Course of life and pension rights

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Abstract

An ageing society needs a clear vision of the future income situation and income inequality of the retired population. Therefore Statistics Netherlands is developing statistics on the accumulated pension claims and private capital of individual members of the Dutch labour force. The Dutch pension system consists of four pillars. The first pillar is a public pension scheme, which is based on a ‘pay as you go’ system on the intergenerational principle: workers pay for pensioners. The second pillar is a work-related pension scheme on corporate and/or sectorial level, in which employees and employers contribute. The third pillar is a private pension scheme, intended for those who don’t build up pension rights in the second pillar and/or for persons with a pension deficiency in the first and/or second pillar. In addition to these pillars, a fourth pension pillar is often considered which contains personal capital, which may be used to supplement the pensions received in the first three pillars. Statistics Netherlands is in the process of developing statistics on these four pension pillars and is making an effort to bring all pillars on equal terms to obtain insight in the future income situation. This is complicated by two factors:

The first complication is that the first pillar state pension is a non-financial defined contribution pension scheme, whereas the second and third pillars consist of financial defined benefit and financial defined contribution schemes. The fourth pillar consists of personal capital of any kind, such as shares and bonds, but also real estate and companies, which may be converted into an old age income. The pillars have to be put on an equal footing to allow addition and integral comparison.

The second complication is, that although the build accrual of pension rights in the first three pillars are individual, the eventual pension income resulting from the three pillars is affected by various factors which influences the height of the entitlement. Predominant factors are: household situation, immigration and emigration, employment record and changes in marital status. Currently, Statistic Netherlands lacks insight in the impact of the factors concerning the private situation of individuals which affect the eventual pension income. Therefore it is inevitable that the results are partly based on estimates. In the near future, registrations at pension funds will improve and as a result, the quality of our statistics will further improve.
This problem is reinforced by the fact that pension schemes are becoming more and more flexible. For instance, the retirement age is variable, and exchanges between old-age pension and surviving partner’s pension are possible. More flexibility means a wider range of choices for pension scheme participants. Micro simulations may provide a way to incorporate the consequences of these possible choices into statistics to enhance its quality.

In our paper, we will elaborate on the method that needs to be followed to facilitate addition of the four pillars and what method of approach will eventually lead to a better understanding of how accrued pension relates to future income. The emphasis in our paper will be on the quantitative results of the first en second pillar; future income inequalities between specific subgroups in the population will also be discussed. An attempt will be made to compare the quantified effect of household situation, immigration and emigration, employment record and history of marital status on the pension accruel in The Netherlands to the pension schemes in other European countries.