# Will the new Dutch Vitality Scheme be a success?

**Dr. Lei Delsen and dr. Jeroen Smits**

Radboud University Nijmegen
Institute for Management Research
Department of Economics
P.O. Box 9108
NL 6500 HK Nijmegen
The Netherlands
tel:. +31 24 361 58 90
fax: +31 24 361 23 79
e-mail: L.Delsen@fm.ru.nl
e-mail: J.Smits@fm.ru.nl
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***Abstract***
*Since 1994 Dutch employees can save tax free to build up financial assets in the voluntary Salary Savings Scheme. From 2006 Dutch employees can also choose to save in the Life Course Savings Scheme. The latter scheme offers employees the opportunity to save tax free to finance periods of unpaid leave. The present Dutch government decided that the two schemes will be merged into a new so-called Vitality Scheme from January 1, 2013. The new savings scheme intends to give citizens more freedom and responsibility to shape their career themselves. In this paper we wonder about the conditions under which the new scheme will be a success. This will largely depend on its ingredients, the number and the personal characteristics of the participants, the reason for which they participate, but above all on the accumulated individual savings. To bring more understanding the main characteristics of the three savings schemes are reviewed and compared, and the accumulated amounts and the participation of civil servants in the two existing schemes are analysed. Bivariate and multivariate analyses of the participants confirm the complementarity of the life-course savings scheme and the salary savings scheme. The small size of the savings per employee within the Salary Savings Scheme and the low participation in the Life Course Savings Scheme point to the fact that the contribution of the integration to the objective of the new Vitality Scheme will be limited. Integration of both schemes will not reduce the adverse selection inherent in individual savings schemes. The paper concludes with some recommendations for the design of the Vitality Scheme.*

### 1. Introduction

Since 1994 Dutch employees can save tax free to build up financial assets in the voluntary Salary Savings Scheme (*Spaarloonregeling*). From 2006 Dutch employees can also choose to save in the for Europe unique Life Course Savings Scheme (*Levensloopregeling*). The latter scheme offers employees the opportunity to save tax free to finance periods of unpaid leave. The present government-Rutte according to its coalition agreement (Coalition Agreement, 2010) wants to enable people to find a good balance between paid work, care, volunteering, education and leisure. An actual increase in the employment rate, according to the Rutte government, can only be achieved if there are enough opportunities to flexibly combine work with other activities. Related to this, in the coalition agreement it is announced that the Life Course Savings Scheme (LCSS) and the Salary Savings Scheme (SSS) will be merged to produce a new so-called Vitality Scheme (*Vitaliteitsregeling*) (VS). The VS offers staff the possibility to save tax free a portion of the net salary to assist in care responsibilities, to attend training, to set up their own business, to offset a salary reduction if an employee accepts a job lower (demotion) or part-time pension. The VS scheme cannot be used to take early retirement (Coalition Agreement, 2010). With this VS the Cabinet gives citizens more freedom and responsibility to shape their career themselves.

In 2011 the LCSS and the SSS remained unchanged. In 2011 the government discussed the new scheme with the social partners. The replacement of the LCSS and the SSS by the VS is an important component of the so-called Vitality Package (*Vitaliteitspakket*).[1] The Cabinet has, in consultation with the social partners, developed various measures aimed at increasing the employment rate of older workers and increasing the sustainable employability of workers. In a number of letters Henk Kamp, Minister of Social Affairs and Employment, informed the House of Representatives about the details of that package (see Kamp, 2011a, 2011b, 2011c). The Vitality Package is shaped along three lines: working longer, mobility and career facilities. The employment credit for the elderly, the age and income related work bonus for employees, the SSS and the LCSS will be replaced. In addition to the introduction of the VS it includes e.g. an annual employment bonus (€2,350) for employees aged 61 and over[2], a continuation of the annual work bonus (a social security contribution discount of €1,750) during three years for employers to keep employees of 62 and over in service, a mobility bonus during three years for engaging older employees (a contribution discount €3,500) of 55 years and over and engaging older benefit recipients (€7,000) of 50 years and over, and a reduction by half (€250) of the threshold for tax deduction of education expenditure. This Vitality Package will gradually be introduced in 2012 and 2013.

Because the VS is a continuation of the LCSS and SSS, an analysis of participation in the latter two arrangements provides insight into the expected participation and savings in the new scheme and allows to put forward suggestions for improvements of the VS scheme. This article presents such an analysis. Whether the new integrated scheme will become a success depends on its ingredients, the number of participants, the personal characteristics of the participants and their needs and preferences, on the height of the deposit and on the accumulated individual savings. To determine the extent of complementarity of the LCSS and the SSS in this paper the volume of the amounts of euros saved and the participation of civil servants in both schemes are compared and analysed.

The paper is organised as follows. The following three sections review and compare the main characteristics of the Salary Savings Scheme (Section 2), the Life Course Savings Scheme (Section 3) and the new Vitality Scheme (Section 4). Next in Section 5 figures on participation and money put in the SSS and the LCSS over the period 2006-2010 are discussed. Bivariate and multivariate analyses of data from 35,000 civil servants on the participation in the two schemes are presented in Sections 6 and 7. Based on these results in the final Section 8 conclusions are drawn on the potential participation in the VS and proposals are made for improvement of its design.

## 2. Salary Savings Scheme

The voluntary Salary Savings Scheme (SSS), which was introduced in 1994, is a tax expenditure to stimulate building up financial assets by lower-paid workers and to create flexibility in the wage formation (Bikker, 1994, 2002; Cox, 2002). This simple scheme

[1] The Vitality Package was part of the central agreement – the Pension Agreement - of June 10, 2011, concluded by the social partners and the Cabinet. It also includes a rise of the current legal pension age of 65 by 2020 to 66 years and in 2025 to 67 years, a flexible basic pension retirement age, and stable pension contributions.

[2] After consultation with the trade unions the government reduced the age from 62 to 61. People who continue to work till age 65 receive up to a total of four times this amount.

allows employees saving a maximum amount of gross pay per annum, tax and social insurance premiums free. Access to the funds is blocked for four years. The SSS does not require savings towards a particular goal. After four years, the saved amount can be cashed in tax free and used freely. For specified purposes it can be withdrawn tax free within this four-year period. The employer is not legally required to offer employees the possibility to participate in a salary savings scheme.

Over the past years, the content of the SSS has changed. The SSS has been made less attractive for employees, more expensive for employers and less expensive for the tax authorities. The maximum savings amount was frozen for several years and in 2003 reduced to €613 per year and has since not been adjusted for inflation. Over time the payroll tax for employers increased from 0 percent to 25 percent of the deposit. The possibilities for intermediate deblocking the savings gradually increased. Initially the amount saved could only be used within the four-year period for purchasing a house or paying premiums for pension insurance. Over the past years these specified purposes have been extended; compensation of wages forgone due to (partially) unpaid leave, coverage of training costs, child care cost and cost of starting an own company were added. As a result the SSS increasingly resembles the more recent LCSS.

Also as a result of interim deblockings by the government to stimulate the economy in 2003, 2005 and 2010 the original purpose of sustainable wealth creation among employees increasingly disappeared to the background. Offering workers greater choice and thus greater sovereignty – in particular when conditions are individualised and made actuarially fair - may be accompanied by adverse selection on the labour market. Due to budgetary constraints not every employee will be able to save money. A major drawback of the SSS is that, unlike its purpose, especially the higher income earners benefit from the tax advantage. The majority of the participants have a relatively high income. Also the wage moderating effect is very limited. The SSS is not gender neutral (see Vording and Caminada, 2000; Goudswaard and Caminada, 2006; De Mooij and Stevens, 2002).

Participation in the SSS was much higher than the government expected. This also applied to the cost for the Treasury. The scheme therefore seemed to perish of its own success. Because of these problems the short-lived cabinet Balkenende I presented in its Coalition Agreement (2002) a first worked-out plan to abolish the popular and costly SSS from 2003 and replace it by a LCSS. Trade union confederations Netherlands Trade Union Confederation (*Federatie Nederlandse Vakbeweging*, FNV) and Christian National Union (*Christelijk Nationaal Vakverbond*, CNV) were against the abolition of the SSS, because the proposed arrangement was less favourable. The Balkenende II cabinet proposed an adapted LCSS (Coalition Agreement, 2003). After several turbulent years of confusion and disagreement between government and social partners in the fall of 2003 it was finally decided to introduce the LCSS next to the SSS. As a compromise, it was determined that participation in both the SSS and the LCSS in the same calendar year would not be allowed (see De Mooij and Stevens, 2002; Delsen, 2007; Delsen and Smits, 2010).

In line with the Coalition Agreement (2010) the fiscal facilitation of the SSS was abolished on January 1, 2012.[3] To profit for the last time from the tax advantage 267,000 people opened a SSS account between October and December 2011. The costs for the government are around 40 million euro. The Rutte government motivated the abolition of the SSS as follows: the scheme is complicated for workers, causes red tape and is expensive for employers, and for the banks offering salary savings accounts is barely profitable because of the combination of a low maximum annual amount and the deblocking possibilities (Tweede Kamer, 2011a; 2011b). Unlike in the past, the budgetary reason was absent.

As the VS will be introduced in 2013, the abolition of the SSS by 2012 implies that employees have one year without the opportunity to save fiscally facilitated. This will limit the shift from participation in the SSS to the VS. According to the FNV the VS scheme should be introduced as early as 2012, to enable employees to save tax-advantageous in 2012. The government has the financial resources because the reduction in transfer tax costs less than expected, FNV argued. The government opposed. The accumulated capital in the SSS is in principle freely available in 2012, but the participants can also keep the credit and continue to make use of the tax exemption of the returns. The exemption will then in addition to any withdrawal automatically be reduced each year and will expire by January 1, 2016.

## 3. Life Course Savings Scheme

The Life Course Savings Scheme (LCSS) introduced on January 1, 2006 is an individualised saving system that requires that employees take personal responsibility for funding of unpaid leave such as caring for children or for ill parents, educational leave, travelling, sabbatical or (partial) early retirement, while continuing the original employment relationship. The social partners are free to adapt the LCSS to the specific circumstances of an industry or enterprise. The aim of this individualised voluntary scheme is work-life balance over the life cycle, to create freedom to plan the life course and to increase the employment participation of women and older workers. Unlike the SSS, employees have a legal right to participate in the LCSS. Employees may save a maximum of 12 percent of gross salary per annum income tax free to finance periods of unpaid leave. Employers are allowed to contribute to the employee savings. The contributions must also be provided - taxed - to employees who do not participate in the scheme. The maximum saving amounts to 210 percent of the last earned gross salary. In 2011 the modal gross annual wage in Netherlands was around €27.900; 210 percent is around €58.000. It allows workers to finance three years of unpaid leave at 70 percent of their usual wage. Returning to their former position with their employer may be problematic if not impossible after years of absence. It may moreover result in reduced career and earnings advancement. Employees receive an inflation indexed tax credit (€201 in 2011) for each membership year when leave is taken, regardless of the amount of the annual deposit. Participating employees taking unpaid parental leave receive an additional tax credit equal to 50 percent of the gross minimum wage per day of unpaid leave. Taxation is

[3] The cut is used by the Rutte I government to finance a temporary (for a period of one year, till July 1, 2012) reduction from 6 to 2 percent of the transfer tax (*overdrachtsbelasting*) levied on the acquisition of property, to encourage people to buy houses.

deferred until the time when the saving is withdrawn. This delayed taxation is called the ‘reversal rule’. Also, the returns on the fund are untaxed. The competing SSS is more favourable. The SSS concerns an exemption from taxation while the LCSS concerns postponement of taxation.

A major drawback of the LCSS is that the spending freedom is restricted. The money can only be used to finance unpaid leave, including early retirement. Moreover, only people with a job can take up leave. Taking leave is not a right; leave is only possible in consultation with the employer. Although the tax advantage of the LCSS does not increase with the salary level (Goudswaard and Caminada, 2006), lower-paid workers and less productive workers have less savings possibilities and thus are forced to work longer hours or more years. This indicates adverse selection. The LCSS is neither gender nor age neutral. The LCSS also has other shortcomings (Delsen and Smits, 2010). The tax treatment encourages the use of the scheme to retire early, for in case the savings are added to the pension savings the LCSS tax credit expires. There is no provision that supports the use of the LCSS for training. The contribution to employment participation is still unclear and could be negative. The contribution to reducing the hectic during the rush hour of life is (still) limited. Given these drawbacks it is not surprising that participation in the LCSS was substantially lower than expected by the government. This low participation and the fact that some groups of workers have difficulty to participate also imply that the contribution to free choice of individuals to plan their life course is limited. Already in 2006 the tripartite Social-Economic Council (SER, 2006) proposed the following changes in the LCSS: use between two employment contracts, combining SSS and LCSS while maintaining the spending targets, widening access to people without employment contract, start-up self-employed and sole traders, use LCSS for specified leave (care and educational leave), and unspecified purposes (generally unpaid leave).

In the coalition agreement of the Cabinet Balkenende IV (Coalition Agreement, 2007) changes were announced in the LCSS that address the existing shortcomings. The LCSS would be further expanded and designed in such detail that the scheme supports (permanent) employment participation across the full length of the working life and that also the start of a private company, the period between two jobs or transition to part-time work can be bridged. In consultation with the social partners it would be reviewed or, and if so how, the SSS can be integrated with the LCSS and be open to self-employed persons and sole traders. Study entitlements for education and training facilities and saving towards extended parental leave will be linked to the LCSS. The use of the LCSS for early retirement would be further focused on the use for part-time pension and the LCSS could be made more accessible, in particular for people with lower incomes. In its confidential discussion report the bipartite Foundation of Labour, the consultative body of the social partners, suggested to extend the use and free choice of the LCSS to facilitate combining work, care and study, demotion and transitions from employee to self-employed entrepreneur, between full time and part time, between two jobs, reduce the administrative burden for the employer, do away the present employer contribution to non-participants, and end competition between SSS and LCSS. Apart from design, according to the social partners the employees’ lack of confidence in the government policy concerning the LCSS is an important explanation for the low participation rate (STAR 2008). In the same year 2008, the Cabinet wrote in a policy note (MinSZW, 2008) that neither changes in the target group, nor changes in the usage possibilities of the LCSS are desirable.[4]

In line with the Coalition Agreement (2010) the LCSS was abolished by 2012. In the Tax Plan (*Belastingplan*) 2012 it was announced that the LCSS in 2012 would remain open for employees who at the end of the year have a positive balance and from 2013 only for employees of 58 years of age and older (Tweede Kamer, 2011a; 2011b). After consultation with the trade unions about the Pension Agreement, the Cabinet adapted the transitional arrangement (see Kamp, 2011b, 2011c). This transition arrangement not only is very complex, it also is a long-term phenomenon (Van Oostwaard, 2011). The scheme is still kept open from 2012 to participants who already have a balance in the LCSS at December 31, 2011. Participants with a balance less than €3,000 in 2012 and 2013 may not make additional deposits. But the balance in 2012 and 2013 can be used for leave or withdrawn before pension age. From the year 2013, only participants who accrued €3,000 or more on December 31, 2011, can use the LCSS until the present statutory retirement age of 65. These participants may still deposit money, but from 2012 they no longer accrue the LCSS tax credit. In 2013 all participants in the LCSS can shift their balance untaxed from the LCSS into the VS. Of those participants who accrued less than €3,000 at December 31, 2011 and who do not transfer their LCSS balances to the VS in the year 2013, the balances will be paid and taxed as wages in 2013. From the year 2014, only €20,000 can be transferred untaxed from the LCSS to the VS. The excess amount is taxed. People who once take part in the VS, can no longer participate in the LCSS.

## 4. Vitality Scheme

To increase employment participation of older people and long-term employability, the government-Rutte I announced plans to integrate the SSS and LCSS - budget neutral - into a new Vitality Scheme (VS). The VS is an individual flexible savings scheme that will support care obligations, following training, setting up their own business, demotion or part-time pension, and will not allow for early retirement (Coalition agreement, 2010). In the Tax Plan 2012, which includes various fiscal measures arising from the coalition agreement, presented to the Second Chamber in September 2011, the Vitality Scheme is also referred to as Vitality Savings (*Vitaliteitssparen*) and Flexible saving (*Flexsparen*). People get the freedom to use the credits of the VS quickly and without red tape at the time that they need additional financial resources. People can also decide freely on what the credit is spend. The government considers the VS especially advantageous in situations which involve an income decline, such as withdrawal for care leave, study and part-time pension. These are situations, which, according to the coalition agreement should be encouraged (Tweede Kamer, 2011a; 2011b). The VS will be introduced on January 1, 2013.

[4] The only change that took place was that from 1 January 2009, the right to the parental leave tax credit no longer requires the condition of participating in the LCSS. It was expected that this will have a negative impact on participation in the LCSS (Delsen and Smits, 2009). Indeed, both the absolute number of participants and the participation rate dropped in 2009 (see Table 3).

The main characteristics of the SSS, the LCSS and the VS are summarised in Table 1. The VS has more similarities with the LCSS than with the SSS. Some shortcomings of the SSS and the LCSS mentioned in the previous sections are addressed; others inherent to individualised savings schemes remain.

| Table 1. Major aims and ingredients of the Dutch Life Course Savings Scheme (LCSS), the Salary Savings Scheme (SSS) and the Vitality Scheme (VS) | | | |
|---|---|---|---|
| | **SSS** | **LCSS** | **VS** |
| Major aim | Building up financial assets | Employment participation and work-life balance | Employment participation |
| Target group | Employees | Employees | Employees and entrepreneurs |
| Maximum savings | €613 of gross wage per year up to a maximum of €2,452 | 12% of gross wage per year up to a maximum of 210% of gross wage | €5,000 per year from net salary up to a maximum of €20,000 |
| Participation a legal right | No | Yes | Yes |
| Free spending targets | Yes | No, only on unpaid leave | Yes, but from age 62 a maximum of €10,000 per year |
| Flexible withdrawal | No, blocked for four years | No, employer's consent required | Yes |
| Savings tax exempt | Yes | Yes | Yes |
| Returns tax exempt | Yes | Yes | Yes |
| Withdrawal tax exempt | Yes | No | No |
| Tax credit | No | Yes | No |

Relative to the SSS and the LCSS the VS is more open; not only employees, also entrepreneurs and self-employed without personnel/freelancers can participate. The VS scheme is explicitly intended as compensation for people with income from employment to keep this group so long and vital as possible in the labour market. It provides a financial buffer in case of e.g. change of job, parental leave, income supplement of benefits or lack of contracts. The government expects that approximately 1 million workers will participate (Tweede Kamer, 2011a; 2011b).[5] Freedom of choice can lead to people who participate in the VS not to work part-time, but choose to (temporarily) stop working completely. The government subsidises then only free time. This does not contribute to a balance between work and other activities, let alone increased employment rates. Full early retirement followed by gradual early retirement are the main motives to participate in the LCSS. Study leave is the least mentioned reason to participate (Delsen and Smits, 2009; 2010). The contribution to employability is therefore small. In the planned VS initially only saving to complement a partial pension was possible. This is expected to have a negative effect on participation in the scheme and the amounts saved. The social partners are against this restriction of use. They consider maintaining the possibility to save and use for early retirement desirable, as in the LCSS. If workers at retirement age still have a balance, they should be able to deposit this in their pension scheme to have a higher pension. The worker himself at the end of his career-job has to balance between early retirement and a higher pension. The Foundation of Labour considers a VS conceivable when this can also be used for early retirement, or in addition to the new arrangement the LCSS continues in its present form. Its aim should be to encourage people to remain vital for the work and increase employability (STAR, 2011). After consultation with the social partners, unlike the statement in the 2010 Coalition Agreement, in the final version of the VS saved amounts can be used freely. There are no particular goals for taking up savings from the VS

[5] Representing 13 percent of the employed workforce (about 7.5 million persons in 2011). Source: Statistics Netherland (CBS) statline, own calculations.

(Tweede Kamer, 2011a; 2011b). The money saved in the VS is more flexible and more freely available relative to SSS and LCSS. It can be used e.g. for part-time retirement or to complement income in case of early retirement. To prevent unintended tax rate advantages, the take up of the credit needs to take place before reaching the pensionable age of 65 (Tweede Kamer, 2011a; 2011b). It is an incentive to retire early similar to the one present in the LCSS. The latter is at odds with the central aim of the VS. Moreover, although the credits are freely available, like in the LCSS workers still are depending on their employer to leave (Van Oostwaard, 2011). This will have a negative impact on the participation rate as well as on the amounts saved.

The VS allows saving each year - tax free - up to €5,000 from the net wage and the total may not exceed €20,000. Banks, asset managers of a financial institution (collective investment schemes) and insurance companies may offer the personal vitality saving product. Like in the LCSS this may be a savings account, an investment product (shares) or an insurance product (in most cases a life insurance). Vitality saving requires a written agreement between the taxpayer and a provider; the taxpayer is the only beneficiary/rightholder (Tweede Kamer, 2011a; 2011b). The maximum saving of €20,000 is much higher than in the SSS but considerably lower than in the LCSS. Relative to the LCSS the VS is less interesting for middle- and higher income earners, limiting participation as well as adverse selection. Relative to the SSS the leave period may be longer. Like in the LCSS, if a saver takes up an amount, he/she can complement that money again. Within the VS savings are from the net wage, implying a considerable reduction of the administrative burden for the employer of €3.7 million. The administrative burden for citizens shows a limited rise, by 50,000 hours (Tweede Kamer, 2011a; 2011b). Although the deposit is tax deductable, relative to tax exempt savings from gross wage it implies more tax revenues for the Treasury. Like in the LCSS employers are allowed to agree in collective agreements to contribute to employee savings in the VS.

Gradus and Van Asselt (2011) recommend allowing a higher maximum for specific targets in the VS. Van Oostwaard (2011) considers the maximum amount sufficient as a buffer to supplement an unemployment benefit, but insufficient to compensate a drop in contracts of the self-employed or to finance a sabbatical leave. He recommends a budget neutral introduction of a savings scheme - similar to the SSS - including a longer blocking period and more premature tax free deblocking opportunities. Every year a maximum of €5,000 can be saved, partially (e.g. 20 percent) income tax exempt. Amounts saved and returns are equity tax exempt. Access to the funds is blocked for ten years. This period is necessary in order to build up savings of sufficient size (€50,000). Like in the SSS after ten every years the saved amount can be cashed in tax free and used freely. For a limited number of specified purposes the funds can be withdrawn tax free within this ten-year period, including various forms of leave, unemployment, disability, demotion and reaching retirement age, or a specific period before that to prevent early retirement. The Treasury checks the premature release. Like in the LCSS participants can partly income tax exempt complement that money again.

The fiscal facilitation of the VS is similar to the LCSS; the reversal rule applies. However, the VS does not include a flat tax credit, making it less attractive and less accessible for the lower income groups. Participation is discouraged and adverse selection is emphasised.

Withdrawal (part) of the balance is taxed. Providers of the vitality saving product withhold 42 percent payroll tax. At the settlement in the income tax the taxable person, depending on the applicable marginal rate, has to pay complementary income tax or is entitled to a tax refund (Tweede Kamer, 2011a; 2011b). This later correction by the income tax assessment can be a hefty setback for the participant and does not render the scheme more attractive (Van Oostwaard, 2011). Initially, to limit saving to finance early retirement, for anyone from 61 years in case of withdrawal of over €10,000 per year, not only the withdrawal, also the full credit would be taxed (Tweede Kamer, 2011a; 2011b). In the final version of the VS the age was raised to 62 and a maximum withdrawal of €10,000 per year is allowed (Kamp, 2011b). This promotes part-time pension and limits full-time pension in line with the arrangements in the coalition agreement. Full early retirement will be more difficult and more expensive than in the LCSS. Complementary income or savings is required to arrive at a minimum net monthly retirement income. Limiting this valued retirement option together with the limited fiscal facilitation may reduce participation in the VS below the participation rate in the LCSS. The fact that the participant does not have to pay taxes over the saved amount until he/she withdraws money is advantageous for the persons who use the system in a period of a drop in income or when taking leave. For other people, there is hardly any advantage. It may even be disadvantageous if promotion implies movement into a higher tax bracket. Moreover, the returns on the VS savings are taxed as income. Compared with saving on a regular savings account, the advantages of participating in the VS are limited. There is already an equity tax exemption for everyone of € 21,139 in 2012) for the taxation of savings on a regular savings account. Only people who are able to save more than this amount can profit from the equity tax exemption of the amounts saved.

**Table 2. Reasons for participating in the Vitality Scheme**

| Goal* | |
|---|---|
| Care/parental leave | 8 |
| Education leave | 2 |
| Part-time pension | 57 |
| Unemployment | 23 |
| Disability | 8 |

Source: Knoef, Adriaens and Nelissen (2011). * Respondents could mention a maximum of two motives.

Like the LCSS, the VS has no specific provisions to support spending saved money on care, parental or educational leave, although these may contribute to vitality and employability of the workforce. The chance is therefore small that participants start saving for these goals. Data from the CentERpanel – an internet questionnaire among Dutch households – confirm this. At the end of November 2011 15 percent[6] of the respondents indicated to have plans to participate in the new VS in 2013; a rate between that of the SSS and the LCSS (see Table 3 below). Especially people with high incomes wish to make use of the VS. Planned participation rates of higher incomes are four to five times those of lower income earners (Knoef, Adriaens and Nelissen, 2011). As expected, like in the SSS and more than in the LCSS the VS will be accompanied by adverse selection. Table 2 shows that part-time pension is mentioned by 57 percent of the people who want to participate in the VS. Also this does not come as a surprise given the preferences for

[6] This percentage may be an overestimation of actual participation, for surveys suffer from selection bias, i.e. a ‘pro-participation’ bias; potential participants often have a higher response rate than non-participants.

retirement and the design of the VS. The lower incomes intend to save relatively often for a buffer for unemployment; 35 percent of the respondents with a net household income below modal calls this motif as against 18 percent of the respondents with a net household income above modal. Saving for care leave, parental leave, study leave – which the government intends to encourage with the VS - or a buffer for incapacity for work are mentioned less often.

## 5. Review of participation and amounts saved 2006-2010

The success of the VS depends on the complementarity of the SSS and LCSS, the number of participants, but for all on the amounts saved, the accumulated individual savings and the personal characteristics of participants in both individual savings schemes. To determine to what extent the SSS and LCSS are complementary in Table 3 information is presented on the savings amounts and participation of employees.

**Table 3. Savings, number of participating employees and saved amounts per employee of the Salary Savings Scheme (SSS) and the Life Course Savings Scheme (LCSS) on 31 December, 2006-2010**

| | Savings SSS (million euro) | Number of employees SSS (x 1.000) | Savings SSS per employee in euro | Savings LCSS (million euro) | Number of employees LCSS (x 1.000) | Savings LCSS per employee in euro |
|---|---|---|---|---|---|---|
| **2006** | 2,673 | 2,467 (40.2%) | 1,083 | 896 | 230 (3.8%) | 3,896 |
| **2007** | 3,115 | 2,349 (37.3%) | 1,326 | 1,750 | 259 (4.1%) | 6,757 |
| **2008** | 3,546 | 2,192 (33.9%) | 1,618 | 2,474 | 270 (4.2%) | 9,163 |
| **2009** | 4,302 | 2,135 (33.2%) | 2,002 | 3,263 | 237 (3.7%) | 13,104 |
| **2010*** | 2,765 | 2,113 (33.3%) | 1,309 | 4,058 | 229 (3.6%) | 17,721 |

Source: Statistics Netherland (CBS) statline, own calculations; * provisional figures.

Table 3 shows that between 2006 and 2009 the total savings of the SSS increased by 1.6 billion euro, from almost 2.7 to 4.3 billion euro. This increase relates to the interim deblocking in 2005 to stimulate the economy. As a result the accumulated savings was halved to 2.2 billion euro. The strong drop in the SSS savings in 2010 to less than 2.8 billion euros is also caused by an interim deblocking as part of the anti-cyclical economic policy. The interest among employees in the SSS has deminished in the same period. The number of employees participating in the SSS decreased by 354.000, under the influence of the austerity of the scheme and the switching to the new LCSS. The participation rate fell from 40 to 33 percent of all workers in Netherlands. The savings of the SSS per employee increased between 2006 and 2009 by almost €1,100 to a little more than €2,000. In 2010 as a result of the deblocking it dropped to just over €1,300. The credits per employee freed by the abolition in 2012 of the SSS have a limited size. Only part of it will flow back into the new VS in 2013.

The total amount deposited in the LCSS accounts was almost 4.1 billion euros by the end of 2010. The development of the LCSS is the mirror image of the SSS. They are substitutes for each other, because participation in both schemes in the same calendar year is not allowed and because they have the same goals. Participation in the LCSS is low. The interest in the LCSS in the first three years increased by 40,000 employees, but dropped back by 33,000 in 2009 as the result of a change in design (see footnote 3) and according to provisional figures for 2010 by 8,000 to a level just below its starting level in 2006. The announced abolition by the government may play a role here. The participation rate increased from 3.8 percent to 4.2 percent between 2006 and 2009 and dropped in 2010 to 3.6 percent, a lower rate than in 2006 (see Table 3). In the same period, the total savings of the LCSS increased by a factor 4.5, from 0.9 billion to 4.1 billion euros. The savings per employee increased continuously from almost €3,900 in 2006 to over €17,700 in 2010; close to maximum savings amount allowed in the VS. After the first five year period the size of the amount saved per employee could provide the possibility to take unpaid leave and combine paid work and other activities. However, because of the low level of participation only a small part of all employees has that possibility. Given the design of the VS and the available transitional arrangement it is to be expected that only a small number of workers will switch from LCSS to VS. Most of them relatively young with relatively small amounts saved.

## 6. Empirical analysis of participation in SSS and LCS

The data used in the paper were collected for this purpose by the large scale and representative bi-annual survey among Dutch civil servants in the government sector and the educational sector in Spring 2008, the *Personeels- en Mobiliteitsonderzoek 2008* (POMO) (MinBZK 2008). On our request a number of questions on the LCSS and the SSS were added to the questionnaire. The sample consisted of 87,500 persons; 34,962 persons completed the questionnaire, representing an average response rate of 40 percent.

Previous research indicated that among the civil servants participation in the SSS and the LCSS is somewhat higher than in the private sector. However, the personal characteristics largely correspond (Delsen and Smits, 2010). We therefore assume that the results of the data for civil servants presented here also are relevant for other Dutch employees.

Table 4 shows that in 2007 the SSS was much more popular than the LCSS. The personal characteristics of the participants in the two schemes largely correspond. Female civil servants take part less than male civil servants, those with a partner and with children at home more than those without a partner and children living at home, civil servants with a permanent contract more than with a temporary contract, participation in both schemes increased substantially with the salary level and the number of weekly working hours, small part-timers participate considerably less than full-time employees in both schemes. The results point to adverse selection in both schemes.

These personal characteristics of the participants in the two savings schemes are partly expected: for civil servants with limited disposable income and high expenditure necessary in a certain stage of life it is more difficult to save. The fiscal facilitation of the SSS is more advantageous for higher incomes than lower incomes. The advantage of the LCSS usually does not increase with income (Vording and Caminada, 2000; Goudswaard and Caminada, 2006). The higher participation of civil servants with children living at home is unexpected from a budget perspective. This finding indicates that the schemes are not only complements, but also partly substitutes. As already indicated in previous sections, in the course of time due to changes in their design the schemes became more alike. Both schemes seem to provide in a need for civil servants with children at home: it is saved for unpaid leave in the LCSS or for unpaid leave and/or other future expenditures in the SSS.

**Table 4. Participation in Life Course Savings Scheme or Salary Savings Scheme by civil servants in 2007 (percentages)**

| | Life Course Savings Scheme | Salary Savings Scheme |
|---|---|---|
| Total | 9.4 | 52.7 |
| Gender | | |
| *Male* | 10.0 | 55.7 |
| *Female* | 8.6 | 49.5 |
| Age | | |
| *<30* | 11.6 | 28.3 |
| *30-39* | 11.7 | 46.2 |
| *40-49* | 8.1 | 56.9 |
| *50-59* | 9.4 | 60.8 |
| *60+* | 1.2 | 60.8 |
| Education | | |
| *Lower* | 8.8 | 49.1 |
| *Middle* | 9.6 | 51.0 |
| *Higher vocational education* | 8.5 | 55.6 |
| *University* | 11.4 | 50.7 |
| Partner | | |
| *Without partner* | 8.4 | 44.7 |
| *With partner* | 9.6 | 54.8 |
| Home living children | | |
| *Without home living children* | 8.4 | 50.0 |
| *With home living children* | 10.3 | 55.3 |
| Employment | | |
| *Permanent* | 9.4 | 54.8 |
| *Prospect of permanent* | 11.1 | 26.1 |
| *Temporary* | 6.5 | 25.4 |
| Gross weekly wage | | |
| *-€1500* | 7.4 | 37.9 |
| *€1501-€3000* | 8.8 | 48.8 |
| *€3001-€5000* | 11.0 | 62.0 |
| *€5001+* | 10.7 | 61.5 |
| Contractual weekly working hours | | |
| *0-19* | 6.1 | 42.0 |
| *20-28* | 7.7 | 53.1 |
| *29-35* | 9.6 | 54.2 |
| *36+* | 10.2 | 53.6 |

Source: Personeels- en Mobiliteitsonderzoek, MinBZK (2008), own calculations.

A striking difference is in age distribution. Participation in the LCSS declines sharply with age, while participation in the SSS increases considerably with age. Another interesting difference concerns the influence of the type of contract they have. In the SSS people on permanent contracts participate more than those with a temporary contract or prospect of a permanent contract. In the LCSS civil servants with prospect of a permanent contract however participate the most. This indicates that the LCSS is found particularly interesting by young and new employees, while the older SSS primarily is found interesting by older and incumbent employees. An explanation is that because of short sightedness, bounded rationality, incomplete information and the fear of the wrong choice, many people tend to stick to the standard, the default, which in this case is the SSS (Delsen and Smits, 2010). The effect of the contractual working week on participation rates is significantly smaller for the SSS than the LCSS. Note also that Higher vocational education graduates (HBO-ers) participate less in the LCSS and more in the SSS. That the two systems serve different groups of civil servants indicates again the complementary of the schemes.

## 7. Multivariate analysis

**Table 5. Logistic regression coefficients of e explaining factors of the participation of civil servants in the Salary Savings Scheme (1) versus Life Course Savings Scheme (0) in 2007**

| | B | S.E. |
|---|---|---|
| Gender is female | 0.023 | 0.048 |
| Age | | |
| *<30* | ref. | |
| *30-39* | 0.588** | 0.074 |
| *40-49* | 1.210** | 0.078 |
| *50-59* | 1.067** | 0.076 |
| *60+* | 3.073** | 0.228 |
| Education | | |
| *Lower* | ref. | |
| *Middle* | 0.068 | 0.069 |
| *Higher vocational education* | 0.222** | 0.069 |
| *University* | -0.092 | 0.080 |
| With partner | -0.023 | 0.055 |
| Home living children | -0.184** | 0.045 |
| Employment | | |
| *Permanent* | ref. | |
| *Prospect of permanent* | -0.289* | 0.116 |
| *Temporary* | 0.327* | 0.151 |
| Gross monthly wage | | |
| *-€1500* | ref. | |
| *€1501€-€3000* | 0.127 | 0.083 |
| *€3001-€5000* | -0.055 | 0.097 |
| *€5000+* | -0.025 | 0.129 |
| Contractual weekly working hours | | |
| *0-19* | 0.115 | 0.105 |
| *20-28* | 0.133 | 0.068 |
| *29-35* | -0.019 | 0.061 |
| *36+* | ref. | |

Source: Personeels- en Mobiliteitsonderzoek, MinBZK (2008), own calculations.

Table 5 presents the results of a multivariate analysis of the difference between the participants in both schemes. Also this analysis indicates that the participants in both schemes show much resemblance: as regards gender, the monthly salary, the presence of a partner and the weekly working time, there are no significant differences between the two schemes. The other personal characteristics have a significant impact on the participation. The most glaring difference concerns the age. The in Table 4 identified age effect remains standing in the multivariate analysis. Participation in the SSS is significantly higher among the older employees and this difference increases with age. The fact that older civil servants participate more in the SSS and younger officials more in the LCSS confirms the complementarity of the schemes. Also the higher participation of Higher vocational education (HBO-ers) in the SSS is confirmed. This suggests that this group of civil servants opts for security of the SSS. We further see that employees with children at home participate significantly more in the LCSS than in the SSS. Care leave for these workers seems important. This also indicates complementarity of the two schemes. Finally, civil servants on permanent or temporary contracts take part significantly more in the SSS than those with prospect of a permanent contract. The latter especially concern new and young government employees and so confirms the complementarity of LCSS and the SSS.

## 8. Conclusions and policy recommendations

What are the implications of these results for a possible integration of the two schemes? When integrated, the LCSS and the SSS are largely complementary. Although their design differs their goals are largely similar. Moreover, the LCSS and SSS serve different groups of workers. Integration therefore offers good opportunities to create a VS attractive for considerable numbers of people. Condition sine qua non is that the favourable savings conditions are maintained. Previous sections showed that although the accumulated amount in the VS is freely available, relative to SSS and LCSS the fiscal treatment and the savings conditions in the VS are moderate, having a negative impact on potential participation rates and amounts saved of low, middle- and higher income earners. Only a small minority, probably smaller than in the LCSS, will participate in the VS. Some shortcomings of the SSS and the LCSS are addressed. The VS is more open, allows supplementing benefits, does encourage part-time pension but does not encourage study and care leave. Adverse selection inherent to actuarial fair and individualised savings schemes remains.

Based on the findings of our investigation, we end with some recommendations that can contribute to creating an efficient and effective new scheme. If policy makers consider it desirable that the employed workforce participates in the VS, then changes are needed to increase participation, to limit adverse selection, and that promote specific targets, including training. To be successful, firstly the VS needs to be accessible to lower-income, young, temporary workers and part-timers. This can be achieved by the introduction of an annual flat tax credit like in the LCSS. An annual life course bonus that is transferred by the government to the account of the participant at the end of each year, proposed by the Foundation of Labour (STAR, 2008) is even more promising. This not only increases the visibility and the attractiveness, it also allows faster building a credit. Adding the possibility to borrow for leave is an additional option to enable access for young people. Secondly, to make the VS more interesting for middle- and higher income earners the maximum amount has to be raised. Also to increase its effectiveness an increase in the maximum saving amounts is desirable. Similar to the SSS, this can be combined with a sufficient long blocking period and specified premature tax free deblocking opportunities. The latter channels the use of the credit in the desired direction and also contributes to the effectiveness of the VS. After the blocking period the saved money is freely available. It extends the freedom of choice of the employed workforce and guarantees them that the saved amounts can be spent on the purpose they were saved for. At the same time it promotes employment participation, because less leave will be taken.

Thirdly, given the knowledge economy (human capital which is the key factor for strong, competitive businesses and a ditto economy) fiscal facilitation of lifelong learning by the workforce is desirable, for example through an additional tax credit.

Fourthly, it is important to make working part-time fiscally more attractive, for example by increasing the tax credit. This not only facilitates combining work and care, but also allows coping with time pressure during the rush hour life and promotes gradual retirement through part-time pension (which in turn may promote longer working). If part-time work is sufficiently fiscally facilitated, it would be possible to maintain the - highly rated - full early retirement option. The latter is of special importance for those in physically heavy occupations.

Finally, a recommendation from the behavioural finance literature. This literature stresses that people save less than is rationally desirable, because preferences are unstable and not consistent over time: people procrastinate, prefer the current state, are shortsighted and lack self-control (see e.g. Thaler and Sunstein, 2003; Kooreman and Prast, 2010). The policy recommendation from behavioural economics is that actively opt out (unsubscribe) of the VS is preferable to active registration for the VS (). Relative to fiscal facilitation, automatic enrolment with the right to opt out is more effective and efficient to increase the participation rates, especially for low-income earners, young employees and employees in SMEs, as well as the amounts saved.

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