

# Netherlands

## Netherlands: Pension system in 2018

The pension system has three main pillars: a flat-rate state pension (AOW) related to minimum wages and financed via payroll taxes, funded occupational pension schemes, and individual saving schemes. Although there is no statutory obligation for employers to offer a pension scheme to their employees, industrial-relations agreements mean that 91% of employees are covered. These schemes are therefore best thought of as quasi-mandatory.

## Key indicators: Netherlands

		Netherlands	OECD
Average worker earnings (AW)	EUR	51 567	35 230
	USD	60 868	41 584
Public pension spending	% of GDP	5.4	8.0
Life expectancy	at birth	82.0	80.7
	at age 65	20.0	19.7
Population over age 65	% of working- age population	34.3	31.2

StatLink  <http://dx.doi.org/10.1787/888934043682>

## Qualifying conditions

The basic old-age pension was payable from age 66 in 2018. All residents are eligible for this benefit. The statutory pension age is gradually increasing to 67 in 2021. Thereafter, the standard retirement age will be linked to gains in life expectancy.

## Benefit calculation

### Basic

The basic pension benefit for a single person equalled EUR 1 173.33 per month in 2018. There is an addition holiday allowance of EUR 71.42 per person. This gives a total equal to EUR 1 244.75 for singles and EUR 1 717.78 for couples. The benefit value is linked to changes in the net minimum wage which is updated biannually.

The basic benefit accrues at 2% of the full value for each year a worker lives or works in the Netherlands. For older people and/or households with less than fifty years of Dutch residency and which have no other means of support or no assets there is also a means tested social-assistance scheme available. It supplements the available benefits from basic and occupational schemes to a maximum value equal to the net basic pension.

### Occupational schemes

Approximately 94% of the employees (beginning of 2012) are covered by a defined benefit scheme. The remaining employees are covered by a defined contribution scheme. With defined contribution schemes gaining in importance.

More than 99% of participants in defined benefit schemes have an earnings measure for benefit calculation purposes based on lifetime average earnings whereas less than 1% on the final salary or a combination of the two.

Final-salary schemes have a maximum accrual rate of 1.657% of earnings for each year of service. This equals a target replacement rate of around 70% after 42 years. The maximum accrual rate for average salary schemes is 1.875% per year of service, which only covers earnings up to EUR 101 519. Pension contributions for higher earnings will need to be paid with taxable contributions.

Although there is no legal uprating requirement, most pensions in payment are raised on an annual basis. Nearly 56% of the pensions in payment are aiming to follow (industry specific) wage growth, while some 28% of the pensions are indexed to prices and 1% aim for a mixture of wage and price growth.

Pension rights are fully transferable when individuals change jobs. There is a legal requirement to index pension rights of people leaving a scheme before retirement in exactly the same way as pensions in payment are indexed. Vesting periods are very short. The current tax rules allow a maximum benefit of 100% of final pay at 65 from both public and private systems. Most schemes have a target total replacement rate of 70% of final pay, so private benefits are reduced by a franchise amount equal to the basic state pension.

## **Variant careers**

### ***Early retirement***

The basic pension is not payable before age 66. It is possible to withdraw the occupation pension earlier. However, the benefits are adjusted.

### ***Late retirement***

It is not possible to defer the basic old-age pension scheme after age 66 (gradually increasing to 67 in 2021). But it is possible to combine the basic pension benefit receipt and work.

The rules on pension deferral vary between occupational plans. It is possible to combine the occupational pension scheme and work. Indeed, some schemes allow a member to withdraw a pension and continue to work with the same employer.

### ***Childcare***

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

### ***Unemployment***

There are no credits in the occupational plans for periods of unemployment. Again, the basic old-age scheme covers such periods automatically. In addition, the social partners administer a fund (FVP) which makes it possible for older workers to extend their pension accrual for a certain period during unemployment. The government has no formal relationship with this fund. The FVP fund is in liquidation now and does not take up any new cases.

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

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

The basic tax credit for persons over 66 years of age is EUR 1 145. This tax credit is increased by EUR 1 413 for incomes less than EUR 35 949. In addition, a pensioner in a single person household can receive a tax credit of EUR 436.

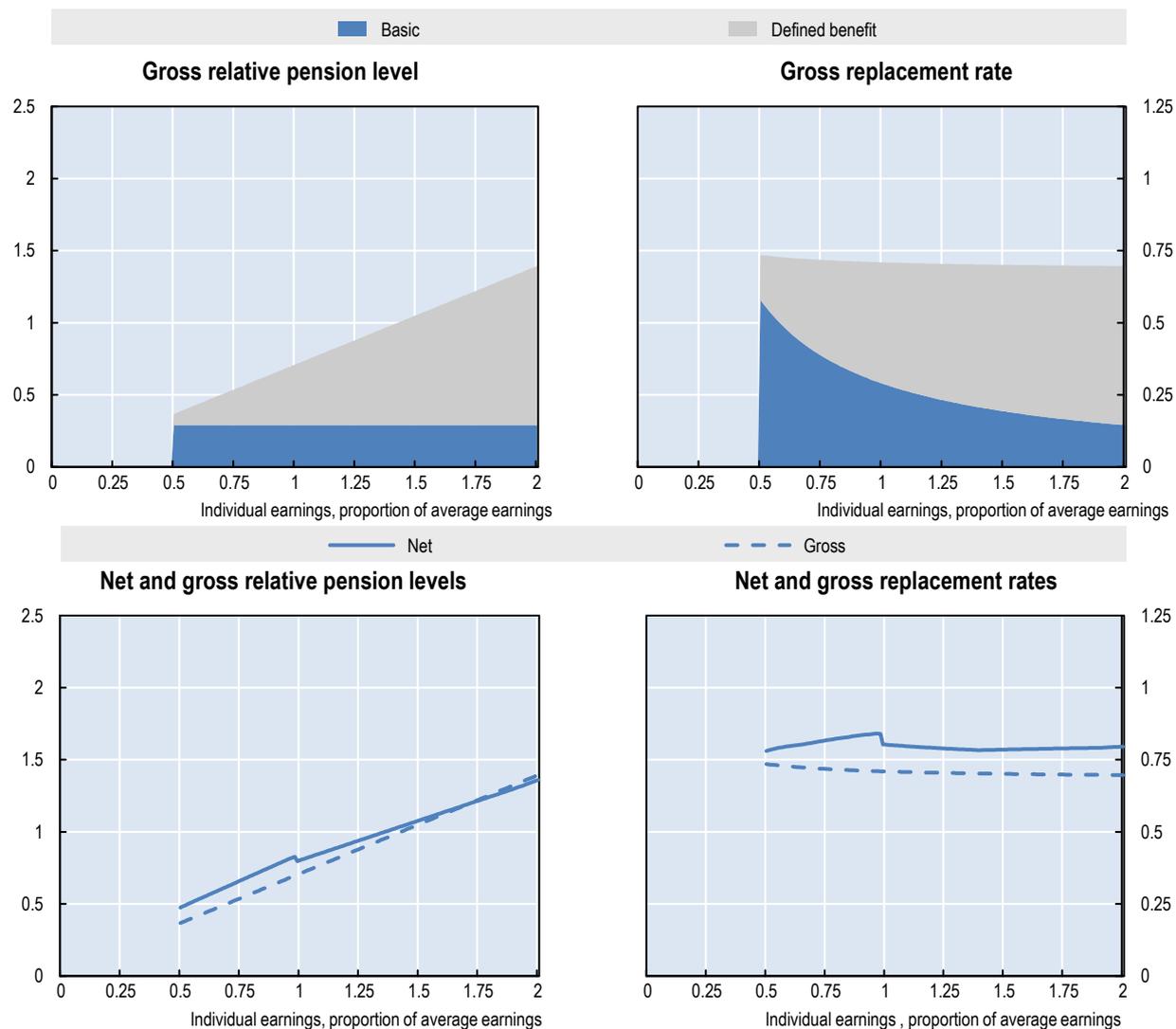
### ***Taxation of pension income***

There is no special relief for pension income.

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

Pensioners pay 10.25% of taxable income for the general health insurance and survivors' pensions (Wlz, ANW, up to an income of EUR 33 715). Depending on their income, they pay for their own health insurance. The social security contributions are less than the contributions for those below the age of 66 (who also pay for old-age pensions, unemployment etc.).

## Pension modelling results: Netherlands in 2067 retirement at age 71



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	36.7	53.8	70.9	105.1	139.3	207.7
Net relative pension level (% net average earnings)	47.5	66.1	80.2	107.8	136.0	185.4
Gross replacement rate (% individual gross earnings)	73.5	71.8	70.9	70.1	69.7	69.2
Net replacement rate (% individual net earnings)	78.0	81.7	80.2	78.5	79.6	78.7
Gross pension wealth (multiple of individual gross earnings)	12.7	12.5	12.3	12.2	12.1	12.0
Net pension wealth (multiple of individual net earnings)	13.5	14.2	13.9	13.6	13.8	13.6
	14.7	15.4	15.2	14.8	15.0	14.9

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2018. Tax system latest available: 2018.

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