Ministerie van Sociale Zaken
en Werkgelegenheid

The Dutch Pension System:

overview and some challenges

Jan Koeman

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Overview

I Overview Dutch pension system

II Overview second pillar

III Some challanges for the second pillar

three pillar system

basic pension	supplementary pensions	
1st pillar AOW	**2nd pillar occupational pensions**	**3rd pillar individual insurance**
- statutory	- non statutory	- non statutory
- national scheme	- part of labor agreements	- private provisions
- minimum wage level, equal for all	- related to last salary or average career salary	
- pay-as-you-go funding	- capital funding	- capital funding
- implementation by a national body: the Social Insurance Bank (SVB)	- implementation by pension funds or insurance companies	- implementation by insurance companies
- supervision: IWI	- supervision: Dutch Central Bank (DNB)	- supervision: Dutch Central Bank (DNB)

Gross replacement rate (% latest wage)

(average production worker, 40 years accrual)

Income 1th pillar AOW	25%
Income 2th pillar	46%
Total income	71%

First pillar: state basic pension

- ✓ Flat rate pension benefit of 70% minimum wage
- ✓ pay-as-you-go
- ✓ 5% GDP (2005) => 9% (2040)

Saveguarding sustainability by:

- ✓ reducing public debt
- ✓ raising labour participation
- ✓ new proposal: higher contribution for early retired

Second pillar: occupational pensions

- ✓ Schemes negotiated by the social partners
- ✓ administered by independent pension funds
- ✓ fully funded
- ✓ common target level benefit: 70% final wage (including basic pension)

II Second pillar

Some facts:

- ✓ 792 pension funds: few very large, many small
- ✓ Governed by employers and employees
- ✓ Mainly defined benefit schemes

Defined benefit:	93,9%
Defined contribution:	3,8%
Other:	2,4%

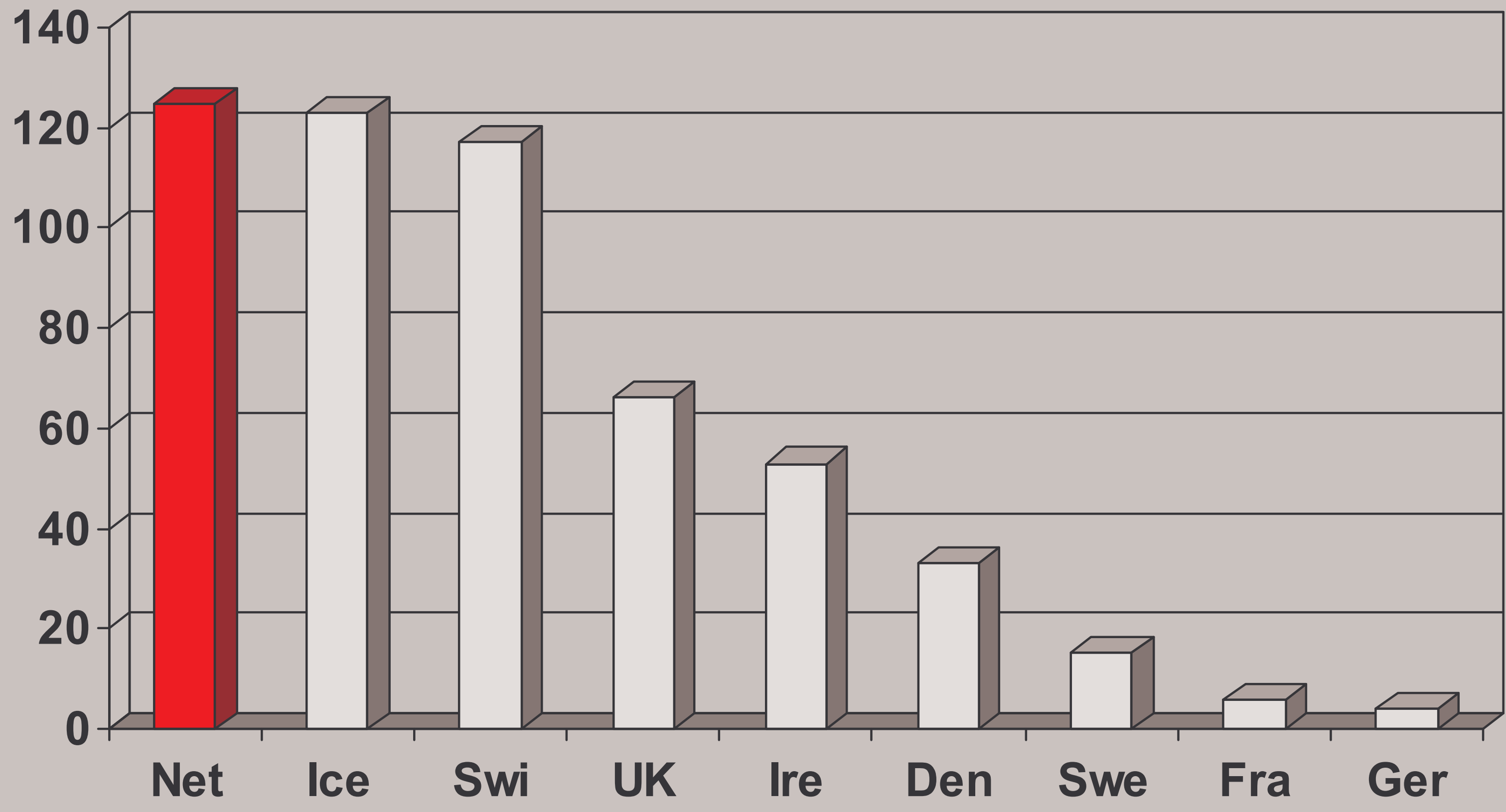
II Second pillar

Coverage occupational pensions

Swiss	100%
The Netherlands	**91%**
Sweden	90%
Denmark	80%
United Kingdom	48%
Germany	46%
Ireland	40%
Belgium	31%
Luxemburg	30%
Greece	5%

II Second pillar

Pension assets (% GDP, 2005)



Source: OECD Global Pension Statistics

II Second pillar

Main strengths of the Dutch system

- ✓ mix between pay-as you go and funding => diversification
- ✓ high coverage, high pension savings
- ✓ balanced mix between government and private sector

II Second pillar

So, why worry?

- ✓ plunging asset markets in 2001

- ✓ less visable, but more important: the falling long term interest rate (since 1990)

- ✓ demographic changes

=> Capital funding implies large risks

II Second pillar

New Pension Act (introduced in 2007)

- ✓ New solvency rules for pension funds
- ✓ Better information for participants
- ✓ Minimum entrance age; new governance rules

II Second pillar

Solvency rules (FTK, NPA)

✓Required solvency-ratio: 130% of unconditional liabilities (recovery period: 15 year)

✓ conditional liabilities: consistency between promise, financing and communication

⇒ Forces funds to take risks explicitly into account

⇒ premium on honest communication

III Challenges

Important issues

- ✓ pension consciousness and transparancy
- ✓ solidarity between generations
- ✓ risk sharing between employers and employees (DB vs. DC)

III Challenges

International rules

- ✓ IAS/IFRS => shifting risk to employees
- ✓ IORP-directive => introducing competition
- ✓ Portability directive => additional costs

=> Threat to the current DB schemes?

DC certainly not superior to DB

- ✓ investment risks
- ✓ no transparency
- ✓ no rational choices
- ✓ large management fees and high administrative costs
- ✓ low return on investments

III Challenges

The paradox of the Dutch situation

- ✓ The Dutch pension system: social adequate and financial sustainable…
- ✓ …faces great pressure to change as result of international rules

III Challenges

International rules must respect pension systems based on collective arrangements and solidarity no matter this is organised by government or social partners

Conclusions

- ✓ Strong second pillar is an asset
- ✓ The Dutch system is sustainable, but uncertainty is large
- ✓ Raising pension consciousness of utmost importance
- ✓ International rules should respect collective arrangement based on solidarity