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Dutch pension policy and the ageing of the population

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Dutch Pension Policy and the Ageing of the Population

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WORC Paper 99.03.003/2

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Dutch Pension Policy and the Ageing of the Population

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1. Introduction

Since the beginning of the 1980s the Dutch social security system has been under permanent reconstruction. For budgetary reasons, but also to adjust the system to modern work and living patterns, major changes took place in unemployment, disability, sickness, old age, survivors, child benefit and social assistance schemes. The system as a whole has become more selective and less generous, the emphasis has shifted from income protection to labour-market participation ('welfare to work') and from collective towards individual responsibility (van Oorschot 1998a).

In this period of social policy reconstruction there has been a permanent debate on the future of pensions in relation to the ageing of the population. Economic analyses focused on the question whether a good quality pension system could be maintained with a not too excessive rise in costs and in what ways the future pension system should be financed. Sociological analyses focused on the legitimacy basis of proposed alternative solutions to the problem. Central to the debates has been the future of the national insurance AOW-pension. The fact that it is funded on a pay-as-you-go-basis makes the problematic more directly compelling. In 1998 the debate resulted in national legislation. Since the problem is less compelling with regard to capital funded occupational pensions they have been less discussed publicly. However, because solutions for the state pension may influence the level of occupational pensions, and because of back service consequences, occupational pensions are subjected to policy responses too.

In this paper we will briefly describe the demographic trend of the ageing population and the financial problem it creates, as well as the measures that have been taken to tackle the problem. We will concentrate on the national insurance pension AOW and pay only brief attention to occupational pensions. Not only because the AOW dominates the debate, but also because there is a lack of information of what is exactly happening in the wide variety of occupational pensions. As far as the AOW pension is concerned we will present some results of public opinion surveys, which indicate that the policy measures taken fit well to public preferences.

For an adequate understanding we think it is necessary first to present a brief sketch of the Dutch pension system and some recent developments in it.

2. The Dutch pension system

Basically the Dutch pension system is a three-tier system.

The first tier consists of the national old age state pension AOW (Algemene Ouderdomswet), which was introduced in 1957. The AOW is a compulsory pay-as-you-go pension scheme that pays flat rate, non-means-tested benefits to all citizens of 65 years of age or older. It is financed from contributions that are levied as a percentage of the incomes of employees and self-employed. Since benefits are flat rate there is a maximum level of incomes over which contributions have to be paid. This contribution ceiling is quite low, and corresponds with the top of the first of three layers in income taxation. The AOW-benefit equals the so-called 'social minimum', which is an amount thought to be sufficient to cover the necessary costs of living of a household. The level of the social minimum is equal to the net minimum wage, which is linked to the average wage level. As a result structural increases in wages lead to higher pensions. (Incidental wage increases, like e.g. those due to career steps, are not included in the linking mechanism). Single elderly get 70% of the social minimum as an AOW-pension, the partners of a couple each get 50%. In case the youngest partner is under 65 his or her AOW-benefit is means-tested, i.e. if the younger partner's income exceeds a certain level no benefit is paid. The AOW-pension is paid to all elderly people, independent of their contribution record, and thus functions as a basic income for all people of 65 and over.

The second tier consists of occupational pensions, in which participation often is compulsory for employees in specific industries or individual firms. There are a few thousand different schemes, most of which are capital funded, but otherwise with a great variety among them. There are defined-contributions schemes, average pay and end pay systems etc. Despite the differences about three quarters of the schemes are varieties of the end pay system, in which the pension is a percentage of the last wage. Typical is a situation in which the pension pays up to 70% of the average wage over the last three years, given a contribution record of 40 years. Shorter contribution periods result in lower percentages. The AOW functions as a first layer in many occupational schemes, in the sense that the payment tops up the AOW-benefit to the level of the wage-percentage. At present about 90% of all employees are covered by an occupational pension scheme, while about half of the pensioners have an occupational pension on top of their AOW. There is a trend towards an increasing coverage of occupational pensions, because in the 1980s only about 80% of employees was covered (van der Werf and Smidt 1997).

The third tier consists of individual, private pensions. This tier is badly documented.

In the last two decades the state pension AOW as well as the occupational pensions have been modernised.

The modernisation of Dutch pensions meant for the AOW, which dates from 1957, that it had to be adjusted to changing role patterns and the increasing labour market participation of women. The Third EC Directive on equal treatment of men and women has been an important stimulus here. In the course of the 1980s women got the same rights as men, the old age pension for couples was 'individualised' (formerly the man of a couple got 100% of the flat rate benefit level, now each partner gets 50%), unmarried couples are being treated as married couples, and a means-test on the partners income was introduced.

The modernisation of Dutch occupational pensions mainly consists of a trend towards 1) equalising the rights of men and women, 2) improvement of the rights of part-time and low-salaried workers, and 3) the introduction of choice elements to meet changes in individual work and living patterns (e.g. in a growing number of schemes employees can now opt for either including a survivors pension, or a higher old age pension). It is a process that still continues. Among the thousands of different occupational schemes there is a large variety in pace and contents of the modernisation measures (see e.g. Devreese 1989, Eichholtz and Koedijk 1996).

3. The ageing of the Dutch population and expected consequences for social security

From the 1960s onwards the average age of the Dutch population is increasing. Table 1 shows that the total population is growing, but that the proportion of people of 65 and over is increasing more rapidly than younger categories. The youngest category of those under 20 is decreasing. The table thus shows processes of what is called in the Dutch debate 'greyification' and 'de-greaning'. There is even a 'double greyification', since the fastest growing category is that of the very old, people of 80 years and older.

Table 1 **(Expected) age structure of the Dutch population 1960-2030**
(index 1989=100; (n)=1989x1000)

	1960	1989	(n)=	2000	2030
0-20 years	109	100	(4.122)	96	85
21-64 years	68	100	(8.807)	109	102
65-79 years	61	100	(1.459)	113	184
80 years and over	39	100	(418)	123	209
total 65 years and over	56	100	(1.877)	115	189
total population	78	100	(14.805)	106	109

Source: SCP 1990, p. 422 (based on Population Prognoses 1989 of the Central Bureau of Statistics, middle variant)

Whereas in 1989 about 13% of the total population was 65 or over, in 2030 this will have increased to 22%, and the latest prognoses of the Central Bureau of Statistics shows that it will further increase to 25% in 2040. From then on a stabilisation and decrease can be expected.

The ageing of the population will have strong effects on e.g. housing, health care and consumption patterns, but also on social security. Of course, the number of old age pensions paid will increase, but before a peak is reached here the effect will be a rise in the numbers of disability and social assistance benefits. At present a large cohort is still under 65. In its pre-pension stage the ageing of this working population will first mean an increase in work incapacity, as well as an increase in long-term unemployment, since to both social risks older workers have a higher chance than younger workers. Table 2 shows that it is expected that the number of old age AOW pensions will double in the period from 1990 to 2030. The acceleration will mainly take place after 2010, when the post-war 'birth-wave' will start to retire. The number of disability benefits is expected to have increased with a third by the year 2030, as well as the number of social assistance benefits.

Table 2 (Expected) numbers of benefits as a result of demographic trends, 1990-2030

	number of benefits x 1000			index (1990=100)		
	1990	2010	2030	1990	2010	2030
AOW pension	2.043	2.647	4.050	100	131	198
disability benefit	881	1.205	1.174	100	137	133
social assistance	218	276	289	100	127	133

Source: SCP 1994, p. 211

The growing number of AOW pensions will lead to a serious increase in expenditure: from 5.3 percent of the gross domestic product in 1995, to 7.5 percent in 2037 but to 9% if economic growth is lagging (prognoses of the Central Planning Office in TK 1997-1998, 25699, nr.3, p. 2). Since the AOW has a pay-as-you-go funding the increased costs will result in higher contributions. It is estimated that the contribution percentage will have to rise from about 15% of the wage cost now, to about 20% by the year 2030 (studies mentioned in Devreese 1989), and to 26% in 2035 (prognosis of the Central Planning Bureau CPB in TK 1997-1998, 25699, nr. 3, p.3)

The ageing of the population has also effects on the future costs of occupational pensions, despite the fact that most of them are capital funded. It is expected that extra funding, i.e. a rise in contributions, will be necessary for two reasons. First, since most of the occupational pensions top up the state pension to a percentage of the end pay, extra funding will be necessary if the pension level lags behind developments in the average wage level. The AOW-pension is linked to changes in the average level of structural wages, but not to the average level of incidental wage increases. Second, since many occupational schemes offer pay-as-you-go-financed 'back-service' in order to adjust occupational pensions in retrospect to increased wages and prizes, the ageing of the working population leads to higher costs: younger workers have to pay more contributions to finance the growing number of retrospectively adjusted pensions. In the 1980s a number of studies tried to estimate the expected rise in contributions for occupational pensions as a percentage of the wage-cost. The results varied between 10% and 20% (see Devreese 1989 for an overview). A recent micro-simulation study by Jansweyer (1996) suggested an increase from 7% of the wage cost in 1995, to 13% in 2010 and to 26% in 2040. This development is, however,

like the results of all long-term prognoses in the field, highly dependent on assumptions about developments in wages, prizes and profits. In a number of alternative scenario's, in which occupational pensions were assumed to be less generous (e.g. offering 60% instead of 70% of the end pay, or under transformation of end pay to average pay systems) Jansweyer calculated the necessary rise in contributions to be significantly lower.

4. Policy response

National insurance pension AOW

Early studies on the consequences of ageing for pensions were quite alarming, like that of van den Bosch et al. (1983), which concluded that it would give rise to either double AOW-contributions, or half pensions. Extended studies followed after these early warnings, with mostly more reassuring results. For instance, a special government commission reported in 1987 that the increased AOW cost could be overcome under certain conditions, among which a reasonable economic growth was central (the Commission-Drees), and the same conclusion was drawn in a study by a leading Dutch scientific advisory council (WRR 1993) and in Jansweyer's micro-simulation study (Jansweyer 1996).

Nevertheless, central government felt it necessary to take measures, since there will be an ageing of the population, pension costs will rise significantly, and there are too many insecurities involved regarding the future development of central factors like wages, prizes, employment and economic growth. Although reassuring, the studies mentioned did not conclude that nothing had to be done. Instead, they proposed and discussed a large number of possible solutions, which in combination with a low to moderate economic growth had to result in safeguarding pension quality and controlling pension costs.

The following types of solution figured in the Dutch debate (from SCP 1996).

1. Lower pension costs

Limiting indexation: A first possibility would be to limit the indexation of pensions to the development of wages. In that case pensioners would profit less from the increase in wealth than non-pensioners. From 1984 to 1989 this method was applied in order to tackle the budget

crisis that resulted from the economic recession of the early 1980s. The level of all minimum benefits, among which the AOW, was 'frozen' at their 1984 level with the result that the net AOW-benefit ultimately lagged behind wages with 1.7%. In the long run, however, such a policy would lead to too large an income difference between pensioners and non-pensioners, and the costs of occupational pensions could steeply rise when they top up the lagging AOW-pension to a percentage of the end pay.

A higher pensionable age: There have been proposals (e.g. from the conservative liberal party VVD) to increase the standard pensionable age from 65 to 67 years, based on the arguments that nowadays people start working later in their lives and have a higher life expectancy. The solution would, however, run contrary to the actual development of an increasing number of people exiting the labour market before the age of 65. The labour market participation of those between 60 and 65 years of age dropped from 85% in 1960 to 27% in 1990 (SCP 1994, p. 213). This is partly due to the rise of early-retirement schemes and partly to the establishment of alternatives for early exit, like disability and unemployment benefits. Among the public there is a strong preference for earlier in stead of later retirement than at the age of 65.

Individualisation of the AOW-pension: The christian-democratic party CDA copied this solution from the Commission-Drees. It holds that all pensioners get a pension equal to 50% of the social minimum. For the rest of their income at old age people would have to insure themselves at the private market or through occupational schemes. The average pension cost would drop and the AOW would be independent of household composition. Since such a measure could only be implemented in the long run (people would need time to built up the required supplemental pensions) it might come too late to be of any help for the expected peak between 2015 and 2040. Furthermore, not all people might have the financial means for extra insurance and in those cases the individualised AOW-pension would be too low, implying extra claims for social assistance.

Means-tested AOW: Extending the means-test from the income of the partner younger than 65 to the income of the pensioner could result in significant savings. Arguments against the alternative are that the administration of the scheme would become more complex and costly, but also that it might have serious negative effects on people's propensity to save or insure for old age. The latter might be a fundamental problem among those with lower to middle incomes and smaller assets, resulting in a general deterioration of pensions. If only the high

incomes and large fortunes are means-tested the financial gain would be small.

2. Higher pension contributions

Levying contributions from pensioners: The Scientific Council for Government Policy WRR has suggested in its advisory report *Ouderen voor Ouderen* to levy AOW-contributions among pensioners on the part of the income exceeding the level of the social minimum. A solidarity from the richer pensioners with the poorer pensioners would thus be created, and there would be no negative effect on the average wage cost.

Extending the contribution basis: It has been proposed to raise the income ceiling below which contributions are levied from the first layer of income taxation to the second or third layer. Higher incomes would thus pay more into the scheme. The objections are that resulting higher wage costs could have a negative effect on employment and that it would require a new design of the tax system..

Fiscalisation of the AOW: In this alternative pension costs would be paid from the revenues of general taxation. This would broaden the contribution basis too, but could also have complex effects on the tax system.

Contribution maximisation and partial fiscalisation: In a mixed system government would contribute to the pension costs from general taxation next to contributions by the working population. This would be a way of limiting both government's and citizens' contributions, which latter would be set at a maximum in order to control the level of wage costs.

3. Distribution of costs over time

Transformation to capital funding: Transforming the pay-as-you-go AOW into a capital funded system would on principle reduce the pension's vulnerability for demographic developments. However, it would take several decades before the funds would be adequately filled. The working population of the transition period would have to pay double contributions: one for the ongoing pay-as-you-go scheme, that would only come to an end once the capital funds are built up sufficiently, and one for the capital funds proper.

The establishment of a savings fund: A national fund could be built up to co-finance the AOW-pension in the period that the ageing of the population reaches its peak. The present working population would start paying into the fund. It would, however, result in an increase in the wage cost and have a negative effect on unemployment. The social-democrats (PvdA) and

progressive liberals (D66) were in favour of this solution, combined with levying contributions from pensioners with higher incomes in order to diminish the pressure on wage costs.

A number of these solutions were discussed in a green paper on the financing of the AOW (*Werken aan Zekerheid*), issued in 1996 by the coalition government of prime-minister Kok. The paper links up with the central element of Dutch socio-economic policies of the last decade, which is the strive for controlling wage costs in order to increase international competitiveness and thus the level of employment (van Oorschot 1999). Typically in this respect it expresses as central government's primary concern the limitation of the rise in AOW-contribution rate (i.e. contribution as a percentage of the wage cost). For, too high rates will have a negative effect upon employment. A maximisation of the contribution rate is proposed, accompanied by the engagement to supplement the necessary AOW-budget from the revenues of general taxation. Secondly, the paper observes that in recent years the indexation procedure of the level of the first layer in income taxation (which functions as the AOW contribution ceiling) has resulted in a narrowing down of the contribution basis. The ceiling level is partly linked to the development in prices, while the pension benefits are linked to wages. Since wages increase faster than prices their has grown a mismatch between pension financing and expenditure. The mismatch is expected to increase in the coming years. Government is of the opinion that the mechanism of ceiling indexation has to be altered, but prefers to postpone it for a number of years and incorporate the issue in an intended tax-reform. Government does not opt for extending contribution levying to the second and third layer of income taxation on basis of an argument of principle: in a national insurance with a flat rate benefit the equivalence between contributions paid and pension received should not be abandoned. The paper definitely rejects an increase in the standard pensionable age, based on the pragmatic argument that it would not be very effective given the fact that the labour market participation of those between 55 and 65 years of age is actually (very) small. Finally, the paper discusses the pro's and con's of a the establishment of a national savings fund to co-finance future AOW-costs, to be filled with contributions from employees and self-employed, and concludes that it could be a serious option.

The green paper was send to the Social Economic Council SER for advice (in which social partners participate, together with independent experts). The SER's advice was to adjust the

indexing of the contribution ceiling, to maximise the contribution rate at 16.5%, to raise the contribution ceiling and to donate to the pension cost from general tax revenues. The council proposes this mix of measures as a way of broadening the contribution base while preventing at the same time a too excessive raise of the wage cost and the negative effects this would have on employment. The council's opinion on the idea of a national savings fund is inconclusive. It suggests to look into the matter more precisely, regarding its effects on incomes, wage costs, as well as its relation with ideas for a new tax system. It suggests to postpone legislation for the moment. Government's reaction on the advice is that adjustment of the indexation procedure and raising the contribution ceiling should be seen in the context of intended new tax legislation, but that postponement of a fund is not desirable, since establishing a fund later would make the measure rather ineffective.

Discussion of the green paper in the Permanent Parliamentary Commission on Social Affairs and Employment and the Commission on Finance revealed that government's analyses and ideas were welcomed positively by most political parties, among which the social-democrats PvdA , christian-democrats CDA , conservative liberals VVD, progressive liberals D66 and green left Groen Links (TK 1996-1997, 24328, nr.4). The necessity of taking measures was admitted by all political parties. The debate focused mainly on the practicalities of alternatives, pro's and con's of solutions, but did not criticize government's basic ideas and preferences. However, with one exception. The alternative of a national savings fund was endorsed, but not the idea of filling it with contributions by citizens. It was feared by most political parties that this would have a negative effect on wage-costs and employment. Government was advised to draw up a proposal for law along the lines of its preferences presented in the green paper, but to consider an idea suggested by the social-democrats to fill the savings fund with contributions by the state. The economic situation was considered to be favourable for such an option.

After having received the advice of social partners and both parliamentary commissions legislation was prepared. The law proposal of central government was discussed in parliament in April 1998 and accepted with broad consent. The parliamentary debate again revealed a broad consensus among the different political parties about the necessity and contents of the proposed measures. Government had followed the advice of the parliamentary commissions to fill the savings fund with state contributions.

Two measures were taken in the '*Adjustment of the Law on the Financing of National Insurances*' (Wijziging van de Wet financiering volksverzekeringen):

- 1 A maximisation of the contribution-percentage: The AOW-contribution-percentage was set to a maximum of 16.5% in order to prevent an uncontrollable growth of contributions to be paid by employees and self-employed. The extra budget that is necessary to pay the pensions will be provided yearly by government. In the next decades the proportion of government funding relative to contribution funding will increase.
- 2 The establishment of an AOW Savingsfund: To co-finance the peak of pension costs after the year 2020 a savingsfund is established, to which government yearly donates a specified amount of money during the next decades. It aims to have saved about NLG 3.5 milliard by the year 2020.

Clearly, of the types of alternatives mentioned earlier central government has not chosen to lower pension costs. It has opted for maintaining the quality of the present AOW-pension by leaving the rights of pensioners and the level of benefit untouched. The basic choice for tackling the problem has been to increase contributions to the system. In order to prevent too high a pressure on the wage cost, which would have negative effects on employment, and to broaden the contribution base government has decided to take over a substantial part of the AOW financing in the longer run. It is expected that in 2040 the pension cost has its peak and will amount to about 8% of the gross domestic product. About 5.5 % would then be financed from contributions, 1.5% by government's yearly donations and another 1% from the savings fund (TK 1997-1998, 25699, nr. 3, p. 11).

Government's generosity is strongly related to the favourable economic circumstances that are present in the Netherlands from around the middle of the 1990s. The government's budget deficit has decreased significantly, from 4% of the gross domestic product in 1995 to 1.6% in 1998, and employment has grown rapidly, from 6.5 million jobs in 1990 to 7.4 million in 1997 (CBS 1998). These factors offered extra means, and it is explicitly stated in the explanatory note to the law (the '*memorie van toelichting*': TK 1997-1998, 25699, nr.3) that an important part of it will be spend on the financing of the AOW pension. Government is well aware of the fact that the future hides many insecurities that can influence positively or negatively all the important parameters. It clearly states that the measures taken can only be successful if certain conditions

are met, like an increase in the labour market participation of older workers, a drop in the costs of unemployment and disability benefits and a further decrease of the budget deficit. Government considers the establishment of the saving fund and filling it in the present economically favourable circumstances to be a first insurance against any future mishaps.

Occupational pensions

The second tier of the Dutch pension system consists of occupational pension schemes. They form part of labour conditions, and thus are the outcome of negotiations between employers and employees. The role of central government here is limited. Basically it concerns the formulation of general guarantees, the regulation of fiscal treatment of contributions and pensions and to the imposition, at the request of the representative parties, of compulsory participation in pension funds.

Earlier it is explained that because of the ageing of the population extra funding will be necessary for occupational pensions too. There might be lags between the AOW-pension and the collective pensions and the pay as you go financed back service will increase. This cost aspect has been a worry of social partners and government because of the potential rise in wage costs that is implied. In 1997 mutual consultation has resulted in a voluntarily agreed covenant on occupational pensions, between government, employers and employees. It aims at modernisation, cost control and easing the entrance to pension schemes (Star 1997). The covenant contains the following:

Cost control

As a rise in pension contributions means an increase of wage-costs, the social partners obliged themselves to control the total costs of pensions. This means that they will eliminate scheme rules that might hinder necessary changes, like rules for automatic and unconditional indexation and extra allowances. Furthermore, they agreed that modernisation measures, the (option) for replacement of survivors pension rights with old age pension rights and increased accessibility, may not lead to an increase of total macro level costs. On the micro level, where branch- and company pension schemes are negotiated, cost increases are allowed if they are necessary to obtain a socially accepted pension scheme. The cost-development on the macro-level will be

monitored by central government.

Accessibility

The entrance to the occupational pension schemes has become more easy thanks to previous efforts of social partners and government regulations. From about 80% of workers covered by occupational schemes in the 1980s, nowadays about 90% are covered. Nevertheless, the covenant aims at a further extension of coverage. Therefore, social partners are requested to eliminate thresholds and create necessary (new) pension schemes. Government has announced to make regulations on this subject (TK 1997-1998, 25964, nr 1).

Compulsory participation

On principle compulsory participation in occupational pension schemes will be maintained, both for employers and employees. However, the possibilities of dispensations will be enlarged (TK 1996-1997, 25014).

Relevant for our discussion is that for the next century the Minister of Finance has presented a new fiscal plan (TK 1997-1998, 25810), in which the idea of an old age pension 'umbrella' is mentioned, meaning that one fiscal standard will be determined for the total size of a person's old age pension rights. (Kremers and Flikweert 1998). The central idea is that the tax deductibility of contributions for occupational and private pensions will be limited. The tax system will only support second and third tier contributions to levels at which a social acceptable total pension result (the sum of first, second and third tier rights) can be obtained. In practice it will mean a tax support for pension rights that add up to a maximum of 70% of the final wage. People may, of course, purchase higher pension rights, but the extra contributions necessary for it will not be tax deductible.

Finally, in the nearby future the supervision on pension funds will be intensified. For this the Insurance Chamber (*Verzekeringskamer*) will be given more authority. In the 1950s, when the Pension - and Saving Funds Act (*Pensioen- en Spaarfondsenwet 1952*) was introduced, self regulation by employers and employees was assumed. However, with the increased linkage of public and private pensions government felt it necessary to increase control and regulation (SZW 1999).

5. Public opinion

Dutch politicians need to operate carefully when it comes to pension policy. In the context of the welfare state pensioners generally are seen by the public at large as a social category strongly deserving support from the state. This is the case in the Netherlands (van Oorschot 1998b), but also in other industrialised countries (Coughlin 1980). The christian-democratic party CDA has experienced this in the running up to the elections of 1994. Despite many signals that society was not in favour of it, its then leader mr. Brinkman persisted in his proposal to cut back on minimum benefits when the CDA would join the new government. The societal resistance focused explicitly on cutting back on the AOW-pension, which is one of a number of minimum benefits. The elections of 1994 were disastrous for the CDA and soon after mr. Brinkman left politics. In the same elections some smaller political 'grey' parties gained seats in parliament. Clearly, regarding pension policy it matters what the public thinks.

In the course of the 1990s two public opinion polls asked people about their views on a selection of alternatives for solving the problem of the future financing of the AOW-pension. Table 3 shows that among the general public a rather popular measure it would be to increase contributions paid by those (including pensioners) with higher incomes. In other words, there would be a societal legitimacy base for letting the rich pay more into the system. Obviously, government has not opted for this solution. Its arguments against it were of a principal nature and concerned, as we have seen, the preferred equivalence between flat rate benefit and contribution paid. Opinions are clearly divided on increasing AOW-contributions for all income levels. This would not be a popular measure, and government has precisely opted for the opposite: a maximisation of the contribution rate at a relatively low level of 16.5%. Strongly unpopular would be to increase pensionable age, or to decrease the benefits paid. Government's choice to leave the pension rights untouched corresponds perfectly with this.

Table 3 Opinion on alternative solutions for financing future state pensions

	agree	agree, nor disagree	dis agree	dk/na
- increase contributions paid by higher incomes	55	23	18	4
- let pensioners with higher incomes pay contributions	45	21	28	6
- increase contributions for all	28	41	26	5
- increase pensionable age from 65 to 67	14	21	62	3
- decrease state pension benefits	3	15	79	3

Source: TISSER-Solidarity Study (1995, N=1403) (see van Oorschot 1998c)

In a study among unemployed it was also found that diminishing pension rights is not a popular policy. About 70% was against individualisation of the AOW and 75% against raising pensionable age to 67 (SCP 1996, p. 165).

Both studies mentioned asked respondents about their opinion on establishing a savings fund. In one study only 28% was in favour of it (van Oorschot 1998c), and in the other 54% (SCP 1996). Since in both studies the question-wording was about a fund to be financed by extra AOW-contributions to be paid by employees, these figures can not be seen as indicating the legitimacy of government's choice to create a savings fund. In the government's option the fund is financed by the state, not by citizens. The difference in outcomes between the studies might be related to the fact that one was among a random selection of the general public (van Oorschot 1998c), and the other among unemployed (SCP 1999). Unemployed seem to like the idea of a fund financed by employees more than the average citizen.

The fact that government takes on a high future responsibility itself for financing the AOW is in line with relevant views of the Dutch: 57% is of the opinion that central government has a prime responsibility for protecting people against the consequences of the social risk of old age, while only 15% thinks this is primarily the responsibility of citizens (van Oorschot 1998c).

The overall conclusion can be that the government's AOW pension policy response to the ageing of the population seems to have a sound societal legitimacy base. The Kok-government seems to have learned from the experiences of the christian-democrats.

6. Conclusions

Because of the ageing of the Dutch population future pension costs will increase significantly. There is widespread political and societal consensus that measures have to be taken in time to cope with the financial burden. Recently a bill passed parliament which sets a maximum to the contribution rate for the national insurance pension AOW and which introduced a savings fund for future use to be filled by central government in the coming years. As a result wage cost increase will be limited and present surpluses will be set aside for future entitlements. These solutions fit well to public preferences. In the field of occupational pensions a covenant was agreed between central government and social partners aimed at controlling future pension costs.

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