

# Reforming Dutch occupational pension schemes

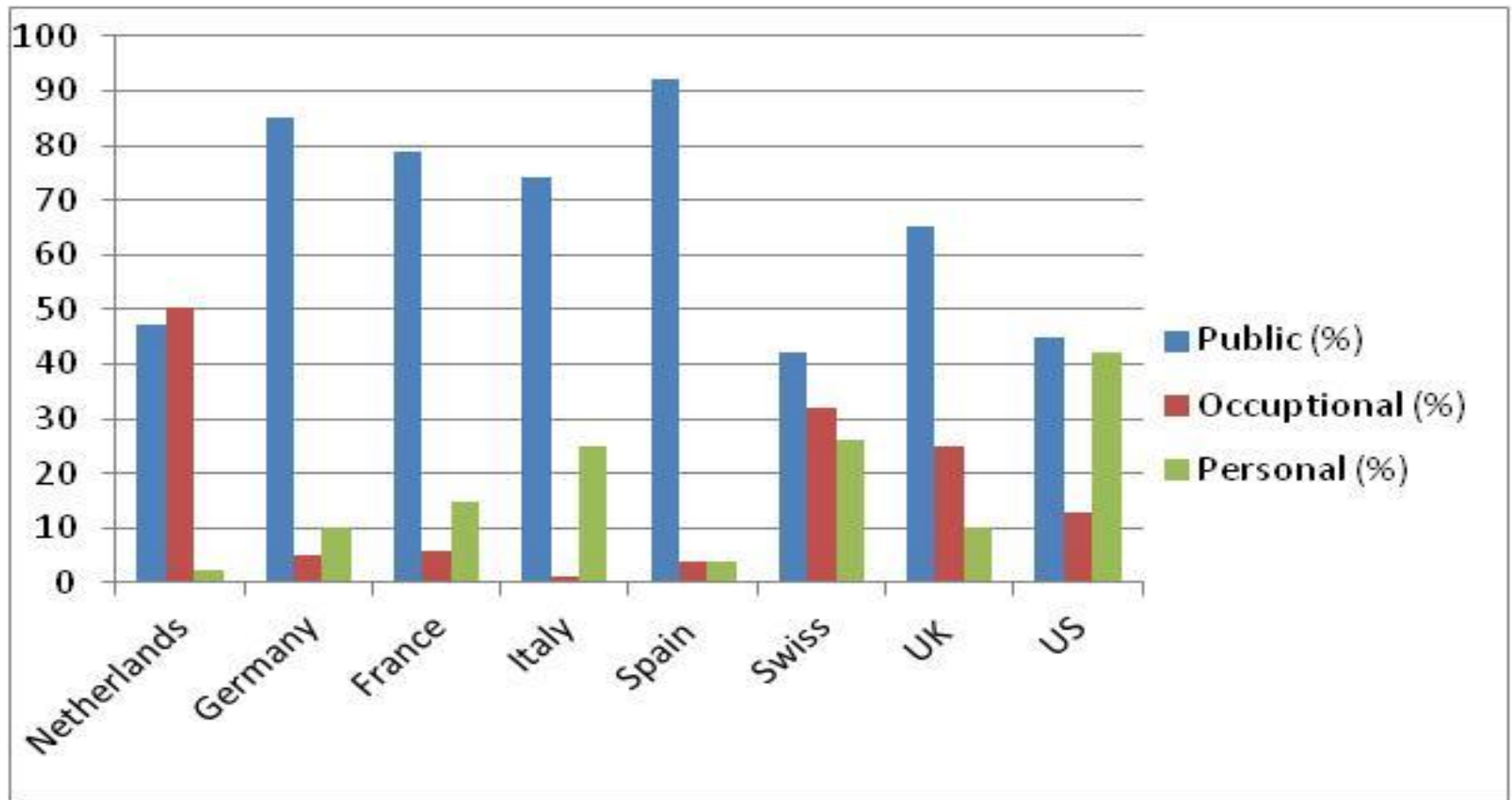
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# Introduction

- Most pension systems consist of three pillars and relative magnitudes differ considerably.
- Some countries address ageing with mixture of capital-funded and PAYG systems.
- In Netherlands occupational schemes are large and they suffer some weaknesses if organized as DB-plans.

# Figure 1. Sources of retirement income



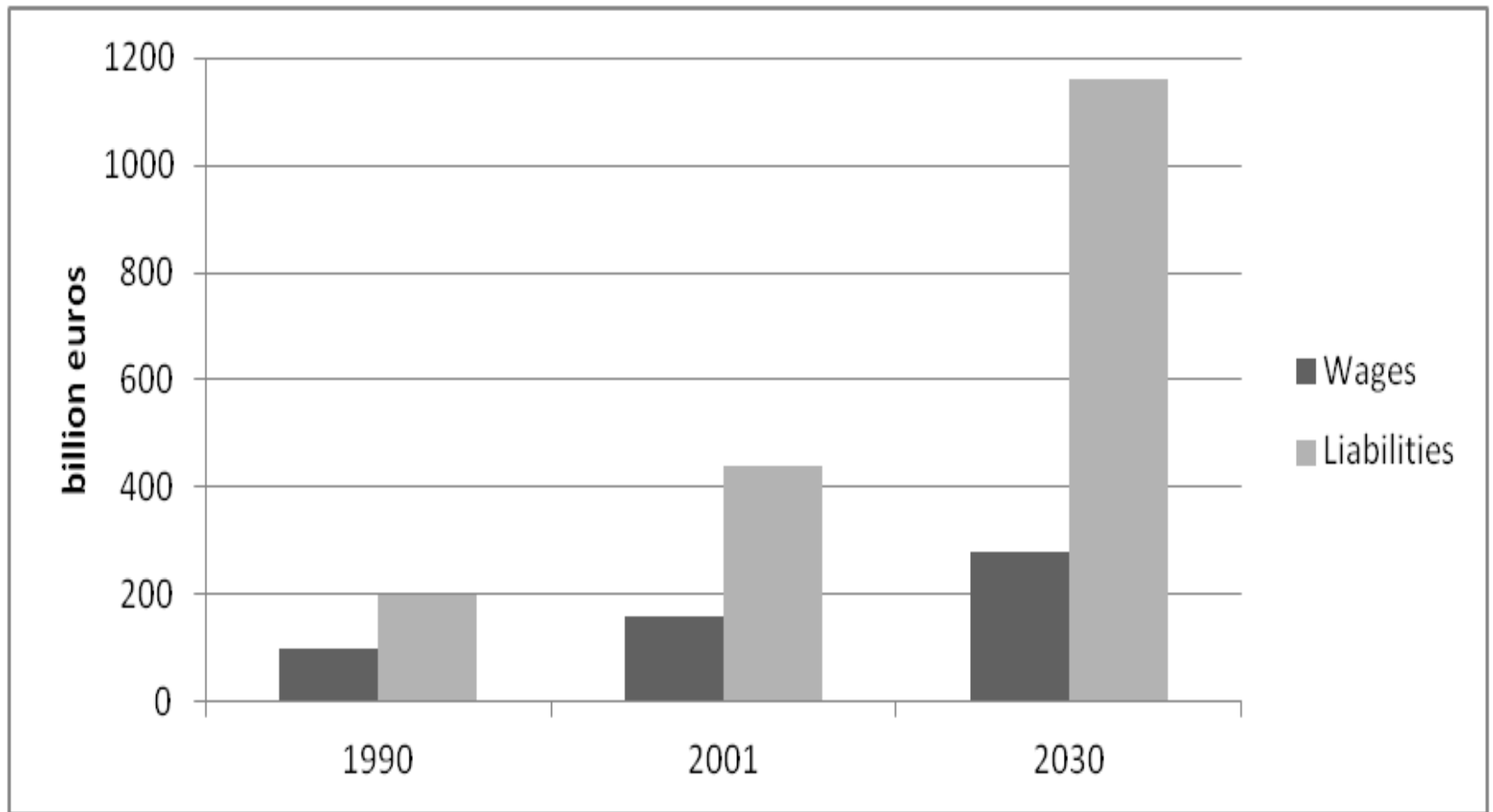
# Strong points

1. First pillar flat and related to minimum wage.
2. Eligibility age related to life-expectancy.
3. Second pillar 90% of labor force earning related with large involvement of employers

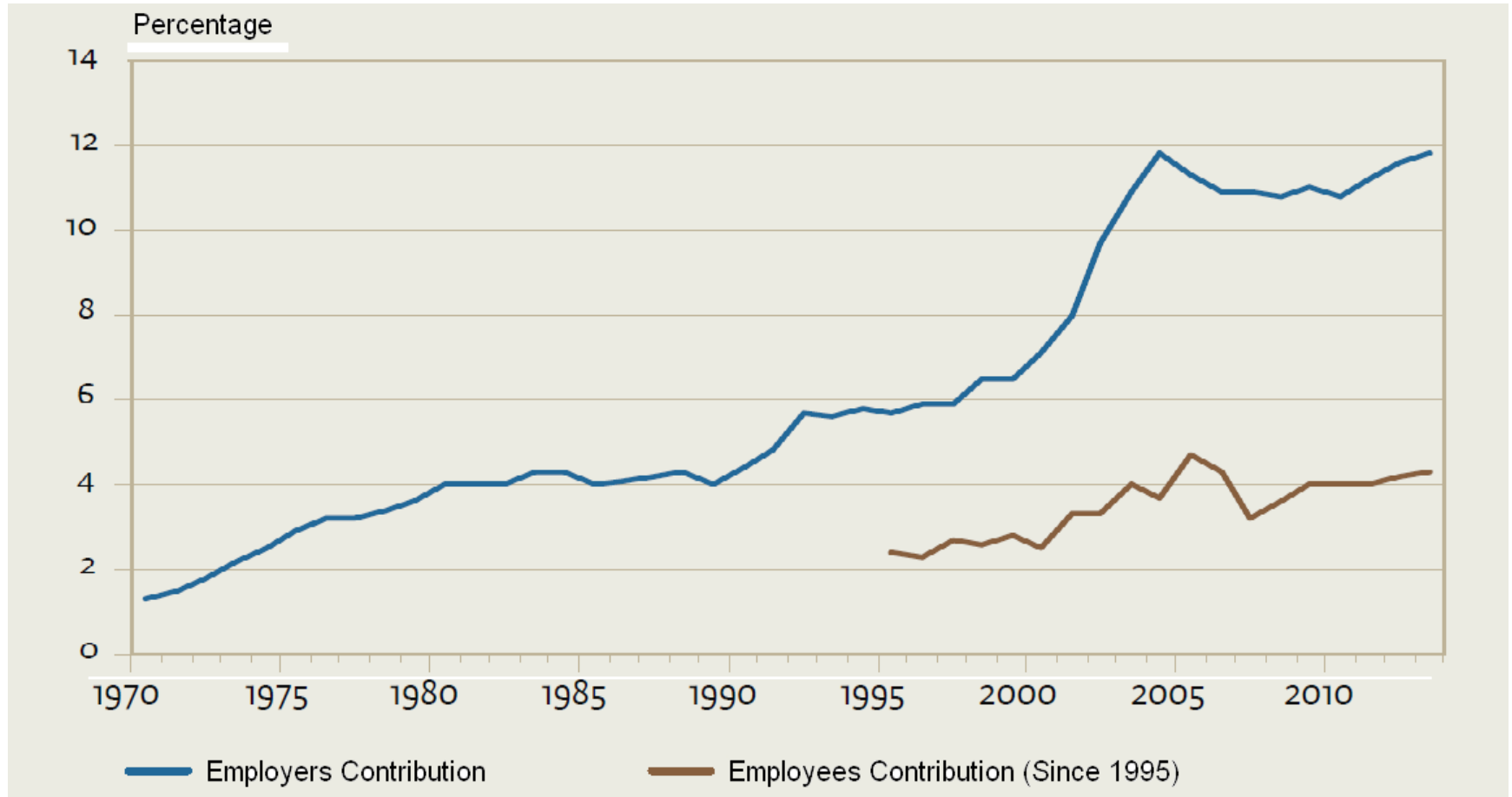
# Shortcomings 2<sup>th</sup> pillar

1. Incomplete contracts and ambiguous ownership of surplus
2. Back-loading of pension benefits
3. No tailor-made risk management

# Figure 2. Pension liabilities and premium base



# Figure 3. Contribution rate (%wages)

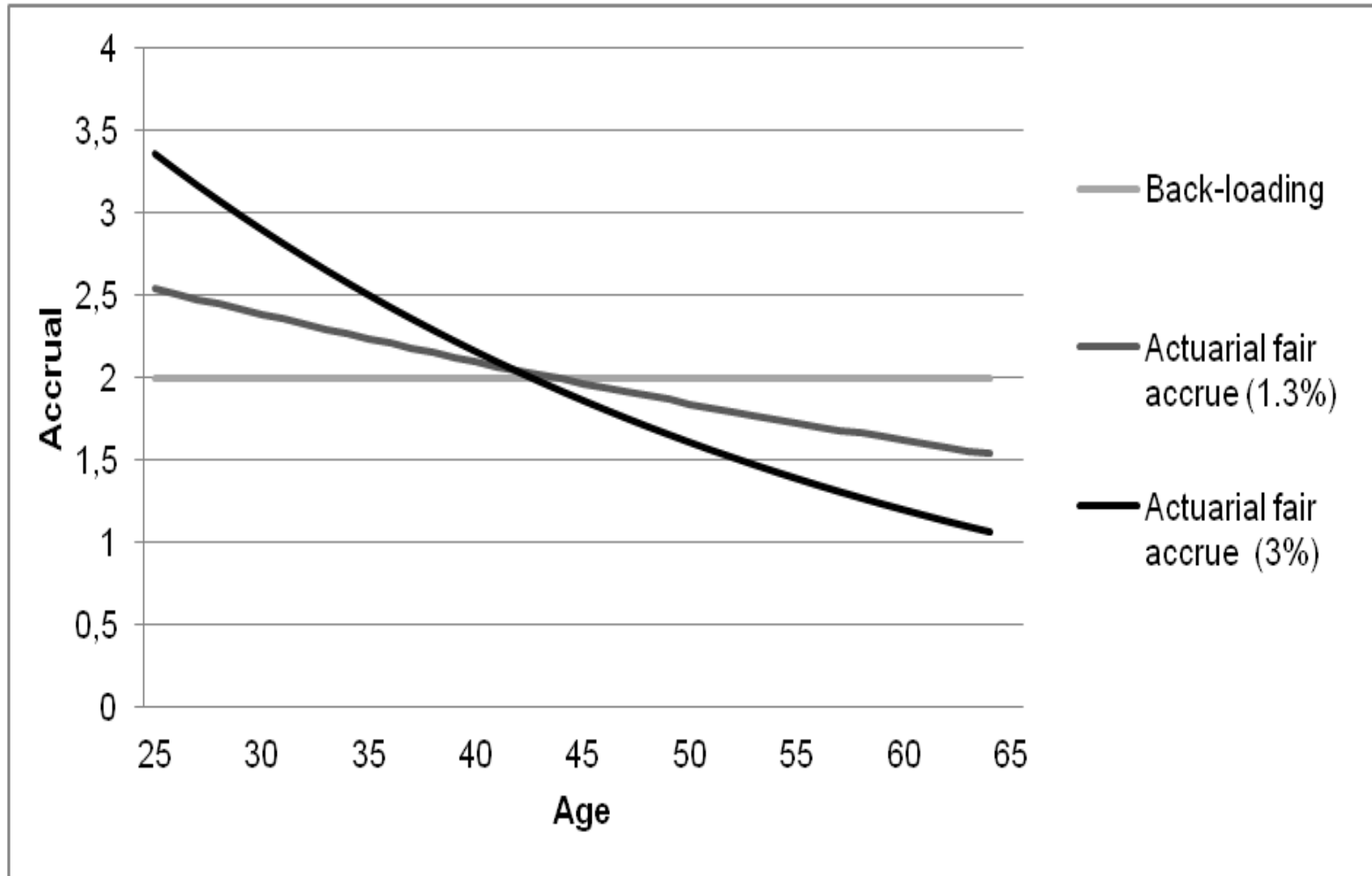


# CIDC system

1. Individual property rights
2. Actuarially fair contributions
3. Compulsory participation on firm or sectoral level
4. Advanced risk management
5. Some individual choice (and defaults)



# Figure 4. Back-loading



# Table 1. Different systems and their characteristics

	<i>DB</i>	<i>CDC</i>	<i>IDC</i>	<i>CIDC</i>
Actuarially fair contributions	No	No/Yes	Yes	Yes
Clear individual property rights	No	No	Yes	Yes
Tailor-made intergenerational risk management	No	No	Yes	Yes
Scope for individual choice	No	No	Yes	Yes
Mandatory saving	Yes	Yes	No	Yes
Collective procurement	Yes	Yes	No	Yes
Collective sharing biometric risks	Yes	Yes	No	Yes

# Conclusions

- Also Dutch occupational DB pension scheme is in trouble
- It should evolve in a CIDC pension schemes as an attractive third way between CDC and IDC schemes
- Transition burden can be dealt without a substantial temporary increase in contributions if it is accompanied by lower administrative and investment costs.