Montae & Partners

The impact of the new pension system in The Netherlands

What is the best solution for your company?
How to start?

Maarten Reesink

Our services

Employers

Custom made solutions for insurable employment conditions such as pension, healthcare, disability and international labor mobility.

Work councils

We ensure that the Works Council understands the pension file and can apply the right of consent in a well-considered manner.

Pension funds

Independent advice and support for governance, strategy, IT and asset management.

Government

We support government agencies with advice and risk management around APPA.

Enterpreneurs

Support with pragmatic solutions for complex issues of entrepreneurs and DGA's.

Caribbean

From our offices in Curaçao and Aruba, our colleagues are available for all pension issues in the Caribbean.

Who is Montae & Partners

Founded in 1997

140 specialists

Versatile & expert Employee Benefits advisor

Innovative & connecting

Our DNA

Specialists

Transparent

No-nonsense

Personal

Independent

This is what the new pension legislation is all about....

Why a new pension system?

NOT FUTURE PROOF

The current system was realized in the fifties and is no longer future proof

LESS EMPLOYED PEOPLE

Life expectancy has increased, and the population has aged

CHANGE LABOUR MARKET

Trend of shorter employments and changing labour relations

CHANGE FINANCIAL MARKETS

The financial markets change significantly, for example the low interest rate

POINTS OF DISCUSSION

Point of discussion about division of pension assets between generations and indexation can no longer be taken for granted

The scope of the new pension system

01

Impacts 100% of the Employers & Employees

02

Transition period July 2023 until December 2027

03

<u>The change impacts:</u>

- Pension outcome
- Pension premium
- Partner – and orphan pension
- Recruitment
- Pay structure
- Total reward package

04

New and more focus on the individual and sustainable employment

Impacts 100% of the employers & employees

430.000 companies with >1 employee

7.000.000 active employees

78% are in industry-wide pension funds → **75%** of employees

130 companies are in company pension funds → **7%** of employees

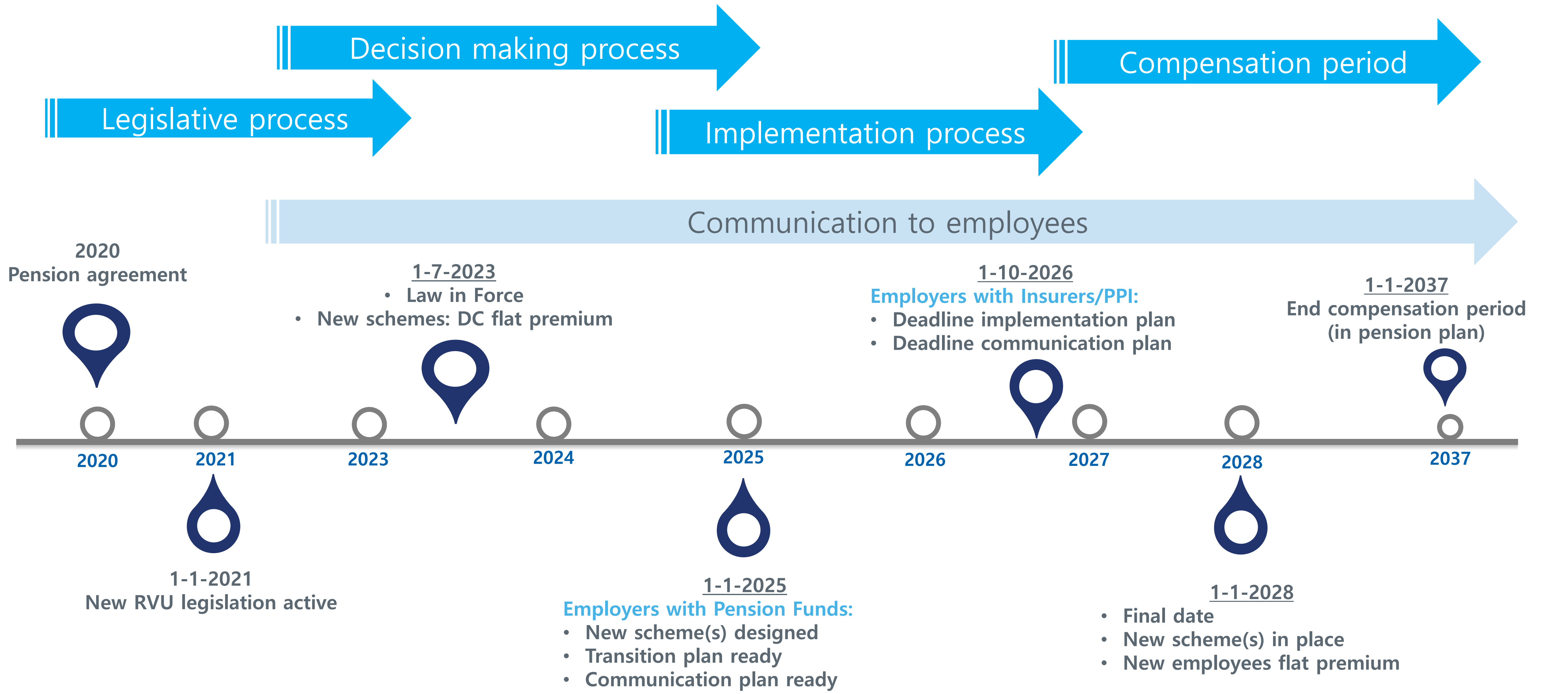
20% are insured through pension insurers or PPI's → **18%** of employees

Average yearly premium = <u>€ 5,400</u> per employee (<u>20%</u> average pension base, <u>14%</u> average salary)

About <u>75%</u> of the employees still has a "DB-Plan"

The total amount of pension assets is over € 1,500 billion

Timeline transition period



Be informed or act now?

The right timing is essential.
Be informed so you know
what is the best time to act

Is the NL company part of a industrywide CLA including a pension fund ? → **Yes** → **Be informed**, first social partners and pension funds have to act

No

Does the NL company have its own pension fund ? → **Yes** → **Be informed and act now**, together with the pension fund and the employees a lot of decisions have to be made

No

Does the NL company have its own CLA ? → **Yes** → **Be informed and act now,** together with the employees and the unions a lot of decisions have to be made

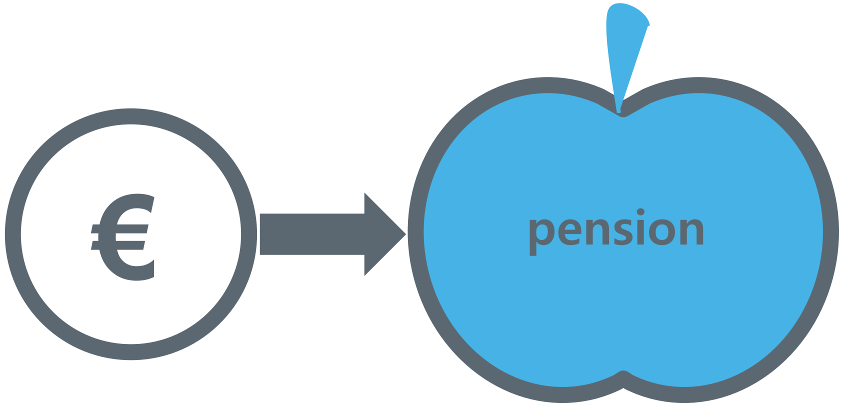
No

Does the NL company have a pension scheme with an insurer, APF or PPI ? → **Yes** → **Be informed and act now**, together with the employees and workers council, a lot of decisions have to be made

Current versus new pension system

Current system

Defined Benefit (Average pay):

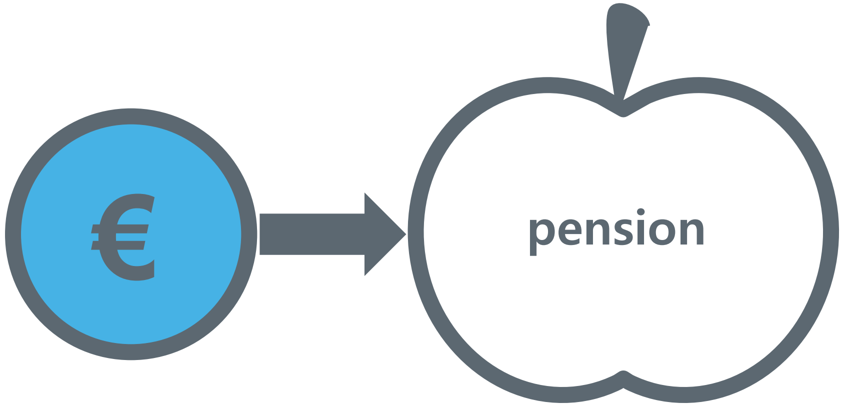


- Benefit ‘security'
- Variable contribution
- Max. acrual rate 1,875% (DB
- Employment duration partner pension

New system

Defined Contribution

(also in current system)



- Benefit ‘insecurity’
- Variable pension
- Flat rate premium, max. 30% of pension base
- Partner pension of max 50% of salary

Fased between 2023 and 2027

What is the impact?

Example employer A

Pension scheme:

DC scheme with graduated scale

Example employer B

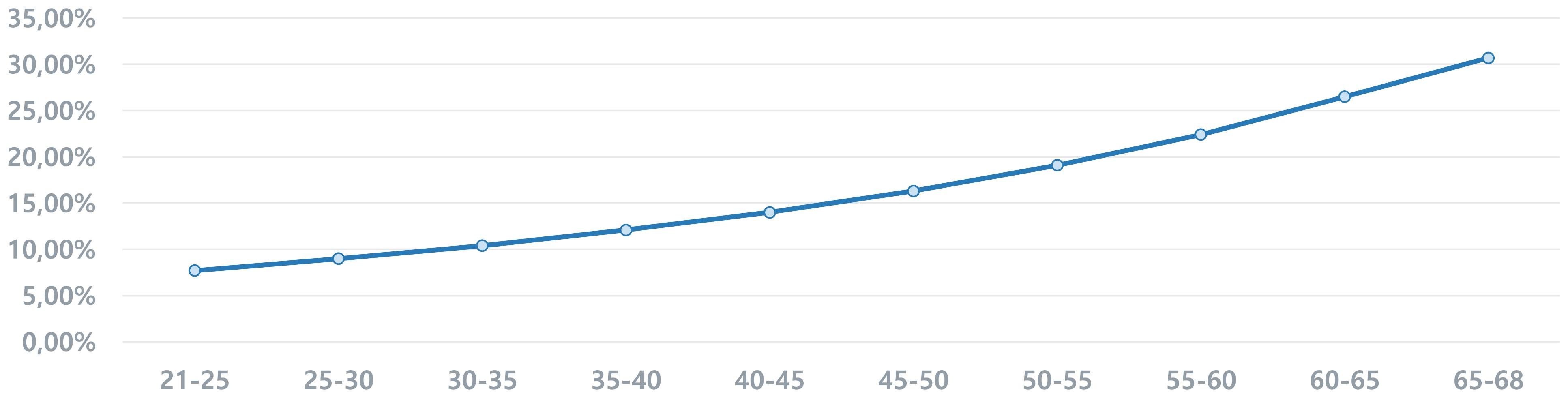
Pension scheme:

DB scheme

What is the impact?

Employer with Defined Contribution (DC) scheme

Example employer A:
Pension scheme: DC scheme
Premium: graduated scale **(7,7% - 30,7%)**

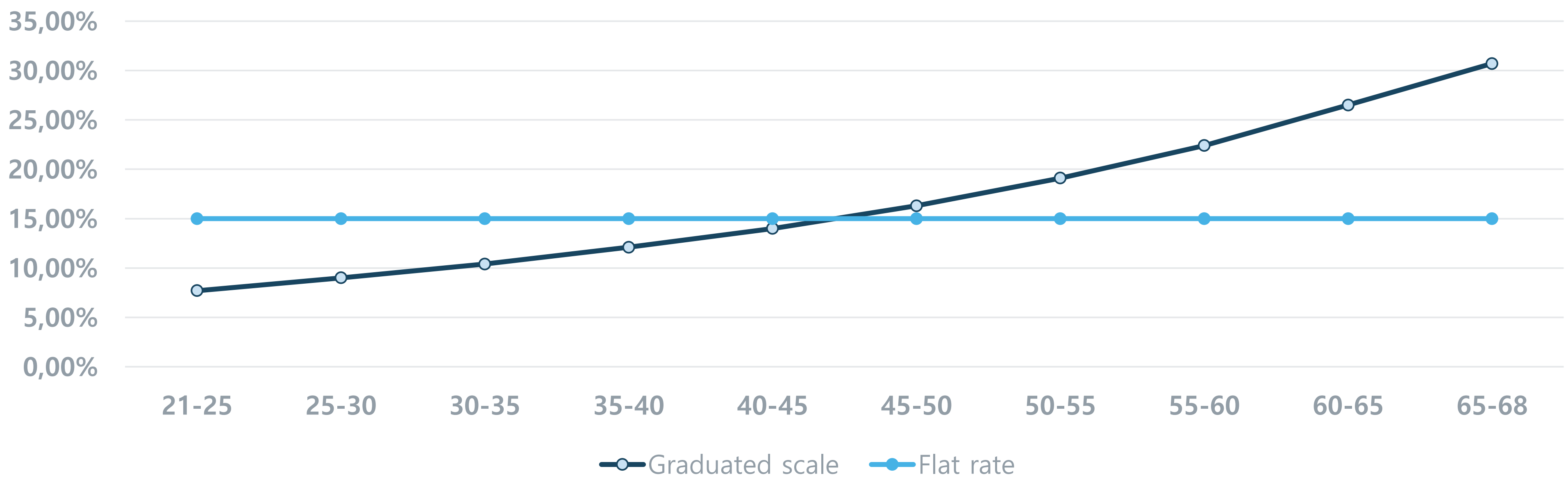


What is the impact?

Employer with Defined Contribution scheme

Graduated scale is not future-proof -> 2 options:

1. Current employee group stay in current scheme, new hires to flat rate ***(example 15%)***
2. Total employee group to flat rate ***(example 15%)*** with compensation for a group of employees (older employees)



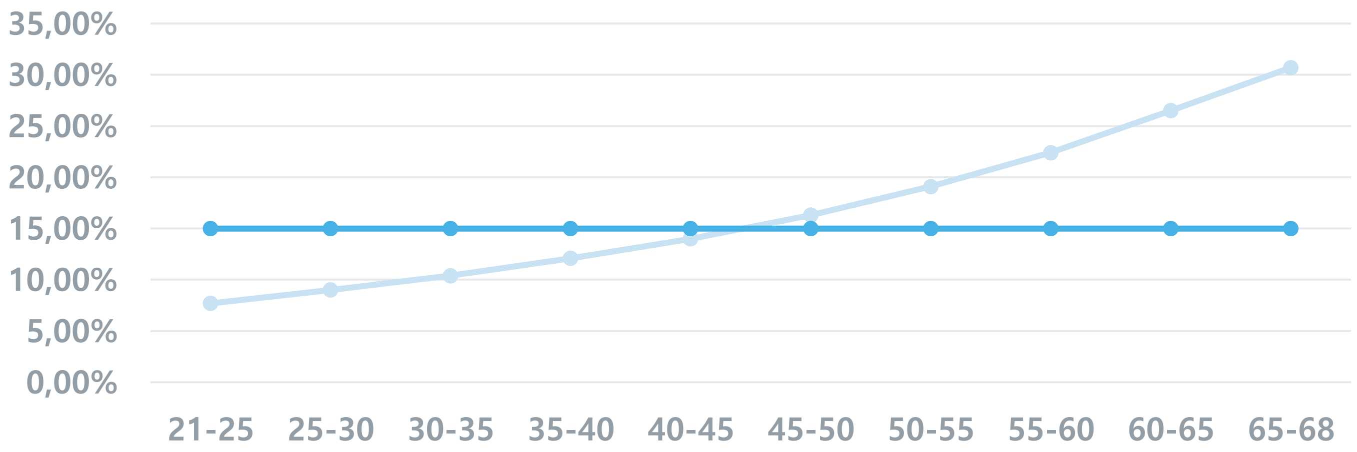
What is the impact?

Employer with Defined Contribution scheme

Option 1

Current employees keep the current scheme + new hires go to flat rate scheme before 1-1-2028

➔ **2 schemes!**



Recruitment/Pay impacts

Different scheme for new employees could mean that...
... younger employees could change jobs sooner because new flat premium is higher than current premium
... older employees stick more to their job because they lose old scheme or compensation when they leave
... the costs of employment for younger employees will become higher
.... it will become harder to get more experienced new employees without extra salary or compensation

What is the impact?

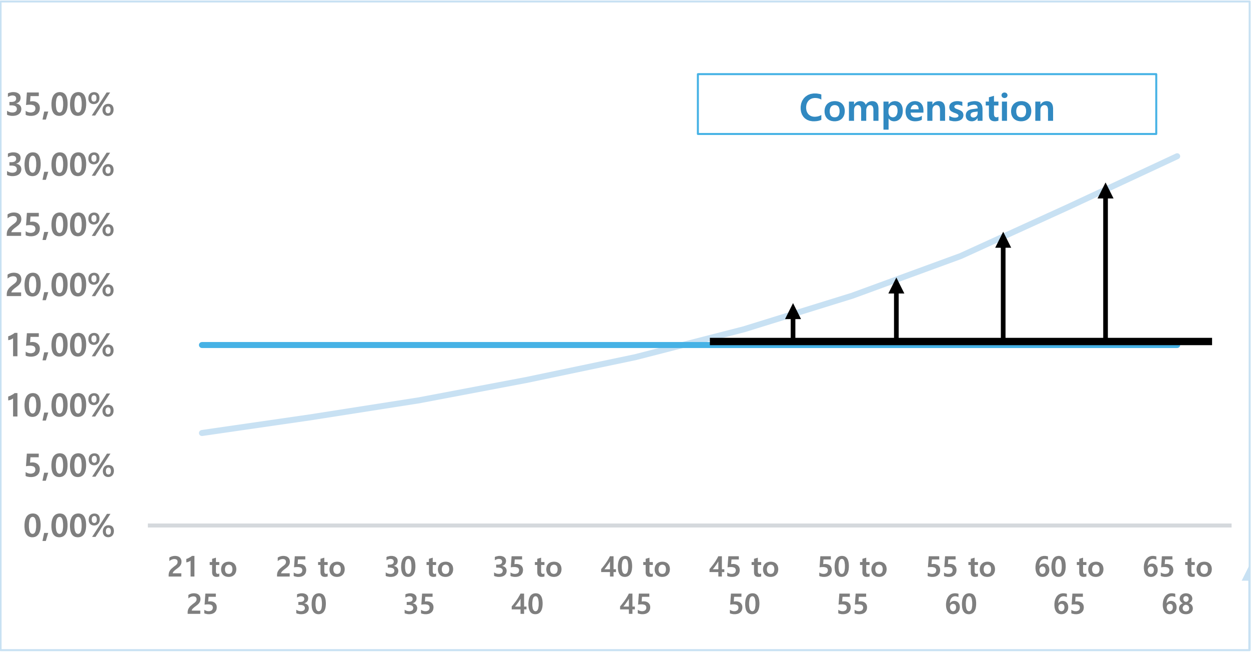
Employer with Defined Contribution scheme

Option 2

All to flate rate with compensation

- **Young employees** (<45 years)
  -> direct increase of premium
- **Older employees** (>45 years)
  -> direct decrease of premium
  Compensation (in salary f.i.)

Effects:
- Equal employment conditions
- Less administrative work having 1 scheme
- Higher pension total costs in first years
- Younger employees are more expensive
  - Easier to attract them, lower salary ?
- Older **new** employees are less expensive
  - Harder to attract them, higher salary?



1 scheme with current budget leads to lower premium for new employees compared to 2 schemes

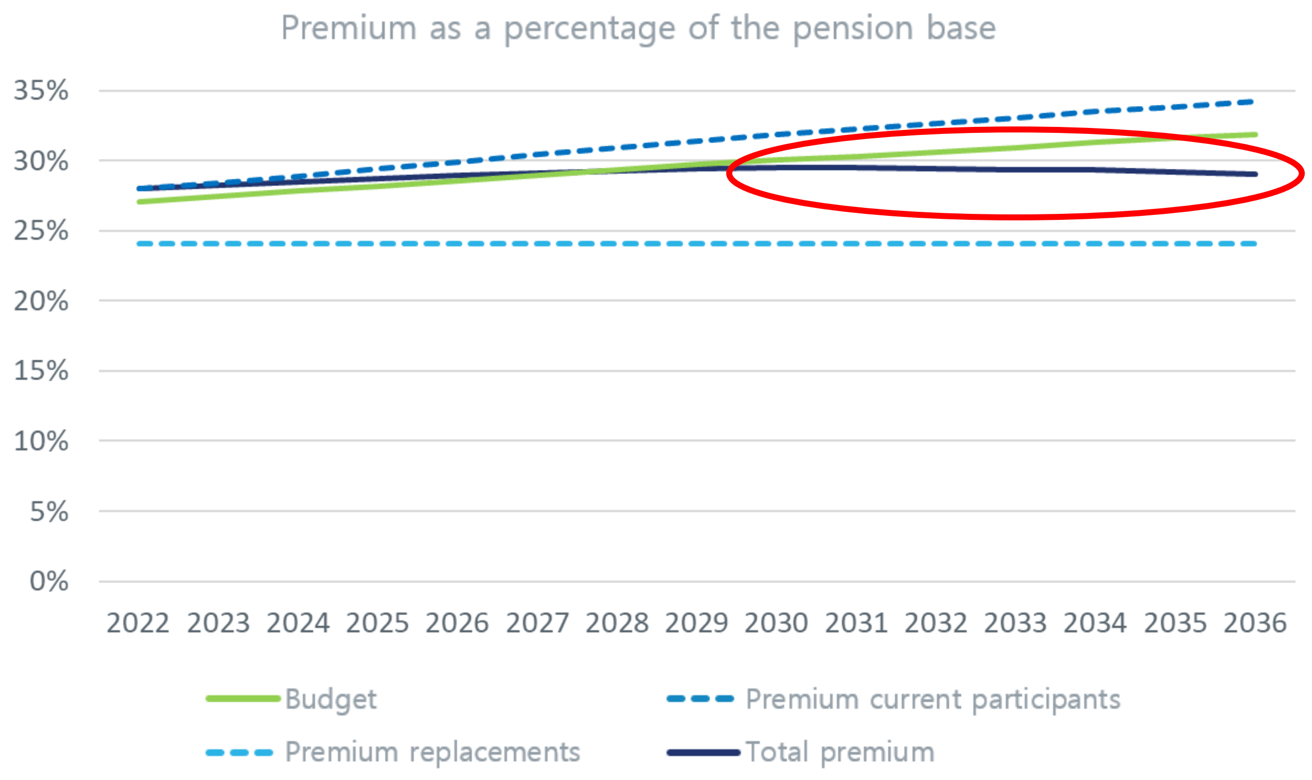
What is the impact?

Employer with Defined Contribution scheme

Benefits package

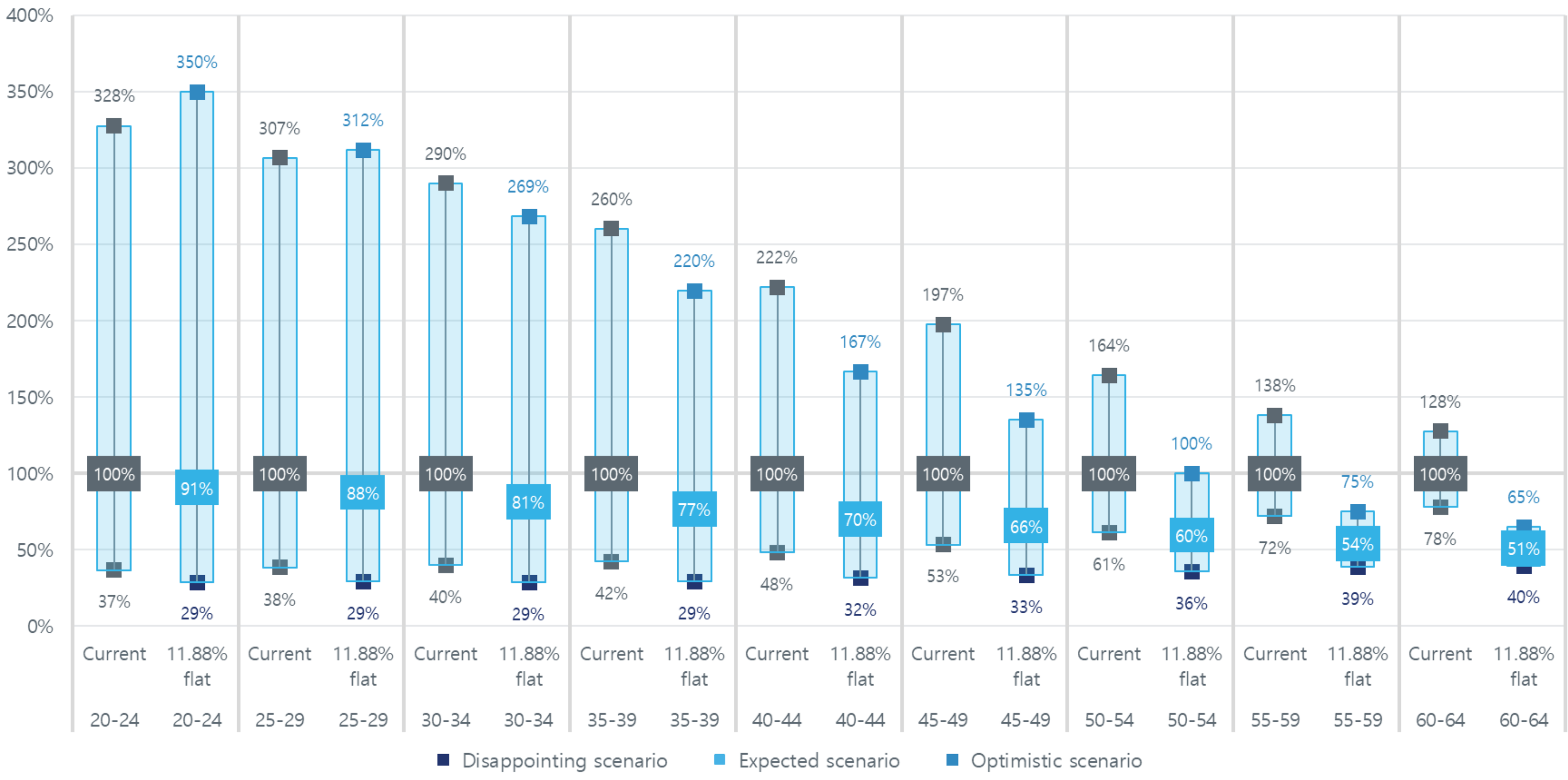
New system could be perfect moment to rethink the Total reward package

- Introduce flexible budget with (part of) the pension budget
- Give employees choices on their benefits
- Have a more global look on the benefits within the company



Example of a budget calculation

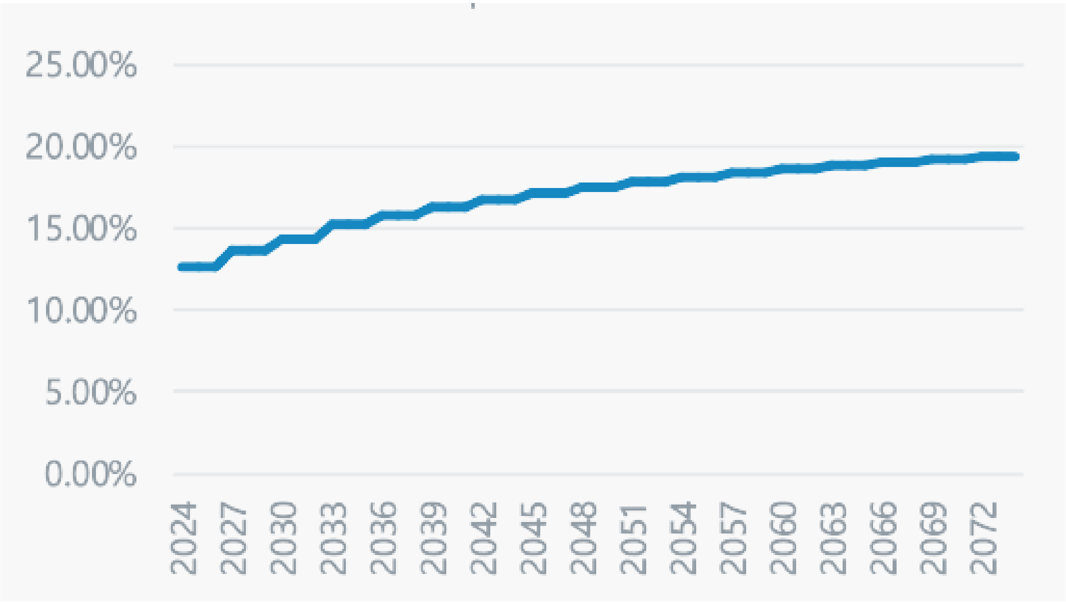
Flat premium | Outcomes compared (not for pension funds)



- With same budget a lower outcome for many to all **new** employees (depending on situation)

Unique M&P-solution: progressive flat premium

- Change from a **fixed premium** with an decreasing budget to a **progressive flat premium**
- The fixed premium will be increased every 3 years depending on the real costs (actual leavers and new employees), based on today's agreement on budget.
- Result: higher pension outcome for new employees with today's budget cap.



What is the impact?

Employer with Defined Benefit (DB) scheme

Example employer B:
Pension scheme: DB scheme

Defined Benefit (DB) is per 1 January 2028 no longer possible -> 2 options:

1. Switch DB scheme to DC scheme with flat rate per ultimately 1 January 2028 (with compensation).
   -> New hires can join the same scheme

2. Switch DB scheme to DC scheme with using graduated scale per ultimately 1 January 2028 (with compensation)
   -> New hires need to be enrolled to a 2nd DC scheme using flat rate premium

Only possible for DB scheme at an insurer, not for pension funds.

Impact on partner + orphan pension

Employer with Defined Benefit (DC) and Defined Benefit (DB) scheme

- Insurance on risk basis
- New system: Insured amount partner pension is **X% of salary (max. 50%)**
- For current and new employees, so it changes for everybody
- The insured amount is no longer related to years of service up to 68.

Example of calculation partner pension in current system:

- salary:	€ 65,000
- offset:	€ 16,322
- age (at start of employment):	42
- retirement age in scheme:	68
- possible years of service:	26
- accrual percentage:	1.16% per year of service

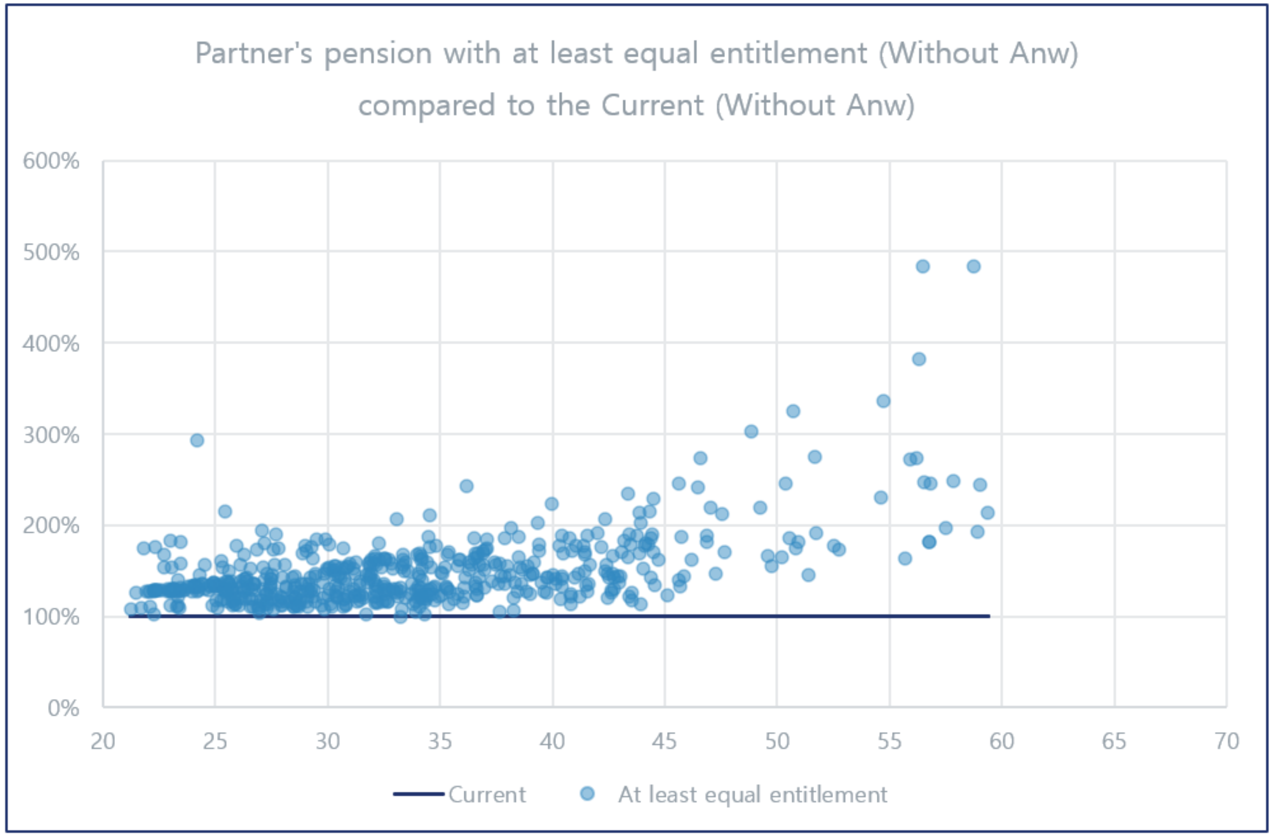
Calculation of 2023 insured partner pension amount:

-> (€ 65,000 -/- € 16,322) x (26 x 1.16%) = **€ 14,681** **(=22.6% of salary)**

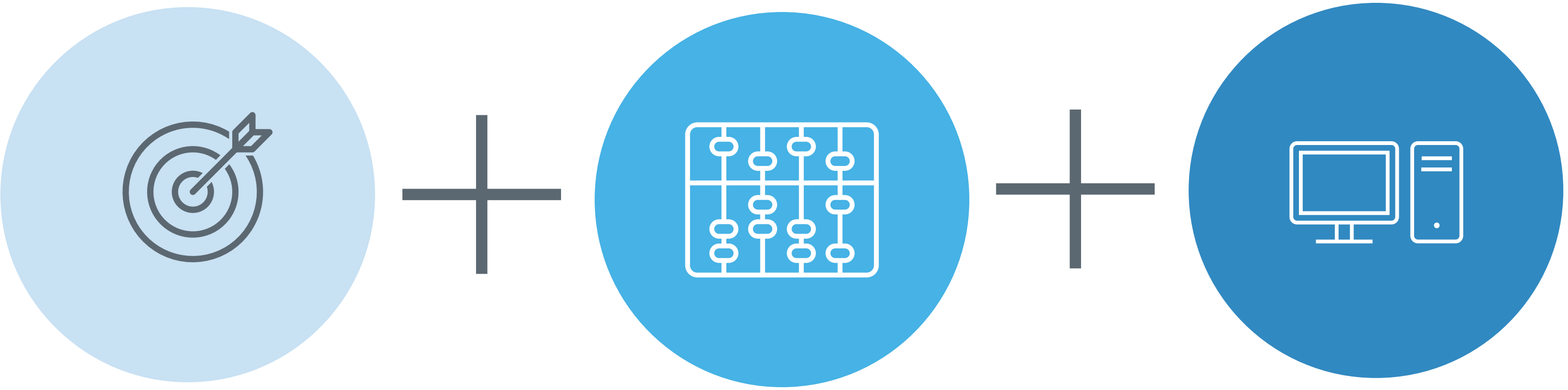
Impact on partner + orphan pension

Employer with Defined Benefit (DC) and Defined Benefit (DB) scheme

Example of a partner pension analysis



Pension part of Total Rewards



Goals company

How do the employee benefits support the goals that are set by the company?

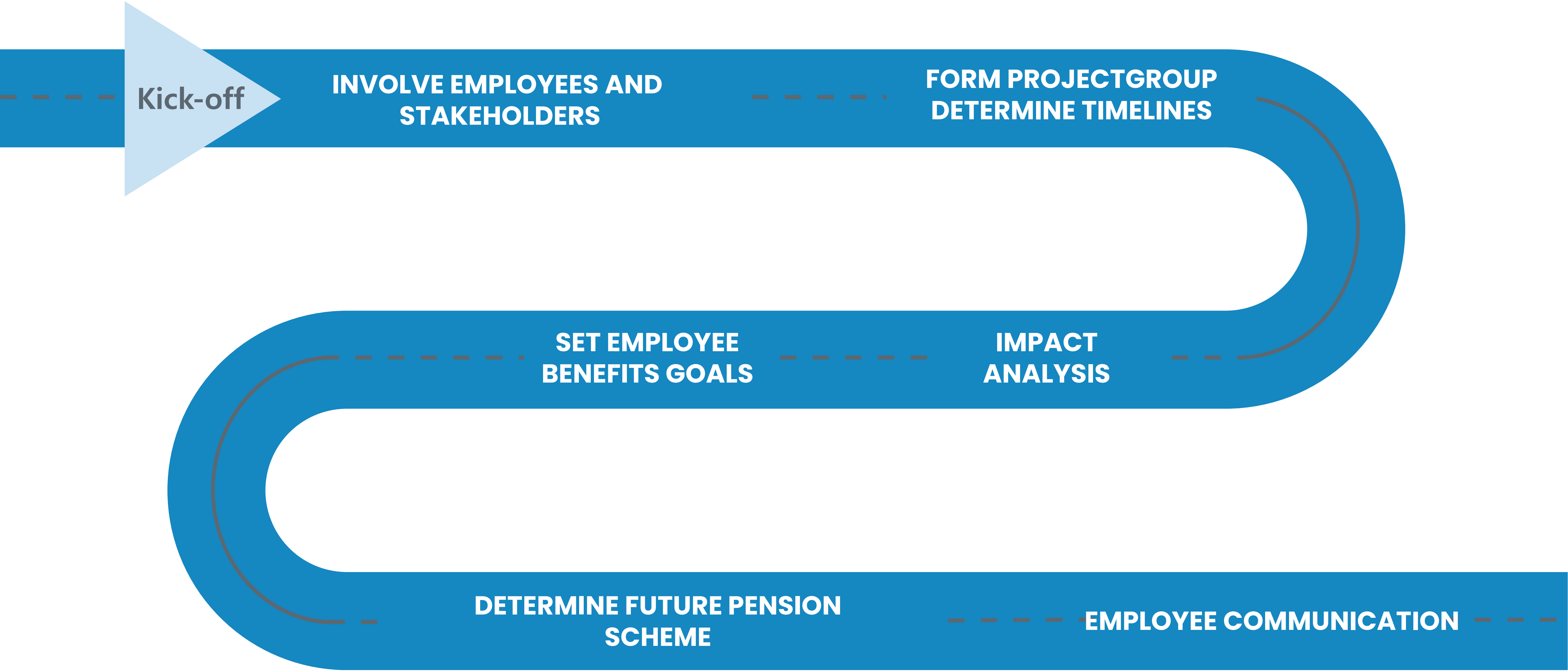
Design employee benefits

Are the rewards and terms of employment been designed in a good way?

Access and use

What is de employee experience like?

Steps to be taken -> roadmap



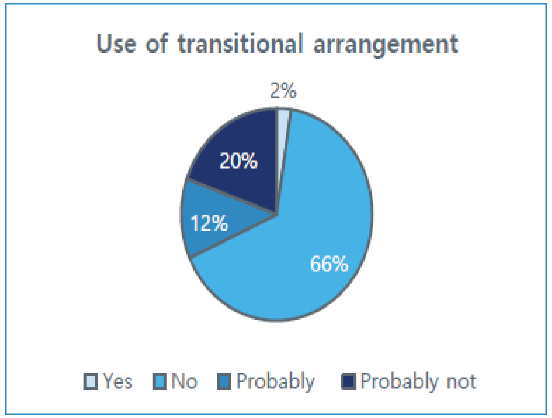
Future Pensions Act - conclusions

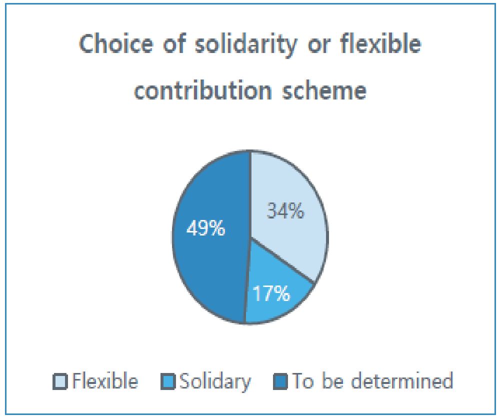
- Starts on 1 July 2023 – 1 January 2028 pension deadline to be pension proof
- Make a transition plan before 1 October 2026
- **In short, the Future Pensions Act entails:**
    - Only **defined contribution** schemes
    - Max. pension **fixed** premium **30%** (+ until 2037 possibility of 3% compensation)
    - 2 schemes or 1 with compensation? Check possibilities to administrate and the queues at the provider.
    - Partner + orphan pension: on a risk basis independent of service time, max 50% of salary. Costs will be higher.
    - Start on time and communicate!

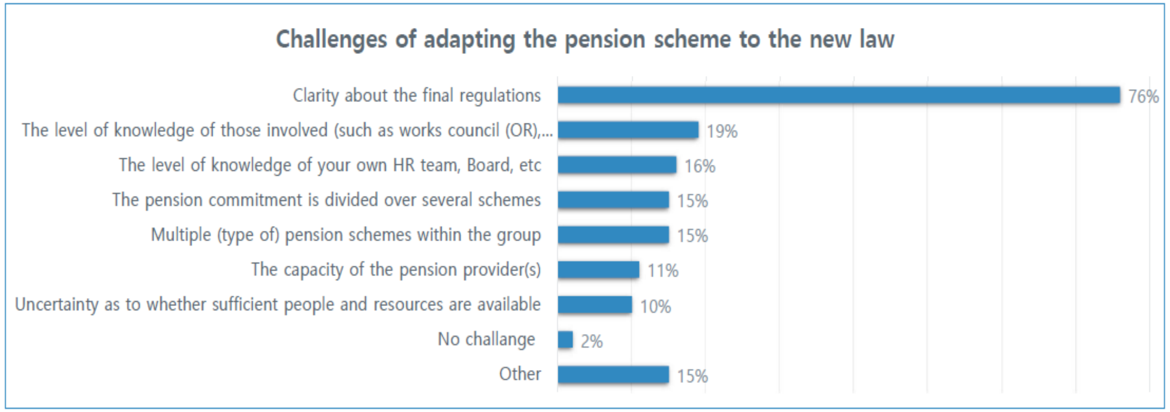
Future Pensions Act

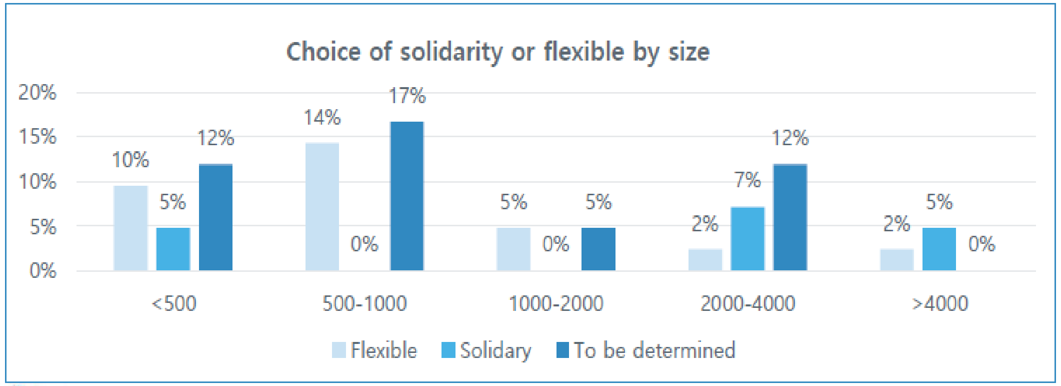
PensionBarometer – For free

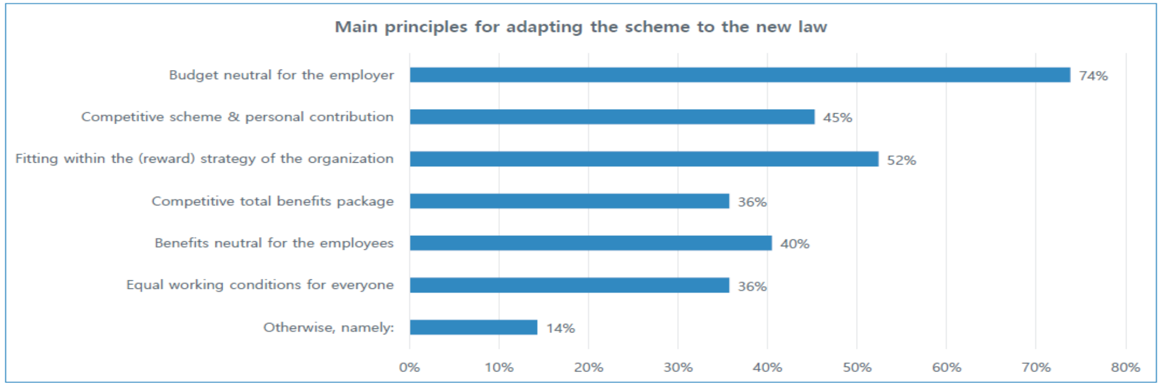
- For all insights on Pension Acts
- This report provides insights into the current state of adapting pension plans to the new pension law
- (100+ large employers):







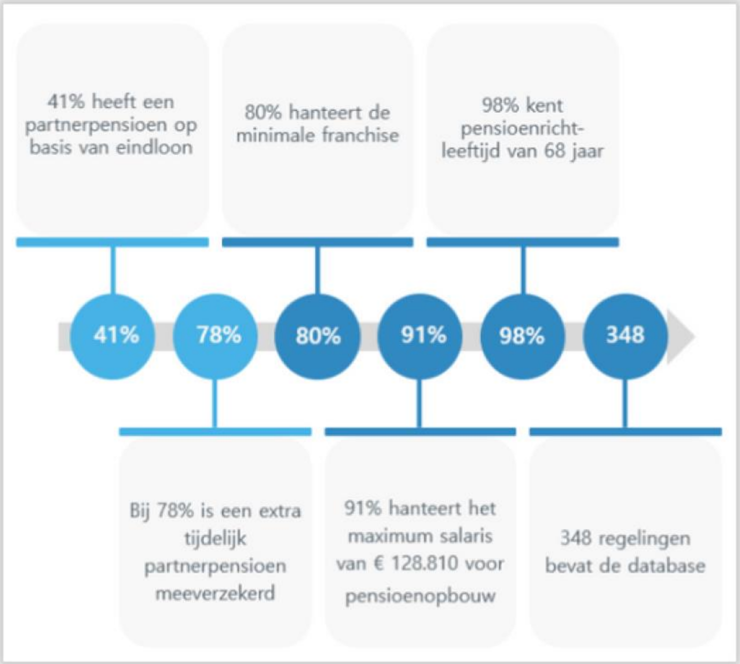


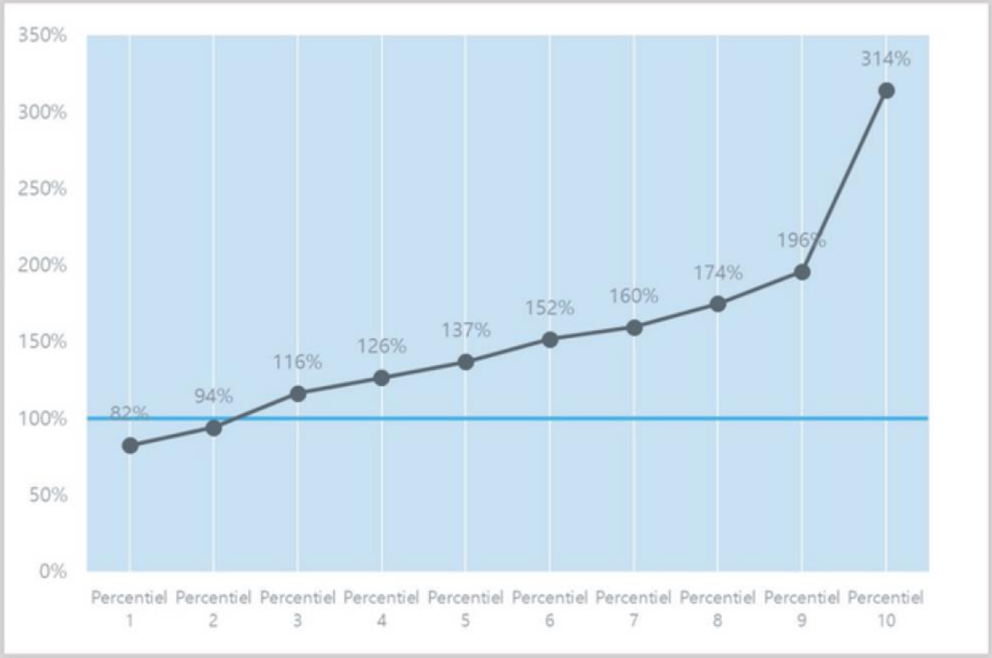


Future Pensions Act

PensionBenchmark
For benchmarking the quality of your pension scheme to:

- The Netherlands in general, or
- Sector, or
- Peergroup





Montae & Partners

Make sure you know the impact and determine if you want to act now or later.

Thank you!

Roadmap

How and when to start?

- Make a plan, when to start
- 1,5 years al least before end date providers contract
- But also depending in changes: growth, buy-out, changes in organsiation etc.
- Pension plan changes our not on itself: it requirs a full Total Reward-review
- Set up a workgroup / commission

Roadmap

Involve employees and stakeholders

- Inform your employees along the process, but only make in concrete once something has been decided.
- Clearly convey the risks, but don't make it too complex
- Create accessible communication and use a combination of digital communication and personal contact. -> For example: conduct a survey to find out the risk appetite of the employees.
- The message is: we are doing this transition together
  -> employees have more influence on their pension than in the past.

Roadmap

Form project group

- Put together a project group consisting of different stakeholders to gain support
- Pensions is complex -> upgrading the knowledge level of project group is recommended

Roadmap

Impact analysis

- Get insight on budget in different scenario’s and elements

    - Current and new situation
    - Determination of height flat premium versus increasing premium (graduated scale)
    - Compensation budget
    - Duration of temporary higher budget

Roadmap

Set employee benefit goals

- Set basic goals employer.

  For example:

  - Maximum costs
  - Importance of employability
  - If there are more different schemes -> harmonize all schemes or not?

Roadmap

Determine future pension scheme

- Decission making on basis of
  - \> Impact analysis
  - \> Set goals
  - \> Works Council negotiations

- If the contract of the pension provider is ending, make sure you do a full market review
- Put sustainabililty on the agenda:
  - Investments
  - ESG-policy of the provider

Roadmap

Employee communication

- Employee consent is needed (if no CLA)
- Show the impact of the transition on the basis of individual calculations
- Organize (online) info sessions

More about: Montae & Partners | Söderberg & Partners

140 EMPLOYEE BENEFITS SPECIALISTS

For knowledge, expertise and guidance

- Pension specialists
- Health & Income specialists
- Actuarial specialists
- Legal specialists
- Etc.

1 POINT OF CONTACT EMPLOYER

EB consultancy
Pension management (administration, communication & transition)
Case management
Sustainable Deployment

HIGLY EXPERIENCED

Buy & build companies
Due diligence
Acquisitions
Governance

INNOVATIVE HR RELATED IT TOOLS

Innovative tools to support employers and employees with EB related subjects

Riskprofiler Penformance

1 POINT OF CONTACT EMPLOYEE

Onboarding
Life event communication
EB related questions
Financial planning
Sustainable employability

PARTNER IN BUSINESS