New Dutch Pensions Act has arrived

The New Dutch Pension Act has been approved by the Senate on the 30th of May and will drastically change the Dutch pension system as per 1 July 2023. The transition to flat-rate defined contribution plans and the change in the spouse pension implies that all pension plans will have to be changed in the coming years. Changes to employee benefits require employee consent, so compensation is required. Compensation measures could increase labour cost and increases of 30% (per year) over the next 5 to 10 years will be no exception. This could seriously affect the profitability of organisations. However, alternative reward solutions can smoothen cost increases and enhance employee engagement.

From defined benefit to defined contribution

The new Dutch Pension Act defines only two types of defined contribution plans:

- A collective defined contribution plan, i.e. the solidarity contribution plan
- An individual defined contribution plan, i.e. the flexible contribution plan

Under both types of plans, the employer pension promise is a flat-rate contribution. This contribution will be paid into an individual pension account with a pension fund (solidarity), an insurance company or PPI (Premium Pension Institute) (flexible). In the flexible contribution plan, pension assets are managed on an individual level. Pension funds will manage the pension assets of the solidarity contribution plans at a collective level and also have the option to keep a small buffer to manage investment returns.

The transition and compensation

Current Dutch pension plans have either an annual defined benefit accrual rate (with pension cost increasing with age) or an age- dependent defined contribution rate. The New Pension Act will only facilitate flat rate pension contributions. This change will have a negative financial impact for large groups of employees. Employees will need to consent to these plan changes, so employers will likely have to offer compensation.

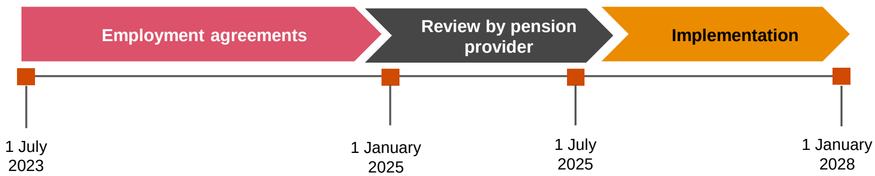
Moreover, the current wide variety of spouse pension arrangements will be replaced by a spouse pension as a fixed percentage of salary, insured on a risk basis. Employers with a pension plan with a pension fund could use accrued pension assets to offset some or all negative effects of the changes. Employers with a pension plan with a Premium Pension Institution (PPI) or insurer do not have that option.

Generally, three ways of compensation exist:

1. **As part of the pension plan**: compensation in 10 years, including new employees (or a maximum of 9 years if this term is not extended by one year as was the case with the final transition date).
2. **As part of total rewards**: compensation under a total rewards concept, no time restriction and not for new employees
3. **Transitional entitlements** in case of a current DC plan, the age-dependent contribution ladder can be continued for current employees. New employees will receive a flat-rate contribution.

Transition period as from 1 July 2023

The starting date of the New Pensions Act is July 1, 2023. From that date the transition period starts - a period in which all parties involved must ensure careful implementation of the new system.



The deadlines for employers affiliated with an insurer/PPI differ from the above deadlines. For them (currently), all relevant steps must be completed only by Oct. 1, 2027.

Internal transfer of accrued pensions ("Invaren") to smoothen compensation cost

For pension plans administered by a pension fund, changes will apply to the legacy as well: all accrued pensions will, in principle, be internally transferred to the new pension plan (so-called "invaren"). This complex transfer will require close cooperation between employer, unions/works council and the pension fund. This internal transfer of pension benefits can be used to fund (part of) the compensation as well. A pension fund does not have to apply the invaren-option if it is disproportionally disadvantageous for groups of participants.

Make the best use of the compensation

In case your company pension plan is insured with an insurance company or PPI, you cannot rely on the invaren-approach to fund compensation. Hence, compensation for your employees is likely to lead to a (temporary) increase in labour cost of up to 30%. This cost hit also presents a unique opportunity to reassess your benefits and people value proposition. These transitional pension issues can be mitigated by including other employee benefits to create a modern people value proposition.

What should you do?

What you as an employer should do depends on your pension situation.

In case your employees participate in one of the Dutch industry-wide pension funds (70% of Dutch employees), the transition will be dealt with by the social partners (employer organisation and unions) in your industry. We expect that cost of compensation will be absorbed by "invaren" or be offset by changes to other employee benefits to avoid industry-wide cost increases.

In case you have a company pension fund or have insured your pension plan with an insurance company or PPI, you need to run the transition yourself:

1. Determine your pension policy as part of your overall Comp&Ben package and workforce strategy
2. Set up a detailed action plan
3. Analyze options for the accrued benefits and a new pension plan, including thorough cost and workforce analysis
4. Analyze options for compensation measures
5. Start conversations and negotiations with employee representatives and employees
6. Prepare and implement the transitional plan as required by the New Pension Act
7. Negotiate with pension provider on the implementation of the new pension plan

As an initial step, we have our Pension Agreement (in Dutch: "Pensioenakkoord") Quick scan which will provide insight into your current pension situation and the changes needed under the New Pension Act. This quick scan will identify your specific challenges, which can serve as a starting point for a plan of action towards a pension solution.

For more information and demos, please contact:

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