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Another Major Pension Reform for Multinational Companies to Watch: Netherlands DB to DC

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Notwithstanding the pandemic, or perhaps accelerated by the financial and social implications of it, some countries are continuing apace with making significant changes to their pension systems. One that is accelerating is the Netherlands.

Back in June 2020, after consultations between the government, unions and business, the Dutch government released an outline on reforms that would fundamentally alter the system for employer-provided pension plans.

In December, the government released draft legislation for these new reforms, which would generally require pension accruals going forward to be on a defined contribution ("DC") basis, with individual or collective investment, and with flat contribution rates (up to a maximum) unrelated to age, as is currently common for Dutch DC pension plans. Future accruals under defined benefit plans (which in the Netherlands, often permit benefit decreases in the event of funding downturns) would generally have to cease. With the introduction of this draft legislation, it is probably time for multinational companies to consider its effects.

At this point, it is understood to be likely that legislation will pass later this year with a January 1, 2022 effective date. If passed in its current form, all Dutch pension arrangements would be required to transition to a new type between January 1, 2022 and January 1, 2026.

In addition, some changes are being considered separately for earlier legislative approval. This would include certain permitted payments upon retirement up to three years early, and an option for partial lump sums of up to 10% of the old age pension value as a lump sum at retirement (which is otherwise generally not permitted).

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Detailed information on the new pension system is beyond the scope of this article, and the proposal could change further before passage, but barring major changes, the general outlines of the new rules have become more clear with the draft legislation. Generally, these include:

- Plans would generally be expected to transition to pure DC by 2026 and use a flat rate of contribution (*i.e*., not age based, as is currently common) up to a cap.
- DC investment could be a collective investment pool with a solidarity reserve (*i.e.*, a cushion) and no actual individual participant accounts, or individual accounts with lifecycle investment.
- Existing plans would have to have a transition plan in place by 2024 for the move to the new pension type by 2026.
- Future DB accruals would have to cease, but there would be certain transition rules for existing defined benefit ("DB") plans.
- Current pure DC plans with age-based contribution rates would be subject to transition rules for current employees.
- Pension funds would have to survey their membership's risk preferences at least every five years and the fund's investment practices would be adjusted accordingly.
- Participants whose future pension accruals are negatively affected by the new changes would be allowed to be compensated by other means than through higher pension accruals, such as by additional salary.

At this point, details can change, but multinational companies with pension plans for employees in the Netherlands may wish to begin planning for some significant changes beginning in 2022.

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