

The Fragmentation of Solidarity in Dutch Occupational Pensions.

Thijs Bol and Johan J. De Deken
ASSR
University of Amsterdam

Contact: Johan J. De Deken
Department of Sociology
University of Amsterdam
OZ Achterburgwal
1012 DK Amsterdam
J.J.DeDeken@uva.nl

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In the empirical study of welfare states, one can roughly distinguish three approaches, that each have their own main dependent variable. A first approach builds upon Schumpeter's idea that "the budget is the skeleton of the state stripped of all misleading ideologies" (Schumpeter, 1991: 7), and proceeds by analysing expenditure patterns of states (De Deken & Kittel, 2007). A second approach looks at the actual distributional outcomes by comparing income inequality or poverty rates before and after taxes, contributions and social security transfers (Goodin, et al. 1999). Finally, a third approach departs from T.H. Marshall's idea of entitlements as an element of social citizenship (Marshall, 1950) focuses on social rights by examining entitlement conditions (Esping-Andersen, 1990). Central to this third approach is an estimation of theoretical replacement rates. The main problem with this third approach is that it tends to rely primarily on the stylised biography of one hypothetical man or woman, the so-called average production worker (APW). Replacement rates calculated of social security schemes are estimated assuming that the beneficiaries has been earning the average wage in industry and, in the cases of schemes that require a lengthy employment history, like most pension schemes, assumes that people have been working and contributing for the entire period necessary to build up the entitlement to a full benefit. At best, the first generation of social rights studies would also look at people earning half the APW or twice the APW, and some might also include the replacement rates of minimally guaranteed benefits in their analysis. In addition, pension entitlements are more than any other social transfer intrinsically intertwined with the life-long work career of the beneficiary. In this context, the OECD only has examined the entitlements of "a worker who enters the system today and retires after a full career" (OECD, 2005: 40). The problem is that this does not do justice to the diversity of life courses and earning bibliographies. In this respect, the approach taken by Meyer and Bridgen has been a vast improvement (Meyer and Bridgen, 2007). Extending the approach taken by the European Commission's Social Protection Committee (Social Protection Committee, 2006: 6-10), they constructed a set of eighteen different "risk biographies" and simulated for each of these the pension entitlements they would be building up under the current arrangements, assuming that these arrangements will remain the same over the next 45 years. The main

purpose of Meyer and Bridgen was to create a framework for a more nuanced and sophisticated comparison of gross pension levels in different countries. The purpose of this paper, by contrast is to focus on comparing pension entitlements within one country. The underlying idea of this within system comparison is that in view of the alleged problem of ageing, most pension reforms seek to shift the burden of financing old age pensions from public statutory schemes to mandated or voluntary occupational arrangements. If during the 20th century one could observe a continuous trend of extending general public schemes, rendering them evermore inclusive, seeking to cover the entire population under similar if not the same conditions, the fiscal crisis of the state seems to have put this trend to a halt. Most pension reforms seek for salvation by shifting the responsibilities for providing old age benefits from the state to private actors. As a consequence, one can observe an erosion of the kind of national solidarity that underpinned the welfare state of the golden age. The role of the state as agent of all citizens is increasingly taken over by occupationally segregated communities: industrial sectors, enterprises or professions.

Defining Social Solidarity

Solidarity can be defined as referring to networks of social relationships that involve some form of mutual dependencies, responsibilities, and entitlements within a defined group of people or a community. It can be seen as a structure in which fortunes and misfortunes are reapportioned. In the case of old age pensions, the “misfortune” involves a number of risks people are exposed to in the latter inactive part of their life course, the root of some of those risks, though find their origin during the active part as pension entitlements are in part build up during working life (in particular that part of entitlements that is to allow a continuation of the standard of living people have grown accustomed to during their active phase). Solidaristic pension systems seek to various degrees to pool four types of risks: (1) the micro income risk of the individual wage path (i.e. the risk of having a non-standard employment career with resulting fluctuations in earnings and in the capacity to contribute in an earnings-related scheme); (2) the macro income risk of disappointing economic growth and returns on savings and investments (i.e. this includes

uncertainties about wage developments and inflation risks); (3) micro longevity risks of the life span (i.e. the risk of living longer than average); and (4) macro longevity risks of average mortality and fertility (i.e. the risk of an ageing population and the resulting deterioration of the old-age dependency ratio) (for a more extensive discussion see De Deken et al., 2006: 144-146). In this paper we will look at solidarity primarily from the vantage point of the way in which the first two types of risks are being reapportioned.

The pooling of these risks can occur at various levels delimiting what some have coined a “basic universe of solidarity” (Esping-Andersen, 1987). Such a universe constitutes the social unit within which the fortunes and misfortunes of life are being reapportioned. It delimits a group, the members thereof recognise their obligation to pool each other risks. Each member can invoke the group’s solidarity as a matter of right. If during the golden age, the basic universe of the welfare state was increasingly the community of citizens of the nation state, recent reforms have increasingly fragmented this national solidarity, breaking it up again on occupational grounds.

The Second Pillar of the Dutch Pension System

Like all OECD countries, the Netherlands has a pension system that consists of three pillars. But in contrast to most other continental European countries, the second pillar traditionally has played a much important role in accomplishing the second tier function of income maintenance. There are two main reasons for the importance of the second pillar. On the hand, it seems to be related to the fact that the Dutch first pillar only offers universal flat rate benefits, and as such only is capable of fulfilling a first tier function. On the other hand, it is a consequence of the fact that even if the pension agreements are concluded on a voluntary basis by the social partners, the state imposes an administrative extension to all employers in a sector. They can only opt out of these industry wide arrangements if they set up a pension fund that offers at least as good conditions as the branch level scheme. As a consequence, coverage is estimated to be about ninety per cent of the wage earning population. There is even a hundred per cent coverage for public sector workers and for wage earners working in firms with more than 200 employees. Often it is claimed that the Dutch second pillar is relative homogenous in

offering similar supplementary benefit to the first pillar. The overarching aim is often claimed to consist in supplementing the basic flat rate state pension in such a way that after a full employment career (i.e. 40 years) a pension plan participant accumulates a benefit amounting to 70 per cent of his past earnings (for example, Haverland, 2001). But on closer examination, the Dutch second pillar of is characterised by a high degree of variation and internal fragmentation. There are some 950 different pension funds that all use different methods of financing (in particular the distribution of the contributory burden between employers and employees, the way of determining the premiums and benefits, and the procedure used for back servicing and the indexing pension promises). Most employees are associated to one of industry wide schemes: they cover three out of four wage earners. But here we still are faced with some 65 different funds that use different benefit formula and methods of determining premiums.

Even though the system of mandating makes the system quite coercive with regard to coverage, the actual conditions of this coverage are stipulated by negotiations between employers and employees that are part of collective wage agreements (Anderson, 2007). Normally these are concluded at branch level but an employer can opt out of these sectoral plans if it offers an “actuarial and financial equivalent” plan employees (Harmsen, 2005: 17).¹ Because of this freedom, conditions for pension rights can vary substantially across different pension plans. Most pension plans, that is about 80 per cent, use a minimum entrance age set normally at 25 years (PSV, 2002: 28). Other parameters that can vary include the exclusion of elderly workers, the distribution of the premium between employers and employees, whether the plans is run as a defined benefit (DB) or a defined contribution scheme (DC) and in case it is a DB scheme, whether it is a average pay or a final salary promise, the age of retirement, and, finally what is most important for our analysis, the so-called franchise, the accrual rates and the method of indexation of pension promises.

¹ This equivalence is a relative concept, as it does not include provisions for indexation of benefits, and the equivalence is assessed at the collective level, i.e. the opting out can be disadvantageous for individual employees, or can change the balance between employer and employee contributions to the disadvantage of the latter. The opting out normally has to be approved by the sectoral fund that can impose additional conditions for the opting out to take effect.

Defined Benefit versus Defined Contribution

Even though this distinction is often presented as a dichotomy, in fact it should more be seen as a continuum. A pure DB scheme rarely ever exists, as the solidity of the pension promise is very much contingent on the adopted method of indexation (see below). Most Dutch pension funds nevertheless are still much closer to the DB side of this continuum, and even though during the past years a few enterprise based funds have moved towards a DC scheme, they remain a very small minority and the DC variant adopted in the Netherlands, the so-called Collective Defined Contribution model, still bears some elements of a DB scheme. But as we argued, formally the vast majority of Dutch Pension funds are classified as DB schemes as becomes evident in table 1.

Table 1 DB versus DC schemes in the Netherlands

	Distribution in terms of Number of Active Participants		Distribution in terms Number of Pensions Funds	
	1998	2006	1998	2006
DB Final Salary Scheme	66	10	61	38
DB Average Pay Scheme	25	76	16	34
DB Combination	6	7	6	15
DB Fixed Amount	2	1	5	2
DC Scheme	1	4	4	6
Other	1	2	9	5
Total	100	100	100	100

Source: De Nederlandsche Bank *Pensioenmonitor* Table 8.9
www.statistics.dnb.nl/index.cgi?lang=nl&todo=PenMonitor accessed on 12 July 2008

But even though most schemes are run on a DB basis, the nature of the pension promise did change dramatically the past years as most funds have abandoned the final salary model for an average pay promise.

The Franchise

The idea behind this franchise is that low wage workers obtain, from the flat-rate statutory AOW pension system, a benefit with a sufficiently high replacement rate, so that it is not necessary for them to build up a supplementary pension benefit. The franchise, thus, is that part of the wage that is exempted from premium payments *and* from benefit calculations. The higher the level of franchise, the more employees are excluded from accruing second pillar pension rights. In order to prevent a large scale exclusion of part-timer workers (in the Netherlands, most women), the franchise must be halved for this category of employees. This rule can even have as a consequence that if the wage level of the part-time worker more exceeds the franchise than that of a full time worker, the part time worker is advantaged in his or her accrual of pension rights (i.e. will build up a higher benefit in the second pillar for the same annual income). Some pension funds set the level of the franchise at about the AOW benefit for singles (70 per cent of minimum wage), others use the AOW benefit for couples (100% of the minimum wage), but most use a fixed indexed amount that is said to be in between these two yardsticks. Finally, there are also funds do not use a franchise at all. In table 2 we give an overview of the use of franchises included in pension arrangements in 2006 (both in terms of the relative number of participants as well as the percentage of pension funds).

Table 2. The Franchise in Dutch Pension Funds

	Distribution in terms of Number of Active Participants		Distribution in terms Number of Pensions Funds	
	1998	2006	1998	2006
AOW for Singles	18	1	9	7
AOW for Couples	44	21	30	22
Fixed Amount	18	50	3	7
Other Benchmark	13	10	34	56
No Franchise	16	12	14	16
Total	100	100	100	100

Source: De Nederlandsche Bank *Pensioenmonitor* Table 8.9
www.statistics.dnb.nl/index.cgi?lang=nl&todo=PenMonitor accessed on 12 July 2008

The Accrual Rates

The other main parameter that can have an important impact on the level of pension benefits is the accrual rate. Normally, an accrual rate of 1.75 should after 40 years result in a full pension of 70 per cent of past earnings. Accrual rates vary though, depending upon the type of pension promise. For example, accrual rates in average wage schemes tend to be higher than in final salary schemes (Ponds & van Riel, 2007). This is reflected in Table 3: the past decade the accrual rates had to increase as most DB funds moved from final to average pay schemes. This table does not include the pension funds that were organised on DC basis and that in 2006 represented some 9 per cent of all funds covering little over 4 per of active participants.

Table 3. Accrual Rates in Dutch DB Pension Funds

	Distribution in terms of Number of Active Participants		Distribution in terms Number of Pensions Funds	
	1998	2006	1998	2006
less than 1.75	14	6	8	9
equal to 1.75	74	36	61	44
between 1.75 and 2.00	3	37	12	28
more than 2.00	1	10	2	8
other (e.g. using scales)	8	11	17	12
Total	100	100	100	100

Source: De Nederlandsche Bank *Pensioenmonitor* Table 8.8

www.statistics.dnb.nl/index.cgi?lang=nl&todo=PenMonitor accessed on 12 July 2008

Indexation

The indexation of second pillar benefits is not guaranteed by law and therefore also varies between different pension funds. In 2006, three quarters of all pension funds, covering 98 per cent of all active participants in DB schemes, applied indexing conditional upon pension fund performance (DNB, 2006). The method of indexing varied considerably as is evident in Table 4, though wages in industry seem to have become the most important benchmark.

Table 4. Mode of Indexation of Pensions

	Distribution in terms of Number of Active Participants		Distribution in terms Number of Pensions Funds	
	1998	2006	1998	2006
cost of living	1	8	6	17
all wages	3	12	3	13
wages in industry	36	63	14	23
wages enterprise	8	3	4	16
ad-hoc by board decision	44	12	16	10
other	9	2	55	20
Total	100	100	100	100

Source: De Nederlandsche Bank *Pensioenmonitor* Table 8.10

www.statistics.dnb.nl/index.cgi?lang=nl&todo=PenMonitor accessed on 12 July 2008

In this paper we will examine the issue of solidarity by solely focussing on the benefit side. We will look in particular at the absolute level of pension entitlements relative to current earnings of plan participants. Hence, we will not consider the contributory side of the equation. The accrual rate is of course indirectly related to the contributions, but it says nothing on the actual distribution of the contributory burden between employers and employees. We are aware that this limits the extent to which we can assess the degree of redistribution occurring within and between pension funds. Our aim is more limited in that we will seek to demonstrate (1) that for people with the same work biography and wages accrued pension rights can differ dramatically depending upon the employer or the industry; (2) pension funds significantly differ in the way they allow low income and high income participants to supplement their basic pension, with some funds being more geared towards participants with high wages, while other funds using contribution rules and benefit formula to the advantage of low income groups.

A Sample of Basic Universes of Solidarity

In order to be able to compare the variety in terms of benefit formula, we have chosen six pension funds, that differ in terms of a number of key variables: level (whether they are

organised on an industry level or whether they are enterprise-based); sector (which industrial sector they are covering); size (the number of plan participants); average wages (of plan participants); and sex ration (the ratio between male and female participants). Those funds form 6 of the close to 1,000 different basic universes of solidarity that make fragmented second tier of the pensions in the Netherlands. The six funds we will compare are:

1. **ABP.** The *Algemeen Burgelijk Pensioenfonds* is the largest Dutch pension fund (and one of the largest in the world as well). Currently it has some 2.6 million participants working for the Dutch public sector. Wages and employment conditions tend to above the national average.
2. **PGGM.** The *Pensioenfonds voor de Gezondheid, Geestelijke en Maatschappelijke belangen* is another large pension fund catering for public sector workers. Its 1.9 million participants work primarily in the health care sector. In contrast to ABP, they are primarily female. Wages and employment conditions are more centred around the national average.
3. **PME.** The *Pensioenfonds MetalElektro* is one of the largest private sector pension funds with about 0,5 million participants working in the metal and machine construction industries. Average earnings of participants are below the national average. Most of its members are male. The work career tends to start early in the life course of participants, and because of the strenuous nature of work, people in this sector tend stop earlier with working. But in general most of them tend to work full time.
4. **Ahold.** This is an enterprise-based pension funds catering for the employees of the retailing concern Ahold (know for its supermarkets Albert Heijn). It has some 70,000 participants.
5. **Stichting Pensioenfonds Hoogovens (“Hoogovens”).** This is another enterprise based pension fund catering for the employees of the country’s largest steel factory. It has about 35,000 participants, primarily men who have a shorter than average career because of the strenuous nature of their work. Average wages are lower – except for the management staff.

6. **Bedrijfspensioenfonds Kappersbedrijf (“Kappers”)**. This fund was set up for employees in the hairdressing industry. It has about 20,000 members, primarily women. Wages are much below the national average.

Table 5. The Main Features of the Participants of the Six Pension Funds

	ABP	PGGM	PME	Ahold	Hoogovens	Kappers
Level	Branch	Branch	Branch	Enterprise	Enterprise	Branch
Sector	Public	Public	Private	Private	Private	Private
Size	Large	Large	Large	Small	Small	Small
Average Wages	High	Medium	Medium	Medium	Medium	Low
Male/Female Ratio	Balanced	Female	Male	Balanced	Male	Female

Those funds differ in terms of their regulations as is documented in table 6. As we already pointed out, the policy of indexation used in a DB scheme is crucial to assess the long term building up of pension entitlements. As we saw almost all pension funds only offer a conditional indexation that depends upon the financial situation of the fund. That is why in the long run one can expect the indexation rate to be lower than our projected inflation rate. In order to estimate the rate of indexation, we constructed an index rate that takes into account the funding rate of the pension fund during the period 1997-2006 (for more details on the construction of the index, see Bol, 2008). In case the financial performance of the fund is above the national average, we expect indexation to be more generous than the projected inflation rate. In case the fund perform the expected inflation rate will be below the national average. The funds of ABP and Hoogovens performed well during our reference period – hence their indexation rate in our model lies slightly above the inflation rate.

Table 6. The Main Features of Regulatory Frame of the Six Pension Funds

	ABP	PGGM	PME	Ahold	Hoogovens	Kappers
Franchise	€10.100	€12.209	€13.978	€15.480	€16.900	€0
Accrual rate	2.05 %	2.05 %	2.2 %	2.25 %	2.35 %	0.68 %
Estimated Indexation	2.21 %	1.80 %	1.87 %	2.05 %	2.07 %	2.00 %
Benefit type	average pay	average pay	average pay	average pay	average pay	average pay

Simulation of Supplementary Pension Entitlements for Eight Work Biographies

We will look at the impact of the benefit rules of these funds by simulating the annual supplementary pension claims a person can accumulate after 40 years, expressed as a factor of his or her annual income in 2008. Let us be clear that this is not a prediction of that person's pension: not only does this sum not take into account the benefit from the statutory basic AOW pension, it is also a gross amount, a substantial part of which will be taxed away because of the EET nature of that taxation of Dutch funded pensions. Moreover we assume that rules and regulations, both national legislation as well as the regulations of the pension fund will remain stable over the entire period – something which is very unlikely. Finally – as we will argue below, we have to make a number of assumptions about macro-economic trends for this 40 year period – a sheer impossible task.

Our main interest in this exercise is to compare how people with a different earnings history fare under the different pension fund regimes. For this purpose we developed eight different hypothetical work biographies, that differ in terms of annual wages (as a percentage of the Average Production Worker Wage), the total length of employment career (in years), weekly hours worked (i.e. full-time versus part-time) and skill level.

Table 7. The Profiles of the Eight Work Biographies

	Career Length	Wage Level	Annual Wage	Weekly Hours	Skill Level
Profile 1	40 years	80% APW	€30,207	Full Time	Low
Profile 2	40 years	130% APW	€49,087	Full Time	High
Profile 3	40 years	39% APW	€14,726	Part Time	Low
Profile 4	40 years	51% APW	€19,257	Part Time	High
Profile 5	22 years	80% APW	€30,207	Full Time	Low
Profile 6	22 years	130% APW	€49,087	Full Time	High
Profile 7	22 years	39% APW	€14,726	Part Time	Low
Profile 8	22 years	51% APW	€19,257	Part Time	High

The simulation of accumulated pension rights for these eight work biographies will be estimated using the following simulation model. The model estimates the gross value of the annual supplementary benefit that pension plan participants build throughout their working life. The model works with a number of simplifying assumptions: it does not take into account the impact of the system of taxation (hence what we will present are gross figures); and it uses hypothetical averages for two crucial macro economic trends that can have a dramatic impact on the building up of pension rights: inflation and annual wage developments.

Inflation is a key variable influencing the indexation of pension benefits. As it is hard if not impossible to predict inflation over the next 40 years, we decided to use the EU norm of 1.9 per cent (Trichet, 2007). Wage developments are equally difficult to forecast. In its overview of various studies on that matter, the Dutch Statistical Office concluded that real wages will probably increase between 1 and 2 per cent per year, though in the shorter term probably below 1,5 per cent (CPB, 2005:14). That is why in our simulation model we choose to use an annual increase of 1.25 per cent for the first 10 years, and 1.5 per cent for the subsequent 30 years.

Solidarity between Pension Funds

In this section we would like the different profiles as a vantage point for our comparisons. The question we will address here is how somebody with a similar work biography would fare when he or she has to build up his pension entitlements working for different

employers or in different sectors of the economy. For that purpose table 9 presents both the simulated absolute yearly amount of supplementary pension entitlements as of 2047 (i.e. the yearly amount a pension can count on, excluding the basic pension and before income tax is deducted), and the ratio of this amount to the annual gross income in 2008. This we calculated for each work biography in each of our 6 funds.

Table 9. Absolute Pension Returns in 2047 and Ratio of Return and Income in 2008.

	ABP	PGGM	PME	Kappers	Hoogovens	Ahold
<u>Profile 1:</u>						
absolute 2047	€59,811	€55,727	€53,459	€25,091	€52,834	€54,089
ratio 2047/2008	1.98	1.84	1.77	0.83	1.75	1.79
<u>Profile 2:</u>						
absolute 2047	€108,862	€101,319	€103,127	€40,773	€107,137	€106,458
ratio 2047/2008	2.22	2.06	2.10	0.83	2.18	2.17
<u>Profile 3:</u>						
absolute 2047	€28,925	€26,952	€25,736	€12,232	€23,724	€25,997
ratio 2047/2008	1.96	1.83	1.75	0.83	1.61	1.77
<u>Profile 4:</u>						
absolute 2047	€40,697	€37,894	€37,656	€15,996	€38,364	€38,566
ratio 2047/2008	2.11	1.97	1.96	0.83	1.99	2.00
<u>Profile 5:</u>						
absolute 2047	€26,672	€23,726	€22,340	€11,465	€21,827	€22,833
ratio 2047/2008	0.88	0.79	0.74	0.38	0.72	0.76
<u>Profile 6:</u>						
absolute 2047	€49,588	€44,094	€44,740	€18,631	€46,624	€46,898
ratio 2047/2008	1.01	0.90	0.91	0.38	0.95	0.96
<u>Profile 7:</u>						
absolute 2047	€12,878	€11,455	€10,722	€5,589	€8,810	€10,935
ratio 2047/2008	0.87	0.78	0.73	0.38	0.60	0.74
<u>Profile 8:</u>						
absolute 2047	€18,377	€16,344	€16,098	€7,309	€16,373	€16,711
ratio 2047/2008	0.95	0.85	0.84	0.38	0.85	0.87

ABP turns out to offer for each of our profiles the highest pensions. One should bear in mind though that to some extent this might be a consequence of the fact that, taking into

account its investment performance during the past two decades, we attributed the highest indexation factor to this pension fund. In case the investment performance the coming decades of this fund will no longer outpace the other funds, and hence its funding rate will deteriorate, the indexation of pension entitlements could well be suspended and hence our projections could turn out to be far too optimistic.

The fund catering for employees in the health care sector and even more so the pension fund of the hairdressers, offer in comparisons with the other funds relatively far better conditions for people with a fragmented work bibliography. This is in line with the fact that in both these industries women are overrepresented. On the other hand, the enterprise based pension fund of the retailing concern Ahold has little to offer for such workers, even though here too one could expect them to form the bulk of the workforce.

Solidarity within Pension Funds

In this final section we would like to assess the degree of solidarity within pension funds. For that purpose we have compared the span pension entitlements within each of our funds as they result from the different work biographies. Given the second tier function of the second pillar, one should not be surprised to find highly unequal supplements to the basic pension in accordance with the work biography. However, what is less self-evident is that the returns of a 'good' in comparison with a 'bad' biography differ significantly between the funds. But that is exactly what we found. For each fund we calculated for every profile the ratio between its wage in 2008 and the expected supplementary pension entitlement in 2047. Next, a coefficient expressing the span of these ratios was computed. The results of this exercise are summarized in table 8.

Table 8. Solidarity within Funds: Span of Entitlement Ratios

<u>Public Sector:</u>	
ABP (civil servants)	2.55
PGGM (health care)	2.64
<u>Private industry-wide:</u>	
PME (metal)	2.88
Kappersbedrijf (personal services)	2.18
<u>Enterprise-based funds:</u>	
Ahold (retail)	2.93
Hoogovens (steel)	3.63

The span in enterprise-based funds is higher than in the industry wide and public sector funds. The very low span in de funds for hair dressers is largely due to the fact that this is the only fund that does not use a franchise and because the accrual rates are set very low.

One of the factors behind the differences in span is related to the way the rules of a pension fund are compatible with a fragmented work biographies. This becomes evident if one compares the coefficient of the entitlement ratios of people with a similar weekly earnings biography, but who differ in terms of the work history of their entire life course. Table 10 gives an overview of the ratios people with a 40 year career and those with a 22 year career.

Table 10. Pension Returns of a Complete and Incomplete Career Compared.

	<u>Profile 1</u>	<u>Profile 2</u>	<u>Profile 3</u>	<u>Profile 4</u>
	Profile 5	Profile 6	Profile 7	Profile 8
<u>Public Sector:</u>				
ABP (civil servants)	2.24	2.20	2.25	2.21
PGGM (health care)	2.35	2.30	2.35	2.32
<u>Private industry-wide:</u>				
PME (metal)	2.39	2.31	2.40	2.34
Kappersbedrijf (personal services)	2.19	2.19	2.19	2.19
<u>Enterprise-based funds:</u>				
Ahold (retail)	2.37	2.27	2.38	2.31
Hoogovens (steel)	2.42	2.30	2.69	2.34

One of the justifications that are often given for breaking up national systems of solidarity towards industry or form specific arrangements is that a fragmented system would better be able to match the needs prevalent in specific industries of firms. Our evidence does not really corroborate this view. Even though the hairdressers pension fund does seem to cater better for the median waged path risks of its participants by given those with a fragmented career a comparative better deal, this does not at all apply to the fund of Ahold and in a lesser extent PGGM – even though both funds have much more female participants who in the context of the Dutch breadwinner welfare state with its bias for self-servicing when it comes to bringing up children are likely to have a fragmented career path. Hoogovens (and to a lesser extent PME) perform the worst of all our funds, in particular if a fragmented career is combined with part-time work, but on the other one could argue that such a work biography would be the least likely (amongst all our cases) in this company.

Conclusion

In this paper we have tried to show that, contrary to common wisdom, the second pillar of the Dutch pension system is characterised by a significant degree of variation in terms of rules and regulations. We have analysed this variation from the vantage point of social solidarity. We recognise that a comprehensive analysis of the mechanisms of solidaristic redistribution should in principle consider both how much participants in a pension plan contribute and how much they benefit. For practical reasons, though, we decided to focus only on the latter. One could argue that because in this paper we only looked at the benefit side of the equation, the observed differences tell little about solidaristic redistribution: given the contributory nature of the second pillar, those who build up larger entitlements, also have paid higher contributions (or what is more likely, have higher premiums paid on their behalf by the sponsoring employer), but such an argument overlooks two things.

- (1) As we argued, one of the purposes of a solidaristic pension system is to redistribute individual wage path risks (and implies entitlements irrespective of how much one can contribute). If in the past this function was largely fulfilled by

the statutory AOW system, with the shift of pension provision towards the second pillar, occupational arrangements increasingly also have to guarantee this type of solidarity.

(2) Even if one would adhere to a solidarity based on equivalence at the level of the individual between contributions and benefits (and hence limit the reapportioning process to macro income risks and to longevity risks), that still leaves ample room for different forms of solidarity, in particular with respect to who has to back-service the pension plan in order to offset the (relative) devaluation of entitlements because of inflation and/or income growth. We pointed out that for some funds such reapportioning of risks even might point towards perverse forms of redistribution, as plan participants with a precarious work history (in terms wage, weekly working hours or lifelong career path) can end up subsidising the generous indexed pension entitlements of higher income groups. Such processes seem in particular to occur in the enterprise-based pension funds of Hoogovens and Ahold. The public sector funds, in particular PGGM and the hairdresser fund seem more geared towards accommodating the needs of their members, including the ones with a more precarious work biography.

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