



Antti Mielonen

Pension contribution level in the Netherlands

Finnish Centre for Pensions
Reviews
2009:10

Finnish Centre for Pensions

REVIEWS

Antti Mielonen

Pension contribution level in the Netherlands

Finnish Centre for Pensions
Reviews
2009:10

Finnish Centre for Pensions

REVIEWS

Finnish Centre for Pensions

FI-00065 Eläketurvakeskus Finland
Tel. +358 10 7511 • Fax +358 9 148 1172

Eläketurvakeskus

00065 ELÄKETURVAKESKUS
Puhelin 010 7511 • Faksi (09) 148 1172

Pensionsskyddscentralen

00065 PENSIONSSKYDDSCENTRALEN
Tfn 010 7511 • Fax (09) 148 1172

Email: firstname.surname@etk.fi

Helsinki 2009
ISSN 1236-7737

ABSTRACT

This review analyses the level of pension contributions paid in the Netherlands mainly in 2005. The main contribution data have also been compiled into statistics series. The aim of the review is to provide an overview of the total cost of pension financing when taking into account occupational pensions and the government's share of financing in addition to the statutory pension contributions. Pension assets and related investment operations are not included in the analysis.

Pension contributions have been compared in relation to the market and basic (factor) price GDP, as well as the wage bill and to the compensation of employees (including also the employer's social security contributions). By using different indicators, we have sought to achieve maximum comparability between the results of different countries. The review also presents examples of employee and employer pension contributions.

All pension contributions in relation to GDP at market prices was 12,39 per cent and in relation to GDP at basic prices 13,96 per cent.

The review is part of a more extensive comparison of the total level of pension contributions in nine European countries in 2005 made by the Finnish Centre for Pensions. Besides Finland, the countries compared are Denmark, France, Germany, Great Britain, the Netherlands, Norway, Sweden and Switzerland. The data concerning the other countries will be published in the publication *Pension Contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

ABSTRAKTI

Tässä selvityksessä tarkastellaan Alankomaissa maksettujen eläkevakuutusmaksujen tasoa pääasiassa vuonna 2005. Keskeisimmät maksutiedot on koottu myös tilastosarjoiksi. Katsauksen tavoitteena on antaa kuva eläketurvan aiheuttamasta kokonaismaksurasituksesta, kun huomioon otetaan lakisääteisten eläkemaksujen lisäksi maksut lisäeläkejärjestelmiin sekä valtion osuus rahoituksesta. Eläkevarat ja niihin liittyvä sijoitustoiminta on jätetty tarkastelun ulkopuolelle.

Eläkemaksuja on verrattu suhteessa markkina- ja tuottajahintaiseen bruttokansantuotteeseen sekä palkkasummaan ja työnantajan sosiaaliturvamaksut sisältävään palkansaajakorvaukseen. Eri mittareilla on pyritty mahdollisimman vertailukelpoiseen tulokseen eri maiden välillä. Katsauksessa on lisäksi esitetty esimerkkilaskelmia yksittäisestä palkansaajasta perittävästä eläkemaksusta.

Markkinahintaiseen bruttokansantuotteeseen suhteutettuna kaikkien eläkevakuutusmaksujen osuus oli 12,39 prosenttia ja suhteessa tuottajahintaiseen bruttokansantuotteeseen 13,96 prosenttia.

Selvitys on osa Eläketurvakeskuksessa laadittua laajempaa eläkemaksujen kokonaistasoa koskevaa vertailua yhdeksässä Euroopan maassa vuonna 2005. Suomen lisäksi muut tarkastelumaat ovat Alankomaat, Iso-Britannia, Norja, Ranska, Ruotsi, Saksa, Sveitsi ja Tanska. Muita maita koskevat tiedot julkaistaan erillisinä katsauksina. Kokonaistulokset on esitetty julkaisussa *Pension Contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

CONTENTS

1	Introduction	7
2	Pension contribution level in 2005	8
	2.1 Distribution of the pension contributions	9
3	Financing of statutory pensions	11
	3.1 General old-age pension, AOW	11
	3.2 Survivors' pensions, ANW	12
	3.3 Disability pensions, WAO	12
	3.4 Tax-financed statutory pensions.....	13
	3.4.1 Disability pensions for young persons, WAJONG.....	13
	3.4.2 Pension supplements, IOAW and IOAZ.....	14
	3.5 Total expenditure for statutory pension provision.....	14
4	Occupational pension schemes and contribution levels	15
	4.1 General features of the occupational pension schemes	15
	4.2 General features of the pension funds	16
	4.3 Calculation grounds for occupational pensions.....	17
	4.4 Funding ratios	17
	4.5 Nominal contribution levels	18
	4.5.1 Pension fund of healthcare personnel, PGGM	18
	4.5.2 Pension fund of state employees and employees in education, ABP	19
	4.6 Total contributions and pension expenditure of occupational pension schemes	19
5	Examples	21
	5.1 Calculation bases.....	21
	5.2 Contribution levels of an employee in the PGGM fund	21
	5.3 Contribution levels of an employee in the ABP fund	23
	References	25

1 Introduction

The Netherlands has a residence-based statutory national insurance scheme, and the benefits granted from the scheme include both general old-age pensions and survivors' pensions, which are reduced by the person's other income. The index adjustments of the pensions are linked to the minimum wage. Pensions are mainly financed through the employee's contributions, but in recent years the scheme has also been partly financed through tax revenues. In addition to the old-age pensions and survivors' pensions, statutory pension provision also includes a general disability pension scheme, which has been reformed considerably in recent years and which is mainly financed through the employer's contributions, and the disability pension scheme for self-employed persons, which is now being phased out. The general disability pension is also the only first-pillar earnings-based pension benefit. Disability pensions are also awarded to persons who become incapable of work at a young age or while studying from the separate disability pension scheme for young persons. These pensions are financed fully from the State's tax revenues. In addition to actual pensions, different pension supplements are also paid, if the person's combined statutory pension and occupational pension are lower than the annually determined minimum income level. On the whole, statutory pension provision constitutes about 50 per cent of a middle-income pension recipient's income.

The earnings-related pensions are based on occupational pension schemes for different industries, professions or companies. The occupational pension schemes are based on collective agreements, and the schemes must follow the framework act on occupational pension schemes. Earnings-based pension schemes agreed on by the social partners cover over 90 per cent of the wage earners (European Commission 2005; Carey 2002). Their purpose is to guarantee the wage earners an income level in retirement which to a reasonable extent maintains the standard of living achieved while in gainful employment (the target replacement rate is 70% of average career earnings). In addition to old-age pensions, occupational pension provision also includes disability, survivors' and early retirement pensions. The occupational pension schemes are funded. The pension contributions have to be invested in funds which are external in relation to the balance sheets of the companies, so that the pension cover of the employees is not jeopardised due to the company's possible financial difficulties. The largest funds are industry-wide funds (e.g. the ABP fund for state employees and employees in education) and the company pension funds are often smaller than the industry-wide funds, although the pension funds of the largest companies are also quite large (e.g. Shell, Unilever, Philips). The smallest pension funds are pension funds for different professional groups. At the end of 2005 the value of the investments of the largest Dutch pension fund, ABP, was approximately €191 billion, which also makes it Europe's largest and one of the world's largest pension funds. Occupational pension provision constitutes about 30 per cent of a middle-income pension recipient's income.

As a whole, the Dutch pension funds constitute a large group of institutional investors, and at the end of 2005 their aggregate investment assets amounted to nearly €625 billion, which corresponded to about 124 per cent of the country's GDP at market prices for the said year.

2 Pension contribution level in 2005

The financing calculations of this analysis are based on statistical data for 2005 (Central Bureau voor de Statistiek, CBS; OECD Economic Outlook 79; as regards funds Dutch National Bank, DNB). It is worth noting, however, that in 2006 and 2007 especially occupational pension schemes have been reformed and the contribution levels of the pension funds have also changed considerably. These factors have been described in the tables concerning nominal contribution rates. The realised contribution levels have been calculated for 2005.

Table 1 summarises the employee's and the employer's contributions levied to finance different pension benefits as well as possible tax financing as regards statutory as well as occupational pension provision in 2005. The figures are expressed in relation to the compensation of employees (incl. the employer's social security expenses) and the wage sum.

Table 2 states the pension contributions and tax financing in relation to GDP in 2005. The GDP figures used are GDP at market prices, which includes indirect taxes, and GDP at basic (factor) prices, which does not include indirect taxes.

In 2005 GDP at basic (factor) prices amounted to €449,041 million and GDP at market prices to €505,646 million. The wages, including the employer's contributions and other compensations to the employees, amounted to €252,172 million. The wage sum without the employer's contributions amounted to €196,555 million (OECD Economic Outlook 79).

Table 1. Pension contribution levels in 2005.

Pension	In relation to the wage sum^a	In relation to the wage sum^b
General old-age pension AOW (incl. tax financing)	9.26%	11.88%
General survivors' pension ANW	0.57%	0.73%
General disability pension WAO (basic contribution)	3.49%	4.48%
General disability pension WAO (additional contr.)	0.85%	1.10%
Disability pension for young persons WAJONG	0.56%	0.72%
Disability pension contribution for self-employed WAZ	0.07%	0.09%
Ageing persons' unemployment pension supplement IOAW and Ageing self-employed persons' disability pension supplement IOAZ	0.07%	0.09%
Statutory provision in total	14.87%	19.09%
Pension fund contributions	9.98%	12.80%
Statutory and occupational pensions in total	24.85%	31.89%

a) 2005 wage sum including the employer's contributions.

b) 2005 wage sum without the employer's contributions.

Table 2. Pension contribution levels in 2005.

Pension	In relation to GDP ^c	In relation to GDP ^d
General old-age pension AOW (incl. tax financing)	4.62%	5.20%
General survivors' pension ANW	0.28%	0.32%
General disability pension WAO (basic contribution)	1.74%	1.96%
General disability pension WAO (additional contribution)	0.43%	0.48%
Disability pension for young persons WAJONG	0.28%	0.32%
Disability pension contribution for self-employed WAZ	0.04%	0.04%
Ageing persons' unemployment pension supplement IOAW and Ageing self-employed persons' disability pension supplement IOAZ	0.03%	0.04%
Statutory provision in total	7.42%	8.36%
Pension fund contributions	4.97%	5.60%
Statutory and occupational pensions in total	12.39%	13.96%

c) 2005 GDP at market prices.

d) 2005 GDP at basic (factor) prices, without indirect taxes.

2.1 Distribution of the pension contributions

Table 3 analyses the division of the total contributions into the employer's, the employee's and the tax-financed shares. Table 4 describes the different pension contributions in relation to GDP. The fund contributions have been allocated according to the average ratios reported by the Dutch central statistical office CBS, whereby the employer's share is 70 per cent and the employee's share 30 per cent. The disability pension contribution for self-employed persons, WAZ, is included in the employer's contributions.

Table 3. Contributions in relation to the wage sum.

Contribution	Pension contributions/wage sum ^a	Pension contributions/wage sum ^b
Employee		
General old-age pension AOW	7.12%	9.14%
General survivors' pension ANW	0.57%	0.73%
Fund contributions	2.99%	3.84%
Employee in total	10.68%	13.71%
Employer		
General disability pension WAO (basic contr.)	3.49%	4.48%
General disability pension WAO (additional contr.)	0.85%	1.10%
Disability pension contr. for self-employed WAZ	0.07%	0.09%
Fund contributions	6.99%	8.96%
Employer in total	11.40%	14.63%
Tax financing		
AOW pensions		
Disability pension for young persons WAJONG		
Ageing persons' unemployment and disability pension supplement IOAW and	2.14%	2.74%
Ageing self-employed persons' partial disability pension supplement IOAZ	0.56%	0.72%
Tax financing in total	2.77%	3.55%
Total	24.85%	31.89%

a) Wage sum including the employer's social security contributions.

b) Wage sum without the employer's social security contributions.

Table 4. Contributions in relation to GDP.

Contribution	Pension contributions/GDP^c	Pension contributions/GDP^d
Employee		
General old-age pension AOW	4.00%	3.55%
General survivors' pension ANW	0.32%	0.28%
Fund contributions	1.68%	1.49%
Employee in total	6.00%	5.32%
Employer		
General disability pension WAO (basic contr.)	1.96%	1.74%
General disability pension WAO (additional contr.)	0.48%	0.43%
Disability pension contr. for self-employed WAZ	0.04%	0.04%
Fund contributions	3.92%	3.48%
Employer in total	6.40%	5.69%
Tax financing		
AOW pensions	1.20%	1.07%
Disability pension for young persons WAJONG	0.32%	0.28%
Ageing persons' unemployment and disability pension supplement IOAW and Ageing self-employed persons' partial disability pension supplement IOAZ	0.04%	0.03%
Tax financing	1.55%	1.38%
Total	13.96%	12.39%

c) GDP at basic (factor) prices.

d) GDP at market prices.

3 Financing of statutory pensions

3.1 General old-age pension, AOW

In the Netherlands the general old-age pension (Algemene ouderdoms wet, AOW) may be awarded to everybody resident in the country who has reached the age of 65. For persons aged 15–65 pension rights accrue at the rate of 2 per cent for every year of residence, so entitlement to a full AOW pension presupposes 50 years of residence. The AOW pensions are flat-rate benefits, and they are linked to the development in the minimum wages (in 2005 €925.17 per month for single persons as well as vacation compensation €46.20 per month). AOW old-age pensions are in principle financed on the basis of the normal pay-as-you-go principle through pension contributions levied from employees and self-employed persons. However, in 1998 a political decision was made to fix the maximum level of the AOW contribution at 18.25 per cent. This means that if, with an ageing population, the pension contributions are possibly no longer sufficient to cover the total costs of the scheme at this contribution level, the State guarantees the financing of the pensions by paying the part of the AOW pension expenditure which exceeds the premium income through tax revenues. In 2005 the nominal level of the AOW pension contribution was 17.90 per cent of the wage. Even though the contribution ceiling has not yet been reached, the State has still for some years partly financed the AOW pensions. In 2005 the share of tax financing in the AOW pension expenditure was about 23 per cent, i.e. €5,392 million. AOW pension contributions were levied from employees and self-employed persons to an amount of €17,967 million, and thus the total costs as regards general old-age pensions amounted to €23,359 million.

In addition to AOW contributions and tax financing, a so-called AOW buffer fund is accumulated to safeguard the future financing of old-age pensions. This fund may only be built up until 2020, and after that it is possible to dissolve the fund to cover the increasing old-age pension expenditure of an ageing population. The assets used to increase the fund are linked to the reduction in interest rate expenses as the EMU debt is repaid. In 2005 the buffer fund amounted to about €23 billion.

A special feature of Dutch statutory pension provision is its tight link to the tax system. This means that most statutory pension contributions (incl. AOW) and social insurance contributions are tax-like charges. In this way the characteristics of the tax system affect the realised pension contribution levels. Especially the deductions awarded in the taxation reduce the nominal pension contribution levels. The examples in this analysis take into account the general tax credit of €1,894 (in 2005), which is granted to everyone, and the full income tax credit, which amounted to €1,287 for persons born in 1948 or later and for those who earn more than €17,729 per year. The deductions are allocated to the different components on the basis of the relative proportions of the social security contributions and taxes in the first tax tier. In this way 52.03 per cent of the deductions is allocated to AOW contributions and 3.63 per cent to ANW survivors' pension contributions. The remainder is used to reduce income taxes as well as sickness insurance contributions.

Most of the statutory pension contributions also have contribution ceilings. For the AOW pension contribution the ceiling is €5,433 per year, which means that with the nominal contribution level of 17.90 per cent for the year under review contributions are no longer levied on annual earnings exceeding €30,357. Due to the contribution ceiling and the tax deductions AOW contributions are very seldom paid at the nominal level of 17.90 per cent. As regards the statutory pensions the realised contribution level depends on the person's earnings, so that the realised contribution level for low-income earners is closer to the nominal contribution level, whereas for high-income earners the statutory pension contributions constitute a smaller proportion of both the total pension contributions and the tax burden.

3.2 Survivors' pensions, ANW

The general survivors' pension is denoted by the abbreviation ANW (Algemene nabestaandewet). Survivors' pension can be paid to under 65-year-old widowers or widows, surviving common-law spouses, surviving former spouses, children who are full orphans, and others who lived in the same household as the deceased, e.g. sisters or brothers. The level of the ANW pension depends on the beneficiary's earnings. In 2005 the maximum survivors' pension amounted to €990.24 per month, and in addition a vacation compensation of €54.40 per month was paid. In the same manner as for general old-age pensions, the index increases to the survivors' pensions are linked to the minimum wage. The ANW pensions are financed through pension contributions; in 2005 the nominal ANW contributions levied from employees was 1.25 per cent of the wage. The ANW contribution also has a contribution ceiling, and in 2005 the wage basis for the ceiling was the same as for the AOW contributions, i.e. €30,357. In this case the employee's ANW contribution is a maximum of €379 per year. The ANW contributions are tax-like charges. They are also deductible in the taxation in the same manner as the AOW contributions. As a consequence of the tax deductions the realised ANW contribution level is at all income levels lower than the nominal level. The contribution ceiling has a reducing effect on the realised contribution level and this effect is the larger, the higher the earnings are in relation to the contribution ceiling. In 2005 the total premium income for the ANW contributions amounted to €1,434 million.

3.3 Disability pensions, WAO

In the Netherlands the statutory general disability pension is earnings-based. This pension has been denoted by the abbreviation WAO (Wet op de Arbeidsongeschiktheidsverzekering), which was changed to WIA (Wet werk en inkomen naar arbeidsvermogen) when the scheme was reformed 1 January 2006. In connection with the reform, for instance the preconditions for retirement were changed and tightened. In the WIA scheme the employer pays the employee sick pay for two years instead of the previous one year. This means that persons who fall ill after 1 January 2004 are covered by the new scheme and those who have fallen ill before this date remain covered by the old scheme, i.e. WAO. This comparison analyses the year 2005,

which falls in the transition period, and at that time the pensions in payment and the pension contributions still followed the old WAO scheme.

WAO pensions are financed on the basis of the pay-as-you-go principle through pension contributions levied from the employers (before 1998 employee's contribution). The WAO contribution includes two separate components. The so-called basic contribution is the same for all employers. In 2005 the basic contribution was 5.60 per cent on the wage below the contribution ceiling. The second component is the so-called additional contribution, and its level varies according to the company's disability record, size and line of industry. For large companies (annual wage bill over €642,500) an additional contribution is determined on the basis of the company's disability pension record. In this way the companies can also carry the risk for new disability pensions independently, in which case they commit themselves to paying the possible disability pension to the employee for the first four years. If the company carries this risk, it is not necessary to pay any additional contribution. Small companies have a so-called calculated additional contribution, which is determined in relation to the annually determined average additional contribution and the number of new disability pensions in the whole industry. In 2005 the level of the average additional contribution was 1.67 per cent (Belastingdienst), in addition to which the individual company pays either an additional contribution or a reduction, depending on the new disability pensions in the line of industry. The WAO pension contributions also have a contribution ceiling, which in 2005 was €3,182. Thus contributions are not levied on annual earnings over €43,770. In total, WAO basic contributions were collected to a total amount of €8,813 million and additional contributions to an amount of €2,154 million.

The levels of the personal statutory pension contributions are summarised in table 5. The figures are nominal contribution levels, which are divided into the employer's and the employee's shares. The chosen WAO additional pension contribution is 1.67 per cent, which represents the average contribution level of small companies.

Table 5. *Nominal contribution percentages in 2005.*

Contribution I pillar	Employee	Employer	
Old-age pension contribution AOW	17.90%		
Survivors' pension contribution ANW	1.25%		
Disability pension contribution WAO		5.60%	
Additional contribution for the disability pension WAO		1.67%*	
Total	19.15%	7.27%	26.42%

*) Average additional contribution in 2005.

3.4 Tax-financed statutory pensions

3.4.1 Disability pensions for young persons, WAJONG

Disability pensions for young persons are not financed through pension contributions; instead the scheme is fully tax-financed. The pension scheme is denoted by the abbreviation WAJONG (Wet arbeidsongeschiktheidsvoorziening jonggehandicapten). WAJONG pensions may be

awarded to young persons who are incapable of work when they reach the age of 17 and also students who have become incapable of work after reaching this age. The amount of the disability pension depends on the person's age and the degree of disability. In 2005 the full pension for 18-year-olds was €26.46 per day and for over 23-year-olds €58.15 per day. In 2005 the total costs of the scheme amounted to €1,419 million. WAJONG pension expenditure has been relatively small in relation to other statutory pension expenditure, but the expenditure has been rising steadily since 2000. At that time WAJONG pension expenditure amounted to €1,024 million.

3.4.2 Pension supplements, IOAW and IOAZ

If the pension cover (statutory and occupational pension) is lower than the level required for a minimum income due to for instance insufficient number of years of residence or insufficient number of years of employment, the person is entitled to different additional benefits, which raise the income to the minimum level. Persons aged over 50 (who meet certain unemployment conditions) or partially disabled persons whose earnings after taking into account pensions (e.g. WAO) or other benefits remain below the minimum income level receive an IOAW pension supplement. Self-employed persons aged over 55 may receive an IOAZ pension supplement, if their earnings during the preceding three years have been on average less than €22,288 per year. Receiving the pension supplement presupposes that the self-employment activity ends. In 2005 IOAZ and IOAW pension supplements were paid to a total amount of €171 million, and they were financed through the national budget from tax revenues.

3.5 Total expenditure for statutory pension provision

The total expenditure for statutory pensions is summarised in table 6. In addition to the premium income levied from the employees and the employers the total expenditure also includes pension expenditure as regards the tax-financed pensions. The total expenditure was calculated for 2000–2005.

Table 6. Total expenditure for statutory pension provision in 2000–2005, € million.

Pension	2000	2001	2002	2003	2004	2005
General old-age pension AOW	20 675	18 703	18 152	17 961	19 004	17 967
AOW tax financing	-	-	2 507	4 613	3 993	5 392
General survivors' pension ANW	1 701	1 488	1 452	1 437	1 516	1 434
General disability pension WAO	8 746	9 148	9 295	8 108	8 493	8 813
Additional contribution WAO	1 946	2 219	2 947	3 557	3 534	2 154
Disability pension for young persons WAJONG (tax financing)	1 024	1 132	1 135	1 283	1 326	1 419
Disability pension for self-employed WAZ	842	829	882	867	253	178
Pension supplements IOAW and IOAZ (tax financing)	270	243	259	245	207	171
Total	35 204	33 762	36 629	38 071	38 326	37 505

Source: CBS National Accounts 2006.

4 Occupational pension schemes and contribution levels

4.1 General features of the occupational pension schemes

In the Netherlands partially voluntary occupational pension schemes, which have been agreed on by the social partners and which are based on fund contributions from both employees and employers, cover over 90 per cent of the employees (Carey 2002; DeGier 2003). There are both industry-wide pension funds, company pension funds and pension funds for certain professional groups. The pension benefits paid are mainly the same as in the statutory pension schemes, i.e. old-age, survivors' and disability pensions. In addition, the benefits include early old-age pensions. The provisions which govern the occupational pension schemes are included in the PSW Act (Pensioen- en Spaarwet).

Occupational pension provision is earnings-based pension provision, which is integrated with statutory pension benefits. This means that, for instance, as regards old-age pensions the statutory AOW pension is the primary pension benefit and constitutes the basis of the total pension. The earnings-related pension from the occupational pension scheme is awarded on top of the AOW pension. The aggregate targeted replacement rate of statutory and occupational pension provision is 70 per cent of the average or final salary of the working career, which under current rules can be achieved with a working career of 35–40 years. The annual accrual of the pensions (statutory and occupational) varies between 1.75 and 2.25 per cent according to pension fund and basis for the pension benefit, whereby a pension calculated on the basis of average salary usually has a higher accrual rate than a pension calculated on the basis of final salary (DNB, 2006). The ceiling for pension accrual is 100 per cent of the final or average salary of the working career. When the accrual reaches this level or when the employee reaches the age of 70, the pension will be paid out.

Even though the occupational pension schemes are in principle part of voluntary earnings-related pension provision agreed on by the social partners, the employee's membership in the occupational pension scheme has in certain lines of business been made mandatory, however. According to the acts regarding earnings-related pensions, the Government may on the request of the labour market organisations make membership in the industry-wide pension fund mandatory for all the companies and the employees in the industry, if the companies which make the request represent at least 60 per cent of the employees in the industry. Due to this arrangement approximately 80 per cent of the total workforce are currently members of pension funds which have been decreed mandatory for the relevant industry. An individual company may, however, opt out of the industry-wide pension fund, if it can itself offer at least a similar level of occupational pension provision to the employees. Often large companies have their own pension funds (e.g. Shell, Unilever, Philips), with which the employees' occupational pension provision has been arranged. The membership of independent professionals in occupational pension schemes is also partially regulated. Membership in the pension fund may also be mandatory

for certain professional groups, if a large enough majority of the independent professionals in the industry makes such a request through their own organisations (exact proportions have not been determined). Thus in principle voluntary occupational pension provision is offered by almost all employers, i.e. about 98 per cent (Carey 2002).

Occupational pension schemes have been regularly reformed. In recent years the reforms have mainly focused on early pension benefits, which traditionally have been very generous. The early retirement pension scheme VUT, which was introduced in the initial years of the 1980s, has proven to be expensive for both employers and employees. The scheme is based on pay-as-you-go financing and it was originally intended to reduce youth unemployment by inducing older employees to retire. Since 1997 a gradual shift has been made from a scheme based on the pay-as-you-go principle which strongly encourages early retirement¹ to a funded early retirement pension scheme which more favours a continued stay at work. The latest reform of the early retirement pension scheme was introduced at the beginning of 2006, when the separate early retirement pension contributions were abolished and the new so-called flexible early retirement mechanism included in the old-age and survivors' pension contributions was introduced. The changes in the early retirement pensions can be observed in the tables especially in the contribution levels after 2005, when separate contributions for the early retirement pension scheme were no longer levied.

4.2 General features of the pension funds

The number of pension funds which finance earnings-related pensions has decreased steadily over the 2000s. In 2001 there were 861 funds, whereas at the end of 2005 the pension funds numbered 695. Most of the funds, i.e. 581 (83.6%) were company pension funds. Most company pension funds are relatively small. In 2005 the investment assets of the largest of them, that of the aforementioned Shell, amounted to €16.1 billion. The industry-wide pension funds numbered 103 (14.8%), the largest of which is the ABP fund for state employees and employees in education. The calculated value of the investments of the ABP fund was €191 billion. At the end of 2005 the pension funds for different professional groups numbered 11 (1.6%). The value of the aggregate investments of these funds was also relatively small, €17.4 billion. The value of invested capital of all pension funds totalled €624.8 billion (approx. 124% in relation to GDP) at the end of 2005.

About 67 per cent of the investment assets of all pension funds and about 85 per cent of the employees are concentrated to industry-wide pension funds (DNB Pension Monitor 2006). The assets of the industry-wide pension funds are also strongly concentrated to a few of the largest funds. At the end of 2005 the aggregate investment assets of the ABP fund and the second-largest fund, the PGGM fund for employees in the healthcare sector, amounted to €262 billion, i.e. about 42 per cent of the aggregate investment assets of all pension funds. In the examples presented later in this analysis the contribution levels of ABP and PGGM will be used when determining the contribution levels in the examples for an individual employee.

1 For over 60-year-olds almost 100 per cent implicit costs for continued stay at work.

4.3 Calculation grounds for occupational pensions

The pension benefits awarded by the pension funds have previously mainly been based on the final salary of the working career. However, since the beginning of 2004 there has for most pension funds been a shift in the pension calculation mode towards a pension based on career-average salary. In 1998 70.5 per cent of the industry-wide pension funds calculated the pension on the basis of the final salary of the working career, but in 2005 the proportion was only 9.2 per cent. Correspondingly, in 1998 27.9 per cent of the pension funds used the career-average salary when calculating pension benefits, but in 2005 the proportion was 84.6 per cent. A small proportion of the funds also use a combination of final salary and average salary in the calculation of pension benefits.

The occupational pension schemes are to a large proportion defined benefit schemes, although the proportion of defined contribution pension benefits has been on the increase in recent year. In 2005 93.9 per cent of all the funds were funds which paid defined benefit pensions. The proportion of defined contribution pension benefits has changed from 0.8 per cent in 1998 to 6.1 per cent in 2005. Generally speaking, one factor underlying this shift is the transfer of the risks of pension financing to an increasing extent from the employers to the employees and pension recipients (see e.g. Ponds and van Riel 2006): the unfavourable development in the interest rate and equity markets after the beginning of the 2000s has caused a more unfavourable ratio between pension liabilities and investments (see table 7), which means that there has been a need to strongly increase pension contribution levels in defined benefit schemes and, on the other hand, also reduce the index increases to pensions in current payment. In such situations the costs for the increase in contribution levels have in defined benefit schemes mainly fallen on the employers, since in the Netherlands the employer's share of the contributions of occupational pension provision is on average about 70 per cent, according to the CBS (Statistics Netherlands).

4.4 Funding ratios

In addition to the defined benefit character of the schemes the increase in total contribution level has also been affected by the tightened solvency requirements of the Dutch Central Bank, which took effect from the beginning of 2007 (the so-called FTK provisions) (already earlier partially followed by the pension funds). According to these rules, the solvency ratio of the fund must be at the level of at least 105 per cent. If that is not the case, the fund must strive to reach this level within at the most three years through contribution increases or reductions in index increases. The FTK provisions also require changes to the way the pension funds calculate pension liabilities. Previously the funds have used a so-called actuarial or calculated discount rate of 4 per cent when calculating liabilities. Instead of this discount rate, a flexible discount rate based on the real rate of return in the financial market has been introduced.

On the whole, the developments in the financial market in recent years and the tightened rules for the pension funds have had a considerable impact on the average funding ratios of

the pension funds. Table 7 indicates that at its lowest, in 2002, the value of the investments of the funds was even below the level of pension liabilities. In the following years 2003–2006 the funding ratios have again increased steadily.

Table 7. Average funding ratio (investment assets/pension liabilities).

Year	2000	2001	2002	2003	2004	2005	2006
All funds	132%	118%	101%	104%	119%	125%	135%
Company funds	135%	123%	110%	117%	123%	130%	-
Industry-wide funds	131%	116%	97%	99%	118%	123%	-

- no statistical data.

Source: DNB.

4.5 Nominal contribution levels

Since there are no statistics available on the average pension contributions of all pension funds, this survey analyses the pension contribution levels reported by the two largest pension funds, ABP and PGGM.

4.5.1 Pension fund of healthcare personnel, PGGM

The development in the contribution level of the second-largest Dutch pension fund, the PGGM fund for employees in the healthcare sector is described in table 8. The figures in the table are so-called nominal contribution levels, which do not necessarily correspond to the realised contribution levels of an individual employee. The realised contribution levels are affected by, for instance, the determining of the franchise, where nominal contributions are levied on the wage which exceeds this limit. However, table 8 indicates that over the whole 2000s the nominal contribution levels have mostly been increasing. After the favourable development in the financial markets right at the beginning of the 2000s PGGM has had to raise the nominal contribution levels from 13 per cent in 2001 to the record-high level of 25.7 per cent in 2005. The level has decreased slightly since then, and in 2007 the nominal contribution level was 23.3 per cent. Likewise, the index increases to the pensions in payment were especially high in the initial years of the 2000s, whereas in recent years the index increases have been very small (index increases are linked to the wage development, in recent years also to the solvency ratio of the fund). The table also describes how a separate early retirement pension contribution was still levied in 2005, but after that this contribution was made part of the old-age and survivors' pension contribution.

Table 8. PGGM nominal contribution levels.

Year	2001	2002	2003	2004	2005	2006	2007
Old-age and survivors' pension contribution	5.1%	5.8%	9.8%	13.6%	18.8%	22.5%	22.5%
Disability pension contribution	3.7%	3.9%	3.9%	3.3%	2%	0.8%	0.8%
Early retirement pension contr.	4.2%	4.4%	4.9%	5.4%	4.9%		
Contribution level in total	13%	14.1%	18.6%	22.3%	25.7%	23.3%	23.3%
Index adjustment of pensions		5.9%	4.6%	2.1%	0%	0.36%	1.86%

Source: PGGM annual report 2005 and 2006.

4.5.2 Pension fund of state employees and employees in education, ABP

The development in the nominal pension contributions of the largest Dutch pension fund, ABP, in the 2000s is presented in table 9. The table indicates that the record year for the contributions, as for the PGGM fund, was clearly 2005. In recent years it has been possible to lower the contribution levels slightly from this level, at the same time as it has been possible to increase the index increases of pensions in payment. The abolishment of the old early retirement pension contribution (for the ABP fund FPU) at the end of 2005 is also apparent in the table.

The so-called franchise, which determines the pension contributions, has also changed annually, which means that the nominal contribution levels are only indicative of the realised contribution levels, which are described in the examples. For instance, the contribution level in 2006 would seem to be considerably lower than in the preceding year. At the same time, however, the franchise, which partially determines the old-age pension contribution level, has been decreased from €13,000 to €9,600, in which case the decrease in the real pension contribution level calculated from the total wage is not as large as the nominal change.

Table 9. ABP nominal contribution levels.

Year	2001	2002	2003	2004	2005	2006	2007
Old-age and survivors' pension contribution	11.8%	13.6%	15.6%	19.0%	21.4%	19.8%	19.6%
Disability pension contribution	1.8%	2.0%	2.0%	1.8%	1.6%	1.2%	1.2%
Early retirement pension contr.	2.4%	2.4%	2.4%	3.9%	4.3%		
Contribution level in total	16.0%	18.0%	20.0%	24.7%	27.3%	21.0%	20.8%
Index adjustment of pensions	3.4%	4.1%	3.8%	1.77%	0.12%	0.17%	2.82%

Source: ABP annual report 2005 and 2006.

4.6 Total contributions and pension expenditure of occupational pension schemes

The amount of employer's and employee's pension contributions paid into all pension funds to finance earnings-related pensions in 2005 was €25,166 million. Of this amount, €7,288 million (29%) were paid into company pension funds, €17,563 million (69.8%) were paid into industry-wide pension funds and €315 million (1.2%) into pension funds for different professional groups. The total contributions have not been divided between different pension benefits as was done for statutory pensions, since the proportions vary between different funds, and there is also no statistics on the allocation of the contributions other than for individual pension funds. The relative extent of the pension benefits may, however, be analysed through the pensions paid in the same year. In 2005 pension benefits were paid out from the funds to the total amount of €17,742 million. Most of this amount was made up of old-age pensions, €11,574 million (65.2%). The second-largest pension expenditure component was survivors' pensions, €3,638 million (20.5%). The other paid pension benefits were divided into early retirement pensions, €883 million (5%), and disability pensions, €670 million (3.8%). In addition, small amounts of other payments and pension benefits were paid out. Table 10 describes the development of the premium income for pensions for different types of pension funds in 2001–2005.

Table 10. *Premium incomes for occupational pensions.*

Fund	2001	2002	2003	2004	2005
Industry-wide	8997	10 796	13 604	15 785	17 563
Company	3591	7451	6991	6783	7288
Professional group	241	252	299	309	315
Total € million	12 829	18 499	20 894	22 877	25 166

Source: DNB Pension Monitor 2006.

5 Examples

5.1 Calculation bases

As there were 695 pension funds at the end of 2005, and there are no further comprehensive statistics on the average contribution levels of the funds, the calculation examples are restricted to a more detailed analysis of the contribution levels of the two largest pension funds, ABP and PGGM.

The contributions paid into the ABP fund in 2005 made up 26.8 per cent (€6,742 million) of all the contributions paid into the pension funds. The premium income of the second-largest pension fund, PGGM, amounted to €3,561 million, which corresponds to 14.2 per cent of the total contributions. The aggregate premium incomes of these two pension funds thus make up about 41 per cent of all occupational pension contributions, and by analysing the contribution levels of the funds it is possible to obtain an indication of the average occupational pension contributions paid by an individual employee in the relevant year. In addition to the realised fund contribution levels, the realised contribution levels of the statutory pension contributions are also calculated in the examples, and these contribution levels also differ from the nominal levels (table 5) due to the contribution ceilings and the tax deductions used for pension contributions.

The individual contribution levels have been calculated by income category. The contribution level calculations are based on the average wage income of the employee in 2005, €38,671 (OECD Economic Outlook 79). The contribution levels are calculated for both a middle-income wage earner and a person with double the income of a middle-income wage earner. When analysing the nominal contribution levels reported by the funds, it should also be taken into account that contributions are only paid into the pension funds when the wage exceeds a certain limit (so-called franchise). The nominal contribution levels reported by the funds (tables 8 and 9) are thus only applied to the part of the wage which exceeds the franchise. This part is called the pensionable wage. The franchises differ somewhat between different funds and depending on the insured person's age, but the main principle is that for the part of the wage below the pensionable wage the individual insured person mainly pays only the statutory pension contributions of the national insurance scheme. This means that the realised contribution level differs from the nominal contribution levels the more the closer the insured person's income is to the franchise.

5.2 Contribution levels of an employee in the PGGM fund

The realised contribution levels based on the total wage can be calculated from the nominal levels in table 8 by subtracting the franchise from the paid wage and by applying the nominal contribution levels to this calculated pensionable wage. In 2005 old-age and survivors' pension contributions of PGGM were levied on the part of the annual wage which exceeded €13,858. The franchise for the disability pension contribution was €16,292 per year. In the

PGGM scheme the early retirement pension contribution has not had any franchise, meaning that it has been levied on the total wage. The occupational pension contributions do not have any contribution ceilings, and thus the higher the person's wage is in relation to the franchise, the closer the realised contribution level is to the nominal contribution level.

The employer's and the employee's shares of the occupational pension contributions are determined in the collective agreement of each industry. However, in large industry-wide pension funds there are possibly members who are covered by different collective agreements (so-called CAO), in which case the employer's and the employee's shares of the occupational pension contributions may also vary within the fund. The total contribution level is still the same for all employees who are members of the fund. The employee in the example for the PGGM fund is covered by the collective agreement CAO Welzijn 2005, where the employee pays 13.65 per cent of the nominal old-age and survivors' pension contribution of 18.80 per cent (table 8). The other occupational pension contributions, i.e. the old-age and survivors' pension contribution of 5.15 per cent, the early retirement pension contribution of 4.90 per cent and the disability pension contribution of 2.0 per cent are paid by the employer.

The realised contribution levels calculated on the basis of the total wage of a middle-income employee who is a member in the PGGM fund and who is covered by the collective agreement CAO Welzijn 2005 are summarised in table 11. The table also states the statutory pension contribution levels in relation to the total wage, through which the insured person's total pension contribution level is obtained. Table 12 presents the corresponding total pension contributions for a person with double the income of a middle-income employee.

Table 11. Total pension contributions for a middle-income employee (€38,671 per year) in 2005 (PGGM).^a

Contribution	Employee	Employer	Total
Statutory contributions			
Old-age pension contribution AOW	9.77%		
Survivors' pension contribution ANW	0.68%		
Disability pension contribution WAO		5.60%	
Additional contribution for the disability pension		1.67% ^b	
Occupational pension contributions			
Old-age and survivors' pension contribution	8.76%	3.30%	
Early retirement pension contribution	0%	4.90%	
Disability pension contribution	0%	1.16%	
Total	19.21%	16.63%	35.84%

a) In the calculations WAO contribution ceiling €43,770 per year. AOW and ANW contribution ceiling €30,357 per year. Tax deductions €1,894 general and €1,287 earnings deduction when earnings exceed €17,729 per year.

b) Average additional contribution in 2005.

Table 12. Total pension contributions of a person having an income of 2 x income of a middle-income employee (€77,342 per year) in 2005 (PGGM).^a

Contribution	Employee	Employer	Total
Statutory contributions			
Old-age pension contribution AOW	4.88%		
Survivors' pension contribution ANW	0.34%		
Disability pension contribution WAO		3.17%	
Additional contribution for the disability pension		0.95% ^b	
Occupational pension contributions			
Old-age and survivors' pension contribution	11.20%	4.23%	
Early retirement pension contribution	0%	4.90%	
Disability pension contribution	0%	1.58%	
Total	16.42%	14.83%	31.25%

a) In the calculations WAO contribution ceiling €43,770 per year. AOW and ANW contribution ceiling €30,357 per year. Tax deductions €1,894 general and €1,287 earnings deduction when earnings exceed €17,729 per year.

b) Average additional contribution in 2005.

5.3 Contribution levels of an employee in the ABP fund

The realised contribution levels based on the total wage can again be calculated from the nominal contribution levels in table 9 by subtracting the franchise from the gross wage and by applying the nominal contribution levels to this calculated pensionable wage. Since the franchises often also depend on the insured person's age, the basis for the calculations in this analysis is a person born after 1 January 1964.

In 2005 the nominal contribution levels for the ABP fund were divided as follows: the employer pays 15.85 per cent and the employee 5.55 per cent of the old-age and survivors' pension contribution of 21.4 per cent. The employer's share of the disability pension contribution varies between 0.75 and 1.65 per cent and the employee's share between 0 and 0.55 per cent, depending on the level of insurance chosen by the employee. In this instance the example takes into account the average level of 1.6 per cent paid into the fund, where the employee's share is 0.4 per cent and the employer's share 1.2 per cent. The early retirement pension contribution of 4.3 per cent is divided between the employer and the employee into equal shares of 2.15 per cent each. The franchises in euros for the contribution levels of the ABP fund also differ slightly from the levels of the PGGM fund. In 2005 old-age, survivors' and early retirement pension contributions (so-called FPU contributions) were levied on annual earnings exceeding €13,000. The franchise for the disability pension was €16,350. Table 13 states the franchises taking into account the total contribution levels of a middle-income person who is a member of the ABP fund in relation to the total wage. Table 14 states the corresponding realised contribution levels of a person with double the income of a middle-income employee.

Table 13. Total pension contributions for a middle-income employee (€38,671 per year) in 2005 (ABP).^{a,b}

Contribution	Employee	Employer	Total
Statutory contributions			
Old-age pension contribution AOW	9.77%		
Survivors' pension contribution ANW	0.68%		
Disability pension contribution WAO		5.60%	
Additional contribution for the disability pension		1.67% ^c	
Occupational pension contributions			
Old-age and survivors' pension contribution	3.65%	10.52%	
Disability pension contribution ^d	0.23% ^d	0.69% ^d	
Early retirement pension contributions FPU	1.43%	1.43%	
Total	15.76%	19.91%	35.67%

Table 14. Total pension contributions of a person having an income of 2 x income of a middle-income employee (€77,342 per year) in 2005 (ABP).^{a,b}

Contribution	Employee	Employer	Total
Statutory contributions			
Old-age pension contribution AOW	4.88%		
Survivors' pension contribution ANW	0.34%		
Disability pension contribution WAO		3.17%	
Additional contribution for the disability pension		0.95% ^c	
Occupational pension contributions			
Old-age and survivors' pension contribution	4.58%	13.19%	
Disability pension contribution ^d	0.32% ^d	0.95% ^d	
Early retirement pension contributions FPU	1.79%	1.79%	
Total	11.91%	20.05%	31.96%

a) Person in the calculation born after 1 January 1964.

b) WAO contribution ceiling €43,770 per year. AOW and ANW contribution ceiling €30,357 per year. Tax deductions €1,894 general and €1,287 earnings deduction, when earnings exceed €17,729 per year.

c) Basis for the calculation the average nominal WAO additional contribution in 2005 1.67%.

d) Average disability pension contribution for the ABP fund 1.6% of the part of the wage which exceeds the franchise; the employee's share is 0.4% and the employer's share 1.2%.

References

- ABP Annual Report 2005, 2006.
http://www.abp.nl/abp/abp/images/ABPannualreport2005_tcm108-51443.pdf
- Belastingdienst. <http://www.belastingdienst.nl/>
- Carey, D. (2002) Coping with Population Ageing in the Netherlands. OECD Economics Department Working Papers no. 325.
- Central Bureau voor de Statistiek. National Accounts of the Netherlands 2005, 2006.
<http://www.cbs.nl/NR/rdonlyres/14F6BB71-BCA9-4F84-A5B3-A20FD9ABCF09/0/2006p22pub.pdf>
- DeGier, E. (2003) The Future of the Dutch Pension System.
- Dutch National Bank (DNB). Pension monitor.
http://www.statistics.dnb.nl/statistics/verz_pens/PM_uitgebreid_eng.zip
- European Commission (2005) 2005 National Strategy Report on Adequate and Sustainable Pensions; The Netherlands.
http://ec.europa.eu/employment_social/social_protection/docs/2005/nl_en.pdf
- Eurostat online database.
- Knuuti, J. (2006) Alankomaiden eläkejärjestelmä, the Finnish Centre for Pensions.
- Ministerie van Sociale Zaken en Werkgelegenheid. A Short Survey of Social Security in the Netherlands. Half-Yearly Summary July 2005.
- OECD. Economic Outlook 79.
- OECD. Taxing Wages 2005/2006: 2006 edition. <http://www.oecd.org/ctp/taxingwages>
- PGGM Annual Report 2005, 2006. <http://www.pggm.nl/>
- Ponds, E.H.M and van Riel, B. (2006) The recent evolution of pension funds in the Netherlands: The trend to hybrid DB-DC plans and beyond.



Reviews of the Finnish Centre for Pensions 2009

- 1/2009 Kokonaiseläke 2009. Työeläke, kansaneläke ja verotus
- 2/2009 Pension contribution level in Finland
- 3/2009 Pension contribution level in Sweden
- 4/2009 Pension contribution level in Norway
- 5/2009 Eläke- ja muun sosiaaliturvan kehittämis- ja yhteistyöryhmät
- 6/2009 Pension contribution level in Denmark
- 7/2009 Työeläkemenoenuste vuodelle 2009
- 8/2009 Pension contribution level in Great Britain
- 9/2009 Pension contribution level in Switzerland
- 10/2009 Pension contribution level in the Netherlands

Finnish Centre for Pensions 
ELÄKETURVAKESKUS

Finnish Centre for Pensions

FI-00065 ELÄKETURVAKESKUS

Finland

Tel. +358 10 7511

Fax +358 9 148 1172

Eläketurvakeskus

00065 ELÄKETURVAKESKUS

Puhelin 010 7511

Faksi (09) 148 1172

Pensionsskyddscentralen

00065 PENSIONSSKYDDSCENTRALEN

Tfn 010 7511

Fax (09) 148 1172

www.etk.fi