Narrowing pathways to early retirement in the Netherlands
van Oorschot, W.J.H.

Published in:
The Journal of Poverty and Social Justice

Publication date:
2007

Link to publication

Citation for published version (APA):
Narrowing pathways to early retirement in the Netherlands

Wim van Oorschot

The early retirement of older workers, and their low labour participation, was not seen as a major problem by the Dutch government during the years of recession in the 1980s and early 1990s. However, with the upswing of the economy and the rapid ageing of the population, the government’s perspective changed drastically and related policy measures were taken. After a general introduction that sketches the shift in the government’s perspective, we give an account of the various pathways to early exit that are used by older workers, and how these have been restricted by policy measures.

Early retirement: from solution to problem

Until recently, the Netherlands was among those European countries where the labour force participation rate of older workers, as well as the average age at which workers exit the labour market, was relatively low. With the economic recessions that hit the Netherlands in the early 1980s and in the mid 1990s, and with the resulting unemployment, for two decades the labour participation of older unemployed and older (partially) disabled workers was not a first policy priority, compared with the participation of younger and able bodied workers, for example. Actually, non-participation and early exit of older workers was promoted by central government, because it was seen as contributing to the employment of younger workers and of newcomers to the labour market, and was therefore seen as a means of facilitating the restructuring of the Dutch economy (SER, 1999). For instance, from 1982 unemployed workers older than 57.5 years were exempted from jobseeking obligations. But more importantly, early retirement became institutionalised in a system where collective labour agreements included fiscally facilitated, generous and easily accessible early-exit schemes (vervroegde uittredingsregelingen, or VUTs). At the same time, for older workers who were not covered by a VUT, unemployment insurance benefit, and especially disability insurance benefit, functioned as alternative pathways out of the labour market (Lindeboom, 1996).

While the practice of large-scale early retirement lingered on until quite recently, the discourse on the issue started to shift in the early 1990s when it was recognised that the popular VUTs, which offered a generous benefit of 80% of a worker’s final wage to those who had worked for a minimum of 10 years in their economic sector, was a very costly affair. In 1992, for instance, the Social Economic Council, the main advisory body for socioeconomic policy in the Netherlands, recommended that part-time early retirement and other forms of flexible exit should be considered as alternatives to the costly VUTs (SER, 1992). With the gradual recognition of the problem of an ageing population, and the resulting idea that in future all hands would be needed on the deck of the Dutch economy, the policy discourse against early exit intensified in the second half of the 1990s (see, for example, van Oorschot, 1999). As a result, in
1997, government and the Foundation of Labour agreed on a covenant concerning occupational pensions, which aimed at replacing the popular and costly pay-as-you-go VUTs with capital funded pre-pension schemes, which are much less attractive for employees to make use of. From this period onwards the replacement (explained in more detail on page 250) was to be implemented in an increasing number of collective labour agreements. In addition, during the 1990s and early 2000s the government also took measures that hardened exit through the alternative paths of unemployment and disability, and it restricted considerably the fiscal facilitation of collective and private saving for an early pension. Other measures included: abolishing the exemption of older unemployed people from jobseeking obligations; increasing tax credits for older people with a job; and taking into account the savings accounts of older unemployed people on social assistance in the scheme's means test. In the early 2000s, the labour participation of Dutch older workers started to increase (Figure 1).

Several studies saw this as evidence that the new policy measures were starting to pay off (see, for example, Euwals et al, 2004; SZW, 2004; Wolthoff and van Vuuren, 2004). Notwithstanding this, countering the early exit of older workers remains high on the policy agenda of the government and its social partners, who realise that at present the Netherlands only meets the labour participation standards for older male workers, which was set at 50% for the 55–64 age group by the Council of Europe in its 2001 Stockholm meeting. The labour participation standard of 50% has not yet been met by the group of Dutch female older workers, and there is still hard work to be done in order to meet the Council's Barcelona 2002 standard of increasing the average exit age by five years by the year 2010. External pressure from the European Union aside, the higher labour market participation of older workers is regarded as an important strategy for keeping the costs of an ageing population under control.

In the remainder of this article we will explain in more detail the various Dutch pathways to early retirement, and what measures government has taken to make them less accessible.

Figure 1: Labour participation rates in the Netherlands by gender and age

Changing pathways to early retirement

Like other welfare states in Europe, the Dutch welfare state offers older workers various routes out of the labour market. As Figure 2 shows, the labour participation of older Dutch male workers decreases with age, and quite rapidly around the age of 60-61. Disability benefit is an important route for all between the ages of 50 and 65. It is only from age 60-61 that early retirement pension becomes a more important exit path. Unemployment benefit is a more important exit path for those over 60, compared with younger workers, but it remains the least important one when compared with pension and disability benefit.

For Dutch women, Figure 2 shows that a large proportion falls into the category of ‘other’, which basically means that they are homemakers. As in the case of Dutch males, the proportion of working women decreases with age. A rather steady percentage of them exits through unemployment and disability benefit, and an increasing percentage exits via early pension. However, this route is of much lesser importance for female workers compared with male workers. This is a result of the fact that many Dutch female workers work part-time, and have shorter and more interrupted working careers than Dutch men, factors that on average entitle them to less pension benefit. It is also a result of a relatively large proportion of Dutch female workers exiting ‘informally’, that is, without making use of any income protection scheme. Their way of leaving the labour market is to become homemakers (again). This is in line with findings from other studies, which show that, in relation to other European countries, many working Dutch women exit the labour market in older age without having a replacement income (Fouarge and Baaijens, 2003; SCP, 2006).

Figure 2: Pathways into early retirement for Dutch men and women, 50-65 years of age (% 2003)

Notes: unemployed = unemployment insurance WW and social assistance ABW; disability = disability insurance WAO; pension is VUT, pre-pension scheme.

Source: Dutch Regional Income Study Panel (see also Fouarge et al., 2004)
Early retirement schemes

In the Netherlands, VUTs have for many years been the main early retirement schemes for many workers. They were established in the 1980s with the explicit aim of making room for younger workers. VUTs are not national schemes; instead, they are arranged by collective labour agreements in the industry and service sectors. This implies that there is wide variation in details of the scheme, and that not all workers are covered; however, most schemes offer 75% to 80% of previous wages for workers who have been working in their sector for at least 10 years. From a European comparative perspective, these replacement rates are high (OECD, 2003). Workers can usually retire between the ages of 58 and 60, and most of them do so, since continuing to work for longer does not lead to a higher pre-pension level if one retired later. Nor does VUT take-up affect the retirement pension, since accrual of occupational pension rights continues during the VUT period. Important to note is that VUTs are financed on a pay-as-you-go basis, which means that claimants are not confronted with the costs of their early exit. VUT is therefore known as an offer one cannot refuse. For many years, the government subsidised VUTs by exempting VUT premiums from taxation.

As mentioned previously, in 1997 the government and its social partners agreed to reverse the trend in the exit behaviour of Dutch older workers, by replacing VUTs with less generous pre-pension schemes. These are schemes, also arranged by collective labour agreements, which offer early retirement from the age of 55, but they are capital funded instead of being pay-as-you-go based. Take-up of a pre-pension scheme thus reduces one's retirement pension considerably. The earlier the pre-pension is claimed, the lower its level, and the lower the retirement pension later on. Most pre-pension schemes are designed such that claiming pension at age 62 offers a pension of 70% of a worker's previous wage (based on an uninterrupted employment record of 40 years!), while working longer than this pivotal age will increase the pre-pension and the retirement pension, which can even be 100% of gross earnings if one works until the age of 65. The government exempted pre-pension premiums from general taxation, but this was abolished from 1 January 2006 in order to further curtail early-exit opportunities. Clearly, the shift from VUTs to pre-pension schemes has made early retirement much less attractive. Generally, the replacement rates are much lower due to the higher pivotal age (from about 60 to 62) and because large numbers of workers will not have work records of 40 years (see Groot and Heyma, 2004, for comparisons of VUTs and pre-pension replacement rates).

The shift from VUTs to pre-pension schemes is mostly completed. In 1995 about 80% of workers were covered by VUTs, and hardly any by pre-pension schemes. At present, 87% are covered by pre-pension schemes, and about 2% by VUTs. There are many transition arrangements, which means that the full effects of the shift are still to come, but most experts agree that the shift has already contributed to the fact that the average Dutch early exit age is increasing (de Klerk, 2001; Euwals et al, 2004; Groot and Heyma, 2004; Wolthoff and van Vuuren, 2004; OECD, 2005).
Disability benefit

Another important alternative pathway to early exit was the Dutch disability insurance scheme (WAO), as it existed until 2006. In 2003, 61% of claimants were aged between 50 and 64. Duration of this earnings-related benefit depended on age, for example, it was six months for those younger than 37, but six years for those aged 58 and over (after expiry, this wage-related benefit was replaced by a non-means-tested, flat-rate benefit). Because of its longer duration, its lack of formal jobseeking obligations and the fact that pension rights were accrued during disability and not during unemployment, the disability benefit was more popular among older workers than the Dutch unemployment benefit, WU. The WAO scheme has been made less attractive and less easily accessible by a series of measures taken from the mid-1980s onwards, for example replacement rates were lowered from 80% to 70%, duration of the wage-related benefit was limited and the disability assessment criteria were made more strict (for details, see van Oorschot and Boos, 2001). In 2006, the WAO scheme was abolished and replaced with WIA. This scheme pays disability benefits of 75% of a worker's previous wage for a maximum period of five years, but only for those who, at the moment of assessment, are expected to be disabled for at least the next five years. Those who are disabled for less than 35% will receive no disability benefit. Those who are between incapacity levels of 35% and 80% will receive only a partial disability benefit, if after a period of two years they and their employer can prove they have done all that is possible to find adjusted or alternative work, but did not succeed.1

Unemployment benefit

As mentioned previously, the Dutch unemployment benefit WU is a less important alternative exit route than the disability scheme. It can be a way out of the labour market, especially for older workers, because benefit level and duration is dependent on work record. Older workers with long work records can qualify for an extended period of benefit, which may bring them within the range of a pre-pension scheme. Additionally, one of the WU's former elements, the so-called 'vervolguitkering' (follow-up benefit), entitled older unemployed claimants to a flat-rate, non-means-tested prolonged benefit of three and a half years following the expiry of their maximally five-year earnings-related (70%) unemployment benefit. This follow-up benefit was introduced in 1987 with the specific aim of bridging the period from standard unemployment benefit to standard retirement for older unemployed workers. However, it was abolished in 2003, in order to reduce long-term inactivity among older workers, and thereby effectively closed a functional alternative for early retirement.

Emphasising employers' responsibility

Since the late 1990s the Dutch government has been actively trying to reverse the trend towards early exit of older workers by restructuring incentives to work. However, in
its 2000 brief on the promotion of labour participation among older workers (SZW, 2000), the government acknowledged that employers also played a role in the processes towards early exit, and that in addition to an incentives-led policy, a policy aiming at a shift in attitudes among both employers and employees was necessary. In its 2000 brief, the government presented a number of proposed measures that addressed both groups. In its 2004 brief on stimulating the labour participation of older workers, the government reviewed and commented on the results of such measures. Although presented as a coherent set of measures tackling various aspects of the problem, the overall picture was somewhat disappointing. The only 'hard' new measure taken was to exempt employers from paying the standard disability insurance contribution for newly hired employees of 50 years or older. The other measures were either existing measures from other policy areas, now presented as instruments in the fight against early exit, or they were rather 'soft' in the sense that they did not force employers and employees to behave according to the government's aims, but tried to facilitate, promote and stimulate instead. Examples included: subsidising focused programmes using human resource management centres of expertise; subsidising initiatives involving the training of older workers; stimulating information campaigns targeted at employers and employees and so on.

It is important to note that government explicitly intended this soft approach, since in its 2004 brief it took as a point of departure that its social partners were primarily responsible for increasing the labour participation of older workers. The government expected them to collaborate with individual companies and industrial sectors to stimulate the training and schooling of older workers, to adapt work and working conditions to the capacities and needs of older workers, to introduce and use systems of part-time pensioning, and to change hiring and firing policies. Once again, according to the government, for this to happen and to be successful, a shift in the mentality of both employers and employees was necessary. To stimulate such a shift, the government had installed the Taskforce Ouderen en Arbeid (Taskforce Older People and Employment) in 2001, which was assigned to draw up a series of proposals on how to realise such a shift. In its 2004 brief, the government discussed the proposals of the Taskforce and how it would deal with them. Again, a critical observer would conclude that there was little hard substance to be found. New measures include financing research, stimulating debate between employers and employees' organisations, subsidising experiments and pilots, setting up a communication campaign and suchlike.

Finally, it should be mentioned that in 2006 the Dutch government introduced the Levensloopregeling (the life-course savings scheme), which allows people to save, on a tax-free and voluntary basis, a maximum of 12% of their annual income up to a maximum sum of 210% of their annual earnings, and to use this for financing periods of care leave, education and early retirement. To use the scheme for early exit was a much-debated issue, given the government's aim to increase the labour participation of older workers, but in the end the government gave in to the demands of its social partners. At present, the life-course savings scheme has no practical relevance for early-exit decisions, because the opportunity to build up a savings account is only
open for about a year. It is doubtful whether it will play a substantial role in future, because only very few people take part in the scheme.

Conclusions

As in other countries, the Dutch discourse on early exit has shifted from one in which labour market exit by older workers was seen as contributing to employment and helping employers to restructure and to make flexible their businesses, to one in which it is seen as a problem for the future productivity base of the Dutch welfare state. Since the late 1990s, the Dutch government has taken serious measures in trying to change the incentive structure of benefit schemes that give access to early exit. Most importantly, schemes for early pensioning shifted from pay-as-you-go to capital funded, with the effect that early-exit pensioners now pay for their pre-pensions themselves. In addition, access to alternative routes, such as through disability and unemployment, has been restricted. Among social partners and government there is a large consensus that early exit is a major problem that has to be solved. Thus far, the hard incentive measures taken were well prepared in the Dutch corporate institutions, they have a broad political legitimacy and they seem to be effective, given the increasing participation rates among older workers. More recently, the government has emphasised the responsibility of employers and employees at the level of firms and industrial sectors. They should be more proactive and do what is possible to keep older workers in the labour market.

Little, however, has been done by the government and its social partners to ensure that in future jobs are actually available for older workers whose pathways to early retirement are cut off. There seems to be an implicit assumption that in future there will be plenty of jobs that are of sufficient quality and suitability for older workers. However, this assumption might be justified only if, for instance, there will not be other groups from which labour will be supplied in larger quantities (such as from Dutch women and immigrants), if labour productivity does not substantially increase and if total employment does not decrease significantly. To the degree that these conditions are not met, future older workers may face ending their working careers not on early pension or on disability pension, but on the dole.

List of abbreviations

ABW Algemene Bijstandswet (Act on General Social Assistance)
VUT vervroegde uittredingsregeling (early exit scheme)
WAO Wet op de Arbeidsongeschiktheidsverzekering (Act on Work Incapacity Insurance)
WIA Wet Werk en Inkomens naar Arbeidsvermogen (Act on Work and Income Related to Working Capacity)
WW Wet op de werkloosheidsverzekering (Act on Unemployment Insurance)
Notes

1 Should the employee fail to deliver such proof, (s)he will not get disability benefit, but might be entitled to unemployment benefit or social assistance instead. Should the employer fail to deliver such proof, (s)he will be obliged to pay for the employee's disability benefit.

or a review of these proposals in English, see OECD (2005)

References


Wim van Oorschot • Department of Sociology • Tilburg University
Netherlands
wv.oorschot@uvt.nl