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INS AND OUTS OF THE DUTCH LIFE COURSE SAVINGS SCHEME

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INS AND OUTS OF THE DUTCH LIFE COURSE SAVINGS SCHEME

by Lei Delsen and Jeroen Smits¹

Abstract

In Europe creating diversity and extending workers' freedom of choice is a policy argument of increasing importance. On January 1st, 2006 in the Netherlands a for Europe unique individual voluntary Life Course Savings Scheme (*Levensloopregeling*) for employees was introduced. This paper reviews the aims and ingredients of this new system, confronts expected results with actual results, and pictures future prospects.

1. Introduction

1. In Europe extending workers' freedom of choice over their working hours is a policy argument of increasing importance. Surveys in Europe indicate a clear interest of employees in greater flexibility and control over their working hours. Recent legislation in the EU and at national level, together with initiatives developed by employers, unions and governments, are in favour of providing employees with more choices over their working time (see Bettio *et al.*, 1998; Hogarth *et al.*, 2000; Latta and O'Conghaille, 2000; Webster, 2001; European Foundation, 2003; 2005; Anxo and Boulin, 2006). More "time sovereignty" makes it possible for employees to organise their working time more in line with their individual needs and interests. Part-time employment plays an important role in combining working, training and care responsibilities in the various phases of the life cycle. On balance this will increase both the quantity and the quality of labour supply and safeguard an adaptable labour force generating substantial productivity growth (see Delsen, 1995; 1998; Bovenberg, 2005).

2. On January 1, 2006 the Dutch government introduced a new and for Europe unique individual voluntary life course plan: the Life Course Savings Scheme (*Levensloopregeling*).² The scheme offers employees the opportunity to save funds to finance periods of unpaid leave. The system is fiscally facilitated. The Dutch Life Course Savings Scheme (LCSS) is based on the holistic life cycle approach (Heinz and Marshall, 2003) and lends shape to individualisation, to tailor-made employment conditions. The scheme also fits the transitional labour markets approach (Schmid, 2006).

3. This paper reviews the major ins and out of the LCSS and is structured as follows. In Section 2 the background, aims and ingredients of the Dutch life course plan are pictured. In Section 3 an overview is presented of the expected results prior to introduction of the scheme and a number of hypotheses are formulated concerning the expected results. Section 4 addresses the actual participation in 2006. In Section 5 conclusions are drawn and future prospects of the LCSS are pictured.

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2. In the EU only the Belgian Career Break System offers a similar right for all employees to full-time or part-time leave (see Román *et al.*, 2006).

2. Background and ingredients of the Dutch Life Course Savings Scheme

4. In the Netherlands, the male breadwinner model is losing ground. There is a clear shift from one-earner households towards two-earners households and towards single-person households. It is better to talk about one-and-a-half-earner households, because the wives of a lot of breadwinners are working part-time and spend the remaining hours on care. This shift not only means more income at the household level, but also changes in preferences in relation to work and working hours, for example a greater need for part-time employment and more control over working hours (Delsen, 2002: 47-48). The traditional three phased course of life has changed into a five phased life course (SZW, 2002; Bovenberg, 2005). The first phase of early youth concerns socialisation, learning and receiving care (0-15 years old). The second phase is new: the phase of young adulthood situated roughly between 15 and 30 years of age. Young adults experience with relationships and jobs and only have few care responsibilities. The third phase - the peak hour of life - combines work, care and to some extent continued learning, and is the family season between 30 and 60-65 years of age. Financial and time pressures are high in this third phase. The fourth phase roughly between 60-65 and 75-80 years old is mainly a phase of leisure (active old age) and in the final fifth phase of life people suffer from serious health problem and receive more intensive care. The new LCSS that increases the freedom of choice of employees concerning the spread of activities over the life course is an answer to these developments. Two effects are expected from the LCSS by the Dutch government (Keuzenkamp, 2004: 15):

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.

5. The LCSS also represents recognition by the Dutch government of the social costs accompanied by a policy to increase labour participation of partners. Table 1 summarises the LCSS.

Table 1 Ingredients of the Dutch Life Course Savings Scheme

- Employees have a legal right to participate in the LCSS.
- Employees may save a maximum of 12 percent of gross salary per annum income tax free to finance periods of unpaid leave for various purposes; the maximum saving amounts 210 percent of the last earned gross salary.
- Under certain conditions employers are allowed to contribute to an employee savings.
- Taking leave is only possible during employment.
- Taking leave is not a right; leave can only be taken in consultation with the employer. This does not apply to parental leave and long-term care leave, which are provided by law.
- Contributions to and returns on the savings fund are tax free. Taxation is deferred until the time when the saving is drawn down. There is no minimum savings amount requirement for tax relief.
- Employees receive a tax credit of € 185 per year of participation in the LCSS when taking up leave, independent of the annual contribution made.
- Employees who participate in the LCSS and who take up unpaid parental leave, receive an additional tax credit equal to 50 percent of the gross minimum wage per unpaid day of leave.
- Participation in both the Salary Savings Scheme (*Spaarloonregeling*) and the LCSS in the same calendar year is not permitted.

6. The LCSS requires employees to take personal responsibility for the funding of longer periods of unpaid leave. The LCSS offers employees the opportunity to save funds to finance periods of unpaid leave for various purposes, such as caring for children or ill parents, education leave, travelling, sabbatical or (partial) early retirement. Employees are allowed to save a maximum of 12 percent of their gross wage per annum, up to an accumulated maximum amount of 210 percent of their latest annual gross wage. This means, that after saving 12 percent over 17.5 years, the maximum saving account is reached ($17.5 \times 12 = 210$ percent). This period may be shorter because of returns on the accumulated fund. Holidays and compensation days can also be “cashed in” and added to the savings. If a worker takes a leave, he/she can subsequently build up a full balance again upon returning to work. As employees have a legal right to participate in the LCSS, all employers have to offer such a scheme. Taking leave is only possible during employment; it is not a right and can only be taken in consultation with the employer. This does not apply to parental leave (13 weeks for father and mother) and long-term care leave (6 weeks full time), which are provided by law. If employees do not use the accumulated credits during their working career, these credits will be added to their old age pension. Under certain conditions, employers are allowed to contribute to the employee savings. Employers may not stipulate extra conditions for taking up leave and contributions must also apply to employees who do not participate in the LCSS.

7. Initially, the proposed life course plan by the government focussed on the rush hour of life. The introduction of the LCSS is closely related to the abolishment of the fiscal facilitation of early retirement (VUT) and the prepension arrangements to increase the labour market participation of older employees. As a result, VUT and prepension plans were expected to disappear. However, the trade unions opposed. A compromise was worked out, including an increase in the maximum savings amount, the introduction of (partial) early retirement as an option within the LCSS and the relaxation of the transitional arrangements by the government. Accrued rights will be honoured. The premia paid into the early retirement funds or prepension funds may be used for the LCSS.

8. As of 1 January, 2006, following the law on fiscal treatment of early retirement and introduction of the Life Course Savings Scheme (*Wet aanpassing fiscale behandeling VUT/prepensioen en introductie levensloopregeling*), tax deductions for early retirement schemes were abolished for people who were younger than 57 years of age on 1 January 2005. Employees who were aged 57 or over on 1 January 2005 will remain entitled to current tax benefits and may continue to participate - fiscally facilitated - in the early retirement or prepension schemes offered by their employers. If the employer does not offer these schemes, this group may participate in the LCSS and save up to 12 percent of gross salary per annum. In addition a transitional regulation is applicable to employees between 50 and 57 years on 1 January 2005. The maximum savings limit of 12 percent per annum does not apply to this group, thus enabling them to save 210 percent of their last gross salary in a shorter period of time and build up their pension more quickly by contributing up to maximum amount.

9. State support of the LCSS is limited to fiscal support. The contributions to the savings fund are tax free. Taxation is deferred until the time when the saving is drawn down. This delayed taxation is called the “reversal rule”. Also the returns on the fund are untaxed. Moreover, the LCSS is supported by a number of tax deductions. When taking up leave, employees receive a tax credit of € 185 for each year in which money was paid into the LCSS, independent of the annual contribution made. For employees who participate in the LCSS and who take up unpaid parental leave, an additional tax discount applies, equal to 50 percent of the gross minimum wage per unpaid day of leave. In 2006 this is about € 30 per day for a full-timer taking full-time parental leave.

10. In the *Budget Memorandum 2003* the Dutch cabinet announced to abolish the Salary Savings Scheme (*Spaarloonregeling*) by 2003 and proposed a new Life Course Savings Scheme. The voluntary Salary Savings Scheme (SSS) introduced in 1994 offers the opportunity of saving the maximum of € 613 per annum, tax-free. The savings amount has to remain with the bank for four years. For specified

purposed it can be withdrawn within this four years' period, for instance to buy a house or to conclude an annuity. After four years, the saved amount can be cashed in tax-free and used to pay for a variety of things. The original aim of the SSS was to stimulate capital formation by the lower paid employees and to create flexibility in the wage formation and collective labour agreement negotiations. However, all income groups, notably the higher income groups, benefit from the fiscal facilitation (De Mooij and Stevens, 2002). There was social resistance against the abolition of the SSS. A compromise was made: participation in both the new LCSS and the existing SSS in the same calendar year is not permitted. Employees can choose each year again between saving through the SSS or through the LCSS. Initially the last date for choosing one of the two schemes was set on 31 December 2005; however, to offer extra time to make a choice it was decided that employees have the opportunity of making a choice until 1 July, 2006. The Ministry of Social Affairs and Employment has launched an extensive publicity campaign to promote the new LCSS and a special internet site has been set up to help people calculate how much they have saved towards taking unpaid leave.

11. The LCSS can be covered in collective bargaining agreements. For instance, the LCSS will be integrated as an option into the collective agreement *à la carte* in the Dutch universities. In some of the collective labour agreements conditions related to the right to take leave (duration) and criteria for refusal of taking leave by the employer are stipulated. Another issue addressed in the collective labour agreements is the choice of the provider of the LCSS. Banks, insurance companies and subsidiaries of pension funds may offer the personal life course saving product. The latter may be a banking product (savings account or investment product) or an insurance product (in most cases it will be a life insurance). The social partners can make collective arrangements with banks or insurance companies in the collective labour agreements. These collective agreements will not be mandatory for workers. They are allowed to shop around for a better deal or choose not to participate at all. Trade union confederations FNV and CNV are in favour of a collective scheme with subsidiaries of pension funds. Some collective labour agreements address the employer contribution to the individual savings.³

3. Expected results

12. In 2004 the Dutch government expected that the average annual participation in the LCSS will increase from 1.9 million employees in 2006 to 3.0 million employees in 2009. This corresponds with a participation rate of 20 and 33 percent of the work force (Tweede Kamer, 2004: 12). Also survey research by insurer Avéro Achmea and by the Dutch trade union federation FNV (among young people) found expected participation of one third of the respondents (cited in Groot and Korteweg, 2005a: 10). Research by insurer Interpolis shows that 3 percent will certainly participate, while 23 percent will probably participate in the LCSS (cited in Groot and Korteweg, 2005b: 3).

13. There are theoretical and empirical grounds to expect that the actual participation will be lower than expected by the Dutch government, that only certain groups of employees will participate in the LCSS, and that the scheme is only used for specific purposes. Survey research may suffer from selection bias because potential participants having a higher response rate than non-participants. The SSS is fiscally more advantageous than the LCSS (Goudswaard and Caminada, 2006; Keuzenkamp, 2004).⁴ Jongen and Kooiman (2004) have estimated that because of this, the take up rate of the LCSS will be low; only about 17,000 employees (0.1 percent of the workforce) will participate. Also the employer's permission for taking leave makes the scheme unattractive; employees have no guarantee to be able to take leave in the

3. For example, in 2006 most public sector collective labour agreements included employers' contribution. The agreed contributions varied between 0.45 percent and 1.5 percent.

4. Korteweg *et al.* (2003) found that about 60 percent of the employees participate in the SSS. According to Statistics Netherlands 41 percent of the employees participated in the SSS in 2003 (CBS, 2005).

future. Moreover, in the long run, the government may change the conditions. In this respect the SSS is more certain and hence more attractive than the LCSS. Also from this we expect that the number of people that chooses to participate in LCSS will be low. Participating employees who wish to take up leave, but do not get permission from their employer are “forced” to use the LCSS to retire early. Dutch employees are very much in favour of early retirement. Taking into account the steep age-wage profiles with wages above productivity level at older age, employers will only approve when there is economic gain in allowing taking up saved leave, representing an additional incentive to use the scheme for early retirement. This tendency is emphasised by adverse selection resulting from offering workers greater choice and thus greater sovereignty (Delsen 2002; 2003). Due to budgetary constraints, only certain categories of employees can afford to materialise their leave and working time preferences. Especially workers who are well-off and highly productive are expected to be able and willing to opt for early retirement. Lower paid workers will have less opportunity to choose; certainly when conditions are increasingly individualised and made actuarially fair, like in the LCSS. The less well-off and less productive workers will (have to) choose for working more years.

14. Related to working time and part-time work, it seems more informative to take the household as the basic decision-making unit rather than the individual. If both wife and husband are substitutes in the household *production* of commodities (Becker, 1965), one spouse’s increased labour supply to the market may tend to decrease the supply of labour of the other. In case both spouses are complementary in the *consumption* of household commodities they may take leave together. Theory cannot predict whether the spouses are substitutes or complements in household production and consumption (see Killingsworth, 1983; Hamermesh, 2000). The growth in the number of female workers and in the number of Dutch households with two incomes (one-and-a-half-earner households) increases the financial scope to participate in the LCSS and partners may use the savings to retire early, to stop working, or to work part-time for a limited period. The LCSS may stimulate leisure time at younger age and reduce the income drop when taking up leave. The LCSS does not offer an incentive to labour participation at older age. Hence, the LCSS runs counter to the policy of stimulating labour participation (See also De Mooij and Stevens, 2002).

15. Following Simon (1957) two classes of people may be distinguished: maximizers and satisficers. Maximizers are people who always try to select the best option from the available options. Maximizers are a small minority of employees. The majority of people are satisficers, who simply look for a choice that is good enough. Being a satisficer may be rational, because of the information costs involved. As a result, most people may choose not to choose. Postponing decisions, choosing not to choose, is also related to the increase in the freedom to choose. According to the theory of framing and the theory of goals (see Lindenberg 2001a; 2001b), in the case of options the strive for instant satisfaction and a good feeling may prevail. For short-term goals are directly tight to emotions and to the improvement of the conditions of self and not save money for leave in the future by participating in the LCSS. Hence, myopia is not just a matter of information. Finally, because the LCSS is a new arrangement there may be an initial hesitation from the side of the employees to see how things work out. Also, unknown, unloved applies. Research by TNS/NIPO (1 June 2006) among 1,339 employed found that only 5 percent will participate in the LCSS. For 59 percent of the employees it was clear what the LCSS could mean for them. December 2005 this was 45 percent. From this we expect that only a small minority of the employees will actually participate in the scheme in 2006.

16. Fiscal treatment may also be an important explanatory factor of the overall participation rate as well as the age, gender and salary distribution of participants in the LCSS. The delayed taxation (reversal rule) only offers limited tax advantage. The difference between the deduction applied when the savings are made and the tax charged at withdrawal is usually minimal and may even turn negative when there is a considerable increase in income. The exemption from equity tax may be considerable for high income earners; but lower income earners will in most cases not be able to profit from this facility (Goudswaard and Caminada, 2006). The flat tax credit of € 185 is relatively attractive for the lower income groups. After

15 years of participation this tax credit amounts to € 2,770. However, single persons on minimum wage pay little income taxes and cannot profit from this tax credit. The additional tax credit of about € 30 per day in case of parental leave is considered a significant financial facilitation for people with low incomes (Fredericks *et al.*, 2005: 43). Women and men who earn up to approximately twice the minimum wage will not have to pay any income tax when using the life course plan for parental leave. The scheme will still be unattractive to people with a low income because the tax discount is not paid while the saving is done.

17. Dutch experience with offering choices in the collective labour agreements *à la carte* (Delsen *et al.*, 2006) and in the individualised SSS (De Mooij and Stevens, 2002; CBS, 2005a) shows that the participation rates are higher for male relative to females, older workers relative to young workers, employees with high salary level relative to employees with low salary level and for full-time employees relative to part-time employees. In line with this experience the contribution to facilitating life course choices is expected to be limited; only some employees will be able to participate in the LCSS (see Keuzenkamp, 2004; Plantenga and Remery, 2004; Fredericks *et al.*, 2005; MinBZK, 2006). It is expected that the main users will be employees on higher salary, men, older employees, couples without children and full-timers. These groups will be able to set aside money to invest in the LCSS. The LCSS mainly offers financial benefits for employees with a higher salary. For single parent households and young people who are at the start of their career it will be difficult to save money and to build up a substantial account. They may use it for parental leave, but have little time to save. If women use the scheme, they will probably use it mostly to fund parental and/or care leave. As a result, they may lose the opportunity to use the credits for early retirement or other forms of leave. Only few men are expected to use the LCSS for parental leave; men will more frequently use LCSS to fund prepension arrangements. The time to save for early retirement is relatively long. The income level changes over the life cycle. Data for 2003 from Statistics Netherlands show that annual salary increases with age, with a peak in the 46-55 years category. For young people the income increase is strong, because they find a (better) paid job or their wages increase related to seniority and more experience. At older age an increasing number of people stop working partially or fully, as a result their average income drops. The highest average income is in households with a breadwinner between 50 and 55 years of age (CBS, 2005b). Combined with pension consciousness these data suggest that the LCSS will mainly be used to finance early retirement.

18. The contribution of the present LCSS to the objectives of transitional labour markets is expected to be poor for several reasons. There is no provision that supports the use of leave for continuous training or for upgrading low-skilled. It is to be expected that the present scheme will be used mainly for compensating income loss at early retirement and less for other forms of leave. There are three reasons for this: first, in case of short-term leave (less than three months or less than one year) the SSS is more advantageous; second, older workers have more financial leeway to save for leave than younger workers; third, in existing schemes more is saved for prepension than for other forms of leave (CPB, 2004; Jongen and Kooiman, 2004). Also because employees have to save first, the contribution to the objectives of transitional labour markets is limited. Pressing needs of women for parental leave and for care leave and early retirement for men will prevail (Fredericks *et al.*, 2005: 45-46; Keuzenkamp, 2004).

19. Also the number of hours worked have their influence on the participation in the LCSS. For the part-time employees the financial scope to save is limited relative to full-time employees. Because most Dutch part-time employees have voluntarily chosen the number of hours they usually work (Delsen, 1995; Buddelmeyer, Mourre and Ward, 2004), their work-life balance may be better than the ones of full-timers; they will have less need to adapt their working hours by participating in the LCSS. Therefore, we expect to find a lower participation rate among part-timers than among full-timers. For the same reasons - because in the Netherlands most part-timers are female and most full-timers are male - we also expect the participation rate among female employees to be lower than among male employees. The choices made most likely also are influenced by care responsibilities. As care responsibilities in the Netherlands (as elsewhere) are still primarily a female domain, their influence will most likely be reflected in the

(expected) lower participation rates in the LCSS by women. From this we expect the contribution of the LCSS to improved work-life balances to be limited.

4. Actual participation

20. Data on actual participation in the LCSS are very limited. Survey data show that mid June 2006 in the government sector (6 percent) the participation rate was higher than in the private sector (5 percent). Most employees in the government sector want to use it for early retirement. The participation rate of temporary employees in the LCSS as well as in the SSS is about half of permanent employees. Participation increases with salary level and with age. Over 54 percent of the employees in the government sector participated in the SSS (MinBZK, 2006). Actual participation rates in the collective life course contracts based on survey data in February 2006 for the private sector vary from 5 percent to 10 percent. This applies to insurers, Aegon, Delta Lloyd, Nationale-Nederlanden, Reaal, as well as to banks, ABN Amro and Rabobank (Assurantie Magazine, 2006).

21. The actual participation is lower than was expected on the basis of the stated preferences. Our expectation that only a minority of the employees would participate in the LCSS is supported. This does not imply that most employees are satisficers; it mainly suggests that only relatively few employees switched from SSS to LCSS. The latter is related to the fact that the competing SSS is more interesting. As expected the participation rate of men is higher than of women; full-timers participate more than part-timers, and the participation rate increases with the number of weekly working hours. The limited number of young adults that participate may use the LCSS for parental leave in the next phase, the rush hour of life. To what extent this contributes to reduced hectic depends on the available amount and time to save. The low participation rate indicates that the contribution of the LCSS to a less hectic rush hour of life is limited. This is in line with our expectation that older employees have more financial leeway than young employees. It may also point towards the LCSS mainly being used for early retirement in the future. Pension consciousness plays an important role in explaining the relatively high participation rate of this age group, because these employees are closer to retirement age. Moreover, the people in this age group - borne between 1-1-1950 and 31-12-1954 - are allowed to save 100 percent of their salary per year in the LCSS as part of the transitional regulation. Other employees participating are only allowed to save 12 percent. Employees aged 57 and over may continue to participate in the fiscally facilitated early retirement and prepension schemes, when offered by their employer. It may be concluded that the design of the present LCSS does not induce employees to work more years after retirement; it actually is an incentive to retire early. As expected, the participation rate increases with the salary level. From these results it can be concluded that the contribution of LCSS to extending free choice of individuals to plan their life course is poor: only certain employees are able to participate.

5. Conclusions and outlook

22. The Dutch LCSS aims at increasing labour market participation of women and older workers. It supports combining employment and family responsibilities by enabling employees to cope better with stressful periods. It can be concluded that in 2006, the first year of operation, the LCSS was not very popular among the Dutch male and female employees. Actual participation is lower than expected by the government for various theoretical and practical reasons, including the design and fiscal facilitation, the fact that LCSS is a recent innovation and the more favourable competing scheme, the SSS. The LCSS lends shape to the individualisation; it enables an employee to vary his/her working time over the life cycle according his/her personal situation. Starting from heterogeneous employees preferences, offering options will result in high levels of participation and may imply that differentiation will occur. Lack of differentiation of actual choices and low participation rates point towards a gap between preferences and choices offered or that the options only match the preferences of a sub set of employees. Some categories of workers are not able to choose and to participate in the LCSS. Purchasing power to be the core

explaining factor. The LCSS, the fiscal facilitation in particular, mainly offers financial benefits for employees with a higher salary and explains why certain groups of employees (still) have limited opportunity to participate in the LCSS. The contribution to continued employment participation is limited, or may even be negative.

23. The contribution of the present LCSS to facilitating the free choice of individuals to plan their life course is limited, due to the low take up rate in 2006 as well because certain employees are not able to participate. Although participation (still) is low, the LCSS has a potential to contribute to promote freedom of choice for employees, to balancing the work-life balance over the life cycle, and may also contribute to the objectives of transitional labour markets. Investment in human capital over the life cycle is not (yet) addressed in the present LCSS.

24. The future of the LCSS looks bright. The spread of employers' contributions to the scheme as well as the inclusion of the LCSS in more collective agreements *à la carte* will have a positive impact on the participation rate. Recently announced government policy will also contribute to the participation rate of the LCSS. The Coalition Agreement (2007) between the three political parties of the present government includes plan to expand the LCSS and to redesign it to support continuous employment over a person's entire working life (more than it does now) and to enable people to start a company, bridge the gap between two jobs or switch to part-time work. Moreover, in consultation with the social partners, the government will examine whether and, if so, how the Salary Savings Scheme (SSS) can be incorporated into the life-course savings scheme and be made available to self-employed people and business owners without personnel. Some of the shortcomings of the present design of the scheme mentioned in this paper will be addressed in the near future. The effectiveness of the LCSS is expected to benefit from announced changes in the scheme. Study entitlements for education and training facilities and saving towards longer parental leave will be linked to the life-course savings scheme. Use of the scheme to finance early retirement will be geared more towards part-time retirement. People on lower incomes will be given better access to the scheme. Finally, the Coalition Agreement states that parents need to be able to combine work and care, employment and child-rearing in a satisfactory fashion. People in the prime of life should be able to take a time-out, and the LCSS scheme helps make that possible. The statutory right to parental leave will be lengthened from 13 to 26 weeks per employee and is non-transferable. The LCSS will be adapted accordingly.

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