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\textsuperscript{th} 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 (% of 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

<table>
<thead>
<tr>
<th>Actuarially fair contributions</th>
<th>DB</th>
<th>CDC</th>
<th>IDC</th>
<th>CIDC</th>
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<tr>
<td>No</td>
<td>No</td>
<td>No/Yes</td>
<td>Yes</td>
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<tr>
<td>Clear individual property rights</td>
<td>No</td>
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<tr>
<td>Tailor-made intergenerational risk management</td>
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<td>Scope for individual choice</td>
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<td>Mandatory saving</td>
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<td>Collective procurement</td>
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<td>Collective sharing biometric risks</td>
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23/08/2014  IPPF
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.