The Netherlands: Pension Reform – Next Steps

What has happened?	The House of Commons has accepted the legislation on the Dutch pension reform. We expect that the House of Lords will do this by the end of May 2023. The current system that predominantly exists of defined benefit ('DB') plans will cease to exist, and defined contribution ('DC') plans will become the standard. The accrued DB benefits for non-pensioners will be converted to DC capital. The aim of the new system is to have a more transparent approach to pensions and offer a better retirement solution for employees in the long run. Introduction of the law is expected 1 July 2023, implementation has to be finished by 1 January 2027. Employers will need to agree certain transition measures with works councils and pension fund boards by the end of 2024 The key points of this law: ▪ DB plans will be converted to DC plans, including for current pensioner ▪ Some DB pension funds may be able continue as DB plans if this is agreed by the social partners - but this will not be the default situation ▪ The funding of pensions through a collective average premium will be abolished. (click here for more information in Dutch) ▪ DC contributions will no longer be age-related, and become flat-rate (in general: contributions will go up for younger workers; and down for older workers) ▪ The legal retirement age (AOW) will increase. (click here for more information in Dutch) ▪ A possibility to take a one time lump sum payment is introduced (of 10% maximum). (click here for more information in Dutch) ▪ The spouse pensions will become more transparent and uniform. (click here for more information in Dutch) ▪ There will be a temporary window for early retirement. (click here for more information in Dutch)
Why does this matter to employers?	Traditional average pay plans and funding through a collective average premium will be abolished. DC schemes that are generally age-related are no longer possible for new employees. All new pension plans will be DC with a flat-rate premium. The maximum level of this flat-rate premium is expected to be set at 33%, but will depend on market interest rates. This change will have a significant impact on existing pension plans. The effect differs substantially between pension plans placed with a pension fund and those placed with an insurance company (or PPI). Older workers will need to be compensated for the loss of future potential pension benefits when changing towards an flat-rate premium. Existing DB plans for pensioners will only be able to continue if agreed, on an exception basis, with social partners – changes to DB plans will have P&L and balance sheet implications.
What are employers thinking?	This change will have a significant impact on current pension plans. Employers need to prepare themselves for this change and ensure they stay up to date with all the developments and be proactive. Two type of new DC plans are proposed with different risk-sharing characteristics, employers need to make a choice which fits their situation best. Companies will need to consider the financial impact of providing compensation to older workers. Employers also need to understand that the default for past service benefits at pension funds will be transferring them into the new system. This will not be possible for insured plans.
What actions should be taken now?	▪ Consider the impact of these changes on your employees and your company. ▪ Make a feasibility study comparing cost and employee impact of the different scenarios ▪ Analyze the accounting impact (IFRS/USGAAP) of the different options ▪ Keep works councils informed of developments and to involve them in a change process at an early stage (especially on compensation measures for affected employees) ▪ Understand and agree an action plan for the transition measures that will need to be implemented by the end 2024

Information

- Aon Netherland's website about the pension agreement with more information can be found here. .
- The latest news can be found here All links are in Dutch.

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