EPH

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'Passionate about Quality'

The New Dutch Pension System

2020

PENSION BROCHURE

A] Introduction

Like many Western countries, The Netherlands have the need to reform their national pension system. The increasing longevity and extremely low interest rate made the current 2020 system way too expensive.

Regarding State Pensions, The Netherlands have already increased the retirement age from age 65 to age 67. The next step that can be expected is somehow a lower overall pay-out.

As now they are one of the few countries that do not (yet) require a certain minimum period of participation. And (not yet) decrease the pay-out to people with fine workplace/private pensions and assets (Means Test like for example in Australia.)

Regarding Occupational Pensions, until now the situation was that the landscape was i.e. determined by mandatory National Branch Pension Funds called BPF. They provided mostly guaranteed Defined Benefit (DB) pension claims to the majority of the employees.

As this system was way too expensive, there was the situation that during the last few years, often Pension Funds had to lower already existing 'guaranteed' pension claims.

In order to create a new affordable system with more transparency, there has been created a new occupational pension system by the nation government and unions. Which we will now explain in essence.

B] The Essence Of The New Plan: From DB To DC

1. From DB to DC

In the old plan, the guaranteed Defined Benefit (DB) pension claims had a central position. Often they were even (conditionally) annually indexated.

In the new plan the pension claims will have an investment based Defined Contribution (DC) nature. Thus the employees have the substantial investment risk during the build up phase and the interest rate risk when they have to use the total capital to buy lifelong pension claims at retirement age.

In the new plan each employee will have a separately administered investment account. Each employee can invest according to his own Personal Risk Profile.

<u>2. Constant Pension Claim</u>
The pension claim will be equal for all ages, which is a disadvantage for older employees.

Thus the older you get, the lower is your real pension claim as your investment horizon is shorter and the period for accepting risk is also shorter.

Which is known as a degressive pension claim system.

<u>3. Maximum amount of premium</u>
In the Dutch system the annual gross Pension Earning Wages have already been maximized at € 110.111,- for 2020. (Beyond that maximum there are no tax benefits to be had.) These annual gross wages are to be decreased with the Franchise as people will also receive State Pensions.

These gross Pension Earning Wages minus the Franchise gives the Pension Base of which the old age pension premium is a percentage. The maximum percentage in the new system is not yet know but it is expected to be around 30%-33%.

<u>4. How to treat existing DC plans with age increasing premium?</u>
Existing plans may be continued for already participating employees. New employees will have to get a flat age neutral rate.

<u>5. Highly Relevant: How to treat existing pension claims at (Branch) Pension Funds?</u>
Already existing (probably DB) claims will be translated into new DC claims unless this leads to undesirable disadvantages.

6. How to treat possibly existing underfunding of (Branch) Pension Funds?

The rules will be mitigated for 2020 and 2021. If the existing capital at the end of 2020 amounts to at least 90% of the required capital, then there is no mandatory decrease of ‘existing` DB pension claims in 2021.

7. Transition in case of disadvantage

Due to the switch from the old to the new system, there will be situations in which this transition will lead to a disadvantage for certain types of employees. For these situations there will created a budget neutral solution.

In this perspective it is relevant that the maximum old age pension premium will be increased for 10 years with an estimated 3%.

8. Early retirement

The Dutch pension regime has been focused on making it very unattractive to retire before retirement age.

Now the employee is allowed to retire maximum three years before the State Pension Age and receive old age pensions of annually maximum gross € 21.200,- without any (52% tax!) fines for the employer.

In an attempt to make this option already possible as of 2021, many Central Labor Agreements (CAO) have already incorporated this option.

9. Saving for Leave

The old regime gives the employee the option to create an (early) leave period of 50 weeks.

In the new system this will be maximum 100 weeks. Which can be used for early retirement.

10. Lump Sum

For the first time, the employee has the choice to request 10% of the total pension capital value as a one time paid out Lump Sum at retirement age. (Watch out for a higher tax rate.)

11. Next of Kin Pension

It will be standardized in the new system. It will be (partially) insured by risk coverage.

The allowed maximum amount will increase. In the old system it amounted maximum to 49% of the Pension Base. In the new plan the maximum will amount to 50% of the Pension Earning Wages.

C] Expected Planning Implementation New System

1-1-'21: - 3 year early retirement old age pension is allowed.
- The Lump Sum option is active.

1-1-'22: - The national pension deal between Cabinet and Unions has been translated into new national legislation.
- Start of switch to new system.

1-1-'26: - Final date for switch to new system.

1-1-'36: - End of period for compensation of disadvantages.

D] Impact On Company Level

Within each company there will have to be drafted a transition plan as the provider and employees will need to be informed in time and in the legally correct manner and procedure. The well known labor law legislation applies.

For each employee there will be presented a comparison of the before/after situation.

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