Netherlands

Senate Adopts Comprehensive Pension Reform

Alliant Global Knowledge Center

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Netherlands: Reforms shifting all supplementary pensions to flat-rate contribution DC plans approved by Senate

By Negda A. Jahanshahi

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On 30 May 2023, the Senate adopted the Bill on the Future of Pensions Act (*Wet toekomst pensioenen –WTP*). The WTP will now be sent to the Cabinet for the King's signature and then to the relevant ministry for signature. With these required signatures, the Bill becomes law. The law must then be published in the Official Journal (*Staatsblad*), in order to come into force. The WTP is expected to come into force on 1 July 2023. As of the date of publication of this article, the WTP has not been published in the Official Journal.

Once in force, all pension accruals would be based on defined contribution (DC) plans with a flat contribution rate that would apply irrespective of the participant's age.

As such, the WTP would entail the renewal of all employee pension agreements, as well as all agreements with pension providers. Employers and pension providers would then have until 1 January 2027 to implement the provisions of the reform.

It is worth noting that on 17 May 2023, the Minister of pensions has requested an extension of the transition period by one year, i.e., from 1 January 2027 to 1 January 2028. This amendment would require Parliamentary approval. Although this transition period could be extended by one year, the reform is extensive and would entail considerable planning and implementation to comply with the anticipated legislation.

Key reform measures are detailed below.

Defined benefit plans no longer allowed

Once the WTP enters into force, defined benefit (DB) plans will no longer be allowed. DB accrued pension entitlements would remain unaffected, until they are converted into a DC plan.

Currently, approximately 70% of all employees are DB plan participants.

Existing DC plans would remain authorized during the WTP's transition period, i.e., until 1 January 2027.

Introduction of three new types of agreements

Under the proposed new pension system, three plan agreement types would be possible. Social partners would decide according to what best meets the specific features and circumstances of a given sector or employer. The three options would be:

- Solidarity contribution plans (for pension providers)
- Flexible contribution plans (for pension providers)
- Contribution benefit agreements (for pension insurers)

Upon social partners' decision, the pension fund would have an obligation to assess the request from various perspectives, e.g., feasibility and compliance with statutory regulations.

Solidarity contribution plans

Solidarity contribution plans (*solidaire premieovereenkomst*) have an age-independent (fixed) contribution. The contributions would be collectively invested. The pension provider would assess whether the contributions are sufficient to achieve the intended pension objective (agreed to by social partners) based on a uniform scenario analysis. Investment returns are distributed among the employees via a predetermined distribution key. The premise is that younger plan members take on more risk but are also more affected by investment results than older plan members. The solidarity contribution plan entails a solidarity reserve.

Flexible contribution plans

Flexible contribution plans (*flexibele premieovereenkomst*) are similar to the existing DC plans, in that there is separation between individual pension assets in the accrual phase and pension assets of pensioners in the benefit phase. Plan members could make a number of investment choices themselves. Investment returns are processed in the individual pension capital. Upon retirement, the accrued individual pension capital is converted into a lifelong fixed or variable pension benefit. The member would have the choice between a lifelong fixed (but lower) pension benefit or the option to invest their pension capital (with the prospect for a higher benefits).

The essential difference with the current DC plans is that even within the flexible plan there is a flat contribution for all.

Contribution-benefit agreements

Contribution-benefit agreements (*premie-uitkeringsovereenkomst*) would be available for pension insurers. Contributions are invested individually, much like in flexible contribution plans. Under certain conditions, contribution-benefit agreements would offer participants the option to use their accrued pension capital to purchase (15 years prior to their statutory retirement age) a guaranteed nominal fixed or a partially fixed lifetime benefit from their retirement date.

More flexible solvency rules

The WTP would make occupational pension fund solvency rules more flexible. Currently, pension plans' assets must at least be equal to 105% of liabilities the coverage ratio (i.e., ratio of assets to liabilities) falls below this threshold, pension funds must adopt a recovery plan to restore solvency. If the coverage ratio falls below 90%, pension funds are required to implement benefit entitlement reductions.

The WTP would temporarily reduce the minimum coverage ratio from 105% to 100%, granting pension funds more time to address solvency issues, and introduce a more malleable pension contract, thereby providing more flexibility for occupational pension funds to respond to coverage ratio variations.

Survivors' pension

Partners' pension

The WTP would primarily change the coverage of a partner's pension prior to a participant's retirement date. Survivors' pension would continue to be related to the pension benefit amount, which depends on the retiree's length of service.

However, before retirement, a partner's pension would only be possible on the basis of risk coverage. The coverage would be a maximum of 50% of the participant's last salary, irrespective of their time in service.

According to the provisions of the WTP married individuals, registered partners and those who manage a common household are considered as partners. The WTP further specifies what is considered as a being part of a common household (including registered or cohabiting partners).

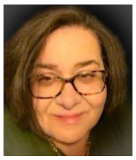
Orphans' pension

Under the provisions of the WTP, orphans' pension would be as follows:

- Half orphans would be entitled to a maximum of 20% of pensionable salary. This compares to currently 14% of retirement pension.
- Full orphans would be entitled to a maximum of 40% of the pensionable salary. This compares to currently 28% of retirement pension.

Background

On 5 June 2019, after 9 years of negotiations, the government, trade unions and employers' associations reached an agreement in principle (*principe akkoord*) on the core features of a reformed pension system, according to which, by 1 January 2027 at the latest, employers and pension providers must have adapted pension plans to the new system. The Senate adopted Bill on the Future of Pensions Act stems from the 2019 pension agreement.



Negda A. Jahanshahi

International Compliance Consultant

Negda Jahanshahi serves Alliant's multinational clients as Global Compliance Consultant.

Negda has 30 years of experience primarily working in international development and later in international HR benefits.

Prior to joining Alliant, Negda was a Senior International Benefits Specialist, within the Benefits & Human Resources Consulting division of Arthur J Gallagher & Co.

Negda draws on her international development experience in East Asian and Sub-Saharan African countries working mainly for the World Bank on governments' health, and social protection strategies, budgets, and programs, to help multinational organizations stay abreast of complex compliance challenges resulting from governments' evolving labor, health, and social protection strategy implementation.

Negda received her MA in Economics from The Johns Hopkins University, and her B.A. in Economics from the University of Brussels.