

Basic principles of the pension agreement

Key matters in an overview

Why a new pension system?

The old age pension consists of three parts. The state pension (AOW), pension that is accrued through the employer and personal additional resources (for example life savings, an annuity or a life insurance). The changes within the pension system affects all these types of pension but it affects the pension that is accrued through the employer the most.

The state pension

The age on which the state pension was to take effect used to be at 65. However, this age limit will rise towards 68 in the near future (and is likely to rise even further). The fact that we live longer on average, resulting in higher AOW costs for the government, is the main reason for this. Due to the increase in the number of elderly people, the premium payed by working people was not sufficient enough to fund the AOW benefit. Therefore, a part of the money needed was funded from the governmental fund for general resources. This gradual increase of the pensionable age was introduced in 2013, due to the ageing population, increase in life expectancy and the deteriorating public finances resulting from the financial crisis.

Pension accrual through the employer

Several bottlenecks can be identified that demonstrate malfunctions within the current system.

1 The majority of the employees accrue their pension at a pension fund. Most of these pension schemes are based on an average-pay scheme in which certain guarantees concerning the retirement benefit are incorporated. In recent years, these guarantees turned out to be limited as pensions were not always indexed along with the price development and in some cases the pensions were even lowered. As a result, confidence within the current system was crumbling. The introduction of the new pension system must restore the level of confidence.

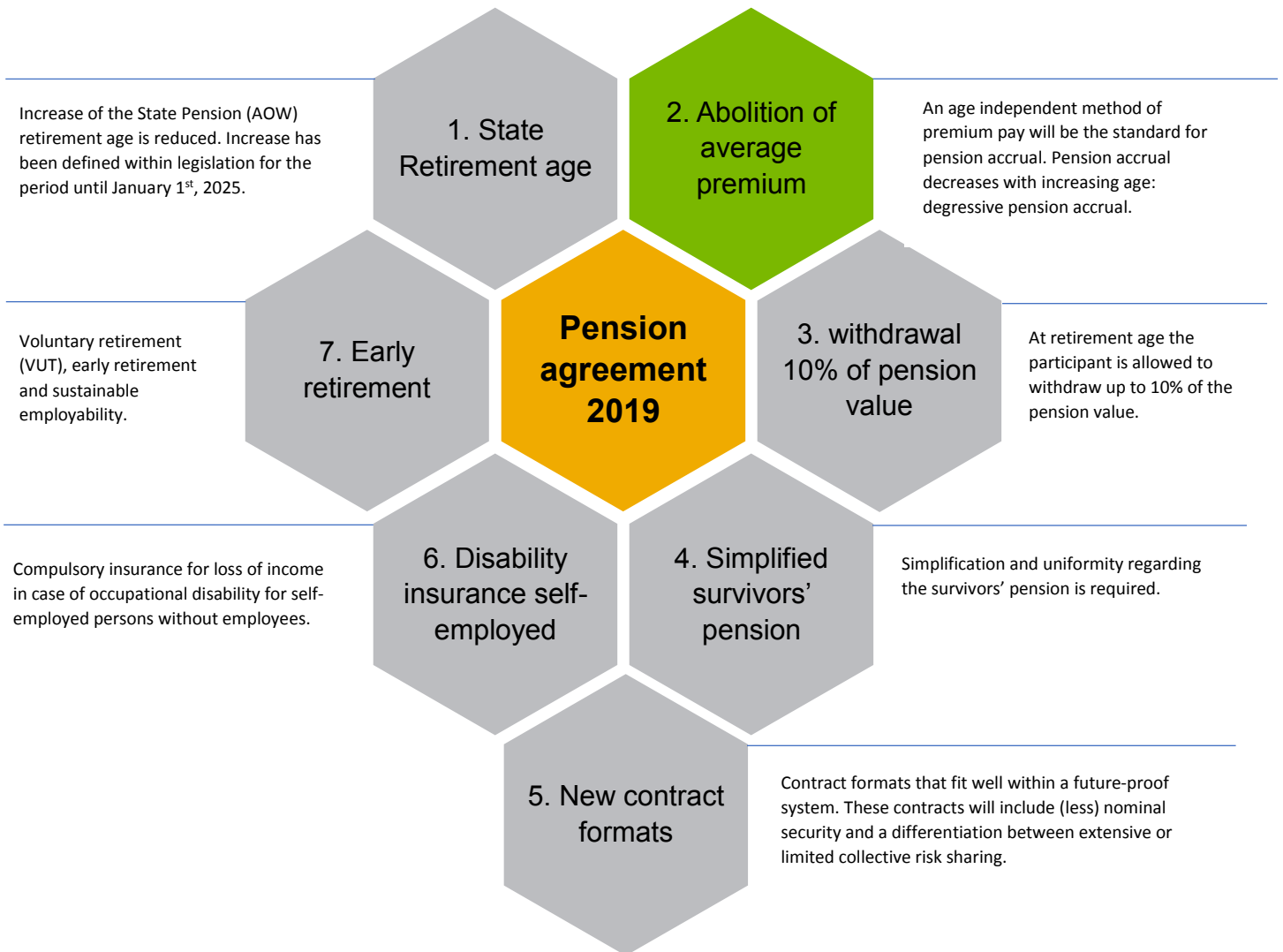
2 A pension fund determines the premium that is needed to fund the pension accrual, on an 'average premium'. Every participant (both young and old) is accruing the same pension for the same amount of premium. The government believes that this system is unfair as the deposited funds of younger participants can be used for a much longer investment period, resulting in a possible higher return.

Younger participants are actually paying too much premium given the pension accrual, and older participants are not paying enough. A portion of the premium paid for the younger employee is used to fund the accrual of the older employee. This method is fair when the employee accrues his/her pension at the same pension fund for the rest of his/her life. However, switching between jobs or working less or temporarily no hours and then starting paid employment or self-employment again is getting more and more common. Times in which everyone stayed with the same employer for 40 years are long gone. In these cases, the solidarity of the pension system no longer works. A new, fairer system of accruing pension is introduced

3 In addition, not many options for customization and freedom of choice are present in the current pension system while people would like to have these options.

Key matters of the pension agreement in principle

The pension agreement covers seven topics. These seven topics are shown below. The topics are discussed within this document in an understandable manner. After reading about these topics you will be fully informed regarding the main basics of the pension agreement.



1 State retirement age development

The state retirement age is frozen in 2020 and 2021 at the age of 66 years and 4 months (instead of 66 years and 8 months in 2020 and 67 years in 2021). Thereafter, the state retirement age will increase in specific steps towards 67 years in 2024 instead of already in 2021. The current one-to-one link with the life expectancy is partially relinquished: an increase of one year in life expectancy will lead to an increase of the state retirement age of eight months (and not with one year).

The alterations of the state retirement age are not related to the standard retirement age as applied in the pension schemes (2nd pillar), which is usually set on 68 years of age. This standard retirement age will also increase less quickly in the coming years than anticipated.

	From 2020
2019	66 years and 4 months
2020	66 years and 4 months
2021	66 years and 4 months
2022	66 years and 7 months
2023	66 years and 10 months
2024	67 years

2 Abolition of average premium

The average premium is being abolished. This applies to all pension schemes. Both for pension schemes administrated with pension funds and pension schemes administrated by an insurer or Premium Pension Institution (PPI).

Abolition of the average premium will result in an age-independent premium being the starting point in which participants will receive a pension accrual based on their age and payed premium. This will lead to a declining pension accrual resulting a fairer link between the pension accrual and pension contribution for both younger and older employees.

The abolition of the average premium necessitates the need for compensation for existing participants. The interpretation and financing method of the compensating measures are still unclear. However, several financing resources are included in the SER-advice and the letter to parliament from SZW, for example by better utilization of the investment horizon. Investment returns can be used for increasing entitlements instead of increasing buffers. Other possible solutions to accommodate a balanced transition can also be looked at. When switching to the new pension contract, all employers are required to compose a transition plan. This plan must contain a presentation of the choices made regarding the extent and format of the compensation to be given.

3 Withdrawal (10%) of pension value

10% of the total pension value is freely withdrawable when the employee retires. The employee can use this money for purposes of choice without any restrictions.

At retirement date, a maximum of 10% of the pension value is freely withdrawable and can be used for purposes of choice. For example, paying off the mortgage or to cover healthcare costs or even a vacation. This applies for both the employers' pension (2nd pillar) and individual old-age benefits (3rd pillar).

4 Simplified survivors' pension

The survivors' pension is becoming more standardized. Currently, it is often unclear how much survivors' pension someone can count on. The interpretation and regulations regarding the survivors' pension differs among pension funds. This often resulted in survivors getting into financial trouble. At the moment,

important life events (like divorce, temporary unemployment and switching of employer) can affect the level of survivors' pension.

The actual interpretation of the survivors' pension is still unknown. However, it is clear that the current method expires and will be altered. By standardizing the survivors' pension and with it, making it better understandable and simpler, relatives will have a better understanding of where they stand. All relatives must be eligible for the survivors' pension.

Based on the most obvious scenario, the survivors' pension will be calculated by multiplying the earned salary with a standard percentage. This simple method should prevent any unclarity regarding the amount of survivors' pension.

5 New contract formats

Due to the current low interest rate and increasing buffer requirements for pension funds, the current pension system is unsustainable. To avert the risk of cutting pensions for approximately 7.5 million participants of industry-wide pension funds, a new pension system needs to be designed.

Within the agreement in principle, two new pension contracts are introduced. The first type of contract is an extension of the current 'improved distribution scheme law' as currently applied to the defined contribution schemes. Because of the abolition of the 'average premium' and the switch to an age-independent premium contribution, the improved distribution scheme also becomes possible for industry-wide pension funds. Within this contract, the risks are shared collectively, solely in the benefit phase. The government will investigate whether a (limited) solidarity premium can be incorporated and whether the longevity risk can be shared more efficiently within the contract.

The second type of contract is a premium scheme as well. However, within this contract, the risks are also shared collectively during the built-up phase. Because there is no regulation regarding the nominal security as seen in the current system, no buffers must be maintained. Pension entitlements are purchased annually at the then applicable interest rate with a coverage rate of 100% being the starting point. Any changes within the financial position of the pension fund (due to investment returns, change in interest rate or changes in the life expectancy) are spread over time with a maximum of 10 years. Spreading both windfalls and setbacks when financial shocks occur is made possible, as well as risk sharing with future participants. The method of collective risk sharing that is chosen is a matter for the social partners.

6 Disability insurance self-employed

Self-employed persons will not be obliged to accrue a pension. However, a form of pension accrual must be facilitated for the group of self-employed. A mandatory insurance for occupational disability or illness is introduced.

7 Early retirement

Employers are temporarily (for a period of 5 years) given the possibility to make arrangements for their employees to retire early, up to three years before state retirement age, which include the associated fiscal benefits. This possibility applies to everybody and not specifically for the arduous professions. To this end, the RVU fine is partly abolished. Up to a gross benefit of a maximum of € 19,000 annually, no fine will be levied. In excess of this amount, the fine remains to be applied. Particularly the low paid employees will benefit from these arrangements.

An annual budget of € 200 million is introduced for customization within the different sectors. For instance, investments in sustainable employability, schooling, generation pact and part-time pension.

It will become possible to save fiscally facilitated on leave up to 100 weeks (50 weeks in de current system) to use for an early retirement.

Well prepared for the pension agreement

We are happy to help you with the preparations for the changes introduced by the new pension agreement and to provide insight on the impact for your organization. The new pension system makes it necessary to alter the current pension schemes. Aon will assist and advice you with selecting the best fitting pension scheme and with the selection of the best possible pension provider. We will make sure that you and your employees are heading in the right pension direction.

Contact

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