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Ageing and the Public Service:
Human Resource Challenges

PART II

Chapter 12

Ageing and the Public Service in the Netherlands

Executive Summary

Although the country-wide demographics appear quite favourable in the Netherlands compared to other OECD member countries, the situation in the public sector is somewhat problematic. The Dutch government has identified three main problems resulting from ageing: *i)* long-term financing of social security, including healthcare costs and pension liabilities (AOW); *ii)* management of older public service workers; and *iii)* anticipated recruitment difficulties and labour market shortages.

The Dutch ageing strategy rests on three pillars: delaying large-scale departures, containing pension costs, and, ideally, developing new management tools to keep older workers active longer. More broadly, the ageing strategy also includes plans for a restructuring of the welfare state as a whole.

However, only a few measures are specific to the public service, as such. Pension and retirement reforms – the cornerstone of the ageing strategy – have been primarily oriented to maintaining a sustainable labour market within a sustainable pension system. Apart from an emphasis on the need to increase capacity in the healthcare sector, the government does not attach much importance to central workforce planning and readjustment to meet skill shortages and changing public service demands due to ageing.

1. Ageing: Facts, figures and forecasts

1.1. Ageing population and labour market: Facts and consequences for public finance

1.1.1. Ageing population[1]

Compared to other OECD member countries, the demographics appear quite favourable in the Netherlands. The Netherlands is ageing less rapidly, partially thanks to a net surplus of immigration since the 1960s. The old age dependency ratio in the Netherlands is projected to double to 40% by 2050, but it will still rank among the lowest OECD member countries, close to the United States. Nevertheless, the Dutch government (Study Group Budgetary Space 2006) still considers demographics to be a serious problem, since the expected economic growth will not cover the costs of aging (healthcare and 1st pillar pensions) over the long run. Indeed, future policy options were to be the main theme of the political campaign in the December 2006 elections.

1.1.2. Ageing labour market

Even with older worker labour market participation rates below the OECD average, the consequences of ageing for the labour market might still be considerable. With constant participation rates, the Dutch labour force will contract slightly, but significantly less than in other European Union countries. If the Netherlands manages to increase the participation rates of older workers then labour force growth will be stronger, alleviating most of the challenges of population ageing.

Figure 12.1. **Demographic dependency ratios, 2000-2050 (%)**

1. Ratio of the population aged 65 and over to the population aged 20-64.
2. Ratio of the sum of the population aged below 20 and the population aged above 64 to the population aged 20-64.

Source: Ageing and Employment Policies/Vieillissement et politiques de l'emploi. Netherlands, OECD, 2005, drawn from National projections and UN, *World Population Prospects 1950-2050* (2002 Revision) for Ireland, Greece, Hungary, Luxembourg, Mexico and Turkey.

General population ageing will be reflected in an older workforce. Currently, older workers (*i.e.* aged 50 and over) account for around 19% of the labour force. However, assuming participation rates by gender and five-year age groups do not change, 24% of the labour force will be aged 50 and over in 2020, dropping to 22% in 2050.

However, while the Netherlands has a relatively favourable demographic situation compared to its neighbours, its relatively low level of unemployment (4.6% of the labour force in 2004)[2] means that this factor will not help mitigate the effects of the demographic shift on the economy.

1.2. Ageing civil service

1.2.1. Current situation

The age structures and average ages differ strikingly between the public and private sectors. According to the Dutch government, the average age in the public sector is approximately 10 years older than that in the private sector: the low 30s for the private sector and the low 40s for the public sector.[3] The average age in the public sector is 42, while the average in the general population is 37.4.

Ageing challenges will not only arise earlier but will be greater for the public sector than for the private sector. This will probably make recruitment more difficult, since unemployment is lower than in many neighbouring countries.

As a consequence, whereas the number of retirees per worker is expected to double in many countries, the changes to the age structure in the Netherlands are expected to be much more moderate. The critical period for the Netherlands – marked by an increasing proportion of older workers and large-scale departures – will occur first in the public sector, and only later for the private sector. As forecast by the Dutch government, the critical period for the latter will begin in 10-15 years, whereas for the former it is projected to commence in five years. Thus, the challenges posed by large-scale departures and an older workforce will be much greater in the public sector. As shown in Table 12.1, the proportion of older workers is already much higher in the public sector (29.5%) than in the private (18%).

1.2.2. Large-scale departures

The critical period is projected to begin around 2010, with a peak in 2015. This peak level will be sustained thereafter, resulting in a steady decline in the size of the workforce.

The ageing picture is, however, somewhat different across levels of government: the proportion of older workers at the central government level is 27%, whereas it is 32.2% at the local level. The challenges caused by large-scale departures and increasing proportions of older workers are expected to be greater for local government units.

An increase in the 55-65 cohort of the public workforce is projected, from 15% currently, to 20.8% in 2013, and to perhaps as high as 40% in 2020. Therefore, large-scale departures and skill attrition are also expected to be a long-term, abiding issue.

Table 12.1. **Public service in (sub)sectors versus health care versus private sector**

	2001	2002	2003
	% > = 50 year	% > = 50 year	% > = 50 year
Public sector	**27.7**	**28.3**	**29.5**
National government service	24.4	25.3	27.0
Local government	30.3	31.1	32.2
Provincial government	34.3	34.8	35.7
Legal magistrate	38.3	38.1	38.9
District water boards	31.8	33.0	33.1
Primary education	26.4	27.0	28.4
Secondary education	38.6	38.6	39.6
Beroepsonderwijs en volwasseneneducatie (BVE) (higher vocational education and education of adults)	37.7	39.1	40.9
Hoger beroepsonderwijs (higher vocational education)	36.4	37.5	37.5
Public universities	27.8	27.8	27.9
Research departments	23.6	26.1	29.2
Academic medical centres	19.0	19.8	20.8
Ministry of Defence + military personnel	15.2	15.2	14.8
Police	19.0	19.5	21.1
Public health care	**20.7**	**21.8**	**22.6**
Private market	**14.4**	**17.3**	**18.0**
Grand total	17.1	19.5	20.3

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The age group 50-55 currently comprises 13% of the total central government workforce. Consequently, this proportion is expected to leave the public sector workforce due to retirement between 2013 and 2018.[4] At the central government level, it has been forecasted that ministries will be affected by a growing proportion of older workers. In some sub-sectors, one in four workers will be over the age of 55.

1.2.3. Consequences across sectors and functions

Education and health

The education sector is projected to be one of those most affected by ageing.[5] Half of all education employees are aged over 45: 28% in primary education and 39.6% in secondary education are older workers, who will be retiring in large numbers between 2010 and 2015. The most affected function within the education sector is teaching.

As for the health sector, the workforce is younger than in the public service but still has a significant proportion of older workers (22.6%).

Leadership and management functions

As in the majority of OECD member countries taking part in this project, management functions will be the most affected by the ageing process. A large proportion of managers will leave the workforce over a short period of time, and will – in part dependent on decisions made concerning the size of government – need to be replaced.

2. Adapting the civil service to ageing challenges: Government strategy and actions

2.1. Design and leadership of ageing strategies

Political leadership is exercised by the cabinet and, for the public sector, by the Ministry of Interior. Negotiations on measures regarding pensions and early retirement have been particularly centralized. However, HR issues have been decentralised, and thus the implementation of ageing policies is delegated.

The ageing strategy includes an economy-wide framework, but also a dedicated policy toolbox for the public sector. The political framework – the Senior Citizens Policy, started in 2004 – encompasses the entire labour market. General ageing issues and reforms have been decided with a view to ensuring the sustainability of the entire economy, while some HR measures have been designed specifically for the public service.

The ageing strategy rests on three pillars, as defined by the Senior Citizens Policy:

- Measures aiming at increasing the participation of older workers in the labour market; for the public service, this entails measures to delay large-scale departures as well as HR management adaptations (especially pay) and specific workforce readjustments.
- Redefining the income level of pension benefits; and,
- Economy-wide measures to ensure that current levels of care and welfare provision can be maintained. For public service delivery, staff capacity in the health and long-term care sector is the priority of the upcoming HR ageing strategy. In addition, the ageing strategy encompasses some structural reorganisation measures, especially at the central level. Education and health are specifically targeted for an upcoming round of reforms.

2.2. Measures taken to face the challenge of ageing

2.2.1. Decreasing costs and increasing productivity, while maintaining capacity

Policy combinations to decrease costs, delay large-scale departures and increase older worker capacity

Pension reform

- Current system

There is a statutory social security old age pension (AOW), which is financed by contributions levied on earnings at a rate that is statutorily limited to a maximum of 18.25% over the first bracket of income (17 000) only. Until now, a percentage of 17.9% has been used. The AOW provides all residents of the Netherlands at the age of 65 with a flat-rate pension benefit that in principle guarantees net benefits of 70% of the net minimum wage (married couples and equivalents; singles, 50%). There is no means test for eligibility of benefits, so other forms of income have no effect on the AOW benefit.

All residents of the Netherlands between the ages of 15 and 65 are insured by the AOW (no distinction is made between men and women, between civil servants and private sector employees, the self-employed and those not in the workforce). During the period of insurance, *i.e.* the period during which a person lives in the Netherlands, entitlement accrues by 2% every year. This leads to a 100% entitlement when reaching the age of 65, provided there are no gaps in the period of insurance (a gap occurs when a person resides outside the Netherlands).

People who are not entitled to the full AOW benefit (*i.e.* did not live in the Netherlands for the period of 50 years) and who have, together with other sources of income, a total income below the subsistence level (*i.e.* less than 70% of the legal minimum wage) are entitled to receive social assistance.

Occupational schemes are very well developed in the Netherlands, and collective agreements ensure mandatory coverage of over 90% of all employees. Occupational pensions are subject to negotiation, and have to be financed by capital funding.

- Public expenditure increases due to pension costs

The government has two kinds of pension liabilities. First, there is the requirement to meet the obligations payable under the AOW and social assistance. Second, there is the government's requirement as an employer to meet obligations under the occupational scheme for civil servants.

The AOW and social assistance obligations are primarily funded through contributions on earnings ("pay as you go"), but in the event of any shortfall it is also funded through the tax system. It is expected that there will be a substantial rise in the burden on government for this obligation, which will have to be met either through increased taxation or by a reallocation of government expenditure, or by fiscalizing AOW-benefits.

The occupational (supplementary) scheme for civil servants is funded through contributions by the government as an employer. Those contributions presently amount to approximately 2.1% of GDP for the whole of the public sector. The occupational scheme is a capital funded scheme. In other words, the government as employer contributes each year an amount calculated to meet the future payment obligations. As the benefits received are mitigated defined benefit, there is some risk of a mismatch between the amounts set aside and the amount required to meet the benefits payable.

However, this is a liability towards the fund not towards the budget/taxpayer. However, the performance of the funds on financial markets, for example, may from time to time require the government to increase its contributions, or conversely may permit the government to reduce its contributions and sometimes benefits are modified. In practice, fluctuations in the fund's financial position are primarily dealt with by postponing or restoring the indexation of benefits.

The per annum contribution paid by the government to the civil service occupational pension fund was 15.6% of total salaries in January 2006 (salaries amounting to approximately EUR 40 billion). The government, in turn, recovers 30% of this amount from employees through staff contributions, deductible from taxes.

- Reduced benefits and increased contributions

The occupational pensions have been fundamentally transformed since 1992, most recently in January 2006. The most recent reforms focused on removing early retirement provisions and requiring schemes to be funded, making them financially sustainable (the life-cycle savings scheme). Moreover, the life-cycle savings scheme has been introduced, giving employees the possibility to enjoy an unpaid leave period during their career for which money has been set aside in a special savings account. This period may be taken proceeding the retirement period.

- Retirement age and contribution period

The normal retirement age in the public sector is the same as in the private sector: 65 years old. There is an exception only for legal magistrates, who have a retirement age of 70. Retirement age has not been reformed as part of ageing policies and the cabinet has recently stated that they do not intend to undertake such reform in the near future.

Although the official retirement age is 65, the average retirement age in the public sector (just like in the private sector) is much lower, at 60-61. The current, even lower, figure of 59.8 is temporary due to anticipation on the reduction of early retirement benefits.

Delaying the effective retirement age in order to lengthen years of service has been one of the main pillars of pension reform. Although the normal retirement age of 65 has not been changed, the age at which a retiree can receive full pension benefits has been increased: the pensionable age ranges from 60 to 70, with actuarial adjustment of the pension at 65.

- Constraining early retirement schemes and delaying retirement

Most people are retiring earlier than 65 thanks to a pre-pension scheme (VUT) that causes the average retirement age to fall to about 60-61, below the OECD average. However, unlike some OECD member countries in which the average pension age in the public sector is lower than in the private sector, in the Netherlands they are about the same.

The measures to constrain early retirement have not been designed specifically for the public sector, but for the entire labour market.

In the Netherlands the participation rate of people between the ages of 55 and 65 is low. As in many countries early retirement and disability have been used as devices in workforce reform. As in some other OECD member countries (*e.g.* Germany), the main cause of inactivity is disability (21% of inactive older workers and 16% of total unemployed). Early retirement has also been used, and as a consequence, measures to constrain early retirement have been made a top priority of the public sector ageing policy, with a view to retain older workers.

Ordinarily, full pension benefits amount to 82% of the average career salary after 40 years of service if one retires at 65 years of age. Leaving earlier means the application of actuarial reduction factors. For example at 62.9 years, pension benefits amount to only 70% of the average salary.

In order to raise the level of participation in the labour market, all tax facilities for early retirement schemes were abolished by 1 January 2006. In addition, from January 2006, public early retirement provisions have been replaced by another management tool: the individual life-cycle savings scheme (see below). The individual life-cycle savings scheme allows workers to set aside savings out of their gross wage, and taxation is deferred until the time when the saving is drawn down. The money in the savings account can be used for various forms of unpaid leave, including caring for children or ill parents, schooling, sabbatical and early retirement. The maximum amount that can be saved is 210% of the latest annual gross wage. The scheme allows workers to strike a better balance between their time and income needs during the different phases of their lives. This reduces the risk of unwanted withdrawals from the labour market, particularly by working mothers, and unnecessary absenteeism because of illness or disability.

As a result, 60 has become the earliest possible departure age, on the condition that the employee has contributed for 40 years. In this respect, the employee has to make an individual choice by saving for himself. The earliest date of retirement had been 55.

In addition to plans aimed at reducing early exit from the labour market, there are plans to remove obstacles preventing people from working after they reach the current retirement age of 65.

Eligibility conditions for occupational disability have also been reformed. Since 1 January 2004, the primary responsibility for dealing with leave during the first two years of illness lies with the employer and the worker. Employers now have to continue to pay a sick worker's salary for two years instead of one, as was previously the case. This is intended to intensify reintegration efforts and to reduce the number of cases of occupational disability. A new reform was to come into effect in 2006 and plans to provide incentives to employers and employees to stimulate the reintegration of people who are partially disabled. People who are fully and permanently disabled receive a benefit amounting to 70% of their former wage. People who are partially disabled and do not find work end up with a benefit based on the minimum wage. If they do find work, they will receive a supplement to their income of up to 70% of the difference between the former and new wage.

Other incentives to delay the effective retirement age through improved employment conditions

Improving employment conditions is the second main priority of human resource ageing reform, in order to increase the participation rate of older workers.

- Improvements in life-long education and training for older workers

Improving lifelong education and training for older workers is a labour market-wide ageing strategy. Fostering lifelong learning has been determined to be a key tool for increasing the average skill-level, so as to increase older worker participation in the

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labour market. These policy tools have not been reformed or further developed as part of the public sector ageing strategy, but they share the same goals.

- Flexible working time and satisfaction

  In the Netherlands there are many provisions for part-time work, flexible working hours and telecommuting. One instrument that is widely used is granting older workers additional days off per year (*leeftijdsdagen*). Furthermore the PAS (*Partiële arbeidsparticipatie senioren*) regulation allows for reduced working hours with slightly reduced salary but without loss of pension benefits.

  More interestingly, the instrument of individual life-cycle savings scheme has been established in order to create incentives for all workers. With this scheme you can buy leisure time to use in specific forms of extra leave (sabbatical period) or to retire early. For older workers, this instrument may serve as a pre-retirement scheme instead of the former, and now abolished, pre-retirement schemes. It is based on individual choice and involves income tax-deductible savings. An employee can devote 12% of annual salary per year. If all is set aside for retirement purposes, an additional 3-year reduction in retirement age can be acquired. The retirement age could be pushed back to 58.9.

  In general it should be understood that the introduction of the individual life-cycle scheme and the gradual abolition of the previous early retirement provisions will lead to a substantially higher average retirement age.

- Management policies dedicated to older workers

  Specific career paths and mobility schemes have been developed to retain older workers.

Workforce replacement and adaptation to structural changes

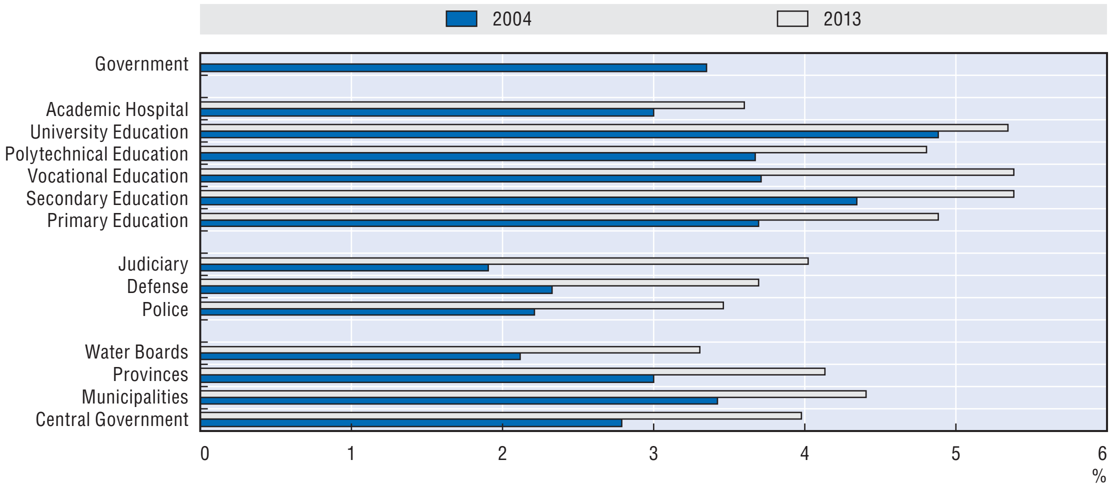
Policies to downsize the public sector while maintaining capacity

In the past 10 years there have been several attempts to reduce the size of the public workforce; public employment has decreased relative to the total workforce of the Netherlands. It has grown again in absolute numbers, however, especially between 2000 and 2002. Since then, the central government has been cut back while other sectors continue to grow (education and, especially, healthcare).

The current workforce adjustment plan consists in reducing the size of the workforce from 5% to 10% across the entire public service in four years. Current public sector staff reduction strategies are aimed primarily at the central government (across the entire public service, the replacement rate necessary to offset personnel attrition over the next 10 years has already been calculated, requiring an increase from roughly 3.5% to 4.4%). Against this background, it seems likely that a low replacement rate of retirees will be used as a means of "passively" reducing the workforce, both at the central and local levels.

While future workforce needs have been identified, there is currently no official replacement rate in place within a coordinated strategy (either a workforce planning framework or a public sector ageing strategy) and no long-term plans for staff readjustment. At the central government level, personnel replacement has been identified as a general problem for all line ministries. However, the Dutch government is committed to the objective of decreasing the central government workforce, targeting specific departments such as education. In total about 11 000 employees will be made redundant and temporary civil servant employment contracts will be terminated. However, in the

Figure 12.2. **Replacement rates 2003 and 2013**



Source: Dutch Ministry of the Interior.

meantime, a new recruitment round was planned for 2006 but with no clear link to a capacity maintenance strategy except in the health sector.

At the local government level, no additional recruitments have been planned, underlining the crucial importance of determining a specific replacement rate so as to maintain public sector efficiency despite massive personnel departures. But unlike at the central government level, the Dutch administration expects to face short-term recruitment problems in the education sector (teachers).

Only in the healthcare sector are there active workforce adjustment policies, aimed at ensuring staff replacement as well as satisfying additional capacity needs. Departing from the general policy trend, capacity maintenance has been established as a major priority in the health sector. The government has planned a proactive recruitment policy, and foresees a substantial expansion of the healthcare sector workforce (which, due to its system of mixed funding, is not technically an integrated part of the public sector but is generally considered as such).

Finally, a specific measure to improve staff renewal has been introduced in recent years. Despite the general ageing policy aimed at constraining early retirement, some arrangements have been set for central government public employees over 55 to be replaced by younger workers. However, this is a temporary arrangement.

Public sector attractiveness policies/programmes

Averting labour market shortages has been and remains a high priority. Although there is no specific policy to maintain public sector attractiveness within the ageing strategy, there is an economy-wide strategy to avoid labour market tensions. However, this strategy does not take into account the fact that the ageing process does not proceed at the same pace, magnitude and timeframe in the public and private sectors, and is based on the fact that the Dutch government does not expect any immediate recruitment problems. Prevailing political wisdom in the Dutch government is to avoid designing a specific strategy for public sector competitiveness, but rather to prevent the private sector from

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being deprived of qualified staff and to allow free competition between the public and private sectors.

Against this background, strategies aimed at maintaining public sector attractiveness are limited, implemented mainly through management adjustments (adjustment of scales, shortening career lines, training), and focused on specific sectors (especially, education).

Internal reorganisation and management practice restructuring

- Mobility and career progression

  As in France, the Dutch government is going to diversify the mobility tool, so as to increase dual-career patterns. Particular attention will be paid to sub-sectors in which the average retirement age is systemically very low (*e.g.* the fire brigade and military), so as to create incentives for public employees to undertake a second career. In this respect, some measures already exist to combine a publicly financed pension with a secondary public salary.

  The Dutch government is also contemplating increasing sanctions for staff who are not mobile, mainly through demotion.

- Performance management and HRM development

  Ongoing negotiations to introduce performance-related pay, and discussions at the central government level to manage poor performers, are being conducted without regard to ageing challenges. Besides disregarding specific rules to retain older workers and increase their participation rate, there is a change in thinking about dismissal-protection for elderly workers – the so-called "last in, first out (LIFO)" principle. Indeed, there is a call for proportional dismissal across age brackets, since employers dislike the fact that they are forced to retain less productive workers and dismiss more productive ones, according to the LIFO-principle.

- Changes in the compensation system/salary incentives

  As the proportion of older workers increases, upward pressure on labour costs, especially in the education sector, has led the government to review compensation determinations. At the central level especially, a large proportion of civil servants has already reached the top of their wage scales (around 40-45), and will receive the same compensation until retirement.

  As in some other OECD member countries (*e.g.* Germany), reforms of the pension system and the pay system have been bound together, either directly within or alongside the objectives of the ageing strategies, in order to reach the same goal of cost containment. Indeed, both are determined, at least partially, by seniority (length of service).

  There has been no reform of the pay system, *per se*, as part of the ageing strategy. However, the decision to provide only moderate salary increases was taken consciously in accordance with pension reform: *i.e.* a mix of reduced benefits, increased contributions, and salary "freezes" comprise the cost containment package in the context of an ageing public workforce.

  Further pay reforms are expected, in relation to ageing, over the coming years. Specifically, in the health and education sectors, concerted action on the issues of workforce size and pay are under discussion.

2.2.2. Institutional changes and reallocation of resources

Institutional division of responsibilities

There is currently no institutional reform aimed at reshaping responsibilities and public service delivery capacity across levels of government. However, the Dutch government has raised this as an issue for consideration in the coming years.

Resource and personnel reallocation between levels of government and sectors

The projected replacement demand per year (the percentage of staff that will have to be replaced due to retirement and mobility will be rising) for the education sector is expected to be one the highest across the entire public service, rising to 5.1% by 2013. Furthermore, public expenditure on education as a share of GDP is forecast to decrease slightly, remaining quite stable over the period (from 4.7% in 2002 to 4.6% in 2030 and 2050).[6]

Workforce reductions at the central government level are effected through a stand-alone programme and not as part of a trade-off against increases elsewhere.

3. Impact of government ageing strategy and reforms

3.1. Cost containment

3.1.1. Financial impact of pension reform

The Dutch government has determined that, compared with other European countries, the Netherlands is in a good position with regards to supplementary pension liabilities, since these obligations are fully covered. Furthermore, under the combined pressure of pension fund deficits and fiscal changes, early retirement opportunities are rapidly dwindling.

Pension reforms that have aimed at constraining early retirement will have a significant financial impact. The new arrangement has almost the same cost structure for employers as previous early retirement schemes (contribution burden is 7.3% of the gross annual salary, as against 6.5%, thus 0.8% more expensive), but it avoids steep contribution increases in the future for early retirement. The total savings has been estimated at EUR 5 billion over 15 years.

After pension reforms, the fiscal situation is expected to be so favourable as to call into question the real need for benefit reductions, especially since Dutch capitalised funds are in much better shape than in the rest of Europe.

3.2. Capacity maintenance

3.2.1. Measures to retain older workers

Measures to increase contributions and constrain early retirement schemes (*e.g.* cancelling tax-facilities in pre-pension settlements for the civil service sector) have led to a higher average retirement age, according to the Dutch government. OECD forecasts estimate that large-scale departures will begin between 2010 and 2015, rather than two years earlier, but it seems to be more of a side issue, raising the problem of continuity in public service delivery and efficiency. The main departure peak will occur between 2015 and 2020 if the anticipated effects of retirement and pension reforms are taken into account. Provisions on early retirements will have the effect of delaying massive departures. This will, in turn, have an impact on the participation rate of older workers,

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especially in the 60-64 year old cohort. On the whole, these reforms are expected to put considerable upward pressure on the current relatively low average retirement age.

More interestingly, it seems that retirement measures do not fit the reality of Dutch older worker participation rates. Early retirement constraints will mainly impact on the 55-59 year old cohort, whereas this cohort's percentage of retirees is quite low. While 42% of workers aged 55-59 are inactive, only 7.5% are in fact retired.[7] The 60-64 year old cohort is the largest to be targeted. Indeed, it comprises more than 80% of inactive people, among whom approximately half are retired. Provisions to constrain early retirement as well as new pension conditions may have a significant impact on those aged 60-63 over the medium term (after their full entry into force in 2015). But there is little evidence that it will impact on the 63-65 age group, even over the long term. Since 15% of current public employees are aged between 55 and 65 years, this group will have left the workforce by 2015. However, there is no robust policy response to this problem over the short term, with only financial incentives and attractive employment conditions in place to influence the 60-64 year old cohort to delay retirement.

In addition, some of the policies aimed at retaining older workers seem a bit incoherent within the overall ageing strategy. For example, specific measures have been introduced to encourage employees over 55 to accept a demotion and a lower salary, while preserving the previous higher salary for the purposes of calculating pension benefits.

Furthermore, arrangements for individual free-time savings to replace early retirement only apply for employees under the age of 56. Employees in service in December 2005, aged 56 and older, will retain their existing early retirement benefits and will not be able to take advantage of the new rules. Thus, this reform will not have any impact on the timing of large-scale retirements. All things considered, apart from financial disincentives and measures to constrain early retirement, management tool adaptation to retain older workers appears limited compared with other countries. However, it does seem that this dimension will be strengthened in the coming years. The government currently plans to introduce further measures for flexible hours, function differentiation and task adjustment, training, and part-time pensions, with a view to increasing the participation of older workers.

3.2.2. Workforce adjustments policy and adaptation of the managerial tools

It would seem that current workforce adjustments are carried out independently of the ageing strategy. There was a recruitment freeze in place at the ministries, but a new recruitment round was planned for 2006. However, there is no indication that these recruitments will be used to replace specific skills and functions affected by retirement departures. Furthermore, there is no evidence that further recruitment rounds will be carried out during the critical large-scale retirement period: the ageing workforce strategy will therefore depend in large part on the staff replacement rate. If there is no further recruitment in certain sectors, especially education (at the local government level), or for specific functions, especially managerial functions, it is possible that the government might experience some capacity deficits.

For the time being, the strategy for central government workforce downsizing seems to rely on traditional mechanisms (contract termination and dismissals), and there is no indication that natural attrition will be taken as a window of opportunity for increasing productivity at the central government level by mechanically decreasing the workforce. But if the Dutch government does not set any specific replacement rate – that is to say if the current replacement rate remains the same without adjustment or additional targeted recruitment to offset the skill shortages – then it would itself constitute a *de facto* strategy for personnel downsizing. This assumption relies also on specific features of the Dutch civil service, since staff employment conditions prevent easy dismissals or workforce adjustments. The main tool for substantially decreasing the workforce remains a recruitment freeze, and even more so, a low personnel replacement rate.

Although specific skill needs have been identified, forthcoming workforce adjustments are disconnected from a possible strategic approach to staff allocation based on functional needs. For example, although it has been demonstrated that the education sector will be the most affected by departures, it has been targeted for a decrease in employment at the central government level, even while there is no mention of any additional recruitment of teachers at the local government level. Furthermore, although one of the main aims of the ageing strategy has been to constrain early retirement schemes, a special measure has been created for the education sector to allow early retirement at age 55, disregarding the fact that almost 50% of the current workforce is over 45 and thus expected to leave over the next decade.

On the other hand, specific measures to develop and facilitate career path and internal mobility are planned and might have considerable impact but only if combined with other adjustments (a balance between renewal rate and targeted recruitment based on functional needs). If the replacement rate turns out to be high, further measures aimed at increasing internal career path flexibility and vertical mobility to meet functional needs may be very effective. But if the replacement rate is low, and if the government remains committed to its recruitment freeze (central level), the mobility tool will only have marginal effects.

Furthermore, it is possible that the Dutch government might benefit from a more coordinated public sector-wide vision for capacity maintenance, institutional reform and resource reallocation across sectors. The Dutch government is going to undertake institutional reshaping at the central government level, but not with a view to reshaping staff allocation according to skill shortages or increases in demand for public services by sector. At the central government level, a project is underway called “Different Government” (*Andere Overheid*), implying a leaner and meaner organisation in light of shrinking budgets. The aim is to increase efficiency through reducing staff, independent of ageing challenges.

Finally, the absence of an attractiveness policy for the public sector within an ageing context may also turn out to be a real issue for the public sector in a context of low unemployment. This is all the more an issue since the younger cohorts have a slight tendency to shift to the private sector. Furthermore, ageing reform should delay large-scale departures for two to five years, which would correspond to the beginning of the critical period in the private sector and thus would increase tensions in the labour market as a whole. This issue has been highlighted as one of the Dutch government’s main concerns regarding the ageing strategy.

3.2.3. Proactive ageing measures

The health sector is not included in the workforce downsizing policy described above. In this sector, the link with the ageing strategy is much stronger and workforce adjustments are planned in accordance with ageing challenges, all the more so that this is the sector most affected by structural changes both in terms of inputs and outputs. Healthcare delivery has been identified as a government priority, with additional recruitment planned. The opportunity to use ageing as a window of opportunity through a low replacement rate does not apply for the health sector, since it is not managed entirely by the public sector.

Unlike most other countries, the Netherlands plans to adopt alternative measures to increase the participation rate of older workers in the labour market. In addition to increasing contributions and early retirement measures, the Netherlands intends to develop a framework to increase the voluntary and free participation of the older population in the labour market, including the public service. In the Netherlands, proposals to increase voluntary work and informal care work for retirees are expected soon.

3.3. Taking advantage of ageing to reorganise public services and improve efficiency

Healthcare service delivery has been identified as a key priority of the ageing strategy, but there are no specific measures to reallocate resources to match increasing demands. However, the health sector seems to be the only one targeted for active workforce replacement and additional recruitment. There is no data on the renewal rate or the recruitment size for the time being, but in this respect, the ageing policy seems intent on meeting specific public service challenges.

Despite these ambitious goals, it is possible that this policy might be insufficient, especially as it will rely on a very decentralized structure of implementation (the health sector is not officially part of the public sector, with hospitals selling subsidized health care to insurance companies). Providing coherent reform with nationwide goals might be more of a challenge under these conditions.

The sector of greatest concern in terms of future service delivery capacity, however, seems to be the education sector. There are considerable replacement needs for the large number of teachers retiring over the next decade, but no systematic recruitment offensive planned and no payment adjustment policy in place to meet replacement targets. This is due partly to pro-cyclical fiscal policy and partly to distributional interests between sectors. It seems that institutional changes and public service reshaping will be necessary in the future.

However, there are additional reforms currently under discussion for the health and the education sector. It seems that some management adaptations will be undertaken, especially for the pay systems in these sectors. More importantly, some discussions have been opened on adapting workforce readjustments in these sectors, and maybe even defining specific replacement rates and scheduling additional recruitment. The general objectives have already been defined: to find a capacity strategy in these sectors that allows public resource allocations without crowding out the private sector.

4. Conclusion

The Dutch ageing strategy appears, on the one hand, to be rather limited in terms of HR management adaptation but, on the other hand, quite robust in terms of future systemic restructuring. Current workforce adjustments and capacity maintenance measures do not seem to adequately meet the specific public service delivery challenges posed by an ageing population (especially for the health and education sectors). On the other hand, the fiscal burden should be well managed thanks to the measures undertaken within the ageing strategy.

All things considered, it seems that the sub-objectives of the ageing policy would benefit from a better balance. It is also possible that the specific challenges of the public sector are underestimated because of the labour market-wide approach to ageing. There are few specific HR measures for the public sector, although it has been clearly demonstrated that ageing challenges for the public service are expected to begin a decade earlier than in the private sector. The general aim of ageing policies has been to maintain attractiveness and efficiency across the entire economy, but above all to avoid tensions between the public and private sectors. In the coming years, it may prove necessary to define a strategy more specifically focused on ageing in the public service.

Notes

1. This section is largely based on *Ageing and Employment Policies/Vieillissement et politiques de l'emploi: Netherlands*, OECD, 2005.
2. *OECD Main Economic Indicators*, OECD, May 2005.
3. The health sector is not included.
4. Data provided are for 2004, and the average exit age for pensions is 59.8.
5. Responsibility for the management of the education sector belongs to local government, even if more than 80% of the wage bill is centrally determined and then redistributed to local units (corresponding to primary and secondary education). Local governments are responsible for public school management, since decisions are made by school boards that are formed by individual municipalities.
6. "The Impact of Ageing on Public Expenditure: Projections for the EU25 Member States on Pensions, Health Care, Long-term Care, Education and Unemployment Transfers (2004-2050)", *European Economy Special Report, No. 1*, DG Economic and Financial Affairs, European Commission, 2006.
7. Other reasons for departure are: disability/illness, discouragement, and family responsibilities. See *Ageing and Employment Policies/Vieillissement et politiques de l'emploi, Netherlands*, OECD, 2005, p. 44.

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