The Netherlands: Second pillar pension reforms advance

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A draft bill to reform the second pillar of the Dutch pension system ("Pensions (Future) Bill") was submitted by the Minister of Social Affairs and Employment to the Lower House on 30 March 2022. If agreed upon, pension accrual would be based on a defined contribution (DC) scheme, and the system of average contributions — currently paid regardless of the individual's age — would be abolished, requiring the renewal of all pension arrangements with employees and contracts with pension providers. The legislation would take effect on 1 January 2023, and the deadline for transitioning to the new scheme would be 1 January 2027.

Solidarity and flexible contribution agreement

Currently, the defined benefit (DB) and DC schemes are the most common among the different types of pension schemes. In the future, DB pension schemes would not be offered, and the new pension system would be contribution-based. An age-independent contribution would apply to all scheme members, and three types of DC pension scheme arrangements would be available — the most important being the solidarity contribution scheme ("solidaire premieovereenkomst") and the flexible contribution scheme ("flexibele premieovereenkomst").

Solidarity contribution scheme

This contribution scheme is characterized by a single collective investment policy covering, at minimum, the excess returns for active, former and future scheme members and pensioners. The pension administrator distributes the scheme's financial gains according to predefined allocation rules. The pension comprises personal pension assets, provides for extensive collective risk sharing, and the amount of pension benefit is variable.

The solidarity reserve allows for risk sharing between current and future generations, resulting in more stable, and/or on average, higher pension outcomes. The solidarity reserve cannot exceed 15% of the total assets of a pension fund.

Flexible contribution scheme

This contribution scheme includes an individual and a collective variant. It has separate accrual and benefit phases that are converted into an individual's pension capital or a lifelong pension benefit upon their retirement.

The strategy includes specific investment mixes for each age cohort (life cycle). Depending on the design, participants may be allowed to choose their investment profile. In addition, participants can choose between fixed pension benefits or variable pension benefits.

Age-independent contributions

This new system would tailor contribution amounts to each individual, and these would be allocated to the individual's pension capital. The goal would be 75% of average pay over 40 years of accrual. The amount of the pension contribution would be capped and could not exceed 30% of the pension base. In principle, this percentage would apply until 2037.

Transition period and plan

The law is slated to take effect on 1 January 2023. A four-year transition period to 1 January 2027 would allow the social partners to conclude pension scheme agreements, and to decide on the payment of adequate compensation to certain individuals, and if accrued pensions should be moved into the new pension scheme.

Employers should draw up transition plans to ensure a smooth transition — including compensation choices, considerations and calculations to explain the agreements. Pension providers would have to prepare an implementation plan to explain the design and implementation of the new pension scheme.

Compensation

Participants disadvantaged by the change to a new contract must be compensated. If payment of adequate compensation is not possible, an additional premium could be paid for certain age groups. Until 2037, an increased exemption of up to 33% would apply. The difference between the regular premium and 33% could be used to compensate for the transition to the new system.

Pension providers that operate an available premium scheme would be unable to compensate members due to the scheme structure. Employers would maintain the age-dependent contribution scale for current employees because they would be unable to fund payment of an additional contribution for current employees. However, employers would have to pay the age-independent contributions for new employees.

Convert accrued rights to the new pension scheme

The social partners and the cabinet favor keeping existing pension entitlements and rights together as much as possible. In that situation, accrued pension entitlement would be converted to the new pension scheme. This would apply only to pension funds, not to insurers and premium pension institutions.

Social partners that reach an agreement about conversion would have to submit a request to the pension fund. If the conversion would disproportionately disadvantage some stakeholders, the pension fund could decide not to convert, following consultation with the social partners.

Contributions

All current DC schemes that have a progressive (increasing) contribution system prior to 2023 would be exempt from having an age-independent contribution. After 1 January 2027, members as of 31 December 2026 would still be permitted to pay a progressive contribution, and an age-independent contribution would apply to new members.

In addition, insured DB schemes in place prior to 2023 could still be converted — before 1 January 2027 — into a DC scheme with a progressive contribution. After 1 January 2027, members as of 31 December 2026 could continue to pay a progressive contribution.

Related resource

- Proposed bill (Dutch) (Government, 30 March 2022)

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