KWPS

Employee Benefits & Risk Management

A simple booklet for employers

Dutch New Pension Act

Version 2024-1

Contents

This brochure has been prepared with the utmost care and is informative in nature. This brochure does not provide a complete picture of the Dutch New Pension Act. Everything you do on the basis of this brochure is at your own risk. We recommend that you consult your lawyer, KWPS Employee Benefits & Risk Management or your own pension advisor.

1. Introduction

Dutch pension schemes have been frequently adjusted over the past twenty years. Usually as a result of changes in the law. For example, the tax (target) retirement age for supplementary pension schemes has been increased from 65 to 68 and the permitted pension accrual has been reduced in several steps.

Now employers and employees are facing even more important changes as a result of the Dutch New Pension Act (formally called Future of Pensions Act). All 50,000 pension schemes in the Netherlands must be adjusted, at the latest in 2027. Quotations of the pension provider must be accepted by October 2027. The Act relates to supplementary pension schemes and not to the Dutch State Pension, called AOW.

To change the pension scheme, in line with the New Pension Act, the employer in most cases will have to initiate the process of change. Because every situation is different and every employer faces different challenges, there is no one-size-fits-all solution. The change will require customization and good preparation. If this does not happen, employers will probably encounter cost increases, impracticability and/or claims from employees and the tax authorities.

The New Pension Act is complex and raises many questions. Therefore we present the issues in a very simplified way in this booklet, meant for employers. This booklet is an initial guideline and is also intended for advisors who may not actively advise their clients on these issues, but do not want to remain on the sidelines.

Do you have any questions about the new law as a result of this booklet? Don't wait until 2027. As mentioned, 50,000 pension schemes need to be adjusted and a change process can take months or sometimes more than a year. Waiting is not necessarily the right decision.

Please feel free to contact KWPS. Our team has the complete answer to your questions.

2. Wat does the Dutch New Pension Act entail?

The most important regulations of the New Pension Act are as follows:

- Pension schemes that are created on or after 1 July 2023 must be defined contribution agreements and an identical age-independent contribution percentage must apply to all employees who have the same position. The maximum percentage for tax purposes is 30% of the pensionable basis.

- For all employees participating in the scheme an individual pension pot - with many collective features - is created. Defined benefit schemes such as final pay and average pay pension schemes are no longer permitted. Furthermore the system of an average premium, now obligatory for all industry-wide pension funds, is abolished.

- Almost 100% of the pension schemes include a partner's pension in the event of death before the retirement date. The rules are changing dramatically. Capital coverage is no longer permitted. This partner's pension must be provided on the basis of risk insurance. This partner's pension must also be expressed as a percentage of the salary. This is currently not the case with any partner's pension in the event of death. The maximum permitted percentage for tax purposes is 50% (of the salary).

- Pension schemes that already existed before July 1, 2023 must also be adjusted to the above requirements, no later than 31 December 2027.

- Part of the New Pension Act is that an age-related defined contribution premium existing before July 1, 2023 will be respected and can continue to exist after 2027, however not for new employees. On other points schemes must be fully adapted to rules of the New Pension Act.

The changes and initiatives that are necessary because of the New Pension Act are highly dependent on the type of pension provider.

➔ Is the pension provider an insurance company, premium pension institution, or a pension fund (without an average premium being applicable)?
Continue with part 3 of this booklet. You can skip part 4.

➔ Is the pension provider a pension fund that applies an average premium?
You can skip part 3 of this booklet. Continue with part 4 of this booklet.

3. The pension provider is an insurance company, premium pension institution (or a pension fund without average premium)

What is the impact of the New Pension Act?

The new age-independent premium requirement (figure 2) is causing a landslide. Young people will receive more premiums, older people are worse off and will demand compensation (red). The total of the new premium and the compensation (figure 3) exceeds the level of the old premium (figure 1). There is a risk of a cost explosion.

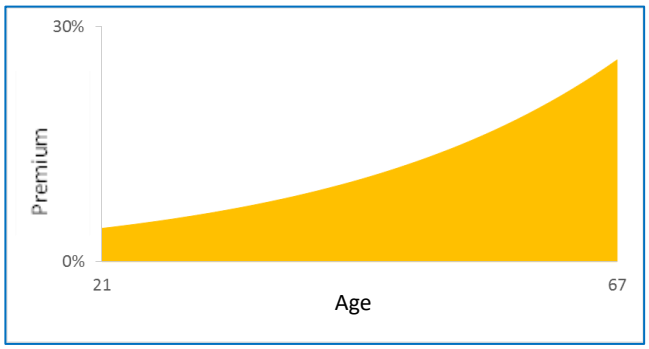

Figure 1 – before New Pension Act: age-related premiums

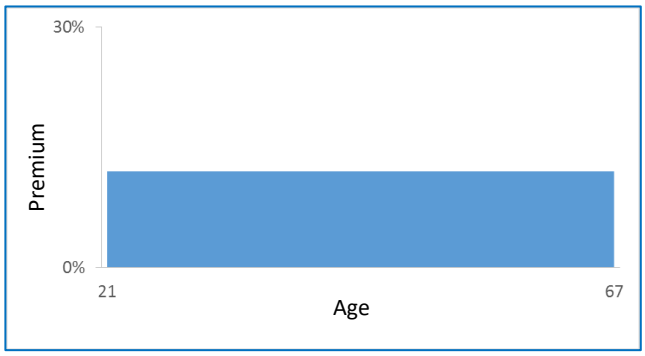

Figure 2 – because of New Pension Act: age-independent premium

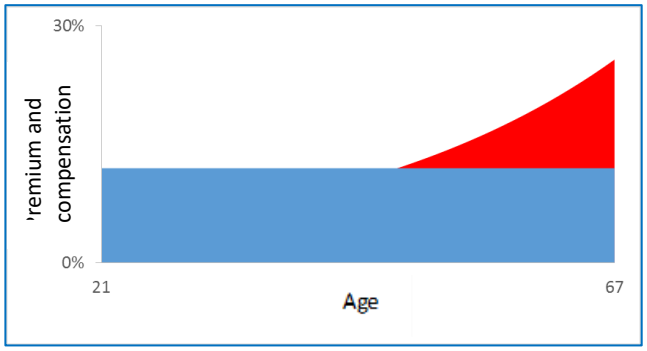

Figure 3 – consequence: risk of cost explosion

Example 1

Roos is participating in a defined contribution scheme with an age-related premium. If the pension scheme is adjusted to an age-independent premium of 14%, Roos, aged 25, will receive a substantial premium increase. But Jan, aged 55, will receive a substantial premium reduction as a result. Jan will want to be compensated for this. The same applies to employees in their early 40s or older, because they had the prospect of a higher premium.

Example 2

Peter participates in an average pay scheme in which he accrues 1.55% of his salary annually. As he gets older, the premium must be higher to be able to purchase the same pension. The pension scheme will have to be adjusted before 2028 and an age-independent premium of for instance 18% will be created. Due to the adjustment, not the amount of the pension benefit is no longer guaranteed but the premium to be paid. Frits, aged 25, will therefore be able to build up a higher pension in the new situation. But Ilse, 55, will be able to accrue much less pension in the new situation than in the old situation. She will demand compensation.

If figures 1, 2 and 3 on the previous page are combined and the employee base is divided into three age groups, the following picture emerges.

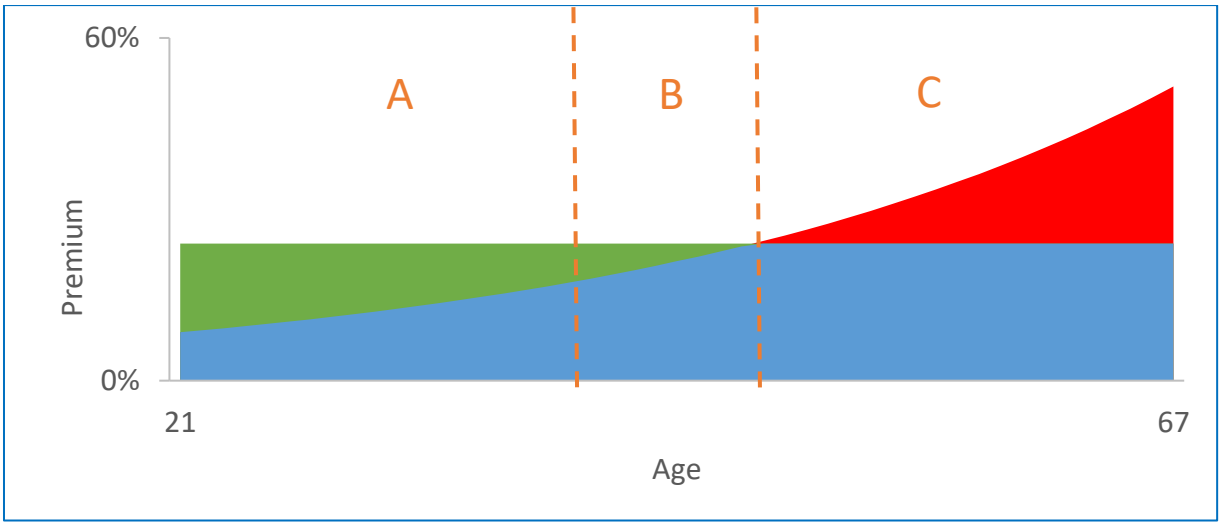

Figure 4: Consequences of the New Pension Act for the different age groups

It can be deduced from Figure 4 that population A will agree to the pension change because they will benefit from it (green part). Population B will be less enthusiastic if they do not receive compensation (red part), because the premium will level out. The same applies to population C.

Under circumstances age-related premiums will be respected

Every pension scheme must be adapted fully to the New Pension Act. Under certain conditions one exception applies for one aspect. If there is an age-related defined premium in place before 1 July 2023, an age related defined contribution premium may be maintained, even after 2028. As soon as an employer adapts the existing pension scheme to the New Pension Act and maintains or implements the age related defined contribution premium, from that moment an age-independent premium requirement applies to all new employees. In other words: using the exception will lead to two pension schemes.

The employee is not entitled to the exception mentioned above. The employer decides whether the exception is applied. Although the age-related defined contribution premium may continue to exist under certain conditions, the scheme must be adjusted regarding to all other aspects (for example the partner's pension in the event of death). The employee will have to agree to the amended scheme, see appendix 2.

4. The pension provider is a pension fund (with a so called average premium)

What is the impact of the New Pension Act?

The current system of a so called average premium is still permitted in 2027 at the latest. The current system means that every employee pays the same premium percentage and receives the same pension accrual percentage. As a result, young employees pay far too much for the accrual they receive, while old employees pay far too little for their accrual. The new requirement for an age-independent premium reduces the pension prospects for employees who are over forty and have been building up a pension for years. These employees will want to be compensated. Employers, unions and pension funds will therefore agree upon pension compensation. Luckily, in many cases there are financial reserves available at the pension fund.

> Example
> Tess currently participates in an defined benefit pension scheme in which she accrues 1.70% of her salary annually. The average premium is 32% of the pensionable salary. The pension scheme is adapted to the rules of the New Pension Act and a premium of 30% is agreed. Due to the adjustment, the amount of the pension benefit is no longer guaranteed, only the premium to be paid. Tess is 25 years old and will therefore be able to build up a substantial higher pension in the new situation. Henk is 55 years old and will be able to accrue much less pension in the new situation than in the old situation. Employers and unions determine the extent to which compensation will be provided.

Conversion of existing pension scheme lead to financial resources for pension compensation

Pension funds now are obliged to maintain statutory reserves because they provide for defined benefit entitlements. The reserves formed under the current system can be used for pension compensation (see above), under the condition that employers and unions decide to convert the rights under the defined benefit scheme in the new system in accordance with the New Pension Act. The new scheme is a so-called defined contribution agreement and if a conversion is realized there is no need to maintain reserves as there are no obligations than the pension capital in the defined contribution scheme. It is expected that in most cases employers and unions will ask the pension funds to make the conversion.

5. What is the employer supposed to do specifically?

- Is your pension scheme administered by an insurance company or premium pension institution?
  1. Analyze the employee base and the expected inflow and outflow of employees;
  2. Use Appendix 1;
  3. Determine what the financial consequences will be if i) the age-related premiums are respected and two pension schemes are created or if ii) a switch is made to an age-independent flat premium for all employees, see Chapter 3;
  4. Define the purpose of the pension plan and the pension budget;
  5. Define duration and budget of the transitional/compensation measure;
  6. Determine the blue print of the new pension scheme;
  7. If the age-related premium is not continued, draw up a transition plan;
  8. Coordinate the intended changes with the pension provider;
  9. Start the process of change with the employees (and representatives), see Appendix 2;
  10. Communicate the changes carefully with employees;
  11. Ensure that all documents are amended in accordance with the agreed changes.

> A quick way to complete steps 1 to 4
>
> KWPS has developed tooling that analyses the impact of the New Pension Act for the employer. Our tooling makes clear what the financial consequences are under different scenarios. The new pension premium can be defined and the financial effects of the pension and any compensation measure are mapped out in detail. The tooling is explicitly intended for employers who have their scheme administered by an insurance company of premium pension institution.

- Is your pension scheme administered by a non-mandatory pension fund?
  1. See steps 1 to 10 above;
  2. If there is an average premium and a switch is made to the new pension scheme, the obligation to offer compensation may arise;
  3. Analyze whether it is desirable to transfer the accrued pension into the new pension scheme (conversion, see Chapter 4).

- Do you participate in a mandatory industry pension fund?

  In this case, the pension scheme will not be changed by the employer, but by the relevant employee and employer organizations or the professional pension association.

6. Contact and more information

For more information or to discuss without any obligations, feel free to contact us.

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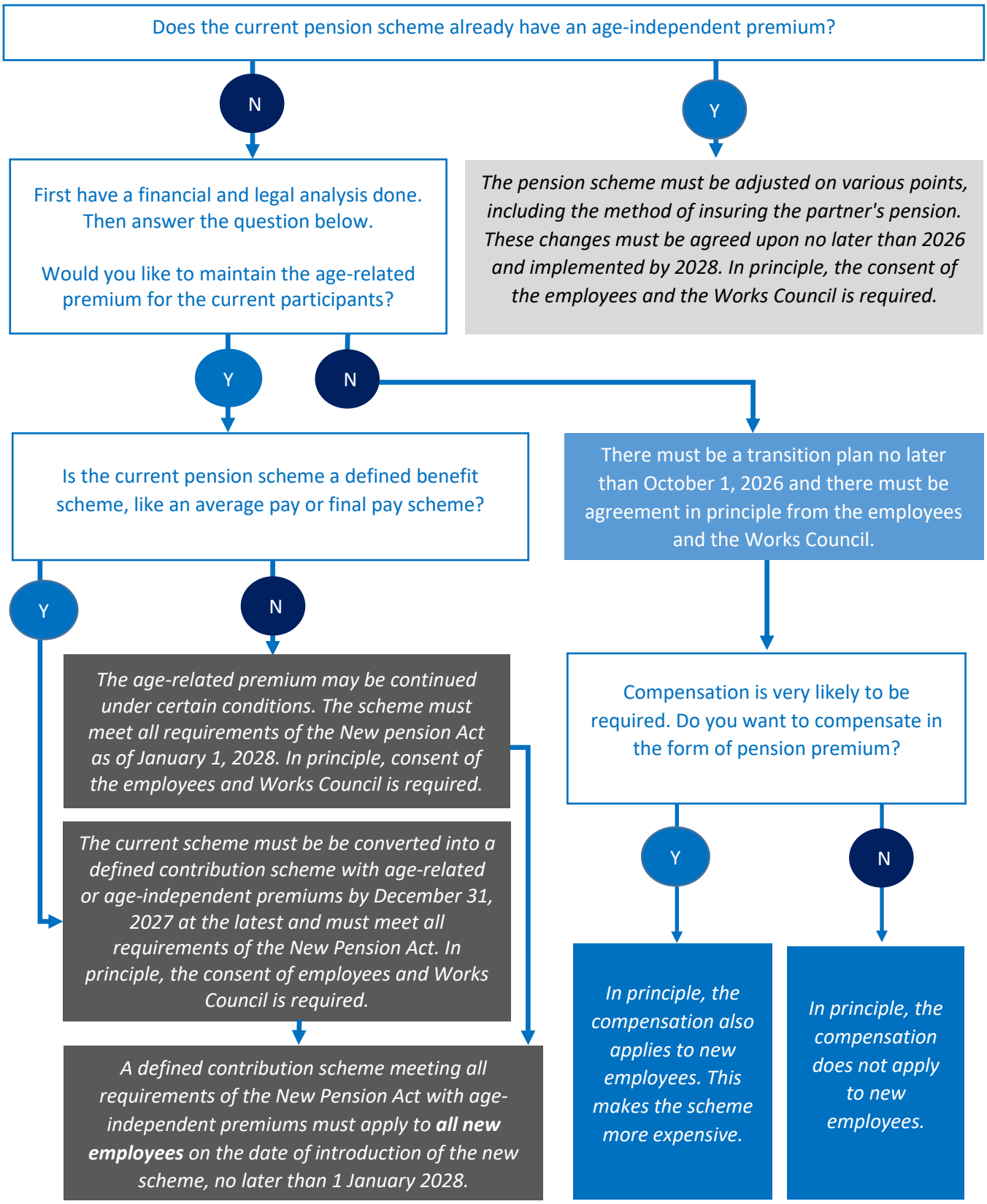
KWPS Employee Benefits & Risk Management

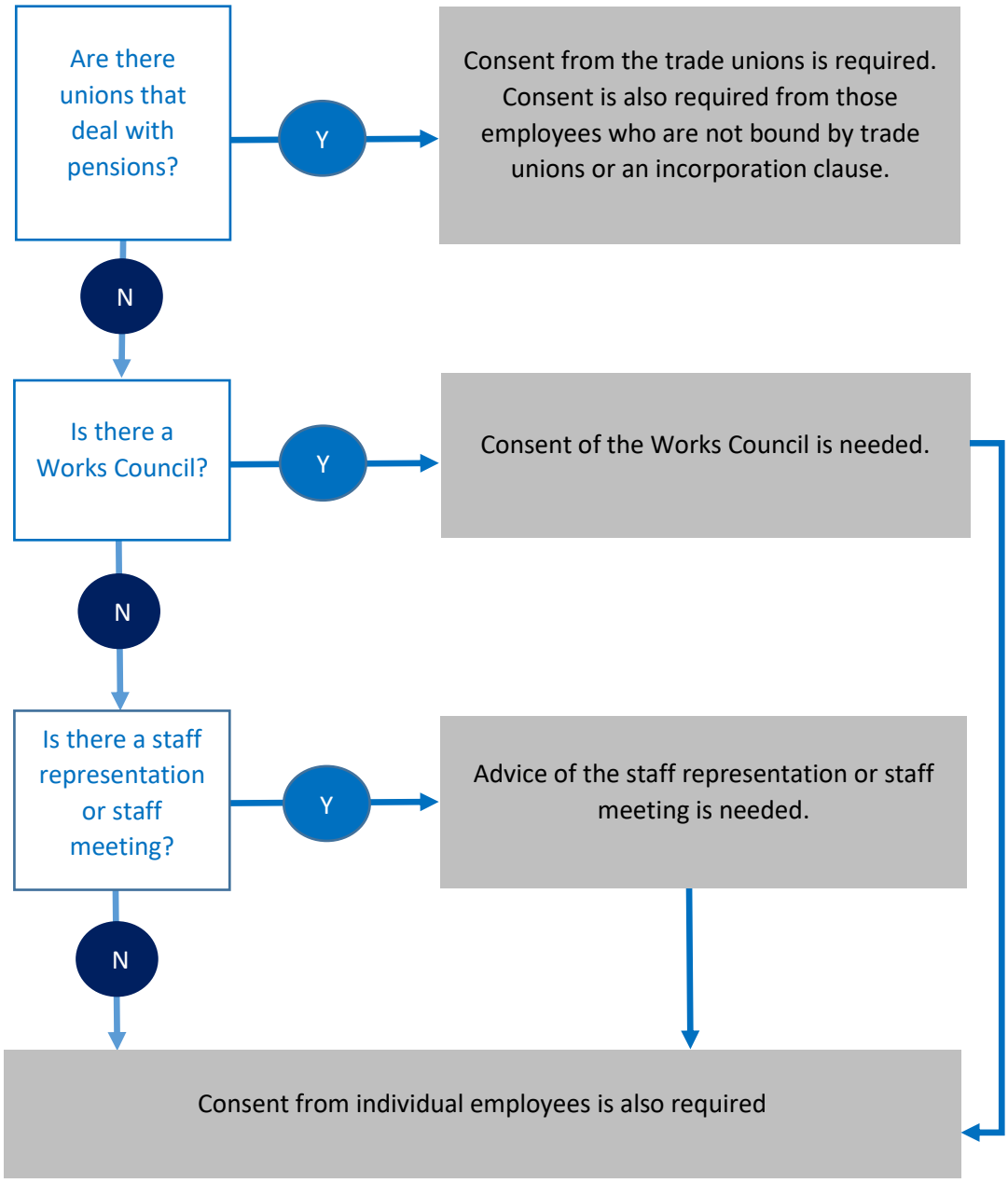
- Tax & Legal
- Actuarial & HR Accounting
- Insurance brokerage & investments
- Health, wealth, sustainability

Appendix 1: Flowchart in case of pension schemes administered by an insurance company or premium pension institution



Appendix 2: Consent

Consent proceeds in the following manner:



First coordinate the changes to the pension scheme with the pension provider to check whether the new pension scheme is feasible.