

## NETHERLANDS

### Netherlands: pension system in 2008

The pension system has two main tiers, consisting of a flat-rate public scheme and earnings-related occupational plans. Although there is no statutory obligation for employers to offer a pension scheme to their employees, industrial-relations agreements mean that 91% of employees are covered. These schemes are therefore best thought of as quasi-mandatory.

### Key indicators

		Netherlands	OECD
Average earnings	EUR	43 500	27 800
	USD	63 600	40 600
Public pension spending	% of GDP	4.7	7.0
Life expectancy	at birth	79.9	78.9
	at age 65	83.4	83.1
Population over age 65	% of working-age population	24.1	23.6

### Qualifying conditions

The basic old age pension is payable from age 65. Normal retirement age is typically also 65 in occupational plans. All residents are eligible for this benefit.

### Benefit calculation

#### Basic

For a single person, the gross pension benefit in 2008 was EUR 999.72 per month for the first half of the year and EUR 1 011.98 per month for the second half of the year. There was an additional holiday allowance of EUR 647.80. This gives an annual total of EUR 12 718, or 29% of average earnings. For a couple, the total yearly benefit was EUR 17 380.08. The benefit value is linked to the net minimum wage, which is uprated biannually.

The basic benefit accrues at 2% of the full value for each year a worker lives or works in the country. There is also a social-assistance scheme for older people. Its value is equal to the net basic pension.

#### Occupational schemes

The Netherlands also has a private pension system with broad coverage. The system consists of 656 pension funds (end of 2008); 95 of these funds concern industry-wide schemes. Under certain conditions, Dutch companies may opt out of these plans if they offer their own scheme with equivalent benefits. Furthermore there are around 550 single-employer plans. Another 46 000 (in 2005) mainly smaller employers offer schemes operated by insurance companies.

Approximately 90% of the employees in pension funds are covered by a defined-benefit scheme. The remaining employees in pension funds are covered by a defined contribution scheme.

For about 97% of participants in defined benefit schemes (about 87% of all employees in pension funds), the earnings measure is based on lifetime average earnings, and for about 1.3% on the final salary. For the remainder it is either a combination of the two (1%) or a fixed amount (less than 1%).

Most final-salary schemes give 1.75% of those earnings for each year of service, implying a replacement rate of 70% after a complete 40-year career. In most average-salary schemes the accrual rate varies from 1.75% to 2% per year of service.

There are no legal requirements for valorisation of earlier years' pay and practice varies between schemes according to rules agreed upon by the social partners. For approximately 85% of the participants in average wage schemes, past earnings are valorised in line with growth of average earnings while for 15% the rate of inflation is used. The modelling assumes an average-salary scheme with valorisation to average earnings.

Although there is no legal uprating requirement, most pensions in payment are raised on an annual basis as well. Nearly 60% of the pensions in payment are indexed to wage growth in the respective industry, while some 35% of the pensions are indexed to prices.

Pension rights are fully transferable when people change jobs. There is a legal requirement to index pension rights of people leaving a scheme before retirement in exactly the same way as pensions in payment are indexed. Vesting periods are very short.

There is no ceiling to pensionable earnings.

Occupational pensions are integrated with the public pension system. The current tax rules allow a maximum benefit of 100% of final pay at 65 from both public and private systems. Most schemes have a target total replacement rate of 70% of final pay, so private benefits are reduced by a franchise amount.

## **Variant careers**

### ***Early retirement***

The basic pension is not payable before age 65.

In 2005, the tax-favoured status of separate early retirement programmes (called "VUT") and which led to pre-pension benefits between ages 60 and 65 was abolished to stimulate labour-market participation of older workers.

### ***Late retirement***

It is not possible to defer the basic old age pension scheme after 65. It is possible to combine the basic pension receipt with work.

The rules on pension deferral vary between occupational plans. It is possible to combine the occupational pension scheme with work. Indeed, some schemes allow a member to draw a pension and continue to work with the same employer. There is no legislation regarding this issue.

### ***Childcare***

In the basic old age pension scheme, periods out of paid work are automatically covered. In the occupational schemes, there are no credits for childcare periods during which people are out of paid work but the accrual of pension rights continues over remaining working years. However, many schemes allow voluntary contributions to cover the aforementioned periods of absence.

### ***Unemployment***

There are no credits in the occupational plans for periods of unemployment. Again, the basic old age scheme covers such periods automatically. In addition, the social partners administer a fund (FVP)

which makes it possible for older workers to extend their pension accrual for a certain period during unemployment. The government has no formal relationship with this fund.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

The basic tax credit for over 65s is EUR 970. This tax credit is increased by EUR 486 for incomes less than EUR 32 234. In addition, single pensioners receive a tax credit of EUR 555.

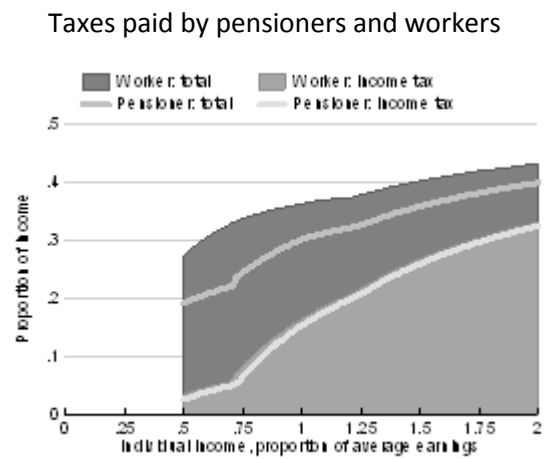
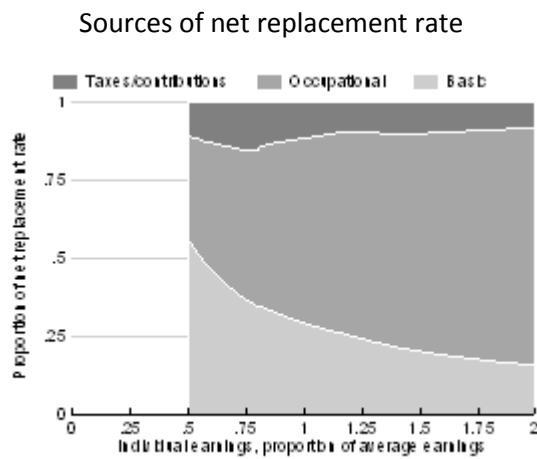
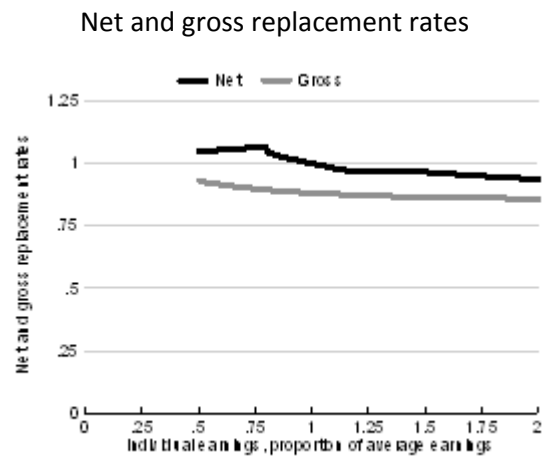
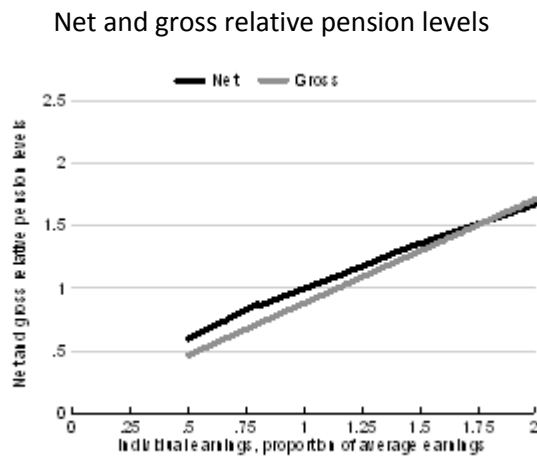
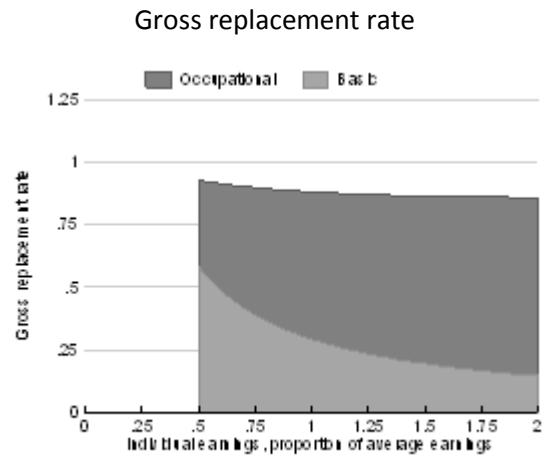
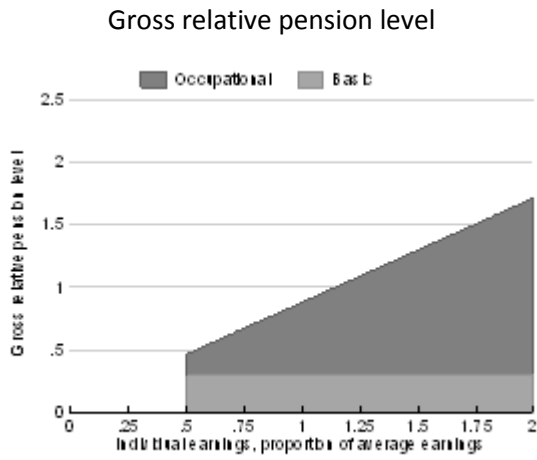
### ***Taxation of pension income***

There is no special relief for pension income.

### ***Social security contributions paid by pensioners***

Pensioners pay 13.25% of taxable income for the general health insurance and survivors' pensions (AWBZ, AWW, up to an income of EUR 31 589). Depending on their income, they pay for their own health insurance. The social security contributions are less than the contributions for those below the age of 65 (who also pay for old-age pensions, unemployment etc.).

### Pension modelling results: Netherlands



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	74.8	46.5	67.3	88.1	129.8	171.4
Net relative pension level (% net average earnings)	88.8	59.6	82.8	99.8	135.8	167.2
Gross replacement rate (% individual gross earnings)	89.1	93.0	89.8	88.1	86.5	85.7
Net replacement rate (% individual net earnings)	103.3	104.5	106.1	99.8	96.4	93.6
Gross pension wealth (multiple of average gross earnings)	17.9 20.5	18.7 21.4	18.1 20.7	17.7 20.3	17.4 19.9	17.2 19.7
Net pension wealth (multiple of average net earnings)	13.5 15.5	15.3 17.5	14.1 16.2	12.8 14.6	11.6 13.3	10.7 12.3