



# **ESPN Thematic Report on Retirement regimes for workers in arduous or hazardous jobs**

## **The Netherlands**

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**European Social Policy Network (ESPN)**

**ESPN Thematic Report on  
Retirement regimes for  
workers in arduous or  
hazardous jobs**

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## Summary/Highlights

Dutch governments have taken several important steps to extend working lives, but they have not matched these policies with explicit statutory measures to facilitate early labour market exit for workers in arduous and/or hazardous jobs. At present, the statutory pension age is the same for all workers (65 years 3 months, rising to 67 years by 2021), and there are no exceptions. In contrast, many collectively negotiated occupational pensions offer flexibility concerning partial or full early retirement, but there is wide variation across collective agreements. Because of the inflexibility of the first pillar, efforts to respond to the needs of workers in arduous and/or hazardous jobs are concentrated on the second pillar. The statutory basic pension (*Algemene Ouderdomswet*, AOW) pays a flat-rate benefit to all retirees with 50 years of residence. At the same time, 90% of workers accumulate supplementary pension rights via occupational pension coverage. The social partners have introduced measures in most pension schemes that allow flexible retirement (mainly by combining part-time work with a part-time pension), but the government has thus far been unwilling to allow flexible retirement or early retirement within the statutory scheme. This means that workers in arduous and/or hazardous jobs can only retire early (either fully or partially) if their occupational pension scheme includes special provisions for older workers or allows flexible retirement. The sectors typically considered to include arduous and/or hazardous jobs (for example, the construction sector) include such provisions.

This asymmetry between the first and the second pillar concerning the treatment of early retirement in general, and early retirement from arduous and/or hazardous jobs in particular, is politically controversial; the social partners have repeatedly called for more flexibility in the statutory pension scheme, while recent government statements argue that introducing flexible retirement into the statutory scheme is too costly, would increase administrative complexity and would rely on a category that is difficult to define. In addition, the government points to recent research showing that there are few societal benefits to a flexible statutory pension (Ministry of Social Affairs and Employment, 2015a).

This stalemate is rooted in political conflict about the integration of the statutory pension scheme with occupational schemes. Since the mid-2000s, there has been strong support for the principle that the state should not subsidise early retirement for whatever reason. Policy changes aimed at raising the effective age of retirement have been remarkably successful: the average retirement age has increased from 61 in 2006 to 64 years 5 months in 2015. Negotiations concerning the increase in retirement age from 65 to 67, legislated in 2013, were marked by deep conflict between the government and the social partners about the effects of such a measure on workers in arduous and/or hazardous jobs. Proposals to permit early statutory retirement (with a proportional reduction in benefits) were shelved after the government decided that the negative impact on public finances and the labour market was greater than the uncertain societal benefits. As a result, the conflict continues to influence debates about the future of the Dutch pension system.

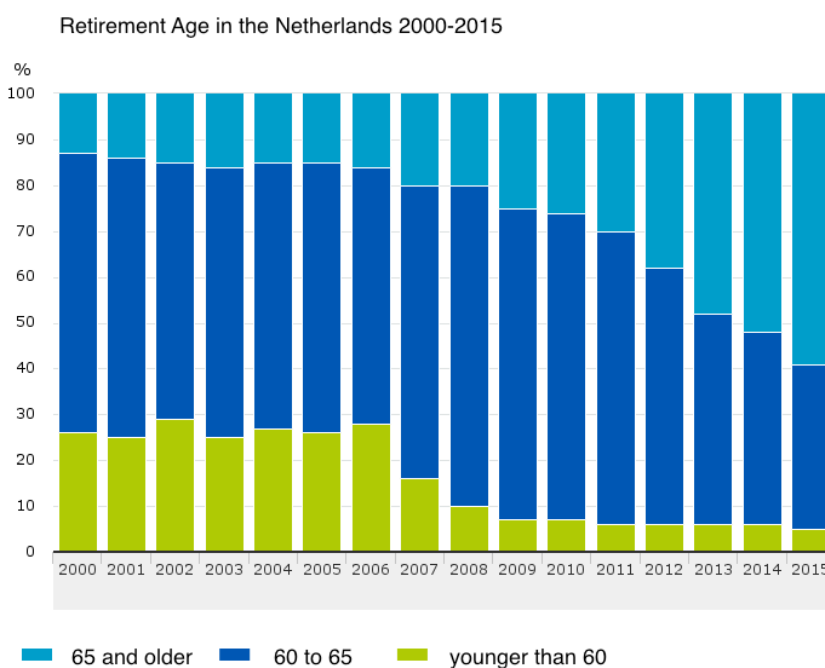
The social partners have responded to this stalemate with innovative schemes aimed at sustainable employability for all age groups and all categories of work. In this sense, the needs of workers in arduous and hazardous work have been mainstreamed in many collective agreements. Given the financial constraints on the statutory pension, this policy response is reasonable and should be widened to include all sectors characterised by arduous and/or hazardous work.

## 1 Overall description of the policy mix targeted at workers in arduous or hazardous jobs

The Netherlands has a long history of facilitating early retirement via special schemes negotiated as part of collective agreements, and policies designed to meet the needs of those in arduous and/or hazardous jobs were an important part of these efforts. The close coordination of the first and the second pillar meant that these schemes had to bridge the period between labour market withdrawal and the statutory and occupational pension age (65 until 2015). Beginning in the 1970s, occupational pension schemes offered early retirement (*vervroegde uittrekking, VUT*) as part of a larger effort to reduce unemployment. Contributions to these schemes were tax deductible, and they were typically offered to those ages 55–64, and included occupational pension accrual. The VUT schemes were replaced by contractual pre-pension schemes that were significantly less generous. Legislation in 2005 ended tax deductibility for pre-pension schemes and introduced the life-course savings scheme (*levensloopregeling*) which encouraged individuals to save up to 12% of their annual income (to a maximum of 210% of annual income, which would provide a maximum benefit of 70% of previous wages for three years) to be used for care, education, a sabbatical or early retirement.<sup>1</sup> The life-course savings scheme was closed on 1 January 2012.

The reversal of early exit is certainly explained, at least in part, by the effects of these policy changes. As the graph below shows, there has been a remarkable shift in early exit patterns since 2000, especially among those younger than 60.

**Figure 1 – Retirement Age in the Netherlands 2000 - 2015**



Source: CBS (2016).

Despite the abolition of tax subsidies for collectively negotiated early exit schemes, industrial relations remain an important arena for policies aimed at labour market groups with specific needs, such as workers in arduous and/or hazardous jobs. As noted in the summary, there is considerable controversy concerning which occupations can be

<sup>1</sup> The name of this law is *Wet aanpassing fiscale behandeling VUT/prepensioen en introductie levensloopregeling (Wet VPL)*.

considered arduous and/or hazardous, and there is no nationally accepted list of such occupations. Collective agreements (CAs) typically use very broad categories to distinguish between different types of work. For example, the construction sector distinguishes between 'construction site workers' and 'technical/administrative' personnel. This distinction implies that construction site workers perform physically demanding tasks, while technical/administrative personnel do less-arduous work. As discussed below, this distinction is important in the CA for determining the amount of extra leave an employee is entitled to.

The current government has clearly stated that the statutory pension system cannot afford to allow early or flexible retirement, even for groups with arduous and/or hazardous jobs; this shifts the locus of responsibility to the social partners. The government has based its position on trends in expenditure data: statutory pension spending was €34 billion in 2014, or 25% more than in 2008 (the increase is due to demographic trends). A recent report estimated that accumulated statutory pension rights equal 208% of GDP, compared to 157% of GDP for the second pillar (Bruil et al., 2015; figures are for the end of 2013).

The social partners have responded in two ways. First, they continue to press the government for more flexibility concerning statutory pensions. Second, they have started to use collective agreements to devise new strategies for meeting the needs of workers in arduous and/or hazardous occupations.

The annual reports published by the Ministry of Social Affairs and Employment provide the greatest detail concerning provisions affecting different categories of workers. In 2014 (the latest report available), collective agreements did not make distinction concerning hazardous and/or arduous work, largely because this issue is automatically part of negotiations in specific firms and sectors (for example, in the construction sector). Significantly, no collective agreements included training and coaching provisions aimed at workers in arduous jobs (or older workers) to help them remain employed, although the latest round of collective bargaining shows some movement in this area (see below).<sup>2</sup>

The most common provision found in CAs is the granting of extra leave to older workers, on the assumption that older workers need extra time off to remain healthy and fit for work. Given that workers in arduous and/or hazardous jobs are usually not able to work until the regular retirement age, older workers who rely on such provisions are typically those doing arduous work. Some 62 CAs (covering about 51% of workers) include this type of measure; 52 of these CAs grant extra leave, which increases from the age of 50 to the age of 60 (i.e. a maximum of 15 extra days of leave). In addition, 43 CAs (covering 29% of workers) allow older workers to work fewer hours; this type of provision usually applies to workers aged between 45 and 64. Finally, 68 CAs (covering 62% of all workers) include rules that exempt older workers from certain kinds of tasks (overtime, irregular working hours, weekend work and team work) (Ministry of Social Affairs and Employment, 2015b: 92–3).

Several examples illustrate the policy mix of using provisions in collective agreements to respond to the needs of those in arduous and/or hazardous jobs. The social partners have devised these measures so that they do not fall foul of tax legislation that hits employers with a 52% levy on early retirement schemes (complete withdrawal from the labour market financed as part of the employment contract). This means that the social partners must devise measures that combine part-time work with part-time occupational pension or rely on using leave provisions to reduce working time. Workers may also start drawing their occupational pension early; however, this is typically

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<sup>2</sup> The report is based on an analysis of a sample of 100 collective agreements that are representative for 85% of all employees.



unattractive, because the statutory pension cannot be drawn early, and so the occupational pension would have to replace more income than it was designed for.

A good example is the most recent CA for the construction sector (1 January 2015 to 31 January 2017), which by most definitions is a sector that includes arduous and/or hazardous jobs. The CA allows workers to decide when to retire and whether to combine part-time work with a part-time pension, and also allows workers to use annual leave so that they work for four days per week, as from age 55. These provisions are part of a 'sustainable employability' (*duurzame inzetbaarheid*) policy that uses savings made by phasing out existing provisions for older workers, such as extra leave (as well as other measures that apply to all workers), in order to finance the expansion of working-time accounts (*tijdsparfondsen*) that benefit employees of all ages. Starting in 2016, all construction site employees have an individual budget within the working-time accounts that is worth 3.21% of their salary per year; this may be drawn as taxable income, taken as extra leave or used for training.<sup>3</sup> The individual budget for administrative/technical personnel is 1.56% of salary. The amount of the individual budget will increase annually as the provisions for older workers are gradually phased out over a period of 17 years. The core idea behind this new policy is to encourage workers of all ages to take extra leave and/or receive training, so that they have the skills and physical capacity to work right up to the statutory retirement age.

The metalworking sector has also introduced sustainable employability provisions into its collective agreement. The CA includes career coaching and working-time provisions to improve employees' capacity to work up to the statutory pension age. Partial early retirement is possible from the age of 58, and full retirement is possible from 63, but is funded from an individual's own occupational pension account.<sup>4</sup>

## 2 Pension rules for workers in arduous or hazardous jobs

The Netherlands has a multi-pillar pension system, where the statutory pension provides a flat-rate benefit accrued via residence; occupational pensions, covering about 90% of workers, provide earnings-related benefits on top of the statutory pension; and optional private pensions are available for those without occupational pensions or who want to supplement the first two pillars. According to recent estimates, 54% of accumulated pension rights are in the first pillar, 40% are in the second pillar, and 6% are in the third pillar (Bruil et al., 2015; figures are for the end of 2013). As the second pillar reaches full maturity, it is forecast to grow in size relative to the first pillar.

As noted above, there are no special statutory pension rules for workers in arduous or hazardous jobs. The decentralised nature of occupational pensions means that they are more flexible and responsive to the needs of workers in particular sectors. This means that workers in arduous and hazardous jobs rely on collectively negotiated pension provisions if they need to reduce their working time or retire early.

In 2013, the Dutch government gained parliamentary approval for legislation raising the retirement age for the statutory basic pension, the AOW, to 67 years by 2021.<sup>5</sup> The rationale for this measure was financial: statutory pension expenditure rose substantially in the 1990s and 2000s, and larger increases were forecast because of the retirement of the baby-boom generation. Collectively negotiated occupational pension schemes followed the example of the statutory pension, and most collective agreements now mandate a retirement age of 67. As discussed in previous sections, many occupational schemes offer flexible retirement, include those in sectors characterised by arduous and hazardous work. Flexible retirement, combined with legal protections for

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<sup>3</sup> See <https://www.fnvbouw.nl/cao/Bouwnijverheid>

<sup>4</sup> See [https://www.fnv.nl/sector-en-cao/alle-sectoren/metaal/cao's-metaal/metaal\\_techniek/](https://www.fnv.nl/sector-en-cao/alle-sectoren/metaal/cao's-metaal/metaal_techniek/)

<sup>5</sup> The legislation that raised the statutory retirement age is the *Wet verhoging AOW- en pensioenrichtleeftijd (Wet VAP)*.

part-time workers, facilitates partial retirement for many workers, including those in arduous and/or hazardous occupations.

### **First pillar**

The first pillar consists of the flat-rate state pension (*Algemene Ouderdomswet, AOW*), which provides a generous cash benefit to all persons who have reached the statutory retirement age of 65 years 3 months and who have lived in the Netherlands for 50 years between the ages of 15 and 65 (the pension is reduced by 2% for each year of non-residence). Early retirement is not possible. The statutory retirement age will increase gradually to 67 in 2021.

AOW pensions are PAYGO-financed: the contribution rate has been fixed at 17.90% since 1997 (the statutory maximum is 18.25%) and is integrated into the first and second bracket of the personal income tax system (the contribution is paid on taxable income below the taxable income ceiling of €33,715). Because the AOW contribution is part of the personal income tax system, employers pay no contributions. In addition, pensioners do not pay AOW contributions. In 2013, contributions covered 69% of expenditure; the rest is financed by general revenue.

In 2015, single pensioners received €1,209.71 per month (gross), including the vacation supplement of €71.56 (paid in May each year); this amounts to 70% of the minimum wage for a single person. Married and cohabiting pensioners receive €834.99 each (including the vacation supplement of €51.12) – 50% of the minimum wage. AOW benefits are indexed to the net minimum wage twice per year. The net AOW for a single person is equal to 70% of the net statutory minimum wage.

### **Second pillar**

The second pillar comprises occupational pension schemes (numbering 272 in 2015)<sup>6</sup> that cover 5.3 million current employees (about 90% of all employees) and 3.1 million occupational pensioners.<sup>7</sup> Schemes are collectively organised, quasi-mandatory and solidaristic. Pension schemes may be organised at the firm, sectoral or professional<sup>8</sup> level. Occupational pension schemes (except for schemes for the liberal professions (*vrije beroepen*)) are negotiated and managed by employers and unions as part of collective agreements.<sup>9</sup> Legislation on the extension of collective agreements to entire sectors and the wide coverage (90%) of such agreements means that most workers participate in an occupational pension scheme. The self-employed without personnel (*zelfstandigen zonder personeel, ZZP*) and those who work only a few hours per week in part-time jobs are less likely to be covered by occupational schemes.

Second pillar pensions are closely integrated with the AOW and typically pay a defined benefit that, combined with a full AOW, equals 70% of average wages for 40 years of service. Employers typically pay two-thirds of the pension contributions, and employees the rest. All participants in the same scheme pay the same contribution rate. Contribution rates usually range from 15% to 25% of the qualifying income above the AOW offset (there is wide variation across schemes in terms of the level of the income ceiling for contributions and benefit accrual). The contribution rate and pension accrual are calculated on the basis of an AOW offset (*franchise*) that varies across schemes, but is often equal to the AOW benefit for a single person. In 2014, participants could accrue up to 2.15% of their eligible salary; from 2015 the figure was 1.875%. As from 2015, there has been a cap of €100,000. The retirement age for occupational pensions was raised from 65 to 67 in 2013.<sup>10</sup>

<sup>6</sup> The number of pension funds has declined dramatically. In 2005, there were 829 pension funds.

<sup>7</sup> 2013 figures; [www.dnb.nl](http://www.dnb.nl)

<sup>8</sup> For example, notaries, dentists and other free professions have their own pension schemes.

<sup>9</sup> Pensioners may also be represented on the boards that administer occupational pensions.

<sup>10</sup> The measure was part of the legislation that raised the statutory retirement age in 2013 and limited tax deductibility to accrual rates below a specific threshold (the Raising of the State Pension and Retirement Age Act – *Wet VAP*).

Occupational pension schemes are fully funded: the regulatory framework (*financieel toetsingkader* – FTK) requires pension funds to have assets equal to at least 105% of liabilities. At the end of November 2015, pension scheme assets totalled €1,130 billion with an average coverage ratio of 104%, down from 110% in December 2014.<sup>11</sup>

Occupational pension schemes are nominally defined benefit schemes, since they typically promise participants a specific nominal benefit. In reality, however, most schemes are hybrids, containing elements of both defined benefit and defined contribution schemes: the administrative boards of pension schemes may choose from several levers, including benefit cuts, to restore solvency if assets fall below the legally required level of 105%. Pension funds are not legally required to index pension accrual and pay-outs to either inflation or wages. Instead, the indexation of both accrual and benefits is conditional on pension fund solvency.

### **Third pillar**

Because of the size of the first and the second pillar, individual pension savings arrangements are not very extensive, except among the self-employed and those who wish to supplement their first and second pillar pension benefits. In the second half of the 2000s, the size of the third pillar was about 6% of all pension savings (CBS, 2010).

## **3 Retirement patterns and retirement income of workers in arduous or hazardous jobs**

As discussed, there is no generally accepted definition of arduous or hazardous occupations in the Netherlands, and so the issue is dealt with in collective agreements in specific sectors. Sectors typically considered to include arduous and hazardous work, for example the construction sector, have long relied on special schemes such as extra leave for older workers, occupational early retirement and, more recently, flexible retirement. Until recently, the state subsidised some of these schemes via favourable tax treatment. Now that such tax arrangements have been phased out, the social partners have begun to use flexible leave and part-time retirement to respond to the needs of those with arduous or hazardous jobs. Reforms of statutory sickness insurance and disability insurance have substantially reduced the generosity of these schemes, limiting their attractiveness as early exit pathways. Despite this, those on disability benefit are likely to be over 55. At the end of 2012, about 40% of all recipients of disability benefits were aged 55 or older. It should be noted that sickness insurance and disability insurance benefits are subject to strict medical criteria and are therefore not intended for early retirement.

The graph below shows the average retirement ages for workers in specific sectors in 2006 and 2015. In all sectors, the average age of retirement has increased significantly. In the construction sector (which has many arduous jobs), the increase was nearly three years. However, the lowest average retirement ages are in the education sector and the public sector (although the difference compared to the construction sector is not large).

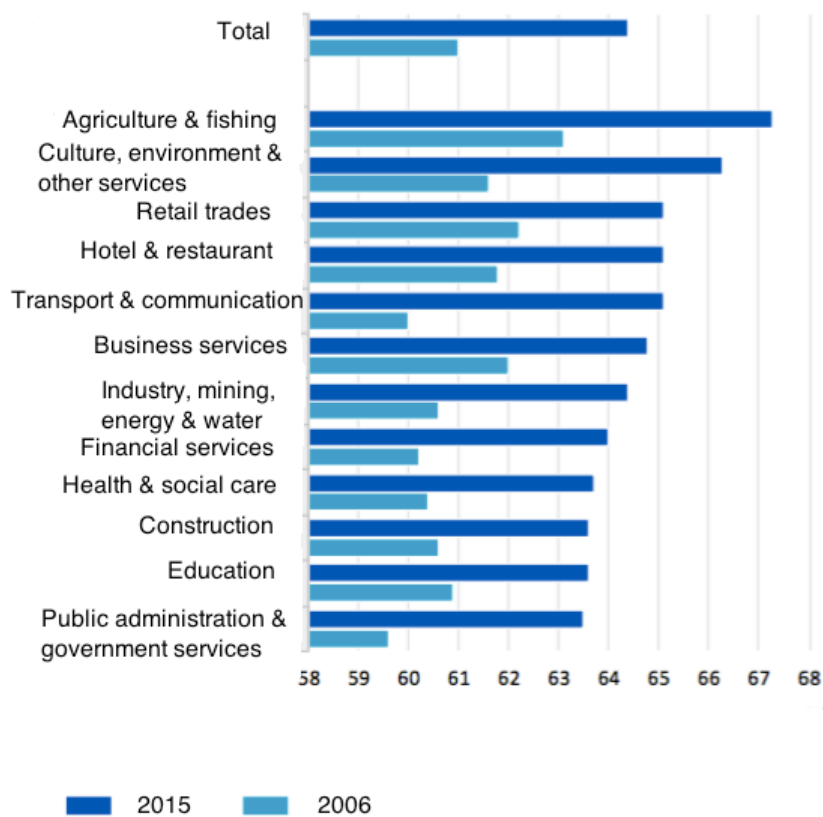
Given the widespread use since the 1970s of collective negotiated schemes to deal with arduous and/or hazardous work, workers in such jobs have not experienced significant income losses compared to other groups of workers. The on-going increase in the retirement age (to 67 in 2021) may change this, however. The current government is unwilling to allow statutory early retirement for workers with arduous jobs, and this has placed pressure on the social partners to solve the problem of how to extend the working lives of these groups. The most recent collective agreements in the construction and metalworking sector show that innovative approaches are possible, but these may not be transferable to other national contexts. The use of flexible leave arrangements works in the Dutch context because part-time work is widespread and legally protected. And

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<sup>11</sup> <http://www.dnb.nl/en/news/news-and-archive/statistisch-nieuws-2015/dnb335446.jsp>. The coverage rate referred to here is the 'policy funding ratio', which is the twelve-month average funding ratio based on daily market information.

occupational early retirement is based on capital-funded schemes, where individuals use their own pension pot to finance most or all of the costs of part-time early retirement.

### Average Retirement Ages for Workers in Different Sectors, 2006 & 2015



Source: CBS (2016).

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