European Commission

New Dutch agreement in principle on a major reform of the pension system

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After nine years of discussion, the Dutch government and social partners reached an agreement in principle in June 2019 on the main elements of a major reform of the pension system, mostly affecting the occupational pensions schemes. The agreement will now have to be implemented via legislation. If it is implemented, it will prevent cuts for 60% of occupational pensioners and lay the foundations for a more transparent pension system that is less vulnerable to negative economic and demographic developments.

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Description

The Dutch pension system combines flat-rate statutory provision with capital-funded, defined-benefit occupational pension schemes that cover about 85% of the work force. This public-private mix provides adequate protection against poverty in old age and effective earnings replacement in retirement for full- and part-time workers.

After nine years of discussion, the government and social partners reached an agreement in principle ("principe akkoord") on 5 June 2019 on the main elements of a major reform of the pension system. The agreement intends to remedy three weaknesses of the current system. First, the agreement includes more flexible rules concerning occupational pension fund solvency. At present, pension schemes are legally required to have assets equal to at least 105% of liabilities; if the coverage ratio falls below this threshold, pension funds must adopt a recovery plan to restore solvency. If the coverage ratio falls below 90%, pension funds are required to implement rights cuts. Even though capitalisation is very high (pension scheme assets totalled €1.32 trillion in December 2018), the global financial crisis and persistently low interest rates have undermined the financial solvency of many occupational pension schemes, prompting pension freezes (and in a few cases, reductions). Many workers have also seen their pension accrual stagnate and their contributions increase, as the administrative boards of pension funds have adopted remedial measures to restore solvency. The pension agreement would temporarily lower the minimum coverage ratio from 105% of liabilities to 100% (thereby giving pension funds more time to restore solvency), and introduce a more flexible pension contract (occupational pension funds would have more flexibility for responding to fluctuations in the coverage ratio).

Second, the pension agreement would abolish the "average contribution rate" (all employees pay the same contribution rate, regardless of salary), which has been heavily criticised because it benefits older employees more than younger ones (all employees pay the same rate, but older workers typically earn more pension rights because they earn more than younger workers). The pension agreement promises to replace accrual based on average contribution with a system in which pension accrual is more closely linked to contributions.

Third, the agreement would slow scheduled increases in the pensionable age (currently 66 years and 4 months) by freezing it for 2 years and slowing the rate of adjustment to increases in life expectancy. The retirement age will now reach 67 in 2024.

In addition to these key provisions, the pension deal includes changes in tax law to make it easier for employers to offer up to 3 years of early retirement for workers in arduous jobs. The shift to a more flexible pension contract and the

abolition of the average contribution rate would also make it more attractive for the self-employed to join occupational pension funds.

Pension reform is a central goal of the four-party centre-right coalition government (VVD, D66, CDA and CU) in office since October 2017. Unions and employers have responded positively to the announcement of the pension agreement, and members of the three largest union federations (the FNV, CNV and VCP), have ratified the agreement. The Green Left Party and the Labour Party (PvdA) support the deal, whereas the Socialist Party (SP), the 50PLUS Party and the right-wing PVV oppose it.

A steering committee consisting of representatives of the government and social partners will work out the details of the agreement. The agreement is expected to be implemented in 2024.

Outlook and commentary

In 2011, the two largest trade unions rejected a pension agreement worked out between the government and social partners, so the June 2019 agreement in principle is a major step. It marks the return of consensus policy-making and cooperation between the government and social partners after nine years of discussions and frequent conflict.

Supporters of the pension agreement claim that it retains the positive aspects of the pension system, particularly its collective and solidaristic character. Occupational pension participation remains mandatory in most sectors, and risks will be collectively pooled. However, many of the details of the new system must be worked out by a steering committee consisting of representatives of the government and social partners. The issue of how to compensate older workers negatively affected by the abolition of the average contribution rate is likely to be particularly difficult. The agreement is also costly: the slower increase in the pensionable age will cost €4-5 billion.

If the agreement is implemented, it will be a step forward for intergenerational fairness. It will also prevent cuts for 60% of occupational pensioners and lay the foundations for a more transparent pension system that is less vulnerable to negative economic and demographic developments.

Further reading

SER Advies, Naar een nieuw pensioenstelsel. Advies 19/05 [Towards a new pension system. Advice 19/05], June 2019: http://bit.ly/2IWdNpb.

NRC news article, Eindelijk een pensioenakkoord. Maar stemt de achterban wel in? [There is finally a pension agreement. But will constituencies support it?]: http://bit.ly/2RNSjNZ.

SER Magazine, Doorbraak pensioenakkoord [Pension agreement breakthrough]: http://bit.ly/2Jg8yPZ.

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