

Calculation tool New Pension System

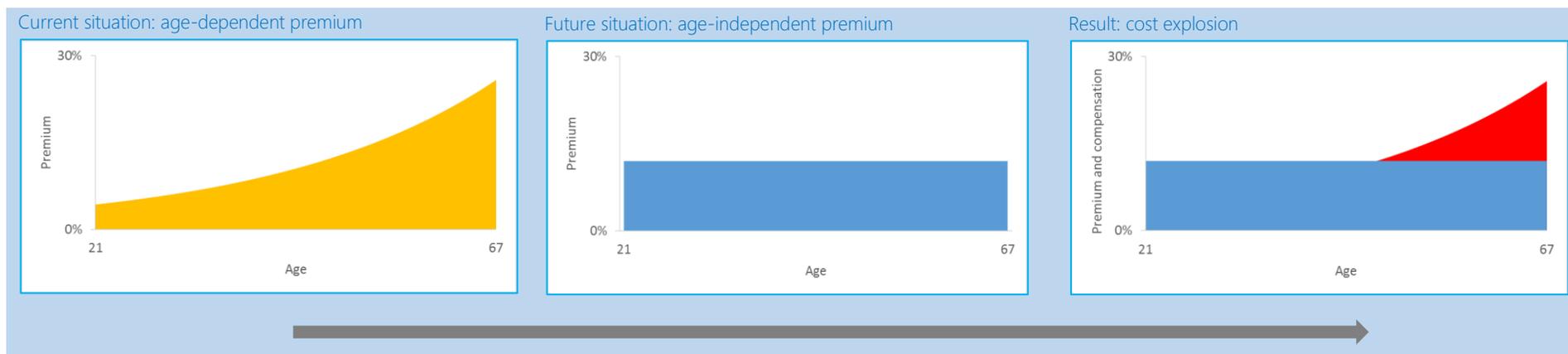
Essential tooling for employers having a pension contract at an insurance company

Age independent premium

In the 2019 Dutch Agreement on reforming the Pension System (DAP), various topics have been arranged between unions, employers and the government: ranging from State Pension to sustainable employability. This brochure covers the most important measure: all pension schemes have to be based on an equal percentage of pension contributions for each employee in the future. Still it will be possible however to distinguish between different groups of employees.

Picture below: cost explosion if no measures are taken

Currently an actuarial premium applies to roughly 95 of the 100 pension plans at insurance companies. This premium increases with age (left). The obligatory age-independent premium of the DAP (middle) will cause a shift. Younger employees will receive more premiums, while older employees will receive less and may claim compensation (red). The total of the new premium and the compensation (right) exceeds the level of the former premium (left). A cost explosion is imminent.



Seizing the opportunities of the DAP

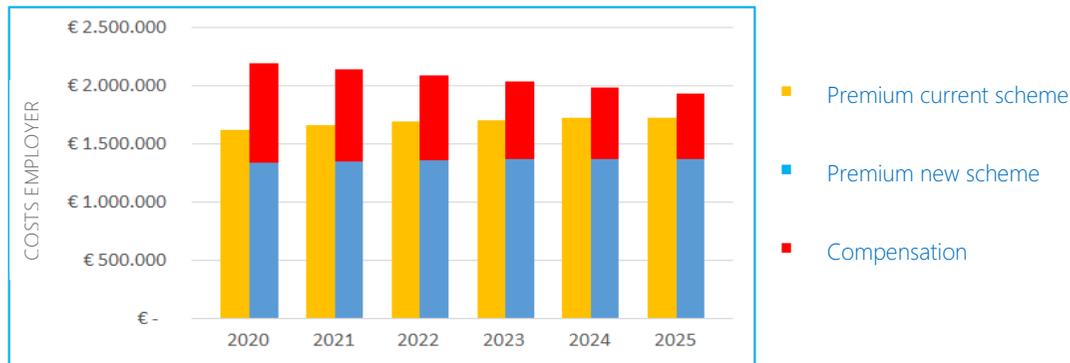
In the coming years, more than ten thousand collective pension schemes in the Netherlands need to be changed. Practice has shown that there will not be enough time for pension providers and advisors to properly manage this process and thus the outcome thereof. This will result to a higher probability of errors and increasing costs. Timely research into an age-independent premium is of great importance and can prove to be an opportunity.

A premium with an age-independent premium is simple, transparent and will lead to predictable and lower costs in the long term if properly designed. The age-independent premium is favourable for new hires and therefore strengthens the position of the employer in the tight labour market. KWPS already assisted various employers who have implemented a pension scheme anticipating the DAP. It is not necessary to wait for legislation.

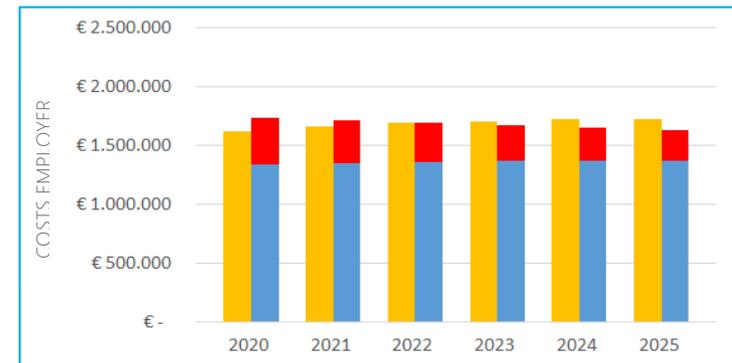
Digital tooling KWPS

KWPS software engineers developed a unique tool which presents the financial and pension consequences of the DAP at one glance, for the employer and for each individual participant. The new optimal premium level can be determined precisely, as well as the nature and duration of the compensation measure. Wishes and various scenarios are taken into account and the outcome will be presented in a simple manner. The tool provides greater insight and understanding in this complex subject. Below there are two examples of scenario's the calculation tool could provide. The examples represent a fictitious employer with 200 employees.

Cost development based on actuarial equivalence of the pension scheme



Cost development based on cost neutrality in 6 years



Which information is needed and what are our costs?

In order to properly organize the tool for each organization, KWPS will need the pension regulations, an anonymised participants file and the expected inflow and outflow of employees. During a personal conversation, KWPS will show the first outcome and will interview the employer in order to present detailed results. The results of the calculation tool will be seen immediately. The employer will receive a report of the preferred scenarios.

It will take us approximately one day to prepare the tool for the specific company, to conduct the interview and to report the outcome. The reference price is € 1,950 per pension scheme. If KWPS will be engaged to change the pension scheme, we will grant a € 1,000 discount per scheme (amounts are exclusive of VAT).

The calculation tool is the perfect start for a transition

For several reasons, amending a pension scheme cannot be done overnight. For example, approval is required from the Works Council (or unions), the employees as well as the pension provider.

In addition to employment and contract law aspects, the transition also includes fiscal, insurance, actuarial and valuation aspects. Communication is also very relevant. KWPS has all knowledge in-house. We could also execute the project in close cooperation with employment lawyers.

With the calculation tool risks and opportunities will be made visible. Therefore the calculation tool presents an excellent first step.