

MontClair[®]

Riskmanagement Schadeverzekeringen en Employee Benefits

COUNTRY
PROFILE

The Netherlands

SOCIAL SECURITY AND ADDITIONAL EMPLOYEE BENEFIT PLANS

2010

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Country Profile: The Netherlands

A. Social Security

I. Introduction

Social security legislation in The Netherlands covers three major types of plans:

1. National insurance, covering all citizens entitled to old age (AOW) or survivors' pensions (ANW), child benefits (AKW), and disability benefits for young people (Wajong) and independent workers (WAZ). This insurance is compulsory and is not means-tested. Contributions are income-related, while benefits are flat rate at subsistence level. National insurance is administered by the Social Insurance Bank (SVB);
2. Employee insurance, covering risks of unemployment (WW), long-term disability (WIA) and sickness (ZW). This insurance is compulsory for employees and the self-employed and is not means-tested. Contributions are a percentage of wages and benefits are wage-related;
3. Social assistance, accessible to all citizens. Social assistance aims to ensure a basic income level when insurance arrangements are not applicable. It is non-contributory, paid from general funds (taxes), means-tested (including the family income) and the level of payment is adjusted annually to changes in wages and prices. The local authorities are responsible for social assistance benefits.

For the various National Insurance plans, the contributions are remitted to the Inland Revenue. For the Employee Insurance plans, the contributions are forwarded to Industrial Insurance Boards. Health insurance contributions are being paid to the insurer.

The National Insurance plans, as listed below, provide benefits for:

- General Old Age Pensions Act (AOW)
- General Survivor's Act (ANW)
- General Family Allowances Act (AKW)
- General Exceptional Medical Expenses Act (AWBZ)
- Health Insurance Act (ZVW)

Benefits for employed persons are provided through two Acts:

- Labour Capacity Act (WIA)
- Unemployment Insurance Act (WW)

Further income protection and welfare benefits are provided under the:

- Supplements Benefits Act (TW)
- Act of Income Provisions for Older and Partially Disabled Workers (IOAW)
- Income Provisions for the Older and Partially Disabled, formerly Self-Employed Act (IOAZ)
- General Assistance Act (ABW)

The National Insurance plans provide compulsory insurance in respect of:

- a. All people with a legal residence in The Netherlands
- b. All non-residents who earn their salary and pay income tax in The Netherlands
- c. Dutch citizens working in public service abroad
- d. Dutch citizens working abroad for a Dutch employer for short periods (up to a maximum of one year).

The Employee Insurance plans provide compulsory insurance for all those who are employed in The Netherlands. This profile looks at the four major benefits payable under the social security legislation, i.e.:

- retirement
- death
- disability/sickness
- medical.

2. Benefits

2.1. Retirement

The AOW (the General Old Age Pensions Act) provides entitlement to an old age pension from the age of 65, for each individual. The entitlement is based upon a benefit amounting to 70% of the “social minimum wage”. For a “couple”, each partner has an independent entitlement to a pension amounting to 70% of the minimum wage. However, if each partner is entitled to a pension, having reached the age of 65, then each partner receives a pension equivalent to 50% of the minimum wage. This total benefit is referred to as the “basic amount”. In case one of the partners has not yet reached the age of 65, a supplementary pension of 30% of the basic amount (means tested) will be paid, depending on the income which the youngest partner might receive from, or in connection with, employment. Persons, who become 65 after 1st January 2015 are not entitled to this supplement anymore. The term “couple” in this context refers to partners who are sharing a household between two men, to women or a man and a woman, both older than 65.

The following gross pensions apply as per 1st January 2010)*

	Monthly Benefit	Holiday allowance per month
Single person	€ 1.052,23	€ 56,97
Single person with child under 18	€ 1.323,93	€ 73,27
Couple **) (both 65+) for each	€ 732,84	€ 40,69
Couple **) (partner under 65) with maximum suppl. Allowance***)	€ 1.431,42	€ 81,38
Couple **) (partner under 65) with minimum suppl. allowance ***)	€ 732,84	€ 40,69

*) *above figures do include the temporary monthly supplement of € 34,26 per person*

**) *married or living together*

***) *supplementary allowance is related to the earnings of the younger partner; suppl. allowance will be abolished by 2015*

The amounts given are for the full rate of pension. A person who has not been continuously insured between his 15th and 65th birthday, for instance because he has lived abroad, will receive a reduced pension. The reduction is 2% for each year of residing outside the Netherlands.

Note

The government has announced plans to raise the age of retirement under the General Old Age Pensions Act (AOW) to 67 years. The new legislation will include measures to enable people to work longer.

This increase in the retirement age under the General Old Age Pensions Act is necessary to offset the effects of demographic ageing and rising life expectancy. The economic crisis has accelerated the depletion of the reserves intended to compensate for these developments.

The retirement age will be raised in two stages, and the transition period of ten years will give employers and older workers time to prepare.

2.2. Death

Under the ANW (the General Survivor's Act) there is entitlement to a benefit for:

- Survivors with (unmarried) children under age 18
- Disabled survivors (for at least 45%)
- Survivors born before 1 January 1950, not having children
- Divorced survivor of the deceased.

The benefit payable is means-tested; for this purpose only earned income is taken into account of which 50% of gross minimum wage plus 1/3 of the excess is left out of consideration. VUT-payments and social security benefits however, will be deducted in full, except a survivors' pension payable out of a supplementary company's pension plan.

Survivors can claim a benefit under the Old Widows' and Orphans' Pensions Act (AWW), as in force prior to 1st July 1996, in case the survivor is born before 1st January 1950 and (up to 1st July 1999, but only in case of an official marriage) if the survivor is born between 1st January 1950 and 1st July 1956.

ANW: The following gross pensions apply as per 1st January 2010).*

	Monthly Benefit	Holiday allowance per month
Survivor's benefit	€ 1.104,74	€ 68,70
Dependent child benefit	€ 263,98	€ 19,62
Orphans up to age 10	€ 364,93	€ 21,98
Orphans between ages 10 to 16	€ 539,00	€ 32,98
Orphans between ages 16 to 21**)	€ 713,07	€ 43,97

*) above figures include the temporary monthly supplement of € 16,78 per person

***) in some cases this benefit is payable upon age 27

2.3. Disability/Sickness:

Sickness benefits (ZW)

If an employee falls sick, the employer must continue to pay the employee's wages. From 2004 this compulsory sick pay period has been extended from one to two years. Regardless of the cause of sickness absenteeism, the employer is required to pay at least 70% of the last wage earned. The social partners may agree in their collective agreement to top up the sick pay from 70% to 100% of the wage, but the Government has urged the social partners not to provide a top-up of this kind in the second year of sickness. Employers can reinsure their risks with a private insurance company. Most small and medium-sized companies do, in fact, have this kind of private insurance.

Gatekeeper Improvement Act

Since 2002, employers and employees have also been responsible for reintegration. The Gatekeeper Improvement Act (Wet verbetering poortwachter) sets out the steps the employer and employee must take to get the sick employee back to work again as soon as possible. The Act therefore places conditions on the work resumption process and this has tightened up the rights and obligations of employers and employees considerably. Together with the occupational safety and health service they must prepare a 'return to work action plan' and report on their joint reintegration efforts during the sick leave period. If their efforts are not successful, the social security agency UWV will consider the employee's application for a disability benefit. If, however, the action plan is not available or it becomes clear that the parties have not taken all the necessary steps, the UWV can refuse to accept the application

Disability benefits

Since 1st January 2006 disability benefits are granted by the 'Work and Income according to Labour Capacity Act' (WIA).

The WIA consists of two legal provisions:

- the regulation governing income protection for people registered as completely incapable of work due to disability (IVA)
- the regulation governing the re-employment of people with a partial disability (WGA).

The amount of benefit depends on the degree of incapacity to work, on the reintegration level and on the level of the last earned wage. The maximum daily wage for 2009 is set at 186,65.

a. Fully disabled persons

Under the terms of the IVA scheme, an individual is defined as 'fully disabled' if he is unable to earn more than 20% of his previous salary. The assessment as to whether an individual is completely disabled can – depending on the situation – be carried out in one of two ways: solely on medical grounds, or based on a combination of medical and work-related factors.

An individual is registered for long-term disability if he has sustained a long-term loss of work-related capacity from which he is unlikely to recover. The public insurance company's doctor will assess the probable duration of incapacity due to illness. As a rule, the claim is reassessed after two years of sick leave.

The level of benefits for people who are fully and permanently disabled is 70% of the (maximum) daily wage.

b. Partially disabled persons

The WIA (the Disablement Insurance Act) has two aims: to promote reintegration and to protect the income of employees, who are restricted in their employability due to illness or a disability. The primary aim is to promote returning to work, i.e. to increase the long-term reintegration of employees with (temporary) health-related work restrictions. The Act entitles employees under the age of 65 to benefits, if they are still (at least 35%) unfit for work after 104 weeks of disability.

The allowance system consists of the following:

- After two years of sick leave, a partially disabled person can claim wage-related benefits under the regulation dealing with the re-employment of partially disabled people (WGA). The allowance is 70% of the (maximum) daily wage if the partially disabled person is unemployed and 70% of the difference between the (maximum) daily wage and the person's work-related income if he is working. The duration of the wage-related WGA allowance depends on the person's employment record.

Employment record	Length of WGA wage-related phase
1 year	3 months
2 years	3 months
3 years	3 months
4 years	4 months
5 years	5 months
.....
38 years	38 months
39 years	38 months
40 years	38 months

- When the wage-related WGA allowance ends, the partially disabled person will be entitled to a WGA follow-up allowance if he is not working, or is not doing enough paid work. If he is doing sufficient paid work, he will be entitled to a wage supplement. The term 'sufficient paid work' means that the employee must be earning a wage-related income, which is at least 50% of his residual earning capacity.
 1. If the partially disabled person does not meet this criterion, he will be entitled to a WGA follow-up allowance, which is 70% of the legal minimum wage multiplied by the percentage of disability.
 2. If the partially disabled person does meet this criterion, he will be entitled to a wage supplement which is equivalent to 70% of the difference between the (maximum) daily wage and his work-related income.

In principle, a partially disabled person can claim benefits under one of these two schemes until his 65th birthday. An assessment will be carried out to establish for each month whether the individual is entitled either to the WGA follow-up allowance or to the wage supplement.

2.4. Medical Benefits

Medical Benefits are regulated by two acts: **AWBZ** and **ZVW**.

1. General Health Insurance Act (AWBZ)

This Act entitles residents to the treatment and nursing in (recognized) institutions.

2. Health Insurance Act (ZVW)

This Act makes it mandatory for residents of The Netherlands to take out health insurance. Every resident has to conclude a contract to that end with a health insurer for a statutory healthcare package.

In general, co-insurance is possible for the partner, married or unmarried, whether a woman or a man sharing a household with the compulsory insured person and their children.

3. Social security contributions

Contributions payable by employers and employees are substantial.

Social Security benefits are financed from social security contributions (payable by employers and employees) and general taxation.

Social security contributions are due in respect of all self-employed persons (National Insurance schemes only) and employed persons.

National Insurance Schemes

The contributions are paid by the employed or self-employed person only. The contributions are subject to an earnings limit (€ 32.738,-). No contributions are due over earnings below the lower earnings limit respectively the earnings in excess of the upper limit.

Contribution as per 1.1.2010	Due by insured person
retirement benefit	17.90%
survivor's benefit	1.10%
exceptional medical expenses (General Health Insurance Act)	12,15%

Employees Insurance Schemes ¹

Disability benefits

Employers have the choice of self-funding the program, insuring the risk with private insurers, or paying contributions to a government agency (UWV). To promote competition on the basis of service rather than price (which would favor the UWV), rates for private insurance and the UWV would be fairly comparable. Self-insured employers only pay the base contribution of 5.70%. Small employers (up to a total wage of € 730.000,-) pay in addition to the base contribution of 5.70% a variable branch related contribution, a minimum contribution applies of 0.59% and maximum contribution of 1.59%. Employers with a total wage in excess of € 730.000,-, also pay a variable additional contribution to the base contribution. This addition depends on the disability experience of the employer itself with a minimum of 0.06% and a maximum of 2.12%.

The percentages are taken over the total wage sum, each salary maximized to the salary maximum of € 48.715,65 per annum (2010)

4. Taxation

All benefits which are derived from the AOW (General Old Age Pensions Act), the AWW (General Widow and Orphans Act), the AAW (General Disablement Benefits Act), ZW (Sickness Benefits Act) and the WIA (Disablement Insurance Act) are regarded as regular income and, as such, are fully taxed. The benefits derived from the AWBZ (Exceptional Medical Expenses Act) are not regarded as taxable income and, accordingly, no tax is levied.

The income tax and social security contributions for the National Insurance plans are combined.

¹ Health Insurance: see section B

B. Occupational benefits

I. Introduction

After the Dutch Government started to grant benefits to certain groups of civil servants, the “Dutch Iron Railway Company” was the first private firm to fund a company pension plan in the mid-19th century. Primarily, the reason was humanitarian, to relieve the potential poverty in old age for its workers. Retirement, as such, was unheard of in the context of employment conditions. Pensions were certainly not considered as deferred income.

Before World War I, company pension plans developed very slowly. After World War I, their development was more rigid leading to almost 1,000 such pension plans being established in the period up to the outbreak of World War II. Alongside company pension plans, the trade unions tried to encourage sectors of industry to create co-operative pension plans that would grant benefits to workers belonging to such an industry sector. For this purpose, Industry-wide Pension funds were introduced. These funds did not develop substantially until after World War II, when the socio-economic attitude changed completely and when the pace of pension plan development accelerated. The psychological effect of World War II about concepts such as solidarity and the relation between employer and employee contributed to this change of attitude.

Another factor that influenced the development of pension plans was the tight labour market. Employees became aware of the changing social structure and, supported by the trade unions, negotiated supplementary benefits to the benefits which, gradually, were being implemented through the social security legislation.

In The Netherlands, there are now:

- about 700 company pension funds
- about 80 industry-wide pension funds
- more than 20,000 insured company pension plans (2002: 845,000 members)

In 2004 about 6.2 million employees were actively participating in one of the Pension funds.

In a period of some 140 years, therefore:

- a. retirement provision has become the rule rather than the exception
- b. a charitable attitude has changed into an inviolable right in labour conditions
- c. the number of those in pensionable employment has increased from some few hundreds to millions of employees.

2. Pension Act

General

It goes without saying that legislation became necessary to protect employees as well as employers against malpractice. In 1952, the Pension and Savings Fund Act was enacted, whereby guidelines were introduced stipulating the way in which pension commitments should be secured. This Act has been amended several times and more than once additional rules and Acts were introduced. In order to make the legislation more clear the Pension and Savings Fund Act has been replaced with the Pension Act, effective 1st January 2007. The new Act also introduces:

- Rules on providing information to members of a pension scheme.
- Rules for proper pension fund governance.
- Strict rules regarding indexation of pensions.
- Revised supervisory and financial framework for pension funds.

Under the Pension Act, the social partners are responsible for the terms of the pension scheme. The employer must choose a pension entity to execute the pension scheme. This can be

- an industry-wide pension fund (Bpf) or
- a company pension fund or
- a private group insurance contract with a life insurance company.

The Act constructs a triangular relationship: the employer, the employee and the pension entity, carrying out the pension arrangement. New juridical documents are introduced to lay down these relationships:

- between the employer and the employee: the pension agreement and the so-called Starting Letter
- between the employer and the pension entity: the execution agreement
- between the employee and the pension entity: the pension rules.

The Act limits pension schemes to three types:

- benefit agreement (DB)
- capital agreement
- contribution agreement (DC). This type of agreement is subdivided into
 - real defined contribution (DC)
 - DC, whereby the contribution is annually used to buy a lump sum payable at retirement and then to be used to buy a pension
 - DC, whereby the contribution is annually used to buy a pension payable at retirement.

The Act describes the contents of the pension agreement. The pension accrual starts at the latest from when the employee is 21 years old. The survivors' pension for a cohabiting partner is the same as for a married or registered partner. The reduction of the pensionable salary will not affect accrued pension rights (solid final pay plans are not allowed).

Information obligation of the employer: starting letter

The employer ensures that the pension entity informs the employee through a starting letter within three months after concluding the pension agreement or the employee has become eligible. The Act sets out a series of basic items to be entered in this letter. Essentially the terms of the pension scheme must be set out in clear and understandable language.

Waiting periods are only allowed if for administrative reasons and for retirement pension only; such period is limited to a period of two months. It is intended to extend this period to six months for employees of temporary and contract staffing organizations.

Pension entity

The Pension Act introduces the concept of a 'pension entity', which is carrying out the pension scheme. There is no longer a sharp distinction between pension funds and insurers. In an execution agreement, a number of implementation aspects of the relationship between the employer, the employee and the pension administrator are laid down; the obligatory contents of this agreement are:

- way of calculation and payment of the contribution
- information obligations of the employer and the pension entity
- the consequences of failure to pay contributions
- procedure for amending the pension scheme
- indexation conditions
- what to do in case of capital gains or losses

Conditional indexation

The pension agreement and the pension rules have to state clearly whether or not the pensions are indexed, and if so, what system is used and how the indexations are financed. It has to be made clear whether the indexation is conditionally or unconditionally and what the conditions are. The Act stipulates that conditional indexation must provide consistency between the expectations raised, the financing and the realisation of the conditional indexation. The starting point of the rules of indexation is consistency between raised expectations, funds available and granting of indexation. In every document and all kinds of information a disclaimer in case of conditional indexation is obligatory. Without such disclaimer the indexation will become unconditional.

Communication

The Act states in large detail which parties (pension fund, insurer, employer) have to inform the person concerned (active members, persons entitled to a pension, early leavers and their partners, retirees and their partners etc.), the frequency of delivering the information and the obligatory elements of the information. Giving information digitally is allowed provided there is permission to do so given by the receiver of the information. The new supervisor for communication is the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten, AFM). The AFM checks whether the information given is on time, correct and accessible.

Obligation to provide information in the case of DC pensions with individual freedom of investment

In the case of contribution agreements with freedom of investment, the pension entity bears responsibility for the investment mix, unless the member wishes to make his own investment choices. Where the pension entity is responsible, it must invest the funds 'prudently'. If the member wishes to assume the responsibility, the pension entity is required to annually provide an advice. This means that the pension entity will have to gather information about the member's financial position, knowledge, experience, objectives and willingness to take risks (insofar as this can be reasonably considered relevant to the advice), and use that information as the basis for its advice. The member must then be informed on an annual basis about how that advice relates to the investment mix selected. The supervisor in this regard is the AFM.

3. Pension Funds

General

The board of a company pension fund must comprise representatives of the employer and participating employees: at least 50% of the members of the board must be employee representatives. The statutes and bylaws of a pension fund should give details of:

- the purpose, administration and income of a pension fund
- the rights granted to employees
- the way in which members of the board are appointed or elected
- the winding-up of a pension fund
- what should be done in case of a deficit.

These statutes and bylaws, having been agreed before a notary public, have to be approved by the De Nederlandsche Bank² and copies of them have to be delivered to all members and other interested parties. A Pension fund may be either self-insured or re-insured with an insurance company.

The new financial assessment framework for pension funds

The minimum funding and solvency rules are an integral of the Pensions Act. A pension fund's financial position must be tested every year. The minimum provision for pensions is equal to the fair market value of the accrued liabilities, excluding non-guaranteed indexation. The minimum solvency position is such that the probability of a funding shortfall is less than 2,5%, given a one-year horizon. The minimum annual contribution is derived from the value of the pensions accrued during the year, including a solvency margin and possibly a contribution to fund indexation. Distinction is made between various indexation systems. Reductions in contributions and refunds are allowed only if certain conditions are met, such as indexation being fully funded.

Pension Fund Governance

The Pension Act stipulates that pension funds will have to comply with the recently published Principles for proper pension fund governance. The core of the principles is the periodical reporting on the policy pursued to all the parties concerned, and the realisation of an adequate and transparent internal supervision. The principles differentiate between three themes, namely the board, reporting and internal supervision.

² Formerly Pension and Insurance Chamber

Industry-wide Pension funds

In 1949, the Minister of Social Affairs and Employment was empowered to make participation in an industry-wide pension fund (Bpf) compulsory at request of an adequate representation of employer and employee organisations.

These Bpf's are also subject to the supervision of the De Nederlandsche Bank (the insurance control authority).

Although the contributions are not dependent on the age structure of a particular company and are generally expressed as a percentage of pensionable salary, the Bpf's liabilities have to be fully funded. This may be to the disadvantage of companies with a young age structure. An employer who has had a pension plan for at least six months prior to a Bpf request to the Minister of Social Affairs and Employment can contract out of the Bpf on condition that his existing or adjusted pension plan grants benefits equal to or better than those provided by the Bpf. A Bpf, depending on its size, may be self-administered or re-insured. The benefits under a Bpf are generally limited to a defined income ceiling. Any commitment of an employer in excess of such a ceiling can be provided in a manner determined by the employer, so long as the regulations, as laid down in the Pension Act, are fully met.

Company Pension funds

A pension fund can carry its own risks, provided that:

- the pension fund observes the provisions of an actuarial and financial plan, in which the financial design and the underlying technical bases are laid down and fully accounted for. This report has to be submitted to the De Nederlandsche Bank, which can make objections.
- satisfactory proof is given to the De Nederlandsche Bank that a pension fund has a sufficiently broad base to assume its own risks.

The aggregate of the assets of a self-administered pension fund and the actuarial value of the expected income has to at least cover the liabilities of a pension fund. Investments have to be made soundly and no more than 5% of a pension fund's assets may be invested in the employer's business.

If a company pension fund does not meet the requirements for self-administration or if a company prefers full re-insurance, it must cover its liabilities through a life insurance company.

Company pension funds are subject to the control of the De Nederlandsche Bank. Each year, a pension fund has to submit a report to the De Nederlandsche Bank. This report has to be audited by a qualified accountant, which gives a complete review of a pension fund's financial position and shows, to the satisfaction of the De Nederlandsche Bank, that the provisions of the Pension Act have been fully met. The report also has to include a number of actuarial details compiled and calculated by an qualified actuary. Both the accountant and the actuary have an professional obligation to report abuses to De Nederlandsche Bank.

Such annual reports must be made in a format prescribed by law.

4. Pension plans

4.1. General

Today, the vast majority of Dutch companies offer their employees a benefits programme supplementary to the social security benefits. Customary practice in the area of occupational benefits is detailed under the same headings as the social security benefits described previously, i.e.:

- retirement
- death
- disability/sickness
- medical

4.2. Retirement

Qualifying criteria

As from 1st January 2008, the minimum entry age is set on age 21.

The retirement age

The retirement is generally the same as under the social security system, i.e. the first day of the month in which the member attains age 65, both for men and for women. Earlier retirement has always been an important issue. Retirement from age 55 used to be possible. The Netherlands suffered from a low labour force participation rate in large part because of actions taken in the early 1980s that encouraged early retirement to free up jobs for younger workers. These early retirement schemes (vervroegde uitredingsregelingen, or VUTs) were very generous, providing benefits up to 80 percent of a worker's final wage. In addition, even though the VUTs required complete withdrawal from the labour force, early retirees who were members of an occupational pension plan would continue to receive credit toward their plan until the age of 65.

The adverse effects of low labour participation became apparent in the 1990s, and the VUTs were mostly replaced by less generous, but still largely unfunded, early retirement arrangements known as prepensions.

These plans allow employees to exit the labour force as early as age 55, but, unlike the VUTs, benefits vary with the age of retirement. In the late 1990s, about 27 percent of men between the ages of 60 and 65 were collecting early retirement benefits. This all caused the Dutch government plans to end preferential tax treatment for early retirement arrangements and introduce a voluntary career savings program, through a new act, named the VPL Act..

The main provisions of the this Act, which has gone into effect 1st January 2006, include:

- Granting favourable tax treatment only to occupational pension plans with a normal retirement age of 65. Early retirement will be allowed provided that benefits received before the age of 65 are actuarially reduced.
- Abolishing tax advantages for prepension and VUT programs, except for persons who are aged 55 or older on January 1, 2005.
- Taxing as income accruals under early retirement and VUT plans for those retiring before age 55.
- Creating a voluntary lifecycle savings plan, or levensloopregeling. Employees will be allowed to save a maximum of 12 percent of pre-tax salary each year, up to a cumulative balance of 210 percent of final pay. Employers will be able to make tax-deductible contributions on behalf of their workers. The savings may be withdrawn during long leave periods or at early retirement (as early as age 61), with payments taxed as income.

Though employer's are not obliged to continue early retirement plans for employees older than 55 at 31st December 2004, favourable tax treatment remains in force for retirement plans with a normal retirement age younger than 65 for this category of employees.

Employees may retire part-time. This may result in a partial pension benefit, while the service is continued partially and pension still accrues. When a job is performed part-time in the last ten years before the retirement date, pension accrual may still take place, if the part-time function is at least 50% of the full-time job.

Benefits

Benefit plans have to integrate the social security retirement benefit through a deductible³ on the salary. The minimum deductible allowed is € 12.673,- (2010). The salary base is usually 12 times the monthly salary increased by the 8% holiday bonus. The pension base less the deductible is usually being named the “pensionable salary”.

In the Netherlands one find a number of alternative pension plan types:

- **Fixed amounts:**

Irrespective of age and income, a defined amount is guaranteed and paid as from the retirement date. Such plans are hardly found anymore.

- **Defined contribution benefits:**

A fixed percentage depending of age pensionable salary for each member is invested each year for a retirement pension from the retirement date. Recent legalisation has set limits on the level of contribution and to use different contribution rates for groups of five age years.

It was not unusual to fund both retirement and survivor's of the contribution deriving from the contribution percentage table. Given new views on the consequences of the termination of the exemption for pension plans in the anti-discrimination law (Algemene Wet Gelijke Behandeling) this set up is no longer allowed as it leads to discrimination between male and female employees. Reason for that is that the cost for the survivor's benefits for males and females is different and so resulting in a different amount of contribution available for accruing the retirement pensions, thus resulting in different retirement pensions for males and females of the same age and salary. Further the contribution table of a pension plan has to be set in line with the maximum tables as presented by the fiscal authorities in 2003 and as revised in 2007 and 2009.

Age	Maximum Contribution Table (retirement age 65)	Example of an allowed table	Example of an illegal table
15 - 19	7,6%	5.70%	6%
20 - 24	9%	6.75%	8%
25 - 29	10.8%	8.10%	10%
30 - 34	12.7%	9.53%	11.5%
35 - 39	15.2%	11.40%	12.5%
40 - 44	18.3%	13.73%	14%
45 - 49	22.1%	16.58%	15%
50 - 54	26.6%	19.95%	16%
55 - 59	32%	24.00%	18%
60 - 64	38.3%	28.73%	20%

- **Career average benefits:**

A defined percentage of the pensionable salary of each year accrued and guaranteed as a retirement income from the retirement date (usually 1.75% per year for 40 years, hence 70% of the average pensionable salary, the maximum accrual percentage is slightly higher than for the final pay system, namely 2.25% p.a.). Though rarely found in the past, career average is nowadays more and more applied in new plans. By now such scheme is by far the most popular in number of members. Usually the pension earned over past years of service and the pensions in payment are indexed. The Government has showed a strong preference for introducing career average plans over final pay plans.

³ Usually named 'franchise'.

- **Final pay benefits:**

A defined percentage of the last pensionable salary (usually 1.75% per service year for 40 years, hence 70%, but it is legally possible to accrue 2% p.a.). A very popular combination of the final pay and career average systems (f.i. final up to age 55 and career average between ages 55 and 65) is considered to be age discrimination and is not longer allowed. Final pay used by far to be the most used pension system in The Netherlands. For new plans however, the system is hardly used anymore. Due to improved regulations of the Dutch government, the system has lost its attractiveness as the disadvantages (unforeseen cost-increases at higher ages, unexpected costs when an employee leaves service, etc.) have become more obvious; Type of pension plans, in percentages

Type of plan	Directly Insured Pension Plans (2005) ^{*)}	Self Administered Pension funds (2008) ^{**)}
Final pay	21,2	14,5
Career average	19,2	56,4
Defined Contribution	49,5	7,1
Combined schemes	4,8	16,9
Other	5,3	5,1

^{*)} as percentage of total plans

Source: De Nederlandsche Bank

^{**) as percentage of total pension funds}

Indexation

Employers should be aware that, according to the Pension Act, there is no obligation to adjust pensions in payment. However, when an employer has made a decision to do so, pensions in payment for those who have already left the company, may not be excluded. The Pension Act sets out a strong regulation on the wording of indexation.

Conversion of retirement and survivors' pension

Pension plans have to open the possibility for each member to exchange a survivor's pension against retirement pension. In practice this means that an employer has to give entitlement to a survivor's pension to every employee whether or not this employee has a partner. At the retirement date the employee, who does not have a partner or has a partner with a sufficiently own income can exchange that pension for a higher retirement pension. Survivors' pension may not exceed 70% of the pensionable salary and the maximum survivors' pension to be converted is 50% of the pensionable salary. The Pension Act has introduced the possibility of (partial) conversion of retirement pension into survivor's pension at the retirement date.

Voluntary pension contributions

In the past, compulsory contributions only could be taken from the gross salary. Within the framework of individual and flexible pensions, voluntary contributions may be deducted as well nowadays.

Pension premiums via employee savings schemes

Amounts saved in employee savings schemes may be used to pay pension premium in the blocking period.

Purchase of past service years

Service years may be purchased with former employers. This must concern service years before 8 July 1994.

Demotion

Employees may be demoted towards a job with lower qualifications and lower salary. If such demotion is made in the ten years preceding retirement, salary received in these ten years may be left out for the calculation of pensions.

Fluctuating pension (100:75)

Pension benefits may vary, the lower benefit not being less than 75% of the higher benefit, and the extent of the variation being determined at the inception date of the pension. When the 100:75 range is applied, indexation and bridging pension are not taken into account. When the fluctuation leads to a temporarily higher pension on top of the 100% norm, this is acceptable.

4.3. Death

Retirement and survivor's benefits differ from country to country. Not because technicians have developed different ideas of constructing their respective programmes, but mainly because of the historical, cultural and religious backgrounds appertaining in different countries.

In The Netherlands, a pension plan without survivor's benefits is unheard of. Indeed, if a new employer is unable to afford to offer his employees a full retirement benefits programme, he will invariably effect a life policy on behalf of his staff. In this way he ensures that the dependants, irrespective of age, will obtain some financial support in case an employee should die in service.

In case the employee has not yet qualified for membership of a pension plan, because his eligibility age has not yet been reached, he will generally be covered in respect of survivor's pensions. During a waiting period cover is obligatory by law.

It is not customary in The Netherlands to provide lump sum death benefits under a pension plan. Such benefits would be considered as taxable income in the year in which they were paid, unless they were immediately converted into pensions. If an employer insisted on having lump sum death benefits, he would be well advised to insure them under a separate plan.

Survivor's pensions for the eligible partner usually amount to 70% of the prospective or actual old age pension of the member and are payable for life.

As most of the employees will not be entitled to a social security survivor's benefit, employers usually provide an additional survivor's benefit to the amount of approximately € 13.880,-. The pension is usually referred to as ANW-gap pension. Though the employee is usually paying the cost for this benefit in full, the benefit is fully treated fiscally as a pension.

Orphan's pensions usually amount to 20% of the pension for the partner or 14% of the old age pension and are doubled where both parents are dead. They are paid up to the age of 18 or 21 and may continue to age 27 for disabled children or for children in full-time educational or vocational training.

4.4. Disability/sickness

4.4.1. General

An increasing number of employers provide disability pensions related to earnings in excess of the social security ceiling. When a disability pension is insured, the same eligibility requirements generally apply as those for retirement pensions.

4.4.2. Benefits

Disability benefits include:

1. a waiver of premiums/contributions facility (for retirement benefits)
2. the payment of a disability income.

4.4.2.1. Waiver of premium

Most retirement programmes provide a waiver of premiums/contributions facility in case of disablement.

The determination of the degree of disability is generally related to the criteria laid down in the WIA. Three methods can be selected, namely:

- a. the two-class system, in which benefits are granted, provided that the degree of disability according to the WIA amounts to 65% or more
- b. the three class system, which provides 100% benefits in the case of a disability of 65% or more and 50% benefits where the disability percentage, as determined by the WIA, lies between 35% and 65%
- c. the WIA class system, in which case the benefits, as a percentage of pay, are directly related to the WIA benefits payable.

4.4.2.2. Disability income

There are four types of additional disability benefits:

1. Disability pensions related to earnings in excess of the social security ceiling to the amount of 70% of the excess.
2. Disability pensions to provide income for partially disabled employees (less than 35%) who suffer from loss of income and are not compensated by social security.
3. Disability pensions to provide income to those partially disabled employees who use the earnings capacity for at least 50% and have an income in excess of the social security maximum; these employees only receive a limited social security benefit.
4. Disability pensions to fill up the loss of income to partially disabled employees who do not (or can not because appropriate jobs are not available) use the earnings capacity in basic benefit. These employees only receive (after a certain period) 70% of the minimum wage.

For all these benefits, the benefit paid relates to the percentage of incapacity. The determination of the degree of incapacity is related to the criteria laid down in the WIA.

4.4.3. Sick pay

The statutory requirement for employers to continue paying a sick employee's salary is broadened. Since 1994, employers have been obliged to continue payments for two or six weeks, after which sick pay will be paid as a government benefit under the Sickness Benefits Act (ZW). As per 1 March 1996, this Act has been abolished. It has now become the employer's duty to continue payments for 104 weeks, the minimum level being 70% of the normal daily wage. This payment is (as in the old ZW) maximised to € 186.65 per day.

Many employers, particularly smaller ones, have taken out private insurance (either full coverage or stop-loss) against having to pay out salaries to people who are unable to work.

The social partners may agree in their collective agreement to top up the sick pay from 70% to 100% of the wage, but the Government has urged the social partners not to provide a top-up of this kind in the second year of sickness. Employers can reinsure their risks with a private insurance company. Most small and medium-sized companies do, in fact, have this kind of private insurance.

5. Medical

As of 1st January 2006, a new insurance system for curative healthcare came into force in The Netherlands. Under the new Health Insurance Act (Zorgverzekeringswet), all residents are obliged to take out a health insurance. The new system is a private health insurance with social conditions. The system is operated by private health insurance companies; the insurers are obliged to accept every resident in their area of activity. A system of risk equalization enables the acceptance obligation and prevents direct or indirect risk selection.

The insured pay a nominal premium to the health insurer. Everyone with the same policy will pay the same insurance premium. This contribution differs from insurer to insurer and varies from € 1.000,- to € 1.300,- per annum. In addition an income-related contribution is payable of 7,05% of taxable income to a maximum wage of € 33.189,-. Employers are required to reimburse the employee this contribution in full. This employer's contribution is taxable income to the employee. Up to 2008 persons aged 18 or older had a no-claim bonus of € 255,- a year. If a person's healthcare costs are less than € 255,- in any one year, he will be re-funded the difference after the end of that year. As from January 1, 2008 this no-claim bonus has been replaced by a deductible € 165,- (2010) for each insured. This deductible must be paid by the insured, before the benefits of the Act can apply. The deductible does not apply to general practitioner care, maternity and obstetrician aid, dental care up to 22 years and to compensations from additional insurances. Chronically ill patients and disabled persons are compensated. Through the Centraal Administratie Kantoor Bijzondere Zorgkosten they can receive an allowance from € 54,- (2010).

The health insurance comprises a standard package of essential healthcare. The package provides essential curative care tested against the criteria of demonstrable efficacy, cost effectiveness and the need for collective financing. All insurers offer additional insurance packages to make it possible for the insured to enhance the level of coverage or to add dental to his package. Vision is usually included on a limited basis.

In principle the employee can choose with which policy to take out the health insurance. Aspects that play a role in this decision making process are:

- the level of the basic contribution
- the performance of the insurer
- the level and cost of the additional packages.

Employers offer group health plan to their employees; these are however not obliged to participate. Such group plans offer a discounted basic contribution. The maximum discount is, by law, 10%.

The employee contribution is tax-deductible if total medical expenses exceed a certain limit. The contribution paid by an employer is regarded as a legitimate expense in arriving at profits and is, therefore, fully tax-deductible.

6. Other Benefit Schemes

6.1. Voluntary lifecycle savings plan

The lifecycle savings plan is a statutory arrangement that gives each employee in the Netherlands the opportunity to save part of the gross salary tax-free in order to finance a period of unpaid leave in the future. A participant can use the life-course savings scheme for each form of unpaid leave:

- protracted leave to care for others
- parental leave
- adoption leave
- educational leave
- sabbatical
- part-time leave
- leave directly preceding retirement.

With the lifecycle savings plan, the government intends to enable people to better combine their work and private life. The introduction of the lifecycle savings plan is closely related to the abolishment of the VUT (early retirement) and the prepension arrangements.

Lifecycle savings plan and company savings plans

Participants in the lifecycle savings plan, cannot participate in a company savings plan at the same time. From 1 January 2006, every year an employee has the possibility to choose the plan in which he wish to participate: the company savings plan or the lifecycle savings plan. Employees are allowed to change schemes every year.

Financial contribution employer

The employer can contribute to the lifecycle savings plan. If the employer makes a financial contribution, this contribution must also be provided to employees not participating in the lifecycle savings plan.

Group contract

The employer can take out a group contract with a financial institution offering life-course products (e.g. lifecycle savings plan). Participation in such a group contract can have certain advantages, but is not obligatory. An employee is free to choose a lifecycle product from a financial institution. When participating in the lifecycle savings plan, the employer and employee have to lay down in writing a number of matters.

6.2. Company Savings Plans

To encourage Dutch citizens to accept responsibility for their own financial future, the government extended the fiscal exemptions of company savings plans on January 1, 1994. They have become very popular in all branches of industry.

Employers regard the plans as an opportunity to create their private early-retirement schemes or to anticipate decreasing study-allowances granted by the state. To avail of the exemptions, employees can put a limited part of their gross or net income on a special bank account, which will be blocked for 4 years. After this period, the employee can take the amount from his/her bank account tax-free. In some savings plans the employer participates as well and, thus, increases the tax-free amount.

Employers are taxed 15% over the amount saved by the employees.

7. Funding

The benefits described above, especially the retirement and survivor's benefits, are principally based upon the "deferred annuity" approach.

This means that, for each individual, an annuity is calculated to which he or she would be entitled at the retirement date, in accordance with the formula used in the contract. A retirement or a survivor's annuity, once promised is an irrevocable right in accordance with the provisions of the Pension Act. It needs to be funded based on "allocated funding".

A contribution is calculated on behalf of each individual for the annuity as at the retirement date. This contribution will ultimately lead to a technical reserve which, at the retirement date and in accordance with valid actuarial principles, should be sufficient to pay a lifelong guaranteed annuity. The same principle is used in funding survivor's pensions.

The principal assumptions used in the calculation of this contribution are:

- the return on the investment
- mortality
- administrative costs.

The return on the investment, for calculation purposes, (the so-called mathematical interest rate) is being set on 3%⁴.

Mortality is usually based on tables, issued every five years by The Netherlands Society of Actuaries.

The administrative costs differ from institution to institution.

Any increase in the annuity, due to salary increases, is considered as an independent annuity, requiring its own mathematical reserve.

⁴ In 1999 the Insurance Chamber prescribed a reduction of the institutional rate of interest from 4 to% 3%. However old group insurance contracts can still be based on 4%.

The contribution(s) for the supplementary benefit(s), together with the initial contribution, result in the total contribution for an individual. The sum of all these contributions results in the total gross cost to be paid by an employer and the employees to a pension scheme.

Investment earnings in excess of the assumed interest (3%) will normally flow back into the pension scheme or to the employer, and might so be used to escalate pensions in payment and pensions of persons left the employer before retirement or are used to reduce the overall cost of the scheme.

If pensions are provided for by means of a company pension fund, then this surplus interest will normally flow back into the pension fund, forming an “extra” reserve to be used for different purposes in relation to the pension fund, such as indexation, plan improvements, etc.

The systems offered by insurance companies to reimburse excess yield, either to an employer or to a pension fund, which has reinsured its pension commitments, are following:

- a. the UL discount system
- b. the excess yield system
- c. the separate account system.

a. The UL discount system:

The UL discount system starts from the premise, whereby each contribution is invested in a 10-year loan to be annually redeemed in equal parts. Each redemption is re-invested in such a way that, after 7½ years, the return on the investment is 3%. If the initial contribution is paid for a 35 year-old, with a duration of 30 years, whereby the “used return” at the moment at which the contribution is paid is 7%, then the average interest rate according to the UL discount formula is 5%. The return is based on investment in State-Loans. Based upon this method, the accrued interest over 10 years is paid up front as a discount to the contribution. This discount, calculated at 5%, amounts to about 22% of the gross premium. The discount is applied to the premium, minus a volume discount, if any; the discount can vary from company to company.

After the contract has been in force for 11 years, an additional bonus payment becomes available, if the contract is to be continued for at least another period of five years. The bonus is determined by taking account of:

- the invested mathematical reserve in relation to the gross premium
- the UL discount percentage at the date of bonus crediting
- the period for which the contract has been in force.

The level of the bonus increases from the first bonus year to the 11th bonus year.

b. The excess yield system:

With this system, the excess interest is remitted annually, depending on the interest actually received in a certain year. This is instead of the payment of a discounted value of future excess interest as in the discount system (described in a.).

The determination of the excess yield, however, is based upon the investment principally described in a., taking into account the “realised return” on the reserves invested in the year in which this yield is earned, assumed these have been invested in Loans of the Kingdom of The Netherlands. The investment costs met by the carrier and a guaranteed premium are normally deducted from the excess yield.

c. The separate account system

This system is similar to that described under b. The excess yield is paid annually in relation to the interest actually received in a given year. The difference, however, is that the value of the excess yield is not determined by the UL formula, but reflects the real return on the investments in that year, where as the reserves have been investment in a separate fund, separate from the other investments of the insurer.

As with the earlier remark on the negotiations of the terms of insurance contracts, it is also of vital importance that the terms of funded systems should be thoroughly negotiated. It should be mentioned, however, that the choice of the system is strongly influenced by the volume of the contribution to be paid.

8. Employee's contribution

Pension plans are commonly contributory for the employees. The employees usually pay 1/3 of the overall contribution, expressed as a percentage of pensionable salary. A percentage of 4 to 6 (depending on the level of the plan) is considered as usual

9. Transfer of pension value at switching jobs

Every employee has the right at switching jobs to transfer the value of his or hers accrued pension to the pension plan of the new employer. In case the new plan is a final pay plan, the value is converted into extra years of service under the new plan, which years has also to be taken into account at salary increases, thus creating extra past service liabilities for the new employer. Value transfer is a legal right of the worker if applied for within 6 months after recruitment. The costs are borne by the new employer.

Pension funds and insurers are allowed to transfer the value to a foreign pension plan, provided that the foreign pension plan meets certain conditions. In any case, permission of the fiscal authorities and the De Nederlandsche Bank (DNB) is necessary.

10. Taxation

Employee contributions towards a pension plan are fully deductible for income purposes, if certain conditions are met.

A pension plan should therefore provide exclusively, or almost exclusively, retirement or disability pensions to employees, widow's pensions to their widows, widower's pensions to their widowers, partner pensions to their partners and orphan's pensions to those orphans qualifying for this benefit.

These pensions should not exceed 70% of full salary, when retiring at age 60 or 100% of full salary (including social security) when retiring at age 65. Under some circumstances a pension exceeding 100% is acceptable. Survivor's pension is maximised to 50% of last earned salary incl. social security.

Employee contributions towards a life insurance plan should, therefore, be paid out of income after tax. Employer contributions for pensions rank as a legitimate expense in arriving at tax profits. They are not considered as additional income to an employee. Employer contributions towards a life insurance plan would however be considered as additional income to an employee.

Before 2000, an employer could obtain tax relief on the cost of past service benefits: In the year in which this past service was credited, an employer may debit the amount of a single premium, which would be required to insure such a liability, as a tax-deductible item. As of 2000, the employer has to finance any new past service benefits in full by paying a single premium to the pension fund or the insurer. Any existing past service liabilities, not yet funded, have to be funded over a period of ten years in equal payments.

The total employer's contribution is considered as corporate expense for tax purposes.

II. The Insurance and Investment Markets

II.1. The Insurance Market

The insurance market is highly developed. There are approximately 10 insurance companies offering services in the field of occupational pension plans, all of them compete for business based on their rates, charges, level of services and investment performance. The services offered vary from a complete package (insurance, administration and investment in one) to unbundled services in the different areas. For larger plans often segregated accounts or delegated self-insurance are offered.

For early retirement plans, unit-linked approaches, where the employee himself can decide in which fund(s) the savings on his behalf have to be invested, are becoming increasingly popular.

Most insurance companies secure business through independent intermediaries, to whom they pay commission. As commission for the insurance of occupational pension plans is rather low, the number of intermediaries or consultants working on fee-basis has become rather important.

The Dutch Supervisory Authority (De Nederlandsche Bank DNB) control Insurance Companies and Pension funds in The Netherlands. They give special attention to the reserve position of each insurer or pension fund to see whether the insurer can meet its future obligations.

II.2. The Investment Market

Occupational plans are generally insured through an insurance company, in order to obtain administration and investment services. Large, self-administered, pension funds tend to use external administrators and investment managers.

Though larger insurance companies provide investment management for those funds, pension funds generally use merchant banks and investment houses. Very large funds often have an in-house investment director, using several outside investment managers.

12. Trends in Benefit Provision

The last years have seen a strong trend away from defined benefit plans towards (unit-linked) defined contribution plans, especially in the IT- and advertisement branches. With larger employers however DC-plans has not become popular as Employee Unions has strong preference for indexed career average plans, which, in IFRS-terms, do also count as DC-plans.



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