Towards a reform of our pension system with the Pension Agreement!

June 2019

After earlier failed negotiations in the autumn of 2018 and a national public transport strike, the 'poldering' finally produced a Pension Agreement. In addition to the CNV trade union, the members of the FNV trade union have now also approved the principle agreement of 5 June 2019 ("**Pension Agreement**") on 15 June 2019. The government can now start the legislative process and request the parliament for its approval. Social partners will be involved again in further elaboration. The Pension Agreement is described in the letter of 5 June 2019, from Minister Wouter Koolmees of Social Affairs and Employment[i].

The Pension Agreement, which must keep the Dutch pension system future-proof but also socially just, has taken 10 years to come. During the past 10 years, the state pension age and retirement target age for pension accrual have been increased at a (too) rapid pace. However, other necessary reforms have not been taken. Due to the low actuarial interest rate for determining the pension obligations as a result of the European low interest rate, Dutch pension providers have had to maintain high financial buffers for many years. As a result, the pensions cannot be increased with the price increases. Substantial pension cuts threatened again for many pension schemes at the end of this year. In addition, the AOW age continued to rise as a result of the rising life expectancy, in line with the AOW agreements amended in year 2014. People with heavy professions were not spared. This group usually does reach their state pension age inactive which means that they can end up in a "poverty trap".

The Pension Agreement that has now been reached will tackle the following pressing problems:

- The state pension age will rise less rapidly and will even be frozen at 66 years and four months for the next two years. Then, it increases by three months per calendar year. From year 2024, the state pension age will be 67 years. The AOW age will then rise further if life expectancy rises. Living a year longer leads to an increase in the effective date of the AOW benefit by eight months.
- Early retirement plans will, in future, be allowed (but limited) without imposing a tax penalty. As a transitional arrangement for people with a heavy occupation, it will be possible to take early retirement three years before their state pension age. Employers may pay this group tax-free up to EUR 19,000 per year for three years as an early retirement scheme. In addition, it can be agreed in the collective labour agreement that employees can save 100 weeks of leave hours tax-free. The government and social partners will also investigate whether the start date of the state pension can be advanced for employees who have

reached at least 45 years of service.

- The rules for pension providers are relaxed in order to increase pensions even with a 100% coverage ratio; this is the ratio between the pension obligations and the financial resources. On the other hand, pension providers must shorten pensions earlier than now if the funding ratio is lower than 100%.
- The pension premium distribution between young and older participants will remain in solidarity. This means that the risks will be shared collectively between young and old. However, more insight must be given into the individual pension accrual; the contributions paid in and the return achieved on them, as well as the pension to be achieved.
- Pension accrual on the basis of an average premium ('doorsneepremie') will be abolished. An age-independent premium is the starting point. Younger members will, therefore, no longer contribute to the pension accrual of the older participants. A compensation scheme to neutralise the transition to the new system of a lower pension accrual for older members will be funded by the government and social partners and their pension providers.
- Industry-wide pension funds are going to implement defined contribution schemes so that they can offer more customised work to the affiliated companies and sectors.
- There will be more options with regard to the use of the pension. On the retirement date, up to 10% of the retirement pension capital can be taken as a lump sum.
- Self-employed persons are given more opportunities to voluntarily join the pension fund of the sector or the pension scheme of the company where they work. A disability insurance / pension will be required by law for self-employed persons.

The elaboration of the pension agreement will lead in the coming years to necessary adjustments to the pension legislation and the existing pension schemes. Employers and (representatives of) employees must consult with each other if the Pension Agreement has consequences for the employment conditions.

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[1] https://www.rijksoverheid.nl/documenten/kamerstukken/2019/06/05/kamerbrief-principeakkoord-vernieuwing-pensioenstelsel

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