.2	4.2

Income: standardized disposable household income, standardization on the basis of modified OECD scale.

Proportion of income: median standardized disposable household income for persons of 60+, 65+ and 75+ in percentages of the median standardized disposable household income of the complementary age groups and 45-55 age group, per household type.

Sex differences: men's relative income – women's relative income, in percentages

Source: CBS, Incomes Panel Research (IPO) 2002, provisional