7 Gradual retirement in the Netherlands

Lei Delsen

The Dutch experience of employment for older workers differs significantly from that of other industrialised countries. Relative to most other OECD countries, the Netherlands are becoming a country of early retirement. Over the period 1960-1990, the drop (42 per cent) in the Netherlands in the male activity rate for the 55-64 age-group has been the sharpest in the OECD. The activity rate of older persons (over 50 years) more generally (42 per cent in 1990) is still one of the lowest in the EU where the average was about 50 per cent in 1990, and that of men 55-64 (46 per cent in 1990) is one of the lowest in the OECD. This chapter attempts to explain these divergencies by looking at the Dutch macro and micro policies on employment of older workers. The aging process in the Netherlands is more marked than in other countries, as also are its financial consequences. Future policy options including gradual retirement to cope with these problems are discussed.

7.1 Macro issues and policies

Recent trends

Labour market position of older workers

The proportion of the service sector in total employment (70.1 per cent in 1991) in the Netherlands is the highest in the EU, while the share of industrial employment in the same total is one of the lowest. Over the 1983-1990 period,
employment (full-time equivalent) growth in the Netherlands was strong: 1.4 per cent per annum, which compares with 0.9 per cent in the EU, 1.0 per cent in OECD Europe, and 1.5 per cent in the OECD as a whole. Between 1983 and 1989 service employment growth was 3.9 per cent per annum and that of industrial employment 2.5 per cent. New jobs were mainly filled by new entrants to the labour market, which is why unemployment rates as well as the proportion of long-term unemployment show only a moderate decrease. Most of these new jobs were part-time and occupied by women. Since the beginning of the 1980s also the volume of temporary employment has increased, the volume of atypical employment in the Netherlands being high, relative to other European countries (Delsen, 1993).

Table 7.1
Labour market position of older workforce in the Netherlands, 1989

<table>
<thead>
<tr>
<th>Age</th>
<th>Dependent employment</th>
<th>Self employed</th>
<th>Unemployed</th>
<th>Ex-labour force</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full-time</td>
<td>Part-time</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55-59</td>
<td>43.1</td>
<td>7.7</td>
<td>10.8</td>
<td>3.7</td>
<td>34.7</td>
</tr>
<tr>
<td>60-64</td>
<td>11.0</td>
<td>3.9</td>
<td>8.7</td>
<td>0.9</td>
<td>75.5</td>
</tr>
</tbody>
</table>


Age of retirement
The pension age in the Netherlands is 65 years. However, the effective retirement age is much lower and has decreased over the past years from 64.2 in 1960 and 62.2 in 1980, to 60.3 in 1990 (Besseling, 1994). The Netherlands stand out as having a particularly high proportion of male part-time workers in the age-group between 55 and 64. The high proportion of part-time employment among older male workers aged 60-64 (17.8 per cent in 1985) can partly be attributed to the sectoral gradual retirement schemes and, for those aged 55-59 (10.4 per cent in 1985), to the reduction under collective agreements of work hours for older workers. But for males of 65 years and over the part-time rate is also high (51.7 per cent in 1985), as also is the proportion of part-time worked by older (55+) women in the Netherlands, relative to other OECD countries. In 1985 it was 70.9 per cent for females aged 55-59 years, 70.8 per cent for those aged 60-64 and 64.5 per cent for women of 65 years and over. From table 7.1 it can be deduced that in 1989 the proportion of part-time employment was 26.2 per cent for employees aged 60-64 and 15.2 per cent for those aged 55-59. The proportion of involuntary part-time employment among men aged 55 and over is below average and for women aged 55 and over above average, although lower than for other age-groups. In general there is a significant positive correlation between the level of both female and male labour force participation rates and
the proportion of part-time employment. In this respect the Netherlands are an outlier (see WRR, 1990; Delsen, 1995).

**Modes of labour exit**
The most important exit routes from the labour process for older persons in the Netherlands are the General Disability Benefit Act (AAw) and the Disability Security Act (wAo) on the one hand, and the branched-based Voluntary Early Retirement (vUT) schemes and the Unemployment Act (ww) on the other. In 1989, 55 per cent of older workers (55-64 years) used vUT to end employment and 32 per cent left for other reasons, mostly disability, with only 13 per cent working until retirement age. The situation varies considerably from one activity sector to the next (see table 7.2). In building, the low outflow to disability can be explained by the fact that such outflow takes place at relatively young ages. But, in any case, in this sector only 3.2 per cent of employees are 55 years or older. In the industrial sector and road transport, older workers are present in relatively large numbers. The low proportion of vUT in the trade and retail sector is related to low vUT provision. The banking and commercial services sector is a more complex case, there being no obvious reason for the situation that prevails there.

**Table 7.2**
Labour market position of older people (55-64 years) by economic sector in the Netherlands, 1989

<table>
<thead>
<tr>
<th>Economic sector</th>
<th>Proportion 55+</th>
<th>vUT-potential</th>
<th>Exit route from firm (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>vUT</td>
</tr>
<tr>
<td>Industry</td>
<td>6.1</td>
<td>95</td>
<td>54</td>
</tr>
<tr>
<td>Building</td>
<td>3.2</td>
<td>96</td>
<td>90</td>
</tr>
<tr>
<td>Trade and retail</td>
<td>4.9</td>
<td>65</td>
<td>45</td>
</tr>
<tr>
<td>Road transport</td>
<td>6.0</td>
<td>99</td>
<td>66</td>
</tr>
<tr>
<td>Banks and commercial services</td>
<td>4.8</td>
<td>83</td>
<td>48</td>
</tr>
<tr>
<td>Other services</td>
<td>5.0</td>
<td>92</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>5.0</td>
<td>84</td>
<td>55</td>
</tr>
</tbody>
</table>


Proportion 55+: number of employees aged 55-64 years as a percentage of total number of employees.

vUT potential: percentage of employees in a sector able to benefit from a Voluntary Early Retirement (vUT) scheme.

Exit route: vUT – number of persons 55+ that retire early (vUT) as a percentage of the total number of employees.

Exit route: ‘Pension’ includes death.

Exit route: ‘Other’ – almost exclusively exit to disability (wAo); leaving for another job almost never occurs.
The extent of unemployment as a labour exit route is more limited. However, table 7.3 shows clear differences between the age classes 50-54, 55-59 and 60-64 years. The percentage of unemployment among older workers is relatively high. In 1991, of those aged 60-64 over 22 per cent were unemployed, compared with only 8 per cent of the total work force. Moreover, the duration of unemployment is longer. In 1990, of the older persons in this age class 90 per cent were long-term (>12 months) unemployed, compared with 50 per cent of the total work force. This is partly because the Unemployment Act (ww) is used as an exit route, and the duration of ww benefits depends on the number of years worked. But it is in part also attributable to the 57.5 year-rule. Persons aged 57.5 years or older, when they become unemployed, retain their right to a follow-up benefit until the first day of the month in which they reach the age of 65. As was seen in the respective chapters, similar regulations apply in Germany and Sweden. These workers are exempted from the obligation to apply for another job. In the Netherlands, perhaps more than in other OECD countries, it is difficult for older workers to find work once they have become unemployed. Recently the tripartite Board of the Public Employment Service (PES) has decided to remove the age criterion from all its training and placement measures. In 1994, the Minister of Social Affairs and Employment repealed existing age discrimination in redundancies (de ouderenrichtlijn) used to support the Government’s policy for increasing the labour market participation rate. This directive on dismissal of older workers had implied that in cases of dismissal on economic grounds, subject to certain conditions, workers of 55 and older could be shedded first.

### Table 7.3
Distribution of unemployment (1991) and long-term unemployment (1990) by age in the Netherlands

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;25 years</td>
<td>11.6</td>
<td>28</td>
</tr>
<tr>
<td>25-49 years</td>
<td>7.2</td>
<td>55</td>
</tr>
<tr>
<td>50-64 years</td>
<td>10.7</td>
<td>76</td>
</tr>
<tr>
<td>50-54 years</td>
<td>7.8</td>
<td>73</td>
</tr>
<tr>
<td>55-59 years</td>
<td>10.6</td>
<td>80</td>
</tr>
<tr>
<td>60-64 years</td>
<td>22.6</td>
<td>90</td>
</tr>
<tr>
<td>Total</td>
<td>8.6</td>
<td>49</td>
</tr>
</tbody>
</table>

In the Netherlands, the proportion of disability benefit recipients in the workforce (12.6 per cent in 1992) is the highest in the OECD. Among older workers aged 55-64 this proportion is about one third. Unemployment benefits and (full) disability benefits, for various reasons, have acted and continue to act as substitutes (Delsen and Klosse, 1992). In assessing the degree of disability, the prevailing labour market situation was taken into account. This was also true of Sweden and Finland. The partially disabled were treated as if they were fully disabled, so that almost 85 per cent of all WAO beneficiaries received full benefits. In particular, in respect of older workers who have grown less productive, disability insurance has provided a convenient way of masking lay-offs. Indeed, employers cannot off-load workers without complying with redundancy procedures, and employees can count on receiving until their 65th year a benefit equal to 70 per cent of their last wage while the duration of wage-related unemployment benefit is limited. In 1986 over 50 per cent of original beneficiaries in the 55 to 65 age-group were receiving a disability benefit, illustrating the fact that the WAO functions as a form of early retirement. Estimates of the size of the hidden unemployment component in disability insurance in the Netherlands vary from 15 to 50 per cent of all beneficiaries. Eligibility for disability programmes was made more stringent from the middle of the 1980s onwards, and in 1985 benefits were substantially reduced. This resulted in a slight increase in the unemployment benefit scheme. In 1987 the ‘labour market consideration’ was removed from disability insurance leading to an increase in the volume of partially disabled. However, the overall impact of this policy change has been very limited, and chances on the labour market are still taken into account (WRR, 1990; Bolweg and Dijkstra, 1993).

In 1987 also the generosity of the unemployment scheme was reduced and its eligibility requirements tightened. As a result VUT became more popular as an alternative to disability and unemployment benefits (Trommel and de Vroom, 1994). Originally the temporary VUT schemes were aimed at promoting employment for youngsters and improving the well-being of older workers, with about one in every three jobs released by the scheme being refilled. However, by the end of the 1980s hardly any youngsters were being taken up. Not refilling positions opened by VUT is clearly a saving for enterprise and, as an employer, for the Government. However, for society as a whole the policy is an expensive one. In the Netherlands, in actual fact, there is no national early retirement scheme. The country’s numerous sectoral schemes are based on collective agreements. Most of these sectoral VUT schemes have the following characteristics (Delsen, 1993): the average exit age is 60 years; the benefit, which is income tested, is 75 to 80 per cent of the gross final wage irrespective of the number of years of service; there is a 10-year service minimum for eligibility and the schemes operate on a pay-as-you-go basis. Over 85 per cent of all employees in the sectors in question are covered by a VUT scheme.
Between 1983 and 1990, the number of VUT beneficiaries tripled, resulting in more than 119,000 participants at the end of 1992. This growth was mainly due to a drop in the age-thresholds and to an increase in the number of schemes. The average VUT age decreased from 60.2 years in 1986 to 59.8 in 1993. However, in the last two years of that period, some collective agreements provided for an increase in the VUT age. Moreover, in 1994, in three such agreements, the VUT benefit was reduced by 5 per cent-points (DCA, 1994). Earlier in 1991 and 1992, in a number of agreements, eligibility for VUT was extended to include part-timers which as a category had previously been excluded. In 1986 total VUT premium was 2.4 per cent of wages, and by 1993 it had risen to about 3.6 per cent. The premium varied from less than 1 per cent in hairdressing, to over 8 per cent in textiles, and 10.5 per cent in the dairy industry. Over the same seven-year period, employees’ contributions increased from 0.6 per cent to 1.2 per cent. Extrapolations of existing trends in the number of VUT participants would suggest the following increase: 147,000 in the year 2000; 213,000 in 2010 and 240,000 in 2020. VUT is popular because of the relatively small income loss, the voluntary nature of the scheme and the absence of the stigma attached to disability and unemployment benefits.

Until recently, employees had to choose between full exit or full-time employment. The provision of part-time employment may reduce the extent of the hidden unemployment in the exit routes. It reduces by about one half the risk of becoming disabled, and, moreover, contributes to reintegration (Delsen and Klosse, 1992; Aarts and De Jong, 1992; Delsen, 1995). In order to make early retirement more flexible, sectoral part-time VUT schemes have recently been introduced in the metal sector (SUM; SVUM) and for employees in architects’ bureaus (SU/A) as well as in banking (RABO), retail sector (KBB) and care sector (PGGM-OBU). Under the RABO and KBB schemes, benefits increase with the age of retirement, thus providing an incentive to postpone retirement. In the metal sector work time can be reduced and reinstated. OBU and SUA have two-step part-time VUT schemes, the latter being upstream of the full VUT schemes (Ten Brink and Delsen, 1993). But most of these schemes, set up in 1988 or subsequently, were experimental in nature and have since been discontinued, and/or replaced by flexible pension schemes (see below). Initiated by employers, the main aims of these part-time schemes were to reduce total early retirement costs, retain within the firm the knowledge and experience of older workers and redistribute employment between young and older workers. Conditions are similar to those of the full VUT schemes. However, in contrast to the latter, employees have no automatic right to part-time early retirement, since the employer must agree. Moreover, in the public sector, part-time VUT for civil servants is used to reduce staff costs and unemployment and to rejuvenate personnel. About one half of potential participants actually take up this option. The effective take-up rate of part-time VUT schemes in the private
sector is lower: about 10 to 15 per cent (Delsen, 1989; Heemskerk, 1994). In 1992 and 1993 part-time VUT schemes were introduced into carpentry factories, the textile industry and contract catering. In 1994 a number of new schemes were set up under collective agreements, concluded *inter alia* in various wholesale and retail trade branches.

Attitudes to work and retirement
Approximately one quarter of older workers in the Netherlands would be willing to leave work at the age of 60, even if this meant a 30 per cent drop in net income. There is also considerable supply-side potential for gradual retirement. Of those already retired, 27 per cent would have taken part-time early retirement (i.e. have reduced their normal work hours by half), 51 per cent would have refused, and 22 per cent did not know. Of pre-early retirees, 38 per cent would have taken up part-time early retirement, 46 per cent would not have and 16 per cent did not know (Henkens and Siegers, 1992).

Pensions and social security

Social security benefits and finance
The General Disability Benefit Act (AAw) entitles all disabled persons previously gainfully employed up to the age of 65, to a basic flat-rate benefit derived from the net social minimum. Costs are charged to the Government. The Disability Security Act (wAo) covers all privately employed up to the age of 65 and, from the end of the first year of illness until, if need be, the age of 65, and provides for a benefit which depends on the previous earnings and the degree of disability. Benefits under the wAo supplement AAw benefits. The maximum benefit, paid monthly, is 70 per cent of the previous wage, where 80-100 per cent disability is established. Conversely, that benefit can never fall below the legal net minimum wage. In 1993 the marginal wAo premium paid by employees was 11.75 per cent. Partially disabled persons who are unsuccessful in finding employment commensurate with their ability are entitled under the wW to supplementary unemployment benefit. After lapse of the wW entitlement period, the partially disabled would revert to wealth-tested national assistance if their household incomes failed to reach the social minimum. In order to mitigate the effects of wealth-testing, considered unduly harsh for partially disabled or unemployed workers, the Act on Income Provision for Older and Partially Disabled Workers (IOAW) was introduced. It provides financial assistance to older long-term unemployed for whom the maximum period of entitlement to wW and follow-up benefits has expired. The IOAW is primarily intended for persons who, at the time of becoming unemployed, are between 50 and 57.5 years old. It, in addition, applies to those employees aged 57.5 and older who meet the ‘26 weeks requirement’ but not the ‘3 out of 5 requirement’ stipulated by the wW (see below). The IOAW is a publicly financed facility.
Following a change in 1990 in the Unemployment Act (ww), persons who have worked for at least 26 weeks in the 12 months prior to unemployment are entitled to ww benefits (70 per cent of the daily wage) for six months. In order to claim benefit for longer than 6 months, those concerned must have received a salary for at least 52 weeks during three of the five calendar years prior to the year in which unemployment occurred (the ‘3 out of 5 requirement’). The duration of the benefit (to a maximum of 5 years) moreover depends on the number of years worked. At the end of the period for which the benefit can be drawn, persons who are still unemployed receive a follow-up benefit for a further year. Unemployment insurance is financed on a tripartite basis.

**Pension system**

The Dutch pension system consists of three pillars (Besseling, 1994; Dekkers *et al.*, 1994). The first pillar is the state-run General Old Age Act (AOW) under which a pay-as-you-go financed scheme has been established. Contributions (14 per cent in 1993) are levied up to a ceiling on taxable income. For two partners it provides a flat-rate pension benefit approximately equal to the legal net minimum wage from the age of 65 (for a single person 70 per cent of that wage). This is a compulsory old age pension for all residents. In principle the gross minimum wage follows the index of average negotiated wages. But because elements of the wage drift (incidental wage increase) are not included in this index, the adjustment mechanism plays an important role in limiting the future burden of statutory pensions. Moreover, this linkage has to some extent been abolished. Between 1980 and 1994 growth in the net AOW pension lagged 19 per cent behind that of the gross wage. Furthermore, the fact that pensions and the minimum wage are linked on a net basis, has contributed to controlled expansion of pension expenditure.

The second pillar is made up of quasi-private pension schemes. These schemes supplement AOW provision and are the responsibility of the social partners. However, the state provides both a legal framework and fiscal support. The law stipulates that supplementary pension schemes must be funded. In general, employers contribute 50 per cent or more. There are 82 branch pension funds in industry and 1,058 company pension funds. These 82 funds are members of the Association of branch pension funds. In addition, over 20,000 companies provide insured pension plans for (some of) their employees and 9 professional occupational pension schemes for self employed such as doctors and chemists (Pierik, 1991). The Insurance Board, a private agency, is vested with the authority to supervise pension funds. A separate law makes participation in the branch pension fund compulsory for all businesses. A company can opt-out only if it establishes a company scheme with a level of provision that exceeds that of the branch funds.

Of employees aged 24-64 years 82 per cent are covered by a supplementary pension scheme; 72 per cent of these participate in a final-pay scheme; 15 per
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cent in an average (median) pay scheme, 5 per cent in a modified final-pay scheme (combination of the first two) and 7 per cent in a scheme providing a flat-rate benefit. Only 0.6 per cent participate in a defined contribution (available premium) scheme (Bezem,er, 1991; Besseling, 1994). The AOW benefit included, the final pay schemes promise a maximum gross benefit equal to 70 per cent of the last gross income earned, provided contributions have been paid in full over 40 years (1.75 per cent per year is tax-exempt). Employees who have enjoyed only temporary employment and those who have frequently changed jobs suffer pension loss. Because the benefit itself is not related to the size of the contribution payments these pension rights are not fully portable. External labour mobility is thus hampered. Privately operated funds may refuse to take over obligations from each other, when a worker leaves one job and begins to contribute to another fund. As a result, mobility of workers is penalised with considerable loss of future income and accumulated pension rights. However, since mobility within a given branch is the norm, the branch-wise organisation of pension funds tends not to affect mobility adversely. Moreover, as of 8 July 1994, employees who switch jobs are entitled to have their accrued pension claims transferred to the pension fund of the new employer. From that date also, part-timers may no longer be excluded from pension provision, a measure which is of importance to almost all working women in the Netherlands, since most work part-time. Previously, over one third were excluded from the coverage of private pension arrangements. Should a minimum-wage threshold exist, the wage of the part-timer is recalculated to the full-time wage. There is, moreover, the condition that the pension claims of the part-timer are pro rata those of the full-timer.

Internal labour mobility is also hampered. Many supplementary schemes simply do not allow older workers to step back in their careers. The ABP, however, the biggest Dutch pension fund, is an exception. A cut (knip) in the workload may be requested when the salary goes down by more than 5 per cent, because of demotion or change in function. The building up of pension rights is divided into two parts. Given the defined benefits structure, i.e. the final pay base of most semi-private pension schemes, a relative decrease in AOW benefits results in an increase in supplementary pension benefits. Thus AOW is gradually being privatised. There is a trade-off (about one half) between AOW premiums and premiums for supplementary pensions (Petersen, 1989).

Pension benefits only are taxed, supplementary pension contributions and interest income from pension funds being tax-exempt. The latter is not the case for contributions to the basic pension. A gradual privatisation of the AOW implies a loss of tax revenues. Pensioners enjoy a special low rate of income tax and are not required to contribute to the pension scheme. The wedge on labour income has increased steadily, while that on retirement income has risen only very little. Consequently, a 70 per cent final-pay scheme yields a net pension of approximately 85 per cent of the net final pay. The latter could be a reason
for limiting the coverage of supplementary schemes. Another reason could be the growing individualisation of Dutch society. For example, regarding to household types, the Central Planning Bureau (CPB) sees the following trends between 1990 and 2015. The proportion of singles without children will increase from 31 to 43 per cent, partly due to aging; the proportion of households with a partner and a child will decrease from 37 to 26 per cent. The uniform 70 per cent-final pay system for all employees has obviously been designed for the standard breadwinner with a house-keeping spouse. In an individualistic society there will be a greater call for flexible supplementary pension schemes suited to an individual’s circumstances. An average pay scheme would be more appropriate. Contributions under the present system are a function of current wages, and benefits of last earned wages. This results in uncertainty about the reserves necessary to cover pension claims, excessive reserves being almost inevitable for most pension funds. Reducing costs means abolishing the final-pay system (Pierik, 1991; Besseling, 1994).

Demographic developments in the Netherlands would seem to indicate that by the year 2035 a doubling of the contribution rate is to be expected. In its advice to the Government, the Drees Commission (1987) proposed the following main changes: reduction of the AOW benefit for singles from 70 per cent to 50 per cent of the net minimum wage; raising the retirement age to 66 years and increasing AOW premiums paid by those 65 years and older. The Commission concluded that either the purchasing power of pension benefits will be reduced by half or that the premiums will have to be raised (doubled) after 2000. The Government concluded that the finance of the AOW is guaranteed and therefore no action is necessary!

The third pillar consists of the voluntary pension arrangements individuals have organised for themselves. The premiums paid are not part of the wedge; personal provision has a neutral effect on the labour market. Individual pension schemes are financed by definition on a funding basis (Besseling, 1994; Gosling, 1994) and enable individuals to create their own additions to the first two pillars.

Conclusions

Unemployment, early retirement and disability are significant causes of early termination of active careers by older workers (aged 55 and over) in the Netherlands. These three phenomena function as communicating vessels. At present Dutch employer organisations are in favour of abolishing the VUT scheme, while trade unions favour extending it, for example, making it available to workers with 40 or more years of service. Abolishing VUT will inevitably increase the pressure on disability and/or unemployment benefits. In a number of sectors, in attempts to remove full VUT altogether so as to make early retirement more flexible and thereby more affordable, part-time VUT and
Partial and flexible pensions have recently been introduced. However, the take-up rate has been low because of the continuing existence of generous full early retirement options. On the supply side, there is, indeed, considerable potential for gradual retirement.

With a view to increasing the labour market position of older workers, the Dutch Government has taken various measures, including the removal of age discrimination from redundancy settlements and the PES policy. As the AOW gradually becomes privatised, supplementary pensions, and hence funding, will become increasingly important. The latter will act as a stimulus to gradual retirement. The replacement of the final-pay by an average-pay system will promote gradual retirement, and thus the participation rates of older workers, control the costs of the supplementary pension schemes and favour age-specific personnel management. Moreover the linkage with prices instead of with wages is more in line with the trend towards individualisation in pension provision.

New public policies

Pension reform

In consultation with employer and employee organisations the Kok-van Mierlo Government is searching for ways to encourage greater flexibility and variety in work patterns, including changes in work hours, through the entire professional life-cycle (szw, 1994). Based on reports by the Drees Commission (1987) and the Netherlands Scientific Council for Government Policy (wrr, 1990; 1993), the Government is examining ways of broadening the basis of AOW financing. The AOW will remain the basic pension since for some elderly it is the only source of income. In 1995 income-related tax-relief will be introduced for the latter category. As of 1996, in order to be able to guarantee AOW provision over the long term, in cases where one of the partners is younger than 65 years, the Government feels it will be reasonable to provide the AOW supplement only when the family income is below the social minimum. The fact that part of the AOW benefit is to be made conditional on, for example, a supplementary pension, implies that the AOW will take on a supplementary role, while the supplementary pension becomes the basis. Other measures to be taken are: a higher threshold for WW, privatisation of the Sickness Act and the introduction of the market process into its operation through opting out, and premiums differentiation in the WAO.

According to the Government, gradual exit from work is more in accord with individual freedom of choice and societal development. In so far as is possible, obstacles to work after 65 years will be removed, and this will require 'customising' social security in some measure and giving greater flexibility to pensioning. Gradually, there will be less room for VUT arrangements, because of the too low level of labour participation of older employees.
Leiden (szw, 1994). Although flexible pensioning has been cited as an alternative to VUT, there has been no research into the cost consequences of such a scheme, and one may wonder whether such a scheme will promote the labour participation of older workers. It seems that the Government is seeking an alternative to VUT, in order to check the shift to wW and WAO benefits. Current exit routes and practice have to change to make remaining in employment relatively attractive (see Trommel, 1993). It should be noted, however, that the supplementary pension and the VUT schemes are the responsibility of the social partners, and that the Government has no direct control over them.

In response to the WRR's 1993 report, the Government has stated its conviction that, in view of the changes in the age structure of the work force, a different wage profile is needed. For instance, a higher wage at the beginning of a career, when productivity is highest, and a relatively lower wage at the end. However, the notion that productivity decreases with age remains no more than a prejudice since it has not been empirically established (see below). This change would also entail a change in the pension accruing. In the matter of supplementary pensions, the Dutch government is in favour of average-pay to replace final-pay schemes, because of the digressive intergenerational redistribution of income. It, moreover, advocates that consumer price indexation replace wage indexation (Tweede Kamer, 1991). The legal frame work for supplementary pensions has recently been adopted in order to make pensions more flexible and to ease the replacement of the expensive VUT by pre-pension schemes. Full and partial drawing of pensions is possible between the age of 55 and 70. Tax exemption is raised from 1.75 per cent to 2 per cent per year. The absolute benefit maximum of 70 per cent is abolished; the new maximum is 100 per cent of gross final pay. As of the year 2000 the partner pension can be exchanged for a higher individual pension.

Collective agreements on older workers

As far as collective agreements on older workers are concerned, the latter confine themselves to age of ending the work contract, early retirement, extra days off and exemption from overtime or shift work. On the issues of employment and labour market position, recruitment and selection, personnel and job policy, training and social-medical prevention, most collective agreements to date are silent as far as older workers are concerned and focus mainly on corrective measures. In trade union policy since 1990 there has been a shift towards preventive measures, including training, gradual early retirement, task reduction and improvement of working conditions. Some trade unions, however, are against policies specific to the older worker (LTD, 1991; FNV, 1992).
7.2 Micro issues and policies

Recent trends

Work performance

Dutch research on age and productivity is limited. Van Heeringen (1983) found the notion that the productivity of researchers decreases with age not to be based on empirical grounds, but on – largely implicit – supposition. It is impossible to estimate the influence of age on the level of productivity; although one could, at the very outside, test to what extent age influences changes in productivity. The growth rate of productivity is higher before 30 than after that age. Based on cross-sectional data, Gelderblom and de Koning (1992) found that productivity is highest for those between 40 and 45 years. The productivity of employees aged 60 and over with the same level of formal education is 45 per cent lower.

Company pension regulations

Part-time VUT schemes have recently been introduced at Ahold (a retail corporation) and the Dutch Railways (Ns). The Ahold scheme links age with the level of the benefit and the extent of the work time reduction. Ns has a two step part-time VUT scheme, placed upstream of its full VUT scheme. Several other bigger Dutch enterprises (Buehrmann Tetterode; DSM; ESSO; KLM) have recently introduced a flexible pension age. At Akzo Nobel, Heidemij and Wavin the current VUT schemes will gradually be replaced by pension schemes. At Akzo Nobel, this operation has to be completed by the year 2005. Early retirement is financed from an individual’s personal savings or by an early drawing of the supplementary pension. One third of the saving on VUT expenditure is used to introduce an activating elderly policy and two thirds go straight to the employees. Employees have the right to partial retirement between 60 and 65 years but for pension purposes, in order to supplement their wage, must draw upon their own supplementary schemes. At Heidemij (starting in 1997) flexible and partial pensioning will be possible from 55 years onwards. The net benefit is 85 per cent of the last salary for those completing 40 years of service. The savings on VUT are used to finance the new scheme, additional premiums being paid by the employer. At Wavin (1994), employees may retire fully or partially as of the age of 55, depending on the pension rights accrued. The schemes at Buehrmann Tetterode and Wavin are tailor-made ‘cafeteria’ systems. The menu includes the following options: supplementary leave, overtime pay, profit shares, changing yearly benefit and the choice of the retirement age (Ten Brink and Delsen, 1993; Heemskerk, 1994). All these schemes guarantee a benefit equal to a given percentage of the final pay. In none of these schemes is the
option to retire after the pension age (between 65 and 70 years) explicitly mentioned.

Age discrimination

Not only does age discrimination occur in the recruitment of personnel, but there is also age-based selectivity in cases of dismissal. Dutch employers apply age ceilings for personnel recruitment purposes (De Vroom and Blomsma, 1991). When firms reorganise, the reduction of personnel follows a certain pattern (LTD, 1992). Older workers (55 years and over) are the first to go in line with existing legal regulations and with specific provisions at the enterprise or branch levels. Redundancy or dismissal is, in most cases, based on age, number of years in service, pension and early retirement rights and the nature of the contract. In at least 70 per cent of enterprises the legal social benefit for unemployment as well as disability is supplemented up to 100 per cent of the last wage. The level and duration of the supplement almost always depend on age and seniority. In one half of cases the pension is supplemented, and in about 25 per cent of enterprises the VUT benefit is supplemented (see also Bolweg and Dijkstra, 1993; Trommel and de Vroom, 1994). Kerkhoff (1981) concludes that Dutch firms seldom recognise the specific problems of older workers, and rarely develop strategies to integrate them. In fact, it was the existence of VUT and the WAO as exit routes that stimulated firms to implement an exit strategy rather than devise new age-specific social policies. Dutch employers seek to reduce personnel at least possible cost. But employees have proved well able to defend their cause and this has resulted in high costs with WAO still a major exit route. Dutch employers are not in any hurry to abolish VUT, because they view it as an integral part of a broader strategy for downsizing their organisation (Bolweg and Dijkstra, 1993). Nevertheless, it should be noted that these exit routes are mainly used for or by unskilled blue-collar workers and middle white-collar workers, with top-level employees normally opting to stay on (WRR, 1990; De Vroom and Blomsma, 1991). For employees with relatively little qualification the major exit route is disability, while for the more highly educated early retirement is the preferred route. Abolishing VUT will thus mean different things for different categories of worker (Henkes and Siegers, 1992; Gelderblom and de Koning, 1992).

New company policies

Personnel policy

A survey of 760 firms in 1990 (LTD, 1991) shows that 9 per cent of firms with older (55+) workers on the payroll take the physical loadability of such workers into account. In building 25 per cent of firms, in industry 12 per cent
and in road transport 18 per cent do this. Only 2 per cent of enterprises with older people on the payroll apply a deliberate policy for the task loading of older workers. The larger the firm the greater the likelihood that age-management policies will exist: 28 per cent indicated an ad hoc policy, 70 per cent stated that older workers are not considered because of the nature of the firm or because of function requirements, 29 per cent of those surveyed indicated that they use the knowledge and experience of older workers. This was particularly true of the building sector (50 per cent) and to a lesser extent of trade and hotel and catering (16 per cent). There is an age-limit (on average 56 years) on shift work and irregular shifts in one fifth of the enterprises. This does not apply in the building sector, while it does in 42 per cent of the firms surveyed in the banking sector. In 23 per cent of enterprises there is also an age limit on overtime. But more recent experience in the Netherlands in the matter of age-specific personnel management would suggest a new trend: a tempering of existing policy instruments on age and more generally a change in thinking about the employment of older workers. Van der Kloet et al. (1994) found that employer-employee talks about job functions play an important role in age-specific personnel management. Such discussions are deemed valuable in the reallocation of functions to suit the loadability of end-of-career workers. Information gleaned from such talks also serves as a basis for the formulation of careers and training policy.

Pay policy

In addition to prejudice about senior employees generally, the pay system is itself an obstacle to labour participation of older workers. Wages increase with age. Before 45 years wages are below productivity, and after 45 years above (Gelderblom and de Koning, 1992). Young workers are, in fact, subsidising the higher wages of older workers. In one sense there is nothing wrong with such a system. It acts as an incentive to higher productivity and to greater loyalty to the firm. However, the system begins to cause problems when, due to greying, the average age of the work force increases. The expensive older worker is then off-loaded. Gelderblom et al. (1994) also found that the productivity/wage ratio is unfavourable to older workers. Jacobs (1985) concluded that, for young employees, wages increase relatively fast. As the worker grows older, first the rate of wage increase diminishes, then the wage is static and finally shows a slight decline.

Demotion, redesign of work and job rotation

Age is often considered an independent cause of employment situation problems. However, wastage and exhaustion may also result from inappropriate loading and from monotonous and repetitive work. Kerkhoff (1981) argues that
a more dynamic placement and allocation policy, in combination with training and schooling opportunities, will certainly increase costs, such costs, however, will in time be repaid by an increase in willingness to change and a broader skills package. Recent research in the Netherlands seems to confirm this. Function adjustment, through a reshuffling of tasks within a given job or function to include less burdensome ones, is a crucial part of the individual career policies that can be used to prevent drop-out and reduce sick leave. Employees value this as positive, and organisations have found it a useful source of knowledge and experience. Social motives also play a role. If stigmatisation is to be avoided, changes in tasks and functions should not be presented as career alternatives for older workers only; length of the service should be the initial criterion. In addition, collective function readjustment may be used to achieve a more favourable balance between work-load and loadability at the department level, and may include rotation of functions and the broadening of personnel deployment. Both the latter have proved successful in reducing sick leave and in promoting change and enrichment in the work place. The broader deployment of staff can also contribute to a more effective organisation of work. Change and improvement in work conditions is one important way of keeping employees healthily active until the normal retirement age. Work conditions include safety, health and wellbeing but also how these are perceived by older workers. Giving proper attention to these factors improves motivation and the self confidence of employees (Van der Kloet et al., 1994). Gelderblom et al. (1994) conclude that regular function adjustment as well as job-changing (job-hopping) in a career will preserve the productivity of employees. The decreasing mobility of older employees within a company leads to static behaviour in which they increasingly regard their function as a final stage rather than a springboard for keeping up with change in the organisation (Kamstra and Van de Craats, 1992). It may be concluded that it is not age, but performing the same task year in year out that is the main cause of diminished productivity.

Part-time work

In the Netherlands, all sectors of industry practice what are known as ‘seniors’ days: an increase in the number of holidays for older workers (LTD, 1991). For those aged 55 years, 3 days (in commerce 2 days and in building 6 days), for those aged 64, almost 5 days (in building 9 days and in road transport 3 days). Part-time employment is also practiced, i.e. an individual reduction in work time at one’s own expense is used for older workers as of a certain age (see table 7.4). In the building sector part-time employment for older workers does not exist. In road transport a tiny number of enterprises (1 per cent) offer gradual retirement. Even so, in such firms 9 per cent of employees use this option. This may be explained by the fact that part-time is used in certain large
Gradual retirement in the Netherlands

Table 7.4
Reduction in working time of older workers by sector of activity
in enterprises with older workers on the payroll

<table>
<thead>
<tr>
<th>Sector of activity</th>
<th>Enterprises with favourable working conditions</th>
<th>Average age ceiling for working time reduction</th>
<th>Older employees with reduced working time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>7%</td>
<td>60.3</td>
<td>3%</td>
</tr>
<tr>
<td>Building</td>
<td>0%</td>
<td>—</td>
<td>0%</td>
</tr>
<tr>
<td>Trade/hotel and catering</td>
<td>7%</td>
<td>59.1</td>
<td>10%</td>
</tr>
<tr>
<td>Road transport</td>
<td>1%</td>
<td>56.9</td>
<td>9%</td>
</tr>
<tr>
<td>Banking/commercial services</td>
<td>35%</td>
<td>60.7</td>
<td>8%</td>
</tr>
<tr>
<td>Other services</td>
<td>22%</td>
<td>58.2</td>
<td>10%</td>
</tr>
<tr>
<td>Average</td>
<td>11%</td>
<td>59.5</td>
<td>7%</td>
</tr>
</tbody>
</table>


enterprises employing many older workers. The reverse is true of banking and commerce and of other service sectors. In many enterprises, even though such part-time options are on offer, few older employees make use of them. In small (<10 employees) businesses, 10 per cent of older workers retire gradually.

Table 7.5
Participation of employees in internal and external courses by age,
1988-1992, in the Netherlands

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Internal</td>
<td>External</td>
</tr>
<tr>
<td>16-29</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>30-44</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>45-64</td>
<td>16</td>
<td>10</td>
</tr>
</tbody>
</table>


Training

There is evidence that training contributes to labour mobility and productivity. Table 7.5 shows an increase in the participation of employees in courses since 1990 and reveals that older employees, relative to their younger colleagues, are less likely to be considered for supplementary training. However, participation in internal courses by older workers has increased over recent years. Other
Dutch research shows, nonetheless, that participation in training by older employees is still low, notably by the less educated and those employed in smaller units (Kamstra and Van der Craats, 1991; Gelderblom and de Koning, 1992). The LTD (1991) survey also shows that, relative to younger employees (11 per cent), older employees are underrepresented (7 per cent) in courses and training. Most of the training is aimed at skills preservation so as better to be able to execute current functions and only a small part at retraining for new functions.

Gelderblom and de Koning (1992) and Gelderblom et al. (1994) found that training has a greater positive impact on productivity than on wages. This confirms the view that training can be an important way of improving the functioning of senior workers, i.e. the productivity-wage ratio. There appears to be no difference in the productivity-enhancing effect of training courses as between seniors and other categories of worker. This is in line with other investigations into the relationship between age and ‘learning capacity’. The latter does not decline with age, so long as the design of the training is suited to the needs of the senior citizen. Hence, form and content will influence its effectiveness. The 1992 study also shows that external courses have a greater effect on both wages and productivity than internal ones. They conclude that there exists a real potential for enhanced productivity, since, physical and notably mental faculties decline less with age than many people believe. Training within the company reduces the number of people dropping out on grounds of disability. Other recent research (Van der Kloet et al., 1994) shows that training is seen as a means of raising the quality of an employee’s skills and hence the quality of the product. It increases the self confidence, motivation, flexibility and mobility of older workers. Recurring schooling and training promote the activity rate of older people and can avoid knowledge aging.

**Best practice in gradual retirement**

Of special interest is the funded gradual retirement scheme that has recently been agreed upon for the Harbours of Rotterdam and Amsterdam, and which by 2010 will replace the present pay-as-you-go VUT scheme (Delsen, 1994). The harbours apply an average pay pension system, facilitating gradual retirement. Resolution of the dilemma between flexibility and solidarity has been found in the co-existence of obligatory and voluntary modes of financing the basic supplementary pension and in a partial plugging of the AOW hole with early retirement, i.e. before the age 65. In this way, gradual retirement becomes a feasible option for all employees, including the lower paid. Two bridge options are available: additional finance through a temporary bridge pension split into a compulsory collective part (for those aged 63-65), employers paying $2/3$, employees $1/3$ of the premium, and a voluntary individual part (for those aged 60-62) borne fully by the individual worker. The annual premium for the collective bridge pension is $1$ per cent from age 21 to age 62;
for the individual bridge pension 3.6 per cent from 45 year to 60 years. The second option is partial pensioning to plug the AOW hole. The establishment of fully funded retirement provision takes 15 years, since for each benefit, prior to the first disbursement, the total present value has to be accumulated. A transitional scheme has been agreed upon to cover the period until effective introduction of the new system. Because both current VUT benefits have to be paid and future pension claims to be built up, there is a double premium burden. Over this period the VUT system will be progressively transformed into a gradual early retirement scheme, with the VUT benefit depending on the years of service, the age of exit and the number of hours of work-time reduction (full or partial retirement). In order to link up with the pension system the VUT benefit will be reduced to 70 per cent (now 90 per cent) of gross final pay. Over this transition period also, part-time employment is to be promoted by these financial incentives so as to keep income at a certain level should the years of service be too few. In order to safeguard the VUT, funds can be created to which both employee and employer contribute. Flanking policies for older workers, including function content, work time and periods of work, and training and retraining are to be an integral part of the reform towards a gradual retirement scheme. The aim of this policy is to keep the employee motivated until retirement age. Lightening the mental and physical burden on the individual worker is also expected to reduce disability leave.

7.3 Potential for gradual retirement and recommendations

A flexible retirement age contributes more to postponing retirement than does increasing the AOW age. The latter will result in savings on AOW and supplementary pensions, but recourse to VUT and WAO will increase. And since WAO and VUT benefits are higher, an adverse effect may be expected. This measure will only be effective if at the same time early exit routes are drastically reduced. In addition, those without supplementary benefits will lean more on other collective services. Flexible pensioning may, moreover, take into account differences between individuals and sectors. Judgements about the present linkage, levying premium on income above AOW (basic pension) and increasing the AOW age, are political ones (WRR, 1993). However, most believe that it is in the field of supplementary pensions that the real problems will occur.

Previous sections have suggested a considerable potential for gradual retirement in the Netherlands. For current older workers it is too late to introduce individual early retirement saving schemes and training programmes. For the short term, then, two options remain open: partial VUT and the possibility of changing function within the firm, the idea being in both instances that more appropriate use be made of the experience and capacities of the older employees.
A more permanent solution can be found in an individualised gradual retirement scheme enabling full and partial early as well as full and partial deferred retirement – by integrating the VUT and pension schemes and by introducing funding to replace the pay-as-you-go system (Delsen, forthcoming). In the Netherlands, supplementary pensions are financed by funding. Moreover, bearing in mind the 'greying' of the labour force, funding is desirable as a means of financing the various sectoral VUT schemes. A shift from pay-as-you-go towards funding will make it possible to retain the present pension level and pension age, and at the same time avoid a too high burden on the future active labour force due to the aging process. The link between premiums paid and entitlements will be tighter, creating an incentive to work more years, meaning that an early pension will imply an actuarial reduction, while working more years will imply a higher pension. It will, moreover, make the labour market more flexible, because, with funding, pension rights are portable, while pay-as-you-go financed VUT rights are not. The job mobility of older workers will increase, and the future unpaid bill will be avoided. Such a link will also be better suited to a labour force that is becoming increasingly heterogeneous and where variety in employment contracts, reflecting, in particular, part-time employment and other atypical employment relations, is rapidly becoming the norm in the Netherlands. The impact of recent changes in the pension system and the fiscal support on gradual retirement is still unclear. If the full benefit of the potential advantages is to be enjoyed, final-pay pension schemes will need to be replaced by average-pay schemes. Only in this way will older workers avoid the otherwise detrimental consequences of gradual retirement from the labour process. Net savings on pension expenditure will be the result. Indexation based on consumer prices instead of on wages will afford additional future savings. Moreover, the discrepancy between pay and performance of older workers could be narrowed by flexible pay systems and training facilities, with the latter being partly financed from savings on VUT benefits. An age-related personnel policy could offset the changing capacities of age-groups through investment in permanent education, to keep the human capital intact throughout working life. Such steps have yet to be taken in the Netherlands. The gradual greying of the work force will ensure that taken they are.

References

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