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New pension law in the Netherlands: ‘Wet toekomst pensioenen’

SCHOUTEN ZEKERHEID

What does the new pension law mean for you and your employees?

On Tuesday, May 30, 2023, the Senate adopted the new Netherlands pension law. The law comes into effect on July 1, 2023. The new law aims to make the Dutch pension system more transparent and personalized. But what do these new agreements actually mean for you and your employees? In this article, we'll explain it concisely.

Three pillars

In the Netherlands, we can build pensions in three ways:

1. The General Old Age Pension Act (AOW) is a government-regulated basic pension for everyone who has lived or worked in the Netherlands between the ages of 17 and 67.
2. This basic pension is supplemented with the pension built up with the employer(s).
3. Finally, individual life and annuity insurances serve as private supplements.

Why a different pension system?

As people nowadays live longer, more individuals receive pensions, and pensions must be paid out for a longer period. Additionally, the current pension rules no longer align well with the modern labor market. Employees change jobs more easily and frequently, sometimes take breaks or work part-time, and may not always work in an employment relationship but for themselves.

It is important that the pension system aligns with these changes. That is why the government, together with employee and employer organizations, has made new agreements regarding the AOW and the pensions built up with employers.

What changes?

Here are the key changes resulting from the new law:

1. **Defined benefit schemes are no longer possible**
   Under the new law defined benefit schemes (DB) are no longer possible. The only scheme allowed is the defined contribution scheme (DC). In this scheme, the employer annually provides a premium that is used for pension accrual – the defined contribution. It becomes clearer how much premium is paid and how much pension capital is built up. However, the pension payout amount is no longer guaranteed. It depends on the market interest rate and investment results. If the economy performs well, the pension increases; if the economy is less favorable, the employee accrues less pension capital. Furthermore, because the contributions from young participants have a longer time to grow compared to older colleagues, they accumulate more pension with the same premium.

2. **Only defined contribution schemes are allowed**
   All existing pension schemes must be converted to a defined contribution scheme with an age-independent defined contribution by January 1, 2028, at the latest. For existing defined benefit schemes and defined contribution schemes with age-dependent contributions as of July 1, 2023, a grandfathering provision applies. According to this grandfathering provision, employees who were participants in such a scheme prior to the conversion may continue to participate in a defined contribution scheme with age-dependent contributions even after 2028. For any reduction in pension accrual resulting from the conversion, employees must be compensated according to prescribed principles.

July 1, 2023

- The rules of the new pension system come into effect.

2023 - 2024

- Create a pension project plan
- Create support
- Ensure sufficient pension knowledge
- Research the financial consequences

2025 - 2027

- Choose the new pension scheme
- Make a decision
- Communication and request for consent

January 1, 2028

- Your pension scheme complies with the new law

3. **Improved survivor's pension**
If an employee passes away before reaching the retirement age, there is often a partner's and/or orphan's pension in place – an annual payment for the surviving partner and/or children. The new law clarifies the rules regarding this insured survivor's pension and improves the financial position of the survivors. The amount of the partner's and orphan's pension is no longer dependent on the number of years of service and the pensionable salary. The partner's pension will now be a fixed percentage (up to 50%) of the salary for all participants. The orphan's pension will have a fixed end age of 25 years (instead of various ages between 18 and 30 years) and will amount to a maximum of 20% of the participant's salary.

4. **Additional choice in pension payout**
A new feature in the pension agreement is that employees can withdraw a one-time maximum of 10% of the value of their pension pot on their retirement date. This amount can be spent at their discretion. Of course, the future pension payouts will be lower due to this withdrawal.

As a company/organization, you take care of the following:

Pension project plan	What we do
Create a pension project plan Develop a step-by-step plan with a clear timeline and objectives.	**Your pension consultant assists you in shaping this.**
Create support You inform all relevant parties within the organization early on and involve the works council (OR) or employee representation in the process.	**Information session**
Ensure sufficient pension knowledge You ensure that all stakeholders have the necessary pension knowledge to make informed decisions.	**Pension training**
Research the financial consequences You conduct a thorough analysis to assess the financial implications of various scenarios.	**Pension Law Impact Assessment**
Choose the new pension scheme You receive advice on which pension scheme is most suitable for your organization, and you make an informed decision about the new pension scheme.	**Advisory report**
Consent and Communication You communicate the decision made with all relevant parties, ensuring they are aware of the changes in the pension scheme.	**Request for consent, pension presentations, and employee meetings**

Schouten Zekerheid

PO Box 8789, 3009 AT Rotterdam
The Netherlands

T +31 10 288 44 44
E internationaal@schoutenzekerheid.nl
W www.schoutenzekerheid.com