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# Ins and outs of the Dutch Life Course Savings Scheme

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## Structure of the presentation

- 1. Aims of the Dutch LCSS**
- 2. Conditions of the Dutch LCSS**
- 3. Expected participation**
- 4. Actual participation**
- 5. Conclusions**
- 6. Future prospects**



## Background of the Dutch LCSS

- **Shift from male breadwinner model towards two-earners households and towards single-persons households.**
- **Shift from three phased to a five phased course of life.**
- **Recognition of social costs accompanied by policy of increased labour participation of partners.**
- **The scheme is based on the holistic life cycle approach, lends shape to individualisation and fits the transitional labour markets approach.**
- **The basic idea behind the LCSS is that people can reserve a portion of their income to offset losses of income in the future.**
- **The new Dutch Life Course Savings Scheme that went into effect on 1 January 2006 is a “polder model” compromise.**



## Aims of the Dutch LCSS

- **The LCSS offers individual employees the opportunity to save funds to finance periods of unpaid leave for various purposes, while continuing the original employment relationship.**
- **The LCSS requires employees to take personnel responsibility of funding for longer periods of unpaid leave.**
- **The government expects that:**
  1. **Generally combining tasks will be easier and notably the “rush hour of life” be less hectic;**
  2. **Employment participation will increase, fewer people will stop working because of care tasks, and people will work more years before retirement.**



## Conditions of the Dutch LCSS

- **Employees may save a maximum of 12% of gross salary per annum income tax free (“reversal rule”).**
- **The maximum saving amounts 210% of the last earned gross salary.**
- **Employees receive a tax credit of € 185 per year of participation in the LCSS when taking up leave. No minimum requirement of savings amount for tax relieve.**
- **Employees who participate in the LCSS and who take up unpaid parental leave, receive an additional tax credit equal to 50% of the gross minimum wage per unpaid day.**
- **Participation in both the Salary Savings Scheme (*spaarloonregeling*) and the LCSS in the same calendar year is not permitted.**
- **Leave can only be taken in consultation with the employer; does not apply to parental and long-term care leave, which are provided by law.**
- **Under certain conditions employers are allowed to contribute.**



## Expected participation in LCSS

**What number?**

**Expected participation rates vary from 20% in 2006 to 33% in 2009 of the employed labour force**

**Who will?**

**Only some employees will have (more) choices (less liquidity constraints):**

**male employees, the higher age groups, the higher salary groups, those working full time and partners**

**For what purpose?**

**For men early retirement will prevail; for women parental leave and care leave will prevail**



## Actual participation in LCSS, 2006 (1)

<b>Total</b>	<b>5.5</b>
<b>Males</b>	<b>6.3</b>
<b>Females</b>	<b>4.6</b>
<b>15-25 years</b>	<b>2.3</b>
<b>25-35 years</b>	<b>5.3</b>
<b>35-40 years</b>	<b>5.8</b>
<b>40-45 years</b>	<b>6.5</b>
<b>45-50 years</b>	<b>6.2</b>
<b>50-55 years</b>	<b>8.2</b>
<b>55-60 years</b>	<b>4.9</b>
<b>60-65 years</b>	<b>1.6</b>
<b>Lower education</b>	<b>3.6</b>
<b>Intermediate education</b>	<b>4.8</b>
<b>Higher education</b>	<b>7.8</b>

**Source: Statistics Netherlands**



## Actual participation in LCSS, 2006 (2)

<b>Single</b>	<b>5.2</b>
<b>Single parent</b>	<b>3.6</b>
<b>Partner</b>	<b>6.4</b>
<b>Partner, not parent</b>	<b>6.5</b>
<b>12-19 hours per week</b>	<b>2.2</b>
<b>20-27 hours per week</b>	<b>4.0</b>
<b>28-34 hours per week</b>	<b>6.0</b>
<b>35 hours or more per week</b>	<b>6.5</b>

**Participation permanent employees above average**

**Investment in early retirement: 50%**

**2/3 participated in the SSS**

**Source: Statistics Netherlands**



## Conclusions

**Actual participation rates are lower than expected rates:**

- **Stated versus revealed preferences**
  - **Recent innovation (unknown unloved)**
  - **Design: purchasing power core explaining factor**
  - **Limited fiscal facilitation**
  - **More favourable alternative (SSS) available**
- **Dutch LCSS has potential:**
- **Offers choices (time sovereignty) over the life cycle**
  - **Contributes to combining tasks (peak hour of life)**
  - **May contribute to TLM; investment in HC not addressed**
  - **Contribution to continued employment limited or negative**



## Outlook

- **Future Dutch LCSS looks bright:**
  - **Employers contributions**
  - **Inclusion in collective agreements à la carte**
  - **2007 Coalition Agreement: redesign**