Pensions at a Glance 2019

How does the Netherlands compare?

27 November 2019

Key findings

- In 2019, it was decided to freeze the legal retirement age at 66 and 4 months until 2021. After that, it will rise to 67 in 2024.
- Given the current link to life expectancy, the retirement age would increase to 71 for someone entering now in the labour market. However, the government plans to slow this link from a one-year to an 8-month increase per year of life-expectancy gains at age 65.
- The net replacement rate for a full-career average-wage worker is 80% far above the OECD average of 63%.
- Part-time employment in the Netherlands is very common, especially among women. Given the one-on-one link between earnings and occupational pensions this creates a large gender pension gap, partially dampened by the basic pension.
- Poverty rates among the 66+ are very low at 3.1% compared to 13.5% for the OECD on average.
- The Netherlands is one of only six OECD countries where the self-employed are, in contrast to employees, not required to join earnings-related schemes. A self-employed worker is therefore likely to receive only 39% of the mandatory pension of an employee with similar earnings, compared with 79% on average in the OECD.
- Policy that seeks equal treatment of all earnings implies that the self-employed should not be excluded from mandatory pension protection.

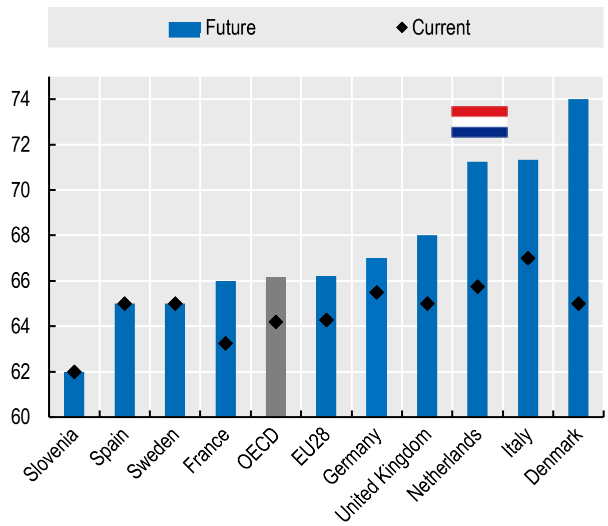
Replacement rates are high for employees but the self-employed are not well covered

The low interest-rate environment has prompted a fierce debate in the Netherlands about the future of its occupational schemes. Unions and employers struck a deal in June 2019 to reform the pension system, and the government agreed to temporarily halt the increase of the retirement age. This means that until 2021 the retirement age will remain 66 years and 4 months. Then, its increase will resume, reaching 67 years in 2024 instead of 2021. However, the increase would be slower after 2024, but this part of the deal still needs to pass parliament. More precisely, the link between the retirement age and life expectancy would be limited to an 8-month rather than a one-year increase per year of life-expectancy gains at age 65. This might lead to a more balanced increase in the retirement age. The current link to life expectancy might be needed to ensure financial sustainability, but it implies that all additional expected life years are spent working, while the length of the retirement period is constant: this leads to a steady decline in number of years in retirement relative to those spent working.

In addition to the adjustment of the retirement age, a large overhaul of the occupational pension system is planned to be introduced by 2022, aiming to introduce more defined contribution (DC) elements in the occupational pension system (i.e. pension entitlements will be more sensitive to pension funds' returns). In the Netherlands, consecutive adjustments of pension rules have rendered the funded DB scheme more of a hybrid DB-DC system. The uprating of pension entitlements and indexation of pensions in payment are directly linked to funding ratios. In case of persistent underfunding even pension benefit levels can be cut in nominal terms to restore a balanced funding ratio.

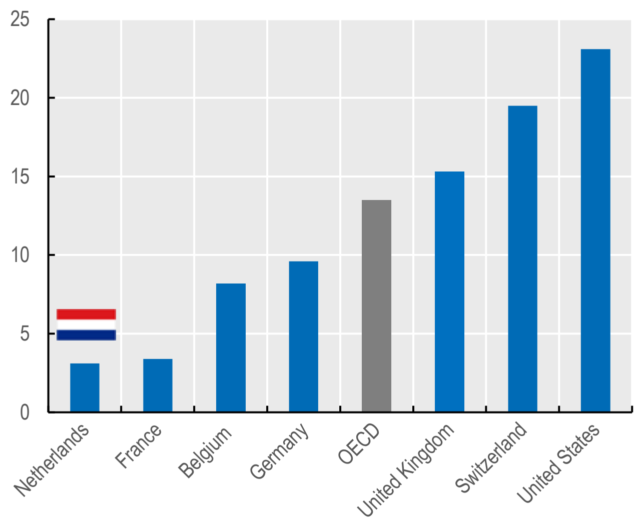
The future normal retirement age is high

Current and future retirement ages



Source: [Figure 4.6].

Old-age poverty rates are low



Source: [Table 7.2].

Given the current link of the retirement age to life expectancy, the retirement age is projected to reach 71 in 2067 in the Netherlands, being the second highest normal retirement age in the OECD after Denmark. By then, the OECD average will have increased from about 64 today to 66 years after 2060. If the link to life expectancy is adjusted based on the above agreement, the future retirement age for the Netherlands would be just below 70.

Given the high retirement age, future replacement rates in the Netherlands are among the highest in the OECD. The net replacement rate for a full-career average-wage worker is about 80% compared with an OECD average of 63%. In addition, the residence-based basic pension provides a solid basis for people with limited occupational pension benefits. Currently, poverty rates among 66+ year-olds are at 3.1%, the lowest in the OECD with Denmark and Iceland.

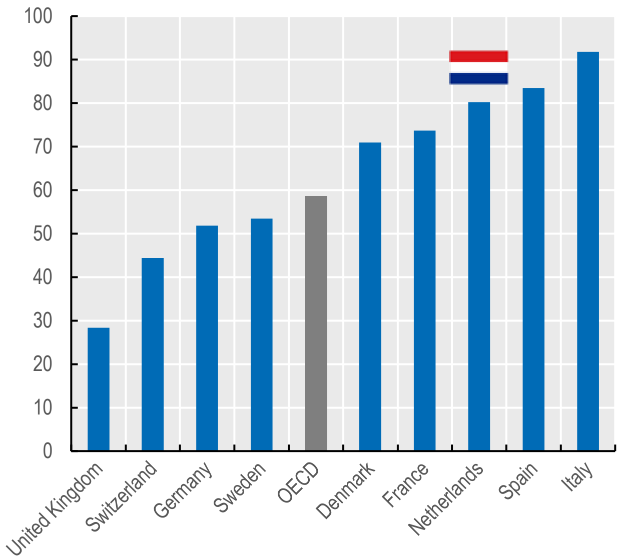
However, women often had short careers, lower wages and work very often part-time in the Netherlands (58% of employed women are working part-time in the Netherlands compared to 25% for the OECD on average). Given the one-on-one link between earnings and occupational pension benefits this creates a large gender pension gap, which is partially dampened by the basic pension. In the Netherlands, women's average pensions were 42% lower than the average pension for men in 2015 compared to 25% for the EU average. Together with Germany and Luxembourg, the Netherlands had the highest gender pension gap while Denmark, Estonia and the Slovak Republic had gender pension gaps below 10%.

Also the self-employed can expect to receive much lower pensions in the Netherlands. The Netherlands is one of only six OECD countries where the self-employed are, in contrast to employees, not required to join earnings-related schemes. This leads to lower contributions rates for the self-employed for whom only the basic pension is mandatory, hence lower pension entitlements. Occupational pension plans under profession-wide agreements for the self-employed can be set up in the Netherlands but only about 20% of self-employed workers declared in a survey that their current or last job before retirement entitles them to an earnings related pension.

In the full-career case, the theoretical pension of the self-employed is about 39% of the pension of an average-wage employee in the Netherlands while it is around 79% for the OECD on average. Only Mexico (21%) and Japan (33%) have lower pensions for the self-employed. In these countries, the old-age pension of the self-employed from mandatory schemes is limited to the old-age safety or in the case in the Netherlands, the basic pension.

Policy that seeks equal treatment of all earnings implies that the self-employed should not be excluded from mandatory pension protection. Moreover, fully including all non-standard workers in mandatory pensions in the same way as standard workers limits the financial incentives employers and workers might have to misuse non-standard employment to lower labour costs.

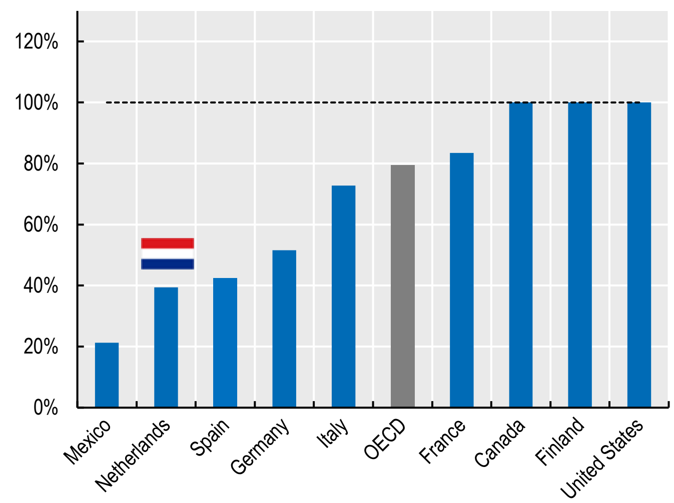
Net future pension replacement rates are high



Source: [Table 5.6].

The self-employed will have low pensions from mandatory schemes

Theoretical pension of a self-employed worker relative to an employee



Source: [Figure 2.13].