

Netherlands

The Dutch pension system has two main tiers, consisting of a flat-rate public scheme and earnings-related occupational plans. 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.

Qualifying conditions

The basic pension is payable from age 65. Normal retirement age is typically also 65 in occupational plans.

Benefit calculation

Basic

For a single person, the gross pension benefit in 2002 was EUR 11 013, just over a third of average earnings. The benefit value is uprated biannually in line with the net minimum wage.

There is also a social-assistance scheme for older people. Its value is equal to the net basic pension.

Quasi-mandatory occupational

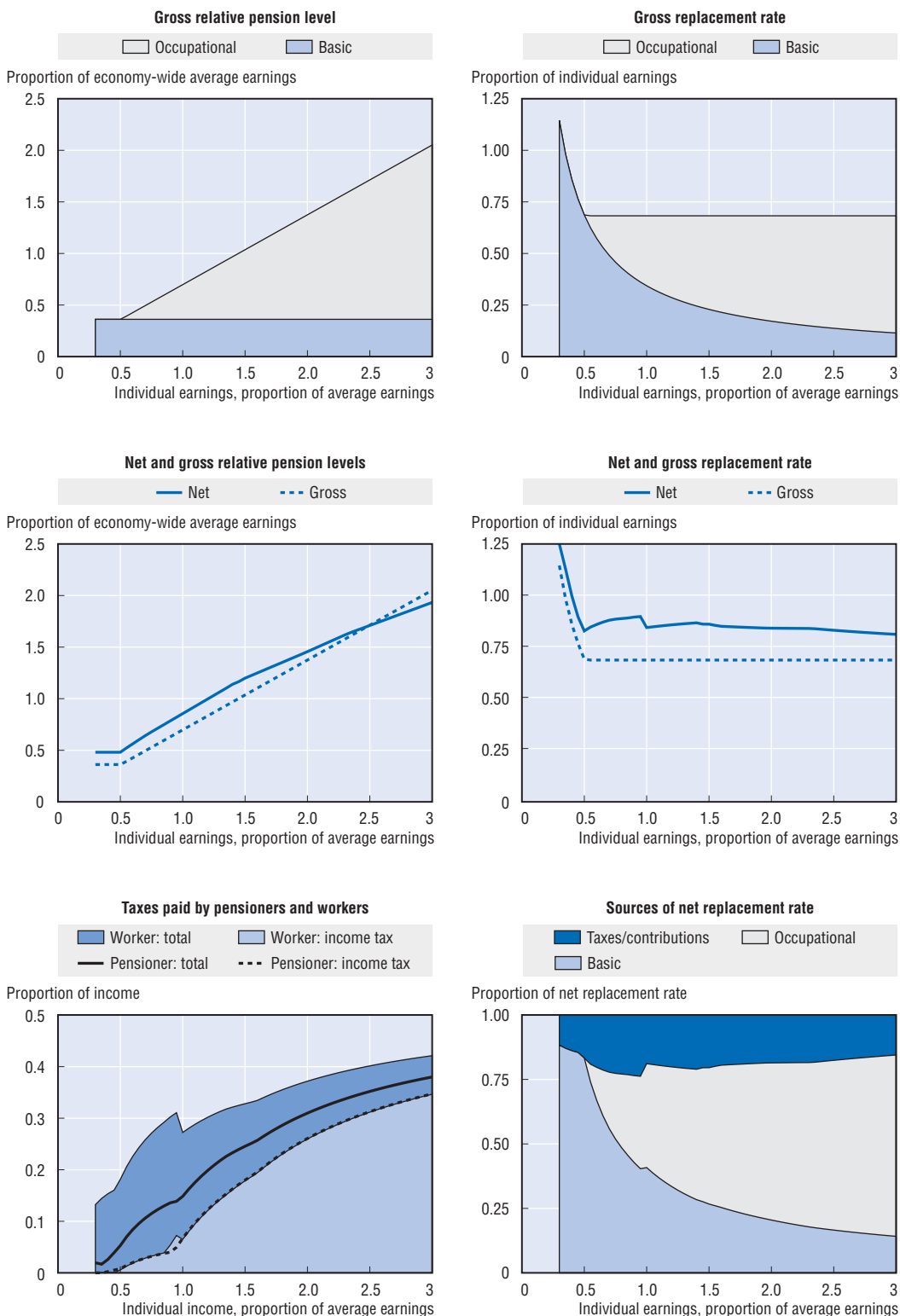
The Netherlands also has a private pension system with broad coverage. The system consists of 64 industry-wide schemes. Under certain conditions, Dutch companies are free to opt out of these plans if they offer their own scheme with equivalent benefits. There are around 866 of these single-employer plans. A further 30 000 (mainly smaller) employers offer schemes operated by insurance companies on their behalf. Of the larger industry and single-employer plans, more than 90% of members are covered by defined-benefit schemes. Of these, around two-thirds use an average salary measure of earnings in the benefit formula, while the rest are based on final salary. Defined-contribution and hybrid schemes make up the remainder of the occupational-pension sector.

There is no statutory requirement for entry ages for occupational plans. In 2003, a little over half of employees were in scheme with no entry age, 6% in schemes with an age of 16-20, 15% with an age of 21-24 and 23% with age 25.

Most final-salary schemes give 1.75% of those earnings for each year of service, implying a replacement rate of 70% after a complete 40-year career. Average-salary plans typically have an accrual rate of 2.25% for each year of service.

There are no legal requirements for valorisation of earlier years' pay and practice varies between schemes according to rules agreed by the social partners. Some schemes valorise with average earnings; others use the same index as used to uprate the value of pensions in payment. Since the latter is also typically average earnings (see below), the modelling assumes an average-salary scheme with valorisation to average earnings.

Pension modelling results: Netherlands



Source: OECD, based on information provided by the countries.

Broad, industry-wide coverage of schemes reduces the problem of lack of portability of occupational pensions. 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. Pension rights are fully transferable when people change jobs.

There is no ceiling to pensionable earnings.

Benefits in payment are also typically indexed to earnings (more than half of members are covered in such schemes), although there is no legal uprating requirement.

Occupational pensions are integrated with the public pension system. 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 the value of the public pension entitlement, a process known as “franchising”.

Personal income tax and social security contributions

Taxation of pensioners

The basic tax credit for over 65s is EUR 737. This tax credit is increased by EUR 289 for incomes less than EUR 28 563. Single people with an income below EUR 28 563 receive an additional tax credit of EUR 256.

Taxation of pension income

There are no special allowances for pension income.

Social security contributions paid by pensioners

Pensioners pay 11.5% of pension income for the general health insurance and survivors' pensions (AWBZ, AWW). Depending on their income, they pay for their own health insurance. The social security contributions are less than the contributions for employees (who also pay for old-age pensions, unemployment, etc.).

Pension modelling results: Netherlands

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level (% of average earnings)	34.3	51.2	68.3	102.4	136.5	170.6
Net pension level (% of average net earnings)	46.4	66.3	84.1	118.8	144.7	170.3
Gross replacement rate (% of individual earnings)	68.7	68.3	68.3	68.3	68.3	68.3
Net replacement rate (% of individual net earnings)	82.5	88.2	84.1	85.8	83.8	82.8
Gross pension wealth (multiple of average earnings)	5.2	7.7	10.3	15.5	20.6	25.8
Net pension wealth (multiple of average net earnings)	7.0	10.0	12.7	18.0	21.9	25.7
	8.0	11.5	14.6	20.6	25.1	29.5

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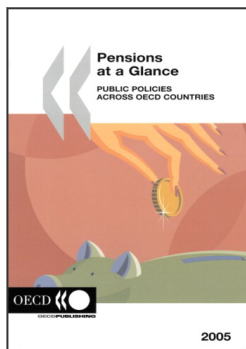
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