



Netherlands Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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Introduction

Key Findings and Recommendations

- **Retirement associations are generally positive:** Dutch workers generally associate positive things with retirement, seeing this as a period of leisure (64%) and of freedom (46%). However, a small minority are concerned about the potential for insecurity in old age (27%).
- **Employers play an important role in retirement preparedness, although workers underestimate this:** Less than half (46%) of workers acknowledge that their employer provides them with annual pension statements in spite of being a legal requirement. This suggests that more needs to be done to encourage employee awareness of retirement services offered in the workplace, especially in the 35-44 year old age group where it is a particular concern. Having tailored services and information for this audience could be a step towards engaging with those who are otherwise focussed on career, relationship and family matters rather than retirement saving.
- **A flexible transition to retirement will be the new norm:** Most workers in the Netherlands do not expect to enter into full retirement immediately. The government could do more to promote phased retirement. A more flexible approach to the state pensionable age would help to promote the goal of a more flexible retirement. While the state pension age is increasing (from 65 years in 2013 to 67 years by 2023) it currently offers no flexibility in how state benefits are drawn upon.
- **Keep it simple:** The government is changing fiscal and legal pension legislation at a fast pace. New ways to save for retirement are being introduced ('net annuities' and 'net pension') and this carries a risk that the common employee is uninformed or overwhelmed all the changes. Any unnecessary complexity should be avoided wherever possible in attempting to build a retirement system which places the needs of the individual at the centre.
- **Government help:** Government budget cuts have impacted on the previous Life-course savings scheme, which was introduced in 2006 but closed to new participants in 2012. In a country where 51% say they have no retirement plan, and 72% have no back-up financial plan, the Life-course scheme represented the sort of initiative which could improve opportunities for employees to better their general financial resilience and, in particular, to save for things like phased retirement which will require some degree of income replacement.
- **Strong support for auto-enrolment:** The majority of respondents (71%) say that the government should encourage employers to automatically enroll their employees into a retirement plan. Having had success internationally in reaching groups who otherwise would not participate in retirement plans, it appears that the Dutch favor auto-enrolment as a method of overcoming psychological barriers to saving.

The Survey

The findings used in this report are based on the Dutch responses of a 15-country online survey, in which 16,000 adults aged 18 and over were surveyed. Fieldwork was conducted in January and February 2014. The 15-country survey report as well as other country reports, research and communication materials can be found at www.aegon.com/en/home/research. The range of issues covered in the research includes attitudes to retirement preparedness, which serve as the basis of the annual Aegon Retirement Readiness Index, as well as the role of the government and employers in providing retirement benefits.

In the Netherlands 900 employees and 100 fully retired people were surveyed to provide a contrast between the responses of current workers and those already in full retirement. All findings in this report are based on the Netherlands survey results unless otherwise stated. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work as each of these groups faces specific challenges in planning for retirement which require specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working and retired populations.

1. Retirement landscape in the Netherlands

The Dutch pension system has a strong reputation internationally for its coverage and adequacy. Yet pension funds have not been able to escape the consequences of the global financial crisis, nor the pressures of an ageing society. Low interest rates and a weak economic environment have forced some Dutch pension funds to adjust or abandon the indexation of their payments downwards in recent years. In some instances, pension funds have gone further by lowering the value of accrued pension rights. There has also been a clear shift away from final salary to average salary schemes and an increase of the state and occupational retirement age. After years of discussion the Government will soon follow up with another round of major changes to pension markets.

This year pension communications will be improved and the governance structure of Pension Fund Governance Act overhauled.¹ Policy makers are also setting their eyes on defined contribution (DC) plans as an alternative to the traditional role of collective defined benefit (DB) plans. Dutch pensions are almost entirely DB based and a transition towards DC plans would involve a shift of risk onto the individual. Nonetheless, the debate remains to be played out as to whether the Netherlands is willing to substitute historically based principles of collectivity for individualism in the face of these demographic and economic pressures. This report sets out the views of Dutch employees and retirees as to how the current economic climate is impacting on their level of retirement preparedness.

¹ Van Der Westen, Mariska. *Dutch design. Investment & Pensions Europe*. [Online] Last accessed 07/05/14 <http://www.ipe.com/analysis/opinion/dutch-design/10001084.fullarticle>

2. Retirement aspirations, preparedness and attitudes towards the future

After periods of contraction in annual GDP since 2009,² respondents' expectations for the economy reflect the slow but stable performance of the economy predicted for the coming years.³ Just under a third (30%) expect the economy to improve while only a sixth (18%) expect the same for their own financial situation. The impact of low economic growth – with the Dutch central bank expecting output to expand by 0.5% in 2014 – is compounded by growing unemployment, which is expected to reach 7.4% this year. This outlook is contributing to the cautious attitude of respondents towards their personal finances which is also giving rise to concerns about the retirement prospects of future generations. Two-thirds (66%) expect future generations of retirees to be worse off than those currently in retirement.

Chart 1: Expectations of the economy are more optimistic than for respondents' own personal financial situation

Q. Thinking ahead over the next 12 months, do you expect the economy in The Netherlands to...? (Base: All, n=1000)
 Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...? (Base: All, n=1000)

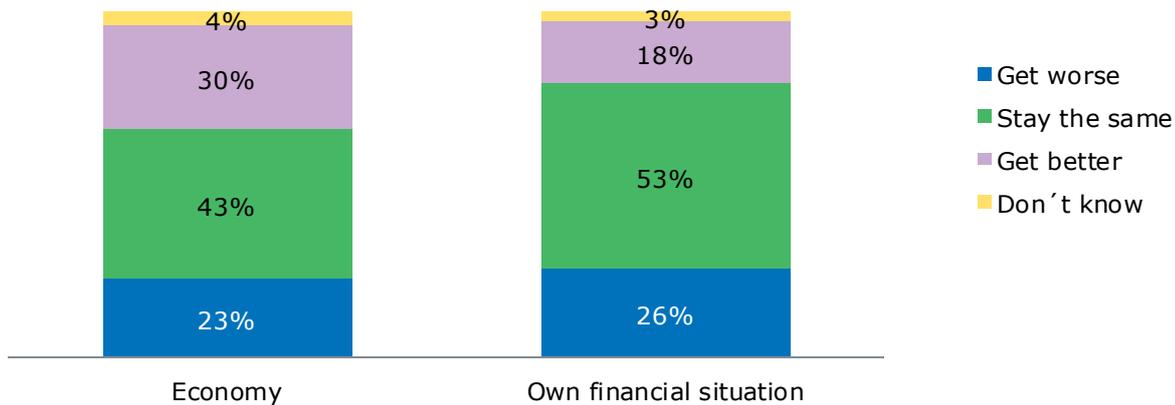
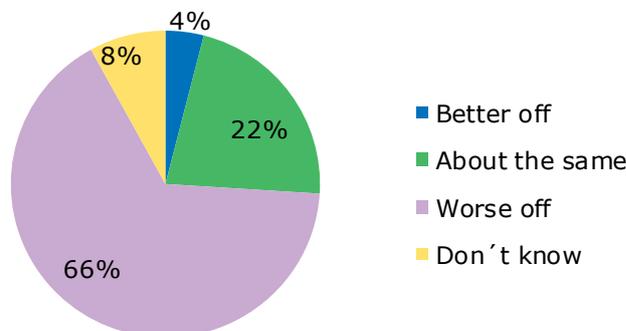


Chart 2: Future generations of retirees are expected to be worse off

Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement? (Base: All, n=1000)



² World Bank. GDP growth (annual%) –table in World Development Indicators

[Online] Last accessed 07/05/14 <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

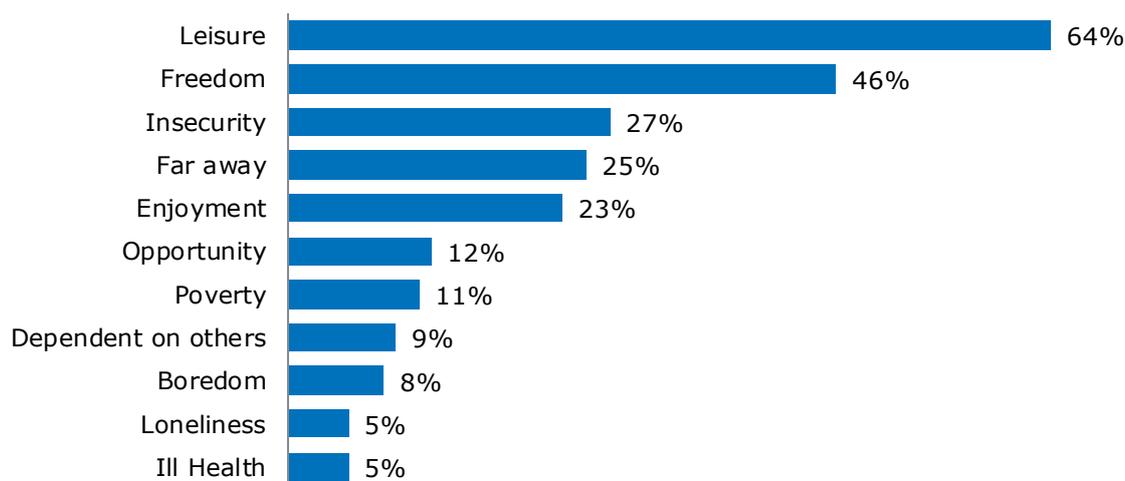
³ Ruhe, Corina and Fred Pals. Dutch Economy Returns to Growth in 2014, Central Bank Says. Bloomberg News. Dec. 09 2013 [Online] Last accessed 07/05/14 <http://www.businessweek.com/news/2013-12-09/dutch-economy-returns-to-growth-in-2014-central-bank-says>

Even though the economic backdrop remains uncertain, Dutch workers have largely retained a positive attitude towards life in retirement. When asked to select from words associated with retirement, almost two-thirds (64%) choose 'leisure' and almost half (46%) 'freedom.' Retirement aspirations reflect these attitudes, with over half (55%) who hope to travel in retirement, while slightly fewer (49%) aspire to spend more time with friends and family and 40% to pursue new hobbies. Work is also increasingly seen as part of the retirement picture. Although the state pension age in 2014 is 65 and two months, a Dutch worker already expects to retire beyond the official retirement age, typically as late as age 67.

In spite of the adequacy of the Netherland's current pension system, it is perhaps surprising to see that among current retirees such a high proportion (38%) say that they do not feel financially comfortable in retirement. Looking to future generations of retirees such negative associations for retirement are already present among a sizeable minority. Given that the average Dutch worker expects to need a retirement income equal to 75% of their current working age salary, over one in three workers (36%) are not confident that they will be able to retire with a lifestyle they consider comfortable. Consequently, over one quarter (27%) associate retirement with 'insecurity' and one-in-nine (11%) with 'poverty'.

Chart 3: Leisure and freedom are most associated with retirement

Q. Which, if any, of the following words do you most associate with retirement? (Base: All respondents, n=1000)



3. Planning for retirement

To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI). The ARRI incorporates three broadly attitudinal and three broadly behavioural questions covering personal responsibility, financial awareness, financial capability/ understanding, retirement planning, financial preparedness, and income replacement. As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.⁴

⁴ In order to create the index the six attitudinal and behavioural question responses are correlated with the dependent variable to obtain a measure of influence (known as an 'R' value). The mean scores of the six questions are computed and each mean score is multiplied by its 'R' value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score. <http://www.businessweek.com/news/2013-12-09/dutch-economy-returns-to-growth-in-2014-central-bank-says>

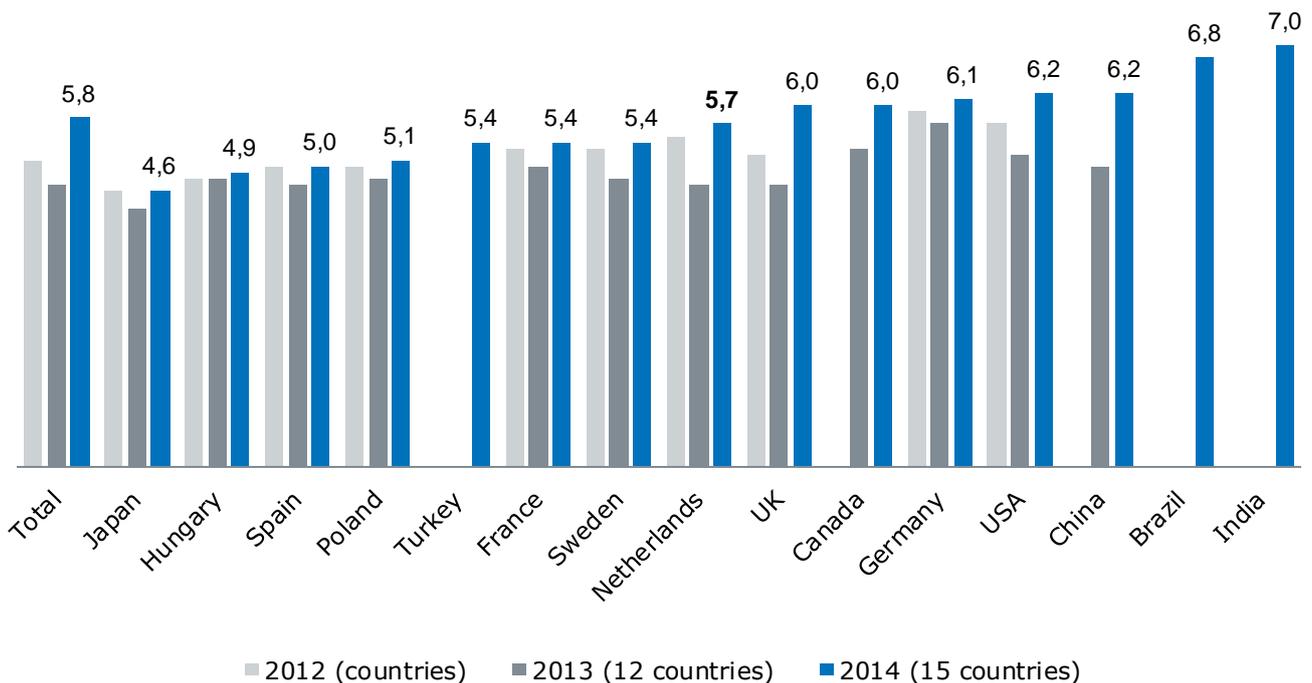
We are able to rate employees' financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score is one between 6 and 7.99 and a high score is 8 or higher. There has been universal improvement in the index scores year-on-year. However, retirement readiness scores remain low.

Chart 4: Netherlands ARRI Scores 2012-14

Netherlands Retirement Readiness Index score			
2012	2013	2014	2014 Global Average
5.5	4.9	5.7	5.8

The Netherlands' score of 5.7 out of 10, places it 8th in our global rankings immediately behind the United Kingdom and Canada. Brazil and India were introduced this year and now lead the global rankings. There was universal improvement of index scores this year, and the Netherlands was no exception. The country saw a 0.78 point gain on last year, an increase that can be attributed to improvements in retirement preparedness and planning. For example, this year the proportion of workers who feel that their retirement plans are somewhat or very well developed increased to 37% from 29% in 2013. Likewise the proportion who feel that they are saving enough for retirement increased from 28% to 35%.

Chart 5: The Netherlands ranks eighth in retirement readiness in 2014



While retirement planning improved on last year, there still remains room for further progress. For example, over a quarter (26%) of employees claim plans for retirement are underdeveloped. Moreover, one-third (33%) do not know if they are on course to achieve the income they believe they will need in retirement. Both of these findings negatively impact the Netherlands' retirement readiness score. We find this trend in questions that are not included in the index calculation as well. Only 10% of workers have a retirement plan that is written and down and half (51%) say they have no plan at all. Almost three-quarters (72%) of workers claim to have no back-up plan in place for retirement savings in the case that they are unable to work prior to reaching retirement age. Yet half (49%) of current retirees who retired from full employment earlier than planned did so because of ill-health or job loss. This highlights that planning for the unexpected is an important element of retirement preparation.

Chart 6: Half of workers do not have a retirement plan

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

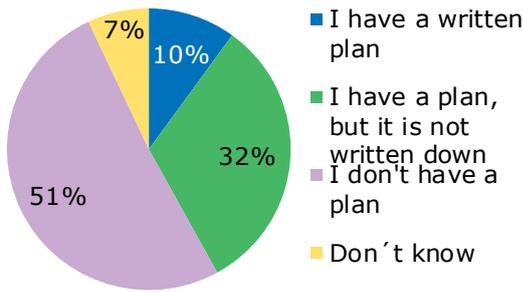
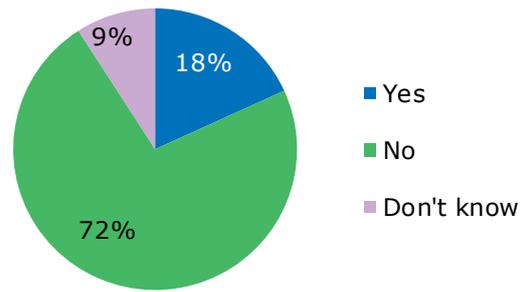


Chart 7: The majority do not have a retirement back-up plan if unable to work prior to planned retirement age

Q: In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income? (Base: Not fully retired, n=900)



4. Making saving easy

Faced with the widespread shortfall in retirement planning the current state of the Dutch economy appears to be holding back people's ability to save for into a pension. Nearly a quarter (24%) of Dutch workers report that a more certain macroeconomic environment would encourage them to save and a further 12% state that a lack of confidence in the performance of the investment markets discourages them from saving.

More fundamentally, more than half (56%) of Dutch workers say that a lack of money is an obstacle to saving for retirement and over a third of employees (38%) claim that a pay rise would encourage them to save more money for retirement. Other incentives that would encourage retirement savings include more generous tax breaks on savings and retirement products (26%), which goes against the current political realities that have given rise to reductions in the value of tax relief on retirement products. Respondents also supported more generous contribution from their employer into their pension plan (25%). Nearly one-in-six (15%) employees say that access to a financial education would encourage them to set aside more money.

Chart 8: A lack of money is an obstacle to saving

Q. Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)

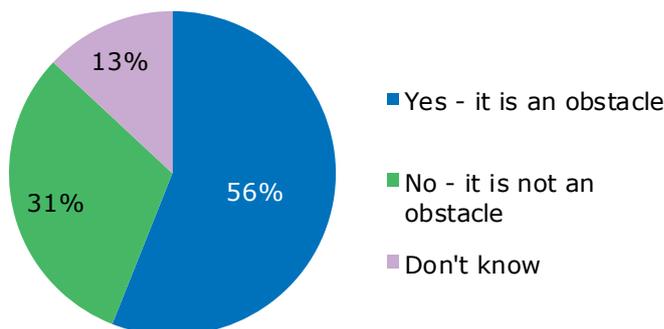
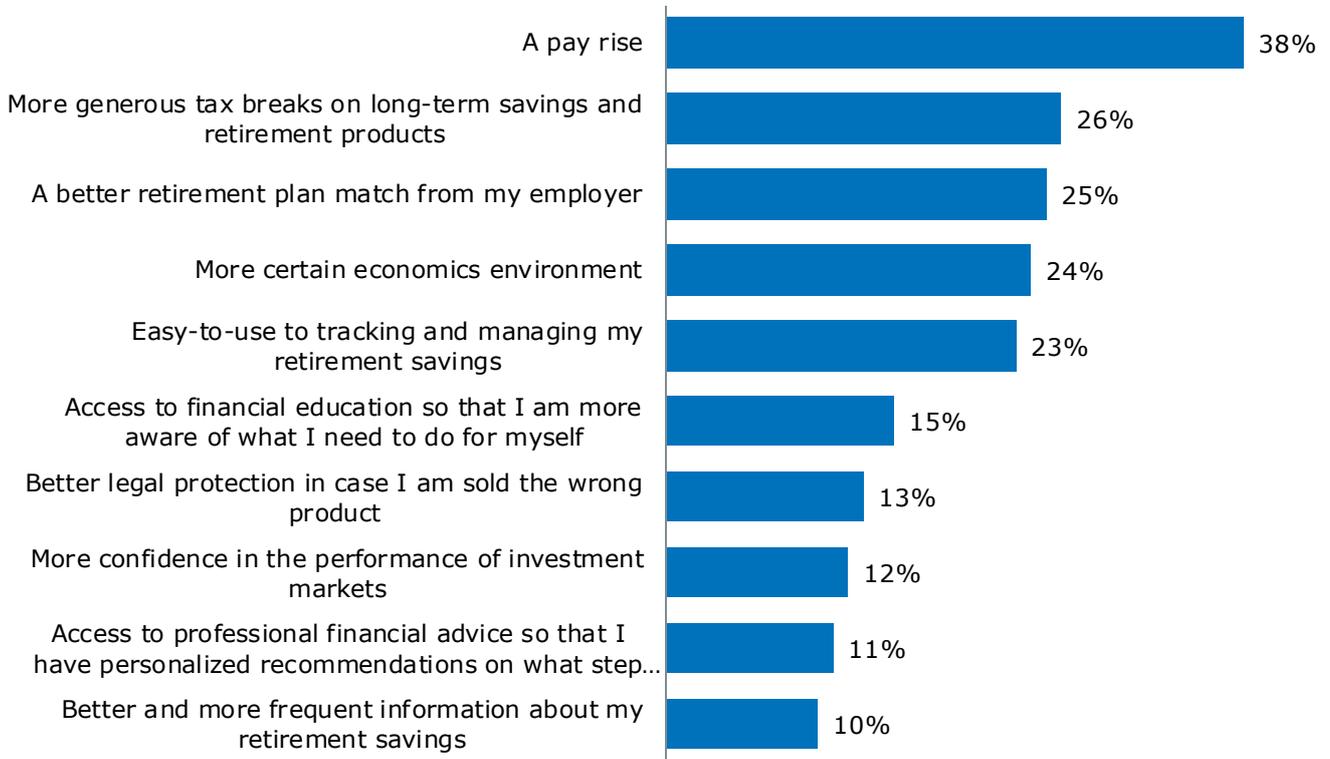


Chart 9: A pay rise, more generous tax breaks, and a better retirement plan would encourage more retirement saving

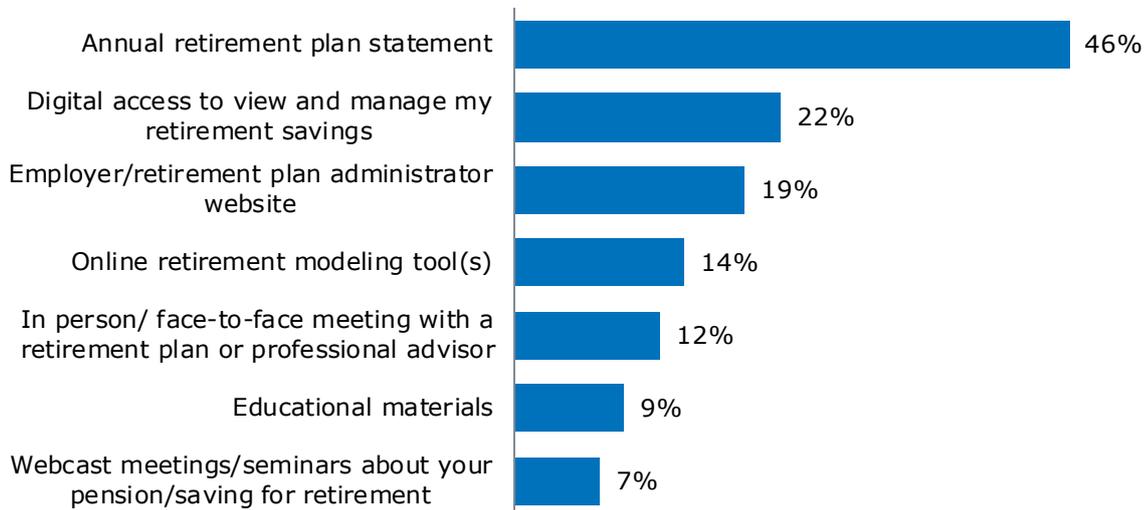
Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)



Incentivizing workers to save for retirement will involve the help of both government and employers. However, most employees in the Netherlands feel that their employer could be doing more or are unaware of what is available. Even though employers are required by law to provide an annual statement to employees about their retirement plan, this does not appear to register with large numbers of workers. Less than half (46%) of Dutch respondents actually acknowledge that their employer makes such statements available, suggesting potentially low levels of interest or engagement.

Chart 10: Half of respondents say their employer provides annual retirement plan statements.

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer? (Base: Not fully retired, n=900)



There is found to be strong support for auto-enrolment in the Netherlands. When respondents were asked to what extent they agree or disagree with the statement, 'governments should encourage employers to automatically enrol all their employees into a retirement plan,' the majority (71%) somewhat or strongly agree. Auto-enrolment has already proven successful internationally⁵: by the employer deducting a percentage from an employee's salary and contributing it into a savings account, it eliminates important psychological barriers to saving (e.g., procrastination, and lack of awareness of the need to save). When given the choice to opt-out rather than opt-in, workers have shown to be more likely to participate. These findings suggest the most individuals are keen for auto-enrolment to be implemented in the Netherlands

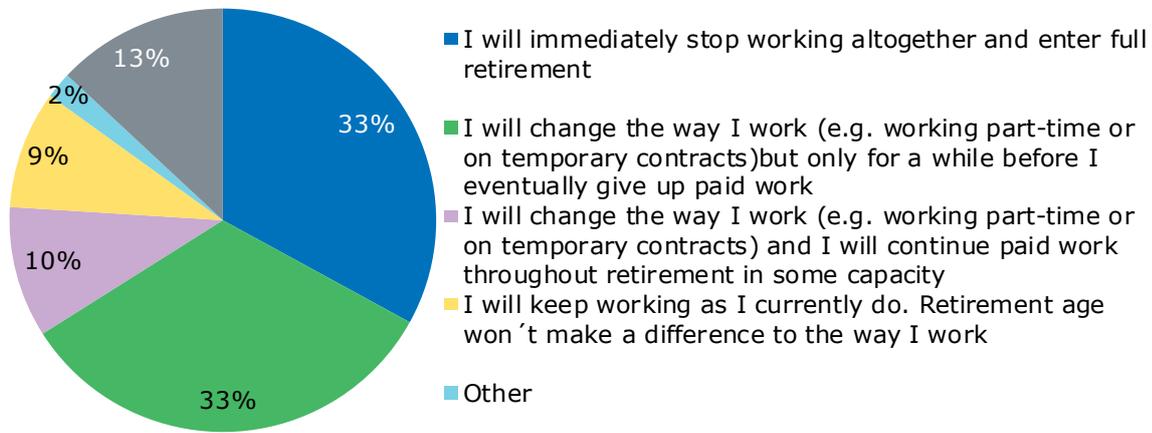
5. A flexible transition to retirement

More obstacles emerge when we explore the aspirations of Dutch workers to transition into retirement. Most workers in the Netherlands do not expect to enter into full retirement immediately. Continuing to work in some capacity, whether part-time or on temporary contracts, is the likely path for two fifths (42%) of those who are not already fully or semi-retired. Only one-third of respondents (33%) expect an immediate transition into retirement while 9% report that they will continue to work full time after reaching retirement age. Despite this trend, comprehensive retirement options are not readily available for those wishing to keep working beyond normal retirement age. The option of switching from full- to part-time work is offered to just 22% of employees. Moreover, only one-in-nine (11%) say that they are offered financial advice or are able to work beyond the usual retirement age. Almost two-fifths (37%) of workers are unsure of what options are available, suggesting that where offered, employers would benefit from improving communication around the availability of a flexible retirement transition.

⁵ Butrica, Barbara A. and Nadia S. Karamcheva. How does 401(k) auto-enrollment relate to the employer match and total compensation? October 2013. Center for Retirement Research at Boston College. [Online] last accessed 08/05/14 http://crr.bc.edu/wp-content/uploads/2013/10/IB_13-14.pdf

Chart 11: One third those fully in work expect to transition immediately into retirement.

Q. Looking ahead, how do you envision your transition to retirement? (Base: Not fully/semi-retired, n=840)



For many, working into their 60s and maintaining the same occupation will not be an option. Those, for example, whose careers require physical labor, may need to change their employment position or industry in order to accommodate the aspiration to keeping working in later life. In order to ensure a successful transition, retraining and reskilling is an important step. However, we again see a gap in the support offered to workers with only 11% claiming that their employer offers retraining or re-skilling services.

It is not surprising that many workers feel more could be done to help them plan for retirement. Almost two-fifths (37%) claim that their employer does not provide with enough information and support to help with retirement planning. Unfortunately this situation does not appear to be changing. Half (50%) the workers surveyed claim their employer does 'about the same' as three years ago and only 7% have seen employers doing more. Age plays an interesting role in awareness of what services are offered. 35-44 year olds are the most likely to not know whether retirement planning services are offered (46%) or if they have changed over time (30%). Given that this is an important time for savings accumulation, there is a clear need for employers to more effectively engage with this audience.

Chart 12: Less than a quarter of employers offer workers to move from full to part time work

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement? (Base: Not fully retired, n=900)

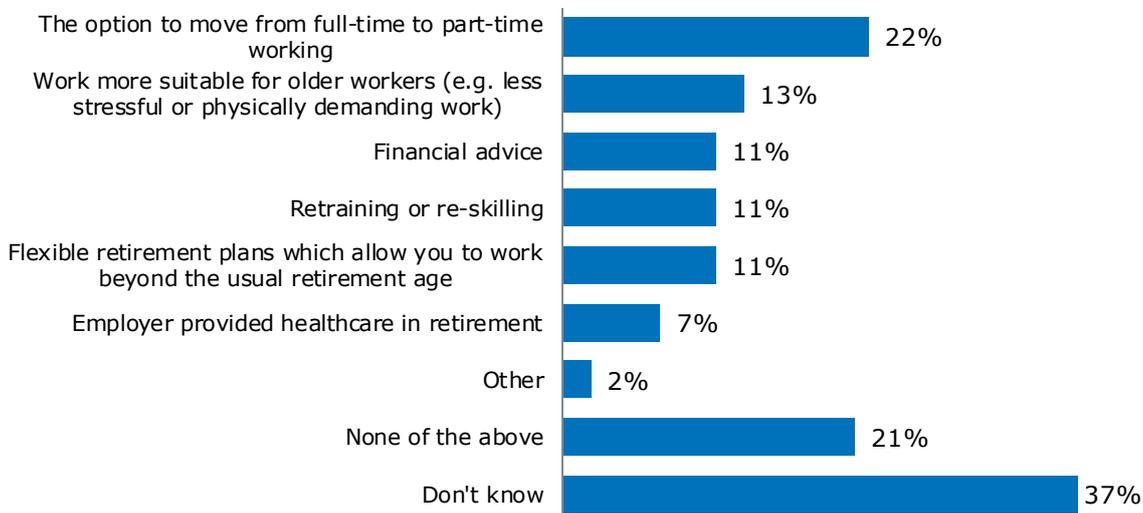
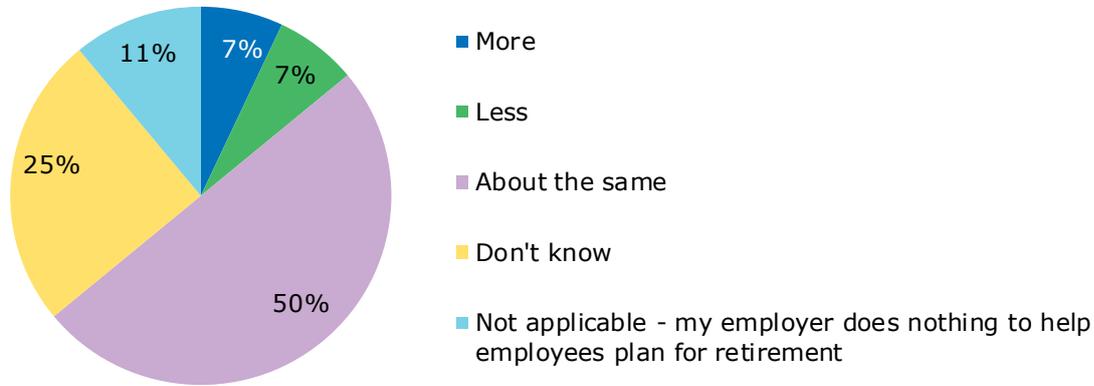


Chart 13: Retirement services offered by employers have not improved over the past three years.

Q. Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: not fully retired, n=900)



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